

The impact of tariff and trade uncertainty - Romanian experience

EU IFI peer to peer seminar

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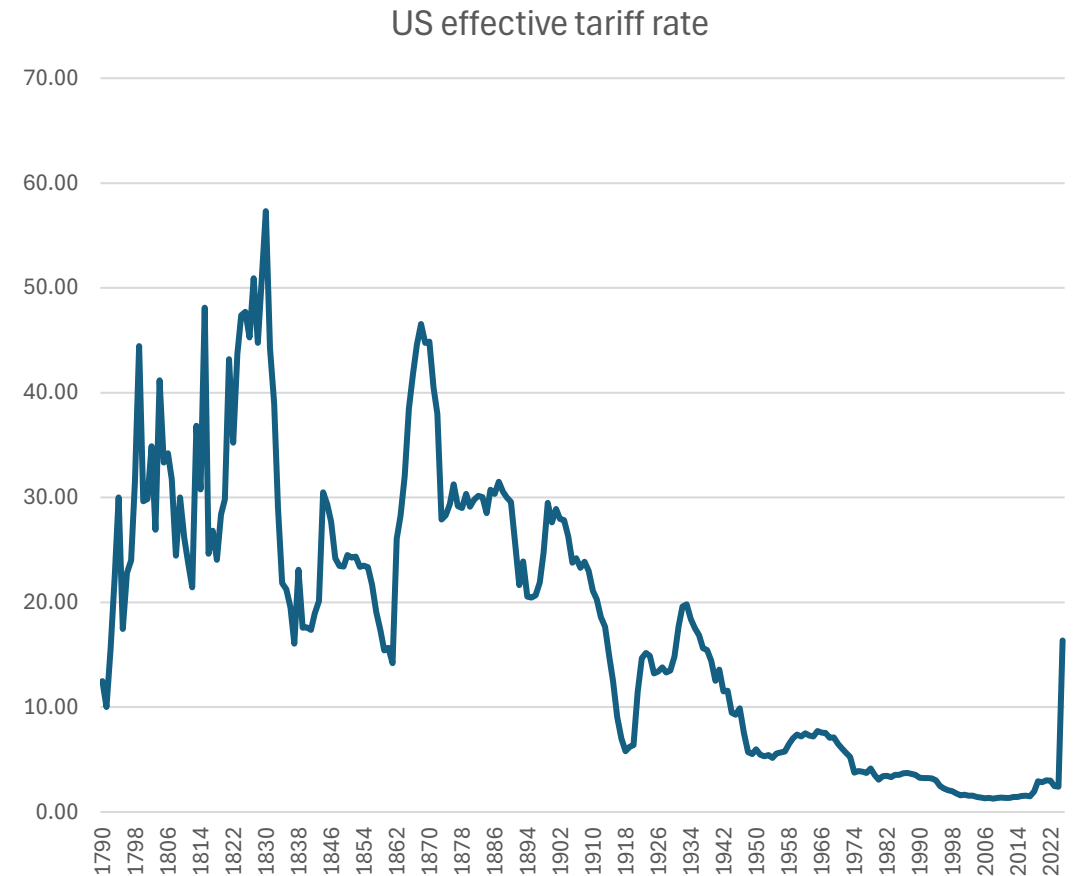
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General context

- The presence of the new normal in international economic relations.
- An environment marked by uncertainty: Covid-19, high inflation, energy price shock, Ukraine-Russia conflict, Middle East tensions, custom tariffs.
- Trade policy changes seem to be becoming an intrinsic feature of the new macroeconomic environment, accentuated by overlapping crises.

