

Singapore: Steeper SGD policy band slope for inflation defence

Economics/GDP/Inflation/Monetary/FX

DBS Group Research

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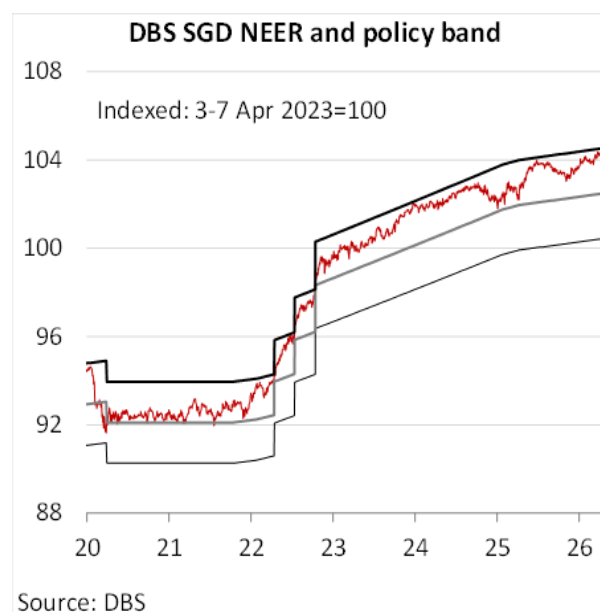


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- *The MAS slightly increased the slope of the SGD NEER policy band to curb rising imported inflation, while growth resilience is being tested.*
- *We raise our 2026 core and headline inflation forecasts to 2.0% and 2.2%, respectively, aligned with MAS's higher projections of 1.5–2.5%.*
- *Advance GDP growth in 1Q26 was resilient at 4.6% yoy and -0.3% qoq sa, but growth faces downside risks in the coming quarters.*
- *The MAS would want to maintain policy flexibility, given considerable risks to inflation, and the economy from Middle East uncertainties.*

Policy normalisation with slight slope increase

The Monetary Authority of Singapore (MAS) slightly increased the slope of the SGD NEER policy band today, in line with our expectations. We were also correct that this year's core inflation forecast would be revised to 1.5-2.5% from 1.0-2.0% previously. Together, the central bank has positioned its exchange rate policy to balance the immediate imported inflation risks from the Middle East oil shock over the next few quarters, amid expectations for the positive output gap to narrow and average around 0% over the course of the year, driven by slower global growth, including Singapore. The Ministry of Trade and Industry (MTI) will update its 2026 GDP growth outlook, currently at 2.0-4.0%, in May.

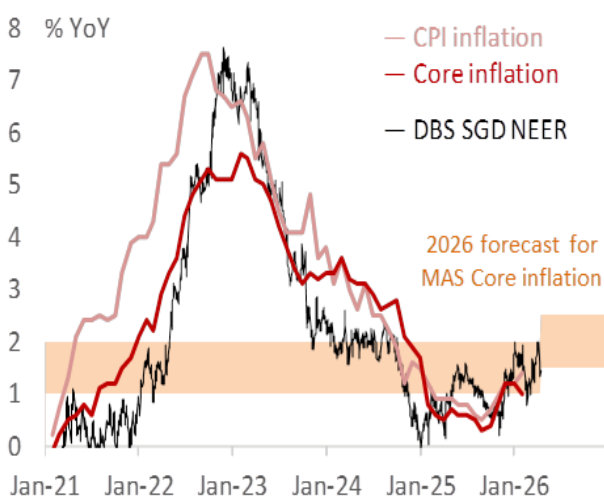


Today's decision is consistent with our call for the central bank to normalise the policy band by taking back the slope reductions in January and April 2025. Given the considerable risks posed to inflation from elevated oil prices, and

the economy from energy supply disruptions, the MAS would want to maintain policy flexibility, backed by its readiness to curb excessive volatility in the SGD NEER, alongside its decision not to adjust the centre or the width of the band. According to our model, the SGD NEER has averaged 1.7% above the band’s midpoint after Operation Epic Fury. The latest slope adjustment should allow the SGD NEER to increase faster year-on-year (yoy) with the new inflation forecasts. As for USD/SGD, it remains tied to the DXY Index as a price taker (see [FX Quarterly 1Q 26: The USD’s war-driven haven trap](#)).

