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Tunisia's IMF journey: Unveiling the Successes, Failures, and Ongoing Challenges

AWC
تحالف أراب واتش
ARAB WATCH COALITION

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Introduction

Tax policy is one of the fundamental tools of economic policy that states use to achieve an effective balance between public resources and expenditures while ensuring a fair distribution of tax burdens across different segments of society. The International Monetary Fund (IMF) intervenes in this context by providing advice and recommendations within the framework of economic reform programs that it conditions on countries seeking necessary financial support.

In Tunisia, the IMF has played a pivotal role in shaping economic policies, particularly tax policies, especially after the 2011 revolution, when Tunisia relied on IMF programs to support its public finances. These programs have led to fundamental changes in the tax system, along with impacts on other financial and structural policies. However, the effects of these policies have sparked widespread debate, with differing opinions on their effectiveness in achieving economic growth and financial stability.

From the perspective of the government and economic authorities, the tax policies and other reforms recommended by the IMF have contributed to achieving some short-term fiscal objectives, such as improving budget deficits and increasing public revenues, making them essential for ensuring financial stability during a difficult transitional period. In contrast, the private sector and investors argue that these policies have had a negative impact on the business and investment environment, increasing financial burdens on companies and individuals, thereby affecting economic activity and creating market instability. Meanwhile, civil society and researchers focus on the broader social and economic effects of these programs, arguing that their implementation has placed a greater burden on lower-income groups, deepening social and economic inequalities. They also contend that these policies have failed to deliver tangible improvements in living standards and social justice.

In this context, academics and experts provide critical analyses based on data and comparative experiences. Some argue that IMF programs can be effective in achieving financial stability but require adjustments to better align with local conditions and Tunisia's economic needs. Others contend that these programs have had limited or even negative effects on overall economic growth and social stability.

This study aims to provide a comprehensive analysis of the IMF's programs in Tunisia, highlighting their successes, failures, and ongoing challenges, with a particular focus on tax policies as part of these programs. Additionally, the study seeks to evaluate the economic and social impacts of these policies based on diverse perspectives and reliable data.

Rationale and Importance of the Study

The significance of this study lies in its focus on the economic and social impacts of the policies implemented by the International Monetary Fund (IMF) in Tunisia. These policies were introduced as part of broader efforts to enhance public revenues and stabilize public finances while responding to the demands that fueled the Tunisian revolution, such as social justice and economic development. Although these policies were designed to address financial challenges, a comprehensive evaluation of their real-world outcomes requires an in-depth analysis that considers their repercussions across different social groups and economic sectors.

In this context, understanding the impact of these policies is not merely a necessary step; it is crucial to assessing whether they have fulfilled the objectives of what became known as the "Jasmine Revolution." While these policies may have contributed to improving certain short-term financial indicators, sustainable development and social equity require a more comprehensive assessment of the gaps and failures that emerged during their implementation.

Furthermore, this study is essential in stimulating discussions about the need to rethink economic reforms and shift toward more balanced solutions that consider both social and economic dimensions. Moving beyond conventional solutions that may not align with the current aspirations of the Tunisian people is critical in charting a more equitable and sustainable economic path.

Study Objectives

This study aims to provide a comprehensive and in-depth analysis of the policies imposed by the International Monetary Fund (IMF) on Tunisia, with a particular focus on their economic and social dimensions. The key objectives are as follows:

1. **Evaluating Achievements**
    - Assessing the extent to which these policies have improved government revenues and reduced fiscal deficits.
    - Analyzing the success of these measures in stabilizing public finances and balancing expenditures and revenues.
    - Highlighting the aspects that contributed to short-term economic gains.
2. **Identifying Failures and Challenges**
    - Examining the negative effects of these policies on various economic sectors, with a focus on the private sector and investments.
    - Evaluating the impact of these policies on different social groups, particularly low-income populations, and their implications for achieving social justice.
    - Exploring the structural, administrative, and economic barriers that hindered the effective implementation of these policies, as well as the nature of public resistance to them.

3. **Exploring Alternative Policy Solutions**
    - Proposing practical tax policy reforms within the IMF framework that align with the specificities of Tunisia's economy and meet local needs.
    - Recommending more equitable and sustainable fiscal policies that promote long-term development.
    - Emphasizing the importance of transparency and accountability in implementing IMF-recommended tax reforms to ensure a fairer distribution of tax burdens and strengthen public trust in the government.
4. **Balancing Economic Growth and Social Justice**
    - Modifying fiscal policies to encourage investment and foster economic development while ensuring a fair tax burden distribution to support social sustainability.
5. **Stimulating Policy Debate**
    - Encouraging dialogue among policymakers, academics, and civil society on rethinking tax policies with the goal of reviewing and adopting more comprehensive economic strategies.

Part One: IMF Tax Policies in Tunisia

1. Historical Background

The relationship between Tunisia and the International Monetary Fund (IMF) dates back several decades and has been characterized by programs aimed at supporting the Tunisian economy and implementing structural reforms. This relationship can be summarized as follows:

Period	Event
1980s	Facing a severe economic crisis, Tunisia turned to the IMF through the Structural Adjustment Program (SAP) in 1986, aimed at rebalancing the economy by liberalizing trade and reducing fiscal deficits. This marked the beginning of the shift toward a market economy.
1990s	Tunisia signed several agreements with the IMF, including the Stand-By Arrangement (SBA) (1992–1993), which focused on macroeconomic stability, particularly reducing inflation.
2004	A new agreement was signed to support economic reforms in vital sectors, with a focus on reducing debt.
2005–2011	Despite the absence of major programs, Tunisia continued receiving technical support from the IMF to enhance public finance management.
Post-2011	Tunisia sought international support to rebuild its economy after the revolution, resulting in loans conditioned on reforms, including tax policy adjustments.
Recent Programs	From 2013 to 2015, the SBA program was implemented to restore economic stability. From 2016 to 2020, the Extended Fund Facility (EFF) was adopted for long-term economic stability, despite social challenges.
COVID-19 Pandemic	Tunisia utilized the Rapid Financing Instrument (RFI) to address urgent needs.
2022–2023	New discussions began to secure a support program focusing on reducing fiscal deficits and modernizing public administration.

Despite reform efforts, the relationship between Tunisia and the International Monetary Fund (IMF) has experienced tensions due to the stringent conditions imposed by the IMF and growing public opposition. In response to this opposition, the Tunisian president launched a policy of "self-reliance," aiming to reduce dependence on external financing and strengthen local resources. However, this policy requires time and sustained efforts, especially amid ongoing economic crises.

