

This thesis examines the implications of euro for current account balances of countries using it. First, we summarize the main theoretical and empirical findings about determinants of current account deficits and possible implications of monetary union. Second, an empirical analysis of possible effects of single currency on current account is presented. We employ time-specific fixed effect estimator, corrected for possible endogeneity between fiscal policy stance and current account deficits. Our results support hypothesis of certain impact on current account balances as such. We also document positive effect of single currency on gross saving and investment rates. Our regression indicates that the role of fiscal balance and financial sector increased with introduction of single currency therefore implying less Ricardian behavior of private sector in eurozone. We further examined eventual break in the relationship between fiscal and current account balances suggesting that eurozone economies tend to become less Ricardian.