

ECONOMIC POLICY UNCERTAINTY AND MACROECONOMIC PERFORMANCE: A SYSTEMATIC REVIEW OF GROWTH, INVESTMENT, FINANCE, AND TRADE

Mr. Ghulam Mustafa Shaikh^{*1}, Mr. Zafar Ali Sahto², Mr. Sajjad Jan Muhammad Khuhro³,
Ms. Faiza Ali⁴

^{*1}Assistant Professor and Chairman, Department of Management & Administrative Sciences, the University of Larkano,

²ANE/CMO/DD News & CA, Pakistan Broadcasting Corporation.

³Relationship Officer, OG III National Bank of Pakistan, SAPID 29123

⁴MS Scholar, SZABIST University Larkana Campus

^{*1}gmsshaikh@uolrk.edu.pk

Corresponding Author: *

Mr. Ghulam Mustafa Shaikh

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ABSTRACT

Economic policy uncertainty (EPU) has become a key macroeconomic issue during a time of frequent financial crises, geopolitical tensions, and global pandemics. A rapidly expanding body of literature documents that uncertainty surrounding fiscal, monetary, regulatory, and trade policies can significantly influence macroeconomic performance. However, existing evidence remains fragmented across countries, disciplines, and transmission mechanisms. This study provides a systematic review of the literature on economic policy uncertainty and economic growth, with a particular focus on key transmission channels, including investment, financial markets, and the external sector. Following a PRISMA-aligned review protocol, peer-reviewed studies indexed in Web of Science and Scopus were systematically identified, screened, and synthesized. The review indicates a strong consensus that increased economic policy uncertainty typically reduces economic growth. This relationship operates largely through reduced private and public investment, heightened financial market volatility, and weakened external sector performance via lower trade openness and exchange rate instability. The evidence further indicates that emerging economies experience more pronounced growth effects due to institutional fragility and greater exposure to external shocks. By integrating dispersed empirical findings within a unified analytical framework, this review advances understanding of the macroeconomic consequences of policy uncertainty and highlights the importance of predictable and transparent policy environments. The study concludes with policy implications for macroeconomic stabilization, investment promotion, financial market resilience, and international trade policy, and proposes directions for future research.

Keywords: economic policy uncertainty; economic growth; investment channel; financial markets; external sector; trade openness

1. Introduction

Economic growth is very important for every country because it helps people earn more money get jobs and live a better life Governments always want the economy to grow so people can live comfortably Old growth theories say that saving money new technology and good systems help

growth But now many researchers also say that uncertainty is also very important In recent years events like financial crisis trade problems covid and political fights have increased worry about government policies (Aghion et al.,2014; Bloom, 2009).

Economic policy uncertainty means when people are not sure what government will do about taxes interest rates rules and trade policies When policies are not clear people feel confused and scared Businesses investors and families lose confidence Because of this they delay spending and investment decisions After the economic policy uncertainty index was introduced many studies started checking its effects These studies show that high uncertainty usually slows economic growth reduces investment and makes markets unstable (Baker et al., 2016).

The relationship between policy uncertainty and economic growth is indirect; it has a wide range of effects, mostly on investment, financial markets, and trade. When uncertainty increases, corporations prefer to delay investment because it is difficult to reverse. Many studies suggest that both private and public investment declines during uncertain times. This lowers demand and hinders long-term growth (Gulen & Ion, 2016; Jurado et al., 2015).

Financial markets are another significant mechanism via which uncertainty affects the economy. When policies are unclear, stock markets go up and down significantly. Investors sense increased risk and demand higher returns. Asset prices also decline. As a result, businesses struggle to obtain loans and investment. This strengthens economic fluctuations. In recent years, markets have reacted quickly to government policy news (Bloom, 2009; Dixit & Pindyck, 1994).

