



المركز التونسي للإقتصاد
Observatoire Tunisien de l'Economie

IMF Monitor | n°01

Wrestling for debt :

**Monitoring the loan negotiations
with IMF in a highly indebted Tunisia**

Observatoire Tunisien de l'Economie

11/11/2022

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Introduction: Why it is necessary to Monitor Tunisia and IMF loan negotiations?

¹ International Monetary Fund (2022, July 19) IMF Staff Concludes Mission to Tunisia with Good Progress [Press release] <https://www.imf.org/en/News/Articles/2022/07/19/pr22267-tunisia-imf-staff-concludes-mission-to-tunisia-with-good-progress>

² Based on the World Bank data

³ Tunisian Ministry of Economy, Finance and Investment. (December 2019). Brochure de la dette publique, Tunisie. Available at : <http://www.finances.gov.tn/sites/default/files/2021-03/Brochure%20Mensuelle%20de%20la%20Dette%20Publique%20Dec%202019%20v%20Fr.pdf>

⁴ Fitch Ratings (2020, May 12) Fitch Downgrades Tunisia to 'B'; Outlook Stable [Rating Action Commentary] <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-tunisia-to-b-outlook-stable-12-05-2020>

⁵ World Bank (2020, June 8) COVID-19 to Plunge Global Economy into Worst Recession since World War II. [Press Release]. Available at: <https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii>

⁶ World Bank. (2021). Tunisia's Economic Update — April 2021. Available at: <https://www.worldbank.org/en/country/tunisia/publication/economic-update-april-2021>

⁷ المرصد التونسي للإقتصاد (2022) كيف تتجأوب تونس والمغرب مع إرتفاع سعر النفط العالمي؟ | نشرة إخبارية إقتصادية رقم 32 https://www.economie-tunisie.org/ar/tunisie-marroc_augmentation_des_prix_petrole

⁸ المرصد التونسي للإقتصاد (2022) إرتفاع الأسعار العالمية للمواد الأساسية يؤدي إلى إرتفاع نفقات الدعم في كل من تونس والجزائر https://www.economie-tunisie.org/ar/Augmentations_des_prix_et_Subventions

⁹ Peter Hoskins (2022, May 20) Sri Lanka defaults on debt for first time in its history. [BBC News]. <https://www.bbc.com/news/business-61505842>

¹⁰ International Monetary Fund (2022, September 1). IMF Staff Reaches Staff-Level Agreement on an Extended Fund Facility Arrangement with Sri Lanka. [Press release N°. 22/295]. Available at : <https://www.imf.org/en/News/Articles/2022/09/01/pr22295-imf-reaches-staff-level-agreement-on-an-extended-fund-facility-arrangement-with-sri-lanka>

¹¹ (2020, March 12). For the first time, Lebanon defaults on its debts. [The Economist] <https://www.economist.com/middle-east-and-africa/2020/03/12/for-the-first-time-lebanon-defaults-on-its-debts>

¹² International Monetary Fund (2022, April 7). IMF Reaches Staff-Level Agreement on Economic Policies with Lebanon for a Four-Year Extended Fund Facility. [Press Release N°. 22/108]

In July 19th, Tunisia concluded the first negotiation round with the International Monetary Fund for a new loan agreement of an amount between 2 and 4 billion USD to leverage the gaps in its economic (financial) balance and cope with the financial and economic crisis it is currently facing¹.

Recently a staff level agreement was reached between the government and the financial institution at the side-lines of the IMF and WB Annual Meeting, for a 4 years loan program of 1.9 billion USD.

For Tunisia, this loan will be the 4th in a series of programs contracted with the institution by the different governments of Tunisia since the 2011 revolution, to deal with the decades-long structural crisis of the development model.

In 2019, the Tunisia economic outlook was already deteriorating with 1.3 percent growth, 7.1 percent inflation and 15.1 percent unemployment rate². The crisis of public finances was equally burdened by a high level of external debt reaching 72,45% of GDP³, budget deficit reaching 3.5 percent of GDP, and a downward slope of sovereign debt rankings by rating agencies⁴.

The decade long crisis was aggravated by the devastating effects of the COVID-19 pandemic. The shutdown measures, that were taken by governments to contain the COVID-19 virus, plunged the global economy into a severe contraction that yielded to a deep recession⁵.

Tunisia had an 8.8% contraction of GDP in 2020⁶. The situation got even harder following the start of the Russia-Ukraine conflict. The war triggered a spike in the prices of energy and wheat in the international market⁷, provoking discrepancies to the planned budget⁸, and an urgent need to resort to debt, once again, to fulfil the country's need in food and energy, and also, to pay back older debts.

Beyond Tunisia, this event cascade sent a dark cloud on several developing countries that are struggling with a high level of indebtedness.

For instance, in May 19th, 2022, Sri Lanka underwent a default crisis⁹, a direct result of the economic crisis in the country. The lockdown during the pandemic shut down tourism activities, which were a leading source of foreign currency entries. As currency reserves depleted, the country was unable to purchase fuel on international markets to meet the needs of its citizens. In the last days, the country sealed a loan agreement with the IMF in hope of stabilizing the situation¹⁰.

In the MENA region, Lebanon defaulted on the \$1.2bn Eurobond payment in March 2020¹¹, and its economic situation has not improved ever since despite obtaining an IMF staff level agreement for a new loan. As of today, IMF board has not approved yet the agreement because of Lebanon's inability to respond to certain conditionalities¹².

<https://www.imf.org/en/News/Articles/2022/04/07/pr22108-imf-reaches-agreement-on-economic-policies-with-lebanon-for-a-four-year-fund-facility>

¹³ (2022, March 21). Tunisia heading for default on current trajectory - Morgan Stanley. [Reuters]<https://www.reuters.com/article/tunisia-debt-morganstanley-idUSL5N2V04SL>

¹⁴ (2022, April 19) IMF to press Tunisia to restructure its external debt. [African Manager] <https://en.africanmanager.com/imf-to-press-tunisia-to-restructure-its-external-debt/>

¹⁵ (2020, Mai 19) Appel des peuples, organisations, mouvements et réseaux militants d'Afrique du Nord et du Moyen-Orient/région arabe Pour l'annulation de la dette et l'abandon des accords de «libre-échange». Available at : <https://www.economie-tunisie.org/fr/atelier/penser-l-economie/appeal-des-peuples-organisations-mouvements-et-reseaux-militants-dafrique>

¹⁶ Debt Service Suspension and COVID19, Factsheet, July 2021. Available at : <https://www.worldbank.org/en/news/factsheet/2020/05/11/debt-relief-and-covid-19-coronavirus>

¹⁷ The World Bank (2020, March 25) Joint Statement from the World Bank Group and the International Monetary Fund Regarding A Call to Action on the Debt of IDA Countries. [Statement]. <https://www.worldbank.org/en/news/statement/2020/03/25/joint-statement-from-the-world-bank-group-and-the-international-monetary-fund-regarding-a-call-to-action-on-the-debt-of-ida-countries>

¹⁸ Brettonswoods Project. (2022, April 6). Ineffective G20 Debt Service Suspension Initiative ends as world faces worst debt crisis in decades. <https://www.brettonwoodsproject.org/2022/04/ineffective-debt-service-suspension-initiative-ends-as-world-faces-worst-debt-crisis-in-decades/>

¹⁹ Brettonswoods Project. (2022, April 6). Ineffective G20 Debt Service Suspension Initiative ends as world faces worst debt crisis in decades. <https://www.brettonwoodsproject.org/2022/04/ineffective-debt-service-suspension-initiative-ends-as-world-faces-worst-debt-crisis-in-decades/>

²⁰ William N Kring (2021, September 7) The failures of the G20's Debt Service Suspension Initiative. East Asia Forum. <https://www.eastasiaforum.org/2021/09/07/the-failures-of-the-g20s-debt-service-suspension-initiative/>

Tunisia too, in the eyes of the financial world has high default risks¹³ according to reports of ranking agencies, and the IMF urged it to start a debt restructuring process¹⁴.

