

Navigating the Fog – A Tryst with Economic Uncertainty

Keynote Speech to Ethnic Xchange Symposium

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Tēnā koutou, tēnā koutou, tēnā koutou katoa, distinguished guests, ladies and gentlemen. It is an honour to speak at the Ethnic Xchange Symposium, where we celebrate the vibrant mosaic of cultures that define New Zealand. The organisers have asked me to frame the global economic uncertainty before us and what it means for our economic prosperity more broadly – not discuss the policy outlook or the views of the MPC.

Today marks the birth of Jawaharlal Nehru, the architect of modern India, who famously said that India's independence was a "*tryst with destiny*." This phrase captures the essence of the migrant experience: a deliberate and courageous pact with the unknown. Migrants do not passively endure uncertainty; we embrace it as a call to action. We choose risk over comfort, forging new identities in foreign lands. Our journey is a daily navigation through fog – of culture, language, and opportunity – transforming uncertainty into possibility. As migrants know so well, uncertainty is as much coordination as it is data.

This spirit of bold resolve fuels innovation, social cohesion, and economic prosperity. From Beijing to Bangalore, from Timbuktu to Tokyo, our migrant communities have long understood that knowledge is wealth – something that cannot be taken away. Pursuit of sciences and technology, in particular, are prized because they are merit-based and require intellectual agility. When merit and nimble thinking are prioritised as twin anchors, uncertainty becomes opportunity – and we find the compass to navigate today's complex world.

* The views expressed are those of the author and do not represent those of the Reserve Bank of New Zealand or its Monetary Policy Committee, or that of the Board of the Financial Markets Authority. For helpful comments and discussions, I would like to thank, without implicating, Caitlin Davies, Chanelle Duley, Josh Greenwood, and Olga Sudareva.

The Global Economic Fog

The world today is buffeted by multiple forces: supply chain disruptions, rising geopolitical tensions, the unpredictable deterioration of institutional guardrails in advanced economies, climate risks, and rapid technological change¹. These create a complex environment, making forecasting and decision-making difficult. But more than complexity, what traps economies is how uncertainty interacts with human psychology. Indeed, inflation targeting by central banks evolved as an institutional response to past economic storms, serving as a clear and steady beacon to anchor decision making.

Faced with the unknown, and already in the midst of a downturn, economic actors hesitate, delay investments, and reduce engagement. We see this in NZ surveys like the QSBO. Paradoxically, this cautious behaviour, while individually sensible, creates a self-fulfilling cycle. Caution reduces economic activity, which deepens uncertainty, leading to even more caution. Economists call this the "uncertainty trap." It locks the economy into stagnation². By avoiding risk, we inadvertently create the very uncertainty we seek to avoid. This cycle of inaction feeds into a broader macroeconomic malaise, where growth stagnates, prices become sticky, opportunities are missed, and innovation slows. When everyone waits, nothing moves.

The interconnected nature of the global economy amplifies this paradox. In a complex, networked world, localised risks can cascade into widespread crises, as we've seen with the 2008 financial crisis, the pandemic, and current geopolitical tensions. It's been a central theme in much of my work with British economist Andy Haldane³. Successive shocks don't just add uncertainty; they compound it, leaving lasting marks on the

¹ My MPC colleague, Paul Conway, has recently offered an in-depth discussion of how trade and uncertainty shocks are affecting the New Zealand economy (Conway, 2025). In some countries (e.g. in Asia and the US), AI-related investment has increased sharply since 2025, providing some (possibly questionable) buffer to global uncertainty shocks.

² See Gai (2025) for a more detailed discussion. Fornaro and Benigno (2018) and Fajgelbaum et al. (2017) also present formal models of stagnation and uncertainty traps.

³ Gai, Kapadia, and Haldane (2011) is a seminal contribution to the topic of contagion in financial networks.

economic psyche. Businesses, workers, and consumers become conditioned to expect turbulence, deepening collective hesitation.

In addition, we are now witnessing a new architecture of international trade—one being reshaped by geopolitical shifts and the transition to a multipolar world. Classical notions of international trade are being upended as countries forge alliances with “friendly countries” sharing similar values, in the hope of avoiding the pitfalls of cultural misalignments and securing stable supply chains⁴. These shifting alliances are challenging the existing international rules of the game. The re-writing of the rulebook amplifies uncertainty yet further, and it places a premium on our willingness to be creative in how we design our policy frameworks.

Social Cohesion and Economic Prosperity

The fragmentation of international trade profoundly influences the global mobility of labour and, in turn, social cohesion. At root, individuals integrate best when the productive benefits of “fitting in” exceed the opportunity cost of foregoing behaviours prescribed by their intrinsic cultural values. At the University of Auckland, my colleagues and I are studying the relationship between productivity and assimilation⁵. Low productivity countries typically experience low levels of assimilation since the benefits of “fitting in” are low. But the returns to cohesion diminish as productivity improves. This is because of “enclave effects” – there are opportunities to be had from productive exchange with other non-assimilating migrants. Think “Little Italy” in New York or “Chinatown” in San Francisco.

