

# TUNISIA



# ECONOMIC MONITOR

## Equity and Efficiency of Tunisia Tax System

Fall 2024



**THE WORLD BANK**

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Middle East & North Africa



# Tunisia Economic Monitor

Equity and Efficiency of Tunisia Tax System

Fall 2024



Middle East and North Africa Region

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**T**he Tunisia Economic Monitor (TEM) is a report that provides information on recent economic developments and policies in Tunisia, as well as the country's economic outlook and challenges to its development. The report is aimed at a diverse audience, including policy makers, business leaders, financial market actors, and analysts and professionals working on or in Tunisia. It is produced by the North Africa and Middle East department of the World Bank Group's Macroeconomics, Trade and Investment (MTI) global practice.

Each issue of the TEM contains a section on recent economic developments and a discussion on the economic outlook, followed by a special section based on the World Bank's analysis of Tunisia. The report was originally published in English with the title "Equity and Efficiency of Tunisia Tax System" and was first published in 2024. In case of any discrepancy, the original English language version prevails.

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The deadline for input and forecast preparation is October 30th, 2024.





# LIST OF ACRONYMS

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BCT	Banque Centrale de Tunisie (Central Bank of Tunisia)	OECD	Organisation for Economic Co-operation and Development
BNA	Banque Nationale Agricole (National Agricultural Bank, Tunisia)	OdC	Office Des Céréales (Grain Office, Tunisia)
CAD	Current Account Deficit	ONAGRI	Observatoire National de l'Agriculture (National Observatory of Agriculture, Tunisia)
CBAM	Carbon Border Adjustment Mechanism		
CIT	Corporate Income Taxation	PIT	Personal Income Taxation
CPI	Consumer Price Index	SOE	State-Owned Enterprise
EU	European Union	SSC	Social Security Contributions
FDI	Foreign Direct Investment	TD	Tunisian Dinar
GDP	Gross Domestic Product	UGTT	Union Générale Tunisienne du Travail (General Tunisian Labor Union)
GW	Gigawatt		
INS	Institut National de la Statistique (National Institute of Statistics, Tunisia)	USD	United States Dollar
LAC	Latin America and the Caribbean	VAT	Value Added Tax
METRs	Marginal Effective Tax Rates	WDR	World Development Report
MW	Megawatt		



# EXECUTIVE SUMMARY

## **The Tunisian economy is stagnating amidst a persistent drought, limited demand and tight financing conditions**

The Tunisian economy did not gain momentum in the first half of 2024, when it grew by 0.6 percent on an annual basis after the zero growth in 2023. By the end of 2024, Tunisia is expected to be the only country among its regional peers with real GDP still below pre-pandemic level. The modest recovery of agriculture along with losses in oil and gas, garments and construction sectors dragged the growth of the economy in the first half of 2024. Below average rainfall continued to limit the growth of agriculture, which recovered only a third of the large losses experienced during the first half of 2023. Other key sectors suffered as well. Garments lost ground due to the declining demand of Tunisia's main export market, the European Union; oil and gas production continued a decade-long decline due to the lack of new investments and construction was affected by the limited domestic demand and by the difficult external financing environment.

The growth stagnation translated into declining labor market indicators in the first half of the year. The unemployment rate grew slightly, reaching 16 percent in Q2, the 6<sup>th</sup> consecutive year-on-year increase, and the labor force participation rate declined somewhat and is now 1.5 percentage point lower than its pre-Covid level. The current slowdown in growth comes in the context of a secular decline in investment and savings, aggravated after 2010.

## **The current slowdown of the economy comes in the context of a long-term decline in growth, aggravated after 2010**

While the Tunisian economy grew at a similar pace of upper-middle income countries throughout the 1970s and 1980s, it started to diverge in the 1990s, a trend that was reinforced in the 2000s and more so after 2010. This secular slowdown in growth is consistent with the so-called 'middle-income trap', i.e. the tendency of countries to reduce their growth rate once they reach the middle-income status. The decline in economic growth in Tunisia has been associated with a marked decrease in investment and saving rates, particularly after 2010. Lower investments typically constrain a country's ability to bring modern technologies from abroad and diffuse them domestically. That is a key element to transition towards upper-middle income status, according to the evidence in the 2024 World Bank's World Development Report.

## **More favorable global prices drove the reduction in the current account deficit easing some of the pressure on external financing**

Tunisia's merchandise trade deficit continued to improve in 2024, declining by 3.4 percent during the first nine months of 2024 compared to the same period in 2023 (7.8 percent of GDP against 8.8 percent in 2023). The

improvement was driven again by favorable changes in international prices, with average import prices declining by 16 percent on an annual basis and export prices increasing by 4 percent in the first half of 2024. Conversely, the energy deficit widened further despite more favorable prices amidst continued decline in domestic production, and accounted for 62.9 percent of the merchandise trade deficit in the first 8 months of 2024 (up from 53.4 percent a year earlier).

The narrowing trade deficit along with the continued growth of tourism exports (+7.0 percent on annual basis as of the end of September) lowered the current account deficit (CAD). These factors compensated the 9.2 percent increase in interest payment on foreign debt in the first half of 2024, bringing down the CAD to 1.4 percent of GDP, from 2.0 percent of GDP in the same period in 2023. While the lower CAD eases the pressure on external financing needs, the latter remain significant especially due to the burdensome sovereign debt service.

### **Tunisia's increasing reliance on domestic sources to fill the external financing gap could present medium-term risks to currency and price stability**

Tunisia continues to depend on sovereign financing to cover its external financing needs as other sources of funding are either inaccessible (international private financing) or cover only a small share of the external financing needs, as is the case for foreign direct investments (FDI), portfolio and capital account flows. As sovereign financing is shrinking (in the first half of 2024 it covered only 6.7 percent of budgetary external financing needs for 2024, vis-à-vis 32.5 percent in the same period in 2023), the government has turned to domestic sources to cover its external needs. The main source was monetary financing, using a bill approved in February 2024 authorizing the central bank (BCT) to finance the budget up to TD 7 billion (4 percent of GDP) in 2024 including using its reserves. In October 2024, members of parliament proposed amending the Central Bank law with a view to increasing its involvement in state budget financing. Despite their use for debt repayment, foreign reserves have

proven resilient so far, helping to stabilize the Dinar. However, the continued use of monetary financing of the external needs presents risks for currency and price stability. In October 2024, members of Parliament proposed amending the Central Bank law to facilitate its financing of the public budget.

### **The rising role of domestic financing of the public debt raises concerns on the crowding out of the private sector**

The share of domestic debt in total central government debt increased from 29.7 percent in 2019 to 51.7 percent in August 2024. The sustained use of local funding to finance public debt continues to crowd out the financing to the private sector and to the overall economy. In the last 24 months through May 2024 the banking sector's exposure to the budget grew at an annual rate of 30 percent, as credit to the rest of the economy decreased at an annual rate of 3.8 percent.

### **Inflation continued to moderate, although it remains above the pre-Covid average, particularly for food, prompting the government to raise the minimum wage**

Inflation continued to moderate since the peaks of February 2023, reaching 6.7 percent in September 2024, the lowest level since January 2022. The reduction came on the back of lower global prices and limited domestic demand. With declining inflation and a stable Central Bank policy rate (at 8 percent), the nominal interest rate in August was the highest in 3 years. However, food inflation is still higher and above its pre-Covid average, as the drought and import compression reduced the supply in domestic food markets. This presents a significant challenge particularly for lower income households, for which food accounts for a relatively greater share of expenditures. Seeking to protect the purchasing power of lower income workers, the government raised the guaranteed minimum wage by 7 percent, in line with inflation in 2024. This is



the first time since 2019 that the minimum wage does not decline in real terms.

### **The budget continues to be under pressure as the limited growth affects tax revenues**

Tax revenues grew by 10 percent in the first six months of 2024 compared to the same period in 2023. That is a less robust increase than projected in the 2024 Budget Law (16 percent). The reduced growth of indirect taxes, particularly VAT (5 percent) and customs (4 percent), likely reflecting the growth slowdown, weighed down on the overall tax revenue growth, which however was higher than that in the same period in 2023 (7 percent), as well as the inflation rate.

The compression of the public wage bill growth allowed the balancing of the budget on a cash basis in the first half of the year despite the modest tax performance. Reversing the decline in public capital expenditures by re-orienting less productive recurrent expenditures continues to be key to revive economic growth.

### **Assuming drought conditions ease, we expect a moderate growth rebound in 2024-25, but economic prospects remain uncertain**

We expect the economy to grow by 1.2 percent in 2024, below our previous forecasts, as the drought and challenging external financing conditions have continued to affect key sectors in 2024, including agriculture, agro-industry and construction. In addition, limited external demand along with the lack of economic reforms further limit growth prospects. At the same time, the agricultural sector is expected to gain some momentum in the second half of 2024. Growth is projected to moderately increase to an average of 2.3 percent in 2025–26, although the forecasts are subject to significant downside risks, related to financing conditions, external demand and the drought. While the macro situation is expected to stabilize, Tunisia's public finance and external position will remain vulnerable in the absence of sufficient external financing. The financing of the deficits will require a significant

scale-up of the external financing in the face of the significant debt reimbursement in the near term.

### **While Tunisia collects a relatively high level of tax revenues, the tax system could be fairer and more efficient**

Albeit insufficient to cover expenditures, Tunisia collects proportionately more tax revenues than most of its peers. Tax revenues have risen faster than the economy in the past two decades, mainly driven by the growth of personal income taxation. At the same time, corporate income tax declined as a share of total revenues and of GDP driven by reductions in the statutory tax rate. However new World Bank analysis in Tunisia suggests that this decline may not be effective in increasing investment and employment.

Partly because of the reduction in corporate taxes, tax policy has progressively shifted the burden of direct taxation from capital to labor income. The tax burden on labor income is made heavier by the outsized role that social security contributions play in the Tunisia tax system. While the personal income tax is progressive, the tax burden on wage income is relatively high even at low-income levels because of the structure of social security contributions and of the deductions. This raises the cost of labor for employers, limiting their incentives to hire labor (formally at least), and reduces the progressivity of the tax system. At the same time, capital income tax benefits from several concessions and exemptions on various sources, which reduce its contribution to tax revenues. As a result of this tax structure, Tunisia's effective tax rate on labor is much higher than on capital, and the difference is the highest among developing countries according to new data. As richer individuals earn predominantly capital income, while less wealthy individuals rely more on labor income, the higher effective tax rate on labor relative to capital is likely to fuel income inequality.

Redressing the balance between labor and capital income taxation, while using more effectively indirect taxes—including through a wide-ranging carbon tax—could increase the efficiency and the fairness of Tunisia's tax system.



# RÉSUMÉ EXÉCUTIF

## **L'économie tunisienne fait face à des défis en raison de la sécheresse persistante, d'une demande limitée et de conditions de financement restreintes**

L'économie tunisienne n'a pas suffisamment rebondi au premier semestre 2024, enregistrant une croissance de 0,6 % en glissement annuel après une croissance nulle en 2023. D'ici la fin de 2024, la Tunisie devrait être le seul pays de la région dont le PIB réel restera inférieur au niveau prépandémique. La reprise modeste de l'agriculture combinée aux pertes dans les secteurs du pétrole et du gaz, de l'habillement et de la construction a freiné la croissance économique au premier semestre 2024. Des précipitations inférieures à la moyenne ont continué de limiter la croissance de l'agriculture, qui n'a récupéré qu'un tiers des pertes importantes subies au cours du premier semestre 2023. D'autres secteurs clés ont connu des difficultés. L'habillement a perdu du terrain en raison de la baisse de la demande du principal marché d'exportation de la Tunisie, l'Union européenne, la production de pétrole et de gaz continue de décroître, et ce depuis environ dix ans, en raison de l'absence de nouveaux investissements, et le secteur de la construction a été affecté par une demande locale limitée et un environnement de financement externe restreint.

Le niveau de la croissance a impacté les indicateurs du marché du travail au premier semestre de l'année. Le taux de chômage a légèrement augmenté pour atteindre 16 % au second trimestre, ce qui représente la sixième augmentation consécutive en glissement annuel, tandis que le taux de participation à la population active a quelque peu reculé, se situant désormais à 1,5 point de pourcentage en dessous de son niveau prépandémique.

## **Le ralentissement actuel de l'économie s'inscrit dans un contexte de la baisse à long terme de la croissance, notamment après 2010**

Alors que l'économie tunisienne a connu une croissance similaire à celle des pays à revenu intermédiaire supérieur dans les années 1970 et 1980, elle a commencé à diverger pendant les années 1990, une tendance qui s'est renforcée pendant les années 2000 et plus encore après 2010. Ce ralentissement de la croissance est cohérent avec ce que l'on appelle le « la trappe des pays à revenu intermédiaire », c'est-à-dire la tendance des pays à voir leur taux de croissance décliner une fois qu'ils atteignent un niveau de revenu intermédiaire. Le déclin de la croissance économique en Tunisie a été associé à une baisse marquée des taux d'investissement et d'épargne, en par-

ticulier après 2010. La baisse des investissements limite généralement la capacité d'un pays à importer des technologies modernes et à les diffuser à un niveau national. C'est un élément clé de la transition vers un niveau de revenu intermédiaire supérieur, selon le Rapport sur le Développement dans le Monde 2024 de la Banque mondiale.

### **Des prix mondiaux plus favorables ont contribué à réduire le déficit du compte courant, allégeant ainsi une partie de la pression sur le financement extérieur**

Le déficit commercial de la Tunisie a continué de s'améliorer en 2024, enregistrant une baisse de 3,4% au cours des neuf premiers mois de 2024 par rapport à la même période en 2023 (7,8% du PIB contre 8,8% en 2023). Cette amélioration est due une fois de plus à l'évolution favorable des prix internationaux, les prix moyens à l'importation ayant baissé de 16% en glissement annuel, alors que les prix des exportations ont augmenté de 4 % au premier semestre 2024. En revanche, le déficit énergétique s'est encore creusé malgré des prix plus favorables, en raison d'une baisse continue de la production intérieure, et a représenté 62,9 % du déficit commercial des marchandises au cours des huit premiers mois de l'année 2024 (contre 53,4 % en 2023).

La réduction du déficit commercial, conjugué à la croissance continue des exportations touristiques (+7,0 % en glissement annuel à fin septembre), ont permis de réduire le déficit du compte courant (DCC). Ces facteurs ont compensé l'augmentation de 9,2 % des intérêts sur la dette extérieure au premier semestre 2024, ramenant le DCC à 1,4 % du PIB, contre 2,0 % du PIB au cours de la même période en 2023. Si la baisse du DCC allège la pression sur les besoins de financement extérieur, ces derniers restent importants notamment en raison du poids du service de la dette souveraine.

### **La dépendance croissante de la Tunisie aux ressources domestiques pour combler le déficit de financement extérieur pourrait présenter des risques à moyen terme**

### **pour la stabilité de la monnaie et des prix**

La Tunisie continue de dépendre du financement souverain pour couvrir ses besoins de financement extérieur, alors que d'autres sources de financement sont soit inaccessibles (financement privé international) soit ne couvrant qu'une faible part des besoins de financement extérieur, comme c'est le cas des investissements directs étrangers (IDE), des flux de portefeuille et du compte de capital. Alors que le financement souverain se réduit (au premier semestre 2024, il couvre seulement 6,7 % des besoins de financement extérieur budgétaire pour 2024, contre 32,5 % durant la même période en 2023), le gouvernement s'est tourné vers des sources domestiques pour combler ses besoins extérieurs. La principale source était le financement monétaire, autorisé par une loi adoptée en février 2024, permettant à la Banque centrale (BCT) de financer le budget jusqu'à 7 milliards de dinars tunisiens (4 % du PIB) en 2024, y compris en utilisant ses réserves. Malgré leur utilisation pour le remboursement de la dette, les réserves de change se sont avérées résilientes jusqu'à présent, aidant à stabiliser le dinar. Cependant, le recours continu au financement monétaire des besoins extérieurs présente des risques pour la monnaie et pour la stabilité des prix. En octobre 2024, les députés ont proposé une modification de la loi régissant la banque centrale afin de faciliter sa contribution au financement du budget de l'Etat.

