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Economic Comment

Tariffs on US goods would not harm Polish CPI

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The start of Donald Trump's presidency has brought major changes in trade policy, including the wider use of tariffs. D. Trump has announced tariffs on European products - steel and aluminium products have been subject to a 25% tariff since 12 March, a 25% tariff on automotive products has been in place since 3 April, and from 9 April there are to be 'reciprocal tariffs' of 20% on other EU goods (with some excluded from tariffs, such as medicines and energy products). The EU has announced a response to the first of these elements, but is likely to respond to the others as well.

The implications of large-scale tariffs are undoubtedly complex. In this report, we consider just a slice of this issue - the potential short-term impact of tariffs on US products imported into Poland on the level of domestic consumer prices. This report does not exhaust the topic of the translation of tariffs into inflation, as tariffs may also affect inflation expectations, worsen economic growth prospects and influence the direction of trade. It cannot be ruled out that this direct effect of tariffs on the USA may even be offset in full or perhaps even more than offset by the effect of cheaper imports from other countries.

According to our estimates, the impact of the tariffs already announced by the EU on CPI inflation is negligible, as it only affects about 10% of the products Poland imports from the USA. However, a potential 10% tariff covering all imports from the USA would add 0.2 percentage points to the CPI in the short term, assuming a strong pass-through from import to retail prices. Potentially, the largest effect would come from the energy sector (about half), but we actually deem very unlikely that energy goods will be subject to tariffs.

What does Poland import from the USA?

In 2024, Poland imported from the USA goods worth almost PLN76bn, which accounted for approximately 5% of total domestic imports. Prior to 2022, the share of the US in Polish goods imports oscillated around 3%, after which it rose sharply due to increased purchases of US energy materials in the face of reduced imports from Russia.

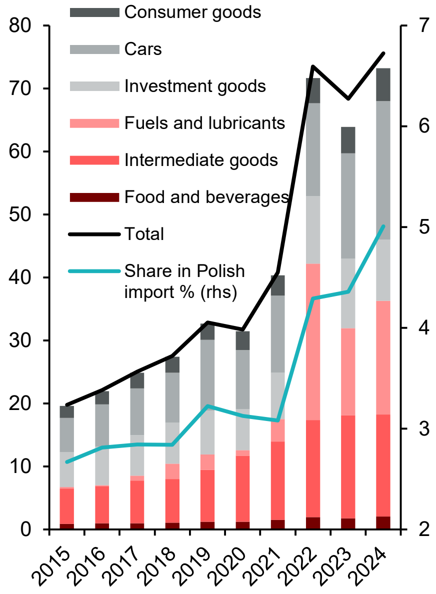
According to data in the BEC breakdown (Broad Economic Categories), the lion's share of US imports is accounted for by vehicles, supplies, fuels and lubricants, and capital goods. These categories make up almost 90% of Polish exchange with the United States. Compared to the breakdown of total Polish imports, two categories clearly stand out: vehicles (car imports from the USA account for 9.5% of total Polish car imports and for 29.1% of Polish import from the USA) and fuels/lubricants (13.2% and 23.9% respectively).

A more detailed analysis, based on CN breakdown (Combined Nomenclature - EU classification of goods for foreign trade), shows that despite US goods making up only a small part of broad categories, they can be very significant in case of some goods. Examples include metals and articles of metals such as nickel or titanium, more than half of which we buy from the US, as well as aircraft and their parts, about half of which are imported from the US. In addition, US goods account for about 20% of Poland's imports of chemical fibres and just over 10% of imports of musical instruments, pharmaceuticals, and medical equipment.

How will the already-announced tariffs affect inflation?

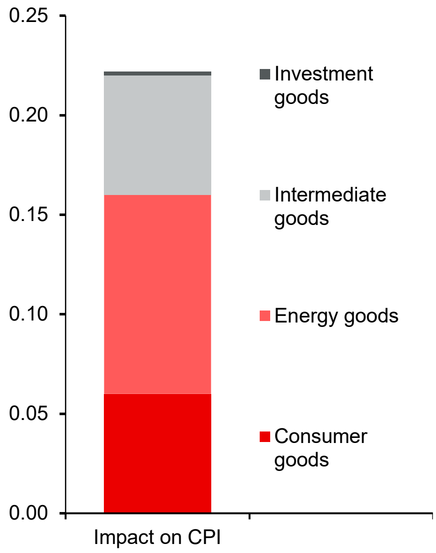
After the US imposed tariffs on European steel and aluminium, the European Commission has announced retaliatory action. According to the European Commission's communications to date, the Union's response is to consist of two elements: the reinstatement of the package of tariffs introduced in 2018 and 2020, and the imposition of a new set of tariffs, which at the time of publication of this article is under consultation among member states.

