Tunisia

**key figures**
- Land area, thousands of km²: 164
- Population, thousands (2005): 10 102
- GDP per capita, $ PPP valuation (2005): 8 251
- Life expectancy (2000-2005): 73.1
- Illiteracy rate (2005): 23.8

Tunisia is continuing to make major progress in terms of economic and social development. Economic growth reached 6 per cent in 2004 and should be 4.2 per cent in 2005 and 5.3 per cent in 2006, driven essentially by services and tourism. The prudent macroeconomic policies initiated in recent years have allowed inflation and the budget deficit to be stabilised and economic aggregates to be consolidated. Social indicators have been increasing regularly and, unlike most other African countries, Tunisia is on track to meet the Millennium Development Goals (MDG). However, with a human development index of 0.753 in 2005, Tunisia was in 89th position in the “medium development” country group but very much below its 69th world ranking in terms of its GDP per capita at purchasing power parity of $8,251.

The economy has managed to withstand external shocks such as the abolition of the Multi-Fibre Agreement and is diversifying and modernising its activities in order to meet international competition.

Figure 1 - Real GDP Growth and Per Capita GDP ($ PPP at current prices)

Source: IMF and Budget data; estimates (e) and projections (p) based on authors’ calculations.

of subsidies is slow, however. At international level, integration of the Tunisian economy poses several problems in terms of competitiveness and adaptability.

With the end of the Multi-Fibre Agreement in January 2005 and the numerous free trade agreements it has signed, the country risks feeling the full force of the impact of its openness to international competition. The difficulties currently being expressed by its main export industry – textiles and clothing – highlight its need to find new sources of growth, capable of generating jobs. The high level of unemployment (13.9 per cent in 2004), particularly among qualified young higher education graduates, is also a major challenge for political leaders. Finally, numerous structural reforms are needed to reinforce transport...
infrastructure. To respond to these issues, and to integrate into an ever more competitive world market, Tunisia needs to improve its business and private sector investment climate, put greater emphasis on governance and reduce bureaucracy.

**Recent Economic Developments**

The recovery of the Tunisian economy was confirmed in 2004 thanks to the pursuit of sound macroeconomic policies. The following year, however, the dismantling of the Multi-Fibre Agreement and the surge in oil prices, which reached record levels in August 2005, accentuated the increasingly restrictive aspect of the international economic environment. The negative effects were not long coming in an oil-importing country with a substantial textile sector. Despite these constraints, the Tunisian economy was robust, registering an economic growth rate of 4.2 per cent in real terms, against 6 per cent in 2004. Excluding agriculture, GDP growth improved, rising from 5.5 per cent in 2004 to 5.6 per cent in 2005. Forecasts for 2006 and 2007 put real GDP growth at 5.3 and 5.5 per cent respectively.

While the forest, agriculture and fishing sector represented 14 per cent of GDP in 2004, growth in agricultural added value (fishing included) fell 0.5 per cent in 2005, after an increase of 9 per cent in 2004. The sector should have benefited, nonetheless, from the start of negotiations with the European Union. New rules for trade in agricultural products, including increased quotas of olive oil, potatoes, tomatoes and figs, were due to be adopted by January 2006 and the sector’s growth rate in 2006 is expected to be 3 per cent.

Although a series of reforms involving extended financial and fiscal benefits was introduced with the aim of encouraging high-potential new activities, agricultural production remains nevertheless dependent on climatic conditions. Yields remain low, notably because of abandonment and under-exploitation of arable land. During the summer of 2005, moreover, Tunisia declared a 62 nautical mile exclusive fishing zone off its coast, from which Maltese trawlers could find themselves banned. The second biggest food export product after olive oil, fish reached a record production level of 110 000 tonnes in 2004 and offers good prospects. Measures to improve refrigeration and processing are in progress with the aim of facilitating access to the European market.

Energy-sector growth was 4.1 per cent in 2005. On average, Tunisia exports 2.5 million tonnes of crude oil per year and imports more than 1 million tonnes, while its own production stands at 3 million tonnes (3.3 million tonnes of oil equivalent in 2004). The country covers only 46 per cent of its needs but exploration is continuing. In June 2005, a new deposit of nearly 19 500 barrels per day or 8 per cent of national production came into production. The government attributed more than a dozen oil exploration permits, moreover, in 2005. Increasing hydrocarbons production is part of the country’s energy strategy. As regards natural gas, British Gas inaugurated a new 1 500-tonne compressor at a cost of $160 million to increase production from the Miskar field in the Gulf of Gabes in the south. This field should lift production capacity from 5 to 5.7 million cubic metres per day and make it possible to maintain a stable level of gas production in the long term. Miskar alone produces 65 per cent of the country’s natural gas needs.

