TUNISIA

Table 1	2021
Population, million	11.9
GDP, current US$ billion	44.2
GDP per capita, current US$	3701.0
National poverty rate[a]	15.2
Lower middle-income poverty rate ($3.2)[a]	3.0
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	113.4
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)	34.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015).
b/ WDI for School enrollment (2020); Life expectancy (2019).

Tunisia's economic outlook remains highly uncertain. The economic rebound in 2021 was relatively moderate. Debt sustainability concerns remained acute due to elevated fiscal deficits and financing needs. As a net importer of energy and cereals, Tunisia is vulnerable to spikes in global commodity prices. Fast-tracking the recovery and safeguarding macroeconomic stability will require the speedy implementation of structural reforms.

Key conditions and challenges

A decade after the Jasmin revolution, Tunisia faces increasingly difficult economic conditions. Weak reform implementation has left the economy inefficiently closed to investment and trade and ill-equipped to exploit opportunities in the global economy. As growth and private job creation stagnated, the State stepped in as an employer of last resort and price stabilizer through subsidies. This has caused a deterioration of the fiscal situation under the weight of a large public sector wage bill, higher energy and food subsidies and underperforming state-owned enterprises. The COVID-19 pandemic has exacerbated these weaknesses.

Tunisia's growth prospects hinge critically on timely and decisive structural reforms to address economic distortions and fiscal pressures. The government aims to advance some key reforms including (i) the elimination of business entry permits and licenses, (ii) the reduction of consumer subsidies; (iii) the improvement of the performance of state-owned enterprises; and (iv) the reduction of the public sector wage bill. Progress in these reforms is critical to stabilize the macroeconomic situation, and to secure a new IMF program which is essential to mobilize multilateral and bilateral financing and regain access to international financial markets.

Recent developments

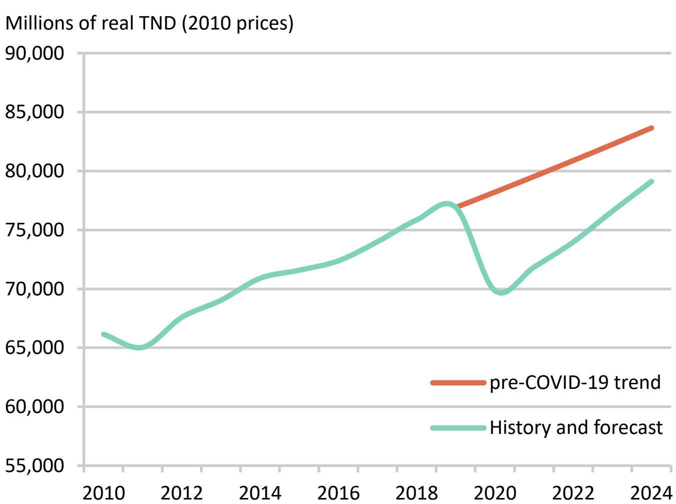
GDP grew by an estimated 2.9 percent in 2021, as the successful containment of the COVID-19 pandemic starting in the second semester and increased vaccination allowed the relaxation of mobility restrictions across the country. The economic rebound was relatively modest considering the strong GDP contraction of 9.2 percent in 2020, the sharpest in the MENA region. Key factors behind the modest recovery include the relative dependence of the economy on tourism, the limited fiscal space and difficult business environment, including restrictions on investments and competition.

Labor market outcomes remained weak. The already high unemployment rate reached 18.4 percent by the 3rd quarter of 2021 combined with a slight reduction in labor force participation. The unemployment rate is particularly high among youth, women and in the west of the country.

Inflation rose to 6.5 percent in 2021, a full percentage point above 2020, amid rising global commodity prices and rebounding domestic demand.

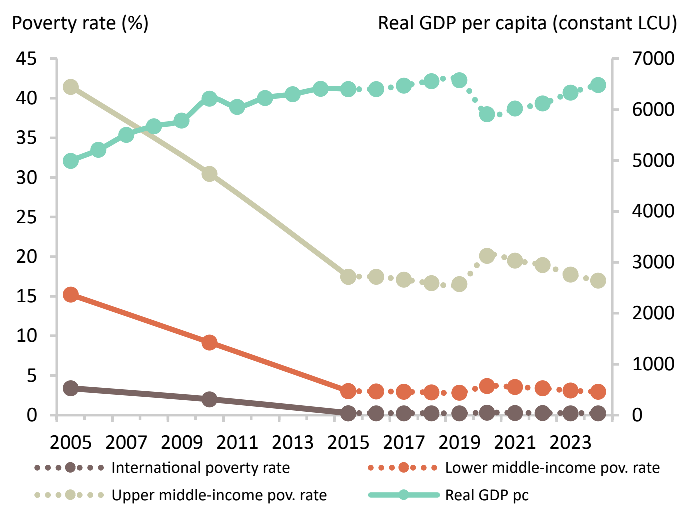
The fiscal deficit narrowed to an estimated 7.7 percent of GDP in 2021 from 9.4 percent in 2020. Expenditure hikes related to the increases in subsidies (particularly energy) and civil service wages were more than offset by a rebound in revenues, mainly from indirect taxes. The deficit was financed by a combination of debt rollover and debt monetization. Public debt rose to 84 percent of GDP.

