# TUNISIA

**Economic growth is projected to rebound in 2017 and 2018, spurred by rising business and consumer confidence and by the implementation of the investment law which will improve the business environment. Economic activity will strengthen, in particular in the tourism and phosphate sectors, and boost job creation. However, unemployment will remain high, especially in the poor and remote regions and for the young higher educated graduates. Inflation will increase, driven by the hike in wages and the depreciation of the dinar. The current account deficit will narrow gradually as higher commodity prices will partly offset rising services and current transfer revenue.**

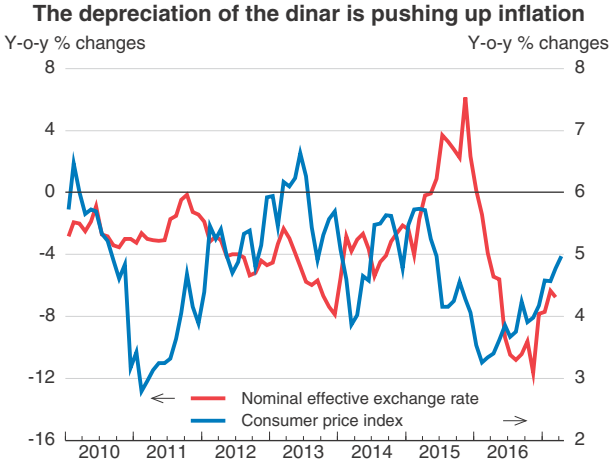
**Monetary policy should be tightened gradually to contain inflationary pressures. The fiscal deficit has reached 6% of GDP in 2016 and should be reduced by containing the wage bill in the public sector and better targeting social programmes. This would allow the execution and implementation of public investment projects, particularly in infrastructure, to continue. Reforms in product markets and in competition would boost private investment and productivity.**

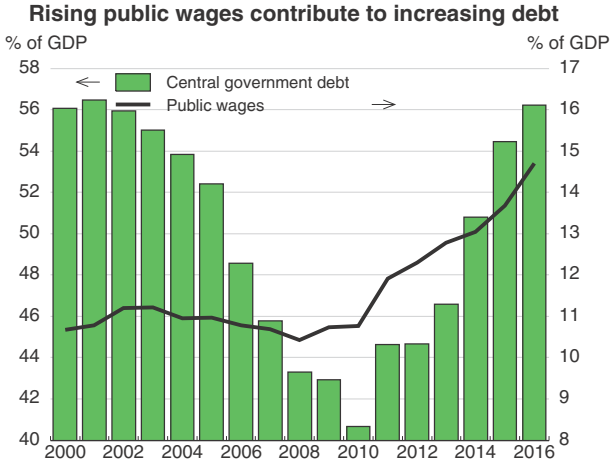
**Tunisia is well integrated in some global value chains (GVCs), but exports are not diversified. Despite the dynamism of the exporting firms benefiting from the "offshore regime", regulations in the domestic market hinder job creation. To ensure that trade benefits even remote regions, Tunisia needs to develop road and port infrastructure, reduce regulatory barriers to trade in services and continue trade facilitation efforts, such as reducing border procedures.**

## *The economy is recovering slowly*

Manufacturing activity and services recovered somewhat in 2016. Contraction in the agriculture sector, following the exceptional olive oil harvest in 2015, and social unrest dampening the mining sector weighed on income growth. As the security situation stabilised, tourism has gained strength. The number of tourists from Algeria and Russia surged, reflecting political factors, the opening of new direct air routes and an aggressive

**Tunisia**




*Source :* Ministry of finance of Tunisia; and National Institute of Statistics.

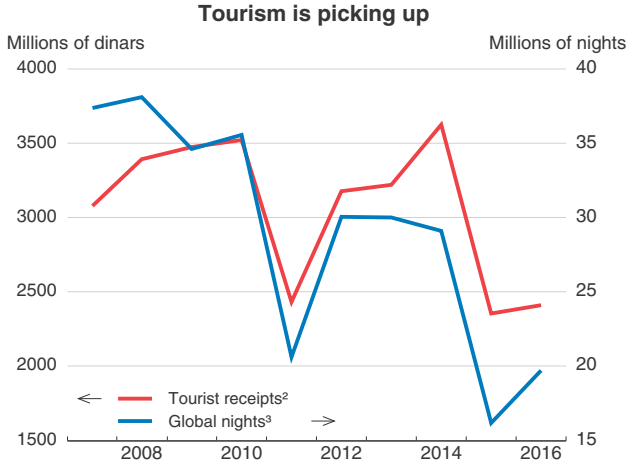
## Tunisia: **Demand, output and prices**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| | Current prices TND million | Percentage changes, volume (2010 prices) | | | | |
| **GDP at market prices** | 75.2 | 2.3 | 1.1 | 1.0 | 2.3 | 3.0 |
| Private consumption | 51.2 | 4.1 | 3.2 | 3.3 | 3.2 | 3.1 |
| Government consumption | 14.0 | 2.6 | 4.4 | 2.5 | 0.6 | 1.5 |
| Gross fixed capital formation | 16.5 | -2.9 | -0.5 | 2.4 | 4.0 | 5.3 |
| Final domestic demand | 81.7 | 2.4 | 2.7 | 3.0 | 2.9 | 3.2 |
| Exports of goods and services | 35.3 | -1.5 | -5.3 | -0.3 | 1.8 | 3.9 |
| Imports of goods and services | 42.4 | 0.9 | -2.6 | 3.1 | 4.2 | 3.8 |
| Net exports[1] | - 7.2 | -1.2 | -0.9 | -1.7 | -1.4 | -0.5 |
| *Memorandum items* | | | | | | |
| GDP deflator | _ | 5.1 | 3.2 | 3.4 | 4.0 | 3.3 |
| Consumer price index | _ | 4.9 | 4.9 | 3.7 | 4.4 | 4.2 |
| Unemployment rate[2] | _ | 14.8 | 15.2 | 15.6 | 15.3 | 14.9 |
| Current account balance[3] | _ | -9.1 | -8.9 | -9.1 | -8.9 | -8.7 |