For a number of years, the mining sector has been in decline as a result of the exhaustion of deposits and the volatility of international prices which has created financial problems in the operating companies. The sector contracted by 3.7 per cent in 2005 and is expected to contract by a further 6.2 per cent in 2006. In phosphates, the Compagnie Nationale de Phosphate de Gafsa operates seven open-cast quarries and one underground mine and has an annual production of 8 million tonnes, which makes Tunisia the world’s fifth biggest producing country.

Industry represented 26 per cent of GDP in 2004. A programme aimed at preparing companies in the sector to face foreign competition has been in progress since 1996. The results of this programme indicate that companies have increased their investment by 70 per cent, particularly in the agro-food industry, and
their exports by 16 per cent. At the end of October 2005, 3 372 companies were taking part in this programme. Out of 2 153 dossiers approved, 800 were from companies in the textile sector.

In 2005, the Tunisian textile sector accounted for some 2 000 companies and 250 000 jobs and represented half of total industrial added value and export receipts. With the disappearance of protective tariffs and quotas, Tunisian companies are exposed to intense competition from Chinese products in a sector which is the country’s main source of export earnings. The sector contracted by 2.5 per cent in 2005 and is expected to lose another percentage point in 2006. Out of a total 250 000 jobs, 3 000 have been axed but this figure is still a long way from the World Bank’s...
forecast that 100 000 jobs would be lost in 2005. In addition, demand for new equipment has risen by 35 per cent as companies try to modernise their production plants. The sector’s prospects depend on the capacity of the companies to manage their activities more efficiently and replace obsolete technology in a highly fragmented market, in which many small companies serve as sub-contractors.

Despite these difficulties, the manufacturing sector showed 1.9 per cent growth in 2005, compared with 4.3 per cent in 2004, when the mechanical and electrical industries improved their performance by 8 per cent.

The construction sector recorded 3 per cent growth in 2005, against 3.5 per cent the previous year.

The services sector contributed 55 per cent to GDP formation in 2005, providing employment for more than half of the active population. The sector’s growth rate, which rose from 7.6 per cent in 2004 to 8.9 per cent in 2005, should reach 9.1 per cent in 2006, boosted by the boom in the telecommunications sector, which is expected to show growth of more than 20 per cent.

Tourism, the locomotive of the Tunisian economy, should benefit from a record 6.5 million visitors in 2005, most of them European. The French market, with more than 1 million tourists per year, progressed 21 per cent. With a total of 226 000 beds, Tunisia now has surplus capacity and has to carry out promotion campaigns directed at new markets like the Czech Republic and Poland in Eastern Europe, Canada, the United States, Japan, Iran and China. The sector’s growth rate, which stood at 7.6 per cent in 2004 and 7.5 per cent in 2005, is expected to ease to 6.5 per cent in 2006. A new strategy has been drawn up with the aim of diversifying the offer, which is still very much turned towards the sea. Efforts are to be made to develop thalassotherapy, cultural tourism and golf. Ten new thalassotherapy centres are being built to add to the 30 or so already in existence. The country is looking to develop sport, cultural and ecological tourism in the mountainous north-west region, close to Algeria. Efforts are also being made to improve quality through a hotel upgrade programme and the application of more demanding criteria for hotel classification.

