



Summary

After the revolution shook up the country and ousted former president Ben Ali last year, Tunisia is still a long way from reaching political stability. While the democratically elected parliament is busy drafting a new constitution, violent protests and strikes continue. As a result, we expect GDP growth to come in at a low 3% in 2012 (from -2.2% in 2011), which will be insufficient to generate jobs for Tunisia's many unemployed youth. Meanwhile, continued unrest will further aggravate the growing external and fiscal imbalances, as investors continue to stay away and Tunisia's government finds itself forced to increase social spending. Fortunately, both the World Bank and the Gulf Co-operation Council already pledged to help Tunisia bridge this transition period.

Things to watch:

- Social unrest, protests and strikes
- Growing external and fiscal imbalances
- Eurozone crisis and its impacts on demand for Tunisian exports and tourism

Author: **Anouk Ruhaak**
Country Risk Research
Economic Research Department
Rabobank Nederland

Contact details: P.O.Box 17100, 3500 HG Utrecht, The Netherlands
+31-(0)30-21-64860
A.N.Ruhaak@rn.rabobank.nl

Tunisia					
National facts		Social and governance indicators		rank / total	
Type of government	Republic	Human Development Index (rank)	94 / 187		
Capital	Tunis	Ease of doing business (rank)	46 / 183		
Surface area (thousand sq km)	162	Economic freedom index (rank)	95 / 179		
Population (millions)	10.4	Corruption perceptions index (rank)	73 / 183		
Main languages	Arabic	Press freedom index (rank)	134 / 178		
Main religions	French (commerce)	Gini index (income distribution)	40.8		
	Muslim (98%)	Population below \$1.25 per day (PPP)	1%		
	Christian				
Head of State (interim)	Jewish	Foreign trade			
	Moncef Marzouki	2010			
Head of Government	Hamadi Jebali	Main export partners (%)		Main import partners (%)	
Monetary unit	Dinar (TND)	France	25	France	22
		Italy	16	Italy	22
		Germany	9	Germany	10
		Libya	6	Spain	6
Economy		2011			
Economic size		bn USD	% world total		
Nominal GDP	44	0.06	Main export products (%)		
Nominal GDP at PPP	90	0.11	Textiles		
Export value of goods and services	23	0.11	Electrical equipment		
IMF quatum (in mln SDR)	287	0.13	Petroleum & derivatives		
			Leather & hide products		
			4		
Economic structure		2011	5-year av.		
Real GDP growth	-2.2	4.6	Main import products (%)		
Agriculture (% of GDP)	8	9	Petroleum & products		
Industry (% of GDP)	30	30	Electrical equipment		
Services (% of GDP)	61	61	Textiles		
			Machinery		
			5		
Standards of living		USD	% world av.		
Nominal GDP per head	4216	39	Openness of the economy		
Nominal GDP per head at PPP	8601	69	Export value of G&S (% of GDP)		
Real GDP per head	3779	47	Import value of G&S (% of GDP)		
			Inward FDI (% of GDP)		
			1.9		

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Introduction and update

After last year's revolution shook up the country and ousted former president Ben Ali, Tunisia is still a long way from reaching political stability. While the democratically elected parliament is busy drafting a new constitution, violent protests and strikes continue. This ongoing unrest hampers economic activity and keeps investors from returning to Tunisia. Consequently, the economy contracted by 2.2% in 2011 and is expected to grow by a meager 3% in 2012, which falls below the 3.5% targeted by the government. Aside from social unrest, the unfavorable expectations for 2012 are further aggravated by the recession in Italy, France and Germany, the main destinations for Tunisian exports. In addition, with rising commodity prices spurring inflation, the central bank will be forced to return to a somewhat more conservative policy, which will further dampen domestic demand. On a more positive note, the return of tourists to Tunisia will cushion the blow somewhat, while also having a positive impact on the current account balance.

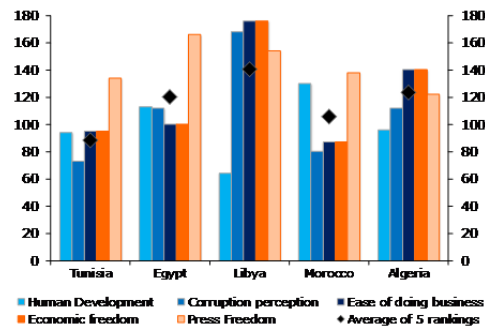
With Tunisia's population growing at 1% per year, a 3% GDP growth rate (which roughly equals 2% GDP growth per capita) is insufficient to generate jobs for both new labor market entries and the many youths that are currently unemployed. This leaves Tunisia with a dangerous vicious cycle in which unrest hampers economic activity, while the resulting lack of economic opportunity motivates further protests. Unfortunately, we do not expect this cycle to be broken in the short term. For the medium term (2012- 2016), the government aims to achieve an average GDP growth rate of 6.3%. This is deemed ambitious and success will very much depend on the government's

ability to rebuild political institutions, the country's ability to profit from the rebuilding efforts in Libya and the recovery of external demand.

