GENEVA GRADUATE INSTITUTE | INTERNATIONAL ECONOMICS

Discussion of:

Uncertainty

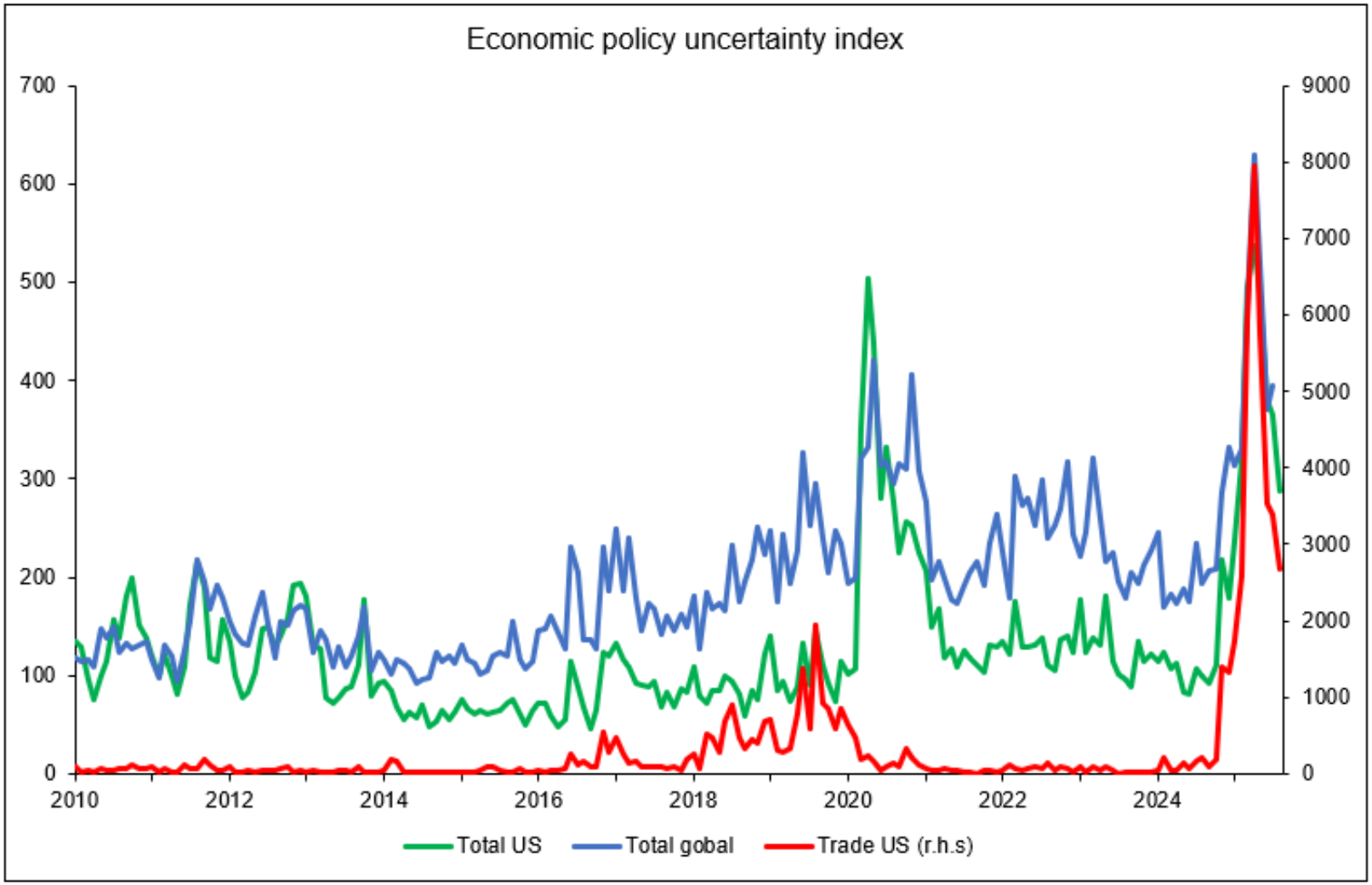
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A highly relevant feature

- Unprecedented increase in economic policy uncertainty, especially pertaining to US trade policy.



