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Tunisia country diagnostic

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Country diagnostics are a European Bank for Reconstruction and Development (EBRD) tool for identifying the main obstacles to entrepreneurship and private-sector development in the economies where it operates. They also help to shape the Bank's priorities and project selection in formulating new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in that country.

Each diagnostic assesses national progress and challenges in developing a sustainable market economy. Private-sector development and entrepreneurship are at the heart of the Bank's mandate, but in all of the Bank's investee economies, the private sector faces a range of problems and obstacles. The country diagnostic highlights the key challenges facing private companies and shows where each economy stands relative to its peers on the Bank's six transition qualities – competitive, well governed, green, inclusive, resilient and integrated – highlighting the main deficiencies and gaps in each.

The diagnostics draw on a range of methodologies and best practices for assessing how big certain obstacles are. Extensive use is made of the Bank's in-house expertise and surveys, such as the Business Environment and Enterprise Performance Survey (BEEPS), as well as other cross-country surveys and reports from institutions such as the World Bank, the World Economic Forum and the Organisation for Economic Co-operation and Development (OECD). For some larger countries, the diagnostics also draw on specially commissioned studies of selected issues that are critical to private-sector development.

The EBRD's Country Economics, Strategy and Policy (CESP) team lead the diagnostics, drawing substantially on the expertise of sectoral, governance and political experts in the Policy Strategy and Delivery (PSD) Department and consulting widely with experts across the Bank in preparing the final product. The diagnostics are shared with the EBRD Board during the country strategy process and published during the public consultation period.

The views expressed in the diagnostic papers are those of the authors only and not of the EBRD.

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https://www.ebrd.com/publications/country-diagnostics.

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Executive summary

The Tunisian private sector possesses a great degree of untapped potential in four key areas. First, its companies are well placed to expand and upgrade their exports and diversify their trading partners. Second, the country's information and communications technology (ICT) sector could take off in the coming years, driving growth and creating jobs, especially for young people. Third, Tunisia is making strides when it comes to renewable energy, launching new programmes to accelerate the green transition and establish itself as a regional leader, including by developing the ELMED Italy-Tunisia interconnection project. Fourth, growth could become more inclusive by creating more opportunities for women and youth.

Growth started to recover in 2024, but the outlook is modest amid a challenging macroeconomic environment. The successive shocks of Covid-19, the war on Ukraine and the global geopolitical situation have weighed on the economy, which has struggled to rebound in the face of fiscal and external imbalances. Debt levels are elevated, but Tunisia has been able to meet its obligations. The authorities have gradually relied more and more on domestic finance in the absence of access to the international market. Meanwhile, improvements in the current account deficit, fiscal tightening and recent financial support from international partners have kept reserves at a stable level.

The private sector has been resilient, but could contribute more to the economy, despite being constrained by a difficult operating environment. Most of the key obstacles identified in the EBRD's 2018 diagnostic persist,[1] as necessary structural reforms have been delayed. Limited domestic competition due to regulatory barriers and restricted access to finance are holding back private-sector participation in the economy. Inadequate logistics and weak policies are hindering the integration of Tunisian firms into global value chains. In addition, micro, small and medium-sized enterprises (MSMEs) face a range of obstacles, including limited access to finance, corruption, political uncertainty and informality.

State-owned enterprises (SOEs) have dominated most sectors over the past decade. The strong state presence has been accompanied by weak governance at national and company level, as well as poor supervision and enforcement of competition policies. Barriers to entry protect these companies, distorting the playing field, hampering labour, and constraining firm productivity and innovation.

Tunisia has the potential to capitalise on its integration into global value chains and boost exports, provided obstacles are addressed. Chief among the latter are the insular offshore and onshore sectors, which have limited linkages and are subject to significant tariff and non-tariff trade barriers, such as inefficient customs procedures and poor-quality infrastructure and logistics services. The concentration of Tunisian exports in a limited number of products and a few markets makes them significantly vulnerable to external shocks. Meanwhile, global crises, as well as regulatory complexity and policy instability, have contributed to a decline in foreign direct investment (FDI) flows, undermining growth potential – though reforms to the restrictive foreign-exchange (FX) regime and capital controls could do much to boost domestic and foreign investment. Consequently, both trade and investment could benefit from regulatory policy interventions and an easing of restrictions, as well as from increased private-sector participation in the infrastructure and transport sectors.

Tunisia's export-orientated ICT sector could benefit from private investment in digital infrastructure. To unleash Tunisia's economic potential, there is a need to increase internet access and businesses' adoption of high-speed internet; advance digital technologies and e-commerce services; and increase investment and private-sector participation by reducing the role of SOEs and state regulation and removing barriers to investment and job creation by the private sector.

The energy sector, particularly renewables, has significant growth potential and the country has had success of late in awarding renewable energy projects to the private sector. Enhancing the efficiency of the national energy company, Société Tunisienne de l'Électricité et du Gaz (STEG), and strengthening the legal and regulatory framework to reduce state dominance and attract private investment could unlock Tunisia's capacity for green energy production and position it as an energy exporter. At the same time, the water and wastewater sectors need urgent reform to address high water scarcity and stress. Necessary steps include better managing resources, diversifying away from water-intensive industries and accelerating desalination using renewable energy.

1 See EBRD (2018).

Human capital, traditionally one of the country's strengths, faces challenges that need to be addressed. The mismatch between the skills required by the private sector and those offered by the country's education and training providers is holding back the potential of skilled youth, notably in growing sectors. Despite Tunisia's regional leadership on women's rights and education, social and legal barriers are hindering women's participation in the economy. Rural areas typically have poor infrastructure and lack economic diversification, thereby limiting skills development at the regional level. Tackling these hurdles is necessary to foster a more inclusive growth model.

Reforming banks and developing non-bank financial institutions would provide the private sector with the financing it needs. The banking sector needs better governance, regulation and capitalisation, and must resolve the legacy problem of high and inadequately provisioned non-performing loans (NPLs). At the same time, the capital markets could play a bigger role in financing private investment and could benefit from a relaxation of FX and capital controls, thereby increasing Tunisia's attractiveness to foreign investors.

1. Tunisia's enterprise operating environment has been challenging over the last decade, with slow progress on key reforms and successive external shocks

Tunisia's growth model of relying on a strong state for active economic intervention has helped the country to become one of the most industrialised in the region, but this model is running out of steam and reforms are urgently needed. The country has seen several episodes of strong growth, with high levels of investment and increasing skills levels. However, the challenging political transition since 2011, coupled with an unfavourable business environment, partly due to public-sector governance slowing reforms, has stymied the changes needed to move towards a more private sector-led growth model. Tunisia's economic growth has also been underwhelming during this period and insufficient to curtail rising fiscal and external vulnerabilities. Even before the Covid-19 pandemic, the economy was underperforming, and successive crises had added considerable pressure and led to a build-up of imbalances.

1.1. Tunisia has seen a decade of economic stagnation and stalled reforms, despite its historical strengths and generally resilient private sector

In the 1970s and 1980s, Tunisia successfully implemented industrial policies and capitalised on its proximity to Europe to develop a manufacturing base that gave it an edge over its regional peers. In the 1990s, Tunisia had a more diversified export product basket (in terms of number of products) than its southern and eastern Mediterranean (SEMED) peers and had built up significant human capital to accompany its industrial economic performance. It still boasts the greatest share of people with an advanced education in the labour force among its SEMED peers (and even outstrips other EBRD economies), at 79 per cent, followed by Morocco, at 68 per cent (2022).[2] Partly thanks to these strengths, Tunisia was ranked the third most innovative economy in Africa on the 2020 Global Innovation Index.[3]

Its economic performance has deteriorated since 2011, however, as a challenging political transition failed to deliver the reforms that would move the economy towards a more dynamic growth model. The political transition saw successive peaceful transfers of power based on free, inclusive and credible elections, Consecutive governments failed to advance major structural reforms, however, despite having clear political legitimacy. Gross domestic product (GDP) growth slowed severely to 1.2 per cent, on average, between 2011 and 2024, from 4.2 per cent the previous decade. In parallel, the composition of GDP deteriorated amid falling investment, rising consumption and stagnant goods exports (Table 1). As a result, growth in GDP per capita also decelerated, from an average 3.2 per cent in 2001-10 to 0.2 per cent in 2011-23, prompting the World Bank to reclassify Tunisia as a lower-middle-income country in June 2016.

Successive governments expanded public-sector hiring and subsidisation to respond to political, economic and social challenges following the late 2010 uprising, which weighed heavily on the budget. The fiscal deficit more than doubled in 2011-23 compared with the decade prior to the revolt,[4] and has remained elevated at more than 7 per cent of GDP since the pandemic. The public-sector wage bill relative to GDP is one of the highest in the world, at a budgetary forecast of 13 per cent in 2025. The primary fiscal balance has turned negative,[5] fuelling an increase in public debt.[6] Monetary financing by the central bank could have potentially adverse effects on inflation and currency stability if it becomes a recurring source of financing for the state budget. At the same time, muted export growth, greater import dependence, and volatility in tourism receipts (in response to political instability and following several terrorist attacks) have led to a widening of the current account deficit.[7] Higher borrowing, mostly external, has financed the increase in the twin deficits. External debt has doubled within a decade,[8] reflecting higher borrowing by both the public and private sectors. The government has recently shifted to borrowing domestically, as it has been unable to access global capital markets.

2 See World Bank (n.d.a), data for 2022.

3 See WIPO (2020).

4 From 2.1 per cent in 2001-10 to 5.6 per cent in 2011-23.

5 From an average surplus of 0.2 per cent of GDP in 2001-10 to a deficit of 3.2 per cent of GDP in 2011-23.

6 From 38.8 per cent of GDP in 2010 to 82.4 per cent of GDP in 2023.

7 From 3.6 per cent of GDP on average in 2001-10 to 8.2 per cent of GDP in 2011-23.

8 From 46.3 per cent of GDP in 2010 to 85.8 per cent of GDP in 2023.

Meanwhile, the Tunisian dinar has lost over half its value due to declining inflows of foreign currency since 2011. FX reserves, therefore, declined by 22 per cent between 2010 and 2019 before recovering in recent years.[9]

Table 1. Tunisian GDP – demand side, per cent

	2001-10	2011-23
Consumption	78.3	90.3
Investment	25.8	16.9
Exports of goods	35.5	26.0
Exports of services	12.4	13.0
Imports of goods	45.5	41.0
Imports of services	6.7	7.1

Source: IMF World Economic Outlook database.

The supply side of the economy remains relatively well diversified, with strong services, agriculture and manufacturing industries, despite some changes since 2011. Services and agriculture have driven growth since 2011 and their shares of GDP have increased. Services have accounted for over 80 per cent of the economic growth achieved since the uprising, notably due to the steadier and growing influence of public sector-dominated services (public administration, health, education and telecommunications). In contrast, the contribution from tourism has been volatile, fluctuating heavily in response to internal and external shocks. The agricultural sector has also seen its share of total GDP rise slightly to 9.7 per cent. In contrast, the shares of manufacturing (14.1 per cent), the extractive sectors (5.5 per cent) and construction (5.2 per cent) have fallen to varying extents since 2010 (Figure 1).

The pandemic severely affected Tunisia's economy and income levels, and the recovery has been lacklustre. Tunisia witnessed the strongest economic contraction in SEMED (aside from Lebanon) in 2020 (of 8.6 per cent). The recovery in 2021 was subdued (at 4.3 per cent), followed by a slowdown in 2022 and 2023 (when the economy grew by just 2.4 and 0.4 per cent, respectively). The pandemic affected Tunisia's per capita income significantly, with GDP per capita standing at US$ 12,600 in 2023, below its 2019 level of US$ 13,200 (at purchasing power parity in constant 2021 prices), after witnessing one of the largest contractions in SEMED, of 9.5 per cent, during the pandemic. The pandemic also exacerbated fiscal pressures as revenues dropped and social spending increased; the budget deficit peaked at 9.4 per cent of GDP in 2020. The slow economic recovery and global inflation kept the gap relatively large in 2023 (at 7.1 per cent of GDP), while the already large share of public-sector wages grew even more to consume over half of government revenues.

The external sector has remained under pressure, but with improvements since 2024, although the country has demonstrated resilience in managing constrained financing sources. Public debt increased further to more than 80 per cent of GDP (in 2024) and risks becoming unsustainable. The current account deficit shrank during the pandemic as supply-chain disruptions suppressed import demand and tourism receipts contracted sharply, then widened again in 2022 amid elevated global commodity prices. However, it expanded significantly to 2.2 per cent and 1.7 per cent of GDP in 2023 and 2024, respectively, buoyed by a recovery in tourism and remittances.[10] Significant financing gaps are putting further strain on Tunisia's ability to withstand external shocks, exacerbated by its modest reserve coverage of around 3-4 months.

In 2022, Tunisia engaged in discussions with the International Monetary Fund (IMF) but discussions remained at staff-level agreement. A support programme would have mitigated financing constraints and strengthened reform commitment, but this did not materialise. The country came under pressure in servicing its sizeable external debt, although it ultimately honoured all of its obligations in 2023 and 2024. After several credit-rating downgrades in 2023, Moody's raised Tunisia's outlook to stable from negative in March 2024 on the back of its better current account performance and continued access to bilateral and multilateral funding. In September 2024, Fitch upgraded Tunisia's long-term foreign-currency issuer default rating to "CCC+" from "CCC".

The economy has been falling short of the government's own growth targets in recent years, as well as the rates of regional peers. Over the past two decades, Tunisia's cumulative output growth has been the second-lowest of the SEMED countries (Figure 2). Growth has also fallen short of target: the government's National Development Plan 2016-20 envisaged an average growth rate of 3.5 per cent for the period and in excess of 5 per cent by 2020, but it only came in at about 2 per cent (aside from 2020). Under the Development Plan 2023-25, the government is targeting a much lower average growth rate of 2.1 per cent, driven by private investment. To make up for the last decade's slowdown and to converge on peer-group rates, growth would have to accelerate substantially.

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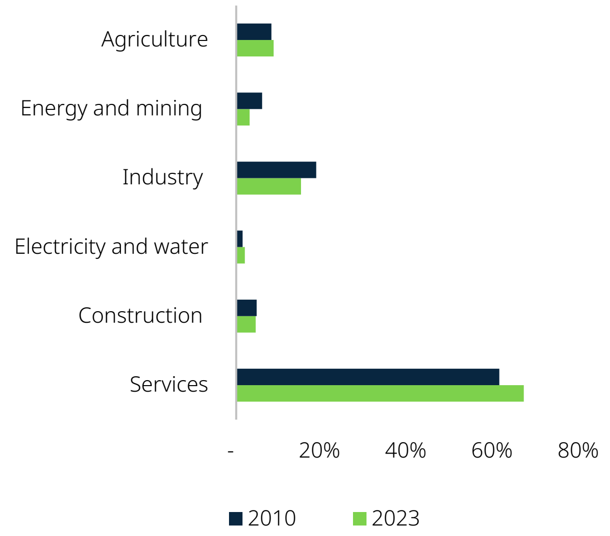
9 In 2023, Tunisia's reserves stood at 95.6 per cent of their 2010 level.

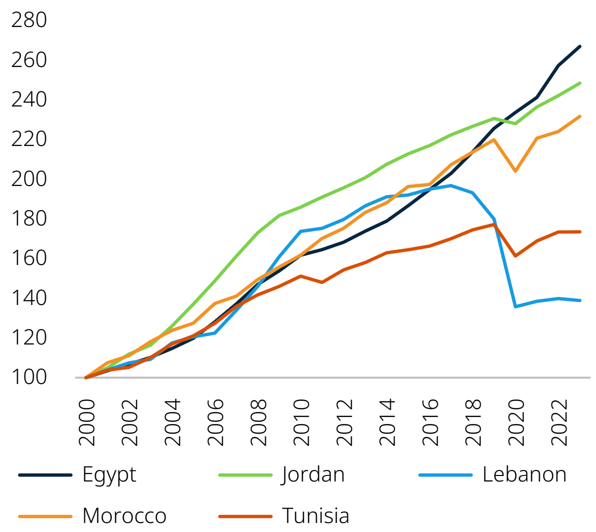
10 See IMF (n.d.a).

Figure 1. Share of GDP by sector (per cent)



Source: Tunisian National Institute of Statistics (INS).

Figure 2. Cumulative real GDP growth, 2000=100



Source: IMF data.

Domestic and foreign vulnerabilities will continue to weigh on the economy. Growth is expected to have recovered to around 1.2 per cent in 2024, but is unlikely to accelerate substantially in the coming years without major progress on reforms. The country's limited fiscal space, lack of access to external financing and restrictive business environment, coupled with slow implementation of reforms, will continue to hold back the private sector, while the state sector remains outsized in scale and often lacking efficiency. In addition, the economy remains vulnerable to external shocks, due to its relative dependence on tourism, imported food and energy, and Europe as a key market for its exports (see Chapter 4).

