

Coordination of Monetary and Fiscal Policies under Economic Uncertainty in Brazil: A Comparative Analysis Between EPU and CCI

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Abstract

This article analyzes the coordination between monetary and fiscal policies under economic uncertainty in Brazil, comparing the results obtained with two distinct measures of uncertainty: the Economic Policy Uncertainty Index (EPU) and the Consumer Confidence Index (CCI). Using the Generalized Method of Moments (GMM) to estimate a system of simultaneous equations with monthly data from 2003 to 2022, the study initially replicates the original model with EPU and then replaces this variable with CCI. The results indicate that monetary policy acts countercyclically in both models, while fiscal policy shows ambiguous behavior: under uncertainty (whether measured by EPU or CCI) it tends to be procyclical, but in the absence of uncertainty it is countercyclical. A substitution relationship between monetary and fiscal policies is observed, with a more contractionary fiscal policy associated with a more expansionary monetary policy, and vice versa. Notably, the CCI coefficients tend to be more statistically significant than those of EPU, suggesting that consumer confidence may have greater explanatory power for Brazilian macroeconomic variables. The study contributes to the literature by highlighting the importance of consumer confidence as a relevant factor for understanding the coordination between monetary and fiscal policies under economic uncertainty.

Keywords: economic policy, interaction, GMM System, EPU, CCI.