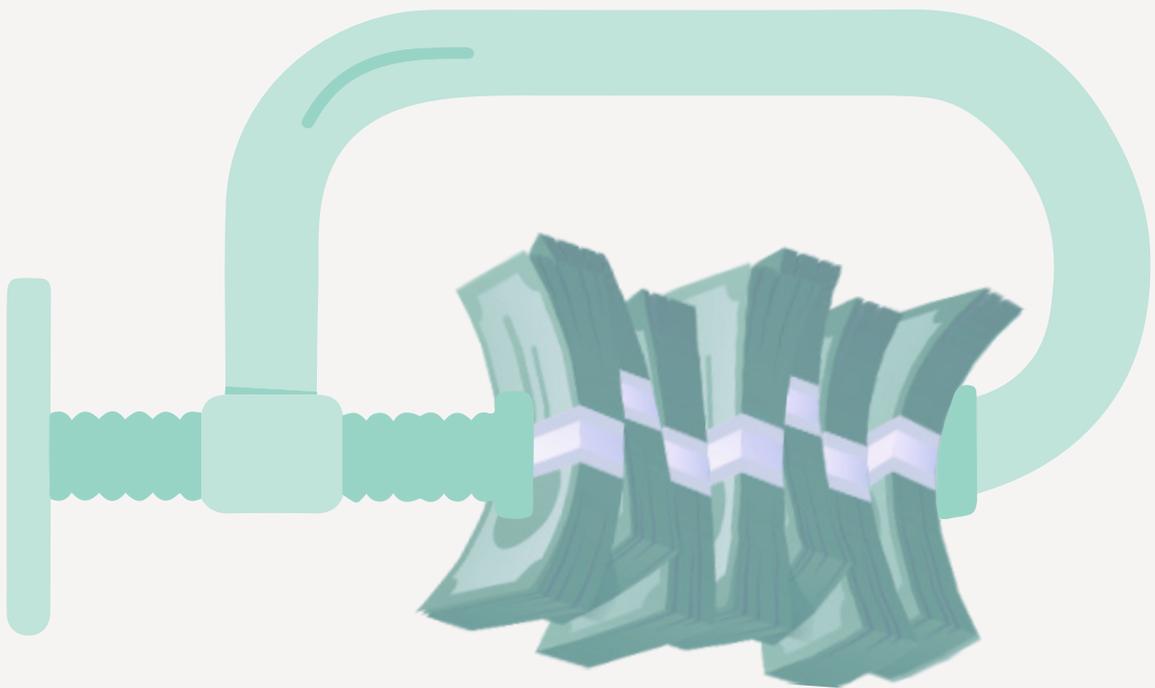




AL BAWSALA

# A DECADE OF AUSTERITY



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## Table of content

Introduction	5
What has been recommended by the IMF during this decade?	6
What has been applied by the Tunisian governments?	7
What lies ahead?	8
10 years of budgetary austerity	10
Public wage bill cap	10
Misleading Diagnosis	10
Crippling access to public services	11
Subsidy reduction	14
A budgetary witch-hunt	14
Increasing the burden on the middle and low-income class	15
10 years of monetary austerity	19
Flexibility in the exchange rate	19
Central bank independence	19
Widening the debt	20
Increasing the trade deficit	20
10 years of fiscal austerity	22
Reducing corporate tax	22
Depleting state resources	22
Inefficiency in driving investment	23
Failure to create jobs	25
Conclusion	26

## Table of Tables

Table 1: IMF recommendation in the past decade	6
Table 2: Evolution of the number of students and teachers in primary education	12
Table 3: Evolution of the population and the number of public health doctors	13
Table 4: Evolution of the cost of food and energy subsidies	14
Table 5: composition of the price of fuel	15
Table 6: Evolution of the price of canned tomatoes	17
Table 7: Percentage annual growth in salaries	17
Table 8: Impact of the exchange rate on debt payments	20
Table 9: Evolution of the number of companies in the Tunisian market	24

## Table of Figures

Figure 1: Main adjustment measures by region,2010-2015	7
Figure 2: public wage bill/GDP in selected MENA countries	10
Figure 3: Evolution of the number of professors allocated to every 10 thousand students	12
Figure 4: Evolution of the number of public health doctors allocated to every 10 thousand citizen	13
Figure 5: Share of total income per social class	16
Figure 6: The incremental trade effects on 2016-2017	20
Figure 7:Gross exports of Phosphates; source: Atlas of economic complexity	21
Figure 8: The evolution of state revenues in terms of corporate tax -Ministry of Finance-	22
Figure 9: Evolution of the contribution of different taxes to state tax revenues	23
Figure 10: Percentage annual growth in the number of companies	24
Figure 11: Evolution of the unemployment rate	25

## Introduction

A decade after the revolution, Tunisia is still struggling on the socioeconomic level. The latest indicators show that the ever-rising debt levels are unsustainable. According to the finance law of 2022, debt to GDP ratio has reached 87%, delivering in the process yet another blow to the economy. It is with this crushing debt and a large budget deficit that the Tunisian government headed towards a negotiation with the International Monetary Fund (IMF).

The international financial institution and its typical austerity measures are no strangers to Tunisia. In the past decade, successive governments have opted, on several occasions, to incorporate IMF measures into public policy. This paper will revisit some of the aforementioned recommendations, both those already adopted, and those that are once again being discussed. This Analysis will be based on the intersection between two documents, the program developed by the Bouden government, and a report annexed to the finance law of 2022 depicting the mid-term budgetary framework.

It is worth noting that the aforementioned Bouden government program is not official but media interventions by the finance minister confirm that the contents of the leaked document are representative of the actual intentions of the government.

## What has been recommended by the IMF during this decade

The IMF has influenced several aspects of the Tunisian economy during this decade. Table 1 summarizes the major recommendation delivered by the international financial institution (IFI) to Tunisia.

Recommendations	2012 <sup>1</sup>	2013 <sup>2</sup>	2014 <sup>3</sup>	2015 <sup>4</sup>	2016 <sup>5</sup>	2017 <sup>6</sup>	2018 <sup>7</sup>	2019 <sup>8</sup>	2020 <sup>9</sup>
Reduce the public wage bill	X	X	X	X	X	X	X	X	X
Greater flexibility in the exchange rate	X	X	X		X	X	X	X	
Tax reform on companies (Less taxes)	X	X		X					
Banking reforms	X	X	X	X	X	X	X	X	
Restructuring public banks	X	X	X	X	X				
Reforms to the Central Bank	X		X	X	X	X	X		
Less expenditure on public services		X	X	X	X	X			
Phase out energy subsidy	X	X	X	X	X	X	X	X	X
Encourage public private partnerships		X	X	X	X				
Reform state owned business public enterprises (privatization)			X	X	X	X	X	X	

Table 1: Summary of IMF recommendations (2012-2020)

While certain recommendations are presented with higher frequency, it is fair to note that the IMF has been consistent in their diagnosis with all the recommendations making an appearance multiple times over the past decade.

1 IMF, Tunisia: 2012 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Tunisia, IMF Country Report No. 12/255, September 2012, International Monetary Fund

2 IMF, Tunisia: Request for a Stand-By Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Tunisia., IMF Country Report No. 13/161, June 2013, International Monetary Fund

3 IMF, TUNISIA: FIFTH REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND REPHASING OF ACCESS—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TUNISIA, IMF Country Report No. 14/362, December 2014, International Monetary Fund

4 IMF, TUNISIA: 2015 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE STAND-BY ARRANGEMENT, AND REQUEST FOR REPHASING—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TUNISIA, Country Report No. 15/285, October 2015, International Monetary Fund

5 IMF, TUNISIA: REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TUNISIA, Country Report No. 16/138, June 2016, International Monetary Fund

6 IMF, TUNISIA 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED FUND FACILITY, AND REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REPHASING OF ACCESS, Country Report No. 18/120, March 2018, International Monetary Fund

7 IMF, TUNISIA FOURTH REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA —PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TUNISIA, Country Report No. 18/291, October 2018, International Monetary Fund

8 IMF, Tunisia, FIFTH REVIEW UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA, AND FOR REPHASING OF ACCESS, IMF Country Report No. 19/223, July 2019

9 IMF, TUNISIA: REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TUNISIA, IMF Country Report No. 20/103, April 2020.

There are two main takeaways. First, these recommendations are by no means specific to the Tunisian context, but rather come within a global austerity context. Figure 1 depicts the most common recommendations made by region by the IMF.

Region/income	Subsidy reduction	Wage bill cuts/caps	safety net targeting	Pension reform	Labour reform	Health reform	consumption tax increases	Privatization
East Asia and Pacific	15	18	10	6	9	2	18	8
Eastern Europe/Central Asia	14	17	18	18	12	9	14	11
Latin America/Caribbean	14	14	13	17	11	2	18	3
Middle East and North Africa	10	8	7	5	6	3	9	2
South Asia	6	7	5	2	3	0	7	3
Sub-Saharan Africa	38	32	15	12	8	6	27	13
Developing countries	97	96	68	60	49	22	93	40
High-income countries	35	34	39	45	40	34	45	15
All countries	132	130	107	105	89	56	138	55

Figure 1: Main adjustment measures by region, 2010-2015 (source: The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries)<sup>10</sup>

The redundancies and similarities offered by Table 1 and Figure 1 highlight the ideological nature of these policies, and discredit the dominant narrative depicting the IMF recommendations as a result of country specific studies.

The second takeaway is that these austerity policies touch three main economic axes:

- Budgetary austerity: reduce the public wage bill, reduce expenditure on public services, phase out energy subsidies, reform State Owned Business/ public enterprises (privatization), encourage public Private Partnerships
- Fiscal austerity: reduce corporate income tax
- Monetary austerity: reform of the Central Bank, increase flexibility of the exchange rate.

