

July 21, 2020
Approval: 7/28/20

INTERNATIONAL MONETARY FUND
Minutes of Executive Board Meeting 20/40-1
9:30 a.m., April 10, 2020

1. Tunisia—Request for Purchase Under the Rapid Financing Instrument

Documents: EBS/20/34 and Correction 1

Staff: Rother, MCD; Beaumont, SPR

Length: 42 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors Alternate Executive Directors

	I. Mannathoko (AE)
M. Raghani (AF)	B. Lischinsky (AG)
N. Ray (AP)	B. Saraiva (BR)
	P. Sun (CC)
	P. Moreno (CE)
	A. McKiernan (CO)
R. Kaya (EC)	
A. Buisse (FF)	
R. von Kleist (GR)	
S. Bhalla (IN)	
D. Fanizza (IT)	K. Chikada (JA)
J. Mojarrad (MD)	S. Geadah (MI)
	V. Rashkovan (NE)
	J. Sigurgeirsson (NO)
	L. Palei (RU)
M. Mouminah (SA)	K. Tan (ST)
	A. Urbanowska (SZ), Temporary
	D. Ronicle (UK)
	R. Farber (US), Temporary

C. McDonald, Acting Secretary
 S. Maxwell, Summing Up Officer
 D. Jiang, Board Operations Officer
 L. Nagy-Baker, Verbatim Reporting Officer

Also Present

Communications Department: Wafa A Amr, Amit Khetarpaul. Finance Department: Maria Angelica Albino Orjuela, Antonio Angel Manzanera Escribano. Legal Department: Hoang The Pham. Middle East and Central Asia Department: Jihad Azour, Nicolas End, Kerstin Gerling, Alexei P. Kireyev, Taline Koranchelian, Bjoern Rother, Jerome Vacher. Monetary and Capital Markets Department: Mariam El Hamiani Khatat. Office of Executive Directors:

James Alic Garang, Ita Mannathoko, Aivo Handriatiana Andrianarivelo, Abdulrahman Roble Olhaye, Mohamed-Lemine Raghani, Mohamed Sidi Bouna, Facinet Sylla, Bernardo Lischinsky, David Vogel Peliart, Nigel Ray, Jinhyuk Yoo, Bruno Walter Coelho Saraiva, Frank Alexis Fuentes Brito, Ping Sun, Yue Zhao, Edgar Rolando Cartagena Guardado, Jose Manuel Montero, Pablo Moreno Garcia, Anne Marie McKiernan, Benjamin James Rankin, Mike James Sylvester, Omer Ethem Bayar, Szilard Benk, Christian Just, Raci Kaya, Fabien Bouvet, Arnaud Fernand Buisse, Pierre-Eliott Rozan, Ilja Fragin, Ruediger Wilhelm von Kleist, Surjit Singh Bhalla, Petal Dhillon, Laura Cerami, Domenico G. Fanizza, Ken Chikada, Hiroko Mori, Samir Belhaj, Mohammed El Qorchi, Mohammad Jafar Mojarrad, Wafa Fahmi Abdelati, Perrihan Hussein Al-Riffai, Maya Samir Choueiri, Sami Geadah, Mira Merhi, Dries Peter M. Cools, Vladyslav Rashkovan, Jon Thorvardur Sigurgeirsson, Nils Joonas Vaikla, Lev Valentinovich Palei, Sergey Mikhaylovich Potapov, Jwaher Bint Abdulaziz M. Bin Farhan Al Saud, Ryadh Mohammed A Alkhareif, Maher Hamed S Mouminah, Mele Ungatea Latu, Alisara Mahasandana, Keng Heng Tan, Paul Albin Inderbinen, Agnieszka Urbanowska, Ronald Bohlander, David Paul Ronicle, Richard Jay Farber, Alex Joseph Grohovsky. Strategy, Policy, and Review Department: Craig Beaumont, William Gavin Gray, Rima A. Turk. World Bank Group: Eric Le Borgne.

1. TUNISIA—REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

Mr. Mojarrad and Mr. Belhaj submitted the following statement:

On behalf of our Tunisian authorities, we thank Mr. Rother and his team for their hard work and sound policy advice. The authorities are also grateful to the Executive Board and management for their support and intense mobilization to help membership in these exceptional circumstances. Tunisia was hit hard by the Covid-19 pandemic, which is jeopardizing the improvement in its fiscal and external positions achieved in 2019 under the Extended Fund Facility (EFF) arrangement.

The scale of the urgent and exceptional expenditure in priority areas of health and social safety nets, and the expected deterioration of the balance of payments as a result of the measures to combat the coronavirus led our authorities, in consultation with staff, to cancel the EFF and request an emergency disbursement under the Rapid Financing Instrument (RFI).

Overview

Despite the fragile political and economic situation, Tunisians have shown an unwavering commitment to a democratic transition, participating actively and peacefully in the October 2019 parliamentary and presidential elections. Nevertheless, the formation of a new government came after a long process of negotiations lasting more than four months. Immediately thereafter, dialogue with IMF staff resumed in early March 2020 to discuss the completion of a sixth review under the EFF. However, with the rapid spread of the coronavirus and its new emergencies, and given the short time remaining before the EFF expires in May 2020, it became clear that completing the review would be extremely difficult.

While, as pointed out in the staff report, the public health system can respond to the crisis from a comparatively strong basis, the crisis has revealed some deficiencies, including lack of equipment, of testing kits, of intensive care beds, etc. The situation was exacerbated by the waves of migration of qualified doctors out of the country in recent years, and lately, by the contamination and quarantining of many health workers who were in the front line of the pandemic, which has increased the pressure on an already overburdened system.

The Authorities' Responses to the Covid-19 Outbreak

Our Tunisian authorities have rapidly undertaken a multi-pronged response to the Covid-19 outbreak, aimed first at protecting the population while avoiding a collapse of the social and economic fabric, to enable the economy to rebound quickly when the pandemic abates. Since the outbreak of the virus, the government has been very proactive in its efforts to contain the spread of the disease and address the threat to public health. Measures have been progressively strengthened at an accelerated pace in light of lessons learned from the experience of other countries. Starting with the closure of schools and universities and the banning of public gatherings, the measures were rapidly reinforced by the closure of all maritime borders and the suspension of flights, culminating in a night curfew and a mandatory general lockdown from March 22.

The authorities have taken exceptional measures of an estimated cost exceeding the equivalent of \$700 million (1.8 percent of GDP). First, around \$102 million were allocated to address the shortcomings in health equipment. In addition, the equivalent of \$155 million had been allocated to help technically unemployed workers as well as vulnerable and low-income households. Furthermore, the banking sector has agreed, in consultation with the central bank, to defer repayment of personal debt for up to six months.

As for small and medium-sized enterprises and the self-employed affected by the economic downturn and threatened with bankruptcy, a set of measures has been decided to alleviate the financial burden and provide them with the necessary liquidity. These measures include—for affected businesses that would maintain employment—the temporary deferral of tax payments and social security contributions and, in agreement with the banking sector, the deferral of debt repayment to banks and financial institutions for a period of six months. A government guarantee line amounting to \$172 million has been set up to enable companies to apply for new loans, and a fund of \$240 million will be dedicated to assist in the restructuring and capitalization of affected strategic firms once the crisis is over.

On monetary policy, the central bank lowered the policy rate by 100 basis points to reduce the interest burden on business and households, while keeping the real interest rate in positive territory and continuing to closely monitor inflation developments.

In order to strengthen revenue, the government increased the price of tobacco in March and decided to generate additional savings vis-à-vis the

initial budget, by freezing non-statutory hiring and promotions as well as any salary increases beyond those previously agreed with the union. In addition, \$1.17 billion of public investment had to be postponed. The authorities have also introduced a mechanism for the automatic adjustment of fuel prices in order to free the budget from the burden of fuel subsidies.

Financing Request Under the RFI

As in other countries hit by the shock, Tunisia will likely experience a steep recession in 2020 with an unprecedented expected contraction of growth of 4.3 percent of GDP. The economic damage of the pandemic will pass through several channels: (1) the containment measures will directly and immediately affect small businesses and will slow down an already weak domestic activity; (2) unforeseen health care costs will weigh on an already tight budget; (3) the consequences of the declining global demand, border closures, and the disruption of the supply chain will affect export sectors and weigh on remittances from diaspora; and most importantly (4) the expected shock on the tourism sector, could wipe out \$1.3 billion of FX revenues this year, and threaten an estimated 150,000 direct jobs and 250,000 indirect jobs.

