Tunisia: Living with a high public debt?

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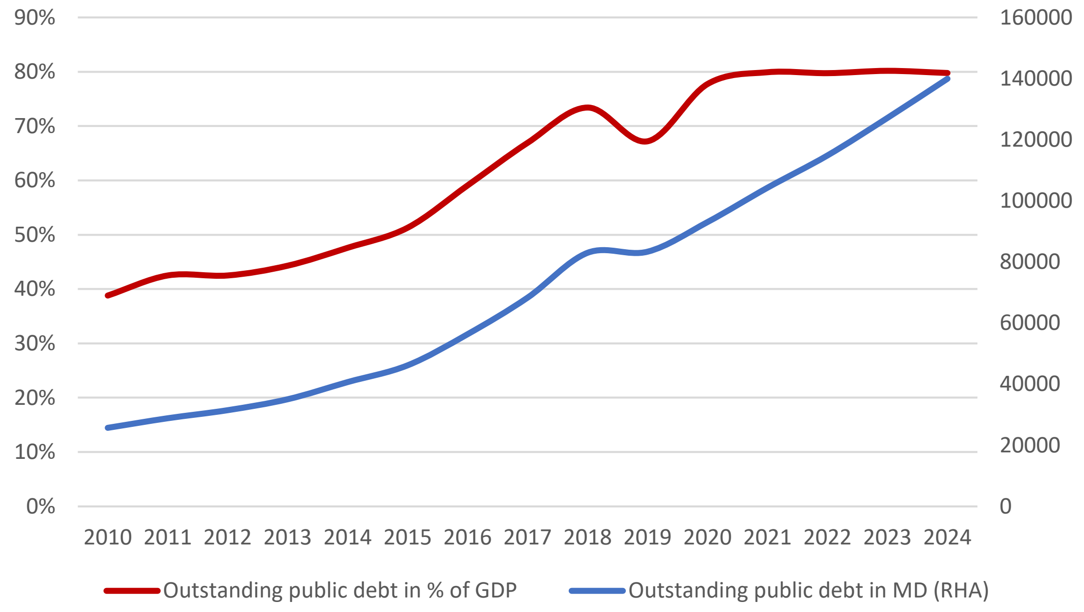
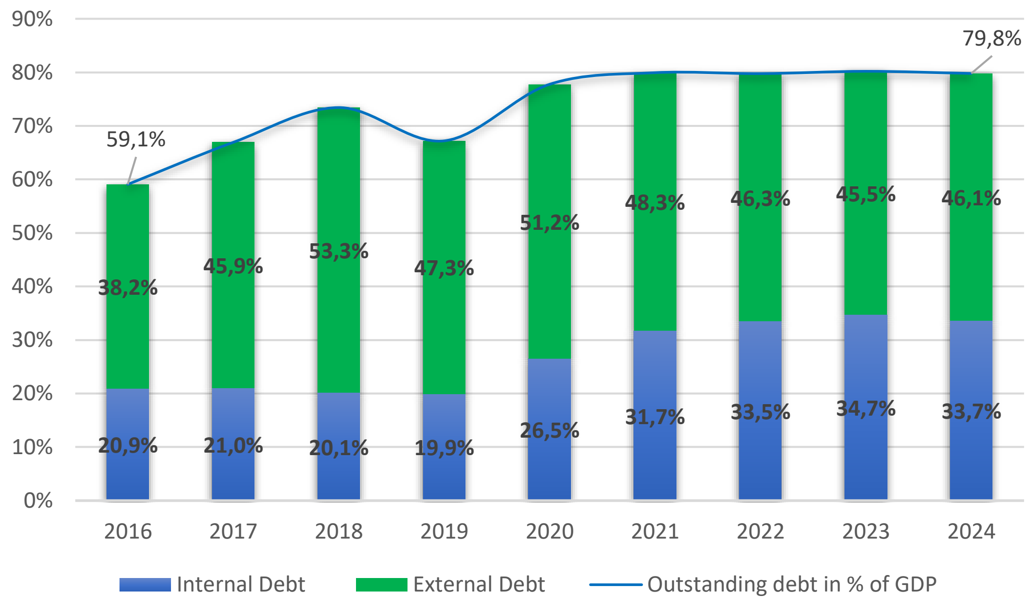
Public Debt

