Tunisia

key figures
- Land area, thousands of km² 164
- Population, thousands (2006) 10 210
- GDP per capita, $ PPP valuation (2006) 8 844
- Life expectancy (2006) 73.9
- Illiteracy rate (2006) 25.7
Tunisia
In January 2008, Tunisia will experience a major event in the form of the free entry of European industrial goods on to its home market. Since the signature of its association agreement with the European Union (EU) in 1995, Tunisia has been preparing itself to meet international competition and has been trying to preserve its competitiveness through performance upgrade programmes and structural reforms. The stakes are high. For Tunisia, it is a question of integrating itself into the global economy and attracting more foreign capital so as to maintain market shares and preserve jobs. In 2005, unemployment affected 14 per cent of the active population. The challenges the country will have to meet are substantial. Although the principal macro-economic indicators indicate good performances, Tunisia must significantly improve its business and investment climate, and economic and political governance and ensure the solidity of its banking and financial system. Structural reform and economic and political liberalisation are advancing only slowly. The country has fallen three places in the World Bank’s Doing Business Index, from 77th position in 2005 to 80th in 2006.

Growth prospects are good but massive skilled-youth unemployment – a mismatch between education and the needs of the labour market – is a worry.

From an economic development point of view, growth prospects remain favourable. The growth rate of real gross domestic product (GDP) was 4.2 per cent in 2005 and should rise to 5.8 per cent in 2006 and 2007. Expansion is due essentially to increased

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

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agricultural production, the recovery of non-textile manufacturing industry and, above all, to the new dynamism of the commercial services sector and telecommunications in particular. The expectation of good performances to come arises from higher domestic demand resulting from sustained private consumption and a recovery in investment in production. Despite this strong performance, inflation increased in 2006. The consumer price index rose by 2 per cent in 2005 but 4.5 per cent in 2006. This rise was essentially due to the increase in oil prices but also to the pressure of domestic demand and the gradual depreciation of the exchange rate, which resulted in inflation being imported. Tunisia must also cope with major public finance constraints, since two thirds of its budget is devoted to paying salaries and reimbursing the public debt.

Tunisia also began some years ago a programme of gradual liberalisation of its capital account and is moving towards a regime of total convertibility of the national currency. These reforms are hardly making any progress, however, and they have little chance of being realised if they are not accompanied by modernisation and development of the monetary and exchange markets and establishment of new inflation targets.

Recent Economic Developments

Real GDP growth was 4.2 per cent in 2005 and rose to 5.8 per cent in 2006 thanks to the return to normal levels of agricultural production and confirmation of the solid performance of services and industrial production. In the XIth plan, covering the 2007-11 period, priority has been given to increasing economic growth to 6.5 per cent per year and creating jobs. The strategic sectors are new information and communication technologies, the engineering and electrical industries and high added value industries such as chemicals, bio-chemicals and agro-industry. The government also intends to support conversion in the textile sector from sub-contracting to joint-contracting and to increase agricultural production in such areas as olive oil and bioculture which have not yet reached their EU quota levels.

The poorer performance of the economy in 2005 was due to negative growth in two sectors making intensive use of non-qualified labour – agriculture and textiles, clothing and leather.

In 2005, agricultural activity was hit by inadequate rainfall and experienced negative growth of 5.4 per cent. The fall in agricultural production was particularly apparent in cereals, production, down by 10.6 per cent, and olive oil, production of which fell 53.6 per cent - from 280 000 tonnes in 2004 to 130 000 tonnes in 2005. Even so, excluding agriculture and fishing, economic growth remained virtually stable in 2005 at 5.6 per cent, compared with 5.5 per cent in the preceding year. In 2006, moreover, growth in agricultural production returned to a more usual level of 6.6 per cent, thanks to better climatic conditions and higher EU quotas for olive oil, potatoes, tomatoes and figs. Generally, however, Tunisia does not attain its

Source: Authors’ estimates based on Institut National des Statistiques data.

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quotas for agricultural products. The first reason for this is that there is no real agricultural policy and that the bulk of production is consumed domestically. The second reason is the low level of production, agricultural yields and quality, particularly quality control. Tunisia is also a major importer of cereals, particularly durum wheat for making bread and couscous which is supplied by the United States, Canada and the EU.

The fishing sector is concentrated in the Sfax area around the Gulf of Gabès. It employs 25,000 people. In 2005, 108,000 tonnes of fish were caught, compared with 109,800 tonnes in 2004. Coastal fishing catches were stable at about 27,000 tonnes. Tunisia is trying to restrict excessive coastal fishing through a system of satellite surveillance. It also wants to develop activity further towards the northern part of the country and on the high seas and is in the process of modernising its refrigeration capacities so as to improve access to the European market. Fishing is the second biggest source of foreign currency after olive oil.

