

Turbulence and resilience: Lessons from an eventful year

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Introduction

I would like to start by thanking the organisers for their kind invitation.

The year 2025 has seen an unusual surge in policy uncertainty, amid a vortex of policy actions and counteractions, which at some point became difficult to even track properly. Sombre forecasts proliferated, often released close to the announcement of policy decisions. Many of those forecasts, fortunately, have not come to pass, at least not yet. It is often said that people can learn more from their failures than their successes. Such wisdom applies to this case too.

Indeed, this year has turned into an extraordinary learning opportunity. Lessons have come in many areas. Let me focus on a few of them.

The global business cycle

At the start of the year, we were confronted with a powerful narrative: a healthy global expansion had been buffeted by policy shocks related to sharply rising US tariffs and widespread expansion of immigration controls in advanced economies (AEs).

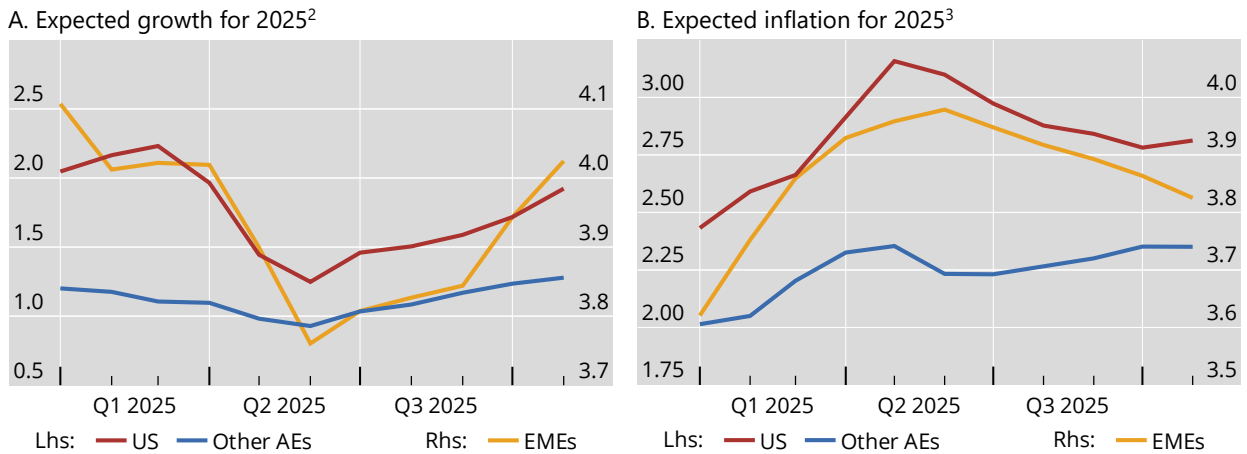
The upshot for growth and inflation seemed clear, and not favourable. Expectations for global growth were revised downwards (Graph 1.A), particularly for emerging market economies (EMEs). The downshift would probably be driven by a fall in investment, and the contraction of manufacturing output. The consensus in the profession, which persists to this day, is that these policy shifts represented a large negative supply shock for the US economy, and a negative demand shock for the rest of the world. In the view of some analysts, the expected downturn was likely to develop into a full-fledged recession as soon as the second half of 2025.

¹ The views expressed are my own and not necessarily those of the BIS. I thank Fernando Avalos and Christian Upper for their input, and Berenice Martinez and Brian Roque for research support.

Tariffs prompt analysts to materially revise expectations

Year on year, in per cent¹

Graph 1



¹ GDP-PPP weighted averages across country groups. ² Group averages based on 10 AEs excluding US and 20 EMEs excluding CN. ³ Group averages based on eight AEs excluding US and eight EMEs excluding CN.

Source: Consensus Economics.

Consequently, the impact on inflation would not be minor. US inflation would probably surge, as significant bottlenecks and disrupted supply chains might revisit some of the tensions observed in the wake of the pandemic. Meanwhile, inflationary risks would be skewed to the downside in the rest of the world (Graph 1.B), as the contraction in external demand would to some extent counteract the passthrough of the very likely appreciation of the US dollar. In EMEs, however, the passthrough might dominate and inflation could increase.