Graph 1: Outstanding debt evolution



Graph 2: Outstanding debt in % of GDP

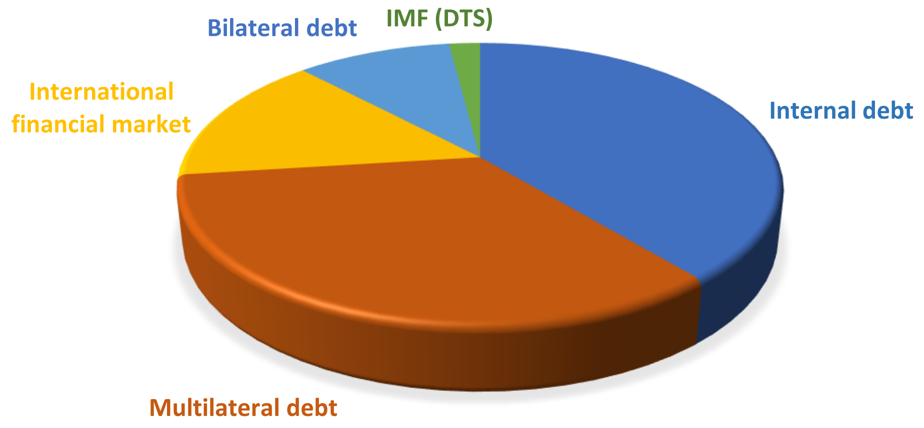


- From 2017 to 2024, the amount of the outstanding debt doubled
- From 2010 to 2024, the outstanding debt to GDP doubled from 40% to 80%
- From 2021 to 2024 the outstanding debt to GDP ratio is stable.
- The budget deficits that have been accumulated since 2011 have resulted in a sharp increase in public debt. So that, international markets now consider it as unsustainable.

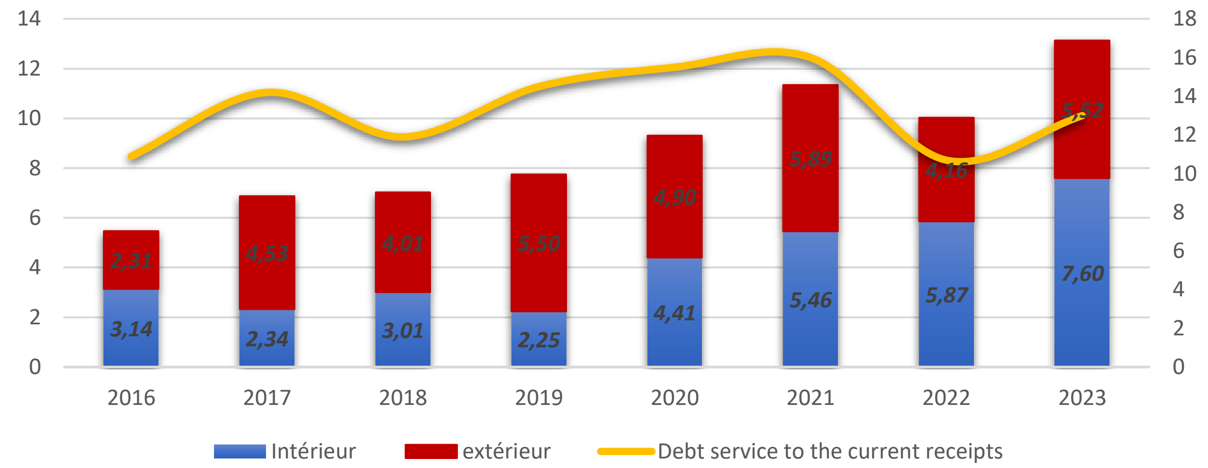
- Public debt increased significantly in 2020 because of the Covid-19 crisis.
- The structure of the public debt is changing in favor of the internal debt. Crowding out effect ?
- Tunisia chose not to subscribe to a program with the IMF even after benefiting from a staff level agreement in October 2022.

