OXFORD ECONOMICS

ICC

The cost of uncertainty on investment

Quantifying the impact of policy volatility on investment in the global economy

Report

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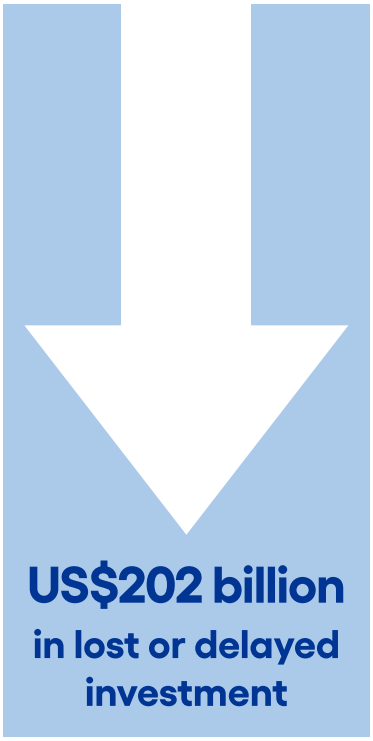
Executive summary

The International Chamber of Commerce (ICC) commissioned Oxford Economics to provide an independent assessment of the cost of economic policy uncertainty for business investment. This report quantifies those costs for 2025 and assesses what is at stake for 2026, setting out the key findings and underlying assumptions.

Policy uncertainty reached record levels in 2025, imposing a considerable and measurable cost on global business investment. Driven primarily by volatility in trade policy and culminating in the April 2025 "Liberation Day" tariff package, economic policy uncertainty[1] rose to its highest level on record, surpassing both the global financial crisis and the early stages of the COVID-19 pandemic. The shock was unusually broadbased: every economy in our sample covering 10 countries experienced a sharp rise in uncertainty.



Across Brazil, Canada, China, EU-4[2], India, Japan, Mexico, South Korea, the United Kingdom and United States (together accounting for around 70% of world GDP), the surge in policy uncertainty in 2025 reduced real business investment by an estimated 1.4% relative to a counterfactual with no new uncertainty shock. This translates into approximately **US$202 billion in lost or delayed investment** (0.2% of global GDP). Investment across the sample grew just 0.4% in 2025; absent the uncertainty shock, it **would likely have grown at more than four times that pace**.

The impact varied widely across countries, reflecting differences in exposure and sensitivity to uncertainty. Mexico and Canada suffered the steepest relative declines, with investment estimated to be 6.8% and 5.3% lower respectively than in the counterfactual. Despite retaining substantial access to the United States-Mexico-Canada Agreement (USMCA), both countries still incurred significant uncertainty-related costs. The United States incurred the largest absolute loss (around US$74 billion) although a powerful AI-driven investment boom partially masked the drag from heightened uncertainty. By contrast, the United Kingdom was the least affected, reflecting lower exposure to US trade policy and a services-led investment profile.

In some countries, the uncertainty-related investment decline, while smaller, is comparable in scale to past crisis episodes. In Mexico and Canada, uncertainty-related losses in 2025 amount to roughly one third to one half of the investment contractions observed during the COVID-19 pandemic and the global financial crisis, highlighting the scale of the shock relative to recent history. In the United States and South Korea, the investment declines still represent a meaningful share of the downturns seen during those crises, underscoring that policy volatility can impose severe costs to the economy.

The stakes for 2026 are even higher. Early 2026 developments (including renewed legal, geopolitical and military tensions) suggest that policy uncertainty is likely to remain elevated. Our scenario analysis underscores the scale of what is at risk. Under an adverse scenario involving a renewed

1 Measured by the Global Economic Policy Uncertainty Index
2 France, Germany, Italy and Spain

uncertainty shock of historical magnitude hitting all economies in the second quarter of 2026, real business investment across the 10 economies could fall by an estimated 2.7% in 2026, equivalent to around US$380 billion (or 100% of FDI inflows to North America in 2025). Under a favourable scenario in which greater policy clarity emerges, investment in 2026 could instead rise by 1.8%, delivering an additional US$252 billion. The gap between these outcomes exceeds US$630 billion and highlights the economic importance of policy clarity.

Policy uncertainty is costly and preventing its escalation matters for businesses. No country is insulated. Smaller, open and trade-exposed economies bear particularly severe impacts, but even large, diversified economies face substantial losses. Reducing this cost does not require policymakers to pursue any specific policy direction. It requires clarity, consistency and predictability in how policy decisions are designed, sequenced and communicated. In an already fragile global environment, policy certainty should be treated as a public good.

1. Analytical framework: Measuring the economic costs of policy uncertainty

This study aims to quantify the effect of policy uncertainty on the economy and the impact specifically on business investment. Policy uncertainty has been elevated for much of the past decade, coinciding with financial crises, geopolitical shocks and shifting trade regimes. 2025 brought the largest surge on record, driven primarily by US trade policy and the "Liberation Day" tariff package. Early indicators suggest 2026 may not offer much relief.

Business investment is among the components of GDP most sensitive to uncertainty: firms facing an unpredictable policy environment have strong incentives to defer irreversible capital commitments until the picture clarifies, with consequences that can persist beyond the immediate period of uncertainty. While a substantial academic literature documents the impact of uncertainty on various economic measures, fewer studies have attempted to quantify the investment impact of the substantial uncertainty that pervaded the global economy in 2025, or model how investment might be impacted going under diverging scenarios. This report addresses both questions.

1.1. What is economic policy uncertainty?

Economic policy uncertainty refers to the degree to which households, businesses and investors are unable to predict the future direction, timing or implementation of government policies that affect economic conditions. It arises when there is ambiguity about what policies governments will adopt, when they will take effect or how they will be applied, making it harder for economic actors to plan spending, investment, hiring and pricing.

Economic policy uncertainty can arise for various reasons. It can emerge in response to major events, including natural disasters, wars, financial crises, pandemics and other disruptions: following a major event, there can be considerable ambiguity about how governments will respond and how the response will impact economic conditions. Uncertainty also arises spontaneously when policymakers suggest policy changes with ambiguity about the timing or nature of implementation, or when significant policy changes are introduced with little warning. It can also stem from market participants' differing interpretations of statements by policymakers.

1.2. How economic policy uncertainty can impact the economy?

A wealth of research demonstrates the negative impacts of policy uncertainty on the economy.[3] An increase in uncertainty flows through the economy through three primary channels:

- **"Wait-and-see" investment channel**: When investment decisions entail irreversible costs – such as building factories or setting up in shop in foreign markets – uncertainty increases the value of waiting for more information. Firms therefore postpone capital spending and expansion plans to preserve the option to invest later once uncertainty resolves. The result is lower business investment and short-term declines in output.
- **Risk premium and financial conditions channel**: When policy uncertainty rises, investors typically demand higher risk premia, which translates to higher borrowing costs and tighter financial

3 For example, Bernanke, B.S. (1983), Bloom, N. (2009), Bloom, N., Bond, S., and Van Reenen, J. (2007), Gulen, H. and Ion, M. (2016), and Julio, B. and Yook, Y. (2012), among others.

conditions for firms. Increases in policy uncertainty typically lower asset valuations or increase equity and bond market volatility, which likewise discourage firms from undertaking new investments.

- **Precautionary behaviour channel**: Uncertainty weighs on households as well as firms. When the outlook becomes less predictable, households tend to cut back on spending and raise precautionary savings – delaying large purchases such as housing, vehicles, or appliances. This softening in consumer demand reduces revenues and earnings expectations for businesses, which in turn dampens the appetite of firms for new investment. Unlike the "wait-and-see" channel, which can reverse quickly once uncertainty lifts, this channel operates through a broader deterioration in expected demand that can be slower to recover.

Our analysis aims to quantify both the direct hit to investment from a rise in uncertainty – for example, as businesses hold off on capex through the "wait-and-see" channel – and indirect impacts – such as when households' precautionary behaviour reduces spending, leading businesses to cancel new products or delay entering a new market.

1.3. How do we measure economic uncertainty?

Policy uncertainty is a broad concept that can be measured in various ways. Our analysis centres on a commonly cited and analysed measure, the Economic Policy Uncertainty (EPU) Index. Constructed by Baker, Bloom, Davis and other authors, the EPU Index is a time-series measure of the degree of uncertainty about future economic policies, constructed by quantifying the frequency of articles in major new outlets featuring terms related to the economy, policy and uncertainty.

