



الوكالة الإسلامية الدولية للتصنيف  
Islamic International Rating Agency

# ECONOMIC & BANKING SECTOR OVERVIEW

**Republic of Tunisia**

*October, 2018*

## Economic &amp; Banking Sector Overview– Republic of Tunisia

The Republic of Tunisia is a strategically located country on the Mediterranean Sea route in the North African belt. With a GDP of USD 40b and a population of 11.4m in 2017, Tunisia is categorized as a lower middle income country. Tunisia has signed multiple association and trade agreements with other countries including La Francophonie, the Union for the Mediterranean, the Common Market for Eastern and Southern Africa, the Arab Maghreb Union, the Arab League and the OIC among others.

	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	2023F
Real GDP Growth Rate	1.2	1.1	2.0	2.4	2.9	3.4	3.6	4.0	4.2
Inflation (Annual Average)	4.9	3.7	5.3	8.1	7.5	5.9	4.9	4.1	4.0
Current Account / GDP	-8.9	-8.9	-10.5	-9.6	-8.6	-7.8	-6.9	-6.5	-6.1
Fiscal Balance / GDP	-5.3	-5.9	-5.9	-5.2	-3.7	-2.5	-2.2	-2.2	-2.2
Domestic Debt / GDP	55.4	62.4	70.3	70.5	70.0	69.4	68.4	67.5	66.5
External Debt / GDP	62.8	67.6	80.1	86.4	88.9	89.3	88.3	85.8	82.9

Source: IMF Report, July 2018

Tunisian economy expanded 2% in 2017 (2016: 1.2%), marking a recovery in pace of growth. Growth was driven primarily by net exports contributing 1.1pps to headline GDP growth, and investment, mostly private, contributing 0.8pps. On the supply side, the services sector led recovery, backed by strong tourism activity. In 2018, economic activity accelerated with 2.5% and 2.8%, GDP growth booked in the first two quarters respectively, and above expectations, having benefitted from further recovery in tourism, mining and agricultural sectors. IMF projections point to accelerating economic activity in the medium run with continued improvement in tourism as well as pick up expected in the manufacturing industry.

Unemployment rate has remained on the higher side declining slightly in 2017 to 15.3% (2016: 15.6%) and edging a tad higher to 15.4% in the second quarter of 2018. Unemployment rate is higher for university graduates, youth and women, and remains a major challenge for growth and social stability.

In contrast to its annual average of 4-5% during 2012 – 2016, consumer inflation reached 6.4% by year-end 2017 and averaged 5.3% for the year. Due to the TND depreciation, higher taxes, and subsidy cuts, annual CPI has continued its uptrend in 2018 and reached 7.5% as of August. IMF estimates point to continued CPI increase to 8.9% by the end of 2018, before retreating to 6.2% by the end of 2019. The TND lost 17.6% against Euro, with the EU being Tunisia's major economic partner, and also depreciated 5.8% against USD during 2017. Further during January-September 2018, TND further depreciated by 12.4% against USD and 9.6% against Euro. In order to control the rising price pressures, Central Bank of Tunisia raised the policy rates by a total of 175bps in 2018 to 6.75% while broadening the interest rate corridor from +/- 25 bps to +/-100 bps in January 2018. In tandem with CBT's policy actions, the money market rates, which directly affect loan supply and funding costs, have been on the uptrend, having reached 7.28% on September 26th vs. 5.23%, at the end of 2017. Given the inflationary headwinds, CBT is expected to raise rates further in the remainder of the year.

Tunisia has been following a financial consolidation path, with an aim of achieving a fiscal deficit target of 2.5% of GDP by 2020. During 2017, fiscal deficit remained high at 5.9% of GDP (2016: -5.9%) and is expected to remain around 5.2% during 2018. Total revenues and grants registered a 14.4% growth during 2017 led by tax revenues which constituted 88.8% of total revenues. Non-tax revenue grew strongly by 24.4% owing to increased revenues from the energy sector. Total expenditures grew by 13.0% with increase in both current and capital expenditures. Transfers and subsidies were increased during 2017, with a substantial increase in energy subsidies. Expenditure cuts are expected to be implemented in line with fiscal consolidation measures planned, including decrease in energy subsidies and pension transfers as well as slower growth in

wage bill. However, in view of recent trends, achieving targeted reduction in fiscal balance by scheduled time, appears unlikely.

Despite the increase in exports owing to currency depreciation, current account deficit widened further to -10.5% of GDP during 2017 (2016: -8.9%) and is expected to remain around -9.6% of GDP during 2018. Exports grew by around 4.9% during 2017 with around 94% of exports constituting of non-energy exports majorly non-food related exports. Imports grew more sharply by 6.3% during 2017, mostly owing to uplift in energy related imports reflecting increasing global oil prices. Capital and financial accounts remained positive with a moderate increase in surplus due to increase in medium and long term loans in portfolio investment account.

