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Democracy or Economy?

What needs to be changed
to break the deadlock
in Tunisia

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North Africa Office

Maha Ben Gadha

Maha Ben Gadha

is a researcher and works as economic program manager at the Tunis-based North Africa office of the Rosa Luxemburg Foundation. Her current work in RLS consists in supporting networks of relevant actors in economic policymaking, researchers, unions, social movements in the region engaged in developing and rethinking progressive political strategies and alternative economic models to translate the demand for social justice into feasible transformative projects

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Democracy or Economy?

What needs to be changed to break the deadlock in Tunisia

Summary

Ten years after the Arab world's first country rose up against injustice, the failure of the democratic process has placed the country at a dangerous crossroads. While Tunisia has not yet recovered from the disastrous consequences of the pandemic, the war in Ukraine is increasingly weighing on the country's economic prospects and threatening any attempt at future reform. Faced with soaring import prices, a widening trade deficit, high debt service costs, and the drying up of external flows, a new agreement with the IMF is billed as the only way to resolve the balance of payments crisis. While the political arena after July 25 focuses on redefining the terms of the exercise of power for some, and the struggle for legitimacy for others, if lessons are not learned from this blocked decade and if bold economic decisions are not taken to break with the past, along with constitutional and political reforms, the country will imminently sink into an unprecedented social crisis. In the light of the actual global constraints and the ongoing national roadmap for constitutional and economic reform This paper draw lessons from the institutional, political weaknesses that have hampered the democratic process, describes the power struggles of different actors that defined the post revolution economic trajectory. Finally, it attempt to propose avenues for reflection and concrete urgent proposals to remedy these weaknesses in the future.

1. A Democracy that did not allow for economic revolution

One of the main conclusions widely observed about Tunisia's democratic transition is that, despite efforts to implement a liberal democratic model, the democratization enthusiasm has failed to meet the socio-economic demands made by Tunisians during the December 2010-January 2011 uprisings. Many analyses link the deterioration of socio-economic conditions during this period to the unwillingness of the political class to respond to the needs of the population, due to revived internal (and historical) political quarrels, the bipolarization between Islamists and secularists, and endemic corruption that has plagued the political class, the administration, including the security and judicial system¹. Further analyses ²point to an economic model based on rents that has replaced the crony capitalism that was in place during

1 International Crisis Group, La transition bloquée : corruption et régionalisme en Tunisie, Rapport Moyen-Orient et Afrique du Nord N°177. 10 mai 2017 . <https://d2071andvip0wj.cloudfront.net/177-la-transition-bloquee-corruption-et-regionalisme-en-tunisie.pdf> See also Enquête sur la corruption en Tunisie, décembre 2020 GIZ <https://inlucc.tn/wp-content/uploads/2021/03/GIZ-ETUDE.pdf>

2 Aziz krichen, 2021 « La gauche et son grand récit, comprendre l'économie de rente », see also legal agenda Tunisie spécial issue n°24, 2022 <https://english.legal-agenda.com>

the Ben Ali era³. As a result, Tunisians' trust in the political class and more broadly in these democratic institutions has gradually eroded, expressing an increased sense of stolen votes and frustration over the failure of these institutions to effect change in the socio-economic situation of the majority of the people.

This political deadlock is due to complex factors that intersected during the democratic transition. One important factor is the electoral law, which was designed from the beginning by political actors and elites for the specific needs of a constituent assembly to promote consensus building during the constitution writing⁴ and not for implementing a clear parliamentary or presidential system. As a result, the various elections have never produced a significant and stable majority and have led to an era of consensus between inconsistent and changing coalitions⁵.

What has further compounded this situation is a constitutional inconsistency that had drastically reduced the executive powers of the president- who is elected by universal suffrage and on whom the electorate's great political expectations rest - and entrusted crucial executive powers to a head of government appointed from the winning party, but who must obtain a confidence vote from the majority of parliament. This has paved the way for «quota politics» among the various incoherent coalitions that formed the ten post-revolution governments (including three reshuffles) and has always given the political class a reason to shirk its responsibilities. This has also led to continuous crises between the two heads of the executive branch over conflicting prerogatives.

To cite just a few examples: Art 77 of the constitution states that: “the president is responsible for determining the general policies in the fields of defense, foreign relations and national security relating to the protection of the State and the national territory from internal and external threats” but he concretely remained at the mercy of the head of government for appointing high officials⁶ or for proposing any budget⁷ for these missions. Foreign relations were limited, within the framework of presidential prerogatives, to protocol visits. Indeed discussions around bilateral cooperation with foreign countries, or multilateral cooperation were exclusively led by the head of government and especially by the Ministry of International Cooperation and the Ministry of Foreign Relations. This, in the end, created a lot of tension about who decides what.

3 Rijkers, Bob; Freund, Caroline; Nucifora, Antonio. 2014. All in the Family: State Capture in Tunisia. Policy Research Working Paper; No. 6810. World Bank. <https://openknowledge.worldbank.org/handle/10986/17726>

4 Alexander Martin & John M. Carey, Why Tunisia's parliamentary electoral formula needs to be changed, Bawader, January 2022, Arab reform initiative, <https://www.arab-reform.net/pdf/?pid=21020&plang=en>

5 Especially due to the possibility of Interparty mobility after elections.

6 Although the Art 78 states that the president is responsible for appointing high officials, Senior security officials, the members of the High Security Council chaired by the President are appointed according to their functions the permanent members are therefore replaced on retirement by other members who will be promoted by the ministers in charge, which gives more powers to the ministers of defense and the interior in these appointments and thus to the chief of government than to the president. The governmental decrees n° 2017-70 of 19 January 2017 on the National Security Council and n° 2017-71, establishing the National Intelligence Center issued by Youssef Chahed attempts to withdraw even more prerogatives from the president. Also the appointment of the Governor of the Central Bank or its revocation can only be done on the proposal of the Head of Government and after approval by an absolute majority of the members of the ARP.

