

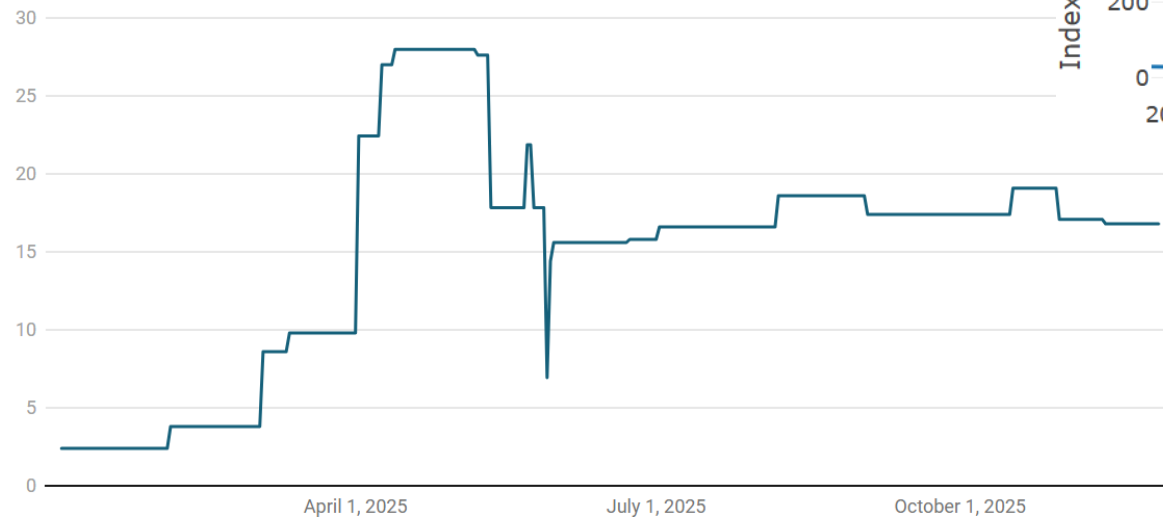
Tariffs, tensions and deals: global trade lost in transition?

JVI, Vienna, December 2nd, 2025

Martin Kocher
Governor Oesterreichische Nationalbank

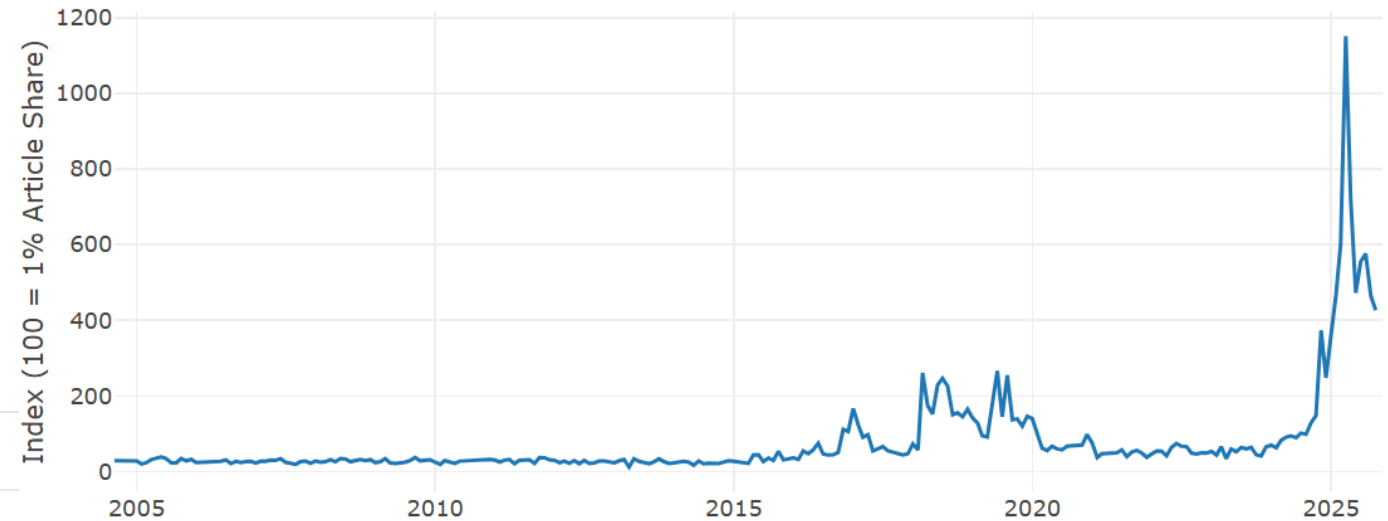
„Liberation Day‘ has created a lot of uncertainty

- On April 2nd, the US administration announced sweeping tariffs on most trading partners
- Numerous deals led to unusual volatility in tariffs over the year



US average effective tariffs rates

Source: The Budget Lab



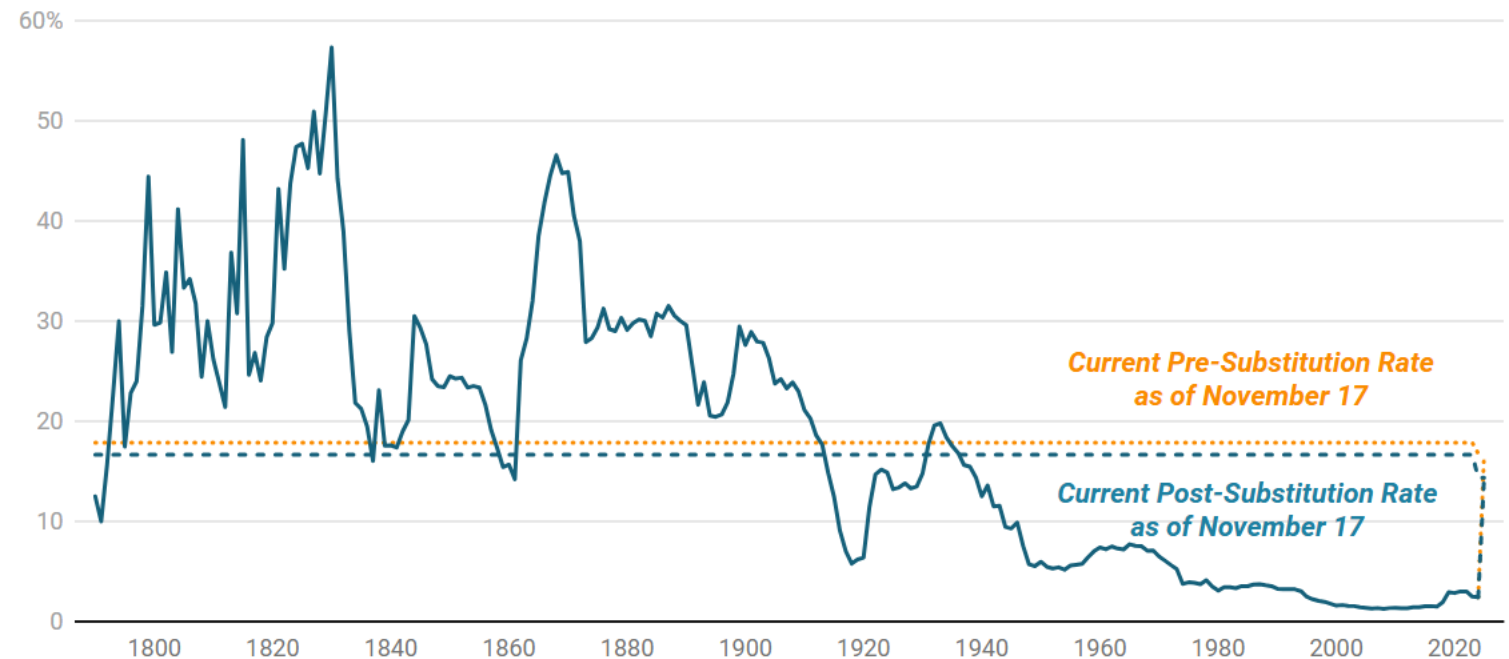
Trade policy uncertainty index

Source: www.matteoiacoviello.com

- which led to heightened trade policy uncertainty

Tariffs and their motives

- Motives for tariffs (3 R's):
 - Revenue
 - Restriction
 - Reciprocity
 - New: trade balance
- Final vs. intermediate goods



