



**BCC 13TH ANNUAL CONFERENCE
CHALLENGES FROM HIGHER UNCERTAINTY**

**POLICY PANEL 1: CHANGING FUNDAMENTALS AND UNCERTAINTY:
WHERE DO WE STAND
EMERGING AND DEVELOPING COUNTRIES: CASE OF TUNISIA**

September 2025



Introduction

The global economy is encountering significant challenges, primarily driven by rising trade tensions and increased uncertainty in global policies.

The uncertainty affects the global economy including emerging market and developing economies (EMDEs), through multiple channels. This subdued outlook, hampers their capacity to stimulate job growth and alleviate extreme poverty.

Understanding current and future challenges becomes even more critical to navigate complex economic landscapes and **shape economic policies** to ensure sustainable prosperity.

Uncertainty poses **significant challenges to decision support modeling**, typically necessitating iterative revision and continuous updating.

Plan

Introduction

- Evaluating uncertainty in developing countries
- Uncertainty transmission channels to developing countries
- Impact on macroeconomic balances, inflation and monetary policy
- Emerging economies Specific Issues

Conclusion

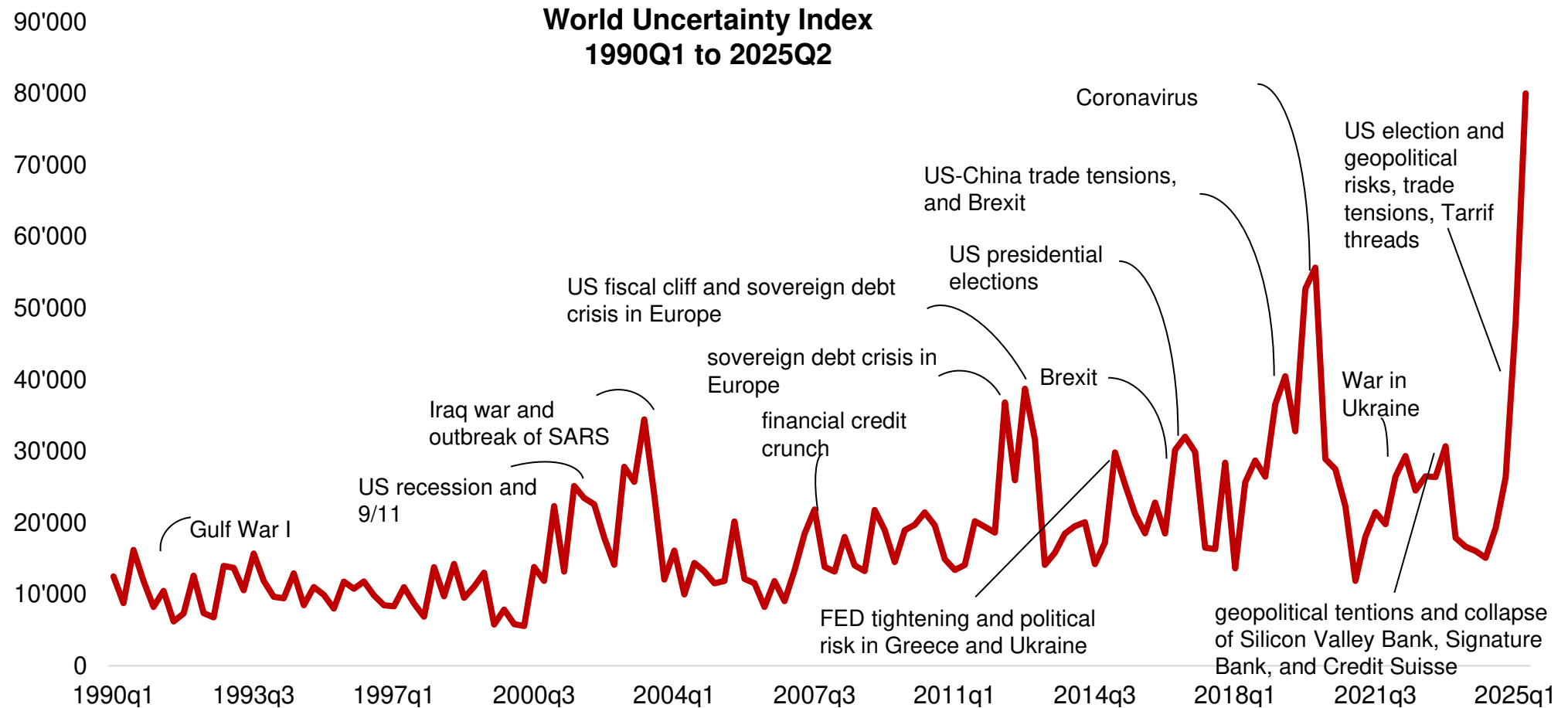
1. Evaluating uncertainty in developing countries:



1. MEASURING UNCERTAINTY: WORLD UNCERTAINTY INDEX

Measures of uncertainty include financial indicators, surveys and the **economic uncertainty index**, which uses counts words dealing with uncertainty. There are several versions of this index, the most commonly used are:

