



The devaluation of the dinar is making public debt explode

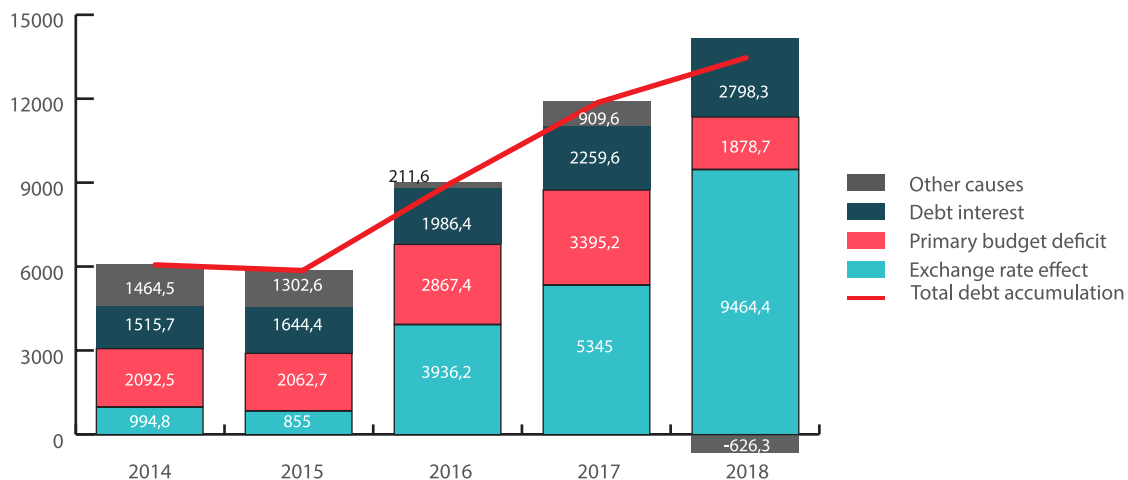
Key highlights :

- The budget deficit is no longer the largest contributor to the increase in public debt since 2016.
- From 2018 onwards, interest on debt contributes more to the increase in public debt than the budget deficit
- The devaluation of the dinar since 2016 is the main contributor to the increase in public debt.

[Title: Main causes of the increase in public debt in Tunisia 2014-2018

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Sources : Ministry of Finance



This graph represents the annual increase in public debt, both domestic and foreign, as well as the main causes of this increase. We are witnessing an ever-increasing increase in public debt from 2016 onwards. According to the Ministry of Finance, the three main causes of the increase in public debt are the budget deficit, debt interest and the exchange rate effect.

In 2014 and 2015, it was the budget deficit that contributed most to the increase in public debt. This contribution has increased significantly from 2 billion dinars in 2014 and 2015 to 3.4 billion dinars in 2017. The contribution of the budget deficit then fell sharply to 1.8 billion dinars in 2018 as a result of the Government's austerity policy. In parallel, the contribution of interest to the increase in public debt has steadily increased from 1.5 billion dinars in 2014 to 2.8 billion dinars in 2018, almost double. Moreover, from 2018 onwards, interest contributes more to the increase in debt than the budget deficit.

Finally, the most important development concerns the effect of the exchange rate on public debt. Indeed, the exchange rate effect contributed only 1 billion dinars in 2014. Following the BCT's Independence Act and the liberalization of the exchange rate in April 2016, the contribution of the exchange rate effect exploded. By 2016, the devaluation of the dinar is the main cause of the increase in public debt to 3.9 billion dinars. Since then, this contribution has exploded to 9.5 billion dinars in 2018 alone, five times more than the budget deficit in the same year. The devaluation of the dinar doubled the stock of external public debt from 29.9 billion dinars in 2015 to 60.2 billion dinars in 2018.

The authorities' efforts should thus focus five times more on stabilizing the dinar than on fiscal austerity, which contributes less to the increase in public debt than just interest on the debt.