7 The president can only establish a budget for the presidency, which includes civilian administrative services and presidential security, and a few other institutions attached to the presidency, such as the Institute for Strategic Studies.

Another example: loan agreements are never sent to parliament with their complete documentation⁸. These loans were often voted on a one-article basis stating that parliament approved the amount of a given loan from a given donor. IMF agreements have never been submitted to parliament, as they are considered as technical agreements and do not take the legal form of bilateral, multilateral or international treaties that require parliamentary approval⁹. Similarly, with respect to presidential ratification, the constitution does not allow the president to review, modify or disapprove in advance policies related to the loan agreements as part of his prerogatives in international cooperation. He can only refuse ratification or call for a referendum, which is a very costly procedure, especially in the absence of a constitutional court that could have defused these tensions, and solved disputes over constitutional prerogatives and would have permitted the consolidation of the president's crucial regulating powers, such as dismissing a government or dissolving the parliament in case of a political crisis. It is obviously one of the main factors that discouraged the parliament coalitions to establish the court.

The parliament did not exercise fully and properly its legislative function, since the priority of legislation was constitutionally given to proposals from the executive¹⁰. While tasks of overseeing and controlling the government, was weakened by constitutional loopholes, which does not detail the mechanisms of this control. Although the Article 74 of the rules of the Assembly of People's Representatives (ARP) stipulates that the ARP is responsible of developing legislation that regulates the interactions of committees with public institutions and any other external entities, such legislation has never been adopted¹¹. Moreover, parliament's internal rules were often flouted, especially with the control exercised by the speaker of parliament on the composition and the decisions of the parliament's office in charge of planning parliamentary activity, and this latter was not accountable for its failures¹².

The only few tools the opposition had is to chair the finance committee, but this was insufficient, as decisions were ultimately imposed by the majority representing the government in the committee. Deputies also faced another obstacle in Article 63 of the constitution, which states: «The proposed amendment or law is not admissible if its adoption would affect the financial balance of the state established by the finance laws». Thus, the financial admissibility of an amendment or law was left solely to the discretion of the government, namely the Minister of Finance. Most of the amendments proposed by deputies, whether from the coalition or the opposition,

8 A recent report from finance committee deplored: "The Committee renewed its recommendation that the document explaining the reasons for draft laws should be given due care and accuracy necessary to include all the data and details that authorize the understanding of the project and allow deliberation on it ... in addition to providing the Committee with agreements related to loans and their appendices, and all the documents concerned in Arabic language, which is a requirement previously submitted by the Committee on the occasion of its study of several agreements and did not receive a response from the initiator of legislation"

9 Samson, C. (1988). L'encadrement juridique de la conditionnalité des accords de confirmation du Fonds monétaire international. *Etudes internationales*, 19(4), 651–671. <https://doi.org/10.7202/702417ar>

10 During the 2014-2019 term: Of the 446 bills, 77 bills are introduced at the initiative of MPs, only 9 were accepted, compared to 361 bills from the government, 315 were accepted. During the 2019 -2024 term, out of 207 bills, 71 proposals from the deputies, only 2 laws were accepted, while out of 132 government bills, 117 were adopted, mostly loan agreements.

11 Hamza Mighri, Maxime Poulin, *The Role of Parliaments in SSG: The case of Tunisia*, 2020, DCAF Geneva center for security. https://www.dcaf.ch/sites/default/files/imce/PRD/Role_Parliaments_Tunisia.pdf

12 See recommendations of Al Bawsala on the reform of the internal regulations of the Assembly of the People's Representatives, <https://majles.marsad.tn/fr/media/show/2351>

have often been rejected because of this rule. Moreover, Article 129 stipulates, «the Instance of Sustainable Development and the Rights of Future Generations must be consulted on draft laws relating to economic, social and environmental issues, as well as on development plans.» This body has never been created.

Concretely the economic programs of the political parties were written only on leaflets during the election campaigns, but once elected, no common program within the winning coalitions expressing their strategic visions was negotiated, adopted or implemented.¹³ As for the decentralization process, financial dependency on the central government of the newly elected municipalities, reproduced the same inconsistencies and failed to deliver on its promises to reduce socio-regional inequalities and improve public services, despite the huge development assistance programs the governments received. Even in 2013 when Tunisia faced its deepest political crisis after the assassination of two leading figures of the left, Chokri Bel Aid and Mohamed Brahmi, the national dialogue led by the Quartet failed to propose an economic roadmap in parallel with the political one.¹⁴

This political and constitutional stalemate, coupled with the fact that the constitutional court was never established,¹⁵ gave little chance for significant change in the political landscape. Along with the political turmoil, the country suffered from external and internal shocks, causing dramatic economic impacts. The war in Libya¹⁶ and the migration crisis caused by the return of thousands of employees from the Libyan labor market, political assassinations, terrorist attacks targeting the tourism industry, climatic droughts, increases in international commodity prices, continuous social unrest, the fall in phosphate production, the fall in tourism revenues, the low inflow of FDI. These internal and external shocks combined, have led to low growth, persistent high unemployment, and a growing balance of payments deficit, which pushed the country to more external borrowing, and to apply austerity reforms dictated by its creditors.

2. Economy over democracy

Parliamentary debates have become a stage for the exhibition of each other's vices, for parties that have no economic agenda which responds to the real needs of the population and TV broadcasted arena for political disputes and violence for electoral purposes. This has created the conditions for populism, exacerbated polarization and reinforced external interference in domestic politics. Meanwhile the steering of the economy has been carried out by a series of external technical assistance programs, to adopt laws and decrees, in close collaboration between the central administration and international donors.

13 Maha ben Gadha, *La justice sociale : L'objectif inatteignable de la révolution Tunisienne*, Rosa Luxemburg Stiftung, 2017. <https://rosaluxna.org/wp-content/uploads/2022/05/RLS-TUN-justice-sociale-06-02-2017.pdf>

14 In 2013, the national dialogue focused primarily on accelerating the ratification of the constitution, and appointing a government of technocrats that was supposed to manage current affairs, finish the transition phase by setting up the Independent High Commission for Elections and ratifying the electoral law. This did not prevent it from pursuing the conditions of the IMF Stand-By Agreement to the letter.