US average effective tariffs rates

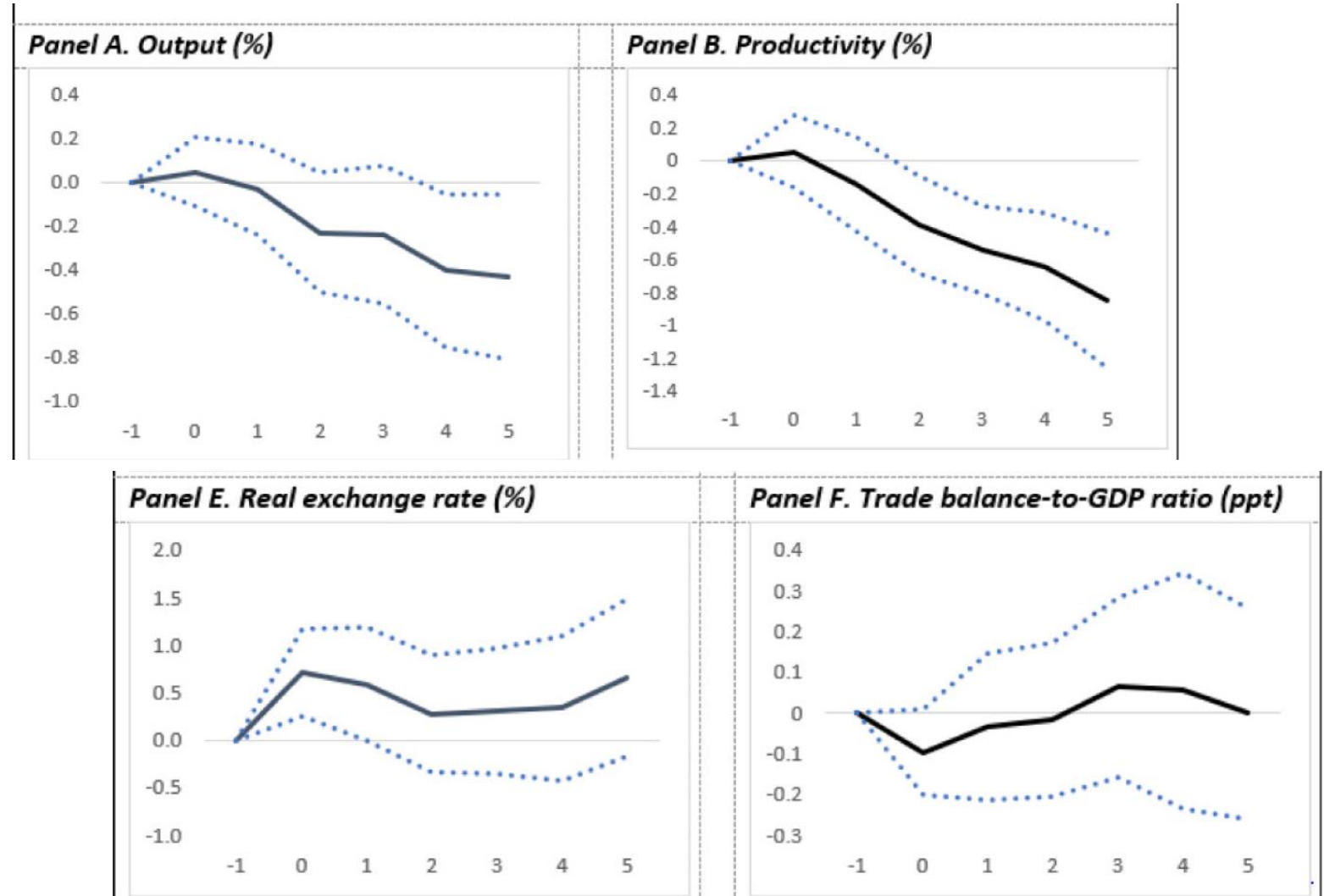
Source: The Budget Lab

‘Optimal’ tariffs of large countries vary according to estimation

- LARGE countries can affect terms of trade to their advantage -> gains from unilateral tariffs
- Optimal tariffs maximize domestic welfare
- Optimal tariffs vary widely depending on model, sector, network structure
- According to Ossa (2014) optimal tariffs are high (60% for US), according to Christen et al (2025) lower (additional 7% for EU)
- Problem: retaliation -> prisoner’s dilemma
- WTO, trade deals to coordinate and overcome this prisoner’s dilemma

Tariffs lower GDP and productivity

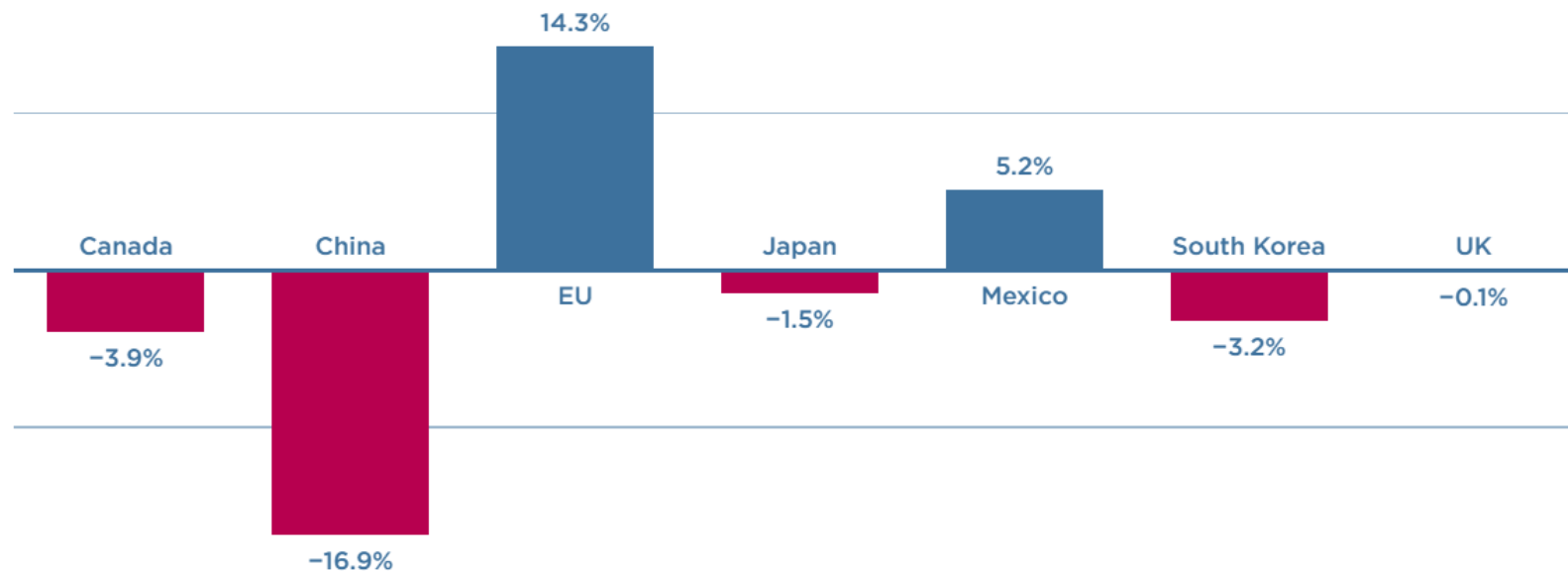
- Local projections based on data from 151 countries from 1963 to 2014 (Furceri and co-authors, 2022)
- Output and productivity decrease after tariff hike
- No effect on trade balance



