TUNISIA ECONOMIC MONITOR

Rebuilding the Potential of Tunisian Firms

Fall 2020

WORLD BANK GROUP
Middle East and North Africa Region

Tunisia Economic Monitor

Rebuilding the Potential of Tunisian Firms

With a Special Focus on
Rebuilding the Potential of Tunisia's Firms

Fall 2020

Middle East and North Africa Region

1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

Cover photos used with the permission of ShutterStock.com.
Publication design and layout by The Word Express, Inc.

TABLE OF CONTENTS

List of Figures

List of Tables

List of Boxes

ABBREVIATIONS AND ACRONYMS

BoP	Balance of Payments
BCT	Banque Centrale de Tunisie
CAD	Current-Account Deficit
CPI	Consumer Price Index
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEP	Global Economic Prospects
GFSM	Government Finance Statistics Manual
IMF	International Monetary Fund
INS	Institute National de Statistiques
LMIC	Low Middle Income Countries
MEFI	Ministere d'Economie, Finances et Investissements
MENA	Middle East and North Africa
MSME	Micro, Small and Medium Enterprises
NPL	Non-Performing Loan
PPP	Purchasing Power Parity
REER	Real Effective Exchange Rate
SOE	State Owned Enterprise
US	United States
USD	United States Dollar
WDI	World Development Indicators
WEO	World Economic Outlook
WB	World Bank
YoY	Year on Year

ACKNOWLEDGEMENTS

The Tunisia Economic Monitor (TEM) presents timely and concise assessments of current economic trends in Tunisia in light of the country's broader development challenges. Each edition includes a section on recent economic developments and a discussion of the economic outlook, followed by a special focus section drawing on recent World Bank analytics on Tunisia. The focus section in this edition discusses the evolution of firm landscape using the recently published enterprise survey for Tunisia. The report is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in Tunisia. The Tunisia Economic Monitor is a product of the Middle East and North Africa (MENA) unit in the Macroeconomics, Trade & Investment (MTI) Global Practice in the World Bank Group.

The report was prepared by Shireen Mahdi (Senior Economist, MTI), Ali Ibrahim Almelhem (ET Consultant, MTI) and Natsuko Obayashi (Consultant, MTI). The team included Filip Jolevski (ET Consultant, DEC), Nazim Tamkoc (Economist, DEC), Safia Hachicha (Senior Financial Sector Specialist, FCI), Mihasonirina Andrianaivo (Senior Financial Sector Specialist, FCI), Mouna Hamden (Senior Private Sector Specialist, IFC). Helpful comments were received from Gabriel Sensenbrenner (Program Leader, EMNDR), Paul Moreno-Lopez (Lead Economist, MTI) and Fatma Marrakchi (Consultant, MTI). It was prepared under the direction of Jesko Hentschel (Country Director, MNC01), Eric Le Borgne (Practice Manager, MTI) and Tony Verheijen (Country Manager, MNTCN). The team is grateful to Muna Salim (Senior Program Assistant, MTI) and Olfa Limam (Program Assistant, MNCTN) for their administrative support.

The findings, interpretations, and conclusions expressed in this Monitor are those of World Bank staff and do not necessarily reflect the views of the Executive Board of the World Bank or the governments they represent.

For information about the World Bank and its activities in Tunisia, please visit www.worldbank. org/en/country/Tunisia (English) or www.albankaldawli. org/ar/country/tunisia (Arabic).

For questions and comments on the content of this publication, please contact Shireen Mahdi *(smahdi@worldbank.org)* or Eric Le Borgne *(eleborgne@worldbank.org).*

The cutoff date for this edition of the TEM was December 11, 2020.

EXECUTIVE SUMMARY

As 2020 draws to a close, the depth of the pandemic's impact on the Tunisian economy is becoming more apparent. Tunisia is expecting a sharper decline in growth than most of its regional peers, having entered this crisis whilst already experiencing slow growth and rising debt levels. Output is expected to contract by 9.2 percent this year.

With this, some of the past gains in job creation and poverty reduction will be lost as unemployment edges up and the share of the population vulnerable to falling into poverty increases. Specifically, poverty is estimated to increase from 14 percent of the population pre-Covid to 21 percent in 2020, with most of the impact being felt by the poorest households, which are concentrated in Tunisia's Center West and South East regions. As for the most vulnerable individuals, they are likely to be women, living in large households, without access to health care and employed without contracts.

A 15 percent reduction in exports by September 2020 (YoY) contributed to the downturn as weak global demand depressed industrial and tourism exports. Despite this, the current account deficit is expected to shrink to 7 percent of GDP in 2020, against 8.8 percent of GDP in 2019, as remittances picked up and imports dropped faster than exports. With a lower current account deficit, the external position showed some resilience to the economic shock. At USD 7.8 billion as of end-October, foreign exchange reserves increased to the equivalent of 147 days of import (against 103 days a year earlier), strengthening a much needed external buffer at this time of heightened risk.

The policy response, in this challenging context, has been broadly adequate. Declining inflation set the stage for interest rate cuts in 2020, supporting moderate growth in credit to the economy. Fiscal policy has also been accommodating. The authorities responded to the pandemic with a package of fiscal measures to support households and businesses. These measures, along with revenue losses due to the downturn, were behind 82 percent in the fiscal deficit to 10.5 percent of GDP (up from around 3 percent of GDP in the original 2020 budget). As expected, the increase in financing needs has worsened debt vulnerabilities. Public debt is forecast to rise from 72 percent of GDP in 2019 to around 89 percent of GDP in 2020.

Outlook and Risks

It is clear that the pandemic's impact on the economy has been severe and that the costs of mitigating its effects have worsened Tunisia's already weak public finances. The outlook is also challenging and uncertain. After an expected 9.2 percent contraction in 2020, growth is temporarily expected to accelerate to 5.8 percent as the pandemic's effects begin to abate, before returning to a more subdued growth trajectory at around 2 percent, reflecting pre-existing structural weaknesses. Downside risks to this outlook are significant given the extent of the ongoing second wave of the pandemic and its impact on Tunisia's main trading partners. In line with this, the current account deficit is expected to narrow to 6.3 by 2022 as export industries begin to recover, but at a sluggish and uncertain pace. The fiscal outlook points to a tight budgetary setting and limited room for stimulus as the impact of the pandemic spills into 2021. The fiscal deficit is expected to decline to around 4.5 percent of GDP by 2022 but risks from a still growing wage bill, subsidies, pensions and underperforming state-owned enterprises may compromise recovery efforts if not managed proactively.

In this difficult context, a coherent plan for restarting the economy and restoring the credibility of the macroeconomic framework is a critical next step for Tunisia to successfully navigate its way through this crisis.

The first priority is to save lives by controlling the pandemic and preparing to make COVID-19 vaccines available to the population. The authorities handled the first wave of the pandemic well, avoiding a large outbreak through an early and strictly enforced lockdown. A second round of infections is now far exceeding the first and a set of new, albeit less stringent, containment measures are in place. Work is also underway to prepare for the rollout of vaccines as Tunisia participates in the World Bank initiative to finance the purchase and distribution of COVID-19 vaccines, tests, and treatments.[1]

Second, restoring the credibility of the macroeconomic framework will lay the foundation for a more durable recovery in growth. In particular, this requires emphasis on financing the recovery more sustainably going forward to manage debt levels. This means restructuring public finances by reducing the size of the wage bill, shifting social assistance from subsidies to more targeted transfers and addressing fiscal risks from SOEs to free up resources for public investment and the recovery.

Lastly, with limited fiscal space and a fragile external position, structural reforms to boost private sector performance must form the backbone of the recovery effort. The pace of the recovery will be stunted in the absence of an ambitious program to restart growth at the firm level. This is the topic of the special focus section of the report.

Restarting Growth by Rebuilding the Potential of Tunisia's Firms

The special focus section in this edition of the Tunisia Economic Monitor draws on the recently published enterprise survey for Tunisia to discuss the latest evidence on firm performance and present priorities for a growing and more productive private sector. For much of the past decade, stunted growth and a less dynamic private sector have contributed to persistently high levels of unemployment. In parallel, a vision of the State as a provider of jobs, in the absence of private opportunities, has led to a ballooning public sector wage bill and dwindling fiscal space to invest in the economy. The COVID-19 pandemic has compounded these existing structural difficulties. In this context, dynamizing firms and their job creation potential is more urgent than before if Tunisia is to begin recovering from the COVID-19 crisis.

The analysis finds that Tunisian firms have lost much of the spring in their step. Looking back over the seven year period between 2013 and 2019, the data shows a number of areas where the environment has improved and where Tunisia performs better than regional peers. But more generally, the evidence shows a weakened private sector landscape. Firms are investing less and are less innovative: the share of firms investing in fixed assets fell from 44 in 2013 to 30 percent in 2019, with the decline being registered across all sectors. Similarly, the share of Tunisian firms introducing a new product or service has halved from 28 percent in 2013 to 14 percent in 2019. Firms are also less export oriented than before. The share of exporting firms decreased from 38 percent in 2013 to 32 percent in 2019. This occurred as trade related indicators deteriorated: the number of days to clear exports through customs more than doubled from 3 days in 2013 to 7 days in 2019. The situation is worse for imports, whereby the number of days to clear imports through customs jumped from 7 in 2013 to 16 days in 2019. Lastly, firms are less productive: real

[1] https://www.worldbank.org/en/news/factsheet/2020/10/15/world-bank-group-vaccine-announcement—key-facts.

annual productivity growth, was negative in 2013 at -4.5 percent and deteriorated further to -5.1 percent by 2019. And although some sectors have been adding jobs to the economy, these jobs are not being created in areas with the highest levels of unemployment.

The report concludes by discussing some of the most urgent structural measures needed to help bring the private sector back on track. These include increasing the ability of new firms to enter the market and to offer new products or services, tackling structural bottlenecks that complicate firms' access to finance, dealing with the significant deterioration in customs performance and building a clear vision for innovation policy to nurture sectors where innovation and comparative advantage are beginning to emerge.

RÉSUMÉ EXÉCUTIF

Récentes Evolutions

Alors que l'année 2020 touche à sa fin, l'ampleur des répercussions de la pandémie sur l'économie tunisienne se fait de plus en plus ressentir. La Tunisie doit faire face à une baisse de croissance plus marquée que celle des autres pays homologues de la région, la crise se rajoute à une situation de croissance lente et d'endettement en hausse. A la production qui devrait se contracter de 9,2% en 2020.

S'ajoute à cela la perte des gains réalisés en matière de création d'emploi et de réduction de la pauvreté, de par la plus forte exacerbation du chômage et de la paupérisation des segments vulnérables de la population. Plus particulièrement, il est attendu que la pauvreté passe de 14% de la population — taux enregistré avant l'avènement de la pandémie — à 21% de la population en 2020, avec de plus importantes répercussions dans les régions du Centre-Ouest et du Sud-Est du pays. Parmi les segments les plus vulnérables, on compte essentiellement les femmes qui vivent en familles nombreuses, dépourvues d'accès aux soins de santé et souvent employées en dehors de toute forme contractuelle.

Le secteur des exportations a considérablement contribué au ralentissement : en septembre 2020, il a enregistré une baisse de 15% en glissement annuel, en raison du fléchissement de la demande mondiale et de l'affaiblissement des secteurs industriel et touristique. En dépit de cela, on s'attend à ce que le déficit du compte courant tombe à 7% du PIB en 2020 contre 8,8% du PIB en 2019, grâce à la plus grande contribution des envois de fonds et parce que les importations ont chuté plus rapidement que les exportations.

La baisse du déficit du compte courant a permis à la position extérieure de faire preuve de plus de résilience aux chocs. Au 31 octobre, les réserves de change de la Tunisie se sont élevées à 7,8 milliards de dollars, c'est-à-dire à près de 147 jours d'importation (contre 103 jours une année auparavant), contribuant ainsi au renforcement des réserves extérieures, très utiles en ces temps de crise.

Dans ce contexte pour le moins critique, la réponse politique a été globalement adéquate. Le déclin de l'inflation a créé les conditions favorables à une réduction des taux d'intérêt et au soutien à la croissance (modérée) du crédit à l'économie. La politique budgétaire a également été conciliante. Les autorités ont réagi à la pandémie en proposant un paquet de mesures budgétaires en appui aux entreprises et aux ménages. Ces mesures, ajoutées aux pertes de revenus engendrées par le ralentissement économique, ont été en grande partie responsables de l'augmentation du déficit budgétaire à 10,5% du PIB (il était à près de 3% du PIB dans le budget de 2020). Sans surprise, l'augmentation des besoins de financement a exacerbé la vulnérabilité liée à la dette.