For some years, the mining sector has been losing momentum under the effect of declining reserves and volatile international prices. It accounts for 4 per cent of GDP but activity declined by 2 per cent in 2005. It should stabilise at 2.4 per cent in 2006. The Compagnie des Phosphates de Gafsa (CPG) operates seven open air quarries and an underground mine to produce 8 million tonnes of phosphates annually, a total which puts Tunisia in fifth place among producer countries. In the energy field, real growth was 24.7 per cent in 2006, compared to 46.5 per cent in 2005. Annual oil and gas production was 3.3 million tonnes of oil equivalent. Reserves are estimated at 42 billion tonnes. On average, Tunisia exports 2.5 million tonnes of crude oil annually and imports more than 1 million tonnes. It covers only 46 per cent of its needs but exploration of other potential reserves is continuing. Several offshore exploration projects are in progress and many multinationals such as BG (British Gas) Tunisia and Shell have made major investments in this field.

A law passed in November 2006 has enabled the national company ETAP to obtain operator status, allowing it to carry out exploration work in Tunisia and abroad. In June 2005, a new field with an output of close to 19,500 barrels per day or 8 per cent of total national production was brought on stream. Although definitive figures have not been released, Tunisia should have seen significant increase in its oil production in 2006. In March 2006, moreover, tenders were invited for the construction and operation of a second crude oil refinery. This refinery, which will have a capacity of at least 120,000 barrels daily, is to be managed under a 30-year concession. In the natural gas field, production has also increased significantly following the investment by BG in 1996 of $600 million in production around the Gulf of Gabès. Proven natural gas reserves were estimated at 60 million tonnes of oil equivalent in 2002 but exploration is continuing. In 2005, production covered 64 per cent of domestic consumption. Imports matched exports at around 566 million cubic metres. The trans-Mediterranean pipeline, which transports gas from Algeria to Italy via Tunisia, has enabled the country to increase imports and consumption in line with the national energy strategy. In 2005, the Société Tunisienne d’Electricité et de Gaz (STEG) connected an additional 45,000 households to the national distribution network.

In 2006, the manufacturing sector was in second place after services and represented 19 per cent of GDP. It registered a growth rate of 7 per cent thanks to the good performance of the engineering and electrical industries (up 13.3 per cent), and food processing (up 13.5 per cent). The textile, clothing and leather sector, on the other hand, fell victim to unfavourable developments at global level with the end of the Multi-Fibre Agreement (MFA), the conclusion of numerous partnership agreements between the European Union and central and eastern European countries and China’s membership of the World Trade Organisation (WTO). The sector contracted by 3 per cent in 2005 and by 2.5 per cent in 2006. With the loss of the tariff protection which enabled it to export 80 per cent of its products to Europe, Tunisia has had to cope with the end of quotas and stiff competition from Chinese products. In the years to come, the sector’s growth will also be affected by keen internal competition resulting from the free trade agreement between Tunisia and the European Union. Before the end of the MFA the textile
sector represented about 50 per cent of Tunisian exports, revenues of €5 billion per year, 250 000 jobs and 2 000 companies. According to the textile technical centre Cettex, about 6 000 jobs disappeared between the second half of 2005 and the first half of 2006. This figure was nevertheless lower than the 100 000 job losses forecast by the World Bank. Non-manufacturing industries nevertheless continued to progress, thanks to growth in the building and civil engineering sector where growth was 8.7 per cent in 2006.

Services contributed 54.8 per cent to current GDP in 2006 compared to 55.2 per cent in 2005. These percentages are forecast to grow to 60.5 per cent in 2011 and 63.9 per cent in 2016. The tertiary sector is the principal jobs reservoir. The growth rate was 10.7 per cent in 2005 and was forecast to reach 9.7 per cent in 2006. Within this sector, the share of telecommunications, which represented a relatively low 5.3 per cent share of GDP in 2006, is the most dynamic component. It showed growth of 27 per cent in 2005 and 21 per cent in 2006.

As the engine of the Tunisian economy, tourism represented 6.5 per cent of GDP in 2006 and registered growth of 7.6 per cent, compared to 10.4 per cent in 2005. In 2005, a record 6.4 million visitors and 36.3 million overnight stays were recorded, lifting tourism revenues to a total of 2.6 billion. These revenues are nevertheless modest compared to those of such Mediterranean competitors as Turkey, Morocco and Egypt. To improve the situation, Tunisia is actively diversifying the tourism products and markets it offers. With 1 600 kilometres of coastline, Tunisia has sought to modernise its ports to benefit from the boom in cruise tourism in the Mediterranean. A terminal dedicated to cruise tourism is under construction in the port of La Goulette. Tunisia is also going into ecotourism. It is counting on the diversity and the richness of its landscapes and its archaeological sites to develop this new form of tourism which combines the discovery of the country’s natural beauty with the development of cultural ties and respect for the environment.