During COVID19, several voices rose to call for a moratorium on debt for developing countries, and others called for its cancellation, in order to free some fiscal space to deal with the sanitary crisis. However, Tunisia did not take that path¹⁵.



A Moratorium on Debt is an agreement between creditors and debtors to suspend the payability of debt for a certain time lapse in order to alleviate the burden on indebted countries.

First, Tunisia was not eligible¹⁶ to the Debt Service Suspension Initiative instituted by the World Bank, the IMF and the G20 as the initiative was targeting specifically Least Developed Countries as defined by the UN, as well as the member countries of the International Development Association (IDA) that are currently on their debt service to the IMF and World Bank that request forbearance¹⁷. Either way the initiative was ineffective due to its incapacity to mobilise private creditors¹⁸. The G20 initiative of '[Common Framework for Debt Treatment beyond Debt Service Suspension Initiative \(DSSI\)](#)' also failed due to the fact that requesting forbearance will result in the sovereign debt downgrade, hence a higher risk of debt distress and state defaults¹⁹.

Second, Tunisian policy makers refused to restructure its debts. Debt restructuring is a scenario in which States can renegotiate debt rates, repayment or maturity dates to restore liquidity. They feared a future incapacity of the country to raise funding from the international financial market.

However, Tunisia could not avoid that fate for too long as today, the country's access to external financing from the international financial market, is beyond reach. The downgrading of the sovereign ranking of Tunisian debt by Fitch Rating to CCC in March 2022 terminated any chance for Tunisia to access the international financial market²⁰ and spread concerns around the sustainability of the Tunisia debt and its capacity to pay back its dues.

This entitles the IMF the status of lender of last resort, and gives it extensive power to require the implementation of certain reforms as it plays the role of the gatekeeper on other bilateral and or private lending sources Tunisia might want to seek support from.

IMF fundings always come with their conditionalities package, a set of painful, and controversial reforms, with contested efficiency to get countries out of their crises.

As of October 15th, the Tunisian government reached a Staff-Level agreement with the institution on the basis of the National Reform's

Program, announcing the beginning of a favourable outcome for the negotiations. Despite a still pending approval from the IMF board expected in December 2022, the IMF published release gives a green light for other funders in the international community to “contribute to the success of the program through the rapid release of additional financing”.

Notwithstanding the Rapid Financial Instrument obtained in 2020 and officially aimed to help mitigate the COVID crisis, the current program under approval will be the 3rd loan agreement.

conditioned with a structural reforms program with the IMF since 2012, and adds up 4 years to the 10 years record of Tunisian economic policy making under the IMF.

Thus, it has become crucial to monitor and decrypt the negotiation process and raise awareness about its underpinnings. The **“Tunisia-IMF Negotiations Monitor: Wrestling for Debt”** is a report elaborated by the Tunisian Observatory of Economy that aims to explore the different phases and facets of what might be the longest negotiation process between the Tunisian Government and the International Monetary Fund, a process that was started by the Mechichi government in 2021 and was carried on by the current Government of Bouden. The IMF Negotiations Monitor responds to fundamental gaps in the knowledge production landscape about the topic:

1. It fills a need for centralized and accessible information about the negotiations process. In most cases, information regarding these topics is dispersed, unavailable and provided in a technical language that marginalizes a large fringe of society.
2. Raises awareness and highlights the potential implications of the negotiation process and the suggested economic reforms, in the framework of 10 years of policy making under the IMF, and of an unprecedented socio-economic crisis.
3. It offers a much-needed analysis of the process beyond numbers and the narratives of “the painful necessary reforms” to discuss the power relations and political ideologies that underly the idea of a “necessary debt to save the country”. Especially, in a context of reduced institutional spaces to influence policies, request accountability from current policy makers, or assess whether government commitments towards funders are in favour of citizens or a just another burden on them and on future generations.

The report is an attempt to shed the light on the power relations and dynamics that animate these negotiations and the policies that Tunisia is expected to implement to finally access the funding.

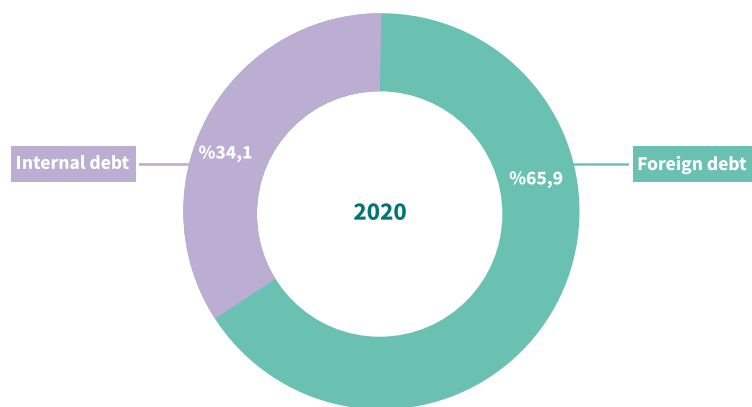
Tunisia, debt and the IMF: An overview

As a first step to understand the relationship between Tunisia and the International Financial Institutions, we need to look at its importance in Tunisia's debt structure.

The place of the IFIs in the Tunisian debt structure

Tunisia is primarily dependent on the loans from international institutions, which, although with lower interest rates than the international market, their funding imposes the implementation of conditionalities at policy level. Tunisia foreign debt is twice as important (65,9%) as internal debt (34,1%).²¹

Structure of the Tunisian Sovereign Debt in 2020

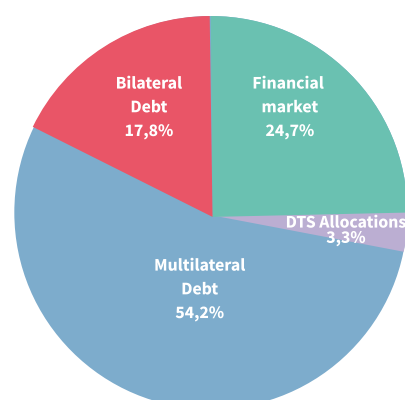


Source: Annex 7_Budget law 2022²²

Regarding the structure of the foreign debt, more than 50% is multilateral debt, about 25% from financial market and about 18% is from bilateral lending. According to numbers of December 2021, multilateral debt, which Tunisia owes to International Financial Institutions, represents 54,2% of total foreign debt²³.

In 2020, of the total Tunisian sovereign debt, IMF represents around 20% . This number reaches 40% for the 3 biggest multilateral lenders, IMF, World Bank (WB) and the African Development Bank (AfDB).