### **Le rôle croissant du financement domestique de la dette publique soulève des questions concernant l'effet d'éviction sur le secteur privé**

La part de la dette intérieure dans la dette totale du gouvernement central est passée de 29,7 % en 2019 à 51,5 % en juin 2024. Le recours soutenu aux financements domestiques pour financer la dette publique continue de limiter le financement du secteur privé et de l'économie dans son ensemble. Au cours des 24 derniers mois jusqu'en mai 2024, l'exposition du secteur bancaire au budget de l'Etat a augmenté à un taux annuel de 30 %, tandis que le crédit à l'économie a diminué à un taux annuel de 3,8 %.



## **L'inflation ralentit progressivement, bien que demeurant au-dessus de la moyenne pré-Covid19, en particulier pour les produits alimentaires, incitant le gouvernement à relever le salaire minimum garanti**

L'inflation a continué de ralentir depuis les pics de février 2023, atteignant 6,7 % en septembre le taux le plus bas depuis janvier 2022. Cette baisse s'explique par la réduction des prix mondiaux et la demande intérieure limitée. Avec une inflation en baisse et un taux directeur stable de la Banque centrale (à 8 %), le taux d'intérêt nominal en août était le plus élevé depuis 3 ans. Cependant, l'inflation alimentaire reste plus élevée et supérieure à sa moyenne d'avant Covid, la sécheresse et la compression des importations ayant réduit l'offre sur les marchés alimentaires nationaux. Ceci représente un défi important, en particulier pour les ménages à faible revenu, pour lesquels l'alimentation constitue une part relativement plus importante des dépenses. Cherchant à protéger le pouvoir d'achat des travailleurs à faible revenu, le gouvernement a relevé le salaire minimum garanti de 7%, en fonction de l'inflation en 2024. C'est la première fois depuis 2019 que le salaire minimum ne baisse pas en termes réels.

## **Le budget de l'Etat reste sous pression alors que la croissance modérée affecte les recettes fiscales**

Les recettes fiscales ont augmenté de 10 % au cours des six premiers mois de 2024 par rapport à la même période de 2023. Il s'agit d'une augmentation moins importante que celle projetée dans la loi de finances 2024 (16 %). La croissance réduite des impôts indirects, notamment de la TVA (5 %) et des droits de douane (4 %), reflétant probablement le ralentissement de la croissance, a pesé sur la croissance globale des recettes fiscales, qui a toutefois été supérieure à sa valeur de la même période en 2023 (7 %), et supérieure aussi au taux d'inflation.

La compression de la masse salariale dans le secteur public a permis d'équilibrer le budget sur une base de trésorerie au premier semestre de l'année,

malgré les modestes performances fiscales. Inverser la baisse des dépenses publiques en capital en réorientant autrement les dépenses courantes moins productives reste essentiel pour relancer la croissance économique.

## **En supposant que les conditions de sécheresse s'atténuent, nous prévoyons une reprise modérée de la croissance en 2024-25, mais les perspectives économiques restent incertaines**

Nous prévoyons une croissance économique de 1,2 % en 2024, inférieure à nos prévisions précédentes, en raison de la sécheresse et des conditions de financement externe qui continuent d'affecter les secteurs clés en 2024, notamment l'agriculture, l'agro-industrie et la construction. En outre, la demande extérieure limitée ainsi que le besoin de réformes économiques limitent encore davantage les perspectives de croissance. Parallèlement, la croissance du secteur agricole devrait prendre de l'élan au cours du second semestre de 2024. La croissance devrait augmenter modérément pour atteindre une moyenne de 2,3 % en 2025-26, bien que les prévisions soient soumises à des risques de baisse importants, liés aux conditions de financement, à la demande extérieure et à la sécheresse. Même si la situation macroéconomique devrait se stabiliser, les finances publiques et la position extérieure de la Tunisie resteront vulnérables en l'absence de financements extérieurs suffisants. Le financement des déficits nécessitera une augmentation significative des moyens extérieurs face au remboursement important de la dette à court terme.

## **Bien que la Tunisie ait réussi à collecter un niveau relativement élevé de recettes fiscales, le système fiscal pourrait être plus équitable et plus efficace**

Bien que les recettes fiscales soient insuffisantes pour couvrir les dépenses, la Tunisie collecte proportionnellement plus de recettes fiscales que la

plupart de ses pairs. Les recettes fiscales ont augmenté plus vite que l'économie au cours des deux dernières décennies, principalement grâce à la croissance de l'impôt sur le revenu des personnes physiques (IRPP). En revanche, l'impôt sur les sociétés a diminué en proportion des recettes totales et du PIB, en raison de la réduction du taux d'imposition légal. Cependant, une nouvelle analyse de la Banque mondiale en Tunisie suggère que cette baisse pourrait ne pas être efficace pour accroître l'investissement et l'emploi.

En partie du fait de la réduction de l'impôt sur les sociétés, la politique fiscale a progressivement déplacé le fardeau de l'impôt direct du capital vers les revenus du travail. La charge fiscale sur le revenu de la main-d'œuvre est alourdie par le rôle prépondérant que jouent les cotisations de sécurité sociale dans le système fiscal tunisien. Même si l'impôt sur le revenu des personnes physiques est progressif, la charge fiscale sur le revenu salarial est relativement élevée y compris pour les faibles revenus en raison de la structure des cotisations de sécurité sociale et des déductions. Cela augmente le coût du travail pour les

employeurs, ce qui limite leur incitation à embaucher de la main-d'œuvre (du moins formellement) et réduit la progressivité du système fiscal. En même temps, l'impôt sur le revenu du capital bénéficie de plusieurs concessions et exonérations de diverses sources, ce qui réduit sa contribution aux recettes fiscales. Adoptant cette structure fiscale, le taux effectif d'imposition de la main-d'œuvre en Tunisie est beaucoup plus élevé que celui du capital, et l'écart est le plus élevé parmi les pays en développement selon de nouvelles données. Comme les revenus des individus les plus riches proviennent principalement des revenus du capital, tandis que ceux des individus les moins riches dépendent davantage des revenus de la main-d'œuvre, le taux effectif d'imposition du travail plus élevé par rapport au capital est susceptible d'alimenter les inégalités de revenu.

Rétablir l'équilibre entre la fiscalité des revenus de la main-d'œuvre et celle du capital tout en utilisant plus efficacement la fiscalité indirecte — y compris par l'introduction d'une taxe carbone étendue — pourrait accroître l'efficacité et l'équité du système fiscal tunisien.

# موجز تنفيذي

## يواجه الاقتصاد التونسي تحديات تتمثل في جفاف مستمر وطلب محدود وظروف تمويل صعبة، ما يؤدي إلى تباطؤ النمو الاقتصادي.

لم يكتسب الاقتصاد التونسي زخماً في النصف الأول من 2024، حيث حقق نمواً للناتج المحلي الخام بنسبة 0.6 بالمئة على أساس سنوي بعد عام 2023 الذي لم يشهد أي نمو. وبنهاية عام 2024، من المتوقع أن تكون تونس البلد الوحيد بين نظرائه في المنطقة الذي لا يزال إجمالي الناتج المحلي الحقيقي أقل من مستوى ما قبل الجائحة. وأدت الانتعاشة المحدودة في الفلاحة إلى جانب الخسائر في قطاعات النفط والغاز والنسيج والبناء إلى إعاقة نمو الاقتصاد في النصف الأول من عام 2024. استمر هطول الأمطار دون المعدل في الحد من نمو الفلاحة، التي استعادت ثلث الخسائر الكبيرة التي شهدتها خلال النصف الأول من عام 2023. هذا كما شهدت قطاعات رئيسية أخرى أيضاً تراجعاً في مردوديتها حيث تقلصت أرباح قطاع النسيج والملابس بسبب تراجع الطلب في سوق التصدير الرئيسية في تونس، وهي الاتحاد الأوروبي؛ وواصل إنتاج النفط والغاز انخفاضه المستمر منذ عقد من الزمن بسبب نقص الاستثمارات الجديدة، كما تأثر قطاع البناء بمحدودية الطلب المحلي وبظروف التمويل الخارجي الصعبة. وترجم ركود النمو إلى تراجع في مؤشرات سوق العمل خلال النصف الأول من العام، حيث نما معدل البطالة بشكل طفيف ليصل إلى 16 بالمئة في الثلاثي الثاني، وهي الزيادة السادسة على التوالي على أساس سنوي، وانخفض معدل مشاركة اليد العاملة قليلاً وهو الآن أقل بنقطة مئوية ونصف عن مستواه قبل كوفيد.

## يندرج التباطؤ الاقتصادي الحالي في سياق تراجع طويل الأمد في النمو، تفاقم بعد 2010.

رغم أن نمو الاقتصاد التونسي بوتيرة مماثلة للدول ذات الدخل المتوسط المرتفع خلال السبعينيات والثمانينيات، إلا أنه بدأ في التراجع في التسعينيات، وهو اتجاه تعزز في العقد الأول من القرن الحادي والعشرين

وبشكل أكبر بعد 2010. ويتمشى هذا التباطؤ المزمن في النمو مع ما يسمى «فخ الدخل المتوسط»، أي اتجاه معدلات نمو البلدان إلى الانخفاض بمجرد وصولها إلى وضعية الدخل المتوسط. وقد ارتبط تراجع النمو الاقتصادي في تونس بانخفاض ملحوظ في معدلات الاستثمار والادخار، وخاصة بعد 2010. يؤدي انخفاض الاستثمارات عادةً إلى تقييد قدرة البلاد على جلب التكنولوجيا الحديثة من الخارج وتعميمها محلياً. ويعد ذلك عنصراً أساسياً للانتقال نحو مرتبة الدخل المتوسط المرتفع، وفقاً للشواهد الواردة في تقرير البنك الدولي عن التنمية في العالم لعام 2024.

## أدى تحسن الأسعار العالمية إلى خفض عجز الحساب الجاري، مما خفف بعض الضغوط على التمويل الخارجي

واصل مستوى عجز الميزان التجاري في تونس تحسنه في 2024، حيث انخفض بنسبة 3.4 بالمئة خلال التسعة أشهر الأولى مقارنة بنفس الفترة من 2023 (7.8 بالمئة من الناتج المحلي الإجمالي مقابل 8.8 بالمئة في 2023). وكان التحسن مدفوعاً مرة أخرى بالتغيرات الملائمة في الأسعار الدولية، حيث انخفض متوسط أسعار الواردات بنسبة 16 بالمئة على أساس سنوي فيما ارتفعت أسعار الصادرات بنسبة 4 بالمئة في النصف الأول من 2024. في المقابل، توسع عجز الطاقة أكثر على الرغم من الأسعار الأكثر ملاءمة مع استمرار انخفاض الإنتاج المحلي، مشكلاً 62.9 بالمئة من عجز تجارة السلع في أول 8 أشهر من 2024 (ارتفاعاً من 53.4 بالمئة في 2023). أدى تقلص العجز التجاري إلى جانب نمو صادرات السياحة (+7.0 بالمئة على أساس سنوي حتى نهاية سبتمبر) إلى خفض عجز الحساب الجاري. وقد عوّضت هذه العوامل زيادة نسبتها 9.2 بالمئة في مدفوعات الفائدة على الدين الخارجي في النصف الأول من 2024، مما أدى إلى خفض عجز الحساب الجاري إلى 1.4 بالمئة من الناتج المحلي الإجمالي، من 2.0 بالمئة في نفس الفترة من 2023. وعلى الرغم من أن الانخفاض في عجز الحساب الجاري يخفف الضغط على احتياجات التمويل الخارجية، فإن الأخيرة لا تزال مرتفعة، وذلك خاصة بسبب الأعباء المرتبطة بخدمة الدين السيادي.

## قد يشكل اعتماد تونس المتزايد على المصادر المحلية لسد فجوة التمويل الخارجي بعض التحديات على المدى المتوسط على استقرار العملة والأسعار

تستمر تونس في الاعتماد على التمويل السيادي لتغطية احتياجاتها التمويلية الخارجية حيث إن مصادر التمويل الأخرى إما غير متاحة حالياً (التمويل الخاص الدولي) أو تغطي حصة صغيرة من احتياجات التمويل الخارجي، كما هو الحال بالنسبة للاستثمارات الأجنبية المباشرة وتدفقات المحافظ الاستثمارية وحسابات رأس المال. ومع تقلص التمويل السيادي (في النصف الأول من 2024 غطى 6.7 في المائة من احتياجات التمويل الخارجي للميزانية لعام 2024، مقابل 32.5 في المائة في نفس الفترة من 2023)، لجأت الحكومة إلى المصادر المحلية لتغطية احتياجاتها الخارجية. وكان المصدر الرئيسي هو التمويل النقدي، عبر قانون تمت المصادقة عليه في فبراير 2024 يأذن للبنك المركزي التونسي تمويل الميزانية في حدود 7 مليار دينار تونسي (4 في المائة من الناتج المحلي الإجمالي) في 2024 بما في ذلك استخدام احتياطاته. في أكتوبر/تشرين الأول 2024، اقترح عدد من أعضاء مجلس النواب تعديل قانون البنك المركزي لتسهيل تمويله للميزانية. وعلى الرغم من استخدامها لسداد الديون، فقد أثبتت الاحتياطيات من العملة الأجنبية صمودها حتى الآن، مما ساعد على استقرار الدينار التونسي. ومع ذلك، فإن الاستمرار في استخدام التمويل النقدي للاحتياجات الخارجية يشكل تحديات على مستوى استقرار العملة والأسعار.

## الدور المتزايد للتمويل المحلي للدين العمومي يستدعي القلق بشأن مزاحمة تمويل القطاع الخاص

ارتفعت حصة الدين المحلي في إجمالي ديون الحكومة من 29.7% في 2019 إلى 51.7% ي أغسطس/آب 2024. ويستمر الاستخدام المستدام للتمويل المحلي لتمويل الدين العمومي في مزاحمة التمويل للقطاع الخاص والاقتصاد عامة. خلال الأشهر الـ 24 الماضية حتى مايو 2024، نما تمويل القطاع المصرفي للميزانية بمعدل سنوي بلغ 30%، مع انخفاض الائتمان لبقية الاقتصاد بمعدل سنوي بلغ 3.8%.

## استمر مستوى التضخم في التراجع، على الرغم من أنه يظل أعلى من متوسط ما قبل كوفيد، وخاصة بالنسبة للمواد الغذائية، مما دفع الحكومة إلى رفع الحد الأدنى للأجور

استمر التضخم في التراجع منذ ذروته في فبراير 2023، حيث وصل إلى 6.7 في المائة في سبتمبر 2024، وهو أدنى مستوى منذ جانفي/يناير 2022. وجاء هذا الانخفاض على خلفية تراجع الأسعار العالمية والطلب المحلي المحدود. ومع انخفاض التضخم واستقرار سعر الفائدة للبنك المركزي (عند 8 في المائة)، كان سعر الفائدة الاسمي في ر أوت هو الأعلى خلال 3 سنوات. ومع ذلك، لا يزال تضخم أسعار المواد الغذائية أعلى من متوسطه قبل كوفيد، حيث أدى الجفاف والضغط على الواردات إلى تقليل العرض في أسواق المواد الغذائية المحلية. ويمثل هذا تحدياً كبيراً خاصة للأسر ذات

الدخل المحدود، حيث يمثل الغذاء الحصة الأكبر نسبياً من نفقاتها. في محاولة لحماية القدرة الشرائية للعاملين من ذوي الدخل المحدود، رفعت الحكومة الأجر الأدنى المضمون بنسبة 7 في المائة، بما يتماشى مع التضخم في 2024. وهذه هي المرة الأولى منذ 2019 التي لا ينخفض فيها الأجر الأدنى المضمون في قيمته الحقيقية.

