TUNISIA

A&T BANK

Economic Research

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Ayşe Özden
Manager
aozden@atbank.com.tr

Ömür Şeheri
Asst. Manager
oseheri@atbank.com.tr

Ömer Ersan, Phd
Specialist
oersan@atbank.com.tr

Prepared by Ömür Seheri

EXECUTIVE SUMMARY

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 (1987-2011) in 2011. Although the country has since evolved towards a parliamentary democracy, the economy has struggled to fully recover from that shock, with real growth averaging just 2% between 2012 and 2018. The country faces another shock from Covid-19 in 2020. The growth is expected to accelerate gradually to above 2.5% annually over the coming decade.

While the economy remains fragile in the aftermath of the revolution and the global financial crisis, security conditions have improved considerably in the last two years, resulting in a better business climate. The Tunisian government introduced various tax measures that tackle tax evasion and aim at improving tax revenues. The phasing out of tax credits for civil servants are expected to increase revenues from personal income tax. The 2019 Budget Law aims to remove the preferential tax regime for offshore companies in 2019, and then for all companies in 2021. The value-added tax rate for the services of liberal professions is set to be increased from 13% to 19%, with the additional tax income planned to be invested in healthcare and education. The government also aims to bring all tax functions, such as administration, audit and recovery under one umbrella structure.

Agriculture is a key sector of the Tunisian economy, accounting for 10.4% of the GDP and employing 13% of the workforce (World Bank). An improvement in production methods in the past years has allowed the sector to develop and modernise (cultivation of olive trees, fruit trees and palm trees), while enabling the country to reach a level of food sufficiency. In 2019, the growth rate in this sector was 9.5%. Organic farming is also booming, Tunisia become one of the most productive countries in Africa. Industry represents 22.7% of the GDP and employs 32% of the active population. The country's industrial sectors are predominantly export-oriented. In 2019, the sector stagnated. Among sectors in decline there are leather and shoe industry, paper, cardboard, plastic, wood, food and construction materials. However, chemistry and textiles and clothing sectors are on the rise. The local economy is largely orientated towards services, which account for 59.2% of the GDP, including the booming sectors of ICT (information and communication technologies) and tourism. The service sector employs 55% of the country's workforce. Tourism, which suffered from terrorist attacks that hit the Tunisian soil, recovered considerably in 2019 with international arrivals rising to 9.4 million (13.6% increase year-on-year). The growth rate in services sector was 0.6%. Professional training and research are both rising sectors.

The decision by policymakers to announce a four-day lockdown on January 14,2021 (designed to stem a recent surge in the spread of Covid-19) acted as a catalyst for a fresh outbreak of unrest. It appears that the protests have reflected rising popular frustrations over the country's dire economic conditions and high unemployment – particularly among the youth. The unemployment rate was 15 % in 2019, expected to rose 20% in 2020. According to international media, the protests became increasingly violent, resulting in hundreds of arrests and a heavy-handed response by the security forces. Tunisian Dinar has lost 47% of its value.

1. TUNISIA'S SWOT ANALYSIS

Strengths

- 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.
- The country's 2014 constitution makes it more difficult for another authoritarian regime to come to power.
- Pragmatism and moderation in the leading ranks of Ennahda, the main Islamist party, has helped to avoid an Egypt-style sectarian clash and snap back to authoritarianism.
- Presidential and parliamentary elections in 2019 were broadly considered to be free and fair, consolidating gains in a young democracy.

Weaknesses

- Exports are heavily concentrated on European countries where growth prospects are relatively weak, particularly following the Covid-19 pandemic.
- The country's commercial and industrial bases are on the coast, and the interior has been less developed. Inland population centres have been hot spots for social unrest as a result.
- Unemployment remains significantly higher than other North African countries, particularly among the younger population.
- The systematic repression of opposition political parties under the Ben Ali regime has caused Tunisians to be unfamiliar with and distrustful of the many parties that now populate the landscape.
- While grand political coalitions have helped avert sectarian violence since 2011, they have stifled meaningful parliamentary opposition and diminished Tunisians' interest in party politics.
- Tunisia remains vulnerable to security threats, largely owing to its proximity to Libya and to the large numbers of young Tunisian combatants that fought alongside Islamic State (IS).

Opportunities

- 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.
- The country will continue to be able to leverage its status as the sole democracy to emerge out of the Arab Spring to gain aid, loans and investment from the international community.
- All political actors seem committed to democratic transition, reaffirmed by Ennahda's 2016 decision to separate political and religious activities.

Threats

- Fixed investment will remain dependent on the maintenance of a stable security environment and reduced industrial action by local labour unions.
- The Covid-19 pandemic may have longer-lasting consequences on economic growth and stability.
- The growing public debt load presents mounting risks to fiscal sustainability.
- Low turnout in the October 2019 elections – around 40% – shows that much remains to be done in terms of building trust in the country's young political institutions.
- High youth unemployment and regional disparities remain a significant problem and pose risks to social stability.
- Terrorist attacks, while small in scope, in mid-2019 have once again highlighted Tunisia's security problems and could scare away tourists if repeated.
- Tunisia remains vulnerable to spill overs from the escalating conflicts in Libya.