The external sector contributes to the negative consequences of policy uncertainty, particularly in open economies. When trade rules and procedures are unclear, exports decline and overseas contracts are delayed. Exchange rates also fluctuate quite quickly. This affects global supply lines and decreases trade openness. These consequences are higher in developing nations, which rely more on exports and foreign investment (Gulen & Ion, 2016; Kang et al., 2023).

Despite the large number of studies on economic policy uncertainty, the research is still poorly integrated. While some studies examine investment financial markets or commerce independently, others exclusively concentrate on direct implications on growth. As a result, the overall picture is unclear (Pastor & Veronesi, 2012; Phan et al., 2021).

Due to this issue, this paper provides a systematic evaluation of research on economic growth, economic policy uncertainty, and key channels such as trade, financial markets, and investment. This review provides a deeper understanding by integrating theory results and methodologies. Additionally, it identifies areas of agreement between studies and regions that require further investigation (Handley & Limao, 2017; Caldara et al, 2020).

This review makes three main contributions. First, it brings together widely scattered empirical evidence regarding the impact of economic policy uncertainty on growth into a cohesive analytical framework. Second, it explicitly incorporates various transmission mechanisms—such as investment, financial markets, and international trade—thus advancing beyond analyses that focus on a single channel. Third, the review offers insights that are relevant to policy, especially concerning trade openness and macroeconomic stabilization, by emphasizing the significance of transparent and predictable policy environments in alleviating the negative effects of uncertainty on economic growth.

2. Conceptual Background and Theoretical Framework

2.1 Economic Policy Uncertainty: Concept and Measurement

Economic policy uncertainty means how unsure people are about future government decisions related to taxes, money, rules, and trade policies It is different from general uncertainty because it is directly linked to government actions. This is very important in countries where policies change again and again. The idea comes from expectation theory, which says people make decisions based on trust and clarity of policies The development of text-based uncertainty indexes helped researchers a lot. These indexes count uncertain policy words in newspapers to measure uncertainty. This helps compare countries and time periods. Because of this many studies now examine how policy uncertainty affects economies

2.2 Theoretical Link between Economic Policy Uncertainty and Economic Growth

From theory policy uncertainty affects growth by increasing fear and risk When uncertainty is high

people save more and spend less because they worry about future. This reduces demand and slows economic growth.

Growth theories also say uncertainty affects innovation productivity and skills. When policies are not clear, firms reduce spending on research and delay new technology. This slows productivity growth over time. These ideas show that long term uncertainty can damage growth not only for short time but for many years.

2.3 External Sector and International Trade Channel

The external sector is another important way policy uncertainty affects growth, especially in open economies. When trade policies, taxes, rules, and international agreements are not clear, exporters and importers face problems. Businesses involved in international trade have high costs and long planning periods so they are more sensitive to uncertainty.

Trade policy uncertainty can discourage firms from entering export markets, delay cross-border contracts, and disrupt global value chains. Moreover, heightened EPU is often associated with increased exchange rate volatility and unstable capital flows, which can undermine trade competitiveness and reduce trade openness. These effects are especially pronounced in emerging economies, where exports and foreign investment play a central role in growth strategies.

2.4 Integrated Conceptual Framework

Based on the discussion above, this study uses a combined framework to explain how economic policy uncertainty affects economic growth. Policy uncertainty affects growth directly and indirectly through investment, financial markets, and the external sector. These channels are connected and can strengthen each other. For example, unstable financial markets can increase investment delays, and trade problems can reduce investor confidence.

This framework helps in organizing past research and finding missing areas in the literature. By studying different countries' time periods and systems, it gives a clearer picture of how policy uncertainty affects the economy. It also helps policymakers design better policies to stabilize growth and improve trade.

3. Methodology of the Systematic Review

3.1 Review Design

This study adopts a systematic literature review (SLR) approach to synthesize existing research on the relationship between economic policy uncertainty, economic growth, and key transmission channels, including investment, financial markets, and the external sector. The SLR methodology was selected to ensure transparency, replicability, and methodological rigor in line with best practices for evidence synthesis in economics and social sciences. Unlike narrative reviews, the systematic approach minimizes selection bias and provides a structured framework for identifying, screening, and analyzing relevant studies.

