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Global Risk: Rising Uncertainty and Oil Volatility

In 2026, global markets are shaken not just by growth forecasts or interest rates but by uncertainty itself. The World Uncertainty Index (WUI) and the Oil Price Uncertainty Index capture this turbulence. Recent events, including the US, Israel, and Iran conflict, highlight just how vulnerable developing economies are in a world of constant and unpredictable shocks.

The World Uncertainty Index (WUI) measures global uncertainty by tracking how often analysts use the term "uncertainty" in official country reports. Unlike sentiment surveys or financial market fluctuations, the WUI captures deeper structural ambiguity including geopolitical risk, policy unpredictability, trade friction, supply chain disruptions, and energy market anxiety across a GDP weighted sample of 71 economies. Its sharp rise signals a world where uncertainty is not a temporary event but a lasting structural reality of the global economy.

Table 1: Global Uncertainty and Oil Price Trends

Date	World Uncertainty Index (GDP weighted average)	Oil Price Uncertainty Index
May-25	77,997.7	77.915915
Jun-25	84,305.3	186.6506019
Jul-25	95,509.3	133.1628717
Aug-25	105,558.3	65.1688816
Sep-25	122,422.5	67.35500757
Oct-25	110,331.9	107.2278694
Nov-25	91,874.6	35.68786051
Dec-25	90,758.1	208.0475278
Jan-26	79,904.3	142.1736596
Feb-26	83,844.9	98.71804926

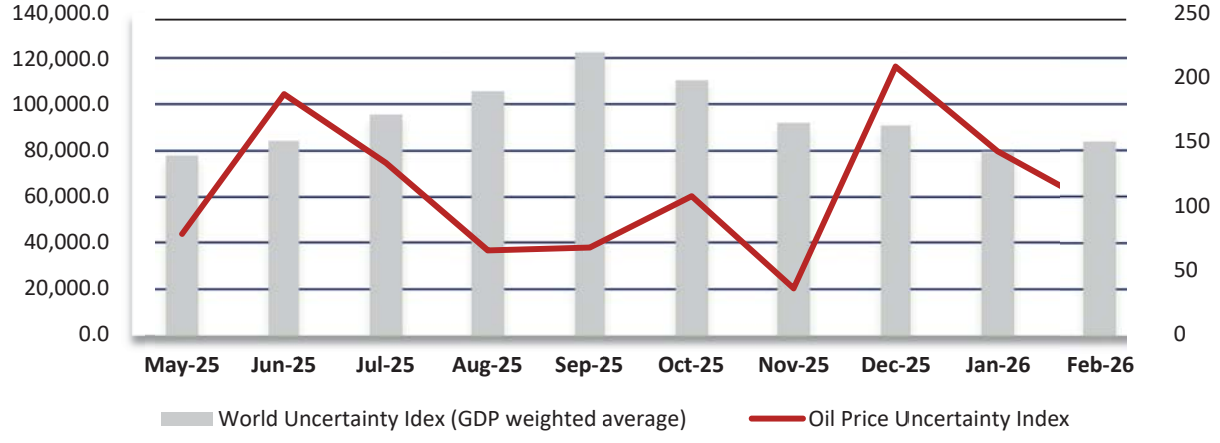
Source: Economic Policy Uncertainty Database

Volatility Trends

Recent figures for global and oil price uncertainty from May 2025 to February 2026 show large and uneven swings as depicted in Table-1.

These high peaks and deep declines are not random. They reflect growing geopolitical tensions and policy uncertainty. The WUI peak in September 2025 coincided with renewed tensions in the Middle East and rising trade disputes. Oil price volatility reached its highest level in December 2025 amid threats to key energy transit routes that carry nearly one fifth of the world's oil supply.

Figure 1: Global Uncertainty and Oil Price Uncertainty Trends (From May-25 to Feb-25)



Impact on Developing Economies

When analysts talk about oil price uncertainty and inflation, it is easy to focus on higher prices. But the impact on developing economies is far more complex and deeper than standard models suggest.

1) **Currency Stress -** Emerging markets often run current account deficits financed through foreign capital flows. Sharp swings in oil prices and uncertainty about future prices can trigger sudden capital outflows and currency depreciation. Recent market reactions show emerging currencies weakening as investors move toward the relative safety of the US dollar, increasing the cost of imports and foreign currency debt servicing.
2) **Food and Fuel -** Developing countries rarely import only oil. They also rely on fertilizer, shipping services, and refined fuels. When oil price uncertainty spikes, the secondary effect is often simultaneous rises in food and fuel prices that hit low-income households the hardest. Higher energy costs raise transport and logistics expenses, which then push up food prices, creating additional pressure that oil price indices do not fully reflect.
3) **Social Fragility -** Inflation alone is an economic issue. When combined with uncertainty, it becomes a social risk. High uncertainty undermines confidence in markets, governments, and future incomes. This can lead to reduced savings, lower investment, and changes in household spending behavior, especially among poor and middle-class households with limited financial buffers. These changes, such as cutting essential spending or removing children from school, can create long term social consequences not captured in conventional economic models.
4) **Export Risk -** Oil price shocks do not only affect importing countries. Even resource rich developing economies face risks. When uncertainty rises and credit tightens, non-oil export sectors such as textiles and agriculture suffer from reduced financing and weaker demand. This slows growth and increases unemployment pressure.