2. ECONOMIC OUTLOOK

Main Economic Indicators	2015	2016	2017	2018	2019
Nominal GDP, USD bn	43	42	40	40	39
Real GDP growth, % y-o-y	1.19	1.16	1.92	2.66	1.04
Consumer price inflation, % y-o-y, ave	4.44	3.63	5.32	7.31	6.72
Budget balance, % of GDP	-5.25	-6.23	-5.94	-4.58	-3.89
Current account balance, % of GDP	-8.92	-8.84	-10.25	-11.17	-8.46

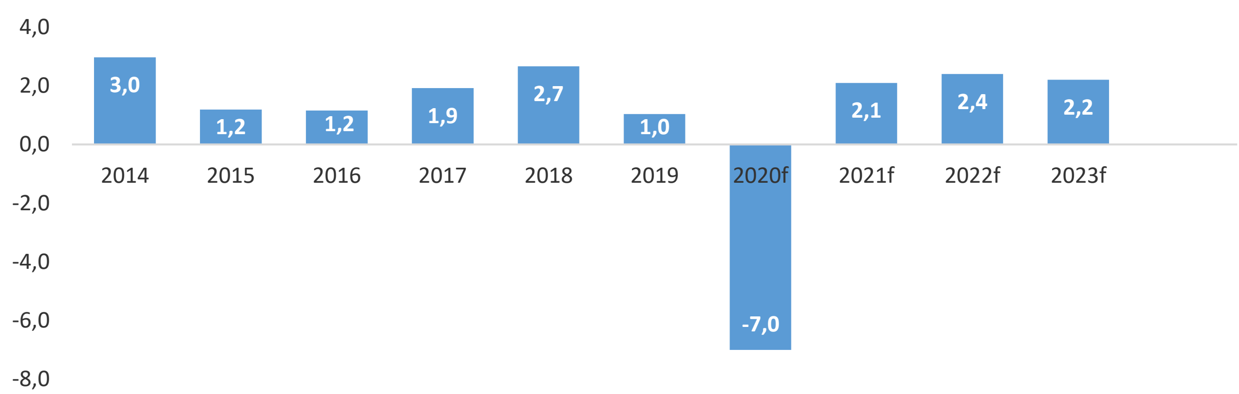
Source: World Bank

A&T Bank View: *Over the past decade, Tunisia had an average annual growth of around 2%, but the economy stalled following the political, economic and geopolitical upheaval which has affected the country since 2009. In 2019, GDP grew 1%, at a slower pace than 2018 (2.7%). This is mainly due to a slowdown in agriculture and a contraction in industry. However, growth in the service sector partially compensates the slowdown. According to the updated World Bank forecasts, due to the outbreak of the COVID-19, GDP growth is expected to fall to -7% in 2020 and pick up to 2.1% in 2021, subject to the post-pandemic global economic recovery.*

CORE VIEWS

- Tunisia will suffer its sharpest economic contraction on record in 2020 as output falls by 7.0% on the back of a collapse in external demand and tightening domestic restrictions to contain the Covid-19 outbreak.
- The recovery in 2021 will be tepid. The real GDP growth expected to reach 2.1% in 2021 as tighter fiscal policy holds back domestic demand.
- The size of the Tunisian economy will not return to its pre-Covid-19 level until 2023 at the earliest.
- Tunisia's new technocratic government appears keen on addressing the country's fiscal imbalances and securing another IMF deal.
- The new administration is at risk of losing support from Ennadha – the largest party in parliament – which could potentially trigger a vote of no confidence and fresh elections.
- This could scupper, or at least delay, the agreement of another financing package from the IMF, bringing Tunisia's fiscal and external vulnerabilities back into focus.

Real GDP Growth % YoY



Source: World bank f:forecast

2020 looks almost certain to mark the sharpest economic contraction in Tunisia since 1991. The real GDP growth expected to drop by 7% over 2020. Fresh measures to contain the Covid-19 pandemic in key Eurozone trade partners will take a toll on Tunisia's external sector. In 2019, 67.1% of total goods exports (equivalent to 27.6% of GDP) were shipped to the Eurozone. With fresh lockdowns and restrictions likely to weigh on the Eurozone economy, demand for Tunisian goods looks set to weaken again. There had been some evidence that the slump in the country's exports was easing. Data from the statistics authority show that goods exports actually rose by 0.6% y-o-y in September 2020 – the first time that export growth had been positive since March. Now, however, a double-dip contraction in exports appears likely.

The tourism sector, which has brought in FX receipts equivalent to around 10% of GDP in recent years, will also continue to suffer. While there is a lack of timely data of tourist arrivals, in late-September Tourism Minister Habib Ammar suggested that tourism activities may fall by 70% in 2020 compared to 2019 level. Restrictions on outbound travel in several countries in the EU, which is by far the most important tourism market, mean that there is little chance for an immediate rebound in the sector over the coming months.

While a corresponding contraction in imports will prevent the export slump from causing net exports to make a large negative contribution to GDP growth, it will continue to feed into weak domestic demand. As firms export revenues are hit further, many will be forced to lay off workers, resulting in a continued rise in unemployment. A loss of export earnings will also force firms to hold back capital expenditure, weighing on fixed investment.

Domestic demand will also be hit hard by an intensification of local restrictions to contain the virus. There has been a surge in the number of new Covid-19 cases in recent months. With this trend on an upward trajectory, in mid- October policymakers introduced a raft of measures to combat the spread of the pandemic. These included the introduction of a curfew, the banning of seated service in cafes and restaurants, as well as the prohibition of gatherings for Friday prayers. Tighter restrictions, coupled with job losses stemming from the collapse in external demand, will hit consumer spending. This will be compounded by tighter credit conditions. 9.5% fall in real household expenditure in 2020 is expected.

