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FMI: Impact of Tunisia's Currency Devaluation

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Summary

Introduction

Former Finance Minister Ali Kooli recently said that "things will improve in Tunisia because this government has decided to act," and that "some of these actions are not easy to take" but will eventually change the economy in depth." Without providing any details, he claimed "We will see the fruits in a few weeks."[1] It is unclear if these proposed actions differ substantially from those promised and undertaken by previous governments, summarized by Former Prime Minister Hichem Mechichi as: a reduction in the Tunisian government's spending on subsidies, privatization of some "non-essential" public companies and provision of additional financing to young Tunisian entrepreneurs. These are all conditions currently required by the IMF for the negotiation of a loan intended to fill the budget deficit in the Finance Act of 2021.

The ongoing negotiations with the IMF revolve around the signing of the country's third agreement with the international financial institution since the Tunisian revolution. Indeed, in 2012, the then Finance Minister Elyes Fakhfakh responded favorably to the conditionalities set by the IMF for financial assistance, which was granted on June 7, 2013, in the form of a stand-by arrangement. In 2016, the government of the time requested a second financial assistance package from the IMF, which was granted on May 20 of the same year in the form of an extended credit facility. This financing was for an amount equivalent to 2.9 billion dollars. In return, Tunisia was expected to undertake an "economic and financial reform program", namely a structural adjustment plan. The government had begun implementing the painful conditionalities requested, including the adoption by Parliament of the Central Bank Independence Law, the Banking Law and the Bankruptcy Law in April 2016.

[1] *Bloomberg – Tunisia says it's naw or never for painful economic overhaul – 04/02/2021*

These were all prerequisite as prior actions required by the IMF before negotiations on the agreement could begin. The IMF then proceeded to condition tranche disbursements on the implementation of additional reforms, including the three key areas of “reform”: "business climate", exchange rate policy, and food subsidies.

The "economic and financial reform program" that has been presented by the government of the time is reminiscent of some of the conditionalities mandated by the IMF under the 2016 agreement. Reluctance on the part of the Tunisian authorities led to a suspension or delay in implementation of that agreement.

In this briefing paper we will present an assessment of one of these reforms initiated since 2016, namely the devaluation of the Tunisian dinar, which has had a significant and negative impact on foreign exchange reserves, trade deficit, debt service, inflation as well as on public enterprises.

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II. Pressure on the Tunisian authorities

At the end of February 2021, the Executive Board of the International Monetary Fund (IMF) published the results of its Article IV consultation with Tunisia, assessing the impact of the pandemic in Tunisia and evaluating the response of the government.[2] The report states that real GDP is estimated to have contracted by 8.2% in 2020, the largest economic slowdown since the country's independence.[3] In addition, the IMF draws attention to the budget deficit and public debt that increased in 2020, identifying the "culprits": the public sector wage bill, including recent health sector hiring to deal with the Covid-19 pandemic, and energy subsidies. Directors also noted that "Tunisia's public debt would become unsustainable unless a strong, credible, and broadly supported reform program is adopted." This program would focus on restructuring public enterprises to reduce their wage bill, while promoting the private sector to increase growth and make economic activity more labor intensive with increased job creation.[4] Thus, the message is clear: "Tunisia must implement the reforms expected by the IMF starting with public enterprises and subsidies." The World Bank (WB) has adopted the same position. According to Ferid Belhaj, Vice President of the World Bank for the Middle East and North Africa, the institution "will not give a loan to Tunisia without the reforms already mentioned."[5] Added to the shared position of the two institutions, the rating agency Moody's further reduced the government's room for maneuver by lowering the rating of Tunisia from B2 to B3 and maintaining the outlook of this rating to "negative". In doing so they have reduced the ability of Tunisia to access loans at reasonable interest rates. Meanwhile, the Ministry of Finance planned in its 2021 Finance Act to fundraise the equivalent of 6.5 billion dinars on international financial markets.[6] Moreover, the revision of the negative outlook and the amelioration of rating are linked to the conclusion of an agreement with the IMF, without which Tunisia will have difficulty raising funds on the international financial markets. According to Moody's, the downgrade is linked to the lack of predictability of institutions and government actions, shaped by a strong public sector presence.[7]

Following this consistent pressure, the former Minister of Finance, Ali Kooli, confirmed the need to resort to the IMF in early March this year by announcing that "having a loan from the IMF will give more credibility to Tunisia on the financial markets even if it does not cover all the needs."[8] Given the alignment and coordination of donor actions, the abandonment of one major donor, such as the IMF or the WB, can mean the end of funding from other multilateral donors.[9]

The Minister of Finance has assured donors that "a program of reforms is already established by the government without waiting for the proposals of the IMF". In parallel, the former head of government has accelerated the signing of an agreement with the Tunisian General Labor Union (UGTT) and The Tunisian Union of Agriculture and Fisheries (UTAP) to implement strategic reforms for "the promotion of the Tunisian economy" and to "form a consensus around the main priorities of reforms." Mechichi went on to say that this would be "persuas[ive] to foreign partners and international donors in the mobilization of funds for our country."[10] [11] In particular, it would respond to the IMF's first condition as stipulated in the report of the 2021 Article IV consultation with Tunisia[12] : to establish a "national dialogue on reforms" that will facilitate the implementation, without hindrance by civil society, of the requested reforms.

