

2. Riding the Waves: Building Resilience in an Era of High Uncertainty¹

Global uncertainty has been on an upward trend over the past few decades, with recent developments sparking a new surge. This chapter presents the first empirical analysis of the drivers and economic impacts of uncertainty in the Middle East and North Africa (MENA) and Caucasus and Central Asia (CCA) regions.² The analysis finds that global and regional factors account for much of the spikes in uncertainty, particularly in the CCA region and among Gulf Cooperation Council (GCC) countries. Country-specific factors—conflicts, political instability, climate issues, and disease outbreaks—are also associated with higher uncertainty. The analysis also highlights the adverse economic impacts of uncertainty. Persistent spikes in global uncertainty are estimated to have a large negative impact on real output, with average output losses accumulating to about 2.5 percent after two years. Moreover, the adverse economic impacts of uncertainty shocks are larger in the MENA and CCA regions compared with the rest of the world. This partly reflects higher average preexisting macroeconomic vulnerabilities, including high public debt and weak institutions, that amplify these adverse impacts. These findings underscore the importance of enhancing policy buffers and implementing structural reforms—such as strengthening governance and institutions and macroeconomic frameworks—to bolster economic resilience and mitigate the impacts of high uncertainty.

2.1. Introduction

Over the past 25 years, global uncertainty—the degree to which knowledge or understanding about the current or future state of the world is incomplete—has generally been on the rise, as indicated by various metrics (Figure 2.1).³ This chapter's analysis uses the World Uncertainty Index (WUI), an indicator of economic uncertainty proposed by Ahir, Bloom, and Furceri (2022), one of the most widely used empirical measures of uncertainty with broad country coverage.⁴ Over the last 25 years, this index has undergone a number of sharp spikes, including the September 11, 2001, attacks in the United States; the European sovereign debt crisis; the COVID-19 pandemic; and Russia's war in Ukraine (Figure 2.2). In 2025, the WUI has risen again, approaching levels seen at the onset of the COVID-19 pandemic.

This chapter examines the evolution of uncertainty in the countries of the MENA and CCA regions, focusing on the key factors contributing to uncertainty and its economic impacts. It begins by analyzing how uncertainty has evolved across the countries in these regions and decomposes the extent to which this variation has reflected global, regional, and country-specific (idiosyncratic) factors. Next, the analysis assesses the determinants of country-specific factors, asking the question: what country-level features or shocks are associated with increases in uncertainty? Then, it explores the financial and economic impacts of uncertainty, including how preexisting macroeconomic vulnerabilities can either exacerbate or mitigate these effects. Finally, drawing on the findings, this chapter offers policy recommendations to help guide economic policy amid the high levels of uncertainty.

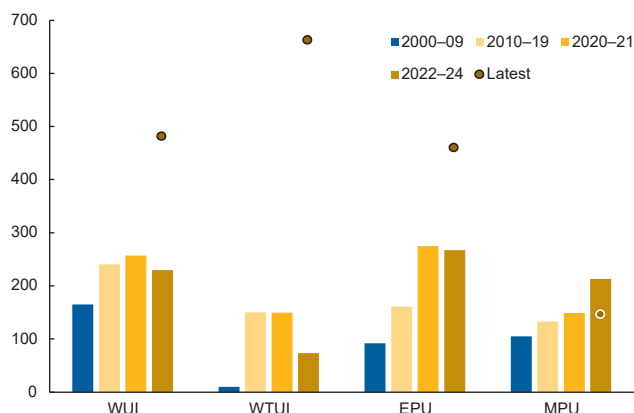
¹ This chapter was prepared by Faris Abdurrahman, Botir Baltabaev, Serpil Bouza (co-lead), Bronwen Brown, Steven Dang, Colombe Ladreit, Troy Matheson (co-lead), Bilal Tabti, and Qirui Zhang.

² For analytical purposes in this chapter, the geographic grouping of the Middle East and North Africa (MENA) region includes Pakistan.

³ In economics, a distinction is often made between two concepts of uncertainty: risk, in which it is possible to quantify the degree or level of variation in possible outcomes (the underlying probability distribution is known); and Knightian uncertainty, in which it is not possible to quantify that variation (the underlying probability distribution is unknown; see Knight [1921]). The World Uncertainty Index (WUI) used in this chapter simply captures perceptions of uncertainty as reflected in expert reports; it does not rely on the exact definition of uncertainty in the reports. For more details on additional uncertainty measures, see the Online Annex.

⁴ Based on a text analysis of country-specific Economist Intelligence Unit reports, the WUI is constructed as a count of the appearances of the term “uncertainty” and related phrases, scaled by the total word count of each report (by country and time period). The WUI at the global level is derived from the weighted average of these country-level uncertainty indicators. The WUI tends to move in concert with other uncertainty indicators.

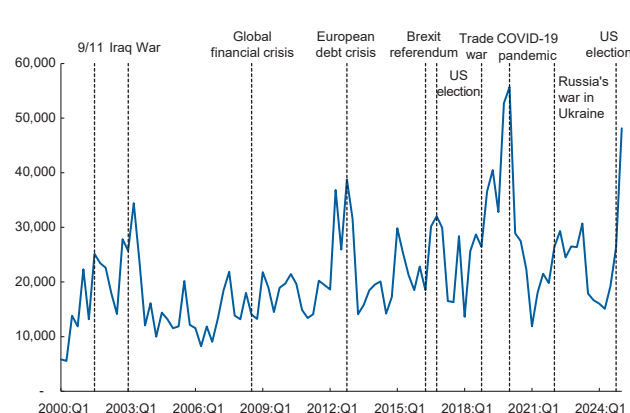
Figure 2.1. Measures of Global Economic Uncertainty (Index)



Sources: Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI); Husted, Rogers, and Sun 2017; US Monetary Policy Uncertainty (MPU) Index; Davis 2016; Global Economic Policy Uncertainty (EPU) Index; and IMF staff calculations.

