



بنك الإمارات دبي الوطني
Emirates NBD

Economics

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Tunisia Update

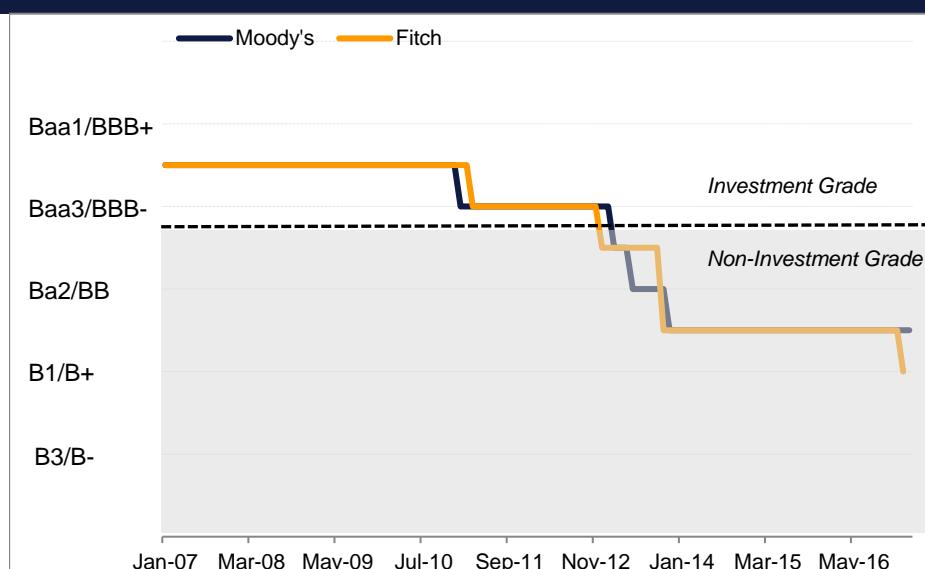
Tunisia's sovereign credit rating was downgraded by Fitch on 3 February to B+ from BB-. The country's credit rating is now five notches below where it was at the end of 2010 (*front page chart*). Elevated political risks have been the main cause behind the deterioration to Tunisia's sovereign credit profile and weak growth performance in recent years. Such risks have taken the form of a deterioration to the security environment, frequent government changes, in addition to sporadic strikes and social unrest. Real GDP growth has averaged only 1.6% since 2011, compared to 4.5% between 2007-2010 (*chart #1*), and barring a fundamental improvement in the political backdrop, it is difficult to see this situation changing in the near term.

Fitch appeared to be particularly concerned about Tunisia's dual fiscal and current account deficits. In terms of the former, the failure to implement a public sector wage freeze and protracted negotiation over the 2017 budget '*reduces Fitch's confidence in the government's ability to meet future fiscal targets*'. Regarding the latter, the fact that FX liquidity is being provided through concessional financing tied to the IMF program, '*risks related to disbursement delays (due to non-compliance) cannot be ruled out*'. All of this essentially comes down to judgements about the pace of reform momentum, with most evidence pointing to the government continuing to face difficulty implementing its policy agenda in an environment of weak growth and elevated unemployment.

Tunisia's external position is likely to remain a key vulnerability over the coming years in our view, with the current account deficit estimated at 8.3% of GDP in 2016. The loss of tourism revenues has obviously been a major factor behind this deterioration, with receipts falling to a multi-year low of only USD844mn between January-September 2016, compared to USD1.0bn in the same time last year (*charts #2-4*). In addition, financial account inflows have been muted, with FDI also remaining below pre-2011 levels (*chart #5*). The result has been steady drain on the central bank's stock of FX reserves, which as of November were sitting at a 10-year low at only USD5.4bn.

All of this suggests that pressures on the Tunisian dinar should remain to the downside over the course of 2017, despite the fact that the currency already weakened 12% against the USD and 9% against the EUR in 2016. Our base case now sees the TND averaging 2.35 against the greenback this year, compared to 2.28 currently. The central bank last hiked interest rates in June 2014, however given the burgeoning FX debt load and recent uptick in inflation, could begin to tighten policy again this year.