Measures and impact

- *Global Uncertainty Shocks and Their Effect on LATAM Financial Markets and the Aggregate Economy* (Fernando Pérez).
  - Panel analyis (Bayesian) of the impact of EPU and demand shocks on 4 countries in Latin America.
- *Policy Uncertainty and Macroeconomic Dynamics in Morocco* (Oussama Houari)
  - Builds a new measure of domestic policy uncertainty, and assess its impact.
- *The Impact of Geopolitical Risk on the Policy Mix: Evidence from a Panel of Tunisian Banks using Panel VAR and Local Projection models* (Hager Ben Romdhane, Oussema Hammami)
  - Increase in risk reduces credit, and affects return and ratios of banks.

Impact in Latin America

- Panel regression of the impact of shocks on financial variables (exchange rate, stock prices, spread) macroeconomic ones (inflation, industrial production), and uncertainty (EPU).
- Monthly panel with the US and 4 Latin American countries.
  - Block VAR: Latam variables do not affect US ones.
- Two shocks with sign restrictions.
  - Higher uncertainty akin to adverse supply, higher inflation.
  - Negative demand shock, lower inflation.
- Higher uncertainty shock:
  - Higher commodity prices, weaker dollar and US stock market.
  - LatAm: lower inflation, lower EMBI spread, stronger stock market.
- Adverse demand shock:
  - Lower commodity prices, weaker dollar and US stock market.
  - LatAm: lower inflation, lower EMBI spread, stronger stock market.

Telling the shocks apart

- EPU shock looks like (any) adverse supply shock.
  - How can we tell apart a pure uncertainty shock?
- Identification is a bit narrow. I relies on the US CPI response.
  - Broaden the contrast between the two shocks.

Var / Shock	Name	Global Uncertainty shock	Negative Demand shock
Domestic Block	$\mathbf{y}$	?	?
Consumer Price Index	CPI_{US}	$\geqslant 0$	$\leqslant 0$
Industrial Production	Y_{US}	$\leqslant 0$	$\leqslant 0$
VIX	VIX	$\geqslant 0$	$\geqslant 0$
EPU$_{(US)}$	EPU_{US}	$\geqslant 0$	$\geqslant 0$
DXY	DXY	$\leqslant 0$	$\leqslant 0$
SP&500	$SP500$	$\leqslant 0$	?

Table 1: Identifying Restrictions

Some odd patterns

- Adverse shocks lead to a weaker dollar.
  - But United States is often seen as a safe haven (stronger dollar in 2008-9).
- Adverse shocks are good news for LatAm financial markets.
  - Stronger currency, lower EMBI spreads, higher stock prices.
  - Literature of the global financial cycle shows that tighter conditions are bad news for emerging economies.

- Presentation: a large part of the paper goes through the econometric theory and sampling approach.
  - Refocus on the story, put technicalities in the appendix.

A new measure for Morocco

- Existing measures (WUI database) limited, with many zero values.
- Builds a EPU measures based on information from the 7 newspapers.
- Rising EPU during Covid, with lower values since.
  - EPU is coutercyclical.
  - Fairly distinct from global EPU, and WUI index for Morocco.
- VAR to assess the impact of EPU shocks.
  - Higher uncertainty reduces growth, consumption and investment.
  - Reduction in saving, followed by increase.
  - Lower Household consumption.
  - Higher holding of cash.
- Impact of new EPU measure quite different from impact of WUI.

Recent pattern

- New EPU measure increases during Covid, but downward trend since, with a small recent increase.
  - Contrast relative to recent surge of global uncertainty.
- Countercyclical pattern seem driven by Covid years.

