Tunisia’s economic freedom score is 55.4, making its economy the 125th freest in the 2019 Index. Its overall score has decreased by 3.5 points because of a plunge in fiscal health and lower scores for trade freedom, business freedom, labor freedom, and monetary freedom. Tunisia is ranked 10th among 14 countries in the Middle East and North Africa region, and its overall score is below the regional and world averages.

To raise GDP growth and lower chronic unemployment, the government has introduced economic policies to relax exchange rate regulations, boost foreign currency reserves, reduce the fiscal deficit by cutting the public-sector wage bill, reduce subsidies, reform the pension system, restructure loss-making state-owned enterprises, and keep public-sector debt below 70 percent of GDP. Other institutional weaknesses, left unaddressed because of political instability, include a burdensome regulatory regime and rigid labor markets. Many of the market-oriented reforms are opposed by political parties and trade unions that espouse statism.

BACKGROUND: Tunisia was the birthplace of the Arab Spring protests, which ousted longtime President Zine al-Abidine Ben Ali in 2011. The Islamist Ennahda Party later won the largest number of seats in the National Constituent Assembly. Following ratification of a new constitution in 2014, an interim technocratic government ruled until Tunisia’s first full parliamentary and presidential elections. Nidaa Tounes party leader and former Prime Minister Beji Caid Essebsi was elected president in 2015. Despite notable progress in democratization and ongoing reform efforts, Tunisia’s transformation to a more market-oriented economy has been slow. Key exports include textiles and apparel, food products, petroleum products, chemicals, and phosphates, with about 80 percent of exports bound for Tunisia’s main trading partner, the European Union.
Protection of property rights remains uneven, and the clarity of titles is poor. The judiciary is generally independent but struggles with lengthy case backlogs. Governmental weakness has encouraged graft at lower levels of bureaucracy and law enforcement. Parliament has passed a law to protect whistle-blowers, but corruption remains a problem. In 2017, an estimated $816 million was lost to corruption.

The top personal income tax rate is 35 percent, and the top corporate tax rate is 30 percent. Other taxes include value-added and property transfer taxes. The overall tax burden equals 20.8 percent of total domestic income. Over the past three years, government spending has amounted to 29.2 percent of the country’s output (GDP), and budget deficits have averaged 5.7 percent of GDP. Public debt is equivalent to 71.3 percent of GDP.

Economic dynamism remains constrained by institutional weaknesses that remain unaddressed, hindered by the lack of decisive government action. The regulatory regime, despite some improvements, remains burdensome and deters dynamic entrepreneurial growth. The rigid labor market has been stagnant, failing to generate dynamic job growth. The government did not reduce public spending in 2018 but did keep subsidies flat.

The combined value of exports and imports is equal to 99.9 percent of GDP. The average applied tariff rate is 9.3 percent. As of June 30, 2018, according to the WTO, Tunisia had 13 nontariff measures in force. A new investment law that offers more flexibility to foreign investors has been in place since 2016. The financial sector remains fragmented. About 40 percent of adult Tunisians have access to an account with a commercial bank.