The development strategy adopted by Tunisia is based on the use of exports and domestic demand as engines of growth. Domestic demand makes a major contribution to nominal GDP growth. In 2005, it accounted for 4.4 per cent of 7.2 per cent total growth. This growth is principally attributable to consumption and, to a lesser degree, investment, which is estimated to have made a more modest 1.1 per cent contribution to growth. Public consumption is relatively high. It represented 15.5 per cent of GDP in 2005. As for gross capital formation, it grew at a lower rate than that of GDP, to give an investment level of 23.4 per cent. In 2007 and 2008, growth levels should increase and that of private investment in particular.
Macroeconomic Policies

Fiscal Policy

The budget deficit is estimated at 3 per cent of GDP in 2006 – 0.4 per cent more than in 2005. It should stay at 3 per cent in 2007 and is forecast to increase to 3.3 per cent in 2008. The increase in the 2006 deficit is principally due to the impact on the budget of the increase in oil prices, which resulted in additional subsidies representing 0.7 per cent of GDP. To limit the effect of consumer subsidies on oil products, the government increased the price of oil at the pump and encouraged energy savings in all sectors. Between February 2005 and July 2006, the price of oil products increased six times to give an overall increase of close to 30 per cent. Oil product prices should be completely deregulated in the years to come.

Fiscal revenues are under pressure from the increasing share of revenues represented by export sectors enjoying a favourable tax regime, the fall in customs revenues caused by free trade agreements and the privatisation of profit-making public sector companies. All these factors pose challenges to be met. The share of tax revenues in GDP is set to fall regularly - from 25 per cent in 2005 to 24.2 per cent in 2006, 24 per cent in 2007 and 23.9 per cent in 2008. Tunisia's commitment to trade liberalisation is also posing a number of problems related to the capacity of the economy to find alternative revenue sources to make up for the fall in customs duties. Moreover, offshore companies, which focus partially or wholly on exports, benefit from a wide range of advantages which weigh on the state budget via tax exemptions, customs facilities and the financing of transport costs. All these considerations have persuaded the government to seek compensation through the imposition of other duties and taxes on the consumption of local products and services such as telecommunications. In 2007, the government is planning to widen the scope of taxation on company revenues, while at the same time reducing the rate of taxation from 35 per cent to 30 per cent and even 20 per cent for companies listed on the stock exchange. It is also looking to simplify value added tax (VAT) by abolishing the 29 per cent rate, facilitating loan repayment facilities and reviewing tax incentives available to priority and offshore businesses.

Spending stands structurally at a high level with two major categories: salaries which represent more than 12 per cent of GDP and debt servicing, which accounts for 2.9 per cent of GDP. In 2006, increases in domestic petrol prices reduced the cost of subsidies but many products, particularly foodstuffs such as bread, milk, cereals and oil, are still subsidised. It is, nevertheless, proving difficult to reduce the wage bill, given the needs of the health and education sectors for more

<table>
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<th>Table 2 - Public Finances (percentage of GDP)</th>
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<tr>
<td>1998</td>
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<tr>
<td>---------------------------------------------</td>
</tr>
<tr>
<td><strong>Total revenue and grants</strong></td>
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<tr>
<td>Tax revenue</td>
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<tr>
<td>Other revenues (including oil)</td>
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<tr>
<td>Grants</td>
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<tr>
<td><strong>Total expenditure and net lending</strong></td>
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<tr>
<td>Current expenditure</td>
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<tr>
<td>Excluding interest</td>
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<tr>
<td>Wages and salaries</td>
</tr>
<tr>
<td>Interest</td>
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<tr>
<td>Capital expenditure</td>
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<tr>
<td><strong>Primary balance</strong></td>
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<tr>
<td><strong>Overall balance</strong></td>
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</table>

a. Only major items are reported.
Source: Budget data ; estimates (e) and projections (p) based on authors' calculations.
Tunisia

better qualified and better paid senior staff. In July 2006, moreover, minimum salaries were increased by around 3 per cent. The guaranteed minimum wage (SMIG) rose from 224.224 dinars to 231.296 dinars and the daily agricultural salary (SMAG) was increased by 0.22 dinars. These increases were also applied to retirement pensions and state payments to people without resources. As for the public debt, although the budget situation is viable, it needs to be reduced to less than 50 per cent of GDP in the medium term to allow budget constraints to be relaxed. The government is using part of its receipts from privatisation to repay certain loans with the aim of reducing outstanding public debt from 58.4 per cent of GDP in 2005 to 55.6 per cent in 2006 and 54.5 per cent in 2007. Medium and long-term external debt is to be brought down from 54.4 per cent to 48.3 per cent and 46 per cent over the same period.