Criticism of the government’s strategy has intensified due to the gap between sovereign rhetoric and the actual realities of financial agreements. This disconnect has highlighted tensions between economic ambitions and the realities of international financing. Tunisia faces both internal and external challenges in balancing its financing needs while improving its relationships with international and regional partners.

Table 1: The conditions included in the various programs agreed upon between Tunisia and the International Monetary Fund during the period 1986–2023

Period	Conditions
1986	Structural reforms: Reducing budget deficits, privatization of public institutions, reforms in the public sector.
1992-1993	Economic reforms: Market liberalization, public institution reforms, strengthening financial stability, and achieving balance in public finances.
1994-1997	Structural adjustment program: Improving the business environment, financial sector reforms.
2000-2002	Economic reform program: Reforms in the water sector, reforms of the tax system.
2004	Economic reforms: Controlling deficits, supporting fiscal austerity policies.
2005-2011	Structural adjustment: Trade liberalization, improved governance, institutional reforms.
2013-2015	Structural and social reforms: Reducing tax evasion, increasing tax revenues, combating corruption.
2016-2019	Comprehensive reform program: Improving public finances, strengthening economic growth.
2016-2020	Public financial management reforms: Labor market reforms, public finance management, fiscal policy adjustments.
2020	Economic and social support program during the pandemic: Supporting vulnerable sectors, reforms in social safety nets, fiscal policy adjustments.
2022-2023	Ongoing structural reforms: Supporting public finance stability, structural (sectoral and social) reforms, modifying economic policies to address inflation and financial challenges.

Despite the relative success of some programs in achieving financial stability, Tunisia continues to face significant challenges related to unemployment, inflation, debt, and improving the investment climate. The ongoing debate revolves around balancing the necessary reforms with ensuring long-term social stability, particularly in the face of both internal and external pressures.

It can be argued that this long-standing relationship with the IMF highlights Tunisia's need for continuous reforms. However, these reforms do not come without social costs. The ability to strike a balance between these requirements and the internal and external challenges remains the decisive factor in shaping the future of Tunisia's cooperation with the International Monetary Fund.

2. Successes

Despite the criticisms, some successes achieved through previous policies cannot be denied. Within the framework of the reform program launched by the IMF in Tunisia, a series of tax reforms were implemented to improve the tax system and increase financial revenues. These reforms included expanding the tax base by attempting to incorporate the informal sector into the tax system and introducing new taxes, such as a tax on real estate profits, while the proposal to impose a wealth tax on large fortunes remains under discussion. Significant adjustments were also made to tax rates, including an increase in the value-added tax (VAT) on certain goods and services to boost revenues, alongside a reduction in corporate tax rates to encourage investment.

In addition, serious steps were taken to combat tax evasion by modernizing legislation, closing legal loopholes, enhancing oversight through modern technologies, and developing the capacities of the tax administration. The reforms also aimed to simplify tax procedures by digitizing many processes and unifying multiple tax systems to reduce administrative complexities.

Beyond the aforementioned reforms, other measures focused on various aspects of the economy and public finances, including:

- **Subsidy reform**: Gradual reduction of subsidies on basic goods, particularly fuel and energy, to decrease government spending on subsidies, accompanied by the implementation of targeted social protection programs for the most vulnerable groups.
- **Public Sector reform**: Steps were taken to reduce the public sector wage bill, which constitutes a significant portion of public expenditures, by limiting new hiring and freezing wage increases to control fiscal deficits.
- **Governance and financial transparency reforms**: Transparency in the state budget was enhanced by publishing financial reports, as part of efforts to build trust and improve Tunisia's ranking on transparency indicators.
- **Financial Sector reforms**: Changes were introduced to monetary and financial policies, including improved bank supervision and greater exchange rate flexibility, aimed at maintaining macroeconomic stability and attracting investments.
- **Pension System reform**: Adjustments were made to pension systems to ensure their financial sustainability, especially in light of pressures from an aging population and increased financial burdens on pension funds.

3. Failures

Despite the achievements, several failures emerged during the implementation of these policies. After years of applying the economic reforms recommended by the IMF, the positive outcomes remain limited, while many economic and social issues persist.

- **Increased Burden on the Poor and Middle Class**: The reforms primarily focused on reducing fiscal deficits and increasing tax revenues, but this came at the expense of lower- and middle-income groups. The rise in consumption taxes and the removal of subsidies on essential goods led to a decline in purchasing power and worsening poverty. In 2023, inflation rose to approximately 9.3%, increasing living costs and eroding household purchasing power.[1] Additionally, the removal of fuel and electricity subsidies resulted in energy price hikes of up to 30% in some cases, directly impacting poor and middle-class households.[2]
- **Persistent Tax Evasion**: Despite efforts to modernize the tax system and improve oversight, tax evasion remains a significant challenge. The absence of effective legislation and inefficiencies in tax administration have allowed tax evasion to persist, preventing a substantial increase in government revenues. One of the most notable failures is the lack of tax fairness among social groups. Data indicates that low-income earners were disproportionately affected by higher indirect taxes, while large corporations and wealthy individuals benefited from tax exemptions. Furthermore, tax policies have failed to reduce economic disparities or improve living standards, fueling social discontent.
- **Negative Impact on Economic Growth**: While the reforms were intended to stimulate economic growth, excessive reliance on austerity measures had the opposite effect. Reductions in government spending and investment in key sectors such as education and infrastructure slowed economic growth and increased unemployment, particularly among young graduates. Between 2011 and 2022, Tunisia's economic growth rate ranged between 1% and 2% annually,[3] a rate significantly lower than the country's economic needs. In contrast, the reforms aimed for a growth rate of 4% to 5%, which was never achieved. Unemployment remained high, reaching approximately 15.3% in 2023, with youth unemployment exceeding 30%.[4]
- **Increased Bureaucracy**: Despite efforts to simplify administrative procedures and digitize certain processes, some reforms led to greater administrative complexity and bureaucracy. Despite digitization efforts and attempts to reduce bureaucratic inefficiencies, Tunisia continued to rank poorly in business environment indicators. In 2020, the World Bank ranked Tunisia 78th

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[1] https://www.donneesmondiales.com/afrique/tunisie/inflation.php#google_vignette

