

TUNISIA

Economic growth is expected to continue to strengthen. Exports will benefit from a return to normal activity in some sectors, such as mining, tourism and transport, from stronger activity in the euro area and from the depreciation of the dinar. The implementation of the law on investment will help stimulate capital spending. Inflation will continue to rise in 2018. Unemployment will fall only slightly. The current account deficit will start to decline as a result of a sharp recovery in tourist arrivals.

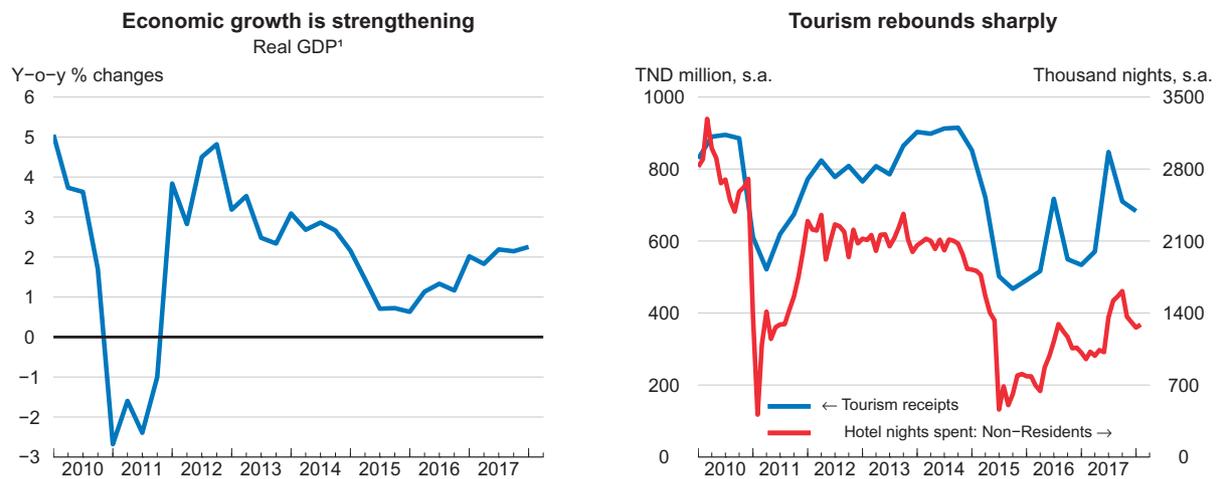
A tighter monetary policy will be required if inflationary pressures persist. In order to return public debt to a sustainable level, the control of public expenditure needs to be based on a medium-term strategy and accompanied by an improved business climate in order to underpin growth and support the creation of jobs and businesses. Encouraging the recruitment of women and young graduates, as well as employment in the interior regions of the country, would generate more inclusive growth by reducing disparities in the labour market.

The economy is gaining strength but inflation continues to rise

Economic activity picked up in 2017 on the back of strong performances of market services, especially tourism, electrical and mechanical industries, and agri-food industries. Private consumption eased due to higher inflation and investment suffered from delays in the full implementation of the investment law designed to simplify the regulatory and administrative constraints weighing on enterprises. Inflation continues to rise, mainly as a result of the depreciation of the dinar, fuel price adjustments, higher salaries and, since the start of 2018, the increase in indirect taxation.

The current account deficit was negatively affected by the increase in commodity prices, the impact of social unrest on the extraction industries and the increase in imports resulting from the depreciation of the dinar. Nevertheless, good olive and date harvests, a sharp increase in tourism receipts, and Tunisia's favourable position in global value chains

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1. Based on GDP at 2010 constant prices.

Source: INS; Ministry of tourism; and Central bank of Tunisia.

Tunisia: **Demand, output and prices**

	2014	2015	2016	2017	2018	2019
	Current prices TND billion	Percentage changes, volume (2010 prices)				
GDP at market prices	80.8	1.2	1.0	1.9	2.4	3.1
Private consumption	55.9	3.2	3.3	2.2	2.2	2.4
Government consumption	15.1	4.4	2.5	0.5	0.5	0.9
Gross fixed capital formation	16.4	-0.5	2.4	0.2	3.2	7.0
Final domestic demand	87.4	2.7	3.0	1.5	2.0	2.9
Exports of goods and services	36.3	-5.3	-0.3	4.6	5.2	6.6
Imports of goods and services	45.2	-2.6	3.1	3.8	4.0	5.7
Net exports ¹	- 8.9	-0.9	-1.7	-0.1	0.1	-0.1
<i>Memorandum items</i>						
GDP deflator	—	3.2	5.1	5.8	7.1	4.7
Consumer price index	—	4.9	3.7	5.3	7.3	5.8
Unemployment rate (% of labour force)	—	15.2	15.5	15.3	15.1	14.6
Central government financial balance (% of GDP)	—	-4.9	-6.1	-6.1	-4.9	-4.5
Current account balance (% of GDP)	—	-8.9	-8.9	-10.3	-9.7	-9.2

