IMF/WORLD BANK SPRING MEETINGS: SITUATION SERIOUS BUT POLICYMAKERS RESOLUTE AND ECONOMIES RESILIENT, FOR NOW

Every Spring and Fall, economic and financial policymakers from the whole world gather in Washington DC for the IMF/ World Bank Meetings. Thousands of private financial sector professionals tag along. All over town, in both formal and informal settings, participants share and compare with their peers their own assessments of the world's economic prospects. In my 25 years of taking part in these Meetings, this was one of the most interesting ones, with a pervasive sense among participants of living through a pivotal moment of economic history. In what follows, I offer a distillation of what this global pulse-check revealed.

1. US tariff policy is a serious negative shock for the world in the near term, and there is broad consensus outside the US administration that the US is likely to suffer the most. This is because while the shock will negatively impact demand everywhere, it will be disinflationary in countries other than the US, absent retaliation measures. Indeed, it was striking how little inflation featured in conversations outside of the US context. This, along with dollar depreciation against most currencies, will allow their central banks (including many EM ones) to ease monetary policy sooner and more than the Federal Reserve (Fed) will be able to. With growth positive and labour markets generally strong when the tariff and uncertainty shock hit, most policymakers and private sector analysts see its impact as significant but manageable, provided policy uncertainty and tariffs decline soon from current levels.

2. A US economy growing very little at best in 2025 and with higher inflation is the consensus scenario among private forecasters. Some already see a mild recession in their central scenario, but none foresees a deep recession as the base case. By contrast, representatives of the Trump Administration displayed confidence that multiple trade deals would be reached soon, and the economy would regain momentum thanks to tax cuts and deregulation. However, should tariffs and policy uncertainty persist at exceptionally elevated levels beyond a few months, more serious damage to growth would occur. The risk of "non-linear developments" — in common parlance, abrupt deterioration of the economy and asset price shocks — was top of mind for many.

3. The US tariffs end-game may be further away and at a higher level than previously thought. The US administration made clear at every opportunity that their goal was a fundamental rebalancing of the global trade system, with the US having re-industrialized significantly at the end of the process. They accept that this is a long-term goal, but it is also one with substantial bi-partisan support. Reaching a trade settlement with China will probably take longest. "Reciprocal" tariffs with other countries are likely to be negotiated down from the April 2 level, with rates above 10% being suspended for rolling 90-day windows as long as constructive talks are underway. For now, countries that started such talks left unclear as to what might clinch a deal. Sectoral tariffs (both those in force and still being considered) will likely stay at elevated levels (*circa* 25%).

4. In the longer run, the Trump administration's policies to date were seen as likely to reduce "US exceptionalism" by weakening US trend growth and its attractiveness to investors, including as a provider of safe assets. To what extent remains to be seen. Last week, the Trump administration offered plenty of welcome reassurances. This included the President himself clarifying that he did not intend to fire Fed Chair J. Powell, and Treasury Secretary Bessent stressing that the plan was "America first, not America alone"; that this administration was committed to preserving the reserve currency status of the dollar; and planned to exercise greater leadership to refocus the Bretton Woods Institution rather than leave them. All this brought palpable relief to participants; however, it remains unclear how long it will last. Beyond questioning the attractiveness for investment of an economy protected by high tariffs, many asset owners in DC this week had questions about the safe haven properties of US dollar and Treasuries going forward, given recent policy unpredictability and enduring concerns about public debt sustainability. There is little evidence of money in motion on those grounds yet; but unless these questions are firmly and promptly put to rest, accelerated diversification is likely. At a minimum, US "safe" assets may end up commanding a persistent risk premium, which will translate to the whole stack of other assets priced off the safe ones.

5. US exceptionalism may be further dented by the rest of the world catching up. Outside the US, most countries' appetite for more international trade appeared not just intact but boosted by the need to make up for the likely drop in trade with the US. As trade barriers are lowered, these other countries will benefit. Even before that, many hope to benefit from diversion effects from a likely persistent US-China trade decoupling. Furthermore, many economies are finding themselves energized to get on with long-overdue structural reforms that have hampered their growth potential (e.g., Canada boosting inter-provincial trade, China boosting domestic consumption etc.).

6. Europe is the best example of this, with many participants — both Europeans and non-Europeans — expressing the view that this is "Europe's moment of opportunity". This is because it has policy space — both monetary and fiscal — to counter the US tariff shock, and for once seems determined to use it without harmful delays. It also has a blueprint to fix all the structural problems that have been holding it back — in the form of the Letta and Draghi reports. And it has already taken historical decisions to change the scale of its defense spending in a coordinated way. Tempering that optimism, European policymakers were cautious to stress that much hard work lies ahead. All agree it needs to be done, but success will not come easily.

All in all, while participants recognized the historic scale of the policy pivot initiated by the US, and saw an exceptionally wide range of potential outcomes, most felt they had agency to cope with the shock and land their own economies in a better place at the end. Considering the mood of the previous weeks in markets and policy circles, this was as hopeful a conclusion as one could ask for.

Isabelle Mateos y Lago

isabelle.mateosylago@bnpparibas.com