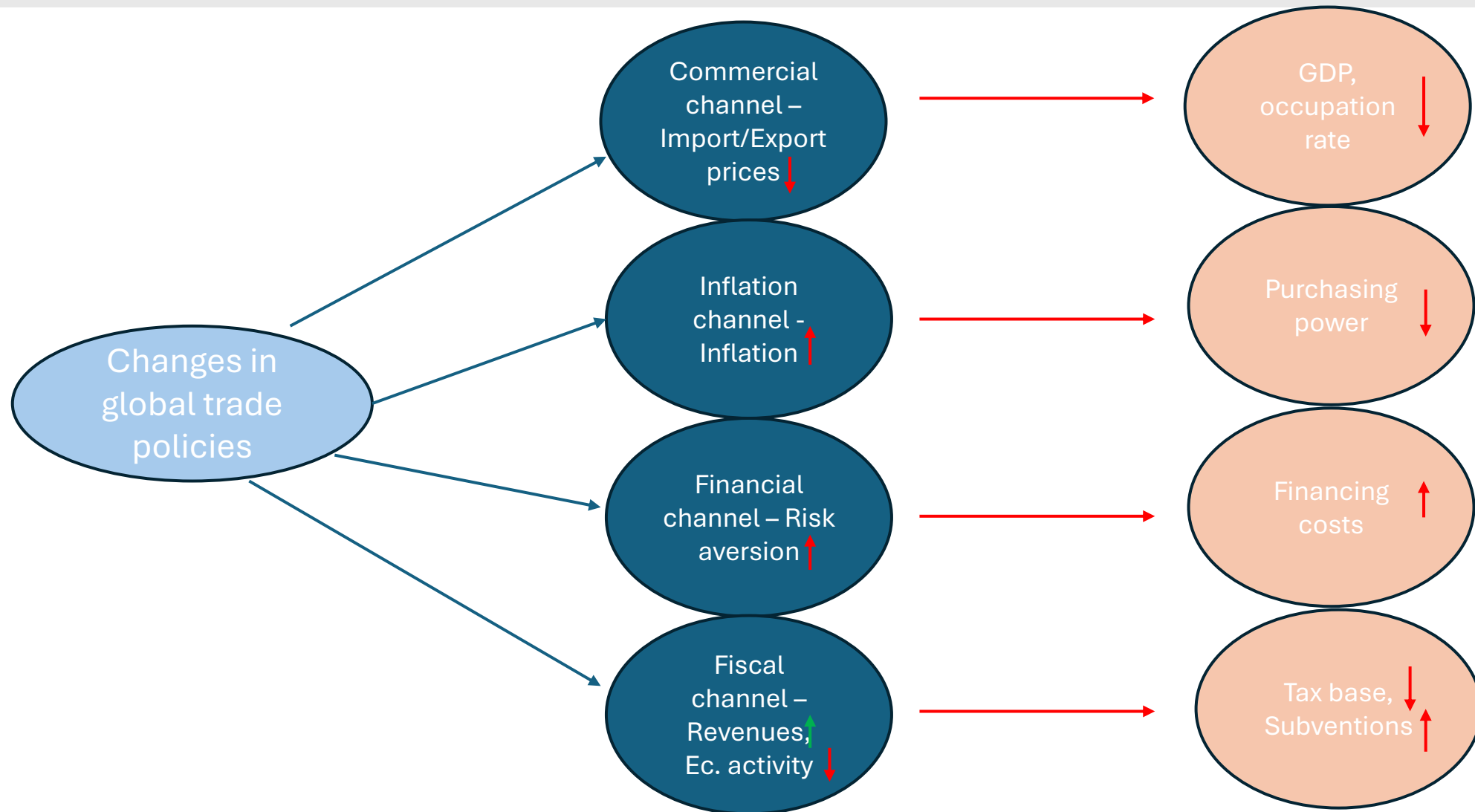
Protectionism in the international environment

- The changes in the US trade policies, regarding the imposition of tariffs on imports from partner countries, led to a major escalation of global trade tensions.
- Some protectionist measures were anticipated with the inauguration of the new administration in early 2025, their quick-paced implementation, as well as the size and the broad-based nature of the tariff package announced in early April considerably exceeded expectations.
- The average effective US tariff rate was estimated to reach the highest level in the past century



