Euler Hermes Economic Research

Country Risk Analysis

Tunisia

Difficult political transition

General Information

Form of state	USD45.9bn (World ranking 79, World Bank 2011)
Population	10.67 millions (World ranking 77, World Bank 2011)
Form of state	Republic
Head of government	Hamadi JEBALI
Next elections	2013, presidential

Strengths

- Political transition has been relatively peaceful compared with Egypt, Libya, Syria and Yemen.
- Although the economy has been affected adversely by recent political/social changes, previous good management has provided some leeway and recourse has yet to be made to the IMF, which has expressed support.
- Relatively diversified economy.

Weaknesses

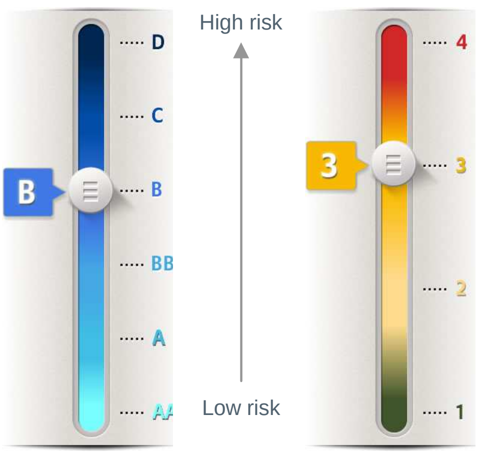
- Political system is in transition with inherent uncertainties and risks of untried new systems and untested individuals in power.
- A root cause of the Arab Spring was the lack of job prospects and Tunisia's unemployment was estimated at 15% of the workforce before regime change and was much higher among the young. The problems associated with the transition have not improved job creation and social tensions remain high.
- Poor perceptions of regional risk.
- Textiles and clothing account for around 20% of exports and global markets are very competitive. Moreover, over 50% of exports are destined for European markets and weakness in those economies limits Tunisia's export growth.

Country Rating

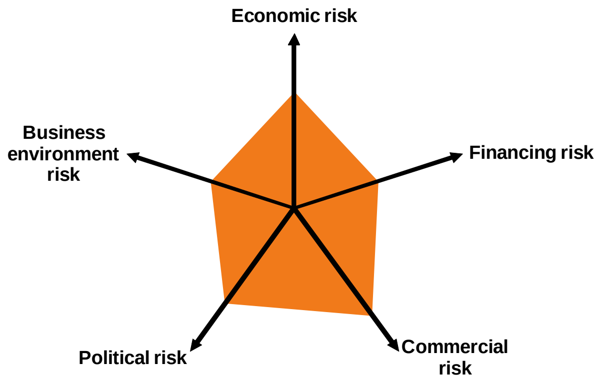
B3

Country Grade

Country Risk Level



Risk Dimensions



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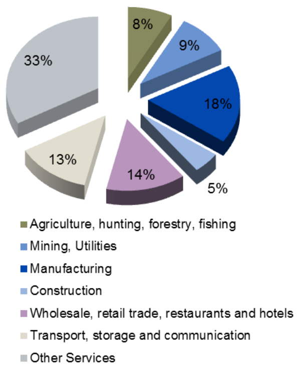
Economic Structure

GDP breakdown (% of total, 2010)



Trade structure (% of total, 2010)

By destination/origin

Exports		Rank		Imports
France	27%	1	21%	Italy
Italy	18%	2	20%	France
Germany	10%	3	10%	Germany
United Kingdom	5%	4	5%	Spain
Spain	5%	5	5%	China

By product

Exports		Rank		Imports
Electrical Apparatus	15%	1	10%	Refined Petroleum Products
Clothing	14%	2	9%	Yarns Fabrics
Crude Oil	11%	3	8%	Electrical Apparatus
Knitwear	7%	4	4%	Plastic Articles
Leather	5%	5	3%	Cereals