1.2. The private sector (and households) are constrained by the weak economic environment, especially by inflation and the lack of public investment, as well as external pressures

The overall macroeconomic environment has crowded out public investment and limited the private sector's ability to leverage growth. Rising external vulnerabilities, weak fiscal discipline and the inflated public wage budget have squeezed out the public investment in the economy necessary to support private-sector growth, notably in infrastructure (see Chapter 4). At the same time, increased public borrowing, as reflected in rising domestic debt, and tighter monetary conditions are placing further constraints on access to finance for businesses (see Chapter 3), while external shocks and competitiveness losses are damping private investment and overall growth (see Chapter 4).

High inflation and interest rates are increasing the burden on businesses and households. Tunisian inflation has risen in recent years,[11] reflecting external price shocks, including jumps in food and oil prices in the wake of the war on Ukraine, as well as gradual currency depreciation. The increase in inflation has prompted hikes in interest rates to stave off price pressures, but eroded the population's purchasing power. The Central Bank of Tunisia has responded with gradual increases in its key interest rate over the years, except in response to Covid-19, when it cut rates by 125 basis points to 6.25 per cent in March 2020. Interest rates stood at 8.0 per cent from early 2023 to early 2025, translating into higher borrowing costs for the private sector, though there are lending-rate caps in place. More recently, official rates were cut to 7.0 per cent in February 2026.

The exchange rate is fuelling external vulnerabilities and harming competitiveness. Exchange-rate rigidities, while offering some short-term relief, increase import dependence, discourage FDI flows and permanently harm the competitiveness of Tunisian firms. FX restrictions are hindering Tunisian companies' growth and expansion (see Chapter 7).

11 Inflation rose steadily in 2018-23, averaging 7.2 per cent, compared with 4.4 per cent in 2011-17.

1.3. Complicated decision-making processes have slowed the implementation of planned reforms

Tunisia has long benefitted from its position close to Europe, but insecurity in the region has negatively affected the country. Tunisia benefits from a geographical location in the middle of North Africa and close to Europe, which has been a key driver of the country's close links with the European Union (EU). However, problems in the neighbouring region have created challenges: fraught developments in Libya continue to exert economic pressures on Tunisia and strain state and local resources, while the presence of militant groups in the Sahel region poses a threat at Tunisia's southern borders.

The vibrant political process that emerged after Tunisia's uprising in late 2010 diverged significantly from the slow economic transition of the following decade. The political transition entailed successive free and inclusive presidential and parliamentary elections, multiple peaceful and smooth transfers of power at the presidential and legislative levels, and the existence of free organised opposition. However, successive elected political groups have refrained from assuming executive responsibility and backed technocratic governments, which have not been sufficiently empowered to undertake the requisite reforms.

The President of Tunisia has assumed all executive and legislative power through a series of decisions since mid-2021. Following a period of executive paralysis on economic reform and at the height of the Covid-19 pandemic in 2021, President Kais Saied assumed more executive and legislative power, resulting in a significant concentration of executive decision-making power in the presidency.

The government's reform programme to improve the business environment has advanced in some important respects, but only gradually.[12] Progress on the 2021 reform plan has been below expectations. The ambitious plan covers issues such as subsidy- and wage-bill reductions, SOE reform, competition policy, FX policy and the green transition. The government has made progress on electronic payments expansion, imposed restraints on public wage and subsidy expenditure, and started to gradually reform the country's excessively restrictive FX controls. At the same time, attempts to reform the burdensome system of authorisations and licences has fallen short of expectations, while wider reforms of the public administration and state-owned enterprises have not progressed.

The slow progress stems partly from the challenges of reaching consensus with key stakeholders on tough reforms. Labour unions have traditionally played an important role in Tunisia (including the Tunisian General Labour Union, UGTT). Striking a consensus with the unions on how to offset the painful impact of reforms aimed at reducing public-sector employment and improving efficiency has often been difficult,[13] delaying the implementation of reforms needed for the private sector to grow, create jobs and drive growth. The objections tend to centre on the major reform needs: cutting public wages (among the highest in the world relative to GDP), reforming SOEs (a major obstacle to private-sector development, see Chapter 2), reforming subsidies and commercialising state-owned banks (access to finance is a major challenge to the private sector, see Chapter 3). Even though significant differences in position remain, the current government has found a middle ground to enable at least some progress. In recent years, Tunisia has benefitted from a deal with the UGTT to increase wages by less than inflation and nominal GDP growth, which has partly helped to improve the fiscal position.

The EBRD has developed a methodology to measure transition economies' progress against six key qualities of a sustainable market economy: well governed, green, inclusive, resilient and integrated. Since 2016, the EBRD has assessed progress on structural reform on the basis of these six qualities. We will explore each of the qualities in detail in the following sections.

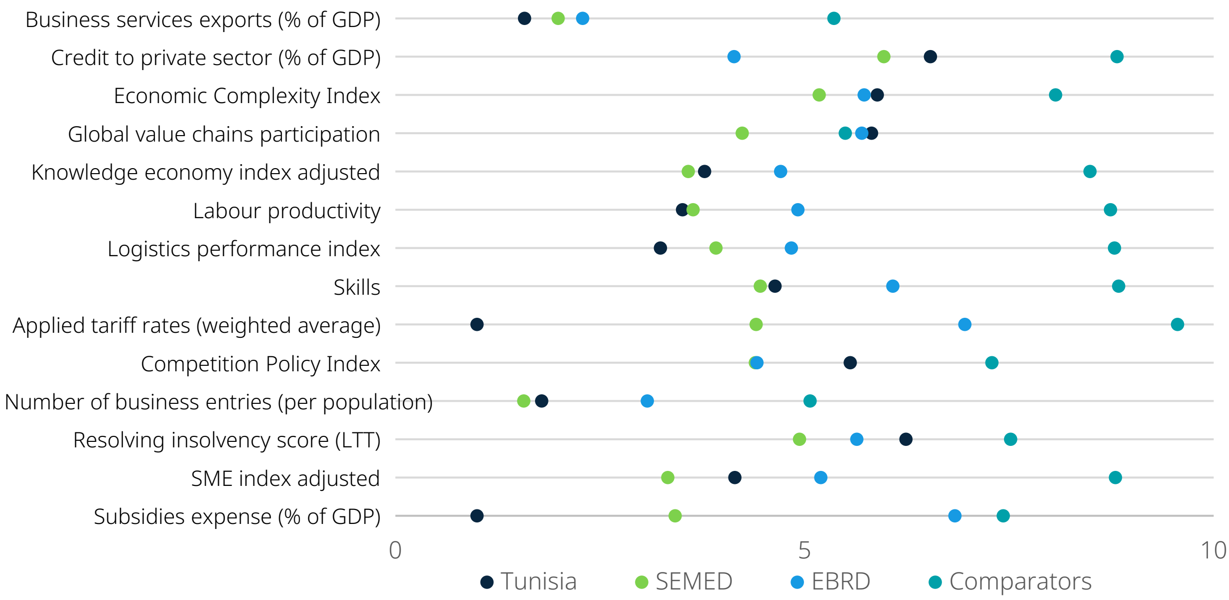
12 See République Tunisienne Présidence du Gouvernement (2021).

13 Unions have repeatedly objected to and often hindered reforms under successive IMF-supported programmes since 2011, including the one that the authorities have been negotiating since mid-2022. Tunisia had a Stand-By Arrangement (SBA) with the IMF between 2013 and 2015 and an Extended Fund Facility (EFF) between 2016 and 2020.

2. Competitive: the private sector has been resilient, but its competitiveness is suffering from regulatory and productivity challenges

In terms of competitiveness, Tunisia ranked 28th among the 43 economies in which the Bank operates and third in the SEMED region in 2024. The private sector has shown significant resilience in challenging times. Tunisia's capacity to generate value added has improved, especially as its economic complexity has increased. However, restrictive barriers to entry, including complex regulations and policies that favour SOEs and large and politically connected firms, distort the playing field and hinder private-sector development. MSMEs are particularly affected by a multitude of constraints that limit their performance, including a lack of access to finance, the absence of a coherent policy framework, declining corporate innovation and labour productivity, and an inability to recruit needed skills.

Figure 3. Competitive ATQ component scores



Source: EBRD (2024).[14]

2.1. Labour productivity has decreased and firm productivity and innovation have declined, but economic complexity has improved

Aggregate labour productivity has decreased in recent years, but remained in positive territory, while productivity at firm level has declined. Aggregate labour productivity[15] has increased by more than 60 per cent over the past three decades, but remains below the SEMED and EBRD averages. The productivity growth rate dropped from an average 2.3 per cent in 2000-10 to 0.7 per cent in 2011-24. Furthermore, firm-level labour productivity[16] declined in all sectors between 2013 and 2020 (Figure 4).[17] Various factors are likely to be behind this, including the complex system of regulation; corruption; limited access to finance; distortions arising from state interventions and SOEs (such as the inefficient state electricity company, STEG, and non-competitive food security policies); the impacts of climate change (notably droughts and water

14 Comparators in this and subsequent ATQ charts are Bangladesh, Brazil, Canada, Colombia, France, Germany, Japan, Mexico, South Africa, Sweden, Thailand, the United Kingdom and the United States of America.

15 Measured as GDP per person employed.

16 Defined as revenues per worker.

17 See World Bank (2020).

scarcity); and challenges in finding the right kind of skilled labour. A large skills mismatch exists due to the low quality of basic education and the inability of tertiary and vocational education to match the specific skills needed by the private sector, such as digital, soft, language and problem-solving skills (see Figure 5 and Chapter 6).[18]

Figure 4. Labour productivity annual growth rate, 2013-20

Change in revenues per worker (per cent)

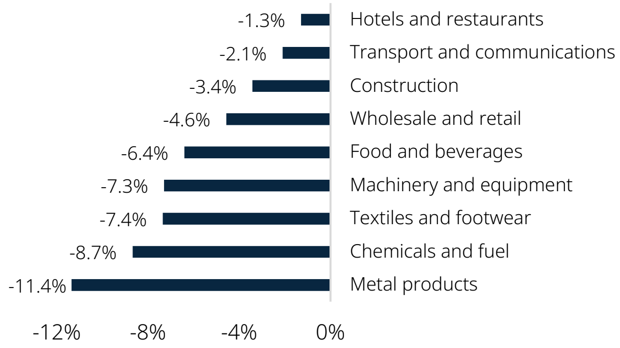
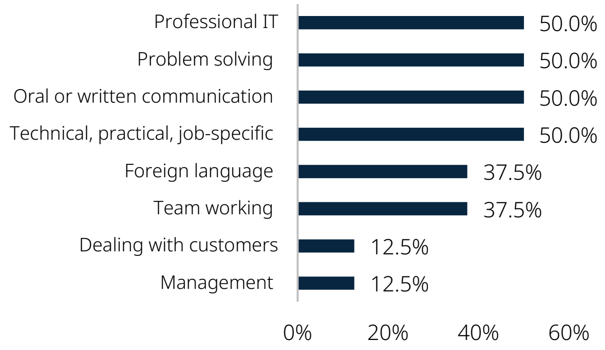


Figure 5. Three most difficult skills to find in Tunisian job applicants

Percentage of firms



Source: World Bank (2020a) and OECD (2022b).

However, despite the challenging environment, the private sector has shown signs of remarkable resilience, boosting its economic complexity and retaining its potential for innovation. Tunisia's economic complexity has improved and it remains one of the EBRD countries of operation with the greatest potential for ICT and innovation, even though the latter has declined in recent years. Tunisia's global ranking on the trade Economic Complexity Index, which measures the diversity and complexity of countries' exports, climbed to 56th in 2023 from 72nd in 2000.[19] This shift towards a basket of more diverse and sophisticated export products is probably partly due to the private sector's ability to develop gradual knowledge-based capabilities, drawing on the country's historical advantage of a relatively highly skilled population.[20] The proportion of private firms introducing new products or services and those investing in capital, new processes or research and development had declined considerably between 2013 and 2020.[21]

2.2. Complex regulations restrict market entry and favour SOEs and a small number of large companies at the expense of small and medium-sized firms

Complex regulations and policies restrict market entry and discourage private investment and innovation. The Tunisian economy is hindered by a high degree of government intervention in business operations, including extensive price controls and the use of command-and-control regulations to restrict the number of firms that can operate in the market. The fragmentation and complexity of legislation and authorisations creates legal uncertainty, raises compliance and legal costs, and impedes business entry. There are at least 270 special authorisations required for private firms to operate in the Tunisian economy, of which only 10 per cent have been removed since 2018. Moreover, barriers that restrict FDI, such as equity limits and pre-investment authorisations, are prevalent and limit competition from abroad. High protectionism and regulatory complexity are also deterring local and foreign private investment in Tunisia.

The current barriers to entry favour SOEs and a small number of (large) private-sector enterprises, many of which benefit from political connections, making reforms more challenging. SOEs enjoy many privileges, such as monopoly rights, subsidies, trade restrictions, price controls and exemptions from the country's Competition Law, all of which distort the playing field. Regulatory and other entry barriers are also easier to manage and overcome for large firms, which already have a leading position in several markets. A 2017 study examining the relationship between regulation and the business interests of firms in Tunisia found that entry and licensing regulations favoured politically connected and large firms, which were almost four times more likely to operate in sectors subject to regulatory restrictions, authorisation requirements or FDI restrictions.[22] Almost 64 per cent of the connected firms were in sectors subject to authorisation requirements or FDI restrictions, such as the telecommunications, real estate and transport, compared with close to 40

18 See OECD (2018a).

19 See Observatory of Economic Complexity (2023).

20 See Harvard University Growth Lab (n.d.).

21 See World Bank (2020).

22 See Rijkers, Freund and Nucifora (2017).

per cent of non-connected firms. Moreover, while politically connected firms generally outperformed their competitors in terms of profits, output, employment and market share, they did so particularly in sectors that were highly regulated.

Market concentration is high and increasing in many important sectors and markets. The concentration of turnover in the country's five largest private groups[23] rose significantly between 2010 and 2019.[24] Consequently, efforts to lower restrictions and barriers to entry often face opposition from incumbents. This hampers the entry of new enterprises with the potential to create jobs, boost incomes and introduce innovative approaches, in turn limiting growth.

Promoting private sector-led growth will require levelling the playing field for all enterprises. Reducing barriers to entry and levelling the playing field is necessary, particularly in sectors with a heavy state presence, along with the need for fiscal discipline and a reconsideration of the state's presence in several sectors (see Chapter 2). Conditions need to be made equitable for firms that have and do not have strong political ties, through the simplification of the regulatory environment and business procedures to combat corruption and political influence.

2.3. Access to finance, corruption, political instability and informality are the major obstacles facing the private sector

Tunisian firms report access to finance, corruption and political instability as the main obstacles facing their businesses. Access to finance is a challenge for a much larger share of firms in Tunisia (47.4 per cent) than in Morocco (28.4 per cent), Egypt (18.3 per cent) or Jordan (17.4 per cent), exceeding the average of countries in the Middle East and North Africa (26.7 per cent).[25] Political instability is also cited as one of the top obstacles facing Tunisian businesses (see Chapter 1).[26] Furthermore, Tunisia has the second-highest share of firms (after Lebanon) saying that they are being constrained by competition from the informal sector.[27]

Improving access to finance will be critical for MSMEs in Tunisia, which are being hindered by complex procedures, unfavourable interest rates and high collateral requirements. Almost 40 per cent of private firms identified access to finance as their biggest obstacle in 2020, up from just 10 per cent in 2013; that is about three times the MENA average (13 per cent).[28] Lack of access to finance is a particular hindrance for small firms, with just a third having a bank loan or line of credit, while one in five small firms uses banks to finance their investments (Figure 6). Among medium-sized companies, half have a bank loan or line of credit, while 60 per cent use banks to finance their investments. Complex application procedures, unfavourable interest rates, excessive collateral requirements and the low likelihood of being accepted discourage numerous SMEs from applying for credit.[29] Indeed, collateral requirements can be more than three times the loan amount, suggesting that banks are very cautious when lending to Tunisian firms in general and SMEs in particular. This also highlights more deeply rooted problems with secured transactions in Tunisia, including the legal and regulatory framework. Given the low and declining Tunisian investment rate (15 per cent of GDP in 2022), access to finance is critical to the improvement of business competitiveness.[30]

23 Out of the 61 private firms ranked among the 100 largest firms in Tunisia.

24 See OECD (2022c).

25 See World Bank (2020a).

26 See EIB, EBRD and World Bank (2022).

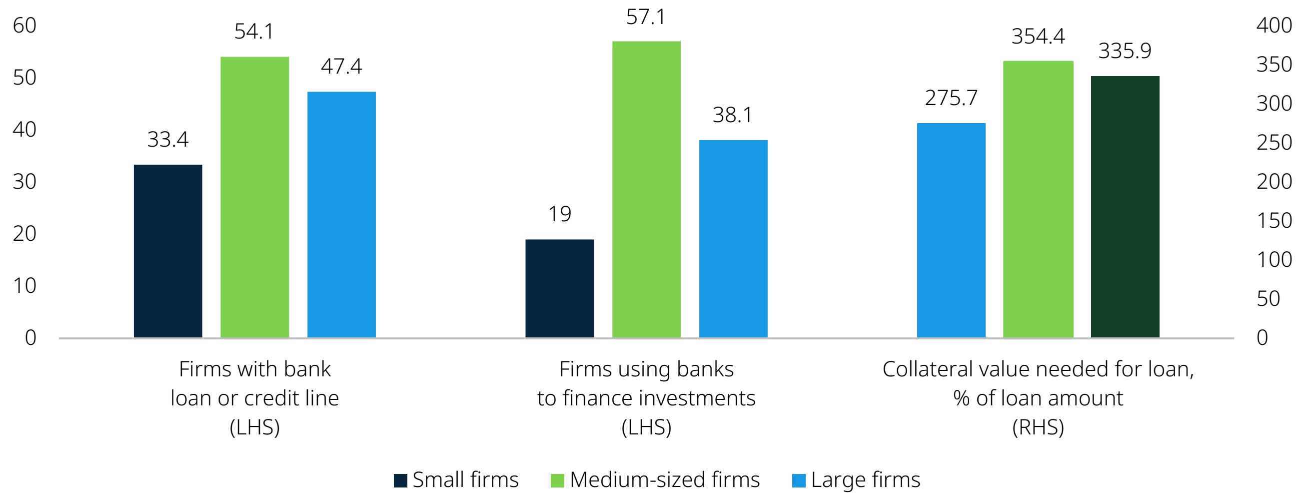
27 See World Bank (2020a).

