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Tunisia: Recent Economic Developments

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TUNISIA

Recent Economic Developments

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Approved by the Middle Eastern Department

March 3, 2000

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Area, population, and GDP per capita	
Area	162,155 square kilometers
Population	
Total (1998)	9.4 million (est.)
Growth rate	1.7 percent
GDP per capita (1997)	US$1,976

	1994	1995	1996	1997	1998
	(In millions of Tunisian dinars; unless otherwise indicated)				
Gross domestic prices at 1990 market prices	12,789	13,074	14,009	14,768	15,505
Agriculture and fishing	1,746	1,573	2,038	2,098	2,077
Mining	91	111	118	107	135
Hydrocarbons, electricity, and water	881	877	921	944	991
Manufacturing	2,292	2,404	2,469	2,645	2,745
Of which					
Food processing	439	426	434	517	492
Construction and public works	622	599	616	659	699
Services	5,618	5,928	6,216	6,593	7,017
Indirect taxes minus susbsidies	1,538	1,583	1,631	1,722	1,842
Gross domestic product at current market prices	15,807	17,052	19,066	20,901	22,724
Central government consumption 1/	1,956	2,133	2,434	2,719	2,948
Nongovernment consumption	10,458	11,372	12,152	13,122	14,247
Gross fixed capital formation	4,268	4,121	4,422	5,136	5,690
Change in stocks	-399	92	354	440	567
Net exports of goods and nonfactor services	-475	-666	-296	-516	-728
Gross national product	14,889	16,241	18,062	19,903	21,736
Gross national disposable income	15,592	16,953	18,863	20,737	22,678
Prices (annual percentage changes)					
GDP deflator	4.4	5.5	4.4	4.0	3.6
Consumer prices	4.7	6.3	3.8	3.7	3.1
Government finance 2/					
Total revenue	4,943	5,104	5,786	5,933	6,579
Tax revenue	3,961	4,263	4,776	5,224	5,884
Nontax revenue	982	841	1,010	709	695
Expenditure	5,196	5,739	6,675	6,618	7,115
Current expenditure	4,210	4,636	5,362	5,283	5,644
Capital expenditure	987	1,103	1,313	1,335	1,471
Net lending	140	125	89	186	108

Tunisia: Basic Data

	1994	1995	1996	1997	1998
Overall deficit (-) excl. grants and privatization proceeds	-393	-759	-978	-871	-644
Grants	64	45	42	66	89
Privatization proceeds	16	17	10	3	418
Overall deficit (-) incl. grants and privatization	-314	-698	-926	-803	-136
Foreign financing (net)	218	490	526	492	4
Domestic financing (net)	96	208	400	311	132
Money and credit (end of period)					
Foreign assets (net)	885	843	1,138	1,511	1,353
Domestic credit	8,568	9,286	10,464	11,746	12,500
Money and quasi-money (M2)	6,811	7,221	8,204	9,556	10,062
Broad money (M3)	7,246	7,735	8,762	10,175	10,711
Broad money (M4)	9,347	10,344	11,658	12,783	13,915
Balance of payments (in millions of U.S. dollars)					
Current account	-654	-777	-479	-593	-675
Trade balance	-1,567	-1,988	-1,761	-1,955	-2,150
Exports, f.o.b.	4,643	5,469	5,519	5,559	5,722
Imports, f.o.b.	-6,210	-7,458	-7,280	-7,514	-7,872
Services and transfers (net)	913	1,212	1,283	1,362	1,475
Capital account	1,218	928	838	711	600
Grants	103	46	46	95	82
Direct foreign investment (net)	442	283	261	355	697
Medium- and long-term loans (net)	578	540	472	484	-174
Short-term capital and other 3/	95	59	59	-222	-5
Overall surplus or deficit (-)	564	151	359	118	-74
Gross official reserves (eop, in billions of U.S. dollars)	1.5	1.6	1.9	2.0	1.9
Total external debt (medium and long term; in billions of U.S. dollars)	8.8	9.8	9.9	9.6	9.7
Export prices (in billions of U.S. dollars)	18.3	3.0	-2.4	10.1	6.3
Import prices (in billions of U.S. dollars)	-7.9	20.1	-2.4	3.2	4.8
Terms of trade (in percent)	-3.0	1.2	3.3	-3.6	-2.7
Exchange rates (period averages)					
Nominal effective exchange rate	99.7	100.0	100.7	99.9	99.2
Real effective exchange rate	97.9	100.0	100.7	100.6	100.5

Sources: Data provided by the Tunisian authorities; and Fund staff estimates.

1/ Includes the social security system.
2/ Consolidated operations; with social security payment-order basis.
3/ Includes all economic agents except the central government.

Basic Social and Demographic Indicators, 1980–97

	1980	1985	1994 1/	1997	MENA countries 1/	All lower middle income countries 1/
Population characteristics						
Total population (in millions)	6.6 2/	7.3	8.8	9.2	272.4 8/	1,152.6 8/
Urban population (in percent of total population)	52	53	57	62	56	56
Birth rate (per thousand)	35 2/	31	24	19	32 8/	22 8/
Death rate (per thousand)	8 2/	7 6/	6	6	7 8/	8 8/
Life expectancy at birth (years)	62	66 6/	68	72	66 8/	67 8/
Population growth (in percent)	2.7	2.0	1.8	1.4	2.4 8/	1.3 8/
Income and wages						
GDP per capita (in 1990 dinars)	1,215 2/	1,273	1,451	1,602	...	...
GDP per capita (in current dinars)	631 2/	944	1,793	2,267	...	...
GDP per capita at current prices (in SDRs)	1,090 2/	1,115	1,238	1,490	1,407	1,193
Minimum wage in the nonagricultural sector (SMIG in current dinars per hour)	0.30 2/	0.46	0.70	0.82	...	...
Poverty incidence (headcount index, in percent of households)	11	7	7	29	...	...
Health						
Infant mortality (per thousand births)	71	55	40	39	...	...
Population per physician	3,694	2,162	1,763	...	4,235 9/	4,287 9/
Education						
Literacy rate (in percent)	46	58	68	...	63	...
Of which						
Female	...	47	59	...	50	...
Primary enrollment (gross, in percent of school age population)	103	116	118 7/	...	41 1/	103.8 10/
Secondary enrollment (gross, in percent of school age population)	27	39	52 7/	...	59 1/	63.6 10/
Pupils per teacher (primary school)	39	32	25 7/	...	26	...
Labor force						
Total labor force (in millions)	2.2	2.5 4/	3.2 3/	3.0	87.5	506.8 8/
Unemployment rate (in percent)	...	16.4 4/	15.3	...	...	...

Sources: World Bank; Ministry of Economic Development; and Fund staff estimates.

1/ Most recent estimates, 1989–94, unless otherwise indicated.
2/ Data for 1981.
3/ Data for 1996.
4/ Data for 1984.
5/ Data for 1989.
6/ Data for 1987.
7/ Data for 1993.
8/ Data for 1995.
9/ Data for 1981.
10/ Data for 1992.

I. Executive Summary

1. Tunisia's solid growth performance continued in 1998 (5 percent) despite a contraction of agricultural production. Notwithstanding a rise in the rate of investment, the external current account deficit widened only slightly to 3.4 percent of GDP thanks to a commensurate increase in the saving rate. Inflation decelerated to 3.1 percent despite the increase in administered prices. Due to a hardening of borrowing conditions on international markets, the Tunisians did not tap the markets and reserves declined from 3.1 to 2.6 months of imports at end of 1998. Notwithstanding the strong growth performance, unemployment remained roughly unchanged at 15.6 percent. The outlook for 1999 is for a year of solid growth (6.5 percent) with stable inflation (3.1 percent). The external current account is projected to widen slightly to 3.7 percent.