Moreover, the restructuring of public enterprises seems to herald another wave of privatizations. According to Ferid Belhaj, World Bank Vice President for the Middle East and North Africa region,[13] "public enterprises must be competitive, otherwise they will have to be sold in the hope that the private sector will buy them." Thus, the rescue plan aims to reduce the size of the public sector by privatizing some public enterprises, a classic IMF conditionality.

The first wave of public enterprise privatizations began in the mid-1980s, in response to the first structural adjustment plan of 1986, which was linked to the IMF's Stand-By

[2] IMF Country Report No. 21/44 - 9781513570600/1934-7685

[3] Fonds Monétaire International - Communiqué de presse n° 21/52

[4] Idem

[5] Mosaïque Fm – invité Ferid Belhaj – 19/03/2021

[6] التقرير حول المنشآت العمومية مشروع قانون المالية **2020**

[7] Moody's Investors service – Rating Action: Moody's downgrades Tunisia's ratings to B3, maintains negative outlook – 23/02/2021

[8] Express Fm - Intervention du ministre des Finances et de l'Investissement- 01/03/2021

[9] Chandoul, J. (2015) Le Partenariat de Deauville, à l'origine des politiques économiques en Tunisie. Observatoire tunisien de l'économie.

[10] Signature d'un accord entre le gouvernement et l'UGTT pour engager les réformes nécessaires : les cinq batailles de Mechichi et Taboubi – La Presse – 01/04/2021

[11] Accord Gouvernement-UTICA : création de huit commissions de réflexion conjointes – Espace Manager 07/04/2021

[12] IMF Country Report No. 21/44 - 9781513570600/1934-7685

[13] Mosaïque Fm – invité Ferid Belhaj – 19/03/2021

Arrangement of the same year. As in the rest of the Global South states, privatization was one of the main pillars of the IMF's structural adjustment programs for Tunisia, presented as the ultimate solution to redress economic and financial imbalances.

This privatization process picked up pace in Tunisia during the 1990s, especially after the conclusion of the 1995 Association Agreement with the European Union, with a speed equal to the privatization of 15 enterprises per year.[14] Between 1987 and 2010, 250 public enterprises were privatized.[15] In 2016, the government of the time submitted to another round of IMF diktats to continue the restructuring of public institutions,[16] including: the Tunisian Company of Electricity and Gas (STEG), the Tunisian Company of Refining Industries (STIR), the Office of Cereals, Tunisair and the Régie Nationale du Tabac et des Allumettes (RNTA).

Thus, the so-called "restructuring of public institutions" program is in fact only one step in a process that began in the 1990s and whose objective is to reduce the role of the state.

III. The world is changing ... not the reforms demanded by the IMF

Since the onset of the Covid-19 pandemic, the world has experienced an unprecedented deep socio-economic crisis. Many countries, such as Tunisia, continue to struggle to overcome the social disasters, human loss and economic recession caused by the pandemic. Indeed, all over the world, countries are putting in place rescue plans, exceptional measures to support economic sectors, to increase spending on social sectors and to reduce the impact on their economies of the effects of successive waves of the coronavirus disease and confinements suffered by the populations. In addition to the health and economic crisis, there is unprecedented political instability in Tunisia, which is exacerbating the current crisis in the country.

In this context, a change in the rhetoric of international financial institutions, namely the IMF and the WB, was observed following the Covid-19 pandemic, reflecting a similar shift that occurred following the Tunisian revolution in 2011. Indeed, the IMF and the WB recommended that countries borrow massively during the pandemic to respond to the health crisis and increase public spending to mitigate the consequences of the socio-economic crisis.[17] However, the approach and conditionalities of the loans remain unchanged. The maintenance of conditionalities and structural adjustment plans were confirmed at the January 19, 2021 press conference outlining the IMF's priorities for 2021. The IMF made it clear at this meeting that emergency financing will no longer be a priority and that support to countries will be at the policy level to enable them to undertake economic transformation, involving economic adjustment programs.[18]

