Africa Confidential, Vol 55 No 20, TUNSIAI: Critical votes and toxic loans, 10th October 2014
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TUNISIA

Critical votes and toxic loans

Ahead of key national elections, concern is mounting about the legacy of bad loans from the time of President Ben Ali

The cabinet, chaired by technocratic Prime Minister **Mehdi Jomaa**, passed a decree releasing 100 million dinars (US$55 mn.) on 13 October to shore up the *Banque de l'habitat* (BH) and the *Société tunisienne de banque* (STB). But, when a plenary session of Parliament failed on 26 September to meet a quorum to establish a 'bad bank'-style entity to absorb a rising tide of toxic loans, a match was struck. The draft law to set this up, which has dragged along for two years now, was blocked by lobbying, say sources close to the process.

Audits of BH and STB financial reports have already turned up a D1 billion capital deficit, while the tide of bad loans has been rising at D30 mn. per month. We hear that promises have been made amongst insiders that the *Conseil des ministres* will vote again on 28 October on budget assistance to the banks but that is unlikely since parliamentary polls are scheduled two days earlier and wrangling over coalitions is expected to follow. The trio of state-owned banks will publish their balance sheets by year-end. The audit of the third, the *Banque nationale agricole en Tunisie* (BNA), is under way.

Behind the scenes, a crisis over state banks is brewing. The economic slowdown is expected to be reflected in bank profitability when banks report their results this year. Observers will be looking to see how this has altered the tide of non-performing, or toxic, loans and provisions for these loans. The worst-case scenario is for a liquidity crisis that could flare up into a solvency crisis.

While it isn't yet clear whether the BNA will turn up a capital deficit, one local Tunisian banker close to the audit process told *Africa Confidential* that the bank's management was not very favourable to the idea of an audit. BNA, whose audit is being carried out by PricewaterhouseCoopers in Paris, is six times more exposed to public companies than the other two banks, he says, and he suspects the bank management and perhaps also the *Banque centrale de Tunisie* (BCT) tried to prolong the audit because this in itself could involve a systemic risk. 'Nobody will tell you whether there will be a systemic crisis or not,' says a person close to the donor community. 'It depends who talks. Probably the Governor of BCT **Chedli Ayari** will send out some doveish signals because the Central Bank doesn't want to create a panic' (AC Vol 55 No 9).

After the revolution that ended President **Zine el Abidine Ben Ali**'s 23 years in power, the local banker says he was told not to worry by **Hakim Ben Hammouda**, now Interim Finance Minister, and **Mohamed Rekik**, then Director of the Department of Financial Stability and Risk Prevention and now BCT Deputy Governor (AC Vol 52 No 2). The market had already factored that situation into the valuation of the banks, they said. It was 'impossible' for the trio to go bankrupt, for their credit rating to decrease or even for there to be a market shock, they explained. *AC* could not reach Hammouda or Rekik for comment.

The new D100 mn. recapitalisation plan will probably be financed through non-negotiable sovereign bonds, we hear, and is a way to inject equity into the banks for which BCT serves as lender of last resort. The World Bank's annual budget support is also due in the form of a $500 mn. loan – just under the combined capital deficit of BH and STB. However, it is partly conditional on passing the law to establish the 'bad bank', known as an asset management company (AMC), by the end of the year. To persuade the multilateral lender it can avoid financial losses, the new Parliament will have to restructure and transform the three state banks into viable commercial banks soon after the elections. A Financial Sector Specialist at the World Bank and veteran of the two-year saga to establish the AMC, **Laurent Gonnet**, told us the decision to postpone the AMC costs the exchequer, on average, D1 mn. of new toxic loans per day.

About a year after the revolution, Gonnet says the then BCT Governor, **Mustapha Kamel Nabli**, asked the World Bank to conduct an investigation into the debt accumulated by the tourism sector and prepare a report for the government. When AC ran the figures by **Slim Tlatli**, Tourism Minister under Ben Ali and an advisor to current Tourism Minister **Amel Karboul**, he nodded in agreement. He said that the situation had become 'disastrous' and that the tourism sector represented a quarter of the banks' total $6.7 bn. in non-performing loans. 'A loan from the World Bank to recapitalise the banks is urgent,' Tlatli said.

A World Bank-sponsored AMC would speed-up the process to force banks and companies with outstanding loans to agree on how to resolve debt, either by amicable means or by entering into a liquidation process and selling the asset. In itself, the AMC, which the BCT Governor could set up with state funds, would do little end toxic loans or address root causes. A domino effect leading to a systemic crisis could begin with the non-performing loans of the tourism sector. In Parliament, several people close to the process told us that the tourism lobbying group, the *Fédération tunisienne de l'hôtellerie*, had blocked the AMC law on 26 September.

The AMC would buy up hotel companies' bad loans and act as majority shareholder and creditor, which the FTH sees as expropriation. The final decision on the AMC law, backed by Hammouda, will be made by Rekik's successor at BCT, **Amel Ben Rahal**. The draft provides no limits on selling assets to foreign investors and rumours have it that the AMC is secretly backed by Gulf investors seeking to expropriate Tunisian assets. ●