15 Aida Delpuech & Samia Hanachi, "Without a Constitutional Court, We Have No Defence Against Authoritarianism", *Inkyfada* 2021. <https://inkyfada.com/en/2021/07/29/constititional-court-delay-kais-saied-tunisia/>

16 See Emanuele Santi, Saoussen Ben Romdhane and Mohamed Safouane Ben Aïssa *Impact of Libya's Conflict on the Tunisian Economy: A Preliminary Assessment*, AFDB, 2011. <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/The%20Impact%20of%20Libyan%20Conflict%20on%20Tunisia%20ENG.pdf>

The loan disbursement tranches were set with a matrix of harmonized conditions among the different lenders¹⁷ to anchor the country in a neoliberal economy and to lock its peripheral position in the international financial and monetary architecture¹⁸ and to maintain the strategic, commercial and security interests of donor countries. The fresh funds permitted to maintain a semblance of democracy, and avoid its collapse by allowing the local bourgeoisie and the new emergent class to profit from it, and to change the country's economic laws so that they serve the interests of the capitalist classes intertwined inside and outside the country.

Although various statements by foreign representatives, but also by Tunisian officials themselves, deplored the lack of implementation of economic reforms by Tunisia, these statements were made whenever resistance to the most painful reforms for the population emerged. These measures were mainly targeted towards reducing public sector wage bill, (and therefore the main bases of the UGTT), and the purchasing power of average Tunisians by raising taxes (and therefore also the bases of the political parties) in order to reduce budget deficit (and more specifically the primary deficit¹⁹ to allow debt repayment). Caught between the interests of international creditors and internal electoral constraints, the political class in power has oscillated between the interests of the former by approving the laws attached to the loan agreements to receive funds, providing more legal advantages to foreign investors²⁰, and the interests of the latter by getting closer and closer to the local bourgeoisie and the new emerging class by granting them economic benefits in the form of import licenses, resource extraction permits, tax breaks, tax gifts, and penal amnesties²¹, in exchange for their political and financial support.

While The executive relied more on the security apparatus to silence the voices of unrepresented groups: the unemployed graduates, the poor in the marginalized interior regions, youth in the urban slums and soccer fans, who constituted the main block of resistance in the streets, with whom no channel for negotiation was possible, no inclusive democratic process was designed to serve their interests, and whose social conditions continued to deteriorate. The fight against terrorism and cooperation on migration allowed the different governments to obtain additional bilateral funds from the European Union and the United States and consolidated the governments' security approach in resolving social tensions.

Despite the human rights violations committed during the transitional period, the high levels of fund disbursements were a signal to the cooperating leaders for their high degree of commitment to implement the requested reforms. Indeed, on January 31,

17 A glance at the matrix of reforms carried out by Tunisia under the «compact with Africa» initiative and the institutions in charge of financing and monitoring them clearly shows here: <https://www.compactwithafrica.org/content/dam/Compact%20with%20Africa/Countries/Tunisia/Tunisia%20-%20Updated%20CwA%20Reform%20Matrix%20-%20April%202021.pdf>

18 See more detailed report by Colin Powers: *Chronicles of a death foretold, Democracy and de-development in Tunisia*, Noria Research April 2022 https://noria-research.com/wp-content/uploads/2022/04/Noria-Research_Chronicles-of-a-Death-Foretold_2022_ENG-1.pdf

19 Primary deficit is the budget deficit before debt amortization

20 Such as the new investment law 2016, the public private partnership law 2017, the law to enhance the investment climate 2019.

21 <https://www.hrw.org/fr/news/2017/05/10/la-reconciliation-economique-renait-de-ses-cendres>, https://www.lemonde.fr/afrique/article/2017/09/14/a-tunis-le-parlement-tunisien-vote-une-loi-controversee-sur-la-corruption_5185758_3212.html

2014, Mehdi Jomâa's government received the highest amount²² of disbursements the IMF has ever granted to Tunisia in its history, just two days after his technocratic cabinet was approved by the assembly, although its mission was presumably to manage current affairs until elections. Contrarily to what is often claimed, political unrest, unstable governments, and weak majorities were always a leverage for creditors, using the pressure of debt repayment, and credit downgrading, to advance in the so-called "structural reforms". These reforms, in reality, are not intended to respond to the needs of the population, in terms of employment and a dignified life, but to ensure debt repayment and to further lock the country into the model of structural dependency in which it is trapped from decades.²³

The first phase of reforms (2012-2016)

was led by the World Bank, IBRD, AfDB, EBRD, EIB, GIZ and USAID, and focused on further liberalizing the investment framework²⁴, while the IMF has focused more on overhauling the financial and monetary sector framework, including limiting the central bank's intervention in the foreign exchange market, the dinar devaluation and adopting the controversial central bank Independence Act, which removed the central bank's ability to directly finance the government deficit and limited its role to inflation targeting. This pseudo-independence has turned the bank into a tool for profit accumulation by granting unwarranted privileges²⁵ to private banks owned by the local bourgeoisie²⁶, which only finance their industries and to foreign owned banks permitting further profit transfers abroad.