[2] https://shorturl.at/zzvPT

[3] https://ar.tradingeconomics.com/tunisia/gdp-growth#:~:text=%D9%85%D8%B9%D8%AF%D9%84%20%D9%86%D9%85%D9%88%20%D8%A7%D9%84%D9%86%D8%A7%D8%AA%D8%AC%20%D8%A7%D9%84%D9%85%D8%AD%D9%84%D9%8A%20%D8%A7%D9%84%D8%A5%D8%AC%D9%85%D8%A7%D9%84%D9%8A%20%D9%81%D9%8A%20%D8%AA%D9%88%D9%86%D8%B3%20%D8%A8%D9%84%D8%BA.2020.%20%D9%85%D8%B5%D8%AF%D8%B1%3A%20National%20Institute%20of%20Statistics%20-%20Tunisia

[4] https://www.ins.tn/ar/publication/mwshrat-altshghyl-walbtalt-llthlathy-althany-mn-snt-2023

globally in the Ease of Doing Business Index, reflecting persistent bureaucratic obstacles that hinder investment and burden businesses.[5]

- **Social Resistance**: The reforms faced strong opposition from various social groups. Social tensions and protests against austerity measures and tax policies were frequent, weakening the government's ability to implement reforms smoothly and sustainably.
  In 2023, Tunisia witnessed more than 500 protests against austerity measures and rising prices, particularly in the energy and food sectors.[6]
- **Lack of Social Considerations in Reforms**: The social dimensions of the reforms were largely ignored, as inadequate social protection programs were provided for the most vulnerable groups that were most affected by austerity measures. This neglect contributed to worsening poverty and increased social inequality. According to World Bank reports, extreme poverty in Tunisia rose from approximately 2.9% in 2020 to 3.1% in 2023.[7] However, some studies suggest that austerity measures have also led to a rise in informal poverty, as the poor and middle class have been disproportionately affected by higher living costs.
- **Weak Institutions and Governance**: Public administration continues to suffer from structural issues, including corruption and excessive bureaucracy. These factors hinder the effective implementation of reforms and lead to the misallocation of public resources, reducing the impact of policy measures.
- **Heavy Dependence on Debt**: Instead of prioritizing structural reforms that promote growth, Tunisia relied heavily on borrowing to finance fiscal deficits, increasing the country's debt burden and placing a heavy financial strain on future generations. External debt nearly doubled over the past decade, exceeding 110% of GDP in 2023. The cost of debt servicing reached 5.5 billion dinars in 2024, putting additional pressure on public finances.[8]
- **Lack of Public Dialogue**: Civil society and local stakeholders were not sufficiently involved in the design and implementation of reforms, leading to a sense of exclusion among many social groups. This lack of dialogue contributed to widespread resistance and limited public support for the policies.
- **Political Instability and Its Impact on the Economy**: Tunisia's ongoing political changes and government instability negatively affected the implementation of economic reforms. Between 2011 and 2023, Tunisia saw ten different governments, creating an environment of political uncertainty that undermined confidence in both the government and the economy. This instability directly impacted foreign investment, which declined to $1.3 billion in 2023, down

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5 https://openknowledge.worldbank.org/server/api/core/bitstreams/75ea67f9-4bcb-5766-ada6-6963a992d64c/content

6 https://www.tunisienumerique.com/ftdes-tunisie-baisse-du-nombre-des-mouvements-de-protestation/#google_vignette%20https://www.espacemanager.com/ftdes-baisse-des-mouvements-de-protestation-en-2023.html

7 https://www.ins.tn/sites/default/files-ftp3/files/publication/pdf/Carte%20de%20la%20pauvret%C3%A9%20en%20Tunisie_final_0.pdf

8 https://fr.tradingeconomics.com/tunisia/external-debt

from an annual average of $2.5 billion before 2011.[9] The deterioration of economic opportunities and high unemployment rates also drove young professionals to emigrate in search of better job prospects abroad.

[9] https://www.bct.gov.tn/bct/siteprod/tableau_n.jsp?params=PL120070,PL120060
https://www.tunisienumerique.com/rapport-international-lide-augmente-en-afrique-et-baisse-en-tunisie/#google_vignette

Part Two: A Critical Analysis of Current Policies

1. Tax Justice

Tax justice is a fundamental principle that any tax system should uphold to ensure a fair distribution of tax burdens. However, an analysis of Tunisia's current tax structure reveals that it falls short of achieving the desired level of fairness, as lower-income groups bear a disproportionately heavier tax burden compared to wealthier segments of society.[10]

The primary reason for this disparity is Tunisia's heavy reliance on indirect taxes, such as the value-added tax (VAT), which accounts for approximately 60% of total tax revenues.[11] Since lower-income households spend a larger share of their income on consumption compared to wealthier individuals, VAT disproportionately affects them, exacerbating social inequalities. In effect, poor and middle-income groups contribute a higher percentage of their earnings to indirect taxes than the rich, reinforcing structural disparities in the economy.

On the other hand, wealthier individuals and large corporations benefit from legal loopholes that allow them to significantly reduce their tax obligations. For instance, major corporations exploit tax exemptions, engage in tax avoidance schemes, or shift profits to low-tax jurisdictions. According to World Bank data, the top 10% of the population controls a significant share of national wealth,[12] while 3.1% of Tunisians live in extreme poverty. This stark wealth gap highlights the imbalances in tax burden distribution, where the wealthiest segments of society disproportionately benefit from the current system.

To achieve greater tax justice, concrete measures must be taken to close these loopholes. Possible reforms include restructuring indirect taxation, such as modifying VAT to reduce its regressive impact on lower-income groups. Additionally, implementing a wealth tax, enforcing stricter measures to combat tax evasion, and enhancing transparency in the use of tax incentives are essential. These reforms would help reduce inequalities and ensure a fairer tax system, ultimately strengthening public confidence in taxation policies and contributing to greater social justice.