There are several EPU indices, each capturing a specific type or source of economic policy uncertainty or a specific geography. For example, the Trade Policy Uncertainty (TPU) Index measures the frequency of news articles discussing uncertainty around government trade policy and trade actions. Our analysis focuses on the broad EPU measure at a global level as well as country-specific EPU indices for each of the 10 countries in our sample. Country-level EPU indices measure the frequency of news articles discussing economic policy uncertainty in high-profile or widely-distributed news outlets in that country.[4]

Using the EPU Index to capture the concept of policy uncertainty and estimate the impact on the economy comes with various advantages – including a relatively simple and intuitive construction, country-specific metrics and coverage across a range of economies and a long history. Compared to other measures of economic uncertainty – such as the VIX index, gold prices, the dispersion of macroeconomic forecasts or frequency of forecast revisions – the EPU Index best captures uncertainty specifically related to government policy on a global level.

As with any metric, the EPU Index has several limitations. Media coverage of economic policy uncertainty is a proxy for the concept of uncertainty, which cannot be directly observed. The index covers a handful of news outlets per country – typically longstanding publications which may share a reporting bias. The index appears to be generally increasing and show greater volatility over time, which could reflect a genuine increase in uncertainty or potentially an evolution in media reporting behaviour. Lastly, increases in economic policy uncertainty typically coincide with other macroeconomic trends; any effort to isolate the impacts of uncertainty on the economy must address this cointegration.

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4 For example, the EPU Index of the United States covers news articles across 10 leading news outlets: USA Today, the Miami Herald, the Chicago Tribune, the Washington post, the Los Angeles Times, the Boston Globe, the San Francisco Chronicle, the Dallas Morning News, the Houston Chronicle, and the WSJ. China's EPU Index covers the frequency of uncertainty-related news in the Renmin Daily and the Guangming Daily.

1.4. What is the analytical scope and what data are used?

Our analysis estimates the impact of economic policy uncertainty on business investment across the following 10 geographies: Brazil, Canada, China, EU-4 (France, Germany, Italy and Spain)[5], India, Japan, Mexico, South Korea, the United Kingdom and United States.

These economies were chosen for their size, geographic mix, coverage across advanced economies and emerging markets, as well as data availability. All 10 are among the world's largest economies – together accounting for 70% of world GDP – and all 10 are members of the G-20. They were also selected for having a sufficiently long historical EPU series for econometric analysis.

- **Investment:** For this analysis, we define investment as private, non-residential fixed investment, commonly referred to as business investment. A component of GDP, investment series are sourced from each country's national accounts and published on a quarterly basis, which is the frequency used in our modelling. We model investment impacts as a percent change in real terms (constant 2015 US$ terms), but highlight the impacts in nominal (current US$) terms throughout this report.
- **Economic policy uncertainty**: Each country's published raw EPU Index from the original source is normalised to a historical reference point. Our analysis further standardises each EPU Index by calculating the standard deviation or the percent change from the index's historical average. The EPU Index is published at monthly frequency, and we adjust it to quarterly frequency for modelling purposes.

5 We construct an EU-4 EPU Index by removing the UK component from the originally published Europe-5 EPU Index.

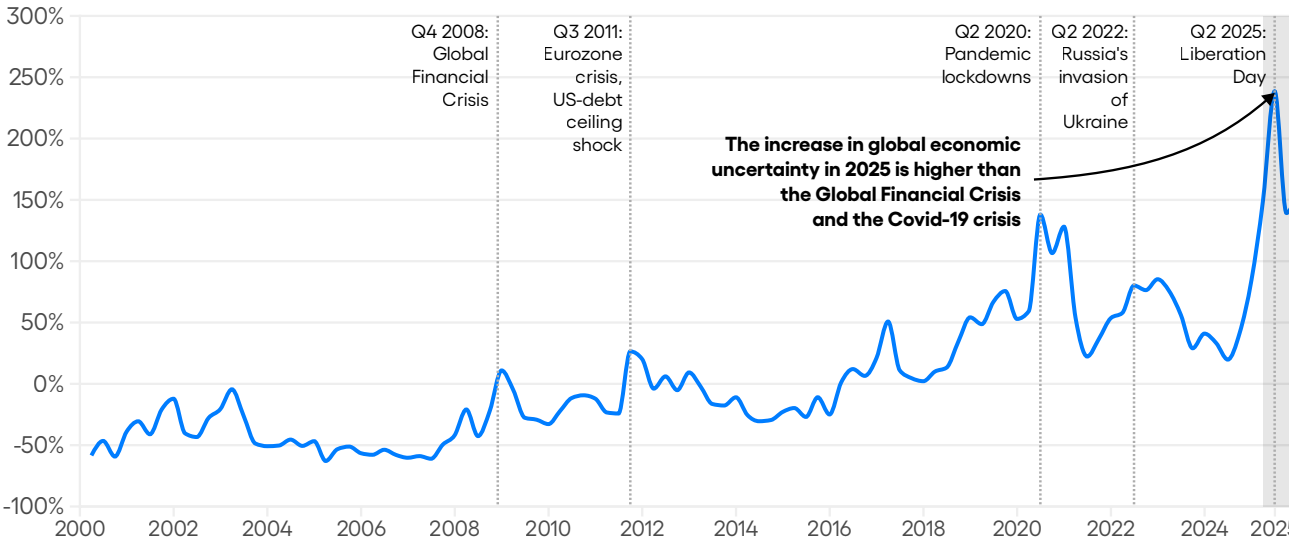
2. Trends in economic policy uncertainty

2.1. What has happened since 2000?

Over the course of the 2000s, a variety of events have preceded or coincided with increases in economic policy uncertainty. Prior to 2025, the most significant events contributing to a rise in the EPU Index on a global level were the global financial crisis in 2007-2008, the outbreak of COVID-19 in 2020 and Russia's invasion of Ukraine in 2022 (Figure 1).

- **Global financial crisis (2007-2008):** Following several years of relative stability, global economic policy uncertainty began rising in the third quarter of 2007 with reporting around the US subprime mortgage crisis. It jumped further in the third quarter of 2008, coinciding with Lehman Brothers' collapse and the uncertainty around fiscal and monetary policy responses to the unfolding crisis. All countries in our analysis saw a significant increase in uncertainty around this time except China, whose EPU response was relatively muted. At the time, this was the largest jump and highest level the index had reached though subsequent events, particularly in 2025, have surpassed it. Following the global financial crisis, the EPU levels of emerging markets fell back to their historic averages, while the EPU levels of advanced economies remained elevated until the mid-2010s.
- **COVID-19 pandemic (2020-2021):** A truly global event with rapid shifts in government policy, the COVID-19 pandemic drove a significant increase in economic policy uncertainty across the entire sample of countries. The global composite EPU began increasing in the last quarter of 2019 and spiked in the second quarter of 2020 to its then-highest-ever level. It remained high and volatile thereafter, reaching a relative trough in the first quarter of 2021 before rising again as successive COVID-19 waves, together with a global pickup in inflation, contributed to continual elevated policy uncertainty.
- **Russia's invasion of Ukraine (2022):** Global EPU was already high when Russia launched a full-scale invasion of Ukraine in February 2022. In the second quarter of 2022, the global EPU Index increased further as the policy implications of Russia's military action were unfolding, with successive rounds of sanctions and uncertainty surrounding government policy responses to energy, commodity and supply chain shocks.

