

TUNISIA

Table 1 **2017**

Population, million	114
GDP, current US\$ billion	39.7
GDP per capita, current US\$	3469
National poverty line ^a	15.2
Gini coefficient ^a	30.9
School enrollment, primary (% gross) ^b	114.2
Life expectancy at birth, years ^b	75.5

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

Notes:

(a) Most recent value (2015).

(b) Most recent WDI value (2015)

Tunisia has made important strides to advance its democratic transition, but the country remains fragile to economic, security and social shocks. Growth has been too low to make a significant dent in unemployment, fiscal and current account deficits are elevated, inflation has risen and popular discontent about economic conditions is high, particularly among youth and in interior regions. The national unity government—a coalition of the main political parties, worker and trade unions—has adopted a consensus-building reform approach.

Recent developments

In 2017, the economy grew by 2 percent following 1 percent and 1.1 percent in 2016 and 2015, respectively, driven by robust private consumption and a rebound in investment. However, the contribution of exports and investment to growth remain significantly below their levels before the 2011 Revolution. On the production side, growth in 2017 was driven mainly by agriculture and services, while industrial and non-manufacturing industries (i.e., phosphate, oil) have not fully recovered despite the Dinar depreciation, due to social movements in mining regions, low oil prices and reduced investment in prospecting.

Inflation has accelerated to a record 7.1 percent in February 2018, from 4.2 percent in December 2016 fueled by the depreciation of the Dinar, administered energy price increases and wage inflation. In the face of these rising inflationary pressures, the Central Bank has increased its policy rate three times between April 2017 and March 2018 to 5.75 percent from 4.25 percent, and is expected to gradually tighten monetary policy in 2018.

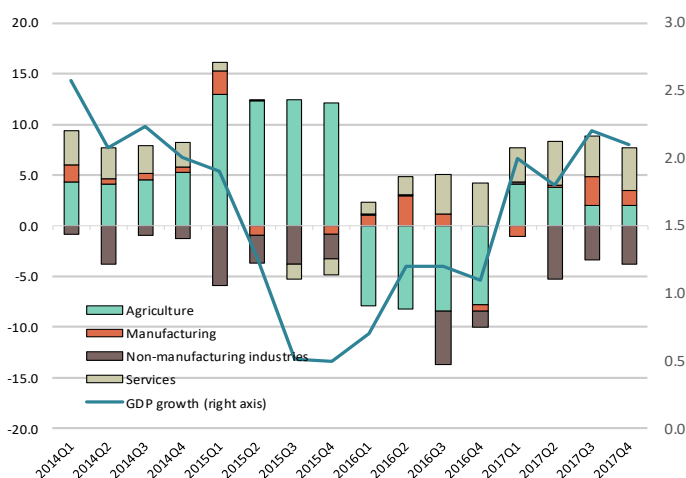
Tunisia faces large fiscal and external deficits. The fiscal deficit (including grants) reached 6.1 percent of GDP in 2017, compared to 6 percent of GDP in the initial budget, mainly due to higher wage bill spending. The current account deficit reached a record 10.2 percent of GDP in 2017, reflecting a weak supply response to the gradual depreciation of the Dinar and

rising energy prices. Consequently, public and external debt reached respectively 73 and 80 percent of GDP (compared to 40 and 52 percent of GDP in 2010). With a widening current account deficit, depressed FDI and large Central Bank interventions in the forex market, foreign reserves have continued to decrease, dropping below 80 days in early March 2018.

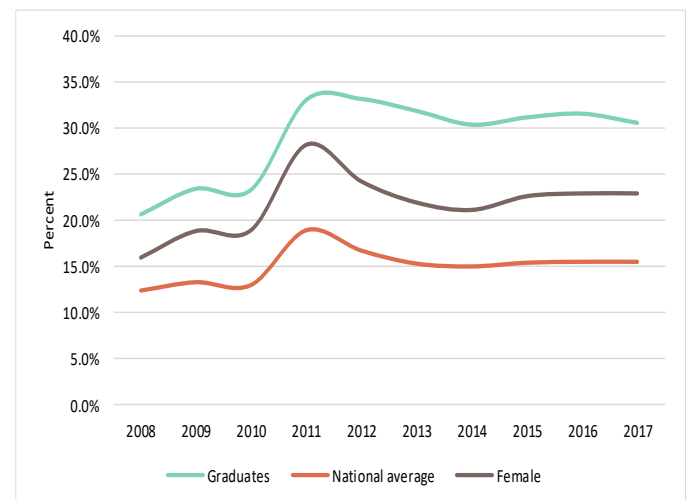
The 2018 Budget Law aims to keep the deficit within 5 percent of GDP mainly through higher tax revenues (total expected yield of tax measures: 1.7 percent of GDP) and by containing energy subsidy costs and lowering wage bill growth.