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10 https://documents1.worldbank.org/curated/en/099450111122440099/pdf/IDU14a597e6d12db7144c51bdb61c083b0765c27.pdf

11 https://nawaat.org/2023/02/02/%D8%A7%D9%84%D8%AC%D8%A8%D8%A7%D9%8A%D8%A9-%D9%81%D9%8A-%D9%85%D9%8A%D8%B2%D8%A7%D9%86%D9%8A%D8%A9-2023-%D9%86%D8%B8%D8%A7%D9%85-%D8%A3%D8%B9%D8%B1%D8%AC-%D9%81%D9%8A-%D8%A7%D9%84%D8%B2%D9%85%D9%86/

12 https://www.ins.tn/sites/default/files-ftp3/files/publication/pdf/Carte%20de%20la%20pauvret%C3%A9%20en%20Tunisie_final_0.pdf

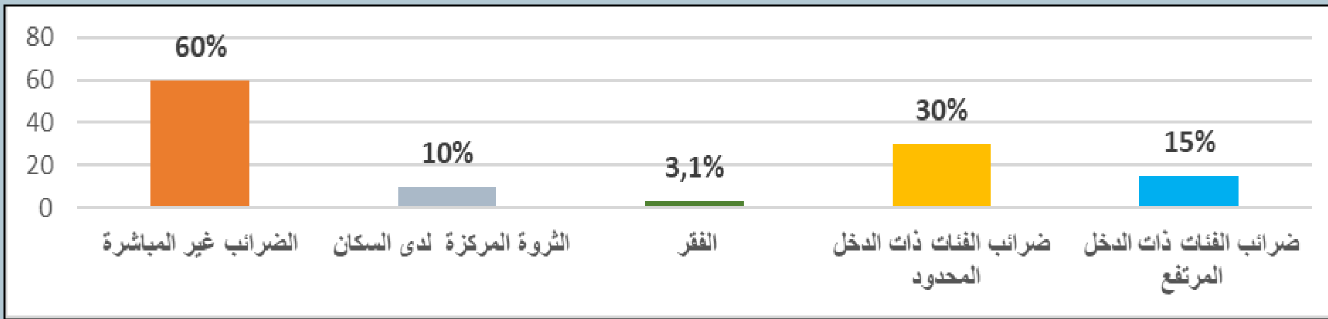

***Figure: Tax Burden and Wealth Distribution (** *High-income earners: 15% tax rate, Low-income earners: 30% tax rate, Poverty rate: 3.1%, Wealth concentration: 10%, Indirect taxes: 60%*

2. Value-Added Tax (VAT)

Value-added tax (VAT) has been one of Tunisia's primary tools for increasing tax revenues, applied to most goods and services at rates ranging from 7% to 19%. While VAT has significantly contributed to strengthening the state budget, its impact on low-income groups has been largely negative.

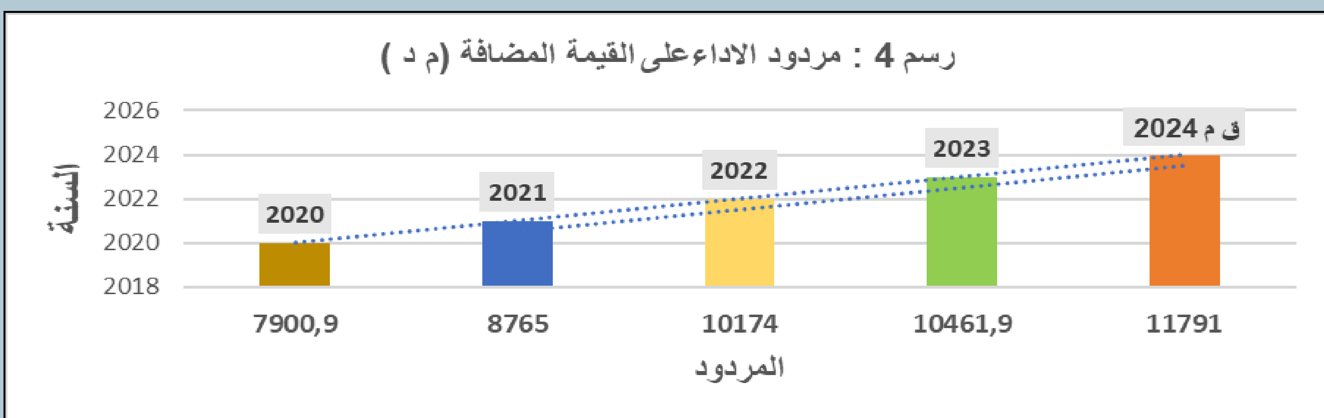

Figure: Value Added Tax (VAT) Revenue

An analysis of VAT revenue from 2020 to 2024 highlights its disproportionate impact on low-income households. The revenue generated from the standard VAT rate of 19%, which applies to most consumer goods, constitutes the largest share of tax revenues, thereby increasing the financial burden on these households. Meanwhile, the reduced VAT rate of 13%, applied to medical services and consultations, and the special VAT rate of 7%, contribute only marginally to overall tax revenues and do not sufficiently offset the impact of the standard rate. This exacerbates economic inequalities and reduces the ability of low-income households to meet their basic needs. Furthermore, the rising prices of VAT-applicable goods lead to a decline in consumption among these households, negatively affecting the local economy.[13]

[13] Code de la TVA

The core issue lies in Tunisia's reliance on VAT as a primary tool for revenue collection, which deepens social inequalities across different income groups. Low-income households spend a higher proportion of their earnings on VAT compared to wealthier households, further widening the economic gap. As their purchasing power declines, their consumption shrinks, leading to reduced local demand. This, in turn, weakens the economy, increasing its vulnerability and making social crises more likely. The over-reliance on VAT as a key revenue-generating mechanism risks perpetuating economic instability and exacerbating social unrest.

If the government continues to increase VAT rates or expand their application, poverty levels will likely rise, intensifying economic hardship and deepening social crises. Citizens will face mounting financial pressures amid a continuous deterioration in living conditions, reinforcing public dissatisfaction and economic fragility.[14]

2**. Other Structural Issues**

The International Monetary Fund (IMF) has implemented a series of structural reforms in Tunisia, including subsidy reductions and tax increases. While these reforms aim to achieve fiscal sustainability, they have also exacerbated the living conditions of low-income groups and intensified economic pressures on them.

A. Subsidy Expenditures

According to the 2024 Finance Law projections, the Tunisian state budget allocated 11,337 million dinars for subsidy expenditures in 2024, reflecting a slight decrease compared to 11,475 million dinars in 2023. However, the distribution of these allocations remains unbalanced.[15] Those are as follows:

- 7,086 million dinars for fuel subsidies,
- 3,591 million dinars for basic goods subsidies,
- 660 million dinars for the transportation sector.