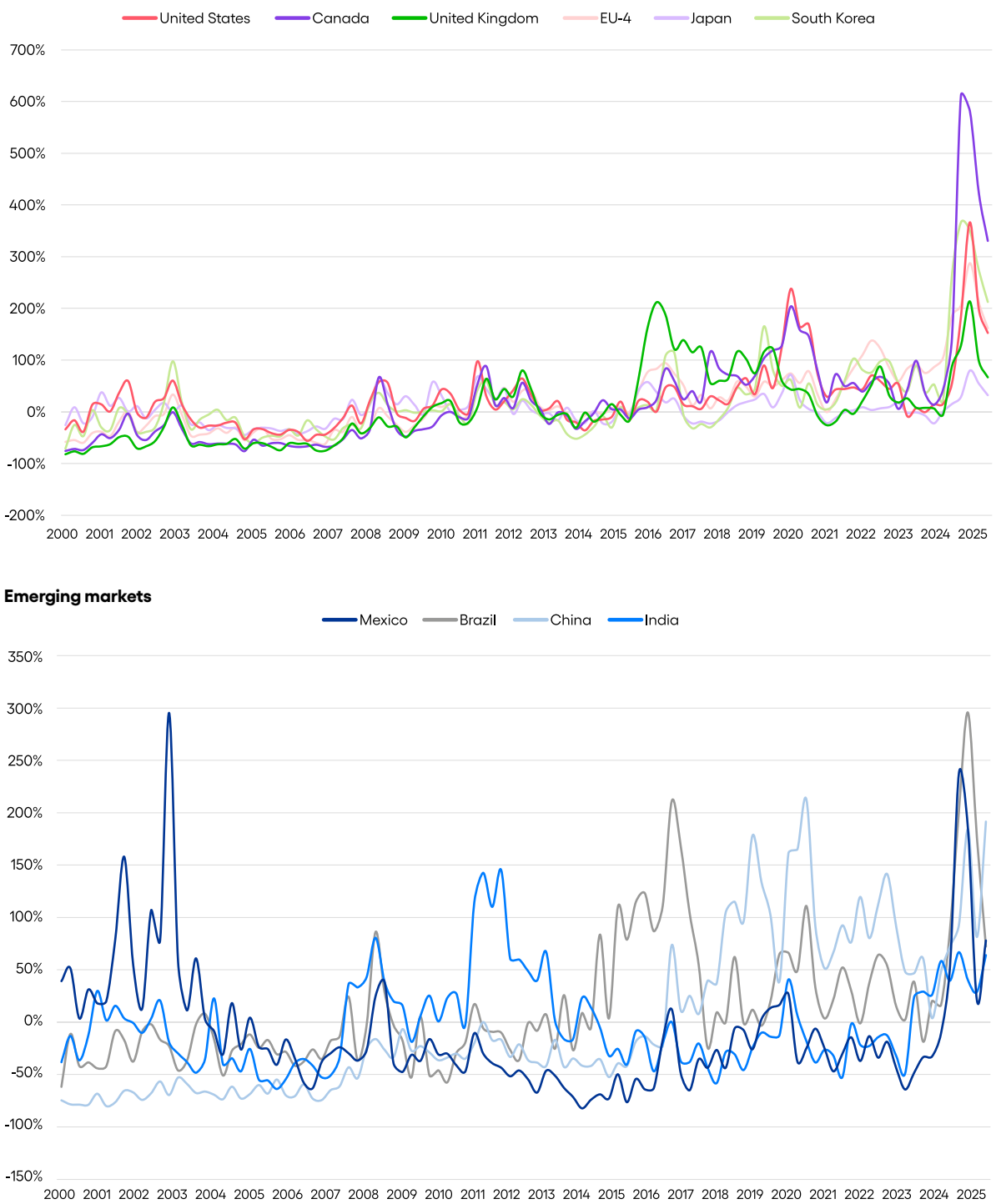
Figure 1. Global Economic Policy Uncertainty Index, % change from historical average



Source: ICC / Oxford Economics (2026), The cost of uncertainty on investment

In addition, several domestic events have driven or coincided with a rise in policy uncertainty specific to one country. Examples include Japan's financial crisis of 1997-1998, South Korea's credit card crisis of 2003, uncertainty surrounding the end of the Institutional Revolutionary Party (PRI) rule in Mexico from 2000-2003 and the United Kingdom's Brexit vote and aftermath in 2016. While all countries' EPU indices move in response to both global and domestic events, emerging markets' EPU indices appear comparatively less responsive to global events – with domestic political and economic crises tending to coincide with more or similar levels of uncertainty as global events (Figure 2).

Figure 2. Global Economic Policy Uncertainty Index, by country, % change from historical average



Source: Baker, Bloom and Davis (2016), Measuring economic policy uncertainty (adapted by Oxford Economics)

2.2. What happened in 2025?

Economic policy uncertainty reached unprecedented highs in 2025. 2025 saw a large, unusually global increase in economic policy uncertainty. As measured by the Composite Global EPU Index, uncertainty began rising in the first quarter of 2025 and surged further in the second quarter of 2025 to nearly 3.5 times its historical average reading – the highest in history. The most evident driver of the EPU jump was the uncertainty surrounding the US trade policy and specifically the "Liberation Day" tariffs announced on 2 April 2025. However, global uncertainty was already rising from the last quarter of 2024 – likely stemming from a combination of uncertainty surrounding the US general election and the re-election of Donald Trump as US president, the declaration of martial law in South Korea, political instability in France and Germany, and tariff announcements by the US administration ahead of Liberation Day.

While the surge in uncertainty in 2025 was global, the degree and nature of the jump varied across countries:

- **Policy uncertainty in Canada jumped to an unprecedented level amid US trade policy turmoil.** The largest jump in uncertainty occurred in Canada, where EPU rose more than seven times its historical average. As a very close trading partner to the United States facing a raft of tariff announcements and trade policy U-turns throughout the first two quarters of 2025, Canada experienced its largest EPU spike by far in history in the second quarter of 2025.
- **Brazil, the EU-4, South Korea and the United States all saw extreme policy-uncertainty shocks in mid-2025**, with very large EPU jumps in the second quarter of 2025. In all cases, the EPU Index rose between 3.5 times and 5 times its historical average – representing an extreme event. For all four regions plus Canada, the second quarter of 2025 marked the highest EPU reading in the country's history.
- **Japan, Mexico and the United Kingdom faced unusually high policy uncertainty in 2025, but not record levels**. Japan, Mexico and the United Kingdom experienced large EPU increases in 2025 to at least 1.5 times above the index's historical average – representing an unusual event. For these countries, policy uncertainty was very high in 2025 – though not the highest in history. Mexico saw greater uncertainty in 1997-2003; Japan experienced more uncertainty during the 1997-1998 financial crisis and the United Kingdom saw greater uncertainty around Brexit in 2016-2017.
- **China and India saw relatively muted policy-uncertainty gains compared with peers.** In China and India, the increase in policy uncertainty in 2025 was comparatively muted. For China, tariff uncertainty around Liberation Day marked a continuation of policy volatility and elevated policy uncertainty since 2018. In India, Liberation Day appears to have driven less uncertainty than in other major economies: in domestic reporting, US tariffs were generally characterised as being less negative and impactful for India than for other countries – particularly for India's trade competitors in East and Southeast Asia.

Following the increase in uncertainty in the second quarter of 2025 around Liberation Day, uncertainty dropped but has since remained elevated and volatile. In the last quarter of 2025, the global EPU Index was still more than 2.5 times higher than its historical average, having increased from the third quarter of 2025 levels.

2.3. Should we expect a renewed surge in uncertainty in 2026?

Events so far this year – the Supreme Court IEEPA ruling on US administration tariffs, the US military intervention in Venezuela and threat of military intervention in Greenland, and US-Israel strikes on Iran in the beginning of 2026 and the Strait of Hormuz crisis – suggest that policy uncertainty will almost certainly rise again in the short term and remain unusually elevated in 2026. However, the exact path of uncertainty in 2026 is yet to be determined due to the highly fluid and evolving situation, particularly in the Middle East.

EPU indices are published with a lag that varies across countries, and the latest global composite data ends in late 2025. At the country level, monthly indices through February 2026 show uncertainty increasing again for many countries compared to the second half of 2025 levels, though generally not exceeding those of Liberation Day. With data available only through February 2026, we do not yet have a full understanding of how the unfolding crisis in the Middle East, and its global impacts are contributing to measured economic policy uncertainty, and how EPU will fare over the remaining months of 2026.

The unprecedented increase in uncertainty in 2025, together with elevated uncertainty in early 2026 and a range of potential scenarios for how events may unfold this year, form the basis for our modelled scenarios.

3. Modelling approach

3.1. Methodology

Our analysis seeks to quantify the impact of economic policy uncertainty – independent from other factors – on business investment. With an estimate of the historical relationship between EPU and investment, we quantify the hit to investment in 2025 that occurred in response to the jump in uncertainty. Finally, we estimate how investment might fare in 2026 under two simulated scenarios: 1) an adverse scenario, entailing a new, unprecedented uncertainty spike, and 2) a favourable scenario in which greater policy clarity leads to a fall in uncertainty. Modelling proceeds in three stages:

1. Estimating the historical relationship between economic policy uncertainty and business investment

This stage entails building an econometric specification for each of the 10 economies to estimate the effect of EPU on investment historically in each country – typically the first quarter of 1997 through the last quarter of 2024, and further back for some countries (depending on historical EPU data availability). The output is an impulse response function (IRF) tracing the dynamic response of investment following an EPU shock of one standard deviation. This stage is further broken down into two steps:

- **Extracting an unexpected EPU shock:** We first estimate a small Structural Vector Autoregression (SVAR) for each country to isolate the component of EPU movements that cannot be explained by macroeconomic conditions (such as movements in real GDP, inflation and the central bank's policy rate). This is important because policy uncertainty may itself rise in response to deteriorating growth, higher inflation or other macroeconomic stress. Without this step, a simple correlation between EPU and investment could conflate the effect of uncertainty on investment with the effect of underlying macroeconomic conditions on uncertainty. For example, a financial crisis leading to recession or a jump in inflation can raise uncertainty around fiscal and monetary policy.

  This step therefore helps us quantify the structural EPU shocks, that is EPU movements that occur due to genuine policy surprises and other external events and not due to macroeconomic conditions. Each country's EPU shock is expressed in standard deviations from its historical average; a value of zero indicates that unexpected EPU is at a normal level for that country (not that there is no uncertainty).

- **Estimating the investment response to an EPU shock:** We use local projections to trace the evolution of investment following an EPU shock. This method estimates the impact at each horizon (after one quarter, after two quarters, etc.) while controlling for investment momentum and other relevant macroeconomic conditions.

