Box 8

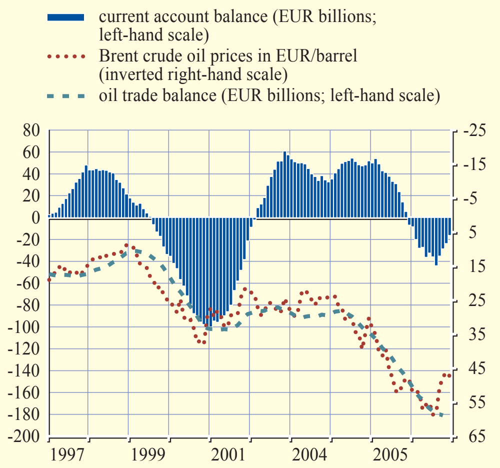
OIL-BILL RECYCLING AND EXTRA-EURO AREA EXPORTS

Having recorded surpluses since 2003, the 12-month cumulated current account of the euro area shifted to a deficit in both 2005 and 2006, mainly due to the significant rise in the cost of oil imports and the associated increase in the oil trade deficit (see Chart A). Although higher oil prices have pushed the current account into deficit, it may be the case that this negative effect has been partially mitigated by "oil-bill recycling" and its positive impact on extra-euro area exports. In other words, rising oil prices have generated significant increases in oil revenues for oil-exporting countries which, in turn, may have been partly spent on increased imports from the euro area.

This box looks at recent developments regarding the trade channel of oil-bill recycling and examines its possible impact on euro area exports. It focuses on two groups of oil-exporting countries – the Organization of the Petroleum Exporting Countries (OPEC) and the Commonwealth of Independent States (CIS) – which together produce almost two-thirds of internationally traded oil. In line with the rise in oil prices, total OPEC and CIS oil revenues increased from around USD 240 billion in 2002 to more than USD 630 billion in 2005 (see Chart B).

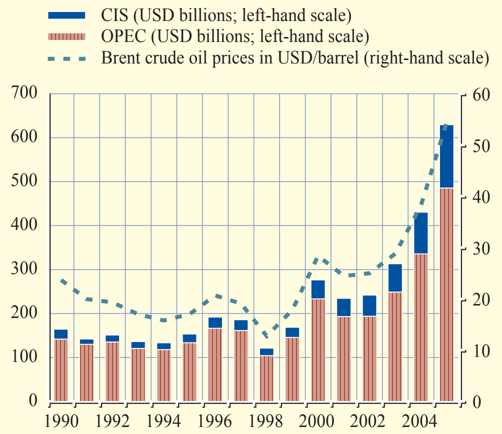
Chart A The euro area oil trade balance and Brent crude oil prices

(monthly data)



Sources: Eurostat and Bloomberg.
Note: The current account and oil trade balances are cumulated over 12 months.

Chart B Oil export revenues for OPEC and CIS countries



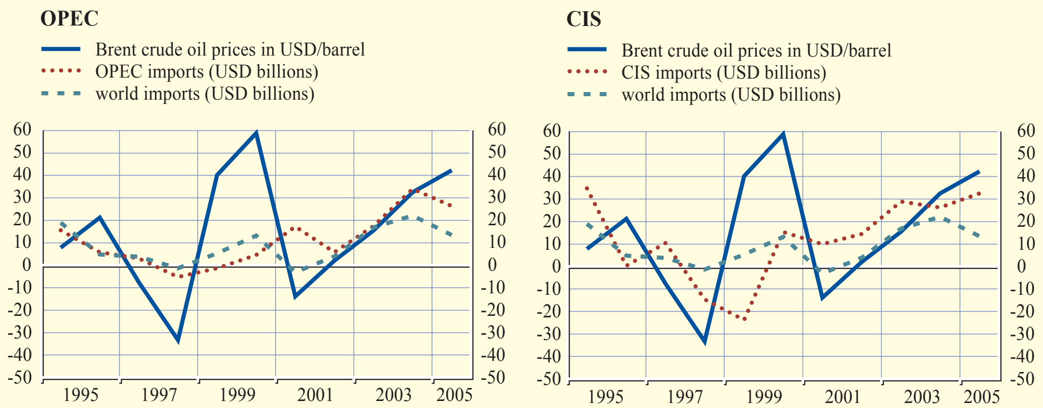
Sources: IMF and Bloomberg.

