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Short Communication

Macroeconomic Stability and its Effects on Current Account Imbalances

Adaku Ozioma*

Department of Management, Imo State University, Owerri, Imo State, Nigeria

DESCRIPTION

The literature has not previously explored the impact of macroeconomic stability on current account balances using a computed index. For the first time in the study, it aims to determine the role of macroeconomic stability in current account balances. For 97 nations, the analysis is finished for the years 1980 to 2016. An index that is generated using data on each country's fiscal balance, growth rate, unemployment rate, and inflation rate serves as a representation of the macroeconomic stability [1]. It is discovered that macroeconomic stability, along with institutional strength and financial development, is one of the key determinants of current account balances. For four different nation groups-developing countries, all countries except industrial, all countries except industrial and African countries, and all countries-it shows a negative and statistically significant association with current account balances. The findings indicate that macroeconomic stability is more crucial for emerging countries than for high-income nations [2].

Global imbalances increased from 2% of the global GDP in 1996 to over 5% in 2008. It still accounts for about 3% of global GDP in 2018. The biggest adjustment was a rise in the USA's current account deficit. It was less than 2% of GDP in 1997, and it rose to 5.8% of GDP in 2006. During the financial crisis, the USA's current account deficit dropped to 2.3% of GDP in 2009. The United States most recent deficit for 2019 is still 2.6% [3]. Since 1992, the USA has had a current account deficit. Since 1994, China has been running for 25 years in balance. Since 2009, Canada has had a current account deficit. Australia and New Zealand, two wealthy nations, have been running deficits for years. The UK, France, Italy, Portugal, and Greece are a few of the developed nations in Europe that have been running deficits for a while. Only since 2013 have Portugal and Italy begun to post surpluses. Japan (1981–2019), South Korea (1998–2019), Malaysia (1998–2019), and Singapore (1998–2019) all enjoyed sizable surpluses for many years in Far East Asia [4]. Moreover, Mexico (1988–2019) and Brazil (2008–2019) in Latin America have had substantial current account deficits for years. The stability of major economic indicators is referred to as macroeconomic stability. The line separating stability and instability is hazy. Macroeconomic stability is determined by analyzing various combinations of important economic factors like growth rate, inflation rate, fiscal balance, unemployment, debt level, and current account deficits. Yet, significant current account deficits supported by short-term borrowing, high unemployment rates, rising public debt levels, two digit inflation rates, and negative or sliding GDP growth rates make it relatively simple to determine the macroeconomic instability of a nation.

Similarly, macroeconomic stability is indicated by a positive fiscal balance, a current account surplus with declining debt levels, a one-digit decline in inflation, and an improving growth rate are well identified. FDI inflows and macroeconomic stability have a favorable link, according to empirical studies. Growth rate, inflation rate, total debt split by GDP, and exchange rate are some of the factors that influence FDI inflows, which are a sign of macroeconomic stability, in various studies.

Irrespective of a nation's level of development, macroeconomic stabilization is a key topic for policymakers in all nations. The ability of the countries to prevent and absorb various external and internal shocks as well as strengthen economies' capacities to minimize their negative consequences is increased, even though the measures used to evaluate macroeconomic stability are defined differently. Because of this, estimates of macroeconomic stabilization vary based on the analysis's goal and the governments' economic policy objectives.

The effect of macroeconomic stability on current account balances using a calculated index has not previously been studied in the literature. It seeks to ascertain, for the first time in the study, how macroeconomic stability affects current account balances [5]. The analysis is complete for the period 1980 to 2016 for 97 countries. The macroeconomic stability is represented by an index that is created using information on each nation's fiscal balance, growth rate, unemployment rate, and inflation rate. It is shown that the macroeconomic stability is one of the main elements influencing current account balances. It has a bad and statistically significant association with current account balances for four different nation groupings. The findings confirm that macroeconomic stability is more crucial for emerging nations than for high-income nations.

Correspondence to: Adaku Ozioma, Department of Management, Imo State University, Owerri, Imo State, Nigeria, E-mail: ozioma@gmail.com

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