TUNISIA

Table 1	2018
Population, million	11.6
GDP, current US$ billion	39.9
GDP per capita, current US$	3447
National poverty rate[a]	15.2
Lower middle-income poverty rate ($3.2)[a]	3.2
Gini index[a]	30.9
Life expectancy at birth, years[b]	75.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015).
(b) Most recent WDI value (2017).

Tunisia experienced a slowdown in growth in 2019. The impact of rapidly growing government revenues on reducing the fiscal deficit has been limited by increased spending. Inflation is slowing in response to tightening monetary policy and currency appreciation, but the unemployment rate remains high. The current account deficit is still elevated whereas reserves have strengthened thanks to improved FX market functioning and lower Central Bank interventions. Presidential and Parliamentary elections were held in mid-September and October this year.

Recent developments

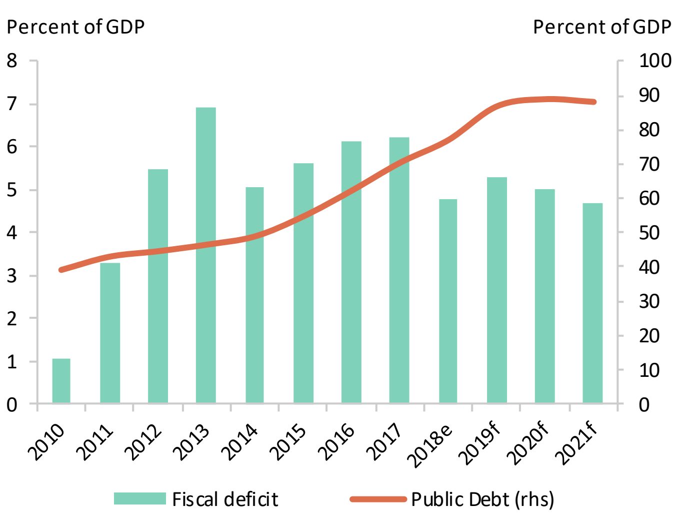
After growth picked up to 2.5 percent in 2018 from 2 percent in 2017, Tunisia experienced weak growth of 1.1 percent during the first half of 2019. This was driven by a slowdown in agricultural growth (base effect after 9.5 percent growth in 2018) as well as a contraction in industry (oil and gas, agrobusiness) which was only partially compensated by growth in services. Inflation significantly accelerated between 2017 and mid -2018 (7.8 percent in July 2018). In response, the Central Bank increased the policy rate to 7.75 percent, and authorities recently moved to enforce tighter loan-to-deposit ratios among banks and reduce liquidity injections through FX swaps. Consequently, inflation has decelerated since the second half of 2018, and stood at 6.7 percent in August. Interest rates (except for some deposit rates) are now positive in real terms.

The fiscal deficit widened to TND 3.3 billion during the first eight months of 2019 (estimated 2.9 percent of GDP) from TND 2.6 billion during the same period of 2018. Revenues increased by 17 percent driven by VAT and income tax revenue growth. Despite a stagnation of capital expenditures year-on-year (y-o-y), other elements of expenditure grew rapidly including wages and salaries (12.8 percent), interest payments (13.5 percent), and subsidies and transfers (48.5 percent), thereby resulting in expenditure growth of 24 percent (y-o-y).

The trade deficit reached an estimated 11.3 percent of GDP (TND 12.86 billion) during the first eight months of 2019 compared to an estimated 11.5 percent of GDP (TND 12.16 billion) during the same period last year as exports grew by 12 percent (led by phosphate, energy and electrical products) and imports grew by 10 percent y-o-y. This will help to slightly narrow the current account deficit, also thanks to improved services (tourism) and transfers (remittances). FDI remains muted and financing has mostly been received through concessional loans from multilateral and bilateral partners. Lower CBT FX interventions and improved FX market functioning (introduction of FX auction in mid-2018) have contributed to protecting foreign reserves which currently cover slightly over three months of imports. The Dinar has appreciated by 8.5 percent against the Euro since the beginning of the year, reversing a multi-year trend of currency depreciation.

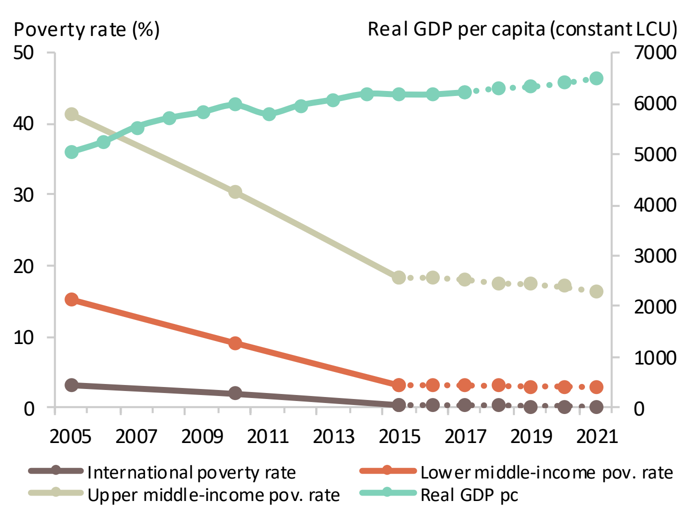
The unemployment rate has stagnated, recording 15.3 percent during the first half of 2019, compared to 15.4 percent in 2018, whereas unemployment among females (22.6 percent in Q1-2019) and graduates (28.2 percent in Q1-2019) remains significantly higher than the national average. Latest available survey data show that the share of those living at the lower middle-income poverty line of US$ 3.2 (2011 PPP US$) fell from 9.09 percent in 2010 to 3.21 percent in 2015. Between 2016 and 2020, however, the pace of poverty reduction is likely to slow down considerably, consistent

FIGURE 1 Tunisia / Fiscal deficit and debt



Sources: Tunisian Ministry of Finance and World Bank staff estimates.