Moreover, the uncertain economic outlook will mean that investment remains tepid. A sharp pullback in capital inflows from overseas have seen on the back of a deterioration in global risk appetite. All told, capital flows expected to fall from 13.3% of GDP in 2019 to 6.1% of GDP in 2020. 12.0% contraction in fixed capital formation is also expected.

In 2021, any economic rebound will be limited. Tunisia's new technocratic government is expected to be focused on tightening fiscal policy in an attempt to land another IMF deal. Under the country's previous Extended Fund Facility (EFF), which expired in March 2020 and was replaced with a short-term loan via the Rapid Financing Instrument, the IMF insisted on fiscal consolidation. It seems that the ruling administration is keen to secure a fresh IMF deal via the EFF facility. This is perhaps best evidenced by the appointment of the liberal market-friendly economist Ali Kooli – former CEO of the Arab Banking Corporation in Tunisia – as head of the revamped finance ministry.

This time around, calls from the IMF to tighten fiscal policy are likely to be even louder. In light of the pandemic, the country's budget deficit looks set to widen from 3.4% of GDP in 2019 to 5.6% of GDP in 2020. Meanwhile, the central government debt-to- GDP ratio will rise from 72.2% of GDP in 2019 to 85.9% of GDP in2020, making the need to tighten the fiscal purse strings all the more pressing.

The deficit expected to narrow to 4.3% of GDP in 2021 as the government cuts spending. This will come largely via subsidy cuts and a rollback of some of the emergency support measures announced on the dawn of the virus outbreak. With austerity set to bite and continued uncertainty surrounding Covid -19 weighing on tourist arrivals and investment, real GDP growth expected to reach 2.1% in 2021. The size of the economy will not return to its pre-Covid-19 level until 2023 at the earliest.

3. FOREIGN DIRECT INVESTMENT (FDI)

Since the Tunisian revolution of January 2011, political and economic stability in Tunisia remains fragile. According to UNCTAD's World Investment Report 2020, FDI decreased to USD810 million in 2019, compared to USD989 million in 2018 (-18%). Tunisian FDI stock was about USD29 billion in 2019. The main investors in Tunisia are the UAE, France, Qatar, Italy and Germany. The majority of FDI in 2019 was allocated to industry (USD450 million), followed by energy (USD300 million) and services (USD95 million).

In terms of stock, manufacturing is by far the sector that attracts most investments, followed by tourism and telecommunications. The main sectors that attract investment are energy, electronics, tourism and mechanical manufacturing. Investor confidence is recovering with the end of terrorist attacks, as evidenced by the growing number of international tourist arrivals.

Furthermore, Tunisia gained 2 places in the World Bank's Doing Business 2020 report and is now ranked 78th out of 190 countries. The Tunisian government adopted laws allowing to start a business more easily (more services are available into the one-stop shop, fees decreased); registering property is now faster and more transparent and paying taxes is easier (implementation of a risk-based tax audit system). These improvements in return boosted portfolio investments and helped Tunisia progress in World Bank's ranking.

Unlike many of its peers in the MENA region that rely heavily on hydrocarbons, Tunisia has a relatively diversified economic base, with agriculture, mining, manufacturing and tourism all contributing significantly to GDP, exports and employment. For instance, a number of well-known multinationals such as Bosch, General Electric and Philips have manufacturing operations in Tunisia, which boost the country's competitiveness.

While the Tunisian government has been making substantial progress towards improving the investment climate, including the passing of a new investment law, a number of structural challenges remain. State-owned enterprises dominate key economic sectors, leaving little room for private sector participation, while some sectors of the economy are effectively not open to foreign investment. Furthermore, the presence of a large informal sector means that formal businesses are left to compete with counterfeit, smuggled and pirated goods.

The government encourages foreign direct investment and offers incentives in the central and interior regions. However, businesses will have to contend with frequent social and labour unrest, together with infrastructural deficiencies as most of the infrastructure is concentrated in the capital and coastal regions, where investors cannot benefit from these perks offered by the state. The investment climate expected to benefit from reforms being implemented by the government as part of the IMF bailout package to put the economy on more sustainable footing.

Foreign Direct Investment In Tunisia

Indicator Name	2015	2016	2017	2018	2019
FDI inflows, USDmn	970.5	622.5	810.9	988.9	810.1
FDI inflows, % of GDP	2.25	1.49	2.04	2.49	2.09
FDI outflows, USDmn	31	241.6	57.4	34	21.8
FDI outflows, % of GDP	0.07	0.58	0.14	0.09	0.06
Net portfolio investment, USDmn	-152.6	56.8	63.8	40.8	-12.9
Net FDI, USDmn	-970.5	-622.5	-810.9	-988.9	-810.1

Source: World Bank

3.1. What to consider if you invest in Tunisia?

Strong Points

- The solvency of the country gives it access to international capital markets and allows it to find its place in the world economy.
- The growing diversification of the economy (tourism, mining production developed in phosphates and oil sectors, etc.) strengthens its resistance to economic crises.
- Support from the IMF and other international institutions.
- The economy can rely on a young, fairly skilled and productive workforce at competitive pay levels.
- The country's proximity to the European market and its association agreement with the EU: the capital city Tunis is, on average, two hours flight from the main European capitals.
- The social system is well developed and an ambitious education policy has been launched; it aims to reduce the social cost of adjustment and strengthen the modernisation of the country.
- The political transition has been gradual and relatively peaceful (in comparison with Egypt and Libya, for example), creating a generally positive business environment.
- The country is rich in natural resources, including phosphates and hydrocarbons.