Structure of Tunisia's Foreign Debt in December 2021



Source : Brochure de la dette publique, Ministère des Finances Tunisien²⁴

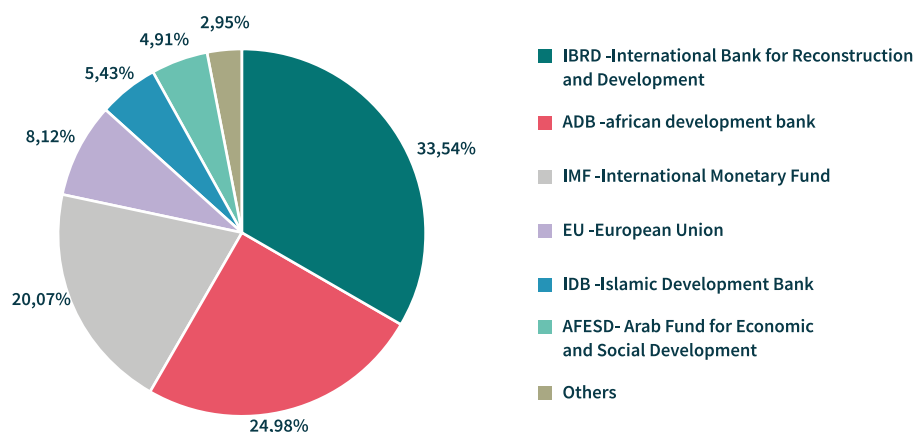
²¹ Tunisian Ministry of Economy, Finance and Investment. (December 2019). Brochure de la dette publique, Tunisie. Available at : <http://www.finances.gov.tn/sites/default/files/2021-03/Brochure%20Mensuelle%20de%20la%20Dette%20Publique%20Dec%202019%20v%20Fr.pdf>

²² Tunisian Ministry of Economy, Finance and Investment. (2021, December) Rapport sur la Dette Publique, Annexe 7 du projet de loi des finances 2022

²³ Tunisian Ministry of Economy, Finance and Investment. (December 2019). Brochure de la dette publique, Tunisie. Available at : <http://www.finances.gov.tn/sites/default/files/2021-03/Brochure%20Mensuelle%20de%20la%20Dette%20Publique%20Dec%202019%20v%20Fr.pdf>

²⁴ Ministry of Finance Brochure de la dette publique (2021, December)

Multilateral debt structure according to creditor in 2020



Source: Annex 7_Budget law 2022²⁵

²⁵ Tunisian Ministry of Economy, Finance and Investment. (2021, December) Rapport sur la Dette Publique, Annexe 7 du projet de loi des finances 2022

A brief reminder of Tunisia & the IMF relations after 2011 revolution:

Tunisia has been under austerity measures for 10 years. In fact, since 2013, Tunisia contracted 3 loans from the IMF:

²⁶ International Monetary Fund (2013, June) Tunisia: Request for a Stand-By Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Tunisia. IMF. Available at: <https://www.imf.org/external/pubs/ft/scr/2013/cr13161.pdf>

²⁷ International Monetary Fund (2016, June), Request for an extended arrangement under the extended fund facility—press release; staff report; and statement by the executive director for Tunisia. [Press release] Available at: <https://www.imf.org/external/pubs/ft/scr/2016/cr16138.pdf>

²⁸ International Monetary Fund (2020, April), Tunisia: Request for Purchase Under the Rapid Financing Instrument—Press Release; Staff Report; and Statement by the Executive Director for Tunisia. [Press release] Available at: <https://www.imf.org/en/Publications/CR/Issues/2020/04/14/Tunisia-Request-for-Purchase-Under-the-Rapid-Financing-Instrument-Press-Release-Staff-Report-49327>

Standby Agreement (SBA 2013):

A 24 months support program of SDR 1.1460 billion (400 percent of quota) of funding in order to help Tunisian stabilize its economy in the aftermath of the 2011 economic crisis. ²⁶

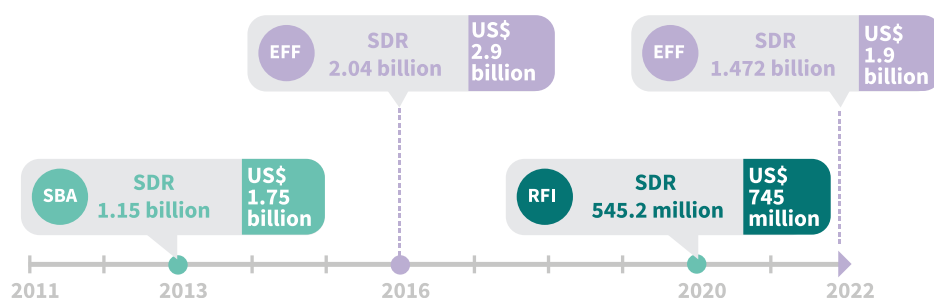
Extended Fund Facility (EFF 2016):

A 48-months program with a planned SDR 2.04 billion (about US\$2.9 billion, or 375 percent of Tunisia's quota), monitored in 8 semi-annual reviews²⁷.

The program was interrupted at the 5th review for non-compliance with the requested conditionalities.

Rapid Financial Instrument (RFI 2020):

A funding of SDR 545.2 million (US\$745 million or 100 percent of quota), requested by the Tunisian government to deal with the emergency of the pandemic²⁸.



IMF conditionalities, a myth?

In our current work, we discuss a lot the IMF conditionalities. However, the term “conditionality” is often “contested” and thought of as an exaggeration in the public sphere’s discussions

Some refuse to call policies recommended by the IMF conditionalities, and prefer to say that they are necessary reforms government should abide by, regardless of the IMF position on them.

However, the reason behind the use of this term in this document, is because this is how the IMF itself call them their recommendations/ or funding conditions²⁹.

There are 4 types of conditionalities, 2 are quantitative (QPCs and ITs), and 2 qualitative (SBs and PAs):

- **Quantitative conditionalities:**

Are conditionalities related to requirements of qualitative nature, specifically macroeconomic variable of a country.

- **Quantitative Performance Criteria (QPCs):**

QPCs represent the key tools of IMF austerity policies. The non-compliance to these conditionalities can be a motive for non-disbursement. Examples are Net international reserves (NIR), net domestic assets (NDA), floor on primary deficit, ceiling for primary current expenditures, central government primary balance...

For example, in 2013 loan program, the IMF imposed on the Tunisian government a floor on the Net International Reserves (NIR) to have during the period of the loan³⁰.

- **Indicative Targets (ITs):**

Are quantitative follow-up indicators, not declared in the initial text of the agreement, but that the IMF staff can add along the review. They aim to monitor a country’s implementation of a particular quantitative reform, for instance, exchange rate flexibility³¹, minimum domestic revenue collection...

The non-compliance to these indicative targets does not result in the suspension of the disbursements or the interruption of the loan program.

For instance, in the Second Review of the Extended Facility Fund loan program of 2016, the IMF imposed a monthly indicative target on net central bank foreign exchange interventions. This directly impacts the value of the dinar and reduces the margin of the CBT to sustain its value.³²

- **Qualitative conditionalities:**

Are conditionalities that push for reforms of organizational, governance or legal nature. They form the agenda of reforms pushed by the IMF in the agreement as well as in the reviews. They are coupled with an implementation calendar. There are two types of qualitative conditionalities:

²⁹International Monetary Fund (2021, February) IMF Conditionality. Available at: <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/28/IMF-Conditionality>

³⁰International Monetary Fund (2013, June) Tunisia: Request for a Stand-By Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Tunisia. IMF. Available at: <https://www.imf.org/external/pubs/ft/scr/2013/cr13161.pdf>

³¹ Tunisian Observatory of Economy, (2017, August 25) The IMF’s Methods for Bringing the Value of the Tunisian Dinar Down ? Data Analysis N° 8, Available at : <https://www.economie-tunisie.org/fr/observatoire/infoeconomics/comment-le-fmi-attaque-la-valeur-du-dinar-tunisien>

³² International Monetary Fund, (2018, June 12), Tunisia : 2017 article IV consultation, second review under the extended fund facility, and request for waivers of nonobservance of performance criteria, and rephasing of access, [Country Report No. 2018/120]. Available at : <https://www.imf.org/en/Publications/CR/Issues/2018/06/12/Tunisia-2017-Article-IV-Consultation-and-Second-Review-Under-the-Extended-Fund-Facility-and-45877>

○ **Structural Benchmarks (SBs):**

As their name suggest, these conditionalities tackle deep transformation of action mechanisms within state institutions. If we talk about the transformation of the compensation system, the freezing of recruitment in the public sector or the increase in the retirement age, we talk about Structural Benchmarks.

