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How Economic Policy Uncertainty Shapes Firm Financing and Investment: A Pakistani Perspective

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Abstract

This study examines the influence of economic policy uncertainty on firm investment and financial leverage in Pakistan. A fixed-effects model is employed to examine the link using panel data from non-financial enterprises listed on the Pakistan Stock Exchange (PSX) from 2014 to 2023. The results indicate that elevated levels of economic policy uncertainty markedly decrease firm financial leverage and investment activity. The findings indicate that in times of policy uncertainty, Pakistani companies are inclined to avoid debt funding and implement more cautious investment approaches. The results remain stable even when different metrics for important variables are utilized, affirming the analysis's robustness.

Keywords: Economic Policy Uncertainty, Financial Leverage, Investment, Pakistan Stock Exchange

Introduction

In recent years, numerous worldwide occurrences—including the 2008 financial crisis, the Arab Spring, Brexit, and the COVID-19 pandemic—have engendered increasing political and economic anxiety. This uncertainty has garnered increasing interest in academic research, especially concerning its influence on business decision-making, including capital structure decisions (Javadi et al., 2021; Jiang et al., 2022).

Economic policy uncertainty greatly affects company financial policies, such as leverage and liquidity (Naik & Reddy, 2021; Ekinci et al., 2019). In Pakistan, characterized by frequent policy fluctuations, comprehending the impact of economic policy uncertainty on funding decisions is particularly pertinent. Trade-off theory posits that deviations from the optimal capital structure might diminish firm value; however, organizations only modify leverage when the advantages surpass the costs (Nguyen et al., 2021). Empirical research indicates that enterprises' financing decisions are influenced not just by present financial conditions but also by anticipated future profitability and macroeconomic trends (Brennan & Kraft, 2018; Kotcharin & Maneenop, 2018). In countries such as Pakistan, economic policy uncertainty might impact essential company expenses—such as electricity and imports—thereby influencing liquidity and working capital requirements (Syed & Bouri, 2022).

Although global literature has investigated numerous facets of corporate finance, studies particularly addressing the influence of economic policy uncertainty on financial leverage are scarce (Schwarz & Dalmácio, 2021). Istiak and Serletis (2020) emphasize that current research frequently lacks dynamic empirical analysis, prioritizing theoretical frameworks over actual facts. While certain studies examine this link in developed markets such as the U.S. (Li & Qiu, 2018), the results from these contexts may not entirely reflect the dynamics present in developing economies.

Considering Pakistan's recurrent policy changes and macroeconomic instability, it is crucial to examine the impact of economic policy uncertainty on financing decisions within the local framework. This study seeks to address that gap by analyzing the relationship between economic policy uncertainty and financial leverage in Pakistani enterprises. It aims to address the subsequent research inquiries:

- Does uncertainty in economic policy influence financial leverage in Pakistan?
- What is the impact of economic policy uncertainty on the dynamics of capital structure decisions at the firm level?
- What is the relationship between economic policy uncertainty and company investment behavior in Pakistan?

This study is driven by the premise that economic policy uncertainty might affect enterprises' financial leverage and investment choices in many manners. Wang et al., (2014) indicate that elevated economic policy uncertainty frequently results in diminished company investment, potentially influencing leverage decisions. Although the majority of current studies are conducted in established markets such as the U.S., Pakistan's unstable economic and policy landscape offers a pertinent background for analyzing this relationship. Moreover, the evidence regarding the impact of economic policy uncertainty on leverage remains inconclusive. This study seeks to provide empirical insights into the impact of economic policy uncertainty on financial leverage and investment behavior in Pakistan.

Literature Review

The following sections discuss the literature on the impact of economic policy uncertainty on financial leverage and investment decisions.

Economic Policy Uncertainty and Financial Leverage

Opinions are divided regarding the impact of economic policy uncertainty on a firm's capital structure. Certain theories propose that elevated economic policy uncertainty leads to an increase in equity costs due to heightened risk premiums, hence incentivizing firms to depend more on debt to prevent equity dilution (Schwarz & Dalmácio, 2021). Some contend that companies augment leverage to improve earnings under a subdued investment environment (Brennan & Kraft, 2018). Conversely, some studies indicate that companies might decrease leverage in reaction to heightened uncertainty stemming from elevated financing expenses and cash flow instability (Zhang et al., 2015; Pan et al., 2019).