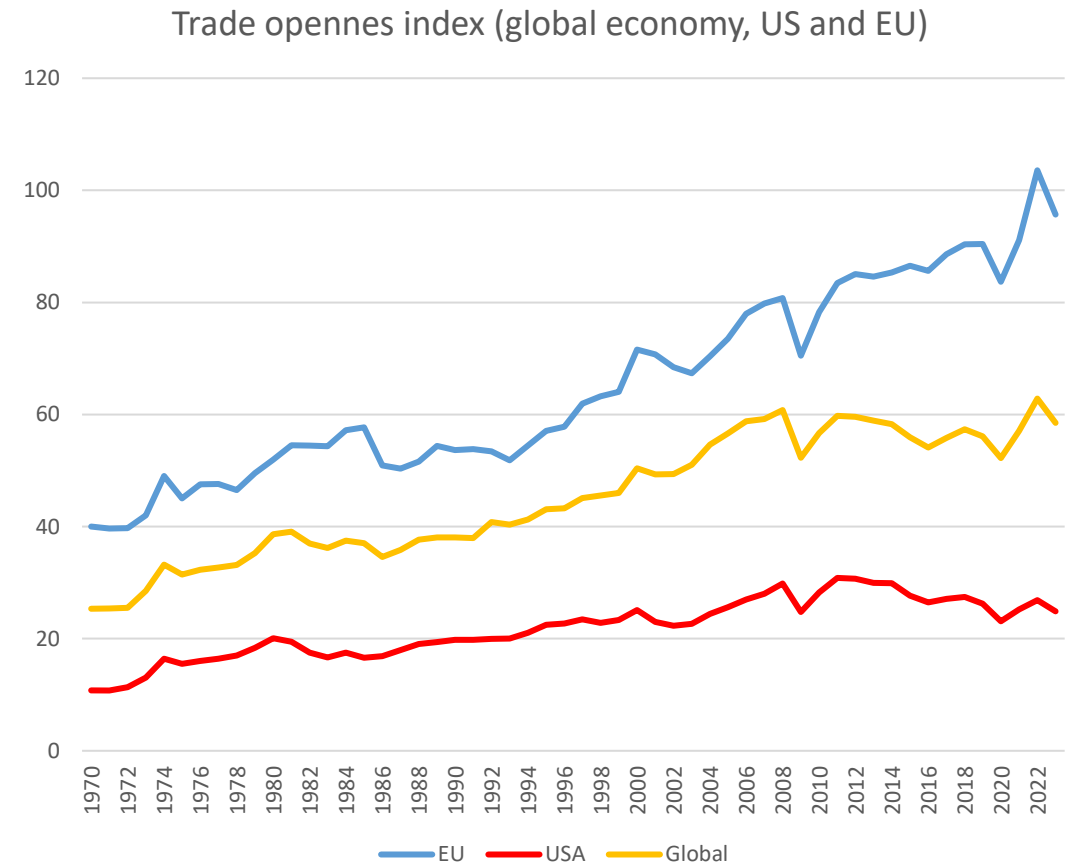
Source: Yale Budget Lab (State of U.S. Tariffs, September 4, 2025)