With this latest round of unequal negotiations, history is repeating itself. The IMF and the WB are coordinating and working together once again, in order to continue the deregulation and liberalization of the Tunisian economy undertaken since 1986, in the face of successive governments that are more and more fragile and have no real vision for the country.[19] Tunisia turned to the IMF at two key moments in its history, with a first loan that generated the structural adjustment program from 1986 to 1992, and the second generated a program covering the period from 2013 to 2020. These two periods coincided with WB-funded programs that laid the foundation for legislative, regulatory and economic restructuring, resulting in an economic situation of austerity whose costs were borne at the expense of the well-being of Tunisians.[20] Indeed, while the IMF and the WB presented Tunisia as an exception- the “bon eleve” of the international financial institutions- Tunisia suffered from austerity measures imposed under the dictatorship with conditionalities that forced Tunisia to further liberalize its trade, reduce the public sector deficit by decreasing subsidies, attract

[14] *Institut Tunisien de Compétitivité et d’Etude Quantitatives – Rapport sur la privatisation et le développement du secteur privé – 2010*

[15] مصطفى الجويلي - المؤسسات العمومية التدمير الممنهج و مغالطات خطاب الخوصصة - الدرب نوفمبر 2020

[16] *Lettre d'intention adressée par le gouverneur de la Banque centrale et le ministre des Finances au directeur du Fonds monétaire international le 2 mai, 2016*

[17] *Communiqué de Presse – Assemblées annuelles de la Banque mondiale et du FMI 2020 : Communiqué du Comité du développement – 16 octobre 2020*

[18] *Joint Press Conference by IMF Managing Director Kristalina Georgieva and IMFC Chair Magdalena Andersson*

[19] *Chandoul J., (2017) Tunisie et FMI, Injustices transitionnelles. Policy Breif n°3. Observatoire Tunisien de l’Economie.*

[20] *Aliriza F., (2020) L’impact et l’influence des institutions financières internationales sur le Moyen-Orient et l’Afrique du Nord. Périphérie perpétuelle : les IFI et la reproduction de la dépendance économique de la Tunisie. Friedrich Ebert Stiftung.*

foreign investment, liberalize prices more generally, increase interest rates, reduce import restrictions and significantly devalue the Tunisian dinar.[21]

Thus, the IFIs' loans and their conditionalities are part of the continuity and aim at further deepening the neoliberal restructuring of the Tunisian economy by advocating: a reduction of the wage bill, suppression of subsidies, privatization of public enterprises, an increase in public-private partnership investments, a reduction in the State's regulatory role and expenditures, as well as preservation of the liberalization of the capital account and flexibility of the exchange rate.[22]

IV. Spotlight on one of the IMF's key conditionalities: Devaluation of the dinar

The IMF's policy advocates exchange rate flexibility. Changes to Tunisia's exchange rate regime were first imposed by the IMF as a structural measure in its first letter of intent in May 2013, with the flexible exchange rate replacing the previous regime where the exchange rate was determined via a basket of currencies.[23] With the previous regime, the Central Bank of Tunisia (BCT) "had a general mission to defend the value of the currency and ensure its stability".[24] At the time, it opted for a managed exchange rate regime to adjust the value of the dinar against mainly the euro and the dollar, which gave a very strong discretionary power to the BCT to stabilize the dinar. This role changed in 2016. The IMF conditionalities imposed prior to the agreement under the expanded credit facility in 2016, required the BCT to fully liberalize the flow of capital and especially short-term capital outflows.[25] It was also forced to abandon its exchange rate policy and cede control of the dinar exchange rate to market forces. As soon as the law on the independence of the BCT was passed in April 2016, the exchange rate between the Tunisian dinar and the dollar fell.[26] Throughout its reviews under the 2016 loan, the IMF has repeatedly imposed the devaluation of the Tunisian dinar, despite the demonstrated negative impacts.[27]

This analysis will therefore focus specifically on the negative impacts of the relatively prolonged devaluation of the dinar from 2016 to 2018 (see Figure 1).

Figure 1 : Changes to the dinar exchange rates against the Euro and the US Dollar
Source : BCT

[21] *Aliriza F., (2020) L'impact et l'influence des institutions financières internationales sur le Moyen-Orient et l'Afrique du Nord. Périphérie perpétuelle : les IFI et la reproduction de la dépendance économique de la Tunisie. Friedrich Ebert Stiftung.*

[22] *IMF Country Report No. 21/44 - 9781513570600/1934-7685*

[23] *Ben Rouine C., (2016) L'indépendance de la Banque Centrale Tunisienne : enjeux et impacts sur le système financier tunisien. Observatoire Tunisien de l'Economie. Working paper n°1*

[24] *Article 33 de la loi 88-119*

[25] *Demande d'accord élargi au titre du mécanisme élargi de crédit — communiqué de presse, rapport des services du FMI, Supplément des services du FMI, et déclaration de l'administrateur pour la Tunisie. Rapport du FMI N°16/138. pp 15.*

[26] *Ben Rouine C., (2016) L'indépendance de la banque centrale tunisienne : enjeux et impactes sur le système financier tunisien. Working paper n°1. Observatoire Tunisien de l'Economie.*

[27] *Chandoul J., (2017) Tunisie et FMI, Injustices transitionnelles. Policy Breif n°3. Observatoire Tunisien de l'Economie.*

A. Impact of dinar devaluation on foreign trade

1. Debt service

As of 2016, Tunisia has seen its public debt register an increasingly sharp increase. According to the Ministry of Finance, the three main causes of the increase in public debt are the budget deficit, the interest on the debt and the exchange rate effect.

