Emerging Markets Outlook 2027

Taking on the challenge of wars, AI and climate risk



Triodos Investment Management

Emerging markets' resilience to repeated shocks and strong relative returns throughout most of 2026 have sustained capital flows, particularly to commodity-producing economies. This has boosted trade in fossil fuels and investment in resource extraction. Yet this has slowed the action needed to meet global climate commitments. Meanwhile, low-income, commodity-importing countries remain sidelined, without the patient capital to adopt clean, affordable energy, strengthen their climate response and enable inclusive AI adoption. Fiscal buffers are also becoming increasingly strained. As the world falls further behind its climate targets, rising risks will drive up financing costs for countries that have contributed least to global carbon emissions. This outlook examines how emerging markets will navigate these competing challenges in 2027.

Taking on the challenge of wars, AI and climate risk

Resilience in 2026 and increasing divergence among countries in 2027

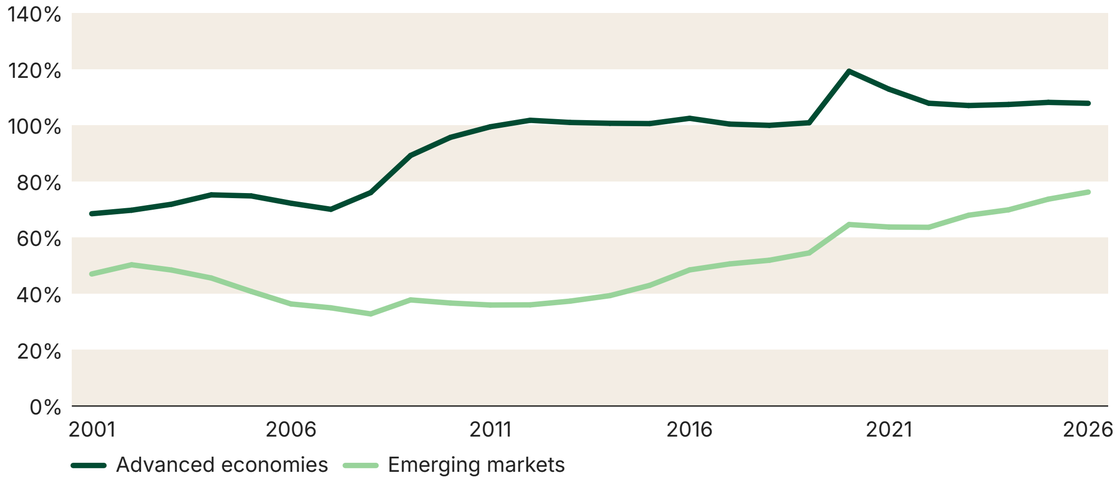
During 2026, emerging countries had to deal with the interaction between an AI-led investment impulse on the one hand and wars, trade restrictions, supply-chain disruptions and energy insecurity on the other. Most have managed these developments fairly well, supported by adequate international reserves, decisive central bank action, fiscal support and rising but manageable government debt levels (figure 1). These factors have helped cushion the impact of the energy shock, which otherwise could have triggered a broad surge in inflation and a cost-of-living crisis.

We forecast emerging markets inflation to rise from 5.2% in 2025 to 5.5% year-on-year in 2026 before easing to 5% by end 2027 (figure 2). Energy and food prices are expected to decline towards the end of 2027 as the Middle East conflict de-escalates amid war fatigue. By then, the effects of El Niño on commodity prices should also gradually have subsided.

We expect GDP growth in emerging markets to slow from 4.6% in 2025 to 3.9% year-on-year in 2026, mainly as several Middle Eastern countries have fallen into recession and inflation pressures have weighed on consumer demand in the most affected regions (figure 3). In 2027, we expect growth to edge up to around 4.3% year-on-year, supported by rising commodity export volumes and AI-related infrastructure investment, while de-escalation of the war in the Middle East, should gradually boost domestic demand, exports and tourism. However, spillovers from climate shocks, including El Niño, and AI's wider economic challenges do increase the downside risks to GDP growth.

