

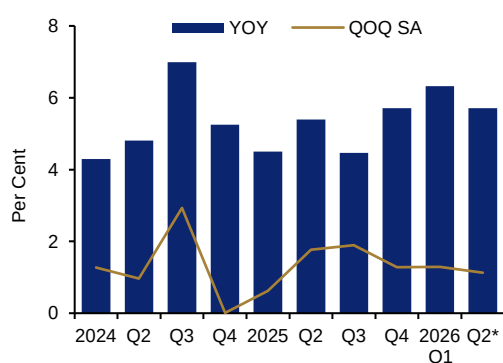
3 The Singapore Economy

3.1 Recent Developments

The Middle East conflict has had a discernible though contained impact on the Singapore economy

Based on advance estimates from MTI, Singapore's GDP grew by 1.1% q-o-q SA in Q2, extending the 1.3% expansion in Q1 (Chart 3.1). On a y-o-y basis, GDP growth was firm at 5.7% in Q2, notwithstanding some moderation from 6.3% in the previous quarter. The Middle East conflict, which commenced in Q1, posed a drag on the oil-related sectors in Q2. However, its impact on the economy was more than offset by robust activity in the technology-related segments¹ (Chart 3.2).

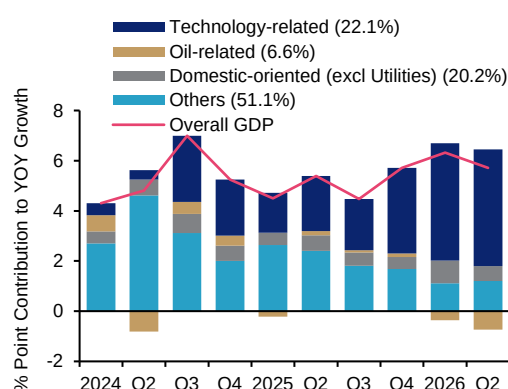
Chart 3.1: Singapore's GDP Growth



* advance estimates

Source: DOS

Chart 3.2: Contribution to GDP Growth



Source: EPG, MAS estimates

Note: Nominal VA shares of the respective clusters in 2025 are indicated in parentheses.

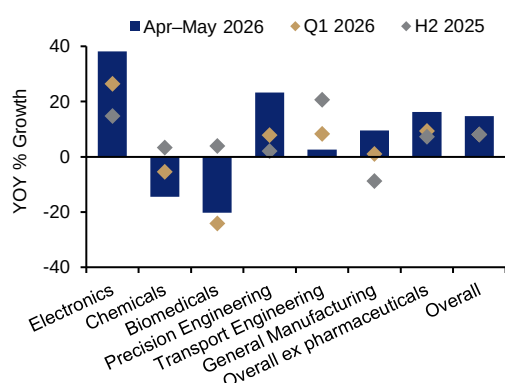
The affected oil-related sectors—chemicals manufacturing, utilities, and wholesale of fuels & chemicals—comprise a narrower subset of industries in the energy-dependent sectors identified in the *April Review*. The former contribute to 6.6% of GDP compared to 10% for the latter.

The oil-related industries as a whole are estimated to have contracted by 11% y-o-y in Q2. Disruptions in global feedstock supply forced local petroleum-refining and petrochemical firms to operate at lower run rates, resulting in a 14% y-o-y decline in manufacturing output for the chemicals cluster in Apr–May (Chart 3.3). This was mirrored in a 21% contraction in real domestic exports (DX) of oil-related products in Q2 (Chart 3.4). However, oil-related re-exports rose markedly in Q2, particularly to Malaysia and Indonesia. This likely reflected heightened demand from regional markets seeking alternative supply sources amid Middle East supply disruptions, and Singapore playing its established role as a regional redistribution hub in the oil supply chain. Meanwhile, the energy-dependent transport and storage sector

¹ Technology-related industries comprise electronics and machinery & systems manufacturing, wholesale trade of electronic components and telecommunication equipment & computers, and IT & information services within the information and communications sector. Oil-related sectors refer to utilities, chemicals manufacturing and fuels & chemicals in the wholesale sector.

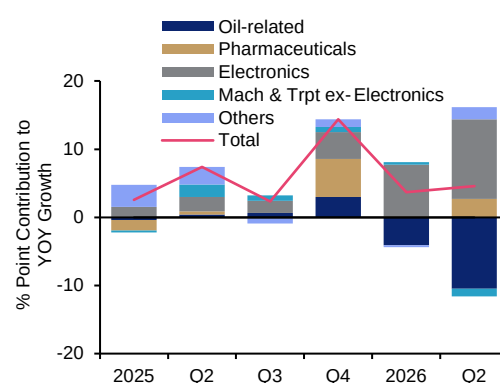
was supported by robust air cargo traffic, underpinned by the uptick in the flow of high-tech goods, while some time-sensitive goods from the Gulf were also diverted through Singapore.

