

## Can Tunisia turn a corner under a new president?

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- The death of Tunisia's first democratically elected president, Beji Caid Essebsi, has brought forward elections to 15 September. These should cement the country's status as the only democracy to remain from the 2010-2012 Arab Spring revolts.
- Many political conflicts are unresolved, stifling economic reform. These include a vacant Constitutional Court and debilitating political tensions among the country's three largest parties.
- The first task of the new president should be to put the brakes on a potential economic crisis of declining GDP per person. Dinar appreciation and slower growth in Tunisia's main trading partners are likely to weigh on the outlook, despite higher tourism and FDI.

### A sign that democracy is taking root

Following Essebsi's death on 25 July, the usually divided Legislative Assembly made a swift, orderly and peaceful transfer of power, voting with little opposition to make its presiding leader, Mohammed Ennaceur, the interim country president.

- Under Tunisia's Constitution, the president is joint executive with the single-chamber Legislative Assembly, making it a powerful post.
- Ennaceur, 85, is limited by the Constitution to 90 days as interim president, prompting the country's election authority moved the date of the presidential election to 15 September from 17 November.
- Since the overthrow of strongman Zine al-Abidine Ben Ali in 2011, Tunisia's secularists and Islamists have managed a transition to democracy with less acrimony and bloodshed than their neighbours.
  - The presidential election and October Assembly vote should provide much-coveted stability.
- The stakes go beyond Tunisia. Holding another set of free, fair and peaceful elections would set an example of a MENA country where democracy works and can become the cornerstone of stability and economic development.
  - The Arab Spring, which began in Tunisia, generally failed to generate sustained democratic change with revolts crushed (Bahrain), overturned by coup (Egypt) or transforming into civil war (Syria, Libya).
  - New struggles for change are taking place in Algeria and Sudan.
- Tunisia's road map to democracy really took hold with parliamentary elections in 2014 in which the secularist Nidaa Tounes party won enough Assembly seats to name a prime minister.
  - The then-ruling Islamist Ennahda party came second as voters were unimpressed by its two years (2012-13) at the helm.<sup>2</sup>

	2015	2016	2017	2018	2019f
Real GDP Growth (%)	1.2	1.1	1.9	2.5	2.7
CPI Inflation (%)	4.9	3.6	5.3	7.3	7.5
Fiscal Balance (% of GDP)	-5.3	-6.2	-5.9	-4.6	-3.7
C/A Balance (% of GDP)	-8.9	-9.3	-10.2	-11.2	-10.1
Total Gov't. Gross Debt (% of GDP)	55.4	62.3	70.3	77.0	81.5
Total Gross Extr'n'l Debt (% of GDP)	62.7	66.9	81.7	83.1	98.4
Gross Official Reserves (Mos. of Imports)	4.1	3.1	2.7	2.6	3.0
Nominal GDP (USD B)	43.2	41.8	40.0	39.9	36.2
Population (Millions)	11.2	11.4	11.5	11.6	11.7

- Most pertinently, Ennahda gave up power without complaint, a democratic rarity for the MENA region.
- Nidaa Tounes was created in mid-2012 by Essebsi, a former foreign minister and parliamentary speaker under Ben Ali, the deposed president.
  - The party is comprised primarily of leftists and individuals associated with Ben Ali's Rassemblement Constitutionnel Démocratique.<sup>3</sup>

### Tight presidential race

The final list of presidential candidates -- likely to be more than 30 -- will be confirmed on 31 August. The three largest parties -- Nidaa Tounes, Ennahda and current Prime Minister Yousef Chahed's newly formed Tahya Tounes -- are expected to be the main contenders.

- There will be a second-round run-off on 22 September if, as seems likely, no candidate wins a majority.
- Nidaa Tounes nominated current Defence Minister Abdel Karim Zbidi (aged 69) as their candidate.
  - As a close ally of Essebsi, Zbidi held several ministerial posts both before and after the revolution, including the defence portfolio between 2011 and 2013 to which he was reappointed in 2017.
- The prime minister, Chahed (aged 43), will run for his Tahya Tounes party (Long live Tunisia). He broke from Nidaa Tounes in early 2019 as a result of a rift with party leader Hafedh Essebsi, the then-president's son.
  - Nidaa Tounes decided in mid-September last year to suspend Chahed's membership of the party and ask its disciplinary committee to consider his dismissal.
- The Ennahda Party has put forward Abdel Fattah Mourou (aged 71), the current deputy speaker of the Tunisian parliament, as their candidate.
  - Mourou was imprisoned more than once under Ben Ali and his predecessor Habib Bourguiba.
  - It is the first time since the revolution that Ennahda has nominated a presidential candidate.
- For the second time, former president Moncef Marzouki (aged 74) is also participating in the elections, in the name of a recently formed political alliance called the Tounes Okhra coalition (The Other Tunisia).
  - Marzouki, who spent many years as a human-rights and democracy advocate, was a vocal opponent of the Ben Ali regime, criticising its 1991 crackdown on Ennahda and other opposition groups.

<sup>1</sup> Arabia Monitor; IMF.

<sup>2</sup> It had failed to pull the economy out of stagnation and stop jihadists operating in the country.

<sup>3</sup> Constitutional Democratic Rally.

