

## Asia Viewpoint

## Downgrade Asia growth forecasts on persistent pressure from tariff shocks

**The tariff pause gave Asia temporary relief**

There has been significant changes in global trade policies and thus regional backdrop in recent days. On 3 April, we published a report, analyzing the impact of reciprocal tariffs in Asia. Since then, the US administration has softened its overall trade policy stance, including a 90-day pause on reciprocal tariffs and tariff exemption on key electronics products. This implies a sharp reduction in the effective tariff rates that are applied on Asian exports to the US. Meanwhile, most Asian economies have started to engage with the US on tariff negotiations. That said, the level of uncertainty is still at a historic level, as trade tensions between US and China escalated further.

**Expect Asia growth to decelerate to sub-4% in 2025**

Given the latest development, we now expect average GDP growth in Asia to decelerate by 60bp in 2025 and 30bp in 2026. On a GDP-weighted basis, regional growth could moderate to 3.9% in 2025 before accelerating to 4.2% in 2026 (from current projection of 4.4% in 2025 and 4.4% in 2026).

By major economies, we lower China GDP growth forecast to 4.0% from 4.5% for 2025 and 4.2% from 4.5% for 2026, with additional policy stimulus to counter trade shocks. We expect Japan to avoid a recession narrowly despite 25% tariff on auto, while India is relatively insulated with policy support. For the rest of regions, we see stronger headwinds on North Asia and ASEAN than ANZ.

**Revised growth outlook hinges on tariff assumptions**

Our revised outlook comes with the assumption of no further escalation of US tariffs from here on, although US trade policy stance on China will remain restrictive. Meanwhile, we assume 5% tariffs on Canada and Mexico, and roughly 10% tariffs for the rest of the world (on average) through the forecast horizon. By key products, we expect tariff exclusion on electronic products to continue, while non-USMCA auto & auto parts are subject to 25% tariff.

In the base case, our US economists expect growth in the US to hold up at 1% in 2025. Further, they expect the Fed to hold for this year before reducing 100bp in 2H26. In the risk scenario, we assume US could enter recession, if trade uncertainties do not abate.

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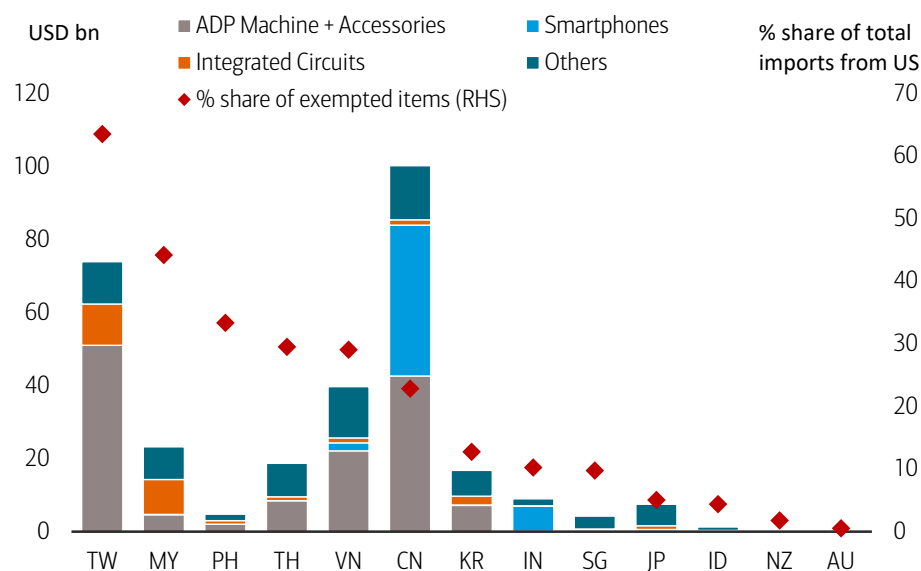
## The tariff pause gave Asia temporary relief

There has been significant changes in global trade policies and thus regional backdrop in recent days. We recently published a report, analyzing the impact of reciprocal tariffs in Asia (see report: [Asia Viewpoint: Reciprocal tariff spares no one in Asia](#)). At the time of writing, we estimated regional growth could be dragged to mid-3% in 2025, based on the reciprocal tariff.