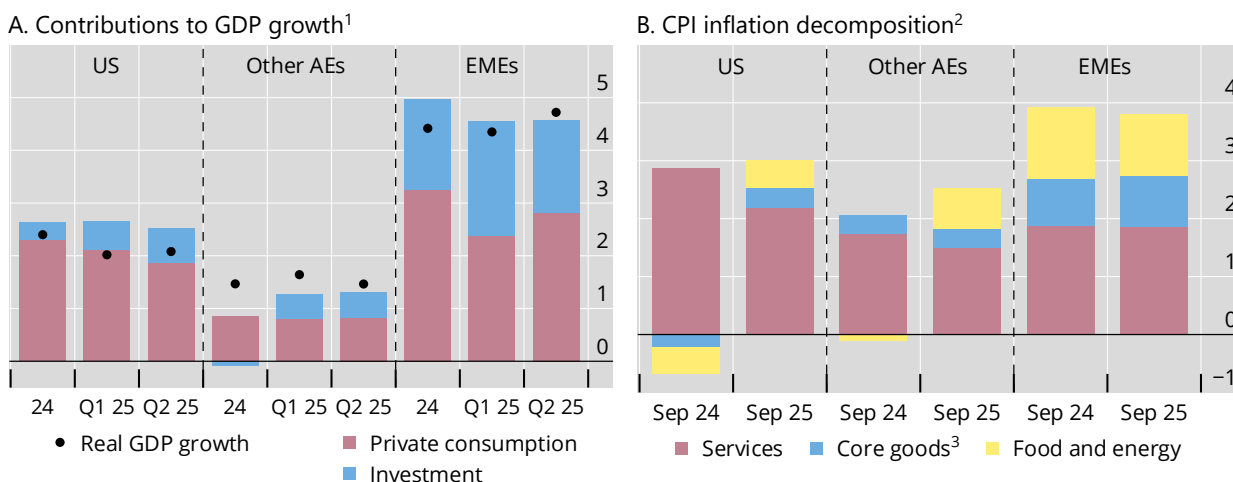
As the weeks went by and policy decisions, announcements and actions zigzagged, uncertainty was added to the mix. Uncertainty was expected to sharpen the negative effects of the initial announcements, as consumers and firms would freeze their expenditure plans, compounding the expected losses in aggregate demand.

The outcome, so far, has been very different from these pessimistic forecasts. Global GDP growth remained robust, with buoyant gains in capital expenditure. In fact, the global economy faced a material demand shock in the first half of 2025, as US consumers and corporates rushed to secure goods and inputs before tariffs came into effect. Growth remained solid in EMEs, with manufacturing also showing signs of resilience. In the United States, there have been few signs of a slowdown in economic activity, with private consumption and investment – largely boosted by artificial intelligence (AI) – driving the expansion (Graph 2.A). US inflation did not surge, although it has remained persistently above target. But the persistence is coming, to a large extent, from increases in the prices of services, not goods. Finally, the pace of global inflation did not change much, particularly at the core, as “services inflation” remained largely persistent across the globe, in concert with US patterns (Graph 2.B).

Limited impact on realised growth and inflation

Year on year, in per cent

Graph 2



¹ Year-on-year GDP growth; GDP-PPP weighted average for US, 10 other AEs and 20 EMEs excluding CN. ² GDP-PPP weighted average for US, eight other AEs and eight EMEs excluding CN. ³ Goods excluding food and energy.

Sources: OECD; LSEG; national data; BIS.

To be sure, there are reasons to be concerned about the outlook for the global economy. But those are somewhat different from the reasons that many envisioned early this year. Labour markets have remained solid, but hiring has been sluggish in recent months. Fiscal positions, particularly in AEs, are becoming even more brittle, as political economy considerations overwhelm the pressing need for fiscal consolidation. Geopolitical tensions are not abating, harbouring the potential for renewed shocks that could destabilise the global economy. For some observers, the recent strength in gold markets reflects a broader investor response to the heightened macroeconomic, fiscal and geopolitical uncertainty. And the AI investment rush brings echoes of the dotcom exuberance, amid questions about the viability of some of the underlying strategies and business propositions.

