Averroes Policy Forum

Tunisia

White Paper

Economic Risks

Financial Crisis:

The Tunisian banking sector faces increasing strain due to higher sovereign exposure. The debt-to-GDP ratio is projected to reach 83.7% in 2024 and 84.3% in 2025, with over 40% of the debt in hard currency, raising devaluation concerns for the dinar. The government relies on domestic financing through commercial banks and the central bank to reduce foreign debt. However, this crowds out private-sector financing and heightens banking sector risks. By late 2023, banks' net claims on the state had reached 23.6% of GDP, driven by attractive returns, lower perceived risk compared to private lending, and central bank liquidity support. Commercial banks now hold sovereign debt equal to 12% of GDP, increasing their exposure to sovereign risk. Meanwhile, the central bank continues liquidity injections and supports the government's foreign currency obligations. A bill passed in October 2024 has also reduced the central bank's independence.

High Unemployment rate:

Tunisia faces significant socio-economic challenges, including massive youth unemployment, which stands at approximately 40%, among the highest in the Middle East and Central Asia. Overall, unemployment is also high at 16%, highlighting systemic issues in the labor market. A stark inequality between the coastal regions and the less-developed inland areas exacerbates the problem, as economic opportunities remain concentrated along the coast. This imbalance drives talent flight, with many skilled young Tunisians seeking opportunities abroad. Combined with fragile social stability and frequent protests, these challenges threaten Tunisia's long-term development and its capacity to build a resilient, inclusive economy.

Economic recession:

In 2023, Tunisia recorded its second-lowest economic growth rate (0.4%) since 2015, with weak growth expected to continue in the following years. Since 2021, Tunisia's lack of reforms, high spending, and reliance on domestic debt have worsened macroeconomic instability, while investment fell from 26% of GDP in 2011 to 14% in 2023. Declines in agriculture, construction, and industrial output, coupled with reduced household consumption and business investment, have deepened unemployment and poverty. The crisis is rooted in domestic policy failures rather than external factors. Under President Saied, economic policymaking has been marked by improvisation and short-term strategies. Facing limited resources and fearing social unrest, Saied's regime has adopted three main tactics: restricting imports to conserve central bank reserves, using selective incentives to manage vulnerable populations and contain wage bill growth, and fostering clientelist networks to maintain support. This populist approach prioritizes survival over meaningful reforms, further entrenching economic stagnation.

High poverty rate:

17% of Tunisians live below the poverty line, with rates reaching 37% in the center-west region. Despite claiming to represent the poor, President Saied's policies have largely benefited the wealthy. His debt strategy has undermined job creation and driven inflation, hitting the poor hardest as basic consumption dominates their budgets. Universal subsidies, while aimed at preserving purchasing power, are fiscally costly, inefficient, and socially unfair, benefiting the rich more than the poor. Meanwhile, the middle class struggles with job scarcity and deteriorating public services, leaving many to pay for private education, healthcare, and transportation while the poor endure underfunded infrastructure. These short-term policies risk deepening poverty and sparking social instability.

Political Risks

Potential Unrests:

Tunisia's persistent economic struggles, ignored by successive governments since the 2011 Arab Spring, set the stage for President Kais Saied's power grab on July 25, 2021. Since then, Saied has prioritized consolidating power, centralizing authority, and silencing opposition, rather than enacting necessary economic reforms. This approach has weakened the economy, deepened inequality, and disproportionately harmed vulnerable groups, including the poor, youth, and precarious workers. As social discontent grows, the sustainability of Saied's strategy remains uncertain, increasing the risk of further unrest. A decade after the revolution, Tunisia has shifted from a dysfunctional parliamentary system to an ultra-presidential regime.

Crackdown on opposition:

Crackdowns on critics and opponents of Saied intensified in 2023, with journalists, civil society figures, and opposition politicians facing arbitrary detentions, house arrests, and travel bans. Military trials and police abuse, reminiscent of the Ben Ali era, are widespread, fueling civil unrest. Since Saied's power grab in 2021, press freedom has been severely restricted, with over 30 journalists arrested in 2023, as government intimidation and criminal penalties for defamation have escalated. Democracy and civil rights are more threatened now than at any time since 2011.

Authoritarianism on the rise:

President Kais Saied's populist agenda, aimed at securing reelection, has come at a significant economic and social cost. In the October 2024 presidential elections, Saied extended his hold on power through a controversial electoral process and a harsh crackdown on the opposition, with voter turnout at just 30%. Having taken control in 2019 following years of post-Arab Spring instability, Saied has reshaped Tunisia's constitutional framework, centralized power, and placed himself at the heart of all decision-making and policy processes, further undermining democratic checks and balances.

Western Support Eroding Amid Tunisia's Authoritarian Drift:

Tunisia's shift toward authoritarianism under President Saied is weakening its relations with Western allies. Saied's rejection of necessary reforms tied to a $1.9 billion IMF loan and his centralization of power have raised concerns in the West, especially as Tunisia risks defaulting on its debt. With the country facing increasing economic instability and political isolation, Western support is waning, leaving Tunisia more vulnerable to internal and external challenges.

