MOODY'S INVESTORS SERVICE

ISSUER IN-DEPTH
29 June 2020

Government of Tunisia – B2 RUR-

Annual credit analysis

Rate this Research

RATINGS

Tunisia

	Foreign Currency	Local Currency
Gov. Bond Rating	B2/RUR	B2/RUR
Country Ceiling	Ba3	Ba2
Bank Deposit Ceiling	B3	Ba2

TABLE OF CONTENTS

OVERVIEW AND OUTLOOK 1
SPECIAL TOPIC 2
CREDIT PROFILE 3
Economic strength score: ba3 3
Institutions and governance strength score: ba1 8
Fiscal strength score: b3 11
Susceptibility to event risk score: b 14
ESG considerations 19
Scorecard-indicated outcome 20
Comparatives 21
DATA, CHARTS AND REFERENCES 22

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OVERVIEW AND OUTLOOK

The credit profile of Tunisia (B2 review for downgrade) reflects high debt levels approaching 80% of GDP by 2023, a history of fiscal deficits underpinned by a rigid spending structure, and large external imbalances. Such credit weaknesses are being exacerbated by the coronavirus pandemic, which is likely to have a temporary but severe negative impact on growth, fiscal metrics and refinancing risks. High unemployment, pronounced regional disparities and social tensions that could reignite if the economic recovery expected later this year fails to materialize, continue to cloud the economic outlook.

Tunisia's credit strengths include a well-diversified economy compared with B-rated peers and the support of international financial institutions, though such support is conditional on reform progress. Moderate but robust institutions in global comparison have supported successive governments in the sovereign's democratic transition. A prudent monetary and macroeconomic policy stance contributed to gradually narrowing fiscal and external imbalances before the coronavirus outbreak.

We would be likely to confirm the rating at the current B2 level if the review concluded with sufficient confidence that the coronavirus shock will not materially alter Tunisia's debt trajectory and/or erode its recently restored foreign-exchange reserves buffer. High confidence in the country's ability to secure funding to meet upcoming debt service payments at affordable costs over the next few years could also support a confirmation at the current level.

Conversely, we would be likely to downgrade the rating in the event of delays to the availability of, or a marked increase in, the cost of external funding, or a significantly more severe deterioration in Tunisia's fiscal and debt metrics that weaken its fiscal strength and the adequacy of its foreign-exchange reserves. Evidence that the coronavirus shock would reduce potential growth, exacerbating social tensions, and diminish the prospects for fiscal consolidation could also result in a downgrade.

This credit analysis elaborates on Tunisia's credit profile in terms of economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk, the four main analytic factors in our Sovereign Ratings Methodology.

SPECIAL TOPIC

Timely government response to the coronavirus outbreak, but the shock magnifies liquidity and external risks

On 9 March, President Kais Saied announced the first containment measures which were extended to include a full lockdown, a nighttime curfew, travel bans with the exception of repatriation and quarantining returning nationals, to limit the spread of the coronavirus. On 29 April, the country's National Security Council announced several measures to gradually ease economic restrictions, with a three-phase plan extending from 4 May through 4 June.

The government's coronavirus response program of around $1 billion (2.7% of estimated 2020 GDP), combined with a revenue shortfall, drives our projection of a fiscal deficit of 5% of GDP in 2020 from 3.5% in 2019. This compares with an anticipated improvement to 3% at the time of our February rating action, when we changed the outlook on Tunisia's rating to stable from negative.

Specifically among the announced measures, the government will increase spending on healthcare, strengthen social safety nets and support small and mid-sized firms with tax relief measures and interest subsidies.

On the monetary side, the central bank has eased its policy stance with a 100-basis-point cut in the policy rate and a package to support the private sector, asking banks to defer payments on existing loans and suspend fees for electronic payments and withdrawals.

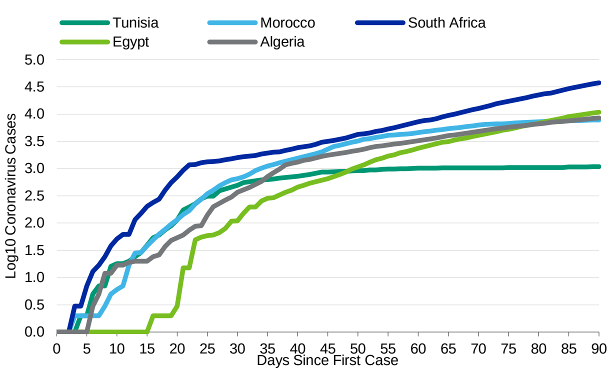
Overall, Tunisia's rigid budget spending structure and difficult social conditions suggest that there is minimal scope to enact a wide-ranging adjustment to reduce the fiscal and external financing gap for the duration of the coronavirus crisis.

The government to a large extent relies on external official funding sources to meet gross financing needs of around 10%-15% of GDP. Although negotiations for a follow-up IMF program have begun after the remainder of the previous four-year Extended Fund Facility that started in May 2016 was canceled, the government has secured a $745 million disbursement under the IMF's Rapid Financing Instrument and a $280 million loan from the Islamic Development Bank (Aaa stable) to address the additional fiscal costs of its coronavirus response program. If the coronavirus crisis persists, elevated credit spreads increase financing risks in view of the government's significant annual funding needs over the next few years and in light of Tunisia's limited foreign-exchange reserves buffer.

Exhibit 1

Coronavirus cases have stabilized compared with regional peers

Cumulative coronavirus case progression from first case, as of June 22, 2020



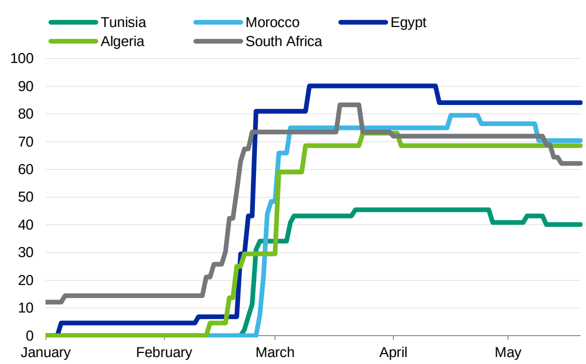
Note: X-axis represents days since the first coronavirus case; Y-axis measured on log10 scale

Sources: Johns Hopkins University and Moody's Investors Service

Exhibit 2

Tunisia's response to the coronavirus outbreak has been relatively strong

Stringency Index, 0-100 (100=strictest response)



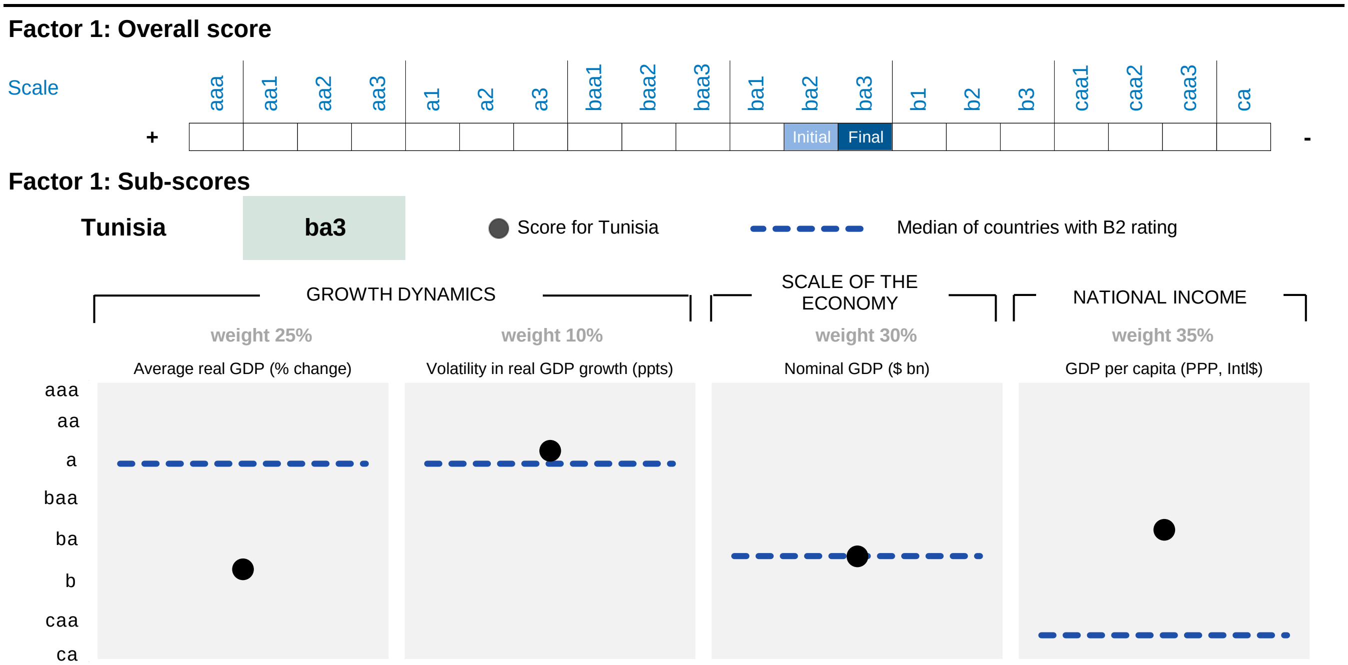
Note: The stringency index records the strictness of "lockdown-style" policies that primarily restrict people's behavior. Please see OxCGRT.

Sources: University of Oxford and Moody's Investors Service

CREDIT PROFILE

Our determination of a sovereign's government bond rating is based on consideration of four rating factors: economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk. When a direct and imminent threat becomes a constraint, that can only lower the scorecard-indicated outcome. For more information, please see our Sovereign Ratings Methodology.

Economic strength score: ba3



Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Adjustments to the economic strength factor score most often reflect our judgement regarding the economy's flexibility, diversity, productivity and labour supply challenges.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Tunisia's "ba3" economic strength score reflects the relatively small size of its economy compared with global peers, moderate wealth levels and relatively subdued trend growth. Nominal GDP was $38.6 billion in 2019, though this was higher than that of B-rated peers, for which the median is $26 billion, while per capita GDP on a purchasing power parity basis was $12,661, higher than the B-rated median of $7,703, and in line with the F1 "ba3" median. Trend growth was an estimated 1.5%, compared with the B-rated median of 3.4%.

The final score includes a one-notch downward adjustment from the initial "ba2" score to reflect the pronounced regional disparities and labor market inefficiencies that add to social tensions, which weigh on the country's investment climate. Tunisia shares its "ba3" score with Côte d'Ivoire (Ba3 rating under review for downgrade), Senegal (Ba3 rating under review for downgrade), Cameroon (B2 rating under review for downgrade), Uganda (B2 stable), Mongolia (B3 negative) and Gabon (Caa1 positive).

Exhibit 3

Peer comparison table factor 1: Economic strength

	Tunisia B2/RUR	ba3 Median	Cote d Ivoire Ba3/RUR	Senegal Ba3/RUR	Cameroon B2/RUR	Uganda B2/STA	Mongolia B3/NEG	Gabon Caa1/POS
Final score	ba3		ba3	ba3	ba3	ba3	ba3	ba3
Initial score	ba2		ba3	ba2	ba3	ba2	ba2	ba1
Nominal GDP ($ billion)	38.6	22.2	44.3	23.9	38.7	35.1	13.9	16.9
GDP per capita (PPP, Intl$)	12,661.3	12,444.4	4,457.2	3,858.7	3,955.2	2,676.7	14,309.0	19,057.3
Average real GDP (% change)	1.5	3.3	7.2	5.9	3.5	5.1	4.5	2.3
Volatility in real GDP growth (ppts)	1.7	1.8	4.4	1.8	0.9	1.7	4.8	2.3

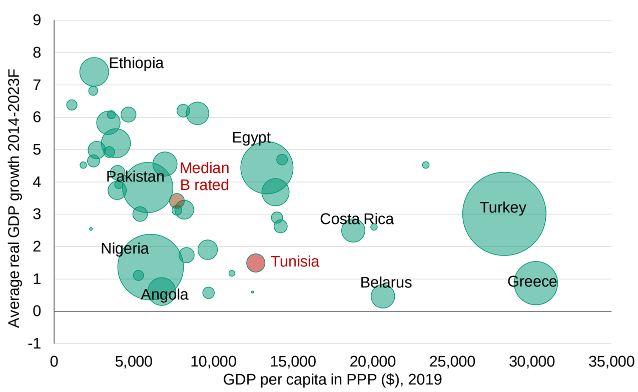
Sources: National authorities, IMF and Moody's Investors Service

Coronavirus outbreak has severely affected the growth outlook

We expect the economy to contract by 4.3% this year as a result of the coronavirus outbreak, followed by 4% growth in 2021 and a gradual improvement toward growth of 3% by the end of 2024. Notwithstanding the temporary nature of the coronavirus shock, the growth outlook remains insufficient to significantly expand employment prospects, particularly for young graduates, increasing the risk of social discontent. Nevertheless, while the economy's competitiveness has declined significantly over the past decade, the diversification of the economy and Tunisia's educated workforce set the stage for a broad-based recovery if accompanied by labor market and business environment reforms that incentivize nonenergy foreign direct investment.

