الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

Republic of Tunisia

September, 2020

TRUST . TRANSPARENCY . INDEPENDENCE

Economic Overview– Republic of Tunisia

With a GDP of USD 40bn and a population of 11.7m in 2019, The Republic of Tunisia is categorized as a lower middle-income country. Around two-thirds of the economy is driven by the services sector, with slightly over one-fourth comprising industry and agriculture accounting for a further 10%.

Given the spread of the new coronavirus, the Country's tourism receipts at around 7% of GDP, are set fora marked setback in the current year. To absorb the economic spillovers, the Tunisian Government announced a TND2.5bn emergency plan (2% of GDP) permitting postponement of taxes, support for those unemployed temporarily, and allocation for low-income households. In addition, the state guarantee for new credits and mechanism to reimburse certain portion of the cost on investment loans. On the other hand, aside from lowering the base rates, the Central Bank of Tunisia directed banks to defer payments on existing loans and suspend any fees for electronic payments and withdrawals.

With the agreement executed in 2016, the IMF program brought partial relief to the economy with extension of USD2.8bn, with the last tranchehaving been received in June 2018. The Tunisian economy has been faced with headwinds in the form of high twin deficits, high unemployment, and slow growth. The economy grew 1.0% in 2019, after 2.7% growth in 2018 as per the National Institute of Statistics as the deceleration in agriculture segment, contraction in oil & gas sector, and subdued manufacturing segment activity was not fully offset by gains in the services sector. Given that 2018 growth was higher, the base effect has also weighed in.

For the current year, the government initially targeted a 2.7% growth rate, as it pursued improvementin the institutional environment, fortifying governance standards, adopting reforms to improve business climate, and establishing the digital economy. Expected deceleration of global growth with the spread of the coronavirus (Covid-19) internationally is driving international investment to safety and away from new emerging markets, putting pressure on the local currency and delay in resolution of economic challenges being faced by the country. In its extraordinary meeting on April 10th, the Central Bank of Tunisia noted that due to significant impact of pandemic on tourism sector and related activities, especially the transport sector, as well as the industrial sector which will be hit from weaker external demand and disruption of external supply channels,over 4% contraction in GDP may be expected in the ongoing year, with further downside potential. In Q1'2020, economic activity declined by 1.7% YoY and 2.0% vis-a-vis the last quarter of 2019.

Following the elections in late 2019, a new government was formed in February of the current year. Tunisia underwent review of its IMF loan program after formation of the new government obtaining approval for a further USD745mn emergency assistance loan to support the country's policy response to the pandemic and to help cover fiscal and balance of payments needs, estimated at 2.6% and 4.7% of GDP, respectively. Aside from supporting the measures taken by the Tunisian authorities', IMF financing is expected to ensure sufficient level of international reserves and help the Country draw additional financing. A further line is expected to that end with reforms being undertaken to achieve higher and more inclusive growth, reduce energy subsidies and contain the wage bill of civil servants. However, the resignation of the Prime Minister Mr. Fakhfakh in mid-July, may delay the prospective deal with IMF.

In July 2020, the Tunisian Government approved 50 fiscal and financial measures[1] as part of the economic and social rescue plan to be implemented in the coming days. These measures are intended to cover the following areas: boosting investment, supporting start-ups, social support and fight against poverty, modernizing tax administration, economic integration, and eliminating tax evasion.

Annual inflation has been moving in a narrow band recently, reaching 5.8% in June 2020, against 6.3% in May, following a deceleration in food and transportation segments inflation and following annual inflation of 6.1% in 2019. Following a policy rate hike cycle from March 2017 to February 2019 cumulatively raising benchmark rates by 350bps, Central Bank cut the rates by 100bps to 6.75% in its meeting in March 2020 with potential for further cuts given the global shock; yet the

[1] *https://www.tap.info.tn/en/Portal-Economy/12876706-50-new-fiscal-and*

Table 1- Economic Indicators							
	2017	2018	2019 Est	2020 F	2021 F	2022 F	2023 F
Real GDP Growth Rate	1.9	2.7	1.0	(4.3)	4.1	2.7	2.7
In ation (year-end)	6.2	7.5	6.1	6.0	4.8	4.1	3.9
Current Account / GDP	(10.2)	(11.2)	(8.8)	(7.5)	(8.1)	(7.9)	(7.1)
Fiscal Balance / GDP	(5.9)	(4.6)	(3.9)	(4.3)	(2.5)	(1.7)	(0.9)
External Debt / GDP	84.3	97.3	90.3	109.9	108.2	107.2	104.3

