

Box 7

OIL-BILL RECYCLING AND ITS IMPACT ON EXTRA-EURO AREA EXPORTS

Over the past few years, oil prices have increased sharply, with the reference Brent crude oil price rising from USD 20 per barrel in January 2002 to more than USD 135 per barrel in June 2008. This sustained increase in oil prices has generated large gains in export revenues for oil-exporting countries¹ and has implied a significant redistribution of wealth from oil-importing to oil-exporting countries and important shifts in their respective external balances. In the euro area in particular, the sustained rise in oil prices since 2002 has led to a significant deterioration in the current account balance.² However, these additional oil export revenues normally return, at least partially, to oil-importing economies, either through stronger exports or increased capital inflows, helping to mitigate the initial negative impact of rising oil prices in their respective external balances. This box examines the trade channel of this “oil-bill recycling” and assesses its possible impact on euro area export growth.

1 In this box, oil-exporting countries refer to major OPEC countries (Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela) plus Oman and Russia.

2 See also the box entitled “Oil-bill recycling and extra-euro area exports” in the April 2007 issue of the Monthly Bulletin.

Import demand from oil-exporting countries

The sustained rise in oil prices since 2002 has led to a notable increase in the annual export revenues of major oil-exporting countries, from approximately USD 412 billion in 2002 to USD 1,259 billion in 2007. At the same time, imports rose from USD 226 billion to USD 842 billion, which corresponds to an average annual rate of increase of about 26% in nominal terms, well above the world average growth in imports.

The euro area is among the regions which have benefited significantly from the rising import demand from oil-exporting countries. Despite the growing share of Asian economies in these markets, the euro area has succeeded in maintaining a relatively high and stable market share over recent years (see Chart A). This positive outcome is, however, mainly driven by Russia, as the euro area has in recent years seen a decline in its import market share for other oil-exporting countries (mainly OPEC countries), from around 25% in 2002 to 21% in 2007. At the same time, the market share of the United States in total imports of oil-exporting countries (including Russia) decreased considerably from 12% in 1999 to 7.5% in 2007.

Impact on extra-euro area export growth

From a euro area perspective, the growing import demand from oil-exporting countries and the relatively successful performance of the euro area in these markets has resulted in a significant increase in euro area export volumes to these countries (see Chart B). Between 2002 and 2007, the annual growth in export volumes of goods to OPEC members and Russia was, on average, 7% and 17% respectively, i.e. significantly above the average growth in extra-euro area export volumes of goods (of around 5%).

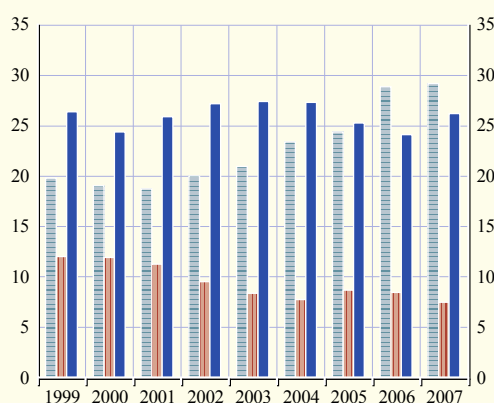
Overall, oil-exporting countries have increased in importance for euro area exports since 2002, both as a destination market and in terms of their contribution to foreign demand. As suggested by the comparison of export value shares by destination country or region in total euro area exports between 2002 and 2007, there has been a reorientation of extra-euro area exports towards Russia and OPEC members, but also towards the new EU Member States. The increasing share of these countries has been mirrored by a declining share of exports

Chart A Import market shares of selected economies in oil-exporting countries

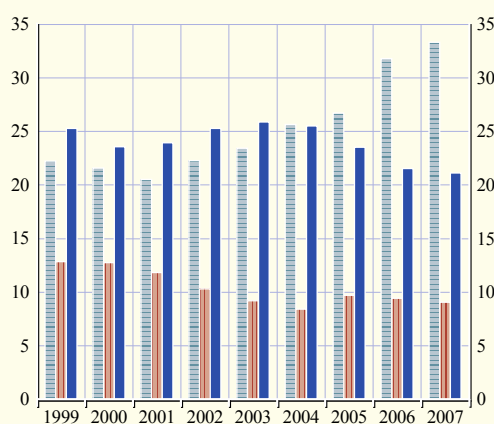
(percentages)

■ euro area
■ United States
■ Asia

a) Including Russia



b) Excluding Russia



Sources: IMF and ECB calculations.

