

## IMF Working Paper

Western Hemisphere Department

### The Macroeconomic Impact of Social Unrest

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#### Abstract

This paper explores the macroeconomic impact of social unrest, using a novel index based on news reports. The findings are threefold. First, unrest has an adverse effect on economic activity, with GDP remaining on average 0.2 percentage points below the pre-shock baseline six quarters after a one-standard deviation increase in the unrest index. This is driven by sharp contractions in manufacturing and services (sectoral dimension), and consumption (demand dimension). Second, unrest lowers confidence and raises uncertainty; however, its adverse effect on GDP can be mitigated by strong institutions and by a country's policy space. Third, an unrest "event", which is captured by a large change in the unrest index, is associated with a 1 percentage point reduction in GDP six quarters after the event. Impacts differ by type of event: episodes motivated by socio-economic reasons result in sharper GDP contractions compared to those associated with politics/elections, and events triggered by a combination of both factors lead to sharpest contractions. Results are not driven by countries with adverse growth trajectories prior to unrest events or by fiscal consolidations, and are robust to instrumenting via regional unrest.

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## Contents

<b>I. Introduction</b>	<b><a href="#">3</a></b>
<b>II. Literature And Motivation</b>	<b><a href="#">4</a></b>
<b>III. Data And Methodology</b>	<b><a href="#">5</a></b>
A. Social Unrest Data	<a href="#">5</a>
B. Macroeconomic Data and Sample	<a href="#">8</a>
C. Econometric Approach	<a href="#">10</a>
<b>IV. Results</b>	<b><a href="#">11</a></b>
A. Impact Based on The Unrest Index (RSUI)	<a href="#">11</a>
B. Role of Institutions and Policy Space	<a href="#">14</a>
C. Impact Based on “Events” of Unrest	<a href="#">15</a>
D. Impact of Different Type of Unrest Events	<a href="#">16</a>
E. Addressing Reverse Causality and Endogeneity Concerns	<a href="#">17</a>
<b>V. Conclusions</b>	<b><a href="#">25</a></b>

### Figures

1. Frequency of Unrest Events	<a href="#">3</a>
2. RSUI in Selected Economies	<a href="#">8</a>
3. Impact of Social Unrest on GDP	<a href="#">12</a>
4. Impact of Social Unrest on Economic Sectors	<a href="#">13</a>
5. Impact of Social Unrest on Demand Components	<a href="#">13</a>
6. Impact of Social Unrest on Confidence and Uncertainty	<a href="#">14</a>
7. Impact of Social Unrest on GDP Across Country Groups	<a href="#">14</a>
8. Impact of Social Unrest Conditional on Institutions and Policy Space	<a href="#">15</a>
9. Impact of RSUI-implied Unrest Events on GDP	<a href="#">16</a>
10. Impact of Different Types of Events on GDP	<a href="#">16</a>
11. Growth Distribution Around New Events	<a href="#">18</a>
12. Impact of Social Unrest on GDP After Controlling for Prior Adverse Growth Events ( <i>Response to growth and social unrest events</i> )	<a href="#">20</a>
13. Impact of Social Unrest on GDP After Controlling for Prior Adverse Growth Events ( <i>Response to a one st.dev. shock to the RSUI</i> )	<a href="#">21</a>
14. Impact of Social Unrest on GDP After Controlling for Fiscal Consolidations	<a href="#">22</a>
15. Impact of Social Unrest on GDP, Instrumental Variables Approach ( <i>Response to a one st.dev. shock to the RSUI</i> )	<a href="#">24</a>
16. Impact of Social Unrest on GDP, Instrumental Variables Approach ( <i>Response to a new RSUI-Implied event</i> )	<a href="#">25</a>

### Tables

1. Article Search Criteria	<a href="#">6</a>
2. Sample	<a href="#">9</a>

<b>References</b>	<b><a href="#">27</a></b>
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<b>Annexes</b>	<b><a href="#">29</a></b>
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A. The Role of Structural Factors	<a href="#">29</a>
B. Instrumental Variables Strategy Using GDP Weights	<a href="#">30</a>