

TUNISIA



ECONOMIC MONITOR

Reforming energy subsidies for a more sustainable Tunisia

Spring 2023



WORLD BANK GROUP
Middle East and North Africa Region

Tunisia

Economic Monitor

Reforming energy subsidies for
a more sustainable Tunisia

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Middle East and North Africa Region

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TABLE OF CONTENTS

Acknowledgements	v
List of Acronyms	vii
Executive Summary	ix
Résumé Analytique	xiii
ملخص تنفيذي	xvii
Part A: Recent Economic Development	1
1. The moderate economic recovery is further slowing down	1
2. The global price rally caused a widening of the current account deficit in 2022.	3
3. Securing external financing is increasingly difficult and has led to shortages of basic products	5
4. Inflation has reached record levels pushing the Central Bank to intervene	6
5. The budget deficit continues to be high under the pressure of subsidies	8
6. Public debt is rising further, complicating debt servicing.	9
7. Growth prospects remain uncertain.	10
Part B: Reforming Energy Subsidies for a More Sustainable Tunisia	15

List of Figures

Figure 1	Tunisia's Bumpy Economic Recovery	2
Figure 2	Tunisia has One of the Weakest Economic Recoveries in the Region.	2
Figure 3	GDP Growth was Slow in 2022	3
Figure 4	Unemployment Returns to Pre-Crisis Levels and the Participation Rate Falls	3
Figure 5	The Deterioration of the Trade Deficit is Mainly Due to the Increase in Prices of Energy and Agricultural Products on the International Markets	4
Figure 6	The Trade Balance of the Offshore Sector has Become More Positive While That of the Rest of the Economy has Become More Negative.	4
Figure 7	Tunisia's Widening Current Account Deficit Due to Trade Deficit.	5
Figure 8	FDI and Portfolio are Unable to Cover the Widening External Financing Needs	5
Figure 9	The Rising External Financial Needs were Associated with a Fall in Reserves Only in the Second Half of 2022.	6
Figure 10	Intensity of Google Search of the Word 'Penurie' (i.e., Scarcity) [scale 0–100], Quarterly Moving Average	6
Figure 11	The Dinar has Slightly Depreciated Against the US Dollar but Less so than other Countries in the region	7
Figure 12	Tunisian Inflation has Increased as in other Countries in the Region	7
Figure 13	Despite of the Interest Rate Increases Real Rates Remain Negative as in Most of the Region and High-Income Countries	7
Figure 14	Subsidies Drove the Recent Growth in Expenditures.	8
Figure 15	Taxes—Particularly Indirect—have Continued to Grow Significantly	8
Figure 16	Tunisia's Public Debt has Grown over the Past Years, Particularly its Domestic Part	9
Figure 17	Rising Debt Repayment and Interest Payments have Driven Up Debt Service	9
Figure 18	Claims on the State are Increasing Faster than Loans to the Economy	10
Figure 19	Financing Needs are on the Rise Particularly on the External Side	11
Figure 20	Heavy External Debt Reimbursement Will Come Due in Q3-Q4 2023.	11
Figure 21	Evolution of Subsidy for Different Energy Products	16
Figure 22	Energy Subsidies are Closely Linked to Oil Price and the Exchange Rate.	16
Figure 23	The Mounting Debt of the SOEs Absorbing Energy Subsidies.	17
Figure 24	The Slow Pace of Tunisia towards Renewable Energy.	18
Figure 25	Fuel and Gas Subsidies are Mainly Captured by Richer Households	19

List of Boxes

Box 1	The Results of the Latest Household Budget Survey	2
Box 2	The Beneficial Offshore Regime in Tunisia	4
Box 3	Recent and Perspective Government Measures to Accelerate the Recovery.	12

List of Tables

Table 1	Key Macroeconomic Indicators	13
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The Tunisia Economic Monitor (TEM) is a report that provides information on recent economic developments and policies in Tunisia, as well as the country's economic outlook and challenges to its development. The report is aimed at a diverse audience, including policy makers, business leaders, financial market actors, and analysts and professionals working on or in Tunisia. It is produced by the North Africa and Middle East department of the World Bank Group's Macroeconomics, Trade and Investment (MTI) global practice.

Each issue of the TEM contains a section on recent economic developments and a discussion on the economic outlook, followed by a special section based on the World Bank's analysis of Tunisia. The report was originally published in English with the title "Reforming Energy Subsidies for a More Sustainable Tunisia" and was first published in 2023. In case of any discrepancy, the original English language version prevails.

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For information on the World Bank and its activities in Tunisia, please visit: <https://www.worldbank.org/en/country/tunisia> or <https://www.albankaldawli.org/ar/country/tunisia> (Arabic). For questions or comments on the content of this publication, please contact Massimiliano Cali (mcali@worldbank.org) or Eric Le Borgne (eleborgne@worldbank.org).

The deadline for input and forecast preparation is March 17, 2023.

LIST OF ACRONYMS

AFD	Agence Française du Développement	INS	National Institute of Statistics
BCT	Bank Central de la Tunisie	kWh	Kilowatt hour
CAD	Current Account Deficit	LPG	Liquefied Petroleum Gas
CIT	Corporate Income Tax	MENA	Middle East and North Africa
EBCNV	National Survey on Household Budget, Consumption, and Standard of Living	SOE	State-Owned Enterprise
EFF	Extended Fund Facility	STIR	Tunisian Company of Refining Industry
ELMED	Euro-Mediterranean Interconnection Project (ELMED)	STEG	Tunisian Company of Electricity and Gas
ETAP	Entreprise Tunisienne d'Activités Pétrolières	TEM	Tunisian Economic Monitor
GDP	Gross Domestic Product	TND	Tunisian Dinar
GOT	Government of Tunisia	TND/bbl	Tunisian Dinar per barrel of oil
IMF	International Monetary Fund	TSP	Tunisian Solar Plan
		UGTT	Tunisian General Labor Union
		US	United States
		VAT	Value Added Tax

EXECUTIVE SUMMARY

The economic recovery has been slowing in 2022

After the moderate rebound in 2021 (4.4 percent) following a sharp contraction in 2020 (-8.8 percent), Tunisia's economy slowed down with real GDP growing by 2.5 percent in 2022. As the pace of economic reforms has not picked up in 2022, many regulatory barriers to growth have remained in place and the global commodity price rally has taken a toll on an economy reliant on energy and food imports. Tunisia has recorded an average growth rate of -0.6% since the pandemic (2019-22), one of the weakest economic performances in the Middle East and North African (MENA) region. The weak recovery has led to more working-age people to exit the labor market, as they are increasingly discouraged about job prospects (the labor participation rate dropped to 46.5 percent in 2022 from 47.1 percent in 2019). While the labor market participation rate remains low for women relatively to men, gender employment disparities are slowly declining.

Higher global energy and food prices increased pressures on the current account

The adverse terms of trade shock induced by the war on Ukraine have raised the merchandise trade deficit to the highest level in decades. The deficit jumped from 10.2 percent of GDP in 2021 to 15 percent of GDP in 2022.

The energy and food balances account for 69 percent of this increase and for 53 percent of the deficit itself. Exports have not kept up with the strong increase of commodity imports only exports in the more business-friendly regulatory 'offshore' regime grew significantly in 2022. The stronger performance of the offshore sector is consistent with less burdensome regulatory regime than the rest of the economy, including exemptions from burdensome trade procedures on imported inputs and unhindered access to foreign exchange. The trade deficit has pushed up the current account deficit (CAD), from 6.0 percent of GDP in 2021 to 8.5 percent of GDP in 2022, in spite of the resilience of labor remittances and tourism receipts.

Given Tunisia's limited access to foreign capital, the rising CAD led to shortages of some basic imported products

Given Tunisia's limited ability to tap into foreign capital markets, the rising CAD and debt repayments translated into higher external financing needs. Tunisia's constraints in accessing international financing have made it increasingly difficult to secure the funds to cover these needs. In the absence of alternative financing, the rising external financing needs led to some withdrawal of foreign exchange reserves in the second half of 2022. With thinning reserves and increasing SOE debt, the rising CAD has translated into shortages

of basic products, including fuels, cereals, sugar, dairy products, coffee and pharmaceutical products. The increasing external financing needs along with the strength of the US Dollar have also translated into greater pressure on the Dinar.

Inflation is rising driven by higher global prices pushing up interest rates

Inflation is on the rise, propped up mainly by higher global prices, and reaching its highest level in more than three decades. Rising inflation led the Central Bank to raise its key interest rate by a cumulative 175 basis points throughout 2022. The effectiveness of this policy will depend on accompanying measures to pursue macroeconomic stabilization and adopt the structural reforms needed to resume a sustainable growth trajectory. As real interest rates remain negative, the Central Bank remains with maneuvering space.

Pressure on the budget increased as subsidies grew amid rising global prices, and financing the debt has become more challenging

The generous consumer subsidy policy and the global commodity price rally have been putting pressure on the fiscal deficit and financing needs. In particular energy subsidies more than doubled from 2.6 to 5.3 percent of GDP in 2021–22. Despite this increase, the budget deficit slightly declined as a share of GDP (from 7.6 percent in 2021 to 6.6 percent in 2022). This is due to the sustained increase in tax revenues—as a result of new taxes and tighter enforcement—and to the reduction in capital expenditures in real terms, which does not bode well for future growth and for the quality of public services. The sustained budget deficits of the past years have maintained public debt to one of the highest levels in decades (79.3 percent of GDP in 2022), raising also Tunisia's debt service burden. Given the limited access to international financing, the Central Bank (BCT) continues to refinance the domestic banking sector for treasury bond purchases. The sustained use of local funding

to finance public debt continues to crowd out the credit to the rest of the economy.

Growth prospects remain subdued with significant downside risks

The World Bank forecasts a 2.3 percent GDP growth in 2023, with large potential deviations depending on the evolution of financing conditions and structural reforms. The relatively more benign course of commodity prices along with some expenditure reforms are expected to reduce the current account deficit, which would remain difficult to finance without reforms. The government plans a fiscal consolidation in 2023, mainly by reducing energy subsidies and the wage bill in real term and by continuing to increase revenues. Financing the deficit will continue to be challenging. The agreement on extended financial facility (EFF) program with the IMF, along with the implementation of an ambitious reform agenda, would help cover the external financing needs. Continued pressure on global commodity prices and the sustained uncertainty around external financing pose significant downside risks to the Tunisian economy.

Reforming energy subsidies would help reduce fiscal and import costs, improve SOEs' financial viability and stimulate the green transition

The global energy price spike has put Tunisia's energy subsidies in the spotlight as most prices of fuels, electricity, gas and liquefied petroleum gas (LPG) continue to be below cost. This subsidy scheme has become increasingly costly for Tunisia to maintain, undermining macro-fiscal sustainability and the trade deficit, particularly at a time of high international energy prices. The subsidy averaged 2.1 percent of GDP over the period 2011–21 and jumped to 5.3 percent of GDP in 2022. The subsidy system has also created major financial challenges for the state owned energy companies STIR and STEG as the state is increasingly unable to secure the resources to cover their losses. This has impaired the SOEs' ability to plan and invest so as to ensure the security of



energy supply. By disrupting the financial viability of STEG and by keeping energy prices artificially low, subsidies also undermine the green transition. Phasing out energy subsidies can help address the macro-fiscal crisis, improve SOEs' financial viability and stimulate the green transition. However, it will be key to protect the most vulnerable households from such price increases. This is especially the case for subsidies of bottled gas and electricity—for these subsidies benefit also lower-income households. Fuel subsidies and natural gas, on the other hand, go in large part to

better-off population groups.. A mix of tariff and transfers could help neutralize the transition costs for low income households. In addition, accompanying subsidy reforms with programs to help businesses and households invest in energy efficiency and self-generation can help tame inflationary pressure on households and firms, maintain firm competitiveness and support the green transition. Financial restructuring and modernization of SOEs would be key complements to subsidy reforms to enable energy SOEs to restore their financial viability.

RÉSUMÉ ANALYTIQUE

La reprise économique a été lente en 2022

Après un modeste rebond en 2021 (4,4 pour cent) qui a suivi la forte contraction de 2020 (-8,8 pour cent), le PIB réel de la Tunisie a augmenté de 2,5 pour cent en 2022. La lenteur dans le rythme de l'implémentation des réformes économiques, la persistance des obstacles réglementaires à la croissance conjugués avec la hausse mondiale des prix des produits de base, a eu des répercussions sur une économie dépendante des importations de l'énergie et des denrées alimentaires. La Tunisie a enregistré un taux de croissance moyen de -0,6 pour cent depuis la pandémie (2019-22), l'une des plus faibles performances économiques de la région Moyen-Orient et Afrique du Nord (MENA). Le faible rebond s'est traduit par un plus grand taux de sortie du marché du travail, car les demandeurs d'emplois sont de plus en plus découragés par les perspectives d'emploi (le taux de participation au marché du travail est tombé de 47,1 pour cent en 2019 à 46,5 pour cent en 2022). Si le taux de participation des femmes au marché du travail reste plus faible que celui des hommes, les disparités entre les genres sont en train de diminuer lentement en termes de taux de participation et d'emploi.

