

Tunisia

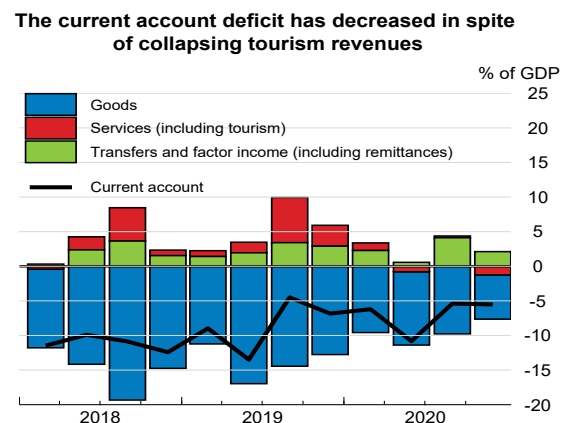
Following a sharp decline in 2020, GDP is projected to expand at an annual rate of 3 to 3¼ per cent in 2021 and 2022. After a strong rebound in the third quarter of 2020, the tightening of containment measures due to rising infections has particularly affected labour-intensive services sectors. High unemployment will weigh on household incomes, damping private consumption. Investor confidence remains subdued due to little progress on structural reforms and uncertainty related to the financing of the high fiscal deficit. The gradual removal of containment measures in Tunisia's main trading partners will boost merchandise exports, but persisting health risks will continue to weigh on tourism activity and job creation until vaccination becomes widely deployed domestically and in main trading partners.

Monetary policy should remain accommodative if inflation continues to be moderate. Improvements in public spending efficiency – including a reform of public employment and state-owned enterprises, the phasing-out of regressive energy subsidies, a reduction of tax exemptions and an improvement of tax enforcement – would create fiscal space for better-targeted support to vulnerable households and public investments in infrastructure, education and health. Lowering administrative burdens on firm entry and growth as well as trade barriers for onshore firms would strengthen competition and innovation, and boost investment and formal job creation.

Rising infection cases have triggered a re-tightening of containment measures

Containment measures in place since October 2020 were relaxed in early March, but rising COVID-19 cases and deaths have led the authorities to re-tighten these measures in early April. The national night curfew has been extended, public gatherings are prohibited, schools are closed, and movements in and out of heavily affected regions are restricted. The vaccination campaign started in mid-March and close to 630 000 people had been vaccinated as of mid-May. With financial and technical support from multilateral institutions and the COVAX initiative, the objective of vaccinating half of the population by the end of 2021 is likely to be achieved. However, slow progress in early vaccination rollout, rapidly rising infection cases, and a strained health care system make a significant relaxation of containment measures unlikely until the third quarter of 2021.

Tunisia 1



Source: CEIC; INS; Central Bank of Tunisia.

StatLink  <https://stat.link/amzb4j>

Tunisia: Demand, output and prices

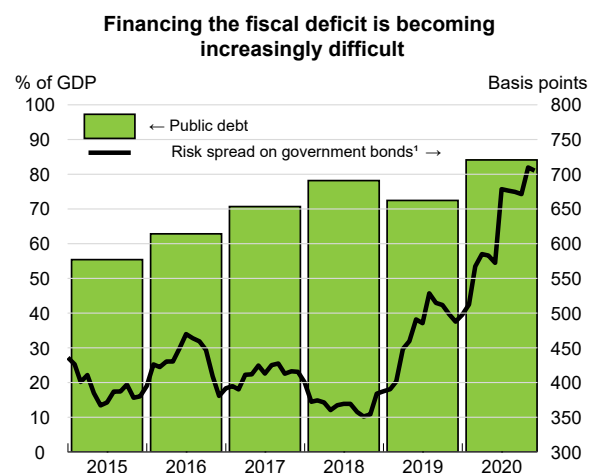
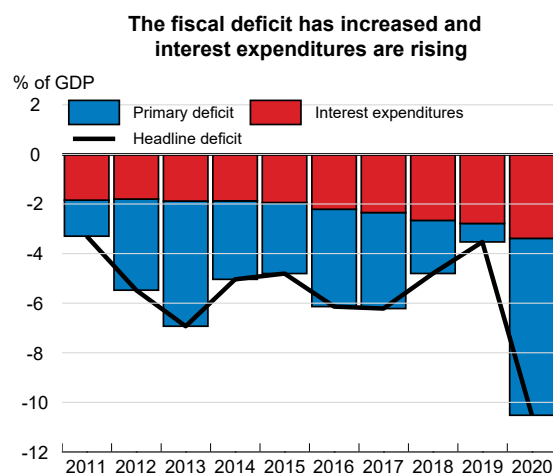
	2017	2018	2019	2020	2021	2022
	Current prices TND billion	Percentage changes, volume (2010 prices)				
Tunisia						
GDP at market prices	96.3	2.7	1.0	-8.8	3.1	3.2
Private consumption	69.5	2.1	1.5	-5.3	4.2	3.3
Government consumption	20.1	0.2	0.3	4.3	2.3	-0.9
Gross fixed capital formation	18.1	2.0	-2.8	-33.5	-2.3	8.6
Final domestic demand	107.8	1.7	0.6	-8.9	2.9	3.2
Exports of goods and services	42.2	4.1	-0.9	-16.2	8.3	11.0
Imports of goods and services	54.1	1.6	-7.3	-16.4	8.0	9.9
Net exports ¹	- 11.9	0.9	4.1	1.9	-0.6	-0.4
Memorandum items						
GDP deflator	—	6.4	7.0	5.3	5.5	6.0
Consumer price index	—	7.3	6.7	5.6	5.6	6.1
Unemployment rate (% of labour force)	—	15.5	15.1	16.7	17.3	16.7
Central government financial balance (% of GDP)	—	-4.8	-3.6	-10.3	-9.4	-6.3
Current account balance (% of GDP)	—	-11.2	-8.5	-6.8	-7.2	-7.1

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 109 database.

