

Global Economic Viewpoint

Surfing the tariff wave

We downgrade our global growth forecasts

The Trump tariff game is evolving as expected, but the execution was more volatile than anticipated, triggering a sizable uncertainty shock with negative impact across most regions. We now expect the global economy to grow 2.8% in 2025 and recover to 3% in 2026. These new forecasts represent a downgrade of 30bp and 20bp, respectively. About one third of the downward revisions are driven by the US, while the remainder are explained by the rest of the world, notably China, Japan and EM ex-China.

Peak in tariffs, expect moderate but bumpy de-escalation

Our view that Trump would negotiate comprehensive country-specific deals with most countries and focus on China is aging well. We expect some de-escalation and eventually a US-China deal in the coming months, with effective tariffs on China converging to around 50%. We project an effective tariff rate of around 5% on Canada and Mexico, and 10% on the rest of the world. The uncertainty bands are obviously significant.

A recipe for stagflation is cooking in the US

The tariff and uncertainty shock would push inflation higher and growth lower in the US. We expect a significant slowdown but not a recession, to which we assign 35% probability. In addition to moderate tariff de-escalation, we expect tighter immigration and fiscal profligacy. We cut our 2025 and 2026 4Q/4Q growth forecasts by 80bp and 30bp to 1% and 1.7%, respectively. We expect core PCE inflation to peak at 3.5% and keep our out-of-consensus call on the Fed: no cuts this year, but with 100bp of cuts in 2026. In contrast, markets keep pricing a slowdown but ignoring stagflation risks.

Below target growth in China

We downgrade China growth to 4.0% in 2025 and 4.2% in 2026, vs 4.5% previously. This implies a large gap between our forecasts and the official growth target “about 5.0%”. In addition, we see deflationary pressures setting in deeper. We expect the greatest hit from the tariff shock to arrive in 2Q25, bringing down GDP growth to -2% qoq saar.

Lower growth and inflation in Euro area and Japan

We cut our Euro area growth forecasts to 0.8% in 2025 and 1.0% in 2026 (-10bp per year). We also expect lower inflation, added one more ECB cut to reach 1.25% terminal rate. It is not only tariffs and policy uncertainty but also tighter financial conditions and lower demand for exports. For Japan, we now expect 0.1% growth in 2025 (down 0.9pp) and 2.4% inflation (down 0.4pp), with the BoJ remaining on hold.

Risks remain tilted to the downside

Our biggest concern is an uncertainty shock that could end up having a larger and more persistent impact on investment and consumption, even with de-escalation. In addition, re-escalation risks cannot be ruled out. These scenarios could likely lead to a recession in the US and a sharp global slowdown despite aggressive policy responses.

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Refer to important disclosures on page 39 to 41.

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Surfing the tariff wave

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The tariff game is evolving as expected, but the execution was more volatile than anticipated, which led us to revise our forecasts for the global economy. The uncertainty shock was larger than anyone could foresee and the increase in tariffs more hawkish than we had originally penciled in. While the US effective tariff rate peaked at 25% after the China escalation, it currently stands closer to 20% after the latest exemptions, and we think it could be negotiated down to between 10 and 15%. In our view, the tariff hikes would remain China-focused going forward, while Trump negotiates comprehensive, country-specific packages involving trade, immigration, defense and energy.

Our revisions imply a downgrade to global growth of about 30bp in 2025 and 20bp in 2026, down to 2.8% in 2025, before a mild recovery to 3.0% in 2026. About 0.1pp of the downward revisions are driven by the US, while the remainder is explained by the rest of the world, notably China, Japan and Emerging Markets, especially in Asia (Exhibit 1).

Across regions, our revisions show a slowdown in the US concentrated in the second and third quarter of 2025, with still somewhat below-potential growth going forward. For the Euro area, our growth forecasts are cut by less than in the US, though from much lower levels. However, the German impulse provides some upside in the latter part of the forecast horizon. Regarding China, we expect a much stronger sequential deceleration as tariffs severely hit export growth, but we see a recovery to still sub-target growth with some trade deal in place and incremental policy stimulus (Exhibit 1 and Exhibit 2). We also pencil in a significant deceleration in Japan and a technical recession in Mexico.

Exhibit 1: We now project a deeper slowdown to 2.8% in 2025 with a recovery to 3.0% in 2026, but risks remain to the downside

Global growth, inflation, and policy rate forecasts

	GDP growth %					CPI inflation %					Monetary policy rate %				
	2024	2025F		2026F		2024	2025F		2026F		2024	2025F		2026F	
		New	Old	New	Old		New	Old	New	Old		New	Old	New	Old
Global	3.2	2.8	3.1	3.0	3.2	3.1	2.4	2.7	2.6	2.7	4.83	4.23	4.29	3.86	4.12
Developed Markets	1.6	1.1	1.5	1.2	1.5	2.6	2.4	2.5	2.1	2.1	3.46	2.81	2.93	2.51	3.00
US	2.8	1.5	2.1	1.5	2.0	3.0	2.9	2.8	2.6	2.4	4.38	4.38	4.38	3.38	4.38
Euro area	0.8	0.8	0.9	1.0	1.1	2.4	1.7	1.8	1.4	1.6	3.00	1.40	1.50	1.65	1.75
Japan	0.1	0.2	1.1	0.6	0.6	2.2	2.5	3.5	1.9	2.1	0.25	0.50	1.00	1.00	1.25
Emerging Markets	4.3	3.9	4.2	4.2	4.3	3.5	2.4	2.8	2.9	3.1	5.85	5.26	5.27	4.81	4.90
Emerging Markets ex China	3.9	3.9	4.0	4.2	4.3	5.5	4.3	4.6	4.4	4.5	7.67	6.95	6.98	6.21	6.36
Emerging Asia	5.2	4.5	4.8	4.7	4.9	1.8	1.1	1.5	2.2	2.3	4.12	3.59	3.59	3.59	3.59
China	5.0	4.0	4.5	4.2	4.5	0.4	-0.5	0.2	0.7	0.9	1.50	1.20	1.20	1.20	1.20
Emerging EMEA	2.2	2.9	3.0	3.5	3.6	12.8	8.4	9.2	6.6	6.7	11.85	10.49	10.61	8.71	9.10
Latin America	2.1	1.9	2.1	1.9	2.1	4.3	4.4	4.4	3.7	4.0	9.98	10.05	10.05	8.37	8.66

Source: BofA Global Research, Bloomberg, Haver

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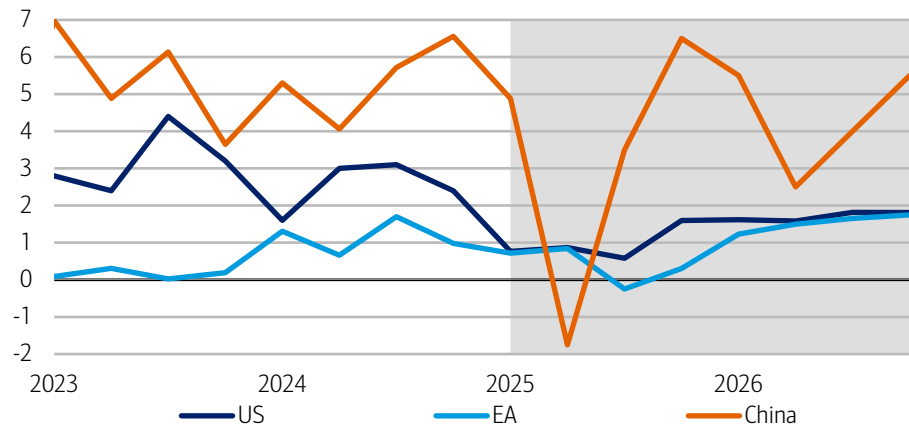
On the inflation side, our forecast changes have diverging paths for the US and the rest of the world. While tariffs represent a temporary inflation shock for the US, it acts as a deflationary shock for the rest of the world, in particular for China. In line with this, we kept our out of consensus call on the Fed to remain on hold while we added one more cut for the ECB, removed all BoJ cuts and forecast more monetary (and fiscal) stimulus in China (Exhibit 1).

Even with these downgrades, risks are skewed to the downside. Our greatest concern is that the uncertainty shock from tariffs could have a much larger and persistent impact on investment and consumer spending both in the US and globally, even if tariffs are negotiated down. In addition, we cannot rule out re-escalation of tariffs on specific sectors or countries.



Exhibit 2: We expect sub-1% US growth until 3Q25, and a strong sequential deceleration in China

Sequential growth forecasts (% saar)



Source: BofA Global Research, Haver

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In these scenarios, we could see the US entering a recession in 2H25, pushing with it the global economy into a sharper slowdown. And much of the world will not fare too well if dollar weakness is driven by a US recession. Similarly, a weaker dollar driven by US fiscal profligacy would likely keep global financial conditions tight.

You're tariffed! You are not!

Our forecasts depend crucially on our assumptions on US tariff policy, and our core view that Trump would negotiate comprehensive country-specific deals with most countries and focus on China is aging well. We see strong incentives for the US and China to make a deal to lower their bilateral tariff rates before the end of the year. Some US-China de-escalation, in addition to trade diversion or tariff avoidance strategies, should lower the effective tariff rate on Chinese imports to around 50%. Still, we pencil in a rotation away of China imports around 20%, at the same time imports from the rest of the world may increase by about 5%.

Elsewhere, we project an effective tariff rate of around 5% on Canada and Mexico (due to non-USMCA compliant imports and sectoral tariffs), and 10% on the rest of the world. There can be significant heterogeneity across countries depending on who can land a deal with the US, but also if further sectoral tariffs were introduced or modified. The total effect would be an aggregate effective tariff rate to around 12%, lower than the current 20% level, but much higher than 2.5% pre-election.

The US is moving towards stagflation

We have revised down our 2025 and 2026 GDP growth forecasts to reflect recent policy developments. We view trade policy as a substantial headwind, due to both larger-than-expected tariffs and uncertainty about the final outcome. With the House having passed the Senate's expansionary budget resolution bill, we expect fiscal easing to offset some of the headwind to growth. However, the bill would exacerbate concerns about the US's long-term fiscal outlook. Finally, we expect some drag from tighter immigration flows.

Putting everything together, we arrive at a moderately stagflationary outlook. We expect growth to slow to 1.0% in 4Q/4Q (1.5% average) in 2025. Core PCE inflation should peak around 3.5% later this year, and the unemployment rate should rise to 4.5% by year-end. In 2026, we expect growth to rebound to 1.7% 4Q/4Q (1.5% average), inflation to fall below 2.5% and the unemployment rate to stay roughly flat.

In this environment we look for back-loaded Fed cuts. We do not expect the Fed to cut rates this year amid uncomfortably high inflation. But we project 100bp of cuts in 2026, probably in 2H. By then, inflation should be well below 3% and the unemployment rate should still be a few tenths above the Fed's estimates of full employment. Of course, this could change in a bear case, where we could see a recession this year, with risks probably around 35%, from about 20% before the April 2 announcement.

The slowdown in China is most likely

We downgrade China growth to 4.0% in 2025 and 4.2% in 2026, vs 4.5% previously expected. This implies a large gap between our forecasts and the official growth target of “about 5.0%”. In addition, we expect CPI inflation to fall to -0.5%, as deflationary pressures set in deeper.

We expect the greatest hit from tariffs on the Chinese economy to arrive in 2Q25, bringing down GDP growth to -2% qoq saar. In addition, since we assume US tariffs will stay at 100% on China until October and moderate to 50% afterwards, we don't expect export growth to rebound until 2Q26. Even with the help of policy stimulus, we expect aggregate demand to remain below-par throughout 2025.

We expect Chinese policy makers to roll out additional stimulus to buffer the external shock. In our view, monetary easing may precede fiscal measures. In particular, we expect a RRR cut in the near term, and two 15bp policy interest rate (7d reverse repo) reductions to follow in 2Q25 and 3Q25, respectively. On the fiscal side, we see scope for another RMB2tn package (equivalent to 1.5% GDP), to be rolled out in two phases: first on consumption (RMB600bn), then on investment (RMB1.4tn).

Consumption stimulus would likely focus on national level childbirth subsidies as well as the expansion of consumer goods subsidy programs, potentially into services sectors such as dining. In addition, we also expect stronger support to stabilize the property market and to facilitate investment in strategic areas. With the preparation of 15th Five-Year Plan (2026-30), more feasible projects are in the pipeline, and funded with additional Special CGB issuance likely from mid-year.

Lower growth and inflation for the Euro Area

We cut our Euro area GDP growth forecasts to 0.8% in 2025 and 1.0% in 2026 (-10bp per year), with zero average quarterly growth in 2H25. The drivers are the significant trade policy uncertainty, the hike in US tariffs on EU imports to c 10% (including sector-specific tariffs, surgical retaliation but no further hike to 20%), higher real yields, a stronger EUR, and lower US and China end demand. A recovery should follow in 2026, via foreign demand and later the German fiscal policy impulse.

We also mark down our headline inflation forecasts to 1.7% in 2025 (-10bp) and 1.4% in 2026 (-20bp), with core at 1.9% and 1.7% (-10bp). We could see headline inflation at or below 1% in early 2026. We assume oil, gas and FX move broadly sideways from here, and don't embed any particular China trade effects. We stick to our ECB base case of back-to-back cuts to a terminal depo rate of 1.50% in September, and we add an additional cut, to 1.25%, in December 2025.

The domestic labor market and corporate health remain fragile, but we assume roll-over is avoided. Fiscal policy would probably provide typical short-term fixes should cracks become apparent: liquidity schemes for corporates, short-time work for employment, and perhaps sector-specific extra measures to buffer half of the shock. A pan-EU response is a positive risk scenario but cannot be the base case given track record.

USMCA would end up mostly spared

Lower growth in the US after trade war escalation would have an impact on Canada and Mexico. The current effective tariff is around 7-8%, but we expect some negotiations and exemptions to lower it to a level of around 5%. USMCA-compliant goods face much lower tariffs and hence they enter the US at the lowest tariffs across the world. From this perspective, the US seems to be deliberately increasing the tariffs for non-USMCA compliant goods to push exporters in both countries to go through USMCA.

The increase in effective tariffs applies to the effective tariff rate USMCA used to face, which neared about 0.5%. However, 5% stands to be much lower than the 10% floor the rest of the world is likely to face. Therefore, in relative terms, especially for USMCA-compliant goods, Canada and Mexico continue to face preferential treatment. The latter is something that may help these countries in the medium-term and supports FX.



Japan narrowly escaping a recession

In Japan, we significantly downgrade this year's growth forecast. We now expect the economy to barely avoid a recession, growing at 0.2% in 2025 (vs 1.1% before) before expanding to 0.6% in 2026 (unchanged). Domestic consumption would likely remain resilient, supported by continued solid wage hikes and fiscal support. But US auto tariffs should take a toll on exports and capex should be weak amid tariffs and elevated uncertainty.

Meanwhile, core inflation would slow from current 2.6% to below 2% from end-2025. Therefore, we remove the two BoJ hikes that we had penciled in and now we expect the BoJ to keep the policy rate unchanged at 0.5% through the end of 2025.

Emerging Markets ex China: A universe of spillovers

Most emerging markets stand to lose from the spillovers of weaker US and global growth in the short term. However, some will be harder hit than others. With the exception of India, which we believe will be mostly insulated from the US and global shocks, the rest of emerging Asia will likely see a bigger drag amid more hawkish US tariff policy and spillovers from a weaker China.

In Latin America, Mexico is most directly exposed to US tariffs and trade policy, with a contraction likely in 2025, while the rest of the region is also highly exposed to China's slowdown via exports linkages. EEMEA is broadly insulated from the direct impact of US trade policy, but would nonetheless be subject to weaker growth, including through their linkages with the EU.

US: The fog of policy

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It's not just what you said, it's how you said it

We have marked down our 4Q/4Q US GDP growth to 1.0% in 2025 and 1.7% in 2026, from 1.8% and 2.0%, respectively (Exhibit 3 and Exhibit 4). The tariffs that have been announced to date by the Trump Administration have been much larger than expected: this makes the outlook more stagflationary.

