CAN ECONOMIC POLICY UNCERTAINTY PREDICT EXCHANGE RATE AND ITS VOLATILITY? EVIDENCE FROM ASEAN COUNTRIES

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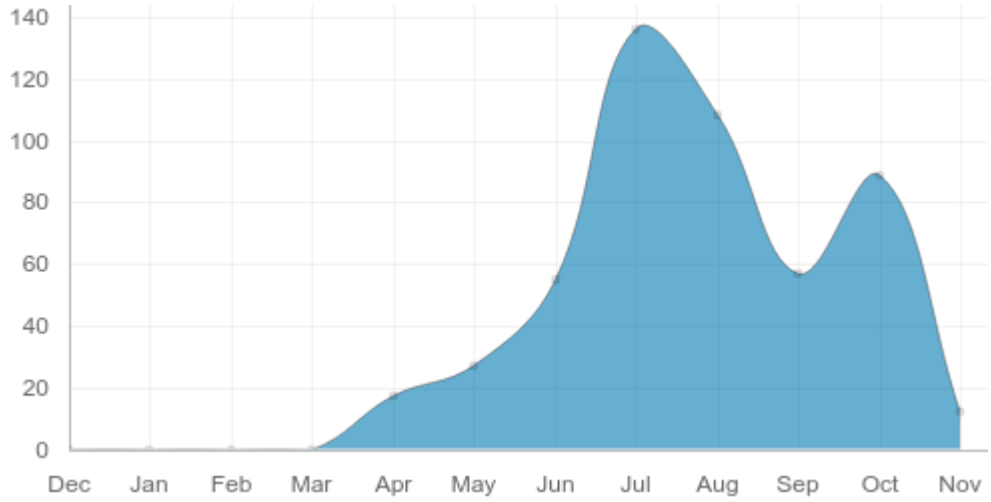
Keywords: Economic Policy Uncertainty; Predictability; Exchange Rate; ASEAN

Abstract

This paper examines whether global Economic Policy Uncertainty (EPU) predicts exchange rates and their volatility in ten ASEAN countries using monthly data from January 1997 to December 2017. Applying the predictive regression model of Westerlund and Narayan (2012, 2015), we find that EPU positively and statistically significantly predicts the exchange rates of six out of ten currencies. A one standard deviation increase in the EPU index leads to a depreciation of between 0.050% and 2.047% in these currencies. Moreover, EPU predicts exchange rate volatility for all ten ASEAN countries. Their exchange rate volatilities increase by between 0.107% and 0.645% as a result of a one standard deviation increase in the EPU index. These

results are robust to different forecasting horizons and subsample periods, and after controlling for the Global Financial Crisis.

Downloads



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