key figures

- Land area, thousands of km² 164
- Population, thousands (2007) 10 327
- GDP per capita, USD at constant 2000 prices (2007) 2 626
- Life expectancy (2007) 73.9
- Illiteracy rate (2007) 22.1
Tunisia
Tunisia seems to have succeeded in meeting the 1 January 2008 deadline, the day the Free Trade Zone Agreement with the European Union (EU) became effective, with a competitive, up-to-scratch economy, well-directed macroeconomic aggregates, and sound, cautious policies.

There is from now on no doubting that Tunisian industry was able to resist its greatest shock, which was the dismantling in 2005 of the Multifibre Arrangement (MFA). Real GDP grew by 6.3 per cent in 2007 and should progress by about 5.5 per cent in 2008 and in 2009. This good performance is directly related to a recovery in agriculture and to a strong increase in investment and exports. Growth perspectives are looking very positive and should allow the country to achieve all the Millennium Development Goals by 2015. The improvement observed in the average standard of living in the past few years has already been accompanied by remarkable social progress.

Nonetheless, despite good macroeconomic policies, a qualified workforce and high-quality infrastructure, international observers have underscored the lack of vigour of the private sector as one of the country’s main weaknesses. It is essential to improve the business climate. The other big challenges to the Tunisian economy are: to maintain its competitiveness as it faces

---

**Figure 1 - Real GDP Growth and Per Capita GDP (USD at constant 2000 prices)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP Growth (%)</th>
<th>Per Capita GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>3.0</td>
<td>1900</td>
</tr>
<tr>
<td>2002</td>
<td>4.5</td>
<td>2000</td>
</tr>
<tr>
<td>2003</td>
<td>5.0</td>
<td>2100</td>
</tr>
<tr>
<td>2004</td>
<td>5.5</td>
<td>2200</td>
</tr>
<tr>
<td>2005</td>
<td>6.0</td>
<td>2300</td>
</tr>
<tr>
<td>2006</td>
<td>7.0</td>
<td>2400</td>
</tr>
<tr>
<td>2007</td>
<td>8.0</td>
<td>2500</td>
</tr>
<tr>
<td>2008</td>
<td>9.0</td>
<td>2600</td>
</tr>
<tr>
<td>2009</td>
<td>10.0</td>
<td>2700</td>
</tr>
</tbody>
</table>

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

StatLink: [http://dx.doi.org/10.1787/317410055564](http://dx.doi.org/10.1787/317410055564)
the rapid opening of its markets to European competition and employment. The unemployment rate exceeds an average of 14 per cent and particularly affects women and graduates from higher education.

**Recent Economic Developments**

The 11th development plan is banking on an acceleration of the annual growth rate to an average of 6.1 per cent in 2007-11, against 4.5 per cent for the previous plan, based on progress in the market sector, private and foreign investment, and exports. The country seems to be on the right track to reaching these goals, as projections are pointing to a 6.3 per cent real GDP growth rate in 2007, against 5.4 per cent in 2006, and 5.5 per cent and 5.6 per cent real GDP growth rate in 2008 and 2009 respectively. With population growth slowing down, GDP per capita in 2007 was USD 9,401 in purchasing power parity, which placed Tunisia just behind Romania and well ahead of Morocco.

At the sectoral level, growth in 2007 was driven by strong domestic and European demand. It was primarily stimulated by services – telecommunications in particular (up 20 per cent) – the machinery and electricity industries (up 8 per cent), and construction and civil engineering (up 4.3 per cent). Over the years, the manufacturing and tourist sectors have gained a few percentage points of GDP to the detriment of the primary sector (agriculture, oil and phosphates). The Tunisian economy has been diversified and is now less vulnerable than in the past to external shocks such as climate hazards.

Agriculture accounted for 16 per cent of the working population and 12 per cent of GDP in 2006. After a drought-related 7 per cent fall in 2005, its growth rate settled at 2.5 per cent in 2006 and 2.1 per cent in 2007. The 2007 cereal crop, which increased by 25 per cent (up from 1.6 million to 2 million tonnes), should make it possible to reduce cereal imports in 2008. Tunisia exports a good part of its production of cereals, olive oil, vegetables (tomatoes, potatoes, onions, peppers) and fruit to the EU, but usually for amounts under the corresponding export quotas, and does not maximise the value of its exports. For instance, olive oil and wine would bring in more foreign exchange if they were exported in bottles. A 2007 World Bank report judged productivity in the Tunisian agricultural sector to be too weak and stagnant since 1992. The study recommended complete liberalisation of the sector, which is hard to envisage in the short run because of the impact it would have on poverty. Agriculture is also facing desertification and soil erosion. Every year, 20,000 hectares of land are lost to the desert.

