



TUNISIA

April 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TUNISIA

In the context of the Request for Purchase Under the Rapid Financing Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 10, 2020, following discussions that ended on March 27, 2020, with the officials of Tunisia on economic developments and policies underpinning the IMF arrangement under the Rapid Financing Instrument. Based on information available at the time of these discussions, the staff report was completed on April 6, 2020.
- A **Statement by the Executive Director** for Tunisia.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Tunisia*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.



IMF Executive Board Approves a US\$745 Million Disbursement to Tunisia to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved a US\$745 million emergency assistance loan to support Tunisia's pro-active policy response to the Covid-19 pandemic.
- The economic impact of the COVID-19 pandemic is rapidly unfolding, with a sharp fall in growth expected for 2020.
- The IMF's emergency support will provide additional resources for the health sector, social safety nets, and businesses hit by the crisis. It will also ensure an adequate level of international reserves.

WASHINGTON, DC – April 10, 2020 - The Executive Board of the International Monetary Fund (IMF) today approved a disbursement in the amount of SDR 545.2 million (US\$745 million or 100 percent of quota) for Tunisia under the Rapid Financing Instrument (RFI). These resources will help address urgent fiscal and balance of payments needs stemming from the outbreak of the COVID-19 pandemic.

Tunisia's economy is expected to contract by 4.3 percent in 2020 under the weight of Covid-19. It would be the deepest recession since its independence in 1956. The IMF financing will help the authorities cover large fiscal and balance of payments needs, estimated at 2.6 and 4.7 percent of GDP, respectively.

The IMF financing will support the authorities' emergency measures to contain the spread of the virus and mitigate its human, social, and economic toll amid unprecedented uncertainty. These measures involve raising health spending, strengthening social safety nets, and supporting small- and medium-sized firms hit by the crisis. The IMF financing will also ensure an adequate level of international reserves and catalyze additional donor financing.

The authorities are committed to maintaining prudent economic policies and resuming fiscal consolidation once the crisis abates to ensure macroeconomic stability and the sustainability of Tunisia's debt.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Chair, made the following statement:

"The Covid-19 pandemic has hit Tunisia hard. The pandemic will worsen Tunisia's already elevated macroeconomic imbalances and will also create urgent fiscal and

balance of payment needs. The economy is expected to contract by 4.3 percent in 2020.

“The authorities are taking emergency measures with a focus on the health sector, the social safety net, and firms that come under stress.

“The authorities have also taken steps to limit fiscal pressures, including a mechanism for automatic fuel price adjustment, emergency savings in the civil service wage bill, and a rescheduling of lower-priority public investment.

“In support of the authorities’ efforts, the RFI purchase will provide most of the financing to implement the fiscal crisis-response measures and ensure an adequate level of international reserves.

“Macroeconomic stability and debt sustainability hinge on strong policy and reform implementation. The authorities are committed to resuming fiscal consolidation once the crisis abates. These efforts will include a reduction of the civil service wage bill as a share of GDP and further energy subsidy reforms, taking into account the social implications.

“The Central Bank of Tunisia is committed to tighten monetary policy in case of exchange rate or inflation pressures and refrain from large-scale FX interventions to protect international reserves.

“Additional concessional and grant financing from external partners is critical to help Tunisia respond to the Covid-19 crisis. It will also help preserve the sustainability of its debt.”



TUNISIA

April 6, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context. The Covid-19 outbreak aggravates Tunisia's already elevated macroeconomic imbalances. The crisis is expected to reduce growth to an unprecedented -4.3 percent. It will also give rise to urgent fiscal and BOP financing needs of 2.6 and 4.7 percent of GDP in 2020, respectively, with large downside risks due to exceptional uncertainty. If not addressed, these gaps cause immediate and severe economic disruption.

Request for financial assistance under the Rapid Financing Instrument (RFI). The Tunisian authorities requested financial assistance under the RFI in the amount of SDR 545.2 million (US\$753 million or 100 percent of quota) to help address urgent fiscal and balance of payments (BoP) needs. The Fund financing under the RFI will be used for budget support. In the attached Letter of Intent, the authorities present their crisis response measures and other policies to maintain macroeconomic stability. Staff assesses that Tunisia meets the eligibility requirements for the RFI. The RFI is the most appropriate instrument to help address the urgent BoP need considering that too little time would have been left before the EFF expiration on May 19 to agree on the significant revisions to program objectives required in response to the Covid-19 shock.

The RFI will provide fiscal space for crisis-response measures and protect international reserves. The authorities have lost no time in taking measures to contain the spread of the virus and mitigate its human, social, and economic toll. The RFI purchase will facilitate increased health spending, a stronger social safety net, and assistance to small- and medium-sized firms to avoid the fallout from the crisis. International reserve cover will be kept above the threshold of 3 months of imports.

Commitment to a successor EFF arrangement. The authorities reiterated their strong intention to request a successor EFF arrangement as soon as possible. In its support, they are committed to reforms to achieve higher and more inclusive growth, reduce energy subsidies, and contain the civil service wage bill. The Central Bank of Tunisia will tighten monetary policy in case of a buildup of depreciation expectations or a surge in inflation; and will not ease banking sector regulations as part of the crisis response.

Sustainability. Strong policy implementation will be critical for debt sustainability. Tunisia's capacity to repay the Fund remains adequate but downside risks are high.

Approved By
Taline Koranchelian
and Craig Beaumont

Discussions took place during March 25–27, 2020 via video conference. The mission team comprised Björn Rother (head), Kerstin Gerling, Nicolas End, Alexei Kireyev (all MCD), Mariam El Hamiani Khatat (MCM), Rima Turk (SPR), Jérôme Vacher (Resident Representative), and Aymen Belgacem (local economist). Samir Belhaj (OED) participated in discussions. Staff held discussions with Minister of Finance Yaiche, Minister of Development Azzabi, Central Bank Governor El-Abassi, and other senior officials and representatives from the diplomatic and donor community. Jose Antonio Ferrer Catalan, Malika El Kawkabi, and Geraldine Cruz provided research and production assistance.

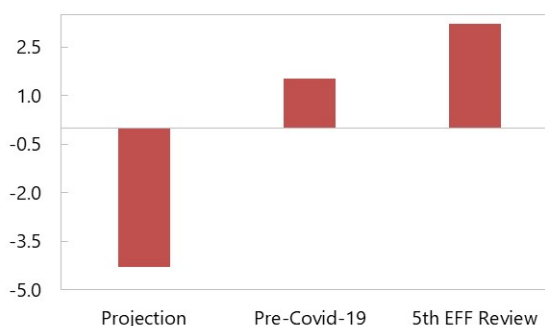
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RECENT DEVELOPMENTS AND IMPACT OF COVID-19

1. Tunisia is being strongly affected by the global spread of the Covid-19 virus. Pro-active policies to close borders, isolate affected individuals, and impose confinement and have so far limited infected cases to below 300 as of March 29, but the impact of the virus on the Tunisian economy will be severe. The large tourism sector (7 percent of GDP with ample spillovers into the 60 percent of GDP services sector) and exporters (notably suppliers to Europe's car and textile industry) are already suffering. More stress will occur as the crisis spreads through the domestic economy (that would be compounded if health or security spillovers occurred from neighboring Libya): households will draw down savings and adjust consumption as incomes fall, import prices increase, and unemployment rises; and businesses will face cash flow shortages due to temporary closures and lower revenues from consumption and exports even after slashing investment. 2020 growth is now expected to fall to -4.3 percent; a dramatic change from the 1.5 percent of GDP assumed by the authorities just in mid-February (Text Figure 1, LOI ¶¶s 1–2).¹

Text Figure 1. Tunisia: Growth Projection, 2020 (Percent)



Sources: Tunisian authorities and IMF staff projections.

Text Table 1. Key Indicators, 2019–20 (Percent of GDP)

	2019 Prel.	2020 Proj.	Change (Percent)
External sector			
Export of goods	38.5	32.5	-16
Export of tourism	4.9	1.5	-70
Remittances	5.0	4.4	-12
Domestic economy			
Investment	18.9	10.6	-44
Private consumption	72.7	77.5	7
Savings	10.1	3.1	-70

Sources: Tunisian authorities and IMF staff projections.

2. The Covid-19 shock came at a time when Tunisia was already facing persistent macroeconomic imbalances, despite recent progress with policy and reform implementation under the EFF arrangement (LOI ¶3). The fiscal deficit fell from 6 percent of GDP in 2016–17 to less than 4 percent of GDP in 2019 on the back of tax measures, pension reform, and energy price hikes coupled with an improved social safety net. Inflation decreased to 5.8 percent in February 2020 from 7.7 in June 2018, supported by a gradual 275 basis points hike in the policy rate, reduced central bank refinancing (now at TD 9.8 billion or its lowest level since 2017), and tighter enforcement of loan-to-deposit ratios. The introduction of more competitive foreign exchange (FX) auctions in August 2018 and net FX purchases by the Central Bank of Tunisia (CBT) since May 2019 have facilitated exchange rate flexibility. At the same time, dismal growth failed to reduce the unemployment rate from its high 15 percent; public and external debt remain elevated at 72.3 percent and 90.3 percent of GDP, respectively (at end-2019); wage increases and unanticipated recent recruitment weigh on the budget; inflation stays well above the CBT's internal target; and real

¹ The only year with negative growth in Tunisia's recent history was 2011, when output contracted by 1.9 percent as the Arab Spring Revolution led to widespread dislocation. Tunisia maintained growth of an average 3.6 percent during the 2008-09 global economic and financial crisis.

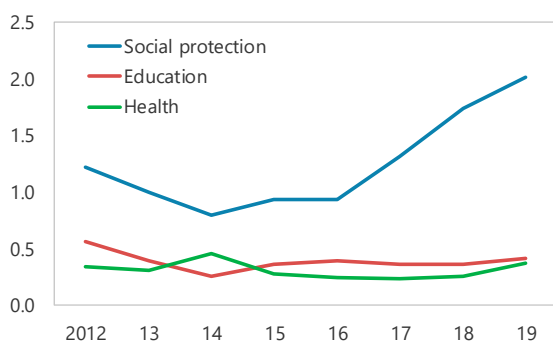
effective exchange rate overvaluation persists at 10–15 percent. Banks' compliance with liquidity ratios improved recently with only one institution not being in full compliance as of December 2019, but the financial sector still copes with impaired assets (notably in the tourism sector).

POLICY RESPONSE

3. The authorities are rolling out emergency measures to respond to the Covid-19 shock.

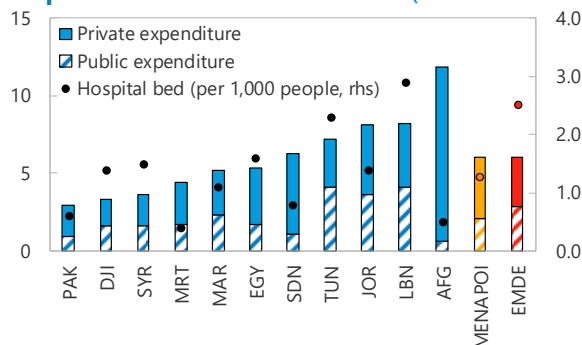
These measures will temporarily increase central government outlays in 2020 by some TD 2.1 billion or 1.8 percent of GDP (LOI ¶5, LOI Table 1). The public health system can respond to the crisis from a comparatively strong basis: public health care covers the entire population, including through the provision of free or subsidized care for low-income households; and spending on health initiatives increased in recent years as part of higher social spending supported under Tunisia's 2016–20 EFF arrangement (Text Tables 2–3). Additional spending of 0.3 percent of GDP to respond to the Covid-19 virus will be used for the acquisition of emergency medical supplies and hospital equipment, including test kits, laboratory equipment, ICU beds, and ventilators. Increasing the strategic food reserve will consume 0.2 percent of GDP, while income support of 0.8 percent of GDP will assist Tunisians that are the most affected by the confinement enforced since March 22 and other social-distancing measures (low-income households, the unemployed and the self-employed). Finally, tax relief and credit lines as well as interest subsidies will benefit firms that will come under stress in the crisis, especially small- and medium-sized enterprises (0.5 percent of GDP). Moreover, the CBT lowered the policy rate by 100 basis points on March 17 to 6.75 percent (about 1 percent in real terms) and has encouraged banks to renegotiate loan terms for distressed borrowers.

Text Figure 2. Tunisia: Social Spending
(Percent of GDP) 1/



Sources: Tunisian authorities and IMF staff calculations.
Note: 1/ Only includes social transfers and programs as well as key ministries' capital expenditures. Its coverage was expanded in 2017.

Text Figure 3. Tunisia and Peers: Health Expenditure and Infrastructure
(Percent of GDP)



Sources: World Health Organization, and IMF staff calculations.
Note: MENAPOI refers to oil importers in the Middle East and North Africa region and EMDE to Emerging and Developing Economies.

4. The government also took steps to limit fiscal pressures and reduce urgent BoP needs

(LOI ¶6). This has become especially urgent as non-allocated spending was reduced to only TD 111 million (0.1 percent of GDP).

- **Automatic price adjustment formula for the three main fuels.** Seizing the opportunity of low international oil prices, the authorities adopted legislation to move to an automatic monthly price adjustment mechanism that will gradually eliminate subsidies on the three main fuels and thus remove a major structural risk to the budget going forward. The mechanism will be applied for the first time by April 8, resulting in a 1.5 percent decline in pump prices across all covered fuel categories.
- **Emergency measures on the civil service wage bill.** The authorities have trimmed about TD 150 million (or 0.1 percent of GDP) from the budgeted civil service wage bill. These savings will be achieved notably through limits on hiring and promotions. Overtime hours will be reduced in areas that are not involved in the crisis response.
- **Increase in tobacco prices.** The authorities resumed the stepwise increase in administered tobacco prices in March (originally started in 2017 in line with WHO recommendations), which may generate additional revenue of at least TD 200 million (or 0.2 percent of GDP).
- **Temporary and targeted rescheduling of lower-priority public investment.** The authorities will re-program low priority non-health/non-education infrastructure development projects worth about TD 3.4 billion (or 3 percent of GDP) to open space for more urgent spending. If crisis-response measures exceed the currently programmed levels, further cuts in non-priority investment would be required unless additional donor support could be mobilized.

5. Despite the authorities' pro-active measures, both a larger budget deficit and fiscal financing need cannot be avoided (Text Table 2). Tax revenue would undershoot the budget target by some TD 5.2 billion due to the impact of the emergency measures as well as lower growth, lower import values, and lower dividends from oil-sector firms. Expenditure will adjust downwards as the fall in international oil prices reduces energy subsidies, but by less than the revenue shortfall due to the Covid-19-related spending and the rigidity of the civil service wage bill. As a result, the fiscal deficit for 2020 is expected to increase to 4.3 percent of GDP, rather than fall to 2.8 percent of GDP as originally envisaged in the budget law. Currently identified external loans and grants amount to US\$2.5 billion out of a total external financing program of US\$3.5 billion needed to cover the deficit (Text Table 3).² This leaves an additional external financing need of some US\$950 million or 2.6 percent of GDP. The identified resources already include higher support from some donors relative to what was envisaged at the time of the budget law but also lower-than-initially assumed sovereign bond issuances.

² The difference is explained by the unidentified budget loan of US\$198 million and the US\$753 million that the RFI would provide.

Text Table 2. Fiscal Program Versus Budget Law, 2020

	Millions of Tunisian Dinar			Percent of proj. GDP	
	Projection	Budget law	Difference	Difference	
Total revenue and grants	30,197	35,650	-5,453	-4.8	
Tax revenue	26,565	31,759	-5,194	-4.5	
Direct taxes	12,063	13,662	-1,599	-1.4	
PIT	8,762	9,651	-890	-0.8	
CIT	3,302	4,011	-709	-0.6	
Indirect taxes	14,502	18,097	-3,595	-3.1	
o/w trade-related	6,026	8,328	-2,302	-2.0	
Nontax revenue	2,488	3,591	-1,103	-1.0	
o/w energy-related	776	1,772	-996	-0.9	
Grants	1,144	300	844	0.7	
Total expenditure and net lending	35,117	39,132	-4,015	-3.5	
Current expenditure	31,438	32,025	-587	-0.5	
Wage bill	18,880	19,030	-150	-0.1	
Goods and services	1,454	1,672	-218	-0.2	
Interest	3,585	3,762	-177	-0.2	
Transfers and subsidies	6,908	7,050	-142	-0.1	
Food	1,800	1,800	0	0.0	
Energy	788	1,880	-1,092	-1.0	
Fuel	482	1,128	-646	-0.6	
Electricity and gas	307	752	-445	-0.4	
Transport	500	500	0	0.0	
Transfers (incl. social programs)	3,820	2,870	950	0.8	
Non-allocated	611	511	100	0.1	
o/w: Covid-19 response	500		500	0.0	
Capital expenditure	3,738	7,166	-3,428	-3.0	
Net lending	-59	-59	0	0.0	
Overall balance	-4,920	-3,482	-1,438	-1.3	
Financing (net)	4,920	3,482	1,438	1.3	
Foreign financing	4,961	4,089	872	0.8	
Domestic financing	-41	-607	566	0.5	
Memo item:					
Overall balance (pct. of GDP)	-4.3	-2.8			
Nominal GDP (Mio TD)	114,419	126,028			

Sources: Tunisian authorities; and IMF staff projections.

