

Asian central banks cut rates to mitigate growth risks

Due to uncertainty surrounding tariffs and external demand, Asian central banks are becoming more cautious about the domestic growth outlook, leading to pre-emptive rate cuts. This also indicates that they might be increasingly open to currency depreciation to bolster growth



Asia: growth considerations drive monetary policy decisions

Recent monetary policy decisions in Asia highlight the challenges that Asian central banks face in balancing risks to growth amid rising uncertainty on global trade. The Monetary Authority of Singapore eased monetary policy for the first time in almost five years by reducing the slope of the S\$NEER policy band “slightly”, driven by a faster-than-expected fall in core inflation below 2% on a sustainable basis and as growth concerns from trade policy uncertainty took centre stage. The strong growth and inflation picture that the economy witnessed in 2024 has turned sharply and we expect GDP growth in Singapore to slow down in the second half of this year, driven by slower global and export growth. We expect the trading range of SGD NEER to drift lower in 2025 driven by slower growth and inflation.

Bank of Indonesia cut rates unexpectedly despite IDR being a currency that is highly sensitive to rate differentials and where FX considerations have a higher weight in the monetary policy

reaction function compared to other countries. These moves suggest that Asian central banks might be getting more open to currency depreciation to support growth.

Two countries in the region that are yet to embark on the rate-cutting cycle are Malaysia and Australia. While their respective currencies have borne the brunt of USD strength, growth in both countries has held up relatively well. Malaysia's strong recovery, advantages from supply chain diversification, and low inflation influenced the Central Bank of Malaysia's decision to maintain its rate pause in January, even as central banks globally shift towards easing.

In Australia, the market is pricing in the first rate cut by the Reserve Bank of Australia (RBA) in February. While this is in line with our view and we place a 60% probability on it, we think the decision to cut or pause will be a close one, hence it's not a done deal. Key to our thinking is that wage pressures have eased more than expected and household consumption growth has been weaker than anticipated, which should give RBA comfort to ease. However, the unemployment rate is still below the central bank's target, which could result in more uncertainty on the pace and timing of rate cuts.

South Korea: domestic uncertainty eases, but weak growth expected

Following the brief declaration of martial law in South Korea and the December plane crash, market sentiment has stabilised. Activity data indicates that the negative impact of these events was mainly felt in consumption and construction, while manufacturing and equipment investment saw solid growth, largely driven by external demand. However, this growth is primarily concentrated in semiconductors and automobiles, which are likely to be targeted by tariffs from the Trump administration.

We still think semiconductors will be the least affected as there is no substitute in the market, but automobiles are likely to be hit hard. With external conditions likely to deteriorate while domestic recovery remains sluggish, we expect the Bank of Korea to provide liquidity to the market and ease monetary conditions to support growth throughout the year. The government is trying to stimulate the economy through early fiscal spending, but the long-awaited supplementary budget has been slower than expected due to a lack of consensus between the ruling and opposition parties. We expect GDP to grow by 1.3% YoY in 2025, with risks skewed to the downside.

Author

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

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