Fishing progressed to 109,800 tonnes in 2006, up from 108,700 tonnes in 2005. Given the intensity of inshore fishing, the government is trying to develop fishing in the north of the country and on the high seas. It has also increased the refrigeration and preservation capacity of marine products and adjusted its standards to European export requirements. In 2006,
20,300 tonnes were exported for a total amount of TND 225 million (Tunisian dinars).

Although crude oil is the leading export product in value, national production is far from covering the country’s needs. The fact that only 46 per cent of consumption comes from Tunisian oil fields is due to the country’s low refinement capacity. The only refinery, which is state-controlled, has a capacity of 1.9 million tonnes per year, which forces Tunisia to import refined products. To address this problem, the government plans to build a new refinery in the Gulf of Gabes and grant a 30-year concession to Qatar Petroleum International, and this should increase production by 6 million tonnes per year by 2010. At the same time, to increase production of crude oil, which is estimated at 70,000 barrels per day, exploitation and exploration agreements have been reached between the Tunisian public enterprise for oil activities, Etap, and foreign interests. US enterprises hold a 38 per cent share of the hydrocarbon exploration and production market, followed by European, Canadian and Arab enterprises. In all, between 2007 and 2011, Etap plans to drill about 75 oil wells and to issue 44 new exploration permits. In 2007, a dozen permits were issued. A new law on hydrocarbons is being planned to make it possible for foreign enterprises to invest and for Etap to apply for international loans. Tunisia’s hydrocarbon reserves are estimated at 838 million oil-equivalent barrels.

Gas production in 2006 amounted to 2.149 million cubic metres, 80 per cent of which came from the Miskar field in the Gulf of Gabes. To reduce the cost of energy and preserve the environment, the 11th plan has earmarked investments in the gas sector worth EUR 133 million (euros), with a view to connecting 500,000 households and several industrial sites by 2009. British Gas has announced that it will invest USD 1.3 billion to extend and develop new production in Tunisia by early 2009.

As for phosphates, the Compagnie des phosphates de Gafsa (CPG), a state monopoly, produced a total of 7.8 million tonnes in 2006 and sold 83 per cent to another state enterprise, Groupe chimique (GC) for transformation into phosphoric acid or fertiliser. The balance was exported (11 per cent, for USD 28 million in revenue) or stored (6 per cent).

In 2006, the manufacturing sector accounted for more than 60 per cent of industrial production, about 20 per cent of the working population and 18.2 per cent of GDP. Growth reached 3.6 per cent in 2006, a mere 0.9 per cent progression from 2005, due to the bad performance of the textile sector (down 5 per cent) and the agrifood industries (down 0.6 per cent). The textile sector put up relatively good resistance to Asian competition by positioning itself on the short distribution channel, i.e. by catering to nearby European consumers, and on quality production. These should be added assets for Tunisia to face the intensification of competition projected for 2008, when Chinese exporters cut loose from their self-imposed limits. In 2006, the textile sector contracted by 4 per cent but still represented 5 per cent of GDP. The sector is broken up into small enterprises, often working as subcontractors, and suffers from a lack of vertical integration. The machinery and electricity industries sector is dynamic, with a 10 per cent growth rate in 2006, estimated at 8 per cent in 2007. The construction sector, which had grown by 5.5 per cent in 2006, has good perspectives owing in particular to increased investments in infrastructure, roads and tourist facilities.

The services sector represents about 40 per cent of GDP and half of the working population. It has expanded significantly in the past few years and has driven Tunisian growth upwards. New information and communication technology (NICIT) has been designated as a strategic sector because of its employment potential, but tourism holds the leading position in services. It represented 6 per cent of GDP in 2006, employed more than one-third of the working population and constituted an important source of foreign exchange. In 2006, a record 6.55 million tourists entered the country, 2.7 per cent more than in 2005 for revenue amounting to EUR 1.6 billion, or 6.3 per cent more revenue. Most tourists were French (for 8 million overnight stays), followed by Germans and Italians, but the country is also attracting a growing number of Libyan and Algerian tourists.
Tunisia

Estimates for 2007 are even better, with EUR 1.7 billion in revenues and 6.7 million visitors. An action plan aiming to improve the yield in this key sector will be finalised by 2011. Sea water therapy and hydrotherapy are among the areas chosen for diversification in tourism, as well as golf tourism – nine courses are already operational and six are scheduled for 2011. The country is also aiming to develop cruise tourism. In 2007, Tunisia received visits by 456 ships and more than 600 000 cruise passengers, and the World Tourism Organisation has projected 12 million cruise passengers per year by 2020.

