THINK Ahead: The IMF’s high wire act

The financial circus rolls into Washington next week for the IMF's Spring Meetings, and the ringmasters are walking a precarious tightrope. Tariffs take centre stage, of course. But what can be done about them? And what does it mean for Europe? James Smith dissects the drama - and the safety nets behind the scenes

Joseph Gordon-Levitt plays Philippe Petit, the man who walked between the Twin Towers in 1974. A feat almost as tricky as the IMF's.

THINK Ahead

It’s been six months since the great and the good of the finance world last met in Washington to chew on lukewarm canapes and sip decidedly average Champagne. I’m talking about the IMF’s annual meetings and, yes, maybe I’m still slightly bitter that I didn’t get the invite...

Back then, the talk of the town was Donald Trump, whether he would win November’s election, and if he did, what would come first: tax cuts or tariffs?

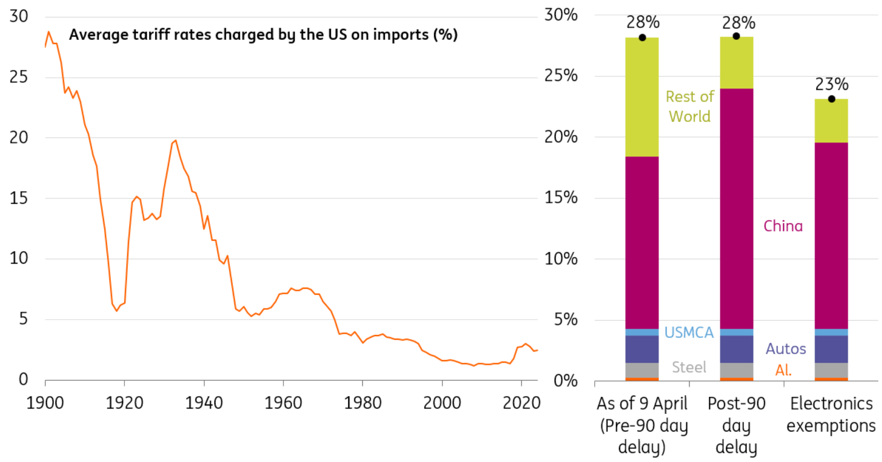
Well, I think we have our answer. Financial markets have made their minds up, anyway. Equities and the dollar are both lower/weaker compared to the same point in Trump’s first presidency, as our chart of the week below shows.

Six months on, and those same titans of economics gather in Washington next week, only this time with more expensive fizz and cheaper air fares. And let’s face it, this time there’s only one question on everyone’s mind: how long are these tariffs going to last and in what form?

Last week, I calculated that after the chopping and changing and 90-day delay, the average tariff level charged by the US on its imports had ended the week at 28%.

Electronics exemptions took that average down to 23%. Bear in mind that this carved out about a fifth of what China exported last year to the US, and even greater proportions for the likes of Vietnam, Malaysia and Taiwan. Then again, it's not totally clear whether these smartphones and TVs will remain totally exempt or simply subject to a lower tariff than everything else.

US average tariff is 23% after electronics exemptions



Source: US Census data, White House, ING calculations

Al. = aluminium. Assumes China tariffs of 145% since the 90-day delay.
Canada/Mexico tariffs only hit non-USMCA compliant goods.

No doubt that calculation will change again next week. What if we get those extra tariffs on pharmaceuticals, timber, copper and semiconductors that the President has often talked about? That would add two percentage points back on that average tariff rate. Or what if we start getting country exemptions? That feels like only a matter of time, and it looks like the UK might just be the first in line.

Does any of this really matter, though? I'm not convinced. Whether tariffs are 20% or 30% or anywhere in between, the fact remains that this still represents a gigantic price shock for the US economy. The uncertainty alone is a major headwind.

Last month's surge in retail sales shows that consumers are fully aware of what's coming down the track. And given how much political capital has been invested in reshoring manufacturing, it's hard to see the bulk of the tariffs being lifted for the foreseeable future.

