

Mixed growth and deflationary pressures: 3 calls for Asia

Korea and Japan are set for stronger 2026 growth due to fiscal stimulus, but India and Indonesia face near-term risks from weak demand and tariff uncertainty, leaving Asia's overall outlook softer than in 2025



The bustling streets of Tokyo. We expect GDP growth in Japan to accelerate in 2026

ING's base call: A weaker growth outlook for Asia

While recent trade agreements signal a de-escalation in tensions, they offer limited assurance that export growth will remain robust. The reduced tariff gap between China and its regional peers stands out as a clear strategic win for Beijing. However, most of ASEAN, except Singapore, now face 19-20% tariffs. The full impact of this is yet to be seen on export growth, which has been rather resilient in 2025. Softer exports and weaker growth are likely to remain headwinds for several regional currencies. Countries with strong exposure to AI-related exports may outperform, but for others, the agreements do little to counteract the broader slowdown in trade momentum.

We expect GDP growth in Korea and Japan to accelerate in 2026 as substantial fiscal stimulus filters through to household consumption. In contrast, downside risks have intensified for domestic demand-driven economies such as India and Indonesia in the near

term, which should leave overall growth in Asia weaker compared to 2025. India's inability to secure a trade agreement with the US remains a key concern unless negotiations progress. Meanwhile, Indonesia's growth outlook is vulnerable to investment headwinds stemming not only from tariff-related uncertainty but also from subdued government spending.

Our risky call: Deflationary pressures persist across the continent

While unfavourable base effects may cause inflation readings to edge higher next year, we expect the key drivers behind the slowdown this year to persist.

First, consumer spending across Asia remains subdued despite easing inflation, as labour markets continue to show weakness. Discretionary spending is likely to stay constrained, reflecting a K-shaped post-Covid recovery that has deepened income disparities at the lower end. This dynamic points to continued softness in core inflation, as weak demand limits businesses' pricing power.

Second, fuel prices are likely to remain benign, supported by stable supply conditions and moderate global demand. This will further alleviate cost pressures across transportation and manufacturing sectors.

Third, persistent overcapacity in China is widening the demand-supply gap in Asia, exerting downward pressure on prices. This deflationary trend is likely to continue spilling over into regional markets.

Our bold call: Government incentives could boost the Korean won

Korea's economic growth is projected to accelerate to 2.0% YoY in 2026 (vs 1.2% in 2025), supported by government spending and steady export performance. Continued strong global demand for AI chips is expected, while the weak KRW is expected to help offset some of the adverse effects of the 15% US tariffs. Should demand for semiconductors exceed expectations, GDP growth in 2026 could grow even further to 2.3% YoY.

With inflation close to 2%, a faster closure of the negative output gap, and little property price stabilisation, the Bank of Korea may end its easing sooner than expected, possibly leading to stronger-than-expected KRW appreciation.

The government also intends to increase incentives for equity market investment, enhance shareholder rights, and improve corporate governance to support Korea's goal of attaining developed-market status. These initiatives, combined with solid large-cap performance (primarily from leading Korean exporters) and enhanced accessibility to the Korean FX market, could attract further capital inflows into Korean asset markets while tempering outbound investment activity by domestic investors.

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