

EMERGING COUNTRIES: ECONOMIC GROWTH REMAINS SOLID BUT IS NOT ENOUGH TO STABILISE PUBLIC DEBT

Growth in emerging economies has remained solid since the beginning of the year, thanks in particular to buoyant exports and easing financial conditions. Up until the summer, the front-loading of purchases in anticipation of tariff increases in the United States stimulated trade. In addition, global trade flows have been reorganised. In 2026, fiscal and monetary policies will continue to support growth, but will be more constrained. Monetary easing will be less pronounced than in 2025, if only because of the uneven pace of disinflation across countries. Fiscal policy will be constrained by the need to curb the growth of public debt ratios. On the one hand, the gap between the effective interest rate and GDP growth, which has generally been negative until now, will narrow to zero or even reverse. On the other hand, for many countries, primary budget deficits will remain high even if they decline in the medium term. In China, Poland and Saudi Arabia, where the debt-to-GDP ratio is expected to increase the most by 2030, there are several specific but harmless reasons for the high primary deficits. For South Africa, Brazil, Colombia, and Mexico, the situation is more problematic. Finally, the countries with the largest declines in public debt ratios (Argentina, Egypt and Ukraine) are those with IMF support agreements.

SOLID GROWTH PERFORMANCE DRIVEN BY ROBUST EXPORTS AND EASING FINANCIAL CONDITIONS

Growth in emerging economies has remained solid since the beginning of the year. Aggregate real GDP growth in our sample of 28 major emerging countries¹ was slightly above 1% quarter-on-quarter in Q1 and Q2 2025. For Q3, available GDP data confirm the resilience of Asian economies.

According to our forecasts, average real GDP growth in emerging countries for 2025 as a whole should come in at 4.1%, just below its 2024 average (+4.2%). We have revised this forecast upwards (+4 pp) compared to the forecast made in the aftermath of President Trump's "Liberation Day" (2 April) and the first wave of US tariff increases. In fact, exports have been much less affected by the tariff shock than expected. Global trade has held up well and is even expected to rebound over the year as a whole. In its October World Economic Outlook (WEO), the IMF forecasts a 3.7% increase in the total volume of goods exports in 2025, following +3% in 2024.

Up until the summer, trade was boosted by the front-loading of purchases in anticipation of US tariff increases. Above all, trade flows were reorganised during the year². First, China's exports were redeployed, on the one hand, in order to circumvent US tariffs by rerouting goods flows through third countries and, on the other hand, in order to diversify markets to offset market share losses in the United States³. Therefore, total Chinese exports increased by 6% year-on-year in current dollars over the first nine months of 2025, despite the tariff shock.

For Central European countries, exports have been more resilient than expected to the rise in US tariffs and the crisis affecting the automotive sector, thanks to the continued integration of European value chains and the dynamism of intraregional trade. The Czech Republic, Slovakia and Romania, which are heavily exposed to the automotive sector, have benefited particularly from this and have recorded solid growth in their total exports of cars and spare parts since the beginning of the year⁴.

Finally, exports have been supported by the very strong global demand for electronic products linked to the investment boom in artificial intelligence—especially as semiconductors are currently exempt from US tariffs. The manufacturing sectors of Asian countries, particularly China,

EMERGING COUNTRIES: EXPORT VOLUME INDEXES
(3MMA, Q4 2019=100)

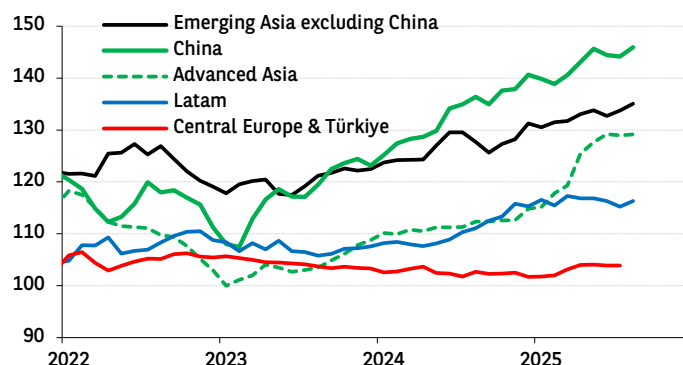


CHART 1

SOURCE: CPB, MACROBOND, BNP PARIBAS

South Korea, Taiwan and Vietnam, have benefited greatly from this momentum (Chart 1).