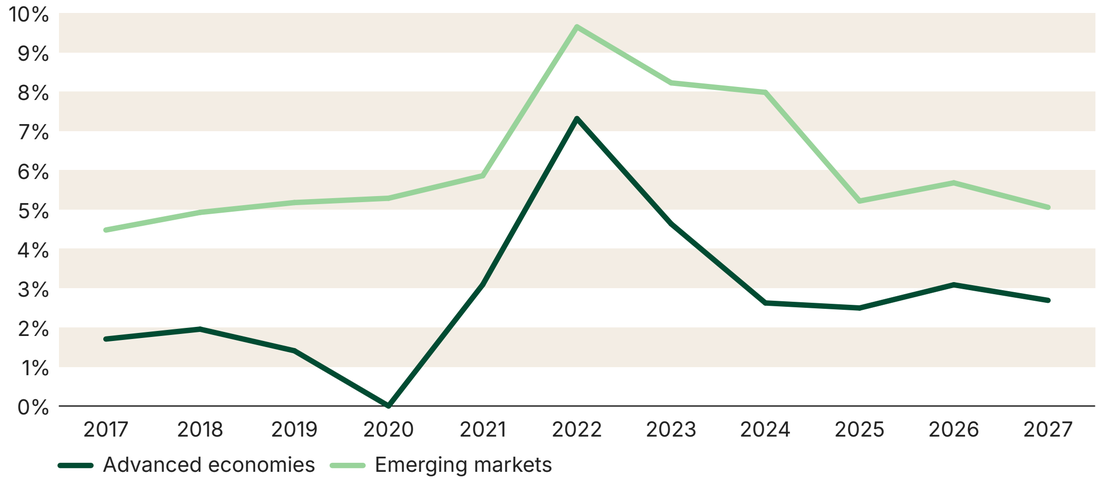
Countries are unevenly prepared for these challenges. Shrinking fiscal buffers, limited commodity resources and unequal capacity to adopt AI will likely widen the divergence among emerging

Figure 1 **Emerging markets lower debt levels paid off in 2026** (% GDP)



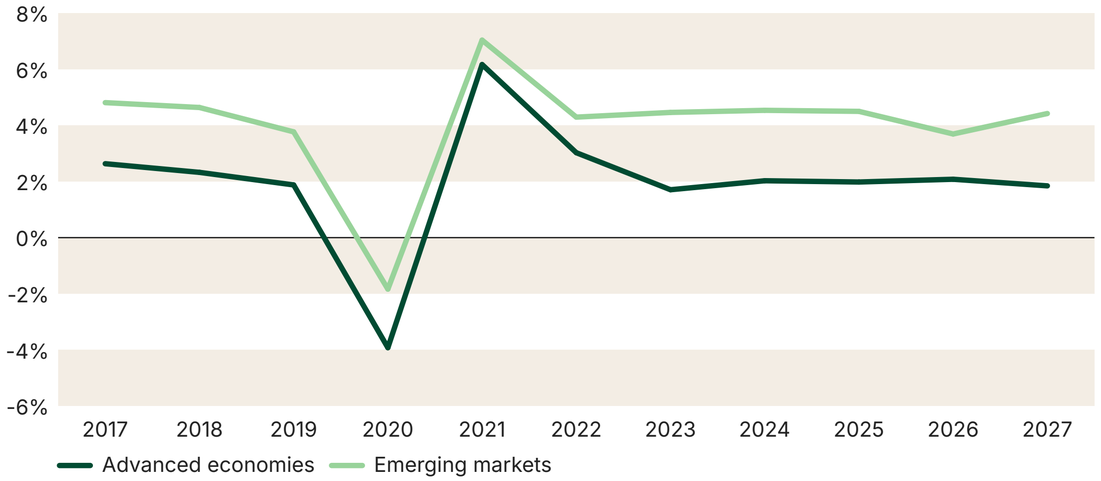
Source: S&P Global, Triodos Investment Management

Figure 2 **Inflation** (% year-on-year)



Source: S&P Global, Triodos Investment Management

Figure 3 GDP growth (% year-on-year)



Source: S&P Global, Triodos Investment Management

economies in 2027. These differences underscore the need to assess each country's strengths and weaknesses in light of their specific characteristics. Debt sustainability, adequate international reserves to support currencies and the ability to adapt quickly to changing conditions remain key factors to their resilience.

