COPING WITH INTERNATIONAL SHOCKS

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Trade integration has increased substantially

Trade in goods and services, % of GDP

Note: Trade is measured as the average of import and export volumes. The 1995 data refer to 1996 for Brazil and 1997 for India. Source: OECD Economic Outlook 103 database.
Europe is particularly integrated

Bilateral share of goods exports
2017

% of total exports

% of GDP

United Kingdom
Italy
Germany
China
Total exports in % of GDP (rhs)

Note: Black triangles represent the share of total goods export in % of GDP. Data as of 2016 for the Netherlands. Source: OECD International Merchandise Trade Statistics database; OECD Economic Outlook database; and OECD calculations.
Financial integration has also increased considerably since the 1990s

International financial assets and liabilities

% of world GDP

Note: Sum of international assets and liabilities for advanced and selected emerging market economies (Argentina, Brazil, China, Chile, Colombia, Hungary, India, Indonesia, Mexico, Poland, Russia, South Africa and Turkey).

Source: IMF Balance of Payments Statistics; and OECD calculations.
The US dollar dominates international trade and financial transactions

**Currency invoicing of exports**

2016

% of total exports

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**Currency composition of int. debt securities**

% of total debt securities

- USD
- EUR
- Other

**Note:** In the LHS panel, the data refer to 2016 for all countries apart from Australia (2015-16), Indonesia (2010 to 2015), India (2012 to 2013) and Brazil (2011). Merchandise trade for all countries apart from Russia (goods plus services). Data for all EU member states are for extra-EU trade only.

**Source:** Australian Bureau of Statistics; Central Bank of Brazil; Central Bank of Russia; Eurostat; Japan Customs; Ministry of Finance of the Republic of Indonesia; Reserve Bank of India; Bank for International Settlements; and OECD calculations.
Changes in trade patterns and trade openness affect spillovers from shocks

GDP growth effects of a negative demand shock of 2 p.p. in China

With different trade patterns
% points, average in first two years

With different trade openness
% points, average in first two years

Note: Difference from baseline, following a decline of 2 percentage points in the growth rate of domestic demand growth in China for two years. The initial simulation is shown in the blue bars and the difference in the second simulation in the red bars. GDP growth in China declines by between 1¼ - 1½ per cent per annum. Commodity exporting economies include Australia, Brazil, Indonesia, Russia, South Africa and other non-OECD oil-exporting economies. Lower and higher trade openness refer to two different starting points for the shock, with the ratio of trade to GDP rising by 11 percentage points in the median economy between these starting points.

Source: OECD calculations.
Financial integration raises spillovers from financial shocks

Impact of a 1-percentage point rise in the US equity risk premium

Change in GDP

%, second year of shock

Change in policy interest rates

% points, second year of shock

Note: Difference from baseline, following a rise of 1 percentage point in the US equity risk premium for two years. The lower equity market integration scenario is based on pre-1995 linkages and the higher equity market integration scenario on linkages over the past decade. The initial scenario is shown in the blue bar and the difference in the second scenario in the red bar.

Source: OECD calculations.
With more open economies, collective fiscal action is more powerful than individual actions.

Note: Based on a permanent increase of 0.5% of GDP in public investment in the G7 economies.
Source: OECD calculations.
Impact of structural reforms and a coordinated 3-year fiscal stimulus in countries with fiscal space in the euro area

**GDP**

- Fiscal stimulus in countries with fiscal space
- Structural reforms only

**Wages per employee**

- Real, difference from baseline, per cent

Note: The level of technical progress is gradually raised by 1% by the fifth year in all countries, and countries with fiscal space also increase government investment by 0.5% of GDP for three years. Euro area monetary policy is assumed to be set in a way that takes into account the eventual long-run improvement in output. Countries with fiscal space here include Germany, the Netherlands, Austria, Finland, Ireland, Slovak Republic, Slovenia, Estonia, Latvia, and Lithuania. Source: OECD calculations.
Sources

**Economic Outlook**

**ECOSCOPE blog**