

RESEARCH REPORT

MACROECONOMY

JANUARY
2022

Photography of Ministry of Finance in Tunisia - Source Wikipédia

Tunisia : 2022 Finance Act Draft New measures to mitigate the health crisis impact

- 02 | Executive Summary
- 03 | Growth struggling to cross the 2.5% threshold
- 04 | A chronic primary deficit which substantially increases financing needs
- 05 | Main tax provisions of the 2022 Finance Act Draft



Attijari
Global Research

EXECUTIVE SUMMARY

In Tunisia, the Finance Act Draft (FAD 2022) was unveiled¹ in a difficult economic context. Indeed, Tunisia faces real budgetary constraints which raise a certain number of questions about the actions to be taken to start, on a better basis, this new fiscal year. The content of this project consists of an enumeration of the new tax provisions.

To present our reading of the economic situation in Tunisia, we refer to the Central Bank of Tunisia to report historical factual data. Regarding forecasts, we cite those of the IMF with which the Tunisian authorities work closely.

It is clear that Tunisia has been evolving since the 2010s within a cycle of low growth contributing to a structural budgetary imbalance. Faced with the imperatives of managing the health crisis, the FAD 2022 seems to focus mainly on cyclical measures in order to mitigate the repercussions on the Tunisian economy.

Abdelaziz LAHLOU

Head of Economy
+212 529 03 68 37
ab.lahlou@attijari.ma

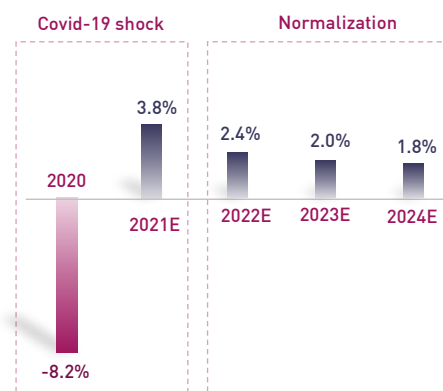
¹ As a reminder, the content of the FAD was relayed through the press.

GROWTH STRUGGLING TO CROSS THE 2.5% THRESHOLD

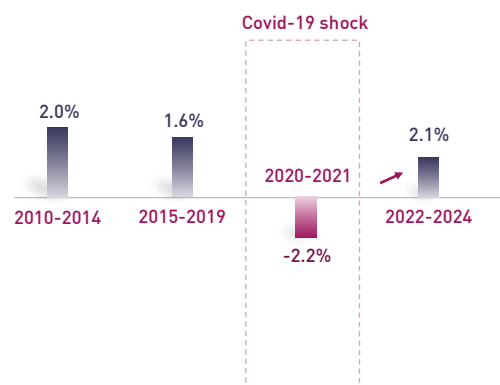
Like the international trend, the restrictions imposed by the Covid, the weight of tourism and the strong exposure to the Euro zone have caused a considerable drop in the production of the Tunisian economy of -8.2% in 2020, the biggest recession since independence. In 2021, the expected recovery would only be partial with an increase of + 3.8% according to the latest forecasts from the Central Bank of Tunisia (BCT).

Average growth in Tunisia seems struggling to cross the 2.5% threshold, well below the 4.0% levels posted in the 2000s. The IMF forecasts an average increase of 2.1% over the period 2022-2024. Under these conditions, Tunisia thus would require 3 years to resume to pre-Covid production levels, i.e. by 2023.

IMF GROWTH FORECASTS 2022-2024E



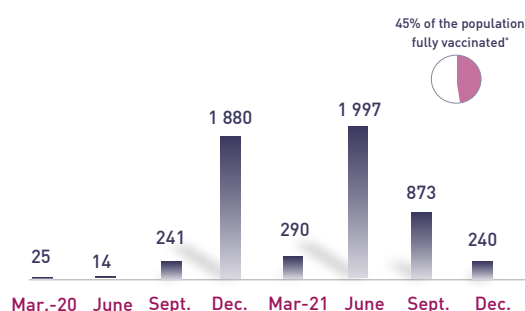
GROWTH PHASES OF THE TUNISIAN ECONOMY



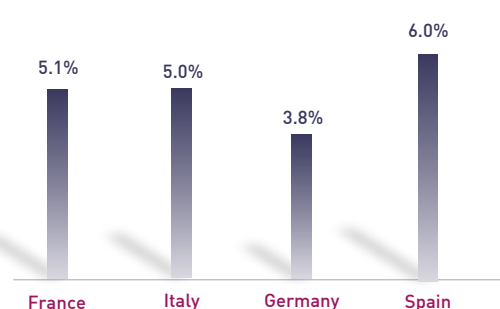
Historically, the growth of the Tunisian economy is based on the progression of the Added Value of the service sector, which accounts for more than 60% of the overall AV. The contribution of the crop sector, the weight of which revolves around 10%, remains cyclical due to its reliance on weather conditions.