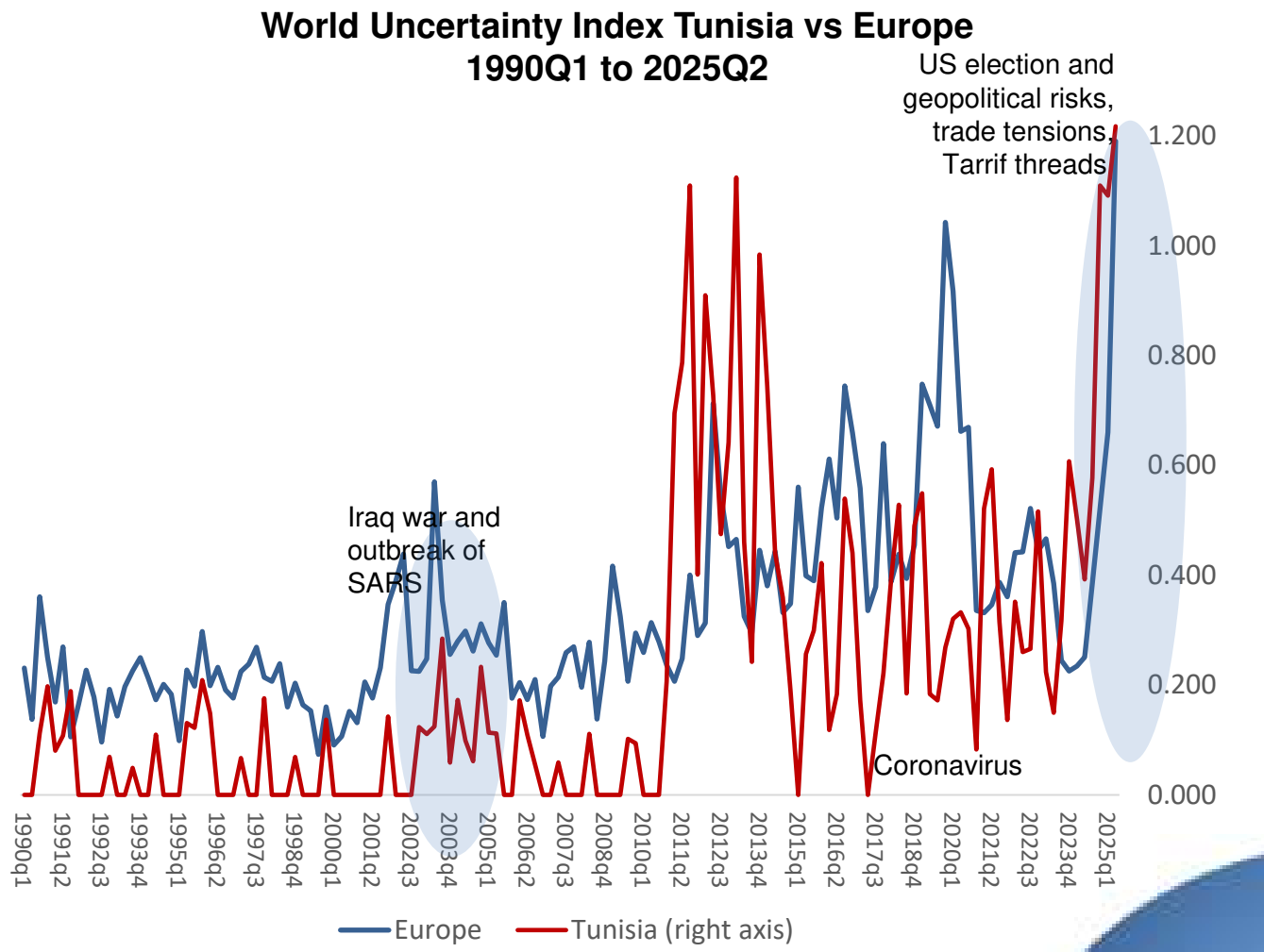
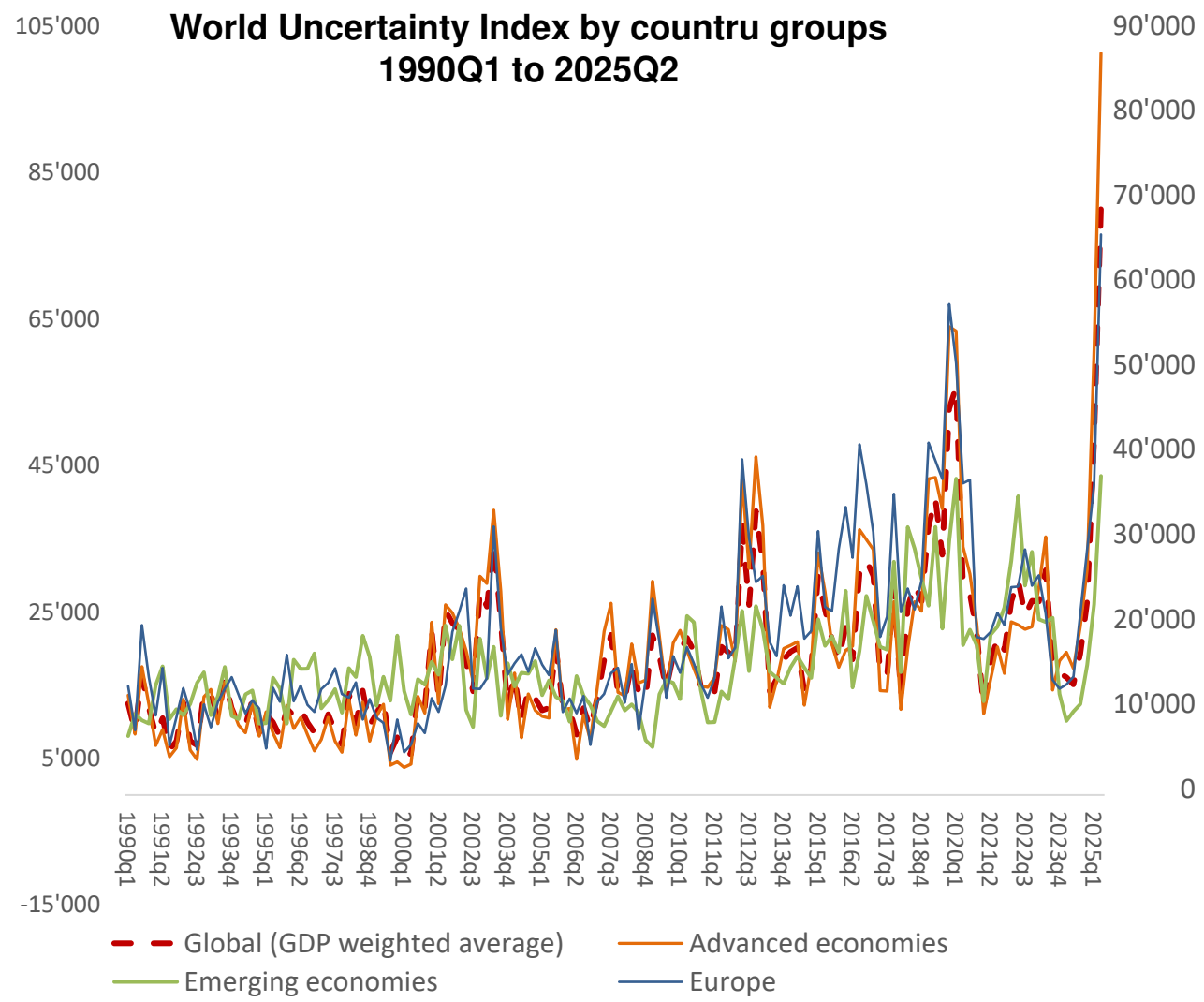
- the **Economic Policy Uncertainty Index** (EPU) : constructed from leading newspaper articles.
- and the **World Uncertainty Index** (WUI) : percent of word “uncertain” (or its variant) in the Economist Intelligence Unit country reports.



Source: Ahir, H, N Bloom, and D Furceri (2022), “World Uncertainty Index”, NBER Working Paper.