For instance, in the fourth review on the Extended Fund Facility loan program, the IMF requested from the Tunisian government to establish a databank on vulnerable households.³³

○ **Prior Actions (PAs):**

Are actions that are requested generally prior to a disbursement and are a strong lever of negotiation for the IMF to accelerate or force the implementation of a particular reform. A Structural Benchmark that is not implemented according to the agreed calendar can be transformed into a Prior Action, which means that no agreement or disbursement would be approved by the IMF if the government does not implement the conditionality. The voting of the law on the central bank independence was a prior action to the approval of 2016 Extended Fund Facility.³⁴

³³ International Monetary Fund (2018 , October 8,) Tunisia: Fourth Review Under the Extended Fund Facility Arrangement and Request for Modification of Performance Criteria-Press Release ; Staff Report ; and Statement by the Executive Director for Tunisia, [IMF country report No. 18/291]. Available at : <https://www.imf.org/en/Publications/CR/Issues/2018/10/08/Tunisia-Fourth-Review-Under-the-Extended-Fund-Facility-Arrangement-and-Request-for-46285>

³⁴ International Monetary Fund, (2016, May 17) Request for an extended arrangement under the extended fund facility—supplementary information, supplementary memorandum of economic and financial policies,

Spotlight on Tunisia-IMF Negotiations: What happened since February 2021?

Tunisia launched talks with the IMF early 2021 in order to nail down a new aid package from the institution. However, the pandemic crisis and the political events that led to changes at the head of the state, resulted in the suspension of the negotiations-process from July to October of the same year.

In the aftermath of 2011 elections, most economic structural reforms implemented by the different governments were carried out either with the technical assistance of International Financial Institutions, or in compliance with their requirements. For the record, Tunisia has been under IMF agreements from 2013 until 2019, and then in 2020. Despite the policy space that the revolution brought in, IMF agreements were not submitted to parliament for review neither for approval.

Unlike the regular process, IMF loan agreements are by design not considered as legal texts for parliamentary ratification, except in rare countries like Argentina. The IMF negotiates directly with the executive power which decides the reforms on behalf of the people.

Although with limited power to influence economic questions, the post-2011 parliament still represented a constant constitutional and lively space to question loans and budgets, put pressure on the government, contest its policy choices and request accountability for its commitments through calling the ministers for public parliamentary audiences or by influencing the media and public opinion.

Since the political turn of July 25th, 2021, the room to request accountability has further shrunk, and so did the access to information.

As soon as Prime Minister Najla Bouden took office, she resumed the negotiations with the IMF.

The technical and political negotiations over the reform program happen behind the closed doors of the Kasbah, headquarter of the Tunisian government, during a political transition, paralleling the process of a constitutional referendum and preceding elections. This makes stakes even higher, and exacerbates the tension among civil society component, especially the labor union, which requested a large dialogue on reforms, a request they did not get a positive answer to.

This complex and convoluted process of bargaining and exchange between a variety of actors can be divided into three negotiations periods:

1. Period 1: The period of Tunisia and IMF negotiations under Hichem Mechichi's government [From Feb 21st, 2021 to –July 21st, 2021]: **The Suspended Round**
2. Period 2: The period of the resumption of Tunisia's talk with IMF under Najla Bouden : [November 2021 to July 19th, 2022]: **The Negotiation Marathon**
3. Period 3: The period of official negotiations, from the first negotiations round to the IMF Staff Level agreement [20th of July 2022_October 15th]: **The Final Stretch**

By drawing the negotiations chronology, we try to inspect and analyze the dynamics that underlie the implementation by the government of formerly requested IMF reforms.

Phase 1 : The Suspended Round

³⁵ IMF (2021) Tunisia: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Tunisia

On February 26th: Tunisia received IMF staff visit for the 2021 Article IV Consultation .Where IMF called for the establishment of “a “social compact” with the main stakeholders committing to support the reforms within their remit”³⁵.

From the 5th to the 11th of April, Members of Mechichi’s government participated in the annual Spring meeting of the IMF & WB.

On April 19th: Mechichi’s government sent a letter to the IMF to request a new loan program

20th: The head of government met with the Minister of Foreign Affairs, Migration and Tunisians abroad, and the Minister of Economy, Finance and Investment Support, in anticipation of the negotiations scheduled for May

23rd: IMF director replies to the government letter to say that the IMF continues supporting Tunisia and insists on the importance of implementing the reforms

From the 3rd to 8th: a new round of negotiations was launched in Washington DC in order to request a new loan from the IMF.
The delegation that participated in the negotiations included the Central bank’s governor Marouane Abbassi, Samir Majoul, head of UTICA, a representative of the banking sector and a number of economic advisors to the prime minister.

Pandemic Crisis and Parliament suspension

Negotiation Timeline

Negotiations news

Reform implementation

Feb 26th
2021

March 17th
2021

April 5th
2021

Avril 19th
2021

Avril 20th
2021

Avril 23rd
2021

May 3rd
2021

June to
July
2021

17th: The government of Mechichi launched “Beit El Hikma consultation process” about the reforms to implement under a new IMF agreement, with the presence of the UGTT, UTICA, and other prominent civil society actors.

19th: Prices of fuel have risen by 5 percent.

Fuel price increases is a long standing reform that dates back to 2013. See more on [Box 1](#)

Box 1:

Fuel price adjustment: the omnipresent prior action.

One of the reforms that the government started implementing since the resumption of the negotiations in November 2021 is the fuel price adjustment. The fuel price adjustment is the institutionalized mechanism aiming to increase the market price of fuels in order to get closer to international prices and reduce energy subsidies.

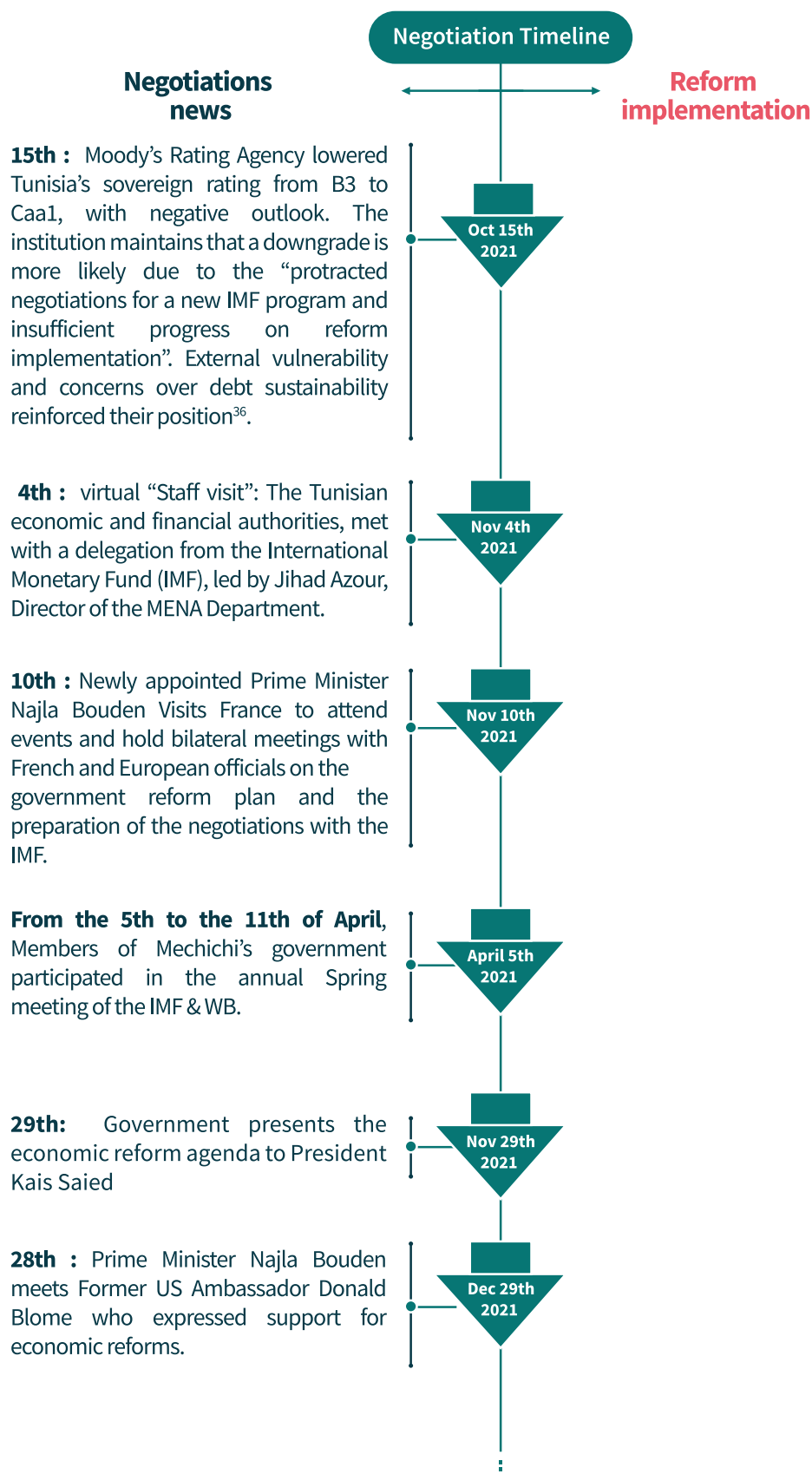
In fact, the IMF, before approving a financing or completing a review, and in order to ensure the implementation of its program, demands from countries to implement prior actions to show their commitment.

