

Abstract

We study economic policy uncertainty spillovers on a panel of ten countries between April 1998 to September 2019. The analysis is performed on the Economic Policy Uncertainty indices data. To measure the spillovers, we utilize forecast error variance decompositions of VAR model. We found that approximately half of the forecast variance can be explained by spillovers shocks across countries. Further, we disentangle the spillover measure to short-, mid- and long-term cycles using frequency domain. Our results suggest that most of the spillovers are caused by shocks into low frequencies, hence with long persistence. Employing quantile regression on equation-by-equation basis to estimate the VAR model, we find that idiosyncratic uncertainty shocks do not propagate strongly at the median but that powerful spillovers occur in the right tail of distribution. Additionally, we perform rolling window estimates of the spillovers. The results indicate strong variation in time, especially during major geopolitical events, such as Iraq War (2003), Global Financial Crisis (2007-09), European debt crisis (2010-12) or Brexit (2016).