Exhibit 4

Tunisia's growth performance is weaker than B-rated peers but wealthier

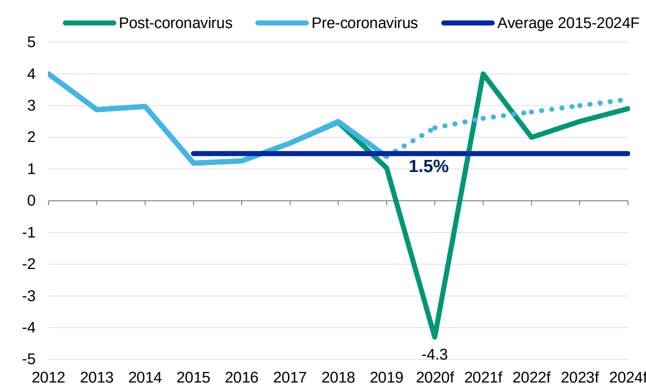


Note: Size of bubble equals GDP in nominal terms in 2019; B-rated sovereigns exclude Bahrain for ease of visibility (outlier in terms of GDP per capita). Bahrain is included in the B-rated median in the chart.
Sources: National statistics offices and Moody's Investors Service

Exhibit 5

The economy will contract sharply in 2020 following five years of relatively weak growth

Real GDP growth, % change year-over-year

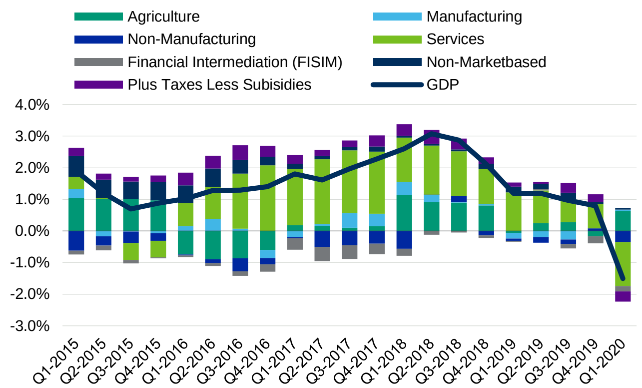


Sources: Haver Analytics, Tunisia Statistics Office and Moody's Investors Service

The coronavirus outbreak's rapid and widening global spread, the deteriorating global economic outlook and falling asset prices are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented.

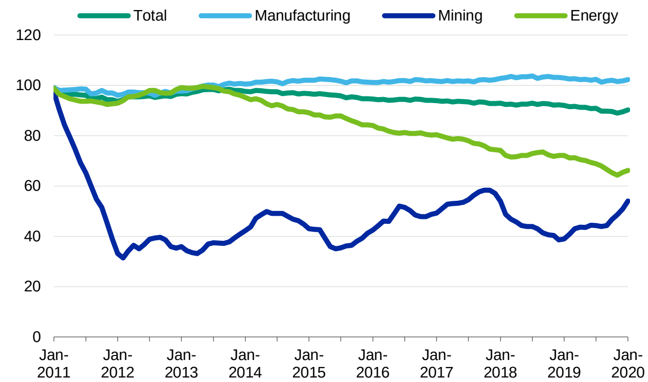
For Tunisia, the outbreak is having a negative impact on growth mainly via the curtailment of tourism and of other domestic activity as a result of local containment measures, and fall in external demand given the country's close trade ties to Europe. GDP fell by 1.5% year-over-year in the first quarter of 2020 (see Exhibit 6), with services contracting by 3.4%. We expect the outbreak's impact to be most severe in the second quarter of 2020, before a gradual recovery in the second half of the year. As for other sovereigns, there are significant downside risks attached to our forecasts in the event that the pandemic is not contained and lockdowns have to be reinstated.

Exhibit 6
GDP fell in the first quarter of 2020, driven by a decline in services
GDP growth, year-over-year, %



Sources: Haver Analytics, Tunisia Statistics Office and Moody's Investors Service

Exhibit 7
Pandemic stops short emerging recovery in mining and energy sectors
Industrial production, NSA, Index 2010=100, 12-month moving average

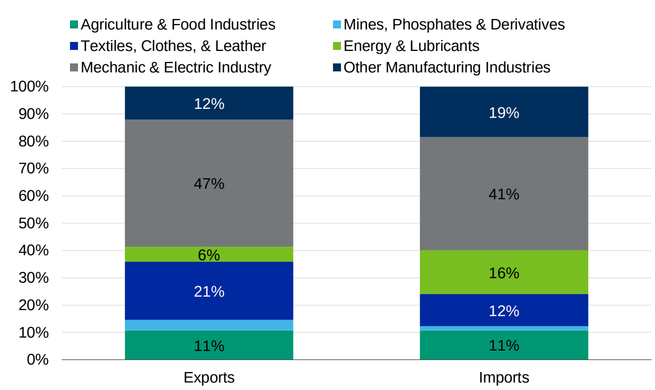


Sources: Haver Analytics, Tunisia Statistics Office and Moody's Investors Service

Our growth projections for 2020 assume that investment's share of GDP will decline as businesses adjust to falling incomes and rising unemployment because of the impairment of already weak domestic economic activity in light of containment measures since mid-March. Investment activity is at particular risk because Tunisia relies heavily on external demand at a time when key trading partners including France (Aa2 stable) and Italy (Baa3 stable), which together account for 45% of goods exports (2018, see Exhibit 9), have been hard-hit by the pandemic. We expect both France and Italy's economy to contract by around 10% this year (see Global Macro Outlook 2020-21). Suppliers to Europe's car and textiles industries, two key sectors for Tunisia's exports, are particularly exposed.

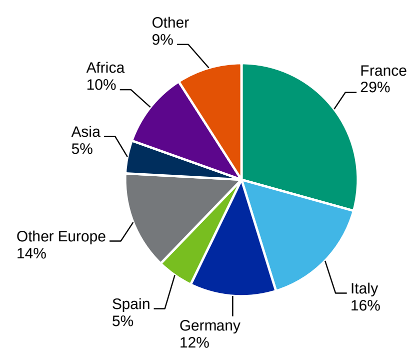
An expected drop in remittances this year will also affect economic activity. According to the World Bank (IBRD, Aaa stable)[1], remittances flows to the Middle East and North Africa will fall by 20% this year, following a 2.6% rise in 2019, because of the slowdown in activity driven by the coronavirus outbreak and lower oil prices in Gulf Cooperation Council countries. For Tunisia, similarly to Morocco (Ba1 stable), the World Bank projects that remittances will decline by around 17%-18%, taking into account the additional impact of the pre-coronavirus economic slowdown in the euro area (the key source of remittances to Tunisia) and the euro's depreciation against the US dollar. With remittances inflows amounting to 4.9% of GDP in 2019, Tunisia is one of the largest regional recipients, behind Lebanon (Ca stable) (12.7%), Jordan (B1 stable) (10.2%) and Egypt (B2 stable) (8.9%), and close to Morocco (5.6%).

Exhibit 8
The textiles and mechanics and electrics sectors account for the vast majority of Tunisia's goods exports
Goods exports by industry, % share of total, 2019



Sources: Haver Analytics, Tunisia Statistical Office and Moody's Investors Service

Exhibit 9
Tunisia's exports are mainly to Europe, where demand has fallen sharply
2018, % share of total



Sources: Haver Analytics, Tunisia Statistical Office and Moody's Investors Service

Our forecast takes into account the government response (see Special Comment box, above), which will mitigate the negative impact for households and businesses and support the recovery next year. We project that growth will rebound to 4% in 2021, assuming a return of global growth and travel. Importantly, however, the level of economic activity will be markedly below what could have been expected before the shock, and for several years to come. In this context, employment prospects will remain subdued, increasing the risk of social discontent.

Tourism will take time to recover, even after the crisis recedes

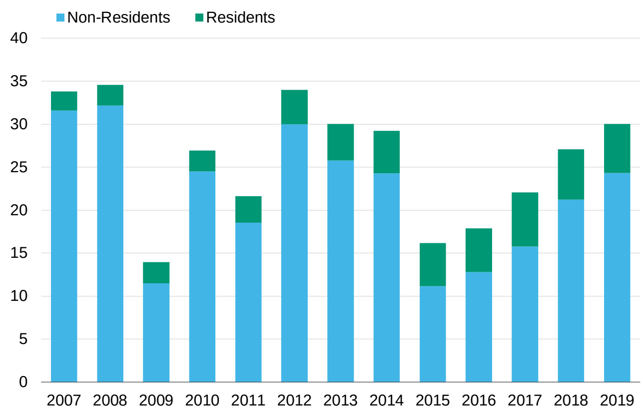
The tourism industry will bear the brunt of the pandemic's impact. The sector contributes 7% of GDP directly and 14% when adding indirect effects, according to 2019 data from the World Travel and Tourism Council. There are ample spillovers to the large services sector, which accounts for 60% of GDP. The tourism sector accounts for around 11% of total employment, and visitor spending for around 14% of total goods and services exports.

The restoration of the tourism industry over the past five years has been key in creating new employment, driving services activity and generating foreign-exchange reserves. Total arrivals almost doubled to more than 12 million in 2019 from 6.7 million in 2016. Year-to-date figures to March 2020 show total arrivals 24% below cumulative arrivals over the first three months of 2019, mainly due to a sharp drop-off in March. Similarly, we expect overnight stays to disappear in the second quarter of 2020 before gradually resuming in our central scenario, which does not anticipate a second wave of the pandemic in the Northern Hemisphere later this year (see exhibits 10 and 11). On an annual basis, our growth forecast is based on an expected halving of arrivals and tourism export earnings in 2020, followed by a gradual recovery over time.

Exhibit 10

The coronavirus shock will bring a halt to important improvements in the tourism industry over the past five years

Overnight stays by residency, in millions

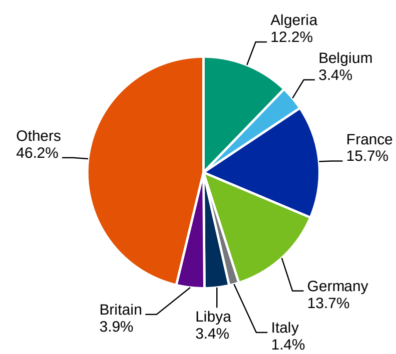


Sources: Haver Analytics, Tunisia Statistical Office and Moody's Investors Service

Exhibit 11

France, Germany and Algeria are key source countries for the tourism industry

Overnight stays of nonresidents, breakdown by country, 2018 % share



Sources: Haver Analytics, Tunisia Statistical Office and Moody's Investors Service

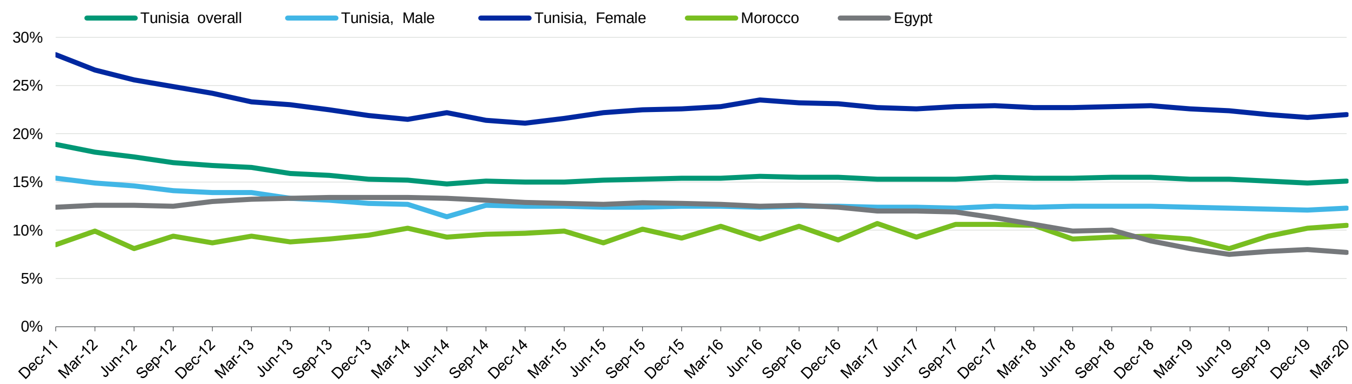
Mixed results in respect of structural reforms, particularly tackling high unemployment

The government has pursued reforms and policies to address fiscal and external imbalances while improving trend growth under sequential IMF programs over the past decade. However, these efforts have had mixed results. Progress has been limited, particularly in respect of improving the business environment and access to finance to create employment opportunities, and tackling high unemployment, including among young graduates (see Exhibit 12). The persistent weakness of the economic outlook does not allow for new entrants to be absorbed into the labor market. Overall, this increases the risk of social discontent as the expectations and social demands of an educated workforce remain unmet.

