

EMERGING ECONOMIES: WILL GROWTH HOLD UP AS WELL IN 2026?

Growth in emerging economies remained solid in 2025, driven by exports and supportive financial conditions. Global trade was stimulated by export front loading ahead of US tariff increases, as well as by the reconfiguration of trade flows and the boom in the tech sector. In 2026, growth in emerging economies is expected to remain resilient but become more moderate. Supportive factors are likely to fade and global trade is expected to slow down. Fiscal and monetary policies will continue to support domestic demand but will be more constrained than in 2025. Monetary easing will be more measured, and fiscal room for manoeuvre will be reduced by the need to curb the increase in public debt ratios.

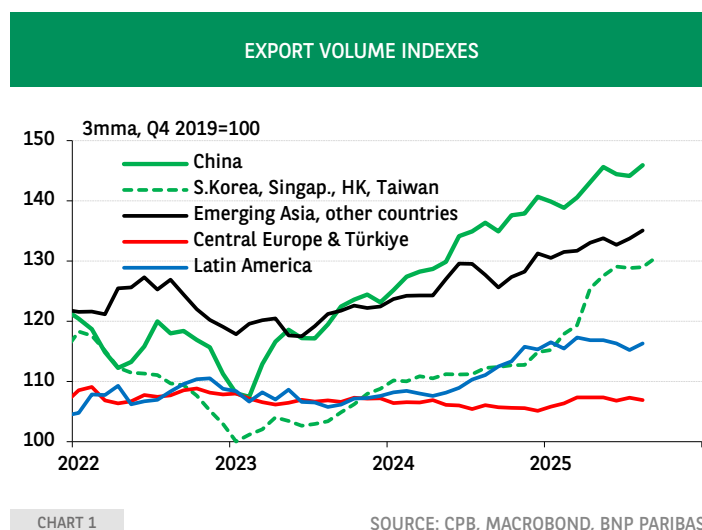
IN 2026, FOREIGN TRADE WILL CONTRIBUTE LESS TO ECONOMIC GROWTH

Growth in emerging economies has been stronger than expected since the beginning of 2025, thanks in particular to buoyant exports. Aggregate GDP growth in our sample of 28 major emerging economies¹ was slightly above 1% quarter-on-quarter (q/q) in Q1 and Q2 2025. For Q3, available data confirm the resilience of growth in Asia and Central Europe, while activity contracted (q/q) in Mexico and Chile.

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%). This will be higher than what was anticipated after President Donald Trump's 'Liberation Day' on 2 April and the first wave of US tariff hikes. Exports were less affected than expected. Global trade is even expected to rebound in 2025 as a whole: according to IMF forecasts, total exports of goods are expected to grow by +3.7% in volume in 2025, after a +3% increase in 2024.

Trade was boosted by export front-loading ahead of the tariff increases. Above all, flows have quickly reorganised during the year², particularly as a result of the redeployment of Chinese exports. China's strategy has been aimed, on the one hand, at circumventing US tariffs by rerouting goods flows via third countries and, on the other hand, at diversifying markets to offset losses in the United States³.

Therefore, first, the US tariff shock did not weaken China's exports (which rose by +5.9% year-on-year in current USD over the first nine months of 2025, after already +5.9% in 2024). However, in October, Chinese exports fell (-1.1% y/y), with a contraction in exports to the United States, but also to Japan, South Korea and Malaysia, and virtual stagnation to the European Union and Latin America. While the redeployment of exports via simple rerouting continued (exports to other Asian countries remained strong), market share gains in third countries appear to have eroded. This deterioration can be explained by the slight revaluation of the yuan since June (by around 2% in real effective terms, after a fall of nearly 6% in H1 2025), as well as by the effects of protectionist measures introduced by certain countries to curb their imports of Chinese goods. The extension of the truce between China and the United States, announced at the end of October and accompanied by a reduction in US tariffs on Chinese goods, could help exports in the very short term. The effective US tariff rate on Chinese goods has been lowered to 29.2%, down from 41.4% in August (source: Fitch); it was close to 10% at the end of 2024.



For Central European countries, exports have weathered the rise in US tariffs and the crisis in the automotive sector slightly better than expected, thanks in particular to the continued integration of European value chains and the dynamism of intraregional trade. Finally, exports from industrialised Asian countries have been buoyed by the boom in the electronics sector and investments related to artificial intelligence – especially as semiconductors are currently exempt from US tariffs.