Empirical research demonstrates that companies generally retain more cash reserves and curtail risk-taking during periods of economic uncertainty (Tran, 2019). The observed effects stem from two primary channels: the supply effect, wherein lenders increase debt costs due to elevated risk, and the demand effect, where enterprises restrict borrowing owing to conservative investment policies. Although these dynamics have been examined in other economies, emerging markets such as Pakistan have received scant attention. This study examines whether economic policy uncertainty enterprises in Pakistan to augment or shrink their financial leverage, in light of the country's persistent macroeconomic instability and evolving policy environment. The hypothesis to test this relationship is drawn as follows.

H1: Financial leverage in Pakistan is inversely related to economic policy uncertainty.

Economic Policy Uncertainty and Investment Decisions

The relationship between firm investment and uncertainty is still ambiguous (Wang et al., 2014). Certain theories posit that uncertainty may present profit opportunities via resource integration (Hartman, 1972), but others contend that it prompts enterprises to postpone investment owing to the increased value of deferral. Recent research progressively substantiates the latter, indicating that economic policy uncertainty shrinks company investments. Research from the United States (Gulen & Ion, 2016), Australia (Chen et al., 2020), and Japan (Morikawa, 2016) underscores the detrimental effect of economic policy uncertainty on investment and growth projections. Due to Pakistan's recurrent policy changes and economic instability, companies may demonstrate analogous prudent behavior, decreasing investment at times of elevated economic policy uncertainty. On the basis of above discussed literature the following hypothesis is formulated.

H2: Economic policy uncertainty in Pakistan is negatively related with firm investment.

Moreover, scholarly discourse is divided on whether enterprises react to economic policy uncertainty by decreasing leverage due to risk aversion or by augmenting debt to circumvent expensive equity financing. This ambiguity necessitates additional empirical research within the Pakistani context to elucidate the impact of economic policy uncertainty on capital structure decisions.

Methodology

This study examines the relationship between economic policy uncertainty and leverage and investment decisions of a firm, within the framework of Pakistan, an emerging market. Data was gathered for non-financial firms listed on the Pakistan Stock Exchange (PSX) from 2014 to 2023. Banks and other financial institutions were omitted owing to their unique financial architectures and regulatory environments. Also the loss making or negative equity firms are not made part of the sample. To alleviate the influence of outliers, all firm-level variables were winsorized at the 2% threshold, in accordance with Tran (2019). The final sample consists of 3,600 firm-year observations. Financial data at the firm level were acquired from the websites of respective firms or the analysis report produced by the Pakistan Stock Exchange, whereas The ready EPU index is sourced from the State Bank of Pakistan (SBP) website. The SBP has designated this index as EPUI-4 Newspapers, which is derived from articles 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. The calculation is conducted monthly and has been annualized for this analysis.

Variables Measurement

This section delineates all the variables employed in this investigation. The dependent variables are firm financial leverage and investment. The independent variables of the study is economic policy uncertainty. Additionally, to mitigate potential biases arising from the distinct characteristics of organizations, firm-level control variables are incorporated into the study. Table 3.1 presents the variables definitions.

Table 3.1: Variables Definitions

The sample comprises 360 non-financial enterprises listed on the Pakistan Stock Exchange (PSX) from 2014 to 2023.

Nature	Variable	Definition
Dependent	BkLev	The proportion of total liabilities to the book value of total assets.
	MkLev	The ratio of total debt to the sum of total debt and equity market capitalization.
	Investment-1	The proportion of capital expenditures to the total assets (lagged).
	Investment-2	The proportion of capital expenditures to the total revenues (lagged).
Independent	EPUI-1	EPUI-4 Newspapers, produced by State Bank of Pakistan (SBP)
	EPUI-2	WUIPAK, produced by International Monetary Fund (IMF)
Control	Profitability	The proportion of total pre-tax profit to total assets.
	Tangibility	The proportion of Property, Plant, and Equipment (PPE) relative to total assets.
	M/B	The proportion of market value of assets to book value of assets.
	Liquidity	The proportion of current assets to current liabilities.
	Size	The natural logarithm of the company's total assets