The second phase of reforms (2016-2020)

was implemented during the IMF's Extended Fund Facility program, which set the conditions for austerity, through strict control of fiscal and monetary policies. On the fiscal side, in order to ensure debt repayment (officially called restoring financial and macroeconomic equilibrium), the Chahed government (2016-2020) committed to the IMF to reduce the primary deficit to 3% of GDP in 2019. This has resulted in cuts in social and investment spending, salary caps, and recruitment freezes in the public services (2016-2017-2018) and changes in the tax system, increasing regressive

22 See IMF Tunisia: Transactions with the Fund from May 01, 1984 to April 30, 2022 https://www.imf.org/external/np/fin/tad/extrans1.aspx?memberKey1=970&endDate=2099-12-31&finposition_flag=YES

23 Fadil Ali Riza, Perpetual Periphery: IFIs and the Reproduction of Tunisia's Economic Dependence .in the impact and influence of International financial institutions in the economies of the middle east and north Africa ed. Tarik Radwan, Frederich evbert stiftung 2020 <https://library.fes.de/pdf-files/bueros/tunesien/16107.pdf>

24 The WB country report of 2012, states clearly "The FSAP [the financial sector assessment program] is providing the analytical underpinnings for technical assistance and policy reforms that the Bank, IFC and IMF will support to help the Government strengthen the financial sector. Priority reforms include the restructuring and recapitalization of state-owned banks" Indeed The bailout of the three major banks suffering from Ben Ali family non performing loans were made in 2015. The same report states that: "A priority policy reform is to simplify the investment code . . . (the) IFC's advisory services in Tunisia will also support this agenda, by assisting the authorities in streamlining business regulations, improving competition and investment regulations and implementing regulatory reforms . . . (The) IFC will offer its advice to the Government on PPP transactions for infrastructure", this is exactly what happened as the PPP Law was adopted on 27 November 2015, the Central bank new law, the banking law and the bankruptcy law in April 2016, that the Extended Fund Facility (EFF) was finally approved by the IMF in May 2016. Later the new investment Law, and the new competition Law were adopted in September 2016, with the financial support of the WB.

25 By lending to State with high short-term profitable rates, especially with the high key rates applied by CBT.

26 Such as Mabrouk Group (BIAT), Elloumi Group (BTK), Doghri Group (UBCI), Ben Yedder Group (Amen Bank).

tax rates (2017 and 2018) and price increases for a long list of products.²⁷ This tax pressure essentially weighed on the population and on small companies, trampling the very principle of tax equity enshrined in Article 10 of the Constitution.²⁸ These austerity measures caused growing discontent among large vulnerable classes of society over decreasing purchasing power²⁹, deteriorating quality of public services and worsening labor standards and living conditions³⁰. In 2019 the death of 14 newborn in Rabta public maternity due to a nosocomial infection caused by human deficiencies, later the death of a dozen of agriculture women workers due to insecure means of transport³¹ have triggered protests in all regions of Tunisia. The government was forced to launch sector-based dialogues on health, transport and energy, which came to nothing.

Police repression was the only way to silence the protests, after the entry into force of each finance law, each January became the scene of abuses against demonstrators and arrests of hundreds of young people.³² Social tensions were so high that EU countries and the US administration warned their citizens of possible riots and asked them to avoid demonstrations and crowds.

In spite of that, the Chahed government has received during its tenure higher amounts of loans from the IMF and other multilateral and bilateral institutions than any other government of the transition. Although the first condition for EU macro-financial disbursements was the respect for human rights, it seems that the promise to accelerate the conclusion of a deep and comprehensive free trade agreement before the end of the former European Commission's mandate was enough of an argument for the EU to ignore the repressive approach to protests. The agreement was at the end not concluded after a broad national civil society coalition including the UGTT mobilized and rejected it³³, but parts of it passed in the parliament in forms of laws³⁴ to receive tranches of the EU Macro financial assistance. During the same year, the funds frozen by the European Union of the Mabrouk family, Ben Ali's son-in-law, were unfrozen.³⁵

In monetary terms, due to the adoption of IMF conditions, the Tunisian dinar has lost nearly 40% of its value; this devaluation has put public enterprises in strategic

27 First a long list of products that were under low VAT rates were put on the list of higher rates, during 2017, then the 2018 Finance Law increased all VAT rates by 1 to 2 points, in addition to the collection of additional specific taxes, and other consumption taxes. To this were added decisions of general increases in the prices of water, electricity, transport, gasoline, phone cards, housing, Internet use, hotel rooms, and food such as fruits and vegetables.

28 Amine Bouzaiene, Tax Justice in Tunisia : An ideal crushed by debt policies, Friedrich Ebert Fondation November 2021. <https://library.fes.de/pdf-files/bueros/tunesien/18725.pdf>, See also legal agenda Tunisia issue n° 22 , August 2021 https://legal-agenda.com/wp-content/uploads/Legal-Agenda_Tunisia_22.pdf

29 Inflation hiked at unprecedented levels, reaching 7,5 % in December 2018.

30 <https://www.middleeasteye.net/news/sick-tunisia-austerity-and-vested-interests-destroying-health-services>

31 <https://www.middleeasteye.net/reportages/ouvrieres-agricoles-les-sacrifies-du-modele-agricole-tunisiens>

32 See Inkyfada reports on arrests and people killed by the police, <https://inkyfada.com/fr/webdoc/tue%20%b7es-par-la-police-depuis-2011-les-violences-policieres-en-chiffres/> See also International Amnesty reports on Tunisia. <https://www.amnesty.org/fr/documents/mde30/0380/2019/fr/>; <https://www.amnesty.org/fr/documents/mde30/0085/2019/fr/>

33 <https://lapresse.tn/5332/block-aleca-principale-revendication-du-1er-mai/>

34 Such as the sanitary and phytosanitary law that aims at regulatory convergence with EU norms in the agricultural sector. this would ultimately allow better market access for European agricultural products.

35 <https://nawaat.org/2019/01/27/affaire-marouen-mabrouk-clemence-europeenne-au-gout-orange-francais/>

sectors that are net importers of essential products, such as the national electricity company STEG, the grain office and the central pharmacy, in deep financial difficulties. According to the Tunisian observatory of the economy, over the period 2016-2018, the cumulative impact of the exchange rate on outstanding public debt was five times greater than total disbursements received from the IMF over the same period³⁶.