On estime que la dette publique augmenterait à 89% du PIB en 2020, comparativement à 72% du PIB en 2019.

Perspectives et risques

Le constat de l'impact de la pandémie sur l'économie tunisienne a été sévère et les coûts d'atténuation ont davantage nui aux finances publiques du pays, déjà particulièrement dégradées. Aussi, les perspectives s'annoncent difficiles et incertaines. Après une contraction attendue de 9,2% en 2020, la croissance devrait temporairement s'accélérer pour se situer à 5,8% en 2021 à mesure que les effets de la pandémie commencent à s'atténuer, avant de revenir à une trajectoire plus modérée de près de 2% d'ici à 2022, en raison des défaillances structurelles préexistantes. Les risques à la baisse qui pèsent sur ces perspectives sont importants, au vu de l'ampleur de la deuxième vague de pandémie qui continue de sévir et de son impact sur les principaux partenaires commerciaux de la Tunisie. Dans le même ordre d'idées, on s'attend à ce que le déficit du compte courant commence à s'améliorer avec la reprise des exportations, quoiqu'à un rythme lent et incertain. Les perspectives budgétaires misent sur un cadre budgétaire serré et une marge de relance budgétaire limitée, l'impact de la pandémie devant s'étendre jusqu'en 2021. Les risques budgétaires liés à la croissance incessante de la masse salariale, aux subventions, aux retraites et à la faible performance des entreprises publiques commencent à se faire concrètement sentir et, à défaut d'être gérés de manière proactive, risquent de compromettre les efforts de relèvement engagés.

Devant cette conjoncture difficile, la prochaine mesure importante que la Tunisie se doit d'entreprendre pour passer avec succès au travers de cette crise consiste à élaborer un programme cohérent de relance de l'économie et de réhabilitation de la crédibilité du cadre macroéconomique.

La première priorité consiste, bien sûr, à sauver des vies, à travers le contrôle de la pandémie et la mise à disposition, de la population, de vaccins contre le virus Covid-19. Les autorités ont réussi à bien gérer la première vague de la pandémie et à endiguer la contagion, grâce aux mesures de confinement décrétées aussitôt que la pandémie a frappé et à leur stricte application. Mais la deuxième vague dépasse de loin la première et de nouvelles mesures de confinement sont instaurées, quoique moins strictes que les premières. Beaucoup d'efforts sont également entrepris pour préparer le déploiement de vaccins, la Tunisie étant membre de l'initiative de la Banque Mondiale pour le financement de l'achat et de la distribution de vaccins, de tests et de traitements.[2]

C'est également en réhabilitant la crédibilité du cadre macroéconomique qu'on arrive à jeter bases nécessaires à une reprise plus durable de la croissance. Plus particulièrement, il s'agit de mettre l'accent sur le financement durable de la relance, de manière qui permet de gérer les niveaux d'endettement. Cela exige de restructurer les finances publiques en endiguant la masse salariale, en faisant passer l'aide sociale des subventions aux transferts ciblés et en maîtrisant les risques budgétaires induits par les entreprises publiques, le tout dans l'objectif de dégager plus de ressources en faveur de l'investissement public et de la relance.

Au vu de l'espace budgétaire limité et de la position extérieure fragile du pays, le pivot du plan de relance réside dans l'engagement de réformes structurelles visant à stimuler les performances du secteur privé. La relance se trouverait freinée en l'absence de programme ambitieux qui ravive la croissance des entreprises. Cette question est explicitée dans la section ''Focus spécial'' du présent rapport.

Relance de la croissance et reconstruction du potentiel des entreprises tunisiennes

La section ''Focus Spécial'' de la présente édition du Moniteur Economique — Tunisie s'approfondit sur les résultats de l'enquête récemment menée auprès d'un ensemble d'entreprises tunisiennes, pour débattre des dernières données disponibles sur la performance des entreprises et déterminer les priorités dont il faut tenir compte pour relancer la croissance et la

2 https://www.worldbank.org/en/news/factsheet/2020/10/15/world-bank-group-vaccine-announcement--key-facts

productivité du secteur privé. Au cours de la majeure partie de la décennie écoulée, les principales causes du chômage ont été attribuées au ralentissement de la croissance et à l'atonie du secteur privé. Au même temps et en l'absence d'opportunités privées, l'Etat a continué à être considéré comme le principal pourvoyeur d'emplois, alourdissant ainsi la masse salariale du secteur public et réduisant l'espace budgétaire qui aurait pu servir à investir dans l'économie. La pandémie Covid-19 est venue exacerber ces difficultés structurelles existantes. Dans ce contexte, il devient plus que jamais urgent de dynamiser les entreprises et de booster leur potentiel de création d'emplois pour que le pays puisse enfin se remettre de la crise liée à la pandémie Covid-19.

L'analyse a révélé que les entreprises tunisiennes ont perdu beaucoup de leur ressort. Les données relatives aux sept dernières années — de 2013 et 2019 — montrent qu'il existe bon nombre de domaines où l'environnement s'est amélioré et où la Tunisie a pu être plus performante que ses pairs régionaux. Mais dans l'ensemble, ces mêmes données montrent à voir un secteur privé affaibli, où les entreprises sont moins enclines à investir et à innover : la proportion d'entreprises investissant dans des immobilisations est passée de 44% en 2013 à 30% en 2019 et le repli est caractéristique de tous les secteurs. De manière similaire, la part des entreprises tunisiennes introduisant un nouveau produit ou service a diminué de moitié, passant de 28% en 2013 à 14% en 2019. Les entreprises sont moins tournées vers l'exportation qu'avant et le pourcentage d'entreprises exportatrices est passé de 38% en 2013 à 32% en 2019. Cela a coïncidé avec la détérioration des indicateurs commerciaux : le nombre de jours nécessaires au dédouanement des exportations a plus que doublé, passant de 3 jours en 2013 à 7jours en 2019. La situation est pire pour les importations, où le nombre de jours nécessaires au dédouanement des importations est passé de 7 jours en 2013 à 16 jours en 2019. Les entreprises sont également de moins en moins productives : la croissance annuelle réelle de la productivité a été négative en 2013, de l'ordre de −4,5% et a empiré en 2019, en tombant à −5,1%. Certes, certains secteurs ont réussi à créer des emplois dans l'économie, mais jamais dans les régions où le chômage est le plus élevé.

Le rapport conclut en examinant quelques-unes des mesures structurelles les plus urgentes à introduire pour aider à remettre le secteur privé sur les rails. Il s'agit, notamment, d'accroître les capacités des nouvelles entreprises à entrer sur le marché et à y offrir de nouveaux produits ou services, de lutter contre les goulots d'étranglement structurels qui compliquent l'accès des entreprises au financement, de faire face à la détérioration des services douaniers et d'élaborer une vision claire de la politique d'innovation, en soutien aux secteurs où les exigences en matière d'innovation et d'avantages comparatifs commencent à prendre de l'importance.

ملخص

صخلم

مع اقتراب سنة ٠٢٠٢ من نهايتها، أصبح عمق تأثير الوباء على الاقتصاد التونسي أكثر وضوحًا. حيث تشير التوقعات إلى أن تونس ستسجل انخفاضًا حادًا في نسبة النمو مقارنة بأغلب نظراءها على المستوى الإقليمي، بما أنها دخلت هذه الأزمة و هي تعاني أصلا من بطئ النمو و ارتفاع نسب التداين. كما أنه من المتوقع أن ينكمش الإنتاج بنسبة ٢,٩ في المائة خلال هذه السنة. بالإضافة إلى ذلك، سوف تخسر تونس بعض المكاسب السابقة في علاقة بخلق مواطن الشغل و الحد من الفقر تبعا لارتفاع معدلات البطالة وزيادة نسبة السكان المعرضين للوقوع في براثن الفقر. و على وجه التحديد، تشير التقديرات إلى أن معدل الفقر سيرتفع من ٤١٪ من السكان في فترة ما قبل الجائحة إلى ١٢٪ سنة ٠٢٠٢، و ستكون الأسر الأكثر فقرا، والتي تتركز في مناطق الوسط الغربي و الجنوب الشرقي لتونس، الأكثر تضررًا من الجائحة. أما بالنسبة للأفراد الأكثر هشاشة، فمن المرجح أن يكونوا من النساء اللاتي يعشن في أسر كبيرة و لا يتمتعن بالرعاية الصحية و يعملن دون عقود. كما ساهم انخفاض حجم الصادرات بنسبة ٥١٪ إلى حدود سبتمبر ٠٢٠٢ (على أساس سنوي) في هذا الانكماش حيث أدى ضعف الطلب على المستوى العالمي إلى تراجع الصادرات الصناعية والسياحية. و على الرغم من ذلك، من المتوقع أن يتقلص عجز الحساب الجاري إلى ٧٪ من الناتج المحلي الإجمالي في سنة ٠٢٠٢، مقابل ٨,٨٪ من الناتج المحلي الإجمالي في سنة ٩١٠٢، حيث سجلت التحويلات المالية انتعاشا بينما انخفضت الواردات بشكل أسرع من الصادرات.

و تبعا لانخفاض عجز الحساب الجاري، فقد أظهر الوضع المالي الخارجي بعض المرونة في مواجهة الصدمة الاقتصادية. حيث أنه ببلوغه ٨,٧ مليار دولار أمريكي حتى نهاية أكتوبر، فقد ارتفع احتياطي تونس من العملة الصعبة إلى ما يعادل ٧٤١ يوم توريد (مقابل ٣٠١ أيام في العام السابق)، مما أدى إلى تعزيز الاحتياطيات الوقائية الخارجية و هو أمر تعتبر تونس في أمس الحاجة إليه في هذا الوقت الذي تتزايد فيه المخاطر.

و في هذا السياق الصعب، تعتبر استجابة السياسات العامة للأزمة ملائمة إلى حد كبير. حيث أدى تراجع نسب التضخم إلى تمهيد الطريق أمام خفض أسعار الفائدة في ٠٢٠٢، و هو ما أسهم بدوره في دعم نمو حجم القروض المقدمة لفائدة للاقتصاد. كما تعتبر السياسة المالية المتبعة ملائمة. و لمواجهة آثار الوباء اتخذت السلطات حزمة من الإجراءات المالية لدعم العائلات والشركات. و مثلت هذه الإجراءات، إلى جانب الخسائر المسجلة على مستوى الإيرادات بسبب الانكماش الاقتصادي، السبب في جزء كبير من الارتفاع المسجل في عجز المالية العمومية الذي بلغ ٥,٠١٪ من الناتج المحلي الاجمالي (ارتفاع من حوالي ٣٪ من الناتج المحلي الاجمالي في الميزانية الأصلية لسنة ٠٢٠٢). و كما هو متوقع، فقد أدت الزيادة في الاحتياجات التمويلية إلى تفاقم درجة التعرض لمخاطر الديون. حيث من المتوقع أن يرتفع الدين العام من ٢٧٪ من الناتج المحلي الإجمالي في ٩١٠٢ إلى حوالي ٩٨٪ من الناتج المحلي الإجمالي في سنة ٠٢٠٢.

الآفاق المستقبلية و المخاطر

من الواضح أن تأثير الوضع الوبائي على الاقتصاد كان شديدًا و أن تكاليف إجراءات التخفيف من هذه الآثار قد زادت في تفاقم وضعية المالية العمومية الضعيفة أصلا. كما تتسم الآفاق المستقبلية بوجود مجموعة من التحديات و بعدم اليقين. و في ظل التوقعات بحدوث انكماش بنسبة ٢,٩ في المائة في عام ٠٢٠٢، فإنه من المتوقع أن يرتفع نسق النمو مؤقتًا ليصل إلى ٨,٥ في المائة مع بداية انحسار آثار الوباء، قبل العودة إلى مسار نمو أكثر انخفاضا عند حوالي ٢٪ مما يعكس نقاط

الضعف الهيكلية الموجودة من قبل. كما تعتبر مخاطر حدوث انحسار لهذه التوقعات كبيرة بالنظر إلى حجم الموجة الثانية للوباء المتواصلة حاليا وتأثيرها على الشركاء التجاريين الرئيسيين لتونس. و تماشيا مع ذلك، من المتوقع أن يتراجع عجز الحساب الجاري إلى ٢,٦ بحلول عام ٢٢٠٢ مع بدء تعافي الصناعات التصديرية ولكن بنسق بطيء و متقلب. و تشير التوقعات المالية إلى ضيق إطار الميزانية و محدودية هامش التحفيز حيث سيمتد تأثير الوباء إلى حدود سنة ١٢٠٢. و تشير التوقعات إلى تراجع عجز الحساب الجاري إلى ٥,٤ بالمائة من الناتج المحلي الإجمالي بحلول عام ٢٢٠٢ إلا أن المخاطر الناجمة عن تواصل ارتفاع حجم كتلة الأجور، و ميزانية الدعم، و أجور التقاعد، و ضعف أداء المؤسسات من شأنها تقويض جهود التعافي إذا لم تتم معالجة هذه المخاطر بشكل استباقي.