In 2026, global trade growth is expected to slow down. The effects of US tariffs are likely to spread further, while trade tensions⁴ and the risk of new protectionist measures persist, particularly against China. According to IMF forecasts, growth in total goods exports is expected to slow to +2% in volume in 2026, before accelerating again in 2027-2028.

FINANCIAL CONDITIONS WILL CONTINUE TO EASE, BUT UNEVENLY

In 2025, external financial conditions were favourable for emerging countries. According to the Institute of International Finance, non-resident portfolio investment inflows were very weak in H1 2025, but after a particularly strong H2 2024, and then they rebounded sharply during the summer of 2025. Most emerging currencies have appreciated against the US dollar since 2 April, completely or partially correcting the depreciation that followed Donald Trump's election.

1 China, Hong Kong, Taiwan, South Korea, India, Indonesia, Malaysia, Philippines, Singapore, Thailand, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Bulgaria, Hungary, Poland, Czech Republic, Romania, Russia, Slovakia, Turkey, Israel, Morocco, Egypt, South Africa.

2 See [EcoPerspectives-Advanced Economies, Q3 2025: 'Focus: International trade, it's not all about the United States'](#).

3 See [EcoPerspectives-Emerging Economies, Q4 2025: 'China: Confirmed export powerhouse, unbalanced growth model'](#).

4 See [Chart of the Week, 29 October 2025: 'Central Europe: Automotive sector exports are resising well up'](#).



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EMERGING COUNTRIES: INFLATION

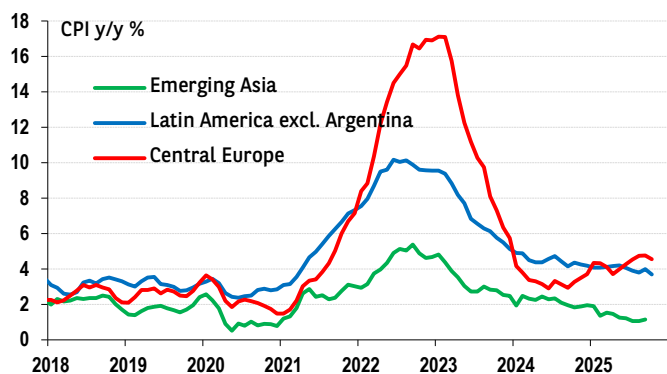


CHART 2

SOURCE: MACROBOND, BNP PARIBAS

CDS spreads experienced the same sequence of tension followed by easing. Finally, for most countries, yields on local currency sovereign bonds have continued to fall since April, helped by monetary policy easing.

The vast majority of central banks have lowered their policy rates since the beginning of 2025. Consumer price inflation has slowed, helped by low food price inflation (particularly in Asia), lower global energy prices, currency appreciation against the USD, and the recent moderation in nominal wage growth. According to our forecasts, average CPI inflation in emerging countries is expected to reach 4.5% in 2025, compared with 8.3% in 2024. Disinflation has enabled households to gain purchasing power, and monetary easing has fuelled an acceleration in credit growth, particularly in Central Europe and Latin America⁵. Disinflation and monetary easing have therefore generally supported domestic demand in emerging economies. China is a notable exception; household consumption and private investment remain depressed, and credit growth continues to slow.

In 2026, monetary easing will continue. It is even expected to spread to more countries, with Brazil and Hungary, for example, embarking on a cycle of policy easing. However, the average magnitude of policy rate cuts is expected to be smaller than in 2025. On the one hand, across emerging countries as a whole, average CPI inflation is approaching historically low levels (it is projected at 3.9% in 2026). Furthermore, the pace of disinflation will remain uneven. It will be moderate in Latin America and Central Europe; in Asia, inflation is already very low and could rise again in some countries such as India. In China, deflationary pressures could ease.

On the other hand, while risks related to international financial conditions remain limited in the short term, capital flows could become more volatile and episodes of downward pressure on emerging currencies could increase – for example due to increased political uncertainty as elections approach in 2026, or to the worsening of fiscal vulnerabilities. On both fronts, Latin American countries such as Colombia and Brazil appear particularly vulnerable.

