Euler Hermes Economic Research

Country Report

Tunisia

Still fragile, but marked progress

General Information

GDP	USD46.99 bn (World ranking 85, World Bank 2013)
Population	10.89 mn (World ranking 79, World Bank 2013)
Form of state	Republic
Head of government	President Mohamed Beji Caid Essebsi
Next elections	Legislative October 2019; presidential November 2019

Strengths

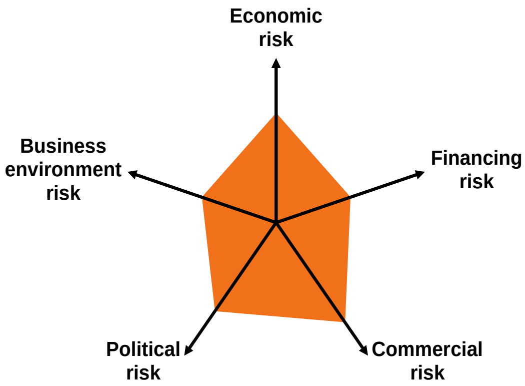
- Political transition has been relatively peaceful compared with Egypt, Libya, Syria and Yemen.
- A consensual approach to the political transition gives hope for progress, again dissimilar to elsewhere in the region.
- Although the economy has been affected adversely by recent political/social changes, previous good management provides a solid platform.
- The IMF is supportive, with a 24-month SBA facility in place and likelihood of further assistance, in need.
- 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 over 16% 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



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

Source: UNCTAD (2012)

Tunisia's political transition is supported by regional agencies and also by the IMF

In June 2013, the IMF approved a 24-month Stand-By Arrangement (SBA) of USD1.75 bn. At its latest (December 2014) review under the SBA, the Fund indicated that it is broadly satisfied with progress and noted that all quantitative performance criteria were met in 2014. However, the Fund also acknowledges the challenges ahead and would like to see more progress on the structural reform agenda, 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 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. It became evident that the political transition, as elsewhere in the region, was fragile and GDP growth slowed in 2013 (+2.3%) and remained moderate in 2014 (+3%) when uncertainties increased.

…but recovery is now underway, although lingering fragilities provide 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. However, establishment of a new government in early 2015 after presidential elections at end-2014 allows for a period of stability and consolidation. EH expects GDP growth of +4.5% in 2015. Rates of expansion depend on the political transition being supportive and domestic and regional stability providing an enabling business environment.

Inflationary pressures have eased as oil (and other commodity) prices are relatively weak

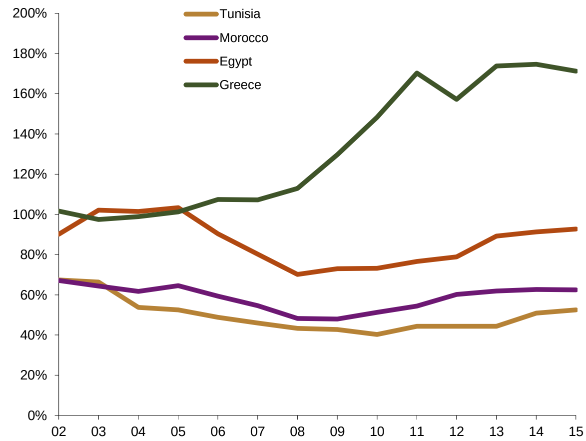
Food accounts for approximately one-third of the basket used to measure consumer price inflation. As a result, price pressures from food boosted inflation in recent years, with end-year rates of around 6% in 2012 and 2013, compared with around 4% at the end of the 2010 and 2011. In the final quarter of 2014, international oil prices fell markedly and remained relatively low in Q1 2015, with the prospect of not recovering towards USD100/b for some time. As a result, global inflationary pressures have eased. For Tunisia, EH expects inflationary pressures (particularly at producer, but also consumer, level) will ease throughout 2015 and 2016 as other commodity prices are also weak. EH forecasts inflation of 4.5% and 4.2% at end-2015 and end-2016, respectively.

Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	3.9	2.3	3.0	4.5
Inflation (%, end-year)	5.6	6.1	5.5	4.5
Fiscal balance (% of GDP)	-5.5	-6.8	-5.0	-4.8
Public debt (% of GDP)	44.5	45.7	51.8	53.5
Current account (% of GDP)	-8.2	-8.3	-8.7	-6.6
External debt (% of GDP)	56.3	57.7	61.5	73.9

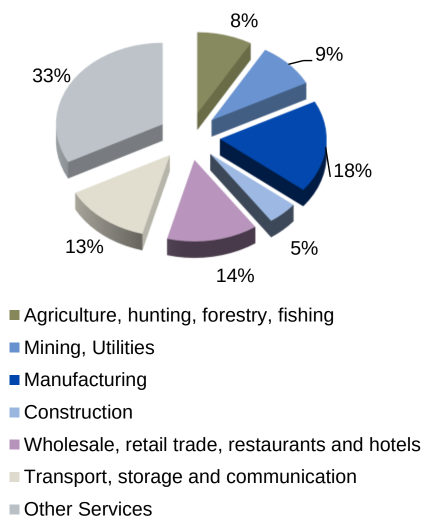
Sources: IHS, national sources, Euler Hermes

General government gross debt (% of GDP)



Sources: IHS, Euler Hermes

GDP breakdown (%)



Sources: UNCTAD

Trade and current accounts weakened in the aftermath of the regime change but will improve this year and next

The annual current account 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 in 2012 and 2013, to around -8.2%. EH expects the deficit reached -8.7% in 2014 but assumes that deficits will decline this year and in 2016, to -6.6% and -5.4%, respectively. Even so, these deficits will require careful management.

External debt is increasing as 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 2014, the corresponding ratios are estimated at 61% and 118%. EH expects further deterioration this year and in 2016 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.

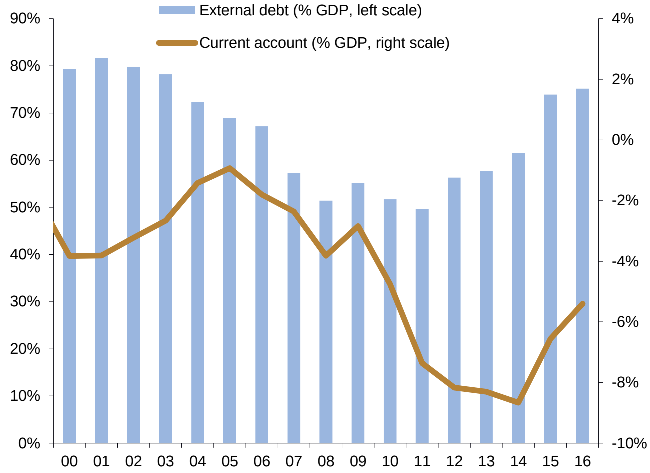
Import cover remains above the international "safe" level

Official foreign exchange reserves (excluding gold) fell sharply with the onset of the regime change and political transition (to below USD6 billion 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. FX reserves now cover over three months of imports, which is the internationally-accepted minimum for liquidity comfort.

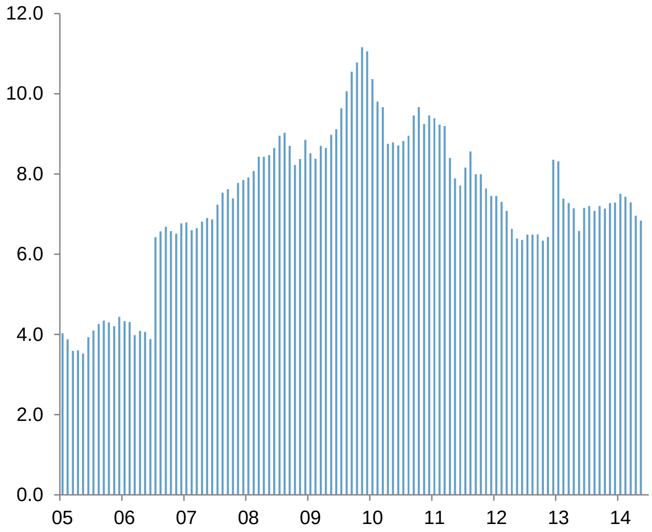
Public finances

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, with further but moderate increases in 2015 and 2016. However, there are downside risks as political and social realities may lead the government to increase debt more rapidly.

External debt and current account balance (% of GDP)



FX reserves (USD bn)



Source: Euler Hermes

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