

Annual outlook 2026

## Key takeaways

- Structural reforms in emerging markets form the basis for a robust economic outlook
- Consequences of lower interest rates and more planning security act as a cyclical tailwind
- China: the high-tech sector is becoming a key growth driver and is increasing competition

## Number in focus

60%

Emerging markets are growing significantly faster than developed economies and now account for over 60% of global GDP growth. This strong contribution is expected to remain high going forward. Structurally, demographics, improved fundamentals and economic reforms such as independent central banks, fiscal discipline and stable current account balances indicate a more resilient economic environment over the long term. In addition, favourable cyclical factors with the consequences of a loose monetary policy and reduced trade uncertainty will ensure solid economic growth in 2026.

## Chart in focus

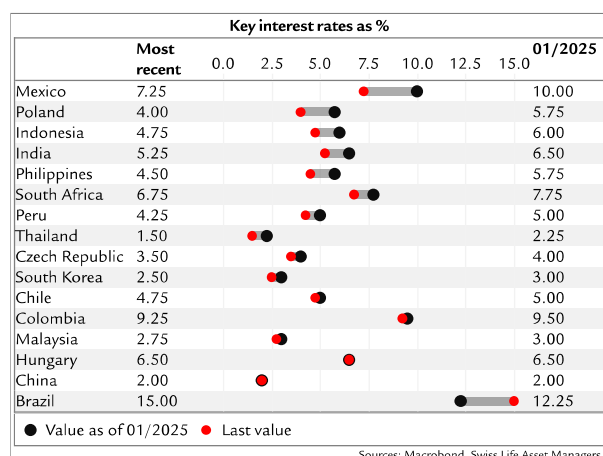


Record-high trade tariffs in 2025 led to significant uncertainty: business surveys showed that the PMI for new export orders fell below 50 in six separate months during the year, indicating declining export expectations. However, this effect has not yet been visible in actual trade data, and emerging markets' export volumes continued to rise. For the coming year, the effect of tariffs could become more pronounced. However, we do not anticipate any further escalation of tariffs, which increases planning security and improves the investment climate.

## Emerging markets remain on track

Following a very strong year in 2025, in which economic momentum repeatedly surprised to the upside, emerging markets are likely to remain resilient in 2026. Monetary policy was eased from mid-2023, and interest rate cuts continued in 2025. The delayed effects of this monetary easing support domestic demand. Interest rate cuts are expected to continue at a more reasonable pace in 2026. This is made possible by moderate inflationary pressure due to economic underutilisation, inflows of cheap Chinese goods and strong currencies. In addition, the record-high tariffs in 2025 had less of an impact on emerging markets' exports than initially feared. For 2026, we expect the impact of the tariffs to gradually become noticeable. However, we do not think a further significant tightening of trade barriers is likely as the US is increasingly feeling the inflationary effects of these measures. Easing political uncertainty should improve investment sentiment. *Regionally*, Asia remains the growth driver, even if momentum is set to slow compared to 2025. Record demand for AI drove exports from South Korea and Taiwan in 2025. While this boom will normalise, continued AI adoption will remain a key growth pillar. China's outlook is supported by the push into high-tech (see page 3). Eastern Europe could benefit from a cyclical upswing in Western Europe. For Latin America we expect a mixed picture: Brazil is feeling the effects of restrictive monetary policy (which should be eased in 2026) and political uncertainty ahead of the elections. Mexico is likely to see a moderate recovery; however, it is facing USMCA renegotiations and declining remittances from the US.

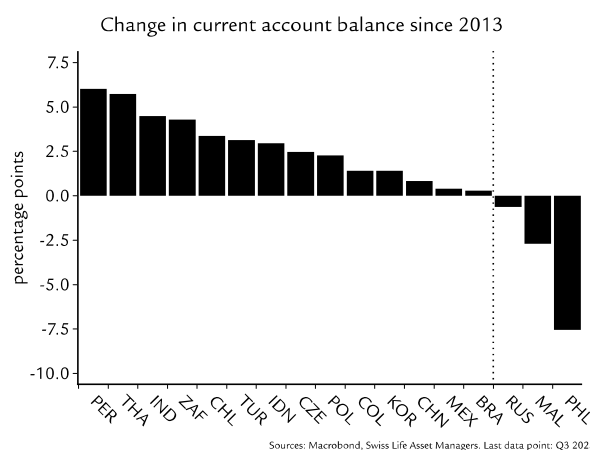
**Chart 1:** In 2026, central banks will continue lowering interest rates moderately, including in Brazil.