Business surveys have highlighted obstacles to job creation, private sector-led growth and foreign investment including inefficient government bureaucracy, corruption and policy instability. Tunisia fell 63 places in the World Economic Forum's Global Competitiveness Survey rankings to 95th out of 140 countries between the 2010-11 and 2017-18 surveys. It rose to 87th in the

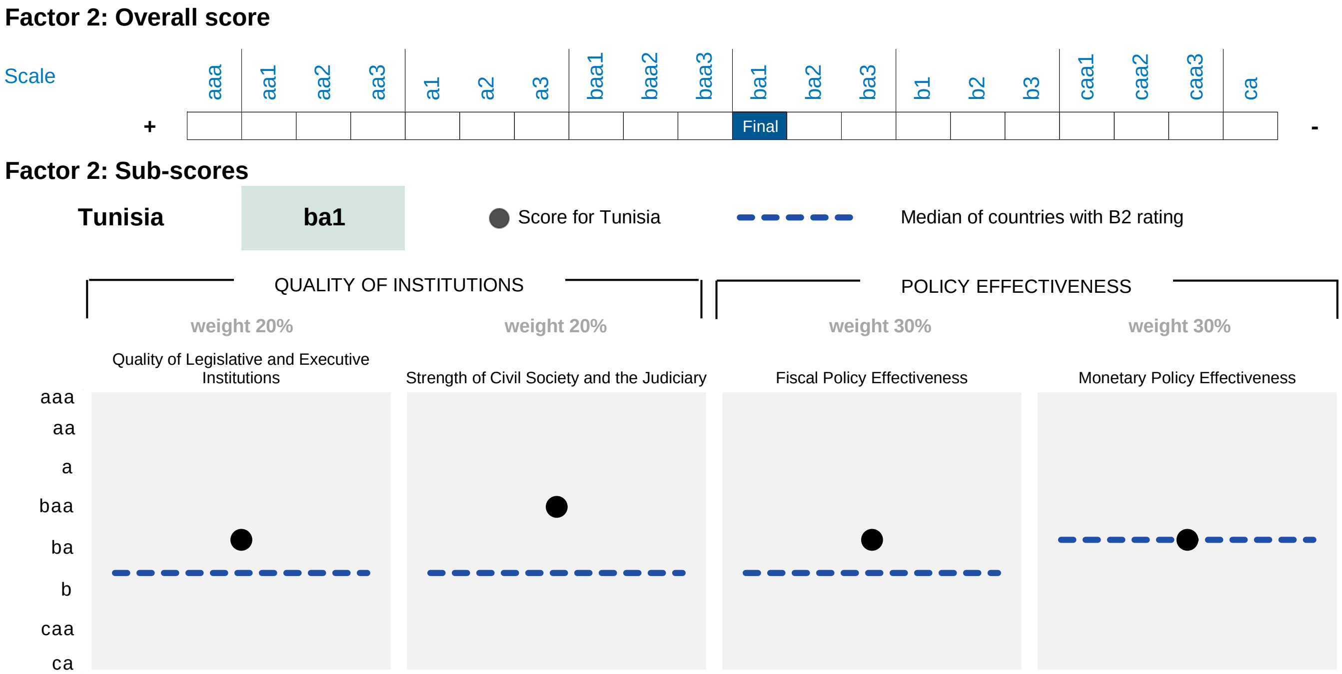
2018-19 survey and remained in the same position in the 2019-20 survey (out of 141 countries). Subdued foreign investment also reflects a significant loss of global and regional competitiveness over the past decade.

Exhibit 12
Tunisia has been unable to reduce its very high unemployment rate



Sources: Haver Analytics, Tunisia Statistical Office, other national statistical offices and Moody's Investors Service

Institutions and governance strength score: ba1



Institutions and governance strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect is the government's capacity to conduct sound economic policies that foster economic growth and prosperity. Institutions and governance strength is most often adjusted for the track record of default, which can only lower the final score.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Tunisia's institutions and governance strength score of "ba1" captures its quality of legislative and executive institutions score of "ba." Government effectiveness remains below the levels seen before the Arab Spring uprisings, reflecting the difficulty that successive governments have faced in fully implementing successive reform programs agreed with the IMF since 2012.

Sovereigns sharing a "ba1" score for institutions and governance strength include Namibia (Ba2 negative), Oman (Ba3 negative) and Kuwait (Aa2 review for downgrade).

Exhibit 13

Peer comparison table factor 2: Institutions and governance strength

	Tunisia B2/RUR	ba1 Median	Morocco Ba1/STA	Namibia Ba2/NEG	Oman Ba3/NEG	Kuwait Aa2/RUR	Senegal Ba3/RUR	Jamaica B2/STA
Final score	ba1		baa3	ba1	ba1	ba1	ba2	ba2
Initial score	ba1		baa3	ba1	ba1	ba1	ba2	baa2
Quality of legislative & executive institutions	ba	ba	baa	ba	ba	b	ba	a
Strength of civil society & judiciary	baa	baa	ba	baa	baa	ba	ba	baa
Fiscal policy effectiveness	ba	ba	baa	ba	b	b	ba	baa
Monetary & macro policy effectiveness	ba	baa	baa	ba	baa	aa	ba	ba
Fiscal balance/GDP (3-year average)	-4.1	-8.4	-5.0	-7.7	-14.1	-27.9	-4.3	-1.0
Average inflation (% change)	5.1	3.8	1.8	4.1	1.2	2.4	1.2	4.3
Volatility of inflation (ppts)	1.3	1.3	0.6	1.2	1.3	1.4	1.2	2.9

Sources: National authorities, IMF and Moody's Investors Service

We assess strength of civil society and the judiciary as "baa." The score reflects a significant improvement in voice and accountability as a result of the new constitution that Tunisia adopted in January 2014. The new constitution enshrines the democratic separation of powers and guarantees freedom of religion and women's rights. The score also reflects the leading role that civil society assumed during the years of social upheaval in building consensus between political factions whenever the government formation process stalled.

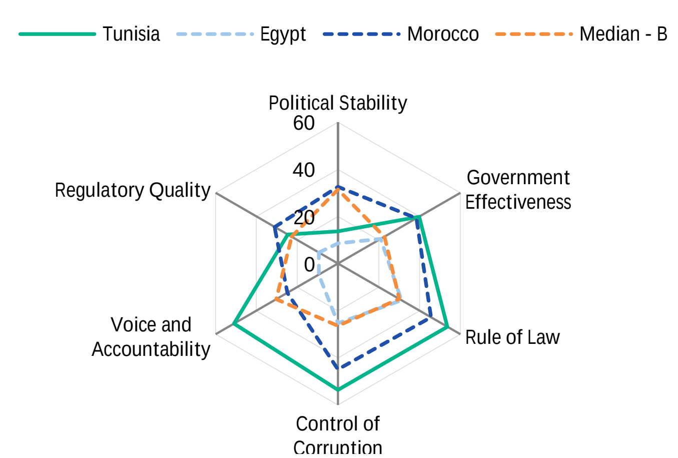
Tunisia's fiscal policy effectiveness score of "ba" reflects the government's challenges in respect of spending reform in the areas of salaries, subsidies, pensions and state-owned enterprises, even if higher revenue collection has compensated for any overruns. Its monetary and macroeconomic policy effectiveness score of "ba" combines a more consistent monetary policy stance with weaknesses in financial sector regulation compared with similarly assessed peers. Importantly, the government is now in compliance with international anti-money laundering/countering the financing of terrorism rules and EU tax practice regulations.

Slow implementation of IMF reforms highlights constraints on government effectiveness

Our assessment of Tunisia's institutions and governance strength is informed by its scores on the Worldwide Governance Indicators, on which Tunisia performs moderately in global comparison (see Exhibits 14 and 15). Government effectiveness fell between 2010 and 2016, improved in 2017 and declined slightly in 2018, reflecting the difficulty that successive governments have faced in implementing IMF reform programs. For example, the IMF's fifth review in June 2019 under the four-year Extended Fund Facility (EFF)[2] noted that although policy efforts were starting to show results, program performance since the fourth review had been mixed.

Exhibit 14

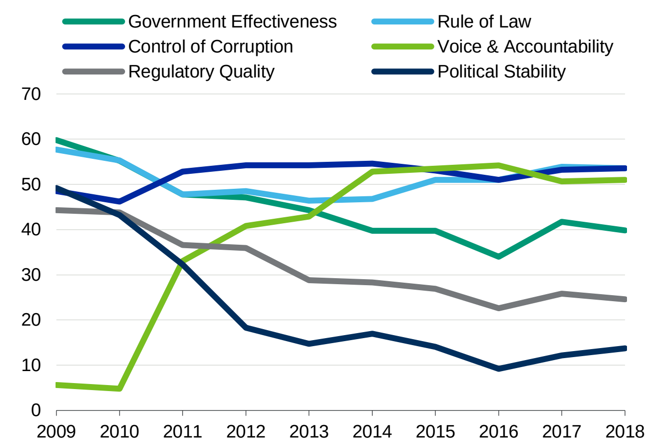
Tunisia performs better on the Worldwide Governance Indicators than the B median, with the exception of political stability
2018



Sources: Worldwide Governance Indicators and Moody's Investors Service

Exhibit 15

Regulatory quality, government effectiveness and political stability have deteriorated over the past decade
Percentile rank among Moody's rated sovereigns



Sources: Worldwide Governance Indicators and Moody's Investors Service

The sixth review could not be completed because the government had to cancel the EFF arrangement in March 2020, earlier than planned, because of the extended parliamentary and presidential election cycle last year. In response to the coronavirus pandemic, the government has requested the cancellation of the previous four-year program, which was scheduled to end in May this year, and has instead opted for a follow-up program, which we expect to start later this year.

Meanwhile, the government has received access to the IMF's Rapid Financing Instrument amounting to $745 million (2% of GDP) to address immediate fiscal and balance of payments needs as a result of the coronavirus pandemic. We expect the follow-up program to focus on the continuation of reforms to achieve higher and more inclusive growth, and to reduce and contain two key structural challenges to the sustainability of public finances: energy subsidies and the civil service wage bill. The civil service wage bill is very large at around 15% of GDP, and has been politically difficult to reduce without the support of the Tunisian General Labor Union, the country's main labor union. With regard to energy price subsidies, the IMF estimates that these amounted to 2.8% of GDP in 2019 and that they will decline to 0.7% in 2020, 0.5% in 2021 and 0.0% by 2022, supported by the slump in oil prices (delayed by a year compared with the fifth review). We also expect subsidy reform implementation target to be part of any new IMF program.

Progress was also achieved on pension reform in 2019 after a first failed attempt in December 2018. The approved legislation increased the retirement age to 62 years from 60 and included an increase in pension contribution rates. As members of parliament and the IMF highlighted, however, increasing the retirement age is only a first step in ensuring the pension system's financial viability. Further necessary changes include amendments to the salary replacement rate, which can reach up to 80% of salary.

One area where progress has been more limited relates to the reform of state-owned enterprises (SOEs) and external guarantees, which account for around 16% of GDP. SOEs pose contingent risks to public debt, and indirectly through the impact of potential payment difficulties on banks as they represent around 10% of bank assets.

Food prices, import price pass-through and cash in circulation drive inflationary pressures

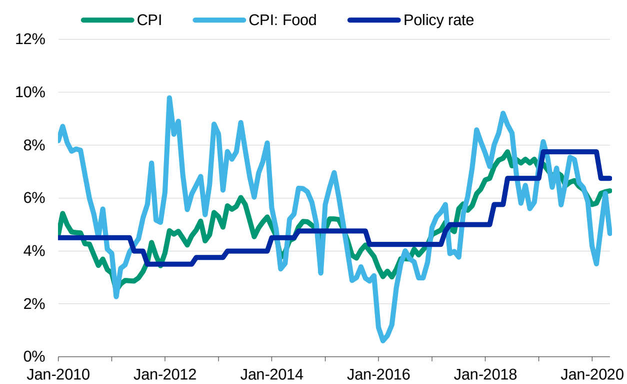
We measure monetary and macroeconomic policy effectiveness via the price stability track record and capacity to contain economic imbalances. The central bank's tighter monetary policy stance adopted in the second half of 2018 that resulted in positive real policy rates has contributed significantly to containing inflationary pressures, stabilizing the currency and--supported by a tighter fiscal policy stance-- suppressing import demand, thereby narrowing the wide external deficit, which peaked at more than 11% of GDP in 2018 (see Exhibits 16 and 17). As of May 2020, headline inflation had reached 6.3% year-over-year after declining steadily to 5.7% in February 2020. The central bank in March 2020 reduced the policy rate by 100 basis points to 6.75% from 7.75%, the level at which it had held the rate since February 2019.

Exchange-rate dynamics have important repercussions not only for imported inflation but also for public debt dynamics, given the significant share of foreign-currency debt (see section F3: Fiscal strength). In line with the central bank's improved price stability credentials, we expect the exchange rate to depreciate very gradually, particularly as the real effective exchange rate does not signal a significant overvaluation compared with trading partners.