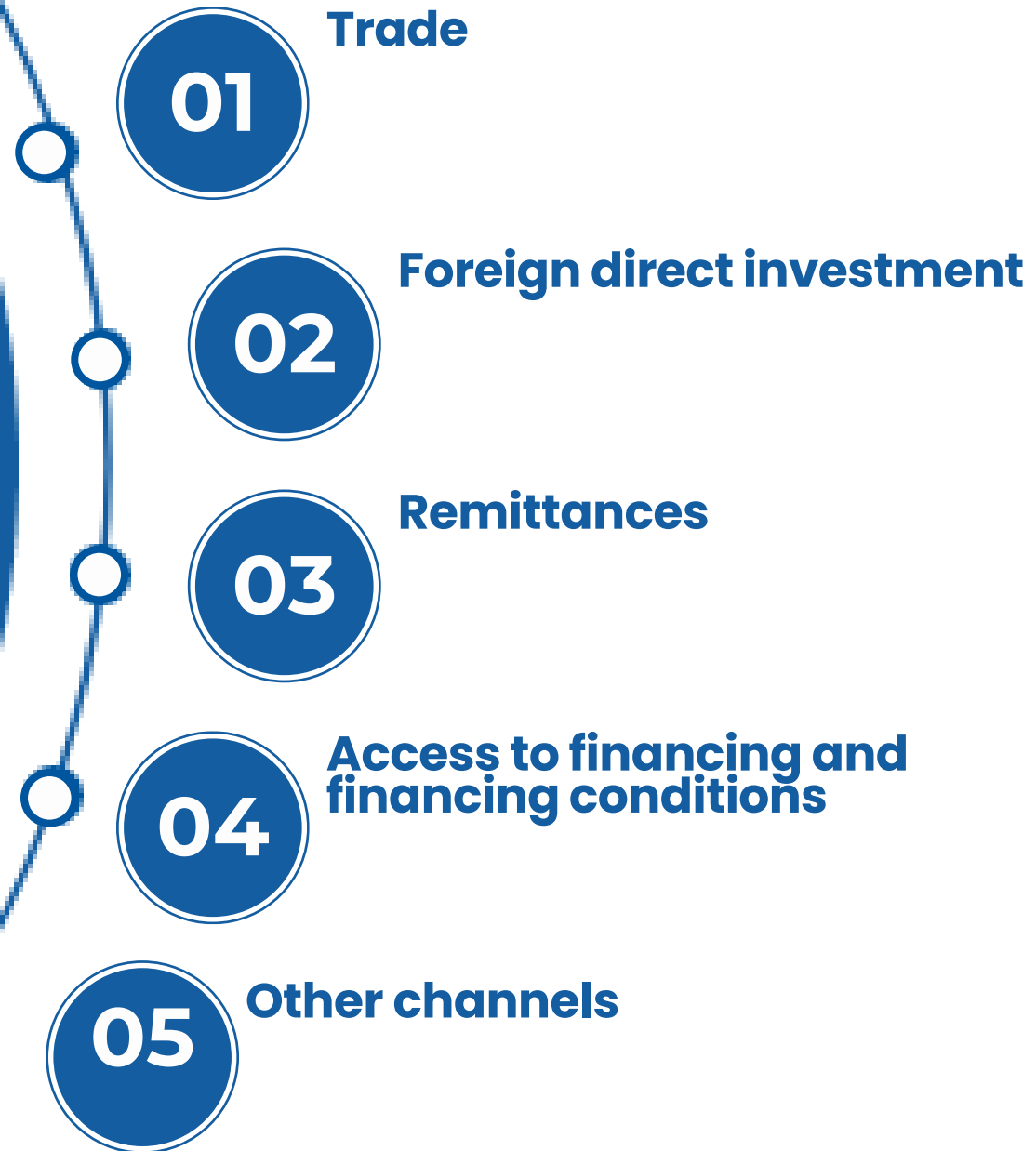
1. MEASURING UNCERTAINTY: WORLD UNCERTAINTY INDEX

- Globalization causes uncertainty to spread among groups of countries.
- The Tunisia index captures the correlation with the European index in some periods. However, in other periods, particularly COVID, it underestimates the uncertainty and fails to account for country-specific uncertainties.



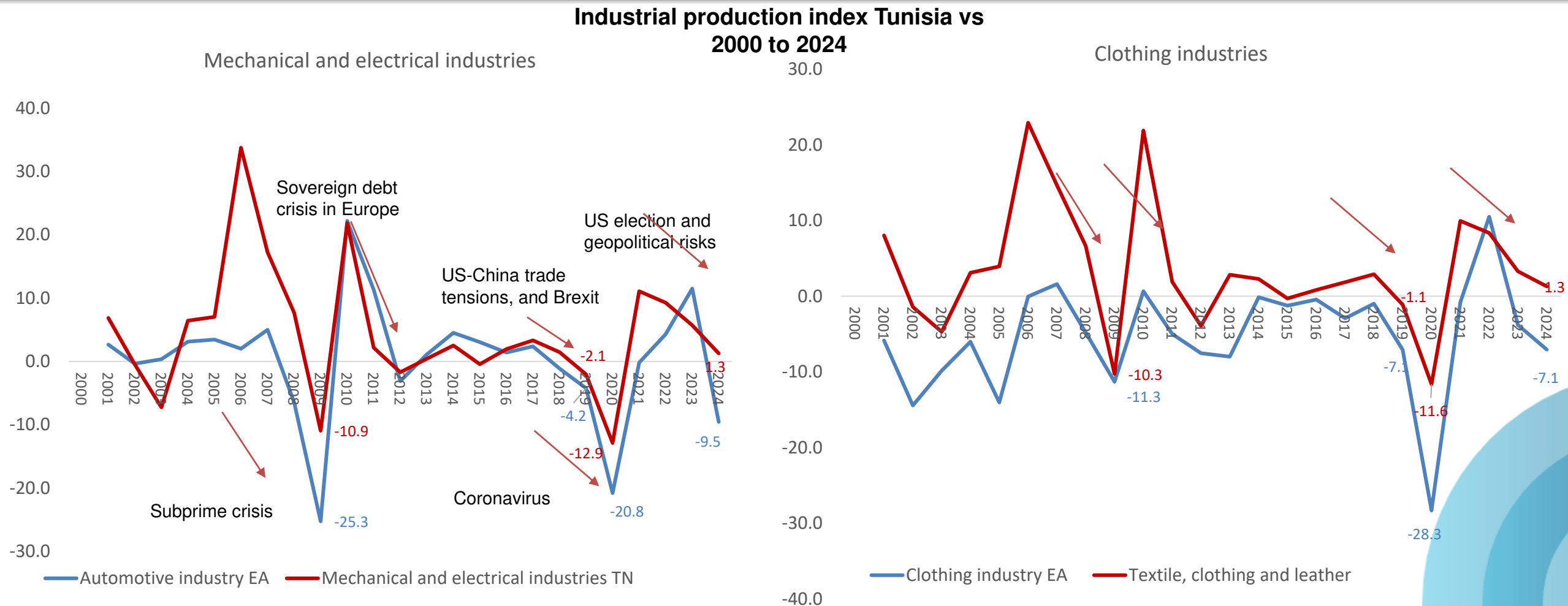
Source: Ahir, H, N Bloom, and D Furceri (2022), “World Uncertainty Index”, NBER Working Paper.

2. Uncertainty transmission channels



2. MAIN TRANSMISSION CHANNELS: TRADE

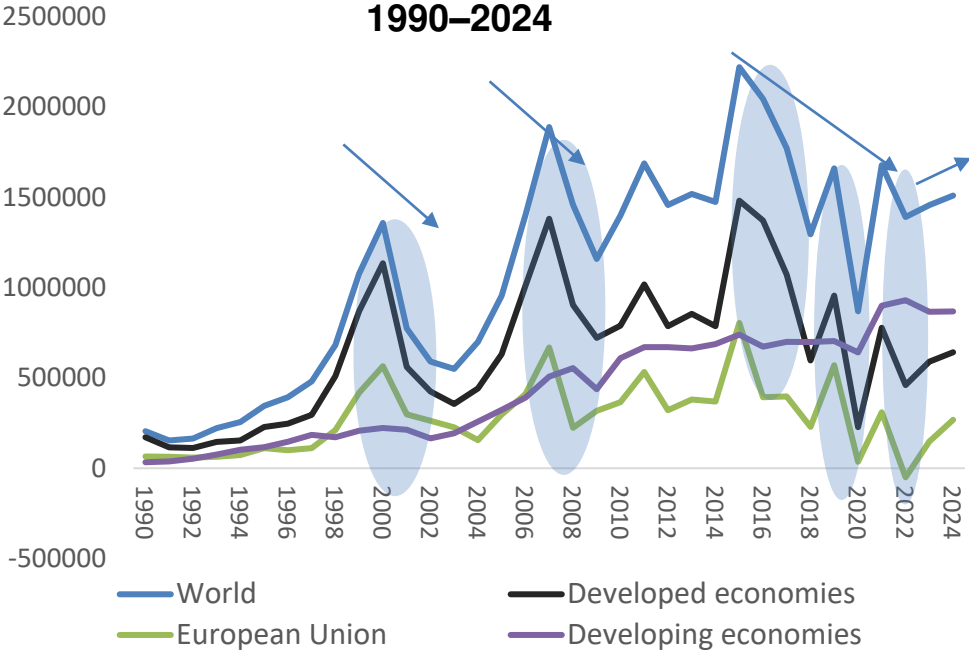
- The impact of global **uncertainties** is being **transmitted to developing countries, particularly through trade** (volume and prices).
- This is the **case for Tunisia**, which relies heavily on demand from the eurozone, particularly for mechanical and electrical industries, textiles and clothing (65% of goods exports), and tourism.
- **US tariffs: limited direct impact** (US share of 3,2% of TN exports), important impact on Tunisian olive oil industry (US share of 29%) addition to the indirect effect through European demand.
- Importance of **economic measures to strengthen resilience**: upgrading program during the 2000s, resilience during the Russo-Ukrainian war...



