Tunisia

Highlights

- **Tunisia's economic recovery has been muted, but the new staff-level agreement on an International Monetary Fund (IMF) programme has improved the outlook.** Growth slowed in the first half of 2022, contributing to a rising fiscal deficit and persistently high unemployment. Amid current uncertainty, the sovereign rating has deteriorated as fiscal pressures have risen.
- **The country launched its "Green hydrogen for sustainable growth and a low-carbon economy in Tunisia" (H2Vert.TUN) project.** Supported by development partners, this is Tunisia's first concrete commitment to green hydrogen production. The project seeks to improve the framework to develop a value chain based on renewable energy for green hydrogen and its derived products in Tunisia.
- **The National Programme of Reforms was launched in 2022.** The programme sets out a host of essential reforms to improve the business environment, strengthen competitiveness and loosen restrictions on foreign exchange, as well as reduce the role of the state and improve public-sector management.

Key priorities for 2023

- **Measures are urgently needed to bring public spending under control.** These include reducing subsidy expenditure and the public-sector wage bill and reforming state-owned enterprises (SOEs), all of which will also be important in the context of the new IMF programme.
- **Reforms to promote a business-enabling environment must advance in parallel.** These would support private-sector growth and attract foreign investment – both necessary for creating jobs, promoting exports and shoring up foreign reserves. Scaling back the role of SOEs and lowering barriers to domestic competition will be essential here, as will easing business regulations (licensing, general red tape) for enterprises.
- **Addressing disparities and strengthening social safety nets should be prioritised.** Effectively mitigating the impact of successive crises on the livelihood of vulnerable groups requires stronger support networks combined with targeted investment, innovative policies to support small businesses and the introduction of upskilling and employment programmes.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	2.5	1.4	-8.7	3.3	1.7
Inflation (average)	7.3	6.7	5.6	5.7	8.1
Government balance/GDP	-4.3	-3.6	-9.1	-7.6	-6.6
Current account balance/GDP	-10.4	-7.8	-5.9	-6.1	-9.1
Net FDI/GDP [neg. sign = inflows]	-2.3	-1.9	-1.4	-1.1	-1.2
External debt/GDP	80.9	91.2	98.7	87.4	n.a.
Gross reserves/GDP	12.2	17.8	21.4	18.5	n.a.
Credit to private sector/GDP	74.2	70.1	75.7	n.a.	n.a.

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Macroeconomic developments and policy response

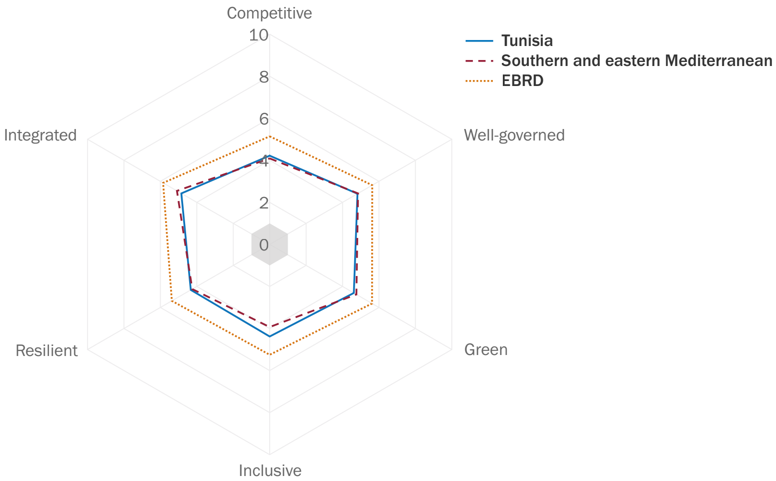
Tunisia is experiencing weaker growth in 2022 after a modest recovery in 2021. Gross domestic product (GDP) grew 3.1 per cent in 2021, after a sharp contraction (9.2 per cent) in 2020. The relative dependence of the economy on tourism, weak demand for exports, limited fiscal space and the difficult business environment all continued to weigh on growth. In the first half of 2022 economic growth was 2.6 per cent year on year, driven by growth in the agricultural and agribusiness sectors. Meanwhile, inflation reached a 30-year high of 8.2 per cent in July 2022, driven by large increases in food and energy prices. Unemployment decreased slightly to 15.3 per cent in the second quarter of 2022, although rates remain higher for women (20.9 per cent), the youth (38.5 per cent) and graduates (30.1 per cent).