## تستمر الضغوط على الميزانية مع تأثير مستوى النمو على عائدات الضرائب

نمت الإيرادات الضريبية بنسبة 10% في الأشهر الستة الأولى من 2024 مقارنة بنفس الفترة من 2023. وهي زيادة أقل من تها المتوقعة في ميزانية 2024 (16 في المائة). وقد أثر انخفاض نمو الضرائب غير المباشرة، وخاصة الأداء على القيمة المضافة (5 في المائة) والجمارك (4 في المائة)، على الأرباح بسبب تباطؤ النمو، على تطور الإيرادات الضريبية الإجمالية، والتي كانت أعلى من نفس الفترة من 2023 (7 في المائة)، وكذلك معدل التضخم. وقد سمح تراجع نمو كتلة الأجور في القطاع العام بتحقيق توازن الميزانية على أساس نقدي في النصف الأول من العام على الرغم من محدودية الأداء الضريبي. ولا يزال الرفع من النفقات الرأسمالية العامة من خلال إعادة توجيه النفقات الجارية ذات الإنتاجية المتدنية أمراً أساسياً لإنعاش النمو الاقتصادي.

## اعتباراً لتراجع حدة الجفاف، نتوقع انتعاشاً معتدلاً للنمو في 2024-25، لكن آفاق التطور الاقتصادي تظل غير واضحة

نتوقع أن ينمو الاقتصاد بنسبة 1.2 في المائة في 2024، وهو أقل من توقعاتنا السابقة، حيث استمر الجفاف وظروف التمويل الخارجي الصعبة في التأثير على القطاعات الرئيسية في 2024، بما في ذلك الفلاحة والصناعات الغذائية والبناء. وبالإضافة إلى ذلك، فإن محدودية الطلب الخارجي إلى جانب تعثر تنفيذ المزيد من الإصلاحات الاقتصادية يحدان من آفاق النمو. في الوقت نفسه، من المتوقع أن يشهد القطاع الفلاحي تطوراً في النصف الثاني من 2024. ومن المتوقع أن يزداد النمو بشكل معتدل إلى متوسط 2.3 في المائة في 2025-2026، على الرغم من أن التوقعات تتضمن احتمالات تراجع هامة، مرتبطة بظروف التمويل والطلب الخارجي، والجفاف. وفي حين أنه من المتوقع أن يستقر الوضع الكلي، سيظل وضع المالية العامة والمالية الخارجية لتونس هشاً في غياب التمويل الخارجي الكافي. وسيطلب تمويل العجز زيادة كبيرة في التمويل الخارجي في مواجهة السداد الكبير للديون في الأجل القريب.

## في حين تحقق تونس مستوى مرتفعاً نسبياً من عائدات الضرائب، فإن النظام الضريبي يمكن أن يكون أكثر إنصافاً وفعالية

على الرغم من عدم كفايتها لتغطية النفقات إلا أن تونس تجمع إيرادات ضريبية أكثر نسبياً من معظم نظرائها. وقد ارتفعت الإيرادات الضريبية

بوتيرة أسرع من الاقتصاد في العقدين الماضيين، مدفوعة أساساً بنمو الضرائب على الدخل الشخصي. في الوقت نفسه، انخفضت ضريبة الدخل على الشركات كنسبة من إجمالي الإيرادات والنتائج المحلي الإجمالي بسبب تخفيضات في نسب الضريبة على الشركات. ومع ذلك، تشير التحليلات الجديدة للبنك الدولي في تونس إلى أن هذا الانخفاض قد لا يكون فعالاً في زيادة الاستثمار والتشغيل.

إن السياسة الضريبية في تونس أدت جزئياً إلى تحويل عبء الضرائب المباشرة من رأس المال إلى دخل العمل، وذلك بسبب خفض الضرائب على الشركات. ويزداد العبء الضريبي على دخل العمل ثقلاً بسبب الدور الضخم الذي تلعبه مساهمات الضمان الاجتماعي في النظام الضريبي في تونس. وفي حين أن ضريبة الدخل الشخصي تصاعدية، فإن العبء الضريبي على الدخل على الأجور مرتفع نسبياً حتى في مستويات الدخل المنخفضة بسبب هيكل مساهمات الضمان الاجتماعي والاقطاعات. وهذا يرفع تكلفة العمالة بالنسبة للمشغلين، ويحد من

حوافزهم للتوظيف (رسمياً على الأقل)، ويقلل من تصاعدية النظام الضريبي. وفي الوقت نفسه، تستفيد ضريبة دخل رأس المال من العديد من التنازلات والإعفاءات على مصادر مختلفة، مما يقلل من مساهمتها في عائدات الضرائب. ونتيجة لهذا النظام الضريبي، فإن معدل الضريبة الفعلي على العمل في تونس أعلى كثيراً من معدل الضريبة على رأس المال، والفارق هو الأعلى بين البلدان النامية وفقاً للبيانات الجديدة. وبما أن الأفراد الأكثر ثراءً يكسبون دخلاً متأثراً في المقام الأول من رأس المال، في حين يعتمد الأفراد الأقل ثراءً بشكل أكبر على دخل العمل، فمن المرجح أن يؤدي ارتفاع معدل الضريبة الفعلية على العمل مقارنة برأس المال إلى زيادة عدم المساواة في الدخل.

ومن شأن إعادة التوازن بين الضريبة على دخل العمل والضريبة على دخل رأس المال، مع استخدام الضرائب غير المباشرة بشكل أكثر فعالية – بما في ذلك من خلال فرض ضريبة واسعة النطاق على الكربون – من شأنه أن يزيد من فاعلية وعدالة النظام الضريبي في تونس.



# RECENT ECONOMIC DEVELOPMENTS

## 1. The Tunisian economy did not gain momentum in 2024 after stalling in 2023 amidst a persistent drought, limited demand and tight financing conditions

**The Tunisian economy did not gain momentum in the first half of 2024 after the zero growth in 2023, deepening the challenges of the labor market.** The economy grew by 0.6% in real terms in the first half of 2024 over the same period last year, remaining well below the pre-Covid level (figure 1). Continued below average rainfall, limited domestic and external demand and challenging financing conditions slowed down an already mild economic recovery, marred by the continued regulatory barriers to growth (see the 2022 and 2023 issues of the Tunisia Economic Monitor). The Tunisian economy appears to be diverging from that of its neighbors (figure 2). By the end of 2024, Tunisia is expected to be the only country among its regional peers with real GDP still below pre-pandemic level.

**The modest recovery of agriculture along with losses in oil and gas, garments and construction sectors dragged the growth of the**

**economy in the first half of 2024.** While rainfall levels in the first part of 2024 have been higher than in 2023, they were still below historical averages, contributing to protracted water scarcity and low agricultural productivity (see box 1). As a result, in the first half of 2024, agriculture recovered a third of the losses experienced during the same period in 2023, when sectoral GDP fell by 14 percent (figure 3). This is compounded by the negative growth of three key sectors (figure 4): garments (–9.7 percent year-on-year growth in the first semester), which suffers from declining real import demand for garments by the European Union, Tunisia’s main export market; oil and gas (–15.7 percent), whose production continues a decade-long decline due to the phasing out of various fields and lack of new investments; and construction (–4.3 percent), affected by the low domestic demand, both private and public, and by the challenging financing environment. The continued recovery of tourism—reflected in the growth of hotels, restaurants and cafés (+7.4 percent)—helped maintain some positive growth rate, although it could not compensate the under-performance of most of the rest of the economy. All of the main sectors remain below their pre-Covid size.



## BOX 1: WHY AGRICULTURE HAS RECOVERED ONLY PARTIALLY THE 2023 LOSSES

After the large drop in production in 2023, Tunisia's agricultural sector grew by 5 percent in the first half of 2024, recovering a third of the losses experienced in the same period in 2023. The main reason for this slow recovery is the persistent drought conditions, which have plagued Tunisia since 2015, resulting in 8 dry years out of 9, including 5 consecutive years since 2019. Rainfall during the 2023/2024 agricultural season (as of end of August 2024) was 64 percent of the historical levels average across Tunisia, with rains often occurring away from dam catchment areas or too late in the cereal cycle, affecting crop quality. Additionally, rains have often followed long drought periods, preventing sufficient runoff to dams.

This has caused water inflows to dams in the season 2023/24 to drop on average to 37 percent of historic levels. Consequently, dams have remained fairly dry with a fill rate of 22.3 percent as of September 27<sup>th</sup> 2024, according to the Observatoire National de l'Agriculture (ONAGRI). As a result, available water reserves are down by 13.5 percent relative to the same period in 2023 and by 21.3 percent compared to the last three years' average.

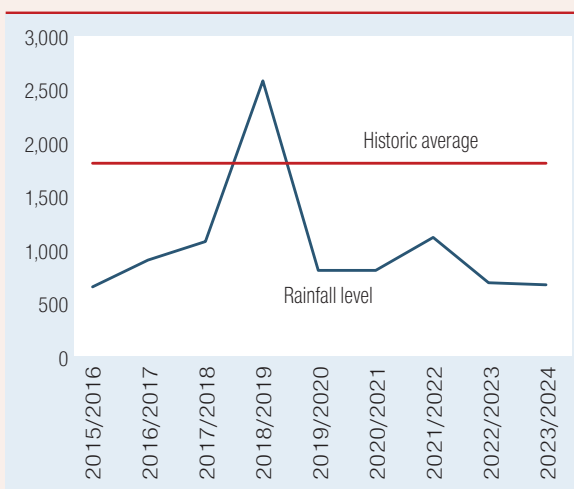
The lack of rainfall during critical periods for cereal crops, particularly in March 2024, led to an estimated cereal production of 1.1 million tons, double the amount of 2023 (0.53 million tons) but still well below the historic average of 1.8 million tons (source ONAGRI). These conditions have also impacted dairy production through reductions in cereal and fodder production, which resulted into a 9 percent drop in livestock numbers in January 2024 compared to a year earlier (source: Ministry of Agriculture).

Fruits and vegetables have also been significantly affected. Cultivated areas of the seasonal tomato crop shrank from 16,000 hectares in 2021 to 11,500 hectares in 2023, and only partially recovered to 13,800 hectares in 2024 due to the restrictions on water available for irrigation. Similarly, while the real growth in citrus exports was positive during the first 8 months of 2024 (+8.1 percent) compared to the same period in 2023, the level of quantities exported was still 50 percent below that of the same period 2022 (ONAGRI data).

As rainfall conditions are expected to deteriorate further in the future because of climate change, Tunisia needs to act swiftly to ensure its food security, building the resilience of agriculture as well as the water sector as a whole. To that end, some of the priority measures could include: managing water demand, promoting the use of nature-based solutions, expanding non-conventional water sources, improving irrigation efficiency, increasing uptake of climate-smart practices, developing disaster risk financing and insurance.<sup>a</sup>

<sup>a</sup> See World Bank (2023) Tunisia: Climate Change and Development Report.

**FIGURE B1 • Water Inflows to Dams Remain Below the Historical Average (million cubic meters)**



Source: ONAGRI.

Note: historic average refers to the average annual water inflows to dams since data recording started.

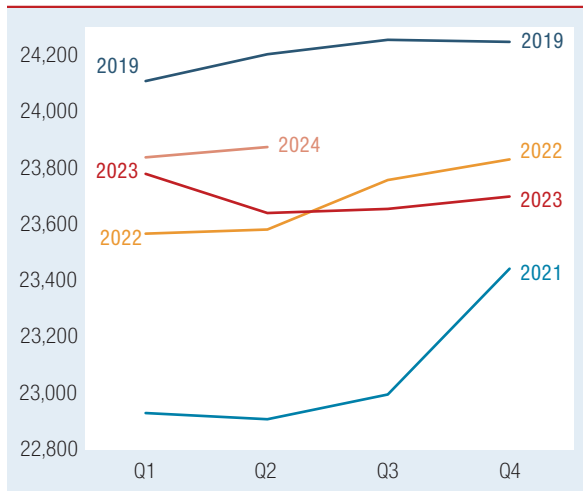
### **The 0.6 percent growth of the economy in the first half of 2024 translated into a slight uptick in unemployment and mild decline in the labor participation rate in the first half of the year.**

The stalled recovery translated into further pressure on the labor market. In the second quarter of 2024 unemployment increased to 16 percent up from 15.6 percent a year before, marking the 6<sup>th</sup> consecutive quarter of year-on-year increase. At the same time, the labor force participation rate declined slightly to 45.8 percent in Q2-2024 (down from 46.0 percent a year earlier), and it is hovering 1.5 percentage point

below the pre-Covid rate, suggesting a higher number of discouraged workers. The 80,000 net jobs the economy created in the first half of 2024 relative to the previous year roughly compensated the net jobs lost in the second half of 2023 (87,400) (figure 6). Almost three fourth of the new jobs were for female workers, compensating the 2023 losses, which were concentrated among women. However, women continue to suffer a large penalty in the labor market, with much lower participation rate than men (27.9 versus 65.2 percent in Q2-2024) and higher unemployment rate (21.4 versus 13.6 percent).

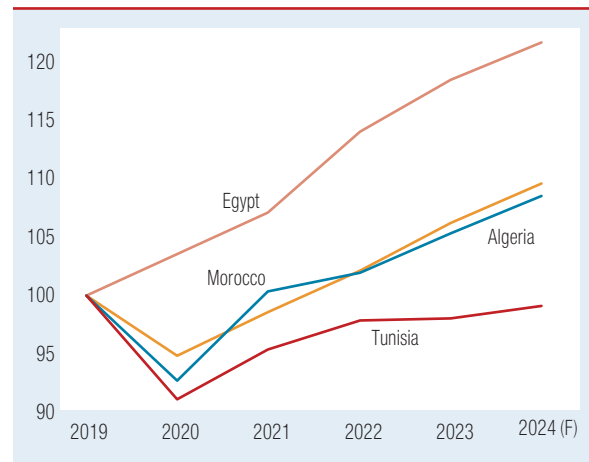


**FIGURE 1 • Tunisia’s Elusive Economic Recovery**  
(Quarterly GDP, constant 2015 TD)



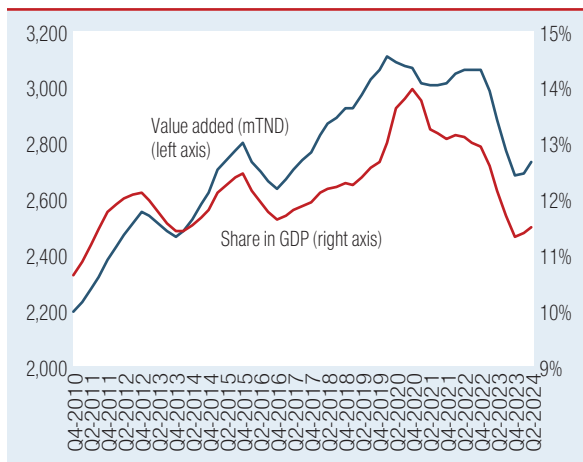
Source: Tunisia’s National Statistics Institute (INS).

**FIGURE 2 • Tunisia’s Diverging from Regional Peers**  
(GDP constant prices; 2019=100)



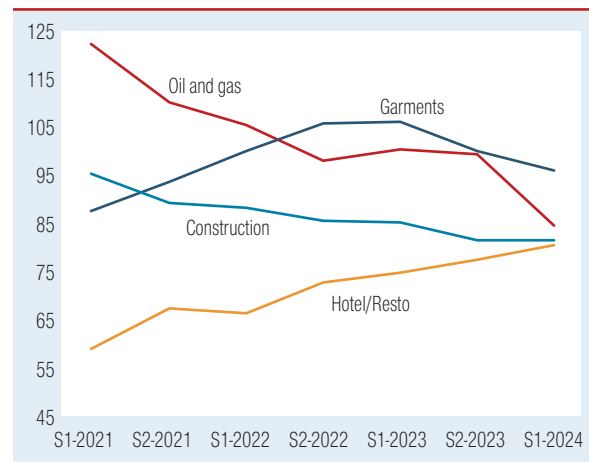
Source: World Bank Macro-Poverty outlooks.

**FIGURE 3 • Agriculture’s Recovery Has Been Modest After the 2023 Drop**  
(Agriculture value-added, 4-quarters moving average, TD mln constant prices and share in GDP)



Source: INS and World Bank calculations.

