

EDITORIAL

EMERGING ECONOMIES IN 2026: CAUTIOUS OPTIMISM

In 2025, emerging economies successfully navigated various shocks, including US protectionism, conflicts, and geopolitical tensions, largely due to Chinese exports, monetary easing, and ongoing disinflation against a backdrop of falling oil prices. Overall, financing conditions remained favorable, at least during the first half of the year, with most currencies appreciating against the dollar. In addition, macroeconomic imbalances, particularly external ones, were kept in check. For 2026, a slowdown in growth is the most likely scenario, but stabilization or even consolidation cannot be ruled out. Asia is expected to remain the most dynamic region.

In 2025, emerging economies demonstrated resilience in face of the protectionist shock initiated by the United States, the ongoing conflict between Russia and Ukraine, as well as military and geopolitical tensions in the Middle East and Asia¹. The primary factors contributing to this resilience include the significantly less adverse impact of these shocks on global trade – as illustrated by the robust performance of Chinese exports – the easing of monetary policy, and ongoing disinflation against a backdrop of falling oil prices. Overall, external and domestic financing conditions remained favorable at least until mid-2025, with the vast majority of currencies appreciating against the dollar in the second half of the year, which contributed to a reduction in inflation. More fundamentally, macroeconomic imbalances, particularly external ones, are limited, and the credit risks faced by are largely under control.

For 2026, a continued slowdown in growth in these countries is still the preferred scenario. However, GDP estimates and the economic indicators and surveys available for the second half of 2025 provide optimism for stabilization or even consolidation. Furthermore, the oil and gas markets are fundamentally in surplus. Moderate hydrocarbon prices are expected to mitigate inflationary pressures, thereby extending the cycle of monetary easing for a bit longer. At the same time, fiscal policies are expected to be only moderately restrictive. Finally, both external and domestic financing conditions are expected to remain favorable.

ASIAN COUNTRIES ARE PROJECTED TO REMAIN THE MOST DYNAMIC DESPITE THE SLOWDOWN IN CHINA.

The industrialized region of Asia is expected to remain the most dynamic. In contrast to the primary industrialized countries in emerging Europe (Czech Republic, Hungary, Poland, Türkiye) and Latin America (Mexico, Brazil), the overall PMI indices all returned to growth territory (above 50) by the end of 2025. In Asia, economic activity has been, and is expected to remain, significantly driven by exports of electronic components and equipment, regardless of their connection to AI investments. This trend is especially evident in the exports from Taiwan and Vietnam, which accelerated sharply in the second half of 2025.

However, the region's momentum will inevitably hinge on the rebalancing of the Chinese economy, which involves, on the one hand, the curtailment of production overcapacity and, on the other hand, the geographical diversification and expansion of export market share, together with targeted support for household consumption. The prevailing consensus scenario anticipates a continued slowdown in growth for the world's second largest economy.

However, we must also consider China's willingness and ability to advance technologically and strengthen its autonomy from the United States in sectors where it still lags behind, such as in the production of the most advanced computer chips. Following a historic downturn in the second half of 2025, investment could stabilize.

In Central Europe and Türkiye, economies will face competition from Chinese products, as will the countries within the Eurozone. On the one hand, the restructuring of the automotive sector in Germany is expected to have a knock-on effect on the sector's activities in the Czech Republic and Slovakia. On the other hand, Central European countries could benefit from the anticipated stimulus effect of increased military and infrastructure spending in Germany. However, given their industrial specializations, the benefits would only be moderate. In any case, the contribution of external demand to growth will be less significant than that experienced by Asian countries. As for Latin American countries, Brazil, Colombia, and Mexico will continue to face considerable constraints on economic growth due to the deteriorating state of public finances and high real interest rates.

DOMESTIC AND EXTERNAL FINANCING CONDITIONS REMAIN FAVORABLE

In addition to the easing of national monetary policies, emerging countries are expected to enjoy advantageous financial conditions in 2026. Estimates from the Institute for International Finance indicate that non-resident portfolio investments in emerging bond markets (excluding China) reached a record high last year. This helped to mitigate, and even counteract, the impact of disinflation on real long-term interest rates. In 2026, despite the easing of monetary policy, most emerging market currencies are likely to maintain attractive yield spreads, thereby supporting inflows of portfolio investments. The same factors would, in theory, yield similar outcomes as in 2025.

In this scenario, the interest burden on businesses and households is expected to remain manageable. Unlike governments, the debt ratios of private non-financial entities (households, industrial and commercial businesses) have not seen an increase in recent years. In fact, there has been a notable decline in most countries following a temporary rise after the COVID pandemic. According to estimates from the Bank for International Settlements, with the exception of Brazil and Türkiye, the debt service ratio for households and non-financial companies in other countries has not significantly worsened in recent years; in several cases, it has even improved.

Regarding governments, aside from the increase in their debt ratios, the repayment and/or refinancing of sovereign debt denominated in foreign currencies should not pose unexpected challenges. The foreign exchange reserves held by central banks have continued to increase, both for commodity-exporting and importing countries.

¹ Over the first three quarters of 2025, in comparison to the 2024 average, the growth rate in our sample of 28 countries (which includes South Korea, Hong Kong, Israel, the Czech Republic, Slovakia, Singapore, and Taiwan, all classified as advanced economies by the IMF) stands at 4% (3.7% excluding China), compared to 4.3% (3.9% excluding China) in the previous year. Furthermore, this slowdown is not uniform, as 40% of the countries have reported stable or accelerating growth.



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For most countries, the risk premiums associated with sovereign debt are currently at historically low levels. However, Argentina and Egypt remain the most vulnerable countries and should therefore be monitored closely.

PREDOMINANTLY GEOPOLITICAL RISKS

The risk factors for emerging countries are expected to be predominantly geopolitical or political (notable elections in Brazil, Colombia, Hungary, Peru, Thailand, and Vietnam) rather than economic or financial. Firstly, the rise in customs tariffs and the tightening of embargoes by the United States are forcing countries to diversify their trade agreements, which is a positive factor for global trade. Secondly, a shift in monetary policy in the United States is not part of our scenario for advanced countries (see *EcoWeek's editorial dated January 13, 2026*).

Conversely, the sources of geopolitical risk continue to be substantial, manifesting either as open conflicts (such as the invasion of Ukraine) or as underlying threats (including China's desire to control Taiwan and the United States' interest in Greenland). In addition to these risks, which are unlikely to be resolved in the short term, there are also risks of political destabilization, whether stemming from external interference (the capture and imprisonment of Venezuelan President Nicolas Maduro) or from internal political and/or social unrest (such as the new popular uprising in Iran). The situation in Venezuela paves the way for the potential expansion of the "Donroe" doctrine, which refers to one country's readiness to use force to impose a change of government on another country in order to safeguard its sphere of influence or specific economic interests.

The economic ramifications of the popular uprising in Iran and the political upheaval in Venezuela are currently limited to an impact on oil prices. In the case of Venezuela, despite the hesitance of major US oil companies to reinvest in the country, the decline in crude oil production in recent years suggests that the most likely scenario is a return to growth. However, if this were to happen, the recovery would be gradual and would not significantly alter the overall balance of the market, at least in the short term.

In conclusion, despite the highly volatile global landscape at the start of the year and considering the events of 2025, we should remain confident in the ability of emerging economies to withstand and adapt to external shocks, whether they are solely economic and financial or of a geopolitical nature. However, our optimism should be tempered by the rising human and economic costs of global climate change, even if this impact remains relatively minor in terms of overall growth.

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