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The Economic Fog: How Policy Uncertainty Shapes Firm Performance in Pakistan

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Abstract

This study examines the influence of economic policy uncertainty on corporate performance in Pakistan, utilizing a news-based uncertainty index in conjunction with firm-level data. The results demonstrate that increased policy-related uncertainty relates with reductions in corporate investment, employment, and revenue production. This adverse effect seems to be less significant among state-owned firms, perhaps due to their robust institutional connections and availability to governmental assistance. The paper investigates essential transmission mechanisms to elucidate the underlying dynamics, revealing that uncertainty constrains corporate activity by reducing risk-taking, augmenting precautionary cash reserves, and altering the tax burden. These reactions demonstrate companies' attempts to protect themselves from volatile policy landscapes. This article highlights internal adjustment strategies, providing significant implications for Pakistani policymakers aiming to promote private sector growth and economic stability amidst persistent policy volatility.

Key Words: Cash holdings, Economic Policy Uncertainty, Firm Performance, Pakistan Stock Exchange, Risk-Taking, State-Owned Enterprises, Tax Burden

INTRODUCTION

Economic policy uncertainty (EPU) significantly influences corporate performance, especially in developing nations such as Pakistan, where macroeconomic volatility is prevalent. Frequent alterations in fiscal, monetary, and regulatory policies affect companies' investment choices, employment tactics, and revenue forecasting. Despite extensive research on the association between Economic Policy Uncertainty (EPU) and corporate behavior, the results are inconclusive. Baker, Bloom, and Davis (2016) developed a prominent Economic Policy Uncertainty (EPU) index derived from the frequency of policy-related news coverage, illustrating that heightened uncertainty results in greater market volatility and diminished activity in vulnerable sectors.

This study broadens the examination of Economic Policy Uncertainty (EPU) to Pakistan, emphasizing the macroeconomic context instead of firm-specific hazards. Despite stable economic fundamentals, ambiguous policy direction may lead enterprises to postpone investments and employment, so limiting revenue growth. In a nation such as Pakistan—characterized by political instability, exchange rate volatility, and erratic fiscal policies—this uncertainty profoundly impacts business decisions. In contrast to established economies, Pakistan has a deficiency in consistent long-term economic planning, with sudden policy alterations exacerbating uncertainty.

This study explores the impact of EPU on firm performance in Pakistan by distinguishing between state-owned enterprises (SOEs) and non-state-owned enterprises (NSOEs). Building on the framework of Baker, Bloom, and Davis (2016), we assess how policy uncertainty affects firms'

incentives to expand and invest. This study hypothesizes that rising EPU leads to delays in expansion and reduced revenues, particularly in NSOEs, which are more vulnerable to market and policy fluctuations. SOEs, backed by the government, often enjoy preferential access to resources and are tasked with broader socio-economic goals, including employment stability, making them relatively insulated from policy shocks. There are approximately 213 federal State-Owned Enterprises (SOEs) in Pakistan. Among them, 88 are commercial, 45 are non-commercial, and the remaining are subsidiaries. The sector-wise distribution of commercial SOEs is as follows:

TABLE 1.1: SECTOR-WISE DISTRIBUTION OF COMMERCIAL SOES

Sector	Number of Commercial SOEs
Financial	18
Infrastructure, Transport & ITC	12
Manufacturing, Mining and Engineering	13
Oil & Gas	8
Power	22
Industrial Estate Development	5
Trading and Marketing	4
Miscellaneous	6
Total	**88**

Source: www.finance.gov.pk

The economic landscape of Pakistan provides a distinctive framework for this examination. Events like IMF policy interventions, the COVID-19 epidemic, and instances of political turmoil frequently result in erratic and unpredictable policy responses. Although these measures aim to stabilize the economy, they frequently yield unforeseen repercussions for corporate conduct.

The existing work primarily emphasizes developed or major rising economies, while neglecting Pakistan and the variability associated with ownership. This study fills the gap by comparing State-Owned Enterprises (SOEs) and Non-State-Owned Enterprises (NSOEs) utilizing firm-level data and a news-based EPU index. It contributes in three ways: it elucidates the influence of EPU on business performance in a developing country, underscores variations across ownership structures, and delineates risk-taking, cash reserves, and tax liabilities as principal transmission mechanisms of EPU's effects on enterprises.