2. Quantifying the investment hit in 2025 using a counterfactual scenario

In this stage, we model a counterfactual scenario for 2025 in which there is no new policy uncertainty – that is, the unexpected EPU shock is set to zero. Using the impulse response functions and coefficients estimated in the first stage, we map this counterfactual scenario to an implied investment path in 2025 – representing the path investment likely would have taken had 2025 been a more normal year with no new sources of policy uncertainty.

To estimate the hit to investment, we calculate the percent difference between actual investment and counterfactual investment, as well as the difference in US$ terms.

3. Estimating investment in 2026 under two forward-looking scenarios

We model two forward-looking scenarios for economic policy uncertainty in 2026. In both scenarios, the same shock is applied uniformly across all 10 countries. This ensures cross-country results reflect differences in the economies' underlying sensitivity to uncertainty, rather than differences in the size of the shock they receive. Each scenario is calibrated to the largest shock of its type observed across any country in the sample since 2000, providing a historically grounded bound on plausible outcomes.

- **Adverse scenario:** A new uncertainty shock begins in the second quarter of 2026, calibrated to the largest positive unexpected EPU shock in history across all 10 countries in our sample – equivalent to the uncertainty Canada experienced in the first quarter of 2025. The shock persists through the third quarter of 2026, after which uncertainty falls to a zero unexpected EPU value in the fourth quarter. While realistic, this is an extreme scenario in which all 10 countries simultaneously see an unprecedented rise in policy uncertainty. This modelled scenario could occur under any number of situations – such as a major military escalation, natural disaster, financial crisis or other event that drives a large rise in policy uncertainty across all 10 countries.
- **Favourable scenario:** Beginning in the second quarter of 2026, improved policy clarity drives a fall in uncertainty, calibrated to the largest negative unexpected EPU shock observed in the sample. This shock is equal to the EU's in the second quarter of 2008 (a brief period of calm during which markets and policymakers hoped JPMorgan's rescue of Bear Stearns and Fed policy had contained the financial crisis) and roughly equal to the shocks experienced in the US in the first quarter of 2005 (post-2004 elections) and in the United Kingdom in the third quarter of 2003 (post-Iraq invasion uncertainty collapse). The favourable shock is smaller in absolute magnitude than the adverse shock, reflecting the historical reality that episodes of uncertainty relief tend to be of smaller magnitude than uncertainty surges. The shock likewise persists through the third quarter of 2026, before reverting to zero in the last quarter.

To quantify the investment impact under each scenario, we compare the investment path under each of these scenarios to the investment path under a "status quo" scenario in which there are no new policy uncertainty shocks in 2026 (that is, unexpected EPU is set to zero). We calculate the percent difference in investment in 2026 as well as the difference in US$ terms between the adverse scenario and status quo, and between the favourable scenario and status quo.

3.2. Caveats and limitations

Our modelling approach is well-established in the economic literature on policy uncertainty and its impact on investment and GDP, with a methodology drawn closely from Cho and Kim (2023) and results that are consistent in magnitude with other analyses. Further detail on the approach is available in the Methodology Appendix.

However, two important caveats should be drawn:

- First, as with any economic modelling, results should be seen as indicative of the magnitude of the investment impact, rather than precise estimates.
- Second, this methodological approach by nature cannot fully isolate economic policy uncertainty and its investment impacts from all factors that drive or coincide with uncertainty, which may independently drive investment impacts.

While the methodology controls for pre-existing macroeconomic trends, it does not fully isolate uncertainty's impact on investment flowing from the actual economic policy changes coinciding with uncertainty.

In the case of Liberation Day, this limitation means that our investment impact results may capture not only the uncertainty surrounding US trade policy but also the investment impacts flowing from actual tariff increases. While some studies control for this channel by including relevant variables (for example, the average US tariff rate), our analysis takes a broad, historical cross-country lens that precludes a similar approach. However, the approach nonetheless captures the total impact of events and other factors that coincide with a rise in uncertainty, and the pattern of results suggests that uncertainty itself is likely the predominant channel. We discuss these implications further in the sections on results and policy implications.

4. Results

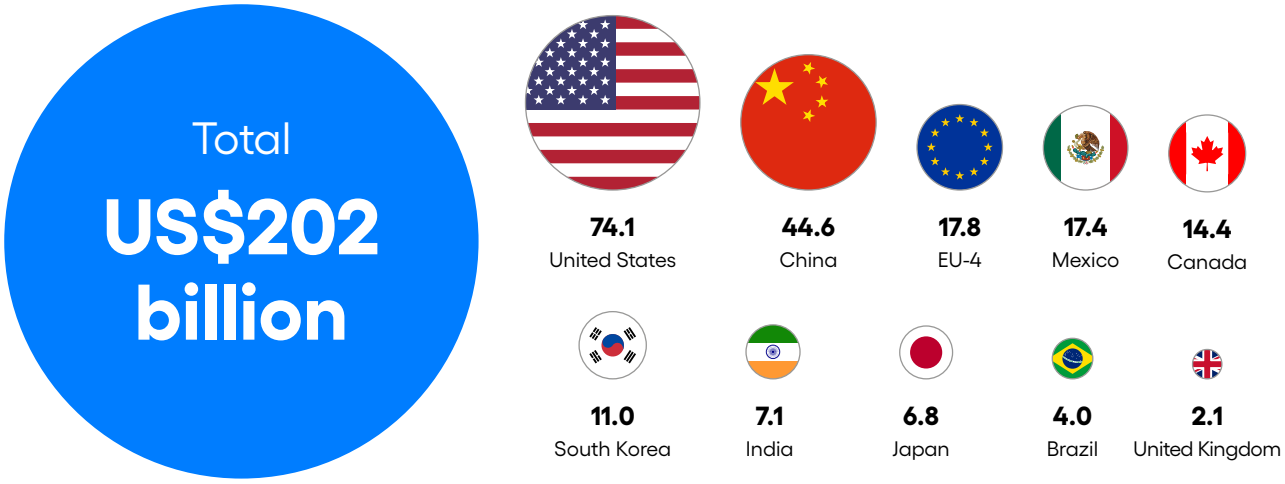
4.1. How much did policy uncertainty in 2025 reduce investment?

Rising uncertainty weighed on business investment. Across the 10 economies analysed – Brazil, Canada, China, EU-4 (France, Germany, Italy, Spain), India, Japan, Mexico, South Korea, the United Kingdom and United States – we estimate that the surge in policy uncertainty in 2025 reduced real (inflation-adjusted) business investment **by 1.4%,** compared to a more positive "no new news" counterfactual scenario with no new sources of policy uncertainty.

This investment reduction translates to approximately **US$202 billion** (0.2% of 2024 global GDP) in lost or delayed business investment (Figure 3). For comparison, this lost or delayed investment value exceeds the entire FY2025 US defence procurement budget (US$167.5 billion),[6] and is more than double Google's global capex spend (US$91.4 billion) in 2025, during a period of fast AI-related expansion.[7]

Investment growth would have been more than four times stronger. Real business investment across the 10 economies grew just 0.4% in 2025 (Figure 4). Under the more positive counterfactual, investment would likely have grown at more than four times that rate (1.9%).

Figure 3. Estimated lost or delayed business investment in 2025, in US$ billion



Source: ICC / Oxford Economics (2026), The cost of uncertainty on investment

Mexico and Canada were hit hardest. Mexico and Canada saw the greatest relative investment impacts, with real business investment estimated to have been 6.8% and 5.3% lower, respectively, compared to the "no new news" counterfactual (Figure 4). Mexico is likely to have foregone US$17.4 billion in business investment, while Canada may have lost or delayed US$14.4 billion.

These standout impacts stem primarily from Mexico's high sensitivity of investment to uncertainty, combined with Canada's and Mexico's large policy uncertainty spikes in 2025.