Major themes in 2027

Resilience in 2027 requires rebuilding government fiscal buffers and mobilising private investment to support sustainable transitions and reduce vulnerability to shocks. This includes expanding energy sources, including renewables, and preparing for AI expansion. International cooperation must bridge financing gaps where capital-market access is limited. Weaker confidence in these efforts would make investors more selective, raising risk premiums and borrowing costs while making capital more expensive to attract. Portfolio diversification should continue to channel capital towards emerging economies with strong buffers.

Protracted conflicts and energy security

The war with Iran and the closure of the Strait of Hormuz have raised concerns about energy security, inflation, interest rates and financial market stability. Where a swift resolution of the war was expected because of the high economic costs, the conflict has persisted. Oil prices therefore remain highly sensitive to developments in the Middle East, where the war is taking a heavy toll with some countries falling into recession this year.

The hope that the conflict would lead to a faster adoption of renewable energy in emerging markets has only been partly realised. China has **invested less in renewable energy additions this year**, as demand from western countries has weakened. Yet the country managed to reduce its consumption of fossil fuels in response to high import prices when this was most needed.

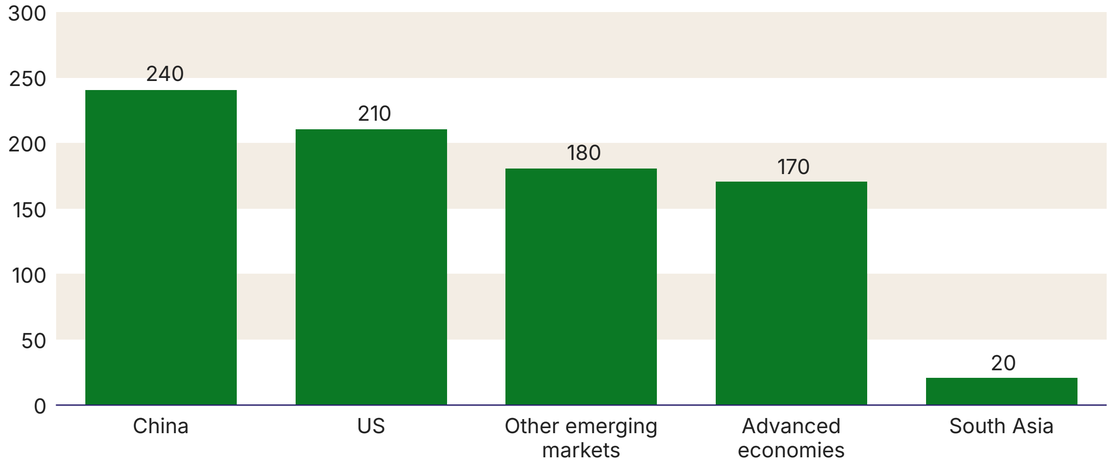
Other countries have redirected oil exports through alternative routes, particularly Saudi Arabia and the UAE, where oil production is close to pre-war levels. Thailand and India have relied more on coal and suppliers outside the Middle East for their fossil fuel imports with volumes also returning to pre-conflict levels. At the same time, previously sidelined exporters such as Venezuela have regained investors' attention, while Kazakhstan and other emerging-market exporters are increasing investment in oil production. These developments will not resolve the structural energy insecurity or reduce dependence on fossil fuels. Instead, they will increase climate-related risks.

We nevertheless expect clean energy demand to rise in emerging markets in 2027, as countries work to structurally improve their energy security. Pakistan and the Philippines have been shifting to solar power at a faster pace. **India is expected to become one of the leaders** in renewable energy in emerging markets as a decade of policy support, including clean energy subsidies, will start paying off in the coming years.

