# TUNISIA

| Table 1 | 2023 |
|---|---|
| Population, million | 12.5 |
| GDP, current US$ billion | 51.2 |
| GDP per capita, current US$ | 4107.7 |
| National poverty rate[a] | 16.6 |
| Lower middle-income poverty rate ($3.65)[a] | 2.2 |
| Upper middle-income poverty rate ($6.85)[a] | 16.2 |
| Gini index[a] | 32.8 |
| School enrollment, primary (% gross)[b] | 105.0 |
| Life expectancy at birth, years[b] | 73.8 |
| Total GHG emissions (mtCO2e) | 38.8 |

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021).
b/ Most recent WDI value (2021).

*Tunisia's economic outlook remains highly uncertain. Tunisia's already timid post-Covid economic recovery came almost to a halt in 2023 amid a severe drought and difficult financing conditions. Authorities have established a Central Bank financing facility to finance the government debt service in 2024 and have used it to repay a maturing Eurobond. Inflation and unemployment remain significant challenges for the authorities. Accelerating the recovery and stabilizing the economy will require the speedy implementation of fiscal, SOE and structural reforms.*

## Key conditions and challenges

Tunisia faces increasingly difficult economic conditions. Since 2011 weak reform implementation has left the economy inefficiently closed to investment and trade and ill-equipped to exploit opportunities in the global economy. As growth and private job creation stagnated, the State stepped in as an employer of last resort and price stabilizer through subsidies. This has caused a deterioration of the fiscal and the current account deficits under the weight of a large public sector wage bill, higher consumer subsidies and underperforming state-owned enterprises. The COVID-19 pandemic, Russia's invasion on Ukraine and the ongoing drought have exacerbated these longstanding weaknesses.

Tunisia's growth prospects continue to hinge on decisive structural reforms to address economic distortions and fiscal pressures. These include: (i) eliminating business entry permits and unnecessary licenses, (ii) gradually phasing out controls to capital outflows for non-offshore businesses and individuals; (iii) reducing consumer subsidies while compensating vulnerable households; (iv) improving the performance of state-owned enterprises; (v) making the tax system fairer. Progress in these reforms is critical to stabilize the macroeconomic situation, accelerate the recovery and lay the foundation for a more sustainable economic growth.

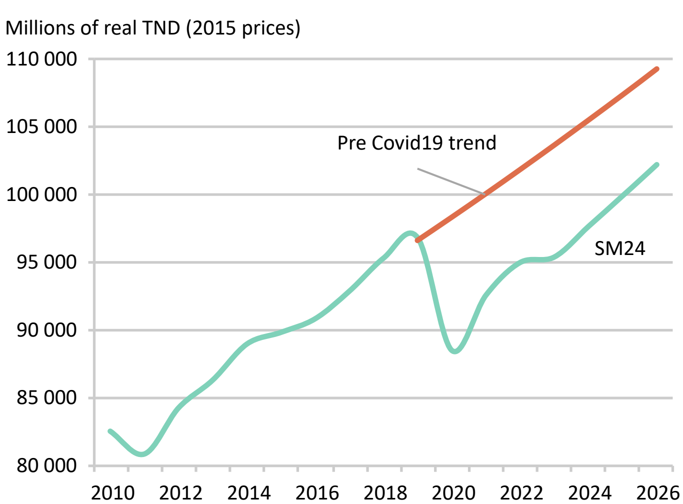
## Recent developments

Economic recovery has been modest in real terms since the sharp contraction in 2020 due to COVID-19 (-8.6 percent). After a moderate rebound in 2021 (4.6 percent), the rate of growth decelerated to 2.6 percent in 2022 and to only 0.4 percent in 2023. The latest economic slowdown reflects the severe drought in 2023 (with agriculture declining by 11 percent in real terms), the uncertain financing conditions, and some fiscal consolidation. Shortages of some basic products have persisted amidst import compression and declining agricultural production.