An acceleration of this growth would obviously depend on an improvement in the health context, a solid recovery in the tourism sector, but also on a good Demand dynamic in Europe to which the economy is highly exposed. Thus, the short-term recovery in Tunisia would be based more on exogenous than endogenous factors, especially since the fiscal and monetary leeway remain relatively limited due to financing constraints and the monitoring of inflation.

DAILY NUMBER OF NEW COVID-19 CASES



GROWTH OF BUSINESS PARTNERS 2021-22



The Tunisian economy is currently facing 3 major challenges:

- ⇒ Reduce unemployment, the rate of which is 17.4%. Indeed, the authorities would rely more on the contribution of the private sector because of the large proportions of the public wage bill;
- ⇒ Increase tax revenues, the insufficiency of which contributes to a structural fiscal imbalance. However, the current context is not conducive to an increase in tax rates;
- ⇒ Dilute the outstanding debt in a context where the decline in GDP would be the first factor in the increase in the debt ratio. Recall that the Tunisian Dinar (DT) had a neutral impact on the period 2020-2021.

* Indicators as at December 17th, 2021

A CHRONIC PRIMARY DEFICIT WHICH SUBSTANTIALLY INCREASES FINANCING NEEDS

Since 2011, the Tunisian economy has shown a budgetary imbalance which materializes in a structural deficit primary* balance. This situation stems from a combined effect of :

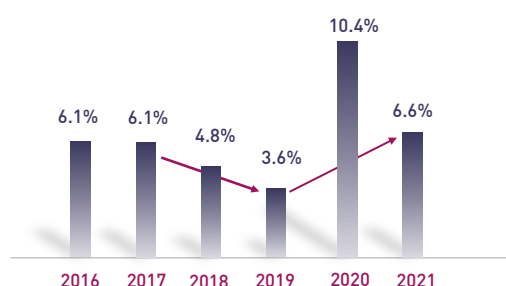
- ⇒ The shortfall of tax revenue associated in particular with insufficient economic growth and the size of the grey economy ;
- ⇒ The weight of the civil service wage bill which represents 17.6% of GDP [a world high for emerging non-oil countries].

In this context, the Tunisian economy has entered into a rebalancing process which has induced a contraction of its fiscal deficit from 6.1% in 2017 to 4.8% in 2018 and then to 3.6% in 2019. Nevertheless, the Covid-19 shock affected these efforts, widening the fiscal deficit (excluding grants) to 6.6% of GDP in 2021 from 10.1% in 2020.

At the same time, the public debt experienced a real jump. Its annual growth rate increased from [1-2] pts until 2019, to 11.8 pts in 2020, i.e. at 84.3% of GDP according to the CBT. This increase takes into account the decline in GDP combined with the increase in the fiscal deficit.

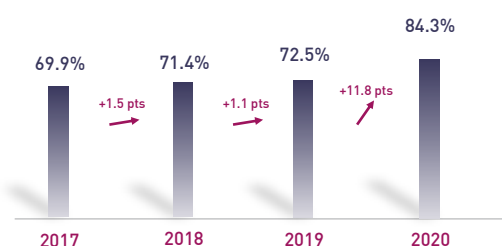
While the effect of the decline of the Dinar, a historical factor in the growth of the debt, has been almost neutral since 2020. Even with the absence of tourism, the Dinar has been supported by the production of hydrocarbons, phosphate as well as workers' remittances.

TUNISIA : OVERALL FISCAL DEFICIT (GDP %)



* Exc. grants

TUNISIA : PUBLIC DEBT (GDP %)



With the succession of significant levels of fiscal deficit, the Treasury is experiencing increasingly substantial needs, which cannot be fully funded on the domestic market.

Faced with this, Tunisia has focused its efforts on external financing which now weights a preponderant share of 70.5% of GDP in 2020 (according to our computations). The rapid growth in the outstanding amount, the share of external financing, and the economic outlook thus make foreign donors relatively more demanding when it comes to releasing new financing.

As a reminder, Tunisia has created a precedent by resorting to unconventional financing. Indeed, the BCT proceeded to a monetary financing of the Treasury of TND 2.81 Bn, i.e. nearly 2.5% of the GDP at a rate of 0%, and a 5-year maturity with one year grace period.