The two-week ceasefire between the US, Israel, and Iran from April 8 offers some relief, but the truce is fragile, with the US military blocking Iranian marine traffic in Hormuz starting April 13. A permanent resolution remains highly uncertain. Even if Hormuz reopens, marine traffic is unlikely to return swiftly to pre-war levels due to weak confidence in safe passage through the chokepoint. Combined with time required to repair damaged energy infrastructure in the Gulf, prices of energy and other affected items will likely remain elevated for some time.

SGD NEER has been anchoring inflation

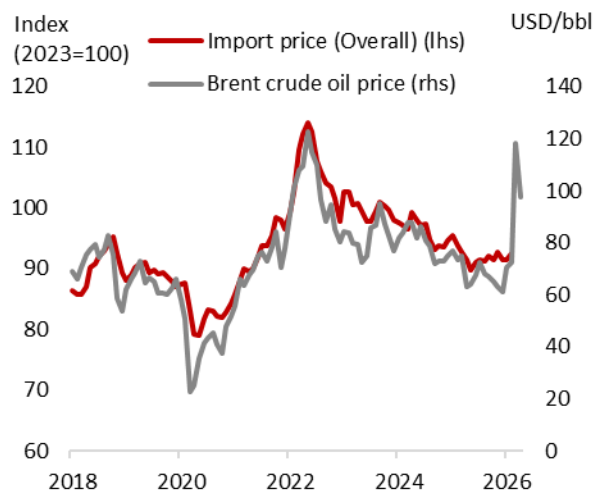


Sources: DBS Research, Bloomberg data

Higher inflation outlook

The MAS’s decision to slightly steepen the appreciation of the SGD NEER policy band came amid expectations of higher inflation in 2026 than previously envisaged. Singapore’s imported cost pressures have increased due to the Iran-centred Middle East conflict. As a price taker, the city-state will need to absorb the price spikes across energy and fertilisers, dealt by a fresh supply shock caused by disruptions in the Strait of Hormuz since late-February.

A likely pick-up in import price pressures



Source: Bloomberg, CEIC, DBS

We raise our Singapore core and headline inflation forecasts for 2026 to 2.0% and 2.2%, respectively (from 1.6% and 1.5%), aligned with the MAS’s upwardly revised projections. We expect core and headline inflation to rise further and breach 2.0% yoy in 3Q26, from their respective averages of 1.2% yoy and 1.3% yoy in January-February 2026, after edging up since 4Q25 from a period of weakness. The inflation increase is nascent and faces broadening upside risks.

Rising energy prices are translating to higher delivery, logistics, and electricity & gas costs domestically, which businesses have the potential to pass on to consumers in the coming months, amid mounting margin pressures. Travel-related services inflation also faces upside pressure due to soaring jet fuel prices. While global food price pressures remain relatively contained currently, the concern is that higher fertiliser costs resulting from the Middle East supply shock could translate into increased agricultural prices, with lower crop yields exerting upside pressure on both global and Singapore's food inflation with a lag.

Growth resilience is tested by Iran war shock

The MAS's decision also came amid still-resilient near-term economic growth dynamics, but with significant downside uncertainties in the coming quarters. Singapore's economy entered 2026 on a firm footing, reflected in resilient real GDP growth of 4.6% yoy and -0.3% qoq sa in 1Q26 (but slower than 5.7% yoy and 1.3% qoq sa in 4Q25), according to MTI's advance estimates. We expect this resilience to be tested as the year progresses, with the highly open economy facing renewed geopolitical shocks. **We maintain our 2026 real GDP growth forecast at 2.8%, but see downside external risks.**