AI-related investments and global spillovers

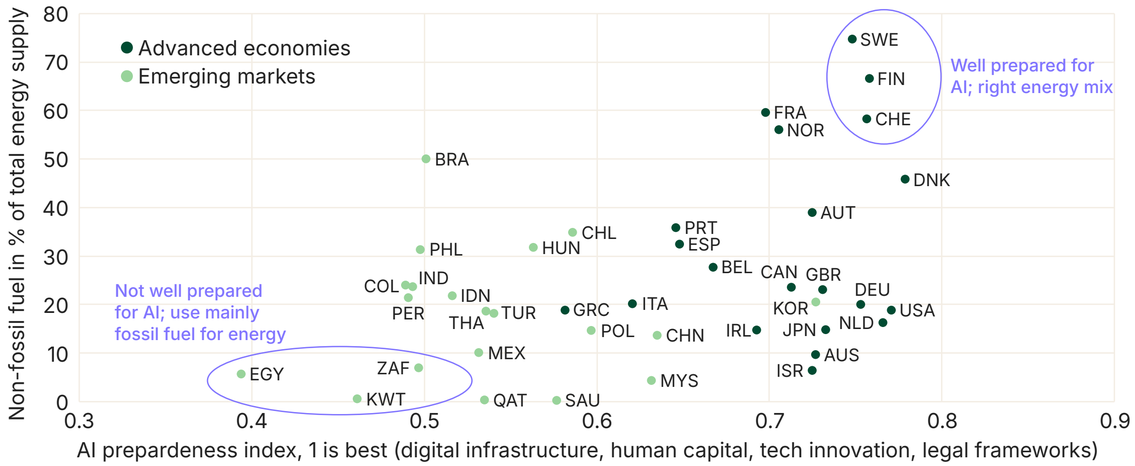
We expect AI-driven growth in the US to continue, with demand for AI-related input and infrastructure, including chips and data centres, increasingly being met by emerging markets. Growing security concerns about China's role in AI supply chains and rising resistance in the US to data centres are creating opportunities for India, Malaysia, Thailand,

Figure 4 **Data centres by region in 2025** (in numbers)



Source: World Bank, Triodos Investment Management

Figure 5 **Who is prepared for AI and has the right energy mix?**



Source: IMF, IEA, Triodos Investment Management

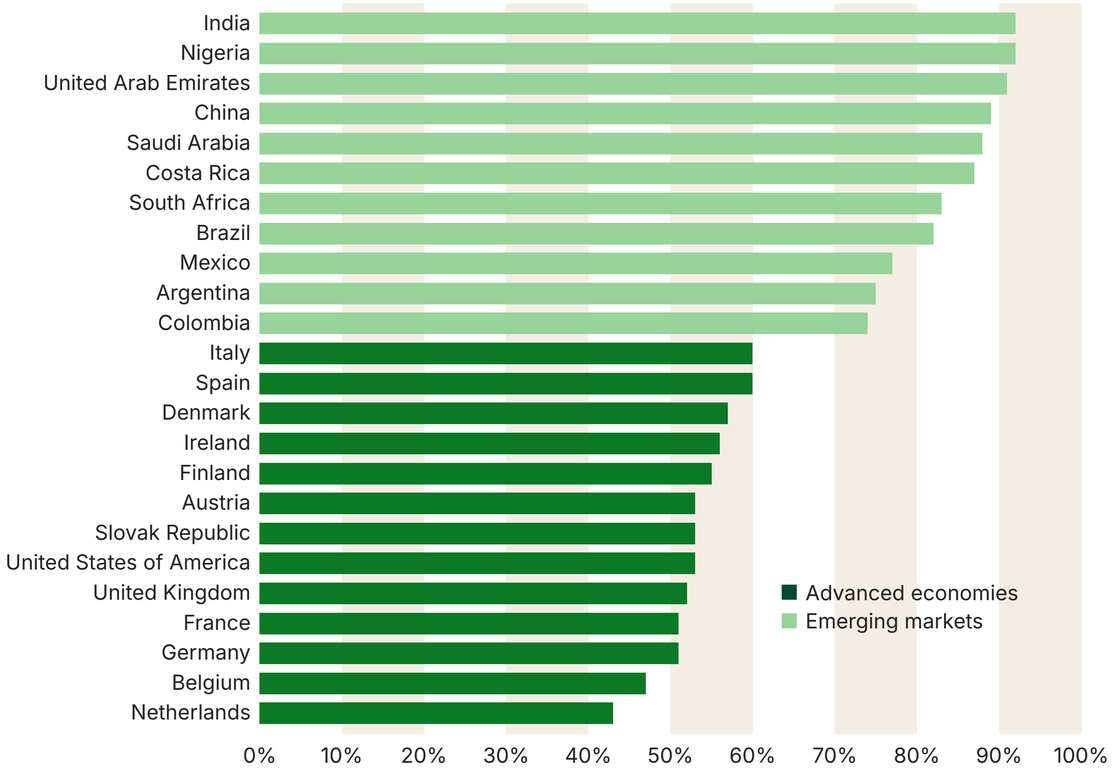
Vietnam, Nigeria, Brazil and Mexico to play a greater role in supporting AI ecosystems (figure 4). However, access to computing infrastructure and the take-up of AI are leaving a significant energy and resource footprint. This affects the global economy, particularly climate-vulnerable countries that do not share in the benefits of AI expansion.