Measures to alleviate pressures from the war on Ukraine are hindered by a lack of fiscal space. The country normally imports about 54 per cent of its wheat from Russia and Ukraine. The World Bank has provided a US$ 130 million loan to Tunisia to enable the government to purchase wheat for one and a half months' consumption, ensuring affordable bread for the poor in the immediate short term. As for energy, the government has sought to offset the impact of rising prices on vulnerable households by expanding subsidies to about 15.4 per cent of budgeted expenditures. The additional spending is likely to push the 2022 budget deficit above the target of 6.7 per cent of GDP. Public-sector wages are 17 per cent of GDP, one of the highest ratios in the world. Public debt was 85.5 per cent of GDP as of the end of 2021, of which 64.5 per cent was denominated in foreign currency.

Reserves are still falling and the country's sovereign rating has been downgraded. In 2021 the current account deficit slightly narrowed to 6.3 per cent of GDP, driven by the strong performance of remittances, which peaked at US$ 2.7 billion. In the first quarter of 2022 remittances and tourism revenues continued to increase. However, foreign reserves decreased to US$ 7.6 billion in August 2022, covering just under four months of imports. In the past year both Moody's and Fitch have downgraded the sovereign rating to Caa1 and CCC, respectively.

The economic outlook remains highly uncertain. A weak recovery is likely in 2022 (1.7 per cent GDP growth) as the country struggles to attract external financing. Structural challenges and uncertainty surrounding the war on Ukraine will continue to weigh on growth. The prospects for 2023 are more positive (we forecast 2.9 per cent growth) if a new IMF programme is approved and implemented, and global headwinds ease.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

Negotiations on an IMF-supported programme have advanced. In July 2022 the government submitted a reform plan to the IMF, which includes a freeze on the public wage bill, a reduction in subsidies and a restructuring of public enterprises. Following progress in the domestic dialogue on these reforms with key stakeholders, a staff-level agreement for a new programme was announced in October 2022, which should help to address financing needs as well as boost reforms.

Public-sector reform is still facing strong opposition. The public-sector wage bill in 2021 amounted to 17.5 per cent of 2020 GDP and almost 50 per cent of public expenditure, making it the highest wage-bill (relative to GDP) of all emerging markets. Strong labour unions have blocked reforms in this area and the commitments of previous governments to reduce the wage bill through limits on recruitment, wage constraint and voluntary departures remain unmet.

The government has developed an ambitious reform agenda. This includes the Vision 2035 initiative, along with accompanying development plans to address key challenges. The Vision 2035 agenda is focused on four pillars: promoting human capital; developing a more knowledge-based, digital economy; strengthening social justice (especially in the interior regions); and boosting private-sector development, especially the green economy.

The National Programme of Reforms 2023-25 was launched in June 2022. This programme aims to achieve economic stability in the short term and lay the foundations for inclusive and sustainable growth, in line with the Vision 2035 agenda. Planned measures include removing investment permits, incentives for investors in strategic sectors and improving legislative and institutional frameworks for start-ups. The authorities plan to reform the foreign-exchange code and to conclude sectoral competitiveness pacts in the textile, pharmaceutical and automotive component sectors.

Progress on crucial reforms to state-owned enterprises (SOEs) is slow, but momentum is picking up in the grain sector. In July 2022 the Office des Céréales (ODC) secured a US$ 150.3 million European Bank for Reconstruction and Development (EBRD) loan to finance grain imports and help secure them against potential disruptions in the global supply of cereals and consequent soaring prices. A grant of US$ 2 million will go towards technical assistance and support for a sectoral and corporate reform roadmap, in line with the Tunisian SOE reform agenda. The roadmap's main aim is to set out how to address the current structural weaknesses of the cereals sector, leading to the progressive liberalisation of cereal imports.

Tunisia is to launch the "Support for an accelerated energy transition" project. The project aims to enhance energy efficiency and renewable energy potential. It rests on four pillars: improving energy transition conditions; optimising the energy sector; enhancing private-sector capacity; and promoting innovation. The agreement between the Ministry of Industry, the Société Tunisienne de l'Electricité et du Gaz (STEG) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) was signed in July 2022 and implementation is planned over the next three years. This project aims to produce 35 per cent of electricity from renewable sources by 2030, while reducing greenhouse gas emissions by 45 per cent from 2010 levels.