INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/44

TUNISIA

February 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TUNISIA

In the context of the Staff Report for the 2021 Article IV Consultation, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 17, 2021 consideration of the Staff Report on issues related to the Article IV Consultation with Tunisia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 17, 2021, following discussions that ended on January 13, 2021 with the officials of Tunisia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 2, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Tunisia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR21/52

IMF Executive Board Concludes 2021 Article IV Consultation with Tunisia

FOR IMMEDIATE RELEASE

Washington, DC – **February 26, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Tunisia.

The Covid-19 pandemic hit Tunisia hard and led to an unprecedented economic downturn. Real GDP is estimated to have contracted by 8.2 percent in 2020, the largest economic downturn since the country's independence. The unemployment rate jumped to 16.2 percent at end-September, disproportionally affecting low-skilled workers, women, and youth, and fueling social discontent. Inflation slowed because of the contraction in domestic demand and lower international fuel prices. The current account deficit narrowed to 6.8 percent of GDP, driven by lower import demand and resilient remittances, despite a strong hit on exports and collapsing tourism receipts.

The fiscal deficit and public debt increased sharply in 2020. The fiscal deficit (excluding grants) is estimated to have reached 11.5 percent of GDP. Revenue dropped because of a lower tax intake. Additional hiring (about 40 percent of which was in the health sector, including to combat Covid-19) pushed the civil service salary bill to 17.6 percent of GDP, among the highest in the world. Higher outlays were offset by lower investment spending and energy subsidies. As a result of the increase in the fiscal deficit and contraction in GDP, central government debt is estimated to have increased to nearly 87 percent of GDP.

GDP growth is projected to rebound to 3.8 percent in 2021, as the effects of the pandemic start to wane. However, there are considerable downside risks around this projection, given the uncertainty from the duration and intensity of the pandemic and the timing of the vaccination. The medium-term outlook depends critically on the future path of fiscal policy and structural and governance reforms.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted that the COVID-19 crisis is exacerbating Tunisia's socio-economic fragilities. They commended the authorities' policy response to the crisis. Directors noted that while growth is expected to recover modestly in 2021, downside risks dominate. They agreed that the immediate priority is to save lives and livelihoods and stabilize the economy until the pandemic wanes. Economic policy should also focus on restoring fiscal and debt sustainability and promoting inclusive growth.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors recommended that fiscal policy and reforms should aim to reduce the fiscal deficit. In this context, they underscored the need to lower the wage bill and limit energy subsidies while prioritizing health and investment expenditure and protecting targeted social spending. Directors noted that Tunisia's public debt would become unsustainable, unless a strong and credible reform program were adopted with broad support. They also called on the authorities to make taxation more equitable and growth-friendly and encouraged action to clear the accumulated arrears of the social security system.

Directors emphasized that broad ranging reform of state-owned enterprises (SOEs) is necessary to reduce contingent liabilities. They encouraged the authorities to adopt a plan to reduce fiscal and financial risks of SOEs, strengthen corporate governance, and improve financial reporting and transparency.

Directors stressed that monetary policy should focus on inflation by steering short-term interest rates, while preserving exchange rate flexibility. They urged the authorities to avoid monetary financing of the budget. Directors advised the authorities to implement the roadmap to inflation targeting and prepare a gradual and conditions-based plan for capital account liberalization, while closely monitoring financial sector soundness.

Directors underscored that promoting private sector activity is key to increasing potential growth and making it more job-rich and inclusive. Reform efforts should focus on lifting monopolies, removing regulatory hurdles, and improving the business environment. They welcomed the efforts to increase financial inclusion and leverage digital technologies. Directors emphasized that strengthening governance is important and called for effective implementation of anti-corruption and AML/CFT regimes. They also emphasized that COVID-related expenditures should be effective and transparent. Directors welcomed the objective to invest in renewable energy to combat climate change.

It is expected that the next Article IV consultation with Tunisia will be held on the standard 12-month cycle.

Table 1. Tunisia: Selected Economic Indicators, 2017–20

Population (2019): 11.8 million	Per-capita GDP (2020, US$): 3,323
Quota (2020): SDR 545.2 million	Literacy rate (2019): 82.3 percent (est.)
Main exports: electronic and mechanical goods, textiles, energy, olive oil, tourism	Poverty rate (2015): 15.2 percent
Key export markets: France, Italy, Germany	

	2017	2018	2019	2020 Prel.
Economic activity				
Real GDP growth (percent)	1.9	2.7	1.0	-8.2
Unemployment (end of period, percent)	15.5	15.5	14.9	…
Inflation (average, percent)	5.3	7.3	6.7	5.7
Central government finances (percent of GDP)				
Total revenue (incl. grants, percent of GDP)	24.6	26.0	27.7	26.9
Total expenditure and net lending (percent of GDP)	30.6	30.5	31.6	37.5
Overall balance (incl. grants, percent of GDP)	-6.0	-4.5	-3.9	-10.6
Gross central government debt (percent of GDP)	70.9	77.5	71.8	87.6
Money and credit				
Broad money (percent change)	11.4	6.6	10.1	11.8
Credit to the private sector (percent change)	12.7	9.3	3.6	6.8
Balance of payments				
Current account (percent of GDP)	-10.3	-11.1	-8.4	-6.8
Foreign direct investment (percent of GDP)	2.0	2.5	2.1	1.6
Reserve coverage (months of next year's imports of GNFS)	2.6	2.5	4.3	4.1
External debt (percent of GDP)	84.6	97.4	92.8	94.7
Exchange rate				
REER (end of period, percent change, "-": depreciation)	-10.9	-7.7	10.7	…

Sources: Tunisian authorities, IMF staff estimates and projections, and World Bank Development Indicators.

INTERNATIONAL MONETARY FUND

TUNISIA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

February 2, 2021

KEY ISSUES

Covid-19 impact. The pandemic aggravated Tunisia's long-standing vulnerabilities stemming from persistent fiscal and external imbalances, rising debt, and contingent liabilities from inefficient state-owned enterprises. The crisis is expected to induce the largest contraction in real GDP since independence. The authorities' targeted response together with higher outlays on wages widened the fiscal deficit. A second Covid-19 wave is underway. The authorities are securing 500,000 doses to start a first campaign of vaccinations in February and are aiming to secure more doses to vaccinate half of the population starting in April–May. Staff expects GDP growth to rebound modestly in 2021, but it could take years before activity returns to pre-crisis levels, especially if large imbalances were not addressed and key reforms delayed. Downside risks dominate and recent protests highlight the level of social tensions, aggravated by Covid-19 restrictions, and particularly among the youth.

Policy challenges. The immediate priority is to save lives and livelihoods, which, given the lack of fiscal policy space, will require strict prioritization of spending. The authorities also face a dual challenge in 2021 and over the medium term. On one side, they need to support the recovery, alleviate social inequalities, and promote private-led, job-rich, and inclusive growth. On the other side, they need to reduce Tunisia's large imbalances and restore fiscal and external sustainability. In this context, efforts are needed to strengthen the social safety net, reform state-owned enterprises (SOEs), improve governance and fight corruption, and promote competition. Staff assesses that debt would become unsustainable unless the authorities adopted a strong and credible reform program that strikes a balance between what is feasible in Tunisia's fragile socio-political context and the efforts needed to restore macroeconomic balances. Such a program should aim at reducing the fiscal deficit while reorienting spending towards social protection and growth- enhancing investment, and tackling the SOE sector, to bring the debt ratio towards sustainable levels over the medium term. Even so, risks would abound, and vulnerabilities persist into the medium term.

National dialogue on reforms. The authorities' reform agenda should focus on mitigating the economic and financial impact of the pandemic and on addressing long-standing vulnerabilities. Priorities include: (i) bringing public finances back towards a sustainable path while reorienting spending toward social assistance, protecting the poor, and investment (especially health, education, and infrastructure); (ii) clearing SOE arrears, reforming SOEs, and reducing fiscal risks; (iii) strengthening the monetary policy framework and financial sector resilience; and (iv) promoting private sector-led growth, and (v) improving governance and transparency. To ensure success, the authorities need to undertake a national dialogue with main stakeholders on the design and implementation of a credible home-grown reform program that could garner the support of external partners. Given large financing needs over the foreseeable future, the size and pace of adjustment will also depend on the availability of financing from the international community.

Approved By
Taline Koranchelian and Gavin Gray

Discussions took place during December 9–18, 2020 and January 4–13, 2021 via video conference. The mission team comprised C. Geiregat (head); A. Baum, A. Kireyev, and B. Radzewicz-Bak (all MCD); A. Belgacem (local economist), P. Guérin (MCM); D. Rozhkov (FAD); R. Turk (SPR); J. Vacher (Resident Representative); and B. Wiest (METAC). S. Belhaj (OED) participated in discussions. Staff held discussions with Minister of Economy, Finance, and Investment Promotion Kooli; Central Bank Governor El-Abassi; Minister of Tourism Ammar; and other senior officials and representatives from the diplomatic and donor community and civil society. J. Ferrer and L. Calaycay provided excellent research and production assistance.

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ANNEXES

APPENDICES

Abbreviations

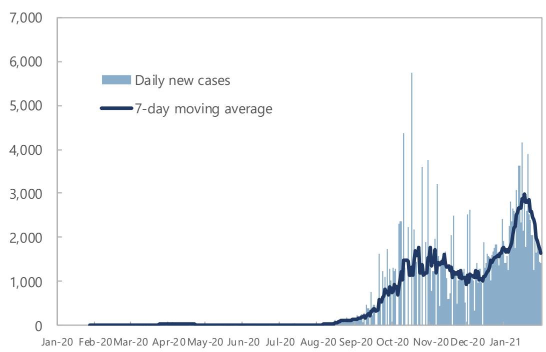
AFD	Agence Française de Développement
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ARA	Assessment of Reserve Adequacy
AREAER	Annual Report on Exchange Arrangements and Exchange Restrictions
ARP	Assembly of the People's Representatives
bps.	basis points
CBT	Central Bank of Tunisia
CDC	Caisse des Dépôts et Consignations
CIT	Corporate Income Tax
CNAM	Caisse Nationale de l'Assurance Maladie
CNRPS	Caisse Nationale de Retraite et de Prévoyance Sociale
CNSS	Caisse Nationale de Sécurité Sociale
DGE	Direction des Grandes Entreprises
DGP	Direction Générale des Participations
DSA	Debt Sustainability Analysis
EFF	Extended Fund Facility
FATF	Financial Action Task Force
HACGGA	High Anti-Corruption and Good Governance Authority
INS	Institut National de la Statistique
LTU	Large Taxpayer Unit
MOF	Ministry of Economy, Finance, and Investment Promotion
MPCC	Monetary Policy Consultation Clause
NEER	Nominal Effective Exchange Rate
PCT	Pharmacie Centrale de Tunisie
NIR	Net International Reserves
NPL	Non-Performing Loan
PIMA	Public Investment Management Assessment
PPP	Public-Private Partnership
pps.	Percentage points
SME	Small- and Medium-Sized Enterprise
SOB	State-Owned Bank
SOE	State-Owned Enterprise
STD	Short-Term Debt
STEG	Société Tunisienne de L'Electricité et du Gaz
STIR	Société Tunisienne des Industries de Raffinage
TA	Technical Assistance
TD	Tunisian Dinar
TSA	Treasury Single Account
UGTT	Union Générale Tunisienne du Travail
UTICA	Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat

ECONOMY HARD HIT IN 2020 AMID INITIAL RAPID RESPONSE

1. **Covid-19 has hit Tunisia hard with many lives lost.** Proactive policy actions and confinement measures in March 2020 contained human contagion and fatalities. However, once measures were relaxed over the summer, there was a 'second wave' with a strong increase in the number of cases, straining hospital capacity, and the authorities gradually re-imposed some containment measures (Text Figure 1). The authorities are securing 500,000 doses to start a first campaign of vaccinations in February and are aiming to secure enough doses to vaccinate half of the population starting in April–May.

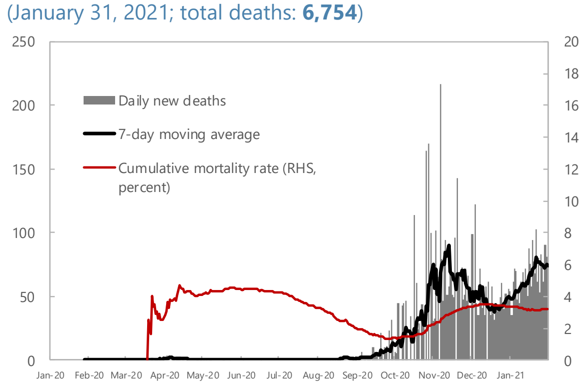
Text Figure 1. Tunisia: Covid-19 Related Developments, 2020–21

Tunisia Daily Cases
(January 31, 2021; total cases: **208,885**)



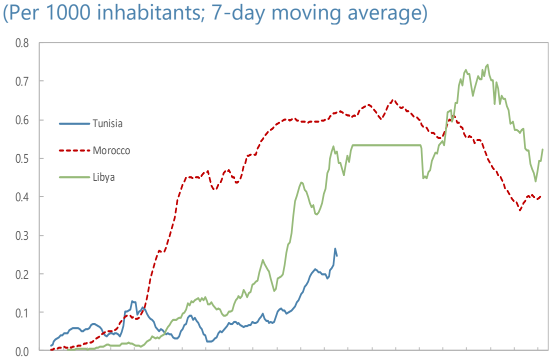
Sources: STA COVID-19 High-Frequency Data Hub; The Johns Hopkins University.

Tunisia Daily Deaths
(January 31, 2021; total deaths: **6,754**)



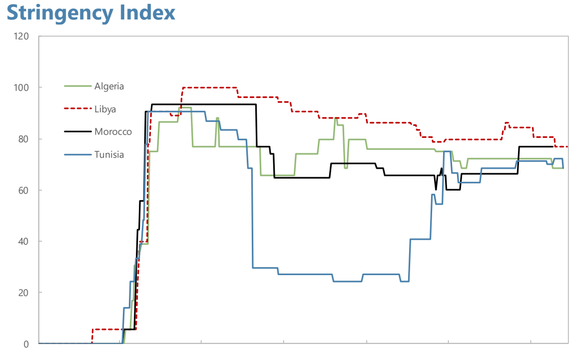
Sources: STA COVID-19 High-Frequency Data Hub; The Johns Hopkins University.

Daily Change in Total Covid Tests
(Per 1000 inhabitants; 7-day moving average)



Sources: STA COVID-19 High-Frequency Data Hub; Our World in Data.

Stringency Index



Sources: STA COVID-19 High-Frequency Data Hub; University of Oxford. The index records the number and strictness of measures and should not be interpreted as appropriateness of the response.

2. **A new government took office amid a fragile political and socio-economic context.** The 2019 elections resulted in a fragmented political landscape, and a third cabinet within a year took office in September 2020. Meanwhile, social tensions continued, and the ten-year anniversary (on January 14, 2021) of the democratic transition was marked by the start of violent night protests, which quickly spread across the country. These protests, mostly from disaffected

youth, partly reflect unmet aspirations, lack of economic opportunities, and the continued difficult Covid-19 situation.

3. The pandemic caused an economic downturn, and unemployment and poverty increased. Real GDP contracted by an estimated 8.2 percent in 2020 (Figures 1–3). Tourism and transport were hit hard, while manufacturing declined in the export-oriented automotive cable and textile industries. In an INS/IFC business survey from 2020Q3, five percent of firms responded that they were permanently closed and 37 percent of respondents felt uncertain about their near-term prospects.[1] The unemployment rate jumped to 16.2 percent at end-September (from 14.9 percent at end-2019), disproportionally affecting low-skilled workers, women, and youth. The recent protests underscore the urgent need to create economic opportunities to reduce unemployment, including among the youth. The World Bank also estimates an increase in the poverty rate from 14 percent pre-Covid to over 20 percent in 2020,[2] and UNICEF expects an increase in child poverty by 6–10 percentage points.[3] Inflation slowed because of the contraction in domestic demand and lower international fuel prices.

4. Tunisia's current account deficit narrowed in 2020. Exports contracted amid weak global demand, but import compression and lower international energy prices resulted in a narrower trade deficit. Transport and tourism receipts were hit hard (the latter collapsing by more than 60 percent), but remittances increased by almost 12 percent (y-o-y). The current account deficit narrowed to about 6.8 percent of GDP, and gross official reserves increased to about US$9 billion (4.6 months of imports). The real effective exchange rate appreciated by nearly 5 percent in 2020 (through October), mainly due to the price differential with trading partners.

5. The authorities focused on supporting the vulnerable and stabilizing the economy. Emergency measures of 4.3 percent of GDP aimed to support affected economic sectors and poor and vulnerable populations (Box 1). The Central Bank of Tunisia (CBT) lowered its policy rate twice (to 6.25 percent) and took accommodative regulatory actions. The RFI disbursement in April 2020 supported the authorities' efforts and provided a buffer for international reserves.

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[1] World Bank (2020). "Business Pulse Tunisie. Impact de la crise COVID-19 sur le secteur privé informel."

[2] World Bank (2020). "Tunisia Economic Monitor. Rebuilding the Potential of Tunisian firms."

[3] UNICEF (2020). "Tunisie: Impact des mesures de confinement associées à la pandémie COVID-19 sur la pauvreté des enfants."

Box 1. Policy Measures in Response to Covid-19

Direct fiscal measures

The authorities announced emergency measures of about 4.3 percent of GDP. About TD 2.6 billion (2.3 percent of GDP) of these were direct fiscal measures included in the 2020–21 budgets.

- *Revenue measures* include solidarity contributions to finance the Covid-related response and measures to provide financial resources to affected sectors. The authorities introduced a Covid-19 dedicated fund ("Fund 1818") financed by voluntary contributions, withheld one day of salary from all economic agents, increased the tax rate on the interest from bank deposits, and introduced an exceptional 2 percent profit tax surcharge on financial companies for 2020–21. To support affected businesses, the authorities accelerated VAT reimbursements, rescheduled repayments of tax arrears, and temporarily suspended some penalties.
- *Expenditure measures* provided additional financing for the health sector (to procure medical supplies and establish specialized Covid-19 units in hospitals); supported affected businesses and sectors, such as tourism, via an interest rate subsidy on investment loans; supported unemployed and self-employed people; expanded direct cash transfers to low-income households; and replenished strategic food stocks.

Off-budget measures

Indirect fiscal measures include a guarantee repayment mechanism for new credits to affected enterprises, and several off-budget funds to finance businesses in priority sectors and procure medical equipment (with financing for the latter provided by the *Caisse des Dépôts et Consignations* (CDC), a public sector financial institution).

2020-21 Covid-related measures	TD million	Percent of 2020 GDP
Revenue	**-393**	**-0.4**
Additional revenue	397	0.4
Foregone and deferred revenue	-790	-0.7
Expenditure	**2,195**	**2.0**
Additional financing for the health sector	355	0.3
Support for affected businesses	450	0.4
Support for unemployed	300	0.3
Additional social spending	1,090	1.0
Support for low-income families	330	0.3
Strategic food stock replenishment	600	0.5
Other	160	0.1
Total budget cost	**2,588**	**2.3**
Off-budget measures	**2,200**	**2.0**
State guarantee for affected sectors	1,500	1.3
Additional financing by CDC	700	0.6

Monetary and financial measures

The CBT cut the policy rate by 100 and 50 bps in March and October, respectively, to support the economy. The CBT also requested banks to temporarily defer payments on loans (incl. the tourism sector), suspended fees for electronic payments and withdrawals, deferred the dividend distribution deadline for banks, and allowed banks breaching the maximum loan-to-deposit ratio more time to reach it. Some of these measures were extended into 2021.

Source: Tunisian authorities and IMF staff estimates and calculations; see also Policy Responses to Covid-19, at https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.

6. The fiscal deficit and public debt increased sharply, eroding Tunisia's already limited fiscal space. Staff estimates that the fiscal deficit (excl. grants) reached 11.5 percent of GDP in 2020 (Text Table 1). Revenue (excl. grants) dropped by about 9 percent (y-o-y) through October 2020, especially from a lower tax intake, while additional hiring (about 40 percent of which was in the health sector, including to fight the pandemic) pushed the civil service salary bill to 17.6 percent of GDP, among the highest in the world (Annex III). Higher outlays on salaries and crisis-response measures were offset by lower investment spending and energy subsidies, as oil prices dropped. The authorities relied heavily on domestic financing sources (9.4 percent of GDP) and Parliament voted to allow the CBT, on an exceptional basis, to lend TD 2.81 billion (2.5 percent of GDP) directly to the Treasury, over strong reservations from the CBT.[4] Central government public debt is estimated to have increased from 72 percent of GDP in 2019 to nearly 87 percent of GDP by end-2020.

Text Table 1. Tunisia: Fiscal Developments, 2019–20
(In percent of GDP)

	2019 Act.	2020 IMF Est.	Diff.
Total revenue and grants	27.7	26.9	-0.8
Revenue	27.5	26.0	-1.6
Tax revenue	25.1	23.6	-1.6
Nontax revenue	2.4	2.4	0.0
Grants	0.2	1.0	0.7
Total expenditure and net lending	31.6	37.5	5.9
Total expenditure	31.7	37.1	5.5
Current expenditure	26.3	31.0	4.7
Wages and salaries	14.6	17.6	3.0
Goods and services	1.4	1.8	0.4
Interest payments	2.8	3.4	0.6
Transfers and subsidies	7.6	7.6	0.0
Capital expenditure	5.3	6.1	0.8
Net lending	-0.1	0.3	0.4
Overall balance	-3.9	-10.6	-6.7
Primary balance	-1.1	-7.2	-6.1
Financing (net)	4.6	10.6	6.0
Foreign financing	2.4	1.2	-1.2
Domestic financing	2.2	9.4	7.2
Overall balance (excl. grants)	-4.1	-11.5	-7.4
Primary balance (excl. grants)	-1.3	-8.2	-6.9
Central government debt	71.8	87.6	15.8

Sources: Tunisian authorities' budget and IMF staff calculations.

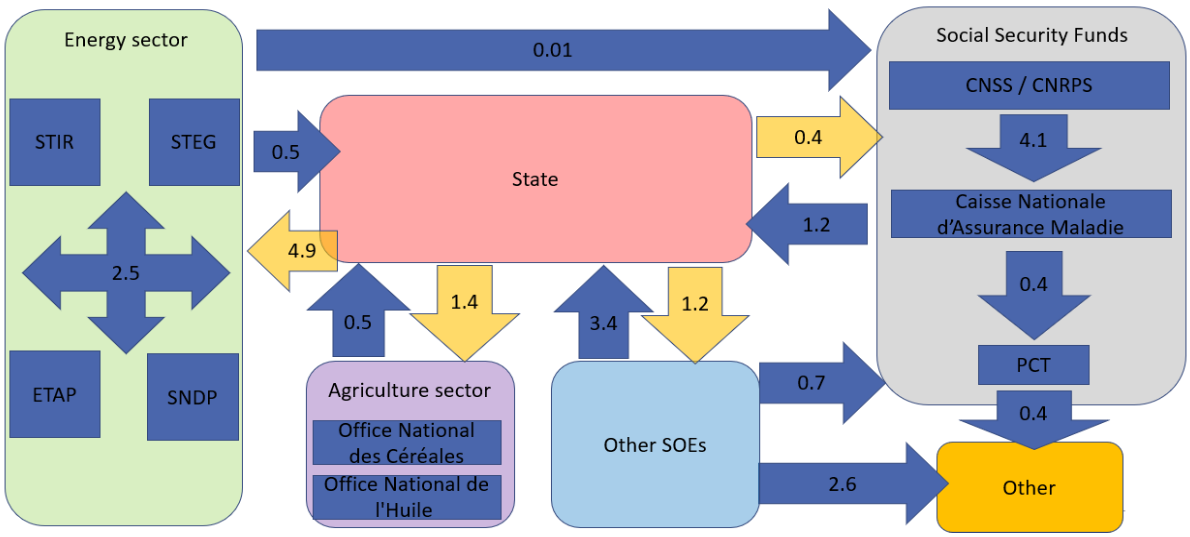
7. The loss-making SOE sector worsens the fiscal situation dramatically. The large and untransparent SOE sector is saddled with debt, government guarantees, and arrears, which were exacerbated by the pandemic (Annex IV). Data on financial information for 30 SOEs shows end-2019 debt of about 40 percent of GDP (which likely increased in 2020), of which about 15 percent of GDP were covered by government guarantees as of mid-2020. SOEs drain scarce budgetary

[4] The CBT can purchase government securities through open market operations in the secondary market for monetary policy purposes; the Central Bank law does not allow direct monetary financing. The exceptional loan was extended at zero interest rate and with maturity of five years (o.w. one year grace).

resources, with annual budgetary transfers amounting to 7–8 percent of GDP in recent years.[5] To meet liquidity needs, SOEs also resort to bank financing (the stock of bank loans to SOEs is about 17 percent of GDP), in particular from state-owned banks (SOBs), and have accumulated arrears. The government itself also has even larger arrears to SOEs (Text Figure 2).[6] This reflects poor financial management and governance of SOEs, a pricing policy that does not cover costs, bloated costs (e.g., significant hiring for socio-political purposes), inadequate information on their financial conditions, and supervision spread over several line ministries. The SOEs' monopolistic nature also reduces incentives to improve productivity.

Text Figure 2. Tunisia: Cross-Arrears of State-Owned Enterprises, 2019 and 2020 1/

(In percent of GDP)



Sources: Tunisian authorities' budget and IMF staff calculations. The data on State-SOE arrears are for June 2020, all other data are for 2019 as included in the 2020 budget annex, and information from CNAM and PCT. Arrows in yellow are arrears from the government to SOEs; arrows in blue are arrears from SOEs to other entities (SOEs, government, social security funds, etc.)

1/ STIR: Société Tunisienne des industries de Raffinage; STEG: Société Tunisienne de l'Electricité et du Gaz; ETAP: Entreprise Tunisienne d'Activités Pétrolières; SNDP: Société Nationale de Distribution des Pétroles; CNSS: Caisse Nationale de Sécurité Sociale; NRPS: Caisse Nationale de Retraite et de Prévoyance Sociale; and PCT: Pharmacie Centrale de Tunisie.

8. **The financial sector seems to have weathered the Covid-19 crisis so far.** The sector has been supported by accommodating policies of the CBT and relief in prudential provisions. However, the full impact of the pandemic is yet to be observed, as regulatory easing measures, including repayment moratoria, could delay a full evaluation of losses and need for higher provisions. Also, the sector entered the crisis with underlying vulnerabilities: high non-performing loans (at 13.1 percent overall, and 17 percent for SOBs as of end-September 2020), substantial exposure to credit risk to affected sectors and SOEs, relatively shallow capital buffers, and tight liquidity (though the latter improved in 2020.) These vulnerabilities are higher for the three largest SOBs, representing about 35 percent of total bank assets. Bank credit to SOEs (at times

[5] Almost 40 percent of transfers are directed to three SOEs in the form of subsidies for cereals, fuel, and electricity.

[6] At end-June 2020, the stock of SOEs' arrears to the government was estimated at TD 6.2 billion and the stock of government arrears to SOEs at TD 8.8 billion.

with government guarantees) has recently grown to 9 percent of total bank loans, resulting in higher concentration of exposures and increased sovereign-bank linkages.

OUTLOOK—MODEST RECOVERY AND SIGNIFICANT RISKS TO ECONOMIC STABILITY

9. Growth is expected to recover modestly in 2021, and the fiscal deficit to narrow. Staff projects real GDP growth of 3.8 percent in 2021, with some rebound in domestic demand and in most sectors hit by the crisis, though agricultural output is expected to decline due to cyclical factors. The current account deficit would widen as imports resume while international reserves would decline. The 2021 budget projects a decline in the fiscal deficit (excl. grants) to 6.6 percent of GDP, reflecting mainly the unwinding of temporary measures, a lower wage bill, and reduced energy subsidies. However, neither does the 2021 budget specify how such savings will be achieved, nor does it include the potential hiring of 10,000 long-term unemployed workers or the first phase of the hiring/regularization of some 30,000 *ouvriers de chantiers* (agreed in 2020, 0.5 percent of GDP). It also excludes potential arrears clearance to STIR and the *Office des Céréales* (0.7 and 0.8 percent of GDP, respectively), still under review by the authorities, and does not account for higher oil prices than assumed in the budget. Thus, staff projects a baseline fiscal deficit (excl. grants) of 9.9 percent of GDP in 2021.

10. Covering the fiscal financing needs in 2021 may prove challenging. The 2021 budget expects to cover some 70 percent of the gross fiscal financing need (15.4 percent of GDP) through external borrowing, including market issuance of 5.3 percent of GDP (about US$2.2 billion), which may pose fiscal risks. Staff's baseline scenario for 2021 projects a higher fiscal financing need (18.3 percent of GDP, compared with 17.2 percent of GDP in 2020), and relatively more domestic financing compared with the budget (Text Table 2). Contingent measures (on revenue and spending) may be needed in case such financing proves challenging.

Text Table 2. Tunisia: Gross Financing Needs, 2021
(Staff baseline projection; percent of GDP)

	2021
Fiscal deficit (incl. grants)	9.3
Amortization of external debt	5.3
Multilateral & bilateral	2.5
Market issuance	2.8
Amortization of domestic debt	3.7
Gross fiscal financing needs	**18.3**
External financing	9.5
Multilateral & bilateral	5.0
Market issuance	4.5
Domestic financing	8.9
Memorandum items:	
Net external financing	4.2
Net domestic financing	5.1

Sources: Tunisian authorities' budget and IMF staff calculations.

11. Tunisia's external position is weaker than implied by fundamentals and desirable policies. Staff estimates the 2020 current account (CA) "gap" of about -3.4 percent of GDP

(Appendix I). This gap corresponds to a real effective exchange rate overvaluation in the order of 5–10 percent. External sector sustainability remains a source of macroeconomic vulnerability.

12. The medium-term outlook depends critically on the future path of fiscal policy, and public debt would become unsustainable unless a strong and credible reform program were adopted with broad support. Without a medium-term reform program in place, staff's baseline assumes limited reform appetite, with the civil service wage bill, ill-targeted energy subsidies, and SOE liabilities crowding out social and growth-enhancing public investment, and private sector investment remaining subdued. This would result in an increasingly difficult macroeconomic situation, with annual growth of barely two percent, high fiscal deficits, growing contingent liabilities, and hard to fill financing needs. It would also lead to continued heavy reliance on domestic financing, with risks of a sovereign/bank feedback loop and unsustainable public debt (DSA, Appendix II). Limited fiscal adjustment and rising debt would in turn result in large current account deficits and dwindling reserves, untenable pressure on the exchange rate, and rising inflation, thus also aggravating growing external vulnerabilities (Text Table 3).

Text Table 3. Tunisia: Selected Economic Indicators: Baseline Scenario, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.			Proj.			
Real GDP growth (percent)	1.9	2.7	1.0	-8.2	3.8	2.4	2.0	1.8	1.8
Consumer price index growth (period average, in percent)	5.3	7.3	6.7	5.7	5.8	6.3	6.9	7.3	7.5
Overall fiscal balance excl. grants (percent of GDP)	-6.2	-4.8	-4.1	-11.5	-9.9	-7.1	-6.7	-6.2	-5.8
Primary balance excl. grants (percent of GDP)	-4.1	-2.0	-2.0	-8.2	-6.5	-3.2	-2.2	-1.2	-0.5
Gross central government debt (percent of GDP)	70.9	77.5	71.8	87.6	91.2	93.9	96.5	98.5	99.7
External debt (percent of GDP)	84.6	97.4	92.8	94.7	99.2	101.2	99.3	96.7	95.7
Current account balance (percent of GDP)	-10.3	-11.1	-8.4	-6.8	-9.5	-9.4	-9.3	-9.2	-9.0
Gross official reserves (billions of US$)	5.6	5.2	7.4	9.0	8.4	7.6	6.7	5.6	4.7
Gross official reserves (months of next year's imports of GNFS)	2.6	2.5	4.3	4.1	3.7	3.2	2.8	2.2	1.8
Gross official reserves (percent of IMF reserve adequacy metrics) 1/	88.4	76.6	96.6	113.6	97.6	82.0	71.6	61.8	53.2

Sources: Tunisian authorities; IMF staff estimates and projections.
1/ Assuming capital controls and a flexible exchange rate.

13. Risks will abound and vulnerabilities persist over the medium term (RAM, Annex I). Immediate risks stem from the uncertainty around the extent and length of the pandemic and the vaccination program. The political will to adopt difficult reforms could be challenged and social discontent may increase. Tunisia is likely to remain in a vulnerable setting for years to come, in light of structural weaknesses, high financing needs, reliance on external funding, and risk of domestic and external shocks.

Authorities' Views

14. The authorities were more optimistic about baseline projections. They expected real GDP growth of 4 percent in 2021 and saw further upside, pointing to the cushioning impact of emergency measures and renewed gas production at the Nawara field. They saw signs that several sectors had started to rebound already in June and noted that additional public hiring could also impact domestic demand and growth. They saw a lower current account deficit in 2021, in the range of 7–8 percent of GDP. Over the medium term, the authorities envisaged annual real GDP growth of 3.0–3.5 percent, a fiscal deficit gradually falling to 3 percent of GDP, and a public debt ratio topping off at around 90 percent of GDP.

POLICY DISCUSSIONS—FROM STABILIZATION TO RECOVERY AND SUSTAINABILITY

15. The authorities face the dual challenges of supporting the recovery and promoting inclusive growth, while restoring fiscal and external sustainability. The immediate priorities are to continue to save lives and livelihoods and prepare for vaccination delivery. The authorities also need to urgently address Tunisia's unsustainable fiscal and external imbalances, while enhancing social protection and strengthening the health and education systems. This will require strict prioritization of spending in favor of health and social safety nets, and reducing the fiscal deficit, starting in 2021, by tackling the civil service wage bill, ill-targeted subsidies, and loss-making SOEs. Measures that strengthen tax equity, reorient spending toward investment (education, health, and infrastructure), and promote good governance and competition would support the recovery and job-rich growth prospects. The CBT should stop financing the government, continue its focus on achieving low inflation while maintaining exchange rate flexibility, and closely monitor and manage evolving financial stability risks. Exchange rate flexibility together with deep structural reforms—fiscal consolidation, SOE reforms, and policies to increase private sector participation and competition—are also needed to bring the external position back into balance over the medium term. Urgent action is needed to advance the structural reforms, given the significant effort and time that will be required to implement them.

16. Meeting the dual challenges hinges on the implementation of a strong and credible reform program that is supported by all stakeholders.[7] Given past failures and resistance, the authorities should consult and communicate with the broader public a medium-term reform program that will take the country in a new direction. To ensure its success, the reform program and associated medium-term fiscal framework would need to be supported by a *social compact*, with the main stakeholders committing to support the reforms within their remit. To incentivize all partners to participate, the social compact should cover a range of reform areas, including public sector wage negotiations, subsidy and SOE reform, informality, tax policy (including equity), anti-corruption, and the business environment (Text Figure 3).

Text Figure 3. Tunisia: Priority Policy and Reform Area

Policies	Objectives	Save lives and stabilize the economy	Support the recovery and inclusive growth
Government	Fiscal policy	Start budget consolidation: • Wage bill • Energy subsidies	Improve budget composition: • Equitable, growth-friendly taxation • Higher, more efficient investment Improve governance
	Social policy	Prioritize health spending More effective social safety net	Higher and more effective social spending Sustainable social security funds
	SOEs	Audit Loss mitigation/ arrear clearance Improve monitoring/manage performance	Triage/efficiency drive Improve governance Energy sector reform
Competitive markets	Private sector	Transparent inflation targeting Market-based exchange rate Financial risk monitoring/mitigation	Anti-corruption initiatives Roll-back informal sector Support new technologies and combat climate change

[7] The authorities' medium-term reform program could be supported by technical assistance from development partners, including the IMF (Annex II), and the medium-term macroeconomic framework could be complemented by a debt management strategy.

17. Staff discussed with the authorities a medium-term reform scenario (Text Box 2). The size and pace of the adjustment strike a balance between what is feasible in Tunisia's fragile socio-political context and the effort needed to restore macroeconomic balances. The scenario would bring fiscal deficits and public debt down towards sustainable levels over the medium term (the latter below 85 percent of GDP) (Text Table 4, Text Figure 4, and Tables 10–11). The primary fiscal balance (excl. grants) would improve from -8.2 percent of GDP in 2020 to 1.6 percent of GDP in 2025, (i.e., some 5 pps. of GDP, excluding one-off arrears clearance and Covid-related measures). Given large financing needs over the foreseeable future, the size and pace of adjustment will also depend on the availability of such financing.

