



27th Annual DNB Research Conference

The Macroeconomic Effects of Geopolitical Uncertainty

DeNederlandscheBank

EUROSYSTEM



Discussion of “The Price of War”

Federle, Meier, Müller, Mutschler, and Schularick

Marco Pinchetti

Bank of England and CfM

DNB Annual Conference

21st November 2024

The views expressed in this presentation are those of the author and do not necessarily represent the views of the Bank of England.

Recap

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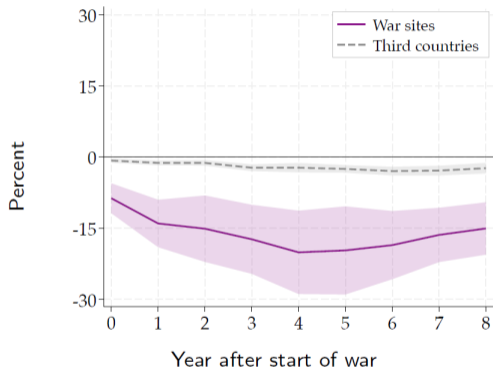
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▶ Contribution

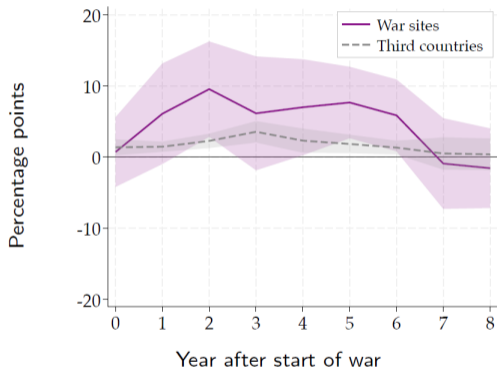
Empirical evaluation of international spillovers of wars

Main Result

Output



Inflation



Preview of Comments

- ▶ **Comment #1**

Are Wars All Alike?

- ▶ **Comment #2**

The International Transmission of Supply Shocks

- ▶ **Comment #3**

Multiple Equilibria

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- ▶ Think of Russia-Ukraine vs. China-Taiwan
- ▶ Impact of wars might depend on nature of disruptions → **different macro implications**
- ▶ Great occasion to promote my recent paper on "Geopolitical Risk and Inflation" (2024)

Geopolitical Risk and Inflation: The Role of Energy Markets

Marco Pinchetti

¹Bank of England & CfM

Comment # 1: Are Wars All Alike?

- ▶ Very close connection between war developments and geopolitical risk indices
 - * GPR index mainly captures (i) wars, (ii) international crises, and (iii) terror attacks

