TUNISIA

Economic growth is projected to pick up. The implementation of the new law on investment should boost investment, and exports should benefit from the recovery in the EU and the lower dinar. Unemployment will fall, but will still remain high. The current account deteriorated sharply in early 2017 and only a slight recovery is projected in 2018 and 2019.

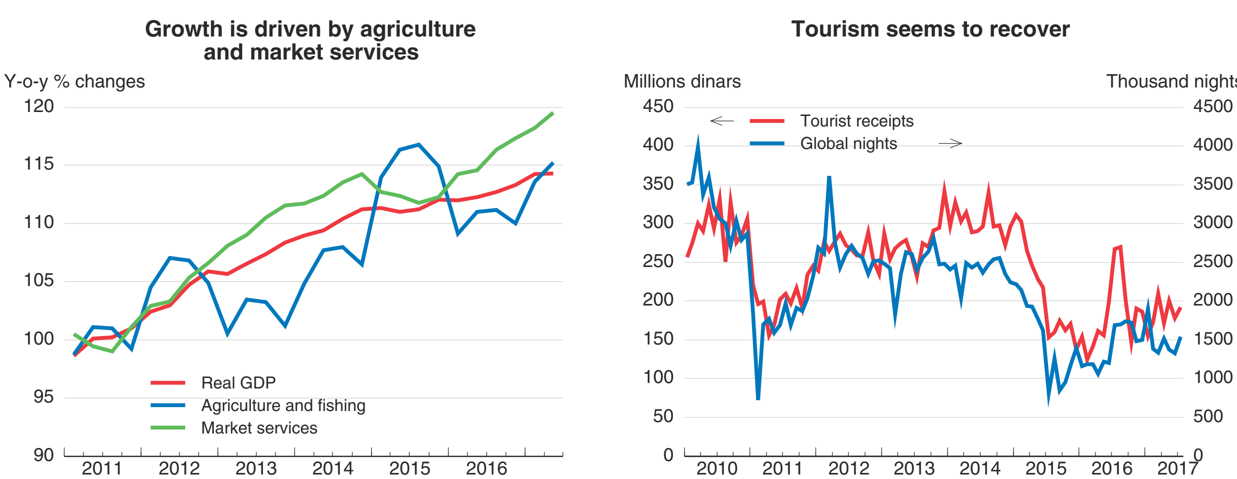
Inflation has been rising since the beginning of 2017 and the central bank has twice raised its key interest rate this year. The budget deficit for 2017 is likely to be higher than expected and public debt will continue to grow. Greater and more equitable revenues, combined with an effort to rein in operating costs, would help to control the deficit.

External debt has climbed steeply since 2011 to reach 70% of GDP, making it sensitive to any significant depreciation of the dinar. It will increase rapidly with a projected current account deficit of 10% of GDP. Consumer credit doubled between 2010 and 2016. The proportion of non-performing loans in total credit is high, especially in public banks, which constrains lending and prevents its efficient allocation.

The economic recovery is based on agriculture and market services

Since the beginning of 2017, growth has firmed. The agricultural sector has been boosted by a good olive harvest and an exceptional date crop. The recovery of the euro area contributed strongly to the substantial expansion of export-oriented sectors and, in particular, to mechanical and electrical industries and textiles. Tourist inflows have risen since several European countries lifted their negative travel advice, and the increased activity of the tourist sector has had a direct impact on air transport. The production of phosphates was hit by industrial action in the second quarter but seems to have regained upward momentum. In addition to labour disputes, the energy sector is also struggling

Tunisia



Source: Tunisian National institute of statistics (INS); and Tunisian Ministry of Tourism and handicrafts.

StatLink http://dx.doi.org/10.1787/

Tunisia: **Demand, output and prices**

	2014	2015	2016	2017	2018	2019
	Current prices TND million	Percentage changes, volume (2010 prices)				
GDP at market prices	80.8	1.1	1.0	2.3	3.0	3.4
Private consumption	55.9	3.2	3.3	3.3	3.7	3.6
Government consumption	15.1	4.4	2.5	0.8	0.8	1.3
Gross fixed capital formation	16.4	-0.5	2.4	3.9	5.7	6.1
Final domestic demand	87.4	2.7	3.0	3.0	3.5	3.6
Exports of goods and services	36.3	-5.3	-0.3	3.4	4.9	5.4
Imports of goods and services	45.2	-2.6	3.1	5.6	5.6	5.4
Net exports[1]	- 8.9	-0.9	-1.7	-1.4	-0.9	-0.6
Memorandum items						
GDP deflator	_	3.2	5.1	5.9	6.2	4.3
Consumer price index	_	4.9	3.7	5.2	5.8	4.4
Unemployment rate (% of labour force)	_	15.2	15.5	15.4	15.2	14.7
Current account balance (% of GDP)	_	-8.9	-8.9	-10.2	-10.2	-9.9

1. Contributions to changes in real GDP, actual amount in the first column.
Source: OECD Economic Outlook 102 database.

StatLink http://dx.doi.org/10.1787/

with declining reserves and a series of technical outages. Unemployment remains persistently high, at 15% of the labour force, especially for young graduates.