Monetary Policy

From the monetary policy point of view, price stability is the principal objective of the Banque Centrale de Tunisie (BCT), which now has available a system for fine-targeting inflation. Calculated on the basis of the consumer price index, the inflation rate stood at 2 per cent in 2005 but increased to 4.5 per cent in 2006. This increase was due largely to an 8.9 per cent increase in fuel prices and a 9.2 per cent increase in the price of construction materials but also to imported inflation resulting from the depreciation of the national currency in relation to the dollar. Faced with these inflationary tendencies, the BCT sought to absorb excess liquidity in the financial system in September 2006 by raising its official market rate from 5 per cent to 5.25 per cent and its obligatory reserve rate from 1.5 per cent to 3.5 per cent. Inflation should be reduced to 2.7 per cent in 2007 and 2.3 per cent in 2008.

As regards the exchange rate, the government sought until the end of the last decade to target the real effective exchange rate. Since 2000, however, the BCT has limited its interventions on the exchange rate market. The greater flexibility this has allowed has resulted in depreciation of the exchange rate and greater export competitiveness. The government takes the view, however, that the current phase of controlled floating is an intermediate stage which should lead in the normal course of events to a full floating exchange rate and total convertibility of the dinar. The most optimistic scenarios, however, do not see this measure being adopted before 2010. The phase of total liberalisation of portfolio investment and investment by Tunisian companies abroad looks likely to be delayed until the monetary and financial system has been strengthened, modernised and restructured via mergers and privatisations.

On the commercial banking side, private sector financing was for many years channelled into priority sectors such as tourism. The result was that there was over-investment in these sectors with high levels of bad debts.

External Position

The association agreement signed with the EU in 1995 provided for the creation of a free trade zone in 2008. At that time, European industrial products will come on to the Tunisian market without duties, while Tunisian industrial products have been able to enter the EU market free of duty since 1998. In 2007, negotiations on the liberalisation of trade in agricultural products and fish, of services and of company establishment rights should resume. Greater openness towards the outside world is one of the principal components of the development strategy of Tunisia, which has recently completed numerous trade agreements. In 2006, a free trade agreement with Turkey came into force and several other agreements were adopted, including the pan-European cumulation system of rules of origin. To soften the effects of the end of the MFA on the economy, Tunisia was given an exemption which allows it to export clothing produced in Tunisia using intermediate products originating from countries participating in the cumulation system, which is to say member countries of the EU and the European Free Trade Association (EFTA) and Turkey. The cumulation system will be extended to countries which have signed the Agadir Agreement when this comes into force, which should in principle be before the end of 2007. This agreement should establish a free trade zone between Tunisia, Morocco, Jordan and
Egypt. Tunisia and Morocco have signed cooperation agreements in the fields of transport, seismology and agriculture. A commercial and economic cooperation agreement was also signed by Tunisia and the United Arab Emirates at the start of 2006. Tunisia and China concluded a scientific and technological agreement. This provides for cooperation in the production of nuclear energy, the management of arid regions, marine technology and textiles. Tunisia is actively involved in the process of integrating the Maghreb countries into the Arab Maghreb Union (AMU) despite certain political differences and the similarity of the products exported by the Maghreb countries. In 2006, Tunisia also strengthened its bilateral agreements with Malta. Both countries are members of the “5+5 dialogue”, the forum of cooperation formed by five Maghreb countries and five southern European countries involved in the Euro-Mediterranean process.

Financial cooperation with the EU has been positive for Tunisia, which has seen funds totalling €946 million come into the country between 1995 and 2006. This represents an average of €90 million worth of subsidies per year, over and above credit accorded by the European Investment Bank (EIB), of which Tunisia is one of the principal beneficiaries. Between 2000 and 2006, Tunisia received nearly €240 million per year. In 2006, €155 million was made available for micro-lending, electricity production and sanitation projects. The EU is by far Tunisia’s biggest trading partner, accounting for two thirds of direct foreign investment, three quarters of foreign trade and 80 per cent of public development aid.