Sources: Chelem, IHS Global Insight, Euler Hermes

Economic Forecasts

	Average 2000-08	2009	2010	2011	2012f	2013f	2014f
GDP growth (% change)	4.7	3.4	3.5	-1.5	2.5	3.0	4.0
Inflation (%, end-year)	3.2	4.0	4.1	3.5	5.0	4.0	3.5
Fiscal balance (% of GDP)	-2.1	-1.2	-1.0	-3.2	-6.5	-6.1	-5.5
Public debt (% of GDP)	56.8	42.9	40.5	44.4	47.3	48.5	52.0
Current account (% of GDP)	-2.6	-2.8	-4.7	-7.3	-10.6	-11.4	-11.2
External debt (% of GDP)	57.5	50.8	49.7	48.4	57.8	71.8	77.4

Sources: IHS Global Insight, National sources, Euler Hermes

Economic Growth

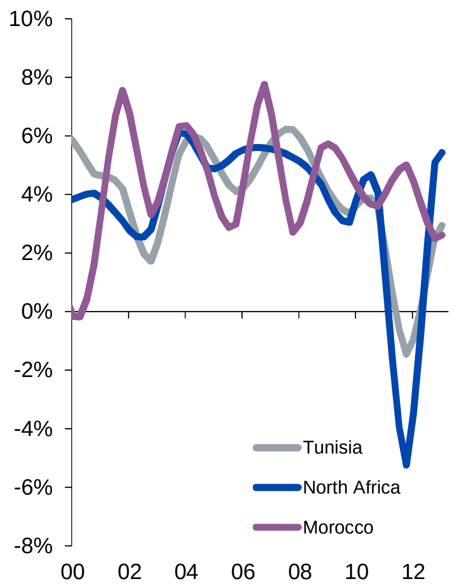
Growth in 2012, after contraction a year earlier

Growth of GDP was +2.5% in 2012, following -1.5% 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 the year as political and social factors removed some of the initial confidences prevailing in the early days of the transition. In addition, economic weakness 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.

Only moderate GDP acceleration in 2013

Industrial output is recovering only slowly from the political/social disturbances and because of weakness in key European markets, which are also sources of investment and tourists. Export growth remains weak, reflecting depressed demand. As a result, EH has revised downwards its GDP forecast for 2013, to +3%, with the prospect of +4% in 2014, but only if the political transition is supportive.

GDP growth (y/y, 4 qtrs cumulated %)

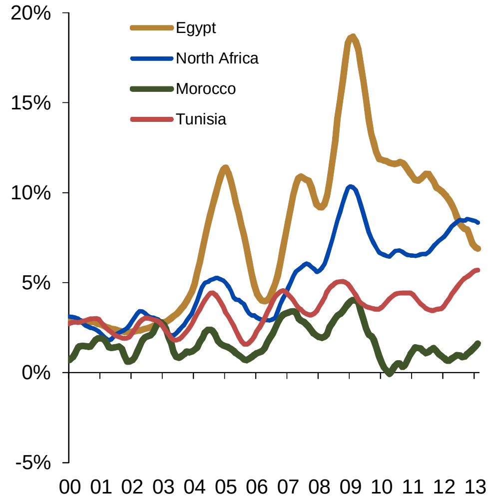


Sources: IHS Global Insight, Euler Hermes

Inflation pressures intensified in 2012

Reflecting pressures from food prices, inflation registered 5% at the end of 2013, compared with 3.5% at the end of the year before. 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) to ease over 2013 and 2014 as commodity prices soften and global economic conditions remain weak.