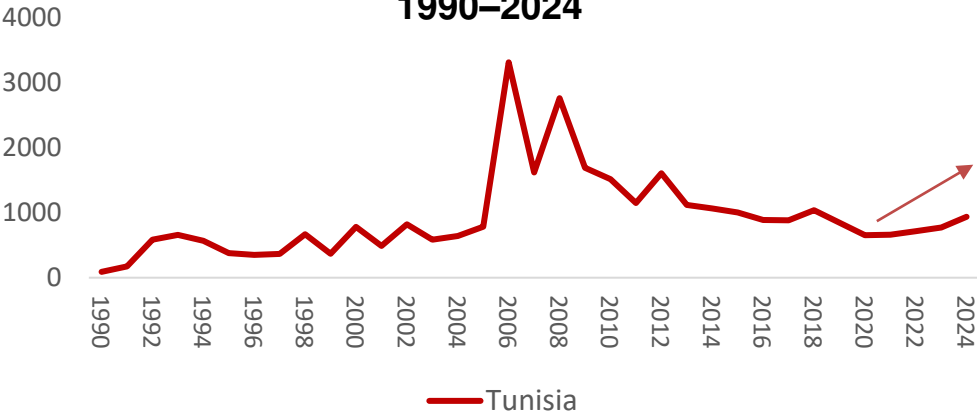
2. MAIN TRANSMISSION CHANNELS: FDI

In times of heightened global uncertainty, **capital tends to migrate toward assets considered safer havens.**
Overall global **FDI to developing countries shows relatively resilient during shocks/ masking high disparities.**

FDI inflows, by region and economy, thousands of dollars
1990–2024



FDI inflows in Tunisia, thousands of dollars
1990–2024



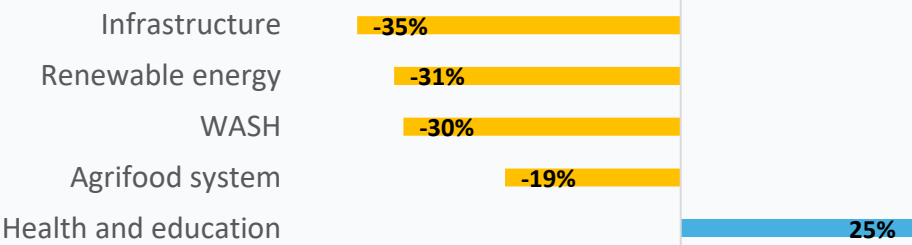
According to the World Investment Report 2025 (UNCTAD- June 2025)

The outlook for 2025 has turned negative leading to sharp downward revisions of most FDI prospects. Early 2025 data show record-low deal and project activity.

While the overall data shows a 4% rise in 2024, it masks **deep underlying weaknesses:**

- Global flows remain weak and unbalanced (regions and intra-regions)
- Sectors critical to the Sustainable Development Goals suffered: Foreign investment to developing countries in sustainable development fell sharply in 2024.

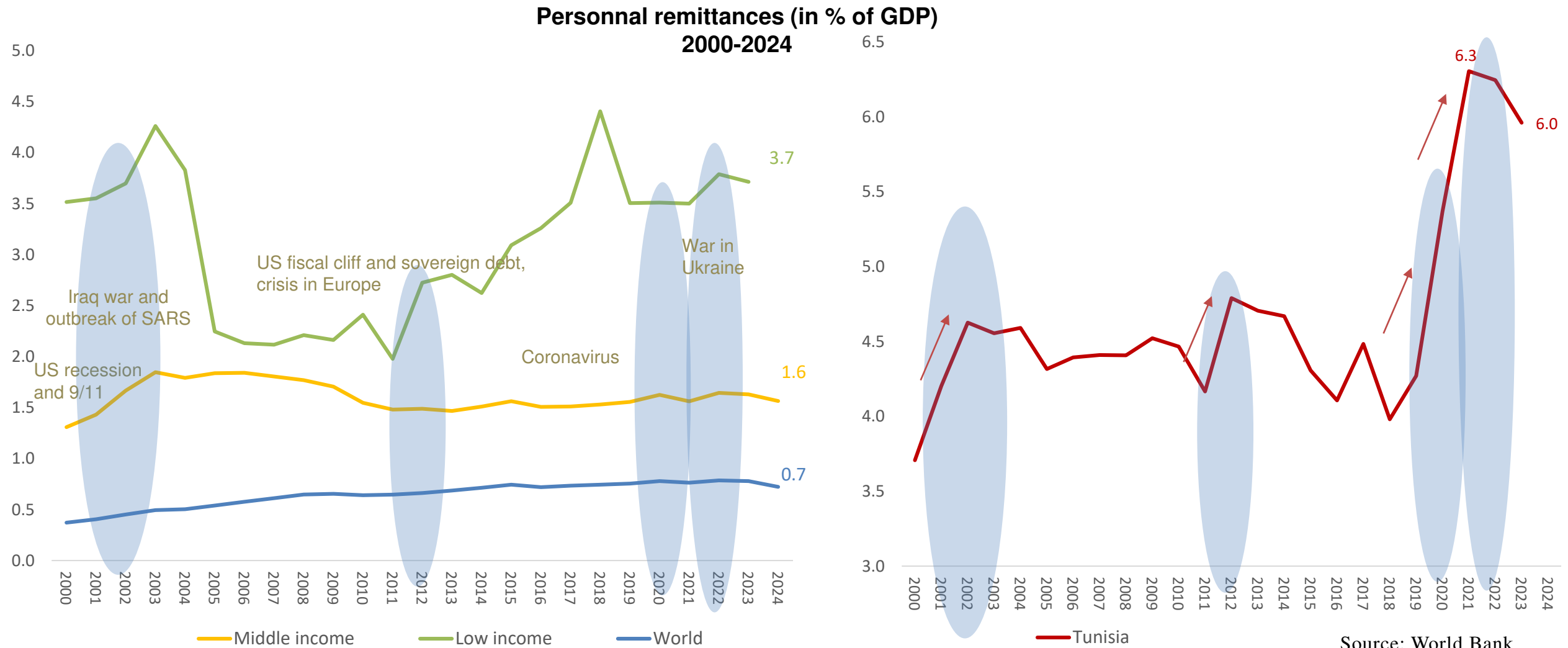
International Investment to developing economies in Sustainable Development Goal sectors, percentage change, 2023–2024



Source: UN trade and development (UNCTAD) world investment report 2024.

