

**Abstract:** Fiscal and Current Account Balances in a Model with Sticky Prices and Distortionary Taxes

This paper examines the interaction of fiscal and current account balances in open economies subject to monopolistic competition with sticky price-setting behavior, adjustment costs for investment, and distortionary labor income taxes. We find that the elasticity of exports with respect to the real exchange rate influences the correlation between the balances. In particular, in simulations with recurring shocks to productivity, we find that the balances are positively correlated for a range of export elasticities. However, for simulations with recurring real government expenditure shocks, we find that the balances are positively correlated under high export elasticity but negatively correlated under low export elasticity.