

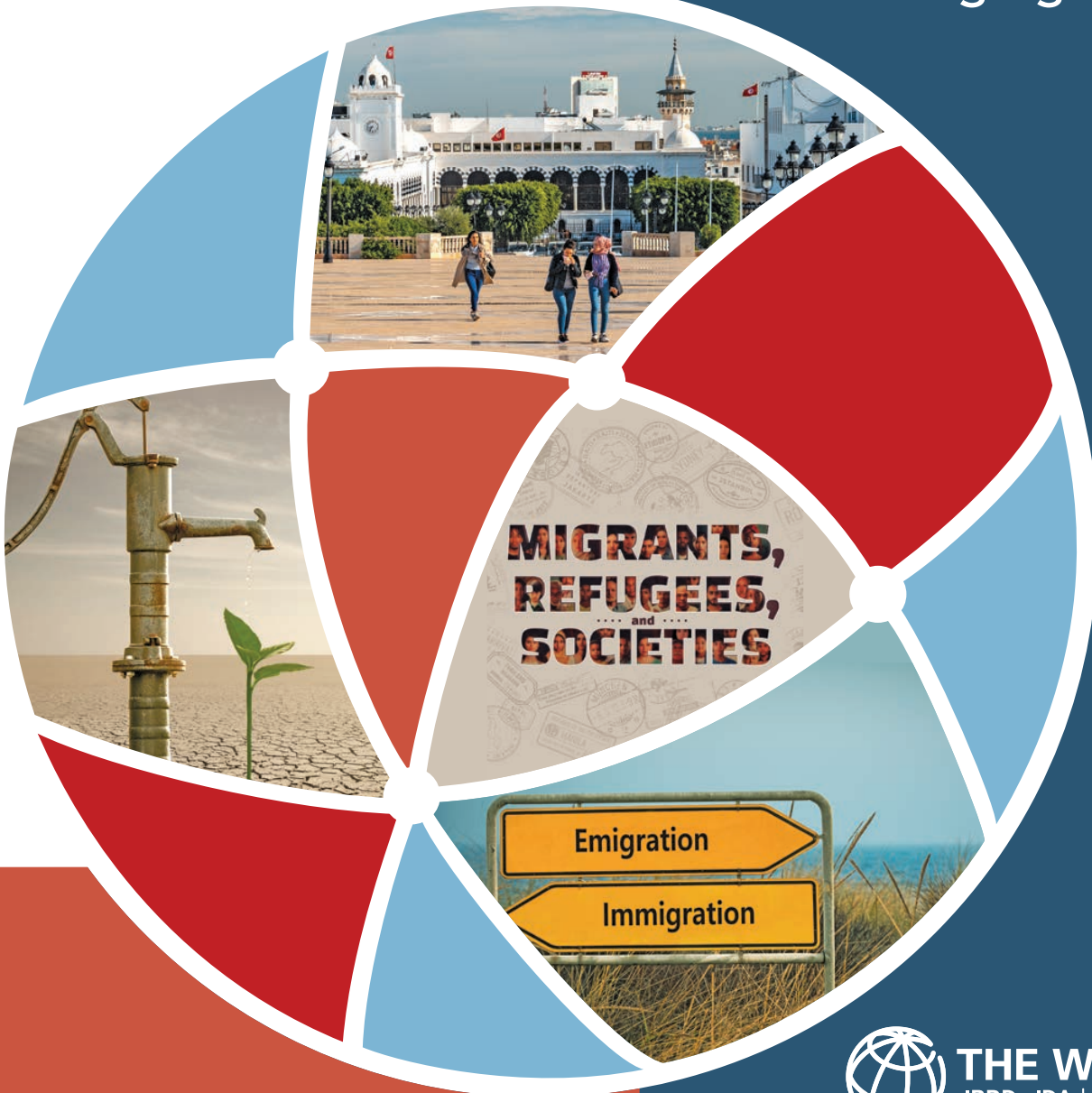
TUNISIA



ECONOMIC MONITOR

Migration Amid a Challenging Economic Context

Fall 2023



**MIGRANTS,
REFUGEES,
and
SOCIETIES**

Emigration

Immigration



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Middle East & North Africa

Tunisia

Economic Monitor

Migration Amid a Challenging
Economic Context

Fall 2023



Middle East and North Africa Region

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ACKNOWLEDGEMENTS

The 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 "Migration amid challenging economic conditions" and was first published in 2023. In case of any discrepancy, the original English language version prevails.

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The opinions and conclusions expressed in this report are those of the World Bank staff and do not necessarily represent the views of members of the World Bank Board of Directors or the countries they represent.

For information on the World Bank and its activities in Tunisia, please visit: <https://www.worldbank.org/en/country/tunisia> or <https://www.albankaldawli.org/ar/country/tunisia> (Arabic). For questions or comments on the content of this publication, please contact Massimiliano Cali (mcali@worldbank.org) or Eric Le Borgne (eleborgne@worldbank.org).

The deadline for input and forecast preparation is October 9, 2023.

LIST OF ACRONYMS

BNA	Banque Nationale Agricole	MMP	Missing Migrants Project
CAD	Current Account Deficit	NPLs	Non-Performing Loans
CBT	Central Bank of Tunisia	OdC	Office des Céréales
CPI	Consumer Price Index	OECD	Organisation for Economic Co-operation and Development
EFF	Extended Fund Facility		
EUR	Euro	OTE	Office for Tunisians Abroad
FDI	Foreign Direct Investment	SOEs	State-Owned Enterprises
GDP	Gross Domestic Product	TEM	Tunisia Economic Monitor
HIMS	Households' International Migration Surveys	TND	Tunisian Dinar
		UGTT	Union Générale Tunisienne du Travail
ILO	International Labour Organization	UN	United Nations
IMF	International Monetary Fund	UNDESA	United Nations Department of Economic and Social Affairs
INS	Institut National de la Statistique (Tunisia)		
IOM	International Organization for Migration	UNHCR	United Nations High Commissioner for Refugees
MENA	Middle East and North Africa		
MFPE	Ministère de la Formation professionnelle et de l'Emploi	USD	United States Dollar
		VAT	Value Added Tax

EXECUTIVE SUMMARY

The drought slowed down an already limited economic recovery in the first half of 2023

The sixth consecutive year of below-average rainfall compromised Tunisia's agricultural production and slowed down further an already limited economic recovery. The Tunisian economy expanded in real terms by 1.2 percent in the first half of 2023, half the rate of 2022, and almost a quarter of the 2021 rate. The drought has compounded a difficult recovery, marred by uncertain external financing and continued regulatory barriers to growth, which have not been addressed by economic reforms. Tunisia exhibits a very modest economic recovery in comparison with other countries from the Middle East and North African region, with its GDP per capita still 4.7 percent below the pre-pandemic level. With limited economic growth, the unemployment rate increased slightly by the second quarter of 2023, stabilizing at the pre-Covid level, while the labor force participation rate remained below pre-Covid.

Favorable terms of trade and the tourism recovery improved the current account deficit but external financing needs remain significant while external financing has declined

Tunisia's merchandise trade deficit declined by 39 percent in the first 8 months of 2023 to TD 12.2 billion (7.5 percent of 2023 GDP), boosted by more favorable

international energy and food prices. The energy deficit widened due to a drop in domestic production in spite of more favorable prices, continuing to account for the majority of the merchandise trade deficit. The narrowing trade deficit along with the rebounding of tourism receipts (+47 percent year-on-year as of the end of August 2023) and the stable performance of remittances (see part B) brought down the current account deficit (CAD) in the first half of the year. The lower CAD eases the pressure on the external financing needs, which however remain significant in light of the forthcoming heavy external debt repayment schedule: TD 4.8 billion, or 3 percent of GDP in the last two quarters of 2023. In the absence of private sources of capital, Tunisia continues to depend on sovereign lending to finance its external needs amidst uncertain financing conditions. The narrowing of the CAD along with recent additional external financing, notably from Saudi Arabia, helped to ease the pressure on foreign exchange reserves and the Dinar, providing some buffer on the external side.

Shortages of basic products have continued, partly fueled by the system of subsidies and the drop in agricultural production, which have also increased the debt of state-owned marketing boards

As external financing conditions remain tight, imports have continued to be compressed. That is particularly the case for highly indebted state-owned trade boards,

which hold the monopoly over the import and distribution of specific products. For example, as the drought reduced Tunisia's hard wheat harvest by two-third in early 2023 compared to previous year, the Office des Céréales had difficulties to step up its imports to compensate for the shortfall. The quantity of hard wheat supplied to the market dropped by 18 percent in the first half of 2023 compared to previous year, contributing to the shortages of cereal products. The system of price control that regulates the markets of wheat and other basic products such as sugar, milk and vegetable oil is a key driver of the increasing indebtedness of the state-owned marketing boards and shortages.

Inflation moderated slightly but it remains high—especially for food

Inflation started to moderate since the peak of February 2023 (10.4 percent). It declined to 9.0 percent in September on the back of lower global prices and weak domestic demand. However, inflation is still high, particularly for food (13.9 percent), as the drought and the import compression have reduced the supply in domestic food markets. Inflation also remains well above the interest rate, even though the latter has remained stable in 2023. Maintaining a strong and independent Central Bank will be a central pillar in the pursuit of price stability.

The moderate public wage bill growth contained the budget deficit during the first half of 2023, as its financing continues to crowd out private sector credit

The slowdown in growth dragged the performance of indirect taxes, particularly VAT and customs. As a result, the increase in tax revenues in the first half of 2023 has been more modest (+8.3 percent) than expected in the 2023 Budget Law (+15.3 percent), and lower than the inflation rate (so tax revenues contracted in real terms). However, the more contained public wage bill growth and weak public investment allowed the balancing of the budget in the first half of 2023, in line with the year before. Maintaining a con-

tained wage bill growth and reversing the declining trend of public investment by re-orienting subsidies continue to be key for economic growth. Public debt stood at 79.8 percent of GDP in 2022 and the debt servicing cost reached 3 percent of GDP in the first half of 2023. Given the limited access to international financing, the government has increasingly relied on domestic borrowing which is crowding out credit to the private sector.

Growth prospects are highly dependent on the evolution of the drought and on external financing conditions

The World Bank forecasts a 1.2 percent GDP growth in 2023—a significant slowdown compared to 2021–22—with a slight uptick to 3.0 percent in 2024. The 2024 growth forecast is subject to significant downside risks related to the evolution of the drought, and the pace of structural reforms planned by the government, and financing conditions. Tunisia's twin deficit is expected to moderate on the back of more favorable commodity prices and some compression of expenditures. However, the financing of the deficits will require a significant scale-up of the external financing in the face of the heavy debt reimbursement schedule. If the pace of reforms and the level of financing remain sufficient, we project GDP growth to remain at 3 percent in 2025–26 along with some stabilization of the macro and fiscal imbalances. That would entail a slow convergence towards the long-run growth path, from which the economy deviated during the Covid-19 crisis, by mid-2030s.

Emigration—including through irregular channels—has become an increasingly important strategy for Tunisians to cope with the difficult economic and social situation in the country

Emigration is becoming an increasingly important strategy for Tunisians to cope with the challenging economic and social situation in the country. Tunisia's



emigration flows increased significantly over the last two decades, and have followed more irregular pathways since 2019. With more than 54,000 arrivals (19 percent), Tunisians represent the main nationality of irregular migrants having reached Italy via the Central Mediterranean Route between January 2019 and June 2023. For many Tunisians, emigration harbors a high attractiveness given the higher income possibilities in Europe. However, such potential income gains are considerably lower when migrants are undocumented. More than 200,000 Tunisian emigrants have also come back to Tunisia bringing back skills and capital to invest having resided abroad on average for about 11 years. Nonetheless, fewer return than those who emigrate, particularly among the high-skilled.

Just like Tunisians emigrate in search of better living conditions, Tunisia is also a destination country for about 60,000 migrants coming from abroad as of 2020, based on UNDESA estimates and the Tunisia-HIMS survey. Their number increased at a slower pace than emigration in recent years. Today, they make up around 0.5 percent of the population—a very low number indeed between 20 and 25 times lower than in close European countries including Italy and France and neighboring Libya. However, for migrants, it is challenging to maintain their legal status in Tunisia, as obtaining a residence or work permit is cumbersome, making them more vulnerable and less able to contribute to the Tunisian economy.

Since the end of 2022, Tunisia has also become an important transit country for irregular migration to Europe. In the first eight months of 2023, 73,829 people arrived in Italy by sea from Tunisia. That is around 44 percent of all irregular migrants to Europe and two

third of irregular migrants to Italy via the Central Mediterranean route over the period. Of these, the large majority were coming from sub-Saharan Africa. The rise in irregular departures has led to an uptick in incidents and casualties off the Tunisian coasts.

Tunisia can work (also with partner countries) to maximize the benefits of migration

Migration will likely become increasingly important for Tunisia in terms of both inflows and outflows, given the demographic transition in both Tunisia and Europe. As such Tunisia can work (also with partner countries) to maximize the benefits of migration. As a country of mainly emigration, Tunisia could help strengthen the match of its emigrants with the demand abroad, including through enhanced cooperation with destination countries. Such cooperation should include focusing international assistance towards development objectives in Tunisia. Based on available evidence, increasing household incomes will contribute to reducing the propensity to consider emigrating through irregular channels. As its importance as a destination country (hence migrants who want to settle in Tunisia) is likely to increase, Tunisia can also enhance the economic benefits from immigrants by facilitating migrants' regular status and streamlining the recognition of their qualifications, which has been identified as one of the key aspects for the successful implementation of bilateral mobility agreements involving skill partnerships.

RÉSUMÉ ANALYTIQUE

La sécheresse a ralenti une reprise économique déjà limitée au premier semestre 2023

Pour la sixième année consécutive, le taux de précipitations est inférieur à la moyenne. Ce qui a compromis la production agricole tunisienne et a ralenti encore une fois une reprise économique déjà limitée. L'économie tunisienne a connu une croissance en termes réels de 1,2 pour cent au premier semestre 2023, soit la moitié du taux de 2022 et près d'un quart du taux de 2021. La sécheresse a aggravé une reprise difficile, marquée par un financement extérieur incertain et des obstacles réglementaires à la croissance persistants. Ces obstacles n'ont pas été surmontés par les réformes économiques. La Tunisie enregistre une reprise économique très modeste en comparaison avec les pays de la région du Moyen-Orient et de l'Afrique du Nord, avec un PIB par habitant toujours inférieur de 4,7 pour cent par rapport à son niveau d'avant la pandémie. Avec une croissance économique limitée, le taux de chômage a légèrement augmenté au deuxième trimestre 2023, se stabilisant au niveau d'avant Covid. Tandis que le taux d'activité est resté inférieur à celui d'avant Covid.

Les termes de l'échange favorables et la reprise du tourisme ont amélioré le déficit du compte courant, mais les besoins de financement extérieur restent importants tandis que le financement extérieur a diminué

Le déficit commercial de la Tunisie a diminué de 39 pour cents au cours des 8 premiers mois de 2023 pour atteindre 12,2 milliards de DT (7,5 pour cent du PIB de 2023), grâce à des prix internationaux plus favorables de l'énergie et des produits alimentaires. Le déficit énergétique s'est creusé en raison d'une baisse de la production intérieure et malgré des prix internationaux plus favorables, continuant ainsi, de représenter la majeure partie du déficit commercial. La réduction du déficit commercial conjuguée au rebond des recettes touristiques (+47 pour cent sur un an à fin août 2023) et à la stabilité des envois de fonds (voir partie B), ont réduit le déficit des opérations courantes (DOC) au premier semestre 2023. La baisse du DOC a atténué la pression sur les besoins de financement extérieur, qui restent cependant importants au vu du lourd échéancier à venir de remboursement de la dette extérieure : 4,8 milliards de

DT, soit 3 pour cent du PIB au cours des deux derniers trimestres de 2023. En l'absence de sources privées de capitaux, la Tunisie continue de dépendre des prêts souverains pour financer ses besoins extérieurs dans un contexte de conditions de financement incertaines. La diminution du déficit courant ainsi que les récents financements extérieurs supplémentaires, notamment de la part de l'Arabie Saoudite, ont contribué à atténuer la pression sur les réserves de change et sur le dinar, fournissant ainsi une certaine marge de manœuvre pour préserver les équilibres extérieurs.