If that's true, how does the Fed act in all of this?

Until this week, the answer seemed clear. "No change" was the general retort from most Fed officials. That certainly seemed to be the message of the Fed Chair himself this week.

Not everyone at the Fed agrees, however. Take a look at this by Fed Governor Christopher Waller, an influential member of the committee who is taking a decidedly different view on all this. He said in no uncertain terms this week that the inflationary impact of tariffs is likely to be temporary and the hit to unemployment substantial. Though he didn't quite say it, he strongly implied that the US economy is heading for recession.

James Knightley isn't quite that downbeat, though his new US growth forecasts are consistent with a hefty slowdown over coming months. And that means four rate cuts in the second half of the year.

But the timing is key. Higher inflation is likely to shine through much more immediately than weaker economic activity. And unless Waller's view quickly percolates through to the rest of the committee, it's the former that they are staying focused on in the short term. That says markets might still be getting ahead of themselves by pricing a 60% chance of a June cut. James K thinks it might not come until July, or even September.

Here in Europe, the debate for the central bankers feels more straightforward. Growth looks weaker, at least until all that government spending starts hitting the economy from 2026. We'll get an initial sense of that damage next week in the purchasing managers' indices (PMIs).

Will they plunge? Remember that these are pretty binary surveys – they ask whether things are getting better or worse, and not by how much. At big turning points, the tendency is for the PMIs to exaggerate shifts in economic activity.

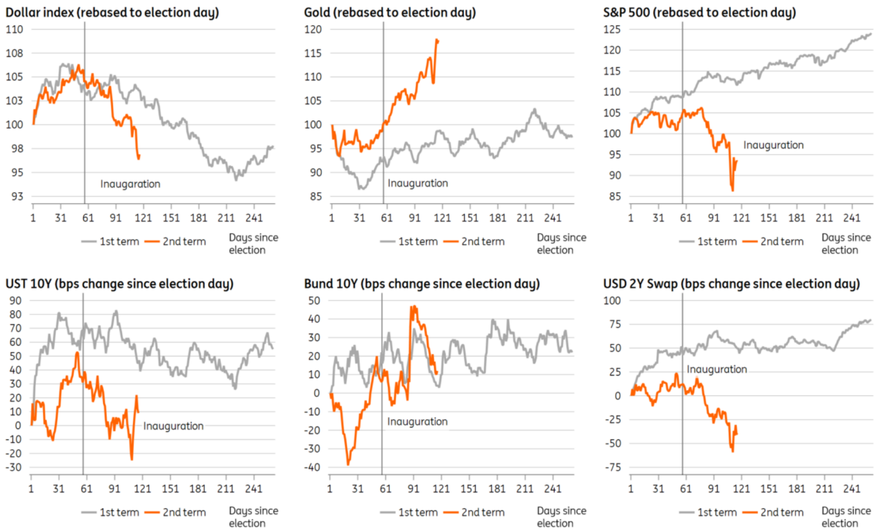
But this might not be one of those occasions. Peter Vanden Houte points out that companies will probably have filled out this survey after the 90-day tariff delay, which saw the EU's tariff drop from 20% to 10%. That should help limit the fall in sentiment.

Maybe it's a moot point. Big picture, we see the eurozone economy barely growing either this quarter or next. And inflation's not exactly about to take off either.

Admittedly, the job market has been remarkably strong in Europe. And perhaps that casts a little doubt over the ECB's wage tracker, which we'll get next week and has been pointing to a material slowdown in pay growth later this year. So long as that remains true though, Carsten reckons the ECB has more heavy lifting to do. After today's decision, he expects two further rate cuts later this year.

Where will we be in six months' time when the financial circus rolls into Washington once more? For that, you'll need to read our latest global monthly, hot off the press earlier this week.