The review process follows the general principles of the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework, which has increasingly been adopted in economics and finance research to enhance the credibility and clarity of review studies.

3.2 Data Sources and Search Strategy

To understand this literature, studies describe systematic databases considering web of science, major collection, and Scopus. The databases were chosen due to large coverage of peer-reviewed journals of finance and economics-related studies.

This strategy shows a combination of keywords related to economic policy uncertainty and macroeconomics results. Relevant search terms include combinations of economic policy doubtfulness, policy uncertainty, economic evolution, investment, financial markets, stock market, trade, external sector, and trade openness. Boolean operators were exploited to improve the search and acquiring changing nomenclature across past studies. The research was narrow to articles publicized in journals to ascertain academic attributes.

3.3 Inclusion and Exclusion Criteria

Clear inclusion and exclusion criteria were applied to ensure consistency and relevance of the selected studies. Studies were included if they met the following conditions:

1. Examined economic policy uncertainty as a primary explanatory variable or key component of uncertainty.
2. Investigated economic growth or at least one major transmission channel, including

investment, financial markets, or the external sector.

3. Employed empirical, theoretical, or review-based methodologies relevant to macroeconomic analysis.

4. Were published in peer-reviewed journals indexed in Web of Science or Scopus.

5. Were written in English. These studies were excluded if they focused solely on firm-level uncertainty unrelated to policy, lacked a clear macroeconomic or transmission-channel perspective, or were unpublished working papers, conference proceedings, or non-peer-reviewed reports.

3.4 Study Selection Process

The study selection process was conducted in multiple stages. First, titles and abstracts of all retrieved articles were screened to eliminate clearly irrelevant studies. Second, full-text versions of potentially relevant articles were reviewed to assess their alignment with the inclusion criteria. Any ambiguities were resolved through careful examination of research objectives, variables, and empirical focus.

This multi-stage screening process ensured that only studies directly relevant to the research scope were included in the final review sample. The overall procedure enhances the reliability of the synthesis and reduces the likelihood of subjective bias.

3.5 Data Extraction and Synthesis

Relevant data, such as publication year, country or region of analysis, methodological approach, data frequency, measures of economic policy uncertainty, and important findings about economic growth and transmission channels, were methodically extracted for each chosen study. To make it easier to compare and synthesize findings from different studies, this data was arranged into organized summary tables. Using a thematic approach, the synthesis grouped studies based on their main focus, which included the direct effects of economic policy uncertainty on growth, financial market channels, investment-related transmission mechanisms, and external sector effects. This method made it possible to find recurring themes, points of agreement, and areas where the literature differed. The synthesis followed a thematic approach, grouping studies according

to their primary focus: direct effects of economic policy uncertainty on growth, investment-related transmission mechanisms, financial market channels, and external sector effects. This approach allowed for identification of common patterns, areas of consensus, and sources of divergence within the literature.

3.6 Quality Assessment and Methodological Trends

To assess the robustness of the reviewed literature, attention was given to methodological characteristics such as econometric techniques, data coverage, and treatment of nonlinearity and asymmetry. Studies employing advanced methods—such as vector autoregression models, autoregressive distributed lag models, nonlinear and asymmetric frameworks, and dynamic panel techniques—were examined separately to identify methodological trends and innovations.

This quality-focused assessment supports a more nuanced interpretation of empirical findings and highlights how methodological choices may influence reported relationships between economic policy uncertainty and macroeconomic outcomes.

3.7 Limitations of the Review Methodology

Limitations of review methodology: it enhances the main objective of the study in terms of research findings and research objectives, it reduces the bias in the studies and reporting statistically the results.