Since then, the US administration has softened its overall trade policy stance, including a 90-day pause on reciprocal tariffs to non-retaliating countries on April 9, as well as tariff exemption on key electronics products (including semiconductor, smartphone, automatic data processing machines) on April 11. This implies a sharp reduction in the effective tariff rates that are applied on Asian exports to the US. On average, tech exporters (including Taiwan, Vietnam, Malaysia, Philippines) note that 40% of their total exports to US are now exempted from reciprocal tariffs. Meanwhile, China is also likely to benefit from the measures as it exports substantial number of smartphones and laptops to US. Meanwhile, most Asian economies have started to engage with the US on tariff negotiations, aiming to bring trade barriers lower further.

### Exhibit 1: Exports of electronic products to US under reciprocal tariff exclusion

Tech exporters in Asia see sharp reduction in effective tariff rate post tariff exclusion announced on Apr 11



Source: US Trade Online, BofA Global Research estimates

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That said, the level of uncertainty is still at a historic level, as trade tensions between US and China escalated further from the level seen at the beginning of the year. Despite all these exemptions, the US still imposes 100% effective tariff rate on China. To retaliate, China also announced 125% tariffs on US goods on Apr 11. With neither side keen to initiate negotiation efforts first, the tariff shock on global trade is bound to take place. In fact, high-frequency data (e.g. daily port throughput) and anecdotal evidence showed a sharp deceleration in US-bound exports from China in recent weeks (around 30-50% drop compared to trend). On the other hand, exports to US from rest of Asia still hold up, but could be attributed to front-loading.

In view of rising risks from tariff damage, we again revise our growth outlook, incorporating new assumptions on global and US growth.



**Exhibit 2: Selected announcement of trade policy from US and China**

Multiple change in trade measures in recent days

Date	Country	Tariff	Description
2-Apr-25	US	Trump announces reciprocal tariffs plan	President Trump announced a baseline 10% tariff for all countries, 34% tariffs on China, 20% on EU, 24% on Japan, to mention a few.
2-Apr-25	US	25% auto tariffs on all cars not made in the US takes effect.	
4-Apr-25	China	34% retaliation tariffs on US goods	
7-Apr-25	US	50% Additional tariffs on China	President Trump says if China does not withdraw its 34% tariff increase by April 8th, the US will impose additional Tariffs on China of 50%, effective April 9th," in a post on Truth Social. The US is moving forward with additional tariffs on China with the rate of levies totaling 104%. The 50% additional tariff will stack on top of previously announced 20% and 34% levies.
8-Apr-25	US	104% tariffs on China take effect	
9-Apr-25	China	84% tariffs on US goods	
9-Apr-25	US	90-Day Pause on reciprocal tariffs to non-retaliating countries. 125% tariffs on China	In retaliation to the 104% tariffs Trump imposed a day before. Based on the fact that more than 75 countries have called US representatives to negotiate, and have not retaliated, "I have authorized a 90-day PAUSE, and a substantially lowered Reciprocal Tariff during this period, of 10%, also effective immediately," President Trump says on Truth Social. China is raising tariffs on all US goods from 84% to 125% starting April 12, in response to the US's latest tariffs.
11-Apr-25	China	125% tariffs on US goods	
11-Apr-25	US	Exclusion of reciprocal tariffs on electronics products	
			The Chinese government has stated that it will no longer consider matching US tariffs and will "resolutely counterattack and fight to the end" if the US substantially infringes on its rights and interests.
			President Trump announced reciprocal tariff exclusion on wide range of electronic products including smartphone, computers, integrated circuits, and others