[14] Ministry of Finance, Rapport Oct2024
[15] Ibid

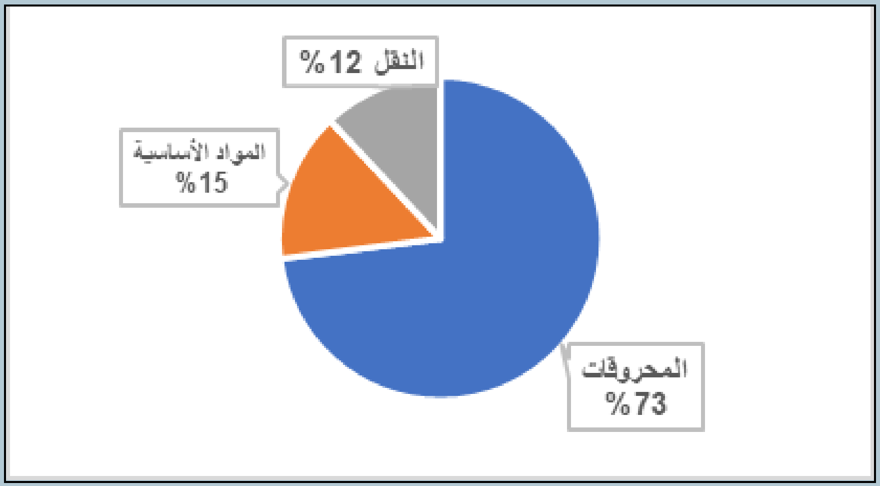

Figure: Subsidy Distribution (June 2024) *Transportation: 12%, Fuel: 73%, Essential goods: 15%*

This distribution highlights a significant disparity in the allocation of subsidies. 73% of subsidy expenditures are directed toward the fuel sector, which primarily benefits private vehicle owners, while only 15% is allocated to basic goods, which are essential for all citizens, particularly the most vulnerable groups. Meanwhile, only 12% is allocated to the transportation sector, which is severely underfunded despite serving mainly low-income populations who rely on public transport for their daily commutes.[16]

The unequal distribution of subsidies exacerbates social injustice, as wealthier groups, who consume more, benefit the most, while low-income households bear the brunt of rising prices. As a result, these households struggle to keep up with the increasing cost of living, deepening economic and social inequalities.

B. Increased Tax Revenues

Tunisia's tax policies have primarily relied on raising indirect taxes, such as value-added tax (VAT), which is applied uniformly to goods and services without distinction. This means that low-income households, which allocate a larger portion of their income to consumption, bear a disproportionately high tax burden compared to wealthier households, who can more easily absorb these costs. While such taxes are an effective means of increasing government revenues, they disproportionately affect vulnerable groups and exacerbate economic inequalities.

According to data from the World Inequality Database (WID), the share of wealth owned by the wealthiest 10% of the population has fluctuated over the decades. In 1990, this group controlled approximately 48% of the country's wealth, and while there has been a slight decline, their share still exceeded 40% in 2020. Meanwhile, the poorest 50% of the population has consistently held only around 10% of national wealth, highlighting a significant and persistent wealth gap.

[16] Ibid

Beyond VAT, additional taxes are imposed on daily consumer goods through the “consumption duty”, which applies to products such as coffee, tea, and certain hygiene products. This further increases the prices of essential goods, placing a greater financial burden on Tunisian households. Low-income families spend a significant portion of their income on these taxed products—up to 35% of their monthly earnings, compared to 20% among wealthier households.[17]

This situation not only forces households to reduce spending on essential goods but also drives many to seek alternative solutions, such as turning to the informal market, where products can be purchased at lower prices to avoid high taxes. Despite the potential risks associated with the informal market, it becomes a necessary survival strategy for many in the face of rising costs. Other households cut back on essential goods or switch to lower-quality alternatives, negatively impacting their standard of living.

Collectively, these tax policies contribute to eroding trust in the tax system, as citizens perceive the burden as unequal and unjust. This growing sense of tax injustice fosters public alienation and weakens tax compliance, widening the gap between citizens and financial institutions. Consequently, low-income families are forced to make unexpected financial decisions to cope with the increasing economic strain, further deepening socio-economic disparities.

3. Public Sector Reforms

The number of public sector employees, including local government employees, increased by 10.5% between 2015 and 2022, rising from 601.9 thousand employees in 2015 to 664.7 thousand employees in 2022, of whom 441,470 are men.

According to a survey by the National Institute of Statistics for the mentioned period, more than 25,063 public sector employees surpassed the age of 60, while 74,740 employees were aged 55 to 59. In 2023, 24,755 new employees joined the public sector, while 28,289 employees left.[18]

The IMF's policies included proposed reforms aimed at reducing the number of public sector employees and decreasing the wage bill. These reforms revolved around:

- Reducing the wage bill by limiting the number of new employees, particularly in sectors experiencing overstaffing, encouraging early retirement, and offering financial incentives for voluntary exit from civil service.
- Modernizing human resource management in the public sector by introducing systems for evaluating employee performance and linking salaries to performance levels to enhance efficiency and motivate employees to achieve better results. Additionally, the focus is on investing in training existing employees to improve their skills and develop their competencies in line with modern requirements. These reforms also propose granting local administrations more

[17] https://library.fes.de/pdf-files/bueros/tunesien/18725.pdf

[18] https://www.ins.tn/enquetes/caracteristiques-des-agents-de-la-fonction-publique-et-leurs-salaires-2015-2022

autonomy in recruitment, allowing them to attract the necessary talent locally according to their priorities and needs.

- Ensuring transparency by publishing clear information on public expenditures and employee salaries, along with implementing mechanisms to combat corruption, thereby strengthening citizens' trust in the administration. The reforms also include granting local administrations broader powers to meet the needs of local communities more effectively.

However, these reforms are controversial due to their potential negative impacts on vital sectors such as education and healthcare. While the reforms aim to reduce the wage bill and the number of employees, they may increase pressure on these two sectors, which already suffer from a shortage of human resources.

In the education sector, for example, reducing the number of employees and encouraging early retirement may lead to a shortage of teachers and administrative staff, exacerbating classroom overcrowding and negatively affecting the quality of education. Additionally, the departure of experienced educators through early retirement may create a gap that is difficult to fill in the future, particularly given the need for qualified educational staff to meet societal needs.

In the healthcare sector, reducing the number of workers amid health challenges, such as global crises and the emigration of doctors, could place a heavy burden on the remaining medical staff, leading to a decline in the quality of healthcare services. This impact could particularly affect the most vulnerable groups, who rely on public healthcare services for essential medical care.

Additionally, a shortage of public service employees could lead to a deterioration in service quality, as the remaining employees may struggle to meet increasing demands, resulting in service delays and overall administrative inefficiencies. Encouraging early retirement or voluntary exits could also contribute to the loss of essential expertise in the public sector, making it more difficult to replace in the future.