Despite the bloodletting imposed by the Chahed government on Tunisians during his tenure, to reduce the primary deficit the cumulated effect of the depreciation of the exchange rate (+8.91%) and the effect of interest on the repayment of debt (+2,64%), on the increase of the public debt has completely negated these efforts of reduction of the primary deficit (-1,74%) during the same year.³⁷ The growth rate has oscillated between 1.1% and 2.9%, and the average unemployment rate has never fallen below 15%, reaching 33.4% among 15-24 year olds, the multidimensional poverty rate has climbed to 28.97% of the population³⁸ and this even before the shock of the pandemic.

Then the Covid-19 crisis hit an already weakened Tunisian economy with a historic recession of about 9% in 2020. The health crisis has particularly affected all sectors of the economy, over the first 9 months of 2020, major sectors such as tourism and transport have recorded a decline in activity of 42.7% and 29.6%, and tourism revenues have thus fallen by 65% between 2019 and 2020.³⁹ Not eligible for the G20 debt relief initiative and lacking an adequate stimulus package⁴⁰ due to the strong resistance of the Central Bank to finance large public deficits, very superficial and insufficient measures have been taken by the Tunisian government to support poor businesses and households. By the end of 2020, 5,4 % of businesses had permanently closed⁴¹, 7.7% of the companies were temporarily closed, while, 37,2% of the open companies said they were at risk of closing permanently under these conditions.

Thus, it is clear that external interests have never been to consolidate democracy in a way that would serve the social demands of the majority of the Tunisian population, or to challenge the pre-existing economic interests of the European Union (Either as a bloc or in bilateral relations with EU countries). The United States, Turkey and Gulf states such as Qatar, the Emirates and Saudi Arabia have also all played a role in strengthening or destabilizing the political powers in place according to their interests in the region⁴², while the gatekeepers of international capital have ensured that the country does not deviate from the neoliberal rules imposed on the global South.

The election of «outsider» candidate Kais Saied in October 2019, in itself, expressed the hope of Tunisians to get the country out of the grip of the corrupt and greedy

36 Imen Louati and Chafik Ben Rouine, Impacts of Tunisia's currency devaluation, Briefing Paper, Tunisian Observatory of the Economy, 2021 http://www.economie-tunisie.org/sites/default/files/fmi_impact_of_tunisia_currency_devaluation_en.pdf

37 Ministry of finance report on execution of budget December 2018, page 10 http://www.finances.gov.tn/sites/default/files/2019-08/note_sur_lexcution_de_budget_fin_dccembre_2018.pdf

38 https://ofe.umontreal.ca/fileadmin/ofe/documents/Documents_de_travail/DROFEno5.pdf

39 UNDP, Impact économique du covid19 en Tunisie analyse en termes de vulnérabilité des ménages et des micro et très petites entreprises, <https://www1.undp.org/content/dam/tunisia/docs/Publications/UNDP-TN-Impact-covid-sur-l%3A9conomie-tunisienne-2020.pdf>

40 Maha Ben Gadha, Tunisia joins forces to save global capital, Bar Al Aman 2020, <https://www.researchmedia.org/tunisia-joins-forces-to-save-global-capital-maha-ben-gadha/>

41 <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26097>

42 <https://orientxxi.info/magazine/la-tunisie-un-champ-d-affrontement-entre-les-pays-du-golfe,2387>

politicians of the new and old restructured regime. This hope quickly ran up against the institutional blockage described above. Without the support of a parliamentary bloc, Kais Saied faced even deeper political crises than his predecessors did, even when he succeeded in appointing a head of government from his own circle⁴³. The crises further culminated⁴⁴ and reached their peak with the mismanagement of the pandemic by the Mechichi government, which contributed clearly to more higher mortality rates during the two months of June and July 2021, and precipitated the July 25 president's decisions to declare the state of exception, dismiss the government, freeze the activities of the parliament and later dissolve it, and end the narrative of «democratic success,» which failed to meet the basic needs of the population. His power grab was clearly supported by a large segment of the population, even with a controversial interpretation of article 80 of the constitution, as he was able to get the vaccines and oxygen needed by thousands of Tunisians plunged into the worst health crisis the country has ever known, at the same time that the head of government was spending his weekend in the most luxurious hotel in the country. This was the last straw.

3. A paradigm shift? Economics after the 25 of July

Since July 25, the international community is urging Kais Saied to «restore democracy»⁴⁵ and, continues to put pressure on the Bouden government to reach an agreement with the IMF, to ensure the continuity of the implementation of «structural reforms» in order to receive new funds to support the country⁴⁶. These loans in foreign currency will allow the country to avoid defaulting on its foreign debt service, and will allow to continue buying products from abroad (wheat, oil, gas, medicines, industrial components, etc.). In response to this, two divergent paths have emerged, that of the president and that of the government: First the president announced a political roadmap, for holding a referendum on the constitution and organizing new elections. On the economic front, he issued three decrees: One banning illegal speculative behavior in a desperate attempt to curb runaway inflation; he also issued an amnesty law promoting socio-economic reparations by individuals who have committed economic crimes, benefiting the poorest regions, with the hope that the reinvested money will revive some economic dynamism in those areas. He also issued an ambiguous community enterprise law to encourage community-led local development initiatives. In addition, in several public statements, he has ordered an audit of the external debt without declaring any intention to cancel it. While the political roadmap runs to 2022, the expected effects of these economic initiatives remain unclear and, at best, their tangible impact will be more distant.

43 Hichem Mechichi served as the president's adviser, then as Minister of Interior, and then he was appointed Head of Government.

44 <https://www.middleeasteye.net/fr/decryptages/tunisie-kais-saied-hichem-mechichi-crise-politique-ennahdha-qalb-tounes>

45 https://www.consilium.europa.eu/fr/press/press-releases/2021/07/27/tunisia-declaration-by-the-high-representative-on-behalf-of-the-eu/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Tunisie+%3a+d%u00e9claration+du+haut+repr%u00e9sentant%2c+au+nom+de+l%u2019Union+europ%u00e9enne
<https://tn.usembassy.gov/heads-of-mission-joint-statement-on-tunisia-10-december-2021/>

46 Bouden economic program of reform explicitly mentioned that mobilization of external financing is conditional on the conclusion of a program with the IMF.