Les pénuries de produits de base se sont poursuivies, en partie générées par le système de subventions et la baisse de la production agricole, qui ont également accru la dette des entreprises publiques commercialisant les biens importés subventionnés

Comme les conditions de financement extérieur restent strictes, les importations ont continué à se contracter. C'est particulièrement le cas des produits commercialisés par des entreprises publiques très endettées, qui détiennent le monopole de l'importation et de la distribution de produits spécifiques. Par exemple, comme la sécheresse a réduit de deux tiers la récolte de blé dur de la Tunisie début 2023 par rapport à l'année précédente, l'Office des Céréales a eu des difficultés à augmenter ses importations pour compenser le déficit. La quantité de blé dur fournie au marché a chuté de 18 pour cent au premier semestre 2023 par rapport à l'année précédente, contribuant ainsi aux pénuries de produits céréaliers. Le système de contrôle des prix qui régule les marchés du blé et d'autres produits de base tels que le sucre, le lait et l'huile végétale est un facteur clé de l'endettement croissant des entreprises publiques qui ont le monopole d'importation et de commercialisation des produits importés ainsi que des pénuries qui en découlent.

L'inflation a diminué mais elle reste élevée – notamment pour les produits alimentaires

L'inflation a commencé à diminuer depuis le pic de février 2023 (10,4 pour cent). Elle a atteint 9 pour cent en septembre grâce à la baisse des prix mondiaux et la faiblesse de la demande intérieure. Cependant, l'inflation reste élevée, en particulier dans le secteur alimentaire (13,9 pour cent), car la sécheresse et la compression des importations ont réduit l'offre sur les marchés alimentaires intérieurs. L'inflation demeure également bien supérieure au taux d'intérêt, même si ce dernier a été maintenu constant en 2023. Le maintien d'une banque centrale forte et indépendante constituera un pilier principal dans la quête de la stabilité des prix.

La croissance modérée de la masse salariale publique a contenu le déficit budgétaire au cours du premier semestre 2023, alors que son financement continue d'évincer le crédit du secteur privé

Le ralentissement de la croissance a réduit les performances des impôts indirects, notamment la TVA et les droits de douanes. En conséquence, l'augmentation des recettes fiscales au premier semestre 2023 a été plus modeste (+8,3 pour cent) que les prévisions de la loi de finances 2023 (+15,3 pour cent) et inférieure au taux d'inflation (les recettes fiscales se sont donc contractées en termes réels). Toutefois, la croissance plus contenue de la masse salariale publique et la faiblesse des investissements publics ont permis d'équilibrer le budget au premier semestre 2023, comme l'année précédente. Maintenir une croissance modérée de la masse salariale et inverser la tendance à la baisse des investissements publics en réorientant les subventions demeurent essentiels à la croissance économique. La dette publique s'élevait à 79,8 pour cent du PIB en 2022 et le service de la dette a atteint 3 pour cent du PIB au premier semestre 2023. Compte

tenu de l'accès limité au financement international, le gouvernement s'est de plus en plus appuyé sur l'emprunt intérieur, ce qui évince le crédit au secteur privé.

Les perspectives de croissance dépendent fortement de l'évolution de la sécheresse et des conditions de financement extérieur

La Banque Mondiale prévoit une croissance du PIB de 1,2 pour cent en 2023 – un ralentissement significatif par rapport à 2021–2022 – avec une légère hausse à 3,0 pour cent en 2024. Les prévisions de croissance pour 2024 sont soumises à d'importants risques à la baisse liés à l'évolution de la sécheresse ainsi qu'au rythme des réformes structurelles planifiées par le gouvernement et aux conditions de financement. Les déficits jumeaux de la Tunisie devraient se modérer grâce à des prix plus favorables des matières premières et à une certaine compression des dépenses. Cependant, le financement des déficits nécessitera une augmentation significative du financement extérieur face au lourd calendrier de remboursement de la dette. Si le rythme des réformes s'accélère et le niveau de financement reste suffisant, nous prévoyons que la croissance du PIB se maintiendra à 3 pour cent en 2025–2026, accompagnée d'une certaine stabilisation des déséquilibres macroéconomiques et budgétaires. Cela impliquerait une lente convergence vers le milieu des années 30s vers la trajectoire de croissance à long terme, dont l'économie s'est écartée depuis la crise du Covid-19.

L'émigration – y compris par des voies irrégulières – est devenue une stratégie de plus en plus importante pour faire face à la situation économique et sociale difficile du pays

L'émigration devient une stratégie de plus en plus importante pour les Tunisiens pour faire face à la situation économique et sociale délicate du pays. Les flux d'émigration de la Tunisie ont considérablement

augmenté au cours des deux dernières décennies et ont suivi des voies plus irrégulières depuis 2019. Avec plus de 54 000 arrivées (19 pour cent), les Tunisiens représentent la principale nationalité des migrants irréguliers ayant atteint l'Italie via la route de la Méditerranée centrale entre janvier 2019 et juin 2023. Pour beaucoup de tunisiens l'émigration est très attrayante en raison des possibilités de revenus plus élevés en Europe. Toutefois, ces gains de revenus potentiels sont considérablement plus faibles lorsque les migrants sont sans papiers. Plus de 200 000 migrants sont également revenus en Tunisie avec des compétences et des capitaux à investir, ayant résidé à l'étranger en moyenne 11 années. Néanmoins, ils sont moins nombreux à revenir que les travailleurs émigrants hautement qualifiés..

Tout comme les Tunisiens émigrent à la recherche de meilleures conditions de vie, la Tunisie est également un pays de destination pour environ 60 000 migrants venant de l'étranger en 2020, selon les estimations de l'UNDESA et l'enquête Tunisie-HIMS. Leur nombre a augmenté à un rythme plus lent que celui de l'émigration ces dernières années. Aujourd'hui, ils représentent environ 0,5 pour cent de la population – un chiffre très faible, entre 20 et 25 fois inférieur à celui des pays européens voisins, notamment l'Italie, la France et la Libye voisine. Cependant, pour les migrants, il est difficile de conserver leur statut légal en Tunisie, car les procédures d'obtention d'un permis de séjour ou de travail sont lourdes, ce qui les rend plus vulnérables et moins capables de contribuer à l'économie tunisienne.

Depuis fin 2022, la Tunisie est également devenue un important pays de transit pour la migration irrégulière vers l'Europe. Au cours des huit premiers mois de 2023, 73 829 personnes sont arrivées en Italie par voie maritime depuis la Tunisie. Cela représente environ 44 pour cent de tous les migrants irréguliers vers l'Europe et deux tiers des migrants irréguliers vers l'Italie via la route de la Méditerranée centrale au cours de la période. Parmi eux, la grande majorité venait d'Afrique subsaharienne. La multiplication des départs irréguliers a entraîné une recrudescence des incidents et une augmentation du nombre des victimes au large des côtes tunisiennes.

La Tunisie peut travailler – également avec les pays partenaires – pour maximiser les bénéfices de la migration

La migration deviendra probablement de plus en plus importante pour la Tunisie, tant en termes d'entrées que de sorties, compte tenu de la transition démographique en Tunisie et en Europe. Ainsi, la Tunisie peut travailler (également avec les pays partenaires) pour maximiser les bénéfices de la migration. En tant que pays principalement d'émigrant, la Tunisie pourrait contribuer à renforcer l'adéquation de ses émigrés à la demande étrangère, notamment par une coopération renforcée avec les pays de destination. Une telle

coopération devrait inclure la concentration de l'aide internationale sur les objectifs de développement en Tunisie. D'après les données disponibles, l'augmentation des revenus des ménages contribuera à réduire la propension à envisager d'émigrer par des voies irrégulières. Comme son importance en tant que pays de destination (et donc de migrants souhaitant s'installer en Tunisie) est susceptible de croître, la Tunisie peut également accroître les avantages économiques des immigrants en facilitant le statut régulier des migrants et en rationalisant la reconnaissance de leurs qualifications, ce qui a été identifié comme l'un des aspects clés de la mise en œuvre réussie d'accords de mobilité bilatéraux impliquant des partenariats de compétences.

ملخص تنفيذي

أدى الجفاف إلى تباطؤ التعافي الاقتصادي المحدود في الأصل في النصف الأول من عام 2023

عائدات السياحة (+47 بالمائة على أساس سنوي حتى نهاية أغسطس 2023) والأداء المستقر للتحويلات المالية إلى خفض عجز الحساب الجاري في النصف الأول من العام. وقد أدى انخفاض عجز الحساب الجاري إلى التخفيف من الضغط على احتياجات التمويل الخارجي، والتي تظل كبيرة مع ذلك في ضوء جدول سداد الديون الخارجية الثقيلة المقبلة: 4.8 مليار دينار تونسي، أو 3 في المائة من الناتج الداخلي الخام خلال النصف الأخير من عام 2023. في غياب مصادر التمويل من الأسواق المالية، تواصل تونس الاعتماد على الإقتراض السيادي لتمويل احتياجاتها الخارجية وسط ظروف تمويل غير مؤكدة. وساعد تقليص عجز الحساب الجاري إلى جانب التمويل الخارجي الإضافي الأخير، لا سيما من المملكة العربية السعودية، على تخفيف الضغط على احتياطات العملة الأجنبية والدينار، وبالتالي توفير بعض المساحة للحفاظ على التوازنات الخارجية.

وأدت أسعار التبادل التجاري المواتية وانتعاش السياحة إلى تحسين عجز الحساب الجاري، لكن احتياجات التمويل الخارجي لا تزال كبيرة في ظل انخفاض مستوى التمويل الخارجي

ومع استمرار ضيق شروط التمويل الخارجي، استمرت الضغوط على الواردات. وهذا هو الحال بشكل خاص بالنسبة للمؤسسات العمومية والمثقلة بالديون، والتي تحتكر استيراد وتوزيع منتجات معينة. على سبيل المثال، نظراً لأن الجفاف أدى إلى انخفاض محصول القمح الصلب في تونس بمقدار الثلثين في أوائل عام 2023 مقارنة بالعام السابق، واجه ديوان الحبوب صعوبات في زيادة وارداته لتعويض النقص. وانخفضت كمية القمح الصلب المتوفرة في السوق بنسبة 18 بالمائة في النصف الأول من عام 2023 مقارنة بالعام السابق، مما ساهم في نقص بعض منتجات الحبوب. يعد نظام مراقبة الأسعار الذي ينظم أسواق القمح والمنتجات الأساسية الأخرى مثل السكر والحليب والزيت النباتي عاملاً أساسياً لنقصها وتزايد مديونية المؤسسات العمومية.

أضرت ندرة نزول الأمطار التي انخفضت إلى مستوى دون المتوسط للسنة السادسة على التوالي بالإنتاج الفلاحي في تونس وأدت إلى تباطؤ الانتعاش الاقتصادي المحدود في الأصل. حقق الاقتصاد التونسي نمواً بنسبة 1.2 بالمائة في النصف الأول من 2023، أي نصف نمو 2022، وربع نمو 2021 تقريباً. وقد أدى الجفاف إلى تفاقم عملية التعافي الصعبة، التي شابها عدم اليقين على مستوى التمويل الخارجي واستمرار الحواجز التنظيمية والقانونية أمام النمو، والتي لم تعالجها الإصلاحات الاقتصادية حتى الآن. تظهر تونس انتعاشاً اقتصادياً متواضعاً مقارنة بالدول الأخرى في منطقة الشرق الأوسط وشمال إفريقيا، حيث لا يزال نصيب الفرد من الناتج الداخلي الخام أقل بنسبة 4.7 في المائة من مستوى ما قبل الوباء. ومع النمو الاقتصادي المحدود، ارتفع معدل البطالة بشكل طفيف بحلول الربع الثاني من عام 2023، واستقر عند مستوى ما قبل كوفيد، في حين ظل معدل المشاركة في القوى العاملة أقل من مستواه قبل جائحة كوفيد.

وأدت أسعار التبادل التجاري المواتية وانتعاش السياحة إلى تحسين عجز الحساب الجاري، لكن احتياجات التمويل الخارجي لا تزال كبيرة في ظل انخفاض مستوى التمويل الخارجي

انخفض العجز التجاري لتونس بنسبة 39 بالمائة في الأشهر الثمانية الأولى من عام 2023 إلى 12.2 مليار دينار تونسي (7.5 في المائة من الناتج الداخلي الخام لعام 2023)، مدعوماً بأسعار الطاقة والغذاء الدولية التي أخذت منحى تنازلي وهو أكثر ملاءمة للاقتصاد التونسي. واتسع العجز في الطاقة بسبب انخفاض الإنتاج المحلي على الرغم من تحسن الأسعار، وبالتالي ظل يمثل غالبية العجز التجاري. أدى تقليص العجز التجاري إلى جانب انتعاش

وقد سجل تراجع طفيف في نسبة التضخم ولكنه ظل مرتفعاً - وخاصة بالنسبة للمواد الغذائية

بدأ التضخم في الانخفاض منذ الذروة التي بلغها في فبراير 2023 (10.4%). وانخفض إلى 9.0 بالمائة في سبتمبر/أيلول على خلفية انخفاض الأسعار العالمية وضعف الطلب المحلي. ومع ذلك، لا يزال التضخم مرتفعاً، خاصة بالنسبة للأغذية (13.9 في المائة)، حيث أدى الجفاف وضغط الواردات إلى انخفاض العرض في أسواق المواد الغذائية المحلية. ولا يزال التضخم أيضاً أعلى بكثير من سعر الفائدة، على الرغم من أن هذا الأخير ظل مستقراً في عام 2023. وسيكون الحفاظ على بنك مركزي قوي ومستقل ركيزة أساسية في السعي لتحقيق استقرار الأسعار.

أدى التطور المعتدل في نسق ارتفاع الأجور في القطاع العام إلى احتواء عجز ميزانية الدولة خلال النصف الأول من عام 2023، حيث يواصل تمويلها منافسة تمويل القطاع الخاص

وأدى تباطؤ النمو إلى انخفاض أداء الضرائب غير المباشرة، وخاصة الضريبة على القيمة المضافة و الرسوم الجمركية. و لذلك، كانت الزيادة في الإيرادات الضريبية في النصف الأول من عام 2023 أقل (+8.3 بالمائة) مما كان متوقفاً في قانون المالية لعام 2023 (+15.3 في المائة)، وأقل من معدل التضخم (وبالتالي تقلصت عائدات الضرائب بالقيمة الحقيقية). ومع ذلك، فإن زيادة احتواء نسق ارتفاع الأجور في القطاع العام وضعف الاستثمار العام سمحا بتحقيق التوازن في ميزانية الدولة في النصف الأول من عام 2023، كما كان الحال في العام الماضي. ويظل الحفاظ على نمو معتدل في كتلة الأجور وعكس الاتجاه المنحدر في الاستثمار العمومي من خلال إعادة توجيه الدعم ضروريا للنمو الاقتصادي. بلغ الدين العمومي 79.8% من الناتج الداخلي الخام في عام 2022، ووصلت تكلفة خدمة الدين إلى 3% من الناتج الداخلي الخام في النصف الأول من عام 2023. ونظراً لمحدودية التوصل إلى التمويل الدولي، اعتمدت الحكومة بشكل متزايد على الاقتراض المحلي الذي ينافس تمويل القطاع الخاص.