In this context, the IMF, in its recommendations on public sector reform, has emphasized the importance of balancing the reduction of the wage bill with ensuring the continued provision of high-quality essential services. These recommendations include reassessing public sector job distribution, focusing on eliminating unnecessary positions ("hidden unemployment"), and enhancing the recruitment of skilled professionals in vital sectors such as healthcare and education. However, these recommendations do not include strict guarantees to prevent staff shortages in critical sectors. The successful implementation of these reforms depends on the government's ability to develop effective strategies for redistributing human resources, ensuring efficient spending while maintaining public service quality.

From a broader economic perspective, Tunisia's GDP experienced a period of growth between 2012 and 2016, but this growth slowed down until 2020, before beginning to gradually recover in 2021 and 2022. While 2023 witnessed some relative stability, this recovery remains fragile, underscoring the need for carefully planned reforms that balance efficiency and citizens' well-being.

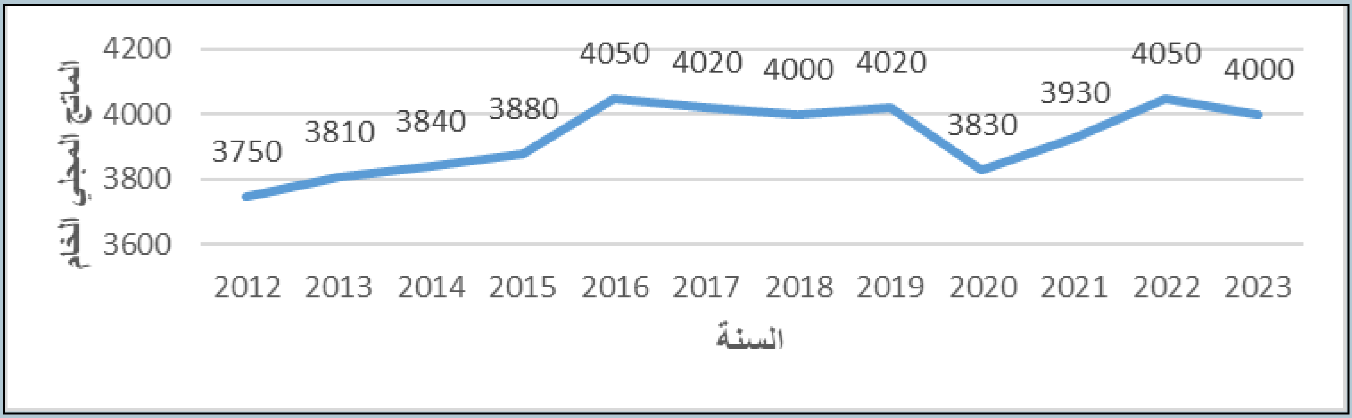

Figure: Gross Domestic Product (GDP)

If we compare GDP growth with the public wage bill, the graph shows that Tunisia’s per capita GDP has experienced periods of growth, followed by a sharp decline in 2020, primarily due to the COVID-19 pandemic. However, expenditures, including the wage bill, remained stable or even increased, with only a slight recovery afterward. This indicates that the recovery in GDP has been slower compared to the growth in the wage bill, creating a situation where salary expenditures are increasingly out of proportion to the economy’s productive capacity.

During the same period, the public sector wage bill continued to increase, even during periods of GDP stagnation or decline. For example, between 2020 and 2023, the wage bill rose from 19.203 billion TND in 2020 to 21.607 billion TND in 2023, despite a declining GDP.[19]

The continuous rise in the wage bill without a proportional increase in GDP creates a budgetary imbalance, making it difficult for the government to finance other essential expenditures, such as infrastructure and development projects.

In comparison with IMF recommendations, the fund frequently advises reducing public expenditures, including the wage bill, to align spending with available resources. However, despite these recommendations, the wage bill has not decreased, creating a gap between reform objectives and actual implementation. This discrepancy has affected economic reforms, as Tunisia’s GDP has struggled to achieve sustained growth, meaning that the IMF's proposed reforms have not yet had their intended impact.

One of the key takeaways from this comparison is that the continuous increase in the wage bill contradicts fluctuations in GDP, posing a challenge to the sustainability of public finances. If the wage bill continues to rise without a proportional increase in GDP, this could worsen the fiscal deficit, increasing Tunisia’s reliance on borrowing to cover expenses.

[19] Résultats provisoires de l'exécution du Budget à fin Juin 2024

4. Debt dependency

Tunisia suffers from a heavy reliance on debt, whether from the IMF or other domestic and foreign creditors, making it vulnerable to economic and political pressures. This dependence on borrowing has limited the government's ability to make independent decisions that reflect the needs of its citizens, making it more exposed to global economic fluctuations.

Following the 2011 revolution, Tunisia experienced a decline in economic growth rates and setbacks in key sectors such as tourism and foreign investment, further increasing its reliance on external borrowing to finance budget deficits. In 2022, the economic growth rate was approximately 2.6%, which is far below the levels needed to compensate for rising unemployment and achieve economic stability. Moreover, the economy was severely affected in 2020 by the COVID-19 pandemic, with growth plummeting to -8.6%.[20]

On the other hand, the continuous increase in public spending, particularly on wages and subsidies, was not accompanied by an equivalent increase in revenues, leading to a widening budget deficit.

The unemployment rate remains high, reaching 15.3% in the second quarter of 2023, increasing pressure on the government to provide economic and social solutions. As a result, successive governments have been forced to make financial concessions to support affected groups, further straining public finances. The budget deficit reached 7.7% of GDP in 2023, compelling the government to resort to borrowing.

This policy has led to a sharp increase in public debt, significantly raising interest payment obligations, which in turn reduced the state's capacity to finance development projects. By the end of 2023, public debt had reached 79% of GDP, compared to 72.3% in 2020. Additionally, external debt amounted to approximately 41 billion dinars in 2023, representing nearly 40% of total public debt.[21]

With repeated agreements with the IMF, Tunisia has become obligated to implement austerity policies and reforms that may not align with local societal needs or the national economic context. The reduction of subsidies and price increases, as part of the IMF's conditions, have fueled social protests and widened the gap between wealthy and vulnerable groups, intensifying social and political tensions. Overall, the IMF's current policies in Tunisia present significant challenges, as they attempt to balance fiscal sustainability with the protection of citizens' rights. The Tunisian government needs to reassess these policies and adopt a more inclusive approach that prioritizes social justice and economic development, ensuring a balance between financial requirements and citizens' needs.