* Budget balance before interest fees

MAIN TAX PROVISIONS OF THE 2022 FINANCE ACT DRAFT

We present below a collection of the main fiscal provisions of the 2022 Finance Act. These represent, in our opinion, more provisions aiming primarily at dealing with the repercussions of the health crisis.

Support for public enterprises affected by the Covid-19 pandemic

- ⇒ Suspension of VAT for air transport companies concerning the procurement of material, equipment, products and services necessary for their activity;
- ⇒ VAT exemption for products at administered prices imported by the "Central Pharmacy".

These two measures aim to relieve the financial distress of public companies which have been strained by the effects of the pandemic.

Support for domestic market supply

- ⇒ Increase in the authorized quota for the local sale of fully exporting offshore companies;
- ⇒ VAT exemption for refrigerated storage operations for crop and fishing products;
- ⇒ VAT exemption of commissions of sellers of crop products within wholesale markets.

During a period of stress on the processes and costs of sourcing raw materials, these provisions aim to support the supply and storage operations of the domestic market.

Stimulation of projects

- ⇒ Exemption of capital gains during the impairment of building and non-building assets to their real value;
- ⇒ Exemption from the obligation to register constitution texts when launching projects;
- ⇒ 10% reduction in consumption tax on certain products such as tiles.

Upstream, the revaluation of assets would make it possible to consolidate companies' equity and increase their eligibility for funding. Downstream, reducing the costs associated with projects increases the attractiveness of the investment.

Support for financial institutions

- ⇒ Revision of the tax regime governing the laying aside of bad debts by banks and financial institutions for the relief of bank balance sheets;
- ⇒ VAT exemption for banks for digitized payment transactions in order to reduce cash exchange.

On the one hand, the abandonment of NPLs by banks heals the rate of litigation and lays new foundations for their development. On the other hand, the encouragement of the digitization of payment transactions is orienting cash flows to official channels.

ATTIJARI GLOBAL RESEARCH

HEAD OF STRATEGY Taha Jaidi +212 5 29 03 68 23 t.jaidi@attijari.ma Casablanca	MANAGER Lamyae Oudghiri +212 5 29 03 68 18 l.oudghiri@attijari.ma Casablanca	SENIOR ASSOCIATE Mahat Zerhouni +212 5 29 03 68 16 m.zerhouni@attijari.ma Casablanca	ASSOCIATE Omar Cherkaoui +212 5 22 49 14 82 o.cherkaoui@attijari.ma Casablanca
CHIEF ECONOMIST Abdelaziz Lahlou +212 5 29 03 68 37 ab.lahlou@attijari.ma Casablanca	MANAGER Maria Iraqui +212 5 29 03 68 01 m.iraqui@attijari.ma Casablanca	ASSOCIATE Meryeme Hadi +212 5 22 49 14 82 m.hadi@attijari.ma Casablanca	INVESTOR RELATIONS ANALYST Nisrine Jamali +212 5 22 49 14 82 n.jamali@attijari.ma Casablanca
SENIOR ANALYST Ines Khouaja +216 31 34 13 10 khouaja.ines@attijaribourse.com.tn Tunis	FINANCIAL ANALYST Felix Dikosso +237 233 43 14 46 f.dikosso@attijarisecurities.com Douala	FINANCIAL ANALYST Jean-Jacques Birba +225 20 21 98 26 jean-jacques.birba@sib.ci Abidjan	

Equity

BROKERAGE - MOROCCO

Abdellah Alaoui +212 5 29 03 68 27 a.alaoui@attijari.ma	Rachid Zakaria +212 5 29 03 68 48 r.zakaria@attijari.ma	Anis Hares +212 5 29 03 68 34 a.hares@attijari.ma	Alae Yahya +212 5 29 03 68 15 a.yahya@attijari.ma	Sofia Mohcine +212 5 22 49 59 52 s.mohcine@wafabourse.com
---	---	---	---	---

CUSTODY - MAROC

Tarik Loudiyi +212 5 22 54 42 98 t.loudiyi@attijariwafa.com

WAEMU - CÔTE D'IVOIRE

Mohamed Lemridi +225 20 21 98 26 mohamed.lemridi@sib.ci

BROKERAGE - TUNISIA

Abdelkader Trad +225 20 21 98 26 trad.abdelkader@attijaribank.com.tn
--

CEMAC - CAMEROUN

Sammy N.Ekambi +237 2 33 43 14 46 s.ekambi@attijarisecurities.com

Bonds / Forex / Commodities

MOROCCO

Mehdi Mabkhout +212 5 22 42 87 22 m.mabkhout@attijariwafa.com	Mohammed Hassoun Filali +212 5 22 42 87 09 m.hassounfilali@attijariwafa.com	Btissam Dakkouni +212 5 22 42 87 74 b.dakkouni@attijariwafa.com	Dalal Tahoune +212 5 22 42 87 07 d.tahoune@attijariwafa.com
---	---	---	---