Admittedly, in 2014 and 2015, it was the budget deficit that contributed most to the increase in public debt. But this budget deficit linked debt decreased significantly in 2018 following the austerity policy carried out by the government. During the same period, interest continued to rise until it doubled in 2018. The impact of the exchange rate effect was so important, with a cost that reached the sum of 9.5 billion dinars in 2018, five times more than the budget deficit of the same year, that the stock of external public debt doubled from 29.9 billion dinars in 2015 to 60.2 billion dinars in 2018.[28]

[28] Ben Rouine C., (2019) La dévaluation du dinar fait exploser la dette publique. Datanalysis n°22. Observatoire Tunisien de l'Economie

Year	2013	2014	2015	2016	2017	2018
Impact of exchange rate changes on the outstanding public debt (MD)	883,8	994,8	855,0	3936,2	5345,0	9465,2

I Table 1: Impact of exchange rate changes on debt service in millions of dinars[29]

[29] Direction générale de gestion de la dette publique et de la coopération financière – Brochure de la dette publique Tunisie – Décembre 2020

From the above it is clear that the most important reason for the increase in the debt ratio remains the slippage of the dinar against the main currencies composing the external debt portfolio, namely the euro and the dollar. This slippage has generated an increase in Tunisia's outstanding debt over the last three years 2016-2018, amounting to 18697.9 million dinars. In comparison, during the previous three years 2013-2015, the exchange rate effect did not exceed 2734 million dinars (see Table 1).[30]

[30] Rapport sur la dette publique (2020) – Ministère des Finances

As a result, the debt ratio increased to 77.08% of GDP by the end of 2018 compared to 46.56% by the end of 2013, an overall increase exceeding 30.5% of GDP. The "exchange effect" is therefore responsible for 18.84% of the total increase observed over the past three years.[31]

[31] ibid.

2. Inflation

The devaluation of the Tunisian dinar has also had a significant impact on inflation since April 2016. The liberalization of the dinar in April 2016 was the main trigger for inflation, which accelerated especially after the fall of the dinar in March 2017. Indeed, the correlation coefficient between inflation and the dinar/euro exchange rate was low (0.25) between January 2013 and March 2016, while it became much higher between April 2016 and May 2018 (-0.91).[32]

[32] Ben Rouine C., (2018) Inflation et taux d'intérêts : l'échec du FMI. Datanalysis n°18. Observatoire Tunisien de l'Economie.

Currency devaluation in turn causes a rise in inflation, which results in an increase in prices of imported goods. Ironically, inflation has never been as high as it has been since the IMF mandated the BCT to focus solely on fighting inflation, reaching an all-time high in 2018 of 7.3%[33] (see Figure 2). Centering inflation as its primary concern, the BCT is expected to act on short-term interest rates, while preserving exchange rate flexibility.

[33] ibid.

However, it is actually the liberalization of the dinar and its subsequent fall in value that accelerated inflation between 2016 and 2018, by increasing the prices of imported goods.

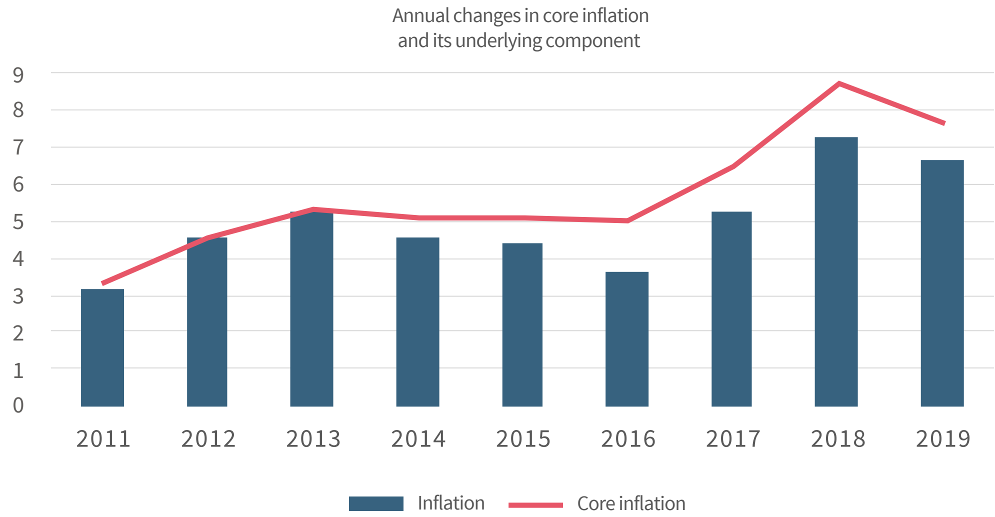

Figure 2 : Annual changes in headline inflation vs. core inflation

3. Trade deficit

According to the IMF, currency devaluation improves the competitiveness of exporters and thus leads to an increase in exports. At the same time, by increasing import prices it reduces their volume, resulting in a reduction in the trade deficit in the medium term.

