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Macroeconomic model simulations suggest only minor impacts on the euro area from current US import tariffs



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Abstract

This brief presents impact assessments of increased tariffs based on simulations using the Global Integrated Monetary and Fiscal (GIMF) macroeconomic model. The current increases in US import tariffs are shown to reduce aggregate output across all major economic regions. The most pronounced negative effects in the simulations are observed in the United States and China. For the euro area, the estimated decline in aggregate output due to the currently implemented tariffs is around 0.2 percent—relatively modest. However, the final effects are subject to considerable uncertainty, including potential shifts in trade flows and the impact of trade barriers on investment. These estimates do not account for any additional uncertainty related to the future path of tariffs.

Keywords: global trade, tariffs, trade war

1. Actual effective import tariffs differ from country-specific baseline rates

During the summer, the United States reached tariff agreements with several of its key trading partners. Among its top trade partners, the baseline rate is 25% for Mexico and 35% for Canada on imports that fall outside the USMCA trade agreement's rules of origin, as well as 15 % for Japan and South Korea, and 20 % for Taiwan. The baseline rate for the EU – which is not imposed on top of earlier tariffs – is 15 % or the most favored nation tariff rate. The United States and China extended their temporary trade deal. Tariffs on U.S. imports from China are set at 30%, on top of existing duties, while China has imposed an additional 10% tariff on American goods. Negotiations between China and the US continue this autumn.

Due to numerous tariff exemptions, effective tariff rates (tariffs weighted by the structure of exports) differ from the baseline levels of national tariffs. Estimates of effective tariff rates are subject to uncertainty, partly due to the lack of precise information regarding, for example, the metal composition of products subject to tariffs and conflicting information about which imports are exempted under USMCA tariff rules. In addition, effective rate estimates are based on export structures in 2024. We would expect the effective tariff rate to be lower if the structure of exports adjusts to emphasise export products subject to lower tariff rates. In Table 1 below, we present three institutional estimates on effective tariffs rates prior to president Trump's announcement of product-specific tariffs on September 25.¹ Effective tariff estimates for China, Mexico and Canada are particularly wide-ranging. Fitch² and the Financial Times³, for example, put the effective rates for Mexico at 5 % and 4.7 %, respectively, and Canada at 6 % and 3.7 %.

¹ President Trump announced a wave of product-specific tariffs on September 25, 2025. Most importantly, pharmaceuticals category saw the imposition of 100 % tariffs excluding generic pharmaceuticals. The US is also conducting national security inspections based on Section 232 of the Trade Expansion Act of 1962, which permits sectoral tariffs targeting critical goods such as semiconductors to encourage the reshoring of production in the US.

² Fitch (2025). Fitch Ratings Updates U.S. Effective Tariff Rate Monitor Amid Rising USMCA Compliance, non-rating action commentary, 15.8.2025.

³ Financial Times in Trump Tracker, 1.10.2025: US tariffs <https://www.ft.com/content/2c473393-35fb-479d-8bba-236a1a98087c?segmentId=6bf9295a-189d-71c6-18fb-d469f27d3523>.

Table 1. Institutional estimates of effective tariff rates on exports to US, %.

	Global Trade Alert ⁴	Tax Policy Center ⁵	Center for Global Development ⁶
Euro area	15.1	-	-
Finland	16.1	14.2	13.2
Mexico	16.8	18.0	13.9
Canada	19.4	21.0	18.8
China	50.7	58.3	32.2
Japan	22.0	19.8	15.4
Vietnam	21.9	18.0	15.1
South Korea	21.2	18.5	14.7
Taiwan	14.9	10.1	9.2
All imports		23.3	-

Note: The Tax Policy Center's estimates assume that the temporary lower tariff rates on Mexico and China will eventually be increased.

