

Executive Briefing

- Tunisia's recently formed new government is keen on addressing fiscal imbalances and securing another IMF deal.
- Tunisia's economy will rebound in 2021 as the eurozone shows signs of recovery and demand in Tunisia's external sector improves.
- Tunisia's manufacturing industry has started to move from low-skill industries such as textiles to higher-skill industries including autos manufacturing and electronics.
- The government's keenness to utilise its renewable energy potential and capitalise on its electricity surplus will drive investment into power interconnection projects.

Macroeconomic Outlook

Measures to contain the Covid-19 pandemic in some of Tunisia's key eurozone trade and tourism partners struck the country's economy severely in 2020 with real GDP contracting by 7.5%. Tunisia's economy is set to rebound in 2021 as real GDP grows by 3.6% and the eurozone shows signs of recovery and demand in Tunisia's external sector improves. That said, tighter fiscal policy, as the government seeks to land another IMF deal, will likely limit domestic demand in the immediate term.

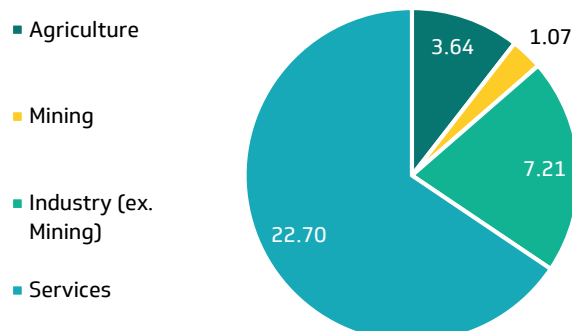
Tunisia has a diverse economy, based around foreign investment, exports to the EU and tourism. The long-term outlook on the economy is fairly positive, as political stability gradually takes root in a democratic government; private consumption and fixed investment will be long-term growth drivers. Real GDP growth will average 2.9% per annum between 2021 and 2030.

While the country's population growth has been limited, a rise in education levels and the potential requirement by the manufacturing industry for skilled labour in greater numbers could result in new employment opportunities for the population, in turn driving consumer spending power. Additionally, as young Tunisians go abroad to find work, remittances - typically close to 5% of GDP - are likely to remain an important component in driving Tunisia's consumption growth. Taken

Political Climate

Following a prolonged period of political turmoil, Tunisia recently formed a new government. In September 2020, parliament approved the new administration with Hichem Mechichi instated as Prime Minister. The change was triggered by the resignation of the former Prime Minister Elyes Fakhfakh in July 2020. Tunisia's new government appears keen on addressing the country's fiscal imbalances and securing another IMF deal. However, the political situation remains fragile and there may be some tension fuelled by fiscal austerity measures encompassed in any new IMF deal.

Tunisia - GDP by Output, USD billion (2021)



Source: World Bank, Fitch Solutions

together, this will translate into consumption increases, which will help drive economic growth.

The stabilisation of Tunisia's security environment will be essential given the challenges emanating from ongoing regional tensions. Tunisia is particularly exposed to any spill-over of instability from neighbouring Libya.

Key Macroeconomic Indicators	2018	2019	2020	2021	2021-25 ave	2021-30 ave
Population, mn	11.57	11.69	11.82	11.94	12.15	12.37
Real GDP Growth, % y-o-y	2.47	1.02	-7.48	3.63	2.82	2.92
Real GDP per capita, USD	4342.34	4337.86	3971.53	4075.31	4221.86	4444.93
Inflation (%)	7.45	6.75	5.80	5.40	4.41	4.26
Fiscal balance, % of GDP	-4.79	-3.35	-5.57	-5.09	-4.46	-4.05
Public debt, % of GDP	87.14	67.86	74.06	66.29	58.85	55.79
Current account balance, % of GDP	-11.21	-8.66	-10.20	-9.84	-9.39	-8.65
Exchange rate, TND/USD, ave	2.65	2.93	3.25	3.45	3.76	3.87

Source: National Sources, Fitch Solutions

Business & Trade Climate

The structural reforms undertaken by the Tunisian government, strongly encouraged by international donors, have already had a positive impact on the country's business environment. The establishment in 2018 of a 'one-stop shop' for investors, legislation limiting mandatory prior investment authorisation and the Start-Up Act have all strengthened the outlook for private investment. The government is keen to pursue reform as it is likely to be an important condition to secure a much-needed IMF deal.

