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DOMESTIC CREDIT SUPPORTING GROWTH IN EMERGING COUNTRIES

Economic growth in emerging countries held up well in the first half of 2025. So far, US tariff measures have had little impact on global trade and therefore on their exports. Furthermore, domestic demand, another driver of growth in these countries, remains strong, in particular thanks to the support of domestic credit. Bank lending growth has returned to its pre-COVID level for a large number of countries; in several emerging countries, it exceeds potential GDP growth in real terms. This is a trend to watch, as it could lead to a deterioration in foreign trade and/or an increase in non-performing loans.

LITTLE IMPACT FROM US TARIFF INCREASES SO FAR

GDP growth in emerging countries held up well until Q2 2025. The aggregate GDP of our sample of 24 major countries still grew by 1% quarter-on-quarter and 4.7% year-on-year. Even excluding China, where activity accelerated significantly in H1 ([see the editorial from our EcoWeek of September 8, 2025](#)), growth also reached 1% quarter-on-quarter.

With the exception of Latin America, exports continued to contribute positively to economic activity during the first half of the year. They even strengthened slightly in Central Europe and Asia. Manufacturers' confidence in their export order books has not collapsed since the Trump administration announced its tariff measures.

In Asia, with the exception of Taiwan, the decline in opinion balances (between companies anticipating an improvement and those forecasting a deterioration in orders) compared with Q4 2024 does not exceed 2 percentage points.

In Central Europe, the shock to the European automotive sector appears to have hit the Czech Republic and Slovakia particularly hard. However, opinion balances in July-August were slightly higher than in Q4 2024. By comparison, Poland has been more affected.

In Latin America, manufacturers' confidence has deteriorated significantly, while in Mexico it has returned to its Q4 2024 level after a sharp contraction in the second quarter. This can be explained by the difference in treatment imposed on the country by the United States and the protection afforded to a large proportion of Mexican exports by the United States-Mexico-Canada Agreement (USMCA)¹.

THE RETURN OF DOMESTIC CREDIT

The resilience of growth in emerging countries outside China is also due to the acceleration or maintenance of strong domestic credit growth², which has been almost universal since 2024 (*see Chart*).

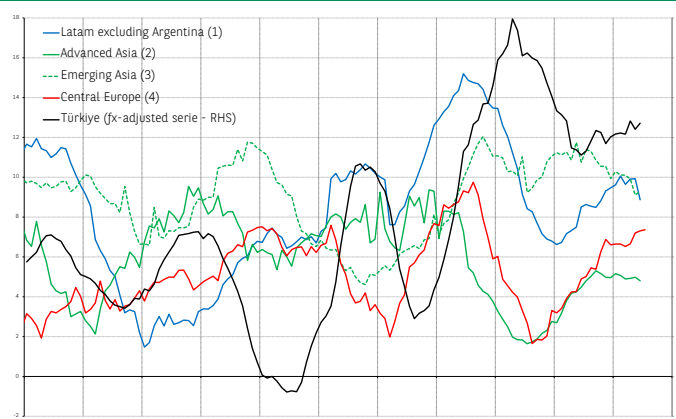
Between the last quarter of 2023 and mid-2025, the year-on-year growth rate of bank lending to the private sector rose from around 2% to 5% for advanced Asian countries (South Korea, Hong Kong, Singapore, Taiwan), from 2% to 7% for the main countries of Central Europe, from 7% to 9% for the main countries of Latin America, and from 8% to 11% for the main countries of the Middle East.

Over the same period, growth slowed in other Asian countries, but remained very strong at 9% compared to an average of 11% per year since 2023. In our sample of emerging countries, only Morocco and South Africa have not seen domestic credit accelerate since 2024, with growth remaining moderate (around 5% per year).

¹ The effective rate of US tariffs on Brazilian exports is 27% (taking into account the imposition of a reciprocal rate of 50%), while the effective rate on Mexican exports is only 5%.

² China is not included in this comparison between countries because credit has been slowing down there since 2021.

BANK CREDIT IN EMERGING ECONOMIES (% YOY)



- (1) Brazil, Chile, Colombia, Mexico, Peru
 (2) Hong-Kong, South Korea, Singapore, Taiwan
 (3) India, Indonesia, Malaysia, Philippines, Thailand, Vietnam
 (4) Bulgaria, Croatia, Hungary, Poland, Czech Rep., Slovakia, Romania

CHART 1

SOURCE: CENTRAL BANKS, IMF, CALCULATIONS BNP PARIBAS

Within this overall trend, Türkiye is an exception. Since 2022, its monetary policy has been completely out of step with that of other emerging countries. Two complete credit cycles have followed one another since 2020, with the period 2024-2025 corresponding to the low point of the second cycle. Beyond cyclical developments, domestic credit has been an important factor supporting growth since the end of the pandemic, particularly through the use of credit cards by households. In mid-2025, year-on-year growth in bank loans in Turkish lira was still close to 40%, with inflation down to 35%.

The general acceleration in credit is taking place in a disinflationary environment, i) generating gains in purchasing power for households and ii) allowing for monetary policy easing. If gains in purchasing power offset losses in previous years, they make it easier for households to take out credit to consume, a fortiori if interest rates and key rates fall at the same time.

This is the case in Central European countries. Since 2024, there has been a simultaneous decline in key interest rates and an acceleration in real wages and credit, particularly household credit. In Türkiye, the very strong catch-up in real wages since 2023 has offset the rise in debt.



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AVOIDING OVERHEATING

Elsewhere, the situation is more mixed. Nevertheless, in several large countries, credit is growing strongly, perhaps even a little too quickly.

In Asia, India, the Philippines, and Vietnam are experiencing double-digit credit growth (10% for India and the Philippines, 18% for Vietnam in mid-2025). Monetary easing in the Philippines and, more recently, in India has not led to an acceleration. In Vietnam, however, monetary easing (initiated in early April 2023) has reinforced the upward trend in the credit-to-GDP ratio. In Vietnam and the Philippines, real credit growth (nominal growth adjusted for underlying inflation) far exceeds real GDP growth potential. This is a trend to watch, as it could lead to a deterioration in foreign trade and/or an increase in non-performing bank loans.

In Latin America, the situation in Brazil and Mexico is worth highlighting for the same reasons. In both countries, credit has not accelerated since 2024 but is still growing at around 10% (for both households and businesses) and around 5% in real terms, which is also above potential growth. In Brazil, strong credit growth has continued despite the monetary tightening that began in September 2024 and continued until June 2025. Real interest rates in these two economies are the highest among emerging countries (except for Türkiye). However, as in Central European countries, real wage growth is very strong (6% in mid-2025), which for the time being ensures the sustainability of household debt.

In the short term, credit will continue to support economic activity. The sample of central banks engaged in a cycle of monetary easing will widen. Indeed, they are likely to be called upon in the future to support activity if the negative effects of the US tariff shock – which have so far been largely invisible – were to materialise. However, monetary easing could become more measured, if only because the pace of disinflation is already slowing. For some countries, this would even be desirable in order to avoid overheating.

François Faure



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