Household consumption is the main engine of growth; it represented 63.8 per cent of GDP in 2006, up 8.8 per cent from 2005. It is expected to grow by just 4 per cent in 2007 and 2008. To develop investment, the 11th plan envisages an increase in household savings even if this requires putting brakes on consumption credit. Public consumption has remained relatively high, at 15.1 per cent of GDP in 2006, but growth projections are modest, as the International Monetary Fund (IMF) has recommended reducing it. Good perspectives for private investment (plus 12 per cent in 2008 and 2009), but also for public investment (up 4 per cent in 2008 and up 6 per cent in 2009) should make it possible for investment to grow faster. The investment effort is crucial for the 11th plan, which has set the goal of 25 per cent of GDP in 2011 (against 23.1 per cent in 2006), with special emphasis on the private sector and foreign direct investment (FDI). In 2008, investment should amount to EUR 1.1 billion, against EUR 800 million in 2007 and EUR 1.9 billion in 2006, based on the partial privatisation of Tunisie Télécom.

### Macroeconomic Policies

The 11th development plan, called “Towards a new level of growth”, covers the 2007-11 period. In terms of macroeconomic policy, it is aiming for an average budget deficit of 2.5 per cent of GDP (not including privatisations), an average current deficit of 2.6 per cent of GDP and external indebtedness at 39.1 per cent of available revenue by 2011, as well as for an average inflation rate in the range of 2.8 per cent per year. These projections are nonetheless very optimistic. Financing needs amount to TND 81.9 billion.

### Fiscal Policy

The situation of public finances in 2007 was influenced by the high international prices of oil and food products, which weighed on the state subsidies...
for energy and basic products. The budget deficit reached 3.1 per cent of GDP in 2007, up from 2.8 per cent in 2006, and should decline to 3 per cent in 2008 and 2.9 per cent in 2009.

To limit the impact of subsidies on the budget, Tunisia increased the price of lead-free premium petrol by 4.35 per cent and that of diesel by 6.33 per cent in October 2007. This was the eighth price hike since February 2005, the total increase varying between 33 and 137 per cent depending on the product. Tunisian prices have, however, remained below international levels, with a litre of lead-free premium oil at TND 1.20 and a litre of diesel at TND 0.84. Four measures have been adopted since 2005 to reduce automobile-fuel consumption: a strict enforcement of the speed limit; a lower fuel allocation for administrative vehicles; cancellation of customs duties on two-wheel motor vehicles; and a consumption diagnosis of engines before the required vehicle inspection.

Excluding subsidies, 2007 expenditure was contained. It amounted to 26.6 per cent of GDP, down from 26.9 per cent in 2006, and this downward trend is expected to continue. On the other hand, as an effect of longer life expectancy, the social security system moved from a surplus of 1.3 per cent of GDP in 1999 to a deficit of 0.3 per cent in 2006. In July 2007, parliament voted a rise of pension contributions in order to absorb the deficit temporarily. A genuine reform of the health-insurance system is planned for 2010 to make it viable through to 2030.

According to the 2008 budget state revenues should be 6.1 per cent higher than in 2007 and come in the following forms: tax revenues (more than TND 10 billion), revenues from loans (TND 3.6 billion) and energy revenues (TND 1.7 billion), the aim being to reduce borrowing. Of the total budget of TND 15.3 billion voted for 2008, 56 per cent is intended for management expenditure, 21 per cent for development expenditure and 23 per cent for reimbursement of the public debt. The government has announced salary raises for civil servants. On the basis of these projections, the budget deficit is expected to be 3 per cent of GDP.

**Monetary Policy**

Tunisia’s central bank, the Banque Centrale de Tunisie (BCT), continued to implement its restrictive monetary policy by maintaining the money supply as broadly defined (M2) in order to control inflation. The inflation rate for 2007 was 3.1 per cent, down from 4.5 per cent in 2006, and should stay around 3 per cent in 2008 and 2009. The lower rate was achieved in the face of higher prices for fuel and raw materials on the world markets by subsidising basic products and by dipping into the money stocks for market adjustment. To meet imported inflation, the money authorities also continued to

<table>
<thead>
<tr>
<th>Table 2 - Public Finances (percentage of GDP)</th>
<th>1999</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007(e)</th>
<th>2008(p)</th>
<th>2009(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total revenue and grants</strong></td>
<td>24.3</td>
<td>24.8</td>
<td>24.3</td>
<td>24.1</td>
<td>23.5</td>
<td>23.2</td>
<td>23.1</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>15.2</td>
<td>14.9</td>
<td>15.1</td>
<td>14.9</td>
<td>14.2</td>
<td>13.9</td>
<td>13.9</td>
</tr>
<tr>
<td>Oil revenue</td>
<td>5.9</td>
<td>5.8</td>
<td>5.9</td>
<td>5.9</td>
<td>5.9</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>Total expenditure and net lending</strong></td>
<td>27.8</td>
<td>27.0</td>
<td>26.9</td>
<td>26.9</td>
<td>26.6</td>
<td>26.2</td>
<td>26.0</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>20.6</td>
<td>19.4</td>
<td>20.4</td>
<td>20.4</td>
<td>20.2</td>
<td>19.8</td>
<td>19.6</td>
</tr>
<tr>
<td>Excluding interest</td>
<td>17.2</td>
<td>16.6</td>
<td>17.6</td>
<td>17.6</td>
<td>17.6</td>
<td>17.3</td>
<td>17.1</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>11.7</td>
<td>12.1</td>
<td>12.1</td>
<td>12.0</td>
<td>11.8</td>
<td>11.1</td>
<td>10.8</td>
</tr>
<tr>
<td>Interest</td>
<td>3.4</td>
<td>2.8</td>
<td>2.8</td>
<td>2.8</td>
<td>2.6</td>
<td>2.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>6.9</td>
<td>7.4</td>
<td>6.4</td>
<td>6.2</td>
<td>6.3</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Primary balance</strong></td>
<td>-0.1</td>
<td>0.5</td>
<td>0.2</td>
<td>0.0</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.4</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-3.5</td>
<td>-2.3</td>
<td>-2.6</td>
<td>-2.8</td>
<td>-3.1</td>
<td>-3.0</td>
<td>-2.9</td>
</tr>
</tbody>
</table>