Chart of the week. How markets have moved since election day



Source: Macrobond, ING

THINK ahead in developed markets

United States (James Knightley)

- It is a quieter week in the US for data, leaving markets listening out for any updates on President Trump's tariff plans. We are currently in wait-and-see mode in terms of potential bilateral trade deals with various nations, but the President has suggested specific tariffs on pharma and technology products are coming soon.
- In terms of macro events, durable goods orders will be strong, lifted by a robust Boeing aircraft order book in March, while home sales will continue to struggle in an environment of rising mortgage rates and weakening consumer sentiment. We will also be watching out for the Federal Reserve's Beige Book – the Fed's anecdotal survey on the state of the economy. The key things to look for are whether businesses are responding to tariffs with price hikes, and how big these hikes might be.

Eurozone (Bert Colijn)

- **Consumer confidence (Tue):** Finally, some data on the eurozone economy post 'Liberation Day'. Consumer confidence in the eurozone has been steadily declining since November, coinciding with the US elections, and this month will show to what degree the global trade shock has reverberated to the eurozone consumer. A further decline seems to be in the making, but the degree of the shock will be key to assessing the potential fallout on household consumption.
- **PMI (Wed):** As for consumer confidence, the PMI will offer the first insight into the eurozone business impact of the trade shock. We expect to see less optimism about the months ahead, but could still see some positive impact on output stemming from prior exports driven by earlier expectations. It will also be interesting to see how selling price expectations are evolving in this turbulent environment and if businesses still dare to hire new workers.

THINK ahead for Central and Eastern Europe

Poland (Adam Antoniak)

- **Industrial output** (Tue): March annual industrial output should look solid at face value, but the main factor behind that is most likely an exceptionally low reference base from March 2024. Polish manufacturers are still having a difficult time. On the one hand, the proposed ReArm EU initiative and fiscal stimulus in Germany could give a boost to the industrial sector. On the other, planned increases in US tariffs and retaliatory actions by other countries may hit global supply chains and dampen manufacturing activity in the quarters ahead.
- **Retail sales** (Tue): Demand for goods remains lacklustre, and the March retail sales reading is expected to be negative. Contrary to industrial output, the reference base in this case is high as the majority of Easter spending took place in March 2024, whereas this year we should see it in April. Private consumption remains supported by solid demand for services. US tariffs may potentially boost short-term demand for imported goods as consumers fear higher prices in the future, but at the same time, uncertainty about the shape of the global and local economy as a result of the change in global trade may dampen consumer confidence and the propensity to spend over the medium term.
- **Unemployment** (Wed): The unemployment rate remains close to an all-time low, fluctuating in line with the typical seasonal patterns this year. The decline in employment is

not translating into a rising number of unemployed people, as this mostly results from the declining supply of labour rather than softer demand. The LFS unemployment rate in Poland is at the lowest level in the EU.

Czech Republic (David Havrlant)

- **Sentiment (Thu):** We expect both business and consumer confidence to have fallen in April, partially correcting the strong gain from the preceding month. Business confidence is set to reflect the recent turmoil in the global trade landscape, while consumer confidence will likely reflect the increase in general uncertainty about the prospects for Czech industry and export performance.

Azerbaijan & Uzbekistan (Dmitry Dolgin)

- **Azerbaijan refinancing rate (Wed):** The Central Bank of Azerbaijan (CBRA) faces a decision between maintaining the current rate at 7.25% or implementing a hike. We lean towards the latter option. Inflation has gradually risen from zero last April to 5.9% year-on-year in March 2025, nearing the upper limit of the long-term target of 4% ± 2%. This increase is driven by broad-based factors. The recent surge in global trade tensions could further contribute to inflationary pressures. Retail and corporate lending growth has also consistently outpaced funding growth.
- Alternatively, the CBRA might adopt a wait-and-see approach, especially considering the recent increase in the consolidated budget surplus from 4.0% of GDP in FY24 to 4.5% as of 12M ending February 2025, indicating a lack of immediate inflationary risks from the fiscal side.
- **Uzbekistan key rate (Thu):** Following a recent 50 basis point hike to 14.00%, the Central Bank of Uzbekistan (CBRU) is under less pressure to continue tightening. Although inflation continued to rise, reaching 10.3% YoY in March, inflationary expectations among households and businesses have somewhat moderated.
- However, caution is still warranted. This month's increase in domestic utility tariffs and the recent spike in global trade tensions may challenge the CBRU's year-end CPI forecast of 7-8% and extend the timeline to achieve the long-term target of 5%.