Exhibit 16

Inflation is heading down, marking the end of the monetary policy tightening

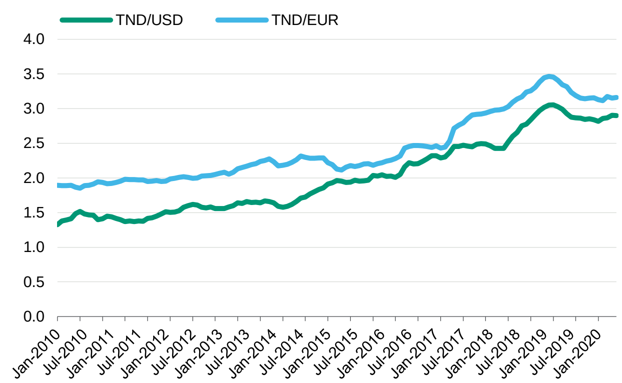
% change, year-over-year



Sources: Haver Analytics, Banque Centrale de Tunisie and Moody's Investors Service

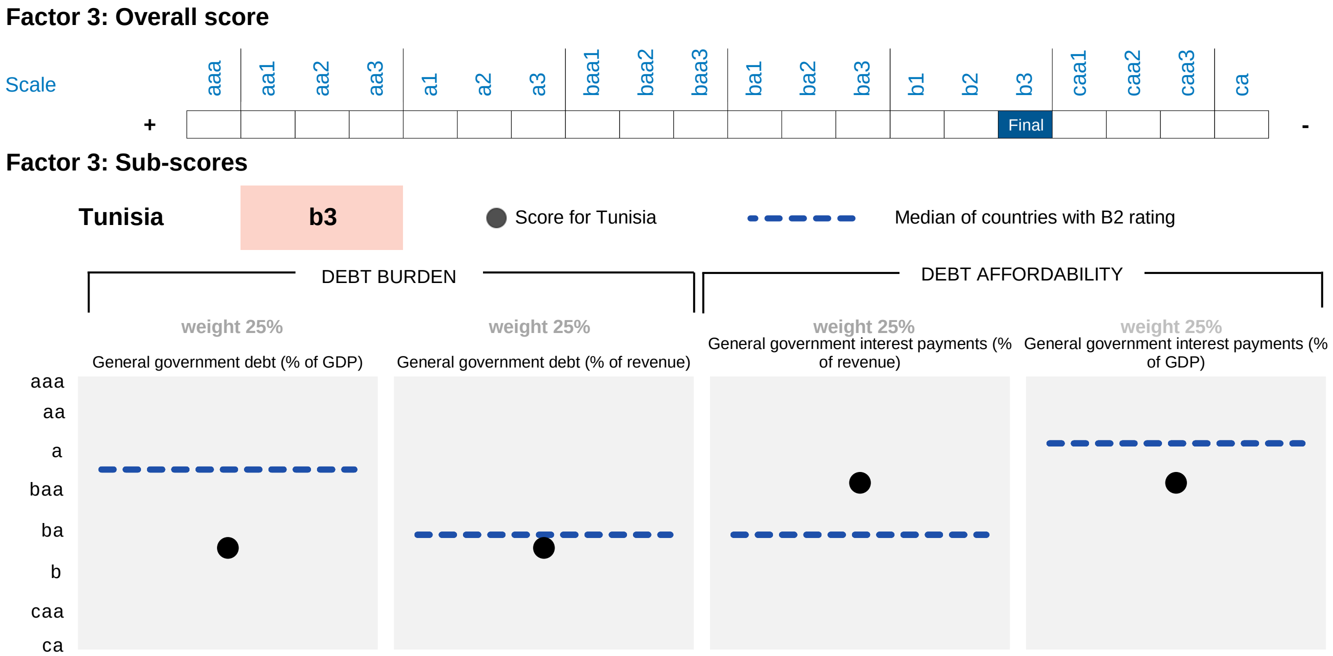
Exhibit 17

High import price pass-through



Sources: Haver Analytics, Banque Centrale de Tunisie and Moody's Investors Service

Fiscal strength score: b3



Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor, the overall score of fiscal strength can be lowered or increased.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our "b3" assessment of Tunisia's fiscal strength reflects the large increase in its debt-to-GDP ratio to 73% in 2019 from 45% in 2011, with the large foreign-currency share (almost 75%) driving a significant part of the deterioration. However, the share of debt contracted from the official sector at favorable rates over the past decade has helped keep the debt stock affordable, with the interest-to-revenue ratio at 10%.

Key structural weaknesses that weigh on public finances include a large public-sector wage bill, which remain to be addressed and whereby efforts have been delayed to when the coronavirus crisis recedes, energy subsidies that are being phased out (by 2022), and from a contingent liabilities standpoint, the pending SOEs reform.

Sovereigns sharing a "b3" score for fiscal strength include Benin (B2 positive), Dominican Republic (Ba3 stable), Togo (B3 stable) and Uganda (B2 stable).

Exhibit 18

Peer comparison table factor 3: Fiscal strength

	Tunisia B2/RUR	b3 Median	Dominican Republic Ba3/STA	Benin B2/POS	Uganda B2/STA	Togo B3/STA	Mongolia B3/NEG	Barbados Caa1/STA
Final score	b3		b3	b3	b3	b3	b3	b3
Initial score	b3		caa1	b1	b1	b2	b1	b1
Gen. gov. debt (% of GDP)	72.6	65.4	41.7	41.6	36.1	66.0	65.4	91.7
Gen. gov. debt (% of revenue)	254.4	282.7	289.8	293.0	259.9	282.7	224.0	319.9
Gen. gov. interest payments (% of GDP)	2.8	2.4	2.7	1.6	2.1	2.7	2.3	2.4
Gen. gov. int. payments (% of revenue)	9.9	11.5	19.1	11.5	14.2	11.5	8.0	8.4

Sources: National authorities, IMF and Moody's Investors Service.

Coronavirus crisis delays fiscal consolidation

A rigid spending structure because of a large public-sector wage bill means that the government has limited leeway to reallocate expenditure, while revenue will decline as a result of the economic contraction. We now expect Tunisia's debt ratio to increase toward 80% of GDP by 2023, compared with our previous expectation that it would stabilize below 75%. The trajectory largely depends on exchange-rate developments and the potential materialization of contingent liabilities via guarantees extended to SOEs (16% of GDP outstanding).

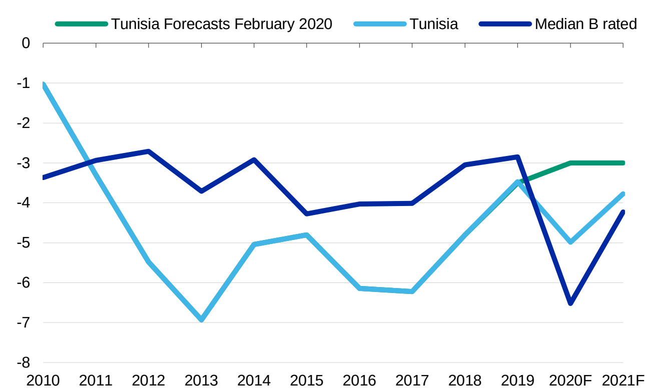
The government has announced an economic support package of around $1 billion (2.7% of estimated 2020 GDP) in response to the coronavirus crisis. Emergency measures include postponing taxes on small and medium-sized businesses, delaying the repayment of low-income employee loans and providing financial assistance to poor families, in addition to increased health spending. The support package is supplemented by other measures that aim to contain fiscal pressures, including: (1) an automatic price adjustment mechanism for the three main fuels to take advantage of low oil prices and gradually eliminate government subsidies – the mechanism began on April 8 and resulted in a 1.5% decline in fuel prices, according to the IMF; (2) limits on civil service hiring and promotions which will save about 0.1% of GDP; (3) tobacco price increases; and (4) temporary cuts to non-priority public investment of around TND3.4 billion (3% of GDP).

However, the moves will not be sufficient to offset the loss in revenue as a result of coronavirus-related measures, lower growth and increased spending, which is difficult to adjust because of its rigid structure. We now expect the fiscal deficit to widen to 5.0% of GDP this year, compared with our earlier projection of 3% (see Exhibit 19) and the 2.8% that the government initial budget envisaged, from a 3.5% deficit in 2019.

Exhibit 19

Coronavirus shock delays fiscal consolidation

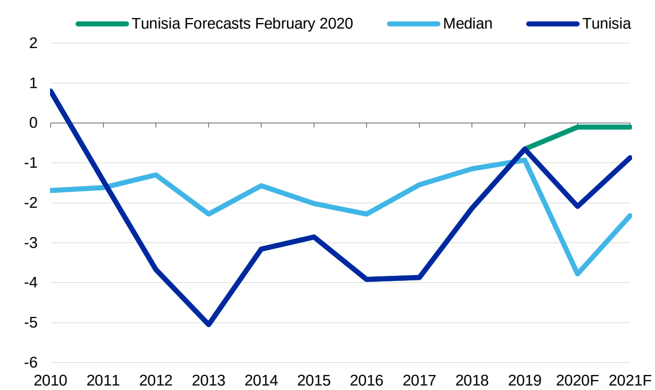
Financial balance, % GDP



Sources: Haver Analytics, Ministry of Finance, other national sources and Moody's Investors Service

Exhibit 20

Tunisia's large primary balance improvement in 2019 will help it to perform better than peers

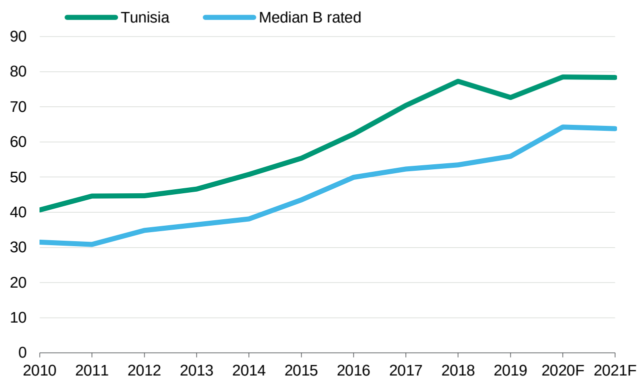


Sources: Haver Analytics, Ministry of Finance, other national sources and Moody's Investors Service

Debt will stabilize at a higher level than previously expected, risks tilted to the downside

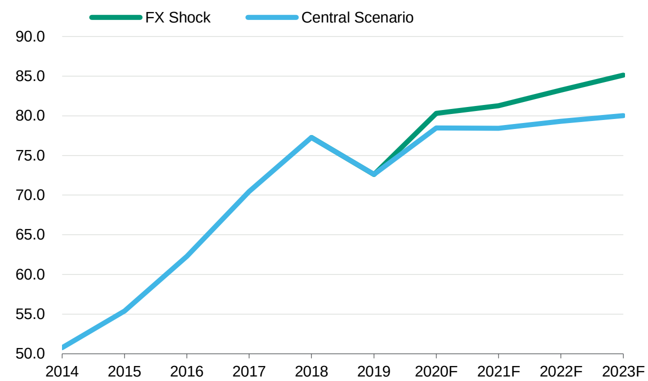
We expect debt to GDP to increase to 78% this year after falling to around 73% in 2019 from 77% in 2018, because of the impact of the coronavirus outbreak and the fiscal cost of emergency measures (see Exhibit 21). The decline in 2019 was the result of dinar appreciation and an improvement in the primary financial balance. We now expect debt to stabilize at a higher than previously assumed level, with additional risks stemming from potentially adverse foreign-exchange rate movements. Tunisia's debt trajectory is particularly susceptible to exchange-rate volatility given the high stock of dollar-denominated debt. According to our projections, a shock causing a 0.5 standard deviation would be sufficient for the country's debt-to-GDP ratio to reach 85% by 2023 (see Exhibit 22).

Exhibit 21
The coronavirus shock will reverse the decline in debt in 2019
Debt to GDP, %



Source: Moody's Investors Service

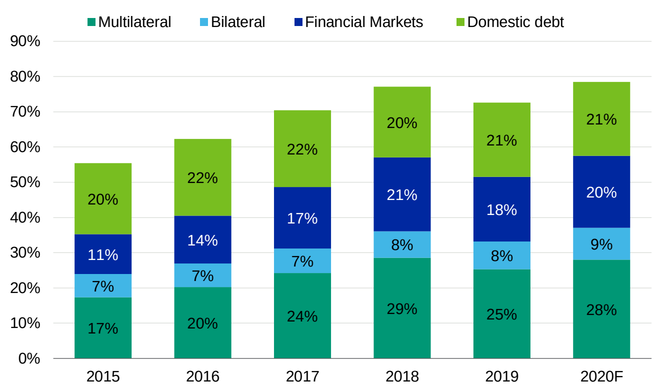
Exhibit 22
Debt burden is most sensitive to a foreign-exchange shock
% GDP



Note: Our stressed foreign exchange scenario is based on the impact of a negative shock on the annual change in the foreign-exchange rate. The shock is based on a 0.5/annum standard deviation (calculated for 10 years) over the course of the forecast period
Source: Moody's Investors Service

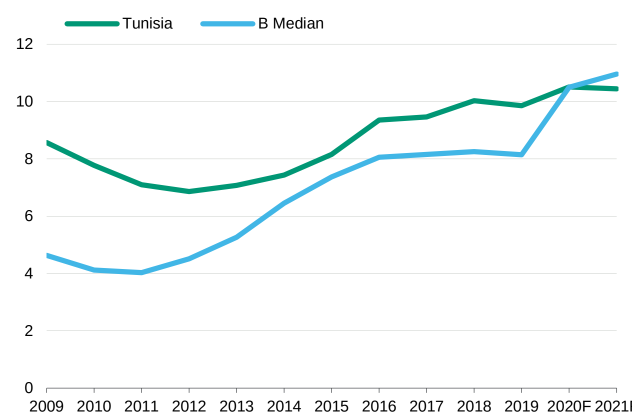
The structure of the debt is a key mitigant. A large share is owed to official creditors on favorable terms, which reduces debt service obligations via lower interest rates and longer maturities (see Exhibit 23). The composition of the debt contributes to Tunisia's manageable, though declining debt affordability, as measured by the interest-to-revenue ratio, which was almost 10% in 2019, two percentage points above the B-rated median (see Exhibit 24).