28 Ibid.

29 See EIB (2015).

30 See IMF (n.d.a).

Figure 6. Access to finance by Tunisian firms, 2020 (per cent)



Source: World Bank (2020a).

High informality impairs the survival, profitability and growth potential of firms, most of which are one-person micro-businesses. Informality, estimated at around 36 per cent of economic activity, is undermining performance on both sides of the economy; for informal firms, access to finance and government support are almost non-existent, while for formal firms, unfair competition is curtailing profitability and growth.[31]

More generally, there is a need to promote an SME-friendly business environment. Better SME access to finance is essential to promote growth, reduce unfair competition and incentivise firms to formalise and create employment. In addition, Tunisia could benefit from establishing a clear focal point for entrepreneurial support, including a unified portal where policy actions and support programmes for SMEs are clear, targeted and effective, and where MSMEs can easily get information on available support. A uniform definition of SMEs in Tunisia would also make policy formulation more coherent and facilitate targeting.[32]

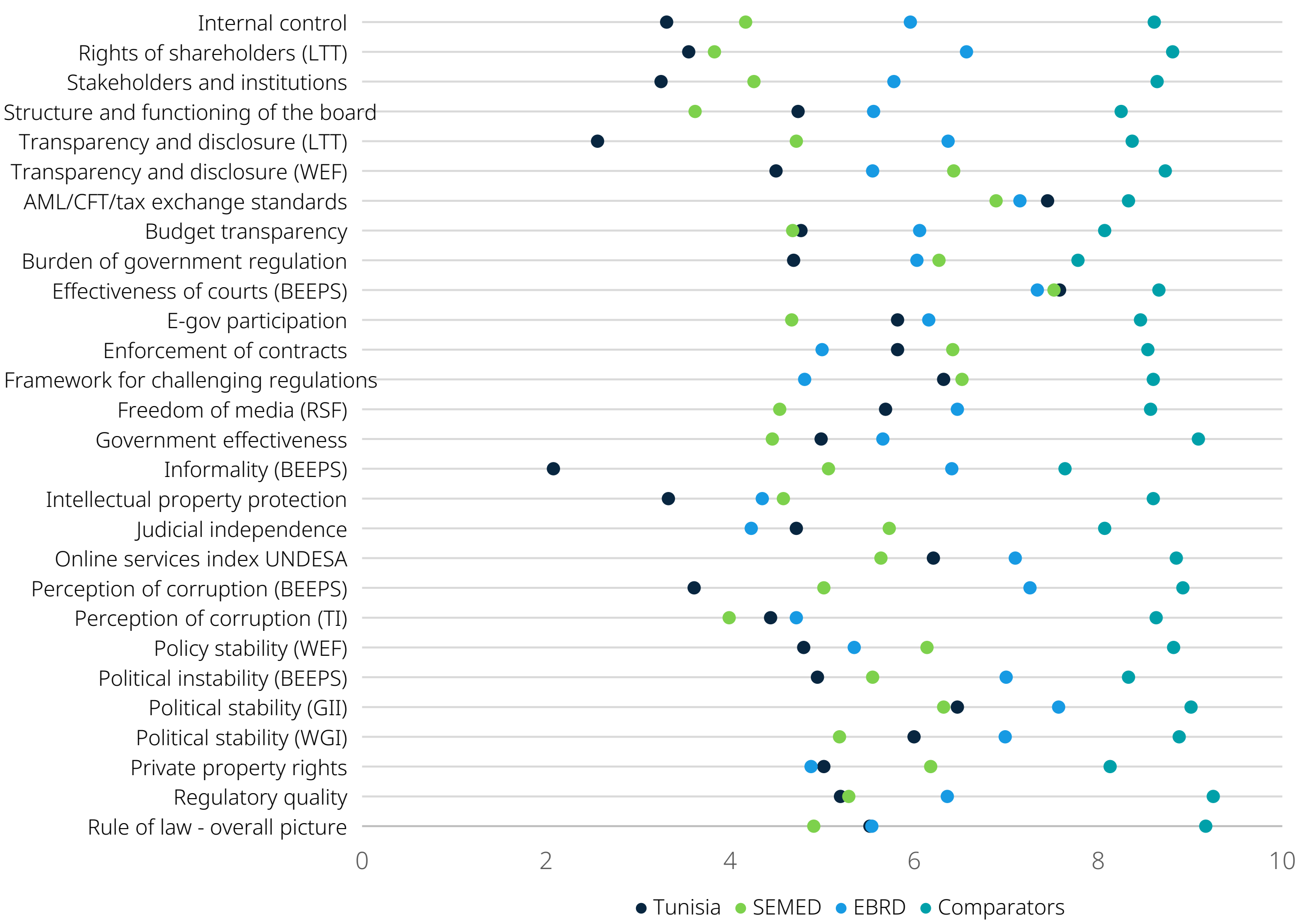
31 See IMF (2022).

32 The 2016 Investment Law defined SMEs as firms with total assets of less than TND 15 million (€6.2 million), but no distinction was made between micro, small and medium-sized enterprises (OECD, 2018b). Moreover, Tunisia's National Institute of Statistics (INS) uses a different definition, which classifies MSMEs based on number of employees: micro (less than 6), small (6-49) and medium-sized (50-199) firms (OECD, 2020).

3. Well governed: the country's governance environment is characterised by heavy regulation and the strong role of SOEs in the economy

Tunisia ranked 28th among the economies in which the EBRD invests and fourth in the SEMED region on governance in 2024. Tunisia is ahead of regional peers in certain governance areas that rely on digitalisation. The strong state presence in most commercial sectors, coupled with often weak governance structures, distorts the business environment. There is limited strategic planning and fragmented oversight at national level, along with often weak corporate governance and operational standards at enterprise level. This frequently translates into poor financial performance and output. In addition, there is scope to upgrade the monitoring and enforcement of competition policy, including reform of the Competition Council's independence and resources.

Figure 7: Well-governed ATQ component scores



Source: EBRD (2024).

3.1. The governance of public enterprises is weak at national and company level, and requires reforms to the regulatory framework governing SOEs, as well as internal SOE governance

Tunisia has not adopted a public ownership policy and there is limited coordination and strategic thinking around the state's role in the economy. Law No. 89-9 governs public enterprises in Tunisia and classifies them into two legal[33] and four strategic categories according to their reform and restructuring potential,[34] including competitive companies that can restructure part of their capital to include strategic private investors. However, there is neither a public ownership policy nor a list of companies based on this strategic classification that outlines the rationale for state ownership or captures public enterprises operating in existing and new sectors.

The current legal framework governing public enterprises is outdated, with much room for improvement of (corporate) governance standards. Law No. 89-9 has limited provisions on corporate governance, transparency, accountability, risk management and the appointment, professionalism and autonomy of board members.[35, 36] Moreover, the lack of separation between supervisory and management functions often slows decision-making and affects operational management. The state has taken on a multitude of roles in different sectors without making clear distinctions between its positions as shareholder, regulator and political decision-maker, potentially creating conflicts of interest. Technically, line ministries are primarily responsible for supervising SOEs, including functions such as human resources and organisational matters, as well as approving work programmes, provisional budgets, financial statements and the deliberations of boards of directors. Nevertheless, they often engage directly in management practices, limiting the autonomy and accountability of boards and creating conflicts of interest.

All of this underscores the need to revamp the overall architecture of the ownership function and the role of the state in the economy. This should include adopting and implementing a state ownership policy and reviewing legislation to establish a central entity to manage the public portfolio of institutions and be responsible for the property function, with a centralised model of ownership that identifies and minimises fiscal risks. It would entail rethinking the role of the state in certain competitive sectors and considering plans for divestment or gradual sectoral liberalisation. Moreover, there is a need to redefine the role of line ministries. The deployment of enterprise development programmes could help reform a set of priority public enterprises that need urgent restructuring, in line with broader and systemic changes in the institutional and regulatory framework.

Necessary reforms at enterprise level should consist of simultaneous actions around governance, restructuring and privatisation. Reforms should aim to introduce a more streamlined corporate governance approach for SOEs, mandate higher standards of corporate governance, transparency and disclosure, give more responsibility to SOE boards and provide clear criteria for board composition to ensure their independence and appointment on merit. In this respect, improvements to corporate governance could facilitate change, targeting the necessary organisational structure at company level to ensure the integration of reform objectives with corporate goals and taking social and climate dimensions into account in the management of public enterprises. At the same time, the risk control framework needs to be strengthened, particularly with regard to compliance, to combat corruption at SOE level. The restructuring should lead to the consolidation of cross-credits between various public enterprises and improve public-private partnerships (PPPs). PPPs could inject fresh capital into certain SOEs and attract new investors, with the state holding at least 51 per cent. Such an initiative would be likely to attract funding from local and international sources. Lastly, public enterprises that do not serve a social strategic objective should be corporatised, starting with the banking sector, then expanding to other sectors.

The oversight process is inefficient and there is insufficient transparency due to the lack of a coordinated performance monitoring system. Current legislation requires public companies to carry out numerous controls.[37] However, the lack of mechanisms to ensure effective coordination reduces the effectiveness of these controls, which remain highly formal and often limited to compliance with legislation. The majority of public enterprises do not publish their annual financial statements and do not prepare interim financial statements. With the exception of publicly listed companies, the level of transparency and quality of reporting by public companies remain low, reducing sectoral accountability and performance. Moreover, the lack of upstream efforts to improve the overall institutional and regulatory framework has

33 The first covers non-administrative public establishments that have administrative and management autonomy. The second covers public limited companies that are either wholly owned or at least 50 per cent owned by the state, local authorities or public entities.

34 Monopolistic, public service, strategic and competitive companies.

35 See République Tunisienne (1989).

36 See World Bank (2020c).

37 By state control bodies, the High Authority for Public Procurement, the General Control of Public Services, General Control of Finances, General Control of the State Domain and Land Affairs, Court of Auditors and departmental inspectorates.

resulted in the general failure of attempts to reform individual SOEs, as the compliance-based culture of the public sector requires that all stakeholders take action under current legislation.

3.2. The lack of a level corporate playing field is affecting private-sector investment and undermining Tunisia's ability to respond to shocks

SOEs have a large footprint in the Tunisian economy and have become a key driver of growth and employment. There are 110 active SOEs in Tunisia, compared with an average of 13 in Organisation for Economic Co-operation and Development (OECD) countries. They operate in practically all sectors, including transport, manufacturing, energy, wholesale and retail, finance, real estate, telecommunications, tourism, agriculture and mining.[38, 39] Moreover, SOEs continue to have a monopoly on certain activities, such as the production, importation and distribution of cereals, olive oil, meat, sugar and tobacco.[40] Sectors where the state is most present, such as public administration, health, education and telecommunications, have continued to drive growth since 2011. SOEs generate more than half the total turnover of Tunisia's 100 largest firms.[41] Moreover, employment in the public sector accounted for a fifth of total employment in 2019.[42]

The growing role of the state in the economy is affecting private-sector productivity and weighing on Tunisia's growth potential. The presence of SOEs in various sectors is hindering private-sector development and is one potential reason for the drop in private investment. The decline in private-sector investment is negatively affecting productivity, with the share of Tunisian enterprises introducing new products halving between 2013 and 2019.[43] Similarly, over the same period, firms were less export-oriented, had invested less in the training of workers and were less productive overall than they were six years earlier. Furthermore, the large public-private sector wage premium[44] makes it more difficult for private firms to attract the necessary talent and discourages the workforce from investing in the specific skills needed by the private sector (see Chapter 6).[45]

In the agricultural sector, the Office des Céréales (ODC), which plays a crucial role in securing the country's food supply, has recently showcased what SOE reform could look like. Multiple external shocks – including global price volatility, climate change and infrastructural challenges – have significantly increased financial pressure on the ODC, not least due to its monopoly on the importation of essential cereals, including durum wheat, soft wheat and barley. In 2023, the ODC took a significant step by allowing the private sector to import barley, marking an important move towards reducing the state's monopoly in the agricultural sector. However, there remains substantial room to increase private-sector participation in cereal imports even further. Expanding private-sector involvement could help alleviate the fiscal burden, reduce market distortions and enhance both resilience and efficiency in food security management. This is particularly critical given the prevalence of undernourishment and the country's high dependence on imports (especially from Russia and Ukraine).[46] Strong potential exists with respect to some non-traditional and high-value crops (such as olives, dates and citrus), where Tunisia has a comparative advantage.

3.3. Reforms to improve the business environment have progressed, but enterprises remain constrained by corruption and weak competition enforcement

Tunisia has made good progress on improving the governance of the business environment, but some areas require further reform. In recent years, the government has undertaken a major anti-corruption campaign, with positive results. It has also made strides on e-governance, launching the first digital legal identity programme, the e-houwiya initiative, which allows citizens and businesses to access a number of services online through a governmental portal (e-bawaba). Still, Tunisia needs to take further steps to reform the judicial system and rule of law. In a 2020 study, almost 14 per cent of firms surveyed in Tunisia identified the court system as a major constraint, up from only 3 per cent in 2013.[47]

38 See OECD (2022b).

39 See Republic of Tunisia (2023).

40 See World Bank (2014).

41 See OECD (2022b).

42 See World Bank (2022b).

43 See World Bank (2020c).

44 On average, public-sector wages were almost twice private-sector wages in 2012-19.

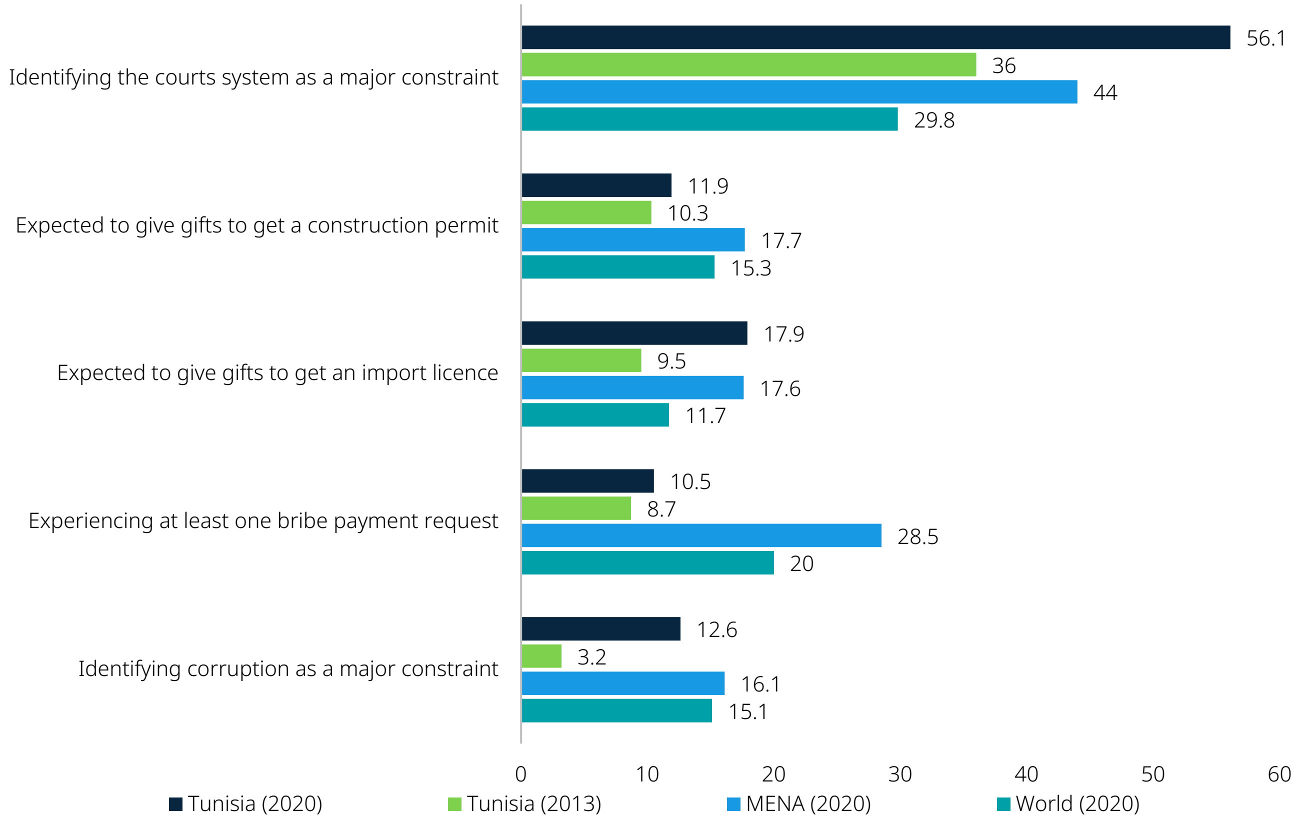
45 See World Bank (2022b).

