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Abstract

This paper presents a new Economic Policy Uncertainty (EPU) index for Peru that spans from 2009 to 2025. The index captures major political and economic events in Peru's recent history. Using vector auto-regressive models (VAR), we show that uncertainty shocks are recessionary. We find that these shocks lead to declines in aggregate output as well as currency depreciation and lower short-term interest rates in domestic currency. These results suggest that the EPU index provides a useful tool for policymakers and researchers to monitor and analyze the economic impacts of uncertainty in Peru.

Keywords: Economic Policy Uncertainty, Peru, business cycles, fluctuations.

JEL Classification: D80, E22, E55, O54

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1 Introduction

Uncertainty constitutes a multi-dimensional concept that remains salient in the perceptions of consumers, firms, and policymakers. Formally, uncertainty is understood as a deterioration in the confidence of economic agents regarding their forecasts of future events across various domains (Jurado *et al.*, 2015; Alessandri and Mumtaz, 2019). A growing body of empirical literature has documented the adverse macroeconomic consequences of heightened uncertainty, including contractions in consumption, investment, employment, and financial market performance (Fernández-Villaverde *et al.*, 2011; Carrière-Swallow and Céspedes, 2013; Christiano *et al.*, 2014; Baker *et al.*, 2016; Bloom *et al.*, 2018; Caldara *et al.*, 2019; Bhattarai *et al.*, 2020; Caggiano *et al.*, 2020; Llosa *et al.*, 2025).

Both globally and domestically, uncertainty has exhibited a marked upward trend in recent years. Since the 2008 global financial crisis, political polarization within countries and geopolitical tensions between nations—such as the Russia–Ukraine conflict and the U.S.–China trade war—have intensified. Within Peruvian context, political instability and legal insecurity have escalated significantly since 2016. These developments are associated with a deterioration in perceived institutional credibility, as reflected in news coverage, and a significant increase in policy uncertainty.

This paper introduces an Economic Policy Uncertainty index (EPU) for Peru following the methodology originally proposed by Baker *et al.* (2016) for the United States. The index is constructed through lexicographic analysis of daily news articles published in major national newspapers. The index quantifies the frequency of terms associated with uncertainty that appear in the economics and politics sections of each newspaper. Several variants of fiscal, monetary, trade, and COVID-induced uncertainty tracking indices are also constructed. Our data span from 2009 to 2025.

We perform two analysis. In the first analysis, we compare the evolution of our EPU indices with the main events affecting the Peruvian economy. We find that the indices peak during periods of increased political, economic, and financial instability. Two consecutive episodes stand out for their elevated uncertainty: the onset of the covid pandemic in early 2020 and the 2021 general presidential election. Outside of these episodes, uncertainty spiked around other political transitions, times of economic and financial turmoil, and strong El Niño Southern Oscillation (ENSO events). In the second analysis, we estimate the impact of an uncertainty shock on the economy using standard VAR models. We find that a sudden

and unexpected increase in uncertainty is recessionary, leading to declines in aggregate output, local currency depreciation, and lower domestic interest rates.

Text-based uncertainty indices have become standard in the literature (Caldara *et al.*, 2019; Caggiano *et al.*, 2020; Husted *et al.*, 2020; Caldara and Iacoviello, 2022; Hong, 2024). In the case of Peru, few authors have constructed uncertainty indicators using text-based techniques. Ahir *et al.* (2022) construct a monthly uncertainty index using The Economist for 70 countries, including Peru. Vega and Pinelo (2022) estimate annual uncertainty levels from the Central Bank's annual reports. Although these indices offer valuable historical perspectives, they rely on low-frequency data and can overstate persistent uncertainty. In contrast, our index leverages high-frequency (daily) data, enabling real-time tracking of uncertainty dynamics and facilitating the identification of short-term fluctuations.

Recent work has quantified the impact of uncertainty in the case of Peru, finding an economically and statistically significant negative effect on growth and asset prices. Using a standard VAR approach, Giraldo *et al.* (2023) estimate the spillover effects from financial, economic, and policy uncertainty in the United States to Latin American countries. Their findings indicate that US uncertainty has a recessionary impact on Latin American economies, including Peru. Alvarado and Rodríguez (2025) study the impact of US financial uncertainty in Peru using a time-varying parameter VAR with stochastic volatility. Llosa *et al.* (2025) study the interaction between uncertainty shocks and financial conditions in major Latin American economies and find the effects are recessionary, especially when financial conditions are stressed. We contribute to this literature by providing evidence that the news contains significant information about uncertainty in Peru and that such shocks to information precede economic downturns.

The rest of the paper is organized as follows. Section 2 describes the data and our methodology for the construction of the uncertainty index. Section 3 presents the data sources and provides descriptive statistics. Section 4 presents the main results. Section 5 analyzes the impact of uncertainty shocks on macroeconomic variables. Section 6 concludes.