Unemployment remains high at 15.5 percent in 2017 despite a low labor force participation, at about 50 percent, mainly due to weak participation of women (28 percent). Most of the unemployed are low-skilled but university graduates have the highest unemployment rate, which increased from 15 percent in 2005 to 23 percent in 2010 and 31 percent in 2017. Unemployment rates are also much higher among women and in interior regions.

The methodology to measure poverty was recently updated by the National Institute of Statistics to better reflect current living conditions. The official poverty rate estimate for 2015 was 15.2 percent, down from 20.5 percent in 2010 and 23.1 percent in 2005. Regional disparities are an enduring feature, with the North West and Center West showing rates almost twice the national average. Inequality, as measured by the Gini index, is estimated at 30.9, down from 36 in 2005. The dynamics of monetary indicators of welfare appear to be at odds with the perception of lower

FIGURE 1 Tunisia / Sectoral value added and GGDP Growth (y-o-y)


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

FIGURE 2 Tunisia / Unemployment rate


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

standards of living in household surveys. The national unity government—a coalition of the main political parties, the largest workers' and trade union formed almost two years ago—has set its priority as strengthening the security environment, improving the business environment, ensuring macroeconomic stability, fiscal sustainability and restarting growth. It has so far adopted a gradual and consensus-building approach to reform in a fragile transition phase and in the presence of strong workers' unions and private sector organizations.

Outlook

Economic growth is projected to expand modestly by 2.7 percent in 2018 through sustained agricultural and services growth, continued strengthening of tourism, and gradual recovery of tourism, phosphate and manufacturing. In the medium term, economic growth is projected to pick up gradually to 3.5 percent in 2019/20 against a backdrop of improved business climate through structural reforms and greater security and social stability.

Inflation is projected to increase to 6.7 percent in 2018, driven by the Dinar de-

preciation, the VAT rate increase, and the increase in prices of certain products (e.g., fuels, tobacco, telecom) while monetary tightening and fiscal consolidation will partly counteract inflationary pressures.

The fiscal deficit (including grants) is expected to remain significant at 5.2 percent of GDP in 2018 but with upward pressure from increasing oil prices in the absence of reform. Fiscal sustainability will require reining in the public wage bill and the growing subsidy bill while expanding the tax base. Pension reform and improved design of cash transfer programs would also create space for increased investment and social spending.

On the external side, the current account deficit is projected to slightly narrow to 9.5 percent of GDP in 2018. In the medium term, the current account is likely to benefit from the gradual recovery of industry and services trade, slightly lower energy imports and competitiveness gains from the depreciation of the Dinar.

The World Bank does not prepare poverty projections due to unavailability of recent microdata. It would be informative to understand the drivers of the large drop observed between 2010 and 2015 in official poverty rates. In particular, it would be important to understand how this drop in official poverty rate was related to GDP per capita (private consumption) growth

averaging 0.6 (2.4) percent per annum in the same period.

Risks and challenges

While the government is deploying resources to improve the security situation, the high level of youth unemployment notably in the lagging regions as well as rising inflation may reignite social tensions. The government also faces the challenge of balancing between social stability and the need for reform, which highlights the importance of promoting greater social and economic inclusion to create sufficient support for reform. Moreover, reforms to stimulate private sector growth, job creation and entrepreneurship are key to creating opportunities and hope for the future. Wage negotiations with unions which are imminent and rising oil prices are substantial risks of upward pressure on spending and the deficit.

TABLE 2 Tunisia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2015	2016	2017	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	1.1	1.0	2.0	2.7	3.3	3.7
Private Consumption	1.6	1.6	1.5	0.6	1.4	4.6
Government Consumption	4.8	3.8	-2.4	-8.3	2.3	-6.1
Gross Fixed Capital Investment	-2.5	2.8	4.4	4.4	4.9	6.2
Exports, Goods and Services	-2.8	0.2	4.2	4.7	4.5	3.6
Imports, Goods and Services	-2.5	2.0	2.2	-1.1	2.3	2.6
Real GDP growth, at constant factor prices	1.0	0.8	1.7	2.7	3.3	3.7
Agriculture	12.3	-8.5	2.5	5.0	1.9	3.0
Industry	-1.5	-0.5	-0.9	3.9	4.6	4.6
Services	0.6	2.9	2.7	1.9	3.0	3.4
Inflation (Consumer Price Index)	4.9	3.7	5.3	6.7	5.6	4.6
Current Account Balance (% of GDP)	-8.9	-8.8	-10.2	-9.5	-7.8	-7.2
Fiscal Balance (% of GDP)^a	-5.6	-6.0	-6.3	-5.6	-3.7	-2.7
Debt (% of GDP)	54.8	61.2	72.9	77.8	77.2	76.2
Primary Balance (% of GDP)	-3.7	-3.8	-4.0	-2.9	-1.1	-0.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Fiscal balance excludes grants.