46 See Rauschendorfer and Krivonos (2022).

47 Ibid.

Corruption had been a growing problem prior to reform efforts underway since 2021. The proportion of private companies identifying corruption as a major constraint on their business operations increased from 36 per cent in 2013 to 56 per cent in 2020, surpassing the Middle East and North Africa and world averages of 44 per cent and 30 per cent, respectively (Figure 8).[48] Around 12 per cent of firms surveyed had been subject to at least one bribery request in 2020, up from 10 per cent in 2013. Moreover, the share of firms that were expected to provide gifts to obtain construction permits or import licences had increased from 9 per cent and 10 per cent, respectively, in 2013 to 11 per cent and 18 per cent in 2020.

Figure 8. Regulatory obstacles to entrepreneurship (percentage of firms)



Source: World Bank (2020).

The Competition Council has inadequate resources and is constrained by a lack of independence, limiting the enforcement of competition policy. Although the 2015 Competition Law provided the Competition Council with greater power to enforce regulation and restrict anti-competitive behaviour, its enforcement record remains poor. Compared with international standards, the Competition Council is understaffed, lacks resources and expertise, and mostly focuses on investigating cases that are not central to competition law. Moreover, merger control cases fall under the jurisdiction of the Ministry of Trade and Export Development (MCDE), with the Council only providing a non-binding opinion. While the MCDE commonly follows the Council's opinion, it reserves the right to deviate from it. In addition, the MCDE controls the Council's budget, sets the remuneration packages of its president and two vice-presidents, intermediates between the Council and other government entities, and influences the appointment of its members, often civil servants transferred from the MCDE. This heavy influence and lack of clear, public recruitment criteria make the appointment process less transparent and undermine the independence of the Council's decision-making.[49] Consequently, the Council's record of strengthening free competition and curbing anti-competitive behaviour remains modest, despite some recent progress.

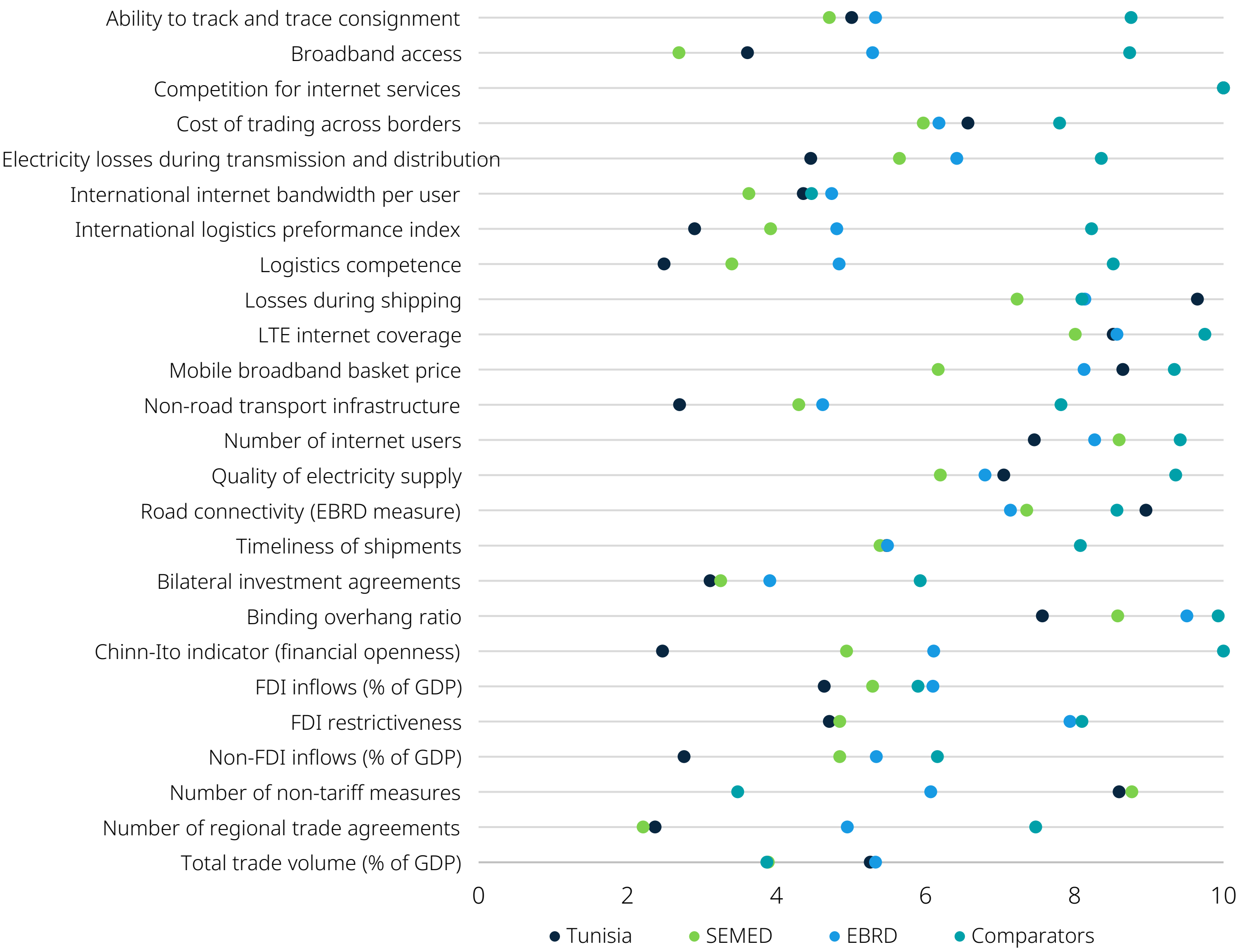
48 See World Bank (2020a).

49 See OECD (2022c).

4. Integrated: regional and global integration are adequate, but could improve with better policy, logistics and ICT acceleration

Tunisia ranked 32nd among the EBRD's investee economies and fifth in SEMED on integration in 2024. The country's trade openness is in line with international standards and it possesses sizeable export potential. However, port infrastructure and logistics challenges, as well as an onshore-offshore regime for exporters, have held back the realisation of Tunisia's full export potential. Both trade and investment could benefit from regulatory policy interventions and an easing of restrictions, as well as from increased private-sector participation in the infrastructure and logistics sector. At the same time, Tunisia's high-potential, export-oriented ICT sector could benefit from greater internet access and companies adopting high-speed internet, advanced digital technologies and e-commerce services, as well as increased investment and private-sector participation.

Figure 9. Integrated ATQ component scores



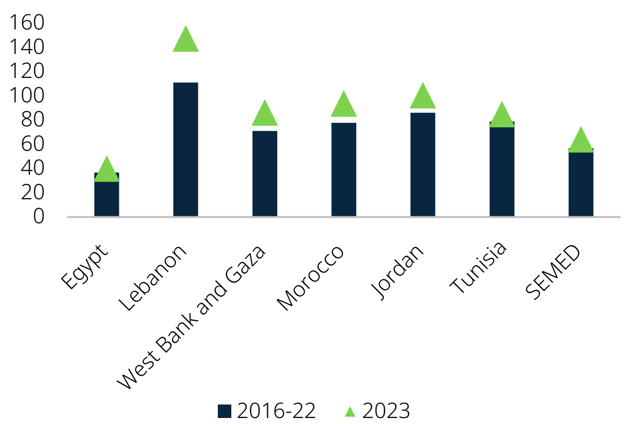
Source: EBRD (2024).

4.1. Restrictive regulation, disparities between offshore and onshore trading, and vulnerability to external shocks are hindering the realisation of Tunisia's considerable export potential

Tunisia has sizeable export potential and a relatively high level of trade. The composition of exports has improved over the last three decades, presenting opportunities for the private sector. Tunisia's total trade openness, as measured by exports and imports as share of GDP, averaged around 95 per cent in 2016-22, in line with the EBRD average (98 per cent) and higher than the SEMED average (71 per cent) (Figure 10).[50] Tunisia enjoys a strong comparative advantage in many products, with high export potential in several sectors, including textiles, leather, machinery, electronics, transportation, chemicals, furniture and construction.[51] The composition of Tunisian exports has improved considerably over the last three decades. While exports of low-valued-added products, such as textiles, still prevail, the economy has shifted towards higher value-added goods. The export share of machinery, electrical goods and transport equipment increased from around 8 per cent in the 1990s to 38 per cent in 2019, while the share of textile exports dropped from more than 45 per cent to 18 per cent. In addition, exports of fuels shrank from around 15 per cent to 6 per cent during the same period, as oil and gas production declined (Figure 11). Moreover, Tunisia now exports other products, including vegetables (7 per cent), chemicals (6 per cent) and metals (5 per cent).

Figure 10. Trade openness, 2023

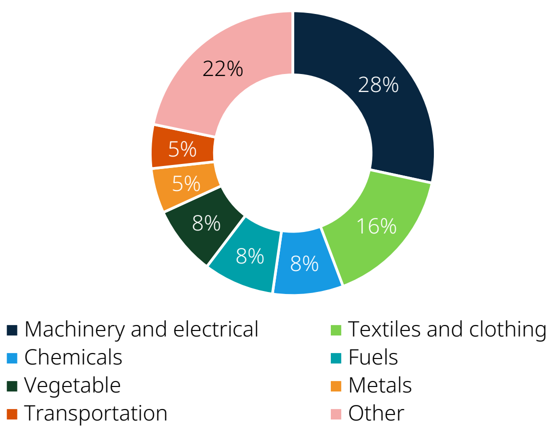
Total exports and imports, percentage of GDP



Source: IMF data.

Figure 11. Tunisian export products, 2022

Percentage of total exports



Source: World Bank (n.d.c).

The establishment of an offshore trading regime has boosted trade integration, but disparities with the regular onshore regime and limited links between the two have become an obstacle to growth. Tunisia's offshore system[52] (established in the 1990s) offers export-oriented companies[53] tax advantages (equivalent to 2 per cent of GDP) and fewer limitations on the repatriation of funds, with the aim of attracting FDI, boosting export potential and introducing Tunisian manufacturers to global value chains. The offshore regime has succeeded in creating jobs and attracting FDI, and 68 per cent of Tunisia's exports in 2022 came from offshore companies. However, trade integration and successful technological and skills transfer to the local market have barely materialised for most industries. Indeed, while exports from the offshore sector have grown significantly in recent years, the trade deficit has widened more and more for the economy as a whole (Figure 12).[54] At the same time, the onshore system gives producers targeting the domestic market protection from competition in many, often heavily regulated, sectors, where access for foreign investors is largely restricted (see Chapter 3). Consequently, barriers to entry to the domestic market discourage productivity and support the survival of otherwise uncompetitive firms.

Distortive and unpredictable trade policies, high trade costs and inefficient customs and border-management procedures continue to undermine the realisation of Tunisia's full export potential. Average tariffs in Tunisia add around

50 See World Bank (n.d.a).

51 See World Bank (2014).

52 A regulatory framework maintained since 1972 to promote exports.

53 Defined as those companies with at least 66 per cent foreign capital ownership and 70 per cent of production directed to exports.

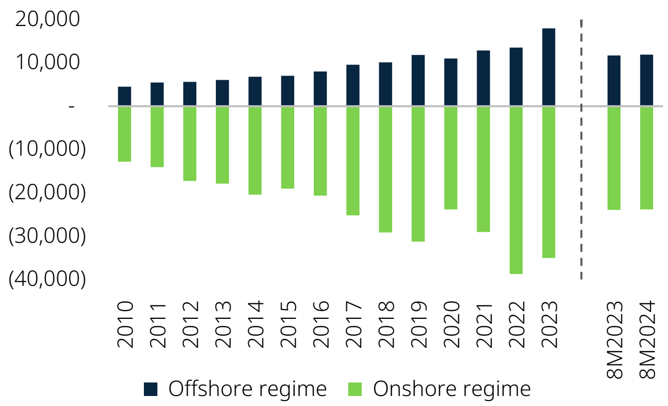
54 See World Bank (2023b).

11 per cent to the value of goods, above both the SEMED (10 per cent) and EBRD (6 per cent) averages.[55] Tunisia's weighted average applied tariff rate stood at 9.3 per cent in 2016, among the highest of the SEMED and EBRD economies.[56] Moreover, non-tariff trade costs are significant, estimated at around 216 per cent of the value of goods. Non-tariff barriers to acquiring imported inputs and capital goods, including excise taxes and restrictive import-licences and quotas, hinder competition, undermine export potential and limit integration into global value chains. At the same time, customs and border-management clearance procedures are especially lengthy and costly in Tunisia. The proportion of firms identifying customs and trade regulations as a major obstacle to doing business increased from 9.3 per cent in 2013 to 32.9 per cent in 2020, above the Middle East and North African average of 23.9 per cent.[57] In 2020, it took Tunisian firms on average 6.7 days to clear exports through customs (compared with 3.0 days in 2013) and 15.8 days to clear imports (compared with 7.4 in 2013).[58]

Tunisia's exports remain concentrated in a few markets, increasing vulnerability to external shocks. The EU is Tunisia's largest trading partner, accounting for almost three-quarters of its exports and half of its imports. Tunisian exports are largely destined for four European countries – France (22 per cent), Italy (17 per cent), Germany (13 per cent) and Spain (4 per cent) – with other EU member states accounting for 11 per cent (Figure 13). Consequently, Tunisia's high export dependence on Europe increases the vulnerability of its trade to external economic shocks, as demonstrated by the Covid-19 pandemic and slow recovery in European markets, which interrupted the steady growth in Tunisian exports that had been in place since 2016. Moreover, Tunisia is part of only eight regional trade agreements, compared with an EBRD economy average of 20.[59] Trade with neighbouring countries is particularly low. The share of total exports to Africa is merely 10.5 per cent, with Libya, Algeria and Morocco collectively accounting for around 8 per cent, while exports to sub-Saharan Africa are less than 2.5 per cent.[60]

Figure 12. Trade balance by economic regime

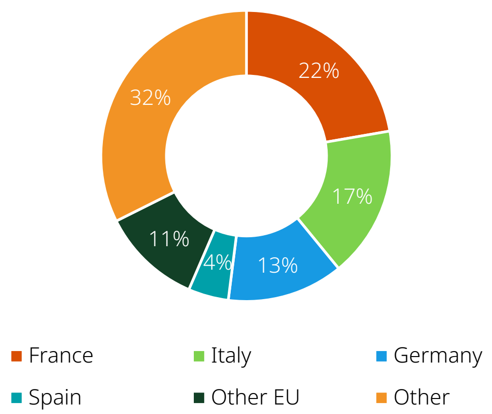
Offshore and onshore regimes, TND million



Source: INS data.

Figure 13. Tunisian export partners, 2022

Percentage of total exports



Source: World Bank (n.d.c).

Tunisia's integration into global value chains remains intermediate, with much room for improvement. The country's integration into global value chains is the highest in SEMED and in line with the EBRD average, mainly because of the onshore-offshore regime. In 2018, almost 58 per cent of its exports were integrated into global value chains, with 27 per cent being sourced as foreign inputs to exports (backward integration) and 31 per cent being domestic value-added inputs to the exports of foreign firms (forward integration).[61] However, the degree of global value-chain integration has declined from a high of 62 per cent in 2011 and has never fully recovered.