Figure 1 Monthly Economic Policy Uncertainty Index for Morocco

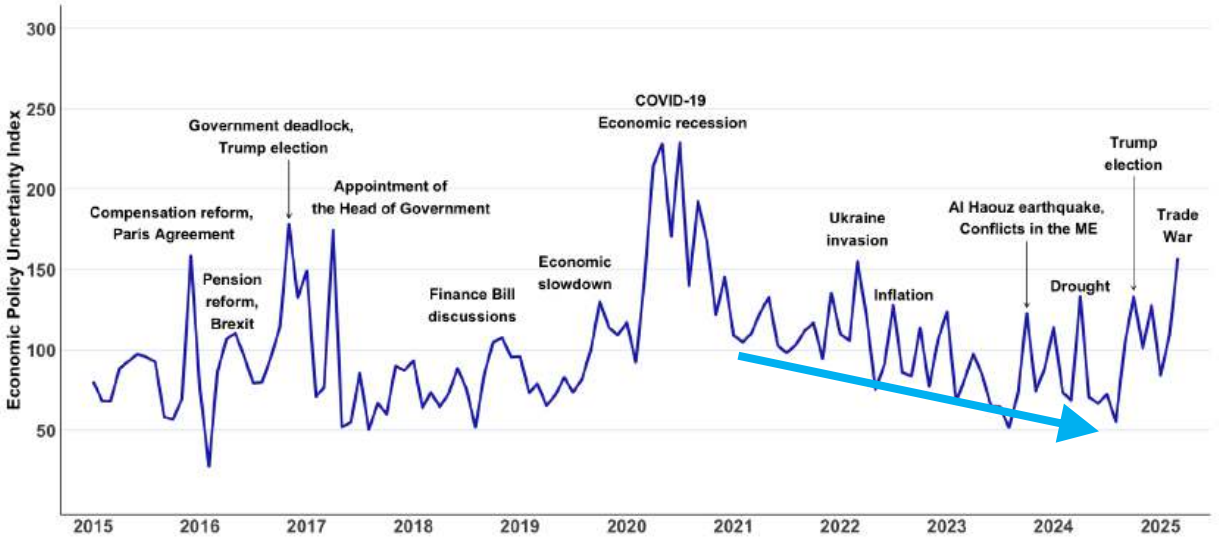
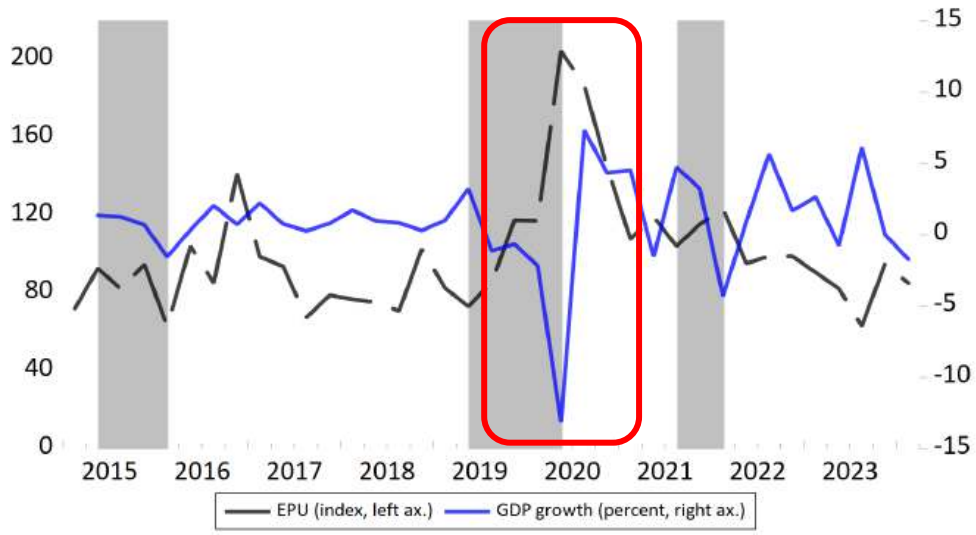


