Recognizing Uncertainty

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Evidence on Uncertainty

- Two thirds of firms consider uncertainty as a major impediment to investment
- The uncertainty that impedes firms’ investment may come from many sources
- It is a wide spread of future outcomes that induces firms to wait for more information before committing to (partially) irreversible investment
- Recognizing the sources of uncertainty is a prerequisite to finding possible policy options
- Quantifying the links between policy, uncertainty, and investment remains difficult
- Data, theory, and common sense do point to some low or no-cost policy options
Figure 2  Uncertainty as a major impediment to investment activity by NUTS-3 region, 2015 (share of total answers)

Source: EIBIS2016, authors' calculations
Note: The numbers on the map are the shares of answers "A major impediment" in the total number of answers. Groups are decile-based.
Regional variation in uncertainty as an impediment is quite large

In periphery countries, a much higher percentage of firms considers uncertainty as a major impediment

The variation across broad sectors is not very large

In 'other EU countries', large firms see uncertainty as less of an impediment, as seen by the large share of investment that takes place in firms that are not impeded by uncertainty.

In periphery countries, this firm size and uncertainty correlation is not evident.
Sources of Uncertainty

- Technology
- Competitors actions
- Input markets (labor, capital)
- Output markets
- Macro factors
- Institutional/regulatory
- Regional/local conditions
### Table 2. Correlation between uncertainty measures

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<th>Marginal effect</th>
<th>$\pi^v$</th>
<th>$\pi^x$</th>
<th>churn</th>
<th>$gir$</th>
<th>$q^v$</th>
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Credit constrained firms are more likely to see uncertainty as an impediment to investment. Regulatory stability and predictability could help.

Reducing policy-induced frictions to resource flexibility will increase resilience to shocks and reduce wait-and-see attitude towards investment.

Large, globally oriented firms see fewer impediments from uncertainty, likely because they are able to scale up or down more easily with a given capital stock.

Boosting intangible investment is good for future productivity, but also reduces impact of future uncertainty on investment.