US-tariffs have redirected trade

US imports have been down from China but up from the EU this year through July compared with 2024

Cumulative 2025 US real merchandise imports from major partners through July, percent change from January-July 2024 levels

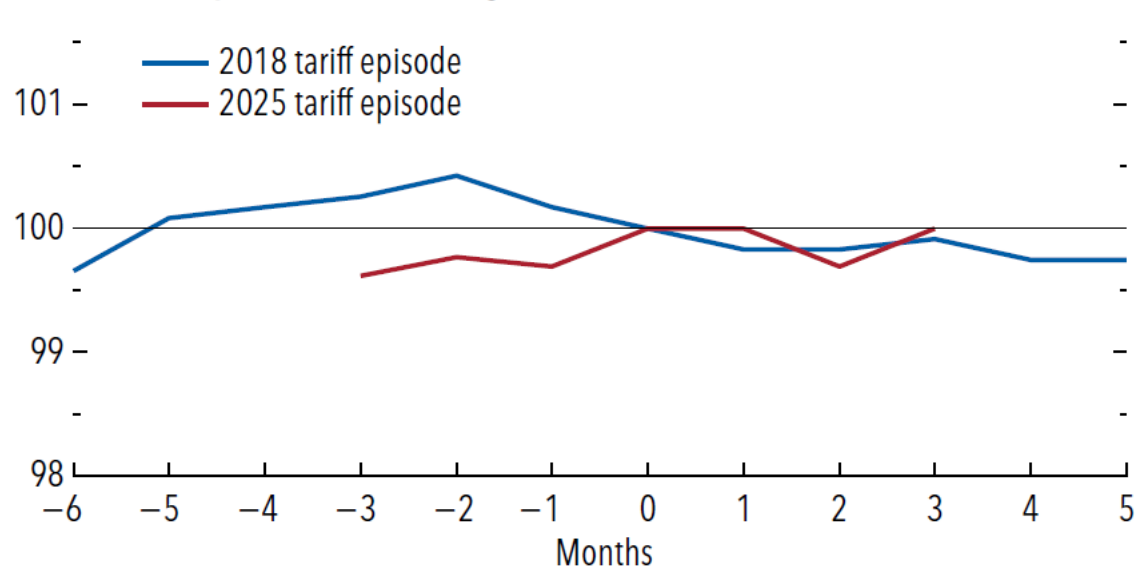


Source: Peterson Institute

- The US is importing much less from China,
- but importing more from the EU
- Anticipation of tariffs has led to a surge in imports in the Q1 2025, but in the Q2 imports were close to the level of 2024

US import prices have dropped only for selected products

102 – 2. US Import Prices Excluding Fuels

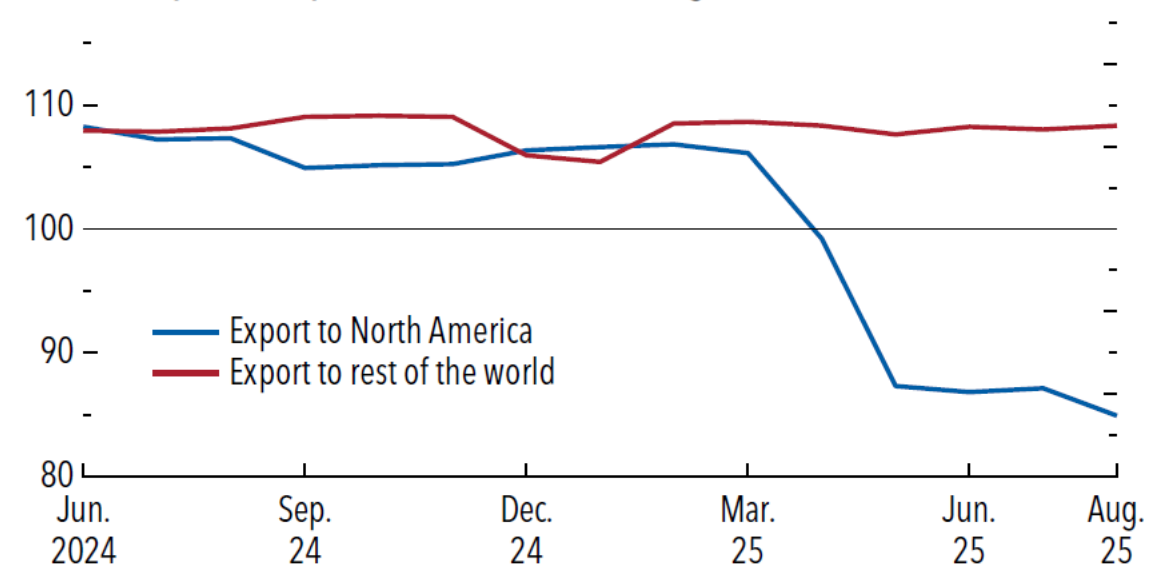


Source: IMF, WEO October 2025

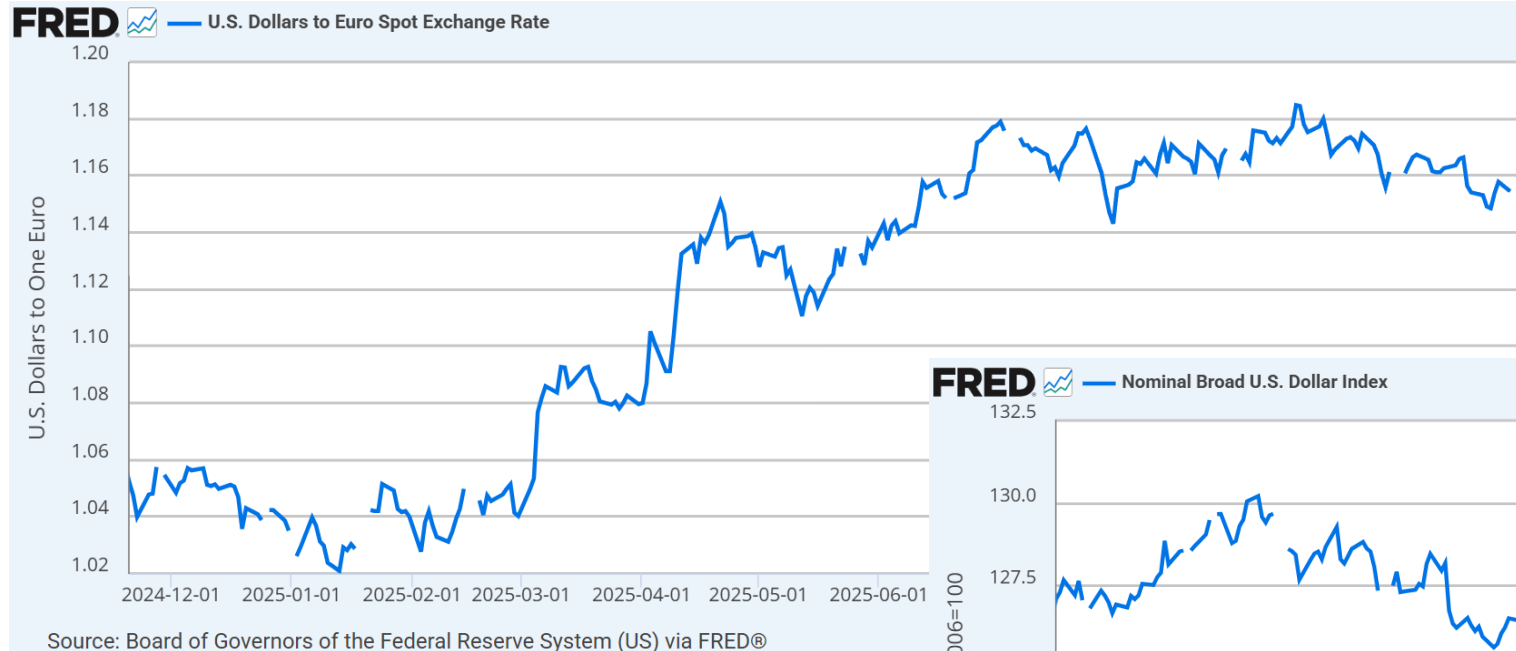
- Different for some specific products (e.g., cars from Japan, RHS)
- Most analysts expect tariffs to be borne mainly by US firms and US customers

