Global Economic Viewpoint

Kitchen sink tariffs

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Economics
Global

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"Liberation Day" is here

President Trump announced massive tariff hikes against nearly every US trading partner. If they remain in place, they would raise effective tariff rates by 11pp to nearly 20%, in line with our worst-case scenario but much worse than what the market expected. Highlights include 34% additional tariffs on Chinese import (on top of the 20% tariffs already announced), 20% against the EU and 46% against Vietnam. These tariffs will go into effect on April 9. Trump also announced a baseline rate of 10% on all imports, which will go into effect on April 5.

USMCA is spared from new tariffs

Canada and Mexico were spared from reciprocal tariffs, in line with our expectations, a positive development for the region. Furthermore, USMCA-compliant goods continue to receive preferential treatment and are exempt from the 25% fentanyl/migration tariffs.

Some relief from carve-outs

The executive order carved out certain import categories from the "reciprocal" tariffs. Autos & parts and steel & aluminum are already subject to 25% tariffs, so no additional levies will be applied. Pharmaceuticals, semiconductors, lumber and energy will be exempt, at least for now.

Significant downside risks to global growth

This shock implies a significant downside risk to our global growth forecasts, of at least 0.5pp from the current 3.1%. Our base case remains that some of these tariffs will be negotiated away as Trump focuses on comprehensive country specific packages, with the exception of China.

Peak stagflation risks in the US

For the US, the stagflationary scenario is much more likely now, close to a tipping point where demand collapses under the weight of higher prices. If the tariffs stay in place, we think they would add 1-1.5pp to inflation in the near term and subtract a similar amount from GDP, pushing the economy to the precipice of recession. In this scenario, it would become even harder for the Fed to cut this year but ease substantially into next year.

Europe/Asia/SA/CEE hit hard, LatAm a relative winner

For the Euro Area, if tariffs are not reduced, this could easily remove 40-60bp of growth in the next few quarters, including some surgical retaliation on the EU side. On Asia, the negative impact on growth will be 0.6pp as major exporters will have 30% reciprocal tariff rates. We expect negotiation rather than retaliation, with the exception of China, where minor retaliation will be in place as the issue here is geopolitical rather than commercial. China will do more monetary and fiscal stimulus on the back of this. In EEMEA, a 30% tariff hit South Africa, while CEE suffers from EU. LatAm ex-Mexico received the 10% minimum tariff, making the region a relative winner vs Asia.

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US: Tariffs for (almost) everyone

Yesterday President Trump announced massive tariff hikes against nearly every US trading partner. Highlights include 34% tariffs on Chinese imports (which appears to be layered on top of the 20% tariffs announced in Feb and Mar), 20% against the EU and 46% against Vietnam. These tariffs will go into effect on April 9. Trump also announced a baseline rate of 10% on all imports, which will be implemented on April 5. Exceptions were only made for Canada and Mexico, which for now will not face any new tariffs.

Some relief from carve-outs

The executive order carved out certain import categories from the "reciprocal" tariffs. Autos & parts and steel & aluminum are already subject to 25% tariffs, so no additional levies will be applied. Pharmaceuticals, semiconductors, lumber and energy will be exempt, at least for now.

A shock to the system

As of April 1, the effective US tariff rate (based on all announced measures) stood at around 9%. This included the 2.3% effective rate from before the elections, nearly another 3pp from the 20% increase in China tariffs, and roughly 2pp each from i) the tariffs on autos and parts, and ii) tariffs on non-USMCA compliant imports from Canada and Mexico.

If the tariffs announced yesterday stay in place indefinitely, we estimate that they would raise the effective tariff rate by about 11pp to 20%. These figures are far larger than what we or markets were expecting. They would push the US much further along the stagflationary path, close to a tipping point where demand collapses under the weight of higher prices.

Estimating the economic impact

In theory, the tariffs would add around $650bn per year to federal revenues, reducing the deficit by more than 2pp of GDP. However, this is likely an upper bound, as firms will be incentivized to find ways to lower their tariff bill (e.g., by moving production to lower-tariff jurisdictions).

Moreover, these revenues would be derived from essentially a large, regressive tax hike on US consumers and importers. If the tariffs stay in place, we think they would add 1-1.5pp to inflation (the core PCE is currently at 2.8% y/y) and subtract a similar amount from GDP growth over the next couple of quarters, pushing the economy to the precipice of recession. The drag on growth could last longer than the boost to inflation.

