Euler Hermes Economic Research

Country Report

Tunisia

Continuing domestic and regional tensions limit recovery

General Information

GDP	USD47bn (World ranking 87, World Bank 2014)
Population	11mn (World ranking 78, World Bank 2014)
Form of state	Republic
Head of state	President Beji Caid Essebsi
Head of government	PM Habib Essid
Next elections	Presidential and legislative October-November 2019

Strengths

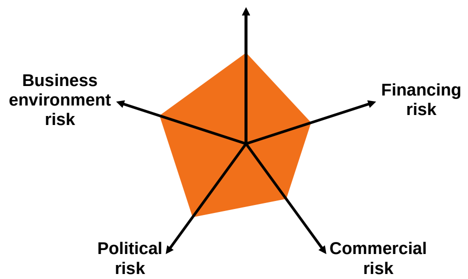
- Political transition has been relatively peaceful compared with Egypt, Libya, Syria and Yemen.
- A consensual approach to the political transition gives hope for progress, again dissimilar to elsewhere in the region.
- Although the economy has been affected adversely by recent political/social changes, previous good management provides a solid platform.
- The IMF is supportive, a 24-month SBA facility expired in December 2015 but an EFF is currently being negotiated
- Relatively diversified economy.

Weaknesses

- Political system is in transition with inherent uncertainties and risks of untried new systems and untested individuals in power.
- A root cause of the Arab Spring was the lack of job prospects and Tunisia's unemployment was estimated at 15% of the workforce before regime change and was much higher among the young. Social tensions remain high.
- Poor perceptions of regional risk.
- Textiles and clothing account for 16% of exports and global markets are very competitive. Moreover, over 80% of exports are destined for European markets and weak growth in those economies limits Tunisia's export growth.

Country Rating

B3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
France	27%	1	16%	France
Italy	19%	2	14%	Italy
Germany	8%	3	7%	China
Libya	5%	4	7%	Germany
Switzerland	4%	5	5%	Spain

By product (% of total)

Exports		Rank		Imports
Electrical machinery, apparatus and appliances, n.e.s.	17%	1	12%	Petroleum, petroleum products and related materials
Petroleum, petroleum products and	17%	2	9%	Electrical machinery, apparatus and
Articles of apparel & clothing	16%	3	7%	Road vehicles
Telecommunication and sound recording apparatus	5%	4	7%	Textile yarn and related products
Fixed vegetable oils and fats, crude, refined or fractionated	3%	5	5%	Gas, natural and manufactured

Source: UNCTAD

Economic Overview

The IMF is close to extending a further facility

An IMF 24-month Stand-By Agreement (SBA) of USD1.75bn expired in December 2015 but negotiations for a new four-year Extended Fund Facility of around USD2.8bn are at an advanced stage and multilateral support therefore remains evident. Under progress checks during the SBA, the Fund indicated broad satisfaction with the reform agenda adopted by the Tunisian authorities. However, the Fund acknowledges the social, political and economic challenges ahead and would like to see more progress on structural reforms, particularly in relation to the recapitalisation of public banks.

The political revolution from 2011 had a direct negative impact on GDP growth…

Growth of GDP was +3.9% in 2012, following -1.9% in the crisis year of 2011, supported by sound agricultural output and moderate rebound in tourism. However, the rate of recovery slowed in the latter half of that year as political and social factors removed some of the initial confidence prevailing in the early days of the transition. In addition, economic weakness (and now slow recovery) in Europe reduced the scope for more rapid growth. Europe accounts for around 80% of overall foreign trade and for a significant proportion of tourist numbers (over 50%) and receipts. The political transition, as elsewhere in the region, remains fragile, although on a firmer footing, and GDP growth reflects the uncertain political trajectory.

…although recovery is now underway, albeit with downside risks

Industrial output is recovering only slowly from the political/social disturbances and because of continuing weakness in some key European markets, which are also sources of investment and tourists. Establishment of a new government in early 2015 after presidential elections at end-2014 offers scope for a period of stability and consolidation. However, job prospects and general living standards have not improved significantly and periodic terrorist activity continue to undermine commercial activity. EH expects GDP growth of +2.5% in 2016 and +3.5% in 2017 but the business environment will remain uncertain.

In early 2016, several towns and cities experienced demonstrations and some violence, with protestors claiming that job availability and the general state of the economy have not improved since the toppling of President Ben Ali in 2011. The army was deployed to secure stability and a national curfew imposed. The protests were particularly strident in the governorate of Kasserine and the south and west in general. These protests echoed the 2011 revolution and were negative for investment prospects and the tourism sector (14% of GDP, 12% of the labour force and 20% of FX earnings). In 2015, tourist attractions were terrorist targets and visitor arrivals and tourist receipts fell by -25% and -35%, respectively.

Inflationary pressures remain muted

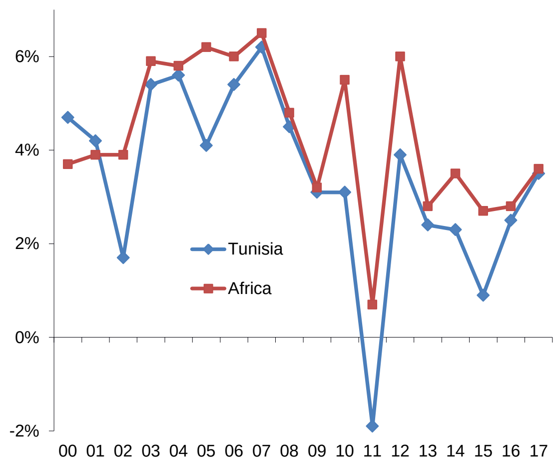
Food accounts for approximately one-third of the basket used to measure consumer price inflation. EH expects inflationary pressures (particularly at producer, but also consumer, level) will ease through 2016 as oil and food prices remain relatively weak.

