WEEKLY ANALYSIS

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US tariffs in line with expectations for Europe, but not for Asia

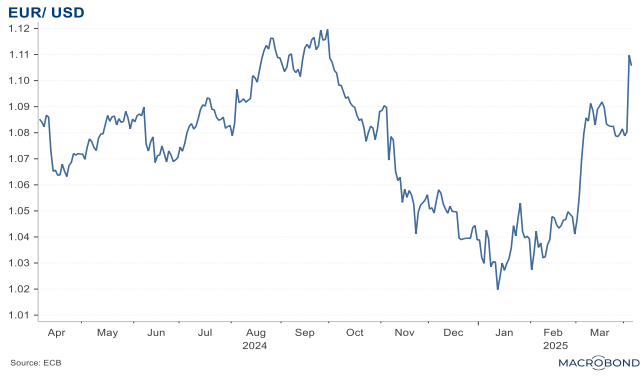
- In this week's analysis, we are focusing on the introduction of extensive customs on U.S. imports, and relaying parts of a detailed analysis of the Intesa Sanpaolo Research Department (complete analysis is available at Macro Rapid Response).
- On April 2, the U.S. president declared a state of national emergency under the International Emergency Economic Powers Act (IEEPA) and announced a sweeping tariff plan aimed at reducing US bilateral trade deficits. The measure is multi-layered: a base tariff of 10% on all imports; a system of higher "reciprocal" tariffs for countries with which the US has large deficits; targeted exemptions for strategic products and partners; and "sectoral" tariffs already implemented (steel and aluminum), announced (autos) or still under consideration (pharmaceuticals, semiconductors, copper, lumber).
- Tariff structure:
    - 10% minimum universal tariff: as of April 5, 2025, a 10% tariff on all imports went into effect. Even countries with which the U.S. has a trade surplus or a balanced trade balance are subject to at least 10%.
    - "Reciprocal" tariffs: effective April 9, are calculated as half the ratio of the U.S. bilateral trade deficit to U.S. exports to the country in question, based on 2024 data. The "reciprocal" tariffs come on top of existing tariffs: China, for example, is hit with a 34% duty on top of the 20% already in place. Other countries heavily penalized are Vietnam (46%), Taiwan (32%), India (26%) and Japan (24%). The European Union is subject to a uniform 20% tariff.
    - Auto tariffs: the 25% duty on all imported cars that was announced on March 26 went into effect on April 4; new tariffs on auto parts will be announced by May 3.
- Exemptions and sector specifications:
    - Exemptions for products already subject to Section 232 tariffs: steel, aluminum, automobiles, and components.
    - Also excluded from the new tariffs are: energy, potash and critical minerals not produced domestically, as well as a group of sectors expected to be covered by specific new tariffs currently under study namely pharmaceuticals, semiconductors, copper, and timber.

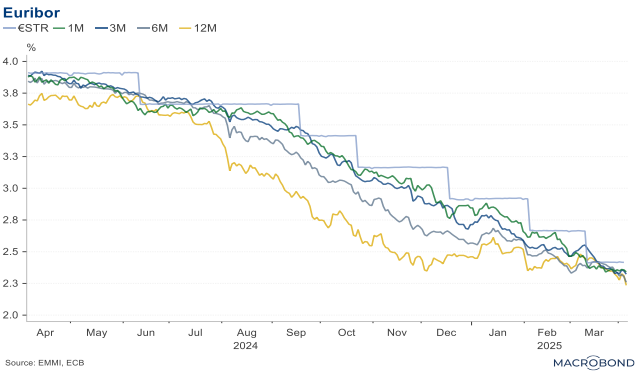
- Canada and Mexico: goods that comply with the USMCA free trade agreement remain duty-free; non-compliant goods are subject to a 25% tariff, except for energy and potash (10%). Should the state of emergency end, there is a 12% tariff on non-compliant goods.
- Tariffs apply only to the non-U.S. portion of the goods if at least 20% of the content is made in the U.S.
- The de minimis exception for shipments of less than $800 remains in effect for most countries but is suspended for China (and Hong Kong) as of May 2, 2025.

