

Economic effects of Heightened Global Uncertainty - Evidence from emerging market economies-

**Jongrim Ha
World Bank**

September 19, 2025

BCC 13th Annual Conference: Challenges from Higher Uncertainty

Our Approach

Three State-of-the-art Empirical Approaches with Novel Uncertainty Data

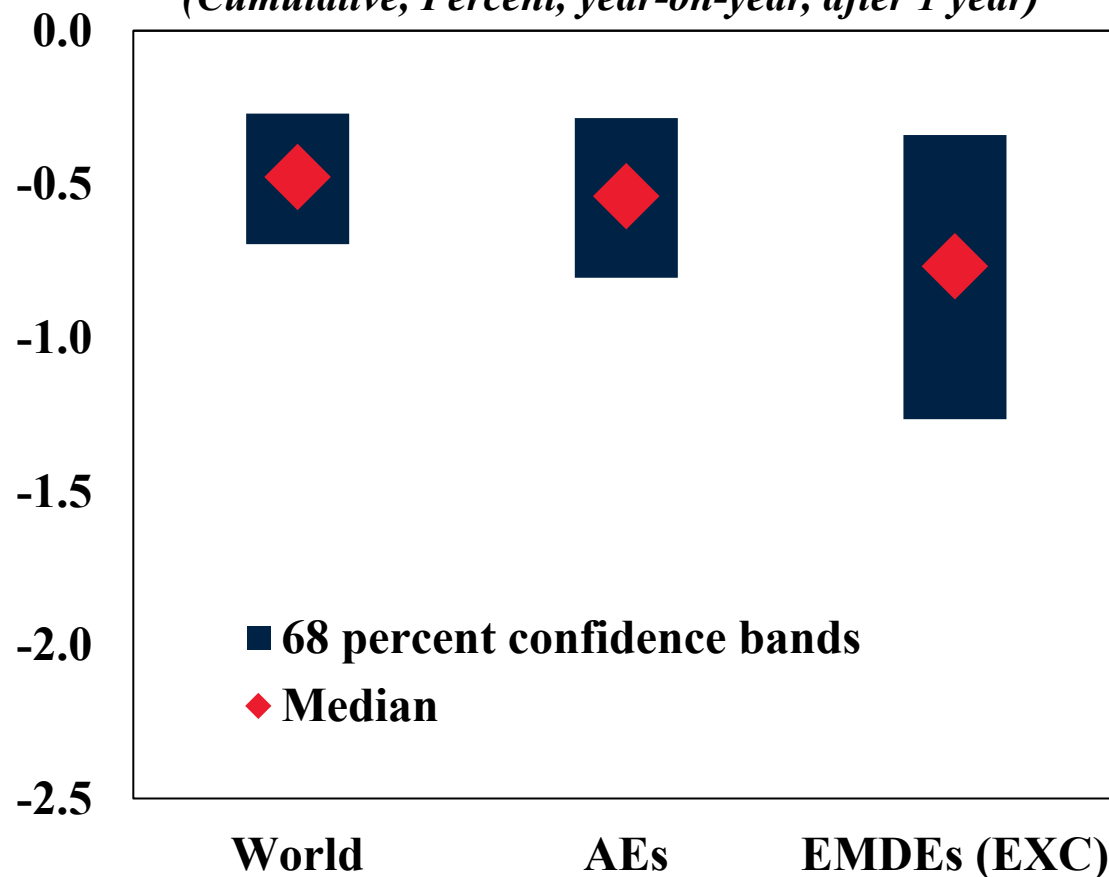
1. Construct a new database of different measures of uncertainty
 - Macro, financial, policy, and trade uncertainty
 - Forecast-, Survey-, and News-based measures
 - Monthly data for 2000-24 for Global aggregate, US, China, and other EMEs
2. **Open-economy SVAR models (Today's Focus)**
 - Impulse response of “level” and “uncertainty” shocks on macroeconomic aggregates
3. Firm Level Data: response of firm-level stock prices to “uncertainty” shocks
4. Trade linkages. Spatial autoregressive models with Input-output linkages: “Direct” and “Network” effects of uncertainty transmission using down/up stream linkages

Spillovers of Global Economic Uncertainty–(1)