**FIGURE 4 • Hydrocarbons, Garments and Construction Dragged Growth in S1-2024**  
(Half yearly GDP in constant 2015 prices; 2019=100)



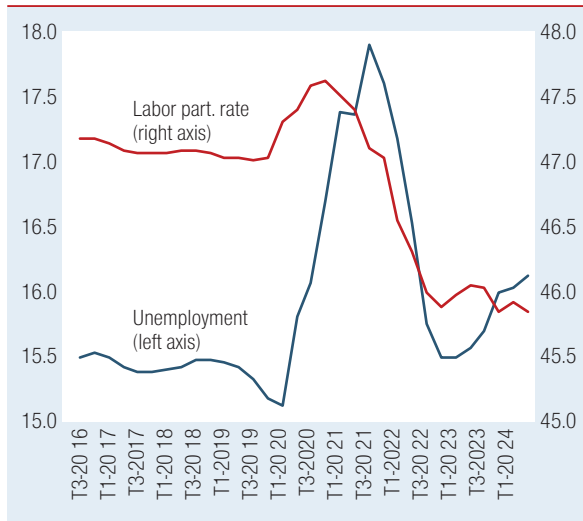
Source: INS and World Bank calculations.

## 2. The current slowdown of the economy comes in the context of a long-term decline in growth, exacerbated after 2010

**The current slowdown in growth comes in the context of a secular decline in investment and savings, aggravated after 2010.** While the Tunisian economy grew at a similar pace of upper-middle income countries throughout the 1970s and 1980s, it started

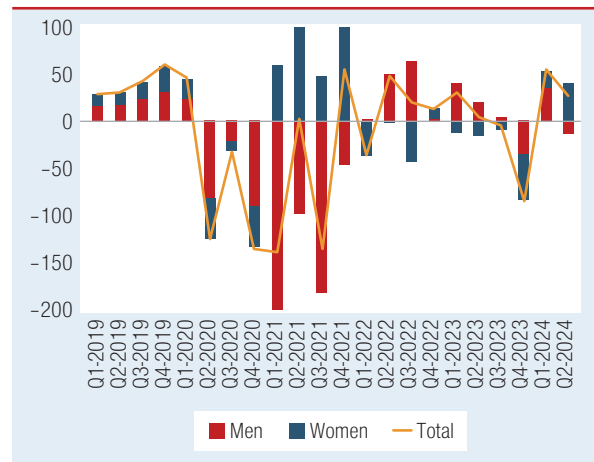
to diverge in the 1990s, a trend that was reinforced in the 2000s and more so after 2010 (figure 7). This secular slowdown in growth is consistent with the so-called ‘middle-income trap’, i.e. the tendency of countries to reduce their growth rate once they reach the middle-income status. The 2024 World Bank’s World Development Report (WDR) discusses the reasons behind this ‘trap’ and the lessons from countries that managed to escape it (see box 2). The decline in economic growth in Tunisia has been associated with a

**FIGURE 5 • Labor Participation (slightly) Down, Unemployment (slightly) Up (Percent, 4-quarter moving average)**



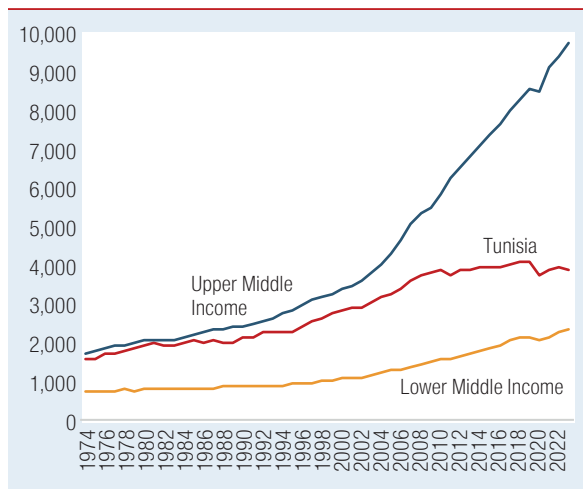
Source: World Bank staff calculations based on INS.

**FIGURE 6 • The Economy Started Again to Create Jobs After the Losses of the Second Half of 2023 (Quarterly year-on-year net change in jobs, '000)**



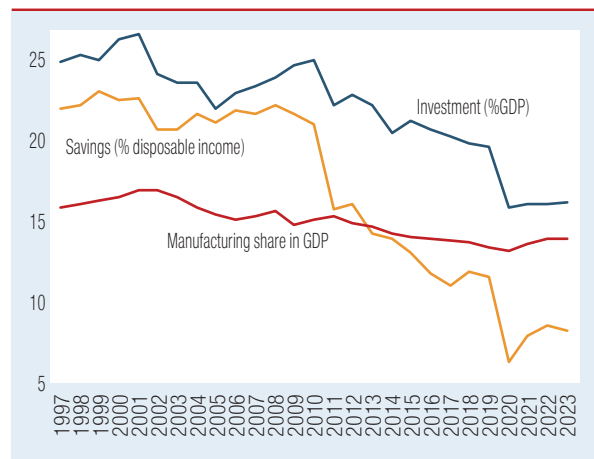
Source: World Bank staff calculations based on INS.

**FIGURE 7 • Tunisia in the Middle-Income Trap? (GDP per capita in constant 2015 USD)**



Source: World Development Indicators.

**FIGURE 8 • Investment and Savings Rates Have Been Declining Especially After 2010 (Percent of GDP and of disposable income)**



Source: INS and Ministry of Economy and Planning.

marked decrease in investment and saving rates, particularly after 2010 (figure 8). Lower investments typically constrain a country's ability to bring modern technologies from abroad and diffuse them domestically, which is a key transition towards upper-middle income status, according to the evidence in the WDR. That transition is usually associated with an increasing share of manufacturing in GDP, while in the case of Tunisia that share has been constantly declining since 2012.

### 3. More favorable global prices drove the reduction in the current account deficit easing some of the pressure on external financing

**Tunisia's merchandise trade deficit continued to improve in 2024 on the back of favorable changes in international prices.** The trade deficit narrowed by

## BOX 2: ESCAPING THE “MIDDLE-INCOME TRAP”: SOME LESSONS FROM THE WDR 2024

The 2024 WDR focuses on the so-called “middle-income trap”, i.e. the tendency of countries to reduce their rate of economic growth and transformation once they reach middle-income status. The report first shows empirically that such a trap exists by detailing that over the past decades only 34 out of 142 middle income countries managed to achieve high income status. It then discusses at length what determines this trap and what middle-income economies can do to escape it.

The report argues that in addition to institutional quality—especially economic and political freedom—which is crucial at any levels of income, economic growth in middle-income countries is different than that for countries at other income levels. Specifically, as capital returns diminish with the accumulation of capital, sustained growth in middle-income countries depends crucially on technological progress and improved efficiency in converting capital and labor into goods and services. Successful middle-income countries will have to engineer two successive transitions to develop economic structures that can eventually sustain high-income levels.

The first transition is from a so-called *1i strategy* of accelerating investment to a *2i strategy* focusing on both investment and infusion. The latter is the strategy through which a country brings technologies from abroad and diffuses them domestically. Successful lower-middle-income countries managed to infuse modern technologies and business practices from global leaders into their own economies. Once a country has succeeded in the first transition, the second transition is to switch to a *3i strategy*, which entails paying more attention to innovation. Upper-middle-income countries that have mastered infusion, such as Korea in the 1970s, 1980s, Chile and Poland in the 1990s and 2000s, can complement investment and infusion with innovation, thereby developing industrial structures and technical competencies to add value to and advance the global technology frontier.

Different countries have followed different strategies to facilitate these transitions. However, common themes include disciplining incumbents, including SOEs, rewarding merit, promoting contestability, ensuring macroeconomic stability as well as mobility and displacing outdated arrangements and create new ones.

Source: World Bank (2024), World Development Report: The Middle-Income Trap.

3.4 percent during the first nine months of 2024 compared to the same period in 2023, reaching 7.8 percent of GDP (vis-à-vis 8.8 percent a year earlier). This pattern continued the improvement of 2023, when the trade deficit shrank by two third after the adverse terms of trade shock due to the war in Ukraine in 2022. The deficit reduction in 2024 was mainly driven by the agro-industrial sector, which turned the deficit of 2023 into a small surplus thanks to booming olive oil exports (figure 9). These sectors, as most other ones in Tunisia, benefited from improving terms of trade. In the first six months of 2024, average import prices declined by 16 percent on an annual basis, while export prices increased by 4 percent (figure 9).<sup>1</sup> These price trends were partly compensated by opposite trends in quantities. As a result, export values increased by 2.2 percent and imports remained stable.<sup>2</sup> Tunisia’s main traded commodities provide an illustration of the more benign terms of trade in the first six months of 2024 (figure 10). The price of oils and fats exports increased by 78 percent, benefiting from Europe’s reduced supply of olive oil, while the exported quantity did not change. Conversely, the import prices of hydrocarbons and cereals—Tunisia’s main imported commod-

ities—declined by 18 and 20 percent respectively, as international market conditions stabilized after the disruptions of the war in Ukraine.

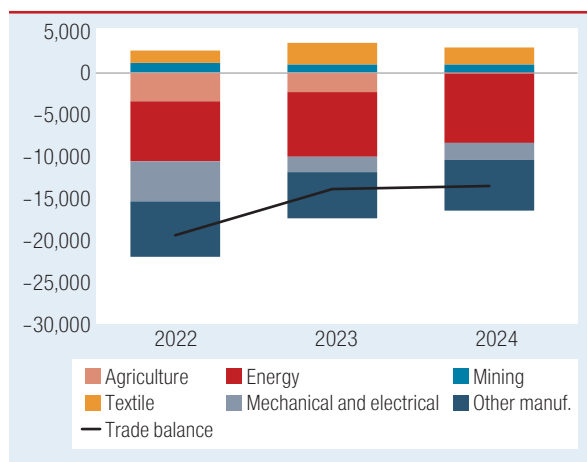
**The energy deficit widened further despite more favorable prices, continuing to account for the bulk of the merchandise trade deficit.** As a net energy importer, Tunisia benefited from a reduction in global energy prices in 2024. In the first half of 2024 the average price of hydrocarbons imported by Tunisia declined by 17.8 percent compared to the same period in 2023. Yet, imported quantities increased by 40.1 percent as Tunisia’s production of oil and gas declined.<sup>3</sup> Thus, energy imports increased by 15.1 per-

<sup>1</sup> At the time of writing, data on trade values were available up to August 2024, while quantities were only available up to June. Hence the analysis of unit values spans only the first six months of 2024.

<sup>2</sup> Improving export prices with stagnant import prices were also responsible for the shrinking trade deficit in the first semester of 2023 (see figure 8).

<sup>3</sup> In the first eight months the production of oil declined by 13 percent while that of natural gas by 26 percent (source: Ministry of Industry, Mining and Energy (2024) *Conjoncture Energétique*, August).

**FIGURE 9 • Agriculture and Mechanic Industries Led the Moderation of the Merchandise Trade Deficit in 2024 (Trade balance by sector January-September, TD million)**



Source: World Bank staff elaboration based on INS data.

cent in value up to June 2024, and by 16.6 percent up to August. This led the energy trade balance to deteriorate by 15.2 percent, accounting for 62.9 percent of the merchandise trade deficit in the first 8 months of

2024 (up from 53.4 percent a year earlier). That share has more than doubled since 2017, making the recent development of renewable energy projects particularly important (see Box 3) not only for Tunisia's energy security but also for its external balance (see Tunisia Economic Monitor, Spring 2024 issue).

**The narrowing trade deficit along with the continued growth of tourism exports lowered the current account deficit (CAD) in the first half of 2024.** The significant reduction in the merchandise deficit was accompanied by the continued recovery of tourism. Receipts grew by 7.2 percent as of September 10<sup>th</sup> on an annual basis, reaching TD 5.1 billion, or 3.0 percent of GDP (the same ratio as over the same period in 2023). In the first half of 2024, however, the contribution of tourism to GDP was still lower than its pre-Covid level (3.5 against 4.4 percent). Tourism receipts were slightly lower than remittance inflows (TD 5.4 billion or 3.1 percent of GDP against 3.3 percent of GDP for remittances), which recorded a more modest increase (+3 percent), although they remain a key source of foreign exchange for Tunisia. These flows and the shrinking trade deficit compensated the 9.2 percent increase in interest payment on foreign

2024 (up from 53.4 percent a year earlier). That share has more than doubled since 2017, making the recent development of renewable energy projects particularly important (see Box 3) not only for Tunisia's energy security but also for its external balance (see Tunisia Economic Monitor, Spring 2024 issue).

### BOX 3: RECENT PROGRESS IN THE DEVELOPMENT OF THE RENEWABLE ENERGY PROGRAM IN TUNISIA

As highlighted in the 2024 WDR the climate and energy crises provide an opportunity for middle-income countries to infuse global technologies domestically to join low-carbon value chains for global markets, while also deploying low-carbon energy. In this context the Tunisian government has set the target of generating 35 percent of electricity from renewables by 2030, up from just 3 percent in 2022.<sup>a</sup> While ambitious, this target is in line with Tunisia's large untapped renewable potential, which is estimated at up to 280 GW of solar and 90 GW of wind power.

To achieve the renewable energy target, Tunisia is advancing the implementation of its ambitious renewable energy development program based on public-private partnerships. The construction of the first 500 MW of energy generation in the program is progressing at pace after some delays due to rising prices and financing costs in the wake of both the Covid and Ukrainian crises.

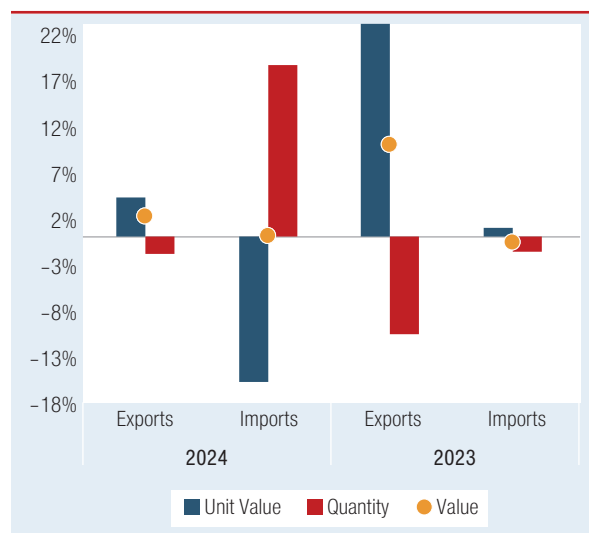
Works for the development of the first 100MW solar plant in Kairouan started last May, and those for the 50MW solar plants each in Sidi Bouzid and Tozeur—in cooperation with Norwegian renewable energy company Scatec and Japanese Aeolus—started last September. The agreements have recently been signed also for the remaining projects in Gafsa (100MW) and Tataouine (200MW), which should be under way in 2025.

In addition, in December 2022, the government announced projects for a further 1,700 MW to be awarded over the period 2024–2026, including 1,100 MW of solar and 600 MW of wind energy. Nine bids were received last May covering the first 500 MW of solar projects, with construction planned to start in 2025.

Once implemented, this 2,200 MW program is expected to increase the share of renewable energy in the electricity mix to 17 percent. This would allow estimated savings of 1 million ton of oil equivalent of imported gas—around 30 percent of total gas imports in 2023—and a significant reduction in production costs.

<sup>a</sup> Source: Ministère de l'Industrie, des Mines et de l'Énergie and UNDP (2023), Stratégie énergétique de la Tunisie à l'horizon 2035, Tunis: April.

**FIGURE 10** • Rising Export Prices, Declining Import Prices Have Driven Narrowing of Trade Deficit  
(Annual percent change, first semester of each year)



Source: World Bank staff elaboration on INS trade data.

