TUNISIA

Table 1	2023
Population, million	12.5
GDP, current US$ billion	51.1
GDP per capita, current US$	4103.6
National poverty rate[a]	16.6
Lower middle-income poverty rate ($3.65)[a]	2.2
Upper middle-income poverty rate ($6.85)[a]	16.2
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	103.9
Life expectancy at birth, years[b]	74.3
Total GHG emissions (mtCO2e)	40.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021).
b/ Most recent WDI value (2022).

Tunisia's economic outlook remains challenging and uncertain. Economic growth and job creation stagnated in 2024 amid a persistent drought and low demand. With tighter external financing, the government has increasingly relied on domestic borrowing from the Central Bank and commercial banks. Containing the inflation and raising capital inflows are important near-term challenges. Stabilizing the economy and accelerating its recovery will require the implementation of ambitious fiscal policy, state-owned enterprises, and pro-competition reforms.

Key conditions and challenges

Tunisia faces challenging economic conditions and slow reform implementation. As growth and private job creation stagnated after the 2011 revolution, the State stepped in as an employer of last resort and price stabilizer through subsidies. This caused a deterioration of the fiscal and the current account deficits, public debt, and contingent liabilities. The COVID-19 pandemic, inflation, and the ongoing drought have exacerbated these longstanding vulnerabilities. While the current account has recently improved, the authorities have relied more on domestic borrowing to finance the Budget in recent years, including Central Bank financing in 2020 and 2024.

Tunisia's growth prospects hinge on decisive structural reforms to address economic distortions and fiscal pressures. The priority reforms include rationalizing public expenditures, making the tax system fairer, improving the public administration and state-owned enterprises, and reducing the barriers to the entry of new firms and foreign direct investment (FDI). Progress in these reforms is critical to stabilize the macroeconomic situation, accelerate the recovery, and lay the foundation for a more sustainable economic growth.

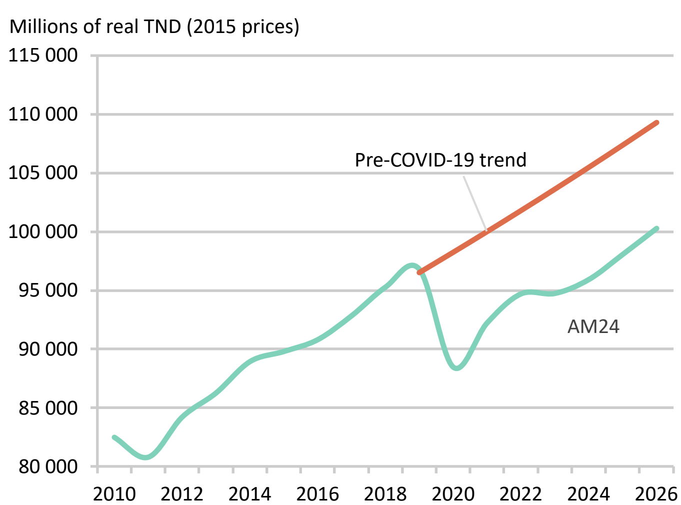
Recent developments

Tunisia's growth has been modest and volatile since the sharp COVID-related contraction in 2020 (-8.6 percent). That is due to a drought, uncertain external financing conditions, the low domestic and external demand, and the slow pace of economic reforms. After a moderate rebound in 2021 (4.3 percent) and in 2022 (2.7 percent), the economy stalled in 2023 (0 percent growth) and failed to gain momentum in the first half of 2024 (+0.6 percent on an annual basis).

The merchandise trade deficit narrowed to 6.4 percent of GDP in the first 7 months of 2024, down 5.6 percent a year before, amidst more benign global prices and robust olive oil exports. As a result, the current account deficit in the first semester declined to 1.4 percent of GDP between 2023 and 2024, also aided by the moderate growth in tourism receipts (+6.7 percent in the first 8 months of 2024).

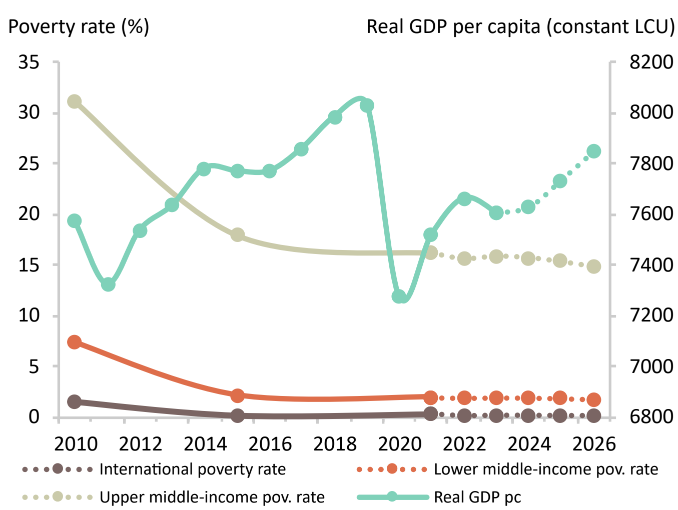
While the decline in commodity prices and the energy and food subsidy bill provide some respite, the pressure on public finances remains elevated as public expenditure reforms continue to falter amid low growth. The fiscal deficit continues to be considerably higher than in the pre-COVID period (6.7 percent of GDP in 2023 up from 2.9 percent in 2019). This contributes to the challenges in financing the public debt, which between 2019 and 2023 increased from 67.8 to 80.1 percent of GDP (excluding government guarantees and SOE debts). Gross financing needs have

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



Sources: World Bank estimates and National Institute of Statistics.