2. MAIN TRANSMISSION CHANNELS: REMITTANCES

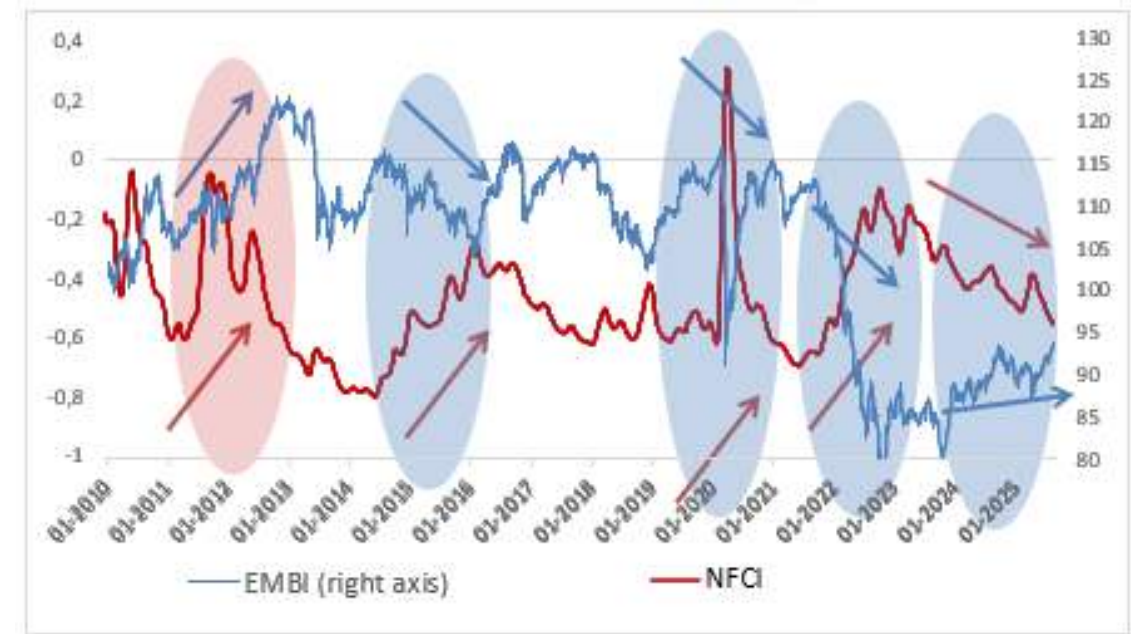
- Economic uncertainty doesn't seem to have a negative impact on remittances on average.
- Increasing remittances to Tunisia during chocs.
- Sustained uncertainty could change the behavior of emigrants, affecting their income (loss of employment...) and expectations (exchange rate chocs...).



2. MAIN TRANSMISSION CHANNELS: ACCESS TO FINANCING AND FINANCING CONDITIONS

In periods of high uncertainty, credit conditions to developing economies can tighten, increasing borrowing costs and limiting access to financing.

The emerging markets bond index (EMBI) vs Chicago Fed's National Financial Conditions Index (NFCI)
2010-2015*



Last observation: August 2025.

Source: Federal reserve bank of Chicago & JPMorgan

* The Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets, and the traditional and "shadow" banking systems.

* The emerging markets bond index (EMBI) is a benchmark index for measuring the total return performance of international government and corporate bonds issued by emerging market countries that meet specific liquidity and structural requirements.

Factors mitigating risks:

- Market tends to “over correct” after the truce in trumps tariffs
- Global cycle (U.S. rates, investor risk appetite): Accommodative financial conditions.
- The last shocks – tightening of US monetary policy in – have not affected the financing conditions of emerging countries.

Factors increasing risks:

- Higher uncertainty and Conflicts.
- Specific fundamentals/vulnerabilities: (debt, governance, growth)

Financial Channel :

- Massive outflows of portfolio investment (stocks and bonds) from emerging markets.
- Exchange Rate Volatility

Trade Channel

- Disruption in Global Value Chains (GVCs)
- Terms of Trade Shock

Exchange rate pass-through

Domestic Confidence Channel

- Reduced Consumer Confidence
- Bank Lending Caution: Credit crunch for small and medium-sized enterprises
- **Wait and see attitude of investors.**

3. Impact on macroeconomic balances

 **External balance**

 **Public deficit**

 **Inflation and monetary policy**



3. IMPACT ON MACROECONOMIC BALANCES

The rise in international commodity prices affects the **current account balance** of emerging oil-importing countries as well as the **budget deficit** (increase in public subsidies).

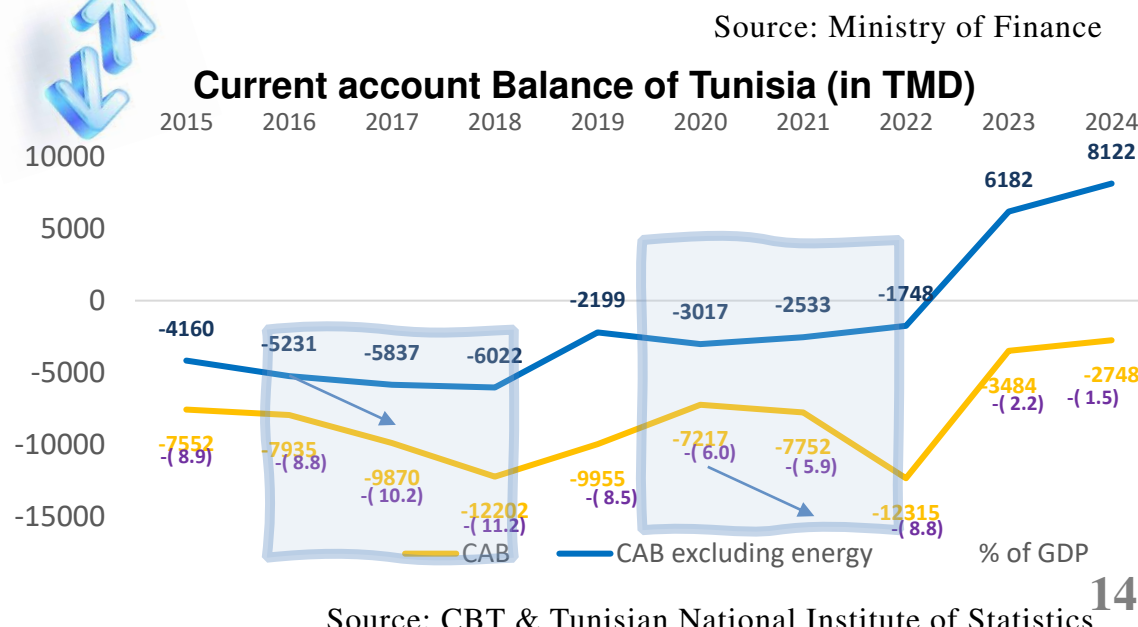
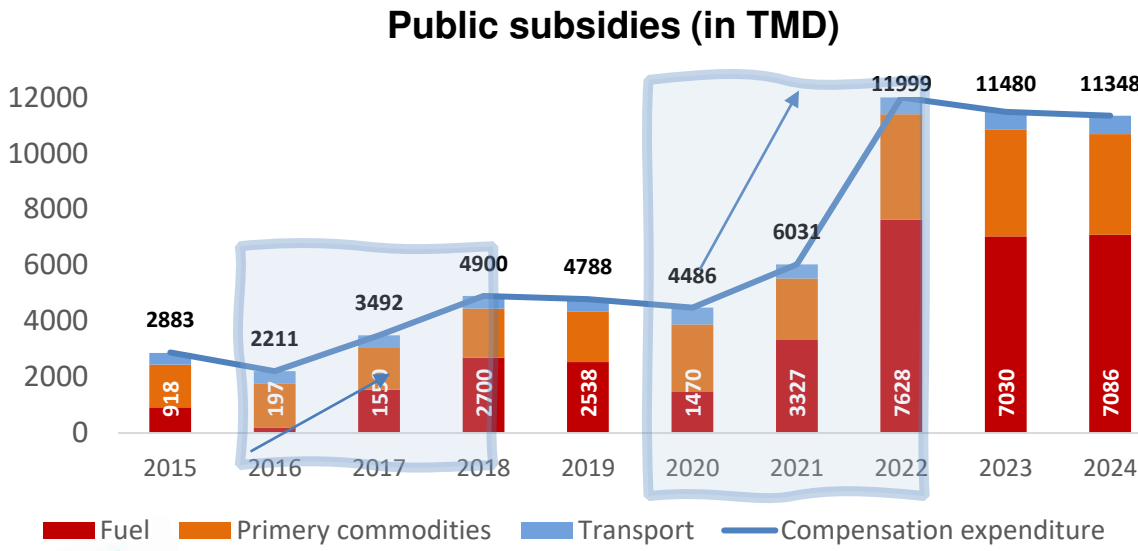
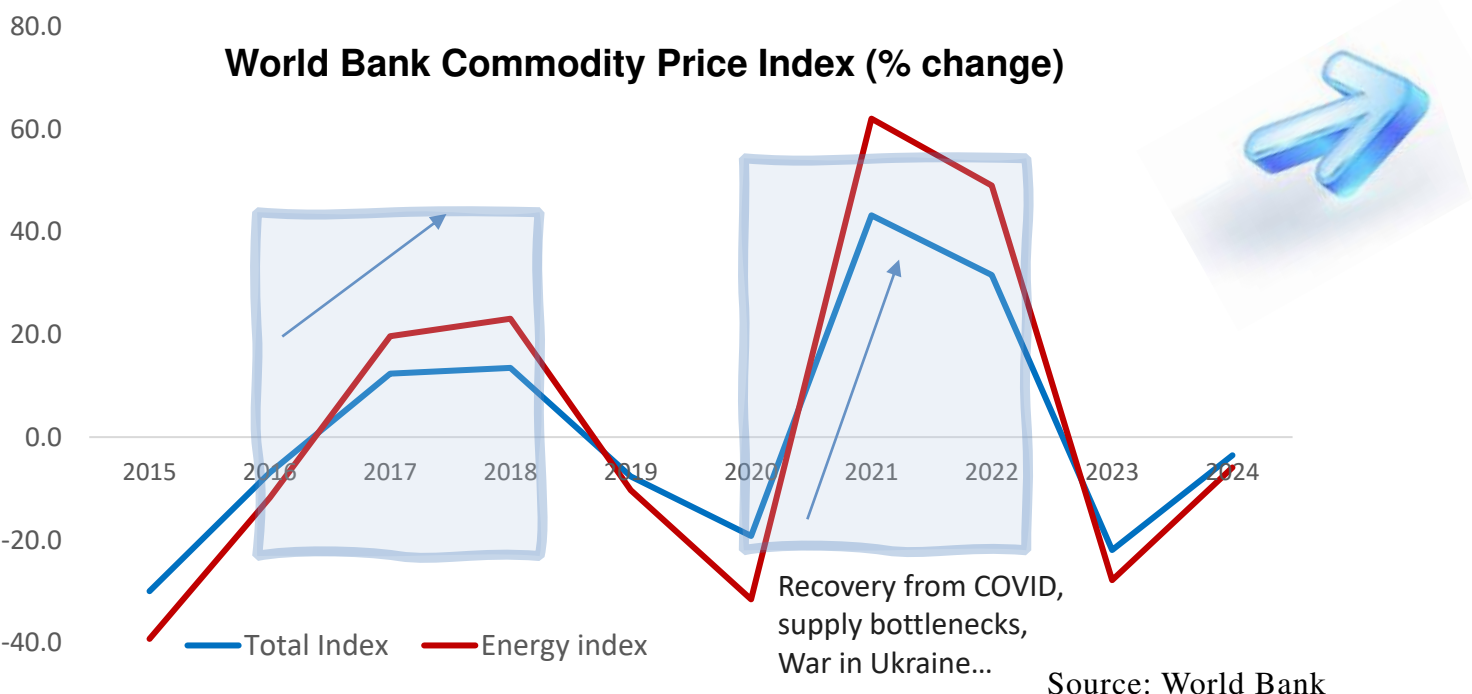
Impact of international prices on Tunisia:

External balance :

Shocks of commodity prices (especially oil and food) weighs on the external balance as energy deficit represent more than 50% of CAB.

Public finance:

Shocks increase subsidies expanses (budget deficit, financing needs).



3. IMPACT ON INFLATION AND MONETARY POLICY

Imported inflationary risks affect local prices in emerging countries, forcing central banks to tighten their monetary policy and may affect their domestic demand.

Currently, the relative stability of international prices allows countries to ease their monetary policies.

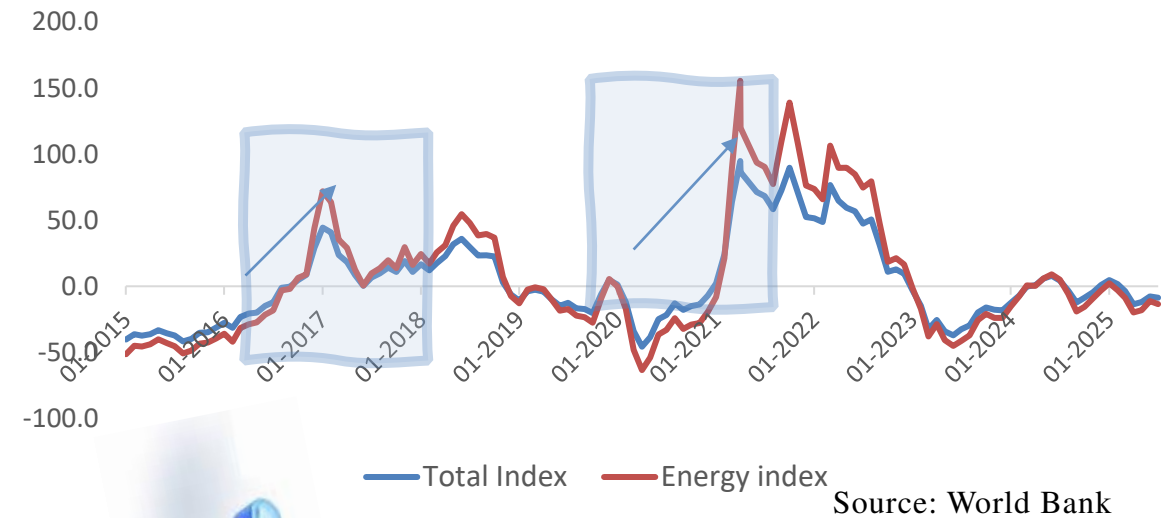
Down-side risks

- Uncertainty surrounding inflation outlook: inflation expectations could be less well anchored in this event (with the post-pandemic inflation surge still fresh in memory).
- US tariffs could disrupt supply chains (although it primarily affects inflation in the US)
- Instability in the Middle East could affect inflation, particularly in oil-importing countries.