Negative wait-and-see effects on EMDE output and investments

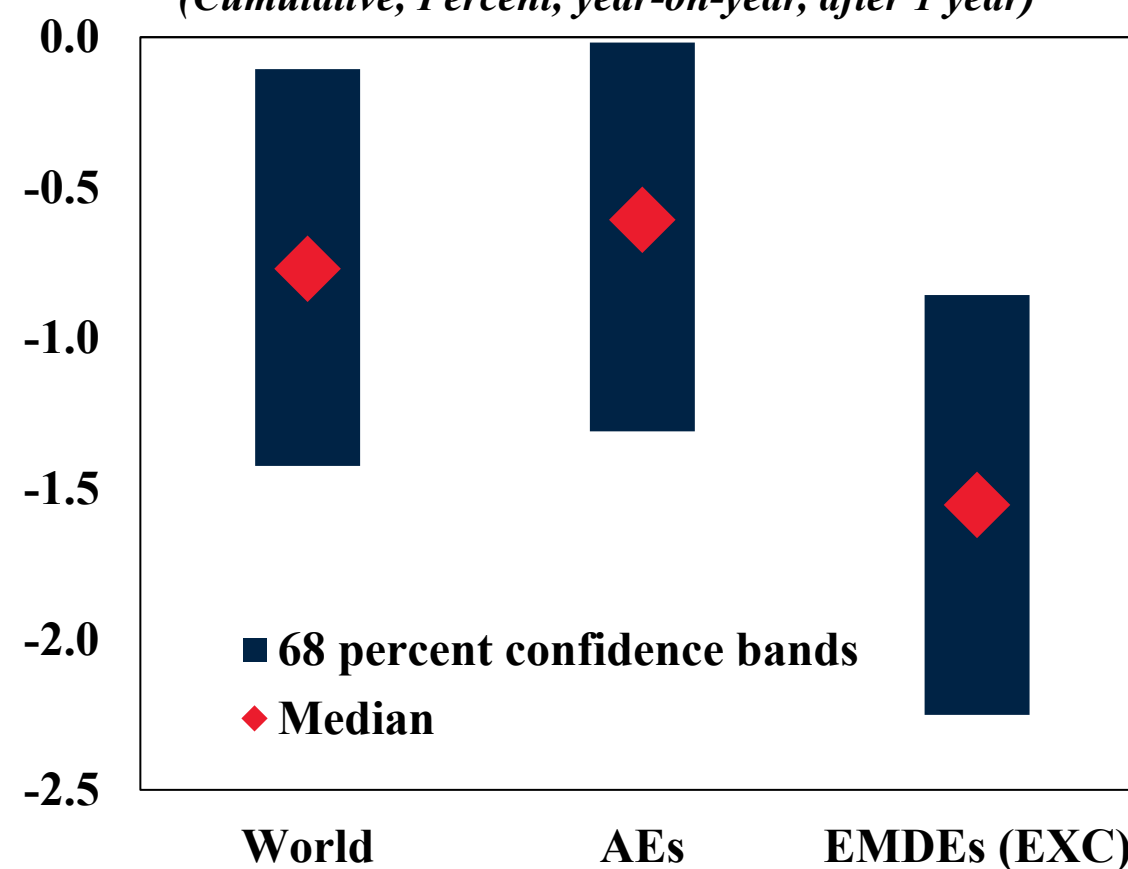
Output responses to heightened global uncertainty

(Cumulative, Percent, year-on-year, after 1 year)



Investment responses to heightened global uncertainty

(Cumulative, Percent, year-on-year, after 1 year)



Source: World Bank estimates, Baker, Bloom, Davis (2016).

Note: Data are GDP-weighted cumulative impulse responses of output growth to a one standard deviation increase in global economic policy uncertainty.

Bayesian vector autoregressions are estimated over 1998Q1-2023Q4, with four lags. Sample includes 32 AEs and 39 EMDEs excluding China.