* a. Only major items are reported.
* Source: Budget data; estimates (e) and projections (p) based on authors’ calculations.
implement their policy of a growing exchange-rate flexibility, which has made it possible to slow down the increase in prices since August 2006. Between January 2007 and January 2008, the Tunisian dinar appreciated by nearly 5.8 per cent against the US dollar and depreciated by 5.1 per cent relative to the euro. Free floating is not scheduled until 2009 at the earliest.

The Tunisian authorities want to restrain household indebtedness. According to a national survey on household expenses, consumption and standard of living, average indebtedness per household was TND 2 600 at the end of 2006, or about 6.5 times the average salary. Consumption credits grew by 25 per cent in 2006 and represented 41 per cent of credits to private individuals, up from 30 per cent in 2003.

**External Position**

After signing the association agreement with the EU in 1995, Tunisia focused on upgrading its industry in anticipation of the 1 January 2008 deadline, after which its trade in industrial products with the EU was to be completely liberalised. The authorities are now set to negotiate an enlargement of the agreement to cover services and agricultural products. At the same time, the country is working on accelerating trade and financial integration amongst the Maghreb countries and has welcomed the idea of a Mediterranean Union favourably, whereas the plan for an Arab Maghreb Union is finding difficulty in materialising. On the other hand, the Agadir Agreement signed in 2005 with Egypt, Jordan and Morocco led to the institution of a free-trade zone in March 2007 and, in December 2007, the four countries agreed on a common action plan to face Asian competition in the field of textiles The plan is to reinforce intra-regional trade of inputs and to establish co-operation with international-trade enterprises to conquer new market shares in Europe, the main outlet for textile products from the southern Mediterranean countries. The Pan-Euro-Med rules of origin system, which authorises cumulation of origin and entered into force in August 2006, allows Tunisia to export goods incorporating intermediate products from any other country in the Euro-Med zone without being submitted to the rule of sufficient working or processing; products are thus automatically considered as being of Tunisian origin. Although the EU’s market share in Tunisia continues to shrink every year, it is still the country’s first trading partner and accounts for three-fourths of Tunisian exports and close to two-thirds of its imports. At the beginning of 2008, Tunisia reopened negotiations in view of a free-trade agreement with the United States. Generally speaking, Tunisian customs tariffs under ordinary law (based on the most-favoured-nation clause) are still very high (greater than 30 per cent).

In 2006, Tunisia’s trade deficit worsened, as exports grew (12.6 per cent) far less than imports (15.6 per cent). The cost of imports became greater because of changes in the prices of energy and of the products of the electricity and machinery industries both in 2006 and in 2007. The trade deficit thus rose from 6.8 per cent of GDP in 2005 to 8.2 per cent in 2006 and is expected to go down to 6.4 per cent in 2007 and in 2008. The good performance of exports is mostly drawn from the mechanical, electricity and manufacturing industries,

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

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007(e)</th>
<th>2008(p)</th>
<th>2009(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade balance</td>
<td>-10.3</td>
<td>-8.6</td>
<td>-6.8</td>
<td>-8.2</td>
<td>-6.4</td>
<td>-6.4</td>
<td>-8.3</td>
</tr>
<tr>
<td>Exports of goods (f.o.b.)</td>
<td>28.2</td>
<td>34.3</td>
<td>36.1</td>
<td>37.5</td>
<td>39.2</td>
<td>41.2</td>
<td>39.7</td>
</tr>
<tr>
<td>Imports of goods (f.o.b.)</td>
<td>-38.6</td>
<td>-42.9</td>
<td>-42.9</td>
<td>-45.8</td>
<td>-45.6</td>
<td>-47.6</td>
<td>-48.0</td>
</tr>
<tr>
<td>Services</td>
<td>8.2</td>
<td>5.8</td>
<td>6.3</td>
<td>6.0</td>
<td>6.0</td>
<td>6.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Factor income</td>
<td>-0.2</td>
<td>0.4</td>
<td>-1.0</td>
<td>-0.3</td>
<td>-0.6</td>
<td>-0.6</td>
<td>-0.6</td>
</tr>
<tr>
<td>Current transfers</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Current account balance</strong></td>
<td><strong>-2.1</strong></td>
<td><strong>-1.9</strong></td>
<td><strong>-1.0</strong></td>
<td><strong>-2.1</strong></td>
<td><strong>-0.5</strong></td>
<td><strong>-0.4</strong></td>
<td><strong>-2.2</strong></td>
</tr>
</tbody>
</table>