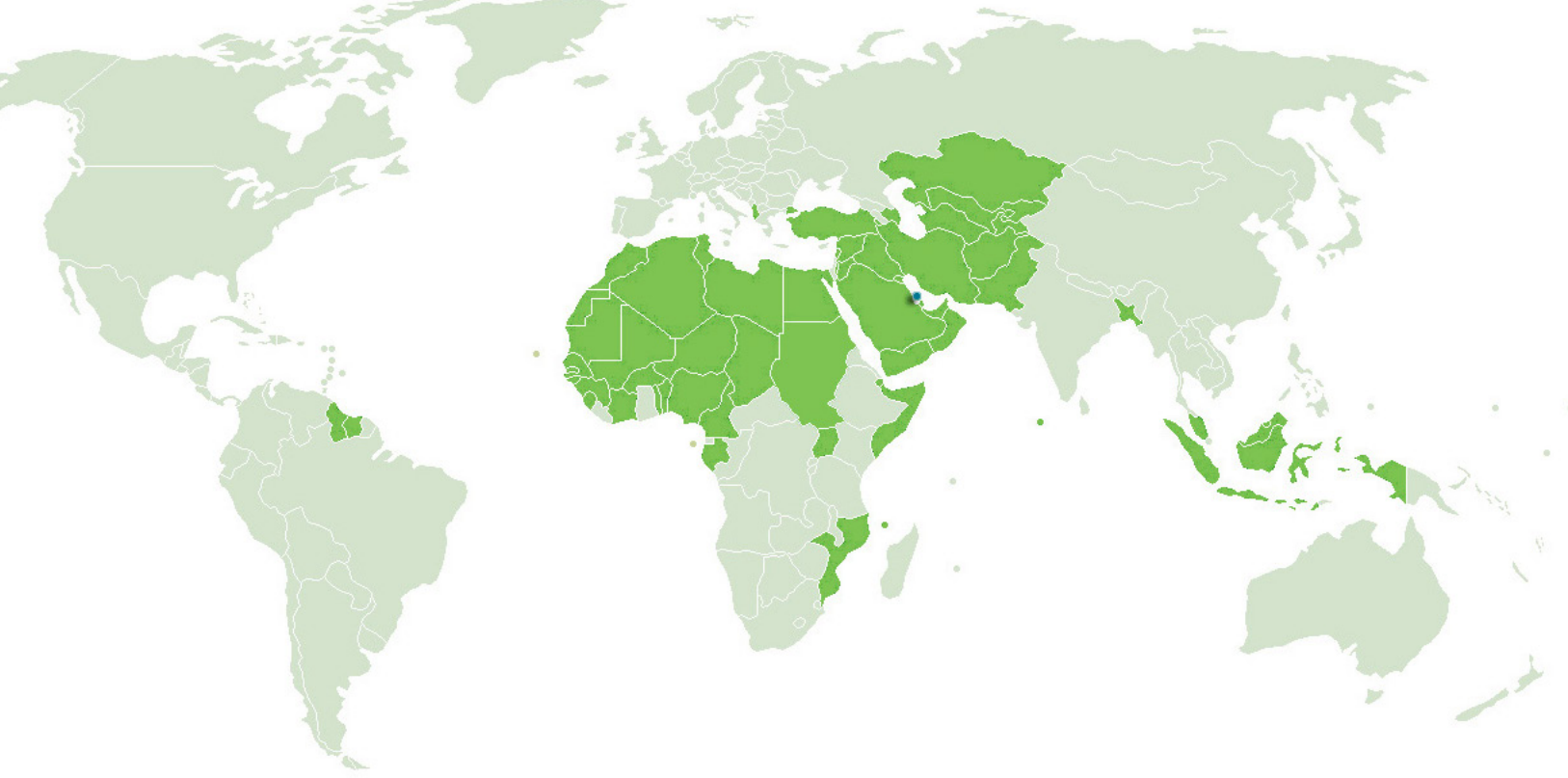
Twin deficits in both fiscal and current accounts have caused significant rise in both gross public debt and external debt reaching 70.3% of GDP and 80.1% of GDP respectively. Interest payments in relation to revenue have been increasing over the years, reaching 9.6% in 2017 and expected to further increase to 10.5% in 2018. International reserves have remained stable in absolute terms at USD 5.9bn at the end of 2017 (2016: USD 5.9b), whereas the import coverage of the CBT’s net reserves dropped to 74 days as of September 26th vs. 99 days at the end of 2017.

Despite recovery in growth due to rising exports and increasing tourism, wide twin deficits have led to weakening in the external position. Inflation hovers well above historical averages, as global monetary tightening puts pressure on the TND. These along with high unemployment rates, remain key challenges for the economy.

With a banking asset base of TND 113.9b as of May 2018, Tunisia has a diversified financial market with 12 banks, 7 leasing companies, 4 insurance companies and 5 investment companies and holdings among others. There are 3 Islamic banks whose market share has been on a steady rise and reached around 3% currently. Potential for Islamic Banking is deemed to be around 12%-15% of total banking assets. Around 27.6% of the loan book is allocated to industrial companies, followed by 25.8% to households and 16% to the trade sector. Loan growth was relatively strong at 12.8% in 2017 and higher than 9.9% expansion observed in 2016. However, credit off take decelerated in H1’18 with the sector’s lending book growing by a mere 3.9%, in the backdrop of the 175bps rate hike by the Central Bank of Tunis. Despite having moderated, non-performing loans, remained high at 13.9% (2016: 15.6%). The parliament has passed necessary bills to address non-performance in public banks; these pertain to allowing sale of classified loans and simplyfying legal procedures required for write offs. Banking sector’s capital adequacy remained at 11.9% at the end of 2017, above the local requirement of 10%, and indicating pressure on some banks. Profitability levels improved in 2017 with an ROAA of 1.2% (2016: 1.0%), as net spreads widened in response to increasing money market rates.

%	2013	2014	2015	2016	2017
NPLs to Total Loans	16.5	15.8	16.6	15.6	13.9
Specific Provisions to NPLs	56.4	58.0	56.9	59.0	63.3
Deposits to Loans	89.6	88.8	87.4	86.8	85.4
Capital Adequacy Ratio	8.2	9.4	12.0	11.6	11.9
Average Spread btw Loans and Deposits	3.3	3.1	3.0	2.9	3.2
Return on Assets	0.3	0.9	0.9	1.0	1.2

Source: IMF Report, July 2018



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