

TUNISIA

Key conditions and challenges

Table 1 2019

Population, million	11.7
GDP, current US\$ billion	38.8
GDP per capita, current US\$	3311.2
National poverty rate ^a	15.2
Lower middle-income poverty rate (\$3.2) ^a	3.0
Gini index ^a	32.8
School enrollment, primary (% gross) ^b	115.4
Life expectancy at birth, years ^b	76.5

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2015).

(b) Most recent WDI value (2018).

Following a successful containment of the initial Covid-19 outbreak, sharp contractions in growth, employment and fiscal revenues by mid-2020 are making the extent of the shock more apparent. The economic outlook for 2020 has worsened since the last forecast. In the meantime, a second wave of infections and further turbulence on the political front are causing more uncertainty.

The pandemic comes at a weak point of Tunisia's economic history. With persistent political instability, the economy has struggled to garner investor confidence since the revolution such that GDP growth averaged just 1.5 percent between 2011 and 2019. Growth now relies increasingly on consumption while investment and exports remain significantly below pre-revolution levels and unemployment stubbornly high at 15 percent. As growth stagnated, a social contract that sees the public sector as a source of jobs and a guarantor of affordability has seen the fiscal context deteriorate under the weight of a large public sector wage bill and consumer price subsidies.

The Tunisian authorities handled the first wave of the pandemic well, avoiding a large outbreak through an early and strictly enforced lockdown. This allowed for a full reversal of confinement measures and the reopening of borders by early July. A second round of infections is now exceeding the first. For example, 477 new infections were recorded on September 14 compared with a peak of 61 cases in April. Cases have been mostly concentrated in clusters. The authorities are managing this through contact tracing and localized containment but limited social distancing is a risk to ensuring containment.

Another major challenge will be the capacity to rebuild the economy after this

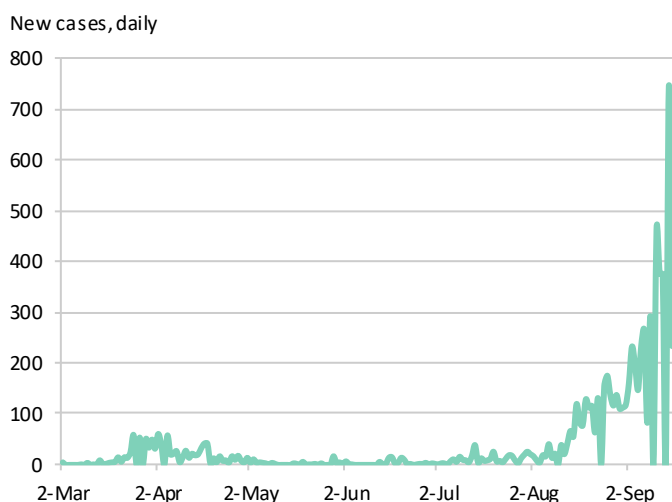
shock. A fragmented political setting, limited fiscal space and increasing social pressure from a frustrated population suggest limited room for maneuver. Yet, the much needed reforms to improve the fiscal position, rebuild investor confidence and raise productivity are more urgent than ever.

Recent developments

The pandemic is having a heavier impact than previously anticipated. The lockdown simultaneously suppressed domestic supply and demand, contracting GDP by 21 percent (YoY) in the second quarter. At the same time, reduced external demand and travel restrictions lowered tourism receipts by 47 percent and reduced exports of mechanic and electric industry and textiles (Tunisia's main manufacturing exports) by 27 percent by YoY mid-2020. Other factors are affecting growth this year. Further political upheaval as Elyes Fakhfakh's recently formed government fell added more uncertainty and worker disruptions are affecting mining output. Taken together, these factors are contributing to an expected 9.2 percent contraction in 2020, down from the first Covid forecast of -4 percent. It is not surprising that, in this context, unemployment increased from 15 to 18 percent in the second quarter of the year, a level last reached in the time of the 2011 revolution.

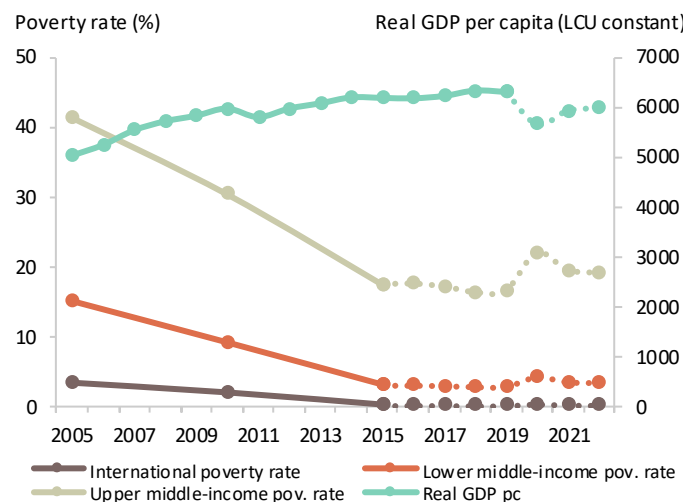
Poverty and vulnerability are expected to grow and invert a trend observed in the last years of fast poverty reduction.