La hausse des prix mondiaux de l'énergie et des denrées alimentaires a accru les pressions sur la balance courante

Le choc défavorable sur les termes de l'échange induit par la guerre sur l'Ukraine a porté le déficit commercial de 10,2 pour cent du PIB en 2021 à 15 pour cent en 2022 à son niveau le plus élevé depuis des décennies. La balance énergétique et alimentaire a été responsable respectivement de 69 pour cent de cette augmentation et de 53 pour cent de ce même déficit. Les exportations n'ont pas suivi le rythme de croissance des importations de produits de base. Seules les exportations dans le cadre du régime réglementaire «offshore», plus favorable aux affaires, ont connu une croissance significative en 2022. La meilleure performance du secteur offshore est cohérente avec son régime réglementaire moins contraignant que celui du reste de l'économie, y compris les exemptions de procédures commerciales sur les intrants importés et l'accès sans entrave aux devises étrangères. Le déficit commercial a fait grimper le déficit de la balance courante (DBC) malgré l'accroissement des transferts de fonds des émigrés et des recettes du tourisme.

Compte tenu de l'accès limité de la Tunisie aux capitaux étrangers, la hausse du déficit de la balance courante a entraîné une pénurie de certains produits de base importés

L'accès limité de la Tunisie aux capitaux étrangers, la hausse du DBC ainsi que l'augmentation des remboursements de la dette se sont traduits par une augmentation des besoins de financement exteux-memes de plus en plus difficiles à couvrir. En l'absence de financement alternatif, l'augmentation des besoins de financement extérieur a entraîné une réduction relative des réserves de change au cours du second semestre 2022. La diminution des réserves de change ainsi que la hausse du DBC accompagnées d'une augmentation concomitante de la dette des entreprises publiques ont généré des pénuries des pénuries de produits de base, notamment de carburants, de céréales, de sucre, de produits laitiers, de café et de produits pharmaceutiques. Par ailleurs, l'augmentation des besoins de financement externe et l'appréciation du dollar américain se sont également traduites par une pression accrue sur le dinar.

L'inflation augmente en raison de la hausse des prix mondiaux qui pousse les taux d'intérêt à la hausse

L'inflation est également en hausse, due principalement due à l'augmentation des prix mondiaux, qui ont atteints les niveaux les plus élevés depuis plus de trois décennies. La hausse de l'inflation a poussé la Banque Centrale (BCT) à relever son taux d'intérêt directeur de 175 points de base en 2022. L'efficacité de cette politique dépendra des mesures d'accompagnement visant à poursuivre la stabilisation macroéconomique et à adopter les réformes structurelles nécessaires pour retrouver une trajectoire de croissance durable. Comme les taux d'intérêt réels restent négatifs, cela laisse une marge de manœuvre supplémentaire à la Banque Centrale.

La pression sur le budget s'est accrue avec l'augmentation des subventions dans un contexte de hausse des prix mondiaux, et le financement de la dette est devenu plus difficile

La politique généreuse des subventions à la consommation et la hausse mondiale des prix des produits de base ont exercé une pression sur le déficit budgétaire et les besoins de financement. En particulier, les subventions à l'énergie sont passés de 2,6 à 5,3 pour cent du PIB en 2021-22. Malgré cette augmentation, le déficit budgétaire a légèrement diminué en pourcentage du PIB (de 7,6 pourcents en 2021 à 6,6 pour cent en 2022. L'amélioration du déficit budgétaire est due à l'augmentation soutenue des recettes fiscales —du fait de nouvelles taxes et d'une application plus rigoureuse de la réglementation et à la réduction des dépenses d'investissement en termes réels, ce qui risque d'affecter la croissance future et pour la qualité des services publics. Les déficits budgétaires soutenus de ces dernières années ont porté la dette publique à près de 80 pour cent du PIB en 2022, ce qui a également augmenté le service de la dette. Compte tenu de l'accès limité au financement international, la BCT continue de refinancer le secteur bancaire national afin de permettre l'achat des bons du Trésor. Le recours soutenu au financement domestique pour financer la dette publique continue d'évincer le crédit aux dépens du reste de l'économie.

Les perspectives de croissance restent modérées et les risques de baisse sont importants

La Banque mondiale prévoit une croissance du PIB de 2,3 pour cent en 2023, avec des écarts potentiels importants en fonction de l'évolution des conditions de financement et du rythme de mise en œuvre des réformes structurelles. L'évolution relativement plus favorable des prix des produits de base ainsi que

certaines réformes relatives aux dépenses publiques devraient permettre de réduire le déficit de la balance courante, qui resterait difficile à financer sans réformes. Le gouvernement prévoit un assainissement budgétaire en 2023, principalement en réduisant les subventions énergétiques et la masse salariale en termes réels et en continuant à veiller à augmenter les recettes. Le financement du déficit demeurera un véritable défi pour l'année 2023. L'accord sur un programme au titre du mécanisme élargi de crédit (MEDC) avec le FMI ainsi que la mise en œuvre d'un programme de réformes ambitieux permettraient de couvrir les besoins de financement externe. La pression continue sur les prix mondiaux des produits de base et l'incertitude liée au financement extérieur font peser d'importants risques à la baisse sur la croissance de l'économie tunisienne.

Réformer le système de subventions énergétiques pourrait aider à réduire les coûts fiscaux, rationaliser les importations, améliorer la viabilité financière des entreprises publiques et stimuler la transition verte

La flambée des prix mondiaux de l'énergie a placé les subventions énergétiques de la Tunisie sous pression, car la plupart des prix des carburants, de l'électricité, du gaz et du gaz de pétrole liquéfié (GPL) continuent d'être inférieurs aux coûts de recouvrement. Ce système de subventions est devenu de plus en plus coûteux à maintenir pour la Tunisie, compromettant la viabilité macro-fiscale et mettant sous pression le déficit commercial, à un moment où les prix internationaux de l'énergie sont élevés. La subvention a représenté en moyenne 2,1 pour cent du PIB sur la période

2011–21 et a bondi à 5,3 du PIB en 2022. Le système de subvention a également créé d'importants défis financiers pour les entreprises publiques du secteur de l'énergie, la STIR et la STEG, car l'État est de moins en moins en mesure de mobiliser les ressources nécessaires pour couvrir leurs pertes. Ces difficultés financières ont entravé la capacité des entreprises publiques à planifier et à investir pour garantir la sécurité de l'approvisionnement énergétique. En affectant la viabilité financière des STEG et en maintenant les prix de l'énergie artificiellement bas, les subventions nuisent également à la transition verte. La suppression progressive des subventions énergétiques peut contribuer à résoudre la crise macro-fiscale, à améliorer la viabilité financière des entreprises publiques et à stimuler la transition verte. Il est toutefois essentiel d'envisager des mesures de mitigation de l'impact de la réforme sur les ménages les plus vulnérables. Hormis les subventions aux carburants, qui profitent principalement aux ménages les plus riches, les autres subventions énergétiques profitent également aux ménages à plus faibles revenus. Un mix de hausse des tarifs et de distribution des transferts cash pourrait aider à neutraliser les coûts de transition pour les ménages à faibles revenus. En outre, accompagner les réformes des subventions de programmes pour aider les entreprises et les ménages à investir dans l'efficacité énergétique et l'autoproduction peut contribuer à maîtriser la pression inflationniste sur les ménages et les entreprises, et à maintenir la compétitivité des entreprises tout en soutenant la transition verte. La restructuration financière et la modernisation des entreprises publiques seraient des compléments essentiels aux réformes des subventions pour leur permettre de rétablir leur viabilité financière.

ملخص تنفيذي

الانتعاش الاقتصادي يتباطأ في عام 2022

بعد الانتعاش المعتدل في عام 2021 (4.4 في المائة) إثر انكماش حاد في عام 2020 (-8.8 في المئة)، ارتفع إجمالي الناتج المحلي الإجمالي بتونس بمعدل 2.5 في المائة في عام 2022. ونظرًا لعدم تسارع وتيرة الإصلاحات الاقتصادية في عام 2022، فقد ظلت هناك العديد من الحواجز التنظيمية أمام النمو، كما أثر ارتفاع الأسعار العالمية للمواد الأولية سلبًا على الاقتصاد الذي يعتمد على واردات الطاقة والغذاء. وسجلت تونس متوسط معدل نمو بلغ -0.6% منذ الجائحة (2019-2022)، وهو أحد أضعف الأداء الاقتصادي في منطقة الشرق الأوسط وشمال إفريقيا. وقد أدى الانتعاش الضعيف في خروج المزيد من الأشخاص من سوق العمل، حيث يشعر بعضهم بالإحباط بشكل متزايد بشأن فرص العمل (انخفض معدل المشاركة في العمل إلى 46.5 في المائة في عام 2022 من 47.1 في المائة في عام 2019). وبينما يظل معدل المشاركة في سوق العمل منخفضًا بالنسبة للنساء نسبيًا مقارنة بالرجال، فإن الفوارق بين الجنسين آخذة في الانخفاض ببطء من حيث المشاركة في العمل ومعدلات التشغيل.

ارتفاع أسعار الطاقة والغذاء العالمية يزيد من الضغوط على الحساب الجاري

أدت معدلات التبادل التجاري السلبية الناجمة عن الحرب على أوكرانيا إلى رفع العجز التجاري للبضائع إلى أعلى مستوى له منذ عقود. زاد العجز من 10.2% من الناتج المحلي الإجمالي في عام 2021 إلى 15% من الناتج المحلي الإجمالي في عام 2022. تعود 69 في المائة من هذه الزيادة و 53 في المائة من العجز نفسه إلى حسابات الطاقة والغذاء. ولم تواكب الصادرات وتيرة ارتفاع واردات السلع الأساسية، حيث تمت الصادرات فقط في نظام التصدير الكلي الأكثر ملاءمة للأعمال التجارية بشكل كبير في عام 2022. حيث يتناغم الأداء القوي للقطاع العامل تحت نظام التصدير الكلي مع نظام تشريعي أقل عبثًا من بقية قطاعات الاقتصاد، بما في ذلك الإعفاءات

من الإجراءات التجارية المرهقة على المدخلات المستوردة والوصول الغير المقيد إلى العملة الأجنبية. وقد دفع العجز التجاري العجز في الميزانية الجارية (CAD) للارتفاع من 6.0% من الناتج المحلي الإجمالي في عام 2021 إلى 8.5% من الناتج المحلي الإجمالي في عام 2022، على الرغم من تواصل تحويلات العمال بالخارج وإيرادات السياحة.

نظرا لمحدودية وصول تونس إلى رأس المال الأجنبي، أدى عجز الحساب الجاري إلى نقص في بعض المنتجات الأساسية المستوردة.

ونظرا لقدرة تونس المحدودة على الاستفادة من رأس المال الأجنبي، ترجم ارتفاع عجز الحساب الجاري وسداد الديون إلى ارتفاع احتياجات التمويل الخارجي. وقد زادت القيود التي تواجهها تونس في الحصول على التمويل الدولي من صعوبة تأمين الأموال اللازمة لتغطية هذه الاحتياجات. وفي غياب بدائل للتمويل، أدى ارتفاع احتياجات التمويل الخارجي إلى سحب بعض احتياطات النقد الأجنبي في النصف الثاني من عام 2022. ومع تضاؤل الاحتياطات وزيادة ديون الشركات التابعة للدولة، ترجم ارتفاع عجز الحساب الجاري إلى نقص في المنتجات الأساسية، بما في ذلك الوقود والحبوب والسكر ومنتجات الألبان و القهوة والمنتجات الصيدلانية. كما ترجمت احتياجات التمويل الخارجي المتزايدة إلى جانب قوة الدولار الأمريكي إلى زيادة الضغط على الدينار.