LITERATURE REVIEW

Economic Policy Uncertainty (EPU) adversely influences corporate behavior by heightening the uncertainty of forthcoming policy measures, prompting corporations to adopt a prudent approach. Elevated EPU frequently leads to postponed or reduced investment, as companies are reluctant to allocate resources in the face of ambiguous regulatory or fiscal conditions (Kong, Li, Wang, & Peng, 2022). Employment decisions are influenced, as numerous companies implement hiring freezes or transition to temporary labor to preserve flexibility. Moreover, sales growth typically decelerates as customer confidence wanes and companies encounter difficulties in pricing, demand forecasting, and supply chain reliability. In rising economies such as Pakistan,

where policy changes are frequent and opaque, the detrimental impacts of EPU on firm-level investment, employment, and revenue growth are especially significant.

EPU typically inhibits corporate investment. A primary cause for this phenomenon is the compensatory balance held by enterprises, leading to reduced investment activity in times of increased uncertainty (Dixit & Pindyck, 1994). Generally, a substantial portion of the empirical research corroborates the idea that EPU adversely impacts the magnitude of corporate investments. Nonetheless, uncertainty not only impedes investment decisions but may also indicate new development prospects. In incomplete markets, enterprises may opt to invest preemptively to obtain a first-mover advantage or to ensure market share (Kulatilaka & Perotti, 1998).

There is evidence of a positive link between EPU and investment. Wu et al. (2020) demonstrate that elevated EPU can enhance business investment, particularly in companies with robust operating cash flows and substantial sales, utilizing Australian data from 2002 to 2017. This discovery indicates that company-specific financial robustness may mitigate the negative effects of uncertainty on investment choices.

The influence of EPU on investment is heterogeneous, exhibiting structural variation among different investment categories, including innovation, foreign direct investment (FDI), and mergers and acquisitions (M&A). In the domain of corporate innovation, uncertainty can compel corporations to engage in research and development (R&D), or alternatively, may limit access to essential resources for innovation due to a more unpredictable financing landscape. Stein and Stone (2013) contend that uncertainty can stimulate R&D investment. He, Ma, and Zhang (2020) demonstrate that EPU can enhance innovation via mechanisms such as augmented cash reserves and elevated sales income. Their analysis emphasizes the temporal variability of this relationship: before 2008, when EPU was comparatively low, its influence on innovation was beneficial; nevertheless, after 2008, when uncertainty escalated, the effect turned detrimental.

FDI, a vital aspect of corporate investment behavior, is also influenced by EPU. Julio and Yook (2012) illustrate that cross-border investments by U.S. corporations typically diminish before domestic political elections and increase subsequently. Hsieh, Boarelli, and Vu (2019) similarly observe that U.S. outward foreign direct investment reaches its zenith three quarters following an economic policy uncertainty shock and diminishes within two quarters when the host nation undergoes an economic policy uncertainty shock.

The link between EPU and business mergers and acquisitions has garnered significant scrutiny. Bonaime, Gulen, and Ion (2018) report a negative relation between EPU and mergers and acquisitions activity at both the corporate and macroeconomic levels. Borthwick, Ali, and Pan (2020) arrive at analogous conclusions when applying this line of investigation to China. Nguyen and Phan (2017) demonstrate that elevated levels of policy uncertainty extend the duration of mergers and acquisitions processes, indicating that EPU enhances the complexity and temporal costs linked to these deals.

In Pakistan, where political upheavals frequently entail policy changes, the ambiguity regarding economic direction can profoundly impact corporate decisions. Research pertaining to Pakistan,

including analyses utilizing the World Uncertainty Index or the region-specific Economic Policy Uncertainty Index, indicates that investment in critical sectors such as energy, manufacturing, and construction significantly diminishes during election years or periods of fiscal instability. The restricted depth of capital markets, along with reliance on foreign aid and remittances, renders the private sector especially vulnerable to uncertainty shocks. Moreover, policy reversals, frequent alterations in tax frameworks, and delays in regulatory clearances further dissuade long-term investment.

