TUNISIA

Table 1	**2020**
Population, million	11.8
GDP, current US$ billion	39.1
GDP per capita, current US$	3311.9
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).

As the COVID-19 pandemic stretches into 2021 and in a context of heightened socio-political unrest, Tunisia's growth and fiscal outlook is weaker than before. The recovery will require more stability and a joint national effort to steer the economy to the right path.

Key conditions and challenges

On the tenth anniversary of the Jasmin revolution, Tunisia finds itself on a weak economic footing and a renewed wave of social unrest. With persistent political instability over the past ten years, the economy struggled to garner investor confidence 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. 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, underperforming state-owned enterprises and consumer price subsidies.

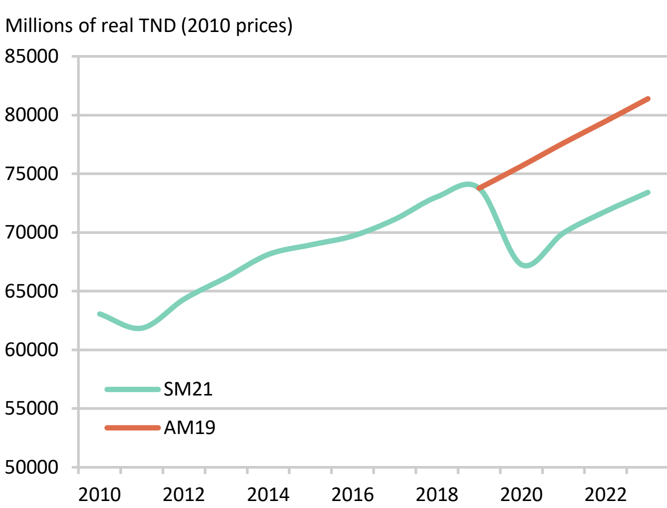
Having handled the first wave of the COVID-19 pandemic well, a deeper and prolonged second wave has been ongoing since September 2020. The number of confirmed new infections averaged around 1700 per day by end 2020, compared to a peak of just 61 new cases in April 2020, but started to decline by February 2021. The authorities are attempting to manage the pandemic with social distancing and internal travel restrictions while avoiding another national lockdown. Adding to the COVID-19 challenge is an increase in social protests by a strained population and renewed political turbulence, whilst economic conditions deteriorate and fiscal space narrows. This offers Tunisia poor prospects unless strong national leadership begins to build political stability and consensus to steer the country on the path to recovery.

Recent developments

Real GDP contracted by 8.8 percent in 2020 as sharp declines in domestic and external demand followed the pandemic. With a 9.3 percent contraction, manufacturing, a mainstay of the Tunisian economy, was deeply impacted. An 80 percent decline in passenger arrivals also caused a downturn in tourism and transport. Notably, business pulse surveys indicate that almost a quarter of formal firms (23.6 percent), mainly in the services sector, were either temporarily or permanently closed by the end of 2020. This has had a knock-on effect on unemployment, which stood at 17.4 percent by end 2020, compared with 14.9 percent pre-pandemic.

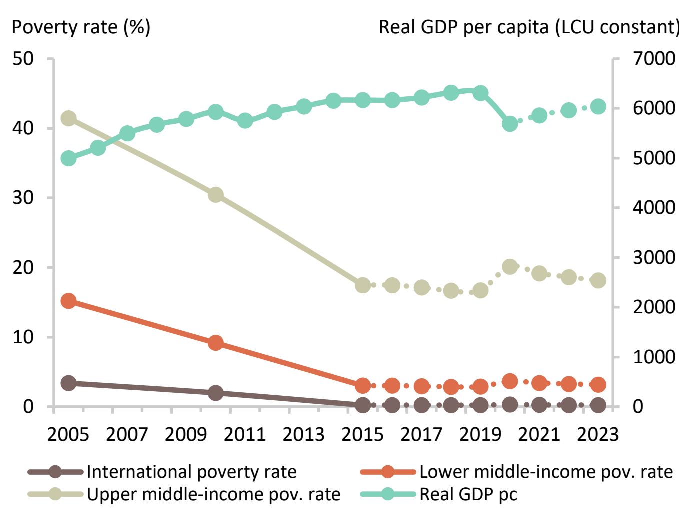
According to a series of telephone interviews conducted by the *Institut National de la Statistique* and the World Bank, during and after confinement (March-November 2020), economic activity sharply declined for most employees, and a decline in incomes has been observed. Results show that although employment in November 2020 rebounded to pre-crisis levels among respondents, labor income among wage workers, and particularly the self-employed, is still below pre-pandemic levels. More than half of households report

FIGURE 1 Tunisia / Real GDP: Actual, forecast and pre-covid trend



Sources: Government of Tunisia; World Bank.

