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2025 Q3 EMERGING MARKETS OUTLOOK

Key Messages

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Key messages for 2025 Q3

1. Challenging global context

- The global economic environment remains difficult for Emerging Markets (EM), largely due to persistent structural challenges.
- Geopolitical tensions are intensifying, and the oversupply in the oil market is suppressing energy prices, negatively impacting the external accounts of oil-exporting economies.
- Simultaneously, global trade is becoming increasingly restrictive, particularly as US tariffs are now structurally fixed at a minimum of 10%.

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2. Growth is losing momentum

In Emerging Markets, key growth drivers are weakening.

- External demand continues to suffer from ongoing US trade tariffs, while investment remains sluggish due to the lagged impact of previously tight monetary policies and deteriorating business confidence.
- Although household consumption should stay moderately resilient—helped by easing inflation—its positive contribution to domestic demand will be limited.

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3. Three major external shocks

Emerging Markets are facing a trio of external shocks.

- First, escalating geopolitical tensions—such as those in the Middle East, Eastern Europe, and South Asia—are increasing global volatility and risk.
- Second, global oil prices are under downward pressure due to an oversupplied market, despite continued geopolitical instability.
- Third, rising protectionism and entrenched US tariffs are fragmenting global trade, reducing investment, and weakening long-term growth prospects in EM economies.

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4. Limited policy responses

The ability of EMs to support their economies through policy measures is severely constrained. Fiscal space is limited, as many governments are under pressure to cut deficits amid rising debt servicing costs.

On the monetary front, although some rate cuts have begun, central banks are proceeding cautiously, and further easing will depend heavily on food price stability.

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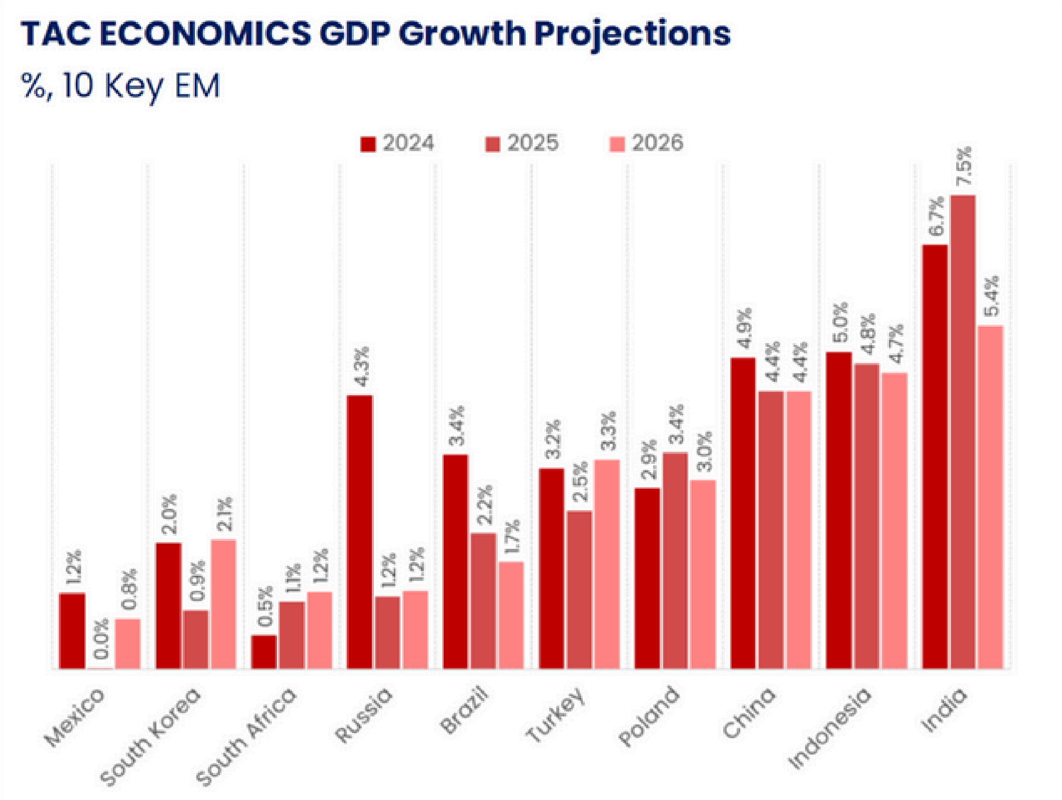
5. Weak but resilient growth outlook

- EM economic growth is expected to slow over the next several quarters, with average GDP growth declining from 4.5% in 2024 to 3.9% in 2025 and further to 3.7% in 2026.
- Countries such as Mexico, South Korea, and Turkey will see sharp slowdowns in 2025, while China and Indonesia will experience stabilized but subdued growth.
- By contrast, India and Poland are expected to reach peak growth in 2025 before slowing modestly in 2026.
- A gradual recovery should begin in mid-2026 as monetary policy becomes more supportive.



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6. Relative strength in financial resilience

Despite the global challenges, financial resilience remains a relative strength for many EMs. Several EM currencies still have appreciation potential, supported by a weakening US dollar, persistent growth differentials with advanced economies, and stable interest rate spreads. In addition, improving country risk indicators are enhancing macro-financial buffers, helping to maintain selective investor interest in EM assets.

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