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

StatLink | ![StatLink](http://dx.doi.org/10.1787/323370074027)
excluding textiles. Textile exports declined by about 3 per cent in 2006, but in the first nine months of 2007, they increased by 15.9 per cent in value owing to recovery in demand in the European market. The agricultural sector, the machinery and electricity industries, and the oil sector recorded strong growth, which brought about a 26.6 per cent rise in exports in the first nine months of 2007 as compared with the same period in 2006. With its greater opening to trade and its good perspective for growth, Tunisia should increase its imports in the coming years. This could aggravate the trade deficit despite the progress in exports. It is estimated at 8.3 per cent of GDP in 2009.

In 2006, the balance in services improved but resulted nonetheless in a lower surplus: 6 per cent of GDP, down from 6.3 per cent the previous year. The foreign exchange generated by tourism increased by only 3.3 per cent, down from 15.2 per cent in 2005. Thus, the current deficit, after having declined in 2001-05, increased in 2006 as a result of the aggravation of the trade deficit and represented 2.1 per cent of GDP. It should come close to 0.5 per cent of GDP in 2007 and 2008, and 2.2 per cent in 2009.

At the end of 2006, the balance of payments stood at a record surplus of EUR 1.7 billion (6.7 per cent of GDP) as a result of the revenue from the partial privatisation of Tunisie Télécom for EUR 1.8 billion. Foreign direct investment (FDI) also reached a record high of EUR 2.6 billion, or 320 per cent more than in 2005, but when privatisations are excluded, the figure becomes moderate. Official gross reserves continued to increase in 2007 (to the equivalent to five months’ worth of imports) and have clearly improved in relation to 2003 (three months’ worth of imports). Otherwise, the Banque des règlements internationaux estimated Tunisian holdings abroad at USD 7 million, while the BCT is campaigning for the repatriation of funds invested abroad.

A three-phase gradual liberalisation process of the capital account was initiated in 2005. The first phase has consisted in liberalising medium- and long-term

---

**Figure 3 - Stock of Total External Debt (percentage of GDP) and Debt Service (percentage of exports of goods and services)**

![Graph](http://dx.doi.org/10.1787/320376277101)

*Source: IMF.*
capital flows, such as non-residents’ direct investments and long-term credits, to the benefit of listed enterprises or government securities in national currency. This first phase has nearly been completed. Since the beginning of 2007, resident financial institutions can negotiate loans with non-residents in foreign currency for more than 12 months and for unlimited amounts (previously, such amounts were limited to TND 10 million per year). Resident listed enterprises can negotiate such loans up to the yearly limit of the equivalent of TND 10 million (which was previously TND 3 million). The ceilings on short-term loans in foreign currency have been raised significantly. The second phase plans, by the beginning of 2009, to liberalise direct investment abroad by residents so Tunisian institutional investors can make portfolio investments abroad and non-residents can make portfolio investments in the form of debt certificates. This phase requires floating the exchange rate and a strong banking system to stand up to international competition, whereas on the foreign-exchange market, futures trading and foreign-exchange options remain restricted and put a brake on the opening of the capital account. The third phase is total convertibility of the national currency, scheduled for late 2009. It will require the liberalisation of portfolio investments abroad by residents and loans granted by residents to non-residents. This phase will necessitate a vigorous financial sector and a strong balance-of-payments situation. Thus, in 2010, Tunisians should be completely free to move their assets to foreign countries.

Tunisia is focusing on reducing its external debt by allocating part of its privatisation revenues to relieving its debt burden. Thus, the partial privatisation of Tunisie Télécom in 2006 made it possible to reduce outstanding public debt. The ratio of the external debt in percentage of GDP declined from 65.4 per cent in 2005 to nearly 59 per cent in 2006 and 53.6 per cent at the end of 2007. The presidential programme “For tomorrow’s Tunisia” has set as a goal a debt level in the order of 46.5 per cent of GDP by 2009. This rate is, however, still higher than the median of other emerging countries that have a similar sovereign rating (40 per cent of GDP). The debt ratio in percentage of exports declined from 19 per cent in 2006 to 13.4 per cent in 2007.