2 Methodology

This section presents an Economic Policy Uncertainty (EPU) index for Peru, which is constructed according to the methodology proposed by Baker *et al.* (2016). Specifically, the index is derived from online news articles that contain terms related to uncertainty, eco-

nomic policy, and national juncture. Articles are sourced through web scraping from major Peruvian newspapers and news outlets, with a focus on sections pertaining to economics, politics, and national events. We exclude sports, entertainment, international news, opinion articles and editorials.

2.1 Dictionary

The index relies on a lexicographic dictionary comprising four thematic categories: Economy (E), Policy (P), Uncertainty (U), and national juncture (C). The first three categories follow the methodology proposed by Baker et al. (2016). We introduce the National Juncture category to capture terms related to domestic events and conditions that may generate uncertainty in the Peruvian context. The Policy category is subdivided into three themes: fiscal, monetary, and trade. The category of national juncture is subdivided into two themes: COVID-related and broad economic conditions (excluding COVID). The dictionary was adapted to Spanish and Peruvian institutional context. See Appendix for further details.

Articles containing at least one term in each category - Economy (E), Policy (P), and Uncertainty (U) - are classified as EPU articles (EPU=1), while others are classified as non-EPU (EPU=0). We also construct two variants: an EU index, excluding category P, and an EPUC index, including category C.

2.2 Index Calculation

All indices are constructed using the following procedure. Starting with the EPU index, let X_{it} denote the raw count of articles scaled by the total number of articles classified as EPU = 1 for each newspaper i in month t:

$$X_{it} = \frac{\text{Number of EPU articles}_{it}}{\text{Total number of articles}_{it}}$$

This scaling adjusts for differences in article volume across sources and over time. So, X_{it} denotes the scaled EPU frequency counts for each newspaper.

Next, we normalize X_{it} by its standard deviation σ_i:

$$Y_{it} = \frac{X_{it}}{\sigma_i}$$

where the standard deviation is calculated over a subsample T_1. We set T_1 to cover the period from September 2020 to June 2025 to ensure we use the same data availability for

all sources.

Then, we compute an aggregate monthly index Z_t as the cross-sectional mean of Y_{it}.

$$Z_t = \frac{1}{N_t} \sum_{i=1}^{N_t} Y_{it}$$

where N_t is the number of sources with data in month t.

Finally, we normalize the aggregate index to have a mean of 100 over the base period T_2:

$$EPU_t = Z_t \times \frac{100}{M}$$

where M is the mean of Z_t during the normalization period T_2. We set T_2 to expand from January to December 2024.

We also construct several other uncertainty indices, named by thematic categories. For example, we refer to EU as the index that excludes policy terms, namely category P. Similarly, we construct a broader index called EPUC that includes terms denoting national juncture, category C. Finally, we construct EPUC sub-indices that emphasize specific policies (fiscal, monetary, or trade) or economic conditions (COVID related or non-COVID related). We name these subs-indices as EPUC_k for $k = \{\text{fis}, \text{mon}, \text{trade}, \text{cov}, \text{non-cov}\}$[1].

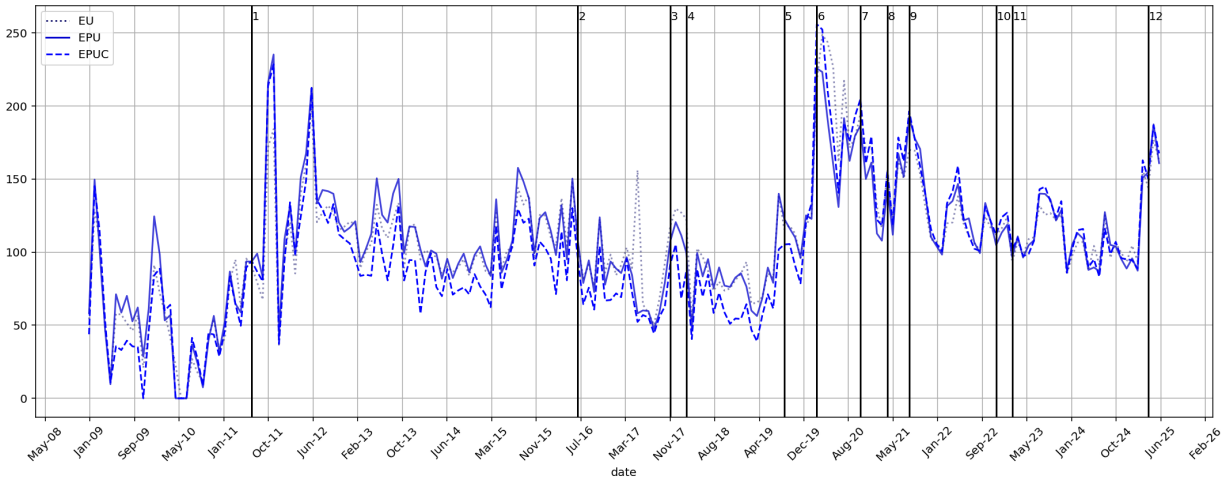
3 Data Description

The data is sourced through web-scraping from main newspapers and news outlets in Peru. Taking into consideration data accessibility, we select the following 6 sources: Diario Correo, El Comercio, Gestión, La Primera, Perú 21 and RPP.

