



Watch List 2023 for the EU

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By the International Crisis Group

Steering Tunisia away from Default

Tunisia's socio-economic woes could get worse if it defaults on its debt. In this excerpt from the [Watch List 2023 – Autumn Update](#), Crisis Group advises the EU to encourage a revised loan deal with the IMF but to pressure Tunis on governance and human rights.

Since July 2021, when President Kais Saïed [made his power grab](#), sacking the prime minister and suspending parliament, Tunisia has taken a further autocratic turn as its underlying economic crisis keeps growing. The president is trying to build a full-blown authoritarian system and consolidate his public support with stridently nationalist rhetoric. He has laced his discourse with racist innuendo pinning the blame for the country's socio-economic woes – such as inflation and unemployment – on sub-Saharan African migrants, among others, sparking vigilante attacks. Meanwhile, he has rejected the terms attached to a proposed International Monetary Fund (IMF) loan aimed at balancing the budget and restoring investor confidence, pushing the country to the brink of default on its foreign debt. Default would likely make the above problems dramatically worse by exacerbating the risk of violence and imperilling already fragile domestic stability.

At first, the European Union (EU) and many of its member states evinced great concern about Tunisia's direction under Saïed. The president seemed to be reversing the democratic gains of the country's 2011 uprising, the first of that year's popular revolts in the Arab world. But Europe has gradually shifted its focus to curbing irregular migration. An increase in

migrant arrivals from across the Mediterranean Sea was the main driver of this change, though the election of the far-right government led by Giorgia Meloni in Italy has contributed. Today, the EU speaks of Tunisia as a key partner in battling irregular migration, a task that it believes will require major aid packages so that Tunis can deliver the results Europe wants to see while maintaining stability. These two priorities have overtaken talk of restoring democracy and the rule of law – producing a stream of funding that critics say amounts to a blank check for Saïed's government.

The EU and member states must walk a difficult line – balancing their various political, security and economic agendas in Tunisia with the important work of seeking rights and governance reforms. Right now, however, that balance appears to be tilting too far away from seeking the reforms that will be required to stabilise the country.

Rather than abandoning that agenda, the EU should work with member states to:

- encourage Tunisia and the IMF to agree on revised loan terms, pressing Tunis to make a deal and IMF shareholders to ease certain conditions (for example, calling for smaller spending cuts);

- maintain a focus on human rights and governance – stressing the need to curb vigilante violence and contain its repercussions – by underscoring their importance for domestic stability; and
- begin preparing for the possibility that Europe may need to provide emergency financing to Tunisia – for example, to support medicine and wheat deliveries – should the country fail to reach an agreement with the IMF and default on its debt.

A Shaky Partnership with Europe

Ever since Saïed’s fateful actions in 2021, Europe has been unsure what to do regarding Tunisia. Saïed replaced the country’s semi-parliamentary system with a presidential one that allows him to concentrate almost all government powers in his own hands. Among ordinary Tunisians, the fear of repression that disappeared in the wake of President Zine El Abidine Ben Ali’s overthrow in the 2011 popular uprising has resurfaced. Since mid-February, arrests and convictions of public figures, especially politicians, have accelerated. More than 35 of them are [in prison on a range of charges](#). Peddling a program inspired by nationalist and left-wing ideas, the president plays [upon resentment](#), notably of the former political class, to boost his popularity.

Early on, disturbed by the authoritarian drift, the EU insisted on a return to democratic rule. In September 2021, for example, the EU’s high representative for foreign affairs, Josep Borrell, visited Tunis and [declared](#) that “the free exercise of legislative power and the resumption of parliamentary activity ... must be respected”. High-ranking EU officials – as well as member states such as France and Germany – kept up the pressure on rights and governance issues after Saïed made a widely criticised racist speech in February. In that speech, he claimed that “hordes of illegal migrants” were behind “violence and unacceptable acts”, adding that the “ulterior aim” of sub-Saharan African migrants in Tunisia was to “transform the demographic make-up” of the country. His words came alongside a [brutal crackdown on migrants](#). Tunisian security forces appear to

have become increasingly aggressive in [deporting to the Libyan border](#) migrants from sub-Saharan Africa. There are increased worries among migrants about vigilante attacks and mob violence – corresponding to incidents such as July’s attacks on Sub-Saharan migrants in [Sfax](#), a coastal city.

European leaders have been especially frustrated that Saïed engaged in such egregious democratic backsliding despite the considerable sums sent Tunisia’s way in the course of the post-2011 democratic transition that for many was a potent symbol of the Arab uprisings’ promise. As of 2016, according to an EU report, the country was one of the main beneficiaries of EU funding under the [European Neighbourhood Policy \(ENP\)](#), having received approximately 8.5 per cent of the total allocation. As per the ENP, these funds promoted a new approach to relations with Tunis, which focused on political cooperation, economic and social integration. By 2020, the reform project had already run into Tunisian resistance, due in large part to the rise of a new political class in the 2019 elections that was hostile to Western-imposed reforms and critical of the country’s democratic trajectory. Things only got worse following Saïed’s “self-coup” in 2021.