During the last six years, the volume of trade with the EU has doubled to reach €14.7 billion, compared to €7.5 million when the partnership agreement was signed in 1995. However, the agricultural products exported to the EU are not reaching their quota levels. In 2006, the level of takeup of the quotas was 79 per cent for olive oil, 60 per cent for citrus fruits, 50 per cent for wine, 34 per cent for flowers, 15 per cent for potatoes and five per cent for apricots. The low level of exports is essentially attributable to insufficient production but also to relatively high transport costs, particularly for flowers. Other factors such as non-respect of standards, traceability, grading, storage conditions and failure to meet export market hygiene and other requirements also act as a brake on the development of exports.

Tourist revenue increased only slightly in 2006 but enough to put the balance of services into surplus at 5.6 per cent of GDP and to compensate for the trade deficit in the current account balance. Transfers have

### Table 3 - Current Account (percentage of GDP)

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<th>1998</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006(e)</th>
<th>2007(p)</th>
<th>2008(p)</th>
</tr>
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<tbody>
<tr>
<td>Trade balance</td>
<td>-10.9</td>
<td>-9.1</td>
<td>-8.6</td>
<td>-6.8</td>
<td>-7.4</td>
<td>-7.4</td>
<td>-9.1</td>
</tr>
<tr>
<td>Exports of goods (f.o.b.)</td>
<td>28.9</td>
<td>32.1</td>
<td>34.3</td>
<td>36.6</td>
<td>36.4</td>
<td>36.2</td>
<td>35.3</td>
</tr>
<tr>
<td>Imports of goods (f.o.b.)</td>
<td>-39.7</td>
<td>-41.2</td>
<td>-42.9</td>
<td>-43.4</td>
<td>-43.8</td>
<td>-43.6</td>
<td>-44.4</td>
</tr>
<tr>
<td>Services</td>
<td>7.5</td>
<td>6.2</td>
<td>5.9</td>
<td>5.8</td>
<td>5.6</td>
<td>5.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Factor income</td>
<td>-0.4</td>
<td>-4.4</td>
<td>-5.4</td>
<td>-6.0</td>
<td>-5.2</td>
<td>-4.8</td>
<td>-4.8</td>
</tr>
<tr>
<td>Current transfers</td>
<td>0.4</td>
<td>4.4</td>
<td>6.1</td>
<td>5.9</td>
<td>5.8</td>
<td>5.3</td>
<td>5.3</td>
</tr>
</tbody>
</table>

**Current account balance** | -3.4 | -2.9 | -2.0 | -1.3 | -1.2 | -1.9 | -3.4

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

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also increased strongly in recent years and notably revenue transfers from Tunisian expatriates. In 2005, they stood at 1.8 billion dinars (more than €1 billion) – 1.4 per cent more than in 2004. The second biggest source of foreign exchange after tourism, these transfers represented 5 per cent of GDP. Nearly 89 per cent of repatriated assets come from European countries, which account for 83 per cent of the Tunisian community abroad, amounting to 934 000 people or 10 per cent of the Tunisian population.

From a direct foreign investment point of view, Tunisia is attracting unprecedented interest from the monarchies of the Gulf. Their investments in services, tourism and banking have more than doubled in recent years. In 2005, they represented more than 200 million dinars (€120 million), 53 per cent more than in 2001, when they totalled 97 million dinars (€58.2 million). In 2006, Arab capital accounted for more than 20 per cent of all investment. In the financial sector, the Arab investment banks are expanding. Several of them have opened new subsidiaries, such as the Banque Tuniso-Saoudienne de Financement or the Banque Tuniso-Qatarienne. The United Arab Emirates group Abou Khater is also to invest $5 billion in a 250 hectare sports centre in the Tunis region.

Reduction of external debt is another priority at a time when the foreign loans contracted by the state represent nearly two thirds of the total public debt. In this way, about $1.5 billion generated by the privatisation of Tunisie Telecom should serve to help pay off the external public debt, which was estimated at $19.2 billion or 69.5 per cent of GDP by the International Monetary Fund (IMF).

Despite this relatively high ratio in relation to countries with a comparable sovereign credit rating, debt service remains at a relatively stable level at about 15 per cent of exports. Since 1994, Tunisia has been classed among the safest emerging countries for international borrowing and benefits from the top borrower rating.
Structural Issues