But perhaps more importantly, the uncertainty caused by the “on again, off again” manner in which trade policy has been rolled out is likely to be a substantial economic headwind. We expect this negative demand shock to cause a sharp decline in business investment over the next two quarters (Exhibit 3). Capex should rebound thereafter due to fiscal easing, but even that bump would probably be smaller than we earlier anticipated.

Exhibit 3: We forecast a muddle-through scenario this year, with tariffs and policy uncertainty weighing on economic activity

BofA US economic outlook: forecast highlights

	1Q 25	2Q 25	3Q 25	4Q 25	1Q 26	2Q 26	3Q 26	4Q 26
Real GDP (% q/q saar)	0.8	0.9	0.6	1.6	1.6	1.6	1.8	1.8
Real GDP (% y/y)	2.3	1.8	1.2	1.0	1.2	1.3	1.7	1.7
Final domestic sales (% q/q saar)	1.2	0.3	0.2	1.4	1.7	1.6	1.6	1.6
Private consumption (% q/q saar)	1.2	1.0	1.0	1.6	1.6	1.6	1.8	1.8
Nonres investment (% q/q saar)	1.5	-3.2	-4.2	1.8	3.8	2.8	1.3	1.3
Residential investment (% q/q saar)	2.5	1.0	1.0	1.0	1.5	1.5	2.0	2.0
Unemployment rate (%)	4.1	4.2	4.3	4.5	4.5	4.6	4.6	4.5
Nonfarm Payrolls (avg m/m chg, 000s)	152	50	40	15	40	40	40	60
PCE inflation (% y/y)	2.4	2.5	3.0	3.3	3.0	2.9	2.5	2.2
Core PCE inflation (% y/y)	2.7	2.7	3.2	3.5	3.3	3.2	2.8	2.4
Federal funds target (%)	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	3.75-4.00	3.25-3.50

Source: BofA Global Research

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Immigration restrictions to weigh on labor supply

In terms of the labor market, we now expect job growth to slow meaningfully in coming months. We forecast average nonfarm payroll growth of 64k and 45k in 2025 and 2026, respectively. The administration has moved faster than we expected on deportations / visa cancellations. This could impair labor supply (and therefore job growth), leading to shortages in major sectors such as leisure & hospitality, education & health, and agriculture.

We also see headwinds to payroll growth from weaker economic activity due to trade uncertainty and, to a lesser extent, DOGE-related layoffs (see report: [US Economic Weekly: Tracking DOGE](#)). We have revised down our consumer spending forecasts to reflect weaker job growth, given the chicken-and-egg relationship between the two.

While immigration restrictions would tighten the labor market, below-trend growth and DOGE actions should cause an uptick in the unemployment rate. On balance we expect the unemployment rate to increase gradually, with a peak of 4.6% in 2Q-3Q 2026.

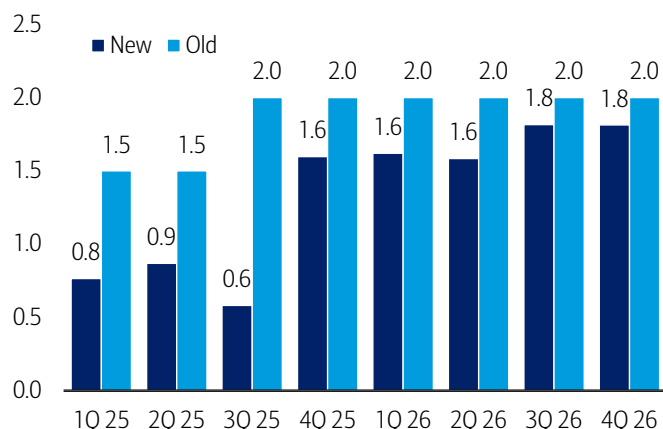
Fed: back-loaded cuts

Larger-than-expected tariffs mean a higher peak in the core PCE (3.5% y/y in 4Q 2025). But weaker aggregate demand should lead to a faster decline in inflation next year (Exhibit 6). The question for the Fed is whether it will look through a tariff-driven spike in inflation. We think it won't.



Exhibit 4: We have lowered 4Q/4Q GDP growth to 1.0 % and 1.7% in 2025 and 2026, respectively

BofA old vs. new GDP forecasts (q/q % saar)



Source: BofA Global Research

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Chair Powell has argued that the Fed has an obligation to prevent inflation expectations from unanchoring (see report: [History doesn't repeat, but it rhymes](#)). Recent Fed communications (including the March meeting minutes) also suggest that many policymakers are concerned that tariffs would be more than just a one-off shock to price levels. This is a prudent stance, given the risk that domestic producers would raise prices with a lag to avoid political scrutiny. Only Governor Waller has come out firmly in favor of treating tariff-driven inflation as transitory.

In our view, the optics of cutting rates with core PCE inflation above 3% (and rising) are simply too problematic, especially in the absence of an outright recession. So we still think the Fed would stay on hold this year.

Once inflation has peaked, however, the Fed can feel more confident that i) the tariff shock is working itself out of the y/y rate, and ii) demand-driven disinflation due to labor market weakness is overwhelming supply-driven inflation. Therefore, we now forecast 100bp of cuts next year. With low conviction, we pencil these cuts in for 2H 2026. By then, y/y inflation should be below 3% and there would probably be a new Chair, who might guide the Fed in a more dovish direction.

By contrast, markets are pricing about 85bp of cuts this year and another 35bp next year, at the time of this writing. Here's why we disagree. In our view, the Fed only has the luxury to do front-loaded cuts when it is trying to preempt a slowdown in aggregate demand. In a stagflationary scenario, however, the Fed would likely be compelled to cut late to hedge inflation risks, and then cut fast if need be.

Policy assumptions

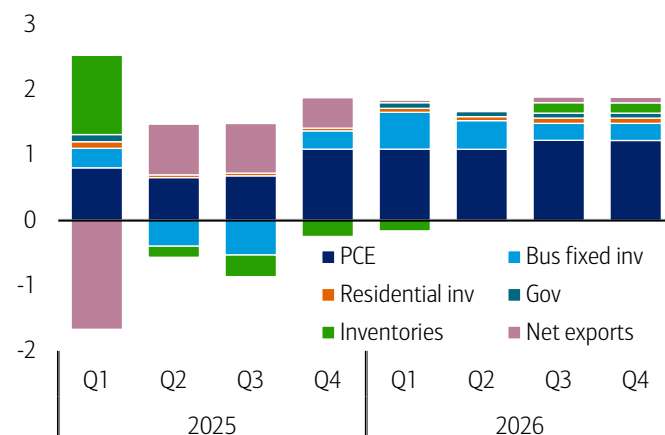
Trade: moderate de-escalation

Our forecasts depend heavily on our assumptions for how trade and fiscal policy would play out. Let's start with trade. We see strong incentives for the US and China to make a deal to lower their bilateral tariff rates in coming months. This, along with tariff avoidance strategies, should lower the effective tariff rate on Chinese imports to around 50% by FY 2026. Even so, we project that rotation by consumers and firms will lower imports from China by almost 20% relative to FY 2024.

In response, we expect imports from the rest of the world to increase by about 5%. We project an effective tariff rate of 5% on Canada and Mexico (due to non-USMCA compliant imports and sectoral tariffs), and 10% on the rest of the world, with heterogeneity across countries (depending on which ones can make deals with the US) and sectors. The total effect would be a reduction in the aggregate effective tariff rate

Exhibit 5: Business investment is likely to weigh on GDP growth in 2Q-3Q 2025

Contributions to real GDP growth (percentage points (pp))



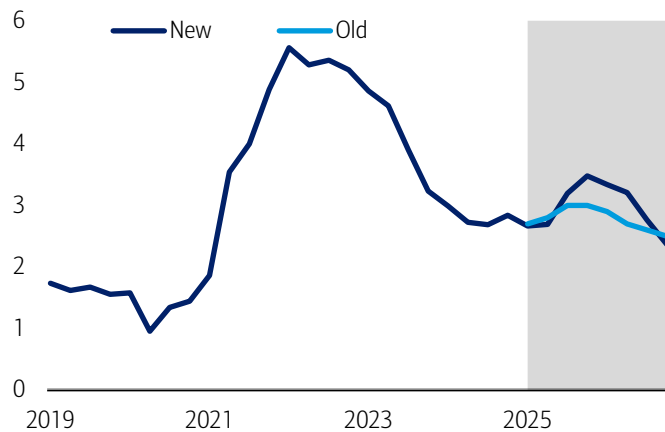
Source: BofA Global Research

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to around 12% (Exhibit 7; for more details on our trade views, see report: [Global Watch: Tariffs: Further backing off](#), [US Economic Weekly: Tariffs: show me the money](#) and [Morning Market Tidbits: There's a limit to decoupling](#)).

Exhibit 6: Our new forecast has inflation peaking higher (3.5%) in 2025, and falling faster next year

Core PCE inflation (% y/y)

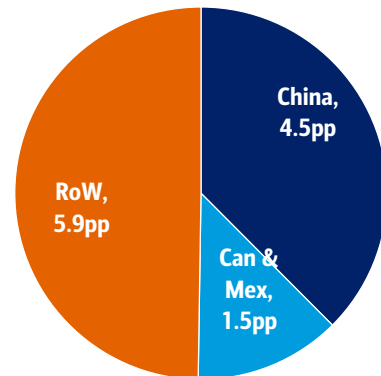


Source: BofA Global Research, Bureau of Economic Analysis

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Exhibit 7: We project an effective tariff rate of around 12% in FY 2026. Despite very elevated tariffs against China, we project that less than 40% of tariff revenue will be from Chinese imports

Decomposition of projected FY 2026 effective tariff rate, by major region



Source: BAC Global Research, US Treasury, Congressional Budget Office

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Fiscal policy: profligacy

Republicans in Congress are working through the reconciliation process and have agreed to plans to cut taxes by an additional \$1.5tn over the next 10 years, and increase spending on defense, the border and immigration by ~\$300bn. Spending cuts are still being debated but plans suggest they could range from \$0 to \$1.5tn. For our baseline, we make the following assumptions on fiscal policy.

1. Republicans would design the bill to offset or blunt the growth impact of tariffs in the near term. What that means in practice is that they design the new tax cuts to be front-loaded in the first half of the 10-year budget window. This is par for the course when it comes to reconciliation bills. Indeed, the 2017 TCJA bill included tax changes that were estimated to reduce revenue by \$1.65tn over ten years—67% of those reductions were in the first five years.
2. Republicans would include spending cuts of \$750bn that are evenly spread over the 10-year budget window. This is about half of the \$1.5tn that House Republicans originally agreed to.

Based on these assumptions, we think the fiscal impulse could be worth about 0.5pp in FY 2026 as the new tax cuts and spending kick in. It also results in deficits of around 7% of GDP over the next two years (see report: [US Economic Weekly: Deficits to the moon](#)).

Risks: skewed to the downside

Risks to our outlook are massive given the extent of policy uncertainty. Here we highlight three key risks.

Even more stagflation?

The first risk is that we might be too optimistic on trade policy de-escalation. In an extreme scenario, tariffs against China could stay at current levels, “reciprocal” tariffs (see report: [Global Economic Viewpoint: Kitchen sink tariffs](#)) could be reinstated after the 90-day pause (reducing the benefits of rotating away from China), auto parts tariffs could be applied against Canada and Mexico, and additional tariffs could be imposed on pharmaceuticals and semiconductors after the Section 232 investigations are completed.

This would be a severely stagflationary scenario, in which the economy would likely go into recession. Inflation would probably peak close to 5%, but drop sharply next year as long as expectations stay anchored. The Fed would cut late but eventually lower rates by around 300bp (and possibly more).

A larger uncertainty shock

Second, we might be underestimating the impact of the policy uncertainty shock on capex and consumer spending. Our muddle-through outlook is premised on the idea that the service sector, which accounts for five out of six jobs in the US, can continue to deliver enough labor income growth to sustain aggregate demand. That assumption could fail if layoffs pick up and/or spending slows much more than expected. Then the balance would probably tip towards a recession. This would be a demand-driven downturn, so inflation would peak lower than we expect, and the Fed would cut sooner and more (again, by at least 300bp).

The tangled web of fiscal and trade policy

There are also substantial risks around our fiscal policy projections. On the one hand, deficit hawks in both chambers will likely push for steeper spending cuts. A less expansionary bill could increase the downside to growth in the near term, especially if the cuts are concentrated in Medicaid, whose beneficiaries are most likely to pull back spending if their entitlements are reduced. However, this scenario would be better for the long-term deficit outlook.

A favorable response at the long end of the Treasury curve might be supportive for financial conditions. Lower interest costs might also give the Trump Administration more room to de-escalate on tariffs.

On the other hand, smaller-than-expected spending cuts would be more supportive for the economy in the near term, in isolation. But if the bond market were to react very negatively in this scenario, the risk of a financial shock would increase. That could increase pressure on the Trump Administration to raise revenues via tariffs, which in turn could exacerbate stagflation, as discussed above.

The bottom line is that trade and fiscal policy are inextricably linked, and a growth-friendly outcome on one could come at the cost of a less favorable outcome on the other. This dynamic further confounds the economic outlook.

Muddle through, with rising recession risks

In summary, the US economy is being buffeted by a plethora of policy shocks. To put it mildly, uncertainty is high. We remain hopeful that the economy is headed for just a soft patch rather than an outright recession. But risks are very much skewed to the downside. We think the probability of a recession in the next 12 months has risen to around 35%, from about 20% before the April 2 tariff announcement.



China: Downgrading GDP growth forecast

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China's GDP growth held up better than expected in 1Q 2025, coming in at 5.4% yoy as net exports strengthened due to stockpiling and retail sales held up on the back of consumer subsidies (for details please see report: [Resilient 1Q growth data dims hope for near-term policy stimulus](#)). In particular, Chinese exports growth improved across all major trading partners in March despite tariffs in place.

That said, we expect such front-loaded trade flow to diminish soon in 2Q25. Our current baseline assumes that effective US tariff rates on Chinese imports would stay at around 100% until the end of September, before being brought down by negotiations to 50%. As a result, Chinese exports for rest of the year will likely face significant downward pressure.

While the hope is that Chinese domestic consumption and capex could hold up to offset the pain from exports, this is not an easy task when consumer confidence has just bottomed out and property market showed few signs of stabilization beyond tier-1 cities. Moreover, strong 1Q data has also dimmed hope for any near-term stimulus.

Cutting GDP growth forecasts to 4.0% for 2025 and 4.2% for 2026

We expect the greatest hit from the tariff shock on the Chinese economy to arrive in 2Q25, with reciprocal tariffs and subsequent rounds of escalations taking full impact. This would bring down 2Q GDP growth to -1.8% qoq saar (shaving yoy GDP growth by 1.4 ppts from 1Q to 2Q) (Exhibit 8). In addition, given our baseline assumption outlined above, export growth in China is unlikely to see any meaningful rebound until 2Q26.

Consequently, even with the help of policy stimulus, we expect aggregate demand to remain below-par, leaving the last 3 quarters of 2025 with below 4% yoy GDP growth readings. This implies an annual growth rate of 4.0%, which would represent a large gap with the official growth target of "about 5.0%" set on the March NPC. Meanwhile, we also expect CPI inflation to fall to -0.5%, as deflationary pressure set in deeper. In addition, we expect the stabilization of property market would be pushed out into 2026, and our 2026 GDP forecast was also revised down to 4.2% from the previous forecast of 4.5%.

Exhibit 8: Quarterly forecast of China's real GDP growth

We expect real GDP growth to take a hit in 2Q 2025, contracting by 1.8 qoq saar

Real GDP growth	1Q24	2Q24	3Q24	4Q24	1Q25E	2Q25E	3Q25E	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E
% yoy	5.3	4.7	4.6	5.4	5.4	4.0	3.5	3.5	3.4	4.5	4.6	4.4
% qoq, saar	6.1	3.6	5.3	6.6	6.0	-1.8	3.5	6.5	5.5	2.5	4.0	5.5
% yoy ytd	5.3	5.0	4.8	5.0	5.4	4.6	4.2	4.0	3.4	3.9	4.2	4.2

Source: BofA Global Research

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Additional policy stimulus to counter trade shocks

Our forecast change reflects additional policy stimulus, which we think Chinese policy makers are poised to roll out to buffer the external shock. However, with 1Q GDP data faring better than expected, we now expect policy makers to delay easing in April and continue to assess domestic demand in May - June before considering rolling out additional policy stimulus (see report: [Resilient 1Q growth data tempers expectations for near-term policy stimulus](#)).