Fed impact: hawkish in 2025, dovish in 2026

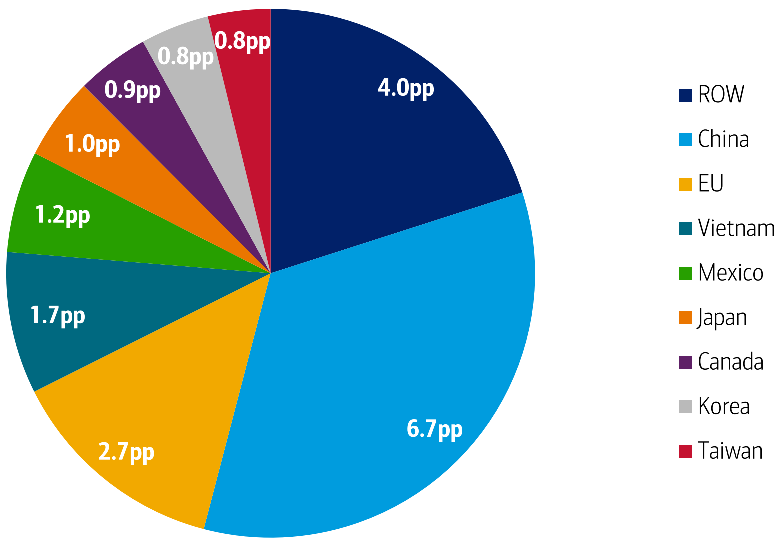
With potentially a 4-handle on PCE inflation, it would become even harder for the Fed to cut this year. But inflation could fall quickly next year if aggregate demand deteriorates sufficiently, and the economy goes into recession. Then the Fed would most likely cut rates substantially, by 200bp or more.

Risk factors

Our base case remains that some of these tariffs will be negotiated away. We will wait to see how other countries react to the announcement, including their willingness to negotiate, before incorporating the upside/downside risks to inflation/growth into our forecasts.

Dollar appreciation and absorption of tariffs in margins could also mitigate the final effect of the measures announced yesterday. Rising inflation expectations or price hikes by domestic manufacturers could increase the impact on inflation and lead to a more hawkish Fed policy path. On the flip side, a larger-than-expected uncertainty shock to business investment could create greater downside for growth, and more room for Fed cuts.

Exhibit 1: If the tariffs announced yesterday stay in place indefinitely, we estimate that they would raise the effective tariff rate by about 11pp to 20%
Contributions by country to the effective tariff rate



Source: Census Bureau, BofA Global Research, Haver Analytics. Note: this calculation includes the prior 20pp tariff increase on China, the 25% tariffs on autos and parts, and the tariffs on non-USMCA compliant imports from Canada and Mexico.

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USMCA: spared from new tariffs

Canada and Mexico were spared from reciprocal tariffs, in line with our expectations, a positive development for the region. Furthermore, USMCA-compliant goods continue to receive preferential treatment as they are exempted from the 25% fentanyl/migration tariffs. So, for goods compliant with USMCA the only tariffs are: 25% on steel and aluminum and 25% on autos, in both cases only applying to the non-US content part. Trade in the USMCA area for goods not compliant with USMCA still faces a 25% tariff (10% for energy and potash from Canada) and is also subject to a new 12% reciprocal tariff if the fentanyl/immigration tariff is eliminated. We estimate that Canada is facing a 7% US effective tariff and Mexico an 8% effective US tariff, unchanged from the effective tariffs faced by these countries before the announcement of reciprocal tariffs.

In relative terms, producing in Canada and in Mexico for the US market is now more convenient than before Trump 2.0, with respect to producing in China or in other Asian countries, although it is less convenient than producing in the US. We expect exporters from Canada and Mexico to work in the following months to make goods not currently compliant with USMCA, compliant, which may not be difficult to do for a large percentage of goods. We do not expect retaliation from Canada or from Mexico. We continue to expect a renegotiation of USMCA in the following months, which will likely be the end of trade uncertainty on North America.

The impact on growth and inflation for Canada and Mexico of the new tariff announcement is negligible, as we do not expect retaliation. And we expect some negotiations in North America that could reduce the effective tariff further. No impact to our BoC view, but the strength of the MXN after reciprocal tariffs announcement puts downside risks to our expected Banxico terminal rate.