The web scraping process yields a database of 614,412 news articles over the 2009 to mid-2025 period. Daily article counts and data availability vary significantly across sources, see Appendix. The monthly averages of EPU-classified articles show substantial variation across sources. Gestión contributes with the highest number of EPU articles (84.6 per month), followed by El Comercio (45.8).

[1]The labels fis, mon, and trade correspond to fiscal, monetary, and trade policy uncertainty, respectively. The labels cov and non-cov denote COVID-related and non-COVID-related uncertainty.

Figure 1: Uncertainty Indices and Major Events



Notes: Vertical lines indicate major political events: (1) Ollanta Humala presidency begins, (2) Pedro Pablo Kuczynski presidency begins, (3) First impeachment motion against Kuczynski, (4) Kuczynski's resignation, (5) Congress dissolution by Martin Vizcarra, (6) COVID-19 arrival and first lockdown, (7) Vizcarra's impeachment and political crisis, (8) 2021's presidential elections - first round, (9) Pedro Castillo presidency begins, (10) Castillo's announcement of Congress dissolution, (11) Castillo is held in preventive custody, (12) Global trade tensions and U.S. "Liberation Day" tariffs.

4 Results

This section presents the main results. First, we provide a historical analysis of the uncertainty levels around major events. Second, we estimate the impact of uncertainty shocks on the main Peruvian macroeconomic aggregates.

4.1 Historical analysis

Figure 1 presents our three main uncertainty indices: EPU, EU, and EPUC. All indices display similar dynamics, with the EPUC showing greater volatility due to its broader scope. The figure highlights the dates of major political events and the onset of the COVID-19 pandemic (vertical lines). We emphasize that all uncertainty indices reach their peaks around periods of significant political instability. Next, we provide a brief summary of the major political events from 2009 to 2025.

The first major political event was the election of Ollanta Humala as President in July 2011. Markets reacted negatively amid perceptions, reflected in news coverage, regarding potential changes in the economic policy framework during the early phase of the Humala's administration. The event coincided with a significant increase in uncertainty. Uncertainty eventually subsided as Humala's government adopted a center leaning approach. The second

major political event is the election of Pedro Pablo Kuczynski as President in July 2016. Following the start of President Kuczynski's administration, policy uncertainty indicators remained relatively subdued compared to previous periods.

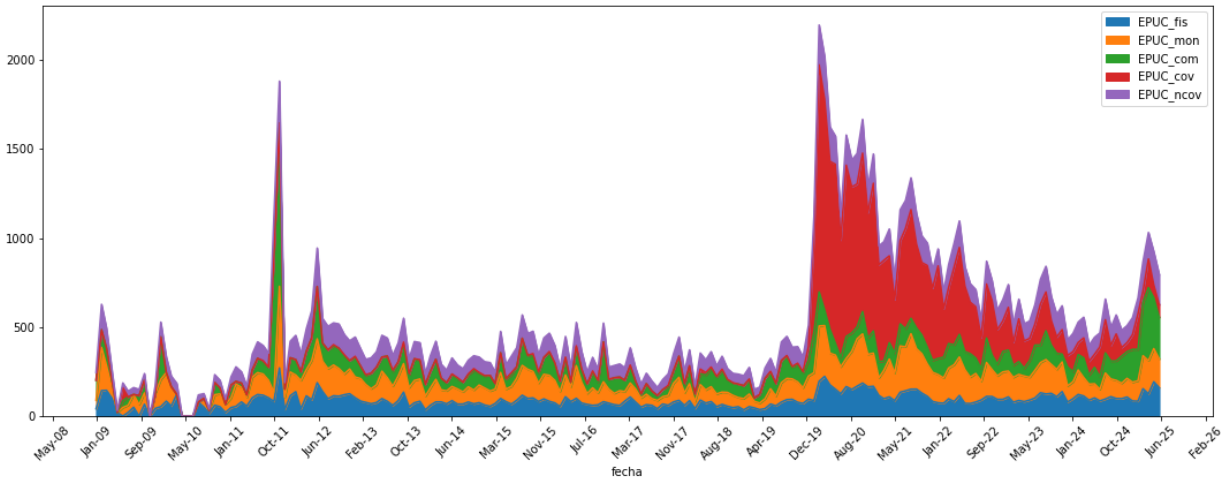
During Kuczynski's first half in office, political uncertainty resurfaced. Without control of Congress, his presidency faced a failed first impeachment motion in December 2017. The event was a start of a period of greater political instability and uncertainty. By March 2018, Kuczynski resigned amid corruption allegations. Kuczynski's first Vice-President, Martín Vizcarra, was appointed as president. Vizcarra's succession occurred around moderately levels of uncertainty. Political turmoil returned in September 2019, when President Vizcarra dissolved Congress. Uncertainty indices spiked the following month, suggesting a delayed but strong response to institutional disruption.

