

TUNISIA

Key conditions and challenges

Table 1 2020

Population, million	11.8
GDP, current US\$ billion	41.6
GDP per capita, current US\$	3525.4
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	115.4
Life expectancy at birth, years ^b	76.7
Total GHG Emissions (mtCO2e)	35.2

Source: WDI, Macro Poverty Outlook, and official data.
 (a) Most recent value (2015).
 (b) WDI for School enrollment (2018); Life expectancy (2019).

Tunisia's economic outlook remains highly uncertain. The economic recovery is less robust than previously expected given the escalation of the COVID-19 pandemic in mid-2021 and the heightened political uncertainty. This increases the downside risks particularly regarding debt sustainability, which is a source of increasing concerns. Moving out of the crisis zone and fast-tracking the recovery will require a solid political settlement and the speedy implementation of structural reforms.

A decade after the Jasmin revolution, Tunisia faces increasingly difficult economic and political conditions. Persistent political instability has prevented the implementation of reforms to open up an economy that remains inefficiently closed to investment and trade. As a result, GDP growth averaged just 1.7 percent between 2011 and 2019 and investment and exports remain significantly below pre-revolution levels. As growth and private job creation stagnated, the state stepped in as a key provider of jobs and a guarantor of affordable consumption of goods and services. This has caused a deteriorating fiscal balance under the weight of a large public sector wage bill, underperforming state-owned enterprises and consumer and producer price subsidies. The COVID-19 pandemic has exacerbated these weaknesses, causing a steep further rise in the fiscal deficit and public debt.

The latter appears to be unsustainable in the absence of structural reforms to address the myriad distortions of the economy and the related inefficient public spending. These reforms include the elimination of different types of permits and licenses that unnecessarily restrict entry across most sectors, such as ex-ante authorization, cahiers the charge, restrictions on foreign investments. On the fiscal side, key reforms include reducing and better

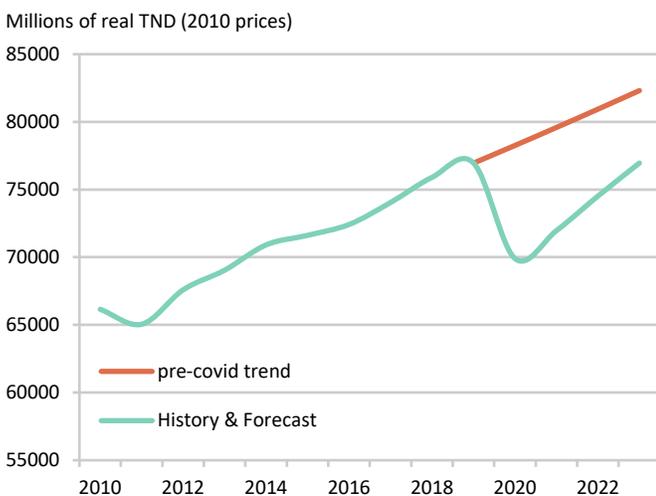
targeting the subsidy system, improving the efficiency of the state-owned enterprise sector and limiting the growth of the large public wage bill while improving its effectiveness. This would facilitate Tunisia's access to further multilateral and bilateral financing, including also through an IMF program, as well as eventually international capital markets.

Recent developments

Real GDP has continued its slow rebound in the first half of 2021 with a year-on-year 5.9 percent increase. This reflects the low basis - GDP had dropped 11.9 percent in the first semester 2020 - and a partial recovery in domestic and external demand. Rising demand led to a 25 percent increase in exports (and a 22 percent in imports), which - along with a 24 percent rise in remittances - contributed to reduce the current account deficit to 6.6 percent of GDP (from 7.6 percent in the first semester 2020).

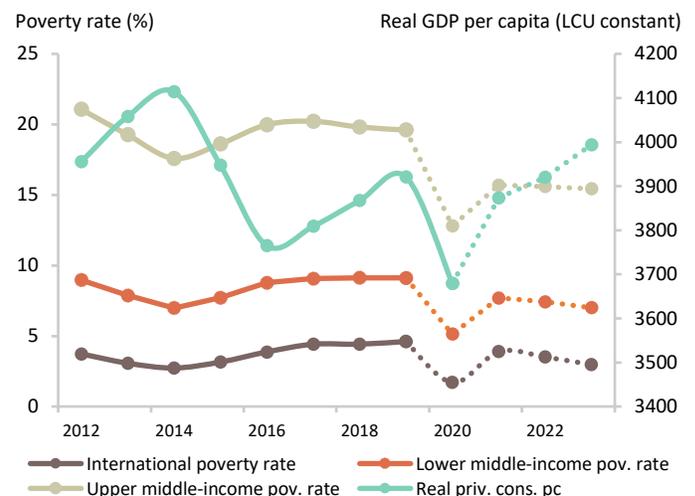
However, the escalation of the pandemic in June and July is likely to have slowed down the recovery. The rapid spread overwhelmed the health system resulting in almost 200 deaths per day in the last week of July 2021, one of the highest COVID death per capita in the world. The pandemic has started to ease in August 2021 following new mobility restrictions and an acceleration in the vaccination campaign, which has benefited from 6 million doses donated to Tunisia by various countries. As of September 25th, 29.2

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



Sources: National Institute of Statistics and World Bank.

