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Macroeconomic and institutional determinants of current account deficits

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Abstract

This study empirically investigates the effects of institutional and macroeconomic policy variables on current account deficits (CAD). Based on cross-section data for a broad number of countries, the results suggest that better governance increases whilst 'original sin' decreases the ability of an economy to sustain CAD. Exchange rate flexibility and openness appear to put a discipline on CAD. Consistent with the equity home bias and Feldstein-Horioka puzzle, CAD decrease with country size. The net impacts of the financial deepening and monetary credibility on CAD are found to be insignificant.

Notes

The sample contains the following 79 countries: Argentina, Australia, Austria, Bahamas, Bahrain, Barbados, Belgium, Bolivia, Brazil, Bulgaria, Canada, Chile, China, Colombia, Costa Rica, Cyprus, Czech Republic, Denmark, Dominican Rep., Ecuador, Egypt, El Salvador, Estonia, Finland, France, Germany, Ghana, Greece, Guatemala, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Latvia, Lithuania, Luxembourg, Malaysia, Malta, Mauritius, Mexico, Moldova, Morocco, Netherlands, New Zealand, Norway, Pakistan, Panama, Peru, Philippines, Poland, Portugal, Romania, Russia, South Africa, South Korea, Singapore, Slovakia, Slovenia, Spain, Sri Lanka, Suriname, Sweden, Switzerland, Thailand, Tunisia, Turkey, the UK, the USA, Ukraine, Uruguay, Venezuela.

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