Specifically, we expect monetary easing to precede fiscal measures since it takes time to expedite the pace of fiscal expenditure in the near term and approve new borrowing afterwards. In particular, we expect a RRR cut in the near term, and two 15bp policy interest rate (7d reverse repo) reductions to follow in 2Q25 and 3Q25, respectively (for more please see report: [Tariffs push the PBoC closer to a cut](#)).



On the fiscal side, we see scope for up to RMB2tn package (equivalent to 1.5% GDP), after more evidence of growth weakness emerges, to support both consumption and investment. Consumption stimulus would likely focus on national level childbirth subsidies as well as the expansion of consumer goods subsidy programs, potentially into services sectors such as dining. In addition, we also expect stronger support to stabilize the property market and to facilitate investment in strategic areas. With the preparation of 15th Five-Year Plan (2026-30), more feasible projects are in the pipeline, and funded with additional Special CGB issuance likely from mid-year (for more please see report: [Unpacking the potential fiscal stimulus package amid tariff shock](#)).

Exhibit 9: Summary of key macro data and forecasts

We expect real GDP growth of 4.0% in 2025 and 4.2% in 2026

		2020	2021	2022	2023	2024	2025F	2026F
GDP by expenditure								
Real GDP Growth	% yoy	2.3	8.6	3.1	5.4	5.0	4.0	4.2
Final Consumption Expenditure	% yoy	-0.2	9.3	2.8	8.5	5.0	4.6	4.9
Gross Capital Formation	% yoy	4.1	4.0	2.7	3.3	4.4	2.8	3.9
<i>Contribution to GDP Growth</i>								
Net Exports	pp	0.7	1.7	0.4	-0.6	0.6	0.3	-0.3
Major activity indicators								
Industrial Production	% yoy	2.8	9.6	3.6	4.6	5.8	4.4	4.8
Fixed Asset Investment	% yoy	2.9	4.9	5.1	3.0	3.2	3.8	4.5
Retail Sales	% yoy	-3.9	12.5	-0.2	7.2	3.5	4.0	4.5
Exports of Goods	% yoy	3.6	29.6	6.9	-4.7	5.9	-4.0	2.0
Imports of Goods	% yoy	-0.6	30.0	1.0	-5.5	1.1	-8.0	4.0
Trade Balance	US\$ bn	524	670	838	822	992	1056	1029
Current Account	% GDP	1.7	1.9	2.4	1.4	2.2	2.7	2.0
Key price and policy indicators								
CPI	% yoy	2.5	0.9	2.0	0.2	0.2	-0.5	0.7
PPI	% yoy	-1.8	8.1	4.1	-3.0	-2.2	-2.5	0.3
7d Reverse Repo Rate	%, year-end	2.20	2.20	2.00	1.80	1.50	1.20	1.20
USD/CNY	year-end	6.53	6.36	6.90	7.10	7.30	7.30	7.00

Source: BofA Global Research

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Downside risks still loom large

Downward risks on growth still loom large in a highly volatile environment. Our forecasts are subject to potential deterioration in trade environment either from higher trade barriers in the US (although arguably any marginal loss from additional tariff hikes from the current level is probably limited), or the rest of the world. If the US manage to coerce its trading partners such as Mexico and Vietnam to raise tariffs on Chinese imports, it could make pass-through trade more difficult, pushing Chinese supply chain to further migrate to new territories (such as Brazil and Türkiye).

In addition, if Chinese policy easing turned out to be too little too late, growth could dip further in 4Q25 – 1H26. In particular, the property market stabilization which we expect to happen in 1H26 in our baseline scenario could be further pushed out into 2027, leaving property investment as a major drag on overall growth.

Trade conflict to push China back to the growth focus

While the timing of the trade conflict is unfortunate, such external pressure would likely give rise to some positive changes in Chinese policy making. In our view, China could likely gravitate back towards the focus on economic development, where local governments highly prioritized promoting growth. In addition, it could induce China to rebalance its economy more towards domestic consumption and investment, instead of lending through current account surplus to the US. Last but not the least, it could push China to open up further, through trade and investment with the rest of the world.

That said, in the near term, we think it would be imperative to stabilize business expectation on domestic business and trade policy, as well as household expectation on future income. In our view, stepping up on policy easing to boost consumer demand, reviving the property market, increasing public investment would not only offer a cushion to trade sector slowdown in China, but more importantly, to stabilize expectation within and outside of China.

Euro area: Tariffs up, growth and inflation down

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We cut growth forecasts, again

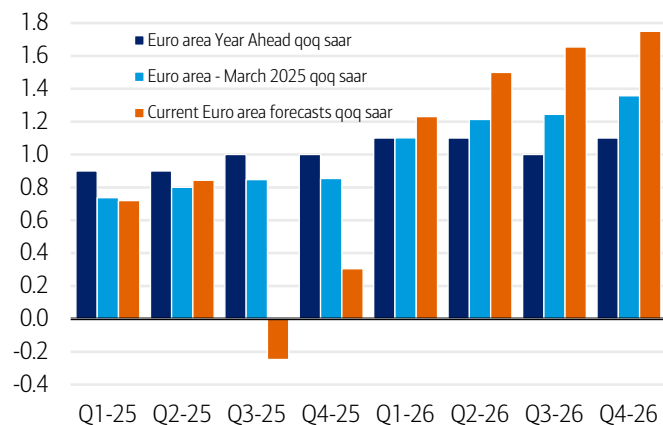
We cut our Euro area GDP growth forecasts to 0.8% in 2025 and 1.0% in 2026 (-10bp per year). Significant trade policy uncertainty, the hike in US tariffs on EU imports to 10% (including auto sector specific hikes, select exemptions and surgical retaliation), higher real yields, a stronger EUR, and lower US and China end demand are the main drivers. At this stage, we assume the 90-day “pause” on reciprocal tariffs will become permanent, making a hike to US import tariffs on EU products to 20% a risk scenario.

Our conviction level on the exact timeline of growth deterioration is low. The April hike in US import tariffs from Europe to 10% could have immediate effects, but the risk of another doubling next quarter makes inventory build-up likely. As a consequence, we assume 2Q activity data holds up relatively well, followed by a small GDP contraction in 3Q and zero quarterly growth on average in 2H25 before a recovery starts in 2026, first on improving global demand and then on German fiscal policy support, announced in early March, kicking in (Exhibit 10).

Among the big-4 Euro area member states, Germany is obviously the most at risk – both because of its greater export (and car sector) exposure and because of its particularly weak starting point. We cut forecasts to -0.1% and 0.6% for this year and next, down 20bp per year. France and Italy are expected to grow 0.4% in 2025 and 0.7% in 2026, cumulatively 20bp lower for France and 30bp for Italy. Spain remains less affected, with growth at 2.4% in 2025 (+10bp on carryovers) and 1.5% in 2026 (-10bp).

Exhibit 10: Even lower Euro area growth in the short term, recovery will follow in 2026

Euro area GDP growth profiles before and after changes

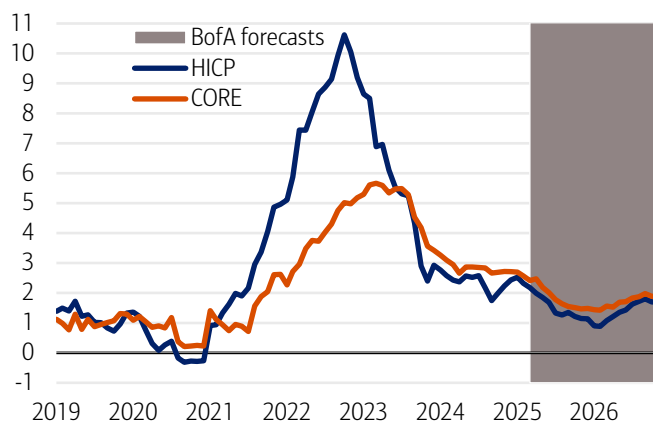


Source: BofA Global Research, Eurostat

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Exhibit 11: Still on the way to a (headline and core) undershoot

Euro area headline and core inflation forecasts (% yoy)



Source: BofA Global Research, Eurostat

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Disinflation rules

Unlike in the US, this global trade war is disinflationary for the Euro area. Our headline inflation forecasts move to 1.7% in 2025 (-10bp) and 1.4% in 2026 (-20bp) with core at 2.0% (+10bp) and 1.7% (-10bp), on the back of lower energy, higher FX and weaker demand prospects, in particular. To stick to ECB vocabulary, our “technical assumptions” are based on broadly flat energy and exchange rate assumptions from here (Exhibit 11).



Inflation risks, too, seem to be rather one-sided

At this stage, we are not taking on board a) the German VAT cut in early 2026 on select restaurant prices that could reduce German and Euro area services inflation by 15bp and 5bp, respectively, or b) the German electricity price cut by EUR 5 cents on corporates and households that could lower German and Euro area inflation by 30bp and 10bp, respectively. And, we don't make any strong assumption on global goods disinflation from potentially higher China (or pan-Asian) goods flows into the EU.

We could even see headline inflation at or below 1% in early 2026, at a time when wage disinflation will have gone very far. That has us a little bit nervous, in fact. The ECB's latest forward looking wage tracker still shows end-25 negotiated wage growth at 1.5% in currently completed negotiations. The share of those covered has risen from 30% in late 2024 to 36% in February, for an unchanged end-point. We still assume the tracker to move higher over time, as more first round hikes are reflected rather than second round ones. But the tracker typically covers c 50% of employees, so the room for meaningful moves higher starts to reduce.

Exhibit 12: Ranking of US exposure among the big 4: Germany, Italy, France and Spain (descending)

Gross goods exports, domestic manufacturing, or domestic value added (ie incl services) shares to the US

	EX to US, % of GDP	Domestic Manufacturing VA in US final demand (as share of total VA)	Dom VA in US final demand (as share of total VA)
EA	3.2	1.4	3.5
DE	3.7	1.8	3.8
FR	1.6	0.7	2.3
IT	3.0	1.2	3.2
ES	1.1	0.6	2.3
NL	3.8	0.8	3.6
AT	3.4	1.5	3.4
BE	5.4	1.0	4.3
FI	2.5	1.3	2.8
PT	1.9	0.8	2.9
IE	13.6	10.4	15.8
GR	1.0	0.5	2.9

Source: OECD, Eurostat, ONS, BofA Global Research

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Exhibit 13: We shaved cum 40bp cum of growth for Germany, 30bp for Italy, 20bp for France over 2025/26

GDP growth forecasts for the main Euro area countries

	New forecasts		Old forecasts	
	2025	2026	2025	2026
DE	-0.1	0.6	0.1	0.8
FR	0.4	0.7	0.5	0.9
IT	0.4	0.7	0.6	0.9
ES	2.4	1.5	2.3	1.6
NL	1.4	1.2	1.7	1.4
AT	0.0	0.8	0.2	1.1
BE	0.9	1.0	1.1	1.2
FI	0.7	1.1	0.7	1.3
GR	1.7	1.7	1.9	1.9
PT	2.2	1.6	2.5	1.7
IE	3.5	1.9	4.0	2.1

Source: BofA Global Research

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Surgical retaliation and partial fiscal policy fixes

We continue to expect the EU to attempt negotiation, first, but surgical retaliation to be part of the response, with focus eventually shifting to the services sector.

Meanwhile, we assume the precarious domestic labour market and corporate health not to roll over, despite prominent fragilities on both accounts (see report: [Europe Economic Weekly: Status: it's \(really\) complicated 04 April 2025](#)). We don't expect the consumer to significantly increase savings rates further either, although high uncertainty would justify such a reaction.

We expect fiscal policy to deliver the typical short-term fixes, should cracks become apparent: liquidity schemes for corporates, short-time work for employment, and perhaps sector-specific extra measures to buffer half of the shock.

In Germany, in particular, where the real economy is particularly fragile after cumulative zero growth since 2019, recessionary risks are particularly acute. As a consequence, we wouldn't rule out that the new government goes back to the fiscal drawing board. The "big" fiscal changes for the next decade or so were decided in early March but are likely to kick in only in 2H26 (see report: [Europe Economic Weekly: The devil will be in the details 21 March 2025](#)). Recessionary dynamics this year could generate a more conventional policy response, including the suspension of the national fiscal rule for 2025 (which had been our base case before constitutional change).

ECB terminal rate slightly lower, with risks for even lower

We stick to our ECB base case of back-to-back cuts to a terminal depo rate of 1.50% in September, and we add an additional cut, to 1.25%, in December 2025. Conviction in getting there (1.5%) without pause has increased. As we argued last week, if the ECB had to update inflation forecasts now, they would probably struggle showing inflation closer to 2% than to 1.5% over the forecast horizon. The risk of more from the ECB, we think, is greater than the risk of the ECB stopping before reaching 1.50%. We doubt, however, that the central bank will move to bigger increments of cuts, absent very severe outlook (or market) disruptions.

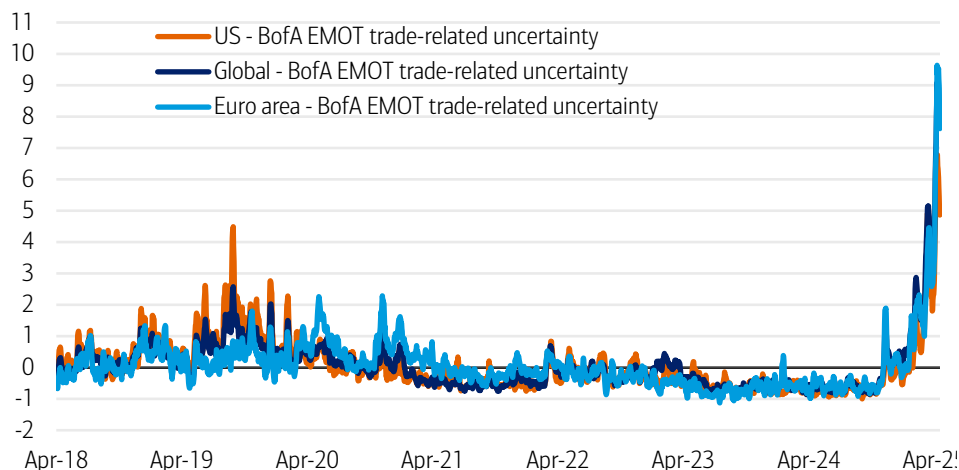
Our regular readers would remember we assume a small hiking cycle starting in Dec-26, in response to the (predictable) economic cycle from German fiscal policy changes for the medium term. We stick to that assumption today. By late-26, growth should have started to improve and a more forward-looking ECB would likely talk about “policy normalisation” from the downside to potentially higher neutral rates into 2027. That scenario may actually be somewhat immune to even greater fallouts in the short term.

A return to 2nd April tariff announcements is a big risk

The risk balance to the outlook remains tilted to the downside. Our proprietary trade policy uncertainty indicator for the Euro area had spiked to 9 standard deviations since the beginning of April and has now retraced just partially to about 7.5/8. A one standard deviation shock, if persistent, typically reduces Euro area capex by 80-90bp. Of course, that’s a rule of thumb, and effects not linear to the size of the shock, but the downside potential vs our underlying assumptions is large.

Exhibit 14: BofA EMOT trade-related policy uncertainty tracker (7dMA)

Euro area trade-related policy uncertainty tracker now 7.5-8 standard deviations above sample (from recent peak above 9), global tracker at 7.7 vs peak at 9, US tracker at 5 vs peak at 7.



Source: BofA Global Research, GDELT Project (www.gdeltproject.com). The tracker identified as an EMOT above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This tracker was not created to act as a benchmark.