A country in transition

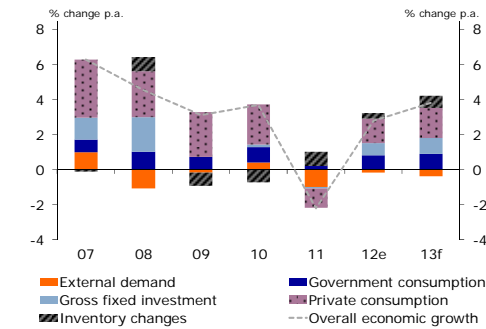
In less than a year, Tunisia saw its president ousted and a new coalition voted into government through free elections. The elections were won by the moderately Islamist al-Nadha party, making its leader, Hamadi Jebali, the country's new prime minister. Al-Nadha formed a coalition government together with the two center-left parties, CPR and Ettakatol. This coalition is to govern the country until a new president and parliament are elected in the spring of next year (before June 2013). Until that time, the coalition is also saddled with the difficult tasks of drafting a new constitution. In addition, it already presented an action plan that is to help the country achieve economic prosperity, while generating jobs for Tunisia's many unemployed. Especially the latter is important, as roughly 18% of the population is unemployed and unemployment (and thereby the lack of economic opportunities) continues to be an important source of social unrest.

Figure 1: Social development indicators



Source: World Bank and HDI (NB 1 is best ranking)

Figure 2: Growth performance



Source: EIU

Together these events meant a great leap forward on the road to democracy. Still, despite the successes many obstacles remain. Now that the controls of Ben Ali's repressive regime have been lifted, internal divides are becoming more and more apparent. These divides run along religious as well as generational lines. In many ways, the interests of the older generations that traditionally ran the country contrast with those of younger generations that are eager to gain some of their political and economic power. At the same time, the divide between radical and moderate Islamists is becoming more apparent as well. Even within the al-Nadha party, which fiercely maintains that it seeks to build a state based on the secular Turkish model, radical voices are growing louder. Meanwhile, the revolution fuelled high expectations and many, including labor unions, are demanding immediate change and, more to the point, wage increases. However, the government struggles to fulfill these expectations in light of slow growth (see above). The unfortunate result is continued protests and strikes, which we fear will not be dissolved in the immediate future. Nonetheless, we also expect that free and fair elections next year will go a long way to help restore social stability.

The costs of transition

In order to prevent another revolution and secure social stability, the government has embarked on a path of fiscal expansion. Especially social spending has increased sharply. As a result, the fiscal deficit came in at a high 6.1% of GDP in 2011 and is expected to grow to an even larger 9.5% of GDP in 2012. This will push the public debt from 49% of GDP in 2011, to an expected 55% of GDP in 2012.

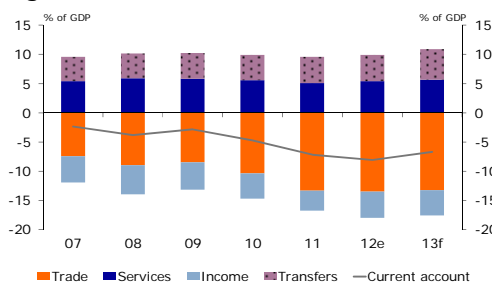
Another concern are the growing external imbalances. The protests put pressure on the dinar, which is pegged to a basket of currencies, including the euro. Over the past year the central bank successfully defended its currency, but at the expense of the country's foreign exchange (FX) reserves. In addition, as exports slowed and the cost of imports (and especially the cost of commodity imports) rose, the current account reported a large deficit of 7.1% of GDP in 2011. In 2012, we expect the current account deficit to widen further, as demand for Tunisian exports slows. Finally, a fall in foreign investments and capital flight led to a further reduction of FX reserves. Consequently, FX reserves currently cover only 3 months of imports.

Figure 3: Public finances



Source: EIU

Figure 4: Current account



Source: EIU

Clearly, these trends cannot be sustained forever. Fortunately, help is underway. The G8 already pledged USD 38mIn in total to Libya, Egypt and Tunisia and the World Bank extended a loan of USD 500mIn to Tunisia. In addition, Tunisia can count on aid from the Gulf Co-operation Council. All in all, it appears that funds are and will be available to bridge this transition period.