**Structural Issues**

**Recent Developments**

Tunisia is developing “competitiveness centres” and should have 12 technology hubs on its territory by 2015. The authorities are expecting much from the private sector to meet their growth and employment-generation objectives. In respect of the country’s enterprise-upgrading programme, which involves 10 000 enterprises, 3 896 had joined the programme by the end of 2006 and 2 434 had obtained approval of their modernisation plan for equipment renewal, reorganisation of the production system, staff training, quality control, etc. In 2007, the reforms implemented in view of the convertibility of the dinar, trade liberalisation and the enhancement of banking performances aimed at improving the business climate and at strengthening the economy’s competitiveness. The World Bank’s Doing Business 2008 report ranks Tunisia 88th out of 178 countries, a better ranking than Egypt’s (126th) and Morocco’s (129th). Nonetheless, the business climate is lagging behind in the employing workers category (113th) and even more so in the paying taxes (148th) and protecting investors (147th) categories.

The government is maintaining a cautious line in its privatisation policy. Having sold 35 per cent of Tunisie Télécom’s capital in 2006 for USD 2.25 billion, it now plans to sell 16 per cent more by 2009. The Société tunisienne d’assurances et de reassurances (STAR), the leading Tunisian insurance company, is in the process of being partially privatised and is expected to dispose of 35 per cent of its capital in 2008. Since 1987, a total of 209 enterprises have been privatised for revenues amounting to TND 5.7 billion. In 2007, nine operations were performed for TND 130 million.

Transportation and communications policy is focused on the improvement of infrastructure and on deregulation and privatisation of the sectors. The latest far-reaching projects are the construction of a deep-water port by 2010 in Enfidha (70 kilometres south of Tunis), where the country’s ninth most important airport will also be built (operational in 2009 for its first phase),
the eighth having been inaugurated in Gabes in January 2008. A 160-kilometre highway, some sections of which are already finished, connects Sousse with Sfax, Madha and Oued Zargua, and technical studies are underway, in particular to connect Sfax with the Libyan capital Tripoli. In Tunis, a new line in the elevated rapid transit system will extend the network from 32 to 60 kilometres by 2009. In the electricity sector, Tunisia is preparing a radical increase in its production capacities by 2010 with the construction of several new power stations (in the east, in the north, in the vicinities of Tunis, Sfax, Gabes and Cap Bon). Moreover, in December 2006, the state-owned oil and gas utility, Société tunisienne d’électricité et de gaz (Steg), signed an agreement with France for the construction of a nuclear plant in order to reduce the country’s dependence on oil and gas imports.

The telecommunications sector, in full expansion, recorded 18 per cent to 24 per cent annual growth rates between 2002 and 2006 and investment levels rose from TND 550 million to TND 650 million per year. Tunisiana, the second mobile telephony operator, finished 2006 with more than 3 million subscribers (against 4.3 million for Tunisie Télécom) and brought in more than TND 300 million with nearly TND 40 million in net profits. The price of telecommunications fell significantly but could drop further because the state is preparing to re-energise competition by selling a third mobile-telephony license by 2009 and disposing of some more of Tunisie Télécom’s capital. On the other hand, the fixed line penetration rate is one of the lowest in North Africa: no more than 12.5 per cent of the population had a land line in 2006. Internet subscription tariffs dropped significantly, but connection speed remains very slow. There were 70,000 connections in March 2007, the national goal being 600,000 by the end of 2009. The number of Tunisians having a computer at home, however, is very low (7.2 per cent of households in 2006).

The banking sector recorded encouraging progress in 2006 with stabilisation of bank portfolios and improved profitability indicators. The rate of overdue debts fell from 24 per cent of total debts in 2003 to 19.2 per cent in 2006, for a targeted 15 per cent goal in 2009. The three state-owned banks reduced this type of debt from 27.4 per cent in 2004 to 19.7 per cent in 2006. At the same time, banks continued to build their reserves for bad debts, moving from 43.1 per cent in 2003 to 49.2 per cent in 2006, but the 70 per cent goal by 2009 will be quite difficult to reach, especially for the state-owned banks. In addition, the new 2006 banking legislation set strict rules on transparency and credit distribution, and strengthened the central bank’s supervision role. All things considered, although the banking sector remains frail, there should be no danger of a future systemic crisis; the sector’s weakness could, however, make economic growth problematic and above all, delay any serious attempt to liberalise the capital account.

In Tunisia, the yearly cost of environmental degradation is estimated at 2.1 per cent of GDP, the lowest rate amongst the Maghreb countries. The scarcity and fragility of natural resources is in fact the most disturbing problem, because mobilisation of Tunisian water and land resources has reached its limits.

**Technical and Vocational Skills Development**

In Tunisia, vocational training can be initial or continued training. The former aims to dispense the knowledge needed for practising a particular trade or profession, prepares students’ integration into working life and includes training in vocational-training institutions, sandwich-training schemes, vocational learning and distance learning. As for continued vocational training, its aim is to adapt the labour force to technological and job changes, to impart new skills and to support the career and social promotion of those involved.