و في هذا السياق الصعب، يعد إعداد خطة متماسكة لإعادة تنشيط الاقتصاد واستعادة مصداقية إطار الاقتصاد الكلي خطوة تالية حاسمة بالنسبة لتونس من أجل النجاح في تجاوز هذه الأزمة.

و تتمثل أولى الأولويات في إنقاذ الأرواح من خلال السيطرة على الوباء والاستعداد لتوفير لقاحات كوفيد-٩١ لجميع السكان. و كانت السلطات قد تعاملت مع الموجة الأولى من الوباء بشكل جيد، حيث تجنبت تفشي المرض على نطاق واسع من خلال اتخاذ قرار الحجر الصحي الصارم بشكل مبكر. إلا أن الموجة الثانية من العدوى تعتبر أكثر حدة من الموجة الأولى، ويتم حاليا تطبيق مجموعة من تدابير الاحتواء الجديدة، إلا أنها أقل صرامة. كما يتم حاليا العمل على توفير اللقاحات حيث تشارك تونس في مبادرة البنك الدولي لتمويل شراء وتوزيع لقاحات الكوفيد-٩١ إلى جانب التحاليل و الأدوية.

ثانياً، سوف تساهم استعادة مصداقية إطار الاقتصاد الكلي في وضع الأسس لانتعاش مستويات النمو بشكل أكثر استدامة. و يتطلب ذلك على وجه الخصوص، التركيز على تمويل الانتعاش بشكل أكثر استدامة للمضي قدمًا نحو إدارة مستويات الدين. وهذا يعني إعادة هيكلة المالية العمومية من خلال تخفيض حجم كتلة الأجور، وتحويل المساعدات الاجتماعية المقدمة في شكل إعانات إلى تحويلات مباشرة تستهدف مستحقيها ومعالجة المخاطر المالية المتأتية من الشركات العمومية و ذلك من أجل توفير الموارد من أجل الاستثمار العمومي والتعافي الاقتصادي.

أخيرًا، و في ظل محدودية الحيز المالي و هشاشة الوضع المالي الخارجي، يجب أن تشكل الإصلاحات الهيكلية لتعزيز أداء القطاع الخاص العمود الفقري لجهود الإنعاش. كما أن نسق الانتعاش سيتوقف في ظل غياب برنامج طموح لاستئناف النمو على مستوى الشركات. و هذا هو الموضوع الذي سيتم تناوله في الجزء المخصص من التقرير.

استعادة نسق النمو من خلال إعادة بناء إمكانيات الشركات التونسية.

يعتمد الجزء المخصص من هذه النسخة لتقرير المرصد التونسي للاقتصاد على الدراسة الاستطلاعية للشركات في تونس التي نُشرت مؤخرًا لمناقشة أحدث الأدلة على أداء الشركات وتقديم الأولويات من أجل قطاع خاص متنامٍ وأكثر إنتاجية. فخلال أغلب فترات العقد الماضي، ساهم كل من توقف النمو و ضعف ديناميكية القطاع الخاص في تواصل ارتفاع مستويات البطالة. وبالتوازي مع ذلك، فقد أدى اعتبار الدولة كمشغل، في ظل غياب فرص الاستثمار للحساب الخاص، إلى تضخم كتلة أجور القطاع العام وتضاؤل الحيز المالي للاستثمار في الاقتصاد. و ساهمت جائحة كوفيد-٩١ في تفاقم هذه الصعوبات الهيكلية القائمة. و في هذا السياق، تعد مسألة إعادة ديناميكية الشركات و تفعيل إمكانياتها من حيث خلق فرص العمل أكثر إلحاحًا من ذي قبل إذا أرادت تونس أن تطلق مسار التعافي من أزمة كوفيد-٩١.

و قد خلص التحليل إلى أن الشركات التونسية قد فقدت الكثير من نجاحاتها. حيث أنه بالنظر إلى فترة السبع سنوات بين ٣١٠٢ و ٩١٠٢، تُظهر البيانات عددًا من المجالات التي أظهرت فيها البيئة الاقتصادية تحسنا و أن أداء تونس كان أفضل من نظراءها على المستوى الإقليمي. لكن بشكل عام، تشير الأدلة إلى ضعف نسيج القطاع الخاص. حيث تراجع حجم استثمار الشركات، و أصبحت أقل ابتكارًا: فقد انخفضت حصة الشركات المستثمرة في الأصول الثابتة من ٤٤٪ في عام ٣١٠٢ إلى ٣٠٪ في عام ٩١٠٢، مع ملاحظة أن الانخفاض قد شمل جميع القطاعات. كما انخفضت حصة الشركات التونسية التي تقدم منتجًا أو خدمة جديدة إلى النصف حيث تراجعت النسبة من ٨٢٪ في ٣١٠٢ إلى ٤١٪ في ٩١٠٢. كما أصبحت الشركات أقل توجهاً نحو التصدير من ذي قبل. حيث انخفضت حصة الشركات المصدرة من ٨٣٪ في عام ٣١٠٢ إلى ٢٣ ٪ في عام ٩١٠٢. وقد تزامن ذلك مع تدهور المؤشرات المتعلقة بالتجارة: فقد ارتفع عدد الأيام اللازمة لتخليص الصادرات من الجمارك بأكثر من الضعف فمر من ٣ أيام في ٣١٠٢ إلى ٧ أيام في ٩١٠٢. أما بالنسبة إلى الواردات فإن الوضع يعتبر أسوأ، حيث قفز عدد الأيام اللازمة لتخليص الواردات من الجمارك من ٧ أيام في ٣١٠٢ إلى ٦١ يومًا في ٩١٠٢. أخيرًا، أصبحت الشركات أقل إنتاجية: فقد كان معدل نمو الإنتاجية السنوي الحقيقي سلبيا في عام ٣١٠٢ حيث بلغ -٥,٤ في المائة و تدهور إلى -١,٥٪ بحلول عام ٩١٠٢. وعلى الرغم من أن بعض القطاعات تساهم في توفير مواطن شغل إضافية، فإن هذه الأخيرة لا يتم توفيرها في المناطق التي تعاني من أعلى مستويات البطالة.

ويتم اختتام التقرير بمناقشة بعض الإجراءات الهيكلية الأكثر إلحاحًا واللازمة للمساعدة في إعادة القطاع الخاص إلى المسار الصحيح. وتشمل هذه الإجراءات دعم قدرة الشركات الجديدة على دخول السوق وتقديم منتجات أو خدمات جديدة، ومعالجة المعوقات الهيكلية التي تساهم في تعقيد وصول الشركات إلى التمويل، و معالجة التدهور الكبير في أداء المصالح الديوانية و تطوير رؤية واضحة لسياسات الابتكار من أجل تغذية القطاعات التي بدأت تبرز فيها سمات الابتكار و الميزة النسبية.

1

RECENT ECONOMIC DEVELOPMENTS

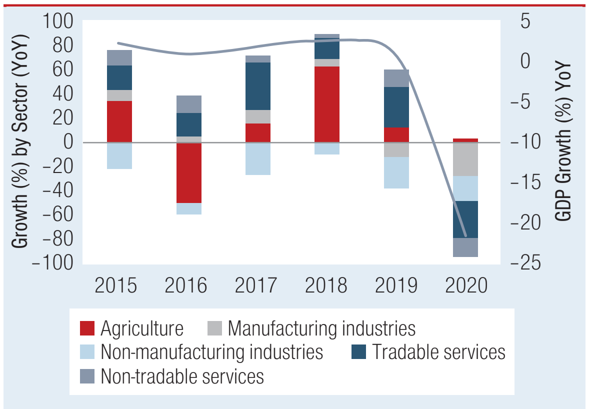
Growth and Employment

Tunisia is experiencing a sharper growth deceleration than its peers, having met the COVID-19 crisis on weak footing

The pandemic is having a heavier impact on growth than previously anticipated, further compounding a decade of low growth and increasing poverty. The year 2020 started on a weak footing prior to the pandemic, with a 2.2 percent contraction in the first quarter and several preceding years of sluggish growth.[2] The pandemic deepened this economic stagnation. A strict lockdown between March and June suppressed the pandemic but simultaneously stifled domestic supply and demand, contributing to a 9.6 percent contraction in GDP in the first nine months of the year. The ongoing second wave of the pandemic weighs further on economic activity.[3] Growth is expected to contract by 9.2 percent overall in 2020, down from an expansion of 1 percent in 2019 (Figure 1).[4]

Declines in tourism and transport services contributed heavily to the downturn. The Tunisian economy is largely service oriented, with 43 percent

FIGURE 1 • Growth is Expected to Contract by 9.2 Percent in 2020



Source: National Institute of Statistics.

[2] GDP growth averaged 1.5 percent annually in 2011–2019 compared to 4.5 percent in 2006–2010.

[3] At the start of the Covid-19 pandemic, Tunisia enforced a relatively strict lockdown from March 22nd to May 4th, followed by a gradual re-opening. A second wave has now far exceeded the first with an average daily infection rate in the range of 1,000–1,500 in October (compared to <50 between March and May).

[4] The pre-COVID World Bank forecasts for GDP growth in 2020 was 1.5 percent. It was revised downwards to 4.0 percent in April.

BOX 1: HOW IS COVID-19 AFFECTING THE POOR?

Recent analysis carried out by the World Bank (Kokas et al; 2020) addresses this question by estimating the pandemic's impact on Tunisia's poor households. It shows that the pandemic is likely to reverse recent gains in poverty reduction. The analysis explored four broad channels through which the pandemic could affect households: labor income, non-labor income, direct effects on consumption, and the disruption of services. The findings suggest that, under the baseline scenario of a 9.2 percent contraction in GDP growth in 2020, poverty is estimated to increase from 14 percent of the population pre-Covid to 21 percent in 2020.[a] Additionally, inequality (measured using the Gini coefficient) is estimated to increase from 37 to 39.5.

Households with per capita consumption in the poorest 20 percent of the population, which are concentrated in Tunisia's Center West and South East regions, would be hardest hit. As for the most vulnerable individuals, they are likely to be women, living in large households, without access to health care and employed without contracts. Just over half (53 percent) of individuals who projected to have fallen into poverty as a result of the pandemic are likely to be employed without a contract.

The analysis also simulated the impact of the authorities' compensatory measures and found that they would mitigate the impact on poverty. Specifically, the increase in poverty would slow to 6.9 percent with the mitigation measures as opposed to 7.4 percent without, underlining the importance of developing well-targeted social protection programs that can quickly be used to reach the poor at times of crisis.

Source: Kokas, Deeksha; Lopez-Acevedo, Gladys; El Lahga, Abdel Rahman & Mendiratta, Vibhuti. "Impacts of COVID-19 on household welfare in Tunisia". 2020 (forthcoming).

[a] These estimates are based on the national poverty line using the 2015 household survey, which is updated to arrive at the pre-pandemic poverty rate.

of GDP in 2019 coming from the market services.[5] The pandemic's dual impact on the supply and demand for services (both domestic and external) have contributed to a 12 percent decline in services by the third quarter of the year. Tourism is one of Tunisia's main service industries. Key activities for this sector—transport and hotels and restaurants[6]—were particularly affected with 30 and 43 percent declines respectively over this period.

Manufacturing, a mainstay of the Tunisian economy, has also been deeply impacted as European demand stalled.[7] Manufactured output contracted by 10 percent in the first nine months of 2020 compared to 2019. The decline was driven mainly by textiles and the mechanical and electrical sector, which contracted by 19 percent and 17 percent respectively. These key industries employ around a fifth of the working population and had been growing in recent years. They are also highly sensitive to global economic shocks. In contrast, agriculture contributed positively to growth, providing a small boost to food processing industries, due to favorable harvest conditions.

Non COVID-19 related factors also affected growth this year, such as worker disruption in the mining sector and political uncertainty in the first half of the year. Since the end of May 2020, social protests disrupted production in energy and mining sites such as the phosphate mines in Gafsa, the oil wells in Tataouine, and the Nawara gas field.[8] Phosphate production has been significantly affected by these repeated crises. This year, phosphate exports, produced in remote parts of the country, were down by 21 percent by October compared to the same period last year. These remote areas have some of the highest unemployment rates in Tunisia and worsening social conditions in the wake of the pandemic could further aggravate social tensions. A change in political power added further uncertainty as an unexpected change in government took place between July and September, bringing a new government led by Prime Minister Hichem Mechichi to power.