Economic structure and labour market composition also shape countries' ability to adopt AI and benefit from it. **Agriculture and construction**, which account for a substantial share of output in many emerging economies, are among the sectors least exposed to AI deployment and potential AI gains. While a large segment of the population, informal workers in many countries, have limited access to AI-related skills development or speak the languages that would allow them to interact with AI. Across Africa and South Asia, AI preparedness remains limited in several areas, becoming another source of social exclusion (figure 5).

In the coming years, emerging markets with AI ecosystem potential will need investment in supporting infrastructure and technological innovation, alongside education reform and legal frameworks for AI-risk management. AI should be socially inclusive and environmentally sustainable, addressing language barriers, protecting less skilled workers and reducing exclusionary biases. For now, AI deployment is widening income and technological disparities both across and within countries. For instance, **the new skills needed are concentrated mainly in advanced economies** and within emerging countries **among an extremely small high-income group**.

We expect the number of AI users in emerging markets to continue rising. AI preparedness does not

Figure 6 Regular AI usage in emerging economies (% of population)



Source: KPMG & University of Melbourne, Triodos Investment Management
Using AI on a regular or semi-regular basis, every few months, monthly, weekly or daily

refer to AI acceptance and use. In many emerging markets, there is limited debate regarding AI safety and privacy, which is making regular use levels far higher than elsewhere (figure 6). China, is one of the exemptions with stringent AI rules to maintain control. **Productivity gains** are likely to increase gradually and concentrated in countries that already have high productivity levels and an ecosystem prepared for AI expansion.

Climate stress

The effects of an El Niño "super cycle" are already being felt and are expected to gradually have subsided towards the end of 2027. The largest effects in the coming year are likely to be felt in commodities whose exports are concentrated in highly exposed countries, including rice, soybeans, palm oil, coffee, and cocoa. There is therefore an upside risk to food prices, particularly as stockpiles in some countries are below average, due to the shipping disruptions caused by the ongoing conflicts both in Europe and the Middle East.

High food prices disproportionately **affect the most vulnerable** households, as food accounts for a large share of their spending. Food prices in India have soared due to high energy costs and El Niño and the country now faces double-digit headline inflation, largely driven by increasing food prices (figure 7).