### What has been applied by the Tunisian governments

It has been a common practice, be it by the IMF or government officials, to state that Tunisia has not yet opted to apply IMF recommendations. This stance is understandable when trying to mask any link between the current socioeconomic situation and austerity policies. In fact, the denial might be necessary to legitimize the process of future negotiations relying on the same policy recipe. In reality, successive governments have cemented these recommendations into policies on several occasions.

Adopted policies englobe all three axes. For instance, on the budgetary level, starting 2016, the government set a freeze on recruitment in the public sector.<sup>11</sup> It also revised its subsidy policy by and

<sup>10</sup> Ortiz, I., Cummins, M., Capaldo, J., & Karunanethy, K. (2015). The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries P13. Retrieved 2 August 2022, from <https://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=53192>

<sup>11</sup> رئاسة الحكومة: منشور حول إعداد مشروع ميزانية الدولة لسنة 2016-2021 n.d.

continuously making significant cuts, particularly in regards to energy subsidies starting 2012.<sup>12</sup> Cuts have also involved food subsidies (canned tomatoes).<sup>13</sup>

On the fiscal level, corporate income tax has witnessed two major decreases in the past decade. The first was in 2014, lowered from 30% to 25%.<sup>14</sup> The second decrease in 2020 was steeper, going from 25% to 15%.<sup>15</sup> It is important to note that 15% is the lowest rate possible for a country without being classified as a tax haven by the Financial Action Task Force.

There have been drastic changes in terms of monetary policy, especially with the introduction of the independence of the central bank act<sup>16</sup>, prompting an intentional devaluation of the Tunisian Dinar as part of the IMF agreement package.<sup>17</sup>

In conclusion, despite arguments to the contrary, successive Tunisian governments fully embraced the ideological austerity framework set by the IMF, by translating its recommendations into policy. The question, for the years ahead, is not whether this government will finally opt to develop an economic program in accordance with IMF recommendations, but rather whether it will further entrench these failed policies further into the fabric of the Tunisian economy.

### What lies ahead

It has been announced in the middle of the COVID-19 crisis that the Tunisian government is seeking yet another IMF loan. The earliest manifestation of loan negotiations is a letter of intent elaborated under the Mechichi government. Released by the media in March 2021, this letter highlights the main guidelines for the negotiations.<sup>18</sup>

Unsurprisingly, the Mechichi government opted for the traditional austerity measures. Citing the unsustainability of the debt ratio, this letter of intent pushes the boundaries of austerity. It states the willingness of the government to adopt an unprecedented number of austerity measures, and even expand them beyond the scope recommended by the IMF. For example, the letter announced that the corporate tax rate should be further decreased to draw investment. It is true that, in previous years, the IMF had advocated for lowering this tax. After it was lowered to 25% in 2014, the IMF was satisfied with this rate. However, the government continued to lower it to 15%, effectively depriving itself of much needed fiscal resources.<sup>19</sup>

This letter was met with opposition by the main syndicalist movement in Tunisia “UGTT” and various components of the civic space. It has even been criticized by the IMF, itself, due to an absence of

12 Documents1.worldbank.org. 2015. Evolution of Energy Subsidies. [online] Available at: <<https://documents1.worldbank.org/curated/en/370251468189558300/pdf/WPS7312.pdf>> [Accessed 8 March 2022].

13 Aliriza, F., 2021. Tunisia. Government Raises Consumer Prices to “Appease” IMF, Some Claim. [Blog] Nawaat, Available at: <<https://nawaat.org/2021/07/08/tunisia-government-raises-consumer-prices-to-appease-imf-some-claim/>> [Accessed 8 March 2022].

14 finance law of 2014. article 18. Add links if possible

15 Finance law of 2020.

16 Loi\_2016\_35 portant fixation sur le statut de la banque centrale de Tunisie.

17 Ben Rouine, C., 2018. [online] Economie-tunisie.org. Available at: <[http://www.economie-tunisie.org/sites/default/files/20180614-da18\\_inflation-bap-eng.pdf](http://www.economie-tunisie.org/sites/default/files/20180614-da18_inflation-bap-eng.pdf)> [Accessed 8 March 2022].

18 (IMF letter of intent, 2021)

Budget.marsad.tn. 2021. IMF letter of intent. [online] Available at: <<https://budget.marsad.tn/ar/opendata/download/808>> [Accessed 23 March 2022].

19 Table 1

consensus which will render the execution of this program impossible. With all these criticisms, the negotiations were put to a halt when, on the 25<sup>th</sup> of July 2021, President Kais Saied enacted Article 80 of the Constitution, dissolving the Mechichi government along with the parliament. A year later following a referendum, Kais Saied established a new constitution with major changes in terms of political institutions.

Promoting a discourse that, at first glance, seems hostile to austerity, Kais Saied repeatedly highlighted the necessity for sovereign economic policies. However, the appointed Bouden government retook the negotiations and, rather than rejecting what the Mechichi government had done, it built on it instead.

Documents published by the Bouden government, namely a report entitled “midterm budgetary framework 2022-2024”<sup>20</sup>, and the leaked negotiation program<sup>21</sup>, simply rebranded what the previous government stated in its letter of intent. The rebranding reorganizes the austerity measures into a so-called economic program focusing on three main axes:

- Budgetary austerity: The main focus in this area is the reduction of the public wage bill, a cut in the cost of subsidies, and a retreat of the state role in state owned companies in favor of the private sector.
- Fiscal austerity: While there is no explicit mention of further corporate tax incentives, the documents included expressions such as “widening the tax base and improving the investment atmosphere”. These expressions have historically been adopted into policy in the form of corporate tax reductions and further reliance on regressive indirect taxes.
- Monetary Policy: This has focused on the simplification, reduction, and harmonization of the provisions of the foreign exchange regulations, which denotes further flexibility of the exchange rate and a reduction in restrictions of capital flows. In this economic context this is likely to incite a departure of capital from Tunisia resulting in a fall of the value of the Dinar.

To sum up, the current government is only aggravating what has previously been implemented in terms of austerity policies.

To evaluate the continued reliance on IMF policies, this paper will examine both adopted and proposed recommendations. This analysis will allow us to draw conclusions of the potential socio-economic impact of the outcome of the negotiations, and further understand the link between the current economic situation in Tunisia past IMF programs.

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20 Finances.gov.tn. 2022. midterm budgetary framework. [online] Available at: <[http://www.finances.gov.tn/sites/default/files/2022-02/ANNEXE\\_02\\_03\\_04.pdf](http://www.finances.gov.tn/sites/default/files/2022-02/ANNEXE_02_03_04.pdf)>

21 Ministry of finance, 2022. leaked economic program. Tunisia: media agencies and NGOs. [Accessed 24 March 2022].

# 10 Years of Budgetary Austerity

## Public wage bill cap

The IMF has persistently centered the discussion of balance of payment issues on the public wage bill. As seen in the recommendations Table 1, starting in 2012, the IFI consistently pushed towards controlling the public wage bill. To argue in favor of these cuts, the IMF bases its narrative on a single indicator, which is the public wage bill to GDP ratio.

It is important to reiterate that in 2016, a freeze on recruitment in the public sector has been and continues to be implemented, with the exception of certain administrations (e.g., the Ministry of Interior). So, there has not been any major increase in the number of public employees.

## Misleading Diagnosis

Before technical IMF negotiations, government officials announced that the public wage bill constituted 16% of the GDP. They stated that swift action must be taken to ensure a 2% decrease.<sup>22</sup>

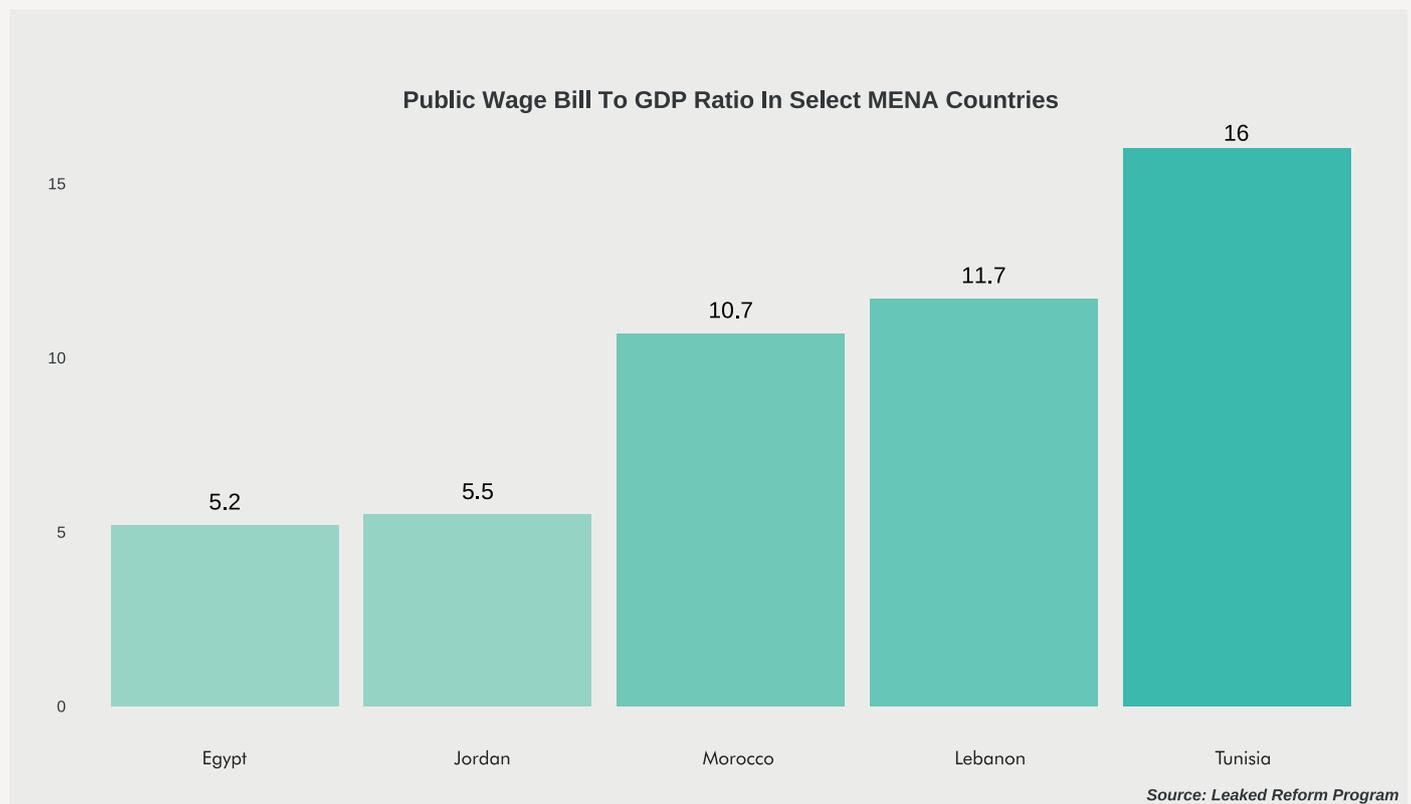


Figure 2: Public wage bill to GDP ratio in select MENA countries (source: Leaked reform program)<sup>23</sup>