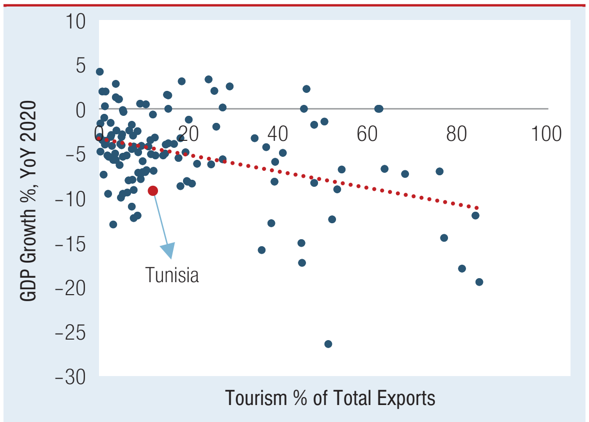
5 All services (market and non-market) accounted for 61 percent of GDP in 2019.

6 Transport and hotels and restaurants account for 27 percent of market services and 11 percent of GDP.

7 Europe is the destination for more than 75 percent of Tunisia's exports.

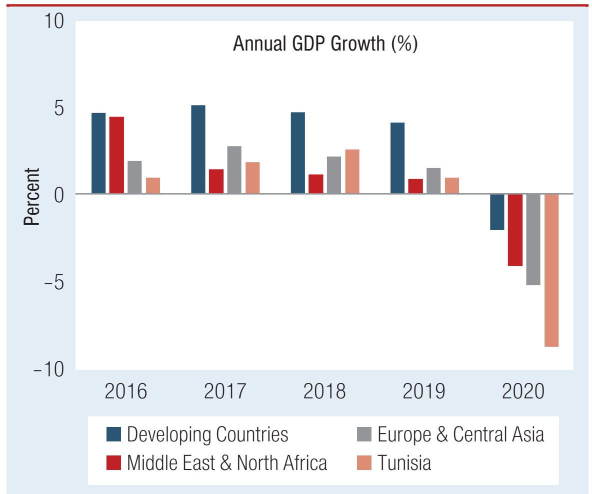
8 The phosphate sector has been subject to repeated sit-ins in past years and production in the mining area has been slowed down for a decade.

FIGURE 2 • Economies that are More Dependent on Tourism have Tended to Experience a Sharper Downturn…



Source: World Bank World Development Indicators.

FIGURE 3 • …Contributing to Tunisia's Performance, which is Considerably Below Peers and Trading Partners



Source: National Institute of Statistics, World Bank staff estimates.

Unemployment increased equally for women and men, but informal sector workers are likely to be most affected

After having spiked to 18 percent in the second quarter of 2020, the rate of unemployment declined to 16 percent in the third quarter. Although it remains above the pre-COVID unemployment rate of 15 percent, the recovery in the unemployment rate in the third quarter of 2020 suggests that a large share of job losses in the early stage of the pandemic and the lockdown were on a temporary basis. This seems to be corroborated by data from the national statistics institute's second COVID-19 socio-economic impact phone survey[9], which reports that only 5 percent of respondents permanently lost their jobs. Women's unemployment rates, including for graduates, have historically been higher than men's, but fluctuations in the unemployment rate were of a similar magnitude for both men and women.

The impact on informal workers, who account for 46 percent of the workforce, is likely to be significant. Informal workers, such as day workers and self-employed informal micro-businesses, are generally from lower-income households and, by definition, do not have access to formal employment benefits and protections. They are also concentrated in the heavily impacted services and construction sectors, making the crisis particularly taxing for this group. Dwindling opportunities for this vulnerable group may have aggravated the flow of illegal migration to Europe. As of end-September, it is estimated that close to 10,000 Tunisians attempted illegal Mediterranean crossing in 2020, making them the largest nationality group crossing the Mediterranean.[10]

The External Sector

Tunisia's external position improved slightly in 2020, but in a context of weakened export performance and even weaker demand for imports

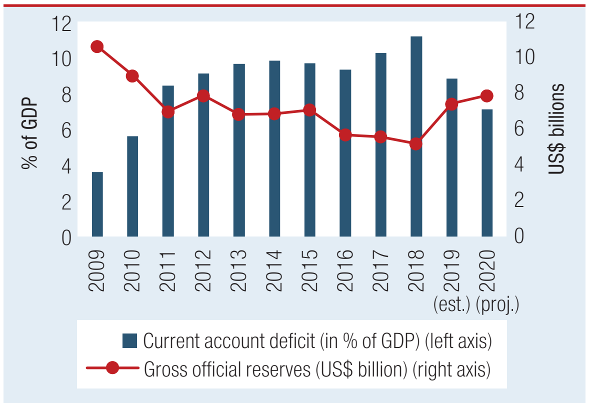
Weak global demand led to a severe reduction in industrial exports and tourism.[11] Exports contracted

9 http://www.ins.tn/sites/default/files/publication/pdf/Enq%20covid%20menages%20-%20octobre%202020.pdf.

10 https://data2.unhcr.org/en/situations/mediterranean; https://data2.unhcr.org/en/situations/mediterranean/location/5205.

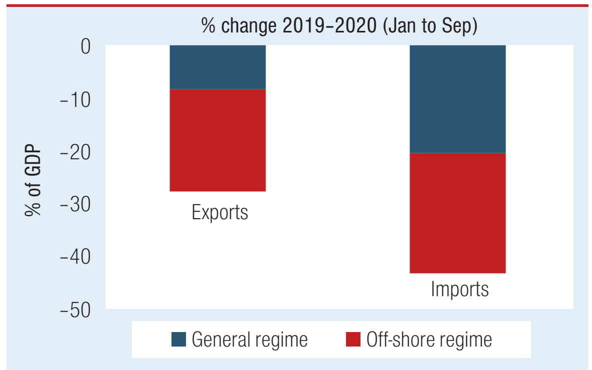
11 Mechanical and electric products, and textiles together account of 68 percent of product exports.

FIGURE 4 • The Current Account Deficit and Reserves Improve in 2020…



Source: Central Bank of Tunisia; World Bank staff estimates.

FIGURE 5 • … as Imports Decline Faster than Export



Source: Central Bank of Tunisia.

by 15 percent in the first nine months of 2020 compared to the same period in 2019. Leading the fall in exports were the mechanic and electric industries, key sector in the economy, which fell by 20 percent, reflecting a reduction in demand from Europe, including in auto industries. Textiles similarly experienced an 18 percent decline in exports so far this year. Tourism, which was struggling to recover from the terrorist attacks of 2015, was also severely affected, declining by 60 percent in the first nine months of 2020. This comes at a time when the government is struggling to revitalize the tourism economy, in the face of domestic security concerns and regional instability.[12]

Despite this, the current account deficit is expected to shrink to 7 percent of GDP in 2020, against 8.8 percent in 2019, following a large drop in imports and higher remittances. Although exports declined, the reduction in imports was larger. Overall, imports fell by 18 percent during the first nine months of 2020 as weak consumer demand, lower oil prices and a drop in capital goods imports lowered the import bill. Industry is also importing less. For example, a large share of imports in the textile and manufacturing industries are intermediate goods and are ultimately destined for exports, further reducing Tunisia's imports as demand for exports plummets. Moreover, remittances, which stood at 5.3 percent of GDP in 2019 increased by 12 percent in the 12 months to September despite a worse economic situation in France and Italy, the source of 76 percent of Tunisian remittances.

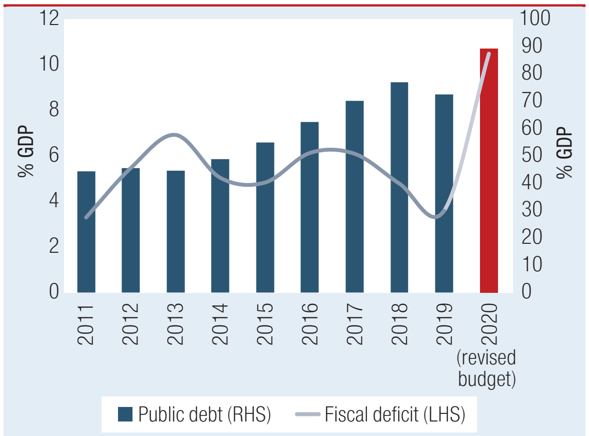
Bolstered by a lower current account deficit, the external position remains adequate, yet fragile, despite the economic shock

Foreign direct investment continued to decline in 2020. Net foreign direct investment (FDI) inflows had been weak prior to the pandemic as the economy struggled to perform and attract investors, leaving debt and short-term inflows to dominate the financial account. FDI took a further hit, declining by 25 percent in the first 9 months of the year. Debt and short-term inflows also declined, contracting by 39 over this period but remained the largest financial inflow.

External reserves remained resilient despite the economic shock, placing Tunisia's reserves at an adequate level. At approximately USD 7.8 billion, gross foreign exchange reserves increased by 18 percent as of end-October compared to a year earlier, equivalent to 147 days of import against 103 days a year earlier, owing to a lower CAD and the Central Bank's limiting of foreign exchange interventions to maintain exchange rate flexibility. The decline in imports has also contributed to the higher import cover ratio, which could drop as pent-up demand for import recovers.

12 Demand for tourism in Tunisia is led by Europeans and neighboring countries Algeria and Libya, which have all gradually increased in recent years, despite the terrorist attacks in 2016, signaling a growing regional tourism trend.

FIGURE 6 • The Fiscal Deficit and Debt Levels Increased in 2020



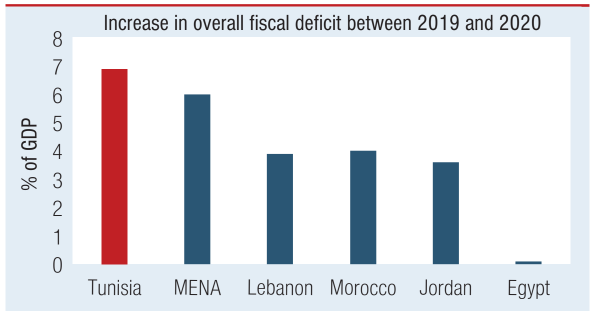
Source: Ministry of Economy, Finance & Investment; World Bank staff estimates.

Fiscal Policy[13]

The costs of the pandemic response and structural budget weaknesses reversed recent, albeit uneven, progress in consolidating public finances

The fiscal deficit is expected to balloon to about 10.5 percent of GDP this year, reversing recent gains made in rebalancing the budget. With a reduction in the overall central government fiscal deficit from 6.1 percent of GDP in 2017 to 3.5 percent of GDP by 2019, Tunisia made progress in remedying its fiscal imbalances prior to the pandemic. The large impact of the pandemic, particularly on state revenues, the costs of the response and continued growth in the wage bill are now pushing the primary[14] and overall deficits to 6.7 and 10.5 percent of GDP, respectively, in the revised 2020 budget (Figure 6). This is a larger increase compared to most regional peers (Figure 7).

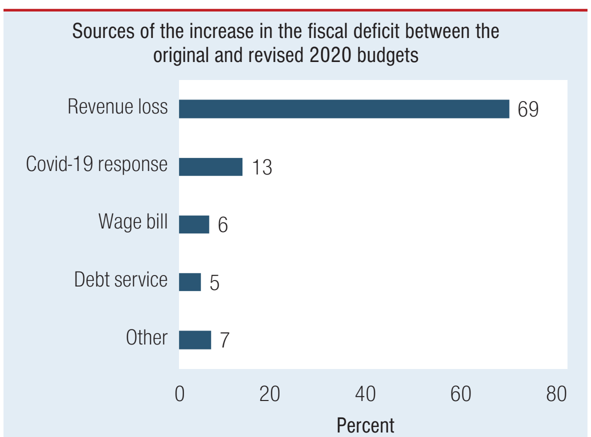
FIGURE 7 • Tunisia is Experiencing a Larger Increase in the Fiscal Deficit than Some of its Regional Peers



Source: Ministry of Economy, Finance & Investment; World Bank MFMOD database.