6. Combined with other factors, the fiscal gap will create an even larger BoP need of US\$1.7 billion (or 4.7 percent of GDP).³ The current account deficit will likely shrink to 7.5 percent of GDP in 2020 from 8.8 percent of GDP in 2019 as import contraction (collapse of capital goods imports and consumer durables, lower energy import bill due to lower international oil prices) overcompensates substantially reduced remittances from Europe and the Gulf countries, and a dramatic loss of revenue from exports and tourism. At the same time, however, a sharp decline in foreign direct investment (FDI) and trade credit as well as lower-than-expected sovereign issuances

³ Reflecting the overall BoP need plus the unidentified budget loan (Table 3).

will weigh on the financial account. On balance, staff projects a significant increase in pressures on Tunisia's overall BoP position.

Text Table 3. Cumulative External Financing of the Central Government Budget
(Cumulative flow since the beginning of the year, in millions of U.S. dollars)

	2017	2018	2019	2020					2021
	Q4	Q4	Q4	Q1	Q2	Q3	Q4	Q4	Q4
				Proj.	Proj.	Proj.	Proj.	Budget law	Proj.
Total budget grants and loans	3,748	2,669	2,732	167	1,343	2,729	3,457	2,930	2,717
Budget grants	89	81	66	0	156	156	313	96	100
o/w EU	89	63	66	0	123	123	280	96	79
Budget loans	3,659	2,588	2,667	167	1,188	2,573	3,145	2,833	2,618
Multilateral	1,260	1,525	808	31	797	1,136	1,415	938	1,259
African Development Bank (AfDB)	144	150	133	0	0	279	279	110	56
Arab Monetary Fund (AMF)	0	120	38	0	0	0	0	75	40
European Union (EU)	346	0	332	0	0	0	0	164	226
IMF 1/	314	749	245	0	753	753	753	241	0
World Bank	456	506	61	31	44	44	184	348	500
Unidentified	...	...	...	0	0	59	198	0	437
Bilateral	1,000	119	669	55	223	446	668	485	325
G7	0	119	169	55	223	446	668	485	225
France (AFD)	0	0	57	0	56	168	168	55	0
Germany (KfW)	0	119	112	0	112	223	335	330	225
Italy	0	0	0	55	55	55	55	0	0
Japan	0	0	0	0	0	0	110	100	0
Other	1,000	0	500	0	0	0	0	0	100
o/w Saudi Arabia	0	0	500	0	0	0	0	0	0
Market issuance and other	1,399	943	1,189	80	168	991	1,062	1,411	1,033
Market issuance	905	571	773	0	0	750	750	1,100	750
Project loans	405	300	384	73	150	214	274	272	240
Multilateral	0	217	261	73	150	214	274	272	240
Bilateral	405	83	123	0	0	0	0	0	0
Loan transfers to SoEs	89	73	32	7	18	27	38	38	43
Multilateral	89	55	0	7	18	27	38	38	43
Bilateral	0	17	32	0	0	0	0	0	0

Sources: Tunisian authorities and IMF staff projections.

Note: 1/ IMF financing used for budget support includes the 2013 SBA, 2016 EFF arrangement, and 2020 RFI.

MODALITIES OF SUPPORT

7. Staff supports the authorities' request for financial assistance under the RFI to help address Tunisia's urgent BoP need. The Fund financing under the RFI will be used for budget support. Staff assesses that Tunisia meets the eligibility requirements for the RFI. The RFI provides a faster path to cover urgent needs than the current Extended Fund Facility (EFF) arrangement. Completion of a final review under the EFF arrangement before its expiration on May 19 would leave little time to agree on significant revisions to program objectives that would be necessary due to the magnitude of the Covid-19 shock. An RFI disbursement of SDR 545.2 million (US\$753 million or 100 percent of quota) could fill most of the uncovered fiscal financing need and about 44 percent of the expected BoP gap that remains after taking into account identified financing from Tunisia's other external partners. The high access level thus mitigates the risk of disorderly fiscal or BoP adjustment. The current EFF arrangement for Tunisia was cancelled on March 18, 2020 upon the authorities' request.

8. The RFI will facilitate crisis-response spending and protect reserves (LOI ¶18). The RFI purchase will contribute to fund the government's emergency response that focuses on increased health spending, a stronger safety net for low-income families and the unemployed, and assistance to firms that will be affected by the Covid-19 shock amid a sharply deteriorated external environment and growth outlook. The purchase will also prevent reserve cover from falling to the critical threshold of 3 months of imports; with the RFI and the mobilization of the still unidentified budget need, reserve cover could be maintained at 3.6 months. The purchase would thus play a critical role in maintaining an adequate reserve buffer against shocks or in the event of a protracted recovery from the Covid-19 outbreak.

9. To reduce risks to macroeconomic stability and notably debt sustainability, the authorities will take additional measures (LOI ¶19). The authorities will review the need for the fiscal emergency measures on a monthly basis to prevent them from becoming permanent. They also committed to addressing two structural challenges once the crisis subsides that have been weighing heavily on Tunisia's public finances. First, they plan to durably reduce the subsidies for electricity and natural gas while preserving social tariffs for electricity and maintaining subsidies on GPL bottles. Second, the authorities plan to achieve additional savings on the civil service wage bill, supported by negotiations with the UGTT labor union, to keep wage increases for 2021 and the medium term to below inflation, and only if there is fiscal space. They also intend to conduct an audit of the civil service to detect and reduce absenteeism and ghost workers.

10. The CBT stands ready to tighten monetary policy in case of a buildup of depreciation expectations, risks of disorderly exchange rate adjustment, or a surge in inflation (LOI ¶10). This commitment is important to defend the disinflation path currently pursued by the CBT. Moreover, to preserve its international reserves, the CBT will refrain from large-scale FX interventions and will consult with IMF staff in the event of it facing strong pressures on the FX market. In support of timely decision making under significant uncertainty, the CBT committed to pursuing a regular policy dialogue with IMF staff based on high-frequency data. The CBT will also monitor very closely developments in the banking sector, particularly with respect to credit and deposit growth, and asset quality. Loan classification and provisioning rules will not be eased, and any loan guarantees and subsidies will be provided by the government rather than the CBT.

11. The authorities intend to back up the RFI request with efforts to mobilize further external donor support and make progress with safeguards. The authorities are reaching out to other IFIs and bilateral partners for additional concessional financing and grants to minimize pressures on the budget and international reserves as much as possible and ensure that the RFI can play a catalytic role (LOI ¶11). Staff noted that the programmed bond issuance of US\$750 million in 2020 could be difficult to carry out in the current environment. The authorities remained hopeful that a loan guarantee from a G7 country would become available to support the bond. If such a guarantee were not forthcoming as expected, the authorities would need to seek alternative financing that could involve a syndicated loan from international banks. As a last resort, non-priority public investment might have to be cut further. The authorities will avoid measures or policies that would compound Tunisia's BOP difficulties (LOI ¶13); and agreed to a safeguards assessment to be completed before any subsequent Fund program (LOI ¶14). Since the RFI disbursement will be

channeled directly to the budget, they updated the Memorandum of Understanding (MoU) signed in May 2016 between the CBT and the Ministry of Finance that established the framework agreement on responsibilities for servicing financial obligations to the IMF (LOI ¶14).

RISKS AND MITIGATION

12. Tunisia's debt sustainability risks have increased substantially (see Appendices I and II).

Debt stocks declined in 2019 on the back of an appreciating dinar and lower fiscal and external deficits. The Covid-19 shock will reverse this trend and increase Tunisia's debt burden significantly through the steep fall in growth and the deterioration of the primary fiscal balance in response to lower revenues and the crisis-response measures. Furthermore, stress tests indicate that debt levels and the capacity to repay the Fund would deteriorate significantly if risks materialized from rapid real exchange rate depreciation, fiscal and monetary policy slippages, and contingent liabilities. Outcomes are also highly sensitive to changes in underlying assumptions. On the upside, three factors reduce sustainability risks: first, most of the external and public debt is owed to official creditors, which reduces debt service obligations through a low average interest rate and relatively long maturities. Second, the risk of large exchange rate swings is mitigated through a relatively closed financial account except for FDI and long-term flows. Third, banks' exposure to sovereign debt remains low at 15 percent of GDP and the sector maintains long in net open FX positions, which shields the banking sector's balance sheet from potential spillovers. Going forward, debt sustainability will depend crucially on maximizing financing on concessional terms and in the form of grants.

13. Tunisia's capacity to repay the Fund remains adequate with an RFI purchase, but there are large downside risks (Table 11). Credit outstanding to the Fund would peak at 310 percent of quota (36 percent of gross reserves in 2020) before falling to 79 percent of quota by 2025. The high exposure in the near term underlines the need for strong progress with macroeconomic adjustment.

14. To reduce risks to debt sustainability and support inclusive growth, the authorities are strongly committed to request a successor EFF arrangement as soon as possible (LOI ¶12). The RFI would help mitigate immediate risks and cover urgent needs. A new EFF arrangement could then build on this short-term response and support the authorities' medium-term policy agenda to resume the macroeconomic adjustment started over 2018-19 and support growth recovery. Strong progress on both fronts will be critical to maintain debt sustainability, which worsened significantly under the weight of the Covid-19 shock. A successor arrangement could start in the second semester of 2020.

15. More progress is needed in implementing recommendations from previous safeguards assessments. While the CBT has implemented several measures, priority recommendations to strengthen the internal audit and risk management functions remain outstanding. The central bank has committed to transitioning to International Financial Reporting Standards. This work should be accelerated. External audits continue to be completed on a timely basis.

STAFF APPRAISAL

16. Staff has the highest respect for the authorities' pro-active efforts to mitigate the impact from the Covid-19 outbreak amid unprecedented uncertainty. The authorities have lost no time in taking measures to contain the spread of the virus and mitigate the human, social, and economic toll. The authorities and staff agree that the high uncertainty, including with regard to the depth and length of the current crisis (currently the biggest impact is expected in the second quarter followed by a swift recovery from the fourth quarter), requires vigilance and flexibility in reassessing the adequacy of the crisis response on a continuous basis.

17. Staff supports the authorities' request for a purchase under the RFI in the amount of SDR 545.2 million (US\$753 million or 100 percent of quota). The Covid-19 outbreak aggravated Tunisia's already elevated macroeconomic imbalances and created urgent fiscal and BOP financing needs of 2.6 percent and 4.7 percent of GDP in 2020, respectively. The RFI purchase could fill about 44 percent of the expected BoP gap that remains after accounting for identified financing from Tunisia's other external partners and create space for urgent fiscal response measures. Lower access would increase the risk that the fiscal and external financing gaps give rise to immediate and severe economic disruption, including through even steeper cuts in growth-supporting public investment. The suggested RFI purchase would thus provide a bridge towards a more sustainable solution to Tunisia's macroeconomic imbalances through strong adjustment over the medium term. Tunisia meets the eligibility requirements for the RFI, its debt is sustainable with continued strong policy implementation, and its capacity to repay the Fund remains adequate.

18. Staff agrees with the authorities' immediate crisis-response measures. Staff supports the focus on the health sector, the social safety net, and firms in distress due to the Covid-19 outbreak. It encourages the authorities to carefully cost the measures to ensure their effectiveness; and welcomes their intention to review the continued need for the measures on a monthly basis. Staff also supports the authorities' pro-active steps taken to increase budget space and reduce BoP pressures through the implementation of an automatic price adjustment mechanism for fuels, savings in the civil service wage bill, tobacco price hikes, and a temporary and targeted rescheduling of lower-priority public investment. Efficient communication by the authorities on these measures will be critical to ensure popular support in the context of the overall response to the virus outbreak.

19. Staff supports the authorities' commitment to macroeconomic stability and sustainable debt, which will be supported by a successor EFF arrangement. Strong fiscal consolidation over the medium term—challenging in Tunisia's fragile socio-political context—will be unavoidable, once the Covid-19 crisis abates. Staff welcomes the authorities' commitment to take measures to durably reduce energy subsidies for electricity and natural gas in a socially conscious way. Achieving additional savings on the civil service wage bill will also be critical, including through keeping wage increases for 2021 and the medium term to below inflation, and consider those only if there is fiscal space. Staff welcomes the CBT's commitment to tighten monetary policy in case of strong exchange rate or inflation pressures as well as its commitment to refrain from large-scale FX interventions consistent with protecting international reserves. Staff also supports the CBT's

commitment to preserve existing loan classification and provisioning rules, refrain from providing loan guarantees and subsidies, and monitor closely potential vulnerabilities in the banking sector.

20. Staff calls on Tunisia's external partners to mobilize urgent additional financing.

Tunisia's economy, already vulnerable before the Covid-19 shock, will be hit hard by the virus outbreak with an unprecedented drop in growth. At the same time, its financial means to organize an effective crisis response are limited. Additional and timely financing from external partners will be critical to help address urgent fiscal and BoP needs and mitigate large downside risks in a highly uncertain environment, even in the presence of strong adjustment policies.

Table 1. Tunisia: Selected Economic and Financial Indicators, 2017–25

	2017	2018	2019	2020		2021	2022	2023	2024	2025	
				Prel.	Proj. pre-Covid-19 5 th Rev						
Production and prices											
	(Annual percentage change)										
Real GDP (at 2010 prices)	1.9	2.7	1.0	-4.3	1.5	3.2	4.1	2.7	2.7	3.0	3.3
GDP deflator	5.2	6.5	7.0	5.0	5.3	5.8	5.6	4.4	4.2	4.0	4.0
CPI inflation (average)	5.3	7.3	6.7	6.2	5.3	5.9	4.9	4.3	4.1	4.0	4.0
CPI inflation (eop)	6.2	7.5	6.1	6.0	5.4	5.9	4.8	4.1	3.9	4.0	4.0
Saving investment balance											
	(Percent of GDP, unless otherwise indicated)										
Gross national savings	9.1	10.1	10.1	3.1	11.0	11.5	6.6	8.7	10.3	11.9	13.6
of which: central government	-0.4	1.1	1.4	-1.1	3.0	3.1	2.1	3.6	4.6	5.7	6.1
Gross investment	19.3	21.3	18.9	10.6	18.9	20.5	14.8	16.6	17.4	18.1	18.8
of which: central government	5.6	5.6	5.4	3.3	5.9	5.9	4.6	5.3	5.4	5.7	6.1
Central government operations 1/											
Total revenue and grants	24.5	26.2	28.0	26.4	28.6	28.9	27.8	28.5	28.7	28.7	28.7
Total expenditure and net lending	30.4	30.8	31.9	30.7	31.5	31.7	30.3	30.2	29.6	28.8	28.8
of which: wage bill	14.9	14.1	14.7	16.5	15.3	14.4	15.4	14.7	14.0	13.3	13.3
of which: energy subsidies	1.6	2.6	2.8	0.7	1.4	1.7	0.5	0.3	0.0	0.0	0.0
of which: transfers (incl. social programs and CNRPS)	2.2	2.6	2.9	3.3	2.6	2.7	3.2	3.4	3.6	3.8	4.0
of which: capital expenditure	5.6	5.6	5.4	3.3	5.9	5.9	4.6	5.3	5.4	5.7	6.1
Overall balance (incl. grants)	-5.9	-4.6	-3.9	-4.3	-2.9	-2.8	-2.5	-1.7	-0.9	-0.1	-0.1
Overall balance (excl. grants)	-6.1	-4.8	-4.1	-5.3	-3.1	-3.1	-2.8	-2.0	-1.2	-0.3	-0.3
Primary balance (cash basis, incl. grants)	-4.0	-1.8	-0.7	-1.2	-0.3	0.4	0.8	1.8	2.7	3.4	3.2
Change in primary balance ("+" : improvement)	0.3	2.2	1.1	-0.5	0.2	1.0	2.0	0.9	0.9	0.7	-0.2
Social spending 2/	1.9	2.4	2.8	3.2	3.0	2.8	3.1	3.3	3.5	3.7	3.9
Gross central government debt	70.6	78.2	72.3	88.5	76.1	84.7	86.7	83.4	79.6	75.1	69.9
of which: share in foreign currency	48.6	57.3	51.3	67.1	55.3	66.5	66.0	64.1	60.9	56.6	51.4
Money and credit											
	(Annual percentage change, unless otherwise indicated)										
Broad money	11.4	6.6	8.4	4.0	7.2	6.0	6.5	7.5	9.4	10.6	11.1
Credit to the economy	12.7	9.3	3.5	5.3	6.1	6.2	5.4	5.9	6.4	6.9	7.4
Velocity of circulation (GDP/M3)	1.3	1.3	1.3	1.3	1.3	1.4	1.3	1.3	1.3	1.2	1.2
External sector											
	(Percent of GDP, unless otherwise indicated)										
Current account balance	-10.2	-11.2	-8.8	-7.5	-8.0	-9.1	-8.1	-7.9	-7.1	-6.2	-5.2
Trade balance	-13.3	-15.0	-14.0	-9.4	-12.6	-15.4	-13.3	-14.8	-14.4	-13.5	-13.4
Value of exports of goods (pct. change)	4.9	8.8	-3.5	-20.1	8.1	4.1	13.8	7.7	9.1	8.6	8.0
Value of imports of goods (pct. change)	6.3	9.7	-5.0	-24.5	4.7	2.9	19.3	9.6	7.4	6.2	7.4
Volume of exports of goods (pct. change)	3.2	3.5	-5.1	-14.2	1.0	3.7	15.8	4.6	3.6	3.6	3.6
Volume of import of goods (pct. change)	3.4	1.0	-8.6	-21.6	-1.1	0.2	26.1	7.5	2.0	2.0	2.0
Terms of trade (pct. change, "-" : deterioration)	-1.2	-3.2	-2.2	-3.2	1.2	-2.3	3.9	1.0	0.0	0.8	-1.0
Foreign direct investment (net)	2.0	2.5	2.1	0.4	2.1	2.7	1.8	2.2	2.3	2.4	2.5
Gross official reserves (eop, billions of US\$)	5.6	5.2	7.4	6.5	7.4	6.4	6.5	7.1	7.6	8.1	8.7
Reserve coverage (months of next year's imports of goods)	3.0	2.9	5.7	4.0	4.0	3.3	3.7	3.8	3.8	3.7	3.7
Reserve coverage (months of next year's imports of GNFS)	2.6	2.5	5.2	3.6	3.8	3.1	3.3	3.4	3.4	3.3	3.4
External debt	84.3	97.3	90.3	109.9	90.1	107.8	108.2	107.2	104.3	100.2	95.2
of which: medium- and long-term external debt	65.3	74.3	67.6	87.0	70.9	85.7	85.8	83.5	80.3	76.1	71.0
of which: public external debt	61.1	71.5	65.0	83.8	68.4	82.2	82.7	80.4	77.2	72.9	67.8
External debt service (pct. of exports of GNFS)	16.5	14.0	17.2	23.9	15.5	15.8	22.2	15.9	17.2	19.2	14.4
Memorandum items:											
Population (millions)	11.5	11.7	11.8	11.9	11.9	11.9	12.0	12.1	12.2	12.3	12.4
Nominal GDP (millions of TD)	96,298	105,268	113,848	114,419	121,815	126,502	125,711	134,713	144,134	154,358	165,839
Nominal GDP (billions of US\$)	39.8	39.8	38.8	...	...	...	...	...	...	...	...
GDP per capita (US\$)	3,452	3,411	3,293	3,084	3,440	2,957	2,980	3,059	3,206	3,364	3,565
Unemployment rate (eop, pct.)	15.5	15.5	14.9	...	...	...	...	...	...	...	...
Exchange rate (TD/US\$, avg.)	2.42	2.65	2.93	...	...	...	...	...	...	...	...
Real effective exchange rate (avg., pct. change, "-" : depreciation)	-8.8	-6.2	-1.1	...	...	...	...	...	...	...	...
Real effective exchange rate (eop., pct. change, "-" : depreciation)	-10.9	-7.7	10.7	...	...	...	...	...	...	...	...
Interest rate (money market rate, eop, pct.)	4.9	6.7	7.7	...	...	...	...	...	...	...	...
Stock market (TUNINDEX, 12/31/1997=1000)	6,282	7,275	7,867	...	...	...	...	...	...	...	...
Oil price (Brent, US\$ per barrel)	54.4	71.1	64.0	36.9	57.3	61.5	39.5	42.7	45.1	47.1	48.6