تعتمد آفاق النمو بشكل كبير على تطور العوامل المناخية وعلى ظروف التمويل الخارجي

ويتوقع البنك الدولي نمو الناتج الداخلي الخام بنسبة 1.2% في عام 2023 - وهو تباطؤ كبير مقارنة بالفترة 2021-2022 - مع ارتفاع طفيف إلى 3.0% في عام 2024. وتخضع توقعات النمو لعام 2024 لمخاطر تتعلق بتطور العوامل المناخية (الجفاف)، وتيرة الإصلاحات الهيكلية التي تخطط لها الحكومة، وشروط التمويل. ومن المتوقع أن يتراجع العجز المزودج في تونس بفضل تحسن أسعار المواد الأساسية وبعض الضغط على النفقات. ومع ذلك، فإن تمويل العجز سيتطلب زيادة كبيرة في التمويل الخارجي لمواجهة جدول سداد الديون الثقيل. وفي حالة ظلت وتيرة الإصلاحات ومستوى التمويل كافيين، فإننا نتوقع أن يظل نمو الناتج المحلي الإجمالي عند 3% في الفترة 2025-2026 إلى جانب بعض الاستقرار في الاختلالات

الكلية والمالية العامة. هذا من شأنه أن يؤدي إلى تقارب بطي نحو مسار النمو طويل الأمد، الذي انحرف عنه الاقتصاد خلال أزمة كوفيد - 19، بحلول منتصف ثلاثينيات القرن الحالي.

أصبحت الهجرة - بما في ذلك عبر القنوات غير النظامية - استراتيجية ذات أهمية متزايدة لدى التونسيين للتعامل مع الوضع الاقتصادي والاجتماعي الصعب في البلاد

أصبحت الهجرة استراتيجية ذات أهمية متزايدة لدى التونسيين للتعامل مع الوضع الاقتصادي والاجتماعي الصعب في البلاد. زادت تدفقات الهجرة التونسية بشكل كبير خلال العقد الماضي، واتبعت المزيد من المسارات غير النظامية منذ عام 2019. ومع وصول أكثر من 54000 شخص (19 بالمائة)، يمثل التونسيون الجنسية الرئيسية للمهاجرين غير النظاميين الذين وصلوا إلى إيطاليا عبر طريق وسط البحر الأبيض المتوسط بين يناير 2019 ويونيو 2023. بالنسبة للعديد من التونسيين، تتمتع الهجرة بجاذبية عالية نظراً لاحتمالات الدخل المرتفعة في أوروبا. ومع ذلك، فإن مكاسب الدخل المحتملة هذه تكون أقل بكثير عندما يكون المهاجرون بدون بطاقات هوية. أكثر من 200.000 تونسي عادوا إلى تونس حاملين معهم المهارات ورأس المال للاستثمار بعد أن أقاموا في الخارج لمدة 11 عاماً في المتوسط. ومع ذلك، فإن العائدين أقل من أولئك الذين يهاجرون، وخاصة بين ذوي المهارات العالية.

مثلما يهاجر التونسيون بحثاً عن ظروف معيشية أفضل، تعد تونس أيضاً بلد مقصد لحوالي 60 ألف مهاجر قادم من الخارج اعتباراً من عام 2020، بناءً على تقديرات إدارة الشؤون الاقتصادية والاجتماعية ومسح تونس-HIMS. وقد زادت أعدادهم بوتيرة أبطأ من الهجرة إلى تونس في السنوات الأخيرة. واليوم، يشكلون حوالي 0.5% من السكان، وهو رقم منخفض للغاية - ما بين 20 إلى 25 مرة أقل مما هو عليه في الدول الأوروبية القريبة - بما في ذلك إيطاليا وفرنسا - وليبيا المجاورة. مع العلم أن، بالنسبة للمهاجرين، من الصعب الحفاظ على وضعهم القانوني في تونس، لأن الحصول على تصريح إقامة أو عمل مرهق وصعب، مما يجعلهم أكثر عرضة للخطر وأقل قدرة على المساهمة في الاقتصاد التونسي. ومنذ نهاية عام 2022، أصبحت تونس أيضاً دولة عبور مهمة للهجرة غير الشرعية إلى أوروبا. في الأشهر الثمانية الأولى من عام 2023، وصل 73829 شخصاً إلى إيطاليا عن طريق البحر من تونس. ويمثل هذا حوالي 44 بالمائة من جميع المهاجرين غير النظاميين إلى أوروبا وثلاثي المهاجرين غير النظاميين إلى إيطاليا عبر طريق وسط البحر الأبيض المتوسط خلال هذه الفترة. وكانت الغالبية العظمى من هؤلاء قادمين من أفريقيا جنوب الصحراء الكبرى. وأدى ارتفاع حالات المغادرة غير النظامية إلى ارتفاع وتيرة الحوادث والإصابات قبالة السواحل التونسية.

يمكن لتونس أن تعمل (أيضاً مع الدول الشريكة) على تحقيق أقصى قدر من فوائد الهجرة

من المرجح أن تصبح الهجرة ذات أهمية متزايدة بالنسبة لتونس من حيث التدفقات الداخلة والخارجة، نظراً للتحوّل الديموغرافي في كل من تونس

الحد من الميل إلى التفكير في الهجرة عبر القنوات غير النظامية. ومع احتمال زيادة أهميتها كبلد مقصد (وبالتالي المهاجرين الذين يرغبون في الاستقرار في تونس)، يمكن لتونس أيضًا تعزيز الفوائد الاقتصادية للمهاجرين من خلال تسهيل الوضع النظامي للمهاجرين وتبسيط الاعتراف بمؤهلاتهم، وهو ما تم تحديده على أنه أحد الجوانب الرئيسية للتنفيذ الناجح لاتفاقيات التنقل الثنائية التي تنطوي على شركات في المهارات.

وأوروبا. وعلى هذا النحو، يمكن لتونس أن تعمل (أيضًا مع الدول الشريكة) على تحقيق أقصى قدر من فوائد الهجرة. وباعتبارها بلدًا للمهاجرين بشكل رئيسي، يمكن لتونس أن تساهم في تعزيز كفاية مهاجريها للطلب الخارجي، لا سيما من خلال تعزيز التعاون مع بلدان المقصد وينبغي أن يشمل هذا التعاون تركيز المساعدة الدولية على تحقيق الأهداف الإنمائية في تونس. واستنادًا إلى البيانات المتاحة، فإن زيادة دخل الأسر ستسهم في

RECENT ECONOMIC DEVELOPMENTS

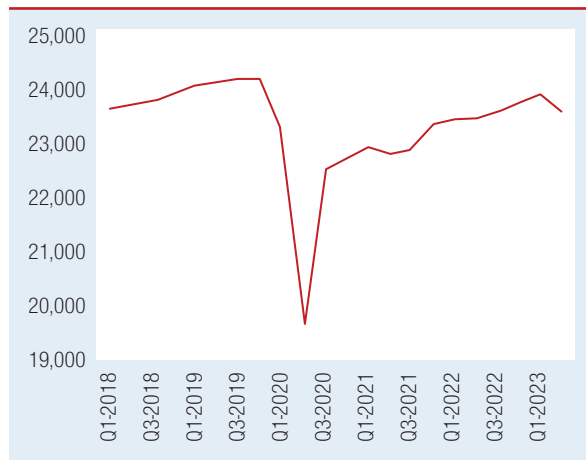
1. The moderate economic recovery is slowing down further due to drought conditions, uncertain financing conditions and the slow pace of reforms

Tunisia's modest economic recovery slowed down further in the first half of 2023, weighed down by a severe drought, uncertain financing conditions and the pace of Government planned reforms. The sixth consecutive year of below-average rainfall compromised the country's agricultural production, with sectoral value added declining by 9 percent in real terms in the first half of 2023 relatively to the same period in 2022. This negative shock has compounded a difficult recovery, marred by uncertain external financing and continued regulatory barriers to growth, such as authorizations to access many sectors, strict and discretionary controls on foreign exchange and regulatory capture of incumbents, which have not been addressed by reforms (see the 2022 Winter issue of the Tunisia Economic Monitor). As a result, the economy only expanded in real terms by 1.2 percent in the first half of 2023, half the rate of 2022, and almost a quarter of the 2021 rate (4.4 percent).

Tunisia's real GDP remains below the pre-pandemic level, with a very moderate economic recovery in comparison with other countries from the Middle East and North African (MENA) region. The economic slowdown has been particularly significant in the second quarter of 2023 as the drought's impact worsened. Real GDP dropped by 1.3 percent relative to the first quarter, the largest quarter-on-quarter drop since the pandemic (figure 1). It was still lower than Q2 2019 (by 2.3 percent) and even Q2 2018 (by 0.6 percent). This performance has been comparatively modest vis-à-vis Tunisia's peers, which exhibited lower declines during the pandemic and more sustained recoveries (figure 2). By the first quarter 2023, all of Tunisia's peers had real GDP above pre-pandemic level.

Agriculture was the main driver of the 2023 economic slowdown, as low and variable rainfall exposed the deficiencies of a sector that needs reforms to adapt to climate change. The lack of rainfall during the first 5 months of 2023 aggravated the dry conditions prevailing in Tunisia over the past 6 years, forcing the government to introduce irrigation restrictions in March. This resulted in reduced harvest and a significant loss of production. The cereal sector—which provides a large share of the national diet—is a case in

FIGURE 1 • GDP Fell in the Second Quarter of 2023
(quarterly GDP in 2015 prices)

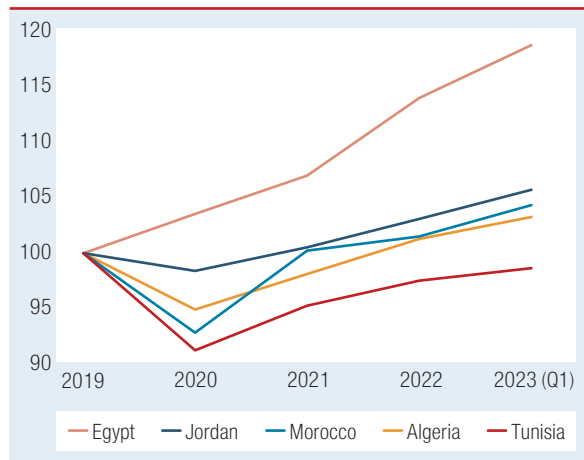


Source: Tunisia's National Statistics Institute (INS).

point. As discussed in the Fall 2022 issue of the Tunisia Economic Monitor, areas cultivated with wheat have been declining steadily in the last years (from 1.5 million hectares in 2011 to 1.1 million in 2021). This was mainly the result of declining productivity due to more variable rainfall and soil impoverishment, and unfavorable sale prices, which are fixed by the Tunisian Grain Board (Office des Céréales – OdC). This year's exceptionally dry conditions have precipitated the production losses, as the bulk of cereal production is rainfed. Hence, domestic cereal production dropped by almost two thirds compared to last year.¹ That is just over a fourth of the level in the same period in 2020. This trajectory illustrates a broader trend of the agricultural sector, whose value added in the first half of the year fell by 11.2 percent between 2019 and 2023 (figure 3). As rainfall conditions are expected to deteriorate further in the future because of climate change, Tunisia needs to act swiftly to build the resilience of agriculture as well as the water sector as a whole (Box 1).

Hotels and restaurants and manufacturing—driven by external demand—were the main positive contributors to the economic growth in 2023 compensating the contraction of the primary sectors. The continued post-Covid recovery of tourism in the first 6 months of 2023 enabled the robust growth of hotels and restaurants (+ 17 percent year-on-year) as well as transport services (+5 percent). These service sectors combined contributed 0.8 percentage points or

FIGURE 2 • Tunisia' Economic Recovery Has Been Slow
(GDP, constant prices; 2019=100)



Source: World Bank Macro-Poverty outlooks.

three quarter of overall 2023 GDP growth, so that services comprised the bulk of growth (figure 4). Tourist flows rebounded to the levels of 2019 with more than five million visitors to Tunisia in January-July 2023. Most of the arrivals are from neighboring countries, but European tourists also increased. The manufacturing sector exhibited more contained growth rates, with textile and garments (+6 percent year-on-year) and mechanic and electric industries (+5 percent) performing relatively better than the rest of the sector. That is consistent with the solid growth in those exports (see below). On the other hand, the other primary sectors, including mining and oil and gas, experienced a decline amid a reduction in hydrocarbon production. Similarly, agro-industry's value added also declined (-6 percent) given the strong link with agriculture.

With limited economic growth, the unemployment rate increased slightly by the second quarter 2023, stabilizing at the pre-Covid level, while the participation rate remained below pre-Covid. The unemployment rate rose to 15.6 percent in Q2 2023 up from 15.3 percent a year ago (figure 5). This is one of the highest rates in the region—and it is particularly high among women (21.1 percent). It is associated with a slight year-on-year increase in labor force participation (from 46 in Q2 2022 to 46.3 percent in Q2 2023). Hence the net job creation during the period has been

¹ That is based on sales data from OdC.

BOX 1: ADAPTING TO MORE FREQUENT AND SEVERE WATER SHORTAGES

Its location makes Tunisia one of the countries most exposed to climate change in the Mediterranean region. Temperature increases expected to be accompanied by reduced and more variable precipitation.

By 2050, overall water resources per person per year could decrease by up to 66 percent (from 366 m³ to 122 m³). Under the current trends in water demand, the reductions in water supply are projected to result in 28 percent of the demand being unmet by 2050 in the business as usual scenario. The decline in water quantity would be accompanied by a decline in water quality and an increasing incidence of water-borne diseases, with disproportionate impacts for the poor.

Recent analysis of the World Bank explores the relationship between Tunisia's development goals and climate change, in terms of both risks and opportunities. The analysis finds that major agriculture systems in Tunisia (olive, oasis, cereal, and livestock) are among the most vulnerable to climate change and water availability is a major concern. The economic and social impacts of future water shortages are going to be very significant. The World Bank projects that yields for olives, which accounted for 40 percent of total agricultural exports in 2019, could drop by as much as 69 percent by 2050. Agricultural production is expected to drop by between 29.1 percent and 33.1 percent relative to projections under a scenario of no climatic stress. This will have disproportionate impacts on the rural poor who have less resource to cope with climate impacts. These losses would translate into a reduction in real GDP by between 4.1 and 4.6 percent. A large portion of these losses could materialize by 2030, when the economy is predicted to be between 2.0 and 2.7 smaller than it would otherwise be without the dry conditions induced by climate change. This is the equivalent between TD 2.7 billion and TD 3.8 billion (US\$0.9 billion and US\$1.3 billion) per year.

On the basis of the analysis a number of reforms and targeted investments can be suggested to ensure sufficient water is available for the needs of the country:

- Managing water demand (including through measures such as pricing, quotas, and metering), improving efficiency and employing alternative groundwater storage techniques can maximize existing conventional water resources in Tunisia.
- Promoting the use of nature-based solutions—especially those that support the recharge of groundwater reservoirs by restoring forests, wetlands, and oases – can help mitigate the anticipated decline in surface water.
- Expanding non-conventional water sources (for example, by investing in the reuse of treated wastewater and desalinization) can complement conventional water sources.
- Improving irrigation efficiency, water-use productivity and increasing uptake of climate-smart practices can help reduce water demand from the agricultural sector, which consumes around three quarter of Tunisia's water.
- Accompanying institutional reforms under the responsibility of the contracting authority, also to improve financial performance, soft incentives to reduce food and water waste along the value-chain and establishing a water monitoring and early-warning system would further enhance water management.
- Developing disaster risk financing and insurance options, such as index insurance or insurance based on statement can guarantee losses of yield in times of extreme events, including drought.

^a Agence Française de Développement (2020). "Impacts des effets du changement climatique sur la sécurité alimentaire."

^b Agence Française de Développement (ibid.)

^c This is included in the forthcoming World Bank's Tunisia Country Climate and Development Report (CCDR).