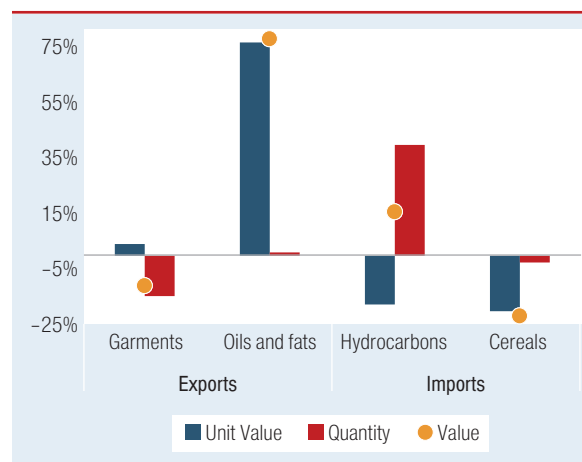
debt in the first half of 2024 (accounting for 51 percent of the CAD). As a result, the CAD in the first half of 2024 declined to 1.4 percent of GDP, down from 2.0 percent of GDP in the same period in 2023 (figure 11).

**While the lower CAD eases the pressure on external financing needs, the latter remain significant especially due to the burdensome debt service.** Despite the reduced CAD, external financing needs remained significant in 2023 (TD 12.7 billion, or 8.0 percent of GDP) with amortization accounting for 73 percent.<sup>4</sup> These needs rose by 42 percent in the first half of 2024 (5.3 percent of GDP) compared to the same period in 2023, most of which (74 percent) again due to debt reimbursement.

#### 4. Tunisia's increasing reliance on domestic sources to fill the external financing gap could present medium-term risks to currency and price stability

**With limited private sources of capital, Tunisia continues to depend on sovereign lending to finance its foreign exchange needs amidst tight external financing conditions.** Tunisia continues to be

**FIGURE 11** • Main Export and Import Products Highlight the Improving Terms of Trade in 2024  
(Annual percent change, first semester)



Source: World Bank staff elaboration on INS trade data.

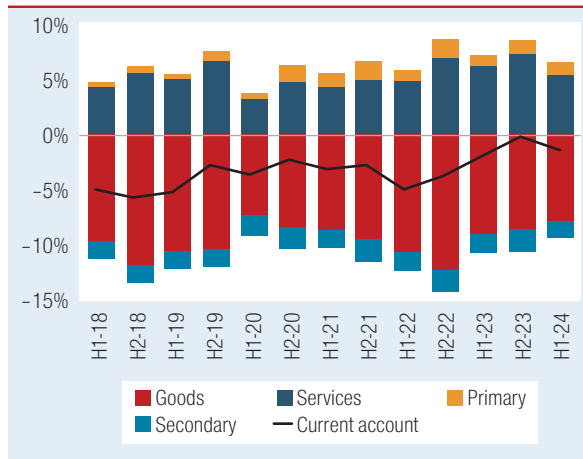
Note: in 2023 garments accounted for 13.8 percent and oils and fats for 6.6 percent of export value; hydrocarbons accounted for 17.0 percent and cereals for 5.8 percent of import value.

dependent on sovereign financing to cover its external financing needs as other sources of funding are either inaccessible (international private financing)<sup>5</sup> or cover only a small share of the external financing needs, as is the case for foreign direct investments (FDI), portfolio and capital account flows (figure 12). Portfolio and capital account flows are virtually absent in Tunisia mainly as the country maintains strict controls on capital outflows. FDI is more significant, and it increased by 18 percent in the first half of 2024, though it only covers 14 percent of external financing needs. If properly designed, the update of the 48-year-old foreign exchange code could be important to stimulate these private capital inflows, but the updated code is still to be voted on by Parliament after the cabinet approved it last March. At the same time external Budget financing has been declining over the past couple of years following Tunisia chose not to proceed with an IMF pro-

<sup>4</sup> External financing needs are defined as current account deficit + debt (public + private) reimbursement.

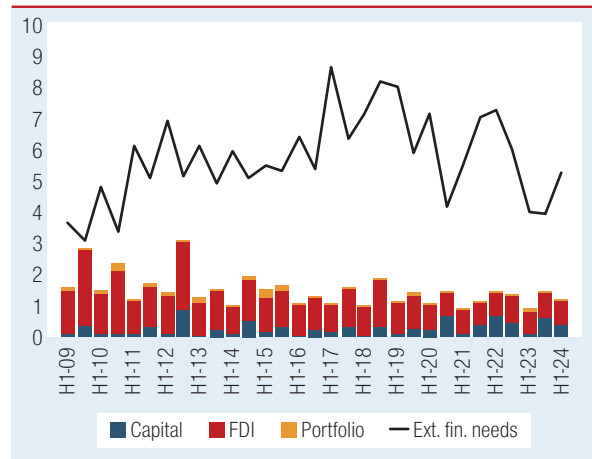
<sup>5</sup> The Tunisian government has not been able to issue foreign-denominated bonds since 2019, as its sovereign credit rating has been consistently assessed as noninvestment grade (including by Moody's, Fitch Ratings and Rating and Investment Information).

**FIGURE 12 • The Trade Deficit Along with Tourism Receipts Helped Reduce the Current Account Deficit in Recent Periods (Percent GDP)**



Source: World Bank staff estimates based on Central Bank of Tunisia data.

**FIGURE 13 • Limited FDI, Portfolio and Capital Flows Put Pressure on Tunisia’s Financing of its External Needs (Percent GDP)**



Source: World Bank staff estimates based on Central Bank of Tunisia data.

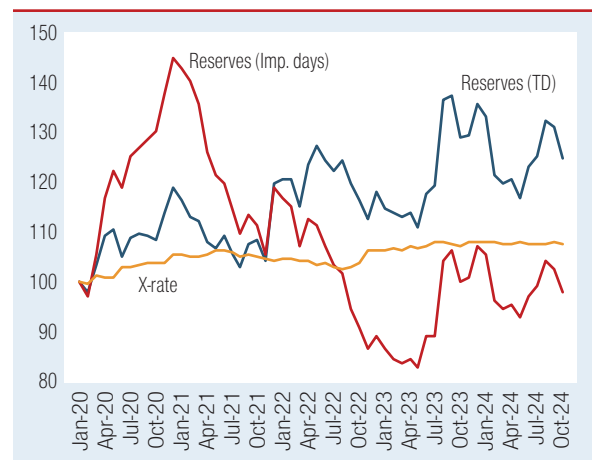
gram. The data so far suggests that sovereign financing appears insufficient to cover the country’s external needs for 2024. According to the Budget execution data, in the first half of 2024 external financing to the budget totaled TD 1.1 billion, equivalent to 6.7 percent of budget external financing needs for the entire year identified in the 2024 Budget Law. That’s well below the share in the same period in 2023 (32.5 percent).

**With shrinking sovereign financing, the government has turned to domestic sources to cover its external needs, including through monetary financing.** Up to October 10 2024, the government used around TD 5 billion in foreign exchange from the Central Bank facility instituted by the Tunisian parliament in February 2024. The facility allows the BCT to finance the budget up to TD 7 billion in 2024 (4 percent of GDP and 42.7 percent of government external financing needs for the year), including from its foreign exchange reserves. The loans were used to cover external debt service obligations. Similarly, the government also tapped into the domestic banking system to help finance its external needs, contracting a US\$ 185 million syndicated loan from 16 domestic banks in May.

**Foreign reserves and the Dinar have been overall stable, although the continued use of monetary financing of external needs presents risks for currency and price stability.** The use of reserves to reimburse foreign denominated bonds

last February decreased their level to the lowest level since July 2023. Despite a TD 1 billion (US\$ 335 million) debt repayment of a Japanese bond maturity in early October, that level has gone up since then and hovered around TD 24.3 billion, or US\$ 7.9 billion by October 11<sup>st</sup> (figure 14). This provides a buffer vis-à-vis both imports (110 days of coverage) and short-term external debt repayment, and helps explaining

**FIGURE 14 • Reserves Recovered After the Drop in Early 2024 While the Dinar Has Remained Stable (Reserves in TD and in days of imports and TND-USD exchange rate; 2020=100)**



Source: World Bank staff estimation based on Central Bank of Tunisia data.



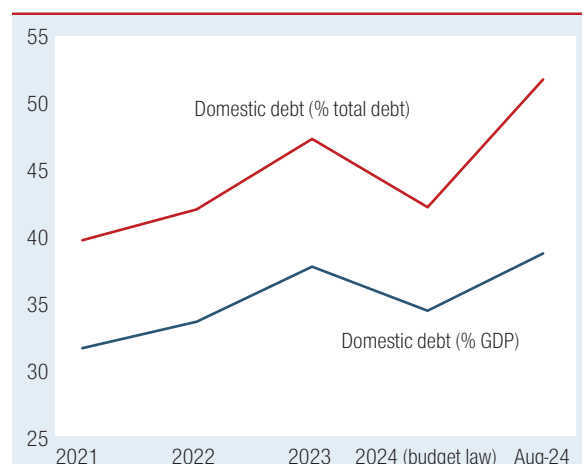
why the Dinar has remained stable in the face of large recent reimbursements. The recent relative macro stability has also prompted a slight upgrade in Tunisia's Long-Term Foreign-Currency Issuer Rating by Fitch Ratings in September.<sup>6</sup> However, if protracted beyond this year, the use of monetary financing of the budget could eventually erode reserves, carrying risks to currency and price stability. In October 2024, members of Parliament proposed amending the Central Bank law to facilitate its financing of the public budget.

## 5. The rising domestic financing of the public debt has increased the sovereign-banking nexus along with the crowding out of the private sector

**The challenging external financing environment along with the rising public debt have resulted in the growing role of the domestic banking system for debt financing.** As access to external financing became more limited, the nominal domestic debt stock rose rapidly over the past few years, moving from 24.7 billion in 2019 to 66.4 billion in August 2024. In parallel, public debt grew rapidly (from 67.8 percent to 80.2 percent of GDP between 2019 and 2024), reflecting rising public expenditures and the deceleration of the economy.<sup>7</sup> As a result, Tunisia has increasingly tapped into local markets as a financing source so that the share of domestic debt in total debt increased from 29.7 percent in 2019 to 51.7 percent in 2024 (figure 15). This domestic financing necessitated a high level of refinancing to local banks by the Central Bank.<sup>8</sup>

**The sustained use of local funding to finance public debt continues to crowd out credit to the economy.** The injection of liquidity through refinancing operations is directing bank liquidity towards government lending, which is likely to crowd out credit to the rest of the economy. In the last 24 months through May 2024 the banking sector's exposure to the State grew at an annual rate of 30 percent. As a result, the share of central government in total claims of the banking sector increased from an average of 14.4 percent in 2015 to 25 percent in the last 12 months up to May 2024 (figure 16). In a context of limited credit growth, this rising

**FIGURE 15 • Tunisia Increasingly Relies on Domestic Financing of the Debt (Domestic Debt, % of Total Debt and TD Mln)**



Sources: Central Bank of Tunisia and Ministry of Finance.

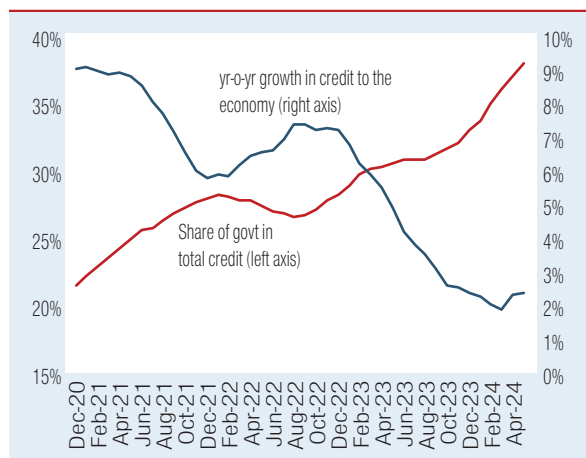
share of claims to the government has displaced the credit to the rest of the economy, which decreased at an annual rate of 3.8 percent between June 2022 and May 2024. This displacement is aggravated by the increasing banking exposure to SOEs, as it is the case of the Banque Nationale Agricole (BNA), one of the largest Tunisian banks, which increased its credits to the Office Des Céréales (OdC) three-fold between 2019 and 2024 (figure 17). The OdC now accounts for almost a third of all BNA credits. In this context implementing some of the measures proposed in the 2022 government's emergency plan, such as facilitating the use of movable assets as collateral, could be important to strengthen access to credit to the economy.

<sup>6</sup> The rating improved from CCC- to CCC+, which still indicates a significant risk of default. This is a similar risk to that identified by Moody's, whose most recent rating in September has remained stable at Caa2.

<sup>7</sup> The debt figure covers only the central government's but not SOEs' debt, much of which is guaranteed by the State as well as payment arrears to public and private companies.

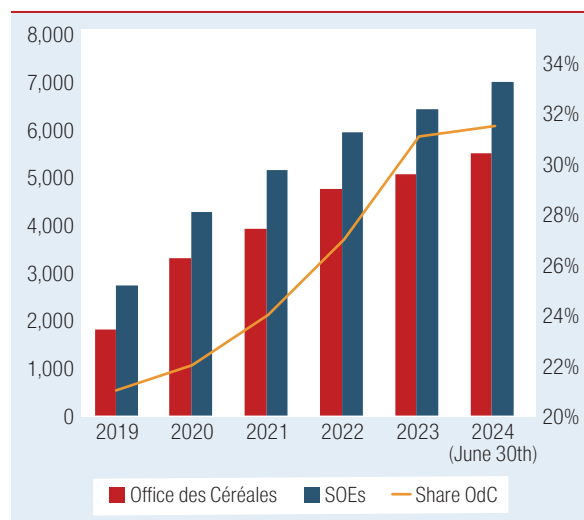
<sup>8</sup> Refinancing consists of the Central Bank lending money to banks with liquidity needs, generally short-term. They are carried out on the initiative of central banks (through tenders) or banks (lending facilities). While refinancing is associated with money creation, the relation is not one-to-one as it depends on the terms of the reimbursement and the loan maturities.

**FIGURE 16 • The Share of Net Government Receivables in Total Credits Continues to Increase (and Accelerates) as Receivables to the Economy Growth Falters (Year-on-year percent increase, six month moving average)**



Source: Central Bank of Tunisia.

**FIGURE 17 • Credits to Office Des Céréales Tripled Since 2019 (Mln TND for credits and percentage for share of OdC in total credit stock extended by BNA)**



Source: BNA.

## 6. Inflation continued to moderate, although but it remains above the pre-Covid average, particularly for food, prompting the government to raise the minimum wage

**Inflation continued to moderate since the peaks of February 2023 on the back of lower global prices and low domestic demand.** Year-on-year price inflation continued its gradual decline from the record level of February 2023 (10.4 percent), reaching 6.7 percent in September 2024, the lowest level since January 2022 (Figure 18). This followed the reduction in core inflation to 6.2 percent (September 2024) from 7.4 percent (September 2023) driven in part by a limited domestic demand given the slowdown in economic growth.<sup>9</sup> The decline in international prices compounded this effect, helping reduce the pressure on domestic prices. Driven by the drop in international prices of energy and cereals, Tunisia's merchandise import prices declined on average by 16.1 percent in the first half of 2024 (see figure 9 above).<sup>10</sup> At the same time electricity and gas inflation declined from 14.9 percent in February 2023 to 0.1 percent in September 2024.