التضخم يرتفع مدفوعا بارتفاع الأسعار العالمية مما يدفع أسعار الفائدة إلى الارتفاع أيضا

كما أن التضخم أخذ في الارتفاع مدفوعا بشكل أساسي بارتفاع الأسعار العالمية، حيث وصل إلى أعلى مستوى له منذ أكثر من ثلاثة عقود. دفع ارتفاع التضخم البنك المركزي إلى رفع سعر الفائدة الأساسي بمقدار 175 نقطة على طول عام 2022. وستتوقف فعالية هذه السياسة على التدابير المصاحبة لتحقيق استقرار اقتصادي كلي واعتماد الإصلاحات الهيكلية

الأسعار العالمية للسلع الأولية واستمرار حالة عدم اليقين بشأن التمويل الخارجي مخاطر هبوط كبيرة على الاقتصاد التونسي.

اللازمة لاستئناف مسار النمو المستدام. ومع بقاء أسعار الفائدة الحقيقية سلبية، فإن هذا يترك مجالاً أكبر للمناورة من قبل البنك المركزي.

من شأن إصلاح دعم الطاقة أن يساعد في خفض تكاليف المالية العامة وتكاليف الواردات، وتحسين القدرة المالية للشركات المملوكة للدولة، وتحفيز الانتقال الأخضر

أدى الارتفاع العالمي في أسعار الطاقة إلى تسليط الضوء على دعم الطاقة في تونس حيث لا تزال معظم أسعار الوقود والكهرباء والغاز وغاز البترول المسال دون التكلفة. وقد أصبح الحفاظ على خطة الدعم هذه مكلفاً بشكل متزايد بالنسبة لتونس، مما يقوض الاستدامة المالية الكلية والعجز التجاري، لا سيما في وقت ترتفع فيه أسعار الطاقة الدولية. وبلغ متوسط الدعم 2.1 في المئة من الناتج المحلي الإجمالي خلال الفترة 2011-2021 وقفز إلى 3.5 في المئة في عام 2022. كما خلق نظام الدعم تحديات مالية كبيرة لشركات الطاقة المملوكة للدولة كالشركة التونسية لصناعات التكرير (STIR) و الشركة التونسية للكهرباء والغاز (STEG)، حيث أصبحت الدولة غير قادرة بشكل متزايد على تأمين الموارد لتغطية خسائرها. وأضعف هذا قدرة الشركات المملوكة للدولة على التخطيط والاستثمار لضمان تأمين إمدادات الطاقة. ومن خلال تعطيل الجدوى المالية للشركة التونسية للكهرباء والغاز وإبقاء أسعار الطاقة منخفضة بشكل مصطنع، فإن الدعم يقوض أيضاً الانتقال الأخضر. ويمكن أن يساعد الإلغاء التدريجي لدعم الطاقة في معالجة الأزمة المالية الكلية، وتحسين الجدوى المالية للشركات المملوكة للدولة، وتحفيز الانتقال الأخضر. ومع ذلك، فمن الضروري الحد من تأثير الإصلاح على العائلات ذات الدخل الأكثر ضعفاً أمام تلك الزيادات في الأسعار، خاصة في حالة الدعم المقدم للاسطوانات الغازية والكهرباء، حيث يستفيد من هذه الدعم الأسر ذات الدخل المنخفض. وبالمقابل، ينصب توجه دعم الوقود والغاز الطبيعي بشكل كبير لفئات المجتمع ذات الدخل العالي. ويمكن أن يساعد مزيج من التعريفات والتحويلات في تجميع تكاليف الانتقال بالنسبة للأسر ذات الدخل المنخفض. وبالإضافة إلى ذلك، يمكن أن تساعد إصلاحات الدعم مع برامج لمساعدة الشركات والأسر على الاستثمار في كفاءة استخدام الطاقة والتوليد الذاتي في تخفيف الضغوط التضخمية على الأسر والشركات، والحفاظ على القدرة التنافسية للشركات ودعم الانتقال الأخضر. وستكون إعادة الهيكلة المالية وتحديث الشركات المملوكة للدولة من العناصر الرئيسية المكتملة لإصلاحات الدعم لتمكين الشركات المملوكة للدولة في مجال الطاقة من استعادة ديمومتها المالية.

زيادة الضغط على الميزانية مع تزايد تكاليف الدعم وسط ارتفاع الأسعار العالمية، وتمويل للديون أصبح أكثر صعوبة

تسببت السياسة السخية للدعم المستهلك وارتفاع أسعار المواد العالمية في زيادة عجز الموازنة واحتياجات التمويل. وعلى وجه الخصوص، زاد دعم الطاقة بأكثر من الضعف من 2.6% إلى 5.3% من إجمالي الناتج المحلي في 2021-2022. على الرغم من الزيادة، انخفض عجز الميزانية بشكل طفيف كنسبة من الناتج المحلي الإجمالي (من 7.6 في المئة في عام 2021 إلى 6.8 في المئة في عام 2022). ويعود ذلك إلى الزيادة المستمرة في الإيرادات الضريبية - نتيجة للضرائب الجديدة وتطبيق أكثر صرامة - وإلى انخفاض النفقات المالية، وهو ما لا يبعث بمؤشرات إيجابية بالنسبة للنمو في المستقبل ولجودة الخدمات العامة. أدى العجز المستمر في الموازنة في السنوات الماضية إلى زيادة الدين العام إلى أعلى مستوياته منذ عقود (80.1% من إجمالي الناتج المحلي في عام 2022)، مما رفع خدمة الدين في تونس. ونظراً لمحدودية فرص الحصول على التمويل الدولي، يواصل البنك المركزي إعادة تمويل القطاع المصرفي المحلي لشراء سندات الخزينة. ولا يزال الاستخدام المتواصل للتمويل المحلي لتمويل الدين العام يزاحم تمويل بقية الاقتصاد.

آفاق النمو لا تزال ضعيفة مع مخاطر سلبية كبيرة

يتوقع البنك الدولي نمو الناتج المحلي الإجمالي بنسبة 2.3% في عام 2023، مع انحرافات محتملة كبيرة اعتماداً على تطور ظروف التمويل والإصلاحات الهيكلية. ومن المتوقع أن يؤدي المسار الأكثر اعتدالاً نسبياً لأسعار السلع الأساسية، إلى جانب بعض الإصلاحات على مستوى الإنفاق، إلى خفض عجز الحساب الجاري، الذي سيظل من الصعب تمويله دون إجراء إصلاحات. تخطط الحكومة لضبط أوضاع المالية العمومية في عام 2023 بشكل أساسي عن طريق خفض حقيقي لدعم الطاقة وكتلة الأجور والاستمرار في زيادة المداديل. وسيظل تمويل العجز يمثل تحدياً. كما من شأن الاتفاق على برنامج صندوق التمويل الممدد مع صندوق النقد الدولي، إلى جانب تنفيذ جدول إصلاحات طموحة، أن يساعد في تغطية احتياجات التمويل الخارجي. هذا كما يشكل استمرار الضغط على

RECENT ECONOMIC DEVELOPMENTS

1. The moderate economic recovery is slowing down further

With a challenging and uncertain global environment and a slow pace of reforms, Tunisia's moderate economic recovery slowed down further in 2022. After the moderate rebound in 2021 (4.4 percent), real GDP increased by only 2.5 percent in 2022.¹ As the pace of economic reforms has not picked up in 2022, many regulatory barriers to growth have remained (see TEM Winter 2022 edition) and the global commodity price rally has taken a toll on an economy reliant on energy and food imports. Indeed, the economic slowdown started in the second quarter of 2022, just after the beginning of the war on Ukraine and the ensuing commodity price hike (Figure 1). As a result, the growth rate for 2022 is considerably lower than the forecasts a year earlier, including by the World Bank (3.5 percent—see the 2022 Winter issue of the Tunisia Economic Monitor).

Tunisia is among the countries in the Middle East and North African (MENA) region with the weakest economic performances since the pandemic. Tunisia has recorded an average

growth rate of -0.6% in 2019–22, with 2022 GDP, at 98 percent, still below pre-crisis (2019) levels. Tunisia's recovery has been slower than the ones in most non-fragile and conflict affected countries in the MENA region (figure 2). As a result, the trend of poverty reduction of the 2000s was reversed and the poverty rate increased between 2019 and 2021. The poverty rate was predicted at 13.8 percent in 2019 and it had grown to 16.6 by 2021 according to the most recent household budget survey (see box 1).

The tourism and manufacturing sectors drove economic growth in 2022 while the primary sectors contracted. With a 4 percent growth, services contributed 2.4 percentage point to annual GDP growth, the highest sectoral contributor (figure 3). Growth in services was driven by tourism and transport. Hotels and restaurant services and transport continued the recovery after suffering the largest drop during the Covid-19 crisis in 2020, when their value added was only 75 percent and 86 percent of that in

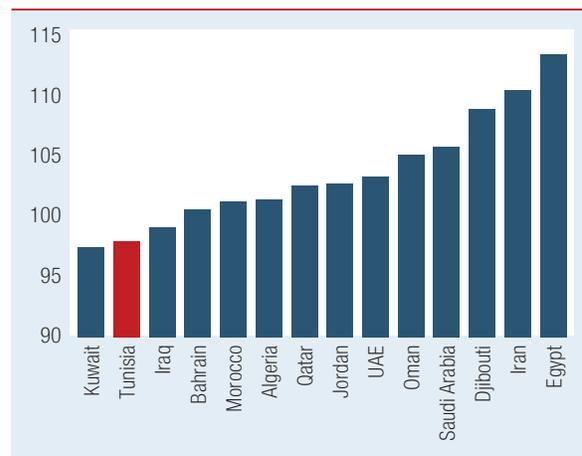
¹ The 4.4% growth in 2022 is higher than that reported in the previous Tunisia Economic Monitor (Summer 2022) as the Institute National of Statistics (INS) has revised its estimates upward in November.

FIGURE 1 • Tunisia’s Bumpy Economic Recovery (quarterly GDP - TND Mln, constant prices)



Source: National Institute of Statistics.

FIGURE 2 • Tunisia has One of the Weakest Economic Recoveries in the Region (GDP relative to 2019 GDP (= 100))



Source: Global Economic Prospects, World Bank.

2019, respectively. In 2022, hotels, cafes, restaurants grew by 21.4 percent and transport grew by 10.6 percent with a combined contribution to growth of 1.1 percentage points. The manufacturing sector grew by 5 percent in 2022, contributing 0.7 percentage points to GDP growth. Textiles and the mechanical and electrical industries dominated the manufacturing growth recording a 14 percent and 7.9 percent growth rate in 2022. In contrast to 2021 (when growth was negative), agriculture contributed 0.2 percentage points to growth with a 2 percent increase in its value added. On the other hand, the mining, energy, and non-manufacturing sec-

tors (electricity, water, and construction) contributed negatively to GDP growth (-0.9 percentage points).

The weak recovery led to more people exiting the labor market, as they are increasingly discouraged about job prospects. With an unemployment rate of 15.2 percent in the fourth quarter of 2022 (12.9 percent for men versus 20.1 percent for women), the labor market is slowly returning to the situation in 2019 when the unemployment rate was 14.9 percent (12.1 percent for men and 21.7 percent for women). However, the slight decline of the unemployment rate in 2022 reflects not higher employment but a decline

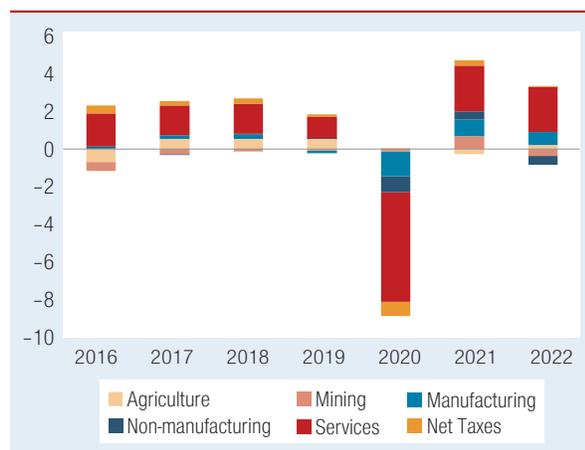
BOX 1: THE RESULTS OF THE LATEST HOUSEHOLD BUDGET SURVEY

In February 2023, the Tunisian National Institute of Statistics (INS) published results from the 2021 National Survey on the Budget, Consumption and Standard of Living of Households (EBCNV). The EBCNV 2021 data was collected between March 2021 and March 2022. It provides information on expenditure and household living condition which can be used to analyze, and poverty development and their determinants.

The EBCNV 2021 results suggest that the COVID pandemic had hampered the progress in poverty reduction that had occurred in the 2010s. Poverty had decreased significantly in Tunisia between 2010 and 2015 from 20.5 to 15.2 percent. Predicted poverty further declined to 14.2 percent in 2018 and to 13.8 in 2019. Official estimates show that poverty rate rose to 16.6 percent in 2021, using poverty and extreme poverty lines estimated in 2015 and updated with the consumer price indices between the two periods.