But let's go back to trade policy: what lessons can we extract from the turbulence and resilience we have seen so far? Let me emphasise that I am not trying to pass judgment on the merit of tariffs themselves. The focus is not on the efficiency of resource allocation throughout the economy, their relevance as an additional source of fiscal revenue, or their effectiveness in nurturing the development of certain sectors of the economy. Rather, the focus is on the day-to-day job of central banks: understanding the near- and medium-term drivers of the business cycle.

The most obvious lesson seems to be that trade policy shocks cannot be easily mapped into business cycle shocks. Trade policy shocks have deep sectoral reverberations. The impact is

usually non-symmetric across sectors, both in the imposing and the receiving countries.² They can elicit unexpectedly forceful reactions in economic agents, whose macroeconomic implications are very difficult to anticipate. For example, the delayed implementation of the US tariffs gave households and firms ample time to adjust their behaviour.

Trade policy shocks undoubtedly exacerbate the challenges faced by central banks in navigating policy trade-offs. Beyond the inherent uncertainty surrounding sectoral impacts and their broader macroeconomic implications, the proper policy response is very difficult to calibrate. This difficulty is amplified by the substantial shifts in the consumption and investment plans of the private sector, which tariffs tend to induce.³

In any case, the calibration of an adequate policy response requires a careful and data-driven assessment, which integrates – as fully as possible – all the complex nuances of this class of shocks. Market intelligence, as it often happens, will be crucial to fill the gaps that our macroeconomic models cannot properly incorporate.

Traditional optimal tariff theory has provided valuable insights on this matter. One of the main implications of the theory is that large countries with market power – ie those facing a low elasticity of import supply – can obtain significant welfare gains by imposing tariffs, usually at the cost of a worsened domestic resource allocation.⁴ Cooperation, for instance in the form of global or regional trade agreements, improves overall welfare but implies that larger countries forgo some of their individual strategic gains in exchange for broader efficiency and stability of the trade system.⁵ Welfare gains emerge, in the medium to long term, from improvements in the terms of trade vis-à-vis the exporter country, as its producers tend to absorb a sizeable share of the tariffs. This time around, in sectors where the United States seems to have particularly strong market power, the adjustment happened in the very short term, as can be seen in the falls of export prices of German and Japanese cars (Graph 3).

² At the theoretical level, trade policies can have large distributional effects on consumption and income, whose direction is difficult to anticipate (see Fajgelbaum et al, 2011). Fajgelbaum et al (2020) and Amiti et al (2019) illustrate empirically the heterogenous sectoral impact of tariffs on import-competing industries and others. Strategic retaliation by trading partners can sharpen those asymmetries.

³ Recent literature reflects this debate: Bianchi and Coulibaly (2025) suggest that expansionary policy could be preferable to smooth the transition that follows the imposition of tariffs. Werning et al (2025) do map the tariffs into a cost-push shock, which confronts the central bank with a trade-off between stabilising inflation and output. Partial accommodation of the tariff shock to ease the transition to a distorted steady state is optimal in their model.

⁴ Recent evidence of the empirical relevance of optimal tariff theory, one of the oldest strands of economic literature, is provided by Broda et al (2008).

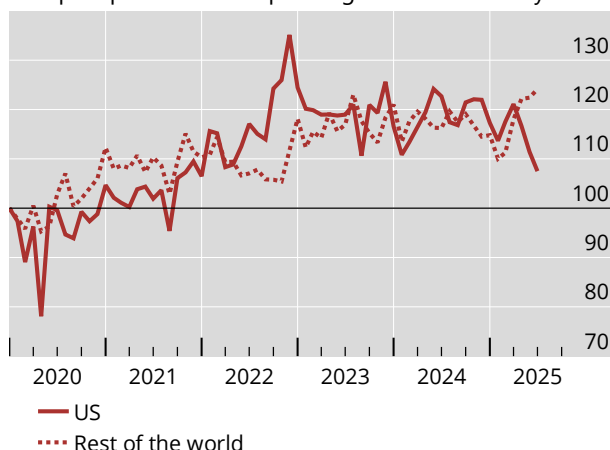
⁵ See, for instance, Ossa (2014) for some quantitative simulations on this aspect.