Our authorities are committed to minimizing the fiscal cost of their responses to Covid-19 crisis and to continuing their efforts to reprioritize expenditure and improve their quality. However, the projected fiscal deficit and increased BOP need will be larger than expected despite the difficult measures taken by the Government. The support provided under the RFI will help to cover part of the immediate expenditure needs and to maintain foreign exchange reserves at an adequate level.

To further fill the financing gap, the authorities will step-up efforts to maximize financing from other multilateral and bilateral sources.

Conclusion

The coronavirus pandemic has been an unprecedented burden on all countries and has highlighted some of the risks associated with the interconnectedness of the global economy and the importance of working together and strengthening international and multilateral cooperation. It has revealed many weaknesses, but also opportunities for future social and economic change, of which our Tunisian authorities are aware and which they are firmly determined to seize. In this regard, they are committed to continuing the dialogue with the IMF to explore solutions to the main economic and social challenges as well as innovative ways to support the

country's transition. The RFI can only be a bridge to a more sustainable solution and the authorities look forward to starting discussions with staff on a successor program to support the government's strategy focused on strengthening macroeconomic and financial stability, promoting inclusion, equity, quality education and health system, the rule of law, and energy and digital transitions.

Ms. Mannathoko and Mr. Garang submitted the following statement:

We thank staff for a well-written report and Messrs. Mojarrad and Belhaj for their helpful buff statement. We support Tunisia's request for a 100 percent of quota purchase under the Rapid Financing Instrument (RFI) to address the negative impact of the COVID-19 shock in 2020. Reform progress was made in 2019 contributing to lower fiscal and external deficits, and a reduction in the debt to GDP ratio; however, the country now has to contend with the health and economic shocks precipitated by the COVID-19 pandemic. We empathize with the people of Tunisia at this difficult time. The pandemic is already aggravating macroeconomic imbalances, with the potential to reduce GDP growth to -4.3 percent, while giving rise to large fiscal and balance of payments needs estimated at 2.6 and 4.7 percent of GDP, respectively. We note that Tunisia's capacity to repay the Fund remains adequate with this RFI purchase, while there are large downside risks. We agree with staff that the high exposure highlights the need for strong progress with macroeconomic adjustment beyond the short-term, after the crisis. We also note from staff reporting, the need for faster implementation of recommendations from previous safeguards assessments and urge the authorities to accelerate this work. Against this backdrop, we support the request given the authorities' strong policy commitment to implement reforms, and the country's ability to repay the Fund.

Immediate action to address the COVID-19 pandemic: We commend the authorities for their swift response to the COVID-19 shock with timely measures to contain the spread of the virus and mitigate the attendant human, social, and economic repercussions on the economy. To this end, the RFI will complement their efforts to increase health spending, bolster social safety nets, build international reserves and support provision of credit to small and medium-sized enterprises. We see merit in the authorities' efforts to temporarily increase central government outlays, prioritize health projects and provide tax relief, even as the RFI helps to reduce pressure on BoP needs. In addition, we support the credit lines and interest subsidies that will benefit firms that come under stress during the crisis. We note, furthermore, that the

central bank lowered the policy rate and has encouraged banks to renegotiate loan terms for distressed borrowers.

Social protection and stability: We welcome strong measures adopted to protect the most vulnerable in the society, including by intensifying health spending on hospitals, acquiring emergency medical equipment, and increasing the strategic food reserve. This will assist Tunisians affected by social distancing and those who are unemployed, self-employed or in vulnerable households. Ensuring strong social protection, especially for unemployed youth and women, as the economy declines into recession, will be critical. There is a significant risk from growing social dissatisfaction, including among unemployed youth. It will be imperative, therefore, that social programs effectively moderate negative impacts on vulnerable groups.

Beyond the immediate crisis: We welcome the authorities' intention to pursue growth-friendly policies under their medium-term strategy, while undertaking key structural reforms, including reducing energy subsidies and the wage bill. We also encourage progress on expenditure containment and revenue-raising measures after the crisis. We note that in the last EFF review, projected recovery was contingent on the completion of pressing reforms required to enhance security and social stability, and improving the investment climate, alongside macroeconomic stabilization measures. At the time, program risks were already significant with high unemployment, and internal and external imbalances amidst political uncertainty. Strong reform momentum, which was essential then, will be even more critical in the wake of the COVID-19 pandemic, if progress is to be made in improving fiscal and debt sustainability, safeguarding financial stability, and supporting stronger and more inclusive growth. Furthermore, given that the level of unemployment among young people might rise further due to the pandemic's impact, we encourage staff to give due consideration to plans to stimulate jobs for youth and women after the crisis. In this regard, could staff elaborate on their discussions with the authorities on reform progress since the last EFF review and on the request for a successor program?

With these few remarks, we wish the Tunisian authorities success in their efforts to address the impacts of the COVID-19 pandemic and to restore growth and jobs post-pandemic.

Mr. Inderbinen and Ms. Urbanowska submitted the following statement:

We thank staff for the informative report, and Messrs. Mojarrad and Belhaj for their helpful buff statement.

We support Tunisia's request for a purchase under the Rapid Financing Instrument (RFI) to address the sudden exogenous shock of the Covid-19 pandemic. The proposed RFI would allow Tunisia to cover a large share of its urgent fiscal financing needs and the projected BoP gap. While the high-access purchase under the RFI (100 percent of quota) is within the allowable limits, it will increase Tunisia's current Fund credit to approximately 310 percent of quota. The high exposure underscores the need for strong reform efforts to maintain macroeconomic stability. It will be critical that the RFI catalyze comprehensive budget support from other IFIs and external partners to cover the remainder of the financing gap.

The authorities' swift policy actions to address the pandemic are welcome. The authorities' intention to continue with the reform efforts in the medium term is equally important. In this context, commitment to reduce energy subsidies and contain the civil service wage bill will be vital, also in light of a potential successor EFF arrangement.

We note that public debt is sustainable and the capacity to repay the Fund remains adequate; nevertheless, downside risks are significant. The Covid-19 pandemic is reversing the downward path of debt development initiated in 2019. Risks primarily stem from the large share of foreign currency-denominated debt that increases vulnerability to exchange rate shocks, fiscal and monetary policy slippages, and contingent liabilities. Debt sustainability will thus critically hinge on strong ownership of policy reforms and their implementation.

Mr. Geadah and Ms. Choueiri submitted the following statement:

We thank staff for their report and Mr. Mojarrad and Mr. Belhaj for their informative buff statement. The Covid-19 outbreak is severely affecting Tunisia's economy and reversing improvements in the fiscal and external positions that were achieved under the Fund-supported Extended Fund Facility (EFF) arrangement. We fully support the Tunisian authorities' request for financial assistance under the Rapid Financing Instrument (RFI) to help address the urgent fiscal and balance of payments needs. The authorities have rapidly reacted to the Covid-19 outbreak with a multi-pronged strategy. We broadly agree with the staff appraisal and have a few comments:

It is well to recognize the difficult socio-political environment in Tunisia, as rightly noted in the buff. The peaceful and democratic transition and related delays in forming a government may have slowed down reform implementation at times under the EFF. Nonetheless, the authorities remained

appropriately committed to macroeconomic adjustment that seeks to preserve growth and fairness, and we support their gradual and socially-balanced approach to adjustment.

The authorities and staff consider that the RFI can only provide a bridge to a more sustainable solution to Tunisia's macroeconomic imbalances and the staff report refers to a possible successor EFF arrangement. The experience with the EFF in the past four years suggests that a wide-ranging agenda of structural reforms may be delayed in a political transition, including by frequent government changes. Has staff considered the possibility of shorter Fund programs with a limited agenda of well-prioritized and critical structural reforms?

Continued timely donor support is essential to support Tunisia's economy in this difficult juncture.

