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February 12, 2021

Statement by Mr. Sigurgeirsson and Mr. Vaikla on Tunisia
(Preliminary)
Executive Board Meeting
February 17, 2021

We thank staff for the comprehensive report and Mr. Hosseini and Mr. Belhaj for their helpful Buff statement. We commend the authorities for their timely and effective response to the COVID-19 crisis. Meanwhile, the COVID19 pandemic has severely affected the economic situation. Given the serious debt sustainability concerns and fiscal risks, we echo staff´s call that urgent action is needed with emphasis on strong fiscal consolidation and medium-term reform effort. We therefore encourage the authorities to consider a successor arrangement as soon as possible to anchor reforms and gather additional international support. We broadly share staff's assessment and would like to offer the following points for emphasis.

Restoring fiscal and external sustainability is the immediate priority to save lives and stabilize the economy. We note with concern staff's assessment that public debt is unsustainable, while risks are further compounded by SOE contingent liabilities and guarantees, financing risks, and REER overvaluation. While being mindful of the high level of social tensions, we urge the authorities to restrict the wage bill and energy subsidies to meet the staff proposed target fiscal deficit of 6.7 percent of GDP in 2021. Given that the public wage bill is among the world's highest and continued to increase in 2020, the authorities should rationalize allowances and commit to an audit to identify and remove ghost workers. These measures should aim to create much needed fiscal space to cover urgent expenditures related to the health and protection of the vulnerable population. Given the large external financing needs and heightened uncertainty, we encourage the authorities to prepare contingency measures if available financing falls short. *We note that in the request for the RFI in April 2020, the authorities committed to do an audit of the civil service to detect ghost workers and to implement measures to achieve additional savings on the public* *sector wage bill. We would appreciate if staff could comment on the progress on these commitments.*

The authorities should refrain from monetary financing of the budget to avoid inflationary pressures. We note that the Parliament voted to allow the CBT, on an exceptional basis, to lend in the amount of 2.5 percent of GDP directly to the Treasury, despite strong reservations from the CBT. Direct monetary financing of the budget should be avoided to contain inflation and avoid adverse effects on the exchange rate and reserves. We encourage the CBT to focus on price stability by managing short-term interest rates, while preserving exchange rate flexibility. We also encourage the authorities to closely monitor financial sector soundness in view of potential forbearance and enforce prudential rules, if needed.

The medium-term outlook hinges on the implementation of a credible structural reform program. The reform plan should focus on strengthening Tunisia's competitiveness and attractiveness for private-sector initiatives, which is essential for fostering the long-term growth potential and address the persistently high unemployment rate, particularly among youth and women. Meanwhile, there is an urgent need to reform SOEs, which make-up a large part of the economy, limit private sector growth, and carry large fiscal risks. In this regard, we encourage the authorities to implement comprehensive SOE reform based on staff´s recommendations in Annex IV. Such reform should strengthen governance and enhance transparency. We strongly support staff, regarding the proposed first steps to ensure that anti-corruption agencies have sufficient resources and encourage the approval of the decree that allows public access to asset declarations for the highest categories of civil servants.

We underscore the importance of effective and transparent implementation of Covid-related spending. In this regard, we call on timely publication of all government procurement contracts along with contract beneficiaries. We share staff´s recommendation to conduct a comprehensive ex post audit of crisis-mitigation spending by an independent third-party audit. *Could staff provide their preliminary assessment of the effectiveness, transparency, and accountability on Covid-related spending and the use of RFI financing received in April?*