

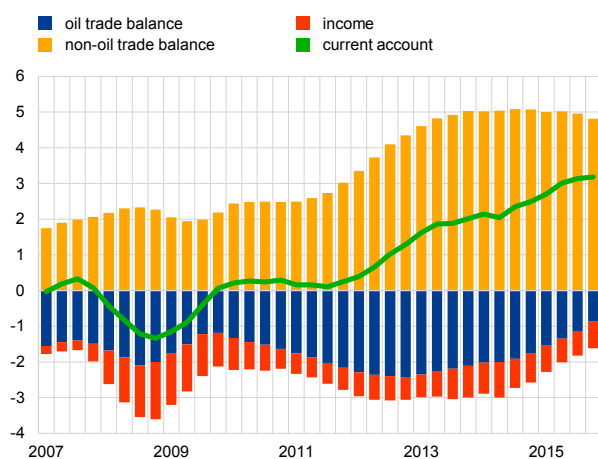
## Box 5

# The impact of the oil price decline on the current account surplus of the euro area

**This box describes the impact of the recent decline in oil prices on the current account balances of the euro area and individual euro area countries.**<sup>1</sup> The decline in oil prices started gradually in 2012, before accelerating sharply in the second half of 2014. Between mid-2014 and the end of 2015 the oil price decreased by around 55% in US dollar terms and 45% in euro terms. Since the euro area is a net importer of oil, a drop in oil prices amounts to an improvement in the terms of trade. Moreover, owing to the relatively price-inelastic nature of oil demand, a decline in oil prices is typically associated with improvements in the oil trade balance and the current account balance of the euro area. The same applies for the individual euro area countries, all of which are currently net importers of oil.<sup>2</sup> The direct effect of a fall in oil prices on the current account is usually only partly offset by indirect effects, such as higher demand for non-oil imports on account of stronger domestic economic activity and lower exports of euro area goods and services to oil-exporting countries.

**Chart A**  
Breakdown of euro area current account balance

(percentages of GDP, four-quarter averages, not seasonally-adjusted)



Sources: Eurostat and ECB.

Notes: The decomposition of exports and imports into oil and non-oil components is based on Eurostat's external trade statistics. Non-oil trade includes services. The latest observation is for the fourth quarter of 2015.

**The oil trade balance of the euro area has improved by almost 1% of GDP since mid-2014. This explains the widening of the current account surplus from around 2% to just above 3% of GDP (see Chart A).**

The reduction in the oil bill is broadly in line with the mechanical effect of a decline in oil prices of the observed magnitude at unchanged net import volumes. Among the other components of the current account, the combined income balance improved only slightly over this period, while the trade balance excluding oil was relatively stable.<sup>3</sup> By contrast, the current account improvements recorded in previous years mainly reflected improvements in the non-oil trade balance resulting from the external rebalancing in the euro area. Indeed, from a longer-term perspective, the bulk of the current account adjustment of around 4.5% of GDP since 2008 is explained by increases in euro area exports on account of stronger global demand and competitiveness gains, as well as – during the initial stages – a compression of imports.

<sup>1</sup> For the impact of the oil price decline on inflation and economic activity, see the box entitled “The recent oil price decline and the euro area economic outlook”, *Economic Bulletin*, Issue 1, ECB, 2015.

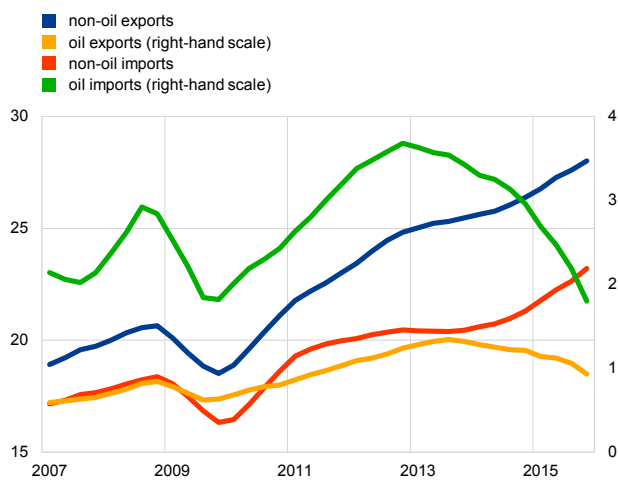
<sup>2</sup> In this box, the oil trade balance corresponds to net trade under Category 33 of the Standard International Trade Classification (SITC), i.e. “petroleum, petroleum products and related materials”. Some countries with oil-refining industries, such as Greece and the Netherlands, simultaneously record sizeable gross imports and exports under this category.