Chart 3.3: Index of Industrial Production



Source: EDB and EPG, MAS estimates

Chart 3.4: Real Domestic Exports by Product



Source: EnterpriseSG and EPG, MAS estimates

At the same time, resilient global AI demand has underpinned above-trend growth in Singapore's technology-related sectors

The technology-related sectors continued to expand at an above-trend pace. The electronics IIP grew robustly by 38% y-o-y in Apr–May, on the back of strong AI-driven demand for memory chips and server infrastructure. Growth in the infocomm & consumer electronics segment was particularly notable, as firms ramped up production to meet increased demand for AI servers and related products. Concomitantly, real electronics DX rose sharply by 79% and contributed significantly to overall domestic export growth over the same period (**Chart 3.4**), led by strong gains to Taiwan, South Korea and the US, even as non-electronics products such as pharmaceuticals and other manufactured articles also grew strongly.

The technology-related sectors' rapid growth and large economic weight give support to the broader economy through confidence effects

Technology-related activity has relatively weak backward linkages with domestic suppliers, possibly limiting the diffusion of AI-driven gains. This is especially true for hardware production such as of semiconductors and semiconductor equipment, which rely heavily on imported intermediates. Nevertheless, the overall technology-related sector's large economic weight (22% of nominal GDP in 2025) and strong growth impulse (21% y-o-y growth in Q2 2026) could provide important second-round support to the broader economy, including through boosting incomes in adjacent services, firmer business sentiment, and improved confidence in the broader economic outlook.

GDP growth has broadened slightly from the previous quarter

Meanwhile, the rest of the economy is assessed to be growing around trend (Table 3.1). Notably, the domestic-oriented industry as a whole has expanded at a slightly faster rate than its historical average in recent quarters. Notwithstanding the onset of the Middle East conflict in late Q1, activity was generally resilient in Q2 supported by favourable underlying domestic demand—credit growth remained strong, while machinery and equipment investment continued to expand at a double-digit pace. The calculated Herfindahl-Hirschman Index

(HHI)² of sectoral growth contributions indicate that the positive drivers to GDP growth have broadened compared to Q1, albeit still relatively concentrated, largely around the tech boom (Chart 3.5).

Table 3.1: Growth Rates (YOY) of Key Clusters

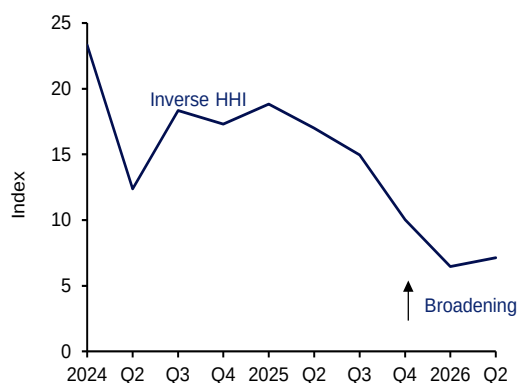
	2025 Share of GDP	2015–2024 Average	2025				2026	
			Q1	Q2	Q3	Q4	Q1	Q2
Technology-related	22.1	7.3						
Oil-related	6.6	2.3						
Non-technology and Non-oil related	71.3	2.7						
Domestic-oriented	20.2	1.8						
Trade-related	18.0	1.7						
Modern Services	21.1	5.2						
Others	12.0	2.4						

Below Trend ← → Above Trend

Source: EPG, MAS estimates

Note: Growth is considered around trend when it falls within ± 1 standard deviation of the mean quarterly y-o-y growth rates between 2015 and 2024 for each cluster. "Trade-related" comprise water transport, storage & other support services, as well as the non-technology and non-oil segments of manufacturing and wholesale trade.

