

TUNISIAN ECONOMY IN FREE FALL

Francis Ghilès, Senior Associate Researcher, CIDOB

Tunisia's economy is falling off and the country has become less attractive to foreign investors. Despite the agreement reached in October by the Tunisian authorities with the International Monetary Fund on an extended facility to support macroeconomic stability, the country is confronting a very serious crisis.



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In recent years, the regular downgrading of Tunisian credit by the international rating agencies has been a recurring feature of the country's political calendar. On the last day of September, Moody's duly obliged by placing the Government of Tunisia's Caa1 long-term foreign currency and local-currency issuer ratings on review for downgrade. It also placed the Central Bank of Tunisia's Caa1 unsecured rating on review for downgrade.

Successive Tunisian governments have been defying the laws of budget deficit gravity for so long that the country's leaders seem to have convinced themselves that they can indulge in yet more magical economic thinking without any serious negative consequences for the well-being of their 12 million countrymen. A foreign debt which has reached 100% of GDP, inflation in double digits and recurring shortages of staple foods such as bread, sugar and milk suggest otherwise. Tunisia's financial and economic wheels are falling off.

After Ben Ali was ousted in 2011, Tunisians and their well-wishers abroad convinced themselves that political parties, be it the Islamist Ennahda which had been banned for years, or other political forces such as Nida Tunes, and the powerful trade union (UGTT), would engage in a serious debate about how to reform the economy and foster higher growth, both of which were essential if the country's fragile democracy was to be consolidated. Free elections came and went but economic policy was limited to creating an estimated 100,000 new jobs (nobody knows the exact figure) in the already bloated civil service and parastatals. All political parties filled these new phantom jobs with their - usually unqualified, supporters.

The state wage bill doubled as a result and today accounts for 15.4% of GDP. Subsidies of everything from bread to petrol add a further 15.1%.

State investment has collapsed and standards in education and health are declining fast. A country once noted for the good quality of its basic education and health systems in the MENA region watches its doctors flee abroad. The civil service is paralysed by president Kais Saied's constant denunciation of corruption which paralyses decision making. The tax system has always been unaccountable. But now it has become predatory.

The poor are getting poorer, regional disparities are increasing and the country's ports have become sieves through which any and every type of import can travel without paying customs dues. The president would order the army to take control of the ports if he was serious about fighting corruption.

The economic policy of Kais Saied who took all powers in July 2021 can be summed up in a nutshell: attack speculators as the source of the country's economic woes; never listen to businessmen who create wealth and do not offer Tunisians, let alone the IMF any blueprint for reform. Hannah Arendt was not alone in pointing out that in order "to deceive others, you have first to deceive yourself".

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Senior businessmen have wondered why the country's major trading partners indulged their leaders to such an extent. They are not surprised by the capacity of Tunisians to delude themselves about the seriousness of the crisis confronting the country, in particular about the capacity of the central bank to keep on printing money without any consequences.

The UGTT has been complicit in the state's incapacity to reform because most of its members work for that very state, which accounts for roughly two thirds of GDP. Meanwhile Tunisia becomes less attractive to foreign investors and capital flight is increasing. A senior businessman believes the president's behaviour is akin to "rearranging the deck chairs on the Titanic".

With Moody's decision, which some Tunisians will denounce as "a foreign plot", the financial markets will deliver, as they have recently done in the UK, a message that political leaders do not want to hear. Kais Saied is

convinced he knows what is best for Tunisia, but he is financially and economically illiterate and does not listen to outside advice.

Tunisia signed two agreements with the International Monetary Fund in 2012 and 2016, both honoured in the breach. Tunisia reached a new agreement this fall with the IMF but the \$1.9bn it offers over four years barely covers the cost of Tunisian foreign debt repayments. The agreement offers no financial support for eventual reforms if only because the president has never spelled out what these reforms might be.

Parliamentary elections are due in December, which the opposition has said it would boycott. A referendum on a new constitution was approved by a large majority of 94% in July but only 30% of those entitled to vote cast a ballot. The turn-out in December could be even lower and thus deprive Kais Saied of the political legitimacy he craves.

The international economic fallout of Covid19 and the war in Ukraine have compounded an already dire economic situation. The revolution of 2011 increasingly has the taste of bitter lemons. The editor of the respected *economic weekly Ecoweek*, Hachemi Alaya, recently compared the president to Ubu Roi, a late 19th century play by the French author Alfred Jarry, which overturned cultural rules, norms and conventions and opened the door to the 20th century Theatre of the Absurd.

Moody's decision means the country will find it virtually impossible to borrow on international capital markets. Nobody knows how the government will fund the \$3.2bn in foreign loans it needs to finance the 2022 budget, short of re writing the budget. The risk of Tunisia defaulting on its foreign debt is real.

Tunisia's central bank is run by a competent man, Marouane El Abassi. However, as he prints money and indulges the president some are tempted to ask if the governor should not fall on his sword? That might seem the honourable thing to do but Marouane El Abassi is damned if he stays and damned if he resigns. Were he to resign, the risk of a demagogue being appointed is very real.

As the economic outlook in EU countries, which are Tunisia's major trading partners, darkens, forecasts for Tunisia's GDP growth this year have declined from 3% (the World Bank) in June 2022 to 1.7% (the ERBD) in September. Professor Alaya points his finger at what he sees as the worst offense of successive governments since 2011 - the "outrageous" levels of public expenditure and a state which employs an estimated 700,000 people (nobody knows the exact numbers).

The so-called Jasmin revolution has devoured its children, and older Tunisians fear that the legacy of Habib Bourguiba, who led Tunisia to independence in 1956 and built the foundations of a modern state where women were granted equal rights, is being destroyed. The reason for this state of affairs lies in the parody of democracy which Tunisian political leaders, often compared to traditional Ottoman *karakuz* puppets, have practised since 2011.