

TUNISIA

Tunisia has made great strides to advance its political transition but tangible economic dividends are taking longer than expected with growth too low to significantly make a dent in unemployment amid widening fiscal and current account deficits. A national unity government - a coalition of the main political parties and civil society groups - was formed in September 2016 to tackle the urgent economic reforms but has undergone its first, albeit minor, cabinet reshuffle in February 2017.

Recent developments

Tunisia's economy grew at an estimated annual rate of 1.0 percent in 2016 (2.0 percent excluding agriculture and fisheries) compared to 1.1 percent in 2015 (0.1 percent excluding agriculture). Growth in 2016 was driven mainly by the tradable services sector and the non-tradable activities sector, which grew each by 2.7 percent as well as the manufacturing industries sector (+0.9 percent). Non-manufacturing industries (phosphate, oil and gas) contracted by 1.9 percent (compared to a -4.1 percent in 2015) as phosphate production in mining regions has not yet fully recovered despite recent uptick in production levels.

Inflation has steadily declined since its peak in 2013 and remains subdued despite a 8.3 percent depreciation of the Tunisian Dinar against the Euro and 8.6 percent against the US Dollar since mid-2016. The Consumer Price Index (CPI) increased on average by 3.7 percent in 2016 (against 4.9 percent in 2015). However, core inflation - without food and energy whose prices are administered - has accelerated since September 2016 and reached 5.1 percent in December (against 4.7 percent in December 2015).

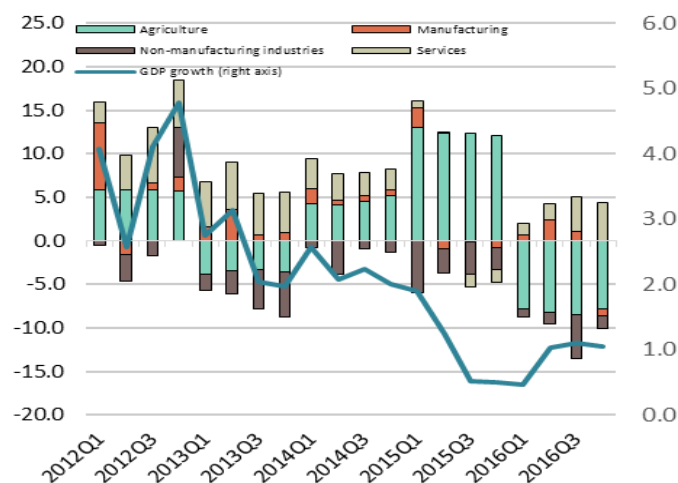
The labor force participation rate remains low at about 50 percent mainly due to very weak participation of women in at only 26 percent. Unemployment has declined from its peak of 19 percent in 2011 to 15.5 percent in 2016. The majority of the unemployed are low-skilled workers.

However, university graduates have the highest unemployment rate, which increased from 15 percent in 2005 to 23 percent in 2010 and to 31.6 percent in 2016, while female graduate unemployment reached 40.4 percent. Unemployment rates are also much higher in the hinterland compared to coastal regions.

Tunisia faces large fiscal and external deficits. The central government's fiscal deficit, excluding grants, increased to 6.0 percent of GDP in 2016 from 5.6 percent of GDP in 2015. The debt-to-GDP ratio has risen to 61.8 percent in 2016, from 55.4 percent in 2015. The current account deficit remained high at an estimated 9 percent of GDP in 2016. The significant current account deficit, combined with the deterioration of the capital and financial accounts, is eroding the country's foreign reserves buffer and leading to a depreciation of the Tunisian dinar. As of February 2017, foreign reserves were estimated at 13.8 billion Tunisian dinars, amounting to less than 4 months of imports.