Exhibit 23
Half of the debt burden is owed to the official sector ...
Composition of debt



Sources: Ministère des Finances Tunisie and Moody's Investors Service

Exhibit 24
... supporting debt affordability
Interest to revenue, %



Source: Moody's Investors Service

SOEs expose the government to contingent liability risk

The government remains exposed to the materialization of contingent liabilities. Guaranteed SOE debts amounted to 16% of GDP in 2019 and are not included in the central government debt ratio. The IMF believes that SOEs pose a significant fiscal risk, "exacerbated by poor performance and frequent budgetary transfers to cover cash shortfalls." In response, the government adopted performance contracts with four major SOEs for 2016-20 and an interim contract with national carrier Tunisair to increase its operational efficiency. Around half of all outstanding guarantees are in the energy sector. The government has also increased oversight of the 20 largest SOEs to address and contain financial risks before they materialize.

Susceptibility to event risk score: b

Factor 4: Overall score

Scale	aaa	aa	a	baa	ba	b	caa	ca	
+						Final			-

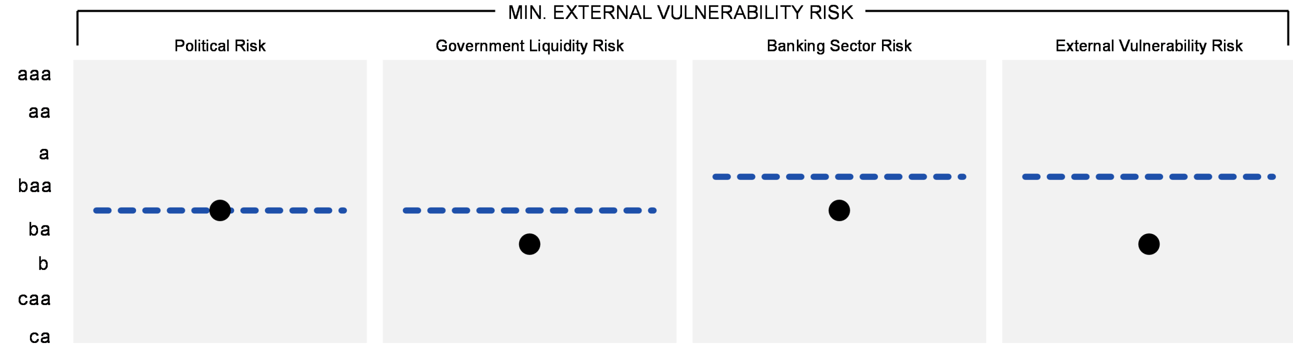
Factor 4: Sub-scores

Tunisia **b**

● Score for Tunisia

- - - - Median of countries with B2 rating

Overall adjustment to Factor 4 Susceptibility to Event Risk: **0**



Susceptibility to event risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility of event risk is a constraint which can only lower the scorecard-indicated outcome.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Government liquidity risk and external vulnerability risk drive our "b" assessment of susceptibility to event risk. We assess both banking sector risk and political risk as "ba."

Political risk score: ba

Domestic and geopolitical risks underpin our political risk assessment of "ba," which incorporates occasional policy deadlock and a contentious political environment. Our assessment also takes into account lingering social tensions and the continuing conflict in neighboring Libya, though the domestic security situation has improved significantly over the past five years. Sovereigns sharing a "ba" assessment of political risk score include Armenia (Ba3 stable), Cambodia (B2 stable), Ethiopia (B2 review for downgrade), Honduras (B1 stable), Jordan and Sri Lanka (B2 review for downgrade).

Exhibit 25

Peer comparison table factor 4a: Political risk

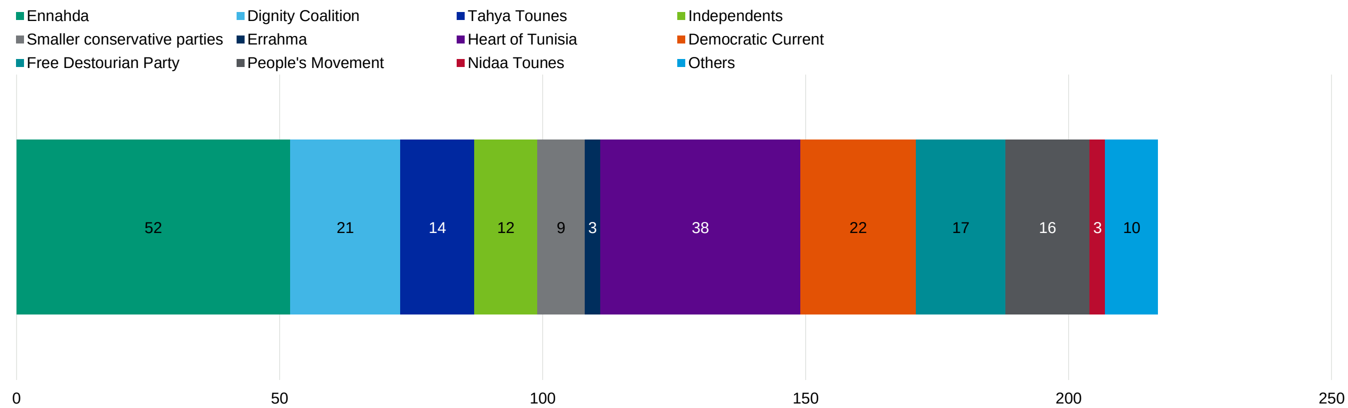
	Tunisia B2/RUR	ba Median	Cambodia B2/STA	Ethiopia B2/RUR	Honduras B1/STA	Armenia Ba3/STA	Jordan B1/STA	Sri Lanka B2/RUR
Final score	ba		ba	ba	ba	ba	ba	ba
Voice & accountability, score[1]	0.2	-0.7	-1.2	-1.2	-0.5	-0.1	-0.7	0.0
Political stability, score[1]	-0.9	-0.5	0.1	-1.3	-0.6	-0.4	-0.4	-0.2

[1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Sources: National authorities, IMF and Moody's Investors Service

Smooth presidential and parliamentary elections in October 2019 attest to Tunisia's established democratic processes, providing a mechanism to express dissent and giving a wide range of new political formations a voice. Independent candidate Kais Saied was inaugurated as president of the republic in late October after winning a landslide victory over Nabil Karoui of the newly formed Heart of Tunisia party. New, smaller and independent parties made large gains at the expense of mainstream parties in parliamentary elections on October 6 (see Exhibit 26).

Exhibit 26

Parliament is fragmented, posing a challenge to effective policymaking
Seat distribution after October 6 parliamentary elections (217 seats)



Sources: Independent High Authority for Elections and Moody's Investors Service

Parliamentary fragmentation and the compromises required to maintain cohesion in the majority coalition will challenge policymaking and slow the broader reform agenda. It took two attempts before parliament confirmed the government led by Elyes Fakhfakh on 28 February. We expect funding capacity limits to constrain the government's room for maneuver and force a reduction in public spending, in contrast to the public's demand for investment and social support measures. This exposes Tunisia to the risk of renewed social unrest if the expected economic recovery starting next year fails to materialize.

Government liquidity risk: b

We assess Tunisia's government liquidity risk as "b," which includes a negative adjustment for high refinancing risk because of elevated risk premiums in international capital markets. Our assessment incorporates the country's reliance on external official funding sources to meet gross financing needs of around 10%-15% of GDP. Elevated credit spreads increase Tunisia's financing risks in view of the government's significant commercial debt refinancing needs each year for the next few years and limited foreign-exchange reserves buffer. The review for downgrade reflects such risks, and during that period we will focus on assessing the authorities' capacity to manage the fiscal funding gap created by the pandemic fallout.

Sovereigns sharing a "b" score for government liquidity risk include Bahrain (B2 stable), Egypt, Ghana (B3 negative) and Kenya (B2 negative).

Exhibit 27

Peer comparison table factor 4b: Government liquidity risk

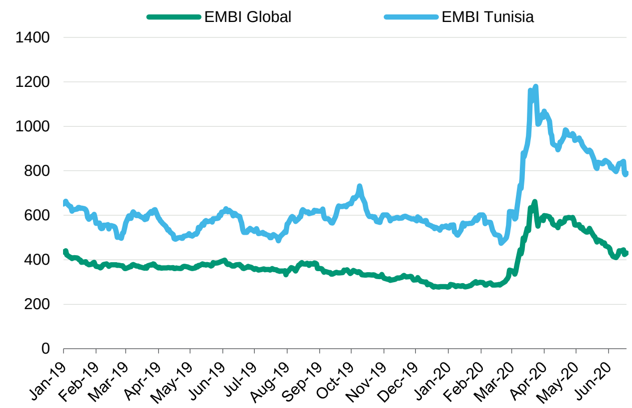
	Tunisia B2/RUR	b Median	Bahrain B2/STA	Ghana B3/NEG	Egypt B2/STA	Kenya B2/NEG	Mongolia B3/NEG	Maldives B3/NEG
Final score	b		b	b	ba	ba	b	b
Initial score	ba		ba	ba	ba	ba	b	b
Ease of access to funding	ba	b	ba	ba	ba	ba	b	b
Gross borrowing requirements (% of GDP)	17.1	15.3	40.7	18.3	34.6	21.4	12.5	18.2

Sources: National authorities, IMF and Moody's Investors Service

The government was able to refinance a $400 million eurobond maturity in June 2020 from domestic sources, in addition to a $250 million Qatari loan maturity in April 2020. However, Tunisia's eurobond maturity profile over the next decade highlights the increased refinancing risks the government faces unless its access to international capital markets at affordable rates is quickly restored (see Exhibits 28 and 29).

Exhibit 28

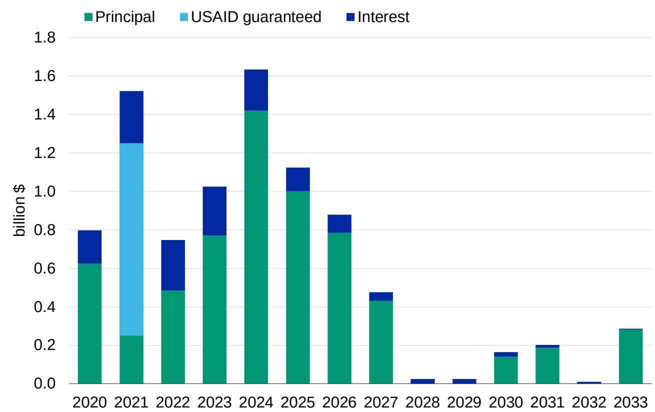
Tunisia's spreads remain significantly above US Treasuries ...
Emerging Market Bond Index (EMBI), basis points



Sources: Haver, JPMorgan, Moody's Investors Service

Exhibit 29

... amid a significant eurobond maturity profile
$ billion (USAID = United States Agency for International Development)



Sources: Bloomberg, Ministry of Finance, Moody's Investors Service

Tunisia has a demonstrated track record of access to official-sector funding on very affordable terms over the past decade in support of its democratic transition. It also continues to benefit from access to emergency funding sources to address its pandemic-related needs, including a $745 million (about 2% of 2020 GDP) emergency assistance loan under the IMF's Rapid Financing Instrument.

However, because multilateral and bilateral official funding already accounts for almost 50% of total gross borrowing requirements in the range of 10%-15% of GDP, we do not expect a significant further expansion of official funding access, except on an ad hoc basis, particularly if geared toward meeting private refinancing needs.

Similarly, a domestic debt-to-GDP ratio of only around 20% over the past few years attests to the domestic banking system's limited funding capacity in light of an already high loan-to-deposit ratio of more than 100%.

Banking sector risk: ba

We assess Tunisia's banking sector risk as "ba." Our assessment reflects persistent asset quality issues, modest capital buffers, and funding and liquidity challenges, which explain a high loan-to-deposit ratio (113% as of February 2020) and still-high, though declining, recourse to the central bank's refinancing window (TND10.3 billion as of June 2020). Tunisia shares its "ba" score with Italy, Jordan, Morocco and Pakistan (B3 review for downgrade).

Exhibit 30

Peer comparison table factor 4c: Banking sector risk

	Tunisia B2/RUR	ba Median	Morocco Ba1/STA	Italy Baa3/STA	Jordan B1/STA	Pakistan B3/RUR	Mongolia B3/NEG	Cyprus Ba2/POS
Final score	ba		ba	ba	ba	ba	b	b
Initial score	ba		ba	ba	ba	ba	ba	b
BCA[1]	caa1	b1	b1	ba1	ba3	caa1	b3	caa1
BSCE[2]	caa-c	ba3-b3	ba3-b3	ba1-ba2	ba3-b3	caa-c	ba3-b3	caa-c
Total domestic bank assets (% of GDP)	--	86.0	126.9	208.3	172.6	57.9	96.8	--

[1] BCA is an average of Baseline Credit Assessments (BCAs) for rated domestic banks, weighted by bank assets.
[2] Where we have no or small rating coverage in a system, we estimate the risk of Banking Sector Credit Event (BSCE) based on available data for aggregate banking system.
Sources: National authorities, IMF and Moody's Investors Service

Our assessment incorporates reforms to strengthen the sector, supported by a pre-coronavirus pandemic recovery in the tourism industry over the past two years, in which a large share of nonperforming loans (NPLs) is concentrated. The assessment also reflects an improvement in the current-account deficit before the coronavirus pandemic began and a renewed buildup of foreign-exchange reserves starting in 2019, which reduced local-currency depreciation and inflationary pressures for Tunisian banks.