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

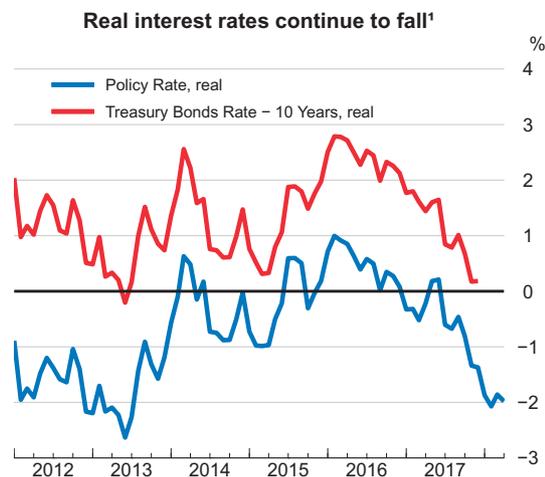
Source: OECD Economic Outlook 103 database.

point to a reduction in the current account deficit in 2018. This is expected to alleviate the pressure on the foreign exchange market and foreign exchange reserves.

The return to macroeconomic balance needs to be accompanied by structural reforms in order to revive activity

The government's objective is to reduce the budget deficit in order to maintain public debt at below 70% of GDP, which is relatively high for an emerging country, between now

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1. Real interest rates are deflated by consumer price index.

Source: INS; and Central bank of Tunisia.

and 2020. The tax increases included in the 2018 budget law are expected to help meet this target, with the fight against tax fraud and evasion also helping to generate an increase in revenues. In the medium term, the budget adjustment should also cover expenditure. Subsidies, which tend to benefit the wealthiest households, and spending on social security and payroll will need to be contained in order to allow public investment in physical and social infrastructures. This gradual adjustment will need to be accompanied by structural reforms in order to improve the business climate, revive investment and stimulate growth. In particular, the governance of public enterprises should be improved to reduce their burden on the state budget. The licences and authorisations that stifle private imitative should be simplified.

In order to combat rising inflation, the central bank raised its policy rate in March 2018 to 5.75%. Real interest rates, however, remain negative. Lasting inflationary pressures will require a tighter monetary policy if fiscal stabilisation proves insufficient and if there are delays in implementing the structural policies aimed at reviving supply.

Private investment remains depressed but should be reinvigorated by the May 2018 decree shortening the list of sectors subject to authorisations (negative list) and the implementation of the law on start-ups adopted in April 2018. Access to financing remains a major constraint for many enterprises. In order to support the availability of credit for business creation and for fast-growing enterprises, it is important to implement the law on bankruptcies as well as to adopt and rapidly implement the law on credit information and the draft amendment to the law on interest rate ceilings which makes it difficult to set risk premiums.

The creation of quality jobs remains poor, and significant disparities exist on the labour market. There is high unemployment among young people, especially young graduates. To strengthen the employability of young people, a better match between the systems for education and vocational training and employers' needs is required, along with a reduction in the charges imposed on paid employment and a boost for enterprise creation. In order to create added value and employment, the government supports the development of the social economy. The employment of women could be increased through the implementation of policies in favour of early childhood and campaigns to raise awareness.

Increased growth should be accompanied by a gradual easing of inflation

Growth will be driven by investment and exports, which will benefit from a revival in tourism and growth in main partner countries. Inflation is projected to weigh on private consumption before it starts to fall in 2019. Speeding up the process for reducing the number of permissions to operate and administrative authorisations will enable a stronger revival of investment and growth. However, a worsening of political instability would slow the pace of structural reforms, undermine investors' confidence and increase pressure on the budget balance and the balance of payments. If the improvements to the security situation were to stall, or the situation in neighbouring countries to deteriorate, the economy would be affected.