TUNISIA

Table 1	2018
Population, million	11.6
GDP, current US$ billion	39.9
GDP per capita, current US$	3444
National poverty rate[a]	15.2
Lower middle-income poverty rate ($3.2)[a]	3.2
Gini index[a]	30.9
School enrollment, primary (% gross)[b]	114.7
Life expectancy at birth, years[b]	75.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015).
(b) Most recent WDI value (2016)

Current account deficit remains elevated despite strong performance of tourism and agriculture which supported a modest growth acceleration. Inflation, which reached record levels in 2018, has decelerated slightly as the Central Bank tightened monetary policy. High unemployment persists especially among youth, women and in interior regions. Steps were taken in 2018 to tackle high and inefficient spending including on energy subsidies; however, the challenging social and political context including presidential and parliamentary elections in late 2019 may complicate reform efforts.

Recent developments

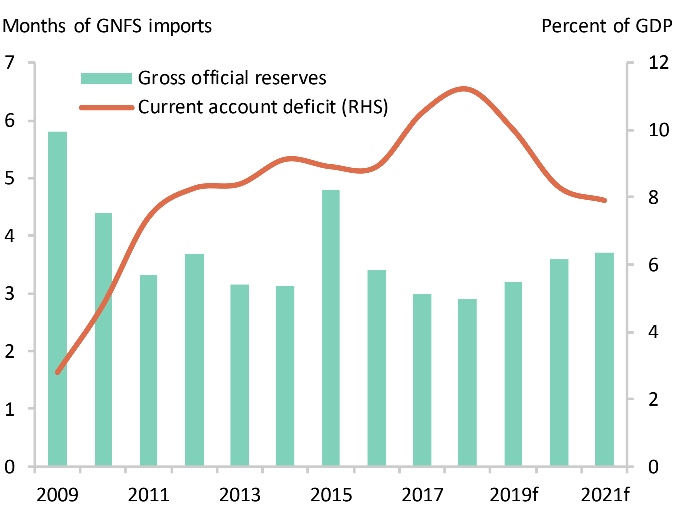
Growth picked up to 2.5 percent year-on-year (y-o-y) in 2018 from 2 percent in 2017, supported by agriculture, services (including tourism which witnessed a significant rebound), and electrical and mechanical industries. On the demand side, growth in 2018 was driven by a resurgence of exports and investment, while private consumption contracted. Following a significant acceleration of inflation since 2017, and four Central Bank (BCT) policy rate increases which raised rates from 4.25 percent to 6.75 percent, inflation began to decelerate as of the second half of 2018, but remains above 7 percent. In February 2019, BCT further increased the policy rate by 100 basis points following agreement between the government and the main union federation (UGTT) to increase public sector salaries.

The fiscal deficit including grants fell to 4.6 percent of GDP in 2018 compared to 5.9 percent in 2017. Public debt, however, increased to 78.5 percent of GDP as a result of the dinar depreciation. The 2019 Budget aims to cut the deficit to 3.9 percent of GDP by enhancing revenues through measures to improve tax collection, fight tax evasion and widen the tax base, while reining in spending including by limiting the replacement rate for retiring and departing civil servants, rationalizing energy spending, and prioritizing ongoing capital projects as well as new projects selected through the unified framework for public investment management.[1] The wage negotiations between government and UGTT completed in February 2019 will increase public wages in 2019 by an estimated TND 600 million (0.57 percent of GDP). Part of this spending could be covered by unallocated budget amounts in the 2019 Budget Law while the remaining may increase the deficit.

The current account deficit widened to 11.2 percent of GDP in 2018 (vs. 10.6 percent in 2017) and reserves continued to fall despite an acceleration in export growth. Consequently, the dinar depreciated by 14 percent against the Euro in 2018 and dropped by another 1.2 percent against the Euro during the first two months of 2019. Reserves remain at vulnerable levels hovering around 70 to 80 days of import cover.

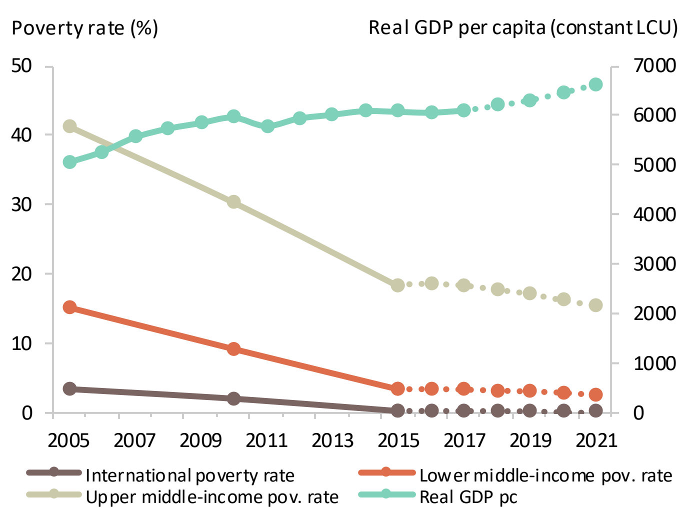
Labor market performance is weak; the unemployment rate has remained around 15.5 percent and is particularly high among women (22.8 percent), graduates (29.4 percent) and in poor regions. Latest available survey data show that the share of those living at the lower middle-income poverty line of US$ 3.2 (2011 PPP US$) fell from 9.09 percent in 2010 to 3.21 percent in 2015. Between 2016 and 2020, however, the pace of poverty reduction is likely to slow down considerably, consistent with the trend in GDP per capita. Although this expected slow reduction is worrisome, poverty levels in Tunisia measured at these global benchmarks are similar to those prevailing in the region and extreme poverty (those living on less than US$1.90, 2011 PPP US$) seems on the way to being eradicated. A big divide in poverty rates