The evolution of balance of payments and financial conditions has remained fairly favourable in 2025. Even excluding China, the current account balance of our sample of 15 major emerging countries⁵ remained in surplus until Q2 2025. According to the IIF (Institute of International Finance), non-resident portfolio investment was very weak in the first half of the year, but this was after a particularly strong second half of 2024, and then it rebounded sharply over the summer. Most emerging currencies have appreciated against the dollar since 2 April, partially or fully reversing the depreciation that followed Donald Trump's election. CDS spreads experienced the same tension and then easing. Finally, for most countries, yields on local currency sovereign bonds have continued to decline since early April, helped by monetary policy easing⁶.

In the coming months, global trade growth is expected to slow; the effects of US tariff increases should become more visible, while trade tensions and the risk of new protectionist measures will persist. Growth in the total volume of goods exports is expected to slow to +2% in 2026,

¹ Asia: China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand; Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru; EMEA: Bulgaria, Czech Rep., Egypt, Hungary, Israel, Morocco, Poland, Romania, Russia, Slovakia, South Africa, and Türkiye.

² See EcoPerspectives, Q3 2025. "Focus – International trade: it's not all about the US."

³ See the note in this EcoPerspectives: "China – Confirmed export powerhouse, unbalanced growth model."

⁴ See Chart of the Week, 29 October 2025: "Central Europe: exports in the automotive sector are resisting well"

⁵ India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand / Brazil, Chile, Mexico / Czech Rep., Hungary, Poland, South Africa and Türkiye.

⁶ In Brazil, 10-year government bond yields have even eased by 110 bp since 1 April, despite the 75 bp increase in the policy rate.



EDITORIAL

4

before accelerating again in 2027–2028, according to IMF forecasts. Emerging market authorities will be tempted to continue easing monetary and fiscal policy to stimulate domestic demand and offset the effects of a lower contribution from foreign trade to GDP growth.

CONTINUED, ALBEIT MORE CONSTRAINED, MONETARY AND FISCAL SUPPORT FOR DOMESTIC DEMAND

The solid growth of emerging economies in 2025 is also due, in many cases, to strong domestic demand (with the notable exception of China) and the easing of economic policies.

On the monetary front, the vast majority of central banks have been gradually lowering their policy rates since early 2025. Inflation has slowed, helped by low food price increases (particularly in Asia), lower global energy prices, the appreciation of most emerging currencies against the US dollar, and the recent moderation in nominal wage growth. One major exception is Brazil, where inflation remains high; its central bank raised its policy rate sharply in the first half of the year and has kept it unchanged since the summer. Disinflation has enabled households to gain purchasing power, and monetary easing has fuelled an acceleration in domestic credit, particularly in Central Europe and Latin America⁷. In China, bank lending growth has continued to slow, reflecting stubbornly low confidence among households, firms and creditors.

In the short term, the cycle of monetary easing will continue and is even expected to spread to more countries. Brazil and Hungary, in particular, are expected to begin a cycle of easing in 2026. However, the average scale of monetary easing is likely to be less than in 2025. On the one hand, the pace of disinflation will remain uneven, with some countries in Central Europe and Latin America experiencing slower disinflation. On the other hand, while risks related to international financial conditions are limited in the short term, capital flows could become more volatile and episodes of downward pressure on emerging currencies could increase—for example, in India, Indonesia, or some Latin American countries exposed to increased uncertainty due to elections in 2026 (such as Colombia, Peru and Brazil).