Geopolitics and Volatility

A key feature of 2026 is that conflict has become a persistent driver of volatility. The ongoing Strait of Hormuz crisis, which has almost closed a route carrying 20 percent of global oil, continues to affect energy and shipping markets. The rerouting of trade around Africa's Cape of Good Hope has added weeks to shipping times, increased logistics costs, and raised prices of important commodities.

The impact goes beyond energy. Global trade fragmentation, including rerouted supply chains and rising tariffs and policy uncertainty, feeds into the WUI and makes future growth more unpredictable.

Policy Measures

In a world where uncertainty and volatility are persistent, policy responses must be flexible, unconventional and forward looking.

- **Inflation anchors need a broader view.** Monetary policy must consider uncertainty premiums in commodity prices, not just baseline inflation numbers.
- **Strategic reserves and diversification.** Developing countries can reduce energy price shocks by building fuel and food reserves and diversifying import sources.
- **Safety nets and financial innovation.** Social protection systems linked to uncertainty or commodity price changes can protect vulnerable consumers before crises worsen.

A Strategic Way Forward

For developing countries, this volatility presents not just challenges, but opportunities to rethink traditional policy frameworks and build lasting resilience. Below are strategic pathways that blend immediate risk mitigation with long term transformation:

1) **Energy Security:** Developing countries have long relied heavily on imported fossil fuels. The recent conflict induced oil market swings underscore the importance of energy diversification:
2) **Renewable Energy:** Investing in wind, solar, and innovative energy technologies reduces dependence on imported oil and shields economies from global price shocks. Renewable deployment also attracts green finance and job creation.
3) **Strategic Petroleum Reserves:** Building or expanding reserves can buffer short term supply shocks and reduce abrupt inflation spikes tied to oil volatility.
4) **Regional Energy Cooperation:** Joint infrastructure and shared electricity grids between neighboring economies can reduce vulnerability to external supply chain disruptions.

Targeted Inflation ManagementTools

As global uncertainty pushes up energy prices, developing countries should adopt inflation anchoring strategies that go beyond typical monetary policy tools:

1) **Macroprudential Frameworks:** Instead of solely relying on interest rate adjustments, policymakers can deploy macroprudential buffers such as counter cyclical capital requirements to absorb price shocks without slowing growth.
2) **Efficient Subsidy Reforms:** Transitioning from generalized fuel subsidies to targeted social support helps protect vulnerable households while reducing fiscal stress. Effective subsidy reform also frees up public expenditure for social investment.

3) **Inflation Indexed Safety Nets:** Designing social protection schemes that adjust automatically to cost of living changes helps preserve household purchasing power without placing undue strain on government budgets.

Supply Chain

The turbulence reflected in the WUI highlights deeper structural uncertainties in global trade. Developing economies can strengthen resilience through:

1) **Supply Chain Mapping and Risk Analytics:** Countries should identify critical vulnerabilities in imports such as food, fuel, and fertilizer and diversify suppliers to avoid systemic bottlenecks.
2) **Digital Trade Corridors:** Harnessing digital platforms and data interoperability can reduce friction in cross border trade, even when physical routes are disrupted.
3) **Smart Tariff and Non-tariff Measures:** Removing counterproductive trade bans or export restrictions while encouraging efficient export expansion can smooth market volatility.

Financial Risk Management and Hedging Tools

In addition to policymaking, market-based tools are essential:

1) **Commodity Hedging:** Governments and large energy users can use futures, options, and swaps to lock in fuel prices, reducing exposure to sudden spikes.
2) **Sovereign Stabilization Funds:** Countries with fiscal space can create funds that save resource windfalls in good times and support public finance during downturns.
3) **Local Currency Debt:** Shifting part of sovereign borrowing into local markets can reduce exposure to foreign exchange volatility triggered by global shocks.

Regional and Multilateral Cooperation

No country can handle global uncertainty alone. Cooperation strengthens resilience:

1) **Regional Energy Agreements.** Neighbors holding joint reserves or releasing them together can reduce supply risks.
2) **Multilateral Risk Support.** Organizations like the World Bank and IMF can provide rapid financing during uncertainty.
3) **Flexible Trade Agreements.** Agreements that adjust automatically during volatility protect market access.

Conclusion

As 2026 unfolds, ongoing global uncertainty, reflected in the World Uncertainty Index and sharp swings in oil prices, is affecting economies worldwide. Developing countries are feeling the strongest impact, with rising inflation, unstable currencies, and higher costs for energy, food, and trade putting pressure on families and businesses. These challenges are made worse by geopolitical tensions and supply chain disruptions. Building resilience through energy diversification, focused fiscal policies, strong financial risk management, and regional cooperation is essential for these countries to manage shocks, support growth, and maintain economic stability in a world where uncertainty has become a defining feature.

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