However, Tunisia's experience has proven the opposite. According to the BCT's data, the dinar's devaluation (exchange rate effect) has negatively impacted the trade deficit in the order of 1.1 billion dinars in 2016 and 1.8 billion dinars in 2017. The improvement witnessed in 2018 (163.1 million) was not due to an increase in exports, but rather to a significant decrease in imports.
This means that the negative effect resulting from an increase in import value due to the fall of the dinar outweighs the positive effect of an increase in the value of exports due to this fall.

Thus, Tunisia has experienced a vicious circle since April 2016: the more the dinar falls, the wider the trade deficit; the wider the trade deficit, the more the IMF insists upon devaluating the dinar.[34]

4. Foreign currency reserves

Foreign exchange reserves are considered a financial safety net and are used to meet the strategic liquidity needs of the economy. This includes providing a guarantee to foreign creditors and investors on the country's capacity to pay its debts, ensuring transfers and smoothing the fluctuations of the national currency exchange rate. The BCT adjusts its reference exchange rate[35] on the basis of the average exchange rate on the interbank market and intervenes on the foreign exchange market when the market quotations undergo significant fluctuations. To defend the value of the dinar, the BCT is obliged to use its foreign currency reserves.

[34] *Ben Rouine C. (2017) L'impact négatif de la chute du dinar sur le déficit commercial. Datanalysis n°11. Observatoire Tunisien de l'Economie.*

[35] *Banque Centrale de Tunisie (2017) Point sur l'évolution des réserves en devises*

However, as discussed above, liberalization of the dinar negatively affected Tunisia's trade deficit, inducing a deterioration of the general balance of payments from 2016 (-1.143 MTD in 2016 against +783 MTD in 2015) and a sharp decline in net foreign currency assets. We cite the number of days of imports (DDI), one of the most common indicators for assessing the level of reserves.

Based on trade criterion, the DDI is supposed to indicate the vulnerability of the current account, with a minimum recommended threshold of about 3 months. According to this indicator, foreign exchange assets regressed to 12,935 MTD or 111 days of imports in 2016 against 14,102 MTD and 128 days a year earlier in 2015 (see Figure 3).[36]

[36] *Rapport Annuel (2016) Banque Centrale de Tunisie*

The foreign exchange inflows recorded during 2016, particularly from drawings on external credits, were far below the amount needed to cover the foreign exchange outflows, worsening Tunisia's trade balance deficit and ability to repay its external debt.

This downward trend in net foreign exchange assets then deteriorated with the fall of the dinar in 2017, from 12,935 MTD or the equivalent of 111 IJ in 2016 to 93 IJ at the end of 2017 and 13,974 MTD or the equivalent of 84 DDI by the end of 2018.

This trend adds to the vicious circle that Tunisia has been experiencing since 2016: the more the dinar falls, the more the trade deficit widens and the balance of payments deteriorates; the more the balance of payment deteriorates, the more foreign exchange reserves decrease and the more the IMF requires a devaluation of the dinar.

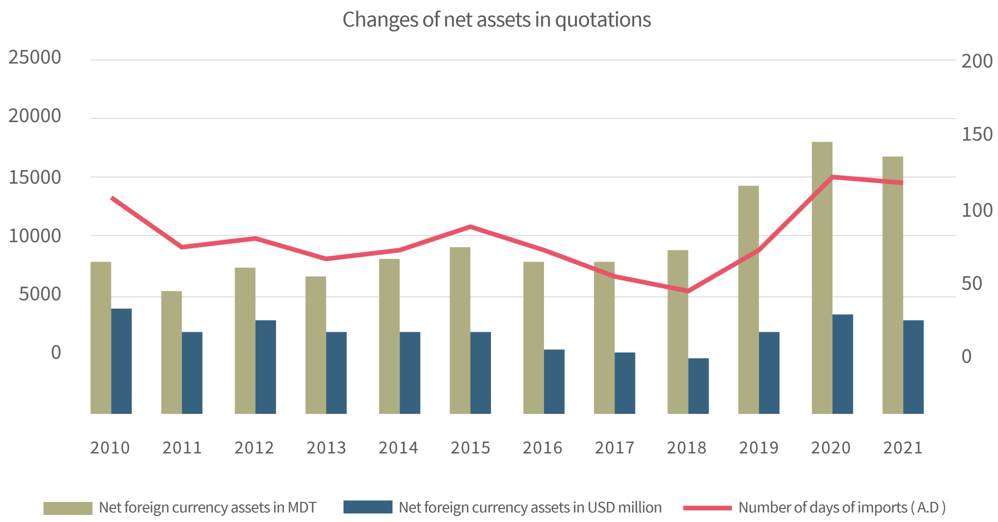

Figure 3 : Evolution des avoirs nets en devises (en MDT et en millions de dollars US)
Source : *BCT*