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



Source: World Bank. Notes: see Table 2. Note: Projection using neutral distribution (2015) with pass-through = 0.7 (Low) based on GDP per capita in constant LCU.

percent of the population was fully vaccinated and a further 11.6 percent had received one dose.

Public expenditures rose slightly (by 1.6 percent) in the first semester of 2021 after their steep rise to battle the pandemic and its economic impact in the same period of 2020. This moderate increase was driven by the fall in investment (-39 percent) which compensated the 6 percent increase in wages and 15.8 percent increase in subsidies and transfers. Revenues increased by 13.6 percent - mainly because of indirect taxes - and this led the reduction in the budget deficit by 46.2 percent. This helped reduce the rate of growth in the public debt, which had expanded from 67.9 to 79.3 percent of GDP between 2019 and 2020.

This is important considering the perceived uncertainty around public debt sustainability, which the recent political developments have exacerbated. On July 25th in the wake of public protests against the government and parliament for the handling of the health and economic crisis, President Saied dismissed part of the Cabinet including the Prime Minister, suspended the Parliament and removed the immunity of members of Parliament. The day after this move Tunisian Government bonds fell substantially and have remained subdued since then.

Outlook

GDP growth is expected to reach 3 percent in 2021, below that in the first semester. This lower growth is due to the weakening of the base effect and the worsening of the pandemic. The uptick is not large enough to return output to pre-pandemic levels of 2019. Growth is eventually expected to stabilize at a modest 3.3 percent by 2023, reflecting pre-existing structural weaknesses and a gradual global recovery from the pandemic. These estimates are presented with significant downside risks. The pace of the recovery will depend on the political developments, including the nomination of a new Prime Minister and the resumption of parliamentary activities, on the evolution of the pandemic and of the financing of the public debt.

Poverty is not expected to decline to pre-COVID levels before 2023. Predicted poverty rates using the US\$3.2 PPP line are expected to reach 3.3 in 2022 and 3.1 percent in 2023 using the US\$3.2 PPP line. Using the upper-middle income countries poverty line (US\$5.5 PPP), poverty is projected to decrease to 18.7 in 2022 and 17.8 percent in 2023.

The current account deficit is expected to widen slightly to 6.1 percent of GDP in

2021 as imports begin to recover and oil prices increase. The deficit would stabilize around 7 percent of GDP by 2023 as the effects of the pandemic ease and trade flows recover. But risks to the external outlook remain high, including a sluggish export recovery, given the heavy impact of the pandemic on firm capacity and the pace of recovery amongst Tunisia's main trading partners.

The gradual decline of the fiscal deficit is expected to continue in the medium term, reaching 5-7 percent of GDP in 2021-23, as vaccination coverage and the moderately positive trajectory of expenditures and revenues. However, meeting the public financing needs will remain challenging. Even before the fall in government bonds following the July 25th events, Fitch had downgraded Tunisia's sovereign rating to "B-". This reflects increased fiscal and external liquidity risks amid further delays in agreeing a new program with the IMF. As a result, Tunisia has furthered its reliance on debt monetization with Central Bank reserves steadily declining from US\$ 8.2 billion at the end of 2020 to US\$ 7.1 billion in August 2021. This increases the risks on the monetary financial stability side, which are exacerbated by the Central Bank soaking liquidity from the banking system and the high level of Non-Performing Loans (13.6 percent in 2020).

TABLE 2 Tunisia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	2.5	1.5	-9.2	2.9	3.5	3.3
Private Consumption	2.4	1.9	-4.9	1.0	2.5	2.2
Government Consumption	0.6	0.4	-2.6	-26.5	-3.2	-1.0
Gross Fixed Capital Investment	2.1	-2.6	-38.9	18.7	13.4	4.5
Exports, Goods and Services	4.8	-0.8	-27.4	39.0	12.0	10.1
Imports, Goods and Services	2.6	-5.0	-21.9	38.2	10.6	7.2
Real GDP growth, at constant factor prices	2.5	1.4	-9.5	3.0	3.5	3.3
Agriculture	5.9	5.7	0.4	-4.6	4.0	4.0
Industry	0.9	-1.6	-9.1	8.5	3.5	3.2
Services	2.7	2.1	-11.1	2.0	3.5	3.2
Inflation (Consumer Price Index)	7.3	6.7	5.6	5.6	6.0	6.0
Current Account Balance (% of GDP)	-10.4	-7.9	-6.0	-6.1	-7.6	-7.1
Fiscal Balance (% of GDP)	-4.2	-2.9	-9.4	-7.6	-5.7	-5.2
Debt (% of GDP)	72.7	66.6	81.9	85.1	84.8	85.5
Primary Balance (% of GDP)	-1.7	-0.4	-5.8	-4.3	-2.0	-0.9
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.2	0.2	0.3	0.3	0.3	0.3
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	2.9	2.9	3.7	3.5	3.3	3.1
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	16.7	16.5	20.1	19.5	18.7	17.7
GHG emissions growth (mtCO₂e)	0.8	0.0	-8.2	2.5	5.2	4.6
Energy related GHG emissions (% of total)	73.9	73.8	72.3	73.0	72.4	71.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD. Notes: e = estimate, f = forecast.

(a) Calculations based on 2015-NSHBCSL Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.