

# Economics in the Time of Covid-19: The economic impact on Asia

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# **Rising Policy Uncertainty in Response to the COVID-19 Pandemic**

Remarks by Arata Ito

***CEPR-RIETI Webinar on Economics in the time  
of Covid-19: The economic impact on Asia***

March 24, 2020

# Overview

- A daily newspaper-based economic policy uncertainty (EPU) index for the U.S. rises rapidly in these days. It has reached a record high for the past thirty years.
- A monthly news-based EPU index for Japan surges in March (1st to 23rd) and reaches its highest level since 2011.
- Uncertainties over monetary policy cause the index to jump. An index of monetary policy uncertainty (MPU) exhibits a dramatic increase since 2016. The index value in March is 3.3 times higher than its value in February.

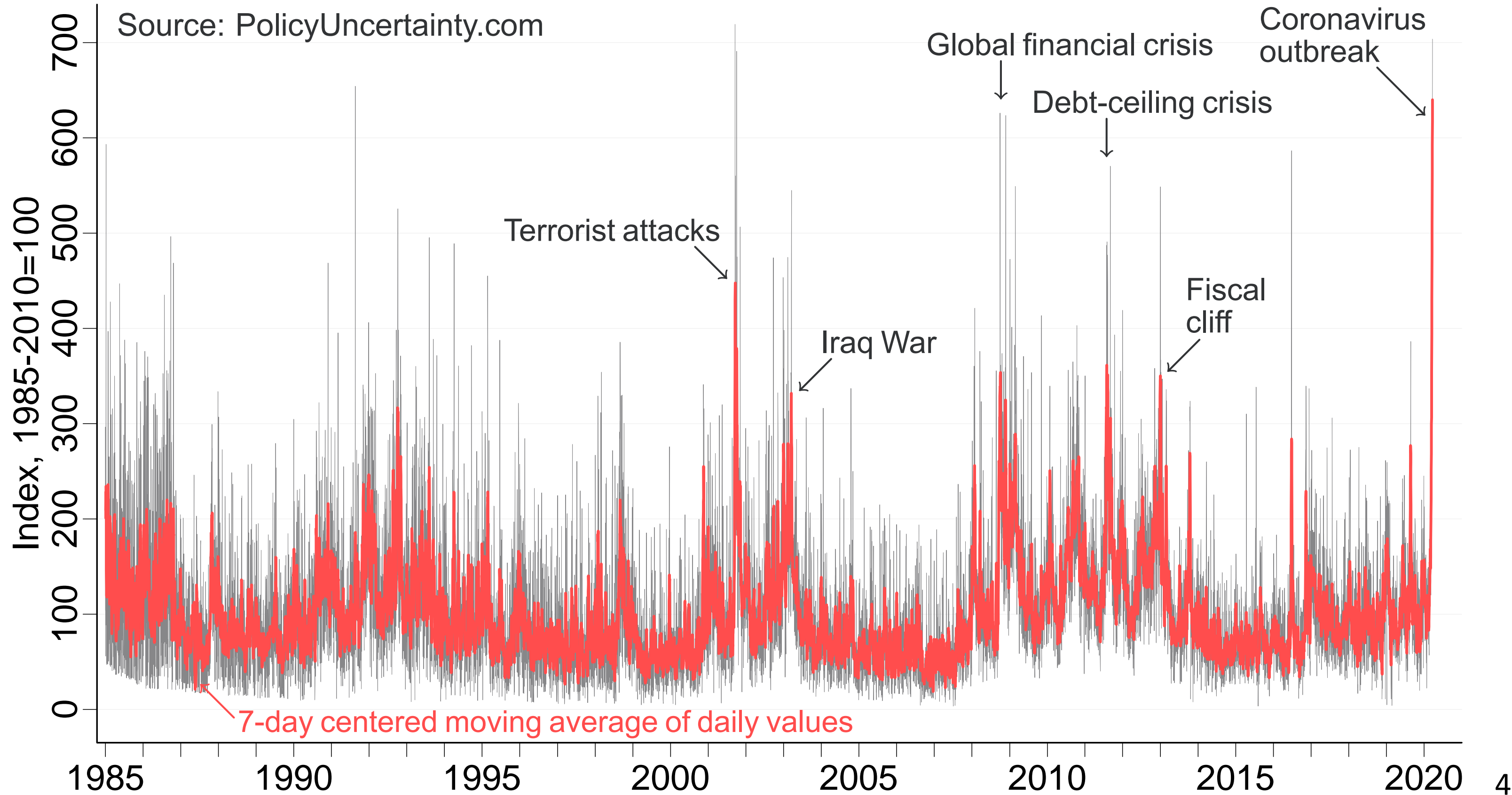
# Overview

- An index of fiscal policy uncertainty (FPU) also climbs in response to the spread of coronavirus. But, the rise in the index is not so significant as the rise in the MPU index.
- In contrast with the MPU and FPU indices, an index of trade policy uncertainty falls below the level where trade conflicts between the U.S. and China begin to intensify.
- Many studies find that an upward innovation in policy uncertainty foreshadows declines in investment and employment.