During the Stand-By-Agreement SBA 2013, the fuel price adjustment was a structural benchmark, but since the second Extended Fund Facility EFF 2016 review, it became a prior action and continued until the end of the EFF program. As a result, fuel prices in Tunisia successively increased 24 percent since reaching the agreement with IMF on the loan in 2016. Furthermore, before approving the RFI 2020, Tunisia agreed to implement a monthly automatic price adjustment mechanism for fuels.

There is high chance that the increase of fuel prices is a prior action for the new loan agreement.

Phase 2 : The Negotiation Marathon

³⁶ Moody's Invoestors Service (2021, October 14th) Rating Action: Moody's downgrades Tunisia's ratings to Caa1, maintains negative outlook Available at: https://www.moody.com/research/Moodys-downgrades-Tunisias-ratings-to-Caa1-maintains-negative-outlook--PR_456360



³⁷ I Watch Organization, The negotiations with the IMF and the government's "secret" reform program. Available at : <https://www.iwatch.tn/ar/article/905>

3rd: The government reform program to be presented to the IMF is leaked by IWATCH, a local organization. The document gives the details of the reform implementation calendar and highlights possible prior actions (fuel subsidy reduction) necessary to conclusion of a loan agreement with the IMF.³⁷

13th : Representative of IMF, Tunisia: It is too early to discuss the amount of a loan to Tunisia and it is important to reach agreement on major reforms first.

31st : Emanuel Moulin, director of the France's treasury and director of the Paris Club, visits Tunisia, to give technical assistance to the Tunisian government for the implementation of the IMF economic reforms.

Why are the stakes behind Moulins visit important to know? See [Box 2](#)

14th: IMF and the Tunisian government hold a virtual visit about the reform program to implement under the new requested loan.

The government announces a 3% Increase in fuel prices

18th: Fitch ratings downgraded Tunisia Sovereign ranking from B- to CCC. The institution states that the entrenched unions' opposition curtails the government possibilities to implement reforms and reach a deal with the IMF. UGTT reacted, denounced the pressure exercised by the institution and reaffirmed its opposition to reforms³⁸.

The government announces 2nd increase in fuel prices of 3%

23rd: An IMF mission visited Tunis between the 23rd and the 25th of March to discuss the reforms program on the light of the repercussions of the Russia-Ukrainian war.

³⁸ Fitch Rating (2022, March 18) Fitch Downgrades Tunisia to 'CCC'. RATING ACTION COMMENTARY <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-tunisia-to-ccc-18-03-2022>

³⁹F.D. (2022, February 12) Visite à Tunis d'Emmanuel Moulin, directeur du Trésor français : le vrai du faux [Jeune Afrique]. Available at : <https://www.jeuneafrique.com/1311392/economie/visite-a-tunis-demmanuel-moulin-directeur-du-tresor-francais-le-vrai-du-faux/>

⁴⁰H. (2022, February 3) Tunisia-Sihem Nemsia: Emmanuel Moulin's visit is part of technical support to Tunisia [Tunisie Numérique]. Available at: <https://news-tunisia.tunisienumerique.com/tunisia-sihem-nemsia-emmanuel-moulins-visit-is-part-of-technical-support-to-tunisia/>

⁴¹R.B.H, (2021, June 03), Castex : L'aide de la France se poursuit et se poursuivra, [Business News]. Available at: <https://www.businessnews.com.tn/article,519,108893,1>

⁴²International Monetary Fund (2022, April 20). Transcript of April 2022 MD Kristalina Georgieva Press Briefing on GPA. Available at:<https://www.imf.org/en/News/Articles/2022/04/20/042022-md-press-briefing-spring-meetings>

Box 2:

Emmanuel Moulin visits Tunisia:

Technical assistance or debt restructuring?

Who's Emanuel Moulin? (Double-Hatting?)

Director-General of the French Treasury and President of the Paris Club, which is a group of officials from creditor countries that work to find solutions for the debt repayment of bilateral debt.

Who invited whom?

Technical support was requested by the Head of Government, Najla Bouden, on the sidelines of her participation in the November 2021 Conference on the Stabilization of Libya in Paris.³⁹

What support?

According to Sihem Bougdiri Nemsia, the Tunisian Minister of Finance, Moulin was invited as a technical advisor for negotiations with the IMF, particularly with regard to the suggestion for the creation of a Treasury agency and an agency relating to public enterprises.⁴⁰

Déjà vu?

Mechichi government: Castex visit: Mechichi requested the deployment of a technical expertise in order to create a debt and treasury management agency and an agency of the participations of the State⁴¹.

► The visit can be read as one of the attempts of Tunisia to restructure its debt to free fiscal space to pay other debts or use the money for other purposes. In fact, to avoid further downgrading by the rating agencies, the Tunisian authorities have been insisting that they do not intend to appeal to the Paris Club, stressing the country's ability to honor its debts and negotiate new loan program with the IMF. But behind the scenes, the discussions were about rescheduling the debt, indeed, debt restructuring was mentioned in the IMF Managing director's⁴² discourse about Tunisia during the Spring meeting.

This measure would send a less negative signal to the markets however, it's not a mere formality, because debt restructuring under the Paris Club is conditioned to obtaining an IMF program.

30th: IMF Statement announces support of Tunisia in the hard economic context. The release coincides with Kais Saied parliament dissolution, after MPs tried to organize a virtual general assembly. The institution recommends the implementation of the following reforms:

- Equitable taxation reform
- Strict control over the public sector wage bill,
- Better targeted subsidies, and
- Deep reforms of state-owned enterprises

12th : she received a Delegation from the Committee on External Relations of the European Parliament, and reviewed the negotiations with the IMF.

14th: The government announces a 5% increase in fuel prices, the third in 2022.

