

ERF

Policy Research Report

Accelerating the Progress of Tunisia Towards the Sustainable Development Goals

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Summary

Tunisia is at a critical juncture as it navigates a complex landscape characterized by economic, social, and environmental challenges. This report provides a comprehensive examination of Tunisia's economic development trajectory, focusing on the country's progress toward the Sustainable Development Goals (SDGs), the factors influencing its economic performance, and the policy recommendations needed to accelerate progress.

Tunisia's economic growth has faced significant headwinds since the 2011 revolution. While the country experienced periods of robust growth in the early 2000s, with GDP growth peaking at over 6% annually, the post-revolution period has been characterized by a slow and uneven economic recovery. The growth rate fell to an average of 1.17% between 2011 and 2023, reflecting a combination of political instability, fiscal challenges, and structural weaknesses. Despite a modest rebound in 2021, when GDP growth reached 4.6%, the economy contracted to a meager 0.4% in 2023 due to external shocks and domestic constraints, such as the severe drought in 2023, which led to an 11% decline in agricultural production. In addition, ongoing fiscal consolidation efforts and financial pressures have further dampened the country's economic outlook.

The report shows that Tunisia's slow economic recovery has been exacerbated by persistent challenges such as political instability, insufficient structural reforms, and climate-related disruptions. The inability to address these challenges has hindered investor confidence and undermined policy implementation, further exacerbating socioeconomic disparities. The agricultural sector, which remains a vital component of the economy, continues to suffer from water scarcity and volatile production, highlighting the country's vulnerability to climate change. As agriculture employs a significant proportion of the workforce and contributes to the national diet, declining production in the sector threatens food security and rural livelihoods.

Despite these difficulties, Tunisia has made notable progress in several key areas of sustainable development. Tunisia's commitment to achieving the 2030 Agenda is reflected in its strategic adoption of the SDGs, with a particular focus on priorities such as quality education, clean water and sanitation, decent work and economic growth, reducing inequalities, and combating climate change. Tunisia ranks second in the Arab world and has made significant improvements in areas such as responsible consumption, climate action, and access to education. Initiatives to expand access to health care, empower women, and promote clean energy have contributed to this progress, although significant gaps remain in achieving broader economic inclusion and resilience.

The industrial sector has proven to be a cornerstone of Tunisia's economy, contributing 23.3% to GDP and employing about 34% of the labor force. Export-oriented sectors, particularly textiles, chemicals and manufacturing, have shown resilience despite global challenges. However, some traditional sectors such as leather, footwear, and wood-related industries have experienced declines. The services sector, on the other hand, has emerged as a dominant force in the economy, accounting for 60.3% of GDP and playing a pivotal role in employment and value addition. Advances in the ICT sector, combined with

Summary

the recovery of tourism, reflect a diversified economic base. In 2023, Tunisia welcomed 8.8 million tourists, generating revenues of TND 6.7 billion, signaling a recovery in the tourism sector that surpassed pre-pandemic levels.

Tunisia's macroeconomic policies, while focused on recovery, face numerous challenges. The fiscal deficit remains a critical concern, with public debt projected to reach 83.7% of GDP by 2024. The country's reliance on external financing and domestic borrowing underscores the urgency of comprehensive fiscal reforms to ensure sustainability and debt management. Similarly, the external sector has witnessed growing imbalances, driven by a widening trade deficit and declining foreign exchange reserves. Government efforts to curb imports and reduce foreign exchange outflows have led to shortages of essential goods, highlighting the need for strategic interventions to improve trade competitiveness and resilience.

The report examines the key drivers of economic development, highlighting the importance of education, health, institutional development, and infrastructure. Tunisia's progress in education and health is evident, but persistent challenges such as gender disparities, regional inequalities, and an over-reliance on low-value services hinder further progress. Infrastructure development, particularly digital and transport networks, remains critical to improving connectivity and fostering economic growth. The analysis also identifies climate change and environmental risks as major threats to sustainable development. Investments in renewable energy, efficient irrigation systems, and climate-resilient infrastructure are essential to mitigate these risks and safeguard Tunisia's development gains.

The report concludes with policy recommendations aimed at strengthening Tunisia's path to sustainable development. Key among these recommendations is the need for comprehensive structural reforms to enhance competitiveness, stimulate job creation and promote social inclusion. The adoption of a "just transition" approach, with a focus on environmental sustainability and social equity, is crucial to address deep-seated inequalities and build resilience to external shocks. In addition, strategic investments in human capital, infrastructure and technological innovation will be essential to promote inclusive growth and achieve the SDGs. This comprehensive approach is critical to unlocking Tunisia's potential and achieving long-term prosperity.

Introduction

Tunisia is currently experiencing a difficult economic environment. Tunisia is currently facing a number of significant challenges, both economic and political. These difficulties are exacerbated by social unrest characterized by protests and an unstable governance landscape, which has a negative impact on investor confidence and hampers policy implementation. The country also suffers from deep socioeconomic inequalities, with high unemployment rates, especially among the youth, and inadequate access to basic services fueling discontent and social unrest. In addition, the lingering effects of the COVID-19 pandemic continue to place a significant burden on the country's health system and social safety nets, exacerbating existing vulnerabilities.

Despite early signs of recovery, Tunisia's economic growth remained sluggish after the pandemic-related dip in 2020. While growth rebounded slightly to 4.6% in 2021, it slowed significantly to 2.6% in 2022 and reached only 0.4% in 2023, making Tunisia the only country among its regional peers with real GDP still below pre-pandemic levels (World Bank, 2024). Several factors contributed to this stagnation, most notably the severe drought in 2023, which led to an 11% decline in agricultural production. This decline in a key economic sector, combined with uncertain financial conditions and fiscal consolidation efforts, further hampered the country's economic prospects. The agricultural sector, which was already facing structural challenges, faced climate-related disruptions, exacerbating the impact on overall economic stability. In addition, external financing pressures and ongoing fiscal adjustments continue to pose challenges to Tunisia's broader recovery, underscoring the need for strategic measures to address these vulnerabilities and promote sustainable growth (World Bank, 2024).

The effects of the drought and other challenges continue to weigh heavily on Tunisia's economic landscape. Despite efforts to reduce imports and mitigate the impact on agricultural production, shortages of essential goods persist. This persistent shortage underscores the need to implement sustainable solutions aimed at increasing domestic production and building resilience to external shocks. It also underscores the importance of diversifying the economy to reduce dependence on sectors vulnerable to such disruptions.

Tunisia has made remarkable progress towards sustainable development, despite facing several challenges. Tunisia's progress towards the implementation of the 2030 Agenda is being achieved thanks to a national strategy for the adoption of the SDGs, and by considering the principle of LNOB (Leave

No One Behind). Tunisia, which joined the global sustainable development program for 2030 in 2015. It currently occupies the second place in the Arab world, but also in Africa (first place in 2020). Internationally, according to the SDSN (2022), it ranks 69th (out of 163 countries assessed) in 2021.

Nevertheless, Tunisia has made significant progress in four areas of the transition map of the seventeen Sustainable Development Goals (SDGs), namely education, access to drinking water and sanitation, responsible consumption, and the fight against climate change. To accelerate Tunisia's development and its commitments within the framework of the 2030 Agenda (United Nations, 2015), Sustainable Development Goals 1 (no poverty), 3 (good health and well-being), 4 (quality education), 5 (gender equality), 6 (clean water and sanitation), 8 (decent work and economic growth), 10 (reducing inequalities), 13 (combating climate change), 16 (peace, justice and effective institutions) and 17 (partnership to achieve the goals) have been identified as priorities. Taken together, these 10 SDGs are key enablers that can help unlock Tunisia's potential and achieve the goals of the 2030 Agenda.

The country has demonstrated its commitment to environmental protection with initiatives aimed at mitigating the effects of climate change and promoting renewable energy sources. Investments in clean energy projects such as solar and wind power have gained momentum, contributing to a more sustainable energy mix and reducing dependence on fossil fuels. For more than two decades, Tunisia has demonstrated a strong commitment to integrating climate and environmental considerations into its strategic planning. This commitment is evident in the adoption of strategies to achieve low-carbon development and carbon neutrality by 2050. Its National Strategy for Low Carbon Development (SNBC) and Resilient to Climate Change (RCC) by 2050 sets a path towards a sustainable and resilient economy. The strategy, which was finalized in October 2022, calls for a significant reduction in greenhouse gas (GHG) emissions and promotes development adapted to climate impacts, particularly for the most vulnerable sectors.

Efforts to improve education and health care have also advanced Tunisia's sustainable development agenda. Expanding access to quality education and health services, particularly in rural and underserved areas, has enhanced human capital and promoted social inclusion. In addition, initiatives to empower women and youth, including through entrepreneurship and skills development programs, are driving social progress and economic resilience.



Tunisia's commitment to sustainable development is also reflected in its efforts to promote inclusive economic growth and job creation. Initiatives to support small and medium-sized enterprises (SMEs), promote innovation, and enhance competitiveness are fostering a more dynamic and diversified economy. In addition, investments in infrastructure development, including transport and digital connectivity, are laying the foundation for long-term economic growth and prosperity.

An integral part of this process is the concept of “just transition”, which envisions a transformative path toward economies that are not only environmentally sustainable, but also socially just. This approach goes beyond traditional environmental concerns to address historical and contemporary issues of gender, race, class, and other forms of social inequality. It emphasizes a multidimensional form of justice - procedural, redistributive, and restorative - and encompasses interactions at local, national, and international levels.

The objective of this report is to provide a comprehensive analysis of Tunisia's economic development performance, covering key areas such as growth analysis, macroeconomic policies, SDG performance, and drivers of economic development. This report is to conduct a comprehensive analysis of Tunisia's economic development performance, encompassing key areas such as growth analysis, macroeconomic policies, SDG performance, and drivers of economic development. The aim is to provide valuable insights into Tunisia's economic landscape and policy recommendations aimed at accelerating progress towards the SDGs, thereby contributing to informed decision-making and sustainable development strategies in Tunisia.

The report is organized into several sections, each of which provides a comprehensive analysis of Tunisia's economic development performance. The first section includes an in-depth examination of growth analysis, macroeconomic policies, and SDG performance. The second section examines key drivers of Tunisia's economic development, including education, health, population dynamics, institutional development, financial sector development, infrastructure, energy, and environmental and climate risks. Finally, the report concludes with policy recommendations to strengthen Tunisia's progress toward the SDGs.

1. Analysis of economic development performance

This chapter provides an in-depth analysis of Tunisia's economic development performance. It examines various aspects, starting with a detailed analysis of growth patterns, including economic growth, the decomposition of Tunisia's GDP, and productivity growth. It then examines the macroeconomic landscape, covering fiscal, external, monetary, and exchange rate policies. Finally, it assesses Tunisia's progress towards the Sustainable Development Goals (SDGs), providing a comprehensive view of the country's economic trajectory and policy framework.

1.1. Growth analysis

This section explores the growth dynamics of Tunisia's economy in depth, analyzing in detail key components and indicators to provide an in-depth understanding. The examination begins with an analysis of the country's overall economic growth, highlighting prevailing trends, driving forces and potential constraints affecting GDP expansion. It then provides a detailed decomposition of Tunisia's GDP, breaking it down into its constituent sectors or factors in order to identify areas of strength and weakness. The analysis also considers productivity growth, assessing the efficiency and effectiveness of resource use and technological advances in driving economic output. This comprehensive examination provides valuable insights into the nuances of Tunisia's growth trajectory and the factors shaping its economic performance.

1.1.1. Economic growth

Tunisia's economic growth has been characterized by a pattern of limited and uneven progress over the years. The country's period of robust and sustained growth from the early 2000s came to an abrupt halt after the 2011 revolution. According to the World Development Indicators (2024),¹ pre-revolution Tunisia experienced an average GDP growth rate of about 4.22% per year between 2000 and 2010. However, the political and socio-economic upheavals that followed led to a significant slowdown, with an average growth rate of only 1.17%

¹ World Development Indicators. (2024). World Development Indicators. World Bank. Available at: <https://databank.worldbank.org/reports.aspx?source=2&country=TUN>.



between 2011 and 2023, highlighting a stark shift in the country's economic dynamics.

The post-revolution period has been marked by numerous challenges that have hindered economic recovery and stability. In 2022, the country's GDP grew at a rate of 2.60%, but this growth proved unsustainable as it fell sharply to 0.42% in 2023. Tunisia's GDP grew by 1.8% year-on-year and 0.8% quarter-on-quarter in Q3 2024, reflecting modest economic recovery driven by agricultural growth and domestic demand, despite challenges in the energy and construction sectors (INS, 2024). This downturn was primarily attributed to a significant decline in rainfed wheat production, exacerbated by inadequate rainfall, which underscored the economy's vulnerability to environmental factors (World Bank, 2024).

Despite early signs of recovery, Tunisia's economic trajectory remains subdued after the pandemic-induced downturn in 2020. After a modest rebound in 2021 with GDP growth of 4.6%, the pace of growth slows sharply to 2.6% in 2022 and only 0.4% in 2023 (IMF, 2024). By 2023, Tunisia was the only country in the region where real GDP had not returned to pre-pandemic levels. Several factors contributed to this stagnation, including a severe drought in 2023 that led to an 11% decline in agricultural production, a crucial sector for the country's economy. In addition, uncertain financial conditions and ongoing fiscal consolidation efforts further hampered the country's recovery prospects. The broader economic context shows that while the country experienced periods of relatively strong growth in the early 2000s, with peaks such as 6.24% in 2004 and 6.71% in 2007, the

growth trend has remained uneven, with sharp declines during crises such as the 2011 revolution and the 2020 pandemic (World Development Indicators, 2024). As shown in Figures 1 and 2, this pattern of fluctuating growth rates and recent setbacks underscores the urgent need for strategic interventions to promote sustainable and inclusive growth in Tunisia. According to the IMF (2024), Tunisia's real GDP growth is projected to reach 1.6% in both 2024 and 2025, indicating a modest recovery that remains well below pre-revolution levels. The IMF's forecast reflects persistent structural challenges and external constraints, such as political instability and environmental vulnerabilities, which are likely to continue to hinder substantial economic growth.

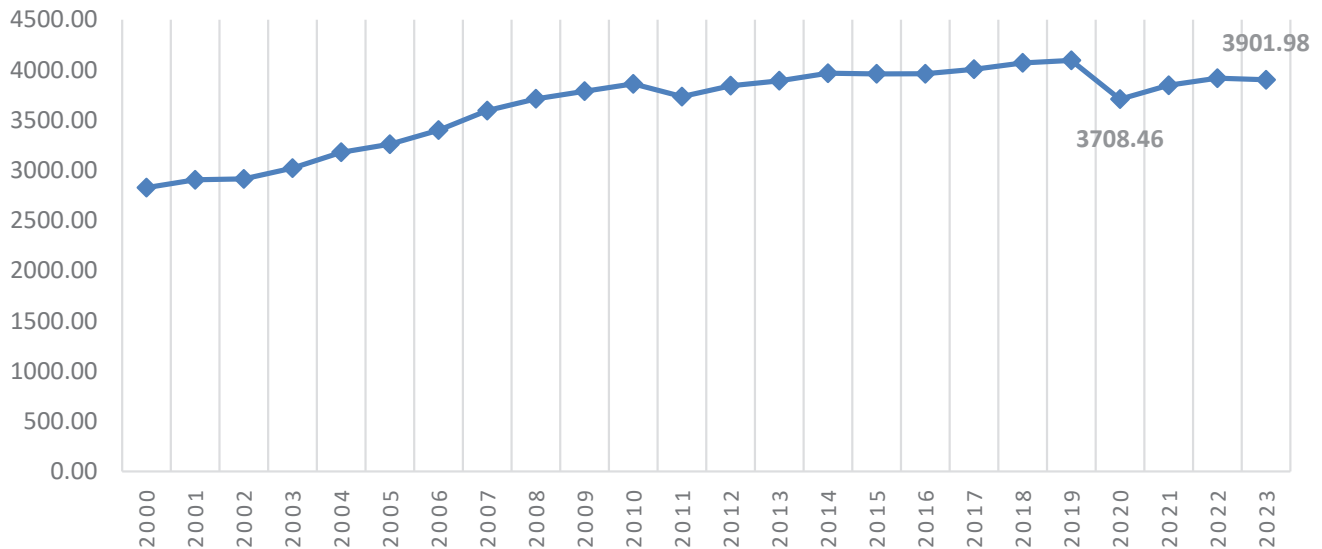
Several factors affect Tunisia's economic growth. Government intervention, internal shocks such as political instability and lack of structural reforms, weak productivity growth, external shocks (oil price, wars, pandemics, financial crisis) and climate change are the main factors hindering the country's economic growth. Political instability. Political instability since the 2011 revolution has been a significant drag on Tunisia's economy. The transition from the Ben Ali regime ushered in a period of transition characterized by recurring governance challenges and institutional disruptions. This uncertainty has adversely affected the business environment, deterred investment, and impeded the implementation of coherent economic policies. The Tunisian state's interventions, particularly after the revolution, have become a source of major distortions in the economy. Markets have become increasingly concentrated, creating barriers to entry, while the

Figure 1. Real GDP growth (Annual percent change)



Source: World Development Indicators, 2024



Figure 2. GDP per capita (constant 2015 US\$)

Source: World Development Indicators, 2024

cost of doing business in all sectors remains high, including burdensome investment, trade, and licensing regulations, limited access to finance, and an expanding public administration. The inability to create a business-friendly environment has perpetuated a cycle of economic stagnation, hampering prospects for sustainable growth. Lack of structural reforms. The lack of comprehensive structural reforms has emerged as a major obstacle to Tunisia's economic revitalization. Despite the need to unleash dormant potential and foster innovation, the pace of reform has been slow, exacerbating existing structural deficiencies. The absence of measures to streamline bureaucracy, enhance competitiveness, and promote entrepreneurship has resulted in a lack of dynamism in the economy. It is therefore imperative to address these structural bottlenecks in order to boost investor confidence, stimulate job creation, and reignite the engines of growth to ensure Tunisia's long-term prosperity.

Weak productivity. In addition to political instability and a lack of reforms, low productivity is a major constraint on sustainable growth and development. Despite efforts to stimulate economic activity, productivity levels remain subdued, hampering the country's ability to compete effectively in global markets and generate sustainable prosperity. Factors such as inadequate investment in innovation and inefficiencies in resource allocation contribute to this productivity malaise, which stifles the potential for economic expansion and job creation.

External shocks. In addition to persistent internal problems, external shocks have severely affected the Tunisian economy, which has been characterized by a series of crises. The onset of the COVID-19 pandemic

exacerbated existing vulnerabilities by disrupting supply chains and dampening domestic and external demand. Economic growth plummeted as a result of the global COVID-19 pandemic in 2020; GDP per capita fell by 10%. In addition, the aftermath of the Russian-Ukrainian war led to a spike in commodity prices, further straining Tunisia's economic resilience. These external shocks illustrate the country's vulnerability to global events and its limited ability to insulate itself from their impact.

Climate change. Tunisia is currently experiencing a series of severe heat waves and prolonged droughts that are having a disastrous impact on small farmers and agriculture in general. The recent economic slowdown reflects the severe drought in 2023 (with agriculture declining by 11% in real terms), uncertain financing conditions, and some fiscal consolidation (World Bank, 2024). Shortages of some basic commodities have persisted amid import compression and declining agricultural production. The impact of these shifts has been disproportionately felt by marginalized segments of society, particularly smallholder farmers, agropastoralists, agricultural workers, and fisherfolk. The average number of jobs lost due to climate change is estimated to be 1,000 per year by 2030 (UNFCCC, 2022).

State intervention. The weight and efficiency of the Tunisian state are important factors influencing the country's economic growth. The Tunisian state has historically been a major player in the overall economic design. It was the architect of Tunisia's economic specialization, particularly through the promotion of tourism, agriculture, industrial groups and financial services. But this role, which was perfectly suited to



a nascent economy in the 20th century, is no longer relevant today. Increasing state intervention, without effectiveness and efficiency, is now limiting economic growth and wealth creation.

1.1.2. Decomposition of Tunisian GDP: low structural transformation of the economy during the last decade

The inability to reallocate resources to more productive sectors has weakened growth. This is confirmed by decomposing overall productivity growth into an intra-sector component and a “structural change” component, the latter being a reallocation of resources across sectors. Although jobs and economic value shifted from agriculture to services, this had little impact on growth between 2000 and 2010, as resources were mostly reallocated to slower-growing sectors.

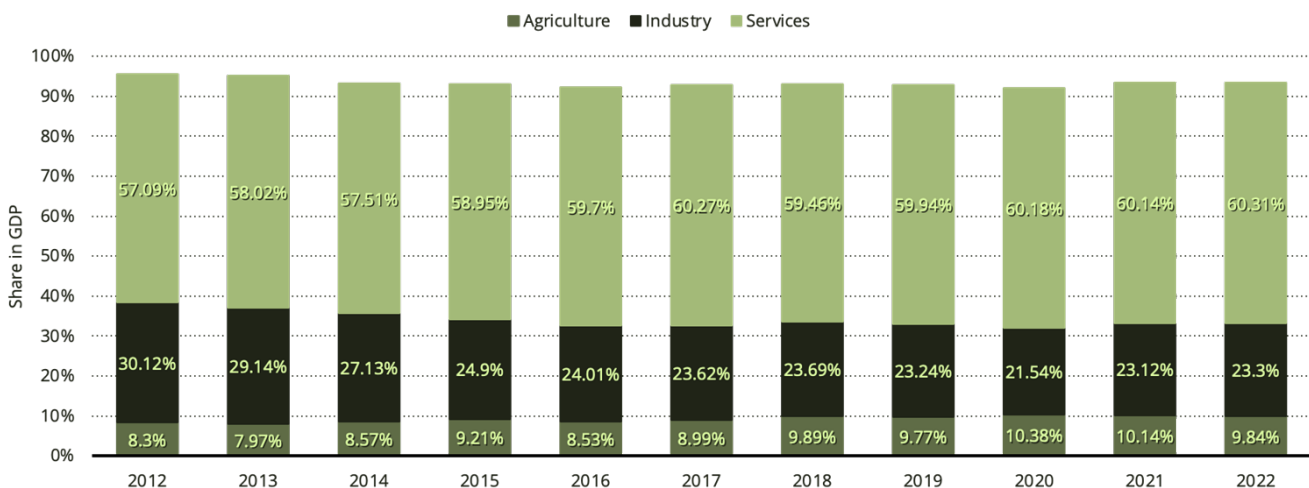
Tunisia is known for its diverse economy, which includes a range of sectors, including agriculture, mining, manufacturing, petroleum products, and tourism (see Figure 3). However, the market has become increasingly concentrated, creating barriers to entry. The economy is subject to significant government control. For example, the government and state-owned institutions continue to exert a dominant influence in key sectors of the economy, including finance, hydrocarbons, pharmaceuticals, and utilities. At the same time, the cost of doing business remains high, including some onerous business regulations and limited access to finance.

The agricultural sector remains a vital component of Tunisia’s economy, contributing 9.47% of the country’s GDP in 2023, down from 17.03% in 1970, reflecting its

gradual but continuing importance (World Development Indicators, 2024). The country’s agricultural area has increased over time, peaking at 100,720 square kilometers in 2011 before declining slightly to about 97,005 square kilometers in 2021, representing 62.44% of Tunisia’s total land area. Despite these changes, the share of employment in agriculture has declined, from 20.26% in 2000 to 14.39% in 2021, as the economy has shifted toward the service sector, which now employs over 52% of the workforce (World Bank, 2024). Modernization efforts have focused on improving the productivity of key crops such as olive trees, fruit trees, and palm trees, along with a growing emphasis on organic farming, positioning Tunisia as a leader in organic agricultural production in Africa. Olive oil remains the cornerstone of agricultural exports, supported by strong yields of dates, olives, and fresh fruit. In 2023, food exports increased by 21.3%, driven by a 52.4% increase in olive oil exports, while food imports decreased by 6.2%, thanks to an 11.2% reduction in cereal imports and a 40% reduction in vegetable oils, highlighting Tunisia’s efforts to increase food self-sufficiency and economic sustainability (Food and Agriculture Organization, 2024).

The industrial sector in Tunisia is a cornerstone of the national economy, contributing 23.3% to the country’s GDP and employing approximately 34% of the active population (World Development Indicators, 2024). Tunisia’s industrial sectors are primarily export-oriented, reinforcing the country’s integration into global value chains, particularly with Europe. Key industrial segments, such as chemicals, textiles and clothing, have shown signs of resilience and growth even amid global economic fluctuations. However, other sectors, including leather and footwear, paper and board, plastics and wood products, have experienced significant declines. The COVID-19 pandemic exacerbated these challenges, hitting sectors such as textiles and

Figure 3. Share of economic sectors in gross domestic product (GDP) from 2012 to 2022



Source: World Bank, 2024



machinery particularly hard and causing significant disruptions in their supply chains. Despite these setbacks, the manufacturing sector, which accounts for around 15% of GDP, remains a critical link in European production chains. According to recent statistics, the manufacturing production index stood at 105.3 in 2022, indicating a recovery from the economic impact of the pandemic and an overall improvement in production output (World Development Indicators, 2024). These developments underscore the need for continued modernization and diversification to strengthen Tunisia's industrial competitiveness and resilience.