Mr. Kaya and Mr. Bayar submitted the following statement:

We thank staff for the well-focused report and Messrs. Mojarrad and Belhaj for their helpful buff statement. The COVID-19 outbreak poses significant challenges for the Tunisian authorities who were already in a very delicate situation in addressing the significant macroeconomic challenges through their Extended Fund Facility (EFF)-supported program. Like many other economies, staff now estimates Tunisia to fall into a severe recession with sizable fiscal and external financing gaps. At the same time, the authorities are appropriately taking action to contain the spread of the virus and strengthen their health system's capacity. Despite the efforts by the authorities to reprioritize other expenditures and improve the quality of public spending, the soaring health-related expenditures will exacerbate the fiscal pressures. We therefore consider the authorities' request for emergency financing under the Rapid Financing Instrument well justified and support the use of the Fund's resources for fiscal purposes.

Going forward, we appreciate the authorities' intention to continue to work with the Fund, possibly through a successive EFF arrangement, to resume the much-needed macroeconomic adjustment as well as to ensure progress on the reform agenda. Post-pandemic policy efforts should be guided by a well-calibrated fiscal consolidation plan to firmly place Tunisia's high debt burden on a declining path. We take positive note of the authorities' continued vigilance on the monetary policy area to preempt possible inflationary pressures and a build-up of depreciation expectations. We also believe that maintaining a prudent approach in financial regulation is

warranted to safeguard the soundness of the banking sector against a deterioration of their asset quality. Finally, we strongly support the authorities' reform strategy that aims to promote more inclusive growth, improve the quality of education and health system, entrench the rule of law, and expedite the energy and digital transitions.

With these remarks, we wish the Tunisian authorities and people all the best.

Mr. von Kleist and Mr. Fragin submitted the following statement:

We thank staff for a concise report and Mr. Mojarrad and Mr. Belhaj for their helpful buff statement.

We agree with the thrust of the staff appraisal. The Covid-19 outbreak is significantly increasing pressure on Tunisia's already elevated external and fiscal imbalances. Given the lack of time to put in place a new UCT-quality program or to agree on the necessary revisions for completing the final review, we support the authorities' request for a disbursement under the RFI to cover the urgent BoP financing need. However, we would like to highlight the importance to press ahead with necessary policy adjustments and reforms as soon as possible and therefore welcome the authorities' expressed intention to seek a successor program.

We strongly encourage the authorities to contain the civil service wage bill. This has been a challenge throughout the EFF arrangement. We note that the respective targets were missed repeatedly (wages were supposed to amount to 14.4 percent in 2020 but are now projected to reach 16.5 percent of GDP, see Tab. 1 and Tab. 1 of EBS/19/41). Containing the wage bill is all the more important when the economy faces a severe shock like now. We encourage staff to take stock of the authorities' wage bill containment measures going forward.

We welcome that the authorities adopted long overdue legislation to move to an automatic price adjustment mechanism to eliminate oil price subsidies. We would like to emphasize that it is especially important to keep these adjustments in place even if oil prices increase. We further welcome the authorities' intention to tackle other energy price subsidies as well.

We take note of substantially increased risks to Tunisia's debt sustainability. The observed decline of the debt stock was due to a strong real effective exchange rate, estimated by staff to be persistently overvalued by 10-

15 percent. The external DSA illustrates how a sharp real exchange rate depreciation would significantly increase the external debt ratio. Against this backdrop and given current circumstances, the probability of such a depreciation should not be underestimated. Staff further states that Tunisia's capacity to repay the Fund would deteriorate significantly, if such a risk was to materialize. In this context, we would like to echo staff's assertion that the authorities' plan to issue debt to the amount of USD 750 million in Q3 seems somewhat optimistic at the current juncture. This does not only underline the importance of strong progress with macroeconomic adjustments but also demonstrates the pressing need for external donor support. On the potential USD 750 mil bond issuance, we assume that this is not yet factored in, and would thus – if it were to materialize – reduce the expected residual BoP gap described in para. 7. Could staff please confirm. In addition, could staff kindly provide further insights on the USD 759 mil „other flows” in Q2 2020 in Table 8?

Furthermore, we look forward to a safeguard assessment prior to a potential successor program, in particular with regard to outstanding priority recommendations to strengthen internal audit and risk management functions.

On a more technical point: Could staff elaborate on how it is possible that the “current account deficit will likely shrink [...] as [...] substantially reduced remittances from Europe and the Gulf countries overcompensate a dramatic loss of revenue from exports and tourism” (para. 6)?

Could staff provide further details on the considerable residual in the debt-creating flows for 2020? (Annex table I.3.)

Finally, we welcome the authorities' continued commitments within the Compact with Africa initiative, which will support their growth prospects looking forward, as well as the implementation steps taken in the context of the reform partnership between Tunisia and Germany.

We wish the authorities well with their endeavors during these difficult times.

Mr. Farber, Ms. Pollard and Mr. Grohovsky submitted the following statement:

As with so many economies, Tunisia has been hit hard by the COVID-19 outbreak which has worsened already elevated macroeconomic imbalances. The fiscal deficit is projected to increase to 4.3 percent of GDP and the current account deficit will remain high at 7.5 percent of GDP, while

FDI and sovereign issuances will decline. To help provide near-term policy space in response to the shock, we support the authorities' request for an RFI. While the near-term crisis must be the top priority, Tunisia remains in a vulnerable position. We therefore welcome the authorities' intent to establish a strong successor EFF program as soon as possible to support much-needed reforms to boost growth. Strong actions now are critical to keep Tunisia on a sustainable path.

Any future EFF should focus on reducing macroeconomic imbalances, improving governance, and reining in the fiscal deficit by reducing energy subsidies, restructuring money-losing state-owned enterprises, and scaling back the wage bill as a percent of GDP. In that regard, low oil prices provide a window for eliminating fuel subsidies and we welcome the legislation to move to an automatic and independent monthly price adjustment mechanism. This is a major step in the right direction. Emergency measures to contain the civil service wage bill now and commitments to continue to do so, supported by negotiations with UGTT, are also welcome. We would appreciate comments from staff on the potential size of a successor arrangement, noting that outstanding credit will be over 300 percent of quota with this disbursement.

Mr. Sigurgeirsson and Mr. Vaikla submitted the following statement:

We thank staff for the report and Mr. Mojarrad and Mr. Belhaj for their helpful buff statement. We commend staff and the authorities for their timely and swift reaction to the pandemic and related economic challenges. Given the already elevated macroeconomic imbalances, the large share of tourism, and significant export sector the Tunisian economy and public finances will be severely hit by the crisis. We therefore support the authorities' request for access to the Rapid Financing Instrument to mitigate the impact of the COVID-19 pandemic on the fiscal deficit, reduce risks, and support an adequate reserve buffer against shocks. We have concerns about debt sustainability going forward. To reduce risks to debt sustainability and secure macroeconomic stability, we encourage the authorities to consider a successor EFF arrangement as soon as possible.

The looser fiscal stance in 2020 is appropriate, while focusing on spending efficiency is crucial to ensure debt sustainability. We welcome the steps that the authorities have taken to limit fiscal pressures and reduce urgent financing needs, including steps toward adjusting the automatic price adjustment formula, cutting the civil service wage bill and rescheduling of lower-priority public investment. Despite these measures, the fiscal deficit for

2020 is expected to increase to 4.3 percent of GDP, which raises risks to debt sustainability. We therefore encourage the authorities to reprioritize spending and take further steps to durably reduce subsidies, while protecting low-income households. Once the crisis has subsided, the authorities need to undertake meaningful budget consolidation to reduce risks to public finances and pave way to sustainable growth.

We note that risks to Tunisia's debt sustainability have increased substantially. The Covid-19 shock will increase Tunisia's debt burden significantly, while the capacity to repay the Fund would deteriorate substantially if risks materialize. Tunisia's debt-to-GDP ratio exceeds the emerging market debt burden benchmark of 70 percent of GDP, which strongly underlines the need for prudent policies to maintain investor confidence. We also note that staff projects that central government debt would peak at 88.5 percent of GDP in 2021, but this is conditional on continuous policy efforts to reduce the budget deficit over 2021-25. We therefore emphasize that a successor EFF arrangement will be needed to support the authorities' in continuing the macroeconomic adjustment started over 2018-19, support growth recovery, and consolidate public finances.