FIGURE 1 Tunisia / Real GDP: Actual, forecast and pre-COVID-19 trend



Sources: National Institute of Statistics; World Bank.

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



Source: World Bank. Notes: see Table 2.

The current account deficit (CAD) stood at 6.5 percent of GDP in 2021, a slight deterioration from 6.1 percent in 2020. This resulted from the expanding trade deficit as imports increased more than exports, compensated for by a 28 percent rise in primary income (mainly remittances). The strong increase in imports was driven by the growth in domestic demand linked to the increase in public expenditures and in exports.

Outlook

Growth is projected to reach 3.0 percent in 2022, supported a gradual global recovery from the pandemic. This rate would not yet allow output to return to pre-pandemic levels of 2019. Growth is expected to eventually gain ground, but it remains modest at around 3.5 percent a year over the medium term, dragged by pre-existing structural weaknesses and the economic consequences of and uncertainty around the Russian invasion of Ukraine and associated sanctions.

Tunisia's public finance and external account will remain precarious in the absence of an IMF program and uncertain global conditions. The CAD is projected to widen significantly to 7.6 percent of GDP in 2022, driven by surging energy and food prices. Despite some fiscal consolidation efforts—including two rounds of fuel price increases in February and March 2022—the fiscal deficit would remain high at a projected 6.1 percent of GDP in 2022. Gross public financing needs are projected at around TND 20bn in 2022 (US$6.9 billion; 14.7 percent of GDP), half of which is for external amortization. Inflationary pressures, stemming from rising commodity prices, will constrain further debt monetization.

The economic consequences of the Russian-Ukrainian war and associated sanctions pose significant downside risks to the Tunisian economy. As a net commodity importer, continued upsurges in energy and food prices would add further pressure on Tunisia's external account through higher import bills, while higher subsidy costs could weigh heavily on the fiscal position. Energy subsidies would increase by 3.9 percent of GDP if the average price of oil in 2022 were to increase to $115 per barrel as in the immediate aftermath of the Russian invasion. Cereal subsidies would increase by 0.2 percent of GDP if wheat prices were to increase by 20 percent relatively to their November 2021 levels.

Poverty is expected to reach 3.4 percent in 2022 and 3.1 percent in 2023 using the $3.2 line (2011 PPP). The number of poor and vulnerable at $5.5 line (2011 PPP) is projected to decline from 18.9 percent in 2022 to 17.7 percent in 2023 and is not expected to go back to pre-crisis levels before 2024.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.4	-9.2	2.9	3.0	3.5	3.3
Private Consumption	2.3	-5.1	2.0	3.0	4.5	4.0
Government Consumption	2.4	-5.3	1.9	3.5	1.3	1.6
Gross Fixed Capital Investment	0.5	-28.7	1.7	6.3	4.1	4.8
Exports, Goods and Services	-4.1	-20.4	10.3	5.9	8.0	8.0
Imports, Goods and Services	-6.9	-19.3	8.0	7.7	9.0	9.0
Real GDP growth, at constant factor prices	1.5	-9.8	3.0	3.1	3.5	3.3
Agriculture	5.7	0.4	-5.4	-4.6	4.0	4.0
Industry	-1.4	-9.3	7.5	8.5	3.5	3.2
Services	2.1	-11.4	2.6	2.0	3.5	3.2
Inflation (Consumer Price Index)	6.7	5.6	6.5	6.5	6.5	6.0
Current Account Balance (% of GDP)	-8.1	-6.1	-6.5	-7.6	-7.2	-6.9
Fiscal Balance (% of GDP)	-2.9	-9.4	-7.7	-6.3	-5.6	-3.9
Debt (% of GDP)	67.9	79.5	84.5	84.2	90.6	91.0
Primary Balance (% of GDP)	-0.4	-5.8	-4.7	-3.1	-2.5	-0.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.2	0.3	0.3	0.3	0.3	0.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.9	3.7	3.5	3.4	3.1	3.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	16.6	20.1	19.5	18.9	17.7	17.0
GHG emissions growth (mtCO2e)	0.7	-8.5	-0.3	3.3	2.1	1.9
Energy related GHG emissions (% of total)	73.0	71.7	71.2	71.5	71.5	71.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2015-NSHBCSL.Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.