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A further escalation of the trade war also has to feature in our considerations. A return to full “reciprocal tariffs” as announced on 2nd April would see effective US import tariffs double, again. The growth impact could be at least twice what we pencilled in for now, i.e. we could see an additional 20-30bp of GDP at risk then. Global growth effects would not be contained to Europe, and as a consequence, energy prices could move lower, too, again intensifying disinflationary pressures.

In such a scenario, we would assume the ECB to cut to 1.0% or even lower this year. Particularly severe market fallout and/or sharp growth deterioration incl on the labour market and corporate health (in fragile state already today) could ultimately deliver larger-than-25bp cuts, although the bar is high for that. Hiking rates again might still be possible in late-26, as growth recovers, but risks of delay amid potentially more durable weakened inflation prospects are high.

Of course, further Euro area growth losses would raise fiscal pressures, including a pan-EU response. That could be an upside risk, but given the track record, we don't feel confident making that a base case.

UK: Lower growth/inflation, faster BoE

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We cut UK growth to 1.1%/1.3% in 2025/26

We downgrade our UK growth forecast to 1.1% in 2025 and 1.3% in 2026 from 1.4%/1.4% on the back of the tariffs imposed by the US, high trade uncertainty, weak confidence ahead of tariffs/ NICs rise and softer global growth.

We assume the 10% baseline tariff along with 25% tariff on autos and steel/ aluminium and select exemptions to stay in place and no significant retaliation from the UK. While the UK is still trying to negotiate a deal with the US, it is far from clear if there is any appetite to lower tariffs from the baseline 10% imposed by the US. Talks seem to be now shifting to potentially reducing the sectoral tariffs on autos, but barriers to US-UK trade deal remain including digital services tax, food standards and access to the NHS.

After a weak H2 2024, the economy performed better than expected in early 2025 and expanded by 0.6% in three months to February. To reflect that, we revise up Q1 growth from 0.4% to 0.6%q/q. However, this is before the tariff hit and some of the rise in February seems to be driven by higher manufacturing and exports to the US, reflecting stockpiling from US importers ahead of the April tariff deadline. This implies there is likely to be payback and we expect growth to slow down in coming quarters.

The direct impact of the tariffs announced is likely to be 20-25bps on growth as discussed in our report: [Europe Economic Weekly: Status: it's \(really\) complicated](#). But we think there is likely to be an indirect impact from high uncertainty/ weak confidence and softer global growth (overall 30-40bps). Even though a 90-day pause has been announced for higher tariffs on other economies (UK tariff rate is unaffected by 90-day pause) and risks of a substantial financial shock/ considerable global growth slowdown have reduced, uncertainty is still high. The sectors most exposed to US final demand are chemicals/ pharma, transport equipment (mainly cars) and machinery and equipment.

We expect the direct and indirect impact from tariffs to hit growth in rest of 2025. We downgrade growth in Q2/Q3 by 20bps to 0.2%q/q (from current 0.4%). The main channel to the growth hit is likely to be weaker exports to the US and other trading partners (exports likely to fall by 2% in 2025), high uncertainty hitting business investment (likely to fall by 0.2% in 2025) and further loosening of the labour market.

Moreover, uncertainty ahead of the rise in labour costs due to higher National Insurance Contributions (NICs) and National Living Wage (NLW) in April also add to some caution. Labour demand, vacancies and payrolls have been softening. We expect further softening of the labour market (but not a sharp slowdown) on the back of slower growth and rising labour costs. We expect unemployment to rise to 4.6% this year (compared to 4.5% before and up from 4.4% currently) and 4.7% (compared to 4.6%) in 2026.

But we expect growth to be positive in these quarters. Fiscal stimulus and strong public spending announced in Oct. 2024 (0.9% of GDP in FY25) should provide some tailwind. We also expect consumer spending to pick up by 1.1% due to rate cuts, real income growth and potential fall in savings rate with upside risks if rate cuts disincentivise savings (we assume real income growth of 2.1% in 2025 and small fall in savings rate to 11.0%). We expect a recovery in 2026 on the back of improving global growth.

Fiscal policy unlikely to cushion the shock meaningfully

The scope for fiscal policy to help ease the shock meaningfully is limited. The headroom against fiscal rules is small (£9.9bn) and weaker growth/ higher gilt yields threaten to wipe out the thin headroom. Unless fiscal rules are changed (which in our view is a low probability event though risks are rising), chances are that fiscal consolidation measures are announced in Autumn, which add downside risks to growth later in the year. For now,



we expect limited measures: tax breaks for vulnerable sectors, cutting red tape, expanding loan facility for exporters- some of which has been announced. More decisive support for businesses and households cannot be ruled out if growth deteriorates significantly but it would likely come at the cost of fiscal consolidation down the line.

Inflation risks likely lower post tariffs

We think that lower growth, labour market softening, potential disinflationary impact of tariffs (from trade diversion/ cheap imports from other trading partners), lower oil and gas prices and recent encouraging falls in services inflation could end up reducing inflation risks. This is especially given limited appetite for UK retaliation. The UK has also suspended import tariffs on some items which adds to that argument at the margin.

We cut our headline inflation forecasts to 2.9% in 2025 (-20bps) and 2.1% in 2026 (-10bps) with core at 3.2% (unchanged) and 2.2% (-10bps). Inflation is likely to pick up in Q2/Q3 due to the rise in National Insurance Contributions (NICs), energy and water bills. But the extent of the rise in Q2/Q3 is likely to be reduced (we expect constant energy prices and FX, and don't incorporate significant trade diversion effects). Oil prices are ~12% lower than the BoE's February forecasts and gas prices are ~25% or so weaker. We reduce the inflation peak from 3.5% in Q3 to 3.2% in Q2/Q3 with the peak now in June vs September before (given we incorporate a 5.5% fall in gas prices in July).

This, along with weaker growth, should make the BoE less worried about second round effects compared to before. While there is uncertainty ahead of NICs rise, services inflation has seen some encouraging falls, and we expect services inflation to fall closer to 4% later in the year. Wage growth is still elevated but further labour market loosening is likely to slow pay gains. Having said that there is uncertainty especially on the FX side which matters for the inflation outlook. But despite the recent falls, sterling so far is 2% higher on a trade weighted basis relative to the BoE's February assumption.

BoE: Four cuts to reach 3.5% terminal by end-2025

On the back of weaker growth and likely lower inflation risks compared to before tariffs, we think the BoE is likely to cut rates a bit faster than our previous base case of quarterly cuts. Previously we were worried that the BoE could cut less than quarterly cuts, but the tariff hit changes our risk assessment. We move our year end BoE rate forecast from 3.75% to 3.50%. We now expect four more cuts in 2025 instead of three with an additional cut in September (May, Aug, Sept, Nov) to reach terminal of 3.5% by end 2025. We expect no cuts in 2026 but risks are tilted towards further cuts in 2026 and a lower terminal of 3.25% cannot be ruled out. Risks of larger than 25bps cuts however remain low barring significant growth deterioration or financial shock.

The dovish pivot is unlikely to be immediate because the BoE will likely be cautious ahead of the NICs rise as well as wait for evidence of potential disinflationary impact of tariffs and extent of growth slowdown playing out in the data rather than pre-empting it. So far, the BoE has judged that the impact of tariffs on inflation is ambiguous.

Risks are tilted to the downside

We see growth risks tilted to the downside. Return of April 2 reciprocal tariffs and UK retaliation would increase downside risks to global and UK growth through trade and confidence channel. In this scenario, UK growth could be closer to zero in some quarters (raising risks of a small contraction), global energy prices could move lower, and BoE cutting rates closer to 3.0% can't be ruled out.

USMCA: Lower growth in North America

Carlos Capistran
BofAS

Lower growth in the US after trade war escalation will have an impact on USMCA partners Canada and Mexico. In our baseline scenario the effective average tariff for both countries will be 5%. The current effective tariff is slightly higher (about 7-8%), but we expect some negotiations and exemptions to lower it to a level of about 5%. USMCA-compliant goods face much lower tariffs and hence they enter the US at the lowest tariffs across the world. The US seems to be deliberately increasing the tariffs for non-USMCA compliant goods to push exporters in both countries to go through USMCA.

From the average effective 5% tariff we get two impacts: 1) 5% is an increase from the previous average tariff that Canada and Mexico faced of about 0.5%, so the increase in the tariff is a negative terms of trade shock for both countries, and 2) 5% is lower than the 10% or higher tariff than other countries are facing, so in relative terms both Canada and Mexico, and especially USMCA-compliant goods, continue to have preferential access to the US. The latter is something that may help these countries in the medium-term and supports FX.

Canada: Lower growth and lower rates

We revise our GDP forecasts to the downside to 1.0% from 1.5% previously for 2025 and to 1.5% from 2.0% for 2026, as high uncertainty and tariffs impact investment and overall economic activity in Canada. Canada faces a negative terms of trade shock from higher US tariffs on Canadian products (as exporters will likely lower the price of the goods shipped to the US), a (small) negative supply shock due to retaliatory measures, and high uncertainty. The latter is in part due to the election in April 28, but mainly due to the uncertainty regarding US policies towards Canada. All-in-all, this is already taking a toll in Canadian activity as shown in the March labor report. However, fiscal, and monetary support will likely prevent Canada to go into a recession.

Retaliatory tariffs from Canada are unlikely to move inflation higher. Thus, we continue to expect inflation at 2.0% by end-2025 and end-2026. Lower oil prices, the removal of the consumer carbon tax, a resilient CAD, and a slowdown in activity should outweigh the inflationary impact of retaliatory tariffs imposed by Canada, in our view.

Finally, we see the Bank of Canada (BoC) cutting further to support the economy despite a temporary increase in inflation. The current policy rate is at 2.75%. We now expect the BoC to cut to 2.00% by end-2025, down from our expectation of 2.50% before, and keep the rate there throughout the end-2026 (down from 2.50% before). However, we see the additional cuts in 2025 happening later in the year, as we believe the BoC will wait to assess the inflationary environment.

In a bearish scenario with higher tariffs and a US recession, Canada would not be able to avoid a recession. In such scenario the federal government would likely increase fiscal support and the central bank is likely to cut more than in our new baseline. The latter to weaken the currency to help absorb the negative external shock.

Mexico: Lower growth but not much lower rates

We cut our GDP growth expectation to -0.2% from 0.0% previously for 2025 and to 1.0% from 1.4% before for 2026. The main driver is the downward revision to US growth as the trade war escalates. Mexico is most likely already in a technical recession driven by domestic and external uncertainty, and by a large fiscal consolidation. The latter will help preserve stability of the peso and will likely keep rating agencies at bay but will also amplify the negative external shock from higher tariffs. Medium-term, nearshoring is alive and well as USMCA-compliant goods continue to have the lowest global tariffs to access the US.



We expect the economic slowdown to weigh on inflation, pulling it downwards. With the Mexican peso anchored by a high real interest rate, a small current account deficit and fiscal consolidation, we believe that the growth impact on inflation will dominate the impact of a weaker currency (and pass-through is low in Mexico). Hence, we revise our inflation estimates to the downside to 4.0% yoy eop in 2025 (4.1% before), and to 3.5% yoy eop in 2026 (4.1% before), the latter as weak growth impact inflation with a lag.

All things considered, our new estimates bode well for Banxico to cut more than what we previously anticipated, as our house view is now that the US Fed would cut 100bp in 2026. We expect Banxico to cut its policy rate to 8.00% by the end of 2025 (no change vs. our previous forecasts) and to 7.00% by the end of 2026 (from 8.00% before). Thus, we now expect a terminal rate at 7.00% (8.00% before).

Uncertainty is likely to remain high, and its effects on both the US and Mexico economies could be larger than expected. In a more bearish scenario, we would expect Mexico's GDP to contract more drastically, which in turn would imply lower inflation, thus opening the door for Banxico to have a more accommodative policy. However, Banxico's would likely keep an eye on MXN.

Japan: Waiting for the storm to pass

Takayasu Kudo
BofAS Japan

2025: Another year of sluggish growth

In our baseline scenario, we expect Japan's economy to remain subdued in CY25, with only 0.2% YoY GDP growth (vs. our previous forecast of +1.1%), following 0.1% YoY growth in CY24. Given auto industry's significant role in Japan's manufacturing activity, sustained US tariffs on autos and auto parts could have a significant impact on the Japanese economy, even if the reciprocal tariff on imports from Japan is lowered to 10%, from the originally announced 24%, after the 90-day pause. The slowdown in manufacturing activity would result in two consecutive quarters of negative GDP growth (technical recession) in 2Q25 and 3Q25.

Assuming manageable spillover effects to employment and domestic spending, we forecast a moderate rebound from 4Q25. However, in our bear-case scenario, where we assume 25% auto tariffs and 24% reciprocal tariffs on Japan, Japan's economy will enter a recession in 2025 and then recover at a much slower pace in 2026.

Inflation to slow below 2%, but return to 2% in 2026

The slowdown of demand also means weaker inflationary pressure in the near term. We expect the BoJ core CPI (ex. fresh food and energy) to slow from current 2.6% to below 2% at end-2025, as the food inflation peaks out and the recent JPY appreciation slows the import goods inflation. However, we expect structural labor shortages and the resulting rise of labor costs to persist, driving Japan's inflation over a longer run. Thus, we expect the BoJ core CPI to return to around 2% in 2026 as the economy recovers.

BoJ: status quo through 2025, next hike in April 2026

We now expect the BoJ to maintain its current policy rate of 0.5% through end-2025 and raise it to 0.75% in April 2026. Previously, we forecasted next rate hike at the June 2025 MPM, followed by three more hikes by March 2027. However, despite the real interest rate remaining deeply negative, the BoJ will still likely avoid a rate hike when the economy slows and the path to its price stability target is threatened.

While we believe the hurdle for a rate cut is high, if the US or the global economy deteriorates markedly over the coming quarters, there is a real possibility the BoJ may be stopped out of its hiking cycle at the current rate of 0.5%. On the flip side, if lower auto tariffs result in resilient manufacturing earnings for the rest of 2025, the BoJ could move up its next rate hike to the December 2025 or the January 2026 MPM.

