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# Macroeconomic Volatility and External Imbalances\*

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## Abstract

Does macroeconomic volatility/uncertainty affects accumulation of net foreign assets? In OECD economies over the period 1970-2012, changes in country specific macroeconomic volatility are, after controlling for a wide array of factors, significantly positively associated with net foreign asset position. A standard open economy macro model with time varying macroeconomic uncertainty can quantitatively account for this relationship. The key mechanism is precautionary motive: more macro uncertainty induces residents to save more, and higher savings are in part channeled into foreign assets. Data and theory suggest volatility is an important determinant of the medium/long run evolution of external imbalances in developed countries.

JEL CODES: F32, F34, F41

KEY WORDS: Business cycles, Current account, Global Imbalances, Precautionary saving, Uncertainty

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