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Abbreviations

AE	Advanced economy
AER	Arts, entertainment and recreation
AI	Artificial Intelligence
ASEAN	Association of Southeast Asian Nations
Capex	Capital Expenditure
COE	Certificate of Entitlement
COVID-19	Coronavirus disease 2019
CPI	Consumer price index
ECB	European Central Bank
EM	Emerging market
EPG	Economic Policy Group
F&B	Food and beverage
GDP	Gross domestic product
GFC	Global Financial Crisis
GST	Goods and Services Tax
IMF	International Monetary Fund
IT	Information technology
MPS	Monetary Policy Statement
m-o-m	month-on-month
NEA-2	Northeast Asian economies (South Korea and Taiwan)
NODX	Non-oil domestic exports
NORX	Non-oil re-exports
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
p.a.	per annum
PMET	Professionals, Managers, Executives and Technicians
PMI	Purchasing Managers' Index
q-o-q	quarter-on-quarter
SA	seasonally adjusted
SME	Small and medium enterprises
TiVA	Trade in Value Added
UN	United Nations
VA	Value added
y-o-y	year-on-year

Data used in the *Review* are drawn from the following official sources unless otherwise stated: Building and Construction Authority (BCA), Civil Aviation Authority of Singapore (CAAS), Central Provident Fund Board (CPF), Singapore Department of Statistics (DOS), Economic Development Board (EDB), Enterprise Singapore (EnterpriseSG), Housing and Development Board (HDB), Infocomm Media Development Authority (IMDA), Land Transport Authority (LTA), Ministry of Finance (MOF), Ministry of Health (MOH), Manpower Research and Statistics Department (MRSD) of Ministry of Manpower (MOM), Ministry of National Development (MND), Maritime and Port Authority of Singapore (MPA), Ministry of Energy, Trade & Industry (METI), Singapore Tourism Board (STB) and Urban Redevelopment Authority (URA).

Preface

The *Macroeconomic Review* is published quarterly in conjunction with the release of the MAS Monetary Policy Statements. The *Review* provides analyses of the conjunctural developments and outlook for the global and domestic economies. These analyses are integral components of MAS monetary policy decisions.

This issue of the *Review* is based on data and information available as of 13 October 2026, unless otherwise stated. It is produced by the Economic Policy Group:

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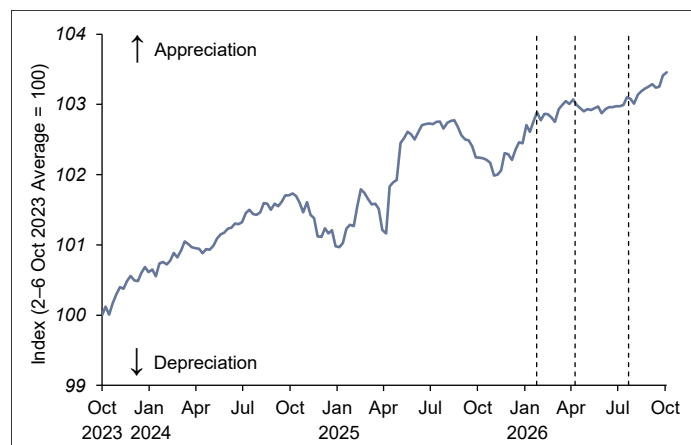
14 October 2026

Monetary Policy Statement

INTRODUCTION

1. In its July 2026 monetary policy review, MAS increased the rate of appreciation of the Singapore dollar nominal effective exchange rate (S\$NEER) policy band very slightly, with no change to the width of the band or the level at which it was centred. Since then, the S\$NEER has strengthened modestly within the upper half of the appreciating policy band.

Chart 1
S\$ Nominal Effective Exchange Rate



----- indicates the last three releases of Monetary Policy Statement

GROWTH BACKDROP

2. Economic activity in Singapore's major trading partners has remained robust. AI-related investments globally are sustaining strong industrial production and trade, particularly in the region. The impact of higher energy costs on demand has, thus far, also been contained by the drawdown of existing inventories and supportive fiscal measures. While downside risks are present, global growth is projected to be resilient in the near term before gradually moderating over 2027. Global AI-driven growth is expected to ease in the latter half of next year from its current exceptional pace, while higher interest rates, amid elevated inflation in the advanced economies, would weigh on final demand growth.

3. According to the Ministry of Energy, Trade & Industry's (METI) advance estimates, Singapore's overall GDP grew by 5.4% year-on-year (y-o-y) in Q3 2026. Growth was led by robust expansions in the technology-related sectors of the economy. Most other sectors are assessed to have expanded broadly in line with their trend pace, with firm activity in the construction, financial services and real estate sectors, and some weakness in consumer-facing segments. On a quarter-on-quarter seasonally-adjusted basis, Singapore's GDP growth came in at 1.1% in Q3 2026, a slightly slower pace compared to the preceding quarter.

4. The Singapore economy is expected to continue expanding steadily in the quarters ahead. Strong orders for AI products and an increase in production capacity should sustain firm growth in the technology-related sectors in the near term. The pace of AI-related activity is then projected to moderate in the latter half of 2027, even as the construction of major infrastructure projects as well as financial services activity continues apace. The economy's positive output gap this year is forecast to narrow through next year. The government's GDP growth forecasts for 2026 and 2027 will be announced in November by METI.

INFLATION OUTLOOK

5. MAS Core Inflation¹ rose to 2.1% y-o-y in Jul–Aug, from 1.5% in Q2. Higher import costs passed through to a broader range of goods and services in line with expectations, with electricity & gas tariffs stepping up and inflation in fuel-intensive transportation services staying high. Food inflation also rose, to 2.2% from 1.9% over the same period, as accumulated cost increases were passed through to consumer prices. At the same time, services inflation came in lower than projected, tamped down by enhanced government subsidies for healthcare as well as more intense telecommunications services price competition.

6. Since September, energy commodity prices have risen anew and are projected to remain high in the near term. Global and regional food prices are also expected to pick up as costlier inputs and adverse weather patterns impact food production. Firming imported cost pressures in Singapore will keep core and CPI-All Items inflation at the current slightly elevated levels in the months ahead.

7. However, inflation is expected to moderate over 2027 as import costs ebb and domestic price pressures stay subdued. Supply disruptions to energy and food commodities should gradually ease. Unit labour cost increases in the services sectors are expected to be contained due to continued productivity gains. In addition, enhancements to government subsidies for healthcare and education will keep services inflation low over 2027.

8. All in, MAS Core Inflation should remain slightly elevated in the immediate quarters ahead, before easing more discernibly from mid-2027. For 2026 as a whole, MAS Core Inflation is forecast to average 1.5–2.0%, while CPI-All Items inflation should come in around 2.0%. Next year, both MAS Core Inflation and CPI-All Items inflation are projected to average 1.5–2.5%.

RISKS TO THE OUTLOOK

9. There continues to be significant uncertainty around the macroeconomic outlook. For now, the risks to inflation remain tilted to the upside. A sharp and sustained surge in global energy or food prices could lift Singapore's import costs by more than forecast. Domestic inflation could also stay elevated if spillovers from the AI-related boom broaden and unit labour costs rise more rapidly. However, a higher-than-expected increase in interest rates or sharper pullback in AI-related investment could exert a drag on growth and thus inflation. Energy production and shipments from the Middle East could recover more quickly than projected, resulting in a greater decline in energy prices.

¹ MAS Core Inflation excludes the costs of accommodation and private transport from CPI-All Items inflation.

MONETARY POLICY

10. The Singapore economy should continue to expand at a firm pace in the immediate quarters ahead, and moderate thereafter as the AI cycle eases from its exceptional pace and global financial conditions tighten. Core inflation is projected to ease discernibly from the middle of next year, as supply-driven imported inflation slows and domestic costs stay subdued.

12. MAS will therefore **maintain the rate of appreciation of the policy band. There will be no change to the width of the band and the level at which it is centred.** The current appreciating policy band will allow the S\$NEER to continue to strengthen and lean against the anticipated near-term rise in imported inflation, ensuring the gradual easing of inflationary pressures in 2027. MAS is well-positioned to respond effectively to any risk to medium-term price stability and will continue to closely monitor economic developments.

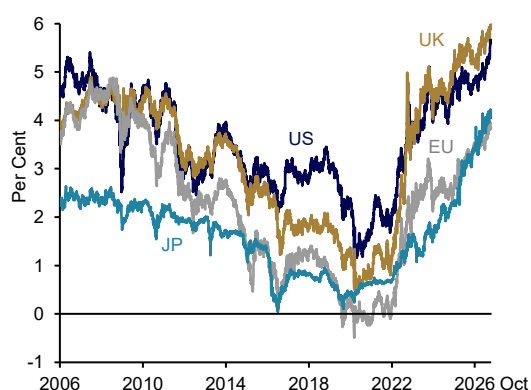
1 Financial Conditions

1.1 Global Developments

Risk sentiments continue to be positive despite rising bond yields

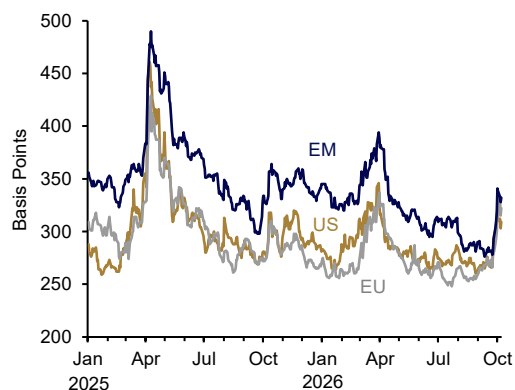
Global financial conditions have tightened marginally since the last *Review*, driven by rising sovereign bond yields. Long-term government bond yields have risen faster in several major economies more recently (**Chart 1.1**). This reflects specific factors in those economies, including higher government borrowing needs amid resilient growth, inflation risks and tighter monetary policy, and increasing debt issuance in the corporate sectors. The surge in bond yields and widening of high-yield credit spreads (**Chart 1.2**) contrasts with still-buoyant equity markets (**Chart 1.3**) and relatively tight investment-grade credit spreads. The US\$ has partially retraced its earlier weakness, although its strength has been relatively contained (**Chart 1.4**).

Chart 1.1: 30-Year Sovereign Bond Yields



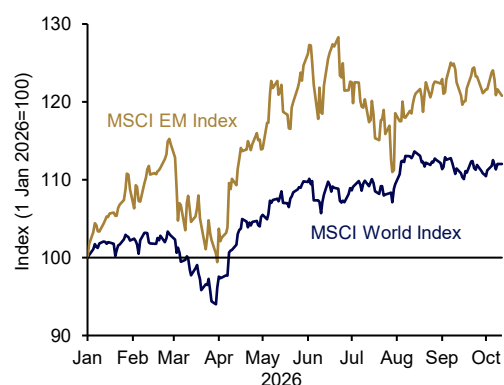
Source: Bloomberg

Chart 1.2: High-Yield Credit Spreads



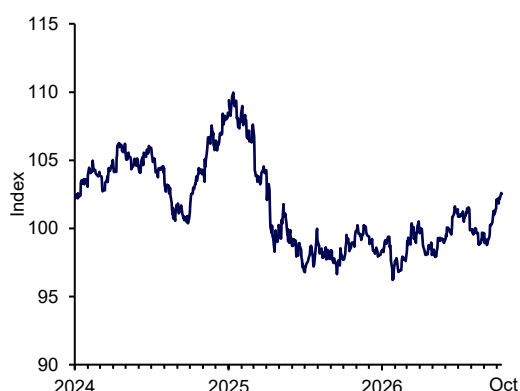
Source: ICE Data Indices, LLC, retrieved from Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis

Chart 1.3: Global Equity Indices



Source: Bloomberg

Chart 1.4: US\$ Index



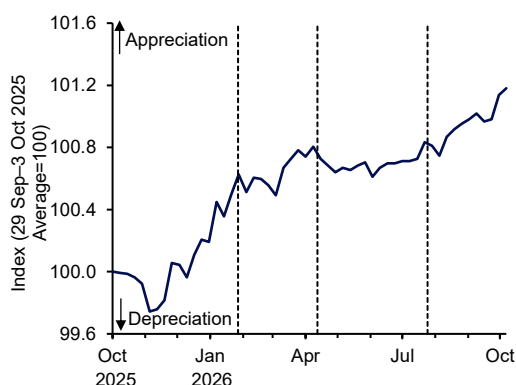
Source: Bloomberg

1.2 Domestic Developments

The S\$NEER has averaged slightly higher within the policy band

Since the July *Review*, the trade-weighted S\$ has risen broadly in line with policy's intent (Chart 1.5). The S\$ strengthened against the US\$ as well as some regional currencies such as the Philippine peso and the Malaysian ringgit (Chart 1.6). However, the domestic currency depreciated against the Japanese yen and Korean won.