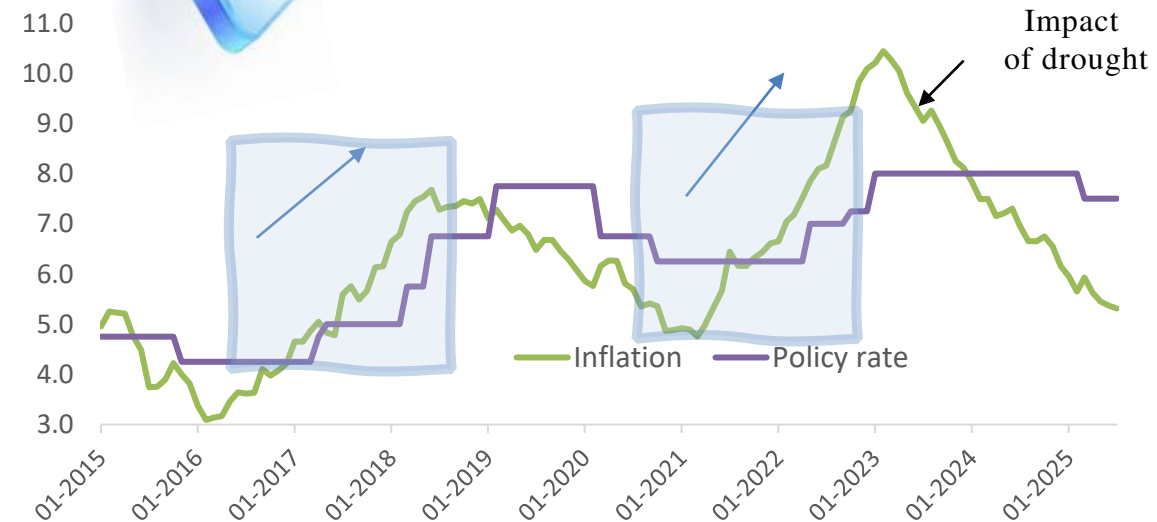
Policy Constraints: Narrow policy space

- Monetary policy limited by inflation
- Fiscal policy restricted by high debt

World Bank Commodity Price Data (% change)
2015 M1-2025 M7



Inflation and policy rate in Tunisia (%)
2015 M1-2025 M7

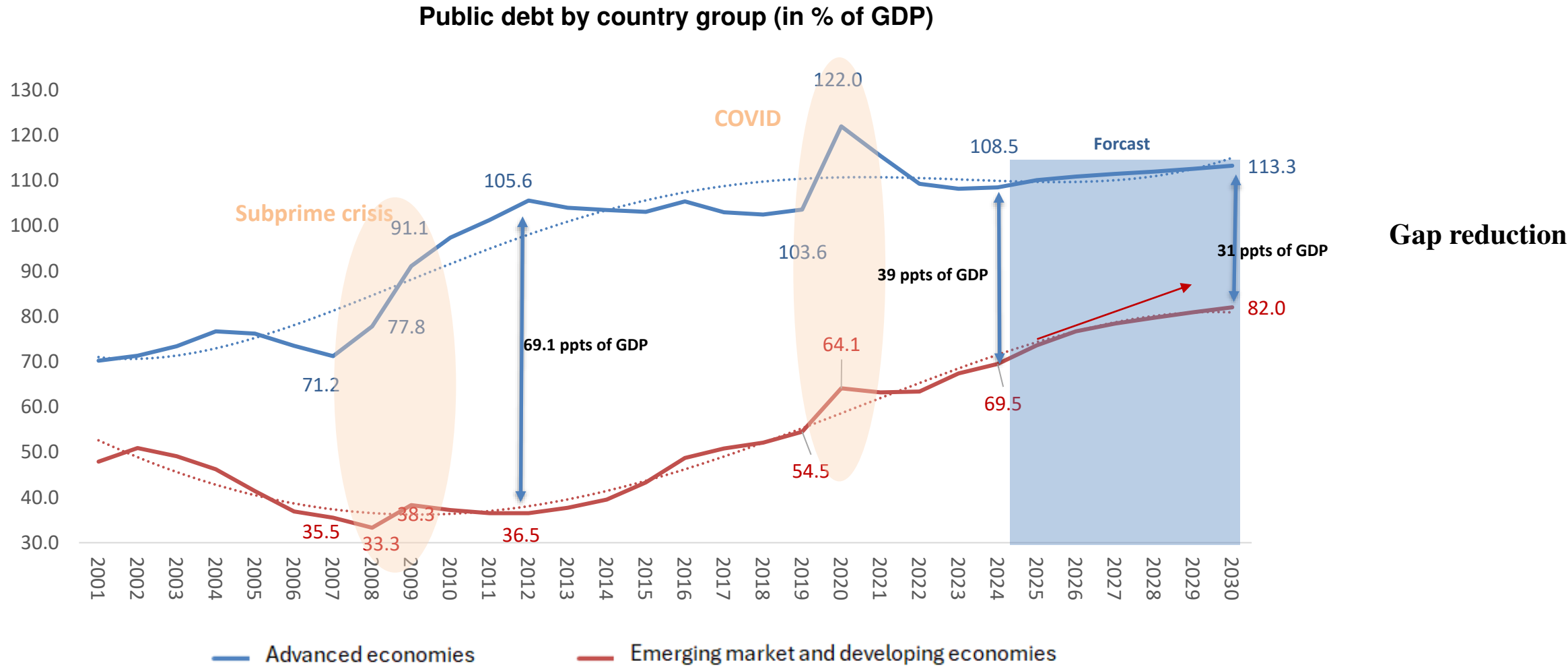


Source: CBT & Tunisian National Institute of Statistics

4. EMERGING ECONOMIES SPECIFIC ISSUES: INCREASE IN PUBLIC DEBT

Increase in developing countries debt is expected to continue in the medium term.

Structural and internal factors: Slow recovery from Covid, budgetary slippages, continued pressure on domestic public financing, “sovereign-bank nexus” posing significant risks to overall financial stability through channels like banks holding government debt and governments backstopping banks.