Public Debt

GRAPH 3: DEBT STRUCTURE IN 2021



Graph 4 : Debt Service in % GDP



- In 2021, domestic debt represents 39 percent of the total. The rest is made up of multilateral (34 percent), International financial market (15 percent) and bilateral (10 percent) debt.
- The debt is diversified, also regarding the composition in terms of currencies (40% euros, 40% USD, 10% JPY and 10% other currencies.

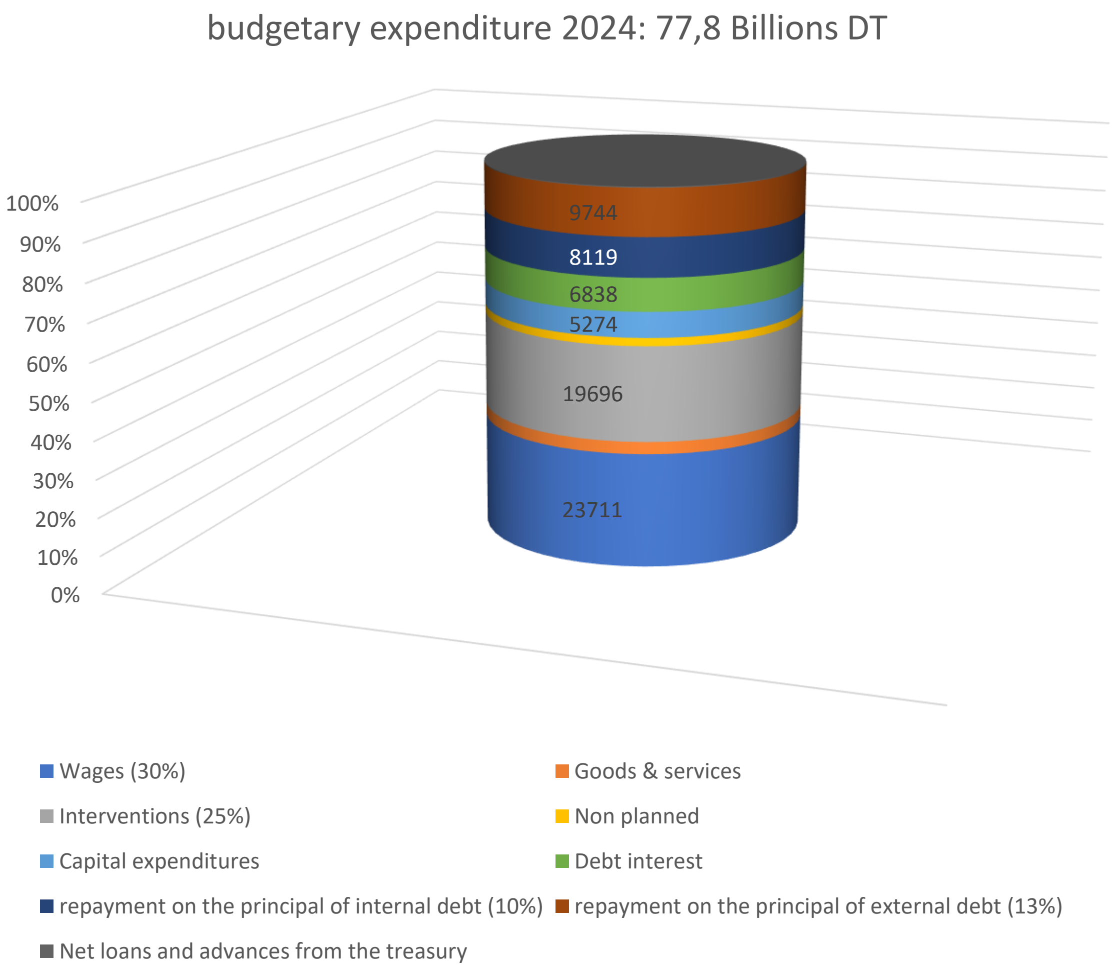
- Debt service has reached a high level (more than 12%) Interest rates for accessing international financial markets have exceeded 15 percent.
- These rates are high regarding the growth prospects of the Tunisian economy and the sustainability of the country's debt.
- Tunisia lost the possibility of using international markets to finance the economy