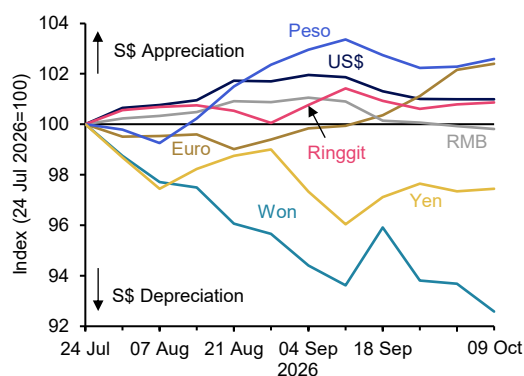
Chart 1.5: S\$NEER, Weekly Average



Source: EPG, MAS estimates

Note: Data displayed are up to 9 October. Vertical dashed lines indicate the last three releases of the MPS.

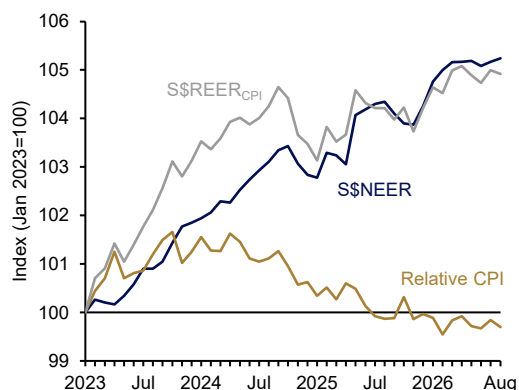
Chart 1.6: Bilateral Exchange Rates



Source: EPG, MAS estimates

The CPI-based S\$REER ticked up in July, reflecting an increase in the S\$NEER as well as the slightly quicker pace of inflation in Singapore compared to abroad. In August, the CPI-based S\$REER edged down, as a decline in the relative CPI more than offset a continued appreciation of the S\$NEER (Chart 1.7 and Chart 1.8). Over the two months, the S\$NEER had risen by 0.2%, compared with a 0.2% drop the quarter before.

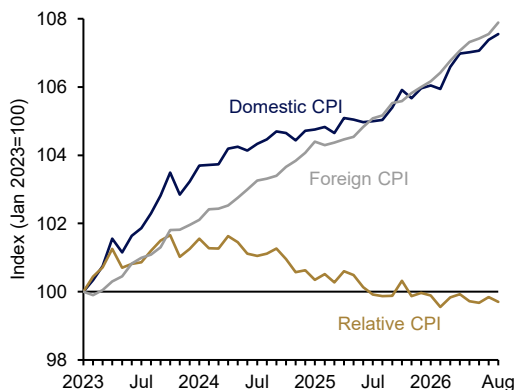
Chart 1.7: S\$ Real Effective Exchange Rate



Source: EPG, MAS estimates

Note: The S\$REER is constructed from seasonally adjusted domestic CPI and foreign CPI data series.

Chart 1.8: Domestic and Foreign CPIs



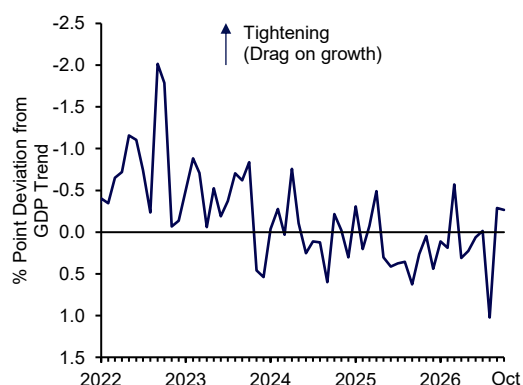
Source: Haver Analytics and EPG, MAS estimates

Domestic financial conditions tightened modestly

Singapore's financial conditions have tightened slightly, with rising global interest rates passing through to domestic rates (Chart 1.9). Singapore Government Securities yields and benchmark short rates have risen alongside global peers, though they continue to trade at a discount against US\$ rates (Chart 1.10). Meanwhile, bank lending to resident consumers and businesses continued to rise strongly on the back of robust trade-related growth, as well as firm expansions in financial and insurance activities. While credit growth has increasingly outpaced broad money growth, as measured by M2, banks continue to maintain ample liquidity buffers (Chart 1.11).¹

Looking ahead, higher global interest rates are expected to exert some tightening pressure on domestic financial conditions. Higher global rates could expose underlying vulnerabilities, particularly where elevated borrowing costs interact adversely with stretched global equity valuations and weaker earnings. Singapore's FSI reflects some of these dynamics, having edged higher alongside rising global bond yields and recent adjustments in equities (Chart 1.12). A renewed geopolitical shock or material shortfall in AI investment returns could amplify these pressures, triggering a broader reassessment of valuations and sharper corrections across financial markets.

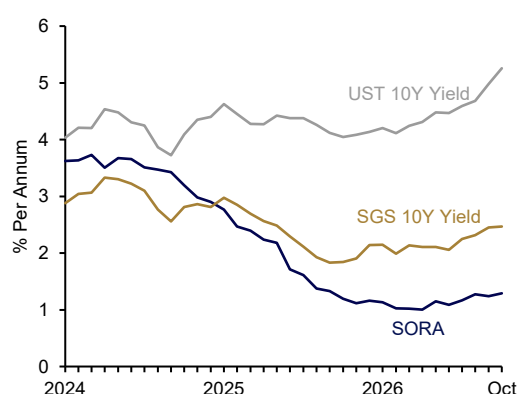
Chart 1.9: Domestic Financial Conditions Index (FCI)²



Source: EPG, MAS estimates

Note: Based on data available up to 13 October 2026.

Chart 1.10: S\$ SORA, 10-Year S\$ Government and US Treasury Bond Yields



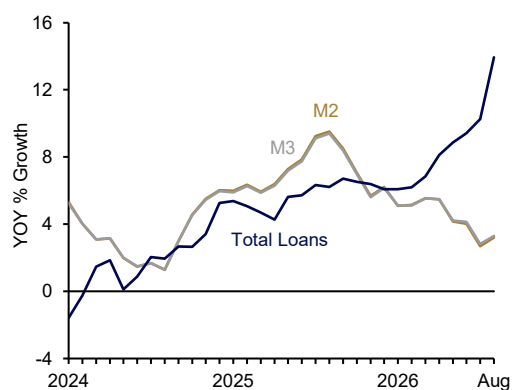
Source: Bloomberg and MAS

Note: Includes data available up to 13 October 2026.

¹ See Box A for a review of MAS Money Market Operations in FY2025/26.

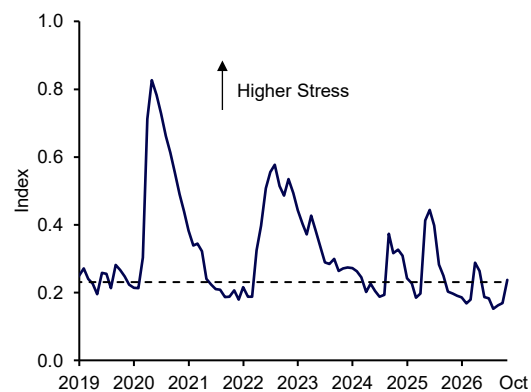
² The Financial Conditions Index (FCI) is a summary indicator which estimates the impact of financial variables on the Singapore economy. It includes a wide range of variables such as domestic asset prices (e.g., equity and property), credit and money growth, interest rates, and global indicators (e.g., equity prices, benchmark yields).

Chart 1.11: Total Loans and Monetary Aggregates



Source: MAS

Chart 1.12: Singapore Financial Stress Index (FSI)³



Source: Haver Analytics and EPG, MAS estimates

Note: Based on data available up to 13 October 2026. The FSI is normalised to [0,1], with 1 indicating historic high levels of stress. Its median level is indicated by the dotted line.

³ The Financial Stress Index (FSI) is a composite measure which estimates domestic financial stress across five key market segments (equity, FX, bond, short-term funding markets and the financial intermediaries sector). Besides aggregating price movements in these markets, the FSI also monitors cross-market correlations to detect potential financial contagion.

Box A: Review of MAS Money Market Operations in FY2025/26¹

MAS money market operations are undertaken to manage liquidity within the Singapore banking system and are distinct from the implementation of the exchange rate-based monetary policy. This Box reviews MAS' money market operations in FY2025/26.

The conduct of money market operations is briefly explained in the context of Singapore's exchange rate policy framework. This is followed by a review of banks' demand for cash balances, the behaviour of autonomous money market factors, and the composition of money market operations in the reporting period.

Money Market Operations in Singapore

Given Singapore's open capital account and exchange rate-centred monetary policy, domestic interest rates are necessarily endogenous. They are determined not just by MAS' exchange rate policy, but also by global factors, including international interest rates. MAS' money market operations are thus not targeted at any level of interest rate. Instead, they are aimed at ensuring that there is sufficient liquidity in the banking system to meet banks' demand for reserve and settlement balances, and to reduce the risk of sharp interest rate volatility.

Money market operations are conducted by the Monetary & Domestic Markets Management Department of MAS. The extent and size of daily money market operations depend on market conditions, particularly the banking sector's demand for funds, as well as the net liquidity impact of autonomous money market factors, as outlined in the sections below.

Banks' Demand for Cash Balances

Banks in Singapore are required² to maintain a Minimum Cash Balance (MCB) with MAS equivalent to a specified proportion of their qualifying liabilities. On a daily basis, banks have to maintain an effective end-of-day cash balance of between 2% and 4%³ of their liabilities base, while in each two-week maintenance period, average cash balances should not fall below 3% of the liabilities base. The need for banks to meet MCB requirements forms the base demand for cash balances. In FY2025/26, this demand for cash balances increased by approximately S\$2.4 billion (**Chart A1**), in tandem with an expansion in the banking system liabilities base.

Chart A2 shows the daily cash balances of banks within an average maintenance period in FY2025/26. Historically, banks tend to hold higher daily cash balances during the start of a maintenance period to avoid being short of cash towards the end of the period. Upon meeting the average MCB requirement of 3% for that maintenance period, banks would tend to deploy their excess cash, including by placing overnight deposits at the MAS Standing Facility.

¹ This Box was contributed by the Monetary & Domestic Markets Management Department of MAS. More information on MAS' money market operations is available in the monograph "[Monetary Policy Operations in Singapore](#)".