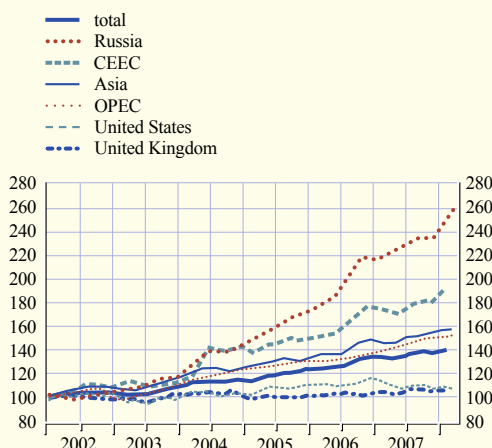
directed towards more advanced economies (see Chart C). Against this background, oil-exporting countries have also become a more important contributor to euro area foreign demand³, with an estimated contribution of about a quarter of the annual growth of total euro area foreign demand in 2007. Apart from the increase in the share of these countries in euro area exports, this higher contribution is mainly attributed to the strong rise in import volumes of oil-exporting countries.

The overall strong performance of euro area exports to oil-exporting countries – notwithstanding the strengthening of the euro against the US dollar – can be attributed to two major factors: the geographical proximity of the euro area to most major oil exporters and the structure of import demand from oil-exporting countries. First, geographical proximity puts the euro area at an advantage, in particular, in comparison to the United States. This is particularly true in the case of Russia. Second, the structure of import demand from oil-exporting countries is determined by the pattern of their economic expansion, which in most countries is investment-led, driven, in particular, by rising public expenditure on infrastructure. European exporters seem to be well-positioned to satisfy this demand for capital goods.

Overall, although the high price of oil has had a negative direct impact on the euro area current account, it appears that increased demand from oil-exporting countries has had a mitigating effect. There has been a notable increase in export volume growth from the euro area to oil-exporting countries during the recent oil price boom, which have been significantly above the average growth in total extra-euro area exports.

Chart B Extra-euro area exports of goods by destination

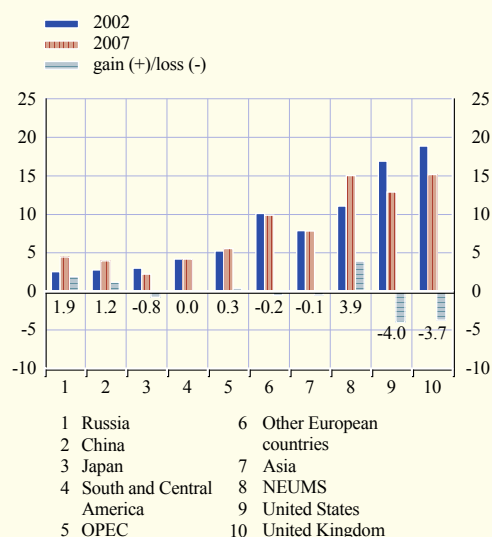
(volume indices: Q1 2002 = 100; seasonally adjusted; 3-month moving average)



Sources: Eurostat and ECB calculations.
Note: Latest observation refers to April 2008, except for total and United Kingdom (March 2008).

Chart C Extra-euro area export value shares by destination

(value shares; gains and losses in shares (in percentage points); annual data)



Sources: Eurostat and ECB calculations.
Notes: Latest observation refers to February 2008, except for Russia, CEEC and OPEC. Figures in the chart refer to gain (+)/loss (-) in market shares. NEUMS denotes non-euro area EU Member States that have joined the EU since 2004.

³ Foreign demand contributions are calculated by multiplying the annual growth rate of imports of the respective extra-euro area trading partner with the share of this country or region in total extra-euro area exports.