Note: The quarterly WUI at global level is a US dollar GDP-weighted average of 143 country-level indices and ends in the first quarter of 2025. The latest available observations for the WUI, WTUI, EPU, and MPU are for first quarter of 2025, first quarter of 2025, January 2025, and second quarter of 2024, respectively. EPU and MPU are constructed using a method similar to WUI and are based on the search results of major US newspapers. EPU = Economic Policy Uncertainty; MPU = Monetary Policy Uncertainty; WTUI = World Trade Uncertainty Index; WUI = World Uncertainty Index.

Figure 2.2. World Uncertainty Index (Index)



Sources: Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI); and IMF staff calculations.

Note: The quarterly WUI at global level is a US dollar GDP-weighted average of 143 country-level indices and ends in the first quarter of 2025.

2.2. Significant Common Drivers of Uncertainty

Over the last two decades, uncertainty (as captured by the WUI) has varied significantly in the MENA and CCA regions. The weighted averages of country-level uncertainty in the MENA region (excluding the GCC), GCC, and the CCA region have closely tracked a series of global events as well as events that are particularly relevant for each region (Figure 2.3, panels 2-4).

- **MENA region (excluding the GCC).** Uncertainty has experienced large spikes, especially when Israel withdrew from Gaza in the mid-2000s and during the social turmoil after the Arab Uprising.
- **GCC.** Uncertainty has been relatively volatile, with sharp increases during pivotal moments for the region, such as the oil-price collapse after the Great Recession, Saudi Arabia's rejection of a temporary seat on the United Nations Security Council, and the United States' withdrawal from the Iran nuclear deal (the Joint Comprehensive Plan of Action).
- **CCA.** Uncertainty has surged during important regional events, including Russia's wars in Georgia and Ukraine and Russian ruble-related currency devaluations.

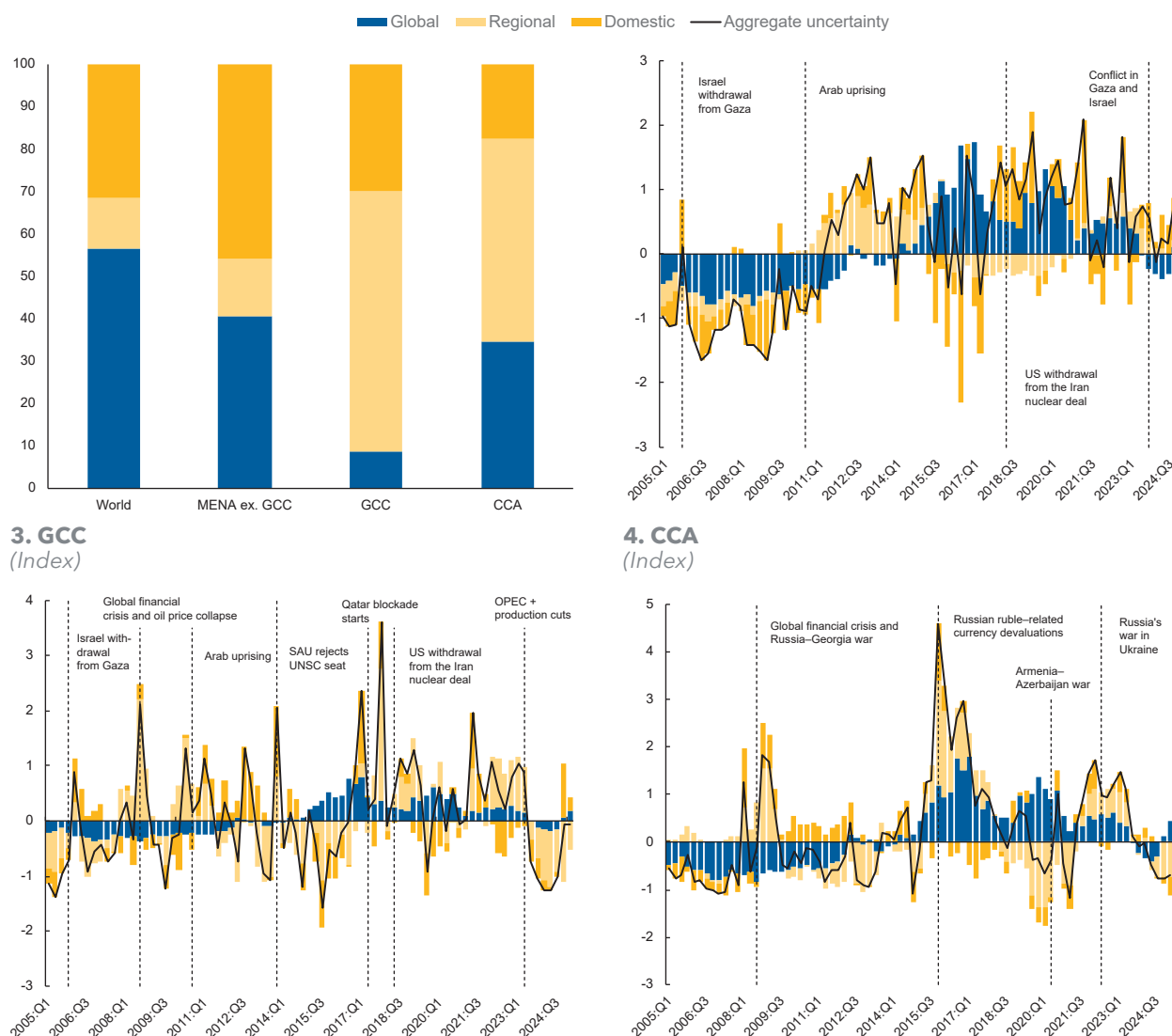
A formal statistical decomposition can be used to measure the extent to which changes in uncertainty in the MENA and CCA regions over the past two decades have been driven by three factors: global factors (common to all countries), regional factors (common to all countries in each region after taking global factors into account), and country-specific/domestic factors (what is unique to each country after taking global and regional factors into account).⁵

⁵ See the Online Annex for a detailed description of the methodology behind the dynamic factor decompositions of the WUIs which attributes the variation of uncertainty across the three statistical factors outlined here—global, regional, and country-specific.