Source: BofA Global Research

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**Revised growth outlook hinges on tariff assumptions**

We now expect average GDP growth in Asia to decelerate by 60bp in 2025 and 30bp in 2026. On a GDP-weighted basis, regional growth could moderate to 3.9% in 2025 before accelerating to 4.2% in 2026 (from current projection of 4.4% in 2025 and 4.4% in 2026). By major economies, we lower China GDP growth forecast to 4.0% from 4.5% for 2025 and 4.2% from 4.5% for 2026, with additional policy stimulus to counter trade shocks. We expect Japan to avoid a recession narrowly despite 25% tariff on auto, while India is relatively insulated with policy support. For the rest of regions, we see stronger headwinds on North Asia and ASEAN than ANZ.

**Exhibit 3: Revised Asia growth forecasts**

On a GDP-weighted basis, regional growth could moderate to 3.9% in 2025 before accelerating to 4.3% in 2026

	2025 growth			2026 growth		
	Prior forecast	New forecast	Change	Prior forecast	New forecast	Change
<b>Asia</b>	<b>4.4</b>	<b>3.9</b>	<b>-0.5</b>	<b>4.4</b>	<b>4.2</b>	<b>-0.2</b>
China	4.5	4.0	-0.5	4.5	4.2	-0.3
Taiwan	3.3	2.8	-0.5	2.6	2.0	-0.6
Hong Kong	2.0	1.3	-0.7	2.4	1.7	-0.7
Korea	1.5	0.8	-0.7	2.0	1.3	-0.7
Japan	1.1	0.1	-1.0	0.6	0.6	0.0
India	6.6	6.4	-0.2	6.8	6.8	0.0
Indonesia	5.1	4.8	-0.3	5.3	5.1	-0.2
Malaysia	4.7	4.0	-0.7	4.4	4.3	-0.1
Philippines	5.9	5.6	-0.3	5.8	5.5	-0.3
Singapore	2.0	1.4	-0.6	2.0	1.7	-0.3
Thailand	2.3	1.7	-0.6	2.4	2.0	-0.4
Vietnam	6.7	5.9	-0.8	6.4	6.1	-0.3
Australia	1.9	1.6	-0.3	2.0	2.2	0.2
New Zealand	1.0	0.7	-0.3	2.9	3.0	0.1

Source: BofA Global Research estimates

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Our latest revision takes into account the direct impact from lower exports to US, as well as the indirect impact including more subdued global growth, weaker China demand as well as confidence shock to domestic economy such as fixed investment. That said,



most economies are already engaging with US for further tariff negotiation, and more fiscal and monetary stimulus are in sight.

Our revised outlook also comes with the assumption of no further escalation of US tariffs from here on, although its trade policy stance on China will remain restrictive. By country, we expect the US to maintain 100% tariff rates on China throughout FY2025, before coming down to 50% in FY2026. Meanwhile, we assume 5% tariffs on Canada and Mexico, and roughly 10% tariffs on rest of world (on average) through the forecast horizons. By key products, we expect tariff exclusion on electronic products to continue, while non-USMCA auto & AUTO parts are subject to 25% tariff.

In the base case, our US economic research team expects growth in the US to hold up at 1% in 2025. In addition, they expect the Fed to hold for this year before cutting 100bp in 2H26. In the risk scenario, we assume US could enter recession, if trade uncertainties do not abate, yet tariff revenues cannot offset increased fiscal expenditure so have to cut Medicaid spending.