Committee left the rates unchanged in its two following consecutive meetings. Following 18% depreciation of the local currency in 2018, the TND appreciatedi n 2019, gaining 7%and losing a relatively moderate 1.8% againstthe USD as of July 6th year to date. CBT is committed to not easing banking sector regulations to respond to crisis triggered by the pandemic particularly regarding loan classification and provisioning requirements.

Tunisia's trade deficit expanded marginally in 2019; sharp contraction in energy prices should support the trade balance in 2020. Indeed, H1'2020, foreign trade deficit narrowed to TND6.6bn from TND9.9bn in H1'19 as imports declined 24.1% and exports dropped 20.6%. On the exports front, agriculture and food-processing industries sector recorded an 11% rise whereas non-food exports (comprising textiles, clothing and mechanical and electrical industries fell). The higher basic component of exports renders these relatively less elastic than imports, resulting in possibly improving the trade deficit in 2020, with an improving prognosis also for the current account balance despite expected fall in tourism receipts. Consequent to the gradual decline in current account deficit over the years and appreciation of TND in 2019, external debt to GDP retreated to 90.3% from 97.3% as of year-end 2019. This is expected to revert to a level above 100%, with prospects of a weaker TND and increased borrowings this year.

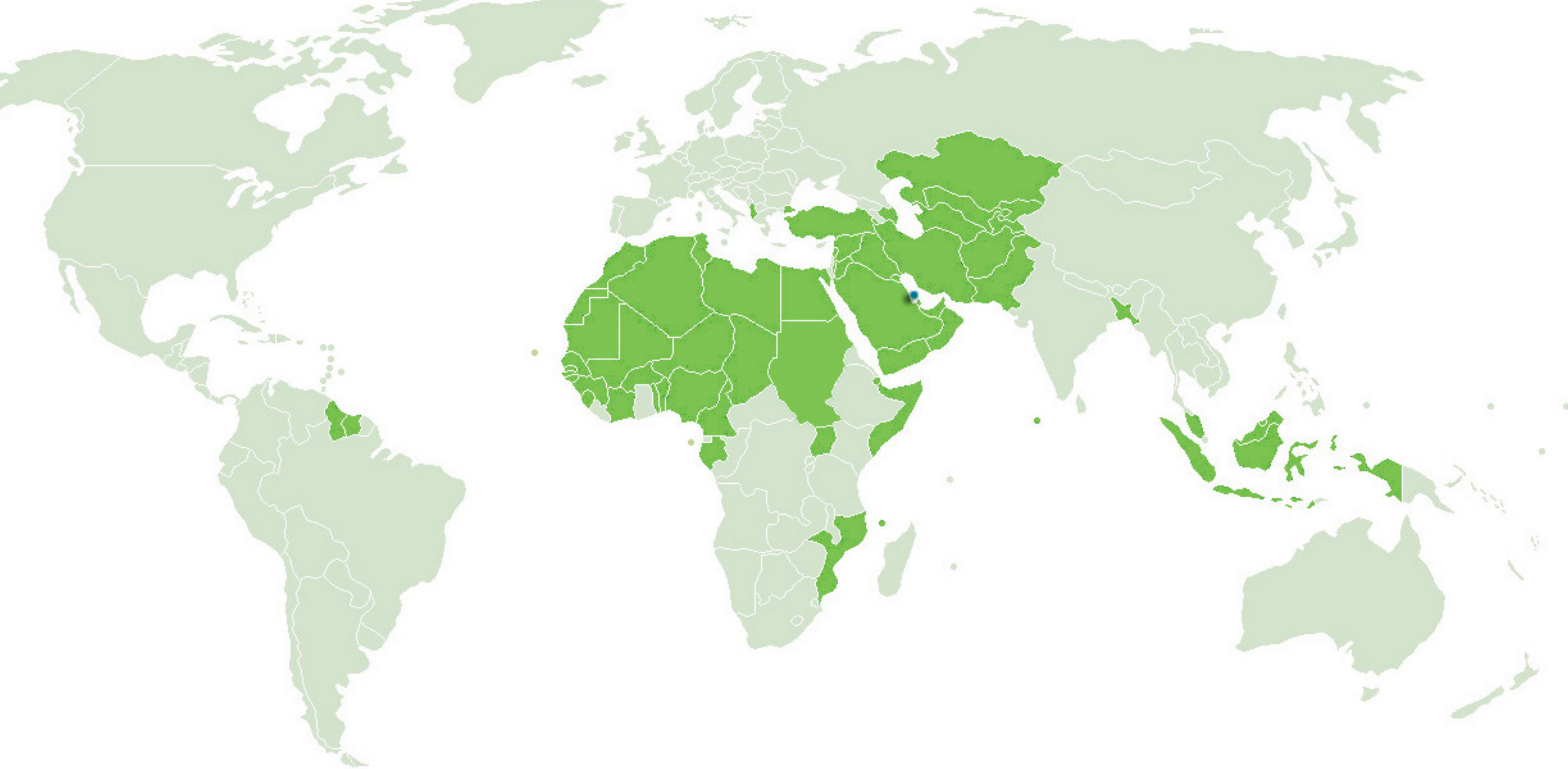
Budget deficit[2] registered at TND4.0bn in 2019 with a yearly decline of 20.1%. The improvement was mainly due to stronger budget revenues with YoY growth of 15.8% driven by higher personal and corporate income taxes, whereas expenses increased at a more contained pace of 9.8%. At 3.5% of GDP in 2019 as against 4.8%, in prior the improvement in budget performance was evident. In 2020, the government targeted initially to attain budget deficit of TND3.8bn (3% of GDP) as against TND4bn in the prior year. However, as of April 2020, budget deficit reached TND2.7bn registering an 88% widening over the first four months of 2019, as total revenues increased by only 0.9% due to 13% decline y-o-y in tax revenues, while expenditure surged 20% and interest expenses dropped 6%. In July 2020, the budget targets were revised with new parameters so that the budget deficit is expected to reach 7% of GDP by the end of 2020 with tax revenues to decline to TND4.5bn despite prospective new financial measures, which could bring in financial revenue to the state budget of about TND1.1 bn[3].