Chart 3.5: Herfindahl-Hirschman Index



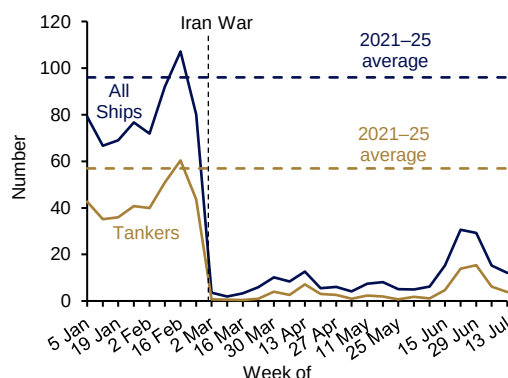
Source: EPG, MAS estimates

3.2 Outlook

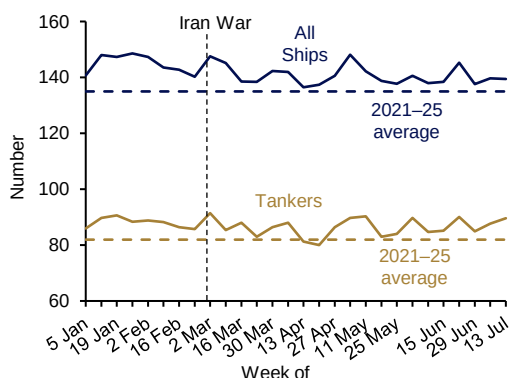
The situation in the Middle East remains fluid and disruptions to shipping lanes and oil infrastructure will take time to resolve

The Middle East situation remains a key factor in the growth outlook, amid the continued geopolitical uncertainty. A return to normal shipping activity through the Strait of Hormuz will be gradual, reflecting concerns over the safe passage of vessels. Shipping and tanker volumes through the channel remained significantly below pre-conflict levels up to recent weeks (Chart 3.6). Even under a full and durable reopening of the Strait, analysts do not expect an immediate return to pre-conflict shipping volumes, and foresee the recovery taking a few quarters. Nevertheless, activity at Singapore's ports has been relatively resilient thus far, suggesting that regional shipping lanes have been largely shielded from the disruptions affecting Middle East trade routes (Chart 3.7).

² EPG's calculation of the Herfindahl-Hirschman Index measures the growth concentration across sectors that contributed positively to y-o-y GDP growth. Taking the inverse gives the number of equal contribution-sized sectors that would generate the same degree of concentration, with higher values indicating broader-based growth.

Chart 3.6: Strait of Hormuz: Transit Calls: All Ships and Tankers

Source: IMF PortWatch – Daily Chokepoint Transit Calls and Trade Volume Estimates

Chart 3.7: Weekly Port Calls at Singapore

Source: IMF Daily Port Activity Data and Trade Estimates

The primary impact of Middle East developments on Singapore has thus far manifested more in inflation rather than growth. A re-escalation in Middle East tensions could pose upside risk to inflation, but its drag on growth is unlikely to worsen and would be outweighed by the boost from the strong AI demand in the near term.

Global appetite for AI-related technologies remains resilient for now

Headline indicators of the AI ecosystem remain buoyant (Table 3.2). Exceptionally strong global chip demand, which continues to outstrip supply, lifted nominal global chip sales growth further from 79% y-o-y in Q1 to 113% in Apr–May. While price effects, largely driven by the surge in memory chip prices, likely accounted for most of this outperformance, underlying volume growth is estimated to have also been firm, averaging around 17% over Jan–May (Charts 3.8 and 3.9).³ Looking ahead, global chip demand is expected to stay robust, with the World Semiconductor Trade Statistics upgrading its 2026 full-year semiconductor sales forecast significantly to 90%, reflecting sustained downstream demand as AI infrastructure buildout and model deployment gather pace. EPG estimated that even after abstracting from price effects, global chip sales in real terms are likely to be around 20% in 2026, up from 15% in 2025.

³ The level of GCS volume was estimated as the chip-export-weighted average of the semiconductor production indices of Taiwan, South Korea, Japan, and China, rebased to 2025=100. The deflator was estimated as the ratio between nominal and volume levels. Japan and the Asia-Pacific (including Taiwan, South Korea, and China) comprised 61% of worldwide GCS in 2025.

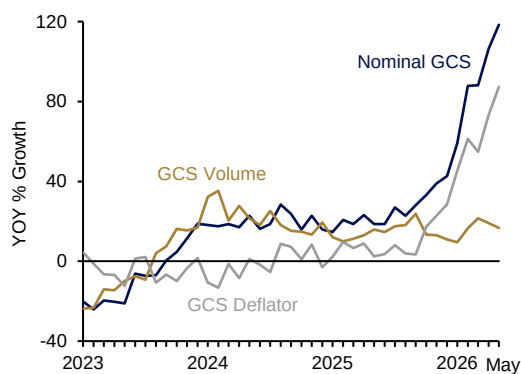
Table 3.2: Heatmap of Indicators across the Global AI Ecosystem