FISCAL POLICY WILL BE MORE CONSTRAINED

In the vast majority of emerging economies, as in most advanced economies⁶, fiscal deficits and public debt are significantly higher than before the Covid crisis, and fiscal policy is therefore constrained by the need to curb the increase in debt ratios.

The fiscal room for manoeuvre could narrow further in the coming years due to the expected evolution of the gap between the effective interest rate on public debt and the GDP growth rate. While this gap was generally negative over the period 2021-2025, it is expected to narrow or even become positive over the period 2026-2030 (according to IMF projections in the October 2025 Fiscal Monitor). This development, which is unfavourable to public debt dynamics, makes it even more necessary to improve primary fiscal balances.

Faced with the dual imperative of adjusting public accounts and supporting economic growth in an uncertain external environment, governments are adopting a wide variety of strategies⁷. In countries with particularly poor public finances, austerity is necessary and will continue to weigh on growth in 2026. This is the case, for example, in Romania, Mexico, Argentina and Egypt. Argentina and Egypt, which are benefiting from IMF support plans, are engaged in a process of continuous reduction of fiscal imbalances.

The Colombian government also has no room for manoeuvre, but it has suspended the fiscal discipline rule for three years in order to delay adjustment measures and allow the deficit to slip in 2025 and 2026. In Brazil and India, room for manoeuvre is constrained by structural weaknesses in public finances (deteriorating metrics, spending rigidity and wariness among private creditors). However, the Indian government is prioritising support for growth and has recently lowered VAT rates. The Brazilian government is likely to remain cautious, but it could use extra-budgetary levers to stimulate domestic demand (for example with loans from public banks). These are risky strategies: if the support measures undermine inflation expectations and investor sentiment, the favourable effect on growth may be reduced by downward pressure on currencies, which would constrain monetary policy.

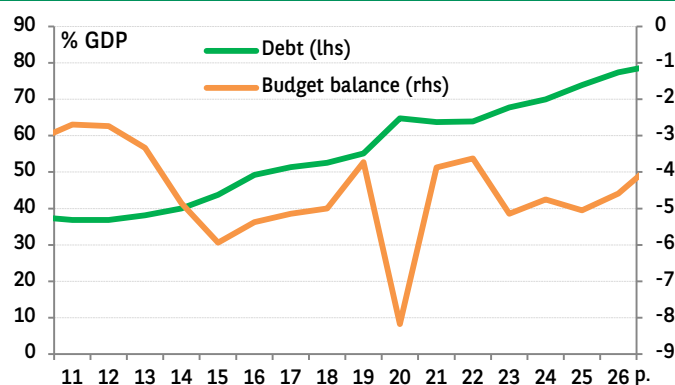
EMERGING COUNTRIES: GENERAL GOVERNMENT
BUDGET BALANCE AND DEBT

CHART 3

SOURCE: IMF (FISCAL MONITOR OCTOBER 2025)

⁵ See [EcoWeek, 15 September 2025: 'Editorial – Domestic credit supporting growth in emerging countries'](#).

⁶ See [EcoCharts – Public Finances, 18 November 2025](#).

⁷ See [EcoPerspectives – Emerging Economies, Q4 2025](#).



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This risk is evident in Colombia, where the central bank has not changed its policy rate since last May and may have to tighten monetary policy as early as H1 2026.

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 will remain slow, hampered by internal political pressures and the need to offset the effects of a difficult external environment. In the short term, the fiscal policy stance will remain accommodative, with continued increases in social and defence spending.

In China, public finances have deteriorated in recent years, particularly due to the sharp rise in local government debt and their financing vehicles. However, the central and local government debt continues to be financed without difficulty on domestic markets, and the authorities have taken measures to ease the liquidity constraints on short-term financing vehicles. This allows local governments to pursue a moderately expansionary fiscal policy. These measures are necessary in the short term but do not improve the trajectory of public debt, which is expected to continue to rise significantly in the coming years.

Growth in emerging economies is therefore expected to slow moderately in 2026: financial conditions should remain broadly accommodative, but capital flows are likely to become more volatile, while the effects of US tariffs will spread more widely and fiscal support will be increasingly constrained by the public debt burden. We expect average economic growth in emerging countries to fall just below 4% in 2026, for the first time in the post-Covid period.

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