4. Economic Policy Uncertainty and Economic Growth: Empirical Evidence and Transmission Channels

4.1 Direct Effects of Economic Policy Uncertainty on Economic Growth

The study shows the negative relationship between economic uncertainty and economic growth in emerging and developed economies. Uncertainty leads to suppressing aggregate demand and supply and reducing productivity activities.

A recent study describes that the increase in EPU is associated with slower GDP growth, specifically in terms of stability during pandemics and financial crises.

Recent studies show that on the basis of empirical uncertainty produce functionary affects by increasing precautionary behavior among households and firms, which reduces the

economic momentum. Significantly, new studies describe that the growth influence EPU is frequently state-dependent, with fortified negative accord during recessions and times of financial tension or strain

Moreover, evidence suggests that emerging economies tend to experience more pronounced growth slowdowns in response to policy uncertainty than advanced economies. This asymmetry reflects weaker institutional frameworks, higher dependence on external financing, and greater exposure to volatile capital flows. As a result, policy uncertainty can have long-lasting consequences for growth trajectories in developing regions.

4.2 Investment Channel

A more crucial framework for connecting economic policy and uncertainty to economic growth is the investment channel. Overhead EPU causes a fundamental decline in both public and private investment, as experimental acquisition consistently demonstrates. In accordance with real options theory, firms respond to uncertain policy by delaying or canceling permanent capital expenditures. A recent study describes how uncertainty affects long-term, capital-intensive projects, such as manufacturing, infrastructure, and export-oriented industries, using firm-level and macro-level analysis. As a result, capital accumulation is decreased by this decline in investment. and weak economic growth and productivity, it eventually demonstrates economic expansion. In a recent study, firm-level and macro-level analysis describes the uncertainty effects the long term and capital-intensive projects, which include infrastructure, manufacturing, and export-based industries. Resultant this contraction in investment reduces capital accumulation. and weak the economic productivity and growth it ultimately shows the shows economic expansion.

Additionally, public investment also affects policy uncertainty, especially in countries with fragile fiscal frameworks. The government is facing uncertain revenue prospects and political constraints my delay infrastructure projects. The literature shows the and identify the investment as the dominant transmission channel through which EPU undermines economic performance.

4.3 Financial Market Channel

Financial Market Channel Mechanisms play an important and pathway through which economic policy uncertainty affects economic growth. Literature shows that EPU increases market volatility rises risk premiums, and depresses asset pricing. These direct responses directly influence real economic activities by increasing the cost of capital and restricting firms' access to external finance

Recent evidence demonstrates that uncertainty-driven financial market disruptions weaken corporate balance sheets and constrain bank lending. Tighter credit conditions reduce investment and consumption, reinforcing macroeconomic downturns. In this way, financial markets act as an amplifier of uncertainty shocks, transmitting policy-related disturbances from the financial sector to the real economy.

Furthermore, studies indicate that financial market sensitivity to EPU has intensified in recent years, reflecting greater market integration and faster information transmission. This heightened responsiveness underscores the growing importance of financial stability policies in mitigating the growth consequences of uncertainty.

4.4 External Sector and International Trade Channel

The external sector represents a critical transmission channel linking economic policy uncertainty to economic growth, particularly in open economies. Trade-related uncertainty affects export participation, import decisions, and cross-border investment by increasing the perceived risks associated with international transactions.

Recent studies provide robust evidence that policy uncertainty reduces export growth by discouraging firms from entering foreign markets and delaying trade contracts. Heightened uncertainty also disrupts global value chains, as firms reconfigure production networks to manage risk. These effects are especially pronounced in emerging economies, where exports and foreign investment play a central role in growth strategies.

In addition, economic policy uncertainty is associated with increased exchange rate volatility and unstable capital flows, which further weaken trade competitiveness. Exchange rate instability raises transaction costs and reduces the

predictability of export revenues, thereby dampening trade openness. Through these mechanisms, uncertainty in domestic and global policy environments can significantly constrain external-sector-driven growth.