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Econometric Model

The dependent variables of this study are financial leverage and investment. Two different proxies to measure financial leverage, which are Book Leverage (BkLev), and Market Leverage (MkLev). The different proxies are used to measure the investment defined in Table 3.1. Two different proxies are used for the EPU, the first is EPUI-4 Newspapers and WUIPAK. Control variables are profitability, tangibility, liquidity and firm size. The data is panel in nature. To find the relationship between variables following econometric models are developed. The baseline models of this study are as follows.

$$Leverage_{i,t} = \alpha_0 + \beta_1 EPU_t + \beta_2 Profitability_{i,t} + \beta_3 Tangibility_{i,t} + \beta_4 MB_{i,t} + \beta_5 Liquidity_{i,y=t} + \beta_6 Size_{i,t} + \theta_t + \epsilon_{i,t} \quad (1)$$

$$Investment_{i,t} = \alpha_0 + \beta_1 EPU_t + \beta_2 Profitability_{i,t} + \beta_3 Tangibility_{i,t} + \beta_4 MB_{i,t} + \beta_5 Liquidity_{i,y=t} + \beta_6 Size_{i,t} + \theta_t + \epsilon_{i,t} \quad (2)$$

Here, Leverage and Investment are dependent variables, EPU represents economic policy uncertainty, Profitability, Tangibility, Market to Book ratio, Liquidity and Size are the control variables. θ_t is the time-fixed effects and $\epsilon_{i,t}$ is the error term.

Results and Discussion

The following section of this study details the descriptive statistics of the variables, and regression estimates of the relationship between variables.

Descriptive Statistics

Table 4.1 provides the summary statistics for the sample of non-financial firms listed on the Pakistan Stock Exchange. The mean book leverage ratio is 0.327, but the market leverage ratio is 0.268. Long-term debt constitutes a substantial segment of financial leverage, averaging 0.318. Companies in the sample allocate approximately 5% of total assets each year. The economic policy uncertainty index for Pakistan measured through EPUI-4 Newspapers has an average value of 4.684, while the WUIPAK averages 1.984. The sample exhibits diverse firm sizes, with a median market capitalization (log-transformed) of 12.489. Firms have a high market-to-book ratio (2.641), favorable liquidity (1.042), average profitability (0.264), and moderate asset tangibility (0.462).

Table 4.1: Descriptive statistics of the Variables

Variable	Observations	Mean	Standard Deviation	Minimum	Maximum
BkLev	3,600	0.327	0.167	0.000	0.996
MkLev	3,600	0.268	0.204	0.000	0.761
LTD	3,600	0.318	0.216	0.000	0.928
Investment-1	3,600	0.087	0.065	0.000	1.026
Investment-2	3,600	0.098	0.004	0.000	3.264
EPU-1	3,600	4.684	2.691	3.684	10.842
EPU-2	3,600	1.984	1.026	1.265	2.184
Profitability	3,600	0.264	0.105	0.010	0.806
Tangibility	3,600	0.462	0.685	0.001	0.952
MB	3,600	2.641	1.684	0.095	34.256
Liquidity	3,600	1.042	1.065	0.584	8.251
Size	3,600	12.489	2.415	9.514	19.656

Regression Estimates

This study utilized the dynamic Fixed-Effect model to analyze the effects of economic policy uncertainty on financial leverage and investment. Fixed-effects estimation is the conventional estimation method in the literature (Gozgor et al. 2019). The utilization of the fixed effects model is warranted owing to its numerous advantages compared to conventional models. The Hausman test was used to verify the appropriateness of a fixed-effects panel data estimation. The test results (a p-value of a random cross-section = 0.000 (5%)) suggest that the fixed-effect model is the most reliable, and the conclusions derived from the results will be valid. Numerous prior research, like those by Karaman et al. (2020) and Almustafa (2022), have employed the fixed-effect model as a suitable approach for analyzing panel data regressions.

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Economic Policy Uncertainty and Financial Leverage

Table 4.2 displays the main regression outcomes for Equation (1), employing book and market leverage as the dependent variables. Column (1) presents findings for book leverage, whereas column (2) displays findings for market leverage. The results indicate that economic policy uncertainty (EPU-1) exerts a statistically significant negative impact on both leverage metrics at the 1% and 5% levels respectively. A 1% increase in the EPU index relates with a 2.6% reduction in book leverage and a 1.8% decrease in market leverage.