- Foreigners could pay for the tariffs by accepting lower imports prices
- However, IMF finds little movement in aggregate import prices -> not foreigners that pay

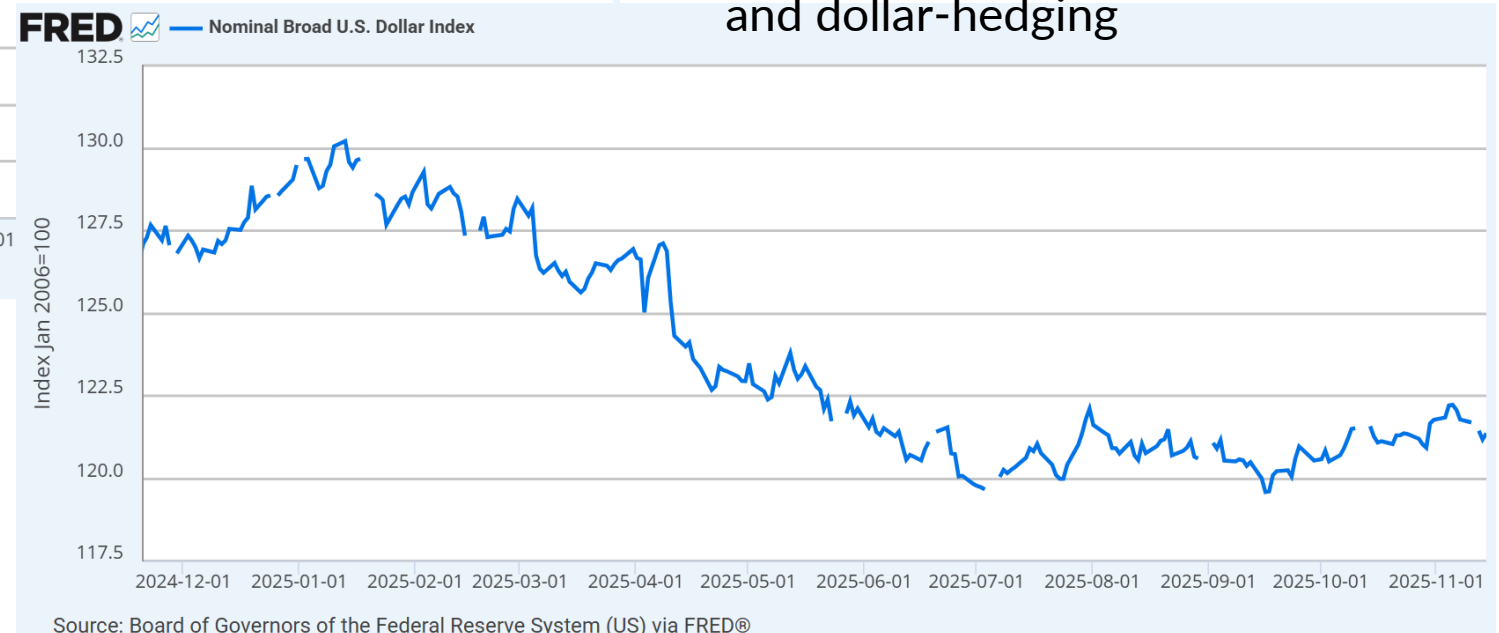
120 – 3. Japanese Export Price: Standard Passenger Cars



US-Dollar depreciated despite tariffs



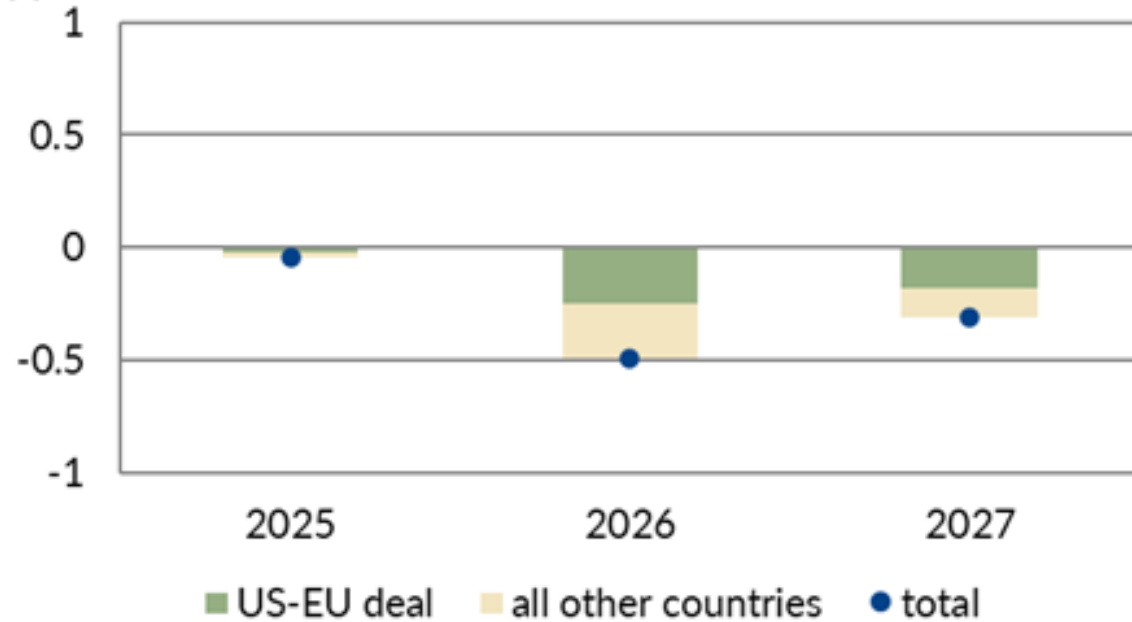
- The US-Dollar depreciated relative to the euro (left), and a broad basket of currencies (below)
- Probably due to reduced trust and dollar-hedging



