Global Economy

Tariff surge would damage global growth, IMF warns

In a forecast two weeks before US election the fund says greater protectionism would drag down world economy

Donald Trump has called for an overall 20% tariff on all US imports and a 60% penalty on Chinese goods © Nell Redmond/AP

Colby Smith and **Sam Fleming** in Washington YESTERDAY

Greater global protectionism will endanger the world's growth outlook, the IMF has warned, as a possible Donald Trump victory in next month's US election raises the prospect of sharp tariff increases.

In its latest forecast, just two weeks before the presidential vote, the fund said it expected the world economy to expand 3.2 per cent both this year and next.

But its World Economic Outlook cautioned that if higher tariffs hit a "sizeable swath" of world trade by mid-2025, it would wipe 0.8 per cent from economic output next year and 1.3 per cent in 2026.

"It's a policy that is harming basically everyone," Pierre-Olivier Gourinchas, the IMF's top economist, said of the risk of higher trade barriers. "It's harming the rest of the world. It's harming the US."

Trump has called for an overall 20 per cent tariff on all US imports and a 60 per cent penalty on Chinese goods, moves many economists worry could set off a global trade war.

His rival Kamala Harris has also backed higher tariffs for some Chinese goods during her term as vice-president but opposes the sweeping duties championed by Trump.

In an indication of the IMF's concern over Trump's agenda, its economists modelled a scenario in which the US, Eurozone and China all imposed 10 per cent tariffs on imports — tit-for-tat moves and other levies the fund says would affect a quarter of goods trade.

The model also assumed a 10-year extension of Trump's 2017 tax cuts, reduced net migration to the US and Europe and higher global borrowing costs.

The hit to the global economy of such a scenario would reduce growth from the IMF's default forecast of 3.2 per cent for next year, a projection largely unchanged from its previous estimates in July.

US GDP would be 1 per cent lower than the IMF baseline for 2025.

Gourinchas told the Financial Times that the risks to growth would be "compounded" by further retaliation, noting that the IMF scenario "may not be the worst . . . because we're assuming that it stops after one round" of tariffs.

He added that successive rounds of tariffs would force central banks to contend simultaneously with lower growth and inflationary pressures.

The IMF's warning comes at the start of the multilateral lender's annual meetings with the World Bank in Washington.

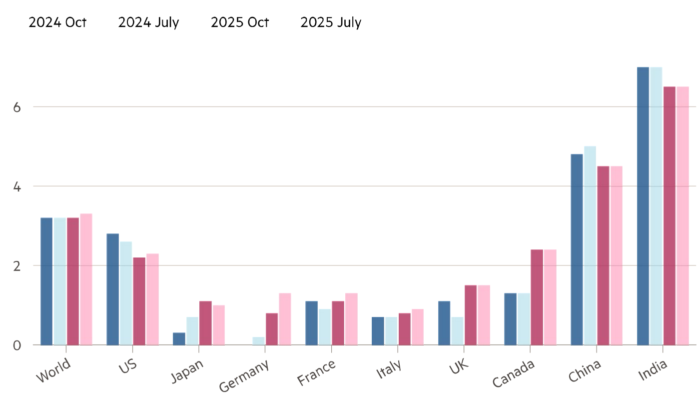
In its baseline scenario, the fund forecast slightly faster US growth than it expected in July, at 2.8 per cent this year and 2.2 per cent in 2025.

Eurozone growth would be much weaker, and below the IMF's July forecast, at just 0.8 per cent this year and 1.2 per cent in 2025.

The fund has also downgraded its projection for Chinese growth this year by 0.2 percentage points to 4.8 per cent as the country struggles to stimulate demand. The world's second-biggest economy is expected to grow 4.5 per cent in 2025.

The IMF expects faster US growth this year but has downgraded Eurozone forecasts for next year

IMF forecasts for GDP growth in 2024 & 2025 (made in July and October 2024, %)



FINANCIAL TIMES Source: IMF

Overall, the IMF analysis sets out its concern over the world's "continued mediocre medium-term prospects relative to pre-pandemic forecasts", estimating that global growth in about five years' time is likely to be around 3.1 per cent.

Gourinchas warned that, if government spending increased further from its already peak levels, it would also undermine central banks' efforts to damp down demand and control inflation.

"If you get an additional injection of fiscal support — tax cuts or increased spending, or whatever it is — then you're pushing the economy away from that path," he said.

"Now is the time for the fiscal pivot — for a lot of countries to rebuild fiscal buffers — and that advice is certainly relevant for the US right now."

But he made an exception for China, calling on Beijing to spend more to shore up the economy as well as "tackle the property sector very comprehensively".

Data visualisation by Keith Fray