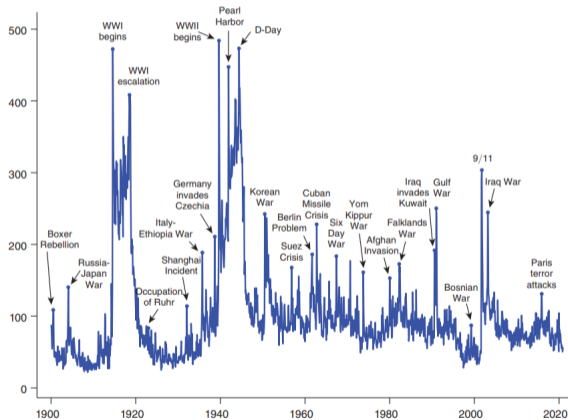


FIGURE 3. HISTORICAL GPR INDEX FROM 1900

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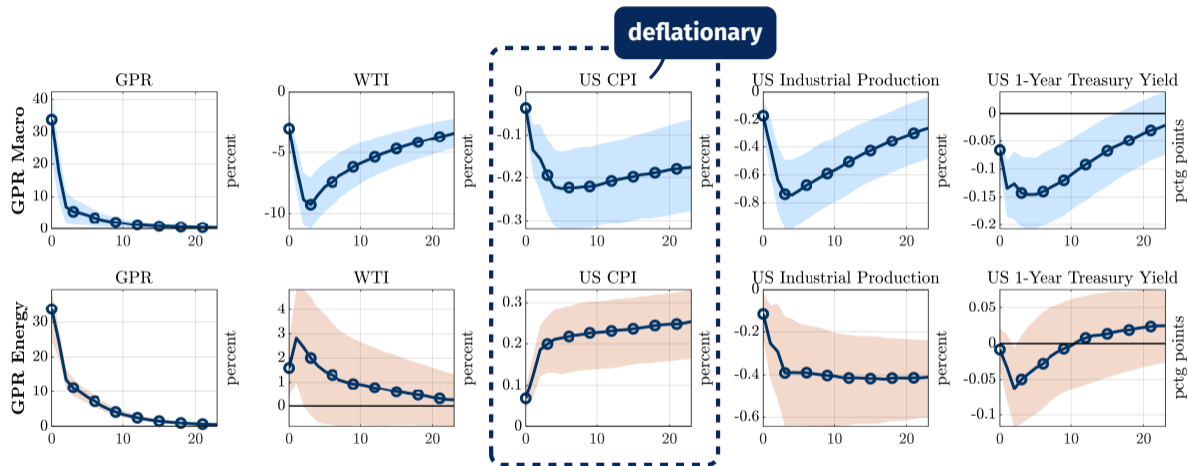
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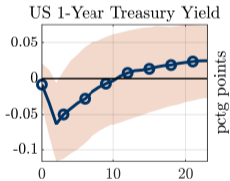
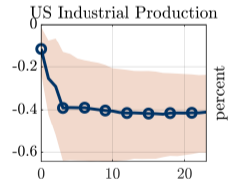
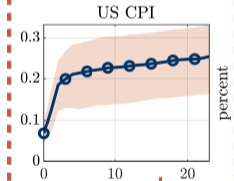
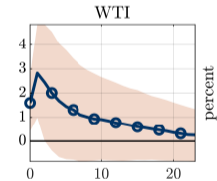
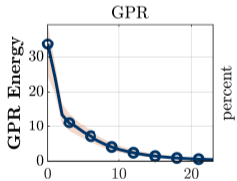
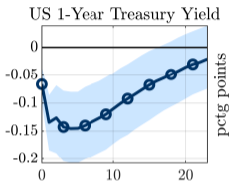
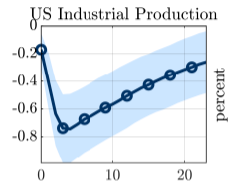
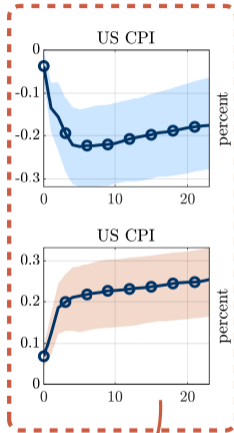
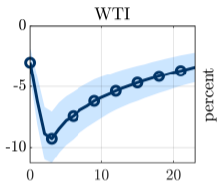
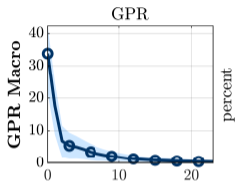
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- ▶ **Challenge:** How to disentangle the effect of these two different shocks?
- ▶ **Solution:** sign restrictions on daily variation of GPR and oil prices around geopolitical events
 - * [in the spirit of Jarocinski and Karadi 2020]
- ▶ **Takeaway:** Distinct classes of geopolitical shocks lead to different consequences for inflation

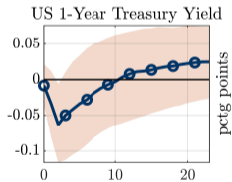
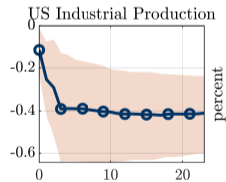
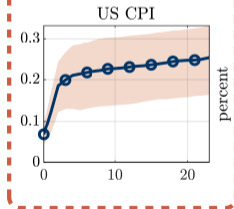
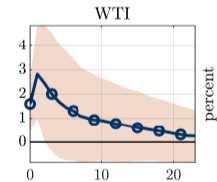
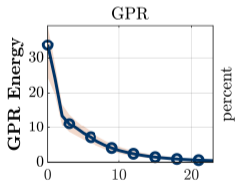
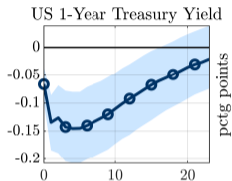
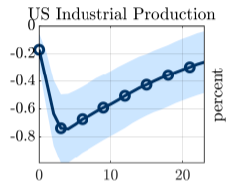
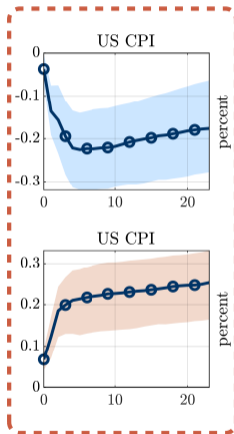
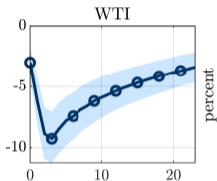
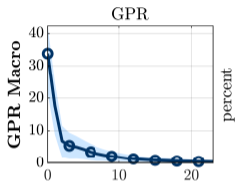
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► Sign restrictions might help isolate demand forces from the supply component in war shocks