Breakdown of Polish imports from the USA, PLNbn



Source: GUS, Santander

Our estimates of 10% tariffs on all US goods on CPI, percentage points



Source: GUS, Santander

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Both sets of tariffs are expected to be imposed in mid-April. It should be noted that the actions described above were announced in the first half of March and were only intended as a response to the introduction of tariffs on European steel and aluminium (and products thereof). Since then, the US administration has imposed new 20% tariffs on imports from the European Union. This suggests that the European Commission's response may be stronger than planned. According to French President Emmanuel Macron, the EU is expected to respond to the newly announced tariffs at the end of April.

In order to assess the impact of the European tariffs announced so far on Polish imports from the US, we extracted from the data on the structure of Polish imports in 2024 the products that were included in the European tariff lists (both those from 2018 and 2020, and those that are still under consultation) and then calculated their value. Such estimates suggest that the European tariffs announced so far could affect just under 9% of our imports from the US, i.e. goods worth around PLN6.5bn. This would represent approximately 0.4% of all Polish imports. We estimate that the impact of these tariffs on domestic CPI inflation would be less than 0.1 percentage points, and therefore negligible.

The potential tariff rates for the announced measures are only known for the goods which have been tariffed under the 2018 and 2020 regulations. The value of these goods, calculated on the basis of the structure of Polish imports in 2024, is approximately PLN1.5bn and the average duty rate, weighted by the volume of imports, is equal to approximately 28%. This measure could therefore generate around PLN400m in customs revenues (most of which, however, go to the common EU budget), and raise the average tariff rate on non-EU goods by 0.05 percentage points (from 0.9%). The duty rates that could be imposed on the remaining PLN5bn worth of products have not been announced.

In the case of Poland, plastics account for the largest share of goods on which duties could be imposed, as announced so far. Tariffs could be imposed on products worth nearly PLN1.6bn (4.0% of all plastic imports to Poland in the tariffed categories and 1.6% of total plastic imports), including polyethylene, silicone, as well as plastic articles such as films and tapes.

Next in terms of volume are goods from the base metal category worth around PLN0.9bn (including e.g. iron and steel, nickel, aluminium and articles thereof), as well as products of the chemical industry worth around PLN0.8bn (mainly cosmetic products). The shares of these goods in their total imports to Poland are around 2.0% and 4.7% respectively.

In the case of food products, the tariffs announced by the European Commission should not have a significant impact on prices in Polish shops. The only notable exceptions are fresh almonds, 58% of which are imported to Poland from the US, worth PLN170m, and processed cranberries, 48% of which are imported from the US, worth about PLN60m (but accounting for only 6% of total cranberry imports, including unprocessed cranberries).

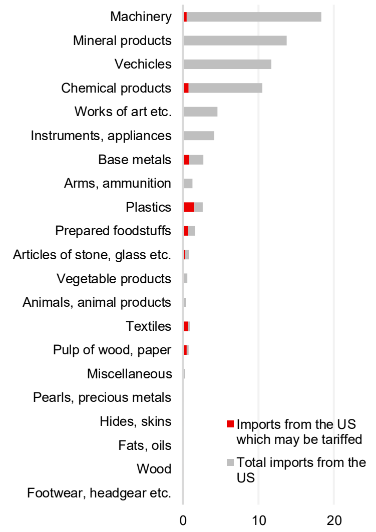
Other food products imported by Poland which are on the EU's tariff lists come from the US in only a small proportion. For example, although almost all of Poland's meat imports from the US may be tariffed, their share in total meat imports to Poland is not even one tenth of a percent.

Alcohol prices are a separate issue. European duties may cover more than 90% of Polish alcohol imports from the US, i.e. around PLN490m. This represents about 8% of all Polish alcohol imports. Tariffs may affect mainly whiskey worth over PLN360m (around 23% of the total import in this category), as well as wines worth nearly PLN100m (which constitutes around 7% of Polish wine imports). The share of spirits (which include not only whiskey, but also other strong alcohols) and grape wine in the inflation basket is slightly over 2%. However, alcohol from the US accounts for only around 1% of the alcohol market in Poland. Therefore, subjecting these products to a 50% (equal to the total rate imposed on whiskey in the 2018 EU regulation) could increase CPI inflation by around 0.02 percentage points.

How might tariffs on all goods affect inflation?