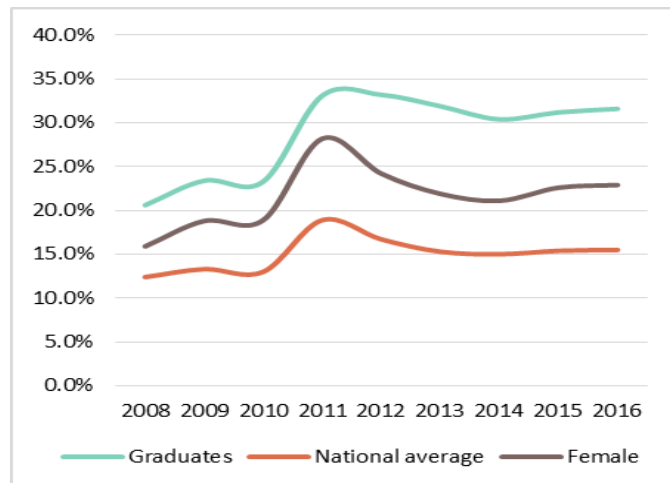
The national unity government formed in September 2016 has set its priority as strengthening the security environment, improving the business environment, ensuring macroeconomic and fiscal stability, and restarting growth. The new Government successfully organized an international investor conference in November 2016 (Tunisia 2020), which provided a platform to call for renewed support to Tunisia's young democracy and also to showcase improvements in the security situation as well as the potential of the country to attract investment. While the new government is expected to be more

FIGURE 1 Tunisia / Sectoral value added and GDP growth (y-o-y)



Sources: Institut national de statistiques, Banque centrale de Tunisie, and staff computation.

FIGURE 2 Tunisia / Unemployment rate



Sources: Institut national de statistiques, Banque centrale de Tunisie, and staff computation.

stable – especially at head of government and leading ministries – the recent small cabinet reshuffle indicated that changes should not be ruled out.

and services trade and would decline gradually until the end of the forecast horizon.

Outlook

Economic growth is projected to accelerate to 2.3 percent in 2017 through the recovery of the strategic sectors of agriculture, phosphate and manufacturing. In the medium term, economic growth is projected to pick up gradually to 2.8 percent in 2018 and 3.2 percent in 2019 against a backdrop of improved business climate through structural reforms and greater security and social stability.

The fiscal deficit is expected to remain high at 5.9 percent of GDP in 2017. Fiscal sustainability will require reining in the public wage bill, expanding the tax base, and creating space for increased investment spending.

On the external side, the current account deficit is projected to slightly narrow to 8.4 percent of GDP, with progressive recovery in manufacturing and mining industries and service exports, as well as agricultural export. In the medium term, the current account is likely to benefit from the gradual recovery of industries

Risks and challenges

The main risks to the economic outlook remain the high level of youth unemployment and social unrest, as well as the fragile security situation domestically and in the region. While the government is deploying resources to improve the security situation, reforms to stimulate private sector growth and job creation are also needed to counter these risks in a sustainable manner. This would include, most notably: (i) adopting and implementing regulations to improve conditions for market access and to follow up concretely on the Tunisia 2020 conference; (ii) developing and implementing a comprehensive strategy on civil service reform and state-owned enterprises reform; (iii) improving governance, including fighting against corruption and elite capture; and (iv) establishing a dialogue aimed at tackling and resolving sources of social unrest, particularly with trade unions.

TABLE 1 Tunisia / Macro outlook indicators

(annual percent change unless indicated otherwise)

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices	2.3	1.1	1.0	2.3	2.8	3.2
Private Consumption	1.8	2.3	0.8	1.9	2.8	2.7
Government Consumption	4.2	8.8	8.9	-3.3	3.5	3.4
Gross Fixed Capital Investment	1.2	-4.5	2.2	4.1	6.5	6.6
Exports, Goods and Services	3.9	-3.2	3.2	1.7	4.2	4.3
Imports, Goods and Services	2.2	2.7	3.9	3.4	3.3	3.3
Real GDP growth, at constant factor prices	2.3	0.5	1.2	2.1	2.5	2.8
Agriculture	2.8	8.5	2.6	2.7	3.0	3.0
Industry	-1.1	-1.0	-6.6	-3.5	-1.2	-1.1
Services	3.8	0.0	4.3	4.2	3.7	4.1
Inflation (Consumer Price Index)	4.9	4.9	3.7	4.9	4.0	3.3
Current Account Balance (% of GDP)	-9.1	-8.9	-9.0	-8.4	-7.6	-7.1
Fiscal Balance (% of GDP)	-5.0	-5.6	-6.0	-5.9	-5.5	-5.0
Debt (% of GDP)	50.8	55.4	61.8	66.1	68.5	67.5
Primary Balance (% of GDP)	-3.2	-3.7	-3.8	-3.6	-2.8	-2.5

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice.

Note: f = forecast.