On the fiscal front, there is greater variation in the countries' situations. In the vast majority of cases, fiscal deficits and public debt are significantly higher today than before the COVID crisis, and fiscal room for manoeuvre is constrained by the need to slow the pace of increase in public debt ratios (see below).

Governments are adopting a wide variety of strategies to balance support for domestic demand with fiscal adjustment. In Mexico, Argentina, Egypt and Romania, governments have no room for manoeuvre due to high deficits, rapidly rising debt, a large share of rigid spending in the budget, and/or an already excessive debt interest burden. Fiscal austerity is weighing on growth (only Egypt recorded real GDP growth of more than 1% q/q in H1 2025). The Colombian government also has no room for manoeuvre, but it has suspended its fiscal discipline rule for three years in order to delay adjustment measures, increase spending and allow an increase in its deficit, which will rise to nearly 8% of GDP in 2025. A change of course is unlikely in the short term.

In Brazil and India, room for manoeuvre is constrained by structural weaknesses in public finances (deteriorating metrics, rigid spending and wariness among private creditors). However, the Indian government is prioritising support for growth and has just lowered VAT rates. The Brazilian government is likely to remain cautious in its easing measures, but it could use other extra-budgetary levers to stimulate domestic demand (for example, with loans from public banks and investments by public companies).

EMERGING COUNTRIES: GENERAL GOVERNMENT BUDGET BALANCE AND DEBT

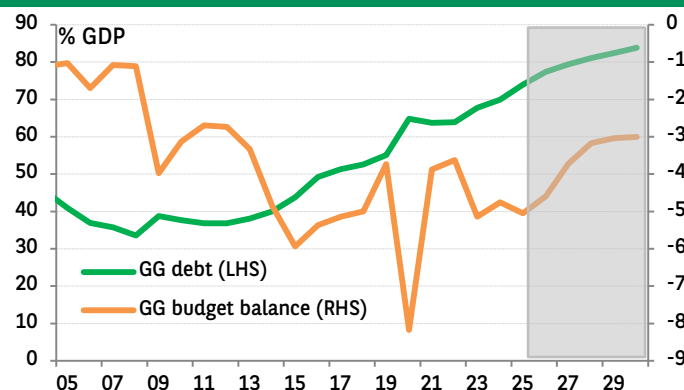


CHART 2

SOURCE: IMF (FISCAL MONITOR OCTOBER 2025)

