BMI

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Tunisia

Country Risk Report

Includes 10-year forecasts to 2033

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- We forecast that Tunisia's real GDP growth will improve slightly from an estimated 0.5% in 2023 to 1.3% in 2024, mainly due to a slight improvement in household consumption, contained import growth and a marginal ease in government liquidity pressures.
- That said, growth will remain significantly below the 2015-2019 average of 3.0% as the country will continue to face domestic and external headwinds.
- While we forecast that Tunisia's current account deficit will narrow to a 18-year low of 2.0% of GDP in 2024, we believe that the authorities will struggle to meet their FX debt payments and finance this deficit, leading to a large drawdown of FX reserves and a depreciation of around 5.7% in the dinar as foreign funding will remain constrained.
- We anticipate that the dinar will weaken to around TND3.30/USD in February 2024 as the central bank settles around USD1.0bn of foreign debt, before it pares back some of its losses by the end of 2024, as the US dollar weakens. This, along with more pronounced shortages of goods in the domestic market due to import compression, will cause inflation to accelerate from 8.0% y-o-y in December 2023 to 8.7% y-o-y in December 2024.
- We forecast that the Central Bank of Tunisia will hike by 100 basis points in 2024 to contain the re-acceleration in inflation. Upside risks to this forecast are high as the government's reliance on the central bank to finance the budget could increase money supply.
- On the political front, we believe that President Kais Saied will remain in power for the next five years regardless of whether the presidential elections take place in Q424 or not, allowing him to further expand his power and progress on his 'self-reliance' economic policy.
- However, we see increased risk that Saied's economic policies could cause a sharper deterioration in socio-economic conditions and more pronounced shortages of basic goods, such as bread, which would lead to large-scale protests.

Key Risks

- Prolonged Red Sea disruptions pose upside risk to global commodity prices, imports cost and inflation, leading to sharper depreciation of the dinar and weaker economic growth.
- Should the war between Israel and Hamas intensify and expand regionally, its economic impact on Tunisia will become more significant due to higher oil prices, stronger depreciatory pressure from stronger US dollar, sharper decline in tourist inflows and weaker external demand.
- Tunisia could still unlock larger financial support than we currently expect, leading to less pressure on the economy than we assume. For example, the EU's growing concerns about migration and spillovers to member states from worsening economic conditions in Tunisia could outweigh their insistence on reforms.

Macroeconomic Forecasts (Tunisia 2022-2025)

Indicator	2022	2023e	2024f	2025f
Real GDP growth, % y-o-y	2.5	0.5	1.3	2.0
Nominal GDP, USDbn	46.2	50.7	54.0	56.0
Consumer price inflation, % y-o-y, eop	10.1	8.1	8.7	7.8
Exchange rate TND per USD, eop	3.11	3.07	3.25	3.50
Budget balance, % of GDP	-7.6	-7.5	-7.0	-5.3
Current account balance, % of GDP	-8.6	-2.4	-2.0	-2.0

e/f = BMI estimate/forecast. Source: National sources, BMI

Risk Summary

Economic Risk

Like many other markets worldwide, Tunisia suffered a deep recession in 2020 as Covid-19 lockdowns stifled economic activity at home and abroad. Job losses in the tourism and export-facing garment industry have exacerbated already-high unemployment and constrained private consumption over the last few quarters. While the economy grew by 4.3% in 2021, the Russia-Ukraine war slowed real GDP growth to 2.4% in 2022 and we estimate its lingering impact and severe drought further slowed economic activity in 2023. While import compression and improved private consumption will cause growth to pick up slightly in 2024, it will remain much lower than historical trend due to crowing out of the private sector, constrained public investment and still elevated inflation. Faster long-term growth thus remains conditional on improvements in the domestic security environment and the positive implementation of structural economic reforms, both of which will take time to materialise.

Political Risk

Worsening economic conditions keep the risk of protests elevated in Tunisia in 2024. Should the authorities' economic decisions lead to spiraling inflation and more pronounced shortages of basic goods, this will lead to large scale protests.

Economic SWOT

Strengths	Weaknesses
• The economy is relatively well diversified, with strong services, agriculture and manufacturing industries. • High human capital development and proximity to European markets will attract foreign investment in the long run, especially in the power sector.	• The country's commercial and industrial bases are on the coast, and the interior is less developed. As a result, inland population centres have been hot spots for social unrest. • Unemployment remains significantly higher than in other North African markets. • The country's rigid expenditure profile, with wages accounting for around half of government spending, leaves limited room for the authorities to cut spending without fuelling social discontent.
Opportunities	**Threats**
• Tourism could yet become a greater source of long-term growth if security conditions stay persistently stable for several years and sufficient foreign investment materialises. • Further reforms made with the assistance of the IMF could help improve foreign investor confidence in the economy and unlock access to funding from other bilateral and multilateral sources.	• The authorities' inability to mobilise the needed funding could further weigh on Tunisia's external position, the dinar and economic growth. • Fixed investment will remain dependent on the maintenance of a stable security environment and reduced industrial action by local labour unions. • Recurrent reliance on the central bank to finance the budget deficit and meet external debt payments risks distabilising the macroeconomic situation.

Political SWOT

Strengths	Weaknesses
• Despite the passing of the constitutional amendment in July 2022, which shifted Tunisia to a presidential system, the country's reputation as the sole democracy to emerge out of the Arab Spring will continue to help the country to access aid, loans and investment from the international community, especially the EU. • The country has a relatively homogeneous society - with the majority of the population being Arab and Muslim - and a mix of secular and moderate Islamist parties helps avoid sectarian clashes.	• Sustained pushback from powerful labour union Union Générale Tunisienne du Travail will continue to prevent authorities from implementing structural fiscal reforms, heightening uncertainty over the direction of policy. • Tunisia is vulnerable to terrorist attacks, mainly due to its weak border security with Libya, which allows Islamist terrorist groups operating there to infiltrate the country. This continues to weigh on the recovery in the tourism sector, as previous terrorist attacks in the country have targeted tourists.
Opportunities	**Threats**
• Strengthening relations with the wealthier Gulf Cooperation Council markets, such as the UAE, will pave the way for financial support and investment similar to the USD5bn multi-year real estate project that UAE-based Bukhatir Group revived in March 2022. In turn, this will contribute to economic growth and support job creation, limiting the risks of unrest over the medium-to-long term. • Similarly, implementation of reforms could help Tunisia unlock funding from other bilateral and multilateral sources, which will support its weakened fiscal and external positions.	• A further increase in inflation and more pronounced shortages in basic goods, especially bread, could fuel social discontent. • A sustained increase in unemployment on the back of sluggish economic growth could lead to widespread protests against the government and the president. • The president's consolidation of power and the shift towards a presidential system and his rejections of reforms could threaten access to financial support from the international community. • Elevated social discontent and rising tensions between the president and labour unions could disrupt economic activity.

Economic Outlook

Domestic And External Headwinds Will Keep Tunisia's 2024 Growth Weaker Than Historical Trend

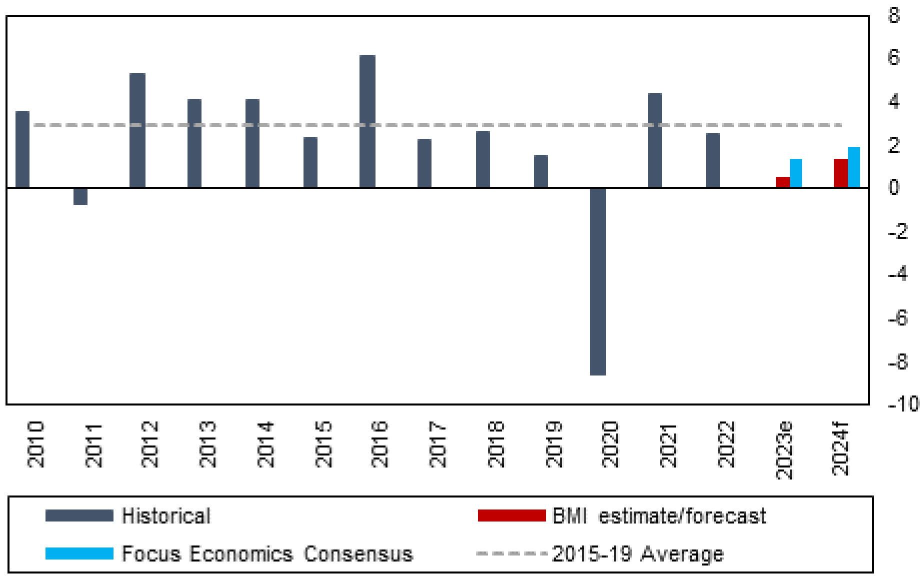
Key View

- We anticipate that Tunisia's real GDP growth will accelerate from an estimated 0.5% in 2023 to 1.3% in 2024, but remain significantly below the 2015-2019 average.
- A slight improvement in household consumption, contained import growth and the marginal easing in government liquidity conditions will drive the recovery in headline growth in 2024.
- Adverse weather conditions and spillovers from the Israel-Hamas war on global commodity prices and exports pose the main downside risks to our growth forecast.

We forecast that Tunisia's real GDP growth will improve from an estimated 0.5% in 2023 to 1.3% in 2024, mainly due to a slight improvement in household consumption and contained imports. Growth will remain much weaker than the five-year pre-Covid average of 3.0%, as the economy will continue to face an array of headwinds this year, notably tight external and domestic liquidity due to constrained access to foreign funding. We remain more pessimistic about Tunisian growth than consensus, which foresees economic expansion of 1.9% in 2024 (*see chart below*).

Growth Will Remain Significantly Below Trend In 2024

Tunisia – Real GDP Growth, % (2010-2024)

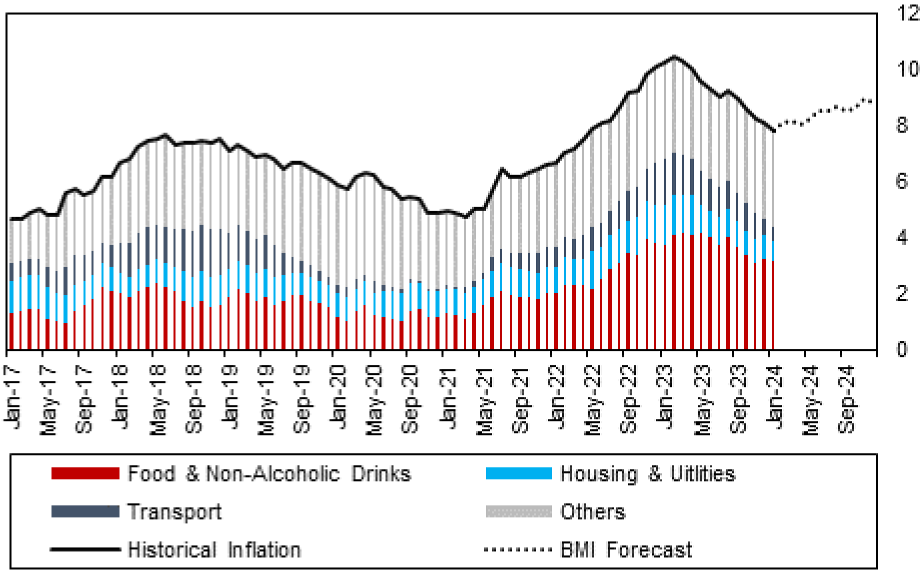


e/f = BMI estimate/forecast. Source: National sources, Focus Economics, BMI

Easing food inflation will provide some support to private consumption growth in 2024. Price growth in the food & non-alcoholic component of the Consumer Prices Index (CPI) basket decelerated from a recent high of 15.9% y-o-y in May 2023 to 12.1% y-o-y in January 2024 (*see chart below*). Given that this component accounts for 26.2% of the CPI basket, a sustained decline in prices will improve households' purchasing power. This will be supported by the increase in the wages of public sector and textile industry employees. That said, headline inflation will remain elevated by historical standards at 8.4%, which along with the ongoing shortages of basic goods in the domestic market will limit this improvement.

Lower Food Inflation Will Support Household Consumption

Tunisia – Inflation, % y-o-y & Components, pp contribution

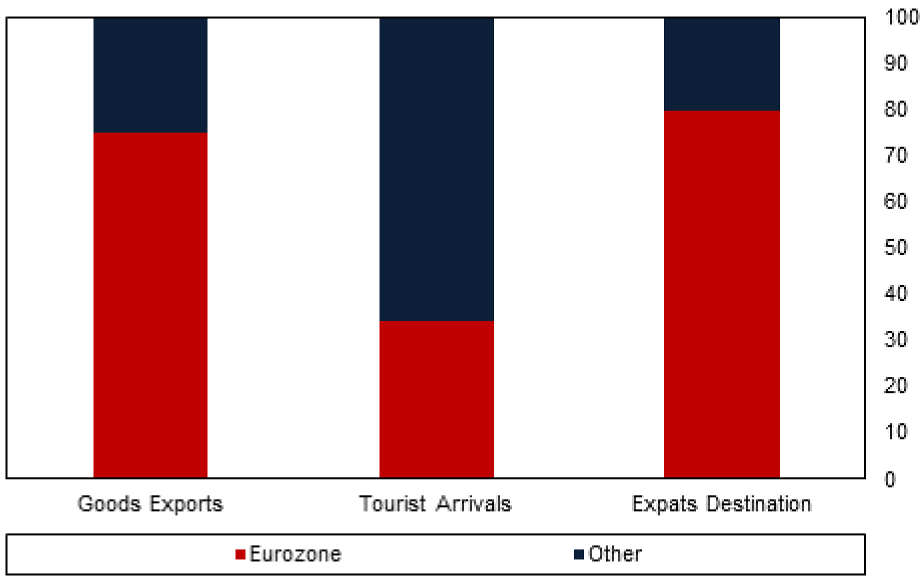


Source: INS, BMI

Import compression will also increase the net export contribution to headline growth in 2024. Although we anticipate that weak demand in the eurozone, Tunisia's key trading partner and source of tourist arrivals, will weigh on goods and services export growth, this will be offset by weaker growth in imports.

Subdued Eurozone Growth Will Weigh On Goods And Services Exports

Tunisia - Exports Destination, Total Arrivals By Nationality & Expats Destination, %



Source: INS, BMI

We believe that Tunisia's access to foreign financial support will remain constrained as we no longer expect an agreement with the IMF, a key requirement for the country to unlock other bilateral and multilateral funding. This, combined with the urgent need to drawdown on FX reserves to meet FX debt payments of USD1.7bn in 2024, will significantly weigh on the ability to finance imports. At the same time, we foresee that grains imports will decline, especially in H224, as we anticipate a recovery in agricultural output in 2024, given the higher amount of rainfall in December 2023 and January 2024.

Meanwhile, we expect government consumption to subtract less from growth as the Central Bank of Tunisia's financing will ease some of the liquidity pressures. On January 26 2024, the government approved a bill to allow the central bank to directly finance the budget deficit, which we expect to reach 7.0% of GDP in 2024. While this measure risks fuelling inflation, it will provide some support to the government's ability to pay for wages, subsidies and goods and services.

Risks to our growth forecast are mixed but skewed to the downside. On the downside, should the government's reliance on financing from the central bank becomes recurrent and takes the form of a significant increase in money supply, the dinar will weaken and inflation will spiral, which would require a tighter monetary policy than we currently expect. Also, prolonged Red Sea disruptions could lead to higher global commodity prices and shipping costs, increasing inflationary pressures. This would also intensify external pressures due to a higher import bill and weaker demand for exports, which would lead to increased depreciatory pressures. In addition, if Tunisia faces adverse weather conditions in the next three months, this would weigh on the May harvest season. Moreover, if the conflict between Israel and Hamas were to spread across the region, this would lead to a sharper decline in tourist arrivals to Tunisia as they fear terrorist attacks. Should these risks materialise, they will lead to weaker growth in 2024 than our current forecast of 1.3%.

On the upside, Tunisia could still secure more substantial financial support than we currently anticipate, allowing the authorities to meet their external payments without depleting FX reserves, weakening the dinar, and compressing imports as we currently project. For example, the EU's escalating worries about migration and potential repercussions from deteriorating economic conditions in Tunisia could outweigh their demand for reforms. This could prompt the union to disburse financial aid to Tunisia. Also, Tunisia could receive financial support and investment from GCC countries.

Growth Outlook For 2024

Forecast	2023e	2024f	Notes
Real GDP Growth, %	0.5	1.3	Growth will accelerate slightly on higher consumption and slower import growth.
Private consumption	0.8	1.0	Growth in private consumption will improve mildly on declining food inflation.
Government consumption	-0.7	-0.2	Government consumption will remain constrained by pronounced fiscal pressures amid constrained access to financial support. CBT financing will provide some relief.
Fixed capital formation	0.2	0.2	Unfavourable political environment, delays in IMF-induced investment, elevated borrowing costs, lower lending to the private sector and tight government liquidity will constrain growth in investment.
Net exports	0.2	0.3	Easing external demand, particularly in the eurozone, and lower tourist arrivals will weigh on exports. Meanwhile, lower demand and tight FX liquidity will slow import growth.

Note: Numbers reflect percentage point contribution to growth unless mentioned otherwise. e/f = BMI estimate/forecast. Source: INS, BMI

GDP By Expenditure Outlook

Tunisia posted steady and robust growth over the two decades leading up to the Jasmine Revolution and the toppling of former ruler Zine El Abidine Ben Ali in 2011. Although the country evolved towards a parliamentary democracy, political deadlock prevented the economy to fully recover from that shock, with real growth averaging just 2.2% between 2012 and 2019. The country has faced another shock from Covid-19, leading to a 8.6% contraction in real GDP in 2020. While the economy grew by 4.3% in 2021, the Russia-Ukraine war hindered the country's post-Covid recovery, leading to an ease in growth to 2.4% in 2022. In 2023, severe drought and elevated fiscal and external pressures caused growth to slow further to 0.5% in 2023. Our core view is for growth to average around 2.0% annually between 2024-2033. Even this relatively modest figure relies on the government being able to overcome the external pressures, improve macroeconomic stability and the overall business environment.

GDP Growth Forecasts (Tunisia 2022-2027)

Indicator	2022	2023e	2024f	2025f	2026f	2027f
Nominal GDP, TNDbn	143.3	157.4	172.7	190.3	208.3	227.3
Real GDP growth, % y-o-y	2.5	0.5	1.3	2.0	2.2	1.8
GDP per capita, TND	11,599.8	12,634.5	13,745.6	15,021.4	16,322.2	17,684.7

e/f = BMI estimate/forecast. Source: UN, BMI

GDP Growth Forecasts (Tunisia 2028-2033)

Indicator	2028f	2029f	2030f	2031f	2032f	2033f
Nominal GDP, TNDbn	248.5	271.8	297.2	325.2	356.0	389.7
Real GDP growth, % y-o-y	2.0	2.1	2.1	2.1	2.2	2.2
GDP per capita, TND	19,205.1	20,869.8	22,684.7	24,680.2	26,875.1	29,267.5

f = BMI forecast. Source: UN, BMI

Private Consumption: Private consumption remains the key driver of headline growth, representing an estimated 76.0% of GDP in 2022. Following a sharp decline due to the Covid-19 lockdown in 2020, we forecast that household spending will rise at a relatively sluggish pace throughout the next decade, notwithstanding the occasional fluctuations engendered by the impact of volatile harvests on rural incomes. Remittances from Tunisians working abroad (largely in Europe) will remain a crucial source of support while improvements in business sentiment over the longer term should translate into stronger wage growth in the private sector. However, high unemployment, particularly among the educated youth, along with elevated inflation, will continue to act as a brake to stronger household spending. Moreover, Tunisia will display the weakest population growth in the North Africa region and the share of prime working age (20-39 years old) people in the population will fall from 29.2% in 2022 to 26.2% in 2033, weighing on potential consumption gains. Therefore, we forecast average real growth in private consumption of 2.3% between 2024 and 2033, well below the average rate of 4.7% recorded in the decade before the 2011 revolution.

Private Consumption Forecasts (Tunisia 2022-2027)

Indicator	2022	2023e	2024f	2025f	2026f	2027f
Private final consumption, TNDbn	109.5	120.9	132.6	146.2	160.2	175.9
Private final consumption, % of GDP	76.4	76.8	76.8	76.8	76.9	77.4
Private final consumption, real growth % y-o-y	6.0	1.1	1.3	2.0	2.3	2.5

e/f = BMI estimate/forecast. Source: UN, BMI

Private Consumption Forecasts (Tunisia 2028-2033)

Indicator	2028f	2029f	2030f	2031f	2032f	2033f
Private final consumption, TNDbn	193.1	212.0	232.7	255.5	280.5	307.9
Private final consumption, % of GDP	77.7	78.0	78.3	78.6	78.8	79.0
Private final consumption, real growth % y-o-y	2.5	2.5	2.5	2.5	2.5	2.5

f = BMI forecast. Source: UN, BMI

Government Consumption: We believe that government consumption as a share of GDP recovered back to its pre-Covid level, reaching around 18.8% of GDP in 2022. We expect a period of tight liquidity in 2023-2024 will bring it down to 18.0%, before it recovers gradually over the next decade, as fiscal pressures ease.

Government Consumption Forecasts (Tunisia 2022-2027)

Indicator	2022	2023e	2024f	2025f	2026f	2027f
Government final consumption, TNDbn	30.6	32.4	34.8	38.5	42.2	46.4
Government final consumption, % of GDP	21.3	20.6	20.1	20.2	20.3	20.4
Government final consumption, real growth % y-o-y	4.3	-3.5	-1.0	2.5	2.5	2.5

e/f = BMI estimate/forecast. Source: UN, BMI

Government Consumption Forecasts (Tunisia 2028-2033)

Indicator	2028f	2029f	2030f	2031f	2032f	2033f
Government final consumption, TNDbn	50.9	55.9	61.4	67.4	74.0	81.2
Government final consumption, % of GDP	20.5	20.6	20.6	20.7	20.8	20.8
Government final consumption, real growth % y-o-y	2.5	2.5	2.5	2.5	2.5	2.5

f = BMI forecast. Source: UN, BMI

Fixed Investment Outlook: Gross fixed capital formation contracted by an annual average of 5.0% in real terms between 2011 and 2015, only returning to positive growth in 2016. After a sharp contraction in 2020, we forecast modest, if rising, growth in the years ahead, with Tunisia's onerous bureaucracy, high levels of corruption and social instability key headwinds. Public investment, which still plays an important role in capital formation, will also be constrained by the need to maintain lower fiscal spending. We forecast that increasing reliance on domestic funding sources, tight monetary, objection to fiscal reforms and acute external pressures in 2024 and 2025 will keep growth in investment weak. That said, we expect a gradual upturn in fixed investment over the next five years. Tunisia's attractive geographical position and numerous free trade agreements - assuming efforts to improve the operational environment continue over the coming decade - should lead to a steady return in investor interest over the long term. The degree to which the government can improve currency availability and wider macroeconomic stability, will be a critical determinant of foreign investment in the years to come. Improving the struggling banking sector, which suffers from high delinquency rates and low capitalisation, will also be critical to facilitate more investment. The authorities plans to modernise the exchange system and gradually ease restrictions will help boost investment.

Fixed Investment Forecasts (Tunisia 2022-2027)

Indicator	2022	2023e	2024f	2025f	2026f	2027f
Fixed capital formation, TNDbn	21.1	23.2	25.5	28.6	31.9	35.5
Fixed capital formation, % of GDP	14.7	14.8	14.8	15.1	15.3	15.6
Fixed capital formation, real growth % y-o-y	-5.7	1.0	1.5	4.0	4.0	4.0

e/f = BMI estimate/forecast. Source: UN, BMI

Fixed Investment Forecasts (Tunisia 2028-2033)

Indicator	2028f	2029f	2030f	2031f	2032f	2033f
Fixed capital formation, TNDbn	39.5	43.9	48.9	54.4	60.6	67.4
Fixed capital formation, % of GDP	15.9	16.2	16.5	16.7	17.0	17.3
Fixed capital formation, real growth % y-o-y	4.0	4.0	4.0	4.0	4.0	4.0

f = BMI forecast. Source: UN, BMI

Net Exports Outlook: We expect real export growth to continue to rebound from a 2020 slump but remain subdued at around 3.7% on average between 2024-2032. Spillovers from the Russia-Ukraine war will continue to weigh on economic growth in top export markets in 2024, in turn, on demand for Tunisian goods. Key to improving export levels will be to further foreign investment in manufacturing. Tunisia's weak reform momentum, political instability and deteriorating macroeconomic fundamentals have kept it back behind nearby competitor Morocco in recent years, a gap that will only grow unless the Tunisian government is willing to increase the pace of reform. We maintain a cautious outlook on the prospects of this occurring. Moreover, tourist arrivals are unlikely to return to 2019 levels until around 2024, with risks of spillovers from the escalation of the Israel-Hamas conflict could impact tourist arrivals.

