IMF chief issues warning on Trump tariffs

Nick Beams
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The economic uncertainty generated by incoming US president Trump's threat of sweeping tariff increases is causing long-term interest rates to rise and exerting downward pressure on a global economy already experiencing low growth rates, the International Monetary Fund has warned.

Speaking to reporters on Friday, IMF managing director Kristalina Georgieva said there was "quite a lot of uncertainty" around the policies of the Trump administration "expressed globally through higher long-term interest rates."

Georgieva was commenting on the latest IMF global economic update which will be released at the end of this week.

While giving no details, she said global growth was "holding steady." The US was doing "quite a bit better than expected" but the European Union was "somewhat stalling." China faced deflationary pressures and lower income countries were "in a position where any new shock can affect them quite negatively."

The key policy objective, which the IMF is insisting must be carried out, is the reduction of government debt now at record levels around the world. That means major cuts in government spending and attacks on social services.

However, it has proven "very difficult for fiscal policy to act promptly, given public sentiments." The "main challenge at the fund" was how to tackle this "low growth, high debt conundrum," Georgieva said.

While not spelling it out in so many words, the IMF chief was expressing the fear in economic and financial circles that the debt reduction program it is demanding will provoke intense social and class struggles.

Countries needed to cut their debts and could not "borrow their way out." They could only "grow out of this problem." However, as she noted, global growth prospects were the lowest that have been seen in decades.

The problems caused by higher than anticipated interest rates are not confined to lower income countries or to the major areas of the world experiencing lower growth. There are indications they are threatening the prospects of the US economy, notwithstanding its higher growth rate.

Earlier this month, as reported by the *Financial Times*, US corporate bankruptcies "hit their highest level since the aftermath of the global financial crisis as elevated interest rates and weakened consumer demand" punished struggling companies.

According to data from S&P Global Market Intelligence, 686 US companies filed for bankruptcy in 2024, up 8 percent from 2023 and the highest of any year since 2010. Out of court manoeuvres aimed at trying to stave off liquidation have also increased.

Gregory Daco, chief economist at EY, a major global accounting and financial services firm, told the FT: "The persistently elevated cost of goods and services is weighing on consumer demands." It was hitting families with lower incomes "but even in the middle and on the higher end, you're seeing more caution."

Bond markets are sending out signals that long-term interest rates will remain at relatively high levels. Yields had already started to rise in the wake of the December meeting of the US Federal Reserve which indicated that the much-anticipated series of rate cuts in 2025 is not going to take place.

In their so-called "dot plot" projects, in which policymakers set out where they expect the Fed rate to go, Fed officials reduced their expectation of the number of cuts this year from four to two. One of the factors in the reduction was concern that Trump's tariff measures would put upward pressure on interest rates.

Since then, the prospect of rate cuts has receded further. The latest US jobs report issued on Friday, which saw 256,000 jobs created in December, well

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above expectations, sent Treasury bond yields rising. Futures markets now anticipate that a rate cut will not come until September, as opposed to June. The odds of a second rate cut have fallen from 60 percent to 20 percent.

Bank of America said what it called a "gangbusters" jobs report meant "the cutting cycle is over."

Wall Street appears to agree, with all major indexes falling through December and into the New Year, wiping out all the gains they had made following the election of Trump.

While immediate factors are at work, such as the issue of inflation and the interest rate policies of the Fed, there are more deep-seated factors at work. First among them is the financing of government debt, as pointed to by the IMF, which is now at around $100 trillion globally.

These issues were raised in an editorial by the *Wall Street Journal* on Friday. It said 2025 was off to a "rocky start" as far as funding government was concerned.

"Bond yields are rising across the world, raising some awkward questions about when politics will catch up with new economic realities."

It noted that the rise in US bond yields in recent weeks had occurred despite the substantial Fed cuts (amounting to 1 percentage point) since September. This was part of an international trend. The rate on the Japanese 10-year bond is 1.2 percent, the highest rate since 2011. The rate on the German 10-year bund is at a five-month high of 2.5 percent after experiencing a "steep ascent" in the past month.

"A reminder of the worst-case scenario (short of outright default)," it continued, "comes from the United Kingdom. There, this week's 4.8 percent rate on 10-year government bonds, or gilt, is the highest since 2008 and the 30-year gilt at nearly 5.4 percent is at its highest in several decades."

London, it said, was "speculating about which painful spending cuts will come if the bond vigilantes don't relent."

Posing the question of whether the US was immune from this process, it noted that interest payments on government debt were already higher than on the military. While the dollar's status as the global reserve currency had given room for borrowing, "presumably this privilege isn't limitless."

Significantly it noted that the financial "fiascos" of the past few years had centred on "supposedly ultra-safe government bonds" including the pension-fund-driven meltdown in Britain in 2022 and the implosion of Silicon Valley Bank in 2023.

No one was immune from the repricing of risk no matter how secure they considered their balance sheets to be, it concluded. While the US may be able to come safely through uncertainties and higher bond yields, the markets were sending a message that the era of what it called "free" government was over.

This analysis raises the question: who is now going to pay? Here there is no uncertainty. It will be the working class in every country.

In the US, the $2 trillion cut in government spending, out of a $6.3 trillion budget, foreshadowed by Elon Musk, Trump's right-hand man among the oligarchs, is not going to come from the interest paid to bondholders or military spending but from necessary social facilities and services, deepening the crisis which has been so graphically revealed in the Los Angeles fires.

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