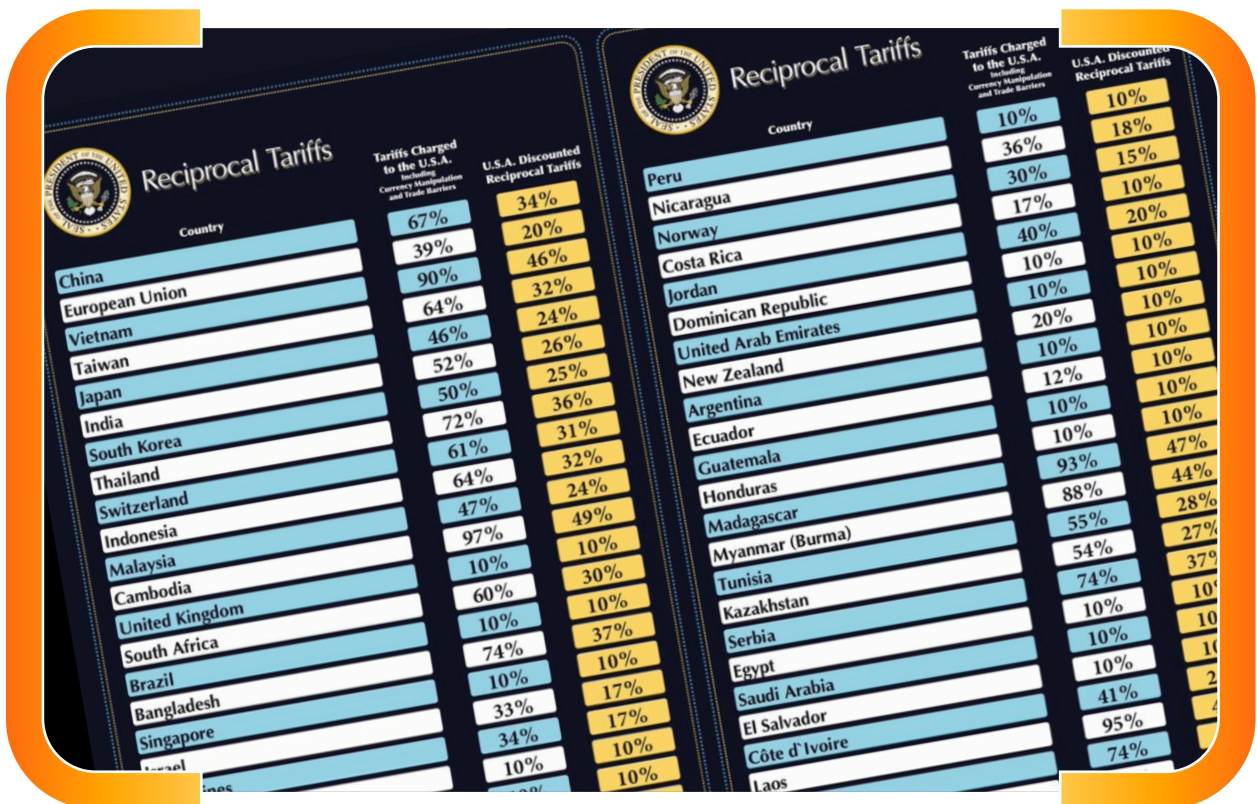
US tariffs: the worst-case scenario



Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%
Kazakhstan	54%	27%
Serbia	74%	[illegible]
Egypt	10%	[illegible]
Saudi Arabia	10%	[illegible]
El Salvador	10%	[illegible]
Côte d`Ivoire	41%	[illegible]
Laos	95%	[illegible]

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The worst-case scenario

The wait is finally over. Yesterday, President Trump invoked a national emergency over trade deficits and imposed a 10% tariff on all countries. On top of that, higher tariffs were imposed on countries with which the US runs the largest trade deficits. The 10% general tariff will take effect on 5 April, while individual tariffs will begin on 9 April. After weeks of speculation around the objectives of the impending tariff announcements, the method used to decide individual tariff levels and President Trump's communication suggest that the worst-case scenario is now materialising for the global economy. Yesterday's announcements may be adjusted in the coming weeks, but the key motive is clear: the Trump Administration aims to sharply reduce the US trade deficit, viewing it as an injustice to the American people.

The economic benefits of reducing trade deficits and stimulating domestic production are debatable, but in a global market where Asia and Europe have followed this mercantilist strategy for decades themselves, there is logic to be found. However, abruptly raising trade barriers based solely on a country's trade surplus with the US appears driven more by ideology than by a careful assessment of where US producers face unfair competition. This position of principle also lowers the chances of yesterday's announcements being only temporary negotiating tools. By explicitly linking the individual tariffs to the size of the trade surplus with the US and by stating that those measures will "protect sovereignty, and strengthen national and economic security" in driving a re-shoring of manufacturing activity in the US, President Trump defines the tariff increases as a long-term economic policy rather than a short-term negotiation tactic.