Sources: Tunisian authorities; and IMF staff estimates and projections.

1/ Excludes social security accounts, public enterprises, and local governments.

2/ Social spending includes social transfers and programs as well as key ministries' capital expenditures. Its coverage was expanded in 2017.

Table 2. Tunisia: Real Sector, 2017–25
(In percent)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.	Proj.			Proj.		
Real GDP growth									
Previous year prices 1/	2.0	2.7	1.0	-4.7	4.3	2.7	2.7	3.0	3.2
Constant 2010 prices	1.9	2.7	1.0	-4.3	4.1	2.7	2.7	3.0	3.3
Per capita	0.8	1.5	0.0	-5.2	3.1	1.7	1.8	2.2	2.5
Inflation									
CPI (average)	5.3	7.3	6.7	6.2	4.9	4.3	4.1	4.0	4.0
Core (average) 2/	5.4	7.5	6.9	5.9	3.9	4.9	4.7	4.6	4.7
Underlying (average) 3/	6.2	8.2	7.2	...	...	...	...	...	...
CPI (eop)	6.2	7.5	6.1	6.0	4.8	4.1	3.9	4.0	4.0
GDP deflator	5.2	6.5	7.0	5.0	5.6	4.4	4.2	4.0	4.0
Contributions to growth (supply; constant 2010 prices)									
Total added value	1.7	2.3	0.9	-4.1	4.0	2.5	2.4	2.7	2.9
Commercial activities	1.5	2.2	0.7	-4.3	3.8	2.3	2.2	2.6	2.8
Agriculture	0.2	0.9	0.1	0.3	0.2	0.5	0.2	0.5	0.2
Manufacturing	0.2	0.2	-0.2	-0.9	0.4	0.3	0.4	0.5	0.6
<i>of which: mechanical and electrical industries</i>	0.2	0.1	-0.1	-0.7	0.3	0.1	0.1	0.1	0.2
Non-manufacturing	-0.4	-0.1	-0.1	0.0	0.3	0.2	0.2	0.2	0.3
Services	1.9	1.4	0.9	-3.6	2.9	1.3	1.5	1.4	1.8
<i>of which: hotels and restaurants</i>	0.3	0.3	0.3	-1.7	1.3	0.3	0.3	0.1	0.2
<i>of which: transport</i>	0.6	0.2	-0.2	-1.5	1.2	0.3	0.2	0.2	0.3
<i>of which: commerce</i>	0.1	0.1	0.1	-0.8	0.1	0.1	0.2	0.2	0.3
Intermediary consumption (in - terms)	-0.4	-0.1	-0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1
Public administration	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Indirect taxes net of subsidies	0.3	0.3	0.2	-0.2	0.1	0.2	0.3	0.3	0.4
Contributions to growth (demand; constant 2010 prices)									
Consumption	1.7	1.7	0.5	1.5	...	...	...	...	...
Private	1.7	1.6	1.0	0.7	...	...	...	...	...
Public	0.0	0.0	-0.5	0.8	...	...	...	...	...
Investment	0.0	0.5	-2.8	-10.8	...	...	...	...	...
Private	0.0	0.2	-2.5	-7.8	...	...	...	...	...
Public	0.0	0.1	-1.1	-3.5	...	...	...	...	...
Change in stocks	-0.1	0.1	0.9	0.5	...	...	...	...	...
Net exports	0.2	0.5	3.3	5.1	...	...	...	...	...
Exports	2.0	1.3	-2.2	-5.8	...	...	...	...	...
Imports	-1.7	-0.8	5.5	10.9	...	...	...	...	...

Sources: Tunisia authorities, and IMF staff projections.

1/ Output measured using current and previous year prices.

2/ Excludes food and energy items.

3/ Excludes fresh food and administered prices (Central Bank of Tunisia's definition).

Table 3. Tunisia: Balance of Payments, 2017–25 1/
(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Annual	Annual	Annual	Annual	Annual	Annual			
			Prel.	Proj.	Proj.	Proj.			
Current account balance	-4,080	-4,443	-3,413	-2,751	-2,910	-2,949	-2,792	-2,558	-2,292
Trade balance	-5,308	-5,949	-5,427	-3,439	-4,760	-5,483	-5,637	-5,601	-5,920
Exports	14,231	15,485	14,945	11,939	13,586	14,632	15,963	17,340	18,723
Energy	846	880	824	547	533	629	732	848	940
Non-energy	13,384	14,606	14,121	11,392	13,053	14,003	15,231	16,493	17,783
<i>of which: non-food</i>	11,844	12,562	12,516	9,949	11,526	12,408	13,564	14,744	15,942
Imports	-19,538	-21,435	-20,372	-15,378	-18,346	-20,115	-21,600	-22,942	-24,643
Energy	-2,513	-3,214	-3,467	-2,457	-2,165	-2,308	-2,410	-2,480	-2,553
Non-energy	-17,025	-18,220	-16,905	-12,922	-16,182	-17,807	-19,190	-20,462	-22,089
<i>of which: non-food</i>	-15,100	-16,195	-14,979	-10,989	-14,188	-15,801	-17,151	-18,381	-19,960
Services and transfers (net)	1,228	1,506	2,015	688	1,850	2,534	2,845	3,044	3,628
Services	305	717	1,209	-107	1,350	1,736	1,935	2,150	2,296
<i>of which: tourism exports</i>	1,170	1,565	1,915	535	1,687	2,004	2,126	2,251	2,330
Transfers (net)	923	789	805	795	500	797	910	894	1,332
<i>of which: workers' remittances</i>	1,861	1,875	1,948	1,613	1,774	1,928	2,038	2,149	2,279
<i>of which: interest payments on external debt</i>	-607	-725	-787	-829	-1,003	-1,061	-1,167	-1,185	-954
Capital and financial account	4,079	5,068	5,193	1,230	3,057	3,640	3,730	3,652	3,429
Capital account balance	184	128	137	306	88	87	86	86	85
Financial account balance	3,895	4,939	5,057	924	2,968	3,554	3,644	3,566	3,343
Direct investment and portfolio (net)	747	948	811	172	692	837	937	1,027	1,144
Medium- and long-term loans (net)	2,281	1,143	1,241	688	567	926	802	657	462
Disbursements	4,266	2,631	3,390	2,873	3,372	2,771	2,755	3,126	2,524
<i>of which: unidentified budget loan disbursements</i>	0	0	0	198	437	439	440	0	0
Amortization	-1,986	-1,487	-2,149	-2,185	-2,805	-1,845	-1,953	-2,469	-2,062
Short-term debt and other capital flows (net)	868	2,848	3,005	64	1,710	1,790	1,905	1,882	1,737
Overall balance	-1	624	1,781	-1,522	146	691	938	1,094	1,137
Errors and omissions	-342	-1,253	585	0	0	0	0	0	0
Financing	343	629	-2,366	1,522	-146	-691	-938	-1,094	-1,137
Gross international reserves ("-" : accumulation)	348	402	-2,231	943	-67	-565	-498	-441	-674
Use of IMF credit (net)	-5	227	-135	579	-79	-126	-440	-653	-463
Purchases	314	749	245	753	0	0	0	0	0
Repurchases	319	522	380	175	79	126	440	653	463
Other financing	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account balance (percent of GDP)	-10.2	-11.2	-8.8	-7.5	-8.1	-7.9	-7.1	-6.2	-5.2
Non-energy current account balance (percent of GDP)	-6.1	-5.3	-2.0	-2.3	-3.6	-3.4	-2.8	-2.2	-1.5
Exports (percent of GDP)	35.8	38.9	38.5	32.5	37.9	39.4	40.7	41.8	42.2
Goods export real growth (percent)	3.2	3.5	-5.1	-14.2	15.8	4.6	3.6	3.6	3.6
<i>of which: non-energy (percent)</i>	3.1	5.0	-5.1	-14.7	16.1	4.3	3.2	3.1	3.1
Imports (percent of GDP)	49.1	53.9	52.5	41.9	51.2	54.2	55.1	55.3	55.6
Goods import real growth (percent)	3.4	1.0	-8.6	-21.6	26.1	7.5	2.0	2.0	2.0
<i>of which: non-energy (percent)</i>	1.9	0.9	-10.4	-29.1	37.2	9.2	2.6	2.6	1.8
Gross reserves (billions of US\$)	5.6	5.2	7.4	6.5	6.5	7.1	7.6	8.1	8.7
Reserve coverage (months of next year's imports of goods)	3.0	2.9	5.7	4.0	3.7	3.8	3.8	3.7	3.7
Reserve coverage (months of next year's imports of GNFS)	2.6	2.5	5.2	3.6	3.3	3.4	3.4	3.3	3.4
Reserve coverage (pct. of short-term external debt) 2/	75.8	64.2	80.5	84.4	83.9	81.5	81.3	81.1	81.4
External debt (billions of US\$)	32.7	34.2	36.7	36.8	37.7	39.5	40.7	41.3	42.2
Medium- and long-term external debt	25.3	26.1	27.5	29.2	29.9	30.8	31.3	31.4	31.5
<i>of which: public external debt</i>	23.6	24.9	26.3	28.0	28.7	29.5	30.0	29.9	29.9
Short-term external debt	7.4	8.1	9.2	7.7	7.8	8.7	9.4	9.9	10.7
<i>of which: public external debt</i>	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
External debt service ratio (incl. IMF, pct. of exports of GNFS)	16.5	14.0	17.2	23.9	22.2	15.9	17.2	19.2	14.4
Nominal GDP (millions of US\$)	39,806	39,771	38,797	...	...	...	...	...	...

Sources: Tunisian authorities; and IMF staff estimates and projections.

1/ In accordance with the Fifth Edition of the Balance of Payments and Investment Position Manual (BPM5).

2/ Short-term defined as one year or less remaining maturity.

Table 4. Tunisia: Central Government Fiscal Operations, 2017–21
(In millions of dinars, cumulative flow since the beginning of the year)

	2017	2018	2019	2020			2021	
	Annual	Annual	Annual Prel.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Annual Proj.	
Total revenue and grants	23,582	27,590	31,885	7,368	15,002	22,079	30,197	34,953
Revenue	23,396	27,354	31,636	7,348	14,360	21,409	29,053	34,602
Tax revenue	21,187	24,503	28,901	6,743	13,231	19,628	26,565	31,787
Direct taxes	8,560	9,065	12,648	3,243	6,304	9,075	12,063	13,879
PIT	6,205	6,359	8,813	2,322	4,501	6,483	8,762	9,876
CIT	2,355	2,706	3,835	921	1,803	2,591	3,302	4,003
Indirect taxes	12,627	15,438	16,253	3,499	6,927	10,554	14,502	3,184
Trade taxes	742	1,208	1,284	242	525	776	1,043	1,470
VAT	6,092	7,425	7,797	1,594	3,184	4,899	6,659	8,434
Domestic	2,837	3,596	3,768	773	1,511	2,431	3,387	3,821
Imports	3,256	3,829	4,029	821	1,673	2,468	3,272	4,613
Excise	2,493	2,864	2,872	606	1,221	1,941	2,654	3,351
Domestic	1,046	1,200	1,149	278	553	934	1,255	1,379
Imports	1,447	1,664	1,723	326	662	1,011	1,399	1,973
Other indirect taxes	3,300	3,941	4,299	1,057	1,997	2,938	4,146	4,652
Domestic	3,051	3,622	3,914	991	1,853	2,718	3,834	4,212
Imports	249	320	384	66	144	220	312	440
Nontax revenue	2,209	2,851	2,735	606	1,129	1,780	2,488	2,815
<i>of which: energy sector</i>	1,183	1,356	1,150	...	...	...	776	934
<i>of which: capital income</i>	0	0	0	0	0	0	0	0
Grants	187	236	249	20	642	671	1,144	351
Total expenditure and net lending	29,303	32,410	36,315	8,975	18,032	26,934	35,117	38,095
Total expenditure	29,342	32,427	36,397	8,722	17,736	26,423	35,176	38,122
Current expenditure	23,997	26,482	30,258	7,413	15,116	22,558	31,438	32,280
Wages and salaries	14,352	14,863	16,767	4,775	9,334	14,152	18,880	19,342
Goods and services	1,498	1,210	1,607	274	515	833	1,454	1,597
Interest payments	2,259	2,802	3,192	1,072	2,015	2,823	3,585	4,207
Domestic	1,255	1,519	1,609	558	1,243	1,502	1,877	1,616
External	1,004	1,283	1,583	514	772	1,322	1,708	2,591
Transfers and subsidies	5,888	7,607	8,692	1,139	2,946	4,292	6,908	7,134
Subsidies	3,492	4,900	5,428	475	1,504	2,183	3,088	3,131
Food	1,494	1,750	1,800	175	784	1,216	1,800	1,961
Energy	1,550	2,700	3,178	174	419	521	788	670
Fuel (STIR)	...	1,500	1,932	...	...	...	482	572
Electricity and gas (STEG)	...	1,200	1,246	...	...	...	307	98
Transport	448	450	450	126	301	446	500	500
Transfers (incl. social programs and CNRPS)	2,395	2,707	3,264	663	1,442	2,109	3,820	4,003
Other current expenditure (non-allocated)	0	0	0	153	306	458	611	0
<i>of which: Covid-19 response</i>	0	0	0	100	375	500	500	0
Capital expenditure	5,345	5,945	6,140	1,310	2,620	3,865	3,738	5,842
Net lending	-39	-17	-82	252	296	511	-59	-27
Overall balance	-5,720	-4,819	-4,431	-1,607	-3,030	-4,855	-4,920	-3,143
Errors and omissions	-394	101	468	0	0	0	0	0
Financing (net)	6,114	4,718	3,963	1,607	3,030	4,855	4,920	3,143
Foreign financing 1/	5,070	3,827	2,526	-75	386	4,481	4,961	1,382
Drawings	8,685	7,073	7,759	477	3,598	8,272	9,804	9,187
Amortization	3,616	3,246	5,233	552	3,212	3,791	4,843	7,805
Domestic financing 2/	1,044	891	1,436	1,682	2,644	373	-41	1,761
Debt	1,552	-162	1,449	886	1,857	-413	591	1,522
Drawings	2,681	3,186	2,640	1,943	3,496	1,313	3,697	3,725
Amortization	1,129	3,348	1,191	1,057	1,639	1,727	3,106	2,203
Non-debt	-508	1,053	-12	796	787	787	-632	238
Privatization, confiscated assets sales, and other	145	137	940	0	0	0	150	50
<i>of which: other (Aramco contract)</i>	...	...	640	...	...	...	...	...
Deposits ("+"= drawing / "-=" accumulation)	-653	916	-952	796	787	787	-782	188
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Overall balance (excl. grants)	-5,907	-5,056	-4,680	-1,627	-3,672	-5,525	-6,064	-3,493
Primary balance (excl. grants, cash basis)	-4,041	-2,152	-1,020	-554	-1,657	-2,702	-2,479	713
Total current primary expenditure	21,738	23,680	27,066	6,340	13,101	19,734	27,853	28,073
Social expenditures 3/	1,844	2,498	3,209	991	1,867	2,666	3,607	3,863
Gross central government debt	67,982	82,295	82,350	...	...	...	101,265	109,038
Domestic	21,155	22,027	23,945	...	...	...	24,536	26,058
External	46,828	60,268	58,405	...	...	...	76,730	82,980
Stock of government deposits	2,535	2,782	2,696	1,900	1,909	1,909	1,914	2,102
Nominal GDP	96,298	105,268	113,848	28,485	28,620	28,623	114,419	125,711

Sources: Tunisian authorities; and IMF staff estimates.