EMERGING COUNTRIES: PUBLIC DEBT DYNAMICS 2021-2025

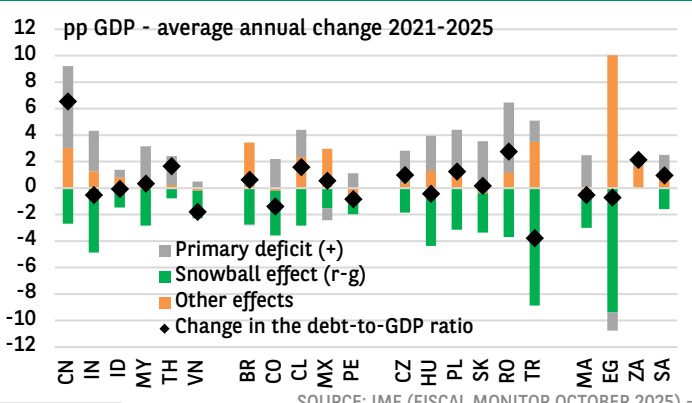


CHART 3

SOURCE: IMF (FISCAL MONITOR OCTOBER 2025) - CALCULATIONS BNP PARIBAS

EMERGING COUNTRIES: PUBLIC DEBT DYNAMICS 2026-2030

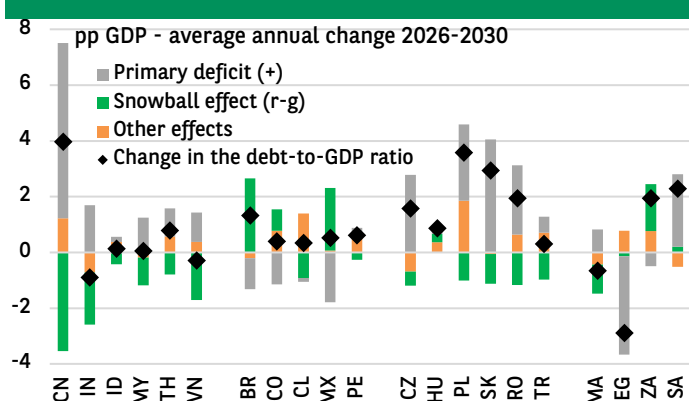


CHART 4

SOURCE: IMF (FISCAL MONITOR OCTOBER 2025), BNP PARIBAS CALCULATIONS

CN: China, IN: Inde, ID: Indonésie, MY: Malaisie, TH: Thaïlande, VN: Vietnam, BR: Brésil, CO: Colombie, CL: Chili, MX: Mexique, PE: Pérou, CZ: Rep. tchèque, HU: Hongrie, PL: Pologne, SK: Slovaquie, RO: Roumanie, TR: Turquie, MA: Maroc, EG: Égypte, ZA: Afrique du Sud, SA: Arabie Saoudite

⁷ EcoWeek, 15 Septembre 2025: "Editorial – Domestic credit supporting growth in emerging countries."


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EDITORIAL

5

These are risky strategies for Colombia, Brazil and India, as if fiscal support measures worsen inflation expectations and investor sentiment, the favourable effect on growth could be reduced by downward pressure on currencies, which would constrain monetary policy (leading to smaller rate cuts in India and postponement of the easing cycle in Brazil). This risk has already materialised in Colombia, where inflation expectations have risen and the central bank has not changed its policy rate since last May.

In Central Europe, fiscal room for manoeuvre is generally limited, with most countries subject to excessive deficit procedures by the European Union. In Poland, however, fiscal consolidation has been slow, hampered by the need to offset the effects of a difficult external environment and internal political pressures. In the short term, the fiscal policy stance will remain fairly accommodative.

In China, public finances have deteriorated in recent years, mainly due to the sharp increase in local government debt and debt of their financing vehicles. However, the authorities have taken steps to ease short-term liquidity constraints, allowing local governments to maintain a moderately expansionary fiscal policy and support activity through targeted measures. This policy, which is necessary in the short term, does not improve the trajectory of public debt.

MEDIUM-TERM PUBLIC DEBT DYNAMICS: DIFFICULT STABILISATION DESPITE LOWER PRIMARY FISCAL DEFICITS

According to IMF forecasts, by 2030, the aggregate general government debt of emerging countries will increase by nearly 10 percentage points of GDP, from 73.9% to 83.8% (*Chart 2*). This is slightly less than over the 2021–2025 period (2 pp per year on average versus 2.5 pp). However, the IMF assumes that deficits will narrow, a traditional assumption in this type of exercise, but one that we believe is rather optimistic, particularly for Latin American and Central European countries.

The debt ratio is expected to increase significantly for China (+19.9 pp), Saudi Arabia (+11.5 pp), South Africa (+9.8 pp), Brazil (+6.6 pp) and several Central European countries, led by Poland (+17.9 pp). The countries with the largest declines in their ratios (Argentina, Egypt and Ukraine) are on an IMF plan and, as such, have committed to significantly reducing their deficits or even generating surpluses.

The dynamics of debt ratios depend on i) changes in primary balances (total balance excluding interest charges), ii) the gap between the cost of borrowing for governments and GDP growth, which, together with the level of debt, determines the interest burden, iii) changes in the real exchange rate for countries with significant foreign-currency debt, iv) temporary or permanent extra-budgetary costs (deficits of extra-budgetary entities whose accounts are not consolidated with the central government's deficit, and exceptional support to sectors that are not recorded in central government expenditure but which increase central government debt).