The poor quality of infrastructure, notably ports and railroads, hinders private domestic and foreign investment and, consequently, further integration into global value chains. The proportion of firms identifying transportation as a major constraint increased from 7.6 per cent in 2013 to 44.8 per cent in 2020, almost double the Middle East and North African

55 See ESCAP and World Bank (n.d.).

56 See World Bank (n.d.a).

57 See World Bank (2020a).

58 Ibid.

59 See World Trade Organisation (n.d.).

60 See World Bank (n.d.c), 2019 data.

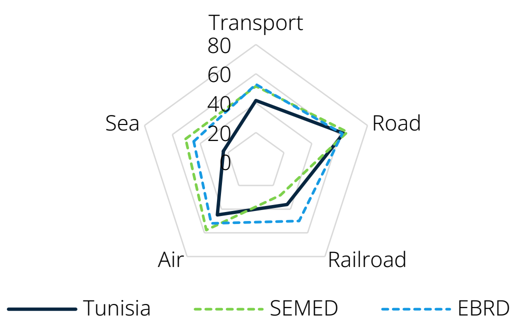
61 See UNCTAD-Eora (n.d.).

average of 23 per cent.[62] The competence and quality of logistics services are below average SEMED and EBRD levels. While the quality of roads is in line with the SEMED and EBRD averages, railroad services fall short of those in other EBRD countries, and the performance of Tunisia's seaport services is far lower than that in other SEMED and EBRD economies (Figure 14).[63] Tunisia ranks 101st on the Liner Shipment Connectivity Index, the lowest in SEMED and among the lowest globally.[64] Moreover, its performance on the Efficiency of Seaport Services Index falls short of both the SEMED and EBRD averages.[65] The inadequacy and unreliability of port services constitute major obstacles to exporters, as ports are particularly critical to their growth, accounting for 98 per cent of Tunisia's trade shipments. Almost 70 per cent of Tunisian firms lose orders due to port delays, resulting in over half of firms being forced to shift to more costly air transport for greater reliability.[66]

The country's infrastructure has deteriorated in recent years, partly due to falling investment in the face of mounting budgetary pressures, while the lack of private-sector participation in transport has also weighed on integration. Tunisia's share of infrastructure investment to GDP is the lowest in the SEMED region, at just 3.7 per cent in 2019, and below the average of comparable lower middle-income countries (5.4 per cent) (Figure 15).[67] The infrastructure investment gap (compared with the country's estimated needs) is significant, at around 1.4 per cent of GDP. A lack of adequate investment in the modernisation of trade infrastructure (notably ports and railways) is hindering sectoral development. The national railway company, Société Nationale des Chemins de Fer Tunisiens (SNCFT), has a monopoly on railway operations and there are regulatory and operational inefficiencies. More generally, many transport and logistics activities are dominated by SOEs, with limited opportunities for private-sector enterprises (and, consequently, a lack of competition), which has also added to poor performance and become an obstacle to greater trade integration.

Figure 14. Quality of transport infrastructure, 2019

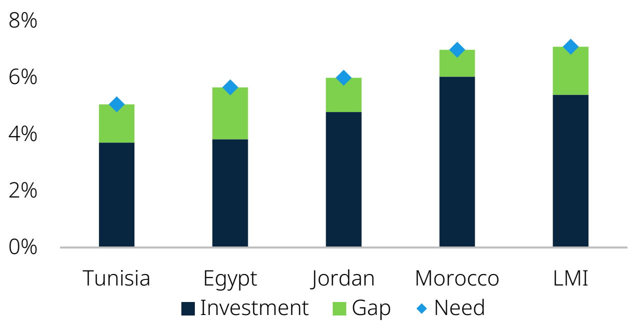
Index score: 0 (worst) to 100 (best)



Source: WEF Global Competitiveness Index.

Figure 15. Infrastructure investment and gap, 2019

Percentage of GDP



Source: Global Infrastructure Hub data.
*LMI = lower middle-income countries.[68]

Tunisia could benefit from regulatory policy interventions to promote trade and investment, and from greater private-sector participation in the transport and logistics sectors. The development of incentives to attract FDI and create jobs in both the offshore and onshore sectors should be accompanied by a revision of the incentives provided to the offshore sector. Moreover, greater trade facilitation and a favourable business environment and investment climate would boost Tunisia's attractiveness to investors, both domestic and foreign. At the same time, enabling and empowering private investment by removing restrictions and strengthening the rule of law is necessary for infrastructural development to bridge the infrastructure gap, notably in ports and railroads. Moreover, Tunisia's railroad system could benefit from greater density, as well as efficiency, in terms of the frequency, punctuality, speed and price of train services.

62 See World Bank (2020a).

63 See World Economic Forum (2019).

64 See World Bank (n.d.d).

65 See World Economic Forum (2019).

66 See OECD (2022b).

67 See Global Infrastructure Hub (n.d.).

68 Angola, Bangladesh, Cambodia, Côte d'Ivoire, Egypt, Ghana, India, Indonesia, Kenya, Morocco, Myanmar, Nigeria, Pakistan, Papua New Guinea, the Philippines, Senegal, Solomon Islands, Tunisia, Vanuatu and Vietnam.

4.2. Regulatory complexity, capital controls and policy instability are further discouraging already volatile and declining FDI and portfolio inflows

Regulatory complexity and policy instability are deterring FDI and portfolio inflows. Restrictions on foreign ownership, a rigid FX-rate regime with tight capital controls, and cumbersome business regulations have undermined Tunisia's attractiveness when it comes to FDI and capital inflows. Foreign equity regulations, authorisation mechanisms and operational regulations are more restrictive for foreign investment than the average EBRD or OECD country.[69] Moreover, Tunisia is part of only 48 bilateral investment agreements, below the SEMED (51) and EBRD (64) averages.[70] What is more, Tunisia has some of the most restrictive capital controls, placing it well below both the SEMED and EBRD averages.[71]

FDI flows have remained volatile and are declining, exacerbating the fall in domestic investment rates (see Chapter 1) and undermining Tunisia's growth potential. The downward trend caused by political uncertainty since 2011 has continued in recent years, with FDI declining steadily from 1.9 per cent in 2019 (before the pandemic) to 1.5 per cent of GDP in 2023. FDI flows started to recover in 2024, growing by 1.6 per cent of GDP,[72] but remain below the overall EBRD average, which stood at 5 per cent in 2019-23. Moreover, portfolio inflows have remained historically low, accounting for a negligible percentage of GDP. This is despite the introduction of the Investment Law of 2016 to restore investor confidence and create an attractive investment climate by creating a single entity in charge of investment and providing incentives for specific projects. Manufacturing, particularly automotive and electrical parts, attracted about half of FDI inflows in 2017-21, followed by the energy sector.[73] In contrast, flows to other sectors, including tourism, telecommunications, financial services and agriculture, remained low and significantly more volatile. The main sources of FDI inflows were the United Arab Emirates, France, Qatar, Italy and Germany.

FDI and portfolio investors could benefit from an easing of restrictions. In 2024, the government introduced amendments to the FX regime, which aim to facilitate transactions associated with both foreign and domestic investments, but the overall level of openness remains limited. The government advanced efforts to reduce the number of authorisations required, but progress has been slow and many firms have come up against other constraints. Efforts to undertake a more fundamental review of the approach to authorisations (for example, introducing a "negative list" of sectors that require licences and authorisations) should continue to boost the entry of new competitors in many key sectors.

4.3. Tunisia's ICT sector could become an engine of growth and job creation, but the country needs better access to high-speed internet and fewer barriers to entry

The ICT sector has served as a source of high-skilled job creation over the past decade, especially among tertiary graduates. The sector employed around 36,000 in 2022, according to INS data, up 84 per cent from 2014. It is characterised by relatively high labour productivity and export orientation, capitalising on Tunisia's proximity to the European market and abundant supply of highly educated young people (see Chapter 6).

Broadband penetration and internet access are adequate, but significant inequalities persist in terms of gender and location. Fixed broadband penetration has almost tripled over the past decade, giving Tunisia the highest penetration rate in the SEMED region, although still below the EBRD average. The proportion of the population using the internet has doubled over the past decade, putting Tunisia on a par with the SEMED and EBRD averages. Moreover, long-term evolution (LTE) mobile network penetration is high, with 99 and 95 per cent of the population covered by 3G and 4G mobile networks, respectively. Nevertheless, large gender and locational inequalities persist when it comes to internet access. Only 61 per cent of the female population uses the internet, compared with 72 per cent of males. In addition, disparities exist between governorates, with internet penetration and access to high-speed internet especially limited in interior, marginalised regions with high levels of youth unemployment among tertiary graduates (such as Kairouan, Kasserine and Sidi Bouzid), as opposed to more developed coastal locations (such as Tunis, Ariana and Ben Arous).[74]

Access to high-speed internet remains limited and is a key constraint on enterprises. The quality and speed of internet services in Tunisia remain modest**.** International internet bandwidth per internet user (at 90 mbps) is less than half the

69 See OECD (n.d.).

70 See UNCTAD (n.d.).

71 See Chinn and Ito (2006).

72 See World Bank (n.d.).

73 Central Bank of Tunisia (n.d.).

74 See World Bank (2020b).

average of EBRD peers (193 mbps).[75] Moreover, Tunisia ranks 161st (out of 180 countries) and 95th (out of 137 countries) globally on fixed and mobile broadband speeds, respectively.[76] Although broadband offers seem affordable, they are relatively expensive when adjusted for quality. Access to high-speed internet is identified as the second most important constraint on the development of e-commerce, with only 16 per cent of private-sector firms having access to high-speed internet in 2019.[77, 78] In addition, only 31.6 per cent of medium-sized and large firms use new digital technologies, such as artificial intelligence, data analytics or 3D printing.[79]

Obstacles on both the supply and demand sides are hindering the growth of e-commerce, despite its significant potential. On the supply side, businesses' access to high-speed internet is limited and the adoption of new digital technologies is low. On the demand side, customer confidence in online products is low, transparency around payment processes is lacking and buyer protection is limited. In 2020, Tunisia ranked 77th (out of 152 countries) on the UNCTAD B2C e-Commerce Index, first in the SEMED region.[80] Although the total value of online transactions has grown strongly, reaching US$ 190 million (€161 million) in 2021 (an increase of 66 per cent from 2020), it continues to represent a mere 0.16 per cent of the total value of Tunisian traded goods and services.[81] At the same time, promoting the development of the e-commerce sector has great potential. Tunisian firms operating their own websites and with access to advanced digital infrastructure are on average three times more productive.[82]

Further development of the ICT sector and investments in cybersecurity could boost growth and job creation in Tunisia. Increasing access to better and more affordable internet would unlock sectoral development, while reforming the regulatory regime, which seems to favour the national operator, would boost investor appetite for investment in fixed broadband infrastructure. Halving tariffs and non-tariff barriers could boost the sector's value added by 5 per cent and employment by 7 per cent, through better access to inputs and capital.[83] The launch of the Digital Tunisia 2025 Strategy to improve digital skills and infrastructure, in addition to the 2018 Start-Up Act, which offers incentives and facilitates regulations for ICT entrepreneurs, are positive steps in this direction. Incentivising businesses to establish online platforms and adopt new technologies is important, together with developing the legal foundation for the establishment of collaborative platforms, hastening the implementation of rules governing crowdfunding and promoting connectivity to international secure digital payment systems. Moreover, the provision of cloud computing services and high-speed fixed broadband to enterprises should be encouraged. Lastly, encouraging private investments in cybersecurity and cultivating local cybersecurity services are important national priorities, particularly for SMEs.

75 See International Telecommunication Union (n.d.).

76 See Speedtest Global Index (n.d.), data as at February 2023.

77 See UNCTAD (2022).

78 See INS (2021a).

79 See World Bank (2020b).

80 See UNCTAD (2020).

81 See US Department of Commerce (n.d.).

82 See OECD (2022a).

83 See OECD (2022b).

5. Green: Tunisia's green transition – a potential key growth driver – is lagging that of its peers, particularly when it comes to renewables and managing water stress

Tunisia ranked 31st among the economies in which the EBRD operates and fourth in SEMED on the green transition quality in 2024. The state's dominance and regulatory challenges are undermining the capacity of the energy system and holding back private-sector participation in and the expansion of renewable energy. The lack of renewables and the country's relatively high energy intensity are, in turn, stalling Tunisia's progress on climate objectives (adaptation and mitigation). Key reform priorities in the energy sector include improving the performance of the national energy company, STEG, and strengthening the legal and regulatory framework to empower private-sector participation and mobilise financing. In addition, the water and wastewater sectors need urgent reform to address high water scarcity and stress, including increasing access, better managing resources, diversifying away from water-intensive industries and accelerating desalination using renewable energy.

Figure 16. Green ATQ component scores

Source: EBRD (2024).

Tunisia's renewable energy transition is gaining momentum, driven by key initiatives and strong political and institutional commitment. Notable progress includes the implementation of 200 MW of some 500 MW of solar capacity launched in 2019, as well as the launch of a renewable energy programme for wind and solar in December 2022, which awarded 500 MW in 2024, with three additional wind and solar projects planned in the coming years. While Tunisia has lagged its peers to date, these initiatives mark a significant shift in the country's approach to renewable energy, supported by the government's commendable efforts to strengthen the legal and regulatory framework, encourage private-sector participation and mobilise financing. This progress is key to achieving Tunisia's target of 35 per cent renewable energy by 2030.

Substantial reforms have been undertaken to improve the performance of STEG since 2020. These include the modernisation of financial reporting and processes, governance improvements through the implementation of a corporate climate governance action plan, and increased efforts to promote the inclusion of women. These reforms are contributing to the improved performance of Tunisia's national energy SOE, reinforcing the country's commitment to a sustainable energy future.

Moreover, addressing water scarcity remains a priority, with efforts focused on both supply- and demand-side solutions. On the supply side, these include: (i) improving the efficiency of rainwater capture and transferring it to drought-prone areas using renewable energy, seeing as how la Société Nationale d'Exploitation et de Distribution des Eaux (SONEDE) and l'Office national de l'assainissement (ONAS), the two main SOEs responsible for water management and sanitation, are among the country's top energy consumers; (ii) rehabilitating ageing sanitation infrastructure to enhance wastewater reuse, which currently stands at just 8 per cent; and (iii) expanding desalination projects powered by renewable energy. On the demand side, the country is: (i) upgrading ageing and leaking infrastructure, which accounts for over 30 per cent of water losses and (ii) reducing its reliance on water-intensive industries.

5.1. State dominance and regulatory challenges are undermining energy system capacity and hindering private-sector participation and uptake of renewables

Despite Tunisia's vast untapped potential for wind and solar energy, renewable sources currently account for only 4 per cent of the country's energy mix. This gap presents a challenge for Tunisia's broader energy strategy, including its goal to become a key producer of green hydrogen — an emerging sector seeing intense competition among SEMED countries. While Tunisia lags some of its regional peers, the government's determination to drive the green transition has spurred growing interest from the private sector. The government published its National Strategy for the Development of Green Hydrogen and its Derivatives in 2023 and has signed several memoranda of understanding with international stakeholders to develop green hydrogen projects, positioning Tunisia as a potential exporter to Europe. The repurposing of the TransMed gas pipeline for green hydrogen exports is central to this vision.

Tunisia has outlined concrete steps with a view to greening its economy, including as part of strategic initiatives such as the Tunisian Solar Plan (TSP). Presented in 2022, the TSP is a long-term framework for renewable energy. Significant progress has included the successful financing of five renewable energy projects totalling 220 MW, which were connected to the grid in 2025 and early 2026. The TSP has been reinforced by the enactment of the new Renewable Energy Law, signalling the government's commitment to accelerating the green transition. Tunisia's renewable energy targets are ambitious, with an installation target of 3,815 MW of renewable capacity by 2030 — corresponding to a tenfold increase from 2017 levels. A key component of this plan is a target to increase the renewable share of electricity generation to 35 per cent by 2030, with 1,700 MW to be installed by 2026. Of that, 500 MW of solar PV was already awarded in 2024. While these targets are challenging, Tunisia's proactive engagement with the private sector is promising.

The dominance of the state in the energy sector continues to limit energy system capacity. STEG remains the dominant actor in the sector, controlling almost 90 per cent of Tunisia's installed electricity generation capacity and producing around 80 per cent of electricity supply. Moreover, it continues to monopolise electricity transmission and distribution services. Amid poor financial and operating performance, the SOE has been struggling to meet peak electricity demand, especially as summer heatwaves intensify. Tunisia's energy deficit has been widening since 2010, with primary energy resources accounting for only 41 per cent of demand in 2019 (down from 93 per cent in 2010).[84] The reliability of the electricity system has been deteriorating over the past decade, with limited excess generation capacity and a growing risk of outages. Electric power losses increased from 11.6 per cent of output in 2010 to 15.5 per cent in 2019. surpassing both the SEMED (12.7 per cent) and the EBRD regional (10.7 per cent) averages.[85]

Regulatory and structural challenges continue to constrain private-sector participation and the expansion of renewables in Tunisia. While the regulatory framework has evolved to open the market to private investment through concessional

84 See African Development Bank (2021).

85 International Energy Agency data by way of World Bank (n.d.a).

regimes, authorisation schemes and self-production regulations, the absence of an independent energy regulator remains a key weakness. A dedicated regulator with a clear mandate to oversee market participants and ensure transparency is essential if Tunisia is to build investor confidence and accelerate renewable energy deployment. Tunisia made a significant step forward in December 2023 by updating its wheeling tariff, providing clarity for private sponsors, developers and corporate consumers. This reform paves the way for increased private-to-private renewable energy transactions, including corporate power purchase agreements, which are crucial to scaling up renewable energy adoption in the industrial and commercial sectors.