From the other side, Samir Saied, the Minister of Economy and Planning, who took up his office at the Ministry of Development, Investment and International Cooperation, published a schedule of sectoral consultations between ministries, trade unions, civil society and professional actors, to prepare the 2023-2025 development plan. Although Tunisia has a tradition of preparing five-year development plans, this is the first time in recent history that the government works on such a short-term agenda, which seems to be perfectly aligned with the country's debt repayment schedule, suggesting that this dialogue will be a formality, to pass reforms linked to those of international cooperation programs (i.e. donors) . At the same time, a team (including the same Minister of Economy and Planning, supported by the Governor of the Central Bank) has already presented the 2022-2025 reform program to the IMF without a prior discussion with stakeholders, and presented it later in a press conference to the public.

The latter does not differ in any way from previous governments reforms: Targeting primary surplus by 2026 to ensure debt amortization It maintain also the same rhetoric of encouraging investment through the abolition of authorizations, facilitating market access and the same accounting approach of reducing the deficit by reducing the public sector wage bill, abolishing subsidies and replacing them with targeted transfers to the poorest. In other words, the stabilization of macroeconomic balances is only centered on the reduction of the budget deficit, through the search for a primary surplus, which excludes from the outset the possibility of a renegotiation of the debt, the burden of this adjustment will necessarily be borne by the taxpayers.

Even before the Russian war broke out, without any prior assessment of the impact of higher oil prices, or the impact of lifting subsidies on certain products, on the overall inflation, the Bouden government has decided to rise the prices of oil at the pump on a monthly basis, tobacco, sugar, and electricity, in order to be able to come to the negotiating table with the IMF.

Despite the president's critical discourse towards rating agencies, and his firm rejection of foreign interference and prioritization of the «the people's will», his government his government continues to promote the same arguments of «necessary reforms» that Tunisia must implement. Only different expressions are used: It will not be a question of abolishing subsidies but of directing them towards the neediest, it will not be a question of privatizing public enterprises but of reviewing the role of the state in strategic sectors. Accounting ratios, such as the wage bill/GDP, are often used to highlight the unjustified weight of the public sector in the economy and its crowding out effect on investment. These are perfect arguments for the local bourgeoisie, who see public sector trade unionists as the rentiers of the state, whose power should be reduced in favor of the local private sector, just as the World Bank sees the families and professional groups that control entire sectors as the rentiers of the Tunisian economy, whose power should also be reduced in favor of the international private sector.

Since the denominator, the GDP has been very low for years, it has become very easy to recommend very concrete measures to reduce this ratio by reducing the nominator, namely salaries, by freezing salaries or by retirement plans⁴⁷, and the privatization of public enterprises (through an agency for the management of the state's assets). This

47 A decree for early retirement has already been issued, and agreements on wage increases with the UGTT are blocked, in addition to an internal circular (n 20) prohibiting the negotiation of ministries with the sectoral unions has been applied.

accounting ratio does not distinguish between civil servants employed in the military, security forces, national education and public health, who are salaried employees of these ministries and whose salaries are paid from the state budget, and employees of public enterprises whose salaries do not burden the state budget but are covered by the revenues of these enterprises⁴⁸. On the other hand, an important part of the State own budgetary resources comes from deductions at source on the salaries of civil servants, thus it cannot indefinitely reduce this wages mass at the risk of reducing its overall revenues, without replacing them with other taxes, in addition to the fact that faced with the precariousness of employment in the private sector⁴⁹, public sector employees are often the only categories that can benefit from consumer loans or mortgages, and they are also guarantors for their families for other forms of credit.

What needs to be considered is that the pressure to reduce the wage bill is not as neutral an accounting technical argument as it appears⁵⁰ because this reduction will never affect the security apparatus. Indeed, the Ministry of the Interior has seen the largest increase in the wage bill over the past decade, while the Ministry of Health's wage bill only increased in 2021 (following additional hiring during the Covid crisis), and then quickly returned to austerity from 2022. Thus the burden of these austerity measures will ultimately be borne by the public education, public health and public transport sectors, where the UGTT has strong and well-structured sectoral unions. It is only in this context that one can understand the IMF's demands for the government to reach an agreement with the UGTT on the reforms that Tunisia should carry out before sitting at its table.

Over the past decade, although the UGTT has faced many challenges: from internal divisions to managing national political crises and sectoral struggles, the union, despite its bureaucratic nature, has managed to play an important political role and has been able to maintain its power of social resistance, as it represents the faction with the greatest capacity to mobilize against those reforms that target its members and because of its ability to federate other interest groups. The union played along in times of crisis by accepting the freeze on wage increases for three years, accepting the change in the tax rate and an additional 1% contribution by workers to the social security funds, which it rightly called «a distribution of the burden among the poorest». Except that the main claims with the government or with its private sector counterpart, the confederation of companies (UTICA), have mainly focused on catching up wages of workers by indexing them to the increase in inflation, as well as improving the social conditions of its members. These small successes achieved through the social struggles of the working class were wiped out by a more intense and rapid deterioration of the country's economic situation. In addition, the growing number of unemployed, non-unionized workers and marginalized communities, as well as the disaffected youth of the political class, who do not find themselves in the UGTT's discourse focused on maintaining the "privileges" of the public sector despite its deficiencies, are today a real challenge for an inclusive dialogue under the aegis of the union. A second version of the 2013 national dialogue for which the union (within the quartet) was awarded the Nobel Peace Prize, will no longer be

48 According to reports published by the Ministry of Finance, the state-owned enterprises that face the highest financial difficulties are those that have experienced a sharp decline in external revenues due to external shocks such as the decline in tourism, the rise in oil prices, and the devaluation of the dinar. This has worsened their external debt sustainability.