Some evidence of (selected) foreign exporters absorbing tariffs

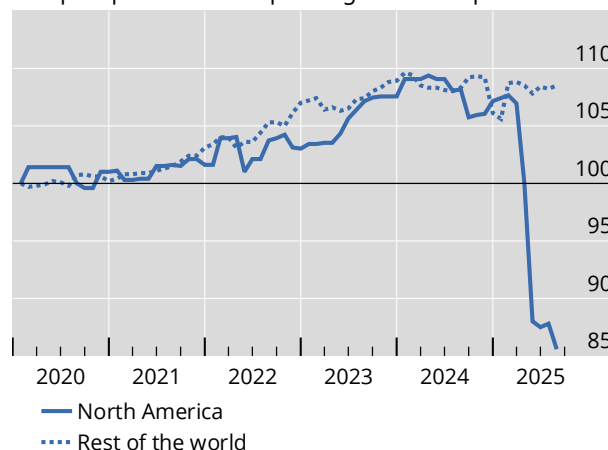
Jan 2020 = 100

Graph 3

A. Export price index for passenger cars – Germany¹



B. Export price index for passenger cars – Japan²



¹ Measured as value of exports in US dollar divided by quantity of exports in tonnes. ² Bank of Japan export price indices on contract currency basis.

Sources: National data.

The US dollar as safe haven

The announcement of sweeping new tariffs by the US administration in early April was greeted with significant turbulence in financial markets. As a risk-off shift in sentiment gained momentum, an appreciation of safe haven assets, including the US dollar and US Treasuries, would have been expected. Additionally, tariffs themselves were expected to bolster the US dollar further. However, contrary to these expectations, both the US dollar and US Treasuries – particularly the longer maturities – experienced notable declines.

This unusual combination fuelled a narrative suggesting a substantial decline in the US dollar's dominance, its reserve currency status, and the status of US Treasuries as the primary global safe asset. Subsequent evidence, though mostly anecdotal and incomplete, indicated that this shift was to some extent driven by non-resident asset managers reducing risk by hedging previously unhedged exposures to US dollar assets. And actual US asset sales by non-resident investors during April were largely reversed in the following months. BIS work does not show signs of a material portfolio reallocation away from US assets.⁶ However, uncertainties persisted, as reflected in the notable surge in gold prices.

This debate now seems less pressing. While financial markets can turn quickly, the role of the dollar in global markets seems stable for the time being. This is borne out in our Triennial

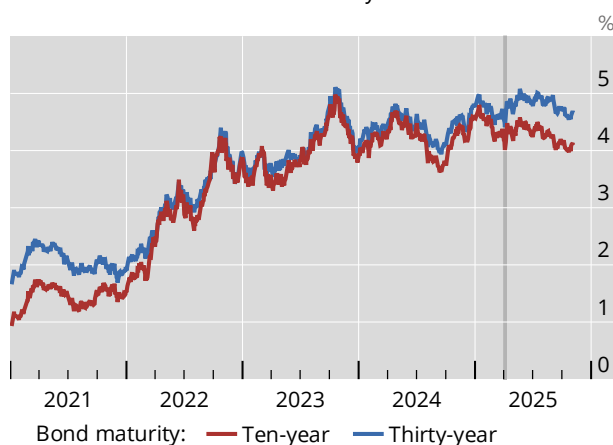
⁶ Boissay and Huang (2025).

Survey of FX and derivatives markets, to which many authorities in the region contributed, where the US dollar was on one side of 89.2% of all trades in April 2025. Admittedly, valuation changes initially appeared significant, particularly against the backdrop of the severe financial market stress at the time. However, from a longer-term perspective, these movements now seem relatively modest. US long-term yields have been on a sustained downward trajectory for several months, falling below their Q1 2025 levels (Graph 4.A). Additionally, the depreciation of the US dollar has stopped and partially reversed. Notably, the multilateral US dollar index has remained consistently high, generally staying above the 75th percentile of exchange rate levels recorded during the period following the Plaza Accord (Graph 4.B).