Main transmission channels of the tariffs shock



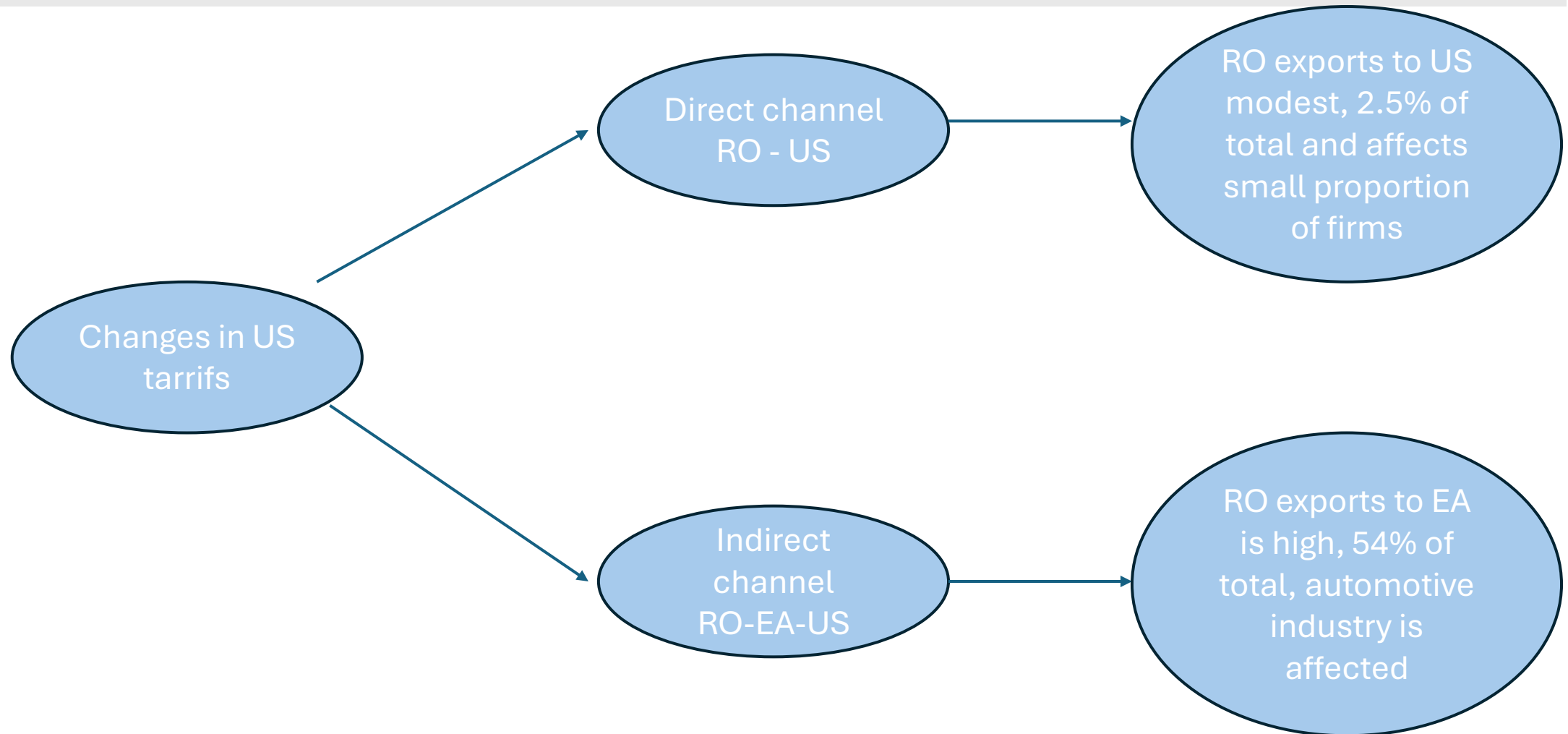
Commercial relations EU - US

- Strong commercial bonds between US and EU; EU exports goods to US, while US exports services to EU
- US is the main commercial partner of EU (21% of EU exports are to US)
- Main export sectors to US are: medical and pharmaceutical products, machines and equipments, vehicles, other transport equipments



Source: Our World in Data, World Bank, OCDE

Tariffs impact on Romania



Tariffs impact on Romania - methodology

- To estimate the effects of trade tariffs on GDP in Romania, we used a partial equilibrium model.
- Direct and linear estimation based on export value added, elasticities and tariffs.
- Advantages: the methodology is clear and easy to replicate; it is based on directly observable values (exports, value added, elasticities); it focuses on the trade channel.
- Disadvantages: does not consider the entire economy; does not capture second-round effects (e.g., export reorientation, price adjustment, wage adjustment).
- General equilibrium models (GEM): models the entire economy; also calculates second-round effects; takes into account adjustment mechanisms; effects can also be calculated for other economic variables (employment rate, for example).
- It involves a complex data set, complex theoretical foundation, and high resources (time, technical, computational).

Tariffs impact on Romania - data

- Romania's gross exports to the US, by NACE sectors (2024, Eurostat Comext EU trade by CPA 2.1).
- Share of value added (locally created) in Romania's gross exports to the US, by NACE sectors (2019, OECD Data Explorer - Trade in Value Added (TiVA)).
- Romania's intermediate exports to the euro area, by NACE sectors (2024, Eurostat Comext EU trade by CPA 2.1, classification into intermediate/final products).
- Share of value added (locally created) in Romania's gross exports to the euro area, by NACE sectors - proxy for the share of value added (locally created) in Romania's intermediate exports to the euro area (2019, OECD Data Explorer - Trade in Value Added (TiVA)) .
- Share of Euro Area gross exports to the US in total production in the EA, by NACE sectors
- (2024, Eurostat Comext EU trade by CPA 2.1, Eurostat Structural Business Statistics).
- Elasticities of substitution (low, medium, high): National Bank of Romania (synthesis of specialized literature).