In contrast, the services sector has become the dominant force in Tunisia's economy, accounting for 60.3% of GDP and employing more than half of the workforce. This growth is being driven by rapid advances in the ICT sector, which is increasingly becoming a significant contributor to the economy. In addition, tourism, a key pillar of Tunisia's economy, is experiencing a resurgence after a severe downturn due to international restrictions during the COVID-19 pandemic. In 2023, Tunisia welcomed 8.8 million tourists, a significant increase of 49.3% over the previous year and above pre-pandemic levels. This recovery translated into revenue gains, with the tourism sector generating about TND 6.7 billion, equivalent to about EUR 2 billion (World Bank, 2024). The increase in tourist arrivals and revenues not only signals a positive trend in the sector, but also reflects broader efforts to enhance the country's attractiveness as a tourism destination. In addition to tourism, vocational training and research in the services sector have gained traction, contributing to a diversified economy that leverages both human capital and technological advances. Tunisia's strategic focus on strengthening its industrial and services sectors is critical to ensuring sustainable economic growth and achieving long-term development goals.

Several factors should be mentioned when discussing the decomposition of the Tunisian GDP:

Deindustrialization. The process of deindustrialization in Tunisia can be attributed to a lack of competitiveness, as evidenced by a low labor productivity growth rate. A number of factors have contributed to the deterioration of Tunisia's competitiveness, including political instability, corruption, inefficient government bureaucracy, lack of adequate competition policies, an unfair tax system, skills gaps, and labor market rigidities. Moreover, openness remains a key driver of industrialization. "Trade has played a pivotal role as a conduit for technological spillovers, facilitated by the import of intermediate goods and equipment from developed countries and

the expansion of export opportunities" (Mouelhi and Mechergui, 2023).

Specialization in low value-added services. Tunisia's specialization in low value-added services has implications for its economic competitiveness and growth prospects. While services play an important role in the economy, the predominance of low value-added services limits the country's ability to achieve higher margins and generate sustainable growth. Diversifying the services sector into higher value-added activities through investment in education, skills development and technology adoption is essential to open new avenues for economic expansion and enhance Tunisia's global competitiveness.

New opportunities in ICT and services. The ICT sector in Tunisia contributes 7.5% of GDP and employs approximately 86,000 people (Kallal et al., 2021). The sector includes 2,120 private companies, 219 shared service centers and eight development centers serving multinational companies. The ICT sector is experiencing rapid growth, but still requires significant investment. According to a World Bank report, ICT companies are relatively young and small and lack the capacity to handle large orders. About 80% of these companies have fewer than 50 employees. Despite the prevailing circumstances, companies in the ICT sector are performing well. The majority of these companies monitor their production processes through the use of computer-based systems, which in turn requires the hiring of additional personnel. Moreover, the IT, web and telephony sector affects all sectors of activity, including banking, transport, construction, audiovisual, agriculture, etc.

New niche industries (aeronautics, cars and cables...). In the aeronautics sector, Tunisia is seeking to establish itself as an industrial hub with high value-added capabilities in the manufacture of avionics, aircraft maintenance, engine components, air traffic control equipment and other areas. There are currently 90 export-oriented aerospace companies, mainly French, operating in Tunisia in a wide range of sectors, including aircraft maintenance, aerospace wiring, engineering and consulting, sheet metal cutting and assembly, software development, and electronics. By 2022, the aerospace industry will employ approximately 20,000 people. The Tunisian Aerospace Industry Association (ASITA) is a leading Tunisian aerospace industry trade organization with 51 member companies.

Agriculture is highly vulnerable to climate change. Issues of water scarcity, rising temperatures and changing rainfall patterns could reduce agricultural yields by 10-



30% by 2050. In addition to threatening food security, this could lead to an increase in rural unemployment and indirectly affect children’s education and health. However, investments in efficient irrigation systems, drought-resistant crops and sustainable agricultural practices could mitigate these impacts. The lack of rainfall during the first five months of 2023 exacerbated the drought conditions that have prevailed in Tunisia for the past six years. The cereal sector, which accounts for a significant portion of the national diet, is a case in point. The area under wheat cultivation has declined in recent years, from 1.5 million hectares in 2011 to 1.1 million hectares in 2021. As a result, domestic grain production has fallen by about two-thirds from the previous year. This represents a reduction of just over a quarter compared to the same period in 2020. This trajectory exemplifies a broader trend within the agricultural sector, with value added declining by 11.2% between 2019 and 2023 (World Bank, 2023).

Difficulties related to tourism and its diversification. In the early years of the 21st century, Tunisia and its neighboring countries were affected by a series of crises that had a negative impact on their respective travel industries. The country has experienced a number of terrorist incidents that have contributed to its instability and made it a less safe destination. On the other hand, Tunisia’s tourism sector has often been criticized for its lack of product diversification. The country’s tourism industry is heavily dependent

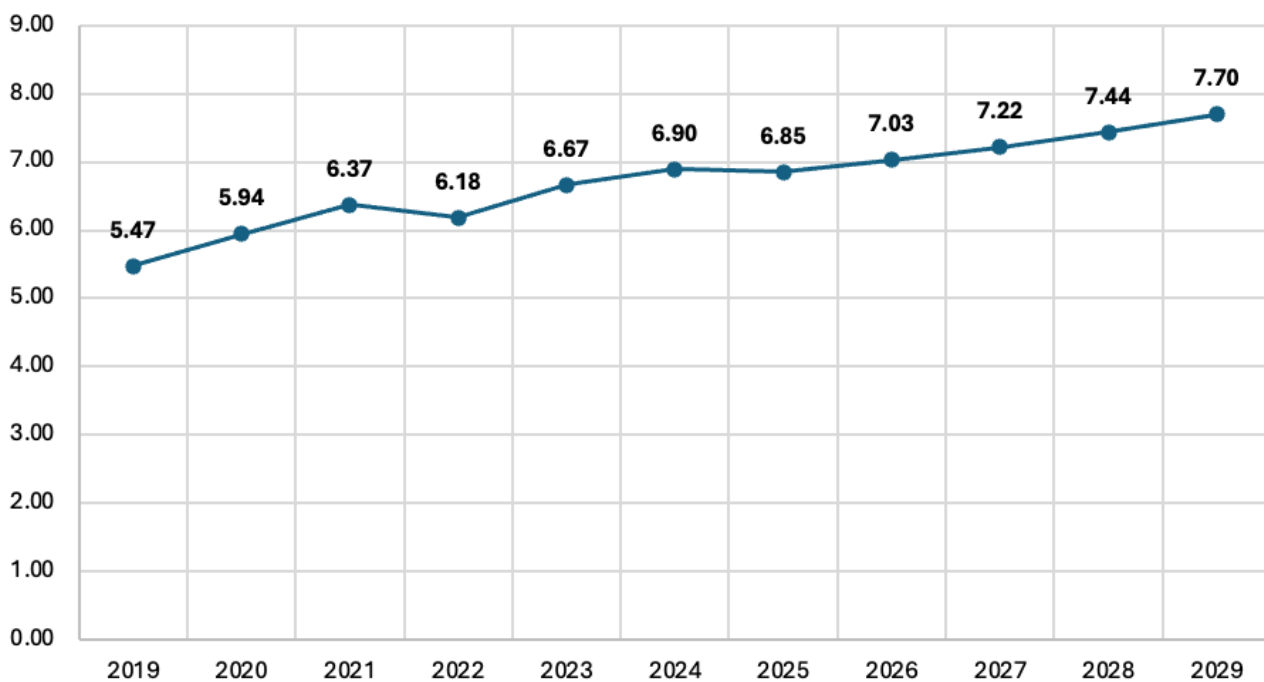
on beach tourism, which accounts for 85.7% of all visitors to Tunisia. The prevalence of beaches, which appear to be more developed than other attractions (such as thalassotherapy, golf, cultural attractions, desert tours, sailing, cruising and business), has at times led to Tunisia being perceived as more of a “hotel” destination than a tourist one. Nevertheless, the tourism sector has been instrumental in reducing the current account deficit in 2023.

1.1.3. Productivity growth

According to the most recent data from the National Labor Force Survey, approximately 3.6 million Tunisians are currently employed, representing an employment-to-population ratio of 40%. The labor market is dominated by men, who account for 74% of the total employed population, while women account for 26% (see the Gender subsection for more details). Approximately 8% of the workforce is employed in the public sector, while 92% is employed in the private sector. The data indicate that the proportion of employees in more formal positions is slightly increasing, while the number of self-employed is decreasing.

Since the end of the 2010s, labor productivity in Tunisia has remained flat, in line with the regional average for North Africa, but lagging behind Egypt, as shown in Figure 4. Labor productivity in Tunisia was \$6.67 and is projected to be \$6.90 in 2024. The annual growth rate of output per worker began to decline in 2019 as a result of

Figure 4. Labor productivity in USD



Source: African Development Bank, 2024



social and economic disruptions. In addition, the decline accelerates in 2020 due to the impact of the Covid-19 pandemic. A mismatch between labor supply and demand also contributes to the population's unmet need for employment. This lack of robust labor productivity growth poses a challenge to the achievement of the SDGs.

Tunisia's labor share of national income benefited from a small tailwind in the 2010s, reaching 48% in 2019, above the average of other North African countries (Danish Trade Union Development Agency, 2024). This was mainly due to an increase in the number of employees, the inflow of remittances, and the application of universal subsidies. However, as illustrated in Figure 5, the deterioration of the political, social, and economic environment in the early 2020s has reduced the potential for improvement in the labor share of national income. A transformation that includes the growing power of new technologies, globalization, and the widespread informal economy further calls into question Tunisia's ability to achieve the SDG on greater equality.

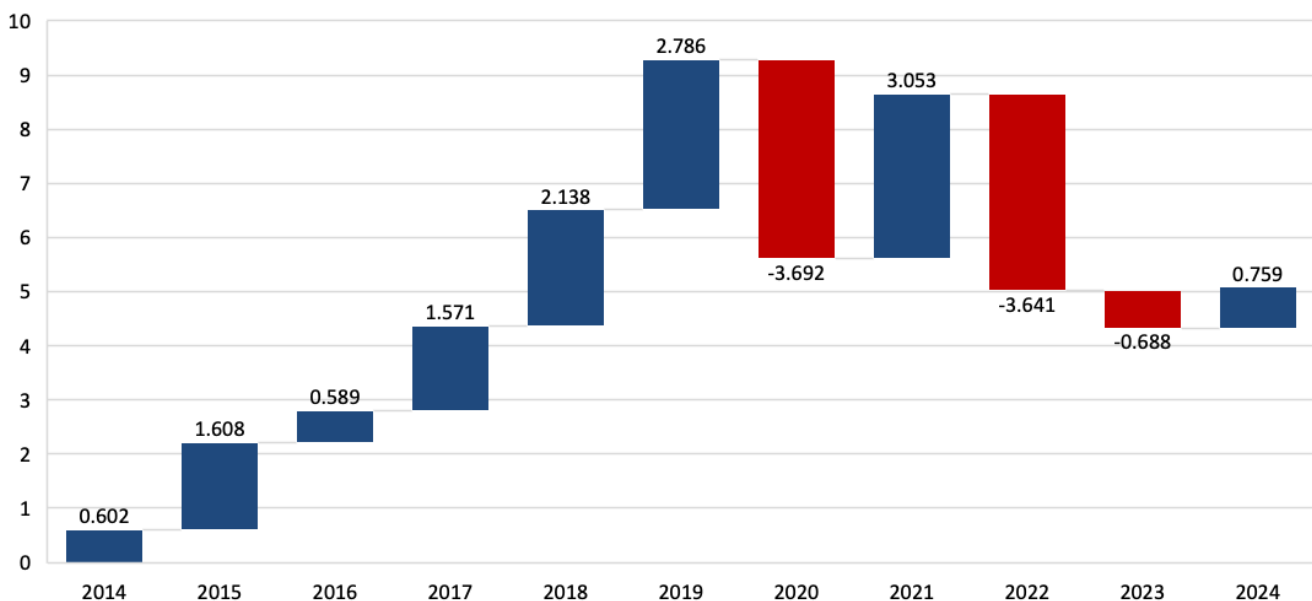
Another problem is that Tunisian firms represent about 97% of micro-enterprises with five or fewer employees. The majority of these businesses operate in the informal economy. Despite the country's relatively high to medium level of ease of doing business, economic and political instability has had a negative impact on the business ecosystem, including weak job creation. In addition, decades of corruption, clientelism, and lack of strategic planning have contributed to the challenges faced by these businesses.

Tunisia faces significant challenges in improving capital productivity, as the efficient use of resources has not kept pace with economic growth. According to the World Bank's Development Indicators, Tunisia's gross capital formation will reach approximately \$8.3 billion in 2022. Bureaucratic barriers, a fragmented business environment, and limited access to finance prevent companies from adopting innovative technologies and optimizing their operations. This situation is exacerbated by a mismatch between the skills required by the evolving market and those provided by the education system, which limits Tunisia's global competitiveness. As shown in Figure 6, gross fixed capital formation as a percentage of GDP underscores the need for strategic reforms in governance, education, and the investment climate. These reforms are essential to unlock Tunisia's economic potential and promote sustainable growth.

Another problem is that Tunisian firms represent about 97% of micro-enterprises with five or fewer employees. The majority of these businesses operate in the informal economy. Despite the country's relatively high to medium level of ease of doing business, economic and political instability has had a negative impact on the business ecosystem, including weak job creation. In addition, decades of corruption, clientelism, and lack of strategic planning have contributed to the challenges faced by these businesses.

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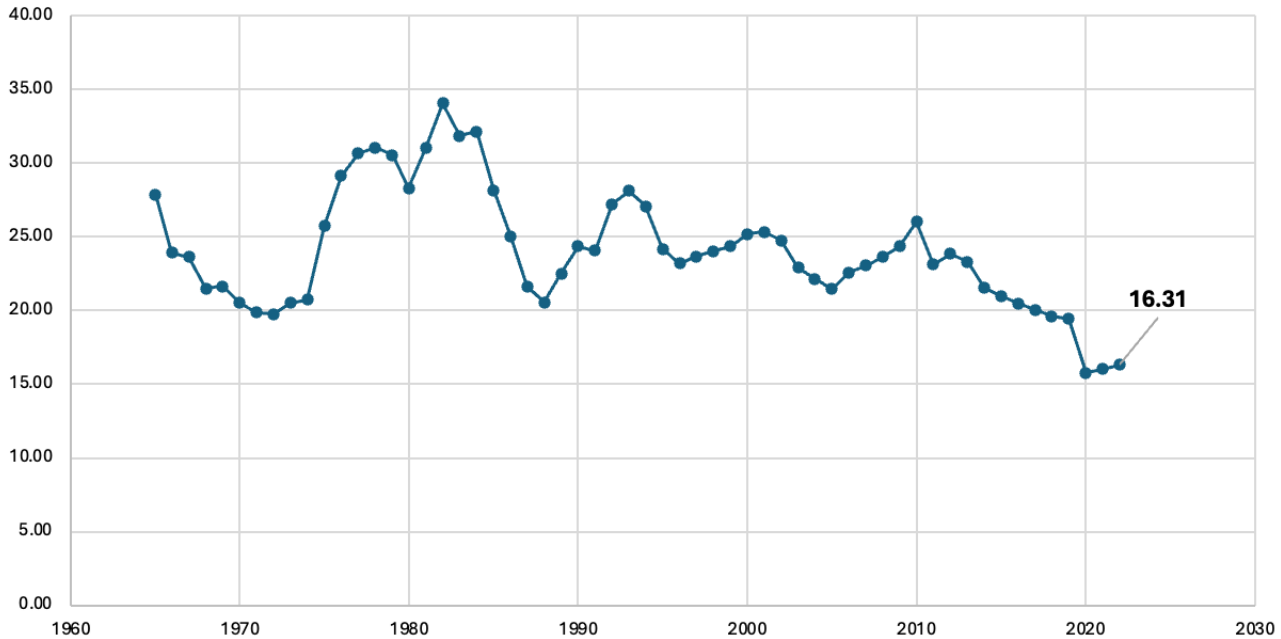
Figure 5. Annual growth rate of output per worker (GDP constant 2017 international \$ at PPP) (%)



Source: International Labour Organization, 2024



Figure 6. Gross fixed capital formation (% of GDP)



Source: World Development Indicators, 2024

capital formation will reach approximately \$8.3 billion in 2022. Bureaucratic barriers, a fragmented business environment, and limited access to finance prevent companies from adopting innovative technologies and optimizing their operations. This situation is exacerbated by a mismatch between the skills required by the evolving market and those provided by the education system, which limits Tunisia's global competitiveness. As shown in Figure 6, gross fixed capital formation as a percentage of GDP underscores the need for strategic reforms in governance, education, and the investment climate. These reforms are essential to unlock Tunisia's economic potential and promote sustainable growth.

Total factor productivity (TFP), which includes technology absorption and organizational change, is a key driver of economic growth and competitiveness in Tunisia. Tunisia's TFP at constant national prices is 0.9, based on the 2017=1 index, as shown in Figure 7. However, the country faces difficulties in fully exploiting this potential. While there are efforts to adopt new technologies, there are still significant barriers to widespread implementation, including limited access to financing for innovation and inadequate infrastructure. Moreover, the tendency of organizations to resist change and the difficulty of optimizing existing resources due to organizational inertia are additional obstacles to overcome.

The study by Grundke and Cassimon (2022) shows that Tunisian firms that use imported inputs have 4.4% higher total factor productivity than those that use only domestic inputs. In addition, firms using technology licensed from a foreign firm have 5.8% higher total factor productivity (Figure 8). These results underscore the importance of reducing import barriers to facilitate technology diffusion. They also show that a 50% reduction in input tariffs is associated with an increase in labor productivity (measured as value added per worker) of about 10%. Achieving these productivity gains would boost exports, particularly for onshore firms, where exports would increase by more than 25%. Offshore firms are exempt from tariffs, so changes in input tariffs do not significantly affect their exports.

The rate of technological absorption and innovation in Tunisia's productive sector is below optimal levels. In 2020, there were 16,497 active companies in the ICT sector. Despite the implementation of significant structural modernization programs, the level of innovation and technological absorption in Tunisian industry remained low. This low level of technological absorption and innovation results in an outdated and inefficient production system. At the same time, there is a high level of investment in digital technologies. These investments are expected to lead to greater innovation, more efficient use of resources, and reduced mobility and transport demand.



Figure 7. Total factor productivity at constant national prices for Tunisia, index 2017=1, annual, not seasonally adjusted

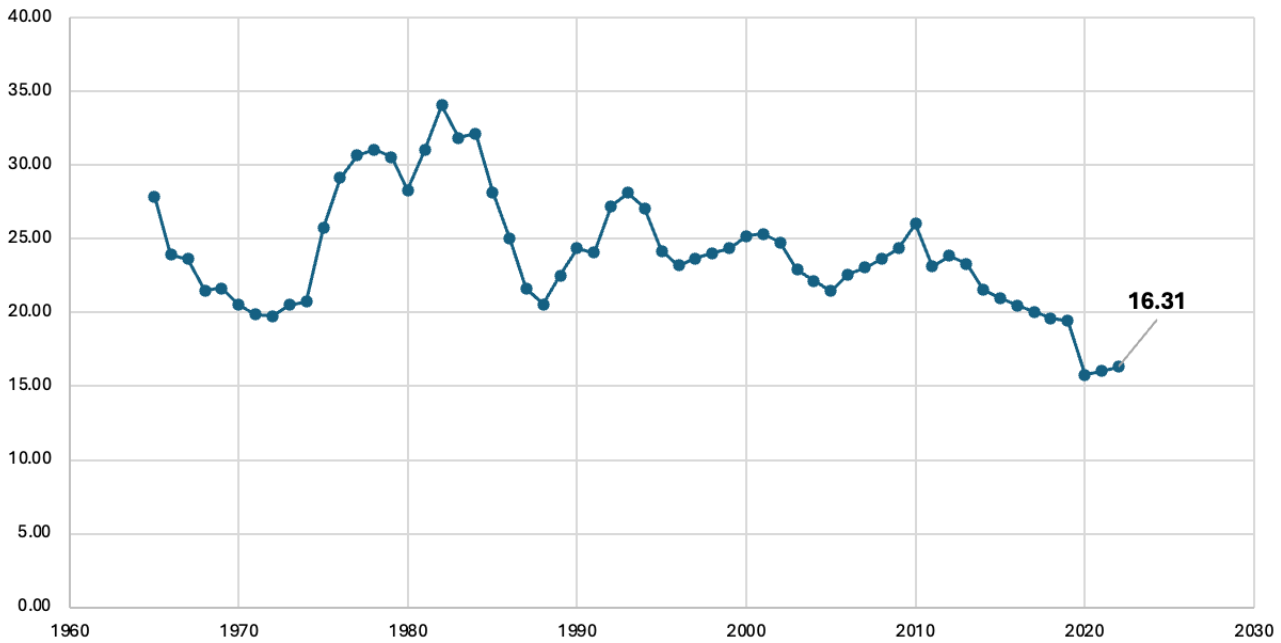
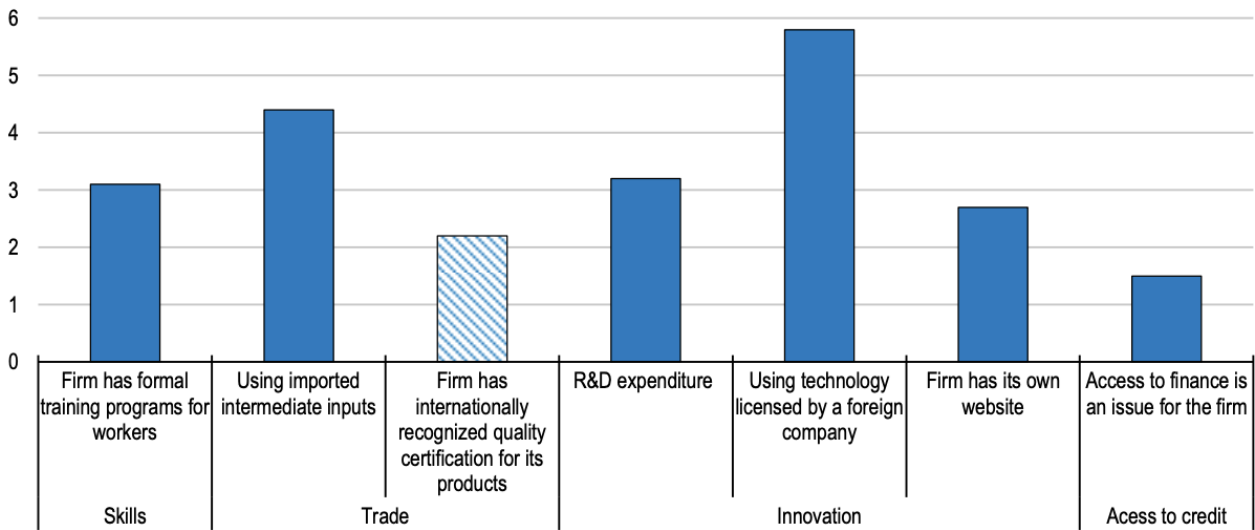


Figure 8. Change in Total Factor Productivity (TFP) of firms (in %)



Source: Grundke and Cassimon, 2022

The rate of innovation production by firms is low and unstable. This weakness is mainly explained by financial, organizational and institutional barriers. Two main obstacles identified by enterprises are the lack of funding sources and the lack of skilled human resources.

As a result, enterprises, including SMEs, are unable to overcome technological and organizational difficulties. In view of economic considerations and the associated costs of innovation, some enterprises are forced to postpone their innovation projects.



1.2. Macroeconomic policies

This section aims to provide a comprehensive analysis of Tunisia's macroeconomic policies, focusing on four key areas: the fiscal situation, the external situation (including external debt and trade), monetary policy, and exchange rate policy. By examining these aspects, the section seeks to provide insights into Tunisia's overall economic health, the effectiveness of its policies, and its standing within the global economic landscape. Through a comprehensive examination of each section, readers will be able to gain a nuanced understanding of the challenges, opportunities, and policy responses that shape Tunisia's macroeconomic environment.

1.2.1. Fiscal situation

During the post-revolutionary period from 2011 to 2017, Tunisia experienced significant challenges in maintaining a balanced public budget. The budget deficit, excluding privatizations and donations, averaged 5.38% of GDP over these seven years, peaking dramatically at 6.9% in 2013. Despite initial improvements in subsequent years, the deficit persisted, reaching 6.1% of GDP in both 2016 and 2017. A combination of social unrest, political instability, and national uncertainty contributed to this precarious fiscal situation. Moreover, the evolution of the primary fiscal balance from 2000 to 2017 showed fluctuations between periods of surplus and deficit. However, since 2011, Tunisia has consistently recorded a primary deficit that has worsened each year, from 0.61% of GDP in 2011 to 2.74% in 2016 and 2017, an unprecedented level in the last two decades.