EGYPT

Mahmoud Bahaa +202 27 97 04 80 mahmoud.bahaa@barclays.com

TUNISIA

Abdelkader Trad +216 71 80 29 22 trad.abdelkader@attijaribank.com.tn
--

MIDDLE EAST - DUBAI

Serge Bahaderian +971 0 43 77 03 00 sbahaderian@attijari-me.com

WAEMU - CÔTE D'IVOIRE

Abid Halim +225 20 20 01 55 abid.halim@sib.ci

CEMAC - GABON

Youssef Hansali +241 01 77 72 42 youssef.hansali@ugb-banque.com

DISCLAIMER

<p>RISKS</p> <p>Investment in Securities is a risky operation. This document is intended for informed investors. The value and yield of an investment can be influenced by several factors both economic and technical. Previous performances of the different assets classes do not constitute a guarantee for subsequent achievements. Furthermore, forecast of future achievements may be based on assumptions that could not be realized.</p>	<p>LIABILITY LIMITS</p> <p>The investor acknowledges that these opinions constitute an element of decision support. He assumes full responsibility for his investment choices. Attijari Global Research can't be considered responsible for his investment choices. This document can under no circumstances be considered as an official confirmation of a transaction addressed to a person or entity and no guarantee can be made that this transaction will be concluded on the basis of the terms and conditions contained in this document or on the basis of other conditions. Attijari Global Research has neither verified nor conducted an independent analysis of the information contained in this document. Therefore, Attijari Global Research doesn't make any statement or guarantee and makes no commitment to this document's readers, in any way whatsoever regarding the relevance, accuracy or completeness of the information contained therein. In any case, readers should collect the internal and external opinions they deem necessary, including from lawyers, tax specialists, accountants, financial advisers, or any other experts, to verify the adequacy of the transactions which are presented to them. The final decision is the sole responsibility of the investor. Attijari Global Research can not be held responsible for financial losses or any decision made on the basis of the information contained in its presentations.</p>	<p>INFORMATION SOURCE</p> <p>Our publications are based on public information. Attijari Global Research strives for the reliability of the information provided. However, it is unable to guarantee its veracity or completeness. The opinions provided are expressed only by the analysts writers. This document and all attachments are based on public information and may in no circumstances be used or considered as a commitment from Attijari Global Research.</p>	<p>CHANGE OF OPINION</p> <p>The expressed recommendations reflect an opinion consisting of available and public elements during the preparation period of the said note. The views, opinions and other information expressed in this document are indicative and may be modified or removed at any time without prior notice.</p>	<p>INDEPENDENCE OF OPINION</p> <p>Attijari Global Research preserves full independence regarding the opinions and recommendations issued. As a result, the investment decisions of Attijariwafa bank Group subsidiaries may conflict with the recommendations and / or strategies published in the Research notes.</p>	<p>REMUNERATION AND BUSINESS STREAM</p> <p>Financial analysts responsible for the preparation of this report receive remunerations based on various factors, among which the quality of the research and the relevance of the topics discussed. Attijariwafa bank Group maintains a business stream with the companies covered in the publications of Attijari Global Research.</p>	<p>ADEQUACY OF OBJECTIVES</p> <p>The various publications of Attijari Global Research are prepared excluding the individual financial circumstances and objectives of persons who receive them. The instruments and discussed strategies may not be appropriate for the different investor profiles. For this reason, making an investment decision solely on these opinions may not lead to the intended objectives.</p>	<p>OWNERSHIP AND DIFFUSION</p> <p>This document is the property of Attijari Global Research. It may not be duplicated or copied partially or fully without the written consent of the management of Attijari Global Research. This document can be distributed only by Attijari Global Research or one of Attijariwafa bank Group's subsidiaries.</p>	<p>SUPERVISORY AUTHORITIES</p> <p>Attijari Global Research is subject to the supervision of the regulatory authorities for the various countries of presence. These include AMMC in Morocco, CMF in Tunisia, CREPMF in WAEMU, COSUMAF in CEMAC and CMA in Egypt. Any person accepting to receive this document is bound by the terms above.</p>
--	---	---	--	---	--	--	--	--