

CHAPTER 2 - ECONOMIC AND FINANCIAL TRENDS IN TUNISIA

In a context of recovery in the world economy (particularly in the euro zone, Tunisia's main partner) and based on growing external demand, benefiting the main exporting industries and tourism, Tunisia's economy posted 3% growth in 2010 in real terms. This was practically the same level as the year before, when the country was hit by fallout from the international economic and financial crisis. Economic growth, which was affected by sharp regression in agriculture and fishing as a result of adverse weather and substantial drop in oil refining activity remains below levels prior to the crisis (5% per annum).

This moderate pace of economic growth was sustained by recovery in export of goods and services though accompanied by faster progress in imports. Domestic demand, led by an increase in investment and sound performance in final consumption, especially household consumption. As for the country's financial balances, growth level was accompanied by wider deficit in current payments abroad due to the impact of higher world prices, and by higher inflationary pressure contrasting with control of public finance.

Despite recovery in employment, job creation was not high enough to reverse the unemployment rate, which remains a matter of concern, particularly for young graduates of higher education. Trend in domestic prices grew at a faster pace in 2010 because of the effects of imported inflation, as commodity prices soared and private consumption rose at a sustained pace.

As for 2011, 14 January Revolution opens promising medium term prospective at the level of economic and social development. Set up of democracy, freedom and good governance and cut with the previous regime will help release initiatives and enhance national and foreign investment and therefore economic growth.

However, on the short term, sharp pressure weighs on the pace of the economic activity and on financial balances in line with disruptions that impede production and export of goods and services in key sectors along with events in Libya. Thus, the economic growth will post a quasi-stagnation in 2011 that will in term lead to wider unemployment and greater needs for external resources to curb the deficit of the State budget and of the balance of payments.

SECTION 1 – SECTORAL ANALYSIS OF ECONOMIC GROWTH

Despite certain recovery in production of most sectors, stimulated by vigorous foreign demand growth rate in 2010 was lower than the 4% initially projected. This was due to negative growth in agriculture and fishing (-8.7%), with the cereal harvest plummeting by some 57% to 10.8 million quintals and olive oil production down by 150,000 tonnes. If agriculture and fishing sector is excluded, economic growth would grow from 2.7% in 2009 to 4% in 2010. This trend was based on renewed growth in manufacturing industries (mechanical/electrical, textiles-clothing/leather-footwear), which suffered from a regression in 2009. There was higher production of mechanical and electrical goods, phosphate-based products, and building materials, helping to re-launch exports.

Non manufacturing industries grew at a faster pace, thanks to a sustained increase in production of natural gas (3.3 billion cubic meters) as well as in construction and civil engineering activities. But production of crude oil continued to drop, due to decline at the main oilfields of El Borma and Ashtart (3.7 million tonnes) and there was a slight drop in electricity production (14.8 billion kWh). In the mining sector, production of lime phosphate and iron ore went up, by some 12% to 8.1 millions tonnes for the former and by 19% to 180,000 tonnes for the latter.

Market services grew in 2010 at a faster pace, due mainly to ongoing progress in the sector of communications and sound performance in tourism and transport as well as financial system, after conditions turned more favourable than in 2009 and foreign trade picked up.

Tourism, Tunisia's main source of foreign currency, recorded stagnation in entries by non residents at 6.9 million tourists because of a 2.4% drop in the number of visitors from the Maghreb, offset by renewed 2% growth in entries by Europeans. Overall tourist bednights went up by 2.7% after decreasing by a year earlier, coming to 35.6 million units. Most of these bednights (more than 90%) continued to be generated by non residents, with Europeans predominating. Despite efforts to promote domestic tourism, which would boost performance in the sector, the share of resident bednights remained relatively low (less than 10% of overall bednights) vs. an objective set at 15% for the medium term. This compares to 40% or higher in a number of developed countries.

Tourist receipts in foreign currency went up by a moderate 1.5% to 3523 MTD, a trend that reflects the persistent impact of the world economic and financial crisis on tourism.

For other market services, transport was stimulated in particular by renewed growth in foreign trade and air transport, which meant higher growth in the sector after virtual stagnation in 2009. The communications sector continued to grow at a high rate, as has been the case for the past decade, in line with the development and large scale use of new information and communication technologies (ICT). Commerce posted a slightly higher growth rate, taking advantage of dynamic domestic demand and ongoing reforms (notably modernisation of distribution circuits and steady supply of the local market) as well as promotional activities organised on a regular basis for consumers.

Like trends in production, sectoral contributions to economic growth were marked in 2010 by greater input by market services (which continue to be the Tunisian economy's motor for growth) and to a lesser degree non manufacturing industries contrasting with the negative contribution of agriculture and fishing. After a negative growth in 2009, manufacturing industries returned to positive growth in 2010 thanks to sound performance in exports.