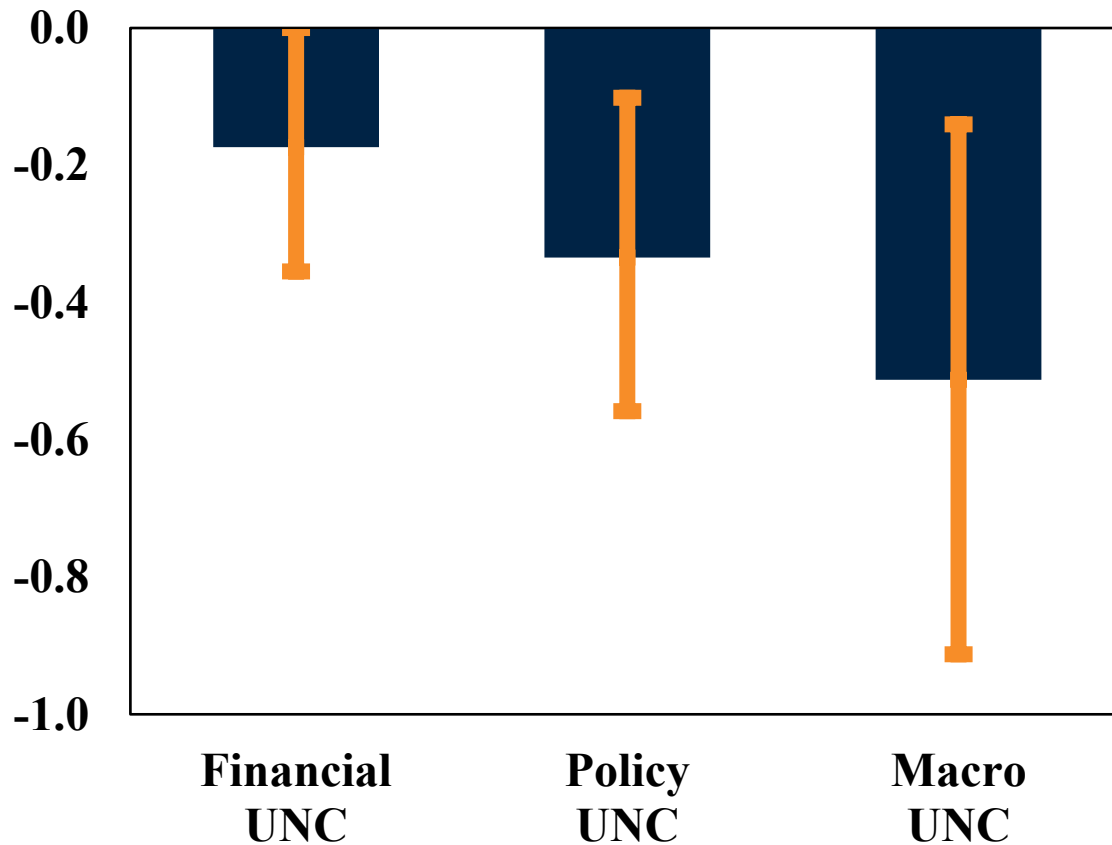


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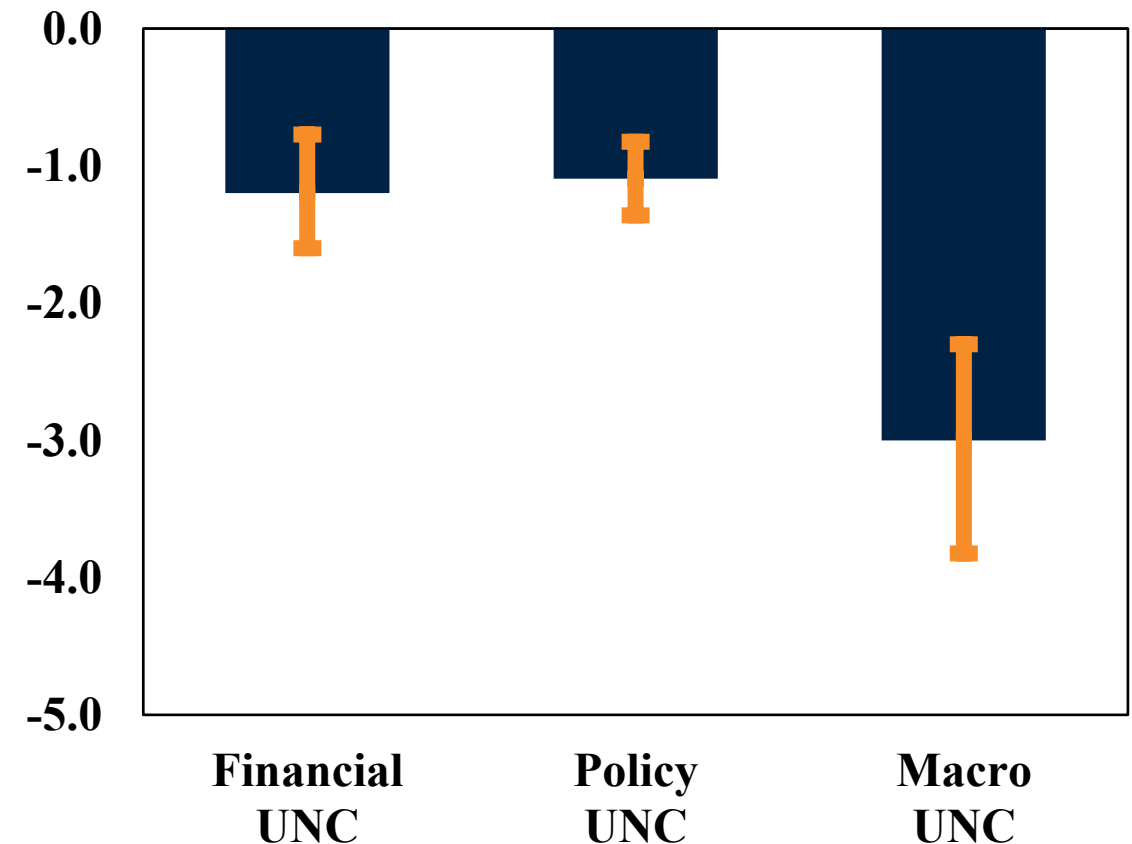
Spillovers of Global Economic Uncertainty–(2)

All types of uncertainty strains consumption, investment, and financial activities

Output responses to heightened uncertainty
(Percent, year-on-year)



Stock price responses to heightened uncertainty
(Percent, year-on-year)



Source: World Bank estimates, Baker, Bloom, Davis (2016).