The added value of the telecommunications sector increased 24 per cent in 2005, compared with 20.5 per cent in 2004. Its share of GDP stood at about 6 per cent in 2005 and its contribution to economic growth was more than 17 per cent. Organisation of the second phase of the World Summit on the Information Society in Tunis in November 2005 encouraged the government to reinforce further the place occupied by this sector in the national economy. The number of fixed and mobile telephone subscribers increased respectively from 141 000 to 175 000 and from 3.7 million to 5 million between 2004 and 2005. Tunisie Telecom made access to the ADSL network broadly available, while Internet connection capacity has been multiplied by seven since 2001. The call centre market is still emerging in Tunisia but offers big development potential, given the large number of young graduates,

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
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<tbody>
<tr>
<td>Gross capital formation</td>
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<td>25.7</td>
<td>25.0</td>
<td>24.7</td>
<td>25.3</td>
<td>23.7</td>
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<td>Public</td>
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<td>7.5</td>
<td>7.4</td>
<td>7.1</td>
<td>7.5</td>
<td>6.9</td>
<td>7.0</td>
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<td>Private</td>
<td>21.9</td>
<td>18.2</td>
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<td>17.7</td>
<td>17.9</td>
<td>16.8</td>
<td>17.0</td>
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<td>Consumption</td>
<td>76.0</td>
<td>78.6</td>
<td>78.8</td>
<td>78.6</td>
<td>78.5</td>
<td>75.5</td>
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<td>Private</td>
<td>60.2</td>
<td>62.6</td>
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<td>62.7</td>
<td>62.7</td>
<td>60.4</td>
<td>61.2</td>
</tr>
<tr>
<td>External sector</td>
<td>-2.5</td>
<td>-4.3</td>
<td>-3.9</td>
<td>-3.3</td>
<td>-3.8</td>
<td>0.7</td>
<td>-0.7</td>
</tr>
<tr>
<td>Exports</td>
<td>43.8</td>
<td>45.2</td>
<td>43.8</td>
<td>44.6</td>
<td>44.1</td>
<td>47.1</td>
<td>46.7</td>
</tr>
<tr>
<td>Imports</td>
<td>-46.2</td>
<td>-49.5</td>
<td>-47.6</td>
<td>-47.9</td>
<td>-47.9</td>
<td>-46.4</td>
<td>-47.4</td>
</tr>
</tbody>
</table>

Source: Institut National des Statistiques data; estimates (e) and projections (p) based on authors’ calculations.
low salary costs and moderate local call prices. At the end of 2004, 18 call centres, of which 13 of foreign origin, were in operation and providing work for 1,900 people.

As in previous years, the 6 per cent growth rate recorded in 2004 came essentially from growth in internal demand, which rose 4.3 per cent, and, above all, from consumption growth, which increased 4.1 per cent. Public consumption was particularly high as a result of efforts to compensate for the social impact of the high unemployment rate. It is expected to account for more than 15 per cent of GDP over the 1997-2007 period. The forecasts for 2005 show that the main contributor to growth was again consumption with a 3.7 per cent increase, while the contribution of investment and exports of goods and services are expected to be low at -0.3 and 1.4 per cent respectively.

In 2004, gross capital formation increased 5 per cent, less than GDP, to give an investment rate of 24.7 per cent. The nominal growth rate is expected to increase to 6.3 per cent for 2005 and 8.9 per cent for 2006. To promote the development and improve the competitiveness of local companies, six new industrial zones are due to be created in 2006, as well as five start-up zones offering opportunities for partnership, co-operation and exchange of experience. The Banque de Financement des Petites et Moyennes Entreprises (BFPME) was due to develop and finance about 100 projects in 2005. Foreign investment was to be encouraged through the elimination of the need for prior authorisation for the acquisition of small and medium-sized companies and the purchase or renting of land or premises in industrial and tourist zones, as well as through an increase from 20 to 30 per cent in the quota of production which offshore companies are allowed to sell on the local market. Nevertheless, private investors have to contend with heavy administrative procedures and difficulties in gaining access to sources of financing and credit.

### Macroeconomic Policies

#### Fiscal Policy

The 2004 budget deficit contracted, passing from 3.2 to 2.3 per cent of GDP. It should remain fairly low in 2005 at 3 per cent of GDP by virtue of strong domestic demand, which has brought a rise in fiscal revenue from 14.7 to 14.9 per cent of GDP, compensating for the loss of customs duties due to implementation of the partnership agreement with the European Union. In addition, since the government includes the proceeds of privatisations in its revenue, the sale of Tunisair, if it happens in 2006, will enable the budget deficit to be reduced to 2.1 per cent of GDP.