StatLink  <https://stat.link/nc1vm0>

Tunisia 2



1. Spread is the difference in yields on government securities with outstanding maturities of 10 years between Tunisia and United States.

Source: CEIC; Tunisia Ministry of Finance.

StatLink  <https://stat.link/uj3fty>

Containment measures weigh on services sector activity

After a strong economic recovery in the third quarter of 2020, rising case numbers and stricter confinement measures since October have particularly affected demand for tourism-related activities and other labour-intensive services. Unemployment increased to 17.8% in the first quarter of 2021, up from 16.2% in the third quarter of 2020, reducing household incomes and private consumption. Unemployment is particularly high for women and the youth, and informality has increased. Private investment has been held back by rising political uncertainty, slow progress on structural reforms and increasing difficulties to finance the high fiscal deficit. Due to strong export demand, especially for electrical and ICT equipment as well as pharmaceutical and medical products, and rising construction activity, industrial production has recovered to its pre-crisis levels. Oil and gas production as well as mining activity have resumed after strikes had strongly reduced production in the second half of 2020. Although tourism receipts have plummeted by more than 60%, the current account deficit has narrowed in 2020 due to weak demand for imports, falling oil prices and rising remittances.

Policies have mitigated the effects of the pandemic on households and firms

The fiscal package to support households and firms totalled 4.3% of GDP in 2020. This included deferring tax payments, accelerating VAT reimbursements, providing interest rate subsidies and loan guarantees for affected firms, expanding cash transfers to vulnerable households, providing temporary support for the unemployed and self-employed, and additional financing for the health sector. The central bank lowered the policy rate by 150 basis points in 2020, requested banks to temporarily defer loan payments, suspended fees for electronic payments and withdrawals, provided loan guarantees and liquidity, and eased macro-prudential regulations to support credit to the private sector. The monetary base has increased by more than 10% in 2020, but the bulk of new loans has been channelled to state-owned enterprises and the public sector, leaving many private firms struggling with financial difficulties.

In 2021, due to the difficult fiscal situation, emergency support is being phased out and replaced by more targeted support for vulnerable households. The authorities are improving and extending the system of targeted cash transfers by linking different data sources, verifying eligibility and introducing digital payment procedures. This will promote financial inclusion and facilitate the replacement of inefficient and regressive energy subsidies by targeted income support to the poor. A COVID-19 fund financed by multilateral credit institutions and private donations provides additional resources for targeted cash transfers to vulnerable households and firms, medical equipment and health professionals. The need for renewed focus on raising spending efficiency and closing loopholes in the tax system will leave little space for fiscal stimulus. Many measures adopted by the central bank to support the economy have been extended into 2021.

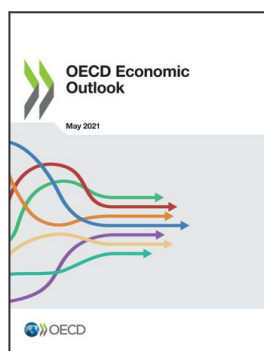
The recovery will be slow

The slow rollout of the vaccine, and the corresponding need to maintain mobility restrictions into the second half of 2021, will hold back activity in labour-intensive services sectors. Rising firm bankruptcies as support measures are phased out will keep unemployment high, weighing on household incomes and damping private consumption. Political uncertainty holds back private investment. Some progress on core structural reforms is expected due to a recently started dialogue with social partners, and investor confidence should improve gradually towards the end of 2021. An improving health situation in Tunisia's main trading partners will raise exports of goods and services during the second half of 2021. With the gradual lifting of restrictions, employment and private consumption will slowly recover. Due to subdued domestic demand and high unemployment, inflationary pressures will remain contained, but they will rise in 2022 due to the recovery and decreasing energy subsidies.

Besides the difficult health situation, growing political tensions and social unrest pose a significant risk to the recovery. With public financing needs estimated at around 18% of GDP in 2021, a credible medium-term plan to reduce the fiscal deficit and progress on structural reforms are fundamental to avoid further deterioration in investor confidence and allow multilateral lenders to help re-financing the high public debt. A faster-than-expected increase in interest rates in advanced countries could trigger capital outflows and a strong currency depreciation, raising the risk of a sovereign debt default and a financial crisis. The foreign currency debt of both public and private sectors is high, the share of non-performing loans was already high before the pandemic, and feedback loops between the public sector and the banking sector are strong as a significant share of public debt, including from state-owned enterprises, is held by domestic banks. Stronger rises in world commodity prices pose an upward risk on inflation, the current account and the fiscal deficit, as Tunisia is a net importer of oil and related products and energy subsidies are still high. On the upside, a quicker recovery in European economies would boost exports.

Structural reforms are key for macroeconomic stability

To reduce macroeconomic imbalances and related risks, it is crucial that the national dialogue delivers on structural reforms. Improvements in public spending efficiency should include a reform of public employment and state-owned enterprises and reallocation of resources to necessary public investments in education, health and infrastructure. Reducing tax exemptions, improving tax enforcement and introducing property taxes could raise more and fairer tax revenue. Gradually replacing regressive and inefficient energy subsidies by targeted income support for vulnerable households would mitigate the negative effects of fiscal adjustment. Lowering administrative burden for firm entry and growth, strengthening competition enforcement, reducing trade barriers and improving port infrastructure would boost investment and formal job creation.



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