TUNISIA

Highlights

- **Economic growth rebounded at a slower pace and unemployment remains high.** The GDP growth rate reached just 1.2 per cent year-on-year in the first half of the year. Unemployment, one of the major challenges in Tunisia, has stabilised at an elevated level.
- **Some structural reforms have progressed.** The government has taken steps in the past year to improve the business climate, reform the financial system by opening a money exchange office, and implement energy subsidies reforms, supported by improved social protection programmes.
- **A new investment law may help attract foreign interest.** The new law is encouraging investors in various ways, including through the elimination of bottlenecks, enhanced access to finance for small and medium-sized enterprises (SMEs), and the enablement of public-private partnerships (PPPs) and concessions.

Key priorities for 2020

- **Structural reforms need to be reinforced.** Key short-term priorities include energy-sector reform, adopting the law on excessive lending rates and implementing the strategy to support green tourism and to provide incentives to encourage domestic and foreign tourism.
- **The authorities should accelerate the pace of fiscal consolidation and maintain monetary tightening.** Measures are needed in order to keep a lid on current expenditures, and a tight monetary stance, supported by continued exchange rate flexibility, would help contain inflationary pressures.
- **Obstacles to private-sector participation in the economy should be removed.** Priority areas to be tackled are clarifying the ownership of land properties, ensuring the good governance of state-owned enterprises and countering corruption.

Main macroeconomic indicators %

	2015	2016	2017	2018	2019 proj.
GDP growth	1.2	1.3	1.9	2.5	1.5
Inflation (average)	4.4	3.6	5.3	7.3	6.6
Government balance/GDP	-5.3	-6.2	-5.9	-4.6	-3.7
Current account balance/GDP	-9.7	-9.3	-10.2	-11.1	-10.4
Net FDI/GDP [neg. sign = inflows]	-2.2	-1.7	-2.0	-2.5	-2.2
External debt/GDP	63.2	66.9	82.0	86.0	92.8
Gross reserves/GDP	17.2	14.2	14.0	13.0	14.8
Credit to private sector/GDP	73.2	76.0	80.1	79.3	n.a.

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Macroeconomic performance

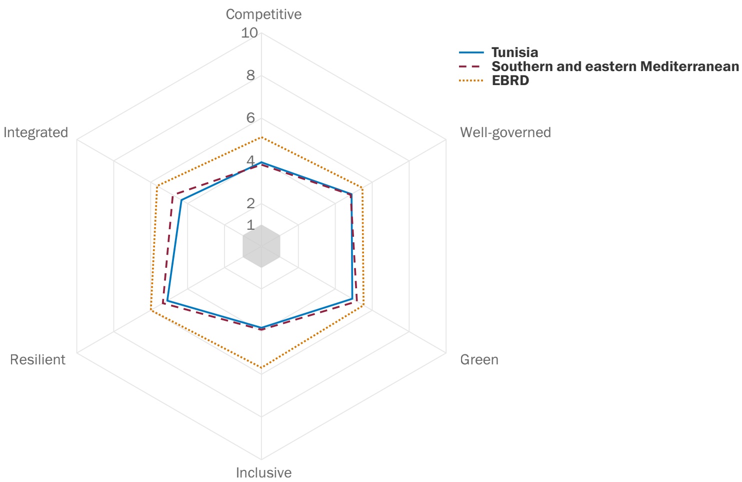
The economy grew at a slower pace in the first half of 2019. The 1.2 per cent growth year-on-year in this period, down from 2.7 per cent in 2018, was mainly driven by the fall in manufacturing industries and the decline in extraction industries, although there was an expansion in commercial services – mainly in tourism, communication and financial services – and agriculture. Unemployment remained high at 15.3 per cent in the second quarter of 2019, and especially so among young people (34.4 per cent), women (22.6 per cent) and graduates (28.2 per cent).

Inflation slowed down, but remains high. In September 2019, the inflation rate remained high at 6.7 per cent year-on-year, compared with a peak of 7.7 per cent in June 2018. Food and tobacco prices remain the main drivers of inflation, while the appreciation of the Tunisian dinar and monetary tightening by the Central Bank of Tunisia – the key interest rate was increased by 100 basis points to 7.75 per cent in February 2019 – helped keep inflationary pressures in check.