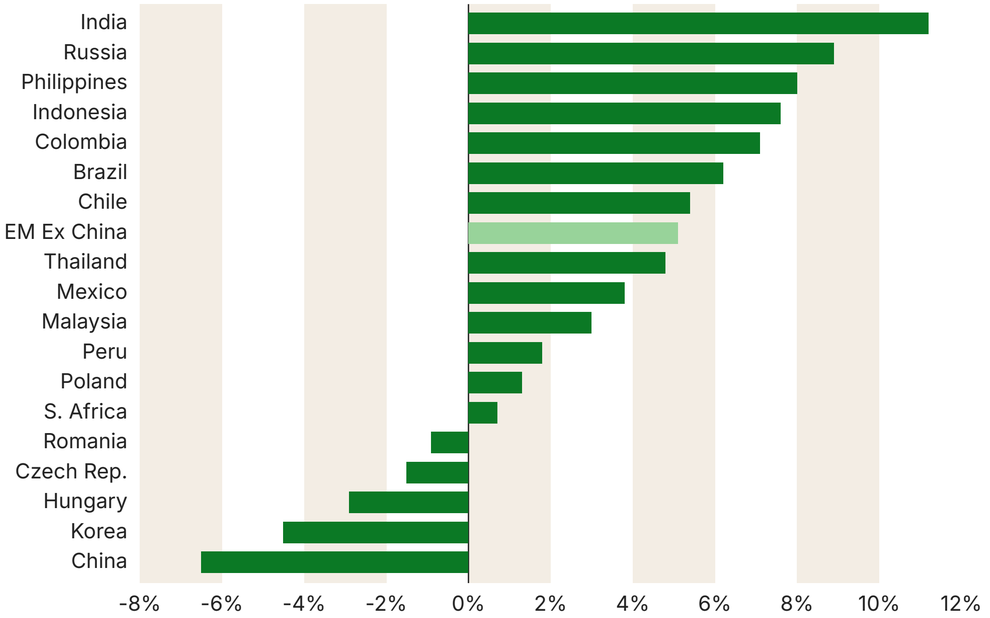
As one of the world's largest rice exporters, India passes these pressures through to food prices elsewhere. The **World Food Programme** warns that the number of acutely food-insecure people could rise by 20% by the end of 2027.

El Niño also influences **non-agricultural commodity markets**. Drought cuts hydropower output, raising costs for countries reliant on it, and disrupts shipping routes such as the Panama Canal. Heavy rainfall hinders road transport and logistics, while heatwaves strain electricity grids as cooling demand surges.

Emerging markets have weathered past El Niño events relatively well through subsidies and targeted transfers for lower-income households, large food stockpiles, other adaptation measures and government support to rebuild infrastructure. Farmers are increasingly diversifying crops and adopting technologies to improve seed resilience and measure soil moisture.

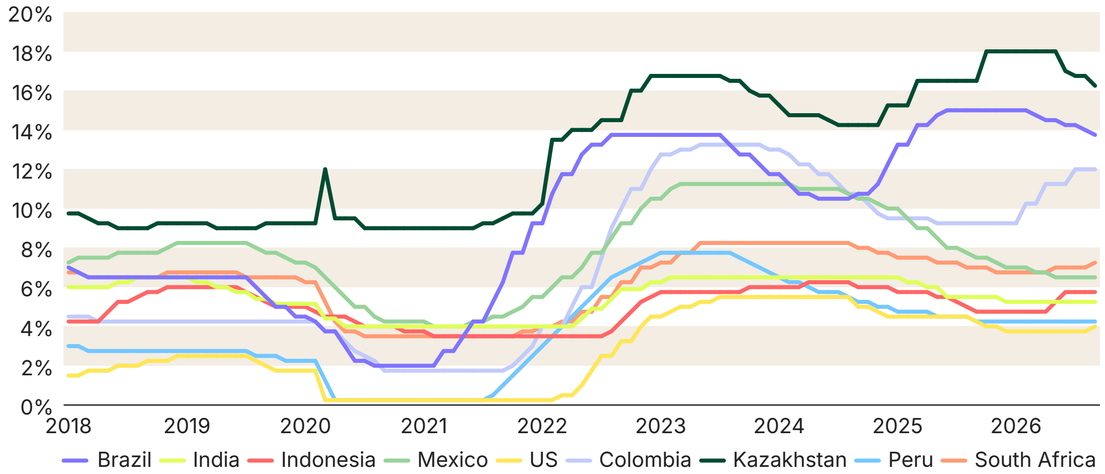
Yet the cumulative effects of climate change and natural disasters show that adaptation alone is not enough. Phasing out fossil-fuel power plants to mitigate climate change is equally important. With limited fiscal space, countries risk a negative spiral if climate impacts intensify.