In addition to investment, EPU also affects corporate employment choices. Numerous research validate the immediate adverse impacts of EPU on employment (Stein & Stone, 2013). From the employer's standpoint, the expenses associated with employing and terminating employees compel enterprises to exercise greater caution under elevated uncertainty. Abrupt increases in uncertainty may lead to diminished job creation, layoffs, and the elimination of posts. Baker, Bloom, and Davis (2016) identify a negative relation between policy-related job growth and EPU in the United States, a finding that is corroborated in their macro-level research across 12 economies. In Pakistan, characterized by a predominantly informal labor market and limited firm-level employment statistics, macro-level metrics like manufacturing employment and labor force participation are utilized to assess employment trends amid uncertainty. Empirical research indicates that elevated levels of EPU—notably during IMF program discussions or episodes of civil unrest—correlate with employment freezes in the private sector and postponements in public sector recruitment. This phenomenon is especially pronounced in export-driven sectors like textiles, where uncertainty over subsidies, taxation, and currency rate regulation hinders labor demand forecasting.

EPU influences company output, especially sales growth, however the existing literature on this subject is somewhat sparse and inconclusive. Morikawa (2013), in an analysis of data from publicly traded Japanese companies, identifies a negative relation between EPU and anticipated sales growth, especially concerning tax policy, labor regulations, environmental legislation, and consumer protection. Chong and Gradstein (2009) also indicate that a volatile environment adversely affects anticipated sales growth, especially in companies with substantial state ownership. Bloom, Bond, and Van Reenen (2007) utilize sales growth as an indicator of demand shocks and investigate the response of business investment to these shocks amid significant uncertainty.

In Pakistan, small and medium-sized firms (SMEs), which constitute the backbone of the economy, sometimes encounter sudden fluctuations in sales growth due to recurrent alterations in trade policy, inflationary pressures, and tax reforms. The absence of coherent and consistent economic policy hinders demand forecasting, inventory management, and market expansion initiatives, particularly in consumer-oriented industries like retail and food services. Companies frequently disclose sales growth that falls short of projections during times of macroeconomic volatility, and the unpredictability of policy implementation schedules further intensifies these difficulties.

In Pakistan, similar to other emerging countries, state-owned firms and privately-owned enterprises react differently to economic policy uncertainty owing to disparities in resource accessibility and governance structures. State-owned firms benefit from government guarantees, facilitating more accessible and cost-effective bank financing (Houston et al. 2014; Song, Storesletten, and Zilibotti 2011), but non-state-owned enterprises frequently depend on internal funding (Cull et al. 2015). This imbalance is particularly significant in Pakistan's bank-centric financial system, where alternative funding options are few.

State-owned enterprises (SOEs) benefit from preferential access to policy information and synchronize their strategy with governmental instructions (He, Ma, and Zhang 2020), thereby mitigating the adverse effects of uncertainty. Their managers, frequently selected through political means, exhibit more responsiveness to policy changes than to shareholder interests (An et al. 2016), with promotions linked to allegiance to the state. These considerations render state-owned enterprises more resilient under unpredictable circumstances, whereas non-state-owned enterprises encounter heightened operational limitations.

DATA AND METHODOLOGY

DATA AND DATA SOURCES

This research aims to analyze the impact of EPU on firm performance in Pakistan. The data for this study encompasses a duration of 15 years, specifically from 2010 to 2024. The sample comprises 350 companies listed on the Pakistan Stock Exchange. The purposive sampling technique is employed, including only those firms for which data for all 15 years is accessible. The independent variable in the study is EPU, while the dependent variable is company performance. This study analyzes three indicators of corporate performance: firm-level investment, employment growth, and sales growth. Control variables are incorporated to guarantee optimal regression outcomes. The variables include assets, leverage, executive size, and GDP growth.

Data concerning firm-level investment, employment growth, revenue growth, assets, leverage, and executive size is sourced from the financial reports of the respective firms. The GDP data is sourced from the Pakistan Bureau of Statistics (PBS) website. The EPU index is sourced from the State Bank of Pakistan (SBP) website. The SBP has designated this index as EPUI-4 Newspapers, which is founded on items related to the economy (E), policy (P), and uncertainty (U) published in four prominent English-language Pakistani newspapers: Business Recorder, Express Tribune, Dawn, and The News. It is computed monthly and has been annualized for this analysis. The alternative measure of EPU is also ultilized to check the robustness of results. This alternative measure is World Uncertainty Index (WUIPAK) available at the website of International Monetary Fund (IMF).