2. Tunisia's strong performance in 1998 and into 1999, especially by regional standards has its roots in a prudent and well balanced macroeconomic stance, aimed at continued fiscal consolidation and disinflation, backed by a solid record of investment in social and physical infrastructure. The limited exposure of the economy to short-term capital flows helped Tunisia weather the turmoil in international capital markets. Structural reforms proceeded on several fronts, largely as planned. Notable progress was made toward restoring banking stability under a restructuring program that included the settlement of nonperforming loans to public and semi-public enterprises (5 percent of GDP). The volume of privatization witnessed a marked acceleration with the sale of two large cement factories for a total of US$380 million. Nonetheless, the state still retains extensive control over economic activity.

3. The authorities made a notable effort to increase the transparency of policies, including through the publication of this report, the participation in the IMF pilot project on the transparency of economic policies and the intention to subscribe to the IMF 's SDDS.

4. The authorities' growth strategy through 2001 while closely tied to the strategic decision to open the economy to foreign competition and to the opportunities offered by global integration, needs to keep pace with the ensuing challenges. The structural widening of the current account deficit requires that fiscal consolidation become front-loaded and the main sources of budgetary rigidity be addressed. In the face of financial innovation, monetary policy would need to expand the range of indicators used to gauge inflationary pressures, and interest rate would have to come to play a more active role in credit allocations. Wage agreements would need to become forward looking, guided by a well-defined official inflation objective. The real exchange rate targeting that has guided exchange rate policy would have to be expanded to take into account a broader set of indicators. Trade liberalization would have to be accelerated and widened on a multilateral basis in order to avoid distortions associated with partial trade liberalization. To increase private sector initiative, the government would have to withdraw from direct intervention in productive activities such as banking, telecommunications, and transport.

II. INTRODUCTION

5. During the first two years under the IX[th] Economic Development Plan (1997–2001), Tunisia's solid growth performance continued at about 5 percent a year, despite a contraction in agricultural production in 1998. While the services sector made the largest contribution to output growth in 1998, agriculture remains, nevertheless, an important source of employment, and its performance was marked by continued dependence on weather conditions. Gross fixed capital formation, notably in the manufacturing sector, was the most dynamic component of aggregate demand, leading to a marked increase in the investment rate by 3.4 percent of GDP over the period to 27.5 percent of GDP in 1998. Notwithstanding, the external current account deficit widened by about 1 percent of GDP, owing to a commensurate increase in the domestic saving rate on account of a notable rise in government saving.

6. CPI inflation was reduced during the period from 3.8 percent in 1996 to 3.1 percent in 1998, despite the increase in the VAT rates and substantial increases in the prices of public transports and utilities, and in administered prices. Cost pressures due to wage growth, mainly between 5 percent to 8 percent (depending upon the sector) under the 1996–98 tripartite agreement, were offset by sufficient gains in productivity growth. Despite the strong growth performance, the unemployment rate remained at about 15.6 percent and sources of concern for the authorities as young graduates find it increasingly difficult to find work. Social indicators remained far better than those of the region, notably as regards education, health, and the gender gap

7. Considerable progress was made on the fiscal front. The budgetary objectives pursued in the 1997–98 period were formulated in the context of the IX[th] Economic Development Plan, which aims at raising gross national saving by about 3.5 percent of GDP over 1997–2001, mainly through a notable increase in government saving. During the first two years of the Plan, the consolidated central government deficit declined from about 5 percent of GDP in 1996 to 2.8 percent in 1998. The authorities were successful in implementing tax measures to offset the anticipated decline in trade taxes (in the face of the implementation of the Association Agreement with the EU) but also managed to tighten expenditure to compensate for the unanticipated decline in nontax revenue. The strong fiscal stance and the increased availability of foreign financing resulted in a gradual shift from domestic to foreign financing. In addition, domestic financing relied more on nonbank financing which led to a steady reduction in the central government indebtedness to the domestic banking system.

8. Over this period, the growth rate of the broad monetary aggregate (M4), remained roughly in line with nominal GDP growth and the authorities' monetary targets. The Central Bank was able to absorb excess liquidity resulting from the takeover of the banks' claims on the Cereals and the National Oil boards, thus effectively limiting the expansion of bank credit to the economy.

9. Tunisia's external current account deficit widened from 2.4 percent of GDP in 1996 to 3.4 percent in 1998. This is largely explained by adverse, but temporary, external price

developments, as well as by a surge in imports related to large foreign direct investment. Nevertheless, should the trend continue in 1999, this could put into question Tunisia's structural competitiveness. The limited exposure of the economy to short-term capital flows helped Tunisia weather the turmoil in international capital markets. Tunisia was successful in tapping the Yankee bond market for the first time in 1997. In 1998, however, faced with a marked hardening of borrowing conditions in international markets, and in light of a significant volume of foreign direct investment (FDI) inflows, the authorities decided to postpone the planned issuance of Eurobonds. International reserves declined from 3.1 months of imports at the end of 1997 to 2.6 months at end of 1998.

10. As of end-1998, Tunisia had a sizable but sustainable external debt amounting to US$11.3 billion (55 percent of GDP as compared to 61 percent a year earlier). Public and publicly guaranteed debt, mostly medium- and long-term debt, accounted for 80 percent of the total. Short-term debt (US$1.6 billion) was mostly contracted by the private sector, with about a quarter in the form of trade credits. More than half of the remaining short-term debt (about US$673 million) consisted mainly of saving by Tunisian expatriates, in anticipation of their return to Tunisia, thus subject to lower risk of massive and rapid withdrawals. Nonetheless, these deposits are yield-sensitive, and the increase over the past years was in part attributable to the relatively attractive interest rates offered on the dinar convertible deposits.

11. Structural reforms proceeded on several fronts but challenges also remain. Notable progress was made toward restoring banking stability under a restructuring program, developed with the support of the World Bank. The main feature of this program included the consolidation and restructuring of bad loans to public enterprises, the strengthening of the regulatory and prudential framework (adoption of the Basle-defined capital adequacy ratio of 8 percent applicable as of December 31, 1999, and reform of the banking law to establish universal banking), and merger of selected government-owned banks. Still, as of end–1998, the ratio of nonperforming loans to the private sector to GDP stood at 22 percent of GDP.

12. The industrial restructuring *(mise à niveau)* programs were launched in 1996 to prepare private manufacturing enterprises for the challenge posed by trade liberalization with Europe; these programs have yielded some positive results in terms of improved export performance and job creation. Total investment of about TD 1 billion (US$930 million) was generated over three years toward upgrading productive capacity and human capital, supported by grants totaling TD 135 million. Notwithstanding, the product specialization and the geographical concentration of exports, and increasing competition in the export markets pose a major challenge.

13. Privatization accelerated in 1998, with the sale of two large cement factories to foreign investors for a total of TD 418 million (US$380 million). State-owned enterprises however still accounted for about 20 percent of value added in 1998. The government continued to withdraw from the productive sectors with the granting of the first concession for the private production of electricity as well as the opening of certain port handling activities to private competition. To attract foreign investment in sectors other than energy, a major upgrade of infrastructure and services is required. This would be achieved through a broadening of

privatization efforts to include larger public sector companies, in particular the banking, telecommunications, and transport sectors.