Tunisia							
Selection of economic indicators	2007	2008	2009	2010	2011	2012e	2013f
<i>Key country risk indicators</i>							
GDP (% real change pa)	6.3	4.5	3.1	3.7	-2.2	2.8	3.8
Consumer prices (average % change pa)	3.4	4.9	3.5	4.4	3.5	4.5	4.0
Current account balance (% of GDP)	-2.4	-3.8	-2.8	-4.8	-7.1	-8.0	-6.7
Total foreign exchange reserves (mln USD)	7851	8849	11057	9459	7356	8370	8690
<i>Economic growth</i>							
GDP (% real change pa)	6.3	4.5	3.1	3.7	-2.2	2.8	3.8
Gross fixed investment (% real change pa)	5.7	9.1	0.0	0.7	-0.5	3.0	4.3
Private consumption (real % change pa)	5.4	4.3	4.3	3.8	-1.7	2.2	2.7
Government consumption (% real change pa)	4.2	6.1	4.2	5.1	1.2	4.5	5.1
Exports of G&S (% real change pa)	11.8	2.8	-7.6	4.8	-4.4	4.9	6.2
Imports of G&S (% real change pa)	9.6	5.4	-7.2	3.8	-1.9	5.4	7.0
<i>Economic policy</i>							
Budget balance (% of GDP)	-2.6	-0.7	-2.7	-2.9	-6.1	-9.4	-8.6
Public debt (% of GDP)	46	43	43	43	49	55	59
Money market interest rate (%)	5.2	5.2	4.3	4.4	4.0	4.2	4.4
M2 growth (% change pa)	12	15	12	11	9	10	6
Consumer prices (average % change pa)	3.4	4.9	3.5	4.4	3.5	4.5	4.0
Exchange rate LCU to USD (average)	1.3	1.2	1.4	1.4	1.4	1.4	1.5
Recorded unemployment (%)	12.4	12.4	13.3	13.0	18.0	17.5	15.0
<i>Balance of payments (mln USD)</i>							
Current account balance	-917	-1711	-1234	-2104	-3155	-3680	-3240
Trade balance	-2876	-4010	-3698	-4574	-5878	-6170	-6410
Export value of goods	15148	19184	14419	16431	17707	18470	20090
Import value of goods	18024	23194	18117	21005	23585	24640	26500
Services balance	2106	2644	2525	2460	2272	2480	2760
Income balance	-1766	-2267	-2010	-1925	-1501	-2060	-2120
Transfer balance	1618	1922	1951	1935	1953	2070	2530
Net direct investment flows	1515	2601	1525	1335	825	1070	1620
Net portfolio investment flows	25	-39	224	-26	97	130	210
Net debt flows	672	255	675	258	797	1390	2170
Other capital flows (negative is flight)	-218	-108	1017	-1062	-668	2100	-430
Change in international reserves	1078	998	2208	-1598	-2103	1010	320
<i>External position (mln USD)</i>							
Total foreign debt	20441	20773	21712	21584	23244	23890	25810
Short-term debt	3984	4327	4802	4979	5291	5330	5830
Total debt service due, incl. short-term debt	5853	5996	6432	7151	7309	7840	8140
Total foreign exchange reserves	7851	8849	11057	9459	7356	8370	8690
International investment position	-37345	-39915	-42844	-43256	n.a.	n.a.	n.a.
Total assets	10828	11639	13242	12309	n.a.	n.a.	n.a.
Total liabilities	48174	51555	56086	55565	n.a.	n.a.	n.a.
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	-7.4	-8.9	-8.5	-10.3	-13.3	-13.5	-13.2
Current account balance (% of GDP)	-2.4	-3.8	-2.8	-4.8	-7.1	-8.0	-6.7
Inward FDI (% of GDP)	3.9	5.9	3.7	3.2	1.9	2.4	3.4
Foreign debt (% of GDP)	53	46	50	49	53	52	53
Foreign debt (% of XGSIT)	92	75	98	88	91	89	87
International investment position (% of GDP)	-95.9	-88.9	-98.4	-97.7	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	26	22	29	29	28	29	28
Interest service ratio incl. arrears (% of XGSIT)	4	3	3	3	3	3	2
FX-reserves import cover (months)	3.9	3.5	5.0	5.4	4.2	3.1	3.3
FX-reserves debt service cover (%)	134	148	172	132	101	107	107
Liquidity ratio	107	108	111	113	104	94	97

Source: EIU

Disclaimer

This document is issued by Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. incorporated in the Netherlands, trading as Rabobank Nederland, and regulated by the FSA. The information and opinions contained herein have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy or completeness. It is for information purposes only and should not be construed as an offer for sale or subscription of, or solicitation of an offer to buy or subscribe for any securities or derivatives. The information contained herein is not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient. All opinions expressed herein are subject to change without notice. Neither Rabobank Nederland, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith, and their directors, officers and/or employees may have had a long or short position and may have traded or acted as principal in the securities described within this report, or related securities. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities are described in this report, or any related investment. This document is for distribution in or from the Netherlands and the United Kingdom, and is directed only at authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 or to persons described in Part IV Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2001, or to persons categorised as a "market counterparty or intermediate customer" in accordance with COBS 3.2.5. The document is not intended to be distributed, or passed on, directly or indirectly, to those who may not have professional experience in matters relating to investments, nor should it be relied upon by such persons. The distribution of this document in other jurisdictions may be restricted by law and recipients into whose possession this document comes from should inform themselves about, and observe any such restrictions. Neither this document nor any copy of it may be taken or transmitted, or distributed directly or indirectly into the United States, Canada, and Japan or to any US-person. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of Rabobank Nederland. By accepting this document you agree to be bound by the foregoing restrictions.