Box 2. Summary of the Reform Scenario

The scenario reflects a strong reform agenda buttressed by a *social compact* and national communication effort. Such reforms would aim to restore sustainable macroeconomic positions, strengthen the safety net, increase inclusive and job-rich growth through private-sector initiative and competition (including by tapping into emerging sectors such as digitalization and renewable energy to help address climate change). It rests on the following:

- A central government debt ratio falling to about 85 percent of GDP over the medium term, with the primary balance (excl. grants) improving to about 1.6 percent of GDP.
- A wage bill dropping to nearly 14.5 percent of GDP by 2025, phased-out energy subsidies (with maintained social tariffs), reforms of loss-making SOEs, and more equitable and growth-friendly taxation. The fiscal mix would be reoriented to support the social safety net and public investment (especially in health, education, and infrastructure).
- A limited net domestic financing of the budget (below 2 percent of GDP annually), with open market operations of the CBT strictly to support monetary policy objectives.
- A gradual decline in inflation to 4 percent over the medium term, supported by a transparent monetary policy which focuses on low inflation.
- A flexible exchange rate, with fiscal adjustment and SOE and pro-competition reforms allowing to reduce the current account deficit and strengthen external balances.
- International reserves maintaining a comfortable 4 months of import coverage.
- Unabated efforts to strengthen good governance and transparency.
- Free and fair competition and private investment that drive higher inclusive growth and job creation. (Quasi-)monopolies currently maintained by SOEs and other unnecessary impediments to competition would be lifted.
- Efforts to improve governance and fighting corruption would be cross-cutting themes.
- Annual real GDP growth would gradually increase towards 3 percent, reflecting the higher potential of the economy.

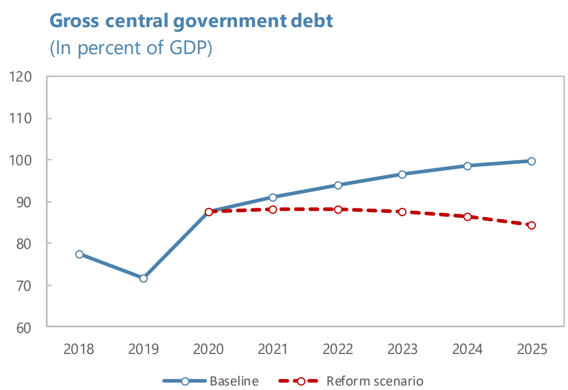
Text Table 4. Tunisia: Selected Economic Indicators: Reform Scenario, 2017–25

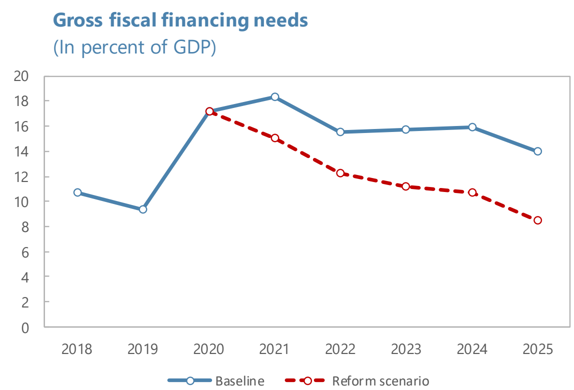
	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.			Proj.			
Real GDP growth (percent)	1.9	2.7	1.0	-8.2	3.9	2.8	2.8	2.9	3.0
Consumer price index growth (period average, in percent)	5.3	7.3	6.7	5.7	5.9	5.7	5.3	4.6	4.2
Overall fiscal balance excl. grants (percent of GDP)	-6.2	-4.8	-4.1	-11.5	-6.7	-4.2	-3.4	-2.5	-1.7
Primary balance excl. grants (percent of GDP)	-4.1	-2.0	-2.0	-8.2	-3.4	-1.0	0.1	0.9	1.6
Gross central government debt (percent of GDP)	70.9	77.5	71.8	87.6	88.3	88.3	87.7	86.5	84.4
External debt (percent of GDP)	84.6	97.4	92.8	94.7	102.0	104.5	102.2	98.7	96.5
Current account balance (percent of GDP)	-10.3	-11.1	-8.4	-6.8	-8.4	-7.8	-7.2	-6.8	-5.8
Gross official reserves (billions of US$)	5.6	5.2	7.4	9.0	9.2	9.3	9.4	9.7	10.3
Gross official reserves (months of next year's imports of GNFS)	2.6	2.5	4.3	4.2	4.1	4.0	3.9	3.9	3.9
Gross official reserves (percent of IMF reserve adequacy metrics) 1/	88.4	76.4	96.4	113.4	107.5	100.9	100.3	106.0	122.3

Sources: Tunisian authorities; IMF staff estimates and projections.

1/ Assuming capital controls and a flexible exchange rate.

Text Figure 4. Tunisia: Comparison of Baseline and Reform Scenarios, 2018–25





Source: IMF staff estimates and projections.

Authorities' Views

18. **The authorities agreed with the need for a medium-term reform program that restores fiscal and external sustainability.** The Ministry of Finance, Economy, and Investment Promotion (MoF) intends to achieve a primary surplus over the medium term and keep expenditure growth below the nominal growth rate, with the view to stabilize public debt. Nevertheless, they considered the pace of the consolidation path suggested in the reform scenario overly ambitious and hard to implement in the current delicate socio-political context, and believed that real GDP growth could exceed 3 percent over the medium term. They also noted the importance of further reducing inflation, as this would allow the Central Bank to cut the policy rate and thus ease the debt service burden. The MoF also favored exchange rate stability to avoid imported inflation, strengthen investor confidence, and contain the debt-to-GDP ratio. The authorities confirmed the importance of preserving the CBT's independence and agreed that low and stable inflation should be the target of monetary policy.

A. Immediate Priorities: Saving Lives and Stabilizing the Economy

19. To address immediate challenges, staff proposed targeting a fiscal deficit of 6.7 percent of GDP in 2021. This would improve the primary deficit (excl. grants) by about 4.8 percent of GDP, thanks in part to non-recurrence of one-off 2020 expenditures of 2.1 percent of GDP. To this end, it will be necessary to restrict the wage bill and energy subsidies while prioritizing urgent expenditure related to health and protection of vulnerable populations, including through the following measures:

- **Wage bill**. Reducing the civil service wage bill to 16.8 percent of GDP (versus staff's baseline of 17.5 percent) would still allow a margin for hiring in priority sectors such as health. To set expectations for managing the public wage bill, the authorities could pre-announce specific rules such as: freezing promotions for one year, committing to a replacement ratio of 1:4, stopping hiring for purely socio-political reasons, staggering the hiring over the fiscal year, and limiting any potential salary increases to half of inflation, starting in 2021. Staff cautioned the authorities against creating new public agencies with a view to reduce the wage bill, as this would imply higher contingent liabilities for the government and weaken further fiscal imbalances.

- **Energy subsidies**. The 2021 budget foresees a decline in energy subsidies to 0.3 percent of GDP, with monthly price changes limited to 2 percent under the automatic fuel price adjustment mechanism. However, oil prices are currently projected to exceed the US$45 per barrel envisaged in the 2021 budget. Staff advised reforming the adjustment mechanism for the three main fuels by letting prices at the pump move more closely with import prices and widening the band for monthly price adjustments. In the context of a broader reform of STEG, the authorities should also consider increasing electricity and gas tariffs, while preserving social tariffs for poor households.

- **Transfers and other subsidies**. The authorities should expand social spending and accelerate the work to better target transfers (including by expanding the AMEN database of eligible households). They should also closely monitor transfers to SOEs and link them to improvements in performance (see below).

- **Arrears clearance**. The authorities should urgently implement a clearance plan for accumulated arrears of the social security system to CNAM (health insurance) and the PCT (Central Pharmacy), especially in light of the current pandemic, as well as arrears to SOEs.

- **Financing.** Given debt sustainability concerns, the authorities should seek concessional long-term external financing, while rolling over maturing market financing. Staff urged the authorities to avoid a repeat of monetary financing of the budget and encouraged them to prepare contingency measures (raising additional revenue or cutting spending), if available financing fell short.

Authorities' Views

20. The authorities agreed with the immediate priorities of saving lives and livelihoods and starting to restore fiscal and external sustainability. They believed that the 2021 budget addresses those priorities and that the fiscal deficit (excl. grants) target of 6.6 percent of GDP is achievable. They agreed that the financing plan for 2021 was ambitious and counted on strong support from development partners, including the Fund. The CBT stressed that the monetary financing at end-2020 had been a one-off operation, while the Tunisian authorities confirmed the importance of maintaining Central Bank independence.

B. Restoring Fiscal and External Sustainability and Reorienting the Budget to Support Inclusive Growth and Job Creation

21. Restoring fiscal and external sustainability and reorienting priorities toward social and investment spending (health, education, infrastructure) are needed to promote inclusive growth and job creation. The reform scenario would reduce the fiscal deficit (excluding grants) to 1.7 percent of GDP and bring public debt below 85 percent of GDP over the medium term. At the same time, social spending would increase to almost 3 percent of GDP and public investment would exceed 6 percent of GDP. The quantitative framework to guide such decisions rests on:

- **Restraining the wage bill.** The civil service wage bill would grow by less than inflation annually and fall to about 14.5 percent of GDP by 2025 (i.e., the level of 2018–19). In addition to the near-term measures discussed above, the authorities could rationalize allowances and commit to an audit to identify and remove ghost workers. They should also agree with stakeholders to implement competitive recruitment practices, conduct holistic rather than piecemeal wage bargaining, and adopt a civil service reform to facilitate reallocation of staff across functions and regions. The fiscal space from wage bill restraint could support spending on the safety net and priority investment.

- **Phasing out wasteful subsidies, starting with the energy sector**. Energy subsidies should be phased out over the medium term, while preserving social tariffs for poor households alongside improvements in the social safety net. These reforms should be embedded in a comprehensive reform program of the energy sector (including STEG and STIR) including by addressing monopoly issues (e.g., for electricity production, fuel production, and distribution).

- **Reforming SOEs to reduce contingent liabilities**. The authorities should adopt a reform program for the SOE sector (see below) to urgently address fiscal and financial risks (debt of the central government and SOEs combined exceeds 100 percent of GDP), and improve performance over the medium term.

- **Strengthening safety nets to support the poor and vulnerable**. The authorities are developing the infrastructure around the new database for low-income households (AMEN) and the unique identifier, which over time will allow to better target social policies.[8] Once the system is operational, a targeted monthly cash transfer to households could be introduced to offset the impact of the elimination of energy subsidies.

- **Increasing public investment to support growth and job creation.** The Covid-19 crisis has underlined the need for investment in health, education, and critical infrastructure with a strong multiplier on growth. The authorities can also play an enabling role to tap opportunities from emerging sectors, such as digitalization and the green economy. They should also consider public-private partnerships (PPPs) to leverage private-sector expertise and financing, while improving the PPP framework to mitigate associated risks and ensure strong governance. Fund TA, including PIMA follow-up, is available to support the authorities' efforts.

- **Making taxes more equitable and growth friendly**. Tax policies that widen the tax base, increase tax progressivity, and improve administration would allow reducing tax rates over time. Additional measures should focus on recovering revenue lost during the crisis, bringing the informal sector into the tax net (including revisiting the *régime forfaitaire*), making spot audits operational, improving information sharing, streamlining tax expenditures and exemptions, and eliminating remaining tax distortions between the on-shore and off-shore sectors. Over the medium term, the authorities could develop property taxation and improve the progressivity of taxes.

Authorities' Views

22. The authorities shared the priorities for fiscal reforms but had reservations on the proposed pace. They believed that the wage bill reform would require more time to reach consensus with multiple civil partners. The MoF indicated that the government wage bill could be controlled by creating public agencies and transferring some staff from the central government.

C. Reforming SOEs and Reducing Fiscal Risks

23. Tackling the vulnerabilities and risks posed by SOEs will require sustained and broad-ranging reforms. These should encompass:

- An immediate audit of arrears and urgent clearance strategy for the largest firms, starting with STIR, STEG, and the *Office des Céréales*.

- A medium-term reform plan to: (i) define the role of public enterprises in the economy and classify them according to their viability (to tackle losses, restructure, and strengthen their financial situation, and consider divesting non-viable ones), strategic importance, and nature of their activities (while considering divesting from commercial SOEs) (see Annex IV for detailed policy suggestions); (ii) centralize their monitoring and management in a single

[8] The authorities are working with the World Bank to expand the AMEN social program to facilitate cash transfers and other services. The aim is to increase the coverage of cash transfers from 9 percent to 15 percent of the population over 2019–22. They have also expanded child support to ages 0–5 and to larger households, with the support of development partners.

structure dedicated to state holdings; (iii) strengthen corporate governance; and (iv) improve financial reporting and transparency. In this context, a draft law to reform SOE oversight and governance was recently withdrawn from Parliament for further review.

- The role of the state in state-owned banks should also be reassessed, given the heavy public-sector presence in the sector, which could strengthen the viability and competitiveness of the banking sector.

24. Strengthening the social insurance system would also reduce fiscal risks. The financial position of the social security funds remains fragile. Both CNSS and CNSRP face tight liquidity and delayed disbursements to the health insurance fund (CNAM), in turn causing arrears to the Central Pharmacy. The authorities should enforce payment discipline to avoid the recurrence of new arrears. The reform of social security funds should lead to better matching of benefit levels and available funding. It would require assessing the financial gap and parametric reform options of the social security funds to ensure their long-term viability.

Authorities' Views

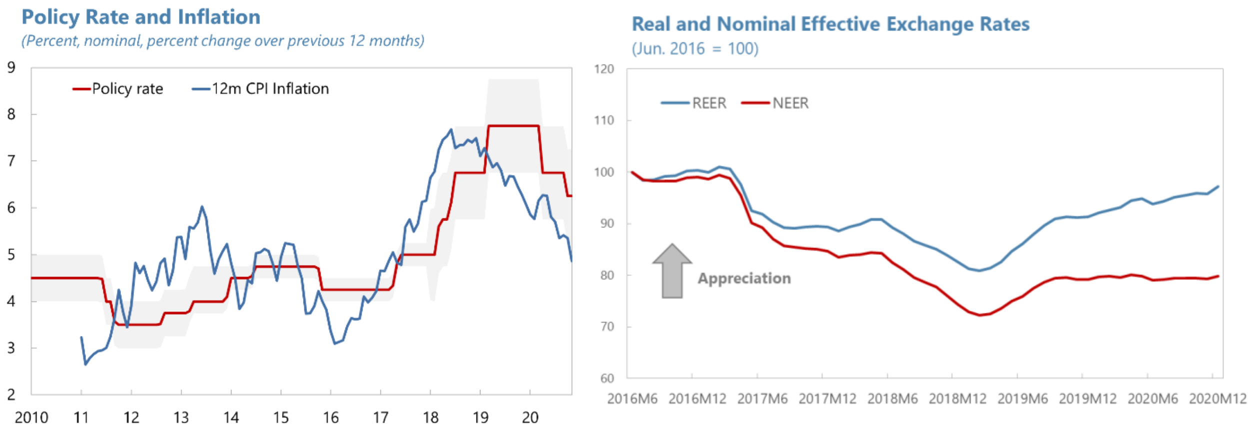
25. The authorities agreed with the need to reform the SOE sector. They highlighted that they are already exploring ways to settle cross-arrears. They confirmed that one objective would be to divest from sectors and activities that can be handled by the private sector. The resumption of the privatization program would also help boost private sector development. The MoF intends to request TA from the Fund in this area.

D. Strengthening the Monetary Policy Framework and Financial Stability

26. Staff urged the authorities to avoid monetary financing of the budget. Such policy may reverse the CBT's recent progress in reducing inflation, unsettle inflation expectations, adversely affect the exchange rate and reserves, and ultimately undermine the credibility and independence of the CBT. Staff also recommended that the CBT closely monitor inflation developments and the impact of the operation on money markets, and to stand ready to sterilize the impact on liquidity.

27. Monetary policy should continue to focus on inflation while preserving exchange rate flexibility. The CBT has moved away from quantitative targeting and steers the overnight interbank rate toward the policy rate using active liquidity management. The current monetary policy stance remains focused on continuing the disinflation effort (Text Figure 5). Staff noted that the nominal exchange rate has remained broadly stable as of late and cautioned that targeting the exchange rate would be inconsistent with progress towards inflation targeting. Staff also advised the authorities to implement the longstanding Fund recommendation to repeal limits on lending and deposit rates (which are currently not binding anyway). The removal of these caps would strengthen the transmission of monetary policy, foster competition for deposits (hence deposit growth and financial deepening), reduce distortions on risk pricing, and allow SMEs greater access to finance.

Text Figure 5. Tunisia: CBT Policy Rate and Inflation; Effective Exchange Rates, 2010–21



Sources: Tunisian authorities and IMF staff calculations.

28. Staff cautioned against liberalizing FX operations and reducing capital account controls before economic and financial stability are well-anchored. The authorities are preparing regulations to facilitate the use of derivatives in managing exchange rate risks. They plan to reduce exchange and capital controls over the medium term and are interested in receiving Fund TA in this area. Staff advised to prepare a gradual and conditions-based plan that balances financial stability and business environment objectives. To accompany exchange rate flexibility, and in line with MCM TA advice, this process would include: (i) supporting the development of a deep and liquid FX market; (ii) setting up systems to review and manage exchange rate risks; (iii) formulating a coherent FX intervention strategy; and (iv) upgrading FX regulations.

29. Vulnerabilities in the financial sector will need to be addressed. Enhanced monitoring of the banking sector would help detect emerging problems and possible risks to financial stability, e.g., from exposure of SOBs to troubled SOEs, or from concentration of credit risk in some sectors. The CBT announced a new methodology in January 2021 to calculate collective provisions aimed at addressing potential financial stability concerns that may arise from the debt repayment moratoria. The CBT conducted stress testing of banks in 2020 to assess the potential impact on credit risk, and staff recommended further stress testing as the pandemic continues to linger. It also welcomed the CBT's plans to undertake an asset quality review in 2021. To improve NPL management, the authorities recently relaxed tax write-off conditions for fully provisioned NPLs. Staff recommended that, notwithstanding moratoria on repayments, NPLs be transparently recorded and urged the authorities to resolve remaining structural issues related to NPLs.[9] Finally, the CBT should prepare a strategy and communication plan to phase out Covid-related measures, once the recovery is underway.

[9] With WB support, the authorities plan for a holistic strategy including legal, prudential, and institutional aspects of NPL resolution.

30. Staff encouraged the authorities to implement the recommendations of the safeguards assessment. The 2020 safeguards assessment found that the CBT has made progress to address safeguards concerns. A plan has been approved to transition to International Financial Reporting Standards (IFRS), and steps are being taken to address emerging risks in cybersecurity. Further work is needed to increase capacity of the internal audit function and establish a risk management function. The institutional and personal autonomy provisions have scope for strengthening at the time of the next revision of the central bank law. The CBT has recently received TA on improving internal controls, following up on the safeguard recommendations.

Authorities' Views

31. The CBT confirmed that its primary focus is to achieve low and stable inflation through the use of its policy rate. The CBT noted that its limited participation in the exchange rate market has been for price discovery purposes and noted that the stable exchange rate was a result of the implementation of sound monetary policy. It confirmed the intention to move to inflation targeting and requested further assistance to properly sequence reforms in the current context. The CBT underlined that the stress-testing exercise showed that banks' capital ratios would decline as a result of the Covid-19 crisis, but remain, on average, above regulatory minimums. It also stressed that the increase in collective provisions will enhance banks' resilience when debt repayment moratoria end.

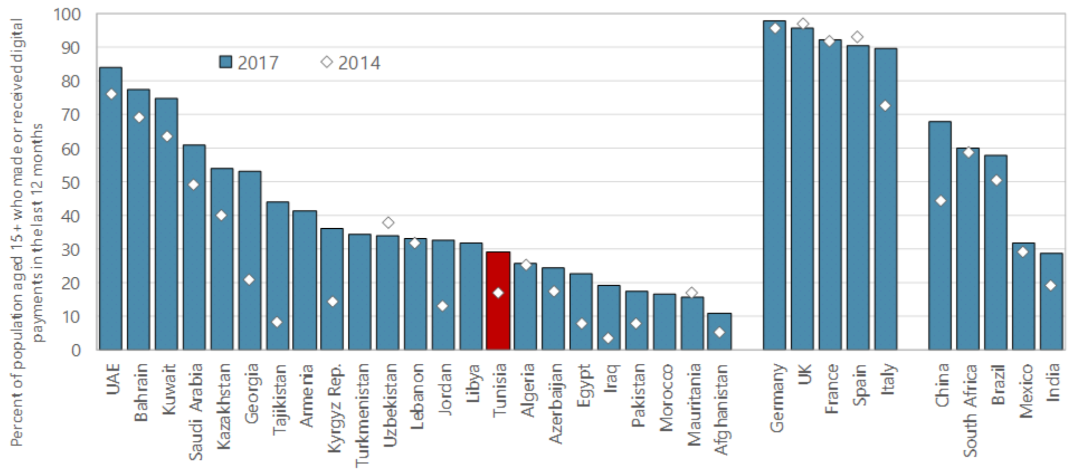
E. Promoting Private Sector Activity

32. Increasing potential growth and making it more inclusive, with more job creation, will require increased private sector participation and competition. To reverse the trend of gradually declining private investment and lagging labor productivity, there is a need to strengthen Tunisia's competitiveness and attractiveness for private-sector initiatives. Policy measures would include lifting (quasi-)monopolies in economic sectors currently dominated by SOEs, removing unnecessary regulatory hurdles (including on authorizations for market entry), and tackling other obstacles, such as lowering the cost for registering property, easing land dispute resolution, and improving the quality of land administration. Measures that enable private sector participation and increase productivity would also contribute to restoring Tunisia's external position.

33. Investments in renewable energy would help address the impact of climate change and diversify energy supply. The authorities' objective is to meet 30 percent of Tunisia's energy needs with renewable energy by 2030, notably wind and solar power. Investments in renewables offer great potential: they would help meet climate change commitments and diversify Tunisia's energy sources. Early indications from a solar tender project suggest that investments in renewables would be cost effective and improve the financial position of STEG. Staff encourages the authorities to explore options for private-public sector initiatives to help finance climate adaptation and mitigation projects, and to revisit carbon prices and taxation to help reduce carbon emissions.

34. Policies to advance financial inclusion would also support private sector growth and job creation. The authorities could build on the experience with Covid-19 by broadening the implementation of de-cashing and connecting of bank accounts to bank cards for low-income households. More generally, they could provide greater transparency in financial transactions to leverage new technologies (Text Figure 6). The authorities could also speed up the adoption of legislation on credit bureaus, private equity, and secure transactions, prepared with support from development partners. Over the medium term, operationalizing a national collateral registry and launching a national credit registry would also support financial deepening and inclusion.

Text Figure 6. Use of Digital Payments, 2014–17



Sources: Global Findex Database, World Bank.

F. Strengthening Governance

35. Good governance, anti-corruption, and transparency should be cross-cutting themes for the reform program. To reverse perceptions of corruption and eroding trust in the government, the authorities can further improve the credibility, effectiveness, and transparency of their anti-corruption framework. In that regard, approval of the decree that allows public access to asset declarations for the highest categories of civil servants (including enforcement mechanisms) would be a welcome first step, and efforts are also underway to strengthen the capacity to investigate by linking government databases. In this context, the authorities should implement all the regulations they passed over the past years and digitize the government sector to minimize opportunities for corruption. The authorities can also anchor the prevention and detection of corruption on effective implementation of anti-corruption and AML/CFT regimes (e.g., enhanced due diligence for politically exposed persons, suspicious transaction reporting, and entity transparency). Staff advised endowing anti-corruption agencies with sufficient resources and selecting the members of the Executive Board of the High Anti-Corruption and Good Governance Authority (HACGGA).

36. Covid-related expenditures and measures need to be effective and transparent. The *Cour des Comptes* plans to conduct an audit of the public-private Covid-19 fund. Current regulations require that all government procurement contracts, including those for recent Covid-related spending, should be published on a dedicated government website. To be fully effective, the data on this site could be more easily accessible and have information on the beneficiaries of the contracts, along with validation of delivery. Staff advises that the authorities conduct a comprehensive *ex post* audit of crisis-mitigation spending 6–12 months after the end of the fiscal year and publish its results on the government's website.

STAFF APPRAISAL

37. Staff welcomes the authorities' policy response to the Covid-19 crisis in the context of an unprecedented downturn. The authorities provided immediate support to the health sector, affected people and firms, while the CBT's accommodative actions supported credit and liquidity. Yet, real GDP is estimated to have contracted by an unprecedented 8.2 percent in 2020. The increase in the fiscal deficit and debt eroded remaining fiscal space, while the current account deficit narrowed from lower import demand and resilient remittances. Staff expects that growth may rebound modestly in 2021, as the pandemic is brought under control, but with substantial downside risks.

38. The two immediate policy priorities are to save lives and livelihoods until the pandemic wanes, and to start putting fiscal and external balances back on a sustainable trajectory, while protecting the poor. The 2021 budget aims to strike this balance, with the budgeted fiscal deficit projected to narrow amidst high and uncertain financing needs. However, in the absence of clear policy measures, staff's baseline projects a higher deficit. Staff calls on the authorities to strictly prioritize spending in favor of health and social protection, while exerting strict control over the civil service bill, ill-targeted energy subsidies, and transfers to inefficient state-owned enterprises. Staff encourages the authorities to continue to strengthen safety nets by reaching targeted groups and to enhance public investment.

39. The medium-term outlook depends critically on the future path of fiscal policy, and public debt would become unsustainable, unless a strong and credible reform program were adopted with broad support. Given past reform failures and resistance, staff urges the authorities to consult and communicate with the broader public a medium-term reform program that will take the country in a new direction. To be credible and gain buy-in, the reform program and associated medium-term fiscal framework would need to be supported by a *social compact*, with the main stakeholders committing to support reforms within their remit. Even so, risks would abound, and vulnerabilities persist over the medium term.

40. Staff calls on the authorities to put public finances back on a sustainable path, reorient expenditure to increase social protection and job-creating investment, and make taxation more equitable. Staff supports the authorities' intention to strike a balance between what is feasible in Tunisia's fragile socio-political context and the effort that is needed to bring Tunisia's macroeconomic balances back towards sustainability. To this end, tax policies should become more equitable and growth friendly, while expenditure rationalization should seek to restrain the civil service wage bill and phase out wasteful subsidies in a socially conscious way. In this context, staff cautions against creating new public agencies to reduce the wage bill, as this would add contingent liabilities rather than solving the problem. Staff urges the authorities to continue strengthening safety nets by reaching targeted groups, including by digital means. It also encourages the authorities to preserve and enhance public investment, including by tapping into digitalization and the green economy, and leveraging public-private partnerships.

41. The SOE sector needs urgent and broad-ranging reforms. Staff welcomes the authorities' efforts to resolve cross-arrears and encourages them to adopt a medium-term reform plan for the sector to improve SOE performance and reduce fiscal risks. Such a plan would 'triage' SOEs based on their financial viability, strategic importance, and nature of their activities (and be followed by restructuring or divesting as relevant); centralize their monitoring and management in a single entity; strengthen corporate governance; and improve financial reporting and transparency. Improving the financial position of the social insurance system would also reduce fiscal risks.

42. Staff urges the authorities to avoid monetary financing of the budget. Staff noted that such financing could undermine the CBT's progress in reducing inflation, unsettle inflation expectations, adversely affect the exchange rate and reserves, and ultimately undermine the credibility and independence of the central bank. The CBT should stand ready to act, if the recent monetary financing disturbed money markets or fueled inflation. Monetary policy should focus on inflation by steering short-term interest rates, while preserving exchange rate flexibility. Staff estimates that the exchange rate is overvalued relative to fundamentals, suggesting the need for exchange rate flexibility together with further reforms to narrow the gap. Staff encourages the authorities to implement the roadmap towards inflation targeting. Staff advises to prepare a gradual and conditions-based plan to gradually liberalize FX operations and reduce capital account restrictions, carefully balancing financial stability and business environment objectives. As the full impact of the pandemic on the financial sector is yet to be observed, the CBT should closely monitor financial sector soundness and enforce prudential rules, including in banks with large and concentrated exposures to SOEs and affected sectors.

43. Increasing potential growth and making it more inclusive, with more job creation, will require more private sector participation and competition. Staff urges the authorities to open SOE-dominated sectors to competition and remove unnecessary hurdles. Staff welcomes the authorities' objective to cover at least 30 percent of Tunisia's energy needs with renewables by 2030, which would help combat climate change and diversify energy supply. Staff also welcomes the authorities' ongoing efforts to increase financial inclusion, including by leveraging digital technologies.

44. Good governance, anti-corruption, and transparency should be cross-cutting themes for the years ahead. To that end, the authorities should enforce all governance-related regulations they have passed over the past years and digitize the government sector to minimize opportunities for corruption. Good governance in crisis-mitigation spending, including the effectiveness and transparency of Covid-related spending, is critical. To that end, effective implementation of anti-corruption and AML/CFT regimes will ensure transparency and accountability in public service, improve the business climate, and contribute to inclusive and sustainable growth.

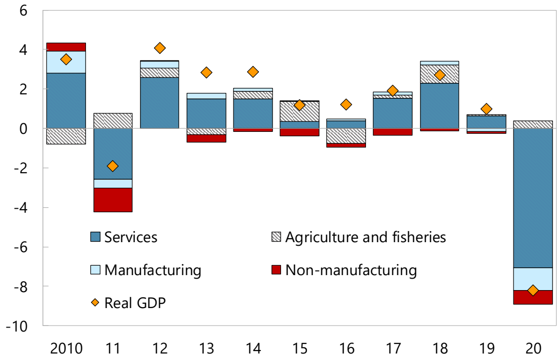
45. The next Article IV consultation with Tunisia is expected to be conducted on the standard 12-month cycle.

Figure 1. Tunisia: Real Sector Developments, 2010–20

GDP growth collapsed in 2020, driven by services (incl. tourism and transport) and manufacturing.

Sectoral Contributions to Growth

(Percent, annual growth)

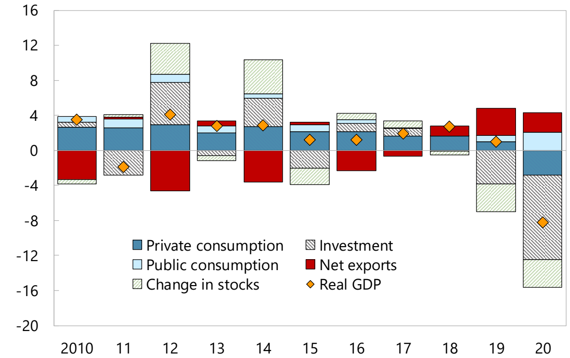


Sources: National Authorities and IMF staff estimates.

Both private consumption and investment declined significantly in 2020.

Demand Contributions to Growth

(Percent, annual growth)

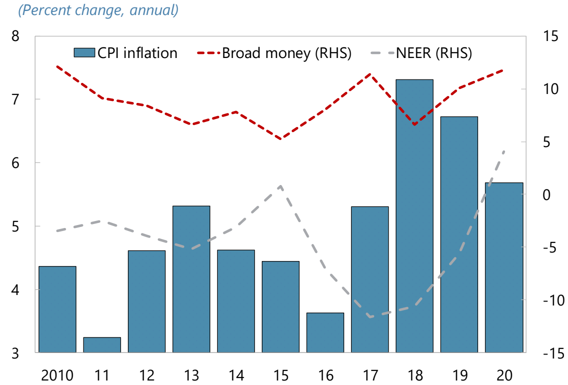


Sources: National Authorities.

Inflation continued to slow in 2020.

Consumer Price Index

(Percent change, annual)

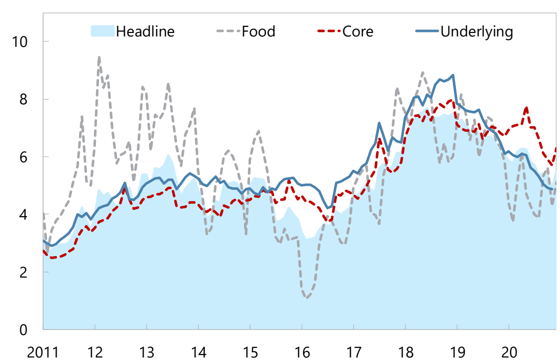


Sources: National Authorities.

Inflation, initially fueled by broad money growth and depreciation, started its declining path in mid-2019.

Consumer Price Index, Main Components

(Percent change, year-on-year)

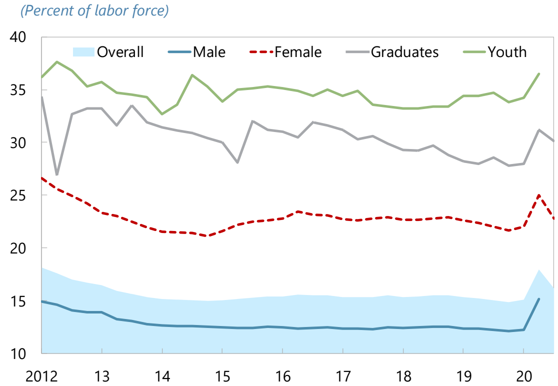


Sources: National Authorities.

Tunisia faces high and persistent unemployment, especially among the youth and women.

Unemployment Rate

(Percent of labor force)

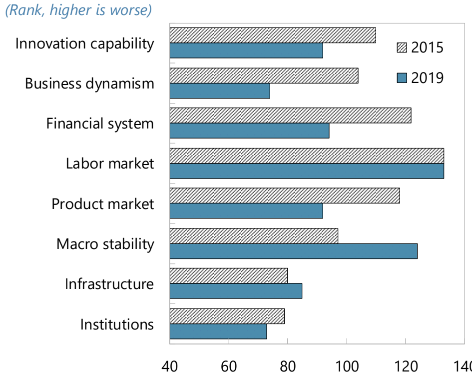


Sources: National Authorities.

Labor market issues and insufficient macroeconomic stability weigh on the business climate.

Global Competitiveness Indicators

(Rank, higher is worse)



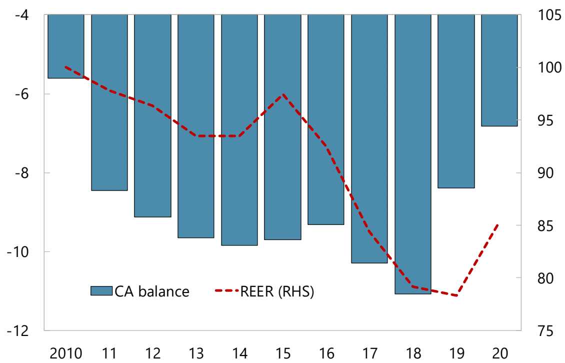
Sources: World Economic Forum.

Figure 2. Tunisia: External Sector Developments, 2010–20

The current account deficit narrowed in 2020 because of collapsing imports and resilient remittances.

Balance on Current Account

(Percent of GDP; REER base year 2010 = 100)

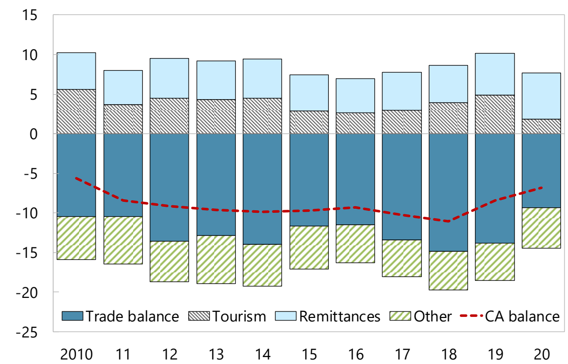


Sources: National Authorities and IMF staff estimates.

The trade deficit narrowed because lower exports were more than offset by the decline in imports.

Current Account Dynamics

(Percent of GDP)

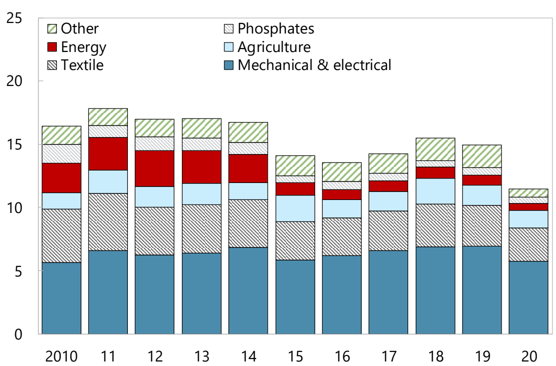


Sources: National Authorities and IMF staff estimates.

Export growth was adversely affected by weak demand from Europe....

Exports by Type of Good

(U.S. dollars, billions)

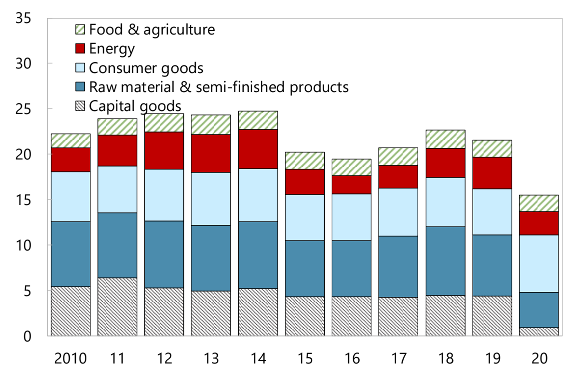


Sources: National Authorities.