4.5 Interactions among Transmission Channels

The literature increasingly emphasizes that the transmission channels of economic policy uncertainty are interdependent rather than isolated. Financial market volatility can exacerbate investment delays, while trade disruptions can weaken financial stability and investor confidence. These interactions generate reinforcing effects that magnify the overall growth impact of uncertainty shocks.

For example, uncertainty-induced declines in exports can weaken firm profitability, which in turn tightens financial conditions and further suppresses investment. Such feedback loops highlight the importance of adopting an integrated analytical perspective when assessing the macroeconomic consequences of policy uncertainty.

4.6 Summary of Empirical Evidence

Overall, the empirical literature converges on the conclusion that economic policy uncertainty exerts a predominantly negative influence on economic growth. While the magnitude of effects varies across countries and methodologies, consistent evidence identifies investment, financial markets, and the external sector as the principal transmission mechanisms. These findings underscore the macroeconomic importance of stable and predictable policy frameworks, particularly for economies pursuing growth through investment-led and export-oriented strategies.

5. Methodological Trends and Empirical Approaches in the Economic Policy Uncertainty–Growth Literature

5.1 Time-Series and Country-Specific Studies

Early empirical research on economic policy uncertainty primarily relied on country-specific time-series models to examine the dynamic effects of uncertainty on macroeconomic activity. Vector autoregression (VAR)

frameworks were widely used to capture the short- and medium-term responses of output, investment, and financial variables to uncertainty shocks. These studies provided initial evidence that uncertainty shocks generate contractionary effects on economic growth and investment.

More recent time-series research has adopted autoregressive distributed lag (ARDL) models to examine both short-run and long-run relationships between economic policy uncertainty and economic growth. ARDL-based approaches are particularly attractive for small-sample contexts and mixed-order integration properties, making them widely applied in emerging economy studies. These models have improved understanding of the persistence of uncertainty effects and their long-term implications for growth.

5.2 Nonlinear and Asymmetric Modeling Approaches

A notable methodological development in the literature is the increasing use of nonlinear and asymmetric models. Researchers have recognized that the macroeconomic effects of uncertainty may differ across economic regimes and types of shocks. As a result, nonlinear autoregressive distributed lag (NARDL) models have been employed to distinguish between positive and negative changes in economic policy uncertainty. These studies reveal that increases in uncertainty often exert stronger contractionary effects on growth than the expansionary effects associated with declining uncertainty. This asymmetry highlights the importance of considering nonlinear dynamics when evaluating the macroeconomic consequences of policy uncertainty, particularly during crisis periods.

5.3 Panel Data and Cross-Country Analyses

As cross-country EPU indices have become available, panel data methods have gained prominence. Dynamic panel estimators, including generalized method of moments (GMM) techniques, have been used to examine the average effects of uncertainty across countries while controlling for endogeneity and unobserved heterogeneity.

Panel studies provide valuable insights into cross-country heterogeneity, revealing that the growth effects of economic policy uncertainty

are often stronger in emerging economies than in advanced economies. This pattern is attributed to weaker institutions, limited policy credibility, and greater exposure to external shocks in developing regions.

5.4 Structural and Theoretical Modeling

Beyond reduced-form econometric models, a growing literature employs structural and theoretical frameworks, such as dynamic stochastic general equilibrium (DSGE) models, to examine the transmission mechanisms of uncertainty shocks. These models explicitly incorporate uncertainty into firms' and households' decision-making processes, allowing researchers to simulate the macroeconomic effects of policy uncertainty under different policy regimes.

Structural models provide a deeper theoretical understanding of how uncertainty propagates through investment, consumption, and financial markets. However, their empirical calibration often depends on strong assumptions, which may limit their applicability across diverse economic contexts.

5.5 Integration of Financial and External Sector Variables

Recent methodological advances reflect increasing recognition of the interconnectedness of macroeconomic systems. Studies now frequently integrate financial and external sector variables into their empirical frameworks, examining how uncertainty affects growth through multiple channels simultaneously. Multivariate frameworks, including structural VAR and panel VAR models, have been used to capture interactions among output, investment, financial markets, and trade variables.

