INTERNATIONAL MONETARY FUND

U.S. Trade Policy Uncertainty and the Current Account: Unpacking Trade and Financial Channels

Adam Jakubik and Yuting Wei

WP/26/17

2026
JAN

WORKING PAPER

 WP/26/17

IMF Working Paper
Research and Strategy, Policy, and Review Departments

U.S. Trade Policy Uncertainty and the Current Account: Unpacking Trade and Financial Channels

Prepared by Adam Jakubik and Yuting Wei*

Authorized for distribution by Michele Ruta
January 2026

ABSTRACT This paper investigates the implications of trade policy uncertainty (TPU) in the United States for current account balance (CAB) dynamics, given renewed interest in pursuing trade policy measures to address persistent current account deficits. We examine whether TPU, a distinct source of policy uncertainty and separate from enacted tariff and non-tariff measures, can influence aggregate macroeconmic outcomes. Using a local projection framework that controls for domestic and global macroeconomic factors and enacted trade policy changes, we find that TPU shocks generate a statistically significant but transitory positive effect on the CAB, primarily through a sharper contraction in imports relative to exports, with durable goods relatively more affected. From a savings and investment perspective, TPU raises precautionary savings in the private sector and modestly depresses investment. This is primarily driven by government investment and partially offset by private investment, particularly in high-tech sectors. Bilateral trade effects are heterogenous across different groups of trading partners: geopolitical distance and closer GVC and FDI linkages imply larger declines. Our findings suggest that while TPU can momentarily shift external balances, it does not deliver sustained improvements, highlighting the importance of transparent and predictable trade policy frameworks that mitigate costly uncertainty and avoid unintended macroeconomic distortions. Our findings also imply that econometric analyses of the CAB effects of trade policy should control for uncertainty in order to avoid spurious correlations.

JEL Classification Numbers:	L52; C81; F50
Keywords:	Trade Policy Uncertainty; Current Account Balance
Author's E-Mail Address:	ajakubik@imf.org, ywei@imf.org

* The authors wish to thank Jaebin Ahn, Sakai Ando, David Coble, Yukun Ding, Shushanik Hakobyan, Alessandro Lavia, Nikhil Patel, Andrea Pescatori, Michele Ruta, Dmitriy Sergeyev, Martin Sommer, colleagues who attended the IMF FIP Seminar, and participants at the 18th UniTO-Collegio Carlo Alberto PhD Workshop for their thoughtful comments, and Shuhan Yue for excellent research assistance.

WORKING PAPERS

U.S. Trade Policy Uncertainty and the Current Account: Unpacking Trade and Financial Channels

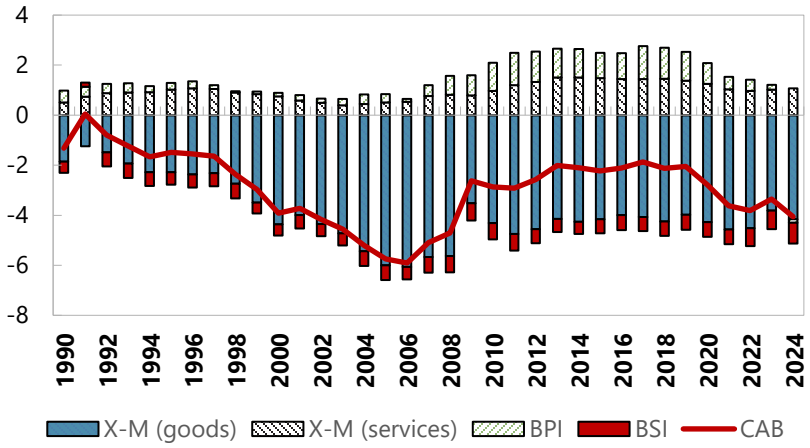
Prepared by Adam Jakubik and Yuting Wei

Contents

Introduction

The United States' large tariff increases in 2025 have placed trade policy front and center of economic debates. A central objective of these actions has been to reign in large and persistent current account deficits.[1] A notable feature of their implementation has been uncertainty about the final tariff level given evolving policy objectives, legal challenges, and ongoing international negotiations. This uncertainty is reflected in the series of suspensions, revisions, exclusions, court decisions, negotiations of bilateral trade deals, and the extensive news coverage of these developments. Unsurprisingly, established indices tracking trade policy uncertainty (TPU) based on news reports have reached record levels, surpassing even previous peaks attained during the 2018 U.S.–China trade tensions. In this environment, firms and households must make decisions based not only on enacted policies but also on their expectations about future trade actions, which may influence production, investment, and expenditure patterns.

Figure 1. U.S. Current Account Balance by Component (percent of GDP)



Source: Bureau of Economic Analysis and IMF staff calculations.

Against this backdrop, in this paper we take a historical perspective and ask whether TPU has in the past had any impact on current account dynamics. Figure 1 illustrates the evolution of the United States' current account balance (CAB) and its components over the last decades. The CAB can be viewed both through the perspective of trade flows and of capital flows, that is, the balance of international trade and the difference between domestic savings and investment.[2] As a matter of accounting the gap between exports and imports plus the sum of income balances must equal the gap between gross domestic savings and investment. In what follows we focus primarily on the trade balance and the savings-investment gap, given the relatively small contribution of income balances to the overall CAB.

[1] Tariffs announced April 2 were designed "to rectify trade practices that contribute to large and persistent annual United States goods trade deficits." (Executive Order No. 14,257, 2025)

[2] This is summarized by the accounting identities $CAB = X - M + BPI + BSI = S - I$, where $X - M$ is the difference between exports and imports, *BPI* and *BSI* are balances on primary and secondary income, and $S - I$ the gap between gross domestic savings and investment. Primary income is derived from the provision of labor, capital and land; secondary income includes transfers by individuals and governments such as remittances and foreign aid.

There is a vast literature on the elasticity of imports and exports to tariffs, non-tariff barriers, and even to TPU. A much smaller literature studies the impact of trade costs on current account dynamics, which finds only minor and heterogeneous effects (Boz et al., 2019). To our knowledge, the effect of TPU on the CAB has not been the focus of any existing studies, despite there being theoretical and empirical reasons to hypothesize that it may have a first order impact. TPU is conceptually distinct from other forms of general or policy uncertainty because it is targeted at policies restricting trade rather than fiscal, monetary, or other macroeconomic policies. Certain channels, however, may coincide, for example, expectations over real income and wealth effects; others are unique and have distinct implications for domestic versus external transactions. Firstly, TPU acts as a direct trade cost on imports but affects exports only indirectly, through raising the cost of imported inputs (including physical capital), offsetting exchange rate appreciation, and possible foreign retaliation. This asymmetry between imports and exports implies a potential positive effect on the CAB. Second, from the domestic perspective, the CAB is equal to the savings-investment gap. According to real options theory, uncertainty in general will delay irreversible investment (Bernanke, 1983; Dixit, 1989) while according to risk premium theory uncertainty raises the required return on investment, which increases the discount rate and reduces firm valuations, thereby raising the cost of capital (Cochrane, 2025). It will also increase savings by delaying consumption, in particular, of durable goods (Bertola et al., 2005). Here trade policy uncertainty, as other forms of uncertainty, will on aggregate reduce investment and increase savings, but will have uneven sectoral impacts that depend on exposure to trade. Uncertainty which disrupts trade can also harm investment through increasing the cost of physical capital and raw materials, since capital goods and raw materials are relatively more trade intensive. Therefore, potential impacts on both trade and savings and investment suggest a positive effect on the CAB.

Whether TPU affects the CAB, and the magnitude and persistence of these effects, are of policy relevance, since policymakers can take actions to modulate uncertainty. Trade policy can be conducted either in ways that increase or that lower TPU. Recognizing that TPU constitutes a trade cost and is harmful for trade and investment, governments have sought to reduce TPU through various means, for example, by entering into binding international trade agreements, availing themselves of dispute settlement procedures, enacting domestic institutional guardrails, conducting consultation with stakeholders (e.g., USTR public comments, EU–Civil Society dialogue), timely communication of policies (cf. forward guidance), allowing for adequate implementation periods, and staged implementation. Therefore, if the objective of trade policy is to improve the CAB, then the manner in which trade policy is pursued may either support or detract from this objective. If TPU increases the CAB permanently, a benevolent government has to weigh the negative welfare impacts of uncertainty on firms and households against its impacts on its CAB targets; if the effect on CAB is transitory then the government should seek to minimize harmful TPU. Finally, our results are relevant for economic analysis, since if TPU affects the CAB then this can lead to spurious over- or underestimates of the impact of actual policy changes when accompanied by uncertainty, and must therefore be controlled for in empirical specifications.

In this paper, we approach our research question empirically by studying the dynamic effect of TPU on the United States' CAB. We also investigate impacts on the different CAB subcomponents with the aim of distinguishing the mechanisms driving our results, including at the granular sectoral level of imports and exports, savings and investment, as well as bilateral trade with trading partners with different characteristics. We focus on the United States because of its central role in determining global imbalances and the availability of long time series of detailed high-quality data on its CAB.

The choice of a suitable measure of uncertainty is key to our analysis. Our research question requires a measure which specifically captures uncertainty of trade policy, rather than general uncertainty or uncertainty over macroeconomic policies more broadly. There are several distinct approaches in the literature to conceptualize and measure trade policy uncertainty, including indicators based on news media (Baker, Bloom, and Davis, 2016; Caldara et al., 2020) or country economic reports (Ahir, Bloom, and Furceri, 2022), firm-level indicators based on textual analysis of earnings calls (Hassan et al., 2019; Caldara et al., 2020), tariff volatility (Caldara et al., 2020), and the difference between applied and bound tariffs, known to negotiators as tariff water (Foletti et al., 2011; Nicita et al., 2018; Osnago et al., 2018; Jakubik and Piermartini, 2023). Given our focus is on the United States, data from news media are abundant and cover a wide range of perspectives, while cross-country comparability of indicators, such as those derived from standardized reports, is not a primary concern. Furthermore, tariff water in U.S. tariff schedules is minimal. We therefore use as our principle TPU shock variable the newspaper-based measure developed by Caldara et al. (2020), with alternative measures used for robustness checks.

The empirical strategy of this paper is to employ the local projections methodology following Jordà (2005) and Olea et al. (2025) to estimate impulse response functions and dynamic causal effects of TPU on the CAB and its components. We utilize this approach because it directly estimates the dynamic causal effects of macroeconomic shocks on aggregate outcomes. An impulse response generated using the Jordà (2005) methodology can be seen as equivalent to structural vector autoregressions (SVAR) under certain conditions.[3]

In our study, the TPU indicator can be considered a shock since it is constructed independently of macroeconomic indicators. It has been shown by Caldara et al. (2020) not to be Granger caused by other shocks, for example Total Factor Productivity (TFP). To further alleviate endogeneity concerns, in an alternative specification we use a constructed TPU shock which is the residual from projecting TPU onto the relevant control variables, including industrial production growth, tariff rate, VIX, and REER. This approach isolates the variation in TPU that is orthogonal to standard macroeconomic fluctuations and other sources of uncertainty. As expected, the estimated effects based on this residualized shock are smaller in magnitude but remain qualitatively consistent with those obtained using the original TPU series. We report results using both the original and residualized series; the latter serves as an additional robustness check.

Our benchmark regressions use quarterly data from 1990 to 2024. This long time series encompasses several significant events in US trade policy that contributed to variation in TPU: both NAFTA and the Marrakesh Agreement establishing the WTO were signed in 1994 and China acceded to the organization in 2001, the collapse of the Doha Round negotiations in 2008, failure of TTIP and TPP negotiations in 2016-17, including the U.S. withdrawal, the escalation of the U.S.–China trade conflict in 2018-19, NAFTA renegotiations resulting in the USMCA in 2018, the COVID-19 pandemic and the resulting supply chain disruptions and export controls in 2020, the CHIPS and Science Act and Inflation Reduction Act of 2022, and expanded Section 232 and 301 tariffs ahead of the 2024 U.S. elections. The sample size changes for robustness and heterogeneity checks based on data availability.

We uncover several novel results. First, TPU shocks are typically transient and have only transient real economic effects. This contrasts with the literature on changes in tariffs and non-tariff barriers, which tend to be highly persistent, even in the care of temporary trade remedies. Second, TPU has a statistically significant positive effect on the CAB, but this effect is economically small and transient. This result is obtained by

[3] For example, when controlling for a large number of lags in VAR (Olea et al., 2025).

controlling changes in actual trade restrictions such as tariffs and non-tariff barriers as well as general economic uncertainty. Analysis of the impulse response of different trade-related subcomponents reveals that this aggregate impact is driven by a reduction in imports which is larger than the reduction in exports. Third, from the financial perspective, we observe a positive effect on savings driven by precautionary savings in the private sector and a negative effect on investments, partially offset by private investment in the high-tech sector. Fourth, we observe a larger decline in imports and exports of durable goods than non-durable goods, but no significant differences across other product categories. Fifth, we observe different responses by type of trading partner: imports from more geopolitically distant partners and those with closer global value chain (GVC) or foreign direct investment (FDI) linkages with the United States decrease relatively more.