US-tariffs lower GDP growth

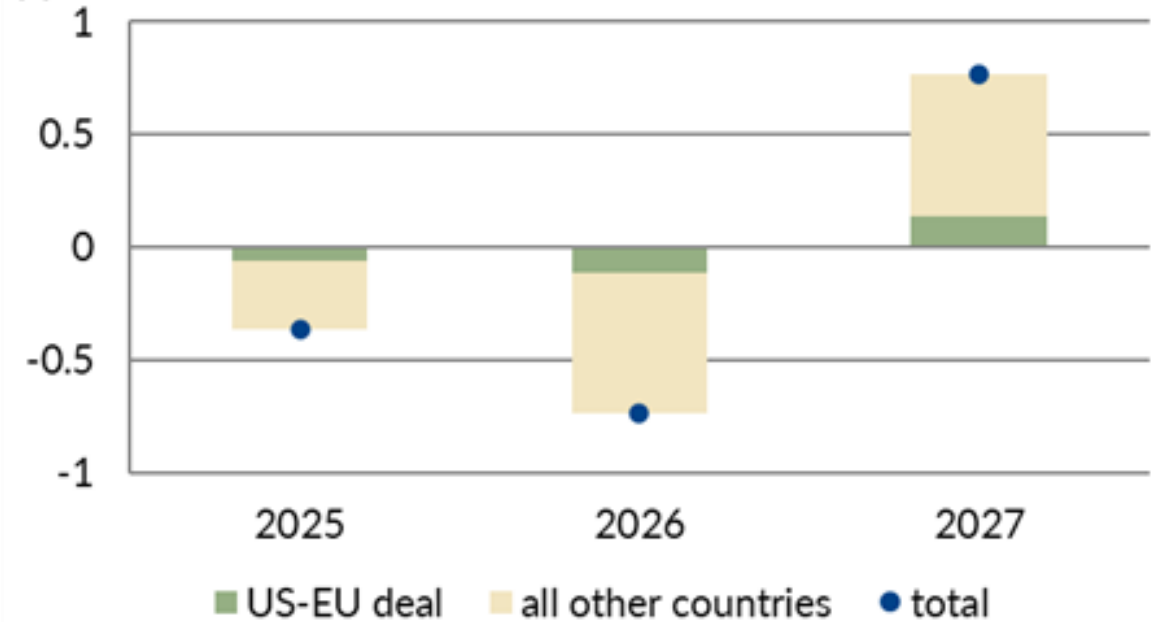
EA GDP growth

ppt deviation from baseline



US GDP growth

ppt deviation from baseline



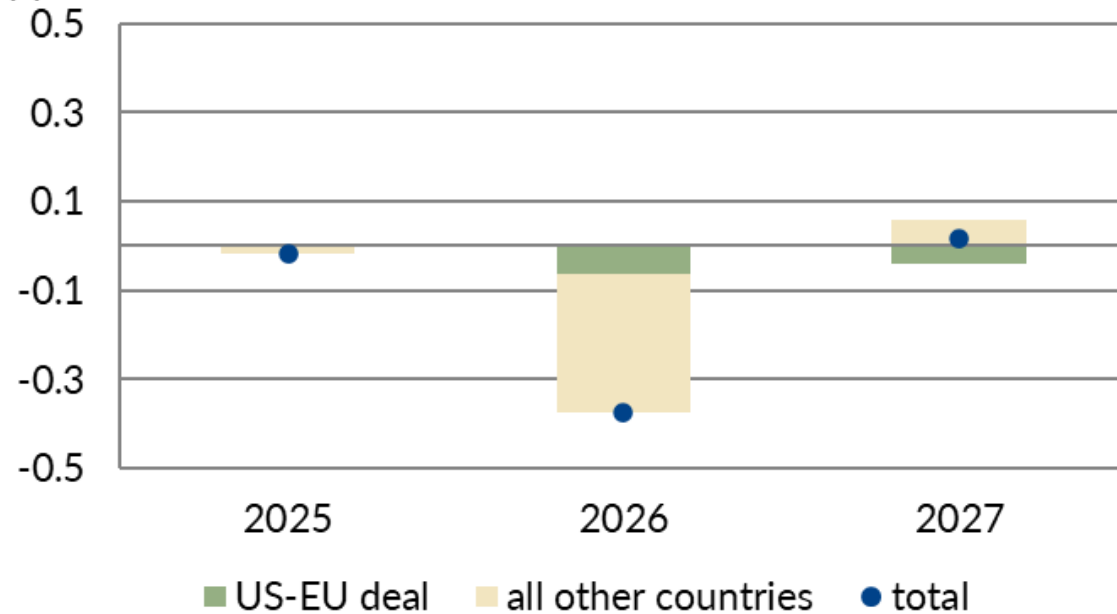
Source: OeNB

- The OeNB uses the Oxford global model for scenario analysis
- We find that US-tariffs lead to lower growth in the US and the EU
- EU is negatively affected by lower US-demand and lower growth in world economy