Tariffs impact on Romania – elasticity of substitution

- The assessment of the tariffs' impact is based on a theoretical model according to which an economy (US) may opt, within each business sector, for locally produced or imported goods.
- The choice of elasticity becomes crucial for estimating tariffs, ours rely on NBR Inflation report from May 2025.
- $Direct\ loss = VA * Elasticity * \left(\frac{t}{t-1}\right)$
- $Indirect\ loss = FVA_{RO,i,s} * Elasticity * \left(\frac{t}{t-1}\right)$, where
$$FVA_{RO,i,s} = X_{RO \rightarrow i,s} * \theta_{RO,i,s} * \lambda_{i \rightarrow US,s}$$

Tariffs impact on Romania – macroeconomic results (1)

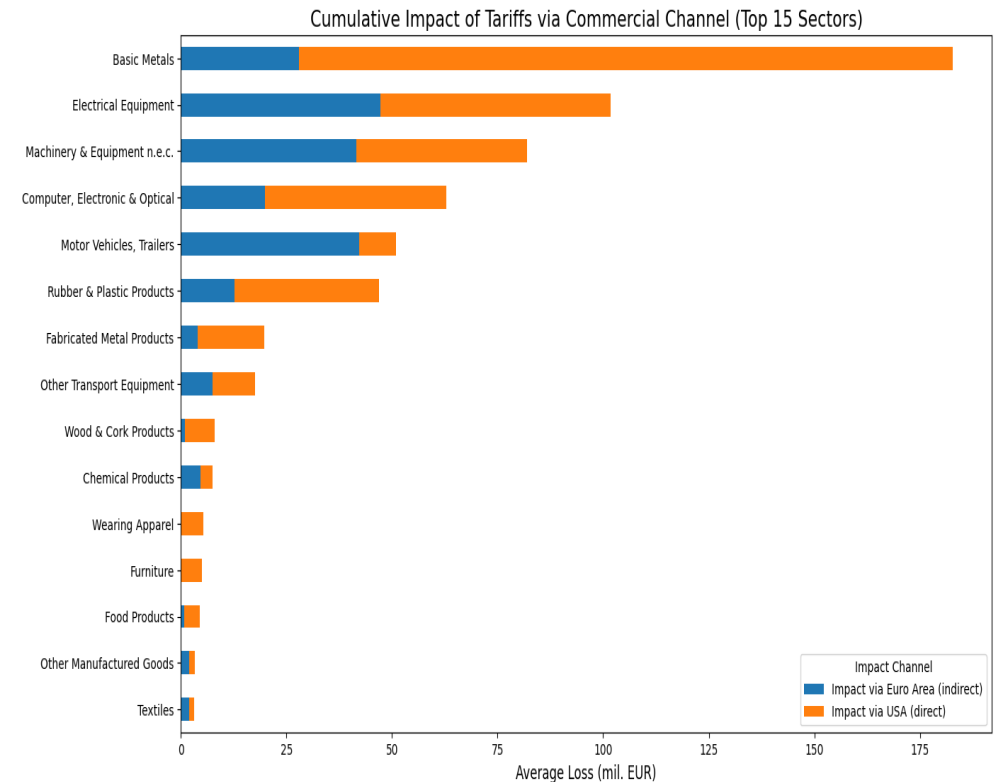
- Hypothesis: 15% general quota; 50% quota for steel and aluminum products; we do not consider response measures from the EU

	Elasticity of substitution:		
	reduced	medium	high
Impact via EA (indirect), mil. euro	176.73	215.82	267.48
Impact via USA (direct), mil. euro	326.76	394.66	500.34
Cumulative impact (direct+indirect), mil. euro	503.49	610.48	767.82
GDP percentage points	0.14	0.17	0.22

- Although the impact could be considered minor, there are some remarks: i) compared to the GDP deceleration in recent years and the marginal economic growth in 2024 (0.8% of GDP), the effect is quite high; ii) RO is in EDP, so the budget adjustment would be tougher; iii) important communities depend on industries heavily impacted by tariffs, so there could be economic and social effects

Tariffs impact on Romania –microeconomic results (1)

- On product categories the main losses are registered at: base metals, electronic equipments and machinery
- The influence of direct and indirect alternates at sectoral level: i) dominant direct channel for steel and aluminum; electronic, optical and IT products; ii) dominant indirect channel for machinery, equipment, motor vehicles, trailers and semi-trailers).