In common with the other North African economies, Tunisia sources large amounts of consumer goods and capital equipment from abroad; we expect continued private consumption and fixed investment growth to feed into greater imports. However, a weaker dinar, increased external liquidity pressures and elevated inflation will cap demand in the medium term. Overall, we expect net exports to slightly deduct from headline growth figures.

Net Exports Forecasts (Tunisia 2022-2027)

Indicator	2022	2023e	2024f	2025f	2026f	2027f
Net exports of goods and services, TNDbn	-17.7	-8.9	-8.4	-8.9	-8.8	-9.6
Net exports of goods and services, % of GDP	-12.3	-5.7	-4.9	-4.7	-4.2	-4.2
Net exports of goods and services, real growth % y-o-y	25.7	-2.3	-4.0	8.2	7.7	13.9

e/f = BMI estimate/forecast. Source: UN, BMI

Net Exports Forecasts (Tunisia 2028-2033)

Indicator	2028f	2029f	2030f	2031f	2032f	2033f
Net exports of goods and services, TNDbn	-10.6	-11.7	-12.6	-13.6	-14.6	-15.7
Net exports of goods and services, % of GDP	-4.3	-4.3	-4.3	-4.2	-4.1	-4.0
Net exports of goods and services, real growth % y-o-y	10.3	9.4	9.0	7.9	7.0	6.9

f = BMI forecast. Source: UN, BMI

External Trade And Investment Outlook

Tunisia's External Risks Remains Significant Despite Smaller Deficits

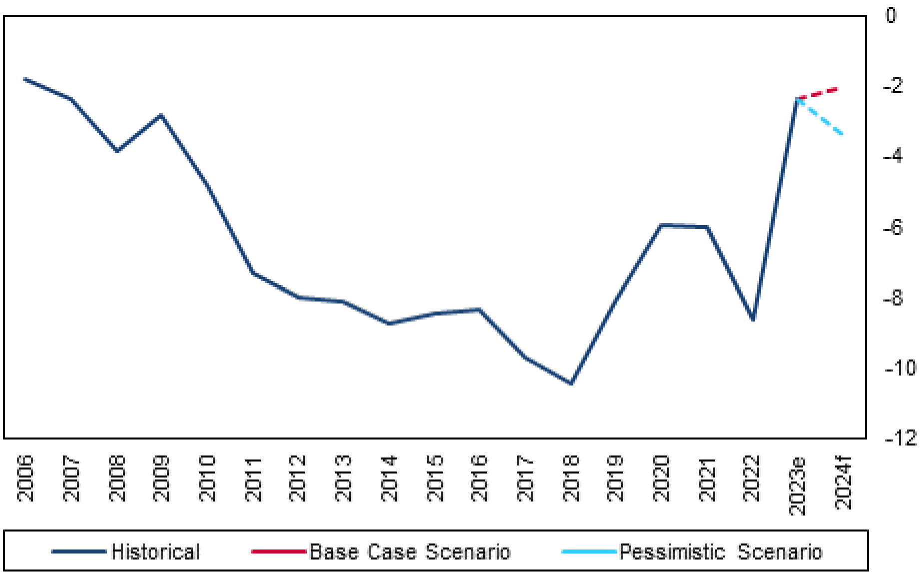
Key View

- While Tunisia's current account deficit will narrow to a 18-year low of 2.0% of GDP in 2024, we continue to highlight significant risks to the country's external position.
- We believe that Tunisia will struggle to finance even this narrower deficit, leading to a large drawdown of FX reserves to meet around USD2.8bn in FX payments in 2024. This will cause the dinar to weaken by around 5.7%.
- Given the uncertain situation, we have also outlined both a more optimistic scenario in which bilateral donors come to the rescue and a more pessimistic one in which adverse external conditions result in a larger deficit. We think that the latter is marginally more likely than the former.

Our core view is that Tunisia's current account deficit will narrow again in 2024, but risks to this forecast are elevated. Given the uncertain nature of the situation, we have also opted to explain both a more optimistic and a more pessimistic forecast *(see chart below)*.

Narrower Deficit In 2024, Risks Are Significant

Tunisia - Current Account Balance, % of GDP



e/f = BMI estimate/forecast. Source: CBT, BMI

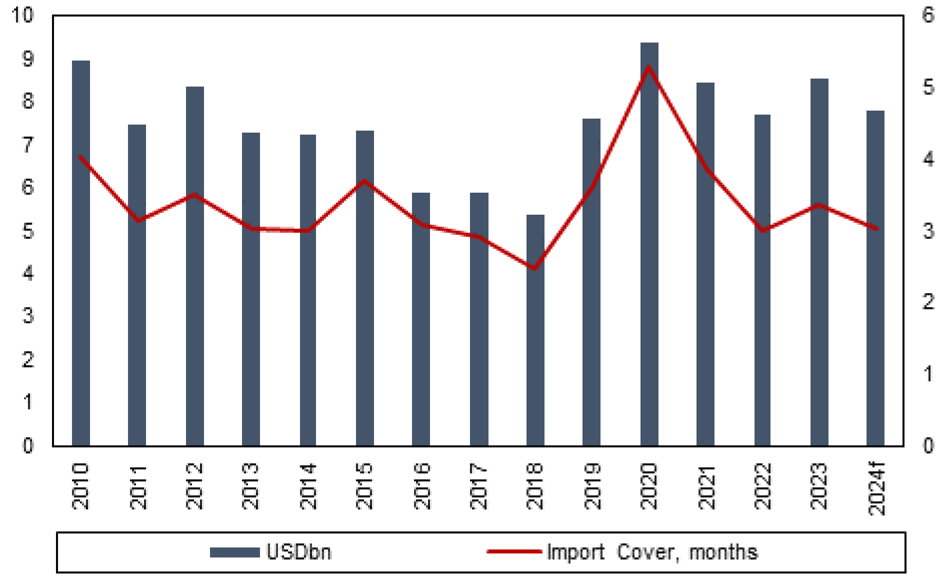
Base Case Scenario (55.0% probability): Narrow Escape In 2024, Shaky Ground In 2025

After narrowing from 8.6% of GDP in 2022 to 2.4% of GDP in 2023, we forecast that Tunisia's current account deficit will shrink further to 2.0% of GDP in 2024 *(see chart above)*. This would be a much smaller deficit than the 5.4% of GDP shortfall consensus forecast collected by Focus Economics. We now expect that the authorities will continue to prioritise meeting external debt obligations over financing imports. Import compression, along with lower demand for grain imports and ongoing decline in grain prices, will offset the impact of higher oil prices. Exports will also fall (because of weak growth in the eurozone) but we think that the trade deficit will narrow by 1.0% of GDP.

Even though the deficit will be small, the absence of foreign financial support means that **the authorities will be forced to dip into FX reserves (which currently stand at USD8.2bn (117 days of import cover), to meet a large part of the USD1.7bn FX debt payments due in 2024 and a current account deficit of around USD1.1bn) in order to cover their external financing needs.** As an agreement with the IMF is extremely unlikely, Tunisia's access to foreign financial support will become more constrained as bilateral donors will be more reluctant to provide support outside an IMF programme. In line with our view, the government confirmed that the central bank will settle the USD950mn in Eurobonds due on February 15 2024. This will reduce the FX reserves import cover by around 14 days this month and cause the dinar to weaken from a spot TND3.14/USD to around TND3.30/USD (*see last chart below*).

FX Reserves Will Be Depleted To Settle FX Payments

Tunisia - FX Reserves

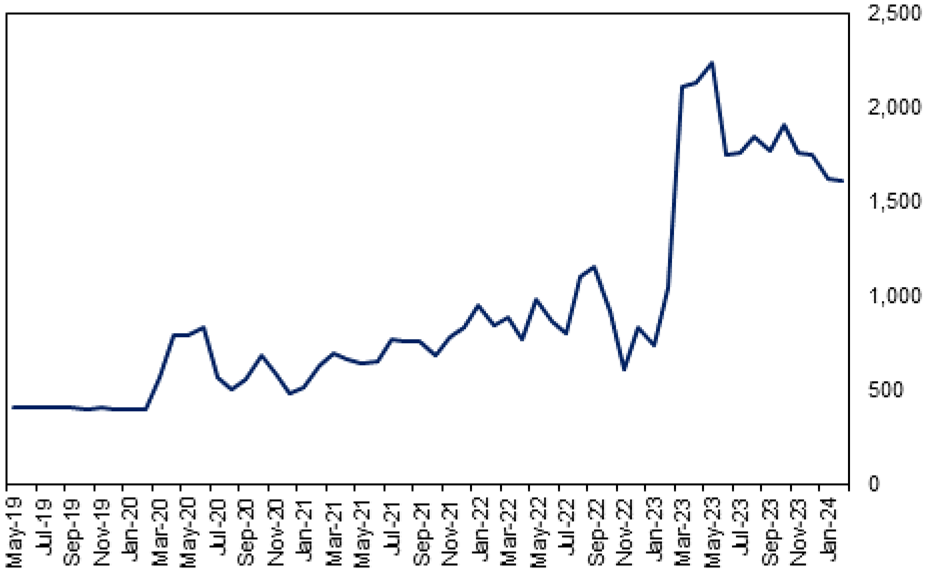


f = BMI forecast. Source: CBT, BMI

The drawdown on FX reserves, along with our bearish view on remittance and tourism inflows in 2024, will make it more challenging for the country to settle another USD1.0bn due in January 2025, without risking a steep devaluation of the dinar. Even so, we expect that the authorities will be able to make these payments. Market participants seem to agree with us, with market-implied measures of risk easing since November (*see chart below*).

Decelerating Pessimism In The Market

Tunisia - 10-Year CDS, basis points



Source: Bloomberg, BMI

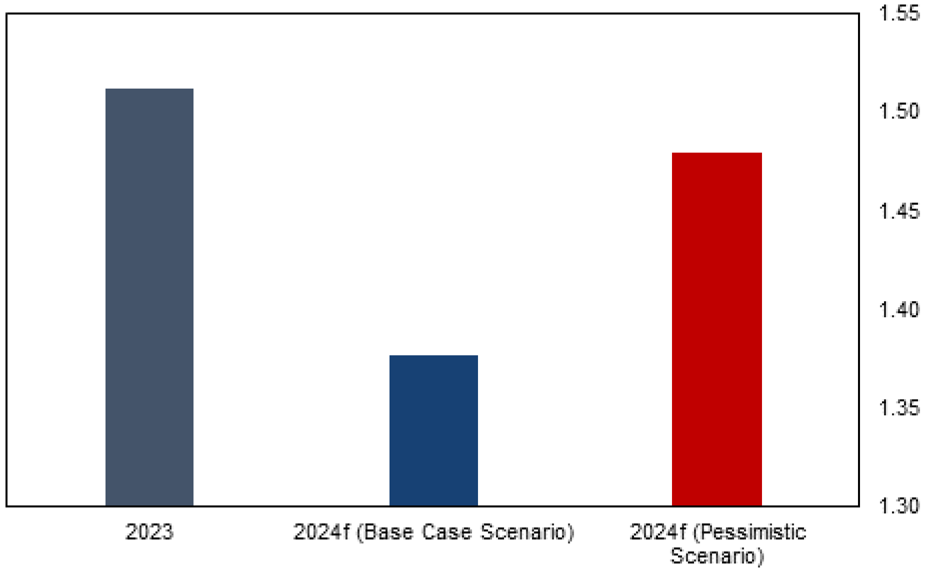
Pessimistic Scenario (25%): Too Many Possible Curveballs

In this scenario, we anticipate that Tunisia's current account deficit will widen up to 3.4% of GDP in 2024, as several headwinds lead to wider trade deficit and/or weaker tourism and remittance inflows. Although around 60.0% of Tunisia's imports are sourced from Europe, a more prolonged Red Sea crisis would still increase the import bill as a result of higher shipping costs and higher global commodity prices. Subsequent inflationary pressures in the eurozone and supply chain disruptions will then weaken the region's economic growth, weighing further on demand for goods and services exports, as well as on remittance inflows.

The narrowing of the current account deficit in 2023 was largely due to falling imports; combination of lower oil and grain prices and import compression more than offset the 16.2% increase in the volume of grain imports that resulted from the drought. Our core view is that imports will remain weak in 2024 due to import compression and a fall in grain prices. If a continued drought keeps grain import volumes at the 2023 level, then this will raise the import bill by about 1.0% of GDP *(see chart below)*.

Adverse Weather Condition Will Increase Imports Cost

Tunisia – Grain Imports, USDbn

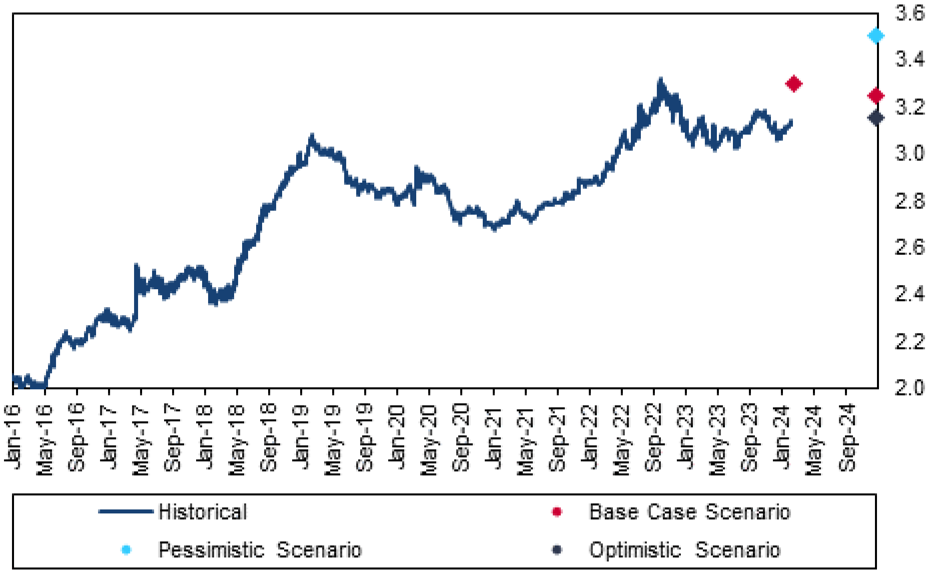


f = BMI forecast. Source: INS, BMI

In this case, the authorities' external financing needs will increase by about USD900mn, which would have to be financed from FX reserves. This would lead to a sharper depreciation of the dinar to around TND3.50/USD by the end of 2024 (*see chart below*) and the import coverage of the FX reserves will fall below 90 days.

Wider Deficit Would Put More Pressure On Dinar

Tunisia - TND/USD



Source: CBT, BMI

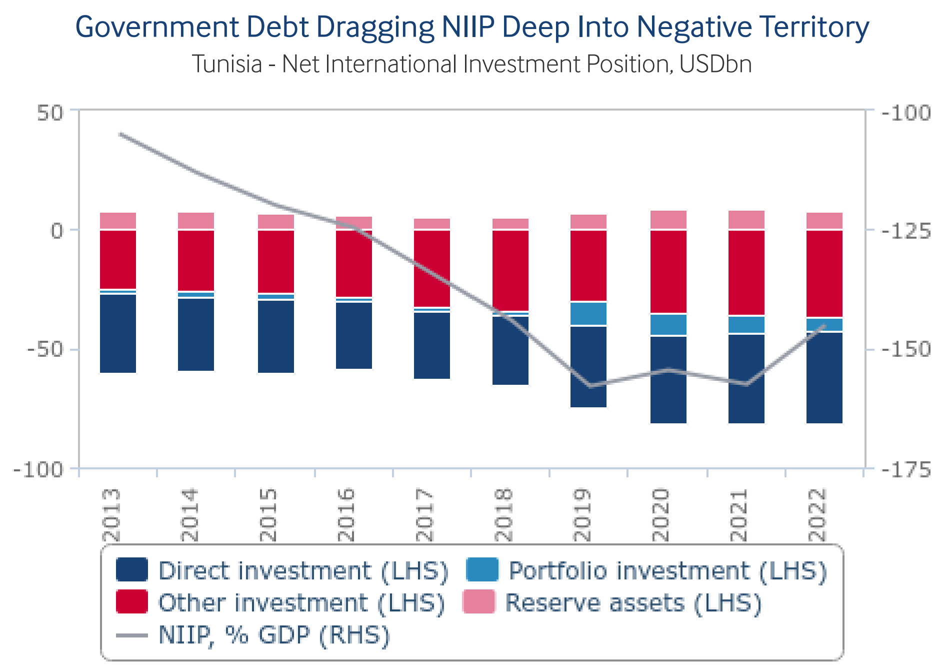
Optimistic Scenario (20%): Bilateral Donors To The Rescue

In this scenario, we assume that Tunisia will receive larger financial support than we currently assume, alleviating short-term balance of payment pressures. It remains possible that EU countries' concerns about migration and the potential repercussions from deteriorating economic conditions in Tunisia will prompt them to disburse financial support to Tunisia regardless of the implementation of reforms. In addition, Tunisia could receive larger funding from Arab countries, such as Algeria, Saudi Arabia and Qatar.

Should this funding materialise, Tunisia will become better positioned to meet its external payments without having to rely heavily on its FX reserves. As such, we expect that the dinar will pare back some of the losses that will result from the February 2024 drawdown on reserves, supported by a weaker US dollar towards the end of 2024. We thus forecast it will end-2024 around TND3.15/USD (*see chart above*).

Outlook On External Position

Tunisia will remain heavily reliant on external and domestic financing over the coming years to meet its external payments due to persistent current account imbalances in the 2024-2033 period.



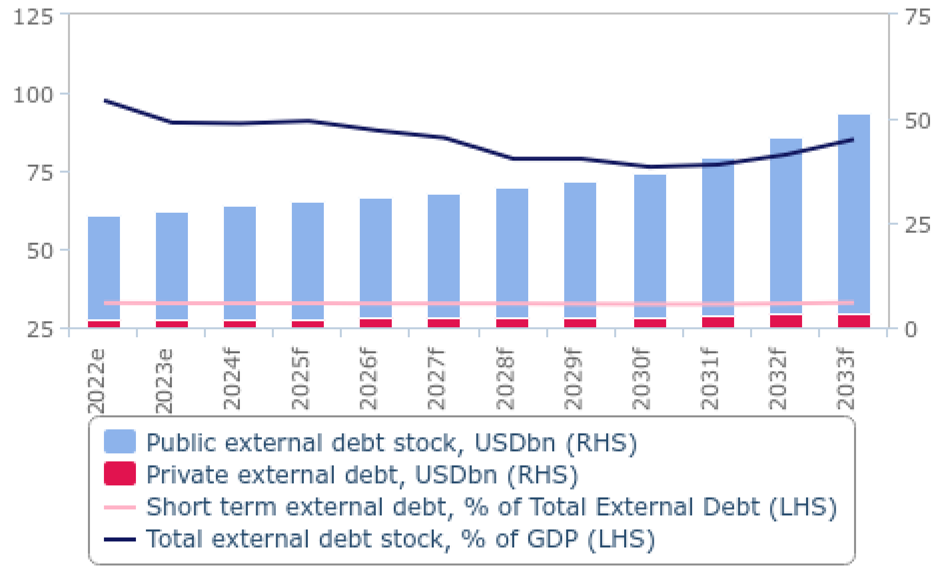
Source: IMF, BMI

We believe that Tunisia will remain heavily reliant on foreign investment for its external financing over the coming years. With portfolio investment accounting for a very modest share of Tunisia's total liabilities, we believe that the risks associated with sudden capital outflows are limited. Meanwhile, direct investment flows into Tunisia have been weak since the 2011 revolution and restoring private investor confidence is a key objective of the government. Given falling reserves and foreign direct investment, the role played by other investment - largely consisting of bilateral and multilateral preferential loans - has significantly expanded.

Over the past few years, Tunisia has been a strong recipient of foreign aid and benefitted from an IMF deal between 2016 and 2020. Given its increased reliance on preferential loans, we believe that the Tunisian government will need to step up efforts to meet the conditions associated with these deals. That said, we expect access to external financing needed to finance the country's current account deficit and meet upcoming payments will be challenging in the absence of another financing deal with the IMF.

External Debt: Due to persistent current account deficits over the next decade and insufficient foreign investment to plug the gap, we expect Tunisia’s external debt to keep growing over the next few years, before gradually stabilising. While this is cause for some concern, the vast majority of total external debt will continue to be public or public-guaranteed debt, largely consisting of bilateral and multilateral loans. That said, the abcence of an IMF programme and the creditors' reluctance to extend lending without a programme in place will make it challenging for Tunisia to service its debt, without risking a sharp depreciation of the dinar. Still, we think that the country’s creditors could agree to extend lending or renegotiate some of the debt in order to avoid a destabilisation of the economy.

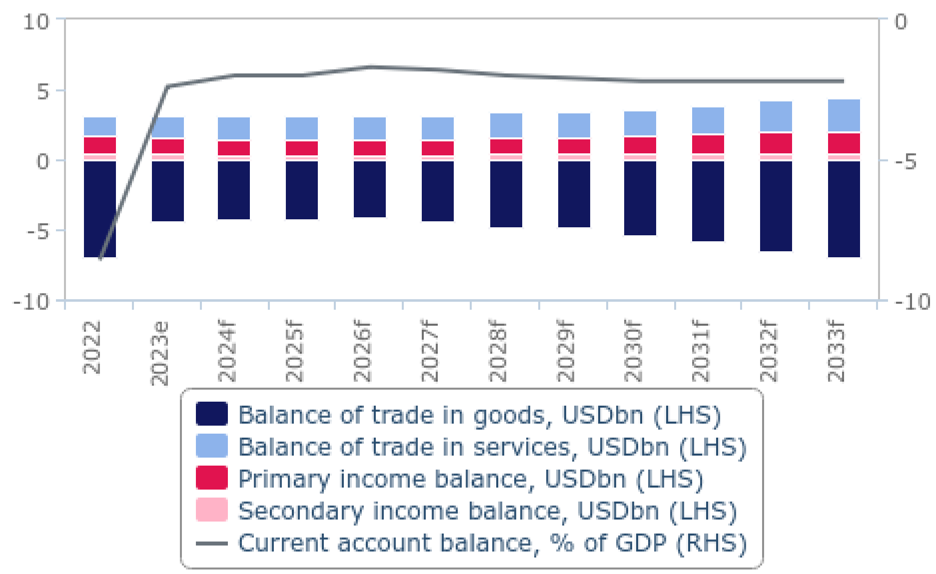
External Debt To Remain Elevated
Tunisia - Total External Debt (2022-2033)



e/f = BMI estimate/forecast. Source: World Bank, BMI

Balance Of Payments: Tunisia's current account will remain in deficit throughout our forecast period to 2033, with shortfalls averaging 2.1% of GDP over the coming decade. The smaller deficits compared the 2011-2021 period, are largely due to import compression and falling global commodity prices. A rebound in growth in the eurozone over the medium term will support demand for goods and services export and remittance inflows. That said, this remain subjects to elevated downside risks.