VARIABLES MEASUREMENT

This study employs EPU as an independent variable while firm performance (investment, employment growth and sales growth) as dependent variable. Control variables include assets, leverage, executive size and GDP growth.

TABLE 3.1: VARIABLES MEASUREMENT

Nature	Variable	Measurement	Reference
Independent	EPU	Annualized EPUI-4 Newspaper	Sbp.org.pk
Dependent	Firm level investment	Ratio of investment expenditure to lagged total assets	Gulen and Ion (2016),
	Employment growth	Growth rate of employment between period of t to t-1	Coibion, Gorodnichenko, and Ropele (2020)
	Sales growth	Growth rate of sales between period of t to t-1	Coibion, Gorodnichenko, and Ropele (2020)
Control	Assets	Natural log of total assets	Duong, Nguyen, Nguyen, and Rhee. (2020)
	Leverage	ratio of total debt to total assets	Ilyukhin (2015)
	Executive Size	Number of senior executives	Haleblian and Finkelstein (1993)
	GDP growth	Growth rate of GDP	Tran (2019)

ECONOMETRIC MODEL AND DATA ANALYSIS

The preceding section delineates the dependent, independent, and control variables of the study. This study seeks to ascertain the influence of EPU on State-owned Enterprises and Non-State-owned Enterprises. State-owned businesses, possessing enhanced resource accessibility and government-appointed leadership, exhibit stronger responsiveness to policy alterations. Consequently, we incorporate an interaction term between EPU and a state-owned enterprise dummy, anticipating a diminished adverse effect of EPU on investment, employment, and revenue for SOEs. A binary variable that assumes a value of one if the firm is categorized as a state-owned enterprise and zero otherwise. This study's econometric model is

$$Firm\ Performance_{i,t+1}$$
$$= \alpha_0 + \beta_1 EPU_t + \beta_2 EPU_t x\ SOE_i + \beta_3 Assets_t + \beta_4 Leverage$$
$$+ \beta_5 Executive\ Size + \beta_6 GDP\ Growt + \epsilon_{i,t}$$

Where i represent each firm, t represents each time period and $\epsilon_{i,t}$ is the error term. Firm performance is measured through investment, employment growth and sales growth. This study used period t+1 for the dependent variable as the transmission of EPU takes time. Assets, leverage, executive size and GDP growth are control variables.

Data Normality is checked through VIF, heteroskedasticity tests. Data is winsorised at 1 percent from top and bottom and student-t test is also applied to detect outliers. Descriptive statistics are utilized to see the trends in the data. Panel data regression is applied to check the relationship between the variables.

RESULTS

This section reports the results of this study. Descriptive statistics are utilized to know the summary of the data. The following table reports the results of descriptive statistics.

TABLE 4.1:   DESCRIPTIVE STATISTICS

	Observations	Mean	Std. Dev.	Min.	Max.
Investment	5,250	0.035	0.039	-.0.380	0.505
Employment Growth	5,250	0.065	0.201	-0.440	2.130
Sales Growth	5,250	0.735	2.358	-0.740	9.600
Assets	5,250	19.401	1.352	16.801	24.901
Leverage	5,250	0.387	0.198	0.050	0.980
Executive Size	5,250	5.401	2.371	0.000	36.000
GDP Growth	15	0.030	0.025	-0.025	0.065
Risk-Taking	5,250	0.914	0.058	0	1.278
Cash holdings	5,250	12.987	2.614	0	24.287
Tax Burden	5,250	3.541	2.987	-3.198	33.642
EPUI-4 Newspaper	15	4.492	0.784	0.548	10.685

The above table describes summary statistics of the data. It describes the number of observations, average value, standard deviation, minimum and maximum values of the variables used in this study.

