

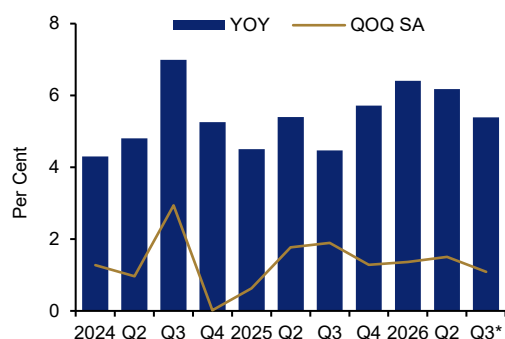
3 The Singapore Economy

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.

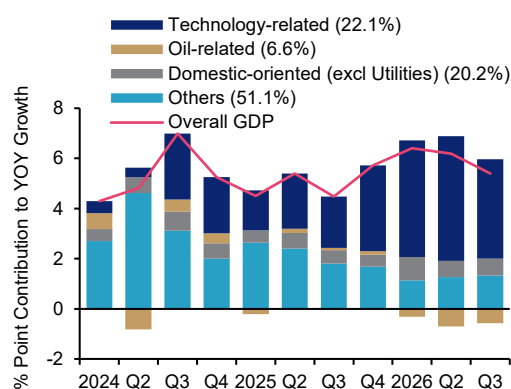
Chart 3.1: Singapore's GDP Growth



* 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.

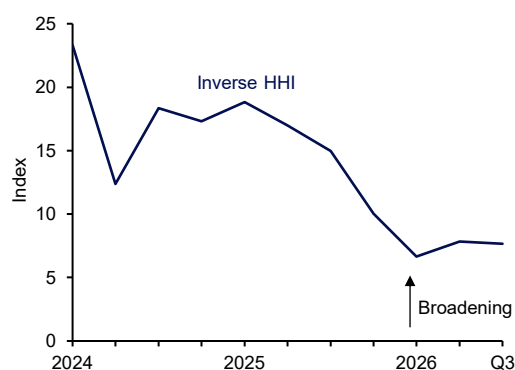
There was only a modest easing in the pace of contraction in the oil-related industries. Although shipping traffic through the Strait of Hormuz has recovered somewhat, elevated feedstock prices, soft demand and compressed petrochemical margins continued to constrain operations at domestic petrochemical 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.

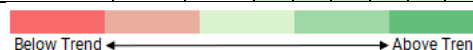
Chart 3.3: Herfindahl-Hirschman Index



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

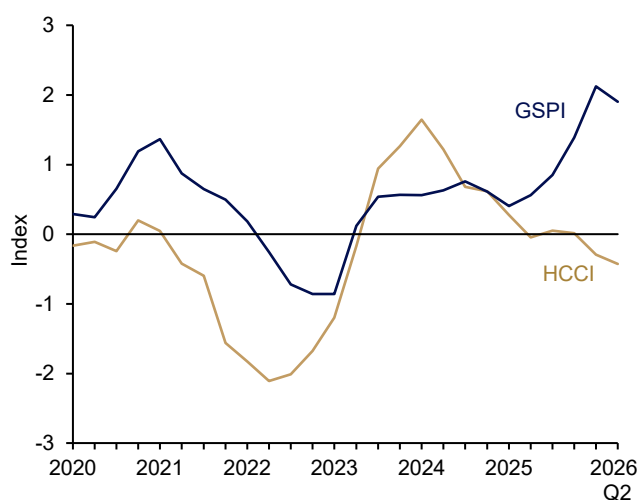
The AI-driven global semiconductor production cycle continued to see exceptional strength in recent months, though accompanied by rising financial vulnerabilities especially among downstream hyperscalers. According to the World Semiconductor Trade Statistics (WSTS), global chip sales (GCS) grew by 145% 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.

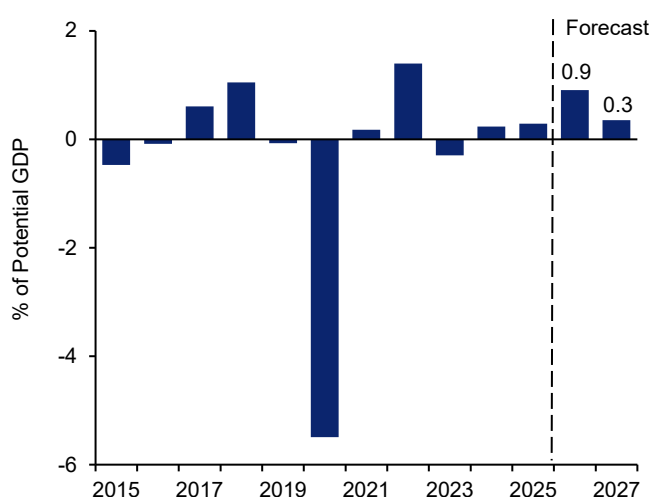
⁴ As of 6 Aug 2026.

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