Tunisia

Recent macroeconomic and financial developments

After the sharp 8.7% contraction in 2020, GDP growth is estimated at 3.4% in 2021 driven, on the supply side, by resumption of manufacturing exports and tourism; on the demand side, by private investment, which increased by 24.5% in 2021 after its contraction of 26.8% in 2020. The recovery, attributable to the base effect, could have been stronger without 2021's political instability. Inflation was slightly higher that year, at 5.7%, due to higher prices of oil and food, and of some administered products and services, including tobacco and transport. The banking sector is facing a structural liquidity deficit. The budget deficit is estimated at 8.1% of GDP in 2021. Despite higher revenue of 13%, the wage bill, fuel subsidies, and debt servicing are a growing part of the government budget. The current account deficit increased to 7.1% of GDP in 2021 on food and energy imports. Foreign exchange reserves amounted to TND 21.5 billion (4.3 months of imports) at end-2021.

The SDR allocation of $740 million—15% of 2021's financing requirements—was all earmarked for financing the budget. Public debt, estimated at 91% of GDP in 2021, is over two-thirds foreign. Tunisia's sovereign debt rating was downgraded by several agencies in 2021. The country is now facing restricted access to international financial markets and has difficulty in mobilizing foreign resources from donors due to the absence of a program with the IMF. Unemployment reached 18.4% in the third quarter of 2021, with a greater rate among women (24.1%) and higher-education graduates (30.1%), and in interior regions.

Outlook and risks

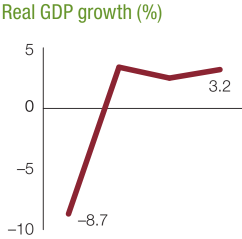
GDP growth is projected at 2.5% in 2022 and 3.2% in 2023. Inflation is forecast to be higher in 2022 owing to the Russia–Ukraine conflict, which has caused a surge in oil and food prices in global markets, and then come down in 2023 based on prudent monetary policy and easing of external inflationary tensions. Projections also show a deterioration of the fiscal deficit and current account deficit in 2022, before an improvement in 2023. However, this outlook could worsen owing to the high risk of debt distress, which could have a negative impact on capital inflows and access to external financing. Further, political instability and slow reforms are leading to donor reluctance to support the country financially. The recovery might also be slowed by social tensions caused by rising prices in a difficult economic context for households, by a restrictive fiscal policy penalizing public investments further, by loss of confidence among private investors, or by new COVID-19 variants. Restoration of sustainable public finances, careful debt management, and availability of staple foodstuffs at affordable prices will be necessary to mitigate risks.

Climate change issues and policy options

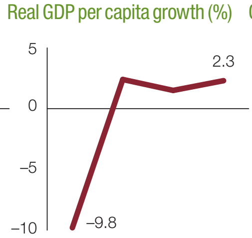
Tunisia is 130 on the 2021 GCRI. The impact of climate change depletes water resources, and causes loss of biodiversity, coastal degradation, and desertification. Agriculture, which is heavily dependent on erratic rainfall, is particularly vulnerable to water stress. More than 3,000 ha of urban coastal areas are under threat of flooding from rising sea levels.

Still, the country is making progress in reaching SDG 13 on climate action. To initiate its energy transition, it launched the Tunisian Solar Plan, which by 2030 aims to reduce carbon intensity by 41% relative to 2010 and attain a 30% share of RE in the energy mix—although implementation has been delayed. A Water 2050 study is being conducted and has proposed measures for adapting to water shortages. Yet, mobilizing resources for climate funds has been weak because of a lack both of task-specific personnel in ministries and of responsible agencies. Current projects in the National Agency for Energy Management aim to give the country instruments based on market mechanisms to combat climate change, such as a carbon tax, carbon tariffs, and credit lines. The cement and energy sectors would be particularly appropriate for testing these instruments.

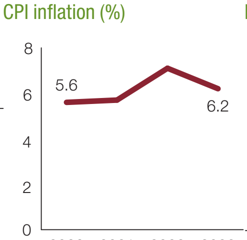
Real GDP growth (%)



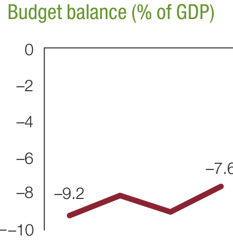
Real GDP per capita growth (%)



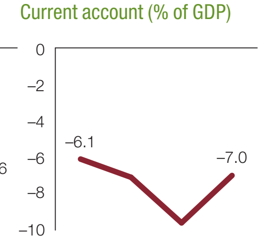
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.