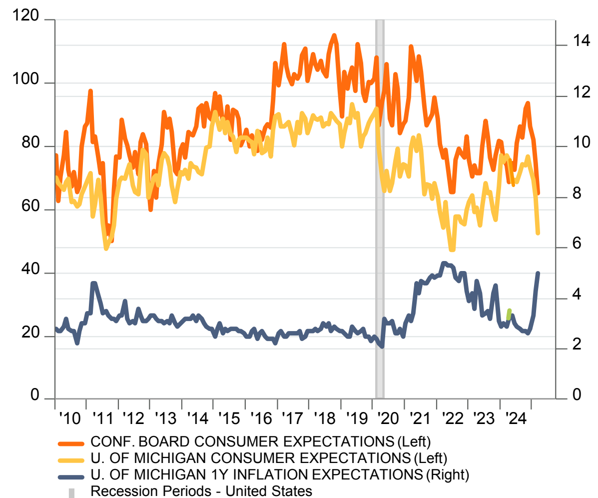
In this context, countries targeted by the highest tariff increases have a strong incentive to react with retaliatory measures rather than to try to negotiate a way toward lower tariffs, at least at the start. European and Chinese authorities have already stated that they were ready to take significant measures in response to the US's decision. A reversal in Trump's position cannot be completely ruled out, nor can the notion of the extreme announcements being a negotiation tactic for preparing some form of Mar-a-Lago Accord. However, the tone of yesterday's conference appears to leave little room for such a twist in the short-term, and as President Trump explicitly threatened to increase further tariffs in case of retaliatory measures, the prospects of an escalation in trade tensions in the coming weeks seem imminent. Unless the US administration comes with concrete requirements rather than the vague complaint of "too large trade deficits", targeted countries will find it difficult to have a constructive discussion on how to satisfy US grievances. As stated yesterday, "these tariffs will remain in effect until such a time as President Trump determines that the threat posed by the trade deficit and underlying non-reciprocal treatment is satisfied, resolved, or mitigated." How President Trump will determine that this threat is satisfied, resolved or mitigated is today a wide-open question. The uncertainty surrounding the duration of these tariffs and the scale of the likely escalation has replaced the uncertainty of recent weeks surrounding the level and objective of these tariffs. Of all the potential outcomes before yesterday's announcement, this is likely the worst-case scenario, at least in the short term, for the global economy and financial markets.

A negative shock for US and global economic growth

The set of increases announced yesterday will brutally increase the average level of US tariffs levied on foreign imports, with immediate impact on US economic growth and inflation dynamics. The average level of US tariffs will likely rise above 25%, compared to the existing 15% level resulting from previous tariff increases. This would bring it back to levels not seen since the early 20th century, highlighting the clear protectionist turn that those measures represent.

The immediate effect can be expected to be on the main engine of US economic growth: domestic consumption. In the past few months, consumer sentiment has been deteriorating in parallel with a rise in inflation expectations linked to incoming tariff fears. But the deterioration had not been matched by a similar drop in actual spending data, that had simply slowed down from the robust trend prevailing in 2024. There was a possibility that consumers' concerns would ultimately prove to be overdone, and that consumption will finally hold up reasonably well throughout the year 2025. Yesterday's announcement significantly raises the chances that the fears of American consumers will materialise in the coming weeks, with sharp price increases across a broad range of imported goods. Given the slower growth dynamic witnessed since the beginning of the year, a decline in US consumption spendings could put the economy on the brink of recession in the months ahead. The impact of those retaliatory tariffs on US growth is still unknown, but early estimates point to a clear negative impact on GDP growth of at least -1%, and possibly even more.

Recent fears of US consumers around higher tariff-led inflation and their impact on consumption prospects will materialise.

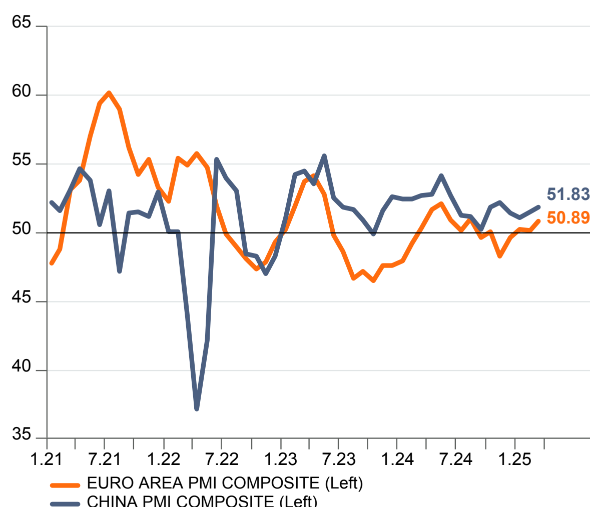


The key variable will be the labour market, which remains the main structural driver of households' spending behaviour. Should the inflationary impact of the tariffs and blow to business confidence lead to a rise in unemployment, the prospect of a negative spiral in job market and confidence dynamics would significantly raise the recession risk in the US. Some support for households and businesses is likely to come from fiscal policy, as President Trump also has supportive measures

such as tax cuts and deregulation in his agenda. However, even if those fiscal measures are announced in the coming weeks, their impact on purchasing power and investment decisions will take time to materialise. They may not be able to offset the immediate impact of higher prices for US consumers, but it can be expected that the revenues generated by increased tariffs will finance the large tax cuts for US corporates and consumers going forward. It may be a case of front-loading the bad news and economic pain to pave the way for better dynamics as 2026 approaches.