Compared to other countries, Canada and Mexico experienced more frequent and pronounced policy reversals on tariffs throughout early 2025, with repeated tariff announcements, delays and exemptions ahead of the broader Liberation Day tariffs. Together with Canada's and Mexico's high

6 Congressional Research Service.
7 Alphabet FY2025 Results.

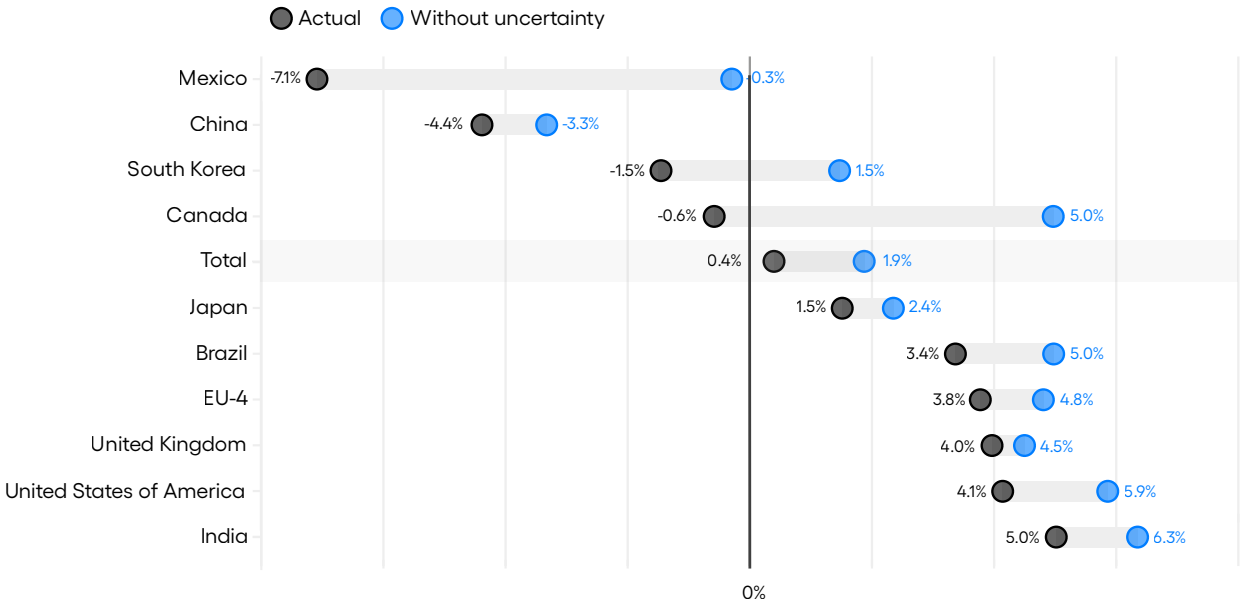
degree of economic, trade and supply chain integration with the United States, these effects likely shaved a combined US$31.8 billion in investment.

Although smaller in magnitude, the investment loss associated with policy uncertainty is broadly comparable to the contractions observed during the COVID-19 pandemic and the global financial crisis. In Mexico, the uncertainty-related decline in 2025, relative to the counterfactual decline, amounts to roughly 35–40% of the investment contraction experienced across the global financial crisis and the COVID-19 crisis. In Canada, the estimated decline (-5.3%) represents nearly 30% of the contraction related to the global financial crisis and just over half of the investment drop recorded during the COVID-19 crisis (Figure 5).

South Korea was hit by a double shock: a domestic political crisis and rising trade pressure from the United States. South Korea likewise saw relatively large impacts, with real investment reduced by 2.9% compared to the "no new news" counterfactual (Figure 4) – amounting to US$11 billion in lost or delayed investment. These large impacts flow primarily from South Korea's large EPU increase in 2025 compared to the rest of the sample. The increase in policy uncertainty in 2025 reflected a double shock: a domestic constitutional crisis around President Yoon's martial law declaration in December 2024, subsequent impeachment and arrest and months of caretaker governance – which carried over into 2025 and weakened South Korea's negotiating posture just as US trade pressure intensified. The scale of the impact is significant and close to that observed during the global financial crisis, which saw a 4.1% contraction in business investment (Figure 5).

Although South Korea's 25% Liberation Day tariff was moderate by global standards, South Korea faced a large increase in tariff-related policy uncertainty due to its high exposure to US trade policy, with exports to the US directly accounting for over 8% of South Korea's GDP and targeted sectors like autos and steel forming the backbone of its manufacturing sector.

Figure 4. Cost of uncertainty on investment growth in 2025: actual vs. counterfactual, real year-on-year, %



Source: ICC / Oxford Economics (2026), The cost of uncertainty on investment

Note: "Without uncertainty" refers to the counterfactual scenario.

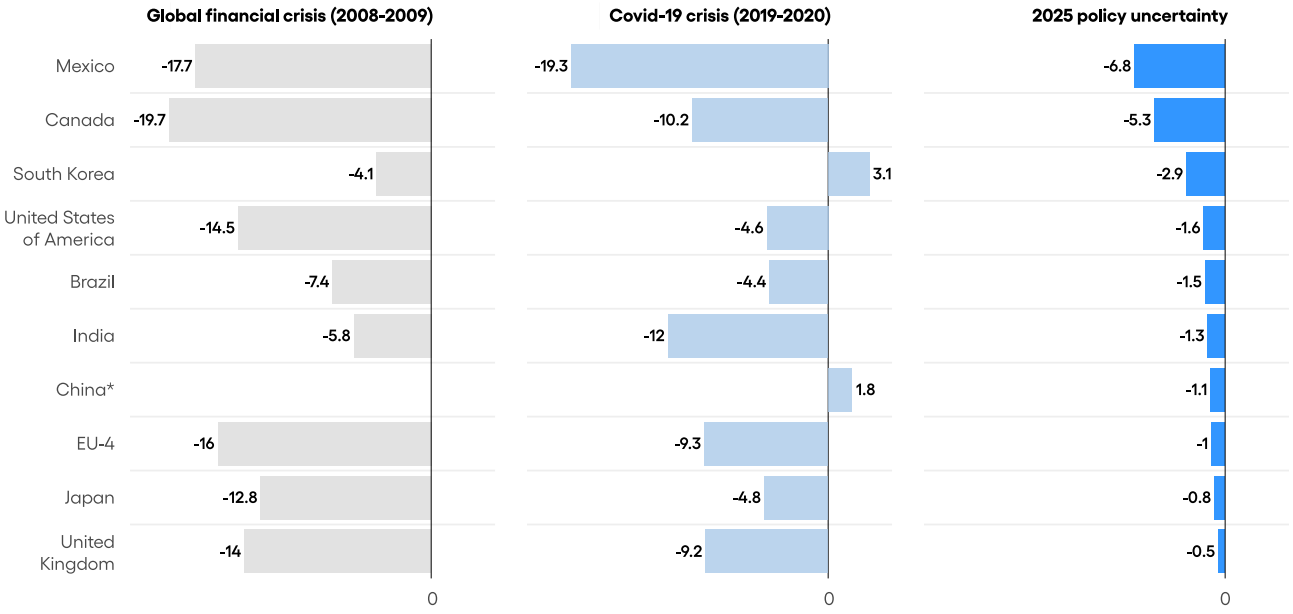
The AI boom cushioned the impact of policy uncertainty in the US, masking a sizable hit to investment. The US likely saw the greatest negative impact in dollar terms, with an estimated US$74.1 billion in lost or delayed investment – equivalent to a 1.6% drop in real investment compared to the "no new news" counterfactual (Figure 4).

The estimated US investment impact flows largely from the large jump in its EPU Index in 2025 as well as the large size of its economy in nominal US$ relative to the rest of the sample.

At 4.1%, actual real US investment growth in 2025 appears solid in comparison to 3.9% annual average growth in the last 10 years. This is largely thanks to robust AI-related investment, with some estimates showing the growth contribution of tech investment categories exceeded total business investment growth in 2025 – implying that business investment growth would have been negative were it not for the AI boom.[8]

Our analysis shows that had it not been for the jump in economic policy uncertainty in 2025, US business investment would have grown at a significantly faster pace of 5.9%. In historical context, the estimated uncertainty-related decline amounts to around 10% of the investment contraction during the global financial crisis and nearly 30% of the decline recorded during the COVID-19 pandemic (Figure 5).

Figure 5. Estimated 2025 investment impact vs. historical investment declines, in %



* China's investment gain of 23% in 2008-09 was omitted for purposes of illustration.

Source: ICC / Oxford Economics (2026), The cost of uncertainty on investment

The large domestic markets of Brazil and India provided some insulation from external shocks. In 2025, uncertainty-related investment losses relative to the counterfactual were close to the sample average – 1.5% in Brazil and 1.3% in India. In monetary terms, this corresponds to losses of approximately US$4 billion in Brazil and US$7.1 billion in India (Figure 3). For India, these losses represent only a small fraction of past crisis episodes (around 10–20%), while in Brazil they amount to roughly onethird of the investment contraction recorded during the COVID-19 pandemic in 2020 (Figure 5).

China showed relative greater resilience compared to its regional peers. China's relative resilience likely reflects the adaptation of firms to sustained and elevated policy volatility since 2018. As a result, business investment contracted by 4.4% in 2025, suggesting a 1.1% drop in real investment compared to the "no new news" counterfactual (Figure 4).

8 St. Louis Federal Reserve.

The EU-4 and Japan kept investment losses contained. The EU-4 and Japan, both large and diversified advanced economies, experienced uncertainty-related decline in 2025, relative to the counterfactual, close to 1% (Figure 4). In absolute terms, this corresponds to approximately US$18 billion for the EU-4 and US$6.8 billion for Japan (between 0.1-0.2% of their respective GDP). These economies tend to display lower sensitivity to uncertainty shocks.

