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Influence of Oil Price on Economic Growth

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Opinion

Nowadays, oil is one of the most widely used crude in industry. About 6000 kinds of products and goods are made from oil. The first thing that comes to people's mind is gasoline and plastics. Almost 70% of all engaged oil in the world is used for gasoline and other types of fuel. However, oil is also used in auto industry, household, medicine, electronics, sports and other fields. Taking into consideration that, energy is also made from oil, which is used in manufacture, almost all products or services have partially oil price in them. Oil provides almost 35% of electric energy in the USA according to EIA (U.S. Energy Information Administration), and about 20% in China. Despite the big attention to the renewable kind of energy, only 10% of all produced energy in the USA in 2014 came from renewable energy. In spite of the fact that the most used energy in the EU is nuclear energy, energy made by crude oil has 9.1% of share. The crude oil has an important place in world economy as energy, and goods. It influences the dynamics of world economy. Since oil price in 2014 has decreased from about 110$ to around 50$, the question is how it can influence the growth of world economy.

World economy consists of all countries' economies; each of them is various. In 2015, the USA had the most portions in world GDP with 23.18%, or in nominal 17968 billion USD and China with 17.78% or 11385 billion USD according to IMF (International Monetary Fund). Other countries which are in top 10 ranking are Japan, Germany, United Kingdom, France, India, Italy and Brazil. Their share in world GDP is more than 60%. All countries in top 10 ranking are the biggest consumers of oil. For example, the USA is the biggest oil consumer with 6.9 billion barrels per year, China consumption is equal to 3.8 billion barrels per year, Japan takes the third place in this ranking with over 1.6 billion barrels of oil consumption every year. As a result, the price of oil depends on their economic growth. The cheap oil price influences economic growth of these countries positively and decreases the price of goods that are most connected to oil and oil products. However, in a little period of time, in 3-5 years, those countries can have problems which influence economic growth. Firstly, the oil producing companies may reduce production and number of workers and even go bankrupt. Second problem is connected to exporting goods to oil producing countries. Countries with developed industry could export fewer products to these countries. On the other hand, we can see another situation in countries which produce oil. Their economic growth also depends on oil price. There is a list of counties whose economic situation depends on oil price. Low price bits their economy. For example, Russia was the third largest oil producer after the USA and Saudi Arabia according to EIA in 2014. The nation consumes approximately 3.5 million barrels per day and 1.3 billion barrels per year. As of 2013, it uses only a third of its annual production, exporting the remainder. After fall of oil price in 2014 and economical sanction by G7 and EU, GDP of Russia decreased almost to 4% in 2015. Saudi Arabia, Venezuela, Iraq, Azerbaijan, Kazakhstan's economies are also triggered by a decrease of the price of oil and gas. As a result, the commodity turnover in oil producing countries, especially in Russia and Venezuela, has decreased in 2015. In a short term, low price of oil and other commodities can decrease some countries' economy, but, in general, in long term low price can increase the world economy because countries with developed industry keep the most portion of world GDP. That means that, influence of economic growth in these countries to world economy is larger than other countries' influence. As IMF forecasts, the rise of global economy for 2016 is equal to 3.6%. In IMF outlook attention to low price of energy and other commodities was paid as it is one of the aspects that influences the global economy in January 2016.

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