In March 2020, the COVID-19 pandemic reached Peru, triggering a sharp increase in uncertainty, particularly in the EPUC index which includes COVID-related terms. Following the confirmation of the first case, the government swiftly imposed a nationwide lockdown and a border closure. This period marked a shift from purely political uncertainty to COVID-induced uncertainty. Heightened political volatility returned in November 2020 when President Vizcarra was impeached and removed from office. His replacement, Manuel Merino, had a brief presidency amid social unrest. Soon after his resignation, Francisco Sagasti was appointed interim president. These events produced a noticeable spike across all uncertainty indicators, reflecting the magnitude of the institutional crisis.

Sagasti's first months in office saw a reduction in uncertainty, possibly reflecting the perception of greater political order and the final stages of the Pandemic (end of the lockdown and the beginning of the mass vaccination campaign). Yet, Peru's 2021 general elections introduced renewed uncertainty, particularly following the announcement of a runoff between Pedro Castillo and Keiko Fujimori. The peak in the uncertainty indicators reflect elevated concerns over the prospect of a Castillo's leftist government, which intensified after his inauguration on July 2021. These dynamics underscore the sensitivity of the economic system to ideological shifts and perceived governance risks.

Castillo's government was marked by protests, cabinet instability, and alleged links to extreme leftist groups. Following President Castillo's announcement to dissolve Congress, he was removed from office in accordance with constitutional procedures, triggering a sharp increase in policy uncertainty. First Vice-president, Dina Boluarte, was appointed president. These events were followed by social unrest, but did not trigger a substantial jump in

Figure 2: EPUC components



Notes: Fiscal EPUC (blue), Monetary EPUC (orange), Trade EPUC (green), COVID-related EPUC (red), Non-COVID related EPUC (purple).

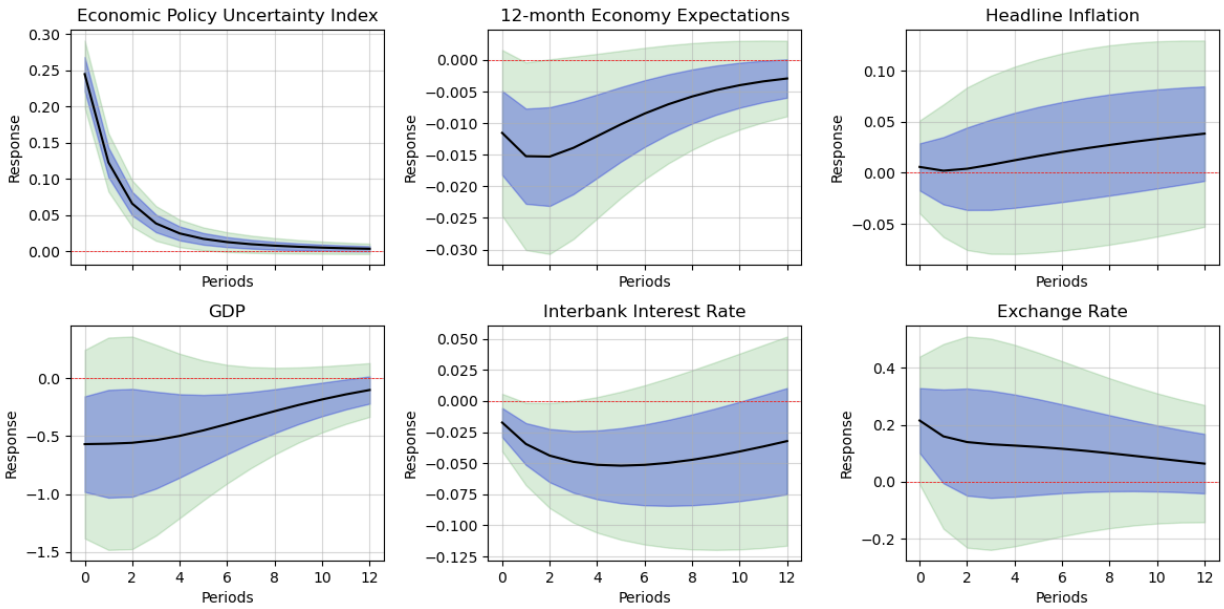
uncertainty. In March 2023, former president Castillo was held in preventive custody while being investigated for rebellion.