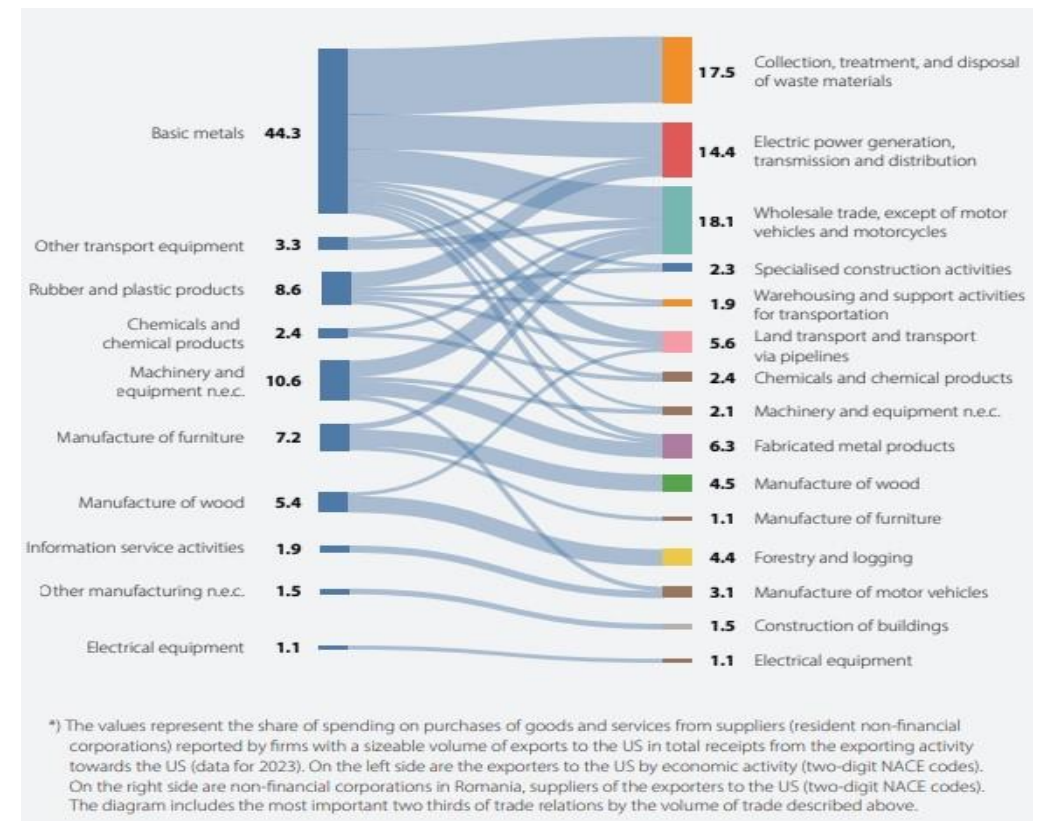


Source: authors estimations

Tariffs impact on Romania –microeconomic results (2)

- According to NBR, exports to US are carried out by a small number of firms (346).
- Only for about a quarter does the US market have strategic relevance, with the share of exports to the US representing over 10 percent of turnover.
- Indirect channel results: effects are higher, but at a manageable level

The trade relations with suppliers of firms reporting sizeable volume of exports to US



Source: NBR, Financial Stability Report, June 2025

Results estimated for other countries

- There are miscellaneous results in the literature, based on scenarios, tariffs size and models utilized:
- Poland: -0.1 pp of GDP (baseline scenario) and -0.43 pp of GDP (trade war scenario) – Polish Economic Institute
- Germany: -0.23 pp of GDP (LSE); -0.4 pp. of GDP (Bruegel Institute)
- France: -0.15 pp of GDP (LSE)
- EU: -0.11 pp of GDP (LSE), -0.3 pp of GDP (Bruegel), -0.4 p.p of GDP (Kiel Institute for the World Economy)

Conclusions and recommendations

- Overall, the economic literature and the official estimates converge on the finding that US trade tariffs can have a significant negative impact on economic growth, particularly through declining export volumes and disruption of global value chains.
- For Romania, the total macroeconomic impact is moderate, but not negligible (0.14 - 0.22% of GDP).
- The impact is in line with estimates for similar countries in the region.
- The sectors with the highest exposure are Basic Metals, Electrical Equipment, Automotive, and Machinery.
- This highlights the need for fiscal space to intervene with targeted support measures, should the shock prove to be more persistent or severe.
- Romania must maintain the direction of budgetary consolidation and increase fiscal space, in order to have the capacity to support strategic sectors and the vulnerable population in the event of adverse shocks at the international level.

Thank you for attention!

Q&A