A number of organisations have assessed the tariff impacts on major economic blocs. For example, the Kiel Institute for the World Economy⁷ finds that the US-EU tariff agreement lowers EU GDP overall by about 0.1 % over the short term, with the Irish economy hit hardest (GDP declining by 0.9 %). The Yale Budget Lab⁸ and Tax Foundation⁹ estimates consider impacts on the US economy. The Tax Foundation projection (based on tariff levels before the Trump administration's late-September announcement of product-specific tariff rates on pharmaceuticals, heavy trucks, as well as certain furniture and cabinetry), finds that the negative impact of Trump's second-term tariffs would lower US GDP growth by about 0.8 % over the long term. The Yale Budget Lab estimates (which include the late-September tariff adjustments) see the negative impact of tariff increases peaking at a loss of 1.1 % of US GDP in mid-2026, with long-term GDP growth reduced by about 0.4 %.

⁴ Global Trade Alert (2025). One-Stop Access to Global Trade Alert's Resources on Trump Tariffs, 17.9.2025. <https://globaltradealert.org/blog/One-Stop-Access-to-Trump-2-Tariffs>.

⁵ Tax Policy Center (2025). Tracking the Trump Tariffs, 27.8.2025. <https://taxpolicycenter.org/features/tracking-trump-tariffs>.

⁶ Center for Global Development (2025). US Tariff Tracker: Measuring "Effective Tariffs Rates" Around the World, 7.8.2025. <https://www.cgdev.org/media/us-tariff-tracker-measuring-effective-tariff-rates>.

⁷ Kiel Institute for the World Economy publication on X, 24.7.2025. <https://x.com/kielinstitute/status/1948481986445574354>.

⁸ The Budget Lab (2025). State of U.S. Tariffs: September 26, 2025. <https://budgetlab.yale.edu/research/state-us-tariffs-september-26-2025>.

⁹ Tax Foundation (2025). Trump Tariffs: Tracking the Economic Impact of the Trump Trade War, 26.9.2025. <https://taxfoundation.org/research/all/federal/trump-tariffs-trade-war/>.

2. Model-based simulations indicate that tariffs most strongly dampen economic growth in China and the United States

The effects of the recently imposed US tariffs can be analysed using the Global Integrated Monetary and Fiscal (GIMF) macroeconomic model developed by the IMF. The simulations examine the impact of tariffs already implemented or agreed by the United States on GDP levels during the first and second years following their introduction.^{10,11} In our simulations, the US is assumed to impose an effective 15-percentage-point tariff increase on the euro area, along with an additional 20% tariff on Japan and emerging Asian economies (excluding China). A further 5% tariff is applied to exports from Canada and Mexico to the US.¹² These assumptions are based, for example, on Fitch's (2025) estimates of effective tariff rates for these countries, taking into account zero-tariff exclusions under various free trade agreements.¹³

In China's case, the additional tariffs currently imposed by the United States are estimated to approach 40% (see Table 1). China has, however, responded by significantly redirecting its export flows to other Asian countries, likely mitigating some of the direct effects of the tariffs. In the model simulation, it is assumed that half of the value added in China's exports is successfully rerouted through other Asian economies, thereby avoiding the sharp tariff increases implemented during

¹⁰ In the simulations, the size of the actual effective tariff is estimated with an accuracy of 5 percentage points.