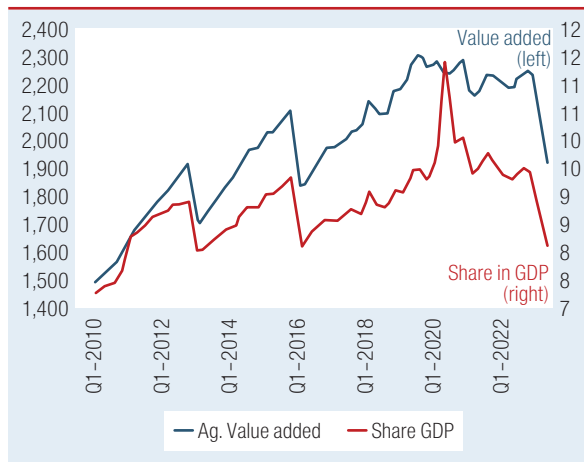
low with a total of only 3,500 jobs being created, with net loss of 15,500 jobs for female workers. This adds to the already large penalty that women experience in the labor market, with a higher unemployment and a lower participation rate (figure 6). While unemployment is on par with the 2019 rate, the participation rate remains around 2 percentage point below the pre-Covid rate, suggesting that the weak recovery has failed to reintegrate into the labor market a significant number of working age people discouraged during the pandemic. The difficult labor market conditions strengthen the incentives to migrate out of Tunisia for both Tunisian and for-

ign workers, including through irregular channels (see part B of this publication).

2. More benign global prices and the positive export performance reduced the current account deficit in the first part of 2023

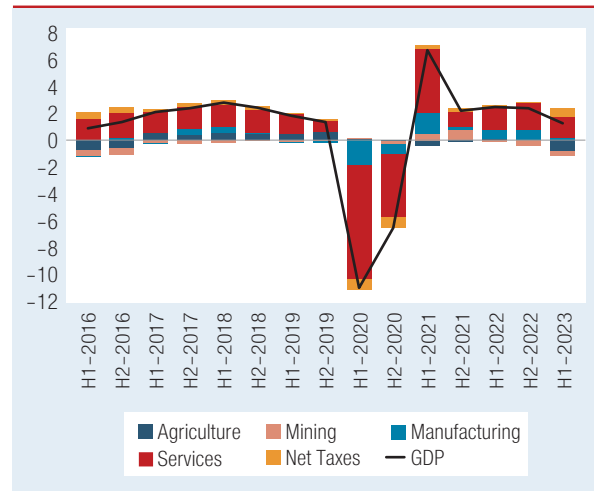
Tunisia's merchandise trade deficit improved in 2023, boosted by favorable changes in international prices. After the adverse terms of trade shock

FIGURE 3 • Value Added in the Agricultural Sector Fell Sharply in the First Half of 2023
(agriculture value-added, TD constant prices and share in GDP)



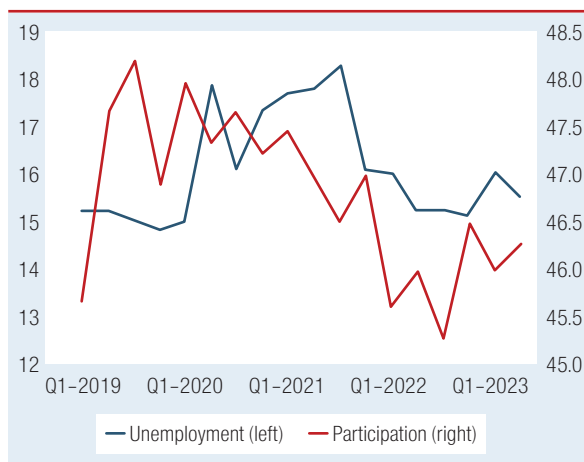
Source: National Institute of Statistics.

FIGURE 4 • Agriculture Drove the Slow-Down in Growth in 2023
(half-yearly GDP growth by decomposed by sector)



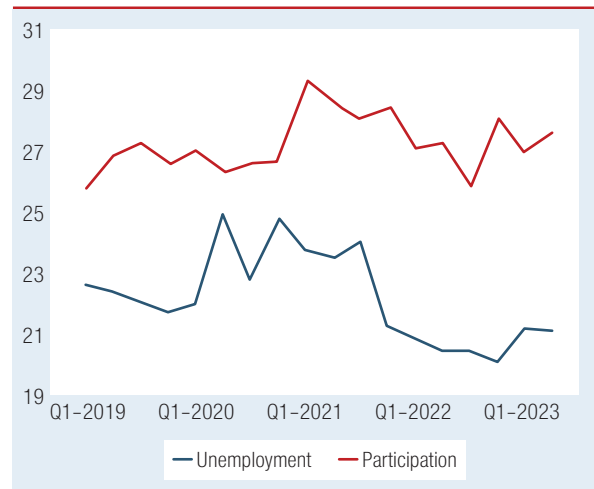
Source: Global Economic Prospects, World Bank.

FIGURE 5 • Unemployment Has Returned to Its (high) Pre-Crisis Level but More Workers Left the Labor Market
(unemployment and labor participation rate, percent)



Source: INS.

FIGURE 6 • Labor Market Outcomes Are Particularly Adverse for Women
(female labor participation and unemployment rate, percent)



Source: INS.

induced by the war on Ukraine in 2022, more benign global prices helped reduce the trade deficit to TD 12.2 billion in the first eight months of 2023 (7.5 percent of 2023 GDP) from TD 16.9 billion (11.8 percent of GDP) in the same period in 2022 (figure 7). This reduction was driven by the shrinking trade deficit of mechanic industries and the expanding surplus of textile and garments, both of which benefited from significant increases in prices. For instance,

unit values of exported electric equipment, which accounted for half of the merchandise export growth, increased year-on-year by 5.5 percent and knitted apparel (9 percent of export growth) by 20.3 percent (Figure 8). The price hike was even larger for oil and fats (+52.5 percent), which benefited from the tightening of the global olive oil supply. In spite of an 8 percent reduction in quantities, Tunisia's oil and fats exports increased by 41 percent, contributing to

BOX 2: THE REBOUND OF INTERNATIONAL TOURISM TO TUNISIA

Besides contributing to the foreign exchange inflows, tourism also represents an important contributor to economic activity and employment in Tunisia. According to the World Tourism Organisation's Tourism Satellite Account, tourism accounted for around 4.5 percent of Tunisia's GDP in 2019. It accounted for 267,000 jobs, or 7.6 percent of total employment in 2018 according to the INS.

Tourism revenues have been volatile since 2010 following the Tunisian Revolution in 2011, the war in Libya in the 2010s, the terrorist attacks in 2015 and the Covid pandemic in 2020–21. This evolution has weakened the industry's financial viability with high level of indebtedness and low capacity to invest among the firms in the sector. Tourism is one of the sectors with the highest level of non-performing loans (NPLs) in Tunisia, which already has a high level of NPLs. In 2021, 5.5 percent of hotels closed down due to financial difficulties.

The limited investment capacity has also constrained the efforts to upgrade the tourist offer in Tunisia, which collects only 0.2 percent of global tourism revenues despite receiving 0.6 percent of the world's tourists. In addition, plenty of regulatory barriers restrict competition and harm the competitiveness of the sector. In a recent assessment the OECD identifies hundreds of such barriers, including complex, burdensome licensing procedures, onerous, overly detailed operational requirements and the influence of incumbents in decision-making bodies.

Despite these challenges the tourism sector in 2023 continued the rebound of the second half of 2022, allowing the industry to return to the pre-Covid levels of arrivals. Boosted by a buoyant international demand for travel, Tunisia has captured a rising share of international tourists. It received 6.2 million non-residents in 2023 through the end of August, an increase of 62.4 percent over the same period in 2022 and just 1 percent below relative to 2019.

Revenues rose by 47.2 percent to TD 5.2 billion (3.2 percent of GDP against 2.4 percent in 2022 and almost on par with pre-covid share of 3.3 in 2019). Arrivals from the main nationalities increased even compared with 2019, including neighboring and European countries. Algerian arrivals (46.6 percent of total arrivals) recorded a 4.5 percent increase and Libyans (31.1 percent of total arrivals) a 20.8 percent increase vis-à-vis 2019. Similarly, the number of French visitors (14.1 percent of total arrivals) increased by 11.7 percent and that of Germans (4.4 percent of total arrivals) by 3 percent compared to the pre-Covid period. On the other hand, Russian arrivals (accounting for 6.7 percent of total arrivals in 2019) collapsed since the war on Ukraine.

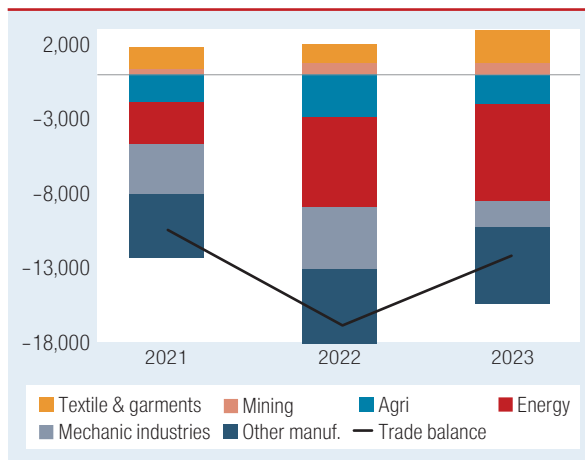
^a Alnabulsi et al. (2023). Non-Performing Loans and Net Interest Margin in the MENA Region: Linear and Non-Linear Analyses, *International Journal of Financial Studies*, 11(2).

^b Office National du Tourisme Tunisien, 2021 Annual Report.

^c Galtier, M. (2019), "Tunisie – Tourisme : les enjeux derrière la bataille des chiffres", *Jeune Afrique*, <http://www.jeuneafrique.com/790526/economie/tunisie-tourisme-les-enjeux-derriere-la-bataille-des-chiffre>

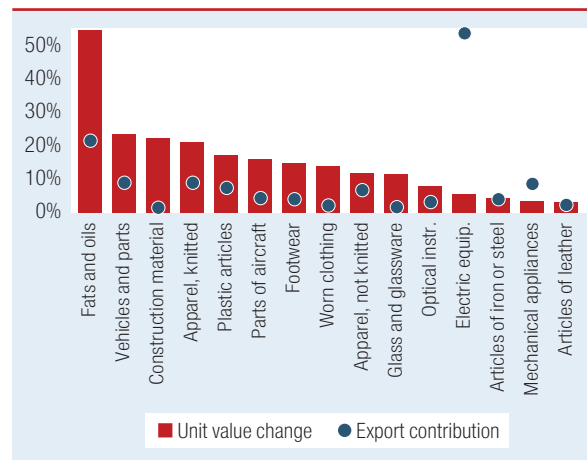
^d OECD (2023). Competition Assessment Reviews: Tunisia 2023.

FIGURE 7 • Mechanic Industries Led the Moderation of the Merchandise Trade Deficit in 2023 (trade balance by sector Jan-Aug 2023, TD million)



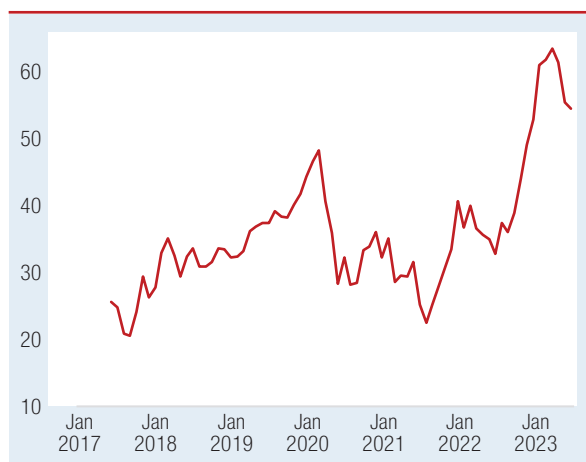
Source: World Bank staff elaboration on INS data.

FIGURE 8 • The Main Tunisian Exports Benefited from Price Hikes in 2023 (2022-23 percent change in unit value and share in total merchandise export, Jan-Aug)



Source: World Bank staff elaboration on INS data.

FIGURE 9 • Energy Account for an Increasingly Dominant Share of the Trade Deficit (energy trade balance as a share of total merchandise trade deficit, six-monthly moving average)



Source: Central Bank of Tunisia.

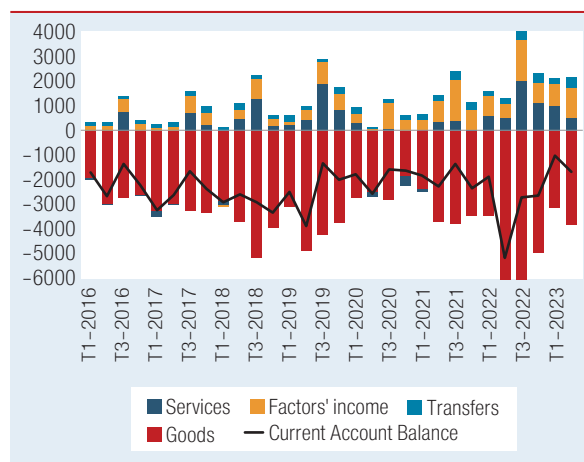
a significant shrinking of the agricultural and agro-industrial trade deficit.

The energy deficit widened in spite of more favorable prices, continuing to account for the bulk of the merchandise trade deficit.

As a large energy importer, Tunisia benefited from a reduction in global energy prices in early 2023 as the global impact of the Russian invasion of Ukraine dissipated. The average price of hydrocarbons imported by Tunisia declined by 18.8 percent in the first eight months of 2023 compared to the same period in 2022. Yet, imported quantities increased by 19.3 percent as Tunisia's production of oil and gas declined.² Thus, energy imports declined only by 3.1 percent in value. On the other hand, energy exports declined by more than a quarter along with production. As a result, the energy trade balance deteriorated further, accounting for 53.4 percent of the merchandise trade deficit in the first 8 months of 2023. That share has been gradually increasing over time, more than doubling since 2017 (Figure 9). That reflects the country's failure to develop alternative sources of energy, particularly renewables (see the Tunisia Economic Monitor 2023 Spring edition for the causes behind this failure).

The narrowing trade deficit along with the rebounding of tourism exports brought down the

FIGURE 10 • The Trade Deficit along with Tourism Receipts Helped Reduce the Current Account Deficit (quarterly data, TD million current)



Source: Central Bank of Tunisia.

current account deficit (CAD) in the first half of the year.

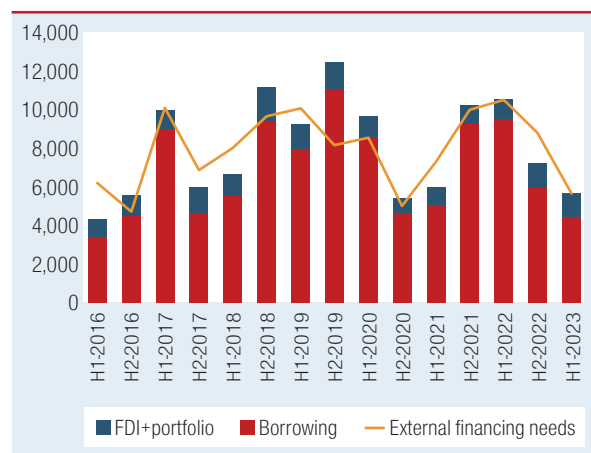
The significant reduction in the merchandise deficit was accompanied by the continued recovery of tourism, which benefited from a robust summer season. Receipts grew by 47 percent year-on-year as of the end of August 2023, reaching TD 5.2 billion (3.4 percent of GDP compared to 2.4 percent of GDP in 2022). They surpassed remittance inflows (TD 5.1 billion) which recorded a more modest increase (+5.1 percent) but which remain a key source of foreign exchange for Tunisia (see part B of this publication). As a result, the current account deficit (CAD) fell from TD 7.0 billion in the first half of 2022 (4.1 percent of GDP) to TD 2.7 billion (1.5 percent of GDP) over the same period in 2023 (figure 10).

3. Despite the lower CAD, securing sufficient external financing remains challenging

The lower CAD eases the pressure on the external financing needs, which however remain sig-

² In the first six months the production of oil declined by 8 percent while that of natural gas by 11 percent (source: Ministry of Industry, Mining and Energy (2023) Conjoncture Energétique, June).