The analysis shows that changes in uncertainty have been highly synchronized across countries in the MENA and CCA regions, although this synchronization is somewhat less pronounced than the average for all the countries in our sample. On average, global factors account for more than half of the variation of uncertainty across all countries in our worldwide sample, while regional factors account for 10 percent (Figure 2.3, panel 1). By contrast, global factors explain about 35 percent of the variation of uncertainty across countries in the MENA (excluding GCC countries) and CCA regions. Regional factors explain about 30 percent of the average variation, with country-specific factors explaining the remainder. In GCC countries, global factors appear to be less important in explaining the variation of uncertainty, accounting for only about 10 percent of the total variation. Regional factors

Figure 2.3. Drivers of Uncertainty

1. Contributors to the Overall Variation of Uncertainty (Percent) **2. MENA Region, Excluding GCC Countries (Index)**



Sources: Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI) database; and IMF staff calculations.

Note: The charts display decompositions of aggregate (US dollar GDP-weighted) uncertainty indexes by region, derived from a dynamic factor model. The aggregate indexes are scaled to have a mean of zero and a standard deviation of one over the indicated period. The model assumes that uncertainty in each country is driven by three types of shocks: global (common to all countries), regional (common to all countries in each region after taking account of global shocks), and domestic (country-specific). The model is estimated using quarterly uncertainty indexes from the WUI database covering 143 countries across seven regions. The sample spans from the first quarter of 2000 to the first quarter of 2025. CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa (and Pakistan); SAU = Saudi Arabia; UNSC = United Nations Security Council; WUI = World Uncertainty Index.

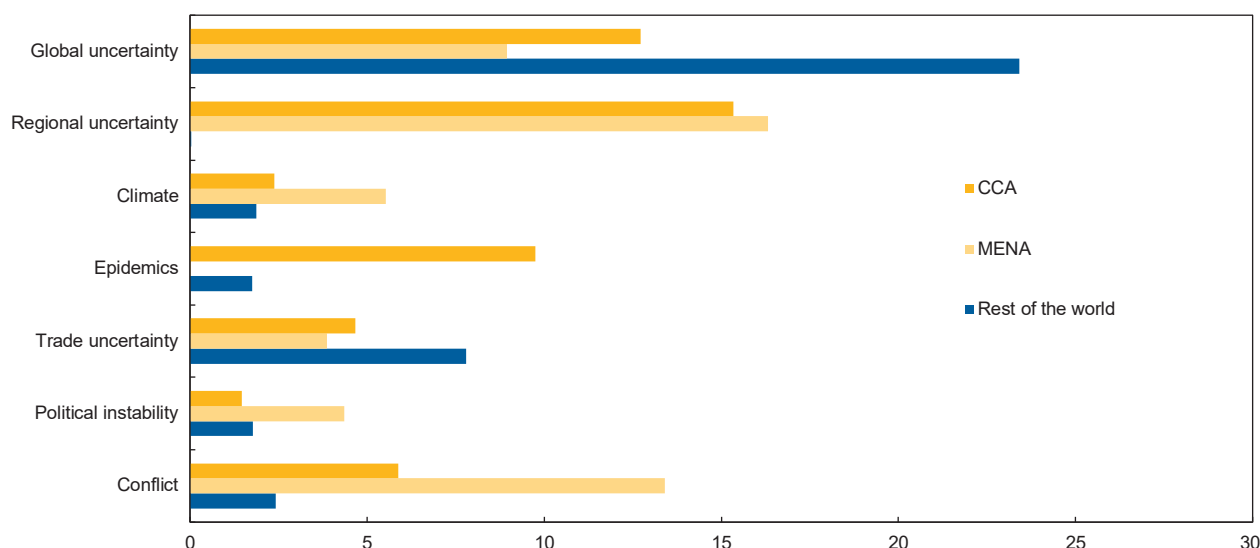
play a more important role in explaining uncertainty variations in the GCC and CCA regions (at 60 percent and 40 percent, respectively, of the overall variation, on average). Country-specific factors play a bigger role in economies in the MENA region (excluding the GCC). In the case of GCC countries, the dominant role played by the regional factor partially reflects their shared, relatively heavier economic reliance on oil compared with elsewhere.

2.3. Country-Specific Contributors to Uncertainty Differ Across Regions

This section explores the factors that explain country-specific variation in uncertainty in MENA and CCA regions and the rest of the world. Country-level uncertainty (WUI) is regressed against a series of country-specific variables likely to capture important determinants of uncertainty while controlling for global and regional statistical factors (identified in the previous section).⁶ The findings suggest that a few key variables are associated with higher uncertainty and play important roles in explaining the variation of uncertainty across countries (Figure 2.4):

- *Climate (temperature anomalies).* Climate shocks explain about 6 percent of the variation in uncertainty in economies in the MENA region, more than in the CCA region and about twice as much as in the rest of the world, possibly reflecting exposure to higher temperatures in the MENA region than elsewhere.

Figure 2.4. MENA, CCA, and the Rest of the World: Contributors to Uncertainty
(Percent of variation explained)



Sources: Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI); Our World in Data; Center for Systemic Peace, Integrated Network for Societal Conflict Research; Torres Munguía and others 2022; Uppsala Conflict Data Program, Georeferenced Event dataset; and IMF staff calculations.

Note: Standard errors are clustered at the country-level. Relative contributions add up to less than 100 because the error term (unexplained component) contributes 48 percent to 61 percent of the total variation. Climate-driven uncertainty is captured by absolute deviations from the 1950–90 country average temperature. Epidemic-induced uncertainty is based on the count of infectious diseases outbreaks. Adverse political events include successful and attempted coups, auto-coups, assassinations or coerced resignations of the executive power, and eviction of leadership by rebel or foreign forces but does not include alleged coup plots or coup plots. Conflict is an indicator variable equal to 1 when the number of conflict-related deaths exceeds the 75th percentile worldwide. Trade uncertainty is measured by the country value of the World Trade Uncertainty Index. See Online Annex for additional details. CCA = Caucasus and Central Asia; MENA = Middle East and North Africa (and Pakistan).

