Asian growth set to slow

Asia's boost from export front-loading is likely to fade, while the direct drag from tariffs will weigh on exports across the region. Inflation is expected to stay within central bank targets, which may prompt quicker and deeper rate cuts

China's manufacturing sector has slipped back into contraction territory.

Softer growth across Asia in the second half of the year

The first-quarter GDP data for Asia indicated signs of a slowdown in economic growth. A positive takeaway, however, is that domestic demand remained resilient across most economies in the region, supported by government spending, particularly in India, Malaysia, Singapore and the Philippines. Indonesia, however, stood out as an exception. Here, the political transition appears to have delayed fiscal disbursements, though we expect this to pick up later in the year.

On the external demand front, trade and manufacturing data continues to reflect the re-exporting of goods from ASEAN economies and Taiwan. Manufacturing PMIs for export-oriented countries such as Thailand, Taiwan, and Vietnam showed a notable rebound in May following a sharp deceleration in previous months. In contrast, China's manufacturing sector slipped back into contraction territory. The composition of exports suggests that the recent recovery and re-export activity have been primarily driven by electronics, while other sectors, such as automobiles, have started to show signs of weakness.

We continue to expect softer growth across Asia in the second half of the year. The boost from export front-loading is likely to fade, while the direct drag from tariffs – and the indirect spillovers via China – will weigh on exports across the region. On the domestic side, uncertainty around investment and capex plans is also likely to dampen demand, adding to the broader slowdown.

Disinflationary pressures intact across most of the region

Headline CPI inflation has remained benign across most countries, thanks to softer food and fuel prices. We expect inflation to stay within central bank targets for much of the region, creating room for policymakers to cut rates more quickly and more deeply.

India has already taken the lead with a larger-than-expected rate cut, signalling a shift in the regional policy tone. The Bangko Sentral ng Pilipinas (BSP) has also indicated that it's open to delivering sizeable cuts, while Bank Indonesia has re-embarked on its easing cycle. With inflation largely under control across much of the region, we expect more central banks to follow suit, especially as growth risks mount and global monetary conditions begin to ease.

However, there is one country where the risk is skewed towards fewer rate cuts: Korea. With the new government in place, consumer and investment sentiment is improving rapidly on expectations of stimulus from expansionary fiscal policy. We have revised the growth rate up to 0.9% year-on-year, which will likely slow the pace of rate cuts from the Bank of Korea.

Regional policy rate cut outlook

- Philippines: Expected to lead the easing cycle with up to 100bp of additional cuts by mid-2026, on top of previous reductions. The central bank is prioritising domestic growth and inflation over alignment with the Federal Reserve.
- Indonesia: Still likely to deliver considerable easing of 75bp by 1Q,2026. Rising risks to growth from tariffs and an uncertain investment climate, combined with domestic policy uncertainty, increase the risks of higher-than-expected rate cuts.
- Australia: Set to maintain its gradual easing pace, cutting the cash rate by 50bp more this year, driven by lower-than-expected inflation due to a recent drop in oil prices, the government's plan to further extend electricity price rebates, and a deflationary impact on goods imported from China.
- Korea: More but cautious easing of 50bp more in the second half of 2025, with risks skewed towards fewer rate cuts given the uncertainty around trade negotiations and the fiscal policy stance of the new government.
- India: Already surprised markets with a 50bp cut and a shift to a neutral stance. While this may signal a pause, at least one more 25bp cut is likely later in the year as growth softens further.
- China: Plenty of room for targeted easing, especially as downward price pressures remain significant and real rates remain high. Alongside other measures to support domestic demand, we expect a further 20bp cut in the 7-day reverse repo rate in 2025

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