We encourage the monetary policy authorities to closely monitor price developments and refrain from FX interventions. We welcome that the CBT stands ready to tighten monetary policy in case of a buildup of depreciation expectations, risks of disorderly exchange rate adjustment, or a surge in inflation. We also welcome the CBT's commitment to preserve existing loan classification and provisioning rules, refrain from providing loan guarantees and subsidies, and closely monitor potential vulnerabilities in the banking sector. We encourage the authorities to refrain from FX interventions to preserve its international reserves. We would also like to encourage the authorities to step up efforts to implement the recommendations from the previous safeguard assessment.

Mr. Ray and Mr. Yoo submitted the following statement:

We thank staff for their timely staff report and Mr. Mojarrad and Mr. Belhaj for their informative buff statement, which outlines how the pandemic is affecting the economy as well as indicating the steps the authorities are undertaking to address the rapidly changing and increasingly challenging macroeconomic environment.

We support Tunisia's request for financial support in the amount of SDR 545.2 million through a purchase under the Rapid Financing Instrument

with the aim of meeting the country's urgent external and fiscal financing needs to mitigate the impact of the pandemic.

We note that this is about 44 percent of Tunisia's balance of payments need and hope that Fund support can assist to catalyze additional donor support to fill the financing gap. We note that the authorities may need to consider contingency planning if donor support does not materialize or if the recovery is delayed or slower, including reprioritizing spending while safeguarding social programs.

We are mindful that Tunisia's debt sustainability risks have risen substantially. In this respect, we welcome the authorities' intention to request a successor EFF arrangement as soon as possible to support its policy reform agenda and to restore macroeconomic stability.

Mr. Chikada and Ms. Mori submitted the following statement:

We thank staff for the concise report and Mr. Mojarrad and Mr. Belhaj for their buff statement. The severe impact from the COVID-19 further weigh on already challenging Tunisian macroeconomic environment. Immediate assistance is required to address urgent fiscal and BOP needs to cover the crisis-responding spending and protect reserves. While the risks to debt sustainability and capacity to repay the Fund is increasing, we note the authorities' intention to request a successor EFF arrangement as soon as possible to resume macroeconomic adjustment and support growth recovery. Acknowledging the urgency and difficulty of completing the review of existing EFF, we support the request for a purchase under the Rapid Financing Instrument (RFI). As we broadly concur with the thrust of the staff appraisal, we will limit our comment to the following.

We welcome the emergency measures taken by the authorities to respond to COVID-19 shock. The focuses on the health sector, the social safety net, and firms are appropriate. We also commend that the government took steps to limit fiscal pressures and reduce urgent BOP needs by adopting legislation to move to automatic price adjustment mechanism and saving civil service wage bill. Despite the authorities' effort and external financing support including the RFI, there remains a sizeable financing gap. In this regard, we encourage the authorities to continue reaching out to other IFIs and bilateral partners to mobilize additional concessional support. We recognize the authorities' safeguard measures, such as monthly review of the fiscal emergency measures and addressing structural challenges after the crisis,

would be crucial to reduce further risks to macroeconomic stability and debt sustainability.

Over the medium term, strong policy implementation will be critical for macroeconomic stability and debt sustainability. We note substantial increases in risks regarding debt sustainability and the capacity to repay the Fund. However, we positively take note the authorities' strong commitment to request a successor EFF arrangement as soon as possible to reduce risks to debt sustainability and support inclusive growth. We encourage the authorities to continue to engage with the Fund and proceed reforms to build on this short-term response and support the medium-term policy agenda to restore macroeconomic stability under the new arrangement.

Mr. Buisse, Mr. Ronicle, Mr. Rozan, Mr. Bohlander and Mr. Bouvet submitted the following joint statement:

We thank staff for their well-written report and Mr. Mojarrad and Mr. Belhaj for their instructive buff statement.

We support the request for purchase under the rapid financing instrument. Tunisia has shown drive and resolve in responding to the crisis by swiftly taking sensible health and economic measures. These measures will contribute to cushioning the impact of the outbreak on the economy and the poor, but they will not prevent the country's fiscal and external vulnerabilities from rising. Therefore, the Fund's support through an RFI is needed and necessary to provide urgent budget and balance of payments financing, all the while giving the authorities time to devise a more structural and sustainable medium-term strategy to address those vulnerabilities and curb public debt.

As debt is on the rise, we commend the authorities for the measures taken to limit fiscal pressures. In particular, we positively note that they have seized the opportunity of low international oil prices to engage in the phasing out of fuel subsidies. We are also encouraged by the authorities' commitment to reduce the subsidies for electricity and natural gas, and to keep the wage bill under control. The authorities' reprioritization of spending worth more than 3 percent of GDP is impressive. Given the high level of uncertainty, and the increasingly worrisome dynamics of debt, these measures should not be delayed, and should even be frontloaded when appropriate.

We support the Central Bank's monetary stance and its commitment to raise rates in the event of a brutal adjustment of prices or the exchange rate. In such a fluid environment, we encourage the Central Bank to maintain a close

dialogue with staff on monetary and exchange rate policies, and to accelerate its transition to IFRS. Also, we concur with staff that provisioning and capital adequacy regulations should remain in force to avoid an increase of risks in the financial sector.

By and large, financing risks remain elevated and should be further mitigated. An access of 100 percent of quota under the RFI is adequate and will give the authorities breathing space and preserve official reserves in 2020. However, in the face of adverse bond market conditions, uncertainty remains as to whether the authorities will be able to issue the USD 750 M Eurobond in 2020. Donors' concessional financing will have a critical role to play in this context but, above all, we urge the authorities to prepare risk mitigation measures. These additional measures should be targeted on the fiscal front, to pave the way for a stronger fiscal consolidation in the medium-term. Staff's views on potential additional risk mitigating measures would be welcome. In addition, we are encouraged by the authorities' commitment to swiftly resume their dialogue with staff on the features of a successor EFF arrangement with a view to implementing without delay much needed fiscal and structural reforms.

Mr. Raghani and Mr. Sidi Bouna submitted the following statement:

We thank staff for an informative report and Mr. Mojarrad and Mr. Belhaj for their helpful buff statement.

COVID-19 has hit Tunisia hard at a time when the economy is showing signs of a slowdown and macroeconomic imbalances have widened. Growth projections for 2020 has been revised downward significantly and financing needs have risen substantially. Downside risks and uncertainty remain particularly elevated. We commend the authorities for their proactive approach to containing the impact of COVID-19 on the population and the economy, as clearly outlined in the buff statement. We fully support their request for financial assistance under the RFI.

The RFI provides the necessary fiscal space to address the impact COVID-19. We support the authorities' intention to increase spending in a number of crucial areas, including health, safety nets, and assistance to SMEs. Their determined efforts to combat the effects of COVID-19 are reflected in the estimated 1.8 percent of GDP already allocated to that effect, as indicated in the buff statement. We note that the resources provided by the Fund under the RFI will be used for budget support. This will help alleviate the pressures on domestic resources and on reducing capital expenditures. We echo the

staff's call for undertaking an appropriate costing of the intended measures and welcome the authorities' decision to revisit these measures regularly.

Once the economy recovers, the authorities should consider implementing fiscal consolidation measures. We very much welcome the authorities' reiterated commitment to macroeconomic stability and preserving the country's debt sustainability. We have also taken note of their strong interest in a successor EFF arrangement. We agree that key reforms over the medium-term should address the need to further contain the wage bill and reduce fuel subsidies.

We call on Tunisia's external partners to provide much-needed financial support during these difficult times. While the Fund's financial assistance is timely, it will only help cover part of the resources necessary to address the country's vast financing needs. External partners should provide urgent additional support to assist the authorities in their efforts to address the crisis caused by the pandemic.

With these remarks, we wish the Tunisian authorities success in their efforts to fight the impact of COVID-19.

Mr. Fanizza, Ms. Levonian, Mr. Lischinsky, Mr. Moreno, Mr. Rashkovan, Mr. Saraiva and Mr. Tan submitted the following joint statement:

We thank staff for its report and Mr. Mojarrad and Mr. Belhaj for their useful buff statement. The COVID-19 pandemic has placed a significant strain on Tunisia's economy, weighing particularly heavy on its growth prospects. Against this backdrop, we support the authorities' request for an RFI in the amount of SDR 545.2 million (100 percent of quota). These resources will be essential to buttress the rolling out of the planned emergency measures to respond to the Covid-19 shock and protect international reserves. We offer the following additional comments.

