Fitch Ratings (06/12/2014)

The prospect of a new Tunisian government in the coming weeks is positive for the sovereign's credit profile, Fitch Ratings says. The electoral process has proceeded smoothly despite security risks, and electoral outcomes have increased the likelihood of the formation of a stable, coherent government.

The secretary-general of Nida Tounes, which won the most seats in October's parliamentary elections, said on Monday that Habib Essid had been nominated as Tunisia's new prime minister. The announcement follows the victory of Beji Caid Essebsi, also of Nida Tounes, in presidential elections held in late December. Essid will now seek to form a coalition government and name a cabinet in the next month or so.

The formation of a new government following the 4Q14 elections would complete Tunisia's political transition, which began with the fall of the Ben Ali regime in 2011. The new parliament and president have been elected for five years in line with the new constitution adopted by the previous parliament; Tunisia therefore is on track to be the first Arab Spring country to complete a transition to democracy.

Nevertheless, politics remain fragmented and social tensions high, with no party winning an outright parliamentary majority. The final timing and breadth of any coalition, including whether the second-largest parliamentary party, Ennadha, will participate, remains unclear. But stabilisation and capacity for compromise were demonstrated last year in the adoption of the new constitution, the formation of a caretaker government, the approval of the electoral law, and peaceful polling. Combined with the mandate that victory in the parliamentary and presidential elections gives Nida Tounes, this suggests that a coalition that can be consistent and effective in policy-making can be formed.

This would be in line with our longstanding view that political transition will ultimately succeed and a new government take power in early 2015.

Political tensions have taken a toll on policy-making and performance. The caretaker government has progressed with some reforms (eg further raising selected subsidised prices and strengthening tax administration), but key ones on banking sector restructuring and business environment improvement have yet to be finalised and implemented.

Reliance on official lenders including the IMF and World Bank should maintain the policy anchor. We think the next government is likely to broadly comply with fiscal consolidation commitments made by the caretaker government in its 2015 budget (we forecast the deficit to narrow to 4.9% of GDP this year, from 5.6% in 2014).

The authorities recently announced their intention to launch a bond issue in their own name, the first since the revolution, by end-January 2015 to finance budget needs.

Progress in political transition will boost confidence, potentially lifting growth. Fiscal consolidation will slow expansion but lower oil prices, together with lower oil subsidies, will ease external and fiscal positions.

This will help improve Tunisia's twin deficits, but sustainably unwinding them will take time. An improved policy stance would therefore be key to a revision to Stable of the Negative Outlook on Tunisia's 'BB-' rating in 2015. Our next scheduled review is on 27 March.