To explore the robustness of our results, we test alternative measures of TPU, controls for non-trade sources of uncertainty, and sample restrictions: (i) we employ as the shock the tariff volatility from Caldara et al. (2020) to address concerns about exogeneity; (ii) the extensive margin TPU indicator built by Albrizio et al. (2025) to address the concern that results are sensitive to measurement; (iii) control for an index of economic (non-trade) policy uncertainty, constructed by Baker et al. (2021), which covers, for example, monetary and fiscal policy uncertainty; and (iv) restricted samples of 1990-2016 and 1990-2019 to test whether the impact is driven by recent uncertainty episodes and not confounded by the impact of the COVID-19 pandemic.

Related Literature. These findings contribute to the empirical literature studying the effects of TPU and the emerging literature on trade-related determinants of the CAB. The literature on uncertainty has established that reductions in TPU have significant trade boosting effects even in the absence of any actual changes to trade barriers (Pierce and Schott, 2016; Handley and Limão, 2015; 2017). Handley and Limão (2022) provide a comprehensive review. Moreover, governments can mitigate TPU through legally binding bilateral, regional or multilateral trade agreements (Jakubik and Piermartini, 2023; Brotto et al., 2024; Carballo et al., 2025) and by strengthening geopolitical alliances (Jakubik and Ruta, 2023). Symmetrically, TPU is increased by decisions to violate or exit trade agreements (Graziano et al., 2020).

Our paper is most closely related to Caldara et al. (2020) since we make use their index of TPU for the U.S. economy, which is constructed using newspaper coverage of trade and uncertainty related key words. They study the macroeconomic impacts of TPU and find a decline in aggregate investment of between 1-2 percent as a result of the 2018 TPU shock. Their finding is based on firm-level exposure to uncertainty and aggregate real business fixed investment per capita. Boer and Ried (2024) also use their index and narrative sign restrictions in a structural VAR model and find a positive effect on the trade balance of around 0.75 percentage points.

The other main strand of the literature we contribute to relates to the determinants of the CAB. The IMF's External Balance Assessment (EBA) suit of models are designed to study the medium-term CAB determinants in a reduced form multilaterally consistent way (Phillips et al., 2013; Allen et al., 2023). However, these models do not explicitly include trade costs or uncertainty. They study cyclical factors, macroeconomic fundamentals, structural fundamentals, and policy variables, such as fiscal balance and foreign exchange interventions interacted with capital controls.

Boz et al. (2019) are the first to introduce a measure of trade costs in these models using estimated aggregate trade costs. They do not distinguish between policy (tariffs and non-tariff barriers, regulations) and non-policy sources (such as transport costs or cultural differences) of trade costs. They find a statistically significant negative impact of trade costs on exports on the CAB but the average magnitudes are moderate. The CAB of

an average country would improve by 0.5 percent of GDP if the costs of exporting to all trading partners fell by 10 percentage points in all sectors. The effects of trade costs facing imports are statistically insignificant. One point to note is that this analysis relies on two sample periods (1986-2009 and 2001-2014) which were characterized by trade policy moving in a liberalizing direction, in contrast to our extended sample capturing also significant trade policy reversals.

Schmitt-Grohé and Uribe (2025) study the impact of import tariffs on the current account and other macroeconomic outcomes using an empirical time series model. They find that a transitory import tariff results in a transitory 2 percentage point increase in the trade balance, while a permanent tariff increase has insignificant effects. This is consistent with theoretical predictions from an intertemporal model of the current account.

The rest of the paper is organized as follows. Section 2 describes the data and stylized facts. Section 3 presents the empirical methodology and results. Section 4 concludes and provides some suggestions for future research in this area.

Data and Stylized Facts

Our main treatment variable of interest is news-based TPU sourced from Caldara et al. (2020) which covers the period 1990 to 2024. Conceptually, this measure of uncertainty captures key elements of the distribution of the level of future protection, arguably, a combination of first, second, and higher moments. This is because increases in TPU over the study period are associated mostly with the increased probability of protectionist actions rather than liberalizing outcomes. It therefore captures shocks to the first moment (expected value) meaning that higher levels of protection are expected in the future, as well as second moment (variance) which captures the increased dispersion of potential outcomes, and possibly also the third moment (skewness) which captures the asymmetry of these outcomes, in our case an increasing tilt towards downside risks. TPU does not separately identify the moments and our interpretation here is conceptual rather than statistical. We are not concerned about the relative importance of these simultaneous possibilities since all of them imply higher TPU raises the relative probability weight assigned to the protectionist (downside) end of the distribution, which is what ultimately drives the behavior of firms and households in our hypothesized mechanisms. An alternative text-based trade uncertainty measure of Ahir et al. (2022) relies on a single publication by the Economist Intelligence Unit that consistently covers multiple countries using a standardized format and therefore has certain advantages in cross-country analysis. However, given our focus is the United States we prefer the TPU index of Caldara et al. (2020) since it draws from a more comprehensive and varied set of news sources allowing us to exploit more granular timeseries variation. In the appendix, we test alternative TPU measures, which yield effects in the same direction and of comparable magnitude. Finally, all TPU measures are predominantly focused on uncertainty over import policies rather than export policies, which tend to be narrowly targeted at certain high-risk products for national security reasons.[4] They do, however, capture potential indirect impacts on exports from foreign import restrictions in the context of trade tensions, which can attenuate current account impacts (Auclert et al., 2025).

[4] This is further reinforced by the fact that in the United States the constitution prohibits export taxes (Article I, Section 9, Clause 5 – "the Export Clause").

In the benchmark specification, we include TPU directly in the local projection together with contemporaneous and lagged macroeconomic and trade controls (industrial production, the real effective exchange rate, tariff measures, and financial volatility). This specification isolates the effect of TPU conditional on these observed macro–financial conditions, so that our results are not driven by the usual cyclical co-movements.

As a diagnostic for reverse causality, we examine whether external-balance variables help explain movements in TPU. Specifically, we regress TPU on contemporaneous and four lags of current account to GDP ratio, alongside the same set of macro-financial and trade controls used in the baseline local projections. The contemporaneous and lags of current account are jointly insignificant and add little explanatory power for TPU. This suggests that movements in the current account do not systematically feed back into TPU once macro-financial conditions are considered.

We also employ additional measures of TPU in robustness checks. These include an alternative measure based on earnings calls (Albrizio et al., 2025), different identification (Baker et al., 2021), and tariff volatility (Caldara et al., 2020).

Table 1. Summary Statistics

	Mean	SD	Min	Max	Time Coverage
Current account (share of GDP)	-.029	0.014	-.062	.001	1990q1-2024q4
Export (share of GDP)	.076	0.009	.058	.097	1990q1-2024q4
Import (share of GDP)	.116	0.017	.08	.159	1990q1-2024q4
Gross savings (share of GNI)	.182	0.016	.134	.216	1990q1-2024q4
Gross investment (GFCF) (share of GDP)	.214	0.014	.172	.24	1990q1-2024q4
Gross private savings (share of GNI)	.203	0.028	.164	.389	1990q1-2024q4
Gross govt savings (share of GNI)	-.021	0.036	-.218	.041	1990q1-2024q4
Gross private investment (share of GDP)	.130	0.010	.095	.154	1990q1-2024q4
Gross govt investment (share of GDP)	.039	0.004	.034	.049	1990q1-2024q4
Industrial production (growth rate)	.377	2.033	-13.465	10.885	1990q1-2024q4
Real effective exchange rate	2.043	0.038	1.97	2.125	1990q1-2024q4
Average applied tariff (annual rate)	1.997	0.686	1.2	3.4	1990q1-2024q4
VIX index	19.469	6.963	10.308	58.605	1990q1-2024q4

Our main outcome variables of interest are the CAB and its subcomponents: imports, exports, savings (gross national savings) and investment (gross fixed capital formation). These are expressed as percent of GDP, or percent of GNI in the case of savings.[5] These are sourced from the IMF. Additional variables of interest are industrial production growth and REER sourced from the IMF International Financial Statistics (IFS). Granular trade data by product, end use classification, and trading partner are obtained at the monthly frequency from USITC DataWeb.

We include control variables for implemented trade policy changes as well as broader macroeconomic uncertainty. For the former, we use the historical trade-weighted average applied tariff rates in the United States. We also control for a trade restrictiveness index as a broader measure of realized trade policy in robustness tests. For broader macroeconomic uncertainty, we use the VIX index of stock market volatility,

[5] We use GNI given the statistical definition for gross national savings is the difference between GNI and consumption (plus net current transfers), since savings can derive from both domestic and foreign sources of net income. It is also a standard ratio published by the BEA.

which captures uncertainty experienced by the financial markets. Summary statistics of these variable are reported in Table 1.

We combine and aggregate these data for our benchmark specification and obtain a time coverage of 1990-2024 at the quarterly frequency. In the appendix, we also examine subsamples to assess potential state dependence, given the relatively low variability of TPU prior to 2016. In our panel regressions and robustness checks we sometimes employ shorter time periods due to data availability constraints.

Empirical Results

Benchmark specification and results

Our aim is to identify the impulse responses of TPU shocks on the CAB and its sub-components. To this end we employ the local projections method developed by Jordà (2005) to estimate impulse responses to establish a set of benchmark results. We will then show the robustness of these results to various alternative specifications. Our benchmark specification is the following:

$$Y_{t+h} - Y_{t-1} = \beta_0^h TPU_t + \sum_{j=1}^{L} \beta_j^h TPU_{t-j} + \delta^h X_t + \gamma_{q(t)}^h + \varepsilon_t^h \qquad (1)$$

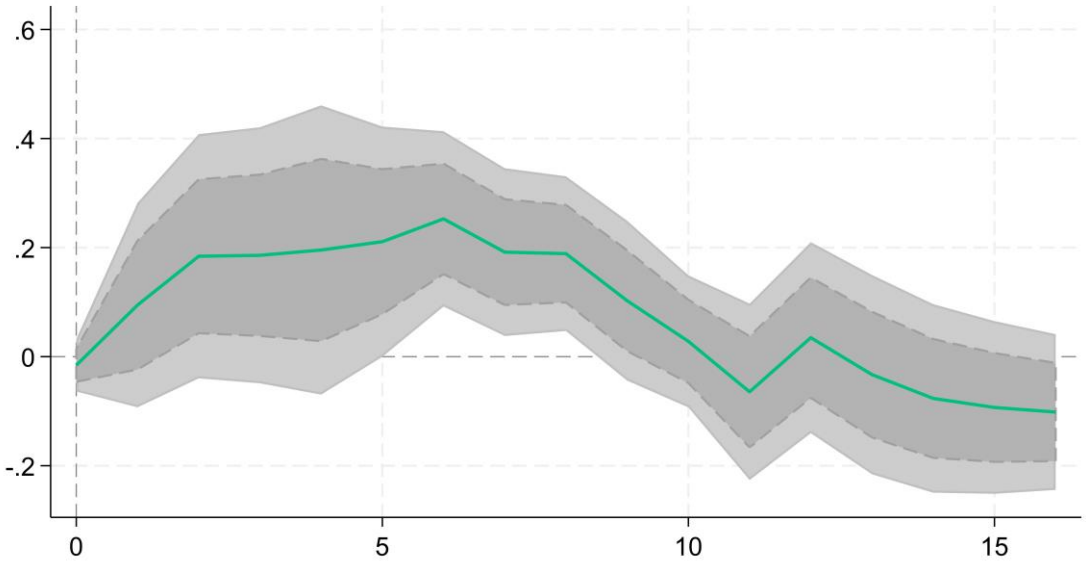
Here Y_t is the outcome variable of interest (CAB, imports, exports, savings, investment, expressed as a share of GDP or GNI) for the United States, our shock variable is TPU_t, the trade policy uncertainty index, X_t is a vector of other controls (contemporaneous controls and two lags of dependent variables, tariffs, non-tariff measures, REER, VIX index, etc.), $\gamma_{q(t)}$ are a set of quarter fixed effects to control for seasonality, and ε_t is the unexplained residual. We include contemporaneous controls and two lags to capture short-run co-movements while avoiding over-parameterization. The main coefficients of interest are β_0^h at different lag lengths h which determine the impulse response of our variables of interest to the shock. Standard errors are Newey–West corrected with a horizon-robust lag length equal to the forecast horizon (16 quarters).