FIGURE 1 Tunisia / Current account deficit and official reserves



Sources: Institut national de statistiques, Banque centrale de Tunisie and staff estimates.

FIGURE 2 Tunisia / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

has accumulated over time between the traditionally disadvantaged North West and Center West regions whose poverty rates are almost twice the national averages, and the coastal and more urbanized eastern regions (notably the Tunis area, North East and Center East).

Outlook

Growth is projected to pick up to an average of 3 percent in 2019-20 and to reach its potential of about 4 percent over the medium term, contingent on the completion of pressing reforms to improve investment climate and ensure greater security and social stability. Growth will be supported by expansions in agriculture, manufacturing, and tourism, and the coming online of the Nawara gas field as of mid-2019. Poverty is projected to hover around 3 percent using the 3.2 U$ PPP per day line and below 1 percent using the extreme poverty line.

Inflation is expected to be on a somewhat downward path over the medium term as monetary policy is further tightened to limit inflationary pressures associated with dinar depreciation and wage dynamics.

The 2019 fiscal and current account deficits are projected to decline to 3.6 and 10 percent of GDP, respectively, reflecting policy tightening, an uptick in growth, and the reduction in energy import costs as gas production increases. Fiscal and current account deficits are projected to drop below 3 percent and 8 percent of GDP, respectively, by 2021 as the government sustains its reform agenda. Public debt will peak in 2019 at over 80 percent of GDP before starting to decline and dipping below the emerging market benchmark of 70 percent by 2023.

Risks and challenges

Despite the slow recovery and gradual policy tightening, significant risks remain. The main risk is the further fraying of consensus around key reforms, particularly in 2019, given the social and political climate and national elections. This includes fiscal reforms and necessary investment climate reforms to bolster private sector growth. The most recent evidence of this is the February decision to hike public sector wages, which will affect public finances and adversely impact the already fragile financial situation of the public pension system given the pension-earnings linkage. Tunisia continues to face threats to security, spillovers from Libya, slower growth in the Euro area which absorbs most Tunisian exports, higher international oil prices, and worsening investor sentiment towards emerging markets, especially in light of still elevated current account deficit into the medium-term.

Should any of these risks materialize, the wellbeing of households would be impacted, in particular vulnerable households whose consumption is just above the poverty line. Around 17 percent of the population (i.e. about 2 million Tunisians) is considered vulnerable, if one uses the definition of the 'vulnerable' as those living below the US$ 5.5 PPP.

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1/ The 2019 Budget rests on key assumptions around growth of 3.1% (against 2.6% in 2018), average oil prices of US$ 75 per barrel (against US$ 72 in 2018), and an average exchange rate of 2.7 Tunisian Dinar per US Dollar (against 2.7 in 2018).

TABLE 2 Tunisia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	1.0	2.0	2.5	2.7	3.2	3.5
Private Consumption	1.6	1.5	-5.2	-1.0	1.1	1.9
Government Consumption	3.8	-2.4	0.7	0.3	0.7	1.0
Gross Fixed Capital Investment	2.8	4.4	12.2	4.1	5.7	6.5
Exports, Goods and Services	0.2	4.2	5.2	4.5	5.0	5.2
Imports, Goods and Services	2.0	2.2	-1.0	0.0	2.9	3.9
Real GDP growth, at constant factor prices	0.8	1.7	2.6	2.7	3.2	3.5
Agriculture	-8.5	2.5	9.8	3.9	3.3	3.3
Industry	-0.5	-0.9	-0.4	1.9	3.1	3.4
Services	2.9	2.7	2.8	2.7	3.2	3.6
Inflation (Consumer Price Index)	3.7	5.3	7.5	7.4	6.0	4.7
Current Account Balance (% of GDP)	-8.8	-10.6	-11.2	-10.0	-8.3	-7.9
Fiscal Balance (% of GDP)	-6.2	-5.9	-4.6	-3.6	-3.0	-2.5
Debt (% of GDP)	62.3	70.3	78.5	83.3	78.8	77.0
Primary Balance (% of GDP)	-4.0	-3.5	-1.9	-0.6	0.2	0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.3	0.3	0.3	0.2	0.2	0.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	3.2	3.2	3.1	3.0	2.8	2.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	18.4	18.2	17.6	17.0	16.2	15.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2015-NSHBCSL. Actual data: 2015. Nowcast: 2016-2018. Forecast are from 2019 to 2021.
(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.