Initial training comprises three qualification levels: a vocational training certificate, or CAP, available to candidates aged 16 who have successfully acquired basic education; a professional technician’s certificate, or BTP, available to those who have obtained the CAP or to high-school students having successfully completed the second year of secondary education; and an advanced technician’s certificate, or BTS, open to those who have obtained a BTP or have successfully
passed the baccalaureate, or secondary-education certificate, in a field compatible with the chosen option. The system is chiefly made up of four types of institution: private institutions, which mostly offer training in the services sector and represent about 45 per cent of the country’s total training capacity; a network of technical institutions under the supervision of the ministry of higher education, which represents 22 per cent of total capacity; vocation-training programmes managed by the ministries of agriculture, health and tourism, representing 15 per cent of total capacity; and a national network of training centres, currently managed by the ministry of education and training, which delivers 18 per cent of the country’s total training capacity, specially in the industrial field. The ministry of education and training is the only provider of industrial training. In 2006/07 34 new centres were opened and 48 were reorganised for a training offer equivalent to 64 000 positions, up from 36 000 in 2003, and to 164 programmes. In 2007, Tunisia had 343 approved vocational-training centres and 133 private centres. The number of graduates in approved training grew from 15 000 in 2001 to 27 500 in 2005, then to 31 000 in 2006. By comparison, in the same year, about 10 000 students obtained their diploma from a private institution. Women represented 39.4 per cent of vocational-training graduates in 2005, down from 54.8 per cent in 2000, because more women are now moving into higher education.

In the field of continued training, a national continued-training programme, Pronafoc, was introduced in 1996 into small and medium-sized enterprises (SMEs) employing fewer than 100 permanent staff. It aims to help enterprises not only to acquire the necessary qualifications for a good application of production methods, introduce new technology, and improve the quality of production and the maintenance of equipment; but also to improve their management methods. Priority sectors are textiles, clothing, leather and shoes, the electricity and machinery industry, agribusiness, construction, and ceramics and glass. Pronafoc training can be followed on site or in another enterprise, or through night school, distance learning or courses abroad. The Fonds d’insertion et d’adaptation professionnelle, an employment and training fund, is also involved in the development of continued training; it serves all private enterprises, whatever their size. But in practice it is mostly large enterprises that benefit from continued training, very often under state supervision, because reimbursement of the vocational-training tax (TFP) does not hold out much incentive for the others.

A ministry of vocational training and employment had been set up in 1990 and was then abolished in 2002. Since then, vocational training has been under the authority of the ministry of education. Starting in 1993, the government instituted vocational-preparation internships allowing apprentices to obtain vocational training in return for lower wages. In 1997, in the broader context of upgrading the Tunisian economy, the government launched a programme to raise the standards of training and employment (MANFORME), a strategy of human-resources appreciation focusing on three goals: a demand-induced approach to respond to the production sector; a flexible training capacity to respond to the specificity and evolution of qualification needs; and encouragement of autonomy in the financing and management of training centres. In other words, all the planned actions were to be based on meeting the demand in skills. Since 1990s, efforts have been made to get the private sector involved in training. In view, however, of the delays in their implementation and the lack of financing, many reforms are still in their initial phase. At the end of January 2008, the chamber of deputies adopted a government bill on vocational training. The measures aim to increase the intake capacity of the centres, to reinforce option-based training under partnerships with enterprises and to promote the efficiency of sandwich-training schemes. In addition, bridges have been set up between general education and technical learning so students can transfer from one to the other.

The public training centres are essentially financed by the state budget. Registration and accommodation fees requested from the students represent only 10 per cent of their total budget. The weak links between the training centres and enterprises limit the possibilities
of contract-based services and sources of income. Continued training is financed by the TFP, which has to be paid by all enterprises except offshore enterprises. Manufacturing enterprises pay 1 per cent of their wage bill, whereas non-manufacturing enterprises pay 2 per cent. On the other hand, they benefit from a partial tax cut when they provide continued training. In practice, only a minority of enterprises benefit from this provision. The tax cut is not a strong incentive, especially for SMEs, because the TFP is low and covers very little of the cost of continued training.

The chief challenge in vocational training is that of increasing the number of qualified people. Vocational training is part of the policy of employment and of the fight against unemployment, but the large majority of pupils choose to be schooled in the general education system.

It is estimated that 67 000 new skilled and trained workers are needed each year, or about 50 000 graduates of the Tunisian professional-training agency, the Agence tunisienne de formation professionnelle (ATFP). In 2006, the ATFP produced only 31 000 skilled and trained workers. To meet labour-force needs for the large investment projects, 30 construction specialties were opened and 140 000 training positions will be available in the next three years. It will however be necessary to attract applicants, when the vocational-training option is mainly dictated by failure in the secondary school curriculum. A second challenge is to get professional organisations and enterprises more deeply involved in the training process in to improve the quality of training and to adapt it better to the needs of the labour market. A third challenge is to adopt a new management model for the training centres in order to reduce their dependence on the state budget.