Tunisia has recorded a primary deficit every year from 2011 to 2023, averaging around 4% of GDP since 2010, in stark contrast to the surplus during the presidency of Zine El-Abidin Ben Ali prior to 2011. Despite fiscal consolidation efforts after 2017, the COVID-19 pandemic triggered a sharp reversal, with the average deficit rising to 9% of GDP between 2020 and 2022. In 2022, the deficit was 8.6 per cent of GDP. The economic disruptions caused by the pandemic, including a decline in revenues and an increase in health spending, were compounded by global market volatility stemming from geopolitical tensions, exacerbating Tunisia's fiscal challenges. These crises are likely to have increased the country's public debt burden, requiring comprehensive fiscal reforms and prudent financial management to ensure sustainability and meet debt obligations. In some cases, external support may be needed to alleviate economic pressures. Financing the budget deficit has become an increasingly pressing challenge for Tunisia. Initially, generous loans from bilateral donors and multilateral development

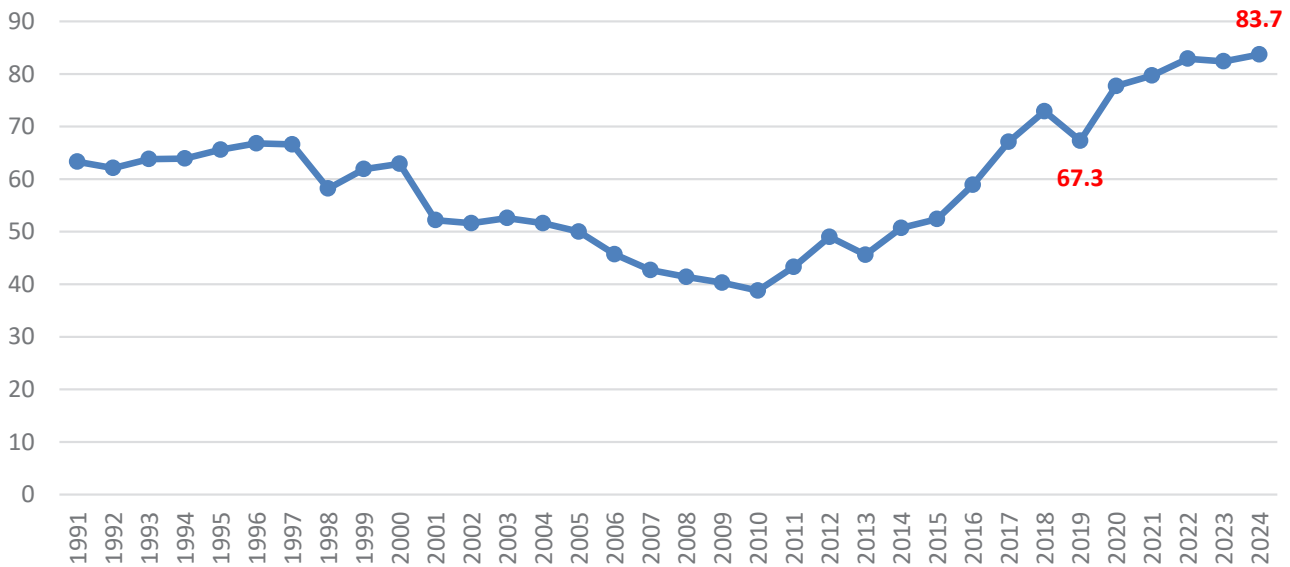
banks, as well as borrowing from the Eurobond market at favorable interest rates, provided essential financing. However, despite two IMF programs in 2013 and 2016, persistent deficits pointed to deeper structural fiscal problems. After 2017, as external borrowing conditions tightened, Tunisia shifted to domestic financing, crowding out private investment by diverting available capital to government needs. This shift contributed to an increase in public debt, which rises from 67.3% of GDP in 2019 to 83.7% in 2024, as shown in Figure 9. This reflects the combined impact of political instability, external shocks, and limited fiscal consolidation efforts. Notably, internal and external debt levels are roughly equal, highlighting a balanced but increasing reliance on both sources of financing. This upward debt trend signals the urgent need for comprehensive fiscal reforms to prevent further erosion of the country's fiscal health and ensure sustainable debt management strategies.

Transfers and subsidies have continued to rise, reaching 12% of GDP in 2022, among the highest in the Middle East and North Africa region. Social policies were gradually expanded after 2011, but in recent years subsidies have increased sharply to mitigate the impact of higher international food and fuel prices. Subsidies mainly cover petroleum products, electricity, gas, and cereals. The cost of these transfers has risen from 2.4% of GDP in 2010 to 6% in 2018 and more than 10% in 2022. Transfers, which include social transfers and funding for state-owned enterprises (SOEs), amount to about 5% of GDP in 2022.

In 2022, Tunisia's total tax revenue amounted to about 35 billion Tunisian dinars, or about \$11 billion, an increase from the previous year's collection of 30 billion dinars, or about \$9.7 billion, as shown in Figure 10. Indirect taxes, including customs duties and value-added taxes (VAT), remained the main sources of government revenue. In 2023, tax revenues reached 30.1% of GDP, well above the 2015-2019 average of 21.1% of GDP, placing Tunisia's tax burden among the highest in the region. This increase was partly driven by higher VAT collections following the elimination of reduced VAT rates on certain products and the standardization of the 19% rate (Diwan et al., 2024b). Tax reform efforts focused on closing loopholes and adjusting VAT rates, raising rates on luxury goods while lowering them on essential items. Despite these reforms, indirect taxes, which tend to affect the middle class, continued to account for more than half of total revenues. Since the 2016 tax reform, income taxes for high-income earners have been capped at 35%. In addition, the 2023 budget law introduced a new tax on real estate wealth to diversify revenue sources, although its impact on revenue generation is expected to be modest in the short term.

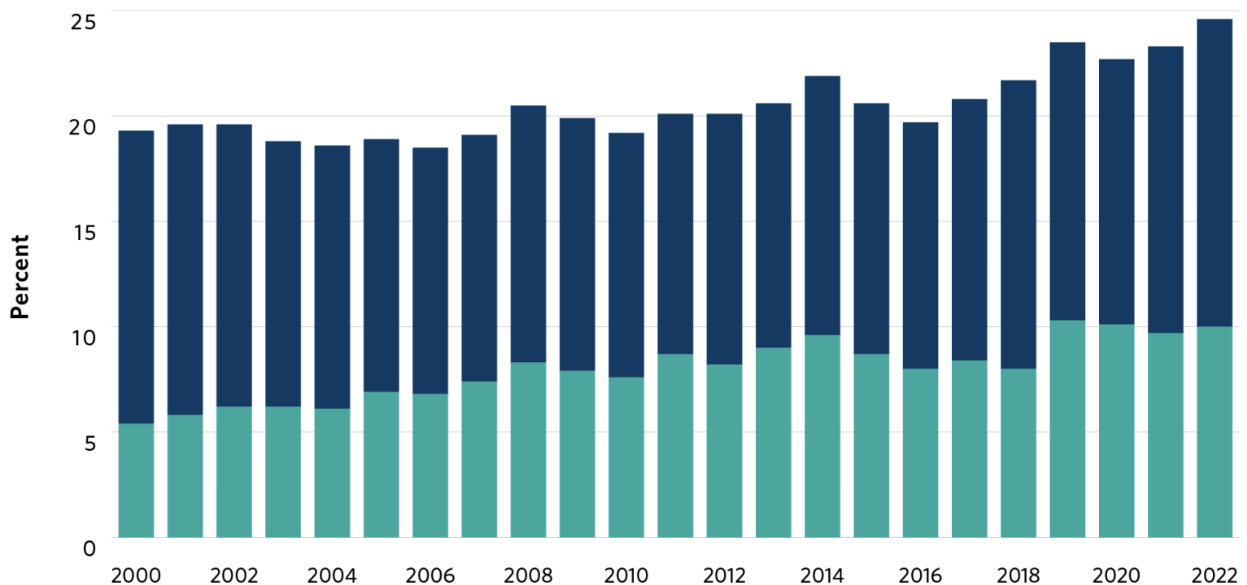


Figure 9. General government gross debt (Percent of GDP)



Source: Data from IMF, 2024

Figure 10. Composition of tax revenues in Tunisia



Source: Diwan et al., 2024b

1.2.2. External situation (including external debt and trade)

Tunisia has experienced a staggering increase in external debt, especially in the post-revolutionary period from 2010 to 2020. This increase is predominantly in public debt, with foreign currency debt growing by 250%, far outpacing the growth in total debt. The escalation of external debt, particularly in light of Tunisia’s status as a lower-middle-income country, has become a pressing concern, with ratios such as external debt-to-GDP and external debt-to-exports rising well above global

averages. Factors contributing to this increase include a steady depreciation of the Tunisian dinar against major currencies such as the US dollar and the euro, as well as challenges in key sectors such as tourism and mining, exacerbated by domestic socio-political unrest.

Tunisia’s external balance has deteriorated significantly in recent years, to the point where the government is struggling to finance a significant external deficit by 2023. To conserve foreign exchange reserves, the government introduced administrative controls to artificially restrict imports, which led to a decline in imports of goods,



particularly fuel, intermediate goods, and food. However, this reduction in imports exacerbated shortages of subsidized food and slowed production in Tunisian factories. Acute shortages of commodities resulted from a poor agricultural season, exacerbated by foreign exchange shortages, which made it difficult to increase imports, especially of products distributed by state-owned enterprises.

After reaching an all-time high of \$8 billion in 2020, foreign exchange reserves began to decline in early 2023, falling to \$7 billion by the end of the second quarter. This decline, combined with Tunisia's prioritization of debt solvency over economic activity, contributed to a collapse in growth, exacerbated by lower imports. Tunisia's once-successful export-led model faltered due to financing constraints, weak demand from Europe, and declining foreign investment. The country's failure to innovate and develop skills further hampered its export potential. In addition, the decline in manufacturing exports reflected Tunisia's inability to diversify its export mix over time.

In recent years, Tunisia's trade deficit has widened significantly, mainly due to rising international prices for fuel and food. Although the value of exports has risen as a result of price inflation, this increase masks a worrying decline in the quantity of goods exported. This growing deficit has also been exacerbated by financing constraints on the private sector, weakened demand for Tunisian products in Europe, and declining foreign investment in Tunisia as an export hub. The offshore industry has steadily declined, with its share of value-added products falling from 25.2% in 2010 to 20% in 2022, reflecting ongoing deindustrialization and Tunisia's inability to upgrade the sophistication of its exports due to a lack of innovation, research and development, and skills development (WITS, 2024). Despite the association agreement with the European Union (EU) signed in 1995, the expansion of agricultural exports remains limited, while phosphate exports have declined due to underinvestment and frequent labor disputes. The merchandise trade deficit peaks at \$8.09 billion in 2022, as shown in Figure 11, before improving slightly to \$7.46 billion in 2023. This persistent deficit highlights the structural challenges facing Tunisia's trade balance and underscores the need for comprehensive reforms to strengthen the country's industrial base, improve export competitiveness, and remove sectoral barriers (WITS, 2024).

Historically, Tunisia has been able to finance a modest trade deficit through a positive balance in services, boosted by tourism and remittances from Tunisians abroad. However, following the 2011 uprising, tourism declined sharply due to the deteriorating security

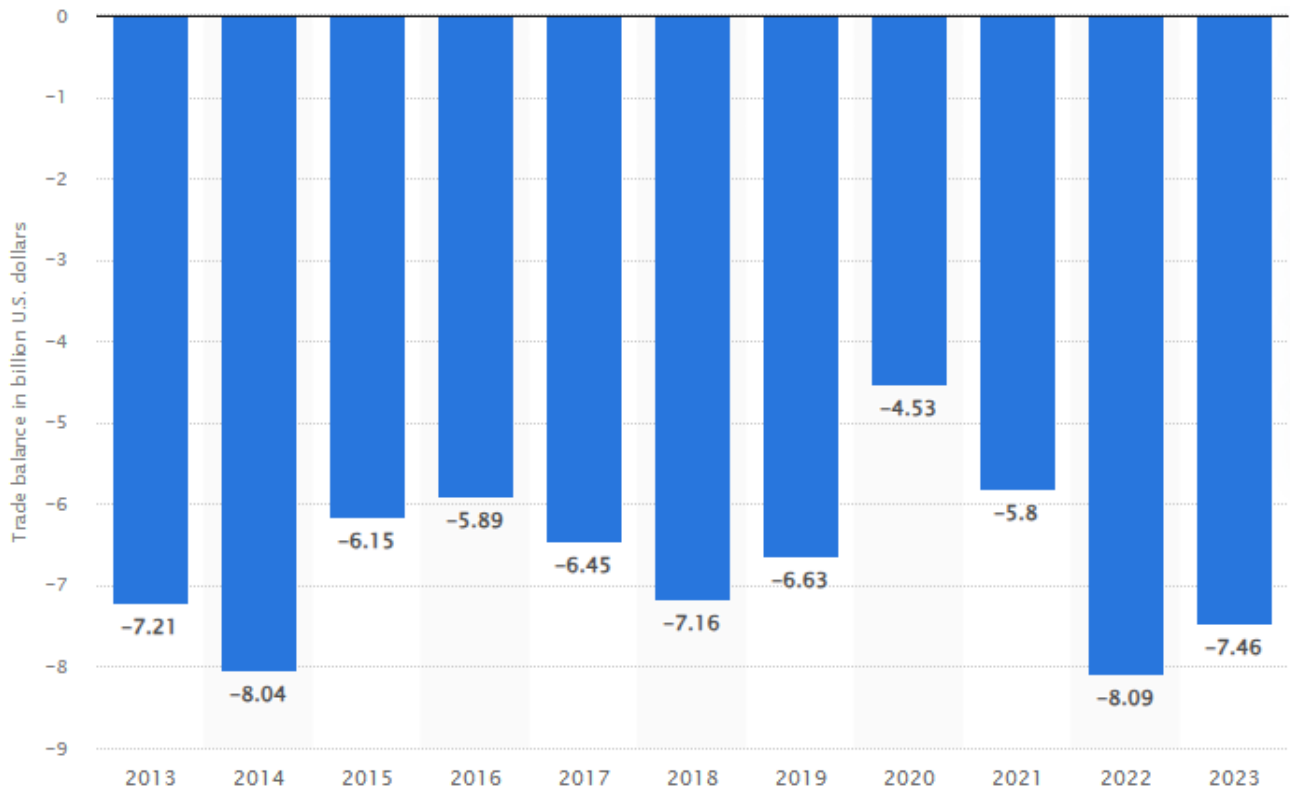
situation following several terrorist attacks. In contrast, remittances remained constant at 4.2% of GDP in 2019 and even started to increase in 2021. In November 2023, remittances reached \$2.2 billion, an increase of 15% compared to the same period in 2022. Similarly, tourism receipts started to recover in 2019, reaching 4.4% of GDP. However, the recovery was halted by the global pandemic, which kept tourism revenues below pre-2019 levels for three years - 2020, 2021, and 2022. Tunisia had to wait until 2023 to see a recovery in the tourism sector. On November 22, 2023, the sector's revenues reached \$2.1 billion, surpassing the 2019 (pre-pandemic) level of \$1.8 billion. This represents an increase of \$500 million (32%) over the first eleven months of 2022.

The unsustainability of Tunisia's current account deficit and public debt ratio became apparent, exacerbated by large fiscal deficits after 2011 and slower economic growth. Moody's and Fitch Ratings downgraded Tunisia's credit rating in 2023, leading to higher interest rates and loss of access to the international bond market. Without new borrowing to cover the deficit and with economic growth unchanged, Tunisia's public debt has reached unsustainable levels, requiring refinancing through its reserves. These challenges underscore the urgency for Tunisia to address its economic vulnerabilities, prioritize debt sustainability, and implement structural reforms to restore economic stability and resilience.

The causes of Tunisia's growing external debt are complex. A significant part of the increase can be attributed to the depreciation of the Tunisian dinar, which accounts for about 40% of the increase in external debt. In addition, declining revenues from phosphate and mining exports, coupled with setbacks in the tourism sector due to factors such as terrorist attacks and social instability, have exacerbated the country's economic challenges. This has led to a growing dependence on external financing, with national investment increasingly reliant on borrowed funds. In addition, the downgrading of Tunisia's credit rating by agencies such as Fitch Ratings has made the acquisition of new external debt more costly and difficult. The outlook for Tunisia's foreign currency-denominated debt remains precarious, with indicators such as savings rates plummeting while investment rates stagnate. The country's economic fundamentals continue to weaken, marked by a sharp increase in external debt ratios relative to global averages. While external debt vulnerabilities are not unique to Tunisia, the exceptionally high level of debt relative to income and exports underscores the urgency of effective policy measures to contain further escalation. Addressing the underlying economic and political factors driving this debt surge is essential for Tunisia's long-term financial stability and economic resilience.



Figure 11. Trade balance of goods in Tunisia from 2013 to 2023 (in billion U.S. dollars)



Source: WITS, 2024

1.2.3. Monetary policy

The Arab Spring brought about significant changes in monetary conditions and policies in Tunisia. Following the revolution, there were significant foreign exchange (FX) outflows, leading to a continuous decline in net foreign assets (NFA) in the post-revolutionary period. The Central Bank of Tunisia (BCT) initially tried to counteract the depreciation of the dinar by intervening in the foreign exchange market and sterilizing these interventions by injecting domestic liquidity. However, in response to the 2015 terrorist attacks, the authorities prioritized maintaining credit growth, which led to increased liquidity injections that undermined efforts to address rising inflation through interest rate adjustments. It was only in 2018 that effective anti-inflation measures were implemented, through a combination of policy rate hikes and tightening of macroprudential regulations.

Tunisia's post-2010 monetary history can be divided into three distinct phases. First, in the aftermath of the Arab Spring, there was a shift towards greater exchange rate flexibility, accompanied by a structural liquidity deficit in banks. Second, there was a notable increase in central bank refinancing to support credit growth following the 2015 terrorist attacks. This led to a loss of control over monetary aggregates and ineffective attempts to curb inflation through policy rate hikes. Finally, since 2018, there has been a more aggressive tightening of monetary

policy in response to accelerating inflation. These phases reflect the evolving challenges faced by the Tunisian monetary authorities in managing monetary conditions amidst significant sociopolitical and economic changes.

The adoption of inflation targeting (IT) as a monetary policy strategy to maintain price stability has gained importance. The Bank of Tunisia aims to align inflation rates with those of its trading partners, particularly the European Union, and systematically adjusts the exchange rate to maintain external competitiveness. Since 1987, Tunisia has pursued a policy of economic growth while controlling inflationary pressures, leading to reforms in the financial sector, including the liberalization of interest rates and the elimination of credit controls.

The monetary authority played a crucial role during this transition period, with the task of providing liquidity to the banking system and ensuring adequate financing of the economy while maintaining price stability. Tunisia's monetary policy framework, which is closely linked to the exchange rate regime, underwent a shift towards greater exchange rate flexibility, with steps being taken towards the adoption of an inflation targeting regime. The transition to a more flexible exchange rate regime was partly driven by IMF recommendations and structural reforms aimed at aligning with international standards. In response to the economic challenges exacerbated by the COVID-19 pandemic, international institutions such as the



IMF and the World Bank exerted pressure on Tunisia to implement the necessary reforms, particularly in the public sector wage bill and energy subsidies. The IMF stressed the urgency of adopting a credible reform program to address Tunisia’s rising public debt and unsustainable fiscal position.

According to the BCT, Tunisia’s net foreign exchange reserves stood at 25 billion dinars on August 16, 2024, equivalent to 113 days of imports, compared with 23.9 billion dinars, equivalent to 104 days of imports, a year earlier. Despite this slight improvement, the overall trend highlights the volatility of reserves. Previously, reserves had declined from 24.4 billion dinars, or 123 days of imports, in June 2022 to 21.3 billion dinars, or 92 days of imports, at the end of May 2023. During this period, tourism revenues increased by 57.7% to reach 1.7 billion dinars, while cumulative remittances from expatriate workers increased by 6% to reach 3.1 billion dinars by the end of May 2023. Meanwhile, the external debt service decreased by 10% from 3.6 billion dinars to 3.2 billion dinars. The latest figures show that foreign exchange reserves increased from 26.1 billion dinars in July 2024 to 27.3 billion dinars in August 2024. On average, reserves from 2002 to 2024 were 13.4 billion dinars, reaching a high of 28.3 billion dinars in September 2023 and a low of 2.15 billion dinars in March 2002. This pattern underscores the sensitivity of reserves to external factors, despite improvements in key revenue sources such as tourism and remittances (see figure 12).

Inflationary pressures in Tunisia began to rise sharply in 2017, reaching an annual rate of 5.3% and accelerating

further to 6.3% by November of that year. Several factors contributed to this upward trend, including macroeconomic distortions, rising inflation in the euro area, and rising commodity prices, particularly hydrocarbons. In response to these mounting pressures, the Central Bank of Tunisia raised its money market rate (TMM) by 75 basis points in March 2018, with the aim of curbing household consumption, which is often financed by credit, and increasing the cost of financing domestic debt. Despite this measure, the impact on business investment was expected to be minimal, as investment decisions are generally driven by broader factors, such as access to credit and collateral requirements, rather than changes in interest rates alone.

Inflation in Tunisia reached around 9 to 10% in 2023, largely driven by a sharp increase in food prices, which rose by 15.3% in the first two quarters of the year. However, the inflation trend stabilized in the third quarter as the Tunisian dinar remained relatively stable against major foreign currencies, including the U.S. dollar, the British pound, and the euro. In addition, global prices of key imported food commodities began to decline, suggesting that Tunisia’s persistent inflation was largely driven by domestic factors such as food shortages and monetary expansion resulting from indirect deficit financing by the central bank. This pattern of inflationary pressures and stabilization is illustrated in Figure 13, which shows the annual percentage change in average consumer prices based on IMF data.

Inflation in Tunisia remained well above the nominal interest rate in 2023, although the latter remained stable. The BCT kept its policy rate unchanged at 8% throughout

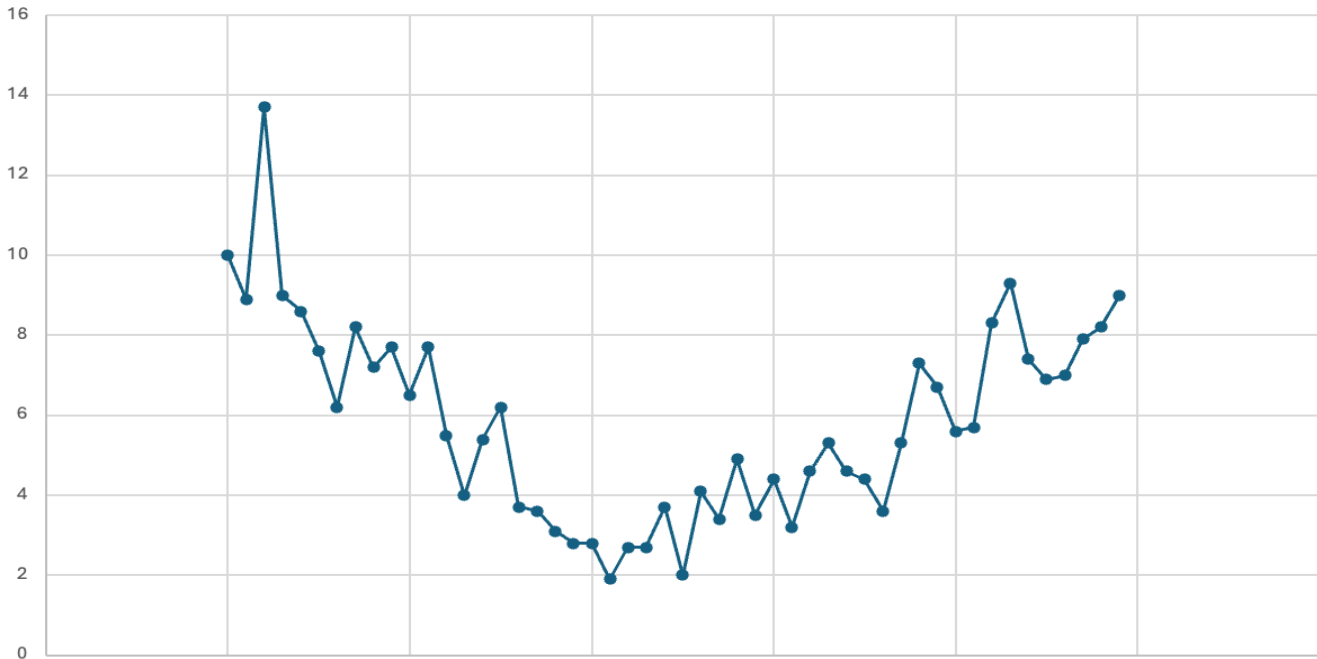
Figure 12. Tunisia Foreign Exchange Reserves (TND thousands)



Source: Central Bank of Tunisia, 2024



Figure 13. Inflation rate, average consumer prices (Annual percent change)



Source: Data from IMF, 2024

the year, resulting in negative real interest rates. The effectiveness of this policy in combating inflation remains uncertain. The observed decline in aggregate credit growth and money supply from 2020 to 2022, which coincides with the increase in the policy rate, is not consistent with the monetary nature of inflation. Instead, inflationary pressures appear to be driven by factors such as the increase in international prices following the post-Covid supply shortages and some depreciation of the dinar.

To address these challenges, the authorities need to avoid inflationary pressures fueled by a price-wage spiral. The success of this effort will depend on the implementation of accompanying macroeconomic stabilization measures and the adoption of necessary structural reforms to promote sustainable growth. Maintaining a strong and independent central bank will be essential in the pursuit of price stability and overall economic stability.

1.2.4. Exchange policy

Despite uncertain external financing conditions, Tunisia's foreign exchange reserves and the dinar have shown some resilience and stability. The current account deficit (CAD) has narrowed, supported by additional external financing, notably from Saudi Arabia, which has helped ease pressure on foreign exchange reserves. According to the Central Bank of Tunisia, as of August 16, 2024, net foreign exchange reserves stood at 25 billion

dinars, or 113 days of imports, compared with 23.9 billion dinars, or 104 days of imports, a year earlier. At the end of September 2023, foreign exchange reserves reached 26.7 billion dinars, covering 118 days of imports, providing an improved buffer against external shocks. This represents an increase of 6 days compared to the same period in 2022, when reserves stood at 23.7 billion dinars, and an increase of 18 days compared to the beginning of 2023, when reserves stood at 22.9 billion dinars. Moreover, the Tunisian dinar remained relatively stable against major currencies such as the U.S. dollar, the British pound, and the euro throughout 2023, reflecting efforts to maintain currency stability amid challenging economic conditions.