Weak Points

- Economic reform in Tunisia has not kept pace with political reform since the revolution of 2011.
- Issues of corruption and nepotism.
- High social and geographical inequalities, which may be exacerbated after the COVID-19 crisis
- Prohibitive customs and tax regimes continue to pose barriers to small and medium-sized enterprises.
- Structural imbalances in the public and external accounts, with a significant increase in external debt.
- State-owned enterprises still play a large role in Tunisia’s economy; many sectors remain closed to foreign investment.
- The informal sector is large (estimated at 40-60% of the economy by the U.S. State Department).
- The high level of youth unemployment, as well as unemployment among those with university degrees (about a third of the unemployed), are seen as potential risks to social and economic stability.
- The country's high public debt and the great dependence on the European economy make the Tunisian economy vulnerable.

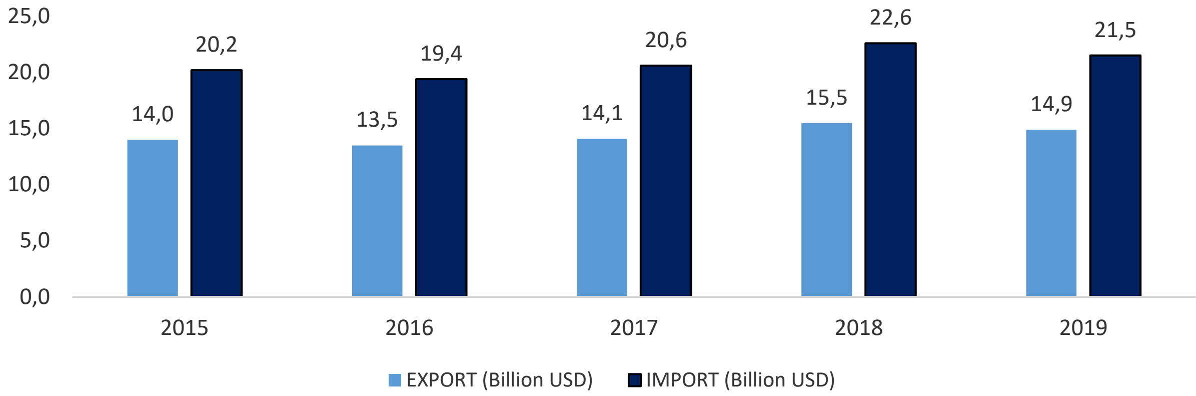
3.2. Government Measures to Motivate or Restrict FDI

Over the last few decades, Tunisia has chosen to further liberalise its economy and to integrate it into the world economy. A new competition law cancelled previous provisions that fixed prices, limited the entry of companies into certain sectors and controlled production, distribution, investment, etc.

Furthermore, Tunisia adopted a new investment law that simplifies the procedures for obtaining licenses, permits and investment authorisations and limits restrictions on the hiring of foreign workers. The law created the High Investment Board as a central body to replace the multitude of administrative bodies that previously issued these required documents. The hiring of foreign workers is also made easier by this law, adding an element of flexibility to what are otherwise the most rigid labour market regulations in the MENA region. Other initiatives include a new bankruptcy law, an investment code and a law enabling public-private partnerships. The Tunisian Parliament also passed law 2019-47, which contains 38 amendments to address shortcomings in existing laws and regulations that impeded investment.

Tunisia has free trade zones (known as Parcs d’Activités Economiques) in Bizerte and in Zarzis, where companies are exempt from taxes and customs duties and benefit from unrestricted foreign exchange transactions. The production in these zones has limited duty-free entry into Tunisia for the purpose of transformation and re-export.

4. FOREIGN TRADE OUTLOOK



Source : Trademap

Tunisia has traditionally pursued an open policy to trade, as the government sought to bolster the country's profile as an export hub to European countries. The country enjoys a strategic geographic location, with a vast coastline on the Mediterranean Sea and close proximity to Europe. This reduces business costs for doing trade with major trading partners in the EU, with which Tunisia has a free trade agreement. Unlike many of its peers in the MENA region that heavily rely on hydrocarbons, Tunisia has a relatively diversified economy, ensuring that the country can export a wide variety of products, lessening vulnerability to fluctuating demand that can result from having one major export product.

The trading environment has severely deteriorated on account of the social and political upheaval that overthrew former authoritarian leader Ben Ali in 2011, which has somewhat impacted domestic industrial production and the tourism sector. In addition, over-reliance on the EU for both imports and exports leaves the economy vulnerable to sluggish growth and the uncertain future of the EU.

Although Tunisian exports are relatively diversified compared to other markets in the region, its mix of trading partners is very concentrated. The country is overly reliant on trade with Europe, with France, Italy, Germany and Spain being the top five markets, accounting for over 60% of total exports over the years. As such, trade levels have been affected by weak demand in these markets, especially in France and Italy, which account about 45 % of Tunisian exports. Similarly, trade flows have been affected by deteriorating economic conditions in neighbouring Algeria and Libya with weaker macroeconomic conditions in Algeria amid the slump in oil prices and the political turmoil in neighbouring Libya contributing to the difficulties experienced by Tunisian exporters. Although these two countries account for a small share of Tunisian exports and imports (about totally 6%) compared with European markets, trade flows have traditionally been robust.