The TPU index is constructed from news articles and therefore reflects the arrival of information about policy announcements, negotiations, and changes in the perceived probability of tariff implementation. We use the quarterly value of TPU, which summarizes the level of trade-policy uncertainty prevailing during quarter t. In the local-projection framework, time zero corresponds to quarter t, meaning that a TPU shock represents an unanticipated change in uncertainty that becomes known within that quarter. Firms update expectations as these news signals arrive, while the macroeconomic variables we study are observed at quarterly frequency. The resulting impulse responses trace the dynamic effects of a news-driven uncertainty shock materializing within quarter t, aligning the timing of the TPU measure with that of the quarterly macroeconomic data.

Equation (1) is estimated at the quarterly frequency for a time series from 1990 to 2024. Figure 2 shows the benchmark results for the CAB as a percentage of GDP. It reveals that a one standard deviation shock in TPU results in a statistically significant albeit small increase in the CAB of around 0.23 percentage points at its peak. This effect is transient and reverses after 8 quarters or around 2 years. For a historical comparison, the TPU

shock which accompanied the 2018 U.S.-China trade tensions was around 4 standard deviations[6], estimated to have increased the CAB by 0.92 percentage points.

Figure 2. Impulse Response of Current Account Balance to TPU
(percentage points)



Note: The green solid line indicates the response of the current account balance (share of GDP) to a one-standard-deviation increase in the trade policy uncertainty shock. The shaded areas are 70% and 90% confidence bands. The x-axis denotes time in quarters where $t = 0$ is the period of the shock.

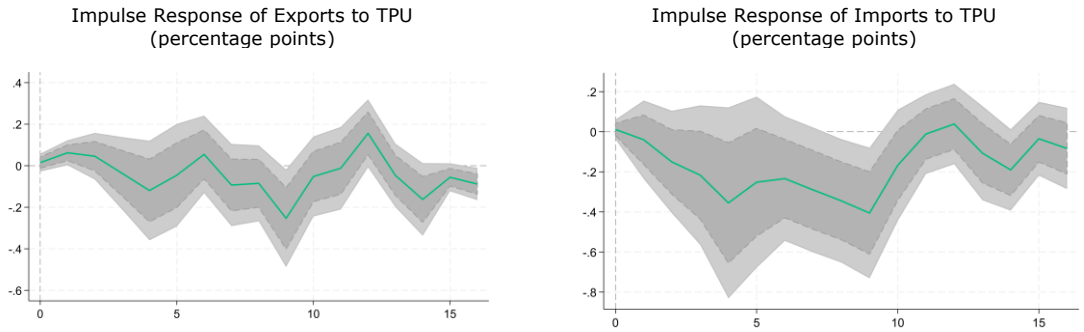
This results is interesting for two main reasons. First, it confirms the intuition that beyond implemented trade policy changes, also the manner in which trade policy is conducted and communicated can have macroeconomically significant impacts. Second, it highlights how the impacts of policy changes on the current account may be overstated because they are in part due to the accompanying TPU shock. Finally, the transitory nature of the TPU shock and its impact indicates that uncertainty is not an effective means of improving the CAB in the medium to long term, and given the economic costs associated with TPU governments should seek to minimize it.

Then, we turn to examine the drivers of this impact, starting with the trade channel. Figure 3 shows the impulse responses of exports and imports as percentage of GDP separately. While TPU has a statistically significant negative effect on imports, its effect on exports is generally small and becomes statistically significant only at longer horizons. The overall positive impulse response of CAB is explained by the improvement in net exports given the small decline in exports, around -0.2 percentage points in quarter 9, and a slightly larger decline in imports of around -0.4 percentage points at its trough. The asymmetric responses of exports and imports relative to GDP are not surprising, because from an accounting perspective the import-to-GDP ratio is averagely larger than the export-to-GDP ratio. The stronger effect on imports is also consistent with our proposed mechanism: TPU more directly influences the U.S. import side by discouraging firm entry into trade,

[6] The TPU shock at the end of 2024 was around 7 standard deviations, but our sample period does not include 2025.

while its effect on exports operates mainly through indirect channels such as higher input costs and the perceived risk of foreign retaliation.

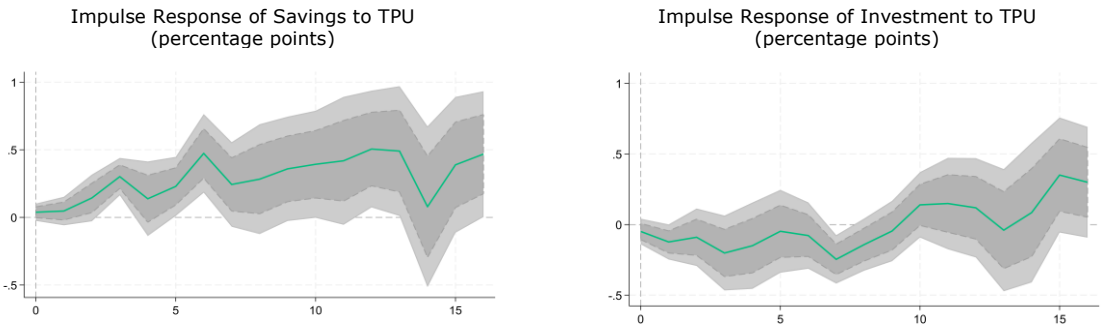
Figure 3. Impact of TPU on trade flows



Note: The green solid line indicates the response of exports and imports (share of GDP) to a one-standard-deviation increase in the trade policy uncertainty shock. The shaded areas are 70% and 90% confidence bands. The x-axis denotes time in quarters where t = 0 is the period of the shock.

Next, we examine the impact through the lens of the savings and investment balance, which is the other perspective on the CAB identity. We expect to find the same aggregate impacts, but want to ascertain whether the adjustment is primarily driven by either savings or investment. Figure 4 reveals the impulse responses of savings and investment. Savings are expressed as a percentage of GNI and investment as a percentage of GDP to reflect the fact that aggregate savings statistics include also foreign sourced income. We observe a significant but small positive impact on savings of around 0.5 percentage points at its peak, which remains persistent for a long period, and is likely driven by the precautionary motive given the increased risk premium from uncertainty. Meanwhile, the effect on aggregate investment, measured as gross fixed capital formation, is negative at -0.2 percentage points at its trough but only intermittently significant at quarter 7, before turning positive but statistically insignificant. This finding is consistent with recent empirical literature which shows that the TPU associated with Brexit, controlling for the first moment effects of lower demand, has a negative effect on investment (Bloom et al., 2025). The weak and intermittently significant response may reflect both measurement noise and the fact that short-lived uncertainty shocks affect investment primarily through expectations rather than immediate expenditure plans.

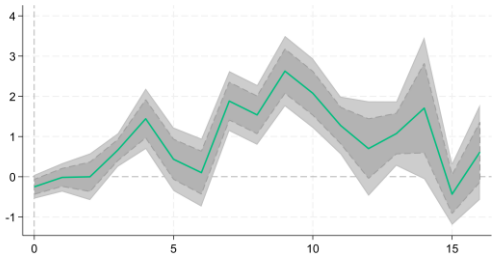
Figure 4. Impact of TPU on savings and investment



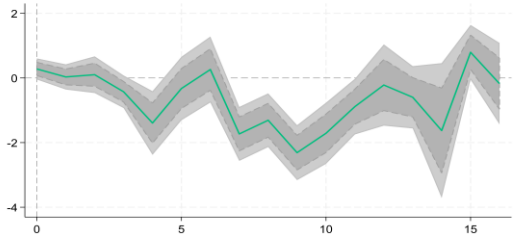
Note: The green solid line indicates the response of US savings (share of GNI) and investment (share of GDP) to a one-standard-deviation increase in the trade policy uncertainty shock. The shaded areas are 70% and 90% confidence bands. The x-axis denotes time in quarters where t = 0 is the period of the shock.

Figure 5. Impact of TPU on the Savings–Investment Balance

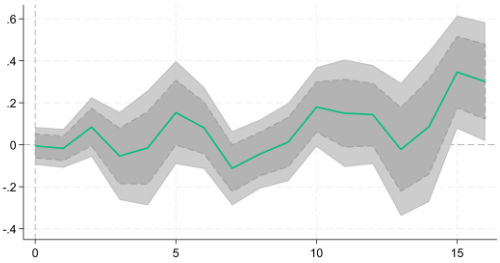
Impulse Response of Private Savings to TPU
(percentage points)



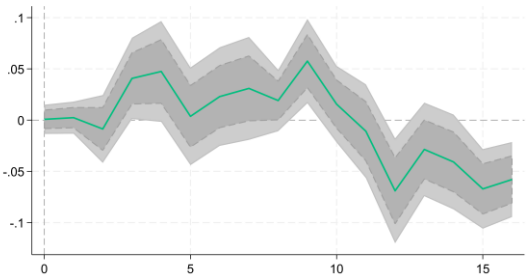
Impulse Response of Government Savings to TPU
(percentage points)



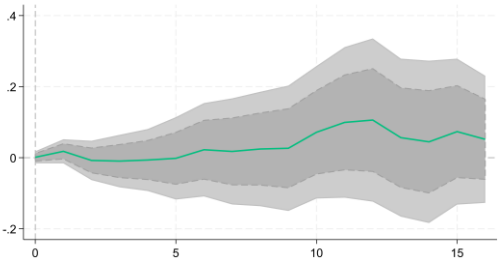
Impulse Response of Private Investment to TPU
(percentage points)



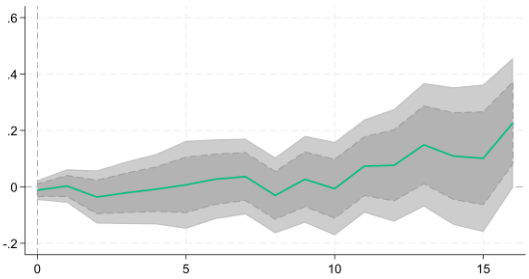
Impulse Response of Government Investment to TPU
(percentage points)



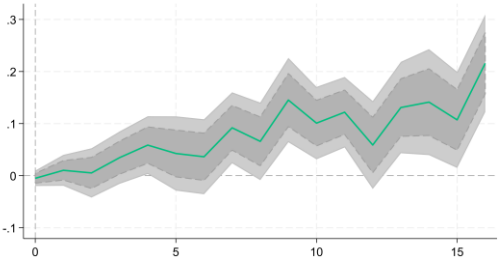
Impulse Response of Residential Investment to TPU
(percentage points)



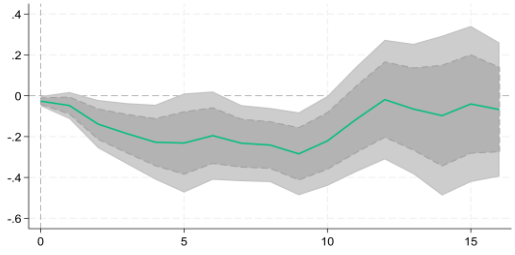
Impulse Response of Non-Residential Investment to TPU
(percentage points)

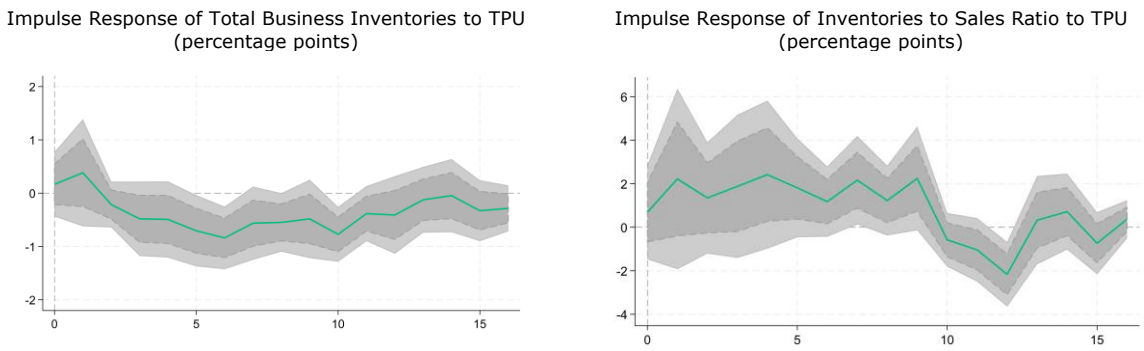


Impulse Response of High-Tech Investment to TPU
(percentage points)



Impulse Response of Non-High-Tech Investment to TPU
(percentage points)





Note: The green solid line indicates the response of US private and government savings (share of GNI) and private and government investment (share of GDP) to a one-standard-deviation increase in the trade policy uncertainty shock. The shaded areas are 70% and 90% confidence bands. The x-axis denotes time in quarters where t = 0 is the period of the shock.

