Interview of the Month April 2016

Guest: Dr. Achraf Ayadi

Dr. Achraf Ayadi is a qualified professional banker and consultant for financial services with a track record of working experience with some of the biggest European banks. He is well-known as independent Arabic-speaking economic analyst (featured more than 100 times in business TV shows and radio debates). He wrote dozens of in-depth articles regarding monetary policy, public finance and economic policies in Euro zone and in Tunisia. He is regularly invited as keynote speaker in Economic conferences in France and Tunisia by universities, NGOs and employers unions.

Dr. Ayadi is a former Management Board member of T.F. Bank based in Paris. He is currently an independent Board Member of Banque de l'Habitat, a semipublic bank licensed in Tunisia. He acts as Chairman of its Internal Auditing Committee since June 2015.

Dr. Ayadi holds a B.A. in International Business, a M.Sc. in Management & Economic Internationalization and a Ph.D. in Management Science. He is individually Certified by the French Financial Market Authority, in addition of being the recipient of a Certification in Fundamentals of Central Banking and Monetary Policy from the United Nation Institute for Training and Research.

Debt Policy

1. **Given the current economic conditions and the growth outlook in Tunisia, do you foresee an increasing risk for Tunisia to default on its balance of payment? What would be the consequences on the welfare of the country? What would you recommend to mitigate these risks?**

   Multiple reasons may suggest that a default is possible. In fact, even if public debt by GDP level is still under 60%, growth of the GDP is not enough to cover the acceleration of debt service. Between end of 2014 and end of 2015, public debt has grown by more than 11% when GDP evolved less than 1% in the same period. In terms of debt structure, 70% of loans planned for 2016 State budget are denominated in foreign currency. It means that exporting sectors and Tourism should outperform in order to overcome an additional need for foreign currency reserves. It is clearly not the case given production of phosphate industry fallen by roughly 40% and tourism sector revenues dropped by more than 50% in a year.

The economic policy in Tunisia is facing many dilemmas: how to increase growth when 64% of public spending is dedicated to administrative expenditure of the State and only 18% is dedicated to public investments? How to improve tax revenues when hidden economy represents around 50% of the overall economic activity and tax pressure on the remaining legal activities is up to 21%?

However, the apparently resilience of Tunisian economy is much more explained by external factors (mainly geopolitics) than by a locally possible recovery. Key partners like United States and the European Union cannot afford an economic failure of what has been presented as the only democratic country in the Arab world. For how many time this support would continue?

Geopolitical and Economic Instability

1. **The tourism sector has been hit hard after the horrific terrorist acts. Do you see a serious devaluation risk to the TND due to the loss of foreign reserves? How would the expected increase in default risk on loans taken by the hospitality industry affect the health of the financial sector?**

   In January 2011, EUR-TND exchange rate was nearly 1,9 TND then more than 2,28 TND in late April 2016. In the same period, USD-TND exchange rate raised from 1,4 to more than 2 TND. As exporting sector underperform and local productivity is lower than ever, the gap is only filled by external debt. TND devaluation is not just a hypothesis. In another economic context, it may be a factor of additional cost-competitiveness. In Tunisia, related risks of bureaucracy, political and legal instability is scaring potential investors. No cost advantage could hide the urgent need for reforms and clarity on economic policies.

   Hospitality industry is probably one of the most difficult components of Tunisian economy to reform. It represents in an average year 7% to 8% of GDP growth and account per 200.000 regular jobs. Deficiency of business unit's management, a low level of investment in continuous servicing, dependency on foreign travel agencies and many historical factors led to the situation the hospitality industry is facing now. Non performing claims in this industry is up to 23% when the average for the other industries is approximately 12%. Tourism requires a new strategy, a new positioning and probably should stop building more hotels and focus on service quality and product diversification.

2. **Tunisia depends on imports to meet its energy needs. Recent low oil prices are providing a significant economic relief. Are we taking advantage of such low costs to build oil reserves? What is the progress we are achieving in the renewable energy production sector?**

   Sadly, Tunisia is not profiting from lower oil prices. Why? Because bureaucracy imposes to buy with spot prices without the use of hedging financial instruments. Then, State budget is always undergoing international prices as they are without adoption of available modern tools in order to secure commodity orders in the international market. This requires many deep changes in foreign currency management, authorizing public officials to manage more dynamically the State money. This is not easy to do without reforms.

3. **The inflows of Libyans refugees over the last 4 years is expected to continue at least over the short run, given the political uncertainty in their home country. Can you highlight some of the short and long term consequences that it may have on the economy?**

   I think Libyan refugees are an economic opportunity that Tunisian State managed poorly. Libya is our closest risk and also our biggest chance for recovery. We should invest in them now to be the first to help them rebuild their country.

Financial and Economic Reforms

1. **The Tunisian economy has been stagnating and major macroeconomic indicators are still in the red. Can you share few concrete ideas that can be implemented over the short run which could help generate wealth and create new job opportunities for the current unemployed (many of them have at least college degree)?**

   It is not easy to find killer ideas to knock down the situation in few months or years. However, it is possible to focus on some quick wins, for example, forcing universities and companies to work closer in courses' content definition or in teaching students. Filling the gap between theoretical knowledge and operational one is possible if we give universities more autonomy and companies more tax advantages to invest in high education. We should also reduce the number of people being qualified in subjects for whom no jobs are created locally. In Tunisia, we have a very good potential in research in biology for example.

According to a former Minister of Higher Education, approximately 500 Ph.D. holders in biology or related fields are jobless. University cannot recruit them all in teaching positions. However, this might be a good argument to attract multinational pharmaceutical and chemistry industries to invest locally. In the same fashion, many jobless holding a diploma in physics or mathematics should reconvert themselves, with a strong support of the state, to IT development. Other quick wins could be a task force on State procurement policy, some courageous decisions against corruption and accelerating execution of infrastructure projects.

Let me be clear: these ideas could work, but without good reforms and a clear strategy, nothing could be achieved.

2. **Between the two schools of thoughts on the mandate of the Central Banks that are currently led by the Fed (with primary involvement in both the monetary and the real spheres of the economy) and the ECB (required by law to focus almost exclusively on price stability), where do you position the Tunisian Central Bank's current mandate and role? Does this mandate need to be changed in order to be more efficient on the economy (growth and inflation)?**

   Given the fact that no clear economic roadmap has been set by ruling politicians, Central Bank of Tunisia is playing solo. The reform of statutes law of the CBT voted in mid-April give more independency to this institution with clear prohibition to copy FED-like Quantitative Easing policies. CBT is not allowed to buy State bonds, even if it is allowed to nationalize a troubled banking firm. It is not a surprise: CBT officials are as conservative as ECB ones and they try to put inflation target far higher than growth and full employment ones. CBT is cumulating many functions: broker of the State, foreign currencies manager for the State, debtor agent of the State, supervisor of banks and financial companies, etc. Here, also, a reform of the financial industry should be taken seriously.

3. **As the government embarks in its second year and looking forward for the coming 4 years of its term, what are the three most needed reforms you recommend for the Tunisian economy in order to be on a good track in the long run?**

What I recommend to the Government is to be clear on strategic targets before defining economic policies. In reality, with the high level of external debt dependency, the Tunisian Government is no more able to hear recommendations about reforms. International Monetary Fund is probably best heard today than ever as it finances public sector employees, including salaries of those public officials negotiating debt clauses. For Tunisian politicians, as United States and European Union are here to support anything that could save “the Model” of an Arabic “start-up democracy”, it is just business as usual.