III. Real Sector Developments

A. Overall Developments

14. Over the 1997–98 period, real GDP grew on average by more than 5 percent per year (Table 1). With a population growth estimated at about 1.4 percent per year, this implied an annual growth in per capita income of 3.8 percent, higher than the rates prevailing in many developing countries.[1]

15. Despite a contraction of agricultural production (- 1 percent), real GDP grew by 5 percent in 1998. The services sector contributed to about half of the increase in output growth in 1998 (2.4 percent), followed by the manufacturing sector, which contributed about 1 percent. Notwithstanding the agriculture sector remains an important source of employment and its performance remains dependent upon weather conditions, especially in the rain-fed areas.

16. Gross fixed capital formation, notably in Tunisia's traditional and new export sectors (textile and leather products, mechanical and electrical goods, and food processing) was the most dynamic components of aggregate demand. Notwithstanding the marked increase in the investment rate to 27.5 percent of GDP, the external current account deficit widened only slightly to 3.4 percent thanks to a commensurate increase in the saving rate.

17. CPI inflation was reduced from 3.7 percent in 1997 to 3.1 percent, despite the increase in the VAT rates and substantial increases in the prices of public transport and utilities, and in administered prices.

18. Despite strong growth performance, the unemployment rate has remained roughly unchanged at 15.6 percent. This high level reflects in part the inclusion of nonactive job seekers in the official definition. Outside of this group, unemployment has been largely concentrated among first time job seekers and unskilled workers.

B. Aggregate Demand and Saving

19. The strong growth performance in 1997–98, was spurred by continued robust expansion in aggregate demand, including in private investment. Over the period, private

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[1]Over 1997–98, average real per capita GDP rose by 2.9 percent in developing countries, 0.7 percent in Africa, 1.3 percent in Middle East and Europe, and 2.4 percent in Western Hemisphere (for more details see World Economic Outlook, May 1999).

sector consumption growth,[2] rose from less than 3 percent in 1996 to more than 5 percent in 1998, owing mainly to higher levels of income. Growth in public consumption decelerated from 10 percent in 1997, to about 7 percent and 4 percent in 1997 and 1998, respectively, reflecting the containment of budgetary expenditures (Table 4).

20. An important factor underlying the sustained growth in aggregate demand was a strong recovery in investment, which rose by 10 percent in 1997, and 6 percent in 1998. Private investment rose sharply with the implementation of the *mise à niveau* programs, aimed at upgrading the industrial sector. In support of these programs, public sector projects concentrated on infrastructure, including electricity, road projects and communications (Table 5).

21. The increase in the investment rate from 25 percent of GDP in 1996 to 27.5 percent of GDP in 1998, was financed mainly through an increase in gross national saving (about 1.7 percent of GDP over the period), on account of a sharp improvement in government saving (2.1 percent of GDP over the period), thus limiting the widening of the current account deficit to 0.8 percent of GDP.

C. Sectoral Developments

22. Although the share of agriculture and fishing in total output has declined from about 17 percent in 1992 to 13 percent in 1998, agriculture remains an important source of employment. Its performance was marked by the heavy dependence on weather conditions, especially in the rained areas. Moreover, this volatility affects the nonagricultural sector via supply links (mostly with agro-processing) and demand effects on local industry and many services.

23. However, as the Tunisian economy became more diversified, it also became more resilient to shocks. For example, in 1986 agricultural output contracted by about 20 percent as a result of the drought, with the overall economic activity declining by 2 percent.[3] By contrast, during the 1994–95 drought, while agricultural output declined cumulatively by 19 percent, the economy still managed to grow on the average at about 2.8 percent per year, owing to an expansion in manufacturing and services sectors.

24. The share of manufacturing value added in total GDP stood at 18 percent in 1998, unchanged since 1996, while that of services rose from 45 percent to 46 percent, owing mainly to the contributions of transport and telecommunications sectors. The share of tourism in total GDP remained virtually stable at about 6 percent.

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[2]The private sector in this context includes all economic agents except the consolidated central government.

[3] In 1986, the share of agriculture in the value added was still around 15 percent.

Agriculture and fishing

25. Tunisia's main agricultural products include cereals (hard and soft wheat and barley), olives,[4] citrus fruits, and vegetables. While agricultural output growth had rebounded in 1996, following two years of drought, it slowed down markedly in 1997 to 3 percent (Table 1). This reflected inter alia a sharp drop in the production of cereals (60 percent) as a result of poor rainfalls mitigated by a record output of olives (1,550 thousand tons in 1997 as compared to 300 thousand tons in 1996). In 1998, despite a turnaround in the production of cereals (59 percent in 1998) agricultural value added declined by 1 percent mainly on account of a sharp drop in the output of olives to more normal levels (450 thousand tons; Tables 6 and 7).

26. The Tunisian authorities have recently introduced several **measures to boost agricultural production**, particularly farming, in anticipation of negotiations with the European Union in January 2000 on the extension of free trade to the agricultural sector and a new round of talks on agriculture with the World Trade Organization (WTO). These measures are comparable to the *mise à niveau* programs of modernization in the industrial sector (below). The authorities have decided to waive all outstanding loans to farmers prior to 1998 up to a ceiling of TD 2,000. The move is intended to benefit around 120,000 small farmers, or about three-quarters of the indebted farmers. Outstanding loans ranging between TD 2,000 and TD 40,000 are to be rescheduled over a period of up to 7 years; this will cover about 44,000 farmers. The authorities are also accelerating the implementation of a plan to establish agricultural training centers in every province by 2001. To encourage organic farming, technical support centers will be established to extend to farmers grants covering up to 30 percent of the cost of equipment. The agricultural investment agency, *Agence de promotion des investissements agricoles*, has also made available about 6,686 hectares of state farmland in the Nabeul province for leasing to export-oriented companies.

Energy and water

27. Value added in the energy sector (including hydrocarbons, electricity, and water) declined throughout the 1992–95 period mainly as a result of the continued drop in crude oil production, which constituted between 70–80 percent of the sector's value added (Table 1). In the 1996–98 period however, value added in the sector rose by an average of 4 percent a year, thanks to a pick up in the production of gas with the start of the activity of the Miskar gas field in 1996, and an increase in the output of crude oil in 1998 (Table 8).

28. In 1992–97, output of **crude oil** continued to dwindle on account of a gradual exhaustion of reserves in the main fields. Output of the most productive field El Borma, which accounts for over 30 percent of total output declined by 12 percent in 1997. The output of Ashtart field, the second most productive, declined by about 4.8 percent in the same year.

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[4] Olives are mainly processed into olive oil, a major export.

In 1998, however, the coming on stream of small fields producing more than 240 thousand metric tons,[5] reversed past trend, allowing total output in the sector to rise by about 3 percent.

29. With the start of exploration at the Miskar[6] and Zini **gas** fields in 1996 and the full operation of the second transcontinental gas pipeline, gas production rose from 126 thousands metric tons in 1995 to 1,720 thousands metric tons in 1998.

30. **Electricity** production (mainly by the Tunisian Electricity and Gas Company (STEG)) generated almost exclusively by thermal plants based on fuel-oil and natural gas rose by about 8 percent a year in 1997–98 (Table 8), reflecting an increase in consumption of high voltage (tension) electricity by the industrial sector (about 6 percent a year on average) and of low voltage (tension) by households (more than 8 percent a year on average).

31. According to the Ministry of Agriculture, about 70 percent of the objectives set under the 10-year **national water plan** (1990–2000) have been achieved, including the construction of 6 large dams, 547 reservoirs, and 57 wastewater treatment plants. This allowed the mobilization of an additional 973m cu meters of water per year, bringing total available water resources to some 78 percent of total exploitable resources. About 80 percent of water resources are used for irrigation. Value added growth in this sector rose from less than 3 percent in 1996 to more than 5 percent a year on average over 1997–98.