Finally, uncertainty increases again toward the end of the sample, reaching elevated levels around April 2025. This rise coincides with renewed domestic political tensions and a deterioration in the global policy environment, particularly following the announcement of the "Liberation Day" tariffs in the United States. The prospect of increased trade protectionism and disruptions to global trade flows contributed to heightened policy uncertainty.

Figure 2 plots the components of EPUC. The decomposition reveals the importance of COVID-induced uncertainty, which has clearly been dominant since the onset of the pandemic until the first half of 2022. The uncertainty indices for fiscal and monetary policy, EPUC_{fis} and EPUC_{mon}, tend to increase during periods of economic and financial turmoil. For example, peaks on both indicators at the beginning coincide with the onset of the 2008-2009 global financial crisis, the US Fiscal Cliff and European debt crisis of 2012, FED's taper tantrum of 2013, FED's tightening and China's slowdown of 2015, COVID-19 pandemic, and the global inflation surge and monetary tightening of 2021. Trade policy uncertainty, EPUC_{trade}, has played a minor role in Peru, except during the US-China trade war of 2018 and, more recently, Trump's tariff shock. It is worth mentioning that Non-COVID related uncertainty increased during two strong El Niño events, 2015 and 2023.

Overall, the analysis confirms a close link between political instability and spikes in uncertainty (Azzimonti, 2018; Baker *et al.*, 2023). The analysis also confirms the high levels

Figure 3: IRFs from benchmark model



Notes: Responses to one-standard-deviation EPU shock. Light blue (green) areas are 68% (95%) confidence bands. Confidence bands are computed using bootstrap simulations.

of uncertainty induced by the COVID-19 pandemic (Baker *et al.*, 2020; Caggiano *et al.*, 2020) and the global spillovers of uncertainty that often affect emerging markets (Bhattarai *et al.*, 2020; Miescu, 2023).

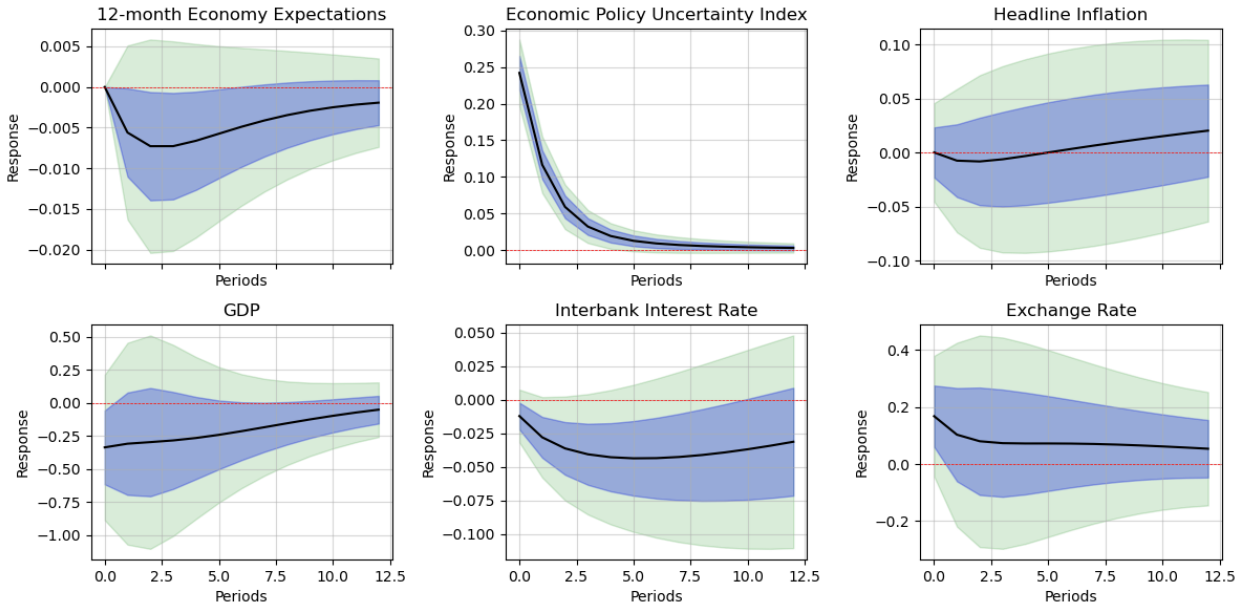
5 Impact on macroeconomic variables

We estimate the impact of uncertainty shocks on key macroeconomic aggregates using standard VAR models. The data is monthly and covers the period from August 2010 to mid-2025.[2] Our benchmark specification considers the following Peruvian macroeconomic variables: EPU, 12-month-ahead economic expectations, consumer price index, seasonally adjusted GDP, interbank interest rate in local currency, and foreign exchange rate (soles per US dollar). All variables, except the interbank interest rate, are logarithmically transformed. To ensure that the VAR is stationary, the consumer price index, GDP, and foreign exchange rate are entered as 12-month log differences multiplied by 100. Bayesian Information Criteria favor a one-lag specification. The identification of structural shocks is based on a Cholesky decomposition, with the uncertainty proxy ordered first following the standard assumption in the literature (Bloom, 2009; Baker *et al.*, 2016).