Euro area: Yes, it's getting real

20% tariffs for the EU, if not reduced down the line, could easily remove 40-60bp of growth in the next few quarters, including some surgical retaliation on the EU side (details below). Most of it would come from the direct impact of tariffs, some also through an additional deterioration in sentiment. A continuation of policy uncertainty could add further to that.

And this could not be the end of it given sector tariffs may still come in a few days (and those sectors are excluded today from the 20% reciprocal tariff). More importantly, while Europe will try to negotiate, the room for negotiation and concessions seem difficult given VAT seems to have entered US considerations (a non-starter for the EU) and that deadlines are tight (9 April).

As we have argued recently, those numbers are subject to large uncertainty bands. Demand elasticity is key for those impact, and there are wide ranges for those. Exchange rate pass-through also will matter. And general equilibrium effects are also an important determinant, particularly given it is far from clear how relative price effects with the rest of the world will evolve in the near term. Also, the temporary exclusions of certain sectors on the 20% reciprocal tariffs is likely to lead to some accumulation of stocks near term, bringing forward some growth at the expense of the future.

In any case, 40-60bp of growth spread over 2-3 quarters can easily bring growth to a halt in the region, a small technical recession could not be ruled out, particularly in the case of Germany. We would also expect some cushioning from the typical EU response to shocks: credit lines to smooth the shock over time together with some small targeted fiscal support to key sectors. The usual rule of thumb (support for around half of the shock) would apply here, likely. In the particular case of Germany, where the recent fiscal news are backloaded, the escape clause would be back in play for short term support.

From an inflation perspective, we would continue to argue the impact of EU retaliation against the US would be relatively negligible. Using the OECD TiVA database, the share of US manufacturing imports in Euro area final demand stands at c 7% of the total. On that metric, a generic rise in EU import tariffs on the US to 10% could mean non-energy goods price inflation could rise by c 20bp in a first round, equivalent to less than 10bp on core or c 5bp on headline inflation. Ultimately, we would argue GDP growth losses would easily dominate that first-round effect.

ECB: 1.5% at least

We will take on board recent announcement on our numbers and our ECB call in the next few days once we understand the exact details and potential retaliatory measures. For now, we think that announcements today increase even further our conviction on an April cut. Needless to say, our conviction in the next ECB cut coming in April was already growing from already high levels.

We had stuck to our call for back-to-back-cuts to a 1.5% depo rate in September, but we had flagged that it was a close call between getting there then or by December. If these tariffs stay in place that would increase our conviction in the September call. And given the uncertainty about the growth impact and the outcome of potential negotiations, there are realistic scenarios in which larger cuts come into play as soon as in June and policy rates are taken below 1%.

Services in the spotlight

Europe will try to negotiate. Auto tariffs are an easy concession. Some non-tariff restrictions on standards (food safety, for instance) or burdensome reporting requirements (such as sustainability ones) are also likely to be part of the discussion. Energy purchases too. But some of the likely demands on digital services from the US side or the insistence on VAT as a “tariff” equivalent make the outcome of those negotiations very difficult to be successful.

Of course- any negotiation has carrots and sticks (potential retaliation). Europe is likely to follow a staggered approach on implementing that retaliation. We still think that the first line of defence will be the set of measures already announced a few weeks ago, implementation of which was postponed to mid-April with the hope, we guess, of negotiating with the US on the way to that deadline. This EU response matches our working assumption that Europe would follow a surgical rather than a blanket approach, within international rules (i.e. WTO compliant). We would expect more of that if negotiations do not succeed in the next few days (and the time to do so seems limited given a potential deadline of 9 April for new announcements in the US to be effective).

But we doubt the EU would be willing to retaliate more than that in the form of tariffs on goods. Indeed, we work on the assumption the EU would put on the table measures in the services sector now, to be implemented at a later stage if things do not go well. Recent reports suggest the EU could use the anti-coercion instrument, which could pave the way for those type (and other) of non-goods trade oriented measures. Some headlines have suggested digital services, financial services and even financial assets could be potential targets. Short-term this is likely to be a less damaging strategy for the European economy than retaliating aggressively through goods.

UK: Under the radar

The US has announced that a 10% tariff would be imposed on exports from the UK, which is the minimum baseline rate amongst tariffs announced on various countries. The US tariff on UK exports previously stood at 1.32%. The 10% baseline minimum rate would be effective from April 5. The US also confirmed 25% tariff rate on autos.

