Perspectives
Emerging markets

Q2 2026

Key takeaways

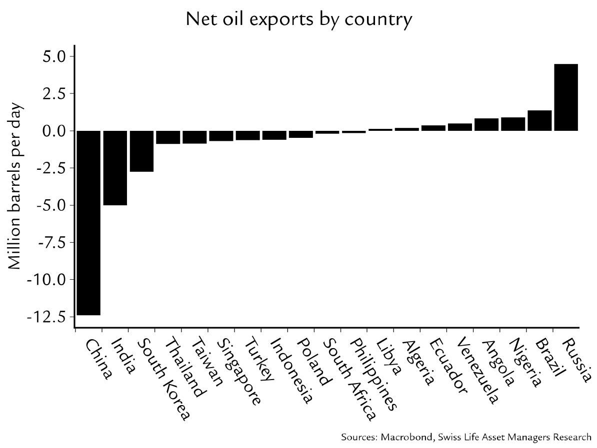
- South Asia is most affected by the Iran war due to its strong dependency on energy imports and low oil reserves
- EM central banks will be reactive as higher energy prices can quickly push up inflation expectations
- China: Thanks to its large oil reserves and low inflationary pressure, the impact of the Iran war remains limited

Number in focus

90%

The war in Iran is weighing heavily on the global economy. Due to the effective closure of the Strait of Hormuz, around 20% of the world's seaborne oil supply is disrupted. Asia is particularly affected, as some 90% of oil flows through the strait are destined for Asian economies. While North Asian countries are well protected in the short term thanks to their large reserves, South Asian economies are already experiencing a pronounced impact. The extent of the negative effects ultimately depends mainly on how long the war lasts and the associated supply shortfalls.

Chart in focus



The surge in energy prices in the wake of the Iran war is deepening the gap between net importers of energy, which are suffering from rising costs, and net exporters, which are benefiting from improved terms of trade – including several countries in Africa and South America. However, the main beneficiary is Russia, which is proving to be the biggest winner from this development. As the US has temporarily eased certain sanctions, demand for Russian crude oil is picking up again. Combined with higher oil prices, this provides the Russian war economy with a temporary financial advantage.

The Iran war is impacting emerging markets to varying degrees

The war in Iran is having an impact on emerging market (EM) economies in two ways: firstly, the physical availability of oil, which is restricted due to the effective closure of the Strait of Hormuz. Secondly, through significantly higher oil prices, which are generating global cost pressure. For many emerging markets, especially in Asia, both of these factors are having an impact. The immediate supply shortfall (see Number in focus) is weighing especially heavily on South Asian economies such as India, the Philippines, Thailand, Vietnam and Indonesia, given their strong reliance on imports from the Middle East and their low strategic oil reserves. Several of these countries have already introduced initial emergency measures to reduce energy consumption, including a shortening of the working week or restrictions on electricity consumption. At the same time, the rise in oil prices is leading to higher inflation, which is weakening household purchasing power and dampening consumption momentum. In some cases, this is prompting governments to introduce price caps or subsidies, which, while cushioning inflationary pressure, is widening budget deficits and increasing fiscal vulnerability. These risks are particularly pronounced in structurally fragile countries such as Turkey and South Africa. There, experience shows that the price pass-through of energy to headline inflation is very high, meaning that higher oil prices quickly feed into consumer prices. At the same time, more expensive energy imports are worsening already weak current account balances, further weighing on macroeconomic stability and putting additional downward pressure on local currencies. By contrast, North Asian economies such as China, South Korea and Taiwan will remain more resilient provided the war is relatively short-lived. Although these countries are also very dependent on oil and gas from the Middle East, they do have large oil reserves that can at least temporarily bridge the oil shortage. At the same time, these countries are supported by the strong demand for technology. South Korea's exports, for example, increased by more than 50% year-on-year in the first 20 days of March – a period already fully shaped by the current war dynamics around Iran – significantly exceeding expectations. While energy imports also picked up, the strong technology sector is currently significantly offsetting these headwinds (see Chart 1). However, this buffer only works provided the conflict is temporary. If the war lasts longer, North Asian industrial centres will also come under pressure. Energy-exporting emerging markets in Africa and South America, on the other hand, are benefiting from improved terms of trade, with Russia remaining the main beneficiary so far (see Chart in focus).