Recent Developments

The government, which aims for higher growth levels in an increasingly open economy, sees private sector development as a challenge to be taken up. At the same time, a more dynamic private sector depends on the development of the institutions and improvements to the business climate and, in these two fields, reform is stagnating. Great efforts were made to reduce companies’ production costs in the form of faster trade liberalisation and simplified customs and administrative procedures through computerisation. In 2006, Tunisia was in first place among African countries for competitiveness and 30th position worldwide, after being rated 37th in 2005, according to the global competitiveness index developed by the World Economic Forum. However, this index takes into account the relatively good performance of macroeconomic indicators in Tunisia. The World Bank’s Doing Business Index, on the other hand, indicates that Tunisia has fallen three places, dropping from 77th position in 2005 to 80th position in 2006. In the same way, Transparency International’s corruption perception index shows that Tunisia’s position has deteriorated over the last two years. In 2005, the country was 43rd out of 158 countries. In 2006, it fell to 51st out of 163 countries. The business climate has lost ground, therefore, above all in authorisation management, guarantee acquisition, investor protection and tax payments, for which Tunisia is among the lowest classed at international level. The business environment could therefore be markedly improved, notably through a reform of the judicial system which seems to be fundamental.

Foreign investment could be encouraged by the elimination of the need for prior authorisation for the acquisition of small and medium-sized companies and for the purchase and renting of land and premises in industrial and tourist areas. The current offshore regime should be replaced in 2008 by a Euro-Mediterranean regime, which will provide less generous fiscal allowances than the existing ones. The current regime runs counter to the rules of the World Trade Organisation (WTO), which forbids export subsidies. The disappearance of the offshore regime should most affect the textile sector which is its principal beneficiary. There are about 2 500 offshore companies in Tunisia. They are 66 per cent owned by private foreign capital and devote 80 per cent of their production to export. In general, private investors are hampered by the weight of bureaucracy and very difficult access to financing and credit.

At the end of 2005, 3 410 companies out of a total 10 000 had joined the modernisation programme. Among these, 2 200 had received approval for modernisation plans, generally comprising updating of equipment, reorganisation of production systems, personnel training and quality control, for a total cost of 3.4 billion dinars ($2.6 billion). Most companies are satisfied with the renovation programme, although some have delayed implementation of their investment plans because of the economic situation, financial problems or administrative obstacles.

The privatisation programme began in 1987 but has accelerated over the last decade. During the 1987-94 period, 48 companies were privatised for receipts totalling $134 million. By comparison, between 1995 and 2005, 194 companies were sold to the private sector for a total of $1.8 billion. In 2006 alone, the government received $2.25 billion from the sale of a 35 per cent stake in Tunisie Telecom to Dubai Tecom-Dig. It was the biggest privatisation ever carried out in Tunisia. Set up in 1995, Tunisie Telecom has 1.2 million fixed network subscribers and 2.5 million mobile telephone subscribers. It shares the market with Tunisiana, which belongs to the Egyptian group Orascom and is the only private GSM operator in Tunisia. The government’s decision not to give Tunisie Telecom a stock exchange listing nevertheless disappointed those who argued fervently for a more liberal approach. In 2007, the airline Tunisair should be privatised.

In July 2006, Tunisia obtained 115 million dinars (€69 million) in Arab financing for the construction of a natural gas-powered, combined cycle-400 megawatt electric power station near Gabès in the south east of the country. The financing represents about one third
of the estimated 360 million dinar ($216 million) cost of the power station. An agreement has also been signed with India for construction of a plant for the production of phosphoric acid for the Indian market. The capital of the Société Tuniso-Indienne des engrais (Tifert) stands at €54 million, while total investment planned comes to €134 million. The new company will have an annual production capacity of 360,000 tonnes of phosphoric acid and should be operational by the end of 2009.

The financial sector also saw major changes in 2006. The statutes of the Central Bank have been reformed and its role modified. Indicators relating to bad debt have improved. During 2005, the level of unproductive loans fell from 23.75 per cent to 21 per cent and the ratio of doubtful loans held by the public sector banks dropped from 27.4 per cent in 2004 to 22.1 per cent in 2005. At the same time, provisions for bad debt increased slightly from 45.8 per cent in 2004 to 46.4 per cent in 2005 and 48.4 per cent in 2006. The objective is to reach a level of 70 per cent in 2009. The government is looking to improve management at the public sector banks through privatisation and mergers between existing banks, restructuring non-productive loans in the tourism sector and reducing the level of doubtful loans to 10 per cent by 2009.

Access to Drinking Water and Sanitation

With three quarters of its territory in arid to semi-arid zones, Tunisia is a country with a water deficit. Its resource potential has nevertheless shown remarkable development. Available water resources rose from 2.6 billion m³ in 1990 to 4.1 billion m³ in 2005. Several new hydraulic infrastructures – 11 big dams and 11 hill barrages – are programmed for construction over the next few years with a view to increasing water supply. The country’s needs in water are estimated at 4.85 billion m³ per year, however, and exceed supply. To make good the deficit, the Tunisian authorities have adopted a water resource management strategy based on the following principles: i) re-use of treated sewage for agriculture; ii) re-use of drainage water; iii) development of water saving techniques in order to avoid losses between production and use and, above all, waste. The authorities are making a ongoing effort to modernise drinking water supply lines and distribution networks, to improve sanitary accessories such as taps and flushing systems, to educate users and particularly big consumers such as hotels and companies in water conservation and to revise water tariffs through the use of rates which rise progressively according to the quantity consumed.