FIGURE 11 • With Weak FDI and Portfolio Flows, Tunisia Relied on Sovereign Borrowing to Cover its External Needs (data by semester, TD million current)

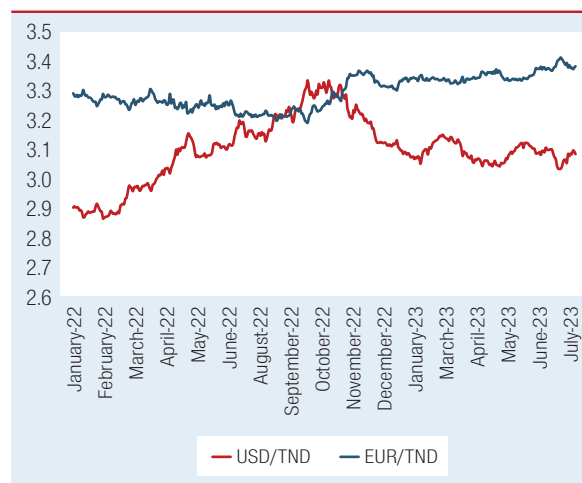


Source: World Bank staff estimation on the basis of Central Bank of Tunisia data.

nificant in light of the forthcoming heavy debt repayment schedule. The lower-than-expected CAD is likely to reduce somewhat Tunisia's external financing needs, which the budget law estimated at TD 14.9 billion for 2023 (9.2 percent of GDP). However, the needs are going to remain significant given the large external debt service, with TD 6.8 billion in reimbursement of principal in 2023, more than 70 percent of which is due in the last two quarters of the year.³

In the absence of private sources of capital, Tunisia continues to depend on sovereign lending to finance its external needs amidst uncertain financing conditions. To cover its external financing needs Tunisia cannot rely on international private financing any longer: the country has lost access to international financial markets and bond spreads remain elevated.⁴ At the same time foreign direct investments and portfolio flows continue to cover only a small share of the external financing needs (figure 11). As a result, Tunisia depends mainly on sovereign financing (concessional or otherwise) to fund its external needs. That financing has been declining over the past couple of years as Tunisia struggled to cover its financing needs. The impending external debt reimbursement would require additional efforts

FIGURE 12 • Amid Pressures on External Financing Needs the Dinar Remained Relatively Stable (TND per 1 EUR and per 1 USD)



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

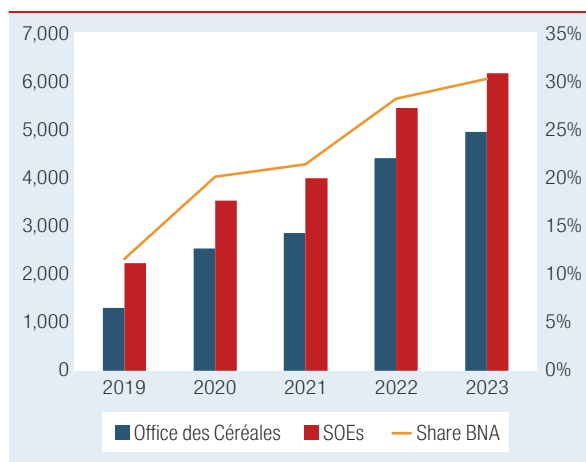
of Tunisia to raise additional sovereign financing. In the first half of the year public external borrowing covered 18 percent of the government estimated external financing for 2023.

Foreign reserves and the Dinar have remained stable in spite the uncertain external financing conditions. The narrowing of the CAD along with recent additional external financing, notably from Saudi Arabia, helped to ease the pressure on foreign exchange reserves. As of the end of September 2023, reserves covered 118 days of imports (TD 26.7 billion), 6 days more than the coverage on the same day in 2022 (TD 23.7 billion) and 18 days more than the beginning of the year (TD 22.9 billion). This provides some buffer on the external side. In the same vein the Dinar has also remained relatively stable throughout 2023 vis-à-vis the main currencies (Figure 12).

³ The figures are based on the 2023 Budget Law.

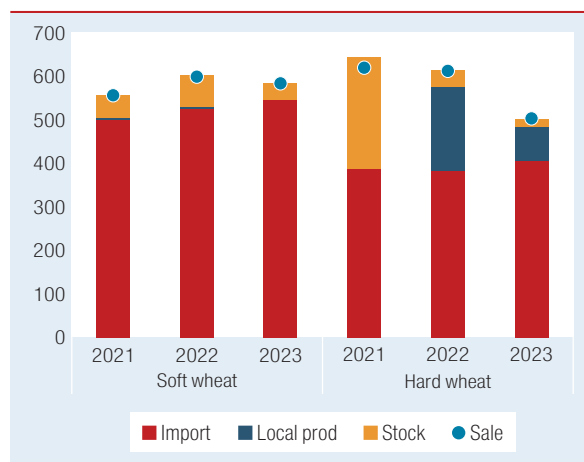
⁴ Since 2020 Tunisia's sovereign credit rating is widely assessed noninvestment grade (including by Moody's, Fitch Ratings and Rating and Investment Information) and the Tunisian government has not been able to issue foreign-denominated bond.

FIGURE 13 • BNA Credits to Office Des Céréales Increased almost Four-Fold since 2019 (TD million and share of OdC in total credit extended by BNA, end of June of each year)



Source: Banque Nationale Agricole.

FIGURE 14 • Hard Wheat Imports Remained Flat Even in the Face of a Significant Drop in Domestic Production (thousands of tonnes sold by OdC in Tunisia by source, Jan-Jun)



Source: Office des céréales, cited in Observatoire Raqabah (2023) "Crise du pain et de la semoule ... Crise réelle ou complot ?".

4. Shortages of basic products have continued, partly fueled by the system of subsidies and the drop in agricultural production, going hand in hand with rising debt of state-owned marketing boards.

As external financing conditions remain tight, imports continue to be compressed particularly for those products imported by increasingly indebted state-owned enterprises (SOEs). As Tunisia continues to face challenges in securing the needed external financing, compressing imports remain an important strategy to achieve the external balance.⁵ That is particularly the case for highly indebted SOEs, which hold the monopoly over the import and distribution of specific products. The Office des Céréales (OdC), which has the monopoly over the import and distribution of wheat, is a case in point. Its debt to the Banque Nationale Agricole (BNA), OdC's main creditor, almost quadrupled between since 2019, reaching TD 5 billion in June 2023, equivalent to 30 percent of BNA's stock of outstanding credits (Figure 13). This over-exposure constrains OdC's access to additional credit, and hence its ability to import the needed wheat in a timely fashion.

This import compression has translated into shortages of basic products, exacerbated by the drop in domestic agriculture production. The increasing constraints to imports faced by SOEs has affected several basic products, including coffee, tea, vegetable oils, wheat (soft and hard), medicines, causing repeated shortages in key markets since 2022.⁶ For cereals, as the drought decimated Tunisia's hard wheat harvest in early 2023, the OdC was unable to step up its imports to compensate for the shortfall (figure 14). In the absence of sufficient wheat stocks, the quantity of hard wheat supplied to the market dropped by 18 percent in the first half of 2023 compared to 2022. That contributed to the shortages of hard wheat products, notably semolina. Given the substitutability between hard and soft wheat, the shortfall seems to have also affected products usually

⁵ See the Spring 2023 issue of the Tunisia Economic Monitor.

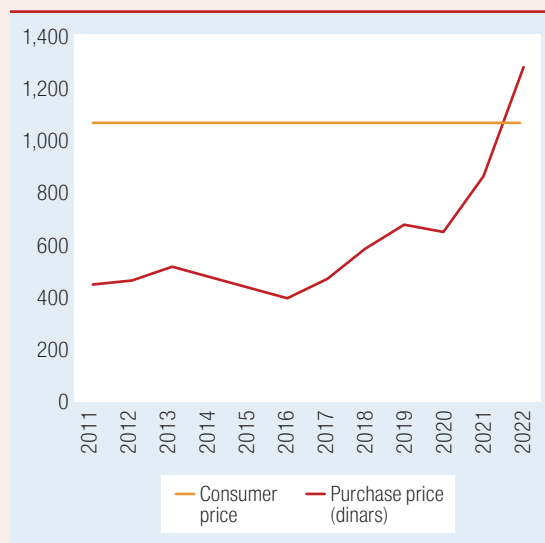
⁶ Different SOEs which effectively act as marketing boards hold the import monopoly of these products. Wheat is imported by the OdC; coffee and tea by the Office du Commerce (OCT); vegetable oil by the Office Nationale de l'Huile (ONH); medicines by the Pharmacie Centrale. All of these SOEs have accumulated increasing debts over the past years, largely financed by domestic banks.

BOX 3: THE LOSS-MAKING BUSINESS OF SELLING BAGUETTES IN TUNISIA

The case of the baguette exemplifies how the system of price controls is responsible for the increasing indebtedness of SOEs. The baguette is one of the main staple foods in the diet of Tunisian households. Around 2.7 billion baguettes are produced every year in Tunisia (around 1 baguette per adult per day), with estimates suggesting that around 15–20 percent of those are either wasted or used for other purposes than human consumption in Tunisia (e.g., animal feed, illegal exports).

The price of the baguette has been maintained fixed by decree since 2011 at TD 0.19. Hence the price of 17 baguettes is around \$1 at the current exchange rate, one of the lowest prices in the world according to the World Bank's International Comparison Program. While the price remained fixed, production costs have not. In particular, the international price of soft wheat, which is the baguette's main ingredient, has moved considerably over the past decade (Figure 15). As Tunisia produces very little soft wheat, the wheat import price is an accurate indication of the cost of the ingredient. The OdC is the monopoly importer of wheat in the country and distributes the imported soft wheat at a price below the import cost to the flour millers (see the Tunisia Economic Monitor 2022 Summer issue). As the Dinar denominated price increased significantly over time, the purchasing cost alone of the wheat needed to produce a baguette was higher than the price of the baguette. Those costs do not include the other costs of processing, distribution, so they provide a sense of the extent to which price controls generate sale losses. In principle such losses are entirely absorbed by the state through the subsidies and transfers to SOEs in the budget. However, as the budget has been particularly tight in recent years, part of the losses is increasingly absorbed by the SOEs.

FIGURE 15 • Without Considering Processing Costs, the Purchasing Price of Wheat Is Lower than Consumer Price for the Baguette since 2022 (prices and costs in TD of wheat for 1000 baguettes)



Source: World Bank staff estimation on the basis of data by the Office de Cereales.

^a A study by Tunisia's Institut National de la Consommation published in 2019 estimates that bread has the highest rate of wastage (16 percent of total bread purchased) among consumer products in Tunisia.

made with soft wheat, particularly flour and its derivatives, including bread.

The system of price control that regulates the markets of these basic products is the main cause of the increasing indebtedness of SOEs and hence of the current shortages. Many of the basic products, which have been in short supply in the market, are subject to strict price control by law.⁷ These controls maintain the prices stable for consumers, often for years, irrespective of the changes in the underlying costs of producing and/or distributing those products (see box 3 for an illustration using the case of the baguette). The resulting losses are typically absorbed by the State-owned marketing boards that are responsible for the import and/or distribution of the products. As the government is increas-

ingly unable to cover those losses, they translate into increased indebtedness for SOE. In the current conditions, it will be difficult to secure adequate supplies of basic products sustainably without reforming the system of price control and the associated import/distribution monopolies over those products.

5. Inflation moderated somewhat from the record levels of early 2023 but it remains elevated

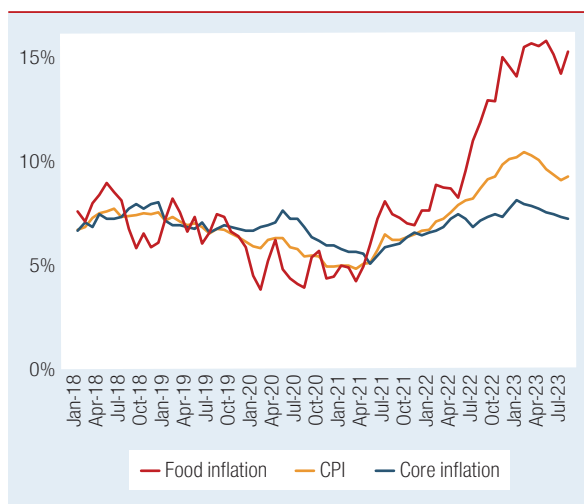
Inflation started to moderate since the peaks of February 2023 on the back of lower global prices

⁷ See the Tunisia Economic Monitor 2022 Summer issue for a more detailed treatment of the issue.

and weak domestic demand. After 18 consecutive months of increase, year-on-year price inflation declined slightly from the record levels of February 2023 (10.4 percent) to 9.0 percent in September 2023 (Figure 16). This followed the reduction in core inflation (from 8.1 in January 2023 percent to 7.2 percent in August), driven in part by the weak domestic demand given the slowdown in economic growth.⁸ The decline in international prices compounded this effect, helping reduce the pressure on domestic prices. Driven by the drop in international prices of energy, cereals and iron and steel, Tunisia's merchandise import prices declined on average by 1.1 percent over the first seven months.⁹ That allowed Tunisia to implement a price freeze of energy products with electricity and gas inflation declining from 14.9 percent in February 2023 to 1.2 percent in September.

However, inflation is still high, particularly for food, as the drought and import compression have reduced the supply in domestic food markets. Despite the decline, inflation remains well above the 2021–2022 average (7 percent) and food inflation is particularly high (13.9 percent). While the rate of price increases for food have been historically higher than average inflation, the gap has been growing this year as the drought and the import compression reduced the domestic supply of agricultural products.

FIGURE 16 • Inflation Started to Decline in 2023 but it Remains High (year-on-year percent increase)



Source: Central Bank of Tunisia.

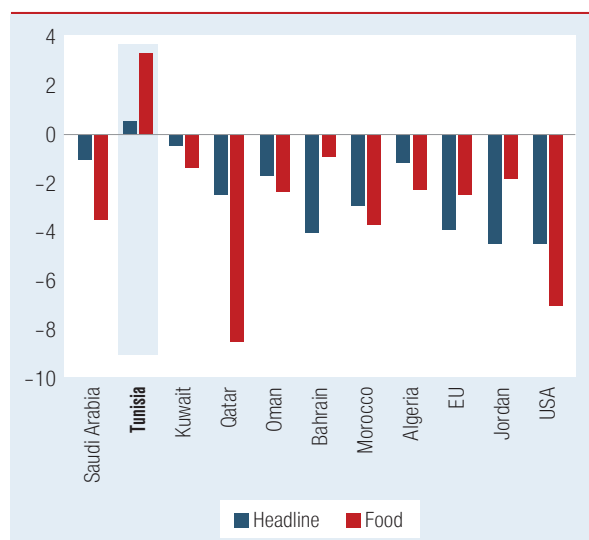
This presents a significant challenge particularly for lower income households, for which food accounts for a relatively greater share of expenditures. To the extent that inflation reduces real incomes, survey evidence suggests that could strengthen the intentions of Tunisians to migrate using irregular and more risky channels (see part B of this publication). In fact Tunisia is the only country in the region where inflation—particularly food inflation—was higher in August 2023 vis-à-vis a year earlier (figure 17).

The recent government measures to contain food prices focused on hoarding behavior and enhancing price controls but food inflation remains elevated. The government has taken several measures since 2022 to reduce food inflation, including through a new law punishing hoarding and new regulations controlling food prices and distribution channels. However, these measures do not appear to have yielded the desired effect, as other factors, including the shortfall in supply and imports linked

⁸ Core inflation is computed by excluding energy and food products from the CPI.

⁹ 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 7 months.

FIGURE 17 • Unlike other Countries, Food Inflation in Tunisia Increased Over the Last Year (Percentage point change (y-o-y), August 2023 vs. 12 months ago)



Source: Various central banks, World Bank estimates.