Further disentangling these effects, we divide savings and investment into private and government components. Figure 5 reveals offsetting dynamics, with government dissaving partially offsetting the impact of increased private saving, while a small increase in private investment mainly driven by high-tech investment is outweighed by a drop in government investment.[7] While the decrease in non-high-tech investment is as expected, the positive response of high-tech investment to rising TPU is surprising. This likely reflects the fact that in recent years, there has been increased policy activity and policy uncertainty around re-shoring and export controls, and the US government has actively promoted domestic technology and innovation through policies such as the Tax Cuts and Jobs Act (2017) and CHIPS and Science Act (2022) during the sample period, followed by One, Big, Beautiful Bill Act (2025) thereafter, which have provided significant additional fiscal incentives for investment in high-tech sectors. However, we are not able to consistently control for these policies over time, leaving the macro-level TPU variable to pick up their effects. In addition, another channel could be that high-tech industries have often been exempted from disruptive import barriers, and therefore relatively less affected by TPU. Bianconi et al. (2021) show that industries less exposed to TPU experienced smaller stock price declines and lower volatility around key policy events, conducive to additional investment. Ultimately, micro-level evidence is required to uncover the drivers of the positive high-tech investment response to TPU.

We also distinguish between residential and non-residential investment. Both categories show no statistically significant immediate response to TPU, consistent with the view that housing and broad capital formation adjust more slowly to short-lived policy uncertainty shocks. Finally, we examine business inventories relative to GDP and the inventory-to-sales ratio. While the level of inventories shows an insignificant increase and relatively steady decline before recovering, the inventory-to-sales ratio initially increases significantly and then declines. This can be due to both a modest inventory accumulation and a slowdown in sales, consistent with a pattern of transitory front-loading behavior where firms build inventories in anticipation of potential future cost increases due to disruptive policy actions, followed by a drawdown of inventories once the uncertainty shock subsides.

The BPI and BSI components of the CAB are relatively small, and we report their responses in the appendix.

[7] High-tech investment is defined as the sum of investment in information processing equipment and intellectual property products, which are subcomponents of private fixed investment reported by the BEA. This classification captures the components of private investment most closely associated with technology, innovation, and knowledge capital accumulation. Non-high-tech investment is defined as the remaining components of private fixed investment.

Identification and robustness

Concerns may arise about whether our TPU index is exogenous to macroeconomic determinants of the current account. We allay these concerns using a three-pronged approach: referencing the literature on the TPU index, using a two-stage identification approach, and running robustness checks using alternative TPU measures.

First, we note that Caldara et al. (2020), who construct the news-based TPU index, test whether it is Granger caused by standard macroeconomic shocks. They find that tariff volatility shocks are orthogonal to oil shocks, capital tax volatility shocks, monetary shocks, TFP shocks, and defense spending shocks.

Second, we complement the baseline identification with a residual-based robustness exercise. In the benchmark specification, TPU enters the local projection directly together with its own lags and the full set of macroeconomic and trade controls. To examine whether our results are driven by the predictable component of TPU, we regress TPU on these controls (including their lags) and obtain the innovation that is orthogonal to macroeconomic conditions and actual trade-policy changes in the appendix. Replacing TPU in the local-projection regressions with this innovation delivers impulse responses that are nearly identical to the baseline. This confirms that the estimated responses are not driven by the predictable component of TPU and supports our interpretation of the baseline coefficients as reflecting unexpected movements in trade policy uncertainty.

Finally, we test the robustness of our benchmark results using a set of alternative indicators. For example, we employ the extensive margin TPU index constructed by Albrizio et al. (2025), which is based on the share of firms that mention trade uncertainty-related terms in their earnings calls. In addition, we use a measure of tariff volatility estimated with a stochastic volatility model following Caldara et al. (2020). Lastly, we introduce a control for text-based economic (non-trade) policy uncertainty from Baker et al. (2021), which covers, for example, monetary and fiscal policy uncertainty.. We refer the reader to Annex I for the full figure of results using alterative TPUs.

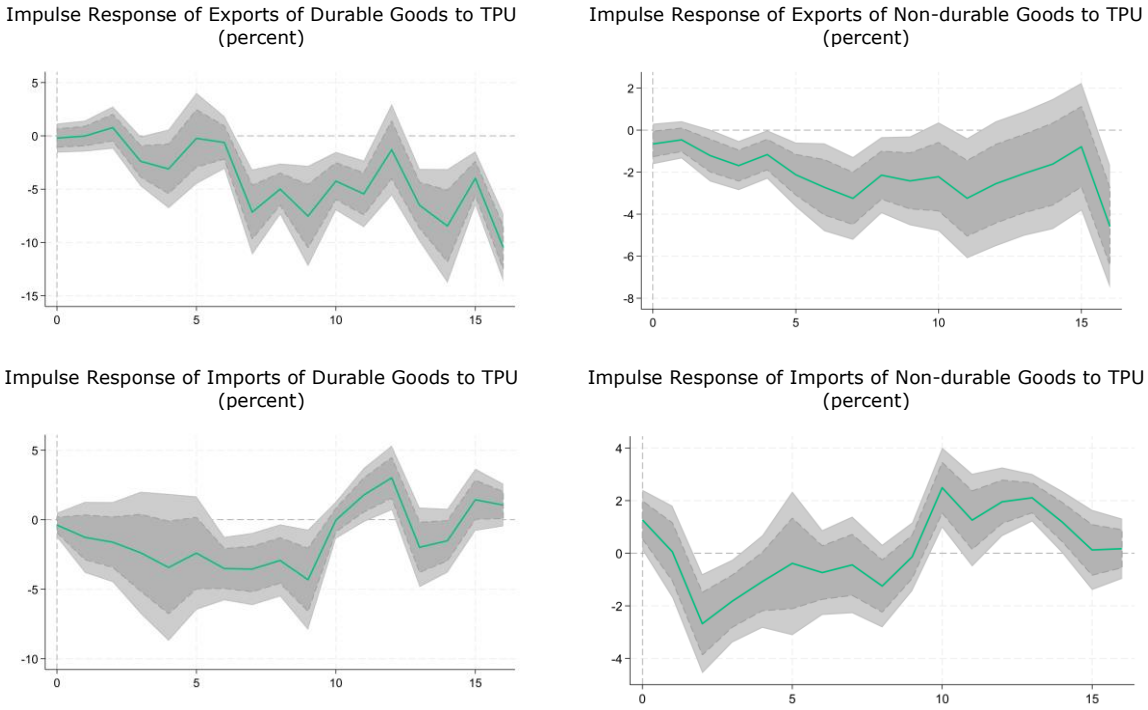
Sector and partner country characteristics

In this section, we explore drivers of the benchmark results in more granular detail. First, we split imports and exports into product groups based on end-use categories according to the Broad Economic Categories (BEC) classification and by specific industry (HS Sections).

We apply the same local projection regressions as in the previous section (Equation 1) by product group, using the log of export and import values as dependent variables. We find that TPU has stronger effects on durables than on non-durables. For exports, durable goods decline by up to 10 percent, compared with 5 percent for non-durables (Figure 6). Imports show a similar pattern, with declines of about 4 percent and 2 percent, respectively. In contrast, we do not find significant differences across products of different industries grouped by HS Section.

Our finding that durable goods respond more strongly to TPU shocks is consistent with the greater sensitivity of durable goods to uncertainty, given their purchases can more easily be postponed (Romer, 1990). This mechanism complements the precautionary saving channel by implying that macro shocks may also affect aggregate savings and investment via delayed durable spendings (Coibion et al., 2024).

Figure 6. Impact of TPU on Different Products



Note: The green solid line indicates the response of exports and imports (in percentage changes) to a one-standard-deviation increase in the trade policy uncertainty shock. The shaded areas are 70% and 90% confidence bands. The x-axis denotes time in quarters where t = 0 is the period of the shock. Durable goods are defined as BEC 61 and non-durable goods as BEC 63.

Next, we employ a panel specification where we differentiate trade between the United States and partner countries according to their characteristics. By disaggregating US trade into its bilateral components we are able to understand which groups of countries are driving the aggregate results.

$$Y_{c,t+h} - Y_{c,t-1} = \beta^h_{0,D=1} TPU_t \times D_c + \beta^h_{0,D=0} TPU_t \times (1 - D_c) + \sum_{j=1}^{2} \beta^h_j TPU_{t-j} + \delta^h X_t + \gamma^h_c + \gamma^h_{q(t)} + \varepsilon^h_{c,t} \quad (3)$$

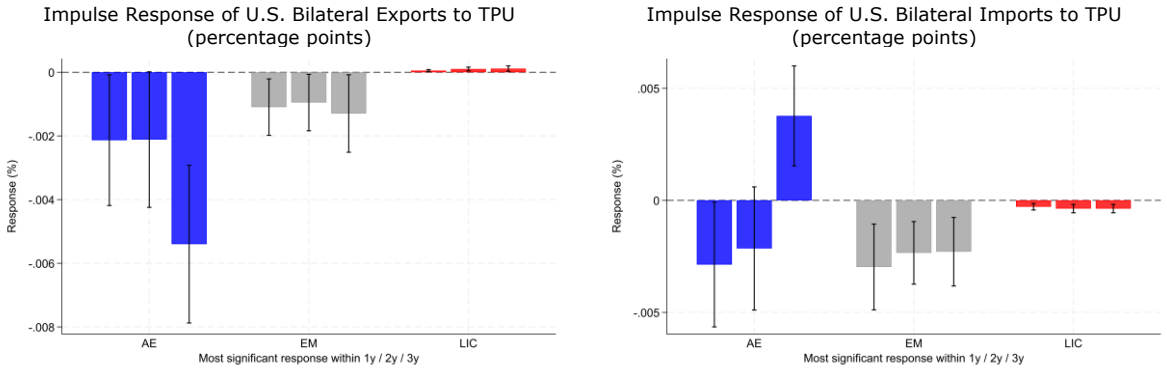
Here partner countries with a particular characteristic will have the dummy variable D_c take the value of 1 and the value 0 otherwise. In this specification we estimate separate impulse responses for each case. We explore four salient characteristics: income class, geopolitical distance from the United States, GVC linkages with the Unites States, and FDI linkages to the United States. Standard errors are clustered at the partner-country level.

Income class is based on Advanced Economies (AEs) and Emerging Market Developing Economies (EMDEs) groups from the October 2025 WEO and Low-Income Countries (LICs) based on PRGT eligibility. Emerging Markets (EMs) are defined as EMDEs excluding LICs. Geopolitical distance is sourced from Bailey et al. (2017), for GVC linkages we use forward participation and backward participation sourced from the Asian Development Bank MRIO database, and for FDI linkages we use U.S. Direct Investment Abroad (USDIA) statistics from the BEA.

Figure 7 reports the results for the different income groups with bars in different colors. Within each group, the three bars correspond to the most significant response of that group in the first, second, and third year after the

shock. This presentation highlights the direction and relative magnitude of the responses over the selected horizons. The black vertical lines centered on each bar indicate the 70% confidence intervals. US exports fall for both AEs and EMs. On the import side, the overall decline is driven mainly by EMs, while imports from AEs rise following a one-standard-deviation TPU shock, consistent with risk-hedging toward safer partners. Trade with low-income countries remains broadly stable.

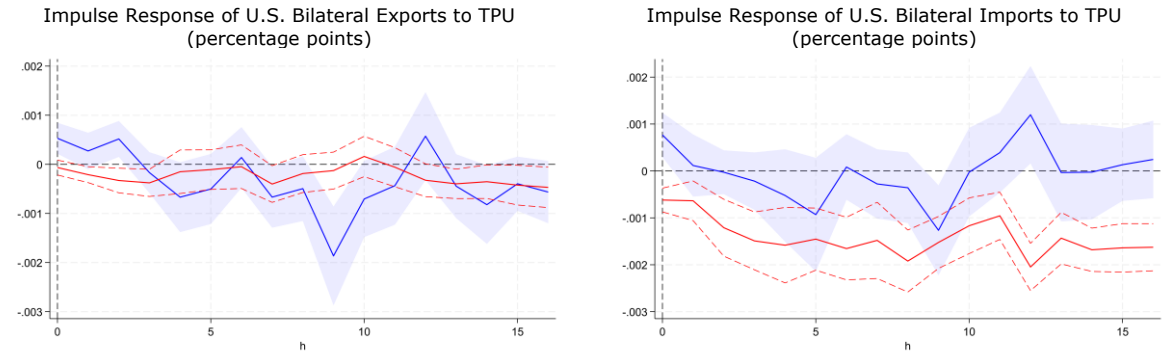
Figure 7. Impact of TPU on U.S. Trade with Different Partners by Income Class



Note: The blue, grey, and red bars indicate the most significant response of U.S. bilateral trade (as a share of GDP) in the first, second, and third year for AEs, EMs, and LICs, respectively, following a one-standard-deviation increase in the trade policy uncertainty shock. Each bar corresponds to the response in the horizon where the absolute t-statistic is highest within the relevant four-quarter window, rather than the simple average over those quarters. Vertical lines represent 70% confidence bands.

