

## Domestic and external factors weigh on the outlook



### General Information

<b>GDP</b>	USD43bn (World ranking 85, World Bank 2015)
<b>Population</b>	11.11mn (World ranking 79, World Bank 2015)
<b>Form of state</b>	Republic
<b>Head of state</b>	President Beji Caid Essebsi
<b>Head of government</b>	PM Youssef Chahed
<b>Next elections</b>	Presidential and legislative October-November 2019



### Strengths

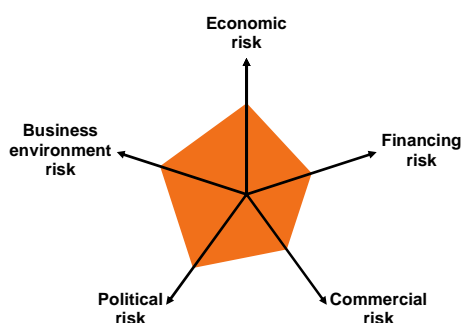
- Political transition has been relatively peaceful compared to Egypt, Libya, Syria and Yemen.
- A consensual approach to the political transition gives hope for progress, unlike elsewhere in the region.
- Although the economy has been affected adversely by recent political/social changes, previous good management provides a solid platform.
- Supportive IMF program (48-month EFF to run until May 2020)
- Relatively diversified economy.

### Weaknesses

- The political system is in transition with inherent uncertainties and risks of untested new systems and individuals in power.
- A root cause of the Arab Spring was the lack of job prospects. Tunisia's unemployment rate was estimated at 15% of the workforce (much higher among the young population). Social tensions remain high.
- Poor perceptions of regional risk.
- Textiles and clothing account for 16% of exports but global markets are very competitive. 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	29% 1	18% France
Italy	18% 2	15% Italy
Germany	10% 3	8% China
Spain	5% 4	7% Germany
Algeria	4% 5	4% 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 Articles of apparel & clothing	17% 2	9% Electrical machinery, apparatus and Road vehicles
Articles of apparel & clothing	16% 3	7% Textile yarn and related products
Telecommunication and sound recording apparatus	5% 4	7%
Fixed vegetable oils and fats, crude, refined or fractionated	3% 5	5% Gas, natural and manufactured

Source: UNCTAD (2015)

## Economic Overview

### General overview

Tunisia is gradually exiting a period of very low growth. 2011, the post-revolution crisis year saw GDP growth plummeting to -1.9%. But the economy suffered a double dip, as growth was also subdued in 2015 (+0.8%).

The ongoing recovery is tepid. The political transition, as elsewhere in the region, remains fragile, although on a firmer footing, and GDP growth reflects the uncertain political trajectory. Job prospects and general living standards have not improved significantly while past terrorist acts continue to undermine commercial activity. As a result, demonstrations are still a risk.

Moreover, the economic recovery in Europe, which accounts for 80% of overall foreign trade and over 50% of tourist numbers and receipts, is still tepid, particularly in France and Italy where GDP growth stood at +1.1% and +1% in 2016. As a result, important investment and tourism flows - accounting for 14% of GDP, 12% of the labour force and 20% of FX earnings - remain weak.

GDP growth climbed by a humble +1.3% in 2016 and should accelerate at a modest pace to +2% in 2017 and +2.5% in 2018. Moreover, political and social risks are weighing on external accounts. The current account deficit deteriorated from -2.8% of GDP to -9.1% in 2014 and improved only marginally since then (-8.3% of GDP in 2016). Deficits require careful management as revenue generation relies on a period of stability and enhanced security.

### Conditional IMF support

The IMF agreed to a 4-year Extended Fund Facility to the tune of USD2.9bn in June 2016. The facility is designed for a "country facing medium-term balance of payments problems because of structural weaknesses that require time to address". Yet low growth and policy slippage implied a deterioration of the fiscal deficit in 2016. It is likely that the Fund will ask for additional reforms ahead of any new disbursements. The likelihood of new fiscal adjustments could weigh on growth and public debt will continue to grow (60.5% of GDP in 2016 and 63% in 2018). The pre-transition external debt to GDP ratio was around 50% and could grow to 74% in 2018, weighed down by gradual recovery and borrowing requirements. Moreover, import cover is somewhat weak, still (between 3 and 4 months).

### The way forward is tricky

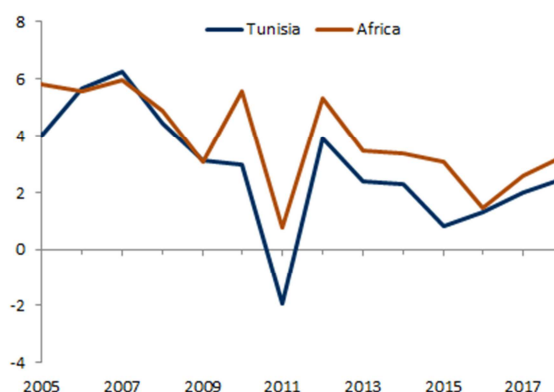
The government needs to embark on confidence-building exercise, maintain external levels of support, and attempt to engineer a more rapid recovery in the economy's organic means of foreign exchange earnings generation.

### Key economic forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	0.8	1.3	2	2.5
Inflation (% average)	4.8	3.8	4	3.8
Fiscal balance (% of GDP)	-4.5	-6.0	-5.6	-4.5
Public debt (% of GDP)	55.7	60.5	62	63
Current account (% of GDP)	-8.8	-8.3	-7.5	-6.5
External debt (% of GDP)	69	71	73	74

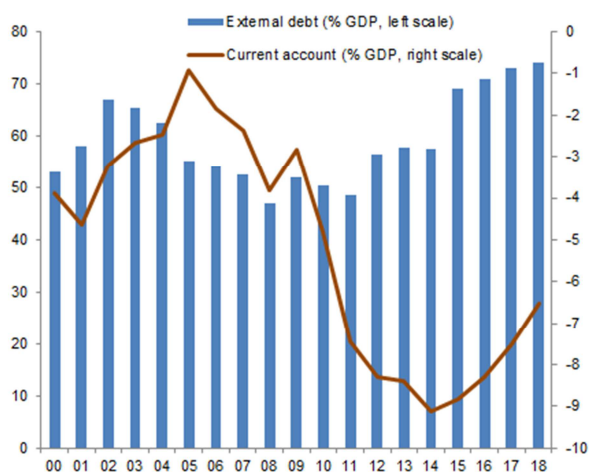
Sources: National sources, IHS, Euler Hermes

### GDP growth (%)



Sources: National sources, IHS, Euler Hermes

### Current account and external debt (% of GDP)



Sources: National sources, IHS, Euler Hermes

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