At the end of April 2020, outstanding public debt registered at TND87bn and is expected to reach TND94bn by year-end, being 75% of GDP. External debt comprises 70% of outstanding public debt and is mainly made up of credits obtained through multilateral cooperation (50.5%), loans taken out on the financial market (34%) and credits received through bilateral cooperation agreements (15.6%).Albeit hovering at high levels with a 2019 year-end reading of 14.9%, unemployment depicted a decline from prior yearat 15.5%. For the current year, unemployment is expected to inch up further as Covid-19 induced recession will take its toll mostly in the services sector. Some estimates project unemployment at above 20%, as the number of unemployed is expected to go up by 274,500 in 2020 alone.

[2] *http://www.finances.gov.tn/sites/default/files/2020-03/Resultats_provisoires_de_execution_du_Budget_de_Etat_fin_2019_2.pdf*
[3] *https://www.tap.info.tn/en/Portal-Economy/12876706-50-new-fiscal-and*

One of the measures taken by the Central Bank to mitigate the impact of the pandemic was postponement of maturities of loans granted by banks to individuals (housing credit, development credit, vehicle credit, consumer credit excluding overdrafts, overdrafts) for three months, from April 1, 2020 to June 30, 2020. The impact of this measure for the total banking sector over the duration of these loans, estimated at 4.8 years, is forecasted to be around TND600mn . Banks must report to CBT on a monthly basis on information exchange system with total amount of deferred installments and number of beneficiaries from the extraordinary support measures.

Following the spread of Covid-19, Central Bank of Tunisia directed banks and financial institutions to suspend the distribution of dividends or any planned buyback of shares for the fiscal year 2019 to protect their capital and maintain excess buffers. In addition, the government announced a set of financial measures including the creation of investment funds (TND600mn), a state guarantee for new credits (TND500mn), and the activation of a mechanism for the state to cover the difference between the policy rate and the effective interest rate on investment loans within a cap of 3%.



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