As a rule of thumb, we calculate that 10% tariff on all UK exports to the US excluding autos (i.e. an 8.68pp rise) can put 10-15bps of UK growth at risk from a direct impact (assuming no currency offset) and lower goods exports to the US by ~6-7% (for more details see UK Watch: Tariff risks: Hot N Cold). Majority of UK trade to the US is in services. UK goods exports to the US constitute 15% of its total goods exports and 2.1% of UK's GDP. Excluding autos, UK goods exports to the US stand at 1.8% of GDP. Share of UK goods domestic value added in US final demand is close to 0.9% of UK's GDP.

The exact impact depends on elasticity of demand for UK exports to price changes (We take the upper bound of the BoE's range of elasticity of 0.1-0.7). These are tentative results and our calculations come with a large uncertainty including on price elasticities. We also don't include second round effects on confidence, investment, currency moves, potential impact on services feeding to goods exports to the US or growth changes in other export markets. We can't rule out a bigger impact from higher trade uncertainty and softer global growth from rise in tariffs on other nations (potentially 30-40bps). Some countries including the EU has seen a larger increase in tariffs. The sectors most exposed to US final demand are chemicals (mainly pharma), transport equipment (mainly cars) and machinery and equipment (mechanical machinery).

On top of that 25% tariffs from current 2.5% on autos can put an additional 10bps of UK growth at risk. Car exports to the US are 15% of UK's goods exports to the US and equivalent to 0.3% of UK's GDP. The UK auto sector's domestic value added in US final demand is close to 0.2% of UK's GDP. The direct impact of a rise in auto tariffs from current 2.5% to 25% is likely to be close to ~10bps on growth. We assume an elasticity of 1.58 for demand for vehicles from the UK to the US using estimates from Department for Business Innovation and Skills- BIS (Oct 2013)[1]. However, elasticities could be lower this time around given tariffs have been imposed on autos globally.

The impact of tariffs on UK inflation is ambiguous. While a tariff retaliation by the UK, currency adjustment, higher US prices or trade restrictions can raise UK inflation in the first instance, risks are that lower growth and potentially trade diversion away from the US could end up eventually being disinflationary. We calculate that 10% rise in tariffs on goods from the US (through retaliation) can increase UK inflation by ~15bps. This doesn't include currency impact, potential trade diversion and supply side disruptions.

[1] "Long run income elasticities of import demand (2013)", Department for Business Innovation and Skills

The UK has said it will remain focussed on securing a US- UK deal in the hope of mitigating the 10% tariff rate. Points of contention remain however, with the US asking for the UK to drop 2% digital services tax on US tech companies. The UK is also trying to avoid issues that arose with previous US- UK trade negotiations on relaxing food standards or improved access to the NHS for US pharmaceutical companies. The outcome will likely depend on these negotiations and there are reports that the UK could tweak or abolish the digital services tax as part of a deal to mitigate US tariffs. The US has also said that the way to reduce US tariffs is to lower partner tariffs. The scenario whereby the UK reduces tariffs on the US for specific products cannot be ruled out

Asia: A significant growth shock

Asia is likely to be hit by a significant shock on growth from higher-than-expected reciprocal tariffs from the US. Although we have anticipated that Asia is a highly probable target for the US, given its persistent trade surplus with the US, as well as the higher tariffs on the US (see Asia Viewpoint: Asia in the shadow of US tariffs), the latest tariff imposition is still much higher than what we and market have expected.

On average, the news overnight implies **major Asian exporters will be receive 30% reciprocal tariff rates** from the US, including 46% on Vietnam, 36% on Thailand, 34% on China, 32% on Taiwan and Indonesia, and some mid-to-high 20% on rest of exporters. Some economies are relatively more insulated (i.e. 10% on Singapore and Australia/New Zealand).

We previously estimated that a 10% blanket tariff from the US, assuming unitary elasticity and only considering direct impact, will shave growth by 0.2ppt on GDP growth in each country on average, with Vietnam's drag being largest at more than 0.7ppt. This implies if reciprocal tariffs are implemented and maintained as scheduled, **we will likely see 0.6ppt growth impact on Asian economies on average.** That said, these numbers are subject to large uncertainty bands, but tilted towards the downside. On the upside, if all major exporters are imposed with such restrictive tariff rates, imports from the US will likely be more inelastic given lack of substitution. There could be more trade diversion as well. However, on the downside, any indirect impact (such as confidence shock and slowdown in global growth) could meaningfully drag growth in the regional, especially small and open economies.