22 Finances.gov.tn. 2022. midterm budgetary framework.P:13, [online] Available at: <[http://www.finances.gov.tn/sites/default/files/2022-02/ANNEXE\\_02\\_03\\_04.pdf](http://www.finances.gov.tn/sites/default/files/2022-02/ANNEXE_02_03_04.pdf)>

23 Programme de réformes pour une sortie de crise,P10 link: <https://www.iwatch.tn/ar/uploads/Programme-FMI-16122021-1.pdf>

There are two major critiques to this diagnosis. First, it bases its evaluation on gross domestic product growth. There are two factors that induce an increase in the aforementioned ratio. The first is an abnormal increase in the wage bill in the public sector (the numerator). This is the claim held by the successive governments and the IMF. The second factor is that the economy (meaning the denominator GDP) is unable to grow to meet a natural increase in the cost of labor in the public sector.

There is a tendency for the public wage bill/GDP ratio to rise when no major economic growth has been achieved. While there is a consensus around the fact that the Tunisian economy has been stagnating in the past decade, the IMF chooses to focus on budgetary cuts to ensure a stabilization of the aforementioned ratio, rather than prioritizing public policies to boost economic growth.

This misdiagnosis means that, even if no major recruitment is to happen in the years to come, the ratio of wage bill to GDP will continue to rise. The public wage bill will naturally continue to rise due to a natural increase in salaries, and the GDP will continue to stagnate. This will, in turn, prompt IMF recommendations to cut the public wage more. It is a vicious cycle.

A sustainable alternative to this cycle would be to boost growth, ensuring in the process a healthy increase in the state budget via greater tax returns, through public investment financed by progressive taxation. But, focusing on the expenditure side of the budget, the IMF's only solution seems to be cut public costs in the short term.

Aside from the erroneous interpretation of the wage bill to GDP indicator, the second critique of the IMF's diagnosis is its failure to ask and answer a core question: does the state actually have too many employees?

If we are to study the number of public servants per thousand inhabitants compared to other countries, Tunisia does not rank on top of this scale. Far from it, as of 2017, Tunisia counts 56 public employees per 1000 inhabitants. A modest number, especially when compared to Nordic countries such as Denmark with 143 employees, Finland with 112, Norway with 160. Even countries known for austerity have a higher rate of public servants. The US and UK have 80 and 70 public employees per 1000 inhabitants respectively<sup>24</sup>.

This observation sheds light on an interesting concept that decision-makers in Tunisia fail to address. An assessment of the wage bill should not be based on the proportion of this bill compared to the GDP or the state budget, but rather the state budget should be allocated in a way to provide the necessary public services. The current political debate misses this line of thinking completely, and instead argues on how many employees should be eliminated, in order for the public wage bill ratio to meet an arbitrary percentage of 14%.

### Crippling access to public services

While the budgetary cost of the public wage bill is often put on headlines, rarely is the social costs of reducing the number of public employees discussed. A review of access to public services in the last decade indicates that freezing recruitment has indeed impacted vital services, starting with the

<sup>24</sup> Flore Deschard & Marie-Françoise Le Guilly, TABLEAU DE BORD DE L'EMPLOI PUBLIC SITUATION DE LA FRANCE ET COMPARAISONS INTERNATIONALES, P7, link: <https://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/tdb-emploi-public-20-12-2017.pdf>

education sector.

	2011	2012	2013	2014	2015	2016	2017	2018
Students	1014836	1029559	1049177	1066493	1079001	1100790	1122693	1149245
Teachers	58833	59786	62484	63303	64944	64000	63642	63228

Table 2: Evolution of the number of students and teachers in primary education (Source:INS)<sup>25</sup>

As Table 2 indicates, initially, there is a gradual increase in the number of teachers, matching the increase of students in primary education. This positive trend comes to a halt with the introduction of IMF recommendations in 2016 and the freezing the recruitment. In fact, the number of teachers decreased, whereas the number of students continued to naturally increase over time as the population grew. This mismatch is clearer to observe when looking at the student-teacher ratios. (Figure 3)

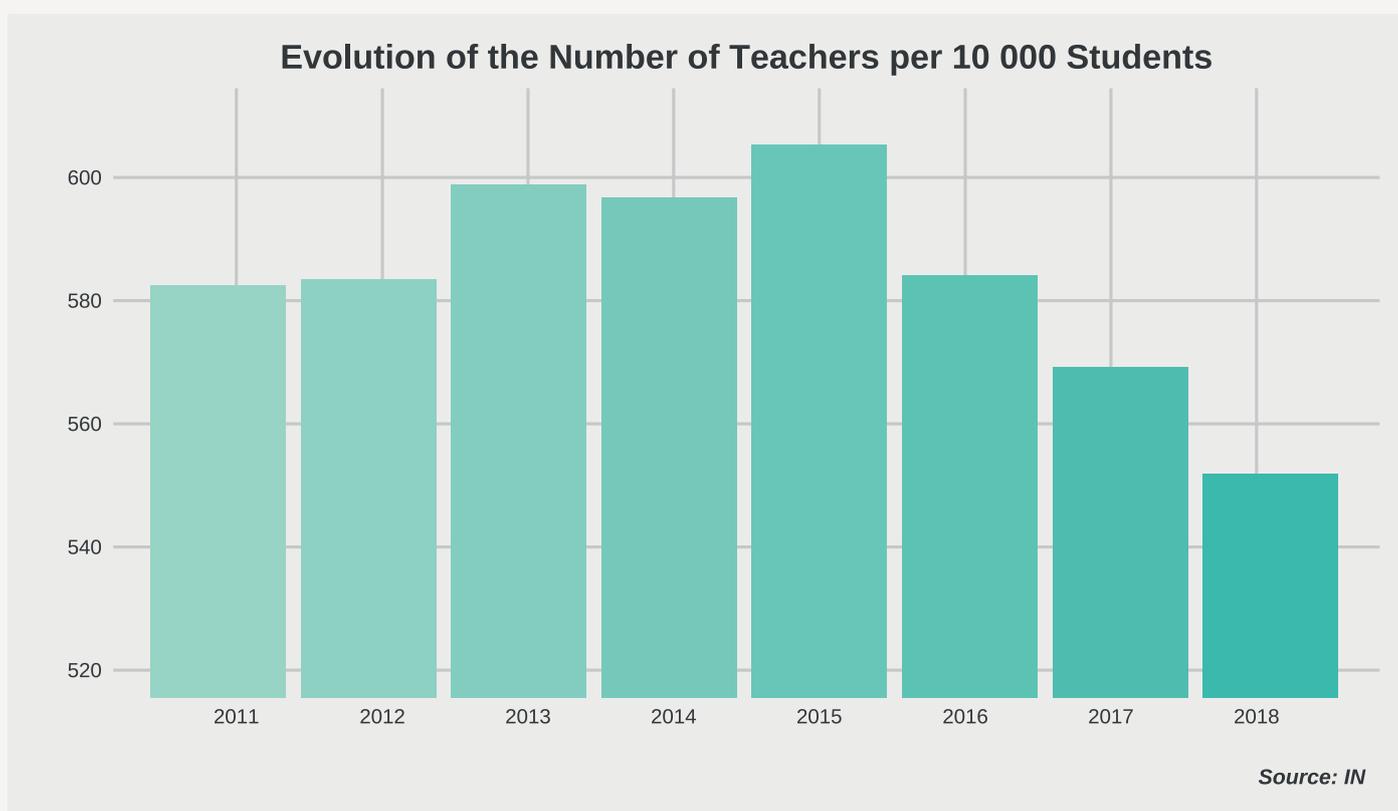


Figure 3: evolution of the number of teachers/10000 students (source:INS)<sup>26</sup>

To ensure quality education, it comes as no surprise that a teachers per student ratio is a very relevant indicator, one that successive governments in Tunisia seem to disregard when focusing on cuts to expenditure.

Unfortunately, statistics on the public health sector tell the exact same story.

<sup>25</sup> Ins.tn. 2018. statistics on education. [online] Available at: <<http://www.ins.tn/en/statistiques/81>> [Accessed 24 March 2022].