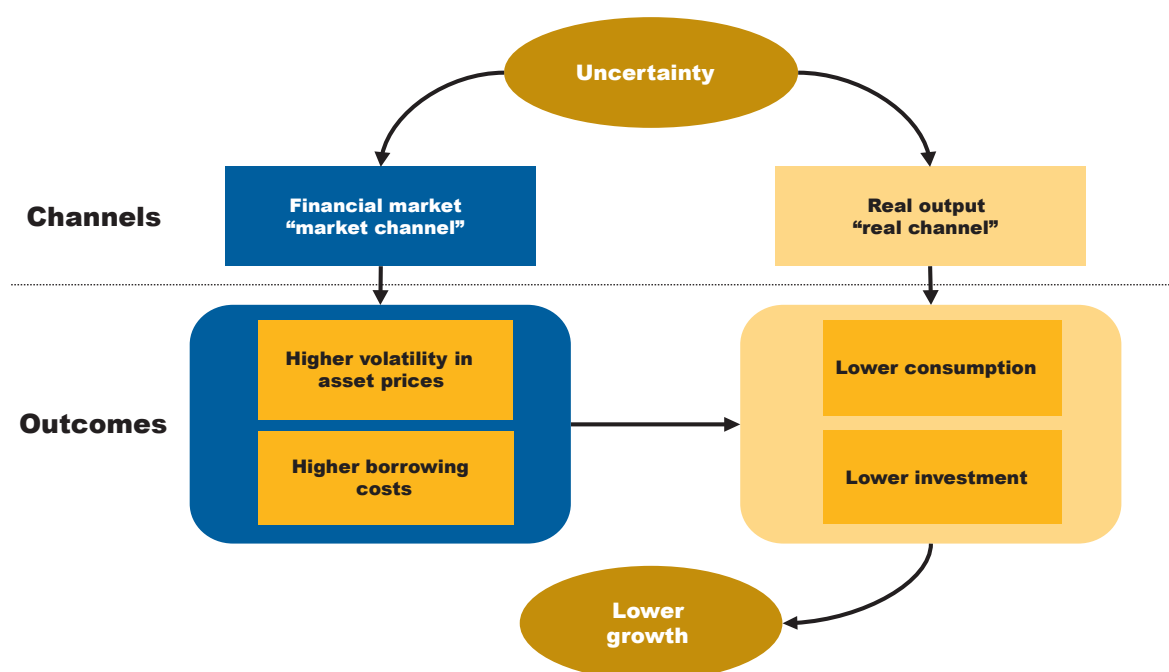
⁶ The sample comprises 19 countries from the MENA region and 8 countries from the CCA region, including Afghanistan, Algeria, Armenia, Azerbaijan, Egypt, Georgia, the Islamic Republic of Iran, Iraq, Jordan, Kazakhstan, Kuwait, the Kyrgyz Republic, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Sudan, Tajikistan, Tunisia, Turkmenistan, the United Arab Emirates, Uzbekistan, and Yemen. The rest of the world sample includes 113 countries. The relative contributions are computed following Sterck (2019), using the sum of mean absolute deviations as a distance measure. Panel regressions span the 1996–2021 period, reflecting data availability. See the Online Annex for further details and regression results. Uncertainty levels are similar across the MENA and CCA regions and are lower in both regions than in the rest of the world, on average.

- *Epidemics (infectious disease outbreaks).* In economies in the CCA region, epidemics are particularly important contributors to uncertainty, explaining about 10 percent of the variation. This share is notably higher than those observed in economies in the MENA region and the rest of the world, where disease outbreaks tend to occur more frequently than in the CCA region.
- *Political instability.* Adverse political events, such as coups, account for about 4 percent of the variation in uncertainty in economies in the MENA region—twice as much as the contribution in the CCA region and the rest of the world.
- *Conflict.* Severe conflicts contribute more than 13 percent to the variation in uncertainty in the economies in the MENA region. By comparison, conflict is less important in the CCA (with an explained share of less than 6 percent) and in the rest of the world (less than 2 percent). Conflict intensity tends to be lower in these regions than in the MENA region.
- *Trade uncertainty.* Trade uncertainty explains less of the variation in uncertainty in the economies of both the MENA and CCA regions compared with the rest of the world, reflecting their lower trade integration relative to other regions. It accounts for 5 percent and 4 percent of the variation, respectively, compared with 8 percent in the rest of the world.

2.4. Adverse Economic Impacts of Uncertainty

Increases in uncertainty can affect the economy through two key channels (Figure 2.5). First, rises could trigger sudden shifts in financial market sentiment (*market channel*), increasing asset price volatility and borrowing costs through higher risk premiums. Second, they can undermine confidence and prompt consumers to save more (the precautionary motive), dampening consumption; and cause foreign and domestic investors to delay or even cancel investment plans (*real channel*).⁷

Figure 2.5. Uncertainty: Channels of Transmission



Source: IMF staff.

⁷ For more insights into the implications of uncertainty on macrofinancial stability, see the October 2024 *Global Financial Stability Report*.

This section assesses the importance of these two channels in the MENA and CCA regions, as well as the rest of the world, distinguishing between domestic versus global uncertainty shocks:

- *Domestic uncertainty shocks* are captured by changes in the country-level WUI. The benchmark shock is a one standard deviation rise, equivalent to a country's uncertainty level jumping from the 10th to 60th percentile of the distribution of uncertainty across economies.
- *Global uncertainty shocks* are captured by changes in the GDP-weighted average WUI for the world. The benchmark shock is a one standard deviation rise, equivalent to a jump from the 10th to 50th percentile of the historical distribution of the global WUI indicator.