Mining

32. The mining sector, which includes lime phosphate, iron ore, and sea salt, contributed about 1 percent to total output, but together with phosphate derivatives industries, accounted for about 10 percent of Tunisia's foreign exchange earnings. In 1997 the Bourgine mine was closed temporarily (affecting the production of ores), resulting in a decline in output by more than 9 percent. In 1998, a pick up in the production of phosphate and the reopening of the Bourgine mine brought about a rise in value added by about 26 percent.

Manufacturing industries

33. The manufacturing sector in Tunisia is relatively diversified. It consists of textiles, clothing and leather goods; food processing (especially cereal derivatives, meat and olive oil); construction materials and glass; mechanical and electrical goods; chemical and rubber; and woodwork and paper. This sector which is mostly export-oriented accounted for about 18 percent of GDP in 1997–98.

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[5] Didon, El Franig, Beguel, Sabria, and El Bibane.

[6] British Field exploits the Miskar field and sells the gas to STEG, the public gas and utility company. The Miskar field alone accounts for about 90 percent of total gas output.

34. In 1997, value added in manufacturing rose by about 7 percent reflecting an acceleration of activity across all industries, in particular, a surge in output of food industry (19 percent) mainly on account of olive oil, mechanical and electrical (7 percent), and textile and clothing (5 percent) mainly due to increased demand in partner countries. Activity in the manufacturing sector slowed down to about 4 percent in 1998 owing to a decline in output of the food processing industry (5 percent). Output in other manufacturing subsectors grew by about 6 percent in 1998 as compared to about 4.6 percent in the previous year, reflecting strong growth in the textile, mechanical, chemical, and woodwork and paper industries.

35. With the signing of the Association Agreement in 1995, the authorities launched a vast **program of industrial modernization (*mise à niveau*)** aimed at helping enterprises meet the competitive challenge of free trade with Europe. This program is directed at upgrading the capital stock but also at organization methods and practices, as well as managerial skills. The program targets to restructure about 2,000 enterprises by the end of 2001. A recent periodic review of the program concluded that between March 1996 and March 1999, 462 restructuring plans were approved by the *Comité de pilotage du fonds de développement de la compétitivité industrielle (COPIL)*, of which 38 percent in the textile sector, 14 percent in leather and shoes, and 13 percent in agro-industry. Total investment effected under the program amounted to TD 998 million, of which about TD 138 million was directed toward investment in human capital. A recent survey of 202 enterprises revealed that over the three-year period (1996–99), participating enterprises generated an increase of about 19 percent in employment, 32 percent in sales and 46 percent in exports. The implementation rate of investment projects was about 50 percent.

Construction and public works

36. A pick up in housing construction and public works led to an acceleration in value added growth from less than 3 percent in 1996 to about 7 percent on average in 1997–98.

Services

37. The main activities in services include domestic trade; transport and telecommunications; and tourism. Excluding government wages and salaries, services continued to account for a third of GDP in 1997–98. Activity growth in the sector picked up significantly in 1997–98 averaging about 6.5 percent a year, from less than 3 percent in 1996.

Commerce

38. Activity in domestic trade, which accounted for about 18 percent of total output in 1997–98, was stimulated by two policy initiatives: (i) the implementation of the Association Agreement with the EU; and (ii) in 1997 export-oriented firms were allowed to sell 20 percent of their output on the domestic market. Value added growth in this sector rose steadily from 4 percent in 1996 to 5 percent and 7 percent in 1997 and 1998, respectively.

Transport and telecommunications

39. Value added in transport and telecommunications rose on average by about 6 percent in 1997–98. This reflected rising maritime and air traffic owing respectively to larger trade activities and tourist arrivals, and extension of telephone lines by Telecom Tunisia.

40. Notwithstanding the rapid development of private carriers, the transportation sector is still dominated by public companies, including in passenger and maritime transport and accounted for about 6 percent of total output in 1997–98. In 1997 several reform measures were introduced: the sector of road merchandise transport was passed on entirely to private operators; two new maritime transport companies, *Gaz Marine* and the *Compagnie Générale Maritime (COGEMA)* were created; certain port handling activities were also opened up to private competition; and a new private air transport company, Mediterranean Air Service (MAS), specializing in airfreight was created. The program to modernize airport infrastructure continued in 1997–98 with the extension of the Tunis-Carthage international airport. Investment in this sector picked up with the purchase of new boats by the *Compagnie Tunisienne de Navigation (CTN) in* 1997 and the purchase of two airplanes by Tunisair in 1998.

41. Telecommunications are the weakest point in Tunisia's infrastructure. International communications are expensive, availability of high-speed data transmission is limited and there are controls on mobile telephones and the internet. In addition, telephone density is low, at about 6 telephones per 100 inhabitants. In early 1996, the authorities shifted responsibility for the network from the communications ministry to a new public company, the office of *Tunisie Telecom*, to increase efficiency and speed up the installation of 880,000 new lines. Work also began on building a Global System for Mobile Communications (GSM) cellular phone network for about 200,000 subscribers.

Tourism

42. The tourism sector accounted for about 5 percent of GDP in 1997–98. Tunisia has focused traditionally on low value-added mass beach tourism. In an effort to increase the value added in the sector and enhance its market share in Mediterranean tourism (currently estimated at less than 2 percent), the Tunisian authorities have been exploring the potential for expanding cultural and Saharan tourism. Tourism is very much dependent on the German and the French markets, which accounted for about 35 percent of foreign visitors in 1997–98. Over the period, tourism receipts in terms of Tunisian dinars increased by 25 percent due mostly to the increase in the entries of nonresidents (21 percent) and reflecting a modest increase in average daily expenditure per tourist (about 5 percent). Average occupancy rate rose from 49 percent in 1996 to 52 percent over the period under review as hotel capacity was constrained by a marked reduction in investment in the sector.

D. Prices, Wages and Employment

Prices

43. Inflation as measured by the average increase in the consumer price index decelerated marginally to 3.7 percent in 1997 from 3.8 percent in 1996, notwithstanding increases in prices of energy and subsidized food products in mid-year (Table 10). This was mainly attributable to a deceleration in the average increase of the price of clothing from 6.4 percent in 1996 to 3.7 percent in 1997, and in the price of housing, from 3.0 percent to 2.3 percent in 1997. Inflation decelerated further in 1998 to 3.1 percent on average, despite continued increases in prices of energy and subsidized food products (5.2 percent at end–1998), and in the prices of public transport and utilities owing mainly to a deceleration of prices of nonsubsidized food products (1.1 percent at end–1998).

44. Administered prices rose by 4.7 percent in 1997 and by about 3.6 percent in 1998 (as compared to 3.0 percent in 1996), reflecting the increase in prices of subsidized foodstuff (such as cereals and cereal products, edible oils, sugar, and milk) in both years. At the same time, nonadministered prices decelerated from 4.1 percent in 1996, to 3.2 percent and 2.3 percent in 1997 and 1998, respectively. With the deceleration of the price of these commodities, which cover about two-thirds of the CPI basket, the increase in the general index decelerated [slowed down] from about 3.8 percent in 1996 to 3.6 percent and 3.1 percent in 1997 and 1998, respectively.