1/ External financing includes the IMF's 2013 SBA, 2016 EFF, and 2020 RFI (in line with the Tunisian authorities' budget law classification).

2/ Domestic financing includes short-term financing. The coverage was expanded in July 2018.

3/ Social spending includes social transfers and programs as well as key ministries' capital expenditures. The definition was expanded in 2017.

Table 5. Tunisia: Central Government Fiscal Operations, 2017–25
(In percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.	Proj.		Proj.			
Total revenue and grants	24.5	26.2	28.0	26.4	27.8	28.5	28.7	28.7	28.7
Revenue	24.3	26.0	27.8	25.4	27.5	28.3	28.4	28.4	28.5
Tax revenue	22.0	23.3	25.4	23.2	25.3	26.0	26.1	26.2	26.3
Direct taxes	8.9	8.6	11.1	10.5	11.0	11.3	11.3	11.3	11.3
PIT	6.4	6.0	7.7	7.7	7.9	8.0	8.0	8.0	8.0
CIT	2.4	2.6	3.4	2.9	3.2	3.3	3.3	3.3	3.3
Indirect taxes	13.1	14.7	14.3	12.7	14.2	14.7	14.8	14.9	14.9
Trade taxes	0.8	1.1	1.1	0.9	1.2	1.2	1.3	1.3	1.3
VAT	6.3	7.1	6.8	5.8	6.7	6.9	7.0	7.0	7.1
Domestic	2.9	3.4	3.3	3.0	3.0	3.0	3.0	3.0	3.0
Imports	3.4	3.6	3.5	2.9	3.7	3.9	4.0	4.0	4.0
Excise	2.6	2.7	2.5	2.3	2.7	2.8	2.8	2.8	2.8
Domestic	1.1	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Imports	1.5	1.6	1.5	1.2	1.6	1.7	1.7	1.7	1.7
Other indirect taxes	3.4	3.7	3.8	3.6	3.7	3.7	3.7	3.7	3.7
Domestic	3.2	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Imports	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Nontax revenue	2.3	2.7	2.4	2.2	2.2	2.3	2.3	2.3	2.2
<i>of which: energy sector</i>	1.2	1.3	1.0	0.7	0.7	0.8	0.8	0.8	0.7
<i>of which: capital income</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.2	0.2	0.2	1.0	0.3	0.3	0.3	0.2	0.2
Total expenditure and net lending	30.4	30.8	31.9	30.7	30.3	30.2	29.6	28.8	28.8
Total expenditure	30.5	30.8	32.0	30.7	30.3	30.2	29.5	28.7	28.8
Current expenditure	24.9	25.2	26.6	27.5	25.7	24.9	24.1	23.0	22.6
Wages and salaries	14.9	14.1	14.7	16.5	15.4	14.7	14.0	13.3	13.3
<i>of which: one-off civil service reform costs</i>	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services	1.6	1.1	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Interest payments	2.3	2.7	2.8	3.1	3.3	3.5	3.6	3.5	3.3
Domestic	1.3	1.4	1.4	1.6	1.3	1.3	1.3	1.3	1.2
External	1.0	1.2	1.4	1.5	2.1	2.2	2.3	2.2	2.1
Transfers and subsidies	6.1	7.2	7.6	6.0	5.7	5.5	5.3	5.0	4.7
Subsidies	3.6	4.7	4.8	2.7	2.5	2.1	1.6	1.2	0.8
Food	1.6	1.7	1.6	1.6	1.6	1.4	1.3	0.8	0.5
Energy	1.6	2.6	2.8	0.7	0.5	0.3	0.0	0.0	0.0
Fuel	...	1.4	1.7	0.4	0.5	0.0	0.0	0.0	0.0
Electricity and gas	...	1.1	1.1	0.3	0.1	0.3	0.0	0.0	0.0
Transport	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Transfers (incl. social programs and CNRPS)	2.5	2.6	2.9	3.3	3.2	3.4	3.6	3.8	4.0
Other current expenditure (non-allocated)	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0
<i>of which: Covid-19 response</i>	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Capital expenditure	5.6	5.6	5.4	3.3	4.6	5.3	5.4	5.7	6.1
Net lending	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance	-5.9	-4.6	-3.9	-4.3	-2.5	-1.7	-0.9	-0.1	-0.1
Errors and omissions	-0.4	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Financing (net)	6.3	4.5	3.5	4.3	2.5	1.7	0.9	0.1	0.1
Foreign financing 1/	5.3	3.6	2.2	4.3	1.1	1.5	0.2	-1.1	-1.4
Domestic financing 2/	1.1	0.8	1.3	0.0	1.4	0.2	0.7	1.2	1.5
<i>of which: privatization, confiscated assets sales, and other</i>	0.2	0.1	0.8	0.1	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Overall balance (excl. grants)	-6.1	-4.8	-4.1	-5.3	-2.8	-2.0	-1.2	-0.3	-0.3
Primary balance (excl. grants, cash basis)	-4.2	-2.0	-0.9	-2.2	0.6	1.5	2.4	3.2	3.0
Total current primary expenditure	22.6	22.5	23.8	24.3	22.3	21.4	20.5	19.6	19.3
Social expenditures 3/	1.9	2.4	2.8	3.2	3.1	3.3	3.5	3.7	3.9
Gross central government debt	70.6	78.2	72.3	88.5	86.7	83.4	79.6	75.1	69.9
Domestic	22.0	20.9	21.0	21.4	20.7	19.4	18.7	18.5	18.6
External	48.6	57.3	51.3	67.1	66.0	64.1	60.9	56.6	51.4
Nominal GDP (billions of TD)	96.3	105.3	113.8	114.4	125.7	134.7	144.1	154.4	165.8

Sources: Tunisian authorities; and IMF staff estimates.

1/ External financing includes the IMF's 2013 SBA, 2016 EFF, and 2020 RFI (in line with the Tunisian authorities' budget law classification).

2/ Domestic financing includes short-term financing. The coverage was expanded in July 2018."

3/ Social spending includes social transfers and programs as well as key ministries' capital expenditures. The definition was expanded in 2017.

Table 6. Tunisia: Monetary Survey, 2017–21
(In millions of dinars, end-of-period stocks)

	2017	2018	2019	2020	2021
	Annual	Annual	Annual	Annual	Annual
			Prel.	Proj.	Proj.
(Millions of Tunisian dinars)					
Net foreign assets (NFA)	-2,385	-4,114	9	-5,180	-4,951
Foreign assets	16,420	18,695	24,427	26,564	28,345
Central bank	13,932	15,601	20,830	22,178	23,705
Foreign liabilities	-18,805	-22,809	-24,418	-31,744	-33,296
Central bank	-5,758	-7,315	-8,824	-12,732	-13,184
Net domestic assets (NDA)	76,869	83,523	86,084	94,717	100,308
Domestic credit	99,530	107,915	112,719	118,977	125,520
Credit to the government (net)	17,882	18,700	20,352	21,725	23,059
Central bank net credit	351	912	1,645	3,396	2,807
Commercial banks	10,096	9,652	10,815	10,437	12,359
Other	7,435	8,136	7,892	7,892	7,892
Credit to the economy	81,648	89,215	92,367	97,252	102,461
Other items (net)	-22,660	-24,392	-26,635	-24,260	-25,212
Broad money (M3)	74,485	79,409	86,093	89,537	95,357
Money plus quasi-money (M2)	71,086	76,153	83,041	86,363	91,976
Currency	11,182	11,811	12,891	16,241	17,596
Demand deposits	19,682	20,159	21,006	20,998	22,273
Quasi-money	40,221	44,183	49,144	49,124	52,107
Long-term deposits (M3-M2)	3,399	3,255	3,052	3,174	3,381
(Annual percentage change)					
Net foreign assets	-151.4	-72.5	-100.2	-55.277	-4.4
Net domestic assets	13.3	8.7	3.1	10.0	5.9
Domestic credit	12.9	8.4	4.5	5.6	5.5
Credit to the government (net)	14.2	4.6	8.8	6.7	6.1
Credit to the economy	12.7	9.3	3.5	5.3	5.4
Broad money (M3)	11.4	6.6	8.4	4.0	6.5
(Growth in percent of broad money)					
Net foreign assets	-2.1	-2.3	5.2	-6.0	0.3
Net domestic assets	13.5	8.9	3.2	10.0	6.2
Domestic credit	17.0	11.3	6.0	7.3	7.3
Credit to the government (net)	3.3	1.1	2.1	1.6	1.5
Credit to the economy	13.7	10.2	4.0	5.7	5.8
Broad money (M3)	11.4	6.6	8.4	4.0	6.5
Memorandum items:					
Nominal GDP	96,298	105,268	113,848	114,419	125,711

Sources: Tunisian authorities; and IMF staff estimates and projections.

Table 7. Tunisia: Central Bank Survey, 2017–21
(In millions of dinars, end-of-period stocks)

	2017	2018	2019	2020	2021
	Annual	Annual	Annual Prel.	Annual Proj.	Annual Proj.
	(Millions of Tunisian dinars)				
Net foreign assets	8,174	8,286	12,005	9,445	10,520
Assets	13,932	15,601	20,830	22,178	23,705
Liabilities	5,758	7,315	8,824	12,732	13,184
Net domestic assets	7,062	11,321	9,173	12,458	13,018
Domestic credit (net)	8,835	12,758	10,640	15,089	13,564
Net credit to government 1/	351	912	1,645	3,396	2,807
Credit to banks 2/	8,484	11,846	8,995	11,693	10,757
Other items net	-1,773	-1,437	-1,467	-2,631	-547
Reserve money 3/	15,236	19,608	21,178	21,903	23,538
	(Annual percentage change)				
Net foreign assets	8.6	1.4	44.9	-21.3	11.4
Assets	0.0	12.0	33.5	6.5	6.9
Liabilities	-10.1	27.0	20.6	44.3	3.6
Net domestic assets	38.6	60.3	-19.0	35.8	4.5
Domestic credit (net)	41.3	44.4	-16.6	41.8	-10.1
Net credit to government 1/	-54.0	160.2	80.3	106.5	-17.3
Credit to banks 2/	54.5	39.6	-24.1	30.0	-8.0
Other items net	53.0	-18.9	2.1	79.4	-79.2
Reserve Money 3/	20.7	28.7	8.0	3.4	7.5
Memorandum items:					
Open market purchases (OMPs)	982	1,660	1,956	2,925	2,525
Monetary base, excl. bank FX deposits	12,142	12,782	13,936	16,903	18,538
FX swap operations 4/		2,280	601	0	0
Total CBT refinancing of banks	9,466	15,786	11,552	14,618	13,282

Sources: Central Bank of Tunisia; and IMF staff estimates.

1/ Includes subscription to the IMF and the AMF.

2/ Includes the main refinancing facility (appel d'offres) and the lending and deposit facilities.

3/ Excludes deposits of other financial institutions, individuals, and non-financial enterprises.

4/ Introduced at end-2014.

Table 8. Tunisia: External Financing Needs, 2017–21
(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020				2021	
	Annual	Annual	Annual Prel.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.	Annual Proj.
Total gross financing requirements	6,385	6,453	5,941	989	2,891	1,121	110	5,111	5,794
Current account deficit	4,080	4,443	3,413	598	1,793	754	-393	2,751	2,910
Amortizations	2,305	2,010	2,528	391	1,099	367	503	2,360	2,884
Central government 1/	1,245	747	1,404	156	841	143	239	1,379	2,145
Central Bank 2/	358	539	385	37	37	37	63	175	79
Corporate 3/	702	724	740	198	221	187	201	806	660
Total gross financing sources	6,385	6,453	5,941	989	2,891	1,121	110	5,111	5,794
Foreign direct investment and portfolio (net)	747	948	811	35	-55	90	102	172	692
<i>of which: FDI (net)</i>	811	989	798	30	-63	75	98	141	661
Disbursements	4,426	2,652	3,478	298	547	1,502	839	3,185	3,472
Central government 1/	3,433	1,920	2,487	167	423	1,385	729	2,704	2,717
Multi- and bilateral budget support	2,034	977	1,298	87	336	562	658	1,642	1,684
<i>of which: IMF budget support loans</i>	0	0	0	0	0	0	0	0	0
<i>of which: grants</i>	89	81	66	0	156	0	157	313	100
<i>of which: unidentified loans</i>	0	0	0	0	0	59	139	198	437
Financial market access	905	571	773	0	0	750	0	750	750
Other (incl. project loans)	494	373	417	80	88	73	71	312	283
<i>of which: grants</i>	0	0	0	0	0	0	0	0	0
Central Bank 2/	314	749	245	0	753	0	0	753	0
<i>of which: IMF BOP support loans 4/</i>	314	749	245	0	753	0	0	753	0
Corporate 3/	993	732	990	131	124	117	110	481	754
Short-term debt and other capital flows (net)	868	2,848	3,005	274	-264	0	54	64	1,710
Other flows (net) 5/	319	-1,146	634	-4	5	65	-73	-7	-12
Drawdown of gross reserves ("-" : buildup)	348	402	-2,231	386	1,905	-536	-812	943	-67
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Gross international reserves (eop)	5,594	5,192	7,424	7,038	5,133	5,669	6,480	6,480	6,548
Central government rollover rates (pct.)			173	107	32	968	239	173	122
Corporate rollover rates (pct.)	142	101	134	66	56	63	55	60	114

Sources: Tunisian authorities; and IMF staff projections.

1/ Central government includes IMF purchases made available for budget support.

2/ Central Bank includes IMF purchases made available for BOP support.

3/ Includes public and private enterprises.

4/ IMF purchases available under the 2013 SBA, proposed schedule of purchases during the 2016 EFF, and 2020 RFI.

5/ Includes changes in banks', corporates', and households' net foreign assets; errors and omissions; and other liabilities.

Table 9. Tunisia: Financial Soundness Indicators of the Banking Sector, 2010–19
(Percent, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 Sep
Regulatory capital										
Regulatory capital to risk-weighted assets	11.6	11.9	11.8	8.2	9.4	12.0	11.3	11.9	11.7	12.4
Tier 1 capital to risk weighted assets	10.2	10.0	9.5	6.6	7.6	9.3	8.6	8.9	9.0	9.7
Capital to assets	8.4	8.5	7.8	5.6	6.2	7.8	8.1	8.4	8.4	8.6
Asset quality										
Sectoral distribution of loans to total loans										
Industry	30.5	28.6	27.9	27.8	27.2	27.3	27.0	27.6	28.4	28.1
Agriculture	2.9	2.9	2.8	2.8	2.8	2.6	2.6	2.6	2.5	2.5
Commerce	15.0	16.0	15.4	15.1	15.6	15.8	16.0	16.0	15.9	16.6
Construction	5.9	5.6	5.4	5.5	5.7	6.2	6.2	5.8	5.6	5.8
Tourism	7.3	7.3	6.9	6.5	6.1	6.2	5.8	5.3	4.7	4.5
Households	22.1	23.4	25.4	26.2	26.2	26.6	26.4	25.8	24.6	24.3
Other	16.3	16.3	16.2	16.0	16.5	15.4	16.0	16.8	18.4	18.1
FX-loans to total loans	5.3	5.1	4.8	4.8	5.5	5.8	5.7	5.1	4.5	5.2
Credit to the private sector (pct. of total loans) 1/	70.6	67.4	67.7	73.7	73.8	73.5	73.7	74.5	75.4	75.7
Nonperforming Loans (NPLs) to total loans	13.0	13.3	14.9	16.5	15.8	16.6	15.6	13.9	13.4	13.9
Specific provisions to NPLs	N.A.	48.6	45.7	56.4	58.0	56.9	57.9	57.0	55.7	55.1
NPLs, net of provisions, to tier 1 capital	60.3	66.2	86.3	111.6	90.3	78.8	71.2	63.7	61.2	60.5
Specific provisions to total loans	7.6	7.6	8.0	10.3	10.1	10.5	10.0	8.8	8.4	8.6
Profitability										
Return on assets (ROA)	0.9	0.6	0.6	0.3	0.9	0.9	1.0	1.2	1.2	1.2
Return on equity (ROE)	10.2	5.9	7.2	3.0	11.2	10.9	11.4	13.8	13.5	...
Interest rate average spread (btw. loans and deposits)	3.5	3.0	3.0	3.3	3.1	3.0	2.9	3.2	4.0	4.2
Interest return on credit	6.2	5.7	5.4	5.9	6.4	6.3	6.0	6.5	8.0	8.7
Cost of risk (pct. of credit)	1.7	1.2	1.2	1.9	1.1	1.1	0.9	0.9	...	...
Net interest margin to net banking product (PNB)	58.6	57.2	58.1	58.9	57.2	54.6	50.9	49.7	51.9	54.5
Operating expenses to PNB	46.5	51.1	50.3	47.3	48.5	49.2	48.5	47.6	47.0	52.0
Operating expenses to total assets										
Personnel expenses to non-interest expenses	59.1	62.6	61.5	60.8	59.3	60.1	58.7	59.1	53.0	52.3
Trading and other non-interest income to PNB	21.8	22.5	20.9	21.6	22.4	24.3	29.5	29.2	28.4	25.8
Liquidity										
Liquid assets to total assets 2/	29.8	26.5	28.2	28.4	28.2	5.6	5.6	5.7	4.5	4.7
Liquid assets to short-term liabilities	104.1	89.4	89.2	92.6	96.6	83.8	94.4	91.7	75.2	121.9
Deposits to loans	94.6	87.4	89.5	89.6	88.8	87.4	86.8	85.7	85.2	89.4
Deposits of state-owned enterprises to total deposits	13.8	12.6	13.2	13.0	11.7	9.5	7.8	6.8	5.7	5.8
Sensitivity to market risk										
FX net open position to tier 1 capital	1.4	1.9	2.3	3.1	2.2	3.3	4.9	6.4	5.5	3.3

Source: Central Bank of Tunisia.