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20 https://www.almanber-ettounsi.com/2022/08/19/%d8%a8%d9%8a%d9%86-2011-%d9%882020-%d8%aa%d8%b1%d8%a7%d8%ac%d8%b9-%d8%a7%d9%84%d9%86%d9%85%d9%88-%d9%88%d8%a7%d9%84%d8%a5%d8%b3%d8%aa%d8%ab%d9%85%d8%a7%d8%b1%d8%a7%d8%aa-%d9%88%d8%a7%d9%84%d8%a5/

21 https://fr.tradingeconomics.com/tunisia/unemployment-rate

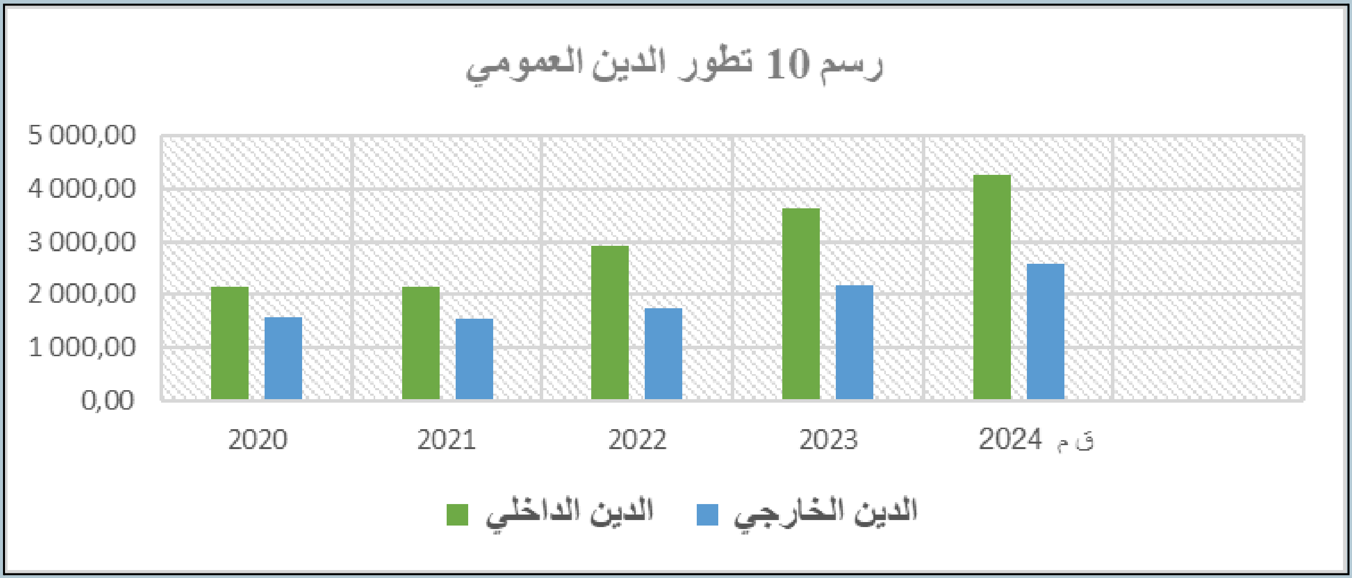

Figure: Evolution of Public Debt

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Part Three: Ongoing Challenges

A. Economic Crises

Tunisia experiences significant economic disparities between developed coastal regions and poorer inland areas. The unemployment rate in some interior regions, such as Gafsa and Siliana, exceeds 25%, compared to lower rates in coastal regions. This imbalance hinders the achievement of balanced development.

On the other hand, the Tunisian economy relies primarily on traditional sectors such as agriculture, tourism, and manufacturing, which are highly vulnerable to global economic shocks, such as the COVID-19 pandemic and climate crises, reducing the long-term sustainability of the economy.

Therefore, Tunisia faces major economic challenges, including slowing economic growth, high unemployment rates, and rising inflation. These factors directly affect the effectiveness of tax policies, as they reduce tax revenues and increase financial burdens on vulnerable groups.

B. Political Stability

Political stability is a key factor in the success of any tax policy. Tax amnesties have been used in several election campaigns. Since 2011, Tunisia has formed 12 governments, and continuous political instability has negatively impacted the implementation of tax policies, complicated the execution of economic policies agreed upon with donors, limited the ability to achieve economic objectives, and hindered negotiations with international lenders.

C. Social and Political Opposition

While the IMF emphasizes the importance of structural reforms, Tunisia struggles to implement them due to social and political opposition. For example, reducing subsidies and increasing energy prices may be economically necessary, but they trigger widespread public protests.

Additionally, the IMF has called for a reduction in the public sector wage bill, which accounted for 16% of GDP in 2023, one of the highest rates in the world. However, the government faces difficulties implementing these reforms due to concerns over social unrest.

D. Risk of Financial Collapse

Tunisia has suffered from a chronic shortage of financial resources to fund sustainable development projects, which require significant investments. Meanwhile, the country struggles with a high fiscal deficit, and public debt reached nearly 79% of GDP in 2023.[22]

[22] Résultats provisoires de l'exécution du Budget à fin Juin 2024

According to the Ministry of Finance's estimates, public debt could reach 88% of GDP by 2025 if Tunisia continues to over-rely on borrowing without implementing successful structural reforms. As a result, securing adequate financing for sustainable infrastructure investments remains a major challenge.

[23]If Tunisia continues to depend on borrowing without achieving real economic growth or implementing structural reforms, the country risks defaulting on its debt, potentially leading to a debt crisis or payment failure.

E. Social Challenges

Tunisia's social challenges are evident in the increasing rates of irregular migration among youth, a direct reflection of widespread frustration and a lack of economic opportunities. This situation drains human resources and hinders sustainable development.

Additionally, Tunisia's education system suffers from a gap between graduate qualifications and labor market demands, contributing to high unemployment rates among university graduates. This highlights the urgent need to reform the education and vocational training systems to ensure balanced and sustainable human development.

Unemployment remains high, reaching 15.3% in Q2 2023, while youth unemployment (ages 15-24) exceeds 35%, leading to wasted potential and slower progress.

Furthermore, rising poverty rates deepen social inequalities. As of 2021, approximately 21% of Tunisians live below the poverty line, increasing the challenges of achieving comprehensive and sustainable development.

F. Environmental Challenges

Tunisia faces increasing water scarcity, ranking among the most water-poor countries in the world. By 2025, per capita water availability is expected to fall below 400 cubic meters per year, threatening food security and agricultural growth.

Additionally, land degradation and desertification pose major challenges. According to the World Bank's 2022 report, about 75% of Tunisia's agricultural land is experiencing various levels of degradation, leading to reduced productivity and greater dependence on food imports.[24]

The country also faces negative impacts of climate change, affecting key sectors such as agriculture and tourism. Rising temperatures, changing rainfall patterns, and increasing desertification pose serious threats.