At the expenditure level, 2004 was marked by elections and an increase in oil subsidies in response

<table>
<thead>
<tr>
<th>Table 2 - Public Finances (percentage of GDP)</th>
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<tbody>
<tr>
<td>1997</td>
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<tr>
<td>------</td>
</tr>
<tr>
<td>Total revenue and grants*</td>
</tr>
<tr>
<td>Tax revenue</td>
</tr>
<tr>
<td>Grants</td>
</tr>
<tr>
<td>Total expenditure and net lending*</td>
</tr>
<tr>
<td>Current expenditure</td>
</tr>
<tr>
<td>Excluding interest</td>
</tr>
<tr>
<td>Wages and salaries</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Capital expenditure</td>
</tr>
<tr>
<td>Primary balance</td>
</tr>
<tr>
<td>Overall balance</td>
</tr>
</tbody>
</table>

a. Only major items are included.

Source: Budget data; estimates (e) and projections (p) based on authors’ calculations.
to the increase in prices on the international market. An energy conservation programme for the period 2005-08 should make possible savings of 1.25 million tonnes of oil equivalent and reduce by 220 million dinars state compensation to the sector. A new increase in hydrocarbon prices in Tunisia cannot be ruled out, however, if oil prices continue to rise.

Despite the efforts made to reduce total spending, current expenditure remained stable in 2005 and 2006 at about 20 per cent of GDP in line with efforts to maintain social stability. Public sector salaries, which represent nearly 12 per cent of GDP, should be reduced but political considerations have prevented this from happening. At the revenue level, the 2006 Finance Act includes an increase from 25 to 35 per cent in VAT credits for companies whose accounts have been approved and a reduction in customs duties for a new list of raw materials and capital equipment.

**Monetary Policy**

The main objective of the Banque Centrale de Tunisie (BCT) is to preserve the value of the dinar inside and outside Tunisia by keeping inflation at a low level and maintaining the external balance. Near money (M2) increased 11.3 per cent in 2004.

State indebtedness to the monetary system showed notable recovery at the end of 2004. This change was the result, notably, of an increase in the stock of Treasury bonds held by the banks. On the other hand, aid to the economy increased only 5.3 per cent, less than the 6 per cent forecast. If the increase in outstanding medium and long-term credit above all benefited the services sector, where it showed 7.5 per cent growth, lending to the agricultural and fishing sector progressed only 1.6 per cent. By activity sector, total outstanding credit shows a slight year-on-year fall in the share going to the industrial sector in favour of the services sector.

The exchange rate regime is partly flexible, so that the BCT can intervene on the market to maintain the parity of the dinar and the price-competitiveness of Tunisian exports on the European market. A floating exchange rate regime and total convertibility of the dinar should be brought in progressively but will not come into effect until 2008 at the earliest.

The inflation rate settled at 3.6 per cent in 2004. It has been estimated at 2.1 per cent in 2005 and is forecast to be 2.8 per cent in 2006 and 2007. This small rise in inflation could be the result of an increase in the prices of industrial goods and changes in the real dinar exchange rate. Despite the increase in oil prices since August 2004, however, the increase in the consumer price index has again fallen to 1.5 per cent on an annual basis. Food prices, which account for 36.5 per cent of the index, have virtually stagnated, unlike house prices, which rose 4.4 per cent in 2005. The state administers or subsidises, directly or indirectly, a little over 30 per cent of the prices incorporated into the index. More than a third of these concern food and oil products.

In June 2005, the United States and Tunisia opened negotiations on a free trade zone. Tunisia has also signed several regional preferential trade agreements, including the Association Agreement with the European Union, the Greater Arab Free Trade Area (GAFTA), the Arab-