Table 4.2: Regression Estimates for the Baseline Models (for Leverage)

$$Leverage_{i,t} = \alpha_0 + \beta_1 EPU_t + \beta_2 Profitability_{i,t} + \beta_3 Tangibility_{i,t} + \beta_4 MB_{i,t} + \beta_5 Liquidity_{i,y=t} + \beta_6 Size_{i,t} + \theta_t + \epsilon_{i,t} \quad (1)$$

This table presents empirical estimates of Equation (1) about the relation between economic policy uncertainty and financial leverage, utilizing the fixed-effect estimator. Standard errors are in parentheses.

Variable	BkLev	MkLEv
EPU-1	-0.026*** (-2.365)	-0.018** (-2.914)
$BkLev_{t-1}$	0.370** (3.654)	---
$MkLev_{t-1}$	---	0.468** (5.134)
Profitability	-0.361*** (-2.874)	-0.204*** (3.647)
Tangibility	0.164** (4.128)	0.194** (2.168)
MB	0.048 (0.026)	0.091* (1.364)
Liquidity	0.002** (0.094)	0.016** (1.744)
Size	-0.037* (-2.654)	-0.068** (-1.482)
Constant	-4.681*** (-3.482)	-5.169*** (-2.191)
No. of Observation	3,600	3,600
Firm effect	Yes	Yes
Year effect	Yes	Yes
R-Squared	0.298	0.316

*, **, and *** represent significance levels of 10% (*), 5% (**), and 1% (***), respectively.

These findings correspond with research from established markets such as the U.S. (e.g., Li and Qiu, 2018) and indicate that increasing policy uncertainty in Pakistan likewise deters debt funding. This corroborates both the supply effect hypothesis, which posits that heightened uncertainty amplifies information asymmetry and borrowing costs (Gong et al., 2018), and the demand effect hypothesis, which contends that firms implement conservative financial strategies and shrink debt requirements in uncertain conditions (Tran, 2019).

The results obtained from the control variables were consistent with previous similar study.

Lagged dependent variables exert a substantial favorable influence on financial leverage.

Profitability exerts a substantial adverse effect on the current firm's financial leverage, as indicated by both book and market leverage metrics. Companies exhibiting more profitability may rely more on internal funding sources than on external ones. Tangibility significantly positively influences financial leverage overall. The company's physical capital significantly influences its financial capacity and its ability to mitigate losses and obligations. MB and liquidity exert beneficial influences; however, business size has a markedly adverse impact (Brav 2009).

Table 4.3: Economic Policy Uncertainty and Firm's Future Financial Leverage

$$Leverage_{i,t+1} = \alpha_0 + \beta_1 EPU_t + \beta_2 Profitability_{i,t} + \beta_3 Tangibility_{i,t} + \beta_4 MB_{i,t} + \beta_5 Liquidity_{i,y=t} + \beta_6 Size_{i,t} + \theta_t + \epsilon_{i,t}$$

This table presents fixed effects estimations of Equation (1), substituting the dependent variables (BkLev and MkLev) with ($BkLev_{t+1}$ and $MkLev_{t+1}$) in distinct models.

Variable	$BkLev_{t+1}$	$MkLEv_{t+1}$
EPU-1	-0.106***	-0.084***
	(-2.684)	(-4.165)
Control Variables	Yes	Yes
Firm effect	Yes	Yes
Year effect	Yes	Yes
Constant	-6.251***	-7.269***
	(-3.650)	(-5.109)
No. of Observation	3,600	3,600
R-Squared	0.067	0.128

*, **, and *** represent significance levels of 10% (*), 5% (**), and 1% (***), respectively.

In this section, we replicate the empirical analysis by replacing the dependent variable in Equation (1), financial leverage denoted by BkLev and MkLev, with the forthcoming financial leverage variables ($BkLev_{t+1}$ and $MkLev_{t+1}$) to evaluate the impact of EPU on a firm's capital structure, with results displayed in Table 4.3. The results in columns of Table 4.3 demonstrate that the present economic policy uncertainty substantially affects a firm's prospective financial leverage ratios. A 1% rise in EPU would lead enterprises to decrease their financial leverage by roughly 10.6% in the following year. This result supports the conclusions of Schwarz and Dalmácio (2021), demonstrating that economic policy uncertainty substantially affects firm leverage ratios. Firms generally lower their debt ratios in reaction to increased policy uncertainty (Pan et al. 2019).