Tunisia has been hit hard by the COVID-19 pandemic due to its high human and economic interconnectedness with the EU. There are over 1 million Tunisians residing in some of the most affected European countries, and the Tunisian economy relies heavily on European tourism and manufacturing value chains. In this juncture, the new authorities reacted swiftly and rapidly introduced containment measures to halt the spread of the coronavirus, whose extent is not fully known yet as the under-resourced health system has not allowed extensive testing of the population.

We welcome the authorities' pro-active response to the pandemic. While policies to close borders and impose confinement create economic challenges, they are important to help contain the spread of the virus. Supporting the health care system and building a stronger safety net for vulnerable individuals should remain top priorities. We also note the positive steps the authorities have taken to make the most of difficult circumstances, like seizing the opportunity of low international oil prices to gradually eliminate fuel subsidies—thus removing a major structural risk to the budget going forward. Furthermore, like staff, we welcome the authorities' commitment to durably reduce energy subsidies for electricity and natural gas as the emergency ends. These measures will have to be well communicated to ensure social support. Ongoing strong policy implementation is critical to preserving fiscal and debt sustainability and maintaining investor confidence.

We concur with staff's view that the proposed RFI is the most appropriate instrument to help the authorities cover urgent financing needs and to catalyze additional resources. However, we note that, even though the RFI disbursement would cover a large share of fiscal and BOP financing needs, staff points out at an unidentified budget loan for US\$198 million. From the report it is not clear the degree to which the authorities can rely on this funding source. Could staff provide additional details?

We also note that an important portion of the financing will be covered by a bond issuance of US\$750 million with expected support from a loan guarantee by a G7 economy. Like staff, we recognize that market access might be difficult at this juncture. However, it is reassuring that the authorities are contingency planning in case these funding sources fall short.

We welcome the authorities' intention to request an EFF successor arrangement as soon as possible to support its policy reform agenda and address Tunisia's longstanding vulnerabilities. While the RFI will help meet urgent needs, we agree with staff's assessment that a new EFF would be best placed to support Tunisia's medium-term policy agenda, resume reform progress, and help growth recovery. We are also pleased to note the authorities' commitment to undergo a safeguards assessment before approval of any new EFF arrangement. Finally, we support staff's calls on Tunisia's external partners to mobilize urgent additional financing, which will remain indispensable to help cover its financing needs over the medium term. Continued access to concessional financing is key to supporting debt sustainability.

With these comments, we wish the Tunisian authorities all the best in their future endeavors.

Mr. Mozhin and Mr. Potapov submitted the following statement:

We thank staff for the report. We also thank Mr. Mojarrad and Mr. Belhaj for their informative buff statement. We support the authorities' request for financial assistance under the Rapid Financing Instrument (RFI). The Fund's support will help address immediate financing needs associated with the impact of the COVID-19 pandemic. We hope that the approval of the facility will help catalyze additional concessional financing from donors and other multilateral institutions.

The Tunisian economy is expected to be strongly affected by the Covid-19 shock and a global economic recession, aggravating already elevated macroeconomic imbalances. The country will likely experience a steep recession in 2020 with growth falling to -4.3 percent. The fiscal deficit is expected to increase to 4.3 percent of GDP due to lower revenues and the crisis-response measures. The outlook is highly uncertain and is exposed to substantial downside risks.

We welcome the authorities' proactive measures to contain the spread of the virus, protect people, and mitigate the economic damage. The authorities are rightly focused on strengthening the health system, social safety nets, supporting the private sector, and preserving financial stability. We also support the authorities' additional steps to increase budget space and reduce BoP pressures. We note that the RFI purchase could fill about 44 percent of the expected BoP gap, preventing the international reserve coverage to fall to the critical threshold of 3 months of imports. At the same time, these projections assume the bond issuance of \$750 million in 2020 that, as staff highlighted, could be difficult to carry out in the current environment. Could staff elaborate on possible alternative financing and a scope to further reduce non-priority public investment?

According to staff's DSA, Tunisia's public debt remains sustainable subject to continuous policy efforts to reduce the budget deficit in 2021–25. Stress scenarios identify significant risks from exchange rate depreciation, lower growth, loose fiscal and monetary policies, and contingent liabilities. We thank staff for the information on the composition of external debt stock, including on creditors, and would appreciate additional comments on the sizes of debt service payments to multilateral, bilateral, and private creditors in 2020-21.

We welcome the authorities' commitment to request a successor EFF arrangement to support the necessary macroeconomic adjustment over the medium term.

Mr. Mouminah, Mr. Alkhareif and Ms. Al Saud submitted the following statement:

We thank staff for the well-written report and Mr. Mojarrad and Mr. Belhaj for the helpful buff statement. Since we are in broad agreement with staff's analysis and policy recommendations, we would like to confine our comments to the following issues.

We support the authorities' request for a financial assistance under the Rapid Financing Instrument (RFI) to help address urgent fiscal and balance of payments needs due to the COVID-19 outbreak. This will help in creating a fiscal space for emergency measures needed to mitigate the immediate and severe economic disruption. Also, we positively note staff's assessment that Tunisia's debt is sustainable with continued strong policy implementation, and its capacity to repay the Fund remains adequate.

We welcome the authorities' rapid proactive policies to contain the spread of the COVID-19 and mitigate its human, social, and economic impact. The authorities should continue their mitigation efforts and adopt more targeted measures to support the most affected households, firms, and sectors. Furthermore, reassessing the adequacy of the crisis response on a continuous basis is indeed critical, and therefore, we welcome the authorities' commitment in this regard.

Finally, strong policy implementation is critical to ensure macroeconomic stability. Staff assessment indicates that Tunisia's debt levels would deteriorate significantly if risks materialized, including from rapid real exchange rate depreciation. In this context, we encourage the authorities to remain vigilant about the fiscal risks and welcome their commitment to reduce risks to debt sustainability. Indeed, a new EFF arrangement would support the authorities' medium-term policy agenda and growth recovery. In this connection, we encourage the authorities to continue their discussion with the Fund on their reform strategy as soon as the current situation stabilizes. Furthermore, we agree that debt sustainability will depend crucially on maximizing financing on concessional terms and in the form of grants. Additional and timely financing from external partners is critical to help address the urgent financing needs and alleviate the pressures on reserves.

With these remarks, we wish the authorities all the success in their endeavors.

Mr. Sun and Ms. Zhao submitted the following statement:

We thank staff for the well-written report and Messrs. Mojarrad and Belhaj for their helpful buff statement. We support Tunisia's request for a 100 percent of quota purchase under the Rapid Financing Instrument (RFI) to address the negative impact of the COVID-19 shock in 2020.

We commend the authorities for the swift and timely response to the COVID-19 shock with strong measures to contain the spread of the virus and welcome their plan to review the measures on a monthly basis. We believe that the RFI can play an important role in complementing the authorities' efforts to increase health spending, bolster the social safety net, build international reserves, and support the provision of credit to small- and medium-sized enterprises. Given that the RFI financing is expected to fill less than half of the expected BOP gap, we encourage the authorities to try hard to mobilize additional financing to the extent possible during these difficult times.

We take note that risks to debt sustainability have increased substantially. In this regard, once the COVID-19 crisis abates, fiscal consolidation should be continued with strong discipline and unwavering commitment over the medium term. We nevertheless encourage the authorities to continue to enhance public financial management while maintaining key investment spending. Meanwhile, adequate social protection remains essential in the context of the needed fiscal adjustments when deemed to be necessary.

We welcome the authorities' commitment to refraining from large-scale FX intervention while enhancing foreign exchange flexibility to increase competitiveness and build reserves. A market-determined exchange rate is conducive to reducing external imbalances. We also encourage the authorities to further reduce external debt. In this regard, fiscal consolidation through non-priority public investment cut could play a crucial role once the COVID-19 crisis fades.

With these remarks, we wish the authorities all the best in these challenging times.

Mr. Bhalla and Ms. Dhillon submitted the following statement:

We thank staff for the rapid response to the authorities' request in these difficult times, and Mr. Mojarrad and Mr. Belhaj for their helpful buff statement.

The authorities have requested for Purchase Under the Rapid Financing Instrument with the aim of supporting the country to mitigate the impact of COVID-19. We take cognizance of staff projecting a growth reduction to an unprecedented -4.3 percent with tourism and exports being hit. Therefore, the RFI would be essential to support an already vulnerable Tunisian economy and build growth.

