

Discussion of:

Uncertainty

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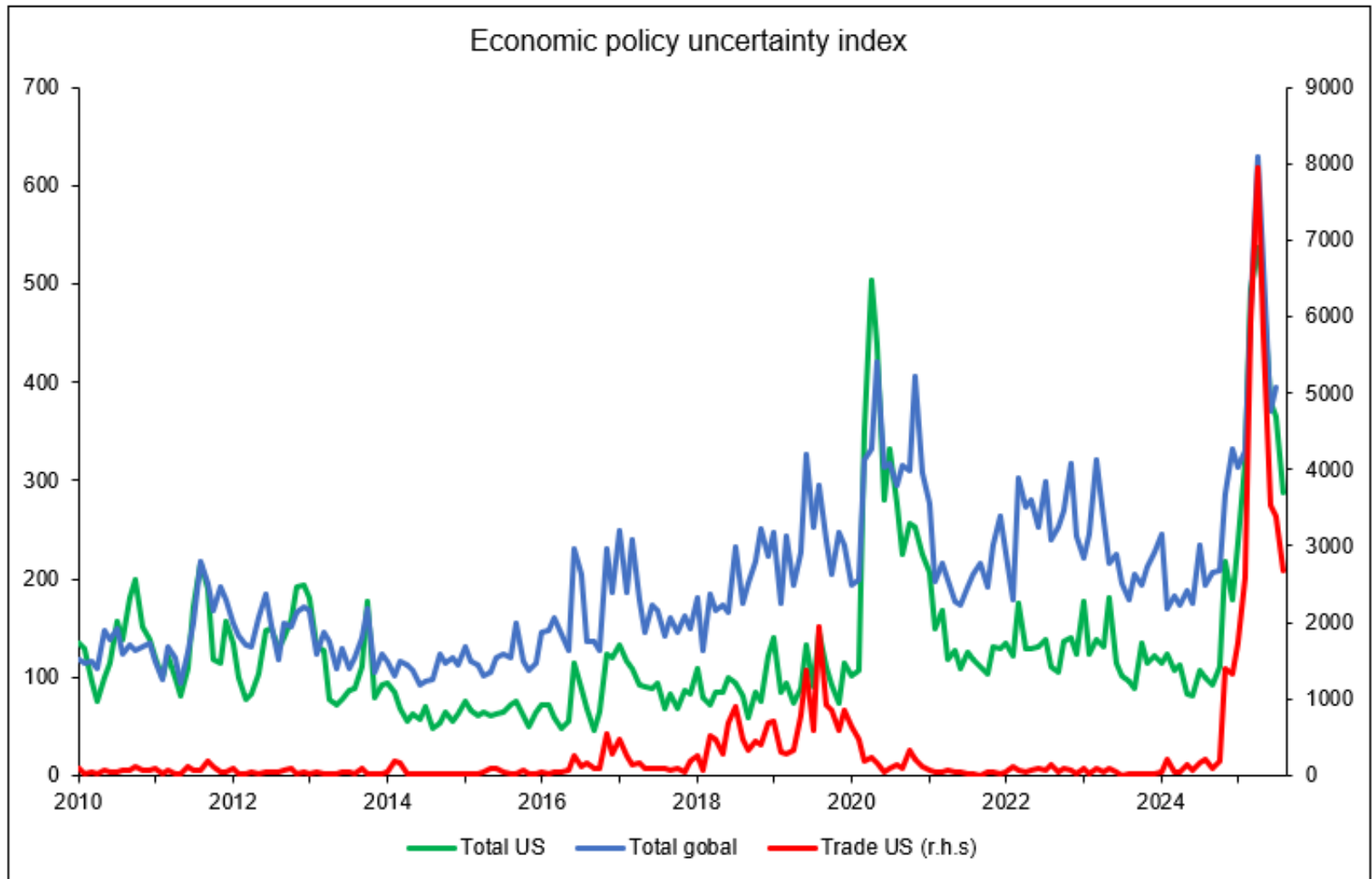
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A highly relevant feature

- 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 analysis (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	y	?	?
Consumer Price Index	CPI_{US}	≥ 0	≤ 0
Industrial Production	Y_{US}	≤ 0	≤ 0
VIX	VIX	≥ 0	≥ 0
$EPU_{(US)}$	EPU_{US}	≥ 0	≥ 0
DXY	DXY	≤ 0	≤ 0
SP&500	$SP500$	≤ 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 countercyclical.
 - 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