US-tariffs increase inflation in the US, but dampen it in the EA

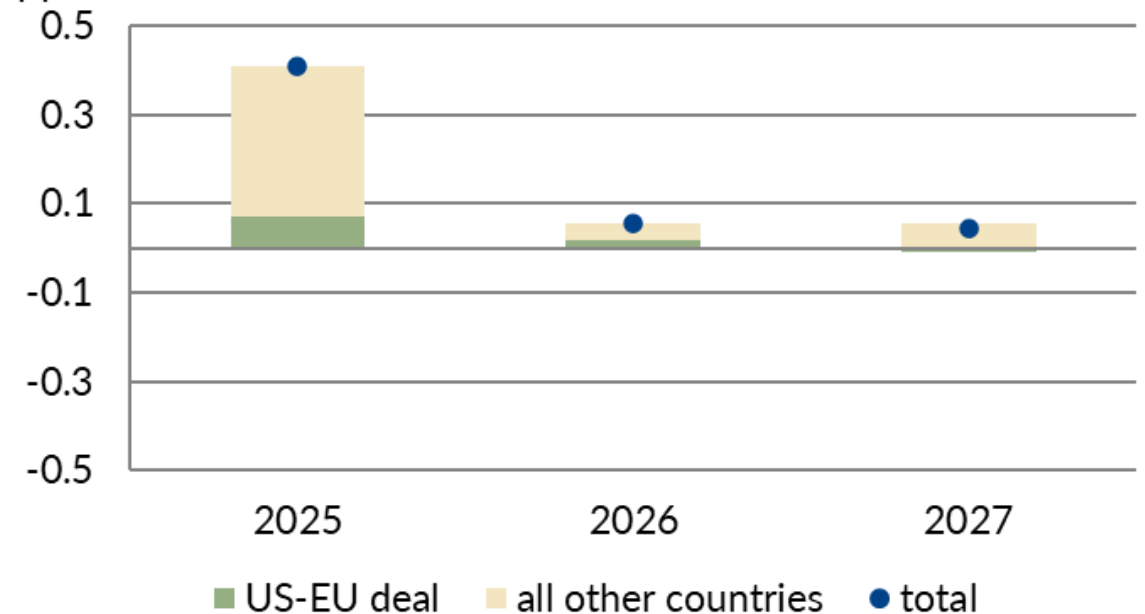
EA CPI inflation

ppt deviation from baseline



US CPI inflation

ppt deviation from baseline

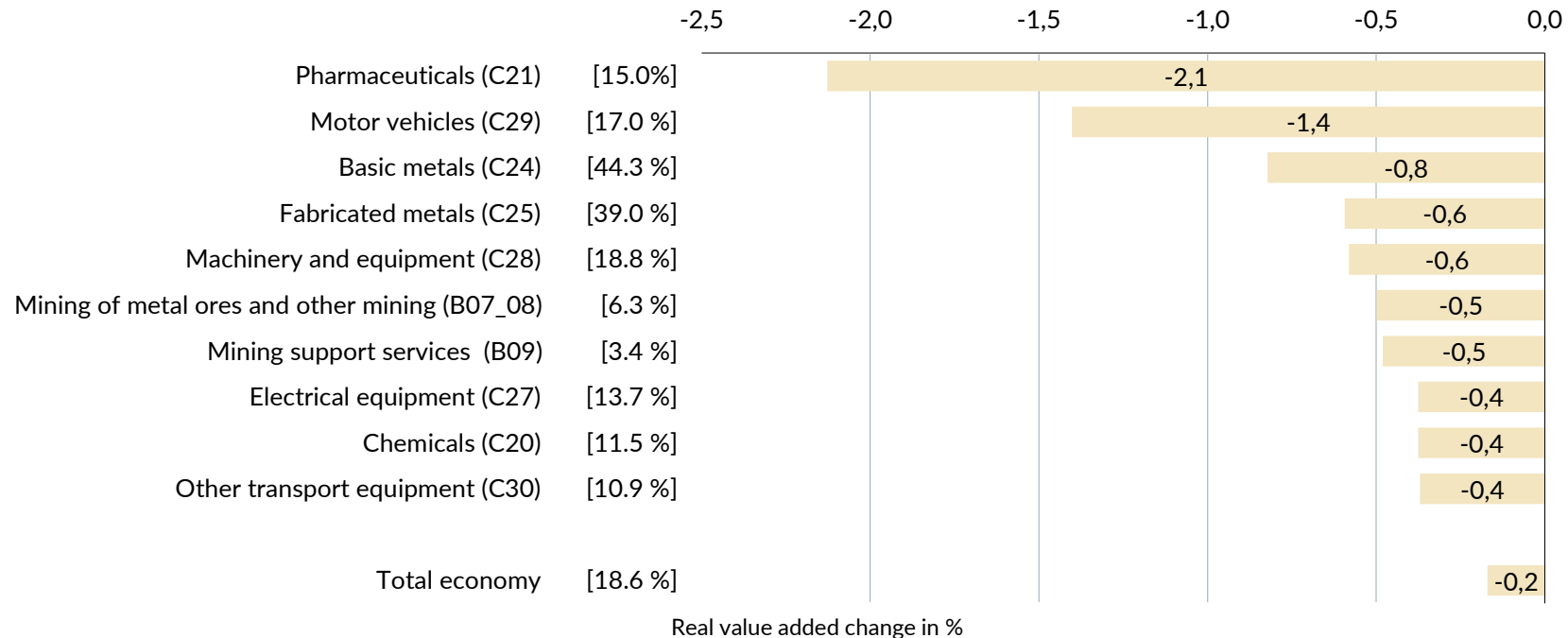


Source: OeNB

- According to the Oxford model, lower growth in the EU leads to lower inflation
- In the US inflation increases because imports (and domestic substitutes) get more expensive
- For the EA the negative demand effect dominates and dampens inflation

In Austria, pharmaceuticals are most affected by US-tariffs

Impact of EU-US trade agreement of July 27 2025 on 10 most affected industries in Austria



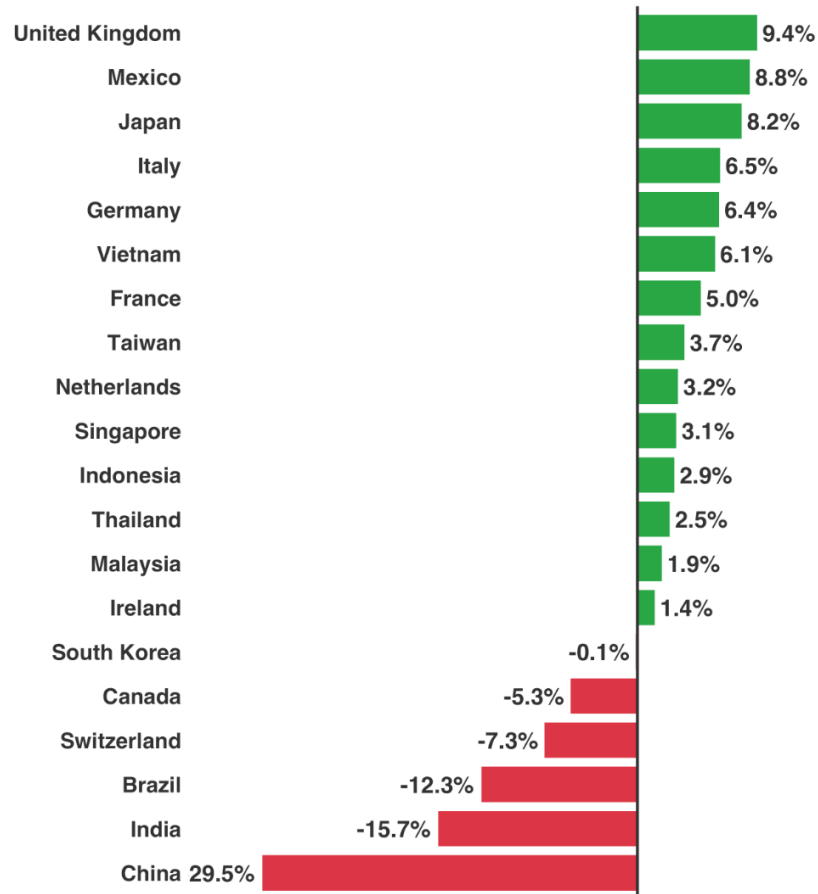
Remark: The figures in brackets indicate the average duty rate per product group.
Source: OeNB calculations.

- The OeNB has developed an input-output model for the Austrian economy to capture network-effects and sector-specific effects
- Pharmaceuticals and motor vehicles are the sectors most affected by US tariffs with an expected drop in value added by 2.1 and 1.4 pp, respectively

Trade diversion from US-China tensions leads to stronger EU exports

Relative 'Trump Tariff Advantage'

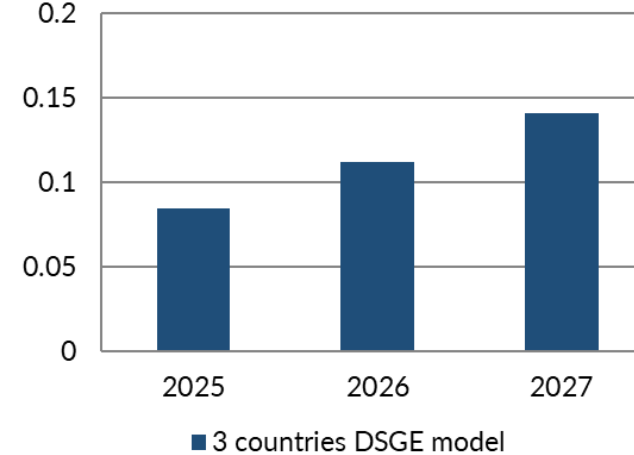
Trade-weighted average own tariff vs. competitors, effective 01 November 2025



Green = Advantage, Red = Disadvantage
Source: Global Trade Alert, USITC DataWeb (2024 imports, HS 8-digit level)

