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## The informal economy in Tunisia: measurement and linkage with the formal economy

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**Abstract:** This paper has two main goals. The first is to estimate the size of the informal economy between 1980 and 2009 in Tunisia. The second objective is to check for the causal relationship from the formal economy to the informal economy. When calculating the size of the informal economy, we were based on a recent environmental approach proposed by Karanfil and Ozkaya (2007). Our results, based on the estimation of the Kalman filter, reveal that the informal GDP has a U-shaped curve over time. Furthermore, the informal GDP is found to range between 14% and 29% of the formal GDP during the same period. Cointegration and Granger causality tests show that there is a causal relationship running from the formal GDP to the informal GDP. Moreover, the former seems to negatively affect the latter.

**Keywords:** informal economy; formal economy; Kalman filter; cointegration and Granger causality; Tunisia.

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