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# IMF Working Paper

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## Labor and Product Market Reforms and External Imbalances: Evidence from Advanced Economies

by Romain Duval, Davide Furceri and João Tovar Jalles

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I N T E R N A T I O N A L M O N E T A R Y F U N D

**IMF Working Paper**

Research Department

**Labor and Product Market Reforms and External Imbalances: Evidence from  
Advanced Economies**

**Prepared by Romain Duval, Davide Furceri and João Tovar Jalles**

Authorized for distribution by Romain Duval

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**Abstract**

We explore the impact of major labor and product market reforms on current account dynamics using a new “narrative” database of major changes in employment protection for regular workers and product market regulation for non-manufacturing industries covering 26 advanced economies over the past four decades. Our main finding is that product market deregulation is associated with a weakening of the current account, while labor market deregulation is associated with an improvement. These effects are transitory and driven by both saving and investment responses. Labor and product market reforms both have a more positive impact on the current account balance when implemented under weak macroeconomic conditions. Our results are broadly consistent with predictions from recent DSGE models with endogenous producer entry and labor market frictions.

JEL Classification Numbers: C33; E62; H63; J08; O43

Keywords: current account; external imbalances; structural reforms; product market; labor market.

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