Successful assimilation doesn’t just bring cultures together—it transforms production and global sourcing, amplifying growth and resilience. But if uncertainty undermines

⁴ The 2019 documentary film, *American Factory*, illustrates the tensions nicely. Duley and Gai (2025a) present a model of “friendshoring” that formalizes the role of cultural frictions in shaping global offshoring. The welfare consequences of such arrangements (relative to free trade) are not clear cut.

⁵ See Duley and Gai (2025b) for a model of nation building and endogenous cultural assimilation. Duley et al. (2025) study the relationship between productivity and assimilation during the Age of Mass Migration (1795-1930) in the United States.

integration, these benefits stall. We see another self-reinforcing cycle: uncertainty diminishes assimilation, and weaker cohesion increases uncertainty, stifling growth.

Regulatory Complexity

The challenges of uncertainty are compounded by regulatory complexity. I serve on the Board of the Financial Markets Authority, where we are intensifying efforts to cut red tape and simplify compliance.

Regulatory complexity often adds layers of uncertainty for businesses, particularly smaller firms and migrant entrepreneurs who often lack resources to navigate dense bureaucracies. My work with Isabel Schnabel of the ECB highlights that this complexity isn't accidental—it arises from strategic behaviour by financial firms, fragmented rules, and inadequate coordination⁶.

Addressing these issues requires intellectual clarity and strategic coherence across agencies. The problem is not just how many rules we have, but how they interact, creating unintended consequences that can stifle innovation and economic dynamism.

What Can Policymakers Do?

In fog, navigation matters more than precision. And it demands a shift in how policymakers act within this fog of uncertainty. Put simply, when the fog is thick, *both* policy measures and the clarity of communication are needed to move the dial. And when uncertainty is high and the channels of transmission weak, communication takes on greater importance.

Monetary policy must provide a stable narrative, grounded in conditional logic: if the world evolves in this way, policy will respond in that way. Without that scaffolding, expectations drift, investment pauses, and risk aversion becomes entrenched. As I recently noted at Melbourne University, well-designed institutions – especially central banks – must do more

⁶ See Gai et al. (2019) for a detailed discussion and implications for financial regulation.

than react to uncertainty; they must absorb it. This is because their influence extends well beyond the mechanical effects of the policy rate to the beliefs that govern private action.

In other words, central banks must set the tone for the economic conversation. Their words, emphasis, and structure condition how millions of decisions unfold. They must illuminate the path ahead, not merely comment on the prosaic.

Transparency – describing the macro-landscape by publishing monetary policy statements and modelling scenarios – is helpful, but not enough. What really matters is the capacity to guide expectations. This requires intellectual rigour, deep technical expertise, and the agility to challenge conventional thinking. *How we think*, rather than *who said what*, is the essence of credibility when uncertainty is high.

It is important to remember that central bankers wield unelected power⁷. Direct engagement—through public speeches and testimony before Parliament—brings clarity to uncertainty. Speaking directly about how we think, and what would change our minds, provides analytical accountability that complements procedural channels that chronicle debate – such as meeting records and monetary policy statements. When we open the doors of our policy reasoning to scrutiny, the fog clears and trust builds.

At the same time, fiscal policy must step into its own strategic role — by investing through uncertainty and setting the stage for deep microeconomic reform. Where private actors hesitate, public action creates space — catalysing investment in innovation, skills, infrastructure, and housing⁸. And, like monetary institutions, fiscal policy must be guided by intellectual clarity, coherence, and long-term commitment. A credible fiscal anchor supports the monetary anchor. The two must speak a coordinated language — otherwise,

⁷ See Tucker (2019) for a powerful meditation on this subject. In Gai (2023), I discuss ways to structure the deliberative processes of monetary policy committees in an Australian context. Some of these lessons are also relevant for New Zealand.

⁸ See also Fornaro and Benigno (2018).

signals get lost in noise. As with the migrant's tryst with uncertainty, twin policy anchors offer direction through fog.

Conclusion

The fog that envelops the global economy is thick, but not impenetrable. What is required is a steady hand guided by intellectual rigour and the will to create strong institutions. Solutions will not emerge by waiting for better information or quick fixes.

Strong economies rest on strong institutions—those buttressed by trust, accountability, and shared purpose. In Aotearoa, we have a unique foundation: institutions are shaped by partnership, memory, and long-term stewardship. These values, rooted in our history and constitutional fabric, remind us that stability is not the absence of change, but the presence of commitment.

To paraphrase Sir Christopher Wren's memorial in St Paul's Cathedral: *si quaeris solutio, circumspice* (if you seek a solution, look around). The sentiment is timeless – and timely. Inevitably, answers are usually in front of us. The solution is not in some distant theory or elusive policy fix. It is embodied in the resilience and innovation in this room. The real architects of our economic prosperity are the very people assembled here today.

Thank you.

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