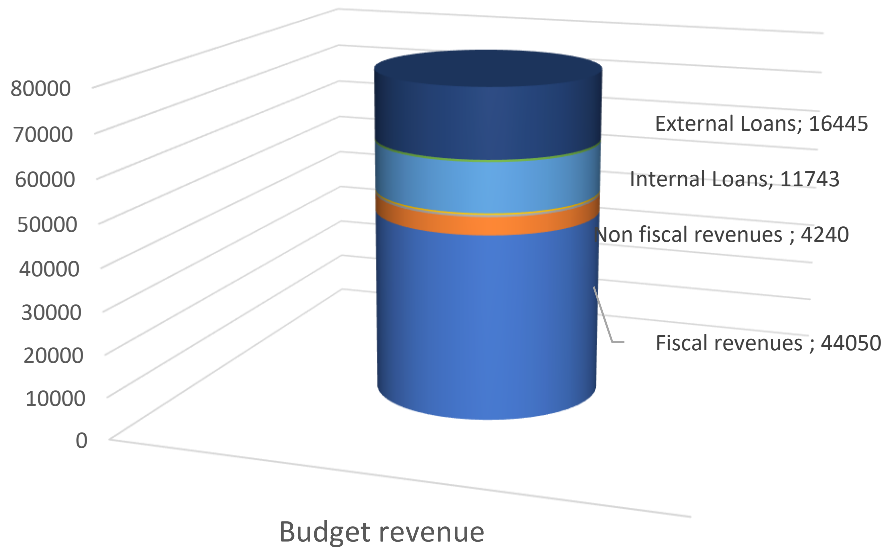
Is the Public Debt sustainable?

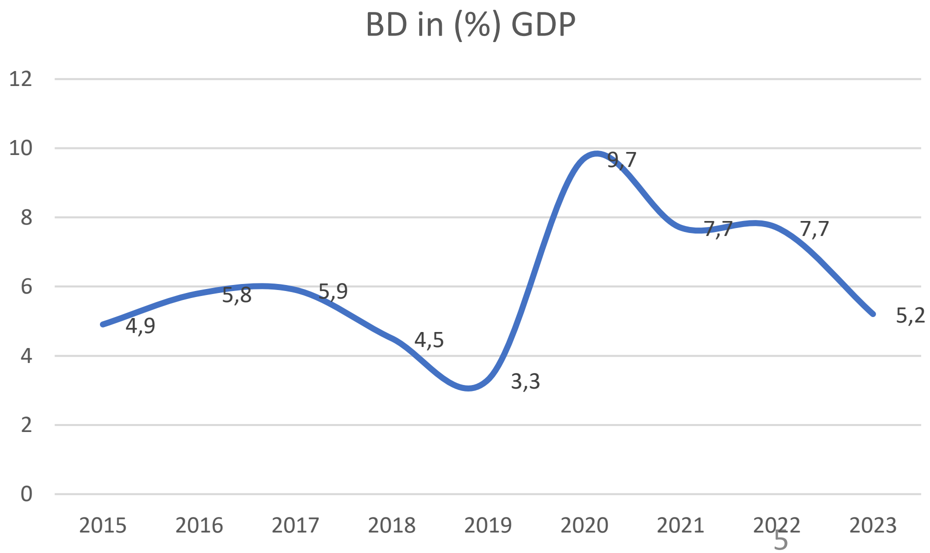
- **IMF STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION : (**February 2, 2021) « The combination of the sharp contraction of real GDP in 2020 (estimated at 8.8 percent) and the deterioration of the primary fiscal deficit (— from lower revenues, Covid-19 response measures, but also from scaled-up hiring and salary increases and energy subsidies—resulted in a sharp increase in Tunisia's public debt ratio, ... The debt-to-GDP ratio now significantly exceeds the emerging market debt burden benchmark of 70 percent of GDP and, once government guarantees and other debt of SOEs are fully accounted for, the public debt stock would exceed 100 percent of GDP".