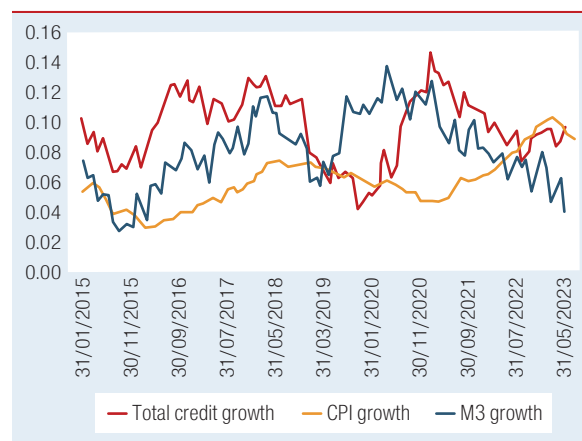
to the drought and the monopoly of highly indebted SOEs, seem more important drivers of inflation.

Inflation remains well above the nominal interest rate, even though the latter has remained stable in 2023. Declining inflation eased pressure on the Central Bank (CBT), which has maintained its key policy rate unaltered at 8 percent since the beginning of 2023. As a result, real interest rates remain negative. It remains unclear to what extent the policy rate may affect this inflation episode in Tunisia. The decline in total credit growth and money supply in 2020–22 along with the hike in the policy rate coincided with the spike in inflation (Figure 18), which is not consistent with the monetary nature of inflation. Rather the most plausible hypothesis is that the inflation hike has been driven by the increase in international prices following the post-Covid supply bottleneck along with some depreciation of the Dinar (see Summer 2022 issue of the Tunisia Economic Monitor). The challenge for the authorities continues to be to avoid inflationary pressures fueled by a price-wage spiral. The effectiveness of this policy will depend on accompanying measures to pursue macroeconomic stabilization and adopt the structural reforms needed to resume a sustainable growth trajectory. Maintaining a strong and independent Central Bank will be a central pillar in the pursuit of price stability.

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

The increase in tax revenues in the first half of 2023 has been more modest than expected, dragged by the slowdown in growth. The budget execution report shows that tax revenues grew by 8.3 percent in the first six months of 2023 compared to the same period in 2022. That is significantly below both the 2023 Budget Law's projection (15.3 percent), the 2022 growth rate (16.6 percent), and the inflation rate so that tax revenue collection actually contracted (Figure 19). The comparatively modest performance of indirect taxes, particularly VAT (2.1 percent growth) and customs (-1.1 percent), 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.

FIGURE 18 • The Hike in Consumer Prices during 2021-2023 Was Correlated with Neither Money Growth nor Credit Growth (year-on-year percent Increase)

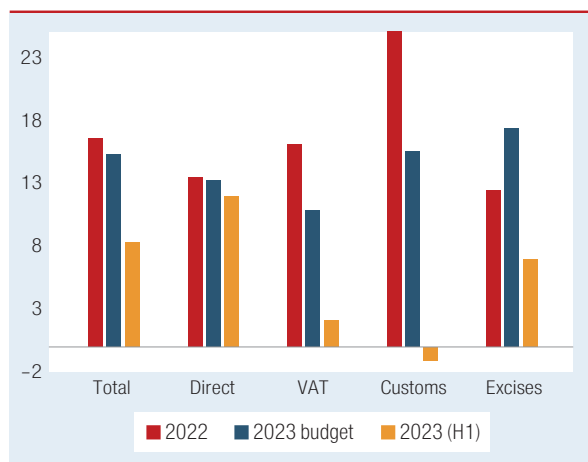


Source: Central Bank of Tunisia.

On the other hand, direct taxes showed greater resilience (+12 percent) as their largest component—labor income taxes—is less responsive to short-term variations in growth.

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. The public wage bill only grew by 2.8 percent in the first six months of 2023 relatively to the same period in 2022. While Tunisia still has one of the highest public wage bills in the world relative to the size of its economy, it declined from 15.1 percent of GDP in the first half of 2022 to 13.7 percent in 2023 and from 55 percent to 53 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 6.9 percent in spite of the significant expansion of subsidies and transfers (+25.6 percent, growing from 4.3 percent to 4.8 percent of GDP). Capital expenditures continued to grow below the rate of overall expenditure (+5.9 percent) and its share in GDP declined further to 2.3 percent (from 2.5 percent in the first half of 2022). The moderate growth in expenditures helped maintain the

FIGURE 19 • Tax Revenues Under-Performed in the First Half of 2023
(percent growth over same period in previous year)



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

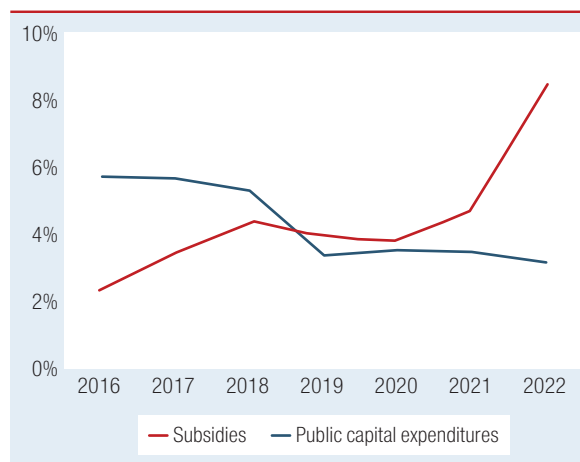
budget in balance in the first half of 2023, in line with the result in 2022.

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 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. Expenditures on subsidies (for energy and food products) grew four-fold from 2 percent to 8 percent of GDP between 2016 and 2022 (figure 20). These measures crowded out public investments, which declined from 6 percent to 3 percent of GDP over the same period. Reversing this decline in capital expenditures is crucial to revive Tunisia's growth trajectory.

7. The high public debt continues to put pressure on the domestic banking system

The sustained budget deficits of the past years have maintained public debt at a level among the highest in decades, raising debt service as well. Public debt grew from 66.9 percent to 79.4 percent

FIGURE 20 • A Tale of Two Expenditures: Subsidies Versus Capital Expenditures
(percent of GDP)



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

of GDP between 2017 and 2022, reflecting rising public expenditures and the deceleration of the economy during the Covid-19 crisis. The majority of the debt (58 percent) is foreign denominated, although Tunisia has increasingly tapped into local markets to finance the debt as access to international markets has become restricted.¹⁰ The debt figure cover only the central government's but not SOEs' debt, much of which is guaranteed by the state. In the first half of 2023, debt rose moderately compared to the end of 2022 (4.3 percent), benefiting from the balanced budget. However, to the extent that the cash basis budget hides some accumulation of arrears (e.g. to the SOEs), the debt situation could in fact be more burdensome than the figures suggest. The growth of public debt has translated into an increase in interest payments, raising Tunisia's financing needs. Interest payments more than doubled from TD 2.3 billion to TD 4.7 billion between 2017 and 2022, and they grew a further 10 percent in the first half of 2023 relative to the same period in 2022 (although they remained stable at around 3 percent of GDP and 8 percent of exports).

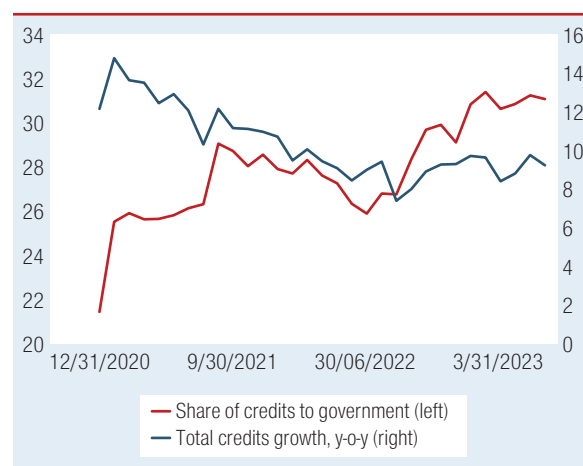
Given the limited access to international financing, the Central Bank (BCT) continues to

¹⁰ The domestic share of the debt moved from 27 percent in 2018 to 42 percent in 2022.

refinance the domestic banking sector for treasury bond purchase. Some financing partners, including Afreximbank and Saudi Arabia, pledged and—in some cases—disbursed new funds in the first half of 2023, although at relatively high interest rates (hovering close to 10 percent). Despite these cases, Tunisia's access to foreign funding has remained limited, as noted above. Hence, the government continued to use domestic financing through local banks. As a result, the domestic component of the public debt accounted for 78 percent of debt increase between 2018 and the first half of 2023. The domestic financing led to an increase in the Central Bank's refinancing rate to local banks.¹¹

The sustained use of local funding to finance the public debt continues to crowd out credit to the economy. Indeed, 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. The banking sector's exposure to the State continues to grow at an annual rate of more than 12 percent, while the share of loans to the economy is decreasing with a growth rate of 8 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 31.1 percent in the first half of 2023 (Figure 21). In a context of limited credit growth, this pattern has displaced credit to the rest of the economy. And this pattern does not account for the crowd-

FIGURE 21 • The Share of Net Government Receivables in Total Credits Continues to Increase as Credit Growth Falters (year-on-year percent increase)



Source: Central Bank of Tunisia.

ing out of the rising credit to SOEs vis-à-vis private credit, as illustrated by the case of the Office de Céréales with BNA (see Box 4).

¹¹ 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.

BOX 4: RISING BNA EXPOSURE TO THE OFFICE DES CÉRÉALES LIKELY UNDERMINING THE BANK'S ACTIVITY

The debt of the Office des Céréales (OdC) vis-à-vis the Banque Nationale Agricole (BNA) reached a record TD 5.0 billion (3.8 percent of GDP) as of June 30 2023, around 30 percent of total BNA's on-balance sheet commitments. They rose by 3.9 percent compared to the end of 2022 and 12.3 percent compared to a year before.

In addition, the State guarantees the entirety of OdC's commitments against counterparty risk (comprising principal, interest, and commissions). At the same time the government is facing increasing difficulties to secure the necessary financing to OdC for the losses it incurs due to the cereal subsidies.

The financing of the OdC has had a significant impact on BNA's cash position, with a negative balance of TD 5.1 billion at the end of June 2023, compared with TD 4.5 billion at the end of December 2022. Along with the growing lending exposure to other SOEs, this has likely contributed to reduce BNA's lending to other parties. As BNA credit to OdC grew almost 4-fold between 2019 and June 2023, credit to private clients grew only 12 percent over the same period (see Figure 13 above).

Source: Interim financial statements of BNA, August 2023 and BNA financial statements 2022 and 2021.

8. Growth prospects are worsening as external financing conditions remain challenging

The World Bank forecasts a 1.2 percent GDP growth in 2023—a significant slowdown compared to 2021–22—with a slight uptick to 3.0 percent in 2024 conditional on the moderation of the drought. The forecast reflects the performance of the economy in the first half of 2023 and reflects the challenging conditions linked to the drought, particularly for agriculture, the lack of visibility around debt financing and the pace of structural reforms planned by the government. With this growth rate, real GDP in 2023 would still be 1.3 percent below its pre-Covid 19 level. Assuming more stable financing conditions and a moderation of the ongoing drought, growth is expected to eventually gain some ground, reaching 3.0 percent in 2024 and 2025. This slight rebound would allow the economy to achieve a 2.4 percent annual growth over the post-Covid period. This appears to be the modest structural growth rate of an economy dragged by pre-existing structural weaknesses and the uncertainty around financing conditions.

The 2024 growth forecast is subject to significant downside risks related to the evolution of the drought, and the pace of structural reforms planned by the Government, and financing conditions. Growth projections for 2024 would be significantly lower should Tunisia not implement decisive fiscal and pro-competition reforms and/or should available financing not be sufficient to cover Tunisia's external needs. These conditions could generate a shortage of foreign exchange in the economy, a rationing of imports, and potentially lead to a depreciation of the dinar, thus aggravating existing inflationary pressures—and this at a time when important external debt repayments are falling due at the end of 2023 and early 2024. As a result, economic activity and employment could be affected. In addition, should the drought conditions persist beyond this year, the 2024 projections could also be revised downwards given the negative impact on agriculture and the trade balance.

Tunisia's twin deficit is expected to moderate on the back of more favorable commodity prices and some compression of expenditures.

The budget deficit is expected to decline somewhat to 5.6 per cent of GDP in 2023 (compared to 6.6 percent of GDP in 2022). That is mainly driven by the compression of expenditures, particularly the wage bill and to some extent basic products' subsidies, which should benefit from lower international prices. The CAD is projected to moderate substantially to 4.0 percent of GDP in 2023 (from 8.6 percent in 2022) due to strong travel exports, improved terms of trade but also continued import compression. However, the hike in oil prices since July 2023 presents a clear downside risk for both the fiscal and the external balance.

However, the financing of the deficits will require a significant scale-up of the external financing in the face of the heavy debt reimbursement schedule. Despite the lower deficits, gross financing needs are expected to rise further to 16.0 percent of GDP in 2023 (from 12.6 percent in 2022), mainly driven by rising debt amortization. In fact, almost two-thirds of the financing is expected to be amortization, as a large amount of debt is coming due in the latter part of the year. While this helps to reduce the level of public debt somewhat (from 79.8 percent in 2022 to 76.9 percent of GDP in 2023), it also increases Tunisia's reliance on external funding sources, which should account for around 57 percent of total financing. With FDI projected to be stable and minimal portfolio investments, sovereign lending would still have to cover the external financing needs as Tunisia continues to be cut off international capital markets. An IMF Staff level agreement on an EFF with the Tunisian authorities was reached in October 2022 with a view to being taken to the IMF Board for consideration shortly after. However the program has not been submitted to the IMF Board since then. It is unclear at this stage how the lack of an IMF program will delay external financing as it could have unlocked other external financing as well.

If the pace of reforms and the level of financing remain sufficient, we project a slight uptick in growth over the medium run along with some stabilization of the macro and fiscal imbalances. We expect the economy to slightly accelerate its pace of growth to 3 percent in 2025–26. That would entail a slow convergence towards the long-run growth path, from which the economy deviated

TABLE 1 • Key Macroeconomic Indicators

	2020	2021	2022	2023	2024	2025
Real GDP Growth, at constant market prices	-8.8	4.4	2.4	1.2	3.0	3.0
Private Consumption	-2.1	2.4	2.2	2.7	3.8	4.5
Government Consumption	-1.0	1.5	-1.2	-2.9	-0.5	-0.5
Gross Fixed Capital Formation	-19.9	3.3	1.3	-7.3	2.9	5.0
Exports, Goods and Services	-20.0	11.8	15.2	9.4	5.1	3.3
Imports, Goods and Services	-16.6	10.9	9.3	8.6	4.8	5.1
Real GDP Growth, at constant factor prices	-8.7	4.5	2.6	1.2	3.0	3.0
Agriculture	0.4	-2.7	0.7	-8.0	3.0	2.1
Industry	-10.1	8.7	-0.3	0.7	2.1	2.5
Services	-9.6	4.1	4.0	2.8	3.3	3.3
Inflation (Consumer Price Index)	5.6	5.7	8.3	9.2	8.0	7.0
Current Account Balance (% of GDP)	-6.0	-6.0	-8.6	-4.0	-4.6	-5.5
Foreign Exchange reserves (US\$ bn)	8.2	8.3	7.4	9.4	10.0	11.2
Foreign Exchange reserves (months of imports)	4.1	3.1	3.0	3.5	3.4	3.4
Central Government Overall Fiscal Balance (% of GDP)	-8.7	-7.6	-6.6	-5.6	-3.6	-3.1
Primary Fiscal Balance (% of GDP)	-5.6	-4.7	-3.4	-2.3	-0.2	0.3
Fiscal Revenues (% of GDP)	25.5	25.7	28.5	27.7	28.3	28.2
Fiscal Expenditures (% of GDP)	34.2	33.3	35.1	33.3	31.9	31.3
Gross financing needs of the Central Government (%GDP)	13.3	10.9	12.6	16.0	14.9	13.5
Central Government Debt (% of GDP) ^a	77.8	79.9	79.8	76.9	74.9	72.6
Interest payments (on CG debt; % of GDP)	3.1	2.8	3.2	3.3	3.3	3.3

^a The figures for 2022–2023 are based on government data; 2024–25 are based on World Bank estimates on the basis of IMF and government projections.

during the Covid-19 crisis, by mid-2030s. 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 the economic reforms should help Tunisia reduce its current account and budget deficits, easing financing conditions. Furthermore, the slight increase in real economic growth should lead to a decrease in the poverty rate below pre-Covid levels by 2025.¹² However, these

medium-term prospects are conditional on the continuation of an ambitious pace of reforms, sufficient financing conditions and the stability of international energy prices, oil in particular.