Strengthening regulatory oversight and enhancing long-term energy planning will be critical to unlocking Tunisia's renewable energy potential. The country is working on a low-carbon pathway for the energy sector, which would provide a comprehensive methodology for demand forecasting, as well as guidance on grid strengthening and base load requirements. The objective is to support the rollout of renewable energy in Tunisia and ensure the network is capable of absorbing new renewable energy capacity in years to come.

5.2. Key reform priorities in the energy sector are improving STEG's efficiency and strengthening the legal and regulatory framework to empower private-sector participation

STEG's dominance of electricity generation, transmission and distribution presents a structural conflict of interest that is hindering market liberalisation. Addressing this requires the unbundling of competitive segments, such as power generation, from regulated activities, such as grid operation. In addition, reforms to enhance STEG's financial sustainability and corporate governance are essential in order to improve operating efficiency. Given STEG's size and strategic importance, reform efforts must be driven at the highest level, positioning STEG as a model for broader SOE reform and signalling Tunisia's commitment to fostering a more competitive energy sector.

A strengthened regulatory framework is critical to diversifying energy sources, attracting private investment and ensuring long-term sectoral sustainability. Recent reforms have opened up the market by way of concessional regimes, authorisation schemes and self-production regulations, but the absence of an independent energy regulator remains a weakness. Establishing a dedicated regulatory authority, streamlining institutional responsibilities and enacting primary and secondary legislation are necessary steps. Tunisia also introduced an updated wheeling tariff in December 2023, providing greater clarity for private-sector developers and paving the way for greater renewable energy adoption, particularly through corporate power purchase agreements. Supporting small-scale renewable energy projects with green credit lines through local financial institutions could further accelerate investment.

To capitalise on Tunisia's potential as an energy exporter, regulatory and operational reforms are needed to harmonise its electricity system with that of the EU single market. Progress on the ELMED interconnector with Italy underscores the need to establish a transparent guarantee-of-origin scheme to facilitate cross-border power purchase agreements. Harmonising Tunisia's electricity system at both the regulatory and operational levels will enhance market integration and strengthen the country's position in the regional energy transition.

5.3. The slow uptake of renewables by the private sector and persistently high energy intensity are hindering emission reductions

The energy sector is the largest contributor to GHG emissions. Overall, the energy sector accounted for 68 per cent of total GHG emissions in 2022, followed by industrial processes and product use (14 per cent), agriculture (10 per cent) and waste (8 per cent).[86]

Tunisia's contribution to global GHG emissions is relatively small. The country accounted for less than 0.09 per cent of total global emissions in 2022, with a per capita footprint of 3.53 tCO_2e.[87] Tunisia is responsible for the second-highest GHG emissions contribution in per capita terms in the SEMED region after Lebanon (Figure 17). Moreover, Tunisia's GHG emissions per unit of GDP (942 tCO_2e/US$ million) have surpassed the SEMED region median level since 2015 and have been significantly above the world, OECD and EU median values since the 1990s.[88]

The country's persistently high energy intensity poses challenges when it comes to reducing emissions. The gradual decline in energy intensity in Tunisia, as in the SEMED region, has been significantly flatter than the global trend, despite

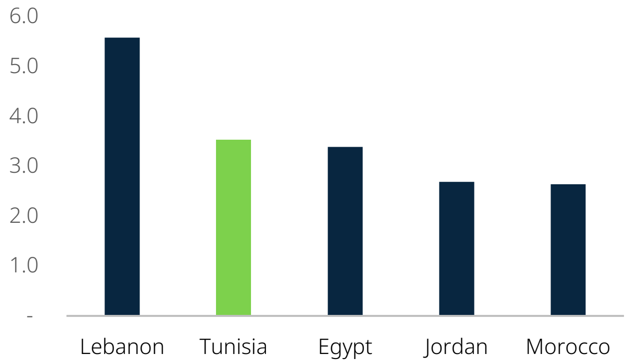
86 See Gütschow, Busch and Pflüger (2025).

87 Ibid.

88 Ibid.

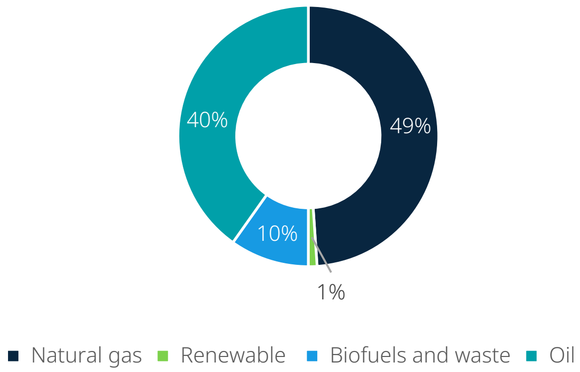
a general global slowdown in recent years. Its energy intensity decreased to 3,594 MJ/thousand 2015 US$ in 2022, a 4.7 per cent decline from 2000.[89] The slow decline reflects the persistent concentration of hydrocarbons in the energy mix, accounting for around 88.4 per cent of the total energy supply. Natural gas accounted for 96.8 per cent of Tunisia's electricity generation in 2022.[90]

Figure 17. GHG emissions per capita (tCO2e), 2022



Source: PIK database (2024).[91]

Figure 18. Total energy supply by source, 2022



Source: International Energy Agency data.

5.4. Implementing Tunisia's NDC objectives requires the mobilisation of financial resources

The implementation of Tunisia's updated Nationally Determined Contribution (NDC) objectives (both mitigation and adaptation) requires the mobilisation of sizeable financial resources. Tunisia aims to reduce its GHG emissions intensity by 45 per cent by 2030 compared with 2010 (see Box 1). From 2021 to 2030, estimates suggest that Tunisia could need €12.1 billion for mitigation, €3.6 billion for adaptation and €0.6 billion for capacity-building actions, for a total of €16.4 billion. The authorities estimate that national sources will meet 23 per cent of the total needed to realise the country's unconditional GHG emissions intensity NDC target of 27 per cent.

Box 1. Tunisia's climate policy envisions carbon neutrality by 2050

Tunisia's climate policy goals are outlined in its 2021 NDC. Tunisia signed the Paris Agreement in 2016, bringing into force its first NDC, which was updated in 2021. By 2030, Tunisia aims to have reduced its GHG emissions intensity[92] by 45 per cent from 2010 (with peak net emissions left behind), of which 27 per cent is unconditional and 18 per cent is conditional), up from a target of 41 per cent in its first NDC.[93] In September 2025, Tunisia submitted a preliminary NDC in preparation for NDC 3.0.

Although Tunisia has not submitted a national adaptation plan to the United Nations Framework Convention on Climate Change (UNFCCC), its 2021 NDC outlines its adaptation objectives to promote climate change resilience and strengthen the adaptive capacity of its ecosystems, population and economy. The 2021 NDC is accompanied by a priority action plan, with sectoral actions focusing on the six most vulnerable sectors, namely, water resources, agriculture, ecosystems, the coastline, health and tourism, while taking into account three new cross-cutting areas of intervention – gender, land-use planning and natural-disaster risk reduction.

On top of this, Tunisia outlined its longer-term vision to achieve carbon neutrality by 2050 in its Carbon-Neutral and Climate-Resilient Development Strategy for 2050 in 2022.[94] The strategy includes its low-carbon development approaches to energy, industry, agriculture and forestry, and waste management. In line with this vision, it also adopted the Energy Strategy 2035 in 2023,[95] highlighting energy security, decarbonisation, a just transition and inclusive economic development as critical elements.

89 See International Energy Agency (n.d.).

90 Ibid.

91 2022 data unavailable for Jordan (2021 data used).

92 The intensity target is defined as the ratio of net emissions to GDP at constant 2010 prices.

93 See UNFCCC (2021).

94 See Ministry of Environment (2022).

95 See Ministry of Industry, Mining and Energy (2023).

5.5. Water scarcity and stress are increasing, highlighting the urgent need to boost access, better manage resources, diversify away from water-intensive industries and accelerate desalination using renewable energy

Tunisians' access to water services and wastewater management systems is relatively widespread, but under pressure from climate change and a lack of investment. Access to drinking water in Tunisia is high, at 100 per cent in urban areas and approximately 95.3 per cent in rural areas, but drought in recent years has led to restrictions such as water quotas and nighttime supply cuts to manage scarcity. In terms of wastewater management, around 68 per cent of the population is connected to sanitation networks, but only 38 per cent of wastewater is treated and reused. Water use is predominantly for agricultural purposes (80 per cent), with 20 per cent for industrial and urban uses.[96]

Water resources are increasingly non-renewable, and the use of non-conventional water sources remains limited. Around 15 per cent of Tunisia's available water resources are non-renewable, but in the southern region of the country, the dependency on fossil non-renewable aquifers is much higher. Moreover, the southern region of Tunisia is heavily dependent on agriculture, a water-intensive industry, with feasibility studies anticipating the depletion of the aquifers within the next 50 years.[97] Meanwhile, a projected decline in rainfall threatens the availability of water from renewable sources. As of May 2023, nationwide rains were 39 per cent below the annual average and up to 64 per cent below the average in the southwest regions, reflecting persistent rainfall deficiency. At the same time, the use of non-conventional water sources, such as water reuse and desalination, remains limited. Notably, issues with regard to the uptake of renewable energy are holding back investment in desalination, which has high energy needs.

Tunisia is highly vulnerable to physical climate risks, including flooding, rising sea levels, and more frequent and severe droughts. In the north, the authorities estimate that around three-quarters of all coastal water resources will be lost due to the salinisation of coastal aquifers by 2050, with minimal-to-low adaptation capacity in the water sector.[98] In addition, around 44 per cent of the Tunisian coastline is vulnerable or highly vulnerable to the degradation of coastal ecosystems, infrastructure and the loss of built-up area, affecting the livelihoods and income of coastal communities, which host the bulk of the population and economic activities, including the tourism sector.[99] Rural communities, especially in southern Tunisia, are more vulnerable to income and food-security risks from the high impact of increased drought and loss of soil fertility and arable land on agricultural production and food security. As a result, more than a 30 per cent decline in cereal and olive-oil yields is expected by 2050.[100]

The key priorities in the water and wastewater sectors are better management of resources, diversification and increasing access. Supply and demand management measures are critical to limiting water deficits and ensuring equitable access, including managing water losses of as much as 40 per cent in rural areas due to outdated networks. There is a need to diversify away from water-intensive industries and accelerate desalination (away from aquifers), powered by renewable energy. Increasing connectivity to sewerage networks in rural areas and boosting investment in wastewater management are critical in order to address demand from agriculture and industrial sectors and free up potable water for human use.

96 Ibid.

97 See ITES (2021).

98 See World Bank (2023c).

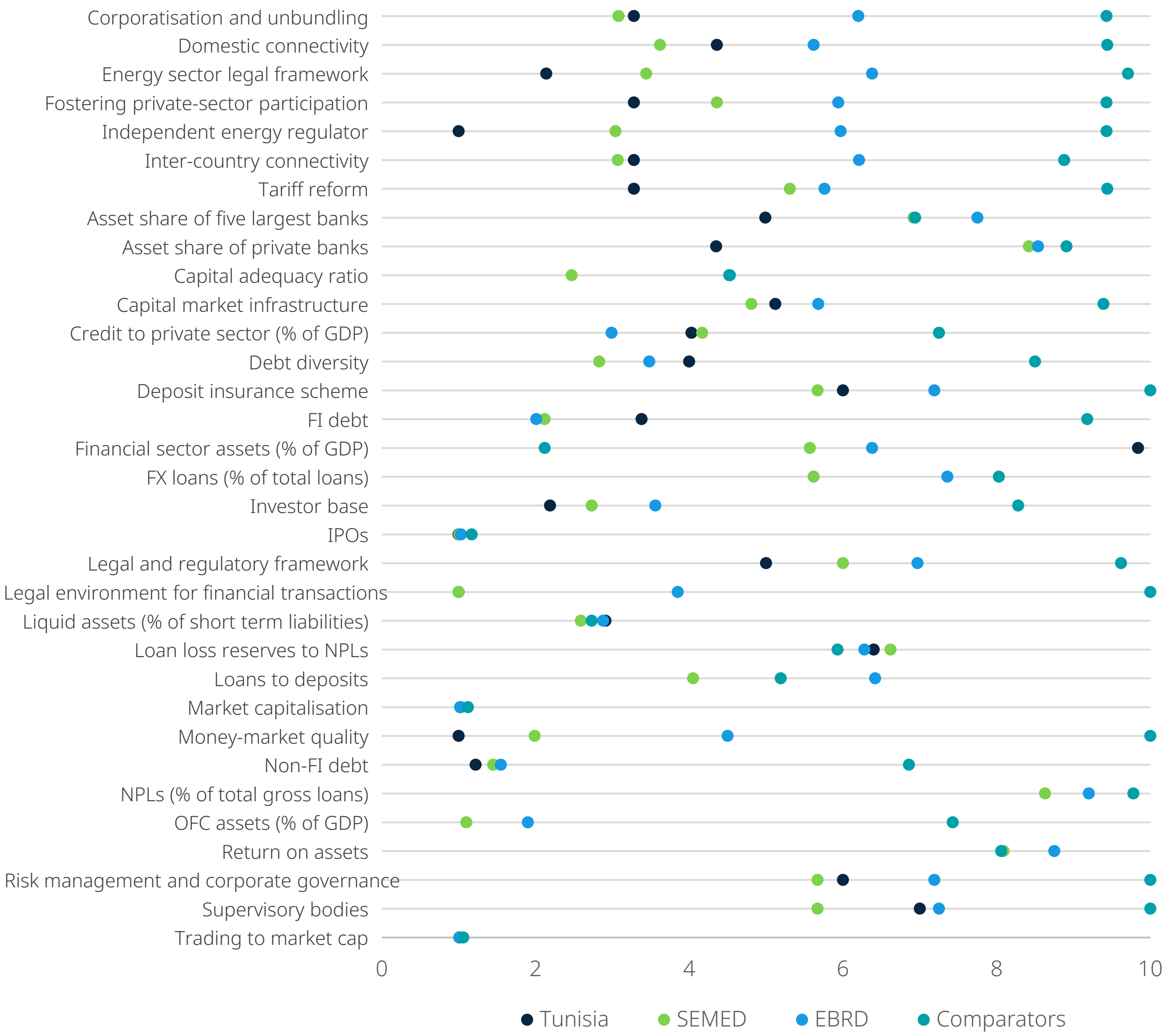
99 See UNFCCC (2021).

100 See World Bank (2023c).

6. Resilient: improving financial-sector resilience would require fundamental reforms that would also boost access to finance for the wider private sector

Tunisia ranked 30th among the economies in which the EBRD invests and fourth in SEMED on resilience in 2024. Several characteristics of the Tunisian financial sector are undermining its ability to provide the private sector with the financing it needs to grow and create jobs. The banking sector dominates the financial sector and suffers from weak governance, regulation and capitalisation, as well as high fragmentation and exposure to the sovereign. High and inadequately provisioned NPLs threaten its stability. At the same time, alternative financing is scarce, with a minimal role for the small, underdeveloped and illiquid capital market and a practically non-existent corporate bond market. Relaxing foreign-currency restrictions and capital controls are essential in order to increase the attractiveness of Tunisian securities to foreign investors.

Figure 19. Resilient ATQ component scores



Source: EBRD (2024).

6.1. Structural vulnerabilities in banks and lending to the sovereign are hampering the private sector

Tunisia's banking sector, comprising around 30 banks, has weathered the financial crisis relatively well, but there are emerging risks and limited competition. Banks dominate the Tunisian financial sector, with banking sector assets corresponding to around 100 per cent of GDP, compared with around 4 per cent for non-bank financial institution assets.[101, 102] Of Tunisia's 22 onshore banks, six state-owned banks account for around 37 per cent of total assets, 40 per cent of loans and 30 per cent of deposits, with banking concentration the lowest in the SEMED region.[103] Branch density was 22 per 100,000 people in 2021, putting the country ahead of most of its SEMED peers (apart from Morocco). Although the sector showed resilience throughout the pandemic (with stable NPL levels in 2019-22, for instance), concerns have grown amid growing exposure to the state, while structural deficiencies have undermined competitiveness and stability. For example, while low concentration in the financial sector should foster competition and innovation in the sector, the large degree of market fragmentation prevents individual banks from establishing strong market positions and benefiting from economies of scale.[104] Also, a 2023 study found that customers lack information and education to make informed choices (and thus promote competition between banks), notably in the MSME segment, where the supply side is further constrained by a lack of information about MSME clients.[105]

Poor governance, regulation and capitalisation are also constraining the banking sector's ability to serve the private sector. Poor governance of state-owned banks, weak regulatory and supervisory regimes, and inefficient bankruptcy and collateral policies are impairing competition. At the same time, Tunisian banks are thinly capitalised. The capital adequacy and Tier 1 ratios stood at 11.7 per cent and 14.6 per cent, respectively, in H1 2023, against minimum regulatory requirements of 10 per cent and 7 per cent. Tunisia's capital adequacy ratio is modest compared with peer countries and the EBRD average.[106] The inadequate capitalisation provides limited buffers to the country's high sovereign exposure and any macroeconomic instability.