- *IMF recommendation*: A strong fiscal consolidation and medium-term structural reform program are urgently needed to restore public debt sustainability. **IF NOT** :
- Staff's baseline scenario, reflected in this DSA, considers that, in the absence of fiscal discipline and a credible medium-term framework, the central government debt would continue to gradually increase, and could reach nearly 100 percent of GDP over the medium term. Gross public financing needs would also stay elevated, in the range of 14–18 percent of GDP annually.
- Under this baseline scenario, substantial domestic financing (including indirectly from the central bank) would fuel inflation and reserves losses, and, ultimately, result in a big pressure on the exchange rate.
- A strong and credible reform scenario, with resolute and sustained reform efforts to reduce the fiscal deficit starting already 2021, and underpinned by a medium-term fiscal policy framework and broad political support, projects that fiscal balances and the public debt ratio could be put back on a sustainable trajectory, reducing public debt to below 85 percent of GDP over the medium term

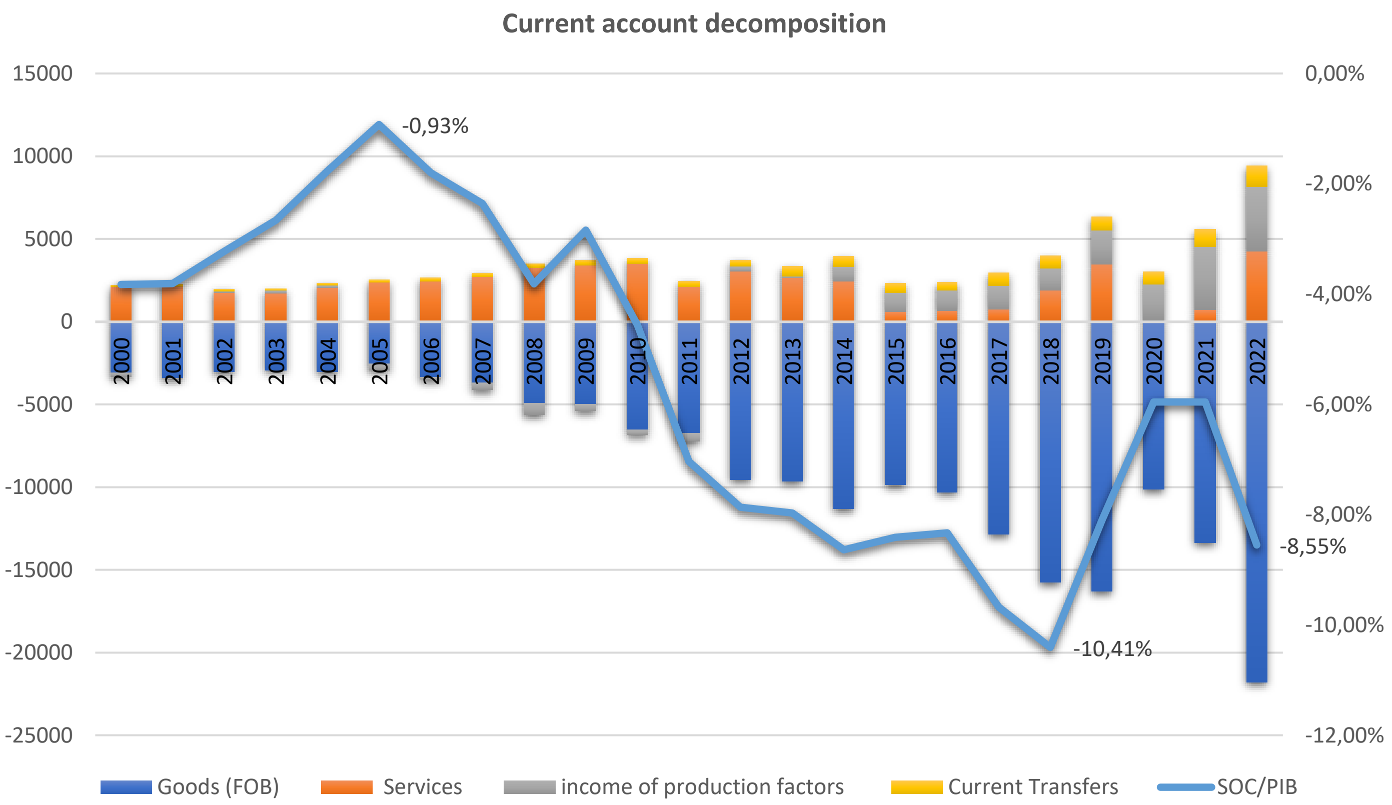
Structure of the 2024 Budget (revenue and expenditure)