Although structural weaknesses continue to weigh on the budget, most of the increase in financing needs is due to the costs of the pandemic. Revenues[15] are estimated to decline to 28 percent of GDP in 2020, down from 33 percent in the pre-pandemic budget for the year as the downturn depresses economic activity and as tax deferral measures adopted as part of the pandemic response take effect. In parallel, the supplementary 2020 budget aims to increase spending to 38 percent of GDP, up from 36 percent of GDP initially. Together, the costs of the COVID-19 response at TND 1100 million (1 percent of GDP), and revenue losses account for 82 percent of the increase in the deficit between the original and the revised 2020 budget. Higher debt service costs also added to the spending envelope (Figure 8). An untimely increase in the wage bill this

FIGURE 8 • Most of the Increase in 2020 Budget Financing Needs is Due to the Costs of the Pandemic…



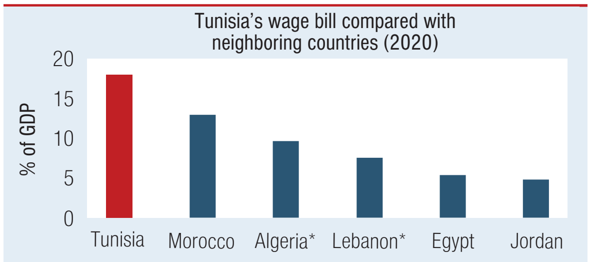
Source: World Bank staff calculations based on the 2020 proposed supplementary budget.

[13] This section draws on the approved supplementary budget law for 2020. The ratios are calculated based on World Bank GDP estimates for 2020.

[14] The primary balance is equivalent to the overall fiscal balance, less interest payments.

[15] Revenues and grants.

FIGURE 9 • …but Structural Weaknesses, such as a Large and Growing Wage Bill, Continue to be a Challenge



Source: World Bank staff estimates; IMF staff estimates.
* Data for Algeria and Lebanon is for 2019.

year, forecast to grow by 17 percent compared to 2019, is adding to the expansion. Taken together, these factors outweighed savings from lower energy subsidies stemming primarily from lower international oil prices.

Higher financing needs in 2020 keep debt levels on an upward trajectory, increasing debt service costs

Financing has shifted to domestic debt to meet the budget's swelling needs. As a result of the projected deficit, gross financing needs[16] jumped from 10 percent of GDP in the original 2020 budget to 18 percent of GDP in the revised budget. The authorities have increased recourse to domestic debt to help plug this gap, with a large increase in borrowing needs presented in the last quarter of the year.[17] Domestic debt stands now at 35 percent of total debt, compared with 25 percent in 2019.

With this, public debt is estimated to reach 89.4 percent of GDP by end 2020, compared to 72.5 percent in 2019.[18] The public debt burden had declined in 2019 as the authorities made progress in consolidating public finances. The fiscal impact of the pandemic reverses the decline in debt registered in 2019 and raises the debt stock to concerning levels. Currency appreciation in 2020 helped mitigate some of the increase.[19] The structure of Tunisia's debt, which has a significant share of debt from donors (47 percent of central government debt in 2019), eases the debt service burden. Nevertheless, debt service costs have also been gradually increasing and cutting into fiscal space, having increased from 3 to 4 percent of GDP over the past year.

Monetary Policy and Inflation

Monetary policy balanced economic stimulus with its core objective of maintaining price stability, supporting moderate growth in credit to the economy

Declining inflation set the stage for policy rate cuts in 2020 to support the economy during the pandemic. The central bank had maintained a monetary policy tightening cycle between 2017 and 2019 in response to a depreciating currency and inflationary pressures over this period, which helped lower inflation from a peak of 7.7 percent in mid-2018 to 5.8 percent by early 2020. While inflation reached 6.3 percent in the early stage of the pandemic (April–May) due to the initial shock, normalization of supply chains, lower oil prices and subdued domestic demand helped decelerate inflation to 5.4 percent by October. In this context, the Central Bank reduced the policy rate twice, by 100 basis point in March 2020 and by 50 basis point to 6.25 percent at end-September.

Lower interest rates and COVID-19 response measures helped prop-up demand for credit. The central bank also implemented a number of other measures to mitigate the effects of the pandemic, including relaxation of loan-to-deposit ratio requirements, extending list of assets eligible as collateral for refinancing operations and a secondary market government bond purchase program to improve liquidity and yield conditions for domestic

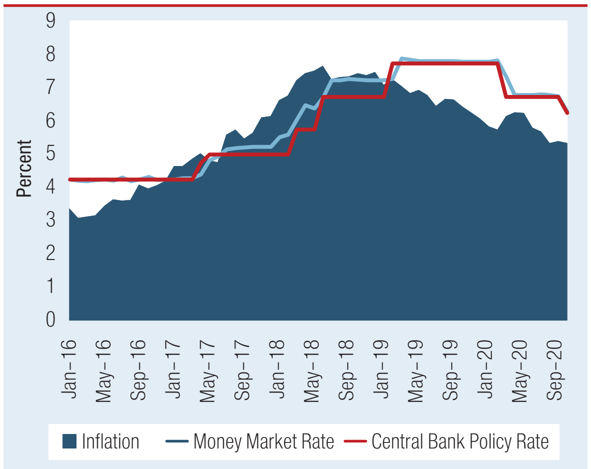
16 Consisting of the amounts needed to finance the overall fiscal deficit as well as debt coming due (amortization) during the year.

17 Domestic borrowing is expected to finance 62 percent of gross financing needs and external debt the remaining in 2020, against 30 percent in 2019.

18 The Tunisian dinar appreciated against the dollar by around 6 percent so far in 2020, mitigating some of the increase in indebtedness. The large increase is domestic borrowing counteracts this effect.

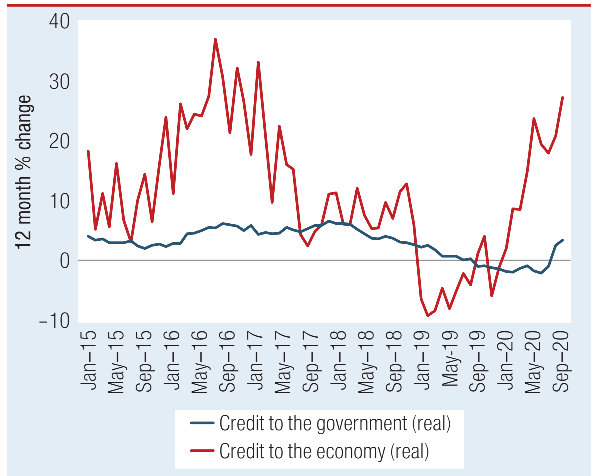
19 The Tunisian Dinar appreciated by 4 percent in the 12 months to September 2020 (YoY).

FIGURE 10 • Declining Inflation Set the Stage for Policy Rate Cuts in 2020…



Source: Central Bank of Tunisia; INE.

FIGURE 11 • …supporting Private Sector Credit Growth in the Second Half of the Year.



Source: Central Bank of Tunisia; World Bank staff estimates.

budget financing.[20] This contributed to a 14 percent increase in credit to the private sector in real terms in the 12 months to September 2020 (against −1.1 percent in 2019). This is despite much faster growth in credit to the public sector, which grew by 59 percent in real terms (up from 3.8 percent in 2019) as a consequence of the increase in the budget's financing needs, which, if continued, would crowd-out private sector credit.

Non-performing loans and exposure to the public sector are key risks to a vulnerable banking sector

Banking sector vulnerabilities have increased as non-performing loans (NPLs) and the sector's exposure to the public sector grow. NPLs, already high at 13.9 percent of gross loans at end 2019 are expected to increase further.[21] The stock of NPLs is highly exposed to industrial and tourism sectors, two of the most heavily affected sectors by the ongoing crisis. In addition, support measures such as payment moratoria maybe delaying the onset of NPLs. Given this, stress testing of the financial system and close monitoring loans payments past their dates are critical to assess the build-up in vulnerabilities. Liquidity has remained constrained. While no mid-year data is communicated by the Central Bank on the liquid asset ratio, which stood at 4.7 at end 2019, a proxy estimate based on the 12 publicly traded banks[22] shows a liquid asset ratio at 4.5 percent with significant disparity between public and private banks.[23] In addition, exposure to the government, through securities and direct lending has edged upwards as credit to the government increased (Figure 11). In this context, close supervisory scrutiny, adherence to robust classification standards and effective financial safety nets are particularly important to increase transparency and maintain confidence in the system.

Despite efforts to provide relief and assistance during the pandemic, low financial inclusion limits the financial sector's ability to reach those most impoverished. Limited access to finance is also constraining the magnitude of any countercyclical role played by the financial sector. Low penetration of digital financial services is slowing

20 See Box 2 for a summary of other monetary and financial sector measures.

21 Data on the evolution of NPLs in 2020 has not been published yet by the authorities. According to S&P (2020), NPLs are expected to rise from 14 percent of gross loans at end 2019 to 15.4 percent in 2020 and 19 percent in 2021.

22 Private banks (9): Amen Bank, ATB, Attijari Bank, BIAT, BT, BTE, UBCI, UIB and WIB) and Public banks (3): BH, BNA, and STB.

23 Source: Tunisie Valeurs;1.4 percent for public banks and 6.5 percent for private banks.

TABLE 1 • Selected Macroeconomic Indicators, 2017-2022

	2017	2018	2019 (Prel.)	2020 (Proj.)	2021 (Proj.)	2022 (Proj.)
National Accounts and Prices						
GDP at constant prices	2.0	2.7	1.0	−9.2	5.9	2.0
Consumer prices (average)	6.2	7.5	6.1	5.6	5.0	4.5
Government finance (% of GDP)						
Total revenues & grants	24.5	26.3	28.2	27.7	26.8	27.3
Total expenditure and net lending	30.5	30.5	31.9	38.2	33.3	32.1
Overall balance	−5.9	−4.4	−3.9	−10.5	−6.5	−4.8
Public debt ratio	70.2	78.0	72.2	89.4	91.2	90.8
Credit to the economy	9.4	8.4	3.5	13.8	–	–
Policy interest rate (%, eop)	5.0	6.75	7.75	–	–	–
Balance of payments (percent of GDP, unless otherwise indicated)						
Current account balance	−10.2	−11.2	−8.8	−7.1	−6.2	−6.3
Exports of goods	35.7	38.9	38.5	31.6	32.3	32.2
Imports of goods	49.1	53.9	52.5	42.1	43.7	44.1
Foreign direct investment	2.0	2.5	2.1	1.6	1.5	1.5
Gross reserves (US$ billion, eop)	5.6	5.2	7.4	7.9	8.0	8.9
in months of next year's goods imports	3.0	2.9	5.7	4.8	4.5	4.6
Memorandum items						
Population (million)	11.5	11.7	11.8	11.9	12.0	12.1
Nominal GDP (TND million)	96,298	105,269	113,845	109,244	123,149	133,055
Nominal GDP (US$ billion)	39.8	39.8	38.8	–	–	–
GDP per capita (current US$)	3,451	3,411	3,294	3,335	3,730	3,986
Exchange rate, average (TND/US$)	2.42	2.65	2.93	–	–	–
Unemployment rate (% of active population)	15.3	15.4	14.9	–	–	–

Tunisia's deployment of rapid and agile measures, which are particularly needed in an economic lockdown and social distancing context, like social transfers and financial inclusion. Microfinance, another vector of financial inclusion, supporting income-generating activities of over 400,000 micro-entrepreneurs from the most vulnerable segments (such as women and smallholder farmers), has also come under pressure from declining portfolio quality as affected households struggle to meet repayments with the refinancing difficulties under the current governance and regulatory framework.

BOX 2. GOVERNMENT AND CENTRAL BANK MEASURES TO SUPPORT HOUSEHOLDS AND FIRMS DURING THE COVID-19 CRISIS

Immediate social measures

- Cash transfer top-up of TND 50 for 260,000 poor households (7.9 percent of the population) reviving permanent cash transfer program (PNAFN) to bring total transfer to at least TND 230 per beneficiary. Two payments to cover April and May.
- Temporary cash transfer of TND 200 for 770,000 households (28.1 percent of the population), including 470,000 households (benefiting from subsidized health card program (eligible for two transfers in April and May) and 300,000 vulnerable households (eligible for one transfer in May).
- Pension top-up (TND 100) for 140,000 retirees (1.2 percent of the population) whose monthly pension is below TND 180 (one-off mid-April).
- Temporary unemployment benefits (TND 200) for workers who will be affected by partial unemployment (one-off mid-May and a second transfer under consideration).
- Temporary cash transfer (TND 200) to self-employed individuals who suffer from business income loss (one-off mid-May and a second transfer under consideration).

Emergency measures to support firms

- Creation of a TND 300 million support fund for SMEs.
- Creation of a TND 100 million new partial guarantee scheme.
- Creation of a TND 700 million facility to restructure companies in difficulty.
- Postponement to the end of May 2020 of corporate tax returns (previous deadline March 25), except for companies subject to the wealth tax at the rate of 35 percent.
- Suspend all tax audit operations and appeal deadlines until the end of May 2020.
- Reduction of deadlines for refunding tax credits to a maximum of one month.
- Exemption of customs penalties established before March 20, 2020, with payment of duties and taxes due and a fixed penalty of 10 percent.