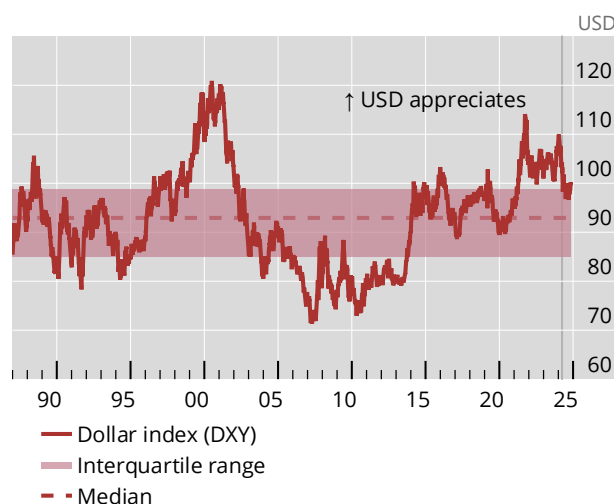
From a long-term perspective, the impact of tariffs on US markets was limited

Graph 4

A. Yield on benchmark US Treasury bonds



B. US dollar multilateral index



The shaded area indicates 2–9 April 2025 ("Liberation Day" through announcement of temporary 90-day suspension).

Sources: Federal Reserve Bank of St Louis.

The rally in gold prices is not a new phenomenon, though it has gained remarkable momentum this year, particularly since August. In 2025, gold prices have surged by over 50%, with half of this increase occurring in the last three months. This rally, which in 2025 has extended to silver, is completely removed from developments in all other industrial metals (Graph 5.A). Market analysts credited the recent surge to private sector demand, as evidenced by the substantial pick-up in portfolio inflows into gold exchange-traded funds (ETFs) (Graph 5.B). They also point out that the multi-year upward trend can be in part attributed to the gradual portfolio reallocation of global reserve managers, a move that has become particularly pronounced during the past five years (Table 1).

What does this imply for the US dollar's role as the dominant reserve currency? It might be prudent to interpret this as a tactical risk management adjustment rather than a fundamental shift away from the US currency. In fact, as Table 1 illustrates, all major fiat currencies, to different degrees, have lost ground vis-à-vis gold in the last five years.

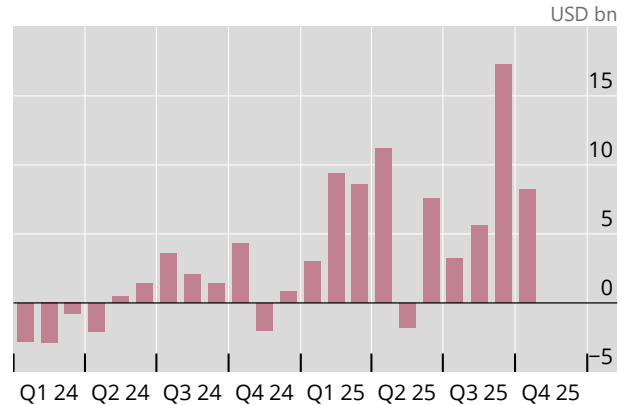
Remarkable rally in gold prices since 2024, widely outpacing industrial metals

Graph 5

A. Gold prices outperformed industrial metals



B. Portfolio inflows into Gold ETFs



Sources: Bloomberg; company filings; ICE Benchmark Administration, LSEG; World Gold Council.

Gradual shift to gold in global reserve allocations

Percentage share of global stock of international reserves

Table 1

	USD	Gold	EUR	GBP	JPY	Other
Q2 2015	55.87	14.43	17.03	3.92	3.05	5.70
Q2 2020	52.09	15.04	17.15	3.81	4.86	7.05
Q2 2024	47.03	19.11	15.99	4.00	4.53	9.34
Q2 2025	42.68	24.22	16.01	3.66	4.22	9.21

Sources: IMF; World Gold Council.