We construct a quarterly panel from 1990 Q1 to 2023 Q4 by merging with the geopolitical distance dataset. We exclude the bottom one percent of countries in terms of their average bilateral import and export volumes with the United States over the sample period. Within each quarter, we assign countries to low (below-median) and high (above-median) geopolitical distance with the US and interact this grouping with our policy uncertainty shock (TPU). We contrast the responses for high and low group. For the sharper decline in imports of U.S, as shown on the right-hand side in Figure 8, we find that high geopolitical distance countries are mainly driving this result (e.g., Algeria, China, Egypt, India). These findings are consistent with Jakubik and Ruta (2023) who show that geopolitical distance impacts trade flows more during periods of heightened global trade policy uncertainty. One potential explanation is that closer partners are more likely to have trade agreements in place that can shield them from the impacts of uncertainty.

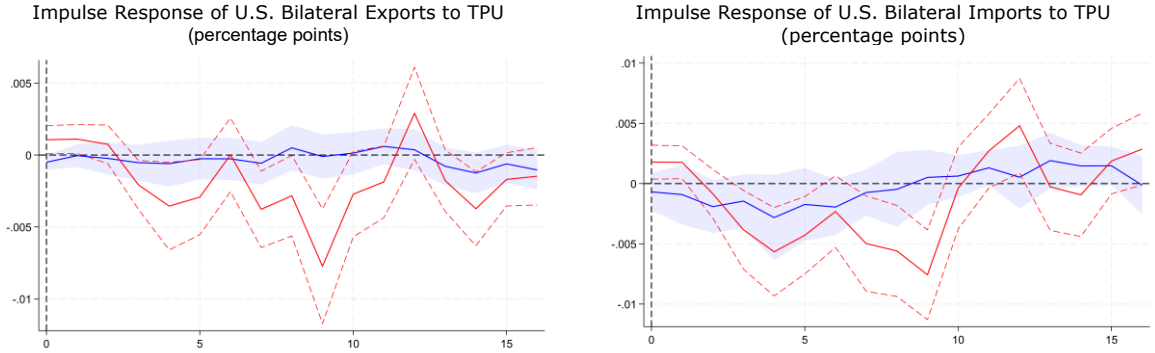
Figure 8. Impact of TPU on U.S. Trade with Different Partners by Geopolitical Distances



Note: The blue solid line indicates the response of US bilateral trade (share of GDP) with partners at lower geopolitical distance to a one-standard-deviation increase in the trade policy uncertainty shock. The red solid line indicates the response at higher geopolitical distance. The dotted lines are 70% confidence bands. The x-axis denotes time in quarters where t = 0 is the period of the shock.

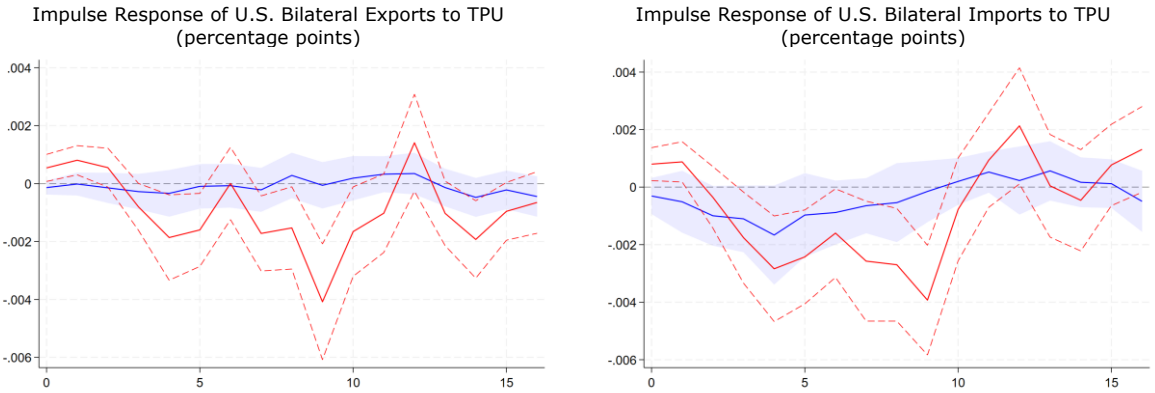
The results for splitting partner countries by strength of GVC and FDI linkages are similar. U.S. trade with countries that have strong GVC or FDI linkages (red solid lines in Figures 9 and 10) is more affected on average. The close similarity arises because many of the same countries fall into both groups. Global value chains rely on relation-specific investments that are highly sensitive to policy uncertainty, yet these investments also create persistence in trade patterns.

Figure 9. Impact of TPU on U.S. Trade with Different Partners by Strength of GVC Linkages



Note: The blue solid line indicates the response of US bilateral trade (share of GDP) with partners with weaker GVC linkages to a one-standard-deviation increase in the trade policy uncertainty shock. The red solid line indicates the response at greater GVC linkages. The dotted lines are 70% confidence bands. The x-axis denotes time in quarters where t = 0 is the period of the shock.

Figure 10. Impact of TPU on U.S. Trade with Different Partners by Strength of FDI Linkages



Note: The blue solid line indicates the response of US bilateral trade (share of GDP) with partners at weaker FDI linkages to a one-standard-deviation increase in the trade policy uncertainty shock. The red solid line indicates the response at greater FDI linkages. The dotted lines are 70% confidence bands. The x-axis denotes time in quarters where t = 0 is the period of the shock.

Conclusions

The United States is undergoing a historic period of elevated tariffs and trade policy uncertainty (TPU). Tariffs have been enacted with the stated objective of rebalancing trade relationships and reducing the United States' large and persistent current account deficit, to which various pernicious effects have been attributed, including the weakening of domestic manufacturing capacity and national security risks. This paper contributes to the literature by examining whether and how TPU can contribute to current account balance (CAB) dynamics. In other words, we seek to answer the question of how the manner in which trade policy is conducted and communicated influences macroeconomic outcomes, above and beyond any changes in implemented tariff and non-tariff policies, which are controlled for in our empirical specification.

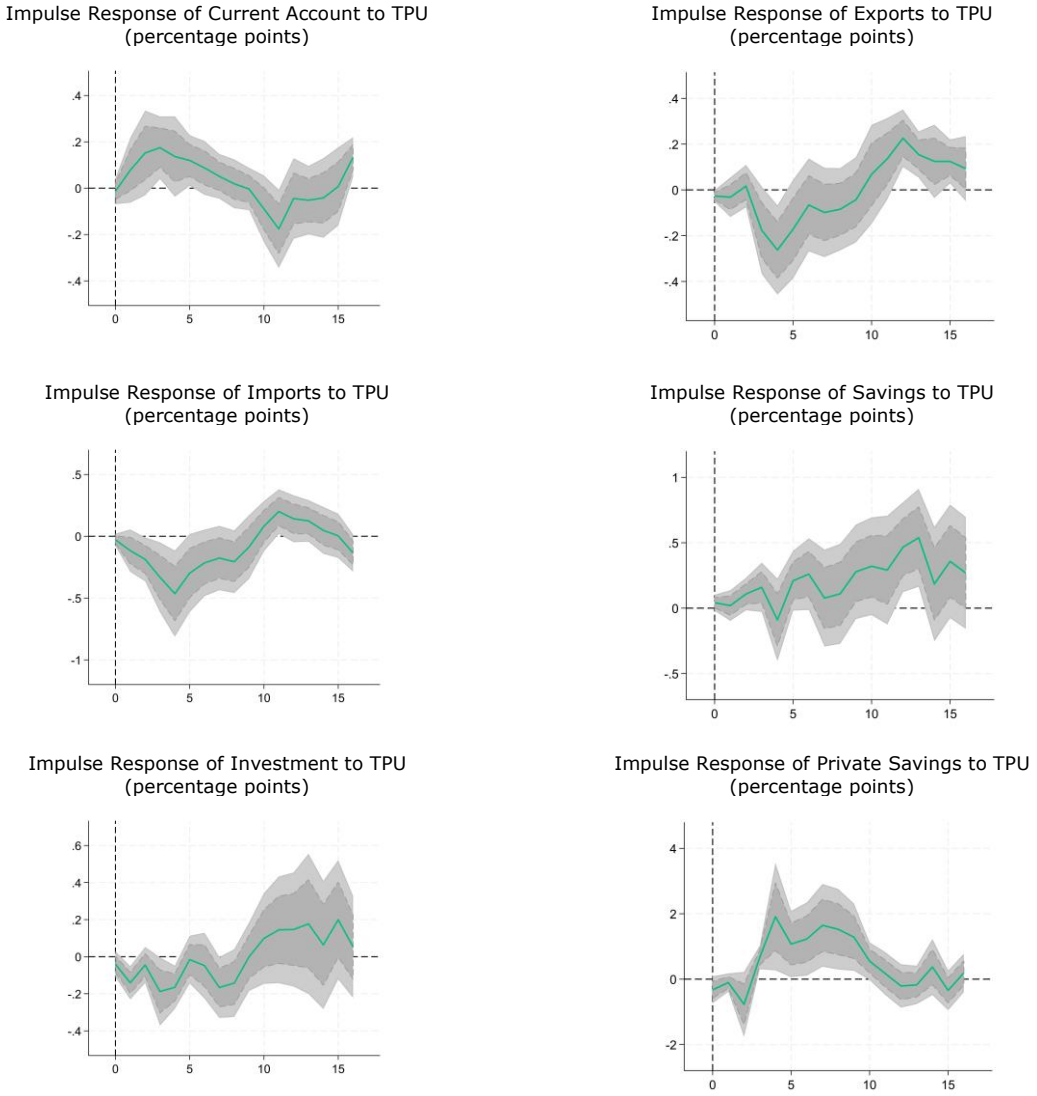
Our empirical approach is based on the widely used local projections methodology and uncovers several important and novel results. First, TPU shocks have historically been transient and have only transient macroeconomic effects. While TPU has a statistically significant positive effect on the CAB, this effect is small and short lived. This aggregate impact can be explained by a larger reduction in imports than in exports, with durable goods disproportionately affected. Second, from the savings and investment perspective on the CAB, we observe a positive effect on savings driven by precautionary savings in the private sector and a small negative effect on investments, driven by government investment and partially offset by private investment, in particular in high-tech sectors. Finally, we find meaningful differences in the effects on bilateral trade with different groups of partners: geopolitically distant partners and those that are tightly connected through GVC or FDI linkages are disproportionately affected.

We conclude that uncertainty matters. Actions which raise trade policy uncertainty impose a cost on households and firms but do not yield dividends in terms of achieving current account objectives. This implies that optimal trade policy should be conducted within institutional guardrails and seek to anchor expectations, for example, through stakeholder consultations, timely communication of policy changes, and sufficiently long implementation periods. Moreover, our findings imply that uncertainty needs to be monitored and incorporated in econometric and modeling exercises to avoid spurious attribution of current account improvements to implemented trade policies. While we have shed some light on the key mechanisms and cross-country heterogeneity behind our findings, there remains scope for further research, for example, by exploiting microdata to disentangle the causal mechanisms determining the impact of trade policy uncertainty on savings and investment decisions, as well as importing and exporting decisions, and their interactions. Another fruitful avenue to explore is extending the analysis to other countries beyond the United States, including emerging markets and surplus countries given their important role in shaping global imbalances.

Annex I.

