Executive Summary

1. Singapore's economic growth is set to moderate after a strong outturn in 2024 and the first three quarters of 2025. Robust consumption, investment and front-loading of activities in expectation of United States tariffs lifted growth to 4.4 percent in 2024 and 4.3 percent in the first three quarters of 2025. The momentum was further aided by the global electronics upcycle, AI-related demand, and firm activity in financial services. As U.S. reciprocal tariffs take effect, Singapore's growth is projected to moderate to 4.1 percent in 2025 and 2.5 percent in 2026, as global demand softens, front-loaded exports unwind and investment sentiment turns more cautious.

2. U.S. tariff spillovers will weigh on external-oriented sectors. The base U.S. tariff rate for Singapore at 10 percent is lower than other countries in the ASEAN+3 region, but Singapore is exposed to pharmaceutical tariffs, which was announced at 100 percent in September 2025 but has so far been delayed. Moreover, Singapore's highly open economy and deep integration in global value chains exposes it to second-round effects from the expected decline in broader external demand and global trade activities. Although the economy has shown resilience in 2025, the tariff shocks could weigh on the growth momentum in the near term, especially for external-oriented sectors such as manufacturing, wholesale trade and transport. The overall impact will depend on how the tariff negotiations develop and the pace at which front-loading unwinds.

3. Inflation is subdued and expected to remain low. MAS core inflation fell to 0.6 percent in January-October 2025 due to continued appreciation of the Singapore dollar and enhanced subsidies for essential services. Headline inflation also declined to 0.8 percent thanks to easing accommodation price pressures as housing supply has been ramped up. With growth slowing and global commodity prices stabilizing, headline inflation is projected to hover around 0.9 percent in 2025 and 0.8 percent in 2026, while inflationary pressures would remain contained.

4. Robust growth performance over the past year contributed to a fiscal surplus. Following strong revenue growth, the fiscal balance is estimated to reach 1.3 percent of GDP in FY2024, with revenue growth forecast at 11.3 percent year on year and expenditure growth at 11.3 percent. The FY2025 budget is expected to remain in surplus and continue to focus on similar areas as FY2023 and FY2024, including support for households and businesses to cope with cost-of-living and business-cost pressures, and programs to strengthen the social compact, enhance innovation, upskill the workforce and build climate resilience.

5. The banking system remains resilient. Capital and liquidity buffers are ample, profitability is solid, and asset quality is sound. Credit to both businesses and households has recovered alongside better economic growth and lower interest rates. Property price gains have moderated thanks to well-coordinated policy measures, such as expansion of housing supply and macroprudential measures.

6. Amid broad weakness in the U.S. dollar, the Singapore dollar nominal effective exchange rate (S$NEER) has continued to appreciate as global investors diversify toward Singapore's assets**.** Capital inflows have kept the S$NEER near the upper end of the policy band, even as the Monetary Authority of Singapore (MAS) reduced the appreciation slope of the S$NEER policy band at two consecutive meetings in H1 2025. If diversification away from U.S. dollar assets persists, sustained inflows could dilute the intended policy easing and present challenges to monetary policy implementation. Domestic interest rates have moved lower, warranting caution on financial stability implications.

7. External risks dominate the near-term outlook, while structural issues weigh on the longer term. The principal risks arise from a more aggressive US protectionist stance, especially if pharmaceutical tariffs take effect or if levies are imposed on semiconductors. Moreover, weaker growth in major trading partners would dampen external demand and could have financial stability implications through banks' exposures. Upside inflation risks could emerge from a renewed surge in commodity prices. In the long term, population aging will weigh on

potential growth and raise health care and social spending, while cybersecurity threats and climate-transition constraints will add to policy challenges.

8. The authorities should deploy a calibrated fiscal-monetary-trade mix to cushion near-term shocks. Fiscal policy should be flexible to deploy timely measures in case of adverse shocks. Support for vulnerable firms and households should be well targeted, while broad-based transfers can be phased out gradually as cost-of-living pressures ease. The accommodative monetary policy stance is appropriate amid low inflation and a softening growth outlook. Tight macroprudential measures should be maintained to mitigate risks of excessive debt buildup and overheating in the property market.

9. In parallel, the authorities should continue to strengthen Singapore's competitiveness while addressing impending structural challenges. Singapore should reinforce its competitive edge by enabling workforce adaptability, fostering a dynamic business environment and maintaining an agile regulatory framework. Policy should accelerate the effective adoption of automation and digitalization, supported by reskilling and job-matching initiatives to ease workforce transition. Schemes such as the Productivity Solutions Grant and the Enterprise Development Grant could be expanded.

10. A multipronged approach, including fiscal reforms, could play a pivotal role in addressing structural challenges. For instance, demand and supply-side health care policies will help alleviate health care costs. Furthermore, performance budgeting and fiscal transparency could be strengthened, including more regular updates of the medium-term fiscal projections, and to expand disclosures and communication on the National Infrastructure Plan and evaluation of the effectiveness of special transfers to inform future resource allocation.

11. Finally, Singapore is well positioned to take a leading role in regional integration and beyond by leveraging flagship initiatives in trade, finance and climate. The Johor-Singapore Special Economic Zone (JS-SEZ) provides a potential blueprint for deeper ASEAN integration, underpinned by a shared commitment to a rules-based multilateral trading system. In financial connectivity, Singapore's leadership in ASEAN Regional Payment Connectivity, participation in Project Nexus and investment in digital infrastructures will lead to closer financial integration within the region. On climate change, Singapore can help drive regional climate governance through initiatives such as the ASEAN Power Grid and regional carbon markets.