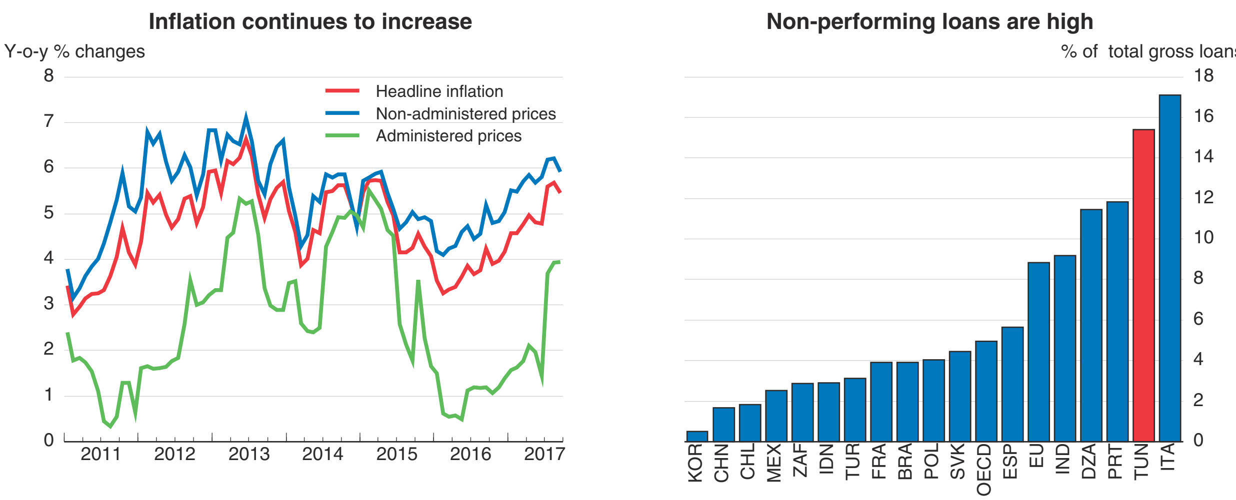
Inflation continues to rise, and in 2017 stood at over 5.2% year on year. Inflationary pressures are mostly driven by strong growth in free market prices, the increase in the VAT rate and other provisions of the 2018 Finance Act. The current account deficit is largely attributable to the energy deficit and, to a lesser extent, to the food deficit. Furthermore, phosphate exports have yet to return to their pre-2011 levels.

A moderate budget adjustment supported by structural reforms

The budget deficit amounted to 6.1% of GDP in 2016, and it should remain unchanged in 2017 as a result of the significant rise in current expenditure, especially wages, and interest payments. Taxes on personal income other than wages have increased, as have corporate taxes, even when the one-off contribution on business profits introduced in 2017 is excluded. Public debt increased by over 15 percentage points of GDP between 2011 and 2016, and amounts to 62% of GDP. In addition, government-guaranteed debts of public enterprises amount to almost 12% of GDP. The state of the public finances will require subsidies and payroll to be kept under control in order to reduce the budget deficit.

In response to inflationary pressures, the central bank increased its rate twice in 2017, first in April and then in May, bringing it up to 5%. Monetary conditions remain accommodating; however, tightening them would help curb inflation. In the medium term, the authorities aim to move to inflation targeting. The performance of the banking sector, especially the public banks, is affected by the proportion of non-performing loans in total credit, which, at 15.4% in 2016, is higher than the average for OECD countries. A banking law has been passed which introduces, *inter alia*, a banking resolution system and a guarantee fund.

Tunisia



Source: Tunisian National institute of statistics (INS); and International Monetary Fund (IMF), Financial stability indicators database.

StatLink http://dx.doi.org/10.1787/

Unemployment is high, especially among young graduates, indicating a mismatch between people's skills and employers' needs. The employment rate varies widely between coastal and central regions and between women and men. Investment and productivity remain low. The new investment law, the collective procedures law, the public-private partnerships law and the competition and prices law should improve the business climate and encourage investment. Foreign direct investment has already risen in 2017. The regulatory and administrative constraints that continue to depress business investment and private initiatives should be lifted.

Growth will pick up but uncertainty remains

Growth should reach 3% in 2018 and 3.4% in 2019, spurred by a recovery in investment and exports, the latter of which should be buoyed by the steady depreciation of the dinar since 2016, rising tourist numbers and an increase in phosphate production. Unemployment will fall, but for some groups – women, young people and graduates – it will remain high. Labour market inequalities are exacerbated by the prevalence of informal jobs and the high incidence of fixed-term contract workers. Inflation will fall in 2019, but will continue to be affected by the past depreciation and wage increases.

Recent developments in agriculture and the agrifood sector could make a greater contribution than expected to the growth of the economy. Labour relations remain tense, however, and could impact the social climate, with repercussions for the business environment. Insecurity in some areas still presents a risk for investors and tourism. A rise in oil prices would affect inflation, public finances and the current account balance.