15th: Discussions on the state's participation/ reforms in public enterprises (Nouvel air, STIR, chemical group, Sotupap, STEG...)

18th to 22nd: Tunisia participates to IMF/WB the spring meetings

19th: Tunisia runs technical discussions with IMF experts at the out skirts of the Spring Meetings

25th: Release of economic emergency measures: among which are measures to enhance the business climate and the abolition of administrative authorizations for investment in 25 business activities.

1st: UGTT continues to press against the reform program

May 1st
2022

1st: Increase in the energy utility prices, both electricity and gas

5th: Jihad Azour, (IMF) encourages Tunisia to start reforms even before the conclusion of a deal with the fund.

May 5th
2022

10th: UE Ambassador to Tunisia, Marcus Cornaro say reforms negotiation are difficult as many reforms from the former agreement are pending due to social pressures and insists on the necessity of having a consensual agreement between national actors around the reforms to reach an IMF agreement.

May 10th
2022

May 18th
2022

18th: tightening of monetary policy by the increase of:

- Deposit facility rate
- Money market rate
- Discount window

Apr 15th
2022

9th: Release of:

- The government's National reforms program
- The document on measures planned to enhance the business climate

16th: UGTT goes on a general strike against the government reforms plan.

May 1st
2022

Is it necessary to reach an agreement of UGTT? See [Box 3](#) for details

20st & 21st: Director of the Middle East and Central Asia Department at the IMF, Jihad Azour, visited Tunis and met with President Kaïs Saïed , Ms. Najla Bouden, the head of the government, as well as representatives of the civil society (UGTT, CONECT, UGTT).

June 20th
2022

22nd: In a press release: the IMF announces that it is ready to start program negotiations in the coming weeks.

June 22nd
2022

From 4th to July 18th: IMF Staff visits Tunisia for the first negotiation Mission around the:

The institution said the mission was concluded with Good Progress: The mission met with Head of Government Najla Bouden. It also held discussions with the UGTT labor union, the UTICA and CONECT. But no staff level agreement was reached.

July 4th
2022

Box 3:

IMF and the “Government-Civil Society” Pact -: On the fulfilling of an IMF loan pre-condition

On August 12th, PM Najla Bouden, Secretary General of the UGTT Nouredine Tabboubi and UTICA President Samir Majoul signed a social pact and agreed to start talks over economic reforms required by the IMF for a rescue program.

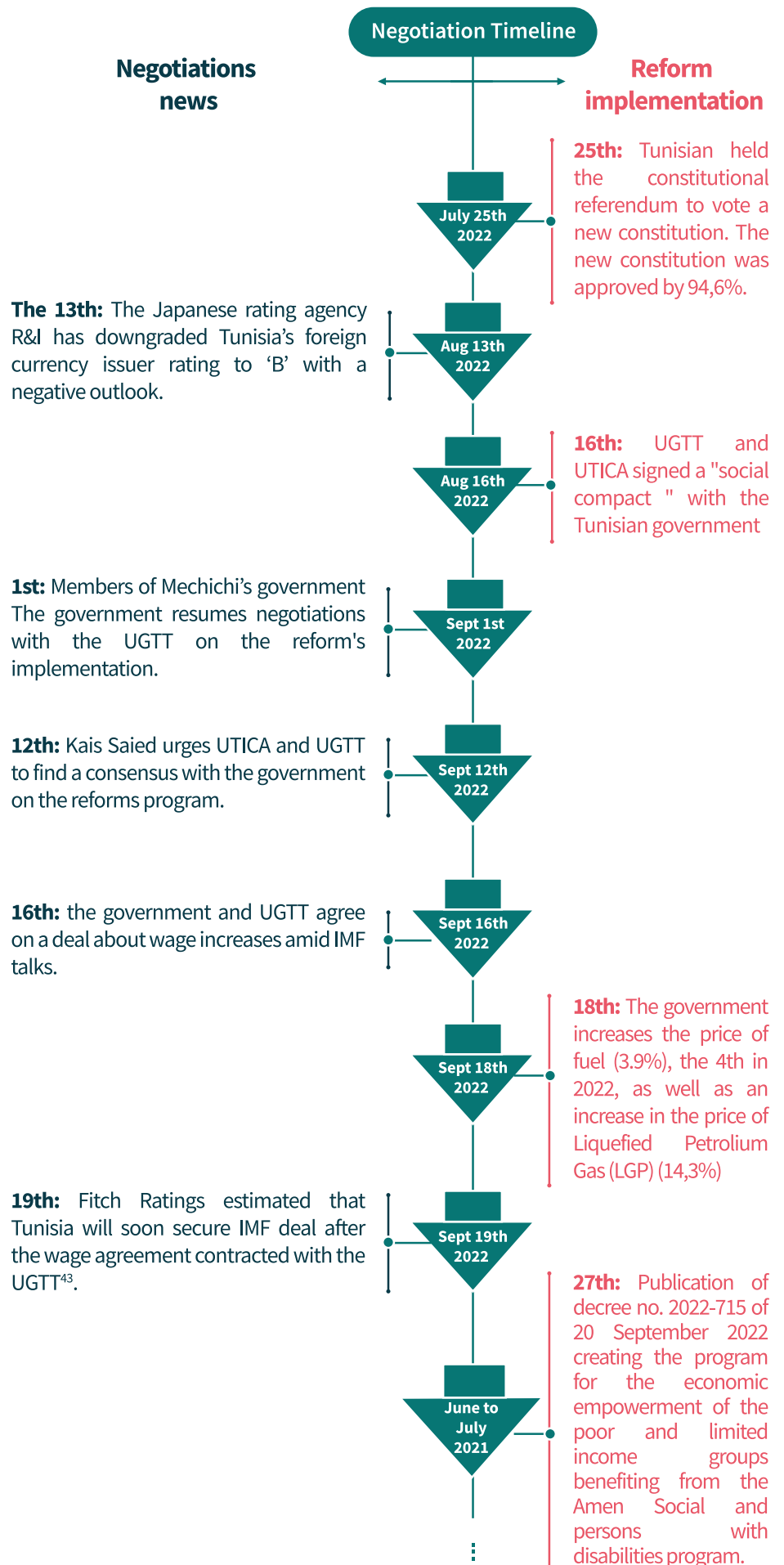
The government has been trying to get the UGTT’s consent on the reforms plan since the beginning of the year, however, all rounds of negotiations failed.

This “social compact” is a requirement paused by the IMF before any loan agreement, a risk mitigation step, to prevent the abortion of a new program, as what happened in Summer 2019, during the 5th review of 2016 program.

The labor union, has been a staunch critic of IMF economic reforms proposed by the government, including subsidy cuts, a public sector wage freeze and the restructuring of state-owned companies. It previously, on June 16, organized a public-sector strike which led to closed airports, the shutdown of public transports and government offices, to express his refusal of the terms of the agreement.

Three weeks after the strike, the UGTT received an IMF delegation. The meeting focused on the economic and social situation of the country as well as the reform agenda and the central role of the UGTT. Negotiations with the government are still ongoing as UGTT still refuses to compromise on its demand for salaries increases to adjust to inflation. The government finally approved a 7% increase in the minimum wage and a 3 years calendar of salaries increases for agents in the public sector in order to limit the erosion of the purchasing power. The agreement will be implemented starting from October 2022.