Subsidies

45. Overall food subsidies provided through the **food subsidy fund (*Caisse générale de compensation (CGC)*)** have generally declined from 2.2 percent of GDP in 1996 to 1.7 percent in 1998, reflecting the phasing out of consumer and input subsidies on a wide range of products over the period as well as a decline in the price of imported goods. Consumer subsidies remain on certain basic food staples (cereals and cereal products, edible oils, sugar, and milk) and on schoolbooks. Efforts have been made to improve the targeting of subsidies by limiting them to the products that are predominantly consumed by the poor. Moreover, starting in 1996, in the context of the rationalization of outlays of the food subsidy fund and the elimination of arrears accumulated by the Cereal and Oil Boards, prices of subsidized food products have been raised annually (above) to contain outlays. And, since 1996, most of the operations have been handled directly by the Ministry of Commerce.[7] At the same time, direct transfers in cash and in kind to needy families, elderly, handicapped, and school children were also raised.

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[7]See SM/97/107 (5/5/97) for more details.

Wages and salaries

46. Since 1993, wage increases at the sectoral level have been set every three years in the context of the **tripartite wage negotiations**, including the public sector and major private enterprises, with the government playing a facilitating role. The last agreement covered the 1996–98 period and provided for wage increases, mainly between 5–8 percent, depending on the sector. These increases were accompanied by sufficient productivity growth to allow inflation to decline to about 3 percent.

47. A feature of Tunisia's labor market is the strict enforcement of **minimum wage laws.** The government sets minimum hourly wages for the non-agricultural sector (SMIG)[8] and minimum daily wages for workers in agriculture (SMAG).[9] The SMIG and the SMAG have been raised regularly in line with the annual increases in administered food prices. Two increases were granted in 1997, taking both the SMIG and the SMAG 5.0 percent higher than a year earlier, as administered food prices rose by 6.4 percent as at end–1997. The SMIG and the SMAG were raised respectively by 2.0 percent and 1.5 percent in 1998, as administered food prices rose by 5.2 percent as at end–1998.

Employment

48. Regular employment surveys were conducted until recently in the context of a census or a comprehensive living standards survey, conducted every five years, with the most recent in 1994. A more limited survey was conducted in 1997 which places the labor force at about 2.9 million in 1997,[10] and unemployment rate at about 15.6 percent. While unemployment in Tunisia is the lowest in North Africa, it remains high and a major source of concern as young graduates find it increasingly difficult to find work. Although the problem mainly affects new arrivals on the labor market, job losses are beginning to emerge as a cause of unemployment. The authorities have adopted measures to overcome the skills and information shortage that

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[8]*Salaire minimum interprofessionnel garanti (SMIG).* The government actually fixes different minimum hourly wages for employees working a 48-hour week (mostly the construction and industry), and those working a 40 hour week (mostly services).

[9]*Salaire minimum agricole garanti (SMAG).*

[10]Tunisian labor statistics differ from international norms in that they include in the definition of labor force the *actifs marginaux (*unemployed workers not actively seeking employment but who are partly or fully employed in the three months preceding the poll) and the *actifs partiels* (household workers who would accept additional salaried employment, but are not actively seeking it). Also contrary to international norms, the statistics do not include as unemployed job seekers of less than 15 or more than 60 years of age. Applying international norms to the 1989 data indicated a lower unemployment rate of about 11 percent as compared to the official rate of about 16 percent. The authorities view the broader definition of the labor force and unemployment as better measures of the social realities in Tunisia. For more detailed discussion on the issue see SM/97/107 (5/5/97).

drives a wedge between job supply and demand. An innovative computerized system has been introduced to match job seekers and job offers, and is made available to the public through the intranet. The Tunisian Solidarity Bank (*Banque tunisienne de solidarité (BTS)*) which was created in 1998, has been specializing in financing micro-projects and offering loans on flexible terms including credit to young graduates, allowing the creation of an estimated 11,000 jobs. The National Solidarity Fund (*Fonds de solidarité nationale (FSN)*) has contributed to the creation of about 40,000 jobs since its inception, in 1992.

IV. Government Finance

A. Structure of the Nonfinancial Public Sector

49. The Central Government consists of the Presidency, the National Assembly, the Prime minister's office, 25 ministries and State Secretaries. In addition, there are various central government units with their own budget comprising the social security funds and a number of local administrative[11] and economic[12] agencies. Local governments include 21 councils of governorships and 257 municipalities.

50. In this report, the consolidated financial operations of the Central Government refer to the operations of the Treasury, including extrabudgetary operations directly financed from abroad, and the operations of the social security funds.[13] The Treasury accounts include the current and capital budgets (*Titre I et Titre II*), the special funds (*fonds spéciaux*), the joint funds (*fonds de concours*), the Treasury's net lending operations, including on lending related to foreign resources (*paiements directs*).

51. Tunisia's budget year coincides with the calendar year. Revenues are recorded on a cash basis while expenditure is on a payment order basis.

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[11]*Etablissements publics à caractère administratif* (EPA), operating in particular in the areas of education, training and health.

[12]*Etablissements publics à caractère industriel ou commercial* (EPIC), concentrating in commercial or industrial activities.

[13]Throughout this report, the overall deficit of the consolidated central government is defined so as to exclude grants and privatization receipts.

B. Overview of Budgetary Trends, 1997–99

52. The budgetary objectives followed over the 1997–99 period were formulated in the context of the IXth Economic Development Plan, which aims at consolidating macroeconomic stability while enhancing private sector led growth and reducing unemployment. The medium-term macroeconomic framework under the IXth Economic Development Plan aims at raising gross national saving by about 3.5 percent of GDP during 1997–2001 on account of an increase in consolidated central government saving rate from 2.4 percent of GDP in 1996 to 6 percent in 2001. To this end, the authorities' objective is to pursue a prudent fiscal stance and reduce the overall consolidated central government deficit[14] (excluding grants and privatization receipts) from about 5 percent of GDP in 1996 to 1.5 percent in 2001, through: (i) the stabilization of total revenue in the face of declining trade tariffs;[15] and (ii) the reduction of expenditures mainly in the context of the rationalization of current spending, including the food subsidy reform. Expenditure in basic infrastructure and social sectors are to continue in line with the development objectives of the Plan.

53. During the 1997–98 period, the overall deficit of the consolidated central government declined in line with the Plan targets from about 5 percent of GDP in 1996 to 4.2 percent in 1997 and to 2.8 percent in 1998. Over the period, the decline in total revenue to GDP ratio (1.3 percent of GDP), mainly on account of a shortfall in nontax revenue, was more than compensated by a drop in total expenditure (3.7 percent of GDP). The authorities were successful in implementing tax measures to offset the decline in trade taxes but also managed to tighten expenditure to compensate for the unanticipated decline in nontax revenue. In 1997, expenditure was cut through increases in administered food prices and a tight recruitment policy, coupled with a pruning of low priority investment expenditure in mid-year to compensate for unanticipated higher world food prices. In 1998, further streamlining of expenditures took place.