Inflation (%)



Sources: IHS Global Insight, Euler Hermes

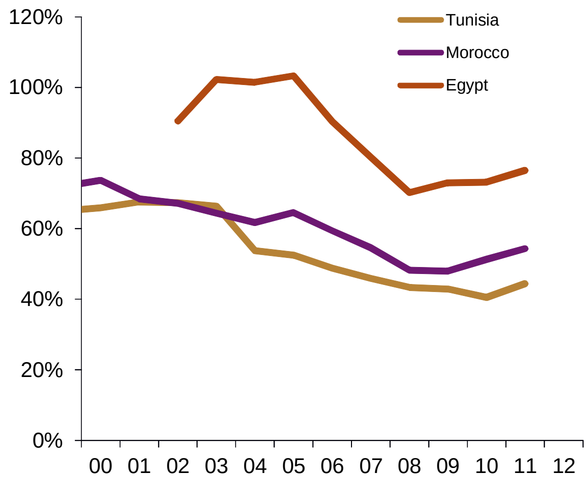
The fiscal deficit has widened

In the period 2000-08, the average annual fiscal deficit was just over -2% of GDP. Tax and other receipts fell sharply in 2011 and, particularly, 2012 and expenditures increased as the government augmented spending in attempts to appease some of the social tensions. Job creation programmes are key to lowering unemployment but have to be funded centrally. In the latter year, the fiscal deficit is estimated at -6.5% of GDP and, although revenues will pick up with a modest improvement in GDP, deficits exceeding -5% are forecast for 2013 and 2014.

Public debt is increasing

The general government debt-GDP ratio was on a declining trend in the period 2000-10 but, with the advent of the political transition, increased from 40% in 2010 to almost 50% currently, with little prospect of registering a decline in 2013 and 2014.

General government gross debt (% GDP)

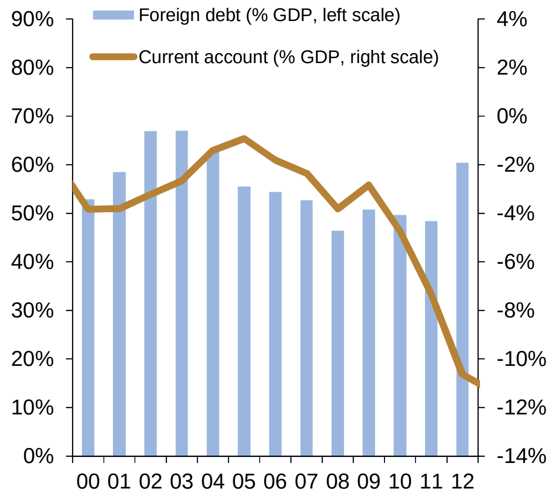


Sources: IHS Global Insight, Euler Hermes

Widening current account deficit

The annual current account deficit in 2000-08 was -2.6% of GDP but has widened since that period. By 2011, the first year of the political transition, the deficit had reached -7.3% of GDP and EH forecasts further deterioration, to -11.4% in 2013 and -11.2% in 2014. At the same time, the foreign debt-GDP ratio of 49% in 2011 has widened to currently over 70%, so external accounts have deteriorated markedly as a result of the political transition. The challenge for the new regime is to manage this deterioration in the short-term and engineer a recovery in the medium-term.

External debt and current account (% of GDP)

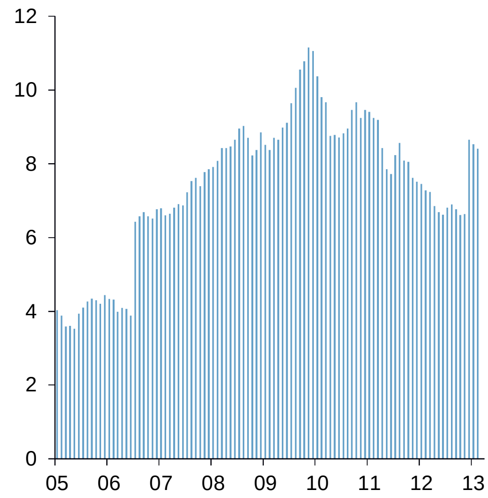


Sources: IHS Global Insight, Euler Hermes

Foreign exchange reserves have fallen

Official foreign exchange reserves (excluding gold) have fallen sharply (to below USD6 billion) and now cover around three months of imports, which is the internationally-accepted minimum for liquidity comfort.

FX reserves (USDbn)



Sources: IHS Global Insight, Euler Hermes

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