The exchange rate between the U.S. dollar and the Tunisian dinar (USD/TND) has shown fluctuations influenced by both domestic and international economic dynamics. On October 28, 2024, the exchange rate stood at 3.1082 TND per USD, reflecting a slight appreciation compared to the same date in 2023, when it stood at 3.1764 TND per USD. This change indicates relative stability over the past year, despite the dinar's vulnerability to external shocks and economic pressures. Historically, the Tunisian Dinar reached its lowest point of 3.34 TND per USD in September 2022, highlighting periods of increased volatility due to global economic shifts and domestic policy changes. Understanding these historical and current exchange rate movements is critical for investors, policymakers, and businesses in Tunisia to manage currency risk and make informed financial decisions. In addition, the exchange rate outlook as of October 28, 2024 showed short to



medium-term projections of 3.1416 TND per USD and 3.4049 TND per EUR over a 3-month horizon, and 3.1787 TND per USD and 3.4561 TND per EUR over a 6-month period, signaling expectations of moderate currency stability in the near term (see Figures 14 and 15).

In recent years, Tunisia has experienced an appreciation of the real exchange rate due to the fixed nominal exchange rate regime, coinciding with rising inflation. This situation poses a significant risk of widening external imbalances. Historically, gradual exchange rate

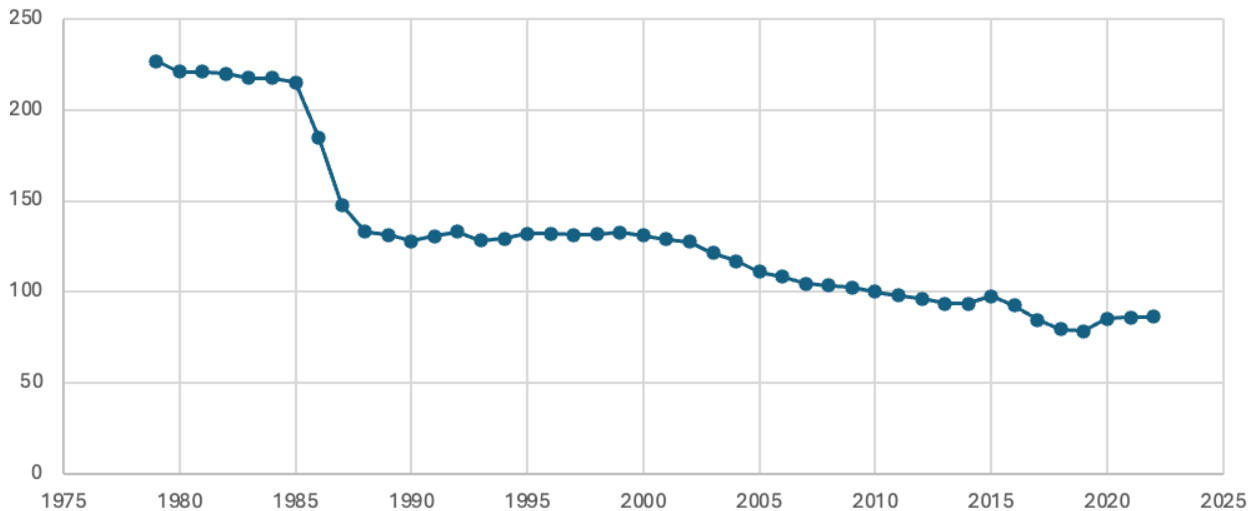
adjustments have been used to address such imbalances. However, in recent months there has been a shift towards the imposition of non-tariff barriers on imports rather than a gradual adjustment of the exchange rate. If this trend continues, it may require a substantial exchange rate correction, which could have recessionary effects and social costs. Therefore, striking a balance between addressing external imbalances and mitigating the adverse effects of exchange rate adjustments is of paramount importance for Tunisia’s economic stability and growth.

Figure 14. US Dollar Tunisian Dinar



Source: Central Bank of Tunisia, 2024

Figure 15. Real effective exchange rate index



Source: World Development Indicators, 2024



1.3. SDG performance

Tunisia has made significant progress in advancing the SDGs, demonstrating a strong commitment to sustainable development. According to the SDG Performance Index, Tunisia has a score of 72.5. Through targeted policies and initiatives, the country has notably improved access to quality education, health care, and clean water, contributing to the achievement of SDG 3 (health and well-being), SDG 4 (quality education), and SDG 6 (clean water and sanitation). In addition, Tunisia has prioritized economic growth and job creation, promoted inclusive and sustainable industrialization (SDG 9), while advancing gender equality (SDG 5) through initiatives aimed at empowering women and girls in various sectors of society. In addition, Tunisia's efforts extend beyond its borders, actively engaging in regional and international partnerships to address global challenges such as climate change (SDG 13) and promoting peace, justice and strong institutions (SDG 16).

Achieving Sustainable Development Goal 8 (SDG 8), which focuses on promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, remains a major challenge in Tunisia. Despite ongoing efforts to boost economic growth and create employment opportunities, persistent challenges such as high unemployment rates, especially among youth and women, underemployment,

and a large informal labor market continue to hinder progress. As shown in Table 1, Tunisia's performance on SDG 8 shows a stagnant trend with a score of 62.5, reflecting limited progress in promoting decent work and economic growth. While the country has made considerable progress on other SDGs, such as SDG 1 (no poverty) and SDG 4 (quality education), which show strong scores and positive trends, achieving meaningful progress on SDG 8 will require targeted policies and reforms to address structural economic issues, enhance job creation, and ensure inclusiveness in the labor market. This is particularly important given the broader context of other SDGs, such as SDG 5 (Gender Equality), which remains relatively low at 51.0, indicating gender gaps that affect employment outcomes. Similarly, the challenges in SDG 9 (Industry, Innovation, and Infrastructure), with a score of 55.9, suggest the need to strengthen Tunisia's industrial base and innovation capacity, which are critical to driving economic growth and creating decent work opportunities.

Weak economic growth in Tunisia has created significant challenges, particularly in terms of exacerbating poverty and limiting investment in human capital and health. This sluggish economic performance has complicated poverty reduction efforts, hindering the upliftment of marginalized communities and the improvement of living standards for vulnerable populations. In 2024, the poverty rate in Tunisia is projected to be 17.1% based on the national poverty

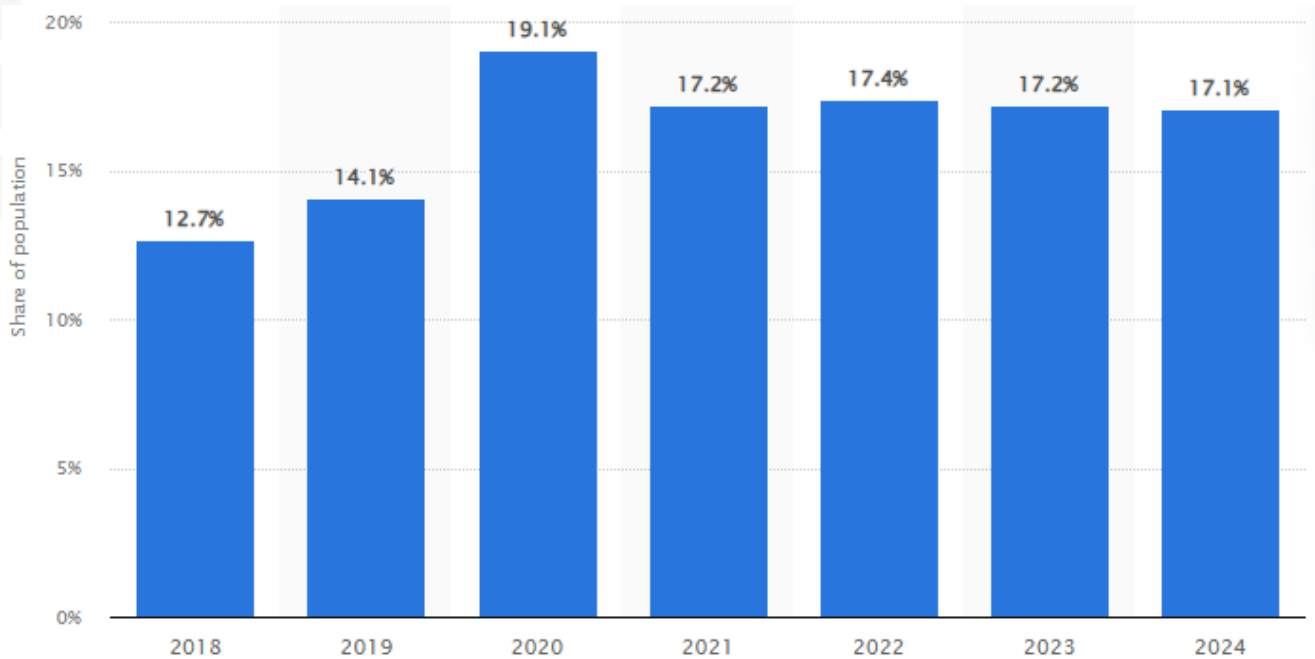
Table 1: SDG performance in Tunisia 2023

SDG GOAL	Score	Trend
SDG 1. No Poverty	97.9	↑
SDG 2. Zero Hunger	61.5	→
SDG 3. Good Health and Well-being	78.9	↗
SDG 4. Quality Education	93.1	↑
SDG 5. Gender Equality	51.0	→
SDG 6. Clean Water and Sanitation	63.9	↑
SDG 7. Affordable and Clean Energy	70.2	↗
SDG 8. Decent Work and Economic Growth	62.5	→
SDG 9. Industry, Innovation, and Infrastructure	55.9	↗
SDG 10. Reduced Inequality	80.8	→
SDG 11. Sustainable Cities and Communities	65.4	↗
SDG 12. Responsible Consumption and Production	86.7	↗
SDG 13. Climate Action	93.1	→
SDG 14. Life Below Water	63.3	→
SDG 15. Life on Land	70.9	→
SDG 16. Peace, Justice, and Strong Institutions	60.6	↑
SDG 17. Partnerships for the Goals		No data

Note: ↑-on track or maintaining SDG achievement; ↗-moderately improving; →-stagnating



Figure 16. Projected poverty headcount ratio in Tunisia from 2018 to 2024



Source: World Bank, 2024

line, a slight decrease of 0.1% from the previous year. Although this decrease suggests a gradual recovery, the poverty rate remains high, partly due to the economic impact of the COVID-19 pandemic, which contributed to a noticeable increase in poverty levels in 2020. Despite the steady decline in the poverty rate since then, reduced investment in key sectors such as education and health continue to hamper progress towards the Sustainable Development Goals. The inadequate allocation of resources to these critical areas undermines the country's ability to expand education, improve health services, and promote overall well-being, ultimately limiting socioeconomic development and perpetuating cycles of poverty and inequality. As shown in Figure 16, this persistent poverty rate underscores the need for more comprehensive and inclusive strategies to support economic growth and increase investment in basic social services.

Despite having one of the highest scores for progress on SDG 1, Tunisia continues to face significant challenges in reducing poverty. Following the 2011 revolution, the national poverty rate fell from 21% in 2010 to 15% in 2015, largely due to increased remittances and extensive social protection rather than significant wage growth. However, economic disruptions between 2020 and 2022, exacerbated by the COVID-19 pandemic, reversed some gains, with the poverty rate rising to 16.6% in 2021. By 2024, the national poverty rate was projected at 17.1%, a slight improvement of 0.1% from the previous year, but still reflecting the lingering effects of the crisis. The impact is more pronounced in rural areas, where 24.8% of the

population will live in poverty in 2021, compared to 12.7% in urban areas. In addition, regional disparities remain high, with higher poverty rates in the center-west and north-west regions compared to coastal regions such as Grand Tunis and the northeast. Despite gradual improvements, income inequality remains a concern, with a Gini index of 35.3 in 2021, highlighting the ongoing challenge of achieving inclusive growth and reducing socioeconomic disparities across the country.

Tunisia faces significant challenges in addressing its infrastructure needs due to debt and government financing constraints. High debt levels limit the government's ability to allocate resources to key infrastructure projects, hindering economic development and social progress. As a result, infrastructure development remains slow, affecting various sectors such as transportation, energy and telecommunications, and hindering the country's overall growth potential. The lack of investment in infrastructure exacerbates existing problems and hampers efforts to improve competitiveness and attract foreign investment. Without adequate infrastructure, Tunisia will not be able to modernize key sectors, hindering its ability to adapt to changing market demands and global trends.

Tunisia's limited economic growth has hindered job creation and failed to provide sufficient opportunities for decent work. The unemployment rate rose slightly to 15.6% in the second quarter of 2014 from 15.3% a year earlier, one of the highest rates in the region. Female unemployment was particularly high at 21.1 per cent, reflecting persistent gender gaps in the labor market. While the labor force



participation rate increased slightly, from 46% in Q2 2022 to 46.3% in Q2 2023, net job creation remained low, with only 3,500 new jobs created over the period. Notably, female workers experienced a net loss of 15,500 jobs, further exacerbating gender disparities. While the unemployment rate is consistent with 2019 levels, the overall participation rate remains about two percentage points below pre-COVID levels, indicating that the sluggish economic recovery has not successfully reintegrated a significant number of working-age individuals who were discouraged from seeking employment during the pandemic. This persistent stagnation underscores the need for targeted policies to promote inclusive growth and address structural problems in the labor market, as shown in Figure 17.

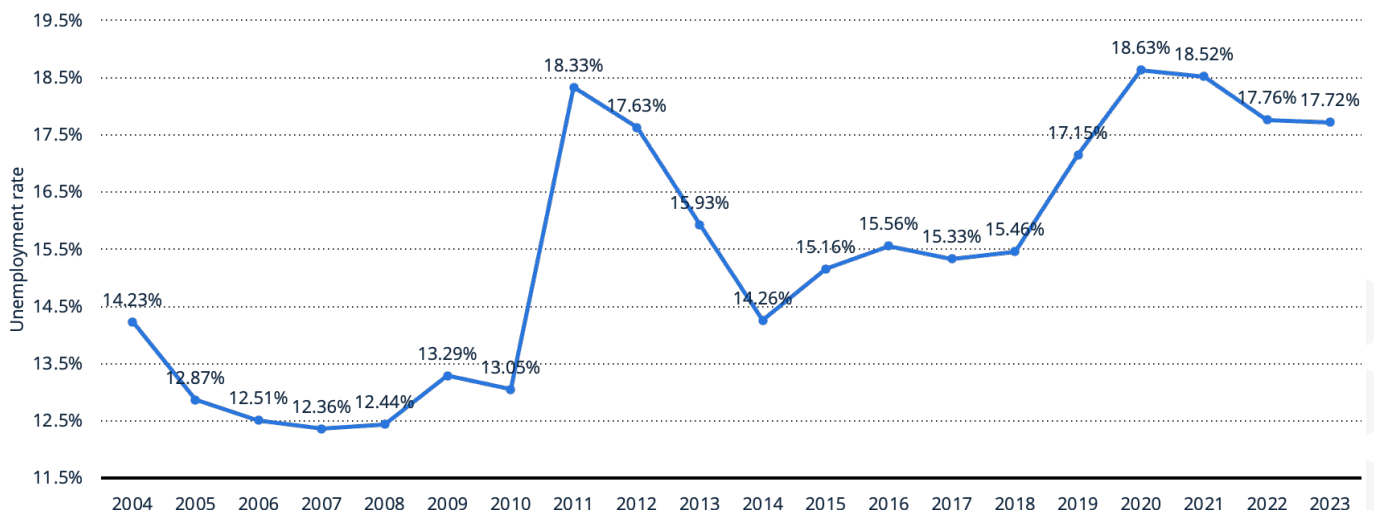
Challenging labor market conditions in Tunisia continue to motivate both Tunisian and foreign workers to seek opportunities abroad, often through irregular migration channels. Over the past decades, Tunisia's migration dynamics have been shaped by multiple factors, including economic pressures and the evolving impacts of climate change. Internal migration continues to be driven by the pursuit of employment opportunities and education, with increasing rural-urban migration contributing to urban population growth. However, Tunisia's urbanization rate still lags behind neighboring countries, and the growing influx of people into cities has increased demand for social services, affordable housing, and access to clean water. In rural areas, especially in the agricultural sector, the labor market faces persistent shortages, resulting in a growing dependence on migrant labor from sub-Saharan Africa. These migration patterns, especially among youth, have exacerbated regional disparities and deepened the urban-rural divide.

Internationally, Tunisia continues to experience high rates of emigration, driven by the lure of better employment prospects abroad, mainly in Europe. This phenomenon has contributed to a significant outflow of skilled workers, raising concerns about brain drain in key sectors. In addition, Tunisia has become a transit hub for African migrants seeking to reach Europe, where many migrants face exploitation, abuse by smugglers, the risk of deportation, and limited access to basic services due to the absence of a formal asylum system. These migration dynamics and their socio-economic implications are reflected in Figure 18, which shows trends in net migration and remittances. Addressing these challenges will require comprehensive policies to enhance domestic employment opportunities, improve social services in urban centers, and provide robust protection for migrants.

Remittances are increasing and companies are investing more in ESG. With the recent increase of remittances in Tunisia, especially after the COVID-19 crisis, Tunisia has found another way for inclusive growth and resilience. Part of these remittances also create jobs through private investment and consolidation of domestic demand. At the same time, a new regulation in the matter of ESG allows companies to invest personal remittances, which constitute a significant component of the Tunisian economy, reaching an average of 6% of GDP during the 2022. These remittances are significantly higher than those received in the Middle East and North Africa (excluding high-income countries), which stand at 3.2% of GDP. It is also higher than foreign direct investment (FDI).

The phenomenon of anarchic urbanization in Tunisia, characterized by unplanned and unsustainable urban expansion, poses a major challenge to achieving Sustainable

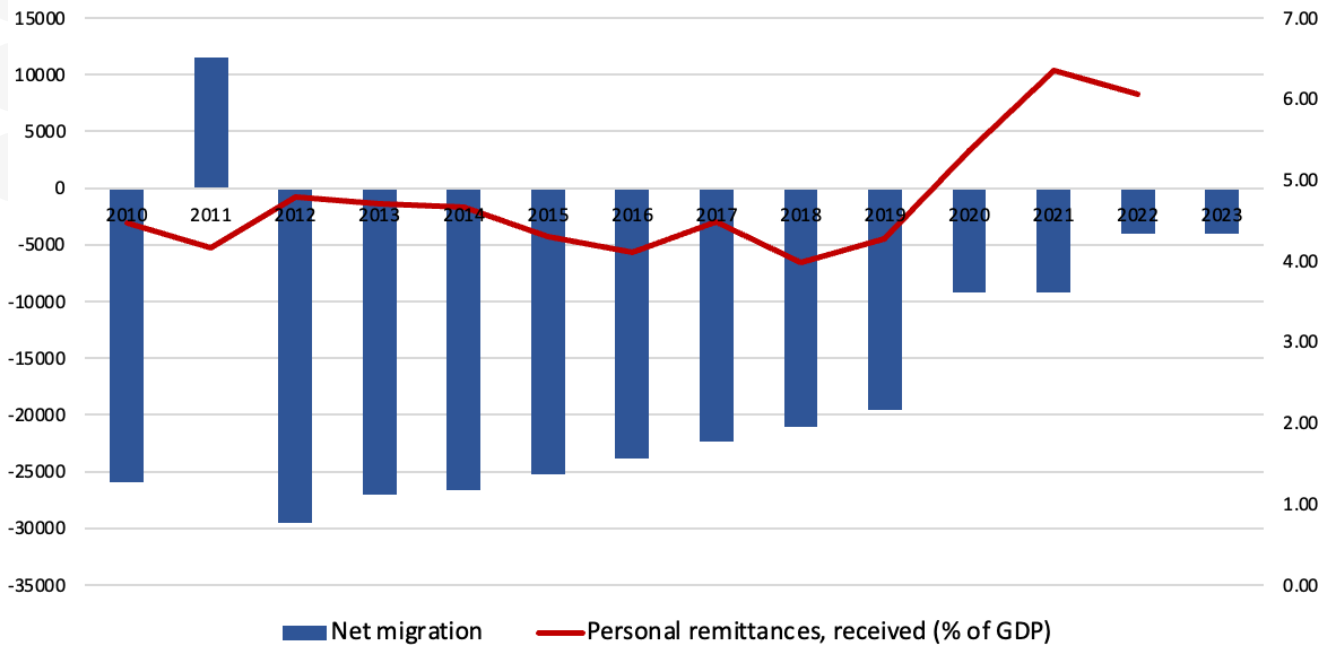
Figure 17. Unemployment rate (percent)



Source: World Bank, 2024



Figure 18. Net migration and remittances



Source: World Bank, 2024

Development Goal 11 (SDG 11), which aims to create inclusive, safe, resilient and sustainable cities. Rapid, uncoordinated urban growth has strained transport infrastructure, leading to congestion, inefficient mobility and increased pollution, while exacerbating inequalities in access to essential goods and services. Marginalized communities often lack sufficient infrastructure to support a decent standard of living, such as clean water, sanitation, and health centers, creating stark disparities between different areas. Following the post-revolution surge in anarchic construction, the Ministry of the Environment allowed abandoned quarries to be used for demolition waste disposal without proper sorting or recycling measures. This led to increased pollution and vandalism, which caused dissatisfaction among the local population and resulted in the closure of these sites. The continued expansion of unplanned urban areas highlights the urgent need for integrated urban planning, improved waste management practices, and equitable infrastructure development to address these growing disparities and promote sustainable urbanization, as illustrated in Figure 19.

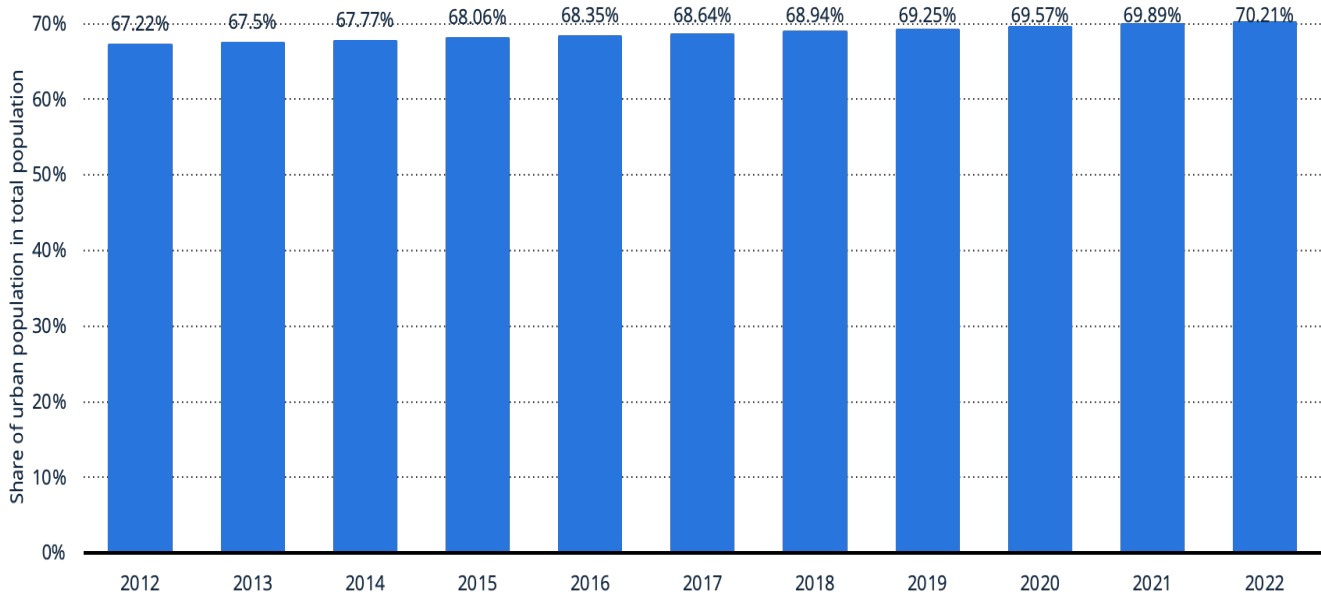
The impact of climate change on the economy is becoming increasingly evident, with agriculture bearing a significant burden, particularly in relation to water scarcity. The agricultural sector, which is critical to the food security and economic stability of societies and the achievement of SDG 2 (Zero Hunger), is facing increasing challenges due to changing climate patterns that are leading to more frequent and severe water shortages. Such shortages not only threaten crop yields

and livestock production, but also undermine food security and livelihoods, posing significant risks to the economy as a whole. As climate change continues to intensify, several actions are being taken to achieve SDG 13. However, it is imperative that urgent measures are taken to mitigate its adverse effects on agriculture and ensure sustainable water management practices are implemented to protect both rural communities and national economies.

The delay in the energy transition is one of the main explanatory variables for the weak performance on the SDGs. Tunisia needs to accelerate its energy transition in order to provide affordable energy to all citizens and to eliminate subsidies (which currently account for almost a third of the deficit). Since 2015, the energy transition process and renewable energy investments have been delayed due to lack of leadership, political instability and bureaucracy. The potential of renewable energy in Tunisia is very high and can be a game changer in terms of social inclusion and competitive advantage for businesses.