Indicator		2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F
Upstream	Global Electronics PMI Level (>50=expansion)								
	Global Chip Sales YOY%*								
	Electronic Components Shipments-to-Inventory Ratio*								
	Semiconductor IIP YOY %*								
	Semiconductor Revenue YOY%								
	Semiconductor Capex YOY%								
	Server Revenue YOY%								
	Server Capex YOY%								
	Server Capex-to-Free Cash Flow Ratio								
Midstream	Data Centre & Cloud Revenue YOY%								
	Data Centre & Cloud Capex YOY%								
	Data Centre & Cloud Capex-to-Free Cash Flow Ratio								
Downstream	AI Platforms Revenue YOY%								
	AI Platforms Capex YOY%								
	AI Platforms Capex-to-Free Cash Flow Ratio								

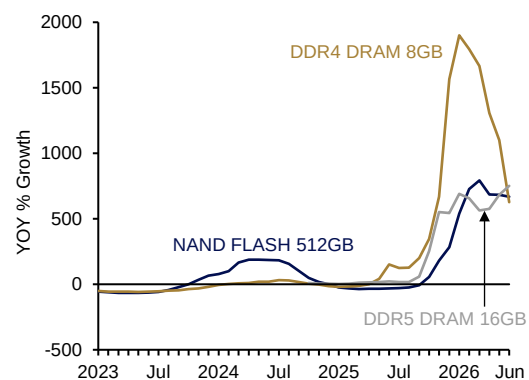
Source: Bloomberg, Haver Analytics and EPG, MAS estimates

Note: Darker shades of green (red) denote stronger expansionary (contractionary) signals relative to the historical mean (or a value of 50 for PMI) since 2015. Yellow denotes values around the historical mean. Grey denotes lack of estimates. Shipments-to-inventory ratio is the semiconductor export-weighted average of the respective ratios for South Korea, Taiwan and the US. Semiconductor IIP is the average of the respective indices for South Korea, Taiwan, and China. Financial (capex, revenue, and free cash flow) forecasts for Q2 2026 onwards are Bloomberg consensus estimates. Bloomberg financials were mapped to the calendar quarter of each fiscal period end-date.

* Latest data is as at Apr–May 2026.

Chart 3.8: Price and Volume Decomposition of Global Chip Sale Growth

Source: EPG, MAS estimates

Chart 3.9: Memory Chip Spot Price Growth

Source: Bloomberg estimates

The global AI supercycle has, in turn, provided some support to the domestic outlook, particularly across the technology-related segments. Manufacturers are expecting improved business conditions in the near term, while the electronics Purchasing Managers' Index (PMI) also recorded its 13th consecutive month of expansion in June.

Overall, Singapore's growth momentum is likely to be relatively firm in the near term

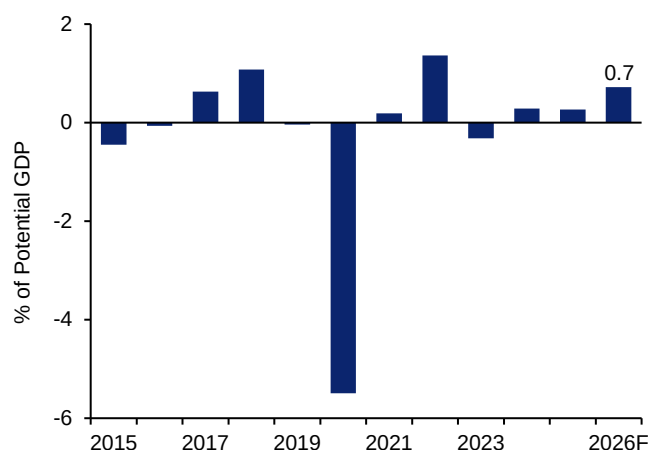
The Singapore economy should continue to grow at a firm pace in the second half of 2026. Sustained AI-related demand will benefit the technology-related segments, underpinning overall growth. For the full year, these segments are projected to account for the bulk of the economy's expansion, up from around 50% in 2025, with momentum from the AI-driven tech cycle more than offsetting headwinds from the Middle East crisis.

Beyond AI tailwinds, the continued expansion of wealth management services among banks and fund managers should position the financial sector favourably to intermediate capital inflows, boosting assets under management alongside fee and commission incomes. The domestic-oriented and travel-related clusters are also expected to grow at around trend pace, supported by a strong pipeline of public sector construction projects, robust household net worth that will buffer consumption, as well as a modest uplift to visitor arrivals from large-scale events in H2.

The recently imposed Section 301 tariffs would raise the effective tariff rate on Singapore's domestic exports to the US marginally, but the adverse impact would be cushioned by export diversification and the boom in tariff-exempt electronics exports.

In sum, the economy's positive output gap is now forecast to widen to 0.7% of potential GDP in 2026 (Chart 3.10).

Chart 3.10: Output Gap



Source: EPG, MAS estimates