The merchandise trade deficit narrowed to 10.9 percent of GDP in 2023 down from 17.5 percent in 2022 amidst more benign global prices and robust manufacturing exports. As a result, the current account deficit (CAD) fell from 8.7 to 2.6 percent of GDP over the same period, also helped by robust tourism receipts.

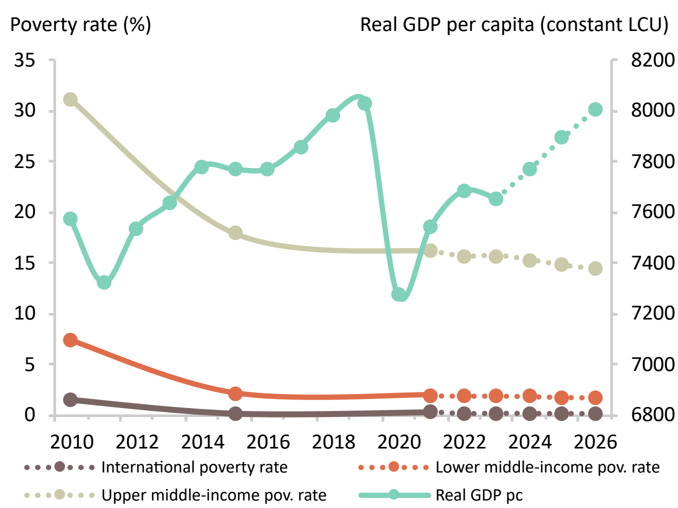
While the decline in commodity prices and the energy and food subsidy bill provides some respite, the pressure on public finances remains elevated as public expenditure reforms continue to falter amid weak growth. This contributes to the challenges in financing the public debt, which between 2019 and 2023 increased from 67.8 to 80.1 percent of GDP (without including government guarantees and SOE debts).

**FIGURE 1 Tunisia** / Real GDP: Actual, forecast and pre-COVID-19 trend




Sources: World Bank estimates and National Institute of Statistics.

**FIGURE 2 Tunisia** / Actual and projected poverty rates and real GDP per capita




Source: World Bank. Notes: see Table 2.

With limited access to international financing, the authorities have established a Central Bank financing facility up to TND 7 billion in 2024 (4 percent of GDP and a quarter of 2024 financing needs) to finance the government debt service. The facility – which was used to repay a Euro 850 million Eurobond maturing in February 2024 - could undermine the stability of the Dinar, the Central Bank independence, and fiscal discipline.

Inflation continued to moderate since the peaks of February 2023, declining from 10.4 percent to 7.5 percent in February 2024. The decline appears to be driven by lower global prices and weak domestic demand. However, inflation remains above both the 2021-2022 average (7 percent) and food inflation is higher (10.2 percent), which presents a particular challenge for lower-income households.

With weak economic growth, the unemployment rate increased to 16.4 percent in Q4 2023 from 15.2 percent a year before. This is one of the highest rates in the region and it is associated with a year-on-year decrease in labor force participation. The average rate in 2023 (45.8) was 1.5 percentage points below the average pre-Covid, suggesting continued growth in the number of discouraged workers.

# Outlook

After the significant slowdown in 2023, the economy is expected to experience a moderate rebound. Assuming a moderation of the ongoing drought and slightly more benign financing conditions, growth is forecast to reach 2.4 percent in 2024 and 2.3 percent in 2025-26. With this growth rate, real GDP in 2024 would finally reach its pre-Covid 19 level, a full four years after the pandemic. This modest structural growth is due to challenging conditions linked to water scarcity, the uncertainty around debt financing, and the weak momentum on structural reforms.

Tunisia's public finance and external account will remain precarious in the absence of sufficient external financing. The budget deficit is expected to decline somewhat to 6.1 percent of GDP in 2024 (compared to 6.7 percent of GDP in 2023). That is mainly driven by a decline of subsidies and wage bills in real terms and a moderate increase in tax revenues. Gross financing needs are expected to rise further at 16.1 percent of GDP in 2024 (from 13.8 percent in 2023) due to significant external debt service.