The main import partners for Tunisia are the EU, China and Turkey, with France and Italy remaining the main supplier of products imported into Tunisia. In the region, Algeria and Egypt are Tunisia's top import partner; trade flows with Libya also used to be robust but have since been significantly disrupted by the ongoing conflict in Libya. Overall, importing businesses remain exposed to potential disruptions and geopolitical risks on the back of having relatively very limited import partners. Nevertheless, Tunisia generally enjoys good relations with both its neighbours and other countries further afield. As a result, that importing businesses would not struggle to find new import partners should tension arise with those countries where imports are traditionally sourced from.

Tunisia signed a Trade and Investment Framework Agreement with the US in 2002, which has a potential of becoming a free trade agreement in later years. In 2008, Tunisia established a free trade area with the EU (becoming the first country in the Mediterranean to do so). It has also concluded bilateral agreements with approximately 81 countries, including its neighbours in Libya, Algeria AND Turkey.

Tunisia has successfully penetrated the global marketplace, taking some active steps towards liberalisation and bilateral agreements in line with the principles of free trade. Tunisia is a signatory to the Multilateral Investment Guarantee Agency (MIGA), the World Trade Organisation (WTO) Agreement, Members States of the European Free Trade Association (EFTA) and the Greater Arab Free Trade Area.

Tunisia Foreign Trade Indicators					
Indicator Name	2015	2016	2017	2018	2019
Exports, USDbn	17.3	16.7	17.4	19.2	19.1
Exports, USDbn, % y-o-y	-19	-3	4	10	0
Exports, % of GDP	40	40	44	48	49
Imports, USDbn	21.9	21.2	22.3	24.4	23.3
Imports, USD, % y-o-y	-17	-6	5	9	-5
Imports, % of GDP	51	51	56	61	60
Net trade, USDbn	-5	-5	-5	-5	-4
Balance of trade , USD, % y-o-y	-42	-2	9	6	-19
Balance of trade, % of GDP	-10.7	-0.1	-0.1	-0.1	-0.1

Import Partners in 2019	Value (Billion USD)	Shares (%)
World	23,3	100
Italy	3,3	15.4
France	3,0	14.2
China	2,0	9.5
Germany	1,4	6.8
Algeria	1,4	6.6
Turkey	0,8	4.5
Spain	0,8	4.1

Export Partners in 2019	Value (Billion USD)	Shares (%)
World	19,1	100
France	4,3	29.1
Italy	2,4	16.2
Germany	1,9	12.8
Area Nes	0,9	6.5
Spain	0,5	3.8
Libya,	0,5	3.6
Algeria	0,3	2.7

Import Products in 2019	Value (Billion USD)	Shares (%)
All products	23,3	100.0
Mineral fuels	3,6	16.7
Electrical equipment	3,0	14.2
Machinery	1,9	8.8
Plastics	1,2	6.0
Vehicles	1,1	5.5
Cereals	0,7	3.7

Source : Trademap,

Export Products in 2019	Value (Billion USD)	Shares (%)
All products	19,1	100
Electrical equipment	4,0	26.8
Apparel	1,6	11.3
Mineral fuels	0,8	5.5
Optical	0,6	4.2
Machinery	0,5	3.7
Animal	0,5	3.7

5. BANKING SECTOR OUTLOOK

According to the Central Bank of Tunisia (CBT) annual report on banking supervision published in January 2020, Tunisia hosts 30 banks, of which 23 are onshore and 7 are offshore. Onshore banks include 3 Islamic banks, 2 microcredit and SME financing banks, and 18 commercial universal banks. International banks Citi Bank, Link and Alubaf International are also operating in Tunisia. There are also 14 financial institutions (2 commercial banks, 10 leasing and 2 factoring companies) are operating in the financial market. The country efforts to reach the EU banking standard level. The future project is developing domestic banks to open branches in Libya and Algeria.

Domestic credit to the private sector provided by banks stood at 64% of GDP in 2019. According to the World Bank, this level is higher than the MENA region average of 57%. In the World Bank's Doing Business 2020 survey, Tunisia's ranking in terms of ease of access to credit went down from 99 in 2019 to 104 in 2020. Tunisia's banking system penetration has grown by 4% annually for the past five years. 87% of banks are located in the coastal regions.

Tunisia's banking system activity is mainly within the 23 onshore banks, which accounted for 92% of assets, 93% of loans, and 97% of deposits in 2019. They offer identical services targeting Tunisia's larger corporations. Meanwhile, SMEs and individuals often have difficulty accessing bank capital due to high collateral requirements. Foreign banks are permitted to open branches and establish operations in Tunisia under the offshore regime and are subject to the supervision of the Central Bank.

Government regulations control lending rates. This prevents banks from pricing their loan portfolios appropriately and incentivizes bankers to restrict the provision of credit. Competition among Tunisia's many banks has the effect of lowering observed interest rates; however, banks often place conditions on loans that impose far higher costs on borrowers than interest rates alone. These non-interest costs may include collateral requirements that come in the form of liens on real estate. Often, collateral must equal or exceed the value of the loan principal. Collateral requirements are high because banks face regulatory difficulties in collecting collateral, thereby adding to costs. According to the CBT banking supervision report, nonperforming loans (NPLs) were at 14,5% of all bank loans in 2019, mostly in the agriculture (27%) and tourism (46%) sectors.