FIGURE 1 Tunisia / New Covid-19 infections



Sources: World Health Organization.

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



Sources: World Bank. Notes: see Table 2.

According to a series of telephone interviews conducted by INS and the World Bank, there is evidence that pandemic modified eating habits. Poorer households reduced quantities consumed or started consuming less preferred foods. To cope with rising food prices or to make up for jobs loss, households drew on their savings, received help or borrowed money from relatives and deferred payment of their obligations. In 2020, extreme poverty-measured using the international poverty line of US\$1.9 PPP will still be below 1 percent but poverty measured with the US\$3.2 PPP line will increase by about 1.3 percentage points, from 2.9 to 4.2 percent. Also, the percentage of the population “vulnerable” to fall into poverty is expected to increase in 2020. Using an expenditure threshold of US\$ 5.5 PPP, the number of poor and of those vulnerable to poverty is expected to increase from 16.6 percent to 22 percent of the total population.

The current account deficit remains high at an expected 7.1 percent of GDP in 2020 but has improved (from 8.8 percent in 2019) as imports decline at a faster pace than exports. These factors are supporting

continued growth in forex reserves, which stood at 142 days of import by August (against 95 days a year earlier). In contrast, the fiscal deficit was aggravated by an 11 percent decline in revenues by mid-year, reflecting the reduction in economic activity and tax deferral measures. The wage bill increased by 14 percent by mid-2020, adding to spending pressures and signaling lack of progress in containing civil service pay. These developments are worsening debt vulnerabilities. Public debt is forecasted to rise from 72.2 percent of GDP in 2019 to a peak of 86.6 percent of GDP in 2020, well above the emerging market debt burden benchmark of 70 percent of GDP.

Outlook

After an expected 9.2 percent contraction in 2020, growth is temporarily expected to accelerate to around 6 percent as the pandemic’s effects abate. But after this short-term uptick, growth is expected to return to a more subdued trajectory at around 2 percent. In line with this, the

current account deficit is expected to improve as export industries begin to recover but at a sluggish pace given persistent structural constraints and political uncertainty. The fiscal deficit is expected to increase to 8.1 percent of GDP in 2020 and decline gradually to 4.5 by 2022, with downside risks from a growing wage bill.

The outlook for reforms to support the recovery is challenging. With the population already strained by this unprecedented shock, space to improve the fiscal outlook by reducing the wage bill and untariffed subsidies is narrow. Structural reforms to address SOE performance, increase market contestability and clamp-down on corruption are evermore necessary but will depend on the extent to which Hichem Mechichi’s new technocratic government, formed in September 2020, can garner consensus to implement the needed reforms. Security risks are a further concern for the outlook with periodic incidents (most recently on September 6th) hamper tourism’s prospects for recovery. Following an increase in 2020, poverty is expected to begin declining from 2021 onwards, but at a slow pace.

TABLE 2 Tunisia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.0	2.7	1.0	-9.2	5.9	2.0
Private Consumption	2.5	2.1	0.9	-3.0	4.1	1.7
Government Consumption	0.3	0.2	0.3	-4.8	-5.1	1.3
Gross Fixed Capital Investment	0.3	2.0	-12.3	-42.1	28.4	-2.5
Exports, Goods and Services	4.6	4.4	-5.0	-19.0	21.0	12.0
Imports, Goods and Services	3.5	1.7	-8.6	-18.0	16.0	9.0
Real GDP growth, at constant factor prices	1.8	2.6	0.9	-8.8	5.9	2.0
Agriculture	1.8	11.3	0.8	5.3	2.0	4.0
Industry	-0.7	0.2	-1.0	-10.7	4.2	2.0
Services	2.9	2.3	1.7	-10.2	7.2	1.6
Inflation (Consumer Price Index)	6.3	6.5	7.1	5.6	5.0	4.5
Current Account Balance (% of GDP)	-10.3	-11.2	-8.8	-7.1	-6.2	-6.3
Net Foreign Direct Investment (% of GDP)		2.5	2.1	0.8	1.5	1.9
Fiscal Balance (% of GDP)	-6.1	-4.8	-3.6	-8.1	-5.4	-4.5
Debt (% of GDP)	70.4	78.2	72.5	86.6	85.1	85.5
Primary Balance (% of GDP)	-3.7	-2.1	-0.7	-4.9	-2.2	-1.7
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.2	0.2	0.2	0.4	0.3	0.3
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	3.0	2.8	2.9	4.2	3.6	3.4
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	17.1	16.3	16.6	22.0	19.5	19.1

Source: Government of Tunisia; World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices; IMF.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2015-NSHBCSL Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2015) with pass-through = 1 based on GDP per capita in constant LCU.