Exhibit 15: Japan forecast summary CY2025-2027

We expect 2025 to be another year of sluggish growth

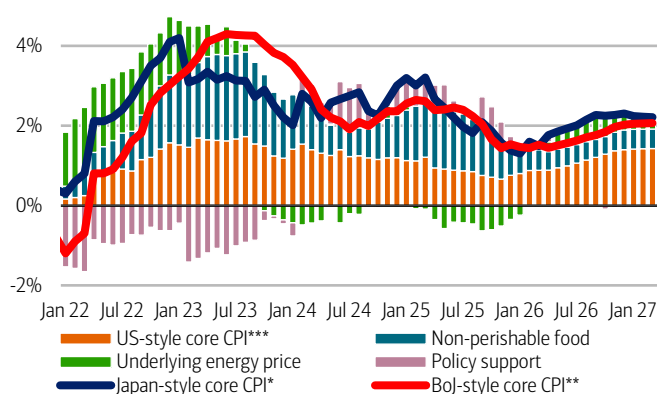
	CY24	CY25f	CY26f
Real GDP YoY%, avg.	0.1	0.2	0.6
(Ref) Real GDP 4Q/4Q YoY%	1.1	-1.1	1.5
Private consumption YoY%, avg.	0.0	0.5	0.6
Business investment YoY%, avg.	1.2	-1.7	0.5
Net exports, contrib. ppt, avg.	-0.1	0.0	-0.1
Unemployment rate, % SA avg.	2.5	2.5	2.7
CPI ex fresh food YoY%, avg.	2.6	2.3	1.9
CPI ex FF, energy YoY%, avg.	2.4	2.2	1.7
BoJ Policy Rate % e.o.p.	0.25	0.50	1.00

Source: BofA Global Research

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Exhibit 16: Factors driving changes in Japan-style core inflation

Inflation will slow to below 2%, but return to around 2% in 2026



Source: BofA Global Research, MIAC *CPI ex fresh food, ** CPI ex fresh food & energy

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Asia: Tariff pause gave temporary relief

Helen Qiao

Merrill Lynch (Hong Kong)

Ting Him Ho, CFA

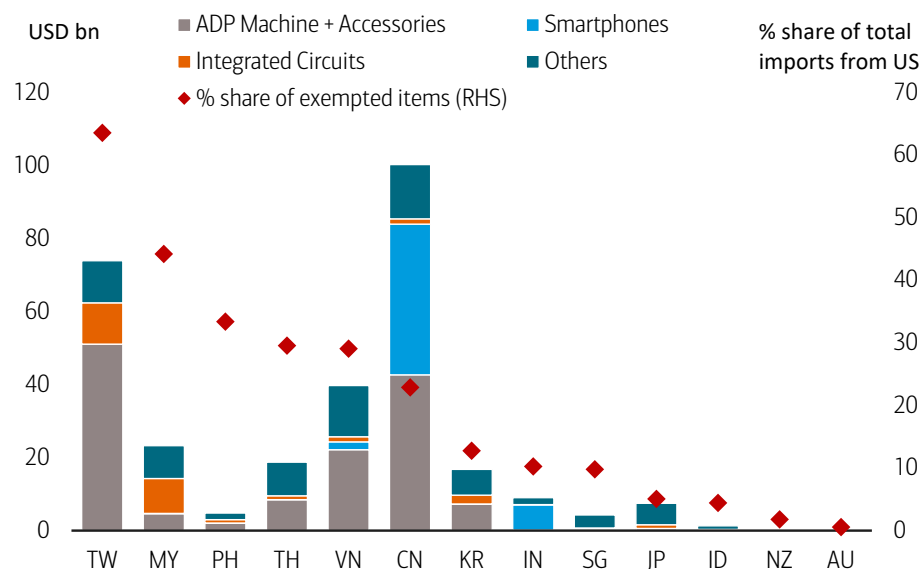
Merrill Lynch (Hong Kong)

There has been significant changes in global trade policies and thus regional backdrop in recent days. Not long ago, we published our analysis on the impact of reciprocal tariffs in Asia (see report: [Asia Viewpoint: Reciprocal tariff spares no one in Asia](#)). At the time of writing, we estimated regional growth could be dragged to mid-3% in 2025 based on the reciprocal tariff.

Since then, the US administration has softened its overall trade policy stance, including a 90-day pause on reciprocal tariffs to non-retaliating countries on Apr 9, as well as tariff exemption on key electronics products (incl. semiconductor, smartphone, automatic data processing machines) on Apr 11. This implies a sharp reduction on the effective tariff rates that are applied on Asian exports to the US. On average, tech exporters (including Taiwan, Vietnam, Malaysia, Philippines) see 40% of their total exports to US are now exempted from reciprocal tariffs. Meanwhile, China also would likely benefit from the measures as it exports substantial number of smartphones and laptops to US. Meanwhile, most Asian economies have started to engage with the US on tariff negotiations, aiming to bring trade barriers lower further.

Exhibit 17: Exports of electronic products to US under reciprocal tariff exclusion

Tech exporters in Asia see sharp reduction in effective tariff rate after the tariff exclusion announced on Apr 11



Source: US Trade Online, BofA Global Research estimates

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That said, the level of uncertainty is still at historic level, as trade tensions between US and China escalated further from the level seen at the beginning of year. Despite all these exemptions, the US still imposes 100% effective tariff rate on China. To retaliate, China also announced 125% tariffs on US goods on Apr 11. With neither side keen to initiate negotiation efforts first, the tariff shock on global trade is bound to take place. In fact, high-frequency data (e.g. daily port throughput) and anecdotal evidence show sharp deceleration in US-bound exports from China in recent weeks (around 30-50% drop compared to trend). On the other hand, exports to US from rest of Asia still holds up, but could be attributed to front-loading.

In view of rising risks from tariff damage, we again revise our growth outlook, incorporating new assumptions on global and US growth.



Exhibit 18: Selected announcement of trade policy from US and China

Multiple change in trade measures in recent days

Date	Country	Tariff	Description
2-Apr-25	US	Trump announces reciprocal tariffs plan	President Trump announced a baseline 10% tariff for all countries, 34% tariffs on China, 20% on EU, 24% on Japan, to mention a few.
2-Apr-25	US	25% auto tariffs on all cars not made in the US takes effect.	
4-Apr-25	China	34% retaliation tariffs on US goods	
7-Apr-25	US	50% Additional tariffs on China	President Trump says if China does not withdraw its 34% tariff increase by April 8th, the US will impose additional Tariffs on China of 50%, effective April 9th," in a post on Truth Social..
8-Apr-25	US	104% tariffs on China take effect	The US is moving forward with additional tariffs on China with the rate of levies totaling 104%. The 50% additional tariff will stack on top of previously announced 20% and 34% levies.
9-Apr-25	China	84% tariffs on US goods	In retaliation to the 104% tariffs Trump imposed a day before.
9-Apr-25	US	90-Day Pause on reciprocal tariffs to non-retaliating countries. 125% tariffs on China	Based on the fact that more than 75 countries have called US representatives to negotiate, and have not retaliated, "I have authorized a 90 day PAUSE, and a substantially lowered Reciprocal Tariff during this period, of 10%, also effective immediately," President Trump says on Truth Social.
11-Apr-25	China	125% tariffs on US goods	China is raising tariffs on all US goods from 84% to 125% starting April 12, in response to the US's latest tariffs.
11-Apr-25	US	Exclusion of reciprocal tariffs on electronics products	The Chinese government has stated that it will no longer consider matching US tariffs and will "resolutely counterattack and fight to the end" if the US substantially infringes on its rights and interests.
			President Trump announced reciprocal tariff exclusion on wide range of electronic products including smartphone, computers, integrated circuits, and others

Source: BofA Global Research

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Revised growth outlook hinged on tariff assumptions

We now expect average GDP growth in Asia to decelerate by 60bp in 2025 and 30bp in 2026. **On a GDP-weighted basis, regional growth could moderate to 3.9% in 2025 before accelerating to 4.2% in 2026** (from current projection of 4.4% in 2025 and 4.4% in 2026). By major economies, we are cutting China GDP growth forecast to 4.0% from 4.5% for 2025 and 4.2% from 4.5% for 2026, with additional policy stimulus to counter trade shocks. We expect Japan to avoid a recession narrowly despite 25% tariff on auto, while India is relatively insulated with policy support. For the rest of region, we see stronger headwinds on North Asia and ASEAN than ANZ.

Exhibit 19: Revised Asia growth forecasts

On a GDP-weighted basis, regional growth could moderate to 3.9% in 2025 before accelerating to 4.3% in 2026

	2025 growth			2026 growth		
	Prior forecast	New forecast	Change	Prior forecast	New forecast	Change
Asia	4.4	3.9	-0.5	4.4	4.2	-0.2
China	4.5	4.0	-0.5	4.5	4.2	-0.3
Taiwan	3.3	2.8	-0.5	2.6	2.0	-0.6
Hong Kong	2.0	1.3	-0.7	2.4	1.7	-0.7
Korea	1.5	0.8	-0.7	2.0	1.3	-0.7
Japan	1.1	0.2	-0.9	0.6	0.6	0.0
India	6.6	6.4	-0.2	6.8	6.8	0.0
Indonesia	5.1	4.8	-0.3	5.3	5.1	-0.2
Malaysia	4.7	4.0	-0.7	4.4	4.3	-0.1
Philippines	5.9	5.6	-0.3	5.8	5.5	-0.3
Singapore	2.0	1.4	-0.6	2.0	1.7	-0.3
Thailand	2.3	1.7	-0.6	2.4	2.0	-0.4
Vietnam	6.7	5.9	-0.8	6.4	6.1	-0.3
Australia	1.9	1.6	-0.3	2.0	2.2	0.2
New Zealand	1.0	0.7	-0.3	2.9	3.0	0.1

Source: BofA Global Research estimates

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Our latest revision takes into account the direct impact from lower exports to US, as well as the indirect impact including more subdued global growth, weaker China demand as well as confidence shock to domestic economy such as fixed investment. That said, most economies are already engaging with US for further tariff negotiation, and more fiscal and monetary stimulus are in sight.



Our revised outlook also comes with the assumption of no further escalation of US tariffs from here on, although its trade policy stance on China will remain restrictive. By country, we expect the US to maintain 100% tariff rates on China throughout FY2025, before coming down to 50% in FY2026. Meanwhile, we assume 5% tariffs on Canada and Mexico, and roughly 10% tariffs on rest of world (on average) through the forecast horizons. By key products, we expect tariff exclusion on electronic products to remain, while non-USMCA auto & parts are subject to 25% tariff.

In the base case, our US economic research team expects growth in the US to hold up at 1% in 2025. In addition, they expect the Fed will hold for this year before cutting 100bp in 2H26. In the risk scenario, we assume US could enter recession, as trade uncertainties do not abate, yet tariff revenues cannot offset increased fiscal expenditure so have to cut Medicaid spending.

Wide range of outcomes on swing in external factors

Our point estimates are subject to large uncertainty range. In addition to the change in tariff rates, these are also the important factors to watch for:

- **Fed policy:** Views are very divided on Fed policy path. While we expect the Fed to stay steady this year given concerns on inflation, market is pricing in more than 3 cuts in on growth downside. In our risk scenario of a US recession this year, Asia would likely see lower growth, but Fed would also likely cut faster and prompt regional central banks to follow with rate cuts.
- **USD:** Since the announcement of reciprocal tariffs on Apr 2, USD (DXY) dropped for more than 4%. We believe it's conducive for more easing in the region given lower currency pressure from cutting rates. Even in the case of a gradual rebound in USD, we believe Asian central banks are well buffered with ample FX reserves to conduct various operations to smooth currency volatility and depreciation.
- **Commodity demand:** Given the more bearish growth backdrop, our commodity strategists recently downgrade the global demand for major commodity products. Notably, Brent and WTI oil price forecasts are revised downward to \$65/b and \$61/b, on the negative impact of the trade war on oil demand and the increasing OPEC supplies. Petroleum inventories should build in 2H25, but we assume the oil market normalizes next year and prices revert back to marginal cost economics. A lower oil prices should benefit the region as a whole, but would hamper growth in commodity exporting economies including Malaysia and Indonesia.

Korea

We expect growth in Korea to decelerate to 0.8% in 2025 (vs prior forecast of 1.5%), before bouncing back to 1.3% in 2026. Despite in transition phase, the Korean government has already kickstarted the process of negotiation with the US administration, and we remain hopeful that a deal can be reached, to the extent that the current interim tariff to stay beyond the 90 days. Under this base scenario, an effective tariff of about 16% is expected, including tariffs on autos to remain at 25%. Overall, this could still be much higher than the almost 0% tariff under US-Korea FTA.

Given the significant exposure of exports towards both US and China (combined at about 38% of its exports), we see a notable growth drag for this year and the next year. The indirect spillover from weaker global demand will also weigh on growth, along with drags for domestic investment activities. In sequential terms, a meaningful growth slowdown in 2Q is expected, triggered by slower IP growth, followed by some recovery in domestic demand in 2H boosted by additional fiscal stimulus.

On policy front, we expect both fiscal and monetary easing to buffer for the growth shock in 2025. The current administration already proposed a KRW12tn size of emergency supplementary budget, equivalent to 0.5% of GDP, and more is expected later in the year under the new government, in our view. In terms of monetary policy, continued credit line supports are expected towards exporters, and two more cuts are expected in 2Q and 3Q to put policy rate to 2.25%. That said, aggressive cutting is unlikely in the near term, unless the Fed choose to ease further earlier than expected.

Taiwan

We downgrade Taiwan's GDP growth forecast for 2025 to 2.8% (from 3.3%) due to weaker demand from China and slower investment growth amid rising uncertainties and a cooling property market. The 2026 projection is also revised down to 2.0% (from 2.8%) as trade tensions disrupt long-term capex plans.

Currently, Taiwan is largely shielded from the direct impact of US tariffs, with 64% of its exports to the US exempted from higher tariffs. US demand for Taiwan's technology products remains robust, offsetting the mild effective tariff rate increase (3.6%). However, Taiwan's exposure to China demand—especially for non-technology exports (18% of non-tech exports go to China) –could create challenges in redirecting products like chemicals and rubber. The strong economic growth in 2024 was mainly driven by surging investment, which may slow in 2025 due to rising uncertainties and a cooling property market. We expect the CBC to keep policy rate unchanged until late in the year, when growth and inflation slowdown is likely to merit a 12.5bp rate cut.

Risks remain for Taiwan's small, open economy. If the US imposes significant tariffs on semiconductors and related electronics, Taiwan's exports and investment could suffer a larger setback. Conversely, a US-China trade deal that avoids a demand shock could support a healthier growth outlook.

India

India's primary source of downside growth risks comes from weaker global growth, which feeds through the triple channel of weaker exports, weaker investment demand, and weaker sentiment, all of which can be potent enough, to drive a meaningful slowdown. Indeed, we had identified that India has three channels of negative impact, and three channels of mitigation, in our recent report (seereport: [India Viewpoint: Growth risks from potential tariffs – How much? How so? How quickly? 11 April 2025](#)). The three primary sources of downside risks, i.e., direct impact on India's exports from higher US tariffs, indirect impact of global growth slowdown on India's Exports, and sentiment hit to investment demand from weaker capital markets and growing slack. The mitigating factors are falling commodity prices, strong domestic production, and an easier policy stance, but still, it is likely to be impacted by a slowdown, even if it has better shields than others.

Still, in the current scenario, where global growth, especially in key economies comes off by 50-100bp, the impact on India appears largely mitigated by factors such as falling energy prices, and domestic policy support, which prima facie appears larger than previously anticipated, especially for liquidity. In nominal terms, downside nominal growth risks could be almost 100bp in the spectrum of our baseline scenario and worst case outcome, but mitigating factors can provide some support and add back 60bp, bringing the impact to ~40bp in nominal terms, and 20bp in real terms. For FY27, we leave our forecasts unchanged, implying only downside risks. In CY terms, our new projections imply a 20bp downgrade to 6.4% for 2025, while for 2026, we retain our projections at 6.8% for GDP growth. Under the risk scenario, we would expect CY2025 GDP growth to fall by as much as 40-50bp, while CY2026 growth could also weaken by 20-30bp. We again add that these scenarios do not factor in completely the non-linearity of market sentiment impact and investment growth, and if the tariff policies in US keep shifting, the impact on investment could be larger.



ASEAN

Indonesia: Under the baseline scenario, we revise down our GDP growth forecasts by 20-30bp to 4.8% for 2025 and 5.1% for 2026. The main drags would be slower growth out of China, which could impact demand for its commodities and base metals. Our forecast for 2026 also assumes greater support from policy overhaul under the new administration (started last Oct). On BI policy rate, we insert in another 100bp of rate cuts in 2Q-4Q26. This would be on top of a 25bp rate cut we have penciled in for 2Q25 presently. Exact timing of rate cuts would depend on IDR stability. We expect any fiscal stimulus to be highly targeted, with the 3% of GDP fiscal deficit cap adhered to. Under the risk scenario, we see GDP growth in 2025-26 potentially falling closer to 4.5%. Faster pace of rate cuts is probable, but still subject to IDR stability. BI may increase allocation for its liquidity incentive program to further reduce effective RRR. To create room for more spending within the fiscal framework, the government may reduce and/or delay compensation payments to Pertamina and PLN.

Malaysia: Under the baseline scenario, we revise down our GDP growth forecast to 4% for 2025 (vs. 4.7% previously) and 4.3% for 2026 (vs. 4.4% previously). Malaysia's electronics exports and production could face considerable downward pressure, especially given its linkages to global supply chains. However, domestic demand should hold up, with labour market conditions generally healthy, step-up in realized investments still filtering through the economy and tourism spending growth remaining robust. We also inserted a 25bp policy rate cut by BNM in 3Q25. The recalibration would serve as an "insurance cut" to preserve growth in an environment of heightened uncertainty. We don't expect an extended rate cycle presently, with the economy starting 2025 from a position of strength, and our latest forecasts still pointing to positive output gap around 0.4% in 2026. Under the risk scenario, GDP growth could fall below 3.5% in 2025-26, with longer-term growth dampened if investment pipeline slows. If these materialize, BNM could deliver more cuts, but spaced out (rather than back-to-back) to assess interim impact. Fiscal consolidation plans may also take a back seat to better support growth, with revenue plans scaled down and spending raised.