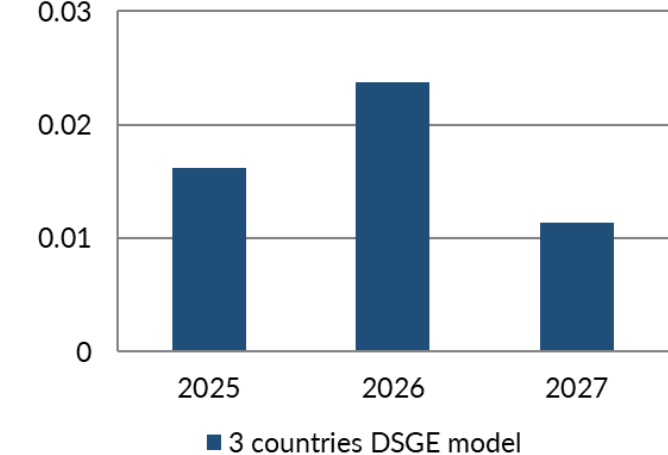
EU GDP

% deviation from baseline



EU CPI inflation

ppt deviation from baseline

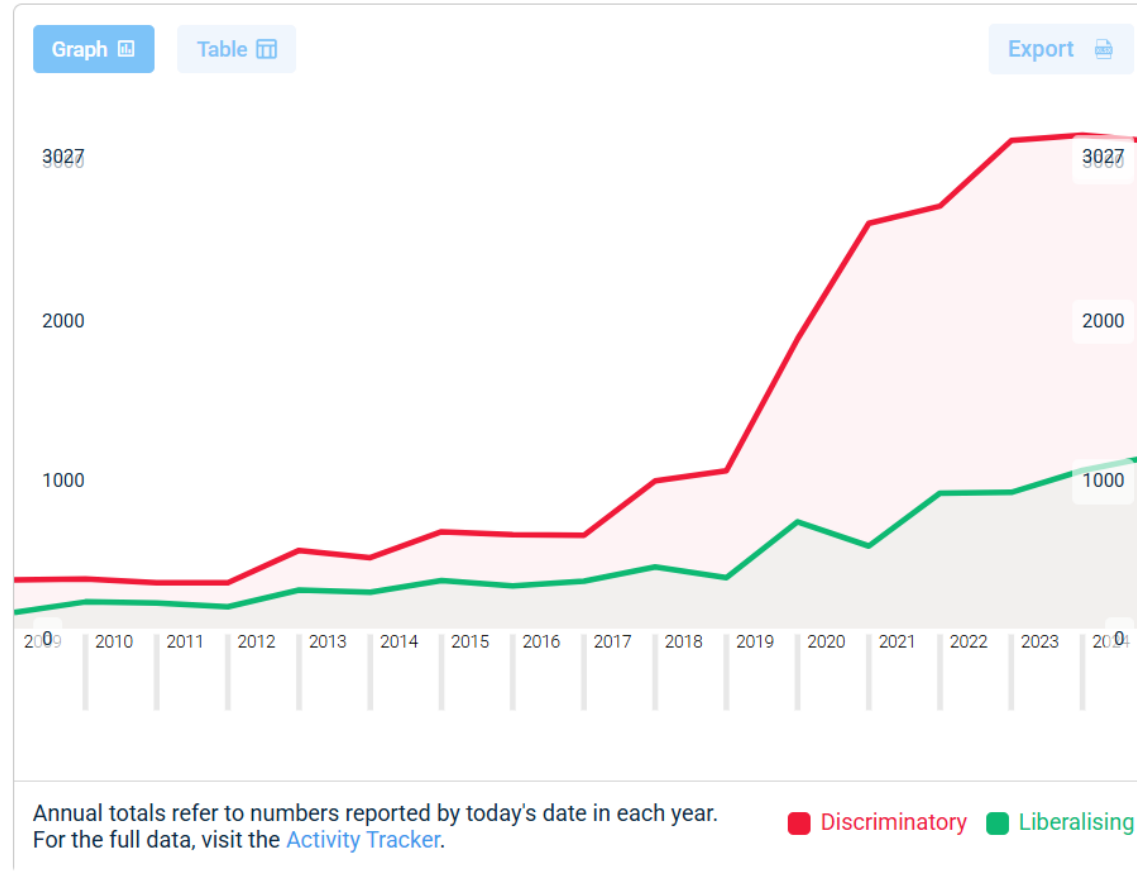


Source: OeNB

- Trade diversion
 - depends on relative tariffs (US tariffs relative to US tariffs faced by other countries),
 - leads to rise in EU exports, GDP and inflation – ceteris paribus,
 - but effects are small

Fragmentation is a global phenomenon

New policies per year



Source: Global Trade Alert

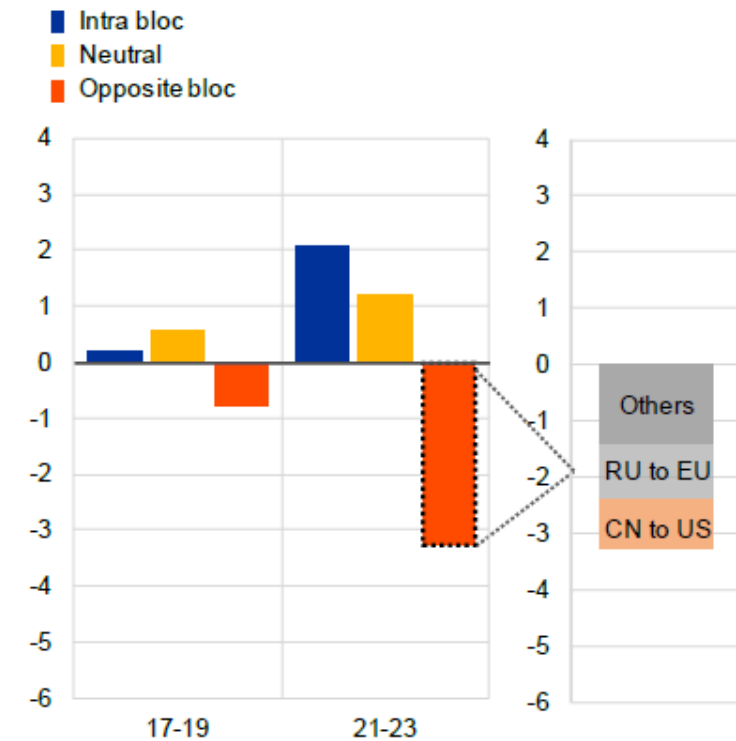
- Global Trade Alert collects information on trade-related policy
- Trade restricting measures have started rising already in 2012
- Since 2017 the surge has accelerated
- Fragmentation is a global phenomenon

Geopolitical fragmentation reconfigures trade flows

Ongoing reconfiguration of trade flows along geopolitical lines

a) Western bloc import shares

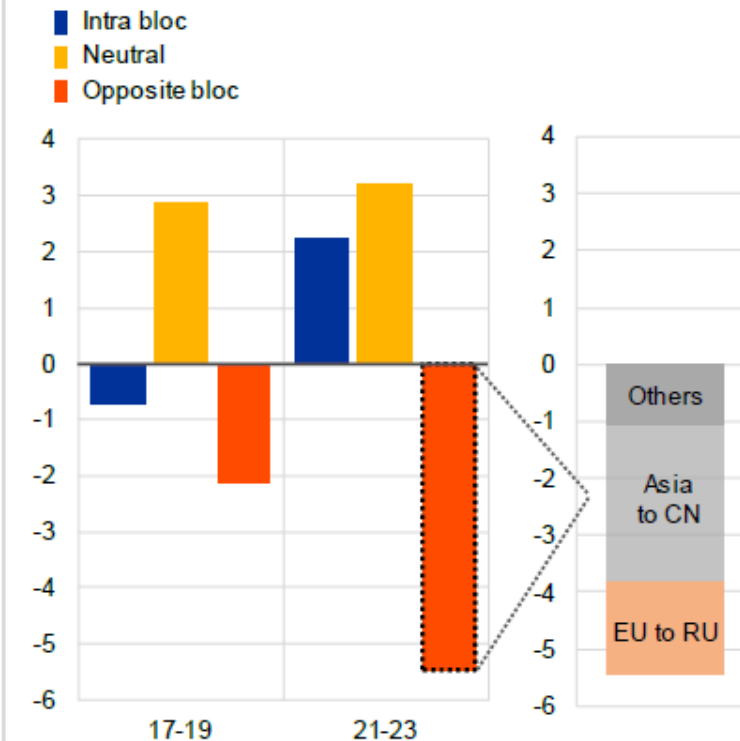
(percentage point changes)



Source: Conteduca et al. (2024) with data from Trade Data Monitor (TDM).

b) Eastern bloc import shares

(percentage point changes)