¹² The finding applied whether using lower-middle or upper-middle income country poverty line (equivalent respectively to US\$3.65/person/day and US\$6.85/person/day in 2017 purchasing power parity terms).

MAKING MIGRATION AN ENGINE OF GROWTH AND DEVELOPMENT FOR TUNISIA

Given the importance of migration in the current public debate in Tunisia and abroad, and, equally, the importance of out- and in-migration for development in a longer historical as well as future perspective, this section of the Tunisia Economic Monitor aims to provide data, historical trends and benchmarking for the various migration flows into and out of Tunisia.

Emigration has become an increasingly important strategy for Tunisians to cope with the challenging economic and social situation. Tunisia's emigration flows increased over the last two decades and have followed more irregular pathways since 2019. Emigration yields economic benefits, as earnings abroad are often much higher than those received in Tunisia. These gains, however, are lower when migrants are undocumented. Some of these emigrants also return home, bringing back skills and capital to invest.

Just like Tunisians emigrate in search of better living conditions, over 60,000 foreigners had immigrated to Tunisia as of 2020. Today, they make up around 0.5 percent of the Tunisian population. In recent years their numbers have grown at a slower

pace than emigration (6 vs. 17 percent). Maintaining a regular status as a migrant is challenging as obtaining a residence and a work permit can be cumbersome, making them more vulnerable and less able to contribute to the Tunisian economy.

Since the end of 2022, Tunisia has also become an important transit country for irregular migration to Europe. In the first eight months of 2023, two third of irregular migrants to Italy in the Central Mediterranean route—or more than seventy thousand people—departed from Tunisia. Only 11 percent were Tunisians, while the remainder were mostly from sub-Saharan Africa. The rise in irregular departures has led to an uptick in incidents and casualties off the Tunisian coasts. More than 765 migrants died and 1,008 went missing while attempting to cross the Central Mediterranean in the first half of 2023, three times the number of casualties over the same period in 2021–22.

Looking ahead, migration will likely become increasingly important for Tunisia (both inflows and outflows), given the demographic transition in both Tunisia (whose age pyramid in 2050 will resemble that of contemporary Italy) and Europe. Tunisia could

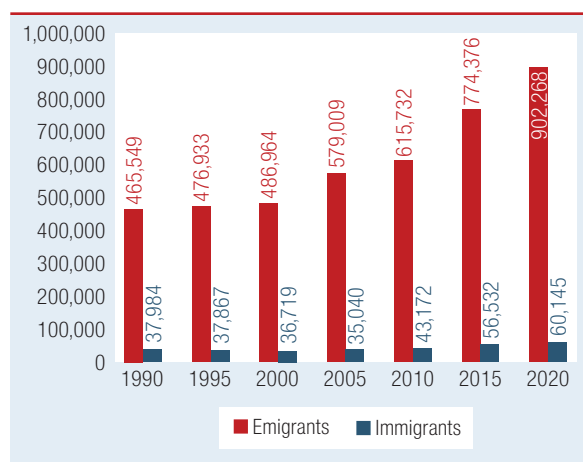
help strengthen the match of emigrants with demand abroad through enhanced cooperation with destination countries, thereby increasing the long-term benefits of migration for Tunisia, including through higher remittance and inflows, knowledge circulation, increased trade and capital inflows. Economic benefits from immigration into Tunisia can be increased by facilitating migrants' regular status and strengthening the recognition of qualifications.

Emigration: the importance of Tunisia as a sending country has risen over the past three decades

Emigration is becoming an increasingly important strategy for Tunisians to cope with the challenging economic and social situation in the country. Emigration of Tunisians has been on the rise in the past years as economic and social conditions deteriorated. That is reflected also by a steep increase in the intentions to emigrate, which (according to Arab barometer data) doubled between 2017 and 2021. The link between the socio-economic situation and emigration is also consistent with the findings of the INS' national survey on international migration in 2021 (Tunisia-HIMS). These suggest that unemployment is a key driver of Tunisians' intentions to emigrate—unemployment is also associated with the willingness to emigrate through irregular channels.¹³

This trend consolidates Tunisia as a country of mainly emigration with the numbers of Tunisians living abroad at least 15 times higher than the number of foreigners living in Tunisia. The United Nations (UN) estimates a total of around 900,000 Tunisian emigrants as of 2020¹⁴, whereas the number of foreign-born residing in Tunisia stood at around 60,000 in the same year. According to the Office for Tunisians Abroad (OTE), the estimated stock of Tunisians residing abroad in 2022 was double the UN number (1.8 million). The difference is due to the different recording approaches between the UN and the OTE data.¹⁵ The stock of Tunisian emigrants increased over the years with the number of Tunisians living abroad being at least 15 times higher than the number of foreigners residing in Tunisia since the 1990s (Figure 22).¹⁶

FIGURE 22 • The Number of Tunisians Living Abroad has Historically Been Significantly Higher than Foreigners Residing in Tunisia (stock of migrants to and from Tunisia)



Source: UNDESA, 2020.

Emigration of Tunisians has increased significantly over the last two decades, becoming more irregular since 2019. The flow of regular migrants from Tunisia to Europe, measured as both the number of entry and 12-month residency permits issued each year, increased between 2009 and 2019 (Figure 23). On the other hand, according to the European Border and Coast Guard Agency irregular crossings of Europe's borders by Tunisian nationals increased remarkably since 2019, reaching more than 25,000 in 2022 alone. With more than 54,000 arrivals (19 percent), Tunisians

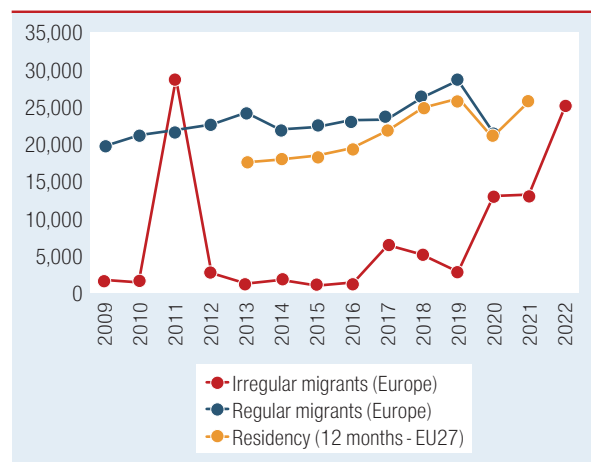
¹³ Restelli, 2023. Development and International Migration: The Effect of Income on Regular and Irregular Migration Intentions to Europe. *Population and Development Review*, 49(1), pp.135–174.

¹⁴ UNDESA, Population Division, 2020. *International Migrant Stock 2020*.

¹⁵ UNDESA's estimates rely on population censuses in destination countries and classify migrants on the basis of the country of birth. OTE's figures are based on Tunisian nationals who register with embassies abroad and hence classify migrants on the basis of citizenship. In both cases, migrants with irregular status may be largely unaccounted for.

¹⁶ These orders of magnitudes are comparable to those emerging from the 2021 Tunisia-HIMS, which estimates a total stock of 566,000 Tunisian emigrants, aged 15 and above and a total of 58,990 immigrants in Tunisia (INS, 2021).

FIGURE 23 • Irregular Migration of Tunisians to Europe has Been Increasing Since 2019 (Number of Tunisian emigrants to Europe by type, 2009-2022)



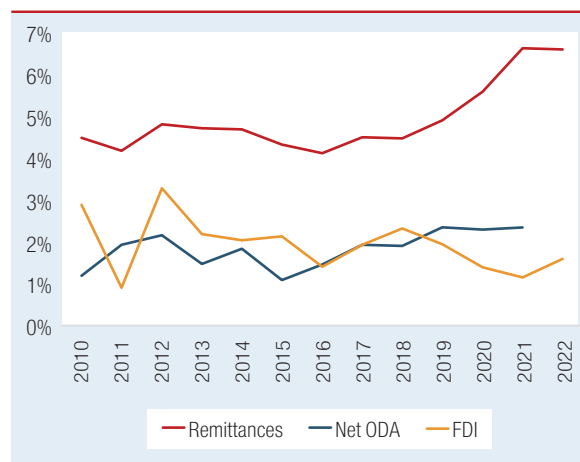
Source: Frontex for irregular migrants, OECD for regular migrants (all permits), Eurostat for 12-month residency permits.

represent the main nationality of irregular migrants to have reached Italy via the Central Mediterranean Route between January 2019 and June 2023.¹⁷

Emigration has yielded significant benefits to Tunisia and the Tunisian population through several key channels

Emigration yields significant economic benefits to Tunisians, particularly when it is regular. Emigration to high-income countries usually leads to significant increases in earnings for the migrant as wages for the same occupation are much higher in destination than home countries.¹⁸ For instance, Tunisian nurses could receive wages up to ten times higher in Germany and France.¹⁹ These gains, however, are considerably lower when migrants are undocumented as they cannot access formal jobs because they fear being detected and/or they lack the required licenses and credentials. Tunisian emigrants have been sharing some of these gains with families and communities in Tunisia through remittances. In the last decades, remittances have been the largest financial inflow to Tunisia, reaching 6.6 percent of GDP in 2021–22, several times larger than both Foreign Direct Investment

FIGURE 24 • Remittances have Consistently Been the Most Important Foreign Financial Inflow for Tunisia (percent GDP)



Source: World Development Indicators, Central Bank of Tunisia and Tunisia Statistical Institute.

(FDI) and official development assistance (Figure 24). Such flows are also more stable than the other flows including during periods of crisis. For many migrants and their families, income gains mean better living conditions and a greater ability to save and invest in businesses, housing, education, and healthcare.

Some of the outward-bound migrants have come back to Tunisia, bringing back skills and capital to invest, although fewer return than those who emigrate, particularly among the high-skilled.

As of 2021, the Tunisia-HIMS survey estimates a total of nearly 211,000 Tunisians who have lived abroad, for three months or more, and have returned to reside in

¹⁷ That is based on Frontex data on detections of irregular migrants.

¹⁸ For example, controlling for the characteristics of workers and the differences in living costs, the wage of an immigrant worker in the United States is on average 6.8 times higher (in real term) than an equivalent worker in the same occupation in the native developing country. See Clemens, Michael A., Claudio E. Montenegro, and Lant H. Pritchett. 2019. "The Place Premium: Bounding the Price Equivalent of Migration Barriers." *Review of Economics and Statistics* 101 (2): 201–13.

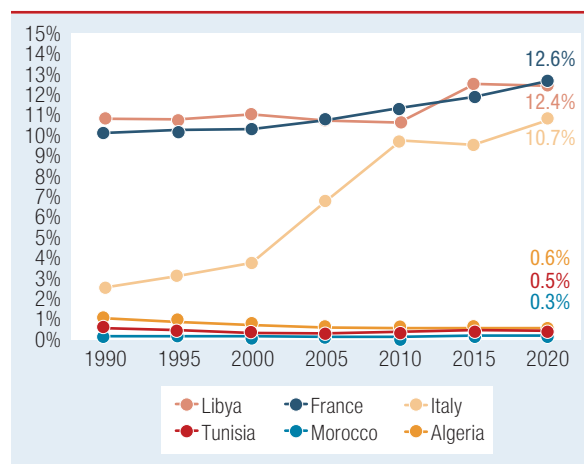
¹⁹ Clemens, 2015. *Global skill partnerships: a proposal for technical training in a mobile world*. IZA Journal of Labour Policy.

Tunisia, for a minimum of six months. Nearly one in five returning migrants reported having made investments in Tunisia. This share increases to 27 percent among those having emigrated for 25 years or more, as savings typically increase with the duration of migration. However, the number of returnees is estimated to have remained stable over the past decade, hovering around 7–8,000 per year, a number between 2 and 6 times lower than that of new emigrants. The rate of return is particularly low among Tunisians with higher education.²⁰ At the same time, some evidence suggests that emigration is increasing among the highly educated. The secretary of the Tunisian Medical Association reported that more than 970 (7 percent) Tunisian doctors left the country in 2021 among 14,000 doctors working in Tunisia compared to 570 (4 percent) in 2018, a 70 percent increase.²¹ These trends are consistent with the weak performance of the Tunisian economy and the associated squeeze of wages, including in the public sector (see Part A of the TEM).

Immigration: Relatively few foreigners choose Tunisia as a destination country, while many face significant challenges

Just like Tunisians emigrate in search of better living conditions, some foreigners immigrate to Tunisia. Immigrants in Tunisia are a small fraction of the population by international standards. Today, they make up around 0.5 percent of the Tunisian population (Figure 25). The share of immigrants in the population is between 20 and 25 times lower than in close European countries including Italy and France and neighboring Libya. Tunisia's share is in line with other countries in the region including Morocco and Algeria. However, these figures are underestimated as they do not include immigrants with irregular status. UNDESA data show that the immigrants stock increased by around 6 percent between 2015 and 2020, nearly three times lower than the growth in the stock of Tunisian emigrants (17 percent) during the same period. North Africans and Europeans account for most of the increase in immigration in 2010–20 (72 percent) and of the stock of immigrants in 2020 (74 percent). The Tunisia-HIMS estimates similar trends.²²

FIGURE 25 • Immigrants' Stock in Tunisia Remains Relatively Low as a Share of the Resident Population
(regular immigrants in percent of total resident population, selected countries)



Source: UNDESA for immigrants' stock and World Development Indicators for population data.

Over the medium- to long-run, the importance of attracting migrants to Tunisia will increase given the demographic transition underway. Like many middle- and high-income countries, Tunisia's fertility rate dropped significantly: from nearly 7 children in 1960 to only 2.06 in 2022 (below the replacement level). As a result, the ratio of the working age population to the elderly declined from 13.5 to less than 7. Considering such trends, the UN population prospects estimate that Tunisia's age pyramid will increasingly resemble that of contemporary Italy, and related needs of influx of workers (figure 26). Immigration will be increasingly important to address this demographic transition.

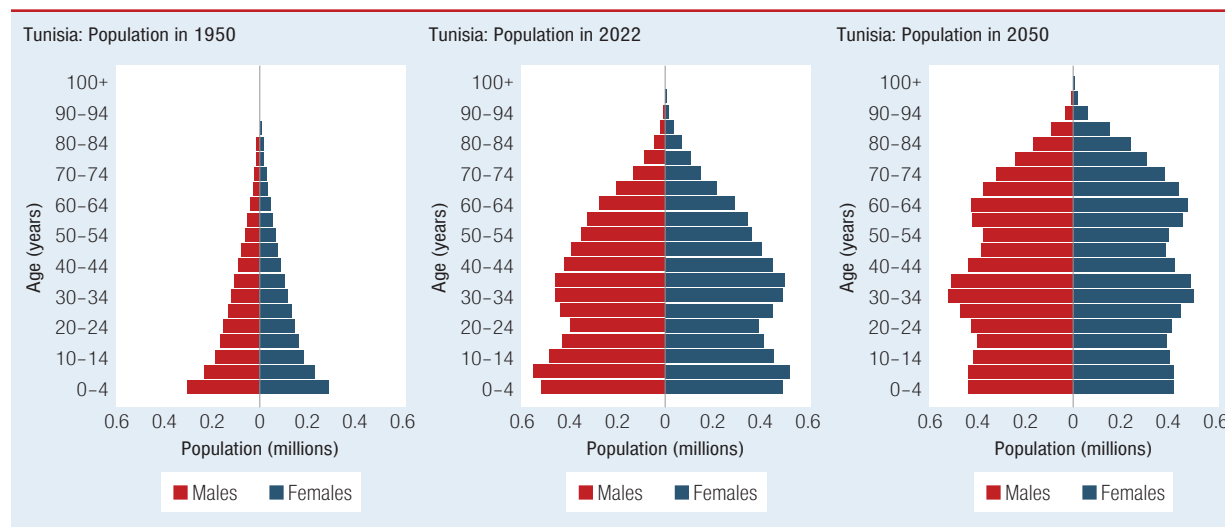
It is challenging to maintain a regular status as a migrant worker in Tunisia, making them more vulnerable and hindering them to fully contribute

²⁰ According to the Tunisia-HIMS survey, the majority of returning migrants had primary education (37 percent) or less (17 percent), while only 16 percent held a university degree.