The negative gap up until now between the effective interest rate and growth is narrowing or reversing. The gap between the cost of government borrowing and growth is the only feature common to all countries. By 2030, the IMF forecasts either a smaller negative contribution from interest payments (as a percentage of GDP), or a contribution that is once again positive or worse than in the last five years. Over the 2021–2025 period, the gap between the effective interest rate and the growth rate was negative for all countries, which partially offset primary deficits (*Chart 3*).

Conversely, over the 2026–2030 period, the gap is expected to become positive for Brazil, Mexico, South Africa and Colombia. For all other

countries, it is expected to narrow (*Chart 4*). On the one hand, growth is expected to slow not only in 2026, but also in the medium term due to lower potential growth for the vast majority of countries. On the other hand, real government bond yields have been positive in all countries since 2024 and have even widened with disinflation. Furthermore, for the countries still significantly indebted in foreign currency, the real interest rate on dollar or euro credits will no longer be as negative as it has been over the past five years. In fact, beyond the effect of disinflation, yields on sovereign bonds in these currencies have normalised at much higher levels.

Primary deficits in emerging countries will decline starting in 2026, but the situation varies significantly from country to country. The change in the primary balance depends on i) potential growth and the gap between actual GDP and potential GDP (output gap) – parameters that determine the change in fiscal revenues (assuming unchanged tax pressure) – and ii) fiscal consolidation efforts.

In the case of China, the primary deficit includes the deficit of entities considered extra-budgetary by the Chinese authorities but reintegrated into the IMF's estimates. The increase in this deficit stems, among other things, from a better accounting for local government financing vehicles.

For Saudi Arabia, the persistence of primary deficits is due to the authorities' desire to pursue economic diversification efforts in an unfavourable oil market environment. The resulting increase in debt is therefore not the result of a drift in current expenditure.

In the case of Poland, the primary deficit is expected to remain above 3% of GDP until 2028, mainly due to defence spending (close to 5% of GDP). Therefore, fiscal adjustment would remain very gradual in the short term. However, the Polish Constitution stipulates corrective measures if the debt ratio exceeds certain thresholds (55% and then 60%); therefore, any adjustment could be more significant in the medium term in order to comply with the constitutional ceiling.

Conversely, some forecasts seem rather optimistic. For example, the IMF forecasts primary surpluses in Brazil from 2027, and in Colombia and South Africa from 2028, even though these three countries have recorded deficits until 2025⁸. In the cases of **South Africa and Brazil**, potential growth is likely to remain weak. Generating a primary surplus would require a reacceleration of growth and a restrictive fiscal policy, two assumptions that the markets do not envisage for these three countries, at least in the short term.

Finally, **in Mexico**, the primary balance has been in surplus since 2016. However, controlling the debt-to-GDP ratio requires a strengthening of this surplus, which would be close to 1.8% on average by 2030, as the real cost of borrowing is much higher than growth. However, fiscal consolidation efforts appear to be compromised in the short term: on the one hand, the economic growth assumptions underlying the budget are much higher than forecasts and, on the other hand, spending is very rigid. Finally, recurring support for the oil company PEMEX is offsetting the government's fiscal consolidation efforts.

Therefore, public debt ratios in emerging countries will continue to rise through to 2030, which can only increase the vulnerability of governments to international financial conditions. More worryingly, governments could also see their fiscal room for manoeuvre reduced as public spending becomes increasingly rigid. Improving the structure of spending (moving towards more investment in infrastructure and innovation, for example) seems as necessary as reducing primary deficits. This would both support economic growth potential and improve public debt dynamics.

Christine Peltier & François Faure

⁸ According to South Africa's Treasury data, the primary balance is already in surplus, but the scope considered is narrower than in the IMF estimate.



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