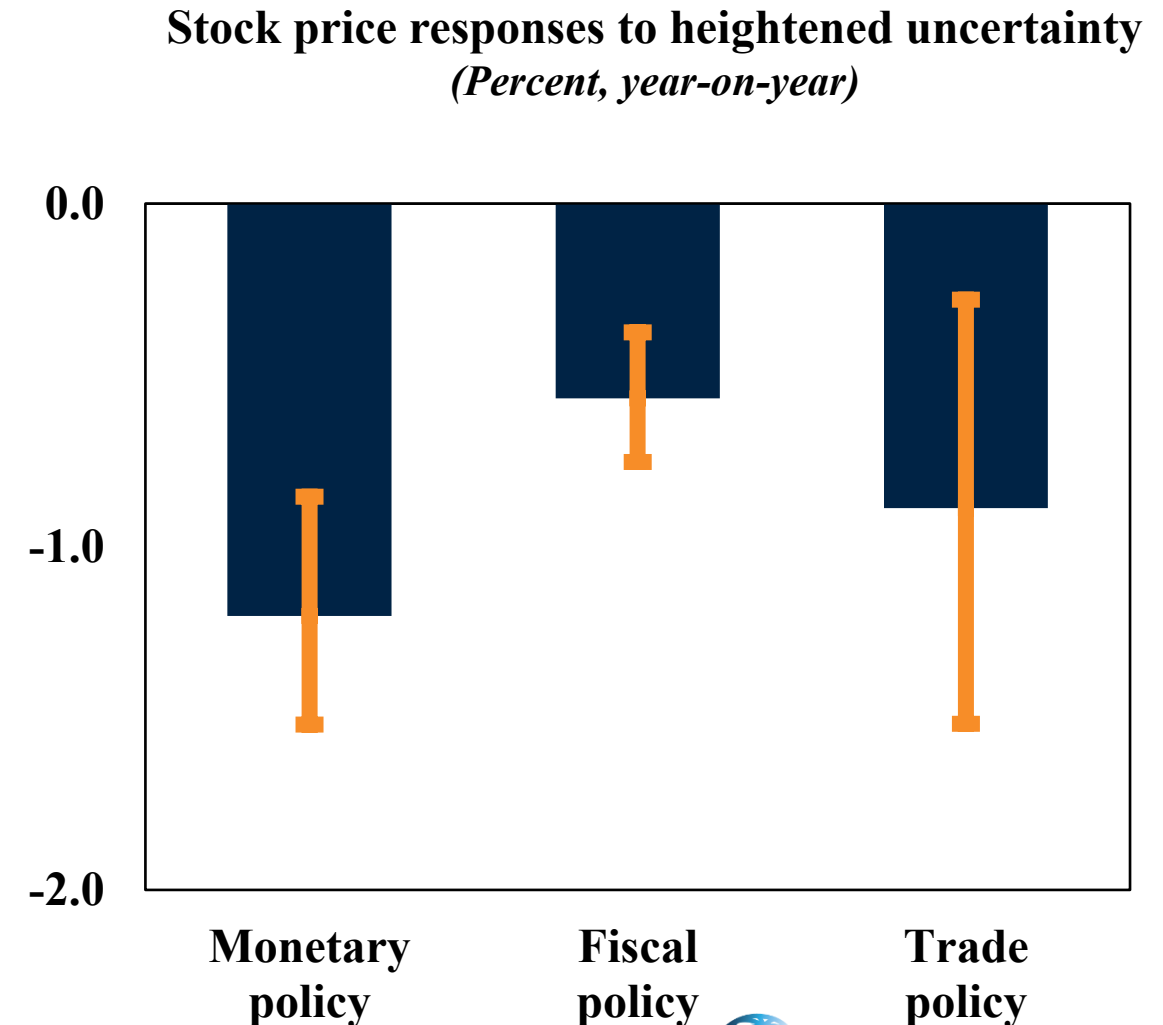
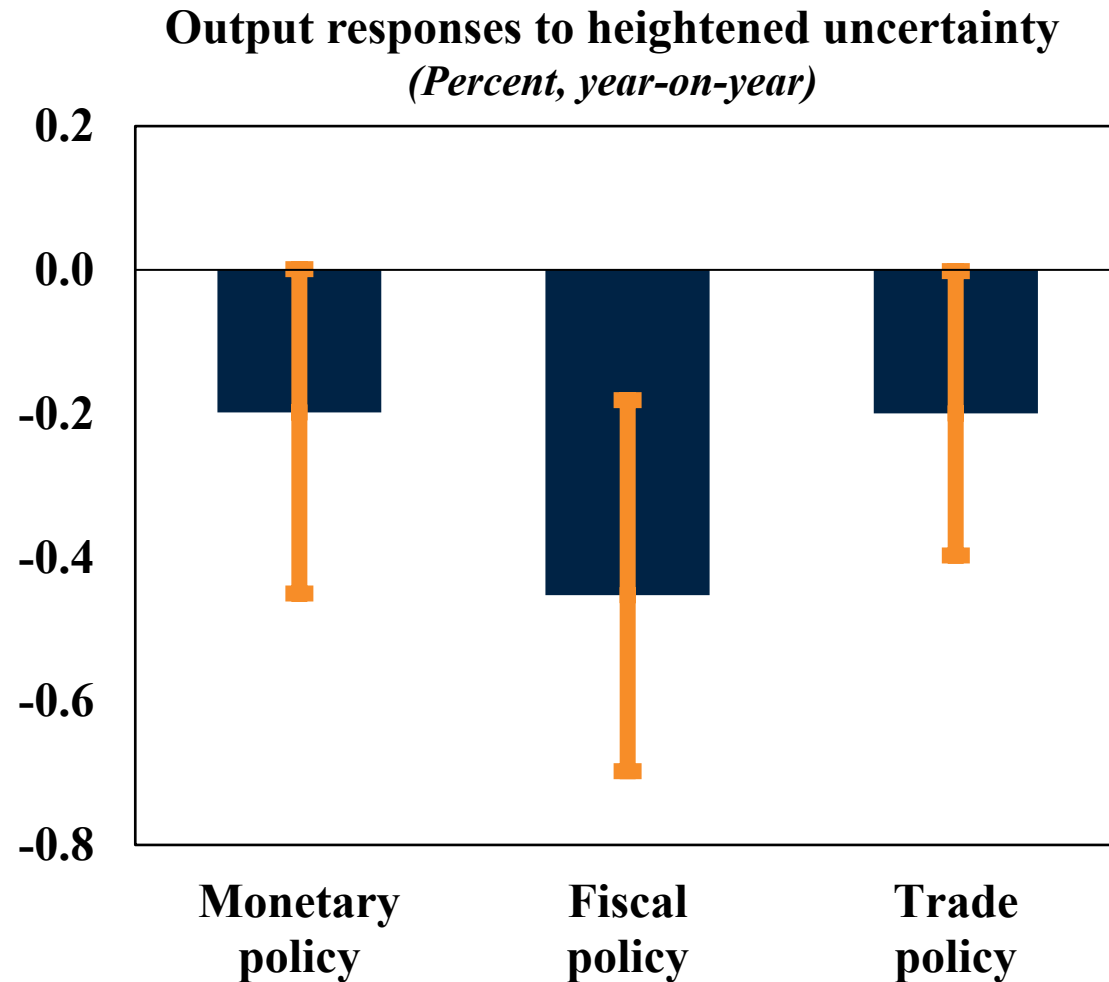
Note: The results are based on a panel Vector autoregression estimated for 2000-2019 for four EMEs (MYS, IDN, PHL, THA). The model includes, in this order, the US production, US CPI, US uncertainty, uncertainty measure, and domestic (EAP) industrial production, prices, stock prices, exchange rates, and uncertainty measures. Bars shows dynamic responses of EAP industrial production and CPI to a one-standard-deviation increase in uncertainty in the U.S.



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Spillovers of Global Economic Uncertainty–(3)

Widespread economic policy uncertainty; Trade, monetary, fiscal policy uncertainty



Source: World Bank estimates, Baker, Bloom, Davis (2016).