Figure 7 Selected emerging markets food inflation (% 3month-on-3month, Sept. 26)



Source: S&P Global, Triodos Investment Management

Figure 8 Emerging markets and US central bank policy rates (%)



Source: LSEG Datastream, Triodos Investment Management

Monetary tightening and fiscal pressures

Prolonged conflicts and relatively high inflation in some economies will continue to put government finances under increasing pressure. This is happening at a time when fiscal discipline is needed, as it can help contain demand and, in turn, inflation. However, the social costs of rising prices are becoming increasingly clear, and governments are taking notice. Earlier this year, protests over high energy costs broke out in Pakistan, Kenya and the Philippines.

Many emerging-market central banks have kept monetary policy tight since sharply raising interest rates in 2022 to curb inflation. We expect the US Federal Reserve and the European Central Bank to favour further interest rate hikes in the coming months, with the Federal Reserve tightening monetary policy slightly more. Most emerging market central banks will likely hold rates steady, although some may raise them to support their currencies against a stronger US dollar driven by rate hikes (figure 8). Although higher rates aim to cool demand, they also increase borrowing costs and weigh on economic activity. For now, an expansionary fiscal stance in advanced economies, may continue to support emerging markets' relative performance, as has been the case in recent years.

Significant challenges

Emerging markets have managed to soften the impact of repeated shocks in recent years. Yet climate change and nature-related risks, the expansion of AI and shrinking fiscal space will pose significant challenges to economic performance in 2027.

Lasting resilience requires investment to be redirected from short-term responses to energy insecurity towards clean energy and climate adaptation. Inclusive AI remains a distant goal for many emerging markets, while broad productivity gains from AI investments in leading countries have yet to materialise. For now, AI's gains are more visible in corporate earnings, which are contributing to widening income disparities.

Patient capital and stronger international cooperation will be essential to sustain sound economic activity, address these challenges and prevent risks from compounding, particularly in the most vulnerable countries.

Figure 9 **Forecast table selected emerging economies**

	GDP growth (% yoy)			**Inflation** (CPI, % yoy avg)		
	2025	Forecast 2026	Forecast 2027	2025	Forecast 2026	Forecast 2027
Bolivia	-1,6	-2,4	1,4	19,5	23,2	22,2
Brazil	2,6	1,9	1,9	5,0	4,6	4,9
Chile	2,6	0,7	2,2	4,2	3,7	3,7
China (mainland)	5,0	4,6	4,5	0,0	1,0	1,1
Colombia	2,6	2,7	2,5	5,1	6,0	6,0
Ecuador	3,7	2,7	2,7	0,7	2,4	2,7
India	7,8	6,3	6,4	2,2	4,9	5,8
Indonesia	5,1	5,2	5,0	1,9	3,3	3,4
Ghana	6,0	4,8	4,8	14,2	4,7	7,0
Kazakhstan	6,5	4,5	4,3	11,4	10,3	8,8
Kenya	4,6	4,5	4,9	4,1	6,2	6,1
Mexico	0,7	1,5	1,7	3,8	3,8	3,9
Pakistan	3,7	3,7	3,2	3,5	9,2	7,7
Peru	3,4	3,1	3,0	1,5	3,9	3,4
Philippines	4,5	3,2	5,6	1,6	5,8	4,3
Poland	3,6	3,5	3,0	3,6	3,3	3,6
Russia	1,0	0,7	1,0	8,7	6,1	6,1
South Africa	1,1	0,9	1,2	3,2	4,4	4,4
South Korea	1,1	3,2	2,3	2,1	2,7	2,2
Thailand	2,4	2,0	2,0	-0,1	2,3	1,9
Turkey	3,8	2,8	3,6	34,9	30,7	21,8
Uzbekistan	7,7	8,1	6,6	8,8	6,6	5,9

Updated 11/11/2026 Source: S&P Global

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Our investment strategy is centred around five key transitions: Food, Resources, Energy, Society and Wellbeing. These themes reflect our commitment to advancing the transition towards a green, resilient and inclusive economy.

Assets under management as at 30 June 2026: EUR 6.0 billion. Triodos Investment Management is a wholly owned subsidiary of Triodos Bank, an expert in sustainable banking.

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