Measures for fully exporting companies:

- Possibility for companies operating in the food industry and health sector to sell on the local market up to 100 percent of their production during the year 2020.
- For the other exporting companies in the other activity sectors, increase of the quota from 30 to 50 percent during the year 2020.

Measures for most affected companies:

- Creation of a committee, within the Presidency of the government, dedicated to monitoring large companies most affected by the crisis with the possibility of rescheduling the tax debts of these companies over a period of up to 7 years.
- Suspension for these companies of the application of late payment penalties for a period of 3 months from April 1, 2020.

Measures for banking and financial sector:

- Cut in the policy interest rate by 150bps, to 6.25 percent.
- Request from the Central Bank to suspend distribution of banks and financial institutions dividends for the 2019 financial year.
- Suspension of fee on withdrawal, electronic payment of below TND100, and establishment of banking card.
- Relaxation of the loan-to-deposit ratio requirements for the banking sector.
- Defer payments on bank credits and on non-professional loans.
- Extension of the list of assets eligible as collateral for refinancing operations.
- Creation of investment funds (TND 600 million) with a public guarantee (TND 100 million) mechanism to cover up to TND 500 million of new credits.
- Subsidized interest rate (up to 3 percentage points above the average money market interest rate or *Taux moyen du marché monétaire*).

2

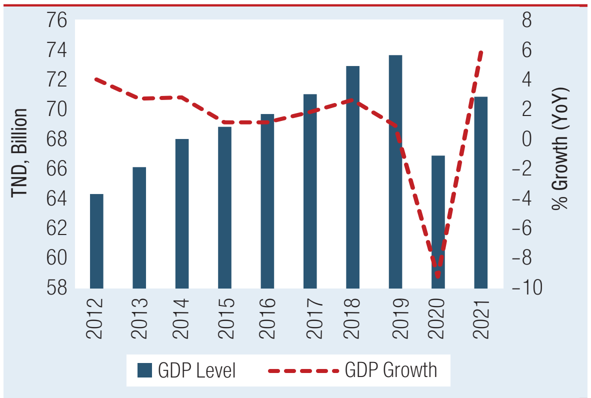
OUTLOOK AND RISKS

The growth outlook points to a gradual recovery, but downside risks are significant in the absence of an economic recovery plan

While a global recovery is envisioned for 2021, it is likely to be subdued. Global GDP is forecast to expand by 4.2 percent in 2021. Euro area economies are projected to grow by 4.5 percent, while MENA economies are projected to expand by 2.3 percent.[24] This reflects that the pandemic will likely lead to a slow and incomplete return to activities that require face-to-face interaction, such as tourism, as some degree of social distancing continues. Firms, households and governments have relied on savings and debt to mitigate the effects of the recession thus far; hence, a period of deleveraging is likely to follow as they rebuild precautionary savings and strengthen their balance sheets.

In Tunisia, after an expected 9.2 percent contraction in 2020, growth is temporarily expected to accelerate to 5.9 percent as the pandemic's effects on exports begin to abate and domestic demand begins to recover. The extent of the projected recovery in 2021, for a most part, reflects the base effect of the sharp decline in 2020. The uptick is, however, not large enough to return output to pre-pandemic levels of 2019 (Figure 12).[25]

FIGURE 12 • Even though GDP Growth is Expected to Rebound in 2021, Output is Forecast to Remain Below Pre-Pandemic Levels



Source: INS; WB staff forecast.

[24] World Bank – Global Economic Prospects June 2020.

[25] GDP in 2021 is projected to remain 3.8 percent below that of 2019.

After this short-term rise, growth is expected to return to a more subdued trajectory, expanding by around 2 percent, reflecting pre-existing structural weaknesses and a gradual global recovery from the pandemic.

These estimates are presented with significant downside risks in a highly uncertain environment. While Tunisia managed the first wave of the pandemic relatively well, the depth of the second wave and its duration, both domestically and amongst the main trading partners, are significant unknowns. This baseline scenario assumes that there will be no prolonged and widespread lockdown, a gradual abatement of the pandemic in 2021 and a slow recovery in Europe. A less forgiving scenario would result in an even weaker growth outlook and a more delayed recovery.

The pace of the recovery will also depend on the effectiveness of measures to mitigate the pandemic's impact on firms at a time of limited buffers and significant scarring of the economic tissue. According to a business pulse survey carried out in June by the World Bank, 54 percent of firms are concerned about their permanent closure, while this figure reaches 74 percent in the tourism sector, indicating the heavy dent that this crisis leaves in the coming years. Despite the government's efforts to support the private sector, only 10 percent of firms reported receiving financial support from the state.[26] This highlights the difficulty in supporting the economic recovery in a context of limited fiscal and external buffers and underlines the importance of the health response to manage the effects of the pandemic. It also underlines the need for an economic recovery plan as the basis to begin rebuilding the economy in the medium-term.

The external outlook is expected to improve gradually, with downside risk from sluggish export growth

The current account deficit is expected to narrow gradually to 6.3 percent by 2022, but external pressures could persist in the medium-term if imports recover faster than exports as demand picks up. As the effects of the pandemic ease and trade flows recover, manufactured exports and tourism arrivals are expected to pick-up gradually. 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 a slower than expected recovery amongst Tunisia's main trading partners. An increase in oil prices, although not currently foreseen in the near-term, could be a source of risk for Tunisia if commodity market conditions shift. Consumer demand is also expected to begin recovering, boosting the flow of imports and placing additional pressure.

The fiscal outlook points to a tight budgetary setting and limited room for fiscal stimulus

The budget for 2021 narrows the fiscal deficit to 5.8 percent of GDP, but is subject to significant downside risks.[27] The budget aims to collect 27 percent of GDP in revenues and grants, down from 28 percent of GDP in the revised 2020 budget. The authorities seek to shore-up revenues through tax policy and administrative measures, with one of the key measures being the unification of mid-band corporate income tax rates under the main rate of 15 percent. Yet, this target is exposed to risks given the economic impact of the pandemic on firms (Box 3).

Moreover, the fiscal impact of the pandemic will spill into 2021, suggesting continued spending pressures. The proposed 2021 budget decreases spending to 33 percent of GDP, mainly by rolling back pandemic response spending and limiting wage bill growth. But these plans may be underplaying spending pressures. The rising rate of new infections and the new set of restrictions mean that government finances will remain under pressure to fund health services, support the vulnerable and shore-up the economy against the pandemic. Fiscal risks are also materializing and may compromise recovery efforts if not managed proactively. Demand for public sector recruitment is also very high in the

[26] See Box 3 for more detail on the business pulse survey.

[27] Based on the 2021 budget approved by parliament in December 2020. The ratios are calculated based on World Bank estimates for 2021.

BOX 3. IMPACT OF THE COVID CRISIS ON THE TUNISIAN PRIVATE SECTOR

A business pulse survey carried out by the INS (in partnership with the IFC and others) in July 2020 showed that the pandemic's impact on the private sector has been severe. Although 87 percent of businesses surveyed reopened in June after the national lockdown, just over a third (37 percent) reported a risk of permanent closure in the next 12 months. The pandemic negatively impacted the sales of the vast majority of firms: 82 percent of companies experienced a decrease in turnover and 80 percent of businesses saw a drop in demand.

The impact of the pandemic on employment was more muted. Businesses reported a more limited impact on formal employment as most of the adjustments made were in the form of temporary leave and salary reductions. Consequently, by October 2020, a survey of households carried out by the INS (in partnership with the World Bank) reported that only 5 percent of individuals surveyed reported job losses.

Most of the firms surveyed (in July 2020) had not received government aid as 16 percent of businesses reported benefiting from government measures. Even if this number increased subsequently, the business pulse survey indicates that the pandemic's impact on business activity remains severe.

With corporate taxes accounting for 13 percent of revenues (in 2019) and a severe shock to business incomes in 2020, which provide the basis for taxation in 2021, the knock-on effects on the budget are expected to be sizeable.

Source: World Bank Business Pulse Survey Tunisia, December 2020; INS Social Impact of COVID-19 survey, October 2020.

current economic context and SOEs continue to be sources of fiscal risk, which highlights the importance of progress in controlling public sector pay and dealing with underperforming SOEs.

Financing will also be a challenge at this time of heightened needs. The 2021 shifts budget financing heavily to external borrowing to plug the deficit and rollover maturing Eurobonds. Around 70 percent of financing needs in 2021 are expected to be met through external sources, including through access to international financial markets. This is a challenging plan given the deterioration of the fiscal setting, a rating downgrade in mid-2020 and in the absence of an IMF program.

Overall, the fiscal outlook underlines the importance of restoring the credibility of the macroeconomic framework to lay the foundations for a more durable recovery in growth. This requires emphasis on financing the recovery more sustainably going forward, to manage debt levels. It also requires steady progress in restructuring public finances to free up resources for financing the recovery and for public investment. Limiting wage bill growth, shifting social assistance from

TABLE 2 • Outlook for Selected Macroeconomic Indicators, 2020-2022

	2020 (Proj.)	2021 (Proj.)	2022 (Proj.)
Real GDP growth, at constant market prices	−9.2	5.9	2.0
Inflation (Consumer Price Index)	5.6	5.0	4.5
Current account balance (% of GDP)	−7.1	−6.2	−6.3
Fiscal Balance (% of GDP)	−10.5	−5.8	−4.8
Debt (% of GDP)	89.4	91.2	90.8
International poverty rate ($1.9 in 2011 PPP)	0.4	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)	4.2	3.6	3.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)	22.0	19.5	19.1

Source: Government of Tunisia; World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices; IMF.

subsidies to more targeted transfers and addressing fiscal risks from SOEs are priorities for this agenda. Implementation of the reforms to widen the tax base and rebalance the tax burden will also be important. The outlook also highlights the need for continued support from international development partners to provide affordable external financing as the country navigates its way through this crisis.

SPECIAL FOCUS: REBUILDING THE POTENTIAL OF TUNISIA'S FIRMS

For much of the past decade, stunted growth and a less dynamic private sector have contributed to persistently high levels of unemployment. In parallel, a social and political expectation of the State as a provider of jobs, in the shortage of private opportunities, has led to a ballooning public sector wage bill and dwindling fiscal space to invest in the economy. The COVID-19 pandemic has compounded these structural difficulties, resulting in job losses and increasing pressure on the wage bill. Consequently, unemployment today stands at 16 percent and the wage bill, at around 18 percent of GDP in 2020, is consuming over 60 percent of the revenue envelope. In this context, reigniting the private sector and its job creation potential is more urgent than before if Tunisia is to hasten the speed and quality of its recovery from the COVID-19 crisis.

This section of the report draws on the recently published Enterprise Survey for Tunisia to present the latest evidence about firm performance and the evolution of business environment. Enterprise surveys are conducted by the World Bank Group and its partners to study the evolution of the business environment and how it affects the dynamics of the private sector.[28] The most recent survey for Tunisia was published in 2020, but the data presented in this report refers to firms' operation in the last financial year (2019). The survey finds that Tunisian firms have lost much of the spring in their step. Looking back over the seven year period between 2013 and 2019, the data shows a number of areas where the context has improved and where Tunisia performs better than regional peers (Box 4). But more generally, the evidence shows a weakened private sector landscape. Firms are investing less, they are less innovative, less export oriented and therefore, less productive. And although some sectors have been adding jobs to the economy, these jobs are not being created in the areas with the highest levels of unemployment. The report concludes by discussing some of the most urgent structural reform measures needed to bring the outlook for firms back on track.

[28] The surveys are administered to a representative sample of firms in the non-agricultural, formal, private economy. The topics covered by the survey include infrastructure, trade, finance, regulations, taxes and business licensing, corruption, crime and informality, access to finance, innovation, labor, and perceptions about obstacles to doing business. The most recent survey for Tunisia collected data from 615 firms that were interviewed between September 2019 and July 2020. The data reported in this section of the report is not influenced by COVID-19 since it refers to firms' operations in the previous financial year (2019).

BOX 4. BRIGHT SPOTS IN TUNISIA'S FIRM LANDSCAPE AMID A GENERALLY GLOOMIER TREND

Although the context for firms has been challenging, there are some bright spots in Tunisia's firm landscape that could support a better outlook, provided that key structural bottlenecks are progressively unblocked. Comparing the enterprise surveys from 2013 and 2019 provide such insights.

Firstly, Tunisian firms spend less time dealing with government requirements than peers (Figure 13). In addition, government services are generally improving, with the exception of customs. Firms reported a significant decrease in the time they spend dealing with government regulations, from 47 percent of management's time in 2013 to only 0.1 percent of management time in 2019. This trend is confirmed by a drop in the proportion of firms visited or required to meet with tax officials from 24 to 9 percent over the same period. Customs services are the exception to this trend since clearance procedures have become lengthier for both imports and exports.