<sup>26</sup> IBID

	2011	2012	2013	2014	2015	2016	2017
Public Health Doctors	6971	6058	6988	6844	6832	6271	6753
Population estimation	10614876	10734957	10833431	11091770	11233561	11233561	11375404

Table 3: Evolution of the Population and the Number of Public Health Doctors (Source:INS)<sup>27</sup>

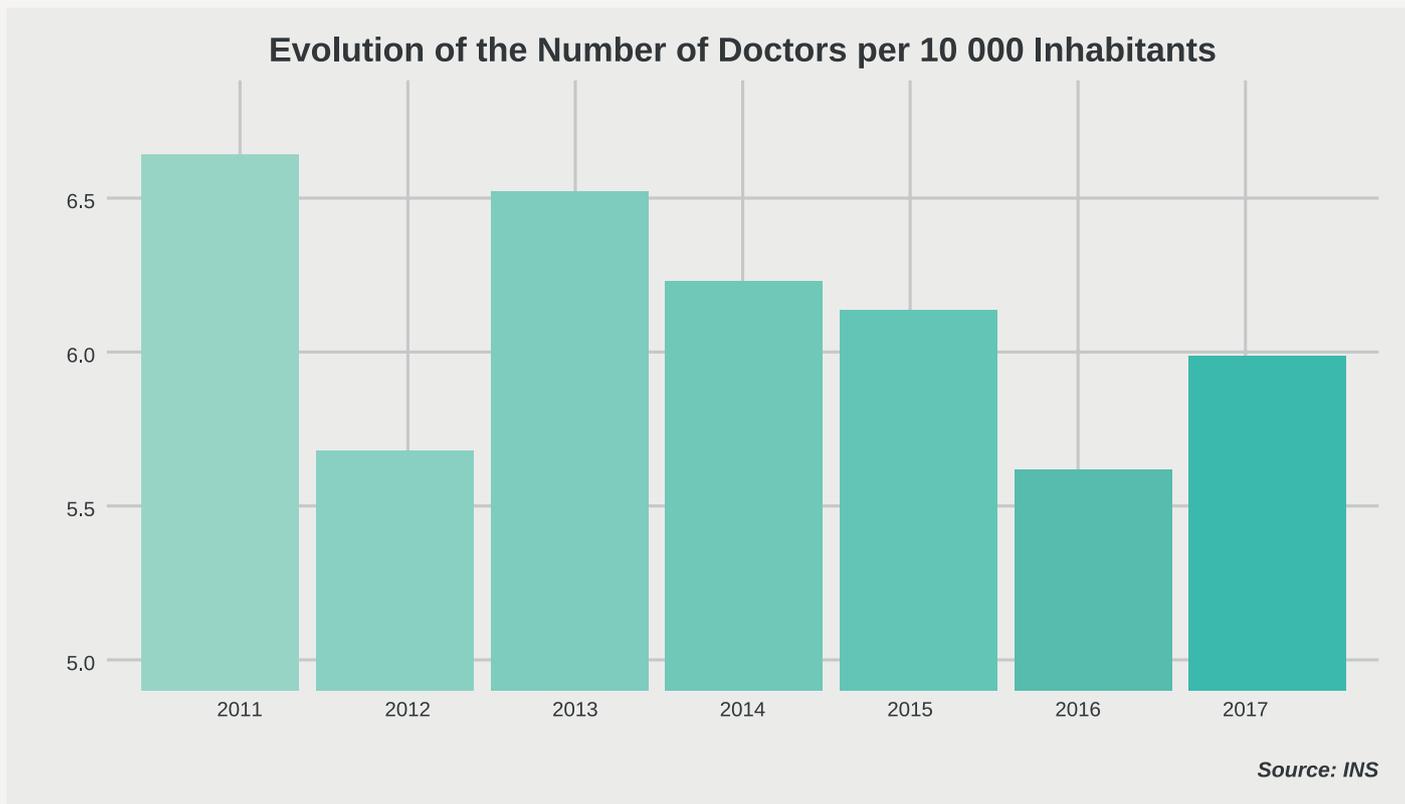


Figure 4: Evolution of the number of doctors/10000 inhabitants (source:INS)<sup>28</sup>

While the national institute of statistics (INS) does not provide statistics on the number of public health doctors beyond 2017, The impact of a lack of medical personnel was well documented in the wake of the COVID-19 crisis. In a survey conducted by the INS, 37% of respondents who needed medical assistance were unable to access it.<sup>29</sup> This rate rises to nearly 50% for the poorest households. Among the 37% unable to access medical care, 87% stated that the main cause was either their inability to move to medical centers or the lack of medical personnel.

The cutting down in the number of public employees has clearly already caused a decrease in the quality of public services. And, it is the poorer segment of society that suffers the most.

<sup>27</sup> Ins.tn. 2018. statistics on health. [online] Available at: <<http://www.ins.tn/en/statistiques/81>> [Accessed 24 March 2022].

<sup>28</sup> Ins.tn. 2018. statistics on health. [online] Available at: <<http://www.ins.tn/en/statistiques/81>> [Accessed 24 March 2022].

<sup>29</sup> Ins.tn. 2020. L'impact socio-économique du COVID-19 sur les ménages | 1ère vague | INS. [online] Available at: <<http://ins.tn/publication/limpact-socio-economique-du-covid-19-sur-les-menages-1ere-vague>> [Accessed 24 March 2022].

Despite the negative consequences of the hiring freeze, the current Bouden government is doubling down on this policy, aiming to systemically decrease the number of public employees. So, already depleted public institutions can expect to face further cuts, in the name of decreasing the budget deficit.

## Subsidy Reduction

The push for consumer subsidy reductions is based on two arguments. The first is that there is an increase in the portion of the state budget allocated for subsidies, therefore an impact on the budget deficit. The second is that rich households benefit more from these subsidies than low and middle classes.

The first argument is an accounting one in nature and fits the ideological framework of IMF programs seeking to cut costs. The second argument seems to hold a social nature. However, a deeper look into revenue distribution in Tunisia gives us a better understanding of the negative social impact of such program. The next section analyzes the evolution of this cost in comparison to other state expenses and then provides an overview on the distribution of revenue, in an attempt to study how lifting subsidies would impact the social fabric of Tunisia.

### A budgetary witch-hunt

The Tunisian government subsidizes three products and services: basic food products, energy, and transportation. According to the midterm budgetary framework 2022-2024, subsidy reduction will concern food and energy. According to the aforementioned report, these products impose the heaviest burden on the state budget. Table 4 presents the evolution of the state budget allocated for food and energy subsidies during the past 4 years.

	2017	2018	2019	2020
Cost of food subsidies <sup>30</sup> (in million dinars)	1500	1750	1800	2416
Cost of energy subsidies <sup>31</sup> (in million dinars)	1550	2700	2538	1470
Total	3050	4450	4338	3886

Table 4: Evolution of the Cost of Food and Energy Subsidies (2017-2020) (Source: Ministry of Commerce and finance laws)

Subsidy costs have risen to 11% (including transportation) of the state budget. While this number might seem relevant at first sight, the report fails to address several points. First, while the state subsidizes energy, it also imposes a 12% value added tax on electricity and fuel along with a consumption tax, covering in the process part of the subsidy cost. As highlighted in the monthly publications of Energy and Mining Ministry the composition of the price of fuel in March of 2021 for example is as follows:

<sup>30</sup> Ministry of Commerce link: <https://commerce.gov.tn/%d8%aa%d8%b9%d9%88%d9%8a%d8%b6-%d8%a7%d9%84%d9%85%d9%88%d8%a7%d8%af-%d8%a7%d9%84%d8%a3%d8%b3%d8%a7%d8%b3%d9%8a%d8%a9>

<sup>31</sup> Finances.gov.tn. 2022. Tunisian finance laws:2017-2020 [online] Available at: <<http://www.finances.gov.tn/fr>> [Accessed 11 January 2022].

	Unit	Import price	Subsidy	Price after subsidy	VAT and consumption tax	Miscellaneous and margins	Selling price
Gasoline (Leadfree)	Millimes /Liter	1239	172	1067	731	197	1995
Ordinary gasoline	Millimes /Liter	1145	69	1076	293	162	1530
Gasoline (super)	Millimes /Liter	1184	121	1063	495	162	1720

Table 5: Composition of the Price of Fuel (Source: Ministry of Industry,Energy,and Mining)<sup>32</sup>

As can be observed in the table above, the cost of subsidies is not only covered by taxes, but the state is also registering a budgetary surplus in the sale of gasoline. While it is normal for a state to gain through the sale of energy products, a more relevant study of the cost of energy subsidies and its impact of the budget deficit should take into account the revenues obtained from this taxation. The second point is that just like with the wage bill issue, the problem of the insufficient state budget is ignored, and the focus is put on reducing expenses.

Officials have long insisted that the state's few resources were wasted on subsidies. Not only have policy makers long disregarded the resource dilemma (for instance, no effort has been made to recover an astonishing 25 billion dinars cost incurred by fiscal evasion), but they also fail to consider other inefficient costs included in the state budget. While subsidies are treated as a threat to budgetary balance, other expenses, namely fiscal incentives, which registered a cost of 4969 and 4222 million dinars in 2019 and 2020 respectively, exceed the cost of energy and food subsidies. However, tax expenditure failed to be addressed as a major concern in the midterm budgetary framework 2022-2024.

### Increasing the burden on the middle and low-income class

When the social cost of subsidy reduction is brought into debate, successive governments and IMF reports insist that the "reform" program is not focused on subsidy reduction. Rather, it is said to be focused on a more efficient reallocation of these resources in the form of direct cash transfers towards targeted households. The premise for this reform holds some truth to it. The food subsidy program is not very efficient. 22,8% of subsidized food was diverted from households towards restaurants, for example. Only 9.2% of subsidized food actually makes it to poor households who are the intended beneficiary.<sup>33</sup> While it is imperative to highlight these inefficiencies, a move towards a direct cash transfer program, instead of subsidizing the products must take into consideration a variety of factors, namely the cartel nature of the Tunisian market and the highly unequal distribution of income.