1/ Coverage of private sector credit may differ from that of Table 7.

2/ The definition of the liquidity ratio was modified in 2015. Liquid assets now include only treasury bills and cash. Using the new definition, the end-December 2014 liquidity ratio would have been 6 percent.

... = not available.

Table 10. Tunisia: Illustrative Medium-Term Outlook, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.	Proj.					
	(Annual percentage change)								
Real GDP (at 2010 prices)	1.9	2.7	1.0	-4.3	4.1	2.7	2.7	3.0	3.3
Total consumption	1.9	1.9	0.6	1.7	0.6	1.5	1.2	1.0	2.3
<i>of which: private consumption</i>	2.4	2.3	1.4	1.0	1.0	2.3	2.0	1.7	2.1
Investment	-0.2	2.6	-15.5	-72.6	189.4	22.6	6.7	10.8	4.2
<i>of which: gross fixed capital formation</i>	0.3	1.7	-18.6	-71.5	166.9	21.3	6.3	9.9	4.4
Trade balance	-0.2	2.6	3.5	10.3	-13.8	-2.9	1.6	1.5	1.6
Exports of goods and non-factor services	3.2	3.5	-5.1	-14.2	15.8	4.6	3.6	3.6	3.6
Imports of goods and non-factor services	3.4	1.0	-8.6	-24.5	29.6	7.5	2.0	2.0	2.0
Inflation (annual average)	5.3	7.3	6.7	6.2	4.9	4.3	4.1	4.0	4.0
	(Percent of GDP)								
Gross national savings	9.1	10.1	10.1	3.1	6.6	8.7	10.3	11.9	13.6
Central government 1/	-0.4	1.1	1.4	-1.1	2.1	3.6	4.6	5.7	6.1
Rest of the economy	9.5	9.1	8.6	4.1	4.5	5.1	5.7	6.2	7.5
Gross investment	19.3	21.3	18.9	10.6	14.8	16.6	17.4	18.1	18.8
Central government 1/	5.6	5.6	5.4	3.3	4.6	5.3	5.4	5.7	6.1
Rest of the economy	13.8	15.7	13.5	7.3	10.1	11.3	12.0	12.4	12.7
Private consumption	72.2	72.6	72.7	77.5	74.8	74.4	73.9	73.0	72.1
Public consumption	20.9	20.2	20.1	22.1	20.7	19.8	19.0	18.1	18.1
Savings-investment balance	-10.2	-11.2	-8.8	-7.5	-8.1	-7.9	-7.1	-6.2	-5.2
Central government 1/	-6.0	-4.6	-4.0	-4.4	-2.5	-1.7	-0.9	0.0	0.0
Rest of the economy	-4.3	-6.6	-4.8	-3.1	-5.6	-6.3	-6.3	-6.1	-5.1
Memorandum items:									
Nominal GDP (in millions of TD)	96,298	105,268	113,848	114,419	125,711	134,713	144,134	154,358	165,839
Overall fiscal balance (excl. grants, pct. of GDP) 2/	-6.1	-4.8	-4.1	-5.3	-2.8	-2.0	-1.2	-0.3	-0.3
Social expenditures (pct. of GDP) 3/									
Gross public debt (pct. of GDP)	70.6	78.2	72.3	88.5	86.7	83.4	79.6	75.1	69.9
Current account balance (pct. of GDP)	-10.2	-11.2	-8.8	-7.5	-8.1	-7.9	-7.1	-6.2	-5.2
External debt (pct. of GDP)	84.3	97.3	90.3	109.9	108.2	107.2	104.3	100.2	95.2
Credit to the economy (yoy growth, pct.)	12.7	9.3	3.5	5.3	5.4	5.9	6.4	6.9	7.4

Sources: Tunisian authorities; and IMF staff estimates.

1/ Excludes social security, public enterprises, and local governments.

2/ Including grants and excluding privatization.

3/ Public capital expenditures of key ministries and social transfers and programs.

Table 11. Tunisia: Indicators of Fund Credit, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.				Proj.		
Existing and prospective Fund credit (millions of SDR)									
Disbursements	227.3	530.3	176.8	545.2	-	-	-	-	-
Stock	1,205.6	1,366.7	1,269.1	1,687.9	1,631.1	1,540.6	1,225.5	759.3	429.3
Obligations	251.6	402.1	310.2	162.9	94.3	125.5	344.0	479.7	336.5
Repurchase	227.0	369.3	274.4	126.4	56.8	90.5	315.2	466.2	329.9
Charges and surcharges	24.6	32.8	35.9	36.5	37.5	35.0	28.8	13.5	6.5
Stock of existing and prospective Fund credit									
In percent of quota	221.1	250.7	232.8	309.6	299.2	282.6	224.8	139.3	78.7
In percent of GDP	4.2	4.8	4.5	6.3	6.3	5.8	4.4	2.6	1.4
In percent of exports of goods and services	9.4	9.9	9.1	17.4	12.9	11.2	8.2	4.7	2.5
In percent of gross reserves	30.5	36.5	23.6	36.1	34.6	30.2	22.5	13.2	6.9
Obligations to the Fund from existing and prospective Fund arrangements									
In percent of quota	46.2	73.7	56.9	29.9	17.3	23.0	63.1	88.0	61.7
In percent of GDP	0.9	1.4	1.1	0.6	0.4	0.5	1.2	1.6	1.1
In percent of external debt service	11.5	22.5	12.4	6.4	2.8	5.0	12.6	14.6	11.6
In percent of exports of goods and services	2.0	2.9	2.2	1.7	0.7	0.9	2.3	3.0	2.0
In percent of gross reserves	6.4	10.7	5.8	3.5	2.0	2.5	6.3	8.4	5.4

Source: IMF staff estimates.

Annex I. Public Debt Sustainability Analysis

Tunisia's debt sustainability risks have increased substantially, as the Covid-19 shock will reverse a downward trend in debt stocks observed in 2019. Risks to public debt sustainability include exchange rate depreciation, loose fiscal and monetary policies, and contingent liabilities, especially if combined with lower growth. External debt remains resilient to shocks, except for a large real exchange rate depreciation. Debt sustainability benefits from a low average interest rate, relatively long maturities, a substantial share of concessional debt, and a large grant element in new loans. In the period ahead, debt sustainability will crucially depend on financing provided to Tunisia on concessional terms.

1. **The Covid-19 outbreak has challenged Tunisia's debt sustainability.** Although debt stocks declined in 2019 as a result of an appreciating dinar and lower fiscal and external deficits, the Covid-19 shock will likely reverse these trends and increase Tunisia's debt burden significantly. The steep fall in growth to an unprecedented -4.3 percent as well as the deterioration of the primary fiscal balance because of lower revenues and the crisis-response measures will weigh on debt ratios. In addition, the exchange rate has recently started to depreciate again.
2. **Nevertheless, Tunisia's public debt remains sustainable with strong policy implementation.** Under the baseline, staff projects that central government debt would peak at 88.5 percent of GDP in 2021 (from an average of 46 percent over 2010–14) before declining to below 70 percent by 2025. This is conditional on continuous policy efforts to reduce the budget deficit over 2021–25, building on the progress made over 2018–19. Gross financing needs are expected to stay elevated in the near term but would decline from 11.2 percent of GDP in 2020 to 6.7 percent by 2025. Stress scenarios identify significant risks from exchange rate depreciation, loose fiscal and monetary policies, and contingent liabilities, especially if combined with sustained lower growth.¹
3. **Risks to Tunisia's public debt sustainability increased substantially.** Key risks stem from rapid real exchange rate depreciation, fiscal and monetary policy slippages, and contingent liabilities. Outcomes are also highly sensitive to changes in underlying assumptions.
 - **A series of stress tests highlights risks to debt sustainability.** Tunisia's debt-to-GDP ratio exceeds the emerging market debt burden benchmark of 70 percent of GDP, which signals the need for cautious policies to maintain investor confidence. Stress tests confirm the vulnerability of the country's public debt to interest rate risk, a growth shock, and real exchange rate depreciation. Several standard tests plus two customized scenarios—assuming slippages in fiscal and monetary policies in a fragile socio-political environment and a major security incident—signal that the debt-to-GDP ratio could significantly deteriorate relative to the baseline and, in

¹ State guarantees (about 12 percent of GDP) are excluded from the baseline stock of debt; the contingent liability shock provides an estimate of the impact of most guarantees being called simultaneously.

the case of a combined macro-fiscal shock, push it above 100 percent. Moreover, the test including contingent liabilities highlights risks from government guarantees to SOEs.²

- **The heat map flags the debt level and its composition as main risks.** These risks are partly mitigated by continued access to concessional financing and steadfast fiscal adjustment.
- **The stochastic approach stresses the risk of policy slippages.** The asymmetric distribution of estimated outcomes in the fan chart shows that debt levels could become durably entrenched above 80 percent of GDP.
- **Contingent risks from state-owned enterprises.** Risks to public debt could emerge in the form of contingent liabilities from the SOE sector (as indicated by the stress tests) and also indirectly through the impact of potential SOE payment difficulties on the banking sector as SOEs represent about 10 percent of bank assets.

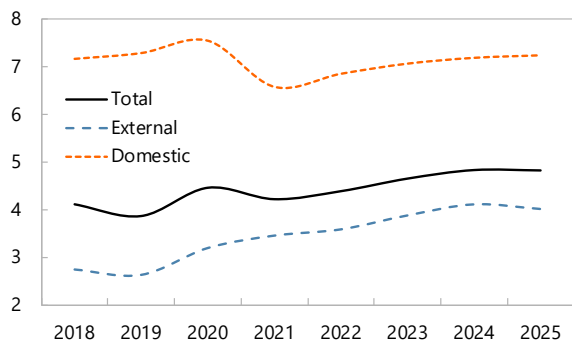
4. Several factors may attenuate debt sustainability risks. First, Tunisia has maintained access to financing at a low cost (Annex Figure I.1). Almost half of Tunisia's public debt is owed to bilateral donors and multilateral institutions with low average interest rates and relatively long maturities. In addition, most of Tunisia's Eurobond issuances are covered by third-party sovereign guarantees. Second, the risk of large exchange rate swings is mitigated through a relatively closed financial account except for FDI and long-term flows. Third, banks' exposure to sovereign debt remains low at 15 percent of GDP and the sector maintains long net open FX positions, shielding the banking sector's balance sheet from potential spillovers. The relatively low exposure of the banking sector leaves some room for more domestic issuances if needed (at the moment, treasury bills and bonds represent 29 percent of total public debt, most of which have maturities of five years or more).

5. Overall, the analysis highlights that strong policy implementation and continued access to concessional financing will be critical to preserve Tunisia's debt sustainability. Strong fiscal consolidation should continue as soon as the Covid-19 crisis abates. Quickly improving the primary fiscal balance from a deficit of -2.2 percent of GDP expected for 2020 to a surplus of 3.2 percent by 2024 will be crucial to reduce the public debt-to-GDP ratio to below 70 percent by 2025. Such an adjustment is ambitious but still looks feasible (as shown in Annex Table I.2). Effective contingency planning would be important to respond pro-actively to unanticipated negative shocks, including a more protracted recovery than currently assumed from the virus outbreak. This planning could involve a reprioritization of spending with the objective of reducing discretionary/non-urgent expenditure while safeguarding social programs. Moreover, it would be important to mobilize new budget financing to the maximum possible on concessional terms or in the form of grants.

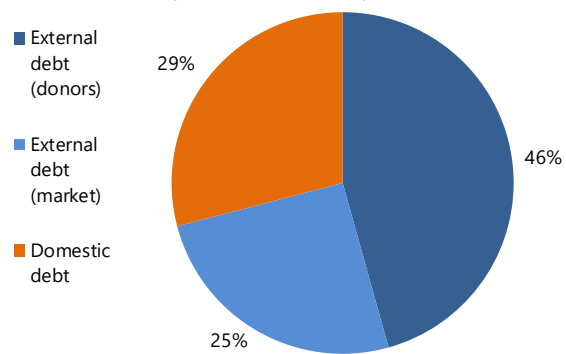
² The one-off 10 percent of GDP shock to contingent liabilities reflects an additional three percent of GDP in bank recapitalization costs and the realization of about 7 percent of GDP of the government's contingent liabilities to public enterprises.

Annex Figure I.1. Tunisia: Central Government Debt

a. Implicit Interest Rates, 2018–25
(Percent)



b. Composition, 2019
(Percent of total)



Sources: Tunisian authorities, and IMF staff calculations and projections.

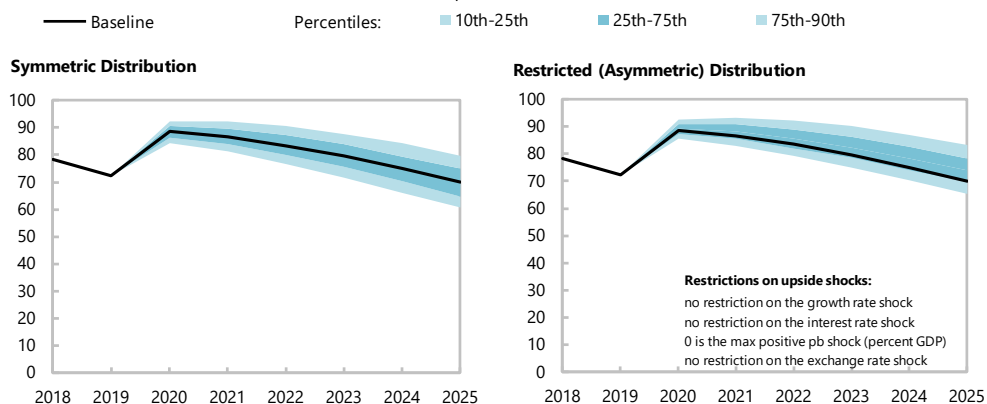
Annex Table I.1. Tunisia: Public DSA Risk Assessment

Heat Map

Debt level ^{1/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Gross financing needs ^{2/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile ^{3/}	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

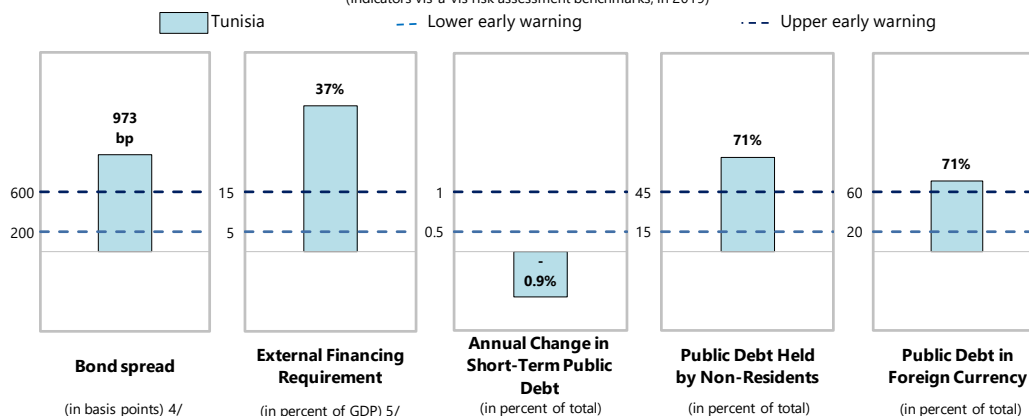
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white. Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 06-Dec-19 through 05-Mar-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex Table I.2. Tunisia: Realism of Baseline Assumptions

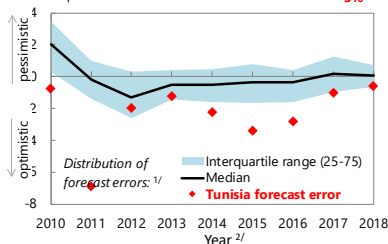
Forecast Track Record, versus all countries

