GLOBAL ECONOMICS UPDATE

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CAPITAL ECONOMICS

Fall in oil prices will radically alter global imbalances

- **The collapse in oil prices looks set to wipe out the Gulf's external surpluses next year, leaving China and the euro-zone as the world's major surplus economies. At the same time, the US deficit looks set to narrow even further. While the *distribution* of global imbalances will be dramatically altered, their overall scale is unlikely to change very sharply and will remain much lower than before 2008.**
- We have discussed the impact of the slump in oil prices on global growth and inflation in previous publications, and we have also outlined which countries should gain and lose the most. (See our *Global Economics Update*, "Winners and (even bigger) losers from lower oil prices", published 17th December.) **In this note, we assess the implications of lower oil prices for global current account positions**.
- As a starting point, the blue bars in Chart 1 show net oil exports as a share of world GDP for selected countries in 2013, and the black bars show net oil exports on the assumption that the *volume* of oil trade is unchanged but Brent crude settles at $60pb. The difference between the two bars highlights that the biggest changes in net oil exports will be in Russia, Saudi Arabia, the US and China.
- Of course, **the impact of the collapse in oil prices on *overall* external balances will depend not only on the change in net oil exports but also on any other changes that take place as a result of the fall in oil prices**. For example, the collapse in Russia's export earnings looks set to trigger a deep recession there next year, which will contribute to a sharp contraction of imports. With little external financing available, Russia will probably continue to run a current account *surplus* despite the fall in its oil revenues. (See our *Emerging Europe Update*, "What next for Russia?", published on 16th December.)
- But for many other countries these offsetting effects will probably be quite small. With this in mind, Chart 2 shows the IMF's forecasts of the current account balances of major regions (published in October this year) plus or minus any change in net oil exports which would result from Brent settling at $60pb. These calculations indicate that **the Gulf economies, which should be able to weather a period of lower oil prices without making big spending cuts, could even run a small current account *deficit* in the coming years**. This would be the first time they have done so since 1998. (See our *Middle East Focus*, "Fall in oil prices to wipe out Gulf's current account surplus", published on 2nd December.)
- The deterioration in the current account balances of net oil exporters will, of course, be matched by an improvement in the positions of net oil importers. Among the deficit countries, one of the biggest changes is that **the US current account deficit looks set to decline to below 2% of its GDP next year**. This would be its lowest level since 1997. A narrower deficit might add to other pressures for the dollar to appreciate, and it should certainly extinguish any lingering fears of a "dollar crisis".
- Finally, Chart 2 suggests that lower oil prices will reduce the import bills of China and the euro-zone by a chunky 0.2% of world GDP each. Indeed, **the euro-zone may become the world's largest surplus economy next year**. Its rising surplus may prove to be a significant headwind to the ECB's efforts to ward off deflation through inducing a depreciation of the euro. And **the rise in surpluses of both the euro-zone and China may prompt policymakers elsewhere to call for more policy stimulus in order to boost global demand**. Global imbalances could therefore rise up the international policy agenda again.

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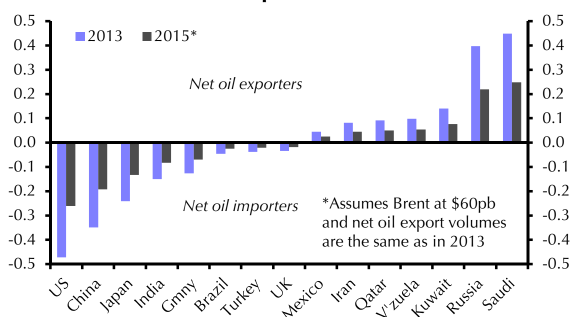
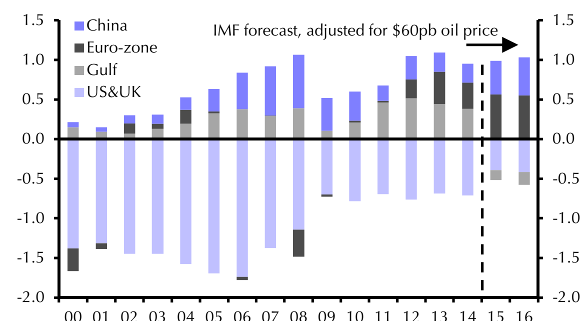
Chart 1: Net Oil Exports (% of World GDP)



Sources – BP, Capital Economics

Chart 2: Selected Current Account Balances (% of World GDP)



Sources – IMF, Capital Economics