Real GDP growth by sectors

	1Q25	2Q25	3Q25	4Q25	2025	1Q26*
% YoY						
Overall GDP	4.5	5.4	4.5	5.7	5.0	4.6
Manufacturing	8.6	10.5	4.6	11.4	8.7	5.0
Construction	4.2	6.6	5.6	4.6	5.2	9.0
Services	3.5	4.5	4.3	4.8	4.3	4.7
% QoQ sa						
Overall GDP	0.6	1.8	1.9	1.3	5.0	-0.3
Manufacturing	0.6	1.2	4.5	4.5	8.7	-4.9
Construction	-0.8	4.8	0.6	0.2	5.2	3.7
Services	0.7	1.9	1.2	1.0	4.3	0.6

Source: MTI, CEIC, DBS. *: Advance estimate

Growth in Singapore's trade-related sectors remained supported by global artificial intelligence (AI) tailwinds in 1Q26, which we expect to sustain in the coming months. However, performance has normalised and will be uneven due to external challenges from Middle East disruptions, alongside lingering tariff headwinds.

The electronics cluster will drive performance of manufacturing and 'wholesale & retail trade and transportation & storage', which expanded by 5.0% yoy and 6.7% yoy, respectively, in 1Q26 (compared with 11.4% yoy and 6.8% yoy in 4Q25). The global AI investment boom will likely support external demand for AI-related electronics exports, including Singapore's memory chips and server products.

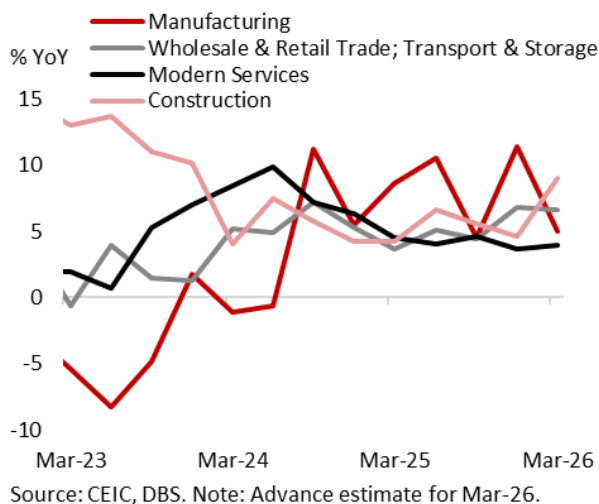
Although the AI and electronics cycle is not fully insulated from Middle East disruptions due to reliance on helium, in which Qatar is a major global supplier, other energy-intensive segments such as the petrochemical cluster face greater production challenges stemming from the Iran war-induced naphtha feedstock supply crunch. External demand and business spending could also soften amid rising energy and raw material costs amid squeezed profit margins. Non-technology trade segments also face downside pressures from the lingering and lagged impact of US tariffs.

Nonetheless, the modern services cluster (comprising finance & insurance, information & communications, and professional services) grew at a faster pace of 3.9% yoy in 1Q26, extending the expansion of 3.7% yoy in 4Q25. We expect the resilient dynamics and tailwinds driving modern services activities to remain intact, supporting overall economic growth. These include (1) accommodative financial conditions from low domestic interest rates and

improved trading activity partly aided by the MAS’s equity market reform measures and safe haven support amid increased volatility, (2) strong AI digitalisation efforts, as well as (3) continued interest in Singapore’s trusted business hub.

The domestic construction sector remains an outperformer, with growth of 9.0% yoy in 1Q26, the highest since 4Q23. The ongoing multi-year boom, underpinned by sustained construction demand amid a steady pipeline of public investment and housing, will support growth, notwithstanding likely challenges from higher construction input costs.

Trade-related sectors normalised somewhat; resilient modern services & strong construction



Overall, our Singapore growth expectations appear aligned with the MAS’s view for GDP growth to slow over the course of 2026. Reflecting this, the central bank expects the output gap to average around 0% in 2026, downgrading from a positive output gap for this year as a whole in its January assessment. Singapore’s economy is confronting Middle East uncertainties from a relatively strong position, but the MAS would want to maintain policy flexibility in this highly uncertain external environment.

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