The survey shows also a change in the structure of household expenditures. The average expenditure at current prices per capita and per year is estimated at 5,468 dinars in 2021, compared to 3,871 dinars in 2015, corresponding to an increase of 41.3% in nominal terms and of 1.19% in real terms over the entire period. The survey shows a variation in the structure of household expenditure with an increase in the relative share of food spending from 28.9% to 30.1% between 2015 to 2021, after a downward trend over the past decades. The COVID pandemic and the subsequent health and economic crises has been associated with a decline of on household budget shares devoted to transportation and holidays (falling by 2.4 and 1 percentage points respectively in 2021) and a rise of an increase in the share allocated to health and hygiene products.

FIGURE 3 • GDP Growth was Slow in 2022 (sector contribution to growth)



Source: National Institute of Statistics.

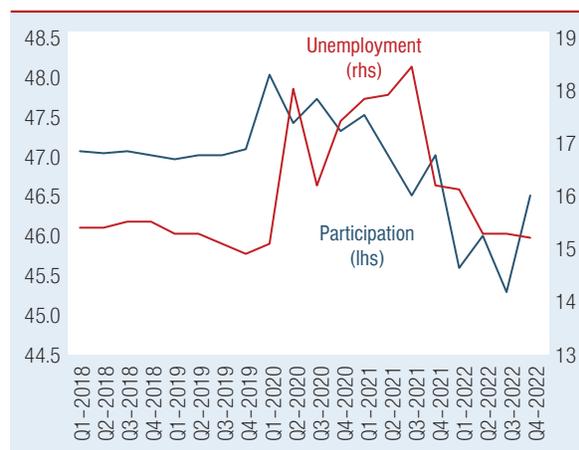
in the labor force participation rate which stood at: 46.5 percent in 2022 compared to 47.1 in 2019 (figure 4). This is a likely sign of increasing discouragement in the labor market during a period when 66,800 jobs were lost (2019–22), equivalent to 1.6 percent of the active labor force. The poor labor market performance since the beginning of the Covid pandemic is associated with the increasing poverty recorded in the period 2015–21 (box 1).

While the participation rate remains low for women relative to men, gender disparities are slowly declining. The male labor force participation rate has declined since the 4th quarter 2019 (from 68.3 percent to 65.7 percent) while it has slightly increased for women (from 26.8 percent to 28.2 percent). Similarly, job losses are concentrated among men (132,800 jobs lost) while women have experienced net gains in jobs (66,000). Consistently with the sectoral growth described above, job losses are concentrated in non-manufacturing, particularly construction activities (-82,900) while the manufacturing sector added 29,600 jobs.

2. The global price rally caused a widening of the current account deficit in 2022

The adverse terms of trade shock induced by the war on **Ukraine have raised the merchandise trade**

FIGURE 4 • Unemployment Returns to Pre-Crisis Levels and the Participation Rate Falls

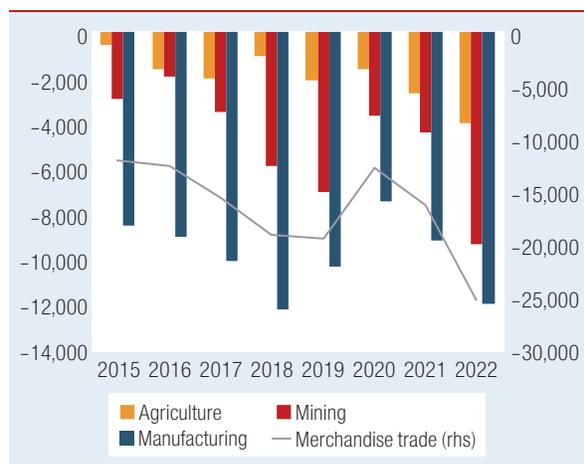


Source: National Institute of Statistics.

deficit to the highest level in decades. Pushed by the increase in energy and—to a less extent—food imports, the trade deficit jumped from 10.2% of GDP in 2021 to 15% in 2022. Energy and food balance account for 69% of this increase in the deficit and for 53% of the deficit itself (figure 5). The rising commodity deficit is the result of import demand remaining constant despite of rising international prices (demand declined by 2 percent in 2022). This broken link between international prices and domestic demand is mainly due to Tunisia’s subsidies policy (see part B of the TEM). This policy has kept domestic consumer prices of basic products quasi-fixed in 2022 (including cereals, sugar, LPG) and increased energy prices by considerably less than international prices, which averaged a growth by 42 percent in 2022. In fact the Tunisian government increased fuel prices by around 20 percent (through 4 adjustments) and electricity and gas prices by between 12 percent to 16 percent (with one adjustment in May) throughout 2022. In addition ,national energy production has declined in 2022 by 8 percent, with a reduction in oil production by 14 percent and the continued failure to increase renewable energy generation. As a result, energy import volumes have actually declined by 4 percent in 2022.

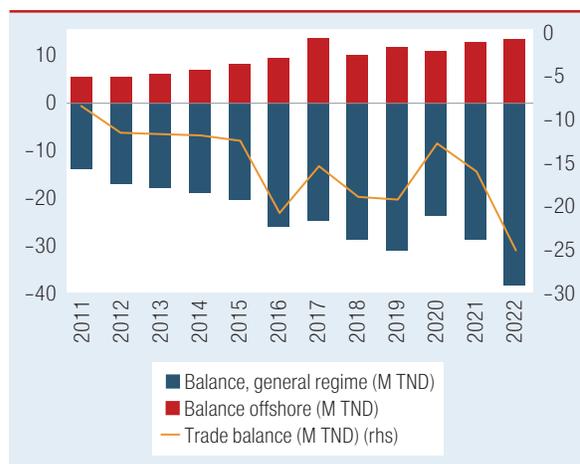
Exports have not kept up with the pace of the commodity imports’ hike, with only offshore exports growing significantly in 2022. The so-called offshore regime, which includes predominantly export-

FIGURE 5 • The Deterioration of the Trade Deficit is Mainly Due to the Increase in Prices of Energy and Agricultural Products on the International Markets (trade deficit, TND Mln)



Source: National Institute of Statistics.

FIGURE 6 • The Trade Balance of the Offshore Sector has Become More Positive While That of the Rest of the Economy has Become More Negative (trade balance, percent of GDP)



Source: National Institute of Statistics.

BOX 2: THE BENEFICIAL TREATMENT OF THE OFFSHORE REGIME IN TUNISIA

In order to develop the manufacturing industry and exports, Tunisia established in 1972 a special tax and customs' regime for predominantly exporting companies (since the 1990s they are in fact allowed to sell a share of their products on the local market). The original regime provided benefits in terms of complete exemptions from tax and customs obligations (except for employer's social security contributions). The regime helped develop the textile and clothing industry in the 1970s and 1980s, which also enjoyed privileged access to the European market via the multi-fiber agreement. Since the 2000s, the electrical and mechanical industry took over as the driving force of the Tunisian manufacturing industry, first automotive components, and subsequently aerospace.

Since 2014 the government started to phase out the Corporate Income Tax (CIT) exemption for offshore firms, eventually fully harmonizing the CIT treatment of the offshore regime with the rest of the economy in 2021. This convergence in CIT regimes has not been associated with a change in the relative performance of the offshore sector, which has continued to benefit from a more business-friendly regulatory regime than the other sectors. That is particularly the case for customs and tax procedures and access to foreign exchange. For customs procedures, for example, customs' clearance is performed directly in the factories, which allows to side-step the congestion at the port, increasing predictability of delivery and reducing waiting times. In addition, imported inputs are not subject to checks and controls (which can amount to technical barriers to trade) related to technical barriers to trade and are exempt from duties and taxes, which further reduce trade costs. Another key advantage of the offshore regime is the possibility of holding foreign exchange accounts which enable firms to carry out operations in foreign currency without going through the cumbersome foreign exchange procedures that other firms are subject to.

ing firms, has continued to contribute positively to the trade balance, with a surplus of TND 13.5 bn in 2022, up from TND 12.9 bn in 2021 (figure 6). Offshore exports grew by 17 percent in 2022, continuing the expansion since the beginning of the regime in 1972. Mechanic and electric industries and textile and garments are the key offshore sectors, representing 59 percent and 27 percent of total offshore exports respectively in 2022. The stronger performance of the offshore sector is consistent with its more business-friendly regulatory regime relative to that of the rest of the economy, including

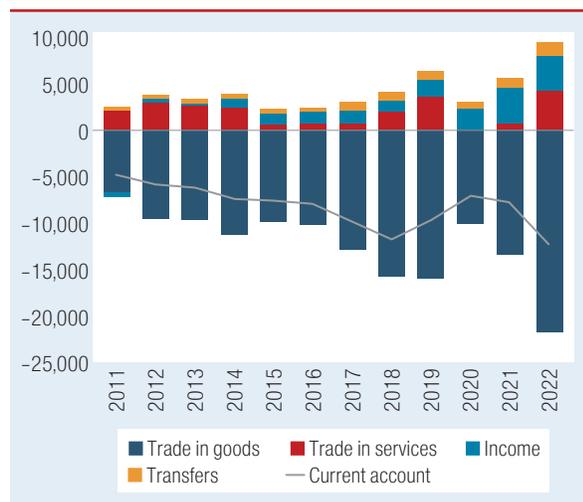
exemptions from burdensome trade procedures on imported inputs and unhindered access to foreign exchange (see box 2). These advantages may help explain the continued growth of offshore net exports relatively to the standard regime, even as the sector lost its corporate income tax exemption since 2014. While a full evaluation of the impact of the regulatory restrictions on exports is beyond the scope of this report, the trajectory of the offshore sector suggests that a convergence of the rules towards those of the off-shore sector may benefit the competitiveness of the economy.

The trade deficit has pushed up the current account deficit (CAD) in spite of the resilience of labor remittances and tourism receipts. The CAD jumped to TND 12.37 billion TND (or 8.5 percent of GDP) in 2022 up from TND 8 billion (or 6.0 percent of GDP) in 2021. The increase is entirely driven by the deterioration of the merchandise trade deficit and the deficit increase would have been even higher had it not been for the rising factor income revenues and services surplus, which have achieved the highest levels in a decade (figure 7). Factor incomes have been driven by the increase in workers' remittances (+10%), which have proven to be an important countercyclical factor for the Tunisian economy. Their growth has more than offset the growth of the capital related outflows, including interest payments and capital income transfers. The increase in the service surplus is essentially driven by the boost of tourism receipts (+80 percent), which benefited from the re-opening of the Algerian border and the post-Covid recovery of international tourism, particularly from Europe.

3. Securing external financing is increasingly difficult and has led to shortages of basic products

Given Tunisia's limited ability to tap into foreign capital markets, the rising CAD and debt repay-

FIGURE 7 • Tunisia's Widening Current Account Deficit Due to Trade Deficit (TND million)



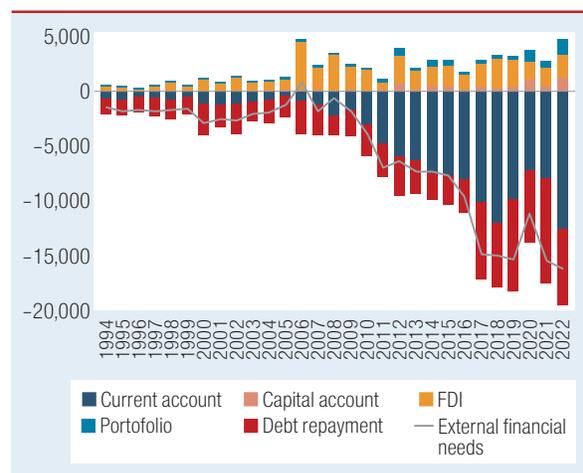
Source: Central Bank of Tunisia.

ments translated into higher external financing needs. These needs grew by 50 percent between 2020 and 2022 (from 9 to 11 percent of GDP). This growth exposed Tunisia's limited ability to tap into the capital account to fund the CAD. Tunisia's capital inflows—foreign direct and portfolio investments—are limited compared to the needs (figure 8). The limited capital inflows are consistent with severe capital controls on outflows, which deter inflows, and with Tunisia's relatively unfriendly business climate which limits its attractiveness to new investments (78 percent of FDIs are extensions).

Tunisia's constraints in accessing international capital markets have made it increasingly difficult to secure the needed external financing.