<sup>3</sup> The combined income balance includes primary income (mainly net investment income) and secondary income (net transfer payments).

## Chart B

### Breakdown of euro area imports and exports

(percentages of GDP, four-quarter averages, not seasonally-adjusted)



Sources: Eurostat and ECB.

Notes: The decomposition of exports and imports into oil and non-oil components is based on Eurostat's external trade statistics. Non-oil trade includes services. The latest observation is for the fourth quarter of 2015.

**Over the past year euro area non-oil imports picked up and grew slightly faster than non-oil exports (see Chart B).**

The value of euro area goods and services imports excluding oil was boosted by the ongoing recovery in domestic demand in the euro area.

**The recent decline in oil prices also resulted in significant current account improvements in many individual euro area countries (see Chart C).**

Between 2014 and 2015 the oil trade deficits shrank for all euro area countries in a range between 1.4% of GDP in the case of Cyprus and 0.1% of GDP for Lithuania.

For many euro area countries, the improvement in the net oil trade balance was the most important factor behind the developments in the current account in 2015. Notably, the widening of Germany's current account surplus over this period is also predominantly explained by the shrinking of the oil trade deficit.

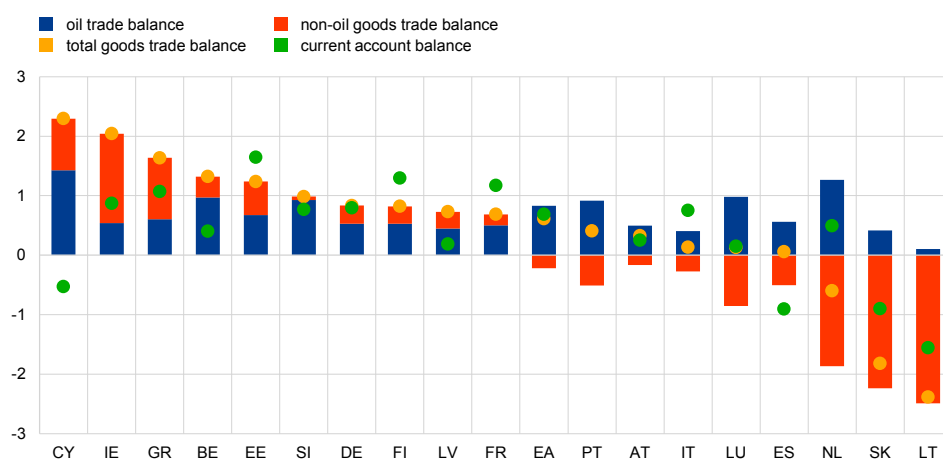
**To sum up, the recent oil price decline raised the current account surplus of the euro area by almost**

**1% of GDP.** The path implied by futures markets currently points to a gradual increase in oil prices over the coming years.<sup>4</sup> If this materialises, the oil-related current account improvements in the euro area could be partly reversed in the medium term (see Box 2).

## Chart C

### Breakdown of changes in goods trade balance and changes in current account balance between 2014 and 2015

(percentages of GDP)



Sources: Eurostat and ECB.

Notes: The goods trade balance is retrieved from Eurostat's external trade statistics. For euro area countries, the change measured is between the four-quarter average up to the third quarter of 2015 and the 2014 annual figure. The latest observation is for the third quarter of 2015 for euro area countries and the fourth quarter of 2015 for the euro area.

<sup>4</sup> See the "March 2016 ECB staff macroeconomic projections for the euro area", available at <http://www.ecb.europa.eu/pub/projections/html/index.en.html>