... while imports, already starting to contract in 2019 from the REER depreciation, collapsed in 2020.

Imports by Type of Good

(U.S. dollars, billions)

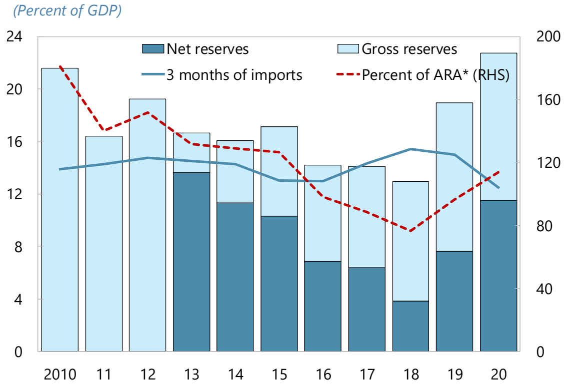


Sources: National Authorities.

Improved current account and external financing supported the accumulation of gross FX reserves in 2019, which increased further in 2020.

Reserve Coverage

(Percent of GDP)



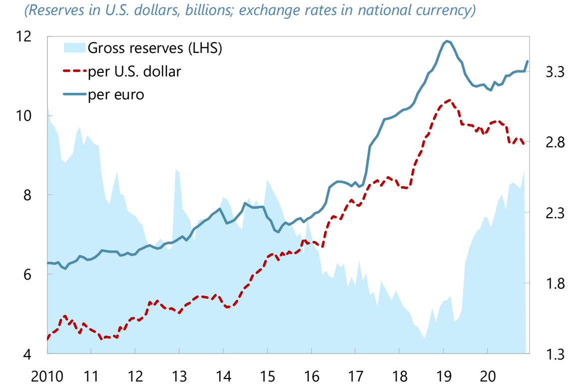
Sources: National Authorities and IMF staff estimates.

* ARA Metric is based on Floating ER regime adjusted for capital controls.

The dinar has remained relatively stable recently.

Reserves and Exchange Rate

(Reserves in U.S. dollars, billions; exchange rates in national currency)



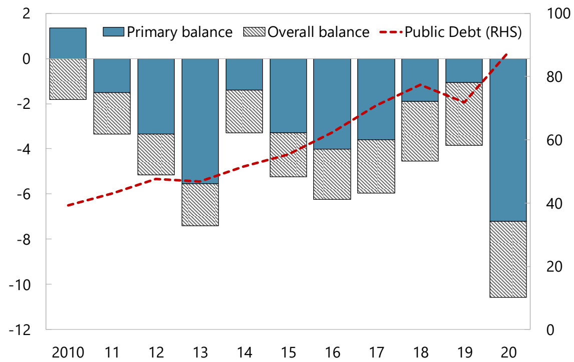
Sources: National Authorities, Bloomberg.

Figure 3. Tunisia: Fiscal Sector Developments, 2010–20

Fiscal consolidation over 2017–19 was sharply reversed in 2020 as the pandemic hit hard…

Overall Fiscal Balance

(Percent of GDP)

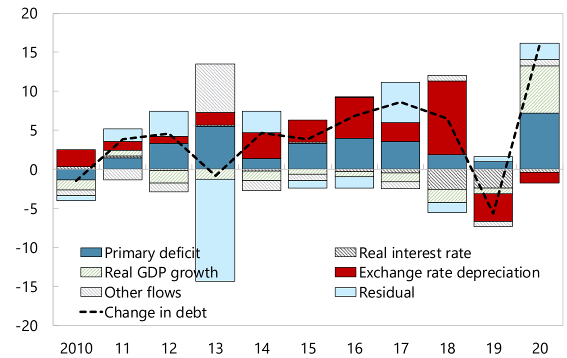


Sources: National Authorities.

…and public debt increased to historically high levels, driven by the high primary deficit and real contraction.

Debt-Creating Flows

(Percent of GDP)

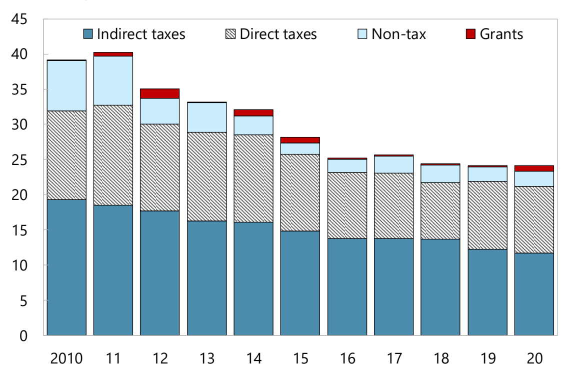


Sources: National Authorities and IMF staff estimates.

Despite the increase in some taxes, revenues did not improve given the subdued economic activity.

Government Revenues

(Percent of GDP)

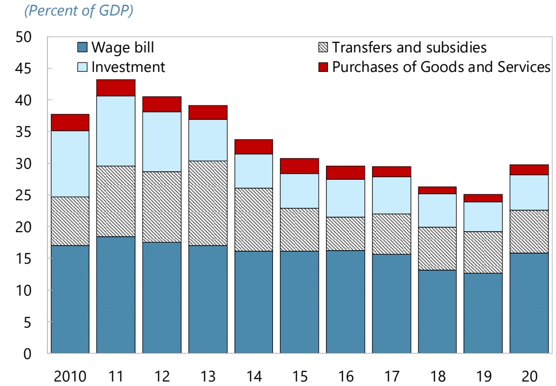


Sources: National Authorities.

Expenditures continue to be dominated by current outlays, incl. the public wage bill and energy subsidies.

Government Expenditures

(Percent of GDP)

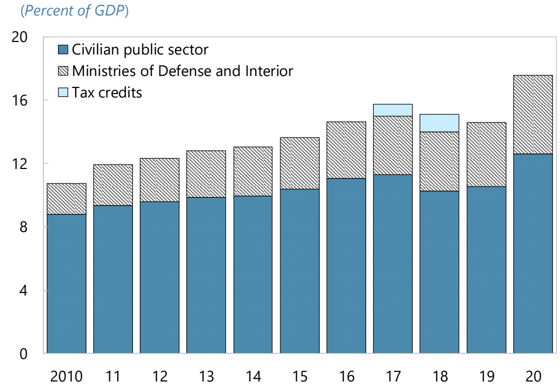


Sources: National Authorities.

The public wage bill is among the world's highest and continued to increase in 2020.

Wages and Salaries

(Percent of GDP)

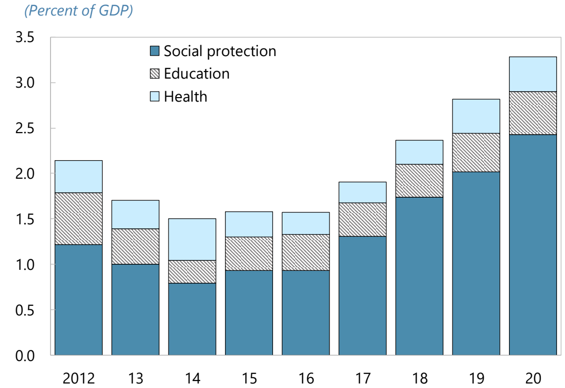


Sources: National Authorities.

Social protection spending to support the vulnerable had increased somewhat over time.

Social Transfers

(Percent of GDP)

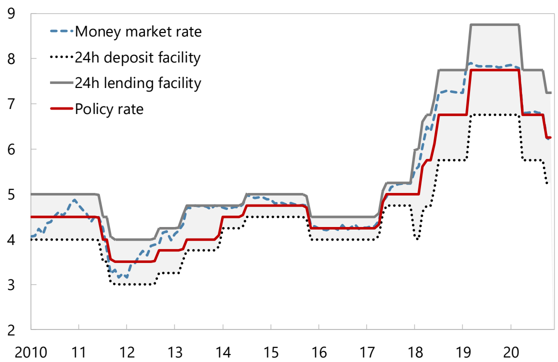


Sources: National Authorities.

Figure 4. Tunisia: Monetary Sector Developments, 2010–20

After a tightening in 2018–19 to contain inflation, key policy rates were lowered in response to Covid-19.

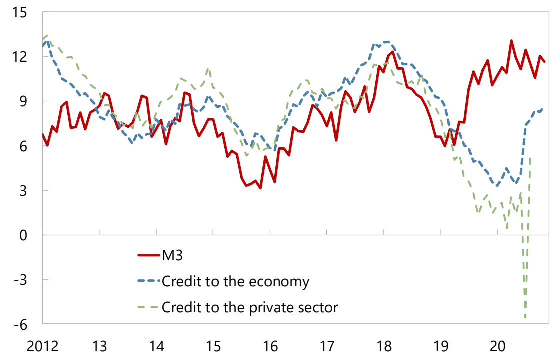
Interest Rates
(Percent, nominal, period average)



Sources: National Authorities.

Credit to the private sector has followed monetary aggregates with a lag and was subdued in 2020.

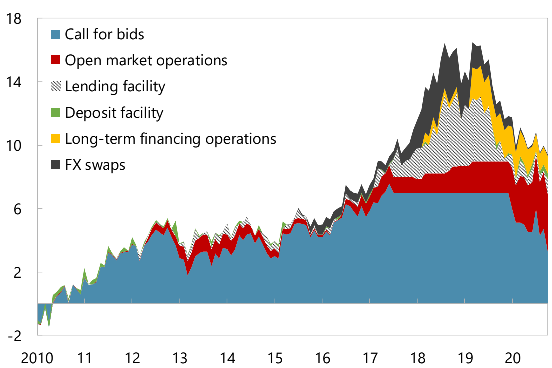
Credit and Broad Money
(Percent, year-on-year growth)



Sources: National Authorities.

Refinancing operations had started to decline before Covid-19 hit the economy.

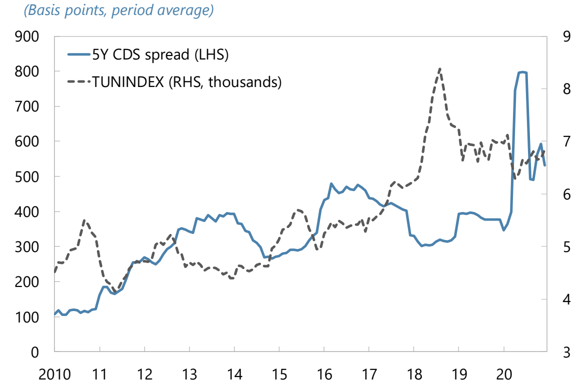
Central Bank Money Market Operations
(Tunisian dinars, billions)



Sources: National Authorities.

Spreads have increased and have become more volatile.

Spreads and Stock Index
(Basis points, period average)



Sources: Bloomberg, Markit.

Table 1. Tunisia: Selected Economic and Financial Indicators, 2017–25

	2017	2018	2019	2020		2021		2022	2023	2024	2025
			Prel.	Proj.	RFI	Proj.	RFI	Proj.			
Production and prices	(Annual percentage change)										
Real GDP (at 2010 prices)	1.9	2.7	1.0	-8.2	-4.3	3.8	4.1	2.4	2.0	1.8	1.8
GDP deflator	4.8	7.9	7.1	5.4	5.0	5.9	5.6	6.2	6.9	7.3	7.5
CPI inflation (average)	5.3	7.3	6.7	5.7	6.2	5.8	4.9	6.3	6.9	7.3	7.5
CPI inflation (eop)	6.2	7.5	6.1	5.5	6.0	6.0	4.8	6.4	6.9	7.4	7.7
Saving investment balance	(Percent of GDP)										
Gross national savings	9.1	10.0	8.8	1.0	3.1	0.9	6.6	1.9	1.9	1.6	1.4
of which: central government	-0.4	1.0	1.4	-4.1	-1.1	-3.5	2.1	-1.4	-1.3	-1.0	-0.8
Gross investment	19.4	21.1	17.2	7.8	10.6	10.5	14.8	11.4	11.2	10.8	10.4
of which: central government	5.6	5.6	5.3	6.1	3.3	5.8	4.6	5.5	5.3	5.0	4.8
Central government operations 1/	(Percent of GDP, unless otherwise indicated)										
Total revenue and grants	24.6	26.0	27.7	26.9	26.4	27.0	27.8	27.2	27.2	27.4	27.5
Total expenditure and net lending	30.6	30.5	31.6	37.5	30.7	36.2	30.3	34.0	33.7	33.3	33.0
of which: wage bill	15.0	14.0	14.6	17.6	16.5	17.5	15.4	17.2	16.9	16.7	16.5
of which: energy subsidies	1.6	2.5	2.8	1.3	0.7	1.8	0.5	1.1	0.8	0.6	0.5
of which: transfers (incl. social programs and CNRPS)	2.2	2.5	2.8	3.6	3.3	2.9	3.2	2.9	2.9	2.9	2.9
of which: capital expenditure	5.6	5.6	5.3	6.1	3.3	5.8	4.6	5.5	5.3	5.0	4.8
Overall balance (incl. grants)	-6.0	-4.5	-3.9	-10.6	-4.3	-9.3	-2.5	-6.8	-6.5	-6.0	-5.6
Overall balance (excl. grants)	-6.2	-4.8	-4.1	-11.5	-5.3	-9.9	-2.8	-7.1	-6.7	-6.2	-5.8
Primary balance (incl. grants)	-3.6	-1.9	-1.1	-7.2	-1.2	-5.9	0.8	-3.0	-2.0	-1.0	-0.3
Net foreign financing	6.3	3.6	2.4	1.2	4.3	4.2	1.1	1.8	2.0	2.0	2.4
Net domestic financing	5.3	0.8	2.2	9.4	0.0	5.1	1.4	5.0	4.5	3.9	3.1
Social spending 2/	1.9	2.4	2.8	2.5	3.2	2.4	3.1	2.3	2.3	2.3	2.3
Gross central government debt 3/	70.9	77.5	71.8	87.6	88.5	91.2	86.7	93.9	96.5	98.5	99.7
of which: foreign currency debt	49.6	57.3	52.4	59.8	67.1	61.9	66.0	62.7	64.2	65.6	67.0
Money and credit	(Annual percentage change, unless otherwise indicated)										
Broad money	11.4	6.6	10.1	11.8	4.0	11.2	6.5	10.0	10.0	9.4	8.8
Credit to the economy	12.7	9.3	3.6	6.8	5.3	7.1	5.4	7.2	7.4	7.5	7.6
Velocity of circulation (GDP/M3)	1.3	1.3	1.3	1.1	1.3	1.1	1.3	1.1	1.1	1.1	1.1
External sector	(Percent of GDP, unless otherwise indicated)										
Current account balance	-10.3	-11.1	-8.4	-6.8	-7.5	-9.5	-8.1	-9.4	-9.3	-9.2	-9.0
Trade balance	-13.4	-14.8	-13.9	-9.4	-9.4	-14.3	-13.3	-13.1	-12.4	-12.4	-12.3
Value of exports of goods (pct. change)	4.9	8.8	-3.5	-8.7	-20.1	16.6	13.8	6.4	4.9	4.2	3.6
Value of imports of goods (pct. change)	6.3	9.7	-5.0	-14.8	-24.5	28.0	19.3	3.6	3.1	4.2	3.4
Volume of exports of goods (pct. change)	3.2	3.5	-5.1	-12.3	-14.2	10.0	15.8	7.0	4.6	2.9	2.3
Volume of import of goods (pct. change)	3.4	1.0	-8.6	-13.7	-21.6	12.1	26.1	5.5	3.8	3.4	2.4
Terms of trade (pct. change, "-": deterioration)	-1.2	-3.2	-2.3	5.5	-3.2	-7.2	3.9	1.2	1.0	0.5	0.2
Foreign direct investment (net)	2.0	2.5	2.1	1.6	0.4	1.7	1.8	1.9	2.0	2.0	2.0
Gross official reserves (eop, billions of US$)	5.6	5.2	7.4	9.0	6.5	8.4	6.5	7.6	6.7	5.6	4.7
Reserve coverage (months of next year's imports of goods)	3.0	2.9	4.9	4.6	4.0	4.1	3.7	3.6	3.1	2.5	2.0
Reserve coverage (months of next year's imports of GNFS)	2.6	2.5	4.3	4.1	3.6	3.7	3.3	3.2	2.8	2.2	1.8
External debt	84.6	97.4	92.8	94.7	109.9	99.2	108.2	101.2	99.3	96.7	95.7
of which: medium- and long- term external debt	65.5	74.5	65.8	69.8	87.0	71.5	85.8	72.4	73.8	74.7	76.1
of which: public external debt	61.4	79.5	73.0	76.8	83.8	80.1	82.7	81.5	81.6	81.0	81.3
External debt service (pct. of exports of GNFS)	16.5	14.0	17.2	19.3	23.9	21.5	22.2	19.0	21.4	23.6	18.9
Memorandum items:											
Population (millions)	11.5	11.7	11.8	11.9	11.9	12.0	12.0	12.1	12.2	12.3	12.4
Nominal GDP (millions of TD)	95,865	106,242	114,939	111,251	114,419	122,280	125,711	133,078	145,145	158,569	173,428
Nominal GDP (billions of US$)	39.6	40.1	39.2	...	...	...	...	...	...	...	...
GDP per capita (US$)	3,436	3,443	3,324	3,323	3,084	3,683	2,980	3,836	3,958	4,079	4,202
Exchange rate (TD/US$, avg.)	2.42	2.65	2.93	...	...	...	...	...	...	...	...
Real effective exchange rate (avg., pct. change, "-": depreciation)	-8.8	-6.2	-1.1	...	...	...	...	...	...	...	...
Real effective exchange rate (eop., pct. change, "-": depreciation)	-10.9	-7.7	10.7	...	...	...	...	...	...	...	...
Interest rate (money market rate, eop, pct.)	4.9	6.7	7.7	...	...	...	...	...	...	...	...
Stock market (TUNINDEX, 12/31/1997=1000)	6,282	7,275	7,870	...	...	...	...	...	...	...	...
Oil price (Brent, US$ per barrel)	54.4	71.1	64.0	42.3	36.9	53.9	39.5	51.4	50.2	49.6	49.2

Sources: Tunisian authorities; and IMF staff estimates and projections.

1/ Excludes social security accounts, public enterprises, and local governments.

2/ Social spending includes social transfers and programs as well as capital expenditures of the ministries of education, health, social affairs, youth and sports, and women and family affairs. It does not include emergency COVID-related spending in 2020 and 2021.

3/ In addition to central government debt, SOE debt of and guarantees to the 30 largest SOEs amounts to almost 40 and 15 percent of GDP, respectively.

Table 2. Tunisia: Real Sector, 2017–25

(In percent)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Act.	Act.	Est.	Proj.	Proj.				
Real GDP growth									
Previous year prices 1/	2.0	2.7	0.9	-8.3	3.8	2.5	2.0	1.9	1.8
Constant 2010 prices	1.9	2.7	1.0	-8.2	3.8	2.4	2.0	1.8	1.8
Per capita	0.8	1.6	-0.1	-9.1	2.8	1.5	1.1	1.0	1.0
Inflation									
CPI (average)	5.3	7.3	6.7	5.7	5.8	6.3	6.9	7.3	7.5
Core (average) 2/	5.4	7.5	6.9	6.7	6.0	6.9	7.5	8.0	8.4
Underlying (average) 3/	6.2	8.2	7.2	...	...	...	...	...	...
CPI (eop)	6.2	7.5	6.1	5.5	6.0	6.4	6.9	7.4	7.7
GDP deflator	4.8	7.9	7.1	5.4	5.9	6.2	6.9	7.3	7.5
Contributions to growth (supply; constant 2010 prices)									
Total added value	**1.7**	**2.4**	**0.8**	**-7.7**	**3.4**	**2.3**	**1.9**	**1.7**	**1.7**
Commercial activities	**1.5**	**2.3**	**0.6**	**-7.1**	**2.5**	**1.8**	**1.5**	**1.4**	**1.3**
Agriculture	0.2	0.9	0.1	0.4	-0.3	0.2	0.2	0.2	0.2
Manufacturing	0.2	0.2	-0.2	-1.1	0.6	0.1	0.1	0.1	0.1
of which: mechanical and electrical industries	0.2	0.1	-0.1	-0.7	0.3	0.0	0.0	0.0	0.0
Non-manufacturing	-0.4	-0.1	-0.1	-0.7	0.4	0.0	0.0	0.0	0.0
Services	1.9	1.4	0.9	-5.7	1.9	1.4	1.2	1.1	1.1
of which: hotels and restaurants	0.3	0.3	0.3	-1.7	0.5	0.5	0.3	0.2	0.2
of which: transport	0.6	0.2	-0.2	-2.0	0.3	0.4	0.3	0.3	0.3
of which: commerce	0.1	0.1	0.0	-0.4	0.2	0.1	0.1	0.1	0.1
Intermediary consumption (in - terms)	-0.4	-0.1	-0.1	0.1	-0.1	0.0	0.0	0.0	0.0
Public administration	**0.1**	**0.1**	**0.2**	**-0.6**	**0.9**	**0.6**	**0.4**	**0.4**	**0.3**
Indirect taxes net of subsidies	**0.3**	**0.3**	**0.2**	**-0.5**	**0.4**	**0.1**	**0.1**	**0.1**	**0.1**
Contributions to growth (demand; constant 2010 prices)									
Consumption	**1.7**	**1.7**	**1.7**	**-0.8**	**...**	**...**	**...**	**...**	**...**
Private	1.7	1.6	1.0	-2.8	...	...	...	...	...
Public	0.0	0.0	0.7	2.0	...	...	...	...	...
Investment	**0.8**	**-0.1**	**-3.8**	**-9.6**	**...**	**...**	**...**	**...**	**...**
Private	-0.3	0.1	-1.1	-9.9	...	...	...	...	...
Public	0.4	0.3	0.5	3.4	...	...	...	...	...
Change in stocks	0.8	-0.4	-3.2	-3.2	...	...	...	...	...
Net exports	**-0.7**	**1.1**	**3.1**	**2.2**	**...**	**...**	**...**	**...**	**...**
Exports	1.6	1.8	-2.6	-5.9	...	...	...	...	...
Imports	-2.3	-0.6	5.7	8.2	...	...	...	...	...

Sources: Tunisia authorities, and IMF staff projections.

1/ Output measured using current and previous year prices.

2/ Excludes food and energy items.

3/ Excludes fresh food and administered prices (Central Bank of Tunisia's definition).

Table 3. Tunisia: Balance of Payments, 2017–25 1/

(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Proj.	Proj.		Proj.		
Current account balance	**-4,080**	**-4,443**	**-3,288**	**-2,697**	**-4,210**	**-4,396**	**-4,493**	**-4,608**	**-4,717**
Trade balance	**-5,308**	**-5,950**	**-5,428**	**-3,711**	**-6,312**	**-6,101**	**-5,986**	**-6,243**	**-6,434**
Exports	14,231	15,485	14,945	13,646	15,913	16,928	17,761	18,503	19,160
Energy	846	880	824	774	910	977	1,057	1,164	1,292
Non-energy	13,384	14,605	14,121	12,872	15,003	15,951	16,704	17,339	17,868
of which: non-food	11,844	12,561	12,516	10,964	12,716	13,569	14,237	14,788	15,233
Imports	-19,538	-21,435	-20,373	-17,357	-22,225	-23,028	-23,748	-24,745	-25,594
Energy	-2,513	-3,214	-3,467	-2,424	-3,903	-3,999	-4,136	-4,285	-4,446
Non-energy	-17,025	-18,220	-16,906	-14,933	-18,322	-19,030	-19,612	-20,460	-21,148
of which: non-food	-15,100	-16,195	-14,981	-12,914	-15,748	-16,422	-17,034	-17,861	-18,529
Services and transfers (net)	**1,228**	**1,506**	**2,140**	**1,014**	**2,102**	**1,705**	**1,493**	**1,634**	**1,717**
Services	305	717	1,182	6	1,105	898	799	970	972
of which: tourism exports	1,170	1,565	1,918	740	1,295	1,750	1,887	1,974	2,042
Transfers (net)	923	790	958	1,008	997	807	694	664	745
of which: workers' remittances	1,861	1,875	2,023	2,249	2,322	2,386	2,468	2,461	2,492
of which: interest payments on external debt	-607	-725	-795	-787	-986	-1,236	-1,498	-1,590	-1,500
Capital and financial account	**4,079**	**5,068**	**5,066**	**4,255**	**3,690**	**3,715**	**4,098**	**4,165**	**4,307**
Capital account balance	184	128	137	419	92	72	80	89	99
Financial account balance	3,895	4,940	4,928	3,836	3,598	3,644	4,018	4,076	4,208
Direct investment and portfolio (net)	747	948	823	647	767	930	982	999	1,025
Medium- and long-term loans (net)	2,281	1,143	1,104	-474	1,709	1,035	1,634	2,029	2,249
Disbursements	4,266	2,631	3,231	1,668	4,915	3,665	4,350	5,102	4,673
Amortization	-1,986	-1,487	-2,127	-2,141	-3,205	-2,630	-2,716	-3,072	-2,424
ST debt and other capital flows (net)	868	2,848	3,001	3,662	1,122	1,678	1,401	1,047	934
Overall balance	**-1**	**624**	**1,778**	**1,559**	**-520**	**-680**	**-395**	**-444**	**-410**
Errors and omissions	-341	-1,251	589	-563	0	0	0	0	0
Financing	**342**	**627**	**-2,367**	**-995**	**520**	**680**	**395**	**444**	**410**
Gross international reserves ("-": accumulation)	348	402	-2,231	-1,565	603	813	859	1,132	898
Use of IMF credit (net)	-5	225	-135	570	-83	-132	-464	-688	-488
Purchases	312	748	245	746	0	0	0	0	0
Repurchases	317	523	380	177	83	132	464	688	488
Other financing	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account balance (percent of GDP)	-10.3	-11.1	-8.4	-6.8	-9.5	-9.4	-9.3	-9.2	-9.0
Non-energy current account balance (percent of GDP)	-6.1	-5.3	-1.6	-2.6	-2.8	-3.0	-2.9	-3.0	-3.0
Exports (percent of GDP)	35.9	38.6	38.2	34.5	35.9	36.4	36.7	36.8	36.7
Goods export real growth (percent)	3.2	3.5	-5.1	-12.3	10.0	7.0	4.6	2.9	2.3
of which: non-energy (percent)	3.1	5.0	-5.0	-14.4	10.3	6.6	4.1	2.1	1.4
Imports (percent of GDP)	49.3	53.4	52.0	43.9	50.2	49.5	49.0	49.2	49.0
Goods import real growth (percent)	3.4	1.0	-8.6	-13.7	12.1	5.5	3.8	3.4	2.4
of which: non-energy (percent)	1.9	0.9	-10.4	-14.3	4.8	5.1	3.2	2.5	2.0
Gross official reserves (eop, billions of US$)	5.6	5.2	7.4	9.0	8.4	7.6	6.7	5.6	4.7
Reserve coverage (months of next year's imports of GNFS)	2.6	2.5	4.3	4.1	3.7	3.2	2.8	2.2	1.8
Reserve coverage (pct. of short-term external debt) 2/	75.8	63.9	67.0	88.6	69.5	57.8	55.8	51.9	47.1
External debt (billions of US$)	32.6	34.5	38.1	38.6	43.3	46.1	46.9	47.4	48.7
Medium- and long-term external debt	25.3	26.4	27.0	28.5	31.3	33.0	34.9	36.7	38.7
of which: public external debt	23.6	24.8	25.5	27.2	30.0	31.8	33.6	35.3	37.3
Short-term external debt	7.4	8.1	11.1	10.1	12.1	13.1	12.0	10.7	10.0
of which: public external debt	0.1	3.4	4.5	4.1	4.9	5.3	4.9	4.4	4.1
External debt service ratio (incl. IMF, pct. of exports of GNFS)	16.5	14.0	17.2	19.3	21.5	19.0	21.4	23.6	18.9
Nominal GDP (millions of US$)	39,627	40,139	39,169	…	…	…	…	…	…

Sources: Tunisian authorities; and IMF staff estimates and projections.

1/ In accordance with the Fifth Edition of the Balance of Payments and Investment Position Manual (BPM5).

2/ Short-term defined as one year or less remaining maturity.

Table 4. Tunisia: Central Government Fiscal Operations, 2018–26
(In millions of dinars, cumulative flow since the beginning of the year)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			Proj.	Budget Law	Proj.	Budget Law	Proj.				
Total revenue and grants	**27,590**	**31,885**	**29,934**	**30,121**	**32,979**	**33,059**	**36,145**	**39,488**	**43,386**	**47,622**	**52,356**
Revenue	**27,354**	**31,636**	**28,877**	29,064	**32,179**	32,259	**35,845**	**39,188**	**43,053**	**47,238**	**51,911**
Tax revenue	**24,503**	**28,901**	**26,239**	26,407	**29,656**	29,825	**32,754**	**35,954**	**39,573**	**43,481**	**47,772**
Direct taxes	9,065	12,648	11,719	11,837	12,611	12,805	14,255	15,720	17,274	18,893	20,682
PIT	6,359	8,813	8,734	8,822	9,615	9,662	10,464	11,463	12,523	13,696	14,994
CIT	2,706	3,835	2,985	3,015	2,996	3,143	3,792	4,257	4,751	5,196	5,688
Indirect taxes	15,438	16,253	14,520	14,570	17,045	17,020	18,499	20,234	22,299	24,589	27,090
Trade taxes	1,208	1,284	1,148	1,148	1,383	1,303	1,488	1,607	1,762	1,919	2,079
VAT	7,425	7,797	6,773	6,773	7,808	7,553	8,494	9,366	10,405	11,604	12,884
Excise	2,864	2,872	2,794	2,794	3,374	3,711	3,646	3,954	4,330	4,724	5,190
Other indirect taxes	3,941	4,299	3,805	3,855	4,480	4,453	4,871	5,308	5,801	6,342	6,936
Nontax revenue	**2,851**	**2,735**	**2,638**	2,657	**2,523**	2,434	**3,091**	**3,233**	**3,480**	**3,757**	**4,139**
of which: energy sector	1,356	1,150	926	**…**	972	**…**	959	981	1,019	1,065	1,123
Grants	**236**	**249**	**1,057**	**1,057**	**800**	**800**	**300**	**300**	**333**	**384**	**445**
Total expenditure and net lending	**32,410**	**36,315**	**41,686**	**42,079**	**44,297**	**40,203**	**45,234**	**48,971**	**52,835**	**57,316**	**62,530**
Total expenditure	**32,427**	**36,397**	**41,320**	41,713	**44,263**	40,203	**45,366**	**49,074**	**52,929**	**57,255**	**62,440**
Current expenditure	**26,482**	**30,258**	**34,490**	34,883	**37,205**	33,055	**37,983**	**41,420**	**44,963**	**48,939**	**53,615**
Wages and salaries	14,863	16,767	19,547	19,547	21,339	20,118	22,873	24,597	26,522	28,657	31,021
Goods and services	1,210	1,607	2,040	2,040	2,000	1,900	2,077	2,265	2,474	2,706	2,962
Interest payments	2,802	3,192	3,731	4,134	4,164	4,030	5,072	6,540	7,836	9,161	10,490
Domestic	1,519	1,609	2,284	2,552	2,300	2,189	2,325	3,051	3,819	4,541	5,043
External	1,283	1,583	1,447	1,582	1,865	1,841	2,748	3,489	4,018	4,620	5,446
Transfers and subsidies	7,607	8,692	8,459	8,449	9,302	6,607	7,961	8,017	8,131	8,415	9,142
Subsidies	4,900	5,428	4,496	4,486	5,802	3,101	4,082	3,788	3,510	3,361	3,636
Food	1,750	1,800	2,416	2,416	3,134	2,200	2,179	2,129	1,994	1,952	2,109
Energy	2,700	3,178	1,480	1,470	2,168	401	1,403	1,159	1,015	908	1,027
Fuel (STIR)	1,500	1,932	…	…	…	…	889	773	702	663	739
Electricity and gas (STEG)	1,200	1,246	…	…	…	…	514	386	314	245	288
Transport	450	450	600	600	500	500	500	500	500	500	500
Transfers (incl. social programs and CNRPS)	2,707	3,264	3,963	3,963	3,500	3,506	3,878	4,229	4,621	5,055	5,506
Other current expenditure (non-allocated)	0	0	713	713	400	400	0	0	0	0	0
Capital expenditure	**5,945**	**6,140**	**6,830**	6,830	**7,057**	7,148	**7,382**	**7,655**	**7,966**	**8,316**	**8,760**
Unidentified measures ("-": required savings)	**0**	**0**	**0**	…	**0**	…	**0**	**0**	**0**	**0**	**65**
Net lending	**-17**	**-82**	**366**	**366**	**34**	**0**	**-132**	**-103**	**-94**	**61**	**89**
Overall balance	**-4,819**	**-4,431**	**-11,753**	**-11,958**	**-11,318**	**-7,144**	**-9,089**	**-9,483**	**-9,449**	**-9,694**	**-10,174**
Errors and omissions	101	-863	0	**0**	0	**0**	0	0	0	0	0
Financing (net)	**4,718**	**5,294**	**11,753**	**11,958**	**11,318**	**7,144**	**9,089**	**9,483**	**9,449**	**9,694**	**10,174**
Foreign financing	**3,827**	**2,734**	**1,319**	**3,031**	**5,127**	**6,509**	**2,428**	**2,936**	**3,232**	**4,244**	**4,290**
Drawings	7,073	7,967	5,590	7,364	11,633	13,015	8,368	10,730	13,559	12,758	11,599
Amortization	3,246	5,233	4,271	4,333	6,506	6,506	5,940	7,794	10,327	8,514	7,309
Domestic financing	**891**	**2,560**	**10,434**	**8,927**	**6,191**	**635**	**6,661**	**6,547**	**6,216**	**5,449**	**5,884**
Debt	-162	1,449	9,603	8,827	6,340	585	6,896	6,810	6,509	5,773	6,242
Drawings	3,186	2,640	12,724	11,948	10,879	5,580	12,534	12,366	11,900	11,867	14,504
Of which: CBT drawings	0	0	2,810	2,810	0	…	0	0	0	0	0
Amortization	3,348	1,190	3,121	3,121	4,539	4,995	5,638	5,556	5,391	6,094	8,262
Non-debt	1,053	1,111	831	100	-150	50	-235	-263	-293	-324	-358
Memorandum items:											
Overall balance (excl. grants)	-5,056	-4,680	-12,810	-13,015	-12,118	-7,944	-9,389	-9,783	-9,782	-10,078	-10,619
Primary balance (excl. grants)	-2,254	-1,488	-9,079	-8,881	-7,954	-3,914	-4,316	-3,243	-1,946	-917	-129
Total current primary expenditure	23,680	27,066	30,759	30,749	33,041	29,025	32,910	34,879	37,127	39,779	43,126
Social expenditures 1/	2,498	3,209	3,655	…	3,865	…	4,136	4,361	4,639	4,973	5,345
Gross central government debt	82,295	82,554	97,495	…	111,507	…	124,897	140,058	156,119	172,967	189,512
Domestic	22,027	23,949	34,521	…	40,869	…	46,578	52,731	59,558	65,721	69,084
External	60,268	58,605	62,974	…	70,638	…	78,318	87,327	96,561	107,246	120,428
Stock of government deposits	2,782	2,696	2,516	…	2,666	…	2,901	3,164	3,457	3,781	4,139
Nominal GDP	106,242	114,939	111,251	111,075	122,280	121,110	133,078	145,145	158,569	173,428	189,846

Sources: Tunisian authorities; and IMF staff estimates.

1/ Social spending includes social transfers and programs as well as capital expenditures of the ministries of education, health, social affairs, youth and sports, and women and family affairs. It does not include emergency COVID-related spending in 2020 and 2021.