The drinking water and sanitation sector is entirely in public sector hands. It is highly centralised but has produced good performances. Only 18.2 per cent of water was not accounted for in 2004 and more than 99 per cent of bills were paid, while all Tunisian towns and cities had permanent access to drinking water.

Drinking water and sanitation pricing is not used as a means of resource distribution or demand regulation. It is considered rather to be a component of cost recovery but also as an instrument for helping the poor to gain access to the service. In this way, water pricing does not cover costs and this above all in lower consumption bands. The origin of tariff changes and even the composition of the tariff are not always communicated to users. The tariffs applied to drinking water and sanitation are differentiated according to type of usage – domestic, industrial or tourist – and by consumption band. The single bill which is sent to subscribers to the water and sanitation services comprises services provided by several organisations. Water is provided by the Société Nationale de Distribution des Eaux (Sonede), sanitation by the Office National de l’Assainissement (ONAS) and the government collects the taxes. The water and sanitation charges are split into a fixed part and a part which varies according to the volume of water consumed. The fixed part is supposed to cover the cost of maintaining the network. The last tariff revision dates back to 23 February 2003, which itself followed a five-year price freeze. This revision had a marginal effect on the fixed element and had no impact on the lowest consumption bands in line with the social aid principle. For other consumption bands and usage types, the fixed price was increased at intervals. The level of the variable part of the tariff is set according to the quantity of water consumed via five bands based on consumption in cubic metres. The tariffs applied
rise progressively according to usage type. This differentiation of tariffs by consumption band and type of use has made it possible for some users to be subsidised by others.

ONAS’s financial results are in structural deficit and have suffered a deterioration which has been critical since 2002. The deficit represented 35 per cent of turnover in 2004 compared to 18 per cent in 2002. ONAS’s income comes essentially from user fees, the contribution of which to cost recovery is low as a result of the tariff freeze. The principal operating costs are debt repayments and personnel charges. The contribution of the state to the financing of ONAS’s activity is insufficient to carry out major investment programmes, finance operations and meet rehabilitation needs. This problem risks affecting the quality of service provided by ONAS. For each cubic metres of water evacuated, the state grants an indirect subsidy to each user to enable ONAS to cover its operating charges. In 2004, this contribution represented 56 million dinars or 64.9 per cent of user charges. This contribution is a major one in so far as it exceeds the average price of a cubic metre of waste water paid by households.

With regard to drinking water, a revision of the structure of the tariff table has enabled Sonede to balance its finances and even generate a surplus. The cost of drinking water is low up to a consumption of 70 m³. The share of sanitation in the overall bill varies from 21 per cent to 46 per cent for domestic users and varies from 32 per cent to 42 per cent and 49 per cent for industrial users according to whether the level of pollution is low, medium or high. In the tourist sector, however, it exceeds the share of drinking water at 54 per cent.

An Institut National des Statistiques study of household spending carried out in 2000 showed that the water bill represented 0.93 per cent of total spending per person, which is well below the generally accepted level of 3 per cent.

In Tunisia, access to drinking water and sanitation is a priority and the corresponding Millennium Development Goal objective has already been attained. Between 1990 and 2005, the number of people without access to these services was reduced by half. All inhabitants of towns and conurbations have healthy drinking water. In rural areas, the access level was 88.4 per cent in 2005 and 91.6 per cent in 2006. In urban areas in 2006, 98.5 per cent of households were connected to drinking water and, in rural areas, 53.4 per cent were connected. The number of people benefiting from these services in 2006 was 9.9 million, of whom 3.2 million live in rural areas, compared with 7.5 million in 1994. In urban areas Sonede and in rural areas, the rural engineering department are responsible for providing water and ensuring that the population has access to this resource. With regard to sanitation, ONAS has the task of equipping all towns and cities and rural areas with collection networks and sewage treatment stations. In 2004, 208 million m³ of waste water were collected by the public sanitation networks and 193 million m³ were treated in 71 sewage stations. In 2004, six additional communes were covered and the number of sewage stations increased from 514 to 553. Investment is essentially financed by the state. The level of connection of households to the network rose from 59.9 per cent in 1994 to 80.9 per cent in 2006. In urban areas, the number of households connected to the ONAS network rose from 0.67 million in 1994 to 1.25 million in 2005, representing 5.3 million people on the basis of 4.24 persons per household.