Current Account Will Narrow On Import Compression
Tunisia - Current Account Balance (2022-2033)



e/f = BMI estimate/forecast. Source: BCT, BMI

Tunisia - Breakdown Of Imports (2023)

By Market	% Of Total Imports	By Category	% Of Total Imports
Italy	12.6	Mineral fuels, mineral oils and products	17.8
China (Mainland)	10.7	Electrical machinery and equipment	12.5
France	10.4	Machinery	7.8
Russia	8.6	Plastics and articles thereof	6.4
Algeria	7.1	Vehicles	5.7

Source: INS, BMI

Tunsia - Breakdown Of Exports (2023)

By Market	% Of Total Exports	By Category	% Of Total Exports
France	22.7	Electrical machinery and equipment	26.9
Italy	18.3	Articles of apparel and clothing accessories	13.2
Germany	13.1	Animal, vegetable or microbial fats and oils and products	6.9
Spain	5.3	Mineral fuels, mineral oils and products	6.2
Libya	4.3	Optical, photographic, cinematographic etc equipment	3.8

Source: INS, BMI

Capital & Financial Account Balance (Tunisia 2018-2022)

Indicator	2018	2019	2020	2021	2022
Capital account, USDbn	0.1	0.1	0.4	0.2	0.4
Financial account, USDbn	4.4	4.5	2.9	2.2	3.4
Capital and financial account, % of GDP	10.5	11.0	7.8	5.2	8.3
Net FDI inflows per capita, USD	82.9	67.2	48.7	43.5	52.5
Net portfolio investment, USDbn	0.0	0.0	0.0	0.0	0.0
Net other Investment, USDbn	3.4	3.7	2.4	1.7	2.7

Source: Central Bank of Tunisia, BMI

Current Account Balance Forecasts (Tunisia 2022-2027)

Indicator	2022	2023e	2024f	2025f	2026f	2027f
Balance of trade in goods, USDbn	-7.0	-4.4	-4.3	-4.3	-4.2	-4.4
Balance of trade in goods, % of GDP	-15.2	-8.7	-7.9	-7.6	-7.1	-7.0
Balance of trade in services, USDbn	1.4	1.6	1.7	1.7	1.8	1.8
Balance of trade in services, % of GDP	3.0	3.1	3.1	3.0	3.0	2.8
Primary income balance, USDbn	1.3	1.2	1.2	1.1	1.1	1.1
Primary income balance, % of GDP	2.7	2.5	2.2	2.0	1.9	1.8
Secondary income balance, USDbn	0.4	0.4	0.3	0.3	0.3	0.3
Secondary income balance, % of GDP	0.9	0.7	0.6	0.6	0.5	0.5
Current account balance, USDbn	-4.0	-1.2	-1.1	-1.1	-1.0	-1.2
Current account balance, % of GDP	-8.6	-2.4	-2.0	-2.0	-1.7	-1.8

e/f = BMI estimate/forecast. Source: Central Bank of Tunisia, BMI

Current Account Balance Forecasts (Tunisia 2028-2033)

Indicator	2028f	2029f	2030f	2031f	2032f	2033f
Balance of trade in goods, USDbn	-4.9	-4.9	-5.4	-5.9	-6.6	-7.0
Balance of trade in goods, % of GDP	-6.8	-6.7	-6.5	-6.4	-6.3	-6.1
Balance of trade in services, USDbn	1.9	1.8	1.9	2.1	2.3	2.5
Balance of trade in services, % of GDP	2.6	2.5	2.3	2.3	2.2	2.1
Primary income balance, USDbn	1.2	1.2	1.3	1.4	1.5	1.5
Primary income balance, % of GDP	1.7	1.6	1.5	1.5	1.4	1.3
Secondary income balance, USDbn	0.4	0.4	0.4	0.4	0.5	0.5
Secondary income balance, % of GDP	0.5	0.5	0.5	0.5	0.4	0.4
Current account balance, USDbn	-1.4	-1.6	-1.8	-2.1	-2.3	-2.5
Current account balance, % of GDP	-2.0	-2.1	-2.2	-2.2	-2.2	-2.2

e/f = BMI estimate/forecast. Source: Central Bank of Tunisia, BMI

Monetary Policy Outlook

Slower Inflation Across North Africa In 2024 Masks Underlying Challenges And Numerous Risks

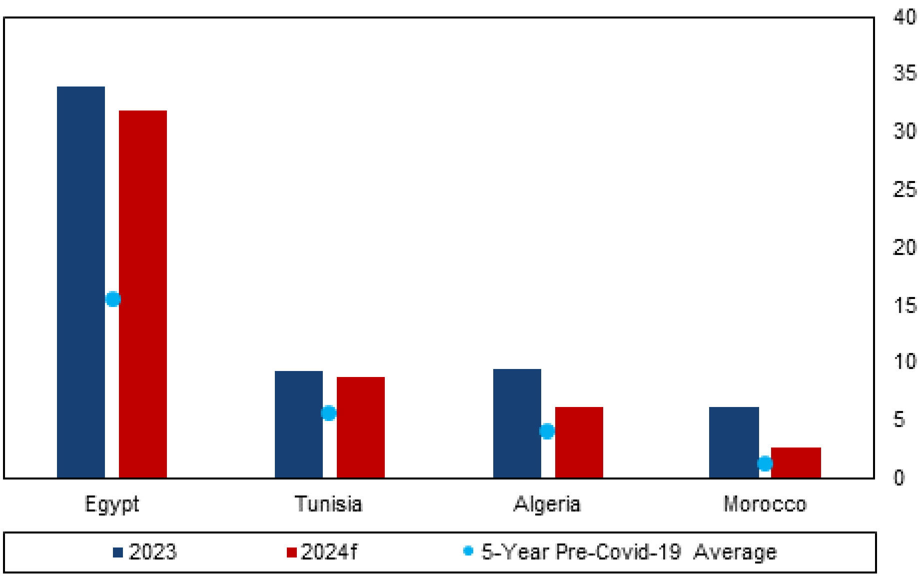
Key View

- Average inflation in North Africa will decelerate from 19.5% in 2023 to 15.1% in 2024 but will remain higher than the pre-Covid average due to country-specific factors.
- Despite inflation broadly decelerating, we expect that Egypt and Tunisia will continue increasing interest rates to counter external pressures, while Algeria and Morocco will see no change in their monetary policy stance.
- Risks to the inflation forecast in North Africa include potential deficit monetisation, adverse weather impacting agricultural production and increased import prices from Red Sea disruptions or regional conflicts, all of which could drive inflation higher than the current projections.

We expect that average inflation in North Africa will slow from 19.5% in 2023 to 15.1% in 2024, but will remain above the five-year pre-Covid average of 8.6%. While country-specific factors will keep inflation above average in North African markets, the easing of year-on-year price growth will be driven by the same factors. Egypt, Tunisia, Algeria and Morocco will benefit from favourable base effects, especially as most commodity prices will see little upside. This will offset the cut in subsidies in Egypt and Morocco and the weaker Egyptian pound and Tunisian dinar. Similarly, all North African markets tightened their financial conditions in the past two years, albeit to a varying extent, and some will resume tightening in 2024, which will help keep inflation on a downward path. While Algeria and Morocco will hold their policy rates, Egypt and Tunisia will be among 11 markets worldwide that will tighten their monetary stance in 2024.

Inflation Slower But Above Average In North African Markets

North Africa - Inflation, %

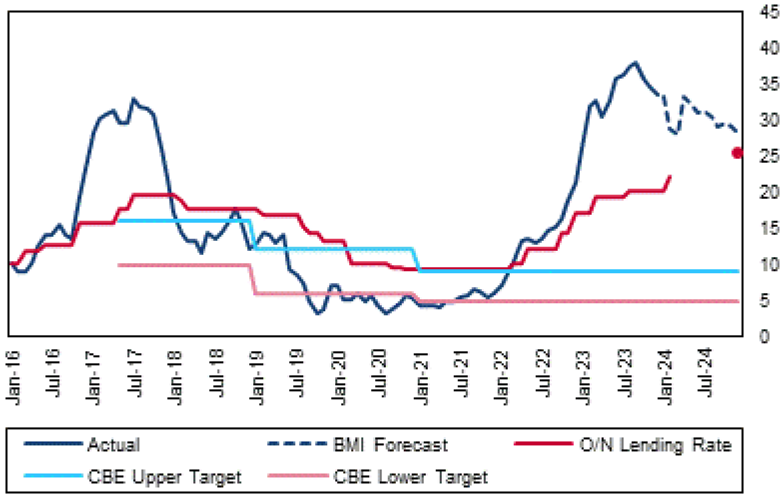


f = BMI forecast. Source: National sources, BMI

After hiking the benchmark policy rates by 200 basis points, we expect that the Central Bank of Egypt (CBE) will increase the overnight deposit and lending rates by a further 300 basis points (bps) to 24.25% and 25.25% respectively by end-2024. Strong inflationary pressures and the need to support the currency will provide impetus for the CBE to tighten monetary policy. While we expect that average inflation will fall from 33.9% in 2023 to 30.3% in 2024, the drop will be almost entirely driven by favourable base effects. We have maintained our forecast despite a lower-than-expected inflation print in January 2024 to factor in a devaluation of the pound in February rather than in March. Inflationary pressures will remain strong due to increases in administered prices designed to reduce the subsidy bill, particularly fuel, and most importantly a weaker exchange rate. We expect that the Egyptian pound will weaken from EGP31.0/USD to a range between EGP40.0/USD and EGP45.0/USD in the short term. We think that depreciatory pressure on the currency will persist throughout the year because of the large financing needs and negative foreign asset position in the financial sector. We foresee the exchange rate ending the year around EGP47.5/USD. This will keep inflation around 30% throughout the year, significantly above the CBE's target range of 5.0%-9.0%.

Inflation Significantly Above The CBE Target

Egypt - Inflation & Policy Rates, % (2016-2024)

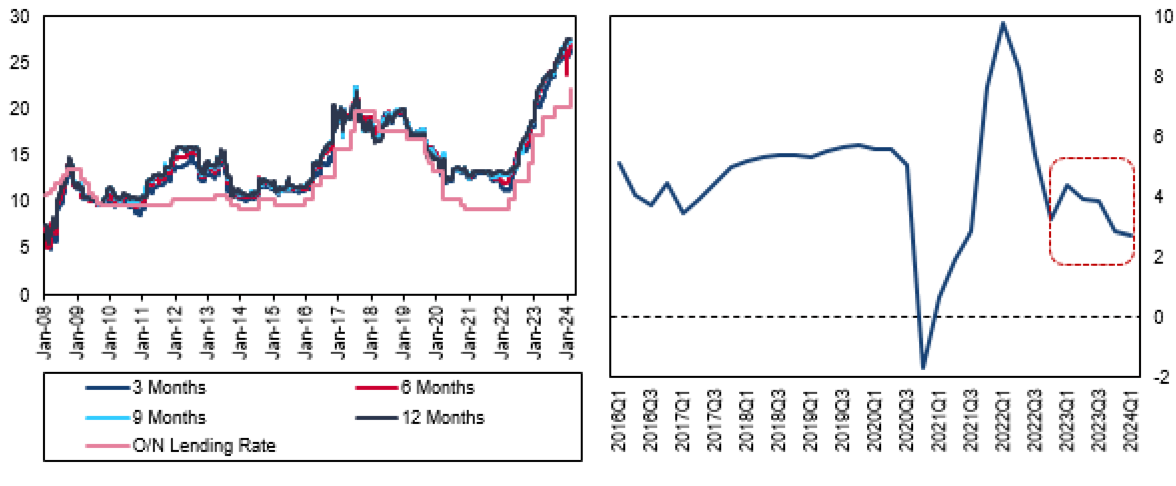


Note: Red dot is end-2024 policy rate forecast. Source: CBE, BMI

We continue to believe that the CBE will remain cautious in its tightening cycle to avoid further inflating the interest payment bill and adding pressure on economic activity. Yields on government debt instruments are already at a record high, while the economy is set for a significant slowdown in the short term.

Yields Spiking While Growth Decelerates

Egypt - Auction Yields, % (LHC) & Quarterly GDP Growth, % y-o-y (RHC)



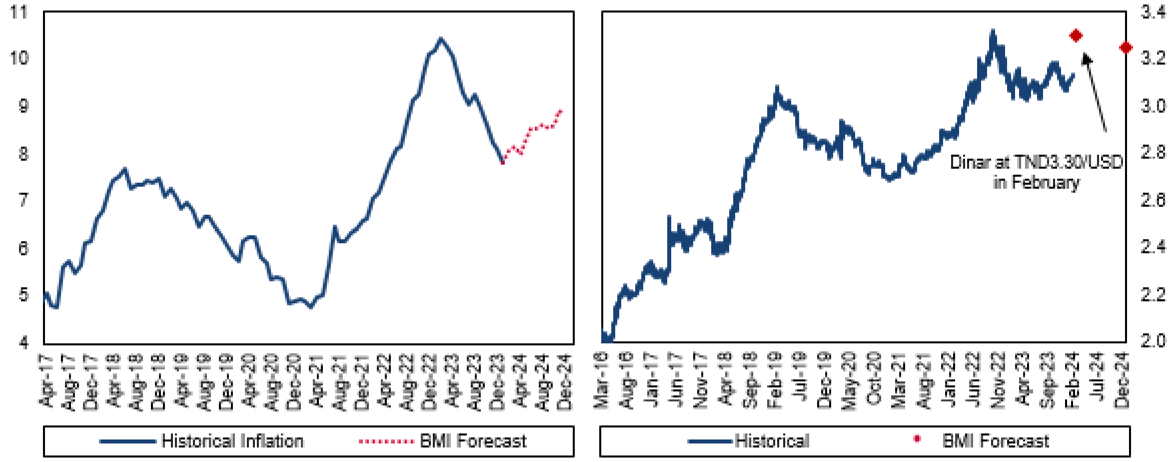
Source: Bloomberg, CBE, BMI

In addition to risks stemming from the Red Sea crisis (*see last paragraph*), the authorities could hike more aggressively than we currently expect under the IMF programme. The IMF has set the fight against inflation as a primary target for the Egyptian authorities. At the same time, if the currency weakens by less than we currently expect or does so in stages rather than in one move – following an agreement with the IMF to contain inflation – then average inflation will be lower and the associated tightening could be less aggressive.

In Tunisia, persistent inflationary pressures will prompt the Central Bank of Tunisia (CBT) to hike its policy rate by 100bps to 9.00%. While in its February 2 board meeting the CBT kept the policy rate unchanged at 8.00%, we think that a reacceleration in inflation will prompt the CBT to hike its policy rate. Even though we expect inflation will average 8.4% in 2024, lower than 9.3% in 2023, the headline number masks a reacceleration of inflation during the year. After easing from a high of 10.4% y-o-y in February 2023 to 7.8% y-o-y in January 2024, we anticipate that inflation will accelerate to 8.7% y-o-y in December 2024 (*see chart below, left*). This will mainly be due to elevated external pressures as the authorities will have to dip into their FX reserves to meet their large upcoming debt payments (of around USD1bn) and finance their current account deficit in the absence of an IMF programme and other related foreign financial support. This will see the Tunisian dinar depreciate by 5.7% in 2024 (*see chart below, right*), worsen import compression and exacerbate shortages of basic goods in the domestic market, which will all put upward pressure on prices. An increase in oil prices from USD82.1 per barrel (/bbl) in 2023 to USD85.0/bbl in 2024 will also exacerbate inflationary pressures in the country.

Inflation Will Reaccelerate As Dinar Weakens

Tunisia - Inflation, y-o-y % (LHC) & TND/USD (Daily) (RHC)



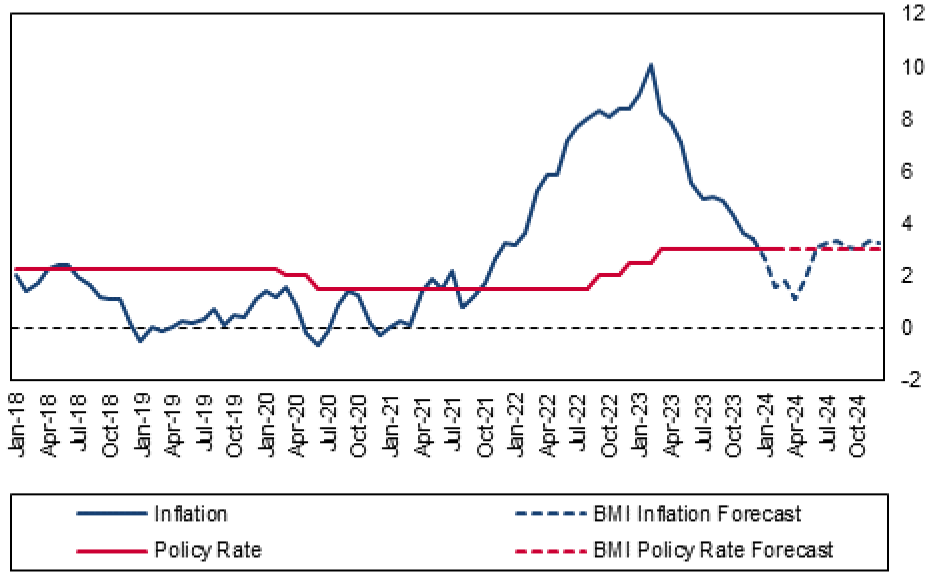
Source: National sources, BMI

Risks to our inflation forecast are to the upside, especially if the authorities move to monetise the budget deficit. On January 26 2024, based on President Kais Saied's request, the cabinet approved a bill to allow the CBT to directly finance the budget through the purchase of treasury bonds. The new law came despite the CBT's governor warning against it, as monetising the deficit would compound inflationary pressures. As a result, aside from the upside risk that this would add to prices, we also highlight elevated uncertainty around the monetary policy direction, as we think that the current governor will likely leave office once his term ends in February 2024, largely because of the president's wider intervention in economic and monetary affairs.

In Morocco, we expect that Bank Al Maghrib (BAM) will maintain its policy rate at its current level of 3.00% throughout 2024. On the one hand, easing inflation will discourage BAM from further hiking. Inflation has decelerated markedly from its peak of 10.1% y-o-y in February 2023 to 3.4% y-o-y in December 2023. While we expect some deceleration in inflation in the next few months, subsidy reforms in April 2024 (including the phasing out of subsidy spending on butane gas, wheat and sugar) will lead to a moderate rise thereafter and keep prices relatively sticky throughout 2024 (*see chart below*). We think that the uptick in inflation will not be significant to prompt any change in the direction of monetary policy, especially as BAM is adamant on supporting growth following the Al Haouz earthquake in September 2023, and amidst elevated unemployment (13.0% in Q4 2023). On the other hand, above-target inflation (inflation will remain above BAM's 2.0% implicit target) and a negative interest rate differential with the ECB will see BAM refrain from cutting its policy rate in any of its meetings in 2024.

BAM's Policy Rate On Hold As Inflation Will Remain Sticky

Morocco - Inflation & Policy Rate, % (2018-2024)

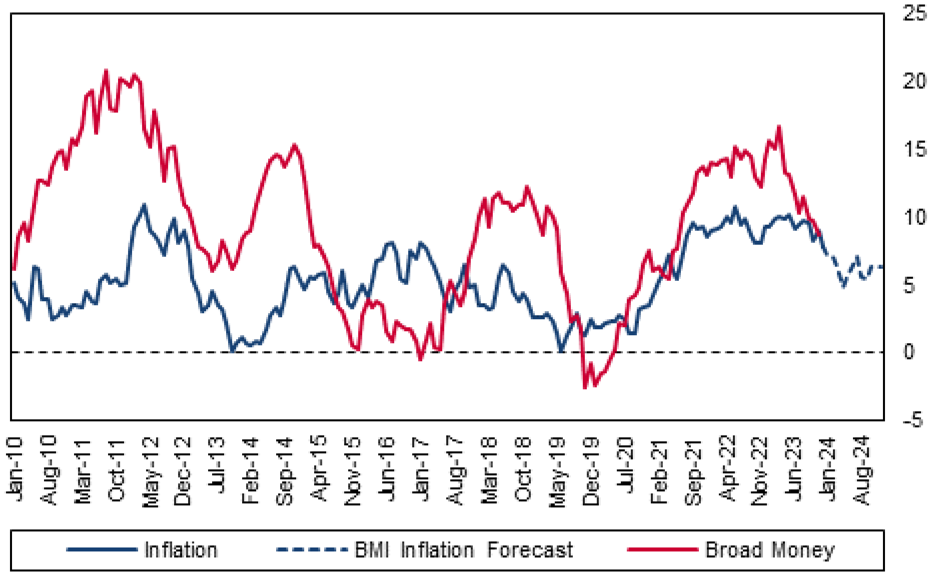


Source: BAM, HVP, BMI

In Algeria, we foresee no change in the monetary policy stance despite above-average inflation, as we believe that the administration will prioritise shoring up growth ahead of the 2024 presidential elections. Recent measures aiming to alleviate some of the country's stringent import restrictions have helped ease some inflationary pressures. As of November 2023, the authorities alleviated import restrictions on several consumer products such as shoes, clothes, cosmetics and car parts. This saw inflation decelerate from 10.1% y-o-y in May 2023 to 7.8% y-o-y in December 2023. We think that inflation will continue to decelerate in the coming months, averaging 6.2% in 2024 down from 9.4% in 2023. Nonetheless, we expect that inflation will remain relatively sticky due to loose financial conditions (s*ee chart below*) and an expansionary fiscal policy (we forecast that the fiscal deficit will come in at 11.7% of GDP in 2024).

Decelerating, But Sticky, Inflation

Algeria - Inflation & Broad Money, % y-o-y (2010-2024)

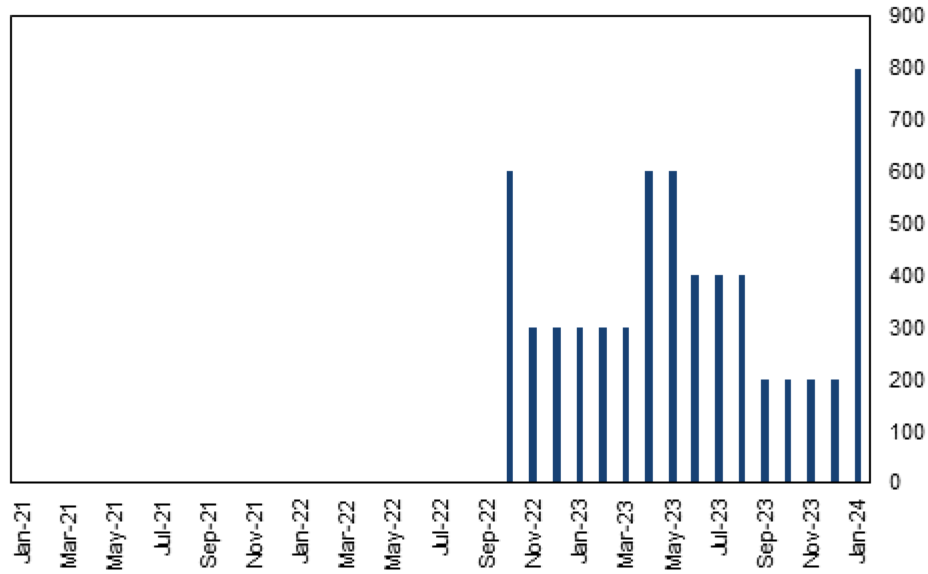


Source: IMF, BoA, BMI

Despite the significant increase in inflation in the past two years, Bank of Algeria (BoA) raised its reserve requirement ratio once – the primary monetary tool – from 2.00% to 3.00% in April 2023. This is due to the authorities' efforts to support growth in the non-hydrocarbon economy which has so far been relatively sluggish and will remain subdued in 2024. Nonetheless, the BoA will seek to reduce growth in money supply by pulling liquidity in dinar out of the market to prevent any reacceleration in inflation. In January 2024, the BoA increased its withdrawals (*see charts below*). While this will help alleviate some of the upside pressure on prices, it is unlikely to lead to a significant deceleration in inflation.