Economic Policy Uncertainty and Firm Investment

The second objective of this study is to explore how economic policy uncertainty affects firm investment levels in Pakistan. Previous research suggests that heightened EPU may distort firm investment decisions, which in turn reduces the need for external financing. For instance, Gulen and Ion (2016) argue that uncertainty can lead firms to delay investments due to the irreversible nature of capital expenditures. Table 4.4 presents the regression results based on Equation (2), using two different measures of investment. The findings confirm that firm investment in Pakistan is negatively associated with EPU.

Table 4.4: Regression Estimates for the Baseline Models (for Investment)

$$Investment_{i,t} = \alpha_0 + \beta_1 EPU_t + \beta_2 Profitability_{i,t} + \beta_3 Tangibility_{i,t} + \beta_4 MB_{i,t} + \beta_5 Liquidity_{i,y=t} + \beta_6 Size_{i,t} + \theta_t + \epsilon_{i,t} \quad (1)$$

This table presents empirical estimates of Equation (2) about the relation between economic policy uncertainty and investment, utilizing the fixed-effect estimator. Standard errors are in parentheses.

Variable	Investment-1	Investment-2
EPU-1	-0.004**	-0.010**
	(-1.265)	(-2.132)
Investment-1_{t-1}	0.225***	---
	(3.517)	
Investment-2_{t-1}	---	0.158***
		(3.168)

Profitability	0.110**	0.064***
	(5.201)	(1.065)
Tangibility	0.019**	0.002*
	(2.842)	(0.251)
MB	0.000**	0.001*
	(0.033)	(0.115)
Liquidity	-0.052	-0.092
	(-0.210)	(-0.000)
Size	-0.092	0.025
	(-0.254)	(0.294)
Constant	1.652*	1.025*
	(2.657)	(2.159)
No. of Observation	3,600	3,600
Firm effect	Yes	Yes
Year effect	Yes	Yes
R-Squared	0.201	0.125

*, **, and *** represent significance levels of 10% (*), 5% (**), and 1% (***), respectively.

These findings align with prior international studies (e.g., Drobetz et al., 2018; Gulen and Ion, 2016), supporting the view that higher policy uncertainty discourages firms from making long-term investments. This negative impact on investment may also explain the earlier observed decline in financial leverage under high EPU, as lower investment needs reduce the demand for debt financing. Regarding control variables, profitability, asset tangibility, and market-to-book ratio (MB) were all found to have a positive influence on firm investment decisions in the Pakistani context.

Robustness Checks

To evaluate the robustness and consistency of the primary findings in Tables 4.2 and 4.4, we re-estimated Equation (1) and Equation (2) using an alternative economic policy uncertainty index.

This alternate measure is published by the International Monetary Fund and is called as World Uncertainty Index (WUI). The results of robustness checks are presented in Table 4.5 and Table 4.6.

Table 4.5: Robustness Checks

This table displays the estimations of the relation between economic policy uncertainty and firm financial leverage utilizing fixed effects, with alternative measures of economic policy uncertainty WUIPAK, namely EPU-2. Standard errors in parentheses.

Variable	**BkLev**	**$BkLev_{t+1}$**	**MkLev**	**$MkLev_{t+1}$**
EPU-2	-0.102***	-0.268***	-0.018*	-0.026**
	(-1.925)	(-5.214)	(-2.365)	(-3.189)
$BkLev_{t-1}$	0.364**	---	---	---
	(5.684)			
$MkLev_{t-1}$	---	---	0.298***	---
			(6.248)	
Profitability	-0.318***	-0.068**	-0.187**	-0.105**
	(-5.286)	(-3.648)	(-3.512)	(-6.514)
Tangibility	0.218**	0.225**	0.104***	0.152*

	(4.516)	(6.518)	(7.295)	(2.698)
MB	0.010*	0.026	0.000	0.004
	(0.365)	(0.037)	(1.981)	(1.222)
Liquidity	0.058	0.045*	0.456*	0.129**
	(0.002)	(0.659)	(3.654)	(2.985)
Size	-0.056**	-0.104**	-0.122*	-0.069**
	(-2.697)	(-3.698)	(-2.984)	(-3.978)
Constant	2.698**	1.025*	5.264***	4.125***
	(6.584)	(1.265)	(7.269)	(6.019)
No. of Observation	3,600	3,600	3,600	3,600
Firm effect	Yes	Yes	Yes	Yes
Year effect	Yes	Yes	Yes	Yes
R-Squared	0.294	0.176	0.326	0.245

*, **, and *** represent significance levels of 10% (*), 5% (**), and 1% (***), respectively.