EM central banks to react swiftly to inflation pressures

Before the outbreak of the Iran war, inflation rates in most emerging markets were largely within the central banks' target range. However, higher oil and gas prices will feed into the upcoming inflation figures given their comparatively high weighting in the consumer price index. But this is largely a cost-driven effect, not an overheating of demand. In addition, many emerging markets are cushioning the immediate impact of rising energy prices through government price caps or subsidies, which is why we do not expect a broad-based cycle of interest rate hikes in the short term. However,

Chart 1: Technology cycle cushions the war shock for North Asia as long as the conflict remains short

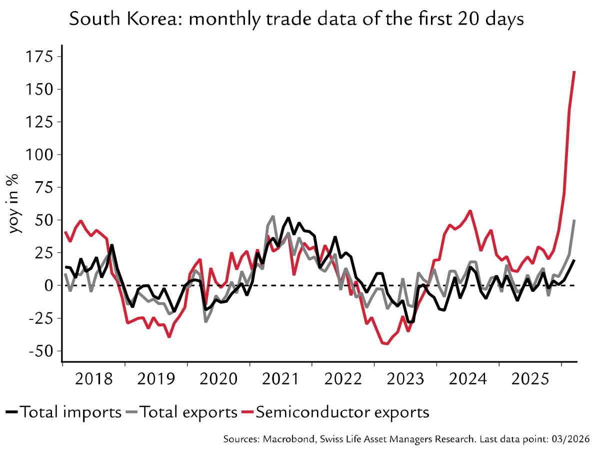


Chart 2: With a few exceptions, inflationary pressure before the outbreak of war was low

YoY CPI Rates

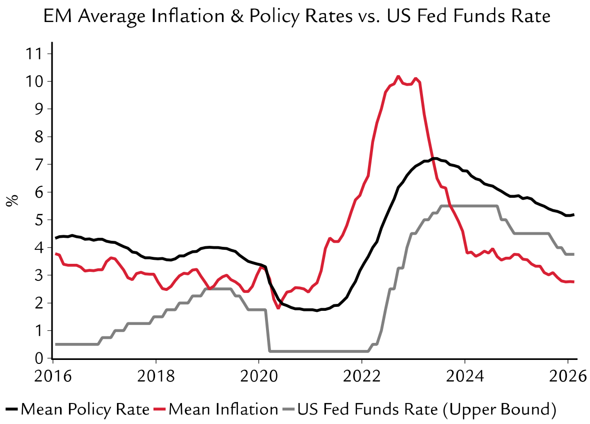
Country	CPI Target Rate	2/2026	1/2026	12/2025	11/2025	10/2025	9/2025	8/2025	7/2025
China	**2.0**	1.3	0.2	0.8	0.7	0.2	-0.3	-0.4	0.0
South Korea	**2.0**	2.0	2.0	2.3	2.4	2.4	2.1	1.7	2.1
India	**4.0**	3.2	2.7	1.2	0.5	0.0	1.4	2.0	1.6
Indonesia	**2.5**	4.8	3.5	2.9	2.7	2.9	2.7	2.3	2.4
Thailand	**3.0**	-0.9	-0.7	-0.3	-0.5	-0.8	-0.7	-0.8	-0.7
Vietnam	**4.5**	2.9	2.1	3.0	3.1	3.2	3.4	3.2	3.2
Philippines	**4.0**	2.4	2.0	1.8	1.5	1.7	1.7	1.5	0.9
Brazil	**3.0**	3.8	4.4	4.3	4.5	4.7	5.2	5.1	5.2
Mexico	**3.0**	4.0	3.8	3.7	3.8	3.6	3.8	3.6	3.5
Chile	**3.0**	2.4	2.8	3.4	3.4	3.4	4.4	4.0	4.3
Colombia	**3.0**	5.3	5.4	5.1	5.3	5.5	5.2	5.1	4.9
Peru	**2.0**	2.0	1.5	1.3	1.2	1.3	1.3	1.2	1.7
Czech Republic	**2.0**	1.4	1.6	2.0	2.1	2.5	2.2	2.5	2.7
Hungary	**3.0**	1.4	2.0	3.3	3.8	4.3	4.3	4.3	4.3
Poland	**2.5**	2.1	2.1	2.4	2.4	2.8	3.0	3.1	3.2
Russia	**4.0**	5.9	6.0	5.6	6.6	7.7	8.0	8.1	8.8
South Africa	**3.0**	2.9	3.4	3.6	3.5	3.5	3.4	3.3	3.5
Turkey	**5.0**	31.5	30.7	30.9	31.1	32.9	33.3	33.0	33.5