We are encouraged by Tunisian authorities commitment to address macroeconomic imbalances through strong adjustments, and staff's assessment of Tunisia meeting the eligibility requirements for the RFI, with debt being sustainable and its capacity to repay the Fund remaining adequate.

We welcome the pro-active steps taken by the authorities to increase budget space and reduce BoP pressures through the implementation of an automatic price adjustment mechanism for fuels, savings in the civil service wage bill, tobacco price hikes, and a temporary and targeted rescheduling of lower-priority public investment.

We would urge the staff to closely monitor the evolving economic scenario and ensure strong implementation to maintain debt sustainability.

We wish the Tunisian Authorities the best in their future endeavors.

The Acting Chair (Mr. Furusawa) made the following statement:

Tunisia's economy has been hit hard by the COVID-19 pandemic, creating urgent fiscal and balance of payments gaps. The Fund's support under the RFI will help the authorities mitigate the economic impact of the pandemic. As emphasized in your gray statements, the authorities have taken appropriate immediate measures focused on the healthcare sector, the social safety net, and firms in distress. You also noted the importance over the medium term to continue the fiscal consolidation and implement key reforms.

The staff representative from the Middle East and Central Asia Department (Mr. Rother), in response to questions and comments from Executive Directors, made the following statement: ¹

We answered most of the EDs' questions yesterday in writing, but I wanted to take up three policy-related issues today. One on what happened since the fifth review of the Extended Fund Facility (EFF), a second one on the question of potential program design for a successor arrangement, and in that context, potential size of such an arrangement.

Let me start with the first points on what happened since the last review. Let me just say that the authorities and staff have maintained a strong policy dialogue since the last review in July, including through two staff visits. However, discussions on the sixth review encountered delays first due to the death of President Essebsi that accelerated the calendar for presidential elections, then the parliamentary elections, and finally, a protracted process of government formation that was only completed this February.

Once the new government was operational in late February, the dialogue intensified, and we moved as quickly as possible. However, under the impression of the COVID-19 outbreak, both sides concluded that it would be very difficult in the remaining timeframe of the EFF to agree on a course of program objectives. The authorities therefore decided to request an RFI.

The new authorities are committed to policies and reforms that would build on the recent successes achieved through fiscal consolidation and exchange rate flexibility. That would make a difference in growth and job creation, especially for the youth and women. They are committed to asking for a successor EFF in support of this agenda and will also work with other external partners including the World Bank on financing and capacity building support.

As stated in the Letter of Intent (LOI), the priorities include efforts to reduce Tunisia's large debt burden and make the budget more supportive of growth and fairness, including through a reduction of the large civil service wage bill as a percent of GDP, further energy subsidy reforms, especially on electricity and natural gas, a reform of state-owned enterprises (SOEs), and the continuing strengthening of social safety nets (SSNs), notably for low-income households.

¹ Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

On the second question about the possibility of a shorter Fund program with a limited agenda, we would emphasize that, first of all, we have not yet started discussions on a successor arrangement, including the type of arrangement that would be suitable for Tunisia. That said, Tunisia's balance of payments problem is of structural nature and requires comprehensive and well-sequenced reforms. These reforms will take time and would be best supported by a multiyear arrangement that offers guidance on policy and reform prioritization, catalyzes financing from other external partners, and identifies opportunities for capacity building assistance on a continuous basis.

The first question was about the potential size of a successor arrangement, noting that outstanding credit would be over 300 percent of quota after the RFI disbursement. There I would just say that access under a successor arrangement will be based on a country's balance of payments needs, capacity to repay, and the debt sustainability, as well as track record at the time of the actual request, to stay within normal access limits borrowing subject to an annual limit of 145 percent of quota for any 12-month period and a cumulative limit over the life of the arrangement up to 445 percent of quota net of scheduled repayments. Accordingly, while the size of a potential successor arrangement would not be big, it would have an important role to catalyze other financing, especially on concessional terms and in the form of grants to help Tunisia reduce its debt burden.

Let me thank Mr. Mojarrad and his team, management, all review departments, and the Tunisia team, as well as colleagues in MCD, for the tireless efforts to respond to the authorities' request for help in these difficult times. It is exactly then that the Fund as an institution can grow.

Mr. Buisse made the following statement:

I want to start by thanking the staff for the very hard work they have done to be able to have this RFI on the table as soon as was needed, because the situation is extremely complicated. We support, of course, a request for purchase under the RFI. As the debt is on the rise, we commend the authorities for the measures taken to limit fiscal pressure. We positively note the authorities have seized the opportunity of low international fuel prices to implement the phasing out of fuel subsidies. We support the central bank's monetary stance and its commitment to raise rates in the event of a brutal adjustment of prices or the exchange rates.

By and large, financing risks remain elevated, which is the simple truth, and should be further mitigated. So an access of the 100 percent of

quota under the RFI is adequate and would give the authorities breathing space and preserve official reserves in 2020. In addition, as was just mentioned by the mission chief, we encourage the authorities' commitment to swiftly resume their dialogue with the staff on the future of a successor EFF arrangement with a view to implementing much-needed fiscal and structural reforms without delay.

Mr. von Kleist made the following statement:

Many thanks to staff for their hard work and dedication over the course of the last program, as well as for the RFI request, and in this context, I can fully support the comments by Mr. Buisse just now. We also thank for the supplement that was issued yesterday, which answered some of our questions, and for the additional oral comments today, especially for pointing out the very important catalytic role the Fund's financing can and should play. We have issued a gray statement and agree with the thrust of the staff appraisal, so I can be very brief.

We support the authorities' request for a disbursement under the RFI to cover the urgent balance of payments financing need. We welcome the authorities' expressed intention to seek a successor arrangement which can support the reduction of macroeconomic imbalances and underpin the authorities' reform efforts.

We agree with the staff that addressing the longstanding challenges of containing the civil service wage bill and reducing energy subsidies remain paramount. We are encouraged by the authorities' recent steps towards an automatic price adjustment mechanism, as well as the further efforts mentioned in the helpful buff statement by Mr. Mojarrad.

Continued and steadfast implementation will be of the essence to reap the benefits from these reforms. In this context, let me also emphasize the authorities' continued commitment within the G20 Compact with Africa initiative which will support the growth prospects looking forward, as well as the implementation steps taken in the context of the reform partnership between Tunisia and Germany.

We acknowledge the established National Solidarity Fund for grants from the Tunisian population as noted in the authorities' LOI, which was able to collect a significant amount in a short time.

Mr. Tan made the following statement:

Among the great number of staff reports that I have read recently, I personally found this iteration to be concise and yet helpful. Notably, you did well not just in setting out the merits and the choice for the RFI request beside Tunisia's response to cushion the pandemic impact, but also in giving due regards to the authorities' initiative to limit fiscal pressures, ensure debt sustainability, and garner further donor support. These additional measures undertaken by the authorities are signs of the level of country ownership and Fund engagement. It is pertinent for assessment and support of the RFI request and the catalytic role it serves to play. And some credit is due to the country team, so thank you once again.

Not much has been said about the cross sharing of policy response and country experience in mitigating the impact of the pandemic. In this vein, we would like to encourage the sharing of such additional measures as noted in this report. An example would be the initiative with the authorities to review the need for the fiscal emergency measures on a monthly basis to prevent them from becoming permanent, and their resourcefulness to seize the opportunity of low oil prices to address the structural challenges that weigh on the public finances. There are more examples in other reports, such as Gabon and Albania, recently on the authorities' proactive efforts, their ingenuity in finding alternatives in their contingency planning. These are good practices from the ground. They may prove helpful to other countries where similar circumstances apply. Hence, we would like to commend and ask country teams to continue to share these practices more widely with the membership as they grapple with many urgent priorities and binding constraints they face.

Mr. Saraiva made the following statement:

Tunisia was strongly affected by the impact of the COVID-19 crisis, but the government took proactive measures to contain the outbreak, and the problem is the economic shock came on top of the preexisting macroeconomic imbalances that were being addressed but still need to be coped with. So the policy response, as highlighted by other Directors, has been extensive and multi-pronged, covering both health issues, while providing food and income support, tax relief, and credit lines, the gradual elimination of fuel subsidies, and containment of the public wage bill.