² As set out in MAS Notice 758, which applies to all banks in Singapore.

³ Cash balances in excess of 4% of liabilities do not count towards meeting the MCB requirement.

Chart A1 Average required cash balances over two-week maintenance periods

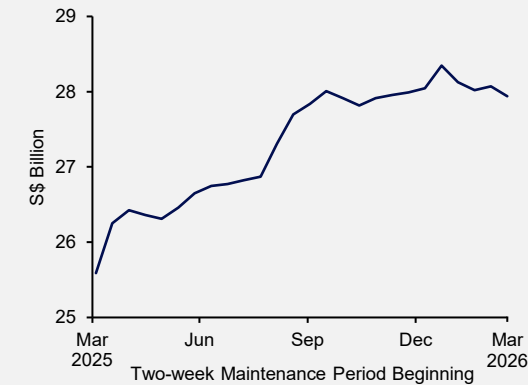
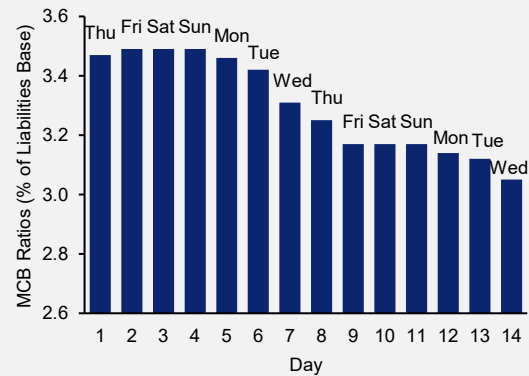


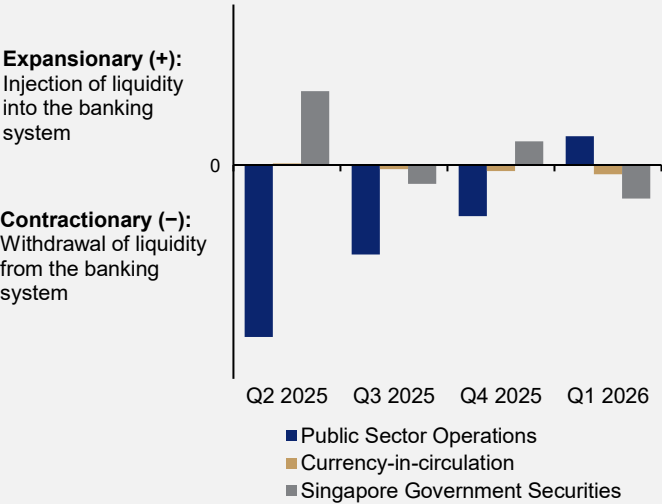
Chart A2 Daily effective cash balances as a percentage of banks' liabilities base over a typical two-week maintenance period in FY2025/26



Autonomous Money Market Factors

Chart A3 shows the liquidity impact of autonomous money market factors, which include: (i) public sector operations; (ii) currency-in-circulation; and (iii) Singapore Government Securities (SGS) and Treasury Bills (T-bills) issuance, redemption and coupon payments, over FY2025/26. Public sector operations include the government's and CPF Board's net transfers of funds between their accounts with MAS and their deposits with banks. In FY2025/26, the overall liquidity impact of the autonomous money market factors continued, as in previous years, to be contractionary on a net basis, largely on account of fund flows from public sector operations.

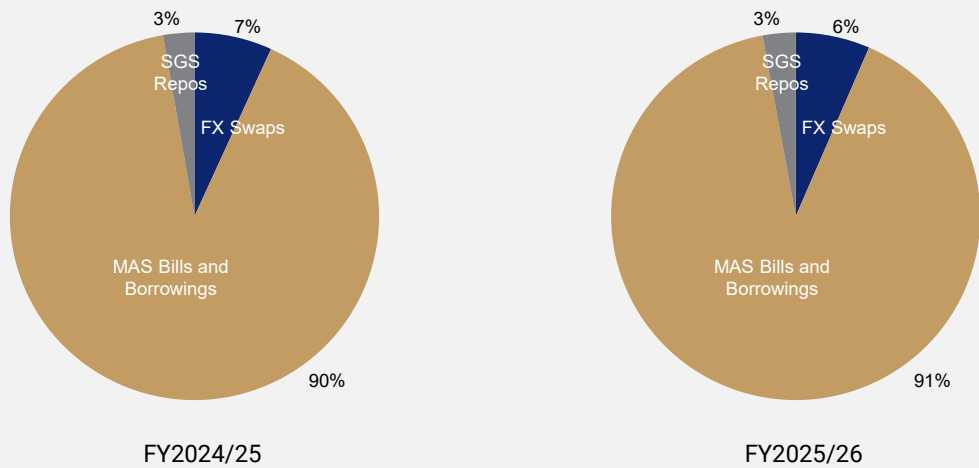
Chart A3 Liquidity impact of autonomous money market factors



Composition of Money Market Operations

MAS uses four money market instruments to manage liquidity in the banking system: (i) FX swaps; (ii) SGS repos; (iii) clean borrowings; and (iv) MAS Bills.⁴ The share of FX swaps decreased from FY2024/25 to FY2025/26, while that of MAS Bills and clean borrowings increased. MAS Bills and clean borrowings continued to comprise the largest share of the total (**Chart A4**).

Chart A4 Composition of money market operations by instrument



⁴ FX swaps are contracts in which one party borrows Singapore dollars from, and simultaneously lends another currency to, the second party. SGS repos refer to collateralised borrowing or lending of Singapore dollars against SGS. Clean borrowings are MAS’ borrowings of Singapore dollars on an uncollateralised basis.

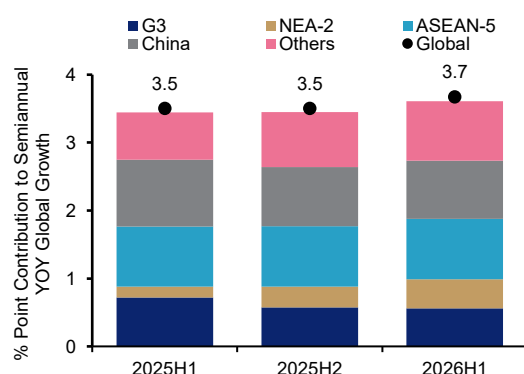
2 The International Economy

2.1 Recent Developments

The global economy remained resilient despite the energy shock, supported by the technology upcycle

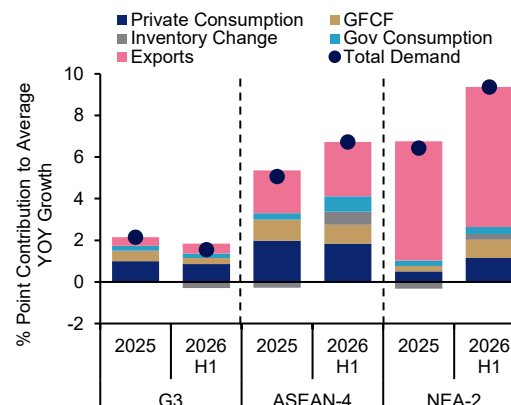
Global activity has held up better than expected despite the energy shock. Growth in H1 2026 rose to 3.7% y-o-y, from 3.5% in H2 2025, underpinned by firm outturns across most economies (**Chart 2.1**). Sustained AI-related demand lifted production and exports across Asia with the adjacent buildout of data centres providing an additional fillip to growth (**Chart 2.2**). At the same time, the drag from the energy shock remained contained, as alternative supplies, inventory drawdowns and softer oil demand, coupled with fiscal subsidies, helped cushion the impact of disrupted energy flows.

Chart 2.1: Breakdown of Global Growth



Source: Haver Analytics and EPG, MAS estimates

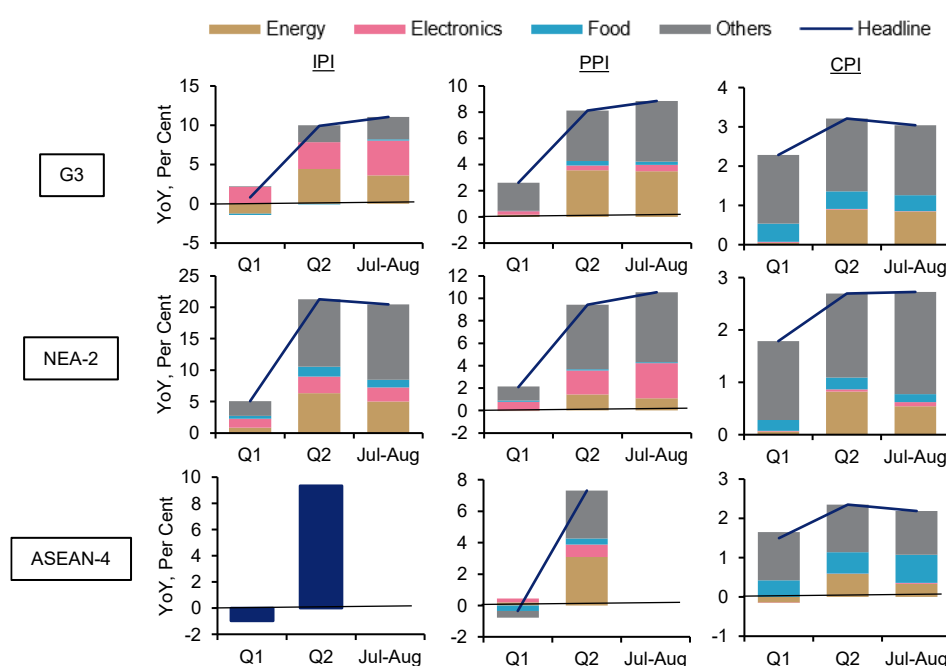
Chart 2.2: Decomposition of Total Demand in Key Regions



Source: Haver Analytics and EPG, MAS estimates

Note: ASEAN-4 comprise Malaysia, Indonesia, Philippines, and Thailand.

Headline inflation remained elevated relative to pre-shock levels, but has moderated from the highs seen earlier this year. While rising energy and electronics prices continued to lift upstream costs, their pass-through to consumer prices has been contained, with the pick-up in the overall CPI inflation showing signs of levelling off in recent months (**Chart 2.3**).

Chart 2.3: IPI, PPI and CPI Inflation Across Economies

Source: Haver Analytics and EPG, MAS estimates

Note: ASEAN-4 IPI and PPI data are available up to Q2 only.

2.2 Outlook

Global growth should continue to be underpinned by the technology boom

Compared with the *July Review*, the baseline forecast for the global economy has been revised up to 3.4% for 2026, and to 3.1% for 2027. The upward revisions mainly reflect stronger-than-expected activity in H1 2026 while the projected trajectory for the period ahead is broadly unchanged.

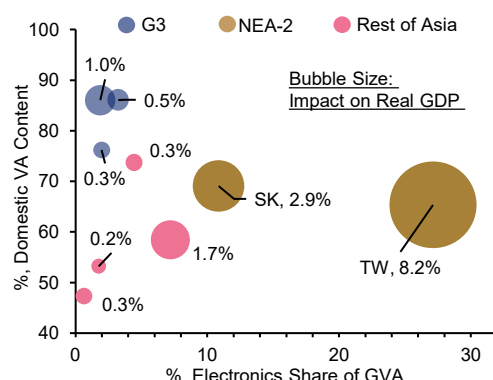
The global AI investment cycle is expected to remain a key growth support even as AI-driven growth moderates from the exceptional rate recorded thus far. Capital expenditure expectations for US hyperscalers have been revised higher since the *July Review*, arising from increased computing and data-centre demand through 2027. Concomitantly, semiconductor production is expected to remain at elevated levels in the coming quarters, and could rise further as new capacity comes on stream.