Social Context and Human Resources Development

As early as 1956, the Personal Status Law granted Tunisian women “a head start” in emancipation. In Tunisia, 23 per cent of the seats in the chamber of deputies are occupied by women – far above the 8.2 per cent average of the Arab world – and 26 per cent of municipal councillors and one-third of magistrates are also women, as well as 58 per cent of university students and 60 per cent of university graduates.

The poverty rate declined from 12.9 per cent in 1980 to 4.2 per cent in 2000, then to 3.8 per cent in 2005. This obvious improvement is the result of having pegged the poverty-reduction goal to economic growth. Thus, in 2007, 58.8 per cent of the state budget and 19 per cent of GDP were devoted to social transfers, which allowed households to improve their material living conditions, notably in the rural world. The middle class grows larger every year: it included 81.1 per cent of the population in 2005, up from 70.6 per cent in 2000. In the midst of these achievements, there are some persisting inequalities amongst households, in particular between urban and rural areas.

Political Context

The country lives under the rule of the Rassemblement constitutionnel démocratique (RCD), the party in power. In spite of the recent arrival in the chamber of deputies of opposition parties, which won 20 per cent of the 189 seats in 2004, and the announcement by the president of greater pluralism, there does not seem to be any real change. The incumbent president, Zine El Abidine Ben Ali, whose period in office ends in 2009, is expected to run for a new five-year term. The political and institutional reform process is stagnating because of the authorities’ strict control over the information media and the press in general. According to the organisation Reporters without Borders, several newspaper issues are censored or forbidden every year and a number of Internet websites are blocked. The authorities also monitor union activity and the Tunisian Human Rights League. This trend is expected to continue, especially in the context of the war declared on terrorism and the events that took place in December 2006, during which a cell connected to Al-Qaida was dismantled. In the view of many experts, there is a widening gap between the economic performance being achieved and the progress of civil liberties and political rights.
Young persons, who represent two-thirds of the unemployed, seek to escape from “an uncertain future” in their country. A United Nations report estimates that 41 per cent of Tunisians between the ages of 15 and 19 wish to leave Tunisia. In the framework of a November 2007 agreement on migratory flows, Italy has announced a gradual 33 per cent increase of the entry quotas for Tunisian workers starting in 2008.

Health expenditure represented 2 per cent of GDP and 8 per cent of public expenditure in 2006. Health and welfare indicators improved between 2006 and 2007 with life expectancy at birth moving from 73.6 to 73.9 and the welfare coverage of employees who are members of the different social security schemes rose from 90.4 per cent to 91.9 per cent. All the health indicators are pointed in the right direction except for heart and respiratory diseases, which have increased as the average age of the population has risen. According to local sources, infant mortality was reduced from 21.1 to 18.4 per 1 000 live births between 2006 and 2007 and the population per physician fell from 1 043 in 2003 to 968 in 2007. Vaccination rates stood at nearly 100 per cent in 2006 and the HIV/AIDS epidemic had only affected 0.11 per cent of the total population. In addition, the various family-planning programmes implemented since the 1960s have made it possible to control the birth rate, which has been stable at 17 births per 1 000 population since 2003. Thus, the population growth rate has declined, from 1.08 per cent in 2004 to 1 per cent in 2006.

As for employment, government efforts resulted in reducing the unemployment rate from about 15 per cent in 2001 to 14.2 per cent in 2005. Since then the rate has remained in the vicinity of 14 per cent, its failure to decline being essentially due to a much greater employment demand every year, estimated at 88 300 for 2008. According to the estimates laid out in the 11th plan, 412 000 jobs should be created between 2007 and 2011 to reduce the unemployment rate to 13.4 per cent of the active population. Two-thirds of the demand comes from recent university graduates. To deal with this additional labour supply, the authorities intend to rely on self-employment and private initiative, an increased flexibility in the market and above all, on a reallocation of skilled labour to sectors with high employment capacities.

The education budget has represented 7 per cent of GDP since 2005. This effort has made it possible to reduce the illiteracy rate from 22.4 per cent in 2003 to 22.1 per cent in 2007. However, expenditure is essentially earmarked for buildings and facilities and the general aim is to improve the number of people in education rather than the quality of education. Net enrolment rates are close to 100 per cent in primary school, but only 73 per cent in secondary school, as a result of substantial school failure and drop-outs. In addition, whereas the number of pupils is declining in primary school, the number of university students is growing strongly and a figure of 478 000 students in 2011 is projected, up from 345 000 in 2007. Higher education is in the midst of the LMD reform (Licence, Mastère et Doctorat, or first degree, master’s degree and doctorate). At the start of the 2007/08 school year, about two-thirds of higher-education institutions had adopted the reform.