## Wide range of outcomes on swing in external factors

Our point estimates are subject to large uncertainty range. In addition to the change in tariff rates, these are also important factors to watch:

- **Fed policy:** Views are very divided on Fed policy path. While we expect the Fed to stay steady this year given concerns about inflation, market is pricing in more than 3 cuts on growth downside. In our risk scenario of a US recession this year, Asia would likely see lower growth, but Fed would also likely cut faster and prompt regional central banks to follow with rate cuts.
- **USD:** Since the announcement of reciprocal tariffs on Apr 2, USD (DXY) dropped more than 4%. We believe it's conducive for more easing in the region given lower currency pressure from cutting rates. Even in the case of a gradual rebound in USD, we believe Asian central banks are well buffered with ample FX reserves to conduct various operations to smooth currency volatility and depreciation.
- **Commodity demand:** Given the more bearish growth backdrop, our commodity strategists recently downgraded global demand for major commodity products. Notably, Brent/WTI oil price forecasts were revised downward to US\$65/b/ US\$61/b, on the negative impact of the trade war on oil demand and rising OPEC supplies. Petroleum inventories should build in 2H25, but we assume the oil market will normalize next year and prices will revert to marginal cost economics. A lower oil prices should benefit the region as a whole, but would hamper growth in commodity exporting economies, including Malaysia and Indonesia



# Country Views

## China

We expect the greatest hit from the tariff shock on the Chinese economy to take place in 2Q25, bringing down GDP growth to -2% qoq saar level (shaving yoy GDP growth by 1.5ppt from 1Q to 2Q). In addition, since US tariffs would stay at 100% on China until Oct and moderate to 50% afterwards, China is unlikely to see a rebound in export growth until 2Q26. Consequently, even with the help of policy stimulus, we expect aggregate demand to remain below-par, leaving the last 3 quarters of 2025 with below 4% yoy GDP growth readings. This implies a large gap between our forecasts and the official growth target of “about 5.0%” set on the March NPC. In addition, we also expect CPI inflation to fall to -0.5%, as deflationary pressure set in deeper.

We expect Chinese policy makers to roll out additional stimulus to buffer the external shock. In our view, monetary easing may precede fiscal measures. In particular, we expect a RRR cut, and two 15bp policy interest rate (7d reverse repo) reductions to follow in 2Q25 and 3Q25, respectively. On the fiscal side, we see scope for up to RMB2tn package (equivalent to 1.5% GDP), after more evidence of growth weakness emerges, to support both consumption and investment. Consumption stimulus will likely focus on national-level childbirth subsidies and expansion of consumer goods subsidy programs, potentially into services sectors such as dining. Further, we expect stronger support to stabilize the property market and to facilitate investment in strategic areas.

## Japan

In our baseline scenario, we expect Japan’s economy to remain subdued in CY25, with only 0.2% YoY GDP growth (vs. our previous forecast of +1.1%), following 0.1% YoY growth in CY24. Given auto industry’s significant role in Japan’s manufacturing activity, sustained US tariffs on autos and auto parts could have a significant impact on the Japanese economy, even if the reciprocal tariff on imports from Japan is lowered to 10%, from the originally announced 24%, after the 90-day pause. The slowdown in manufacturing activity will result in two consecutive quarters of negative GDP growth (technical recession) in 2Q25 and 3Q25.

Assuming manageable spillover effects to employment and domestic spending, we forecast a moderate rebound from 4Q25. However, in our bear-case scenario, where we assume 25% auto tariffs and 24% reciprocal tariffs on Japan, Japan’s economy will enter into a recession in 2025 and then recover at a much slower pace in 2026.

The slowdown in demand also means weaker inflationary pressure in the near term. We expect the BoJ core CPI (ex. fresh food and energy) to slow from current 2.6% to below 2% at end-2025, as the food inflation peaks out and the recent JPY appreciation slows the import goods inflation. However, we expect structural labor shortages and the resulting rise of labor costs to persist, driving Japan’s inflation over the long term. Thus, we expect the BoJ core CPI to return to around 2% in 2026 as the economy recovers.

We now expect the BoJ to maintain its current policy rate of 0.5% through end-2025 and raise it to 0.75% in April 2026. Previously, we forecasted next rate hike at the June 2025 MPM, followed by three more hikes by March 2027. However, despite the real interest rate remaining deeply negative, the BoJ would still likely avoid a rate hike when the economy slows and the path to its price stability target is threatened.