Table 5. Tunisia: Central Government Fiscal Operations, 2018–26
(In percent of GDP)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			Proj.	Budget	Proj.	Budget			Proj.		
Total revenue and grants	**26.0**	**27.7**	**26.9**	**27.1**	**27.0**	**27.3**	**27.2**	**27.2**	**27.4**	**27.5**	**27.6**
Revenue	**25.7**	**27.5**	**26.0**	**26.1**	**26.3**	**26.6**	**26.9**	**27.0**	**27.2**	**27.2**	**27.3**
Tax revenue	**23.1**	**25.1**	**23.6**	**23.7**	**24.3**	**24.6**	**24.6**	**24.8**	**25.0**	**25.1**	**25.2**
Direct taxes	8.5	11.0	10.5	10.6	10.3	10.6	10.7	10.8	10.9	10.9	10.9
PIT	6.0	7.7	7.9	7.9	7.9	8.0	7.9	7.9	7.9	7.9	7.9
CIT	2.5	3.3	2.7	2.7	2.5	2.6	2.8	2.9	3.0	3.0	3.0
Indirect taxes	14.5	14.1	13.1	13.1	13.9	14.1	13.9	13.9	14.1	14.2	14.3
Trade taxes	1.1	1.1	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1
VAT	7.0	6.8	6.1	6.1	6.4	6.2	6.4	6.5	6.6	6.7	6.8
Excise	2.7	2.5	2.5	2.5	2.8	3.1	2.7	2.7	2.7	2.7	2.7
Other indirect taxes	3.7	3.7	3.4	3.5	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Nontax revenue	**2.7**	**2.4**	**2.4**	**2.4**	**2.1**	**2.0**	**2.3**	**2.2**	**2.2**	**2.2**	**2.2**
of which: energy sector	1.3	1.0	0.8	...	0.8	...	0.7	0.7	0.6	0.6	0.6
Grants	**0.2**	**0.2**	**1.0**	**1.0**	**0.7**	**0.7**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Total expenditure and net lending	**30.5**	**31.6**	**37.5**	**37.8**	**36.2**	**33.2**	**34.0**	**33.7**	**33.3**	**33.0**	**32.9**
Total expenditure	**30.5**	**31.7**	**37.1**	**37.5**	**36.2**	**33.2**	**34.1**	**33.8**	**33.4**	**33.0**	**32.9**
Current expenditure	**24.9**	**26.3**	**31.0**	**31.4**	**30.4**	**27.3**	**28.5**	**28.5**	**28.4**	**28.2**	**28.2**
Wages and salaries	14.0	14.6	17.6	17.6	17.5	16.6	17.2	16.9	16.7	16.5	16.3
Goods and services	1.1	1.4	1.8	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Interest payments	2.6	2.8	3.4	3.7	3.4	3.3	3.8	4.5	4.9	5.3	5.5
Domestic	1.4	1.4	2.1	2.3	1.9	1.8	1.7	2.1	2.4	2.6	2.7
External	1.2	1.4	1.3	1.4	1.5	1.5	2.1	2.4	2.5	2.7	2.9
Transfers and subsidies	7.2	7.6	7.6	7.6	7.6	5.5	6.0	5.5	5.1	4.9	4.8
Subsidies	4.6	4.7	4.0	4.0	4.7	2.6	3.1	2.6	2.2	1.9	1.9
Food	1.6	1.6	2.2	2.2	2.6	1.8	1.6	1.5	1.3	1.1	1.1
Energy	2.5	2.8	1.3	1.3	1.8	0.3	1.1	0.8	0.6	0.5	0.5
Fuel	1.4	1.7	...	...	...	...	0.7	0.5	0.4	0.4	0.4
Electricity and gas	1.1	1.1	...	...	...	...	0.4	0.3	0.2	0.1	0.2
Transport	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Transfers (incl. social programs and CNRPS)	2.5	2.8	3.6	3.6	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Other current expenditure (non-allocated)	0.0	0.0	0.6	0.6	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Capital expenditure	**5.6**	**5.3**	**6.1**	**6.1**	**5.8**	**5.9**	**5.5**	**5.3**	**5.0**	**4.8**	**4.6**
Unidentified measures ("-": required savings)	**...**	**0.0**	**0.0**	**...**	**0.0**	**...**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net lending	**0.0**	**-0.1**	**0.3**	**0.3**	**0.0**	**0.0**	**-0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**
Overall balance	**-4.5**	**-3.9**	**-10.6**	**-10.7**	**-9.3**	**-5.9**	**-6.8**	**-6.5**	**-6.0**	**-5.6**	**-5.4**
Errors and omissions	0.1	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing (net)	**4.4**	**4.6**	**10.6**	**10.7**	**9.3**	**5.9**	**6.8**	**6.5**	**6.0**	**5.6**	**5.4**
Foreign financing	**3.6**	**2.4**	**1.2**	**2.7**	**4.2**	**5.4**	**1.8**	**2.0**	**2.0**	**2.4**	**2.3**
Domestic financing	**0.8**	**2.2**	**9.4**	**8.0**	**5.1**	**0.5**	**5.0**	**4.5**	**3.9**	**3.1**	**3.1**
of which: CBT drawings	0.0	0.0	2.5	2.5	0.0	...	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Overall balance (excl. grants)	-4.8	-4.1	-11.5	-11.7	-9.9	-6.6	-7.1	-6.7	-6.2	-5.8	-5.6
Primary balance (incl. grants)	-1.9	-1.1	-7.2	-7.0	-5.9	-2.6	-3.0	-2.0	-1.0	-0.3	0.2
Primary balance (excl. grants)	-2.1	-1.3	-8.2	-8.0	-6.5	-3.2	-3.2	-2.2	-1.2	-0.5	-0.1
Total current primary expenditure	22.3	23.5	27.6	27.6	27.0	24.0	24.7	24.0	23.4	22.9	22.7
Social expenditures 1/	2.4	2.8	3.3	...	3.2	...	3.1	3.0	2.9	2.9	2.8
Gross central government debt	77.5	71.8	87.6	...	91.2	...	93.9	96.5	98.5	99.7	99.8
Domestic	20.7	20.8	31.0	...	33.4	...	35.0	36.3	37.6	37.9	36.4
External	56.7	51.0	56.6	...	57.8	...	58.9	60.2	60.9	61.8	63.4
Nominal GDP (billions of TD)	106.2	114.9	111.3	111.1	122.3	121.1	133.1	145.1	158.6	173.4	189.8

Sources: Tunisian authorities; and IMF staff estimates.

1/ Social spending includes social transfers and programs as well as capital expenditures of the ministries of education, health, social affairs, youth and sports, and women and family affairs. It does not include emergency COVID-related spending in 2020 and 2021.

Table 6. Tunisia: Monetary Survey, 2017–25
(In millions of dinars, end-of-period stocks)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Act.	Act.	Act.	Est.	Proj.		Proj.		
				(Millions of Tunisian dinars)					
Net foreign assets (NFA)	**-2,385**	**-4,114**	**8**	**993**	**-436**	**-2,444**	**-3,784**	**-5,413**	**-7,111**
Foreign assets	16,420	18,695	24,427	27,535	26,583	25,379	24,050	21,633	19,770
Central bank	13,932	15,601	20,830	24,561	23,530	22,191	20,697	18,108	16,049
Foreign liabilities	-18,805	-22,809	-24,419	-26,542	-27,020	-27,823	-27,834	-27,047	-26,881
Central bank	-5,758	-7,315	-8,824	-10,159	-10,200	-10,262	-9,367	-7,627	-6,386
Net domestic assets (NDA)	**76,869**	**83,523**	**87,393**	**96,721**	**109,094**	**121,950**	**135,248**	**149,183**	**163,523**
Domestic credit	99,530	107,915	114,055	130,007	143,204	156,565	170,997	185,841	200,333
Credit to the government (net)	17,882	18,700	21,661	31,336	37,527	43,278	49,324	55,041	59,590
Central bank net credit	351	912	1,645	5,893	5,910	4,939	4,359	3,759	2,736
Commercial banks	10,096	9,652	10,815	16,505	22,679	29,400	36,027	42,344	47,916
Other	7,435	8,136	9,201	8,938	8,938	8,938	8,938	8,938	8,938
Credit to the economy	81,648	89,215	92,394	98,670	105,678	113,288	121,673	130,800	140,743
Credit to the private sector	65,543	71,177	72,224	75,751	79,469	83,833	88,578	93,784	99,364
Other items (net)	-22,660	-24,392	-26,663	-33,286	-34,110	-34,615	-35,750	-36,658	-36,810
Broad money (M3)	**74,485**	**79,409**	**87,401**	**97,714**	**108,658**	**119,506**	**131,463**	**143,770**	**156,412**
Money plus quasi-money (M2)	71,086	76,153	84,349	94,298	104,860	115,282	126,766	138,547	150,604
Currency	11,182	11,811	12,891	15,749	17,169	18,827	20,637	22,570	24,713
Demand deposits	19,682	20,159	21,861	24,808	27,695	30,463	33,518	36,628	39,759
Quasi-money	40,221	44,183	49,597	53,742	59,996	65,992	72,612	79,349	86,132
Long-term deposits (M3-M2)	3,399	3,255	3,052	3,416	3,798	4,224	4,697	5,223	5,808
				(Annual percentage change)					
Net foreign assets	**151.4**	**72.5**	**…**	**…**	**…**	**460.1**	**54.8**	**43.0**	**31.4**
Net domestic assets	**13.3**	**8.7**	**4.6**	**10.7**	**12.8**	**11.8**	**10.9**	**10.3**	**9.6**
Domestic credit	12.9	8.4	5.7	14.0	10.2	9.3	9.2	8.7	7.8
Credit to the government (net)	14.2	4.6	15.8	44.7	19.8	15.3	14.0	11.6	8.3
Credit to the economy	12.7	9.3	3.6	6.8	7.1	7.2	7.4	7.5	7.6
Credit to the private sector	11.4	8.6	1.5	4.9	4.9	5.5	5.7	5.9	6.0
Broad money (M3)	**11.4**	**6.6**	**10.1**	**11.8**	**11.2**	**10.0**	**10.0**	**9.4**	**8.8**
				(Growth in percent of broad money)					
Net foreign assets	**-2.1**	**-2.3**	**5.2**	**1.1**	**-1.5**	**-1.8**	**-1.1**	**-1.2**	**-1.2**
Net domestic assets	**13.5**	**8.9**	**4.9**	**10.7**	**12.7**	**11.8**	**11.1**	**10.6**	**10.0**
Domestic credit	17.0	11.3	7.7	18.3	13.5	12.3	12.1	11.3	10.1
Credit to the government (net)	3.3	1.1	3.7	11.1	6.3	5.3	5.1	4.3	3.2
Credit to the economy	13.7	10.2	4.0	7.2	7.2	7.0	7.0	6.9	6.9
Credit to the private sector	10.0	7.6	1.3	4.0	3.8	4.0	4.0	4.0	3.9
Broad money (M3)	**11.4**	**6.6**	**10.1**	**11.8**	**11.2**	**10.0**	**10.0**	**9.4**	**8.8**
Memorandum items:									
Nominal GDP	95,865	106,242	114,939	111,251	122,280	133,078	145,145	158,569	173,428

Sources: Tunisian authorities; and IMF staff estimates and projections.

Table 7. Tunisia: Central Bank Survey, 2017–25
(In millions of dinars, end-of-period stocks)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Act.	Act.	Act.	Est.	Proj.		Proj.		
					(Millions of Tunisian dinars)				
Net foreign assets	**8,174**	**8,286**	**12,005**	**14,401**	**13,330**	**11,929**	**11,330**	**10,481**	**9,663**
Assets	13,932	15,601	20,830	24,561	23,530	22,191	20,697	18,108	16,049
Liabilities	5,758	7,315	8,824	10,159	10,200	10,262	9,367	7,627	6,386
					11,487				
Net domestic assets	**7,062**	**11,321**	**9,173**	**8,473**	**11,487**	**15,076**	**18,045**	**21,480**	**25,124**
Domestic credit (net)	8,835	12,758	10,520	12,179	15,159	18,796	22,824	28,181	33,287
Net credit to government 1/	351	912	1,645	5,893	5,910	4,939	4,359	3,759	2,736
Credit to banks 2/	8,484	11,846	8,875	6,285	9,249	13,857	18,465	24,422	30,551
Other items net	-1,773	-1,437	-1,347	-3,706	-3,672	-3,720	-4,779	-6,701	-8,163
Reserve money 3/	**15,236**	**19,608**	**21,178**	**22,874**	**24,817**	**27,005**	**29,375**	**31,961**	**34,787**
					(Annual percentage change)				
Net foreign assets	**8.6**	**1.4**	**44.9**	**20.0**	**-7.4**	**-10.5**	**-5.0**	**-7.5**	**-7.8**
Assets	0.0	12.0	33.5	17.9	-4.2	-5.7	-6.7	-12.5	-11.4
Liabilities	-10.1	27.0	20.6	15.1	0.4	0.6	-8.7	-18.6	-16.3
Net domestic assets	**38.6**	**60.3**	**-19.0**	**-7.6**	**35.6**	**31.2**	**19.7**	**19.0**	**17.0**
Domestic credit (net)	41.3	44.4	-17.5	15.8	24.5	24.0	21.4	23.5	18.1
Net credit to government 1/	-54.0	160.2	80.3	258.3	0.3	-16.4	-11.7	-13.8	-27.2
Credit to banks 2/	54.5	39.6	-25.1	-29.2	47.2	49.8	33.2	32.3	25.1
Reserve Money 3/	**20.7**	**28.7**	**8.0**	**8.0**	**8.5**	**8.8**	**8.8**	**8.8**	**8.8**
Memorandum items:									
Open market purchases (OMPs)	982	1,660	1,956	3,322	3,488	3,662	3,845	4,037	4,239
Monetary base, excl. bank FX deposits	12,142	12,782	13,936	17,918	19,912	21,930	24,123	26,159	28,231
FX swap operations	1,491	2,280	601	92	…	…	…	…	…
Total CBT refinancing of banks	10,957	15,786	11,432	9,699	12,736	17,520	22,310	28,460	34,790

Sources: Central Bank of Tunisia; and IMF staff estimates.

1/ Includes subscription to the IMF and the AMF.

2/ Includes the main refinancing facility (appel d'offres) and the lending and deposit facilities.

3/ Excludes deposits of other financial institutions, individuals, and non-financial enterprises.

Table 8. Tunisia: External Financing Needs, 2017–25
(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total gross financing requirements	**6,383**	**6,454**	**5,795**	**5,015**	**7,498**	**7,158**	**7,672**	**8,369**	**7,629**
Current account deficit	**4,080**	**4,443**	**3,288**	**2,697**	**4,210**	**4,396**	**4,493**	**4,608**	**4,717**
Amortizations	**2,303**	**2,011**	**2,507**	**2,318**	**3,288**	**2,762**	**3,179**	**3,760**	**2,911**
Central government 1/	1,245	747	1,403	1,342	2,273	1,944	2,137	2,589	2,077
Central Bank 2/	356	540	385	177	83	132	464	688	488
Corporate 3/	702	724	719	800	933	686	579	484	347
Total gross financing sources	**6,383**	**6,454**	**5,795**	**5,015**	**7,498**	**7,158**	**7,672**	**8,369**	**7,629**
Foreign direct investment and portfolio (net)	747	948	823	647	767	930	982	999	1,025
of which: FDI (net)	811	989	810	625	744	902	954	993	1,024
Disbursements	**4,738**	**3,401**	**3,508**	**2,723**	**5,023**	**3,754**	**4,447**	**5,208**	**4,789**
Central government 1/	3,433	1,920	2,502	1,550	4,319	3,014	3,677	4,408	3,958
Multi- and bilateral budget support	2,034	977	1,313	1,160	1,943	1,626	2,260	2,959	2,474
of which: IMF budget support loans	0	0	0	0	0	0	0	0	0
of which: grants	89	81	81	309	108	89	97	106	116
Financial market access	905	571	773	0	1,990	1,070	1,070	1,070	1,070
Other (incl. project loans)	494	373	417	391	385	317	346	378	414
of which: grants	0	0	0	0	0	0	0	0	0
Central Bank 2/	312	748	245	746	0	0	0	0	0
of which: IMF BOP support loans	312	748	245	746	0	0	0	0	0
Corporate 3/	993	732	761	427	704	740	770	800	830
Short-term debt and other capital flows (net)	**868**	**2,848**	**3,001**	**3,662**	**1,122**	**1,678**	**1,401**	**1,047**	**934**
Other flows (net) 4/	**-318**	**-1,144**	**694**	**-453**	**-16**	**-17**	**-17**	**-17**	**-16**
Drawdown of gross reserves ("-": buildup)	**348**	**402**	**-2,231**	**-1,565**	**603**	**813**	**859**	**1,132**	**898**
Memorandum items:									
Gross international reserves (eop)	5,594	5,192	7,424	8,988	8,386	7,573	6,714	5,583	4,685
Central government rollover rates (pct.)	269	246	173	92	185	150	168	166	185
Corporate rollover rates (pct.)	142	101	106	53	75	108	133	165	239

Sources: Tunisian authorities; and IMF staff projections.

1/ Central government includes IMF purchases made available for budget support.

2/ Central Bank includes IMF purchases made available for BOP support.

3/ Includes public and private entreprises.

4/ Includes changes in banks', corporates', and households' net foreign assets; errors and omissions; and other liabilities.

Table 9. Tunisia: Financial Soundness Indicators of the Banking Sector, 2010–20

(In percent, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 3/	2020 Sept. 4/
Regulatory capital											
Regulatory capital to risk-weighted assets	11.6	11.9	11.8	8.2	9.4	12.0	11.3	11.8	11.7	13.0	13.2
Tier 1 capital to risk weighted assets	10.2	10.0	9.5	6.6	7.6	9.3	8.6	8.8	9.0	10.6	10.8
Capital to assets	8.4	8.5	7.8	5.6	6.2	7.8	8.1	8.4	8.4	10.5	10.7
Asset quality											
Sectoral distribution of loans to total loans											
Industry	30.5	28.6	27.9	27.8	27.2	27.3	27.0	27.6	28.4	27.8	26.6
Agriculture	2.9	2.9	2.8	2.8	2.8	2.6	2.6	2.6	2.5	2.5	2.6
Commerce	15.0	16.0	15.4	15.1	15.6	15.8	16.0	16.0	15.8	16.4	17.5
Construction	5.9	5.6	5.4	5.5	5.7	6.2	6.2	5.8	5.6	5.6	5.5
Tourism	7.3	7.3	6.9	6.5	6.1	6.2	5.8	5.3	4.7	4.4	4.3
Households	22.1	23.4	25.4	26.2	26.2	26.6	26.4	25.8	24.6	23.8	23.4
Other	16.3	16.3	16.2	16.0	16.5	15.4	16.0	16.8	18.4	19.6	20.1
FX-loans to total loans	5.3	5.1	4.8	4.8	5.5	5.8	5.7	5.1	5.0	5.1	5.1
Credit to the private sector (pct. of total loans) 1/	70.6	67.4	67.7	73.7	73.8	73.5	73.7	74.5	75.4	76.2	76.6
Nonperforming Loans (NPLs) to total loans	13.0	13.3	14.9	16.5	15.8	16.6	15.6	13.9	13.3	13.4	13.1
Specific provisions to NPLs	N.A.	48.6	45.7	56.4	58.0	56.9	57.9	57.0	55.7	55.9	58.2
NPLs, net of provisions, to tier 1 capital	60.3	66.2	86.3	111.6	90.3	78.8	71.2	63.7	61.2	52.4	47.3
Specific provisions to total loans	7.6	7.6	8.0	10.3	10.1	10.5	10.0	8.8	8.4	8.5	8.6
Profitability											
Return on assets (ROA)	0.9	0.6	0.6	0.3	0.9	0.9	1.0	1.2	1.2	1.1	…
Return on equity (ROE)	10.2	5.9	7.2	3.0	11.2	10.9	11.4	13.8	13.5	13.3	…
Interest rate average spread (btw. loans and deposits)	3.5	3.0	3.0	3.3	3.1	3.0	2.9	3.2	3.9	4.4	…
Interest return on credit	6.2	5.7	5.4	5.9	6.4	6.3	6.0	6.5	7.9	9.0	…
Net foreign assets	1.7	1.2	1.2	1.9	1.1	1.1	0.9	0.9	1.0	0.9	…
Net interest margin to net banking product (PNB)	58.6	57.2	58.1	58.9	57.2	54.6	50.9	49.7	51.9	55.1	54.0
Operating expenses to PNB	46.5	51.1	50.3	47.3	48.5	49.2	48.5	47.6	47.1	45.3	50.2
Personnel expenses to non-interest expenses	59.1	62.6	61.5	60.8	59.3	60.1	58.7	59.1	53.0	50.2	51.6
Trading and other non-interest income to PNB	21.8	22.5	20.9	21.6	22.4	24.3	29.5	29.2	28.4	26.5	28.9
Liquidity											
Liquid assets to total assets 2/	29.8	26.5	28.2	28.4	28.2	5.6	5.6	5.7	4.5	6.2	7.5
Liquid assets to short-term liabilities	104.1	89.4	89.2	92.6	96.6	83.8	94.4	91.7	75.2	134.0	178.5
Deposits to loans	94.6	87.4	89.5	89.6	88.8	87.4	86.8	85.7	85.2	87.8	89.3
Deposits of state-owned enterprises to total deposits	13.8	12.6	13.2	13.0	11.7	9.5	7.8	6.8	5.7	5.4	…
Sensitivity to market risk											
FX net open position to tier 1 capital	1.4	1.9	2.3	3.1	2.2	3.3	4.9	6.9	5.4	2.8	2.7

Source: Central Bank of Tunisia.

1/ Coverage of private sector credit may differ from that of Table 7.

2/ The definition of the liquidity ratio was modified in 2015. Liquid assets now include only treasury bills and cash. Using the new definition, the end-December 2014 liquidity ratio would have been 6 percent.

… = not available.

3/ Indicators were calculated based on the new reporting.

4/ Preliminary data.

Table 10. Tunisia: Reform Scenario: Selected Economic Indicators, 2017–25

	2017	2018	2019	2020		2021		2022	2023	2024	2025
			Prel.	Proj.	RFI	Proj.	RFI	Proj.			
Production and prices	(Annual percentage change)										
Real GDP (at 2010 prices)	1.9	2.7	1.0	-8.2	-4.3	3.9	4.1	2.8	2.8	2.9	3.0
GDP deflator	4.8	7.9	7.1	5.4	5.0	5.9	5.6	5.5	5.3	4.6	4.1
CPI inflation (average)	5.3	7.3	6.7	5.7	6.2	5.9	4.9	5.7	5.3	4.6	4.2
CPI inflation (eop)	6.2	7.5	6.1	5.5	6.0	6.0	4.8	5.6	5.2	4.5	4.1
Saving investment balance	(Percent of GDP)										
Gross national savings	9.1	10.0	8.8	1.0	3.1	4.2	6.6	5.7	7.5	9.6	11.6
of which: central government	-0.4	1.0	1.4	-4.1	-1.1	-0.2	2.1	1.8	2.8	3.8	4.8
Gross investment	19.4	21.1	17.2	7.8	10.6	12.6	14.8	13.6	14.7	16.3	17.5
of which: central government	5.6	5.6	5.3	6.1	3.3	5.8	4.6	5.9	6.0	6.1	6.3
Central government operations 1/	(Percent of GDP, unless otherwise indicated)										
Total revenue and grants	24.6	26.0	27.7	26.9	26.4	27.2	27.8	27.6	27.8	28.0	28.2
Total expenditure and net lending	30.6	30.5	31.6	37.5	30.7	33.2	30.3	31.6	31.0	30.3	29.7
of which: wage bill	15.0	14.0	14.6	17.6	16.5	16.8	15.4	16.2	15.6	15.0	14.5
of which: energy subsidies	1.6	2.5	2.8	1.3	0.7	0.6	0.5	0.3	0.0	0.0	0.0
of which: transfers (incl. social programs and CNRPS)	2.2	2.5	2.8	3.6	3.3	2.9	3.2	2.9	3.0	3.1	3.1
of which: capital expenditure	5.6	5.6	5.3	6.1	3.3	5.8	4.6	5.9	6.0	6.1	6.3
Overall balance (incl. grants)	-6.0	-4.5	-3.9	-10.6	-4.3	-6.0	-2.5	-4.0	-3.2	-2.3	-1.5
Overall balance (excl. grants)	-6.2	-4.8	-4.1	-11.5	-5.3	-6.7	-2.8	-4.2	-3.4	-2.5	-1.7
Primary balance (cash basis, incl. grants)	-3.6	-1.9	-1.1	-7.2	-1.2	-1.3	0.8	-0.7	0.3	1.1	1.8
Net foreign financing	6.3	3.6	2.4	1.2	4.3	6.0	1.1	2.6	2.3	1.8	1.8
Net domestic financing	5.3	0.8	2.2	9.4	0.0	0.1	1.4	1.4	0.9	0.5	-0.3
Social spending 2/	1.9	2.4	2.8	2.5	3.2	2.5	3.1	2.6	2.7	2.7	2.7
Gross central government debt 3/	70.9	77.5	71.8	87.6	88.5	88.3	86.7	88.3	87.7	86.5	84.4
of which: foreign currency debt	49.6	57.3	52.4	59.8	67.1	64.1	66.0	65.4	66.5	67.0	67.2
Money and credit	(Annual percentage change, unless otherwise indicated)										
Broad money	11.4	6.6	10.1	11.8	4.0	9.2	6.5	8.5	8.3	8.2	8.1
Credit to the economy	12.7	9.3	3.6	6.8	5.3	8.3	5.4	8.4	8.6	8.7	8.8
of which: credit to the private sector	11.4	8.6	1.5	4.9	1.3	7.8	1.3	8.2	8.7	9.0	9.1
External sector	(Percent of GDP, unless otherwise indicated)										
Current account balance	-10.3	-11.1	-8.4	-6.8	-7.5	-8.4	-8.1	-7.8	-7.2	-6.8	-5.8
Trade balance	-13.4	-14.8	-13.9	-9.4	-9.4	-14.5	-13.3	-12.7	-11.5	-10.4	-9.4
Value of exports of goods (pct. change)	4.9	8.8	-3.5	-8.7	-20.1	16.6	13.8	6.9	5.5	5.8	5.2
Value of imports of goods (pct. change)	6.3	9.7	-5.0	-14.8	-24.5	28.6	19.3	2.5	2.7	3.1	3.1
Volume of exports of goods (pct. change)	3.2	3.5	-5.1	-12.3	-14.2	10.0	15.8	7.5	5.2	4.5	3.9
Volume of import of goods (pct. change)	3.4	1.0	-8.6	-13.7	-21.6	12.6	26.1	4.3	3.5	2.4	2.2
Terms of trade (pct. change, "-": deterioration)	-1.2	-3.2	-2.3	5.5	-3.2	-7.2	3.9	1.2	1.1	0.6	0.3
Foreign direct investment (net)	2.0	2.5	2.1	1.6	0.4	1.8	1.8	2.0	2.2	2.3	2.4
Gross official reserves (eop, billions of US$)	5.6	5.2	7.4	9.0	6.5	9.2	6.5	9.3	9.4	9.7	10.3
Reserve coverage (months of next year's imports of goods)	3.0	2.9	4.9	4.6	4.0	4.6	3.7	4.5	4.5	4.5	4.6
Reserve coverage (months of next year's imports of GNFS)	2.6	2.5	4.3	4.2	3.6	4.1	3.3	4.0	3.9	3.9	3.9
External debt	84.6	97.4	92.8	94.7	109.9	102.0	108.2	104.5	102.2	98.7	96.5
of which: medium- and long- term external debt	65.5	74.5	65.8	69.8	87.0	74.4	85.8	75.7	76.5	76.3	76.1
of which: public external debt	61.4	79.5	73.0	76.8	83.8	82.7	82.7	84.6	84.2	82.7	81.6
External debt service (pct. of exports of GNFS)	16.5	14.0	17.2	19.3	23.9	21.2	22.2	18.5	20.7	23.1	18.4

Sources: Tunisian authorities; and IMF staff estimates and projections.

1/ Excludes social security accounts, public enterprises, and local governments.

2/ Social spending includes social transfers and programs as well as capital expenditures of the ministries of education, health, social affairs, youth and sports, and women and family affairs. It does not include emergency COVID-related spending in 2020 and 2021.

3/ In addition to central government debt, SOE debt of and guarantees to the 30 largest SOEs amounts to almost 40 and 15 percent of GDP, respectively.

Table 11. Tunisia: Reform Scenario: External Financing Needs, 2017–25
(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total gross financing requirements	**6,383**	**6,454**	**5,795**	**5,015**	**6,974**	**6,379**	**6,667**	**7,337**	**6,293**
Current account deficit	**4,080**	**4,443**	**3,288**	**2,697**	**3,697**	**3,625**	**3,461**	**3,425**	**3,107**
Amortizations	**2,303**	**2,011**	**2,507**	**2,318**	**3,276**	**2,754**	**3,205**	**3,912**	**3,186**
Central government 1/	1,245	747	1,403	1,342	2,264	1,938	2,157	2,724	2,329
Central Bank 2/	356	540	385	177	83	132	464	688	488
Corporate 3/	702	724	719	800	930	683	584	499	369
Total gross financing sources	**6,383**	**6,454**	**5,795**	**5,015**	**6,974**	**6,379**	**6,667**	**7,337**	**6,293**
Foreign direct investment and portfolio (net)	747	948	823	647	799	962	1,072	1,186	1,297
Gross investment	811	989	810	625	777	934	1,045	1,184	1,289
Disbursements	**4,738**	**3,401**	**3,508**	**2,723**	**5,795**	**4,131**	**4,622**	**5,241**	**4,710**
Central government 1/	3,433	1,920	2,502	1,550	5,094	3,396	3,854	4,437	3,866
Multi- and bilateral budget support	2,034	977	1,313	1,160	2,719	2,242	2,684	3,222	2,596
of which: IMF budget support loans	0	0	0	0	0	0	0	0	0
of which: grants	89	81	81	309	108	108	108	108	108
Financial market access	905	571	773	0	1,990	750	750	780	820
Other (incl. project loans)	494	373	417	391	384	404	420	434	449
of which: grants	0	0	0	0	0	0	0	0	0
Central Bank 2/	312	748	245	746	0	0	0	0	0
of which: IMF BOP support loans	312	748	245	746	0	0	0	0	0
Corporate 3/	993	732	761	427	701	735	768	804	844
Short-term debt and other capital flows (net)	**868**	**2,848**	**3,001**	**3,662**	**577**	**1,393**	**1,145**	**1,212**	**898**
Other flows (net) 4/	**-318**	**-1,144**	**694**	**-453**	**-16**	**-17**	**-17**	**-17**	**-18**
Drawdown of gross reserves ("-": buildup)	**348**	**402**	**-2,231**	**-1,565**	**-182**	**-90**	**-156**	**-285**	**-594**
Memorandum items:									
Gross international reserves (eop)	5,594	5,192	7,424	8,988	9,170	9,260	9,416	9,701	10,295
Central government rollover rates (pct.)	269	246	173	92	220	170	174	159	161
Corporate rollover rates (pct.)	142	101	106	53	75	108	132	161	229

Sources: Tunisian authorities; and IMF staff projections.

1/ Central government includes IMF purchases made available for budget support.

2/ Central Bank includes IMF purchases made available for BOP support.

3/ Includes public and private entreprises.

4/ Includes changes in banks', corporates', and households' net foreign assets; errors and omissions; and other liabilities.

Appendix I. External Sector Assessment

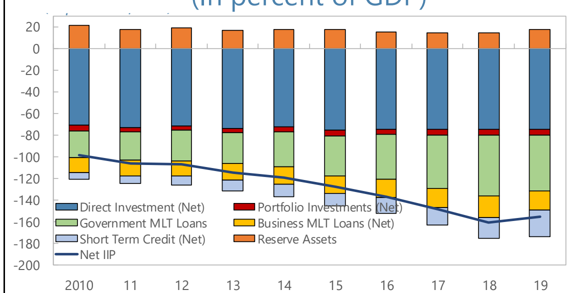
Tunisia's external position in 2020 is weaker than implied by fundamentals and desirable policies, based on an estimated current account (CA) "gap" of about -3.4 percent of GDP. This gap corresponds to a real effective exchange rate overvaluation in the order of 5–10 percent. External sector sustainability remains a source of macroeconomic vulnerability, and exchange rate flexibility together with deep structural reforms—fiscal consolidation, reform of state-owned enterprises, and policies to increase private sector participation and competition—would be required to bring the external position back into balance over the medium term.

A. External Balance Sheets

1. **Tunisia's net international investment position (NIIP) has worsened in recent years, and external debt is rising.** The country's net debtor position has gradually deteriorated over the 2010s, reaching 155 percent of GDP in 2019 (Figure 1). Foreign assets had declined to 23 percent of GDP by 2019, while foreign liabilities rose significantly, to 178 percent of GDP. Most of the deterioration in the NIIP is due to a more than doubling of government medium and long-term external debt over the past ten years, to 52 percent of GDP, while short-term credit quadrupled to 24 percent of GDP over the same period.

Figure 1. Net International Investment Position

(In percent of GDP)



Sources: BCT and IMF staff calculations.

2. **The large net debtor position also translates into external vulnerabilities.** The high share of external debt in total central government debt (71 percent in 2019) increases debt sustainability risks given the overvalued exchange rate (see exchange rate assessment below). In addition, SOE external debt to GDP is estimated at 20.5 percent of GDP in September 2020. The growing stock of external debt also leads to large gross amortization needs. In 2019, total external debt service amounted to 7.6 percent of GDP and 11 percent of exports of goods and services, respectively.

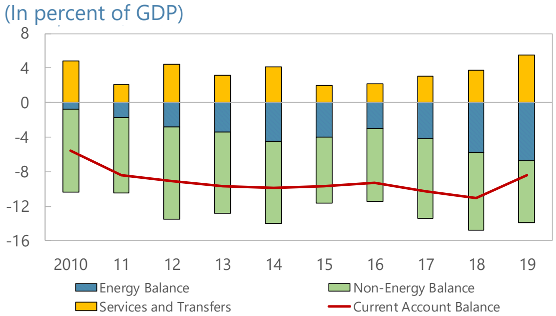
B. Current Account Balances

3. **After peaking in 2018, the current account deficit improved in 2019 despite a further worsening in the energy balance.** The current account deficit in 2019 moderated to 8.4 percent of GDP, down from 11.1 percent of GDP the year before (Figure 2). This improvement reflected a sharp compression of imports (8.6 percent drop y-o-y in volume). However, the trade deficit remained elevated at nearly 14 percent of GDP, more than half of which due to the energy deficit. The high trade deficit was partly compensated by a strengthening income balance. The number of tourists peaked at 8 million in 2019 and tourism receipts grew by 23 percent. However, tourism revenues remained below their peak, due in part to a structural shift in the composition of non-resident entries, from the traditional European markets to the Maghreb

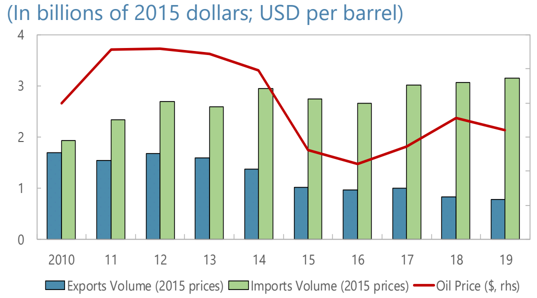
countries (Algeria and Libya), and other markets (e.g. Russia) which generally have different spending patterns (Central Bank of Tunisia, 2019). Lastly, remittances have been rising steadily.

Figure 2. Current Account Dynamics, 2010–20

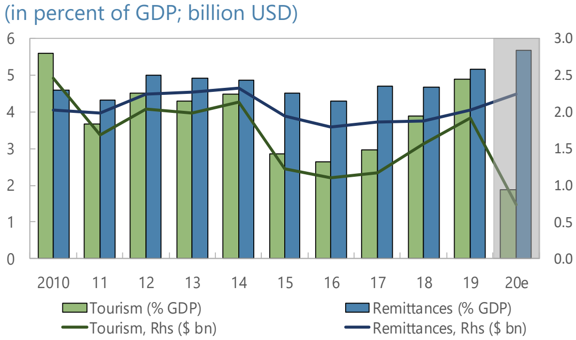
Evolution of the Current Account Balance
(In percent of GDP)



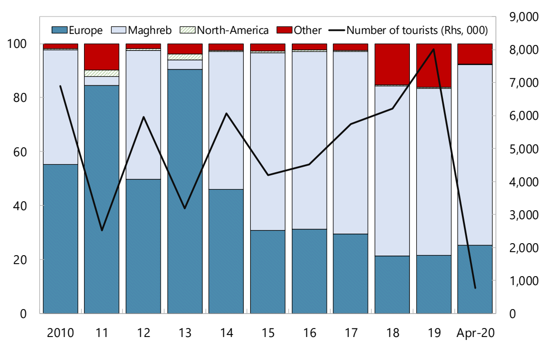
Energy Trade and Oil Prices
(In billions of 2015 dollars; USD per barrel)



Tourism Revenue and Remittances
(in percent of GDP; billion USD)



Share of Tourists from Various Regions
(In percent of total)



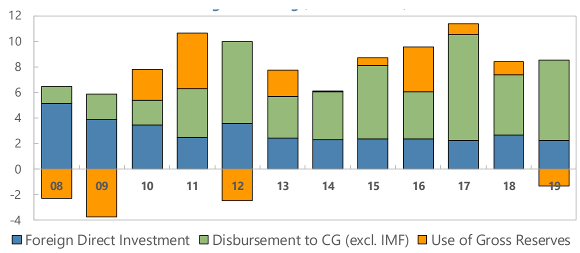
Sources: INS, National Authorities and IMF staff calculations.

