BEST'S COUNTRY RISK REPORT

Tunisia

CRT-4

August 22, 2018

Region: Middle East & North Africa

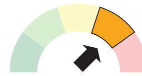
Country Risk Criteria Procedures

Guide to Best's Country Risk Tiers

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Tunisia, a CRT-4 country, has high levels of economic and political risk and a very high level of financial system risk.
- Economic growth is expected to pick up in 2018 to 2.4%, from 1.9% in 2017. Inflation, however, is expected to pick up as well, from 5.3% in 2017, to an estimated 7% in 2018, driven by currency depreciation, wage hikes, and strong credit growth.
- The major drivers of Tunisia's economy remain foreign direct investment and tourism, which are both sensitive to security concerns. The potential for public unrest remains, due to high levels of unemployment, currently over 15%.

Vital Statistics 2017		
Nominal GDP	USD bn	40.28
Population	mil	11.5
GDP Per Capita	USD	3,496
Real GDP Growth	%	1.9
Inflation Rate	%	5.3
United Nations Estimates		
Literacy Rate	%	81.8
Urbanization	%	67.3
Dependency Ratio	%	45.6
Life Expectancy	Years	75.7
Median Age	Years	31.6
Insurance Statistics		
Insurance Regulator	General Insurance Committee	
Premiums Written (Life)	USD mil	166
Premiums Written (Non-Life)	USD mil	647
Premiums Growth (2016 - 2017)	%	n.a.
Regional Comparison		
	Country Risk Tier	
Tunisia	CRT-4	
Egypt	CRT-5	
Ghana	CRT-5	
Kenya	CRT-5	
Morocco	CRT-4	
Nigeria	CRT-5	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Risk

Political Risk

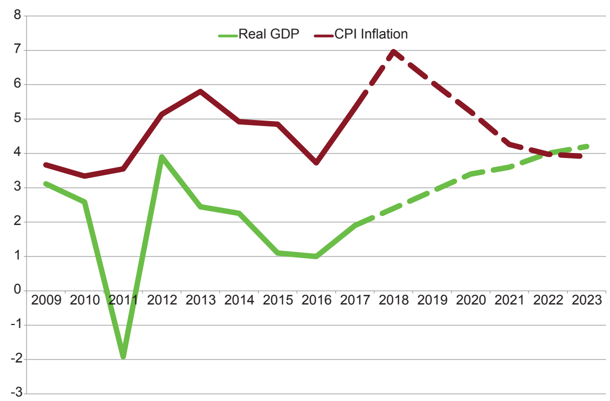
Financial System Risk

- **Country Risk Tier 1** (CRT-1) Very Low Level of Country Risk
- **Country Risk Tier 2** (CRT-2) Low Level of Country Risk
- **Country Risk Tier 3** (CRT-3) Moderate Level of Country Risk
- **Country Risk Tier 4** (CRT-4) High Level of Country Risk
- **Country Risk Tier 5** (CRT-5) Very High Level of Country Risk

Regional Summary: Middle East & North Africa

- Higher global interest rates, particularly if interest rates increase faster than expected, raise the potential for greater fiscal vulnerabilities and tighter credit conditions. According to the IMF, debt in the region has increased an average of 10% of GDP each year since 2013, owing to countries financing large fiscal deficits through increased borrowing and draw downs of fiscal buffers.
- Economic growth for the region is estimated to increase in 2018 on strengthening global growth, a moderate rise in oil prices, easing fiscal adjustments, reforms to promote non-oil sector growth, and growing infrastructure investment.
- Fiscal consolidation and revenue generating programs implemented over the last few years continue, albeit at a slower pace. Revenue measures include the introduction of a value-added tax (January 2018) in Saudi Arabia and the United Arab Emirates, with other countries likely to implement similar measures by the end of the year. Improving the efficiency of public spending (via a bill that lowers the government wage and benefits, for example) on the expenditure side is also a priority.

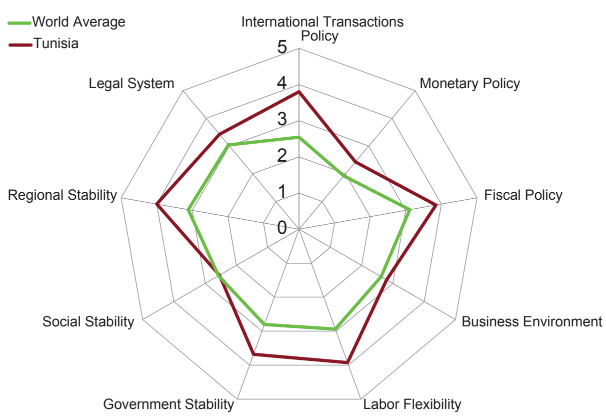
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

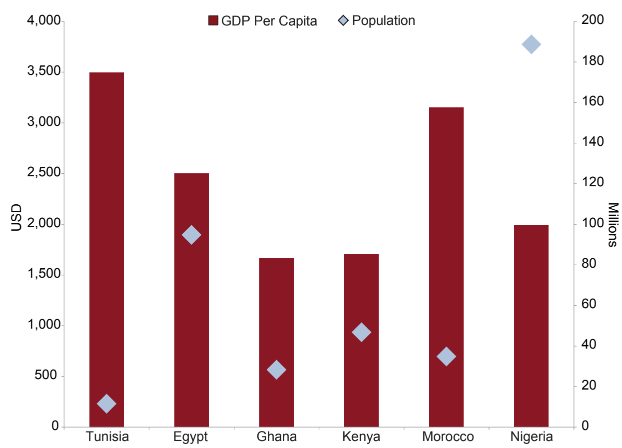
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Tourism, agriculture, mining, energy, manufacturing, and services are the key industries in Tunisia's economy, accounting for over 90% of GDP.
- In 2016, Tunisia entered into a four-year Extended Fund Facility with the IMF to access USD2.9 billion in funding. The goal of the facility was to reduce macroeconomic vulnerabilities, ensure social protections, and foster private sector growth.
- Economic reforms are being proposed, including a reduction in energy subsidies, a freeze on public wages, and pension reform.
- The government is committed to encouraging foreign direct investment. However, there are several headwinds to this goal, including a tenuous security environment, inadequate enforcement of legislation, and burdensome regulation, particularly in labor matters. The country has a large and well educated workforce.

Political System Risk: High

- The current prime minister is Youssef Chahed of the Nidaa Tounes party. He took office in August of 2016.
- Local elections in May 2018 resulted in a weak coalition government.
- The government, with advice from the IMF, aims to narrow the budget deficit, lower public wages and overhead, and implement market driven reforms. Opposition is likely, however, due to a rising cost of living and socioeconomic inequality.
- Additional government concerns include the potential for spillover effects from regional conflicts in Libya and Syria, high levels of corruption, growing income inequality, and a fragile sociopolitical environment.
- Terror groups have targeted tourism hot spots in addition to military targets in the hopes of undermining the economy.
- An obstacle to investment is the country's cumbersome and slow moving bureaucracy, despite efforts to streamline procedures to increase efficiency.
- The government is attempting to simplify and modernize the tax system in an effort to improve collection.

Financial System Risk: Very High

- The insurance industry is regulated by the Comité Général des Assurances.
- Real interest rates remain negative, with inflation exceeding 7.5% and a base lending rate of 6.75% as of June 2018. The Central Bank of Tunisia will need to tighten monetary policy to slow credit growth and lower inflation.
- In 2018, parliament passed laws allowing public banks to restructure non-performing loans, which should facilitate loan workouts and better monitoring of credit risk. The IMF recommends implementation of the use of risk-based bank supervision.