The CAD is projected to remain stable at 2.4 percent of GDP in 2024 with continued growth in travel exports and stable terms of trade. With FDI projected to be relatively stable and minimal portfolio investments, foreign lending would still have to shoulder the financing of the CAD.

The 2024-26 growth forecast is subject to significant downside risks. Growth projections would be even lower should Tunisia not implement decisive fiscal and pro-competition reforms and/or should available financing not be sufficient to cover Tunisia's external needs. If these conditions occur, it may be challenging to secure sufficient foreign currency in the economy, which could lead to pressures on exchange rates and prices, exerting a negative impact on economic activity and employment. In addition, should the drought conditions persist, the projections could be revised downwards given the negative impact on agriculture and the trade balance.

Poverty using the Lower Middle Income Poverty Line (US$3.65/person/day line in 2017 PPP term) is projected to remain stable at 2.3 percent in 2022-23 and so until 2026. The share of poor and vulnerable at the upper-middle income country poverty line (US$6.85/person/day in 2017 PPP) is projected to constantly decline to 14.5 percent by 2026.

**TABLE 2 Tunisia** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

| | 2021 | 2022 | 2023e | 2024f | 2025f | 2026f |
|---|---|---|---|---|---|---|
| **Real GDP growth, at constant market prices** | 4.6 | 2.6 | 0.4 | 2.4 | 2.4 | 2.2 |
| Private consumption | 2.4 | 2.2 | 1.4 | 2.7 | 2.9 | 3.4 |
| Government consumption | 1.5 | -1.2 | 1.9 | -0.5 | -1.0 | -1.8 |
| Gross fixed capital investment | 3.2 | 1.7 | -10.7 | 5.6 | 8.5 | 3.2 |
| Exports, goods and services | 11.9 | 17.3 | 9.8 | 2.1 | 4.0 | 4.1 |
| Imports, goods and services | 10.9 | 11.5 | 6.6 | 2.7 | 5.2 | 4.6 |
| **Real GDP growth, at constant factor prices** | 4.8 | 2.5 | 0.0 | 2.4 | 2.3 | 2.3 |
| Agriculture | -2.3 | 1.0 | -11.0 | 5.9 | 5.0 | 5.0 |
| Industry | 9.8 | 0.9 | -1.5 | -0.3 | -0.3 | 0.9 |
| Services | 4.1 | 3.4 | 2.4 | 2.9 | 2.9 | 2.4 |
| **Inflation (consumer price index)** | 5.7 | 8.3 | 9.3 | 7.0 | 6.0 | 5.0 |
| **Current account balance (% of GDP)** | -5.9 | -8.7 | -2.7 | -2.4 | -2.3 | -2.4 |
| **Net foreign direct investment inflow (% of GDP)** | -1.1 | -1.4 | -1.3 | -1.3 | -1.2 | -1.2 |
| **Fiscal balance (% of GDP)** | -7.6 | -6.7 | -6.4 | -5.6 | -4.6 | -3.2 |
| **Revenues (% of GDP)** | 25.7 | 28.5 | 28.5 | 28.0 | 26.1 | 26.3 |
| **Debt (% of GDP)** | 79.9 | 79.9 | 80.0 | 79.7 | 79.1 | 81.5 |
| **Primary balance (% of GDP)** | -4.7 | -3.4 | -3.1 | -2.2 | -1.1 | 0.2 |
| **International poverty rate ($2.15 in 2017 PPP)**[a,b] | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Lower middle-income poverty rate ($3.65 in 2017 PPP)**[a,b] | 2.0 | 2.0 | 2.0 | 1.9 | 1.8 | 1.8 |
| **Upper middle-income poverty rate ($6.85 in 2017 PPP)**[a,b] | 16.2 | 15.7 | 15.7 | 15.3 | 14.8 | 14.4 |
| **GHG emissions growth (mtCO2e)** | 4.7 | -0.3 | 0.3 | 1.7 | 2.3 | 2.3 |
| **Energy related GHG emissions (% of total)** | 70.4 | 70.0 | 70.1 | 70.4 | 70.9 | 71.4 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2021-NSHBCSL. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2021) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.