Figure 3 plots the impulse response function of our benchmark VAR together with the

[2]We omit the data from January 2009 to July 2010 due to some missing values.

Figure 4: IRFs with expectations ordered first



Notes: Responses to one-standard-deviation EPU shock. Light blue (green) areas are 68% (95%) confidence bands. Confidence bands are computed using bootstrap simulations.

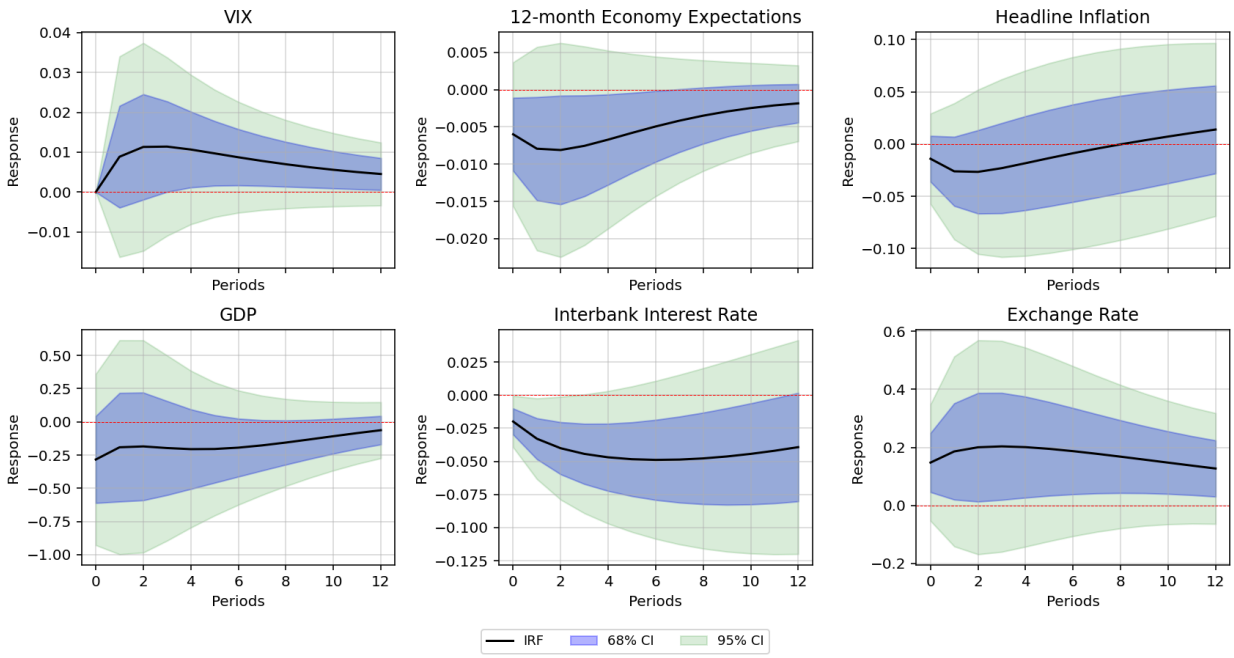
corresponding 68% and 95% confidence bands. A shock to Peru's EPU leads to contemporaneous declines in economic expectations and GDP and a slight and delayed increase in headline inflation, although the latter is not statistically significant.[3] The shock also induces an increase of the exchange rate and a decline in the interbank interest rate, which is consistent with the endogenous response of short-term rates to uncertainty shocks within the estimated VAR framework.

Our results highlight that uncertainty shocks are associated with simultaneous real and financial adjustments, as documented in the international literature. This may reflect several transmission mechanisms. On the macroeconomic side, agents opt to freeze their spending decisions, while the higher perceived risk affects domestic credit, both reducing aggregate demand (Bloom *et al.*, 2018; Christiano *et al.*, 2014; Choi *et al.*, 2024). On the financial side, agents reallocate their financial wealth to safer options, leading to capital outflows (Fernández-Villaverde *et al.*, 2011). The latter alters the functioning of the FX markets, generating the need for FX intervention against further financial instability (Gabaix and Maggiori, 2015).

Our benchmark results indicate that an important channel of transmission is economic expectations. Specifically, in the immediate aftermath of the shock, economic expectations

[3]This relatively muted and not statistically significant response of headline inflation may reflect counteracting supply-side and demand-side channels (Christiano *et al.*, 2014; Fernández-Villaverde *et al.*, 2015).