However, the gains from the AI boom will remain highly uneven across economies. Input-output estimates suggest that US hyperscaler investment can generate sizeable spillovers to some Asian economies. Notably, the spillovers to the NEA-2 economies are significant, owing to greater domestic value-added content of electronics production and the larger size of the electronics sector in these two economies (Chart 2.4).

In addition to boosting production, the AI boom is expected to generate considerable income gains through favourable terms-of-trade effects, cushioning the impact of higher energy prices at the margins. Similarly, the NEA-2 economies have benefited the most in this respect (Chart 2.5). Their income gains from firm export earnings have more than offset the drag from

higher energy import costs. The resulting increase in tax revenues is expected to bolster fiscal capacity, enabling governments to provide targeted and temporary support to vulnerable groups affected by higher energy prices.

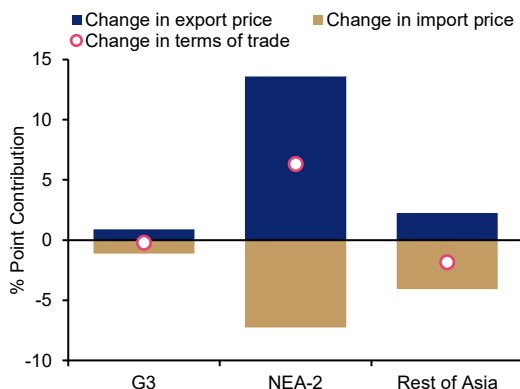
Chart 2.4: GDP Growth Impact Arising from US Hyperscaler Capex



Source: ADB MRIO and EPG, MAS estimates

Note: The bubble size is proportionate to the increase in real value-added arising from the expected expansion in US AI-related investment (US\$750 billion) in 2026. Domestic VA content is the share of induced output retained as domestic value-added, after netting out domestic intermediate transactions; the remainder accrues to imported inputs. Rest of Asia comprise China, Malaysia, Thailand and Philippines.

Chart 2.5: Terms-of-trade Effects Since the Energy Shock



Source: CEIC and EPG, MAS estimates

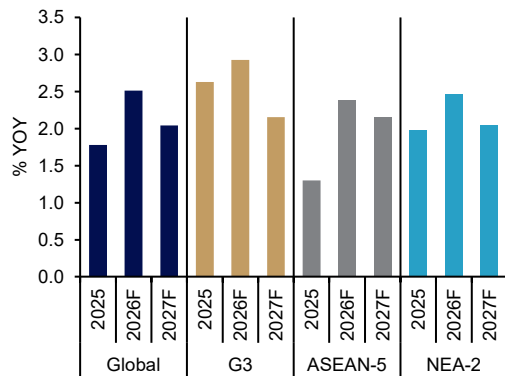
Note: Estimated terms-of-trade effects are based on changes in export and import prices between the Q4 2025 and Q2 2026 averages, weighted by 2025 goods exports and imports as shares of GDP. Rest of Asia comprise India, Malaysia, Indonesia, Thailand and Philippines.

Headline inflation is expected to rise in the near term as energy cost pressures continue to pass through

The lower-than-expected inflation prints in recent months have prompted a downward revision to the global inflation outlook (Chart 2.6). Global inflation is now projected at 2.5% in 2026 and 2.0% in 2027, compared with 2.7% and 2.2%, respectively, in the July *Review*. The relatively benign outturns reflect in part the delayed transmission of upstream costs. Pass-through from the energy shock has remained limited at the consumer level, dampened by subsidies, administered pricing, and other stabilisation measures.

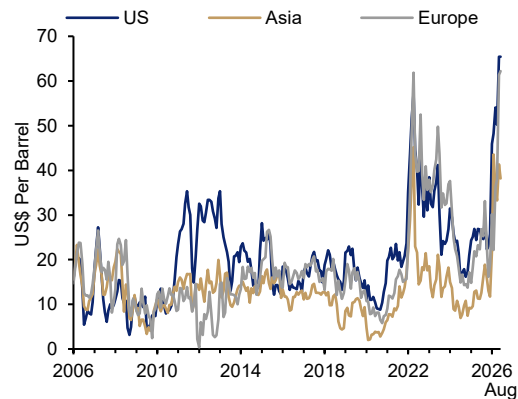
As such, the energy shock pass-through remains incomplete, with global headline inflation expected to edge higher in the coming months before gradually easing in 2027. While refining margins have retreated from their July 2026 peak, they remain elevated relative to historical norms (Chart 2.7). EPG's estimates suggest that up to one-third of the overall energy shock has yet to feed through to consumer prices, and will continue to do so over the coming quarters. The specific timing and extent of pass-through will vary across economies, reflecting differences in domestic pricing regimes and policy measures.

Chart 2.6: Headline Inflation



Source: Haver Analytics and EPG, MAS estimates

Chart 2.7: Oil Refining Margins



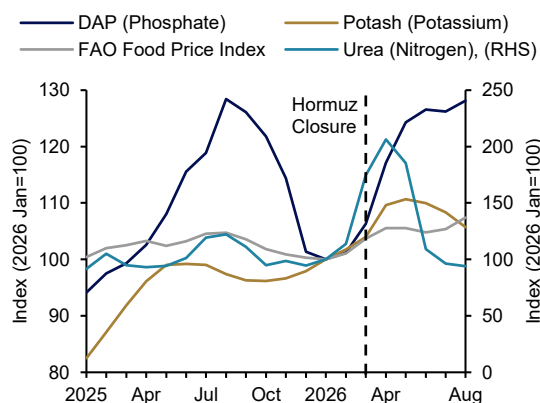
Source: CEIC, Haver Analytics and EPG, MAS estimates

Note: US series uses WTI, RBOB and ULSD; Asia and Europe use comparable regional benchmarks.

Food cost pressures could become more prominent in 2027, although the baseline assumes that weather-related production disruptions remain contained. International food prices have risen, but global grain inventories remain relatively comfortable, suggesting that broad-based supply scarcity has yet to emerge. Fertiliser price developments have become increasingly uneven. Urea prices have fallen back below pre-shock levels, while phosphate prices have continued to rise (Chart 2.8). Earlier increases in input costs could feed into food prices with a lag, as fertiliser purchased at elevated prices is used for the 2026/27 crop cycle.

Overall, the inflation path reflects a gradual and uneven transmission of earlier cost pressures rather than a renewed broadening of underlying inflation. Refined product prices remain the principal near-term source of cost pressure. The pass-through of earlier increases in agricultural input costs is also expected to continue, although the impact could be smaller and more delayed, occurring primarily over 2027, barring widespread weather-related crop losses or restrictive trade responses.

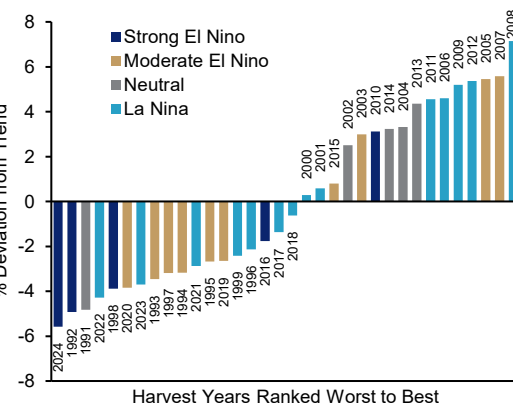
Chart 2.8: Fertiliser and Food Prices



Source: World Bank, FAO

Note: Gulf countries supply 34% of global urea trade and 18% of phosphate fertilisers, but almost no potash.

Chart 2.9: Asia's Rice Harvest Cluster in El Niño Years



Source: FAO, NOAA and EPG, MAS estimates

Note: Deviation estimated as actual rice yield relative to each economy's fitted linear trend. Bars are output-weighted across the six exposed producers: Thailand, Philippines, Vietnam, Cambodia, Myanmar and Pakistan.

The balance of risks is tilted towards higher inflation

Inflation risks remain skewed to the upside, reflecting the elevated likelihood of renewed supply shocks. The sporadic escalations in the Middle East conflict could produce a more severe energy shock than assumed in the baseline. Lower inventories and limited spare refining capacity have left markets more sensitive to further disruptions to shipping routes or energy infrastructure. Crude oil and refined product prices could therefore rise sharply, with the effects spreading through transport, utility and production costs.

Inflationary pressures from elevated energy costs could be compounded by higher food prices if adverse weather disrupts harvests in the coming months. El Niño-related heatwaves and rainfall deficits can significantly depress crop yields and disrupt planting cycles (Chart 2.9). The inflationary impact would be larger if the weather phenomenon affected major producing regions, available stocks and water buffers proved insufficient, and/or food-exporting economies imposed trade restrictions to protect domestic supply.

In comparison, downside risks from an AI cycle downturn appear less immediate, in view of sustained strong chip orders to meet robust capex demand. A materially weaker growth outcome would likely require a financial shock that emanates from a sharp reassessment of expected returns across the AI ecosystem. One plausible scenario is an AI infrastructure credit shock, where weaker-than-expected AI monetisation leads hyperscalers to curtail capex, prompting a repricing of debt-financed AI investments. The resulting tightening in financing conditions could delay projects across the AI supply chain, triggering a self-reinforcing downturn in investment and global growth.

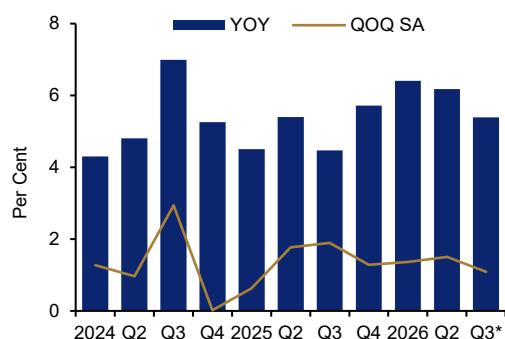
3 The Singapore Economy

3.1 Recent Developments

Singapore's GDP growth remained firm in Q3 2026, supported by the technology-related sectors

Based on the advance estimates from METI, the Singapore economy grew by 1.1% q-o-q SA in Q3 2026, extending its run of strong sequential growth to a sixth consecutive quarter, albeit at a slightly slower pace compared to Q2 (Chart 3.1). On a y-o-y basis, GDP growth held up at 5.4%, following the 6.2% expansion in Q2.

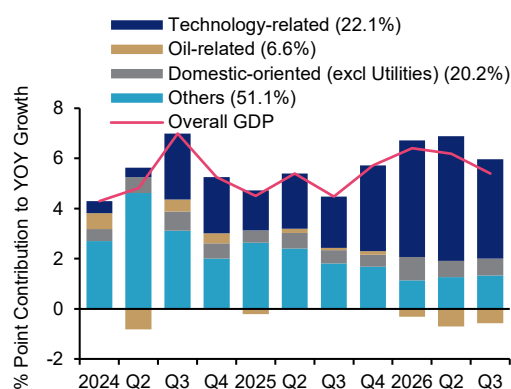
Chart 3.1: Singapore's GDP Growth



* advance estimates

Source: DOS

Chart 3.2: Contribution to GDP Growth



Source: EPG, MAS estimates

Note: Technology-related industries include 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. Nominal VA shares of the respective clusters in 2025 are indicated in parentheses.

The technology-related sectors continued to expand robustly, accounting for around 75% of overall (y-o-y) growth (Chart 3.2). While there was some moderation in the growth of electronics output in early Q3, this likely reflected capacity constraints in the global supply chain as underlying AI-related demand remained firm.

