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Issue 05: Tunisia : An Industrial Economy at a Strategic Crossroad

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Tunisia is a highly indebted export-manufacturing economy positioned between Europe and Africa, with its future likely to be defined by whether it can transform itself from a peripheral supplier to Europe into a regional industrial, energy, and financial gateway. While macroeconomic conditions remain constrained by elevated sovereign debt, foreign exchange pressures, and limited fiscal space, the country retains several structural advantages that continue to attract investment and support long-term growth prospects.

The Tunisian economy is projected to expand modestly over the coming years, with real GDP growth expected to reach between 2.1% and 2.5% in 2026 and accelerate slightly to between 2.3% and 2.8% in 2027. Inflation, which exceeded 10% during the peak of the post-pandemic price shock, has gradually moderated and is expected to stabilize around 5.5% over the medium term. Despite this improvement, food prices remain a persistent source of pressure for households and policymakers alike. At the same time, sovereign debt levels remain elevated at approximately 82% of GDP, forcing the government to rely increasingly on domestic borrowing and central bank support. This financing structure has begun to crowd out private sector credit, limiting investment and reducing the economy's long-term growth potential.

The Tunisian Dinar continues to operate under a tightly managed exchange rate regime, with significant foreign exchange controls designed to preserve external stability. Foreign exchange reserves provide only a narrow buffer of just over three months of import cover, leaving the country vulnerable to external shocks and fluctuations in global commodity prices. These constraints have reinforced the Central Bank of Tunisia's cautious monetary stance, balancing the need to support economic activity while protecting currency stability and maintaining investor confidence.

Despite these macroeconomic challenges, Tunisia possesses a surprisingly sophisticated export base. Contrary to popular perception, the economy is not primarily driven by tourism. Instead, the country's export engine is anchored by light industrial manufacturing, particularly automotive wiring harnesses, aerospace components, and electrical systems that feed directly into European supply chains. These industries account for a significant share of export revenues and have positioned Tunisia as an important manufacturing partner for European firms seeking cost-effective production close to home. Textiles, clothing, and agricultural exports, particularly olive oil, remain important contributors, but industrial manufacturing increasingly defines the country's competitive advantage.

This manufacturing strength, however, is accompanied by a significant structural weakness. Tunisia runs a persistent trade deficit driven largely by its dependence on imported energy products. Imports of fuels, industrial raw materials, and grain consistently outweigh export earnings, resulting in a projected trade deficit exceeding \$7 billion USD in 2026. In many respects, Tunisia's external imbalance is fundamentally an energy story. Without the burden of large-scale fuel imports, the country's trade position would be considerably stronger, foreign exchange pressures would be reduced, and

fiscal stability would improve. As a result, energy policy has become one of the most important determinants of Tunisia's long-term economic trajectory.

No project illustrates this more clearly than the ELMED Interconnector. This high-voltage direct current transmission link between Tunisia and Italy has the potential to fundamentally reshape the country's economic future. More than simply an infrastructure project, ELMED effectively connects Tunisia to the European electricity market, creating opportunities for renewable energy exports, grid integration, and future green hydrogen development. If successfully implemented, the project could establish a new source of foreign currency earnings while reducing dependence on imported fossil fuels. For investors, ELMED represents one of the most strategically significant infrastructure developments in North Africa, with implications extending far beyond the energy sector.

At the same time, Tunisia faces several critical risks that cannot be ignored. Sovereign debt remains a major concern, not necessarily because of its absolute size, but because of the increasingly limited financing options available to the government. Reliance on domestic banks and central bank financing reduces the availability of capital for productive private-sector investment and raises questions about long-term fiscal sustainability. Climate-related challenges present an equally serious threat. Water scarcity is emerging as one of the country's most significant structural vulnerabilities, with projections suggesting substantial losses of coastal freshwater resources due to salinization over the coming decades. Given the importance of water to agriculture, tourism, and industrial production, this challenge has the potential to become a binding constraint on future growth.