Negotiation rather than retaliation, except China

Despite the new scheme, we continue to think that Asia is more likely to negotiate rather than retaliate, which is actually what most Asian economies have been doing. Ultimately, the necessity and scope of such concessions could vary significantly across the region, depending on **1)** how deep their integration with the US, **2)** how reliant are they on US, economically and geopolitically, and **3)** will any concessions cause significant disruption to domestic activities. The common strategies seem to be increasing purchases of key US exports (e.g. petroleum products), increasing direct investment to the US, lowering non-tariff trade barriers. Some would likely have to increase defense spending and purchase more military weapons from the US.

That said, China would be the exception. We expect China to retaliate in the same moderate fashion as we saw in Feb and March. Measures could include further hiking tariff rates on US products and maintaining a stable exchange rate to pass through the price shock to the US. While China maintains that it remains open to dialogues, Chinese policy makers do not seem believe the US will sincerely cut tariff rates until tariffs hit the US economy hard. That implies lower probability for bilateral negotiations between China and the US in the near future, although we remain optimistic on negotiations in the medium term.

Downward pressure on inflation

Since we don't expect most Asian economies will retaliate with higher tariffs, the impact from US imports on regional inflation is likely muted. However, if aggregate demand shock is not smoothed by timely and effective countercyclical policies, there could be deflationary pressure resulted from the export downfall and external sector weakness.

Policy easing to intensify if tariffs to stay

If these reciprocal tariffs are implemented and stay on, we will expect to see downward pressure on growth and inflation emerging in 2Q25, triggering policy responses from all economies affected. In particular, since China no longer holds the expectation of potential de-escalation in the near term, we believe it will step up on both fiscal and monetary easing to shore up domestic demand. Since Chinese policy makers promised more policy flexibility this year, this is the time to use their policy ammunition left. In our view, China will have to stimulate both investment and consumption, given the sizable impact on export sector employment, contrary to the consensus view that it will prioritize boosting consumption as stipulated in the government working report.

Just a modest downside risk for India

As expected, India has been hit by reciprocal tariffs from United States, but on a relative basis, the reciprocal tariffs imposed by US on India appears relatively more benign, despite India being called out multiple times as an imposer of high tariffs on United States. Looking through the full executive order, India will face reciprocal tariffs of 26%, which is half of what US alleges India imposes on US Imports (52%). But more importantly, has important carve outs for several products India exports to US, especially for pharmaceuticals, which along with chemicals and pharmaceutical products have been given some exemptions. The focus now shifts to India's negotiations with the United States on a bilateral trade deal, which may result in lower tariffs on US exports to India, resulting in a lowering of reciprocal tariffs in the future. The impact on macroeconomic outlook for India will primarily flow from an uncertain investment climate, and may pose minor downside risks to our growth projections of 6.5% for FY26. We do not anticipate any retaliation from the Indian side, and expect the government to push for the trade deal to be concluded at the earliest.

LatAm: A relative winner

LatAm countries excluding Mexico received 10% US reciprocal tariffs across the board (Exhibit 2). Unlike Asia, there were no specific reciprocal tariffs. So, we believe that in the new world with higher US tariffs, the relative position of LatAm improved vs Asia, which means that LatAm countries have access to the US market at a preferential rate with respect to Asian countries. The US reciprocal tariffs were lower than expected for Brazil, as there was no retaliation on Brazilian tariffs on the US. Peru, Ecuador, Colombia and Chile are indirectly exposed to the US tariffs imposed on China as the latter is a top trading partner.

Exhibit 2: New US reciprocal tariffs on LatAm countries

Mexico was exempted while Venezuela tariff is the highest among the countries that we cover

	New U.S. Reciprocal Tariff		New U.S. Reciprocal Tariff
Brazil	10%	El Salvador	10%
Argentina	10%	Guatemala	10%
Chile	10%	Panama	10%
Colombia	10%	Peru	10%
Costa Rica	10%	Uruguay	10%
Dominican Republic	10%	Venezuela	15%
Ecuador	10%		

Source: BofA Global Research, Reuters

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Brazil: it is all relative

Overall, the 10% tariffs on Brazilian exports to the US is a win for the country on a relative basis. Brazil exports about US$40bn per year to the US which represents 12% of exports or 1.8% of GDP so impact on growth should be just marginally negative. That said, given the lower tariffs on a relative basis, Brazilian products could gain market share in the US. While higher tariffs could lead to higher global inflation, a potential stronger BRL should be positive for inflation and rates.