Economies targeted by the largest tariff increases will also experience a sudden headwind with those tariffs that will impact them negatively to the extent of their exposure to trade with the US. China, along with most Asian economies that rely heavily on manufacturing exports for growth, will likely bear the brunt of these measures among the largest US trade partners. Some fiscal support to domestic demand can be expected, particularly in China, where steps have already been taken since the end of last year. However, the structure of those economies makes it unlikely they can fully offset the impact on their main growth driver.

Fragile encouraging growth dynamics in Europe and China risk being undermined by the shock to external trade.



European economies, especially Germany, will also be directly impacted by a drop in external trade's contribution to their growth, especially at a time when domestic consumption remains hampered by the post-Covid inflationary wave. Here too, government intervention can be expected to try to contain the impact, and Germany might be able to provide a decisive answer now having freed itself of its fiscal constraints. But most other European economies have limited room for manoeuvre on the fiscal front given already elevated public deficits and debt levels. The shift toward a more relaxed approach to budget constraints operated in March will support European growth over the medium term. However, it might not be sufficient for most European countries to provide their economies with sufficient support to balance the negative trade impact in the short run.

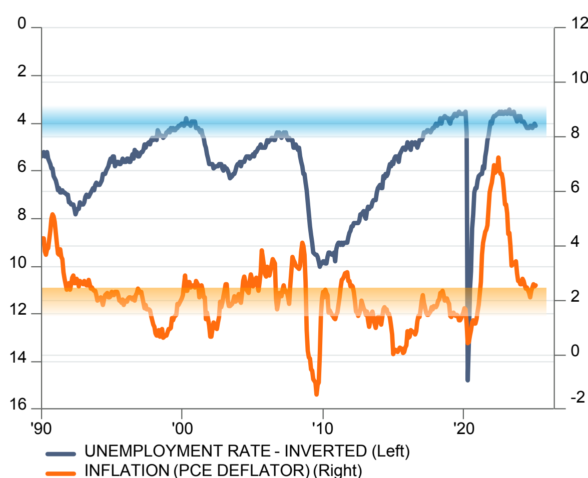
As such, at this stage, the increase in US tariffs is likely to negatively impact the global growth dynamics, amplifying the slowing trend already at play since the beginning of the year. The magnitude of the slowdown and a potential recession will depend on developments around global tariffs –escalation and trade war? Negotiations and gradual scaling back of some tariffs? — and on the fiscal policy response that governments are willing and able to provide. Potential outcomes range from a full-blown recession in the world's three largest economies to a more neutral scenario of a short-lived slowdown or stagnation of growth in the months ahead. As uncertainties are even higher today than yesterday, none of those outcomes should be ruled out yet.

A Fed intervention to shore up the growth slowdown and preserve financial stability

At the end of its March meeting, the Fed had explicitly opted for a "wait-and-see" stance ahead of the major uncertainties surrounding the growth and inflation outlook. Some of those uncertainties will likely dissipate in some way in the coming weeks if fears of a negative impact from tariffs on consumer spending materialise. In such scenario, the Fed will likely lean toward an easing of its monetary policy stance to shore up deteriorating growth and contain a potential rise in unemployment. The inflationary impact of tariffs is likely to be "looked through" by Fed members, who have already indicated that the direct effect on inflation is likely to be temporary or "transitory", as mentioned by Jerome Powell.

With US monetary policy currently still slightly restrictive, a deterioration in economic activity would warrant the resuming of the rate cut cycle initiated in 2024 to make monetary conditions accommodative for economic activity. The potential for Fed rate cuts in the coming months therefore increases with yesterday's announcements, after having already increased due to growth concerns in the past six weeks. However, the Fed will have to walk a fine line between the likely slowdown in economic growth and risks to the inflation outlook, stemming from tariffs and from potential fiscal support.

Faced with a growth slowdown and higher unemployment, the Fed will likely opt for rate cuts even if inflation is above its target due to tariffs.



On top of those traditional monetary policy considerations, the Fed will also have to pay attention to financial stability and liquidity conditions. The outright protectionist shift from the US risks amplifying global flows outside US assets. The fall of the US dollar this morning against major currencies may not only be due to expectations of more Fed rate cuts and a shakier US growth outlook, but also might be another sign of a growing defiance from the rest of the world to an uncooperative US administration. In a sense, this might be the continuation of a trend already illustrated by the rise of gold in global reserves at the expense of the US dollar.

Large reallocation flows in the Forex market can have unsettling impacts on financial markets and the risk that the shock announcement of yesterday also ends up creating financial instability and unintended consequences in the financial sector cannot be completely ruled out. In this eventuality, the Fed and other central banks would also have to step in with liquidity support to stem the risk of a financial crisis.

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