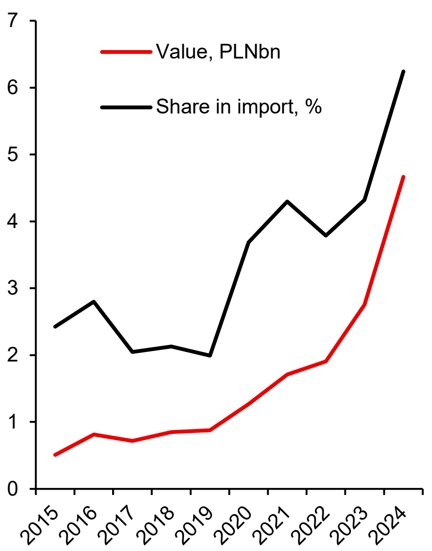
In our view, it is possible that, in an exchange of blows in the tit-for-tat trade war, the EU may decide to impose tariffs on a wider range of US goods. The maximum scenario is to tariff all goods, although we think this is highly unlikely. We do not think that the EU would decide, for example, to tariff energy products, as this would hit the cost of doing business hard, especially in the face of cutting off imports from Russia. Below we present estimated impact of a 10 percentage point tariff increase on US goods. Duties of any other size would require a proportional scaling up of the estimated impacts. Such a duty hike would mean a doubling of

Value of imports from the US which may be subject to tariffs according to the announcements made so far, and total imports from the US, PLN bn



Source: GUS, EC, Santander

Import of US cars, PLNbn



Source: GUS, Santander

the average duty rate on non-EU goods in Poland (0.9% at present), and budget revenues from duties of a maximum of around PLN7bn (though the majority of tariff revenues is streamed to the EU budget). **We estimate the impact on CPI inflation in the short term at around 0.2 percentage points.**

Consumer goods

Approximately 15% of goods imported from the US (PLN12bn) go directly to consumers as final products (we omit fuels here). US consumer products account for about 0.6% of domestic consumption, so the maximum impact of 10% tariffs on CPI inflation can be estimated at about 0.06 percentage points. We assume that, for products of this type, the pass-through of tariffs to prices should be rapid and almost complete. And since the inflation basket does not change over the course of the year, even a potential consumer shift away from US products should not affect the estimates.

The category of final products that would have the largest impact on consumer prices is, in our view, passenger cars. We estimate the share of US cars in the Polish market at around 5%. A 10% tariff would therefore add around 0.015 percentage points to CPI inflation (the weight of cars in CPI is 3.2%). For alcohol products, we estimate an impact of 0.004 percentage points. With further products, we go into further and further decimal places, so we do not present detailed calculations.

However, it is worth bearing in mind that there are single product categories where the US has a large share of our imports, but they represent a small fraction of the inflation basket. Pistachios are an example. With the marked increase in cocoa prices recently, aficionados of Dubai chocolate can expect significant price increases.

Intermediate goods

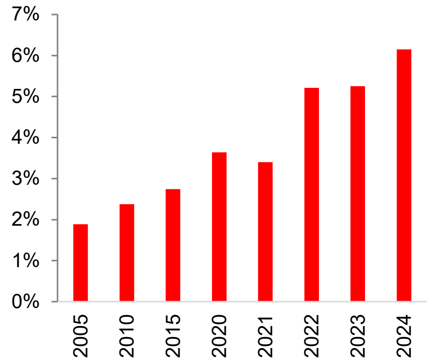
US products classified as intermediate goods – utilised or modified in the domestic production process – in recent years made up for c.60% of total import from that country (we omit fuel), and their value was around PLN40bn. Last year 5.0% of intermediate goods imported by Poland came from the USA. Such a share of imports from the USA in the companies' cost category of 'commodities, materials and semi-finished goods' is low, in our view. What is more, only a quarter of the input to Polish production comes from import (23% is the ratio of imported intermediate goods to economy-wide intermediate consumption). Furthermore, while material costs remain a dominant category, they recently tend to decrease as a share of total costs – from over 45% during the post-pandemic recovery to historically low 38% in the end of last year (according to data on companies employing 50+ persons).

As a result, the value of intermediate goods from the USA accounted for 1.2% of intermediate consumption in the economy. A more accurate estimate of the importance of these imports in firms' costs requires the inclusion of wage costs, which brings the percentage down to 0.9%. In contrast, reference to output (ESA aggregate that also includes company margins) gives 0.7%. Thus, it is within the range defined by the latter two figures that one should look for the percentage expressing the importance of US intermediate goods for corporate costs (we assume 0.8%). When looking at the whole economy, the possible cost pressure on Polish companies should therefore not be large. Imposition of 10% tariffs on all imports of intermediate goods from the United States would therefore raise firms' costs by 0.08%. Household demand is covered in about 80% by domestically produced goods and services, which gives an estimate of the impact of broad tariffs on US goods on Polish inflation through the intermediate goods channel of 0.06-0.07%.