Robustness using TPU shock built by Baker et al. (2021):

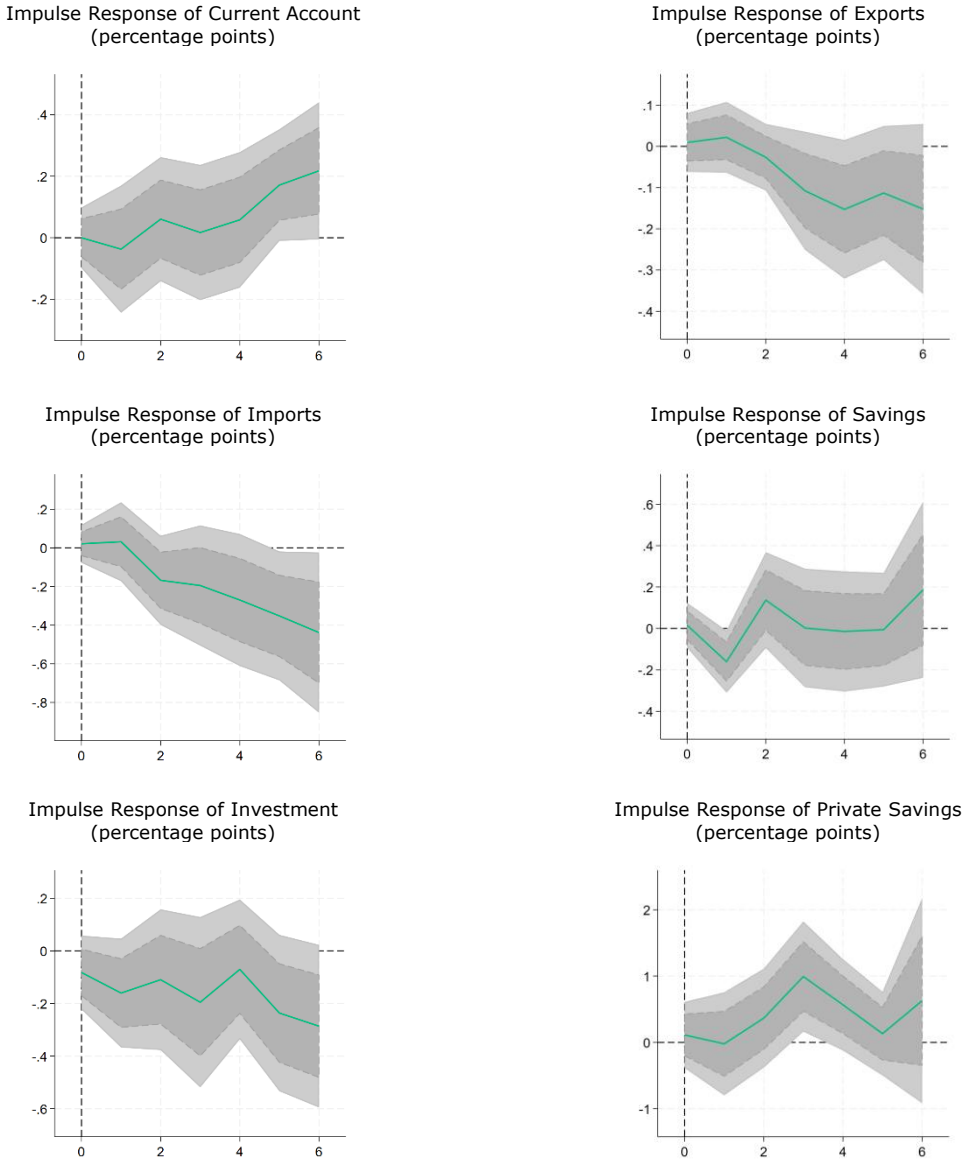
Figure 11. Impact of TPU developed by Baker et al. (2021)



Note: The green solid line indicates the response of dependent variables to a one-standard-deviation increase in the trade policy uncertainty shock. The shaded areas are 70% and 90% confidence bands. The x-axis denotes time in quarters where t = 0 is the period of the shock.

Robustness using extensive TPU built by Albrizio et al. (2025):

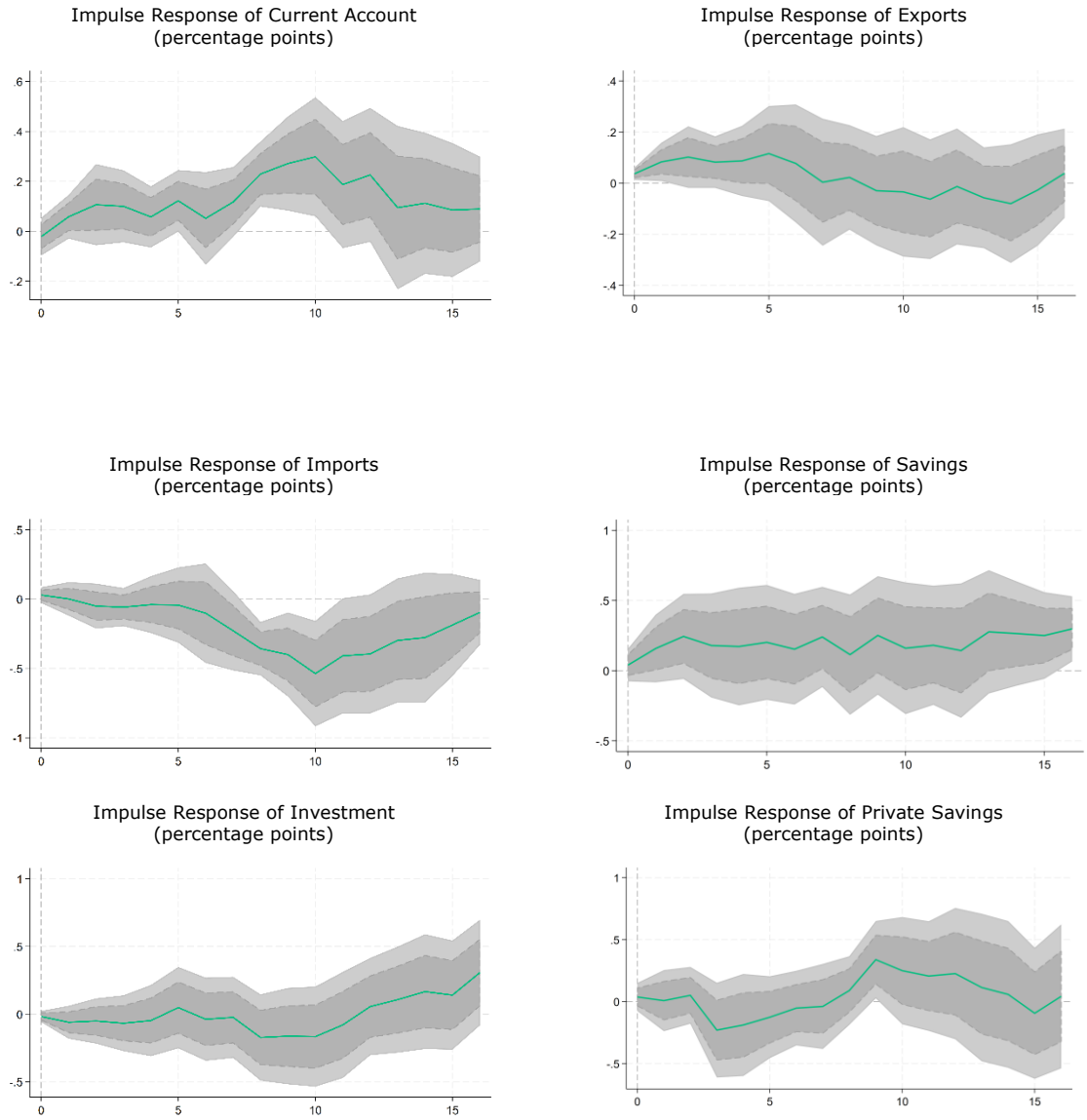
Figure 12. Impact of Extensive TPU



Note: The green solid line indicates the response of dependent variables to a one-standard-deviation increase in extensive TPU. The shaded areas are 70% and 90% confidence bands. The x axis denotes time in years where $t = 0$ is the period of the shock. We cover the data period from 2005 to 2024 since extensive TPU is constructed from 2005.

Robustness using tariff volatility (1990-2018 based on data availability):

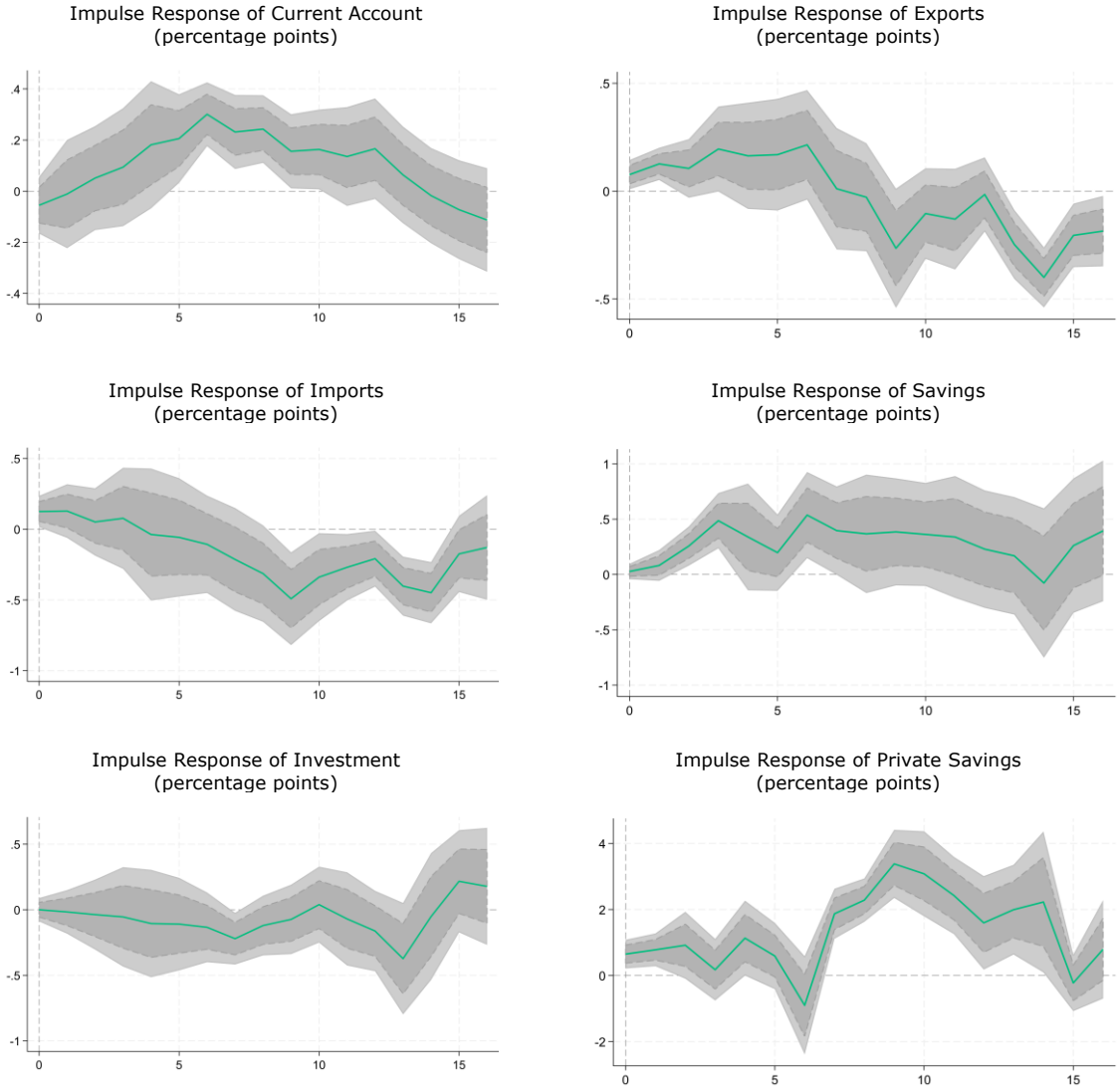
Figure 13. Impact of Tariff Volatility



Note: The green solid line indicates the response of dependent variables to a one-standard-deviation increase in tariff volatility. The shaded areas are 70% and 90% confidence bands. The x-axis denotes time in quarters where t = 0 is the period of the shock.