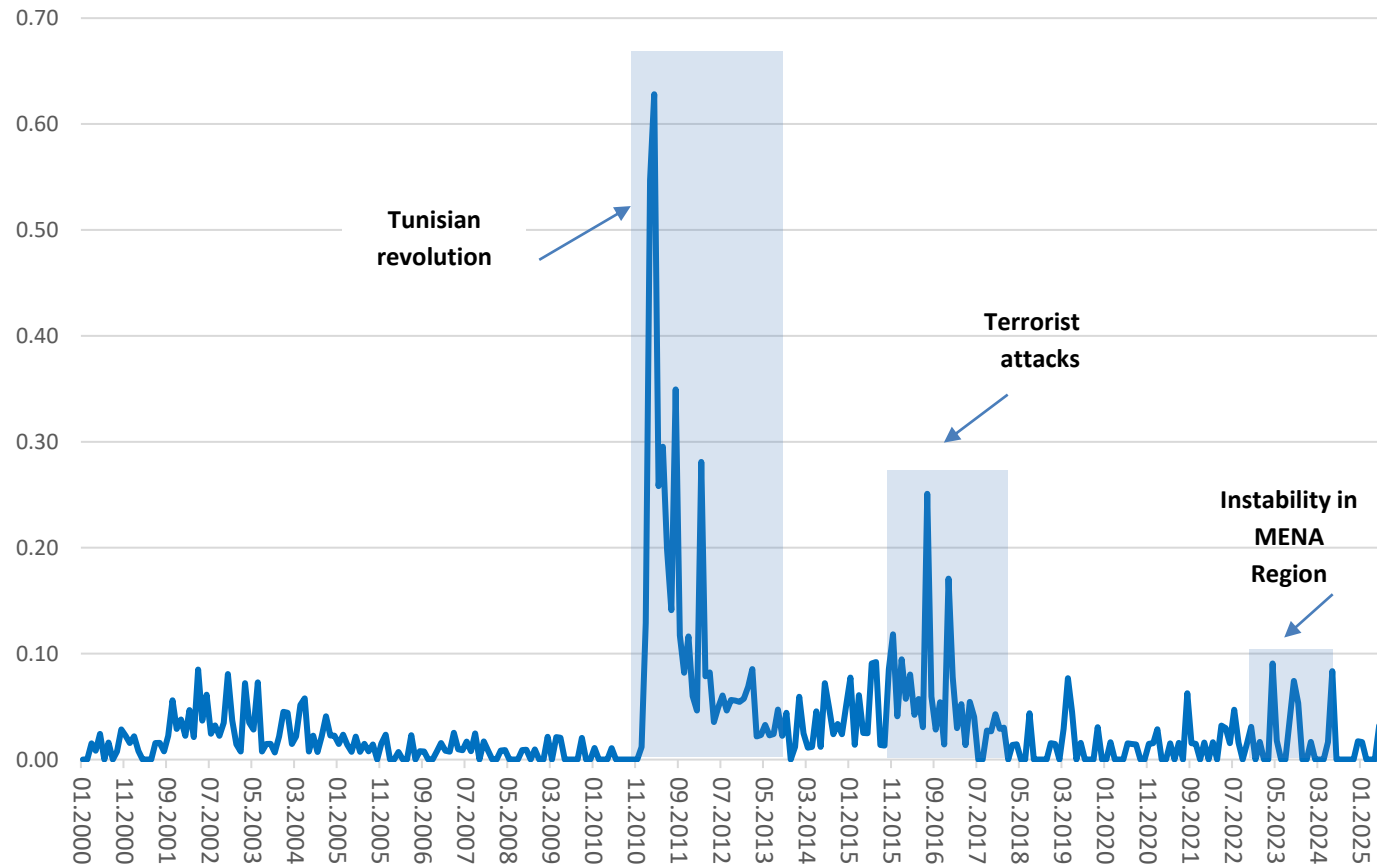


Source: WEO april 2025, IMF

4. EMERGING ECONOMIES SPECIFIC ISSUES: GEOPOLITICAL RISK

Geopolitical risks specific to certain regions or developing countries are sometimes very significant and can exacerbate their vulnerabilities.

**Tunisia GPR index
1990M1 to 2025M7**



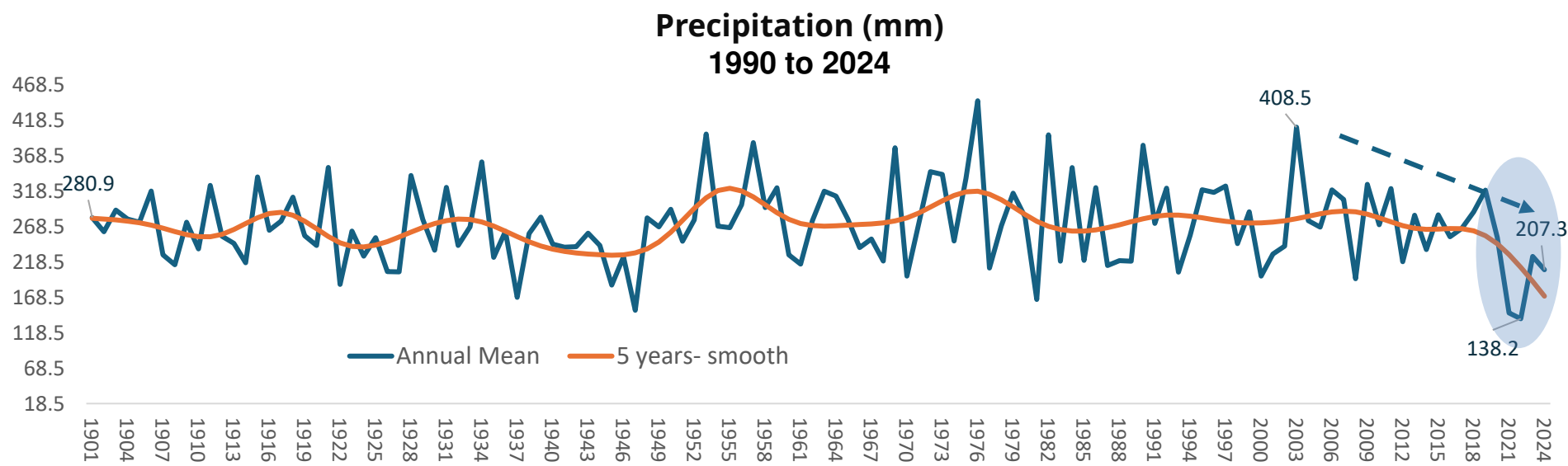
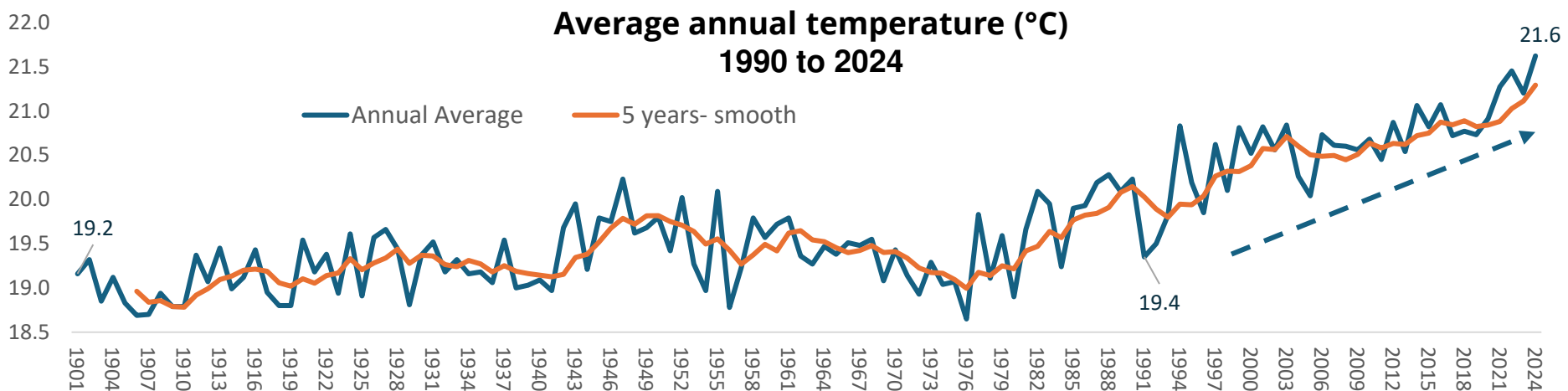
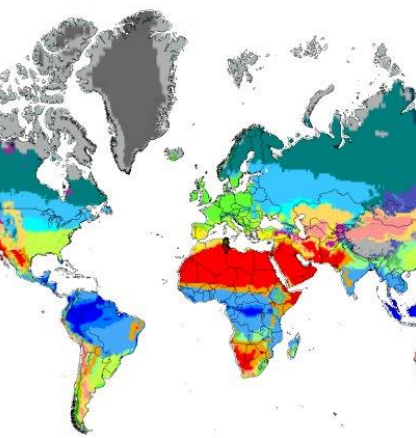
Source: reported by Caldara and Iacoviello (2022)

- The Geopolitical Risk (GPR) Index for Tunisia captures certain risks that have weighed on the Tunisian economy, notably regime change (2011) and terrorist attacks (2015).
- Other significant risks include instability in the region (affecting exports, worker remittances abroad, the informal market, and migration flows from sub-Saharan Africa).

4. EMERGING ECONOMIES SPECIFIC ISSUES: CLIMATE RISKS

Climate change is **particularly significant in the MENA region** (suffering from severe water stress).
In Tunisia, agriculture accounts for approximately 10% of GDP and depends on unstable rainfall,
Particularly in 2023 (drought): **negative contribution to growth of 1.5 percentage points**, food products accounted for 42% of inflation, impact on public spending and on the trade balance.

Köppen-Geiger Climate Classification, 1991-2020



CONCLUSION

- **Global uncertainty affects developing countries through several channels**, the most important of which are trade and financial flows.
- These risks affect these countries **with differences compared to developed countries** but also **within the country group** depending on internal vulnerabilities (including climate, health and security problems, etc.)
- **Key message: Build resilience & diversify**
 - **Build resilience:** would require mobilizing domestic revenues, rationalizing subsidies, improving public financial management, cleaning up bank balance sheets and reducing the volume of non-performing loans
 - **Diversify:** including exports and value chain development, diversify funding sources (green bonds, regional)



THANK YOU FOR YOUR ATTENTION