**However, food inflation is still high and above its pre-Covid average, as the drought**

**and import compression reduced the supply in domestic food markets.** Despite the decline, food inflation (9.2 percent in September) remains above the pre-Covid average (7 percent in 2018–19). The rate of price increases for food has been consistently higher than average inflation since May 2021 and the gap has been expanding over the past couple of years as the drought and import compression reduced the domestic supply of agricultural products. This presents a significant challenge particularly for lower income households, for which food accounts for a relatively greater share of expenditures.<sup>11</sup>

**With declining inflation and a stable Central Bank policy rate, the nominal interest rate is the highest in 3 years.** As the Central Bank (CBT) maintained its key policy rate unaltered at 8 percent since the beginning of 2023, the real interest rate became

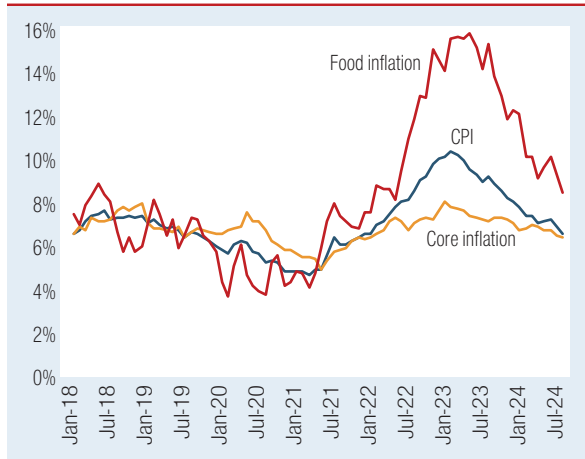
<sup>9</sup> Core inflation is computed by excluding energy and food products from the CPI.

<sup>10</sup> That is an average obtained by weighing each 2-digit sector level price change by the corresponding share in total Tunisian merchandise import in the first 6 months.

<sup>11</sup> According to the 2021 Household Budget survey, the share of food in total expenditures is 35.5 percent for the bottom quintile of the income distribution and 27.2 percent for the top quintile.



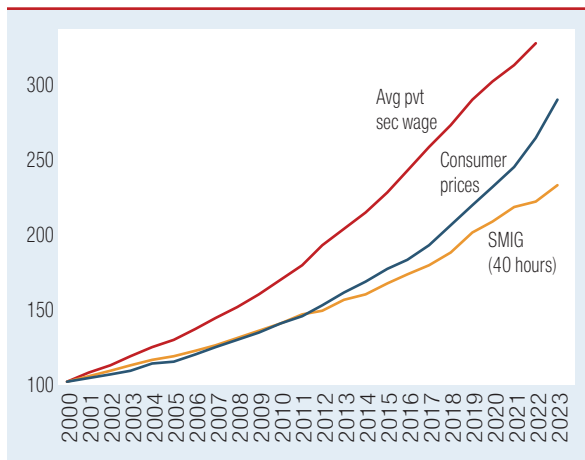
**FIGURE 18 • Inflation Started to Decline in 2023 and Has Now Approached its pre-Covid Average (Year-on-year percent increase)**



Source: Central Bank of Tunisia.

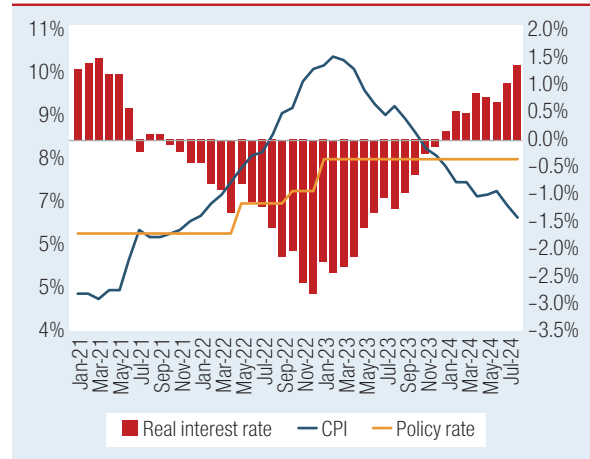
positive as of January 2024 after more than 2 years of having been negative. The real rate was 1.3 percent in August 2024, the highest since March 2021 (figure 19). The challenge for the authorities continues to be to limit inflationary pressures fueled by a price-wage spiral, although the extent of the challenge appears less significant than a year ago. Maintaining a strong and independent Central Bank will continue to be a central pillar in the pursuit of price stability.

**FIGURE 20 • The Minimum Wage Has Lagged Inflation and Private Sector Wage for Many Years (Nominal prices and wages, 2000=100)**



Source: INS.

**FIGURE 19 • Real Interest Rate Is at the Highest Level Since March 2021 (Real interest, inflation and policy rates, in percent)**



Source: World Bank estimates based on INS and OECD.

**For the first time in years the government raised the guaranteed minimum wage in line with inflation in 2024, hoping to protect the purchasing power of lower income workers.** The 7 percent minimum wage hike decided by the government in 2024 is above the September inflation rate and aligned with the average inflation expected for the entire year. This is the first time since 2019 that the minimum wage does not decline in real terms. In fact, the data shows a gradual divergence of the minimum wage vis-à-vis inflation since 2011, following a decade when the minimum wage was indexed to the consumer price index (figure 20). As a result, minimum wage earners lost 20 percent in purchasing power between 2011 and 2023. While this loss has likely affected lower income workers, the average wage earner in the private sector appears to have fared better, as their wages grew more than inflation (and of minimum wage) both in 2000–10 and in 2011–23.

## 7. The budget continues to be under pressure as the low growth affects tax revenues

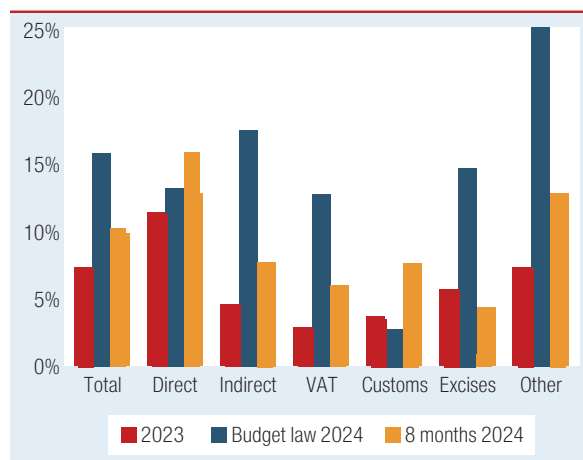
**The increase in tax revenues in the first eight months of 2024 has been more modest than expected, dragged by the slowdown in growth.** The budget execution report shows that tax reve-

nues grew by 10 percent in the first eight months of 2024 (15.9 percent of GDP) compared to the same period in 2023 (15.7 percent of GDP) (figure 21). That is below the 2024 Budget Law's projection (16 percent, 25.6 percent of GDP) but higher than the 2023 growth rate (7 percent, 23.9 percent of GDP) and the inflation rate. The comparatively modest performance of indirect taxes, particularly VAT (5 percent growth to 4.2 percent of GDP) and customs (4 percent to 0.7 percent of GDP), weighted down overall tax revenues. That is consistent with the effect of the growth slowdown, with lower demand for consumption and investments, including for imports. On the other hand, direct taxes showed greater resilience (+16 percent to 6.8 percent of GDP) as their largest component—labor income taxes—is less responsive to short-term variations in growth. The much higher tax burden that labor income faces relative to capital income continues to be a source of distortion and potential inequality in the economy (see part B).

**The authorities have managed to compress the wage bill growth which remains, however, relatively substantial in international perspective.** The public wage bill grew by 4 percent in the first six months of 2024 relatively to the same period in 2023. While Tunisia still has one of the highest public wage bills in the world relative to the size of its economy, it declined from 14.7 percent of GDP in 2022 to 13.8 percent in 2024 and from 53 percent to 51 percent of total public expenditures. The relative compression of the wage bill follows the agreement between the government and the trade union (UGTT) in October 2022 and the continued freeze of public sector recruitment. This allowed to contain overall expenditure growth to 8.1 percent at the same pace as subsidies and transfers (3 percent of GDP). Capital expenditures remained constant well below the rate of overall expenditure and its share in GDP declined further to 1.1 percent (from 1.2 percent in the first half of 2023). The moderate growth in expenditures helped maintain the budget in balance in the first half of 2024, in line with the result in 2023.

**Reversing the decline in public capital expenditures by re-orienting less productive recurrent expenditures continues to be key to revive economic growth.** With slowing economic

**FIGURE 21 • Tax Revenues Under-Performed in the First Eight Months of 2024 Relatively to the Expectations (Year-on-year percent change)**



Source: Tunisia's Ministry of Finance.

growth and employment creation, successive governments over the past decade have increased recurrent public expenditures to provide public employment and to keep market prices for basic goods and services below cost recovery. These measures crowded out public investments by the government, which declined from 6.0 to 3.5 percent of GDP between 2016 and 2023. Reversing this decline in capital expenditures is crucial to revive Tunisia's growth trajectory.

## 8. Assuming drought conditions ease, we expect a moderate growth rebound in 2024-25 assuming but economic prospects remain uncertain

**Given the persistent drought and challenging external financing conditions, we expect the economy to grow by 1.2 percent in 2024, below our previous forecasts.** These factors have continued to affect key sectors in 2024, including agriculture, agro-industry and construction. In addition, low external demand along with the need for more economic reforms further limit the growth prospects, particularly for manufacturing. At the same time, the agricultural sector is expected to gain some momentum in

the second half of 2024, given the expected increase in olive oil production, and the more humid climate with the expected imminent arrival of La Niña.<sup>12</sup> This helps to raise the growth forecast for 2024 above the growth in the first semester 2024.

**Growth is expected to moderately increase in 2025–26, although the forecasts are subject to significant downside risks.** We expect the economy to grow by 2.2 and 2.3 percent in 2025 and 2026, respectively. That would bring the economy closer to the long-run growth path, from which the economy deviated during the Covid-19 crisis. However, these medium-term prospects are conditional on an improvement of financing conditions and external demand as well as a moderation of the drought. If the financing conditions did not improve, it may be challenging to secure sufficient foreign currency in the economy, which could lead to pressures on exchange rate and prices, exerting a negative impact on economic activity and employment. In addition, should the drought conditions persist, the projections could be revised downwards given the negative impact on agriculture and the trade balance.

**While the macro situation is expected to stabilize, Tunisia's public finance and external position will remain vulnerable in the absence of sufficient external financing and reforms.** The budget deficit is expected to decline somewhat to 6.0 percent of GDP in 2024, as subsidies and wage bill are constrained in real terms and tax revenues should moderately increase. The CAD is projected to decline slightly at 2.3 percent of GDP in 2024 with continued growth in travel and olive oil exports and stable

terms of trade. With FDI projected to be relatively stable and minimal portfolio investments, foreign lending would still have to shoulder the financing of the CAD. We expect inflation to decrease somewhat due to the relatively large post-Covid output gap and the mild increases in public wages following the government-UGTT agreement last year. These conditions along with economic reforms should help Tunisia reduce its current account and budget deficits, easing financing conditions.

**The financing of the deficits will require a significant scale-up of the external financing and reforms in the face of the significant debt reimbursement schedule in the near term.** Despite the lower deficits, gross financing needs in 2024–26 are expected to remain above 16 percent of GDP, well above the 2023 level (13.8 percent). That is mainly due to significant debt service, with almost two-thirds of the financing expected to be amortization, most of which external.<sup>13</sup> It should also maintain Tunisia's reliance on external funding sources elevated. Given the paucity of other financial inflows as described above, sovereign lending would have to cover most external financing needs if Tunisia were to avoid a risky dependence on monetary financing of the budget through reserves.

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<sup>12</sup> As a result of these climate conditions, we expect a slightly higher date harvest, and potentially improved cereal and fodder production.

<sup>13</sup> A number of debt obligations mature in the next months, including a Yen 50 billion (US\$ 350 million) bond next December and a US\$ 1 billion Eurobond in January 2025.

**TABLE 1 • Key Macroeconomic Indicators, 2020-26**

	2020A	2021A	2022A	2023A	2024E	2025F	2026F
Real GDP Growth. at Constant Market Prices	-8.6	4.3	2.7	0.0	1.2	2.2	2.3
Private Consumption	-2.1	2.4	2.2	-0.6	2.4	3.8	3.5
Government Consumption	-1.0	1.5	-1.2	-2.4	1.9	1.9	-1.8
Gross Fixed Capital Formation	-20.0	3.2	1.8	-7.7	6.0	-0.5	3.4
Exports. Goods and Services	-20.0	11.9	17.3	10.4	0.0	4.0	4.0
Imports. Goods and Services	-16.6	10.9	11.5	5.7	3.7	5.0	4.5
Real GDP Growth. at Constant Factor Prices	-8.5	4.3	2.6	-0.1	1.2	2.2	2.3
Agriculture	0.4	-2.3	1.9	-16.1	8.5	5.9	5.9
Industry	-10.4	9.8	0.7	-1.0	-3.5	-0.2	-0.3
Services	-9.1	4.1	3.4	2.7	1.9	2.6	2.6
Inflation (CPI)	5.6	5.7	8.3	9.3	7.0	6.0	5.0
Current Account Balance (% of GDP)	-6.0	-6.0	-8.7	-2.6	-2.3	-2.0	-1.8
Foreign Exchange Reserves (\$ bn)	8.2	8.3	7.4	8.5	10.2	12.7	15.1
Foreign Exchange Reserves (months of imports)	5.4	4.0	4.1	4.6	4.8	5.1	5.1
Central Government Overall Fiscal Balance (% of GDP)	-8.7	-7.6	-6.7	-6.8	-6.0	-4.3	-2.5
Primary Fiscal Balance (% of GDP)	-5.6	-4.7	-3.5	-3.1	-2.3	-0.3	1.3
Fiscal Revenues (% of GDP)	25.5	25.7	28.5	27.2	28.6	27.8	28.1
Fiscal Expenditures (% of GDP)	34.2	33.3	35.2	33.9	34.8	32.9	32.0
Gross Financing Needs of the Central Government (%GDP)	13.3	10.9	12.7	11.9	16.4	16.9	17.4
Central Government Debt (% of GDP)*	77.8	79.9	79.9	79.6	80.2	79.9	79.2
Interest Payments (on CG Debt; % of GDP)	3.1	2.8	3.2	3.7	4.0	3.9	4.0

\* The figures for 2020-2024 are based on government data; 2025-26 are based on World Bank staff forecast.

# MAKING THE TAX SYSTEM MORE EQUITABLE AND EFFICIENT

## Summary

*Albeit insufficient to cover expenditures, Tunisia collects proportionately more tax revenues than most of its peers. Tax revenues have risen faster than the economy in the past two decades, mainly driven by the growth of personal income taxation. At the same time, corporate income tax declined, but new World Bank analysis in Tunisia suggests that this decline may not be effective in increasing investment and employment. At the same time, more targeted tax incentives, such as those reducing the cost of labor for young, innovative firms, appear more effective. Indirect taxes remain an important source of tax revenues, but they could be more transparent, equitable and more targeted to address negative externalities.*

*Tax policy in Tunisia has progressively shifted the burden of direct taxation from capital to labor income. The tax burden on labor income is made heavier by the outsized role that social security contributions play in the Tunisian tax system. While the personal income tax is progressive, the tax burden on wage income is relatively high even at low-income (formal) levels because of the structure of social security contributions and of the deductions. This raises the cost of labor for employers, limiting their incentives to hire labor (formally at least), and reduces the progressivity of the tax system. This high cost of labor emanating from the tax system also increases incentives for businesses to remain informal and/or to under-declare revenues, profits and wages.*

*Capital income tax benefits from several concessions and exemptions on various sources, which reduce its contribution to tax revenues. Capital income is also taxed differently across different sources. This horizontal inequity reduces the efficiency of capital allocation. As a result of this tax structure, Tunisia's effective tax rate on labor is much higher than on capital, and the difference is the highest among developing countries according to new data. As richer individuals earn predominantly capital income, while less wealthy individuals rely more on labor income, the higher effective tax rate on labor relative to capital is likely to fuel income inequality.*

*Redressing the balance between labor and capital income taxation, while using more effectively indirect taxes could increase the efficiency and the fairness of Tunisia's tax system. The introduction of an annual property tax in 2023 has been a step in the right direction, although it is limited in scope, and it faces implementation hurdles. Tunisia could also tax more extensively carbon emissions to avoid losing revenues as its trading partners implement carbon adjustment taxes and as an effective way to internalize the negative externalities of production.*

**Albeit insufficient to match the fast-growing public spending, Tunisia's tax revenues are higher than most peers.** Tunisia has historically raised significant amount of tax revenues compared to countries at similar level of incomes. Accounting for the positive relation between tax and income per capita, Tunisia's tax revenues-GDP ratio in 2010 was around 4 percentage points higher than the average of countries at the same level of income (figure 22). The gap increased further, and by 2022 it was around 7 percentage points. At 24.6 percent Tunisia had one of the highest ratios among middle-income countries. At the same time, Tunisia's tax revenues have been largely below the level of public expenditures. In the 1990s they covered an average of 68 percent of expenditures, rising to 77 percent to eventually fall back to 70–71 percent in 2022–23, as the growth of tax revenues could not keep the pace with that of public expenditures in the post-revolution period (figure 23).