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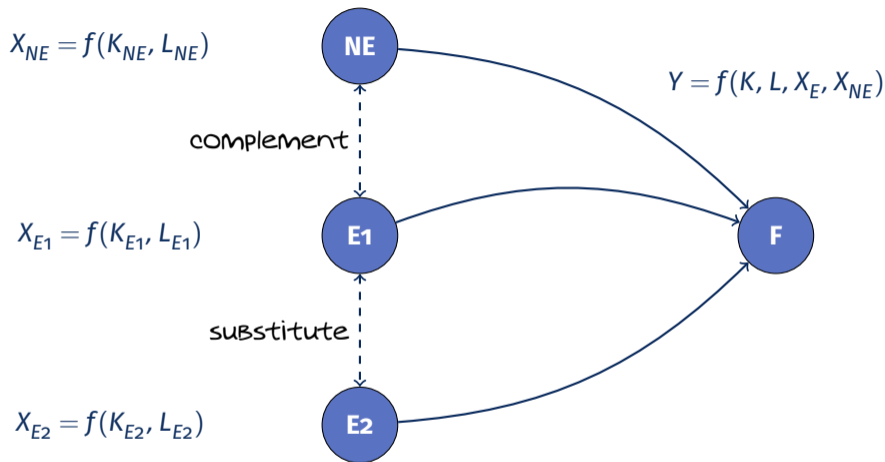
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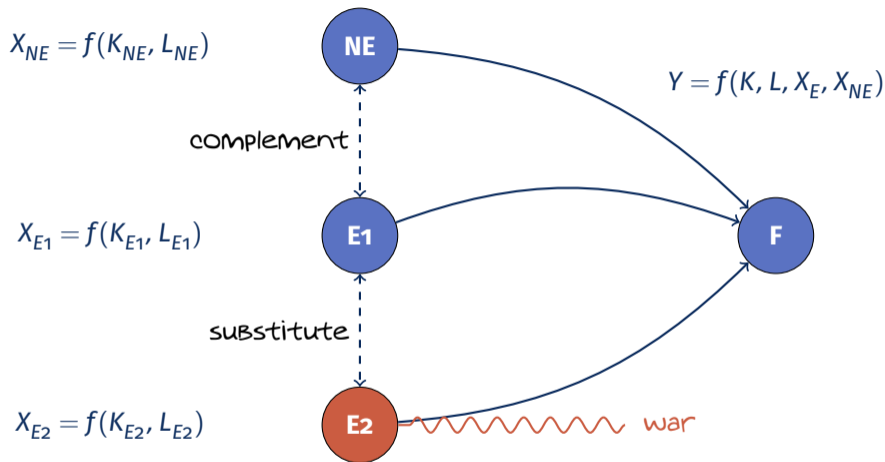
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- ▶ Due to complementarities, supply shocks can at times transmit via demand channels
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- ▶ To illustrate this point, let me focus on complementarities in the production network
 - * Corsetti, D'Aguanno, Dogan, Lloyd, and Sajedi (2023)