Argentina, Chile, and Uruguay among the relative winners

Argentina, Chile, and Uruguay are among the relative winners of the tariffs' outcome (or relatively less affected directly) as they would be charged only 10% tariffs from the US, at the lowest end of the spectrum. Chile because it has a free trade agreement with the US. And in the case of Argentina because it has low tariffs already. Recall that Argentina and the US are discussing a potential free trade agreement. Of course, there could be indirect negative impacts. For example, if the high tariffs on China leads to a slowdown of the Chinese economy (by far the main buyer of Chile's exports and important trade partner of Argentina and Uruguay).

Lower commodity prices and likely stronger currencies in South America because of the tariffs should lead to lower inflation pressures in Chile and marginally lower GDP growth this year. This increases the probability of rate cuts this year (recall BCCh seems to have a dovish interpretation of the escalation of global risks). We expect 50bp cuts in 1H26, now with increasing risks of BCCh bringing forward cuts to this year.

In Argentina, the global shocks should have a marginal disinflationary/recessionary impact. We think inflation and growth dynamics are more determined by larger idiosyncratic factors, like the imminent IMF program for $20bn loan, the fiscal adjustment and the elections (inflation is running about 30% annualized).

Andeans: taking a hit from China spillovers

Peru, Ecuador, and Colombia – in that order of magnitude – will probably experience a negative impact on economic activity associated to the sharp US tariff hikes imposed on China. Higher tariffs should induce a slowdown in the Chinese economy, reducing demand for imports (mainly affecting Peruvian and Ecuadorean exports) and lowering the terms of trade (lower commodity/export prices).

Peru should be the most impacted, as goods exports to China are equivalent to 9% of GDP. We are revising down Peru's GDP growth for 2025 (to 3.1%, from 3.3%) and 2026 (to 2.8%, from 2.9%). The US tariff hikes on the Andean economies is small, 10%, and may not move the needle of GDP.

On monetary policy, we believe the central bank of Peru may turn more dovish because of this global shock, while the central bank in Colombia has little degrees of freedom amid elevated inflation and fiscal fragility. Ecuador is fully dollarized and lacks monetary policy. The impact on inflation seems negligible without retaliation.

Central America & Caribbean: risk of lower growth in US

Except for Nicaragua, which is facing an 18% tariff hike, all Central American & Caribbean (CAC) countries are subject to the minimum increase of reciprocal tariffs announced by the US (10%). This tariff increase may be partially offset by trade diversion from other regions that are suffering larger US tariff hikes (and therefore losing cost-competitiveness versus CAC exporters).

Among the CAC countries, Costa Rica has the largest export industry with goods exports to the US close to 10% of GDP. In our interpretation, the biggest risk on CAC economies is an ensuing slowdown in the US, which would weaken remittances, tourism, demand for CAC exports, and FDI. Central banks in the region may turn more dovish, given the downside risks on growth. We do not foresee a meaningful impact on inflation without retaliation from CAC governments.

EEMEA: S. Africa/CEE exposed, Türkiye/MENA spared

The imposition of 30% tariffs on South Africa adds to strained relations and stagflation risks, and potential for the South African Reserve Bank (SARB) to stay on hold. The lower reciprocal tariff on Türkiye may improve its pricing advantage versus competitor countries in the US market. The impact on Central and Eastern Europe (CEE) GDP could be -0.3-0.5pp, with Hungary most exposed and Poland most resilient. Indirect impact through EU spillover is key for CEE. Middle East countries have been relatively spared, and our reading is that Saudi oil exports to the US would be exempt from reciprocal tariffs. Market management by the Organization of the Petroleum Exporting Countries (OPEC) is more complicated and cohesion could be tested in a global downturn.

South Africa: US tariffs add to strained relations

The United States (US) has imposed 30% tariffs on South Africa. Main export products are largely minerals, metals, and vehicle exports. South Africa (SA) was already pursuing background diplomatic discussions on improving US-SA relations. Bilateral trade deal will likely become key to navigate tariff hurdles. For now, risks to slower growth increase, wider current account deficit and inflationary pressures as the South African Rand (ZAR) weakens. The South African Reserve Bank (SARB) would likely stay on hold.

