

Bibliographic note

MAINKA, Jacob. *What Drives the Current Account (Im)balances in the EU and Are they Relevant to Economic Policy?* Praha, 2020. 85 pages. Master thesis (Mgr.). Charles University, Faculty of Social Sciences, Institute of Economic Studies. Supervisor Jaromír Baxa, Ph.D.

Abstract

With the global financial crisis and the ensuing European sovereign debt crisis, current account imbalances have attracted enormous interest as both a cause and an indicator. The question therefore arises as to what drives them. In this master thesis I carry out a one-way fixed effects panel regression for the 28 EU countries for the period 1999-2018, testing thirteen potential drivers of the current account. From my baseline model, fiscal balance, domestic credit to private sector, total age dependency ratio and the output gap are found to be of robust statistical significance.

An additional panel regression was only able to confirm to a small extent the *German view* that current account imbalances, high foreign debt and deviations from the inflation target bear responsibility for macroeconomic instability. In addition, I show that the current account has limited information value, its underlying drivers are difficult to target by economic policy, and that imbalances as such do not present a serious concern. Upper and lower thresholds, as stipulated in the Macroeconomic Imbalance Procedure, are not appropriate. The high level of priority given to current account balances in past crises thus appears unjustified.

Keywords

Current Account, Fixed Effects, Macroeconomic Imbalance Procedure, Macroeconomic instability, European Monetary Union

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