<table>
<thead>
<tr>
<th>Table 3 - Current Account (percentage of GDP)</th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade balance</td>
<td>-10.3</td>
<td>-10.1</td>
<td>-9.1</td>
<td>-8.6</td>
<td>-7.8</td>
<td>-9.1</td>
<td>-10.5</td>
</tr>
<tr>
<td>Exports of goods (f.o.b.)</td>
<td>29.4</td>
<td>32.6</td>
<td>32.1</td>
<td>34.3</td>
<td>35.8</td>
<td>33.1</td>
<td>32.6</td>
</tr>
<tr>
<td>Imports of goods (f.o.b.)</td>
<td>-38.8</td>
<td>-42.7</td>
<td>-41.2</td>
<td>-43.0</td>
<td>-43.6</td>
<td>-42.2</td>
<td>-43.1</td>
</tr>
<tr>
<td>Services</td>
<td>7.2</td>
<td>6.5</td>
<td>6.2</td>
<td>6.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factor income</td>
<td>-0.9</td>
<td>0.3</td>
<td>-4.4</td>
<td>0.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account transfers</td>
<td>0.9</td>
<td>-0.3</td>
<td>4.4</td>
<td>-0.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account balance</td>
<td>-3.1</td>
<td>-3.5</td>
<td>-2.9</td>
<td>-2.5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: IMF data; estimates (e) and projections (p) based on authors’ calculations.
Mediterranean Free Trade Agreement, as well as agreements with the European Free Trade Association and the Union du Maghreb Arabe, and various bilateral agreements. It follows that Tunisia’s trade partners have different access to its market, according to the agreement to which they have subscribed and the degree to which it has been brought into effect. According to the World Trade Organisation, this situation could create trade and preference distortion and result in Tunisia contracting obligations which are mutually incompatible. Certain agreements are slow coming into force. The Union du Maghreb Arabe, for example, is finding it hard to function because of wide-ranging competition between different countries’ export products and political differences.

In 1995, Tunisia was the first Mediterranean country to sign a partnership agreement with its principal trading partner, the European Union, as a prelude to total market access in 2010. More recently, it adopted an action plan under the terms of the new European Neighbourhood Policy. Despite uncertainties arising out of the textile crisis, European enlargement and democratisation requirements, the outcome of this partnership has been largely satisfactory. With the end of the Multi-Fibre Agreement, Tunisia obtained an exemption from the EU enabling it to put 10,000 tonnes of articles on the European market. Whereas the original rule requires that all cloths should come from the exporting country, the exemption allows the export of clothes made in Tunisia with cloths from Turkey. Europe has also helped to upgrade the Tunisian economy under the terms of the MEDA Euro-Mediterranean partnership programmes. European Investment Bank loans have been allocated on the basis of commitments representing more than 1 billion dinars at the end of 2004 (E777 million).

Although Tunisia has been following the path of liberalisation for a number of years, the process is still encountering problems and resistance. The simple arithmetical average of the Most Favoured Nation tariffs applied by Tunisia in 2005 was 32 per cent, compared to 33 per cent in 2004. At the same time, average duties on agricultural products are 67 per cent, with a maximum rate of 150 per cent, while the average for non-agricultural products is 23 per cent. The reduction in customs duties, which is inherent to application of the

![Figure 4 - Stock of Total External Debt (percentage of GNI) and Debt Service (percentage of exports of goods and services)](chart)

Source: IMF and World Bank.
preferential trade agreements, has been made up for by other domestic duties and taxes which apply to local products and imports. Exporters, on the other hand, benefit from a whole range of advantages in the form of financing for transport costs, fiscal exemptions, customs facilities and unrestricted currency exchanges. These advantages are provided for by different legal texts, covering “totally” and “partially”, “resident” and “non-resident” exporting companies. The complexity of these different regimes encourages bureaucracy rather than transparency. At the end of 2004, a reform of technical inspection procedures for imports was initiated with the aim of reducing customs clearance times.

Between 2004 and 2005, Tunisia’s trade deficit decreased from 8.6 to 7.8 per cent. In 2005, the increase in the value of exports was partly the result of the appreciation of the euro. In this way, exports represented 35.8 per cent of GDP, although this percentage should diminish in 2006 and 2007. Over the period, exports should increase at a slower rhythm than imports and the trade deficit is expected to increase to 9.1 and 10.5 per cent of GDP respectively.

The increase in exports was generated particularly by energy and the mechanical and electrical industries. Textile exports, which represent 50 per cent of Tunisian exports or 3 billion euros per year, of which 80 per cent are destined for the European market, were virtually stagnant in the first half of 2005. Imports of energy products, raw materials and semi-finished products increased the most. The geographic trade structure has not been modified as a result of the new trade agreements, and the EU remains Tunisia’s principal trading partner.

The improvement in the balance of services surplus is the result of recovery in the tourism sector and, by extension, the air and sea transport sectors. Tourist receipts in foreign currency, which cover 56 per cent of the Tunisian trade deficit, should reach more than 1.5 billion euros in 2005, which is to say 11.3 per cent more than in 2004 and 9 per cent more than in the reference year of 2001. The transfers of Tunisian expatriates also increased 5.4 per cent. Overall, Tunisian foreign currency reserves totalled 5.51 billion dinars (€3.42 million) in August 2005, representing the equivalent of about four months’ imports.