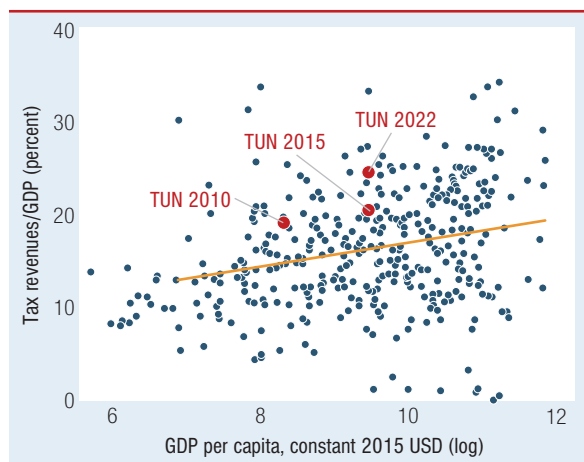
**Personal income taxation was a key driver of the tax revenue growth, while corporate income tax declined along with tax rate reductions, whose economic impact appears elusive.** Tax revenues grew faster than the economy for the most part of the past quarter century, moving from an average tax-to-GDP ratio of 18.4 percent in the 2000s to 24.0 per-

cent in 2021–23. Much of this growth is due to the rapid rise of personal income taxation (PIT), which doubled its share in GDP in the past two decades, from an average of 3.6 percent in the 2000s to 7.1 percent in 2021–23 (figure 24). This increase was partly due to the rising share of the public sector in employment. At the same time, corporate income taxation (CIT) declined significantly, as the general CIT rate was slashed from 30 to 15 percent between 2013 and 2021. During that period the CIT-to-GDP ratio shrank from 4.3 to 2.4 percent. While the reduction in CIT has in part sought to promote investments, exports and employment, our analysis in Tunisia suggests that this instrument may not be effective to achieve those gains (see box 4). More targeted tax incentives appear to be more effective, as the evidence from the Start-up Act suggests (box 4).

**The rising PIT and declining CIT revenues translate into a shift in the tax burden from capital to labor incomes.** That is because the tax on wage income accounts for the bulk of PIT in 2000–19.<sup>14</sup> The share of PIT in total taxes in Tuni-

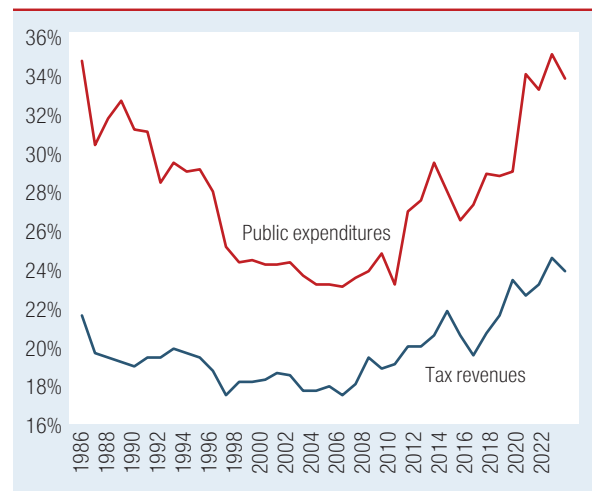
<sup>14</sup> Between 2000 and 2019, the last year for which we have the breakdown of PIT between wages and other incomes, tax on wage income accounted for an average of 72 percent of total PIT.

**FIGURE 22 • Tunisia Collects More Tax Revenues than its Economic Peers (Tax revenues-GDP ratio and per capita GDP in constant US\$, 2015 and 2022)**



Source: World Development Indicators.

**FIGURE 23 • The Gap between Public Expenditures and Tax Revenues Has Expanded Over Time (Percent of GDP)**



Source: Tunisia's Ministry of Finance.

## BOX 4: A TALE OF TWO CORPORATES' TAX INCENTIVES

Recent analysis by the World Bank evaluates two different set of tax incentives for firms in Tunisia.

The first is the exemption of CIT for firms registered in the so-called 'offshore' regime, dedicated to export-oriented firms. Since the inception of the regime in 1972, offshore firms benefited from a full exemption of the CIT, along with other favored treatment, such as a special import and export regime and the possibility of holding a bank account in foreign exchange. While the law established the tax exemption only for the first 10 years of the offshore firm, this was eventually renewed upon its expiration by successive laws so that it remained in force for the subsequent decades. At the end of 2006 the authorities decided to eliminate this tax exemption altogether by applying a reduced tax rate of 10 percent on new offshore firms' profits starting in 2008, but it took until 2014 for the new rate to be applied. This exemption was costly for the Tunisian budget. Our estimates suggest that in 2013 had the offshore firms paid the general 30 percent CIT rate, they would have generated tax revenues equivalent to 6.8 percent of GDP.

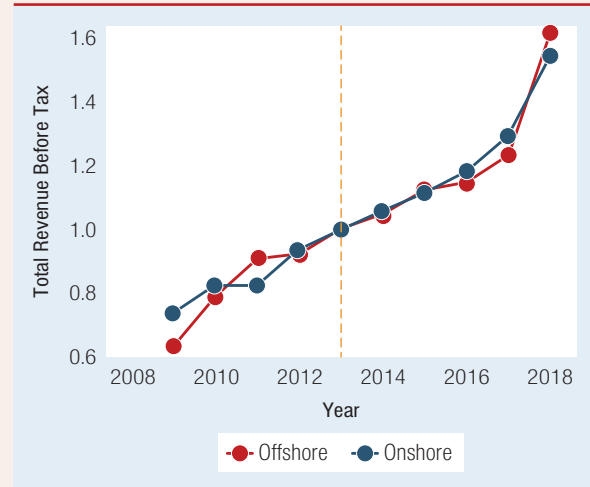
We study the impact of this increase in CIT rate by comparing economic outcomes of offshore firms before and after the change with the same before-after difference for the other firms. The comparison is based on the universe of registered Tunisian firms. The key identifying assumption is that trends in the offshore and onshore sectors would have been similar without the reform. We provide evidence that the assumption holds not only in the raw data, which show very similar pre-reform trends for both group of firms, but also as a result of a wide battery of aggregate and firm-level tests.

The main results suggest that the CIT rate increase did not have any impacts on the key economic performance indicators of firms. As figure B2 shows, total revenues of offshore and onshore sector continued to grow at very similar rates before and after the end of the offshore CIT exemption. We obtain similar results for employment and the wage bill as well. The results are confirmed through dynamic regressions that allow to control for confounding factors.

The second evaluation focuses on the impact of a recent flagship program supporting start-up in Tunisia, the so-called "Startup Act", which was introduced in 2019 to promote the creation and growth of innovative firms. Our analysis focuses on the program's "start-up label" initiative, which awards selected firms a special "start-up" designation that grants them access to a range of benefits. These benefits include tax incentives in the form of reduced social security contributions and profit tax exemptions, eased foreign currency restrictions, simplified customs procedures, and—for firms less than a year old—also a stipend to up to three founders.

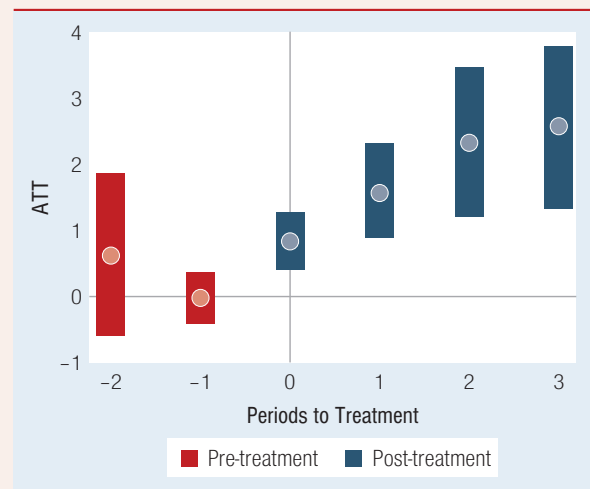
The analysis, covering applications from March 2019 to December 2021, includes 466 firms that applied for the label. We employ a difference-in-differences design, comparing the performance of successful applicants before and after receiving the label with that of firms that applied but were not selected. To mitigate selection bias, we utilize detailed data on the program's selection process to identify marginal entrants

**FIGURE B2 • The 2014 CIT Increase for Offshore Firms Has Not Affected Firms' Revenues**  
(Total revenues for onshore and offshore sectors, 2013=1)



Source: World Bank staff estimates on the basis of INS and Smart Capital data.

**FIGURE B3 • The Start-Up Label Has Increased Employment**  
(Average treatment effect on the firms benefiting from the program, in log points)



Source: World Bank staff estimates on the basis of INS and Smart Capital data.

(continued on next page)



## BOX 4: A TALE OF TWO CORPORATES' TAX INCENTIVES *(continued)*

and rejects. Applications are evaluated by a 9-person committee, where firms with five or more approval (rejection) votes are selected (rejected) right away, and those with neither outcomes proceed on to a pitch stage for a further evaluation. The firms that proceed to the pitch stage are arguably more similar to each other than those immediately accepted or rejected. Hence our preferred specifications focus on those 118 firms, comparing the outcomes of those that obtained the label against those who failed to obtain it as a result of the pitch stage.

Our main finding is that program participation promotes survival and job creation. One to three years after program entry, labeled firms are 11 percentage points (pp) more likely to survive. Treated firms increase their employment on average by 169% and their wage bill by 142% (figure B3).

The results are in line with survey evidence among global investors that show that tax incentives are second order factors in the decision of firms to invest and employ relatively to leading country characteristics, such as political and economic stability, a transparent regulatory framework, availability of skills, infrastructure quality and a large local market.<sup>a</sup> However, for certain categories of firms, the younger and more innovative, targeted tax incentives reducing labor costs, could be effective to stimulate growth, particularly when bundled with other types of support.

<sup>a</sup> See for instance, World Bank, (2017) "Global investment competitiveness report 2017/2018: Foreign investor perspectives and policy implications", and UNIDO (2011) "Africa investor report".

sia is higher than comparator countries and other developing regions, including Latin America and the Caribbean (LAC) and Asia, and similar to that of OECD countries (figure 25). Conversely Tunisia has the lowest share of CIT in total tax among the same comparators.

**Indirect taxes remain an important source of tax revenues, but they could be more transparent, equitable and more targeted to address negative externalities.** The role of indirect taxes declined from the peaks of the late 1980s-early 1990s, when they accounted for around four fifth of overall tax revenues and 15.8 percent of GDP. However, they remain important and in 2021–23 they represented 58.5 percent of overall taxes and 14.0 percent of GDP (figure 24). The value added tax (VAT) continues to be the most important indirect tax, accounting for about half of total indirect taxes, or 6.8 percent of GDP.<sup>15</sup> The VAT includes several exemptions, whose final impact on the VAT paid and on prices remains uncertain. That is because the VAT remains embedded in final consumer prices through the input-output linkages, which can create a cascading effect through the supply chain (tax-on-tax). In addition, various activities enjoy reduced VAT rates (7 and 13 percent, below the general 19 percent rate), which in some cases are likely to be regressive as they target consumption of wealthier households, such as hotels and restaurants.

Taxes on goods could also be used more effectively to address negative externalities, including environmental and health effects (taxes on transport fuels and on tobacco are low by international standards).

**The tax burden on labor income is made heavier by the outsized role that social security contributions (SSC) play in the Tunisia tax system.**

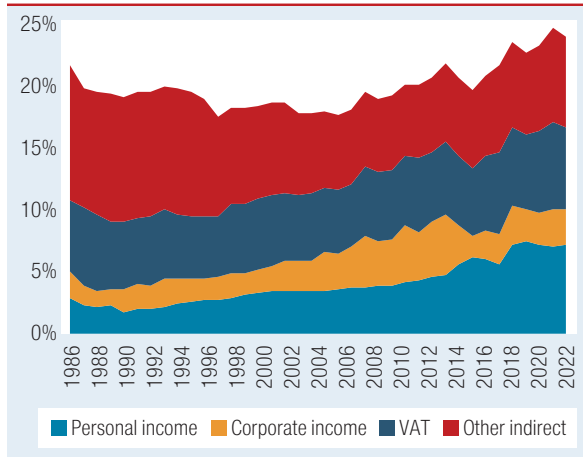
These contributions fund directly the social security system, so they are not part of the central government's budget. However, for the employees, who represent the bulk of the SSC, the contributions are transferred by both the employee and the employer as a share of the employee's wage. Therefore, they effectively act as a tax on labor income as well as on employment for firms. In 2021 SSC accounted for 9.7 percent of GDP and 29.7 percent of total taxes, higher than peer countries, such as Morocco and Turkey, as well as the averages for LAC, Asia and the OECD (figure 25).<sup>16</sup> Because of the large weight of PIT and SSC, indirect taxes, including VAT, have a relatively lower weight in total taxation in Tunisia.

<sup>15</sup> That places Tunisia in the top 40<sup>th</sup> percentile of countries in terms of VAT to GDP ratio, although slightly below comparators like Morocco and the OECD average.

<sup>16</sup> Despite the large footprint of SSC, the social security system is in structural deficit in Tunisia, remaining a source of budget pressure and fiscal risk.



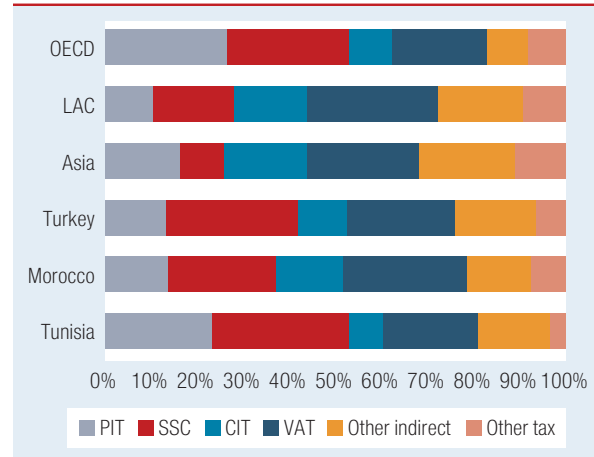
**FIGURE 24** • Personal Income Tax Has Driven the Growth of Tax Revenues  
(Type of tax revenues in percent of GDP)



Source: Tunisia's Ministry of Finance.

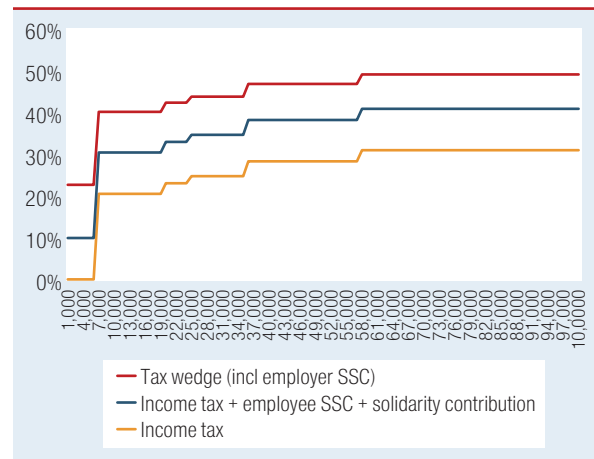
While the PIT is progressive, the tax burden on wage income is relatively high even at low-income levels due to high SSC, which also raises the cost of labor for the employer. As in the standard systems, the PIT rate is progressive with a zero tax up to TD 5,000 per year, and then four rates increasing with the level of earnings, from 26 percent to 35 percent for incomes above TD 50,000. However, the SSC applies to all income brackets to different degrees, including earnings subject to zero PIT. In addition, the 2018 Budget Law introduced a solidarity contribution, further raised with the 2023 Budget Law, again applying to varying extent across all income levels. Along with the PIT, these contributions generate a significant difference between the employee's cost to the employer and the salary received by the employee even at low level of incomes (the so-called tax wedge). For earners below TD 5,000 per year, who are exempted from PIT, this tax wedge is 23 percent and then it increases steeply with earnings already at relatively low levels (figure 26). For instance, the marginal tax wedge for earners at TD 8,000 per year is 41 percent. This structure raises the cost of labor for employers, thus could discourage hiring incentives and reduce wages. In addition, the system of deductions from the PIT limits the progressivity of the PIT, including the 10 percent deduction up to the TD 2,000 ceiling and the fixed deduction for spouse and chil-

**FIGURE 25** • Tunisia Relies More than other Countries on Labor Income Taxation  
(Percent of overall tax in 2021, by source)



Source: OECD.

