

Macroeconomic Uncertainty Index in Taiwan

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Abstract

This paper constructs a monthly index of macroeconomic uncertainty using a data rich environment for Taiwan economy by employing the framework proposed by Jurado et al.(2015, *American Economic Review*). Several stylized facts about the macroeconomic uncertainty index (MUI) in Taiwan from 1995M1-2018M3 are provided first. We then show that the MUI of Taiwan actually has the predictive power for economic activity; while increases in the MUI is associated with statistically and economically significant slow-down in the industrial output and employment. Besides, we examine whether and how uncertainty matters for Taiwan economy by employing VAR analyses; our preliminary results show that the shock to MUI significantly leads to declines in the real economy. All these results indicate that the constructed MUI of Taiwan can serve as a valid leading indicator for monitoring the upcoming economic slowdown. Furthermore, we establish a threshold VAR model where the threshold variable is the constructed MUI of Taiwan to investigate how the impacts of the monetary policy shock on Taiwan economy might vary with the different regime of the uncertainty. Finally, we also discuss some possible extensions and applications of this index.