Philippines: We think the downside risk to GDP growth is modest (c20-40bp) and may come from slightly reduced exports to the US and reduced tourist arrivals. We are not factoring-in a reduction in remittances from overseas Filipinos, nor any impact on service exports via BPOs (business process outsourcing). As the reciprocal tariff on the Philippines is relatively low (at 17%) versus its ASEAN peers, should these tariffs stick, it may mildly benefit the Philippines in the form of trade and FDI. The decline in oil prices in anticipation of weaker global growth benefits net oil importers like the Philippines in terms of a lower trade deficit and lower inflation. This is supportive of further policy rate cuts by the Bangko Sentral ng Pilipinas for the rest of 2025, having already reduced its policy rate 25bp in early April.

Singapore: Under the baseline scenario, we revise down our 2025 and 2026 GDP growth forecasts to 1.4% and 1.7% respectively from 2% (and closer to trend-pace) for both years earlier. In qoq SA terms, we penciled in a bumpy profile to reflect volatility in production of semiconductors and pharmaceutical (both account for almost 10% of GDP). With output gap likely to turn negative this year and cost pressures weakening, we lower our core inflation forecasts by 30bp to 0.9% and 1.2% in 2025 and 2026 respectively. This keeps core inflation staying well below the historical mean (1.5-2%) over the medium-term (i.e. 1-2 years out). We expect MAS to ease for the 3rd straight meeting in Jul, with the FX slope flattened. A series of off-cycle fiscal measures could be rolled out across 2025, aimed at helping businesses ease cash flow and sharpen their productivity & expanding overseas. Under the risk scenario, GDP growth could fall below 1% in 2025-26, with widening of output gap further lowering core inflation trajectory. Hurdle for MAS to re-centre downwards is high, but cannot be entirely ruled out. Fiscal measures could be stepped up, with added focus on supporting households and preserving jobs.

Thailand: We have revised downward growth forecast to 1.7% for 2025 and 2.0% for 2026. Thailand has been facing the growth headwinds from slow tourism momentum, the short-lived impact from the earthquake and now the trade policy uncertainty. We assume that Thailand manages to negotiate the US tariffs to 10% by buying more US goods and implementing safeguard measures on Chinese rerouting, without opening up the agricultural sector, which is highly politically sensitive. However, the uncertainty would cap investment flow. It's manufacturing production which has been under pressure would face greater headwinds from imports from China, although some sectors might benefit from trade diversion as they are taxed at the lower rate compared to the Chinese goods. Under the risk scenario, the US recession and significant global growth slowdown would put additional pressure on trade and tourism which are the key drivers for Thailand growth. We expect growth to fall to 0.9% under this scenario.

Vietnam: Under the new baseline scenario, we revise down our GDP growth forecast to 5.9% for 2025 (vs. 6.7% previously), but maintain our forecast at 6.4% for 2026. 1Q25 GDP was firm at 6.9%, and our forecast thus imply 2Q-4Q25 GDP averaging 5.6%. For now, Vietnam is still benefitting from lower tariffs vis-a-vis China, which could blunt effects of potentially weaker exports to the US. If VND does not come under severe depreciating pressure, we think that SBV could cut policy rates by 50bps to previous lows seen during COVID. The rate cuts could be staggered between discount and refinancing rates (rather than both at one go). If fiscal support is required, the government could temporarily reduce tax rates and accelerate disbursement of funds for public investments. Under the risk scenario, GDP growth could stay well below 6% in 2025-26, with SBV perhaps rolling out more credit support measures.

Australia & New Zealand

Australian GDP growth has been revised down 0.3ppt to 1.6% in 2025, which reflects a modest direct effect from US tariffs, but larger indirect effect through lower global growth (primarily in China) weighing on export demand. Increased uncertainty and lower confidence also reduce investment and consumption in mid-2025. We expect fiscal support (both domestically and in China), further RBA easing, and the exchange rate response will help offset the negative growth effects. Growth is expected to pick up to 2.2% in 2026 as policy stimulus takes effect and rising global growth supports Australian exports.

Australian inflation is forecast to rise 2.6% in 2025 (revised from 2.9%) as weaker domestic demand, lower oil prices and trade diversion lowers import prices. Inflation should pick up to 2.8% in 2026 as growth accelerates and stimulus supports higher prices. In the bearish scenario, downside risks to Australian growth and inflation increase, and fiscal and monetary policy respond to help cushion the blow.

New Zealand GDP is expected to rise 0.7% in 2025 (revised from 1.0%) as global growth headwinds constrain the already subdued economic recovery. Growth picks up to 3.0% in 2026 as considerable RBNZ easing increases demand and Chinese growth supports NZ export demand. Inflation is expected to remain around the middle of the RBNZ 1-3% target band at 2.2% and 2.0% in 2025 and 2026, respectively. If trade uncertainties do not abate, there could be risk to NZ growth and inflation forecasts to reflect the weaker global growth outlook.



EEMEA: Spared from the worst

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The lower direct trade links of the Emerging Europe, Middle East and Africa (EEMEA) region with the United States (US) versus other regions could help shield it from the worst of the trade wars. Indirect impacts through European Union (EU) trade links, China or oil exposure however mean the region is not immune from the ongoing global slowdown. The weaker dollar environment provides some breathing room for monetary authorities, but external financing will likely remain tight for the region's high-yielders. We mark down growth in Central and Eastern Europe (CEE), South Africa, Israel and Türkiye, and see additional central bank easing in Czechia and South Africa in 2025.

Exhibit 20: We expect lower real Gross Domestic Product (GDP) growth and more easing in some EEMEA countries

Real GDP growth and policy rates forecasts for selected EEMEA countries

	GDP growth (%)					Monetary policy rate (% eop)				
	2024	2025F		2026F		Current	2025F		2026F	
		Current	Old	Current	Old		Current	Old	Current	Old
Poland	2.80	3.5	3.6	3.5	3.6	5.75	4.50	4.50	3.50	4.00
Hungary	0.60	2.3	2.5	3.0	3.2	6.50	6.50	6.50	6.00	6.50
Czechia	1.00	1.9	2.1	2.6	2.7	3.75	3.25	3.50	3.00	3.25
Romania	0.90	1.6	1.8	3.1	3.3	6.50	6.25	6.50	5.50	6.50
South Africa	0.60	1.2	1.4	1.6	1.8	7.50	7.25	7.50	7.25	7.25
Türkiye	3.20	2.3	2.4	4.0	4.2	46.00	36.00	32.50	23.00	22.00
Israel	0.90	3.3	3.5	4.0	4.2	4.50	4.00	4.00	3.25	3.25

Source: BofA Global Research. eop = end-of-period.

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CEE: first round impact manageable, second round is key

Exports from Central and Eastern Europe (CEE) to the US, as well as China, are relatively small, but the large scale and uncertainty of tariffs means that downside risks prevail for their very open economies if global/EU growth weakens significantly. Under the assumption of 25% tariffs on auto and 10% on other goods, we see possible negative impact on CEE growth of 0.2-0.4pp, with Hungary likely hit the most and Poland likely most resilient (thanks to more EU funds inflows and larger policy room than peers). We thus lower Czechia GDP growth to 1.9% in 2025E, Hungary 2.2%, Poland 3.5%, and Romania 1.6%.

In a bearish scenario, there could be another 0.3-0.4pp of further downside, exacerbated by the second-round impact from weaker EU/global demand. Hungary is likely the most vulnerable due more exposure to US/auto, and much tighter policy room.

Cautious central banks mean less pre-emptive approach

In our base case, we expect moderate reaction by central banks, explained by either their policy approach or market constraints. The Czech National Bank (CNB) has the most flexible policy room to cut, due to its large FX reserves and inflation already within target range. But its strong hawkish bias means slow reaction. We think 3% terminal rate is realistic vs our previous call of 3.25%. The bar to go sub-3% is still high in our view, likely only in a global recession scenario. The National Bank of Hungary (NBH) likely has the most appetite to ease ahead of the 2026 elections. But its hands are tied due to high FX vulnerability and renewed underlying CPI pressures. We think the base rates will be held at 6.50% in 2025, and cuts possible in 2026, probably to 6.0%. The National Bank of Poland (NBP) has U-turned to a strong easing bias recently. We keep our call for YE2025 rates at 4.50% but lower YE2026 by 50bp to 3.50%.



In a bearish scenario where ECB policy rate go sub-1%, CEE central banks will eventually need to go sub-neutral, but likely in a delayed fashion, either due to its determined hawkish approach (CNB, and may be NBP), or its currency vulnerability (NBH). Czech rates could end up around 2.5%, and Poland 3.0%. For Hungary, if the new NBH Governor Varga earns market trust and fiscal policy is loosened in a careful manner accepted by the markets, a stable HUF may allow monetary easing probably to 5.0%.

Türkiye & Israel: better positioned but no escape from a global recession

A slowdown in global growth would have a mild impact on exports. Under the base scenario, we would expect Türkiye's exports to be down 0.5-2% and growth to be 0.1-0.2% lower in 2025 and 0.1-0.2% lower in 2026 (currently 2.4% and 4.2%, respectively). In this case, since oil price is expected to be lower, trade deficit would be balanced with gains in net energy imports vs. losses in exports. Hence, we would still expect the current account deficit to be c1% of GDP. Here, we have only accounted for direct global growth impact on trade and growth. However, if Türkiye uses its advantage against competitors in the US market, losses could be limited. We would not expect significant impact of trade and/or investment diversion under the mild scenario. We would also not expect the Central Bank of the Republic of Türkiye (CBRT) policy to react to global risks as long as they remain limited to our baseline. The disinflation program would continue.

In the bearish scenario of a global recession, export losses could be up to 3-5%, and growth would be down 0.3% in 2025 and 0.4-0.6% in 2026. However, in this scenario we would expect some trade and investment diversion away from highly tariffed competitors, mainly in Asia, to Türkiye, supporting exports and growth. It is harder to quantify those indirect impact as of today, but such diversion would put upside risk on our forecasts. Larger drop in energy prices would support disinflation and the current account deficit. CBRT would be able to maintain a lower real interest rate in this environment, but it would depend on the local dollarization trend.

In Israel, both the EU and the US has 26% and 28.5% share in exports while Asia only accounts for 16.5%. In a mild scenario where some of the tariffs are rolled back, growth impact could be limited to 0.2-0.3% in both 2025 and 2026 while in a bearish scenario it could be down 0.5-0.7% in each year (currently 3.5% and 4.2%, respectively for 2025 and 2026). Inflation in the world would put some pressure on domestic prices while lower growth and lower energy prices could dampen the impact partially. Still, we would expect a faster pace of cuts from the Bank of Israel (BoI) under this scenario.

Middle East – North Africa: trade and oil crosscurrents

The Middle East – North Africa (MENA) countries have been relatively spared versus other countries facing reciprocal tariffs. Iraq, Tunisia and Jordan would have faced reciprocal tariffs of 39%, 28% and 20% prior to the 90-day pause. Other MENA countries, including the Gulf Cooperation Council (GCC), Iran, Egypt, Morocco and Lebanon will face reciprocal tariffs of 10%. Energy and other certain minerals that are not available in the United States will not be subject to the reciprocal tariffs.

We expect Saudi Arabia headline real GDP growth to remain broadly unchanged as the higher planned oil production could offset any slowdown in the non-hydrocarbon sector. Furthermore, while we expect re-prioritisation of megaprojects, we still expect the fiscal deficit to widen to 6.5% of GDP in 2025. For now, we think authorities could manage to cap pressure on market yields and shield the near-term real non-hydrocarbon sector. Saudi Arabia financing constraints could become however more acute below US\$60/bbl, assuming unchanged oil production levels.

In a global recession risk scenario, and on the assumption that the Organization of the Petroleum Exporting Countries (OPEC) cuts supply, even if with a delay, we expect real GDP growth to decelerate towards at least 0% as the hydrocarbon sector contracts and the non-hydrocarbon sector slows down. We expect the fiscal deficit would widen even further, but perhaps be capped towards 8% of GDP, through cuts to megaprojects and other revenue measures.

Sub-Saharan Africa (SSA): getting off tariff lightly

South Africa: GDP growth downgrade to 1.2% in 2025E

We revise down our growth estimate, again to 1.2%, previously 1.4%. This is a second iteration from an initial 1.6% last month. The downside revision is two-fold: to reflect delays in domestic reforms as well as global tariff war that slows global growth.

Domestic high frequency economic activity data (mining and manufacturing) remains weak despite improvements in electricity supply and a Government of National Unity. Government reforms have been slow without meaningful pick up in domestic investment.

Direct impact of US tariffs is small. US share of exports to the US is about 7.7% of its total, dominated by precious metals, motor vehicles, iron and steel, chemical products, and mineral products. With the exemption of minerals, only a small share of auto and agriculture exports are exposed. However, South Africa remains at risk, following rifts with the US relating to geopolitical conflicts (Israel-Hamas and Russia-Ukraine) and local economic empowerment laws. Nevertheless, slower US growth and China growth drag global growth down, along with South Africa. In a bearish scenario, South Africa growth could be dragged down to less than 1% but we see no recession, in our estimates.

Lower oil prices: lower inflation + room for SARB cut.

Oil importers, such as South Africa, welcome low oil prices in the \$60s. Our baseline assumes oil prices to average \$65 per barrel relative to our previous assumption of \$70 per barrel. We now assume South Africa inflation to average 3.7% in 2025 (previously 3.9%), 4.5% in 2026 (previously 4.6%). South Africa's domestic inflation is still below the SARB's desired 4.5% target, while rising global risks are likely to dissuade it from near-term easing. As in March, the South African Reserve Bank (SARB) is likely to adopt a wait-and-see attitude in May. Thereafter, it may consider one more cut with domestic inflation still in check. We now pencil in a 25bp cut in 3Q25, in July, returning monetary policy to neutral. We estimate domestic CPI to be back around 4.5% in October, from previously an August expectation.

In a bearish scenario where oil goes to low 50s, South Africa inflation could further fall by 0.2-0.4% keeping it well below CPI target. In that case, SARB will likely have room to go below neutral by cutting 50-75bp instead of just one cut in our baseline.

SSA: no tariffs on commodities reduce growth damage

A tariff-induced global growth slowdown is mildly negative for SSA countries. For most SSA countries, exports to the US are low, ranging from 0% for Zambia to 14% for Angola. However, many SSA exports to the US are mostly oil and minerals, which are exempt from tariffs. Nevertheless, slower global growth will hurt growth in the region.

Lower oil prices negative for Nigeria and Angola

Low oil prices-\$60s- are likely to widen fiscal and current account deficits. Both rely on hydrocarbons – over 95% of exports. Nigeria could withstand the shock, while Angola needs a helping hand. Angola and Nigeria both run moderate fiscal deficits and current account surpluses. Oil at \$65 per barrel would turn Angola's current account into a small deficit close to 1% of GDP, while Nigeria's would remain in surplus. If we discount for large E&Os in BOP, Nigeria will also fall into a small deficit.

CIS: focus on second round effects

In general, direct impact of US tariffs on the Commonwealth of Independent States (CIS) region should be largely limited, but the main impact will likely come through secondary effects. The region was largely spared of the US reciprocal tariffs as Kazakhstan is the only major economy, which would have faced a 27% tariff prior to being paused. Most of others are subject to a basic 10% rate. The region also has quite limited exposure to the US market, which accounts for just about 1.9% of Kazakhstan total exports (\$1.5bn in 2023), 2.1% in Georgia, 1.2% in Uzbekistan. Moreover, most of regional exports are commodities, which could arguably be easily redirected.

