

Singapore: GDP growth upgrade

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- *Singapore's economy has weathered resiliently the renewed geopolitical shocks stemming from the war in the Middle East since its onset in late February.*
- *We raise our real GDP growth forecasts for 2026 and 2027 to 4.3% and 3.0%, respectively.*
- *Our nowcast estimate shows economic growth at 5+% yoy in 2Q26, concluding 1H26 in solid shape.*
- *De-escalation of US-Iran tensions reduces stagflationary forces and downside growth risks.*
- *Sustained global AI cycle, financial services momentum, and construction boom underpin the positive outlook.*

Dialling up our growth profile

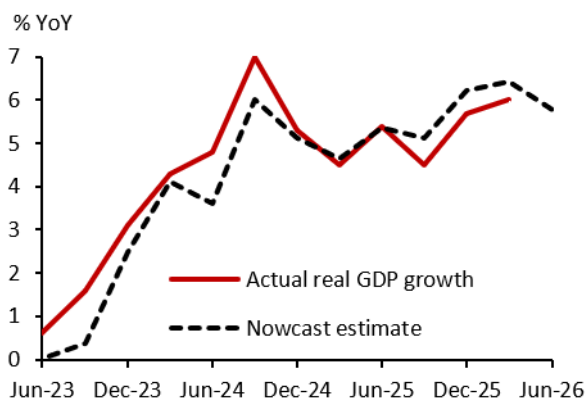
Singapore's economy has weathered resiliently the renewed geopolitical shocks stemming from the war in the Middle East since its onset in late February. Economic growth likely ended 1H26 in solid shape, providing positive carryover effects into 2H26.

We raise our real GDP growth forecasts for 2026 and 2027 to 4.3% and 3.0%, respectively (from 2.8% and 2.3%). As we enter 2H26, the managed de-escalation of US-Iran tensions, initiated by an interim peace deal, reduces the risks of escalating input cost pressures, persistent severe supply chain disruptions, and significantly weakened external demand in the coming months. We are dialling up our growth profile over the next few quarters, although this will be tempered by high base effects.

Our nowcast shows resilient 2Q26 growth

Following strong economic growth of 6.0% yoy in 1Q26, expansion in 2Q26 likely proved resilient, with our nowcast model estimating growth of above 5% yoy.

Our nowcast shows resilient growth in 2Q26

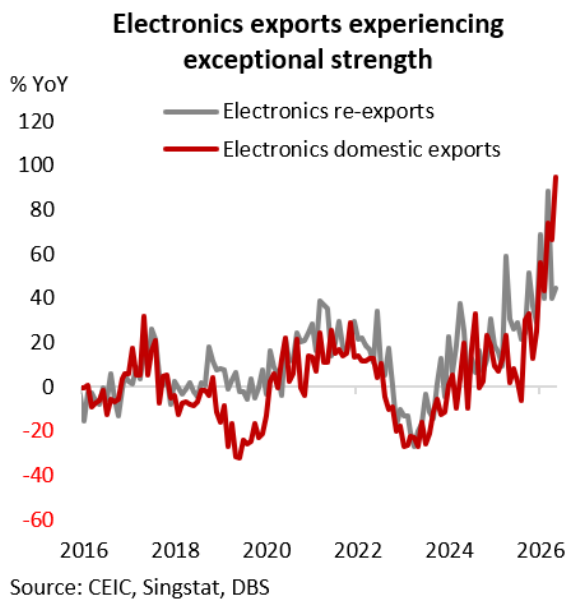


Source: CEIC, DBS.

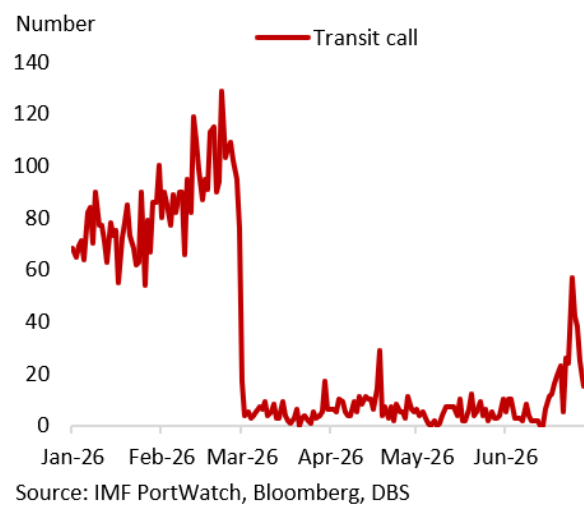
Note: The nowcast is a model estimate of real GDP growth based on available economic data for the current quarter and forecasts of explanatory variables for the remaining term, and is not our DBS forecast.

This performance was driven notably by above-average industrial production and re-exports, reflecting robust expansion in trade-related sectors, such as manufacturing and wholesale trade, while real credit remained stable. Strong artificial intelligence (AI)-driven external demand has turbocharged Singapore’s electronics exports, pushing growth to exceptional rates so far in 2026. This strength has significantly outweighed drags from the fuels & chemicals segments, as well as moderation in the transport sector, which has borne the brunt of disruptions in the Strait of Hormuz, including constrained feedstock supply and an energy price surge since March.