A local projections approach (Jordà 2005) is used to estimate the dynamic response of real and financial variables to these uncertainty shocks, controlling for potential confounding factors that could affect both uncertainty and macroeconomic outcomes.⁸

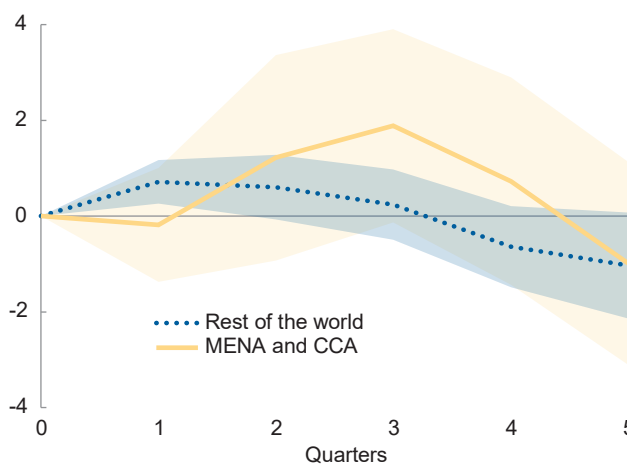
Domestic Uncertainty Shocks

Domestic uncertainty shocks are associated with temporary increases in sovereign spreads and stock market volatility above their baseline trends for economies in the MENA and CCA regions (Figure 2.6).⁹ The magnitude of these effects is larger than those seen in the rest of the world, with peak average impacts of about 2 percent on spreads and about 7 percent for stock market volatility.¹⁰ For stock market volatility, the large impact in the

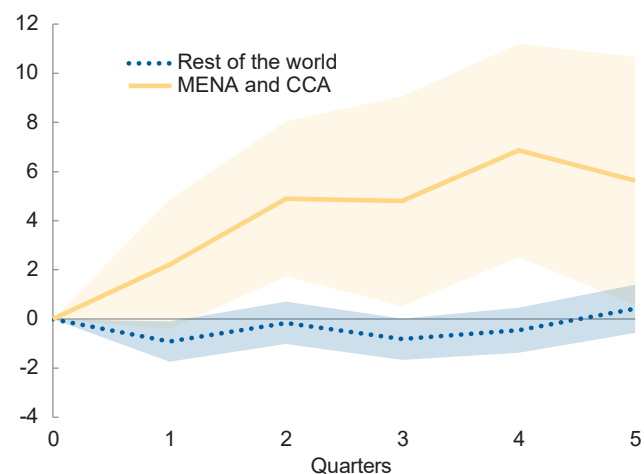
Figure 2.6. MENA and CCA Regions: Impact of Domestic Uncertainty Shocks on Financial Market Indicators

(Percent, impact of a one standard deviation uncertainty shock)

1. Spreads



2. Stock Market Volatility



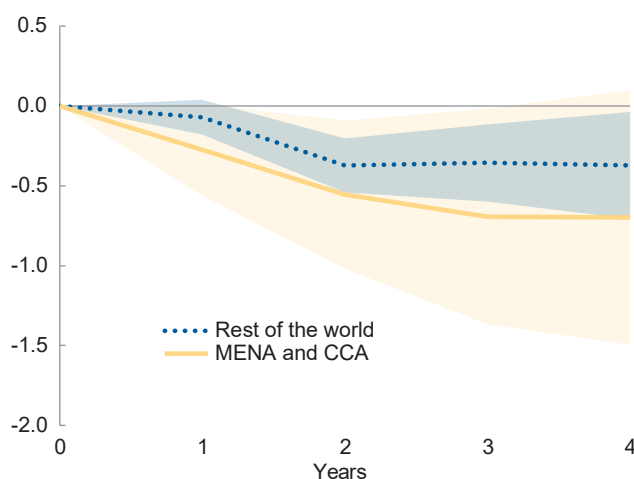
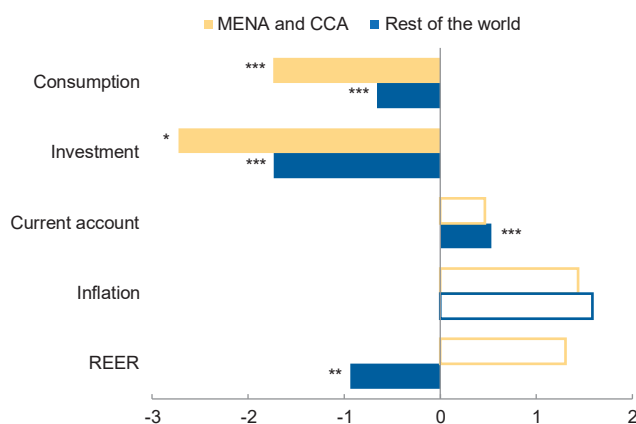
Sources: IMF, World Economic Outlook database; Ahir, Bloom and Furceri 2022; World Uncertainty Index (WUI) database; IMF, Sovereign Spread Monitor; Finaeon, GFDdatabase; and IMF staff calculations.

Note: The impacts of uncertainty are assessed using a local projections approach. The shock happens in quarter 1 and corresponds to a one standard deviation increase in the country-level uncertainty indicator. Regressions include time and country (panel 1) or stock market (panel 2) fixed effects, three lags of the shock, and three lags of the dependent variable. Shaded areas represent the 90 percent confidence interval. Panel 1 shows the impact on spreads, defined as the quarterly average of daily sovereign spreads weighted across maturities. Panel 2 shows the impact on stock market volatility, defined as the standard deviation of weekly stock market prices over the quarter. "Rest of the world" excludes countries in the CCA and MENA regions (and Pakistan). CCA = Caucasus and Central Asia; MENA = Middle East and North Africa (and Pakistan).

⁸ See the Online Annex for further details.

⁹ The analysis of sovereign spreads focuses on 17 economies in the MENA and CCA regions and 70 countries in the rest of the world, while the stock market volatility analysis focuses on 17 economies in the MENA and CCA regions and 82 countries in the rest of the world, reflecting data availability. The impact of uncertainty on stock market volatility and performance in economies in the MENA region is also discussed in Chau, Deesomsak, and Wang (2014) and Faniband and Shamsher (2024), respectively.