Direct foreign investment was estimated to have reached €488 million in 2004, down 5.3 per cent on 2003 and 44 per cent on 2002. Investment should nevertheless recover in the energy sector over the next few years. The Arab Al Thani Corporation is due to invest $4 million over two years in hydrocarbons prospecting. The Austrian oil company OMV announced plans to invest $100 million in 2005, while two other permits have been attributed to American-Austrian and British consortia for a total investment of $13 million.

On the international capital markets, investors are confident. In June 2005, Tunisia raised €400 million via a 15-year bond debenture bond with annual interest of 4.5 per cent. European investors took up 80 per cent of the loan, while 8 per cent went to American investors and 6 per cent to Asian and Middle East investors. Tunisia thus gained entry to the small circle of issuers capable of borrowing over the long term at a competitive rate. The offer from investors totalled €1.5 billion.

The process of liberalisation of exchange-rate and trade regulations is continuing gradually. New relaxations were introduced for capital accounts in 2005. These included: the right for non-residents to purchase up to 5 per cent of Treasury bonds denominated in foreign currency; an increase in the level of transfers allowed to exporting companies; an extension of the right of non-exporting companies to realise investments abroad to finance their foreign activities; the right for non-resident account holders to borrow for more than 12 months without limitation on the amount, provided that the contracting company has first been assessed by an international rating agency.

The external debt level increased from 69.9 per cent in 2003 to 71.1 per cent in 2004. Despite this increase, the debt service coefficient stayed at an acceptable level of 14.1 per cent in 2004, against 13.1 per cent in 2003.
Structural Issues

Recent Developments

The World Bank’s 2005 report on business climate ranks Tunisia 58th in the world, putting it among the leaders in the Middle East and North Africa. Tunisia showed some improvement in indexes for company creation and winding up procedures and contract application law. It was held back in the rankings, however, by less good ratings for investor protection, recruitment and dismissal procedures, the scale of its informal economy (38 per cent) and access to credit. More particularly, economic governance is weak and the regulatory framework is seriously lacking in transparency and reliability. Large-scale state interference in the workings of the economy, the granting of privileges to certain sectors and the low levels of acceptance of responsibility, freedom of expression and participation all have a seriously damaging effect on the business climate.

Recently, measures have been taken to remedy this situation. Under the terms of a law adopted in June 2005, the purchase, lease and transfer of land and premises in industrial and tourist zones are exempted from the requirement to obtain authorisation from the regional governor. The new legislation aims to incite foreign investors, companies and individuals involved in economic activity to buy land and premises.

Reform of the banking sector has been concerned with mergers and privatisations of public-sector banks. Restructuring has continued through the transformation of four mixed-capital development banks into general purpose banks. In addition, to remedy the lack of dynamism of venture-capital companies, the Banque de Financement des Petites et Moyennes Entreprises (BFPME) was set up in March 2005 with an initial capital of 50 million dinars (30 million of which from the state). In 2006, the Banque Maghrébine de l’Investissement et du Commerce Extérieur (BMICE) was due to open for business with the objective of helping Maghreb countries create an environment favourable to investment and to develop trade in the region.

Since the launch of the privatisation programme in 1987, 193 companies have been privatised. In 2005, however, only four companies were privatised. These privatisations brought in revenues totalling 2.39 billion dinars (about €1.43 billion), of which 74 per cent from foreign investors. The tourism and trading sectors have been most involved, followed by construction materials and mechanical and electrical industries. The rhythm of privatisation of strategic sectors like finance, telecommunications and transport is much slower.

Bids have been invited for a 35 per cent stake in the capital of the Société Nationale de Distribution du Pétrole (SNDP), Tunisia’s sixth-biggest company by turnover. In September 2005, Tunisie Telecom put up for sale 35 per cent of its capital and hopes to raise $1.4 billion through the operation, which promises to be the biggest the country has ever known. Tunisie Telecom is the leading local telecommunications group by turnover, with 4.2 million subscribers and 72 per cent of the mobile telephone market. In October 2005, a Hispano-Moroccan consortium acquired a 33.5 per cent stake in Banque du Sud. The transaction raised €40 million, even though a first call for bids in June 2004 failed to produce a result. Tunisia’s seventh biggest bank on the basis of assets, Banque du Sud has debts totalling 400 million dinars (€266 million), of which 120 million dinars (€80 million) is not covered by provisions or guarantees.