In addition to rights and governance issues, disputes over economic reforms have complicated efforts to get Tunisia the financial assistance it desperately needs, as its economy reels from (among other things) shocks generated by the COVID-19 pandemic and Russia’s war in Ukraine. The IMF appeared ready to offer a lifeline with a 48-month, \$1.9 billion stabilisation

loan after reaching a staff-level agreement with Tunis in late 2022. But that would have required Tunis, among other things, to cut fuel subsidies and reform state-owned enterprises – moves that were politically unpopular due to their potential impact on jobs and incomes. Saïed, together with Tunisia’s main trade union and friendly pundits, deemed these conditions “foreign diktats” and suggested that their social impact would be too great. They invoked the risk of riots similar to those of January 1984, which were triggered by a rise in bread and cereal prices (although the IMF did not in this case propose cutting bread subsidies). In rejoinder, the EU and several member states have advocated that Tunis adopt the full range of reforms attached to the IMF loan. Brussels made continuation of its own financial assistance contingent upon an IMF credit arrangement and fulfilment of its conditions. For the time being, Tunis appears to be letting the negotiations lie fallow.

While EU officials continue to lament the lack of reforms, urge Tunis to complete the IMF deal and stress the need to reinvigorate Tunisia’s democratic institutions, member states – particularly Italy – increasingly seem more worried about the spike in irregular migration from Tunisia. Arrivals in Italy have tripled over the past two years, reaching 56,000 in August 2022. Against this backdrop, the Meloni government, which took office in 2022, conspicuously failed to condemn Saïed’s notorious February speech. Italy has increasingly angled for a loosening of IMF loan conditions – fearing that the alternative would be an economic meltdown and even more migration. Other European countries remain committed to the reform project, and some (like France and Germany) have voiced deep concern about Tunis’s anti-migrant rhetoric. But as a matter of EU policy, worries about economic collapse and the related challenge of managing irregular migration issues have increasingly moved to centre stage.

Managing the Risk of Default

The question is what happens now. Tunisia is at serious and rapidly growing risk of defaulting on its foreign debt, and it will require external assistance to manage this challenge. By 2024, with \$2.6 billion foreign liability repayments scheduled for 2024 (including a euro-denominated bond maturing in February, equivalent to \$900 million), it is still unclear how the government will be able to secure sufficient funds to meet these liabilities.

The IMF loan under discussion would be the most reliable way for Tunis to stay current on these payments. In today’s conditions, the government would struggle to find alternative external financing to cover the costs, as Tunisia’s economic indicators continue to deteriorate. The main rating agencies, Fitch and Moody’s, have downgraded Tunisia’s credit rating, making it even harder for the country [to borrow from abroad](#).

There would be risks and downsides to accepting an IMF loan as well. From Tunisia’s perspective, the long-term economic benefits are no doubt hard to gauge and would depend to some extent on what terms are finally negotiated, the extent to which reforms are implemented and the state of the global economy over time. Its political consequences could also be difficult to manage. From donors’ perspective, it is entirely possible that despite having signed the deal, Saïed would scapegoat the IMF for every unpopular measure it may contain. Such nationalist posturing could trigger unrest, with Tunisians holding the financial institution responsible for their economic predicament – and perhaps directing their ire at Westerners (or Western assets) in the country.

Still, the risks of moving ahead with a loan far outweigh the risks of a no-agreement scenario, which, absent a fresh infusion of

financing from elsewhere or an unexpected improvement in Tunisia's macro-economic outlook, could be catastrophic. The EU would have to stop its financial assistance, since it is conditional on an IMF deal. In 2021 and 2022, while IMF negotiations were under way, the European Commission helped the country stave off default by borrowing €600 million from private creditors at subsidised rates and then lending it to Tunisia. But if there is no IMF agreement, the Commission will not be able to do that again and its options for aiding Tunisia will be few. As for the Gulf Arab states, while Saudi Arabia gave Tunisia a \$400 million soft loan and \$100 million grant in July, neither Riyadh nor other Gulf capitals are likely to offer more credit in the absence of an IMF deal and a clear economic reform program. Thus, unless revenues from oil and phosphate exports, worker remittances and tourism somehow rebound beyond the rosiest expectations, or global interest rates decline significantly and reduce Tunisia's external debt, failed talks with the IMF would probably push the government into default.