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



Sources: World Bank. Notes: see Table 2.

worsening living standards relative to the pre-pandemic period, and for about 40 percent of the poorest, welfare levels have continued to deteriorate. Although COVID-19 has had negative effects on everyone's welfare, poor and vulnerable households are particularly hit because of their unequal access to basic services, especially heath care in case of infection, as well as coping mechanisms put in place. However, considering the magnitude of the GDP decline, this increase could have been much bigger if the government hadn't reacted very fast by scaling up the existing cash transfer programs to compensate for the loss of employment and the decrease in income.

The current account deficit improved from 8.5 percent of GDP in 2019 to 6.8 in 2020 as imports declined (-19 percent) faster than exports (-12 percent). With this, forex reserves increased to US$8.3 billion (158 days of import cover) by January 2021 against US$7.4 billion at end 2019.

COVID-19 response measures, along with revenue losses, caused the fiscal deficit to balloon to approximately 10 percent of GDP in 2020 (up from 3 percent of GDP in 2019). Central government debt is estimated to have reached 88 percent of GDP by end 2020, compared to 72 percent in 2019. The debt burden exceeds 100 percent of GDP once government guarantees and SOE debts are included.

Outlook

Growth is temporarily expected to accelerate to 4 percent in 2021 as the pandemic's effects on exports begin to abate and domestic demand begins to recover. The uptick is, however, not large enough to return output to pre-pandemic levels of 2019. After this short-term rise, growth is expected to return to a more subdued trajectory, expanding by around 2 percent by 2023, reflecting pre-existing structural weaknesses and a gradual global recovery from the pandemic. These estimates are presented with significant downside risks. The pace of the recovery will depend on the extent of the pandemic in 2021, vaccine rollout in Tunisia and among key trading partners as well as measures to mitigate the pandemic's impact on households and firms.

Extreme poverty - measured using the international poverty line of US$1.9 PPP - is projected to remain below 1 percent through 2023 but poverty measured using the US$3.2 PPP line will only slightly decline compared to 2020 and will not return to pre-crisis levels of 2.9 percent (2019). It was 3.7 in 2020 and it will decline to 3.4 percent in 2021. Also, the percentage of the population "vulnerable" to falling into poverty is not expected to recover to pre-crisis levels in 2021. Using an expenditure threshold of US$5.5 PPP, the number of poor and of those vulnerable to poverty is expected to decline from 20.2 percent to 19.2 percent of the population.

The current account deficit is expected to widen to 9.2 percent of GDP in 2021 as imports begin to recover and oil prices increase. As the effects of the pandemic ease and trade flows recover, manufactured exports and tourism arrivals are expected to pick up gradually, supporting a gradual decline to 8.9 percent of GDP by 2023. But risks to the external outlook remain high, including a sluggish recovery in exports, given the heavy impact of the pandemic on firm capacity and the pace of recovery amongst Tunisia's main trading partners.

Financing needs will continue to be high in the medium-term given the extent of the pandemic's impact on the economy. Public finances will be particularly challenging in 2021, with an expected fiscal deficit in the range of 8-9 percent of GDP, as the authorities deal with the pandemic and maintain support to households, but with depleted fiscal buffers. In particular, meeting the 2021 budget's external financing needs will be challenging given the deterioration of the fiscal setting, the recent sovereign credit rating downgrade and in the absence of an IMF program.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.7	1.0	-8.8	4.0	2.6	2.2
Private Consumption	2.1	0.9	-3.0	2.5	1.5	1.4
Government Consumption	0.2	0.3	-11.4	-15.8	1.3	1.3
Gross Fixed Capital Investment	2.0	-12.3	-32.6	33.9	6.5	6.0
Exports, Goods and Services	4.4	-5.0	-19.0	21.0	12.0	10.0
Imports, Goods and Services	1.7	-8.6	-18.0	16.0	10.0	8.8
Real GDP growth, at constant factor prices	2.6	1.0	-9.1	4.5	2.6	2.3
Agriculture	11.9	0.4	4.4	-3.0	3.5	3.5
Industry	1.4	-1.1	-10.7	9.5	1.4	0.4
Services	1.7	1.9	-10.5	3.8	3.0	2.8
Inflation (Consumer Price Index)	7.3	6.7	5.6	5.8	6.0	6.0
Current Account Balance (% of GDP)	-11.2	-8.5	-6.8	-9.2	-9.0	-8.9
Fiscal Balance (% of GDP)	-4.5	-3.1	-10.0	-8.6	-6.8	-6.4
Debt (% of GDP)	77.8	71.8	87.2	90.3	91.5	94.1
Primary Balance (% of GDP)	-1.8	-0.5	-6.2	-5.0	-3.2	-2.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.2	0.2	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.9	2.9	3.7	3.4	3.3	3.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	16.7	16.7	20.1	19.2	18.6	18.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2015-NSHBCSL.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.