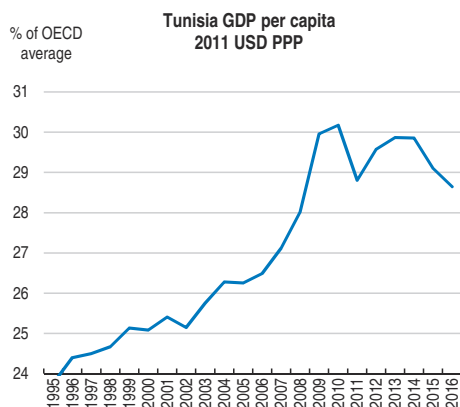


## Executive summary

- *The drivers of inclusive growth need to be rebalanced*
- *Reviving business investment is vital for relaunching the convergence process*
- *The creation of quality jobs will help reduce the gap in living standards*

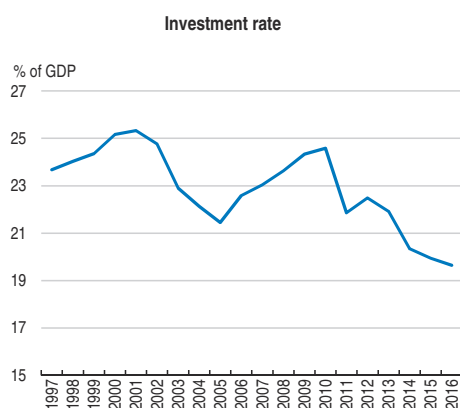
### The drivers of inclusive growth need to be rebalanced



Source: World Bank World Development Indicators database.  
StatLink <http://dx.doi.org/10.1787/888933692807>

The process of economic convergence slowed after 2010, reflecting specific factors and an exacerbation of structural constraints. Tourism and mining activities suffered from a downturn in security and the social climate. Private consumption was underpinned by a sharp increase in employment and public-sector salaries but economic activity and job creation in the private sector remained low. Increased demand has put pressure on prices and the current account. The ratios of public and external debt to GDP have risen sharply. In order to return public debt to a sustainable footing without stifling growth, fiscal stabilisation needs to be targeted over the medium-term and accompanied by structural reforms which will revive economic activity and job creation in the private sector. Public spending also needs to be refocused on supporting underprivileged populations and inclusive growth.

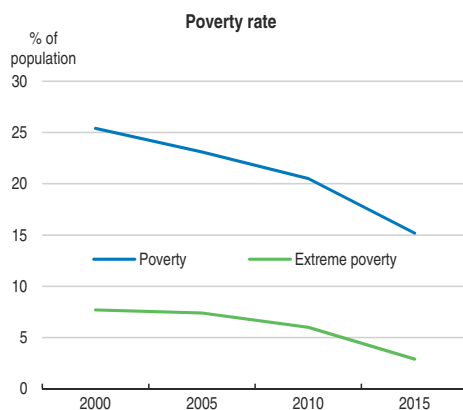
### Reviving business investment is vital for relaunching the convergence process



Source: INS.  
StatLink <http://dx.doi.org/10.1787/888933692826>

The investment rate has been on a downward trend since the start of the century, and is currently low. To date, public investment has been for the most part preserved. On the other hand, business investment has suffered from excessive regulations on product markets, as well as complex administrative procedures which can encourage corruption, unpredictable taxation, increasing problems with customs clearance and the shipping of goods, and a financial system which does not particularly favour start-ups and growing companies. In order to revive business investments, these restrictions need to be lifted, which will also help revive productivity, job creation and the purchasing power of all Tunisians. Housing investment has been underpinned by financial and tax incentives which have moved savings away from more productive investments. The current reform process, kicked off by the new law on investment, needs to be continued.

### The creation of quality jobs will help reduce the gap in living standards



Source: INS.  
StatLink <http://dx.doi.org/10.1787/888933692845>

The average standard of living of Tunisians has improved in recent decades and there has been a substantial decline in poverty. Nevertheless, significant inequality still exists in the labour market, with high unemployment especially among young graduates, widespread informal employment, and many Tunisians in precarious working situations. Gender gaps are smaller than in other MENA countries but the employment rate is much lower for women than men, and women often have less skilled jobs. There are significant regional inequalities in terms of living standards and employment. A new regional development policy is required to leverage the specific strengths of each region.

MAIN FINDINGS	KEY RECOMMENDATIONS
<b>Improve macroeconomic policies</b>	
There has been a sharp increase in the fiscal deficit and government debt.	Accompany fiscal adjustment with structural reforms to set the ratio of government debt to GDP on a downward trend over the medium-term. Carry out spending reviews on the utility of public programmes, including infrastructure projects, in order to prioritise public spending.
Taxes are already high and weigh in particular on job creation in the formal sector and on private initiative. Tax incentives are eroding tax revenues and have not proved very effective.	Restore tax justice by facilitating the cross-check of information and increasing tax inspections in order to better combat tax evasion and fraud. Systematically assess the impact, costs and beneficiaries of tax incentives, especially for housing and business investment.
Public employment has risen sharply. Public servants' wages absorb half of public spending.	Gradually reduce public sector employment by maintaining the rule of partial replacement of persons leaving for retirement.
The pension regime is unsustainable, mainly as a result of the increase in life expectancy.	Gradually increase the legal age of retirement and undertake reforms to guarantee the financial sustainability of the pension regimes.
Subsidies mainly benefit wealthy households. They encourage fraud and excessive consumption, and are harmful to the environment.	Reform subsidies by implementing automatic adjustment rules for hydrocarbon products and, for other products, replace them by cash transfers to households.
Non-performing loans are high, especially in public banks.	Speed up the introduction of legislative changes allowing banks to reduce levels of non-performing loans. Continue to disengage the State from public banks and banks in which it has shareholding interests.
<b>Revive business investment</b>	
The fall in the rate of business investment steepened after 2010. Sector, regulatory and administrative restrictions are holding back private initiative. The new investment law introduces freedom of investment with a negative list which will gradually be applied.	Speed up the process for reducing the number of permissions to operate, and administrative authorisations, licences and permits. Further reduce restrictions on the presence of foreign executives.
Tunisia's ranking in terms of logistical performance and trade facilitation has deteriorated.	Simplify administrative and customs procedures for goods entering and exiting the country. Improve the management of port infrastructures, potentially through public-private partnerships.
Several sectors are dominated by public companies which are often in a precarious financial situation as employment has risen sharply since 2011 while the price and tariff adjustments were limited.	Improve the governance of public enterprises, by better enforcing performance contracts and with a level playing field for public and private companies.
Access to funding is difficult for start-ups and fast growing businesses.	Allow banks to set risk premiums by reconsidering the ceiling on lending rates. Speed up the adoption and application of the new code for collective investment funds.
<b>Reduce inequalities in the labour market and across regions</b>	
Unemployment is high, particularly among young graduates.	Ensure that systems for education, learning and training respond to the requirements of businesses.
Job creation is weak. Contributions remain high, pushing people towards the informal sector.	Diversify the funding sources for social security.
There is a gender gap in the labour market.	Encourage the recruitment of women through campaigns to raise awareness of the repercussions of educational choices on opportunities in terms of employment, entrepreneurship, career development and salaries.
Small enterprises and low-income households make little use of financial services.	Speed up the implementation of the financial inclusion strategy.
There are significant regional inequalities in terms of living standards and employment.	Modernise regional structures and institutions to take better advantage of investment opportunities and help investors in the regions.



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