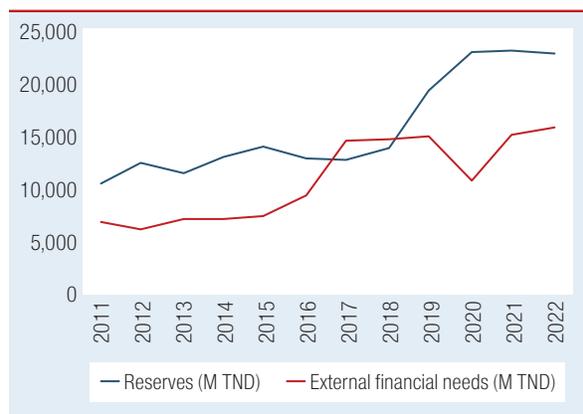
As its sovereign credit rating is widely considered non-investment grade (including by Moody's, Fitch Ratings and Rating and Investment Information), Tunisia has had to rely almost entirely on bilateral and multilateral financing to cover its external financing needs. However, such financing has not kept pace with increase in needs given the deterioration of macro conditions and the slow pace of reforms. The postponement of a loan agreement negotiated last October with the IMF compounded the problem. The loan for a \$1.9 bn EFF would be key for Tunisia to mobilize the needed short-term external financing and to enhance Tunisia's reform agenda but its conclusion remains uncertain at this stage.

FIGURE 8 • FDI and Portfolio are Unable to Cover the Widening External Financing Needs (TND million)



Source: Central Bank of Tunisia.

FIGURE 9 • The Rising External Financial Needs were Associated with a Fall in Reserves Only in the Second Half of 2022 (TND million)

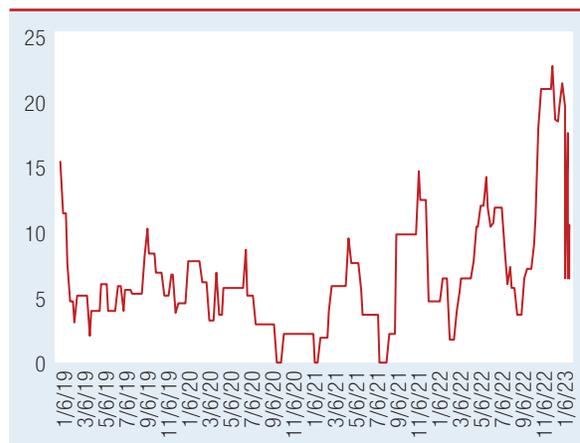


Source: Central Bank of Tunisia.

In the absence of alternative financing, the rising external financing needs led to some withdrawal of foreign exchange reserves in the second half of 2022. As a result, reserves declined to TND 22 billion TND covering 95 days of imports by mid-February 2023, from TND 23.4 billion, covering 133 days of imports in January 2022. This is a change relatively to the previous years when reserves had held up despite increasing external financing needs (figure 9). That was achieved through increasing central government’s external debt but also due to state-owned enterprises (SOEs) absorbing some of the needs through raising external debt. At the end of 2021, the Tunisian Company of Electricity and Gas (STEG) in charge of importing gas for electricity production and the Tunisian Company of Refining Industry (STIR) in charge of importing gasoline, had accumulated 7.9 billion dinars of debts with foreign banks and 4.3 billion dinars of debts with suppliers. However, strategy appears to have reached its limits as their rising debt constrains SOEs’ ability to increase further their indebtedness.

With dwindling reserves and increasing SOE debt, the rising CAD has translated in sustained shortages of basic products. This context has made it difficult to secure sufficient foreign exchange to cover the rising import bill. As a result, the economy experienced sustained shortages of many basic products since March 2022, including fuels (October

FIGURE 10 • Intensity of Google Search of the Word ‘Penurie’ (i.e., Scarcity) [scale 0-100], Quarterly Moving Average



Source: World Bank staff estimates on Google Analytics

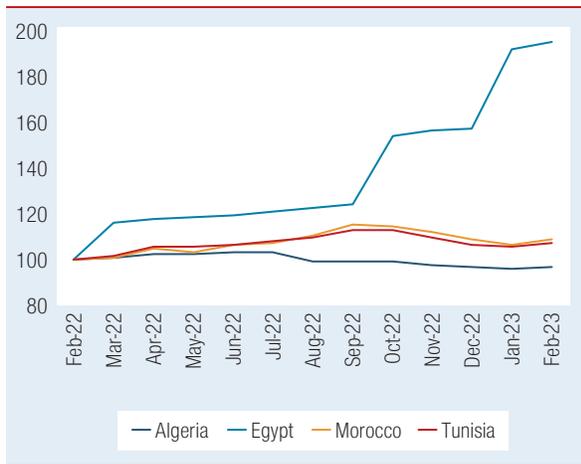
2022), cereals (March 2022), sugar, dairy products (November 2022), coffee (January 2023) and pharmaceutical products. Shortages have been aggravating over the course of 2022, and concerning the population as indicated by a jump of the frequency of search of the word ‘penurie’ (shortages in French) on google in Tunisia (figure 10).

The increasing external financing needs have also translated into greater pressure on the Dinar, which has remained relatively weak throughout 2022. The increase in imports due to higher international prices, the strength of the US dollar and the recovery in activity contributed to the depreciation of the dinar against the U.S. dollar by 7.7 percent during 2022 in line with other currencies in the region (figure 11). In contrast, the dinar remained stable against the euro during the same period. The depreciation may create additional pressure on inflation and/or reserve levels.

4. Inflation has reached record levels pushing the Central Bank to intervene

Inflation is also on the rise propped up by global prices, reaching the highest level in more than three decades. Inflation—based on the consumer price index—rose for eighteen consecutive months since August 2022 reaching 10.4 percent on a yearly

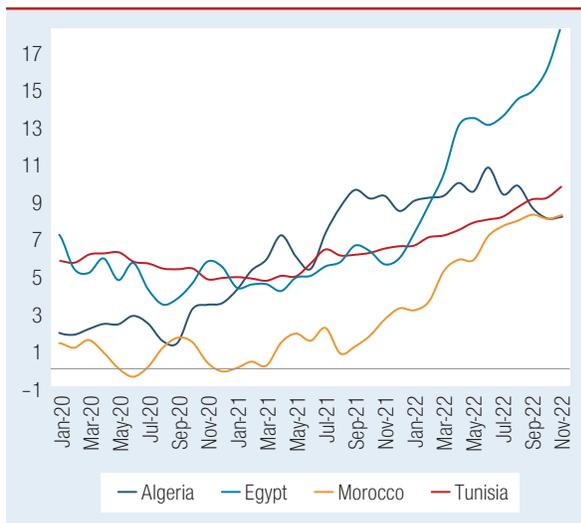
FIGURE 11 • The Dinar has Slightly Depreciated Against the US Dollar but Less so than other Countries in the Region (Nominal Exchange Rate Vis-à-Vis the US\$, Feb 2022=100)



Source: National Institute of Statistics.

basis in February 2023. This is the highest level since December 1984. The inflation rate was particularly high for food (16.1 percent in February) despite price controls on many of these items. Other categories experiencing strong price increases include electricity, gas, and other housing-related fuels (14.9 percent) and transport (12.1 percent), which reflect the government's recent reforms of energy tariffs. Inflation growth has

FIGURE 12 • Tunisian Inflation has Increased as in other Countries in the Region (annual percent change)



Source: National Institute of Statistics.

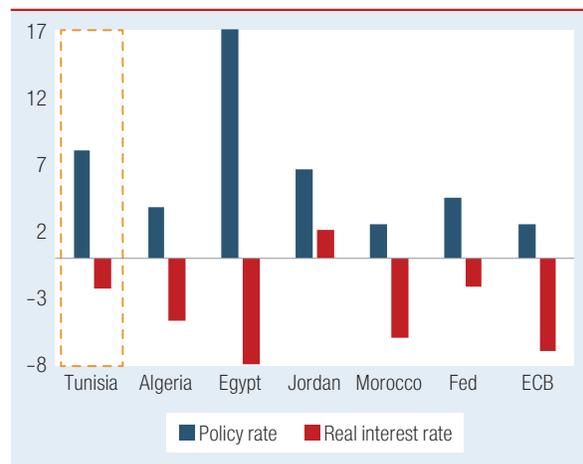
been aligned with other countries in the region (figure 12), consistent with the upward price trend globally.

Rising inflation pushed the Central Bank to raise its key interest rate by 175 basis points in 2022, although real interest rates remain negative.

To contain inflationary pressures the central bank raised its key interest rate twice—by a total of 100 basis points—between October and December. These followed the hike in May (75 basis points), bringing the policy rate to 8 percent. This is a relatively high rate by regional and global standards (figure 13). The increase in the policy rate aims to limit credit by increasing its cost, thereby aiming to reduce import demand, preserve foreign exchange reserves and strengthen the Dinar. The challenge is to avoid inflationary pressures fueled by a price-wage spiral. The effectiveness of this policy will depend on accompanying measures to pursue macroeconomic stabilization and adopt the structural reforms needed to resume a sustainable growth trajectory.² In spite of the hikes, as in other countries, the real interest rate remains negative which may push the Central Bank to intervene.

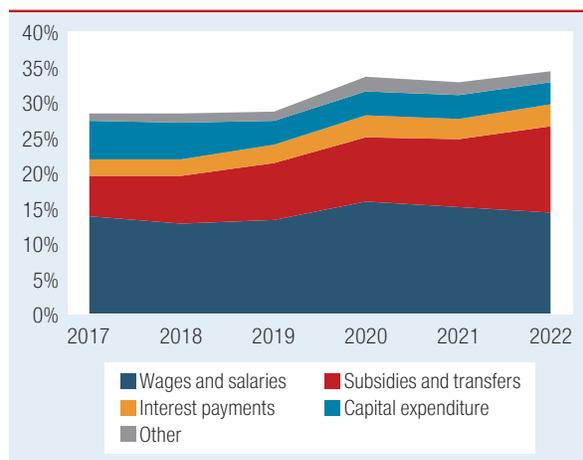
² In its Board of Directors' statements, the Central Bank has repeatedly highlighted the importance of economic and fiscal structural reforms rather than monetary policy to reduce inflation, address the economic crisis and put the Tunisian economy back on a sustainable path.

FIGURE 13 • Despite of the Interest Rate Increases Real Rates Remain Negative as in Most of the Region and High-Income Countries (annual percent change)



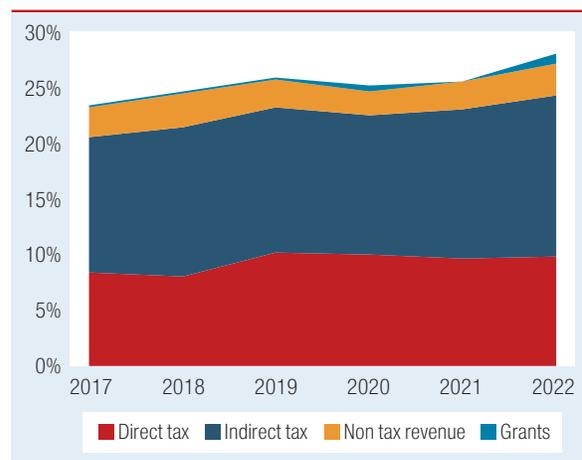
Source: National Institute of Statistics.

FIGURE 14 • Subsidies Drove the Recent Growth in Expenditures
(growth in public expenditures by type over time, percent GDP)



Source: Ministry of Finance.

FIGURE 15 • Taxes—Particularly Indirect—have Continued to Grow Significantly
(growth in public revenues by type over time, percent GDP)



Source: Ministry of Finance.

5. The budget deficit continues to be high under the pressure of subsidies

The generous consumer subsidy policy and the global commodity price rally have put pressure on the fiscal deficit and the financing needs in 2022.