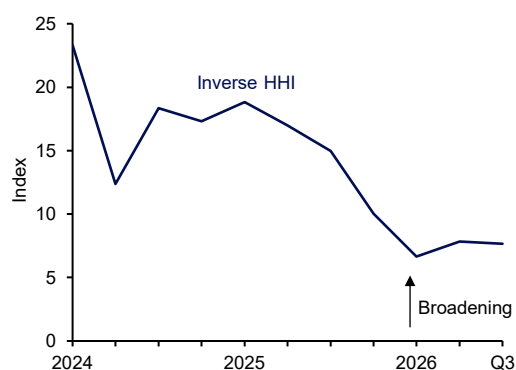
There was only a modest easing in the pace of contraction in the oil-related industries. Although shipping traffic through the Strait of Hormuz has recovered somewhat, elevated feedstock prices, soft demand and compressed petrochemical margins continued to constrain operations at domestic petrochemical firms. As of Jul–Aug, petrochemical output remained around 40% below pre-conflict levels.

The non-technology and non-oil related sectors continued to expand at around trend pace

Overall GDP growth remained relatively concentrated, against the outsized expansion in the technology-related sectors. The Herfindahl-Hirschman Index (HHI) indicated that the breadth

of positive growth contributions from across the sectors in the economy in Q3 was broadly unchanged from Q2, with gains remaining concentrated in the technology-related sectors (**Chart 3.3**). Beyond the technology-related and oil-related industries, growth outturns were mixed, though on average keeping at trend (**Table 3.1**). Structures-related industries held up relatively well, supported by public and private construction, as well as developer activities. However, parts of the consumer-facing segments continued to face structural challenges, contributing to their weaker performance relative to the rest of the economy.

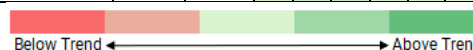
Chart 3.3: Herfindahl-Hirschman Index



Source: EPG, MAS estimates

Table 3.1: Growth Rates (YOY) of Key Clusters

	2025 Share of GDP	2015– 2024 Average	2025				2026		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3
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							



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" include water transport, storage & other support services, as well as the non-technology and non-oil segments of manufacturing and wholesale trade.

3.2 Outlook

The durability of the current economic expansion hinges on three key considerations: (i) the sustainability of the AI-driven global investment cycle; (ii) whether capacity constraints in the technology-related sectors would constrain the pace of further expansion; and (iii) the extent to which growth broadens beyond the technology-related sectors within Singapore.

The AI-led expansion remains relatively well-anchored into 2027

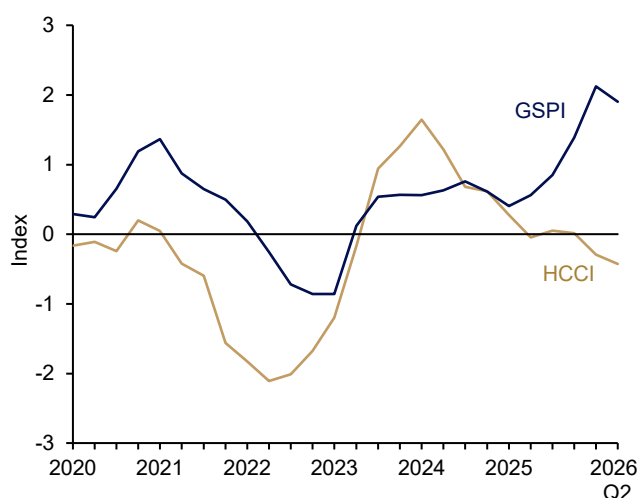
The AI-driven global semiconductor production cycle continued to see exceptional strength in recent months, though accompanied by rising financial vulnerabilities especially among downstream hyperscalers. According to the World Semiconductor Trade Statistics (WSTS), global chip sales (GCS) grew by 145% y-o-y in Jul–Aug, driven by strong memory price growth. In comparison, GCS volumes are estimated to have grown at a more moderate pace of 16% amid measured capacity expansions.¹ Meanwhile, hyperscalers' free cash flow positions have come under increasing pressure from surging capex commitments. Firms have also

¹ 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. These economies accounted for around 60% of worldwide GCS in 2025.

become more reliant on external financing channels, including bond markets, private credit funds, and special-purpose vehicles to finance the AI buildout.

The AI-led expansion should continue into 2027. EPG constructed two indicators: the Global Semiconductor Production Index (GSPI) ², which tracks cyclical conditions in the semiconductor sector, and the Hyperscaler Capex Cover Index (HCCI), which captures changes in hyperscalers' capacity to sustain capex spending based on their cash-flow generation, leverage and investment intensity. ³ The indicators suggest that strong semiconductor production growth has persisted despite some pressure on hyperscalers' financial buffers. While this points to rising downside risks, current strains remain short of levels that would suggest an imminent retrenchment in AI investment (**Chart 3.4**).

Chart 3.4: GSPI and HCCI



Source: Bloomberg and EPG, MAS estimates

Even if rising financial vulnerabilities raise the risks of a pullback in AI capex, substantial order backlogs and committed capacity buildouts should cushion the near-term impact on production. Anecdotal evidence suggests that manufacturers are still fulfilling orders placed up to six months earlier, while major hyperscalers continue to report robust data-centre revenue growth and indicate that a significant share of planned 2027 capacity has already been reserved.

Recovering demand for selected non-AI specialty chips could support growth. Globally, mature node semiconductor firms have reported early signs of improving revenue and order growth in selected non-AI segments (automotive, industrial), given advanced inventory digestion and steady demand from industrial automation and vehicle electrification. Capacity migration to AI-related production has also resulted in a global shortage of mature node

² The GSPI is constructed using a dynamic factor model, which estimates a common underlying factor driving co-movements across a set of indicators. It summarises indicators such as global semiconductor and equipment production indices, inventory-to-shipment ratios and chip sales. Higher values of the GSPI suggest stronger global semiconductor production activity (and vice versa).

³ The HCCI is constructed using principal component analysis, where the first principal component is used to summarise various indicators into a single composite measure based on their common variation. The indicators used include the free- and operating-cash-flow margins, net debt to operating cash flow, and capex to revenue ratios of Microsoft, Alphabet, Amazon, Meta, Oracle and CoreWeave. Higher values of the HCCI suggest a stronger capacity to support capex spending (and vice versa).

capacity to support non-AI needs. Against this backdrop, semiconductor companies in Singapore supporting non-AI segments are well-positioned to benefit from the recovery.

Finally, forward indicators continue to point to strength in the global IT industry through at least H1 2027. The WSTS has raised its forecast for nominal global chip sales growth to 108% in 2026 and 29% in 2027⁴. Unlike the 2021–23 cycle, global inventories remain relatively lean despite ongoing capacity expansions, reflecting chipmakers' focus on higher-value rather than volume production. Together with the strengthening domestic electronics PMI and increases in new orders and order backlogs, these indicators suggest that the AI-led semiconductor cycle is more likely to remain in a phase of expansion.

Capacity constraints are expected to be alleviated by supply-side expansions

While capacity constraints could limit activity in the domestic electronics sector in the short term, these pressures should ease with capacity expansions. Significant capacity additions are expected to come onstream in 2027–28. For example, Micron has embarked on multi-year investments, including a new HBM advanced packaging facility, while GlobalFoundries and UMC are ramping up capacity to produce AI-related networking chips. As additional production capacity comes onstream, firms could ramp up output further, potentially leading to another wave of strong semiconductor production growth.

Positive confidence effects emanating from the technology-related sectors should support broader-based growth

The sustained strong growth and significant size of the technology-related sectors, as well as their positive impact on overall business confidence and investor sentiment, could provide support to broader economic activity. Sanguine business and investor sentiments would sustain robust financial intermediation and trading activity, contributing to firm growth within the financial sector. That said, the pace of expansion is expected to taper off slightly next year as expectations of higher global interest rates could temper credit demand. Meanwhile, in the professional services sector, rising enterprise adoption of AI could lift demand for business consultancy services, while also supporting emerging areas such as AI assurance and governance.

Growth in the domestic-oriented and travel-related sectors is expected to remain supported, although performance is likely to be uneven across segments. A lineup of major MICE and concert events, alongside new flight connections and capacity expansions, should bolster inbound tourism and business travel to Singapore, supporting the consumer-facing and travel-related segments. The prime retail, hospitality, and premium dining businesses would benefit from these drivers, in contrast with suburban retailers and mass market food and beverage operators, which might continue to face rising structural pressures. In particular, the opening of the RTS Link could accelerate consumer spending across the border. Spending on price-sensitive items may be more affected, as consumers take advantage of cross-border price differentials. Meanwhile, construction activity is expected to remain robust in 2027, supported by a strong pipeline of projects.

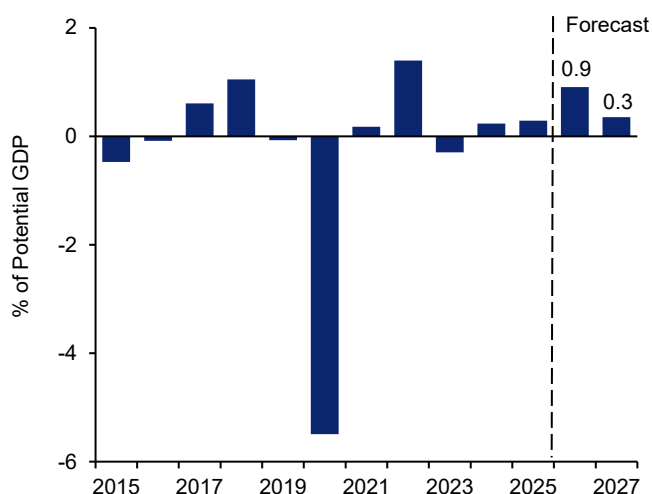
⁴ As of 6 Aug 2026.

GDP is on track to record a third consecutive year of above-trend growth in 2026, before moderating in 2027

Taking into account the strong GDP growth outturn thus far, the economy's positive output gap is estimated to widen this year. This principally reflects the surge in manufacturing output which has been met by the higher capital-intensive production of firms. In 2027, full-year growth is projected to moderate, narrowing the output gap (**Chart 3.5**). The slowdown is expected to be driven primarily by the trade-related cluster, as growth normalises following several quarters of above-trend expansion. The technology-related sectors are likely to expand at a more measured pace as the global AI investment cycle moderates. Nevertheless, these segments should remain the principal drivers of growth in 2027.

The balance of risks to growth is likely to evolve over the course of 2027. GDP growth could continue to surprise on the upside given the unprecedented strength of the global AI boom and the technology-related sectors. However, the risk of a financial event, triggered either by unsustainable AI investment, or the sovereign bond markets, could weaken investor and business sentiment and weigh more heavily on the outlook.