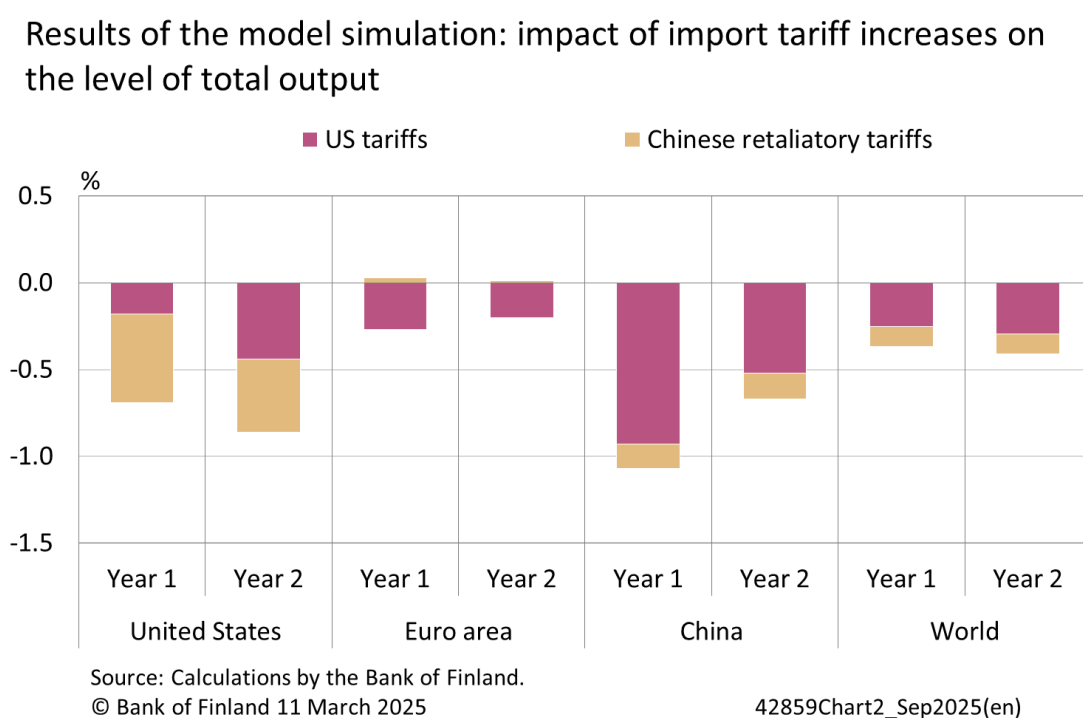
¹¹ Unlike the calculations of Anttonen et al. (2025), we exclude the decline in investment caused by trade policy uncertainty due to the increase of risk premia. Risk premia are only calculated after the first half of 2025. Economic policy uncertainty in the euro area, for example, increased dramatically in the first half of the 2025, but in recent months has dropped to levels below the start of the year. For more on the impacts of uncertainty, see the Finnish-language article by Anttonen et al. (2025), "Miten kauppasodan varjot iskevät talouteen? Euro & Talous, 11.3.2025. <https://www.eurojatalous.fi/fi/2025/1/miten-kauppasodan-varjot-iskevät-talouteen/>.

¹² Canada and Mexico are included in the "Rest of the world" bloc in the GIMF model. In the US import figures, the lion's share of imports from Mexico and Canada to the US are included in the "Rest of the world" bloc. For this reason we have imposed a 5 % additional tariff on the US exports from this bloc of countries.

¹³ See Fitch (2025), "Fitch Ratings Updates U.S. Effective Tariff Rate Monitor Amid Rising US-MCA Compliance," non-rating action commentary, 15.8.2025. <https://www.fitchratings.com/research/sovereigns/fitch-ratings-updates-us-effective-tariff-rate-monitor-amid-rising-usmca-compliance-15-08-2025>.

2025. In such case, the increase in the effective tariff level of China's exports to the US would be 20 percentage points. Regarding China's retaliatory tariffs, the calculations account for increases of 10 percentage points imposed by China on the US.¹⁴

Figure1. Import tariff increases reduce GDP growth globally, as well as in all three major economic blocs.



Model simulation results are reported in Figure 1. The additional tariffs imposed by the US (red bars) and the retaliatory tariffs imposed by China on the US (yellow bars) are presented separately. Based on the calculations, the import tariff increases weaken GDP globally and in all three major economic blocs. The largest negative impacts are in the US (-0.7% in the first year and -0.9% in the second year), and in China (-1.1% and -0.7% , respectively). The impact for the euro area is roughly -0.2% in both the first and second years.¹⁵ The level of global GDP would be 0.4%

¹⁴ In the model simulations, half of US tariff income is directed to reducing public debt and half to income transfers to households. China's tariffs are used exclusively for income transfers to households.

¹⁵ In the case of the euro area, the simulation of the direct GIMF model yields a lower tariff impact of 0.1 percentage points in the first year of the calculation. Under the model, euro area exports increase as a result of import tariff hikes imposed on Canada and Mexico. However, the re-

lower in the first two years. The largest negative impacts on the US appear to stem from China's retaliatory tariffs, whereas the Chinese economy seems to be hit harder by the increased US import tariffs than the effects of its own retaliatory tariffs.