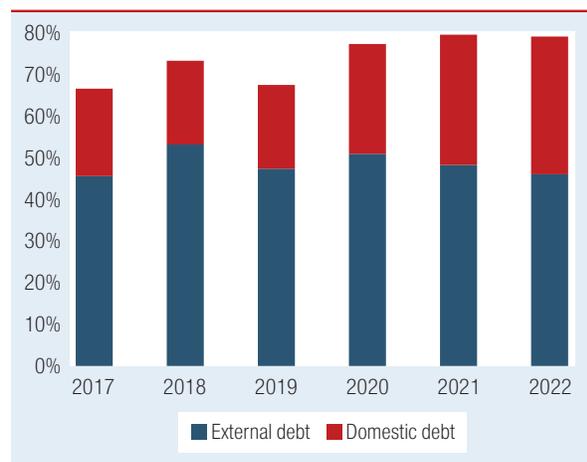
According to the preliminary report on the 2022 Budget Execution, the budget deficit is estimated to have risen to 6.8 percent of GDP in 2022, up from 6.2 percent forecasted in the 2022 Budget Law as of December 2021. The higher deficit is mainly due to the significant growth in energy subsidies spurred by the rising global commodity prices (figure 14).³ The subsidy policy aims to protect the purchasing power of consumers by controlling and maintaining stable retail prices for energy (electricity, gas, fuel), cereal (bread, couscous, pasta) and other basic products (milk, vegetable oil, sugar, LPG), in addition to goods and services whose production costs depend heavily on these products (for example, transport, water). Despite of the energy price adjustments described above, the increase in international prices translated into a more than doubling of energy subsidies from TND 3.3 to 7.6 billion in 2021–22 (2.6 to 5.3 percent of GDP). That has been compounded by an increase in food subsidies from TND 2.2 to 3.8 billion. As a result

of the large deficit and debt repayments, financing needs are also on the rise (12.5 percent of GDP in 2022 up from 10.9 percent in 2021).

Despite of the increase in subsidies the budget deficit slightly declined as a share of GDP in 2022 due to the sustained increase in revenues and reduction in capital expenditures. The budget deficit is estimated to be slightly lower than in 2021 (7.6 percent of GDP) on account of the significant increase in revenues as well as the compression in capital expenditures and—to a less extent—in the wage bill. The revenue increase is mainly due to a 17 percent growth in taxes, which rose from 23.3 to 24.5 percent of GDP in 2021–22 (figure 15). This growth was fueled by indirect taxes in particular, which grew by 19 percent from TND 17.7 billion in 2021 to TND 21.1 billion in 2022 through tighter enforcement and the introduction of a slew of new measures. These include increases in excise taxes on energy products, tobacco, and alcoholic drinks, customs duties on cer-

³ At the same time the public wage bill has decreased in importance both as a share of GDP (from 16.1 percent in 2020 to 15.1 percent in 2022) and of public expenditures (from 47.0 percent in 2020 to 42.9 percent in 2022). The 2023 Budget Law expects further reduction in its importance (see below), although it would still remain the largest item in public expenditures.

FIGURE 16 • Tunisia’s Public Debt has Grown Over the Past Years, Particularly its Domestic Part (percent of GDP)



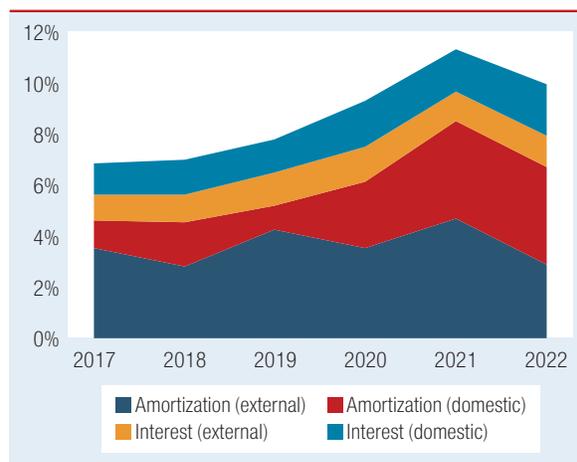
Source: Ministry of Finance.

tain final consumer products and vehicle circulation taxes. Grants also increased from TND 44 million in 2021 to TND 1.4 billion in 2022, as development partners raised their contributions in the face of rising financing needs. In parallel, capital expenditures remained stable at TND 4.5 billion, dropping from 3.5 percent of GDP in 2021 to 3.1 percent in 2022. This drop brings the share of capital expenditure to GDP to the lowest level in decades which does not bode well for future economic growth and for the quality of public services. It is consistent with the role of capital expenditure as an adjustment factor to ensure fiscal balance. While slightly increasing in nominal terms, the wage bill also contracted as a share of GDP from 15.5 percent in 2022 to 14.6 percent in 2022.

6. Public debt remains high, complicating debt servicing

The sustained budget deficits of the past years have maintained public debt at a level among the highest in decades, raising debt service as well. Public debt grew from 66.9 percent to 79.3 percent of GDP between 2017 and 2022, among the highest levels recorded in decades (figure 16). During the period, debt grew at an average 11 percent per annum, reflecting the rising public expenditures and

FIGURE 17 • Rising Debt Repayment and Interest Payments have Driven Up Debt Service (percent of GDP)

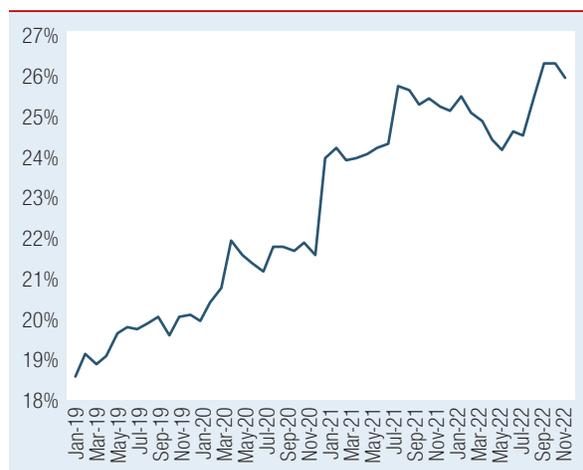


Source: Ministry of Finance.

the deceleration of the economy during the Covid-19 crisis. In 2022, debt rose by TND 10.5 billion, mainly driven by the large budget deficit, although it remained stable as a share of GDP (from 79.9 percent in 2021 to 79.3 percent in 2022). The domestic component of public debt accounts for 75 percent of debt increase since 2019. The growth of public debt is translating into an increase in debt service, raising Tunisia’s financing needs. Debt service has more than doubled from 7 to 14.4 billion TND between 2017 and 2022, and is expected to grow further to 21.5 billion TND in 2023, driven by rising amortization of the increasing debt (Figure 17).

Given the limited access to international financing, the Central Bank (BCT) continues to refinance the domestic banking sector for treasury bond purchase. While some financing partners, including Algeria, the Agence Française de Développement (AFD), the European Commission and Afreximbank disbursed new funds in the last part of 2022 to help cover external financing needs, Tunisia’s access to foreign funding has remained limited. As noted above this limited access is problematic given Tunisia’s great need for financing. As a result, the government used domestic financing through local banks. This led to an increase in the Central Bank refinancing rate since 2019.

FIGURE 18 • Claims on the State are Increasing Faster than Loans to the Economy (banking sector claims on the government as a share of total credit to the economy)



Source: Central Bank of Tunisia.

The sustained use of local funding to finance the public debt continues to crowd out credit to the economy. Indeed, the injection of liquidity through refinancing operations is directing bank liquidity towards government lending, which is likely to crowd out credit to the rest of the economy. The banking sector’s exposure to the State continues to grow at an annual rate of more 12 percent, while the share of loans to the economy is decreasing with a growth rate of 8 percent. As a result, the share of central government in total claims of the banking sector has increased since 2019 from 18.6 percent in January 2019 to 26.1 percent in December 2022 (Figure 18). In a context of limited credit growth, this pattern has displaced credit to the rest of the economy.

7. Growth prospects remain uncertain

The World Bank forecasts a 2.3 percent GDP growth in 2023 assuming the adoption of sufficiently ambitious structural reforms. The forecast is based on the growth rate of the last two quarters of 2022 as this was a period with similar conditions to those likely to prevail throughout 2023 in terms of commodity prices and uncertainty around financ-

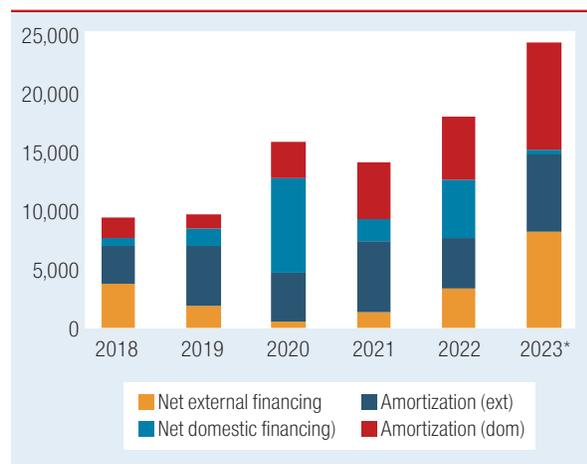
ing conditions. The forecast assumes the implementation of fiscal reforms including subsidy reforms, as well as reforms to start phasing out barriers to competition (see TEM Winter 2021 for a discussion). It also assumes the finalization of the IMF agreement in the first half of 2023 and sufficient financing to cover external and budgetary needs. The growth rate forecasted for 2023 is also aligned with the long-term pre-Covid 19 growth rate (2011-19). The economy would then reach its pre-Covid 19 level in 2023.

The 2023 growth forecast is subject to significant downside risks related to the pace of structural reforms and the evolution of financing conditions. Growth projections would be significantly lower should Tunisia not implement decisive fiscal and pro-competition reforms and/or should available financing not be sufficient to cover Tunisia’s external needs, including as a result of protracted delays in finalizing the IMF agreement. These conditions could generate a shortage of foreign exchange in the economy, a rationing of imports, and potentially lead to a depreciation of the dinar, thus aggravating existing inflationary pressures. With limited external financing and foreign exchange reserves, Tunisia would also face challenges to fulfill elevated external debt repayments in the second half of 2023. As a result economic activity and employment could be severely affected.

The relatively more benign course of commodity prices along with some expenditure reforms are expected to reduce the current account deficit in 2023, which would, nevertheless, remain difficult to finance without reforms. As commodity prices start to stabilize, we expect the trade deficit to decline slightly from 15 percent of GDP to 14.8 percent, which would drive some improvement in the CAD (from 8.5 percent to 8 percent of GDP). The decline is mainly the result of improved terms of trade with the moderation of global commodity prices.

The government plans a fiscal consolidation in 2023 mainly by reducing energy subsidies and the wage bill while continuing to increase revenues. More benign commodity prices along with some rationalization of public expenditures could also help reduce the fiscal deficit to 4.6 percent of GDP (from 6.6 percent in 2022), as forecasted by the 2023 Budget Law. Subsidies (food, energy, transport) are

FIGURE 19 • Financing Needs are on the Rise Particularly on the External Side (Financing Needs by Category, TND mln)

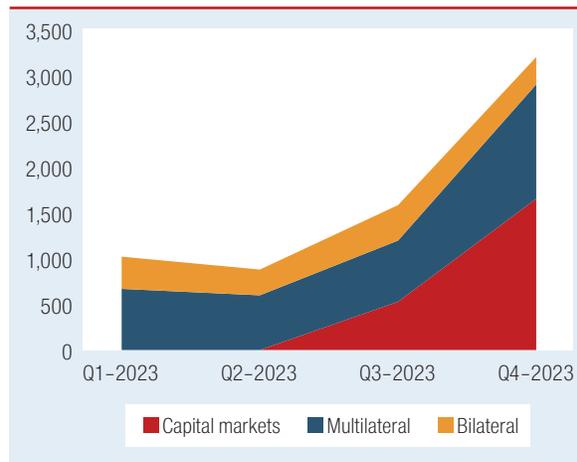


Source: Budget Law 2023. Data for 2023 is projected.

expected to decline by 26% in 2023 according to the 2023 Budget Law, driven by more favourable oil price dynamics (\$89/barrel projected in 2023 compared an average of \$100/barrel in 2022) and by subsidy reforms. The Budget Law assumes sustained implementation of price adjustments of fuels until reaching market prices by the end of 2023 as well as regular adjustments of LPG, natural gas and electricity prices. At the same time, the wage bill should increase by 7.8 percent in nominal terms. This should reflect a growth in wages below the inflation rate, following the agreement between the government and the trade union (UGTT) in October 2022. New measures on indirect taxes—notably the increase in the VAT rate for professional services (from 13 percent to 19 percent) and advances on sales taxes on alcoholic products—along with stricter tax enforcement are expected to increase tax revenues by 14 percent in 2023. The combination of reduced spending and increased revenues should allow to raise capital expenditures after the steep fall in 2022.