Chart 3.5: Output Gap



Source: EPG, MAS estimates

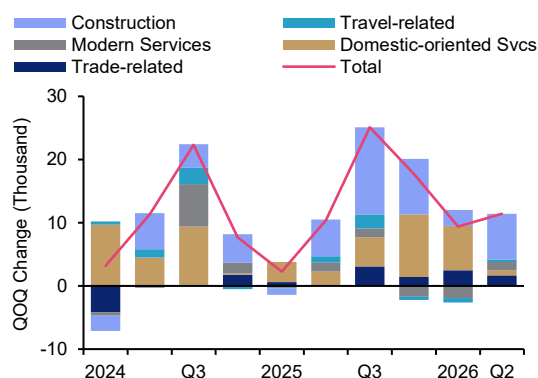
4 Labour Market and Inflation

4.1 Labour Market¹

Labour market conditions stayed broadly balanced in Q2

Total employment² picked up pace in Q2, amid hiring across major clusters in the economy (Chart 4.1). Non-resident employment increased, particularly among Work Permit Holders in construction and manufacturing. Resident employment also rose, with gains across modern services, public administration & education, and health & social services. Within modern services, hiring in the financial sector was supported by growth in existing and new fund management firms, particularly hedge funds, private equity and venture capital firms. For H1 as a whole, resident employment growth was stronger than the same period a year ago.³

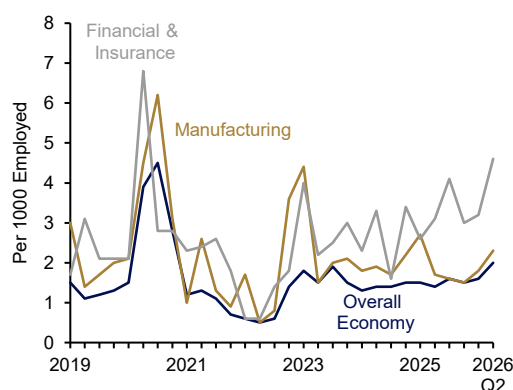
Chart 4.1: Total Employment Change by Broad Sector



Source: MOM and EPG, MAS estimates

Note: Data excludes migrant domestic workers. The domestic-oriented services sector comprises real estate, retail trade, F&B services, land transport, administrative & support services, public administration & education, health & social services, other community, social & personal services, domestic work, and utilities & others. The modern services sector comprises financial & insurance, I&C, and professional services. The trade-related sector comprises manufacturing, wholesale trade, water transport and other transport industries. The travel-related sector comprises the accommodation, air transport and AER sectors.

Chart 4.2: Retrenchment Incidence



Source: MOM

At the same time, some other labour market indicators softened amid sector-specific restructuring and labour reallocation. Retrenchments rose even as overall headcount still grew, especially in the outward-oriented sectors such as manufacturing and financial services (Chart 4.2). Firms in these sectors largely cited business reorganisation or restructuring rather than poor business prospects as reasons for retrenchment, suggesting that weaker demand

¹ The commentary in this section is based on available data up to Q2 2026, unless otherwise stated.

² All employment figures exclude migrant domestic workers, unless otherwise stated.

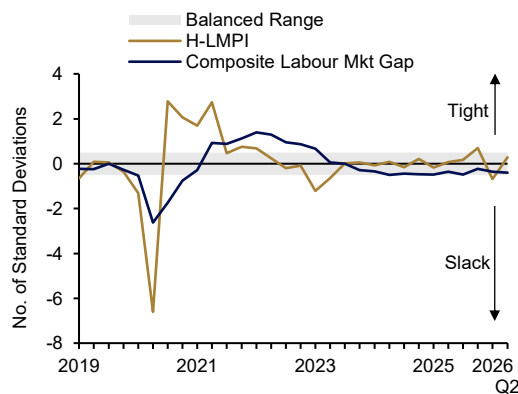
³ On a seasonally adjusted q-o-q basis, resident employment rose at a comparable pace to Q1, indicating that underlying employment momentum remained largely intact.

was not the driver. Meanwhile, longer job searches among displaced workers may partly reflect the time taken to find better job matches and, for some workers, to reskill for new roles.

Overall, labour market conditions remained stable. A composite labour market *gap* indicator summarising labour market tightness across 12 indicators⁴ continued to point to broadly balanced labour market conditions in Q2 (Chart 4.3). This was consistent with job vacancies continuing to outnumber unemployed persons and the resident unemployment rate remaining low, even as retrenchments increased. The Hamilton-filtered labour market *pressure* indicator (H-LMPI), which incorporates forward-looking information, also ticked up in Q2 following its retraction in Q1, signalling some improvement ahead.

Nominal wage growth stayed close to its historical norm. Resident average monthly earnings (AME)⁵ growth picked up to 4.0% y-o-y in Q2, from 3.3% in the preceding quarter (Chart 4.4). However, abstracting from more volatile wage readings, underlying wage growth, as measured by the 25% trimmed mean measure, continued to ease to around its historical average.

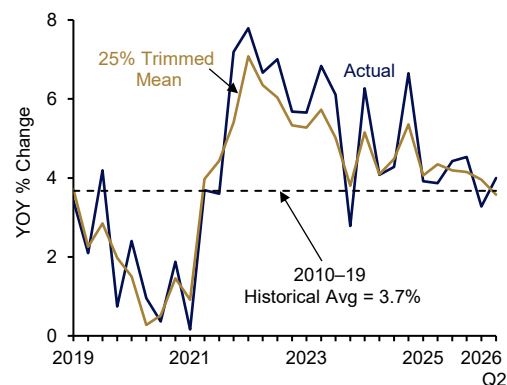
Chart 4.3: Composite Labour Market Gap Indicator



Source: EPG, MAS estimates

Note: The labour market is classified as “Balanced” if readings are within ± 0.5 standard deviation. The H-LMPI is a composite measure summarising 27 labour market indicators.

Chart 4.4: Headline and 25% Trimmed Mean Wage Growth



Source: EPG, MAS estimates

Note: 25% trimmed mean wage is computed by ordering sectoral q-o-q SA wage changes and trimming 25% of observations from both ends using sectoral resident employment weights.

Forward indicators point to rising hiring intentions in the near term while wage pressures remain modest

Various employer surveys point to firmer hiring intentions in the second half of 2026. MOM's Hiring Sentiment Survey in July showed a larger share of firms planning to hire over the next three months than in May (Chart 4.5). The average net employment outlook across major

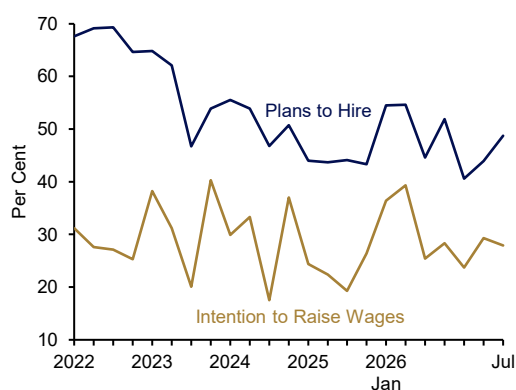
⁴ The 12 indicators are the resident unemployment rate, estimated ratio of vacancies likely to be filled by residents relative to unemployed residents, recruitment rate, resignation rate, job vacancy rate, average weekly hours worked, average weekly overtime hours, estimated labour force participation rate, average monthly earnings growth, average labour cost growth, estimated incidence of retrenchment as well as re-entry rate of retrenched residents. Each indicator is benchmarked against their Hodrick-Prescott and Hamilton-filtered trends. Deviations from these trends are then standardised by their historical volatility and averaged.

⁵ AME refers to all remuneration received before deduction of the employee Central Provident Fund (CPF) contributions and personal income tax. It comprises basic wages, overtime pay, commissions, allowances and bonuses but excludes employer CPF contributions. Annual AME data is published. Quarterly AME data is available by writing to mom_rsd@mom.gov.sg.

private sector surveys also indicated continued headcount expansions in H2 (**Chart 4.6**). The surveys point to stronger employment growth in manufacturing, particularly in precision engineering and electronics, as well as in the financial & insurance services.⁶

Next year, labour demand is expected to be supported by construction and domestic-oriented services. Ongoing major infrastructure and building projects are expected to support demand for workers in construction and in segments of professional services such as architectural & engineering services. Employment in public administration & education is also set to rise in line with plans to expand pre-school services. Further demand for financial investment activity, insurance and healthcare should also boost hiring in these sectors. Overall, resident employment should continue to expand, albeit at a slower pace than the historical norm, as resident labour supply growth eases with population ageing.

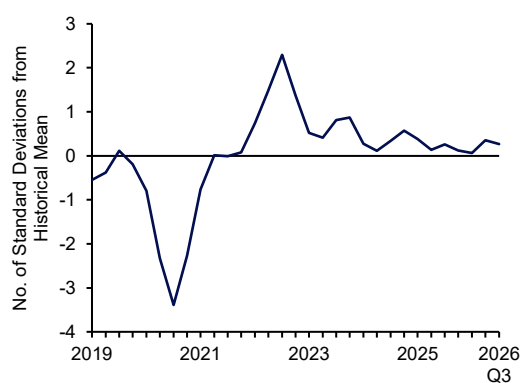
Chart 4.5: Hiring & Wage Expectations for The Next 3 Months



Source: MOM

Note: Data prior to 2026 was reported on a quarterly basis. For 2026, data is plotted at a monthly frequency.

Chart 4.6: Net Employment Outlook



Source: EPG, MAS estimates

Note: This chart combines employment expectations across surveys conducted by DOS, EDB, ManpowerGroup and Singapore Commercial Credit Bureau (SCCB). Historical mean refers to the average over 2010–19 for EDB, DOS and ManpowerGroup and over 2015–19 for SCCB due to data availability.

Nominal wage growth is expected to moderate to levels broadly in line with the historical norm. Despite a pickup in hiring intentions, the share of firms planning to raise wages edged down in MOM's latest survey (**Chart 4.5**). Cyclically low resignation rates indicate limited job-to-job mobility, reducing pressure on firms to raise wages to retain workers. Resident nominal wage growth is therefore projected to ease from last year's pace and remain close to historical norms over this year and next. Amid firm productivity gains, unit labour cost growth is expected to be subdued this year and into 2027.

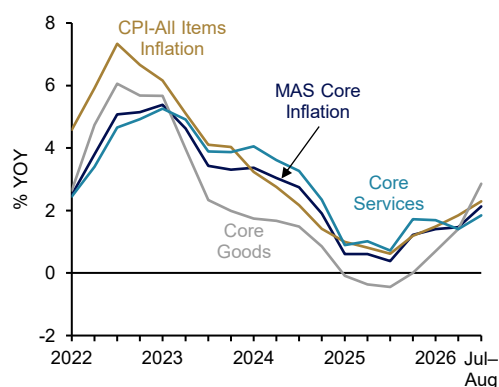
⁶ Based on EDB's Business Expectations Survey, the Singapore Commercial Credit Bureau's (SCCB) Business Optimism Index, DOS' Business Expectations Survey for the Services Sector, and the ManpowerGroup's Employment Outlook Survey.

4.2 Inflation Developments

Inflation rose amid the pass-through of higher energy prices

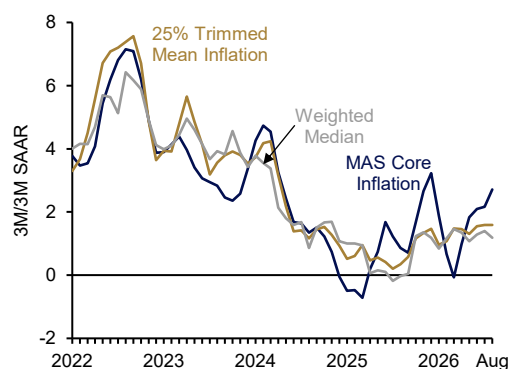
MAS Core Inflation rose by less than anticipated to 2.1% y-o-y in Jul–Aug, from 1.5% in Q2 (Chart 4.7).⁷ The step-up was driven by higher inflation in electricity & gas, food, and fuel-intensive services such as airfares and point-to-point transport. However, these increases were partly offset by enhanced healthcare subsidies and larger discounts on telecommunication services which lowered prices in these categories. Taken together, price increases in the economy broadened but at a relatively gradual pace. Alternative measures of inflation that look past the effects of more volatile CPI components remained contained at below 2% (Chart 4.8).