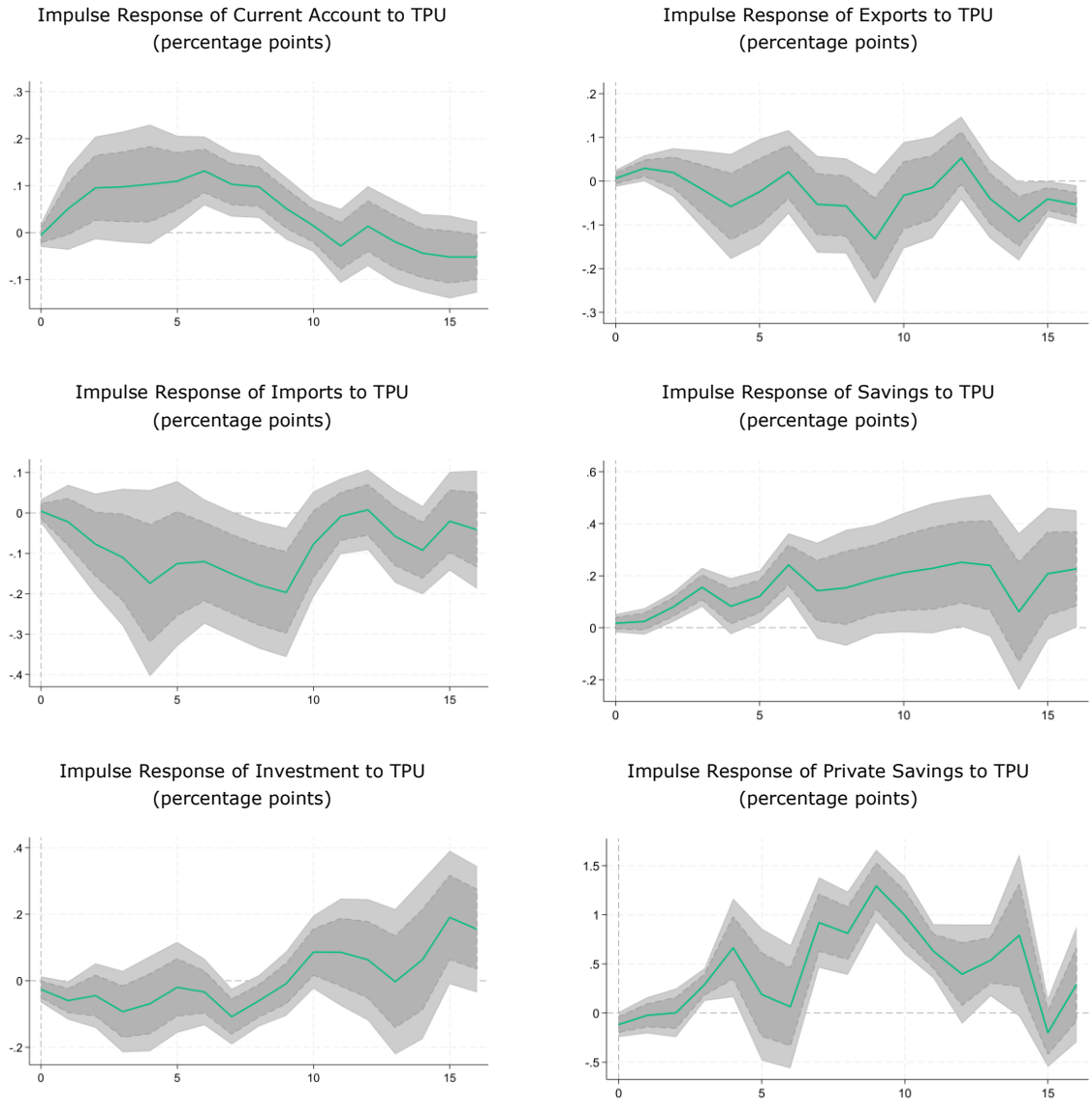
Robustness controlling for other policy uncertainties:

Figure 14. Impact of TPU Net of Other Policy Uncertainties



Note: The green solid line indicates the response of dependent variables to a one-standard-deviation increase in the TPU shock. To isolate the effect of trade policy uncertainty (TPU), we exclude the TPU component from the overall economic policy uncertainty (EPU) index constructed by Baker et al. (2021) and include the remaining policy categories as a single composite control including monetary and fiscal policy uncertainties. The shaded areas are 70% and 90% confidence bands. The x-axis denotes time in quarters where $t = 0$ is the period of the shock.

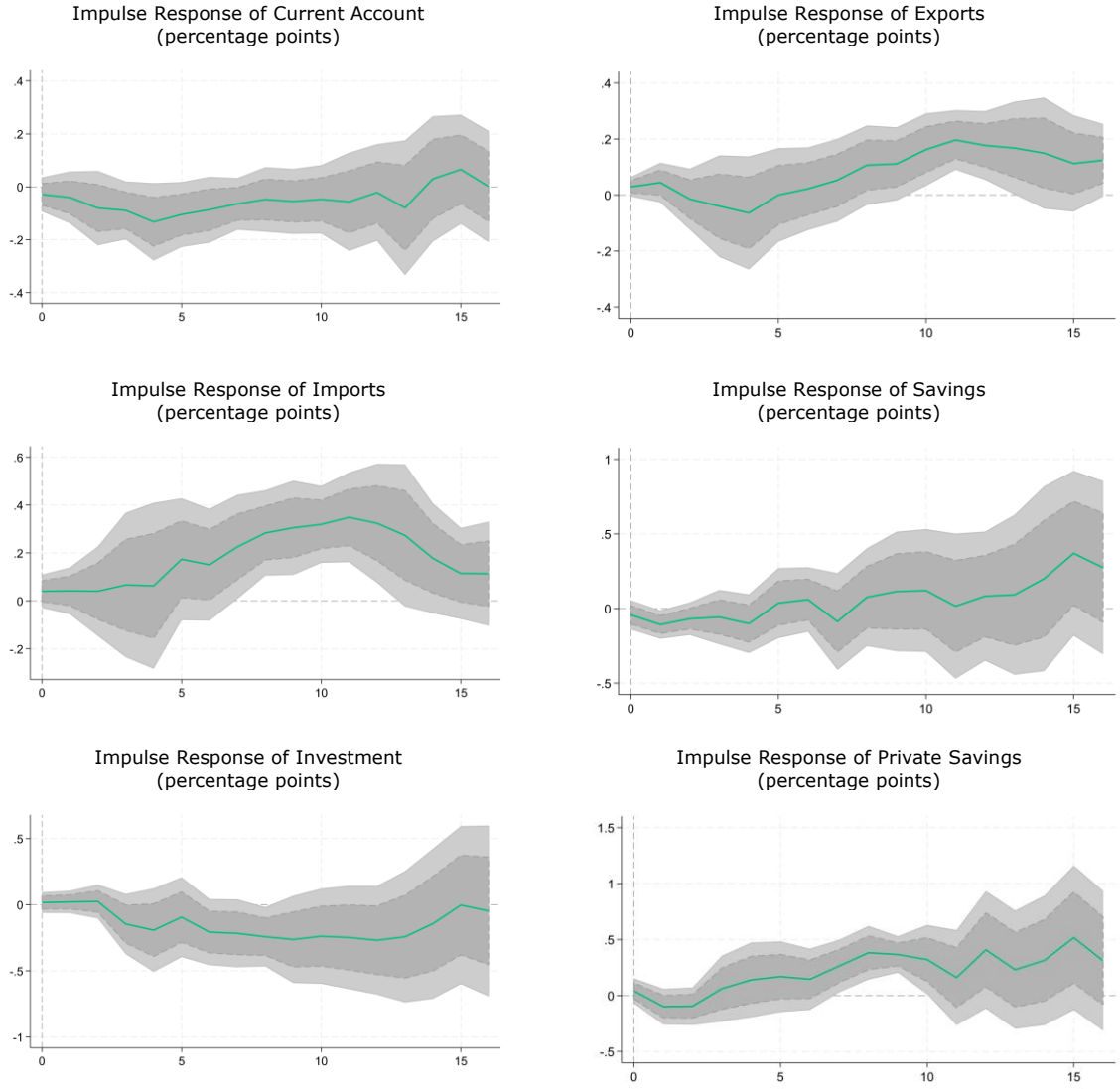
Figure 15. Impact of residualized TPU



Note: The green solid line indicates the response of dependent variables to a one-standard-deviation increase in the trade policy uncertainty shock. The shaded areas are 70% and 90% confidence bands. The x-axis denotes time in quarters where t = 0 is the period of the shock.

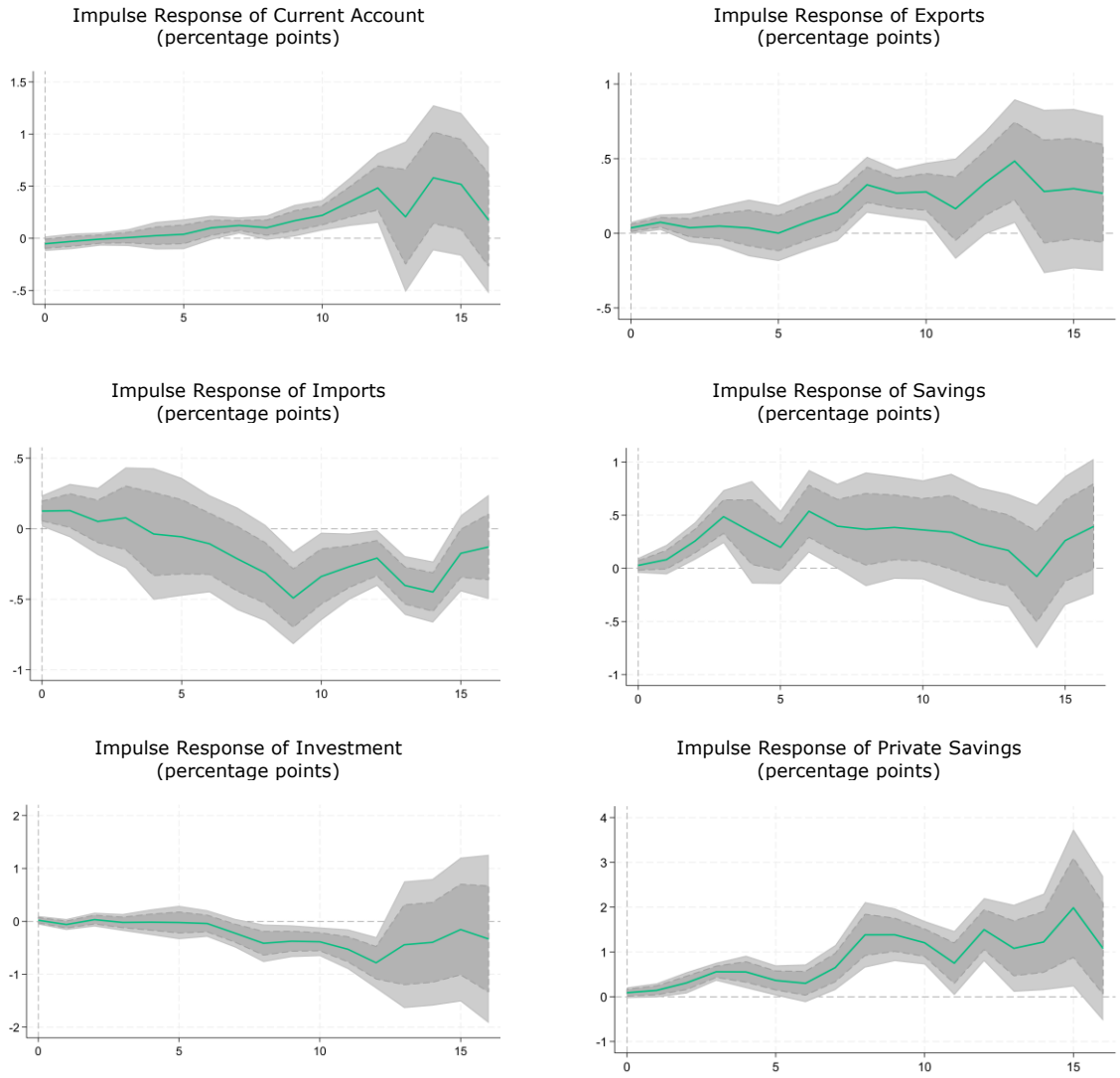
Robustness with different time periods:

Figure 16. Impact of TPU 1990-2016



Note: The green solid line indicates the response of dependent variables to a one-standard-deviation increase in the TPU shock. We focus on the period from 1990 to 2016 to exclude the effects of TPU related to the US-China trade conflict in 2018, which is a main driver of our observed results. The shaded areas are 70% and 90% confidence bands. The x-axis denotes time in quarters where $t = 0$ is the period of the shock. For this restricted sample, the effect on the overall current account is statistically insignificant. This suggests that during the relatively stable TPU period prior to 2016, increases in trade policy uncertainty did not generate a notable response in the current account. However, we still observe a positive response of precautionary savings, consistent with an uncertainty-driven increase in private saving behavior. When extending the sample to 2019 in Figure A6 below, thereby excluding only the COVID-19 period, the results align closely with those obtained from the baseline.

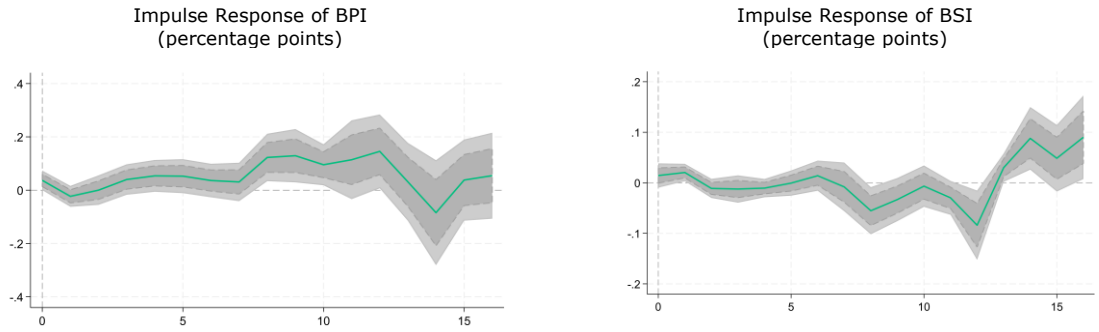
Figure 17. Impact of TPU Before 2020



Note: The green solid line indicates the response of dependent variables to a one-standard-deviation increase in the TPU shock. We include the period from 1990 to 2019 to exclude the period of COVID-19. The shaded areas are 70% and 90% confidence bands. The x-axis denotes time in quarters where $t = 0$ is the period of the shock.

