

# Uncertainty Shocks in Eurozone Periphery Countries and Germany†

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## Abstract

High levels of uncertainty regarding macroeconomic aggregates indicate that the overall efficient functioning of economies is worsening. This paper examines the extent to which uncertainties lurking in the formulation of economic policy and the decisions made by policy makers are major constraints to Eurozone periphery countries (Portugal, Italy, Greece and Spain). An Uncertainty Index is constructed based on the volatility of the stock market, from the euro's adoption in January 2001 up to December 2013. We conduct a VAR analysis and examine the impulse responses of an uncertainty shock of 2% and conclude that the shock significantly affects manufacturing production. Such an uncertainty shock dissipates after 5 months for Portugal, 7 months for Spain, 8 months for Germany, 10 months for Greece, and 13 months for Italy.

**Keywords:** Uncertainty index, uncertainty shock, production, VAR, impulse responses, Eurozone periphery.

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