Tunisia's Sovereign Credit Ratings*



Source: Bloomberg, Emirates NBD Research

*Moody's/Fitch

Real GDP Growth

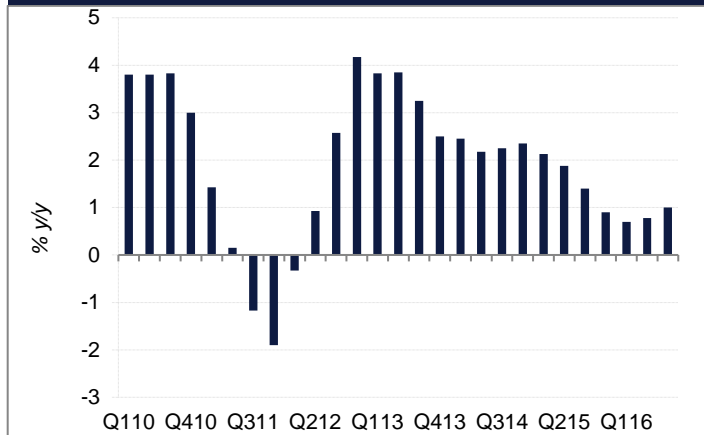


Chart #1

Source: Havers, Emirates NBD Research

Tourism Export Receipts

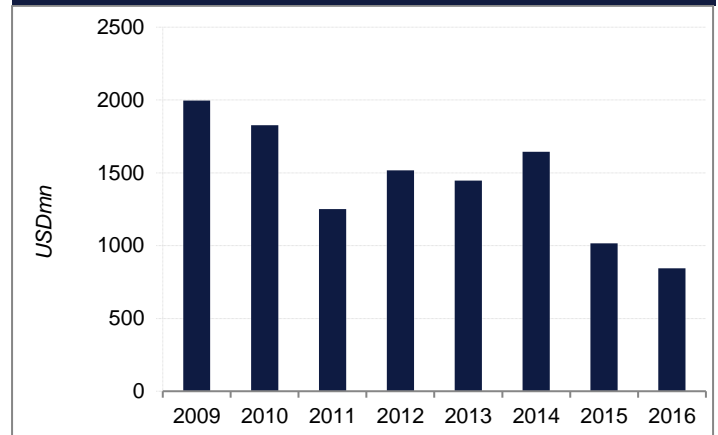


Chart #2

Source: Havers, Emirates NBD Research

Hotel Occupancy

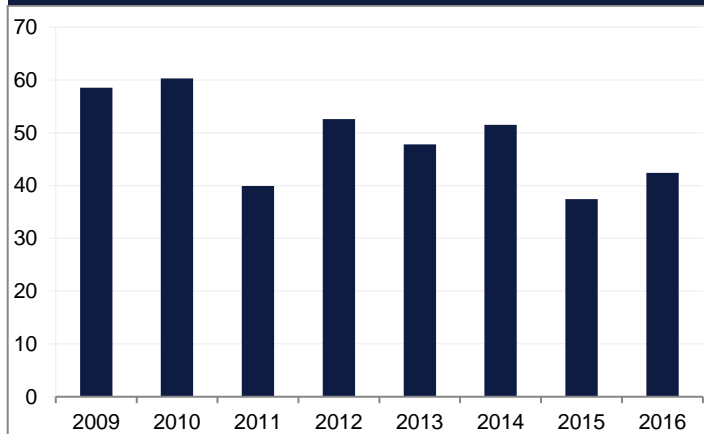


Chart #3

Source: STR Global, Emirates NBD Research

Hotel & Restaurant Sector Growth

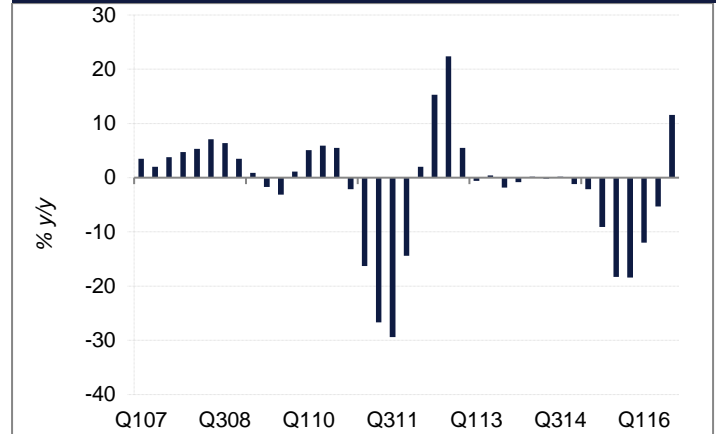


Chart #4

Source: Havers, Emirates NBD Research

Net FDI

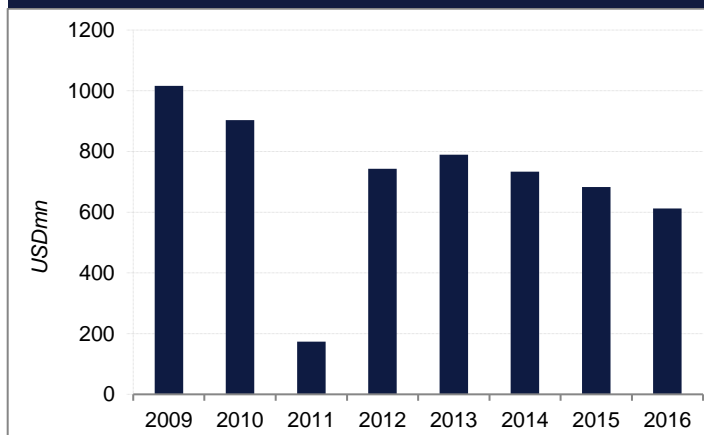


Chart #5

Source: Havers, Emirates NBD Research

TND/USD



Chart #6

Source: Bloomberg, Emirates NBD Research

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