On the other hand, the industrial sector has made remarkable progress, driven by government initiatives to attract investment, promote innovation and enhance competitiveness. Key industries such as manufacturing, textiles and automobiles have experienced growth, contributing to job creation and economic development. The tourism sector has also shown signs of recovery, supported by efforts to improve infrastructure, enhance security measures, and diversify tourism offerings. Tunisia’s rich cultural heritage, stunning Mediterranean coastline, and vibrant cities continue to attract visitors



Figure 19. Urbanization in Tunisia

Source: World Bank, 2024

from around the world. Sustainable development of the industrial sector can drive economic growth, job creation, and poverty reduction, supporting SDG 8 and SDG 1. Similarly, the revitalization of tourism can promote economic diversification, cultural exchange, and environmental protection, in line with SDG 8, SDG 9, SDG 13, SDG 14, SDG 15, and SDG 11. By capitalizing on these opportunities and prioritizing sustainable practices, Tunisia can make a significant contribution to the SDGs and promote inclusive and environmentally friendly development for its citizens.

Tunisia is at a crossroads, ready to take advantage of the opportunities offered by digitalization and emerging technologies, which have the potential to advance the SDGs. The integration of digital tools and innovative technologies has the potential to drive significant socio-economic progress in the country. From improving access to education and healthcare to increasing agricultural productivity and fostering entrepreneurship, digitalization offers transformative solutions to address key development challenges. By effectively harnessing these advances, Tunisia can accelerate its journey towards achieving the SDGs, thereby creating opportunities for inclusive growth, job creation, and improved quality of life for its citizens. Embracing digitalization as a catalyst for sustainable development paves the way for a more resilient, equitable, and prosperous future for Tunisia.

2. Diagnosing the drivers of economic development

This section examines the various factors that influence economic development, focusing on the key elements that contribute to socioeconomic progress. Education is a fundamental element that is examined in depth to understand its role in fostering human capital and innovation. Another key area of focus is health, which is recognized for its role in enhancing productivity and well-being. The impact of population dynamics on labor force participation and demographic trends will be analyzed. The study of institutional development allows for the assessment of governance structures and their impact on economic stability and the investment climate. The development of the financial sector is analyzed to determine its role in mobilizing capital and facilitating economic transactions. The contribution of infrastructure development, both traditional and digital, to connectivity and competitiveness will be assessed. The sustainability and impact of energy policies on industrial growth will be assessed. Finally, the examination of environmental and climate risks allows for the identification of challenges and opportunities arising from environmental considerations. This reflects the comprehensive scope of the analysis of the drivers of economic development.



2.1. Education

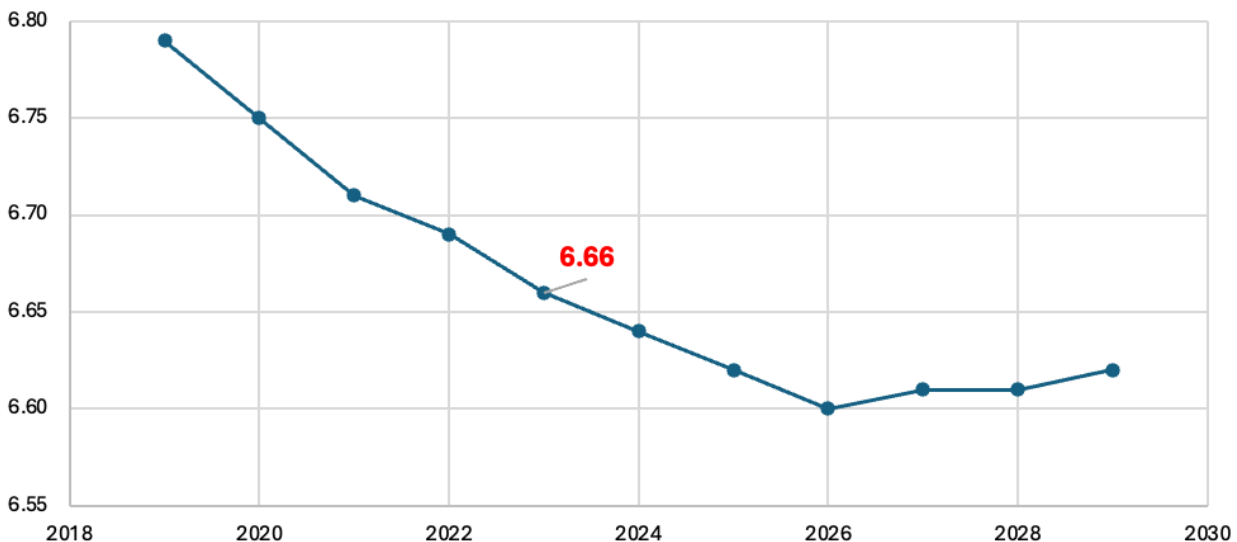
The literacy rate in Tunisia is 19.3% of the total population, a statistic that has been steadily declining since the country’s independence. This downward trend underscores the concerted efforts to reduce illiteracy. However, two persistent disparities remain: a higher prevalence of illiteracy among women than among men, and among rural dwellers than among urban dwellers. Despite gradual improvements, these figures remain alarmingly high. This concern is exacerbated by the increasing reliance on digital technology, which relies primarily on written resources and formal expression. Addressing illiteracy is therefore not only a matter of social justice, but also critical to ensuring widespread access and participation in the digital age.

Tunisia has demonstrated a clear commitment to international and regional agreements that guarantee the right to education. For example, the 2014 Constitution mandates education until the age of sixteen and guarantees free public education at all levels. Despite the launch of the 2016 Education White Paper and the 2018-2022 Education Strategic Plan, comprehensive reform remains elusive. The recent launch of the Social Contract for Education in December 2022 represents an attempt to bridge this gap by outlining shared aspirations, strategic goals, and concrete commitments. However, a number of challenges remain, including the evolving role of unions within the education system, which has the potential to complicate the effectiveness of the current policy landscape. A number of ministries, including education, employment, higher education, youth, sport and labor, as well as institutes and commissions, are collectively engaged in promoting inclusive education.

In 2023, government spending on education in Tunisia accounted for 6.66% of GDP, with projections indicating a decline in the coming years. During the 2010s, government spending on education experienced a significant decline, falling from 18% of total government spending in 2016 to 13% in 2019. However, there was a temporary recovery to 16% in 2020 due to increased needs caused by the COVID-19 pandemic. Despite this rebound, spending fell back to 13% in 2021, highlighting continued budget constraints and shifting government priorities. In 2021, total spending on education will exceed 6.7 billion Tunisian dinars (about \$2.18 billion), with the majority of funding going to middle and secondary education, which will account for about 3.75 billion dinars (about \$1.22 billion). Tunisia’s efforts are in line with the international Education 2030 Framework for Action, which recommends allocating between 4% and 6% of GDP to education. However, the projected decline in spending raises concerns about the sustainability of these commitments in the future. Figure 20 illustrates the evolution of education spending in Tunisia as a percentage of GDP and of the total budget, highlighting the fluctuations and the ongoing challenges of maintaining consistent investment in education.

Although the education system in Tunisia has achieved several successes since independence, particularly thanks to democratization, compulsory and free education, we can see that today several obstacles have led to a serious deterioration of our education system. The lack of pedagogical know-how of the teaching staff, the privatization of the teaching structures, the recurrent strikes of the teachers are at the origin of the weakness of the system of teaching and evaluation of knowledge. In fact, this evaluation system continues to favor the accumulation of knowledge rather than its quality, and it

Figure 20. Evolution of education spending (as a percentage of GDP and total budget)



Source: UNESCO, 2024



focuses on the student's memory instead of emphasizing the development of his intelligence and his creative and innovative spirit. The key skills needed in the digital world, namely critical thinking and problem solving, are not yet at the heart of the Tunisian education model.

2.2. Health

The Tunisian health system, once considered one of the most efficient in Africa and one of the best in the Arab world outside the Gulf, is currently facing major challenges. Indeed, the Tunisian healthcare system has undergone significant changes in recent years, marked by both progress and challenges. The digitization program, launched in 2019 with the introduction of electronic health cards, is a step towards modernizing the healthcare infrastructure and improving efficiency. This move positions Tunisia as a leader in health insurance in its region and demonstrates a commitment to using technology to improve healthcare outcomes.

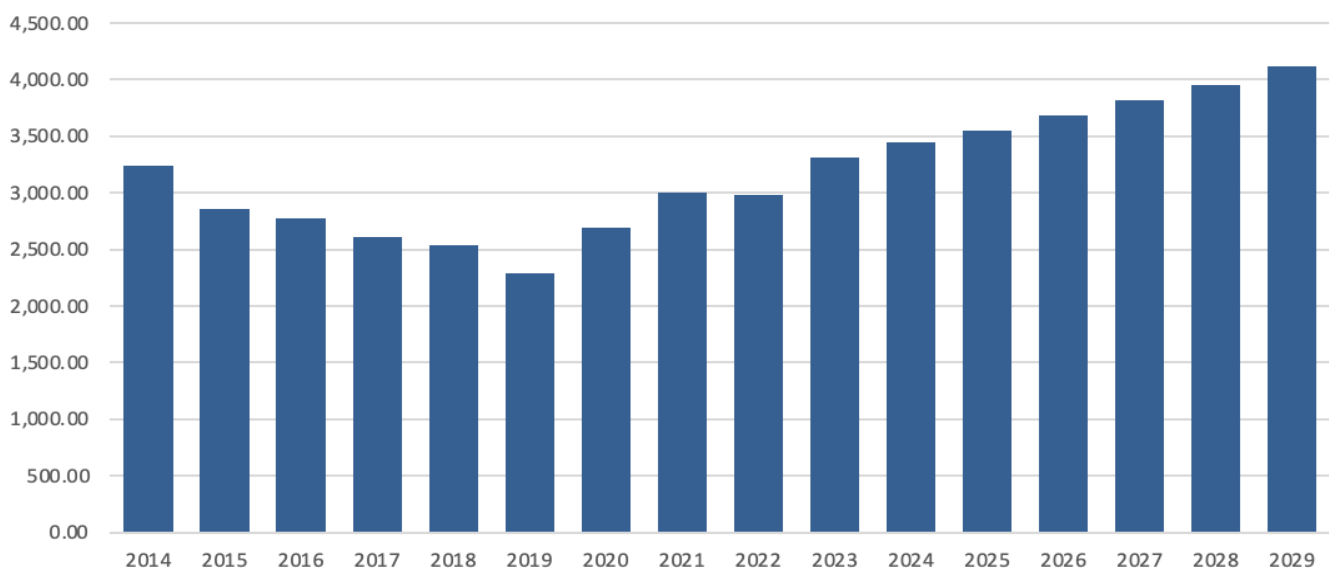
Since the 1990s, Tunisia's healthcare system has experienced a decline in performance, a reality brought to the forefront by the COVID-19 pandemic. The pandemic exposed the system's obsolescence, limitations, and inequalities. Public health services deteriorated, exacerbating social and regional inequalities, with households facing outdated facilities, drug shortages, and high costs for private health care, contrary to the intended role of health care as an enabler of social justice. The importance of the private health sector in Tunisia underscores the need for a comprehensive approach to health reform. It has expanded significantly over

the past two decades, accounting for 20% of total bed capacity, employing 60% of medical professionals, and representing 74% of advanced technologies available in the country. While the private sector has contributed to the expansion of health services and the introduction of advanced technologies, it also highlights disparities in access and affordability. Efforts to strengthen regulation and coordination between public and private providers are critical to ensuring equitable access to quality care for all Tunisians.

However, while the private medical sector in Tunisia is experiencing growth and expansion, the public health infrastructure faces significant challenges. As a result of decades of underinvestment and resource constraints, facilities are deteriorating, equipment is scarce, and health workers are overworked. This mismatch between the private and public sectors exacerbates inequalities in access to health services. Those who cannot afford private care often face long waiting times and limited treatment options within the public system. Addressing disparities between the private and public sectors is critical to ensuring equitable access to health care for all Tunisians and to strengthening the overall resilience of the health system.

In 2021, Tunisia's nominal health expenditure will reach 2,840 million dinars, an increase of 5% compared to 2020 and a substantial overall increase of 182% compared to 2010. This sharp increase in health spending underscores the country's efforts to strengthen its health system, particularly in response to the COVID-19 pandemic. In particular, health spending increased by 21% between 2019 and 2020 to meet the immediate needs of the

Figure 21. Expenditure on healthcare in Tunisia in million U.S. dollars



Source: World Bank, 2024



pandemic. However, when looking at health spending in real terms, a more stagnant trend emerges, with an average annual growth rate of only 3.8% between 2015 and 2019, in contrast to the nominal growth rate of 9.4% over the same period. From 2010 to 2020, real health spending will increase by 64%, reflecting a gradual increase in health investment over the decade. The most significant increase in spending between 2019 and 2021 can largely be attributed to the country's response to the COVID-19 crisis, which required urgent investment in health infrastructure, resources and services. Figure 21 provides a clear picture of the trends in Tunisia's health spending, measured in millions of US dollars, and illustrates both the nominal and real growth dynamics over the past decade.

However, the emergence of Health 4.0 in Tunisia represents a significant shift in healthcare, with implications for both patient care and medical resource management. Advances in digital technology have created new opportunities to improve efficiency, accessibility, and quality of health services. For example, the proliferation of teleconsultation and tele-diagnostics is enabling patients to gain easier access to basic medical services while reducing the costs and constraints associated with physical travel. This is particularly beneficial in rural areas and regions with limited access to traditional medical infrastructure.

In addressing these challenges, Tunisia has an opportunity to leverage its strengths, including a skilled workforce and a legacy of excellence in health care, to build a more resilient and inclusive health system. This will require sustained investment in infrastructure, workforce development, and health governance, guided by a commitment to equity and social justice. By embracing innovation and collaboration, Tunisia can realize its vision of providing accessible, high-quality health care to all its citizens.

2.3. Active population

In 2024, Tunisia's population is estimated to be around 12.7 million, making it one of the least densely populated countries in North Africa, with only Libya having a lower population density in the region. As urbanization has increased, the majority of Tunisia's population is now concentrated in key governorates, including Grand Tunis, Sousse, Sfax, and Nabeul. Despite an overall slowdown in annual population growth since 2000, the population is projected to reach about 12.4 million in 2025 and continue to grow to an estimated peak of 13.96 million in 2060, after which a gradual decline is expected. This slower growth rate remains below the regional

average for countries in North Africa and the Middle East. Such demographic trends, influenced by declining fertility rates and increasing urban migration, have significant implications for urban planning, resource allocation and service delivery. Figure 22 illustrates the projected population trends in Tunisia, highlighting the expected growth and subsequent decline over the coming decades.

The urban population of Tunisia for 2022 was 8.6 million, an increase of 1.23% compared to 2021. The urban population of Tunisia in 2019 was (8.1 million), an increase of 1.57% compared with 2018. The rural population of Tunisia in 2019 was (3.6 million), an increase of 0.11% compared to 2018. Growing urbanization is one of the strong characteristics of Tunisia, which leads to a high demand on territory (especially the coastline) and a high consumption of resources. This urbanization has become uncontrolled since 2011, where 40% of new constructions are anarchic.

The birth rate for Tunisia in 2023 was 15.377 births per 1000 inhabitants, a decrease of 2.95% compared to 2022. Therefore, the death rate in Tunisia reached a peak in 2021 with 7.88 deaths per 1000 inhabitants. Tunisia's death rate gradually increased from 14.7 per 1,000 population in 1971 to 6.3 per 1,000 population in 2020. During the same period, Tunisia's fertility rate gradually increased from 6.6 births per woman in 1971 to 2.2 births per woman in 2020. The sustained increase in life expectancy in Tunisia, which will reach 77.36 years in 2023 with a marginal increase of 0.25% from the previous year, reflects ongoing improvements in healthcare, living standards, and public health initiatives. This upward trend signals positive progress in disease prevention, access to health services, and overall quality of life for Tunisian citizens. A number of factors may be contributing to this trend, including advances in medical technology, increased awareness of healthy lifestyle choices, and targeted interventions to address prevalent health concerns. In addition, investments in education and socioeconomic development are likely to have contributed to improved health outcomes and increased life expectancy. Notwithstanding these achievements, sustained efforts to address persistent health problems, reduce disparities in access to health care, and promote healthy aging remain essential to further improve the well-being and longevity of the Tunisian population.

Tunisia's labor force participation rate, which stood at 45.39% in 2023, highlights the country's efforts to engage its working-age population in the labor market. This rate reflects the proportion of the population aged 15 and over who are either employed or actively seeking employment and serves as an important indicator of economic activity and workforce potential. While the current rate indicates some level of engagement, it also signals ongoing

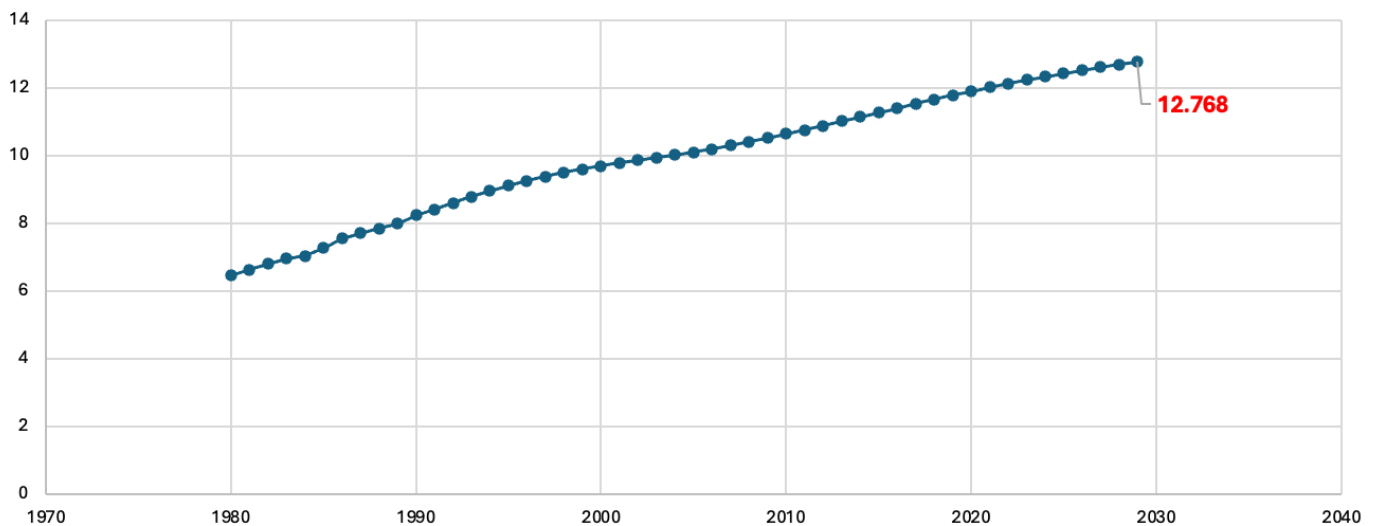


challenges, particularly with respect to youth and female unemployment and the persistence of informal employment. Compared to its peak of 48.93% in 2019, the decline underscores the need for targeted policies aimed at removing barriers to employment, improving vocational training, and fostering a supportive business environment. If Tunisia is to harness the full potential of its workforce and achieve sustainable economic growth, it is essential to promote inclusive growth strategies and formalize more jobs in the economy. This would not only increase the participation rate, but also contribute to broader economic prosperity. Figure 23 provides a historical overview of the participation rate from 2005 to 2023, highlighting trends and fluctuations over time.

2.4. Institutional development

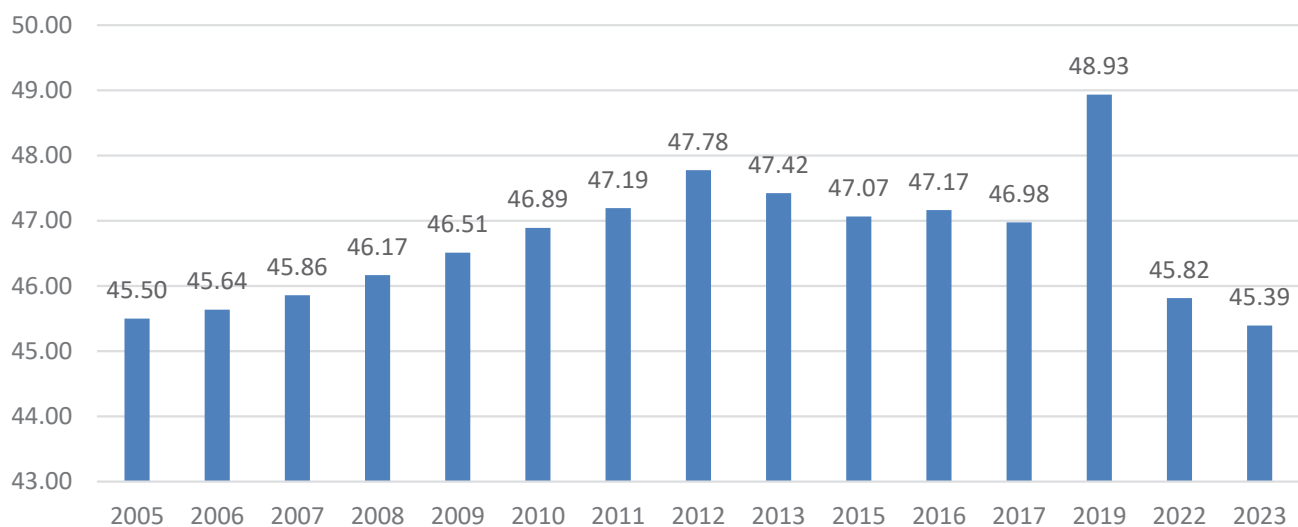
Since 2011, there has been a shift towards a democratic regime with significant instability. Since the beginning of the Jasmine Revolution, Tunisia has experienced a democratic transition and has tried to build new democratic institutions. In 2014, Tunisia had a new constitution, and a new regime based on parliamentary decisions. Since then, several elections have been organized and a peaceful transition of power has been observed. However, this regime was not stable, and several deadlocks were observed, leading to inefficient political decision-making. After a major political crisis, aggravated by the COVID-19 crisis, a new constitution was proposed by the elected President Kais Said and adopted in 2021 or 2022 (after a

Figure 22. Population in millions



Source: Data from IMF, 2024

Figure 23. Labor force participation rate from 2005 to 2023



Source: World Development Indicators, 2024



popular referendum). A change in the political regime is adopted from a parliamentary regime to a presidential regime. A new Assembly has been elected and a new Council of Regions has recently been elected and implemented.

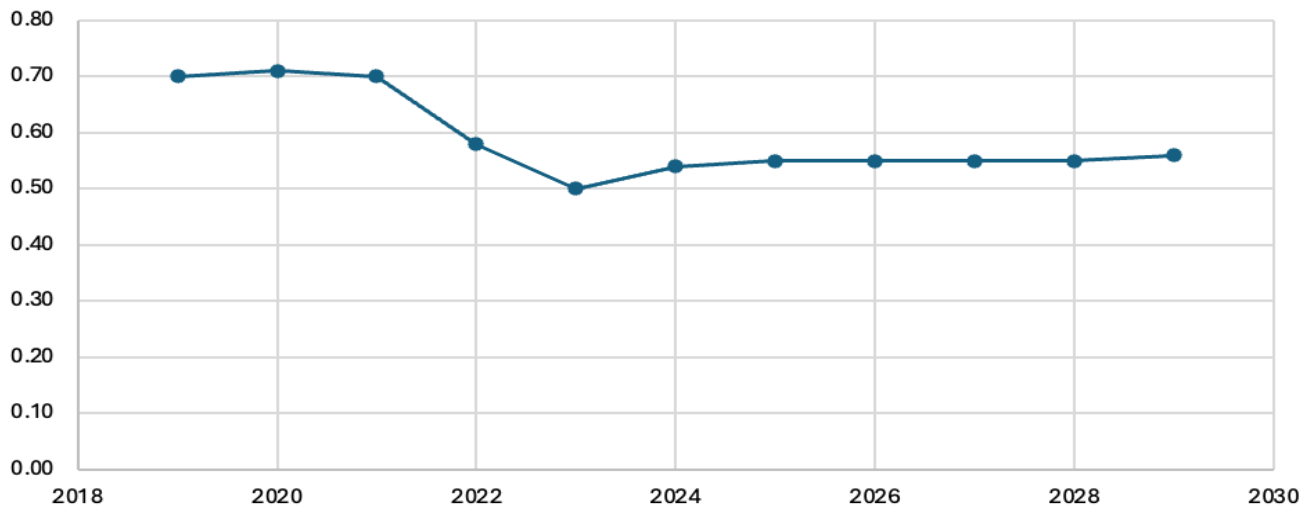
Despite Tunisia’s transition to democracy more than a decade ago, indicators such as respect for the rule of law and the quality of institutions, as measured by the World Bank, reflect only modest progress. This stagnation is worrisome given the aspirations for a more robust and accountable system of governance. The persistence of these challenges underscores the complexity of the transition from autocratic rule to a functioning democracy. Despite the establishment of democratic institutions, deep-rooted problems persist, hindering the country’s progress.

Tunisia has made significant progress in upholding the principles of freedom and human rights, particularly in the areas of freedom of expression and media freedom. However, despite this progress, recent international reports highlight ongoing concerns and criticisms, indicating that challenges remain. Issues such as censorship, restrictions on press freedom, and human rights violations continue to be reported, undermining democratic values and impeding both social cohesion and national progress. The persistence of these issues underscores the need for continued reform and commitment to the protection of fundamental rights and freedoms. As shown in Figure 24, the World Freedom Index reflects Tunisia’s current standing on these key democratic indicators, highlighting both achievements and areas that require further attention.