# Overview

- We need to pay attention to not only the devastating effects of the coronavirus pandemic through demand and supply channels, but also the harmful effects of policy uncertainty on the macroeconomy.

# US Economic Policy Uncertainty Index, 1 January 1985 to 23 March 2020



# Japan Economic Policy Uncertainty index

Index value in March 2020 (1st to 23rd): **211.0 +103.4**

Asian and Russian financial crises, policy debates about fiscal consolidation & LDP's defeat in Upper House election yields Twisted Diet.

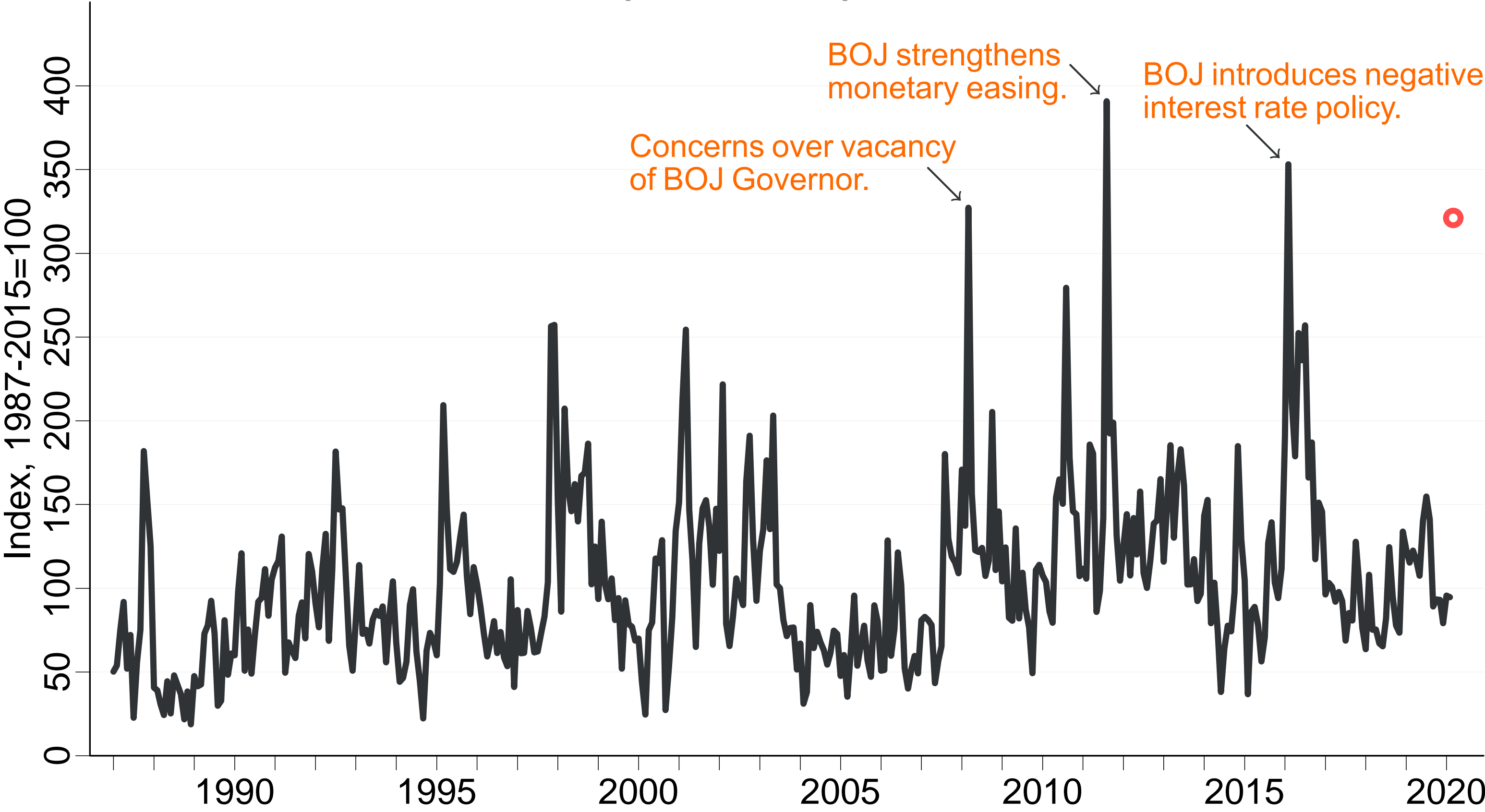
U.S. debt-ceiling crisis, European debt crisis, PM Kan resigns & BOJ undertakes further monetary easing.