This integrated modeling approach aligns closely with contemporary macroeconomic thinking and underscores the importance of adopting comprehensive empirical strategies when assessing the economic consequences of policy uncertainty.

5.6 Summary of Methodological Trends

Overall, the literature exhibits a clear evolution from simple linear time-series models toward more sophisticated nonlinear, panel-based, and structural approaches. This methodological

diversification has enriched understanding of the economic policy uncertainty-growth nexus and highlights the importance of model selection in shaping empirical conclusions. Future research is likely to further integrate nonlinear dynamics, cross-country heterogeneity, and sectoral interactions to deepen insights into the macroeconomic effects of uncertainty.

6. Policy Implications

The systematic evidence reviewed in this study highlights that economic policy uncertainty exerts significant adverse effects on economic growth through multiple interconnected channels, including investment, financial markets, and the external sector. These findings carry important implications for macroeconomic management, particularly for countries seeking to sustain growth in an increasingly uncertain global environment.

6.1 Macroeconomic Stabilization and Policy Credibility

A central implication of the reviewed literature is the importance of maintaining credible, transparent, and predictable macroeconomic policies. Governments that communicate policy intentions clearly and adhere to consistent policy frameworks can reduce uncertainty-induced distortions in expectations. Strengthening fiscal rules, enhancing central bank independence, and improving coordination between fiscal and monetary authorities can help stabilize expectations and reduce uncertainty shocks.

Policy credibility is particularly crucial during economic downturns and crisis periods, when uncertainty tends to rise sharply. Timely and coherent policy responses can mitigate uncertainty-driven contractions in economic activity and support faster recoveries.

6.2 Investment and Public Infrastructure Policies

Given the dominant role of the investment channel, policies aimed at stabilizing the investment climate are essential. Governments should reduce regulatory ambiguity, ensure consistency in tax and industrial policies, and provide long-term strategic guidance for key sectors. Predictable regulatory environments lower the option value of waiting and encourage

firms to undertake productive investment projects.

Public investment policy also plays a stabilizing role. Countercyclical infrastructure spending can offset uncertainty-induced declines in private investment, supporting both short-term demand and long-term growth potential. Establishing multiyear public investment frameworks can further reduce uncertainty surrounding government expenditure plans.

6.3 Financial Market Stability Policies

The financial market transmission of economic policy uncertainty underscores the importance of maintaining financial stability frameworks. Macroprudential policies that enhance the resilience of financial institutions can reduce the amplification of uncertainty shocks. Well-capitalized banking systems and effective financial supervision limit the tightening of credit conditions during periods of elevated uncertainty.

In addition, transparent financial regulation and consistent supervisory practices can reduce uncertainty faced by investors and financial institutions. Stable financial environments not only support domestic investment but also help maintain access to international capital markets during periods of global volatility.

6.4 International Trade and External Sector Policies

The findings of this review strongly emphasize the role of the external sector in transmitting the effects of economic policy uncertainty to economic growth. As international trade and global value chains become increasingly important drivers of development, policymakers must recognize the growth costs associated with uncertain trade and regulatory regimes.

First, governments should promote stable and rules-based trade policies. Predictable tariff structures, transparent customs procedures, and long-term trade agreements reduce uncertainty for exporters and importers, encouraging firms to engage in international markets. Reducing trade policy volatility is essential for sustaining export-led growth strategies, particularly in emerging economies.

Second, policies that support trade openness and export diversification can help buffer economies against uncertainty shocks. By

expanding access to multiple export markets and reducing reliance on a narrow set of trading partners, countries can enhance resilience to external disturbances.

Third, exchange rate stability and sound external sector management are critical. Heightened uncertainty often increases exchange rate volatility, which raises transaction costs and weakens trade competitiveness. Macroeconomic frameworks that promote exchange rate stability and sustainable capital flows can mitigate these adverse effects.