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	2.3	0.9	2.5	3.5
Inflation (%, end-year)	4.8	4.1	4.0	4.5
Fiscal balance (% of GDP)	-5.0	-4.9	-4.0	-3.5
Public debt (% of GDP)	50.5	56.9	58.0	57.0
Current account (% of GDP)	-9.0	-8.4	-7.5	-6.5
External debt (% of GDP)	60.2	71.9	75.0	73.0

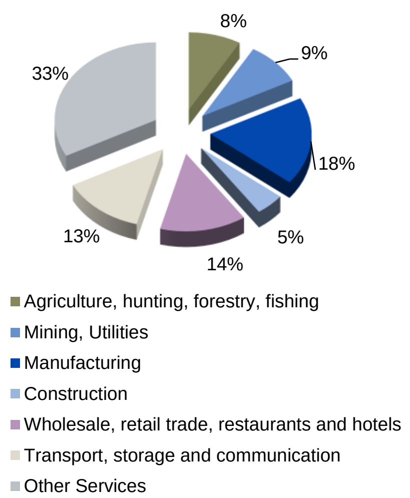
Sources: National sources, IHS, Euler Hermes

GDP growth (%)



Sources: National sources, IHS, Euler Hermes

GDP Distribution



Sources: National sources, IHS, Euler Hermes

Public finances

The general government debt-GDP ratio was on a declining trend in the period 2000-10 but, with the advent of the political transition in 2011, increased from 40% in 2010 to over 50% in 2014. Further debt increases have taken the ratio to around 58% currently. There are downside risks to the debt outlook as political and social realities may lead the government to increase obligations more rapidly.

Trade and current accounts weakened in the aftermath of the regime change and will recover only slowly

Current account deficits are a structural feature of the economy. However, the annual deficit in the period 2000-08 was equivalent to -2.6% of GDP but widened after that period. By 2011, the first year of the political transition, the deficit had reached -7.4% of GDP and it increased further before peaking at -9% of GDP in 2014. EH expects the annual deficit is on a downward trend, reaching -8.4% in 2015 and is forecast at -7.5% and -6.5% in 2016 and 2017, respectively. Deficits require careful management and there is downside risk as revenue generation relies on a period of stability and enhanced security.

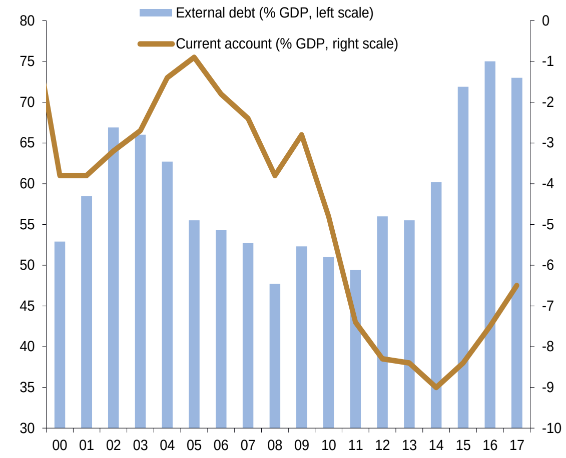
External debt increased after the political transition and revenue generation will take time to rebuild

The pre-transition external debt-GDP and external debt-FX earnings ratios were around 50% and 94%, respectively. In 2015, the corresponding ratios were 72% and 167%. EH expects further deterioration this year and some consolidation in 2017 as the country's economic recovery will only be gradual and borrowing requirements will increase. The challenges for the new regime are to manage this deterioration in the short-term (confidence-building exercise and maintaining external levels of support) and attempt to engineer a more rapid recovery in the economy's organic means of accumulating foreign exchange earnings.

Import cover remains above the international "safe" level

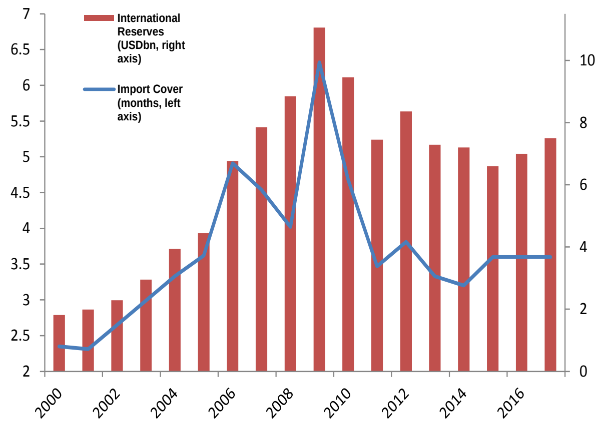
Official foreign exchange reserves (excluding gold) fell sharply with the onset of the regime change and political transition (to below USD6bn at one point). A semblance of political stability and moderate improvement in security enabled some economic activity to rebound with a commensurate accumulation of hard currency reserves. However, periodic terrorist activity will limit the growth of reserves. FX reserves cover over three months of imports (see chart), which is the internationally-accepted minimum for liquidity comfort.

Current account and external debt (% of GDP)



Sources: National sources, IHS, Euler Hermes

International Reserves and Import Cover



Sources: FT, Euler Hermes

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