Increased operating environment risks as a result of coronavirus-induced economic disruption moderate these positive factors. We expect the pandemic to have a direct negative impact on banks' asset quality and profitability, significantly in some cases, for example for undiversified banks with substantial exposure to high-risk sectors and small and medium-sized enterprises.

Tunisia's banking system consists of 23 banks, including three majority state-owned institutions, which together account for around a third of total banking assets. Société Tunisienne de Banque (B3 review for downgrade) was created in 1958, shortly after the country's independence. Banque Nationale Agricole was established in 1959 and Banque de l'Habitat in 1989.

We expect banks' problem loans ratio to remain high in 2020 (it stood at around 14% as of September 2019) because credit growth remains slow and efforts to write off bad debt will be offset by deteriorating loan performance from seasoning asset risks due to higher interest rates. Expected forbearance because of the coronavirus outbreak could also understate asset quality. The sector-wide reported Tier 1 capital ratio was 9.7% in September 2019 (compared with 8.8% in 2016), which remains low considering persistently high NPLs and modest provisioning buffers.

Banks' dependence on short-term collateralized central bank funding is gradually decreasing. It fell to 5.9% of total assets as of February 2020 from around 10% a year earlier, reducing asset encumbrance and providing some financial flexibility in times of stress. However, this could exacerbate funding shortages if deposit collection stalls. In addition, the declining bank refinancing volume could reverse if the shock induced by the coronavirus' global spread is prolonged.

Overall, the banking system's weaknesses expose the government to the risk of contingent liabilities to preserve financial stability, even though the three public-sector banks have already been recapitalized.

External vulnerability risk: b

We assess external vulnerability risk as "b." After a period of significantly wider external imbalances and declining reserves adequacy to below three months of import cover, tighter monetary policy during 2019 reduced the current-account deficit amid a renewed buildup of foreign-exchange reserves. Following the coronavirus outbreak, we expect a broadly unchanged current-account deficit, balancing a significantly lower energy import bill, a sharp reduction in tourism revenue and a decline in external trade. However, weaker financial account inflows could temporarily weigh on foreign-exchange reserves.

Sovereigns sharing a "b" score for external vulnerability risk include Bahrain, Belarus (B3 stable) and Sri Lanka.

Exhibit 31

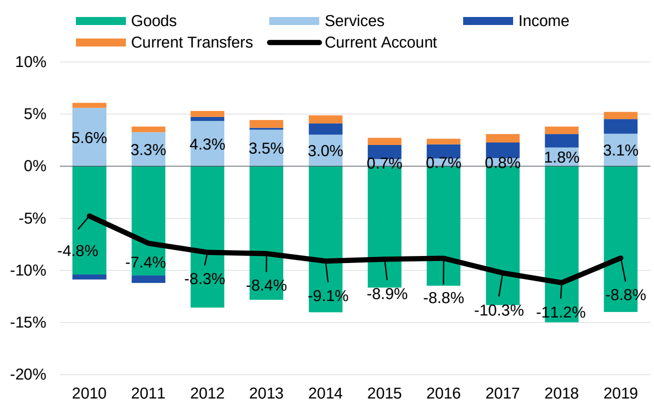
Peer comparison table factor 4d: External vulnerability risk

	Tunisia B2/RUR	b Median	Bahrain B2/STA	Sri Lanka B2/RUR	Pakistan B3/RUR	Mongolia B3/NEG	Belarus B3/STA	Barbados Caa1/STA
Final score	b		b	b	b	b	b	b
Initial score	b		b	b	b	ba	b	b
Current account balance (% of GDP)	-8.8	-2.1	-2.1	-2.2	-4.9	-15.5	-1.8	-1.7
Net IIP (% of GDP)[1]	--	-48.5	69.0	-62.2	-45.4	-257.7	-50.8	--
External debt (% of current account receipts)	179.3	193.2	248.5	211.9	192.9	334.3	89.0	81.3
External vulnerability indicator (EVI)[2]	213.6	242.7	1,689.4	209.5	181.4	199.7	436.1	97.6

[1] Net international investment position (% GDP).
[2] (Short-term external debt + currently maturing long-term debt + total nonresident deposits over one year)/official foreign exchange reserves.
Sources: National authorities, IMF and Moody's Investors Service

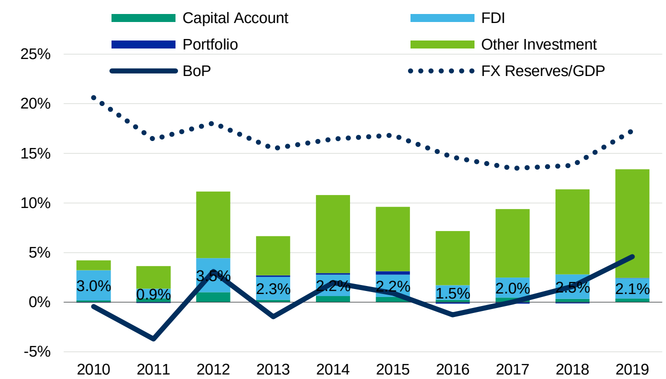
Tourism revenue has been a significant contributor to the stabilization of the current account (see Exhibit 32). The recent stabilization in the trade balance also benefited from increased external demand from Europe. The main drawdown on the external side over the past few years was the energy trade deficit, both from a price and domestic production perspective.

Exhibit 32
Narrowing current-account deficit relies on improved energy and services balances
% GDP



Sources: Haver Analytics and Moody's Investors Service

Exhibit 33
Access to external funding sources is key to funding the large current-account deficit
% GDP



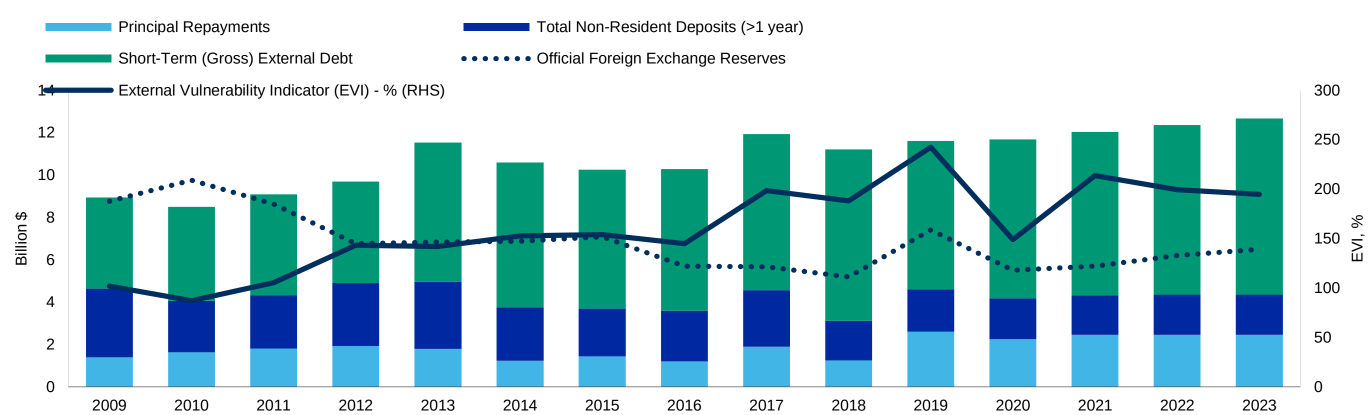
Sources: Haver Analytics and Moody's Investors Service

Before the pandemic, our central scenario was based on continued narrowing of the current-account deficit, supported by a new gas field coming on stream in February 2020 and the expectation of lower for longer energy import prices. We expected the new gas field to reduce the energy import bill by 20%, resulting in annual savings of about $500 million (1.3% of GDP) on a permanent basis.

Taking into account the impact of the coronavirus outbreak, we now estimate a small deterioration in the overall current-account deficit to 8.5% of GDP in 2020 and 8.4% in 2021, compared with our earlier expectations of reductions to 8.2% in 2020 and 7.5% in 2021. However, the current-account forecast is highly uncertain, as is the overall impact on the balance of payments and foreign-exchange reserves.

The size of the foreign-exchange reserves has implications for the External Vulnerability Indicator (EVI), which measures external debt maturing over the next year (including the stock of short-term nonresident deposits and nonresident deposits with a maturity of greater than one year) compared with the stock of foreign-exchange reserves at the end of the previous year. Based on our assumptions, the EVI will remain above 200%, indicating significant exposure to potential balance of payments disruptions to meet upcoming external liabilities. However, a large share of short-term external debt comprises recurrent working capital from European corporate subsidiaries doing business in Tunisia's offshore sector (see Exhibit 34).

Exhibit 34
Tunisia's high EVI is mitigated by the working capital nature of short-term debt
$ billion (LHS); % (RHS)



Sources: Haver Analytics and Moody's Investors Service

ESG considerations

How environmental, social and governance risks inform our credit analysis of Tunisia

We take account of the impact of environmental (E), social (S) and governance (G) factors when assessing sovereign issuers' economic, institutions and governance and fiscal strength and their susceptibility to event risk. In the case of Tunisia, the materiality of ESG to the credit profile is as follows:

Environmental considerations are relevant for Tunisia's credit profile because the effects of climate change can significantly impair economic growth and development. Coastal regions account for 80% of total output and most are exposed to rising sea levels. Climate variability, erratic precipitation patterns and severe droughts pose significant threats to Tunisia's agricultural sector, which accounts for more than 15% of total employment.

Social considerations are material for Tunisia's credit profile. In recent years, social tensions have increased in response to fiscal adjustments under the current program with the IMF and in response to persistently slow growth and employment trends. The threat of social unrest can affect the government's capacity to implement necessary reforms. We view the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. For Tunisia, the shock materializes primarily through a sharp tightening in financing conditions and a drop in tourism revenue and growth.

Governance considerations are material for Tunisia's credit profile and relate to the administration's demonstrated capacity to function even during times of social unrest. The country's consensus-building governance orientation has been instrumental in securing the successful democratic transition with all stakeholders involved, but can slow the policy decision-making process.

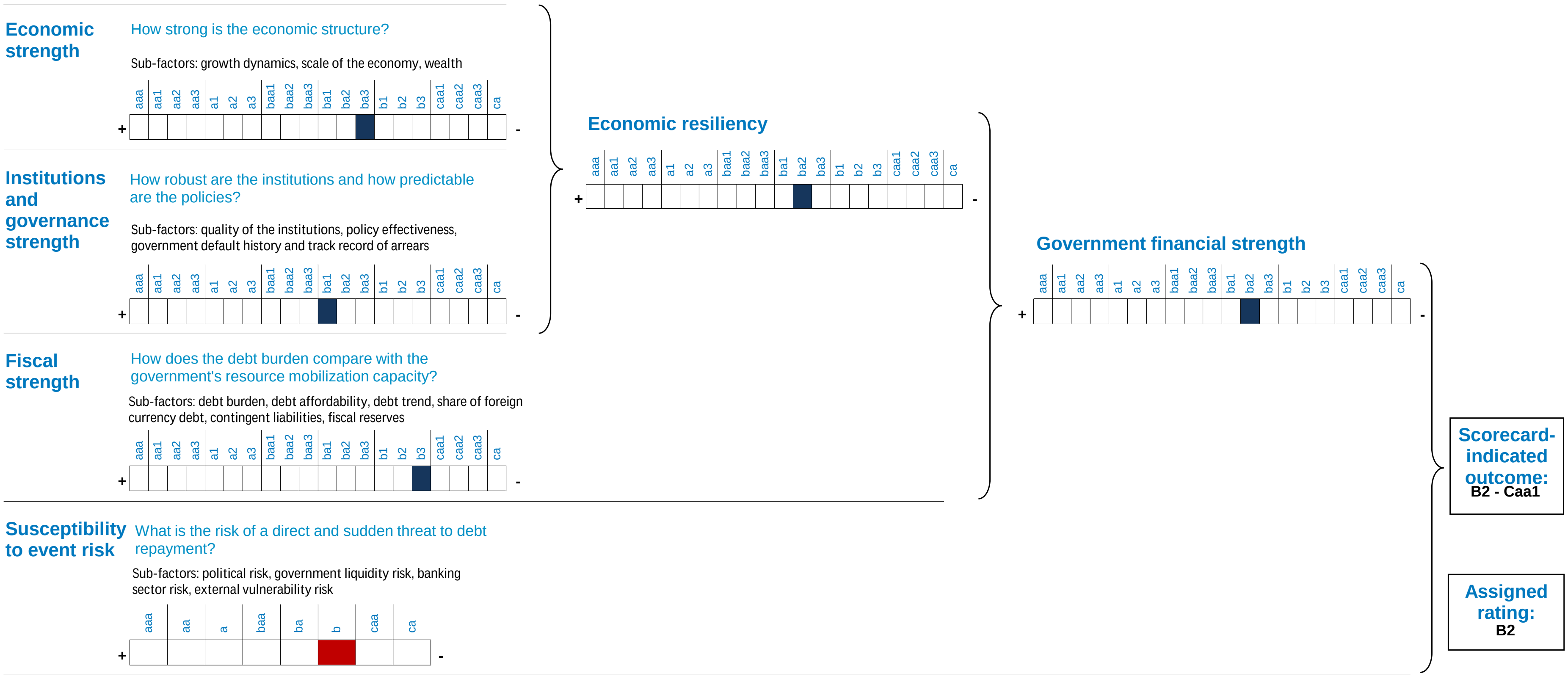
All of these considerations are further discussed in the "Credit profile" section above. Our approach to ESG is explained in our report on how ESG risks influence sovereign credit profiles and our cross-sector methodology, General Principles for Assessing ESG Risks.