Table 4.2: Baseline Model Estimates

$$(Firm\ Performance_{i,t+1} = \alpha_0 + \beta_1 EPU_t + \beta_2 EPU_t x\ SOE_i + \beta_3 Assets_t + \beta_4 Leverage + \beta_5 Executive\ Size + \beta_6 GDP\ Growt + \epsilon_{i,t})$$

Variable	(1) Investment	(2) Employment Growth	(3) Sales Growth	(4) Investment	(5) Employment Growth	(6) Sales Growth
EPU	-3.421*** (0.0178)	-0.987*** (0.1082)	-20.563*** (0.3187)	-0.239*** (0.0191)	-1.0452*** (0.1143)	-23.164*** (0.3539)
EPU*SOE	0.0417 (0.0276)	0.2885* (0.2013)	2.198** (0.5811)	0.0574* (0.0282)	0.3491** (0.1825)	1.934* (0.5704)
Assets	---	---	---	0.103* (0.0531)	1.884** (0.4691)	9.341** (1.3102)
Leverage	---	---	---	-2.943** (0.2185)	-4.285* (1.9785)	19.645* (5.9921)
Executive Size	---	---	---	0.0311** (0.0158)	-0.484 (0.1127)	2.489 (0.0301)

GDP Growth	---	---	---	17.684*** (1.3249)	10.2172*** (1.785)	21.485*** (3.487)
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,250	5,250	5,250	5,250	5,250	5,250
R^2	0.315	0.184	0.287	0.334	0.248	0.301

The dependent variable is firm performance, quantified by investment, employment growth, and sales growth, as indicated in columns (1)–(3). These columns provide a fundamental specification that incorporates the Economic Policy Uncertainty measure and its interaction with a state-owned enterprise (SOE) dummy, utilizing annual data estimated by panel data regression. Columns (4)–(6) enhance the preceding models by integrating further control variables: Leverage, Asset, Executive Size, and GDP Growth. All estimates are derived via panel regressions incorporating firm fixed effects and robust standard errors clustered at the company level (standard errors are presented in parentheses). All models incorporate annual fixed effects. Symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 4.2 illustrates the response of firm-level investment, employment, and revenue to fluctuations in EPU. Column (1) of Table 4.2 displays a baseline model incorporating EPU and its interaction with a state-owned enterprise dummy variable, estimated by panel data regression with firm fixed effects and robust standard errors clustered by company. The findings demonstrate a substantial negative correlation between EPU and investment. Columns (2) and (3) substitute the dependent variable with employment growth and sales growth, respectively, and similarly demonstrate that both employment and revenue diminish during periods of increased uncertainty.

Columns (4) to (6) augment the baseline models by incorporating supplementary firm-level controls—Leverage, Asset size, Executive team size, and GDP growth. The augmented models corroborate the preliminary findings, as EPU persistently demonstrates a statistically significant and adverse impact on all three outcomes, consistently at the 1% level. The interaction term between EPU and SOE is positive and significant, albeit with a reduced size, indicating that state-owned firms are partially shielded from the detrimental impacts of uncertainty.

This corroborates the idea that, whereas economic uncertainty generally reduces company activity, state-owned enterprises—due to regulatory mandates and access to advantageous resources—exhibit more resilience. The increase in assets is positively correlated with growth in investment, employment, and sales. Leverage is inversely correlated with investment and employment growth, and positively related with sales growth. The size of the executive team favorably influences investment but does not link with employment or sales growth. GDP growth positively influences all three metrics of corporate performance.

ROBUSTNESS CHECKS

Monetary policy also influences firm performance in terms of investment, employment growth, and sales growth, making it an important economic factor. Therefore, to ensure the robustness of the results presented in Table 4.2, monetary policy—measured by M2—is included as an additional control variable. The revised results are presented below.

TABLE 4.3:   ROBUSTNESS CHECKS

Variable	(1) Investment	(2) Employment Growth	(3) Sales Growth	(4) Investment	(5) Employment Growth	(6) Sales Growth
EPU	-2.651*** (0.0162)	-1.108*** (0.1203)	-24.853** (0.3791)	---	---	---
EPU*SOE	0.089** (0.0271)	0.310** (0.1582)	2.034* (0.6025)	---	---	---
M2	0.3922** (0.0094)	0.456* (0.0640)	3.218** (0.1887)	---	---	---
WUIPAK	---	---	---	-0.198** (0.0158)	-1.1599** (0.1195)	-20.784*** (0.3712)
WUIPAK*SOE	---	---	---	0.0752** (0.0228)	0.3881 (0.1957)	1.973** (0.5732)
Control Variables	---	---	---	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,250	5,250	5,250	5,250	5,250	5,250
R^2	0.356	0.194	0.312	0.348	0.178	0.251