While we believe the hurdle for a rate cut is high, if the US or the global economy deteriorates markedly over the coming quarters, there is a real possibility the BoJ may be stopped out of its hiking cycle at the current rate of 0.5%. On the flip side, if lower auto tariffs result in resilient manufacturing earnings for the rest of 2025, the BoJ could move up its next rate hike to the December 2025 or the January 2026 MPM.



## Korea

We expect growth in Korea to decelerate to 0.8% in 2025 (vs prior forecast of 1.5%), before rebounding to 1.3% in 2026. Despite in transition phase, the Korean government has already kickstarted the process of negotiation with the US administration, and we remain hopeful that a deal can be reached, to the extent that the current interim tariff to stay beyond the 90 days. Under this base scenario, an effective tariff of about 16% is expected, including tariffs on autos to remain at 25%. Overall, this could still be much higher than the almost 0% tariff under US-Korea FTA.

Given the significant exposure of exports towards both US and China (combined at about 38% of its exports), we see a notable growth drag for this year and the next year. The indirect spillover from weaker global demand will also weigh on growth, along with drags for domestic investment activities. In sequential terms, a meaningful growth slowdown in 2Q is expected, triggered by slower IP growth, followed by some recovery in domestic demand in 2H boosted by additional fiscal stimulus.

On policy front, we expect both fiscal and monetary easing to buffer for the growth shock in 2025. The current administration already proposed a KRW12tn size of emergency supplementary budget, equivalent to 0.5% of GDP, and more is expected later in the year under the new government, in our view. In terms of monetary policy, continued credit line supports are expected towards exporters, and two more cuts are seen in 2Q and 3Q to put policy rate at 2.25%. That said, aggressive cutting is unlikely in the near term, unless the Fed choose to ease further earlier than expected.

## Taiwan

We downgrade Taiwan's GDP growth forecast for 2025 to 2.8% (from 3.3%) due to weaker demand from China and slower investment growth amid rising uncertainties and a cooling property market. The 2026 projection is also revised down to 2.0% (from 2.8%) as trade tensions disrupt long-term capex plans.

Currently, Taiwan is largely shielded from the direct impact of US tariffs, with 64% of its exports to the US exempted from higher tariffs. US demand for Taiwan's technology products remains robust, offsetting the mild effective tariff rate increase (3.6%). However, Taiwan's exposure to China demand—especially for non-technology exports (18% of non-tech exports go to China)—could pose challenges in redirecting products like chemicals and rubber. The strong economic growth in 2024 was mainly driven by surging investment, which may slow in 2025 due to rising uncertainties and a cooling property market. We expect the CBC to keep policy rate unchanged until late in the year, when growth and inflation slowdown is likely to merit a 12.5bp rate cut.

Risks remain for Taiwan's small, open economy. If the US imposes significant tariffs on semiconductors and related electronics, Taiwan's exports and investment could suffer a larger setback. Conversely, a US-China trade deal that avoids a demand shock could support a healthier growth outlook.

## India

India's primary source of downside growth risks comes from weaker global growth, which feeds through the triple channel of weaker exports, weaker investment demand, and weaker sentiment, all of which can be potent enough, to drive a meaningful slowdown. Indeed, we had identified that India has three channels of negative impact, and three channels of mitigation, in our recent report (see report: [India Viewpoint: Growth risks from potential tariffs – How much? How so? How quickly? 11 April 2025](#)).

The three primary sources of downside risks, i.e., direct impact on India's exports from higher US tariffs, indirect impact of global growth slowdown on India's exports, and sentiment hit to investment demand from weaker capital markets and growing slack. The mitigating factors are falling commodity prices, strong domestic production, and an easier policy stance, but still, it is likely to be impacted by a slowdown, even if it has better shields than others.