Scorecard-indicated outcome

Combining the scores for individual factors provides the scorecard-indicated outcome. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from those that the scorecard-indicated outcome implies. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information, please see our Sovereign Ratings Methodology.

Exhibit 35

Sovereign rating metrics: Tunisia



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding Tunisia with other sovereigns that we rate. It focuses on a comparison with sovereigns within the same scorecard-indicated outcome and shows the relevant credit metrics and factor scores.

Exhibit 36

Tunisia's key peers

	Year	Tunisia	Honduras	Egypt	Kenya	El Salvador	Nicaragua	B2 Median	Middle East & North Africa Median
Rating/outlook		B2/RUR	B1/STA	B2/STA	B2/NEG	B3/POS	B3/STA	B2	Ba1
Scorecard-indicated outcome		B2 - Caa1	Ba3 - B2	B1 - B3	B1 - B3	Ba3 - B2	B2 - Caa1	B1 - B3	Baa3 - Ba2
Factor 1		**ba3**	**ba3**	**a3**	**ba1**	**ba2**	**b3**	**ba3**	**baa1**
Nominal GDP ($ bn)	2019	38.6	25.1	302.1	95.5	27.0	12.7	38.6	150.5
GDP per capita (PPP, Intl$)	2019	12,661	5,395	14,013	3,875	8,313	5,293	4,664	39,121
Avg. real GDP (% change)	2015 - 2024F	1.5	3.1	4.8	5.3	1.8	0.8	3.5	1.7
Volatility in real GDP growth (ppts)	2010 - 2019	1.7	0.7	1.6	1.1	0.5	3.9	1.6	2.6
Factor 2		**ba1**	**b2**	**b1**	**b1**	**b1**	**caa1**	**b1**	**baa3**
Quality of legislative & executive institutions	Latest available	ba	caa	b	ba	ba	b	b	baa
Strength of civil society & judiciary	Latest available	baa	caa	caa	b	b	caa	b	ba
Fiscal policy effectiveness	Latest available	ba	ba	ba	b	b	ba	b	baa
Monetary & macro policy effectiveness	Latest available	ba	b	ba	ba	b	ba	ba	a
Gen. gov. fiscal balance (% of GDP)	2019 - 2021F	-4.1	-1.7	-8.1	-8.5	-5.3	-3.7	-5.8	-6.2
Average inflation (% change)	2015 - 2024F	5.1	3.9	11.2	5.3	0.9	4.3	4.4	1.7
Volatility of inflation (ppts)	2010 - 2019	1.3	1.2	5.3	2.8	1.5	1.6	2.1	1.6
Factor 3		**b3**	**ba2**	**ca**	**caa2**	**ba3**	**ba1**	**b3**	**baa3**
Gen. gov. debt (% of GDP)	2019	72.6	40.8	84.2	62.4	71.0	40.2	52.4	59.7
Gen. gov. debt (% of revenue)	2019	254.4	152.2	414.8	338.0	312.5	161.3	262.4	185.6
Gen. gov. interest payments (% of revenue)	2019	9.9	8.6	46.9	21.9	16.2	5.3	12.8	6.5
Gen. gov. interest payments (% of GDP)	2019	2.8	2.3	9.5	4.0	3.7	1.3	1.9	2.3
Factor 4		**b**	**ba**	**ba**	**ba**	**ba**	**b**	**ba**	**ba**
Political risk	Latest available	**ba**	**ba**	**ba**	**ba**	**ba**	**b**	**ba**	**ba**
Government liquidity risk	Latest available	**b**	**a**	**ba**	**ba**	**ba**	**ba**	**ba**	**a**
Gross borrowing requirements (% of GDP)	2020F	17.1	10.0	33.7	21.4	9.2	6.1	12.8	16.5
Banking sector risk	Latest available	**ba**	**baa**	**ba**	**baa**	**a**	**baa**	**baa**	**baa**
BSCE[1]	Latest available	caa-c	ba3-b3	ba3-b3	ba3-b3	ba1-ba2	ba3-b3	ba3-b3	ba1-ba2
Total domestic bank assets (% of GDP)	2019	--	74.2	--	--	73.9	--	44.9	164.4
External vulnerability risk	Latest available	**b**	**baa**	**a**	**baa**	**baa**	**ba**	**baa**	**a**
Current account balance (% of GDP)	2019	-8.8	-0.6	-3.6	-5.8	-2.1	5.6	-3.7	-2.1
External vulnerability indicator (EVI)	2021F	213.6	50.8	58.0	99.0	129.2	64.9	91.4	142.6
External debt (% of current account receipts)	2019	179.3	61.6	207.0	211.9	123.3	150.4	157.1	148.3
Net international investment position (% of GDP)	2019	--	-67.2	--	--	-65.2	--	-53.0	40.1

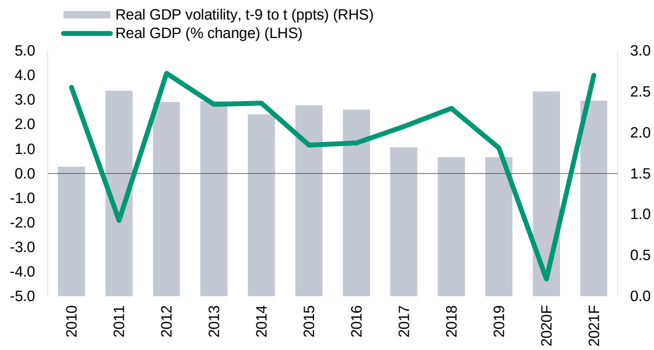
[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.

Source: National authorities, IMF, Moody's Investors Service

DATA, CHARTS AND REFERENCES

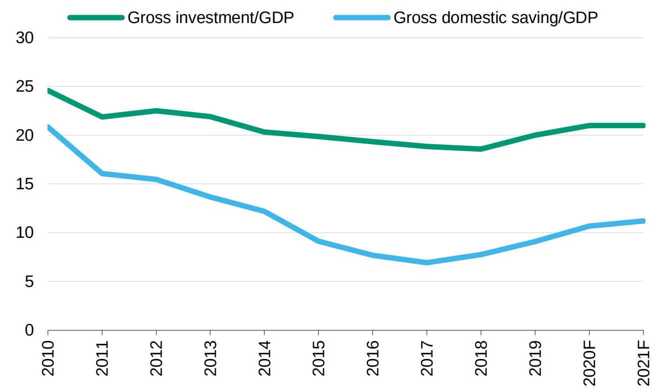
Chart pack: Tunisia

Exhibit 37
Economic growth



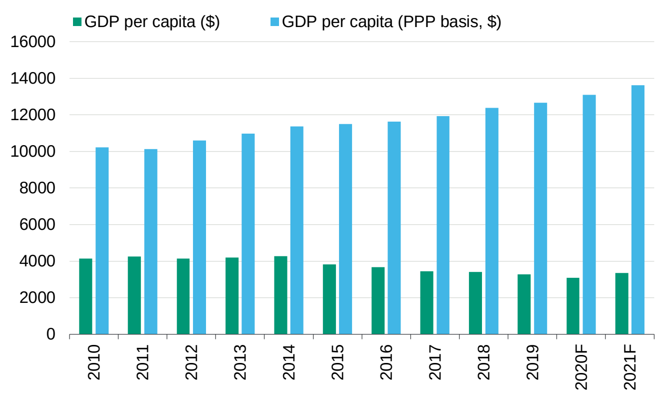
Source: Moody's Investors Service

Exhibit 38
Investment and saving



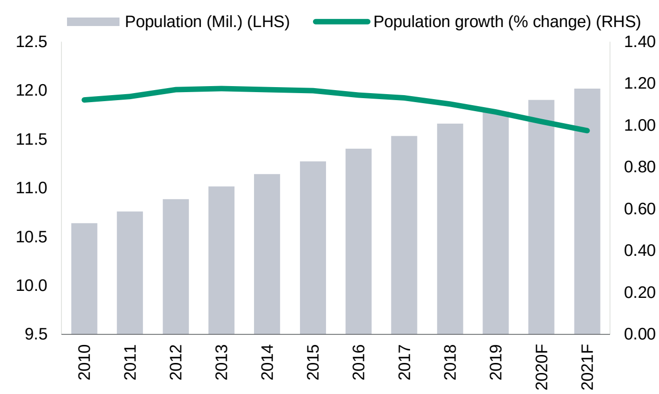
Source: Moody's Investors Service

Exhibit 39
National income



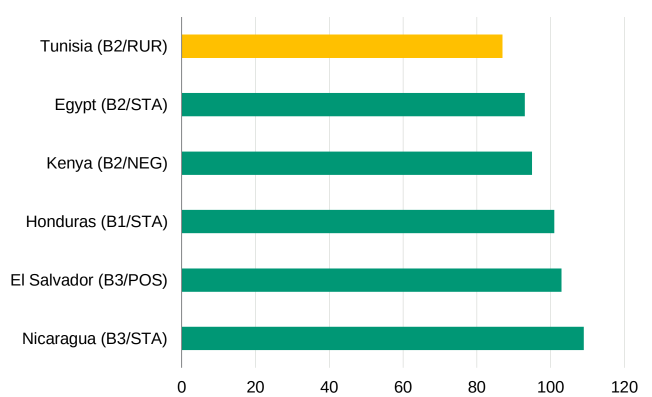
Source: Moody's Investors Service

Exhibit 40
Population



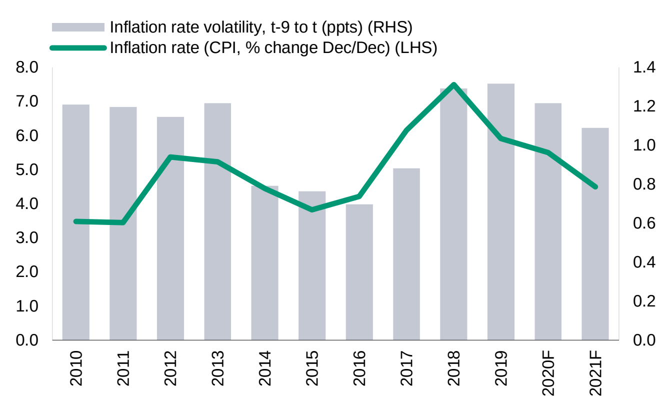
Source: Moody's Investors Service

Exhibit 41
Global Competitiveness Index
Out of 137 countries



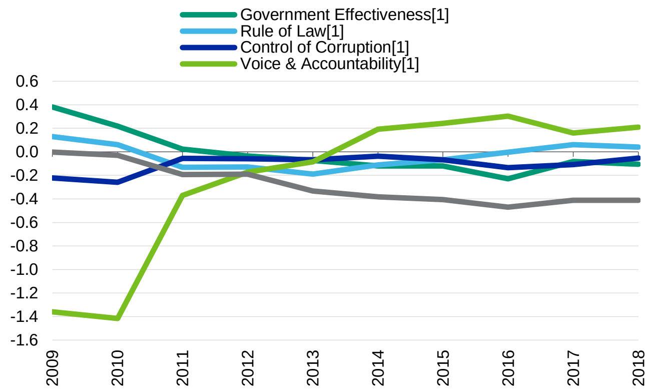
Source: World Economic Forum

Exhibit 42
Inflation and inflation volatility



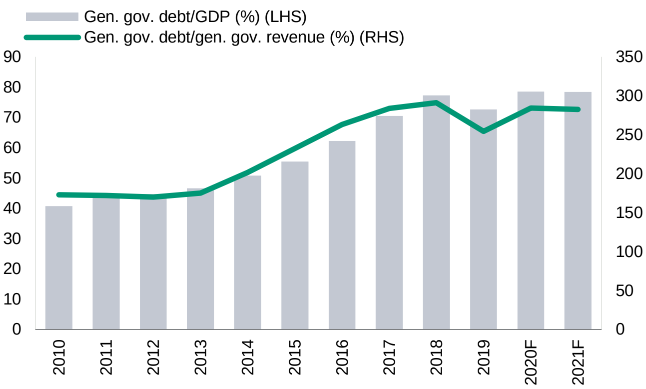
Source: Moody's Investors Service

Exhibit 43
Institutional framework and effectiveness



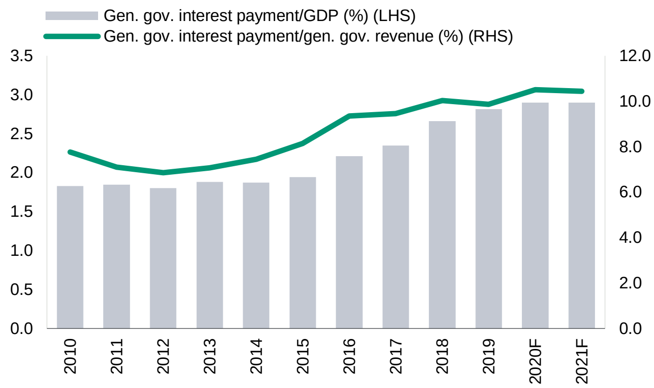
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 44
Debt burden