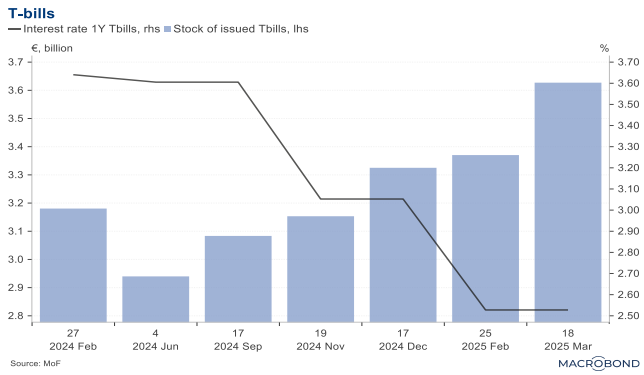
- Overall:
  - Effects on the United States: the effective tariff rate would rise from 2% last year to over 20%, reaching a 125-year high. Inflation could be higher than the baseline scenario of +1/+2%, depending on assumptions on pass-through and effects on domestic price lists and imported input costs. In fact, it could create an incentive for domestic firms to adjust their price lists upward as well. The impact on GDP growth depends on how the additional tax revenue will be used (which is very significant: in the unlikely event of unchanged import volumes, it would amount to 770 billion or 2.5% of GDP, although it is expected to be around 300-400 billion). If the revenue were returned to consumers through further tax cuts, economic growth might not be too affected and the inflationary impact would prevail; if, on the other hand, the revenue were used to reduce the budget deficit, the increase in tariffs would become equivalent to a fiscal squeeze of more than 2% of GDP implemented through an increase in indirect taxes, which could subtract up to one percentage point from GDP growth. Other crucial variables for determining the real impact are the confidence of businesses and consumers and the reaction of stock markets, which reacted very negatively to the announcement.
  - Effects on the Eurozone: the impact on the countries concerned will obviously depend on the timing, level, and effectiveness of the likely retaliation. In the case of the euro area, according to our simulations using USITC and WITS data on tariffs applied to individual products and considering the elasticity of US demand to the price of imported products based on estimates by the Wiener Institut für Internationale Wirtschaftsvergleiche, the impact of a 20% general tariff is -0.4% on euro area (and Italy's) GDP (and -0.5% on German GDP). However, considering that the effective tariff rate resulting from announced changes is closer to 15%, the impact is -0.3% on the Eurozone (and Italy's) GDP (-0.4% on German GDP). The effect could be on the one hand reduced by the gain in competitiveness vis-à-vis Asian competing products, and on the other hand amplified by retaliatory measures, which could drive up domestic inflation and firms' own production costs. The effects on the Eurozone inflation are uncertain and will depend on the EU response: in the absence of retaliation, downward

effects on eurozone economic activity could trigger downward pressures on domestic prices as well. However, if the EU were to introduce tariffs of the same magnitude on U.S. products, the effect would be significant: in the case of a 20% rate, the impact on the HICP would be in the range of +0.5/+1% depending on whether the downstream pass-through on prices is full or 50%.

- The dollar fell sharply after the announcement of the introduction of tariffs, so on Friday the exchange rate was $ 1.1057 to the euro, up by 2.4% week-on-week.
- Euribor stagnated for shorter maturities, while for longer maturities it recorded a decline of 10 p.p. week-on-week. At the end of the week, 3M and 6M were therefore both 2.3%.
- The minuses on global stock exchanges after the announcement of the introduction of tariffs spilled over to the domestic capital market. Crobex plunged by 4.6% week-on-week (to 3,175 points) due to a decline in all sectoral indices (CROBEXindustry -8.4% to 2,110, CROBEXnutris -5.2% to 819, CROBEXtourist -3.2% to 4,184). Crobis fell by a slight 0.1% (to 99.0 points).







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ECONOMIC RESEARCH

Ivana Jović

Ana Lokin

TRANSLATION

Ana Biloš

Jelena Marinović

www.pbz.hr