The banking sector's exposure to public and SOE debt has increased substantially in recent years, challenging the financial sector's stability and crowding out lending to the private sector. Sovereign exposure more than doubled from TND 10.9 billion (€4.9 billion) in 2015 to TND 34.9 billion (€10.3 billion) in 2023, or 21.7 per cent of total banking assets. The rise in government borrowing is largely behind the increase, amid heightened liquidity risks linked to the country's worsening fiscal situation, fragile external position and tightening monetary conditions (see Chapter 1). In 2023, local-currency government securities accounted for 55 per cent of banks' sovereign exposure, while 37 per cent was in the form of loans to SOEs, both in local and foreign currency (Figure 20).[107] This large local-currency exposure to the sovereign puts significant pressure on bank liquidity and heightens solvency risk considerably, posing substantial risk to overall financial stability. Moreover, lending to the public sector crowds out private-sector access to finance, exacerbating the pre-existing issue of low financial inclusion (see Chapter 6). Lending to the public sector increased from 8.2 per cent of total loans in 2011 to 13.5 per cent in 2023, an all-time high (Figure 21). These challenges are exacerbated by the Central Bank of Tunisia's direct financing of government debt in 2024 and 2025, with more envisaged for 2026, which – despite parliamentary approval – will undermine monetary policy and further contribute to the crowding out of commercial financing.

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101 See Central Bank of Tunisia (2021).

102 See IMF (n.d.b).

103 The assets of the three largest banks account for around 45 per cent of total bank assets, compared with around 70 per cent on average in the SEMED and EBRD investee economies.

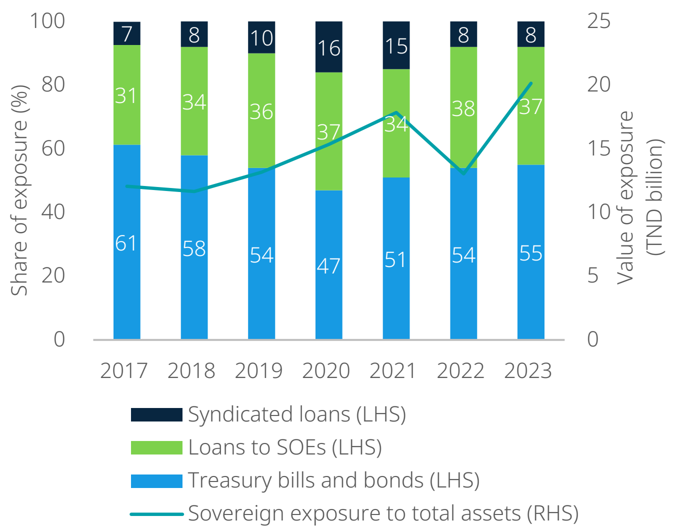
104 See EIB (2015).

105 See OECD (2023).

106 Egypt: 20 per cent; Jordan: 16 per cent; Morocco: 15 per cent; EBRD regions: 20 per cent.

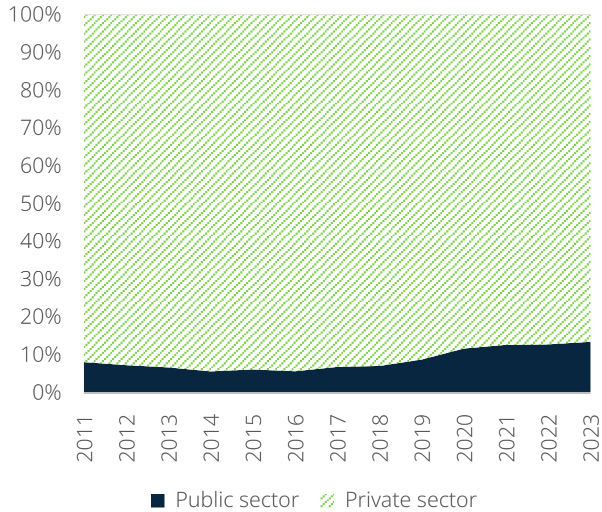
107 See EIB (2015).

Figure 20. Banking sector sovereign exposure



Source: Central Bank of Tunisia data.

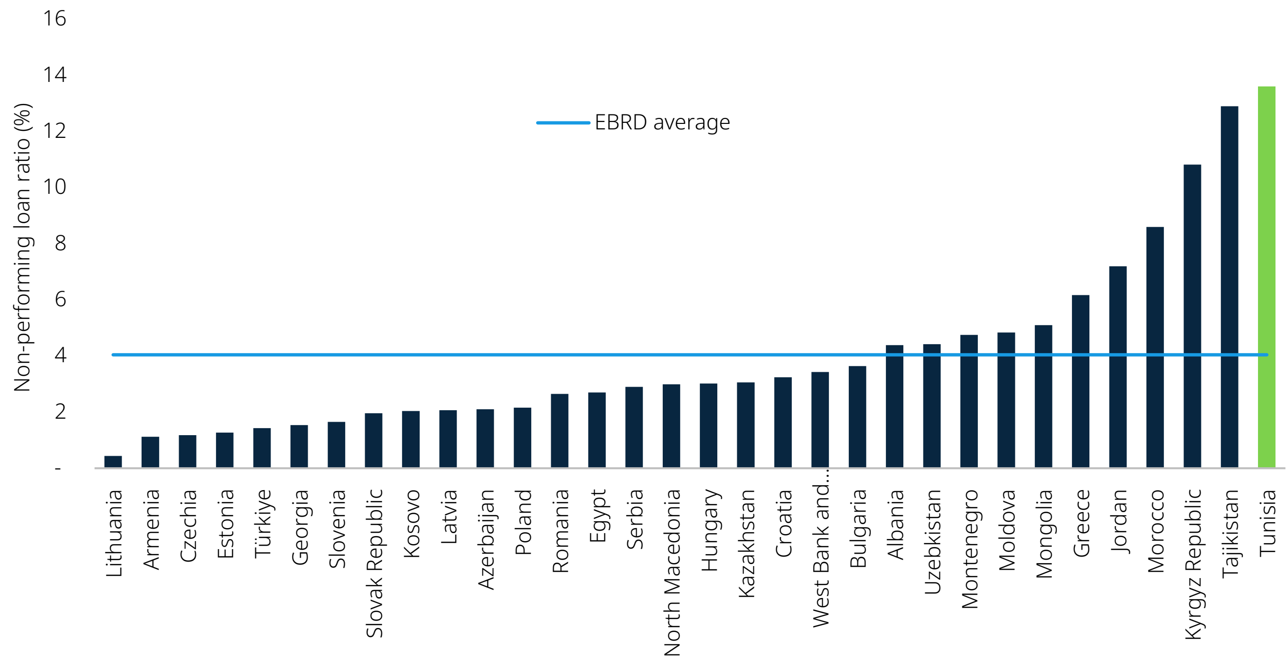
Figure 21. Loans to the economy (as a percentage of total lending)



Source: Central Bank of Tunisia data.

A legacy of high and inadequately provisioned NPLs threatens the stability of the banking sector and its ability to cater to the needs of the private sector. The incidence of NPLs, at around 13.6 per cent in 2023, has been stable since the pandemic, but remains substantially higher than international standards and still far from the 2027 target of 7 per cent, despite recent progress (NPLs declined from 17 per cent of GDP in 2015) (Figure 22). NPLs could increase even further, as the recent move to International Financial Reporting Standard (IFRS) 9 is expected to highlight the weaker quality of reported assets.[108] The unfavourable economic environment in recent years, with high inflation, monetary tightening and slowing growth in key sectors (industry, commerce and tourism account for almost 63 per cent of the outstanding balance of NPLs) may put further pressure on firms and lead to a rise in NPLs. At the same time, provisions for NPLs stood at 53 per cent in 2023, below the Central Bank of Tunisia's target of 70 per cent, likely dragged down by the inadequate provisioning of state-owned banks.

Figure 22. Percentage of NPLs to total gross loans (2024 or latest available year)



Source: IMF (n.d.b) and national data.

108 See OECD (2022b).

6.2. Underdeveloped alternative financing methods and foreign-currency restrictions are holding back private-sector development

An outdated regulatory framework is hindering capital market development. The 1994 Financial Markets Law is outdated and unconducive to the development of Tunisia's capital market. Gaps in the legal environment, such as the absence of a Global Master Repurchase Agreement and closeout netting and collateral enforceability, are hindering banks from entering into repurchase agreements and derivatives to manage funding and other market risks.

As a result, capital markets remain very limited and can contribute little to the financing of the Tunisian private sector. Stock-market development remains low, restricted by the limited diversity of traded instruments and the small number of listed companies (74 companies in 2024).[109] Stock-market capitalisation is low, at around 20 per cent of GDP, below the SEMED (32 per cent) and EBRD (25 per cent) averages.[110] In addition, market liquidity is low, as indicated by the low total value of traded stocks (less than 2 per cent of GDP).[111] Moreover, bond markets are underdeveloped, with a small primary corporate bond market and an illiquid secondary market. The market is dominated by government bonds (accounting for almost 80 per cent), which are sold to financial institutions and not re-traded on a formal, transparent secondary market. Corporate bonds, in contrast, are issued mostly by banks and leasing firms, with non-financial firms playing a minimal role.

FX restrictions and capital controls are an obstacle to foreign investment and are limiting the development of capital and financial markets. Foreign investor participation in Tunisia's capital market is low. In 2023, they held merely 21.2 per cent of stock-market capitalisation and accounted for 12 per cent of the traded value. The tightly restricted FX system – including restrictive eligibility criteria for accessing foreign currency markets, cumbersome authorisations and different convertibility rules for businesses in the offshore and onshore sectors, in addition to complex repatriation procedures for foreign investors – all hinder foreign investments in the capital market. The new FX code approved by parliament in 2024 is a positive step towards greater flexibility, but concrete steps have yet to be taken and the outcome will depend on the pace of liberalisation. Amendments under the new law seek a gradual modernisation of the FX system while preserving macroeconomic balances, the adaptation of FX legislation to national and international changes, and the easing of Tunisian companies' access to foreign currency, with the goal of fully liberalising the exchange rate.

Legal and regulatory reforms could spur the necessary financing to the private sector. There is a need to complete the reform of the 1994 Financial Markets Law and gain parliamentary approval to strengthen the capital market regulatory authority and modernise public offerings governance. Moreover, creating an adequate legal and regulatory framework around derivate instruments, which clarifies their legal status and defines the regulatory scope of the Central Bank of Tunisia, is important for the development of a market for short-term debt securities.

109 See Tunis Stock Exchange (n.d.)

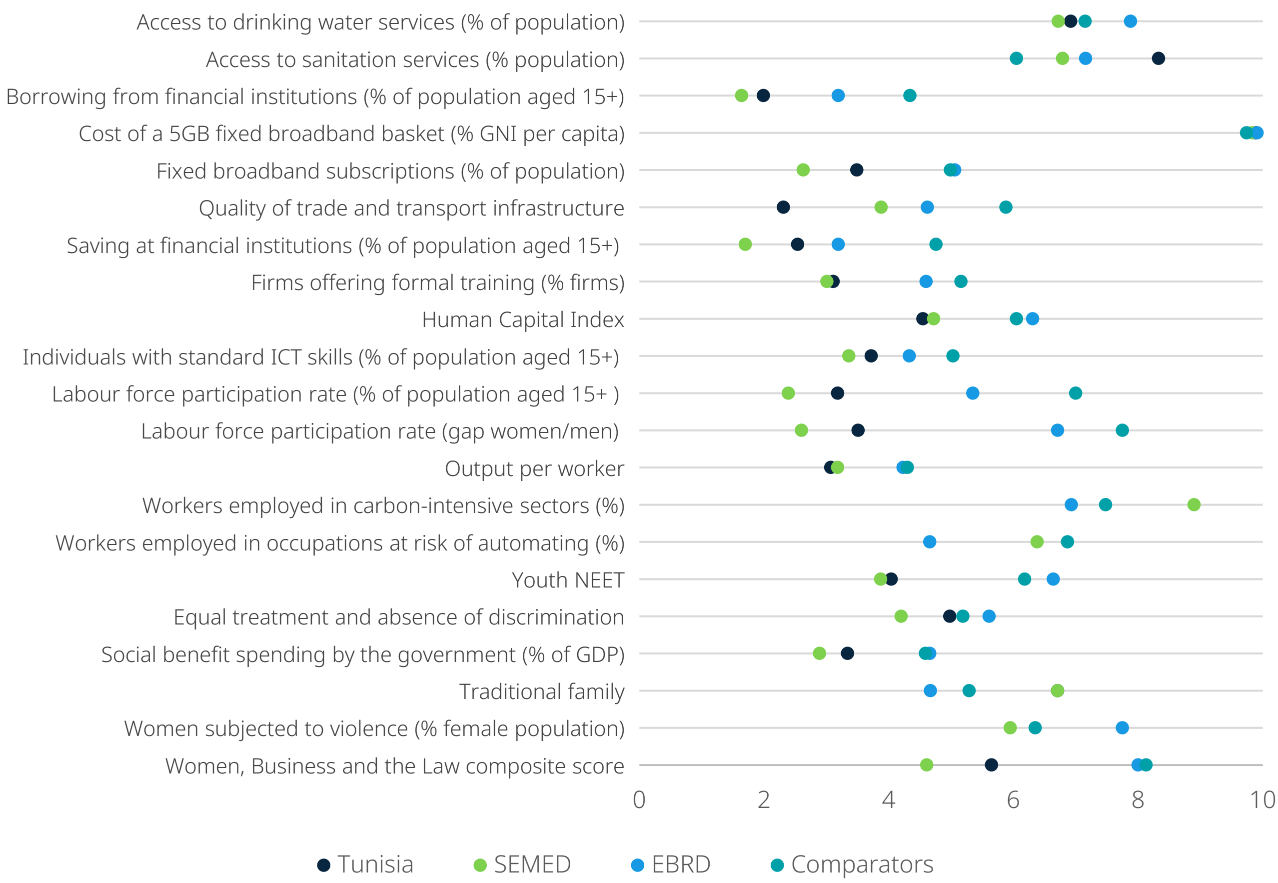
110 See World Bank (n.d.b).

111 See World Bank (n.d.a).

7. Inclusive: youth and gender gaps persist in accessing economic opportunities and financial inclusion, exacerbated by regional disparities

Tunisia ranked 28th among the EBRD investee economies and second in SEMED on inclusivity in 2024. While Tunisia has one of the highest rates of labour participation in SEMED (about one in four women are active in the labour market)[112] and a significant pool of highly educated women, access to economic opportunities and financing remains unequal. Youth unemployment – among the highest in SEMED – remains a major challenge, driven by slow job creation and exacerbated by a skills mismatch between the education system and private-sector needs. Urban-rural disparities in access to basic services and infrastructure also remain significant, particularly in the southern and western regions. The private sector stands to benefit from extending more opportunities to highly educated women, provided that legal and social barriers are eased. Addressing the skills mismatch, both on the demand side (by the private sector) and supply side (by the education and training systems) will unlock the potential of young, skilled Tunisians and limit the brain drain of young professionals to Europe. Investing in sustainable infrastructure in rural areas and accelerating economic diversification will ensure more inclusive regional growth. Lastly, increasing financial inclusion – especially for women, youth, underserved regions and SMEs – would help address one of the major obstacles hindering private-sector growth in Tunisia.

Figure 23. **Inclusive ATQ component scores**



Source: EBRD (2024).

112 See ILO (2024a).

7.1. Job creation by the private sector is slow and primarily in low-skilled occupations, while the private sector is struggling to access the human capital it needs, particularly in growing sectors, underscoring the need to address skills mismatches in the education system

Tunisia's labour force continues to benefit from the country's long-standing emphasis on education and human capital development, which has produced a relatively skilled and adaptable workforce compared with those of many of its regional peers. Building on early investments in universal education and technical training, Tunisia maintains a relatively high literacy rate and share of tertiary-educated young people, including in science and engineering subjects. The country's network of vocational institutes and universities supports sectors such as manufacturing, ICT and infrastructural development, although investment in all educational sectors has been falling short of needs. Still, these strengths put Tunisia in a good position to take advantage of its skilled workforce for higher-value economic activities and greater integration into global value chains.