The United Kingdom was the least affected, with uncertainty only marginally weighing on investment in 2025. In both absolute (US$) and relative (percent) terms, investment in the United Kingdom was the least impacted by policy uncertainty in 2025. Investment grew 4% compared to 4.5% under the counterfactual scenario (Figure 4), translating to a loss of US$2.1 billion.

Although the United Kingdom experienced a relatively large EPU shock in 2025, the increase was smaller than for the majority of the 10 countries. While the United Kingdom saw high policy uncertainty in the aftermath of Liberation Day amid negotiations for the US-UK trade deal, its somewhat limited EPU spike is likely a function of the United Kingdom's low Liberation Day tariff (10%), smaller manufacturing sector and lesser export dependence on the United States.

4.2. How might uncertainty impact investment in 2026?

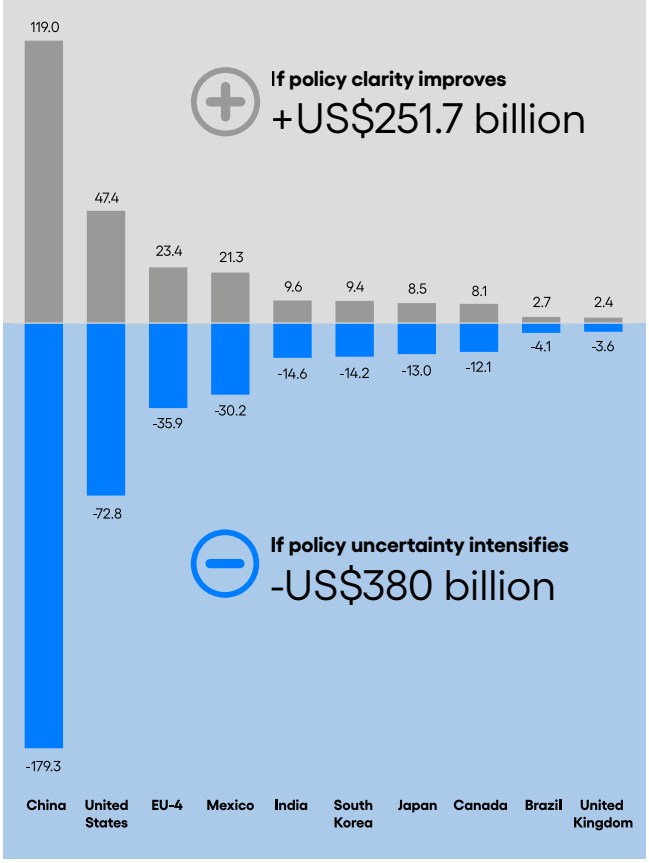
Looking ahead, the trajectory of investment in 2026 will depend on how policy uncertainty evolves. We model two scenarios – adverse and favourable – defined in Section 2. Figure 6 and Figure 7 show the estimated investment impacts under each scenario across the 10 economies.

Adverse scenario

Under the adverse scenario, the cost of economic uncertainty could nearly double. In this scenario, a surge in policy uncertainty beginning in the second quarter of 2026 is estimated to reduce real business investment by **2.7%** in 2026 across the 10 economies relative to the status quo. This is equivalent to a loss or delay of approximately **US$380 billion** in nominal terms (or 100% of FDI inflows to North America in 2025[9]). This is materially larger than the estimated investment hit in 2025, reflecting the severity of the calibrated shock.

For this forward-looking scenario, variation in the scale of the estimated impact does not reflect the size of any EPU shock – which is applied uniformly across all countries – but rather how sensitive investment has been historically to increases in uncertainty. Countries with deeper or more persistent investment responses to EPU shocks in their historical data naturally exhibit larger estimated impacts.

Figure 6. Estimated investment impact in 2026, adverse scenario vs. favourable scenario, in US$ billion



Source: ICC / Oxford Economics (2026), The cost of uncertainty on investment

9 UNCTAD (2026)

Mexico would face a steep investment hit under the adverse scenario, reflecting the economy's unusually high sensitivity to uncertainty and its deep exposure to US trade and capital flow shocks. Mexico faces by far the largest estimated impact under the adverse scenario, with real investment falling 10.8% – equal to a loss or delay of US$30.2 billion in investment. This reflects Mexico's historically high sensitivity of investment to uncertainty, the steepest in the sample by a considerable margin. This sensitivity likely reflects structural features of the Mexican economy: as a smaller, more open emerging market, Mexico is particularly exposed to swings in foreign investor sentiment, risk premia and capital flows that tend to amplify in response to policy uncertainty. Its deep economic and trade integration with the United States further concentrates the transmission of uncertainty shocks.

Canada's investment hit would be noticeable, though smaller than in 2025 as the shock hits a weakened base. Canada likewise would see an outsized impact, with investment falling an estimated 4.4% in real terms or US$12.1 billion. Canada's relatively smaller economy and its role as an oil and commodity exporter, where investment tends to be more cyclical and sensitive to global risk sentiment, likely amplifies the investment response to uncertainty shocks compared to larger, more diversified advanced economies in the sample (EU-4, Japan and US).

While Canada's sensitivity to uncertainty is unchanged, the estimated impact in 2026 is somewhat smaller in percentage terms than the hit sustained in 2025. This is primarily because the status quo baseline against which the 2026 adverse scenario impact is measured already reflects the investment weakness carried over from 2025. The new shock therefore acts on a lower starting point, mechanically reducing the relative decline compared to 2025, when investment was entering a period of greater momentum.

China and South Korea would experience sharper investment declines than in 2015, but South Korea would bounce back quickly. China and South Korea see investment declines of 3.9% and 3.8%, respectively. It is worth noting that South Korea's investment response to uncertainty shocks has historically been sharp but relatively front-loaded: the contraction tends to be concentrated in the first year, with a meaningful rebound thereafter. This pattern suggests that while the 2026 impact looks comparatively severe, South Korea's investment may recover more quickly in 2027 compared to other economies.

India's decline would be closer to average but domestic demand provides a partial buffer. India falls close to the sample average at an estimated 2.7% decline in real terms, or US$14.6 billion. Two countervailing forces shape this result. India's investment cycle is historically quite responsive to uncertainty shocks in the short run, likely reflecting relatively less developed capital markets and greater reliance on bank credit – both of which tend to tighten sharply when uncertainty rises. At the same time, India's large, domestically orientated economy provides a degree of insulation, which may investment to recover more quickly than in other markets, with investment driven substantially by public and domestic consumption rather than trade-exposed sectors.

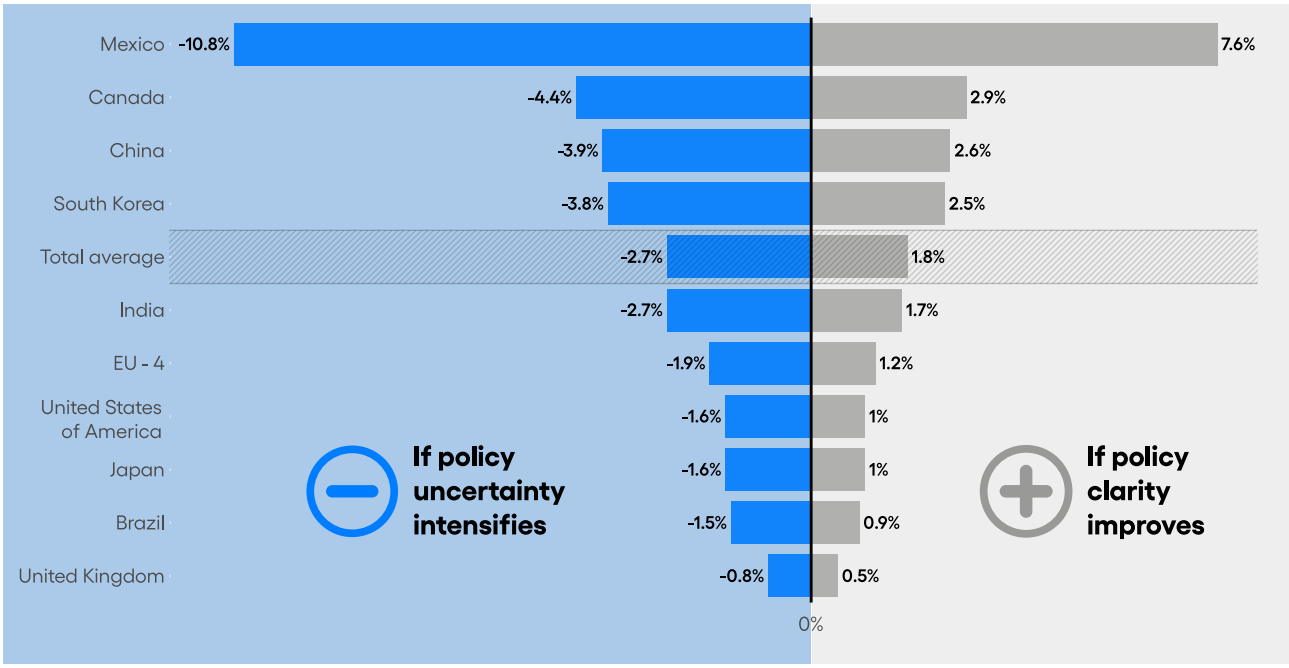
Investment would take a modest hit in the EU-4, the United States and Japan, underscoring their relative resilience to uncertainty. The EU-4, United States and Japan experience real investment impacts of 1.9%, 1.6% and 1.6%, respectively. As large, diversified advanced economies, they tend to exhibit lower sensitivity to uncertainty shocks, likely reflecting the greater depth and stability of domestic capital markets, more diversified investment bases and institutional frameworks that provide businesses with more certainty about medium-term policy direction even when near-term uncertainty rises.