I would like to commend staff and the authorities for changing gears in a timely manner and move from the last review of the existing EFF to the request of an RFI. I think this was the right approach under those circumstances of emergency, to address the tremendous balance of payments

needs, and to support emergency budget expenditures. However, a successor EFF arrangement will be critical moving forward, so we are happy that both the authorities and staff are already working around this successful EFF arrangement, which is something critical to address the macroeconomic and structural imbalances in the economy. With that I would like to wish the Tunisian authorities all the success in their endeavors in fighting this crisis.

Ms. Mannathoko made the following statement:

We support the authorities' request for this purchase. We have noted the demonstrated commitment to reforms and the ability to repay the Fund. The authorities have acted in a timely manner to contain the impact, which we thought was very important, and like Mr. Von Kleist, we noted efforts like the National Solidarity Fund and some of the things highlighted by Mr. Tan just now, and also the steps taken to create fiscal space, including the reduction of the civil service wage bill and increases in tobacco prices, and rescheduling of lower priority public investment.

I would like to share a few points on the financing gap. Like Mr. Raghani, Mr. Mozhin and others, we hope the approval of the RFI will help to catalyze additional concessional financing. We also just want to encourage the authorities to step up their own efforts to mobilize donor support. Noting staff's opening remarks, and also like Mr. Von Kleist and Mr. Farber, we want to now welcome the authorities' intent to establish a strong successor EFF program. We see the merit in this to help to support significant reforms required. We also want to commend the authorities for their strong commitment to the G20 Compact with Africa, which we hope will support the private sector investment to boost growth prospects going forward.

On debt sustainability, while debt remains sustainable, there are downside risks that should be monitored. Some materialization of risks could significantly alter the debt trajectory, so we want to encourage the authorities to frame a well-structured debt management strategy that takes into account current risks now, significant exchange rate depreciation implications, and other risks generated by the crisis.

On monetary and exchange rate policies, we note the monetary authorities will continue to monitor price developments closely and tighten the monetary policy stance if necessary, but we also want to encourage them to allow enough exchange rate flexibility to absorb a sizeable balance of payments shock from the crisis.

Lastly, on social stability, insurance funds, social protection, especially for unemployed youth and women, as the economy is going into a recession, it will be particularly critical to contain the risks from growing social dissatisfaction.

Mr. Alkhareif made the following statement:

We have issued our gray statement in which we supported the authorities' request for the RFI to help address the urgent balance of payments need in light of the COVID-19 outlook. We welcome the authorities' proactive policies to contain the spread of the disease and to help mitigate the human costs and economic impact. We also welcome the mission chief's remarks on the Fund's cooperation with the World Bank, both on the financial support and the capacity development. We encourage closer engagement with the authorities on the successor arrangement going forward.

Finally, I support the points raised by Ms. Mannathoko on the importance of ensuring enough and adequate social protection. This is a key component for the reform program.

Mr. Moreno made the following statement:

We support the authorities' request for an RFI. These resources will be essential to address the COVID-19 crisis. Tunisia has been particularly hard hit by the COVID-19 pandemic due to its strong interconnectedness with the European Union. They have over one million Tunisians living in Europe, and the economy is largely dependent on tourism and value chains from Europe. We think the authorities have acted swiftly with rapid containment measures, and the priority now should be to support the health system and to provide protection for the most vulnerable individuals, and we think that the RFI is very timely to help in these efforts.

Like many others, we welcome the authorities' intention to request a successor EFF with the Fund. The staff was talking about 300 percent of quota. I understand the previous one was for 350 percent, so we will have to see what the new EFF will look like. It will be important to continue with the reform agenda that the authorities have already been on track.

We also support the EFF in additional to the RFI financing. One question here is that I understand that this RFI will be 100 percent of quota in the first year, which is taking into account the reform of the RFI that we are approving. I would like some clarification on that.

Finally, we also support the staff's calls for external partners to mobilize additional financing resources for Tunisia. Here we would just like to point out that Tunisia had macrofinancial assistance from the European Union in the amount of about 500 million euros that ended last November, and the institutions have already indicated in public documents the predisposition to undertake a renewed macro-financial assistance (MFA) with Tunisia as well. We wish the authorities all the success in these challenging times.

Mr. Raghani made the following statement:

We fully support the request for financial assistance under the RFI, and we wish to make the following comments for emphasis.

First, we very much welcome the authorities' decisive response to the COVID-19 outbreak, for the strong measures they have taken to address this crisis and help elevate its impact on the people and the economy.

Second, the Fund's financial assistance under the RFI is timely and will help ease the mounting pressures on domestic resources. As noted in the report and in the buff statement, the country's needs remain large, and like Mr. Moreno and others, we would like to call on Tunisia's international partners to contribute alongside the IMF and provide much-needed financial assistance in support of the authorities' ability to address the impact of COVID-19.

With these remarks, we wish the Tunisian people and authorities success in their efforts to fight the impact of COVID-19.

Mr. Rashkovan made the following statement:

We strongly support the RFI and the authorities' intention to work on a successor program with the Fund. The economic crisis has hit Tunisia in a particularly bad time, with the tourism industry being hit harder as it just started to recover. We know tourism is an industry which takes time to recover.

We are concerned about the risk of sharp worsening of Tunisia's debt sustainability in case of sudden depreciation of the real exchange rate. In this context of debt concerns, policies of the Central Bank of Tunisia (CBT) will be closely scrutinized, and the CBT's commitment to tighten monetary policy

in case of buildup of depreciation expectation is therefore important, as well as the commitment by the CBT to work on the latest safeguard recommendations, which will further enhance its effectiveness and standing.

I have a personal sympathy to the Tunisian people and authorities, especially the central bank. I welcome the CBT's commitment to preserve existing loan classification and provisioning rules, refraining from providing loan guarantees and subsidies, while closely monitoring potential vulnerabilities in the banking sector.

I should also say that the performance under the previous EFF has not been great, in particular on the structural reform side. Probably this is not the best time to speak about that, but the reforms should be continued, especially in the state-owned enterprise sector. I do hope that SOEs, which are literally bankrupt, will not be much supported during the crisis currently, at least without the reform of governance.

Finally, because of their permanent efforts to spend so much in the wage bill and energy subsidies, the Tunisian authorities may need to drastically cut public investments which are already at low levels. This may become a problem later especially at a time when they will have to create jobs after the crisis.

Mr. Fanizza made the following statement:

Let me reiterate our strong support for this RFI, but I have one concern. There are going to be substantial financial requirements, both on the fiscal side and on the external side. It is not clear to me how the financing gap is going to be filled yet. For me it is very important that actually we move quickly with the likely EFF arrangement. It is much-needed. I fully understand that Tunisia has deep-seated challenges. I think they need to be addressed urgently. Maybe this could be the opportunity to do it, given the particular situation and pressures. Again, I would say we should be very careful to advise that other IFIs substitute other engagement with the country and additional resources. It would be very unfortunate if the RFI becomes an emergency instrument that actually delays further engagement with the Fund. I would say the staff and the authorities should work immediately toward a successor arrangement, which the country needs not only to fill the financing gap that is likely to increase substantially, but also to deal with the structural problems it faces. I will not dwell on that, but other Directors have given some indication of this. I wish the authorities the best under these difficult circumstances.

Mr. Sigurgeirsson made the following statement:

We strongly support the authorities' request for access to the RFI to mitigate the impact of the pandemic on the fiscal deficit and to support the reserve buffers against shocks. However, we do have concerns about debt sustainability, and I very much agree with Ms. Mannathoko on the importance of treasury cash and debt management going forward. Like Mr. Rashkovan, I encourage the authorities to swiftly attend to outstanding issues regarding the safeguard assessment. It is something that needs to be done. We also see it as important that the authorities do not lose sight of fiscal risks, and we encourage the authorities to use the current low level of oil prices to do away with fuel subsidies as much as possible and also to act further to cut the relatively high public wage bill.

Finally, I was pleased to hear from staff at the beginning of the meeting about the potential outlines of a successor arrangement to support the authorities in continuing the adjustment to support growth recovery that the authorities had earlier embarked on and to leverage the catalytic role of the Fund to bring others to the table.