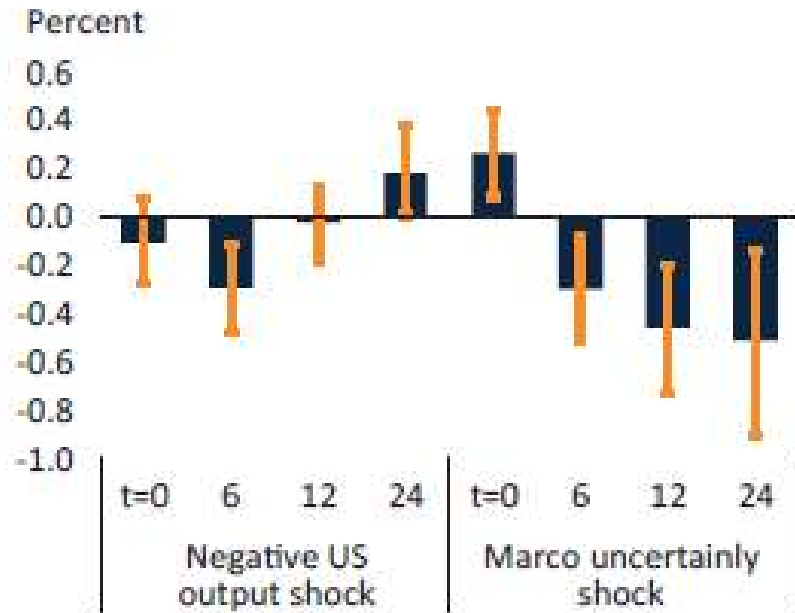
Note: The results are based on a panel Vector autoregression estimated for 2000-2019 for four EMEs (MYS, IDN, PHL, THA). The model includes, in this order, the US production, US CPI, US uncertainty, uncertainty measure, and domestic (EAP) industrial production, prices, stock prices, exchange rates, and uncertainty measures. Bars show dynamic responses of ASEAN variables to a one-standard-deviation increase in uncertainty in the U.S.



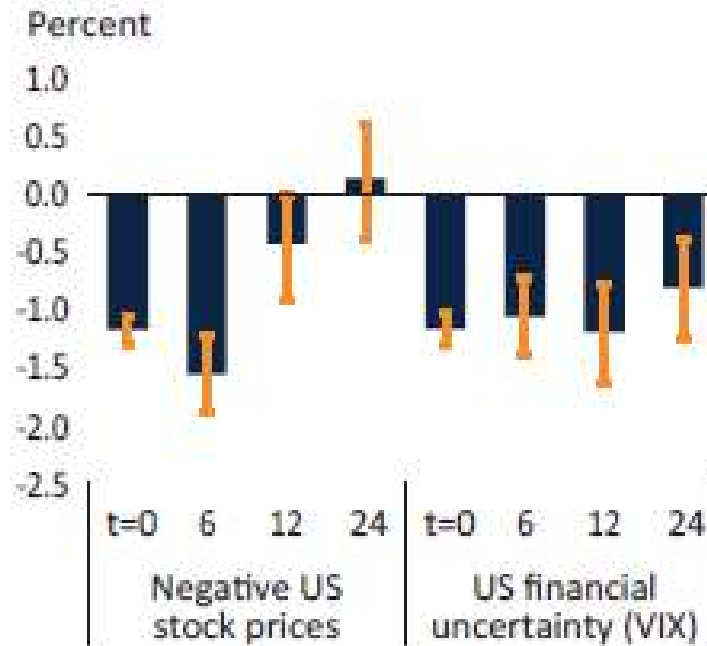
Spillovers of Global Economic Uncertainty–(4)

Uncertainty effects comparable to level shocks and more persistent

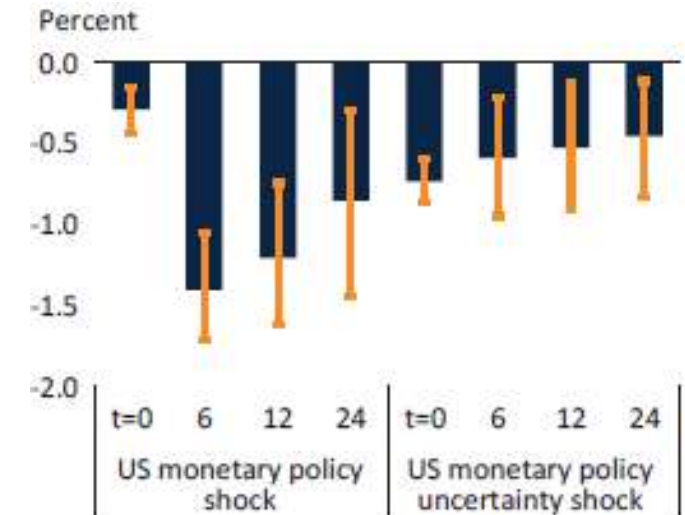
Output responses to negative US output and macro uncertainty shocks
(Percent, year-on-year)



Stock price responses to negative US stock price and financial uncertainty shocks
(Percent, year-on-year)



Stock price responses to US monetary policy tightening and monetary policy uncertainty shocks
(Percent, year-on-year)