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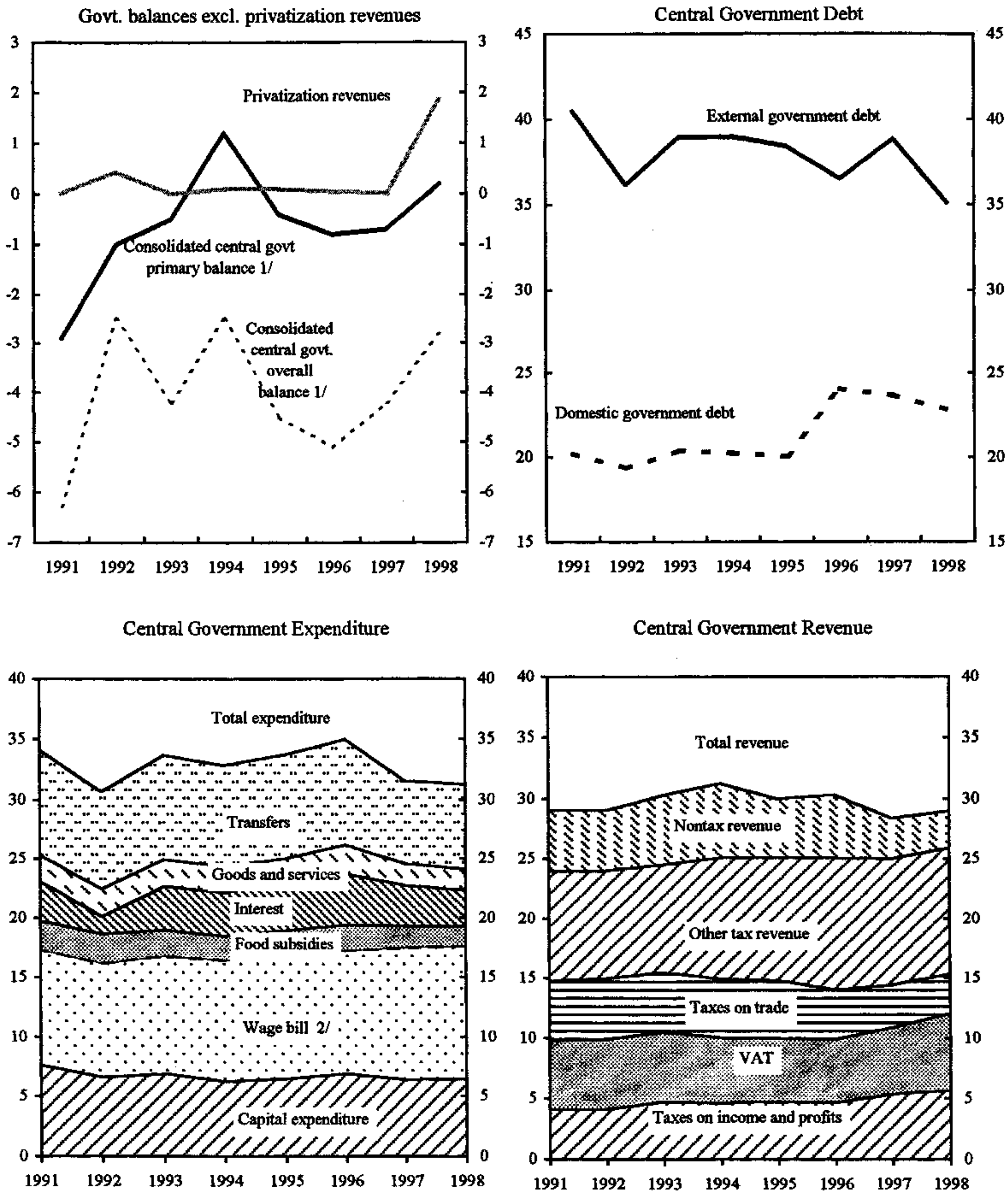
[14]The Plan objectives are based on the budgetary accounts of the central government, excluding the social security funds, but including grants and privatization receipts. Under the Plan targets the central government budget deficit is projected to decline from about 6 percent of GDP in 1996 to about 2.8 percent in 1998 and subsequently to 2 percent in 2001.

[15]The cumulative revenue loss resulting from the Association Agreement with the European Union (AAEU) (including the revenue loss stemming from the elimination of the remaining *droits compensatoires provisoires* (DCP), consistent with Tunisia's commitments) have been estimated at about 1.7 percent of GDP over the 1996–2001 period. These estimates are based on the simplifying assumption of no change in the geographical origin and the level of imports and GDP from their 1995 levels.

Chart 1.Tunisia: Fiscal Developments, 1991–98
(In percent of GDP)



Sources: Data provided by the Tunisian authorities; and Fund staff estimates.

1/ Includes the social security, but excludes grants and privatization proceeds.

2/ Starting in 1997 includes transfers for wages of local government and embassies, previously recorded under transfers.

54. The overall deficit of the consolidated central government is projected to further decline to 2.6 percent of GDP in 1999, in line with the objectives set under the Plan. With no new tax measures foreseen under the 1999 Budget Law, the share of total revenue in the GDP is projected to decline by about 0.5 percentage point on account of lower tax as well as nontax revenue. The projected improvement in the overall deficit of the consolidated central government relies entirely on a tightening of expenditures (about 0.7 percent of GDP), mainly through the streamlining of expenditures on goods and services, and subsidies.[16]

C. Revenue Developments

55. In 1997, the revenue of the consolidated central government fell from an average of 30 percent of GDP prevailing in the preceding three years, to 28 percent of GDP, reflecting a sharp decline in nontax revenue. Notwithstanding the continued decline in nontax revenue, total revenue rose to 29 percent of GDP in 1999 thanks to a sharp increase in tax revenue.

56. **Tax revenue** (excluding social security) rose from an average of about 20 percent of GDP in 1994–96 to 21 percent in 1998 owing to a combined increase (equivalent to 2 percentage points of GDP) in income taxes and VAT receipts, more than compensating the decline in trade taxes (equivalent to 1 percent of GDP). This reflected the impact of revenue measures implemented during the period: (i) an increase in the main VAT rate from 16 percent to 17 percent in 1997 and ultimately to 18 percent in 1998; (ii) an increase of the 10 percent VAT rate on some energy products to 17 percent, and of the 6 percent VAT rate to 10 percent in 1997 on other products, and finally the harmonization of the VAT rate on these products at 18 percent in 1998; (iii) an increase in the minimum tax on income and profit in 1997; (iv) important tax collection measures including in particular the implementation of a 50 percent withholding on VAT on all transactions effected with the state and state-owned enterprises in 1998; and (v) the full year impact in 1997 of the extension of the VAT to retail trade (Box 1). Social security contributions remained stable at about 5 percent of GDP throughout the period.

57. Trade taxes declined from an average of 5 percent of GDP in the two years prior to the implementation of the Association Agreement with the EU (1994–95) to 4.1 percent in 1996, and to 3.5 percent and 3.4 percent of GDP in 1997 and 1998, respectively.

58. In Tunisia, **nontax revenue** of the central government (excluding social security) is comprised of four major categories: (i) transfers of profits and dividends by petroleum companies; (ii) earnings of state-owned industrial and commercial establishments; (iii) gas

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[16] This target is expected to be met notwithstanding the unbudgeted civil service wage increase, which, in the context of the current tripartite wage agreements, would be offset by additional tax measures (notably the increase in fuel excise duties implemented in April 1999), and by additional saving on food subsidies owing to a decline in import prices (allowing for a further drop in subsidies equivalent to 0.3 percent of GDP in 1999).

royalties and licenses; and (iv) central bank profits. Nontax revenue declined from about 4.5 percent of GDP in 1996 to about 3 percent of GDP a year in 1997–98, mainly on account of a decline (equivalent to about 1 percent of GDP) in the transfer of profits and dividends by the publicly-owned petroleum companies, as a result of lower production of crude in both years, as well as an increase in the price of imported petroleum products in 1997 which was largely due to the depreciation of the dinar vis-à-vis the U.S. dollar.[17] Transfer of profits by the central bank declined by about 0.3 percent of GDP, reflecting the cost of taking over the loans of BNA to the *offices* (see footnote 20).

