

The impact of economic development on the effects of oil market shocks in oil-exporting countries. Evidence from the interacted panel VAR model

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Abstract

This paper examines whether the effects of oil market shocks on economic activity and exchange rates in oil-exporting countries depend on the stage of economic development or the scale of oil exports. Within the framework of the block-exogenous Interacted Panel VAR (IPVAR), we show that both oil price and oil price uncertainty shocks affect the economies of oil-exporting countries. The responses of domestic variables to these shocks are heterogeneous across countries and that the scale of the response depends on the level of economic development. In general, the responses of emerging market economies are more prominent than those of advanced economies. The combined contribution of oil market shocks to exchange rate volatility is inversely associated with the stage of economic development, but no such relation is observed for industrial production. The results obtained are robust to conditioning the responses on the scale of oil exports, restricting the time range to the non-covid pandemic period, and using the alternative measure for oil price uncertainty.