Sources: Macrobond, Swiss Life Asset Managers Research. Last data point: 01/02/2026 if energy prices do not fall again quickly, central banks in emerging markets will not wait long to raise interest rates and are expected to react faster and more decisively than those in developed markets. This is partly because energy has a higher weighting in national consumer baskets and can therefore rapidly influence inflation expectations, and partly because EM currencies are subject to greater depreciation pressure during such periods. In addition, many emerging markets need to be more visible in demonstrating that they have credible monetary policies than in developed economies. Last but not least, the recent experience during the pandemic-induced inflation surge has shown that taking early action pays off: EM central banks had raised policy rates well ahead of the Federal Reserve and the ECB – and were thus able to contain inflationary pressures more quickly – a pattern that should shape their reactions again this time round (see Chart 3).

China's vulnerability remains low

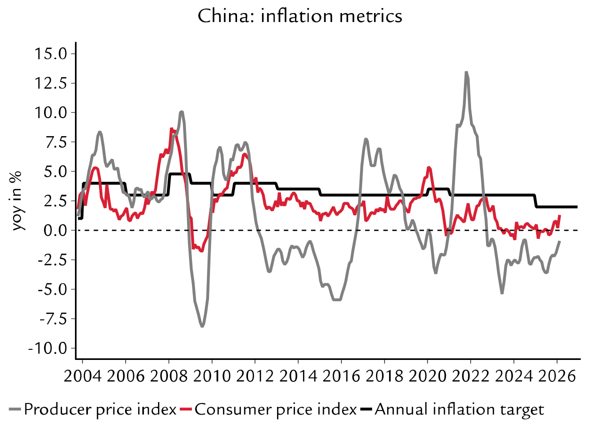
China's revised growth target of 4.5 to 5.0% for this year represents a pragmatic adjustment that takes account of ongoing structural challenges and points to a more sustainable growth path. In 2026, the growth model will remain clearly oriented to technology-driven production and exports, while strong consumer momentum or a significant rebound in the real estate sector have yet to appear. The latest economic data reflects this development: in the first two months, exports increased by more than 20% year-on-year. As long as the war in Iran remains temporary and does not turn into a protracted conflict, it does not pose a material risk to China's economic outlook. Although China derives around 30% of its oil consumption from the Middle East, physical supply is well secured in the short term. The country has very large strategic oil reserves that can cover consumption for at least five months. In addition, Iran continues to supply oil to China, which accounts for about 12% of total oil imports. The effect of higher oil prices on the domestic economy also remains manageable: energy accounts for only around 2% of the consumer price index, the importance of oil and gas in the energy mix is declining due to the strong roll-out of renewables, and coal continues to play a key role. Moreover, in the context of existing deflationary forces, it is difficult for companies to fully pass on higher costs, so the upward pressure on inflation should remain limited. In the adverse scenario of a prolonged war, however, China would also be vulnerable – both due to its heavy energy dependency and a slowing global economy. In the coming months, the focus will be on geopolitics in addition to the economy – in particular relations with the US and a possible meeting between Trump and Xi. Even though we anticipate a constructive meeting, several points of contention remain: the Section 301 and Section 332 reviews are still ongoing, implying that the US government is likely to reintroduce – under a new legal framework – the tariffs that were overturned by the Supreme Court.

Chart 3: Emerging markets raised interest rates already in 2021 during the Covid inflation shock



Sources: Macrobond, Swiss Life Asset Managers Research

Chart 4: China's inflation likely to remain below inflation target despite higher energy prices



Sources: Macrobond, Swiss Life Asset Managers Research. Last data point: 01.2026

Economic Research

Marc Brütsch
Chief Economist
marc.bruetsch@swisslife-am.com
in @marc_brütsch

Damian Künzi
Head Macroeconomic Research
damian.kuenzi@swisslife-am.com
in @damian_künzi

Josipa Markovic
Economist Emerging Markets
josipa.markovic@swisslife-am.com
in @josipa_markovic

Christoph Lauper
Economist Quantitative Analysis
christoph.lauper@swisslife-am.com
in @christoph_lauper

Florence Hartmann
Economist Developed Markets
florence.hartmann@swisslife-am.com
in @florence_hartmann

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