Money Supply Growth Will Slow As The BoA Continues Liquidity Withdrawals

Algeria - Liquidity Withdrawals, DZDbn (2021-2024)

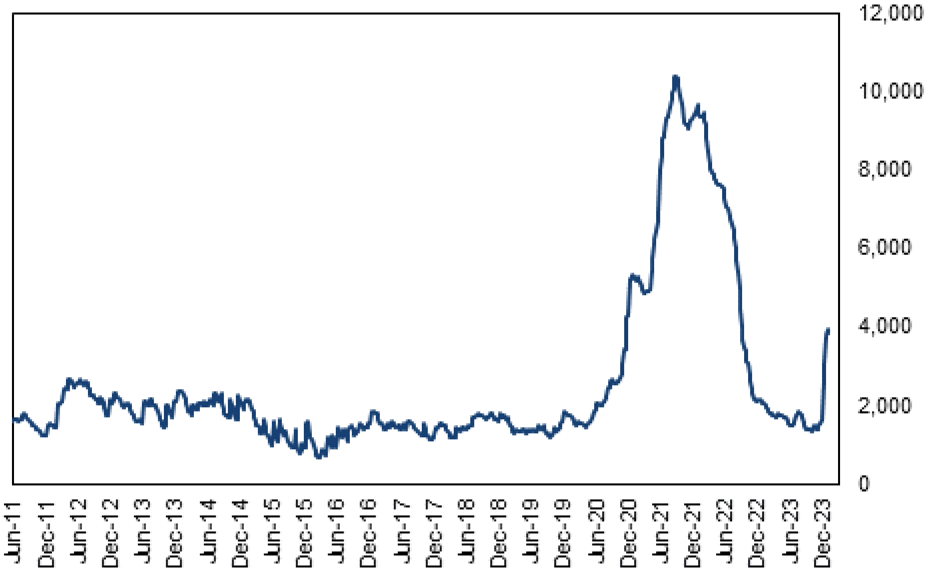


Note: No withdrawals between January 2021 and October 2022. Source: BoA, BMI

Risks to our inflation forecasts are firmly to the upside. First, adverse weather conditions, such as bad rain season, would affect agricultural production, especially in the markets of the Maghreb (Algeria, Morocco and Tunisia). These markets have faced drought episodes in the past few years which led to water shortages in some instances and reduced the production of crops. In the event of another year of below-average agricultural production, this could put upward pressure on food prices which would see inflation come in higher than we currently expect.

Rise In Shipping Costs Pose Upside Risks To Our Inflation Forecasts

Global - Drewry Shipping Index, USD/40ft



Source: Drewry, BMI

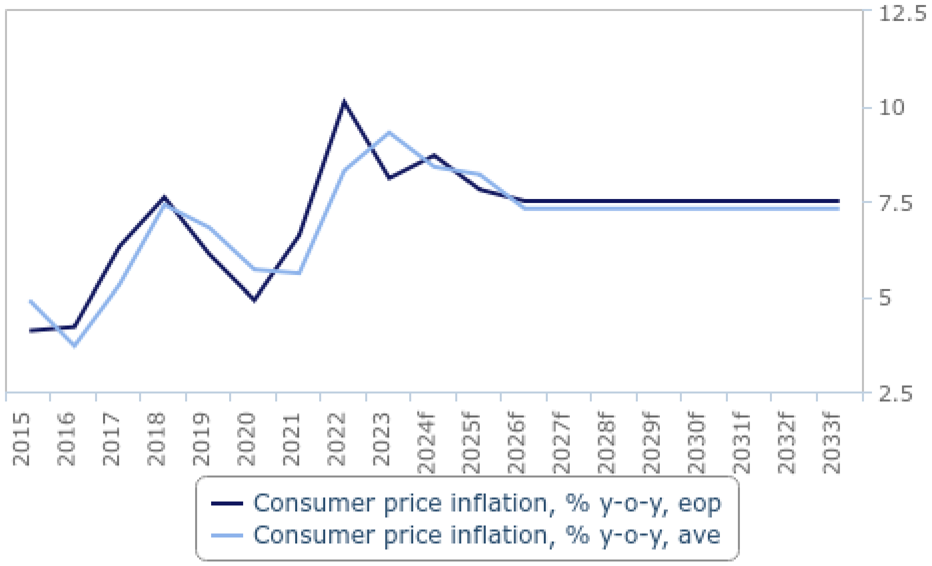
Similarly, North African markets would see an increase in import prices as a result of Red Sea disruptions. Shipping costs have risen significantly since the Yemen-based Houthis started attacking ships around the Strait of Bab Al Mandeb (*see chart above*). In the event these disruptions drag well into 2024 and longer than we currently anticipate (we currently expect this to be solved in early Q224), this would prompt us to revise our inflation forecasts by around 0.4 to 0.6 percentage points. As it relates to the war in Gaza, a regionalisation of the war would also put significant upward pressure on commodity prices, especially oil, which would prompt an upward revision in our inflation forecasts.

Monetary Policy Framework

Tunisian inflation has been elevated since the Arab Spring, forcing the Central Bank of Tunisia (CBT) to implement a relatively tight monetary policy which was temporary interrupted during the Covid-19 pandemic when the CBT cut the rate by 150 basis points (bps). In 2022, acute inflationary pressure resulted from the Russia-Ukraine war's impact on commodity prices, prompting the CBT to hike by a cumulative of 175bps. We forecast that the monetary policy will remain tight over the coming years as we forecast that inflation will remain above 2011-2019 average of 5.3%. We believe that price pressures will remain strong due to elevated commodity prices, especially food and energy, a weaker dinar and prolonged shortages of basic goods in the market as long as external pressures persist. In addition, should the authorities be pushed into further subsidy cuts or tax hikes on consumer goods, this will have a strong short-term inflationary impact.

Inflation Set For Gradual Deceleration

Tunisia - Consumer Price Inflation (2015-2033)

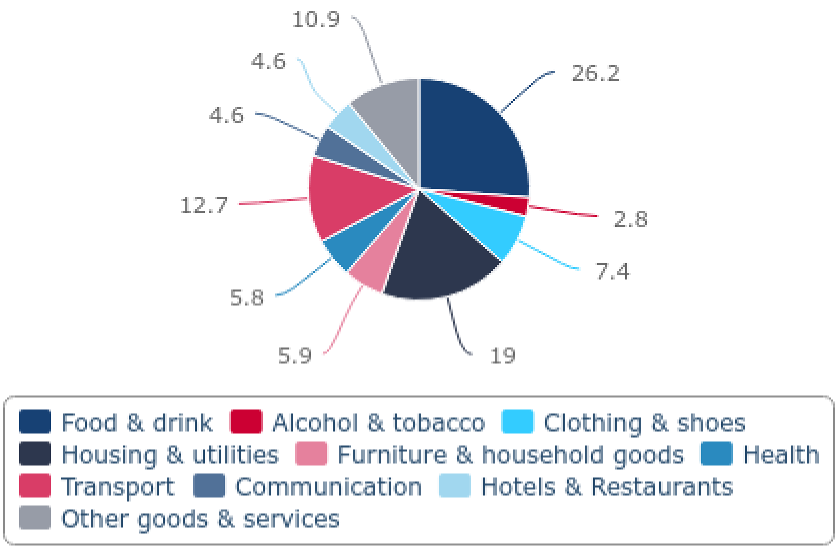


f = BMI forecast. Source: INS, BMI

At present, monetary authorities use a number of instruments to guide market conditions, including reserve requirements, an interest rate corridor (standing lending and deposit facilities) and weekly refinancing operations. Monetary policy has been largely focused on containing inflation and this remains the CBT's main objective. In order to strengthen the transmission channels of its policy tools, the central bank is seeking to improve the quality of liquidity forecasts, deepen the interbank market and reduce the risks from refinancing operations.

Large Exposure To International Commodity Price Swings

Tunisia - Consumer Price Index Weights, %



Source: INS, BMI

In recent years, the CBT has successfully taken steps - with the encouragement and technical assistance of the IMF - to move towards a true inflation-targeting framework. This includes having the dinar gradually depreciate so as to reduce the burden on the CBT's reserves.

Monetary Policy Forecasts (Tunisia 2022-2027)

Indicator	2022	2023e	2024f	2025f	2026f	2027f
Consumer price inflation, % y-o-y, eop	10.1	8.1	8.7	7.8	7.5	7.5
M2, TNDbn	101.9	97.4	106.9	117.8	129.0	140.7
M2, % y-o-y	8.5	-4.3	9.7	10.2	9.5	9.1
Central bank policy rate, % eop	7.25	8.00	9.00	9.00	8.00	8.00

e/f = BMI estimate/forecast. Source: National sources, BMI

Monetary Policy Forecasts (Tunisia 2028-2033)

Indicator	2028f	2029f	2030f	2031f	2032f	2033f
Consumer price inflation, % y-o-y, eop	7.5	7.5	7.5	7.5	7.5	7.5
M2, TNDbn	153.9	168.3	184.0	201.3	220.4	241.3
M2, % y-o-y	9.3	9.4	9.4	9.4	9.5	9.5
Central bank policy rate, % eop	8.00	8.00	8.00	8.00	8.00	8.00

f = BMI forecast. Source: National sources, BMI

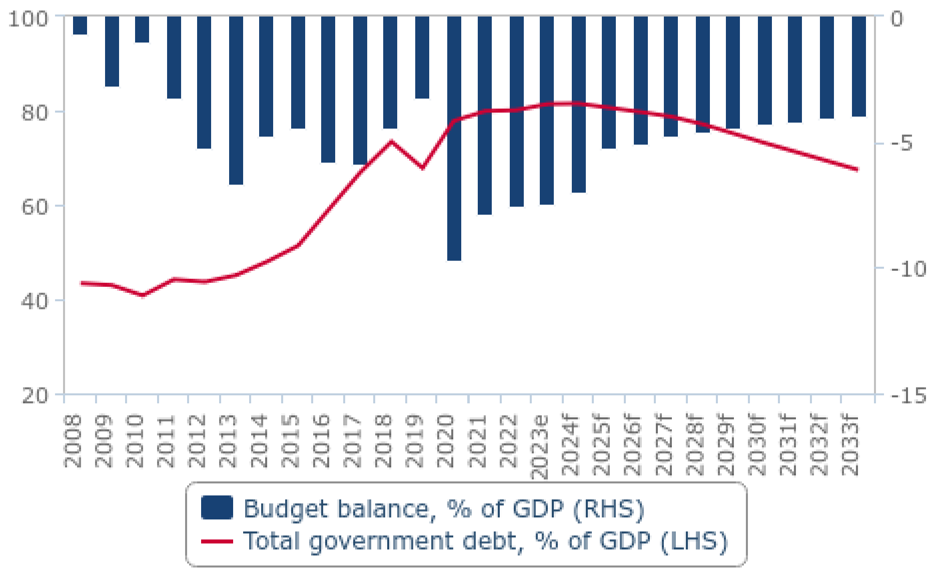
Fiscal Policy And Public Debt Outlook

Structural Fiscal Position

Government Debt: Large fiscal imbalances, a challenging economic environment and daunting socioeconomic pressures will slow the pace of Tunisia's fiscal adjustment over the coming years, forcing continued recourse to external and domestic financing. Persistent budget deficits will weigh on investor confidence, pushing up borrowing costs, especially in times of tighter global financing conditions. The country's debt load increased sharply in 2020 due to Covid-related spending and rose further in 2022 due to higher financing needs following the Russia-Ukraine war. We estimate that the debt has exceeded 80.0% of GDP in 2023 and remain elevated over the coming years, especially with increased reliance on domestic banks and the central bank, now that the law allows the latter to directly finance the government. That said, progress on the structural front - including taxation reform, increases in electricity tariffs and comprehensive reform of the pension system - will come slowly, given concerns over social unrest. Moreover, the debt ratio will be vulnerable to currency depreciation and fluctuations in donor support.

Debt Will Remain Elevated Over The Medium Term

Tunisia - Gross Debt & Fiscal Deficit, % of GDP

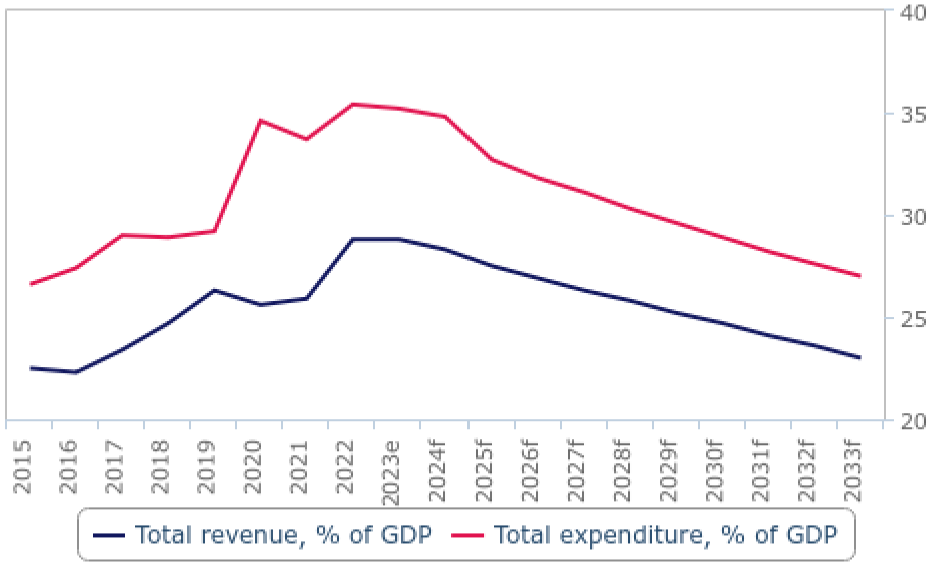


e/f = BMI estimate/forecast. Source: National sources, BMI

Tunisia's outstanding external debt declined between 2002 and 2008 under former president Zine el-Abidine Ben Ali, but rose rapidly after the Arab Spring as successive transitional governments adopted expansionary fiscal policies amid weak economic growth. Under agreements signed with the IMF and other international lenders, the government has been under pressure to reduce public spending and cut the budget spending, and this is set to continue after the country received large emergency assistance during the Covid-19 pandemic. We expect the government's reliance on external and domestic financing to remain significant over the forecast period.

Social Instability A Constraint To Spending Cuts

Tunisia - Government Spending & Revenue (2015-2033)



e/f = BMI estimate/forecast. Source: Ministry of Finance, BMI

Fiscal Deficit: In tandem with the IMF, the government has aimed to achieve civil service reform, improvements in tax policy and tax administration, and strengthen the governance of public enterprises. Tax reform will broaden the tax base, reduce exemptions, simplify the taxation for small enterprises and improve personal taxation. The IMF has also urged the government to strengthen the execution of investment projects. However, Tunisia's ability to respond to shocks or guarantee a stable path for investment spending continues to be limited by the sizeable share of wage expenditure in the budget. The shape of future reforms is made uncertain by the consolidation of power of President Kais Saied on July 25 2022 and his ongoing objection to reforms in fear of 'social explosion'.

Fiscal And Public Debt Forecasts (Tunisia 2022-2027)

Indicator	2022	2023e	2024f	2025f	2026f	2027f
Total revenue, TNDbn	41.2	45.4	48.9	52.3	55.9	59.9
Total revenue, TND, % y-o-y	22.1	10.0	7.7	7.0	7.0	7.0
Total expenditure, TNDbn	50.8	55.4	60.1	62.2	66.3	70.6
Total expenditure, TND, % y-o-y	15.5	9.2	8.4	3.6	6.6	6.4
Budget balance, TNDbn	-10.9	-11.8	-12.1	-10.2	-10.6	-11.0
Budget balance, % of GDP	-7.6	-7.5	-7.0	-5.3	-5.1	-4.8
Total government debt, USDbn	36.9	41.8	43.3	43.8	46.1	48.3
Total government debt, % of GDP	80.1	81.4	81.5	80.6	79.7	78.7

e/f = BMI estimate/forecast. Source: National sources, BMI

Fiscal And Public Debt Forecasts (Tunisia 2028-2033)

Indicator	2028f	2029f	2030f	2031f	2032f	2033f
Total revenue, TNDbn	64.0	68.5	73.3	78.5	84.0	89.8
Total revenue, TND, % y-o-y	7.0	7.0	7.0	7.0	7.0	7.0
Total expenditure, TNDbn	75.3	80.4	85.9	91.8	98.2	105.2
Total expenditure, TND, % y-o-y	6.7	6.8	6.8	6.9	7.0	7.1
Budget balance, TNDbn	-11.5	-12.2	-12.8	-13.6	-14.5	-15.6
Budget balance, % of GDP	-4.6	-4.5	-4.3	-4.2	-4.1	-4.0
Total government debt, USDbn	53.2	53.7	58.8	64.3	70.4	75.0
Total government debt, % of GDP	77.1	75.1	73.1	71.2	69.3	67.4

f = BMI forecast. Source: National sources, BMI

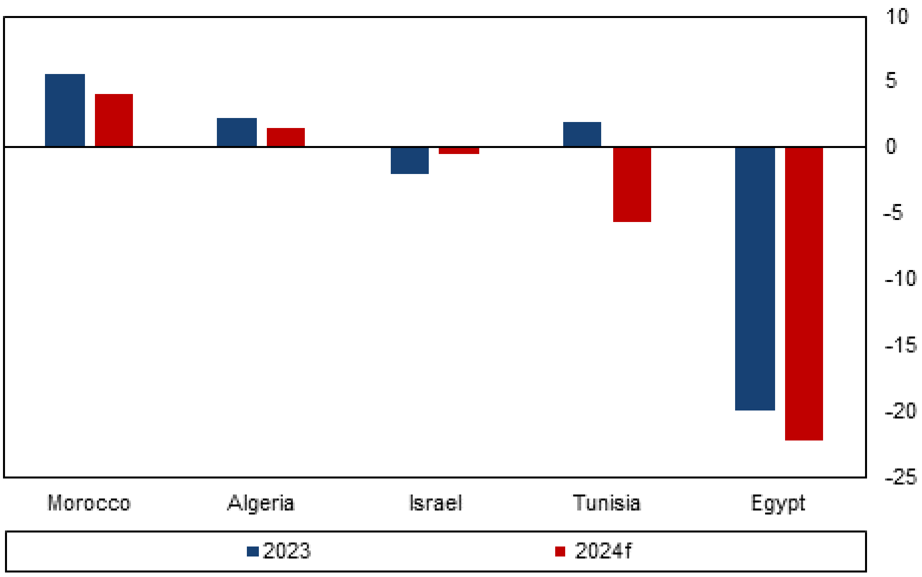
Currency Forecast

MENA Currency Roundup: External Pressures, Political Issues Will Weigh On Currencies

We continue to hold a mixed short-term outlook for the currencies that we cover in the Middle East and North Africa (MENA) region. As in 2023, the US dollar, external pressures and the political environment will continue to impact the trajectory of the currencies across MENA in 2024. In 2023, the Moroccan dirham, Algerian dinar and Tunisian dinar traded largely sideways against the US dollar and ended the year stronger than at the end of 2022, mirroring the fluctuation in the US dollar. Meanwhile, successive currency sell-offs caused the Egyptian pound to weaken by 20.0% in 2023, while the public backlash from the judicial reforms, the October 7 attack and the eruption of war with Hamas resulted in the Israeli shekel falling by 2.0% (*see chart below*).

Mixed Currency Outlook In 2024

Selected MENA Markets – Exchange Rate Vs USD, % chg



f = BMI forecast. Source: National sources, Macrobond, BMI

In 2024, we forecast that the dollar will continue to determine the trajectory of the Moroccan dirham and Algerian dinar. However, in Tunisia, a heavy debt payment in Q124 will trigger depreciatory pressures. Similarly, in Egypt, elevated external pressures and IMF compliance will push the authorities to devalue the pound for the fourth time since March 2022, resulting in the currency falling by 20-30% by the end of Q124. Meanwhile, the ongoing Israel-Hamas war and rising domestic political issues will cause the shekel to weaken in 2024. In this article, we will present our currency forecasts based on three possible scenarios for the US dollar.

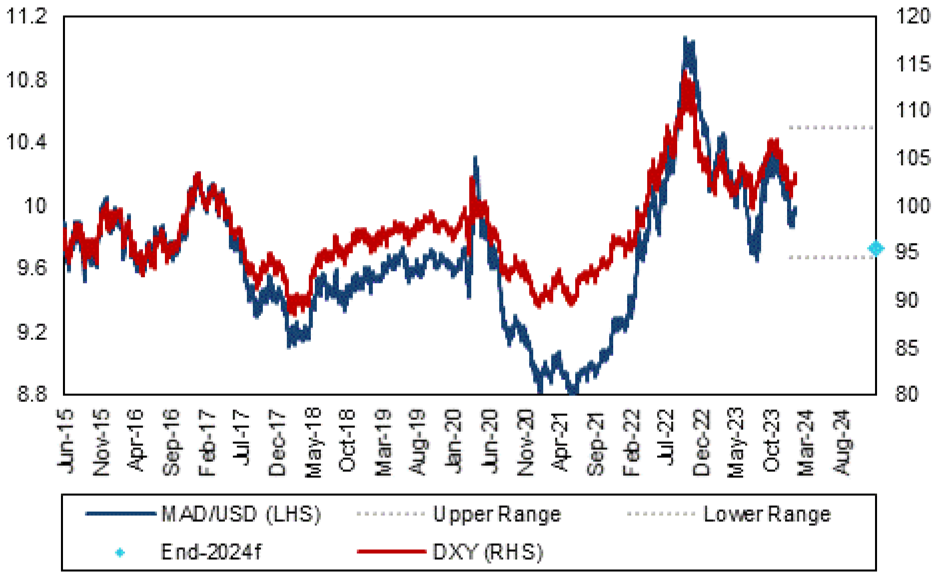
All of our MENA forecasts are based on our Global team's base case scenario (60% probability), in which the US dollar index (DXY) trades sideways between 100-108 over the short term. At the end of this article, we have provided a brief summary of how our MENA currency forecasts would change if the US dollar strengthens or weakens outside of this range.

MAD And DZD: Go With The Dollar Flow

We retain the view that the Moroccan dirham will continue to trade sideways from its spot rate of MAD9.98/USD, ending-2024 stronger around MAD9.72/USD. The dirham has weakened by 0.9% in the year-to-January 17 2024, as the US dollar strengthened by 2.1%. We believe that the dirham will continue to trace the US dollar and fluctuate between MAD9.67/USD and MAD10.50/USD (see chart below). The MAD tracks a basket of currencies weighed at 60.0% to the euro and 40.0% to the US dollar with a +/- 5.0% daily trading band. In September 2023, Bank Al Maghrib Governor Abdellatif Jouahri stated that the IMF was dropping its request that Morocco allow more flexibility in its currency regime and we thus do not foresee any change to Morocco's currency system in the near term.

Dirham To Trade Sideways To Stronger In Line With US Dollar

Morocco - Exchange Rate, MAD/USD (daily) & US Dollar Index

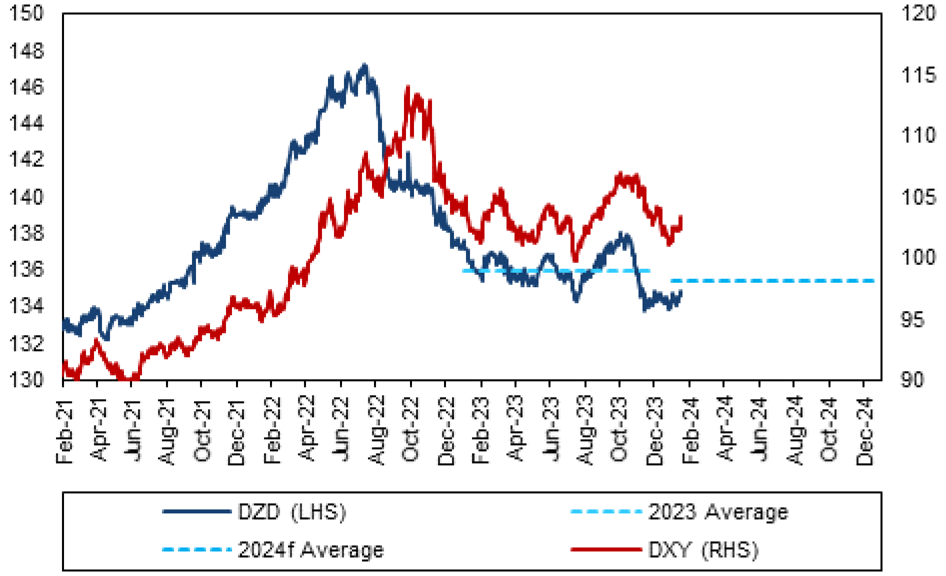


f = BMI forecast. Source: National sources, Macrobond, BMI

In Algeria, we also forecast that the dinar will track the US dollar and trade sideways-to-stronger around its spot of DZD134.8/USD over the short term. The dinar depreciated by 0.4% in the year-to-January 17 2024, in line with stronger US dollar. Aside from a weaker US dollar, we anticipate that the Algerian authorities will continue to provide some support for the currency as President Abdelmadjid Tebboune will seek to avoid any depreciation that could drive inflation upward and fuel public discontent ahead of the December 2024 presidential elections. That said, we think that falling oil production (and by extension oil revenues) will limit the ability of the authorities to intervene significantly in the FX market. As a result, we forecast that the Algerian dinar will average DZD135.46/USD in 2024, slightly stronger than of DZD135.84/USD in 2023 (*see chart below*).