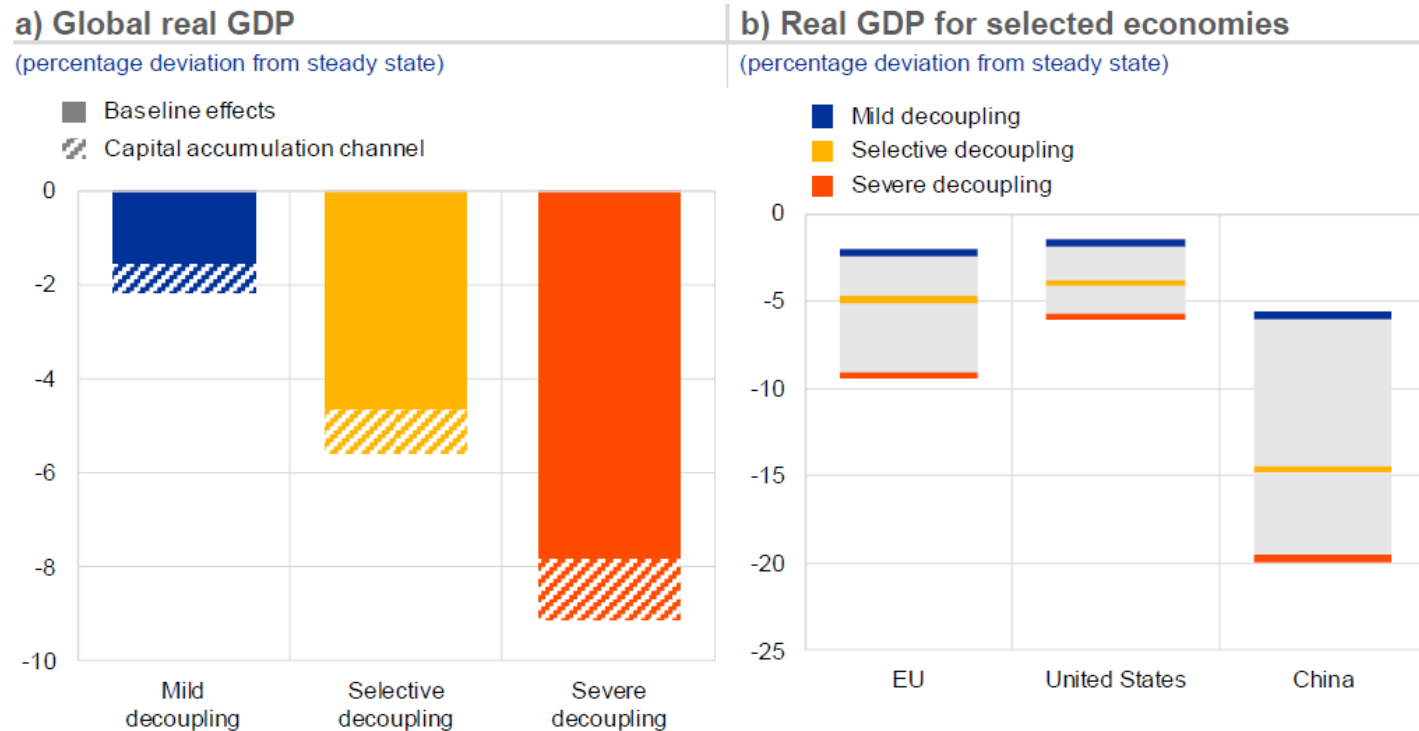


Source: ECB Occasional Paper 365

- The International Relations Committee (IRC) has analyzed geopolitical fragmentation
- The report shows that the Western bloc imports less from the Eastern bloc and vice versa
- Primarily driven by trade with Russia and China

Geopolitical fragmentation lowers GDP

Output losses across fragmentation scenarios



Sources: Baqaee and Farhi (2024), Conteduca et al. (2025), OECD TiVA, EORA, Quintana (2024) and authors' calculations.

Source: ECB Occasional Paper 365

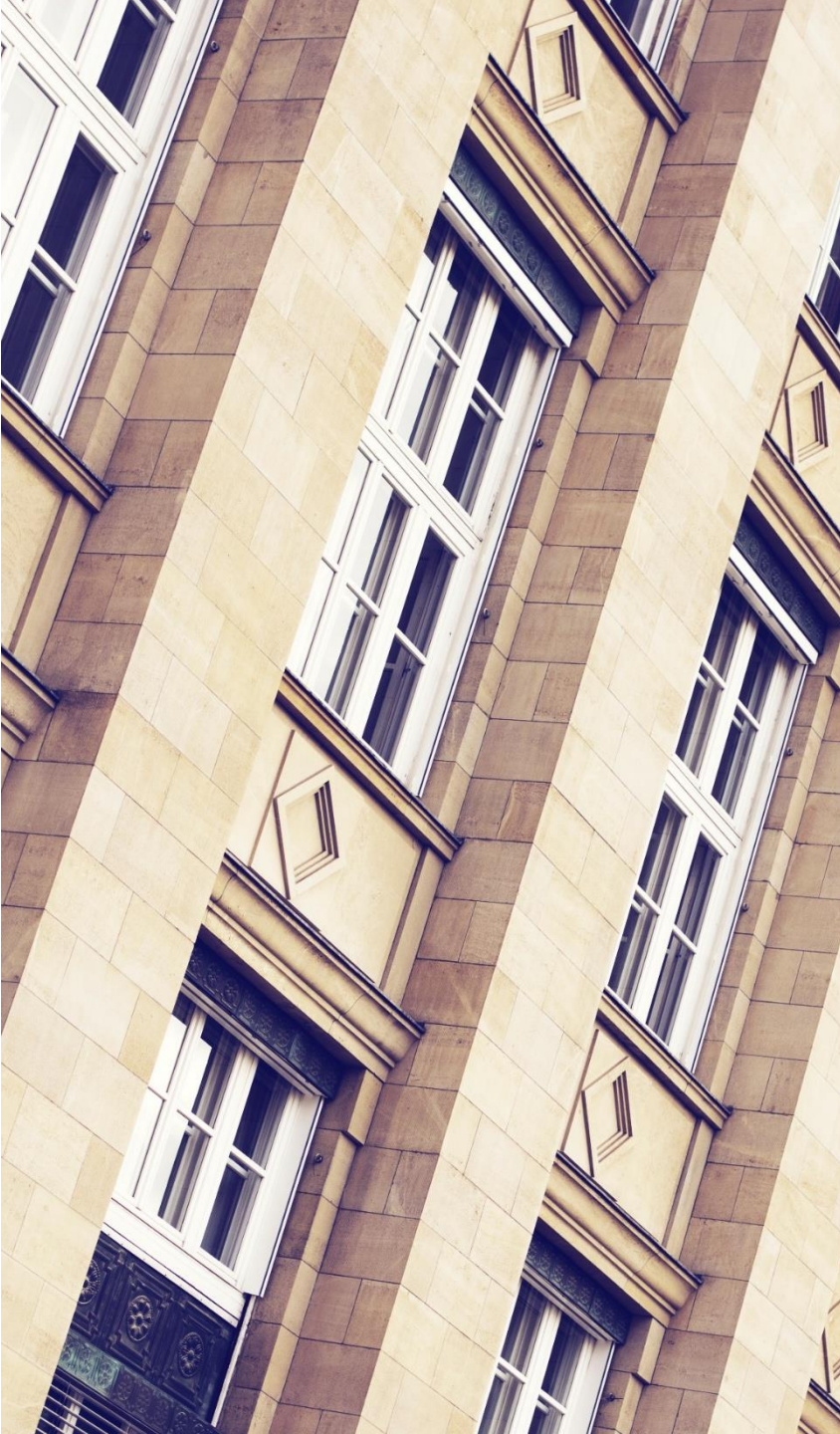
- According to simulations geopolitical fragmentation lowers global GDP
- More severe decoupling implies larger drops in GDP
- EU and China suffer more due to larger dependence on international trade

Conclusions I

- New aggressive trade policy by US administration
- Tendencies of trade fragmentation and bloc-building (trading blocs, optimal tariffs, and global GDP)
- Free international trade benefits all countries and should be preserved
- Multilateralism or plurilateralism?
- What does this mean for the EU's trade policy? How should the EU act within the WTO?

Conclusions II

- Strengthen resilience and diversification
- Mapping trade flows and dependencies in supply chains (big data)
- Industrial policy and trade policy – are we back in the 1980ies?
- Central banks need to stay attentive to inflation risks resulting from tariffs and trade tensions
- The political economy of tariffs and the role of distributional trade effects



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Security through stability