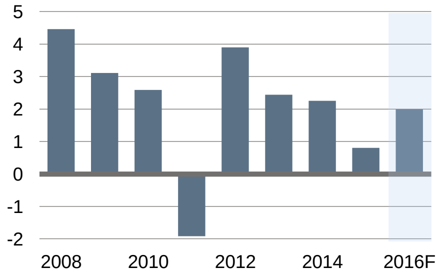
Tunisia

Frontier country report | April 27, 2016

Growth reached post Arab Spring low in 2015 1

Real GDP, % yoy



Source: IMF

Terror attacks weigh on growth

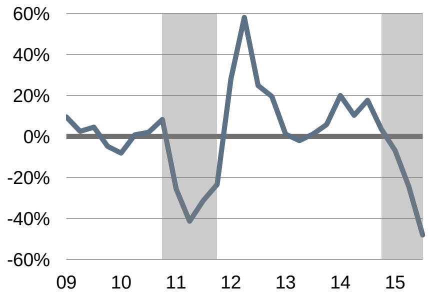
In 2015 real GDP growth slowed to 0.8%, the lowest level since the Arab Spring revolution in 2011. A major reason for the drop in growth was a renewed deterioration in the security situation. Following a series of major terror attacks in 2015 the tourism sector, which accounts for roughly 7% of the economy and 15% of total employment, contracted. The security situation remains tense as IS fighters from Libya and Syria might return to Tunisia. Hence, a recovery in tourism is unlikely in 2016. Together with the adverse impact of the current drought on agricultural output and ongoing fiscal consolidation we expect that this will keep growth subdued and expect real GDP to grow by only around 2% in 2016, far below the 5% anticipated in the National Development Plan and necessary to reduce unemployment and improve living standards. The slow improvement of economic conditions might result in renewed social tensions and street protests as experienced in early 2016, but we do not expect them to pose a threat to political stability.

Weak external accounts

The drop in tourism revenues puts also additional pressure on external accounts. The current account deficit reached 9% of GDP last year, despite a narrowing of the trade deficit thanks to a lower oil import bill. External debt continued to increase and reached 62% of GDP at the end of 2015, meaning that it is now 14pp above its 2011 level.

Tourism receipts drop 2

Tourism receipts, % yoy



Sources: Banque Centrale de Tunisie, Deutsche Bank

Banking sector restructuring weighs on public finances

The weak health of Tunisia's banking sector, especially of the three largest state-owned banks, presents a major contingent liability for the sovereign. After repeated delays the government started a recapitalization of public banks that amounted to 0.8% of GDP in 2015. The outlook for the banking sector remains bleak as many banks suffer from a high exposure to a contracting tourism sector. There is a risk that further public capital injections will be needed. This would contribute to keeping the fiscal deficit elevated at above 4% of GDP, despite recent efforts to cut expenditures.

Strong international support

Tunisia benefits from strong international support. In April 2016 the authorities and the IMF reached staff-level agreement on a new 48-month USD 2.8 bn Extended Credit Facility. The IMF program comes on top of enhanced support from the World Bank, the African Development Bank as well as substantial bilateral support. To reduce reliance on official creditors Tunisia also announced plans to issue another Eurobond in 2016 following its successful comeback in international markets in Jan 2015.

Relative political stability

Compared to other countries in the region Tunisia managed the transition to democracy well. Tensions within the ruling government coalition between the Islamic Ennahda party and the secular Nidaa Tounes party flare up sporadically and a few MPs from Nidaa Tounes seceded in early 2016, but we do not expect a collapse of the government or early elections within the forecast horizon.

Contact
Oliver Masetti | oliver.masetti@db.com | +49 69 910-41643