This table presents the outcomes subsequent to the incorporation of monetary policy, quantified by M2, as an additional control variable. Columns (4)–(6) further elaborate on the underlying specification by incorporating alternate metrics of EPU (WUIPAK) and control variables. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 4.3 presents the robustness analysis for alterations in monetary policy. Monetary policy can influence input factors, particularly investment, among enterprises. Consequently, columns 1-3 of Table 4.3 augment columns 4-6 of Table 2 by incorporating the monetary policy, M2, as an additional control variable. It is crucial to investigate whether the outcomes fluctuate when different metrics of EPU are utilized. Consequently, the World Uncertainty Index for

Pakistan, as assessed by the International Monetary Fund, serves as a substitute indicator of Economic Policy Uncertainty. The WUIPAK is developed by examining the frequency of uncertainty-related terminology in the Economist Intelligence Unit's quarterly nation reports. The substantial findings reaffirm our assertion. The empirical research above demonstrates a strong negative statistical correlation between the outcomes of interest (investment, employment, and revenue) and EPU.

TABLE 4.4: MECHANISM ANALYSIS

$$(Mechanism_{i,t} = \alpha_0 + \beta_1 EPU_t + \beta_2 EPU_t x\, SOE_i + \beta_3 M2 + \beta_4 Assets_t +$$
$$\beta_5 Leverage + \beta_6 Executive\, Size + \beta_7 GDP\, Growth + \epsilon_{i,t})$$

Variable	(1) Risk-taking	(2) Cash holdings	(3) Tax burden
EPU	0.002**	0.785***	0.548*
	(0.0254)	(0.2487)	(0.0548)
EPU*SOE	0.001**	0.265**	0.025*
	(0.0145)	(0.0126)	(0.0875)
Control variables	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Observations	5,250	5,250	5,250
R^2	0.298	0.548	0.387

*Columns (1) to (3) display the findings of the mechanism analysis, with the dependent variables being Risk-taking, Cash holdings, and Tax burden, respectively. All regressions incorporate a comprehensive array of control variables. Robust standard errors, clustered at the company level, are presented in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.*

Table 4.4 reports the results of examining the mechanisms by which economic policy uncertainty affects corporate performance. Column (1) analyzes the risk-taking channel, with risk-taking quantified by the firm-specific standard deviation of return on assets (ROA), adjusted for industry and quarter, in accordance with the methodology of John, Litov, and Yeung (2008). This metric quantifies the firm's performance divergence compared to its industry counterparts over time, indicating its inclination towards riskier investment choices. Column (2) examines the cash holdings channel, wherein cash holdings are characterized as the ratio of cash and cash equivalents to total assets. This acts as a substitute for companies' cautious savings conduct and their capacity to internally finance future investments, particularly in the context of financial limitations. Column (3) examines the tax burden channel, quantified as the ratio of tax payments and refunds to total sales. This indicates the extent of governmental fiscal assistance or encumbrance on the enterprise and encapsulates the impact of public policy on corporate financial choices.

All three columns of the regressions account for an extensive array of firm-level factors. Robust standard errors are clustered at the company level. The findings consistently indicate that Economic Policy Uncertainty results in heightened risk-taking, increased cash reserves, and an

augmented tax burden, implying these are fundamental processes by which uncertainty influences corporate behavior. The effect is considerably diminished for state-owned companies (SOEs), offering empirical validation for the theory that SOEs are better insulated from policy uncertainty owing to implicit or explicit governmental assistance.

CONCLUSION

This research empirically examines the impact of economic policy uncertainty on company performance in Pakistan, using a news-based index produced by the State Bank of Pakistan and firm-level data. This study identifies three primary findings. Initially, company investment, employment, and sales have a negative relation with policy-related economic uncertainty. This adverse relation, however, is not observed in entities categorized as state-owned companies. The distinction between state-owned and non-state-owned firms is diverse. These results are resilient when utilizing an alternate measure of Economic Policy Uncertainty i.e. WUIPAK and incorporating monetary policy. We assert that our findings enhance the literature in three distinct ways. Initially, our analysis enhances the EPU research within the context of transition economies by examining its microeconomic implications. Secondly, we examine the distinctions between state-owned and non-state-owned firms, focusing on their behaviors and transmission mechanisms. Third, this article employs a more direct approach to elucidate three routes via which Economic Policy Uncertainty influences company performance: risk-taking, cash reserves, and tax obligations.

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