Global financial crisis, BOJ cuts policy rate & stimulus debate.



# Monetary Policy Uncertainty index

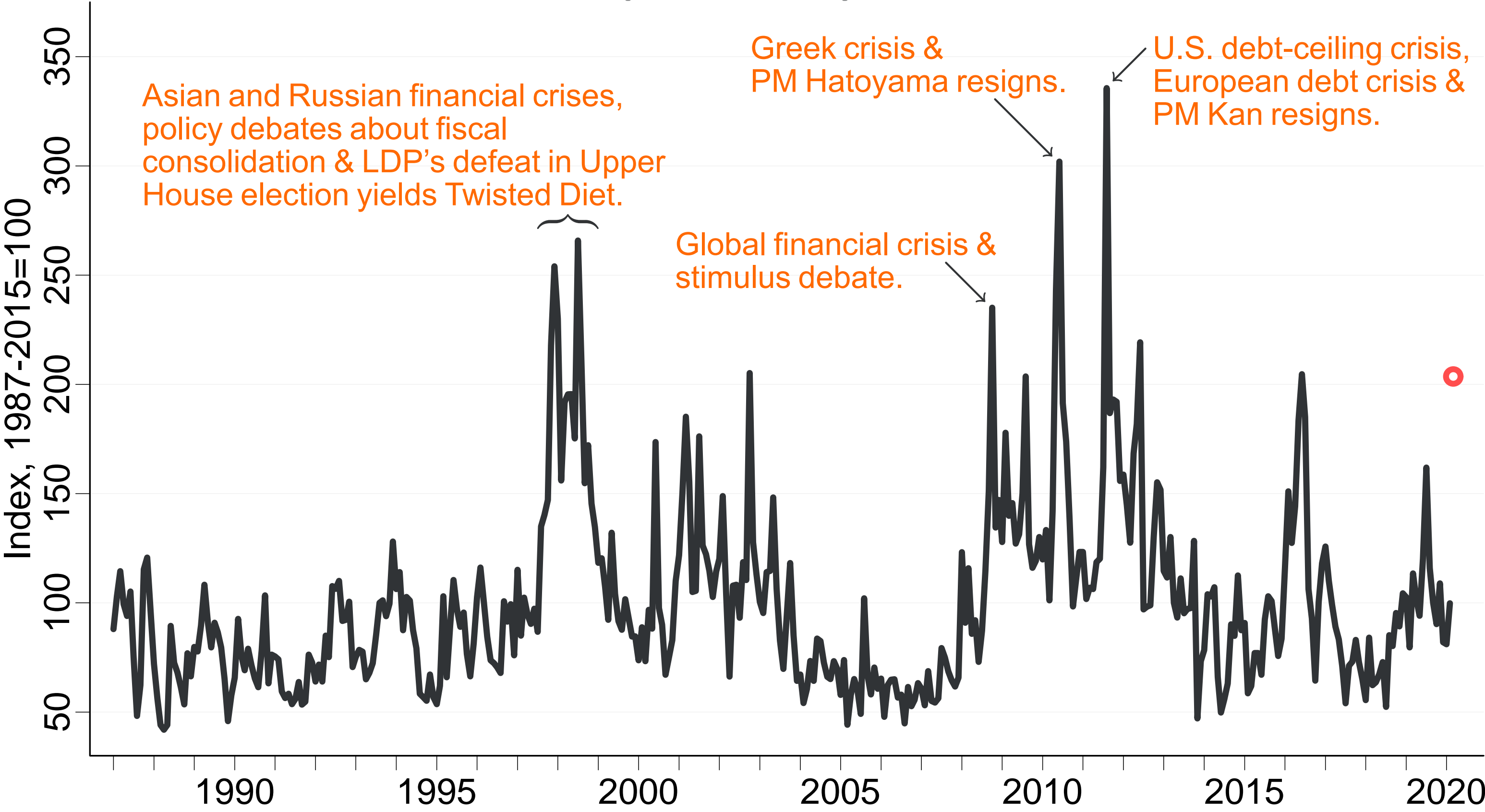
Index value in March 2020 (1st to 23rd): **321.1** **+226.4**





# Fiscal Policy Uncertainty index

Index value in March 2020 (1st to 23rd): **203.6 +103.8**



# Trade Policy Uncertainty index

Index value in March 2020 (1st to 23rd): **130.1 - 109.9**