Figure 3 Quarterly Economic Policy Uncertainty Index and GDP Growth in Morocco



VAR analysis

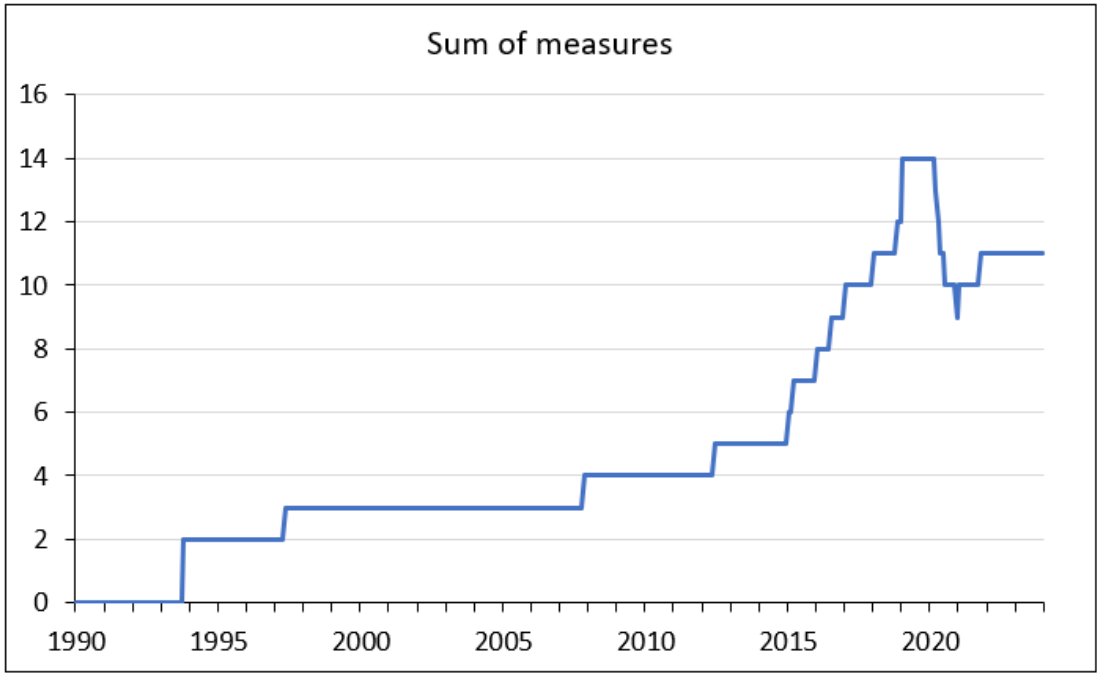
- What are the identification assumptions in the VAR.
- Controlling for global uncertainty by using the residual of new EPU on global uncertainty in the VAR.
  - Why proceed in two steps? Put instead the global uncertainty in the VAR, assuming it is not affected by Moroccan EPU.
- Effect on savings: actual amount, or savings rate.
  - In a recession, savings value can decrease even when the savings rate increases.
- Rising holdings of cash.
  - Total amount of cash is controlled by the central bank. Describe how BAM reacts to movements in cash demand.
  - Can you contrast by denominations of cash? Saving motive goes through larger denominations.
  - Increase also in bank deposits?

Impact of geopolitical risk

- Geopolitical tensions are an additional source of risk.
- Impact on the Tunisian economy since 2011, on macroeconomic and financial variables.
- Panel VAR analysis: higher GPR is contractionary.
  - Lower credit, higher capital ratio.
  - No significant effect on policy interest rate.
- Panel local projection on 22 banks.
  - Negative (but insignificant) effect on credit.
  - Short-lived (2 quarters) contraction of RoE.

Interpretation of measures

- Short term interest rate is clearly a policy variable.
- Profitability and balance sheet measures (RoE, non performing loans, capital ratio) are endogenous variables.
- Interpretation as macroprudential policy indicators is questionable.
  - If banks reduce credit, this tends to increase the capital ratio.
  - Even without a policy interventions.
- Use instead data on macroprudential policy (IMF iMaPP).
  - Limited policy use.



VAR and local projections

- How is the VAR identified?
- Results of panel VAR and local projections seem contrasted (make figure 3 easier to read).
  - Credit decreases from VAR, but not in local projections.
  - Show the effects on credit ratio, non performing loans, and other variables in local projections.

Figure 4. The impulse response of Credit to a GPR shock