32 Conjoncture énergétique March 2021, Ministry of Industry, Energy, and Mining P14 LINK: [https://www.energiemines.gov.tn/fileadmin/docs-u1/Conjoncture\\_%C3%A9nerg%C3%A9tique\\_mars\\_2021\\_Fr.pdf](https://www.energiemines.gov.tn/fileadmin/docs-u1/Conjoncture_%C3%A9nerg%C3%A9tique_mars_2021_Fr.pdf)

33 Food Subsidies and Direct Social Assistance: Towards Better Targeting of Monetary Poverty and Deprivations in Tunisia. (2013) P13. Retrieved 4 August 2022, from [https://www.afdb.org/fileadmin/uploads/afdb/Documents/Procurement/Project-related-Procurement/Food\\_Subsidies\\_and\\_Direct\\_Social\\_Assistance\\_-\\_Towards\\_Better\\_Targeting\\_of\\_Monetary\\_Poverty\\_and\\_Deprivations\\_in\\_Tunisia.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Procurement/Project-related-Procurement/Food_Subsidies_and_Direct_Social_Assistance_-_Towards_Better_Targeting_of_Monetary_Poverty_and_Deprivations_in_Tunisia.pdf)

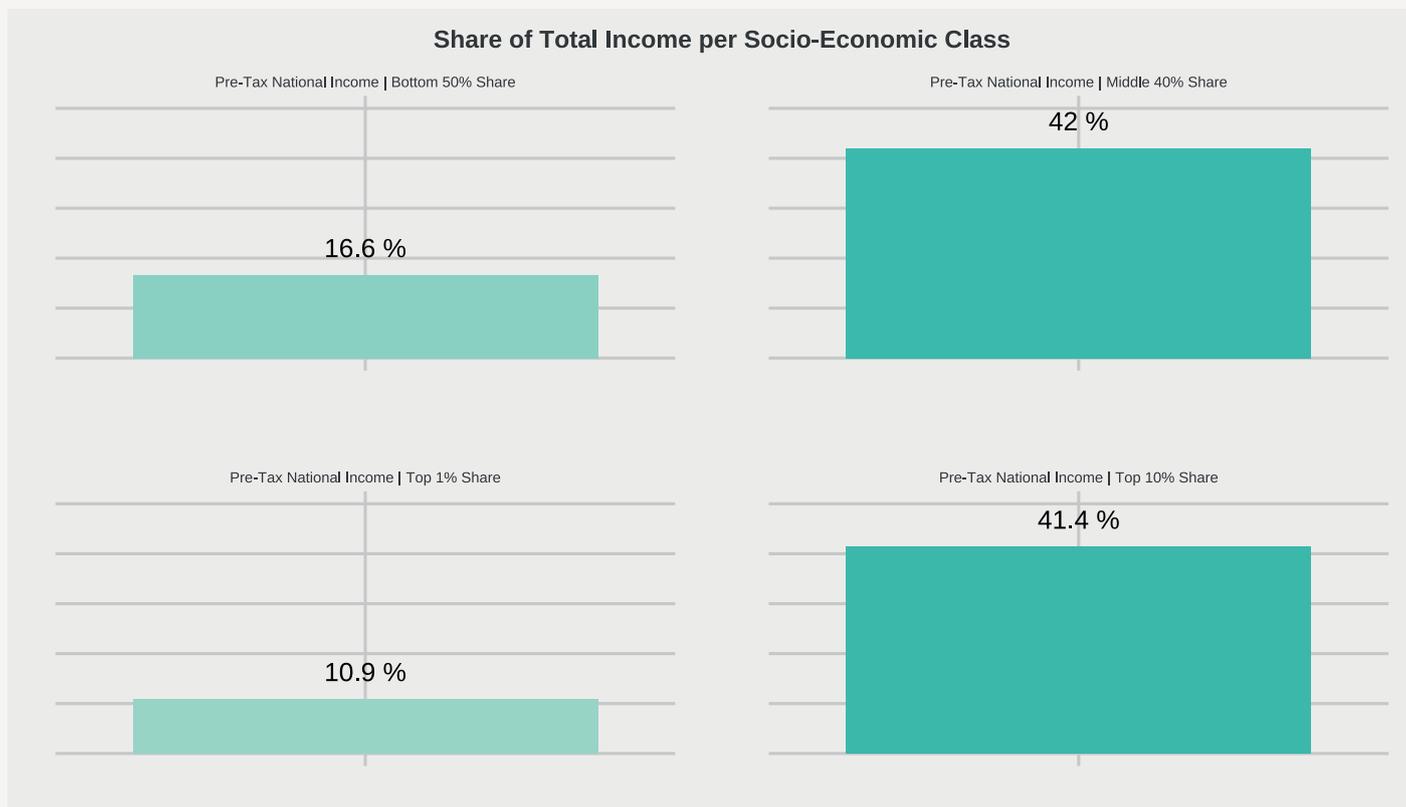


Figure 5: Share of total income per socio-economic class (source: World Inequality Database)<sup>34</sup>

While the top 10% in terms of income accumulate 42% of the national income, the middle 40% holds 41.4%, while the bottom 50% only have 16.6%. Faced by this staggering inequality and a national minimum wage of 1,938 DT/hour<sup>35</sup>, the population kept afloat by the current subsidy system is by no means limited to the national poverty line (estimated to be 1,7 million in 2015<sup>36</sup>). Also taking into account an absence of estimations in terms of growth in the median salary and real prices of basic food products and energy, it is fair to assume that lifting subsidies ought to impact a wide range of the Tunisian population. Faced by these stupefying odds, there are two possible scenarios for the direct cash transfer program:

- The government is going to underestimate the portion of the population in need of these direct cash transfers. With the lack of a coherent targeting program, the closest thing available is the database set by the “Programme National d’Aide aux Familles Nécessiteuses” (PNAFN) registering as of 2014 225525 households, a number well below the estimated national poverty line.<sup>37</sup> Adding to that the technical difficulties in observing the level of consumption due to crippled fiscal administration.<sup>38</sup> With these obstacles in mind, it is safe to say that the price liberalization by 2026, as set by the mid-term budgetary framework 2022-2026, will heavily impact purchasing power along with standards of living.

34 World Inequality Database link: <https://wid.world/country/tunisia/>

35 INS LINK: <http://www.ins.tn/statistiques/97>

36 Ins.tn. 2020. Carte de la pauvreté en Tunisie, Septembre 2020 | INS. [online] Available at: <<http://www.ins.tn/publication/carte-de-la-pauvrete-en-tunisie-septembre-2020>> [Accessed 29 March 2022].

37 Évaluation de la performance des programmes d’assistance sociale en Tunisie (2015) P62 from [http://www.cres.tn/uploads/tx\\_wdbiblio/Rapport\\_CRES\\_mai\\_2017.pdf](http://www.cres.tn/uploads/tx_wdbiblio/Rapport_CRES_mai_2017.pdf)

38 IBID P66

- The program will include the crushing majority of the population, as prices continue to increase the bill for this program will also continue to increase. The case study for the canned tomatoes below serves as an example of the inability of the state to ensure accessible prices for the previously subsidized products.

As of 2014, the Tunisian government opted to liberalize the prices of canned tomatoes, below is a case study on the policy.

## Case study: Price liberalization of canned tomatoes in Tunisia

### Liberalization and the evolution of prices

The Order of the Minister of Commerce of February 22, 2014 set in motion the liberalization of canned tomatoes in Tunisia.<sup>39</sup> This product was previously subsidized. Its liberalization caused noticeable spikes in its price over the next 7 years. (Table 6)

	2014	2016	2017	2018	2019	2020
Price of canned tomatoes	2,050	2,310	2,540	2,690	3,230	3,800
Percentage annual change	-	11,2%	9%	5,5%	16,7%	15%

Table 6: Evolution of the Price of Canned Tomatoes (2014-2020) (Source:Lapresse)<sup>40</sup>

After liberalization, prices continued to evolve at an annual average of 11,48% over the period of 6 years. To study the social impact of this evolution in price, we can compare it to the evolution of salaries over the same time period. (Table 7)

	2014	2015	2016	2017	2018	2019	2020
Annual growth in salaries (non-agricultural private sector)	5,5	6,5	6,2	6,7	6	6.1	4

Table 7: Percentage Annual Growth in Salaries 2014-2020 (Source:INS)<sup>41</sup>

Over the past 6 years, the price of canned tomatoes grew at an average rate that is double that of salaries. This mismatch naturally impacts purchasing power.

<sup>39</sup> Oecd.org. 2019. EXAMENS DE L'OCDE POUR L'ÉVALUATION DE L'IMPACT SUR LA CONCURRENCE: TUNISIE. [online] Available at: <<https://www.oecd.org/daf/competition/ca-tunisia-review-2019-fr.pdf>> [Accessed 29 March 2022].

<sup>40</sup> Lapresse, 2020. Les prix non homologués et les prix subventionnés en Tunisie : Quelles solutions adopter dans une économie délicate?. [online] Available at: <<https://lapresse.tn/74919/les-prix-non-homologues-et-les-prix-subventionnes-en-tunisie-quelles-solutions-adopter-dans-une-economie-delicate/>> [Accessed 29 March 2022].

<sup>41</sup> INS, link: <http://www.ins.tn/statistiques/99>

## Disregard for the cartel nature of the food sector

In a report on the impact of lack of competitive markets in Tunisia the OECD states the following<sup>42</sup>:

“The survey conducted by the Competition Council has demonstrated the importance of this product for Tunisian consumers: the country is one of the largest consumers of double concentrated tomatoes with an annual consumption of 109 000 tons or an average annual consumption per household of 57 kg, compared to 35 kg in the United States or 24 kg in Italy. The investigation also confirmed the existence of a coordinated price increase following the entry into force of the Minister of Commerce’s Order of February 22, 2014, which endorsed a policy of free pricing of double tomato paste. Samples of sales invoices examined by the Council revealed that prices reached 1.23 dinars for the 400 g can and 2.05 dinars for the 800 g can for 22 brands throughout the country.”