Second, the annual employment growth rate increased from 0.5 percent in 2013 to 4.2 percent in 2019, above the average rate for the region. Firms engaged in the manufacturing of textiles and garments contributed ¾ of the net jobs created, growing by about 9 percent. However, the pattern was regionally concentrated. Job growth was most concentrated in the Center-East region whereas the rate of job creation in the highest unemployment regions (Center-West, Southeast and Southwest regions) were lower.

Third, the data shows that Tunisian firms face less corruption than regional peers. Bribery incidence (percent of firms experiencing at least one bribe payment request) stood at 11.5 percent, compared to 17 and 22 percent amongst MENA and lower middle income countries respectively. They also enjoy more reliable access to infrastructure services and less exposure to crime.

Fourth, the use of financial services and credit is higher than that of regional and income level peers. Tunisian firms draw on bank loans more frequently and finance a larger share of their investment through banks, giving them a more diversified financing mix.

FIGURE 13 • Bureaucracy, Bribes and Banking

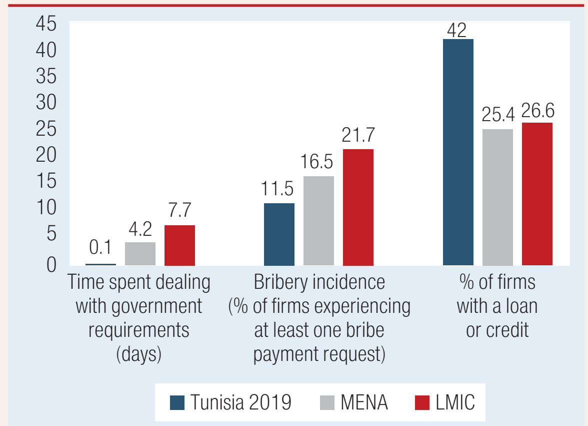
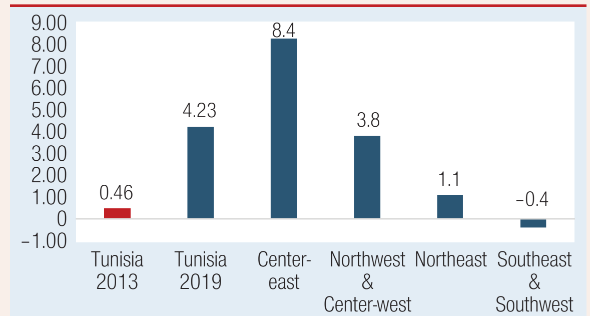


FIGURE 14 • Annual Employment Growth Rate (%)



Lastly, Tunisian firms present a positive context in terms of female labor force participation. Tunisia has a higher share of women in top management positions compared to their regional peers and a higher share of permanent full-time workers that are female (in manufacturing).

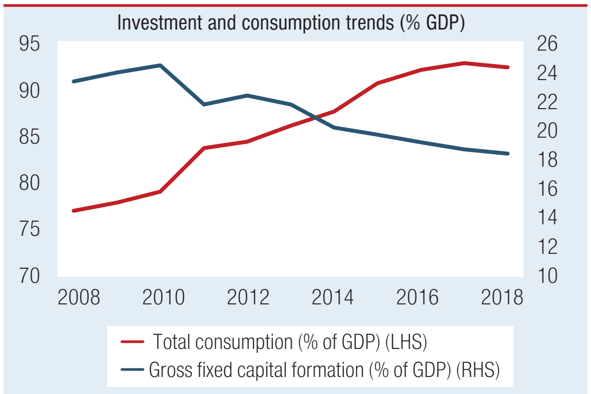
These are positive attributes that contribute to the competitiveness of Tunisian firms but are not sufficient for placing the private sector on a strong footing. As described in more detail below, although Tunisia outperforms peers in a selected number of dimensions, it has been losing its lead in recent years. Tunisian firms are less productive and competitive today than in the past, and this calls for a sharper policy focus on rebuilding the potential of firms.

Source: Tunisia Enterprise Survey, 2013 and 2019.

Firms are investing less and are less innovative than before

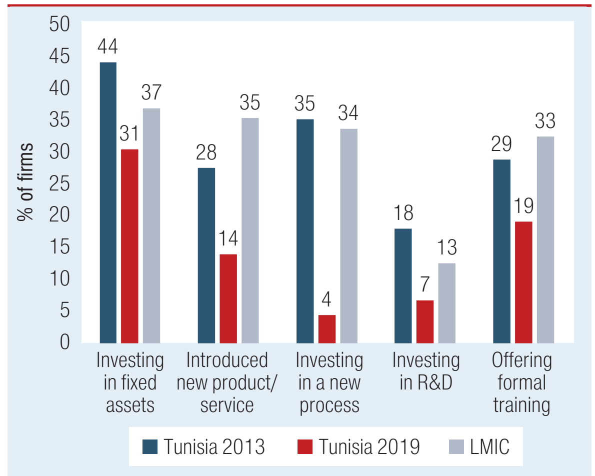
Tunisia has experienced a steady decline in investment in the last decade, tilting the country towards a consumption based economy. Significant levels of uncertainty and frequent changes of government, as the country navigated its post-revolution path, and slow progress in implementing structural reforms created a less than attractive context for investment. Private investment as a share of GDP has fallen from an average 17.4 percent of GDP in 2000-2010 to 14.9 percent of GDP in 2011-2019. As a result, GDP growth has increasingly been consumption driven (Figure 15).

FIGURE 15 • A Steady Decline in Investment is Tilting Tunisia towards a Consumption Based Economy



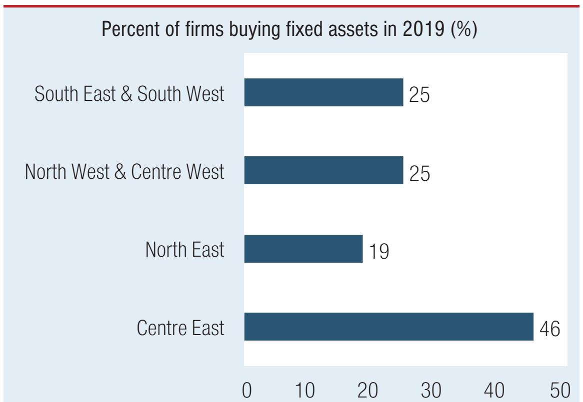
Source: National Institute of Statistics.

FIGURE 16 • Tunisian Firms are Investing and Innovating Less than Before



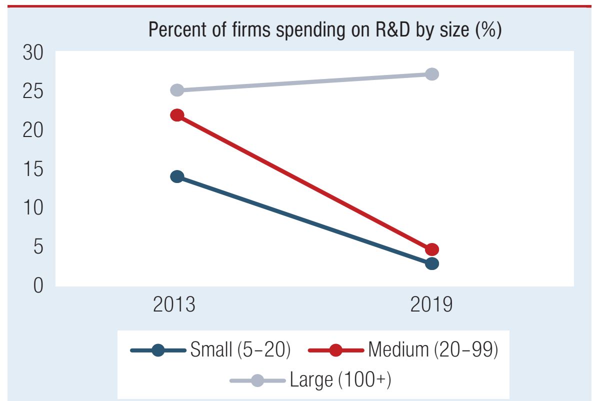
Source: World Bank 2013 and 2019 Enterprise Surveys.

FIGURE 17 • Investment is Highest in the Center-East Regions...



Source: World Bank 2013 and 2019 Enterprise Surveys.

FIGURE 18 • ... while R&D has been Most Stable Amongst Large Firms



Source: World Bank 2013 and 2019 Enterprise Surveys.

This decline in investment can be observed more closely at the firm level. The percentage of firms investing in fixed assets fell from 44 in 2013 to 30 percent in 2019, with the decline being registered across all sectors. Although this is slightly above the average for the region and income level peers, it signals reduced dynamism at the firm level (Figure 16). There are stark differences between localities. In the Centre-East region, 45 percent of firms are investing in fixed assets. Other regions, notably the Northeast, lag far behind with less than a quarter of firms investing in physical capital (Figure 17).

Similarly, investment in innovation halved since 2013. While there is no clear dominant sector in innovation, large exporters in the manufacturing sector tended to lead innovation in Tunisia. But this picture is changing as the share of Tunisian firms introducing a new product or service has halved from 28 percent in 2013 to 14 percent in 2020. The share of firms that introduced a new process innovation has declined even more sharply from 35 percent in 2013 down to a little over 4 percent of firms whilst investment in research and development halved from 18 to 6.7 percent. This seems to be a widespread phenomenon. The exception is large firms, which have largely maintained their rate of investment in new products and research (Figure 18), and some sectoral pockets of innovation (Box 5).

BOX 5. IS THE DECLINE IN INNOVATION AMONGST TUNISIAN FIRMS UNIVERSAL?

A recent study (Ghali and Nabli, 2020) finds evidence of pockets of innovation that are increasing diversification and the technological sophistication of Tunisia's export basket.

Tunisia steadily built its manufacturing and export industries since the 1960s, with both horizontal and vertical industrial policies having played an important role. Initially, the economy developed industries that offered a low level of technological sophistication.

Since the early 1990s, the share of more sophisticated products in the export basket has been increasing. This has especially been the case for products with a medium level of technological intensity such as mechanical, electrical and pharmaceutical production, amongst others (Figure 19).

Underlying this was a "lively" rate of experimentation and product diversification, both in terms of products and destination markets, as firms presented new products to export markets. While some of these innovations persisted and grew into mature or emerging products, a large share stalled or were episodic in nature.

This suggests that the decline in innovation, investment and productivity is not universal. Innovation and product diversification are occurring in some important sectors and are making the export basket more sophisticated. It also suggests that, rather than discovery, the challenge is survival of the new products. This trend is detected in Tunisia's economic complexity ranking, which increased from 78 in 1998 to 64 in 2018.*

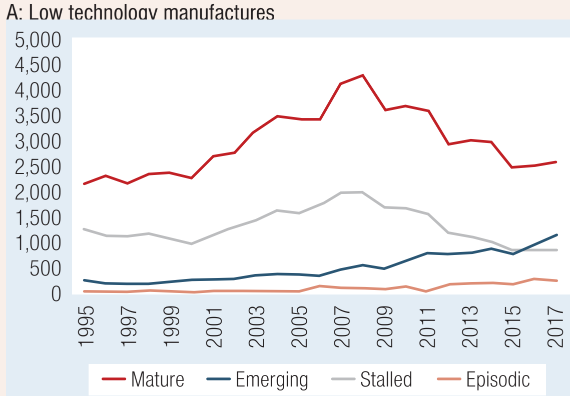
These findings offer important insights for policy makers that are seeking to build the sophistication and innovation of the Tunisian economy. Nurturing green shoots that are already visible and helping them grow could be an important pathway to future growth and job creation. In addition to horizontal policies that establish a sound environment for the private sector, targeted vertical policies to attract partnership and foreign direct investment, along with policies that provide technological and technical support, are suggested.

Source: Ghali, Sofiane and Nabli, Mustapha. Export Diversification and Sophistication and Industrial Policy in Tunisia. ERF Working Paper 1415. November 2020.

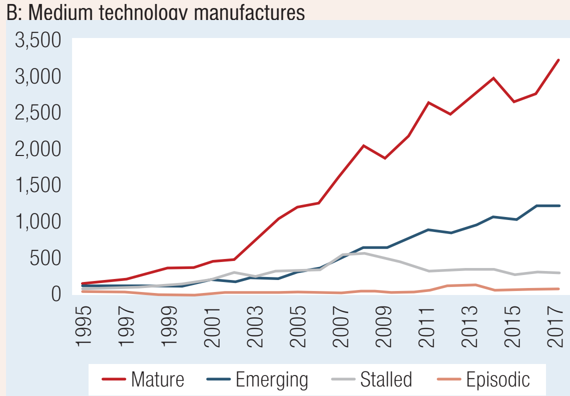
* The Economic Complexity Index measures the sophistication of an economy's export basket by considering the diversity and the level of specialization in exports. Countries with a more diverse range of export products, and higher concentration in more sophisticated products have a higher complexity index. The Economic Complexity Index was developed by Cesar Hidalgo and Ricardo Hausmann. The data is available on the website of the Observatory of Economic Complexity: https://atlas.media.mit.edu/en/.