Maritime traffic through the Strait of Hormuz is resuming but flows of critical input supplies from the Middle East – including oil & gas – are likely to take time, possibly months, to gradually normalise to pre-war levels, as confidence in transiting the Strait rebuilds. Global energy prices have declined in response to reduced geopolitical risk premiums and improving supply. Consequently, stagflationary forces and downside growth risks facing the global economy have receded.



Marine traffic through Strait of Hormuz recovering gradually



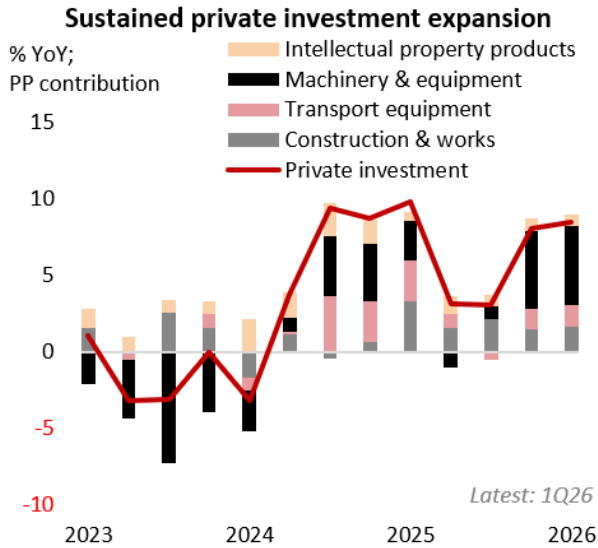
2H26 outlook turning positive

Singapore’s growth outlook for 2H26 is turning positive amid the US-Iran interim peace deal reached in mid-June to de-escalate tensions in the Middle East. Negotiations between the US and Iran are underway, with both sides establishing diplomatic channels to advance talks over the next 60 days, aimed at reaching a lasting agreement. Nevertheless, developments are likely to ebb and flow amid a fragile truce.

We expect Singapore’s economy to receive positive spillovers through three channels.

- 1) Financial market, business, and consumer confidence would improve with de-escalated geopolitical tensions.
- 2) Top energy-dependent sectors - from petroleum and petrochemicals to transport - will gain crucial relief from improved availability of imported energy and commodity inputs, enabling a potential rebound in output in the coming months.
- 3) The risk of intensifying upward cost pressures that could severely erode profit margins has decreased. Business investment and spending would therefore continue to keep flowing. Singapore is

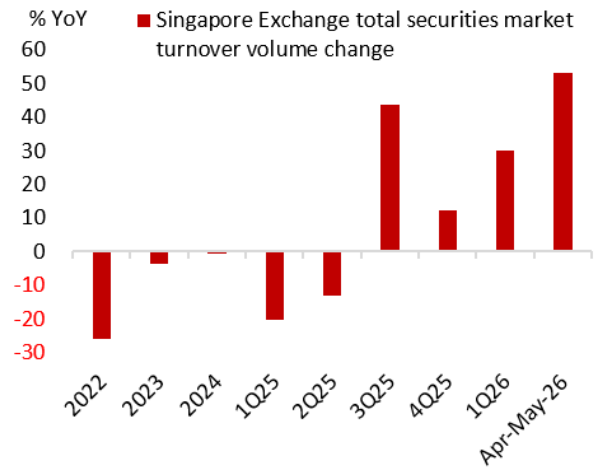
experiencing a broad-based investment boom. Notably, private investment expanded for the eighth consecutive quarter as of 1Q26, supported by strength in machinery & equipment outlays.



Source: CEIC, Singstat, DBS

Alongside fading downside risks from the Hormuz shock, the global AI-driven technology cycle - which has propelled Singapore's stellar growth performance in recent quarters - appears to have further room to run. Durable and undiminished capital spending commitments by major hyperscalers to ramp up AI infrastructure will underpin demand for Singapore's memory chips, server-related products, and semiconductor equipment. The strength displayed by the electronics manufacturing purchasing managers' index as of May 2026 – the highest since August 2018 – points to a supportive outlook in the coming months, even if the exceptional pace of chips export growth finds a more sustainable trajectory.

Equities market sees strengthening momentum



Source: SGX, MTI, DBS

Additionally, key non-technology segments should remain resilient. We expect financial services within the modern services cluster to continue to demonstrate strength. This is supported by increasingly vibrant capital market activity backed by rising momentum in securities trading volumes, and a recovery in initial public equity offerings amid ongoing reforms. Domestic financial conditions remain accommodative, with rising equities and still-low interest rates. Flush liquidity amid capital inflows has helped limit the impact of upward pressure on local interest rates from hawkish re-pricing of US rate expectations. The ongoing multi-year construction boom, spanning major transport, hospitality, and public housing projects, is also providing an additional layer of support to the highly open economy.

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