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of labour force.
3. As a percentage of GDP.
*Source:* OECD Economic Outlook 101 database.

price-cutting strategy. Arrivals have increased by almost a quarter in the first two months of 2017 against a 16.1% decline last year and the downward trend in foreign currency tourism receipts has slowed down. Imports of raw materials and capital goods and exports of textile and mechanical and electrical products have rebounded significantly since the beginning of the year, suggesting an acceleration of activity. Investment in the industrial sector surged in the first months of 2017.

### Tunisia


1. Three-months moving average.
2. Year 2016 is based on the data of the first nine months.
3. Year 2016 is based on the data of the first ten months.
*Source :* Ministry of Tourism and Handicrafts; National Institute of Statistics; and Central Bank of Tunisia.

The unemployment rate has increased slightly despite higher industrial employment. Inflation has remained under control, despite the depreciation of the Tunisian dinar and high wage increases. The current account deficit as a percentage of GDP has stabilised, although at a high level.

### *The implementation of structural reforms will promote inclusive growth*

Monetary policy aims at price stability and has been kept neutral last year. The fiscal deficit has grown in the past few years, reflecting an increase in public employment and wages, and reached 6 % of GDP in 2016. Public debt stood at 62 % of GDP. The ongoing decentralisation reform could help promote regional development initiatives, but risks creating public spending pressures. Controlling the wage bill and better targeting social programmes is needed to contain the public deficit.

Gains in living standards have been held back by weak investment and productivity growth. Job creation is low, partly reflecting skill mismatches. Stringent product market regulations are weighing on investment and productivity. The implementation of recent reforms, in particular the new investment law, the law on collective procedures (to resolve bankruptcies), the public-private partnership law and the law on competition and prices should improve the business environment and help regain investors' confidence. Improving educational outcomes and reducing the skill mismatch should also be a priority to support productivity.

Tunisia has been among the top performing MENA countries on gender equality and has considerably strengthened the legal status of women in the workplace. However, women still face important gaps in terms of both unemployment and wages. Policies to reduce the gender gap, particularly in the private sector, include strengthening public awareness of anti-discrimination laws, promoting pay transparency, and improving enforcement of equal-pay provisions. Regional disparities between the coastal areas and the hinterland are large. Reducing them would require investing in transport infrastructure.

The country's GVC integration strategy has principally relied on progressive trade liberalisation and the creation of a free trade area with the European Union, in addition to the long-standing existence of the “offshore regime”, which provides investment incentives in the form of reduced corporate tax rate and zero import duties on inputs for exporting companies. While Tunisia has benefited from important advances in trade facilitation early in the reform process (e.g. implementation of a Single Window for Trade or the SINDA customs system), as reflected in the country's scores in the OECD trade facilitation indicators in 2012, this reform momentum appears to have lessened. The government should consider reducing investment and trade barriers in services, to better leverage the presence of foreign investors and improve domestic firms' capacity to engage in GVCs.

### *Growth is projected to pick up but risks remain*

Growth is projected to increase to 3 % in 2018. Private consumption will be supported by high wage increases in the private sector. The implementation of the new investment law will stimulate investment, in particular by attracting FDI. The recovery of the phosphate and tourism sectors and a good season of citrus fruits will boost activity. However, the unemployment rate will remain high, which will perpetuate income inequality and weigh on consumer and business confidence.

Security remains an important risk that can affect confidence, investment and tourism. A further increase in oil prices will put public finances, inflation and the current account under pressure. Dinar depreciation will support Tunisia's competitiveness, but may have a negative short-term impact on the current account and inflation. Conversely, the rapid implementation of the investment law could spur investment (in particular FDI) and non-agricultural sector growth.