Source: World Bank estimates; Jarocinski and Karadi 2020

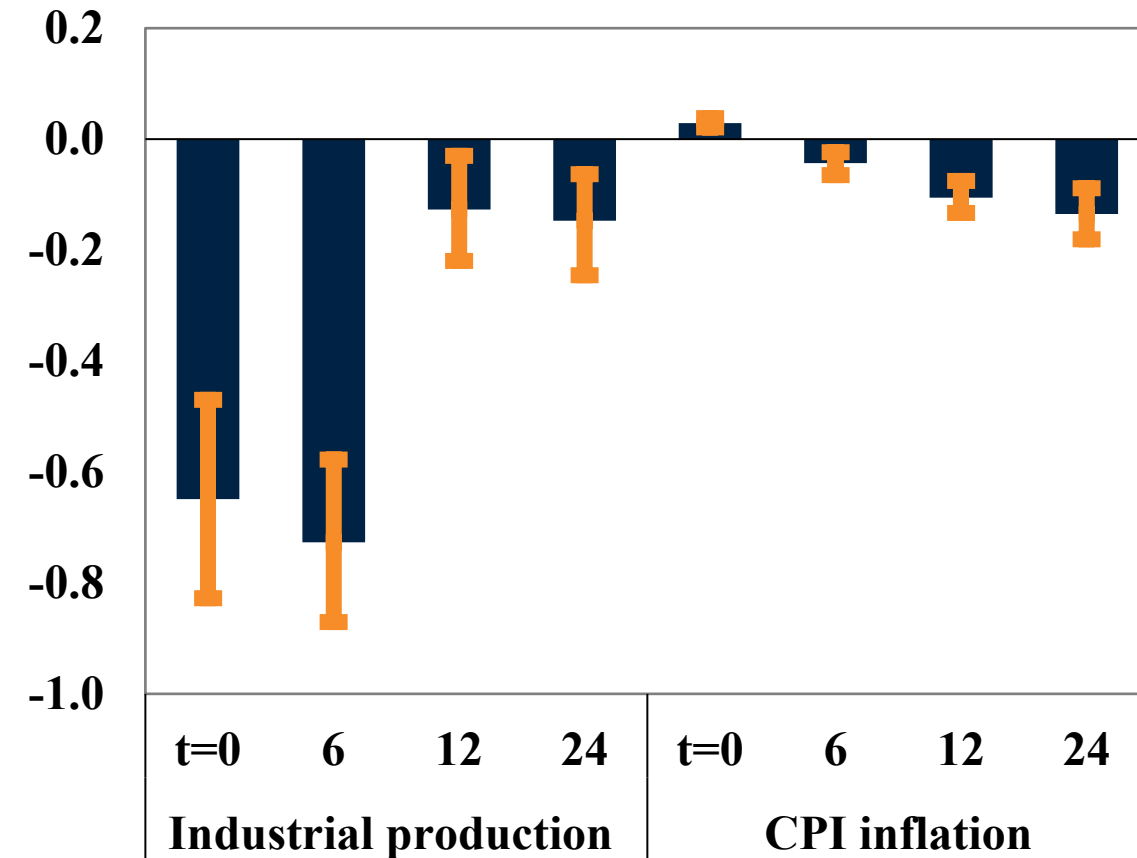
Note: The results are based on panel vector autoregressions estimated with a sample for 2000-2019 for the United States and four emerging markets and EMEs in EAP (Indonesia, Malaysia, Philippines, Thailand). The model includes, in this order, the following measures: the US production, US Consumer Price Index (CPI), US uncertainty; and domestic (EAP) industrial production, prices, stock prices, exchange rates, and uncertainty. Left shows dynamic responses of EAP industrial production to a one-standard-deviation increase in macroeconomic uncertainty and decline in output. Bars indicate the median responses, and vertical lines indicate 16 percent–84 percent confidence intervals. Middle shows dynamic responses of EAP equity prices to a one-standard-



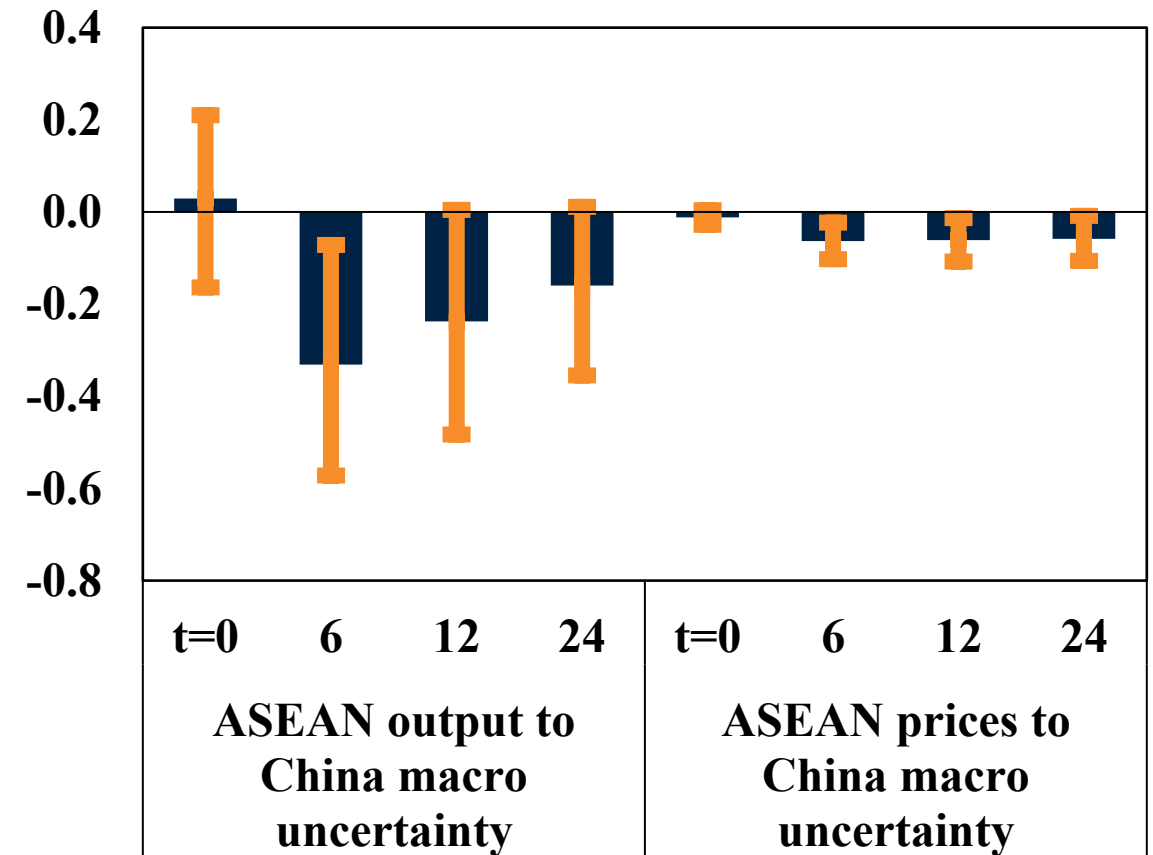
Spillovers of Global Economic Uncertainty–(5)