Beyond the banks and stock exchange, few effective financing mechanisms are available in the Tunisian economy. A true bond market does not exist, and government debt sold to financial institutions is not re-traded on a formal, transparent secondary market. Private equity remains a niche element in the Tunisian financial system. Firms experience difficulty raising sufficient capital, sourcing their transactions, and selling their stakes in successful investments once they mature. The microfinance market remains underexploited, with non-governmental organization Enda Inter-Arabe the dominant lender in the field.

The Government of Tunisia (GOT) recognizes two categories of financial service activity: banking (deposits, loans, payments and exchange operations, and acquisition of operating capital) and investment services (reception, transmission, order execution and portfolio management). Non-resident financial service providers must present initial minimum capital (fully paid up at subscription) of 25million Tunisian dinars (USD 8.5 million) for a bank, 10 million dinars (USD3.4 million) for a non-bank financial institution, 7.5 million dinars (USD2.6 million) for an investment company, and 250,000 dinars (USD85,200) for a portfolio management company.

Latest Developments: The Central Bank of Tunisia's (CBT) measures announced on 17-21 March 2020 for mitigating the fallout from the coronavirus will have a mixed credit impact on the financial sector.

The measures will have a positive impact as news that regulators will adopt a flexible approach to the enforcement of prudential regulations will bring immediate liquidity relief to banks. An easing of the 120% loans-to-deposits ratio for banks will allow them to overcome some of the severe liquidity pressures they have been facing and extend new loans to struggling borrowers, avoiding defaults in the short term.

In addition, on 21 March 2020, Tunisia announced a package of USD850 million to fight the economic effects of the coronavirus. This includes USD410 million in loans and aid to help companies, but these amounts are small and likely to provide only marginal short-term debt servicing relief to very small borrowers, resulting in little lasting benefit to the banking sector.

However, debt servicing relief of both principal and interest is promised for performing loans to SMEs and the professionals segment, which encompasses doctors, dentists and self-employed individuals. Forbearance will be applied from the outset of March to end-September 2020. In addition, banks may also consider extending such arrangements to more troubled loans, (overdue for 90 - 180 days and overdue for up to 360 days) on a case-by-case basis, and banks are being encouraged to consider widespread rescheduling of loan maturities to allow repayments to suit borrowers' cash flow capabilities. This will distort true asset-quality data reported by the banking sector and add to already weak loan quality. These measures will also allow banks to defer the classification of loans as impaired and hold off on making loan impairment charges in the near term, providing an artificial boost to profitability and capital as the banks will report artificially high net income.

The outlook for Tunisia's banking sector is negative. NBFIs (non-bank financial institutions) are providing finance to SMEs, mainly for car, heavier vehicle purchases and equipment for the construction sector. Any easing of liquidity conditions should bring some immediate relief to banks and NBFIs but widespread coronavirus-related fallout on Tunisia's economy, notably in the tourism sector, is likely to bring additional credit stress.

List of commercial banks in Tunisia:

- Central Bank of Tunisia (Banque Centrale de Tunisia
- Stusid Bank (STUSID)
- Banque Franco Tunisienne (BFT)
- Banque Nationale Agricole (BNA)
- Union Internationale de Banques (UIB) – An affiliate of Société Générale
- Banque de Tunisie (BT)
- Amen Bank (AB)
- Tunisian Qatari Bank (TQB)
- Societe Tunisienne de Banque (STB)
- Union de Bancaire pour le Commerce et l’Industrie (UBCI)
- Arab Tunisian Bank (ATB)
- Banque de l’Habitat (BH)
- Citibank
- Banque de Financement des Petites et Moyennes Enterprises (BFPME)
- Arab Banking Corporation (ABC)
- Attijari Bank
- Banque de Tunisie et des Emirats (BTE)
- Banque Tuniso-Koweitienne (BTK)
- Banque Tunisienne de Solidarite (BTS)
- Banque Tuniso-Libyenne (BTL)
- Banque Internationale Arabe de Tunisie (BIAT)
- Banque Zitouna (ZITOUNA)

6. TURKEY & TUNISIA RELATIONS

Turkey - Tunisia foreign trade relationship				
Years	Export (USDmn)	Import (USDmn)	Trade Balance (USDmn)	Trade Volume (USDmn)
2015	819	144	675	963
2016	911	214	697	1,125
2017	913	206	707	1,119
2018	904	182	722	1,086
2019	848	157	691	1,005
2020*	788	127	661	915

*: Temporary

The main products in Turkey's export to Tunisia in 2019		
Product	Million USD	%
Total	848	100
Iron and steel	108	12.7
Cotton and cotton yarn	87	10.3
Machinery	76	9.0
Vehicles	72	8.5
Plastic	48	5.7
Mineral fuels	44	5.2
Knitted goods	43	5.1
Iron and steel good	40	4.7
Wooden products	33	3.9
Electrical machinery	27	3.2

The main products in Turkey's import from Tunisia in 2019		
Product	Million USD	%
Total	157	100
Fertilizer	59	7.0
Electrical machinery	25	2.9
Machinery	10	1.2
Iron and steel	9	1.1
Plastic	8	0.9
Apparel	7	0.8
Cotton and cotton yarn	5	0.6
Fruit	5	0.6
Knitted goods	4	0.5
Vehicle	3	0.4

Source : Turkstat-Tuik

Tunisia declared its independence in 1956 and was recognized by Turkey during the same year. The diplomatic relations between the two countries were established in 1957. Tunisia transitioned into a free trade economy in 1987. Following the Jasmine revolution in 2011, the Covid-19 pandemic had a significant impact on the economy in 2020. The country's economic malaise has fueled a rise in risky forms of emigration. 12.776 Tunisian crossed the Mediterannean to Europe, up from 3.900 in 2019. In December 2020, Turkey announced that it has donated USD 5 Million to Tunisia as humanitarian aid .