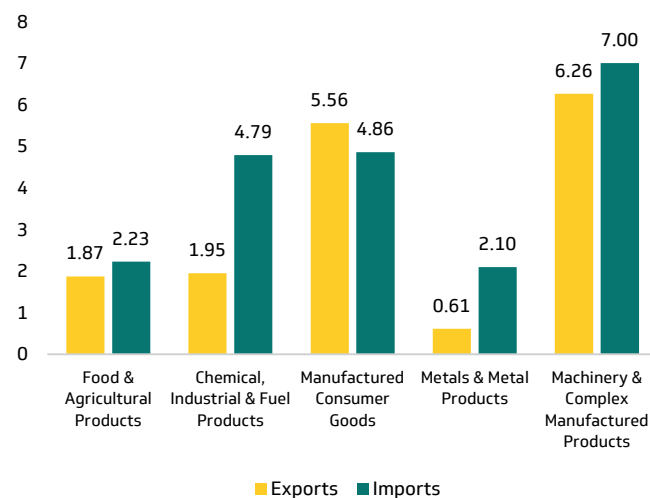
Tunisia's manufacturing industry has started to move from one that focused on low-skill industries such as textiles to become one that is centred around higher-skill industries such as autos manufacturing and electronics. Improvements to the business environment will allow the Tunisian economy to move further up the manufacturing value chain. The country offers favourable tax incentives in key industrial sectors and has also established a number of free trade zones outside the capital Tunis.

Tunisia's exports are diverse, including oil and mining products, agriculture and manufactured goods such as textiles and chemicals. European markets continue to be the biggest import destination for Tunisian exports, with France, Italy and Germany the most important markets in 2018. In common with other North African economies, Tunisia sources large amounts of consumer goods and capital equipment from abroad; machinery and complex manufactured products was Tunisia's largest import category in 2018 worth USD7.1 billion.

Market Risk

Risk Factor	Impact on Business
Localisation requirements include domestic quotas and lengthy procedures to obtain work permits.	Foreign nationals can make up 30% of a company's workforce during its first three years and up to 10% thereafter, while there are lengthy renewal procedures for annual work and residence permits.
There are local ownership requirements and SOEs are in place in key sectors.	Local ownership requirements are in place in the hydrocarbons sector and SOEs continue to play a key role in the transport and utilities sectors.
A combination of urbanisation, climate change and industrialisation has exacerbated water shortage risks in the country.	Limited water supply adds to the costs of doing business in Tunisia, particularly in the water-intensive sectors such as agriculture, manufacturing and tourism.
Fiscal austerity measures, likely prompted by any new IMF deal, combined with high unemployment of around 18%, could lead to mass protests.	Any widespread unrest would threaten business operations and could lead to supply chain disruptions and damage investor confidence.

Tunisia Exports & Imports, USD billion (2018)



Source: UN Comtrade

Investment Opportunities



Renewable Energy

Tunisia is looking to renewable energy sources to diversify its power mix and curb an over-reliance on gas. The government has formalised its renewable energy ambitions in the 2030 New Energy Vision, outlining plans to increase the share of renewable energy in the domestic electricity mix to 30% by 2030. The government has launched a slew of tenders for both solar and wind projects, which have been met with strong investor interest. In September 2020, the Ministry of Energy, Mines and Renewable Energies launched a tender for the construction of 16 solar PV projects with a total capacity of 70MW.



Electricity Grid Infrastructure

Tunisia generates more electricity than it consumes, a trend that will continue as the country pursues its ambitious renewable energy agenda. As such, the government is keen to monetise this surplus by seeking out new demand markets for electricity trading, namely European power markets. This will pave the way for investment into power grid infrastructure to facilitate the trading of electricity. The 600MW Elmed Interconnector Project between Tunisia and Italy (Sicily) is progressing with an inter-governmental agreement for the development and joint construction of the project. Construction is expected to commence in 2023 and is scheduled for completion in 2027.



Aerospace Manufacturing

The Tunisian government has highlighted the aerospace industry as a significant growth opportunity for exports and has established a number of aerospace clusters across the country. A number of companies have established operations in Tunisia, capitalising on the country's well-established domestic electronic manufacturing capacity, a workforce of skilled engineers and the country's offshore regime, which allows them to retain 100% of the project capital and freely repatriate dividends. These companies include Aeroconseil, Mitsubishi Aircraft Industries, Altran, Hutchinson, Stelia Aerospace and Safran Group. Tunisia's mix of trading partners is concentrated in the EU, with Tunisian parts and components feeding into the European aerospace supply chain.



Water Infrastructure

Tunisia may lose up to 80% of its natural water resources by 2040, according to the World Resource Institute. This worsening water scarcity is paving the way for investment into water infrastructure, desalination, wastewater treatment and storage facilities. In 2020, development work on the Sfax seawater desalination project began as well as extension work on the Sud Méliane wastewater treatment plant. Furthermore, the European Investment Bank (EIB) signed contracts with the Tunisian water utility SONEDE in October 2020 to provide funds for the development and modernisation of water supply projects in Greater Tunis.

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