Therefore, the main source of economic or fiscal pressure on the region would likely come from the likely weakness in oil prices, which could weigh on key regional energy exporters – Kazakhstan and Azerbaijan. From a macro perspective, we view Azerbaijan as more vulnerable to weaker oil given that Oil and Gas (O&G) accounts for well over 90% of its exports. So deeper correction in oil prices may push growth into recession and prevent widely expected rating upgrade to Investment Grade (IG) by Moody's. However, we also think that fiscal risks should be relatively muted given prudent policy over the past few years as well as massive fiscal assets in the State Oil Fund of Republic of Azerbaijan (SOFAZ), which should help to cover near term fiscal financing needs.

Kazakhstan could be more vulnerable from a fiscal perspective given its generally loose fiscal policy and much higher fiscal breakeven of US\$85-90/bbl. At the same time, lower oil prices could push the Kazakh authorities into more drastic steps towards fiscal consolidation as part of ongoing tax reforms. The authorities have already started preparation of contingency measures and spending cuts in case if oil were to drop to \$50/bbl.

Energy to drive performance

Under the baseline scenario, we think that Kazakhstan could be able to maintain robust 4.5% real GDP growth this year, mainly set by a material ramp up of domestic oil output from early 2025 as well as generous fiscal spending. However, growth will likely slow materially to about 3-3.5% in 2026 given the likely fiscal consolidation on the back of lower oil revenues, planned tax hikes as well as slowdown of global growth.

The deceleration will likely be more pronounced under a downside scenario as we expect growth to slow to just about 3% in 2025 and 1.5-2% in 2026. In this case, much sharper decline in oil prices will likely force material fiscal consolidation already in 2025 and into 2026. The resulting current account pressures due to weaker oil could weigh on the KZT. This, we think, could force monetary tightening despite economic weakness, which may further intensify economic pressures.

Western Balkans: leaning onto the EU

We think that Western Balkans region will likely be mainly driven by the evolution of the EU macro risks, rather than directly impacted by the US tariff policy. Serbia would have been subject to some 37% reciprocal tariff prior the announced pause, but we note that the share of the US in total exports is limited to just over 2.1% (\$670m), versus 61% for the EU (\$19.bn). Moreover, the structure of exports to the US is quite similar to exports to the EU, which may support swift redirection of trade. Moreover, any adverse current account impact will likely be more than offset by the likely reduction of Serbia's \$4.9bn energy bill (in 2024).

Growth to track the EU

Therefore, under the baseline view, we keep our constructive Serbia macro forecasts unchanged with 3.9% and 3.7% real GDP growth in 2025-2026, due to strong pipeline of public infrastructure spending as well as some support from lower energy costs. However, the country may suffer in case of any major deterioration of the EU macro outlook. Thus, under a downside scenario of recession, Serbia real GDP growth could slow to 3.0% and 2.5% in 2025 and 2026 on the likely slowdown of exports and Foreign Direct Investment (FDI) inflow. At the same time, growth slowdown could help to ease domestic inflationary pressures to allow for 100-150bp in rate cuts (versus 50bp by 2026 end-of-period (eop) under the baseline). We also note that after several years of fiscal deleveraging the country is well positioned to withstand near term fiscal pressures with well over EUR4bn in fiscal assets and National Bank FX reserves at near record EUR32bn.



South Asia: exports vs. oil

Pakistan and Sri Lanka could be some of the most impacted countries by new US tariff policy with 23% and 44% reciprocal tariffs prior to the announced 90-day pause, respectively. In both cases, the US is the main export market and main exports are textiles, which are quite sensitive to tariffs. On the more positive side, the size of such exports is relatively small, whereas both countries are also heavy energy importers. The latter could give material current account and economic support through the likely weakness in oil prices. As a result, we think that both countries could see further headwinds to near term growth, although near term financing risks should be relatively contained. Between the two, Pakistan is relatively more defensive given lower exposure to the US, stronger tariff negotiating position as well as the likely relatively higher benefits of weaker oil prices.

Domestic drivers should limit impact under baseline

In general, we note that macro in both macro cases remain largely driven by the evolution of domestic demand and fiscal consolidation. Therefore, under the baseline scenario, we keep our macro forecasts for both Sri Lanka and Pakistan. Sri Lanka is expected to grow by 3.5% and 3.3% in 2025/2026, whereas Pakistan will likely expand by around 2% and 3% in 2025/26. However, strong tariff pressure under a downside scenario may materially constrain growth outlook in both countries and cap potential growth upside in 2026-2027.

Downside may trigger material slowdown

Under the downside scenario, Pakistan real GDP growth may slow to about 0.5-0.7% yoy in the next 2-3 quarters due to export pressures, which may keep growth in current 2025 fiscal year at around 1%. Growth may also fail to recover in 2026 fiscal year (starts in July 2025) and stay at modest 1.5-2%. Sri Lanka growth may slow to about 1.5% in 2025 and 3% in 2026, with economy potentially slowing c1-1.5% over the next 3-4 quarters, before picking up on base effect and broader adjustment.

On the more positive side, both countries may not see any major additional current account pressures given the likely further weakness in energy. This could prevent any major Fx weakness and may help to keep inflation well below Central Bank targets in both countries. The latter could allow further monetary easing in both countries as soon as FX volatility will subside. Sri Lanka Central Bank may cut policy rate by at least another 150-200bp from current 8%, versus State Bank of Pakistan – by another 200-300bp from current 12%.

LatAm: Lower global growth = lower LatAm growth

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LatAm: Lower global growth = lower LatAm growth

We cut our GDP growth expectations for LatAm to 1.9% from 2.1% for 2025 and to 1.9% from 2.1% in 2026 (Exhibit 21). Lower global growth, but especially lower growth in the US and in China, will impact growth prospects in LatAm to the downside. Mexico is the country most exposed to US growth and directly to tariffs, so we now expect a contraction for 2025 (Exhibit 22). South America is very exposed to China growth, with many countries more exposed to trade and investment with China than with the US (Exhibit 23). So lower China growth is a headwind, but for some countries in the region there is also a tailwind from market share gains in the US and in China as the trade war escalates. Remember that LatAm was mostly spared from the (for now delayed) reciprocal tariffs above 10% imposed to other regions. Central American & Caribbean (CAC) economies have little exposure to China but a lot to the US which is the main source of worker remittances, trade, tourism, and foreign direct investment (FDI), so we also revise their growth prospects.

We keep our inflation and monetary policy forecasts mostly unchanged for the region. But the annual numbers hide opposing forces impacting inflation: lower growth will likely lower inflation, but potentially weaker currencies would put upside pressure on the price of tradable goods. We expect central banks in the region to have an eye on the latter, given our US economics team assumption that the US Fed would take time to cut (we only expect Fed cuts to happen in 2026, not in 2025).

Exhibit 21: We revised our macro forecasts for LatAm

Our main revision is to lower GDP growth. We now expect regional GDP growth at 1.9% in 2025 and 1.9% in 2026

	GDP growth					CPI %yoy (eop)					Monetary policy rate (eop)				
	2024	2025F		2026F		2024	2025F		2026F		Current	2025F		2026F	
		Current	old	Current	old		Current	old	Current	old		Current	old	Current	old
LatAm	2.1	1.9	2.7	1.9	2.7	4.2	4.4	4.4	3.7	3.9					
Brazil	3.4	1.8	2.0	1.5	1.6	4.8	5.4	5.4	4.5	4.5	14.25	14.25	14.25	11.25	11.25
Mexico	1.2	-0.2	0.0	1.0	1.4	4.2	4.0	4.1	3.5	4.1	9.00	8.00	8.00	7.00	8.00
Argentina	-1.7	5.0	5.0	3.5	3.5	117.8	33.0	25.4	18.4	18.4	29.00	29.0	29.0	25.0	25.0
Chile	2.6	2.2	2.5	1.7	1.7	4.5	4.0	4.0	3.3	3.3	5.00	5.00	5.00	4.50	4.50
Colombia	1.7	2.3	2.6	2.5	2.8	5.2	4.3	4.3	3.4	3.4	9.50	8.00	8.00	7.00	7.00
Costa Rica	4.3	3.5	3.8	3.7	3.9	0.8	2.0	2.0	3.0	3.0	4.00	4.00	4.00	4.00	4.00
Dom Rep	5.0	3.4	4.0	4.2	4.5	3.3	4.1	4.1	3.9	3.9	5.75	5.75	5.75	5.75	5.75
Ecuador	-1.5	1.5	2.0	2.0	2.3	0.5	1.8	1.8	1.8	1.8		-	-	-	-
El Salvador	2.4	2.6	3.0	2.7	3.0	0.3	0.9	0.9	1.6	1.6		-	-	-	-
Guatemala	3.7	3.5	4.0	3.7	4.0	1.7	3.9	3.9	3.0	3.0	4.50	4.50	4.50	4.50	4.50
Panama	2.9	3.4	3.9	3.5	3.8	-0.2	1.3	1.3	1.7	1.7		-	-	-	-
Peru	3.3	2.7	3.1	2.6	2.8	2.0	2.2	2.2	2.3	2.3	4.75	4.50	4.50	4.50	4.50
Uruguay	3.5	2.5	2.5	2.0	2.0	5.5	4.7	4.7	4.7	4.7	9.25	9.00	9.00	9.00	9.00
Venezuela	5.0	2.0	2.0	2.0	2.0	94	278	278.0	276	276.0		-	-	-	-

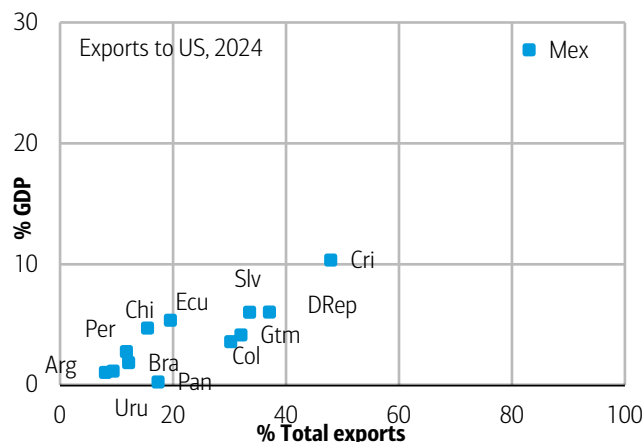
Source: BofA Global Research

BofA GLOBAL RESEARCH



Exhibit 22: Mexico and CAC countries are the most exposed to the US

Exports to the US

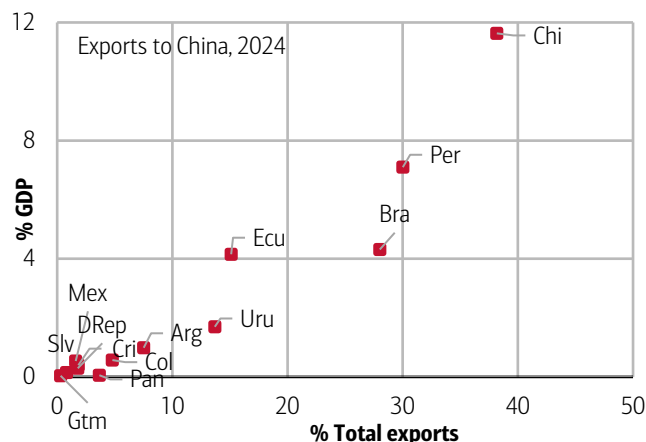


Source: BofA Global Research, IMF

BofA GLOBAL RESEARCH

Exhibit 23: South American countries are the most exposed to China

Exports to China



Source: BofA Global Research, IMF

BofA GLOBAL RESEARCH

Brazil: Lower growth driven by global growth

We reduce our growth forecasts to 1.8% from 2.0% in 2025, and to 1.5% from 1.6% in 2026. The tariffs imposed by the US over many countries should lead to lower global growth in the coming years, and Brazil is no exception. However, effects over Brazilian growth should be milder.

Brazil was not heavily affected by Trump's tariffs, as it received a 10% blanket tariff, and its exports to the US represent only 1.8% of GDP (the Brazilian government wants to negotiate with the US to eventually reduce the tariff for Brazilian products). Furthermore, Brazil could benefit from higher penetration in the US market as it competes with China in some commodities. Brazil could also benefit from higher penetration in China as China imports less from the US. On the other side of the scale, lower global (mainly Chinese) growth should exert a downward pressure over commodity prices and over Brazilian GDP.

There is still uncertainty around GDP growth in 2025-26, as the Brazilian government could implement measures to stimulate activity to improve presidential popularity. This represents an upside risk to our forecast, but there is a high degree of uncertainty regarding the implementation of such measures. So far, the government has already implemented a program of private payroll loans. This backdrop reinforces our view that the BCB will deliver one last hike of 50bp in May, bringing the Selic to 14.75%. We expect the BCB to then remain on hold and start cutting rates in December with a 50bp cut.

Argentina: IMF program and FX adjustment offset the global shock

We keep our GDP growth forecast at 5% for 2025. A larger than expected IMF disbursement and the exchange rate adjustment would likely offset the impact of lower commodity prices that Argentina exports (including oil) and higher emerging market spreads. Also, growth in January-February has been higher than expected, leaving a larger carry-over for this year (4.2%).

Argentina is adjusting the exchange rate in a new FX band system (the peso depreciated 11% this week), cushioning the external shock. We think inflation would increase for a couple of months to then decline below 2% mom by October. We raised our inflation forecast to 33% this year from 25.4% before. The \$20b IMF program, accompanied by FX and fiscal tightening should dissipate concerns about the ability to pay and will be supportive to FX reserves.

Chile: Exposed to copper prices

In Chile, lower copper prices and higher uncertainty should delay investments, reducing GDP growth to 2.2% this year (from 2.5% before). Regarding monetary policy we believe the higher chance of a global recession increases the chances of central bank rate cuts in 2H (we think is too early to cut in 1H25). We have 50bp of cuts in 1H26 (to 4.5% policy rate) with risks of earlier cuts. CLP has depreciated at the margin but the impact on inflation should be fully offset by lower oil prices. We forecast 4% inflation this year and 3.3% next.

Andeans: Sensitivity to China

The sharp US tariff hikes imposed on China should induce a slowdown in the Chinese economy, which we now have in our baseline, reducing demand for imports and lowering the terms of trade (export prices) for the Andean region.

We are revising down our Peru GDP growth forecasts for 2025 (to 2.7%, from 3.1%) and 2026 (to 2.6%, from 2.8%). Arguably Peru is the country in LatAm with the largest economic ties to China. Peru's goods exports to China are equivalent to 9% of GDP (only below Chile, 11% of GDP) and Chinese FDI is quite meaningful (big mines like Las Bambas, Toromocho, and Marcona; electricity distribution in Lima; Chancay port; Camisea natural gas; among others).

In the case of Colombia, we are trimming the GDP growth forecast for 2025 (to 2.3%, from 2.6%) and 2026 (to 2.5% from 2.8%). Colombia's exports to China are small (1% of GDP) but it will also take a hit from lower oil prices and lower demand from its top trading partner (the US) that will not be unscathed.

Meanwhile, Ecuador is coming out of a recession (we estimate GDP contracted 1.5% last year) only to stumble into a global shock. We forecast subdued growth in Ecuador for 2025 (1.5%, from 2% in our previous scenario) and 2026 (2%, from 2.3%).

Peru has substantially more fiscal and monetary space to respond to the shock than Colombia (dealing with elevated inflation and fiscal fragility) and Ecuador (hands tied by fiscal targets of IMF program, and no monetary policy because of dollarization). With an investment-grade credit rating, public debt in the 35%-of-GDP vicinity, and a buffer of savings, Peru could roll out expansionary fiscal policy if the economic slowdown is meaningful. Likewise, the Central Bank of Peru (BCRP) may cut the policy rate below the US Fed, as it did in the past, for which it would need to ramp up FX interventions to deal with the depreciation pressure on the exchange rate.

In contrast, Colombia's fiscal accounts are in their worst shape in decades, so launching a fiscal stimulus package could backfire in the form of credit rating downgrades. Ecuador's fiscal space is even smaller. The government doesn't have access to markets and there is uncertainty on whether they can repay the Eurobonds falling due in 2026.

Central America & Caribbean: Correlated to US

The Central American & Caribbean (CAC) economies have little exposure to China but a lot to the US which is the main source of worker remittances, trade, tourism, and foreign direct investment (FDI).

