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Statement by Mr. Mohieldin, Mr. Geadah, and Ms. Abdelati on Tunisia (Preliminary)
Executive Board Meeting
February 17, 2021

We thank staff for the comprehensive report that highlights key developments and policy challenges. The new government formed in September faces the daunting task of managing increasingly difficult health, economic, and social conditions. As highlighted in the insightful Buff statement, Tunisia has been deeply engaged in a democratic transition that involved conducting several elections in a context marked by political polarization and a fight against terrorism—both of which have had high economic costs. The economy has not been able to recover fully from the 2015 terrorist attack and remains a target of extremist groups. So, the transition has not yet been associated with improved living standards for the population, which further aggravated social unrest and hampered the implementation of economic reforms. These challenges have been further compounded by the economic and social impact of the pandemic, and the related global recession, which have hit hard the tourism and export dependent economy and increased already high unemployment.

In this context, we would caution against calling for ambitious corrective economic policies that cannot be achieved in the current political and social context. The Tunisian people and businesses have endured increasing strains and now growth-friendly policies to secure an economic recovery must be prioritized. This is in line with the Fund's position that the pace of fiscal consolidation should be placed on hold as policymakers focus on the urgent need to save lives and livelihoods.

The first priority is rightly focused on securing vaccine availability as swiftly as possible. We welcome the arrangements in place with the COVAX initiative, the African Union initiative, and a private laboratory for vaccine delivery, as well as the possible agreement to manufacture a UK vaccine in Tunisia for export to African countries. The staff report indicates that *the plan is to start vaccinations in earnest in April-May of this year. When does staff estimate that 60 percent of the population will be vaccinated*?

We support the authorities' objective of preserving fiscal sustainability by generating a primary surplus as soon as feasible without jeopardizing health, or social and economic stability. The fiscal position for 2020 and 2021 is markedly weaker than had been anticipated by staff in April 2020 at the time of the RFI request, partly due to the policy response and the much sharper GDP contraction, which declined by an estimated 8.2 percent compared to an expected 4.2 percent in 2020. In this regard, we take note of the explanation in the Buff statement that the impact of the August 2020 wage increase and the planned regularization of employees in 2021 would only account for 0.3 and 0.2 percent of GDP in 2020 and 2021 respectively; and that the increase in the wage bill, as a share of GDP, mainly reflects the shrinking of GDP, which would self-correct once GDP recovers to pre-pandemic levels.

We share the staff and authorities' view that the medium-term outlook critically depends on meaningful deep reforms, including a credible path of fiscal policy, to meet the aspirations of the Tunisian people and to address perceived economic challenges. We concur with the urgency of preserving fiscal sustainability by reaching a primary surplus as soon as feasible to stabilize debt. We note the difference of view on the 2021 growth outlook and staff concerns that additional measures are needed to achieve the authorities' 2021 budget deficit target of -6.6 percent of GDP. In the current exceedingly uncertain environment, it is difficult to make precise projections. In any case, we see merit in focusing on growth friendly reforms to safeguard the recovery in 2021-22, as needed, and formulating a credible medium-term fiscal plan with specific reform measures for the civil service, energy subsidies, and addressing SOE liabilities. The specific reforms and pace of implementation must be agreeable to political and economic partners, and carefully implemented considering the fragile socio-political environment.

We support the Central Bank of Tunisia's (CBT) measures to support economic activity and its close monitoring of banks' financial stability risks in light of the debt moratoria and pandemic related risks. Continued efforts to improve the monetary policy framework are welcome to lay the ground for a successful eventual transition to an inflation targeting framework. Limited interventions in the exchange market are consistent with practices of other central banks during the pandemic to limit sharp fluctuations. The banking sector's resilience, as reflected by stress tests, is a testimony to the earlier strengthening of the legal, regulatory, and prudential frameworks and the recent restructuring of public banks. The CBT's suspension of dividend payments and call on banks to strengthen provisioning related to the debt moratoria are appropriate.

We note the continued work of the authorities on the structural reform agenda, including with other partners, to further advance reforms initiated under IMF-supported programs. We welcome the plan to launch a national consultation on reforms to the civil service law, supported by the EU, and submit a draft law to Parliament before the end of 2021. We also welcome the plan to move from general subsidies to targeted transfers, building on the work done in conjunction with the World Bank, and the successful experience with using digital cash transfers during the lockdown. The plan to place all SOEs under a state agency is an important step to enhance oversight and accountability and will also help in resolving the problem of cross-arrears and reduce their burden on public finances. We are encouraged by the plan to review competition legislative and regulatory framework and to identify procompetitive reforms to improve the business climate, with the support of the EU and the OECD. We support leveraging digitalization to improve governance and efficiency of government operations.

In closing, we support the government's wide-ranging measures to alleviate economic pressures and to protect lives and livelihood. We are aware of the significant political economy challenges that will need to be overcome in order to obtain the required support of the international financial community and to ensure the long-term sustainability of reforms. We fully appreciate the authorities' objective of ensuring the reforms and their timetable are realistic and to avoid causing additional social disruption. The Fund should support the reform efforts and help Tunisia to meet the large financing needs through well-calibrated policies, with appropriate prioritization and broad acceptance. At this time, it is critical to first ensure a growth recovery and help bring hope for a better future.