Transport Infrastructure

Transport infrastructure is well developed and in good condition. The level of equipment is considered satisfactory, with an official road network of 19 117 km (of which 70 per cent surfaced), 192.5 km of motorway (due to rise 450 km by the end of 2006), 6 international airports, 7 major commercial ports and about 2 000 km of railway.

Road transport remains the predominant transport mode, carrying 305 400 travellers and 192 000 tonnes of merchandise daily. In 2002, the country’s 57 hauliers accounted for only a minimal share of international road transport, with a share of just 3 per cent of the 25 million tonnes of merchandise transiting by sea then road.
between Tunisia and the rest of the world. The situation has barely improved since then. This low share of external trade is due, notably, to the difficulties of both obtaining visas for Tunisian drivers and of Tunisian companies establishing themselves in Europe. The low proportion of Tunisian vehicles which meet European standards is also an impediment.

Almost all (97 per cent), international trade goes by sea, 77 per cent of it with Europe, particularly Italy and France. The volume of external sea trade in 2004 was about 27.6 million tonnes. The productivity of the maritime sector is low, however. Rades, the main port, suffers from congestion, caused by the slowness of port operations, which are carried out exclusively by the public sector company, Société Tunisienne d’Accoage et de Manutention (STAM). The government has nevertheless promised to give up its monopoly and the European Investment Bank has provided financing for part of the cost of new quays and the computerisation of customs procedures. There are plans, too, to build a deepwater port at Enfidha, 70 km south of Tunis via a concession to the private sector. This zone has also been chosen for the construction of a major airport by the end of 2008, which will be managed by foreign companies. The estimated cost of the airport, which will have capacity for 30 million passengers, is €384 million.

The country has ten airports, the biggest of which are Tunis, Monastir, Djerba, Sfax, Tozeur and Tabarka. Tourism accounts for 85 per cent of traffic and is concentrated between April and October, when 70 per cent of annual traffic is handled. The air transport sector generates a great deal of foreign currency revenue and accounts for 2 per cent of GDP and about 12 000 jobs.

Rail transport carries 35 million passengers annually, of whom 5 million on main lines, and 13 million tonnes of goods, of which 8 million tonnes of phosphates. In the capital, in addition to buses, the Société de Transport de Tunis runs a 34 km light metro and an electrified rail line using 134 metro trains and 18 conventional trains respectively. The number of passengers on the rail network in 2004 was 133 million. In the long term, these various networks should be privatised.

The organisation, management and co-ordination of the different activities of the transport sector is the responsibility of the planning and research department and the land transport department of the Ministry of Communication Technology and Transport. The planning and research department manages and operates the port and railways, while the land transport department is responsible for pricing, driving licences, transport permits and vehicle technical inspections.

The Tunisian railway company, SNCFT, now operates in a more competitive market environment. The state grants it a concession of the fixed installations, principally the track and ancillary equipment, for a fixed annual payment. Responsibility for the development of the rail sector, including investment in new infrastructure, remains the responsibility of the state, however, which remains proprietor of the network. SNCFT has charge of its operation and maintenance.

The airports are up to international standards and are managed by a state structure, the civil aviation and airport office (OACA), which is also in charge of the construction, maintenance and supply of airport installations and air transport security. On the domestic market, prices for the transportation of passengers and goods are regulated. Since 1996, charter activity is open to the private sector, provided that the majority of the capital of the company concerned is in Tunisian hands. In 2004, the civil aeronautics code was modified to open a wide range of services to the private sector in such domains as the construction, organisation, operation, maintenance and development of airports and the upgrading of Tunisian regulations to European standards. Current policy is to increase the capacity of the international airports.

In a more general fashion, transport policy aims to modernise capacity, increase capital productivity, reduce the level of public regulation, promote multimodal transport and integrate Tunisian transporters into international networks. The Transports Internationaux
Routiers (TIR) convention aims to eliminate volume restrictions and to exonerate imports on TIR vehicles from duties and taxes. At institutional level, real implementation of the reforms undertaken to liberalise the sector is considered slow.