Figure 5: IRFs with VIX



Notes: Responses to one-standard-deviation EPU shock. Light blue (green) areas are 68% (95%) confidence bands. Confidence bands are computed using bootstrap simulations.

drop sharply, reflecting a surge in pessimism. This decline in confidence leads to reduced consumer spending and business investment as uncertainty clouds future prospects. This causal link between expectations (first-moment) and uncertainty (second-moment) has been subject to discussion (Jurado *et al.*, 2015; Ludvigson *et al.*, 2021). Given that our recursive identification scheme assumes uncertainty is more exogenous than expectations, next we discuss what happens if we reverse this order. Figure 4 plots the impulse responses assuming that economic expectations are ordered first and uncertainty second. Qualitatively, the results are similar to those of our benchmark specification. However, there is a reduction in the quantitative effects of uncertainty on GDP and the exchange rate, accompanied by a lower statistical significance. In light of this, we emphasize the need for a better identification scheme.

The uncertainty shocks identified in our benchmark specification possibly reflect global spillovers of uncertainty that often affect emerging markets (Bhattarai *et al.*, 2020; Miescu, 2023). To account for this possibility, we extended our benchmark VAR model to include indicators of external uncertainty such as the VIX – a real-time gauge of stock market volatility in the US – or the EPU index for the US, which enter individually into the VAR system as the most exogenous variable. The addition of the US EPU generates impulse

response functions that are almost identical to those of the benchmark VAR.[4] The addition of the VIX absorbs some of the effects of the local EPU. Specifically, the fall of GDP and the increase in the exchange rate in the VAR with VIX are almost halved relative to those obtained in the benchmark VAR.

6 Final remarks

Using a news database, we construct a novel Economic Policy Uncertainty (EPU) index for Peru. Our results show that fluctuations in the EPU capture both political and economic disruptions in recent Peruvian history. Standard VAR analysis confirms that uncertainty shocks are recessionary, leading to declines in aggregate output as well as currency depreciation and lower short-term interest rates.

Our analysis represents an important step towards better understanding and monitoring of economic policy uncertainty in Peru. Research focusing on a more robust identification of true uncertainty shocks is worth-taking. In addition, understanding the heterogeneity in the economy's responses to different sources of uncertainty remains a key empirical challenge.

As uncertainty is on the rise, tools for measuring and analyzing it become critical. The EPU's real-time availability and strong empirical relationships make it potentially useful for policy analysis. Moreover, in the context of elevated uncertainty, policies and communication strategies that improve predictability and reduce uncertainty about the future direction of policy can generate significant macroeconomic benefits.

[4] Given the minor differences, we do not report the impulse responses from the VAR model with US EPU, and the results are available upon request from the authors.

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A Data

The news database was obtained through web scraping by the Central Bank of Peru. This data is not public. The monthly macroeconomic data for Peru are sourced from the Central Reserve Bank of Peru. GDP is the seasonally-adjusted gross domestic product. Consumer prices are measured by the consumer price index for *Lima Metropolitana*, the interbank interest rate in the domestic currency is measured by the short-term interbank interest rate in soles, and the exchange rate is measured by the foreign exchange rate (soles per US dollar) in the interbank market. Peru's 12-month ahead economic expectations is measured by the *Índice de expectativas de la economía a 12 meses*. All series are public. The monthly averages of the VIX index and the Economic Policy Uncertainty (EPU) index are sourced from the FREDFED website.

B Tables

Table B.1: Dictionary

Category	**Theme**	**Words**
Economy (E)	–	Any word that starts with "econ"
Policy (P)	Fiscal	Minister of Economics and Finance, MEF, reform, tax, subsidy, tax system, taxation, tax collection, budget, public finances, fiscal stimulus, public investment, fiscal policy, public expenditure, fiscal expenditure, governmental expenditure, deficit, sovereign bonds, sovereign debt, public debt, external debt, public indebtedness, government indebtedness, governmental indebtedness, social safety net, social security, ESSALUD, Petroperú
	Monetary	BCRP, BCR, Central Bank, Central Reserva Bank, monetary policy, inflation, inflationary, interest rates, exchange rate, dollar, Federal Reserve, FED
	Trade	Trade agreements, trade policy, trade law, TLC, free trade agreement, international trade, tariffs, customs, imports, exports, *dumping*
Uncertainty (U)	–	Any word that starts with "uncert", instability, unstable, volatile, risk, risky, crisis
Economic conditions (C)	COVID	coronavirus, virus, corona, covid, covid19, covid-19, pandemic, lockdown, quarantine, vaccine
	No COVID	Peru, country, social unrest, strike, protest, AFP, pensions, crisis, referendum, constitution, constitutional assembly, El Niño, La Niña, drought, illegal mining, informal mining.

* The dictionary accounts for variations in spelling, capitalization, and diacritics. The terms included in the dictionary are used solely for text-classification purposes and do not imply any assessment of specific policies, reforms, or institutions.