¹⁰ For spreads, this translates into a 7.6 basis point increase among countries in the MENA and CCA regions.

Figure 2.7. MENA and CCA Regions: Real Economy Impacts of Domestic Uncertainty Shocks*(Percent, impact of a one standard deviation uncertainty shock)***1. Real GDP****2. Additional Economic Variables**

Sources: IMF, World Economic Outlook database; Ahir, Bloom and Furceri 2022; World Uncertainty Index (WUI) database; Torres Munguía and others 2022; Uppsala Georeferenced Event Database; Center for Research on the Epidemiology of Disasters, Emergency Events Database EM-DAT; World Bank, Worldwide Governance Indicators; and IMF staff calculations.

Note: The impacts of uncertainty are assessed using a local projections approach. The shock happens in year 1 and corresponds to a one standard deviation increase in the country-level uncertainty indicator. Regressions include time and country fixed effects, two lags of the shock, two lags of the dependent variable, and control for openness to trade, investment share, terms of trade shocks, trade partners' growth, control of corruption, conflict shocks, natural disasters, and epidemics. Shaded areas represent the 90 percent confidence interval. Panel 1 shows the real GDP impact. The results remain unchanged when looking at non-hydrocarbon real GDP for hydrocarbon exporters. Panel 2 shows the impact two years after the shock. All results are percent differences except for the current account balance as a percentage of GDP, for which it is the percentage point difference. "Rest of the world" excludes countries in the CCA and MENA regions (and Pakistan); Hollow bars indicate a lack of significance. CCA = Caucasus and Central Asia; MENA = Middle East and North Africa (and Pakistan); REER = real effective exchange rate. * $p < .10$; ** $p < .05$; *** $p < .01$.

MENA and CCA regions could reflect their relatively low levels of financial development, which limit opportunities for diversification and international risk sharing (Chapter 3 of the October 2024 *Regional Economic Outlook: Middle East and Central Asia*).

The analysis also shows larger and longer-lasting effects on the real economy from domestic uncertainty shocks in the MENA and CCA regions, compared with elsewhere (Figure 2.7). In the MENA and CCA regions, domestic uncertainty shocks lead to an immediate decline in real GDP (output, Figure 2.7, panel 1), relative to its baseline trend, with maximum losses reaching about 0.7 percent after two years. This decline is about two times greater than the losses seen in the rest of the world for a comparably sized shock.¹¹

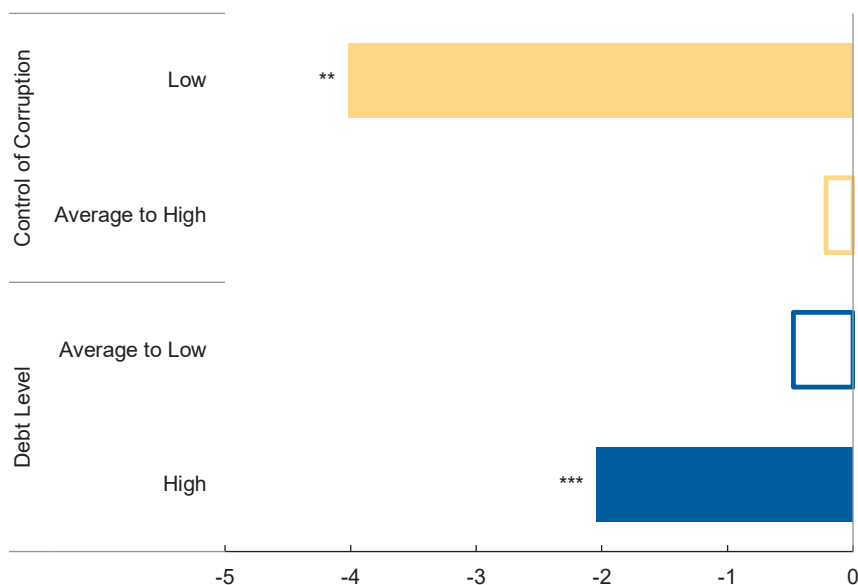
The response of output in the MENA and CCA regions is driven by significant declines in both consumption and investment, which are also more pronounced than those elsewhere (Figure 2.7, panel 2).¹² On the external side, current account balances tend to improve because of weaker domestic demand (and associated import compression). The real effective exchange rate appreciates, likely because of rising inflation and the prevalence of fixed exchange rate regimes in economies in the MENA and CCA regions, although the results are not statistically significant.¹³

¹¹ Similar patterns hold when looking only at economies in the MENA region.

¹² The impacts on the real economy are estimated at the annual frequency due to data limitations.

¹³ For example, no economy in the MENA or CCA region adopted a free-floating exchange rate regime over the 1990–2019 period based on the classification of Ilzetzi, Reinhart, and Rogoff (2022).

Figure 2.8. MENA Region: Impact on Real GDP according to Preexisting Domestic Vulnerabilities
(Percent, impact of a one standard deviation uncertainty shock)



Sources: IMF, World Economic Outlook database; Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI) database; Torres Munguía and others 2022; Uppsala Georeferenced Event Database; Centre for Research on the Epidemiology of Disasters, Emergency Events Database EM-DAT; World Bank, Worldwide Governance Indicators; and IMF staff calculations.

Note: A local projections approach is used to assess the impacts of uncertainty. The shock happens in year 1 and corresponds to a one standard deviation increase in the country-level uncertainty indicator. The figure shows the differential impact two years after the shock according to the control of corruption or the debt level during the year preceding the shock. Regressions include time and country fixed effects, two lags of the shock, two lags of the dependent variable, and control for openness to trade, investment share, terms of trade shocks, trade partners' growth, control of corruption, conflict shocks, natural disasters, and epidemics. Control of corruption is considered low if it is in the bottom 15 percent of the world distribution. Debt is considered high if it is in the top 25 percent of the distribution of the country's corresponding economic grouping (low-income country, emerging market and developing economy, or advanced economy). Hollow bars indicate a lack of statistical significance at the 10 percent level. MENA = Middle East and North Africa (including Pakistan).