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[23] Ibid

[24] https://ftdes.net/ar/crise-de-leau-en-tunisie-une-mauvaise-gestion-des-ressources-en-eau-menace-la-penurie-deau/

Despite Tunisia's commitment to the Paris Climate Agreement, the country needs to enhance investments in renewable energy and green infrastructure to achieve its climate goals.

G. Inefficiencies in the Tax System

Tunisia's tax system faces several challenges that impact its effectiveness, the most notable being tax evasion, which is estimated to cost the state around 2.5 billion TND annually. This weakens the state's ability to collect the necessary revenues to fund infrastructure and social development projects, obstructing sustainable development and increasing financial pressure.

Additionally, Tunisia's tax system relies heavily on indirect taxes, which account for about 65% of total tax revenues. This over-reliance on indirect taxation disproportionately burdens low-income groups, worsening economic inequality.[25]

Moreover, corruption and weak governance further undermine Tunisia's tax system. Lack of transparency and administrative inefficiencies facilitate tax evasion, weakening the system's effectiveness.

Reforming the tax system is critical to ensuring a fairer tax burden distribution and enhancing the state's ability to finance its development projects.

Based on the challenges outlined above, achieving sustainable development in Tunisia requires integrated efforts across economic, social, and environmental sectors. The challenges related to poverty, unemployment, and climate change demand comprehensive strategies that promote balanced economic growth, support social justice, and protect environmental resources.

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25 https://www.tustex.com/economie-emploi-actualites-economiques/ins-la-part-des-emplois-informels-en-tunisie-est-de-448

Part Four: Proposed Alternatives

The austerity policies imposed on Tunisia as part of economic reform programs have had negative effects, particularly on vulnerable groups. These policies often included reducing public spending and cutting subsidies on essential goods, which widened social disparities and led to a decline in the quality of essential services such as healthcare and education.

Therefore, it is crucial to reassess these policies to prevent further social deterioration and shift toward a comprehensive and sustainable approach that fosters equity and growth.

A. Alternatives to Austerity Policies

Instead of continuing austerity measures, Tunisia can adopt alternative policies that focus on social justice and economic expansion by:

- **Supporting Small and Medium Enterprises (SMEs)**: This sector is a key driver of economic growth and job creation. Providing tax and financial incentives for SMEs, along with credit facilitation programs for young entrepreneurs, would mitigate reliance on external debt and create an economic model centered on local production and the active contribution of small businesses to overall growth.
- **Encouraging Local and Foreign Investment**: Improving the business environment through legislative and tax reforms that ensure stability and legal clarity can boost investor confidence. Simplifying bureaucratic procedures, accelerating business licensing, and eliminating unnecessary regulations would enable swift investment launches, directly contributing to sustainable development.
- **Increasing Investment in Key Sectors**: Rather than cutting public spending, Tunisia should increase investments in education, healthcare, and infrastructure to enhance economic productivity and improve essential services. This strategy not only promotes economic development but also establishes a robust foundation for human capital growth, ensuring long-term sustainable development.
- **Diversifying the Economy:** Tunisia should broaden its economic base by investing in new sectors such as technology and manufacturing, rather than relying heavily on tourism and agriculture. Economic diversification reduces the need for excessive borrowing and creates opportunities for sustainable growth.
- **Strengthening the Social Safety Net:** Improving social protection programs can ensure adequate support for the most affected populations. This may include direct financial aid for low-income families, expanding health insurance programs, and enhancing the quality of free education.
- **Comprehensive Economic Planning:** Developing a holistic economic strategy that balances economic growth and fair wealth distribution is essential. The focus should be on long-term solutions rather than temporary fixes, ensuring an integrated approach to economic and social development.

B. Sustainable Debt Management

Sustainable debt management requires strategies that reduce costs and ensure long-term financial stability. Tunisia could negotiate debt restructuring to ease its financial burdens, while prioritizing efficient public spending and enhancing fiscal transparency. Additionally, reducing reliance on external borrowing by strengthening domestic revenue sources through a more efficient tax system would improve self-sufficiency in financing development projects.

Furthermore, public-private partnerships (PPPs) can diversify funding sources and reduce dependency on loans. Improving existing debt management and restructuring current obligations could also secure more favorable financial conditions, contributing to economic sustainability.

C. Enhancing Fiscal Justice

Achieving fiscal justice is a key pillar for reducing inequalities and stimulating inclusive growth. This can be accomplished through:

- **Strengthening Domestic Revenue Generation**: By improving tax collection efficiency and ensuring fair contributions from wealthy individuals and large corporations, Tunisia can reduce its fiscal deficit and lessen dependence on external financing.
- **Implementing a Progressive Tax System**: A progressive tax structure would ensure that the wealthy contribute more, with regular adjustments to tax brackets reflecting economic changes, thereby addressing income disparities more effectively.
- **Expanding the Tax Base**: Reducing tax evasion by enhancing monitoring mechanisms and ensuring a fairer distribution of tax burdens across all income levels would improve government revenues.
- **Reforming Tax Exemptions**: Redirecting tax incentives towards middle- and low-income groups would enhance fairness in tax burdens.
- **Implementing Wealth and Asset Taxes**: Taxing large fortunes and high-value assets would help reduce social inequalities and generate additional revenue for public services.
- **Reducing Tax Disparities Between Individuals and Corporations**: Narrowing the gap between individual and corporate tax rates would create a more equitable system, fostering social justice and sustainable economic growth.

Conclusion

In conclusion, austerity policies, while sometimes viewed as short-term solutions for economic crises, have proven to have detrimental effects on Tunisia's most vulnerable communities. Adopting alternative policies that focus on social justice and economic stimulation is the best approach to prevent further social deterioration and achieve comprehensive and sustainable development.

These alternatives include supporting SMEs, fostering local and foreign investment, increasing spending in key sectors such as education and healthcare, and building a diversified economy based on innovation and resilience. Through comprehensive economic planning aligned with societal needs, Tunisia can ensure economic growth that benefits all segments of society.

Additionally, sustainable debt management, achieved through budget optimization and enhanced local revenue streams, is essential for financial stability. Diversifying funding sources and reducing reliance on foreign loans must become a strategic priority requiring strong political will and a long-term vision.

Moreover, fiscal justice plays a crucial role in reducing inequalities and ensuring a balanced economic system. A progressive and transparent tax system fosters a fairer economic environment, distributing the tax burden equitably among citizens and businesses.

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