US imposes 30% trade tariffs on South Africa

The US has imposed a 30% trade tariff on South African products exported to the US. South Africa exports to the US about US$8.4bn, which represent about 7.7% of total South African exports. The exports to the US are dominated by precious metals, motor vehicles, iron and steel, chemical products, and mineral products, among others.

SA unlikely to reciprocate, but rather pursue trade deals

In our baseline, we don't expect South Africa authorities to initiate reciprocal tariffs but rather pursue diplomatic channels to reduce or overturn the tariffs. South Africa was already pursuing background diplomatic discussions on improving US-SA relations followings rifts with US relating to geopolitical conflicts (Israel-Hamas and Russia-Ukraine) and local economic empowerment laws. South Africa is likely too important to be isolated, as a key partner in Africa that has led peace efforts across the region. South Africa has a naval base in Simonstown, Western Cape, which is important for global trade and gives access to the South Atlantic.

Further downside risk to 2025f 1.4% real GDP growth

We had already downgraded our 2025 real Gross Domestic Product (GDP) growth forecast to 1.4%, from 1.6%, to reflect delays in domestic reforms and global uncertainty slowing global growth. Following the imposition of tariffs, further downside risks are likely should tariffs implementation follow through. We expect to see disruption in supply chains from the various goods exported to the US. 30% tariff imposition on exports could make exports to the US more expensive, as production prices increase, reducing demand, while manufacturers could scale back volumes while seeking alternative markets or waiting for bilateral trade deals.

A scenario of no exports to the US could widen current account by about 2% of GDP, other factors held constant. Negotiations and trade deals could moderate the overall impact on current account. If tariffs were to stay, this would effectively weaken the African Growth and Opportunity Act (AGOA) facility where the US allows African countries to export into the US duty free. Auto exports contribute at least 60% of exports under AGOA.

SARB could stay on hold

While we believe SARB could still have room for one more cut with domestic inflation still below SARB's desired 4.5% target, rising global risks are likely to dissuade SARB from further easing. Slowing growth, wider current account deficit and likely weaker ZAR do not go hand in hand with further rate cuts. Tariffs tend to be inflationary: currency weakens as prices rise. Passing the 2025 budget without the support of a major Government of National Union (GNU) partner - the Democratic Alliance (DA) - has increased GNU tensions and uncertainty. Similar to March, SARB is likely to adopt a wait and see attitude in May.

Central and Eastern Europe (CEE): Hungary most exposed, Poland best cushioned

Trade flows between Central and Eastern Europe (CEE) and US are relatively small: 1.5-3.5% of domestic gross value added (GVA) is linked to US final demand, of which 0.5-0.45% is auto sector GVA. Hungary is at the high end for both. With many caveats in place, we estimate the impact on CEE GDP could be in the order of -0.3pp to -0.5pp, assuming 20% tariffs on goods ex auto, and US demand elasticity of 1. Hungary is most affected, while Poland and Romania are at the low end of impact. Poland should be able to cope better than peers with 3.5%+ growth likely in 2025-26 thanks to strong European Union (EU) funds inflows. Hungary followed by Czechia are more vulnerable as their economies are more open, more auto-exposed, and investments cycles are weaker. Indirect channel will be important too. EU is the key market for CEE exports, and CEE GDP sensitivity to Euro area can be around 1 on average through the cycles. The large-scale US tariffs could also amplify the negative impact on global growth. We hope that the recent fiscal shift in Germany can help cushion CEE to some extent from the confidence channel.

With US goods having a small share in CEE imports, the impact on inflation from potential EU retaliation is probably not that high. But Fx channel can exacerbate CPI risks, particularly in Hungary where the HUF is much more sensitive to global risk sentiment and Fx pass-through is high. CEE central banks tend to err on the hawkish side, worrying more about inflation. They will likely take their time to observe and balance GDP versus Fx/inflation impact. Policy rate will likely be on hold in the near term, with scope for rate cuts in 2H25 in Czechia and Poland. In Hungary, Fx vulnerability could constrain the central bank's manoeuvring room.