* $p < .10$; ** $p < .05$; *** $p < .01$

Preexisting domestic macroeconomic vulnerabilities appear to amplify the negative impacts of domestic shocks on output (Figure 2.8).¹⁴ High debt levels and low control of corruption are associated with higher output losses—estimated at about 2 percent and 4 percent two years after the shock, respectively—than estimated in the baseline specification (Figure 2.7, panel 1).¹⁵

Global Uncertainty Shocks

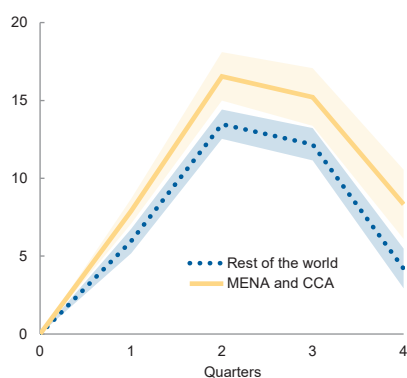
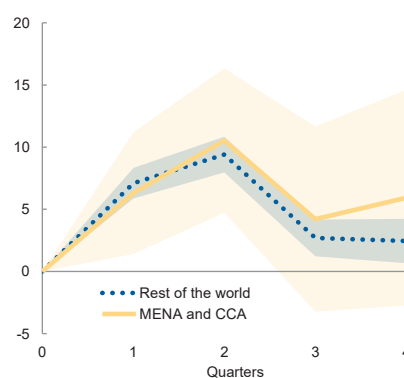
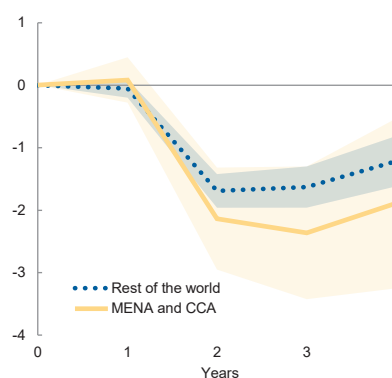
Global uncertainty shocks increase spreads by over 15 percent and stock market volatility by 10 percent (Figure 2.9, panels 1 and 2).¹⁶ These impacts are several times greater than those from domestic shocks.¹⁷

¹⁴ This analysis focuses only on MENA region economies because of data limitations. MENA countries exhibit a higher debt burden (as a percentage of GDP) and lower control of corruption than countries outside MENA.

¹⁵ Less control of corruption may, in part, proxy for lower institutional quality more generally. The additional interaction of less control of corruption or high debt levels with the regional aggregate renders the base regional aggregate not significant, highlighting the importance of fundamentals in the transmission of uncertainty shocks. See the Online Annex for more details.

¹⁶ The increase in spreads is equivalent to about 38 basis points on average.

¹⁷ Different specifications are used between Figure 2.6, panel 1, and Figure 2.9, panel 1. The regression results from Figure 2.9, panel 1, do not include time fixed effects due to collinearity with the global-level uncertainty index. However, the specification does include other important global controls (global oil prices and US policy rates as a proxy for global financial conditions), year and quarter fixed effects, and the domestic uncertainty index. Together, these controls help to mitigate endogeneity concerns. See the Online Annex for more details.

Figure 2.9. MENA and CCA Regions: Impacts of Global Uncertainty Shocks*(Percent, impact of a one standard deviation shock on uncertainty)***1. Spreads****2. Stock Market Volatility****3. Real GDP**

Sources: IMF, World Economic Outlook database; Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI) database; Torres Munguía and others 2022; Uppsala Georeferenced Event Database; Centre for Research on the Epidemiology of Disasters, Emergency Events Database EM-DAT; World Bank, Worldwide Governance Indicators; Federal Reserve Bank of St. Louis, Federal Reserve Economic Data database; Finaeon, Inc., GFDATABASE; IMF, Sovereign Spread Monitor; Stock Market Prices; and IMF staff calculations.

Note: A local projections approach is used to assess the impacts of uncertainty. The shock happens in quarter 1 or year 1 and corresponds to a one standard deviation increase in the GDP weighted World Uncertainty Index as measured by Ahir, Bloom, and Furceri (2022). Regressions in panels 1 and 2 include year, quarter, and country (panel 1) or stock market (panel 2) fixed effects, three lags of the shock, three lags of the dependent variable, and control for domestic uncertainty. Regressions in panel 3 include country fixed effects, two lags of the shock, two lags of the dependent variable, and control for domestic uncertainty, openness to trade, investment share, terms of trade shocks, trade partners' growth, control of corruption, conflict shocks, natural disasters, epidemics, Federal Reserve fund rates, and global oil prices. Shaded areas represent the 90 percent confidence interval. "Rest of the world" excludes countries in the CCA and MENA regions (and Pakistan); CCA = Caucasus and Central Asia; MENA = Middle East and North Africa (and Pakistan).

Moreover, global shocks are associated with large and persistent output losses, ranging from about 1.5 percent to 2.5 percent two years after the shock (Figure 2.9, panel 3).¹⁸ Also, the impacts of global shocks appear to be more uniform across the MENA and CCA regions and the rest of the world, compared with the differential impacts of domestic shocks across regions shown earlier.¹⁹

What do these findings mean for the potential impact of the large and sharp rise in uncertainty in early 2025, equivalent to a shock of 1.9 standard deviations? If global uncertainty follows its historical dynamic pattern over the rest of the year, the rise in uncertainty could lead output to fall about 4.5 percent below its original trend after two years for the average economy in the MENA and CCA regions; output for the average economy in the rest of the world would fall by about 3 percent.²⁰

2.5. Fostering Resilience amid High Uncertainty

What actions can policymakers in the MENA and CCA regions take to mitigate the adverse economic impacts of uncertainty shocks? The findings show that countries with weaker macroeconomic fundamentals—lower policy buffers (high debt) and weaker governance and institutions—tend to experience worse economic ramifications from uncertainty shocks. Global uncertainty shocks are also found to have more adverse economic impacts than domestic uncertainty shocks on average. To build resilience against uncertainty, policymakers should consider the following actions, tailored to country-specific circumstances as appropriate:

¹⁸ Additional controls are used to account for global economic conditions. See the Online Annex for more details.