D. Expenditure Trends

59. The Tunisian authorities have successfully tightened central government spending in recent years, with the ratio of expenditures of the consolidated central government declining from 35.5 percent of GDP in 1996 to less than 32 percent in 1998. This reduction affected both current expenditures (which fell by 3.3 percent of GDP over the period) and capital expenditure and transfers, including net lending (which dropped by 0.4 percent of GDP). The decline in current expenditure reflected a combination of lower interest payments, lower spending on goods and services, and a steady decline in food subsidies. The decline in capital expenditure and net lending resulted from the postponement of investment outlays starting in mid-1997.

60. The wage bill was contained at around 11 percent of GDP in 1997–98,[18] as net recruitment (excluding the military and the police) was limited to 7,000 per year.[19] Wage increases in the public sector were granted in line with the tripartite agreement (1996–98) and provided for an average increase of about 5 percent per year.

61. Outlays on goods and services declined by about 0.6 percent of GDP over 1996–98 owing mainly to a streamlining of budgetary outlays outside the social sectors and the military and police.

62. Interest payments on public debt, which had averaged about 4 percent of GDP in 1994–96, declined steadily to 3 percent of GDP in 1998. This reflected mostly lower interest payments on domestic debt in line with the decline in treasury-bill rates.

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[17] The impact of oil price changes on budgetary revenues depends on whether the company that is taxed is an exporter/importer of crude or importer of petroleum products, and whether the company is a public entity (i.e. ETAP) or not.

[18] Since 1997, transfers to public entities (EPAs and EPICs), and diplomatic posts on account of wages have been added to the wage bill. These transfers are equivalent to about 0.8 percent of GDP. The wage bill, excluding these re-classifications, would have remained unchanged at the level prevalent in 1996 (10.2 percent of GDP).

[19] This recruitment took place in the education and health sectors.

63. Outlays on transfers and subsidies declined by about 2 percent of GDP over the 1997–98 period. As indicated in footnote 18, a reclassification of transfers on account of wages and goods and services explains half of the decline. After the consolidation and the clearance of arrears of the food subsidy fund (*Caisse générale de compensation (CGC)*) in 1996,[20] consumer subsidies declined steadily by about 0.5 percent of GDP over the period under review, owing to annual increases in the prices of subsidized products and lower import prices. The decline in transfers to the public social security fund (about 0.3 percent of GDP) during the period reflected lower outlays on pensions.

64. Capital expenditures declined from about 7 percent of GDP in 1996 to about 6.5 percent of GDP per year in 1997–98, the level prevalent in 1995. In line with the targets set under the IXth Economic Development Plan, investment throughout this period was concentrated on projects in the agricultural, housing, education, and health sectors and in infrastructures. In mid-1997, in response to a substantial shortfall in revenue from the budgeted level, the Tunisian authorities implemented measures which included a pruning of capital outlays in an amount equivalent to 0.5 percent of GDP.

E. Financing

65. A prudent fiscal stance and the increasing availability of foreign financing have allowed a gradual shift from domestic to foreign financing. In addition, domestic financing has increasingly relied on nonbank financing which has led to a steady reduction in the central government indebtedness to the domestic banking system.[21] In 1997, while privatization revenues were modest, the Tunisian authorities successfully tapped the Yankee bond market with two issues totaling US$400 million, thus maintaining the share of net foreign financing in total at about 60 percent. In 1998, substantial privatization receipts (equivalent to 1.8 percent of GDP) allowed the authorities to avoid borrowing on international capital markets at unfavorable terms, leaving net foreign financing at zero and the overall deficit after privatization receipts and grants (0.6 percent of GDP) financed entirely by nonbank borrowing.

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[20]As budgetary subsidies were tightly limited under the VIIIth Plan, the government accumulated arrears toward public enterprises (mainly *Office des céréales (OC)*, and *Office national de l'huile (ONH))* who administered the subsidies; this quasi-fiscal activity was financed by banks, mainly the *Banque nationale agricole (BNA)*. Since 1996, most of the operations have been handled directly by the Ministry of Commerce instead of being administered through the food subsidy fund (*Caisse générale de compensation (CGC))*. In the context of the 1997 Budget Law, the central bank took over TD 969 millions of banking claims on the *offices* extended by BNA and other banks. A repayment over 12 years at no interest was agreed with the government.

[21]The rise in bank financing in 1997 reflected a transitory phenomenon as bonds issued by the central government remained in the books of the commercial banks at the end of the year before being passed on to the public.

Box 1. Main Revenue Measures Aimed at Compensating for the Decline in Trade Taxes

	Estimated Revenue Impact (In millions of TD)
1997	
Estimated losses due to tariff dismantling 1/	70.0
Compensating revenue measures	79.0
• Increase to 17 percent in the VAT rate applicable to certain energy, products (unleaded gasoline, heavy fuel, petroleum, medium and high voltage electricity, and gas),	26.0
• Increase to 10 percent in the VAT rate applicable to certain energy products (normal and super gasoline, gas oil and GPL)	23.6
• Increase in the minimum tax on income and profits	12.2
• Increase of the 10 percent rate to 15 percent	(11.2)
• Increase of the 30 percent rate to 45 percent	(1.0)
• Unification at 20 percent of the withholding tax on securities, stocks and shares	17.0
1998	
Estimated losses due to tariff dismantling 1/	39.0
Compensating revenue measures	230.0
• Increase from 17 to 18 percent in the main VAT rate and its application to most energy products	62.5
• Increase from 2 percent to 3 percent in the service fee on imports	17.7
• Implementation of a 50 percent withholding tax on VAT related to transactions involving the state, local governments, and state enterprises	103.2
• Extension of the base of the 1.5 percent withholding tax on income and corporate taxes.	46.4

Source: Ministry of Finance; *Direction générale des études et de la législation fiscale.*

1/ For more details see "*Tunisie: Accord avec l'Union européenne et stratégie de réformes fiscales, avril 1996*", IMF, Fiscal Affairs Department

Box 2. Privatization

In the mid–1980s, the public sector represented 40 percent of total investment and accounted for about 30 percent of total value added and 33 percent of total official employment. Public enterprises were experiencing mounting losses and had accumulated a debt burden of approximately TD 3 billion, or 35 percent of GDP.

In 1987, with World Bank-support, the government undertook to reduce the weight of the public sector in commercial activities by restructuring and privatizing small-and medium-sized public enterprises, mainly in the textile, tourism, and construction sectors. The program was modest, leading to the privatization of 48 small-scale enterprises over 1987–94, generating about US$80 million in sales proceeds. By the end of the program there remained about 232 public enterprises or entities.

A second and more ambitious privatization program was launched in 1996, with the support of a World Bank Economic Competitiveness Adjustment Loan (ECAL), targeting 63 public enterprises for privatization or liquidation, with an estimated total net asset value of US$1.4 billion. Between 1995–97, 45 enterprises were privatized, but the enterprises involved were relatively small and sale proceeds amounted to only US$200 million. With the privatization of two cement companies in 1998, cumulative privatization revenue for 1995–98 almost tripled to US$570 million.

In the context of the settlement of nonperforming loans to 49 public enterprises, supported by the ECAL II of 1999, 24 enterprises are to be liquidated while 4 enterprises, deemed strategic (with a combined asset book value of TD 168 million) will continue to operate as public enterprises. The program also envisages complete and partial divestitures of the government from the remaining 20 enterprises. This will mark the complete withdrawal of the public sector from the construction, housing, and electrical supply sectors.

In recent years, large public enterprises such as the national airline, Tunisair, and the insurance company (Star) have also sold shares on the Tunis stock exchange. Nine other public enterprises are scheduled to sell shares on the stock market over the next year. Still many large enterprises in the sectors considered strategic (banking, telecommunication, mining, agro-industrial, and maritime and air transport) remain outside the realm of the current privatization program. The share of public enterprises in GDP was estimated at 22.5 percent over the 1992–95 period, and is unlikely to have declined below 20 percent since then.