Fiscal and external deficits have fallen. The fiscal deficit declined to 4.6 per cent of GDP in 2018, from 6.0 per cent in 2017, on the back of improved tax collection. This, in turn, allowed for an increase in spending on job-creating public investment and social spending. Meanwhile, public debt (external and domestic) increased to 77.1 per cent of GDP in 2018, driven mainly by the depreciation of the Tunisian dinar, as two-thirds of the debt is denominated in foreign currency. The current account deficit narrowed to 5.7 per cent of GDP in the first seven months of 2019, compared with 6.1 per cent of GDP in the same period of 2018. This reduction was mainly due to the increase in tourism receipts and labour income, in addition to a rebound in phosphate exports and the sound performance of exports of the manufacturing industries sector, combined with a slowdown of imports. Tourism increased by 16.7 per cent year-on-year in the first six months of 2019. Meanwhile, reserves increased but remained low, covering just over three months of imports in September 2019.

The outlook remains mixed in 2019-20. In 2019, growth is expected to slow to 1.5 per cent, impeded by the delay in the implementation of structural reforms, notably due to uncertainty in the run-up to the presidential and parliamentary elections in September and October 2019, respectively. In 2020, we expect a recovery in foreign investors' confidence and in the reform momentum in Tunisia once the elections are over. This will result in significant improvements in both domestic and foreign investment, pushing growth to 2.6 per cent. Risks stem from the possibility that socioeconomic protests will disrupt production and slow progress on reforms, given the new political structure and falling growth in Europe. Upsides include improvements in tourism and investment and the restoration of confidence following the successful democratic transition, which should be reflected in an increase in productivity and growth.

Assessment of transition qualities (1-10)



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Major structural reform developments

Pension reform has advanced. A new reform law for the public pension fund was approved by the parliament in April 2019. The law raises the retirement age for civil servants from 60 to 62 as of 2020. It also imposes a 1.0 per cent social security tax on employees and a 2.0 per cent tax on employers.

Energy subsidies have been reduced after some delay. Fuel prices were raised in September 2018, but planned increases in fuel and utility tariffs for October and November 2018 were not implemented due to social tensions. Instead, the government increased the prices of fuel and other oil products by around 6.0 per cent in March 2019 and raised the prices of low-pressure natural gas and low-voltage electricity in May 2019.

Energy-sector digitisation is advancing gradually. The government started implementing a "smart grid project" in June 2019, which is part of Tunisia's energy plans in the form of a PPP. The project aims to obtain 30.0 per cent of electricity from renewable energy sources by 2025. The development of the smart grid will allow the Tunisian Electricity and Gas Company to monitor consumption patterns of the grid's power supply, leading to reduced energy losses, fewer unpaid bills, enhanced energy efficiency, an improved ecosystem and increased competitiveness of the electricity sector. The project comprises two phases: the first phase includes the installation of 430,000 smart meters over three years in the Sfax governorate in southern Tunisia; and the second phase will extend the programme to the rest of the country. Tunisia's national grid is connected to those of Algeria and Libya, and is therefore essential to improve electricity transmission and distribution networks across northern Africa.

A new Investment Climate Improvement Law is in place. The new law, approved in April 2019, aims to unblock investments and eliminate bottlenecks, and has four objectives. First, it tackles administrative bureaucracy, further simplifies procedures and significantly reduces paperwork. Second, it increases access to finance, notably to SMEs, by reducing the costs of financing through subsidies. Third, the new law includes provisions allowing SMEs to access concessions and private operators to intervene in the more advanced stages of projects. The fourth objective is to improve corporate governance in the private sector, in order to protect savers and minority shareholders.

The government has widened social protection to cover vulnerable segments of society. In March 2019, the government improved access to public health care and established the AMEN social database. Social spending increased in 2018 through the expansion of the main social programme for vulnerable families (Programme National d'Aide aux Familles Necessiteuses). In addition, a database on vulnerable households was established in March 2019 in order to better target low-income households. Furthermore, new medical and payment cards have been issued. The parliament adopted the CNRPS reform law, which became effective in May 2019, limiting the short-term need for government support. A decree based on similar reform parameters for the private pension fund is about to be passed.