The impact of the latest tariff hikes in the euro area appear to be quite modest, partly because its relative competitiveness in the US market improves compared to many other countries. It is important to note that the model assumes a reduction in uncertainty, including uncertainty related to tariffs. In reality, such uncertainty persists and may affect economic behaviour, such as investment decisions. As a result, the actual negative impacts of the trade war on the euro area are likely to be somewhat larger.

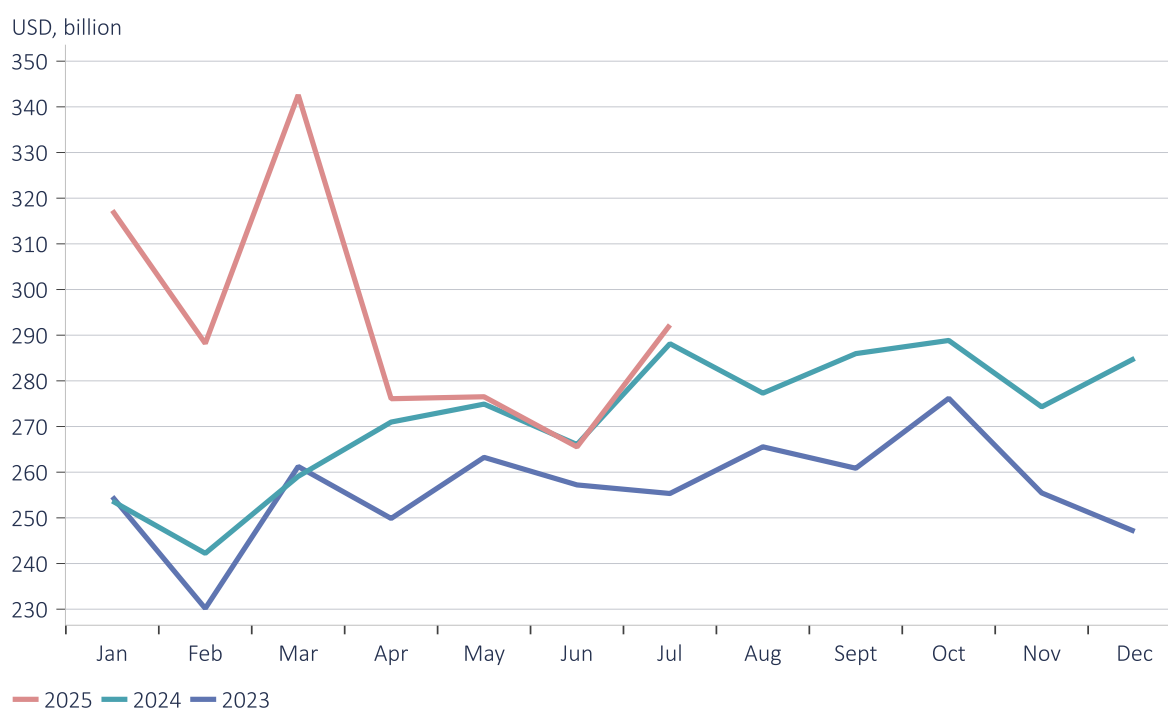
allocation of trade flows in the calculation is unlikely in this respect, so we have excluded it from our calculations.