Still, in the current scenario, where global growth, especially in key economies comes off by 50-100bp, the impact on India looks largely mitigated by factors such as falling energy prices, and domestic policy support, which prima facie appears larger than previously anticipated, especially for liquidity. In nominal terms, downside nominal growth risks could be almost 100bp in the spectrum of our baseline scenario and worst case outcome, but mitigating factors can provide some support and add back 60bp, bringing the impact to ~40bp in nominal terms, and 20bp in real terms. For FY27, we leave our forecasts unchanged, implying only downside risks. In CY terms, our new projections imply a 20bp downgrade to 6.4% for 2025, while for 2026, we retain our projections at 6.8% for GDP growth. Under the risk scenario, we would expect CY2025 GDP growth to fall by as much as 40-50bp, while CY2026 growth could also weaken by 20-30bp. We again add that these scenarios do not factor in completely the non-linearity of market sentiment impact and investment growth, and if the tariff policies in US keep shifting, the impact on investment could be larger.

## ASEAN

**Indonesia:** Under the baseline scenario, we revise down our GDP growth forecasts by 20-30bp to 4.8% for 2025 and 5.1% for 2026. The main drags would be slower growth out of China, which could impact demand for its commodities and base metals. Our forecast for 2026 also assumes greater support from policy overhaul under the new administration (started Oct-2024). On BI policy rate, we insert in another 100bp of rate cuts in 2Q-4Q26. This would be on top of a 25bp rate cut we have penciled in for 2Q25 presently. Exact timing of rate cuts would depend on IDR stability. We expect any fiscal stimulus to be highly targeted, with the 3% of GDP fiscal deficit cap adhered to. Under the risk scenario, we see GDP growth in 2025-26 potentially falling closer to 4.5%. Faster pace of rate cuts is probable, but still subject to IDR stability. BI may increase allocation for its liquidity incentive program to further reduce effective RRR. To create room for more spending within the fiscal framework, the government may reduce and/or delay compensation payments to Pertamina and PLN.

**Malaysia:** Under the baseline scenario, we revise down our GDP growth forecast to 4% for 2025 (vs. 4.7% previously) and 4.3% for 2026 (vs. 4.4% previously). Malaysia's electronics exports and production could face significant downward pressure, especially given its linkages to global supply chains. However, domestic demand should hold up, with labor market conditions generally healthy, step-up in realized investments still filtering through the economy and tourism spending growth remaining robust. We also inserted a 25bp policy rate cut by BNM in 3Q25. The recalibration would serve as an "insurance cut" to preserve growth in an environment of heightened uncertainty. We don't expect an extended rate cycle presently, with the economy starting 2025 from a position of strength, and our latest forecasts still pointing to positive output gap around 0.4% in 2026. Under the risk scenario, GDP growth could fall below 3.5% in 2025-26, with longer-term growth dampened if investment pipeline slows. If these materialize, BNM could deliver more cuts, but spaced out (rather than back-to-back) to assess



interim impact. Fiscal consolidation plans may also take a back seat to better support growth, with revenue plans scaled down and spending raised.

**Philippines:** We think the downside risk to GDP growth is modest (c20-40bp) and may come from slightly lower exports to the US and reduced tourist arrivals. We are neither factoring in a reduction in remittances from overseas Filipinos, nor any impact on service exports via BPOs (business process outsourcing). As the reciprocal tariff on the Philippines is relatively low (at 17%) versus its ASEAN peers, should these tariffs stick, it may mildly benefit the Philippines in the form of trade and FDI. The decline in oil prices in anticipation of weaker global growth benefits net oil importers like the Philippines in terms of a lower trade deficit and lower inflation. This is supportive of further policy rate cuts by the Bangko Sentral ng Pilipinas for the rest of 2025, having already reduced its policy rate 25bp in early April.