Key events in developed markets next week

Country	Time (BST)	Data/event	ING	Prev.
		Tuesday 22 April		
US	1400	Fed Jefferson, Harker Speech	-	-
Sweden	0700	Mar Unemployment Rate	-	9.4
Eurozone	1500	Apr Consumer Confidence Flash	-16	-14.5
		Wednesday 23 April		
US	1400	Fed Goolsbee Speech	-	-
	1445	Apr S&P Global Manufacturing PMI Flash	-	50.2
	1445	Apr S&P Global Services PMI Flash	-	54.4
	1445	Apr S&P Global Composite PMI Flash	-	53.5
	1500	Mar New Home Sales (mn)	-	0.676
Germany	0830	Apr HCOB Manufacturing PMI Flash	47.9	48.3
	0830	Apr HCOB Service PMI Flash	50.2	50.9
	0830	Apr HCOB Composite PMI Flash	50.8	51.3
France	0815	Apr HCOB Composite PMI Flash	-	48
UK	0930	Apr S&P Global Composite PMI Flash	50.2	51.5
	0930	Apr S&P Global Manufacturing PMI Flash	44.0	44.9
	0930	Apr S&P Global Services PMI Flash	51.0	52.5
	-	BoE Bailey, Pill, Breeden Speeches	-	-
Eurozone	0900	Apr HCOB Manufacturing PMI Flash	49	48.6
	0900	Apr HCOB Services PMI Flash	50.6	51
	0900	Apr HCOB Composite PMI Flash	50.5	50.9
	1000	Feb Trade Balance (EUR bn)	1.2	1
	1100	ECB Wage Tracker	-	-
	2015	ECB Lane Speech	-	-
		Thursday 24 April		
US	1330	Initial Jobless Claims (000s)	220	215
	1330	Mar Durable Goods (MoM%)	1.8	0.9
	1500	Mar Existing Home Sales (mn)	4.1	4.26
Germany	0900	Apr Ifo Business Climate	85.7	86.7
	0900	Apr Ifo Current Conditions	86	85.7
	0900	Apr Ifo Expectations	85	87.7
UK	1425	BoE Lombardelli Speech	-	-
		Friday 25 April		
US	1500	Apr Michigan Sentiment Final	50.5	50.8
UK	0700	Mar Retail Sales (MoM%/YoY%)	-/-	1/2.2
Canada	1330	Feb Retail Sales (MoM%)	-	-0.6

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time (BST)	Data/event	ING	Prev.
		Tuesday 22 April		
Poland	0900	Mar Industrial Output (YoY%)	4.5	-2
	0900	Mar PPI (YoY%)	-1	-1.3
	0900	Mar Wages (YoY%)	7.5	7.9
	0900	Mar Employment Growth (YoY%)	-0.8	-0.9
		Wednesday 23 April		
Poland	0900	Mar Retail Sales (YoY%)	-1.5	-0.5
Azerbaijan	-	Apr Central Bank Refinancing Rate	7.50	7.25
		Thursday 24 April		
Poland	0900	Mar Unemployment Rate	5.3	5.4
Czech Rep	0800	Apr Business Confidence	98.8	99.6
	0800	Apr Consumer Confidence	98.0	98.8
Uzbekistan	-	Apr Central Bank Policy Rate	14.00	14.00
		Friday 25 April		
Russia	1130	Apr Central Bank Key Rate	21.00	21.00
	1700	Mar Industrial Output	-	0.2
Hungary	0730	Mar Unemployment Rate	4.3	4.4

Source: Refinitiv, ING

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