B. Impact of dinar devaluation on public companies

Chris Geiregat, IMF mission chief for Tunisia, recommends limiting subsidies and "deep reforms of public enterprises" which he claims to be "inefficient and over-indebted, have arrears and benefit from guarantees and recurrent and important transfers from the State." He adds that "this reform should re-evaluate the role of this [public] sector in the Tunisian economy, centralize its supervision, strengthen governance and improve financial transparency."

Geiregat goes on to argue that these "reforms" are "essential both to control the public finance deficit and to develop the private sector," while "recommending" that the BCT give priority to low and stable inflation.[37] In its Article IV consultation report with Tunisia,[38] the IMF identifies the STIR, STEG, and the Office des Céréales as public enterprises requiring immediate action.
In order to convince the IMF that it is serious about launching these reforms, the government reached out to the UGTT to set up a joint committee whose objective is to undertake the necessary reforms in public enterprises on a case- by- case basis. It will begin its work with seven companies: Tunisair, El Fouledh, STAM, the Office of State Lands, the Central Pharmacy, SIPHAT and STEG.[39]

However, what the IMF mission chief for Tunisia fails to mention is that if public enterprises have become "over-indebted and inefficient" it is mainly because of the austerity policies imposed by the IMF and its recommendations, particularly concerning the devaluation of the dinar.

1. Central Pharmacy of Tunisia

The Central Pharmacy of Tunisia (PCT) plays a key role in the import and marketing of pharmaceutical products. The PCT is also responsible for setting import prices and pharmaceutical tenders for pharmacies, hospitals and veterinary medicines. The PCT acts as a central purchasing and storage facility for imported drugs and as an intermediary with public hospitals and local drug manufacturers.

Thus, the PCT is the sole importer of drugs in Tunisia and, more broadly, the main regulator of the country's pharmaceutical supply system. This institution has acquired knowledge of the world drug market and of contract negotiation, thus constituting a valuable asset for the entire Tunisian pharmaceutical system, offering real negotiating power.

However, problems related to the supply of medicines have been increasingly felt in recent years. The PCT has been held responsible for these problems because of its role as exclusive importer, central supplier to public and para-public health structures and its responsibility for managing the country's security stocks. In particular, the drug price compensation system is widely criticized as representing a loss to PCT of N210 million in the 2018 fiscal year and in the absence of financial support from the state. The increase in compensation spending is strongly correlated with the depreciation of the dinar against the euro. With 80% of the PCT's purchases denominated in euros, the PCT's operational profitability is deteriorating year after year along with the deterioration of the dinar. The bulk of the supplier account is also denominated in euros, and its volume exceeded 1.1 billion dinars in 2017 or +75% compared to 2015. This is mainly due to the extensions imposed on suppliers, which causes an increase in these receivables in a context of devaluation of the dinar.[40]

In addition, according to the Finance Act of 2021,[41] dinar devaluation caused a loss of 62% on net returns in 2018, going from 144.8 million dinars in 2017 to -234.6 million dinars in 2018. Indeed, this deterioration is mainly due to the 30.3% increase in net financial expenses resulting from the continued decline in the exchange rate of the dinar against currencies, especially the euro and the dollar (which comprise 78% of payments to foreign suppliers) by 16% and 21% respectively. This decline resulted in a significant foreign exchange loss of 211.7 million dinars in 2018 against 162.5 million dinars in 2017.[42]
The 2018 media coverage of the worrying lack of medical supplies focused on the "inefficiency" of the PCT. The sharp depreciation of the dinar,

[37] Soutenir les populations vulnérables et relancer l'économie – L'Economiste Maghrébin – 07/04/2021

[38] IMF Country Report No. 21/44 - 9781513570600/1934-7685

[39] Signature d'un accord entre le gouvernement et l'UGTT pour engager les réformes nécessaires : les cinq batailles de Mechichi et Taboubi – La Presse – 01/04/2021

[40] PBR Rating (2019) Le médicament en Tunisie – De l'approvisionnement à la distribution : immersion au cœur des failles et disfonctionnements d'un système. Analyse sectorielle

[41] التقرير حول المنشآت العمومية مشروع قانون المالية 2020 ملحق 09

[42] التقرير حول المنشآت العمومية مشروع قانون المالية 2020 للوضعية المالية لعينة مكونة من 33 منشأة عمومية للفترة 2017-2019 صفحة 95

an issue over which the PCT has no control, nevertheless has strongly impacted its ability to secure an adequate supply of medicines for Tunisia.