**FIGURE 26** • Tunisia's Tax System Creates a Wedge between the Labor Cost for the Employer and the Wage Received by the Employee  
(Marginal tax wedge in percent of wage, by wage levels in TD, 2023 rules)

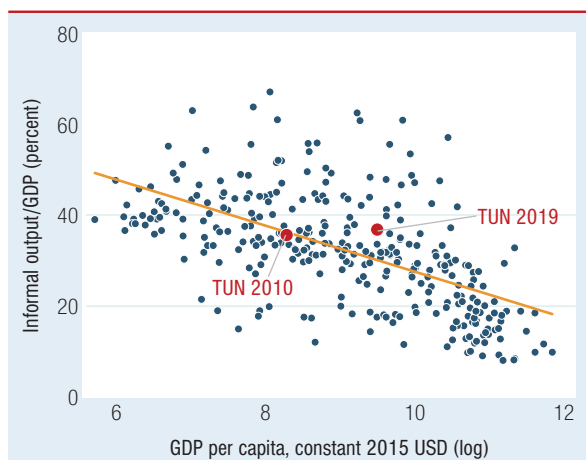


Source: World Bank staff estimation on Tunisia's Ministry of Finance data.

dren, which benefits richer households more in aggregate terms.

The high cost of labor from the tax system contribute to increasing incentives for businesses to remain informal and/or to under-declare revenues, profits and wages. The high labor tax wedge has helped create incentives for

**FIGURE 27 • Tunisia’s Relatively Large Informal Economy**  
(Percent and constant 2015 US\$ in log)

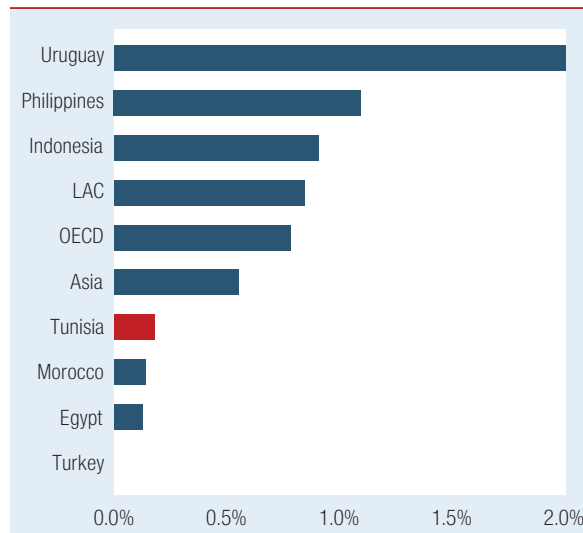


Source: World Bank staff estimates on World Development Indicators and Elgin, C., M. A. Kose, F. Ohnsorge, and S. Yu (2021). “Understanding Informality”, C.E.P.R. Discussion Paper 16497, Centre for Economic Policy Research, London.

businesses to remain informal and/or to abuse the advantages of the auto-entrepreneur regime, which doesn’t require detailed bookkeeping.<sup>17</sup> This helps explain Tunisia’s larger informal economy relative to other countries with similar GDP per capita. Informal output was estimated at 37.6 percent of GDP in 2019, up from 35.6 percent in 2010, when Tunisia’s share was in line with its GDP per capita (figure 27).<sup>18</sup> The recent changes to the auto-entrepreneur regime (simplification, creation of an online platform and new record keeping requirements) should encourage better business management and help with monitoring/audit. However substantial non-compliance is still likely and the large advantages of the auto-entrepreneur regime vis-à-vis the corporate regime in terms of employment taxes may create incentives for businesses to remain small and/or under-declare revenues to stay within the auto-entrepreneur threshold (TND 75,000).

**Capital income tax benefits from several concessions and exemptions on various sources, which further reduce its contribution to tax revenues.** Besides the relative low taxation of corporate profits, capital income also benefits from multiple concessions and exemptions, which considerably reduce its actual tax burden. For example, the distribution of dividends below TND 10,000 is tax exempt, and so

**FIGURE 28 • Tunisia Taxes Capital Gains Lightly**  
(Tax revenues from capital gains as percent of overall taxes in 2021)



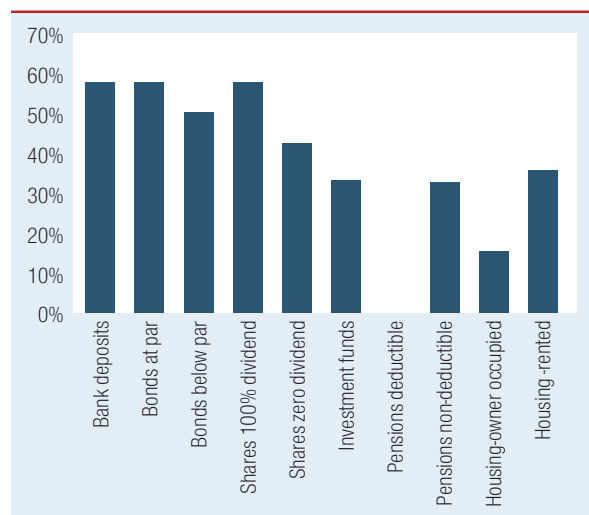
Source: OECD.

are capital gains on mutual funds are exempt from tax for individuals. Investment funds are also comparatively tax favored, as annual returns to the fund are taxed at the concessionary 15 percent rate, while there is no additional taxation on distribution to the individual investor. Housing benefits from a particularly advantageous tax regime. Recurrent property tax remains very limited, despite the recent introduction of a tax on real estate property (see below). Capital gains and imputed rental are not taxed for owner-occupied residential property, while capital gains for rented residential property are taxed at a concessionary 10 percent rate. The beneficial regime for capital gains is reflected into low tax revenues from capital gains, which amount to only 0.2 percent of overall tax revenues, one of the lowest shares among comparators (figure 28).

<sup>17</sup> The auto-entrepreneur regime applies to businesses with annual revenues up to TD 75,000 (US\$ 24,000)—down from TD 100,000 until 2020—and it allows the payment of a tax on the declared revenues (3 percent until 2020, 0.5 percent thereafter) and an advantageous SSC regime.

<sup>18</sup> This is based on a multiple indicators multiple causes model (MIMIC), developed in Elgin, C., M. A. Kose, F. Ohnsorge, and S. Yu (2021). “Understanding Informality”, C.E.P.R. Discussion Paper 16497, Centre for Economic Policy Research, London.

**FIGURE 29 • Tunisia Taxes Different Saving Options Differently**  
(Marginal effective tax rates across asset types, 2023 rules)

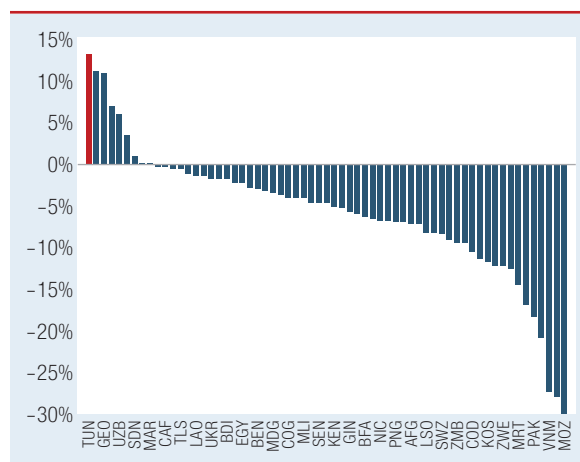


Source: World Bank staff calculations following OECD (2018) "Taxation of Household Savings" methodology.

**Capital income is also taxed differently across different sources, which likely increases income inequality and reduces the efficiency of capital allocation.** The system of deductions and reduced rates applied to different savings options generates asymmetric tax treatment across capital income sources. This can be seen by computing marginal effective tax rates (METRs) for a range of different savings options for a middle-income earner subject to 26 percent PIT rate (in the 30,000–50,000-income bracket).<sup>19</sup> As illustrated in figure 29, METRs differ widely across savings options, with bank deposits, bonds and shares whose returns are fully distributed each year being the highest taxed assets. This asymmetric tax treatment of capital income sources may enable wealthier taxpayers with greater information to seek out savings options that are taxed favored, thus potentially fostering inequality. It could also affect portfolio allocation decisions, thus distorting the allocation of capital relative to the market based one, which raises concerns in terms of efficiency.

**As a result of this tax structure, Tunisia's effective tax rate on labor income is much higher than on capital income, and the difference is very large by international standard, which raises con-**

**FIGURE 30 • Tunisia Taxes Capital Income Much Less than Labor Income**  
(Rate differential between labor and capital income taxation, developing countries, percentage points, 2017 circa)



Source: World Bank staff estimations on Bachas, P., Fisher-Post, M. H., Jensen, A., & Zucman, G. (2022). Globalization and factor income taxation (No. w29819). National Bureau of Economic Research.

**cerns for inequality.** According to calculations in a recent study, Tunisia has the highest labor-capital tax rate differential among developing countries for which data is available (figure 30). The tax rate on labor (including also social security contributions) is 13.4 percentage point higher than that on capital. As a comparison, in Morocco the tax rates are equalized and in Egypt the differential is slightly negative (–2 percentage points). To illustrate the difference, consider for instance a gross wage of TD 15,000 (USD 1,200) per month. Given the current PIT brackets, the average income tax on this wage (17.3 percent) would be higher than the current tax on corporate profits (15 percent). As higher income individuals tend to earn predominantly capital income, while less wealthy individuals rely more on labor income, the higher effec-

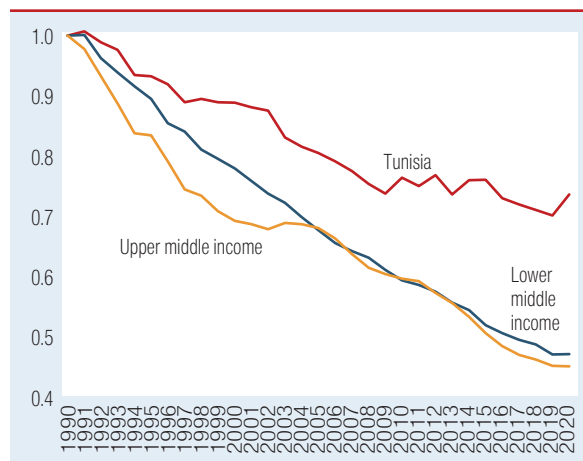
<sup>19</sup> Following the methodology in OECD (2018) "Taxation of Household Savings", the METRs consider a saver contemplating investing an additional currency unit in one of a range of assets. The approach assumes a fixed pre-tax real rate of return and calculates the minimum post-tax real rate of return that will, at the margin, make the savings worthwhile. The METR is then calculated as the difference between the pre- and post-tax rates of return divided by the pre-tax rate of return. The model in this case assumes a 5 percent inflation rate.

tive tax rate on labor relative to capital is likely to fuel income inequality.

**The recent introduction of a property tax represents important progress, although more would need to be done to redress the balance between labor and capital income taxation.** The introduction of an annual property tax in 2023 has been a step in the right direction, although it is limited in scope, and it faces implementation hurdles. First, it applies to a relatively small set of assets, as it includes only real estate assets valued above TD 3 million (about US\$ 1 million), which are not a primary residence and are not used for business purposes. Second, the rate (0.5 percent) applies to the commercial value of the assets, which is difficult to ascertain in the absence of a functioning fiscal cadaster.

**Tunisia could tax more systematically carbon emissions of production, while protecting vulnerable households.** As countries start to introduce tariffs on imports based on their carbon intensity, this raises incentives for developing nations to raise taxes on carbon emissions. That applies also to Tunisia, as its main trading partner, the EU, is soon to impose an import tariff to bridge the gap between the carbon price of imports and that of domestic production, i.e. the so-called carbon border adjustment mechanism (CBAM). In a positive move, Tunisia increased taxes on fuels and motor vehicles in 2023.<sup>20</sup> However when accounting for the government's price support to fuels and electricity, Tunisia subsidizes fossil fuels, whose price remains below that of most comparators.<sup>21</sup> In addition Tunisia does not tax production activities based on their carbon emissions. The existing taxes on fossil fuels could be absorbed in a more systematic tax on emissions from production. Such carbon tax would allow Tunisia to avoid losing tax revenues which will otherwise its producers will have to pay to the EU, and it would internalize the negative environmental externalities of production in an efficient way. This could also help Tunisia accelerate the reduction in the carbon intensity of its economy, which has lagged other middle-income countries (Figure 31). Several countries have started implementing a carbon tax, including also among middle-income countries, such as South

**FIGURE 31 • Tunisia Has Reduced its Carbon Intensity of GDP Less than other Countries**  
(Total greenhouse gas emissions (kt of CO<sub>2</sub> equivalent) per 1 million GDP (constant 2015 US\$). 1990=1)



Source: World Development Indicators.

Africa, Chile and Costa Rica. Part of the revenues generated by such tax could be used to protect vulnerable households that may be negatively affected by the tax.

**To increase the efficiency and the fairness of the tax system, Tunisia could reform direct and indirect taxes, through a strategy devised together with citizens, workers and the private sector.** Reinforcing property taxes, introducing a wide-ranging carbon tax, reviewing the exemptions and reduced rates on capital income tax as well as the CIT rate, reducing the effective taxation of labor income for lower-income taxpayers and increase the progressivity of the PIT and SSC could go a long way in making the tax system fairer and more efficient, while combating informality. In the 2025 Budget Law, Tunisia has started addressing some of these issues,

<sup>20</sup> Specifically, the 2023 Budget Law established following increases: from 0.01 to 0.05 TD/liter for gasoline; from 0.02 to 0.1 TD/liter gaseole50; 1 to 5 TD/metric ton on fuel, GPL; 2 to 10 TD/metric ton for coal; from 0.01 to 0.05 TD/kilowatt-hour of electricity.

<sup>21</sup> See World Bank (2023) "Tunisia Climate Change and Development Report".

notably through reforms of the PIT and CIT regimes.<sup>22</sup> This could be accompanied by a more effective use of indirect taxation to achieve social and economic goals, for instance by increasing the use of health and environmentally-related taxes and removing reduced VAT rates targeting goods and services consumed by wealthier households.<sup>23</sup> At the same time Tunisia could strengthen its tax administration to expand the tax base, reduce informality and ensure everyone pay their fair share of taxes. To that end it could be useful to upgrade its Information Technology capabilities to use big data from different external sources (e.g. banks, foreign jurisdictions). Achieving the targeted policy goals would require a transparent and inclusive engagement of the state with citizens, workers and the private sector.

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<sup>22</sup> Tunisia's 2025 Budget Law reviews various tax rates, particularly for PIT and CIT. The Law lowers the PIT rate for individuals earning between TD 5,000 and TD 20,000 per year, while it increases the rates for earners above TD 20,000 with the top marginal PIT rate (for earnings above TD 50,000 per year) raised from 35 to 40 percent. It also raises the general CIT rate from 15 to 20 percent for companies with annual turnover between TD 5 and TD 20 million, and from 15 to 25 percent for companies above TD 20 million.

<sup>23</sup> In formulating tax policies, the government could use simulations to estimate the impacts of the envisaged policy changes on tax revenues, and on households across the income distribution.







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