

## **Development loans as a threat to young democracies: the IMF in Tunisia**

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Tunisia is often lauded as the greatest success of the Arab Spring, however the years following have seen a struggling economy threaten the fragile peace. Following the 2011 Jasmine Revolution, a smooth transition of power ushered in by the Nobel Peace Prize winning, National Dialogue Quartet, gave hope for a successful democracy. However, rising deficits, a delicate political balance, and the pull of both internal and external forces, especially the demands of the International Monetary Fund (IMF), put the Tunisian government under Prime Minister Youssef Chahed in a difficult position moving forward. In order to promote development without damaging young democracies like Tunisia, the IMF needs to change its approach.

Tunisia's post-revolution economy has seen the effects of instability and inflation hidden through the years under the tightly controlled economy of Former President Zine El Abidine Ben Ali. The Tunisian Dinar has fallen 35% since 2011. The tourism sector dried up after the 2015 Bardo National Museum and Sousse terrorist attacks shook tourists' confidence in the safety of the country. With an over 15% unemployment rate, protests have damaged already faltering export markets; protests cost £1.5 billion in phosphate exports, when trade routes were blocked by protesters (Laessing and Amara). Trade is also hampered by protectionist subsidies, making the Tunisian economy less competitive overall (Dockery). These trends must be addressed to establish meaningful growth and employment.

Chahed must be careful in tackling the impending crisis. His government is both divided and fragile. With his predecessor being ousted in a vote of no confidence in 2016, Chahed came to power backed by a grand coalition of the largest secular and Islamist parties, Nidaa Tounes and Ennahda respectively. Opposition parties, like the leftist Popular Front, have threatened protests if reforms are too extreme.

In order to tackle large budget deficits, Tunisia is left reliant on large IMF loans of almost £2.1 billion. However, IMF loans come with pressure for austerity, and a push to balance the budget (Laessing and Amara). These conditions could be met through cuts to a bloated public sector and a large reduction on spending. This would also include cuts to the significant subsidies that keep goods like bread and petrol at stable prices.

It is exactly these reforms which powerful forces within Tunisia resist. This does not only include the Popular Front's opposition to cutting the large public sector. The formidable Tunisian General Labour Union (UGTT) also provides an obstacle to these measures. Having played a large role in the success of the Jasmine Revolution as part of the National Dialogue Quartet, UGTT now continues to act as an extremely powerful check on the government, commanding the support and trust of many Tunisians who do not fully trust the new government. UGTT has advocated extremely protectionist economic policies with strong support for aggressive government subsidies. For instance, UGTT representatives under media pressure met Chahed when his government announced an increase in the price of bread by only a few pence, forcing him to back down and increase subsidies (Laessing and Amara).

Due to these pressures, the new 2018 budget was unsuitable to growing the economy and was full of contradictions. In order to reduce the deficit sufficiently to secure IMF loans while appeasing UGTT and the Popular Front, the government significantly raised property taxes among others; they thereby avoided significantly cutting the bloated bureaucracy and reducing subsidies. Under the threat of protests, the government scaled back the 20,000 person personnel cut to the public workforce and even increased pay raises. According to business association leaders, this tax hike undermines Tunisian businesses' competitiveness within the region (Amara). Growth in the economy would reduce the need for foreign loans and reduce the public unrest associated with unemployment. Rather than addressing the issues holding back the Tunisian economy, a contradictory budget unsuccessfully attempts to deal with the concerns of several parties, whose goals are sometimes counterproductive to

growth. Even once the government capitulated to many opposition concerns, violent protests and arrests of opposition leaders began the new year.

The IMF began after the Second World War to rebuild after the war and create a stable global economic system (IMF). However, as in the case of Tunisia, these goals are undermined by their demand for austerity. With fragile young democracies, populations are used to the stability of command economies and the divisions inherent to democracy are more unstable. In Tunisia, these internal divisions along with IMF demands yielded anti-business reforms, protests, and the arrests of many opposition leaders, all deeply threatening to the democracy. Here, as in many other examples, the IMF needs to soften its stance if it wants to support new democracies. With purely economic considerations being put into the condition of development loans, the IMF sets up recipients for failure and destabilisation beyond the economy. Tunisia must show the IMF that their business as usual approach must be abandoned and while austerity might be the fastest way to balance budgets, states must be allowed to grow their economy without being forced to make destabilising cuts to subsidies and the public workforce.