Real GDP Growth

(in percent, actual-projection)

Tunisia median forecast error, 2010-2018: **-1.96**

Has a percentile rank of: **3%**

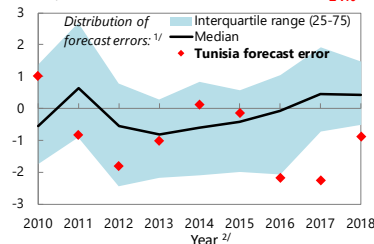


Primary Balance

(in percent of GDP, actual-projection)

Tunisia median forecast error, 2010-2018: **-0.88**

Has a percentile rank of: **24%**

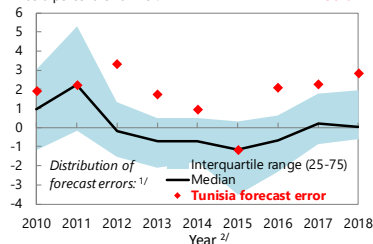


Inflation (Deflator)

(in percent, actual-projection)

Tunisia median forecast error, 2010-2018: **2.10**

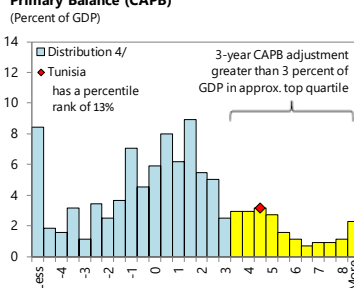
Has a percentile rank of: **90%**



Assessing the Realism of Projected Fiscal Adjustment

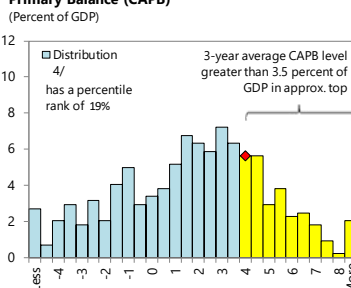
3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)

(Percent of GDP)



3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)

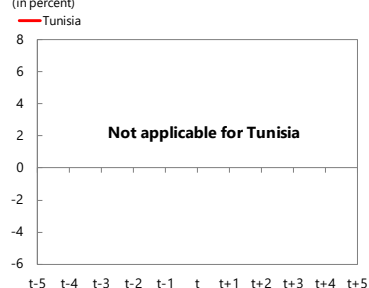
(Percent of GDP)



Boom-Bust Analysis^{3/}

Real GDP growth

(in percent)



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Tunisia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

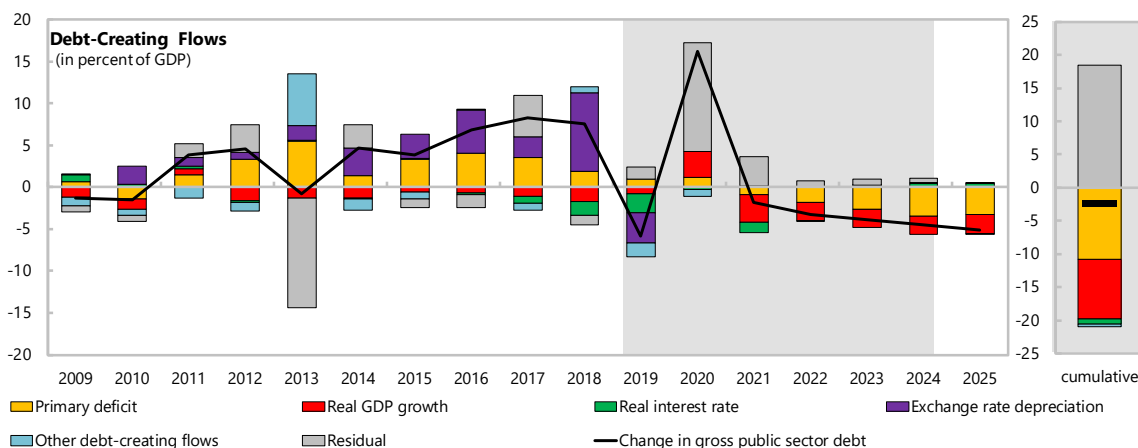
Annex Table I.3. Tunisia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario (Percent of GDP)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections						As of March 30, 2020		
	2009-2017 ^{2/}	2018	2019	2020	2021	2022	2023	2024	2025			
Nominal gross public debt	50.8	78.2	72.3	88.5	86.7	83.4	79.6	75.1	69.9	Sovereign Spreads		
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	EMBIG (bp) ^{3/} 1002		
Public gross financing needs	8.4	10.8	9.5	11.2	10.5	8.2	8.3	8.3	6.7	5Y CDS (bp) 527		
Public debt (in percent of potential GDP)	51.0	78.5	71.9	82.5	82.3	79.3	75.6	71.4	66.6	Ratings		
Real GDP growth (in percent)	2.1	2.7	1.0	-4.3	4.1	2.7	2.7	3.0	3.3	Moody's	Foreign	Local
Inflation (GDP deflator, in percent)	4.2	6.5	7.0	5.0	5.6	4.4	4.2	4.0	4.0	S&P's	B2	B2
Nominal GDP growth (in percent)	6.4	9.3	8.2	0.5	9.9	7.2	7.0	7.1	7.4	Fitch	n.a.	n.a.
Effective interest rate (in percent) ^{4/}	4.4	4.1	3.9	4.4	4.2	4.3	4.6	4.7	4.7		B+	B+

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}
	2009-2017 ^{2/}	2018	2019	2020	2021	2022	2023	2024	2025		
Change in gross public sector debt	3.2	7.6	-5.8	16.2	-1.8	-3.3	-3.8	-4.5	-5.2	-2.4	
Identified debt-creating flows	3.7	8.7	-7.3	3.1	-5.3	-4.0	-4.5	-5.1	-5.0	-20.9	
Primary deficit	2.5	1.9	1.0	1.2	-0.8	-1.8	-2.7	-3.4	-3.2	-10.8	-1.8
Primary (noninterest) revenue and grants	24.5	26.2	28.0	26.4	27.8	28.5	28.7	28.7	28.7	168.8	
Primary (noninterest) expenditure	26.9	28.1	29.0	27.6	27.0	26.7	26.0	25.3	25.5	158.0	
Automatic debt dynamics ^{5/}	1.3	6.0	-6.6	2.8	-4.6	-2.3	-1.9	-1.8	-1.9	-9.7	
Interest rate/growth differential ^{6/}	-0.9	-3.4	-3.1	2.8	-4.6	-2.3	-1.9	-1.8	-1.9	-9.7	
Of which: real interest rate	0.0	-1.6	-2.3	-0.3	-1.3	-0.2	0.2	0.5	0.4	-0.7	
Of which: real GDP growth	-0.9	-1.7	-0.8	3.1	-3.3	-2.1	-2.1	-2.2	-2.3	-9.0	
Exchange rate depreciation ^{7/}	2.2	9.4	-3.6	...	...	...	...	...	...	...
Other identified debt-creating flows	-0.1	0.7	-1.7	-0.8	0.1	0.1	0.1	0.1	0.1	-0.4	
Privatization, confiscated asset sales, and other (negative)	-0.3	-0.1	-0.8	-0.1	0.0	0.0	0.0	0.0	0.0	-0.3	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in deposits	0.2	0.9	-0.8	-0.7	0.1	0.1	0.1	0.1	0.1	-0.1	
Residual, including asset changes ^{8/}	-0.5	-1.1	1.4	13.0	3.6	0.7	0.6	0.6	-0.1	18.5	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as .

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+gr)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

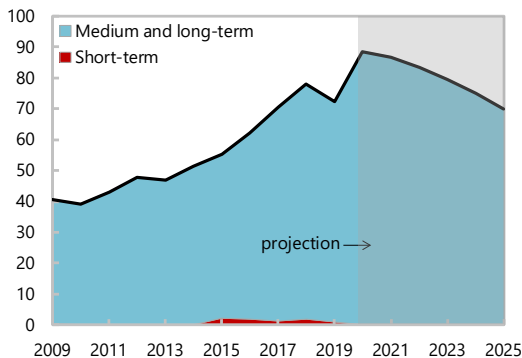
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Annex Table I.4. Tunisia: Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

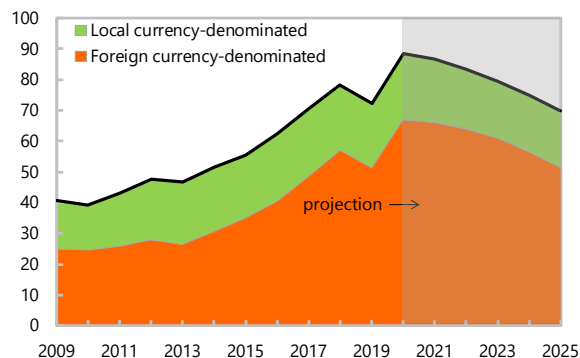
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

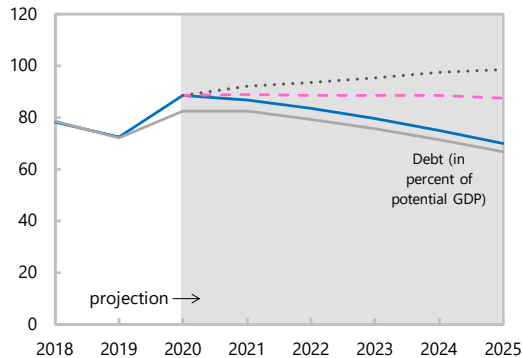
— Baseline

..... Historical

- - - Constant Primary Balance

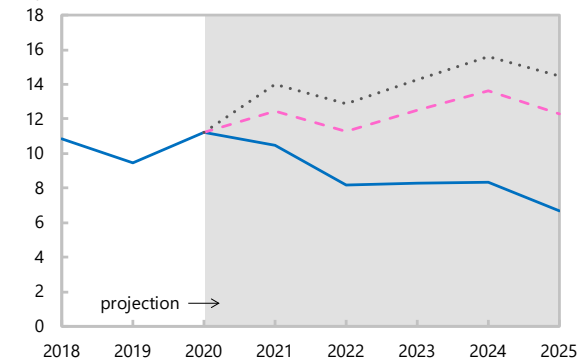
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario

	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.3	4.1	2.7	2.7	3.0	3.3
Inflation	5.0	5.6	4.4	4.2	4.0	4.0
Primary Balance	-1.2	0.8	1.8	2.7	3.4	3.2
Effective interest rate	4.4	4.2	4.3	4.6	4.7	4.7

Constant Primary Balance Scenario

	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.3	4.1	2.7	2.7	3.0	3.3
Inflation	5.0	5.6	4.4	4.2	4.0	4.0
Primary Balance	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	4.4	4.2	4.3	4.7	4.8	5.0

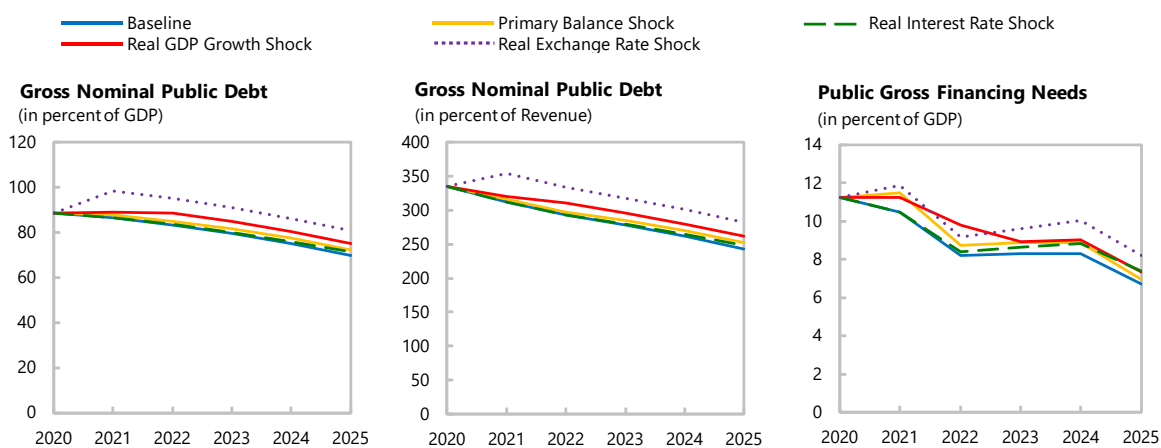
Historical Scenario

	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.3	1.9	1.9	1.9	1.9	1.9
Inflation	5.0	5.6	4.4	4.2	4.0	4.0
Primary Balance	-1.2	-2.4	-2.4	-2.4	-2.4	-2.4
Effective interest rate	4.4	4.2	4.3	4.6	4.7	4.8

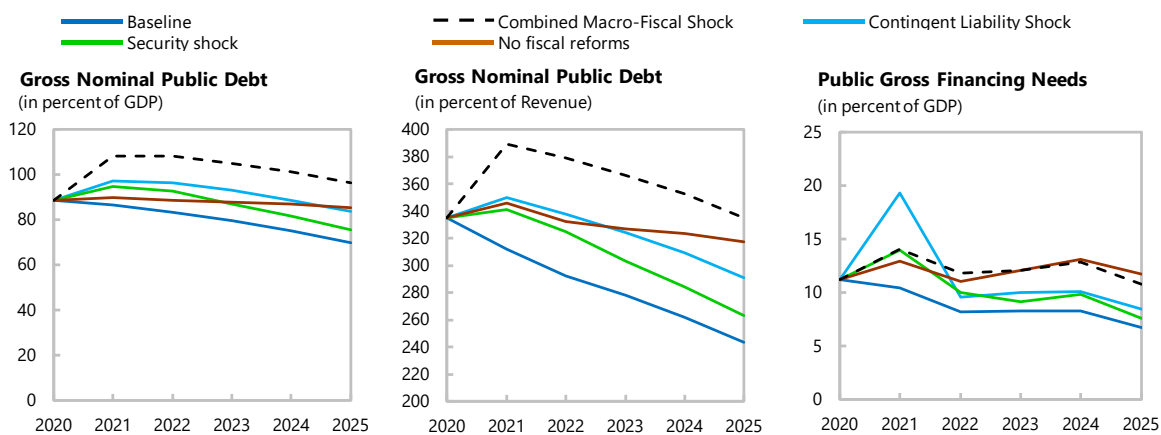
Source: IMF staff.

Annex Table I.5: Tunisia: Public DSA Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions (in percent)

	2020	2021	2022	2023	2024	2025		2020	2021	2022	2023	2024	2025
Nominal Debt (in percent of GDP)							Nominal Debt (in percent of GDP)						
Real GDP growth	-4.3	4.1	2.7	2.7	3.0	3.3	Real GDP growth	-4.3	2.4	1.0	2.7	3.0	3.3
Inflation	5.0	5.6	4.4	4.2	4.0	4.0	Inflation	5.0	5.1	4.0	4.2	4.0	4.0
Primary balance	-1.2	-0.2	1.3	2.2	3.0	3.2	Primary balance	-1.2	0.3	0.7	2.7	3.4	3.2
Effective interest rate	4.4	4.2	4.4	4.7	4.8	4.8	Effective interest rate	4.4	4.2	4.3	4.7	4.8	4.8
Real Interest Rate Shock							Real Exchange Rate Shock						
Real GDP growth	-4.3	4.1	2.7	2.7	3.0	3.3	Real GDP growth	-4.3	4.1	2.7	2.7	3.0	3.3
Inflation	5.0	5.6	4.4	4.2	4.0	4.0	Inflation	5.0	12.4	4.4	4.2	4.0	4.0
Primary balance	-1.2	0.8	1.8	2.7	3.4	3.2	Primary balance	-1.2	0.8	1.8	2.7	3.4	3.2
Effective interest rate	4.4	4.2	4.5	5.0	5.3	5.6	Effective interest rate	4.4	4.9	4.2	4.5	4.6	4.7
Combined Shock							Contingent Liability Shock						
Real GDP growth	-4.3	2.4	1.0	2.7	3.0	3.3	Real GDP growth	-4.3	2.4	1.0	2.7	3.0	3.3
Inflation	5.0	5.1	4.0	4.2	4.0	4.0	Inflation	5.0	5.1	4.0	4.2	4.0	4.0
Primary balance	-1.2	-0.2	0.7	2.2	3.0	3.2	Primary balance	-1.2	-7.6	1.8	2.7	3.4	3.2
Effective interest rate	4.4	4.9	4.5	5.0	5.3	5.6	Effective interest rate	4.4	4.4	4.9	5.2	5.2	5.3

Source: IMF staff.

Annex II. External Debt Sustainability Analysis

1. Tunisia's external debt has been rising since 2011. After a sharp decline during the 2000s (from 61 to 49 percent of GDP between 2002 and 2010), the trend in external debt reversed after the revolution and debt peaked at 97 percent of GDP in 2018. Aided by currency appreciation over the course of 2019 and a lower current account deficit, the external debt-to-GDP ratio moderated to 90 percent at end-2019. Most of the new debt commitments are either with official creditors or backed by a third-party guarantee (see IMF Country Report No.17/203), except for Eurobond issuances of US\$1 billion in January 2015, EUR 850 million in February 2017, EUR 500 million in October 2018, and EUR 695 million in July 2019 (Annex Table II.1).