Financing the deficit will continue to be challenging. Budget financing needs will jump to TND 24.4bn in 2023, or 14.9 percent of GDP. Two-thirds of the financing is expected to be amortization (figure 19), as a large amount of debt is coming due,

FIGURE 20 • Heavy External Debt Reimbursement Will Come Due in Q3-Q4 2023 (TND Million)



Source: Budget Law 2023.

particularly in the latter part of the year (figure 20). While this helps to reduce the level of public debt somewhat (from 79.3 percent in 2022 to 76.1 percent of GDP in 2023), it also increases Tunisia's reliance on external funding sources. The latter are expected to cover 61 percent of the financing in 2023 (i.e. US\$4.7 bn). At the same time interest payments continue to increase reflecting the higher debt stock and interest rates. The Budget Law expects a 17 percent increase in interest payments which will reach 3.3 percent of GDP in 2023, up from 3.2 percent in 2022. This trend reflects both the increasing debt stock and rising interest rates.

The agreement on an EFF with the IMF along with the implementation of an ambitious reform agenda would help cover the external financing needs. An IMF Staff level agreement on an EFF with the Tunisian authorities was reached in October 2022. However, that program has yet to be taken to the IMF Board for consideration. It is unclear at this stage how the lack of an IMF program will delay external financing. For 2023, the EFF was projected to cover only about 9.5 percent of external financing needs but was to assume a catalyst role for unlocking financing from several partners. In the absence of an IMF programme, the government

has been increasingly relying on local financing but higher inflationary pressures constrain the scope for such financing. Implementing an ambitious reform agenda to improve the fiscal balance and increase competitiveness remains crucial to sustainably financing the deficit. While the government has tabled many reforms, their actual level of ambition and the pace of implementation remain to be seen (see box 3).

If the pace of reforms and the level of financing remain sufficient, we project a slight uptick in growth over the medium run along with some stabilization of the macro and fiscal imbalances. We expect the economy to slightly accelerate its pace of growth to 3 percent in 2024-25. That

would entail a slow convergence towards the long-run growth path, from which the economy deviated during the Covid-19 crisis, by mid-2030s. Despite subsidy reforms, we expect inflation to decrease somewhat due to the relatively large post-Covid output gap and the mild increases in public wages following the government-UGTT agreement last year. These conditions along with the continuation of subsidy reforms should help Tunisia reduce its current account and budget deficits, easing financing conditions. Furthermore, the slight increase in real economic growth should lead to a decrease in the poverty rate below pre-Covid levels by 2025. However, these medium-term prospects are conditional on the continuation of an ambitious pace of reforms and sufficient financing conditions.

BOX 3: RECENT AND PERSPECTIVE GOVERNMENT MEASURES TO ACCELERATE THE RECOVERY

Through 2022 and early 2023, the government announced various reform plans to counter the impacts of the war on Ukraine, achieve fiscal sustainability and accelerate the economic recovery. On one hand it proposed a stabilization program underlying the possible agreement with the Fund based on objectives including: improving tax equity, rationalizing public expenditures; strengthening social safety nets; reforming state-owned enterprises; stepping up structural reforms to enhance competition and creating a level-playing field for investors; strengthening governance and transparency in the public sector.

Besides fiscal reform plans, the government also launched in 2022 an integrated National Reform Plan including a Tunisia 2035 vision, an Economic and Social Development Plan 2023–25, structural reforms and economic emergency measures. In this context several reform initiatives have been launched in 2022, such as: the introduction of a legal framework for private credit bureaus; a new legislation on excessive interest rates; the removal of investment authorizations; the operationalization of the crowdfunding framework; the revision of the law for the auto-entrepreneur status; a law to accelerate the execution of public and private projects; a new framework for expropriation for public interest.

In January 2023 the government announced a new strategy - Tunisia-Vision 2035 - based on innovation, inclusion and sustainability. It includes 6 pillars aiming to build a new economic development model which include (i) a competitive and diversified economy that promotes private initiative, (ii) the knowledge economy as a driver of innovation and technology development, (iii) the promotion of human capital, (iv) fair regional development and inclusive land use planning, (v) social justice as the basis of social cohesion, and (vi) the promotion of the green economy and adaptation to climate change. It is within this framework that the government has adopted a national strategy to improve the business climate (2023–2025). This strategy includes 187 measures to be put in place. The development plan provides for a set of public investments of an amount estimated at 38 billion TND over 3 years, including 27 bn TND on the state budget (6 bn TND in 2023, 8.5 bn TND in 2024 and 12.5 bn TND in 2025). Most of this sum (18.8 billion) will be dedicated to the completion of ongoing public projects. The remaining 11.2 billion will be financed by public enterprises. The plan would increase revenues by 18.5 percent, and, reduce unemployment to 14 percent by 2025

The proposed reforms address many of the important constraints facing the economy, although a full assessment would require the details of the reforms to be worked out. Implementation of these programs will require its appropriation by the population and key stakeholders. If properly designed and implemented, the reforms could also facilitate the negotiation and conclusion of an International Monetary Fund program, which could provide a valuable injection of foreign currency liquidity.

TABLE 1 • Key Macroeconomic Indicators

	2019	2020	2021	2022	2023	2024	2025
Real GDP Growth, at constant market prices	1.5	-8.6	4.3	2.5	2.3	3.0	3.0
Private Consumption	2.4	-5.1	3.0	4.3	2.2	2.9	3.0
Government Consumption	1.5	-4.1	2.2	-2.2	-0.4	-0.5	-0.5
Gross Fixed Capital Formation	0.6	-22.4	3.9	4.8	1.8	2.2	2.8
Exports, Goods and Services	-4.2	-20.0	11.8	5.9	5.0	7.1	4.2
Imports, Goods and Services	-8.4	-16.6	10.9	9.7	3.1	4.7	2.9
Real GDP Growth, at constant factor prices	1.6	-8.7	4.5	2.5	2.3	3.0	3.0
Agriculture	5.9	0.4	-2.7	2.0	1.0	3.0	2.0
Industry	-1.3	-10.1	8.7	1.9	1.5	2.0	2.5
Services	1.8	-9.6	4.1	2.9	2.7	3.3	3.3
Inflation (Consumer price index)	6.8	5.6	5.7	8.3	10.5	10.0	9.0
Current Account Balance (% of GDP)	-8.1	-6.0	-6.0	-8.5	-8.0	-8.4	-7.8
Foreign Exchange reserves (\$ bn)	7.1	8.8	8.9	7.9	7.4	6.9	8.2
Foreign Exchange reserves (months of imports)	4.5	4.3	3.3	2.9	2.5	2.1	2.3
Central Government Overall Fiscal Balance (% of GDP)	-2.9	-8.7	-7.6	-6.6	-4.6	-3.4	-2.9
Primary Fiscal Balance (% of GDP)	-0.3	-5.6	-4.7	-3.4	-1.3	-0.2	0.2
Fiscal Revenues (% of GDP)	26.0	24.8	25.7	28.3	28.3	27.1	26.6
Fiscal Expenditures (% of GDP)	29.1	34.2	33.3	34.9	32.9	30.5	29.5
Financing needs of the Central Government (%GDP)	7.9	13.3	10.9	12.5	14.9	14.3	13.5
Central Government Debt (% of GDP)	67.8	77.8	79.9	79.3	76.1	72.3	68.7
Interest payments (on CG debt; % of GDP)	2.6	3.1	2.8	3.2	3.2	3.2	3.2

REFORMING ENERGY SUBSIDIES FOR A MORE SUSTAINABLE TUNISIA

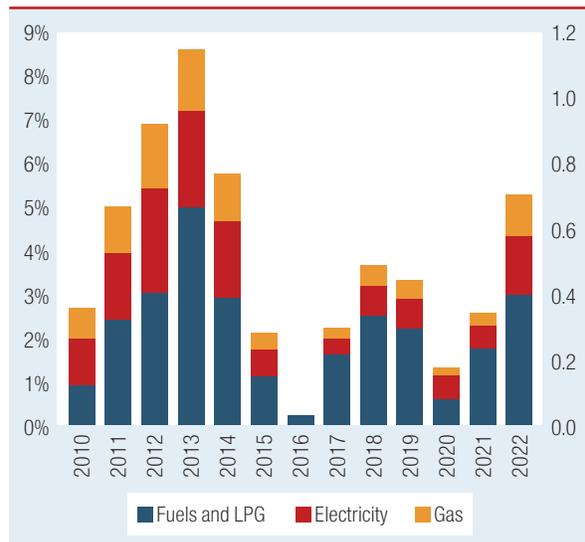
The global energy price spike has put Tunisia's energy subsidies in the spotlight as most prices of fuels, electricity, gas and liquefied petroleum gas (LPG) continue to be below cost. This subsidy scheme has become increasingly costly for Tunisia to maintain, undermining macro-fiscal sustainability and contributing to a deficit particularly at a time of high international energy prices. The subsidy system has also created major financial challenges for STIR and STEG as the state is increasingly unable to secure the resources to cover the losses of the state-owned enterprises. Mounting deficits and the inability to control the risks on the cost side have impaired SOEs' ability to plan and invest to ensure the security of energy supply. By disrupting the financial viability of STEG and by keeping energy prices artificially low, subsidies also undermine the green transition. Phasing out energy subsidies can help address the macro-fiscal crisis, improve SOEs' financial viability and stimulate the green transition. However, it is key to minimize the impact of the reform on the most vulnerable categories. A mix of tariff and transfers could help neutralize the transition costs for low-income households. Moreover, accompanying subsidy reforms with programs to compensate help businesses and households invest in energy efficiency and self-generation can help tame inflationary pressure on households and firms, maintain firm competitiveness and support the green transition. Financial restructuring and modernization of SOEs would be key complements to subsidy reforms to enable energy SOEs to restore their financial viability.

The global energy price spike has put Tunisia's energy subsidies in the spotlight as prices of fuels, electricity, gas and LPG continue to be below cost. The subsidy system is regulated by the Ministry of Energy, Industry and Mining which sets the retail prices of energy products. In the case of fuels (diesel and petrol), the subsidy is absorbed by the state-owned enterprise (SOE) STIR (Société Tunisienne des Industries de Raffinage), which holds the

monopoly of import (of crude and refined oil), refining and wholesale markets. About 90 percent of Tunisia's needs are satisfied directly or indirectly from international markets, where STIR sources these products at international market prices.⁴ STIR then sells the prod-

⁴ 68 percent of fuel consumed in Tunisia in 2022 was imported directly, 22 percent was imported as crude oil and then refined domestically by STIR, and 10 percent was produced (by ETAP) and refined (by STIR) domestically.

FIGURE 21 • Evolution of Subsidy for Different Energy Products (percent GDP)

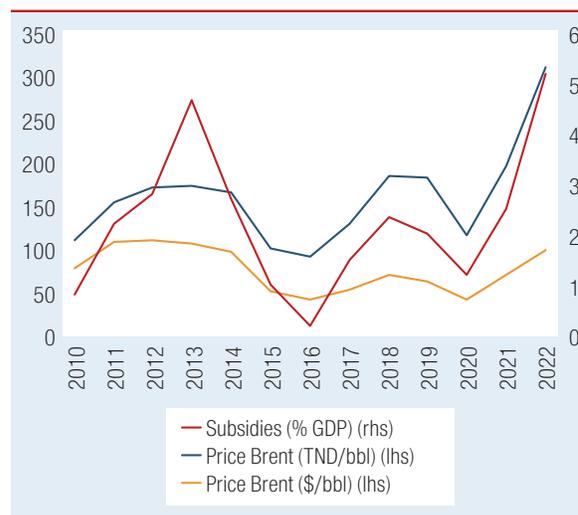


Source : Ministry of Finance.

ucts at a price below cost recovery to public and private companies, which distribute them on the final market applying a distribution margin on the purchase price. The rest of the fuels is sourced domestically predominantly from joint ventures between another SOE, the *Entreprise Tunisienne d'Activités Pétrolières (ETAP)*, and foreign oil companies.⁵ Electricity and natural gas are distributed to the consumers through the monopoly of an SOE, the *Société Tunisienne l'Electricité et du Gaz (STEG)*. As in the case of fuels, STEG also absorbs the subsidy, this time by selling the products to consumers at a price below cost. Most of the supply of these products relies on imports of gas, which for electricity, account for 70 percent of production cost (and 97 percent of the electricity mix). In 2022, imports accounted for close to two third of the gas consumed nationally.

Energy products are subsidized to different degrees depending on both government policy and international energy prices. While the composition of energy subsidies across products has varied over the years, petroleum products have usually accounted for most of the subsidy. In 2021, they accounted for 57 percent of total subsidies, with the remaining allocated to electricity and natural gas (figure 21). Despite of their dominant share, petroleum

FIGURE 22 • Energy Subsidies are Closely Linked to Oil Price and the Exchange Rate (oil price in US\$/barrel and TND/barrel; subsidies in percent GDP)



Source: World Bank staff elaborations on Ministry of Finance and IMF.

products (with the exception of LPG) are typically less subsidized than electricity and natural gas. In 2021 when the Brent price was US\$70, around 15 percent of the fuel price was subsidized against 30–40 percent for electricity and natural gas. LPG for household use is the most heavily subsidized at 70 percent.