## Structural change to greater stability

In addition to a constructive cyclical environment, increasingly solid economic policy decisions and improved fundamentals are acting as an additional tailwind for emerging markets. Many countries have learnt from past mistakes and are now relying more on independent monetary policy and fiscal discipline. Many central banks in emerging markets raised interest rates much earlier than the US Federal Reserve during the pandemic-induced inflation phase, thus detaching themselves from US monetary policy. This lowered inflation and created scope for earlier easing. While debt remains high in some major economies, such as Brazil, fiscal deficits have been reduced following the COVID surge and are overall lower than in developed markets, where debt sustainability is increasingly under scrutiny. Current account balances have also improved noticeably over the past decade, reducing dependence on external financing. All this strengthens the resilience of emerging markets and creates the basis for more robust economic development. This structural change is also reflected in the rating dynamics, which have reached a turning point: while downgrades prevailed in the past, this trend reversed in 2025 – for the first time, upgrades account for over 60% of all rating changes.

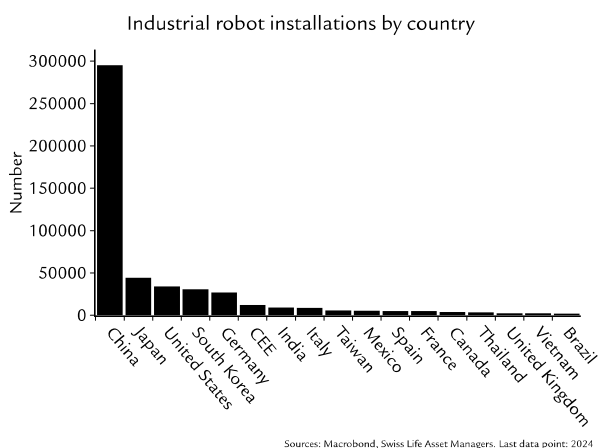
**Chart 2:** Emerging markets' current account balances have improved significantly



## China: expansion of high-tech industry

China's economy faces two opposing developments in 2026. Domestic demand remains weak – mainly due to two government-led initiatives: the ongoing property correction and the anti-involution campaign against excessive competition. Both measures are slowing investment and keeping consumption low. At the same time, the high-tech industry is gaining in importance as a new growth driver. Several factors are accelerating this momentum: increasing AI investments, growing local production of high-performance chips, a massive expansion of nuclear, wind and solar power generation, a large talent pool of 3.5 million STEM graduates annually, as well as flexible regulation and integrated supply chains. Thanks to these prerequisites, and a population that understands change as a part of their lives, AI's integration into the real economy will be particularly rapid. China is already installing more industrial robots than the rest of the world combined. Accordingly, we have slightly raised our growth forecast for 2026 to 4.4%, although this remains lower than previous historical growth rates. This second China shock – the combination of weak domestic demand and a high-tech push – has three implications: first, China is becoming an extremely strong competitor. Second, weak domestic demand and the focus on technological self-sufficiency mean that the country imports significantly less than during previous infrastructure and real estate boom phases. Third, the persistent imbalance – high output with subdued consumption – is keeping price pressure low. Higher-quality Chinese goods are exported at very competitive prices and are dampening global inflationary pressures.

**Chart 3:** China pushes automation with a record number of industrial robots



## Geopolitics: fragile stability

Geopolitical issues will persist in 2026. In the Middle East conflict, the ceasefire in Gaza will ensure greater stability and less intense fighting. In addition, the risk of a regional expansion of the war has been noticeably reduced, as both Hezbollah and Iran have been significantly weakened. In Ukraine, a ceasefire will only be possible if the pressure on Russia continues to increase and if Putin is forced to make concessions. The recent US sanctions against Russia's major oil companies Rosneft and Lukoil are adding to the pressure, but whether this is enough remains to be seen. So far, Russia's economic situation suggests that Putin can continue the war. Venezuela is increasingly back in focus too. There is growing evidence that the US strategy is less geared towards combating drug trafficking and more towards regime change. If this transition is orderly and peaceful, the implications would be positive – not only for the people who would free themselves from the disastrous conditions of the current dictatorship, but also globally. A more stable Venezuela could increase global oil availability as the country has the largest known reserves. Lastly, 2026 will be an important election year in emerging markets. Elections are pending in countries including Hungary, Colombia, Peru and Brazil. These are likely to lead to increased volatility. Political analysts expect a trend to the right in Latin America – driven by growing dissatisfaction with the disappointing results of the incumbent governments so far.

**Chart 4:** Russia's low unemployment rate reflects the transition to a war economy



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