49 Fadil Ali Riza , What democracy for Tunisian workers, Rosa Luxemburg Stiftung North Africa , February 2020 <https://rosaluxna.org/wp-content/uploads/2020/02/What-Democracy-for-Tunisian-Workers.pdf>

50 <https://nawaat.org/2020/11/08/trop-de-depenses-trop-de-fonctionnaires-deconstruire-le-mythe/>

accepted, especially since its role in driving a clear alternative economic vision for the country was sorely lacking during that dialogue.

Gambling on the agreement with the trade union federation to swallow the IMF reforms is to underestimate the power of nuisance of the sector-based unions and regional sections, and other categories such as farmers or the unemployed. Betting on the popularity of Kais said to pass these reforms through his Bouden government, is underestimating the social tensions that may result and will be further sustained by the parties that have been excluded from the political scene. This would increase the risk of entrenching the government in a security and increasingly authoritarian approach that would compromise any possibility of a return to the democratic process for Tunisia, and worsen a situation already very tense.

4. The Imminent Threat: Debt crisis and Stagflation

It should be clear to all Tunisian policymakers that Tunisia's external position is a real and imminent threat to any democratic or political process. If bilateral and multilateral institutions continue to condition their loans on an IMF agreement, Tunisia will likely face a difficult trade-off between using its foreign exchange reserve to service its debt, or using it to continue importing wheat and oil, medicines and other industrial components at increasingly high prices because of the Russian war in Ukraine.

Removing subsidies in local currency⁵¹, privatizing public enterprises, or removing barriers to investment in a non-selective manner, as recommended by international financial institutions, will not solve the current account problem which is the root of the unsustainability of the external debt as these recommendations are only aiming at attracting FDI's, while FDI's are structurally low from decades, and trade deficits are structurally growing. Even if an exceptional agreement with the IMF, or with other creditors is reached to preserve the capacity of the economy to continue its «normal functioning” in 2022⁵² and to ensure the repayment of loan amortization or matured bonds on the international market, the threat will only be postponed to the following years (2023-2024-2025-2026), when the level of servicing will be much higher than in 2022⁵³ especially with a balance of food and energy that continue to worsen.

The IMF knows that the risk of stagflation that hangs over Europe after the outbreak of the Russian war against Ukraine, and the sanctions taken by the EU, the USA and other nations against Russia, and its consequences in terms of increased prices of raw materials, oil and gas, can in no way be controlled by the Tunisian government . The Tunisian central bank can in no way reduce the impacts of rising key rates by the central banks of northern countries. If this is coupled with austerity measures

51 Subsidies in Tunisia are generally intended for public enterprises or flourmills in order to maintain prices below cost. This is a policy by the public authorities to make possible to maintain a purchasing power that can support the low level of remuneration of employees. The minimum guaranteed interprofessional wage for the 48-hour plan is \$130 / €122 per month, thus although wheat / oil subsidies are considered as a burden on state budget it's in reality subsidizing wages for foreign companies in order to maintain low cost employment.

52 Including the repayment of short-term credits guaranteed by the State for the import of cereals, oil, gas etc.

53 See IMF Tunisia staff report article IV consultation 2021, Tunisia: Amortization and Interest Payments of Central Government Debt, 2020–36, page 58. See also https://www.tustex.com/economie-actualites-economiques/tunisie-etat-des-lieux-detaille-de-la-dette-tunisienne-sur-le-marche-financier-national-et?fbclid=IwAR1wCoBmoDPY_bzG8cJUzgNYVXg72MmCzfCrfCY-OwPDqEwd01xDcSL9MZ8

imposed on the budget, it can only worsen the situation of the country: This will result in a decrease in production because entrants will be more expensive, and therefore in the quantity of exported goods and foreign exchange earnings. Foreign reserves will become increasingly scarce and will be allocated exclusively to essential goods such as wheat and medicines. With the continued drying up of external flows (due to the high costs of accessing international financial markets, and the likely fall in labor remittances and FDI s), if the «IMF first» clause is not removed by other bilateral and multilateral lenders , this situation will sooner or later push the country to default on its external debt, this is not an exception for Tunisia, it is an international debt crisis that is looming in most middle and low income countries that are heavily dependent on wheat, oil and gas imports.

The EU member states and the G7 countries which have important economic and security challenges with the countries of the region, have a vested interest in not worsening the social and economic situation of these countries and should consider taking bold decisions under the German presidency, such as unilaterally cancelling bilateral debts, the meeting to be held in June may be a better opportunity to take more concrete initiatives than those undertaken within the framework of the G20, which has dramatically failed to propose a comprehensive debt relief initiative including private creditors during 2020.

5. Outlook: how to get away with external and internal constraints

Tunisian decision-makers should consider a short-term strategy to avoid the austerity trap and cope with external pressures, in parallel with reforms that should also lay the foundations for a medium- and long-term strategy to tackle the roots of the debt problem.

The Russian war on Ukraine, and the former financial 2008 crisis has shown the extent to which EU countries have different economic interests and different strategies. It remains unclear however, to what extent they would act as a coherent bloc vis-à-vis the countries of North Africa. While Germany is trying to reduce its energy dependence on Russia to other countries in the North African and Middle East region, France, Spain and Italy, will face new flows of immigrants from North Africa and sub-Saharan Africa. In absence of a radical adjustment of balance of payment, workers/migrant Remittances will remain the main sources of foreign currency receipts for non-exporting oil countries, and will refrain them from cooperating on controlling migration. Moreover their companies may find it difficult to operate in a social environment of heightened tensions and security threats south of the Mediterranean. As a bloc or as member states, Europe has an interest in offering a different approach to the countries of the southern shore of the Mediterranean, rather than increasing their vulnerabilities. Recent release of the second tranche of 300 Mi € of the MFA package promised during Covid crises is a first good step, but it is more than urgent to push to reach a broader agreement with private creditors to allow a debt resolution restructuring and a greater support to countries that will face the war impact.