Brazil could face a modest investment hit in 2026, with fallout likely to linger. Brazil would likely experience a 1.5% investment decline in real terms, or US$4.1 billion – a more muted result for an emerging market economy. Brazil's investment response to uncertainty has historically been back-loaded, with the full effect materialising over several quarters. The 2026 annual figure likely

understates the cumulative cost, with the drag potentially extending more visibly into 2027.

The United Kingdom would see a limited impact, cushioned by its services-led economic structure. The United Kingdom sees the smallest estimated impact across the sample at 0.8% in real terms, or US$3.6 billion. This muted sensitivity likely reflects the United Kingdom's predominantly services-based economy, in which investment tends to be somewhat less volatile than in manufacturing or commodity-intensive economies.

Figure 7. Estimated investment impact in 2026, adverse scenario vs. favourable scenario, in %



Source: ICC / Oxford Economics (2026), The cost of uncertainty on investment

Favourable scenario

Under the favourable scenario, a significant easing of policy uncertainty beginning in the second quarter of 2026 is estimated to lift real business investment by an average 1.8% above the status quo – equivalent to approximately US$252 billion in additional investment in nominal terms.

The cross-country pattern of gains broadly mirrors the adverse scenario, reflecting the same underlying sensitivities. Mexico again stands out as the largest beneficiary in percentage terms, with an estimated 7.6% increase in real investment, or US$21.3 billion. Canada and China see estimated gains of 2.9% and 2.6% respectively, while South Korea benefits by an estimated 2.5%.

In absolute dollar terms, China and the United States dominate, with estimated investment gains of US$119 billion and US$47.4 billion respectively, reflecting the scale of these economies. The EU-4 contributes a further US$23.4 billion under the favourable scenario.

The asymmetry between the two scenarios – where the adverse impact (US$380 billion) considerably exceeds the favourable gain (US$252 billion) – reflects the reality that surges in policy uncertainty tend to be sharper and more abrupt than episodes of policy clarification. Both scenarios are calibrated to the largest shocks of their respective types observed historically; uncertainty typically arrives suddenly, driven by discrete events such as elections, geopolitical shocks or financial crises, while the restoration of policy clarity tends to be more drawn-out, as confidence rebuilds incrementally rather than all at once.

5. Policy implications: Policy certainty as a public good and the case for stability

The results of this analysis add to a substantial body of evidence that policy uncertainty carries a measurable economic cost – a cost that can be avoided or even reversed with clear, well-communicated policies. Several findings warrant particular attention of those with a stake in the design and communication of economic policy.

1. **The cost of uncertainty is large and likely operates independently of actual policy outcomes.** Across the 10 economies analysed, uncertainty is estimated to have reduced business investment by US$202 billion in 2025. The evidence from Canada and Mexico is striking despite largely retaining preferential trade access under USMCA to-date, both countries experienced by far the largest investment declines in the sample in 2025 – a function of both their large increases in uncertainty and their sensitivity to uncertainty. Policy uncertainty – in the form of reversals, ambiguity or a stop-start sequencing of announcements – imposes its own cost on investment, over and above whatever the final policy settles at.
2. **No country is insulated from uncertainty.** Every economy in the sample saw investment reduced in 2025 relative to the counterfactual, and a renewed surge in uncertainty in 2026 would likely cost billions for every country.
3. **Smaller open economies and emerging markets are especially vulnerable.** Our results show that Mexico, Canada and South Korea – economies that are smaller, more trade-dependent or more reliant on foreign capital – face investment impacts several times larger in relative terms than the world's largest economies. This implies that relatively smaller countries with lesser influence over the policies generating uncertainty often bear the greatest cost from it.
4. **Uncertainty at the scale of 2025 is historically unprecedented, and its full effects may not yet be visible.** The 2025 global EPU spike was the largest on record, surpassing even the global financial crisis and the early phase of the COVID-19 pandemic on a composite basis. As the results for Brazil illustrate, investment responses to uncertainty can be back-loaded, with the full cost materialising over several quarters. This suggests that some of the damage from the uncertainty surge in 2025 may still be working its way through investment pipelines in 2026 and beyond. This makes the case for stabilisation even more urgent.
5. **Preventing uncertainty from rising is more valuable than resolving it after the fact.** Our favourable scenario – calibrated to the largest improvement in policy clarity observed historically – would lift investment by US$252 billion across the sample. That is a substantial prize, but it is considerably smaller than the US$380 billion that could be lost under an adverse scenario of comparable historical magnitude. This asymmetry reflects how uncertainty operates: it can spike sharply when policy becomes volatile but tends to unwind only gradually as businesses rebuild confidence.

The results of this analysis should not be read as an argument against policy change or reform. Rather, they point to the value of how policy is made and communicated, not just what the policy is. In an environment of genuine economic challenges, the way in which governments and international institutions manage the uncertainty that surrounds their decisions may matter as much as the decisions themselves.

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Appendix II: Economic methodology

Data and sample

The analysis covers 10 economies – the United States, Canada, Mexico, the EU-4 (France, Germany, Italy and Spain), the United Kingdom, Japan, South Korea, China and India – over a quarterly sample that runs from Q1 1997 through Q4 2024 for most countries, with longer samples available for a subset where historical EPU data permit. The dependent variable throughout is the log level of real private non-residential fixed investment in constant 2015 US$, sourced from national accounts collected by official statistical offices. EPU indices are taken from the original published sources, as described in the bibliography, and converted from monthly to quarterly frequency by averaging within the quarter.

Stage 1: Identifying structural EPU shocks

A core methodological challenge in this literature is that measured policy uncertainty is not exogenous to the economic environment. A financial crisis or a sharp deterioration in growth can generate media coverage of policy uncertainty as a consequence, rather than a cause, of economic distress. Regressing investment directly on the observed EPU index would conflate the causal effect of uncertainty with the reverse influence of macro conditions on EPU readings, and would likely overstate the true investment impact.

To address this endogeneity challenge, the analysis first estimates a series of Structural Vector Autoregressions (SVAR) that assess the impact of key macroeconomic indicators on EPU. Following Cho and Kim (2023), a separate four-variable SVAR is estimated for each country, with variables ordered as real GDP, the consumer price index, the short-term policy interest rate and EPU. Identification relies on a recursive ordering using the Cholesky decomposition, under which EPU is allowed to respond contemporaneously to shocks in output, prices and interest rates, but not vice versa within the same quarter. This ordering reflects the conventional assumption that output and prices adjust more slowly than text-based uncertainty measures and is consistent with both Cho and Kim (2023) and the broader EPU-investment literature.

Based on this model, we construct a time series of structural EPU shocks (also known as EPU innovations) from the residuals of country-level SVAR. The residuals recovered from this SVAR represent the EPU that cannot be explained by movements in GDP, inflation or interest rates. The shocks are standardised by dividing by their full-sample standard deviation, so that all subsequent results are expressed in units of one standard deviation of structural EPU innovation and are directly comparable across countries. Lag length in each country's SVAR is selected using the Bayesian information criterion (BIC). Sensitivity checks with alternative lag lengths were conducted and do not materially alter the headline findings.

Stage 2: Estimating investment responses via local projections

Using local projections following Jordà (2005), we estimate the responses of real investments to changes in the structural EPU shocks identified in the first stage. Local projections offer several advantages over direct estimation of impulse responses from a multivariate VAR. They require weaker assumptions about the underlying data-generating process and are more robust to lag-length misspecification at longer horizons. Inference is straightforward, as each horizon amounts to a single regression, and the approach easily accommodates additional controls. The principal

cost is some loss of efficiency relative to a well-specified VAR, which is accepted here given the heterogeneity of the 10 countries and the desire to avoid imposing overly restrictive parametric structure across diverse economic environments.