¹⁹ Similar patterns hold when looking at global trade policy uncertainty, US monetary policy uncertainty and global economic policy uncertainty. See the results in the Online Annex.

²⁰ The analysis uses a simple autoregressive model to predict annual uncertainty in 2025, incorporating the latest monthly uncertainty measures and the estimated coefficients from Figure 2.9, panel 3.

- *Where policy buffers are low, the immediate priority should be to rebuild them.* In the presence of high uncertainty, greater emphasis should be put on policies that help insure against the materialization of worst-case scenarios in the future and to ensure that policymakers are well equipped to soften their economic and social impacts. This is even more important for countries facing macroeconomic imbalances (high debt, persistently high fiscal or current account deficits, low international reserves, elevated inflation), which may be perceived as less capable of responding to future shocks. Policymakers should aim to:
 - *Strengthen fiscal positions.* Where public debt is high or fiscal deficits are persistently high, fiscal consolidation should proceed at a pace and magnitude that strikes the right balance between achieving debt sustainability and supporting domestic demand.
 - *Accumulate international reserves.* The role of foreign exchange reserves as buffers against external shocks is well documented (IMF 2013). If foreign exchange volatility and capital outflows become disruptive, deploying tools as described in the IMF's Integrated Policy Framework may be considered.
- *Diversifying trade and financial relations through broader regional and cross-regional economic integration measures.* Reducing long-standing trade and financial barriers can help mitigate the impact of trade uncertainty and geopolitical fragmentation by fostering new and more diverse international economic relationships (Chapter 3 of the April 2024 *Regional Economic Outlook: Middle East and Central Asia*). Bolstering cross-regional connections—for example, between economies in the GCC and the CCA region, and between economies in the GCC and Africa—can also be a way to reduce exposure to regional uncertainty shocks by improving the opportunities for risk sharing.
- *Enhancing macroeconomic frameworks and strengthening governance and institutions to bolster policy credibility and predictability.* Stronger fiscal and monetary policy frameworks enhance the credibility and predictability of economic policy, by demonstrating a solid commitment to debt sustainability and price stability (October 2021 *Fiscal Monitor*, October 2024 *Global Financial Stability Report*). Supported by clear and consistent communication of policy objectives, strong frameworks can boost trust and help alleviate uncertainty for households and firms, aiding their economic decision-making. With greater policy credibility, the near-term space for targeted countercyclical policies is also larger if downside risks materialize (April 2025 *World Economic Outlook*). Similarly, improving governance and institutions, especially the rule of law, would mitigate uncertainty by fostering a more stable and predictable business environment. Stronger macroeconomic and institutional frameworks are also essential preconditions for advancing financial market development, which would help to support trade and financial diversification efforts (Chapter 3 of the October 2024 *Regional Economic Outlook: Middle East and Central Asia*).
- *Mitigating the effects of conflict, climate, and health shocks on domestic uncertainty.* To effectively dampen both the direct and indirect effects of these shocks, countries should prioritize preparedness through enhanced security, implementation of climate adaptation and mitigation strategies, and strengthened health systems.

References

- Ahir, Hites, Nicholas Bloom, and Davide Furceri. 2022. "The World Uncertainty Index." NBER Working Papers 29763, National Bureau of Economic Research, Cambridge, MA. doi: 10.3386/w29763
- Chau, Frankie, Rataporn Deesomsak, and Jun Wang. 2014. "Political Uncertainty and Stock Market Volatility in the Middle East and North African (MENA) Countries." *Journal of International Financial Markets, Institutions and Money* 28: 1-19.
- Davis, Steven J. 2016. "An Index of Global Economic Policy Uncertainty." NBER Working Papers 22740, National Bureau of Economic Research, Cambridge, MA. doi: 10.3386/w22740.
- Faniband, Muhammadriyaj, and Salim Shamsher. 2024. "Economic Policy Uncertainty and Stock Market Performance: Evidence from the Middle East." *International Journal of Diplomacy and Economy* 10 (1): 5-38.

- Husted, Lucas, John Rogers, and Bo Sun. 2017. "Monetary Policy Uncertainty." International Finance Discussion Papers 1215, Board of Governors of the Federal Reserve System, Washington, DC. doi: 10.17016/IFDP.2017.1215
- Ilzetzki, Ethan, Carmen M. Reinhart, and Kenneth Rogoff. 2022. "Rethinking Exchange Rate Regimes." In *Handbook of International Economics, Volume VI*, edited by Gita Gopinath, Elhanan Helpman, and Kenneth Rogoff. Oxford, UK: North-Holland.
- International Monetary Fund (IMF). 2013. "Assessing Reserve Adequacy – Further Considerations." IMF Policy Paper, International Monetary Fund, Washington, DC.
- Jordà, Òscar. 2005. "Estimation and Inference of Impulse Responses by Local Projections." *American Economic Review* 95 (1): 161–82.
- Knight, Frank H. 1921. *Risk, Uncertainty, and Profit*. Boston: Hart, Schaffner and Marx; Houghton Mifflin.
- Munguía, Juan Armando Torres, Florina Cristina Badarau, Luis Rodrigo Díaz Pavez, Inmaculada Martínez-Zarzoso, and Konstantin M. Wacker. 2022. "A Global Dataset of Pandemic- and Epidemic-Prone Disease Outbreaks." *Scientific Data* 9 (2022): 683. doi: 10.1038/s41597-022-01797-2
- Sterck, Olivier. 2019. "Beyond the Stars." *Journal of Economic Surveys* 33 (5): 1409–36. doi: 10.1111/joes.12330