If the timetable for multilateral negotiations is not adequate for the imminent threats facing the country, and if the country does not have the political opportunity to declare a default, bilateral negotiations should be engaged with Germany, France, and Saudi Arabia (major bilateral creditors) on debt cancellation, it is realistic options in today's changing geopolitical environment, and will eventually be politically and economically

less costly for these countries than the consequences of inaction. Also, it is essential to strengthen strategic ties with Algeria to secure gas supplies and reduce energy bills, bilateral currency swap arrangement between both central banks could be a solution to reduce dependence on foreign currency to buy gas. Increasing trade and investment with Libya, which is an important market for Tunisian agriculture, and building sector is essential in the immediate future. Tunisia also has an interest, in the context of high prices of vegetable oils to negotiate a unilateral removal of the limitation of annual quotas cleared for Tunisian olive oil and in particular bottled oil especially in the prospects of a good harvest for 2022-2023.

On the domestic front, it is essential to reverse the focus on external debt servicing in policymaking, to focus on a more resilient economy that ensures job creation, high value creation and decent pay at home, which will ultimately encourage people not to immigrate.

In other words, austerity measures will be the bullet that kills any recovery program. Public spending is not a neutral issue, it is a strategic choice that must meet the objectives of food and energy sovereignty, it must meet the needs of Tunisians before prioritizing creditors, public spending should have a longer time horizon than the debt repayment cycle and a quantifiable and controllable objective in terms of welfare that would be generated and its fair redistribution.

Therefore Tunisia should first support its agriculture and farmers, through large public spending programs to secure the wheat and barley harvests, the recent relatively good levels of rainfall is a positive factor that will save this season's crop, but it is not enough because of persistent droughts, and with the accelerating climate catastrophe. Water resource management is essential, as well as improving storage capacity that should be managed locally, to reduce transportation costs.

It is also important to refrain from making inappropriate decisions that could increase prices locally. Stronger enforcement measures against speculation and dominant positions should be applied, in a strict and non-abusive manner, so that they do not turn into a witch hunt, which could end up discouraging investment in storage and distribution activities. Manage resource waste, regulate intermediate professions such as agricultural transport, regulate intermediary profit margins in agricultural sectors, advance planning on prices and quantities, ensuring equitable distribution of water and fertilizers will guarantee the viability of the sectors and reduce internal inflationary pressures in the short and medium term, spending to contain inflation will be more effective than CBT raising inefficiently the policy rate to contract credit and consumption without challenging the nature of this consumption. Public spending should also be used to strengthen the ability of the country to cope with internal shocks. Disaster management committees should be strengthened with all the logistical and financial means to anticipate and avoid disasters (such as diseases that affect crops, fires that can be caused high temperatures, floods). It is also essential to remove tax breaks and subsidies for export crops that are water and energy resource-intensive and replace them with a targeted program of support for sustainable agriculture in regions affected particularly by drought and climate change, which will limit vulnerability to external shocks and reduce dependence on imported products. This is what targeting subsidies to those who need them should mean.

Tax rebates, and credit planning should be targeted primarily at households and SMEs to reduce the tax burden on them, and to provide incentives for them to transform their consumption patterns, and serve the ecological transformation. For

example, investment subsidies provided by the High Investment Authority should be eligible for small businesses or community enterprises and households that wish to invest in renewable energy plants, rooftop solar panels, and waste recycling, rather than prioritizing large export-oriented investments in the run for foreign currency. Tax incentives for capital-intensive activities for investors should target sectors with high employability and a small environmental footprint, and low hard currency outflows. These are only a few examples to enhance the country's resilience and reduce its vulnerability, but it is also more than urgent today to address the question of the valuing of work. The reassessment of salaries in all sectors of strategic importance, such as industrial, agricultural and environmental, ICT engineers, researchers, public sector doctors, health and education workers, , should be a public policy objective in order to limit the brain drain and provide a decent working environment, and to eliminate in-work poverty and gender inequality. Decent social security should be introduced as a constitutional right and banished from market logics. Here, public spending should not be calculated as a cost, but as an investment.

Today, it is obvious to the majority of the political class, and to the international community that it is impossible to return to the pre July 25 situation. Kais Saied has concentrated all the power in his hands, and in doing so, he has taken full responsibility for changing the rules of the game. Betting on his failure means taking the risk of putting the country back in the hands of the same political elite responsible for these failures. But it is more than necessary to challenge the president's singular vision and top-down approach by forming a popular alliance of national organizations and progressive movements to redefine the rules of the game in favor of the majority of the population. The first condition for such an alliance to be effective is for the new constitution to enshrine social dialogue, and the UGTT could play a crucial role in achieving this goal. The second condition is that constitutional reforms strengthen human rights and freedoms, guarantee the independence of the judiciary, end impunity and the police state, and provide independent institutions with adequate real means to play their role in making policymakers effectively accountable to their constituents. Constitutional weaknesses that we described should be addressed, and the amendment of the political system should ensure a real allocation of powers and a clear balance between the executive and the legislative and social dialogue should enable a paradigm shift in the economic model.

As an example of an institutional reforms that could contribute to better planning and economic results: the Ministry of Economy and Planning should be a supra-ministerial body that coordinates actions between the sovereign institutions. the Central Bank, the Ministry of Finance and the Ministries of Agriculture, Industry, Energy and Environment, and social affairs in order to coordinate effective economic policies, based on economic studies, not only prospective but also ex-post evaluations, in order to assess the results of the implemented policies.

Monetary, fiscal and sectoral policies must go hand in hand and be supported, where necessary, by international cooperation in areas that are in the country's strategic interest, such as research and development, technology transfer, investments for climate change adaptation and good resource management. Policy goals such as full employment or food and energy sovereignty, with quantitative indicators, should be among the goals for which governments, including the Central Bank, must be accountable for to elected representatives, and above all democratic sanction mechanisms must be provided so that popular sanctions do not take place in the streets.

Disclaimer:

This article does not necessarily reflect the position of RLS North Africa office.



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