For each country and time horizon *h*, from *h*=0 representing contemporaneous impact to *h*=12 presenting 12-quarter horizon, the estimating equation takes the form:

$$log(IPNR)_{t+h} = \tau\, t + \alpha_h + \beta_h\, EPU_Shock_t + \gamma_h\, X_t + u_{t+h}$$

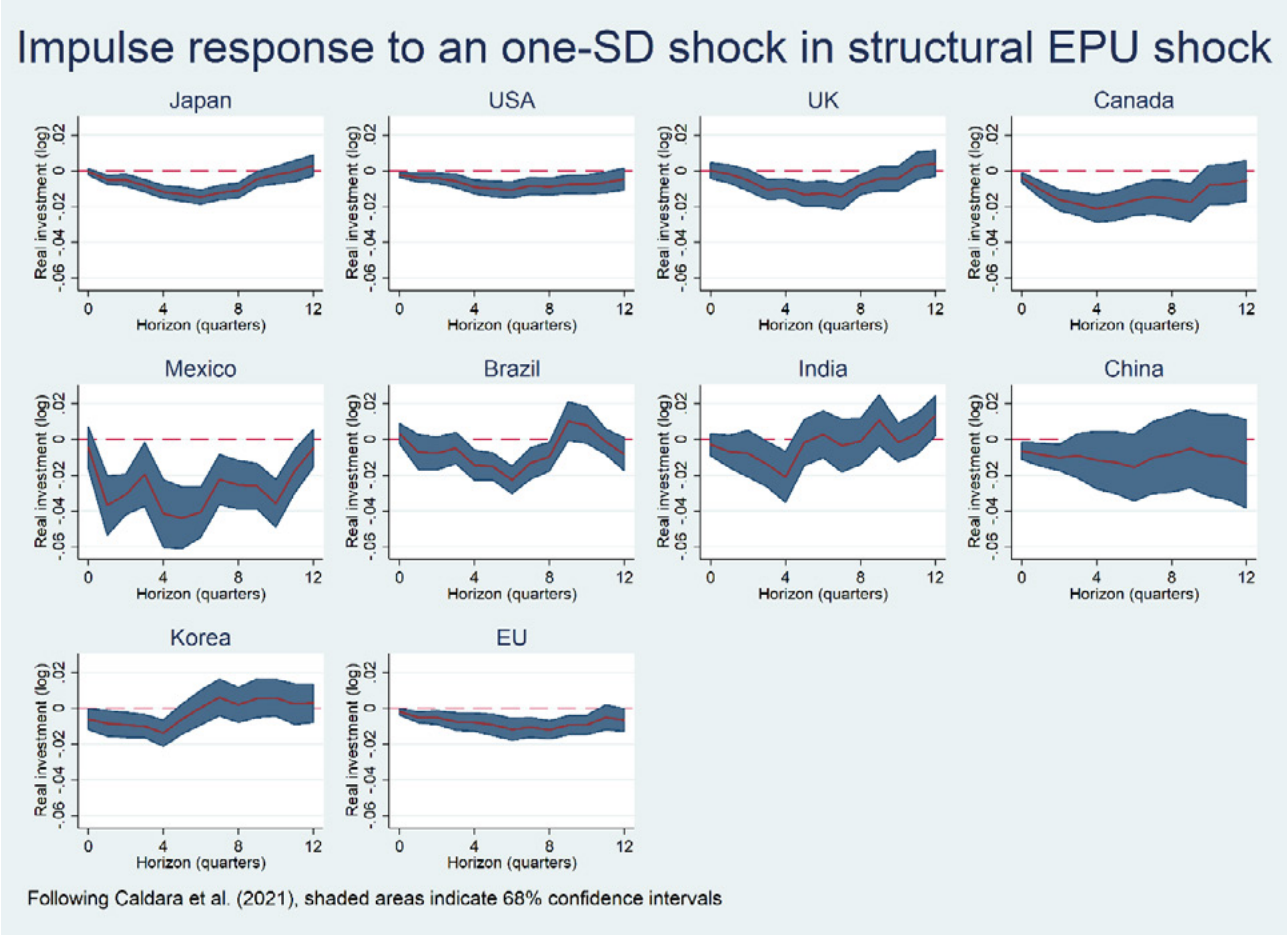
where τ is the linear time trend, α_h is a horizon-specific constant, EPU_Shock_t is the standardised structural EPU shock from Step 1, X_t controls for lagged values of log investment, with the number of lag terms identified from the BIC. Local projections are estimated by ordinary least squares (OLS) method. Robust standard errors are computed using the Newey-West HAC estimator, which corrects for the mechanical serial correlation in overlapping forecast errors.

The key coefficient of interest β_h, which represents the expected deviation of log investment h quarters after a one-standard-deviation structural EPU shock. Stacking these estimates across horizons traces the full impulse response function (IRF). The estimated IRFs visualises the typical dynamic path of real investment following a one-standard-deviation structural EPU shock. Following Caldara et al. (2021), the impulse responses are reported with 68% confidence bands, corresponding to approximately one standard error around the point estimate.

For most of the advanced economies in the sample, investment falls in the quarters following the shock, with the largest effects generally materialising within the first year. This pattern is consistent with the real options mechanism in the theoretical literature (Bloom, 2009; Bernanke, 1983): uncertainty raises the option value of waiting, causing firms to delay irreversible capital commitments. The impact from uncertainty is thus front loaded: the negative response is largest in the first few quarters and then gradually fades, with impulse responses typically narrowing over an 8- to 12-quarter horizon. The cross-country heterogeneity in the shape of the IRFs – most notably the more persistent contraction in Canada and Mexico relative to the more gradual, back-loaded profile in Brazil – informs the country-level differentiation in both the 2025 counterfactual and the 2026 scenarios discussed in the main text.

In emerging market economies, particularly Mexico and Brazil, investment responses tend to be larger in magnitude, reflecting structural features including greater exposure to external capital flows, wider swings in sovereign risk premia, and exchange rate amplification that tends to operate procyclically when uncertainty rises.

To further correct for seasonality, our modelling for China follows a modified local-projection specification because the investment series is non-stationary in levels. Specifically, the model is estimated in first differences of log investment, with the resulting coefficients cumulated to recover a level-equivalent impulse response. Additional shock lags and seasonal controls are also included. Standard errors are somewhat larger in China because this cumulation mechanically compounds estimation uncertainty across horizons. The results for China are therefore comparable in interpretation to those for the rest of the sample, but are interpreted more conservatively in the discussion.



Overall, our econometric results are broadly comparable to findings in the literature in term of direction, magnitude and timing. For Korea, Cho and Kim (2023) find that one standard deviation shock in EPU innovation is associated with negative investment impact of 1-2%, with impact peaking after four quarters. Studying Japan, Arbatli et al. (2019) find that an one-standard deviation shock in EPU innovation foreshadows a peak fall in investment of about 1% after about one year, and stays negative throughout. Similarly, Rice (2023) find that investment in Ireland reaches a trough of -3.6% after about eight quarters, with negative impact persisting throughout the 20-quarter horizon.

Stage 3: Counterfactual construction (2025)

To estimate the investment impact of the 2025 EPU surge, we construct a counterfactual in which structural EPU innovations from Q1 2025 onward are set to zero. This does not constrain the EPU Index to remain at its Q4 2024 level – which would be an unrealistic assumption – but rather removes the unexpected component identified in the SVAR, thus assuming EPU to evolve through the system's own predicted dynamics (prior to 2025) without the additional impetus from new shocks. The counterfactual investment path is then obtained by mapping the zero-shock assumption through the estimated IRF coefficients from the second stage. The gap between observed investment and this counterfactual provides an estimate of the investment foregone or delayed as a direct result of the 2025 uncertainty shock sequence.

Stage 4: Forward-looking scenarios (2026)

The 2026 analysis considers two main scenarios, all starting from the same 2025 Q4 baseline, defined as the last observed level of investment.

In the **adverse scenario**, a common positive structural EPU shock of +4.041 standard deviations is imposed in Q2 and the third quarter of 2026, with zero shocks in Q1 and Q4. This magnitude is anchored to the largest structural EPU innovation observed across all 10 countries since 2000, corresponding to Canada in Q1 2025. It represents a renewed and broad-based escalation in uncertainty of historically extreme size.

In the **favourable scenario**, a common negative structural EPU shock of -2.596 standard deviations is imposed in Q2 and Q3 2026, again with zero shocks in Q1 and Q4. This magnitude is anchored to the most negative structural EPU innovation observed across the pooled sample since 2000, corresponding to the EU in Q2 2008. It represents a sharp improvement in policy clarity.

In each case, the investment effect is measured relative to the central scenario (where no new EPU shocks occur in 2026, so the structural EPU innovation is set to zero in all four quarters). The scenario paths are mapped into investment outcomes using each country's estimated impulse response function, so cross-country differences in results reflect differences in historical sensitivity to uncertainty shocks rather than differences in the assumed shock size.

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