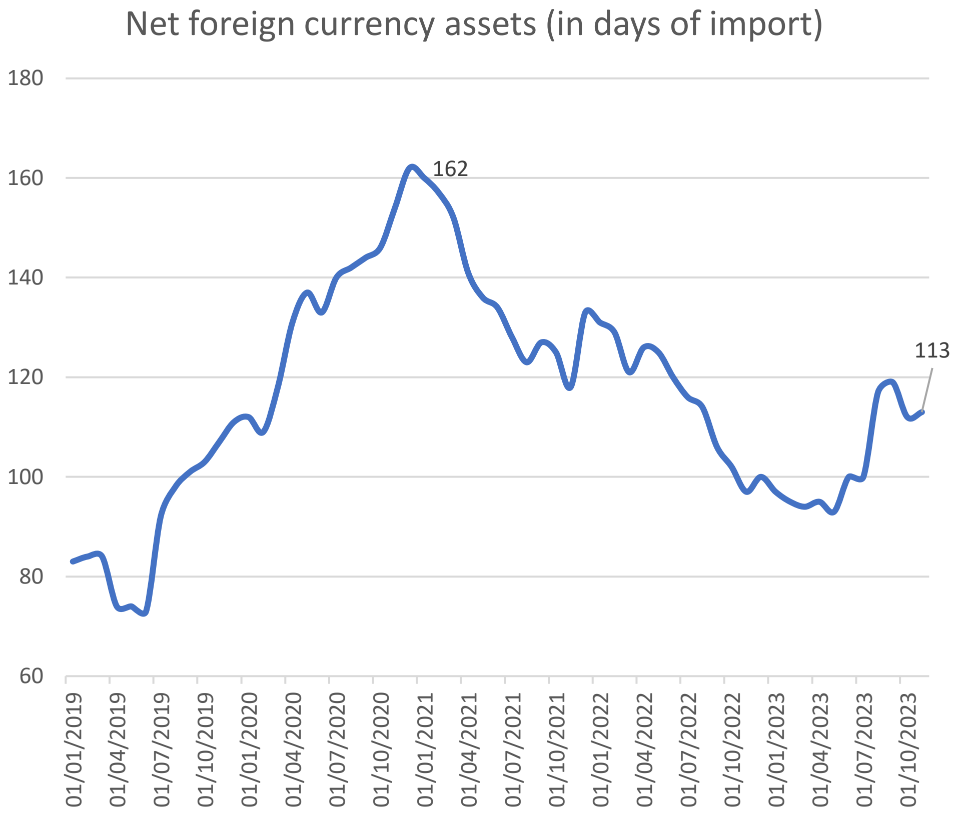


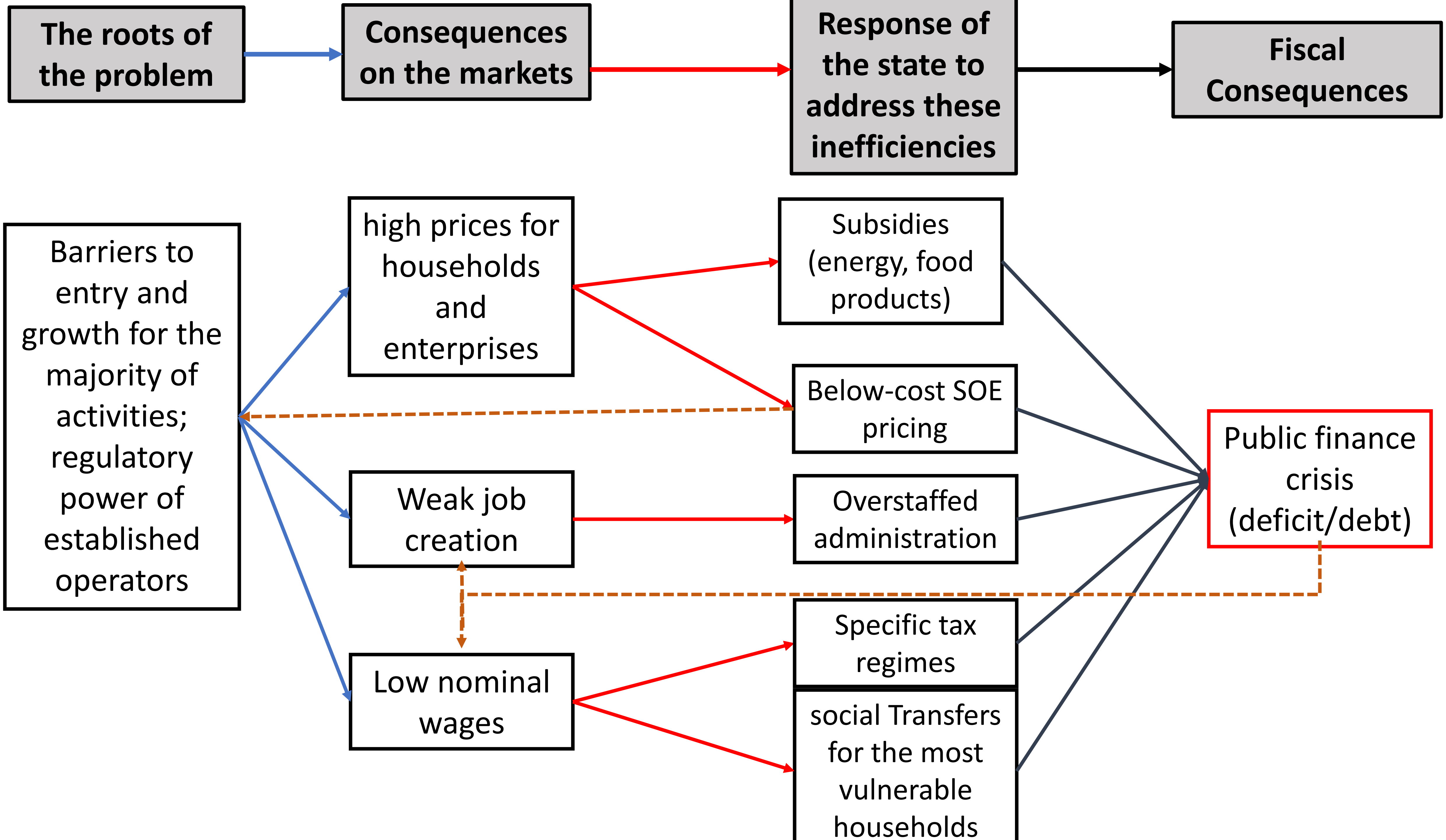




External sector







The roots of the problem
Consequences on the markets
Response of the state to address these inefficiencies
Fiscal Consequences
Barriers to entry and growth for the majority of activities; regulatory power of established operators
high prices for households and enterprises
Weak job creation
Low nominal wages
Subsidies (energy, food products)
Below-cost SOE pricing
Overstaffed administration
Specific tax regimes
social Transfers for the most vulnerable households
Public finance crisis (deficit/debt)

Tunisia: Limiting rent seeking for shared prosperity