2. Tunisian Electricity and Gas Company

The Tunisian Electricity and Gas Company (STEG) is also targeted by the Committee for the Reform of Public Enterprises as well as by the Committee for the Evaluation of the Subsidy System, specifically the subsidies provided on energy products.
STEG subsidies were introduced in 2004 as part of a larger government compensation program concerning three public companies, namely STEG, ETAP and STIR. The dual objective of this program was to help Tunisian's cope with the increase in international oil prices that followed the change in 2000 of Tunisia's status from oil and natural gas producer to importer, and of supporting Tunisian companies exposed to international competition as a result of economic liberalization.

The subsidy on electricity, representing more than 50% of the subsidy on energy products,[43] comes indirectly from administering a fixed price for STEG that is lower than the international price. The aim is to minimize the effect of the exchange rate and volatility of international prices[44] on national prices, thus fulfilling its mission of production and distribution of electricity and natural gas across Tunisia. In forty years, STEG has succeeded in increasing the rate of urban and rural electrification from 20% and 6% to nearly 100% and 99% respectively.

[43] *Ben Rabah I., (2017) Quelle stratégie de réforme de la subvention énergétique en Tunisie ? – Tribune de l'ITCEQ n°19*

[44] *Chebli F., (2017) Politique énergétique en Tunisie – Notes et analyses de l'ITCEQ n°55*

However, according to the 2020 finance law,[45] STEG, Tunisia's largest company in terms of turnover, has recorded exchange losses and bank interests estimated at 1500 million dinars, due to the evolution of the exchange rate of the dollar and the euro against the dinar.

[45] *التقرير حول المنشآت العمومية مشروع قانون المالية 2020 ملحق 09*

Indeed, the financial statements for 2017 produced an estimated negative return of 1193.7 million dinars, compared to an estimated negative return of 354.4 million dinars in 2016. This deterioration is due to the increase in the exchange rate against the euro and the dollar in the same period, which resulted in net financial expenses estimated at 1039.9 million dinars in 2017 compared to 635.4 million dinars in 2016. This report confirms that for STEG, the accounting losses of 2017 come mainly from the financial charges (interest and exchange losses) of bank loans in foreign currencies concluded and assumed by STEG as financing its purchases and investments.[46]

[46] *التقرير حول المنشآت العمومية مشروع قانون المالية 2020 ملحق 09 صفحة 61*

We can also read in the same report that the year 2018 recorded a negative return of 2093.5 million dinars due to the increase in the price of a barrel of oil compared to 2017, but also because of the depreciation of the dinar against the dollar during the year 2018. This increased net financial expenses, totaling 1543.1 million dinars in 2018 as compared to 1039.9 million dinars in 2017, thus leading to an increase in STEG prices and production costs.
Once again, the depreciation of the dinar against the euro and the dollar since April 2016 is the main factor explaining "the over-indebtedness" of this public company.

3. Cereal Office

Spared by the Committee on the Reform of Public Enterprises but targeted by the Committee Assessing the Subsidy System, the Cereal Office plays a central role in the permanent and continuous supply of durum wheat, common wheat and barley to cover all human and animal consumption needs, while guaranteeing the existence of a reserve stock in the country covering a period of at least two months of each cereal.

The devaluation of the dinar against the euro and the dollar caused an increase in the Cereal Office's financial expenses, from 68.3 million dinars in 2016 to 86 million dinars in 2017, and reaching 100 MDT in 2018.[47] Indeed, the purchase value of imported cereals during the same period increased by 2.8% from 1174.6 million dinars in 2016 to 1208.2 million dinars in 2017 and estimated at 1467 million dinars in 2018, thus recording an increase of 21.4% compared to 2017. These increases are due to both to the increase in prices on the international market as well as to the increase in import prices due to the devaluation of the dinar.[48]

The Cereal Office recorded a negative return of 18.6% between 2018 and 2019, due to the increase in import prices, the increase in prices on the world market, and the increase in producer prices of cereals from June 2019.[49]

In addition, the sale value of grains increased by 8.1% between 2016 and 2017, to reach 978 million dinars in 2017 compared to 904.7 million dinars in 2016, and was estimated at 1326 million dinars in 2018 or a 35.6% rise compared to 2017.
This increase is not due to an increase in the price or quantity of sales but rather to the exchange rate effect which results in an increase in the cost of local and imported cereals.[50]

To conclude, the IMF imposed devaluation of the dinar has had an important impact, if not the most important impact, on Tunisia's foreign trade. It has contributed significantly to the current financial predicament of the main public companies, which are now targeted by the IMF with deep "reforms", including their possible privatization. The IMF continues to exert an enormous amount of pressure on the government of the time in return for its budgetary support, which, as shown in the table below, is far from covering the losses recorded. Indeed, the costs of the IMF imposed dinar devaluation largely exceed the gross annual disbursements of the IMF over the same period.

