الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

Tunisia

June, 2023

TRUST . TRANSPARENCY . INDEPENDENCE

Economic Overview

Tunisian economy is relatively more diversified compared to peers in MENA region. Proximity to and favorable relations with EU markets, is a competitive advantage. Unemployment and particularly youth unemployment remains elevated as the economy could not recover as fast as other emerging countries following a deep recession caused by Covid-19 crisis. High current account deficits accumulated into considerable external debt in relation to GDP. Foreign currency reserves remain modest while the long-waited IMF deal has caused uncertainty. Structural reforms in the pipeline are expected to contribute to the growth, and the conditional funding relief from IMF will ease FCY debt payment capacity.

Around 60% of GDP is derived from services with 15% and 10% contribution from manufacturing and non-manufacturing industries respectively. Meanwhile, agriculture provides around 10% of economic output. Following a sharp contraction of 8.6% in 2020, Tunisian GDP had grown by 4.3% in 2021 mainly due to upturn in extraction sectors (mining 19.6%, oil and gas 21.7%). In 2022, growth slowed to 2.4% despite a strong recovery in tourism related sectors as mining and construction segments contracted. The fall in GDP in 2020 has only been partially offset, as the level of real GDP in Q4’22 is still 2% lower than its level before the pandemic (Q4’19). As per Government estimates, GDP is to grow 1.8% YoY in the current year whereas IMF forecasts point to 1.3% growth. However, there are significant uncertainities regarding growth prospects related to the pace of structural reforms and external financing conditions. There could be further downside risks for growth if fiscal and structural reforms are not implemented, and available external financing does not suffice to cover Tunisia’s needs. In Q1’23, GDP growth realized at 2.1% over the same period of 2022, driven by manufacturing and services sectors whereas agriculture depicted 3.1% decline.

Annual consumer price inflation has been on an upward trend in the last few years with acceleration in 2022, due to Russia-Ukraine conflict and associated rise in global commodity prices. Year-end CPI reached 10.1% in December 2022-its highest level in three decades, against 6.6% in December 2021. Similarly, core inflation marked 9.3% in December 2022 against 6.1% a year before. In May 2023, CPI has eased to 9.6% while food inflation remained higher at 15.9%. Going forward, relatively stable TND and muted economic activity shall partly mitigate upward impact of higher taxes and lower food and energy subsidies, yet it is expected to remain at historically high levels.

CBT has raised rates thrice in 2022 totaling 175bps, to contain the inflationary pressures. As a result, the policy rate rose to 8.0%. So far in 2023, the policy rate has been maintained. Tunisian Dinar has remained relatively stable against USD and EUR in the year, losing only 3.9% vis-a-vis 0.5 USD+0.5 EUR basket (2021: 2.2% depreciation vis-a-vis the basket) and so far in the year 2023 (May 4th) TND gained 0.3% vis-a-vis the basket of two hard currencies.

Weak economic recovery and significant subsidies had been weighing negatively on the budget performance. In relation to GDP, fiscal deficit surged in 2020 due to Covid-19 crisis and in 2022 fiscal balance was negatively impacted from rising global commodity prices and associated increase in subsidies. In the Jan-Nov’22 period, the budget deficit widened by 12%, to nearly TND5.9 bn with 19% surge in expenses. According to the Government’s budget in 2023, fiscal deficit as a percentage of GDP is foreseen as 5.2% - down from 7.7% in 2022 with introduction of new taxes and decrease in subsidies.

Current account deficit deteriorated to 8.6% of GDP in 2022 (2021: 6.0%) despite strong performance in tourism and worker remittances.This was triggered from historically high trade deficit as import bill expanded to TND82.8bn from TND62.9 in 2021 in line with rising global commodity prices in the wake of Russia-Ukraine conflict. Wide deficit weighed negatively on foreign currency reserves which stood at TND22.8bn or 101 days of import, on year-end 2022 (2021-end TND23.3bn or 133 days of import). In the first two months of 2023, current acocunt deficit contracted to 0.4% of GDP (1% of GDP deficit in first two months of 2022) with lower trade deficit, better tourist receipts and higher worker remittances. Meanwhile, the foreign currency reserves retreated to TND21.9bn or 95 days of import as of March 21, 2023. The current account deficit is likely to decline in 2023, in tandem with lower global commodity prices, and higher tourism inflows. However, financing of the deficit is of concern in the absence of reforms.

Total external debt of the Country reached TND81.6bn as of YE2022 (2021: TND79.3bn) to 56.5% of GDP down from 60.8% in 2021. Tunisia reached an agreement with the IMF in October 2022 of USD1.9bn to support Tunisia's economic policies with a 48-month arrangement under the Extended Fund Facility (EFF). The IMF-supported program targets to restore macroeconomic stability, strengthen social safety nets and accelerate reforms that support inclusive growth and sustainable job creation. However, the final ratification by IMF Board was delayed due to concerns that reforms would not be implemented.

Banks

There are 21 banks in Tunisia, of which 3 are Islamic Banks. Following 6.8% asset growth in 2021, the growth of the sector was slightly higher in 2022 at 8.1%.

Despite the slight improvement in 2021, asset quality indicators of the sector at large are a source of concern mostly comprising legacy NPFs. Gross nonperformance ratio stood at 13.3% (2020: 13.6%) while the provisioning ratio improved by 2.1pps to 57.5%. Despite the challenging economic conditions, non-performance indicators are expected to modestly improve in 2023 with write-offs and prudent recovery efforts in order to reach the CBT’s NPF ratio target of 7%, set for 2026.

Meanwhile, Bank liquidity improved on the whole over 2021 as the liquidity coverage ratio (LCR) went up from 140% at the end of 2020 to 180.3% at the end of 2021, following mainly, the higher share of Treasury bonds in banks’ total assets. The financing to deposit ratio maintained its downtrend and reached 113.3%, from 117% following the increase in bank deposits at a more accelerated pace than loans.

Capitalization levels of the sector are modestly above the regulatory thresholds of 10% for Capital Adequacy Ratio (CAR) and 7% for tier 1. Indeed, the CAR and tier-1 ratios for the sector improved to 13.4% and 10.4% in 2021 (2020: 12.9% and 10.1%) with internal capital generation and strict oversight of CBT regarding the dividend payments. Indeed, as per the decision of CBT, the Banks were able to distribute dividends to shareholders only if their CAR and tier1 ratios as of YE2021 remained at least 2.5pps higher than regulatory thresholds, even after deducting dividends. Further, in any case, distributable dividends were capped at 35% of net profits.

At the end of 2021, banks’ profitability indicators improved compared to 2020, with a higher return on equity (ROE), up to 9.9% against 8.7% in the previous year and return on assets (ROA) at 0.8%. In 2022, positive trends in profitability of the Tunisian banks persisted as net operating income of 12 banks quoted on Tunis Stock Exchange had grown by 11.5% YoY to support higher rates on spread income, growth in commissions income pick up in credit growth. In 2023, profitability would be negatively impacted from higher operating expenses and provisions both of which partly stem from policy and regulatory directives, the former due to the higher wages to staff and latter for the new directive of CBT dated year-2023, regarding the requirement of higher general provisioning.

On the Corporate Governance front, CBT initiated a circular dated August 2021 to improve the governance structure with particular attention to control functions such as risk and compliance.

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