4. **The pandemic has had a strong impact on the current account.** The collapse in exports and imports for the first nine months of 2020 narrowed the trade balance to 10 percent of GDP, with nearly half of it coming from the energy deficit (from lower international oil prices). As of 2020Q3, tourism revenue had collapsed to 2.2 percent of GDP (compared with 5.1 percent over the same period in 2019), while remittances showed resilience at 6.6 percent of GDP (compared with 6.2 percent of GDP over the same period in 2019). As a result, the current account deficit had shrunk to 7.4 percent of GDP as of 2020Q3, compared with a deficit of 9 percent over the same period in 2019. For the year, staff estimates a current account deficit of 6.8 percent of GDP.

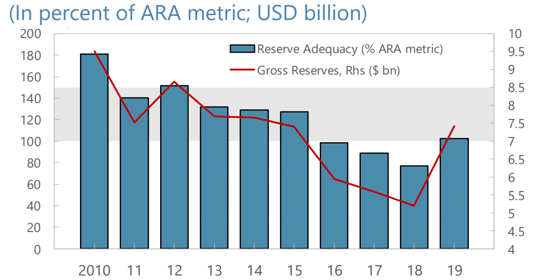
5. **In 2019, rising foreign currency inflows from tourism revenue and remittances led to an accumulation of reserves for the first time in seven years.** The 2019 build-up in reserves was also the result of central bank purchases of FX. Central bank net FX purchases totaled US$462.1 million in 2020. While reserves cover were below adequate levels in 2019, they are estimated to exceed 100 percent of the ARA metric in 2020 (Figure 3).

Figure 3. Foreign Financing and Reserves Adequacy

Foreign Financing
(Percent of GDP)



Reserve Level and Adequacy
Floating exchange rate regime, adjusted for capital controls
(In percent of ARA metric; USD billion)



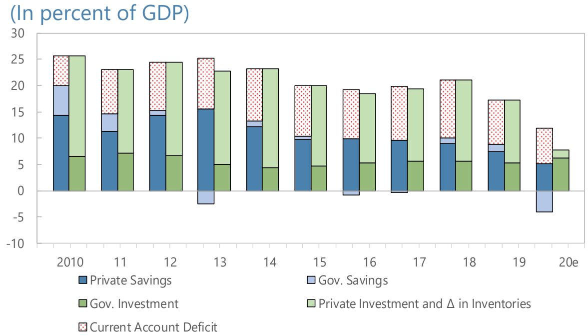
Sources: National Authorities and IMF staff calculations.

C. Saving-Investment Balance

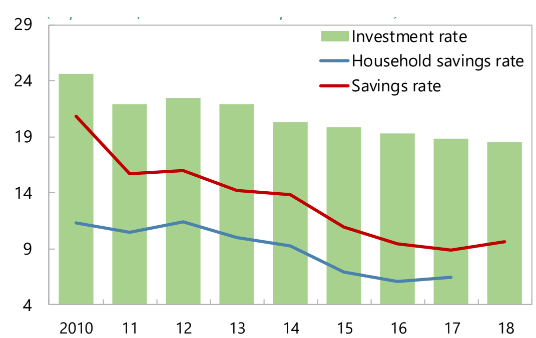
6. National savings have declined sharply, and investment has dropped moderately in recent years. National savings have steadily declined over the years, to 8.8 percent of GDP in 2019, reflecting both a decline in private savings and an erosion of government savings (Figure 4). The trend drop in private investment may be attributed in part to excessive regulations in product markets, complex administrative procedures, and a financial system that does not favor start-ups and growing companies (OECD, 2018). The authorities adopted legislation in 2019 to strengthen the attractiveness of Tunisia as an investment destination, with the aim of kick-starting the reform process of business investment (IMF, 2019b). However, this process was interrupted in 2020 with the outbreak of the Covid-19 pandemic.

Figure 4. Saving and Investment, 2010–20

National Savings and Investment
(In percent of GDP)



Savings Rates
(In percent of Gross National Disposable Income)



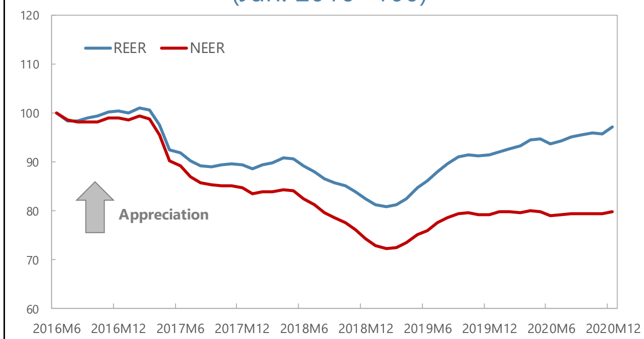
Sources: National Authorities and IMF staff calculations.

D. Exchange Rate Assessment

7. The depreciation of the real effective exchange rate (REER) over 2016–19 helped contain external imbalances. The REER depreciation over this period (totaling 19 percent) helped increase export volumes of olive oil, textiles, and manufactured goods (Figure 5). However, the impact of the depreciation on exports of mechanical and electrical industries was limited, presumably because these have a high import content. Also, it appears that the reaction of imports to the REER depreciation was sluggish.

Figure 5. Real and Nominal Effective Exchange Rates

(Jun. 2016=100)



Sources: National Authorities and IMF staff calculations.

8. The REER started appreciating as of March 2019, which could raise concerns about future price competitivenes. The trend in the depreciation of the REER started reversing in March 2019 and resulted in an 18 percent appreciation by October 2020 (o.w. 5 percent in 2020), mostly from price differentials with trading partners.

9. The Fund's external balance assessment suggests that Tunisia's real exchange rate is overvalued in the order of 5–10 percent. The Fund's external balance assessment (EBA) uses three different approaches to assess the REER: the current account (CA) model, the external stability (ES) approach, and the real exchange (REER) model (Table 1). The CA model applied to Tunisia establishes a *current account (CA) norm* of -4.3 percent of GDP in 2020. In light of the exceptional circumstances of the Covid-19 pandemic, the CA model adjusts the 2020 CA balance (-6.8 percent of GDP) both for cyclical factors and for temporary Covid-19 related factors (the latter accounting for loss in tourism revenue and a temporary decrease in the energy deficit).[1] These two adjustments result in an *adjusted CA balance* of -7.7 percent of GDP for 2020; the difference with the CA norm then gives a corresponding *CA gap* of -3.4 percent of GDP. Based on a current account elasticity to the real exchange rate of -0.37, this CA gap in turn corresponds to an REER overvaluation of

Table 1. Tunisia: 2020 External Sector Assessment

(Percent of GDP, unless otherwise indicated)

	EBA	EBA-Lite
CA Model		
(a) **2020 Current Account Balance**	-6.8	-
(b) Cyclical contributions (from model)	2.3	-
(c) Additional COVID-related adjustments	-1.4	
(d) = (a)- (b) - (c) = **Adjusted CA**	-7.7	-
(e) **CA norm** (from model) 1/	-4.3	-
(f) Adjustments to the norm	0.0	
(g) = (e) - (f) **Adjusted CA Norm**	-4.3	
(h) = (d) - (g) = **CA gap**	-3.4	-
o/w Policy gaps	2.5	
(i) Elasticity of the CA to the REER	-0.37	-
(j) = (h) / (i) = **REER gap (in percent)**	9.1	-
External Sustainability Approach		
(a) CA gap	-4.9	-
(b) Elasticity of the CA to the REER	-0.37	-
(c) = (a) / (b) = Corresponding REER gap	13.2	-
REER Model		
(a) Ln(REER) Actual	-	4.36
(b) Ln(REER) Norm	-	4.86
REER gap (in percent) = [(a) - (b)]*100	-	-50.0

1/ Cyclically adjusted, including multilateral consistency adjustments.

Sources: EBA and IMF staff calculations.

[1] The EBA CA model adjusts for movements in domestic and world output gaps, which affect trade flows and CA balances, as well as for movements in the commodity terms-of-trade. The Covid-19 adjustment strips out other transitory factors from the CA that capture the Covid-19 crisis impact, especially for economies exposed to hard-hit sectors such as tourism.

9.1 percent. The CA gap and associated REER overvaluation are mainly driven by the fiscal deficit. The alternative ES approach suggests an overvaluation in the REER of 13.2 percent (based on the benchmark of a sustainable NIIP corresponding to -78 percent of GDP).[2] Both these estimates, which are subject to considerable uncertainty, suggest that the external position is "weaker" than warranted based on fundamentals and desired policy settings. Using the CA method as the main reference, the results indicate that the REER is overvalued—likely in the order of 5–10 percent—compared to fundamentals.

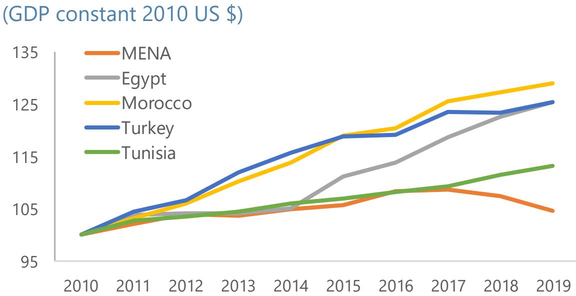
E. Non-Price Competitiveness

10. Restoring Tunisia's external balance will require deep structural reforms. A depreciation of the exchange rate alone will not durably restore Tunisia's external position. Reducing the current account deficit to sustainable levels over the medium term would first and foremost require fiscal consolidation, which in turn would require a strong and credible structural reform program. The structural reform program would also need to put state-owned enterprises on a sound financial footing and open them up to private sector competition.

11. Tunisia has other non-price competitiveness challenges that impede external adjustment. In light of Tunisia's sluggish productivity growth compared with peers, additional reforms to strengthen Tunisia's competitiveness and attractiveness as a destination for private sector-led investment would also help reduce the current account gap and REER overvaluation (Figure 6). Such reforms would help reverse Tunisia's deterioration in competitiveness ranking relative to peers in recent years. Labor market rigidities, slow innovation, and weaknesses in the business environment all contribute to non-price competitiveness in Tunisia.

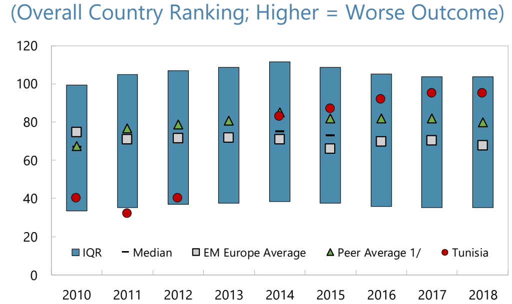
Figure 6. Non-Price Competitiveness

Output per worker
(GDP constant 2010 US $)



Source: ILO, https://ilostat.ilo.org/topics/labour-productivity/

Global Competitiveness Indicator
(Overall Country Ranking; Higher = Worse Outcome)



Sources: World Economic Forum and Fund staff calculations.
1/ Peers are Algeria, Egypt, Jordan, Lebanon, Tunisia, and Turkey.

[2] As noted, the third EBA approach uses the REER model from the "EBA-Lite" method. This approach suggests an *under*valuation of 50 percent. Staff gives more weight to CA model, which has often proven to be more informative and reliable than the REER model (IMF, 2019), and which also conforms with persistent non-price competitiveness challenges of the Tunisian economy.

Appendix II. Debt Sustainability Analysis

Staff assesses that public debt would become unsustainable unless a strong and credible reform program were adopted with broad support. *Debt sustainability risks are compounded by SOE contingent liabilities and guarantees, financing risks, and REER overvaluation. A course correction is therefore urgently needed. Bringing the economy back on a sustainable trajectory will critically depend on a strong fiscal consolidation and reform effort, while prioritizing spending to combat the pandemic in the short term and support the most affected groups. Continued access to concessional financing from the international community will also be key in supporting these efforts. The external DSA suggests that external debt is elevated and sensitive to exchange rate shocks.*

A. Public Debt Sustainability

1. Public debt increased significantly in 2020 as a result of the Covid-19 crisis. In 2019, the central government debt stock had declined from 77½ to 72 percent of GDP mainly as a result of dinar appreciation and low real interest rates. This decline was abruptly reversed in 2020 with the outbreak of the Covid-19 pandemic. The combination of the sharp contraction of real GDP in 2020 (estimated at 8.2 percent) and the deterioration of the primary fiscal deficit (to 8.2 percent of GDP, excl. grants)—from lower revenues, Covid-19 response measures, but also from scaled-up hiring and salary increases and energy subsidies—resulted in a sharp increase in Tunisia's public debt ratio, to 87.6 percent of GDP. The debt-to-GDP ratio now significantly exceeds the emerging market debt burden benchmark of 70 percent of GDP and, once government guarantees and other debt of SOEs are fully accounted for, the public debt stock would exceed 100 percent of GDP.

2. A strong fiscal consolidation and medium-term structural reform program are urgently needed to restore public debt sustainability. Staff's baseline scenario, reflected in this DSA, considers that, in the absence of fiscal discipline and a credible medium-term framework, the central government debt would continue to gradually increase, and reach nearly 100 percent of GDP over the medium term. Gross public financing needs would also stay elevated, in the range of 14–18 percent of GDP annually. Under this baseline scenario, substantial domestic financing (including indirectly from the central bank) would fuel inflation and reserves losses, and, ultimately, result in untenable pressure on the exchange rate.[1, 2] A strong and credible reform scenario, with resolute and sustained reform efforts to reduce the fiscal deficit starting already 2021, and underpinned by a medium-term fiscal policy framework and broad political support, projects that fiscal balances and the public debt ratio could be put back on a sustainable trajectory, reducing public debt to below 85 percent of GDP over the medium term.[3]

[1] The macro framework and DSA do not explicitly incorporate this outcome.

[2] The baseline assumes that further indirect monetary financing would be likely; it does not explicitly assume a repeat of the end-2020 *direct* monetary financing operation given that this is not allowed by the Central Bank Law.

[3] The main elements of the reform scenario are found in Text Table 4, Box 2, and Tables 10–11 of the Staff Report and in the DSA's Appendix II Figure 8.

However, even under such a scenario, risks would remain elevated, including from exchange rate depreciation, the availability of financing, and the existence of large contingent liabilities from SOEs (see also below).

3. Public debt sensitivity to shocks has increased. Stress scenarios identify significant risks from exchange rate depreciation and failure to implement fiscal adjustment, especially if combined with sustained lower growth. Outcomes are also highly sensitive to changes in underlying assumptions.

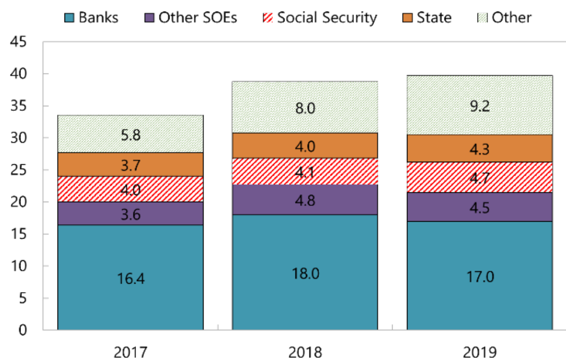
- ***A series of stress tests highlight additional risks to debt sustainability.*** Stress tests confirm the vulnerability of public debt to a real exchange rate depreciation, low growth, and fiscal shocks. Additional stress test scenarios indicate that a failure to implement fiscal adjustment would put debt on a more explosive path. A number of other tests, including a customized scenario of a major security incident, a combined macro-fiscal shock, and a contingent liability shock (see also below) suggest that public debt could exceed 100 percent of GDP before 2025.

- **The heat map indicates heightened risks from the debt level, high financing needs, and the debt profile** (Figure 3). Along with steadily rising public debt, gross fiscal financing needs would remain elevated throughout the forecast horizon, in the range of 14–18.3 percent of GDP annually. Risks to the debt profile arise from the bond spread, external financing requirement, public debt held by non-residents, and the share of public debt held in foreign currency—all of which exceed the relevant benchmark. A mitigating factor is that a large part of the external public debt is held by the official sector and with relatively long maturities.

- ***The stochastic approach stresses the risk of policy slippages.*** The asymmetric distribution of estimated outcomes in the fan chart shows that debt levels could become durably entrenched above 90 percent of GDP, with risks tilted to the upside.

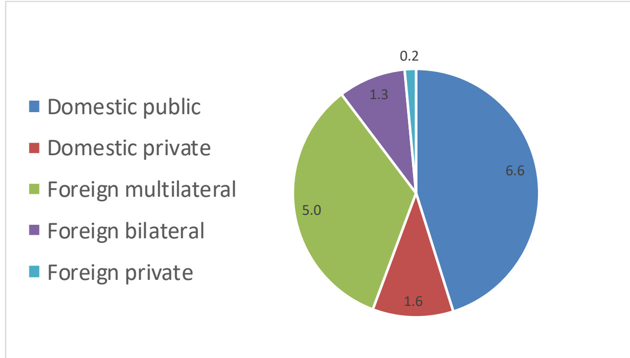
4. The above-mentioned baseline results and stress tests do not yet reflect the additional risks from SOEs, whose large outstanding debt and guarantees pose significant fiscal and financial risks. While full data on all SOEs is not available, partial data on 30 SOEs shows a debt stock of almost 40 percent of GDP, with 20 percent of GDP due to banks and suppliers, and the rest to social security funds, other SOEs and the government. In addition, partial data shows that SOEs benefit from significant government guarantees, estimated at 15 percent of GDP at mid-2020 (Figures 1 and 2). Adding SOE debt to central government debt would push total public debt well above 100 percent of GDP. A stress test that simulates the impact of the realization of contingent liabilities of 13 percent of GDP (10 percent realization of public guarantees and 3 percent recapitalization needs) highlights the significant risks from SOEs. Under such a scenario, gross financing needs would jump to 35 percent in 2021, posing even bigger challenges to debt sustainability.

Figure 1. SOE Debt, by type of lender
(Stock, in percent of GDP)



Source: MoF and staff calculations.

Figure 2. Stock of SOE Guarantees, by type of lender
(In percent of GDP)



Source: MoF and staff calculations.
Note: Calculations based on accumulation of flows from 2016 to June 2020.

5. **On the positive side, there remain a number of factors that could help attenuate debt sustainability risks**. First, Tunisia has maintained access to financing at a low cost, with effective interest rates staying below inflation in recent years. Almost half of Tunisia's public debt is owed to bilateral donors and multilateral institutions with low average interest rates and relatively long maturities. In addition, part of Tunisia's past Eurobond issuances were covered by third-party sovereign guarantees (US and Japanese governments). Second, banks' exposure to sovereign debt has remained relatively low so far, though it has increased in 2020 to an estimated 12.2 percent of GDP. That said, large financing needs in the coming years could result in the government relying increasingly on domestic and external market financing, unless the donor community steps up concessional financing.

6. **Overall, strong policy implementation and continued access to concessional financing will be critical to put public debt back on a sustainable trajectory.** The reform scenario would bring central government public debt back towards a sustainable path (below 85 percent of GDP) by 2025 (see Text Table 4, Text Box 2, Tables 10–11 and Appendix Figure 8). Contingency planning will be important to respond pro-actively to shocks. Such contingency planning should further reprioritize spending with the objective of reducing discretionary/non-urgent expenditure while safeguarding social programs. It would also be important to maintain an active dialogue with the donors to mobilize additional budget financing on concessional terms or in the form of grants.

Figure 3. Tunisia: Public DSA Risk Assessment

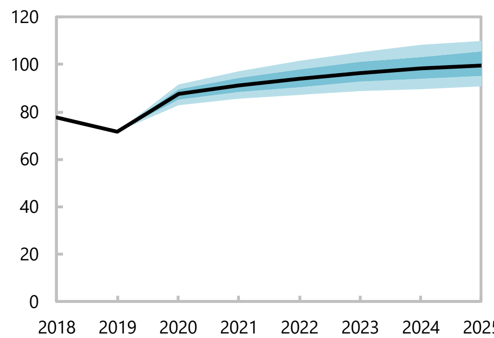
Heat Map

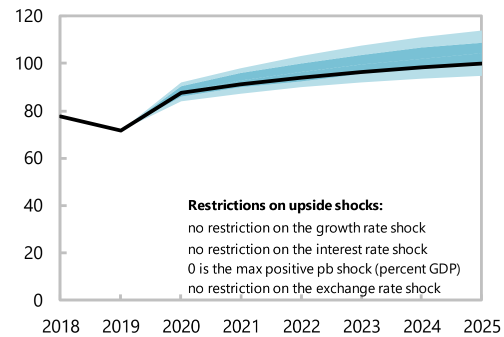
Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)

Baseline Percentiles: 10th-25th 25th-75th 75th-90th

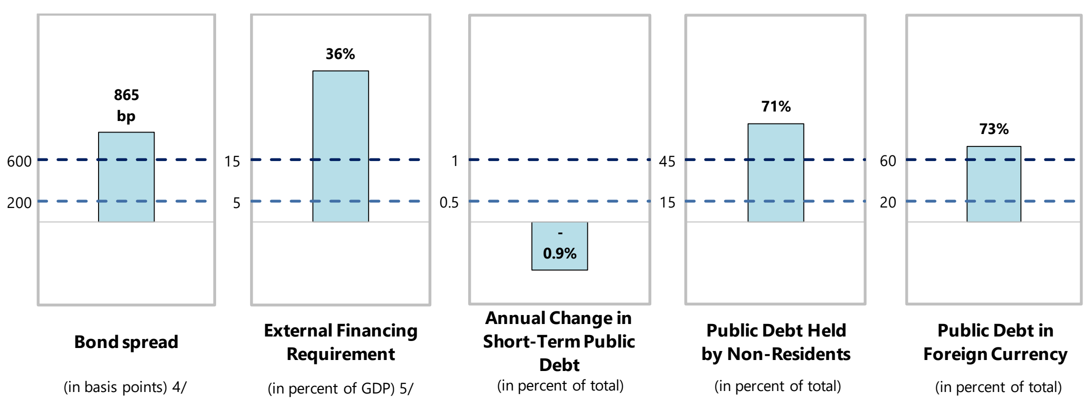




Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)

Tunisia Lower early warning Upper early warning



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

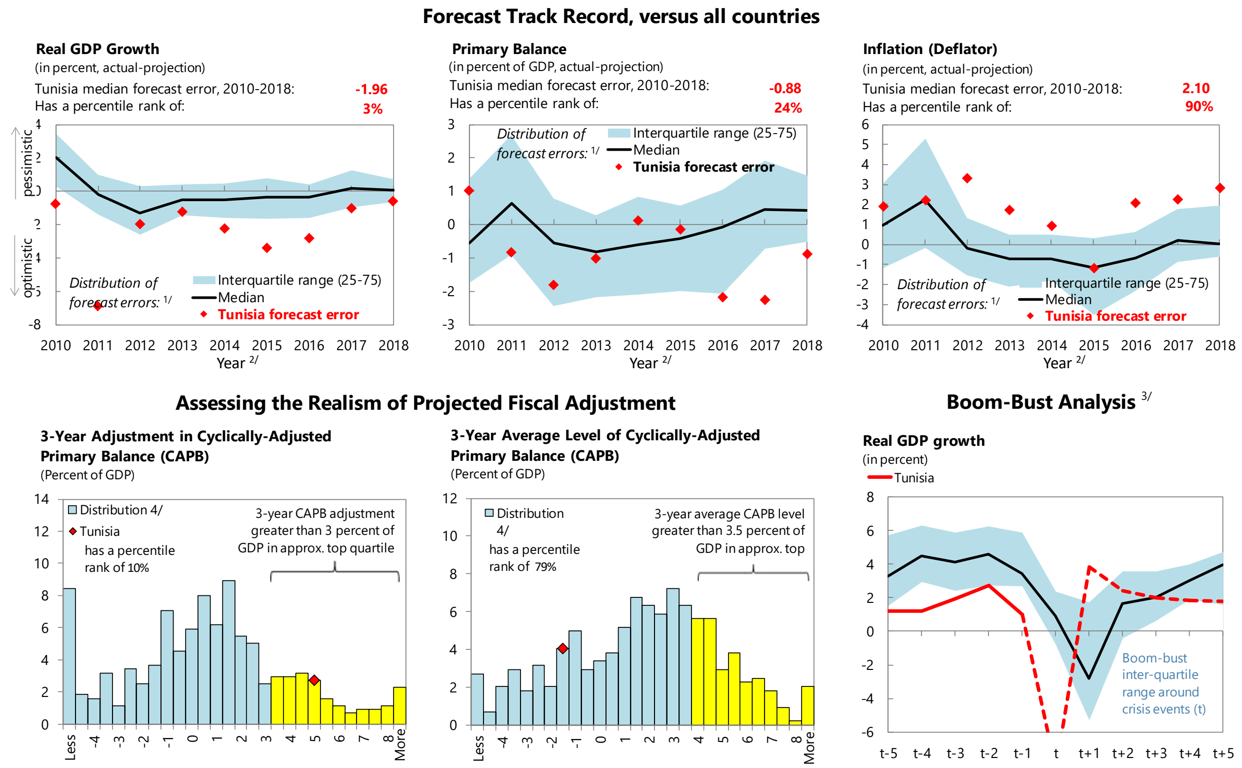
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 07-Oct-20 through 05-Jan-21.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 4. Tunisia: Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Tunisia has had a positive output gap for 3 consecutive years, 2017-2019. For Tunisia, t corresponds to 2020; for the distribution, t corresponds to the first year of the crisis.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 5. Tunisia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario
(In percent of GDP)

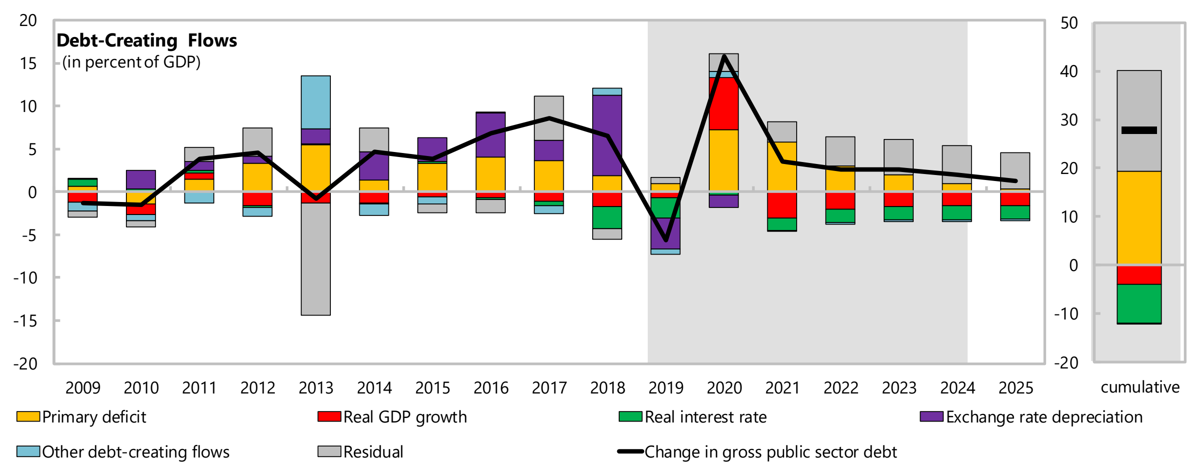
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	50.8	77.5	71.8	87.6	91.2	93.9	96.5	98.5	99.7
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public gross financing needs	8.4	10.7	9.4	17.2	18.3	15.5	15.7	15.9	14.0
Public debt (in percent of potential GDP)	50.8	79.3	74.2	83.0	89.5	93.3	96.2	98.1	99.1
Real GDP growth (in percent)	2.1	2.7	1.0	-8.2	3.8	2.4	2.0	1.8	1.8
Inflation (GDP deflator, in percent)	4.2	7.9	7.1	5.4	5.9	6.2	6.9	7.3	7.5
Nominal GDP growth (in percent)	6.3	10.8	8.2	-3.2	9.9	8.8	9.1	9.2	9.4
Effective interest rate (in percent) [4/]	4.4	4.1	3.9	4.5	4.3	4.5	5.2	5.6	5.9

As of January 05, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		849
5Y CDS (bp)		454
Ratings	Foreign	Local
Moody's	B2	B2
S&Ps	n.a.	n.a.
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	3.2	6.5	-5.6	15.8	3.6	2.7	2.6	2.0	1.3	27.9	
Identified debt-creating flows	3.7	7.8	-6.3	13.7	1.2	-0.7	-1.5	-2.4	-3.0	7.3	
Primary deficit	2.5	1.9	1.0	7.2	5.9	3.0	2.0	1.0	0.3	19.4	-3.3
Primary (noninterest) revenue and grants	24.5	26.0	27.7	26.9	27.0	27.2	27.2	27.4	27.5	163.1	
Primary (noninterest) expenditure	26.9	27.9	28.7	34.1	32.8	30.2	29.2	28.4	27.8	182.5	
Automatic debt dynamics [5/]	1.3	5.1	-6.6	5.7	-4.5	-3.6	-3.3	-3.2	-3.2	-12.0	
Interest rate/growth differential [6/]	-0.9	-4.3	-3.1	5.7	-4.5	-3.6	-3.3	-3.2	-3.2	-12.0	
Of which: real interest rate	0.1	-2.6	-2.4	-0.3	-1.4	-1.6	-1.6	-1.6	-1.6	-8.1	
Of which: real GDP growth	-0.9	-1.7	-0.7	6.1	-3.0	-2.0	-1.7	-1.6	-1.6	-3.9	
Exchange rate depreciation [7/]	2.2	9.4	-3.6	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	0.7	-0.7	0.7	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	
Privatization, confiscated asset sales, and other (negative)	-0.3	-0.1	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in deposits	0.2	0.9	0.1	0.7	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	
Residual, including asset changes [8/]	-0.5	-1.2	0.7	2.1	2.3	3.4	4.1	4.4	4.3	20.6	

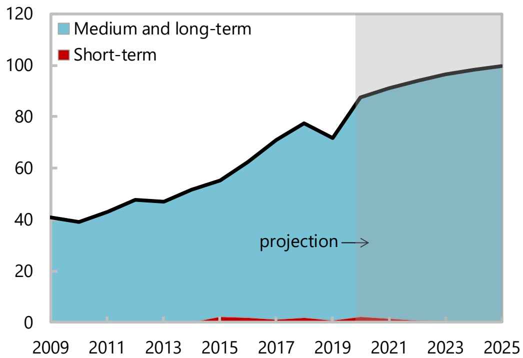


Source: IMF staff.
1/ Public sector is defined as central government and includes public guarantees, defined as .
2/ Based on available data.
3/ Long-term bond spread over U.S. bonds.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

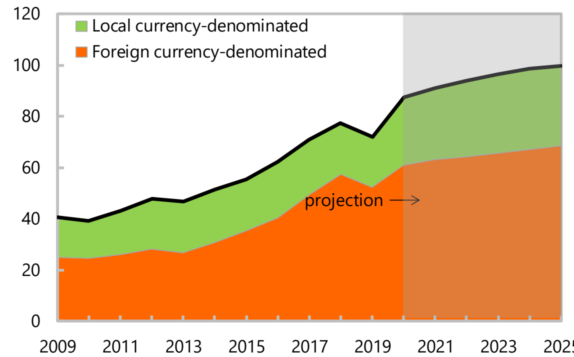
Figure 6. Tunisia: Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



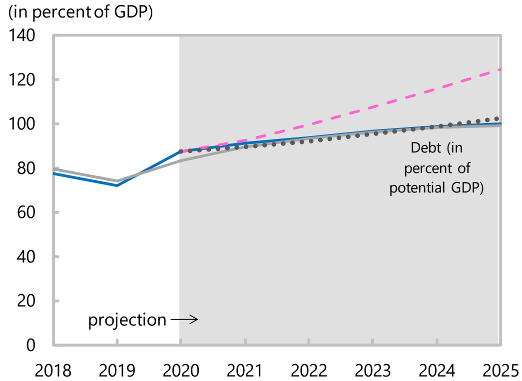
By Currency
(in percent of GDP)



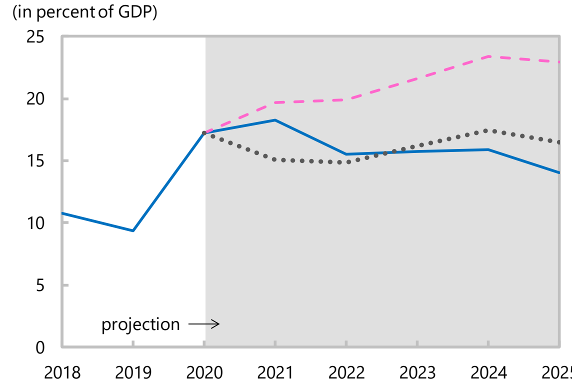
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

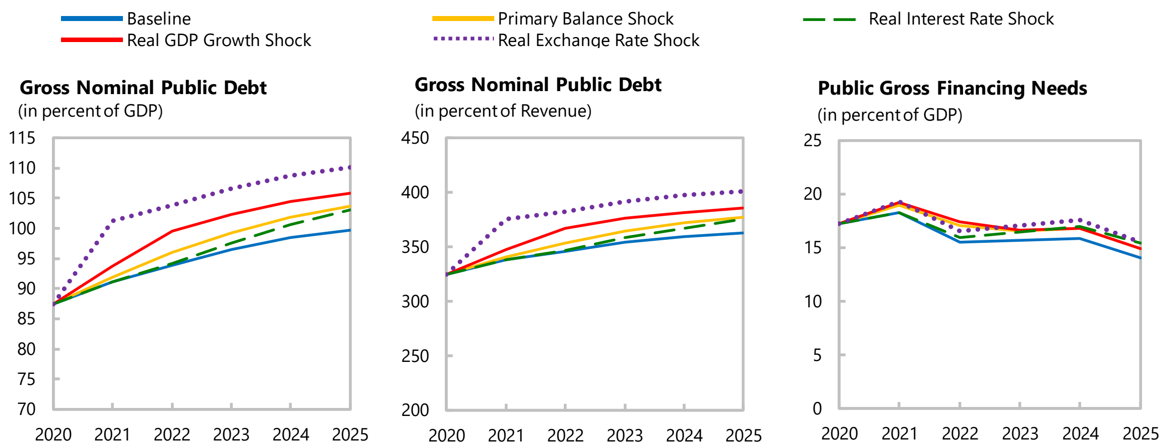
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.2	3.8	2.4	2.0	1.8	1.8
Inflation	5.4	5.9	6.2	6.9	7.3	7.5
Primary Balance	-7.2	-5.9	-3.0	-2.0	-1.0	-0.3
Effective interest rate	4.5	4.3	4.5	5.2	5.6	5.9
Constant Primary Balance Scenario						
Real GDP growth	-8.2	3.8	2.4	2.0	1.8	1.8
Inflation	5.4	5.9	6.2	6.9	7.3	7.5
Primary Balance	-7.2	-7.2	-7.2	-7.2	-7.2	-7.2
Effective interest rate	4.5	4.3	4.6	5.4	5.8	6.2

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.2	1.9	1.9	1.9	1.9	1.9
Inflation	5.4	5.9	6.2	6.9	7.3	7.5
Primary Balance	-7.2	-2.4	-2.4	-2.4	-2.4	-2.4
Effective interest rate	4.5	4.3	4.6	5.4	5.9	6.3

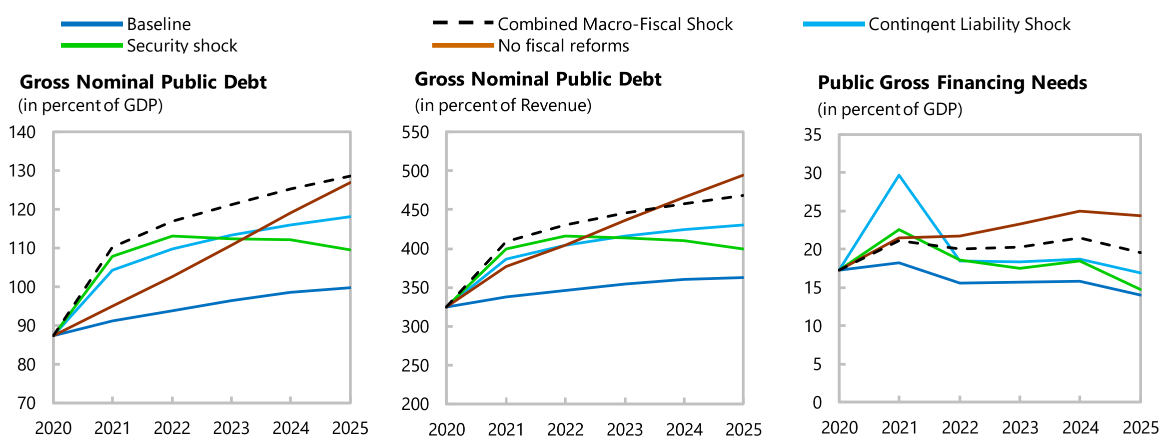
Source: IMF staff.