FIGURE 19 • Exports According to Type of Growth Dynamics (Values in Millions of USD in 2015 Prices)

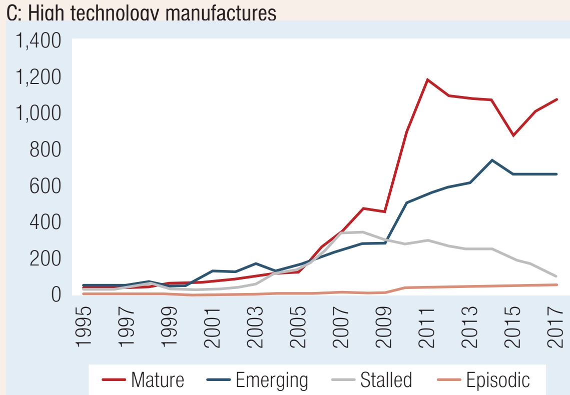
A: Low technology manufactures



B: Medium technology manufactures

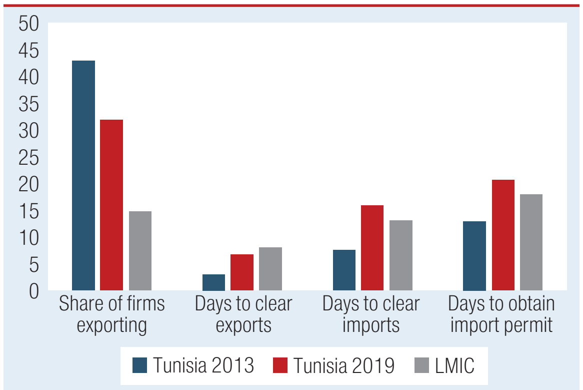


C: High technology manufactures



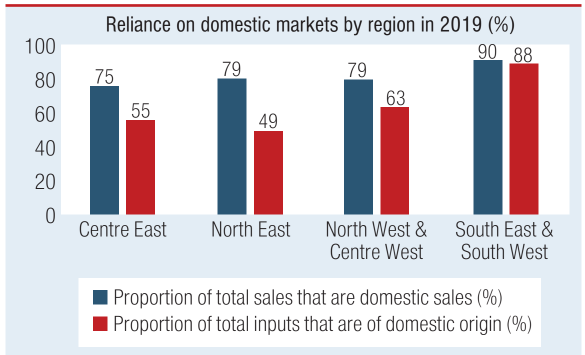
Investment in the capacity of the workforce has also dropped. Whereas 29 percent of firms were offering formal training to workers in 2013, by 2019, this share had dropped to 19 percent, bringing Tunisia well below the average for lower middle-income countries (32.5 percent) on this indicator.

FIGURE 20 • The context for exporting firms has deteriorated



Source: World Bank 2013 and 2019 Enterprise Surveys.

FIGURE 21 • Reliance on domestic markets is highest in the south east and south west



Source: World Bank 2013 and 2019 Enterprise Surveys.

Firms are also becoming less export oriented

Exports are playing a much smaller role in the post revolution period. Being small, the Tunisian economy has traditionally been export oriented, having built-up manufacturing and tourism industries through industrial policies in past decades. The prominence of exports has declined in recent years as the contribution of exports to national output declined. Consequently, trade's net contribution to GDP dipped from 49 percent in the 1991–2010 period to –7.1 percent in 2011–19, shifting the economy towards consumption driven growth since the revolution.

Firm level data confirm that Tunisian firms are less export oriented than before. The share of exporting firms[29] decreased from 38 percent in 2013 to 32 percent in 2019, particularly in the food manufacturing sector (Figure 20). The proportion of total sales that are exported directly also fell slightly from 16.3 percent in 2013 to 15.8 percent in 2019. The same trend is observed for the proportion of total inputs that are of foreign origin which decreased from 55 percent in 2013 to 43 percent in 2019. The areas with the highest level of reliance on domestic markets are in the south eastern and south western parts of the country, which are also the regions with lowest share of exporting firms and longest time needed to clear exports through customs (Figure 21).

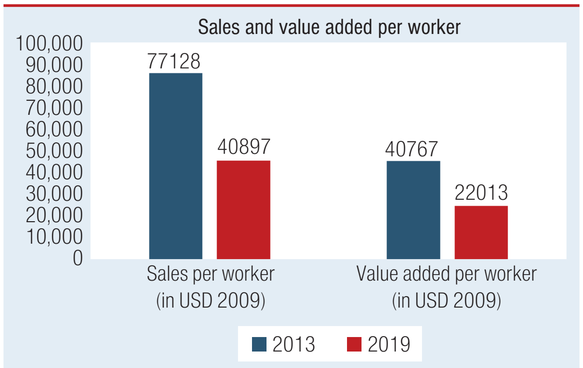
The enterprise survey paints a less favourable customs environment for trade than before. The majority of trade related indicators deteriorated between 2013 and 2019. The number of days to clear exports through customs more than doubled from 3 days in 2013 to 7 days in 2019. The situation is worse for imports, whereby the number of days to clear imports through customs jumped from 7 in 2013 to 16 days in 2019. Another notable change is that the number of days to obtain an importing licence went up from 13 days in 2013 to 21 days in 2019. Moreover, a higher percentage of firms reports gifts are expected to get an import license.

Firms' productivity growth has continued to decline

Tunisian firms today are less productive than before. Productivity—the efficiency with which the firm uses its resources to maximize production—is critical for the long term growth prospects of the economy. Productivity growth supports growth in earnings, lowers consumer prices and promotes healthy structural transition. Hence, more productive firms are at the core of a healthy economy that is able to provide opportunities to the population.

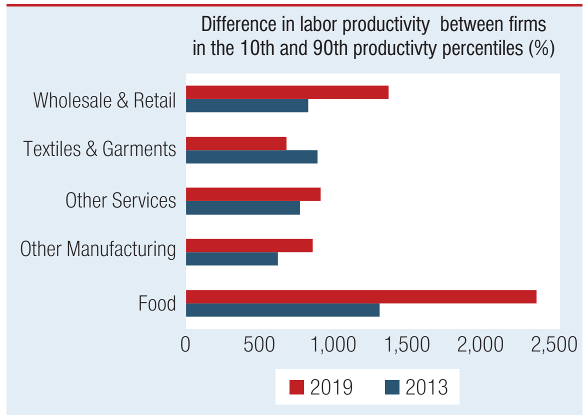
[29] Percent of firms exporting directly or indirectly at least 10 percent of sales.

FIGURE 22 • Labor Productivity has Continued to Decline



Source: World Bank 2013 and 2019 Enterprise Surveys.
* Value added per worker for manufacturing only.

FIGURE 23 • Within Sector Productivity Dispersions have Increased in All Sectors, with the Exception of Textiles



Source: World Bank 2013 and 2019 Enterprise Surveys.

One of the most concerning findings of the enterprise survey is a long-term trend of declining level of labor productivity across all sectors.[30] Real annual productivity growth, measured using sales per worker, was negative in 2013 at -4.5 percent and deteriorated further to -5.1 percent in 2019.[31] Productivity contracted most in food and textile manufacturing (-7.4 and -10 percent respectively), and to a lesser extent in services (-4.3 percent). An alternative measure of productivity, which estimates value added per worker confirms this trend (Figure 22).[32]

There were also signs that some sectors are slowly becoming less competitive. One symptom of efficient allocation of resources across sectors is that productive firms drive the less productive ones out of business. As a result, productivity dispersions (the gap between the most and least productive firms) tend to be smaller in more competitive sectors. When compared to 2020, within sector productivity dispersions have increased in most sectors, suggesting a tendency towards less efficient resource allocation (Figure 23). Within sector productivity dispersion has increased the most in the food manufacturing industry and in the wholesale/ retail sectors. The exception to this trend is the textiles sector, where lower dispersion indicates more dynamism in the sector. Indeed, textiles is the sector with the youngest average age for firms, suggesting more active firm entry/exit dynamics. It is also the most outward oriented sector in the sample (higher share of exports and foreign ownership) and has registered the fastest job growth.

Conclusion

Tunisia's firms have lost much of their lead over the past decade, and it is from this weaker position that Tunisia is now confronting the unprecedented impacts of the COVID-19 pandemic. In some sectors, firms have been innovating and driving an increase in the sophistication of the export basket. Yet, the findings of the enterprise survey show that, on average, Tunisian firms are investing less, innovating less and are less productive than before. These trends are central to Tunisia's declining growth trajectory. This agenda is also central to any future plans to rebuild the economy and recover from the impact of the pandemic

A recovery plan that tackles the structural factors constraining the performance of Tunisian firms is increasingly urgent. Given the breadth and

30 Output per worker is one of the most basic measures of productivity. It is not a measure of labor's contribution to productivity. Rather, it captures the joint effects of a number of factors such as capital, technology and skills on output.

31 Although this indicator deteriorated, it remains better than the average in the MENA countries at –8.1 percent.

32 Value-added per worker is calculated for the manufacturing sector by subtracting the costs of raw materials and intermediate inputs from sales, then divided by employment.

intensity of the pandemic, limited fiscal and external buffers and a weak structural setting for the private sector, a macroeconomic policy response alone (fiscal stimulus and monetary policy easing) will not be enough. The recovery must be powered by the implementation of a structural reform plan to make the private sector more competitive and resilient. Some of the key policy areas include:

- **Open the doors for market entry by rolling back the authorization regime:** The ability of new firms to enter the market and to offer new products or services is an important ingredient for encouraging investment, innovation and productivity. Tunisian firms are subject to a heavy administrative authorizations regime that discourages investment and entrepreneurship. Aside from being numerous, authorizations to enter a new market or offer a new product/service are the subject of lengthy and opaque procedures. The 2018 regulatory reform[33] to simplify the authorizations regime was a step in the right direction but is falling short of expectations: 27 out of a total of 127 authorizations were identified to be abolished, but less than ten had been removed by early 2020. Eliminating prior authorizations for investment in key economic sectors[34] while maintaining transparent ex-post controls to ensure compliance will boost entrepreneurship and in turn, strengthen competition, innovation and productivity.
- **Address the structural weaknesses of the financial sector:** Even though more Tunisian firms access banking services than regional peers on average, access to finance remains a primary challenge for firms.[35] A number of structural bottlenecks complicate firms' access to finance. Tunisia's regulations place limits on lending rates by requiring them not to exceed an average lending rate by more than around 2 percent. This impedes the banking sector from pricing portfolio risk and disincentivizes the provision of credit to smaller less established businesses. Collateral requirements are also taxing. Tunisian firms are more frequently required to offer collateral to borrow: 96 percent of Tunisian firms require collateral in 2019 compared with 80 percent on average in MENA region, and the value of the collateral reached 319 percent of the loan amount (against 200 in MENA).[36] Moreover, a stock of longstanding non-performing loans, which is expected to be compounded with the ongoing crisis, is limiting lending potential. Enhancing firms' access to finance is critical for their ability to invest and innovate. Easing the interest cap, improving the regulatory framework for secured transactions (including the secured transactions bill submitted to parliament in 2018) along with the legal framework for NPL resolution would be steps forward in this direction.
- **Improve trade services**: A successful export sector needs a well-functioning transport and logistics ecosystem and efficient customs processes. The enterprise survey's findings show a significant deterioration in this regard. Given the importance of trade to the Tunisian economy, improving trade infrastructure such as roads to connect inland areas, air freight logistics and the performance of customs services is an important agenda for boosting firm performance. In addition, improving the performance of the Port of Rades, which handles more than 75 percent of port traffic, by upgrading its infrastructure, streamlining procedures and attracting a private operator are important priorities.
- **Nurture innovation**: Without innovation, Tunisia will face a steeper incline in climbing the technological ladder and upgrading its economy to higher value added activities that are critical for productivity growth. Innovation seems to be occurring in pockets of the private sector, but more often than not, these green shoots are struggling to mature. There is an important role for policy in nurturing innovation in sectors such as electronics, pharmaceuticals, and precision equipment where a comparative advantage is beginning to emerge. This involves increasing the supply of specialized skills, supporting accreditation, encouraging

33 Decree 417 of 2018.

34 Such as agriculture, education, tourism and transport.

35 Access to finance was reported to be the primary challenge for Tunisian firms in the most recent enterprise survey.

36 Regulatory requirement for collecting collateral contribute to the higher cost of collateral.

infrastructure/equipment upgrading, and attracting external investment to promote global value chain linkages.[37] To successfully implement such policies, a clear vision around innovation policy and an institutional set-up for coordination are critical.

[37] Diop, Ndiame; Ghali, Sofiane. 2012. *Are Jordan and Tunisia's Exports Becoming More Technologically Sophisticated? Analysis Using Highly Disaggregated Export Databases*. Middle East and North Africa Working Paper Series;54. World Bank, Washington, DC.

WORLD BANK GROUP
1818 H Street, NW
Washington, DC 20433