Projections for 2011 growth are coloured by the events that took place in the country following the January 14th Revolution and by fallout from worsening conditions in the region, especially Libya. Achievements in the first half of the year was marked by decline in industrial production and in certain service activities (especially tourism), falling FDI and slower growth in foreign trade. Growth was slower for imports than for exports, due to lower purchases of capital goods and slower growth in raw materials and semi-finished goods destined for the production cycle.

The difficult conditions prevailing since the beginning of the year 2011 required introduction by the transitional government of an emergency economic and social programme targeting recovery in activity and investment (both public and private), export promotion, and greater regional development and job creation, along with adoption of a supplementary finance law. But the economic growth rate will be considerably lower than in 2010, at about 0.2% as per estimates of the Ministry of Planning and international Cooperation, a level that is insufficient for job promotion and stable financial fundamentals.

Application of an economic recovery programme will certainly lead to widening of the budgetary deficit, which is likely to come in at 4.6% of GDP for 2011. Similarly, the deficit in the balance of current payments would increase to 5.9% of GDP because of declining tourism receipts and labour income. The balance of capital and financial transactions will also be affected by the drop in FDI. This situation, which had an impact on the level of foreign currency reserves, requires mobilisation of a significant level of external financing, notably the support promised in the framework of the Economic and Social Programme to be implemented in the years ahead by international institutions.

TRENDS IN ADDED VALUE BY SECTOR OF ACTIVITY IN REAL TERMS AND CONTRIBUTION TO ECONOMIC GROWTH

Description	Added value growth (in %)			Contribution to economic growth (in percentage points)		
	2009	2010	2011*	2009	2010	2011*
Agricultural and fishing	8.8	-8.7	7.8	0.7	-0.7	0.6
Industry	0.6	2.6	0.6	0.2	0.8	0.2
Manufacturing industries	-1.7	1.1	3.9	-0.3	0.2	0.6
of which :						
-Agricultural industries & foodstuff	1.9	2.2	1.0	0.1	0.1	0.0**
-Mechanical & electrical industries	-4.0	25.0	5.0	-0.3	0.1	0.6
-Textile, clothing, leather & footwear industries	-9.6	6.0	-0.5	-0.3	0.2	0.0**
-Chemical industries	2.5	6.8	-5.0	0.1	0.1	-0.1
Non manufacturing industries	3.5	4.7	-3.5	0.5	0.6	-0.4
of which :						
-Mines	3.0	13.0	-52.0	0.0**	0.1	-0.5
-Oil and natural gas	3.4	3.5	-2.1	0.2	0.2	-0.1
Market services	3.1	5.2	-3.7	1.3	2.1	-1.5
of which :						
-Commerce	3.0	3.4	2.0	0.2	0.3	0.2
-Transport	0.5	2.8	-7.0	0.0**	0.2	-0.5
-Communications	15.9	13.5	12.5	0.6	0.6	0.6
-Tourism	-0.5	4.3	-45.0	0.0**	0.2	-2.3
-Financial structures	2.0	5.0	3.0	0.1	0.2	0.1
GDP at market price	3.1	3.0	0.2	3.1	3.0	0.2

* Updated forecasts.

Source : Ministry of Planning and International Cooperation

** Contribution to growth is almost nil.

SECTION 2 – TRENDS IN GLOBAL DEMAND

The beginning of improvement in economic conditions (both worldwide and domestically) in the second half of 2010 led to faster growth in domestic demand and net recovery in foreign trade in goods and services. But this trend was not strong enough to re-launch certain economic activities after deterioration because of unfavourable outside factors such as adverse weather and tough foreign competition in certain sectors and this prevented an increase in job creation in line with set goals.

1. Domestic demand

Thanks to a sustained upward trend in final consumption, investment that grew at a faster pace than the year before, and a higher increase in stocks, domestic demand increased at a higher rate than in 2009: 10.4% in current prices and 5.5% in real terms. This bears out its role as a major lever for the country's development, especially at a time of changing international conditions. But its contribution to economic growth has decreased, down from 3.3 points in 2009 to 1.5 percentage point in 2010, following major recovery in export of goods and services at a faster pace than domestic demand.

Final consumption grew at a high 9% in current prices (4.5% in real terms), based on private consumption sustained by an increase in income and by greater recourse to bank financing, as seen in the 21.4% increase in the outstanding balance of non professional loans to private individuals. This situation manifested itself as a slight increase in average propensity to consume, which rose from 78% to 78.6% of Gross National Disposable Income (GNDI).

In the area of **investment**, gross fixed capital formation (GFCF) posted slightly higher growth than the 9.3% recorded for 2009, when implementation of an economic recovery programme brought about an increase in public investment to offset flat activity in a private sector that was still reeling from the