

The impact of Trump's tariffs so far

US President Donald Trump's tariffs of 20% on the EU, 34% on China, and up to 46% on Vietnam have caused a sharp decline in global stock markets. Here, we provide our analysis of the global impact so far, the reasons behind the strong market reactions, plus potential retaliatory actions and mitigation strategies



US President Donald Trump returns to the White House on April 6, 2025

Impacts

US President Donald Trump's declaration of extensive tariffs has led to market turmoil, posing risks of a trade war and a potential US recession. Here, we look at the main impacts so far.

Impact on the US: Consumers will face higher costs of about 2.5% of household spending. The increase in domestic production, jobs and wages will not compensate for the negative effects. We will be lowering our GDP outlook. We expect the Federal Reserve will hold rates first, and start cutting – more than expected – later in the year. Longer rates are and will remain lower as the outlook deteriorates. More forecasters are now expecting a recession.

Financial markets: The big drop in US equities, lower interest rates, higher spreads, and a lower US dollar mean the market interprets this as mainly negative for the US but also the global economy. The wealth effect will also harm US consumers.

Impact on Asia: Tariffs here are higher than elsewhere because these countries are very focused on exports to the US. This implies a very strong impact. Countries like Vietnam, Thailand, Japan, and Korea are **most affected**, with impacts of up to 5.5% of GDP.

Impact on China: We estimate a **0.4-0.8ppt negative impact** on GDP, adding to industrial overcapacity and deflationary pressure. The country has **retaliated** with 34% across-the-board tariffs and export controls on rare earths.

Impact on the European Union:

- **Direct effect:** About 2% of EU27 GDP depends on US demand. With tariffs of 20%, volumes to the US are likely to decline by about 15%. **We estimate a -0.3% direct effect on GDP in the short run.** The most exposed countries are Ireland, Germany and Italy, while the **CEE region is less sensitive**.
- **Indirect effects:**
 - Lower exports, more competition from Asian imports and higher uncertainty will lead to lower investments and wage increases, which may lead to some job losses in Europe. These negative effects will be felt in 2025 and 2026.
 - A stronger euro – if sustained, as the **US loses its safe haven status** – also lowers external demand.
 - Possible retaliation: The only available estimate by the ECB, but without any detail on breakdown, is -0.2%.
 - Mitigation: Companies will look for alternative markets.
 - **Cheaper oil** may soften some of the blow to Europe.

The overall impact on Europe is negative, but the expected shock effect is much smaller than it was for Covid-19 and energy price hikes due to the Ukraine war.

The European Commission's mitigation options

- **Retaliation:**
 1. Europe wants a deal and is discussing how to get that. Ensuring European unity is a challenge and slows Europe down.
 2. The most popular view in the EC: aim for maximum impact on audiences that may induce Trump to negotiate a deal, like listed (tech, digital) corporates, swing states, aiming for products where European alternatives are available.
 3. Redirecting tariff revenues back into the economy by either spending the income or lowering taxes can minimise the impact.
 4. The EC will try to protect Europe against dumping from other hard-hit countries.
- The EC wants to strengthen ties with other countries (e.g., Mercosur and Switzerland, while EC President Ursula von der Leyen also mentioned India). The positive impact will come only in the long term.
- The EC wants to enhance the single market for goods, services and capital/investment to boost growth (the IMF estimates 7% of productivity growth if all internal barriers were resolved, but this will take too long).

The ECB's mitigation options

By lowering policy rates, the ECB may offset the deflationary impact from lower export demand,

cheaper imports and (for now) a stronger euro. Markets [expect more cuts](#), while some governors support a pause. Lower longer-term rates also offset some of the impact of the trade war on the economy.

National mitigation efforts (ongoing)

- **Germany's U-turn on the debt brake:** Additional infrastructure investment supports domestic demand from 2026 onwards (around 1% of GDP) and productivity growth in the longer term. Neighbouring EU countries also benefit from stronger German demand (+0.2%).
- **Increase defence spending and finance via government debt:** this has a limited upside effect on the economy, as a relatively large share of the goods will be imported. This can support GDP by [+0.1/0.2% in 2026 and 2027](#), increasing over time as defence industries in Europe scale up, replacing imports.

Conclusion

We will [lower our eurozone forecast](#) for 2025 and 2026, but as we had already assumed some tariff impact, the change to our forecast will be limited. There will be no severe recession, possibly one or two quarters with marginally negative growth.

Mitigations will mostly strengthen the European economy from 2026 onward.

This external shock has bolstered political momentum for cooperation within Europe, yet collaboration remains challenging due to the significantly differing interests of individual countries.

Why have markets responded so strongly while the macro impact is limited?

Stocks are impacted more strongly than macro as listed corporates are mostly internationally active multinationals, and profits are more cyclical than GDP.

This is a possible tipping point for the US economy, where the fear of a recession was beginning to rise anyway.

Apparently, markets were still pricing in a more business-friendly administration (possible thought: if this administration is willing to harm itself via a trade war, would it also be serious about its [Mar-a-Lago](#) idea, risking the global financial system?)

Important now will be whether heavy equity losses and credit spread widening uncover some skeletons in the closet, just as the US Treasury sell-off exposed the poor hedging decisions of Silicon Valley Bank in March 2023.

Look out for how all this will impact our macro and market forecasts in the April Monthly Economic Update published later this week.

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