Corruption remains a pervasive challenge in Tunisia, exacerbated by bureaucratic inefficiencies that affect both citizens and businesses. Cumbersome administrative processes and outdated legal frameworks contribute to a system in which corruption can thrive, hindering institutional effectiveness and impeding economic growth. Despite efforts to fight corruption, progress has been slow, reflecting the entrenched nature of the problem and resistance to comprehensive reform. According to Transparency International’s 2023 Corruption Perceptions Index, Tunisia scored 40 out of 100, with a score of 0 indicating “highly corrupt” and 100 indicating “very clean”. This score places Tunisia 87th out of 180 countries, highlighting the ongoing challenges in improving public sector integrity and transparency. The country’s position on the Index, as shown in Figure 25, underscores the need for stronger anti-corruption measures, streamlined administrative processes, and modernized legal frameworks to promote greater accountability and transparency in the public sector.

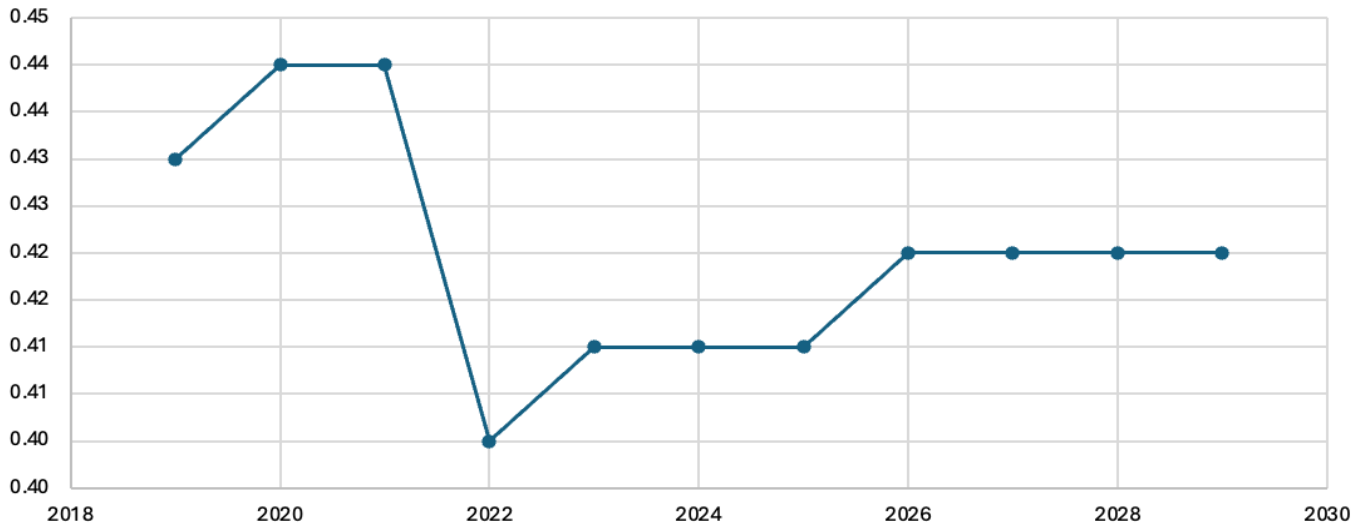
The Tunisian government faces the considerable challenge of navigating a bureaucratic landscape that imposes a significant burden on both citizens and businesses. Inefficiencies within the administration create barriers that impede effective governance and hinder progress. A significant portion of the population is constrained by the complexity of the bureaucratic system, which hinders their ability to access essential services or engage in legitimate activities. These challenges are exacerbated by the persistence of outdated laws that do not reflect the country’s evolving needs and realities. These outdated legal frameworks not only impede economic development, but also undermine the rule of law and erode public

Figure 24. World Freedom Index



Source: Freedom House, 2024



Figure 25. Corruption Perception Index

Source: Freedom House, 2024

confidence in the judicial system. The mismatch between administrative procedures and contemporary needs underscores the need for comprehensive reform initiatives aimed at streamlining the bureaucracy, modernizing the legal framework, and improving the efficiency and responsiveness of public institutions. Such reforms are paramount to creating an environment conducive to growth, innovation, and social progress in Tunisia.

Modernizing the state and fighting corruption are critical to the development of Tunisia's institutions. The use of digital technologies to streamline services and increase transparency is a fundamental aspect of fostering trust in government institutions. However, translating these priorities into tangible progress has been challenging, with political instability often hampering reform efforts. The resulting economic uncertainty adds to the difficulties Tunisia faces in its democratic transition. Addressing these challenges will require sustained commitment and concerted efforts by both government authorities and civil society to foster a more accountable and inclusive system of governance.

2.5. Development of the financial sector

At the core of Tunisia's financial system is a robust banking system characterized by a mix of public and private institutions. The Central Bank of Tunisia (Banque Centrale de Tunisie) is responsible for monitoring and directing monetary policy. It also regulates financial institutions. Among the most prominent financial institutions in Tunisia are the Banque de Tunisie et des Emirats (BTE), the Banque Nationale Agricole (BNA),

and the Banque de l'Habitat (BH). These institutions offer a full range of services including retail banking, corporate finance and investment banking.

The Tunisian banking sector comprises 30 banks, 12 of which are listed on the Tunisian stock exchange. The Tunisian banking sector is composed of six state-owned banks, with Société Tunisienne de Banque (STB), Banque Nationale Agricole (BNA) and Banque de l'Habitat (BH) representing some of the largest financial institutions in the country. According to the BCT 2021 Banking Supervision Report, state-owned banks collectively account for 36.6% of banking assets, 40.3% of banking sector loans and 29.8% of banking sector deposits. The BCT exercises strict prudential control over the country's banking sector. The BCT requires that banks' reserves and balance sheets meet international standards. All Tunisian banks are under pressure to improve their performance and balance sheets. Recently, banks have taken a number of steps to improve their performance, including continuing to reduce non-performing loan (NPL) ratios, implementing tighter credit risk controls, improving recovery procedures, and upgrading underdeveloped IT applications.

In addition to its established banking infrastructure, Tunisia has a growing capital market centered around the Bourse des Valeurs Mobilières de Tunis (BVMT), the country's primary stock exchange. Although modest in size compared to global markets, the BVMT plays an important role in enabling companies to raise capital through initial public offerings (IPOs). The exchange hosts a diverse range of listings in various sectors, including finance, telecommunications, and manufacturing, underscoring the breadth of Tunisia's economic landscape. To further support the growth of the exchange, ongoing initiatives



aim to enhance liquidity and broaden its attractiveness to investors, thereby supporting its development and integration into the broader financial ecosystem.

In addition, Tunisia has positioned itself as a regional leader in the burgeoning fintech sector, being one of the first countries in North Africa to embrace this transformative industry. Fintech is emerging as a key driver of economic growth and job creation, offering new opportunities for innovation and entrepreneurship. The development of the sector in Tunisia has been facilitated by three key technologies: Big Data, Artificial Intelligence, and Blockchain. These technologies have underpinned advances in digital banking, mobile payments, and financial inclusion, helping to modernize the country's financial landscape and expand access to financial services to a broader segment of the population. As fintech continues to evolve, it has the potential to contribute significantly to Tunisia's economic development by fostering a more dynamic and inclusive financial ecosystem.

The rapid emergence of new technology-related firms is driving the formation of clusters. The banking and fintech cluster have shown a high level of responsiveness and innovation during the COVID-19 crisis. While traditional banking operations have become challenging and more people are working from home, startups and fintechs have provided solutions and offered new organizational practices, including contactless payments, e-banking platforms, mobile payments, and loans for small businesses. These developments highlight the importance of fintechs and their innovation during this period.

In 2020, the Central Bank of Tunisia launched the BCT-fintech website, which, among other things, allows labeled startups to develop their activities within a more flexible regulatory framework, without being forced to leave their country to establish themselves abroad. The main objective of the BTC-fintech initiative is to facilitate financial inclusion and innovation, and to transform the banking sector by restructuring and digitalizing banks. This will allow the financial ecosystem to evolve rapidly.

2.6. Infrastructure development (including ICT and digital infrastructure)

While Tunisia has a relatively high rate of access to infrastructure, the quality of its infrastructure has declined significantly over the past decade, particularly in rural areas where access remains rudimentary. The ongoing pandemic has highlighted the need to revitalize

Tunisia's infrastructure to support post-COVID-19 recovery efforts and facilitate integration into global value chains. The implementation of legislative revisions and the creation of specialized agencies to promote public-private partnerships (PPPs) indicate a commitment to modernizing infrastructure development practices.

However, a number of challenges remain, including the concentration of public investment in coastal regions, which exacerbates regional disparities and underscores the need for targeted improvements in inland regions. Closing the infrastructure investment gap will require substantial financial commitments, estimated at an average annual expenditure of 4.4% of GDP until 2040. The global pandemic has highlighted the need to invest in infrastructure with a high growth multiplier effect. However, the dominance of state-owned enterprises in this sector raises concerns about their financial sustainability. To address these challenges, it is necessary to promote competition, reduce reliance on subsidies, and improve the efficiency of infrastructure management. This will ensure sustainable development and economic resilience.

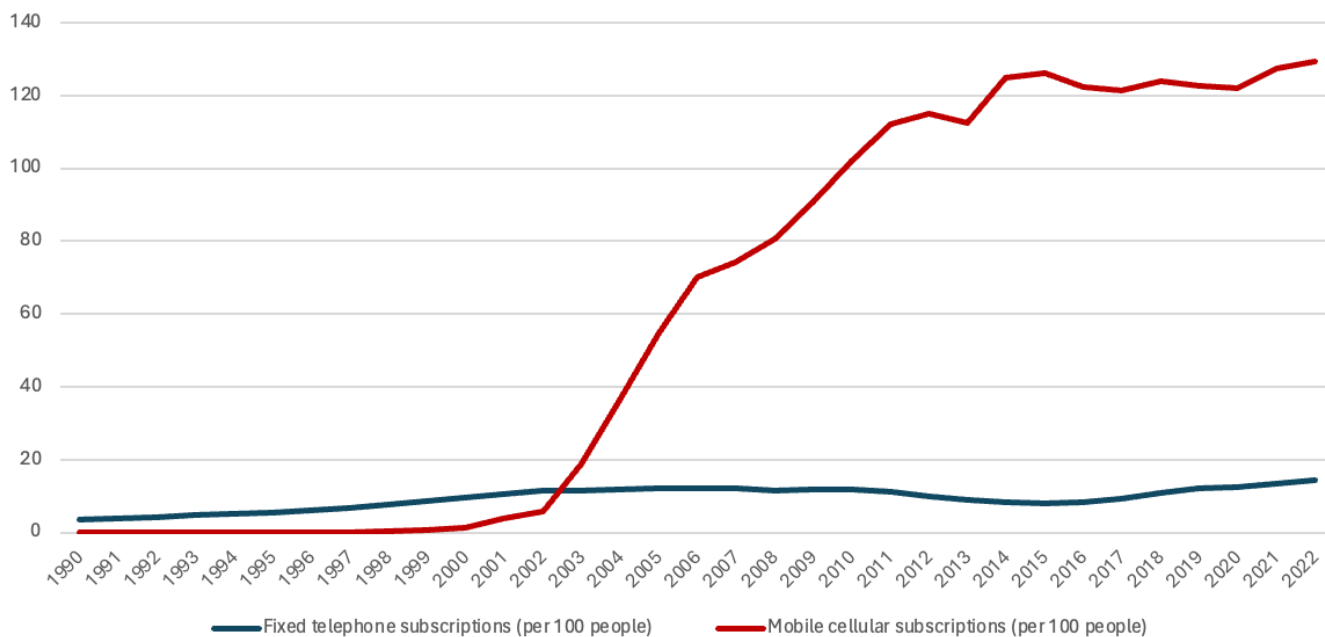
Digital transformation requires a change in the way infrastructure is produced, consumed and managed. Tunisia's digital infrastructure offers new opportunities for economic growth. The impact of new digital technologies will be significant, leading to major changes in the country's economic landscape. These changes will lead to the elimination of sectoral barriers, the introduction of new types of services, the emergence of new product categories, and the redistribution of value added among economic actors.

Tunisia is the most advanced country in the southern Mediterranean region in terms of international Internet bandwidth capacity. This capacity will undergo a significant and steady evolution between 2007 and 2023, with an average annual growth rate of 61.58% between 2007 and 2023. Tunisia's international Internet bandwidth capacity will increase to 1,750 gigabytes per second in 2022. The telecommunications market has witnessed a notable increase in the number of high-speed Internet access subscribers, particularly among professionals and residential customers.

In line with global trends, Tunisia is experiencing robust growth in its telecommunications market, driven by increasing demand for mobile and internet services. In 2022, the fixed and mobile penetration rate reached an impressive 149.7%, reflecting the widespread adoption of telecommunications technology. With a mobile subscriber base of more than 15.9 million, Tunisia ranks among the African countries with the highest mobile penetration rates. The internet market is also experiencing significant



Figure 26. Fixed and mobile telephone subscriptions



Source: World Bank, 2024

growth, with approximately 12.3 million subscribers by 2022, of which 81.3% (approximately 10 million) access the internet via their smartphones. According to GSMA Intelligence, mobile connections in Tunisia represented 133.7% of the total population in January 2024, highlighting the continued expansion of the telecommunications sector. This growth was further evidenced by an increase of 307,000 mobile connections (+1.9%) between early 2023 and early 2024. Such high levels of mobile and internet penetration underscore the importance of telecommunications as a cornerstone of Tunisia's digital infrastructure, which plays a critical role in economic and social development. Figure 26 illustrates trends in fixed and mobile subscriptions over the past few years, providing insight into the evolving telecommunications landscape in Tunisia.

The Tunisian market is lagging behind in the expansion of internet connections, with the majority of these connections being provided by mobile networks. In January 2024, there were 9.96 million internet users in Tunisia, representing a penetration rate of 79.6% of the total population. According to a recent analysis by Kepios, the number of internet users in Tunisia increased by 231 thousand between January 2023 and January 2024, representing a growth of 2.4%. For context, these user numbers indicate that 2.55 million people in Tunisia were not using the internet at the beginning of 2024, suggesting that 20.4% of the population remained offline at the beginning of the year.

Tunisie Telecom is the leading provider of international Internet connectivity in Tunisia. The company manages three submarine cables, one of which is a 112-mile fiber optic cable. This cable is owned and operated by Tunisie Telecom and connects the city of Kelibia in Tunisia to the city of Mazara in Italy. In 2014, private telecom operators Ooredoo and Orange Tunisie began operating their own submarine cables. These two cables are considered among the most important telecommunications links in the Mediterranean, ensuring the country's digital independence. In addition to increasing Tunisia's international Internet bandwidth capacity to 1,750 gigabytes per second by 2022, the cables have also improved Tunisia's IT connectivity and broadband capacity to the point where it can provide high-speed Internet services to other parts of Africa. This makes Tunisia a strong potential regional IT hub. Tunisia is considering a number of options to further expand its bandwidth. One such option is a new submarine cable project that would connect Tunisia's northern city of Bizerte to Marseille in France.

In 2009, Tunisia awarded its first third-generation (3G) mobile license to Orange Tunisie. This was followed by licenses awarded to Tunisie Telecom in 2010 and Ooredoo in 2012. In March 2016, the Ministry of Communication Technologies and Digital Economy awarded a 4G license to all three operators for a total of 471 million dinars (\$235 million). Tunisia's Ministry of Communication Technologies and Digital Transformation has announced that Tunisia will launch fifth-generation (5G) licenses by



the end of 2024. The introduction of 5G would require additional infrastructure investments, prompting the National Telecommunications Authority (INTT) to conduct a feasibility study on the social and economic impact of 5G technology. In addition, a 5G Security Task Force has been established to develop a 5G regulatory framework.

The Tunisian infrastructure has a high level of digital technology. The investments made by fixed and mobile operators have resulted in the construction of significant capacity and an improvement in the quality of the infrastructure, as evidenced by the bandwidth capacity. However, these infrastructures are located within a trajectory of mobile infrastructure development and the deployment of optical fiber is relatively limited. Over the past decade, there has been a remarkable expansion in the range of individual devices available. These include telephones, fixed and mobile Internet access, computers and tablets. These developments have been unevenly distributed across regions, largely due to low population density in more remote areas. The most adequate infrastructure is concentrated in the Greater Tunis and Sahel regions. The emergence of new issues in cloud computing has the potential to address the lack of investment in certain technologies, but the full benefits of this technology have yet to be realized. At the same time, cybersecurity issues are becoming more prevalent as infrastructure improves, and the lack of public funding for cybersecurity raises concerns about the increasing reliance on digital technologies in all aspects of the country's critical operations. A significant investment in cybersecurity is essential for the country.

2.7. Energy

Tunisia's energy transition has significant implications for its society, marking a pivotal shift toward a more sustainable future. As the country increasingly relies on renewable energy sources, it is not only addressing environmental concerns, but also fostering new economic opportunities and social dynamism. This transition requires a re-evaluation of the existing social contract, which encompasses the rights, responsibilities, and expectations of citizens, businesses, and governments. In this evolving landscape, stakeholders must work together to ensure that the benefits of the energy transition are shared equitably, empowering communities and fostering social cohesion.

By the end of August 2024, Tunisia's primary energy resources totaled 2.6 million tons of oil equivalent (Mtoe), marking a significant 15% decline compared to the same period in 2023 (Ministry of Industry, Mines, and Energy,

2024). This decline is mainly attributed to the reduction in domestic crude oil and natural gas production. Despite the downturn, domestic oil and gas production still accounted for 69% of the total primary energy resources. However, the contribution of renewable energy, specifically the production by the Tunisian Electricity and Gas Company (STEG), remains critically low at only 2%. Additionally, the royalties from the transit of Algerian gas through Tunisia experienced a 4% decrease by the end of August 2024, indicating ongoing challenges in energy diversification.

Between the end of August 2023 and the end of August 2024, demand for primary energy showed overall stability, although with notable changes in its composition. Demand for natural gas dropped by 2% due to constraints on purchasing Algerian gas, while the demand for petroleum products increased by 2%. This shift is reflected in the structural change in primary energy demand, with petroleum products increasing their share from 48% to 49%, and natural gas declining from 51% to 50%. In response to the reduced availability of natural gas, STEG resorted to importing electricity to cover the national demand (Ministry of Industry, Mines, and Energy, 2024).

As of the end of August 2024, STEG remained the dominant player in electricity production, contributing 96% of the national total. However, electricity generation from natural gas (including STEG and independent producers) saw a slight 1% decline. Meanwhile, electricity from renewable sources accounted for 5% of the total. In the residential sector, 267 MW of photovoltaic rooftops were installed, while 314 authorizations were granted in the industrial, tertiary, and agricultural sectors, amounting to a total capacity of 112 MW. Despite these developments, the energy trade deficit surged by 28%, increasing from 6,069 MDT in August 2023 to 7,753 MDT in August 2024, considering Algerian gas royalties exported (Ministry of Industry, Mines, and Energy, 2024). This situation highlights the need for a more resilient and diversified energy strategy in Tunisia to address both the rising trade deficit and the constraints on local energy production.

The issue of fossil fuels is a contentious one in Tunisia's natural resources sector. Available reserves are often debated, with many Tunisians believing that the country's post-independence governments have concealed the true volume of oil and natural gas production. Some argue that Tunisia's proximity to major global fuel producers, Algeria and Libya, should automatically grant the country access to their energy resources. However, this argument overlooks Tunisia's geographical reality, including vast desert areas and the fact that oil and gas reserves are concentrated in Algeria and Libya, which are hundreds of kilometers from Tunisian territory.



However, Tunisia does have oil and gas resources. It ranks 48th in the world in oil production, producing nearly 65,000 barrels per day (compared to 120,000 in the early 1980s) (Nakhle and Lassourd, 2019). For gas, Tunisia ranks 53rd in the world with a production of more than 3 million cubic meters per day. Tunisia has been exploring for oil and gas since the 1960s, with a focus on desert areas and the southeastern Gulf of Gabès region, both onshore and offshore. The state-owned *Entreprise Tunisienne d'Activités Pétrolières (ETAP)* oversees the oil sector, while the *Tunisian Electricity and Gas Company (STEG)* is responsible for natural gas exploitation for electricity and heat production.

Tunisia has approximately 400 million barrels of oil reserves and nearly 65 billion cubic meters of natural gas reserves. In the early 1980s, Tunisia was self-sufficient in hydrocarbons due to its production and taxes collected on Algerian gas pipelines that crossed Tunisia to Italy. Since the late 1990s, however, energy shortages have gradually worsened. After the revolution, about 59% of the country's energy needs were met. This is due to the devaluation of the national currency and the steady increase in the country's hydrocarbon imports, resulting in a significant increase in the energy bill.

To further contextualize Tunisia's energy landscape, it is critical to consider recent developments that reflect the country's evolving energy policies and economic challenges. By August 2024, the country's primary energy resources had declined significantly, largely due to declining domestic production of crude oil and natural gas. This decline highlights Tunisia's continued reliance on traditional energy sources, which still make up the majority of the national energy mix. Despite efforts to promote renewable energy, its contribution remains minimal, pointing to the need for increased investment in sustainable energy infrastructure. Demand for primary energy has shifted, reflecting both market dynamics and external constraints such as limited access to Algerian gas. This evolving scenario has also put additional pressure on the STEG, which is now increasingly dependent on electricity imports to ensure national supply. In terms of production, Tunisia ranks 48th in the world in terms of oil production, with approximately 65,000 barrels per day, and 53rd in terms of natural gas production, with over 3 million cubic meters per day. However, existing reserves, estimated at around 400 million barrels of oil and nearly 65 billion cubic meters of natural gas, underscore the need for prudent management to ensure long-term sustainability. In the past, Tunisia's energy self-sufficiency was bolstered by revenues from the transit of Algerian gas, but since the late 1990s, shortages have

worsened, exacerbated by currency devaluation and rising import costs. Tunisia's energy transition involves not only a shift to renewable energy, but also addressing historical dependencies, geopolitical challenges, and domestic economic realities. Achieving a resilient energy strategy that includes a more equitable distribution of resources and increased investment in green energy is critical to Tunisia's socio-economic progress.

2.8. Environmental and climate risks

North Africa, and Tunisia in particular, is recognized as a hotspot for climate change and faces a growing number of climate-related challenges. These include an increase in extreme weather events such as droughts, floods, and wildfires, as well as rising temperatures, decreasing rainfall, and rising sea levels. These changes pose significant risks to Tunisia's socio-economic stability and environmental health, particularly affecting water resources, agriculture, livestock, ecosystems, coastal zones, public health, and tourism. Between 2012 and 2023, Tunisia experienced six waves of severe drought, leading to critical water shortages in its dam systems. In particular, 2016 recorded a particularly alarming water deficit, with dam fill rates dropping to just 33.9% and a deficit magnitude of 66.1%. These recurring droughts underscore the urgent need for strategic water management and climate adaptation measures to mitigate their long-term impacts. Figure 27 illustrates the various climate-related risks that threaten Tunisia's socioeconomic and environmental stability.

The current decade is recorded as the hottest in Tunisian meteorological records, punctuated by episodes of unprecedented extreme heat. More recently, as of December 14, 2022, the filling rate of dams decreased to reach 29%, corresponding to a global stock of water reserves amounting to 677.72 million cubic meters. This volume represents a significant decrease compared to the same period of the previous year, when the volume of water reserves was 952.3 million cubic meters. These data, published by the National Agricultural Observatory (ONAGRI, 2023) on December 21, highlight the reality of the climatic and environmental challenges facing Tunisia. Annual rainfall has fluctuated considerably, from a peak of 442.94 mm/year in 1976 to a historic low of 145.53 mm/year in 2021. The last five years have been particularly worrying, with a downward trend from 318.79 mm/year in 2019 to 145.53 mm/year in 2021. This decrease in precipitation contributes to the above-mentioned increase in droughts and increases the risk of acute drought in the area.



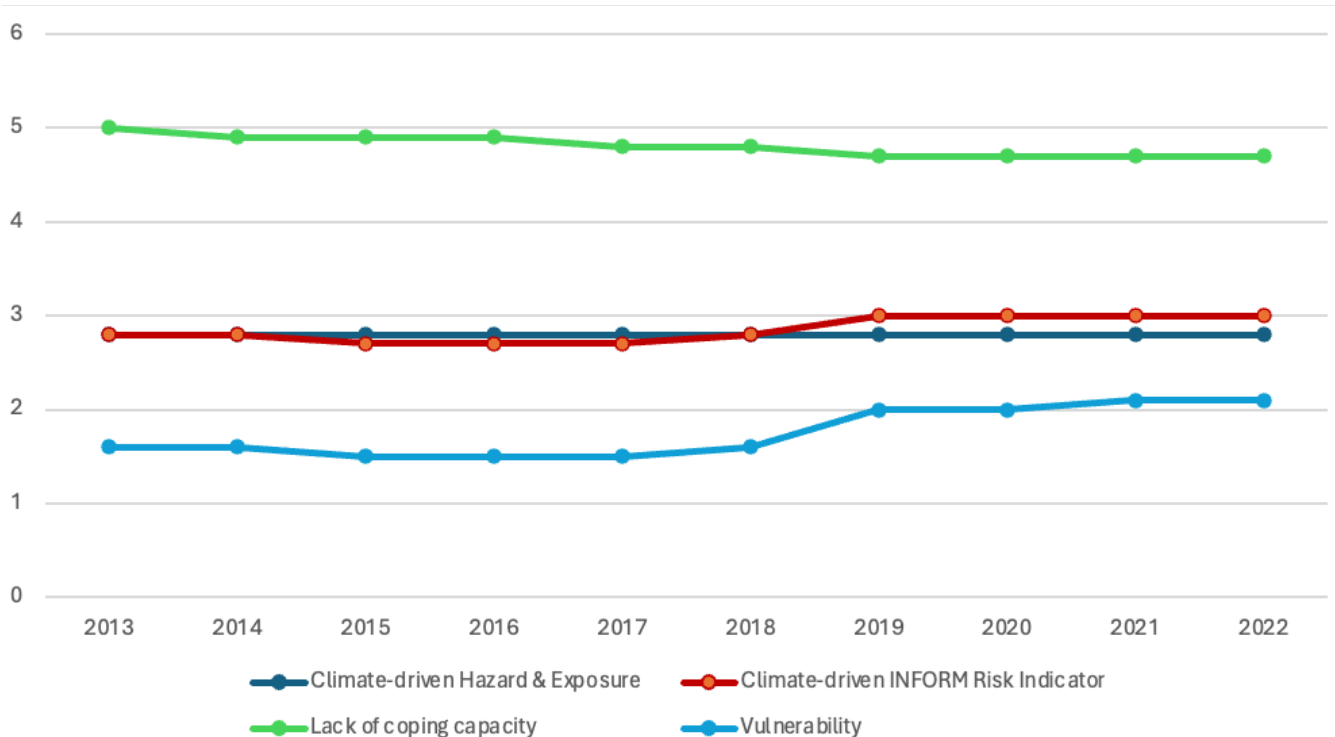
A gradual increase in surface temperatures is observed, from -0.35°C in 1975 to 2.56°C in 2021. This upward trend is particularly strong in the last five years, from 1.9°C in 2017 to 2.56°C in 2021. The average temperature change over this period is 0.83°C. The last decade (2012-2021) recorded an average of 1.66°C, indicating an acceleration of global warming. Tunisia is expected to experience an increase in extreme weather events by 2050 compared to the 1981-2010 reference period. This will lead to an increase in the number of consecutive maximum dry days, an increase in heat waves and a sharp increase in potential evapotranspiration, further affecting the driest bioclimatic stages. These changes contribute to the aridification of the territory, already aggravated by the general decrease in rainfall in Tunisia.