Table B.2: Descriptive Statistics of News Database

Statistic	**Correo**	**El Comercio**	**Gestión**	**La Primera**	**Perú 21**	**RPP**
Total articles	23435	136431	202965	17362	109795	124424
Daily average	13.4	26.9	41.9	9.4	22.3	20.7
Monthly average	404.1	817.0	1268.5	284.6	677.7	628.4
Daily standard deviation	13.2	18.3	21.0	5.1	36.3	11.8
Daily minimum	0	0	0	0	0	0
Daily maximum	70	106	138	28	1866	173
Monthly average EPU=1	10.4	45.8	84.6	5.7	18.4	20.2
Sample period	2020-09-11 — 2025-06-30	2011-08-17 — 2025-06-30	2012-03-29 — 2025-06-30	2020-06-02 — 2025-06-30	2012-01-01 — 2025-06-30	2009-01-01 — 2025-06-30

Table B.3: Data coverage by source

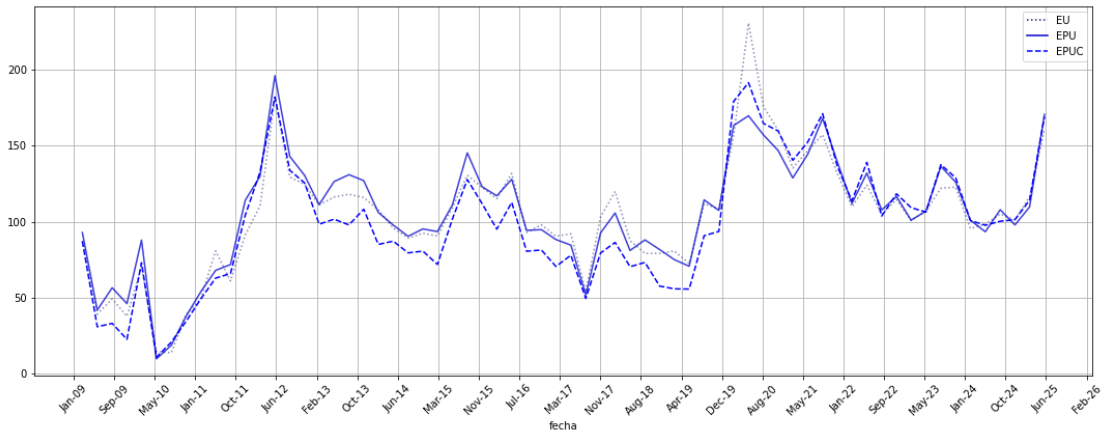
Newspaper	**Initial date**
Diario Correo	september 11th, 2020.
El Comercio	august 17th, 2011.
Gestión	march 29th, 2012.
La Primera	june 2nd, 2020.
Perú 21	january 1st, 2012.
RPP	january 1st, 2009.

Table B.4: Descriptive Statistics of Uncertainty Indices

Index	**EU**	**EPU**	**EPUC**
Minimum	0	0	0
Maximum	235.21	248.73	255.99
Standard deviation	41.79	41.82	46.42

C Figures

Figure C.6: Quarterly Uncertainty Indicators



Notes: Monthly indices are transformed into quarterly frequency by simple average.

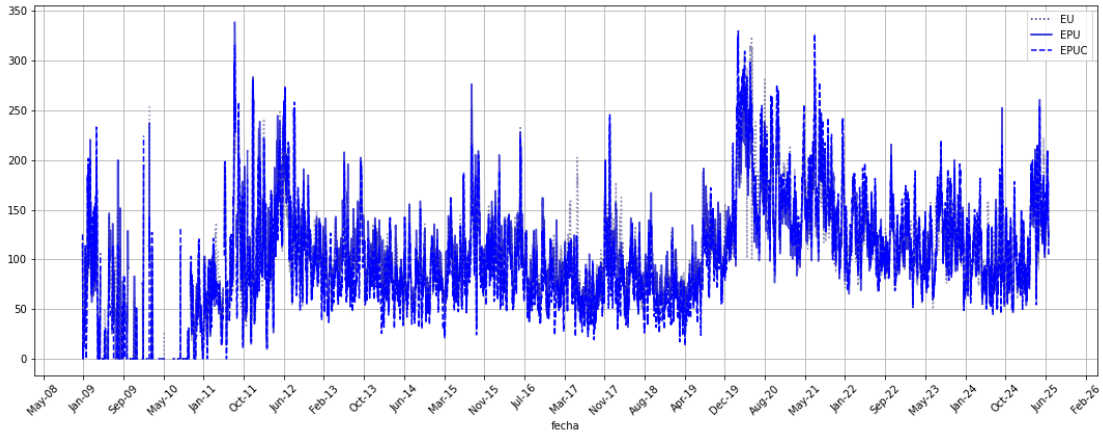



Figure C.7: Daily Uncertainty Indicators (7-day moving average)