Major investments and institutional reforms have been started recently with the financial support of different actors in the sector, including the African Development Bank, the International Bank for Reconstruction and Development, the European Investment Bank, the Arab Social and Economic Development Fund and the Japanese Bank for International Cooperation. The aim is to deal with the country’s shortfalls in the transport sector and upgrade existing operations. In the absence of an adequate legal framework, however, the transport infrastructure sector is having difficulties finding private sector investors and setting up public private partnerships.

**Political and Social Context**

At the political level, despite promises of liberalisation, the opposition remains weak and muzzled. In 2005, for instance, the authorities suspended the national congress of the Tunisian human rights league and the constituent congress of the Tunisian journalists’ union, SJT, and froze the assets of the Arab Institute for Human Rights. The political pressures exercised by Western countries at the World Summit on the Information Society in November 2005 in favour of progress towards democracy and freedom of expression were not enough to make any marked change in the situation. Non-governmental organisations estimate that there are 500 prisoners of conscience denied this status by the authorities who consider them to be common-law prisoners.

President Zine El Abidine Ben Ali’s party, the Rassemblement Constitutionnel Démocratique (RCD), occupies 80 per cent of the 189 seats in the Chamber of Deputies and won 94 per cent of the seats on the district councils in the May 2005 municipal elections. President Ben Ali is expected to remain in office until 2009. These different victories should preserve the RCD’s hold on the country and its media over the next few years. This situation weighs on the functioning of the economy and the development of a more efficient private sector.

The improvement in Tunisia’s social indicators can be seen in life expectancy at birth, which, at 73.4 years, is comparable to that of the developed countries. The percentage of the population living on less than two dollars per day stood at 6.6 per cent in 2005.

Tunisia needs to resolve its unemployment problem. The level of unemployment stands officially at 14 per cent, with young higher education graduates, who number 40 000 per year, forming a large contingent among the unemployed. Another explanation of the moderate growth in job creation lies in the small size of companies, 84 per cent of which have fewer than ten employees. In 2006, the state is to make use of the national employment fund to finance 50 to 75 per cent of the salaries of certain categories of new higher education graduates. New company creation aids are also due to be created, notably in the cultural, environmental and new technology fields.

Minimum salaries were increased on 1 September 2005 benefiting 280 000 workers. This increase of about 3 per cent applies to the minimum guaranteed salary (SMIG), which increased from 218.192 to 224.224 dinars (about €140), while the daily agricultural wage was augmented by 0.2 dinars.

The regular rise in health, education and social protection indices puts Tunisia in a comfortable position in terms of achievement of the Millennium Development Goals. With regard to women’s rights, half a century of particularly liberal laws has made possible major advances. Polygamy and repudiation of wives have been banned. Legal divorce has been introduced, as have a minimum age for the marriage of young girls, the right to education and paid employment. In recent years, women have obtained the right under certain conditions to have wardship over their children and to transmit to them their nationality. Sexual discrimination is still present, however. The most flagrant example is inequality between men and
women under inheritance law, which provides for men to have a double share.

Official figures put health spending at 7.7 per cent of the state budget. In 2004, there was one doctor for every 1 015 inhabitants, compared with one for 1 800 in 1990. The vaccination rate was close to 95 per cent and no case of polio, cholera, diphtheria or malaria has been recorded for several years. On the other hand, along with the increase in life expectancy, cardio-vascular, urinary and respiratory disease is becoming more common. For example, 10 000 new cases of cancer are recorded every year, compared with 5 000 twenty years ago. The number of patients has been multiplied by seven over the last eight years.

Illiteracy affected 22.9 per cent of the population in 2004 but schooling levels are relatively high at 97 per cent in primary education, 73 per cent in secondary education and 20 per cent in higher education. Public spending on education represented 6.8 per cent of GDP in 2004. The Tunisian education sector is coping with the challenge of democratic transition. The steady fall in the birth rate has led to a fall in the number of pupils in primary education, while numbers in secondary and higher education have increased sharply. Another challenge is to encourage interaction between teaching and the needs of the employment market, to make the knowledge economy more dynamic and to connect the private sector to research and the public universities. Inequality of access to school persists, moreover, particularly in rural zones, where the average rate of schooling among children between 6 and 14 is 75 per cent for boys and 69 per cent for girls.