Tunisia is also vulnerable to sea level rise due to climate change, especially along the Mediterranean coast. An average sea level rise of 30 to 50 cm is projected by 2050, increasing the risk of coastal flooding, with potential consequences for coastal ecosystems and infrastructure. Available records for the Mediterranean show that the sea level rose at an average rate of 2 mm/year between 1993 and 2005. For Tunisia, an average sea level rise of 30 to 50 cm is projected for 2050, with an additional rise of about 1 m by 2100. Under these conditions, the annual rate of retreat of the sea could vary from 20 cm to 135 cm per year depending on the region and the nature of the beaches.

Since the beginning of the industrial era, Tunisia has experienced a significant increase in CO2 emissions. Historical data on greenhouse gas emissions from 1960 to 2021 show a significant upward trend. During this period, CO2 emissions increased dramatically, rising from 1.76 million metric tons of CO₂ equivalent (MtCO₂e) in 1960 to 22.83 MtCO₂e in 2021, an increase of 1197.77%. Methane emissions followed a similar trajectory, increasing from 2.89 MtCO₂e in 1960 to 8.93 MtCO₂e in 2021, an increase of 208.74%. In addition, nitrous oxide emissions increased from 1.29 MtCO₂e to 3.62 MtCO₂e, an increase of 180.58%. As a result, total GHG emissions excluding land use, land use change, and forestry (LULUCF) increased by 495.54%, from 5.94 MtCO₂e in 1960 to 35.38 MtCO₂e in 2021. This significant increase in emissions underscores the growing environmental challenges facing Tunisia amid its industrialization and economic growth efforts, as shown in Figure 28.

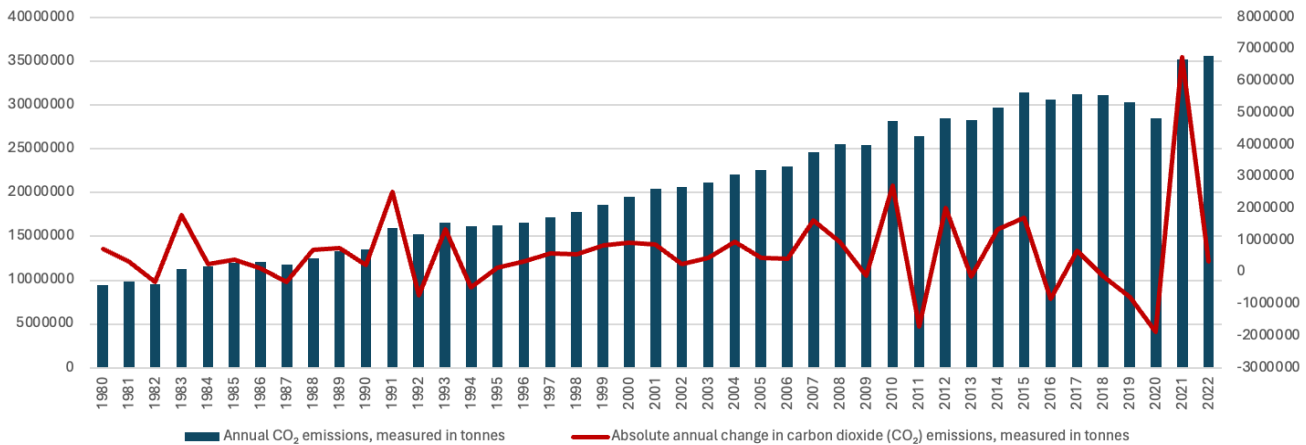
Over the past two decades, Tunisia has shown a steadfast commitment to integrating climate and environmental considerations into its strategic planning, culminating in the adoption of ambitious strategies for low-carbon development and achieving carbon neutrality by 2050. The National Strategy for Low Carbon Development (SNBC) and Resilient to Climate Change (RCC) by 2050, finalized in October 2022, outlines a comprehensive framework for reducing greenhouse gas emissions and promoting climate-resilient economic growth. Through scenario

Figure 27. Climate driven risk



Source: Data from IMF, 2024



Figure 28. CO₂ emissions

Source: International Energy Agency, 2024

analysis, Tunisia projects a significant reduction in carbon intensity, demonstrating the potential success of its transition to sustainability. In addition, Tunisia's Nationally Determined Contributions (NDCs) aim to reduce carbon intensity by 45% by 2030 compared to 2010, exceeding global climate targets and demonstrating the country's strong commitment to environmental protection.

3. Policy recommendations on accelerating progress towards the SDGs

To accelerate Tunisia's progress toward the SDGs, it is essential to address the specific bottlenecks that impede progress in various sectors. These policy recommendations are designed to be practical, targeted, and responsive to Tunisia's unique socioeconomic challenges and fiscal constraints. By focusing on areas such as social protection, education, health, climate action, energy transition, and governance, this strategy aims to address critical structural constraints while aligning with national priorities. Each recommendation provides actionable steps that integrate sustainable, inclusive, and equitable approaches to promote resilience, social justice, and economic opportunity across Tunisia. By aligning interventions and prioritizing the most pressing SDG gaps, Tunisia can make measurable progress toward a sustainable and inclusive future, ensuring that no one is left behind.

Strengthen social safety nets to reduce poverty (SDG 1): To address persistent poverty, particularly in underserved regions, Tunisia should implement an expanded, digitally enabled social safety net system. By adopting a digital platform for cash transfers, the government could increase transparency and reduce administrative overhead. Conditional cash transfers linked to school

attendance and access to health care will further support education and health outcomes in impoverished communities. For a targeted approach, a comprehensive digital registry of vulnerable households should be established in partnership with local authorities to map and reach families most in need. This registry can improve program targeting and ensure that resources are allocated to areas with high poverty rates, effectively reducing regional disparities and promoting economic inclusion.

Foster inclusive economic growth (SDGs 1 and 8): Tunisia should promote inclusive economic growth through targeted job creation initiatives in sectors with high potential for rural and marginalized areas, particularly renewable energy, agriculture, and tourism. Establishing specialized microcredit programs for young entrepreneurs and women in these regions will empower marginalized communities and stimulate local economic growth. These programs should be coupled with vocational training in sustainable agricultural practices, tourism management, and renewable energy installation. Partnerships with local NGOs and private sector actors can facilitate mentorship, technical training, and financial literacy programs. In addition, promoting public-private partnerships (PPPs) in these sectors can create sustainable jobs and reduce reliance on urban-centric economic opportunities.

Expand social protection systems (SDG 1): Tunisia needs to expand its social protection systems to create a robust safety net that can mitigate economic shocks and support vulnerable populations. This includes expanding food assistance programs and access to essential health and education services. By integrating predictive analytics into program targeting, Tunisia can proactively identify and support communities at higher risk of poverty, ensuring timely and effective interventions. In addition, a



gradual rollout of universal basic services in education and health, with a focus on digital health services and mobile clinics in remote areas, can provide basic safety nets even in resource-constrained environments. Strengthening partnerships with civil society organizations for efficient delivery can also improve outreach and service quality.

Invest in climate-smart agriculture (SDGs 2 and 13): To address the growing challenges of climate change, Tunisia should prioritize the development of climate-smart agricultural practices that build resilience. Key interventions include subsidies for drought-resistant seeds, efficient irrigation infrastructure such as drip and sprinkler systems, and training programs in sustainable agriculture. Establishing an agricultural insurance scheme for smallholder farmers, combined with accessible climate data services, will mitigate the economic impact of crop failure. In addition, Tunisia should strengthen research partnerships with international agricultural institutions to innovate and adopt climate-resilient crop varieties. This approach can protect food security, increase agricultural productivity, and provide a sustainable foundation for rural livelihoods, directly supporting Tunisia's climate goals.

Implement improved nutrition programs (SDG 2): Nutrition programs that focus on vulnerable groups, including children and pregnant women, can significantly improve health outcomes and reduce cycles of poverty associated with malnutrition. Tunisia should implement school feeding programs in areas of high food insecurity and launch community-based nutrition education campaigns, particularly in rural and underserved areas. Integrating digital tools to monitor nutritional deficiencies and health outcomes can improve program effectiveness. Partnerships with health care providers for mobile health services focused on prenatal and early childhood nutrition will further expand the program's reach. Involving local communities in the planning and implementation of these programs will ensure that they are culturally sensitive and address specific local needs.

Strengthen food supply chains (SDG 2): To reduce food waste and improve food security, Tunisia should invest in critical food supply chain infrastructure, including modern storage facilities, efficient transportation networks, and robust market linkages. Establishing agricultural cooperatives and farmer associations can improve smallholder farmers' access to markets, facilitate fair pricing, and give them bargaining power. Also, Tunisia should promote agro-processing industries in rural areas to add value to locally produced food, reduce waste, and create employment opportunities. Strategic public-private partnerships can drive investment in cold chain infrastructure and digital platforms for market information, which can enable efficient distribution and

stabilize food prices in regions prone to supply disruptions. Increase investment in human capital (SDGs 3 and 4): Investing in human capital is essential for Tunisia to improve health and education outcomes, especially in marginalized communities. In health care, building telemedicine networks in remote and underserved regions can close access gaps by leveraging digital platforms for affordable primary care and specialized consultations. Public-private partnerships (PPPs) can mobilize resources to support and expand health infrastructure, including clinics, telemedicine equipment, and mobile health units, while special training programs for health professionals in telemedicine and digital health will improve access to care in rural areas. In education, increased funding for early childhood programs will build a foundation for lifelong learning. Government and private sector collaboration can promote equitable access to quality education through early childhood centers in disadvantaged regions. Expanding technical and vocational education and training (TVET) programs is also critical to addressing skills gaps in sectors such as renewable energy, ICT and advanced manufacturing. Tailoring TVET to industry needs and integrating internships and apprenticeships will ensure practical skills development. Scholarships and grants for low-income students, especially young women and marginalized communities, will facilitate enrollment in TVET and STEM fields, supporting an inclusive, skilled workforce for Tunisia's future.

Promote vocational training and skills development (SDG 8): Tunisia's economic growth requires a workforce with skills that meet the needs of high-growth industries, particularly renewable energy, agriculture, and ICT. Expanding vocational training programs to align with current labor market needs is critical. For example, the renewable energy sector requires specific skills in solar and wind energy installation and maintenance that can be integrated into vocational curricula. Government subsidies for courses in STEM fields and digital skills training, with a focus on youth and women, can encourage wider participation. By working with industry partners, vocational institutions can offer co-designed training modules that incorporate the latest technologies and trends to ensure graduates are job ready. Creating regional training hubs with state-of-the-art facilities and access to technology will support local job growth and bridge employment gaps. In addition, tax incentives for companies that offer internships or apprenticeships to vocational students will strengthen the link between education and employment.

Eliminate gender gaps in the labor market (SDG 5): Addressing gender gaps in Tunisia's labor market requires targeted policies to increase women's participation in high-demand fields. To encourage women's entry into STEM fields, the government could establish scholarship



programs specifically for women to encourage their participation in science and engineering disciplines. Business incentives, such as tax deductions or grants for companies that achieve gender balance in hiring and promotion, can help create a more inclusive work environment. In addition, the government should invest in public childcare facilities, especially in urban areas with high female unemployment, to support working mothers. Enforcing anti-discrimination laws through regular audits and reporting systems can help address discriminatory hiring practices and empower women economically. By increasing women's economic participation, Tunisia can raise household incomes, promote gender equality, and foster inclusive economic growth.

Accelerate renewable energy and energy transition (SDGs 7 and 13): Tunisia's energy strategy should prioritize investment in solar and wind energy infrastructure to promote sustainable energy access and reduce reliance on fossil fuels. To drive the energy transition, the government should set clear targets for solar and wind power installations, particularly in underserved rural areas where off-grid solutions are most feasible. Gradually phasing out fossil fuel subsidies and reallocating these funds to subsidize green energy projects will incentivize the adoption of renewable energy. Supporting small-scale renewable energy projects, such as community solar farms or wind turbines, can enable local energy production and reduce energy costs for rural residents. Furthermore, Tunisia should streamline regulatory processes to facilitate private investment in the renewable sector, including tax incentives and reduced tariffs on imported renewable technology components. A dedicated fund could be established to help small and medium-sized enterprises (SMEs) invest in energy-efficient and renewable solutions, which will promote the creation of green jobs and advance Tunisia's SDG goals.

Strengthen energy awareness and capacity-building programs (SDG 7): Creating a strong knowledge base and public awareness of the benefits of renewable energy is essential for the long-term success of the energy transition. Tunisia should establish training programs at technical institutes and vocational centers to build a skilled workforce in renewable energy technologies. These programs can include solar panel installation, wind turbine maintenance, and energy management to prepare individuals for jobs in a growing sector. Public awareness campaigns targeting schools, local communities, and civic organizations can promote the benefits of clean energy and foster a culture of sustainability. Schools could incorporate renewable energy education into their curricula to encourage young people to consider

careers in the sector. Government-led initiatives, such as community workshops and media campaigns, can inform citizens about energy efficiency practices and sustainable energy choices, building societal support for the energy transition.

Eradicate energy poverty through targeted initiatives (SDG 7): To ensure equitable energy access, Tunisia must address the energy gap between urban and rural areas by providing clean energy solutions to underserved communities. Off-grid renewable energy solutions, such as solar mini-grids and solar home systems, can provide affordable and reliable energy to remote and underserved areas. Targeted financial support for low-income households, including grants and microloans, can make these technologies more accessible. Tunisia could also explore community-based energy cooperatives, where communities co-own and manage renewable energy systems to ensure sustainable and locally controlled energy access. Partnerships with local banks to develop affordable financing models for clean energy adoption can further support low-income households. In addition, involving civil society and local organizations in the implementation of these initiatives will ensure that they are culturally appropriate, sustainable, and widely adopted. These efforts will close the energy access gap, reduce disparities between urban and rural communities, and promote social justice.

Strengthen energy governance and institutional capacity (SDG 7): To drive an effective energy transition, Tunisia should establish a transparent regulatory framework supported by robust governance bodies that engage both the public and private sectors in energy planning. This includes establishing an independent regulatory body to oversee energy projects, monitor progress, and ensure accountability in line with Tunisia's SDG commitments. Providing technical training and certification programs for energy professionals will help develop a skilled workforce capable of managing and maintaining renewable energy systems. Engaging stakeholders - government, business, and civil society - will improve decision-making processes and ensure that policies reflect a range of needs and priorities. By strengthening institutional capacity, Tunisia can foster a well-regulated, reliable energy sector that promotes sustainable growth.

Harness digital innovation for development (SDGs 9 and 8): Investing in digital infrastructure is essential for Tunisia's socioeconomic development, particularly in sectors such as health, education, and public services. The government should allocate resources to expand internet access in rural and underserved areas, thereby reducing the



digital divide. Developing platforms for e-government services, such as online health consultations and digital administrative services, can improve the accessibility and efficiency of public services. Promoting digital literacy through community-based programs, with a particular focus on youth and women, will ensure broader digital inclusion and foster economic growth through a more connected and informed population. By improving digital infrastructure and literacy, Tunisia can unlock new economic opportunities, drive quality service delivery, and support digital transformation across sectors.

Promote digital skills development (SDG 8): Tunisia should implement a nationwide digital skills development program that expands STEM (science, technology, engineering, and mathematics) education in schools and provides digital literacy courses for youth and adults. Working with the private sector to align curriculum development with market demand will ensure that training programs produce job-ready graduates who can thrive in Tunisia's evolving digital economy. Specific programs should focus on coding, cybersecurity, and digital marketing to align with high-demand fields. Establishing partnerships with technology companies to provide internships, apprenticeships, and job placement support will further strengthen employment prospects. Developing a digital workforce will increase employability, contribute to economic growth, and help Tunisia keep pace with global technological advances.

Promote innovation and entrepreneurship ecosystems (SDG 9): Tunisia's entrepreneurial landscape can be strengthened by creating a supportive ecosystem that includes innovation hubs, incubators, and accelerators for startups in high-growth sectors such as ICT, green technology, and digital finance. The government should encourage public-private partnerships to promote research and development, with a particular focus on emerging technologies such as artificial intelligence (AI), blockchain, and green technologies. These partnerships could include funding grants, tax incentives, and technical assistance for research projects with high social and environmental impact. Creating a streamlined regulatory framework for start-ups, with simplified licensing and registration procedures, will encourage entrepreneurship. Tunisia can stimulate job creation and technological advancement by supporting a vibrant innovation ecosystem that empowers new ventures.

Facilitate the digital transformation of key industries (SDGs 9 and 8): Facilitating the digital transformation of Tunisia's agriculture, tourism, and manufacturing sectors will increase productivity, improve market access,

and promote inclusive growth. Providing tax incentives or grants to businesses that adopt advanced digital tools—such as the Internet of Things (IoT), robotics, and data analytics—can accelerate transformation. In agriculture, digital solutions such as precision agriculture and supply chain optimization can improve efficiency and crop yields. The tourism sector can benefit from e-commerce platforms, virtual tours, and digital marketing strategies that expand Tunisia's reach to international audiences. In manufacturing, automation and data analytics will streamline production, reduce waste, and increase competitiveness. By fostering digital transformation in these key industries, Tunisia can increase economic resilience and position itself as a regional leader in digital innovation.

Adopt sustainable urban planning (SDG 11): Tunisia should prioritize sustainable urban planning policies that incorporate environmental, social, and economic considerations to improve urban living standards and reduce environmental impacts. Expanding public transportation systems, especially in densely populated cities, will reduce traffic congestion, reduce pollution, and improve mobility. Implementing affordable housing initiatives can address the needs of low-income urban dwellers and reduce inequalities. Developing green spaces, such as public parks and community gardens, will improve air quality and promote social cohesion. Comprehensive waste management and pollution control measures should be implemented, including recycling programs, pollution monitoring systems, and incentives for green building design. Sustainable urban planning will help Tunisia manage its urban growth, promote environmental sustainability, and improve the quality of life for its citizens.

Promote integrated urban planning for smart and sustainable cities (SDG 11): By taking an inclusive approach to urban planning, Tunisia should encourage collaboration between government sectors, private entities, civil society, and local communities to create compact, connected urban environments. Digital tools, such as GIS mapping and data analytics, can improve urban management by streamlining resource allocation and improving service delivery. A focus on efficient public transportation, expanded green spaces, and easy access to services is essential. Smart city initiatives should integrate renewable energy sources, waste management solutions, and digital infrastructure to improve the resilience, economic efficiency, and quality of life in urban areas.

Implement climate change adaptation strategies (SDG 13): Tunisia should prioritize climate change adaptation by conducting vulnerability assessments at the local



and regional levels to identify areas most in need of climate resilience measures. National development plans should include climate adaptation strategies with a focus on agriculture, water resource management, and coastal infrastructure. Emphasis on drought-resistant cropping systems, improved irrigation technologies, and sustainable water management practices will be key to protecting Tunisia's agricultural sector from climate impacts, thereby securing food supplies and protecting rural livelihoods.

Invest in sustainable infrastructure to reduce carbon emissions (SDGs 9 and 13): To reduce Tunisia's carbon footprint and increase resilience, investment in sustainable infrastructure is essential. This includes modernizing transportation networks to reduce congestion, improve energy efficiency, and promote low-carbon public transportation options. Implementing green building codes and energy-efficient designs in urban development projects can significantly reduce emissions from buildings. Urban planning should integrate renewable energy sources such as solar power, while flood management systems are needed to protect infrastructure and communities from climate-related weather events. These investments will lay a sustainable foundation for future development while mitigating climate risks.

Promote climate education and awareness (SDG 13): Building a culture of environmental stewardship requires integrating climate education into school curricula at all levels. Public awareness campaigns, in collaboration with media, civil society and youth organizations, can amplify the importance of climate action. These initiatives should be community-based, promoting sustainable lifestyles and engaging citizens in local climate resilience efforts. Engaging youth as climate ambassadors, hosting community events, and creating informational campaigns on waste reduction, renewable energy, and sustainable agriculture can inspire widespread environmental stewardship and community-driven climate action.

Explore innovative financing mechanisms (SDG 9): To address Tunisia's fiscal constraints, it will be essential to explore alternative financing models such as public-private partnerships (PPPs) and international climate finance. Such mechanisms can support critical infrastructure projects in the energy, transport, and telecommunications sectors. By attracting foreign investment and engaging multilateral funds, Tunisia can diversify funding sources and accelerate infrastructure upgrades. The government should also work with international climate finance institutions to secure funding for sustainable projects, easing budgetary pressures while advancing development goals.

Promote responsible consumption and production (SDG 12): Tunisia should promote recycling, waste reduction, and the transition to a circular economy. This includes creating incentives for businesses that adopt sustainable practices, such as reduced waste generation, environmentally friendly packaging, and efficient use of resources. Public awareness campaigns can highlight the benefits of responsible consumption and encourage citizens to reduce waste and support sustainable products. Policies could also include green labeling initiatives, sustainable public procurement practices, and sustainable consumption education programs to align economic activity with environmental goals.

Strengthen regional cooperation on migration (SDG 10): Given Tunisia's role as a transit and destination country for migrants, it should strengthen regional cooperation with neighboring countries to address shared migration challenges. Building partnerships can improve migration data collection and support systems, and ensure that migrants have access to essential services such as education, health care, and legal assistance. By implementing structured support for migrants and facilitating cross-border cooperation, Tunisia can promote better management of migration flows, support migrants' rights and integrate migration into its sustainable development framework.

Strengthen governance and the rule of law (SDG 16): Strengthening governance and the rule of law is essential for Tunisia's sustainable development. The government should prioritize transparent governance through the use of open data platforms, allowing citizens to access information on public spending, project outcomes, and institutional performance. Anti-corruption measures should be strengthened, focusing on public sector accountability and judicial transparency. The judicial system should also be strengthened to ensure that all citizens have fair access to legal processes, which promotes peace, stability, and trust in the justice system and lays the foundation for inclusive and sustainable development.

Prioritization matrix for policy recommendations: Given Tunisia's constrained fiscal environment, effective prioritization of policy recommendations requires assessing each action based on its socioeconomic impact (anchored to identified SDG gaps) and financial feasibility. This matrix provides a structured prioritization framework for each policy area, helping decision makers balance trade-offs and align initiatives with Tunisia's strategic goals and resources.

In this matrix, high-priority recommendations have immediate socioeconomic benefits, alignment with Tunisia's strategic objectives, and potential for external



financing or partnerships to ease fiscal constraints. Each priority level balances Tunisia’s resources with practical

impact, ensuring that policy actions are not only feasible but also conducive to sustainable and inclusive growth.