This subsidy scheme has become increasingly costly for Tunisia to maintain, undermining macro-fiscal sustainability and increasing the trade deficit particularly at a time of high international energy prices. Energy subsidies have been a significant expenditure in Tunisia's budget, averaging 6.4 percent of public expenditures and 2.14 percent of GDP over the period 2011–21. The recent global commodity price rally fueled energy subsidies, which in 2022 accounted for 5.3 percent of GDP and 15 percent of public expenditures. This confirmed the strong correlation of the subsidies with the international oil price and exchange rate (figure 22). This is consistent with Tunisia's increasing energy import dependence. While in 2010 the country relied only on 7 percent of

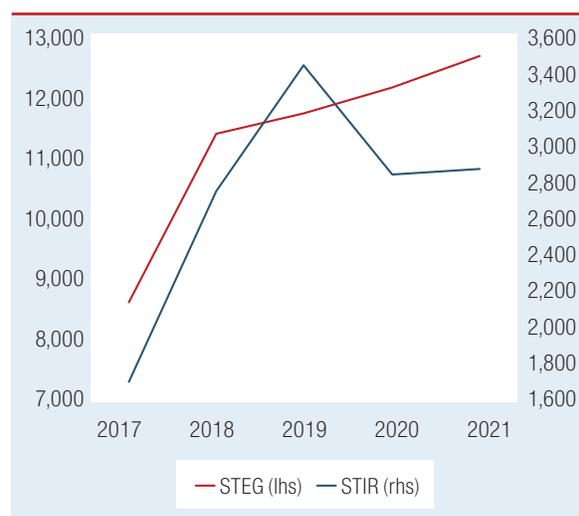
⁵ For domestically sourced fuels, the subsidy is also absorbed by STIR which purchases from oil companies in Tunisia at market prices and then sells fuels to retailers at lower prices.

imports to meet its energy demand, by 2022 imports satisfied 50 percent of the demand. This translated into an energy import bill of TND 15 billion TND, or 10.3 percent of GDP, which explained the lion's share of the increase in the current account deficit in 2022 (see part A). While the Government of Tunisia (GoT) estimates that energy subsidies would decline by 26 percent in 2023—due to more benign international prices and tariff adjustments—they would still account for 5.7 billion TND (or 3.5 percent of GDP).

The subsidy system has created major financial challenges for STIR and STEG, as the state is increasingly unable to secure the resources to cover their losses. The large swings in international oil prices and the exchange rate result in the actual subsidies being much higher than the budgeted subsidies based on initial fuel price and exchange rate projections, as it was the case in 2022. With an increasingly tight fiscal space, the Government has often been unable to fill these gaps, which resulted in financial deficits and increased indebtedness of the SOEs absorbing the cost of the unpaid subsidies. STEG, for example, has been in financial deficits since 2011. In 2021, its accounting deficit amounted to 377 million TND, but its real deficit would have been higher had it not been for the TND 2.9 billion TND of short-term loans and late payments to suppliers.⁶ Figure 23 shows that even before the 2022 price shock, indebtedness had increased significantly for both STEG and STIR. Both financial deficits and debt are expected to have increased further in 2022 given the spike in international oil price. These strategies to cover financial needs are costly both for SOEs—as short-term loans are expensive—and suppliers, whose cashflow remains uncertain.

Mounting deficits and the inability to control the risks on the cost side impair the SOEs' ability to plan and invest to ensure the security of energy supply. The financial viability of energy related SOEs is not only fundamental to maintain the sustainability of public finances, but it is also critical to ensure the viability of the sectors. STEG is a case in point. The deep financial crisis STEG is facing because of the state's inability to cover the subsidy related losses, including liquidity constraints and mounting insolvency risks, impairs its ability to invest. This in turn may under-

FIGURE 23 • The Mounting Debt of the SOEs Absorbing Energy Subsidies (TND million)



Source: Ministry of Finance.

mine its ability to ensure a reliable electricity supply to the country. Electricity consumption increased at a high pace growing on average by 3 percent annually between 2010 and 2021, with peak demand increasing by more than 4 percent annually. While the sector has reasonably responded to the rising demand, it is increasingly vulnerable to power shortages due to sustained underfunding. According to the GoT, 400–600 MW of new power generation capacity would need to be added every two years to cover expected electricity needs. Yet, installed capacity has increased only by 100 MW per year in the last few years.

By disrupting the financial viability of STEG and by keeping energy prices artificially low, subsidies also undermine the green transition. In the case of renewable private investments, STEG is both the off-taker and the entity responsible to integrate renewables into the transmission network. Hence, its financial crisis impairs its ability to purchase electricity from independent producers generating renewable energy. In addition, the low electricity prices associated with energy subsidies directly reduce private incentives

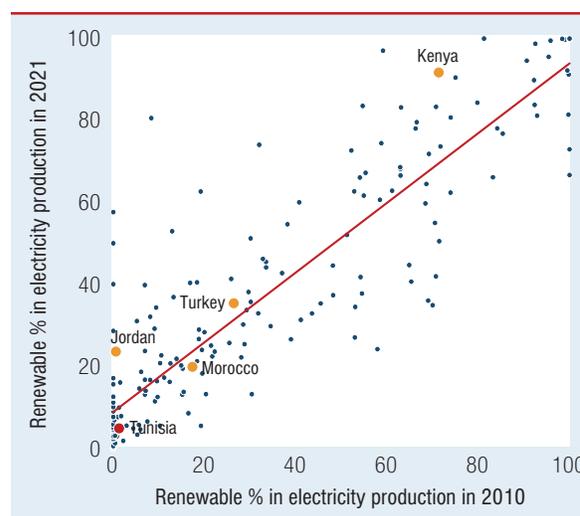
⁶ In August 2022, the Ministry of Finance recognized TND 3.9 billion in subsidies owed to STEG for the years 2016–2021, reducing this deficit to TND 42.7 million.

to invest in renewables. As for auto-producers the savings from renewable generation are commensurate to the prevailing price. Partly due to these disincentives, the growth of Tunisia's renewable production has remained stunted. As of 2021 Tunisia was among the countries with the lowest share of renewables in electricity generation, recording very little progress in the last decade. This is stark difference to countries with similar geo-climatic conditions such as Morocco, Jordan, Turkey and Kenya (figure 24). For similar reasons, the low fuel prices have also stifled investments in energy-efficient and environmentally friendly technologies, including in transport, building and industrial sectors, undermining Tunisia's overall green transition.

Successive governments have attempted to reform the energy subsidy system in the past, but reforms were incomplete, and subsidies have persisted. For example, after the 2011 revolution, the GoT suspended its automated fuel adjustment mechanism to curb further fuel price rises. Subsequently, fuel prices were increased only occasionally until the GoT introduced a new automatic fuel price formula in 2014. This formula, however, was not fully implemented, and another formula was established in 2016 to ensure monthly price adjustments, but it was never systematically implemented. Even in 2022, a year with steep oil price increases, the GoT adjusted fuel prices only four times so that the domestic price grew considerably less than the international price (see Part A). The GoT has not set up any automatic adjustment mechanism for electricity and gas, except for the cement sector, whose prices are not subsidized since 2014, and there were long stretches of no tariff adjustments (e.g., between June 2019 and May 2022) despite cost increases. In 2022, the government finally raised electricity and gas prices for higher consuming households (above 200 kWh for electricity and 30 m³ for gas). These cover around 15 percent of households for electricity and 33 percent for gas. For high consumption categories subsidies were considerably reduced. The GoT also slightly raised the LPG price although that remains heavily subsidized.

Reforming energy subsidies can help address the macro-fiscal crisis, improve SOEs' financial viability and stimulate the green transition, but the reform needs to minimize the

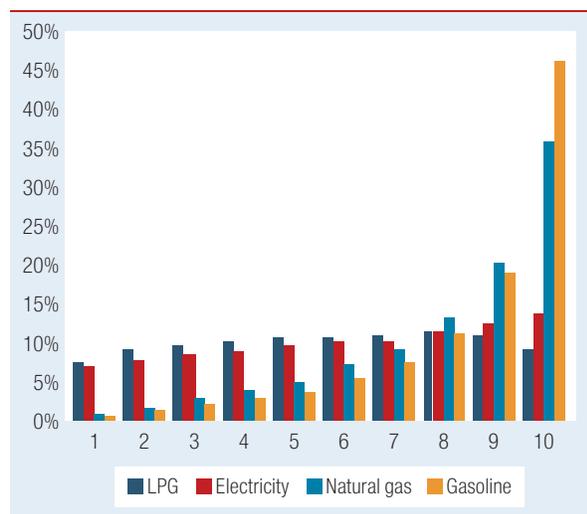
FIGURE 24 • The Slow Race of Tunisia towards Renewable Energy (renewable as a share of electricity generation across countries, 2011-21)



Source: Our World in data.

impacts on the vulnerable population. Phasing out energy subsidies is necessary given the tight macro-fiscal constraints of the economy. This is a central reform in the program that the government has been negotiating with the IMF. The reform, however, needs to be designed carefully so as not to impact poorer households. Aside from fuel and natural gas subsidies, which are captured predominantly by richer households, the other energy subsidies are also benefiting importantly benefiting low income households (figure 25). After the 2022 price reform, the subsidies for electricity are mainly captured by the bottom 80 percent of the population. The LPG subsidies accrue roughly equally across the income distribution, although there are leakages to commercial users such as taxis and restaurants. To minimize the impact of the reform on the most vulnerable categories, a mix of tariff and transfers could be considered. For LPG targeted transfers could compensate poorer households for the loss of subsidies and help them transition towards different system—e.g. gas from the network wherever available. For electricity and gas, one option is to maintain lower tariffs for the lowest consumers (the so-called social tranche), given the tight relation between energy consumption and income.

FIGURE 25 • Fuel and Gas Subsidies are Mainly Captured by Richer Households (share of total subsidy captured by decile of consumption, by energy source)



Source: World Bank staff estimation on the basis of Ministry of Energy and INS data.

Accompanying subsidy reforms with programs to help businesses and households invest in energy efficiency and self-generation can help tame inflationary pressure, maintain firm competitiveness and support the green transition. Government programs for stimulating electricity self-production of households could help absorb the impacts of electricity subsidy phase-out. Examples of such programs include the PROSOL Elec (for households consuming more than 1800 kWh/year), economic PROSOL Elec (between 1200 and 1800 kWh/year) and social (less than 1200 kWh/year). Similarly, measures to encourage energy efficiency, such as certification of household appliances, lighting with LED lamps, and insulation of building rooftops, could help absorb the impact of increasing energy prices. At the firm level, various measures could help increase energy efficiency and auto production such as: (i) providing more flexibility and transparency for companies to sell “electricity surpluses” to the network; (ii) simplifying procedures and authorization processes for self-production; (iii) allowing the establishment of consor-

tia of companies to optimize self-production projects; (iv) establishing an independent electricity regulator that can play the role of supervisor (including on tariff setting) and arbitrator.

Financial restructuring and modernization of SOEs would be key complements to subsidy reforms to enable energy SOEs to restore their financial viability. STEG is a case in point. Its current financial crisis could be turned around through a financial restructuring and modernization plan aiming to (i) strengthen internal and external governance to enforce a performance contract and the accountability framework with STEG management; (ii) recover financial security through diversification of fuel sources (including scaling up renewables), restructuring debt, managing oil price and currency risks, and adjusting tariffs toward cost recovery; (iii) reduce commercial and collection losses (which persist at around 18 percent since 2017, driven by fraud); and (iv) improve the efficiency of corporate processes, digitalize internal resource management, and optimize management of human resources.

The development of large-scale renewable energy is essential to reduce dependence on fossil fuels and imports, while reducing the cost of electricity production. The development of renewable energies is considerably behind schedule and slow in relation to the objectives set by the Tunisian Solar Plan (PST). This is due to various technical, regulatory, financial, economic and governance challenges. Several measures could help address these bottlenecks, including improving transparency and simplifying procedures related to investments, announcing large-scale projects, improving risk sharing in project agreements, improving grid flexibility, and strengthening the capacity of public institutions to lead the renewable energy program. In addition, strengthening of regional connectivity with the EU, via the ELMED project currently under development, will allow for the large-scale development of renewable energy and trade in clean electricity with Europe, thus reducing the cost of electricity supply in the country.



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