



بنك الإمارات دبي الوطني
Emirates NBD

Economics

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Tunisia Update

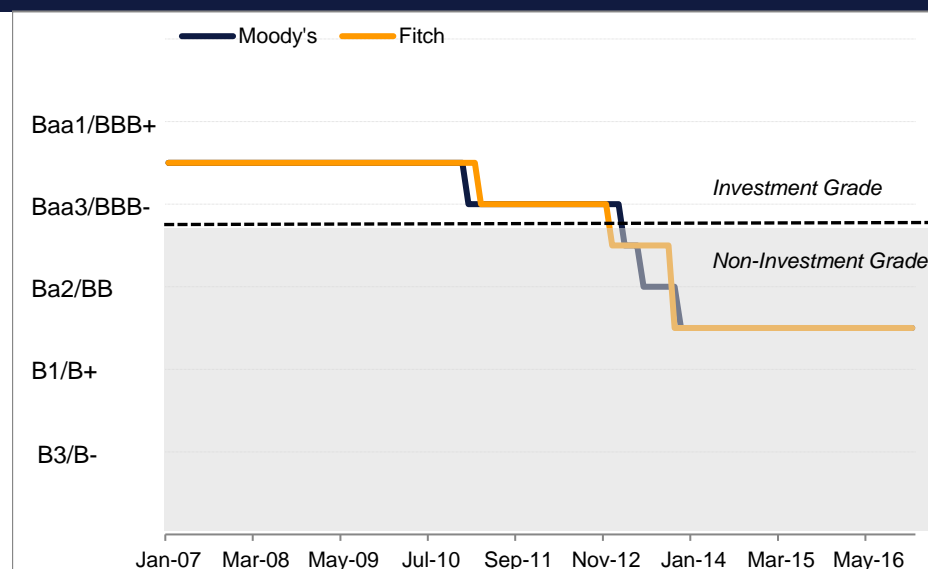
Moody's downgraded its outlook on Tunisia's Ba3 sovereign credit rating to 'Negative' from 'Stable' on 22 November, highlighting persistent pressures on the North African economy. Moody's has downgraded Tunisia's rating four times since 2011, although the last change was back in November 2013. According to the agency, *'The negative outlook reflects continuing delays towards the path of fiscal consolidation which leads to a worsening fiscal deficit and debt/GDP trajectory that deviates increasingly from the median of Ba-rated peers. It also signals increasing external vulnerabilities stemming from persistent current account imbalances and an increase in the external debt stock at over 70% of GDP'*.

The budget deficit has undoubtedly deteriorated this year, with figures for the first three quarters of 2016 showing a ballooning shortfall. Between January-September the budget deficit widened to TND3.2bn, compared to TND1.3bn in the same period a year earlier (*chart #1*). Growth in revenues has only been marginal at 4.3%, while spending has increased 13.4%. A large share of the growth in expenditure is accounted for by higher public sector wages of 18.7%, however and somewhat encouragingly, there has also been an uptick in CAPEX this year of 26.9% y/y. Public pressure on the government over the difficult economic situation does not appear likely to ease anytime soon, meaning efforts at fiscal consolidation will continue to face opposition.

Government spending continues to support the economy at a time of weak private consumption and investment. Real GDP expanded 1.3% y/y in Q3, compared to 1.4% and 1.0% in Q2 and Q1 respectively, with 'Nonmarket Activities' growing 2.9% (*charts #2 & 3*). A detailed breakdown of GDP by production is not yet available, however the figures show the 'Services' sector posting the fastest growth of 3.7% y/y in Q3, while 'Nonmanufacturing Industries' declined -5.6% y/y and the 'Manufacturing' Sector expanded 1.2%.

Tunisia's current account balance has actually improved this year, with the deficit in Q3 coming in at its lowest level in USD terms since Q4 2010 (*chart #4*). Part of this improvement was driven by an unexpected increase in tourism revenues, which rose 26.1% y/y to their highest level since Q4 2014. Data from STR Global shows hotel occupancy rates also trending higher this year, averaging 43% between January-October compared to 38% in the same time last year (*chart #5*). The adjustment to Tunisia's current account deficit should help ease downside pressures on the dinar, particularly at a time that FDI and other capital inflows remain relatively weak.