Policy Area	SDG Alignment	Current Status	Policy Recommendation	Priority Rationale
1. Social safety nets for poverty alleviation	SDG 1	High poverty in underserved regions; limited social safety net coverage	Expand cash transfer programs with digital registry for transparency and conditional transfers for education and health outcomes	High: Direct impact on poverty reduction and improved regional equity; potential to expand existing programs with targeted digitalization investments.
2. Inclusive economic growth	SDGs 1, 8	Persistent regional unemployment, especially among youth and women	Implement job creation in renewable energy, agriculture, tourism, with microcredit for women and youth	High: Strong socio-economic impact and rural inclusiveness; can leverage external funding through PPPs and local partnerships
3. Social protection systems expansion	SDG 1	Limited access to food assistance and basic healthcare in remote areas	Broaden food programs, expand access to healthcare and education through mobile clinics	Medium: Effective in reducing vulnerability to economic shocks; moderate investment required for universal basic services in education and health.
4. Climate smart agriculture	SDGs 2, 13	Agriculture highly vulnerable to climate change; limited access to resilient agricultural inputs	Subsidize drought-resistant seeds, advanced irrigation, and agricultural insurance	High: Essential for food security and rural livelihoods; agricultural investments can be co-financed through partnerships with agricultural and environmental funds.
5. Improved nutrition programs	SDG 2	High malnutrition rates among children and pregnant women, particularly in rural areas	School feeding programs, community-based nutrition education, mobile health services	High: Critical to reducing long-term cycles of poverty; leveraging partnerships with health care providers can maximize reach and impact
6. Food supply chains strengthening	SDG 2	Regional food insecurity due to insufficient storage and market access	Invest in cold storage, transportation, fair price cooperatives, and agricultural processing.	Medium: Reduces food waste and increases farmer incomes; moderately high investment, but essential for sustainable food systems
7. Human capital investment	SDGs 3, 4	Limited access to quality healthcare and education, particularly in remote areas	Telemedicine for remote access to health care; expanding early childhood education and training programs for emerging industries	High: Key to sustainable economic growth and poverty reduction; aligned with international funding priorities for human capital development.
8. Vocational training and skills development	SDG 8	Skills gap in high-growth sectors, particularly in digital and renewable energy	Align vocational programs with labor market needs, with a focus on youth and women	High: Supports employment in priority sectors; feasibility supported by industry collaboration and potential for STEM education grants
9. Gender gaps in labor market	SDG 5	High female unemployment and lack of access to STEM fields	Scholarships for women in STEM, incentives for gender-balanced workplaces, public childcare facilities	Medium: Addressing gender inequality has direct economic benefits; programs require additional investment and legislative support
10. Renewable energy and energy transition	SDGs 7, 13	Low uptake of renewables; continued reliance on fossil fuels	Targeted investment in solar/wind infrastructure, redirecting subsidies, incentivizing small-scale renewable projects	High: Deployment of renewables is essential to climate and energy goals; potential co-financing through international climate funds
11. Energy awareness and capacity-building	SDG 7	Lack of awareness and skilled workforce for renewable energy transition	Develop technical training in renewable energy, promote awareness campaigns	Medium: Critical for societal support of energy transition; achievable with low to moderate investment through educational partnerships
12. Energy poverty mitigation	SDG 7	Significant energy access disparities, especially in rural areas	Off-grid renewable solutions, micro-loans for low-income households	High: Immediate impact on energy poverty; feasible with targeted government support and microfinance partnerships
13. Energy governance and institutional capacity	SDG 7	Inconsistent energy governance and limited stakeholder engagement	Establishment of an independent regulatory body, technical certification for energy professionals	Medium: High impact on policy effectiveness and public-private coordination; moderate investment with potential for international technical assistance
14. Digital innovation for development	SDGs 9, 8	Limited digital infrastructure and high digital divide in rural regions	Expand internet access, e-government services, and digital literacy programs	Medium: Important for service delivery and economic inclusion; initial infrastructure investment required, but long-term impact on digital economy
15. Digital Skills Development	SDG 8	Digital skills gap among youth and underrepresented groups	STEM education in schools, digital literacy for youth and adults, private sector partnerships	High: Essential for employability in the digital economy; feasible through private-public sector collaboration
16. Innovation and entrepreneurship ecosystems	SDG 9	Limited support for start-ups in ICT and green sectors	Develop innovation hubs, PPPs for R&D in emerging technologies	Medium: Enables job creation and technological innovation; feasibility supported by private sector interest and existing R&D incentives



Policy Area	SDG Alignment	Current Status	Policy Recommendation	Priority Rationale
17. Digital transformation of key industries	SDGs 9, 8	Low digital uptake in agriculture, tourism, and manufacturing	Incentives for IoT, robotics, e-commerce in key industries	High: Increases productivity and economic competitiveness; moderate investment with potential for industry co-financing
18. Sustainable urban planning	SDG 11	Urban congestion and limited green spaces in major cities	Invest in public transport, affordable housing, green spaces	Medium: Direct benefits to urban livability; significant funding required, but consistent with climate and urban development funds.
19. Integrated urban planning for smart cities	SDG 11	Fragmented urban planning, limited use of smart city technologies	Use digital tools for urban management, promote compact urban design	High: Improves urban efficiency and quality of life; cost-effective through technology adoption and private-sector partnerships
20. Climate change adaptation strategies	SDG 13	Vulnerability to climate change, especially in agriculture	Conduct vulnerability assessments, integrate climate resilience into development plans	High: Essential for food and water security; adaptation strategies aligned with international climate finance programs
21. Sustainable infrastructure investment	SDGs 9, 13	Infrastructure highly vulnerable to climate impacts	Modernizing transportation, promoting energy-efficient buildings, integrating flood management	High: Long-term benefits for resilience and emissions reduction; requires significant funding, but is consistent with infrastructure funding.
22. Climate education and awareness	SDG 13	Limited public awareness of climate issues and sustainability practices	Integrate climate education into school curricula, public awareness campaigns	Medium: Promotes a culture of climate action; feasible with moderate investment in education partnerships
23. Innovative financing mechanisms	SDG 9	Fiscal constraints limiting public sector investment	Develop PPPs, international climate finance for infrastructure	High: Eases budgetary pressures while supporting essential infrastructure; achievable through international cooperation
24. Responsible consumption and production	SDG 12	High levels of waste and limited circular economy practices	Encourage sustainable practices, public awareness of recycling and waste reduction	Medium: Supports economic sustainability; requires moderate investment in incentives and public awareness
25. Regional cooperation on migration	SDG 10	Significant challenges as a transit and destination country	Strengthen partnerships for data collection, migrant access to education and health care	Medium: Strengthens regional stability and migration management; moderate investment but essential for social stability
26. Governance and rule of law	SDG 16	Challenges in transparency and accountability across institutions	Promote open data platforms, anti-corruption measures, and judicial transparency	High: Essential for sustainable development and public confidence; feasible with international support for governance reforms

4. Conclusion

Tunisia serves as a case study in global sustainable development efforts, with a remarkable commitment to the SDGs. The country has demonstrated resilience and dedication, making significant progress on several fronts, as evidenced by its SDG Performance Index score of 72.5. However, despite these laudable achievements, Tunisia continues to face persistent challenges, particularly in the areas of economic growth and job creation. These challenges underscore the need for continued focus and the development of innovative approaches to address the structural issues that impede sustained, inclusive economic growth.

It would be useful to draw attention to five main conclusions that can be drawn from this study.

First, it is clear that Tunisia's economic development has been in a state of stagnation for several years. Tunisia's economic landscape reflects the complex interplay of several factors, including limited resources and fiscal constraints, which have hindered investment in critical areas such as human capital and health infrastructure. The consequences of suboptimal economic growth

extend beyond economic indicators, exacerbating poverty and perpetuating cycles of inequality within society. Although there have been notable reductions in poverty, subsequent economic disruptions have hindered progress, with poverty rates rising slightly in recent years. Notably, regional disparities persist, with rural areas bearing a disproportionate burden of poverty compared to urban centers.

Second, the analysis shows that infrastructure development is another major challenge for Tunisia, with high debt levels constraining the government's ability to invest in key projects. The lack of investment in infrastructure not only hinders economic development, but also hampers efforts to improve competitiveness and attract foreign investment. The transport, energy, and telecommunications sectors are particularly affected, pointing to the need for strategic interventions to modernize key infrastructure and unlock the country's growth potential.

Third, unemployment remains a major concern, aggravated by limited job creation opportunities and persistent gender gaps in the labor market. The marginal increase in the participation rate has not translated into a significant increase in employment opportunities,



especially for women. This highlights the need for targeted interventions to promote inclusive employment opportunities. Migration trends illustrate the challenges currently facing Tunisia's labor market. Both internal and external migration patterns are responsible for demographic shifts and urbanization dynamics. The emigration of Tunisians seeking better employment prospects abroad presents both opportunities and challenges for Tunisia. These include concerns about the potential loss of human capital and the exploitation of migrants. It is clear that remittances play a significant role in the economy, underscoring the importance of harnessing diaspora resources for inclusive growth and resilience-building efforts.

Fourth, the effects of climate change are acutely felt across the Tunisian landscape, posing formidable challenges that require immediate attention. The phenomenon of anarchic urbanization exacerbates these problems, leading to congestion, inefficient mobility, and inadequate access to basic services. This, in turn, strains the country's infrastructure and efforts to achieve environmental sustainability. In the agricultural sector, climate change poses a significant threat, with shifting weather patterns and increasing water scarcity threatening food security and livelihoods. The dependence on rainfall for crop production makes farmers particularly vulnerable to the unpredictable effects of climate change, underscoring the urgency of implementing sustainable agricultural practices. Therefore, it is imperative to address these challenges if the country is to achieve SDG 2 (Zero Hunger) and promote economic resilience in the face of climate-related disruptions. By prioritizing climate mitigation and adaptation, Tunisia can build a more sustainable future while ensuring the well-being of its citizens and ecosystems.

Fifth, Tunisia has the potential to make significant progress in harnessing digitalization and emerging technologies to drive socio-economic development. The integration of digital tools offers transformative opportunities to address key development challenges and accelerate progress towards the SDGs. By embracing innovation and sustainable practices, Tunisia can chart a path to a more resilient, equitable, and prosperous future for its citizens. The pursuit of sustainable development is an ongoing process that requires continued collaboration, innovation, and commitment from all stakeholders to realize a shared vision of a better world for future generations.

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Annex 1. Macroeconomic outlook and SDG performance

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1. Economic Growth Performance													
Real GDP growth (%)	-2	4.2	2.4	3.1	1	1.1	2.2	2.6	1.6	-8.6	4.6	2.6	0.4
Real GDP per capita growth (%)	-3.27	2.89	1.29	1.93	-0.16	0.01	1.15	1.58	0.61	-9.66	3.54	1.67	n/a
GDP, current prices (Billions of U.S. dollars)	48.122	47.311	48.681	50.273	45.779	44.36	42.167	42.687	41.905	42.54	46.688	46.265	51.283
GDP per capita, current prices	4471.7	4345.8	4419.7	4511.3	4060.7	3890.1	3656.5	3661.2	3556.4	3573.8	3884.7	3814.4	4191.6
GDP, current prices (Purchasing power parity; billions of international dollars)	113.607	116.403	117.962	121.97	121.024	124.271	128.449	134.84	139.281	128.995	141.122	154.991	161.322
GDP per capita, current prices (Purchasing power parity; international dollars per capita)	10556.8	10692.3	10709.7	10945.0	10735.1	10897.9	11138.3	11565.2	11820.3	10837.1	11742.1	12778.4	13185.6
GDP based on PPP, share of world (Percent of World)	0.12	0.12	0.11	0.11	0.11	0.11	0.11	0.10	0.10	0.10	0.10	0.09	0.09
2. Structure of the economy													
Agriculture, forestry, and fishing, value added (% of GDP)	7.58	8.30	7.97	8.57	9.21	8.53	8.99	9.89	9.77	10.38	10.14	9.84	..
Industry (including construction), value added (% of GDP)	30.55	30.12	29.14	27.13	24.90	24.01	23.62	23.69	23.24	21.54	23.12	23.30	..
Services, value added (% of GDP)	56.83	57.09	58.02	57.51	58.95	59.70	60.27	59.46	59.94	60.18	60.14	60.31	..
Gross capital formation (% of GDP)	25.04	26.10	23.87	23.86	21.74	20.48	21.29	22.96	19.42	12.54	14.37	17.92	..
Gross Saving (% GDP)	16.50	16.89	14.89	14.87	12.95	11.66	10.96	10.67	10.24	5.65	8.46	8.87	..
Exports of goods and services (% of GDP)	46.05	45.91	44.89	42.95	38.40	38.30	41.72	45.49	45.45	37.33	41.86	49.36	..
Imports of goods and services (% of GDP)	54.05	55.64	54.07	53.16	48.85	48.80	54.09	58.39	55.49	45.48	51.07	61.38	..
Private sector contribution to the GDP (% GDP, %Employment, % Investment)	..	..	..	..	..	..	..	..	..	..	..	..	..
Private sector contribution to the employment (% GDP, %Employment, % investment)	..	..	..	..	..	..	..	..	..	..	..	..	..
Private sector contribution to investment (%)	..	..	..	..	..	..	..	..	..	..	..	..	..
3. Productivity Growth													
Labor Productivity Growth	-0.4	1.2	0.7	2.8	0.9	-0.6	0.9	0	-0.6	0.6	1	0.2	..
Productivity of Capital (ICOR %)	5.9	5.6	8	-10.5	5.6	8.6	8.6	16.6	16.1	9.1	7.6	13.1	..
Total Factor Productivity Growth (%)	-1.2	1.5	-0.4	-0.9	0.6	-0.9	0.2	-0.6	-1.3	0.1	0.5	-0.3	..



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
4. Labor Force and unemployment													
Labor force	47.19	47.78	47.42	47.25	47.07	47.17	46.98	46.89	46.89	44.79	44.93	46.95	47.37
Working Age Population (% of Total Population)	69.42	69.30	69.02	68.67	68.25	67.84	67.43	67.05	66.73	66.47	66.28	66.14	66.00
Unemployment Rate (%Total)	18.33	17.63	15.93	14.26	15.16	15.56	15.33	15.46	17.15	17.58	16.51	15.30	15.11
Unemployment Rate (%Female)	27.35	25.57	23.00	21.51	22.19	23.44	22.61	22.75	25.30	24.68	22.39	20.30	20.54
Unemployment Rate (%Male)	15.03	14.62	13.26	11.46	12.39	12.37	12.38	12.50	13.84	14.69	14.07	13.28	12.88
5. Poverty, Inequality and Human													
Poverty rate at national poverty lines (% population)	..	..	..	..	15.2	..	..	..	..	..	16.6	..	..
Poverty rate at national poverty lines - Urban (% Urban population)	..	..	..	..	10.1	..	..	..	..	..	12.7	..	..
Poverty rate at national poverty lines - Rural (% Rural population)	..	..	..	..	16	..	..	..	..	..	24.8	..	..
Poverty rate at \$2.15 a day (2017 PPP)	..	..	..	..	0.14	..	..	..	..	..	0.27	..	..
GINI Index	..	..	..	..	32.82	..	..	..	..	..	33.72	..	..
Deaths per 1000 live births	5.44	5.52	5.59	5.72	5.81	5.88	5.97	6.04	6.15	6.75	7.88	7.60	..
Adult Survival Rate (% of 15 year-olds who survive to age 60)	..	..	..	..	..	..	0.91	0.91	..	0.92	..	..	..
Total Public Spending on Health (%GDP)	6.12	6.29	6.51	6.45	6.21	6.25	6.19	5.94	6.02	7.05	6.97	..	..
Mean Years of Schooling	13.2	..	..	..	..	13.3	..	..	..	..	..	..	..
Adult Literacy Rate (%of population over 15)	79.65	80.22	..	79.04	..	..	..	..	80.55	..	..	..	..
Primary School Enrolment Ratio (%) (Total/Female/Male)	87.77	..	87.51	85.84	86.76	91.17	..	..	..	..	..	..	..
Secondary School Enrolment Ratio (%) (Total/Female/Male)	104.92	105.47	105.40	105.90	106.11	106.18	106.57	106.20	..	105.25	105.04	103.91	103.53
Higher Education Enrolment Ratio (%) (Total/Female/Male)	76.07	..	76.35	76.22	77.17	78.83	..	..	..	..	..	..	..
Total Public Spending on Education (%GDP)	..	5.95	..	..	6.22	..	..	..	6.17	7.27	6.68	6.80	6.73
Research and development expenditure (% of GDP)	0.67	0.65	0.64	0.62	0.59	0.57	0.70	0.72	0.75	..	..	..	..
Patent applications	543	476	437	400	409	348	383	271	543	..	..	..	..
Scientific and technical journal articles	3665.48	3770.8	4195.96	4444.29	4788.87	5366.04	5546.54	5434.41	5029.45	5164.88	..	..	..



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
6. SDGs Performance													
Scores and Ranks for the 17 SDGs (2000-2023)	69,97	70,48	70,61	71	71,78	71,78	72,41	72,5	72,73	72,54	72,59	72,77	72,53
7. Infrastructure Development													
Paved roads (km per 100 people)													
Improved sanitation facilities (% of population with access)	92,95	93,65	94,35	95,04	95,72	96,39	97,05	97,70	98,34	98,97	98,97	98,96	..
Improved water source (% of population with access)	..	91	91	91	..	90	90	90	90	89	..	..	..
Fixed telephone subscriptions (per 100 people)	11,2	9,98	9,17	8,42	8,28	8,45	9,55	11,1	12,2	12,8	13,8	14,8	15,3
Mobile cellular subscriptions (per 100 people)	112,28	114,94	112,50	124,98	126,29	122,22	121,36	123,77	122,59	122,13	127,58	129,26	..
Electricity production (kWh per 100 people)	147808,34	159713,42	160491,46	165990,75	168587,74	167988,52	172345,62	173704,27	181330,72	175637,99	178741,80	171663,92	..
Electricity production from renewable sources, excluding hydroelectric (% of total)	0,68	1,13	2,05	2,85	2,63	2,97	2,86	3,02	3,41	3,74	4,07	3,04	..
Households with internet access	39,10	41,44	43,80	46,16	46,50	49,60	55,50	64,19	66,70	68,56	68,32	73,84	..
Population covered by at least a 3G mobile network	83	84	87	90	94	99	99	99	99	99	99	99	99
International Internet bandwidth (GB/s)	..	..	..	130	190	220	320	430	780	910	1110	1750	1880
Internet access in schools	..	..	..	..	..	..	..	..	..	..	..	..	..
8. Fiscal and Monetary Situation													
<i>Public Budget Situation</i>													
Budget Balance (%GDP)	-7,04	-7,87	-7,97	-8,88	-8,57	-8,53	-10,01	-10,79	-8,04	-5,94	-5,96	-9,01	..
Government primary balance (% of GDP)	-1,44	-3,18	-5,26	-1,34	-3,12	-3,78	-3,39	-1,79	-1,01	-5,93	-4,79	-3,41	..
Government revenue (% of GDP)	24,69	23,45	23,75	24,57	22,50	21,34	23,12	24,42	25,93	25,45	25,68	28,46	..
Government expenditure (% of GDP)	27,89	28,35	30,80	27,69	27,44	27,21	28,72	28,68	29,53	34,50	33,29	35,10	..
<i>Composition of Public Revenues</i>													
VAT (%Total Revenues)	..	..	..	..	..	..	..	..	..	..	..	..	..
Excise Taxes (%Total Revenues)	..	..	..	..	..	..	..	..	..	..	..	..	..
Income Taxes (%Total Revenues)	..	..	..	..	..	..	..	..	..	..	..	..	..
Trade Taxes (%Total Revenues)	..	..	..	..	..	..	..	..	..	..	..	..	..
Property Taxes (%Total Revenues)	..	..	..	..	..	..	..	..	..	..	..	..	..
Other Taxes	..	..	..	..	..	..	..	..	..	..	..	..	..



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<i>Composition of Public Expenditures</i>													
Current expenditure /Total Expenditure (%)	..	..	..	..	..	..	..	..	..	..	..	..	..
Wages and salaries/Current Expenditure (%)	..	..	..	..	..	..	..	..	..	..	..	..	..
Interest payment / Current Expenditure (%)	..	..	..	..	..	..	..	..	..	..	..	..	..
Subsidies/Current Expenditure (%)	..	..	..	..	..	..	..	..	..	..	..	..	..
Other Transfers (including to SOEs)/ Current Expenditure (%)	..	..	..	..	..	..	..	..	..	..	..	..	..
Capital expenditure /Total Expenditure (%)	..	..	..	..	..	..	..	..	..	..	..	..	..
<i>Public Debt</i>													
Debt Interest Payments (%GDP)	1,76	1,72	1,78	1,78	1,83	2,08	2,21	2,48	2,60	3,12	2,83	3,24	..
Public Debt (%GDP)	42,5	42,5	44,2	48,1	52,3	58,7	66,5	73	67,8	77,8	79,9	80,2	..
Domestic Public Debt (%GDP)	3,2	1,7	4,4	5,1	5,5	6,6	4,9	3	5,3	10,9	18,7	22,6	..
External Public Debt (%GDP)	39,3	40,8	39,8	43,0	46,8	52,1	61,6	70,0	62,5	66,9	61,2	57,6	..
9. External situation policies													
External Debt and Balance of payments													
International Reserves/Total External Debt (%)	34,09	34,32	29,31	27,84	27,50	21,29	18,34	16,15	20,08	23,86	21,23	20,41	..
Short Term Total External Debt/ Total External Debt (%)	21,67	24,53	25,51	25,41	23,92	23,22	22,26	23,09	28,98	25,86	32,37	34,51	..
International Reserves/Imports (number of months)	4,41	3,31	3,67	3,16	3,12	3,81	3,22	3,06	3,37	4,97	7,24	5,30	..
Debt Service / Exports (%)	11,61	11,60	10,98	8,98	10,27	12,02	17,03	15,09	16,27	19,58	21,19	17,83	..
Current Account Balance (%GDP)	-7,04	-7,87	-7,97	-8,88	-8,57	-8,53	-10,01	-10,79	-8,04	-5,94	-5,96	-9,01	..
Goods Balance (%GDP)	..	..	..	..	..	..	..	..	..	..	..	..	..
Services Balance (%GDP)	..	..	..	..	..	..	..	..	..	..	..	..	..
Capital Account (%GDP)	..	..	..	..	..	..	..	..	..	..	..	..	..
Remittances/GDP (%)	4,17	4,79	4,7	4,67	4,31	4,11	4,48	3,98	4,27	5,37	6,34	6,3	5,46
Foreign Direct Investment, net inflows (%GDP)	0,90	3,29	2,17	2,04	2,12	1,40	1,92	2,32	1,94	1,47	1,17	1,44	1,58
Portfolio Investments, nets inflows (%GDP)	0,09	0,03	-0,16	-0,14	-0,33	0,13	0,15	-1,21	-0,16	1,71	2,73	0,98	..



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
10. Monetary and exchange													
Exchange Rate (LCU:USD)	1,41	1,56	1,62	1,70	1,96	2,15	2,42	2,65	2,93	2,81	2,79	3,10	3,11
Real Effective Exchange Rate (Index; 2010=100)	97,80	96,38	93,55	93,48	97,49	92,50	84,40	79,22	78,39	85,20	85,84	86,43	88,58
Policy Interest Rate (%)	4,5	3,5	3,75	4,5	4,75	4,25	4,25	5	6,75	7,75	6,25	6,25	8
Domestic Credit Growth (%)	79,17	79,39	80,55	81,84	84,77	87,79	92,53	..	..	..	..	..	..
Consumer Price Index (2010=100)	103,24	108,00	113,74	119,00	124,28	128,80	135,63	145,54	155,33	164,08	173,44	187,85	205,37
11. Financial Sector Development													
<i>Banking</i>													
Assets of the banking sector (% Total financial sector assets)	8,5	7,8	5,60	6,20	7,80	..	..	..	..	..	..	..	..
Bank deposits/GDP (%)	52,77	53,87	53,46	53,31	52,82	53,91	55,59	45,14	45,54	52,97	51,45	..	..
Bank assets/GDP (%)	80,09	78,89	79,30	80,88	82,57	85,92	90,71	77,24	74,43	90,00	86,60	..	..
Bank capital to asset ratio (%)	8,50	7,80	5,60	6,20	7,80	..	..	..	..	..	..	..	..
Domestic Credit to Private Sector/ GDP (%)	72,82	72,61	73,11	73,95	74,79	76,95	81,71	..	..	..	..	..	..
Interest rate spread (lending rate minus deposit rate, %)	..	..	..	..	..	..	..	..	..	..	..	..	..
Number of ATMs per 100,000 adults	21,12	22,26	23,14	24,50	26,40	27,76	29,99	30,72	32,21	33,85	..	..	..
Account at a Financial Institution (% Population)	..	..	..	27,26	..	..	36,82	..	..	..	35,71	..	..
Mobile money account (% age 15+)	..	..	..	0,62	..	..	2,04	..	..	..	3,71	..	..
<i>Capital Markets</i>													
Market capitalization/GDP (%)	20,08	18,65	17,82	20,30	19,86	20,26	21,42	21,58	19,31	19,32	17,78	17,36	16,22
Value Traded/Market Capitalization (%)	10,87	10,87	5,37	10,15	..	..	..	..	..	..	..	..	..
<i>Insurance</i>													
Assets of the Insurance companies (% Total financial sector assets)	..	..	..	..	..	..	..	..	..	..	..	..	..
Gross premiums/GDP (%)	..	..	..	..	..	..	..	..	..	..	..	..	..
<i>Leasing</i>													
Assets of the Leasing companies (% Total financial sector assets)	..	..	..	..	..	..	..	..	..	..	..	..	..
Leased assets/total domestic investment	..	..	..	..	..	..	..	..	..	..	..	..	..



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<i>Microfinance</i>													
Assets of the Microfinance Institutions (% Total financial sector assets)
<i>Venture Capital</i>													
Assets of the VC Institutions (% Total financial sector assets)
<i>Fintech</i>													
Assets of the Fintech companies (% Total financial sector assets)



About the Author

Adel Ben Youssef is Professor of Economics at the Université Côte d'Azur and a member of the GREDEG CNRS research laboratory (GREDEG - CNR UMR 7321). He is also an associate researcher at the Economic Research Forum in Cairo and the Global Labor Organization in Bonn. He is an international expert on digital and ecological transitions for many international institutions. He is a founding member of the African Association of Artificial Intelligence and Industry 4.0 (AISMA). In addition, he was a negotiator for Tunisia at COP 23, 24, 25, 26, 27, 28 & 29 (2017-2024) in the field of climate finance. He has published more than 100 academic articles in various renowned international journals. He is Editor-in-Chief of the Platforms Journal (MDPI), Associate Editor of the journals Development and Sustainability in Economics and Finance (Springer) and Green and Low-Carbon Economy (GLCE). He is ranked among the top 4% of economists in the last 10 years by REPEC and the top 2% of economists by scholar GPS.