Slight Appreciation On Dollar Weakness And Authorities Support

Algeria - Exchange Rate, DZD/USD (daily) & US Dollar Index



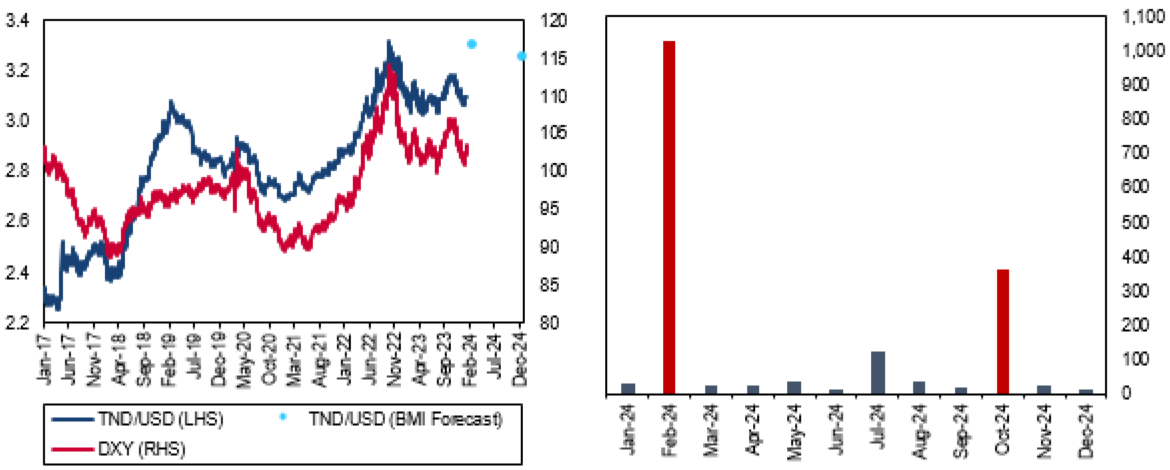
f = BMI forecast. Source: National sources, Macrobond, BMI

TND: External Pressures Will Overpower Weaker US Dollar

In Tunisia, we maintain our view that the Tunisian dinar will trade sideways to weaker around its spot rate of TND3.09/USD as depreciatory pressures heighten in Q124. The dinar has so far weakened by 0.9% from end-2023, broadly in line with an increase of 2.1% in the DXY (*see chart below, left*). While we forecast that the US dollar will continue to influence the fluctuation of the dinar, depreciatory pressures will strengthen in February 2024, when Tunisia has nearly USD1.0bn in external debt to meet (*see chart below, right*). This is mainly because the authorities will have to draw down their FX reserves of around USD8.4bn in order to settle the upcoming external payments (USD1.7bn in 2024) as well as finance the current account deficit (USD2.3bn in 2024). Tunisia's access to foreign financial support and international markets will remain constrained in the absence of a final agreement with the IMF, which we do not expect in 2024.

Drawdown On FX Reserves Will See The Dinar Weaken In Q124

Tunisia - Exchange Rate, TND/USD & US Dollar Index (daily) (LHC) & Tunisia - Upcoming FX Debt Payments (RHC)



Source: Macrobond, BMI

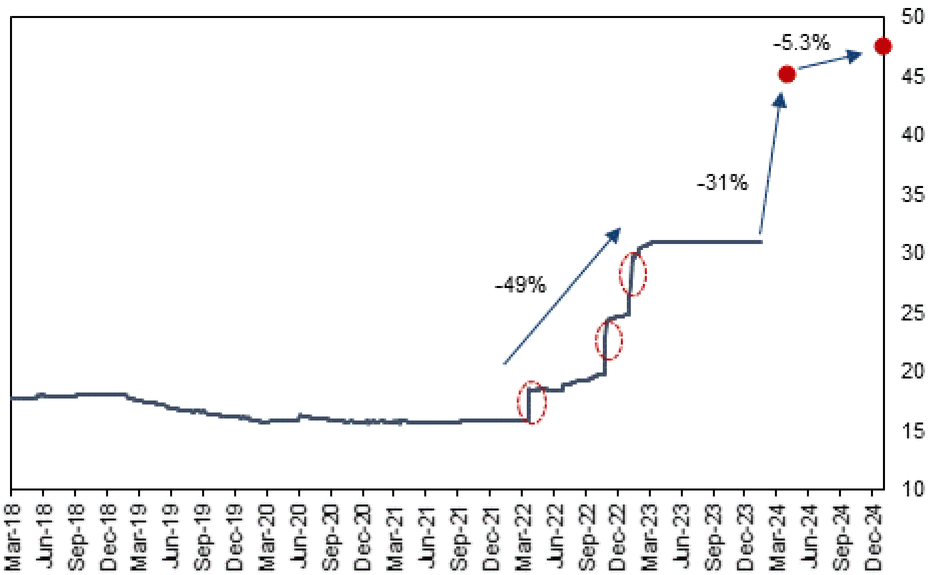
We expect that the dinar will weaken to TND3.30/USD around February 2024 (*see chart above, left*). Over 2024 as a whole, the dinar will average around TND3.20/USD, which is 3.0% weaker than the average of TND3.11/USD in 2023.

EGP: Another Devaluation In Q124

In Egypt, we continue to anticipate that the authorities will allow the pound to weaken from a spot rate of EGP30.90/USD to a range between EGP40.00/USD to EGP45.00/USD by the end of Q124. Despite sustained imbalances in the FX markets throughout 2023, Egypt has delayed a fourth currency adjustment that is needed to go back to compliance with the IMF programme until after the December 2023 presidential elections. Moreover, the Israel-Hamas war has increased geopolitical risks for Egypt and amplified uncertainties related to key FX sources, such as tourism, Suez Canal receipts and investment. In response, we belive that the IMF will increase the size of its next programme (which might reach USD8.0bn) and will waive the requirement of a flexible exchange rate. We believe that the announcement of a larger IMF programme and other related bilateral and multilateral financing, along with the immediate disbursement of the funds will allow the exchange rate to strengthen on the parallel market. Uncertainties related to the timing of the currency adjustment has reduced the availability of US dollars in the market and weakened the parallel market rate to about EGP60.0/USD. Thus, a weaker official exchange rate and a stronger parallel market rate will narrow the gap between the two rates but not fully close it.

Another Adjustment To The Pound In Egypt In Q124

Egypt – EGP per USD, daily



Source: CBE, Macrobond, BMI

Assuming that DM central banks start their easing cycle in H224, we believe that lower FX risk in Egypt will boost larger portfolio investment into the country and increase the availability of US dollars in the official market. This will gradually eliminate the parallel market. This, along with a weaker US dollar, will allow the currency to end the year between EGP45.0/USD and EGP50.0/USD.

ILS: Weighed Down By War-Repercussions

In Israel, we anticipate that the shekel will continue to weaken from its spot of ILS3.80/USD in coming months, weighed down by domestic and global factors. The currency has depreciated by 5.1% in the year-to-January 17 2024, in light of the ongoing war with Hamas as well as a stronger US dollar. We believe that these factors, along with the earlier-than-expected easing of monetary policy by the Bank of Israel (BoI) will contribute to this downside pressure, as it will result in a less favourable nominal rate differential with the US. Weakening public finances and the resulting need for debt issuance could weigh on investors sentiment and add to the pressure on the shekel.

War And Its Domestic Political Repercussions Will Weigh On Shekel
Israel - ILS per USD & DXY (Daily)

f = BMI forecast. Source: National sources, Macrobond, BMI

Assuming the intensity of the war subsides by Q224, we think that domestic political issues will resurface and that large-scale protests against the government will resume. This will dampen investor sentiment and sustain the depreciatory pressure on the shekel. Still, we doubt that the BoI will allow the currency to fall to the lows reached between the October 7 attack by Hamas and the October 27 ground invasion by Israel, and it has sufficient reserves to intervene in order to support the currency if necessary. Towards the end of 2024, we forecast that a weaker US dollar and improving domestic political environment will provide some support to the shekel. Despite that, the shekel will still end 2024 1.3% weaker than at the end of 2023. Downside risks remain significant, given the high chances the war could last longer than we currently assume or even broadens in scope. In either case, the shekel will be subject to stronger depreciatory pressures.

Downside Scenario (25%): DXY Heads To 95

Our Global team highlights growing probability that the US dollar will move below the psychologically important 100 level and to decade-long trendline support at 95. This would provide support to MENA currencies, especially the Moroccan Dirham and the Algerian and Tunisian Dinar (*see table below*).

Lower DXY Will Drive Stronger Appreciation In North African Currencies

Currency	Spot	2024f Average	End-2024f
MAD/USD	9.98	9.66	9.26
TND/USD	3.09	3.00	2.90
DZD/USD	134.8	133.4	131.9

f = forecast. Source: BMI

Upside Scenario (15%): DXY Breaks Above 108 To Trade Around 115

Meanwhile, our Global team assigns a much lower probability for a significant appreciation of the DXY, where the DXY breaks above 107-108 and moves to the 115 area. Should the DXY trade within this range, the Moroccan Dirham and the Algerian and Tunisian Dinar would trade within a weaker range than we currently expect (*see table below*).

Stronger-Than-Expected Dollar Will Weigh On North African Currencies

Currency	Spot	2024f Average	End-2024f
MAD/USD	9.98	10.64	11.31
TND/USD	3.09	3.30	3.40
DZD/USD	134.8	141.0	147.1

f = forecast. Source: BMI

10-Year Forecasts

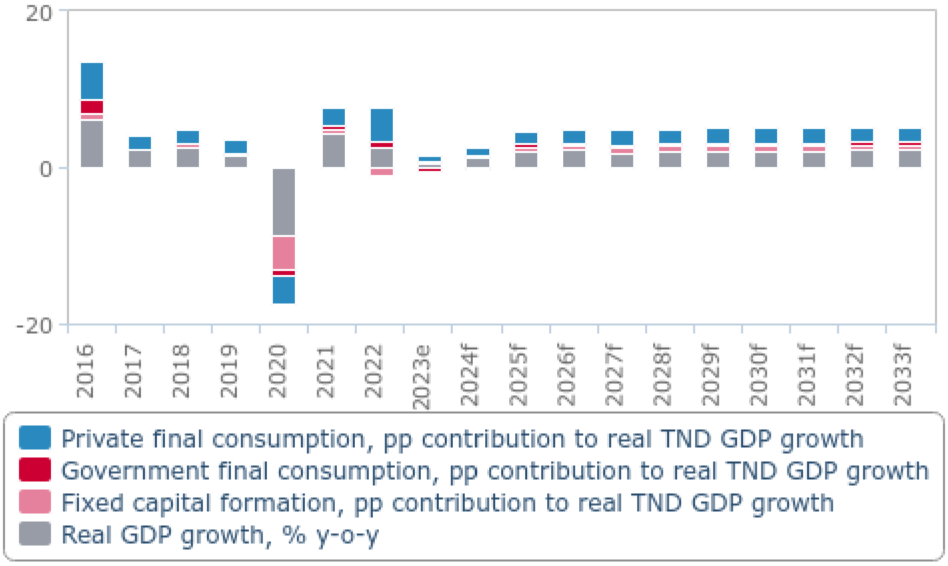
Structural Reforms To Support Long-Term Growth, But Political Headwinds Remain

Key View

- We believe that the Russia-Ukraine war, political opposition to reforms and recurrent droughts will derail the Tunisian economy's recovery following the Covid-19 pandemic and weigh on its long-term outlook.
- These factors will affect growth through multiple channels, mainly tight government liquidity, elevated inflation, weaker dinar, weaker growth in goods and services exports and lower investment.
- We now forecast growth to average 2.0% per year over 2024-2033 compared with 3.5% over the 2012-2019 period. We expect private consumption and fixed investment to be the main long-term growth drivers. The power sector will specifically attract investment.
- Political instability and security concerns remain potential threats to our outlook.

Slight Pick Up In Growth Over Longer Term

Tunisia - Selected Components Of GDP



e/f = BMI estimate/forecast. Source: National sources, BMI

Political Risks Major Headwind To Business Environment Reforms

The structural reforms undertaken by the Tunisian government in the past few years, strongly encouraged by international donors, will have a positive impact on the country's business environment over a multi-year time frame. However, President Kais Saied's consolidation of power in 2022 and ongoing objection to reforms will weigh on the reform momentum and on foreign investors sentiment.

Tunisia already offers a relatively favourable business environment, owing to the country's strategic location between Europe and Africa and the government's commitment to human capital development. The manufacturing economy has started to move from low-skill industries such as textiles towards higher-skill industries including autos manufacturing and electronics, while the services sectors are becoming more modernised. Additional steps were taken to further improve the business environment and attract investment. These include the adoption of a new investment code in September 2016, a resolution and supervision framework for the banking sector in May 2016, the establishment in 2018 of a 'one-stop shop' for investors, legislation limiting mandatory prior investment authorisation and the Start-Up Act. While altogether, these reforms will send positive signals to investors over the next decade, additional economic and financial reforms are needed to allow the Tunisian economy to further move up the value chain.

Although Tunisia has a good relationship with international donors, the absence of an agreement with the IMF will make the access to funding more challenging over the medium term. In 2016, the Tunisian government signed a USD5.0bn loan agreement with the World Bank and a USD2.9bn agreement with the IMF, and has secured various aid and loan pledges from other international organisations and governments. However, ongoing political objection to the IMF and other donors' requested reforms will likely prevent another agreement with the IMF and derail the access to funding. This will deter investment and weigh on the economic trajectory over the medium term.

Elevated Inflation Will Weigh On Consumption

The Russia-Ukraine war led to the surge in global commodity prices, especially energy and food, which account for around 45% of the consumer price index basket. Elevated commodity prices and weaker dinar will keep inflationary pressures elevated over the medium term, weighing on household consumption. Additionally, we forecast that slower growth in Europe, a major source of remittance inflows to Tunisia, will cap consumption growth.

Security Environment Key To Long-Term Growth

The stabilisation of Tunisia's security environment will be essential to secure long-term growth. Security challenges currently focus on the regional turmoil, resulting in a heightened terrorist threat and domestic instability. Tunisia is particularly exposed to spillover from neighbouring Libya, where violence escalated in 2019 and 2020, and from the proximity to the unstable Sahel region. In addition, Tunisia is highly exposed to the return of Islamic State (IS) fighters, especially amid losses of terrain by IS in Iraq and Syria in 2016. Around 6,000 Tunisians were at one point fighting on the side of IS in Iraq and Syria, according to official estimates. Renewed high-profile terrorist attacks in Tunisia such as those on the Bardo museum in Tunis and on the coastal city of Sousse in 2015, would prevent the tourism sector from recovering and would weigh on investor sentiment. Accordingly, we think that the outbreak of Israel-Hamas war in October 2023 will increase concerns about similar attacks amid higher public anger towards Israel and western governments, discouraging tourists visits to Tunisia.

Socioeconomic grievances domestically are also fuelling instability through elevated risks of radicalisation and frequent protests in the country. Regional disparities remain salient, with inland, western governorates suffering from unemployment rates way above the national average and from years of underinvestment. Therefore, parts of the country have been impacted by severe and frequent strikes, which continue to affect production in key sectors including energy and mining. Failure to address these grievances would deter investment and make it difficult to bring the unemployment rate down.

Risks To Outlook

Political factors pose the greatest risks to our economic outlook. Any government will have to walk a fine line between appeasing the well-organised unions and its international financial backers. Leaning too far towards the former could threaten Tunisia's access to external funding and jeopardise its macroeconomic stability, while leaning too far towards the latter could spark renewed disruptive protests and strikes.

Long-Term Macroeconomic Forecasts (Tunisia 2024-2033)

Indicator	2024f	2025f	2026f	2027f	2028f	2029f	2030f	2031f	2032f	2033f
Nominal GDP, USDbn	54.0	56.0	59.5	63.1	71.0	73.5	82.6	92.9	104.7	114.6
Real GDP growth, % y-o-y	1.3	2.0	2.2	1.8	2.0	2.1	2.1	2.1	2.2	2.2
Population, mn	12.56	12.67	12.76	12.85	12.94	13.02	13.10	13.18	13.25	13.32
GDP per capita, USD	4,295	4,418	4,663	4,912	5,487	5,640	6,301	7,051	7,904	8,608
Consumer price inflation, % y-o-y, ave	8.4	8.2	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3
Current account balance, % of GDP	-2.0	-2.0	-1.7	-1.8	-2.0	-2.1	-2.2	-2.2	-2.2	-2.2
Exchange rate TND per USD, ave	3.20	3.40	3.50	3.60	3.50	3.70	3.60	3.50	3.40	3.40

f = BMI forecast. Source: National sources, BMI

Disclaimer

Our long-term macroeconomic forecasts are based on a variety of quantitative and qualitative factors. Our 10-year forecasts assume in most cases that growth eventually converges to a long-term trend, with economic potential being determined by factors such as capital investment, demographics and productivity growth. Because quantitative frameworks often fail to capture key dynamics behind long-term growth determinants, our forecasts also reflect analysts' in-depth knowledge of subjective factors such as institutional strength and political stability. We assess trends in the composition of the economy on a GDP by expenditure basis in order to determine the degree to which private and government consumption, fixed investment and the export sector will drive growth in the future. Taken together, these factors feed into our projections for exchange rates, external account balances and interest rates.

Source: BMI

Political Outlook

President Saied Set To Remain In Power, Socio-Economic Conditions Remain Key Challenge

Key View

- We believe that President Kais Saied will remain in power regardless of whether the presidential elections take place in Q424 or not, allowing him to further expand his power and progress on his 'self-reliance' economic policy.
- Saied's opposition to the IMF's unpopular reforms helped him shore up popular support, which will reinforce his grip on power especially as the opposition currently lacks any momentum to pose a meaningful challenge to his rule.
- However, should Saied's economic policies cause a sharper deterioration in socio-economic conditions and more pronounced shortages of basic goods, such as bread, this would likely lead to large-scale protests.

Our view that President Kais Saied will remain in office for another five years reinforces our pessimistic outlook for economic reforms and medium-term macroeconomic situation in Tunisia. We believe that President Kais Saied will remain in power, irrespective if this happens through presidential elections or an extension of his term. As per the constitution, presidential elections should take place in Q424, as Saied's five-year term ends in December 2024. However, we think that there is a possibility that the elections might not take place this year, as the Independent High Authority For Elections has yet to announce an official date for the presidential elections, or even discuss preparations for the elections to take place this year, including clarifying the electoral law. While, according to the 2022 constitution, the presidential elections can be postponed only in the event of war or other 'imminent danger' to the state, Saied's wide legislative and executive powers make this outcome a viable possibility.

We see several factors that will allow Saied to avoid public backlash if elections are not held, with these same factors playing in his favour should the poll take place.

- **Muted Opposition:** Saied increased restrictions on opposition in 2022 and 2023. He imposed a state of emergency, which was extended until December 2022, to prohibit demonstrations and arrested several dozens of opposition figures, most prominently the imprisonment of previous Speaker of Parliament and leader of main opposition party Ennahda, Rached Ghannouchi. In addition, the opposition remains fragmented and lack the public support that would enable it to challenge Saied's grab on power. We also cannot rule out that the opposition might decide to boycott the presidential elections after it refused to participate in the parliamentary elections in December 2022.
- **Popular Support:** Although Saied's popularity has diminished since the 2019 presidential elections, we think that he could stand to benefit from his rejection of the IMF's unpopular reforms and foreign intervention in domestic affairs. This will appease the traditionally powerful labour and trade unions and help him gain approval among the public, which display a high level of resentment towards the policymakers that were in power in the decade that followed the 2011 uprising. Despite that, we think that the turnout rate will likely be low, similar to the July 2022 constitutional referendum and the legislative elections which took place in December 2022 and December 2023 (*see table below*). We believe that a large share of the population is more concerned about the worsening socio-economic conditions and is disinterested in the elections given the lack of alternative and trustworthy candidates. A low turnout will not affect the outcome of elections given Saied's wide powers.

Turnout Is Likely To Be Low

Poll	Date	Turnout
Constitutional Referendum	July 2022	30.5%
Parliamentary Elections	December 2022 - January 2023	11.2% (first round), 11.4% (second round)
Elections For The Second Chamber of Parliament	December 2023	11.7%

Source: ISIE, BMI

Against this backdrop, Saied will further expand his grab on power, which will increase uncertainty about policy direction and keep economic risks elevated. Since July 2021, Kais Saied has taken several actions that granted him more executive and legislative power without checks and balances (*see chart below*). While at first he seemed to be more preoccupied with political reform, his focus has now shifted to economic affairs since mid-2023, especially with his staunch opposition to IMF reforms. Instead, Saied is proceeding with a 'self-reliance' economic policy, whereby Tunisia will rely on domestic natural sources as well as tourism and remittance inflows to finance its deficits. In line with this policy, on January 26, Saied tasked the cabinet to approve a bill to allow the Central Bank of Tunisia (CBT) to directly finance the budget through the purchase of treasury bonds. This move came despite the CBT's governor warning against it, as it would lead to pronounced inflation. We believe that the divergence in views between Saied and the governor reinforce speculations that the latter will leave the post in February 2024, as his term ends. As a result, we highlight elevated uncertainty about the monetary policy direction in 2024. We also believe that this decision could risk increasing inflation beyond our forecast of 8.7% in 2024, leading to more pronounced increase in policy rates than the 100 basis points we currently anticipate.

Saied Will Gain More Power

Tunisia -Timeline Of Political Events

Source: National sources, BMI

However, should Saied's strong intervention in economic affairs lead to faster deterioration in socio-economic conditions, this will make it challenging for him to contain social discontent. So far, we suspect that Tunisians have been reluctant to take to the streets to protest their difficult economic condition for fear of fuelling instability and aggravating their economic problems. They are further discouraged by the economic slide that followed the 2011 uprising. However, we see a high risk that Saied's 'self-reliance' economic policy would lead to additional deterioration in socio-economic conditions that will heighten social discontent. This is because should international donors and government remain unwilling to provide support to Tunisia in the absence of the IMF programme and the implementation of reforms, the authorities will increasingly rely on the FX reserves to meet their FX payments. While the strong increase in remittance and tourism inflows helped the government meet its debt payments in 2023, these sources of FX will come under increased pressure throughout this year due to weaker global economic activity and increased geopolitical and security risks. As such, we believe that, even if Tunisia manages to meet all its debt payments in 2024 while at the same time avoid painful reforms, a large depletion of FX reserves would cause the dinar to weaken sharply and the shortages of basic goods would worsen, likely affecting bread. This, along with the reliance on the central bank to finance the public sector wages will fuel acute inflationary pressures, further eroding households purchasing power, possibly leading to large-scale protests that could lead to economic disruption.

We cannot completely rule out that Tunisia could still unlock larger financial support than we currently expect, leading to less pressure on the economy than we assume. We suspect that the possibility of sustained financial support to keep Tunisia's economy afloat is emboldening Saied's hawkish stance vis a vis the IMF and reforms. The EU's growing migration concerns and spillovers to their country from worsening economic conditions in Tunisia could outweigh their insistence on reforms and push the European countries to disburse support to Tunisia regardless of the implementation of reforms. They could also step-up their efforts to persuade the IMF to agree on more lenient terms for the Tunisian loan. In addition, Tunisia could receive larger funding from Arab countries, such as Algeria, Saudi Arabia and Qatar, which signalled their willingness to do so. While Saudi Arabia had originally insisted on the IMF programme, it still extended USD500m support to Tunisia in 2023. Meanwhile, Qatar, the second largest source of investment in Tunisia, expressed its willingness to support the country financially.