Trade diversion in light manufacturing (apparel & textiles, medical equipment, electrical equipment, and even semiconductors) could serve as a buffer, benefitting the CAC region at the expense of Asian countries which are being subject to much higher US tariff hikes. For instance, the US could import more apparel from El Salvador, Guatemala, and Honduras, and less from Vietnam.

However, this is unlikely to fully offset the negative impact from a weaker US economy. Hence, we are revising down growth forecasts for all the CAC countries. Our revised GDP growth forecasts for 2025 are: Costa Rica (3.5%, from 3.8%), Dominican Republic (3.4%, from 4%), El Salvador (2.6%, from 3%), Guatemala (3.5%, from 4%), and Panama (3.4%, from 3.9%).

Guatemala is probably the country with the largest room to react on fiscal policy. Then Costa Rica and the Dominican Republic. Panama is struggling with a large fiscal deficit, and El Salvador has just begun an IMF program with steep fiscal consolidation targets. On the monetary front, the central banks of the region seem mindful about the risks of narrowing the interest rate differential with the US.

Global economic forecasts

Exhibit 24: Global Economic Forecasts

Global GDP growth expected at 2.8% in 2025 and 3.0% in 2026

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2023	2024	2025F	2026F	2023	2024	2025F	2026F	Current	2024	2025F	2026F
Global and regional aggregates												
Global	3.3	3.2	2.8	3.0	4.3	3.1	2.4	2.6	5.48	4.83	4.23	3.86
Global ex US	3.4	3.3	3.0	3.3	4.3	3.2	2.3	2.6	5.72	4.93	4.20	3.96
Global ex China	2.7	2.7	2.4	2.7	5.5	3.9	3.2	3.1	6.13	5.34	4.69	4.21
Developed Markets	1.6	1.6	1.1	1.2	4.7	2.6	2.4	2.1	3.14	3.46	2.81	2.51
Emerging Markets	4.5	4.3	3.9	4.2	4.0	3.5	2.4	2.9	7.29	5.85	5.26	4.81
Emerging Markets ex China	4.0	3.9	3.9	4.2	6.4	5.5	4.3	4.4	9.88	7.67	6.95	6.21
Europe, Middle East and Africa (EMEA)	1.0	1.3	1.6	2.0	7.7	5.4	3.8	3.0	8.23	5.82	4.43	4.03
European Union	0.5	1.0	1.1	1.5	6.3	2.6	2.0	1.6	2.64	3.29	1.89	1.97
Emerging EMEA	2.3	2.2	2.9	3.5	12.9	12.8	8.4	6.6	18.83	11.85	10.49	8.71
Emerging Asia	5.4	5.2	4.5	4.7	2.1	1.8	1.1	2.2	3.89	4.12	3.59	3.59
ASEAN	4.1	4.9	4.7	4.8	3.5	2.6	2.3	2.6	4.52	4.75	4.36	4.33
Latin America	2.1	2.1	1.9	1.9	5.7	4.3	4.4	3.7	10.62	9.98	10.05	8.37
G6												
US	2.9	2.8	1.5	1.5	4.1	3.0	2.9	2.6	4.38	4.38	4.38	3.38
Euro area	0.4	0.8	0.8	1.0	5.4	2.4	1.7	1.4	2.25	3.00	1.40	1.65
Japan	1.7	0.1	0.2	0.6	3.3	2.2	2.5	1.9	0.50	0.25	0.50	1.00
UK	0.3	1.1	1.1	1.3	7.3	2.6	2.9	2.1	4.50	4.75	3.50	3.50
Canada	1.2	1.5	1.0	1.5	3.9	2.4	2.2	1.7	2.75	3.25	2.00	2.00
Australia	2.0	1.0	1.6	2.2	5.6	3.3	2.6	2.8	4.10	4.35	3.60	3.60
Euro area												
Germany	-0.3	-0.2	-0.1	0.6	6.0	2.4	2.1	1.4	2.25	3.00	1.40	1.65
France	1.1	1.1	0.4	0.7	5.7	2.3	0.7	1.2	2.25	3.00	1.40	1.65
Italy	0.7	0.5	0.4	0.7	5.9	1.3	1.7	1.3	2.25	3.00	1.40	1.65
Spain	2.7	3.2	2.4	1.5	3.4	2.8	2.1	1.1	2.25	3.00	1.40	1.65
Netherlands	0.1	1.0	1.4	1.2	4.1	3.2	2.8	1.7	2.25	3.00	1.40	1.65
Belgium	1.4	1.0	0.9	1.0	2.3	4.3	3.2	1.8	2.25	3.00	1.40	1.65
Austria	-0.8	-1.3	0.0	0.8	7.7	3.0	3.0	1.6	2.25	3.00	1.40	1.65
Greece	2.0	2.3	1.7	1.7	4.2	2.9	1.9	1.7	2.25	3.00	1.40	1.65
Portugal	2.3	1.9	2.2	1.6	5.3	2.5	1.6	1.5	2.25	3.00	1.40	1.65
Ireland	-5.5	1.2	3.5	1.9	5.2	1.7	1.5	1.5	2.25	3.00	1.40	1.65
Finland	-1.2	-0.1	0.7	1.1	4.3	1.2	1.5	1.2	2.25	3.00	1.40	1.65
Other developed economies												
New Zealand	0.6	-0.1	0.7	3.0	5.7	2.7	2.2	2.0	3.50	4.25	2.50	2.50
Switzerland	0.7	1.3	1.1	1.4	2.1	1.3	0.4	0.7	-0.75	0.75	0.50	0.50
Norway	0.5	0.6	1.2	1.5	5.5	3.3	2.4	2.2	4.50	4.50	4.00	3.50
Sweden	-0.2	0.5	1.5	1.8	5.9	2.1	2.0	1.6	2.25	2.50	2.00	1.50
Emerging Asia												
China	5.3	5.0	4.0	4.2	0.2	0.4	-0.5	0.7	3.10	3.10	2.70	2.70
India	8.2	6.7	6.4	6.8	5.4	4.4	3.6	5.4	6.00	6.50	5.50	5.50
Indonesia	5.0	5.0	5.1	5.3	3.7	2.5	2.1	2.7	5.75	6.00	5.50	5.50
Korea	1.4	2.0	0.8	1.3	3.6	2.5	1.7	1.8	2.75	3.00	2.25	2.25
Taiwan	1.3	4.6	3.3	2.6	2.5	2.1	1.9	1.8	2.00	2.00	2.00	2.00
Thailand	1.9	2.5	2.3	2.4	1.2	0.5	0.7	0.8	2.00	2.25	1.50	1.25
Malaysia	3.6	4.9	4.7	4.7	2.5	2.8	2.5	2.7	3.00	3.00	3.00	3.00
Philippines	5.5	5.7	5.9	5.8	6.0	3.3	3.3	3.5	5.50	5.75	5.25	5.25
Singapore	1.1	4.4	2.0	2.0	4.8	2.6	1.2	1.6				
Hong Kong	3.3	2.5	1.3	1.7	2.1	1.8	1.7	1.9	3.86	4.75	4.75	3.75
Vietnam	5.0	6.7	6.8	6.8	3.3	4.1	4.1	4.0	4.50	4.50	4.50	4.50

Source: BofA Global Research

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Exhibit 25: Global Economic Forecasts (continued)

Global GDP growth expected at 2.8% in 2025 and 3.0% in 2026

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2023	2024	2025F	2026F	2023	2024	2025F	2026F	Current	2024	2025F	2026F
Latin America												
Brazil	2.9	3.4	1.8	1.5	4.6	4.3	5.4	4.5	14.25	12.25	14.25	11.25
Mexico	3.3	1.2	-0.2	1.0	5.5	4.7	4.0	3.5	9.00	10.00	8.00	7.00
Argentina	-1.6	-1.7	5.0	3.5	133.5	229.8	33.0	18.4	29.00	32.00	29.00	25.00
Colombia	0.6	1.7	2.3	2.6	11.7	6.7	4.3	3.4	9.50	9.50	8.00	7.00
Chile	0.2	2.6	2.5	1.7	7.6	3.9	4.0	3.3	5.00	5.00	5.00	4.50
Peru	-0.6	3.3	2.7	2.6	6.3	2.5	2.2	2.3	4.75	5.00	4.50	4.50
Ecuador	2.4	-1.5	1.5	2.0	2.2	1.9	1.8	1.8				
Uruguay	0.4	3.5	2.5	2.0	5.9	4.9	4.7	4.7				
Costa Rica	5.1	4.3	3.5	3.7	0.5	-0.3	2.0	3.0	4.00	4.00	4.00	4.00
Dominican Republic	2.4	5.0	3.4	4.2	4.8	3.4	4.1	3.9	5.75	5.75	5.75	5.75
Panama	7.3	2.9	3.4	3.5	1.5	1.3	1.3	1.7				0.00
El Salvador	3.5	2.4	2.6	2.7	4.0	1.0	0.9	1.6				0.00
Guatemala	3.5	3.7	3.5	3.7	6.2	3.6	3.9	3.0	4.50	4.50	4.50	4.50
EEMEA												
Türkiye	5.1	3.2	2.3	4.0	53.9	60.9	34.7	21.5	46.00	47.50	36.00	23.00
Nigeria	2.9	3.4	3.2	3.0	24.7	32.5	20.0	17.0	27.50	27.50	25.00	23.00
Egypt	3.8	2.4	4.0	4.0	24.4	33.3	19.0	13.0	27.75	27.25	23.25	17.25
Poland	0.2	2.8	3.5	3.5	11.4	3.9	4.0	3.0	5.75	5.75	4.50	3.50
South Africa	0.7	0.6	1.2	1.6	5.9	4.7	3.8	4.5	7.50	7.75	7.25	7.25
Romania	2.1	0.9	1.6	3.1	10.4	5.3	4.4	3.3	6.50	6.50	6.50	5.50
Czech Republic	-0.1	1.0	1.9	2.6	10.7	2.3	2.3	1.9	3.75	4.00	3.25	3.00
Israel	2.0	0.9	3.3	4.0	4.2	3.1	2.9	2.4	4.50	4.50	4.00	3.25
Hungary	-0.9	0.6	2.3	3.0	17.1	3.8	4.6	3.4	6.50	6.50	6.50	6.00
Saudi Arabia	-0.8	1.3	3.8	3.3	2.3	1.7	1.9	2.0	4.50	5.00	5.00	4.00
Ukraine	5.3	3.5	3.5	7.0	12.9	5.8	7.5	5.0	15.50	13.50	13.00	11.00

Source: BofA Global Research

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Exhibit 26: Real GDP growth, qoq annualized %

Global GDP growth expected at 2.8% in 2025

	1Q 2025	2Q 2025	3Q 2025	4Q 2025	1Q 2026	2Q 2026	3Q 2026	4Q 2026	2024	2025	2026
Developed Markets											
US	0.8	0.9	0.6	1.6	1.6	1.6	1.8	1.8	2.8	1.5	1.5
Euro area	0.7	0.8	-0.2	0.3	1.2	1.5	1.7	1.7	0.8	0.8	1.0
Japan	1.9	-4.1	-2.8	0.9	2.0	1.4	1.6	1.2	0.1	0.2	0.6
UK	2.4	0.6	1.3	1.0	1.4	1.4	1.4	1.6	1.1	1.1	1.3
Canada	0.7	-0.7	0.2	0.6	2.0	2.4	2.6	2.8	1.5	1.0	1.5
Australia	-	-	-	-	-	-	-	-	1.0	1.6	2.2
G6 Aggregate	0.9	0.3	0.0	1.0	1.5	1.5	1.7	1.7	1.6	1.1	1.2
Emerging Markets											
China	6.0	-1.8	3.5	6.5	5.5	2.5	4.0	5.5	5.0	4.0	4.2
India	8.0	5.1	1.8	11.3	7.9	6.4	1.6	13.4	6.7	6.4	6.8
Indonesia	5.7	5.7	3.6	5.3	6.1	5.7	4.1	5.3	5.0	5.1	5.3
Korea, Republic Of (South)	1.6	0.7	0.3	2.1	1.3	1.4	1.1	2.4	2.0	0.8	1.3
Thailand	1.3	2.0	1.5	1.4	2.9	1.9	3.3	4.0	2.5	2.3	2.4
Singapore	2.8	2.8	3.0	3.2	2.4	2.4	2.4	2.0	4.4	2.0	2.0
Hong Kong	1.9	-7.0	10.2	6.7	-0.7	-0.5	0.0	-0.1	2.5	1.3	1.7
Brazil	2.6	2.1	1.5	1.0	1.7	0.8	1.3	1.8	3.4	1.8	1.5
Mexico	-2.2	0.6	1.0	0.9	1.2	1.1	1.0	1.0	1.2	-0.2	1.0
Colombia	2.8	2.8	3.2	3.2	1.2	2.8	4.1	4.1	1.7	2.3	2.6
Chile	4.3	0.9	1.7	1.8	1.8	1.8	1.8	1.8	2.6	2.5	1.7
Peru	2.8	2.7	2.8	2.4	2.5	2.4	4.1	4.6	3.3	2.7	2.6
Türkiye	4.0	-0.7	1.4	1.7	7.0	5.1	3.1	5.6	3.2	2.3	4.0
South Africa	1.6	1.7	1.4	1.6	1.8	2.0	2.0	2.0	0.6	1.2	1.8

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 27: Monetary Policy rate path

End of period (%)

Central Banks	Current	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Developed Markets										
Fed (upper bound)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
ECB (deposit rate)	2.25	2.25	2.25	2.00	1.75	1.75	1.50	1.50	1.50	1.25
BoJ	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
BoE	4.50	4.50	4.25	4.25	4.25	4.00	3.75	3.75	3.50	3.50
BoC	2.75	2.75	2.75	2.75	2.75	2.75	2.50	2.25	2.25	2.00
Riksbank	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.75
SNB	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Norges Bank	4.50	4.25	4.25	4.00	4.00	4.00	3.75	3.75	3.75	3.50
RBA	4.10	4.10	3.85	3.85	3.85	3.85	3.85	3.85	3.60	3.60
RBNZ	3.50	3.50	3.25	3.25	3.00	2.75	2.75	2.75	2.50	2.50
Emerging Asia										
China (lending rate)	3.10	2.95	2.95	2.70	2.70	2.70	2.70	2.70	2.70	2.70
7d reverse repo*	1.50	1.40	1.40	1.20	1.20	1.20	1.20	1.20	1.20	1.20
India	6.00	6.00	6.00	6.00	6.00	5.75	5.75	5.50	5.50	5.50
Indonesia	5.75	5.50	5.50	5.25	5.25	5.25	5.25	5.25	5.25	5.25
South Korea	2.75	2.75	2.50	2.50	2.50	2.25	2.25	2.25	2.25	2.25
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Thailand	2.00	2.00	2.00	1.75	1.75	1.50	1.50	1.50	1.50	1.50
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Philippines	5.50	5.50	5.50	5.25	5.25	5.25	5.00	5.00	5.00	5.00
Latin America										
Brazil	14.25	14.25	14.75	14.75	14.75	14.75	14.75	14.75	14.75	14.25
Chile	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Colombia	9.50	9.25	9.25	9.00	8.75	8.75	8.50	8.25	8.25	8.00
Mexico	9.00	9.00	8.50	8.25	8.25	8.00	8.00	8.00	8.00	8.00
Peru	4.75	4.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Emerging EMEA										
Czech Republic	3.75	3.75	3.75	3.75	3.75	3.50	3.50	3.50	3.25	3.25
Hungary	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Israel	4.50	4.50	4.50	4.50	4.25	4.25	4.25	4.00	4.00	4.00
Poland	5.75	5.75	5.75	5.25	5.00	5.00	5.00	5.00	4.75	4.50
Romania	6.50	6.00	5.75	5.75	5.50	5.50	5.50	5.50	5.50	5.50
South Africa	7.50	7.50	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25
Türkiye	46.00	46.00	46.00	44.00	42.00	42.00	40.00	38.00	38.00	36.00

Source: BofA Global Research, Bloomberg. Note: *Major five banks. **Reverse repo rate.

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