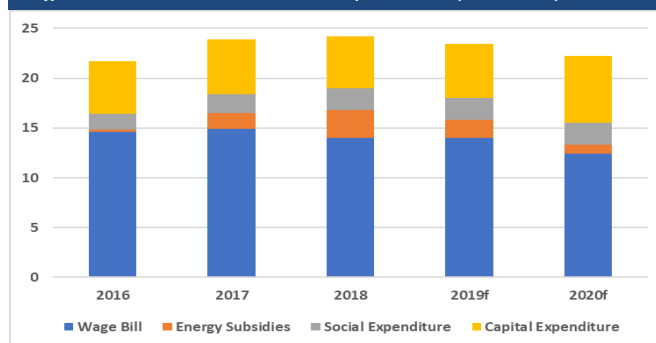
- The electoral submissions also include media mogul Nabil Karoui, belly dancer Nermine Sfar, and Mounir Baatour, the Arab world's first openly gay presidential candidate.
- We believe continued political in-fighting ahead of the presidential and Assembly elections will hamper near-term progress on economic reform, clouding what is otherwise an improving tourism and FDI outlook.
  - The compressed campaign schedule may be more difficult to manage than previously planned.
  - The Constitutional Court also remains vacant five years after it was established, because the Assembly cannot agree on naming its members.

## Young democracy, vulnerable economy

The first task of the president-elect will be to fix the economy. Growth is estimated at 2.7% this year -- after 2.5% and 1.9% in 2018 and 2017, respectively -- boosted by a rebound in tourism and FDI. But macroeconomic vulnerabilities persist, including falling nominal GDP.

- The recent appreciation of the dinar, the increase in oil prices, and slower growth in Tunisia's main trading partners in the EU are likely to weigh on the fiscal and external current accounts, despite the more favourable than expected performance of tourism and FDI.
  - Tourism, which makes up around 15% of Tunisia's GDP, is growing after several difficult years brought on by terrorist attacks.
    - Tunisia expects to receive 9 million tourists in 2019, 12.5% more than the previous peaks of 7.8 million in 2018 and 2010, and more than twice the five-year average of 6.2 million.
    - Revenues have also risen by 43% YoY to reach USD 507M so far this year.
  - FDI inflows continue their upward trend from 2018. Latest data released by the government points to an increase in FDI of 15% YoY in Q1 2019 to USD 280M, 28% of the government's FDI target for 2019 overall.
    - Energy and manufacturing remain the main invested sectors, taking up over half of FDI inflows.
    - In 2018, FDI stood at USD 1B (2.7% of GDP), exceeding the government's target of USD 880M. At its peak in 2006, FDI was around USD 3.3B (9.7% of GDP).
- Inflation is expected at 7.5% in 2019 up from a recent peak of 7.3% last year and 5.3% in 2017, driven by higher food and transport prices.
  - In February, the Central Bank of Tunisia raised its benchmark interest rate to 7.75% from 6.75%, which appears to be helping to soften inflation.
  - The inflation rate dropped to 6.5% in July 2019, the lowest rate since December 2017.
- The government expects its fiscal deficit to decline to 3.7% of GDP this year from 4.6% in 2018.
  - However, wage increases demanded by the General Labour Union and already obtained by many of its members make the target harder to meet.

Figure 1 – Tunisia Government Expenditure (% of GDP)<sup>4</sup>



- The IMF has urged the government to implement additional measures to contain current expenditures, especially on the wage bill (Figure 1).
- Lower phosphate production could also weigh on the growth outlook. Tunisia boasts untapped phosphates resources of around 100 million metric tonnes (MMT) but recurring strikes by unions at the state-owned Compagnie des Phosphates de Gafsa continue to weigh on the sector.
  - Phosphate production has been impacted by protracted protests in the main producing region of Gafsa, by unemployed youths demanding jobs.
  - Production of phosphates declined in 2018 to about 3 MMT, half of that forecast by the government for that year and for 2019.
- Whoever wins the presidency, the Assembly elections in October are expected to result in the formation of a broad coalition government of largely business-friendly parties which should encourage the return of foreign investors, even though the pace of economic reform could be slow and uneven and the problems large.
- Many Tunisians -- especially the young and the poor -- have been feeling neglected and marginalised. Abject poverty remains endemic; the poverty rate in Tunisia is currently over 15%.
  - The unemployment rate persists above 15% (although lower than the 19% in 2011).
  - Youth unemployment -- among the highest in the world in 2018 at 34.8% -- is of particular concern given that rate's impact on stability and security.
- Public dissatisfaction remains strong. The General Union of Tunisian Workers (UGTT), the most influential grass-roots organisation in Tunisia since 2011, has been engaged in a months-long stand-off with the government over the need to increase pay in the public sector, and has more recently highlighted plans to boycott elections.
  - The challenge mounted by the UGTT underscores the increasingly volatile situation in Tunisia and will represent a major challenge for the new government.
- There are also headwinds from the spill-over of the ongoing Libyan crisis which could undermine economic activity.
  - The World Bank estimates that the Libyan crisis may have contributed 24% to the overall drop in Tunisia's growth over the five years from 2011 to 2015. This amounts to a loss of about USD 880M per year (2% of GDP), driven by the spill-over effects of the crisis on private investment and tourism.

<sup>4</sup> Arabia Monitor; IMF.

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