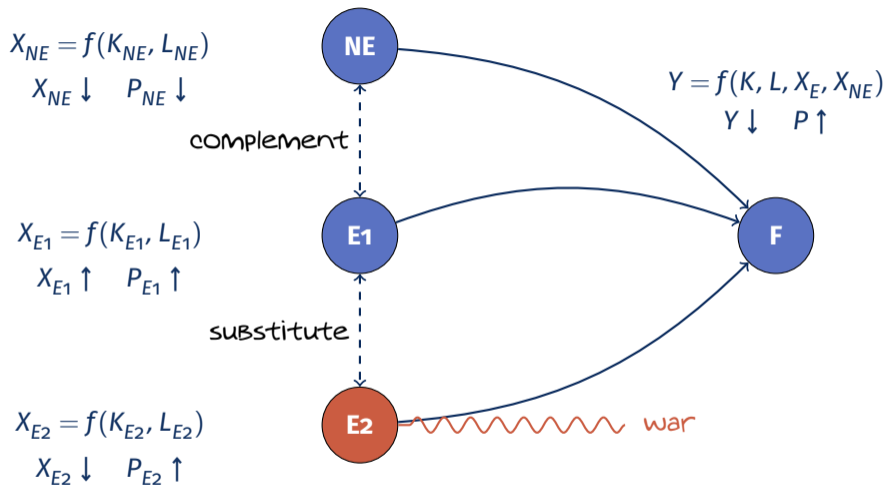
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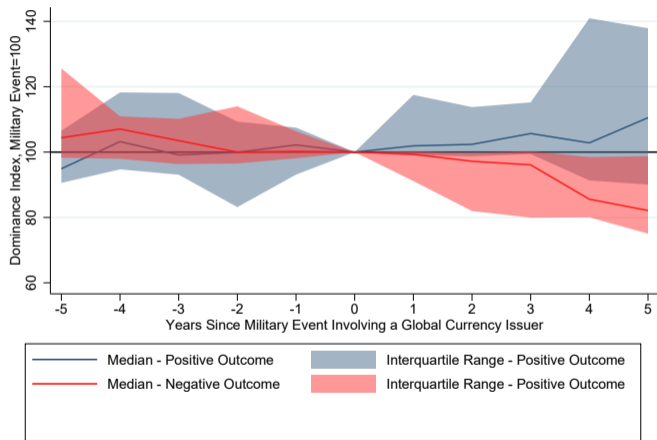
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- ▶ I wonder whether this form of heterogeneity can be studied in the cross-section
 - * this might contribute to shed light on the transmission mechanism of these shocks
- ▶ Interaction of country-pair fixed effects with war shock in local projections specification

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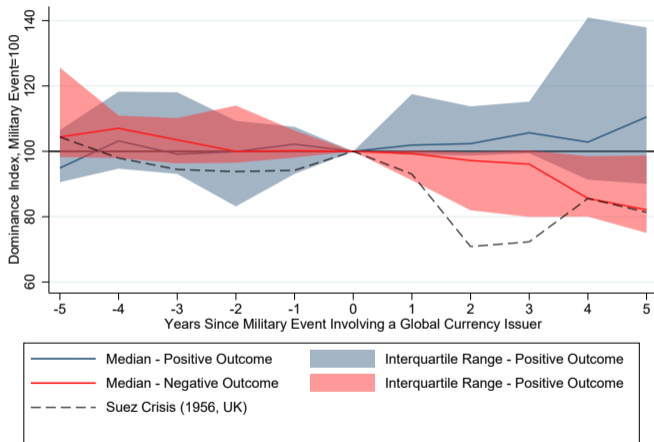
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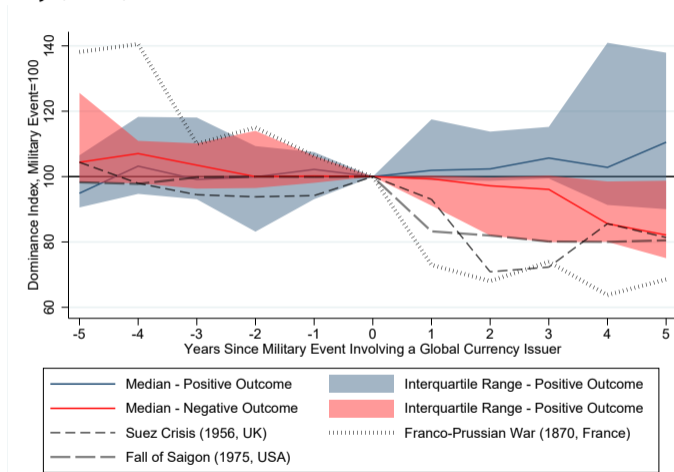
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- ▶ Significant contribution to the literature on the macroeconomic effects of wars
- ▶ Novel and exciting field
- ▶ Great paper - I look forward to seeing it published