Table 4.6: Robustness Checks

This table displays the estimations of the relation between economic policy uncertainty and firm financial investment utilizing fixed effects, with alternative measures of economic policy uncertainty WUIPAK, namely EPU-2. Standard errors in parentheses.

Variable	**Investment-1**	**Investment-1$_{t+1}$**	**Investment-2**	**Investment-2 $_{t+1}$**
EPU-2	-0.092***	-0.066***	-0.115**	-0.078***
	(4.121)	(-5.694)	(3.991)	(5.621)
Investment-1$_{t-1}$	0.354***	---	---	---
	(3.002)			
Investment-2$_{t-1}$	---	---	0.059**	---
			(3.591)	
Profitability	0.106***	0.098***	0.001*	0.000
	(2.985)	(5.201)	(2.698)	(0.020)
Tangibility	0.024**	0.111**	0.061*	0.102**
	(3.112)	(2.901)	(2.942)	(3.651)
MB	0.006*	0.018*	0.000	0.004*
	(5.201)	(0.054)	(0.108)	(1.625)
Liquidity	-0.008	-0.000	-0.001	-0.025
	(-0.556)	(0.624)	(0.015)	(0.569)
Size	-0.015	0.260	0.052	0.165
	(-2.011)	(-1.345)	(1.665)	(1.952)
Constant	0.552*	0.725*	0.264	0.615
	2.021	(3.254)	(1.648)	(1.089)
No. of Observation	3,600	3,600	3,600	3,600
Firm effect	Yes	Yes	Yes	Yes
Year effect	Yes	Yes	Yes	Yes

R-Squared	0.215	0.268	0.113	0.109

*, **, and *** represent significance levels of 10% (*), 5% (**), and 1% (***), respectively.

The substantial influence of economic policy uncertainty on firm financial leverage previously noted persists across different models and alternate measure of economic policy uncertainty. In Pakistan, where companies frequently encounter variable macroeconomic conditions, erratic fiscal policies, and political instability, the significance of EPU is heightened. The findings substantiate the premise that increasing uncertainty regarding economic policy compels enterprises to use more conservative financial measures.

As EPU escalates, Pakistani enterprises generally decrease their dependence on debt funding. The decrease in leverage is primarily attributable to a fall in investment activity and profitability amid moments of uncertainty. Businesses exercise caution in establishing long-term commitments, especially in a climate characterized by ambiguous future governmental direction. As a result, they postpone or reduce capital expenditures, resulting in diminished demand for external funding. This conduct aligns with the supply and demand implications of uncertainty: companies appear less appealing to creditors due to heightened risk, while concurrently, their inclination for debt-fueled expansion diminishes.

These findings are especially pertinent in Pakistan's emerging market environment, where capital availability is constrained and uncertainty can exert a more immediate and profound impact on firm behavior than in mature markets. This highlights the significance of consistent and transparent economic policy making to bolster firm investment and financial stability in the nation.

Conclusion

This study addresses a research void by investigating the impact of economic policy uncertainty on business financial decisions in Pakistan, motivated by the increasing global interest in this phenomenon. The examination of non-financial enterprises listed on the Pakistan Stock Exchange from 2014 to 2023 indicates that elevated economic policy uncertainty substantially decreases firms' financial leverage and investment levels. The results validate both assumptions and emphasize that during periods of policy uncertainty, Pakistani enterprises implement more cautious financing and investment methods. The results corroborate the supply effect hypothesis, indicating that uncertainty amplifies information asymmetry and shrinks access to financing, alongside the demand effect hypothesis, which suggests that firms curtail borrowing in response to decreased investment prospects. In contrast to several emerging markets such as India, where companies may pivot to external finance during uncertainty, Pakistani firms seem to exhibit greater risk aversion.

This study enhances the literature on Pakistan's capital structure and underscores the necessity for transparent and stable economic policy. Future research may investigate the moderating influence of public investment or employ quantile regression and ARDL models to evaluate both short-term and long-term effects. Policymakers ought to favor stability, while financial institutions may assist firms by offering reduced lending rates during periods of uncertainty to sustain liquidity and promote investment.

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