External concentration risk further compounds these vulnerabilities. While Tunisia's export basket is relatively diversified, its customer base is not. More than sixty percent of exports are destined for just four European countries: France, Italy, Germany, and Spain. This concentration effectively ties Tunisia's economic fortunes to the health of the Eurozone. Any slowdown in European manufacturing activity or consumer demand would likely be transmitted directly into Tunisia through reduced export orders and lower industrial production.

Yet perhaps the most important long-term development for Tunisia is not occurring in Europe at all, but across Africa. The implementation of the African Continental Free Trade Area (AfCFTA) presents a historic opportunity for Tunisia to diversify its markets, reduce its dependence on Europe, and reposition itself within a rapidly integrating continental economy. Today, only a small share of Tunisian exports are directed toward African markets, while trade within the Maghreb remains exceptionally limited. Complex regulatory systems, foreign exchange restrictions, fragmented logistics networks, and geopolitical divisions have prevented Tunisia from fully capitalizing on its strategic location at the northern gateway of the continent.

AfCFTA offers a pathway to change this dynamic. By progressively reducing trade barriers and facilitating greater market access across Africa, the agreement creates

opportunities for Tunisian manufacturers, technology firms, logistics providers, and financial institutions to expand beyond their traditional European customer base. Tunisia's automotive components, electrical equipment, pharmaceuticals, textiles, processed foods, and engineering services are already competitive by international standards and could find growing demand in rapidly expanding African markets. At the same time, Tunisia's emerging ICT and software sectors stand to benefit from increased digital integration and cross-border service provision.

The significance of AfCFTA extends beyond trade volumes alone. For Tunisia, the agreement offers an opportunity to fundamentally reshape its role within regional value chains. Rather than functioning primarily as a manufacturing outpost serving European industry, Tunisia could emerge as a bridge between European capital, technology, and supply chains on one side and African markets on the other. Its geographic position, industrial capabilities, and proximity to Europe provide a foundation for becoming a strategic logistics, manufacturing, and services hub connecting both regions.

However, realizing this opportunity will require overcoming significant structural constraints. Trade agreements alone cannot compensate for inadequate logistics infrastructure, fragmented payment systems, and costly cross-border transactions. Many regional payments still route through European correspondent banks, creating unnecessary delays and expenses. The development of digital payment networks, open banking frameworks, and regional clearing systems could therefore prove just as important as tariff reductions themselves. A future Pan-African payments architecture capable of facilitating direct settlement between African markets would significantly reduce transaction costs and strengthen Tunisia's ability to compete within the continental economy.

From an investment perspective, the most attractive opportunities are concentrated in renewable energy, electricity infrastructure, export-oriented manufacturing, automotive electronics, information technology services, logistics, and digital financial infrastructure. These sectors align closely with Tunisia's existing competitive advantages while positioning investors to benefit from both the country's industrial base and Africa's broader economic integration. By contrast, sectors heavily dependent on state support, energy subsidies, or water-intensive production face greater uncertainty and risk.

Ultimately, Tunisia is neither a high-growth frontier market nor a crisis economy. Rather, it is a strategically positioned industrial economy undergoing a difficult but important transition. Its success will depend on its ability to manage sovereign debt pressures, address energy dependence, adapt to climate constraints, and deepen integration with both regional and global markets. Projects such as the ELMED Inter-connector provide a pathway toward greater energy security and export diversification, while AfCFTA offers the opportunity to unlock entirely new sources of demand and investment across the African continent.

If Tunisia can successfully leverage both trends, it has the potential to evolve from a country that manufactures primarily for Europe into one that serves both Europe and

Africa. Such a transformation would not only strengthen economic resilience and reduce concentration risk but could position Tunisia as one of North Africa's most important industrial, energy, and financial gateways over the coming decades.

Methodology

- World Bank Macro Poverty Outlook for Tunisia World Bank (2026). Macro Poverty Outlook: Tunisia. April. Washington, DC: World Bank.
- EBRD Tunisia Country Strategy European Bank for Reconstruction and Development (2026). Tunisia Country Strategy 2026-2031. Approved 11 February. European Bank for Reconstruction and Development.