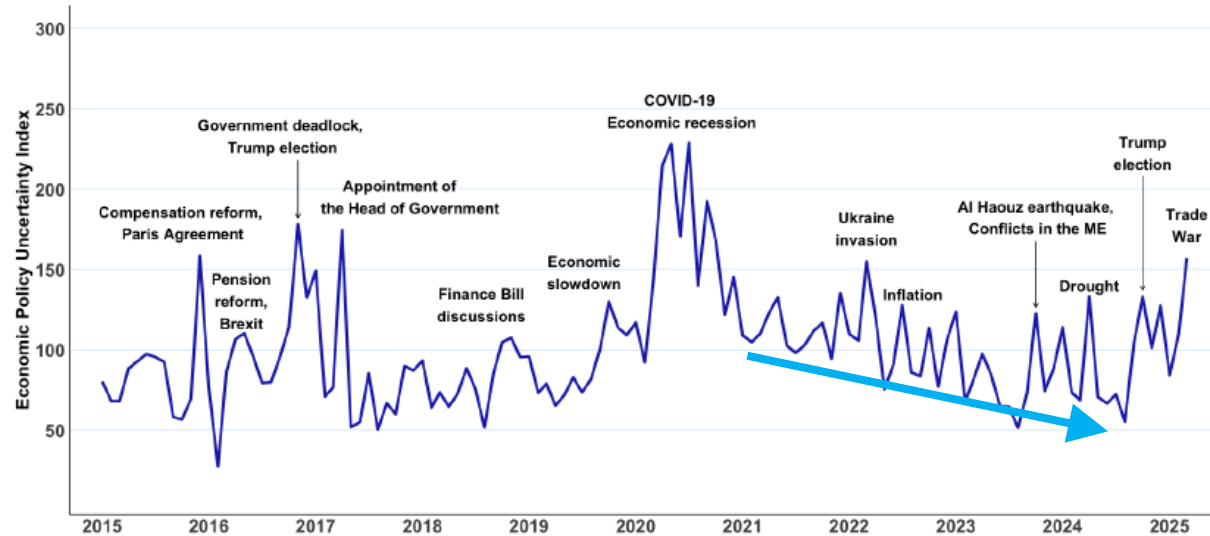
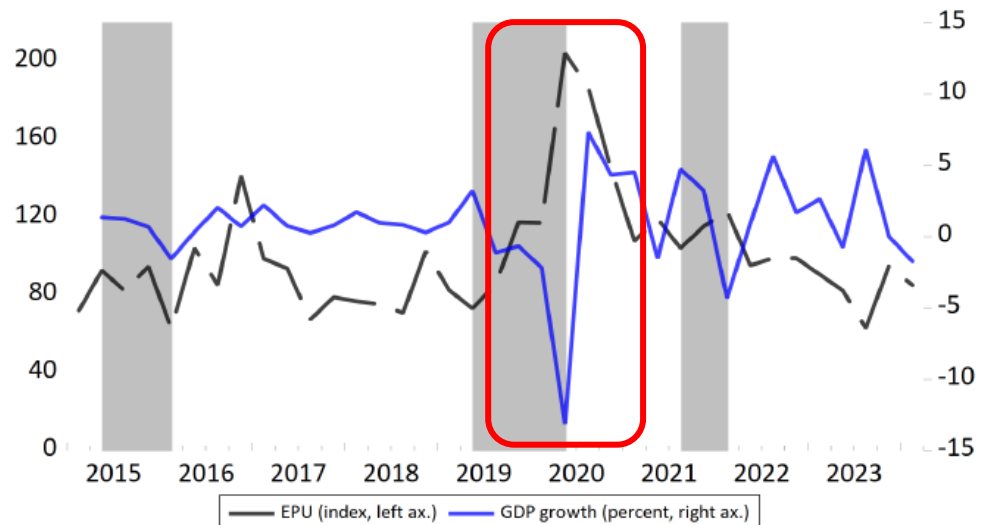


Figure 3 Quarterly Economic Policy Uncertainty Index and GDP Growth in Morocco



VAR analysis

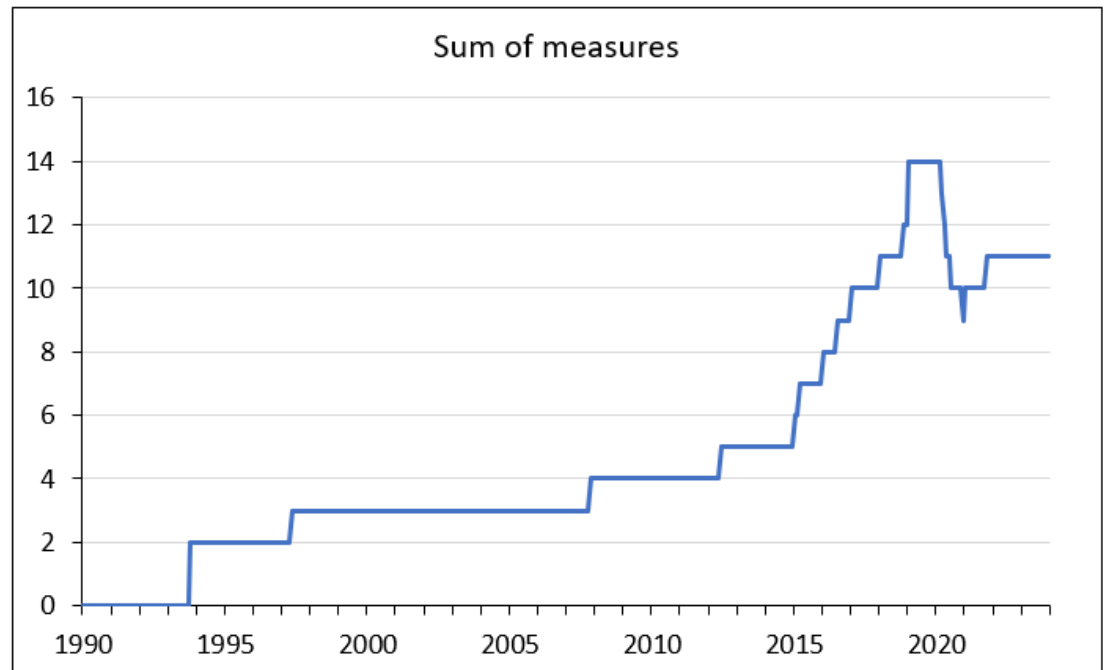
- What are the identification assumptions in the VAR.
- Controlling for global uncertainty by using the residual of new EPU on global uncertainty in the VAR.
 - Why proceed in two steps? Put instead the global uncertainty in the VAR, assuming it is not affected by Moroccan EPU.
- Effect on savings: actual 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