²¹ Khdimallah, M. (2022). "975 médecins ont préparé un dossier de départ en 2021: De l'impossibilité de reformer", La Presse.

²² According to the survey, the stock of Tunisian emigrants increasing by 32 percent since 2014, and the stock of immigrants increasing by around 11 percent during the same period.

FIGURE 26 • Tunisia's Population Is Rapidly Aging



Source: United Nations World Population Prospects (2022).

to the Tunisian economy. Interviews with migrants conducted by the International Organization for Migration (IOM) in 2018 showed that the main obstacle to access formal employment in Tunisia is obtaining a residence permit, which is in turn required for a work permit.²³ The Tunisian Government reduced the number of such work permits between 2009–17 (Figure 27) despite the increase in the number of immigrants to Tunisia. Both the legal framework and its enforcement make the process of obtaining a work permit cumbersome (see box 5). This results in limited legal access to the job market for migrants in the country.²⁴ As a result, the majority of migrant workers are employed informally in Tunisia.²⁵ Most irregular workers arrive regularly in Tunisia for other purposes and work irregularly or end up overstaying their visas, especially in the case of foreign students who are not allowed to work in Tunisia.²⁶ The irregular status reduces the migrants' contributions to the economy.²⁷ In addition it exposes them to violations and exploitation, including violations workers' rights, forced evictions, violence.²⁸

Tunisia has become a major transit country for irregular migration to Europe

In 2023, Tunisia has become the main transit country for irregular migration in the Central

Mediterranean and it has increased the use of deterrence measures. In the first eight months of 2023, 73,829 people arrived irregularly in Italy by sea from Tunisia. That is around 44 percent of all irregular migrants to Europe and two third of irregular migrants to Italy via the Central Mediterranean route over the period. As a result, Tunisia has overtaken Libya as the

²³ The interviews were conducted with a sample of 450 migrants from the Middle East, North Africa and sub-Saharan Africa. IOM, 2019. Evaluation des besoins des communautés migrantes & des communautés hôtes en Tunisie.

²⁴ ILO, 2019. Diagnostic sur les processus de recrutement des travailleurs en Tunisie.

²⁵ According to a 2016 survey by Terre d'Asile Tunisie, about four fifth of migrant workers were employed informally in 2016 (Terre d'Asile Tunisie, 2016. *Portrait de migrants*). This figure is confirmed by more recent survey data collected by the Mixed Migration Centre in 2021 (Mixed Migration Centre (MMC), 2021. *Hidden hardship of an unnoticed workforce: the economic lives of refugees and migrants in Tunisia*), which finds that 88 percent of respondents were working based on a verbal agreement.

²⁶ Terre d'Asile Tunisie (ibid.).

²⁷ World Bank (2023). World Development Report. Migrants, Refugees, and Societies: World Development Report 2023.

²⁸ OMCT (2023). "Mapping of responses to human rights violations: People in mixed migration flows in Tunisia".

BOX 5. TUNISIA'S LEGAL FRAMEWORK OF MIGRATION AND WORK

The conditions of access of migrants to work in Tunisia are regulated by two main laws: Law No. 68-7 of March 8, 1968, relating to the conditions of foreigners in Tunisia and the Labor Code (articles 258 to 269). The process of obtaining a work permit is complex and can take several months to complete. The legal framework does not provide clear guidelines for obtaining work authorization, leaving significant discretion to the Tunisian administration.^a This can lead to uncertainty and delays in the process.

The Tunisian law establishes a strong connection between legal residence and work authorization. To work in Tunisia, migrants must maintain regular residence in the country, and their residence card must explicitly state that they are authorized to work. Even when migrants are able to obtain such a work permit, it is only valid for one year and must be renewed every year. This makes it difficult for migrants to sustain long-term employment. As a result, many migrants end up working informally without a contract or work authorization, without social protection and become more vulnerable.^b

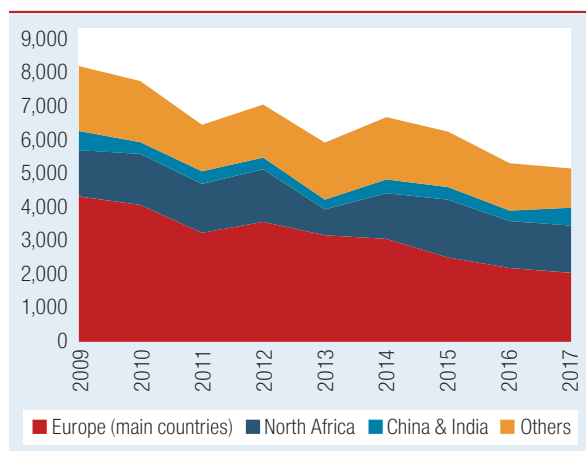
The Tunisian law and the Labor Code provide for sanctions in the event of non-compliance with the rules concerning the employment of migrants. These sanctions apply to both employees and employers at fault. Indeed, a migrant worker who works without a contract or work authorization incurs the following sanctions: dismissal, financial sanction or/ and prison sentence (Labor Code, articles No. 258-2 and 266). In case of non-commitment of the previous articles, migrant workers risk the expulsion (Labor Code, article No. 267).

The Tunisian legal system has integrated ILO standards to enhance the protection of migrants' rights, in particular through the 2016 law on the prevention against all forms of human trafficking and the 2018 law on the protection against all forms of racial discrimination. However, Tunisia has not yet ratified the relevant ILO United Nations instruments relating to workers: Convention n°97 on migrant workers (revised) from 1949 and No. 143 on Migrant Workers (Supplementary Provisions) of 1975.

^a ILO, ONM and OHCHR, 2017. L'emploi formel et informel des travailleurs immigrés en Tunisie.

^b Terre d'Asile Tunisie, 2020. L'accès au travail des migrants en Tunisie: du cadre juridique à la pratique.

FIGURE 27 • Tunisia Granted Fewer Work Authorizations in a Period of Increasing Immigration (number of work authorizations granted by the MFPE by main nationalities, 2009-2017)



Source: Ministère de la Formation professionnelle et de l'Emploi, 2016 and 2018.

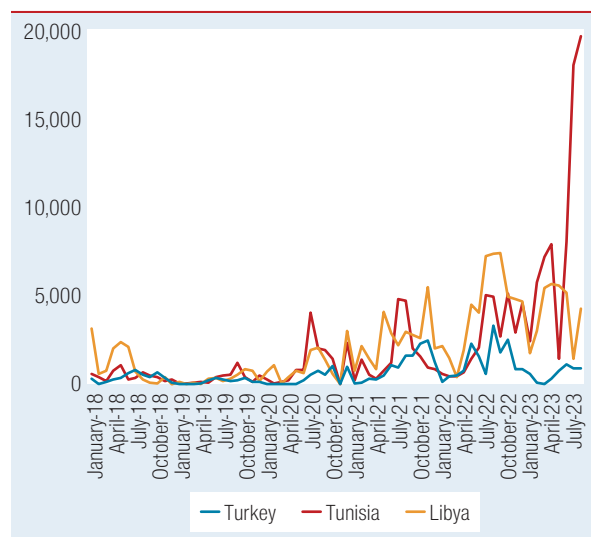
main port of departure (Figure 28). Around 62,500 of those who departed from Tunisia were non-Tunisians (figure 29). The overwhelming majority were sub-

Saharan Africans, particularly from Ivory Coast and Guinea, a marked departure from the previous years when Tunisians comprised the majority of departures. Most nationals from Côte d'Ivoire, Guinea and Cameroon arriving in Italy mentioned having been residing in Tunisia for long periods before deciding to leave amidst growing economic difficulties. However there also reports of a growing number of sub-Saharan only transiting via Tunisia.²⁹ Over the past months, Tunisia has strongly increased border controls and patrolling as well as deterrence measures such as relocating migrants away from the area of Sfax, the main departure hub in Tunisia.

The rise in irregular departures has led to an uptick in incidents and casualties off the Tunisian coasts. The Missing Migrants Project (MMP) of the IOM estimates that 765 migrants died and a further 1,008 went missing while attempting to cross the Central Mediterranean in the first half of 2023. That is

²⁹ UNHCR, 2023. Italy - Sea arrivals dashboard, June 2023. Available at: <https://data.unhcr.org/en/documents/details/102839>.

FIGURE 28 • In 2023 Tunisia has Become the Most Important Departure Point for Irregular Migrants' Crossing to Italy (number of Irregular Sea Arrival to Italy by Departure Point)



Source: UNHCR, 2023. Italy Sea arrivals dashboard.

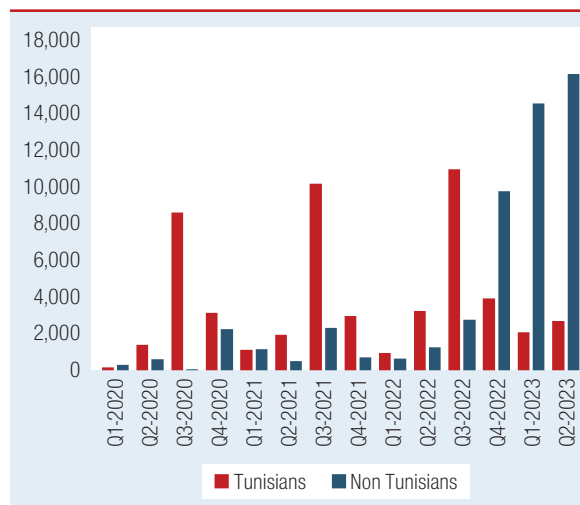
more than triple the number of casualties in the same period in 2022 and 2021. This is an estimate of the same magnitude as the years of the so-called “migration crisis” in 2015–16. The Central Mediterranean route remains the deadliest known migration route in the world, with more than 17,000 deaths and disappearances recorded since 2014. UNHCR reports that incidents are much more likely for Sub-Saharan travellers from Tunisia on metal boats.³⁰

What policies can governments implement to maximize the positive development impacts of migration and mitigate the more adverse consequences?

The 2023 World Development Report offers a policy framework to maximize the net gains of migration for sending, receiving and transit countries.

That is based on the match between migrants’ skills and destination countries’ needs and the motives that drive individuals to emigrate.³¹ When the match of migrants is strong, the gains are large for themselves and for countries of origin and destination. This

FIGURE 29 • Tunisians Account for a Minority of Arrivals from Tunisia Since the Last Quarter 2022 (Nationality of Migrants Arriving by Sea to Italy Who Embarked in Tunisia)



Source: UNHCR, 2023. Italy Sea arrivals dashboard and Frontex detection data.

is the case for most migrants, whether high- or low-skilled, regular, or irregular. The policy objective in this case should be to maximize gains for all. For refugees, when the match is weak, the costs need to be shared—and reduced—multilaterally. Since refugee situations can last for years, the policy objective should be aimed to lower the hosting costs while maintaining adequate standards of international protection. When the match is weak and people are not refugees, difficult policy challenges arise, especially when migrants are in irregular and distressed circumstances. While destination countries can regulate entry of these migrants, deportation and refusal of entry can lead to inhumane treatment. The restrictive policies in destination countries can also impose costs on some transit countries. The policy should reduce the need for distressed migration while development can play a critical role.

As a country of mainly emigration, Tunisia could expand bilateral and regional mobility

³⁰ UNHCR, 2023. Italy – Sea arrivals dashboard, March 2023. Available at: <https://data.unhcr.org/en/documents/details/100615>.

³¹ See World Bank (2023). Migrants, Refugees, and Societies: World Development Report 2023.

schemes to facilitate regular emigration and maximize gains at home and destination. At a time when large numbers of Tunisians are considering emigrating, expanding and strengthening these mobility schemes seems necessary to provide perspective emigrants with access to legal migration pathways. This access is crucial to ensure legal guarantees and protection against abuse, access to a range of services in destination countries and enhanced gains for both sending and receiving countries (World Bank, 2023). Although the enforcement of these agreements requires ongoing efforts on both sending and receiving sides, The Philippines, which entered into 54 bilateral labor agreements since the 1970s, managed to provide better conditions for emigrants including the abolishment of placement fees in Gulf countries and the establishment of a minimum wage, broader reforms to better equip workers with technical skills and knowledge, lower costs for sending remittances, business training and loans to returning migrants.³²

While Tunisia has signed a number of bilateral labor mobility agreements, these schemes could be expanded to better align with the size of the migrant pool and the needs in destination countries. According to the Arab Barometer survey, nearly 45 percent of Tunisians (around 5 million individuals) considered emigrating in 2021. The largest and oldest bilateral scheme in Tunisia—the Tunisian-French agreement signed in 2008—includes about 9,000 spots each year for workers with competences and skills that are not met in the French labor market.³³ At the same time almost 90 percent of French firms face difficulties in filling existing vacancies, and one third of those has unfilled vacancies for over a year.³⁴ The recently signed Talent Partnership between the EU and Tunisia could help expand and strengthen such bilateral schemes.

To enhance their effectiveness, Tunisia could consider tailoring labor agreements with host countries facing labor shortages or rising labor demand. Tunisia and partner destination countries can rely on lessons learned from previous experiences, including the skill partnership for the mobility of nurses that has been in place between Germany and Tunisia since 2013.³⁵ Key aspects to consider for the working efficiency of such programs have been

(a) the availability and technical capacity training facilities at origin; (b) accessible costs of tuition and subsistence; (c) accessible visas by the destination country at the end of the training; (d) accessible certification at the end of the training; (e) timely involvement of the private sector (employer) and joint training (both at origin and destination).³⁶

As its importance as a migration receiving country is likely to increase, Tunisia can also enhance the economic benefits from immigrants while maintaining their well-being and rights. Establishing legal pathways for workers in demand, including lower-skilled workers, would be important to maximize the benefits of immigration for Tunisia. This may be best done with the involvement of multiple stakeholders, including the private sector and origin countries. The experience of destination countries that have adopted policies aimed at attracting needed migrants may help in this respect which include employment rights and residency privileges comparable to those of nationals. For instance, Austria, Germany, Portugal, Sweden, and the United Arab Emirates have established job search visas according to which foreign workers who meet specific criteria are allowed entry for the purpose of finding employment. At the same time, most EU countries also adopt temporary schemes to fulfill labor demands across the skills spectrum. For example, Spain and Morocco signed a bilateral agreement in 2001 that allowed

³² World Bank. 2023. World Development Report 2023: Migrants, Refugees, and Societies. Washington, DC: World Bank.

³³ These workers are granted circulation visas and access to the French labor market. Source: Direction Général du Placement à l'Etranger et de la Main d'Oeuvre Etrangère. Ministère de l'Emploi et de la Formation Professionnelle

³⁴ Ladepeche (2023) « DOSSIER. Emploi : la France confrontée à la pénurie de main-d'œuvre », 30 May 2023.

³⁵ Details on the programme can be found at https://www.arbeitsagentur.de/vor-ort/datei/triple-win-factsheet-englisch_ba066707.pdf

³⁶ Triandafyllidou, A., Bartolini, L. and C.F. Guidi (2019) Exploring the Links Between Enhancing Regular Pathways and Discouraging Irregular Migration, IOM: Geneva.

Moroccans to work in Spain's agriculture sector for up to nine months a year. This visa can serve as a "trial period" before migrants apply for permanent status. These schemes include employment rights and residency privileges comparable to those of nationals. Tunisia can take example and adopt similar policies to

make it easier for foreign workers that are in demand, such as in construction, agriculture and domestic services, to access the formal labor market. Ensuring migrants have formal status is key to put their qualifications and skills to use in the local economy while facilitating their inclusion.



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