Long-Term Political Outlook

Political Obstacles To Tunisia's Economic Reform Trajectory Will Persist

Key View

- Despite the president's consolidation of power, influential unions and elevated public discontent will to make it more challenging for the authorities to address economic problems.
- Failure to address the long-standing economic issues through structural reforms risks further worsening socio-economic conditions over the medium-term.
- This will keep the probability of large-scale protests high, posing a key challenge to overall political stability in the years ahead.

We believe that President Kais Saied will face significant challenges to policymaking despite gaining wider powers through constitutional amendment. The passing of a new constitution following the July 25 2022 referendum transitioned Tunisia's system from semi-parliamentary to presidential. This granted the president more executive and legislative power at the expense of the parliament and judiciary. The new constitution will not allow for renewed political deadlock that has prevented policymaking in the past few years. However, with economic imbalances widening and living conditions of Tunisians worsening, President Saied and his government face a significant challenge in addressing the widening structural economic problems and improve investors' confidence without fuelling social discontent.

While Saied managed to weaken political opposition and gain more power with the passing of the new constitution, the unions remain a strong and more influential opponent that could mobilise the streets and disrupt the economy. Indeed, we suspect that the Union Générale Tunisienne du Travail's (UGTT) continued objection to economic reforms the IMF requested in return for financial and technical support to address structural economic imbalances, prompted Saied to reject the IMF conditions. The UGTT has historically forced the government to step back on several reforms and we believe this trend will continue given the UGTT's influence on 1mn workers in the public sector.

This will in turn derail addressing longstanding economic issues, which could lead to faster deteriotation of socio-economic conditions. The Covid-19 pandemic and the Russia-Ukraine war have exacerbated the deterioration in the living conditions of Tunisians, weighing on economic growth and pushing upward inflation and unemployment rates. With the absence of foreign financial support and the implementation of reforms, it will be challenging for authorities to attract foreign direct investment and create high-value jobs (especially in light of Tunisia's considerable youth population and high unemployment rate). The government will also struggle to finance its twin deficits and settle its debt payments, without financing from the central bank. This could in turn lead to a sharp depreciation of the dinar and spiralling inflation, which would also fuel public discontent.

Beyond the next few months, we see several structural challenges to stability:

1. Large-Scale Protests

Risks of widespread protests will remain elevated as socio-economic conditions continue to deteriorate in Tunisia, amid elevated inflation and a stubbornly high unemployment rate. Meanwhile, the implementation of the painful and unpopular economic reforms needed to secure support from the IMF and unlock other bilateral and multilateral funding will also risk fuelling social discontent, similar to historical trend, as this will add to the economic woes of Tunisians. Tunisia's rigid fiscal expenditure profile, with wages and subsidies accounting for around 67% of government spending, will make it challenging for the authorities to make significant adjustments without heightening the risk of public unrest. With no meaningful political opponents to Saied, we forecast that large-scale protests motivated by economic issues will now become the main force pushing against the president and his government's policies in place of the parliament. This could lead to severe repercussions for the economy as it will continue to delay the implementation of much-needed structural reforms.

2. Job Creation

We believe that slightly higher economic growth over the coming 10 years relative to the 2010s will translate into a gradual decline in unemployment levels, but slow job creation will still drive high political risks in the coming years. We forecast the unemployment rate will decline gradually but remain above pre-Covid levels until at least 2028. The challenge will be even greater after Russia's invasion of Ukraine that weighed on growth in 2022 and slowed growth in 2023. The derailment of Tunisia's post-Covid economic recovery will drive up the unemployment rate that is already the highest in North Africa (excluding Libya). A sustained increase in unemployment will fuel social discontent, especially among the youth, and lead to large protests similar to the 2021 anti-government demonstrations that eventually pushed the president to suspend the parliament and dismiss the government. Tunisia's youthful demographic profile will ensure that creating employment opportunities remains a top priority for policymakers, given that a large part of the political discontent felt by the Tunisian public under former president Ben Ali (1987-2011) was due to the low quantity and quality of jobs available (even for the well educated). Consequently, a major challenge going forward will be to ensure maintaining a stable security situation and favourable business environment in order to attract foreign capital. A further challenge involves promoting job creation in the interior of the country, as economic development up to now has been heavily skewed toward the northern and eastern coastal areas.

3. Islamist Militancy

While Jihadist activity has receded in recent years, Tunisia remains vulnerable to risks of terrorist attacks despite improving security conditions since the major terrorist attack in 2015. A suicide bomb attack near the US Embassy in Tunis in March 2020 and the foiling of several attacks in 2022 are a reminder of ongoing risks.

Although the Tunisian public and political groups appear to be united in their condemnation of radical Islamist groups, risks of high-profile attacks will remain significant over the coming years. The ability of militant groups in neighbouring Libya to infiltrate the country, combined with the government's repressive counter-terrorism measures, the scheduled release of thousands of prisoners jailed because of their connection to terrorist activity over the next three years and worsening socio-economic conditions increase the risks of terrorist attacks in the country. This will continue to weigh on investor sentiment and tourist flows - especially as tourist attractions are usually the main target of such attacks - thereby hindering economic growth and hampering job creation.

Long-Term Political Risk

Tunisia's long-term political risks stem from the amendment of the constitution, which transitioned the system from semi-parliamentary to presidential, granting the president more executive and legislative powers and downsizing the role of the parliament. Under the new constitution, the president will now be responsible for appointing a prime minister while the government will no longer be subject to confidence votes in parliament. The president will also be in charged with appointing judges. Saied already dismissed 57 judges in June 2022, suggesting that he will not be subject to meaningful checks and balances.

Tunisia has a relatively homogeneous society and a still robust governing system. However, the country has an uncertain policy trajectory.

Scenarios For Political Change

We see two possible outcomes of Tunisia's political development.

A New Arab Spring: We cannot rule out the possibility of large-scale violent protests, similar to the ones that toppled the Ben Ali regime, especially if Saied and his government fail to address pressing economic issues. With no political party to back him, President Saied relies primarily on public support - which is declining - to maintain legitimacy. With Tunisians' patience running out, large-scale protests against him could erupt should the worsening socio-economic conditions persist or increase. However, we think that such a scenario is less likely, as we believe that Tunisians are willing to sacrifice some checks and balances in return for an effective government that could address the economic problems that the country has been facing, following years of political gridlock since the 2011 uprising.

Bilateral Donor Will Come To The Rescue: Tunisia could still receive financial support from bilateral sources such as from Arab countries and the EU. The EU countries' concerns about migration and the potential repercussions from deteriorating economic conditions in Tunisia could prompt them to disburse financial support to Tunisia regardless of the implementation of reforms. In addition, Tunisia could receive larger funding from Arab countries, such as Algeria, Saudi Arabia and Qatar. This would alleviate short-term balance of payment pressures and allow the government to settle its external payments without significant impact on the dinar and socio-economic conditions, in order to avoid destabilising the economy and political environment.

Tunisia Political Overview

System of government	Republic with a presidential system
Head of state	President Kais Saied
Head of government	Prime Minister Ahmed Hachani, formally appointed on August 2, 2023
Last election	General elections: December 17 2022
Next election	Presidential elections: Q4 2024
Key figures	Head of Union Générale Tunisienne du Travail: Noureddine Taboubi
	Former speaker of parliament and Islamist opposition party Ennahda leader: Rached Ghannouchi
Key relations/treaties	A member of the Arab League, the African Union and WTO. A strong relationship with the US (which has designated Tunisia a major non-NATO ally).

Source: BMI

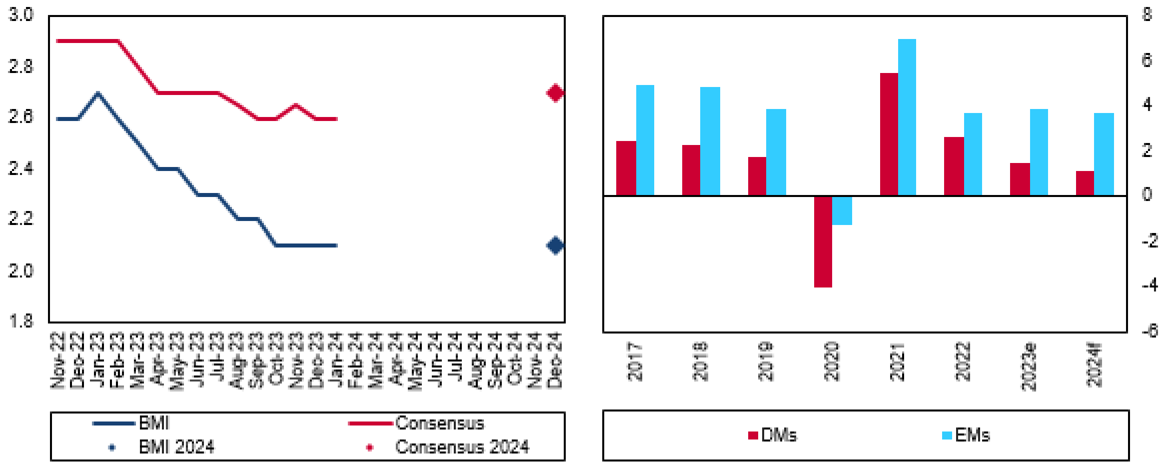
Global Macro Outlook

Relative Growth Resilience, But Rising Red Sea Risks

We continue to expect global growth to slow from an estimated 2.5% in 2023 to 2.1% in 2024 as the lagged effects of tight monetary policy are felt over the coming quarters and as fiscal policy becomes slightly less supportive than last year. While early indications are that economic momentum remained somewhat resilient in Q4 2023, our forecasts for global growth remain below consensus estimates of 2.6% and we see growing downside risks stemming from attacks in the Red Sea.

Global Growth To Slow, Led By DMs

Global - Evolution of 2024 Global Growth Forecasts & 2024 Forecasts (LHC) & Real GDP Growth, % (RHC)



Source: Bloomberg, BMI

The deceleration in global growth will be primarily driven by developed markets (DMs), which will slow from an estimated 1.5% in 2023 to 1.1% in 2024. In particular, even though we revised up our US growth forecast from 0.8% to 1.4% in 2024, it will still mark a sharp slowdown from our estimate of 2.5% in 2023. Moreover, we only expect a tepid recovery in the eurozone from 0.5% in 2023 to 0.8% in 2024, which will cap the pace of growth in DMs. In contrast, emerging market (EM) growth will hold up much better and only slow marginally from 3.9% in 2023 to 3.7% in 2024. Despite our expectations for Mainland China to slow from 5.2% in 2023 to 4.7% in 2024, it will still account for about a third of all growth in 2024, contributing 0.7 percentage points (pp) to the headline global growth number.

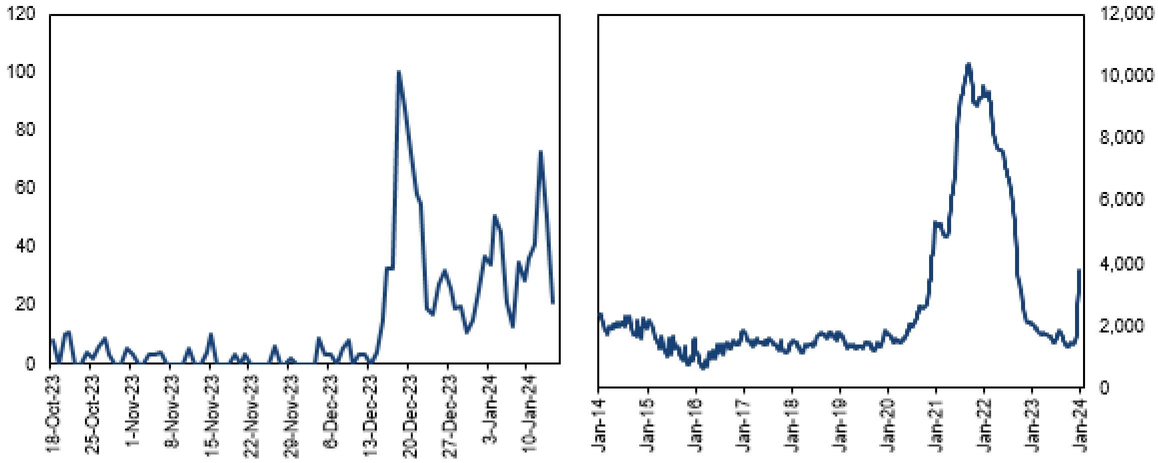
While recent high frequency data from the US have surprised to the upside, with the Atlanta Fed Nowcast GDP model tracking at 2.4% q-o-q annualised in Q4 2023, and suggesting that the US economy remains resilient, other data remain less sanguine. For example, China's real GDP data came in at 5.2% y-o-y in Q4 2023, which was slightly weaker than we expected considering the flattering base effects from Q4 2022. In addition, eurozone data continue to show weakness in industrial activity and weakening sentiment, with recent stoppages in certain factories potentially exacerbating the weakness. For instance, Germany's chemicals sector is already beginning to experience difficulties due to delayed shipments through the Red Sea. This development marks the latest instance of an industry facing supply chain disruptions, prompting several companies to scale back production.

Red Sea Risks Could Pose Significant Headwinds To Growth

There are several large risks which will weigh on broad sentiment and activity, including the election cycle in many economies and rising geopolitical risks. The most imminent geopolitical risk stems from the Middle East and in particular the Red Sea given the recent attacks on shipping vessels. We believe that this poses downside risks to the global economy through three main channels. First, this raises the risks of a regionalisation of the conflict in the Middle East and North Africa (MENA) region, which would have a direct impact on regional growth and oil prices. The recent strikes by US forces on Houthi rebel targets could result in an escalation of the wider conflict and we now believe there is a 40% chance that the conflict becomes more regional in nature, compared to about 30% just before the initial attacks in December 2023.

Risks To Global Shipping Could Persist

Global - Google Trend Search 'Red Sea' (LHC) & World Container Index, USD* (RHC)

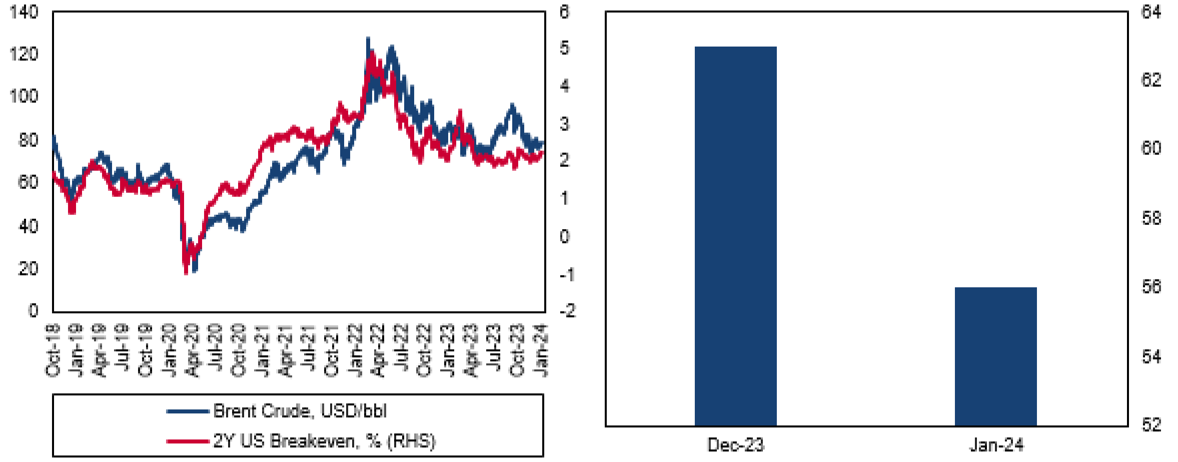


per Forty Foot Container. Source: Bloomberg, BMI

Second, the rerouting of shipping vessels away from the Bab al-Mandab Strait and through the Cape of Good Hope is causing significant delays and an increase in supply-side costs. According to data from Clarksons, approximately 28% of the world's container shipping traffic passes through the Red Sea. Rerouting trade via the Cape of Good Hope is about 10-14 days longer and this does not factor in potential delays caused by greater congestion in the Cape. These delays have already resulted in shortages, which are leading to work stoppages at factories in several markets in Europe, and has led to a sharp rise in global shipping costs, with a knock-on effect in terms of rail and air freight. The WCI Container Freight Index (for 40ft box Drewry) has risen by 170% since early December 2023, which will have a knock-on impact on inflation and growth. The combination of greater costs and uncertainty will likely weigh on business sentiment and potential investment.

Inflation Expectations Rising Slightly And Rate Cuts Might Not Happen As Fast

Global - Oil Prices & Inflation US Expectations (LHC) & Probability Of Cut By The Fed In March, % (RHC)



Source: Bloomberg, CME, BMI

Third, and possibly most importantly, the rise in shipping costs could have a knock-on impact on inflation and monetary policy. According to estimates by the IMF, a doubling of freight rates leads to about a 0.7pp increase in inflation. If this holds, it could force many central banks to re-assess the outlook for inflation and hence the pace of policy easing over the coming months. We forecast inflation will continue to decline and get close to target by end 2024 in many economies. As a result, we expect that the US Federal Reserve (Fed) and the European Central Bank will cut by 100 basis points (bps) and 75bps points respectively in 2024, with the first cut in July, which will open the door for other central banks to also cut interest rates. However, another supply-side rise in inflation could see central banks delay their interest rate cutting cycle at a time when economic uncertainty is rising, the corporate sector is becoming more cautious and as growth is already slowing. This could ultimately result in a policy mistake, whereby interest rates remain too high for too long and lead to a sharper slowdown in growth than we currently envisage.

Global - Macroeconomic Forecasts (2021-2028)

		2021	2022	2023e	2024f	2025f	2026f	2027f	2028f
Real GDP Growth (%)									
	US	5.8	1.9	2.5	1.4	1.2	2.5	1.9	1.7
	Eurozone	6.0	3.4	0.5	0.8	1.5	1.7	1.7	1.7
	Japan	2.2	1.1	1.8	1.0	1.0	0.9	0.8	0.9
	China (Mainland)	8.1	3.0	5.2	4.7	4.5	4.5	4.5	4.4
	World	6.0	3.0	2.5	2.1	2.5	2.9	2.8	2.7
Consumer Inflation (avg)									
	US	4.7	8.0	4.2	2.7	1.8	2.3	2.5	2.5
	Eurozone	2.6	8.4	5.5	2.2	2.0	2.3	2.3	2.3
	Japan	-0.3	2.5	3.2	2.2	1.4	1.2	1.0	1.0
	China (Mainland)	0.9	2.0	0.2	1.0	1.9	2.3	2.3	2.3
	World	3.9	8.0	6.0	4.8	3.1	2.9	2.8	2.8
Interest Rates (Eop)									
	Fed Funds Rate	0.25	4.50	5.50	4.50	2.75	2.75	2.75	2.75
	ECB Refinancing Rate	0.00	2.50	4.50	3.75	3.00	2.50	2.50	2.50
	Japan Overnight Call Rate	-0.10	-0.10	-0.10	0.00	0.00	0.00	0.10	0.10
Exchange Rates (avg)									
	USD per EUR	1.18	1.05	1.08	1.10	1.12	1.12	1.12	1.12
	JPY per USD	110	131	141	139	134	130	125	120
	CNY per USD	6.45	6.74	7.08	6.97	6.80	6.83	6.88	6.93
Oil Prices (avg)									
	OPEC Basket (USD/bbl)	69.89	101.17	82.95	84.00	83.00	80.00	80.00	80.00
	Brent Crude (USD/bbl)	70.95	99.04	82.18	85.00	84.00	81.00	81.00	81.00

Note: May include territories, special administrative regions, provinces and autonomous regions. e/f = BMI estimate/forecast. Source: Bloomberg, local sources, BMI

Global And Regional - Real GDP Growth And Exchange Rates, % Chg Y-o-y (2021-2028)

Global & Regional Real GDP Growth (% y-o-y)									
		2021	2022	2023e	2024f	2025f	2026f	2027f	2028f
World		6.0	3.0	2.5	2.1	2.5	2.9	2.8	2.7
Developed Markets		5.4	2.6	1.5	1.1	1.4	2.0	1.8	1.7
Emerging Markets		6.8	3.7	3.9	3.7	3.9	4.1	4.1	4.0
Asia Ex-Japan		7.4	4.0	5.2	5.0	4.9	4.9	4.9	4.9
Latin America		6.8	3.7	2.2	1.6	1.9	2.6	2.4	2.3
Emerging Europe		7.4	1.7	2.7	1.3	2.2	2.7	2.7	2.7
Sub-Saharan Africa		4.2	3.5	2.4	3.4	3.9	3.7	4.0	4.1
Middle East & North Africa		5.0	5.6	2.4	3.1	3.8	3.8	3.5	3.2
Developed Market Exchange Rates (avg)									
		2021	2022	2023e	2024f	2025f	2026f	2027f	2028f
Eurozone	USD per EUR	1.18	1.05	1.08	1.10	1.12	1.12	1.12	1.12
Japan	JPY per USD	110	131	141	139	134	130	125	120
Switzerland	CHF per USD	0.91	0.95	0.90	0.89	0.92	0.94	0.96	0.98
UK	USD per GBP	1.38	1.23	1.24	1.25	1.22	1.20	1.17	1.16
Emerging Market Exchange Rates (avg)									
		2021	2022	2023e	2024f	2025f	2026f	2027f	2028f
China (Mainland)	CNY per USD	6.4	6.7	7.1	7.0	6.8	6.8	6.9	6.9
South Korea	KRW per USD	1,144	1,291	1,300	1,260	1,215	1,150	1,100	1,100
India	INR per USD	73.9	78.6	82.5	81.0	81.0	83.0	84.7	86.4
Brazil	BRL per USD	5.39	5.16	5.03	5.12	5.13	5.18	5.23	5.28
Mexico	MXN per USD	20.3	20.1	17.8	18.0	17.2	17.0	17.0	17.0
Russia	RUB per USD	73.7	68.5	79.8	92.9	97.3	97.0	96.4	96.9
Turkiye	TRY per USD	8.9	16.5	23.8	33.7	36.5	38.4	39.1	39.9
South Africa	ZAR per USD	14.8	16.4	18.5	19.4	19.8	20.1	21.0	21.8

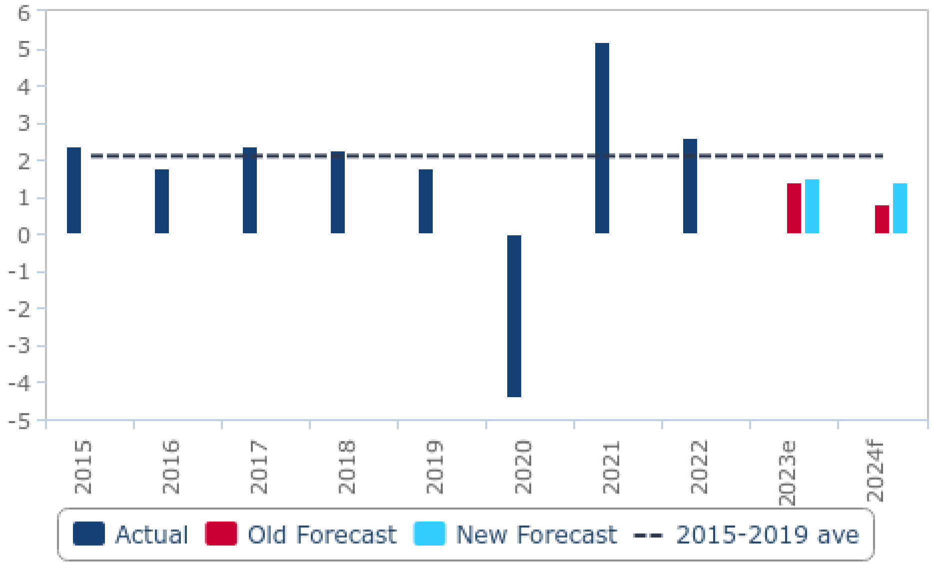
Note: May include territories, special administrative regions, provinces and autonomous regions. e/f = BMI estimate/forecast. Source: Bloomberg, local sources, BMI

DMs: 2024 Growth Revised Up Due To Resilient US

We anticipate slower DM growth in 2024, due to high interest rates, tighter fiscal policy and smaller household financial buffers. Nevertheless, we have revised our DM growth forecast for 2024 upward to 1.1% in January, from the previous projection of 0.8%. This revision is largely due to a more optimistic growth projection for the US, which we have revised upward from 0.8% to 1.4%. The upward adjustment for the US is primarily due to minor changes to our quarterly growth projections. These changes reflect the considerable easing of financial conditions since late October 2023 and further supported by the Fed's apparent shift towards more accommodative monetary policy in December. We have raised our 2023 DM growth estimate by 0.1pp to 1.5% largely due to anticipated stronger growth in Japan. We have also adjusted our 2023 real GDP growth estimate for Canada down slightly by 0.1pp to 1.2%, while keeping our 2024 projection steady at 0.2%.