**Singapore:** Under the baseline scenario, we revise down our 2025 and 2026 GDP growth forecasts to 1.4% and 1.7%, respectively, from 2% (and closer to trend-pace) for both years earlier. In qoq SA terms, we penciled in a bumpy profile to reflect volatility in production of semiconductors and pharmaceutical (both account for almost 10% of GDP). With output gap likely to turn negative this year and cost pressures weakening, we lower our core inflation forecasts by 30bp to 0.9% and 1.2% in 2025 and 2026 respectively. This keeps core inflation staying well below the historical mean (1.5-2%) over the medium term (i.e. 1-2 years out). We expect MAS to ease for the 3rd straight meeting in Jul, with the FX slope flattened. A series of off-cycle fiscal measures could be rolled out across 2025, aimed at helping businesses ease cash flow and sharpen their productivity & expanding overseas. Under the risk scenario, GDP growth could fall below 1% in 2025-26, with widening of output gap further lowering core inflation trajectory. Hurdle for MAS to recentre downwards is high, but cannot be entirely ruled out. Fiscal measures could be stepped up, with added focus on supporting households and preserving jobs.

**Thailand:** We revise downward growth forecast to 1.7% for 2025 and 2.0% for 2026. Thailand has been facing the growth headwinds from slow tourism momentum, the short-lived impact from the earthquake and now the trade policy uncertainty. We assume that Thailand manages to negotiate the US tariffs to 10% by buying more US goods and implementing safeguard measures on Chinese rerouting, without opening up the agricultural sector, which is highly politically sensitive. However, the uncertainty would cap investment flow. It's manufacturing production, which has been under pressure, would face greater headwinds from imports from China, although some sectors might benefit from trade diversion as they are taxed at the lower rate compared to the Chinese goods. Under the risk scenario, the US recession and significant global growth slowdown would exert additional pressure on trade and tourism which are the key drivers for Thailand growth. We expect growth to fall to 0.9% under this scenario.

**Vietnam:** Under the new baseline scenario, we revise down our GDP growth forecast to 5.9% for 2025 (vs. 6.7% previously), but maintain our forecast at 6.4% for 2026. 1Q25 GDP was firm at 6.9%, and our forecast thus imply 2Q-4Q25 GDP averaging 5.6%. For now, Vietnam is benefitting from lower tariffs vis-a-vis China, which could blunt effects of potentially weaker exports to the US. If VND does not come under severe depreciating pressure, we think that SBV could cut policy rates by 50bp to previous lows seen during COVID. The rate cuts could be staggered between discount and refinancing rates (rather than both at one go). If fiscal support is required, the government could temporarily reduce tax rates and accelerate disbursement of funds for public investments. Under the risk scenario, GDP growth could stay well below 6% in 2025-26, with SBV perhaps rolling out more credit support measures.

## Australia & New Zealand

Australian GDP growth has been revised down 0.3ppt to 1.6% in 2025, which reflects a modest direct effect from US tariffs, but larger indirect effect through lower global



growth (primarily in China) weighing on export demand. Increased uncertainty and lower confidence also reduce investment and consumption in mid-2025. We expect fiscal support (both domestically and in China), further RBA easing, and the exchange rate response to help offset the negative growth effects. Growth is likely to pick up to 2.2% in 2026 as policy stimulus takes effect and rising global growth supports Australian exports.

Australian inflation is forecast to rise 2.6% in 2025 (revised from 2.9%) as weaker domestic demand, weaker oil prices and trade diversion lowers import prices. Inflation should pick up to 2.8% in 2026 as growth accelerates and stimulus supports higher prices. In the bearish scenario, downside risks to Australian growth and inflation increase, and fiscal and monetary policy respond to help cushion the blow.

New Zealand GDP is likely to rise 0.7% in 2025 (revised from 1.0%) as global growth headwinds constrain the already subdued economic recovery. Growth picks up to 3.0% in 2026 as considerable RBNZ easing increases demand and Chinese growth supports NZ export demand. Inflation is expected to remain around the middle of the RBNZ 1-3% target band at 2.2% and 2.0% in 2025 and 2026, respectively. If trade uncertainties do not abate, NZ growth and inflation will be revised down to reflect the weaker global growth outlook.

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