To sum up, even with direct cash transfers meeting the right target (an important budgetary bill), it is essential to remember that it does not provide a solution to the purchasing power that just like in the case of canned tomatoes it is heavily due to very low growth in salaries. With a fixation on budget deficit, this direct cash transfer offers an unlikely temporary budgetary fix, and neglects a wider socio-economic problem that has led to social unrest in the past (namely the bread revolt).

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42 Oecd.org. 2019. EXAMENS DE L’OCDE POUR L’ÉVALUATION DE L’IMPACT SUR LA CONCURRENCE: TUNISIE. [online] Available at: <<https://www.oecd.org/daf/competition/ca-tunisia-review-2019-fr.pdf>> [Accessed 29 March 2022].

## 10 years of monetary austerity

### Flexibility of the exchange rate

One of the earliest observations made by the IMF is in regard to the exchange rate. As early as 2012, the IMF highlighted the necessity of a flexible exchange rate. Based on a decrease in foreign reserves, the IMF cites the following “greater exchange rate flexibility will be necessary to stabilize international reserves”<sup>43</sup>. This recommendation continued to appear in the IMF’s article IV reports over the past decade.<sup>44</sup> The turning point of Tunisian monetary policy was made in April 2016 when Parliament signed the independence of the central’s bank act.<sup>45</sup> This chapter will look into the nature of the independence of the central bank, and how it influenced the Tunisian exchange rate policy. It will also study the repercussions of the devaluation of the currency on trade deficit and debt sustainability.

### Central bank independence

For the last couple of decades, the independence of central banks has globally been promoted as a tool ensuring checks and balances on governments. It became seen as a guarantee that the executive power will not resort to severe monetary expansion and drown the country into hyperinflation.

While checks and balances are a necessity for a coherent functioning of the state, the form of independence being advocated for by international financial institutions hinders the state’s monetary sovereignty. This international trend stirred controversy even among economists. Joseph Stiglitz, a Nobel prize laureate in economics, goes as far as stating “There is no such thing as truly independent institutions. All public institutions are accountable, and the only question is to whom.”<sup>46</sup> The same observation is made on the local level following the signing of the central bank independence act. According to a policy brief entitled “Tunisia and IMF: transitional injustice” this form of independence is far from being a mechanism to ensure check and balances and it equates to privatization especially in regard to exchange rate policy. By letting go of Article 33 of Law No. 88-119 stating that “The Central Bank’s general mission is to defend the value of money and to ensure its stability”, and relaxing restriction on short term capital outflows, the public sector surrendered in the process the exchange rate policy towards the private sector through the means of commercial banks.<sup>47</sup> Following the economic principle of the impossible trinity, a country can only have control over two of these three

43 IMF, Tunisia: 2012 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Tunisia, IMF Country Report No. 12/255, September 2012, International Monetary Fund

44 Table 1

45 Loi\_2016\_35 portant fixation sur le statue de la banque centrale de tunisie.

46 Stiglitz, J. (2013). STIGLITZ: Central Bank Independence Is Unnecessary And Impossible link: <https://www.businessinsider.com/stiglitz-on-central-bank-independence-2013-1>

47 Chandoul, J., 2017. Tunisia and IMF: transitional injustice. [online] Annd.org. Available at: <<https://www.annd.org/data/file/files/IMF-TUNISIA-PolicyBrief.pdf>> [Accessed 30 March 2022].

objectives: a fixed exchange rate, free movement of capital, and an independent monetary policy. By keeping restrictions on capital flows, the state managed to keep a controlled exchange rate prior to 2016. What followed this independence of the central bank was indeed a series of devaluations of the dinar in the following years.

### Widening the debt

As of 2020, debt payments reached 9307 MDT accounting for 22,84% of the total state budget and contributing to 80% of the budget deficit<sup>48</sup>. This figure is heavily due to the devaluation of the Dinar. In a brochure published by the Directorate General for Public Debt Management and Financial Co-operation, the cost of exchange rate flexibility is taken into account.

	2016	2017	2018
Debt payments	3891,3	5328	9309
Impact of the exchange rate	+13,02%	+14,63%	+19,88%

Table 8: Impact of the exchange rate on debt payments (source:Ministry of Finance)

While pressure from the IMF on decreasing the budget deficit is mounting, the impact of the devaluation of the currency and hence the flexibility of the exchange rate -as advocated for by the same financial institution- on debt payments and the sustainability of the state’s budget is not taken into consideration. In the leaked negotiation program, the “reforms” in terms of monetary policy indicate further simplifications in the exchange rate regulations which will continue to widen the debt problem.

### Increasing the trade deficit

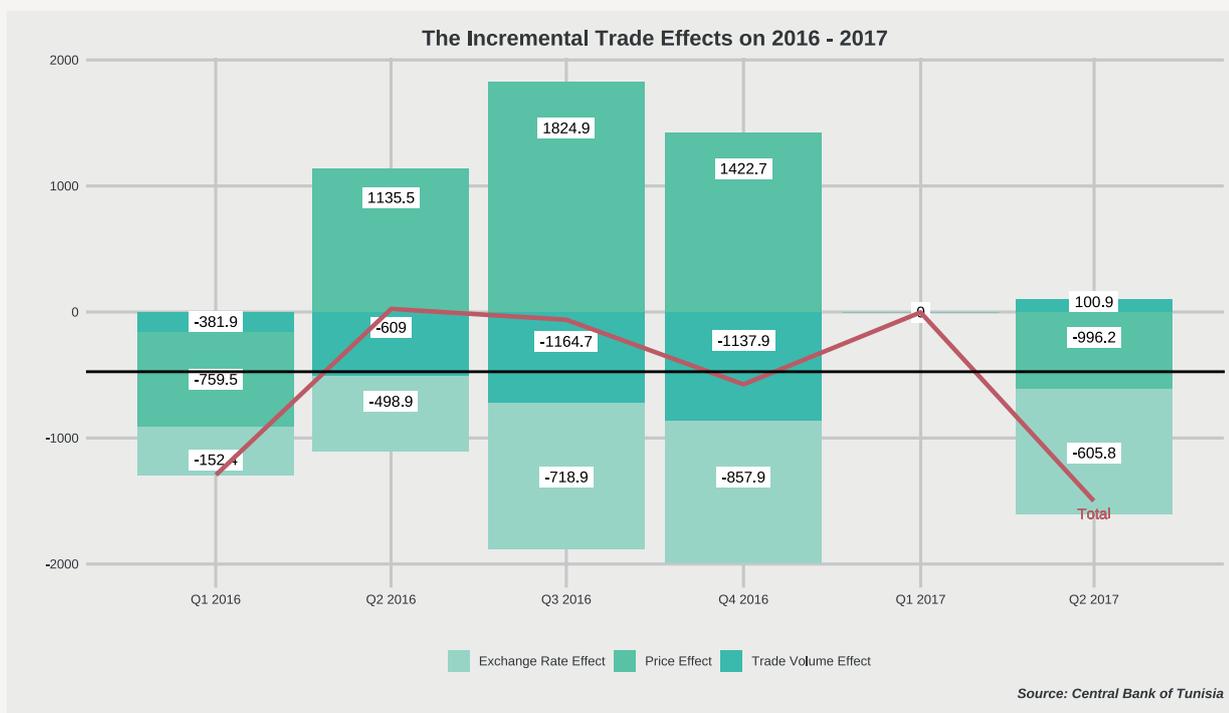


Figure 6: The incremental trade effects on 2016-2017 (source: Tunisian Observatory of Economy)

The dominant narrative advocates a depreciated local currency as a driver for exports. According to this logic, a weak local currency and therefore cheaper local goods induces higher foreign demand. This narrative misses the mark in several aspects. First, higher demand does not equate with a higher volume of exports as the latter also depends on a country's capacity to meet this demand, this can be seen when studying the case of phosphate exports. (Figure 7)

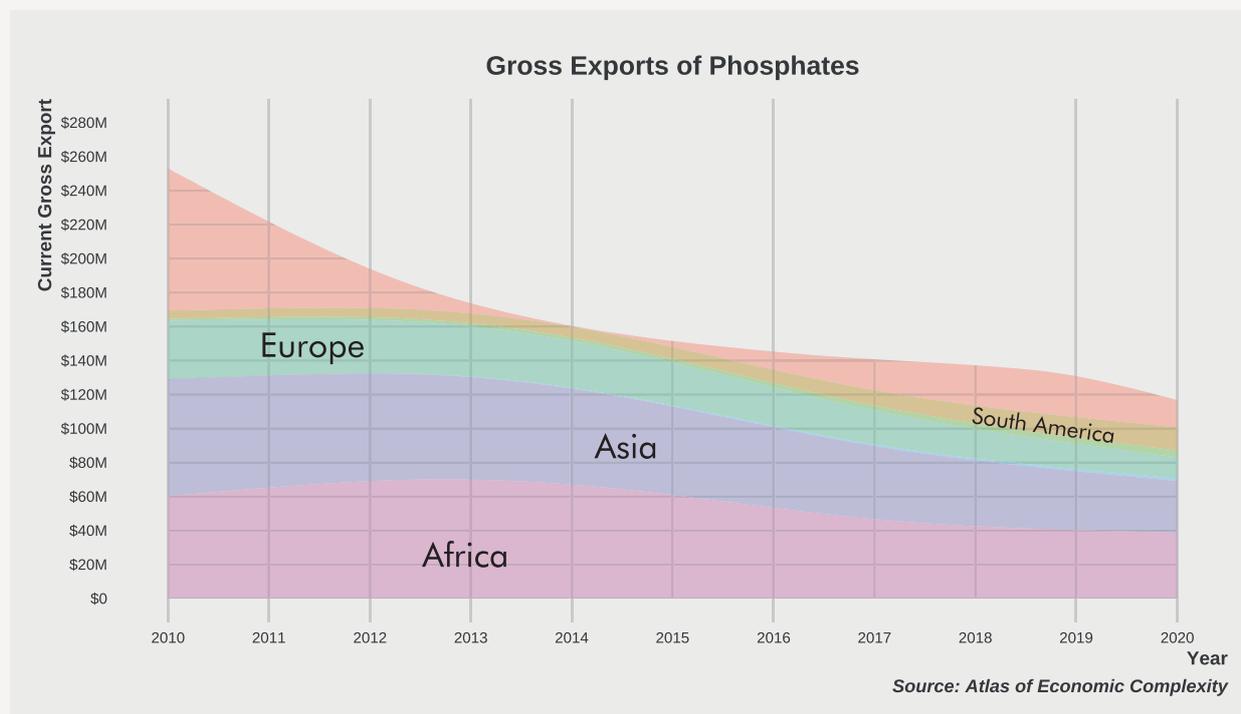


Figure 7:Gross Exports of Phosphates (Source: Atlas of Economic Complexity)<sup>49</sup>

Over the past decade, the decline in the gross exports of Phosphate can be clearly seen.