Part 3: The Final Stretch



⁴³ Fitch Ratings (2022, September 15) Tunisia's Wage Agreement Raises Likelihood of IMF Deal . Fitch Wire. Available at : <https://www.fitchratings.com/research/sovereigns/tunisia-wage-agreement-raises-likelihood-of-imf-deal-15-09-2022>

⁴⁴ Presidency of the Government- Portal, Ambassadors of Germany, UK, France and Japan affirm their countries' support to Tunisia-IMF negotiations. Available at: <http://www.pm.gov.tn/pm/actualites/actualite.php?id=13817&lang=en>

⁴⁵ Moody's Investors Service (2022, September 30) Rating Action: Moody's places Tunisia's Caa1 ratings on review for downgrade <https://www.moody.com/research/Moodys-places-Tunisias-Caa1-ratings-on-review-for-downgrade-->

⁴⁶ Chargée d'Affaires, a.i. Natasha Franceschi Meets with Prime Minister Najla Bouden <https://tn.usembassy.gov/chargee-daffaires-a-i-natasha-franceschi-meets-with-prime-minister-najla-bouden/>

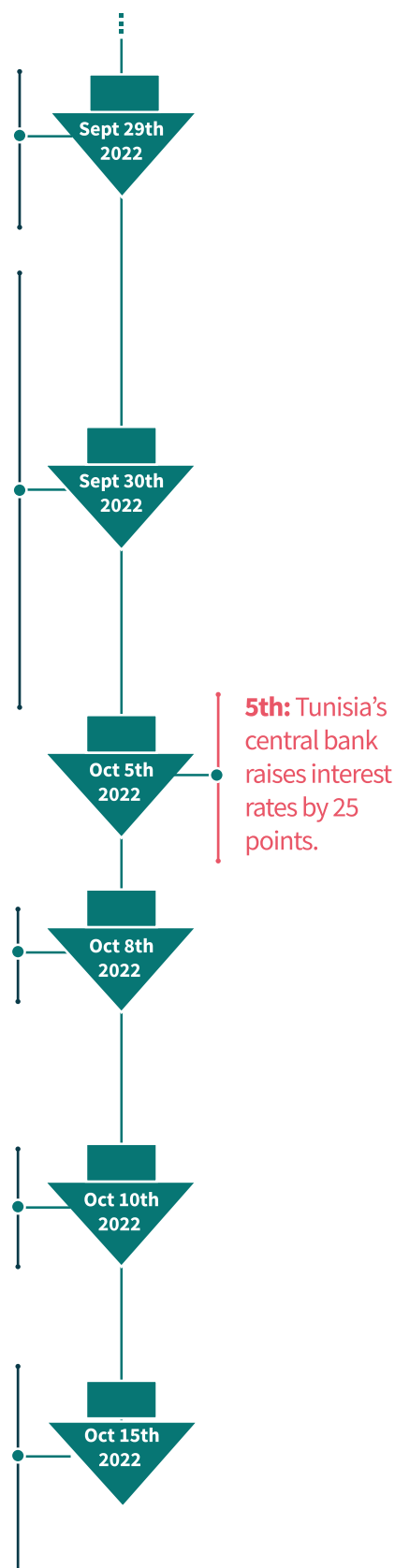
29th : Tunisia seeks support from Ambassadors of Germany, UK, France and Japan, who affirmed their countries' support to Tunisia in its negotiations with the IMF.⁴⁴

30th: Moody's places Tunisia's Caa1 rating on review for downgrade. For the institution, the debt profile will remain uncertain even under an IMF program as Tunisia's access to funding is conditioned by the timely implementation of the reforms program, while Tunisia's performance under reform programs has been mixed under social pressure and political instability. And this might curtail external financing, erode foreign currency reserves and thus exacerbate risks of debt restructuring.⁴⁵

8th : met with the chargée d'affaires a.i., U.S. Embassy Tunisia and discussed the importance of achieving an agreement with the IMF to address the current economic challenges⁴⁶.

10th to 15th : Tunisia participates to the IMF and World Bank Annual Meetings in Washington DC and runs the second round of formal staff-level negotiations.

15th: Tunisia reaches staff-level agreement for a new 4 years Extended Fund Facility loan program of 1.9 billion USD with the IMF. The IMF gives green light for other lenders to support Tunisia in the program implementation.



Tunisia's tactics to get the loan

in their quest for the new loan, the Tunisian government had to reconcile between 2 necessities : to respond to the reform expectations of the IMF to reach the deal on one hand, however maintain a minimum of social tensions on the other. This is why, during this bargaining process, the Tunisian government had to deploy a number of tactics in order to secure the IMF funding. We can summarize the government actions to secure the IMF funding in 3 main tactics:

1. Start the implementation of prescribed reforms
2. Gain diplomatic support
3. Working towards a “social compact” around reforms.

Start the implementation of prescribed reforms

Since the 2022 Finance law and the conception of the new state budget, the reform requirements of the IMF have been taken into account⁴⁷. The government, in the report on the State's Budget 2022 has announced its intention to implement a monthly increase in fuel price, electricity and gas tariffs to reduce energy subsidies. It also announced that it will freeze public wages and bonuses, and that it will not proceed to recruitments unless for critical sectors, and not replace retired workers unless through resorting to employee redeployment.

The government raised fuel prices 3 times during the first quarter of 2022 and once again in September of the same year, gradually reducing the subsidies on fuels.

However, it suspended the Automatic Fuel Price Adjustment, during the referendum period (second quarter 2022) for political motives.

On June 2022, the Tunisian government exposed the 2022 National Reform Program, which was also presented to the International Monetary Fund as a pledge of good faith, and as proof of its commitment. This plan aimed for macro-economic stabilization is embedded in a larger scheme of transformation that the government labelled, in its 2035 vision document⁴⁸, as “change in the development model”. Prime Minister Najla Bouden reassured the public that the reform program is “a 100% Tunisian program”, or “homegrown according to the IMF's expression⁴⁹ reassured the public that the reform program is “a 100% Tunisian program”, or “homegrown according to the IMF's expression⁵⁰.

⁴⁷ Reference OTE Budget Brief 2022

⁴⁸ Ministry of Economy and Planning (2022, July), Tunisia 2035 Vision. Available at: http://www.mdici.gov.tn/wp-content/uploads/2022/07/version_pr%C3%A9liminaire-vision2035-juillet_2022.pdf

⁴⁹ IMF (2022, October 15) IMF Staff Reaches Staff-Level Agreement on an Extended Fund Facility with Tunisia. [End-of-Mission press release]

⁵⁰ IMF (2022, October 15) IMF Staff Reaches Staff-Level Agreement on an Extended Fund Facility with Tunisia [Press Release] Available at : <https://www.imf.org/en/News/Articles/2022/10/15/pr22353-tunisia-imf-staff-reaches-staff-level-agreement-on-an-extended-fund-facility-with-tunisia>

Gaining support: Economic diplomacy as a bridge to the IMF

In fact, along the negotiations, the government of Najla Bouden deployed, on one hand a diplomatic strategy to seek support for the loan approval, on the other hand, a strict communication strategy in order to barely inform, but also convince of the reform in order to contain potential popular anger.

The government deployed diplomatic actions to convince actors intervening in the decision-making to vote in favor of a financial support for Tunisia.

The management of relationships with international financial institutions, such as the International Monetary Fund include the recourse to economic diplomacy.

In fact, reaching a technical agreement at a staff level, still requires the approval of the IMF board, composed of powerful countries and subject to political and diplomatic considerations. (See IMF Governance Box).

And indeed, Bouden's Government relied on Tunisia international goodwill to guarantee the support of countries with important voting power, and buy leeway in talks with the IMF.

Since October 2021, the Government continued diplomatic discussions with Tunis-based ambassadors seeking international support within the US and the UE and for negotiations with the IMF.

⁵¹IMF website : <https://www.imf.org/en/About/Factsheets/Sheets/2022/IMF-Quotas>

⁵² IMF website : <https://www.imf.org/en/About/executive-board/eds-voting-power>

⁵³ Brettonwoods Project (2020, April 7) Decision-making at the IMF. Available at : <https://www.brettonwoodsproject.org/2020/04/imf-and-world-bank-decision-making-and-governance-2/>

Box 4: How are decisions on loans taken inside the IMF?