Chart 4.7: MAS Core and CPI-All Items Inflation



Source: DOS and EPG, MAS estimates

Chart 4.8: Measures of Inflation Momentum



Source: DOS and EPG, MAS estimates

Apart from volatile oil prices, Singapore's imported prices rose broadly in line with expectations. Imported oil inflation eased in Jul–Aug, but remained elevated. Meanwhile, import costs for a range of intermediate and final goods, including consumer items, continued to rise, while imported food prices have also started to increase (Charts 4.9 and 4.10). This likely reflects the increase in production and transportation costs worldwide as higher energy costs passed through global supply chains.

Meanwhile, domestic consumer spending improved slightly, supporting some of the pass-through of accumulated costs to final prices. Private consumption expenditure rose at a faster pace in Q2, while recent surveys showed an improvement in consumer confidence in Jul–Aug, which may have lifted consumer spending for some categories.⁸

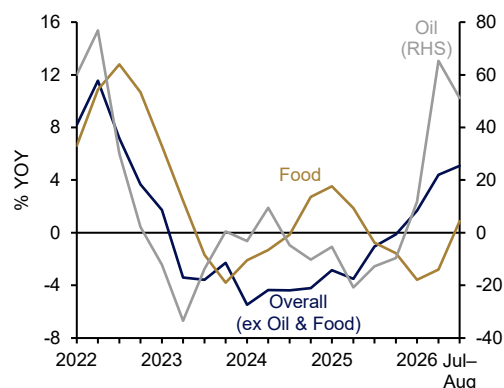
In comparison, enhanced government subsidies as well as market competitive forces led to lower-than-expected essential services inflation. Enhanced subsidies for long-term care and community dialysis treatment, alongside intense competition in the telecommunications sector, kept essential services inflation subdued at 1.0% in Jul–Aug, down from 1.1% in Q2. In particular, from 1 July 2026, the Ministry of Health replaced one-off fee rebates for

⁷ Meanwhile, CPI-All Items inflation rose to 2.3% y-o-y in Jul–Aug from 1.8% in Q2, reflecting higher core inflation and accommodation inflation.

⁸ Singapore's consumer confidence rebounded by 7.0% in Jul–Aug after declining by 7.8% q-o-q in Q2. Source: Ipsos. (2026, Sep 23). Global Consumer Confidence Index.

subsidised long-term care services with enhanced mean-tested subsidies, and implemented the second phase of its enhanced community dialysis subsidies.⁹

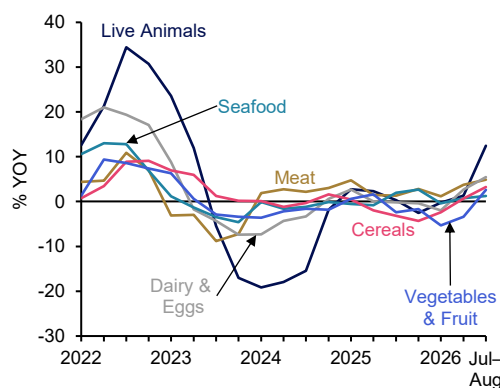
Chart 4.9: Singapore Import Price Indices



Source: DOS and EPG, MAS estimates

Note: The import price index for food is adjusted using CPI weights.

Chart 4.10: Singapore Food Import Prices by Category



Source: DOS and EPG, MAS estimates

While supply disruptions are expected to keep import cost pressures firm in the coming quarters, the strong pace of price increases is unlikely to persist

Both oil and non-oil imported inflation are forecast to remain elevated in the near term but should ease gradually over 2027. Following the re-escalation of the Middle East conflict, Brent and refined fuel prices have surged anew and are expected to remain high in the immediate months ahead.¹⁰ However, as oil and gas flows normalise, prices of energy products are expected to moderate over 2027.¹¹ Likewise, while El Niño-related weather disruptions could lift global and regional agricultural prices further, healthy food inventories in major food-producing countries should temper the extent of price increases. In the latter part of 2027, as the temporary weather-related shocks to agricultural production dissipate, the inflationary impact on Singapore's food prices is expected to fade progressively.

Domestic cost pressures are modest and should not contribute to persistent inflation.¹² Unit labour cost growth in the services sector is forecast to remain contained amid continued productivity gains. Other business costs such as commercial retail rent increases are also expected to be tempered by the steady expansion of retail space supply. Market competitive pressures in some sectors could continue to cap consumer price increases into 2027.

Administered prices will be another factor placing downward pressure on services inflation into next year. The enhanced healthcare and long-term-care subsidies introduced in July this year will continue to temper y-o-y inflation through H1 2027. Education services inflation will

⁹ Sources: (i) Ministry of Health. (2026, July 1). Subsidies for Residential Long-Term Care Services; (ii) Ministry of Health. (2026, July 1). Subsidies for Community Dialysis Services.

¹⁰ Dated Brent crude prices are expected to average US\$97 per barrel for 2026 as a whole, implying a forecast of US\$104/b on average for the period Oct–Dec. In 2027, Brent prices are projected to moderate to US\$85/b.

¹¹ Sources: (i) Reuters. (2026, October 2). September LNG shipments through Hormuz hit highest since start of US-Iran war; (ii) Reuters. (2026, October 6). Gulf oil flows rise to average 81% of pre-war rate in September, data shows.

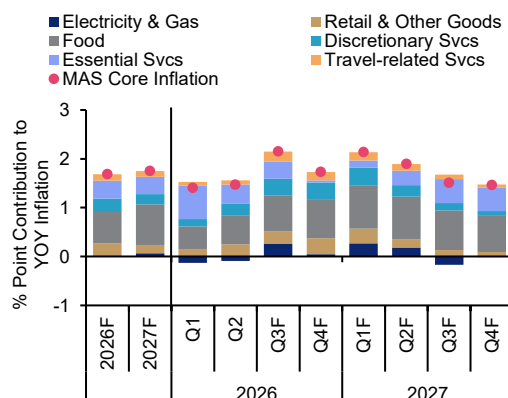
¹² See **Box B** "A Structural Decomposition of the Supply and Demand Drivers of Singapore's Inflation" for a discussion on the relative contributions of external and domestic conditions in driving inflation historically.

be lowered next year by a further round of infant care and childcare subsidy enhancements announced in Budget FY2026, helping further to keep overall inflation contained.

Inflation should stay slightly elevated over the coming quarters, but will moderate more discernibly from the middle of 2027

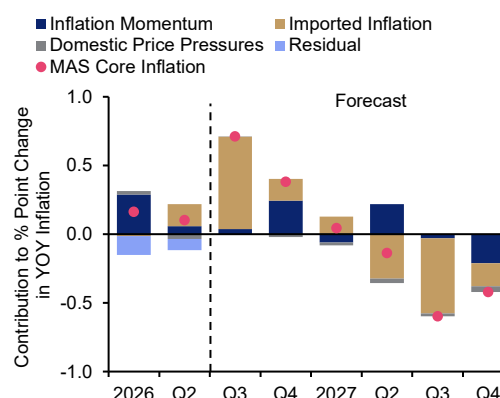
All in, inflation is expected to be firm in the near term but should step down from Q2 next year (Chart 4.11). On a quarterly basis, core inflation is projected to stay slightly elevated at around current levels through to Q2 2027, as imported cost pressures continue to pass through to food and retail & other goods prices. While regulated electricity & gas tariffs fell in Q4, they are currently expected to rise again in Q1 2027 due to the rebound in global energy costs.¹³ Transportation-related services are also projected to see sustained elevated inflation in the coming quarters, as fuel prices remain high. Thereafter, core inflation should ease more discernibly in the second half of next year as external supply-driven cost impulses fade and domestic costs remain contained (Chart 4.12).

Chart 4.11: MAS Core Inflation by Component



Source: DOS and EPG, MAS estimates

Chart 4.12: Phillips Curve Decomposition of Changes in Core Inflation



Source: DOS and EPG, MAS estimates

Note: Bars show the contribution of each component to the change in y-o-y inflation from the previous quarter.

CPI-All Items inflation is expected to broadly track core inflation. Accommodation inflation should pick up modestly, reflecting continued increases in housing rents. Private transport inflation is expected to remain elevated in the near term before easing next year, as petrol prices decline in tandem with the projected fall in global crude oil prices.

MAS Core Inflation is forecast to average 1.5–2.0% this year and 1.5–2.5% in 2027, while CPI-All Items inflation is projected to come in around 2.0% in 2026 and 1.5–2.5% in 2027. For now, the risks to inflation remain tilted towards the upside. Further adverse geopolitical shocks could lead to another sharp increase in global energy prices, and more prolonged shortages of key refined products and intermediate goods. Domestically, an unexpected tightening in the labour market could enable second-round effects and result in more persistent inflation. At the same time, there is still some risk that inflation could also fall more quickly than anticipated due to a more decisive resumption of crude and distillate shipments from the

¹³ The regulated electricity tariff for each quarter is set based largely on the average imported price of natural gas in the first two and a half months of the preceding quarter, among other factors. Imported natural gas prices, in turn, are tied to oil prices by commercial contracts. The projected increase in Q1 2027 tariffs therefore reflects expectations of higher energy prices from October to mid-December 2026.

Middle East. Tighter global financial conditions could also weigh on growth and dampen global inflation.

Box B: A Structural Decomposition of the Supply and Demand Drivers of Singapore's Inflation¹

Understanding the drivers of inflation in Singapore is important for monetary policy purposes. As a small, open economy, Singapore is frequently exposed to external shocks including shifts in global demand, commodity-price shocks and disruptions to supply chains. The effect of these shocks on domestic inflation depends partly on how they interact with domestic demand conditions and capacity constraints. Distinguishing between these channels helps assess whether inflation developments are primarily externally driven, domestically generated or shaped by both.

This study develops a factor-based decomposition of Singapore's core inflation into external and domestic, supply and demand influences. It adapts the framework of Eickmeier and Hofmann (2022) to explicitly account for international spillovers in a small open economy, and uses a large dataset of external and domestic real-activity and price indicators over the period Q1 2000–Q2 2026. The framework provides a way to summarise and characterise Singapore's inflation drivers when several external and domestic shocks are operating concurrently.

This framework can be used to shed light on the current inflation episode. MAS Core Inflation has risen amid a resurgence in external demand while domestic conditions have helped keep overall price pressures contained. The external backdrop bears some resemblance to the high inflation episodes of 2007–08 and 2022–23. However, unlike those episodes, domestic demand and supply conditions are presently exerting a disinflationary influence, which should help limit inflation persistence alongside receding external supply pressures.

Methodology

The approach proceeds in three steps. First, 179 real activity indicators and 159 nominal variables spanning Q1 2000 to Q2 2026 are classified according to whether they capture external macroeconomic conditions or domestic conditions in Singapore. The variables span a broad range of output, production, and labour market measures, as well as consumer, import, export and property-rental prices together with other nominal indicators. Country-specific counterparts for Singapore's key trading partners are included among the external variables, alongside global demand and price measures, such as investment, trade and commodity prices as well as supply-chain and uncertainty indicators.

Following Eickmeier and Hofmann (2022), principal component analysis (PCA) was applied to the external dataset to extract the first three principal components, or common factors. The first three principal components explain 46% of the variables' co-movement but as they lack structural meaning, a rotation algorithm was applied alongside sign restrictions to bridge the gap between the statistical factors and economic theory. The algorithm systematically adjusts these factors until they align with standard economic understanding, classified based on the following criteria:

¹ This Box has benefited from valuable comments and feedback from Denis Tkachenko, Associate Professor of Economics at the National University of Singapore.

