NEWS RELEASE

Aug 29, 2023

Rating and Investment Information, Inc. (R&I) has announced the following:

Republic of Tunisia (Sec. Code: -)

[Rating Changed]

Foreign Currency Issuer Rating: B, Negative -> B-, Negative

Central Bank of Tunisia (Sec. Code: -)

[Rating Changed]

Foreign Currency Issuer Rating: B, Negative -> B-, Negative

Bond Rating: B -> B-

RATIONALE:

Relatively high fiscal deficits persist. The outlook for fiscal consolidation is uncertain, and the government debt ratio remains high. Taking also into account the current account balance in a significant deficit, R&I has a view that fiscal and external fronts remain in a difficult situation. As the government has made efforts to secure foreign currency and hold a certain amount of foreign exchange reserves, there is little likelihood that the country may face immediate problems with foreign currency liquidity. Nonetheless, uncertainties are growing about the government's capability of servicing foreign-currency debts over the medium-term, as there is no clear development to secure financial support from the International Monetary Fund (IMF). In addition, the future of reforms in economic and fiscal structures is also uncertain. Based on the said recognition, R&I has downgraded the Foreign Currency Issuer Rating to B- with the Rating Outlook of Negative. R&I would downgrade the rating if concerns about the sustainability of government debt grow further.

Accelerating inflation driven by soaring global energy and food prices and other factors weighed on the economy. The real GDP was still below the pre-pandemic level at the end of 2022. The economy is recovering thanks to the return of tourism demand and other factors in 2023. The government projects the real GDP growth rate for 2023 at 1.8%. The projection of the World Bank is 2.3%. The economy will likely grow at a moderate pace of 2 to 3% starting from 2024 onwards, while it depends on the trends of external demand and domestic politics.

The current account balance has been in a large deficit, as the surplus in services is insufficient to cover the trade deficit. The current account deficit had widened in 2022, due to soaring import prices of energy and foods. Although the deficit is expected to narrow in 2023, the level of the deficit will remain large. The country's external debt is large, making the economy highly vulnerable to external shocks. While the level of foreign exchange reserve is not sufficient, it is equivalent to about three months of imports. This fact provides a supporting factor of the R&I's assessment of foreign-exchange liquidity

The fiscal deficit is large, standing at 7.6% of GDP as of 2022. The government plans the fiscal deficit of 5.2% in 2023. The tax revenue is increasing steadily and the growth of wage expenditure, which stands for nearly half of the total government spending, is also under control. That said, as there is an upside risk about expenditure for subsidies, it is yet to be seen whether the government is able to reduce its fiscal deficit as planned. The outstanding debt of the central government stands at a high level, around 79% to GDP as of year-end of 2022. While the debt-to-GDP ratio is likely to decline in 2023, it is difficult to expect the ratio falling steadily over the medium-term unless there is a firm prospect for the fiscal deficit reduction.

Although the government and IMF had reached a staff level agreement on a financial assistance in October 2022, no progress has been made since then. To meet the requirements to receive IMF's support, the government laid out a structural reform program as a condition of the financial support, including curbs on government spending for public employee wages, reforms of government subsidy system and state-owned companies, and improvement of business environment among other measures. While progress has been made in some reforms, the implementation of fuel subsidy reform

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has been postponed due to the magnitude of the impact on society. The government and the central bank are working to secure financial supports from foreign governments and international organizations, and are expected to be able to raise enough funds for this year even without the IMF support. Nonetheless, R&I believes that the IMF support is a crucial factor not only to secure foreign currency liquidity but to achieve macroeconomic stability and boost economic growth through structural reforms. Taking also into account the situation where political uncertainty remains as President Kais Saied dismissed the prime minister, eyes are on the country's socioeconomic and political developments as well as the progress in talks with IMF over the financial support.

R&I RATINGS:
ISSUER: Republic of Tunisia

[Rating Changed]

	Rating	Rating Outlook
Foreign Currency Issuer Rating	B-	Negative

ISSUER: Central Bank of Tunisia

[Rating Changed]

	Rating	Rating Outlook
Foreign Currency Issuer Rating	B-	Negative

	Issue Amount	Issue Date	Maturity Date	Rating
Global Japanese Yen Bonds due 2030	JPY 15,000 mn	Aug 2, 2000	Aug 2, 2030	B-
Global Japanese Yen Bonds due 2031	JPY 20,000 mn	Mar 15, 2001	Mar 17, 2031	B-
Japanese Yen Bonds No.7	JPY 30,000 mn	Aug 9, 2007	Aug 9, 2027	B-

Republic of Tunisia
Primary rating methodologies applied:
R&I's Analytical Approach to Sovereigns [May 21, 2021]

Central Bank of Tunisia
Primary rating methodologies applied:
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