Tunisia's labour market continues to be characterised by sluggish job creation, while the private sector is failing to absorb the growing supply of skilled youth. Unemployment in Tunisia has historically been met with policies to increase employment in the public sector, with hiring and wages rising considerably in the aftermath of the 2011 uprising. However, since a 2016 public recruitment freeze and with increasing budgetary pressures, the public sector has no longer been able to absorb the growing workforce. Job creation in the private sector has primarily been concentrated in low-skilled and low-productivity activities, such as retail, construction and textiles, partly due to lethargic economic growth and low levels of private investment.

Youth unemployment is high, leading to migration and brain drain. Youth unemployment reached a record high of 38.5 per cent in 2023. As the majority of jobs created in the private sector are in low-skilled and low-productivity activities, unemployment rates are disproportionately higher among university graduates, particularly women (31.5 per cent compared with 14.2 per cent for men).[113] Moreover, nearly one-quarter of Tunisian youth are not in education, employment or training (NEET).[114] Rigidities in the formal labour market are pushing many young Tunisians into the informal market and contributing to a brain drain through the increased migration of Tunisian youth, especially men.

Addressing the skills mismatch is vital. There is a need for market-driven educational reforms that introduce higher-quality national skills and work-based learning standards, as well as an expansion of accreditation and certification of technical skills relevant to various sectors. Policy dialogue on inclusive and gender-responsive technical and vocational education and training (TVET) systems, especially for digital and green skills, should be prioritised to equip the labour force with market-relevant expertise in promising growth sectors, particularly in remote regions. What is more, there is a need to revalorise the TVET system, which was once strong and produced qualified labour until the 2000s. Lastly, investing in better and more-affordable internet access and digital skills could create jobs in the ICT sector for graduates (see Chapter 4).

7.2. Addressing regional disparities in human capital, access to basic services and infrastructure is key to inclusive growth

Poverty and employment rates vary widely by region, with the rural western and southern regions at a clear disadvantage in terms of economic development compared with coastal urban centres. The centre-west region experienced the highest poverty rates prior to the pandemic (at 36 per cent), six times higher than Greater Tunis.[115] Similarly, unemployment rates are nearly three times higher in southern governorates compared with coastal regions. In 2021, the unemployment rate was highest in the northwest region, at 33 per cent, compared with 10.8 per cent in the northeast region and 16.1 per cent in Greater Tunis.[116] Offshore firms, which account for one in five workers employed by the private sector in Tunisia, are concentrated in the coastal regions, further exacerbating regional disparities in accessing economic opportunities.[117]

Access to basic services, such as water and wastewater infrastructure, electricity and transport, varies by region, exacerbated by the slow completion of public infrastructure projects. While access to infrastructure is relatively high, the

113 See INS (n.d.).

114 See ILO (2024b).

115 See INS and World Bank (2020a).

116 See INS (2021b).

117 See OECD (2024).

quality of vital infrastructure has deteriorated over the past decade, especially airports, railways and electricity supply.[118] The proportion of the population with access to safely managed drinking water supply services fell from 57.2 per cent in 2018 to 48.5 per cent in 2023, with 55.8 per cent of those people in urban areas and 33.7 per cent in rural areas.[119] In addition, the quality of water supply varies significantly, and water tariffs are often higher for those in rural areas.[120] Access to quality transportation services is declining amid rising demand and the limited financial ability of SOEs managing public transit services to make necessary upgrades (see Chapter 4). Moreover, the completion of public investment projects, including in infrastructure, is low in rural areas, with investments in the southwest and northwest seeing the longest delays, lowest project completion rates and lowest investment amounts. Moreover, large regional inequalities persist in internet access (see Chapter 4).

Access to healthcare services varies significantly by geographical region. The World Health Organisation cites geographic inequality in the distribution of healthcare providers as a key challenge for the Tunisian healthcare system, with particular attention needed to bridge the gap between eastern and western regions in service quality and availability.[121] These gaps are likely to have widened during the Covid-19 pandemic as pressure on health-related infrastructure intensified. The growing brain drain and human capacity gaps within the system more generally, and in remote regions in particular, have intensified challenges in accessing good-quality primary care. Moreover, public and private investment in health infrastructure is unable to meet demand; only 34 per cent of the population in rural areas lives within easy walking distance of a healthcare provider, compared with 64 per cent in urban areas.[122]

Comprehensive regional development plans, with a strong focus on sustainable human capital development and equitable access to services, are critical. Unlocking new and more diversified economic opportunities is vital for people in rural regions whose livelihoods largely depend on the agricultural sector. Agriculture is the primary source of income and employment in southern Tunisia and relies heavily on non-renewable groundwater resources (see Chapter 5). However, water resources are becoming increasingly scarce, particularly in Tunisia's southern regions. This highlights the need for regional development plans to diversify economic activities and reduce water usage, coupled with investments in projects to support adaptation to climate change. First, regional plans need to be developed for coastal regions, which rely on sectors (such as tourism) most affected by successive crises such as the Covid-19 pandemic and the war on Ukraine. Second, investments in the infrastructure sector should be coupled with relevant policy and regulatory recommendations to improve access to infrastructure and services across regions, especially targeting currently underserved communities. Third, stronger coordination is needed between the Tunisian government and development actors to facilitate regional development that addresses inequalities and expands access to vital infrastructures. Fourth, investment in traditional infrastructure sectors, such as transport and water, should not crowd out investments in the industries of the future, such as spending on ICT infrastructure and electricity. Fifth, enabling private-sector investment in healthcare and municipal services can help bridge the gap between regions.

7.3. Financial inclusion has been a government priority in recent years and there has been progress, but there is further room for improvement

The Tunisian authorities have designated financial inclusion a priority area and passed some reforms, with mixed success. The Central Bank of Tunisia established the Financial Inclusion Observatory (OIF) and launched the National Strategy for Financial Inclusion (2016–22).[123] The latter aims to ensure access to and use of a diversified range of affordable and accessible financial products and services by all Tunisian economic agents, particularly women, youth and SMEs, in addition to populations in rural areas.[124] In addition, the strategy highlights the importance of reporting gender-disaggregated data in the financial sector and sets the indicators for data collection. However, no data are available on the progress of financial institutions in complying with this reporting mandate, no data are available on the share of women-led MSMEs in the banking sector, and the national strategy does not include a unified definition of women-led MSMEs.

The central bank continues to prioritise financial inclusion and the digitalisation of banking services. Since the pandemic, utility payments have been digitalised and, in 2022, the Central Bank of Tunisia launched a new platform enabling citizens to pay bills through their phones. The total value of electronic transactions has increased continuously in recent years, growing by 25 per cent year on year in 2022. There are also numerous donor-supported programmes aimed at

118 See World Bank (2019).

119 See UNICEF (2018 and 2023).

120 See World Bank (2019).

121 See World Health Organisation (2018).

122 See Afrobarometer (2020).

123 See OIF (n.d.).

124 In addition to a strong focus on these four underserved segments, the strategy focuses on five priorities: digital finance, micro-insurance, a refinancing system, social solidarity and financial education.

strengthening access to finance for underserved segments, including farmers, women and young entrepreneurs, including through microfinance providers.

Nonetheless, (small) enterprises continue to experience challenges in accessing credit, which continue to worsen.[125] Half of the enterprises surveyed in 2020 regarded access to finance as a major barrier, up from a fifth of firms in 2013.[126] Moreover, private-sector companies that succeed in accessing finance typically receive short-term loans, partly as a result of the banking industry's shortage of long-term liquidity. This is especially true for women-led firms, young entrepreneurs and SMEs. Credit demand from women-led enterprises is largely unmet. These firms constitute around a fifth of registered businesses and their credit demand is estimated in 2017 at €505.6 million.[127] Despite this business opportunity, the national financial sector has yet to identify women-owned firms, particularly SMEs, as a distinct market segment, understand their needs and work to close the market gap. At the same time, the low financial inclusion of youth hinders their access to economic opportunities. Young entrepreneurs struggle to access external financing sources, and the lack of financing instruments to support business growth, such as private equity and venture capital in the general ecosystem, is holding them back. A national strategy for SME development is expected to be unveiled in early 2025.

Several reforms are needed to improve financial inclusion. First, Tunisia has yet to fully establish its capital markets and contractual savings institutions, which are the primary sources of long-term financing in many emerging nations (see Chapter 7). Second, targeting women-owned SMEs through specialised financing solutions provides a sizable and untapped market opportunity for Tunisian banks. Third, financial sector reforms aimed at increasing financial inclusion and adopting innovative financial instruments is essential to promoting youth entrepreneurship. Fourth, the Central Bank of Tunisia and the OIF need to adopt a unified definition of women-led MSMEs and implement the reporting of gender-disaggregated data with partner financial institutions. Fifth, supply-chain financing could provide faster, and potentially cheaper, financing for SMEs, given Tunisia's integration into global value chains (see Chapter 4). Cheaper financing for global buyers procuring from Tunisia, based on their lower credit risk, could be passed down to Tunisian suppliers.

7.4. Gender gaps remain significant by international standards, despite the high level of education of women in Tunisia

While Tunisia's female labour participation rate is among the highest in the SEMED region, gender gaps persist in all areas of society. The women's labour participation rate in Tunisia (27 per cent) is higher than in most SEMED economies (Morocco stands at 20 per cent, Egypt at 15 per cent and Jordan at 14 per cent, with only Lebanon higher, at 28 per cent).[128] However, despite Tunisia being a regional leader in women's access to the labour market, by international standards, its gender gaps are still significant. One in five Tunisian women is unemployed (21.5 per cent of women compared with 13.5 percent of men).[129] Women also remain underrepresented in decision-making positions, both in the public and private sectors. The number of women elected to Tunisia's parliament has decreased in recent years, falling to 16 per cent in 2023 from 26 per cent in 2021. Moreover, women spend as much as five times the amount of time that men spend on unpaid care work.[130]

The gender gap is inconsistent with the high educational level of women in Tunisia. More women than men are enrolled in universities, especially in disciplines related to science, technology, engineering and mathematics (STEM). Tunisia has among the highest share of female engineering graduates worldwide (44.2 per cent).[131] Skilled women are more likely to participate in the labour market than men, but also far more likely to be unemployed. About 63 per cent of university graduates in 2020 were women. Women, particularly university graduates, face unemployment rates that are almost double those of men, with 31.5 per cent of graduate women unemployed compared with 14.2 per cent of graduate men – among the highest unemployment rates globally.[132] As low private investment over the past decade has slowed growth in highly skilled jobs, this has significantly disadvantaged women's entry into the labour force.

Some legal and social restrictions contribute to the gender gap. The Tunisian Labour Code includes some provisions to support women's participation in the labour force, such as the right to equal pay and a law to prevent the dismissal of female employees on grounds related to pregnancy. However, parental leave provisions have been lacking and have only recently been improved, with women now eligible for three months of paid maternity leave and an increase in paid

125 See World Bank (2023a).

126 See World Bank (2020a).

127 See International Finance Corporation (2017).

128 See ILO (2024a).

129 See INS (n.d.).

130 See UN Women (2020).

131 See UNESCO (2021).

132 See INS (n.d.).

paternity leave days as well. Legal restrictions continue to ban women's employment in mines and quarries, as well as in any form of scrap metalwork. Night shifts are only permissible with approval from the Minister of Social Affairs. While there are laws prohibiting the sexual harassment of women in public places, the Labour Code does not include provisions against sexual harassment in the workplace.[133]

Tunisia stands to benefit from addressing systematic barriers to women's full participation in economic and public life. First, there is a need to promote a gender-responsive SME environment to foster women's employment in the private sector. Second, sectoral and legal barriers to women's employment need to be removed to strengthen women's access to higher-productivity, high-value-added jobs to ensure a positive effect on women's role in the economy. Third, policies should address the issue of unpaid care work. Fourth, promoting equal-opportunity initiatives, with a focus on addressing gender-based violence and harassment in the workplace and on public transport, is a priority to promote employment. Fifth, this should be coupled with promoting women's representation in all sectors of the economy and public service, including at senior levels, especially in male-dominated industries. Lastly, narrowing the large gender inequalities in internet access is essential (see Chapter 4).

133 See UNDP (2018).

Annex 1. Political economy

Tunisia is located in the centre of North Africa, so has long played a leading sociopolitical role in the Arab world and served as a bridge to Europe. Its role has also been anchored by its pioneering achievements in the region in advancing gender equality and sustaining well-developed health and educational systems. The country has a sophisticated public administration system and, traditionally, a powerful, independent civil society.

In the wake of Tunisia's uprising in 2010-11, these factors contributed to the emergence of a vibrant political transition that entailed successive free, inclusive presidential and parliamentary elections, peaceful and smooth transfers of power at the presidential and legislative levels, and the existence of free, organised opposition.

However, the decade that followed 2011 was marked by significant divergence between the country's vibrant political arena and notably slow economic transition. Elected political groups repeatedly refrained from assuming executive responsibility and backed technocratic governments that proved insufficiently empowered to undertake the needed reforms. Serious challenges to the economy materialised, while terrorist attacks in 2025 further undermined economic performance, fuelling a drop in tourism and a decline in investor interest.

In July 2021, following a period of executive paralysis, particularly with regard to economic reform, and at the height of the Covid-19 pandemic, President Saied issued an emergency declaration based on an article in Tunisia's 2014 constitution, through which he dismissed the government, froze parliament and assumed all executive power. In September 2021, a presidential decree maintained the suspension of parliament, effectively transferring parliament's legislative powers to the presidency.

In December 2021, a new political roadmap was announced, under which a new constitution was drafted and adopted following a public referendum. A new parliament was elected in two rounds of voting in December 2022 and January 2023. The new constitution effectively transformed Tunisia's political system from a parliamentary democracy into a presidential one. Like other countries in the region, Tunisia needs to take further steps to reform the judicial system and the rule of law. Lastly, problems in neighbouring countries pose challenges for Tunisia, which continues to be affected by developments in Libya. In addition, the presence of militant groups in the Sahel region poses a threat on Tunisia's southern borders.

The government published and embarked on an ambitious economic reform agenda in 2021 and 2022, but progress has been slower than hoped. The war on Ukraine has created significant difficulties for Tunisia, notably through the budgetary impact of food imports. This has been exacerbated by drought, which has impacted harvests. Water supplies are becoming an ever more important issue for Tunisia. At the same time, the economy has weathered multiple challenges with some degree of resilience, and reforms are progressing faster than in the previous decade, albeit only in certain areas.

Annex 2. Assessment of transition qualities

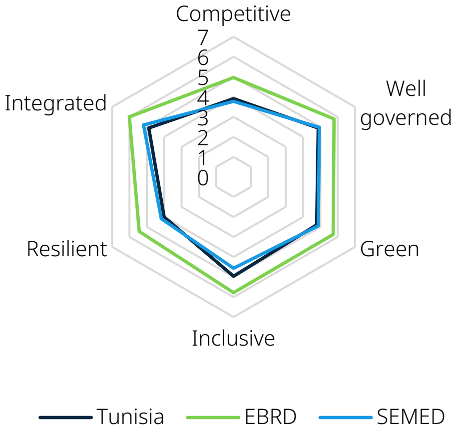
In the EBRD's 2024 assessment of transition qualities, Tunisia ranked 30th out of the EBRD's then 36 investee economies and fourth in SEMED, with an average score of 4.59.[134]

It scored highest on the "integrated" (4.89) and "well-governed" (4.88) qualities, while its lowest scores were for the "competitive" (3.91) and "resilient" (4.0) qualities, where there were significant gaps to the overall EBRD averages (Figure 24).[135]

Compared with all of the EBRD's investee economies, Tunisia is better governed (28th) and more inclusive (28th), but less integrated (32nd) (Table 2).

Relative to 2016, Tunisia became more resilient (+0.37 points), integrated, green and inclusive. However, it became less well governed (-0.37 points) and less competitive.

Figure 24. Assessment of transition qualities, 2024



Source: EBRD (2024).

Table 2. Tunisia's ATQ scores and rankings, 2024

	2016	2024	Ranking in SEMED (out of 6)	Ranking among EBRD economies (out of 36)
Competitive	4.13	↓3.91	3	28
Well governed	5.25	↓4.88	4	28
Green	4.65	↑4.79	4	31
Inclusive	4.86	↑4.96	2	28
Resilient	3.63	↑4.00	4	30
Integrated	4.70	↑4.89	5	32

Source: EBRD (2024).

134 See EBRD (2024).

135 The EBRD's assessment of transition qualities scores is based on a distance-to-frontier approach, with the best-performing countries used as benchmark. The resulting scores are rescaled from 1 to 10, where 1 represents little or no progress and 10 represents the frontier. The Bank considers six qualities of an economy, namely competitive, well governed, green, inclusive, resilient and integrated.

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