Finally, strengthening trade finance mechanisms is important during periods of uncertainty. Ensuring that exporters have access to affordable credit can prevent uncertainty-induced contractions in international trade and support continuity in global value chains.

6.5 Integrated Policy Approach

The interdependence among investment, financial markets, and the external sector suggests that policy responses should be coordinated rather than fragmented. Macroeconomic stabilization, financial regulation, and trade policy should be aligned within a coherent framework aimed at reducing uncertainty and supporting long-term growth. Such integrated strategies are particularly relevant for developing economies, where institutional weaknesses can magnify the macroeconomic costs of policy unpredictability.

7. Future Research Directions and Conclusion

7.1 Future Research Directions

Although the literature on economic policy uncertainty has expanded rapidly, several important gaps remain that warrant further investigation. Future research should focus on deepening understanding of the heterogeneous and dynamic effects of economic policy uncertainty across countries, sectors, and institutional environments.

First, greater attention should be given to cross-country heterogeneity. Existing evidence indicates that the growth effects of policy uncertainty differ markedly between advanced and emerging economies. Future studies should explore how institutional quality, governance structures, and policy credibility condition the impact of uncertainty on economic

performance. Comparative analyses across income groups and regions would enhance understanding of context-specific policy responses.

Second, future research should further investigate nonlinear and regime-dependent effects of economic policy uncertainty. Recent studies suggest that uncertainty shocks exert stronger contractionary effects during recessions, financial crises, and periods of political instability. More work is needed to examine threshold effects and asymmetries, particularly in the context of global shocks such as pandemics, geopolitical conflicts, and climate-related risks.

Third, the interaction between economic policy uncertainty and structural transformation remains underexplored. Future studies could examine how uncertainty influences sectoral reallocation, industrial upgrading, and technological innovation. Understanding whether uncertainty disproportionately affects high-technology and export-oriented sectors would provide valuable insights for development policy.

Fourth, there is scope to expand research on the external sector channel, particularly in relation to trade openness, global value chains, and digital trade. While recent studies document negative effects of uncertainty on exports and exchange rate stability, limited attention has been paid to how uncertainty shapes long-term trade integration and export diversification strategies. Future research could examine how trade agreements and regional integration frameworks moderate the impact of uncertainty on trade and growth.

Finally, methodological innovation remains important. Greater use of high-frequency data, firm-level microdata, and mixed-method approaches could improve identification of causal mechanisms. Combining macroeconometric models with micro-level evidence would allow researchers to better trace how uncertainty propagates from policy environments to firm behavior and macroeconomic outcomes.

7.2 Conclusion

This study provides a comprehensive systematic review of the literature on economic policy uncertainty, economic growth, and key

transmission channels, with particular emphasis on investment, financial markets, and the external sector. Synthesizing a rapidly expanding body of research, the review demonstrates that economic policy uncertainty exerts a predominantly negative influence on economic growth across diverse economic contexts.

The evidence consistently identifies investment, financial markets, and international trade as the principal mechanisms through which uncertainty affects macroeconomic performance. Elevated uncertainty discourages private and public investment, destabilizes financial markets, and weakens external sector activity by disrupting trade flows and increasing exchange rate volatility. These interconnected channels reinforce one another, magnifying the overall growth impact of uncertainty shocks.

By integrating theoretical perspectives, empirical findings, and methodological trends, this review advances understanding of the macroeconomic consequences of policy uncertainty in a unified analytical framework. In doing so, it moves beyond fragmented single-channel analyses and highlights the importance of coordinated policy strategies aimed at reducing uncertainty and supporting sustainable growth.

Overall, the findings underscore the central role of predictable, transparent, and credible policy frameworks in fostering economic stability. In an era marked by frequent global shocks, reducing economic policy uncertainty is not merely a short-term stabilization tool but a fundamental component of long-term development strategies, particularly for economies pursuing investment-led and export-oriented growth paths.

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