Results on income balances:

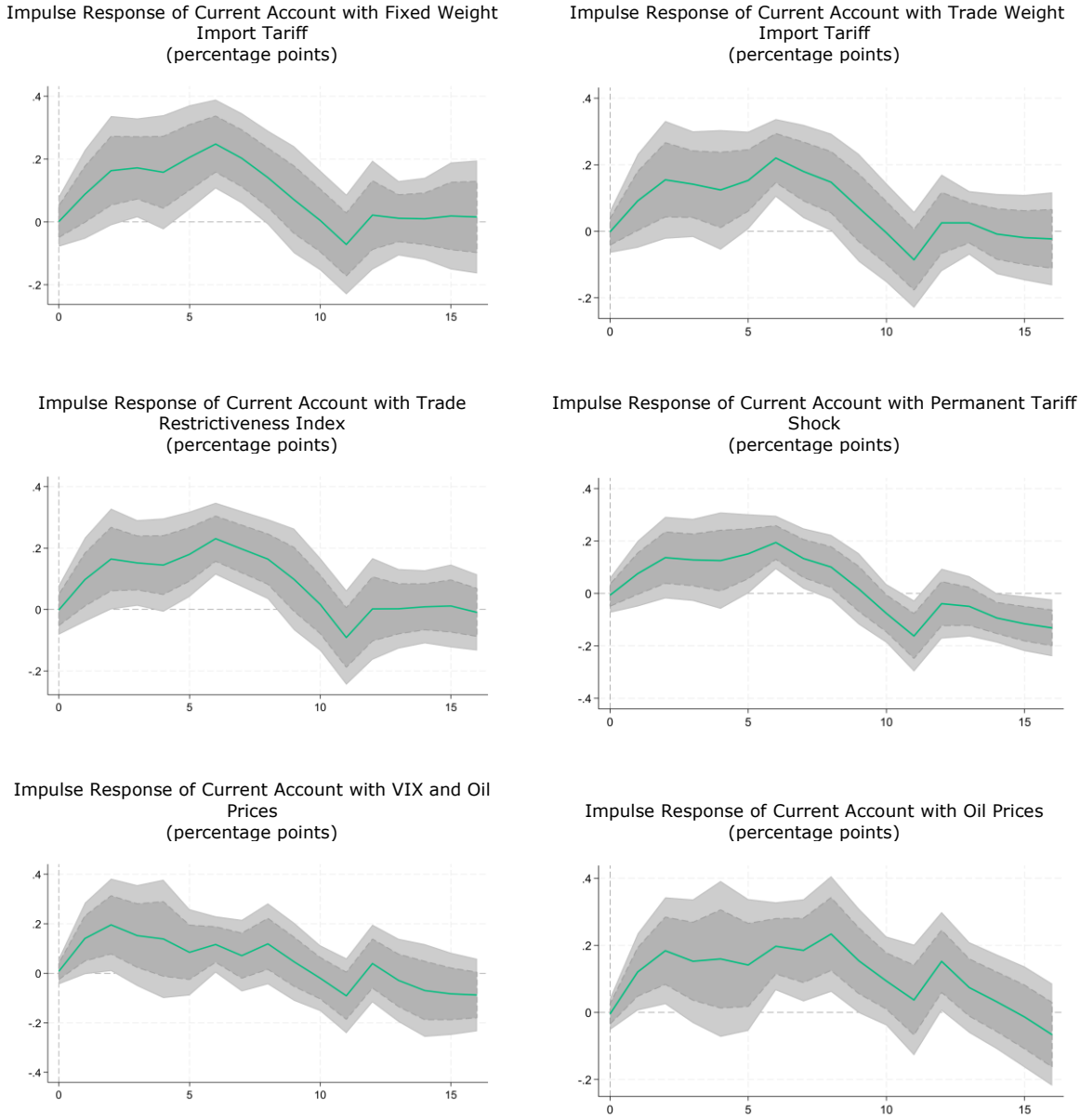
Figure 18. Impact of TPU on BPI and BSI



Note: The green solid line indicates the response of the dependent variables to a one-standard-deviation increase in the TPU shock. BPI rises, while BSI declines and then increases. This pattern suggests that cross-border capital flows initially shift toward profit-seeking positions before gradually moving into more defensive allocations. Firms and investors appear to take advantage of short-term return opportunities or adjust income-related positions, which generates a temporary increase in profit-related inflows and a decline in more stable balance-sheet inflows. As uncertainty persists, however, they start rebalancing portfolios toward safer and more liquid instruments. This later adjustment results in a moderation of BPI and a rebound in BSI, consistent with a gradual shift from return-driven flows to precautionary and risk-mitigating positions.

Results with additional controls:

Figure 19. Impact of TPU with Different Controls



Note: The green solid line indicates the response of dependent variables to a one-standard-deviation increase in the TPU shock. In the first four panels, we add alternative tariff measures based on Schmitt-Grohé and Uribe (2025) to verify that our main result for the current account is not driven by the specific choice of tariff controls. All specifications yield a similar external response, which supports the robustness of our baseline findings.In the bottom two panels, we incorporate global price of Brent Crude as an additional control variable given its central role in shaping U.S. external balances. The bottom-left figure adds oil prices to the full baseline specification, which already includes REER, industrial production growth, tariffs, and the VIX. The estimated response remains significantly positive, showing a current account surplus of about 0.2 percent of GDP within the first year after the shock. In the bottom-right figure, we include oil prices but exclude the VIX, because oil prices and the VIX partly capture overlapping global-risk conditions. The main pattern is unchanged. Shaded regions represent 70 and 90 percent confidence intervals. The horizontal axis denotes horizons in quarters, with t indicating the period of the TPU shock.

References

Albrizio, S., Buesa, A., Roth, M., and Viani, F., 2025. Unraveling Uncertainty: Disentangling Trade Policy Risks from Broader Uncertainty. Mimeo.

Allen, C., Casas, C., Ganelli, G., Juvenal, L., Leigh, D., Rabanal, P., Rebillard, C., Rodriguez, J., and Jalles, J.T., 2023. 2022 Update of the External Balance Assessment Methodology. IMF Working Paper No. 2023/047.

Ahir, H., Bloom, N. and Furceri, D., 2022. The world uncertainty index. NBER Working Paper No. 29763. National Bureau of Economic Research.

Auclert, A., Rognlie, M., and Straub, L. 2025. The macroeconomics of tariff shocks. NBER Working Paper No. 33726. National Bureau of Economic Research.

Bailey, M.A., Strezhnev, A. and Voeten, E., 2017. Estimating dynamic state preferences from United Nations voting data. *Journal of Conflict Resolution*, 61(2), pp. 430-456.

Benguria, F., Choi, J., Swenson, D.L. and Xu, M.J., 2022. Anxiety or pain? The impact of tariffs and uncertainty on Chinese firms in the trade war. *Journal of International Economics*, 137, p. 103608.

Bernanke, B.S., 1983. Irreversibility, uncertainty, and cyclical investment. *The Quarterly Journal of Economics*, 98(1), pp. 85-106.

Bertola, G., Guiso, L., & Pistaferri, L. 2005. Uncertainty and consumer durables adjustment. *The Review of Economic Studies*, *72*(4), 973-1007.

Bianconi, M., Esposito, F. and Sammon, M., 2021. Trade policy uncertainty and stock returns. *Journal of International Money and Finance*, *119*, p.102492.

Blonigen, B.A., Tomlin, K. and Wilson, W.W., 2004. Tariff-jumping FDI and domestic firms' profits. *Canadian Journal of Economics/Revue canadienne d'économique*, *37*(3), pp.656-677.

Bloom, N., Bunn, P., Mizen, P., Smietanka, P. and Thwaites, G., 2025. The economic impact of Brexit. NBER Working Paper No. 34459. National Bureau of Economic Research.

Brotto, A., Jakubik, A., Piermartini, R., and Silvy, F. 2024. Committing to Grow. IMF Working Paper No. 2024/207.

Caldara, D. and Iacoviello, M., 2022. Measuring geopolitical risk. *American Economic Review*, 112(4), pp. 1194-1225.

Caldara, D., Iacoviello, M., Molligo, P., Prestipino, A. and Raffo, A., 2020. The economic effects of trade policy uncertainty. *Journal of Monetary Economics*, 109, pp. 38-59.

Carballo, J., Handley, K. and Limão, N., 2025. The Role of International Trade Agreements During Economic and Policy Crises: Evidence From US Firm Dynamics. *Review of International Economics*.

Cochrane, J.H., 2005. *Asset Pricing* (Revised Edition). Princeton and Oxford: Princeton University Press.

Coibion, O., Georgarakos, D., Gorodnichenko, Y., Kenny, G. and Weber, M., 2024. The effect of macroeconomic uncertainty on household spending. American Economic Review, 114(3), pp.645-677.

Dixit, A., 1989. Entry and exit decisions under uncertainty. *Journal of Political Economy*, 97(3), pp. 620-638.

Estefania-Flores, J., Furceri, D., Hannan, S.A., Ostry, J.D. and Rose, A.K., 2025. A measurement of aggregate trade restrictions and their economic effects. *The World Bank Economic Review*, *39*(3), pp.684-710.

Foletti, L., Fugazza, M., Nicita, A., and Olarreaga, M. 2011. Smoke in the (tariff) water. *The World Economy*, *34*(2), 248-264.

Hakobyan, S., Meleshchuk, S., and Zymek, R., 2023. Divided We Fall: Differential Exposure to Geopolitical Fragmentation in Trade. IMF Working Paper No. 2023/270. Washington: International Monetary Fund.

Handley, K. and Limao, N., 2015. Trade and investment under policy uncertainty: theory and firm evidence. *American Economic Journal: Economic Policy*, *7*(4), pp.189-222.

Handley, K., & Limão, N. 2017. Policy uncertainty, trade, and welfare: Theory and evidence for China and the United States. *American Economic Review*, *107*(9), 2731-2783.

Handley, K. and Limão, N., 2022. Trade policy uncertainty. *Annual Review of Economics*, 14, pp. 363-395.

Hassan, T., Hollander, S., van Lent, L., and Tahoun, A., 2019. Firm-level Political Risk: Measurement and Effects. *The Quarterly Journal of Economics*, 134(4), pp. 2135-2202.

International Monetary Fund (IMF), 2022. Regional Economic Outlook: Asia and Pacific (Washington).

International Monetary Fund (IMF), 2023. World Economic Outlook, April 2023 (Washington).

Jakubik, A., and Piermartini, R. 2023. How WTO commitments tame uncertainty. *European Economic Review*, *157*, 104495.

Jakubik, A., and Ruta, M. 2023. Trading with friends in uncertain times. *Journal of Policy Modeling*, *45*(4), 768-780.

Motta, M., 1992. Multinational firms and the tariff-jumping argument: A game theoretic analysis with some unconventional conclusions. *European Economic Review*, *36*(8), pp.1557-1571.

Montiel Olea, J.L., Plagborg-Møller, M., Qian, E. and Wolf, C.K., 2025. Local Projections or VARs? A Primer for Macroeconomists (No. w33871). National Bureau of Economic Research.

Nicita, A., Olarreaga, M., & Silva, P. 2018. Cooperation in WTO's tariff waters?. *Journal of Political Economy*, *126*(3), 1302-1338.

Osnago, A., Piermartini, R., and Rocha, N. 2018. The heterogeneous effects of trade policy uncertainty: How much do trade commitments boost trade?. *World Bank Policy Research Working Paper*, (8567).

Phillips, S., Catão, L., Ricci, L., Bems, R., Das, M., Di Giovanni, J., Unsal, F., Castillo, M., Lee, J., Rodriguez, J., and Vargas, M., 2013. The External Balance Assessment (EBA) Methodology. IMF Working Paper No. 13/272.

Pierce, J.R. and Schott, P.K., 2016. The surprisingly swift decline of US manufacturing employment. *American Economic Review*, 106(7), pp. 1632-62.

Romer, C.D., 1990. The great crash and the onset of the great depression. The Quarterly Journal of Economics, 105(3), pp.597-624.

Schmitt-Grohé, S. and Uribe, M., 2025. Transitory and Permanent Import Tariff Shocks in the United States: An Empirical Investigation. NBER Working Paper No. 33997. National Bureau of Economic Research.

PUBLICATIONS

U.S. Trade Policy Uncertainty and the Current Account: Unpacking Trade and Financial Channels

Working Paper No. WP/2026/017