Türkiye: at an advantage versus competitors

US reciprocal tariffs to Türkiye was at the minimum threshold of 10%. Türkiye's top exports to the US are textiles, food, metal products and transport equipment as well as machinery, respectively. Textiles, including garments, have a 16% share in total exports. Biggest competitors to Türkiye in these areas are mainly in Asia and, in machinery, partly in Europe. Given that tariffs to most competitors were announced at higher levels, i.e. China at 34% over the 20% initial tariffs, Vietnam at 46%, Bangladesh at 37% etc., it is likely that Türkiye will have an advantage in the US market versus previously. Hence, we think that the direct impact of reciprocal tariffs on Türkiye's exports to the US might be positive. However, high tariffs on the European Union (EU), the main export market for Türkiye, will likely dampen growth in this region and reduce demand for Turkish exports. It is hard to put numbers on these direct and indirect effects at the moment, but Türkiye seems to be less negatively impacted by tariffs than other EM countries, if not positively.

Israel: going for a home run

US reciprocal tariff for Israel has been announced at 17% in response to 33% effective tariff on US imports, according to released documents. However, yesterday, Israel had announced that it will lift all import tariffs to the US. If Israel's decision is definitive, we think that the reciprocal tariff could be reduced or lifted completely. This would dampen the direct impact. However, competition-sensitive sectors such as agriculture, which has been protected in the past, may be hurt as a result. We think that talks between countries will continue and final tariff schedules are probably yet to be seen.

Middle East – North Africa: spared, but watchful OPEC

The Middle East – North Africa (MENA) countries have been relatively spared versus other countries facing reciprocal tariffs. Iraq, Tunisia and Jordan will face reciprocal tariffs of 39%, 28% and 20%. Other MENA countries, including the Gulf Cooperation Council (GCC), Iran, Egypt, Morocco and Lebanon will face reciprocal tariffs of 10%. However, the released official White House factsheet indicates that energy and other certain minerals that are not available in the United States will not be subject to the reciprocal tariffs. This may indicate that any GCC hydrocarbon exports to the US will not face reciprocal tariffs. We expect no retaliation from MENA countries.

Saudi Arabia exported to the US US$13bn (1.2% of GDP, 4.3% of total exports), based on 12-month trailing data as of November 2024. However, about 80% of the exports are oil exports, and 50% of the non-oil exports are chemicals. As a result, it may be that only minimal non-hydrocarbon exports will face reciprocal tariffs. Even if our reading that energy imports are exempt from reciprocal tariffs is incorrect, we think that the impact on Saudi Arabia is likely to be minimal. Saudi Aramco's important ownership of US-based refineries important Saudi crude into the US is likely to mean that volumes are unlikely to be affected by tariffs. Saudi Arabia historically viewed its oil exports to the US from a strategic angle, even if their importance has reduced over time. We suspect thin refinery margins at Saudi-owned subsidiaries in the US could also mean reciprocal tariffs on US imports of Saudi crude would be passed on to consumer prices.

Continued global uncertainty could weigh on global oil demand and complicate market management of the Organization of the Petroleum Exporting Countries (OPEC). OPEC+ members will be meeting on April 3 to take stock of current developments, with the meeting apparently brought forward from the initial date of April 5. On balance, we think OPEC+ will likely stick to its current plan to increase supply for another month (May). This is due to the current complex US dynamics and interactions with OPEC+. Further clarity on the global economic implications of tariff announcements could subsequently spur OPEC+ to pause supply hikes and focus on enforcement of quotas and pledged compensatory measures. A global recession could test OPEC+ cohesion given the current lack of appetite for further cuts.

At US$70/bbl, we see Saudi fiscal deficit reaching 5.6% of GDP. Saudi Arabia financing constraints could become more acute below US$60/bbl, assuming unchanged oil production levels. For now, we think authorities could manage to cap pressure on market yields and shield the near-term real non-hydrocarbon sector.

Every US$10/bbl swing in oil prices represents a 2.5-3ppt swing in the Saudi fiscal balance. A US$10//bbl drop in oil prices would cut non-oil real GDP growth by 0.5ppt assumes government fully accommodates oil shock (one-to-one impact on expenditures) and an elasticity of real expenditure to real non-oil GDP of 0.13. On the other hand, we estimate every 250kbpd annual increase to Saudi Arabia's crude oil production leads to a 0.8ppt increase in real GDP growth (all else being equal), decreases the budget breakeven oil price by US$2.5/bbl and decreases the budget deficit by 0.5% of GDP at unchanged oil prices.

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