In addition, if there is an increase in the cost of getting intermediate goods from the US, it is likely that companies will look at the possibility of replacing them and potentially reducing the impact of tariffs on their own costs. In the short term, when these tariff-induced cost pressures may show up and before any potential switching of suppliers takes place, it is also not obvious that firms will pass on the additional cost to their clients, including to consumers. This is hinted at by the moderate strength of the relationship between CPI and PPI inflation, and the history of fluctuations in average corporate margins. The indirect channel of the effect of tariffs on the CPI - through firms' costs - is therefore unlikely to be significant, and its impact should not be above 0.1 percentage points.

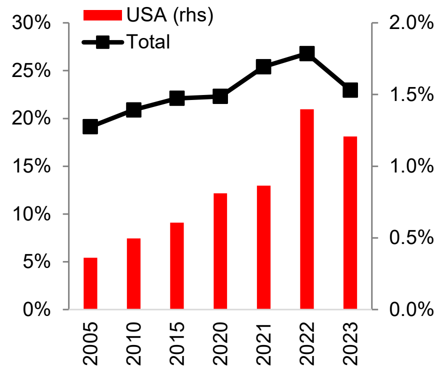
At the level of economic sectors, the increase in costs as a result of customs duties on intermediate goods from the USA may vary but should be still small, in our view. In order to estimate it, we projected data on US imports by classification of goods and services onto the

Share of US products in Poland's import of intermediate goods (excluding fuels)



Source: GUS, Santander

Import of intermediate goods as a share of intermediate consumption in the economy



Source: GUS, Santander

Polish economy's input-output table. This way, with indicators of the total contribution of imports per unit of product by industry, we were able to assess how diversified the cost response to the introduction of broad tariffs might be across sectors. The sections of industry called "other transport equipment" and "coke and refined petroleum products" clearly stood out in terms of sensitivity to tariffs, but even in their case, the strength of the transmission of an increase in import prices due to tariff hikes would be small (imports from the US account for about 5% of the total value of products in these sections). In the case of medicines, pharmaceuticals, chemicals and chemical products, this ratio is just below 2%. Of the 77 categories we analysed, for nearly a half the indicator hit the 0.5-1.5% range and the arithmetic average of all is 0.7%.

Energy commodities - is there a risk of a new supply shock?

The importance of the USA as a supplier of energy goods to Poland has clearly increased over the past three years, but is still limited. The share of US energy supplies in total imports was at 0.5% in 2021, but climbed to 11.9% in 2024. In 2024, we imported from the US diesel oil worth PLN7.7bn and crude oil worth PLN4.4bn. Poland also buys US LPG, LNG and coal.

The diversification of energy supply, which was triggered by the Russian aggression against Ukraine more than ten years ago, has created a more robust breakdown of imports. Poland has managed to move smoothly away from Russian energy, but if the whole EU had to look for an alternative to US supplies, replacing them would not be easy or quick. News indicating an increase in the price of US gas supplies to the EU would probably trigger an immediate spike in gas prices for Europe from any possible alternative source, driving up domestic energy and fuel costs.

We estimate that the 10% tariffs on energy products could add around 0.1 percentage points to domestic inflation. However, as we wrote above, we consider the introduction of tariffs on energy highly unlikely: these are even exempt from US tariffs, and the EU is unlikely to seek to escalate an already tense energy situation. The need to cut off supplies from Russia has caused a major supply shock that has driven inflation to record levels and caused a significant disruption in the path of Polish GDP. However, we do not think that economic perturbations on a similar scale could occur if US gas, oil and coal supplies were to suddenly cease (e.g. as a result of prohibitive tariffs or strategic withdrawal from cooperation), but its effect would not be negligible.

Investment goods

Imports of US capital goods are worth c. PLN11bn, which represents about 1.7% of investment in Poland and about 2.5% of investment in the private sector. Tariffs in this segment of goods should also have a positive impact on the inflation rate, but more spread out over time.

Firstly, investment is not a direct cost for companies, so higher investment spending does not directly translate into profits. Capital expenditure appears on the balance sheet as depreciation, which - depending on the asset - is spread over a longer period, e.g. 5 years for cars, 7 years for machinery. Thus, if companies were to raise prices to prevent their margins from falling as a result of higher prices for capital goods, inflation could be expected to rise by around 0.002 percentage points.