China playing both shock origin and transmission channel of global shocks

China responses to heightened macro uncertainty
(Percent, year-on-year)



ASEAN responses to heightened uncertainty in China
(Percent, year-on-year)

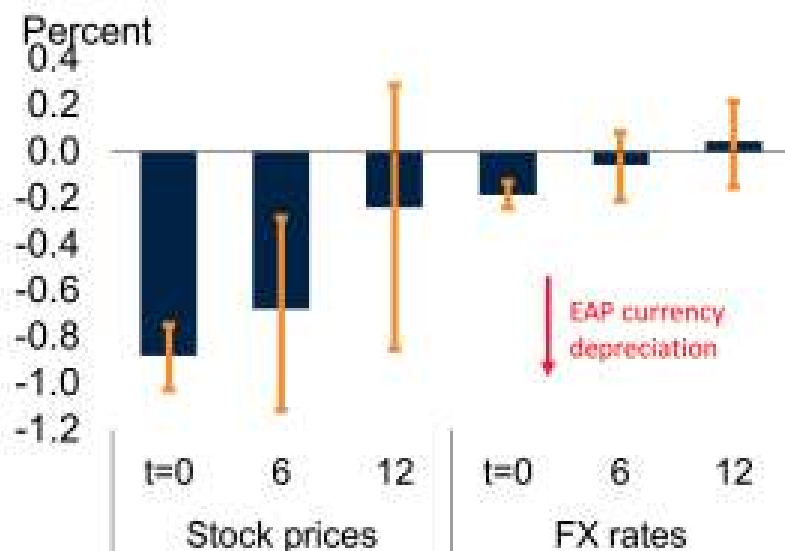


Note: The results are based on a panel Vector autoregression estimated for 2000-2019 for four EMDEs in ASEAN (MYS, IDN, PHL, THA). The model includes, in this order, the US production, US CPI, US uncertainty, China production, CPI, uncertainty measure, and domestic (ASEAN) industrial production, prices, stock prices, exchange rates, and uncertainty measures. Left. Bars shows dynamic responses of China industrial production and CPI to a

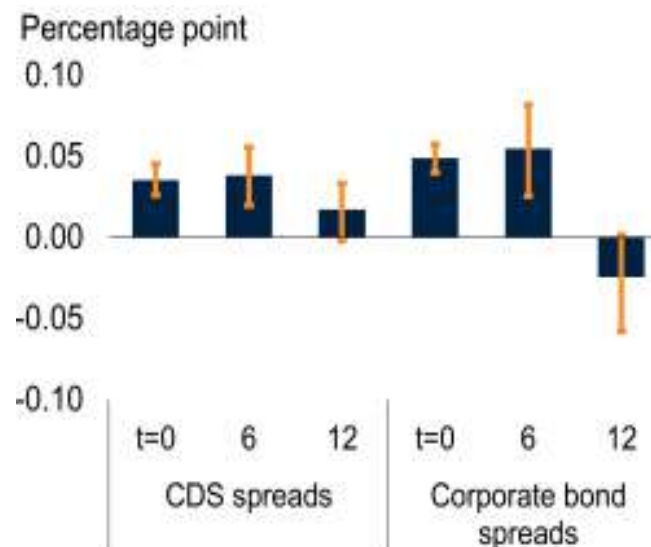
Spillovers of Global Economic Uncertainty–(6)

Financial asset price, credit, and sentiment channels

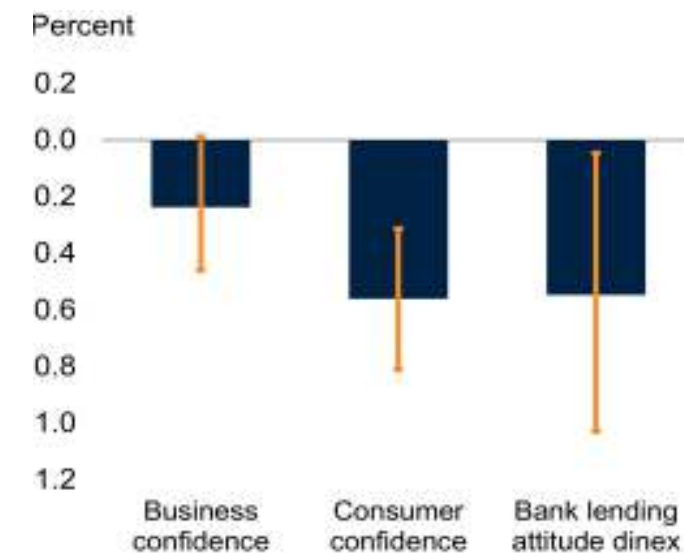
Financial asset prices responses to negative US uncertainty shocks
(Percent)



Responses of credit spreads to negative US uncertainty shocks
(Percent)



Sensitivity of economic sentiments to uncertainty
(Percent)



Source: World Bank estimates, World Bank estimates, Ahir, Bloom and Furceri (2022).