Both export and import transaction with Tunisia have been decreasing over the years, Turkey's exports to Tunisia decreased to USD 788 million and Turkey's imports from Tunisia decreased to USD127 billion in 2020. Trade volume is about USD1 billion and trade balance is in favor of Turkey in the last 5 years. In Tunisia's overall exports the main articles are food products and one of the most important article is olive oil. As a result of competitive pricing policy, Turkey is able to export machinery and equipment for olive oil processing and bakery products processing to Tunisia. In line with the general approach of the Tunisian foreign trade policy, Tunisia mainly imports: textile raw materials (yarn and fabric) and textile machinery, grain (Tunisia has a deficit), tobacco and its products, iron and steel products, metal goods, automotive sub-industry products, office machines, communication devices, electrical and non-electric machines and transportation vehicles. Tunisia, is one of the larger global producers and exporters of phosphate. Phosphate is than processed into phosphoric and fertilizers.

In the manufacturing sector, textile and leather products are the most important export items. Over the past years, textiles, food processing and electrical products have gained importance in production and export. The Tunisian government announced that they have a competitive advantage in terms of investments in textiles, machinery and electrical products, automotive parts, pharmaceutical products, footwear and leather, food and information technologies.

➢ Turkey- Tunisia business council:

Turkey-Tunisia Business Council was established in 1990 under the roof of Turkey-Africa Business Councils. DEİK's counterpart is the Chamber of Commerce, Industry and Handicrafts Tunisia (UTICA).The Business Council aimed to to increase the trade volume between Turkey and Tunisia. The Council also lobbied for a mutually beneficial Free Trade Agreement, the treaty was finally approved in 2005. The Business Council focused on sectors such as, textiles, garments and shoes, furniture, the automotive supplying industry, tourism, construction contracting and the fishing industry. Turkish member of the business council are: Diktaş Dikiş İplik Sanayi ve Ticaret A.Ş. Global Yatırım Holding A.Ş. Nurol Holding A.Ş. Ece Holding A.Ş. Karba Otomotiv Mak. San. ve Tic. Mim. Müh. Hizm. Ltd. Şti. ABC İnternational Bank Plc. Türkiye Galata Taşımacılık ve Ticaret A.Ş. Havelsan A.Ş. - Hava Elektronik San.Tic.ve A.Ş. and İş-Kaya İnşaat San. ve Tic. A.Ş.

➢ Some of the Turkish companies who worked in Tunisia

- ***TAV Holding, Enfidha Hammamed International airport:*** TAV Holding built this airport and operations started in 2009. It has an annual capacity of 30 million passengers. This airport will be operated by TAV Holding for 40 years. This airport reduced Tunis Carthage airport's traffic.

- ***TAV Holding, Monastir Habib Bourguiba international airport:*** TAV Holding took over the operations in 2008 and has the operating rights until 2047. It is close to Bourguiba, the most popular tourist destination in Tunisia.

- ***Rades-La Goulette Bridge:*** The project was carried out by consortium between Tunisia and Japan with cost of USD112 million, which started operating in 2004. The 14.65 km long bridge opened with an official ceremony in 2009. The bridge connects the north (Rades) and south (La Goulette) axis of the capital city Tunis. The initial work of bridge pile construction was carried out by **STFA** in 2004.

6.1. The current major projects that might be of interest for Turkish investors in Tunisia

➢ In the construction sector:

- ***City of the century, modern city, the Mediterranean Gate:*** Sama Dubai Honding (UAE) has signet USD 25 Bio project with Ben Ali regime in 2007. However, the project was suspended by the Tunisian government, due to allegations that Ben Ali regime granted the land with low prices.

Bukhatir Group, Tunis Sports City: Tunis Sports City Project started in 2008 and is a joint investment of Tunisia and UAE. The project with a value of USD5 billion consists of 255 hectares of golf field, 9 sports academies including football, volleyball, basketball, handball, tennis, swimming, athletics and other sports branches, a 36 hectares football stadium with 10,000 spectators, an indoor sports facility with 5,000 spectators, an Olympic swimming pool construction is planned.