FIGURE 2 Tunisia / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

with the GDP per capita trend. Although this is worrisome, poverty levels measured at these global benchmarks are similar to those prevailing in the region and extreme poverty (those living on less than US$1.90, 2011 PPP US$) seems on the way to being eradicated. A big divide in poverty rates has accumulated over time between the traditionally disadvantaged North West and Center West regions whose poverty rates are almost twice the national averages, and the coastal and more urbanized eastern regions (notably the Tunis area, North East and Center East).

Outlook

Growth is projected to drop below 2 percent in 2019 before recovering slowly, contingent on completion of pressing reforms to improve investment climate and ensure greater security and social stability. Growth will be supported by expansions in agriculture, manufacturing, and tourism, and the coming online of the Nawara gas field. Inflation is expected to continue declining provided monetary policy remains focused on its central goals. Poverty is projected to hover below 3 percent using the 3.2 U$ PPP per day line and below 0.3 percent using the extreme poverty line.

Our August projections are updated to incorporate fiscal developments during the first 8-9 months of the year as documented in the Government's 2019 Complementary Budget Law. The 2019 fiscal deficit is projected to reach 4.1 percent of GDP against an initial Budget Law target of 3.9 percent of GDP, due to the significantly lower than forecast GDP growth rate and its dampening effect on government revenue growth, as well as civil sector wage hikes, double-digit growth in interest payments, and potential effects of the electoral period on growth, revenue mobilization and expenditure containment. Projections for the 2019 debt-to-GDP ratio have been revised downwards from our spring forecast and stand at 76.6 percent in light of the appreciation of the Dinar over the past 4-5 months (around 54 percent of public debt is external debt denominated in foreign currency). We project that public debt will grow in 2020-21 towards 80 percent of GDP due to Dinar and growth dynamics.

The current account deficit will remain in the double digits over the forecast period but will start to improve as of 2021 as growth picks up and energy import costs decline with the increase in gas production.

Risks and challenges

The key risks facing Tunisia are domestic and external. Domestically, the main risks are around reform continuity (in light of recent elections), socio-political tensions, and a security deterioration which would adversely impact investment and tourism. Risks of exchange rate depreciation and contingent liabilities would impact debt sustainability. The risk of contingent liabilities has come to the forefront following the recent seizure of the Tunisian Foreign Bank in Paris. External risks include higher oil prices which would affect fiscal and external accounts, and a further growth slowdown in the European Union (Tunisia's key trading partner) which would affect exports and remittances. Rising trade tensions and spillovers of instability in neighboring countries, could affect economic stability.

Should any of these risks materialize, the wellbeing of households would be impacted, particularly vulnerable households whose consumption is just above the poverty line. Around 17 percent of the population (i.e. about 2 million Tunisians) is considered vulnerable, if one uses the definition of the 'vulnerable' as those living below the US$ 5.5 PPP.

TABLE 2 Tunisia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices	1.3	1.8	2.5	1.6	2.2	2.6
Private Consumption	3.2	2.4	3.0	2.3	2.8	3.2
Government Consumption	2.6	0.3	0.5	2.5	1.7	1.4
Gross Fixed Capital Investment	1.2	0.3	0.6	0.1	0.7	1.3
Exports, Goods and Services	0.2	4.6	2.9	2.6	2.9	3.4
Imports, Goods and Services	2.4	2.8	0.0	3.1	2.9	3.2
Real GDP growth, at constant factor prices	0.9	1.6	2.4	1.6	2.2	2.6
Agriculture	-8.5	2.0	9.5	0.5	3.1	2.3
Industry	-0.4	-1.3	0.0	0.1	2.1	3.0
Services	3.0	2.8	2.3	2.3	2.1	2.5
Consumer Prices (end-of-period)	4.2	6.3	7.6	6.3	5.8	5.3
Current Account Balance (% of GDP)	-8.8	-10.2	-11.2	-10.8	-10.7	-10.1
Fiscal Balance (% of GDP)[a]	-6.1	-6.2	-4.8	-4.1	-3.2	-2.4
Debt (% of GDP)	62.3	70.4	77.0	76.6	80.2	82.9
Primary Balance (% of GDP)	-3.9	-3.9	-2.1	-1.2	-0.2	1.0
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.3	0.3	0.3	0.2	0.2	0.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	3.2	3.2	3.1	3.0	3.0	2.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	18.3	18.1	17.6	17.5	17.1	16.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal Balance excludes Grants, Privatization Proceeds, and Confiscated Assets.
(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.
(c) Calculations based on 2015-NSHBCSL.