Tunisia Sovereign Risk Ratings



Source: Moody's, S&P, Emirates NBD Research

Budget Deficit

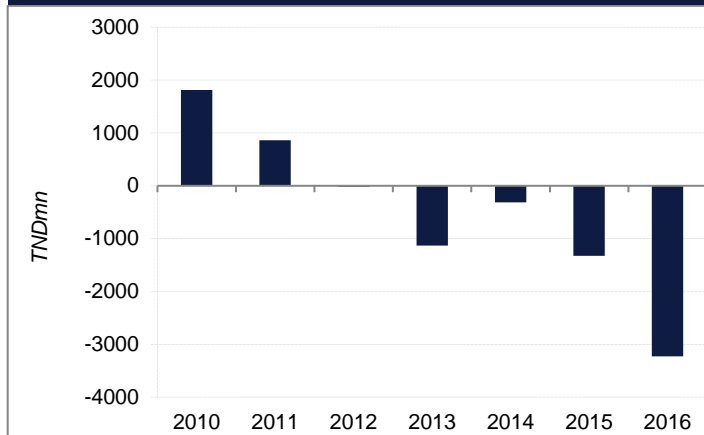


Chart #1, *Jan-Sep

Source: Havers, Emirates NBD Research

Real GDP Growth

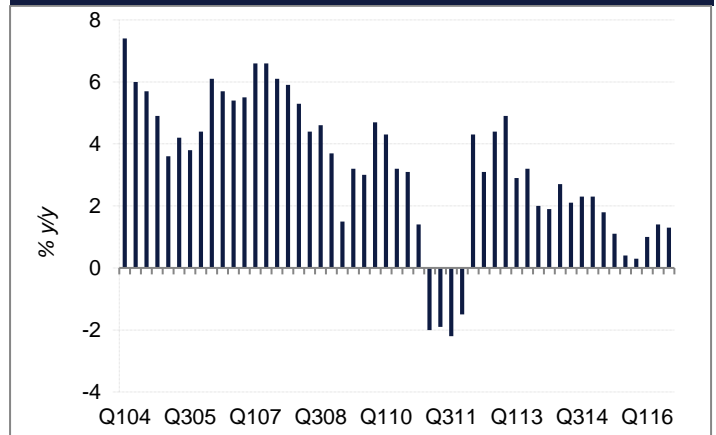


Chart #2

Source: Havers, Emirates NBD Research

Real GDP Growth

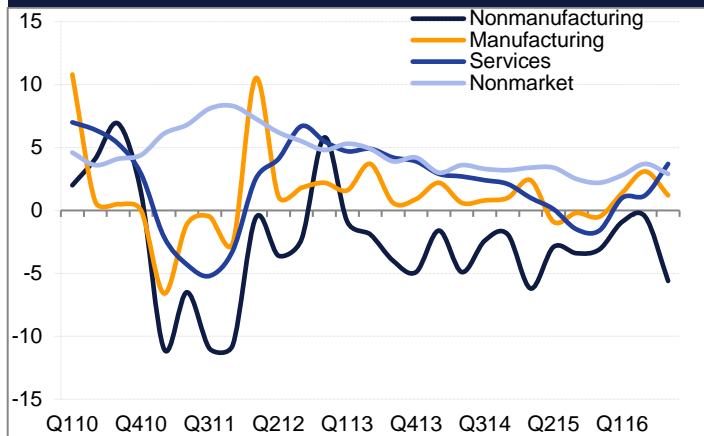


Chart #3

Source: Havers, Emirates NBD Research

Current Account Deficit

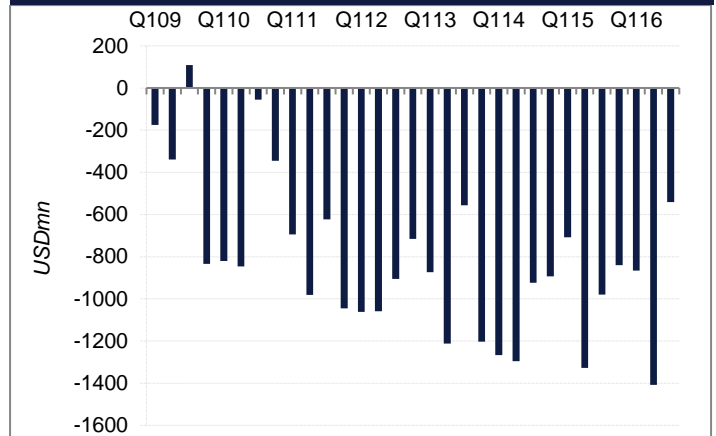


Chart #4

Source: Havers, Emirates NBD Research

Hotel Occupancy

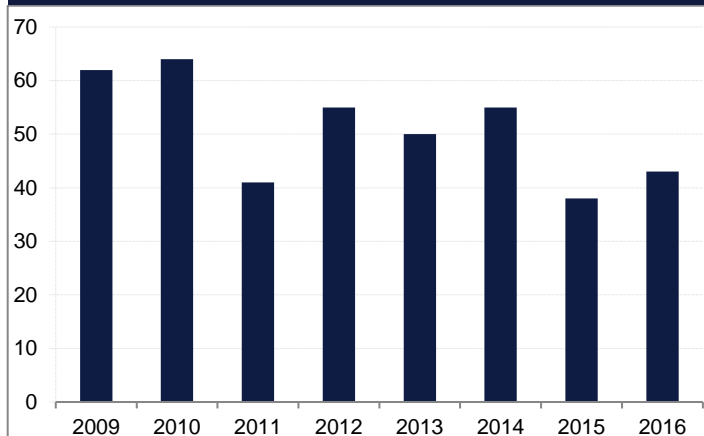


Chart #5

Source: STR Global, Emirates NBD Research

Monetary Trends

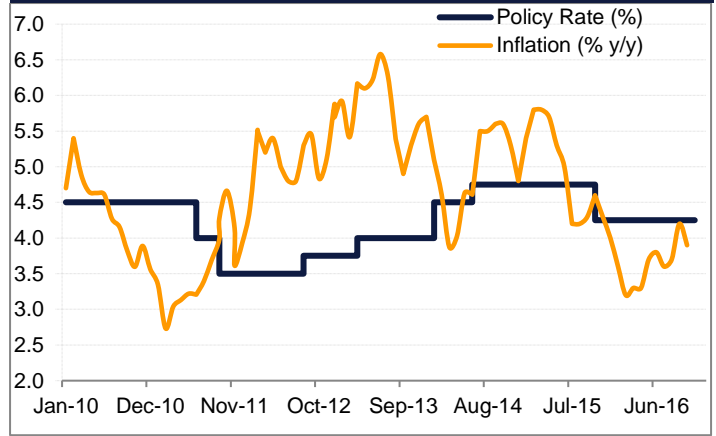


Chart #6

Source: Havers, Emirates NBD Research

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