The second point is that there is an imposed export quota (not pegged to the price of the local goods) on olive oil. If we are to study the export evolution of these two goods, the opposite happened. In fact, the evolution of trade balance due to the variation of the dinar (exchange rate effect) has negatively impacted the trade deficit by about 1.1 billion dinars in 2016 and 1.8 billion dinars in 2017 alone<sup>50</sup>.

<sup>49</sup> Atlas of Economic complexity, link: <https://atlas.cid.harvard.edu/explore/stack?country=223&year=2020&startYear=1995&productClass=HS&product=952&target=Product&partner=undefined>

<sup>50</sup> Ben Rouine, C., 2021. FMI: Impact de la dévaluation du dinar. [online] Economie-tunisie.org. Available at: <[https://www.economie-tunisie.org/sites/default/files/bp\\_11\\_fmi\\_impact\\_devaluation\\_dinar.pdf](https://www.economie-tunisie.org/sites/default/files/bp_11_fmi_impact_devaluation_dinar.pdf)> [Accessed 30 March 2022].

## 10 years of fiscal austerity

### Reducing corporate tax

Following Tunisia's request for a standby arrangement in 2013<sup>51</sup>, the IMF included a corporate tax reform as a policy that can generate job creation along with widening the tax base, hence generating more tax revenues for the state budget. This policy was justified by the logic that a lower corporate tax rate will encourage companies to move from the informal towards the formal sector. In the finance law of 2014, the corporate tax rate dropped from 30% to 25%. This rate later registered a free fall with the signing of the 2020 finance law, reaching a record low of 15%.

While IMF recommendations concerning taxation were by no means limited to corporate tax, the midterm budgetary framework 2022-2024 highlights two key points: the need to boost business activities and the need for fiscal reforms. These are the same two points that were previously used as an argument for further decrease corporate tax rate. Therefore, this chapter will study the impact of this fiscal policy on three aspects: its impact on the state budget, how efficient this policy was in driving investment, and finally whether it contributed to a decrease in unemployment as posited for by government officials and IMF recommendations.

For further details on of fiscal austerity measures, there are several studies in this regard namely TAX JUSTICE IN TUNISIA: AN IDEAL TRAMPLED BY THE POLICIES OF INDEBTEDNESS<sup>52</sup> and a policy brief entitled TAX JUSTICE, A SURVIVAL ISSUE WITHIN TUNISIA'S REACH<sup>53</sup>

### Depleting state resources

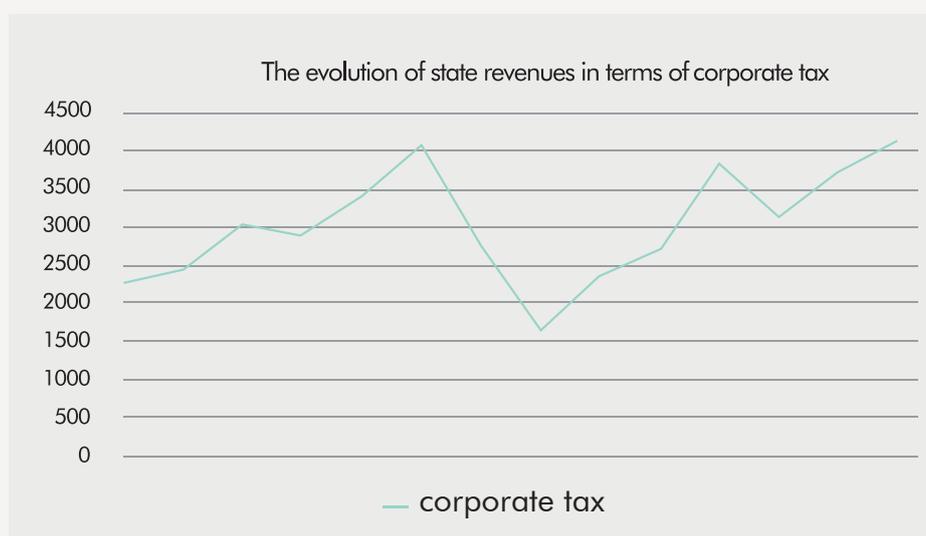


Figure 8: The evolution of state resources in terms of corporate tax (source: Ministry of Finance)<sup>54</sup>

51 IMF, Tunisia: Request for a Stand-By Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Tunisia., IMF Country Report No. 13/161, June 2013, International Monetary Fund

52 TAX JUSTICE IN TUNISIA: AN IDEAL TRAMPLED BY THE POLICIES OF INDEBTEDNESS Bouzaiene.A link: <https://library.fes.de/pdf-files/bueros/tunesien/18724.pdf>

53 TAX JUSTICE, A SURVIVAL ISSUE WITHIN TUNISIA'S REACH Bouzaiene Amine

54 Ministry of Finance, Link: <http://www.finances.gov.tn/fr/les-indicateurs/ressources>

The dominant narrative as advanced by the IMF supposes that a decrease in corporate tax will lead to a wider tax base, which in turn leads to higher revenues from corporate tax. However, the evolution of state revenues according to the consecutive finance laws indicate the opposite. As of 2014 – the year where the rate dropped to 25%- we can observe a sharp decrease in revenue reaching half that of 2014.

Not only did this policy fail to achieve a growth in fiscal revenues, but it also led to the state relying more on value added tax and personal income tax to compensate for the losses in terms of corporate tax revenues.

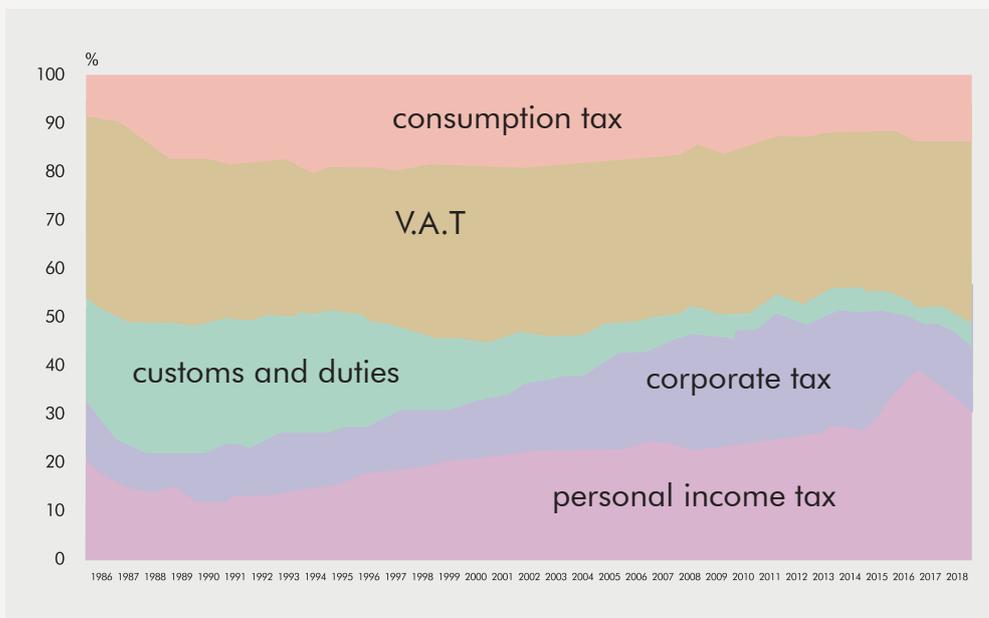


Figure 9: Evolution of the contribution of different taxes to state resources (source: AX JUSTICE IN TUNISIA: AN IDEAL TRAMPLED BY THE POLICIES OF INDEBTEDNESS)<sup>55</sup>

The graph above clearly depicts the above-mentioned shift. As of 2014, the state’s resort to personal income tax grew by 10% and the portion of VAT grew by 6%. This approach further cemented an unfair taxation policy.<sup>56</sup>

### Inefficiency in driving investment

To further investigate the effect of the 2014 corporate tax rate on investment, this paper will look into the evolution of the number of companies from 2014 to 2019 as an indicator of the evolution of private investment.

55 Bouzaine, A., 2022. tax justice in Tunisia. [online] Library.fes.de. Available at: <<http://library.fes.de/pdf-files/bueeros/tunesien/18725.pdf>> [Accessed 11 January 2022].