Figure 7. Tunisia: Public DSA Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2020	2021	2022	2023	2024	2025
Primary Balance Shock						
Real GDP growth	-8.2	3.8	2.4	2.0	1.8	1.8
Inflation	5.4	5.9	6.2	6.9	7.3	7.5
Primary balance	-7.2	-6.5	-4.4	-2.5	-1.5	-0.7
Effective interest rate	4.5	4.3	4.6	5.4	5.8	6.0
Real Interest Rate Shock						
Real GDP growth	-8.2	3.8	2.4	2.0	1.8	1.8
Inflation	5.4	5.9	6.2	6.9	7.3	7.5
Primary balance	-7.2	-5.9	-3.0	-2.0	-1.0	-0.3
Effective interest rate	4.5	4.3	5.0	6.0	6.7	7.2
Combined Shock						
Real GDP growth	-8.2	2.1	0.7	2.0	1.8	1.8
Inflation	5.4	5.4	5.8	6.9	7.3	7.5
Primary balance	-7.2	-6.5	-4.4	-2.5	-1.5	-0.7
Effective interest rate	4.5	4.8	4.8	5.9	6.6	7.2

	2020	2021	2022	2023	2024	2025
Real GDP Growth Shock						
Real GDP growth	-8.2	2.1	0.7	2.0	1.8	1.8
Inflation	5.4	5.4	5.8	6.9	7.3	7.5
Primary balance	-7.2	-6.5	-4.3	-2.0	-1.0	-0.3
Effective interest rate	4.5	4.3	4.6	5.4	5.7	6.0
Real Exchange Rate Shock						
Real GDP growth	-8.2	3.8	2.4	2.0	1.8	1.8
Inflation	5.4	12.7	6.2	6.9	7.3	7.5
Primary balance	-7.2	-5.9	-3.0	-2.0	-1.0	-0.3
Effective interest rate	4.5	4.8	4.4	5.1	5.5	5.8
Contingent Liability Shock						
Real GDP growth	-8.2	2.1	0.7	2.0	1.8	1.8
Inflation	5.4	5.4	5.8	6.9	7.3	7.5
Primary balance	-7.2	-16.7	-3.0	-2.0	-1.0	-0.3
Effective interest rate	4.5	4.6	5.6	6.1	6.3	6.5

Source: IMF staff.

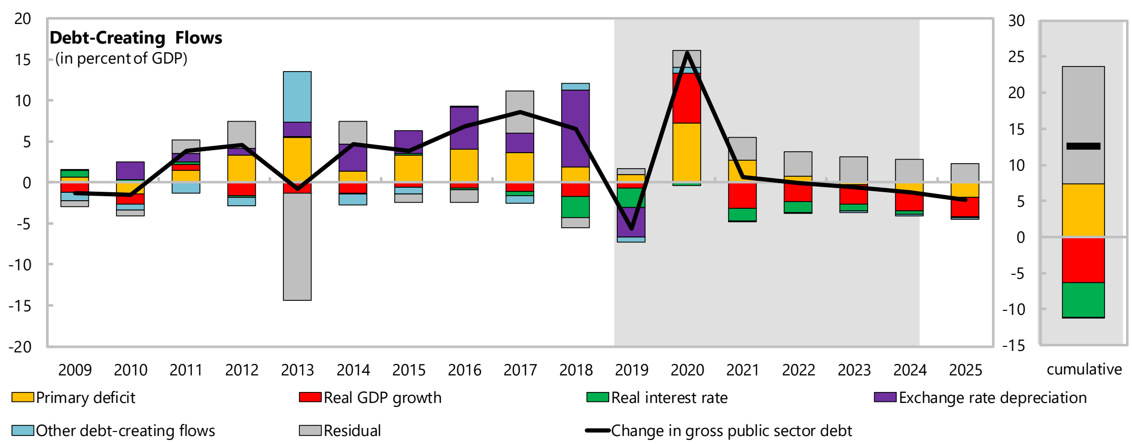
Figure 8. Tunisia: Public Sector Debt Sustainability Analysis (DSA) – REFORM Scenario
(In percent of GDP)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of January 05, 2021		
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025			
Nominal gross public debt	50.8	77.5	71.8	87.6	88.3	88.3	87.7	86.5	84.4	Sovereign Spreads		
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	EMBIG (bp) 3/		849
Public gross financing needs	8.4	10.7	9.4	17.2	15.1	12.3	11.2	10.7	8.4	5Y CDS (bp)		454
Public debt (in percent of potential GDP)	50.8	79.3	74.2	83.0	86.7	88.1	88.6	88.1	86.7			
Real GDP growth (in percent)	2.1	2.7	1.0	-8.2	3.9	2.8	2.8	2.9	3.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	4.2	7.9	7.1	5.4	5.9	5.5	5.3	4.6	4.1	Moody's	B2	B2
Nominal GDP growth (in percent)	6.3	10.8	8.2	-3.2	10.0	8.5	8.2	7.6	7.2	S&Ps	n.a.	n.a.
Effective interest rate (in percent) [4/]	4.4	4.1	3.9	4.5	4.2	4.0	4.3	4.2	4.1	Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	3.2	6.5	-5.6	15.8	0.7	0.0	-0.6	-1.2	-2.1	12.5	
Identified debt-creating flows	3.7	7.8	-6.3	13.7	-2.1	-3.1	-3.7	-4.1	-4.5	-3.7	
Primary deficit	2.5	1.9	1.0	7.2	2.7	0.7	-0.3	-1.1	-1.8	7.4	-2.7
Primary (noninterest) revenue and grants	24.5	26.0	27.7	26.9	27.2	27.6	27.8	28.0	28.2	165.7	
Primary (noninterest) expenditure	26.9	27.9	28.7	34.1	29.9	28.3	27.5	26.9	26.4	173.1	
Automatic debt dynamics [5/]	1.3	5.1	-6.6	5.7	-4.7	-3.6	-3.2	-2.8	-2.5	-11.1	
Interest rate/growth differential [6/]	-0.9	-4.3	-3.1	5.7	-4.7	-3.6	-3.2	-2.8	-2.5	-11.1	
Of which: real interest rate	0.1	-2.6	-2.4	-0.3	-1.6	-1.3	-0.9	-0.4	-0.1	-4.7	
Of which: real GDP growth	-0.9	-1.7	-0.7	6.1	-3.1	-2.3	-2.3	-2.3	-2.4	-6.3	
Exchange rate depreciation [7/]	2.2	9.4	-3.6	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	0.7	-0.7	0.7	-0.1	-0.2	-0.2	-0.2	-0.1	0.0	
Privatization, confiscated asset sales, and other (negative)	-0.3	-0.1	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in deposits	0.2	0.9	0.1	0.7	-0.1	-0.2	-0.2	-0.2	-0.1	0.0	
Residual, including asset changes [8/]	-0.5	-1.2	0.7	2.1	2.8	3.0	3.1	2.8	2.3	16.2	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as .

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

B. External Debt Sustainability

7. Tunisia has elevated external debt. The external debt-to-GDP ratio reached 97.4 percent in 2018 and declined to 92.8 percent in 2019. The improvement in 2019 was thanks to currency appreciation (which started in February 2019 and continued over the course of 2020) and the reduction in the current account deficit. External debt is estimated at 94.7 percent of GDP in 2020, of which 74 percent is medium- to long-term and 80 percent is public external debt. The bulk of the external debt is held by official creditors or is backed by a third-party guarantee (see Table 1 and IMF Country Report No. 17/203).

8. External debt is expected to remain high over the medium term. Staff's baseline scenario projects that external debt would decline somewhat over the medium term but remain elevated and reach about 96 percent over the medium term (Table 2). The slight decline in external debt over the medium term, despite rising public debt in the baseline scenario, is attributable to a number of factors, including reserves drawdown and increased reliance by the central government on domestic debt.

9. External debt is sensitive to exchange rate depreciation. Tunisia's external debt profile is characterized by a low average interest rate, relatively long maturities, a substantial share of concessional debt, and a large grant element on new external debt (see Table 1 and IMF Country Report No. 19/223). This makes Tunisia's external debt relatively robust to most shocks, except for a large real exchange rate depreciation (Figure 9). A sharp real exchange rate depreciation—simulated by a one-time 30 percent depreciation in the second year of projection—would sharply increase external debt (to about 152 percent of GDP in 2021) and remain high throughout the projection period.

Table 1. Tunisia: External Debt, September 2020

	TD Mio	US$ Mio	%GDP	% of total
Total external debt stock	**104,706**	**37,724**	**91.5**	**100**
Maturity				
MLT	77,249	27,831	67.5	73.8
ST	27,457	9,892	24.0	26.2
Currency				
US$	19,580	7,054	17.1	18.7
EUR	59,787	21,540	52.2	57.1
JPY	10,052	3,621	8.8	9.6
Others	15,287	5,508	13.4	14.6
Interest				
Fixed rates	**74,656**	**26,897**	**65.2**	**71.3**
0 %	105	38	0.1	0.1
0% < i < 5%	66,070	23,804	57.7	63.1
5% < i < 7%	8,377	3,018	7.3	8.0
7% < i < 10%	105	38	0.1	0.1
>10%	0	0	0.0	0.0
Variable rates	**30,051**	**10,827**	**26.3**	**28.7**

By creditor	TD Mio	US$ Mio	%GDP	% of total
Total	**77,249**	**27,831**	**67.5**	**100.0**
Official	**55,830**	**20,115**	**48.8**	**72.3**
Multilateral	41,768	15,048	36.5	54.1
o/w AfDB	8,592	3,096	7.5	11.1
o/w EIB	6,673	2,404	5.8	8.6
o/w IMF	6,757	2,434	5.9	8.7
o/w World Bank	10,907	3,930	9.5	14.1
Bilateral	14,062	5,066	12.3	18.2
G-7	9,014	3,248	7.9	11.7
o/w France	3,735	1,346	3.3	4.8
o/w Japan	2,346	845	2.0	3.0
Other	5,048	1,819	4.4	6.5
o/w Saudi Arabia	1,994	719	1.7	2.6
o/w Kuwait	264	95	0.2	0.3
Private	**21,419**	**7,717**	**18.7**	**27.7**
Market	19,390	6,986	16.9	25.1
o/w guaranteed	5,325	1,918	4.7	6.9
Banks and trade creditors	2,029	731	1.8	2.6

	TD Mio	US$ Mio	%GDP	% of total
Debtor, total external debt				
Public	**84,072**	**30,290**	**73.5**	**80.3**
Administration	60,608	21,836	53.0	57.9
CG	53,573	19,301	46.8	51.2
CBT	7,035	2,535	6.1	6.7
SoEs	23,464	8,454	20.5	22.4
Private	**20,634**	**7,434**	**18.0**	**19.7**
Debtor, medium and long-term external debt				
Public	**72,922**	**26,273**	**63.7**	**69.6**
Administration	60,330	21,736	52.7	57.6
CG	53,573	19,301	46.8	51.2
CBT	6,757	2,434	5.9	6.5
SoEs	12,593	4,537	11.0	12.0
Private	**4,327**	**1,559**	**3.8**	**4.1**
Debtor, short-term external debt				
Public	**11,150**	**4,017**	**9.7**	**10.6**
Administration	278	100	0.2	0.3
CG	0	0	0.0	0.0
CBT	278	100	0.2	0.3
SoEs	10,872	3,917	9.5	10.4
Private	**16,308**	**5,875**	**14.2**	**15.6**

Memo items:	Sept. 2020
GDP (Mio TD)	114,458
TD/US$ (eop)	2.78

Source: Tunisian authorities and IMF staff calculations.

Table 2. Tunisia: External Debt Sustainability Framework, 2015–25

	Actual							Projections						
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	
								I. Baseline Projections						**Debt-stabilizing non-interest current account 6/**
External debt	**65.4**	**72.9**	**84.6**	**97.4**	**92.8**			**94.7**	**99.2**	**101.2**	**99.3**	**96.7**	**95.7**	**-2.2**
Change in external debt	4.7	7.5	11.7	12.8	-4.6			1.9	4.5	2.0	-1.9	-2.7	-1.0	
Identified external debt-creating flows (4+8+9)	8.0	12.5	8.2	19.3	-8.5			3.6	1.0	3.9	4.1	3.8	4.3	
Current account deficit, excluding interest payments	7.3	7.3	8.3	9.4	6.2			4.7	7.5	7.0	6.5	6.3	6.5	
Deficit in balance of goods and services	10.3	10.9	12.0	13.2	10.6			9.1	12.1	11.6	11.2	11.0	11.0	
Exports	36.8	39.3	42.3	49.2	48.0			39.7	45.9	46.8	47.4	47.4	47.2	
Imports	47.1	50.2	54.2	62.4	58.6			48.9	58.0	58.4	58.6	58.4	58.2	
Net non-debt creating capital inflows (negative)	-2.9	-3.1	-1.8	-2.3	-2.7			-2.4	-2.5	-1.9	-2.2	-2.2	-2.2	
Automatic debt dynamics 1/	3.6	8.4	1.6	12.2	-12.0			1.2	-4.0	-1.3	-0.2	-0.3	0.0	
Contribution from nominal interest rate	1.7	1.9	2.0	2.1	1.9			2.1	1.8	2.4	2.8	3.1	3.2	
Contribution from real GDP growth	-0.7	-0.9	-1.4	-2.6	-0.8			7.5	-3.4	-2.3	-2.0	-1.8	-1.6	
Contribution from price and exchange rate changes 2/	2.7	7.3	1.0	12.8	-13.0			-8.4	-2.5	-1.4	-1.0	-1.7	-1.6	
Residual, incl. change in gross foreign assets (2-3)	-3.3	-5.0	3.5	-6.5	3.8			-1.6	3.5	-1.8	-6.0	-6.5	-5.2	
External debt-to-exports ratio (in percent)	177.5	185.2	200.1	197.8	193.3			238.3	216.0	216.3	209.7	203.9	202.7	
Gross external financing need (in billions of US dollars) 3/	12.5	12.2	12.3	13.4	14.4			16.2	17.6	19.3	21.2	21.1	18.8	
in percent of GDP	26.3	28.4	29.4	33.9	35.8	10-Year Historical Average	10-Year Standard Deviation	40.0	40.8	43.0	45.8	44.0	38.0	Projected Average
Key Macroeconomic Assumptions														
	38.9	44.9	43.5	44.3	46.3			46.0	47.8	49.7	52.1	54.8	58.1	
Real GDP growth (in percent)	1.2	1.2	1.9	2.7	1.0	1.9	1.7	-8.2	3.8	2.4	2.0	1.8	1.8	0.6
Exchange rate appreciation (US dollar value of local currency, pct.change)	-8.4	-13.1	-5.8	-17.0	7.0	-7.1	6.5	2.7	-2.6	-4.2	-4.9	-4.9	-5.2	-3.2
GDP deflator in US dollars (change in percent)	-4.2	-10.1	-1.4	-13.1	15.4	-2.8	7.8	10.0	2.7	1.4	1.0	1.7	1.6	3.1
Growth of exports (US dollar terms, in percent)	-19.1	-3.2	4.0	10.4	-1.2	0.0	8.5	-16.4	23.2	5.9	4.3	3.7	3.0	3.9
Growth of imports (US dollar terms, in percent)	-17.3	-3.5	4.6	9.1	-5.0	1.4	8.9	-15.8	26.5	4.6	3.4	3.3	3.1	4.2
Current account balance, excluding interest payments	-7.3	-7.3	-8.3	-9.4	-6.2	-7.3	1.6	-4.7	-7.5	-7.0	-6.5	-6.3	-6.5	-6.4
Net non-debt creating capital inflows	2.9	3.1	1.8	2.3	2.7	2.8	0.9	2.4	2.5	1.9	2.2	2.2	2.2	2.2
								II. Stress Tests for External Debt Ratio						**Debt-stabilizing non-interest current account 6/**
A. Alternative Scenarios (with key variables at their historical averages) 5/														
A1. Key variables are at their historical averages in 2020-2025 4/								88.2	99.6	106.4	109.1	111.2	114.5	1.9
A2. Security shock								88.2	114.5	125.1	126.7	123.6	121.5	-3.0
A3. No fiscal reforms								88.2	93.0	92.9	91.6	90.1	89.4	-2.3
B. Bound Tests														
B1. Nominal interest rate is at baseline plus one-half standard deviation								88.2	96.4	96.2	94.0	91.5	90.1	-2.3
B2. Real GDP growth is at baseline minus one-half standard deviations								88.2	89.5	91.9	91.8	91.6	92.6	-1.1
B3. Non-interest current account is at baseline minus one-half standard deviations								88.2	99.9	99.8	97.6	95.6	95.0	-2.7
B4. Combination of B1-B3 using 1/4 standard deviation shocks								88.2	89.3	91.7	91.6	91.5	92.5	-1.6
B5. One time 30 percent real depreciation in 2021								88.2	152.2	150.8	146.9	142.7	140.2	-3.8

Sources: IMF Country desk data; and staff estimates.

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

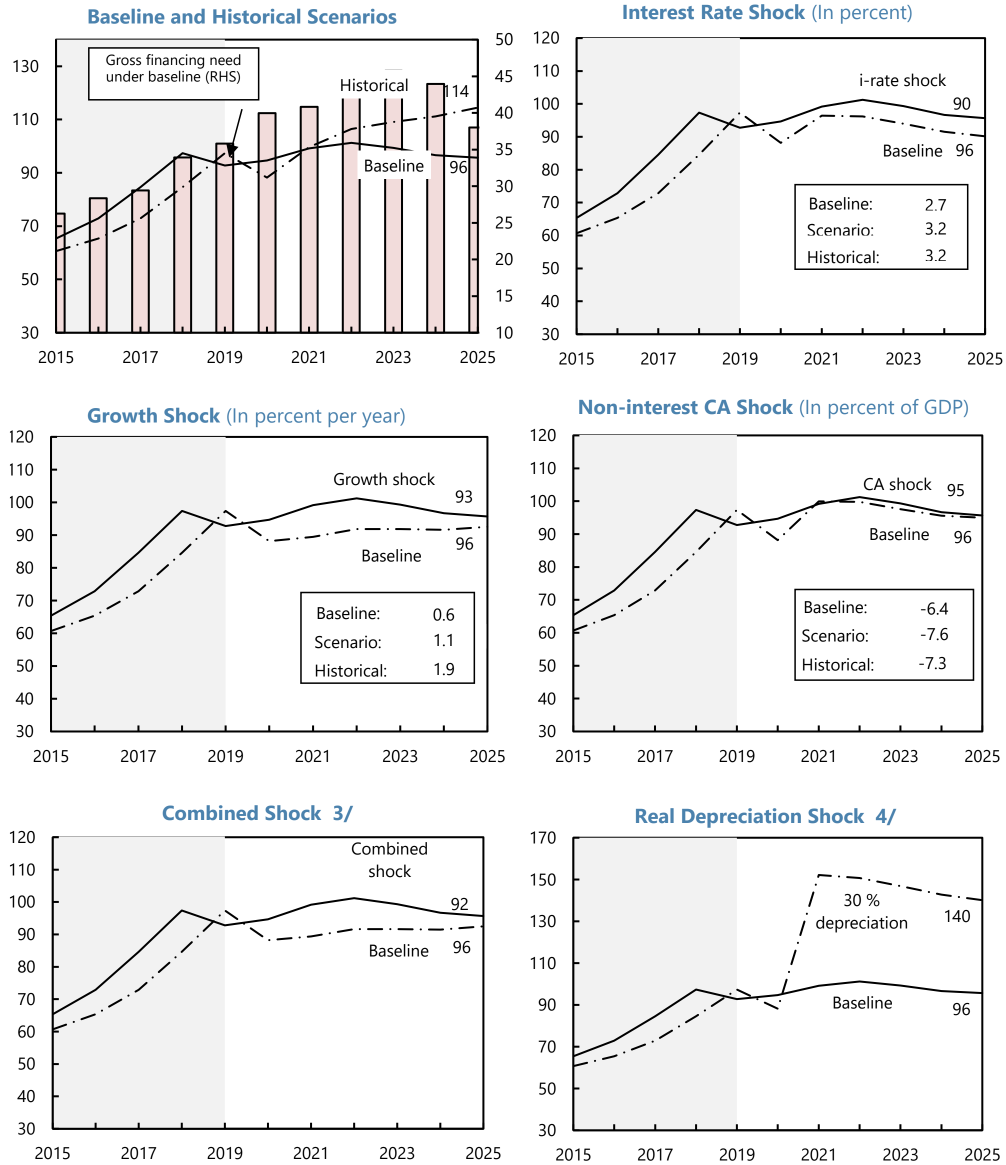
4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

5/ The implied change in other key variables under this scenario is discussed in the text.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 9. Tunisia: External Debt Sustainability: Bound Tests 1/ 2/

(In percent of GDP)



Sources: IMF, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks (except for growth which is a 3/4th standard deviation). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2021.

Table 3. Tunisia: Amortization and Interest Payments of Central Government Debt, 2020–36

External Debt, $ mn*		2020Q4	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Multilateral	Principal	149	599	663	1,027	1,245	1,000	796	760	756	550	383	559	482	255	421	437	249
	Interest	42	185	172	155	128	101	84	71	60	49	41	36	30	25	22	18	15
Bilateral	Principal	80	382	374	391	395	370	258	221	180	151	132	111	105	86	58	53	48
	Interest	13	58	52	42	34	27	20	16	12	10	8	6	5	3	2	2	1
Private	Principal	0	1,250	494	832	1,548	1,000	852	478	0	0	164	218	0	328	0	0	0
	Interest	54	303	278	270	227	132	105	51	28	28	28	16	11	6	0	0	0
Total	**Principal**	**229**	**2,231**	**1,531**	**2,250**	**3,189**	**2,370**	**1,905**	**1,458**	**936**	**702**	**679**	**889**	**587**	**669**	**479**	**490**	**297**
	Interest	**109**	**546**	**501**	**467**	**390**	**260**	**209**	**138**	**100**	**86**	**77**	**58**	**46**	**33**	**24**	**20**	**16**
Total external debt service		***339***	***2,777***	***2,032***	***2,717***	***3,578***	***2,630***	***2,115***	***1,596***	***1,036***	***788***	***756***	***947***	***633***	***702***	***503***	***510***	***313***
Domestic Debt in FX, $ mn*		2020Q4	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
	Principal	154	295	658	317	n.a.	18	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Interest	3	28	21	8	1	1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total domestic FX debt service		***158***	***323***	***680***	***324***	***1***	***19***	-	-	-	-	-	-	-	-	-	-	-
Total debt service in FX		***496***	***3,100***	***2,712***	***3,041***	***3,579***	***2,649***	***2,115***	***1,596***	***1,036***	***788***	***756***	***947***	***633***	***702***	***503***	***510***	***313***
Domestic Debt in TD, mn		2020Q4	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
	Principal	986	2,077	2,579	2,499	1,077	820	1,626	1,587	1,076	5	79	0	727	n.a.	n.a.	n.a.	n.a.
	Interest	412	1,474	1,368	1,208	1,056	982	894	772	651	578	306	55	55	n.a.	n.a.	n.a.	n.a.
Total domestic FX debt service		***1,398***	***3,550***	***3,947***	***3,707***	***2,133***	***1,802***	***2,520***	***2,359***	***1,726***	***583***	***385***	***55***	***782***	-	-	-	-

*Amortization schedule uses IMF exchange rate forecasts

Source: IMF staff projections based on data from the authorities as of September 2020.

Annex I. Risk Assessment Matrix[1]

Source of Risk, Relative Likelihood, and Time Horizon	Expected Impact and Recommended Policy Response
External Risks	
Unexpected shift in the Covid-19 pandemic.	
Medium (ST, MT)	*High*
Prolonged pandemic. The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. **Asynchronous progress.** Limited access to, and longer-than-expected deployment of, vaccines —combined with dwindling policy space—prompt a reassessment of growth prospects (potentially triggering capital outflows, depreciation and inflation pressures, and debt defaults).	Increasingly unmanageable growth impact as the efforts to contain the COVID-19 outbreak require more stringent containment efforts and costly reallocation of resources. Monetary and fiscal policy responses are constrained with dwindling policy space and concerns about debt sustainability, while calls for monetary financing of the budget deficit increase. Pressures on international reserves could also intensify, even as the capital account remains relatively closed. Strong support from official creditors would be critical to reduce debt sustainability risks. Strict prioritization of spending on health and protecting the vulnerable would be critical, requiring difficult tradeoffs for fiscal policymakers. Difficult and long-overdue policy reforms—including on the civil service wage bill, energy subsidies, and SOE management—should press ahead, which to be successful will require effective communication and a 'national debate' to generate broad buy-in from vested interests and the broader population.
High (MT)	*High (MT)*
Intensified geopolitical tensions and security risks. (Geo)political tensions in selected countries/regions (e.g., Middle East) cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence.	Geopolitical tensions and security risks, especially if it affected Europe and the MENA region, would adversely affect Tunisia through trade channels, tourism, and remittances. Higher commodity prices, notably for energy, would further exacerbate macroeconomic imbalances through higher current account deficits, inflation, and pressure on the budget. Mitigating policy responses would include exchange rate flexibility to foster adjustment and structural reforms to improve competitiveness and private-sector led investment and growth over the medium term.
Domestic Risks	
High (ST, MT)	*High*
Slow reform implementation, due to continued political uncertainty, social tensions, and opposition to reforms from vested interests. *High (ST, MT)* **Widespread social discontent and political instability.** Social tensions erupt as the pandemic and inadequate policy response cause socio-economic hardship (unemployment, poverty, and shortages and higher prices of essentials—often exacerbating pre-existing inequities), or due to unequal access to vaccines. Growing political polarization and instability weaken policymaking and confidence.	Crisis impact worsens beyond the economic impact from the Covid-19 pandemic, adding to political instability and fragmentation. Mitigation strategies should be a rapid and forceful implementation of economic and social reforms, including (i) reforms that improve equity and inclusive growth; (ii) measures to rebuild fiscal and external buffers, including growth-friendly fiscal consolidation and sustained exchange rate flexibility; (iii) reorient spending to protect and enhance the social safety net and public sector investment, while containing the wage bill and ill-targeted subsidies, and (iv) acceleration of structural reforms to increase productivity, improve governance, and strengthen the resilience of the financial sector.
Medium (ST, MT)	*High (MT)*
Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies.	Rising temperatures, varied precipitation levels and resulting droughts and floods threaten agriculture, tourism, economic development, and water security throughout the country. Tunisia's 1150 km of coast is threatened by sea level rise. Measures should include improving infrastructure to collect climate and weather data - information vital in informing adaptation strategies, allowing private participation in renewable energy generation, better coordination between ministries and agencies, and broad inclusion of society in developing climate change strategies and to achieve buy-in.

Source: IMF staff.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex II. Integrated Capacity Building Priorities, 2021–23

Technical Assistance	Key Objective
Covid-19-Related Response	
• Tax administration	Revitalize tax collection to mobilize resource for the Covid-related response (FAD)
• Financial sector risks	Asset quality review and stress tests of the banking system to risks related to the Covid-19 crisis (MCM)
Consolidate and Reorient the Budget to Support Growth	
• Revenue administration	Improve tax compliance and informal sector coverage (FAD)
• Expenditure rationalization	Control and reduce the wage bill and subsidies, while increasing capital and social expenditure (FAD)
• Tax policy and equity	Improve tax equity, tax efficiency, and reduce tax exemptions (FAD)
• Public financial management	Strengthen fiscal risk identification, monitoring, and management monitoring; enhance the medium-term fiscal framework (METAC); follow-up on PIMA recommendations (FAD)
Reform SOEs and Reduce Fiscal Risks	
• SOEs and public sector consolidation	Consolidate SOEs balance sheets for consolidated monitoring (STA)
• SOE strategic reforms	Develop arrears clearance strategy, adopt a regulatory framework, improve SOE monitoring procedures (METAC)
• SOE governance	Assess and improve SOE regulation and governance structure (LEG)
Strengthen the Monetary Policy Framework and Financial Sector Stability	
• Monetary policy framework and operations *	Follow up on the roadmap to inflation targeting (diagnostic mission), including capital account liberalization, FX intervention rules, liquidity forecasting, and the collateral and emergency liquidity assistance frameworks (MCM)
• Financial stability and stress testing	Strengthen stress testing tools and the crisis management framework (MCM)
• Internal controls*	Improve Central Bank controls in line with internal frameworks and best practices (MCM)

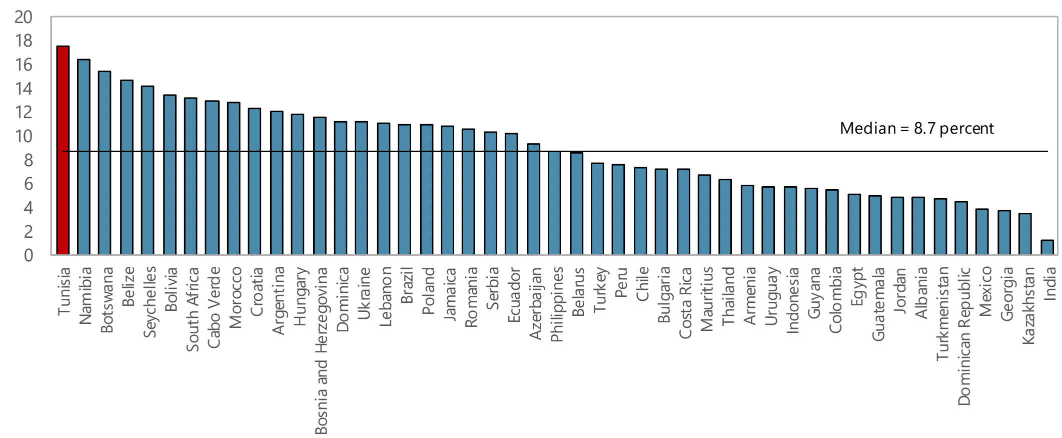
Technical Assistance	Key Objective
• Asset quality review	Improve asset quality assessment tools (MCM)
• Banking supervision*	Accompany transition to Basel III (METAC)
• Financial programming and policies*	Provide training to CBT officials to improve macroeconomic monitoring and policy implementation capabilities (ICD)
Promote Private Sector and Strengthen Good Governance	
• Governance diagnostics	Improve governance and the rule of law (fiscal governance, financial oversight, regulation) (LEG/FAD)
• AML/CFT and anti-corruption measures	Strengthen implementation of the legal framework for AML/CFT to step up anti-corruption legislation (LEG)
• Central bank governance and communication*	Support institutional restructuring and develop an outreach toolkit (MCM)
• Special Data Dissemination Standard (SDDS)*	Support internal CBT procedures for data submissions (STA)
• Real sector statistics*	Improve quality of consumer and producer prices indices. Improve quarterly GDP and compile rest of the world accounts (STA/METAC).
• External sector statistics*	Migrate to the BPM6 framework, improve informal trade and gross external debt statistics (STA)
• Monetary and financial statistics, FSIs*	Improve institutional coverage of monetary statistics; develop core and additional FSIs for deposit-taking corporations (STA)

*/ Ongoing TA.

Annex III. Trends in the Civil Service Wage Bill

1. Tunisia's civil service wage bill is one of the highest in the world. It grew from 10.7 percent of GDP in 2010 to 14.6 percent of GDP in 2019 (including wage components paid out as tax credits to public sector workers) and is estimated to have reached 17.6 percent of GDP in 2020 (Figure 1). This level is well above the median of 8.7 percent of GDP in non-oil producing emerging markets for 2020 and ranks Tunisia as the highest among non-oil producing emerging markets.

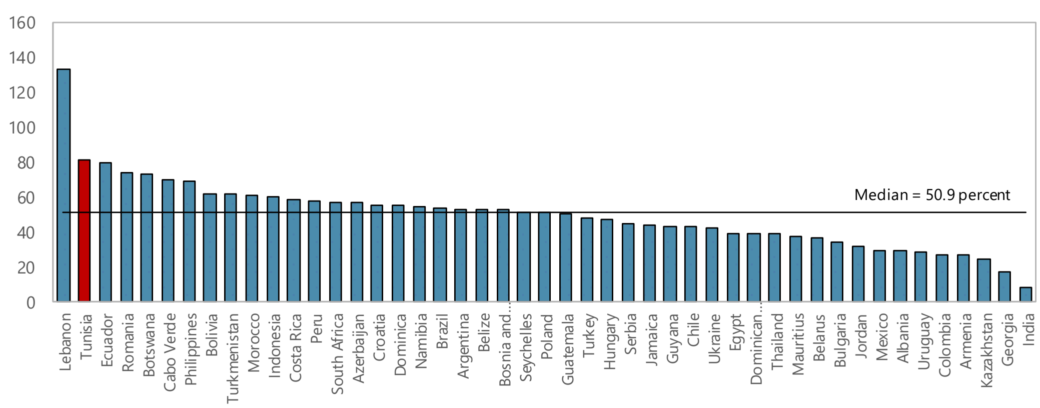
Figure 1. Central Government Wage Bill in non-Oil Producing Emerging Markets, 2020
(In percent of GDP)



Source: WEO database.

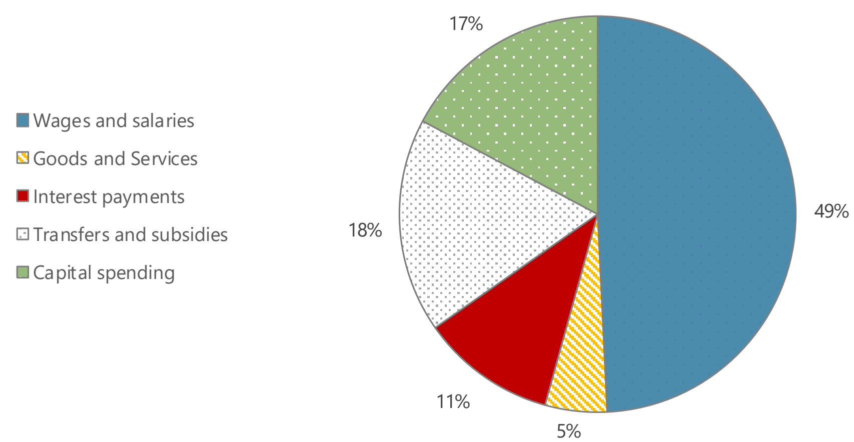
2. The civil service wage bill crowds out other budget priorities. The wage bill consumed about 75 percent of tax revenues in 2020, up from 53 percent in 2010 (Figure 2). The wage bill is also almost three times the size of public investment and almost six times spending on social programs (Figure 3).

Figure 2. Central Government Wage Bill in non-Oil Producing Emerging Markets, 2020
(In percent of tax revenues)



Source: WEO database.

Figure 3. Composition of Government Spending, 2020
(In percent of total)

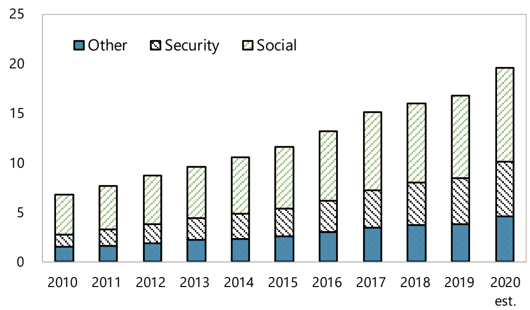


Note: Spending does not include the one-off repayment of government arrears to SOEs in 2020.
Source: Supplementary 2020 budget and staff estimates and projections.

3. The steady increase in the civil service wage bill is due to both headcount additions and salary increases.

- **Headcount additions.** In the first years after the revolution (2011–15), the civil service saw a significant expansion with many of the new recruits among the lower qualification staff (manual workers). The total number of staff increased by 5½ percent per year on average during that period. A further hiring push took place for security personnel after 2015, to address higher threat levels in Tunisia's post-terrorist attack environment (Figure 4). Significant new hiring also occurred in 2020, with the total civil service increasing by about 4 percent (about 40 percent of that increase was due to the health sector.) In the 2021 budget, the hiring of additional 16,500 civil servants is envisaged, with the Ministry of Education accounting for 53 percent of the increase in total headcount, and the Interior Ministry for 38 percent. Other potential increases in 2021 that were not yet included in the 2021 budget are the agreed hiring of about 10,000 of long-term unemployed and the regularization of about 6,000 road construction workers (part of the regularization of about 31,000 *ouvriers de chantiers* that could take place over several years.) Also not included in the central government headcount are the estimated 100,000 people employed by SOEs with the latter at times used to create jobs for social purposes, especially in the disadvantaged region of the south (e.g. associated with industries such as phosphate and oil).