The staff representative from the Middle East and Central Asia Department (Mr. Rother), in response to further questions and comments from Executive Directors, made the following additional statement:

On Mr. Moreno's point, the RFI access will be disbursed immediately, now 100 percent of quota, which would bring the overall credit outstanding to Tunisia to something above 300 percent of quota. That is what we mean. In that context, it is clear that the successor EFF would need to be not too important in terms of size, otherwise we would limit the access limits under the normal access. Therefore, it needs to mostly rely on its catalytic effect and on its effect to guide the policy efforts for longer-term stronger recovery.

On Mr. Fanizza's point about the engagement, we will immediately continue a strong policy dialogue with the authorities without a break. The next step will actually be one lessons-learned exercise where we try to draw some insights from the time when Tunisia underwent since its revolution in 2011 in order to inform the policy design work for an upcoming arrangement.

Mr. Mojarrad made the following concluding statement:

On behalf of the Tunisian authorities, I would like to thank Executive Directors and management for their prompt response to Tunisia's request for an RFI arrangement. I also thank Mr. Rother and his team for the intensive efforts and useful policy advice to my authorities.

Balancing the imperatives of health and the concern to preserve the economic fabric, Tunisia has put humans first and has deployed an extremely demanding response aimed at protecting the population and strengthening the health system, safeguarding the most vulnerable people affected by the pandemic and the stoppage in economic activity, while ensuring the survival of businesses during the shutdown.

I commend the staff for the analytical work, which has shown very clearly the dilemma facing the authorities. The shutdown will lead to an unprecedented decline in growth, lower revenue, and higher expenditures. As in many other countries, there is not enough fiscal space to meet these expenditures. The increase in the fiscal and balance of payments deficit, as well as the reduction in public investment and increased financing needs, will only be partly covered by RFI, as indicated by many speakers. Therefore, our authorities thank Executive Directors for their call for additional financing to Tunisia and also for their advice about far-reaching reforms to restore fiscal balance and ensure debt sustainability. My authorities reiterate their strong commitment to engage as soon as the crisis is over in discussions with the staff on a new program to support their strategy of strengthening macroeconomic and financial stability and restoring growth.

Let me conclude, Mr. Chairman, on a personal note. I understand Mr. Rother is leaving his position as mission chief on Tunisia. As is the tradition in such case, my authorities and myself wish him all the success in his new position, but I think that he deserves more than that. Under the recent four years he has helped, Tunisia has witnessed a succession of governments and only one mission chief. The stability, together with the institutional memory he has accumulated on Tunisia, and the sense of flexibility and of political economy, was extremely helpful in advising and supporting the authorities to maintain the difficult path of reform in an uncertain and sometimes difficult political transition. For that he deserves my thanks and gratitude.

The following summing up was issued:

Executive Directors commended the authorities for their proactive response to the Covid-19 pandemic. They noted that the impact of the pandemic will be substantial, leading to significant economic contraction, and aggravating already elevated macroeconomic imbalances. If not addressed, urgent fiscal and balance of payments gaps could prolong the severe economic disruption.

Directors noted that Tunisia's debt is sustainable with continued strong policy implementation, and its capacity to repay the Fund remains adequate, notwithstanding significant downside risks.

Directors welcomed the authorities' immediate crisis-response measures focused on the health sector, the social safety net, and firms in distress due to the crisis. They commended efforts to increase budget space through an automatic fuel price adjustment mechanism, savings in the civil service wage bill, and a temporary and targeted rescheduling of lower-priority public investment.

Directors were encouraged by the authorities' commitment to ensure macroeconomic stability and debt sustainability. They underscored the importance of continued fiscal consolidation and implementation of key reforms over the medium term once the crisis abates. In this regard, Directors welcomed the authorities' plans to reduce energy subsidies and contain the civil service wage bill. The Central Bank of Tunisia's commitment to tighten monetary policy in case of exchange rate or inflation pressures and to refrain from large scale foreign exchange interventions was also welcomed.

Directors called on Tunisia's external partners to quickly mobilize additional financing to help address large fiscal and balance of payments needs and mitigate sizeable downside risks.

The Executive Board took the following decision:

Tunisia—Request for Purchase Under the Rapid Financing Instrument

1. Tunisia has requested a purchase in an amount equivalent to SDR 545.2 million (100 percent of quota) under the Rapid Financing Instrument.
2. The Fund notes the intentions of Tunisia as set forth in the letter from the Minister of Finance and Governor of the Central Bank of Tunisia, dated

April 2, 2020, and approves the purchase in accordance with the request.
(EBS/20/34, 04/06/20).

Decision No. 16699-(20/40), adopted
April 20, 2019

APPROVAL: July 28, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and risks

1. ***Could staff elaborate on how it is possible that the “current account deficit will likely shrink [...] as [...] substantially reduced remittances from Europe and the Gulf countries overcompensate a dramatic loss of revenue from exports and tourism” (para.6)?***
 - Import contraction (collapse of capital goods imports and consumer durables, lower energy import bill due to lower international oil prices) will overcompensate both substantially reduced remittances from Europe and the Gulf countries and a dramatic loss of revenue from exports and tourism.
2. ***Could staff provide further details on the considerable residual in the debt-creating flows for 2020? (Annex table I.3.)?***
 - The residual in 2020 mainly reflects the impact of the exchange rate depreciation projected for 2020, as the downward trend in the dinar observed since early March continues. Per standard DSA conventions, exchange rate changes over the projection period (in contrast to those observed historically) are included in the residual (see footnote 8 of Annex Table I.3).

Fiscal Policy/Financing

3. ***On the potential USD 750 mil bond issuance, we assume that this is not yet factored in, and would thus – if it were to materialize – reduce the expected residual BoP gap described in para. 7. Could staff please confirm. In addition, could staff kindly provide further insights on the USD 759 mil „other flows” in Q2 2020 in Table 8? Projections assume the bond issuance of \$750 million in 2020 that, as staff highlighted, could be difficult to carry out in the current environment. Could staff elaborate on possible alternative financing and a scope to further reduce non-priority public investment? Uncertainty remains as to whether the authorities will be able to issue the USD 750 M Eurobond in 2020. We urge the authorities to prepare risk mitigation measures targeted on the fiscal front. Staff’s views on potential additional risk mitigating measures would be welcome.***
 - The fiscal program for 2020 assumes that the US\$750 million in sovereign bond financing would be secured. Failure to do so would increase the fiscal and BOP

financing needs reported in the Staff Report. The authorities are confident about their ability to raise this financing in the third quarter, once the Covid-19 crisis abates and market sentiment improves. They have contacted several G7 countries about the possibility of providing a third-party guarantee in support of the issuance. In terms of contingency planning, the authorities are also exploring the feasibility of a syndicated loan from international banks.

- Further cuts in public investment would be a last resort measure, but this would affect growth given the substantial reduction in capex of 3 percent of GDP that is already envisaged in the baseline scenario.
- The margin of maneuver in other areas of the budget is limited. The large civil service wage bill (an expected 16.5 percent of GDP in 2020) would be an obvious candidate for further trimming, but savings beyond what is already being implemented (a stop of hiring, non-statutory promotions, and overtime in areas not involved in the crisis response) would require the consent of the UGTT union and would thus be politically difficult at this time.

4. *In addition, could staff kindly provide further insights on the USD 759 mil „other flows” in Q2 2020 in Table 8?*

- Table 8 included by mistake the RFI disbursement under other net flows. This was corrected.

5. *Could staff provide further details on the considerable residual in the debt-creating flows for 2020? (Annex table I.3.)?*

- The residual in 2020 mainly reflects the impact of the exchange rate depreciation projected for 2020, assuming the downward trend in the dinar observed since early March would continue. Per standard DSA conventions, exchange rate changes over the projection period (in contrast to those observed historically) are included in the residual (see footnote 8 of Annex Table I.3). See also response to Q2.

6. *Staff points out at an unidentified budget loan for US\$198 million. From the report it is not clear the degree to which the authorities can rely on this funding source. Could staff provide additional details?*

- The unidentified budget loan represents the remaining fiscal need after accounting for all known financing, including the RFI purchase. This need would have to be filled by additional financing, ideally on concessional terms or in the form of grants. Alternatively, the authorities would have to proceed with additional adjustments to the budget, very likely in the form of further cuts in public investment that would however affect growth.