Decisions on loans are taken by the IMF Board of Directors.

This board draw's its legitimacy from the Board of Governors, the highest decision body in the institution, which is in charge of the strategic decisions, and delegates daily decisions about loans and reviews to the Board of Directors.

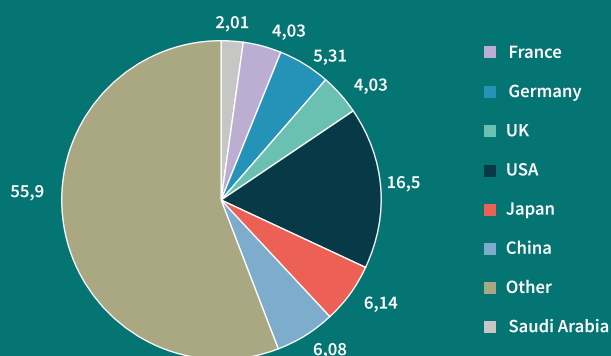
The board of director is composed of 24 Executive directors, representing countries according to their quota.

In fact, the representation of countries inside the Board of Directors is defined by "quotas", which are similar to "shares" detained by each country, and "broadly reflects its relative position in the world economy" according to the IMF⁵¹.

These shares are calculated on the basis of a preset formula which depends on the GDP of the country, its openness among other criteria. So countries cannot decide to increase their quota by increasing their financial contributions.

The current distribution of quotas is as follows:

Most influent countries in IMF decision making



IMF country quotas⁵²

This means that some Executive Directors (ED) represent a single country for instance China, France, Germany, Japan, Russia, Saudi-Arabia, the UK and the US. Other EDs represent a group of countries. For example, Sub-Saharan Africa is represented by only 2 EDs, for 46 countries⁵³.

So, by design, developing countries are under-represented while powerful countries are over represented. This results in embedded disparities in the voting power.

Inside the board, decisions are taken by consensus, and can also be taken by vote. But we only know little about how things really work in practice.

Due to its weight as detainer of 16.5 % of the quotas, the USA is the only country who has a veto vote.

Working toward the required “social compact” on the reforms

Among the most difficult requirement that the IMF demands is building a national social consensus between the government and influential actors, the UGTT and the UTICA, on the reform’s plan.

The government did not find any issues in convincing UTICA of the reform plan. In fact, since the Mechichi government, the organization called on the government to respond to the recommendations of international donors by adopting structural reforms⁵⁴. Since the resumption of negotiations with Bouden government in late 2021, the organization welcomed IMF representatives to their offices on several occasions and has not hesitated to congratulate the progress of the negotiations and to call on the government to start undertaking reforms⁵⁵, expressing its willingness to collaborate in order to implement them.

However, bringing UGTT in the compact was more challenging. The strategy of opacity undertaken by the Bouden government at the beginning of the negotiations with the IMF, and the refusal to open the debate on reforms to a wider circle of society, fueled the rage of the workers’ union office, which, in a communiqué published on 4 January 2022, denounced “the ambiguity, secrecy, opacity and absence of any internal participatory formula around the negotiations with the International Monetary Fund”⁵⁶.

The call for social dialogue was also renewed by the UGTT, which on the occasion of the celebration of the International Labour Day on May 1st, explained that it is open to negotiations on economic reforms provided that they respect national sovereignty.

It was at the end of May that the union’s executive board called for a general strike on 16 June 2022 in the public sector to “defend the economic and social rights of workers”⁵⁷. The strike was observed by 96.22% of affiliated workers throughout Tunisia⁵⁸.

The IMF delegation that came to conduct the first round of loan negotiations in July 2022 met with the union’s office, which had expressed their reservations about the reforms and their impact on workers. The tension remains palpable following the IMF visit. In a media statement, the deputy secretary general of UGTT, Samir Cheffi, accused the financial institution of exerting pressure on the UGTT to validate the reform program⁵⁹.

After this long process of negotiation, and under the pressure of the country’s president, the government celebrated, in late August, what they called “a social compact” between the government, UGTT and UTICA. It also tried to get the approval of the UGTT on the reforms by agreeing to their requests to raise salaries.

⁵⁴ <https://www.espacemanager.com/lutica-presente-un-plan-durgence-en-10-points-pour-sauver-l-economie-tunisienne.html>

⁵⁵ (2022, July 20) Tunisie : Le patronat salue l’avancée des négociations avec le FMI, mais appelle le gouvernement à engager les réformes. Web Manager Center <https://www.webmanagercenter.com/2022/07/20/490053/tunisie-le-patronat-salue-lavancee-des-negociations-avec-le-fmi-mais-appelle-le-gouvernement-a-engager-les-reformes/>

⁵⁶ AlChahed (2022) اتحاد الشغل: المفاوضات مع صندوق النقد الدولي يكتنفها الغموض والسرية والتعتيم <https://achahed.com/post/%D8%A7%D8%AA%D8%AD%D8%A7%D8%AF->

⁵⁷ Hager Cherni (2022, June 15) Tunisie/UGTT: «la grève générale est une occasion pour défendre les droits économiques et sociaux». Available at : <https://www.aa.com.tr/fr/afrique/tunisie-ugtt-la-gr%C3%A8ve-g%C3%A9n%C3%A9rale-est-une-occasion-pour-d%C3%A9fendre-les-droits-%C3%A9conomiques-et-sociaux/2614644>

⁵⁸ (2022, June 16) La grève générale réussie à 96.22%, clame Taboubi. African Manager. <https://africanmanager.com/la-greve-generale-reussie-a-96-22-clame-taboubi/>

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Despite all of this, we cannot say that Bouden's efforts yielded the "social compact" that was required by the IMF, as the UGTT still openly refuses the phasing out of subsidies on food and energy as well as the privatization of State-owned enterprises, even after the signature of the compact.

This leaves an open question on whether the IMF will accept to seal a deal, while this requirement has not been attained.

Conclusion

Since February 2021, the governments of Hichem Mechichi and of Najla Bouden have multiplied efforts in order to gain the approval of a new loan from the International Monetary Fund that can open the doors of other sources of bilateral and multilateral credits.

The obtention of the loan is conditioned by the implementation of several reforms, most of them have been on hold from previous loan programs. And some have not been implemented due to their high social cost, but caused the suspension of 2016 EFF loan program.

In its race for debt, the current government has adopted the conditionalities of IMF as their own working plan, and beyond, incorporated conditionalities of other creditor institutions. This testifies of how little power leverage they have in the current negotiations.

The government also used a combined set of tactics, swinging from official communication effort, to direct implementation of reforms, to actions to reach a social compact around reforms with the main national organizations, and also resorted to diplomacy in order to gain external support for its quest, and according to the first signs, they will succeed to obtain approval.

Since 2013, Tunisia has been implementing the IFIs reform recipes in order to cope with the post 2011 economic crisis. However, these recipes did not yield substantial results.

Relying only on indebtedness as a strategy drives the country further in the abyss of debt un-sustainability, and makes economic sovereignty and self-determination a dream far from reach.

And a question remains: When will Tunisia decide to take a turn and change its habits to break with the vicious debt cycle? With its current development model, the country will remain highly dependent on foreign debt, especially in its multilateral form. And more importantly, it will remain so as long as the country's elites think that debt and the its reform packages are the only solution, echoing Thatcher's popular expression "There is no alternative". However, many civil society organizations have presented multiple experiences that prove there could be solutions and alternative, across the Global South and North.

The flip side of medal is that crises represent also an opportunity to rethink our strategies as country and long for more sustainable solutions for a Sovereign development. A chance to seize.

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