2024 Growth Forecast Adjusted Up

DMs - Aggregate Real GDP Growth, %

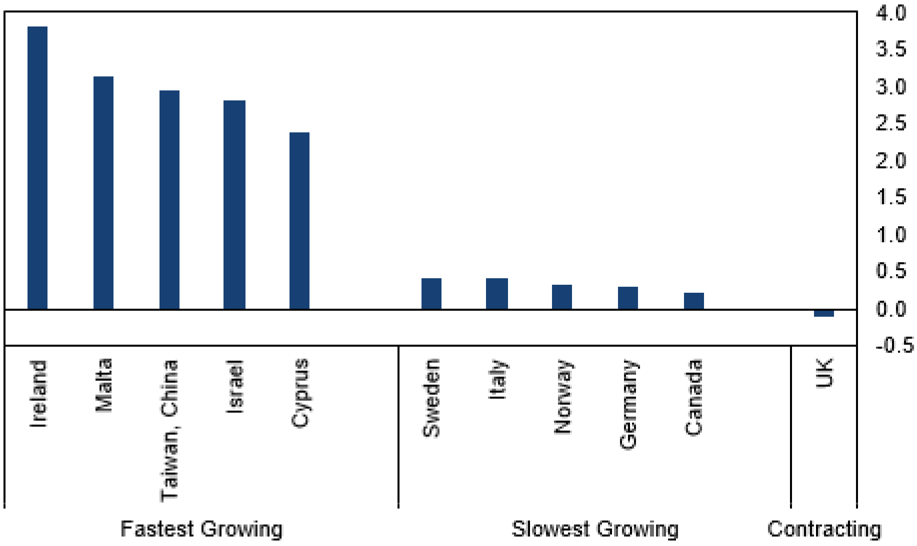


e/f = BMI estimate/forecast. Source: Macrobond, BMI

In 2024, we do not expect recession in any of the economies included in our DM universe with the exception of the UK, which we forecast to contract marginally by 0.1% (*see chart below*). Germany will be among the lowest growing economies (0.3%), together with Canada (0.2%), Italy (0.4%) and Sweden (0.4%).

Anticipated Economic Expansion In DMs In 2024, Excluding UK

Selected DMs - Real GDP Growth, %



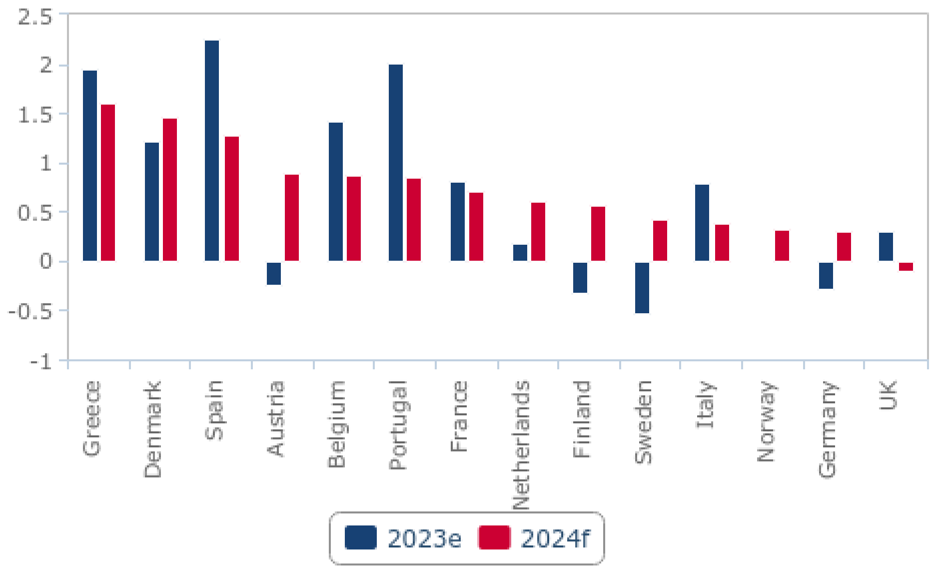
Note: May include territories, special administrative regions, provinces and autonomous regions. BMI forecasts. Source: BMI

In **DM Europe**, we project a slight uptick in eurozone economic growth from 0.6% in 2023 to 0.8% in 2024, largely due to a combination of lower inflation and (from July 2024) moderate monetary easing that will help push up growth. Nevertheless, the eurozone's recovery faces notable risks. Domestically, we expect that fiscal policy will tighten due to the Stability and Growth Rules that are scheduled to be re-imposed in 2024 after a three-year hiatus. Additionally, the ongoing geopolitical tensions in the Red Sea are causing significant disruptions to trade routes, which we anticipate will heighten the downside risks to economic growth forecasts for several European markets, including Germany, Italy, France, Spain, Poland and the Czech Republic.

Our forecasts for major eurozone economies remain unchanged. We anticipate a modest rebound in Germany to 0.3% in 2024, from an estimated 0.3% contraction in 2023. In contrast, we foresee a slight deceleration in France (0.8% in 2023 to 0.7% in 2024), Italy (0.8% to 0.4%) and Spain (2.3% to 1.3%).

Mixed Growth Outlook For 2024

Selected European Economies - Real GDP Growth, %

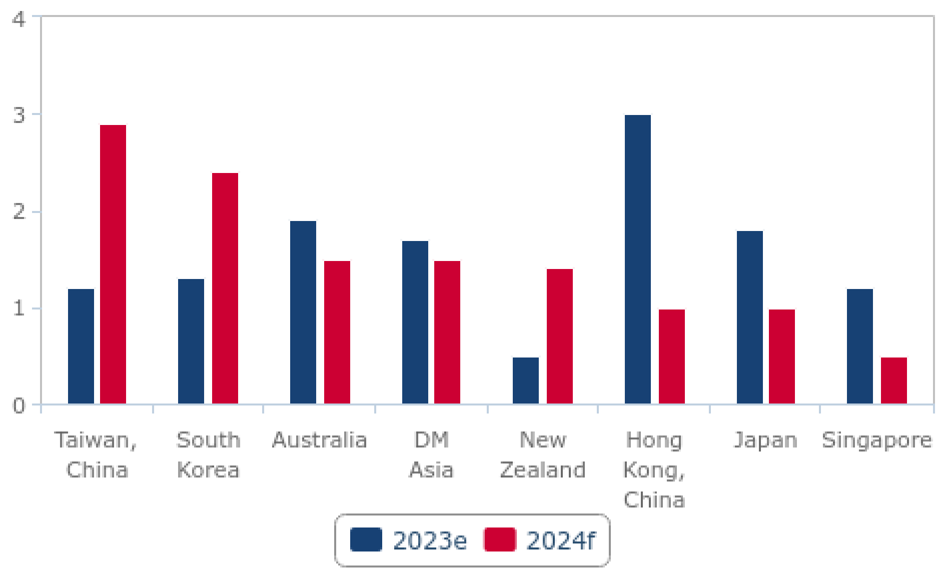


e/f = estimate/forecast. Source: BMI

In **DM Asia**, we forecast a slight slowdown in growth from 1.7% in 2023 to 1.5% in 2024. While we expect that growth will strengthen in Taiwan, China (2.9%), South Korea (2.4%) and New Zealand (1.4%), we anticipate that it will weaken in Australia (revised down from 1.7% to 1.5%), Hong Kong, China (1.0%), Japan (1.0%) and Singapore (0.5%). Australia's outlook is dampened by rising unemployment and dwindling household savings, exacerbating the already challenging environment characterised by sluggish global growth, tight monetary policy, softening inflation and frail consumer confidence. In contrast, Taiwan, China is expected to lead the region, with a significant rebound from 1.2% in 2023. We forecast that both South Korea and New Zealand will see improvements over their 2023 estimates of 1.3% and 0.5% respectively (*see chart below*).

Strongest Growth In South Korea And Taiwan, China

DM Asia - Real GDP Growth, %



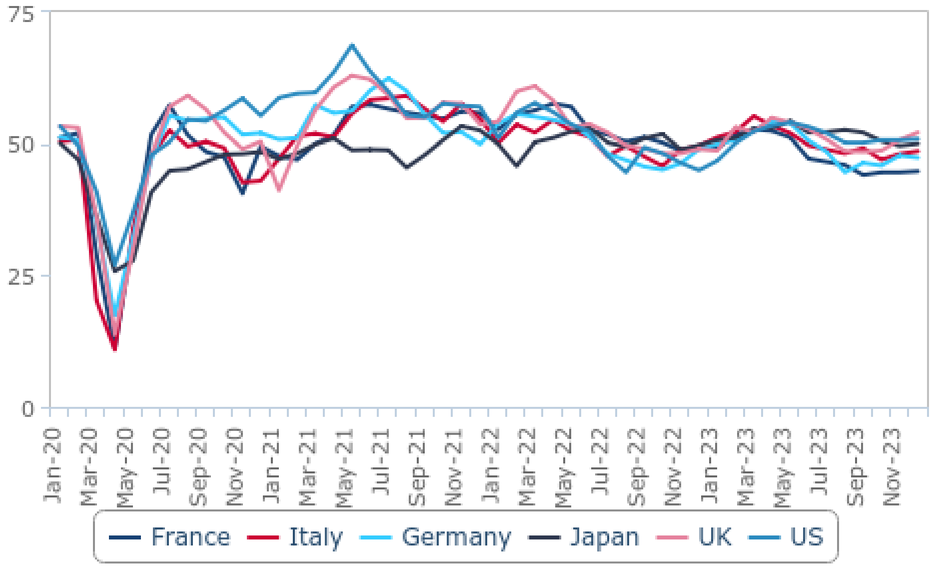
Note: May include territories, special administrative regions, provinces and autonomous regions. e/f = estimate/forecast. Source: BMI

Mixed PMI Data Point To A Challenging Start To 2024

In December 2023, the Purchasing Managers' Indices (PMIs) provided a mixed view of the economic landscape. The manufacturing sector continued to exert downward pressure on overall growth, being uniformly sluggish across various markets. However, the services sector exhibited resilience, expanding in the US, Spain, the UK and Japan. It lingered below the pivotal 50-point threshold - which divides expansion from contraction - in half of the eight major DMs. This trend underscores the ongoing challenges faced by the private sector, with implications for subdued economic performance in the short term.

Momentum Easing Further

Selected DMs – Composite PMIs, index



Source: S&P Global, BMI

Specifically, the S&P Global composite PMI registered sub-50 figures in Italy, France, Germany and Australia, signalling contraction. In the US, Spain, the UK and Japan, the composite PMI remained in expansionary territory. Nevertheless, the marginal breach above the 50-point mark points to only a tepid pace of economic activity.

Developed Markets - Real GDP Growth Forecasts, % Y-o-y (2021-2028)

	2021	2022	2023	2024f	2025f	2026f	2027f	2028f
Developed Markets Aggregate Growth	**5.4**	**2.6**	**1.5**	**1.1**	**1.4**	**2.0**	**1.8**	**1.7**
G7	5.3	2.2	1.7	1.0	1.1	1.9	1.6	1.5
Eurozone	6.0	3.4	0.5	0.8	1.5	1.7	1.7	1.7
EU-27	6.0	3.5	0.5	0.9	1.6	1.9	1.9	1.8
Selected Developed Markets								
Australia	5.1	3.7	1.9	1.5	2.6	2.6	2.6	2.6
Austria	4.2	4.8	-0.3	0.9	1.9	1.6	1.7	1.6
Belgium	6.9	3.0	1.4	0.9	1.7	1.4	1.2	0.9
Canada	5.0	3.4	1.2	0.2	1.6	1.9	1.9	1.9
Czech Republic	3.6	2.5	-0.1	1.4	2.7	3.8	3.6	2.7
Denmark	4.9	3.8	1.2	1.5	1.7	1.8	1.9	1.9
Finland	3.0	2.0	-0.3	0.6	1.4	1.0	1.1	1.2
France	6.4	2.5	0.8	0.7	1.1	1.4	1.4	1.2
Germany	3.2	1.8	-0.3	0.3	1.1	1.3	1.4	1.6
Hong Kong, China	6.4	-3.5	3.0	1.0	2.0	2.0	2.0	2.0
Ireland	15.1	9.4	-2.2	3.8	4.1	4.2	4.2	4.2
Italy	8.3	3.7	0.8	0.4	1.0	1.6	1.3	1.3
Japan	2.2	1.1	1.8	1.0	1.0	0.9	0.8	0.9
Netherlands	6.2	4.3	0.2	0.6	1.5	1.4	1.4	1.4
Norway	3.9	3.3	0.0	0.3	1.2	1.8	1.8	1.8
Portugal	5.5	6.7	2.0	0.9	2.9	3.2	3.2	3.0
Singapore	8.9	3.6	1.2	0.5	2.9	2.9	2.9	2.9
South Korea	4.1	2.6	1.3	2.4	2.5	2.5	2.4	2.4
Spain	6.4	5.8	2.3	1.3	1.7	2.2	1.9	1.9
Sweden	6.1	2.8	-0.5	0.4	1.8	1.8	1.8	1.9
Switzerland	4.2	2.1	1.3	0.5	1.4	2.9	2.3	1.7
Taiwan, China	6.5	2.5	1.2	2.9	3.0	3.0	3.0	3.0
UK	8.7	4.3	0.3	-0.1	0.9	1.4	1.9	1.6
US	5.8	1.9	2.5	1.4	1.2	2.5	1.9	1.7

Note: May include territories, special administrative regions, provinces and autonomous regions. f = BMI forecast. Source: Local sources, BMI

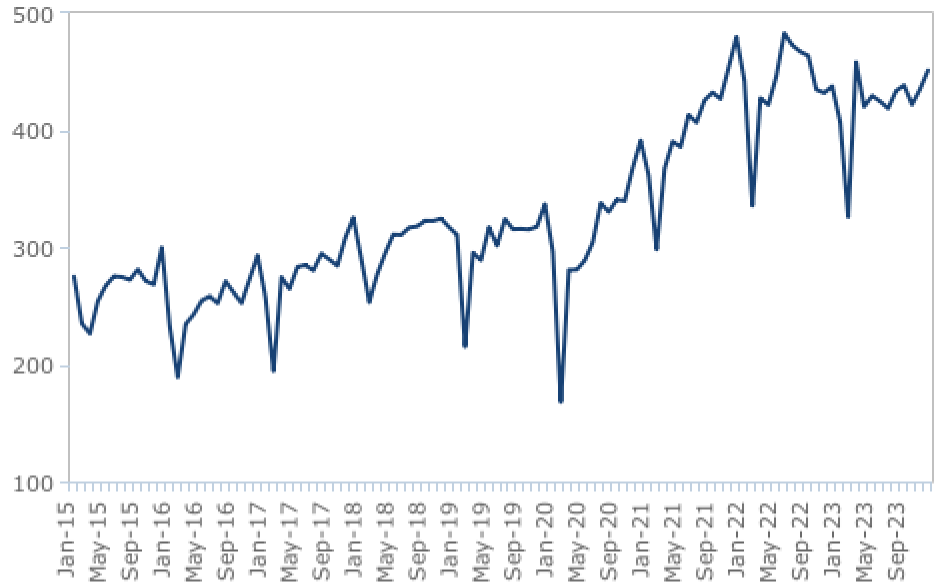
EMs: Growth Will Slow In 2024

Economic activity in most EMs remained pretty strong at the end of 2023, but we retain our view that aggregate EM growth will slow from 3.9% in 2023 to 3.7% in 2024 as the lagged impact of monetary policy feeds through and as the slowdown in DMs weighs on EM growth. We have made very few revisions to the forecasts we published at the end of 2023.

One of the key drivers of this slowdown will be a worsening external environment. EM exports were strong at the end of 2023, with aggregate exports rising by 3.1% y-o-y in US dollar terms (*see chart below*) as a result of strong performances from Vietnam (+13.1%), Brazil (+9.5%) and Mainland China (+2.3%).

Exports Picked Up In Late 2023

EMs - Aggregate Exports, USDbn

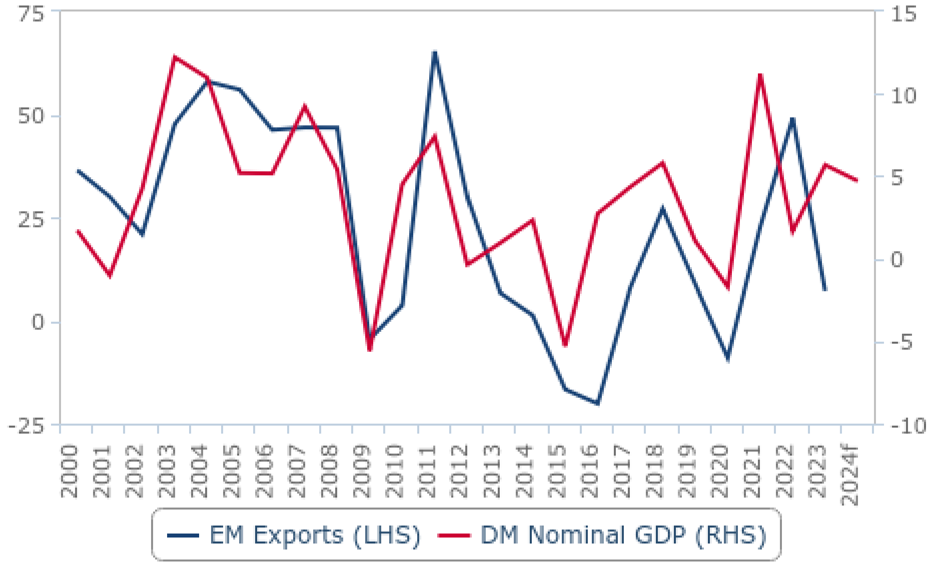


Source: Macrobond, BMI

In 2024, we think that exports will falter as a result of weaker growth in Mainland China and in the US. We expect that nominal DM GDP growth will slip from 5.7% in 2023 to 4.7% in 2024, which will drag on demand (*see chart below*). This headwind will be strongest for EMs – like Mexico – that are closely integrated with DM supply chains.

Slower DM Growth Will Drag On EM Exports In 2024

Global – Nominal DM GDP Growth & EM Exports, % y-o-y

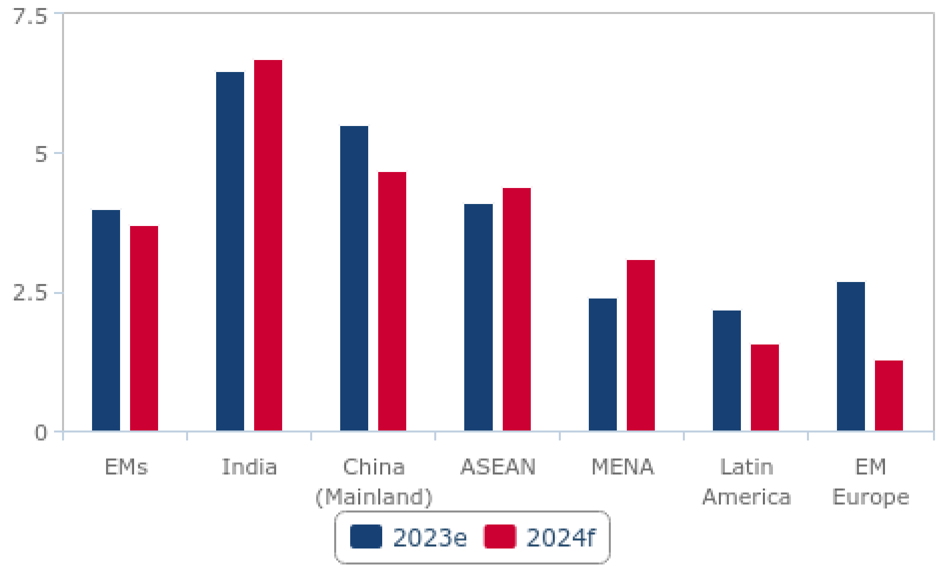


f = BMI forecast. Source: Macrobond, BMI

This is the key reason why we expect that – beyond Mainland China itself – that Latin America and EM Europe will experience the sharpest slowdowns in 2024. We forecast that aggregate GDP growth in Latin America will slip from 2.2% in 2023 to 1.6% in 2024 and that aggregate growth in EM Europe will slow from 2.7% to 1.3% over the same period (*see chart below*).

Slowdown Driven By Mainland China, Europe And Latin America

EMs – Real GDP Growth, %

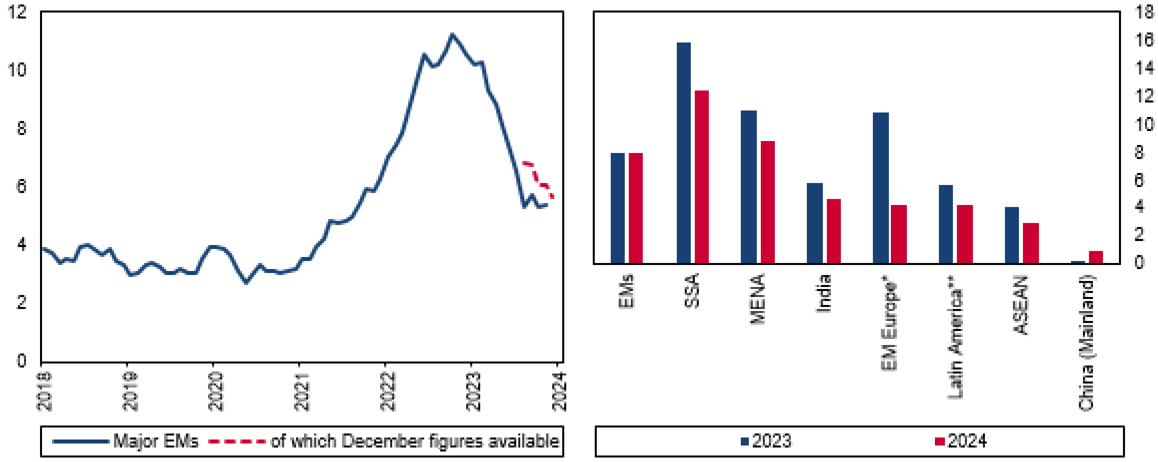


Note: May include territories, special administrative regions, provinces and autonomous regions. e/f = estimate/forecast. Source: BMI

We retain the view that inflation will continue to ease across almost all EMs in 2024. Early figures suggest that EM inflation slipped in December 2023. Among the subset of major EMs that have provided figures, median year-on-year inflation slowed from 6.1% to 5.7% (*see left-hand side chart below*). EM inflation slowed sharply in 2023, and we expect that this process will continue in 2024 in almost all regions (*see right-hand side chart below*). While instability in the Red Sea has pushed up shipping costs, we think that stable commodity prices, slower global growth, tight monetary policy and easing supply chain disruptions will cause inflation to ease in most EMs. Mainland China – which briefly slipped into deflation in 2023 – will be the key exception.