Secondly, investment is a fairly volatile component of GDP and, in our view, companies would react to a rise in the price of capital goods in the first instance by abandoning, delaying or scaling back investment.

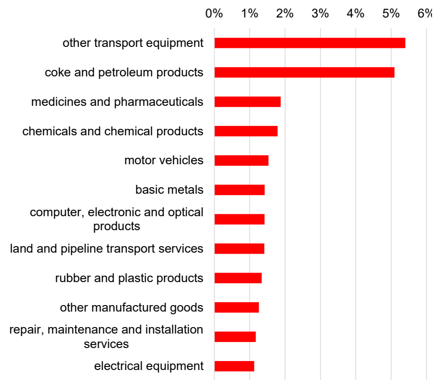
And if one were to point the finger at which sector is most strongly linked to capital goods from the US, it is aviation. The Polish national carrier relies on US aircraft, with aircraft often leased in the aviation industry (by the way, leasing of capital goods is also widespread in other industries), potentially further dampening the effect of higher tariffs.

Room for further research

As we wrote at the very beginning of the report, the impact of tariffs on the economy is complex, and we are trying to look at a slice of it - the potential short-term impact on prices in Poland, assuming a strong pass-through to retail prices.

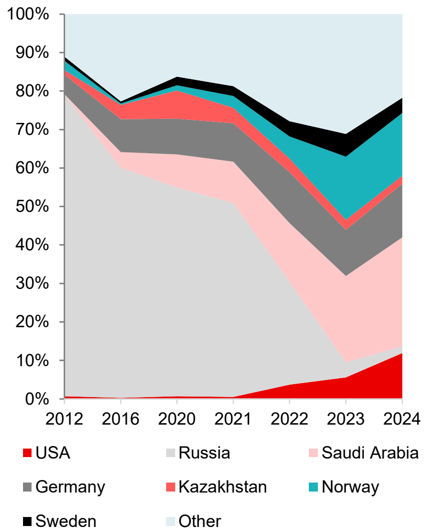
At this point, however, we would like to emphasise the importance of other processes that may affect our calculations. US tariffs could affect the prices of products imported by Poland from other countries, for example, they use US intermediate goods. This would amplify the effect on domestic inflation. Similarly, expensive US goods can be substituted by goods from other

Value of imports from the US as a % of output, by sector, based on input-output tables, categories with the largest share



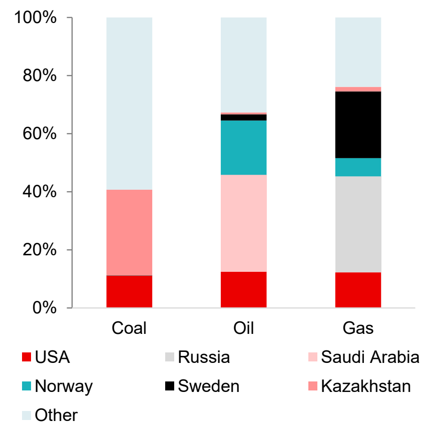
Source: GUS, Santander

Structure of supplies of energy commodities to Poland, by country, based on import value in PLN, SITC, selected years



Source: GUS, Santander

Structure of supplies of energy commodities to Poland by country, based on import value in PLN, SITC, 2024

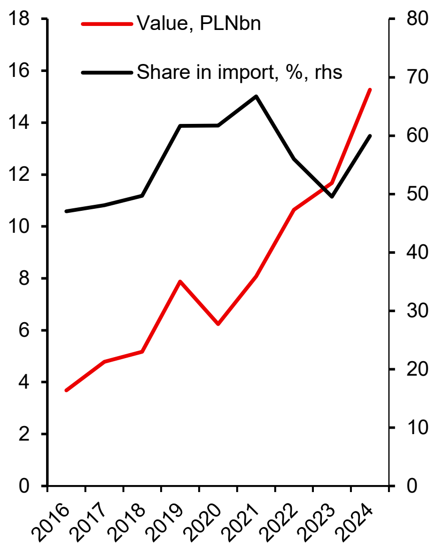


Source: GUS, Santander

countries, including Poland. Besides, the trade war affects, among other things, the exchange rate, thus affecting the prices of all imported goods, and the prices of raw materials.

Widespread import tariffs by the US may also have an anti-inflationary effect (outside the US). The widespread obstruction of access to the US market will result in a pool of goods destined for that market but unsold, which will have to be redirected to other foreign markets or retained in the internal markets of their producers. The consequence should therefore be an oversupply combined with the need to find a market quickly, and these are good conditions for downward pressure on prices.

Import of US aircraft, PLNbn



Source: GUS, Santander