As a result of higher oil revenues stemming from the rise in oil prices after 1998, the oil-exporting countries registered notable increases in their import growth. This is particularly evident for the period 2000-05, in which average annual increases in OPEC and CIS countries' imports reached approximately 20% in nominal dollar terms, which is almost twice the growth rate of world imports over the same period (see Chart C).

The countries which seem to have benefited more than others from the rising imports originating from the higher oil revenues of oil-exporting countries are China and other non-Japan Asian

Chart C Imports of OPEC and CIS countries

(annual percentage changes)



Sources: IMF and Bloomberg.

Import market shares of selected economies in OPEC and CIS countries

(percentages)

	OPEC					CIS				
	1998	2000	2002	2004	2005	1998	2000	2002	2004	2005
Euro area	27.0	25.5	27.6	27.4	25.3	39.8	39.9	41.7	40.0	36.8
United States	16.1	14.1	10.3	9.1	10.6	11.2	10.7	8.2	6.0	5.3
United Kingdom	6.2	5.3	5.0	4.5	5.3	4.0	4.1	3.4	3.7	3.3
Asia excl. Japan and China	17.0	19.5	20.3	20.1	20.3	7.4	6.4	6.8	7.6	8.9
Japan	9.5	9.7	8.6	7.1	6.7	2.3	2.7	2.6	5.5	5.4
China	3.8	4.3	5.7	7.8	8.5	3.0	3.8	6.1	7.9	12.1

Sources: IMF and ECB calculations.
Note: Import market shares are calculated for extra-OPEC and extra-CIS imports.

countries, as they succeeded in expanding their share of the OPEC and CIS import markets between 1998-2005 (see table). At the same time, the US share of the OPEC and CIS import markets, and the Japanese and UK share of the OPEC import market, declined significantly, in some cases by more than a third. Meanwhile, euro area exporters' performance seems to have been relatively favourable, as the euro area's share in the import markets of both oil-exporting regions remained fairly stable until 2004, before declining in 2005. As a result, OPEC and CIS imports from the euro area grew at an average annual rate of 16% and 22% respectively in the period 2000-05.

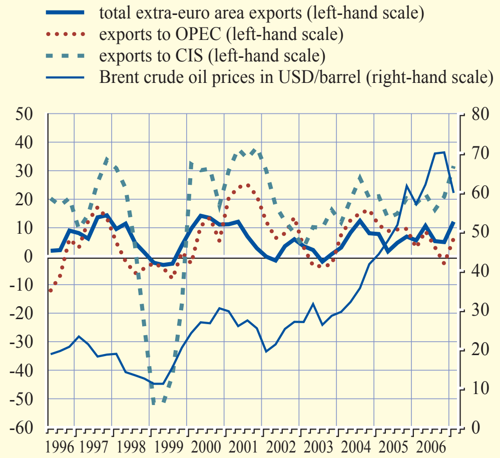
Looking at the euro area's sectoral export shares in the OPEC and CIS markets, there are clear upward trends in a number of sectors, such as chemicals, suggesting that exports in these sectors are benefiting from oil-bill recycling. Meanwhile, the machinery and transport equipment sector – which accounts for a significant proportion of euro area exports to OPEC and CIS countries – has maintained a relatively stable market share.

As a result of growing demand from oil-exporting countries, and the euro area's relatively successful performance in these markets, euro area export volumes to OPEC and CIS countries have increased robustly (see Chart D). Between 2000 and 2006 the annual growth of euro area export volumes to OPEC and CIS countries was, on average, 9% and 21% respectively, i.e. significantly above the average growth of total extra-euro area export volumes of goods (6%). It is also clear that periods of notable oil price increases were followed by an acceleration in euro area export volumes to these oil producers.

Overall, the effect of oil-bill recycling on euro area exports should not be overestimated, particularly given that the combined share of OPEC and CIS countries in extra-euro area exports is relatively small (at around 10% in 2006). Moreover, exports to oil producers

Chart D Euro area export volumes of goods

(annual percentage changes)



Sources: Eurostat and ECB calculations.

have also been affected by other factors in addition to higher oil prices, such as the integration of CIS countries into the world economy.

In summary, while the elevated price of oil has pushed the euro area current account into deficit, it appears that there are some mitigating positive effects on euro area exports associated with oil-bill recycling. Moreover, the impact of oil-bill recycling may have been somewhat more favourable for the euro area in comparison with some of its major competitors.