In July 2006, Tunisia was granted a World Bank loan of $66.8 million for a sanitation project in the western part of Tunis and for the improvement of waste water re-used for irrigation. The European Investment Bank (EIB) also granted Tunisia a 68 million dinar (€40 million) loan for sanitation projects in five areas close to Tunis and in several towns in the southern and eastern parts of the country.

### Political Context and Human Resources Development

Despite some signs of liberalisation such as the freeing of certain prisoners and the authorisation given to the president of the Tunisian human rights league to visit prisons and detention centres, Tunisia has
Tunisia performed poorly in terms of political governance and freedom of expression. In June 2006, a resolution was voted by the European Parliament expressing concern over the state of human rights and liberties in Tunisia. The parliament asked Tunisia for explanations concerning the banning of the congress of the Tunisian human rights league and acts of violence committed against league activists and Tunisian magistrates. The country will have to resolve this paradoxical situation in which gains in economic and social development outstrip its performance in the fields of civil liberties and political rights. The majority of Tunisians see the lack of political liberties as the price to be paid for social and economic stability and development and for the priority the government is able to give to education, health and measures to combat poverty.

During the last two decades, Tunisia has made tangible efforts to reduce poverty. The poverty level has diminished constantly. From 12.9 per cent of the population in 1980, it fell to 4.2 per cent in 1990. The poor have benefited, moreover, from direct and constant state assistance, notably in the form of aid to families in need. Despite the great progress realised, however, disparities persist, above all between regions (the coastal regions produce much better results than those in the interior) and different socio-economic categories, particularly in the fields of education and employment.

Despite the efforts made by the government to reduce unemployment, it remains at a particularly high level at an estimated 14 per cent of the active population in 2006. The government is confronted, moreover, by an ever increasing number of job seekers and, in particular, an annual flow of 50,000 young university graduates. Forty per cent of graduates between the ages of 20 and 24 are unemployed. At the same time, employers complain that there are not enough qualified, competent candidates for jobs, particularly those requiring specialised skills. The authorities have responded by setting up courses to facilitate the entry of young graduates into the working environment. They plan to introduce greater flexibility into the employment market to facilitate labour redistribution in line with the structural changes taking place in the Tunisian economy. They are counting, too, on the capacities of the young to create companies in different sectors, helped by state aid in the form of exemptions from social security charges and other employment costs during the first two years of the life of small and medium-sized companies.

Health and social security indicators showed improvement in 2005. Life expectancy at birth increased from 73.4 to 73.5 years between 2004 and 2005. The number of inhabitants per doctor fell from 1,150 in 2002 to 1,013 in 2005 and should come down to 1,000 in 2006. The infant mortality rate also fell from 22.1 per 1,000 in 2002 to 20.2 per 1,000 in 2005. The social security cover provided by the different regimes for workers expanded from 86 per cent of the workforce in 2003 to 89 per cent in 2005. Over the last three years, public investment in medical equipment has amounted to €150 million, virtually all of it for imports. This spending has made it possible to equip all regional hospitals with dialysis units, acquire sophisticated scanners, invest in laboratories, renovate material in operating theatres, buy cardio-vascular equipment and equip the national neurological institute with microscopic surgery equipment.

Tunisia has made praiseworthy efforts in the education field. The share of public education spending in relation to GDP rose from 6.8 per cent in 2002 to 7.6 per cent in 2006. This effort has made it possible to achieve school attendance levels of close to 100 per cent, with equal boy/girl levels in primary and secondary cycles, and has reduced the illiteracy rate from 31.7 per cent in 1994 to 22.9 per cent in 2004. Higher education has seen rapid growth because the number of students has tripled over the last 10 years and university registrations are expected to rise for the next eight years. Tunisia has responded to this trend with innovative programmes such as that for the creation of higher institutes for technical studies (ISETs). There remains much to be done, however, particularly with regard to the quality and relevance of the teaching. The higher education system needs to respond to the growing demand without sacrificing the quality which is necessary to improve Tunisia’s competitiveness. In recent years, additional resources have been allocated to adult education and there are currently more than...
5,000 literacy centres in operation. Between 2004 and 2005, 190,000 people became literate. Despite considerable progress in guaranteeing the right to education, problems resulting from disparities between regions and environments and between the genders and socio-professional categories persist. The country must also deal with the effects of demographic transition in the education field in the form of growing teacher shortages in primary schools, rapid growth in the student population and the poor correlation between training and the needs of the employment market in an economy increasingly open to the outside world.