A default would put Tunisia in a dangerous downward spiral. It could unsettle the banking sector, especially given the high exposure of domestic banks to treasury bills and bonds, as well as foreign currency. It could also crowd out the private sector due to a credit crunch as the government's borrowing needs increase; cause a drop in production; generate still more inflation; enable even greater corruption (which seems to be increasing as the economic situation worsens); stimulate the underground economy; and unleash clashes along agriculture distribution chains in rural areas. In turn, people protesting the sharp deterioration of the economic and social situation could set off a violent reaction by Saïed's supporters, who might try to direct popular frustrations at businesspeople and members of the political

opposition with links to the West. In any of these circumstances, many Tunisians would presumably leave the country, often by attempting the cross-Mediterranean voyage to Europe.

Partly as a result of such fears, Brussels has softened its line on rights and governance issues with Tunis, giving Saïed additional incentives to accept a deal with the IMF by offering fresh funding conditional on an agreement and releasing other, smaller funds to support the country's migration control forces. In July, the EU and Tunisia signed a [memorandum of understanding](#) to establish a bilateral partnership that encompasses cooperation on economic matters, the digital transition, green energy and migration. European and Tunisian media outlets and civil society groups lambasted this agreement for omitting mention of the government's human rights record, as well as for establishing what they characterised as a cash-against-migration scheme. As part of the pact, Brussels offered €900 million in macro-financial assistance conditioned on a deal with the IMF, €150 million in unconditional budgetary support and €105 million to fund migrant returns as well as Tunisian efforts to prevent irregular migration to the EU. Under the latter arrangement, and following end-of-September discussions among EU member states, Tunisia is to handle asylum applications of Europe-bound refugees on its own soil, rather than allowing these people to cross the Mediterranean and apply.

Meanwhile, the number of migrants crossing the Mediterranean has increased by 69 per cent since this package was announced. But because migration is partly driven by factors beyond Tunisia's control, and partly caused by its own poor governance, increased funding in the absence of reform is by itself likely to have disappointing results.

What the EU Can Do

The EU and member states face highly imperfect choices when it comes to Tunisia. Efforts to help Tunis stabilise the country and avoid domestic unrest cannot fully succeed without a commitment by the government to reforms, both with respect to rights and governance, and with respect to the economy. Yet if European and other donors push too hard for reform, their help with stabilisation may not be welcome. The best way forward is therefore likely to involve something of a balancing act, which European actors should pursue as follows:

First, the EU and member states should throw their weight behind efforts to broker an agreement between Tunisia and the IMF. Though the odds of getting to yes may be modest, there is still reason to keep trying. Beyond continuing to dangle carrots in the form of prospective assistance, the EU should lobby the IMF and influential shareholders like the United States to make sure the terms it is seeking are realistic while still nudging the government toward reform. In particular, they should press the Fund to offer revised terms that call for Tunis to make smaller and smoother spending cuts, particularly to energy subsidies, and perhaps develop more realistic fiscal targets; lowering IMF debt repayment surcharges could also help. While the EU cannot set the terms of an IMF loan, its political pressure can help soften both sides' positions and make a deal more likely. Those member states that have the best channels to Tunis should send the message that whatever effects Tunisians may be worried about the IMF loan having over the long-term, they cannot be worse than default.

Secondly, the EU and member states should not let its increasing focus on economic stabilisation and irregular migration eclipse discussion of human rights and governance reform. In order to frame the need for reform in terms that could resonate in Tunis, they should focus on these reforms as essential for social stability, with particular attention to changing behaviours that are most likely to prompt violent

unrest. The EU could pursue this agenda at the forthcoming meetings of the Council of [association](#) EU Tunisia, which provides opportunities for cooperation with the Tunisian authorities to support justice reform, promote human rights and safeguard the rule of law.

At the top of the list, Brussels should pressure President Saïed to curb vigilante violence, whether toward sub-Saharan African migrants or anyone else. Indeed, between January and April, many Tunisians in the country's interior reported that self-proclaimed Saïed partisans, known as the "Kais militias", began reprimanding individuals who criticised the president in cafés. Reacting to possible anti-government protests and Saïed's new speeches putting the blame on certain actors, these self-organised groups could intensify violence against migrants. They might also start orchestrating demonstrations and attacks on the opposition, as well as businessmen and external scapegoats, such as foreign backers of the opposition and international NGOs. Tunis should work to prevent them from doing so.

Finally, the EU should also prepare for the possibility that it will have to lend emergency assistance in the event of a Tunisian debt default. While this aid would be for different purposes than the sort of financing available should the IMF loan be concluded, assistance that supports soft wheat and medicine deliveries may be needed in order to prevent a humanitarian crisis, which could erupt into dangerous unrest. The EU should also consider supporting financing mechanisms, for example, to allow for the import of fuel products. Brussels should begin road-testing this possible approach with member states now, so as to build consensus around what it would be willing to offer. While countries such as Germany and Italy have remaining differences over how much political capital to expend trying to halt authoritarian drift, a focus on maintaining domestic peace in Tunisia may help them overcome this division. ■