Environnemental Risks

Vulnerability to Climate Change:

Tunisia is highly vulnerable to climate change, facing rising temperatures, increased aridity, reduced precipitation, and rising sea levels. The World Bank cites a mix of political, geographic, and social factors, making Tunisia one of the Mediterranean countries most exposed to climate change. Additionally, the World Wide Fund for Nature reports that Mediterranean Sea temperatures are rising 20% faster than the global average, further exacerbating Tunisia's climate challenges.

Water Scarcity:

Tunisia is facing severe water scarcity, ranked twentieth globally for water stress by the World Resources Institute. Declining rainfall, exacerbated by rising temperatures, has led to a three-year drought (2017-2020) and a sharp drop in annual rainfall, with only 110 million cubic meters recorded between September 2022 and March 2023, compared to a pre-drought average of 520 million. Per capita water availability has fallen to 400 cubic meters annually, well below the UN threshold of 1,000 cubic meters for water poverty. By 2050, Tunisia is projected to lose 75% of its coastal water resources, as groundwater is overexploited and water quality deteriorates. The UN predicts a 38% increase in demand for drinking water by 2100, while renewable water resources could decrease by up to 61% due to climate change. This escalating water crisis is already affecting vulnerable communities, particularly those dependent on agriculture and fishing.

Temperature Rise:

Tunisia is facing a significant temperature rise due to climate change. The United Nations Development Programme predicts that, by 2040-2059, Tunisia's average annual temperature will reach 69.3°F, surpassing the global average of 61°F. This will increase extreme heat, with 71 days above 95°F annually, rising to 100 days by 2080-2099, compared to just 31 days in 1986-2005. This temperature rise could lead to a tenfold increase in climate-related deaths. The impact will vary by region, with Nabeul (northern coast) seeing an increase from zero climate-related deaths in 2020-2039 to 27 in 2080-2099, while Tozeur (southern interior) may experience a rise from 22 to 118 climate-related deaths in the same period.

Rising Sea Levels:

Tunisia is facing the threat of rising sea levels, leading to coastal erosion and contamination of vital aquifers used for irrigation. Approximately 68% of Tunisia's coastline is highly vulnerable to these effects. In Cap Bon, seawater contamination forced farmers to abandon their plots and wells. Sea levels are expected to rise by 30 to 50 centimeters, worsening saltwater intrusion into groundwater and contributing to soil degradation and loss of arable land. The tourism industry is also at risk, as much of it is concentrated along the coast. Over a quarter of the Tunisian coastline is considered very highly vulnerable to submersion and erosion, particularly the beaches of Hammamet and Tunis; 40 percent of Hammamet's beaches and 30 percent of Tunis beaches are classified as very highly vulnerable.

Geopolitical Risks

Geopolitical Realignments:

Tunisia's crises have triggered economic and geopolitical shifts that favor hydrocarbon-exporting countries while marginalizing energy-poor states. The dependency of energy-importing low- and middle-income countries (LMICs) on aid from hydrocarbon exporters has compromised their foreign policy autonomy. These states are increasingly forced to align with the interests of their funders or, at the very least, meet their demands to secure continued support.

Loss of "Democratic Rent" and Growing Isolation:

Tunisia is losing its "democratic rent" from Western partners and institutions, exacerbating its economic and political vulnerabilities. With Gulf and European countries refusing to offer assistance, combined with deteriorating relations with multilateral institutions and limited access to international capital markets, Tunisia's debt situation is worsening.

Proximity to Conflict Zones and Terrorism Risk:

Tunisia's proximity to conflict zones in Libya and the presence of militant activities in Algeria pose significant security risks, including the potential for spillover violence, smuggling, and terrorism. While Tunisia has made progress in combating terrorism, extremist groups, including ISIS affiliates, remain active, especially in rural and border areas, threatening both internal security and regional stability.

Migration Pressures:

Tunisia's increasing role as a transit country for migrants heading to Europe places it at the heart of EU migration policies, raising concerns over border control and funding agreements. This transformation has been driven by several factors: ongoing instability in the Sahel region, porous borders, inconsistent migration policies, rising violence and xenophobia within Tunisia, and worsening economic conditions. As a result, Tunisia faces mounting pressure from the EU to manage migration flows, which could strain its relations with European partners.

Morocco-Tunisia Relations at a Low:

Bilateral relations between Morocco and Tunisia reached a significant low in August 2022 after Tunisian President Kais Saied hosted Polisario Front leader Brahim Ghali during the 8th Tokyo International Conference on African Development (TICAD 8). Morocco strongly protested the move, recalling its ambassador to Tunisia, and Tunisia reciprocated by recalling its ambassador from Rabat. Before these tensions, Morocco had been a major supporter of Tunisia, offering medical aid during the COVID-19 crisis in 2021 and sending King Mohammed VI on a historic visit in 2014. However, under Saied's leadership, Tunisia has increasingly aligned with Algeria, which supports the Polisario separatists in the Western Sahara conflict, further straining relations with Morocco.