2. External debt will continue to increase. On the back of the recent Eurobond issuance and continued official funding, and a partially guaranteed sovereign placement expected for the third quarter, external debt is expected to peak at 110 percent of GDP in 2020. After that, improving current account dynamics would lead to a gradual decline to 95 percent of GDP by the end of 2025 (Annex Table II.2).

3. External debt would remain resilient to shocks, except for exchange rate depreciation. Tunisia's debt profile is characterized by a low average interest rate, relatively long maturities, a substantial share of concessional debt, and a large grant element on new external debt (see IMF Country Report No.19/223). This makes the debt robust to most shocks, except for a large real exchange rate depreciation. The DSA results suggest that the external debt-to-GDP ratio would remain below 113 percent of GDP throughout the projection period under all but the FX depreciation scenario. For example, a negative combined shock to the real interest rate, growth and the current account would increase the debt ratio to 100 percent of GDP by the end of 2025 compared with 95 percent under the baseline. However, a sharp real exchange rate depreciation (one-time 30 percent in the second year of projection) would propel the external debt ratio to 140 percent of GDP in 2022 before declining to 128 percent at the end of the projection horizon (Annex Figure II.1).

Annex Table II.1. Tunisia: External Debt Stock: Composition, 2018

	TD Mio	US\$ Mio	%GDP	% of total		TD Mio	US\$ Mio	%GDP	% of total
Total external debt stock	102,688	34,293	97.5	100					
Maturity					Debtor				
MLT	78,454	26,200	74.5	76.4	Public	75,215	25,119	71.5	73.2
ST	24,234	8,093	23.0	23.6	Administration	60,773	20,296	57.7	59.2
					CG	54,341	18,148	51.6	52.9
					CBT	6,432	2,148	6.1	6.3
					SoEs	14,442	4,823	13.7	14.1
					Private	27,473	9,175	26.1	26.8
Currency					Debtor, MLT				
US\$	22,797	7,613	21.7	22.2	Public	74,579	24,906	70.8	72.6
EUR	57,095	19,067	54.2	55.6	Administration	60,136	20,083	57.1	58.6
JPY	9,550	3,189	9.1	9.3	CG	54,341	18,148	51.6	52.9
Others	13,247	4,424	12.6	12.9	CBT	5,795	1,935	5.5	5.6
					SoEs	14,442	4,823	13.7	14.1
					Private	3,876	1,294	3.7	3.8
Interest					Debtor, ST				
Fixed rates	73,114	24,417	69.5	71.2	Public	637	213	0.6	0.6
0 %	308	103	0.3	0.3	Administration	637	213	0.6	0.6
0% < i < 5%	64,796	21,639	61.6	63.1	CG	0	0	0.0	0.0
5% < i < 7%	7,804	2,606	7.4	7.6	CBT	637	213	0.6	0.6
7% < i < 10%	205	69	0.2	0.2	SoEs	0	0	0.0	0.0
>10%	0	0	0.0	0.0	Private	23,597	7,880	22.4	23.0
Variable rates	29,574	9,876	28.1	28.8					
Creditor, 2017					Memo items:				
Total	80,856	32,552	84.0	100.0		2017	2018		
Official	45,323	18,247	47.1	56.1	GDP (Mio TD)	96,298	105,268		
Multilateral	32,852	13,226	34.1	40.6	TD/US\$ (eop)	2.48	2.99		
o/w AfDB	7,937	3,195	8.2	9.8					
o/w EIB	6,755	2,720	7.0	8.4					
o/w IMF	4,238	1,706	4.4	5.2					
o/w World Bank	8,117	3,268	8.4	10.0					
Bilateral	12,471	5,021	13.0	15.4					
G-7	7,642	3,077	7.9	9.5					
o/w France	4,448	1,791	4.6	5.5					
o/w Japan	1,590	640	1.7	2.0					
Other	4,829	1,944	5.0	6.0					
o/w Saudi Arabia	404	163	0.4	0.5					
o/w Kuwait	189	76	0.2	0.2					
Private	17,198	6,924	17.9	21.3					
Market	17,198	6,924	17.9	21.3					
o/w guaranteed	5,769	2,323	6.0	7.1					
Banks	0	0	0.0	0.0					
Other (incl. sukuk)	18,335	7,381	19.0	22.7					

Source: Tunisian authorities and IMF staff calculations.

Annex Table II.2. Tunisia: External Debt Sustainability Framework, 2015–2025

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -6.5	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025		
						I. Baseline Projections							
External debt	65.4	72.5	84.3	97.3	90.3	109.9	108.2	107.2	104.3	100.2	95.2 #		
Change in external debt	4.4	7.2	11.8	13.0	-7.0	19.6	-1.7	-1.0	-2.9	-4.1	-5.0 #		
Identified external debt-creating flows (4+8+9)	8.0	12.5	8.2	18.8	-7.0	22.5	3.0	-1.4	-1.3	-2.2	-3.7		
Current account deficit, excluding interest payments	7.3	7.3	8.3	9.3	6.6	5.8	5.5	5.1	4.2	3.3	3.0		
Deficit in balance of goods and services	10.3	10.9	12.0	13.1	10.6	10.6	9.9	10.1	9.5	8.3	8.1		
Exports	36.8	39.3	42.3	49.0	48.6	39.9	50.7	51.7	53.0	54.1	54.0		
Imports	47.1	50.2	54.2	62.1	59.2	50.6	60.5	61.8	62.5	62.4	62.2		
Net non-debt creating capital inflows (negative)	-2.9	-3.1	-1.8	-2.3	-2.7	-2.8	-1.4	-2.1	-2.4	-2.5	-2.5		
Automatic debt dynamics 1/	3.6	8.3	1.6	11.8	-10.9	19.6	-1.1	-4.4	-3.1	-3.1	-4.2		
Contribution from nominal interest rate	1.7	1.9	2.0	2.1	1.9	2.5	2.4	2.8	2.8	2.9	2.7		
Contribution from real GDP growth	-0.7	-0.9	-1.4	-2.5	-0.9	4.6	-4.3	-2.7	-2.7	-3.0	-3.1		
Contribution from price and exchange rate changes 2/	2.7	7.3	1.0	12.3	-11.9	12.5	0.8	-4.5	-3.3	-3.0	-3.8		
Residual, incl. change in gross foreign assets (2-3)	-3.6	-5.3	3.6	-5.8	0.0	-2.9	-4.7	0.4	-1.5	-1.9	-1.3		
External debt-to-exports ratio (in percent)	177.4	184.3	199.5	198.6	185.7	275.0	213.5	207.4	196.8	185.3	176.2		
Gross external financing need (in billions of US dollars) 3/	12.5	12.2	12.2	13.2	14.2	14.3	13.3	12.7	14.1	15.4	14.9		
in percent of GDP	26.3	28.4	29.1	33.3	35.7	42.8	38.5	34.3	36.1	37.0	33.5		
						10-Year Historical Average	10-Year Standard Deviation						Projected Average
Key Macroeconomic Assumptions	38.9	44.9	43.5	44.3	46.3	46.0	47.8	49.7	52.1	54.8	58.1		
Real GDP growth (in percent)	1.2	1.2	1.9	2.7	1.0	1.9	1.7	-4.3	4.1	2.7	3.0	3.3	
Exchange rate appreciation (US dollar value of local currency, pct.change)	-8.4	-13.1	-5.8	-17.0	7.0	-7.1	6.5	-18.0	-5.5	-1.2	-1.2	0.0	
GDP deflator in US dollars (change in percent)	-4.2	-10.1	-1.4	-12.7	13.9	-2.9	7.4	-12.2	-0.8	4.3	3.1	3.0	
Growth of exports (US dollar terms, in percent)	-19.1	-3.2	4.0	10.4	-0.9	0.0	8.5	-30.9	31.0	9.2	8.6	8.2	
Growth of imports (US dollar terms, in percent)	-17.3	-3.5	4.6	9.1	-4.8	1.4	8.9	-28.2	23.7	9.3	7.0	5.9	
Current account balance, excluding interest payments	-7.3	-7.3	-8.3	-9.3	-6.6	-7.3	1.6	-5.8	-5.5	-5.1	-4.2	-3.3	
Net non-debt creating capital inflows	2.9	3.1	1.8	2.3	2.7	2.8	0.9	2.8	1.4	2.1	2.4	2.5	
						II. Stress Tests for External Debt Ratio							
A. Alternative Scenarios (with key variables at their historical averages) 5/													
A1. Key variables are at their historical averages in 2020-2025 4/						88.1	92.8	101.6	109.0	116.4	124.5	2.5	
A2. Security shock						88.1	107.3	121.8	124.5	120.7	116.4	-5.7	
A3. No fiscal reforms						88.1	107.5	111.0	110.0	108.0	105.5	-4.9	
B. Bound Tests													
B1. Nominal interest rate is at baseline plus one-half standard deviation						88.1	109.2	111.9	110.0	107.1	103.9	-4.9	
B2. Real GDP growth is at baseline minus one-half standard deviations						88.1	102.1	107.3	106.1	103.5	101.1	-4.2	
B3. Non-interest current account is at baseline minus one-half standard deviations						88.1	109.5	112.5	110.3	107.1	104.1	-5.4	
B4. Combination of B1-B3 using 1/4 standard deviation shocks						88.1	101.9	106.8	105.5	102.8	100.3	-4.7	
B5. One time 30 percent real depreciation in 2021						88.1	137.3	139.9	136.9	132.8	128.3	-6.5	

Sources: IMF Country desk data; and staff estimates.

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

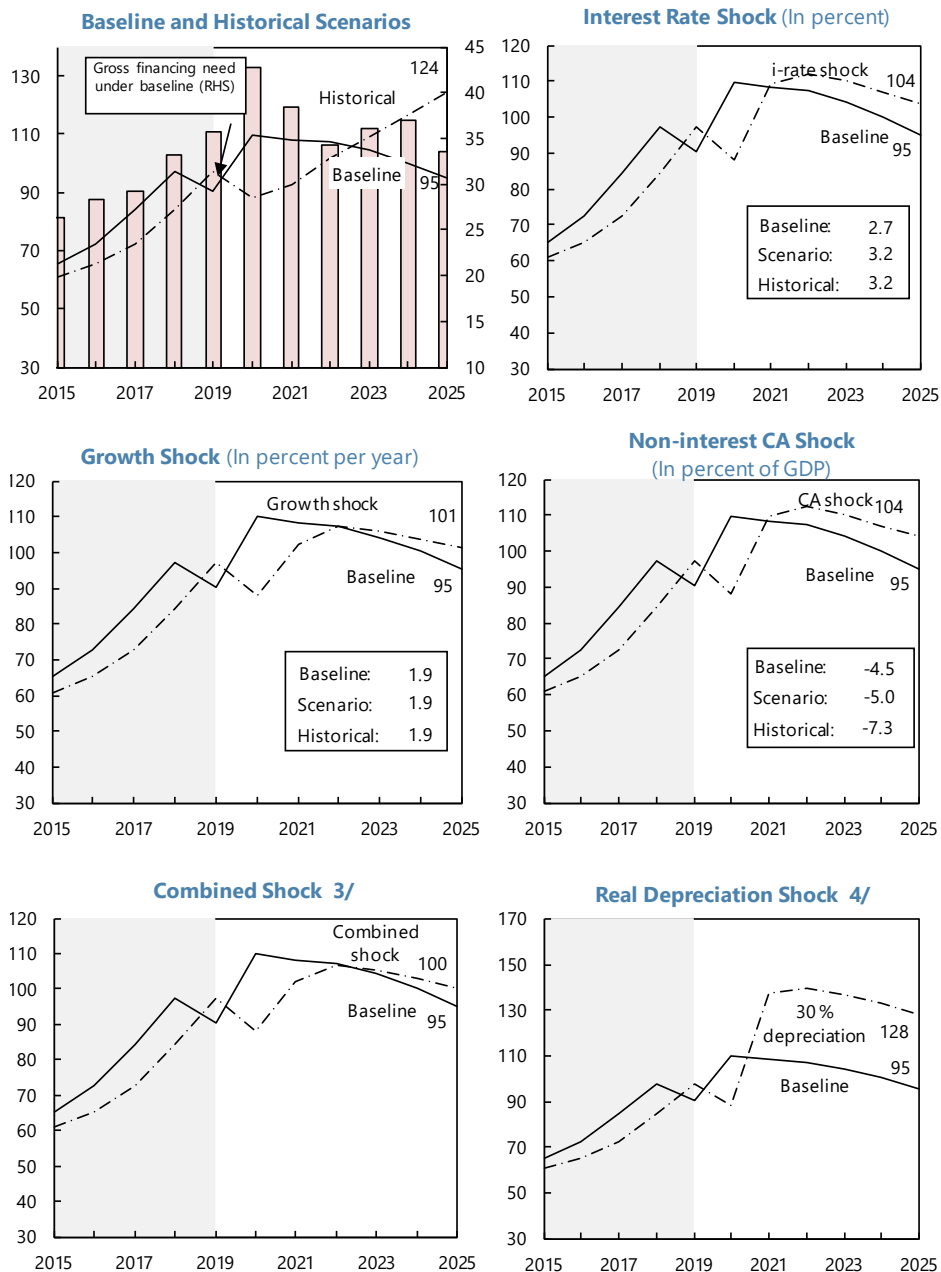
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

5/ The implied change in other key variables under this scenario is discussed in the text.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex Figure II.1. Tunisia: External Debt Sustainability: Bound Tests ^{1/2/} (Percent of GDP)



Sources: IMF, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks (except for growth which is a 3/4th standard deviation). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2019.

Attachment I. Letter of Intent

Tunis, April 2, 2020

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
USA

Madame Managing Director,

1. Tunisia was hit hard by the Covid-19 pandemic. The first case of Covid-19 was reported on March 2. Initially an imported disease, new cases have been surging among people with no travel history. The total number of confirmed cases to date amounts to about 300. Like other countries, this apparently low number conceals however a more complex reality. The Tunisian population is particularly exposed to the pandemic given the country's geographical proximity to the current disease clusters in South Europe, and the intensive human and economic relations between Tunisia and its European neighbors. Tunisia has around 217,000 nationals in Italy, 824,000 in France, and 103,000 in Germany. Since the beginning of the year, Tunisia has received 1.1 million visitors (nationals and foreigners) including from its most hit European neighbors, multiplying the risks of contamination for the local population. The extent of the pandemic is not fully known: the health system is under-resourced and does not allow yet extensive testing of the population. The virus must have inexorably reached all regions of the country including the disadvantaged ones, in connection with the visits of Tunisians working overseas to their families.

2. The economic consequences of the pandemic for Tunisia are expected to be severe and to jeopardize some of the macroeconomic achievements of 2019. As in other countries hit by the shock, Tunisia will likely experience a steep recession in 2020 with growth falling by up to 4.3 percent although exceptionally high uncertainty today does not allow for any precise projections. The initial impact of the pandemic may be exacerbated through several channels: (1) the containment measures taken by the government will directly and immediately affect small businesses and will slow down an already weak domestic activity; (2) unforeseen health care costs will weigh on a tight budget with weak buffers to meet these expenses; (3) the consequences of the declining global demand, border closures, and the disruption of the supply chain will affect the Tunisian exporting sector and weigh on remittances from diaspora; and importantly (4) the anticipated strains on the tourism sector, a pillar of the Tunisian economy (7 percent of GDP), could lead to a shortfall of 4 billion dinars of FX revenues this year, and threaten an estimated 150,000 direct jobs and 250,000 indirect jobs.

3. In this difficult context, Tunisia will benefit from our recent efforts to improve macroeconomic stability, and notably our success in (i) containing inflation at 6.7 percent in 2019 compared with 7.3 percent in 2018, (ii) reducing external vulnerabilities through a reduction in the

current account deficit to 8.8 percent of GDP in 2019 from 11.2 percent in 2018, (iii) building up reserve buffers to US\$7.4 billion by the end of 2019 from US\$5.2 billion at the end of 2018, (iv) narrowing the fiscal deficit to 3.9 percent in 2019 from 4.6 percent in 2018, and (v) curbing the trajectory in the public debt/GDP ratio to 72 percent by the end of 2019 from 78 percent at the end of 2018.

4. Since the virus outbreak, the Government's priority was to contain the spread of the disease and address the public health threat. Day after day, measures were tightened, going from closure of schools and universities, to the announcement, on March 13, of quasi level-3 epidemic prevention measures, including the closure of all maritime borders to travel, the suspension or restriction on flights to-and-from affected countries, followed by the closure of airspace and compulsory self-isolation measures for 14 days for all those entering the Tunisian territory, bans of public gatherings, cancellation of fairs and exhibitions, closure of places of worship, a night curfew, completed by general confinement starting March 22.

5. Beyond these immediate responses, the government has adopted a set of measures to address the Covid-19 outbreak in a broader perspective (see LOI Table 1). These measures, whose cost to the central government budget is estimated at about TD 2 billion, include support for the health sector, including through the purchase of emergency medical equipment and medicine, support for low-income households and other vulnerable segments of society, and support for firms suffering from financial stress due to the spreading virus. We are committed to ensuring maximum effectiveness of these measures by targeted assistance programs (especially toward AMG1 and AMG2) and strong governance and transparency in their implementation. To contain pressures on the budget, we commit to reviewing these time-bound measures on a monthly basis with the objective of phasing them out as soon as they are no longer needed. The measures will not become permanent.