- Supply factor: Improvements in supply—for example, from productivity gains, an expansion in labour supply or lower input costs—should raise real activity while lowering inflation. Conversely, adverse supply developments should weigh on real activity while raising inflation.
- Demand factor: Stronger demand should raise both output and prices. Conversely, a decline in demand should exert disinflationary pressures.
- Other common factor: The third factor captures common movements across the data that do not conform neatly with the standard supply-demand patterns. Such movement may reflect a combination of influences—including shifts in inflation expectations, financial conditions and tax or administered-price changes—rather than a separately identified economic driver.

The domestic component of each Singapore macroeconomic variable is then defined as the residual information unexplained by current and lagged external factors and a lag of the S\$NEER.² In the final step, PCA and the sign-restricted rotation are applied to the set of residuals to identify domestic demand, domestic supply and other common domestic factors. Combining the external and domestic factors yields the following specification:

$$X_t^{domestic} = \hat{\Gamma}^{external} \hat{F}_t^{external} + \hat{\Gamma}^{domestic} \hat{F}_t^{domestic} + \beta NEER_{t-1} + \hat{\epsilon}_t \quad (1)$$

where $X_t^{domestic}$ is a vector of domestic variables, the $\hat{F}_t$ are vectors containing up to two lags of the common factors for the external and domestic variables and $\hat{\epsilon}_t$ is the error term. The approach therefore expresses Singapore's macroeconomic variables, such as GDP and core inflation, as functions of external and domestic common factors.

Key Findings

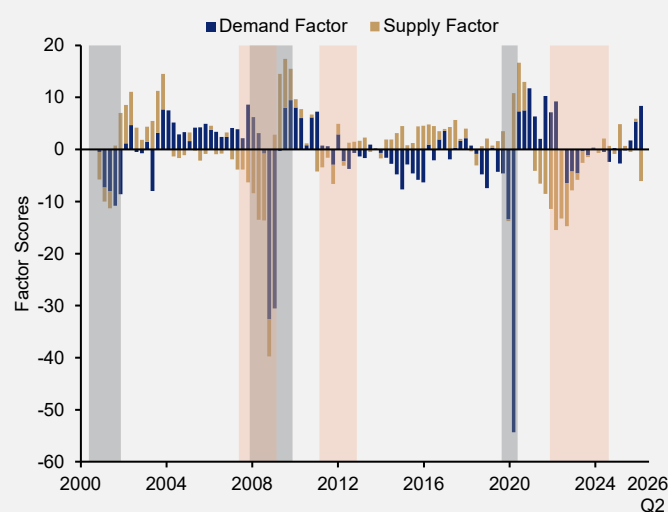
Chart B1 shows the demand and supply factors obtained by applying the original Eickmeier and Hofmann (2022) framework to the full dataset. Together, they summarise the broad demand and supply forces shaping Singapore's economic activity and inflation.³

A few stylised facts emerge. First, major recessions in Singapore have been associated with sharp declines in the demand factor. Second, high-inflation episodes tend to have coincided with strong demand. Third, movements in the supply factor often follow shifts in demand: periods of strong demand tend to precede tighter supply conditions, while demand contractions are often followed by an easing of supply constraints.⁴ This relationship is suggestive of multi-faceted shocks that have evolving demand and supply influences.

² Lagged S\$NEER movements are included to account for the delayed transmission of exchange rate changes to domestic activity and prices, so that the domestic factors capture common movements beyond those associated with the monetary policy instrument. This does not identify an exogenous monetary policy shock, as S\$NEER policy responds endogenously to economic conditions and the inflation outlook. For recent research on the relationship between S\$NEER and inflation, see Monetary Authority of Singapore (2024), "Box B: Exchange Rate Pass-Through to Inflation in Singapore", *Macroeconomic Review*, Vol. XXIII (2).

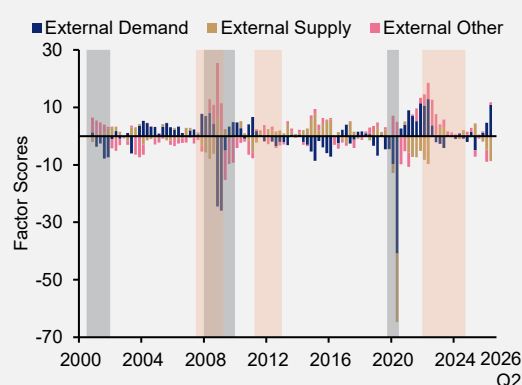
³ The estimated factors describe broad demand and supply conditions inferred from the joint movement of many macroeconomic indicators. As each factor may reflect the combined and persistent effects of several underlying disturbances, it should not be interpreted as a single structural shock.

⁴ Granger causality tests formally confirm this temporal ordering, demonstrating that changes to demand factors systematically lead supply factor adjustments.

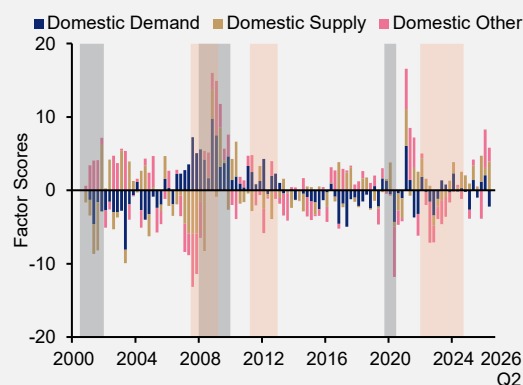
Chart B1 Overall demand and supply factors

Source: EPG, MAS estimates

Note: Grey shaded areas denote recessions. Light orange shaded areas denote high inflation episodes. Factor scores above (below) zero indicate expansionary (contractionary) conditions.

Chart B2 External factors

Source: EPG, MAS estimates

Chart B3 Domestic factors

Source: EPG, MAS estimates

Note: Grey shaded areas denote recessions. Light orange shaded areas denote high inflation episodes. Factor scores above (below) zero indicate expansionary (contractionary) conditions

Charts B2 and B3 separate the demand and supply factors into their external and domestic components.⁵ While the corresponding factors are often positively correlated, they do not always move in tandem. During the Global Financial Crisis (GFC), for example, domestic demand supported the Singapore economy even as external demand contracted sharply. On the supply side, domestic constraints reinforced adverse external supply conditions in 2007–08, contributing to the rise in inflation. By contrast, during the post-

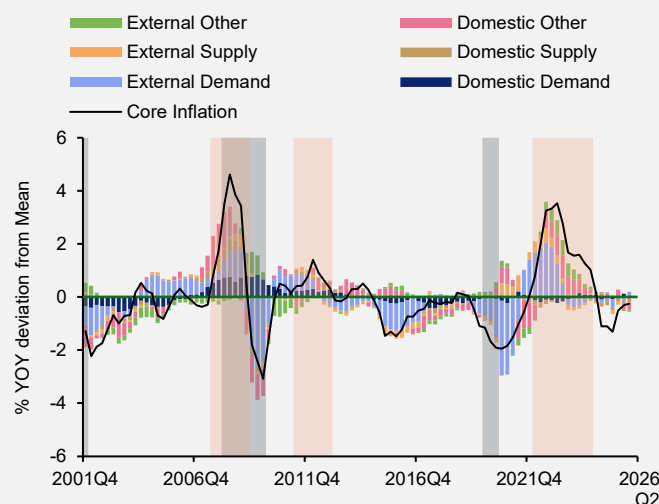
⁵ As the decompositions are estimated using separate PCAs on different subsets of the data, the factor scores do not sum to the aggregate factors in Chart B1 and their raw scales are not directly comparable.

pandemic period, improvements in domestic supply conditions partly mitigated the inflationary effects of external supply pressures.

Drivers of Singapore's Core Inflation

Combining the estimated external and domestic factors with their respective loadings on MAS Core Inflation provides a decomposition of inflation into the contributions associated with each factor.

Chart B4 Core inflation decomposition (% YOY; demeaned seasonally adjusted)⁶



Source: EPG, MAS estimates

Note: Grey shaded areas denote recessions. Light orange shaded areas denote high inflation episodes. Due to the imposed sign restrictions, negative (positive) supply factors in Charts B2–3 will contribute positively (negatively) to core inflation. The “other” factors capture common movements that are not classified as demand or supply and may reflect a combination of influences including uncertainty, expectations and financial conditions. The historical mean of core inflation is about 1.7% y-o-y.

Historically, external factors, especially external demand, have played the dominant role in shaping Singapore's core inflation, while domestic factors have generally made a smaller contribution (**Chart B4**). Across the full sample, external demand (light blue bars), external supply (orange bars) and external “other” factors⁷ (green bars) together account for about 68% of the variation in inflation captured by the model. They contributed to the two major inflation cycles around the GFC and the pandemic period as well as to other episodes where inflation substantially deviated from its mean.

Domestic demand factors have at times amplified externally-driven movements in inflation such as in the low inflation years of 2001–04 and the high-inflation episode of 2007–

⁶ The lagged S\$NEER is included to account for the delayed transmission of exchange rate movements to domestic prices. Its estimated contribution, after controlling for the external and domestic factors, is small in this specification and is therefore not shown separately in Chart B4.

⁷ The estimated contribution of “other” factors was relatively large during episodes such as SARS, the GFC, the 2015 slowdown, the COVID-19 pandemic and the subsequent inflation surge. These episodes were marked by unusual combinations of demand and supply shocks that may not conform to the model's standard supply-demand sign restrictions. The “other” factors should therefore be interpreted as unclassified common variation and could be reflecting a range of financial and uncertainty influences.

08. Conversely, the 2022–23 inflation episode is attributed predominantly to external factors, with smaller estimated contributions from the identified domestic demand and supply components. External supply conditions were a significant contributor to inflation during this period. However, estimates from a factor-augmented SVAR suggest that the inflationary effects of external supply shocks are less persistent than those of external demand shocks. This is consistent with previous empirical research showing that oil supply shocks, for example, result in less persistent inflation than oil demand shocks.⁸

More recently, following the post-pandemic inflation surge, core inflation declined to a trough in 2025 as both external and domestic pressures dissipated. It has gradually picked up since, albeit remaining slightly below its historical mean in Q2 2026 at 1.5%. The decomposition attributes this recent upturn mainly to a resurgence in external demand. While external supply conditions deteriorated in Q2, likely reflecting developments in the Middle East, the inflationary effects had yet to be fully transmitted to domestic consumer prices because of lags in cost pass-through. For example, utility costs were only raised in July following the increase in global energy prices in Q2. Consequently, these effects were not yet evident in the Q2 decomposition.

Meanwhile, other factors continued to weigh on core inflation in Q2. Domestic supply and “other” factors have exerted disinflationary pressure reflecting subdued growth in commercial retail rents and unit labour costs (ULC), alongside capacity expansion. Overall ULC growth averaged only 0.3% in H1 this year, held down by firm productivity growth. Meanwhile, the strong expansion in non-residential gross fixed capital formation since 2024 has likely lifted the economy’s productive potential.

Sum-up

The analysis in this box indicates that external forces—particularly external demand—have played the dominant role in Singapore’s core inflation movements, while domestic factors can amplify or attenuate their effects. In the current episode, external demand is lifting inflation slightly, while the effects of the adverse external supply conditions are becoming more apparent with a lag. Nevertheless, subdued domestic cost pressures, continued capacity expansions and the expected easing of external supply pressures should help limit the persistence of inflation.

Reference

Eickmeier, S and Hofmann, B (2022), “What Drives Inflation? Disentangling Demand and Supply Factors”, *BIS Working Papers*, No. 1047.

⁸ Monetary Authority of Singapore (2022), “Box A: Revisiting the 1970s Inflation Shocks”, *Macroeconomic Review*, Vol. XXI (1), pp 60–65.