3. Tariffs have already reshaped US goods imports

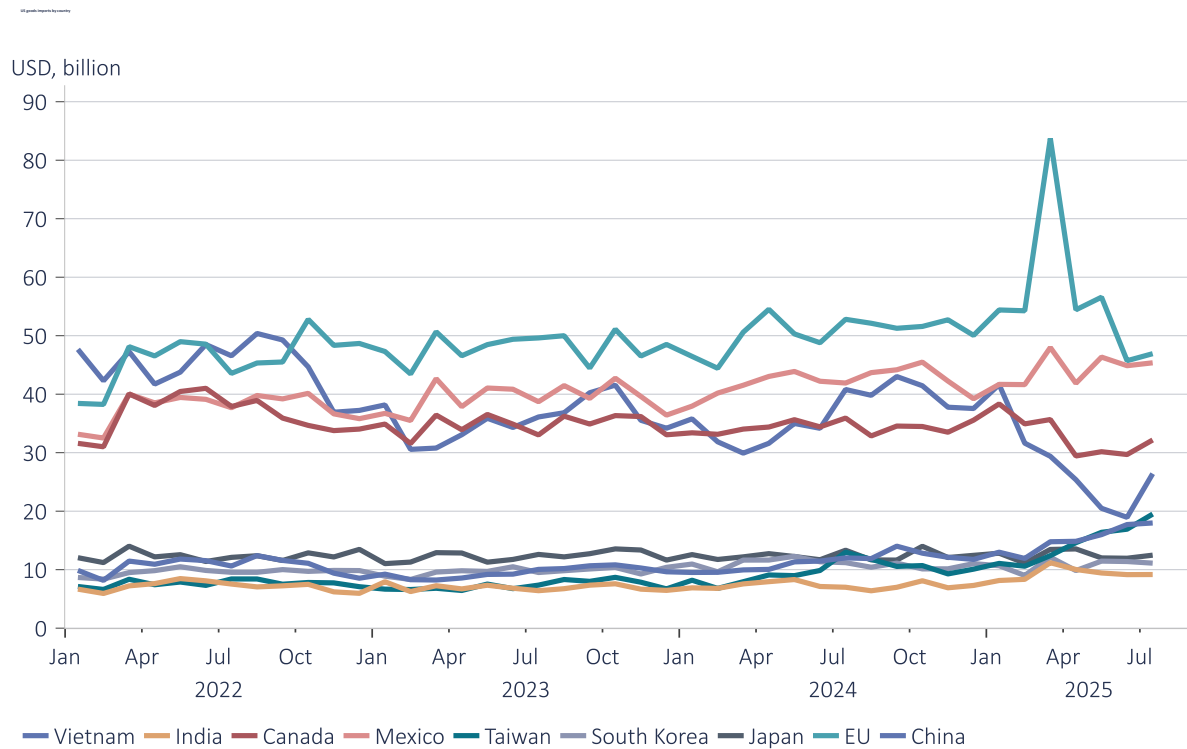
The tariffs imposed by president Trump in his first term led to a decrease in direct imports to the US from China. At the same time, China increased its exports to other major US exporters such as Mexico and Vietnam. Looking at the latest figures in the OECD's Trade in Value Added (TiVA) database,¹⁶ we see that Chinese value added in US imports has not decreased since tariffs were imposed in Trump's first term, i.e. a portion of Chinese value added makes its way to the US via third countries.

Trump's second term tariffs, however, are far more extensive and apply to essentially all US trading partners. In the first quarter of 2025, US goods imports surged in anticipation of higher tariffs to levels well above previous years (Figure 2). For example, the volume of pharmaceutical imports into the US doubled in 1Q25 compared to the first quarter of 2024. Notably, even with the imposition of tariffs, the levels of imports in July 2025 is almost identical to July 2024.

¹⁶ The OECD's TiVA site: <https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html>.

Figure 2. US goods imports spiked in early 2025 in anticipation of tariff increases.

Country-specific differences in import trends have emerged (Figure 3). For example, US goods imports from Taiwan and Vietnam in July rose by 50 % y-o-y, while imports from China were down by 35 % y-o-y. China has clearly increased exports to Asian countries. Anticipation of coming changes in the tariff regime at the start of 2025 caused US imports from the EU to spike sharply. By June and July, the pace of imports declined rapidly as spring inventory-building ended and the higher tariff levels kicked in. The ultimate impacts of tariff increases on trade with the EU, however, cannot yet be deduced from these import statistics.

Figure 3. US direct imports from China have declined.

It is still difficult to say how lasting these shifts in goods trade might be. While tariffs could boost investment in US manufacturing, it appears that construction of new US manufacturing capacity this year is set to decline relative to 2024. Thus, it will be years before the longer-term effects of tariffs on the siting of production, value chains and global trade become evident.

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