6. To create space for the Covid-19 response measures while maintaining fiscal stability, the government has already taken steps to limit budgetary pressures and reduce urgent balance of payments needs. First, we introduced an automatic price adjustment mechanism for the three main car fuels (gasoil, gasoil 50, essence) to ensure convergence of pump prices with import prices and hence full cost recovery. This will be important to eliminate a big structural risk to our budget. The mechanism, which is based on by-law (arrêté) 028 published in the official gazette on April 3, 2020, will apply monthly adjustments to the pump prices of the three fuels to bring them in line with import prices plus a fixed mark-up for distribution and other costs. The maximum monthly change will be limited to +/- 1.5 percent from the existing pump prices in a first time of its application to avoid large price changes for consumers and firms in the short run; the maximum change will be increased to +/- 2 percent -at the latest by January 2021. In case the international price for Brent oil increases to at least US\$45 per barrel, the change to the +/- 2 percent band will be applied from the first month after crossing the US\$45 threshold. Price changes will be automatically applied as signaled by the pricing formula, with the process being overseen by a technical commission headed by the Ministry of Energy. The mechanism will be applied for the first time by April 8, resulting in a reduction of pump prices by 1.5 percent across all covered fuel categories. Second, we introduced

emergency measures on the civil service wage bill to prevent any hiring, non-statutory promotions, or new wage increases for 2020 beyond those already agreed with the UGTT labor union. Third, we increased tobacco prices in March for an expected yield of TD 200 million. Finally, we are implementing a temporary and targeted rescheduling of TD 3.4 billion in public investment to open space for Covid-19-related capital expenditures. The savings will be achieved through the delay of lower-priority projects to minimize the negative impact on growth and will be implemented through directives issued to the relevant line ministries.

7. Despite these difficult but necessary measures, we expect a larger than projected fiscal deficit for which about US\$1 billion (or 2.6 percent of GDP) in additional external financing would still need to be mobilized. The BOP need will be even larger, given the expected fallout of the Covid-19 outbreak also on the private sector and its access to external financing. To help cover these urgent budget and BOP needs, Tunisia requests emergency financing from the IMF in the equivalent of SDR 545.2 million (about US\$753.2 million), corresponding to a purchase of 100 percent of quota under the Rapid Financing Instrument (RFI). The government also requests cancellation of the current Extended Fund Facility arrangement with the Fund.

8. The RFI will contain short-term risks and provide a bridge towards a more durable solution to Tunisia's macroeconomic imbalances. It will be critical to help us cover the urgent scaling up of our medical response to the virus outbreak and address priority needs of low-income households and firms under stress. It will also help us in maintaining a reserve buffer above 3 months of imports to insure our economy against shocks or in the event of a protracted recovery from the Covid-19 outbreak.

9. To further reduce short-term risks, we will ensure realistic costing and maximum effectiveness of our fiscal crisis-response measures and will introduce safeguards to prevent the measures from becoming permanent. Moreover, we commit to addressing two structural challenges that weigh heavily on Tunisia's budgets once the current crisis abates. First, we plan to durably reduce the subsidies for electricity and natural gas while preserving social tariffs. This work stream will start with us adopting a reform strategy with the assistance of the World Bank. We will also implement a natural gas price increase after the Covid-19 crisis subsides to reduce the pressure of this subsidy on the budget. Achieving additional savings on the civil service wage bill will be another priority. We will start negotiations with the UGTT labor union to this effect in April 2020, including on wage policies for 2021 and the medium term; and have already started with an audit of the civil service to detect and reduce absenteeism and ghost workers. We consider all these measures critical for containing the increase in the fiscal deficit, limiting cuts in public investment to make room for crisis-related spending, and maintaining debt sustainability.

10. The CBT commits to pursuing a regular policy dialogue with IMF staff based on high-frequency data. Consistent with its price stability mandate, CBT stands ready to tighten monetary policy in case of a buildup of depreciation expectations that could lead to exacerbating pressure on inflation prospects. To preserve its international reserves, the CBT will also refrain from other FX interventions than those necessary to ensure price discovery; it will consult with IMF staff in the event of pressures on the FX market. We will monitor very closely the evolutions of the banking

sector, in particular with respect to credit and deposit growth and asset quality. Loan classification and provisioning rules will not be eased, and any loan guarantees and subsidies will be provided by the government rather than the CBT.

11. To further reduce budget and BOP pressures, we will intensify our efforts to mobilize additional financing, especially from our external official partners. We are already receiving pledges from several multilateral and bilateral partners to help with our Covid-19 response. We are also working with partner governments on a potential guarantee for future sovereign bond issuances in the currently difficult international context; and will further step-up our efforts to maximize financing from multilateral and bilateral sources. In this regard, we support the call of the WBG/IMF on all official bilateral development partners to mobilize further financing. We also established a National Solidarity Fund for grants from the Tunisian population, which already collected TD 140 million out of the TD 170 million expected for this year.

12. The RFI will pave the way for an EFF request to support our efforts to resume macroeconomic adjustment and support sustainable and inclusive growth. The new government is committed to request an EFF successor arrangement as soon as possible, in support of its economic policy reform agenda that is currently under development. Our fiscal priorities to reduce our large debt burden and make our budget more supportive of growth and fairness will include the reduction of the large civil service wage bill as a percentage of GDP, the phasing out of energy subsidies, a reform of state-owned enterprises and the implementation of an effective social safety net especially for low-income households. To further foster inclusive growth in the economy, we will introduce measures to revive the economy and support SMEs, enforce the rule of law and advance in the fight against corruption, and improve public services especially in the areas of education, health, and digitization.

13. We intend to continue the dialogue with the IMF on Tunisia's balance-of-payments difficulties and will avoid measures or policies that would compound these difficulties. In this spirit, we will not impose new or intensify existing restrictions on the making of payments and transfers for international transactions, trade restrictions for balance-of-payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

14. In line with IMF safeguards policy, we commit to undergoing an update of the safeguards assessment that will be completed before the approval of a new EFF arrangement. As in previous instances, we will provide IMF staff with the Central Bank's most recently completed external audit reports and authorize our external auditors to hold discussions with IMF staff. Since the funds obtained under this RFI will be used for budget financing, we have updated the existing memorandum of understanding between the Ministry of Finance and the Central Bank of Tunisia on their respective responsibilities for servicing the related financial obligations to the IMF.

15. We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RFI.

Please accept, Madame Managing Director, the expression of our highest consideration.

Sincerely yours,

/s/

Marouane El Abassi

Governor, Central Bank of Tunisia

/s/

Nizar Yaiche

Minister of Finance, Tunisia

LOI Table 1. Tunisia: Measures Implemented by the Tunisian Authorities to Deal with the Impact of Covid-19 (Millions of Tunisian Dinars)

Total measures	2,050
Revenue	260
<ul style="list-style-type: none"> • Postponement of CIT filing to end-May, except for companies subject to the rate of 35%. • Encouragement of VAT e-filing. • Suspension, until the end of May, of all tax controls and adjustments, as well as time limits for contesting. • Acceleration of VAT reimbursements (through weekly rather than biweekly decision meetings and assurance of reimbursement within a month). • Activation of the National Committee and regional reconciliation committees. • Rescheduling of tax arrears for up to 7 years. • Suspension of penalties for delayed tax return for three months (starting on April 1). • Immediate accreditation of tax certificated to businesses affected by the pandemic (without need to provide required documents). • Waiver of VAT for companies selling medicines (wholesalers and retailers). • Extension of car road tax payment (to April 30). • Amnesty on customs offenses against industrial establishments convicted before March 20, 2020 (with the latter required to pay the amounts due to customs with a 10% fine). • For all institutions, allow them to revalue their real estate and non-real estate assets included in their budgets according to their real value, while exempting the goodwill resulting from the revaluation provided that they do not sell them; this to consolidate the balance sheet of companies, among others in front of banks. 	100 100 10 30 20
Spending	1,790
Social spending	1,450
<ul style="list-style-type: none"> • Health care. <ul style="list-style-type: none"> ◦ Current spending. ◦ Creation, at the initiative of the CDC, of an investment mechanism of TD 100 million for the acquisition of equipment for hospitals and public health establishments. • Strategic stock of basic food items. • Support for low-income families. <ul style="list-style-type: none"> ◦ One-off cash transfer of TD 200 to 623,000 PNAFN beneficiary households. ◦ Discounted health care cards for AMG-2 beneficiaries. ◦ One-off cash transfer of TD 50 to 260,000 AMG-1 beneficiaries. ◦ One-off cash transfer of TD 200 for families taking care of elderly people without support. ◦ One-off cash transfer of TD 200 for families taking care of disabled family members. ◦ Restoration and no cut of electricity, gas and water for 2 months for delinquent customers. ◦ Support for homeless people. • Other. <ul style="list-style-type: none"> ◦ Support for unemployed (detail not yet provided). ◦ Support for the self-employed (fragile jobs). ◦ Report de paiement des crédits bancaires pour 6 mois pour les travailleurs ayant un revenu inférieur à 1000 dinars. ◦ Maintenance of health coverage; and family and single salary premia. ◦ Deferral of CNSS contributions until June. 	300 300 200 450 500 300 200
Financial	340
<ul style="list-style-type: none"> • Reduction of the policy rate by 100 bps. • Establishment of a financing line for SMEs of TD 300 million. • Activation of the mechanism for the State to take charge of the interest rate differential between the TMM and the effective interest rate, on investment loans for SMEs (max 3%). • Creation of an investment fund of TD 500 million (with a first closing of TD 100 million) on the initiative of the Caisse des Dépôts et des Consignations in order to finance strategic private companies with mechanisms similar to quasi-equity and allow the preservation of jobs. • Creation of a "bridging fund" of TD 100 million on the initiative of the CDC, for the repurchase of shares in investment funds for companies in strategic sectors which are going through difficulties. • For the benefit of the sectors most affected by the pandemic, setup of a mechanism allowing the State to guarantee new credits for management, operation and maintenance provided by the banking system until December 31, 2020 reimbursable over seven years, including two years of grace. The total amount of these credits is fixed at 500 MTD. The sectors concerned are those of tourism, transport, culture, etc. • Postponement (not credit restructuring) of payment of the installments of credits between March and September for companies and craftsmen classified 0 and 1 and possibility for classes 2 and 3 case by case. • Deferral of bank credit payments between March and september for workers with a net income of less than TD 1,000 classified 0 and 1 and possibility to extend the postponement for clients classified 2 and 3, case by case. • Imposition on banks with a LTD ratio of more than 120% at the end of a quarter to lower the ratio level by 1% each quarter. • Free cash withdrawal from ATMs. • Suspension of any commission applied to the electronic payment of billers and merchants for any transaction less than or equal to TD 100. • Provision of a free bank card (and/or pre-paid card) to interested customers. 	300 40
Other	0
<ul style="list-style-type: none"> • Permission for fully exporting companies in the food and health sectors to increase their marketing ratio on the local market from 30% to 100% in 2020. • Permission for fully exporting companies in other sectors to increase their local market marketing ratio from 30% to 50% in 2020. • Exemption from late tax payment penalties for a period of up to 6 months of companies with public contracts whose implementation has been disrupted by the coronavirus. • Creation of a cell within the Presidency of the government to support the companies most affected by the pandemic. The aim is to avoid loss of jobs. The cell will be made up of representatives from MoF, the Ministry of Social Affairs, Utica, UGTT, UTAP and APTBEF. The definition of "business affected by the pandemic" will be clarified later by a government decree after consultation with the monitoring unit at the level of the presidency of the government. The ministry said the cell will be responsible for monitoring the implementation of these measures, as well as ensuring respect for workers' rights and guaranteeing jobs. 	

Source: Tunisian authorities.

**Statement by Mr. Jafar Mojarrad, Executive Director for Tunisia, and
Mr. Samir Belhaj, Advisor on Tunisia
April 10, 2020**

On behalf of our Tunisian authorities, we thank Mr. Rother and his team for their hard work and sound policy advice. The authorities are also grateful to the Executive Board and management for their support and intense mobilization to help membership in these exceptional circumstances. Tunisia was hit hard by the Covid-19 pandemic, which is jeopardizing the improvement in its fiscal and external positions achieved in 2019 under the Extended Fund Facility (EFF) arrangement.

The scale of the urgent and exceptional expenditure in priority areas of health and social safety nets, and the expected deterioration of the balance of payments as a result of the measures to combat the coronavirus led our authorities, in consultation with staff, to cancel the EFF and request an emergency disbursement under the Rapid Financing Instrument (RFI).

Overview

Despite the fragile political and economic situation, Tunisians have shown an unwavering commitment to a democratic transition, participating actively and peacefully in the October 2019 parliamentary and presidential elections. Nevertheless, the formation of a new government came after a long process of negotiations lasting more than four months. Immediately thereafter, dialogue with IMF staff resumed in early March 2020 to discuss the completion of a sixth review under the EFF. However, with the rapid spread of the coronavirus and its new emergencies, and given the short time remaining before the EFF expires in May 2020, it became clear that completing the review would be extremely difficult.

While, as pointed out in the staff report, the public health system can respond to the crisis from a comparatively strong basis, the crisis has revealed some deficiencies, including lack of equipment, of testing kits, of intensive care beds, etc. The situation was exacerbated by the waves of migration of qualified doctors out of the country in recent years, and lately, by the contamination and quarantining of many health workers who were in the front line of the pandemic, which has increased the pressure on an already overburdened system.

The Authorities' Responses to the Covid-19 Outbreak

Our Tunisian authorities have rapidly undertaken a multi-pronged response to the Covid-19 outbreak, aimed first at protecting the population while avoiding a collapse of the social and economic fabric, to enable the economy to rebound quickly when the pandemic abates. Since

the outbreak of the virus, the government has been very proactive in its efforts to contain the spread of the disease and address the threat to public health. Measures have been progressively strengthened at an accelerated pace in light of lessons learned from the experience of other countries. Starting with the closure of schools and universities and the banning of public gatherings, the measures were rapidly reinforced by the closure of all maritime borders and the suspension of flights, culminating in a night curfew and a mandatory general lockdown from March 22.

The authorities have taken exceptional measures of an estimated cost exceeding the equivalent of \$700 million (1.8 percent of GDP). First, around \$102 million were allocated to address the shortcomings in health equipment. In addition, the equivalent of \$155 million had been allocated to help technically unemployed workers as well as vulnerable and low-income households. Furthermore, the banking sector has agreed, in consultation with the central bank, to defer repayment of personal debt for up to six months.

As for small and medium-sized enterprises and the self-employed affected by the economic downturn and threatened with bankruptcy, a set of measures has been decided to alleviate the financial burden and provide them with the necessary liquidity. These measures include—for affected businesses that would maintain employment—the temporary deferral of tax payments and social security contributions and, in agreement with the banking sector, the deferral of debt repayment to banks and financial institutions for a period of six months. A government guarantee line amounting to \$172 million has been set up to enable companies to apply for new loans, and a fund of \$240 million will be dedicated to assist in the restructuring and capitalization of affected strategic firms once the crisis is over.

On monetary policy, the central bank lowered the policy rate by 100 basis points to reduce the interest burden on business and households, while keeping the real interest rate in positive territory and continuing to closely monitor inflation developments.

In order to strengthen revenue, the government increased the price of tobacco in March and decided to generate additional savings vis-à-vis the initial budget, by freezing non-statutory hiring and promotions as well as any salary increases beyond those previously agreed with the union. In addition, \$1.17 billion of public investment had to be postponed. The authorities have also introduced a mechanism for the automatic adjustment of fuel prices in order to free the budget from the burden of fuel subsidies.

Financing Request Under the RFI

As in other countries hit by the shock, Tunisia will likely experience a steep recession in 2020 with an unprecedented expected contraction of growth of 4.3 percent of GDP. The economic damage of the pandemic will pass through several channels: (1) the containment measures will directly and immediately affect small businesses and will slow down an

already weak domestic activity; (2) unforeseen health care costs will weigh on an already tight budget; (3) the consequences of the declining global demand, border closures, and the disruption of the supply chain will affect export sectors and weigh on remittances from diaspora; and most importantly (4) the expected shock on the tourism sector, could wipe out \$1.3 billion of FX revenues this year, and threaten an estimated 150,000 direct jobs and 250,000 indirect jobs.

Our authorities are committed to minimizing the fiscal cost of their responses to Covid-19 crisis and to continuing their efforts to reprioritize expenditure and improve their quality. However, the projected fiscal deficit and increased BOP need will be larger than expected despite the difficult measures taken by the Government. The support provided under the RFI will help to cover part of the immediate expenditure needs and to maintain foreign exchange reserves at an adequate level.

To further fill the financing gap, the authorities will step-up efforts to maximize financing from other multilateral and bilateral sources.

Conclusion

The coronavirus pandemic has been an unprecedented burden on all countries and has highlighted some of the risks associated with the interconnectedness of the global economy and the importance of working together and strengthening international and multilateral cooperation. It has revealed many weaknesses, but also opportunities for future social and economic change, of which our Tunisian authorities are aware and which they are firmly determined to seize. In this regard, they are committed to continuing the dialogue with the IMF to explore solutions to the main economic and social challenges as well as innovative ways to support the country's transition. The RFI can only be a bridge to a more sustainable solution and the authorities look forward to starting discussions with staff on a successor program to support the government's strategy focused on strengthening macroeconomic and financial stability, promoting inclusion, equity, quality education and health system, the rule of law, and energy and digital transitions.