- ***Al Maabar from UAE, Bled El Ward or Dream City Ariana Project:*** It is a project related to the establishment of a new city called Bled El Ward with a value of USD10 billion in the Ariana region. It is a large project with a size of 5.000 hectares (with 2.600 hectares of lake). The project includes residential areas, health centers, tourist and recreation centers, shopping and sports centers, green areas and a marina. It was started in 2008 and will be completed in 20 years.
- ***Tunis off shore Finance Port Project:*** The first off shore finance center in North Africa will be in Tunisia, with the project value of USD3 billion. It is considered as new banking, investment and consultancy, an insurance center with a marina including residential settlements and commercial centers. It is an important project for the economic and financial structure of Tunisia. Gulf Financial House (GFH) from Bahreyn and ***Demtaş*** from Turkey signed agreement in 2012.
- ***Abu Dhabi Investment House, Porta Fashion Project:*** The project is part of the Tunis off shore finance Port Project. It is a multi-purpose project and will include residential area, hotels, fashion and furniture stores, fashion academy, entertainment and education centers. The project cost is approximately USD7 billion.
- ***Culture City Project:*** The 9 hectares project consists an opera with 1800 seats, a theatre with 300 seats and 7 music, theatre and dance studios. The construction started in 2006, the cost will be USD50 million.
- ***Small Sicily Project:*** It is an 80 hectares project related to the renovation and rehabilitation of a certain part of the capital Tunis and its surroundings. The project consists of a car park, two twin towers, multi-functional transportation station, residential and administrative buildings, cultural, social and commercial centers. The project, which is under the responsibility of the Tunisian Municipality, could not start due to legal problems.
- ***Taparura Project:*** It is the project of cleaning and rehabilitating the north coast of Sfax city, which is polluted due to industry. It started in 2006 and the cost is approximately USD100 million, financed by the European Development Bank.
- ***Deep water port project in Enfidha:*** Enfidha is located on the country’s Eastern Mediterranean Sea coastline between Tunis and Sfax. Its cost is USD2 billion. 6 multinational companies interested in building the deepwater port in 2020.

➢ In the energy field:

- There are 3 different electricity generation projects carried out with the French company Alstom.
- A nuclear power plant project is planned near Sfax city.
- There are also projects related to solar and wind energies. Bizerte wind energy investment is expected to increase the country's energy capacity by 4%.
- Tunisia water distribution project; The project aimes efficient use of water resources and especially for supplying drinking water to rural areas and irrigation of agricultural areas. The total project cost is EUR122 million. The African Development Bank, French Development Agency, the World Bank and the Tunisian Government will finance the project.

6.2. Promising sectors in Tunisia

Defence Industry:

5 Turkish defense industry companies (**TUSAŞ, BMC, Nurol Makina, Katmerciler A.Ş., Aselsan**) signed an agreement in December 2020 to export products worth USD150 million to Tunisia.

Information Technology and Communication:

Communication technologies are among the top sectors in Tunisia. Its contribution to GDP is currently at 13.5%. Investment opportunities are available in areas such as information processing, software, system installation and consultancy.

Electric-electronics: It is a dynamic sector, especially in the last decades. The growth rate of the sector is 15% annually. It is easy to find qualified personnel and trained engineers in Tunisia. The cost of employing engineers is USD1.000–USD1.200 per month.

Mechanics: Tunisia's proximity to Europe, low production costs, free trade area with the EU, free trade agreements with other Arab countries, low rent and staff costs make investment in the country attractive. It is a good market for investment, especially in mechanical parts and sub-industry areas that are needed by the automotive industry.

Textile: Tunisia possesses an advantageous position due to its proximity to Europe and being a proven supplier in apparel manufacturing. Investing in this sector is considered reasonable thanks to convenience of finding qualified personnel, political determination, advantages in taxes and low labour costs. Due to the lack of yarn and fabric production in the country, there are investment opportunities especially in these areas. Tunisia is the EU's fourth largest textile supplier. 92% of the textile production is sent to France, Italy, Germany, Belgium and other EU countries. 2.976 companies are operating in the textile sector in Tunisia. The textile sector accounts for 25% of Tunisian exports, predominantly ready-to-wear products.

Food industry: The country's proximity to Europe, the creation of free trade areas with Arab and EU countries, and the climate being suitable for early production are just a few of the many advantages Tunisia has for the food production and trade. Additionally, the increase in domestic demand for agricultural products due to tourism as well as the domestic market, the continuous increase quality and production quantity, the fact that 25 % of the trained engineers work in the agriculture and food industry, and the convenience in providing qualified personnel make investment in the food industry attractive. There are opportunities, especially in modernization of existing factories, vegetables and fruit processing facilities, frozen fruit and vegetable industry, seafood industry (seafood dishes, canned food, frozen seafood, etc.), winemaking, cut flowers, dairy products, confectionery and baby food and investment in organic food.

Leather and Footwear: As in other sectors, Tunisia's proximity to Europe, the convenience of low labor cost and raw material supply, long experience in leather handicrafts are recognized as advantageous investment opportunity in shoe manufacturing, leather bags and leather goods sectors.

Apart from the sectors mentioned above, Tunisia is a promising country in the field of construction and contracting. In particular, the desire of the Gulf Country investors to invest in this country in tourism, housing and residential areas. Investment initiatives of European investors in the fields of oil exploration, natural gas distribution, electricity generation and distribution are suitable to create opportunities for the construction sector and construction materials.

According to the records of the Tunisian Investments Development Agency (FIPA) and the Tunisia Industry and Innovation Development Agency (APII), approximately 200 Turkish companies, (24 of which are in the manufacturing industry and others in trade sectors) are operating in Tunisia. According to a statement of the Tunisian Commercial Counselor of Turkey, Turkish investors are operating in the following areas; construction and operations of airport, operation of various airports duty free shops, building cement factories, ship freight brokerage, recycling of plastics, PVC manufacturing, auto parts, restaurants, textiles, garment sector business, production of various food products, production and export of crab and sea eggplant, agricultural chemicals manufacturer.