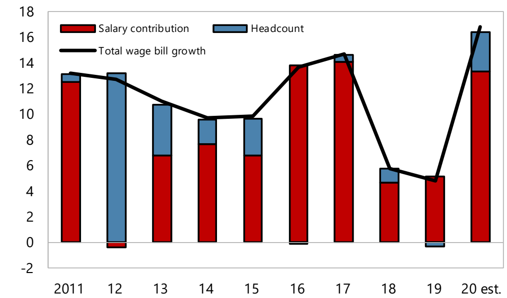
Figure 4. Civil Service Wage Bill: Composition
(Billions of TD, including tax credits)



Note: Wage spending in the social sector comprises that of the Ministries of Education, Higher Education, Health, and Social Affairs, and in the security sector that of the Ministries of Defense and Interior.

Sources: Tunisian authorities and IMF staff calculations

Figure 5. Civil Service Wage Bill Growth: Contributions
(Percentage points)

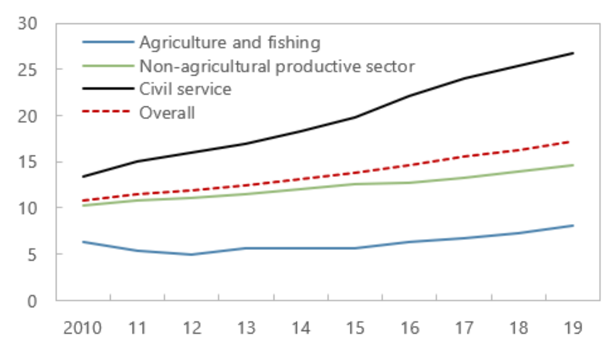


Sources: Tunisian authorities, and IMF staff calculations

- **Salary increases.** The bulk of the increase in the civil service wage bill over time has been due to salary increases (Figure 5). Because the wage increases were only partially followed by the private sector, public sector salaries are on average about twice as high as those in the private sector (although this may mask some heterogeneity across categories of workers.) In recent years, the budget has had to absorb a package of legacy wage hikes for 2016–18 (1.2 percent of GDP) that were legally agreed by a previous government. In February 2019, the authorities accepted a further wage increase totaling about 1.5 percent of GDP. This increase was delivered in three tranches, the first paid out in 2019, the second and a third in 2020. In addition, in 2020, another 0.3 percent of GDP increase in salary was decided, following an agreement between the UGTT labor union and the ministry in charge of civil servants.

4. **Fund staff has consistently advised the authorities to take steps to contain the civil service wage bill, which has proved to be a challenge for the authorities.** The average civil service salary has doubled between 2011–20, outpacing other sectors in the economy (Figure 6). Staff has emphasized that the regular increases have been unfair, unaffordable, and detrimental to macroeconomic stability. One element of the authorities' strategy involved setting hiring limits, which limited new recruitments to 3,000 in 2018 and to slightly over 4,000 in 2019. Given the structure of the civil service, the potential gains in headcount from natural attrition have been relatively limited. Voluntary departure and early retirement schemes generated significantly less interest than hoped for (some 6,600 civil servants left compared with an expected 20,000–25,000), reflecting in part the poor state of the private sector job market.

Figure 6. Average Annual Salaries, 2010–19
(In thousands of Tunisian Dinars)



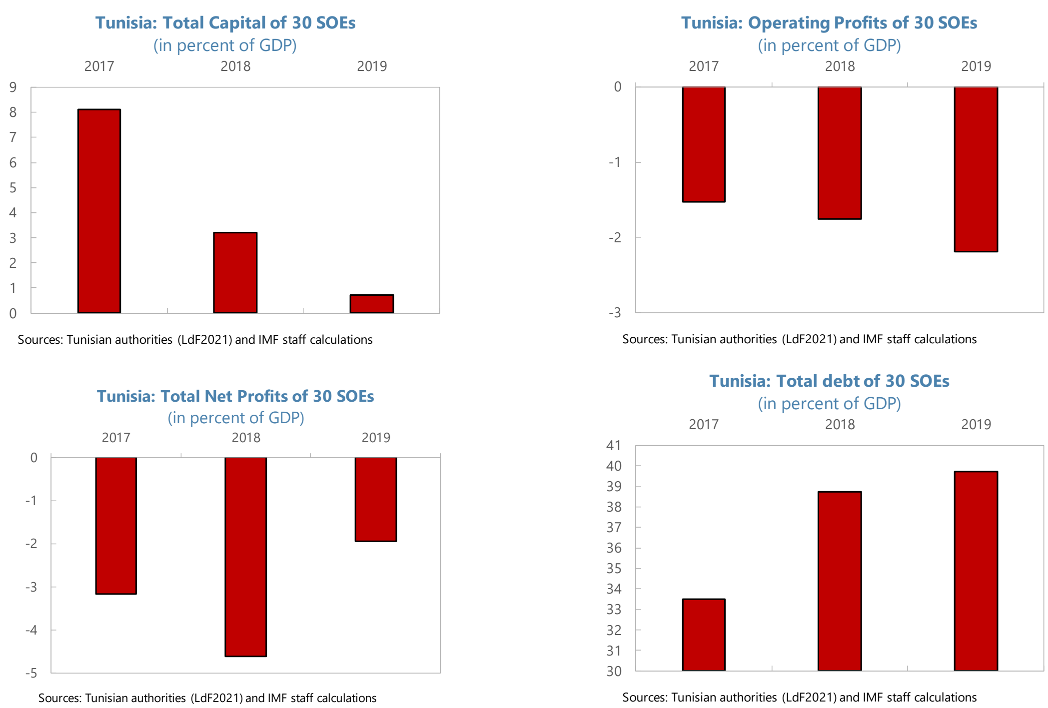
Sources: National Authorities and IMF staff calculations.

Annex IV. SOE Reform

1. SOEs play a dominant role in the Tunisian economy. There are over 100 SOEs in Tunisia, out of which 55 are commercial SOEs.[1] They are present in a broad spectrum of the Tunisian economy—from manufacturing of tobacco and cement to the production and distribution of electricity—often with a monopoly position. Seven of the ten largest firms in the country are owned by the government. In 2014, SOEs accounted for 9.5 percent of GDP.[2]

2. SOEs in Tunisia are opaque, and available information indicates that they are in a poor financial position. There is no systematically updated and consolidated financial information on SOEs in Tunisia. Partial data based on financial information for the 30 largest SOEs show that their financial situation is fragile (Figure 1). In the aggregate, these 30 SOEs were making losses in recent years, and 21 out of 30 had losses in 2019. Furthermore, the capital (own funds) of these enterprises has been rapidly declining, and 14 of the 30 were technically insolvent (i.e., had negative capital) in 2019. Three of the largest SOEs (national fuel, electricity, and grain companies) had negative capital totaling almost 5 percent of GDP.

Figure 1. Tunisia: Financial Indicators of 30 Largest SOEs



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[1] This means an entity that engages predominantly in economic activities and sells all or most of its output to the market. The GFS Manual 2014 defines an entity as a SOE when four criteria are met: (i) the entity is resident of the economic territory; (ii) the entity is an institutional unit; (iii) the entity is controlled by government, another public company or any combination of general government and public corporations; and (iv) the public entity is a market producer. A market producer is an institutional unit that provides all or most of its output at economically significant prices.

[2] *République Tunisienne* (2018), ''*Livre Blanc : Rapport de synthèse sur la réforme des entreprises publiques en Tunisie.*''

3. SOEs have large arrears and cross arrears with the Government, the social security Funds, and other entities. Those arrears are often cascading with spillover effects, including on the private sector, as significant arrears may concern private suppliers (Figure 2). The full scale of arrears is currently being evaluated by authorities, but the key elements can be summarized focusing on a sample of 30 SOEs gathering most of the financial stakes:[3]

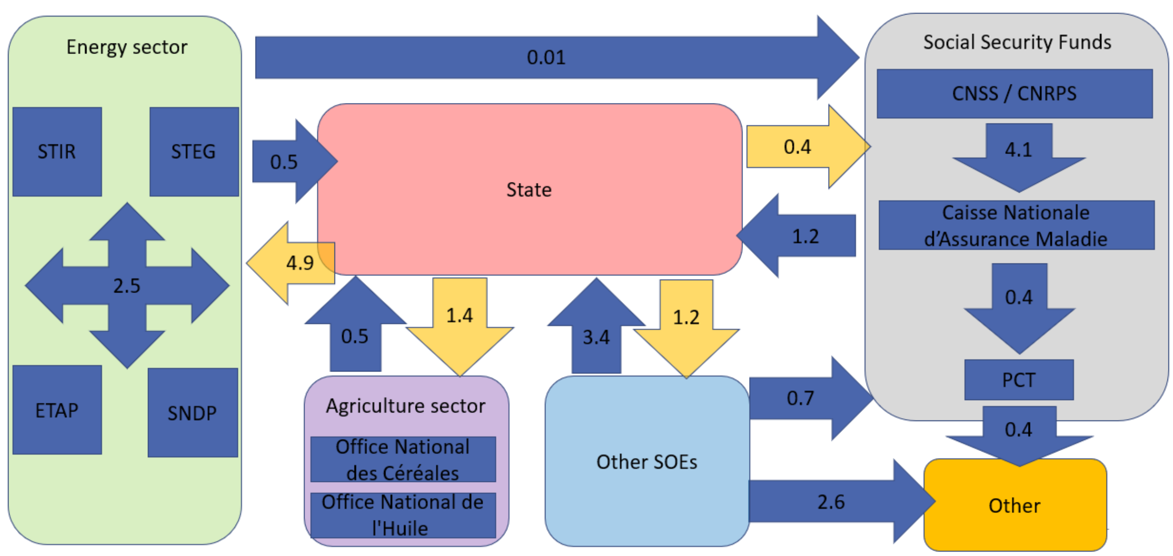
- **Cross-arrears within the energy sector**: The electricity and gas and refining companies (STEG and STIR) have financial difficulties and liquidity issues that result in arrears, totaling 2.5 percent of GDP, mainly due to the production and distribution companies (ETAP and SNDP);

- **Cross-arrears between SOEs and the State**: as of mid-2020, arrears from SOEs to the state total 5.5 percent of GDP (with 25 percent of it originating from the energy and agriculture sectors) and arrears from the State to SOEs total 7.9 percent of GDP;

- **Cascading arrears within the social security funds and the health sector**: The two main retirement funds (for the private and public sectors) have arrears of 4.1 percent of GDP toward the Health Care Fund (CNAM), partly originating from the SOE sector's overdue social contribution (0.7 percent of GDP). The arrears to CNAM fund are in turn cascading to the SOE responsible for importing and commercializing pharmaceutical products *(Pharmacie Centrale)* for a total of 0.4 percent of GDP.

Figure 2. Tunisia: Cross-Arrears of SOEs, 2019 and 2020 1/

(In percent of GDP)



Sources: Tunisian authorities' budget and IMF staff calculations. The data on State-SOE arrears are for June 2020, all other data are for 2019 as included in the 2020 budget annex, and information from CNAM and PCT. Arrows in yellow are arrears from the government to SOEs; arrows in blue are arrears from SOEs to other entities (SOEs, government, social security funds, etc.)

1/ STIR: Société Tunisienne des industries de Raffinage; STEG: Société Tunisienne de l'Electricité et du Gaz; ETAP: Entreprise Tunisienne d'Activités Pétrolières; SNDP: Société Nationale de Distribution des Pétroles; CNSS: Caisse Nationale de Sécurité Sociale; NRPS: Caisse Nationale de Retraite et de Prévoyance Sociale; and PCT: Pharmacie Centrale de Tunisie.

[3] Based on preliminary and non-exhaustive data published in 2019 and 2020.

- **Debt to entities outside the public sector that may include arrears to suppliers**: based on a sample of 30 SOEs (including the social security funds) the level of debt due to other entities totals 3.1 percent of GDP.

4. A number of factors present in many other emerging and developing countries may also explain the weak performance of Tunisian SOEs (April 2020 *Fiscal Monitor*).[4] They include: (i) u*nfunded mandates,* including firms' lack of freedom to set prices or tariffs to cost-recovery levels; (ii) g*overnment bailouts,* i.e. the expectation that governments will eventually compensate, or bail out, the SOE for losses, which creates incentives for managers not to pursue efficiency, to take larger risks, or to borrow excessively; (iii) w*eak corporate governance and oversight,* with boards lacking independence to take commercial decisions, government agencies not having sufficient information or capacity to properly monitor SOEs, and guidelines for financial reporting by SOEs missing or being inadequate. Weak governance and corruption are among the main sources of the difficulties that SOEs face (Baum and others 2019).[5]

5. SOEs tend to drain scarce budget resources. In recent years, transfers from the budget to SOEs were large and stable, in the range of 7–8 percent of GDP. About 40 percent of these transfers are paid to three large enterprises in the form of subsidies on grain, fuel, and electricity. But there are substantial transfers to other companies as well, and some of those transfers pay for SOEs' investments and wage bills. Despite the importance of these transfers for the budget, fiscal reports do not provide a complete and fully transparent picture of all fiscal flows related to SOEs, apart from the main subsidies.

6. In addition to direct burden on the budget, SOEs present significant fiscal risks, as their weak financial performance generates high indebtedness. SOEs are highly indebted, with total debt of 30 largest SOEs reaching almost 40 percent of GDP in 2019 (and expected to have increased further in 2020). Almost half of that debt is to banks, with the balance due mainly to the state, other SOEs, and the social security. Furthermore, a significant part of SOE debt to domestic banks and international multilateral and bilateral lenders (estimated at 15 percent of GDP in mid-2020) is covered by government guarantees. The use of these guarantees is dominated by a few large borrowers, notably the *Office des Céréales* and the national electricity and fuel companies STEG and STIR (Figure 3). An approach of providing guarantees for borrowing can be used during periods of tight budget, when governments may prefer to issue guarantees rather than give direct transfers to SOEs. Nevertheless, the volume of these guarantees presents a significant contingent liability for the government, especially given the weak financial position of SOEs. Since 2016, the government has set an annual ceiling of TD 3 billion for new guarantees that can be provided to SOEs, and this ceiling has been increased to TD 5 billion in 2019 and TD 7 billion in 2020 and 2021 (6.3 percent of 2020 GDP).[6] Due to

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[4] International Monetary Fund (2020), ''State-Owned Enterprises: The Other Government'', *Fiscal Monitor*, April 2020.

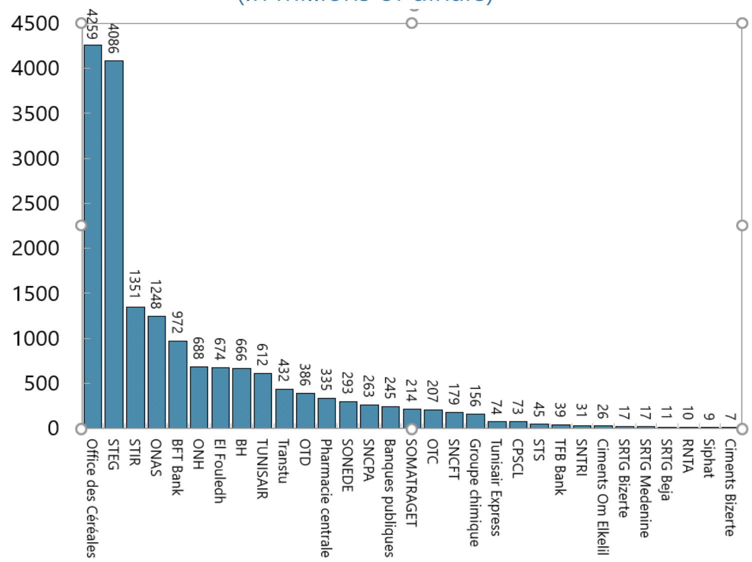
[5] Baum, A., C. Hackney, P. Medas, and M. Sy (2019), ''Governance and SOEs: How Costly is Corruption?'', International Monetary Fund, Working Paper No 19–253.

[6] Putting a limit on the new issuances of guarantees per year can be interpreted as reflecting the risk appetite of a government. A good practice is to identify expected losses (in case that the guarantees are called) and include a provision for losses in the budget.

mounting pressures, these ceilings were almost completely exhausted in recent years, and preliminary information indicates that demand for guarantees in 2021 exceeds the ceiling again.

Figure 3. Tunisia: Government Guarantees by Borrower, 2016–2020:06

(In millions of dinars)

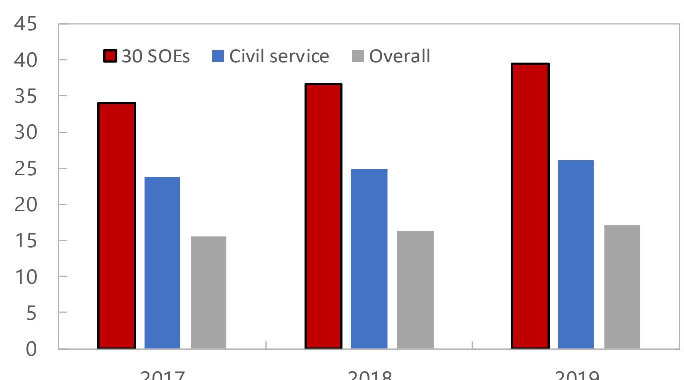


Source: Tunisian draft budget law for 2021, Annex 8.

7. The SOE sector distorts competition and generates a drag on the economy. Although SOEs account for only about 3–4 percent of total employment, their presence introduces significant distortions in the labor market. Average salaries in SOEs have been rising faster than in other sectors of the economy in recent years, and it is estimated that in 2019 the average SOE salary was 50 percent higher than the average salary in the civil service, and more than twice the average salary in the economy overall (Figure 4). Such high remuneration adversely affects competitiveness, in particular in sectors that are critical to the Tunisian economy (e.g., in transport, logistics) and puts a drag on the performance of the private sector.

Figure 4. Tunisia: Average Salary: SOEs, Civil Service, and Overall; 2017–19

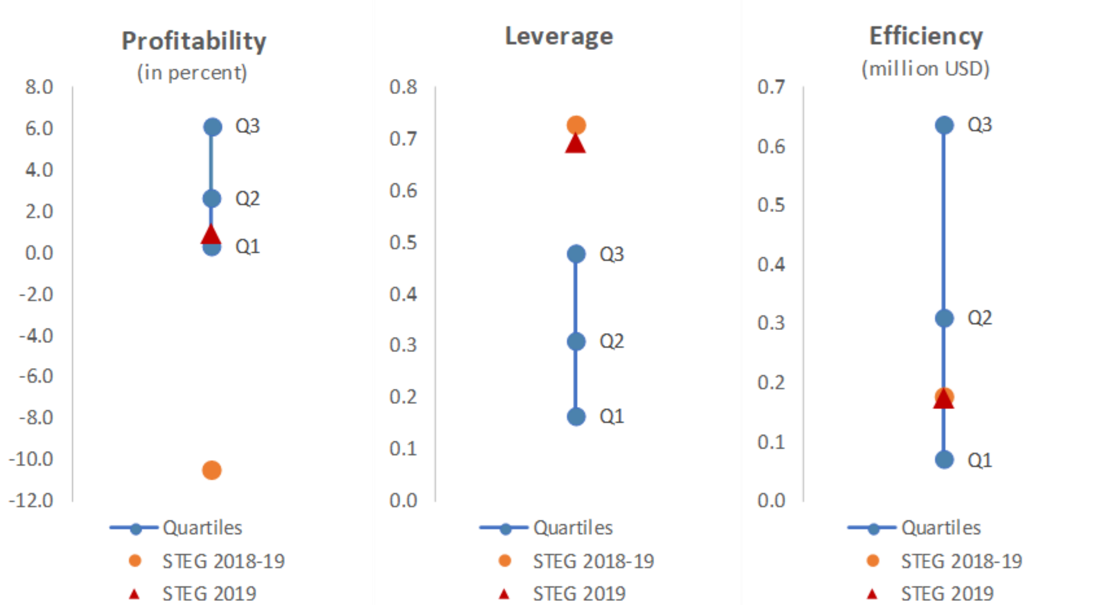
(In thousands of dinars per year)



Sources: Tunisian authorities (LdF2021) and IMF staff calculations

8. **The weak financial performance of the national electricity and gas utility (STEG) exemplifies the problems faced by Tunisian SOEs.**[7] STEG is highly indebted (total debt of 10.6 percent of GDP, with 3.7 percent of GDP covered by government guarantees) and has negative capital. A benchmarking exercise with other SOEs in 58 countries and in the same sector shows that the STEG performs relatively worse than its peers (Figure 5). Its profitability is well below the 25th percentile of other countries' SOEs in the same sector. In addition, STEG is highly leveraged and it is operationally inefficient, as indicated by the low ratio of operating revenue per employee.

Figure 5. Benchmarking the STEG with Other Electricity SOEs



Sources: STEG 2019 financial statement and IMF staff calculations using Baum and others (2020).

Notes. STEG data are based on its 2019 financial statement. Profitability is measured by the return on assets; leverage by the ratio of non-current liabilities to assets and; efficiency by the ratio of operating revenue per employee. The blue dots are the median, top 75th and bottom 25th percentile of the distribution of each indicator in other countries. Operating revenue per employee is in millions of USD.

9. **The Tunisian authorities have been receiving technical and financial support from various partners to improve the governance and financial performance of SOEs.** These partners include France (AFD), Germany (KfW), the IMF, the European Bank for Reconstruction and Development (EBRD), and the World Bank and includes support and reform plan to key SOEs, especially in the energy sector.

10. **The SOE law is currently under review by the Tunisian authorities**. A draft SOE law was submitted to Parliament in February 2020 but was withdrawn for further review. The broad goal of the draft law is to amend the outdated SOE Law 89-9 by: (i) enhancing governance and transparency of SOE operations—including the creation of an independent autonomous agency to supervise the SOE sector (the authority under which this agency would operate is still under

[7] *Société Tunisienne de l'Electricité et du Gaz* (STEG).

discussion) instead of line ministries—and (ii) professionalizing the boards of SOEs. Once enacted, this law could provide a legal foundation to implement a package of reforms to improve the economic and financial situation of SOEs and limit fiscal risks and ensure adequate and unified oversight of the sector.

11. The authorities should develop and implement a comprehensive SOE reform program. The new strategy should be comprehensive, have a clear timeline, and start with providing a clear view of the financial situation of all SOEs. The overall goal would be to improve efficiency and service delivery, promote greater oversight and accountability, and increase competition and investment. To that end, the plan should focus on (i) clearing the cross arrears and arrears to ensure a stabilization of their financial situation; (ii) elaborating a strategic plan to reform SOEs with the objective to rationalize the SOE portfolio, (iii) centralizing the monitoring of SOEs; (iv) strengthening governance of SOEs; and (v) improving analysis and transparency of financial information regarding SOEs.

Clearing the Cross Arrears to Stabilize the Financial Situation of SOEs

12. Clearing (cross-)arrears is a prerequisite to sanitize the financial situation of SOEs and should start with a review and analysis of arrears due. This would involve accounting for cross-arrears and cascading arrears with an analysis of their nature: age, source (for example, are those originating from arrears that are due by another entity) and the settlements involved. An audit could happen within a short time span and be based on a risk assessment (focusing control on arrears with high risk and/or large financial stakes) and be performed by one of the internal audit institutions. External audit can also be involved as independent third party to review the results and provide credibility to the exercise.

13. The next step would be to sign and implement clearing agreements between the different parties involved. To this end, the exact amount of compensations should be calculated and included in the respective budget of the state and the SOEs. The agreements should also include provisions in terms of concrete actions to prevent future occurrence of arrears. Once the compensations have been implemented, a strong priority should be given to clear arrears with suppliers and the private sector.

Designing and Implementing a Strategic Plan to Perform a Triage of SOEs

14. A strategy for a triage should be designed with a clear objective of rationalizing the portfolio of SOEs. This strategy could allow to proceed with the triage of SOEs and differentiate between strategic and non-strategic ones, and those that compete unnecessarily with the private sector without a clear social rationale. The aim should be to bring in private-sector competition and improving efficiency and service delivery (see *République Tunisienne* 2018 and April 2020 *Fiscal Monitor*). This triage can be based on a set of predefined criteria:

- Viability and profitability of the business model: this assessment can be based on key inputs including main financial ratios (such as profitability, solvability and liquidity), the medium-term business plan, and the overall financial performance of the company over the last years;

- Strategic importance for the government: this should assess whether the company is operating in an area that the government assesses as vital, for example by delivering key public services or building and maintaining infrastructures that are deemed important for economic growth;

- Nature: the initial business purpose of the company and whether an intervention from the State made it drift from its initial goal (for example, if the company hired employees for social purpose). Another important angle to analyze is whether the company is currently operating in the private sector and, if yes, whether this sector allows for open competition since monopolies can act as disincentive for private sector participation;

- Overall future role in the economy: this should include a long-term analysis on what the company will bring to the economy (for example by aligning it to long-term development plans such as the National Development Plan), what its impact is on the banking sector; this analysis could include an overall risk assessment to the medium and long-term.

15. The triage can take place according to options available in terms of reform and restructuring. Some SOEs may require one-off recapitalization and restructuration, or ongoing transfers from the government which should come along with clear reform plans in terms of financial performance and governance, as well as a close monitoring (see below options to improve governance and surveillance). If the SOE is not profitable but assessed as strategic to the government, one could consider the option of shifting its status from SOE to that of public entity, as this usually involves less financial independence and closer scrutiny (those entities are usually considered as a direct extension of the public administration). A stronger participation from the private sector (through PPPs and concessions), privatization, and 'run-off management procedures' resulting eventually in the closure of the SOE, are other options to consider if the profitability cannot be restored. [8]

16. A realistic pricing policy for services and goods provided by the SOE sector should accompany this restructuring strategy. The major SOEs are suffering structural losses because they operate with regulated pricing policies that do not align with the charges incurred. For companies that remain in the public domain, a reform of subsidized tariffs to progressively allow cost-recovery levels would create fiscal space to implement inclusive social policies and foster private sector participation in the economy. This reform could start in the energy and agriculture sectors that are the largest in terms of subsidies. On a similar matter, improving the situation of the three social security funds through reforms to reach fiscal sustainability would also reduce fiscal risks.

Centralizing the Monitoring of SOEs

17. The authorities should submit a (revised) version of the draft law to Parliament soon and adopt and implement a regulatory framework. The surveillance of SOEs is currently scattered across the various line ministries and other government entities. The MoF—through the

[8] In a 'run-off management procedure', the company continues to honor current contracts but does not accept new business, which eventually leads to its closure.

Direction Générale des Participations (DGP)—does not currently have a global view of the portfolio of SOEs. There is a need to break the silo approach of sectoral ministries by centralizing the oversight of SOEs within an autonomous agency, possibly under the oversight of the MoF. A centralized model provides the potential for ensuring consistency between the ownership and financial oversight functions (Baum and others 2020).[9] For Tunisia, this approach could start with the largest ones and have a timeline for completion for all SOEs.

18. The revised law and the regulatory framework should have clear provisions to strengthen surveillance of SOEs. It should specify the role of the future autonomous agency responsible for supervising the SOE sector in terms of mandate and organization. A good practice is to bring the autonomous agency under the responsibility of a single entity to avoid possible conflicts and simplify oversight – in the Tunisian context, the Ministry of Finance should be considered for this role. The law and the regulatory framework should also clarify how the agency will interact with SOEs in terms of surveillance and monitoring. It could also benefit from a clear delineation between (i) public entities classified as government units that provide non–market services or goods and (ii) SOEs that operate in the private sector with differentiated approach for surveillance.[10]

Strengthening Governance of SOEs

19. Provisions on Governance of SOEs should focus on the key role that the board needs to play in terms of decision making. The boards of SOEs play a limited role under current law. The new law aims to strengthen their independence, responsibility, and accountability. The appointment of professional and independent directors, and the reduction of the direct control of line ministries in the management and decision-making process of SOEs would be fundamental in helping to change the governance of SOEs, along with ensuing changes. To this end, two key objectives should be pursued:

- Professionalization of the board member function: as an example, a number of countries (China, Poland, India) require by law a certain proportion of independent board members with skills related to the sector the SOE operates in;
- Improve the level of information available for strategic and operational decision-making: this should happen including by strengthening audit committees as well as internal control and risk management.

Improving Analysis and Transparency of Financial Information Regarding SOEs to Strengthen Decision Making and Potential Investors Confidence

20. Consolidation of fiscal statistics to include the SOE sector can take place in the short term. As a first step, the authorities should properly account for the existence of government guarantees in public debt data. Subsequently, the authorities could consider

[9] Baum, A., P. Medas, A. Soler, and M. Sy (2020), ''Managing Fiscal Risks from State-Owned Enterprises,'' International Monetary Fund, Working Paper 20/213.

[10] This delineation can rely on the IMF 2014 Government Finance Statistics Manual.

covering SOEs in fiscal targets (e.g. overall deficit or debt limits), including though consolidation into general government data. This could foster incentives for fiscal discipline and more transparency and ensure that the broader fiscal policy goals are consistent across the public sector (April 2020 *Fiscal Monitor)*. The government could start by including in its fiscal targets those SOEs that pose significant fiscal risks and also prioritize the social security funds.

21. The DGP could strengthen the analysis of financial performance of SOEs based on key financial ratios. To this end, the availability of data from SOEs in a reliable and timely manner should be improved. The DGP should collect regular data from SOEs and perform an analysis of key financial ratios (such as profitability, solvency, and liquidity) which could serve as a basis to better analyze and monitor fiscal risks stemming from SOEs. This result of the analysis could result in regular reporting for better informed decision making by the government, for example when granting guarantees or taking strategic decisions when drafting a *"contrat de programme"*.

22. From a medium-term perspective, authorities could implement an IT system to gather financial data from SOEs. This would allow to gather financial data from SOEs such as the initial budget, financial statements, and main economic and financial indicators, all in a unified and automated manner. For example, Morocco has implemented such a system, which also allows budget execution monitoring, and which includes a repository of key documentation (such as board decisions, results of specialized commissions) as well as synthetic dashboards with financial performance.

23. Improvements of the budget annex on SOEs and drafting a fiscal risk statement would strengthen fiscal transparency on SOEs and potential investors confidence. The authorities' budget annex on SOEs contains a wealth of information on the financial performance for most of the key SOEs and is a much welcome step toward fiscal transparency. Going forward, the annex should progressively include: (i) key financial information required for all the largest SOEs; (ii) a consolidated net position for the SOE sector; and (iii) insights on the government strategy per each sector, starting with key sectors such as energy and agriculture. The Fiscal Risk Statement (or a discussion on fiscal risks to be annexed to the Budget Law) could in turn contain a SOE section to discuss the main fiscal risks stemming from the SOE sector such as spillover to the financial sector and arrears, as well as government plans to mitigate the risks.

INTERNATIONAL MONETARY FUND

TUNISIA

February 2, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | The Middle East and Central Department (In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of December 2020)

Membership Status:
Date of membership: April 14, 1958
Article VIII

Membership Status

Date of menbership: April 14, 1958

Status: Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	545.20	100.00
Fund holdings of currency	2,111.87	387.36
Reserve position in the Fund	121.78	22.34

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	272.78	100.00
Holdings	11.16	4.09

Outstanding Purchases and Loans

	SDR Million	Percent Quota
Emergency Assistance 1/	545.20	100.00
Extended Arrangements	1,142.77	209.61

1/ Emergency Assistance may include ENDA, EPCA, and RFI.

Latest Financial Commitments

(SRD million)

Type	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
Arrangements				
EFF	May 20, 2016	Mar 18, 2020	1,952.25	1,161.71
Stand-By	Jun 07, 2013	Dec 31, 2015	1,146.00	1,002.75
EFF	Jul 25, 1988	Jul 24, 1992	207.30	207.30
Type	**Date of Commitment**	**Date Drawn**	**Amount Approved**	**Amount Drawn**
Outright Loans				
RFI	Apr 10, 2020	Apr 15, 2020	545.20	545.20

Projected Payments to Fund 1/

(SRD million; based on existing use of resources and present holdings of SDRs)

			Forthcoming		
	2021	2022	2023	2024	2025
Principal	56.82	90.50	315.19	466.22	329.92
Charges/Interest	38.97	36.40	30.22	14.59	6.85
Total	95.79	126.90	345.41	480.81	336.77

1/ When a member has overdue financial obligations outstanding for more that three months, the amount of such arrears will be shown in this section.

Safeguards Assessment

The 2020 safeguards assessment found that the CBT has made progress to address safeguards concerns. A plan has been approved to transition to International Financial Reporting Standards (IFRS), and steps are being taken to address emerging risks in cybersecurity. However, further work is needed to increase capacity of the internal audit function and establish a risk management function. The institutional and personal autonomy provisions have scope for strengthening at the time of the next revision of the central bank law.

Exchange Rate Arrangement

Tunisia accepted the obligations of Article VIII Sections 2(a), 3, and 4 effective January 6, 1993. It maintains an exchange system free of multiple currency practices and restrictions on payments and transfer for current international transactions.[1]

The de jure exchange rate arrangement is floating, and the de facto exchange rate arrangement is classified as crawl-like.

In April 2012, the CBT replaced its currency composite by a fixing (i.e. the average of market participants' quotes) as the reference exchange rate. Since then, the CBT has been intervening in the foreign exchange (FX) market through bilateral transactions when market quotes deviated substantially from the fixing rate of the day. The rates quoted by the CBT had been based on the currency composite and updated continuously to reflect the exchange rates prevailing in the international FX market.

Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on March 23, 2018.

FSAP Participation and ROSCS

The last Financial Sector Assessment Program (FSAP) was conducted in 2002, and subsequently updated in 2006 and 2012.

[1] Tunisia previously maintained a multiple currency practice which resulted from honoring exchange rate guarantees extended prior to August 1988 to cover external loans contracted by development banks (total loans covered by these guarantees amount to about US$20 million). The authorities recently confirmed that all of these loans have been fully repaid, and therefore Tunisia is no longer found to maintain this multiple currency practice.

AML/CFT Assessment

Tunisia continues improving the effectiveness of its AML/CFT regime. The 2016 Mutual Evaluation Report by the Middle East and North Africa Financial Action Task Force (MENAFATF), the FATF-style regional body, rated Tunisia's AML/CFT regime low or moderate in all eleven criteria for effectiveness (immediate outcomes). Owing to the lack of sufficient progress in improving its AML/CFT regime, Tunisia was included in the FATF's list of jurisdictions with serious AML/CFT deficiencies in November 2017. The authorities worked to implement its action plan and successfully exited the FATF list in October 2019. LEG is supporting the Tunisian authorities in strengthening their CFT regime, as part of a regional capacity development project.

Capacity Development

IMF capacity development activities have continued to grow since 2011, both from the IMF and the Middle East Regional Technical Assistance Center (METAC).[2] Tunisia has been receiving IMF technical assistance (TA, see list below) and sent officials to participate in courses (at the IMF Headquarters in Washington, D.C., USA, and METAC in Beirut, Lebanon) in several areas of macroeconomic analysis and management.

Resident Representative

The representative office was opened in Tunis in January 2014. Mr. Jérôme Vacher was appointed the IMF Resident Representative in Tunisia in January 2019.

[2] Tunisia joined METAC in May 2016.