In total, the amount granted by the IMF to Tunisia from 2016 to 2018 does not even cover the costs of a single reform, for example, the case study discussed here of the dinar's devaluation. The cost of the devaluation of the dinar for the public companies targeted by the IMF equals the IMF's total gross annual disbursements. The total cost of the dinar's devaluation on Tunisia's foreign trade over the same period, is the equivalent of more than 6 times the IMF's total gross annual disbursements. In fact, these annual disbursements do not even cover the impact of the exchange rate fluctuations on the outstanding debt, which was estimated at 18697.9 MD between 2016 and 2018 against the 3509.3 MD granted by the IMF over the same period, that is to say more than 5 times the sum that was granted.

In light of the above findings, it is imperative before re-engaging with the IMF to assess the impact of the reforms imposed by the IMF on the Tunisian economy in return for its budget support .

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48 التقرير حول المنشآت العمومية مشروع قانون المالية 2020
ملحق 09 صفحة 70

49 التقرير حول المنشآت العمومية مشروع قانون المالية 2020
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	2016	2017	2018	Total cost	Total cost vs. total gross IMF disbursement
Net financial charge due to the devaluation of the dinar on the Office of cereals (MD)	68,3	86	100	254,3	0,07
Net financial charge due to the devaluation of the dinar on STEG (MD)	635,4	1039,9	1543,1	3218,4	0,92
Net financial charge due to the devaluation of the dinar on the MDT (MD)	-	162,5	211,7	374,2	0,11
Impact of exchange rate valuation on trade (MD)	1100	1798,1	163,1	3061,2	0,87
Impact of exchange rate changes on outstanding debt (MD)	3936,2	5345	9416,7	18697,9	5,33
Gross annual IMF disbursements (MD)	694,7	768	2046,6	3509,3	1,00

Table 2 : Summary table of the effect of dinar devaluation on trade, debt, and key public enterprises targeted by IMF-imposed reforms between 2016 and 2018 and the amount of IMF budget support over the same period.

V. Audit and assess the impact of previous engagements with the IMF before committing to a new program

Since the 1980s, the IMF and the WB have adhered to a discourse that blames the negative impact of the economic conditionalities of the structural adjustment plans of the 1980s and 1990s on an ostensibly lacking "institutional and governance environment".[51] Thus, conditionalities linked to "governance" and "capacity building" reforms have been added to the economic conditionalities.

As noted above, the "improvement of the institutional and governance environment" through the strict application of IMF recommendations, without taking into consideration the socio-economic realities of the country, has only led to a further deterioration of the socio-economic situation, which is becoming unsustainable.

Unable to provide real alternatives, the conditionalities of these international financial institutions indefinitely reproduce Tunisia's dependence on international markets by imposing conditions that aim to further integrate Tunisia into global supply chains, attract foreign investors, and exploit Tunisia's "comparative advantage", but which in reality directly undermined the country's ability to determine its own development models. IMF financing thus limited Tunisia's room for maneuver in its development choices, which consequently led to a loss of economic sovereignty.[52]

Given these experiences, it would be more reasonable for the Tunisia government to evaluate the effects of the IMF and World Bank conditionalities on loans before entering into another round of negotiations with the IMF. Indeed, the auditing of this financing was one of the first economic and social demands to have emerged during the first phase of the Tunisian revolution.[53] This would also strengthen the country's negotiating power with these institutions.

[51] *Chandoul, J. (2015) Le Partenariat de Deauville, à l'origine des politiques économiques en Tunisie. Observatoire tunisien de l'économie.*

[52] *Chandoul, J. (2015) Le Partenariat de Deauville, à l'origine des politiques économiques en Tunisie. Observatoire tunisien de l'économie.*

[53] *Ben Rouine C., (2013) How the IMF and global finance are trying to block a democratic examination of Tunisia's debt. CATDM*

Conclusion

In parallel with the results of the IMF audit, the downgrading of Tunisia's rating by Moody's agency from B2 to B3 has weakened Tunisia's position on the international financial markets. Negotiations between the IMF and Tunisia are likely to be tense, but once the agreement in principle is obtained, the first disbursement will likely be conditioned on the effective implementation of certain "prior measures". The IMF may even impose these conditions before the agreement in principle, as was done in the case of the Central Bank's statutes, which are at the origin of the dinar's devaluation. Once these measures are undertaken, the IMF will continue to exercise control over the Tunisian government's economic choices. Loan disbursements will be linked to the progress of the reform programme, with regular reviews by the IMF.

In conclusion, should the Tunisian government decide to proceed with the agreement under the current circumstances, it risks further deteriorating the economic and social situation, already heavily impacted by previous IMF arrangements and the economic and health impacts of the pandemic crisis.

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