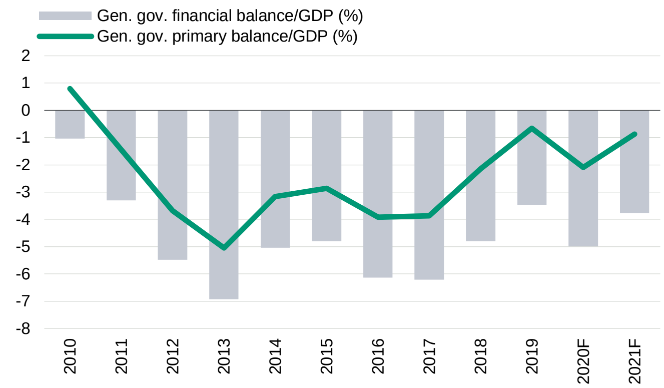
Source: Moody's Investors Service

Exhibit 45
Debt affordability



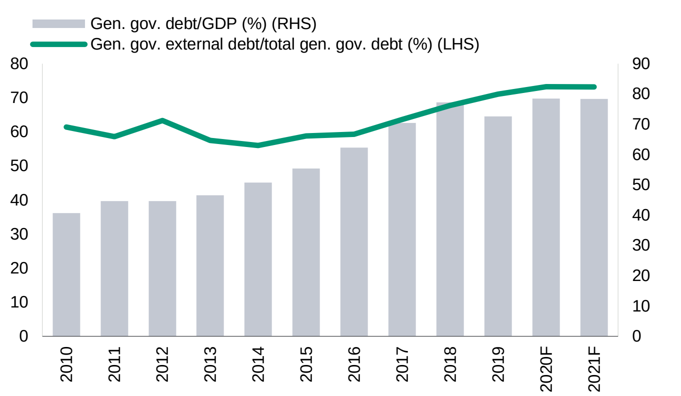
Source: Moody's Investors Service

Exhibit 46
Financial balance



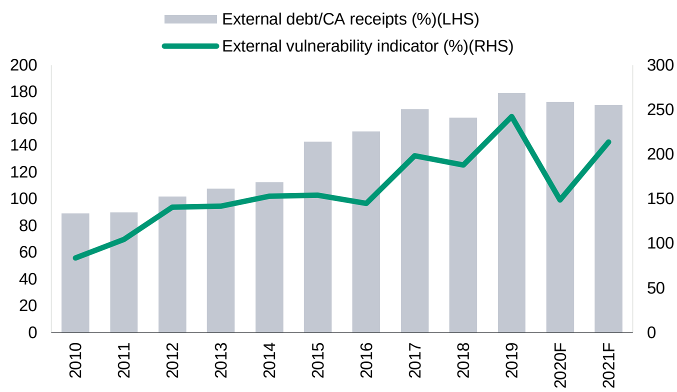
Source: Moody's Investors Service

Exhibit 47
Government liquidity risk



Source: Moody's Investors Service

Exhibit 48
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 49

Tunisia [1]

Long Term Ratings		Outlook	Review Action		Short Term Ratings		Action Date
Foreign Currency	Local Currency		Foreign Currency	Local Currency	Foreign Currency	Local Currency	
B2	B2	RUR	Possible Downgrade	Possible Downgrade	-	-	Apr-20
B2	B2	STA	-	-	-	-	Feb-20
B2	B2	NEG	-	-	-	-	Oct-18
B2	B2	STA	-	-	-	-	Mar-18
B1	B1	NEG	-	-	-	-	Aug-17
Ba3	Ba3	NEG	-	-	-	-	Nov-16
Ba3	Ba3	STA	-	-	-	-	May-15
Ba3	Ba3	NEG	-	-	-	-	Nov-13
Ba2	Ba2	NEG	-	-	-	-	May-13
Ba1	Ba1	RUR	Possible Downgrade	Possible Downgrade	-	-	Feb-13
Baa3	Baa3	NEG	-	-	-	-	Jan-11
Baa2	Baa2	STA	-	-	-	-	Nov-03
Baa2	Baa2	-	-	-	-	-	Apr-03
Baa3	Baa2	-	-	-	-	-	Jun-99
Baa3	-	-	-	-	-	-	Apr-95

Notes: [1] Table excludes rating affirmations and ceilings. Please visit the issuer page for Tunisia for the full rating history.
Source: Moody's Investors Service

Annual statistics

Exhibit 50

Tunisia

	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020F	2021F
Economic structure and performance												
Nominal GDP (US$ bil.)	44.1	45.8	45.0	46.2	47.6	43.2	41.8	39.8	39.8	38.6	36.8	40.2
Population (Mil.)	10.6	10.8	10.9	11.0	11.1	11.3	11.4	11.5	11.7	11.8	11.9	12.0
GDP per capita (US$)	4,140	4,257	4,137	4,199	4,274	3,829	3,666	3,452	3,411	3,279	3,093	3,345
GDP per capita (PPP basis, US$)	10,223	10,121	10,604	10,971	11,373	11,495	11,627	11,927	12,384	12,661	--	--
Nominal GDP (% change, local currency)	7.5	2.3	9.1	6.8	7.6	4.7	6.0	7.2	9.3	7.7	0.7	9.2
Real GDP (% change)	3.5	-1.9	4.1	2.8	2.9	1.2	1.2	1.9	2.7	1.0	-4.3	4.0
Inflation (CPI, % change Dec/Dec)	3.5	3.4	5.4	5.2	4.4	3.8	4.2	6.2	7.5	5.9	5.5	4.5
Gross investment/GDP	24.6	21.9	22.5	21.9	20.3	19.8	19.3	18.8	18.6	20.0	21.0	21.0
Gross domestic saving/GDP	20.8	16.1	15.5	13.7	12.2	9.1	7.7	6.9	7.8	9.1	10.7	11.2
Nominal exports of G & S (% change, US$ basis)	11.6	1.6	-1.6	-0.8	-1.8	-19.1	-3.2	4.0	10.4	-0.9	-0.4	6.9
Nominal imports of G & S (% change, US$ basis)	15.4	6.4	1.9	0.0	2.0	-17.3	-3.6	5.6	9.1	-4.8	-2.1	6.3
Openness of the economy[1]	105.8	105.9	108.0	104.8	102.1	92.2	92.0	101.3	111.2	111.0	114.9	112.2
Government Effectiveness[2]	0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	--	--	--
Government finance												
Gen. gov. revenue/GDP	23.5	26.0	26.3	26.6	25.2	23.8	23.7	24.8	26.5	28.5	27.6	27.8
Gen. gov. expenditures/GDP	24.5	29.3	31.8	33.5	30.2	28.6	29.8	31.0	31.3	32.0	32.6	31.5
Gen. gov. financial balance/GDP	-1.0	-3.3	-5.5	-6.9	-5.0	-4.8	-6.1	-6.2	-4.8	-3.5	-5.0	-3.8
Gen. gov. primary balance/GDP	0.8	-1.5	-3.7	-5.0	-3.2	-2.9	-3.9	-3.9	-2.1	-0.7	-2.1	-0.9
Gen. gov. debt (US$ bil.)	17.8	19.2	20.3	21.2	22.1	23.1	23.9	27.3	27.2	29.4	30.9	32.6
Gen. gov. debt/GDP	40.7	44.6	44.7	46.6	50.8	55.4	62.3	70.4	77.3	72.6	78.5	78.4
Gen. gov. debt/gen. gov. revenue	173.0	171.8	169.9	175.0	201.6	232.5	263.2	283.9	291.1	254.4	284.4	282.4
Gen. gov. interest payments/gen. gov. revenue	7.8	7.1	6.9	7.1	7.4	8.1	9.3	9.5	10.0	9.9	10.5	10.4
Gen. gov. FC & FC-indexed debt/gen. gov. debt	60.6	58.0	62.7	57.1	60.4	63.7	65.1	69.0	74.0	71.1	73.2	73.2
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)	1.4	1.5	1.6	1.6	1.9	2.0	2.3	2.5	3.0	2.8	2.9	3.0
Real eff. exchange rate (% change)	-2.5	-2.2	-1.4	-3.0	0.0	4.3	-5.1	-8.8	-6.2	--	--	--
Current account balance (US$ bil.)	-2.1	-3.4	-3.7	-3.9	-4.3	-3.8	-3.7	-4.1	-4.4	-3.4	-3.1	-3.4
Current account balance/GDP	-4.8	-7.4	-8.3	-8.4	-9.1	-8.9	-8.8	-10.3	-11.2	-8.8	-8.5	-8.4
External debt (US$ bil.)	22.0	22.5	25.3	26.8	27.7	28.5	28.9	33.4	35.1	38.9	37.2	39.0
Public external debt/total external debt	51.7	52.4	53.5	52.5	54.6	58.1	58.7	58.9	59.5	53.7	60.9	61.1
Short-term external debt/total external debt	22.7	22.0	24.6	24.5	24.8	23.0	23.2	22.1	23.1	18.0	20.2	19.7
External debt/GDP	49.9	49.1	56.3	58.0	58.1	66.1	69.1	84.0	88.2	100.8	100.9	97.0
External debt/CA receipts[3]	89.2	89.9	101.8	107.7	112.5	142.7	150.5	167.0	160.6	179.3	172.5	170.1
Interest paid on external debt (US$ bil.)	0.7	0.7	0.7	0.7	0.6	0.5	0.7	0.8	0.9	0.9	1.0	1.1
Amortization paid on external debt (US$ bil.)	1.7	2.1	2.0	1.5	1.2	1.5	2.7	2.4	2.3	2.5	2.1	2.4
Net foreign direct investment/GDP	3.0	0.9	3.5	2.3	2.2	2.2	1.5	2.0	2.5	2.2	2.4	2.3
Net international investment position/GDP	-97.7	-99.8	-107.4	-113.2	-108.7	-123.2	-125.7	-144.1	-143.6	--	--	--
Official forex reserves (US$ bil.)	9.0	7.0	7.9	6.8	6.9	7.1	5.7	5.7	5.2	7.4	5.5	5.7
Net foreign assets of domestic banks (US$ bil.)	-2.6	-3.0	-3.0	-3.2	-3.6	-3.3	-3.3	-3.9	-3.9	--	--	--

	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020F	2021F
Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)	11.9	9.3	7.5	7.1	8.2	5.4	8.0	11.6	6.5	--	--	--
Monetary policy rate (% per annum, Dec 31)	4.5	3.5	3.8	4.0	4.8	4.3	4.3	5.0	6.8	--	--	--
Domestic credit (% change Dec/Dec)	16.1	14.9	9.2	8.7	9.6	8.9	10.1	12.5	10.8	--	--	--
Domestic credit/GDP	70.8	79.5	79.6	81.0	82.4	85.7	89.0	93.4	94.6	--	--	--
M2/official forex reserves (X)	2.9	4.0	3.7	4.3	4.0	3.8	4.4	4.7	4.5	--	--	--
Total external debt/official forex reserves	244.2	321.4	320.8	392.7	402.2	403.0	506.9	590.6	675.7	525.3	675.5	684.4
Debt service ratio[4]	9.9	11.2	11.0	8.8	7.3	10.0	17.6	15.7	14.5	15.4	14.4	15.2
External vulnerability indicator (EVI)[5]	83.7	104.5	140.7	141.9	152.8	154.1	144.8	198.4	188.1	242.4	148.9	213.6
Liquidity ratio[6]	15.2	26.6	15.9	20.0	19.9	15.6	12.5	12.2	9.8	--	--	--
Total liabilities due BIS banks/total assets held in BIS banks	59.6	68.5	71.1	77.2	89.1	74.7	76.0	87.1	60.3	--	--	--
"Dollarization" ratio[7]	3.9	3.8	3.6	3.8	3.0	3.2	3.1	3.1	3.4	--	--	--
"Dollarization" vulnerability indicator[8]	8.8	11.5	10.1	12.6	10.0	8.6	9.7	10.2	10.7	--	--	--

[1] Sum of Exports and Imports of Goods and Services/GDP
[2] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[3] Current Account Receipts
[4] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[5] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves
[6] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks
[7] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[8] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)
Source: Moody's Investors Service

Moody's related publications

» **Rating Action:** Moody's places Tunisia's B2 rating on review for downgrade, 17 April 2020

» **Credit Opinion**: Government of Tunisia – B2 RUR, Update following initiation of review for downgrade, 17 April 2020

» **Issuer Comment**: Government of Tunisia Elections cement democratic process, but fragmentation points to reform challenges, 21 October 2020

» **Outlook:** Sovereign - Levant & North Africa: 2020 outlook negative as increased social tensions weaken reform drive, 8 January 2020

» **Rating Methodology**: Sovereign Ratings Methodology, 25 November 2019

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related websites and information sources

» Sovereign risk group web page

» Sovereign ratings list

» National Statistics Office

» Ministry of Finance

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Endnotes

1 See "**COVID-19 Crisis - Through a Migration Lens: Migration and Development Brief 32**," April 2020

2 The four-year $2.9 billion EFF, which was approved in May 2016, is based on four pillars: (1) consolidating fiscal and external stability; (2) reforming government institutions, including state-owned enterprises; (3) reforming the banking sector; and (4) reforming the business climate and developing the private sector.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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