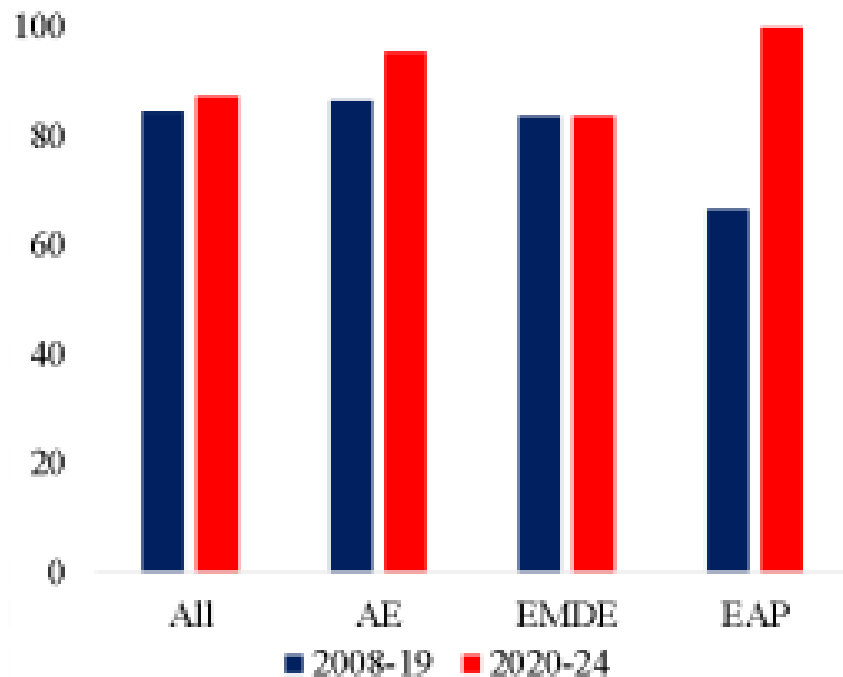
Note: The results are based on panel vector autoregression (1) estimated for 2000m1-2024m6 for four EMDEs (MYS, IDN, PHL, THA). The model includes, in this order, the US production, CPI, uncertainty, China production, CPI, uncertainty measure, and domestic (EAP) industrial production, prices, stock prices, exchange rates, and corresponding financial asset prices. Bars shows dynamic responses of EAP variables to a one-standard-deviation increase in uncertainty in the U.S. US policy uncertainty is based on Baker et al. (2016).



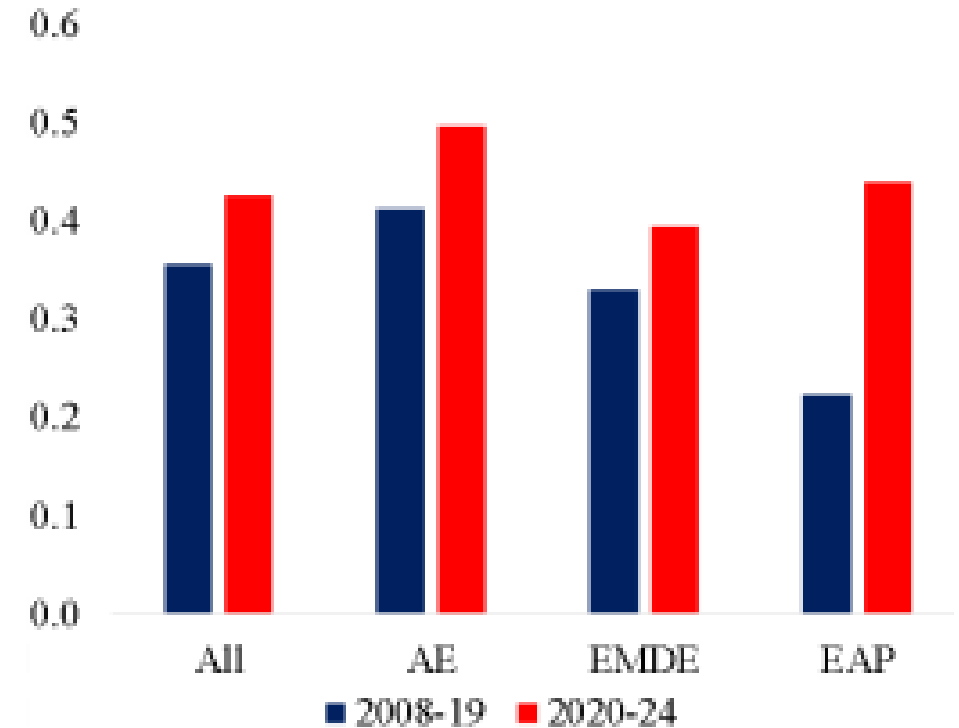
Spillovers of Global Economic Uncertainty–(7)

Internationally correlated uncertainty measures

Share of countries with positive factor loadings



Sensitivity of country uncertainty measure to global uncertainty
(Percent, year-on-year)



Note: The results are based on the principal component analysis using monthly economic policy uncertainty in 71 economies—22 advanced economies and 29 EMDEs (including 6 EAP)—compiled by Ahir, Bloom and Furceri (2022). Left. Charts show the share of countries with positive factor loadings to the first principal component (in percent). Right. Charts show the average magnitude of factor loadings across countries during the sample periods

Summary

Persistent and broad-based uncertainty; key risk to global economy

1. The global economy is slowing but more resilient than expected. Yet, persistent uncertainty, financial stress, and trade and geopolitical tensions remain key risks.
2. The effects of uncertainty—related to the volatility (second moment) of the variables—are distinctive from the effects of the level (first moment) fluctuations in underlying business, financial, and policy variables.
3. The sizeable uncertainty effects reflect various channels of international transmission of uncertainty shocks
 - First, “wait-and-see” channel that strains private investment and consumption
 - Second, financial asset prices and increases in credit costs amplifying the contractionary effects of economic uncertainty
 - Third, uncertainty indicators in individual open countries also responded significantly => internationally correlated risk and uncertainty
4. Different types of uncertainty shocks affect EAP countries differently, individually and as a group (Additional charts)
5. Network effects overshadow direct effects---global “spillover” effects of shock transmission (Additional charts)