Inflation Will Continue To Ease

EMs – Median Inflation (LHC) & Regional Average (RHC)



*Note: May include territories, special administrative regions, provinces and autonomous regions. * Excludes Russia, Ukraine & Turkiye. ** Excludes Argentina & Venezuela. Source: Macrobond, BMI*

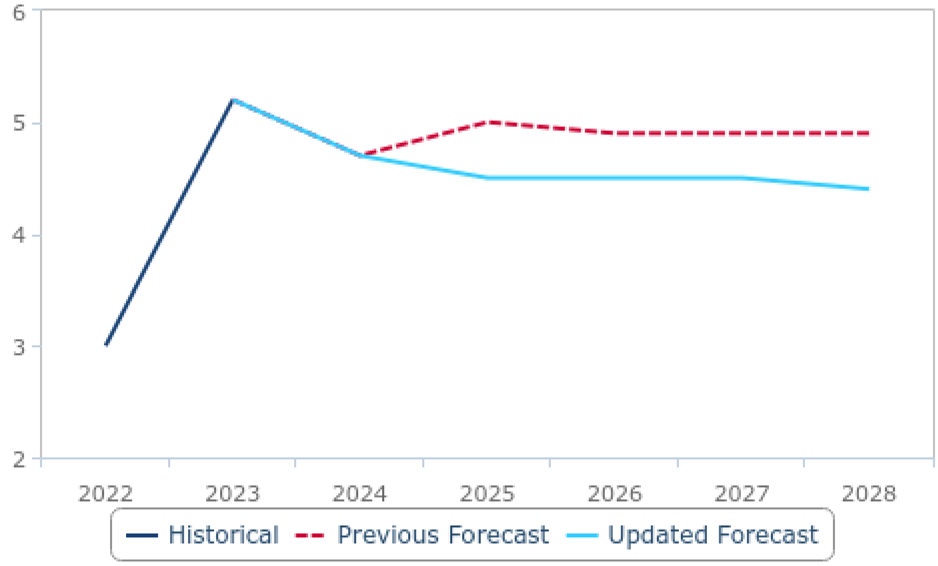
We expect that EM policymakers will respond to slowing inflation by continuing their easing cycles. Eight major EM central banks cut their policy rates in December 2023 (Argentina, Brazil, Chile, Colombia, the Czech Republic, Hungary, Peru and Ukraine), the largest number to do so since mid-2020. Only three (Kenya, Russia and Turkiye) raised theirs. We expect that this broad EM loosening cycle will continue in 2024. While we expect interest rate hikes in a few crisis-hit economies (eg, Egypt), the general direction of EM monetary policy will be clear. Latin American economies – where policymakers hiked early and aggressively in 2021, and which started their loosening cycles in early 2023 – will continue to lead the way.

EM Asia: Mainland China Outlook Revised

Attention over the past month remained focused on Mainland China, where we think that medium-term growth prospects are weakening. Official GDP figures showed that growth came in at 5.2% y-o-y in Q4 2023, a bit weaker than we (or most economists) had expected. The big picture, however, is that the economy will slow to 4.7% in 2024 and that a worsening housing downturn will exert a lasting drag on economic growth over the coming years. Developers are currently sitting on two years' worth of unsold pre-built residential units, and we think that it will take a decade for supply to fall into line with demand. Given the crucial economic role played by the construction sector, this slowdown will have a significant impact. We have substantially cut our medium-term growth forecasts for the world's largest EM (*see chart below*).

Construction Sector Will Drag On Headline Growth

China (Mainland) – Real GDP Growth, %



Source: Macrobond, BMI

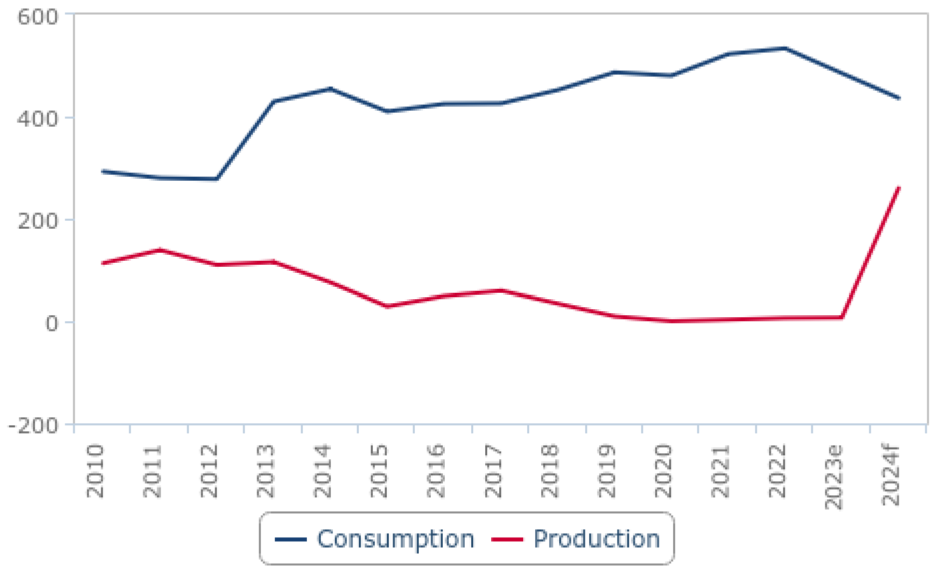
We are more optimistic about conditions elsewhere in EM Asia, and expect that growth in the region as a whole will come in at 5.0% in 2024. We expect that India will remain the world's fastest-growing large EM, with growth picking up from 6.5% to 6.7%. We also predict accelerating growth in Thailand (2.5% to 3.8%), which has been an underperformer in recent years as a result of political instability and the slow post-Covid recovery of its vital tourism sector.

Sub-Saharan Africa: South Africa And Nigeria Will Recover In 2024

Whereas most EM regions will slow in 2024, we expect that growth in Sub-Saharan Africa (SSA) will pick up due to stronger performances in Nigeria and South Africa. In Nigeria, the acceleration from 2.4% to 2.9% will be driven by slowing inflation, increase oil production and the opening of a new large new refinery in Lagos. The facility, the largest of its kind in the world, will help to reduce import demand in a country that – despite being a major oil exporter – is dependent on imports to meet domestic fuel needs (*see chart below*).

A Big Turnaround

Nigeria – Oil Production, '000 barrels per day



e/f = BMI estimate/forecast. Source: Macrobond, BMI

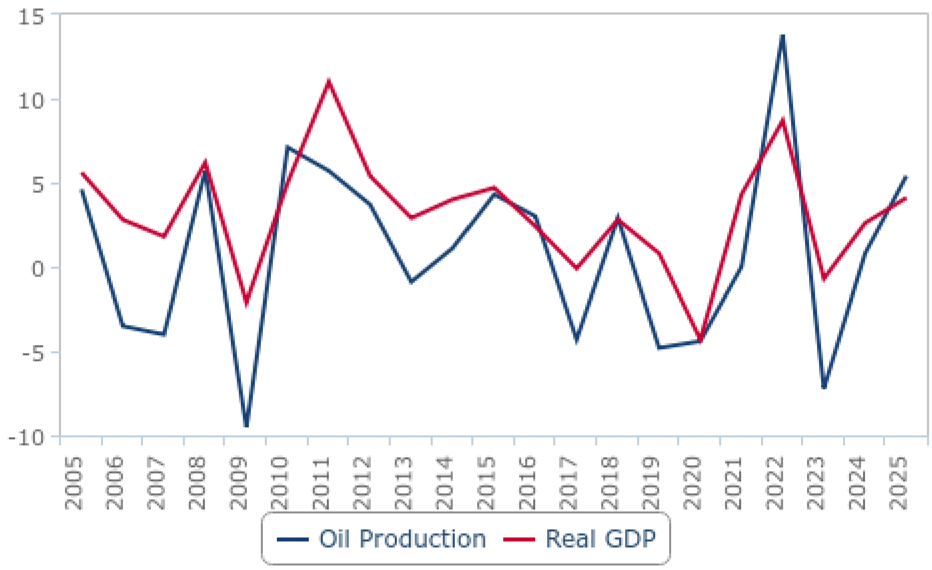
We expect that growth in South Africa will pick up from 0.7% in 2023 to 1.7% in 2024. The latest figures show that growth was a bit stronger than we had expected in Q3 2023. We also expect that new power capacity will come online, reducing the frequency of the power cuts that hampered output in 2023. However, we expect that political risk will rise because the long-dominant ANC will lose its legislative majority in this year's general election and be forced to form a coalition with a smaller party in order to remain in power. The policy implications of this transition to a multi-party government are unclear, but our core view is that Cyril Ramaphosa will remain president and that the ANC would continue with its current policy mix.

MENA: Oil Production Will Boost Growth, But Risks Elevated

We also expect faster growth in MENA, where rising oil production will help to push regional growth from 3.1% to 3.8%. The slow pace of growth in 2023 was caused by cuts to oil production in Saudi Arabia and other OPEC members designed to support oil prices. Whereas Saudi oil production dropped by 7.2% in 2023, we expect that it will rise by 0.8% in 2024 (*see chart below*). We also expect that growth will pick up slightly in Egypt (3.8% to 4.2%) as inflation in the country eases.

Production Will Rebound

Saudi Arabia – Oil Production & Real GDP, % y-o-y



Source: Macrobond, BMI

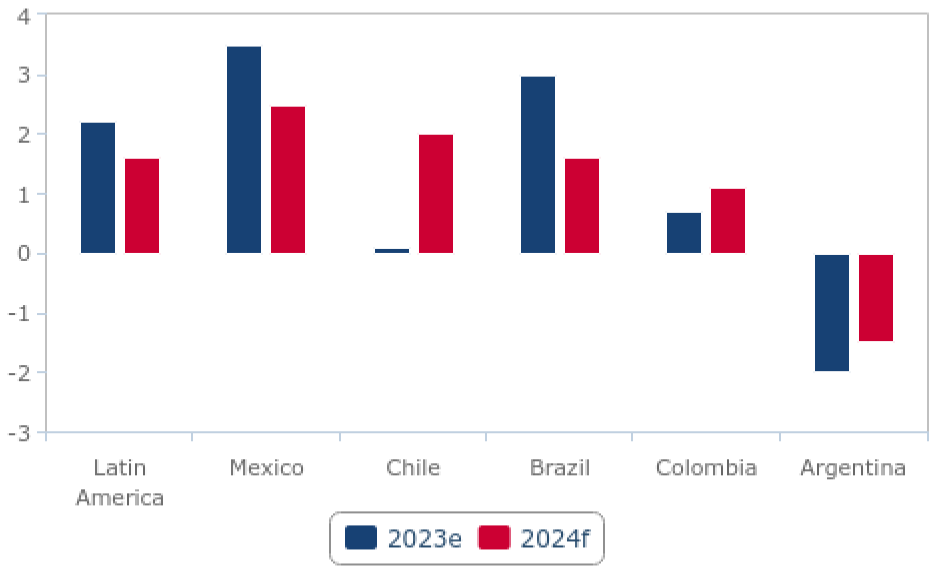
Our forecast is heavily dependent on our core view that the current Israel-Hamas war will not expand across the region. Provided that the conflict remains geographically contained, it will only have a significant economic impact on Israel and (much more significantly), West Bank and Gaza. An escalation that brought the US and Iran into more direct conflict, however, would cause a significant disruption to activity elsewhere.

Latin America: Key Economies Will Slow

We expect that economic growth in Latin America will slip from 2.2% in 2023 to 1.6% in 2024 due to weaker growth the region's two largest economies. While we think that Mexico will remain a regional outperformer, the easing of the country's investment boom and slowing activity in the US will cut growth from 3.5% to 2.5%. We also expect that conditions will deteriorate in Brazil, where the lagged effect of interest rate hikes and a smaller agricultural harvest will cause growth to slow from 3.0% in 2023 to 1.6% in 2024 (*see chart below*).

Mexico And Brazil Will Drive Regional Slowdown

Latin America – Real GDP Growth, %



e/f = estimate/forecast. Source: Macrobond, BMI

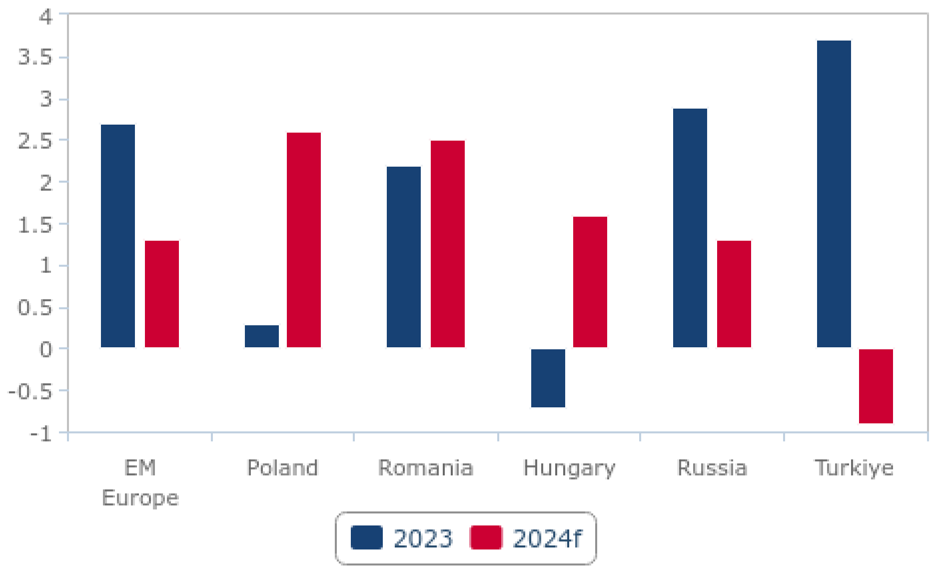
Slower growth in the region's two largest economies will outweigh the impact of faster growth in Chile (0.1% to 2.0%) and Colombia (0.7% to 1.1%). Both economies will benefit from loosening monetary policy, while Chile's growth will also be boosted by rising copper output. We expect that Argentina's economy will continue to contract in 2024, but risks to our forecast are elevated as a result of policy uncertainty following the election of Javier Milei, who has promised massive fiscal consolidation, but will be forced to negotiate with a divided Congress.

EM Europe: Worst Performer

We expect that growth in EM Europe will slow from 2.7% in 2023 to a four-year low of 1.3% in 2024. Growth will pick up slightly in Central and Eastern Europe due to stronger demand in DM Europe. We expect that Germany's economy, which contracted by 0.3% in 2023, will grow by 0.3% in 2024. This will support stronger growth in Poland (0.3% to 2.6%), Hungary (-0.7% to 1.6%) and the Czech Republic (-0.1% to 1.4%).

Russia And Turkiye Will Drag On Regional Growth

EM Europe – Real GDP, % y-o-y



f = forecast. Source: BMI

Growth will slow sharply in Russia and Turkiye. We think that supply constraints, tight monetary policy and weak consumer demand will cause growth in Russia to slip from 2.9% to 1.3%. Economic conditions will be even worse in Turkiye, where we expect that the lagged effect of policy tightening will cause GDP to fall by 0.9%. This policy-driven economic downturn is expected to be challenging, and we think that it will effectively reduce inflation in the economy. We forecast that average inflation in Turkiye will slow from 54.3% in 2024 to 26.8% in 2025.

Emerging Markets - Real GDP Growth Forecasts, % Y-o-y (2021-2028)

	2021	2022	2023	2024f	2025f	2026f	2027f	2028f
Emerging Markets Aggregate Growth	**6.8**	**3.7**	**3.9**	**3.7**	**3.9**	**4.1**	**4.1**	**4.0**
Latin America	**6.8**	**3.7**	**2.2**	**1.6**	**1.9**	**2.6**	**2.4**	**2.3**
Argentina	10.7	5.0	-2.0	-1.5	0.6	2.0	2.2	2.6
Brazil	4.8	3.0	3.0	1.6	2.0	2.1	1.9	2.0
Chile	11.7	2.4	0.1	2.0	2.6	2.3	2.8	2.8
Colombia	11.0	7.3	0.7	1.1	2.7	2.9	2.7	2.4
Mexico	5.8	3.9	3.5	2.5	1.6	3.5	2.8	2.7
MENA*	**5.0**	**5.6**	**2.4**	**3.1**	**3.8**	**3.8**	**3.5**	**3.2**
Saudi Arabia	4.3	8.7	-0.7	2.6	4.1	4.0	3.7	3.4
UAE	3.8	7.9	3.1	3.8	5.3	6.6	4.9	3.0
Iran**	4.7	3.9	4.3	3.7	2.7	2.6	2.9	3.0
Algeria	3.4	3.3	2.9	1.3	1.8	1.8	1.8	1.9
Egypt***	3.3	6.7	3.8	4.2	4.7	3.9	4.0	4.0

	2021	2022	2023	2024f	2025f	2026f	2027f	2028f
SSA	**4.2**	**3.5**	**2.4**	**3.4**	**3.9**	**3.7**	**4.0**	**4.1**
South Africa	4.8	1.9	0.7	1.7	1.9	1.8	1.6	1.5
Kenya	8.4	4.8	5.5	5.2	5.2	5.3	5.3	5.5
Ethiopia	5.6	4.4	6.0	6.8	6.9	6.6	6.8	6.6
Nigeria	3.6	3.3	2.4	2.9	3.8	3.1	4.3	4.7
Emerging Asia	**7.4**	**4.0**	**5.2**	**5.0**	**4.9**	**4.9**	**4.9**	**4.9**
China (Mainland)	8.1	3.0	5.2	4.7	4.5	4.5	4.5	4.4
India**	9.1	7.2	6.5	6.7	6.5	6.5	6.5	6.4
Indonesia	3.7	5.3	5.0	5.0	4.9	4.9	4.9	4.8
Malaysia	3.3	8.7	3.9	4.4	4.1	4.0	3.9	4.0
Philippines	5.7	7.6	5.7	6.2	6.6	6.7	6.6	6.6
Thailand	1.5	2.6	2.5	3.8	4.0	3.9	4.0	4.0
Emerging Europe	**7.4**	**1.7**	**2.7**	**1.3**	**2.2**	**2.7**	**2.7**	**2.7**
Russia	5.6	-2.1	2.9	1.3	1.0	0.7	0.9	0.9
Turkiye	11.4	5.6	3.7	-0.9	2.2	3.6	3.4	3.5
Hungary	7.1	4.6	-0.7	1.6	2.5	3.2	2.9	2.8
Romania	5.7	4.6	2.2	2.5	2.6	3.3	3.4	3.7
Poland	6.9	5.3	0.3	2.6	3.1	3.6	3.8	3.7

*Note: May include territories, special administrative regions, provinces and autonomous regions. * MENA aggregate excludes Libya, Syria and Yemen. **Fiscal years ending March 31 (2022 = 2022/23). *** Fiscal years ending June 31 (2023 = 2022/23). f = forecast. Source: BMI*

Note: *Our forecasts are updated frequently; as a result, the views and forecasts in this section may not match those in other sections of the report.*

Macroeconomic Forecasts

Macroeconomic Forecasts (Tunisia 2023-2028)

Indicator	2023e	2024f	2025f	2026f	2027f	2028f
Nominal GDP, USDbn	50.7	54.0	56.0	59.5	63.1	71.0
Nominal GDP, EURbn	46.9	49.1	50.0	53.1	56.4	63.4
Real GDP growth, % y-o-y	0.5	1.3	2.0	2.2	1.8	2.0
GDP per capita, USD	4,067	4,295	4,418	4,663	4,912	5,487
GDP per capita, EUR	3,761	3,905	3,944	4,163	4,386	4,899
Population, mn	12.46	12.56	12.67	12.76	12.85	12.94
Unemployment, % of labour force, eop	16.5	15.3	16.0	16.0	15.5	15.0
Consumer price inflation, % y-o-y, ave	9.3	8.4	8.2	7.3	7.3	7.3
Central bank policy rate, % eop	8.00	9.00	9.00	8.00	8.00	8.00
Private final consumption, % of GDP	76.8	76.8	76.8	76.9	77.4	77.7
Private final consumption, real growth % y-o-y	1.1	1.3	2.0	2.3	2.5	2.5
Government final consumption, % of GDP	20.6	20.1	20.2	20.3	20.4	20.5
Government final consumption, real growth % y-o-y	-3.5	-1.0	2.5	2.5	2.5	2.5
Fixed capital formation, % of GDP	14.8	14.8	15.1	15.3	15.6	15.9
Fixed capital formation, real growth % y-o-y	1.0	1.5	4.0	4.0	4.0	4.0
Exchange rate TND per USD, ave	3.11	3.20	3.40	3.50	3.60	3.50
Exchange rate TND per EUR, ave	3.36	3.52	3.81	3.92	4.03	3.92
Goods and services exports, USDbn	25.4	25.9	25.9	27.1	28.1	30.9
Goods and services imports, USDbn	28.2	28.5	28.4	29.6	30.7	33.9
Balance of trade in goods and services, USDbn	-2.8	-2.6	-2.6	-2.5	-2.6	-3.0
Balance of trade in goods and services, % of GDP	-5.6	-4.8	-4.6	-4.2	-4.2	-4.2
Current account balance, USDbn	-1.2	-1.1	-1.1	-1.0	-1.2	-1.4
Current account balance, % of GDP	-2.4	-2.0	-2.0	-1.7	-1.8	-2.0
Foreign reserves ex gold, USDbn	8.5	7.8	7.4	7.6	7.8	8.1
Import cover, months	3.6	3.3	3.1	3.1	3.1	2.9
Budget balance, USDbn	-3.8	-3.8	-3.0	-3.0	-3.0	-3.3
Budget balance, % of GDP	-7.5	-7.0	-5.3	-5.1	-4.8	-4.6

e/f = BMI estimate/forecast. Source: National sources, BMI

Macroeconomic Forecasts (Tunisia 2029-2033)

Indicator	2029f	2030f	2031f	2032f	2033f
Nominal GDP, USDbn	73.5	82.6	92.9	104.7	114.6
Nominal GDP, EURbn	65.6	73.7	83.0	93.5	102.4
Real GDP growth, % y-o-y	2.1	2.1	2.1	2.2	2.2
GDP per capita, USD	5,640	6,301	7,051	7,904	8,608
GDP per capita, EUR	5,036	5,626	6,295	7,057	7,685
Population, mn	13.02	13.10	13.18	13.25	13.32
Unemployment, % of labour force, eop	14.5	14.0	14.0	14.0	14.0
Consumer price inflation, % y-o-y, ave	7.3	7.3	7.3	7.3	7.3
Central bank policy rate, % eop	8.00	8.00	8.00	8.00	8.00
Private final consumption, % of GDP	78.0	78.3	78.6	78.8	79.0
Private final consumption, real growth % y-o-y	2.5	2.5	2.5	2.5	2.5
Government final consumption, % of GDP	20.6	20.6	20.7	20.8	20.8
Government final consumption, real growth % y-o-y	2.5	2.5	2.5	2.5	2.5
Fixed capital formation, % of GDP	16.2	16.5	16.7	17.0	17.3
Fixed capital formation, real growth % y-o-y	4.0	4.0	4.0	4.0	4.0
Exchange rate TND per USD, ave	3.70	3.60	3.50	3.40	3.40
Exchange rate TND per EUR, ave	4.14	4.03	3.92	3.81	3.81
Goods and services exports, USDbn	31.2	34.3	37.8	41.7	44.6
Goods and services imports, USDbn	34.3	37.8	41.6	45.9	49.2
Balance of trade in goods and services, USDbn	-3.1	-3.5	-3.8	-4.2	-4.6
Balance of trade in goods and services, % of GDP	-4.2	-4.2	-4.1	-4.1	-4.0
Current account balance, USDbn	-1.6	-1.8	-2.1	-2.3	-2.5
Current account balance, % of GDP	-2.1	-2.2	-2.2	-2.2	-2.2
Foreign reserves ex gold, USDbn	8.3	8.5	8.8	9.0	9.2
Import cover, months	2.9	2.7	2.5	2.4	2.3
Budget balance, USDbn	-3.3	-3.6	-3.9	-4.3	-4.6
Budget balance, % of GDP	-4.5	-4.3	-4.2	-4.1	-4.0

f = BMI forecast. Source: National sources, BMI

a FitchSolutions Company

30 North Colonnade, Canary Wharf, London, E14 5GN, UK
Tel: +44 (0)20 7248 0468
Fax: +44 (0)20 7248 0467
Web: www.fitchsolutions.com/bmi

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