



## Tunisia After the Spring: University of Tunis El-Manar-Brookings Joint Workshop

### Event Summary

Thursday, September 20

Tunisians are concerned about political and economic management during the post-revolution transition. They agree that the transition process is going to be long and filled with uncertainty and that even regression is a possibility. In addition, the economic situation has deteriorated since January 2011 and may deteriorate even further. Despite these challenges, they remain optimistic that over time they will build a well-functioning and prosperous democracy. These are the main messages that came out of a one-day workshop organized jointly by the University of Tunis El-Manar and the Brookings Institution on September 20 in Tunis, which brought together a large number of academics, students, civil society activists and donor organization representatives. Civil unrest and attacks on the United States embassy and the American School in Tunis in response to an anti-Islam movie, which occurred less than a week before the workshop, underlined some of the risks facing the transition in Tunisia and heightened the sense of uncertainty. Arguments about the government's handling of the situation demonstrated the deep cleavage between secularists and Islamists in Tunisia.

The year 2011 was difficult for the Tunisian economy. Uncertainty associated with the revolution as well as the recession in Europe, Tunisia's main trading and investment partner, led to a sharp drop in economic activity. Real GDP, which was growing at a healthy 5 percent before 2010, fell by nearly 2 percent in 2011, while unemployment jumped from 13 to 19 percent with unemployment rates for educated youth higher than 30 percent. Exports, tourism revenues and foreign direct investment fell sharply, leading to a widening of the current account deficit from 1 to 3.5 percent of GDP (the deficit is estimated at 7 percent of GDP in 2012). Thus, foreign reserves fell from the equivalent of six to nearly three months of imports. Widening fiscal and external deficits are coupled with a weak banking sector portfolio, which may justify some concerns about Tunisia's macroeconomic stability.

Tunisians are debating whether the Islamist-led interim government has responded adequately to Tunisia's economic challenges and to political and social aspirations in terms of more justice, freedom and dignity, especially for the excluded youth and the hinterland regions. On the positive side, the government has adopted a fiscal policy that supported a resumption of growth, which is estimated at nearly 2 percent in 2012. It is true that this has led to an increase in the fiscal deficit to 7 percent of GDP, but the government started with a relatively low debt, and even with this expansion Tunisia's public debt to GDP ratio remains at about 45 percent, a very comfortable number by international standards. Moreover, the government is preparing a new investment law to encourage a resumption of private investment and employment creation. In addition, the government is planning to launch a

national debate on the costs of subsidies that represent about 5 percent of GDP with the goal of reaching a consensus on the reduction of energy subsidies (about 40 percent of total subsidies).

On the other hand, opponents argue that current government policies are driven by electoral considerations (elections are due later this year), rather than by sound economic analysis and the willingness to meet urgent challenges (primarily youth unemployment and regional disparities). Tunisia has traditionally adopted conservative macroeconomic policies, and there is a concern that the big rise in deficit spending would take the country along an unsustainable trajectory. Some of the populist decisions taken by the government, particularly those that led to the increase in the wage bill by some 13 percent in 2011, are irreversible in nature and would limit future governments' margin of maneuver. There is also a concern that the civil service is being politicized, with Islamists (who may not always have the right qualifications and experience) being appointed to most leadership positions in all sectors. This, some argue, has led to a weakening of the administration, and they point to the failure to protect the U.S. embassy and the American school as a sign of weakness and indecision. The government is also criticized for lacking the necessary courage to put in place much needed reforms, particularly those affecting the subsidy regime. The Minister of Finance has recently resigned to protest government inaction. This inaction, together with the sacking of the highly respected governor of the Central Bank, has negatively affected the government's credibility in the economic sphere.

Compared to other countries in transition, the Tunisian economy does not seem to be doing too badly. It is really a case of the glass being half full or half empty: Sharp debates over the interim government's economic performance are probably a reflection of much deeper disagreements over the future of Tunisia.

On the economic front there is a general consensus that Tunisia's medium-term challenges are to enhance economic growth and to make it more inclusive by focusing on creating opportunities for youth and developing of disadvantaged regions. The usual left-right cleavage surfaced during the workshop discussions of how to achieve this inclusive growth. However, the real cleavage in Tunisian society concerns issues of personal liberties and the role of religion in society. Some participants at the workshop argued that a consensus on a broad vision for the future is needed to ensure a successful transition to democracy. However, there is no mechanism currently in place to help build such a consensus.

It is unlikely that the deep Islamist-secularist divide will be bridged rapidly. Nevertheless, reaching a compromise as soon as possible is a key challenge for Tunisia today. One point that everybody agrees upon is that transition will take time and will be fraught with dangers. In the meantime it is important that the economy continues to improve, or at least does not collapse, in order to facilitate the transition. This will require more cohesion and a leadership willing to conduct major reforms. It will also require financial support from the international community.

**Summary prepared by Mongi Boughzala and Hafez Ghanem**