56 IBID

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Limited company	5660	5842	5964	6077	6180	6210	6275	6119	6248
limited liability company	75118	82862	90421	97464	104579	110850	117455	115392	124418
single person limited liability company	13443	16299	19138	21612	24178	26724	29280	30528	34393
others	3690	3807	4130	4100	4232	4474	4725	4499	4821
Total number of companies	97911	108810	119653	129253	139169	148258	157735	156538	169880

Table 9: Evolution of the Number of Companies in the Tunisian Market 2022-2019 (Source:INS)<sup>57</sup>

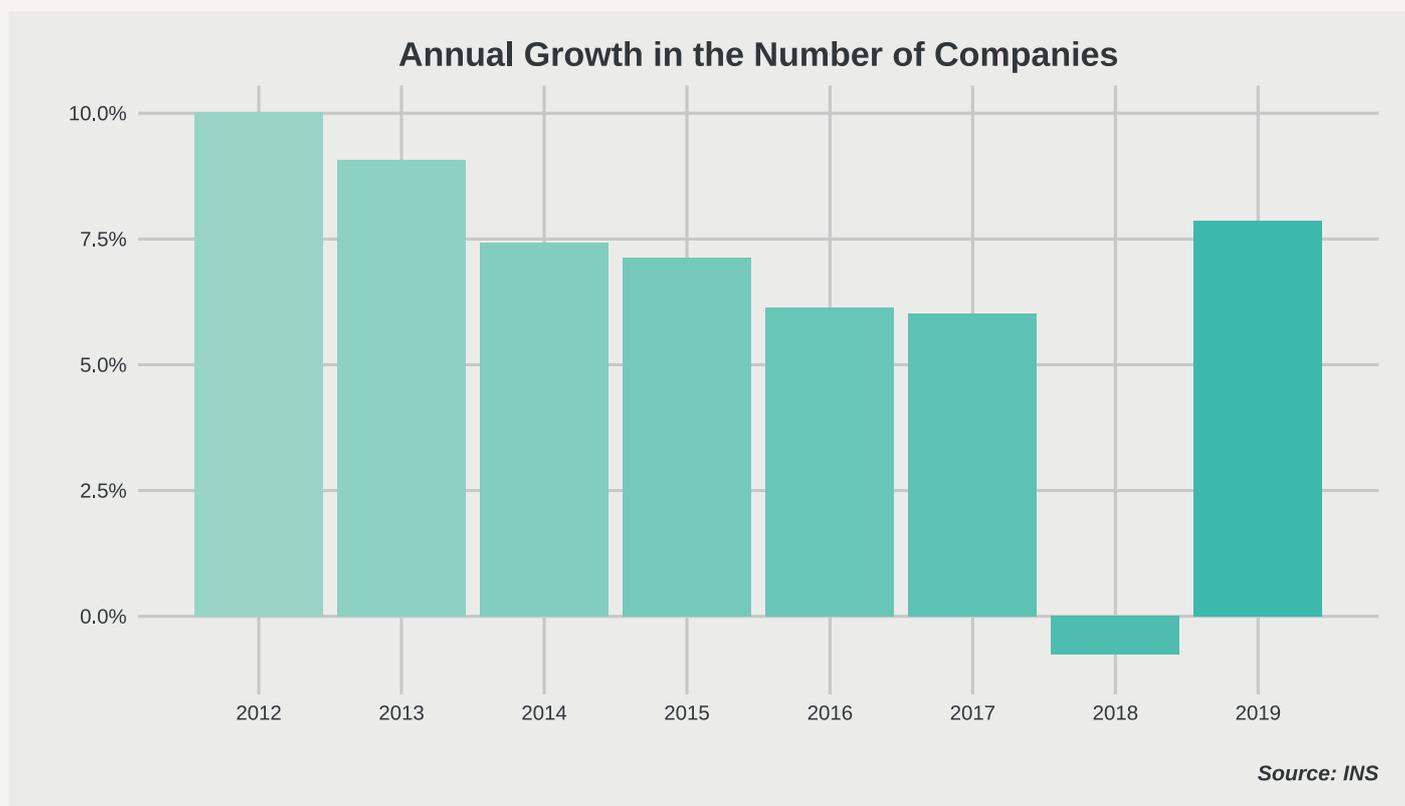


Figure 10: Annual growth in the number of companies (Author:Albawsala,Source:INS)<sup>58</sup>

Contrary to what was advocated for, as of 2014, the growth rate in the number of companies accessing the Tunisian market witnessed a decrease going from 10% annual increase in 2012 to 6% in 2017. It is fair to state that the drop in corporate tax failed to encourage higher private investment.

57 Ins.tn. 2020. STATISTIQUES ISSUES DU RÉPERTOIRE NATIONAL DES ENTREPRISES. [online] Available at: <<http://www.ins.tn/sites/default/files/publication/pdf/RNE-2020.pdf>> [Accessed 31 March 2022].

58 IBID

## Failure to create jobs

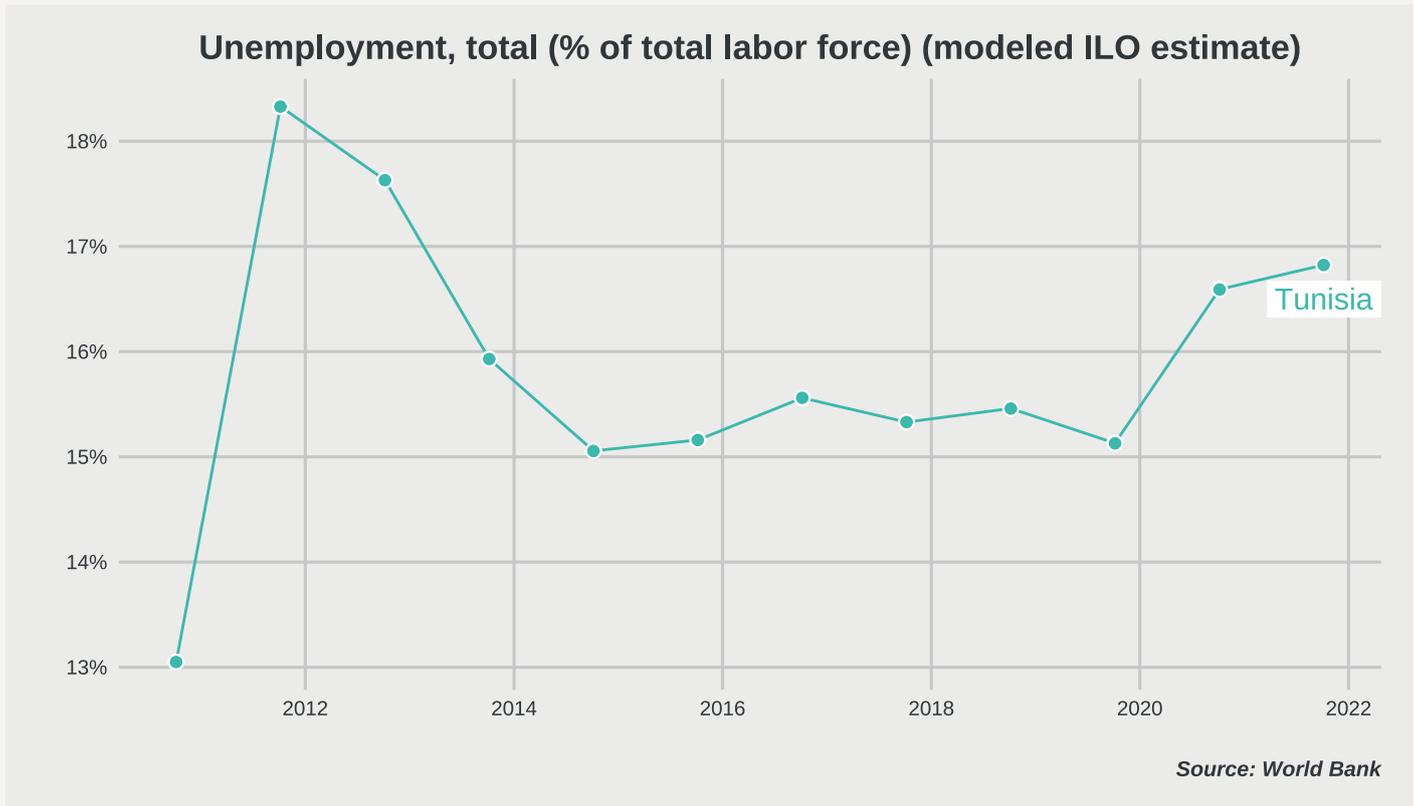


Figure 11: Unemployment, total (% of total labor force) (modeled ILO estimate) - Tunisia (source:Worldbank)<sup>59</sup>

With an inability to drive investment, it comes as no surprise that the decreasing corporate tax rate to encourage employment mechanism failed. Indeed, unemployment levels persisted at a high rate post the corporate tax decrease in 2014.

59 Worldbank, link: <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?end=2021&locations=TN&start=2010>

## Conclusion

The IMF's austerity measures have proven to be disadvantageous in the past. They have caused problems in access to public services, as the inadequate number of recruited public servants has proven to make it harder for the population to access primordial services, namely education and health. With the aim of further decreasing the wage bill cost, it is only expected that the quality of public service will further decline. Additionally, a wish to cut the cost of subsidies for food and energy with a disregard for the piercing social inequality coupled with a cartel driven market, could lead to a fatal blow to the purchasing power of Tunisians. In terms of monetary policy, the question of more flexible movement of capital and hence a weaker exchange rate has proven to be a serious problem with trade balance and debt payment. Finally, continuing to lower the corporate tax rate in the name of drawing investment has failed to increase investment or create jobs and only worsened balance of payment problems by depriving the state of much needed resources.

With the new round of negotiation with the IMF, the cost of austerity policies of the previous decade should not be forgotten. Whether in terms of crippling public services, the fall in purchasing power, or the rise in unemployment, the already impoverished portion of the population suffered the most from austerity. The negotiation program as advertised by the Tunisian government further entrenches these same policies that lead to this fragile socioeconomic environment.