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



Source: World Bank. Notes: see Table 2.

also increased from 7.9 percent of GDP in 2019 to 11.9 percent of GDP in 2023 with four-fifths due to debt amortization, up.

Tunisia's access to international financing remains limited and FDI—while increasing by 26.7 percent in the first half of 2024—covers less than a quarter of the current account deficit and external debt reimbursement combined. As a result, the authorities have increasingly relied on domestic sources to cover the external financing needs. These include a TND 7 billion (US$ 2.3 billion) from the Central Bank financing facility established in February 2024 (equivalent to 4 percent of GDP and a quarter of 2024 financing needs) and a syndicated loan from domestic banks for US$ 185 million (in both US$ and Euro).

Inflation continued to moderate since the peaks of February 2023 (10.4 percent), declining to 6.7 percent in August 2024 (from 7 percent in July). The decline appears to be driven by both lower global prices and weak domestic demand. However, while the economy is operating below potential, supply-side issues continue to keep inflation above both the pre-COVID average (5.3 percent) and food inflation is higher (9.4 percent), which presents a particular challenge for lower-income households.

With the current rate of economic growth, the unemployment rate increased to 16 percent in Q2 2024 from 15.6 percent a year before as the labor force participation rate also declined, hovering 1.5 percentage points below the pre-COVID rate, which suggests a higher number of discouraged workers.

Outlook

Given the underperformance of key sectors, including agriculture, oil and gas and garments, the economy in 2024 is expected to grow by 1.2 percent, half the rate forecast at the beginning of the year. If financing conditions and external demand eventually improve, growth is expected to reach 2.2 and 2.3 percent in 2025 and 2026 respectively. With this growth rate, real GDP in 2024 would still be below its pre-COVID-19 level, a full four years after the pandemic.

The budget deficit is expected to decline somewhat to 6.0 percent of GDP in 2024 (compared to 6.7 percent of GDP in 2023) as subsidies and the wage bill are contained in real terms and tax revenues increase moderately. Gross financing needs are expected to rise to 16.1 percent of GDP in 2024 (from 13.8 percent in 2023) due to significant external debt service.

The current account deficit is projected to decline slightly to 2.3 percent of GDP in 2024 with moderate growth in tourism and improving terms of trade. With FDI projected to increase, albeit from a low base, and minimal portfolio investments, external borrowing would remain an important source of financing of the current account as well as of debt reimbursement.

The 2024-26 growth forecast is subject to significant downside risks. In the near term, more persistent or severe drought, weak demand in Europe, elevated inflation, and tight external financing conditions would significantly raise growth and macroeconomic stability challenges for Tunisia. Medium-term prospects would improve markedly should Tunisia implement fiscal and pro-competition reforms.

Poverty using the Lower Middle Income Poverty Line (US$3.65/person/day line in 2017 PPP term) is projected to continue its gradual decline, reaching 2.0 percent in 2024, 1.9 percent in 2025 and further decreasing to 1.8 percent in 2026. Similarly, poverty at the Upper-Middle Income Poverty Line (US$6.85 per person per day in 2017 PPP terms) is projected to decrease to 15.7 percent in 2024 (down from 15.9 percent in 2023) and is expected to decline to 14.9 percent by 2026.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.3	2.7	0.0	1.2	2.2	2.3
Private consumption	2.4	2.2	-0.6	2.4	3.8	3.5
Government consumption	1.5	-1.2	-2.4	1.9	1.9	-1.8
Gross fixed capital investment	3.2	1.8	-7.7	6.0	-0.5	3.4
Exports, goods and services	11.9	17.3	10.4	0.0	4.0	4.0
Imports, goods and services	10.9	11.5	5.7	3.7	5.0	4.5
Real GDP growth, at constant factor prices	4.3	2.6	-0.1	1.2	2.2	2.3
Agriculture	-2.3	1.9	-16.1	8.5	5.9	5.9
Industry	9.8	0.7	-1.0	-3.5	-0.2	-0.3
Services	3.5	3.4	2.7	1.9	2.6	2.6
Inflation (consumer price index)	5.7	8.3	9.3	7.0	6.0	5.0
Current account balance (% of GDP)	-6.0	-8.7	-2.6	-2.3	-2.0	-1.8
Net foreign direct investment inflow (% of GDP)	-1.1	-1.3	-1.3	-1.5	-1.5	-1.5
Fiscal balance (% of GDP)	-7.6	-6.7	-6.8	-6.0	-4.3	-2.5
Revenues (% of GDP)	25.7	28.5	27.2	28.6	27.8	28.1
Debt (% of GDP)	79.9	79.9	79.6	80.2	79.9	79.2
Primary balance (% of GDP)	-4.7	-3.5	-3.1	-2.3	-0.3	1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.3	0.2	0.2	0.2	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.0	2.0	2.0	2.0	1.9	1.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	16.2	15.6	15.9	15.7	15.4	14.9
GHG emissions growth (mtCO2e)	8.2	0.1	0.0	0.5	2.1	2.3
Energy related GHG emissions (% of total)	68.5	68.0	68.3	67.9	68.1	68.1

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