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# The time varying effect of oil price shocks on euro-area exports\*

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## Abstract

In this paper we provide novel evidence on changes in the relationship between the real price of oil and real exports in the euro area. By combining robust predictions on the sign of the impulse responses obtained from a theoretical model with restrictions on the slope of the oil demand and oil supply curves, we identify oil supply and foreign productivity shocks in a time varying VAR with stochastic volatility. We find that from the 1980s onwards the relationship between oil prices and euro area exports has become less negative conditional on oil supply shortfalls and more positive conditional on foreign productivity shocks. Using the theoretical model we show that our empirical findings can be accounted for by (i) stronger trade relationship between the euro area and emerging economies (ii) a decrease in the share of oil in production and (iii) increased competitive pressures in the product market.

**JEL classification:** C32, E3, F14.

**Keywords:** Oil prices, VAR, time-varying parameters, Exports.

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