Tunisia: Technical Assistance, January 1996–December 2020

	Purpose	Date
	Fiscal Affairs Department (FAD)	
•	Assessment of the revenue impact of the Association Agreement with the European Union	Jan. 1996
•	Reform of the tax system	Jan. 2005
•	Modernization of the tax administration	Sep. 2005
•	Tax policy diagnosis, including of the oil regime	Dec. 2012
•	Modernization of the tax administration and reform of the customs administration	Jan. 2013
•	Modernization of public finance management (PFM)	Aug. 2013
•	Fuel price mechanism	Aug. 2013
•	Follow-up on tax administration reform	Mar. 2014
•	Budget execution and control	Jun. 2014
•	Development of a reform plan for the tax administration	Jun. 2014
•	Refinement of the tax reform strategy, especially indirect taxation	Jun. 2014
•	Accounting and fiscal reporting	Jul. 2014
•	Engagement with new authorities and support for the tax administration reform agenda	Mar. 2015
•	Personal income taxation, esp. proposals for the 2016 budget	May 2015
•	Recent trends in the civil service wage bill and the factors contributing to the trend	Jan. 2016
•	Cash management, SOE oversight, and fiscal risks management (jointly with METAC)	Oct. 2016
•	Review of proposed revenues measures for the 2018 budget and ax reform	Mar. 2017
•	Support for the Tunisian authorities' tax administration reform program	Mar. 2017
•	Treasury Single Account (TSA) and cash management (jointly with METAC)	Sep. 2017
•	Treasury Single Account (TSA) and cash management (jointly with METAC)	Jan. 2019
•	Review of the medium-term tax policy reform	Dec. 2017
•	Public Investment Management Assessment (PIMA)	Jan. 2018
•	TSA and cash management (METAC)	FY2020
	Institute for Capacity Development (ICD)	
•	Identification of training needs of the the Central Bank of Tunisia (CBT)	Nov. 2011
•	Institutional capacity assessment of the CBT (jointly with MCM)	Sep. 2014
	Legal Department (LEG)	
•	Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)	Dec. 2003
•	AML/CFT supervisory training of the financial market supervision authority and the stock exchange	Feb. 2008
•	Banking law and banking resolution framework	Mar. 2014
•	Central banking law and banking law	May 2014
•	Strengthening the framework for combating the financing of terrorism (CFT)	Jan. 2018
	Middle East Regional Technical Assistance Center (METAC)	
•	Cash management, SOE oversight, and fiscal risks management (jointly with FAD)	Oct. 2016
•	Review of the banking regulatory and supervisory framework (jointly with MCM)	Jan. 2017
•	National accounts statistics	Jan. 2017
•	Establishing an internal rating tool for the assessment of bank loans (jointly with MCM)	Mar. 2017
•	Treasury Single Account (TSA) and cash management (jointly with FAD)	Sep. 2017
•	Treasury Single Account (TSA) and cash management (jointly with FAD)	Jan. 2019
•	Managing the fiscal risk from state-owned enterprises	Sep. 2017
•	Consolidated banking supervision (jointly with MCM)	Nov. 2017
•	Strengthening of the Large Taxpayers Office (LTO)	Nov. 2017
•	Review of the banking regulatory and supervisory framework (jointly with MCM)	Jan. 2018
•	TSA and cash management	FY 2020
•	Consolidated supervision	FY 2020
•	ICAAP	FY 2020
•	Implementation of Basel III	FY 2020
•	National accounts statistics	FY 2020
•	Implementation of Basel II and III standards	FY 2021
•	Developing/strengthening banking regulations and prudential norms	FY 2021
•	Sectoral financial account	FY 2021

Tunisia: Technical Assistance, January 1996–December 2020 (concluded)

Purpose	Date
Monetary and Capital Markets Department (MCM)	
• Accounting and auditing	Oct. 2003
• Monetary operations (non-resident acquisitions of treasury bills)	Oct. 2003
• TA needs assessment	May 2004
• Financial supervision	Sep. 2004
• TA needs assessment	Feb. 2006
• Monetary operations	Feb. 2007
• Foreign exchange (FX) market operations	Nov. 2011
• Monetary policy	Apr. 2012
• Arab Debt Market Development initiative (ADMDI)	Jul. 2012
• Bank Supervision	Feb. 2013
• Institutional capacity assessment of the CBT	Apr. 2013
• Collateral framework	Apr. 2013
• Bank Supervision	Apr. 2013
• Bank Supervision	Mar. 2014
• Establishing an emergency liquidity framework	Mar. 2014
• Bank Supervision (long-term expert)	Sep. 2014
• Institutional capacity assessment of the CBT (jointly with ICD)	Sep. 2014
• Introducing a FX auction	Nov. 2014
• Risk-based supervisory framework	Apr. 2015
• Emergency liquidity assistance	Nov. 2015
• Bank restructuring	Dec. 2015
• Bank restructuring	Feb. 2016
• Emergency liquidity assistance (ELA) agreement and monetary policy operational manual	Apr. 2016
• Supervision of money laundering risks	May 2016
• Project assessment and management	Oct. 2016
• Bank supervision and regulations (long-term expert)	Nov. 2016
• Review of the banking regulatory and supervisory framework (jointly with METAC)	Jan. 2018
• Central bank internal controls	FY 2021
• Monetary policy framework and operations	FY 2021
Statistics Department (STA)	
• Balance of Payments methodological guidelines according to *BMP5*	Mar. 1997
• Quarterly National Accounts Statistics	May 1999
• Special Data Dissemination Standard (SDDS) assessment	May 1999
• SDDS assessment	Jul. 2000
• Quarterly national Accounts Statistics	Oct. 2000
• Government Finance Statistics	Jul. 2004
• Report on Observance of Standards and Codes (ROSC)	Apr. 2005
• Standardized Report Forms (SRFs) data development	Feb. 2013
• Monetary data reported in SRFs and Financial Soundness Indicators (FSI)	Feb. 2014
• Balance of Payments Statistics	Dec. 2014
• National Accounts Statistics	Jun. 2015
• Government Finance Statistics (jointly with FAD)	Nov. 2015
• Prices and index numbers	Oct. 2016
• National Accounts Statistics	Jan. 2017
• Residential property price index	May 2017
• Monetary data reported in Standardized Report Forms (SRFs)	Jan. 2018
• National accounts statistics	Jan. 2018
• Balance of payments statistics	FY 2020
• Data dissemination management	FY 2020
• Financial soundness indicators	FY 2020
• Data dissemination management	FY 2021

RELATIONS WITH THE WORLD BANK GROUP

(As of January 2021)

Country Strategy

The current World Bank Group's (WBG) Country Partnership Framework (CPF) for Tunisia is coming to an end and a new CPF will be adopted in FY22. Jointly prepared by the International Bank for Reconstruction and Development (IBRD), International Finance Cooperation (IFC), and Multilateral Investment Guarantee Agency (MIGA), the current CPF covers FY16 through FY20. It anchors on the Tunisian government's *"Note d'Orientation Stratégique"* from September 2015 and the WBG's Strategy for the Middle East and North Africa Region from October 2015. WBG analytics underpin the CPF, including the Systematic Country Diagnostic (SCD) from June 2015. It outlines Tunisia's post-revolution development challenges and identifies the deep-rooted causes of social unrest that are threatening stability and cohesion. The CPF focuses on three areas: (i) jobs, to restore a business environment conducive to sustainable economic growth and private-sector-led job creation; (ii) lagging regions, to reduce regional disparities; and (iii) vulnerability, to increase social inclusion. In addition, governance and gender equity issues will be integral parts of all WBG initiatives under the CPF.

The mid-term review of the CPF, completed in June 2018, led to an extension of the CPF for an additional year. A Risk and Resilience Assessment (RRA) conducted in parallel with the mid-term review identified the following constraints: (i) a fundamental lack of trust in public institutions and toward the state because of the delay of the renewal of the social contract; (ii) a weak performance of the state and overall weak reform implementation; (iii) a serious level of political exclusion with difficult access to politicians/political activity and the administration, which contrasts with easy access to social and religious activity; (iv) serious problems related to the access to economic activity/employment, constraints of the private sector, limited development of the value chain and connectivity, difficult access to financing and administrative process; (v) continuous significant regional disparities, with issues of social exclusion and stigmatization; and (vi) the persistence of regional security threats.

A new SCD is currently being prepared and will be completed in FY21, prior to the preparation of the new CPF for FY22–FY26.

Recent Lending Activity

Following a rapid increase in lending support in FY18, when the WBG committed US$930 million in lending in 12 months, volumes slowed in subsequent years to US$325 million in FY19 and US$195 million in FY20. The change in trajectory had two main reasons. First, the large budget support program commitments in FY16–18 brought Tunisia closer to its borrowing limits with the World Bank, hence lending volumes had to be reduced in the years after. Second, concerns over the impact of budget support programs, highlighted in a review of budget support programs between 2012 and 2017, generated a dialogue around more effective ways of managing budget support programs, culminating in the creation of a multi-partner platform, which took two years to put in place.

Current portfolio commitments stand at US$1,609 million for 15 active IBRD projects, of which US$649 million remains undisbursed. There are 13 IPFs (US$1.03b), 1 PforR (US$430m), 1 DPF (US$175m) and 3 Grants (US$15.6m).

Pipeline: The lending volume for FY21 will potentially cover 4 investment lending projects with commitments of up to US$400 million, including financing for the COVID-19 vaccine purchase and roll out. No budget support operation is programmed for the WBG FY 21. Programming for FY22 and beyond will be defined by the new CPF that is expected to be finalized in early FY22.

Tunisia: WBG—Active Portfolio
(In US dollars)

Len. Inst.	Project ID	Project Name	Board App.	Rev.Closing	Net Comm. amt	Tot. Disb.	Undisb. Bal.	Total Undisb. (Begin. FY)
IPF	P117082	Tunisia Northern Tunis Wastewater Project	17-Jun-2010	30-Jun-2021	57.40	50.94	6.92	10.44
	P146502	TN-Road Transport Corridors	14-Jul-2015	30-Jun-2022	194.40	184.76	13.34	26.35
	P151030	Integrated Landscapes Management in Lagging Regions Project	15-Mar-2017	29-Mar-2024	52.00	10.45	42.40	42.74
	P151059	Tunisia Tertiary Education for Employability Project	25-Feb-2016	31-Dec-2022	70.00	33.22	37.85	44.60
	P158138	Youth Economic Inclusion Project	11-Sep-2017	31-Jan-2024	60.00	17.49	42.37	42.37
	P160245	Tunisia Irrigated Agriculture Intensification Project	29-May-2018	31-Dec-2024	140.00	22.66	114.77	114.77
	P162297	Strengthening Foundations for Learning Project	18-May-2018	31-Dec-2023	68.96	16.01	51.57	52.62
	P167380	Tunisia Innovative Startups and SMEs Project	14-Jun-2019	31-Dec-2026	75.00	23.15	53.80	75.00
	P168273	Tunisia Energy Sector Improvement Project	24-Jun-2019	30-Jun-2024	151.00	25.38	125.62	125.62
	P168425	Digital Transformation for User-Centric Public Services	14-Jun-2019	31-Jan-2025	100.00	29.80	71.90	91.90
	P173945	Tunisia COVID-19 Response project	30-Apr-2020	30-Jun-2021	20.00	20.52	0.00	-0.52
	11				**988.77**	**434.39**	**560.54**	**625.88**
PforR	P130637	TN-Urban Dev. and Local Governance	24-Jul-2014	30-Jun-2023	430.00	297.95	74.86	107.15
	1				**430.00**	**297.95**	**74.86**	**107.15**
DPF	P173324	TUNISIA FIRST RESILIENCE AND RECOVERY EMERGENCY DEVELOPMENT POLICY FINANCII	12-Jun-2020	31-Dec-2021	175.00	192.71	0.00	0.00
	1				**175.00**	**192.71**	**0.00**	**0.00**
GRANTS	P163624	Tunisia Governance, Financial Sector and Local Governments Trust Fund	28-May-2019	30-Jun-2021	2.13	0.50	1.63	1.63
	P164625	Tunisia-Italy Power Interconnector - Project Preparation TA	31-Jul-2018	31-Dec-2021	12.50	0.00	12.50	12.50
	P174017	Support to Economic Recovery and Job Creation in the Agri-Food Sector and Rural Space	24-Oct-2020		1.00	0.00	0.00	0.00
	3				**15.63**	**0.50**	**14.13**	**14.13**
TOTAL	**16**	**IBRD and Trust Funds**			**1609.40**	**925.56**	**649.52**	**1480.20**

Source :World Bank

Tunisia: WBG—Project Pipeline for FY2018-19
(In US dollars)

Len. Inst	Project ID	Project Name	Commitments	Decision Meeting	Negotiations	Bank Approval
FY 21 Q3						
IPF	P175785	Additional Financing for Tunisia COVID-19 Response Project	100.00	27-Jan-2021	10-Feb-2021	23-Mar-2021
IPF	P167900	Tunisia Economic Development Corridor Project	200.00	4-Feb-2021	18-Feb-2021	26-Feb-2021
PforR	P173568	Tunisia Integrated Disaster Resilience Program	50.00	5-Nov-2020	18-Jan-2021	25-Feb-2021
FY 21 Q4						
IPF	P162957	Tunisia Sanitation PPP Support Project	131.63	25-Jan-2021	24-Mar-2021	13-May-2021
FY 22 Q1						
IPF	P169955	TN-Sustainable Oasis Landscape Management Project	50.00	20-Nov-2019	31-Mar-2021	31-Aug-2021
DPF	P174382	TUNISIA SECOND RESILIENCE AND RECOVERY EMERGENCY DPF	200.00	15-Mar-2021	15-Mar-2021	30-Jul-2021
IPF	P174588	Additional Financing to GovTech project focus on Social Protection	75.00	14-May-2021	1-Jul-2021	14-Sep-2021

Source: World Bank

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK

(As of January 2021)

Country Strategy

The African Development Bank (AfDB) approved a new Country Strategy Paper (CSP) in June 2017. Covering 2017–21, it builds on lessons learned from interim CSPs since 2011 and aligns with the Tunisian government's Five-Year Development Plan 2016–20. In view of the strategic directions of the AfDB's 2013–22 long-term strategy and its High Five priorities (High 5s), the goal of the CSP is to support Tunisia in implementing its Sustainability Development Plan 2016–20 through two pillars: (i) industrialization and value chains development; and (ii) improvement of the quality of life for people in lagging regions. A CSP mid-term review was conducted in 2020 confirming the maintaining of the two pillars. Pending the sustainability of the macroeconomic environment, the AfDB plans to invest between US$700 million and US$1.5 billion in support of this strategy.

Recent Lending Activity

Net loan commitments currently reach UAC 1,702 million.[3] Since 2017, the AfDB approved new 16 operations worth UAC 909 million. All these operations are merely loans with a maturity period of five years.

Current Portfolio

The performance of the Tunisia's global portfolio is overall satisfactory. It totals UAC 1.71 billion, mainly in loans (99.5 percent) and an average age of 4.5 years. Operations mainly focus on the public sector (97 percent) and the areas of transport (44.2 percent), water and sanitation (13.7 percent), energy (11 percent), finance (9.9 percent), multisectoral operations (7.1 percent), agriculture (6.3 percent),industrial and digital (4.3 percent) and social issues (3.5 percent). The global disbursement rate of 58.4 percent. Besides, technical assistance grants represent 0.5 percent of grants and 99.5 percent of loans in the global portfolio. Mainly financed out if the Trust Fund for Countries in Transition (TFCT) and Trust Fund for Countries in Transition (TFT), and middle-income countries fund, their disbursement rate stands at 34.4 percent.

[3] The AfDB's Unit of Account (UAC) is equivalent to one IMF Special Drawing Right (SDR).

Tunisia: AfDB—Active Portfolio

(In Unit of Account)

Project Name	Sector	Approval date	Cur	Net loan	Disb.	Disb ratio	Projected completion date
Projet de Développement agricole intégré (PDAI) du Nord de Gafsa	Agriculture	2/13/2013	UAC	18,576,600	11,294,572	60.8%	7/2/2022
Projet de Développement agricole intégré (PDAI) du Nord de Gabès II	Agriculture	11/26/2014	UAC	17,347,680	9,697,353	55.9%	6/30/2022
Projet de Développement et de Promotion des filières agricoles dans le Gouvernorat de Zaghouan	Agriculture	7/10/2019	UAC	19,972,746	339,535	1.7%	12/31/2025
Projet de valorisation des PI à travers le développement des chaines de valeurs agricoles	Agriculture	10/25/2017	UAC	32,445,840	1,557,400	4.8%	6/30/2023
Enfidha Airport	Transport	1/14/2009	UAC	57,064,744	57,064,744	100%	
Projet Routier IV	Transport	9/15/2010	UAC	198,240,000	196,059,360	98.9%	3/3/2021
Construction liaison autoroutière Gabès-Ras Jedir	Transport	6/22/2011	UAC	115,365,600	101,752,459	88.2%	3/30/2022
Modernisation des infrastructures routières	Transport	10/28/2015	UAC	159,700,800	103,326,417	64.7%	10/31/2022
Projet d'Appui à la connectivité routière dans le Nord-Est	Transport	11/22/2017	UAC	102,480,000	0	0%	12/31/2023
Projet de développement du réseau de transport et distribution STEG	Energie	4/1/2015	UAC	41,487,600	13,607,932	32.8%	12/31/2021
Projet d'aménagement et d'équipement du réseau de transport d'électricité (PAERTE)	Energie	10/9/2019	UAC	138,210,084	0	0%	5/15/2024
Appui à la mise en œuvre du Plan National Stratégique (PNS)	Numérique	11/8/2017	UAC	60,110,400	1,803,312	0.3%	12/31/2022
Approvisionnement en eau potable en milieu rural	Eau et assainissement	9/6/2016	UAC	103,908,000	33,146,652	31.9%	12/31/2021
Amélioration de la qualité des eaux épurées	Eau et assainissement	1/11/2012	UAC	27,258,000	24,559,458	90.1%	12/21/2020
Programme d'assainissement des petites communes	Eau et assainissement	10/10/2018	UAC	63,025,210	1,701,680	2.7%	12/31/2023
Programme d'Appui au développement des compétences techniques	Social	12/4/2017	UAC	60,480,000	1,814,400	0.3%	12/31/2023
PARISE	Social	6/3/2020	UAC	151,200,000	151,200,000	100%	12/31/2021
PAMSFI II	Finance	5/15/2019	UAC	98,000,000	98,000,000	100%	12/31/2019
Ligne de crédit pour le financement de la BH	Sect Privé	10/19/2016	UAC	50,400,000	50,400,000	100%	8/27/2020
LoC Amen BANK	Sect Privé	5/20/2019	UAC	46,547,995	37,657,327	80.9%	12/11/2022
South Tunisian Gaz Pipeline - Tunisia	Energie	6/26/2014	UAC	52,663,723	52,663,723	100%	8/19/2027
LoC BH Bank	Sect Privé	6/26/2019	UAC	80,944,000	40,472,000	50%	12/31/2021
Programme PMEs Africaines LOC Hannibal Lease	Sect Privé	3/1/2017	UAC	6,720,000	6,720,000	100%	4/29/2021

Tunisia: AfDB—Total Grant Projects for Technical Assistance

(In Unit of Account)

Project Name	Sector	Approval date	Curr.	Net Loan	Disb.	Disbursement rate	Project Completion date
Etude Gestion des risques et mis en place Assurance agricole	Agriculture	8/2/2016	UAC	325,000	193,050	59.4%	6/30/202
Préparation du PDAI de Zaghouan	Agriculture	10/24/2014	UAC	240,000	191,040	79.6%	3/31/202
Modernisation des infrastructures routières	Transport	10/28/2015	UAC	1,200,000	201,600	16.8%	10/31/202
Transformation structurelle et appui aux créneaux porteurs	Economie	8/14/2015	UAC	798,310	56,680	7.1%	12/31/202
Projet d'Appui à la mise en place d'une politique industrielle	Economie	8/14/2015	UAC	791,380	222,377	28.1%	12/31/202
Approvisionnement en eau potable en milieu rural	Eau et assainissement	6/20/2016	UAC	840,000	131,880	15.7%	12/31/202
ROGRAMME D'ASSAINISSEMENT DES PETITES COMMUNES DE MOINS DE 10 000 HABITANTS – PHASE I (PAPC-I)	Eau et assainissement	10/10/2018	UAC	800,000	92,800	11.6%	12/31/202
Elaboration de la vision et de la Stratégie eu 2050	Eau et assainissement	6/20/2016	UAC	1,129,800	499,371	44.2%	6/30/202
Appui à la Promotion des investissements dans le domaine de la santé	Social	6/3/2015	UAC	296,373	211,314	71.3%	6/30/202
Appui à l'opérationnalisation du Plan d'Action de la réforme des marchés publiques	Multisecteur	12/27/2013	UAC	530,100	311,169	58.7%	12/31/202
Operationalizing PPPs in Tunisia (PPP advisory)	Multisecteur	6/14/2013	UAC	789,000	578,337	73.3%	12/31/202
Delivery Unit MEFAI	Multisecteur	4/30/2019	UAC	398,700	27,909	0.7%	12/21/202
Aide d'Urgence Nabeul	Multisecteur	11/13/2018	UAC	589,000	0	0%	6/30/202
BFPME: Boosting private sector development	Secteur Privé	8/5/2013	UAC	674,500	520,039	77.1%	12/31/202

RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

(As of December 2020)

Country Strategy

The European Bank for Reconstruction and Development (EBRD) was operating in Tunisia under the country assessment operational priorities approved in August 2013 and since December 2018 under its first country strategy for the country. These 2019–24 country strategies have four priorities:

- *Support Tunisia's Competitiveness by Opening Markets, Strengthening Governance, and Levelling the Playing Field*;
- *Promote Economic Inclusion for Women, Young People and Populations Living in Remote Areas Through Private Sector Engagement*;
- *Strengthen Resilience of the Financial Sector and Broaden Access to Finance*; and
- *Supporting Tunisia's Green Economy Transition*.

Recent Lending Activity

The EBRD is accelerating its engagement in Tunisia. In 2020, it approved Euro 225 million— second highest yearly investment since the beginning of its operations—across eight projects. Those included seven projects in the private sector and one public project.

Current Portfolio

EBRD operations support three key areas:

- *Restructuring and strengthening of the financial sector*. In 2020, the EBRD provided three micro, small and medium enterprise (MSME) credit lines and trade finance facilities to local microfinance and leasing institutions, for a total of Euro 15 million. It is also supporting the Central Bank of Tunisia in its role of regulator in the implementation of IFRS by banks and leasing companies, intending to align the local financial sector with international standards. In coordination with the IMF, a dialog has been recently engaged with the Central Bank of Tunisia to explore options for the modernization of its monetary policy framework and easing of foreign exchange controls. The EBRD is also working in close cooperation with the Ministry of Finance and other relevant stakeholders for a recast of the legal and regulatory framework for capital markets. The objective is to bridge gaps and bring the local market in line with international standards in terms of instruments and practices. It is also providing technical cooperation targeting the modernization of domestic capital market infrastructures through the improvement of clearing and settlement system operated by Tunisia Clearing.

- *Development of the corporate and SME sector*. The EBRD provided a Euro 11 million senior loan to an agribusiness company to finance the expansion of its operations in Tunisia and its new plant in Morocco. It is supporting the Tunisian Automotive Association (TAA) on strengthening value chain and identification of key players in the automotive sector. It is providing assistance, together with the UNWTO, to the Ministry of tourism to support the sector's recovery post Covid, including corporates and SMEs active in tourism. It also supported over 190 SMEs through business advisory, and trained 104 women entrepreneurs. As part of EBRD global response to the Covid crisis, EBRD's Advice for Small Business (ASB) has put in place a package aiming at addressing SMEs strategy issues, improving treasury management and assessing financing needs. More than 67 percent of its technical assistance projects were carried out outside the capital Tunis.

- *Infrastructure and energy*. On the renewables program, the EBRD has continued to provide advisory to the Ministry of Energy on the legal framework for its small- and large-scale renewable energy programs. In 2020, the EBRD provided a EUR 300m stabilization and restructuring facility to power utility STEG. The proceeds of the Bank's loan will be used to (i) provide liquidity support to STEG as an immediate response to the current COVID-19 crisis, and to (ii) refinance existing short-term debt to lengthen the tenors and provide terms more consistent with STEG's operations. The general objective is the reform and restructuring of STEG and the Tunisian energy sector to achieve long-term sustainability. The Project includes a comprehensive corporate reform roadmap, including measures to improve the Company's corporate and climate governance, financial management, strategy & risk, environmental and social standards, and inclusion of women and youth into the energy sector job market. EBRD has also continued the implementation of its investment projects in the water sanitation, railway and urban transport sectors.

Tunisia: EBRD—Active Portfolio

Indicator	Amounts
Portfolio	Eur 666 million
Number of active portfolio projects	41
Private sector (share of portfolio, 5-year rolling average)	48 percent
Debt share of portfolio	91 percent
Equity share of portfolio	9 percent
Financial institutions (share of portfolio)	Eur 193 million (29 percent)
Industry, commerce, agribusiness (share of portfolio)	Eur 120 million (18 percent)
Energy (share of portfolio)	Eur 53 million (8 percent)
Infrastructure (share of portfolio)	Eur 300 million (45 percent)

STATISTICAL ISSUES

(As of January 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance and should be further strengthened.
National Accounts: The National Institute of Statistics (NSI) publishes annual and quarterly GDP by production in current and constant (2010) prices according to the System of National Accounts 1993 (SNA 1993). METAC has been providing TA to the NSI to develop a set of financial accounts and balance sheet statistics by institutional sector. Surveillance would benefit from the collection and dissemination of higher frequency data on employment, unemployment, and wages. Quarterly employment and unemployment data are disseminated with a lag of three months. Tunisia utilizes a periodicity and timeliness flexibility option for the labor market data category under the Special Data Dissemination Standard (SDDS).
Price Statistics: NSI compiles and disseminates a monthly CPI (2015 = 100), based on the household budget and consumption survey for 2015/2016. The CPI covers the urban areas of 24 governorates and 22 rural areas. A monthly PPI (2010=100) is compiled for the Mining, Manufacturing, and Electricity industries.
Government finance statistics: Tunisia produces annual and quarterly central government data applying the Government Finance Statistics Manual 1986 (GFSM1986). Data coverage should be improved by moving gradually to a general government concept, notably through the inclusion of social security. Timeliness of data availability and an update to the GFSM2014 statistical framework also remain priorities. Financial statements of SOEs should be consolidated to improve monitoring.
Monetary statistics: The Central Bank of Tunisia (CBT) migrated to the Standardized Report Forms (SRFs) for monetary and financial statistics (MFS) in 2018. Monthly MFS covering the central bank and other depository corporations are since then been reported to the IMF's Statistics Department (STA) for publication in International Financial Statistics. Tunisia reports data on several series indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Balance of payments: The external sector statistics (ESS) in Tunisia is still compiled under the BPM5. The CBT is working on a strategic plan for the transition to the statistical framework of the BPM6. The 2020 IMF/STA ESS TA mission reviewed the strategic plan and found it adequate for this transition, except for the recording of direct investment data that require recalibration in order to bring them in line with international standards. Quarterly balance of payments statistics published by the CBT are not detailed enough with regard to the financial account. These data are not reported to the IMF for publication.
Financial indicators: With technical assistance from STA, the CBT is developing a set of financial soundness indicators (FSIs) for deposit-takers. Regular reporting of FSIs to STA for publication on the IMF's website is expected to begin in 2022.

II. Data Standards and Quality	
A subscriber to the Special Data Dissemination Standard (SDDS) since June 20, 2001.	

Tunisia: Table of Common Indicators Required for Surveillance

(As of January 2021)

Data	Date of Latest		Frequency of 1/		
	Observation	Reception	Data	Reporting	Publication
National accounts					
• GDP/GNP	Sept. 2020	Dec. 2020	Q	Q	Q
• Consumer price index	Nov. 2020	Dec. 2020	M	M	M
Fiscal sector					
• General government /2: revenue, expenditure, balance and composition of financing /3	NA	NA	NA	NA	NA
• Central government: revenue, expenditure, balance and composition of financing/3	Oct. 2020	Dec. 2020	M	M	M
• Central government: stocks of debt and guaranteed debt 4/	Sept. 2020	Nov. 2020	Q	Q	Q
External sector					
• External current account balance	Sept. 2020	Dec. 2020	Q	Q	Q
• Exports and imports of goods	Nov. 2020	Dec. 2020	M	M	M
• Gross external debt	Sept. 2020	Dec. 2020	A	A	A
• International investment position /5	Dec. 2019	Jul. 2020	A	A	A
• Exchange rates	Current	Current	D	D	D
• International reserve assets and reserve liabilities of the monetary authorities /6	Dec. 2020	Jan. 2021	M	M	M
Monetary sector					
• Reserve/base money	Nov. 2020	Jan. 2021	M	M	M
• Broad money	Nov. 2020	Jan. 2021	M	M	M
• Central Bank balance sheet	Nov. 2020	Jan. 2021	M	M	M
• Consolidated balance sheet of the banking system	Nov. 2020	Jan. 2021	M	M	M
• Interest rates /7	Current	Current	D	D	D

1/ Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA).
2/ The general government consists of the central government (i.e. budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.
3/ Includes foreign, domestic bank, and domestic nonbank financing.
4/ Includes currency and maturity composition.
5/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.
6/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency, but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency, but settled by other means.
7/ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

Statement by Hossein Hosseini, Executive Director, and Samir Belhaj, Advisor to the Executive Director for Tunisia
February 17, 2021

On behalf of our Tunisian authorities, we thank Mr. Geiregat and his team for the constructive discussions held with the authorities and other Tunisian stakeholders and for the insightful report. Our Tunisian authorities welcome staff's analysis and broadly share their appraisal.

The Article IV mission coincided with the tenth anniversary of the Tunisian revolution. In ten years, Tunisia has made considerable progress in its democratic transition. It has succeeded in reaching an agreement on a democratic constitution, building solid institutions, conducting several peaceful and free elections in a context marked by political polarization and the fight against terrorism.

These achievements however fell short from achieving social justice and prosperity for all. The 2015 terrorist attacks had a long-lasting impact on an economy heavily dependent on tourism. The fragmentation of the political landscape, frequent government changes and the fragility of social conditions have complicated the implementation of the contemplated reforms. Regional geopolitical turmoil has also cost the country many jobs and export revenues.

The COVID-19 pandemic has deepened the economic and social crisis. Small and medium enterprises have been hard hit, and tourism has plunged further into a new crisis that has put tens of thousands of people out of work. Phosphate and oil production have been hampered by recurrent social protests demanding jobs and better infrastructure in marginalized areas.

Developments since the RFI Disbursement in April 2021

The government that obtained Parliament's confidence vote—5 months after the October 2019 elections was immediately confronted with the Covid-19 crisis. Health management, which required a lockdown and border closure measures, was very well carried out at the beginning and helped to contain the initial spread of the virus.

Nevertheless, the economic consequences of the lockdown have been extremely severe, as evidenced by the 20 percent contraction in GDP in the second quarter of 2020. My authorities are grateful to the Fund for the emergency assistance received in April, and to all other partners which stood by the country.

The containment of the pandemic, on one hand, and social pressures due to the deterioration of an economy heavily dependent on contact activities, on the other, led the government to gradually relax restrictions and open borders in late June 2020. Despite the anti-Covid protocol in place, the virus spread again at a rapid pace throughout the summer, taking a heavy health and economic toll.

Managing the new wave of the virus was complicated by the political uncertainties created by the government's resignation in July 2020. A new government was formed in September with the daunting task of managing increasingly difficult health, economic, and social conditions. The unprecedented social impact of Covid-19, with rising unemployment and poverty, and new containment measures taken late 2020 to limit the spread of the virus fueled feelings of anger and frustration, provoking protests against the deterioration of living conditions and finding particular resonance as it coincided with the celebration of the 10th anniversary of the revolution.

The priority of the authorities is currently to make the vaccine available to the population. They aim to vaccinate 60 percent of the population and have committed to providing the vaccine at no cost. Tunisia has signed agreements under the COVAX initiative, the African Union initiative, and with a private laboratory for a total of 8.4 million doses while continuing bilateral negotiations for 1 million additional vaccines from Russia. The country is expected to receive two first batches totaling 600,000 vaccines by the end of February. Tunisia would also contribute to the global immunization effort following a recent agreement in principle with the United Kingdom to manufacture the UK vaccine in Tunisian laboratories for export to African countries.

Fiscal Policy

Since the outset of the pandemic, saving lives and livelihoods has been the priority of the government, which imposed a lockdown between March 22 and May 3, 2020 halting all activities except those in the health and food sectors. The government allocated additional resources to strengthen public health and to support affected sectors and the most vulnerable households. Exceptional measures were taken to ensure that the social safety nets cover all targeted groups, including informal and seasonal workers.

The emergency measures, which amounted to nearly 4.3 percent of GDP, added to the decline in revenues related to the economic consequences of the pandemic, resulted in an unprecedented fiscal deficit in 2020. However, the recent data are less pessimistic than initially expected reflecting better revenue collection. The 2020 fiscal deficit stood at 10.4 percent of GDP, compared to an initial estimate of 11.7 percent, and the wage bill is also slightly lower: 17.3 percent of GDP compared to 17.6 percent initially projected. The wage increase granted in August represents only 0.3 percent of GDP; the 2 percent slippage in the wage bill ratio compared to the initial budget estimation thus essentially reflects the decline in nominal GDP due to the impact of Covid-19.

On the other hand, the potential hiring/regularization of the long-term unemployed and ouvriers de chantiers would not have a full impact in 2021 due to the time needed to identify eligible applicants, set up the necessary logistics, and publish the implementation decrees. The authorities estimate that the relative impact of these recruitments on the wage bill in 2021 would be only 0.2 percent of GDP, bringing the wage bill to only 16.8 percent compared with 17.5 percent in the baseline scenario.

The authorities share the urgency of achieving fiscal sustainability and aim to reach as quickly as possible a situation of primary surpluses that will stabilize public debt. However, the measures as well as the pace of implementation need to be agreed upon with the political and economic partners and implemented carefully considering the fragile socio-political environment.

Monetary Policy, Exchange Rate Policy, and Banking Supervision

The monetary policy conducted since 2018 has helped curb inflation. The Central Bank of Tunisia (CBT) cut the policy rate twice by 100 and 50 bps in March and October 2020, respectively, to support the economy during the pandemic, and continues to monitor inflation closely.

The CBT highly appreciated the technical assistance provided by the Fund on inflation targeting and is working on improving further the monetary policy framework and laying the ground for a successful transition to an inflation targeting framework over the medium term.

The CBT’s limited interventions in the exchange market have been for price discovery purposes and its proactive monetary policy has contributed to put an end to the sharp depreciation of the exchange rate of the dinar. Official reserves are at a very comfortable level, strengthened by strong remittances and the significant reduction of the current account deficit.

The CBT is aware of the potential effects of the crisis and debt moratoria on banks’ financial stability and is closely monitoring the situation. The reforms undertaken by the CBT over the last decade, i.e. the strengthening of the legal, regulatory, and prudential framework and the restructuring of public banks, have contributed to strengthening the banking sector's resilience. The authorities believe that the improvement in banks' solvency enabled the sector to withstand the repercussions of the current crisis and to continue supporting businesses. The CBT took additional measures to bolster the sector’s capacity to face the crisis. It decided in March 2020 to suspend dividend payments by banks and asked banks to strengthen collective provisioning of latent risks related to the debt moratorium. It has also conducted a stress test in the second half of 2020, which revealed no systemic vulnerability and confirmed the resilience of major banks, even in an extreme scenario, provided that adequate risk coverage and a prudent dividend distribution policy are maintained. This stress test approach will be part of the annual monitoring process.

Structural Reform Agenda

Our authorities agree with staff on the need to continue the reform effort already initiated under previous IMF-supported programs. They are committed to controlling subsidies and to a new approach to the public service and the wage bill. Supported by the EU, Tunisia intends to launch a national consultation to reform the civil service law and submit a draft law to Parliament before the end of 2021.

Regarding subsidies, there is a broad consensus in Tunisia on the need to move to targeted transfers. Building on the considerable work already done with the help of the World Bank and on the successful experience of digital cash transfer to needy families during the lockdown period, the authorities intend to complete the setting up of a national digital registry of needy families. The national registry is a key step towards establishing a well-targeted cash transfer system and reforming the subsidies.

With respect to SOEs, the authorities recognize an accumulation of difficulties particularly given the current administrative configuration attaching SOEs to different line ministries, which reduces the scope of oversight and leads to poor governance. The government intends to place all SOEs under a state agency, which will allow for greater oversight and accountability of SOE's. The authorities will also seek to professionalize the SOE's Executive Boards as was previously done for State-Owned Banks, and they also plan to quickly resolve the problem of cross-arrears, which has led to deadlocks, delays in closing financial accounts and, a deterioration in the quality of public service. On the other hand, restructuring SOEs and restoring their profitability are necessary steps to prepare them for a more competitive environment and reduce their burden on public finances. To this end, the authorities will consider all options that are in the country's best interest.

Competition and Fight Against Corruption

The authorities fully share the view that administrative barriers to investment create non-competitive market structures, which are source of inefficiency, an impediment to the optimal use of Tunisia's human capital as well as an obstacle to equitable access to income and wealth creation. Tunisia plans to review its competitive legislative and regulatory framework and intends to remove obstacles to entrepreneurship. It recently embarked on a project to identify and encourage pro-competitive reforms in certain sectors and to improve the business climate, with the support of the EU and the OECD.

The fight against corruption is a priority for the authorities at the highest level but also for the very vigilant civil society. The authorities are determined to gain more in this area through greater digitization of the administration, reducing tight administrative controls and human intervention, and adopting good governance of public entities in conformity with best international practices.

On Covid-19 expenditure, a commission to oversee the governance of the Covid-19 fund has been created within the Ministry of Health to ensure the proper use of the collected funds in the fight against the COVID pandemic. This commission is chaired by the Minister of Health with the participation of other ministries and relevant stakeholders. A detailed report will be published at the end of the program. Moreover, the Cour des Comptes plans to carry out an audit of the Covid-19 fund.

Conclusion

Tunisia's political and social transition is being carried out under difficult economic and financial conditions. The Corona virus has compounded the already fragile economic situation, with serious human and social consequences. The government is implementing wide-ranging measures to alleviate economic pressures and to protect lives and livelihood. Reforms to restore fiscal and debt sustainability are important and high on the government's agenda; but the authorities are keen that the reforms are realistic and carried out without causing additional social disruption. To this end, implementing well calibrated policies while ensuring the political acceptance and appropriate prioritization are essential. Equally essential are policies aimed at enhancing growth, unleashing the country's potential, and giving the Tunisian people hope for a better future. Our authorities will warmly welcome all constructive exchanges with their partners on these challenging issues.