The role of uncertainty

To conclude my remarks pertaining to developments in the global economy, I would like to offer some brief reflections about the role of uncertainty. As previously mentioned, uncertainty has increased significantly this year. Notably, this uncertainty has been driven by policy decisions, which contrasts with the expected role of policy to promote predictability and facilitate risk-sharing. Under circumstances like the current ones, this heightened uncertainty would typically be expected to disrupt or delay private sector consumption and investment plans.

However, as we briefly illustrated at the beginning of this talk, these effects are not evident in the data, at least not yet. Cross-sectional variation does exist, but in general national accounts in the United States, some AEs and many EMEs suggest a continued and healthy expansion of investment. Private consumption has remained resilient. Forecasters have upgraded their expectations for this year, and growth expectations for next year look equally benign.

What accounts for this resilience in the face of heightened uncertainty? Several conjunctural factors could provide potential explanations. In the United States, large corporations, traditionally the spearhead of capital expenditure, are rushing to invest in the development of their AI tools and strategies. Not only does that require software development, but data centres need large investment in new and specialised building facilities, equipment and infrastructure, not least in energy generation, transportation and distribution. In the rest of the world, the tail end of the US rush to secure goods before tariffs became applicable may be masking some underlying weaknesses.

But the explanation could be that the effect of uncertainty is not properly understood. For instance, if corporates need to rebuild supply chains, that is likely to require new and substantial investment.

Alternatively, it may be the case that uncertainty is morphing into risk. Measures of uncertainty have surged this year, largely driven by US trade policy news. And yet, there is little uncertainty left about the immediate direction of US trade policy. For most countries, the primary question now is not whether tariffs will increase, but rather how high they might go. And they have already seen the tariff rates that have been in play. The contours of a probability distribution for tariffs can already be envisioned. As a result, the consumption and investment decisions faced by the private sector are increasingly shifting from being choices under uncertainty to decisions involving measurable risks – a situation that the private sector is well equipped to manage effectively.

The lessons for Latin America

Latin America has not been exempt from the challenges and turbulence of the past year. However, alongside many other EMEs, the region's economies and financial markets have demonstrated notable resilience. This robustness and the strengthened ability to effectively navigate significant macroeconomic shocks can largely be attributed to improved policy frameworks implemented over the previous decades.⁷

Economic indicators have been relatively benign across the region. Economic activity registered robust quarter-on-quarter growth in Q2. And although the available data for Q3 provide a mixed message, with evidence of weakening momentum in some economies, the outlook is still relatively favourable. Inflation dynamics varied across countries, but core inflation remains high in most economies. This has been driven in part by the strength of consumption, particularly of services.

After a period of elevated financial market volatility in April, financial conditions have largely stabilised and even eased in recent months.⁸ This has been driven by a reduced sensitivity

⁷ See Chapter 2 IMF (2025) for a long-term view of this evolution in EME resilience. For a regional focus on central banking in the Americas, see Tombini et al (2023).

⁸ See Amaral et al (2025).

to trade policy uncertainty and the general weakness of the US dollar, which has continued depreciating vis-à-vis most Latin American currencies. Stock market indices across the region have more than recovered their April losses, and credit default swaps have returned to their January levels. Long-term bond yields continued to fall over the past few months.

That said, this is not a time for complacency, as significant issues remain. Notably, fiscal challenges persist across the region, with varying degrees of progress in consolidation efforts. And structural reforms to improve the functioning of labour and product markets are still urgently required. These reforms are essential to make the economies more flexible and more able to adapt to the demands of a new and rapidly evolving world. The good news is that, unlike in many past instances, now there is time to implement reforms in an orderly manner.

Therefore, the lesson of this turbulent year for the region is perhaps simple, but powerful: the efforts made over the past few decades paid off. This is the moment to build on that foundation and advance the necessary reforms that will establish a more solid basis for the sustained development of the regional economies in the years to come.

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