In addition to sales of public assets, the authorities are promoting private sector participation in infrastructure through BOO/ BOT (build-operate-own or –transfer) contracts. The first BOO contract was signed recently with an American-Japanese consortium for the construction and operation of a 470 megawatt power plant in Rades. Further private participation is being sought in the electricity sector, highway construction, and water treatment and waste disposal.

Box 3. Tax Reform

Starting in 1987, as part of the adjustment process initiated with the assistance of the Fund, Tunisia embarked on a major reform of its tax system. During 1995–96, the Fund made several recommendations aimed at consolidating progress made in fiscal reform since 1987, further rationalizing and modernizing the fiscal system, and responding to revenue losses emanating from the Association Agreement with the European Union (AAEU). The authorities have been successful at broadening the tax base, rationalizing the tax and tariff structure, and taking compensatory measures to compensate for the shortfall in customs revenues. However, several distortions remain, resulting from various exemptions, in particular regarding import duties and suspension regimes under the VAT system extended to certain priority sectors, which were generalized under the Investment Code enacted in 1993.

Background

In the early 1980s, Tunisia's tax system was distortionary, complicated and difficult to administer. The direct income tax system was schedular, with the main taxes levied on profits from commercial or professional activities, wages, dividends, and interest income. A solidarity tax was also added to these taxes. In addition, a general income tax, with marginal rates on personal income ranging from 10 percent to 80 percent was levied on the total personal income of all income earners. Indirect taxes consisted of three turnover taxes on production, consumption, and services together with a series of excise duties. Many transactions were subject to both production and consumption taxes, which resulted in 16 different effective tax rates, ranging from 6.4 percent to 45.9 percent. For each category of turnover tax, different exemptions and deduction rules applied. In general, there was no deductibility among the three taxes. Customs duties, which constituted an important source of revenue, ranged from 5 percent to 236 percent, with an exemption for imports of raw materials and semi-finished goods used by local industries.

Tax reform

The most significant measures introduced under the 1987 tax reform, were the adoption of a value-added tax (VAT) and the introduction of a single personal income tax and of a new simplified corporate tax. Three turnover taxes and an excise tax were effectively unified under the VAT in July 1988. The VAT tax included three rates: (i) a standard rate of 17 percent on most goods and services; (ii) a reduced rate of 6 percent applicable to basic consumer goods and services; and (iii) a high rate of 29 percent, applicable to luxury goods. Over the 1991–97 period, steps were taken to streamline the VAT. Its coverage was broadened (including to retailers in 1996) and a large range of products was moved from the high rate of 29 percent to the "normal rate" of 17 percent, all as recommended by FAD. By the end of 1997, the normal rate covered about 83 percent of total VAT receipts. In 1998, the normal rate was raised to 18 percent, the VAT rate on energy products was unified with the normal rate, and additional products were moved from the 29 percent rate to the normal rate.

The authorities also embarked on a comprehensive reform of direct taxes by introducing a new tax code, effective January 1990. The existing schedular, general income and solidarity taxes were abolished and replaced by a single personal income tax. The number of income brackets was reduced from 18 to 6, and the tax rates limited to the 15-35 percent range. The existing corporate tax, characterized by 6 rates (differentiated according to economic sectors, with a top rate of 44 percent) was replaced by two rates, a standard 35 percent rate and a special rate of 10 percent applicable to cooperatives and to enterprises in the crafts, agriculture, and fishing sectors. At the same time, tax withholding was extended to payments of interests, professional fees, and commissions and rentals paid by the public authorities and corporations. Over 1990–96, provisions were introduced aimed at reinforcing the global nature of the income tax through greater harmonization of the taxation of different sources of income, including between the personal income and corporate profits. All investment income, other than dividends, was made subject to the same taxation. Tax withholdings at the source were extended to income from noncommercial activities. Various lump-sum tax regimes were simplified and harmonized.

Box 3. Tax Reform (Continued)

Meanwhile, the tax administration was strengthened significantly through improvements in tax assessment and collection procedures and the reinforcement of tax auditing procedures.

In an initial phase (1986–88), tariff reform included (i) the merging of tariff schedules; (ii) the narrowing of tariffs from a maximum of 236 percent to 43 percent in 1988; and (iii) the reduction of quantitative restrictions. Notwithstanding the lowering of tariffs, protection for locally produced goods was largely maintained. The gradual reduction of quantitative restrictions beginning in 1991 was accompanied by the introduction of transitional compensating duties (droits compensatoires provisoires or DCP) on finished and semi-finished goods, ranging from 10 percent to 30 percent that were phased out by 1998. As at end-1998, in line with the AAEU, all import duties on all products, included in group I, were eliminated, and the elimination of duties applicable to the remaining lists was implemented ahead of schedule. Moreover, tariffs on imports of equipment goods, except for those competing with domestic goods were eliminated on a multilateral basis.

In 1996, the FAD mission estimated that cumulative loss in revenue arising from the trade liberalization under AAEU (including the phase out of DCPs) would rise from 0.3 percent of GDP in 1996 to about 1 percent in 1998 and further to 2.6 percent of GDP by 2008, when the agreement will be fully implemented. In 1996–98, the decline in tariff revenue (including the phase out of DCPs) was offset mainly through the increase in the main VAT rate to 18 percent and the extension of the main rate to energy products. However, no steps were taken to review and phase out exemption regimes as envisaged by FAD.

V. Monetary and Financial Sector Developments

A. Overview

66. Tunisia has pursued financial sector reforms since the late 1980s. These reforms involved the introduction of indirect monetary policy instruments (notably repo auctions in the interbank money market), the modernization of the legal and institutional structure of the financial system, and the adoption of internationally accepted methods of supervision and prudential regulation. Furthermore, direct credit controls were phased out; interest rates were gradually liberalized; mandatory lending and preferential refinancing rates were eliminated; management of the stock exchange market was privatized and modernized; the legal framework for new operators such as merchant banks, leasing companies, and mutual funds was set up; an interbank foreign exchange market was established, and the supervisory role of the central bank was strengthened.

67. The most recent measures have emphasized structural reforms of the banking sector and of the money and foreign exchange markets. However, progress remains to be made toward a more market-based monetary policy and the restructuring and privatization of key banks.

B. Institutional Structure of the Financial System[22]

68. In mid–1999, the Tunisian banking system was composed of the central bank (*Banque centrale de Tunisie* (BCT)); thirteen deposit money banks (of which 6 are government-owned,[23/24]), 8 development banks (of which 2 are government-owned and 6 are joint ventures between Tunisia and other Arab states), 8 private leasing companies, and 1 saving institution. Commercial banks are allowed to collect deposits of any maturity, provide short- and medium-term credit, and may engage in long-term credit operations for up to 3 percent of their deposit base. The mission of the development banks is to finance investment projects through medium- and long-term credit and through equity participation. They face high funding costs since they rely on borrowed funds, most of which are provided by bilateral and multilateral agencies (international borrowing). Other financial institutions include: 2 merchant banks,[25] 8 offshore banks,[26] 2 factoring companies, 20 mutual funds, 19 capital risk companies, 16 insurance companies; and the stock exchange, brokerage houses, and the central depository for securities (*STICODEVAM*).

69. Notwithstanding the gradual development of other financial institutions such as the stock market, mutual funds and leasing companies, the intermediation of saving and the financing of economic activity in Tunisia remain dominated by the banking system. In addition, banks are majority owners of most leasing companies, of the bulk of mutual funds capital, and they represent around 60 percent of the stock market capitalization.

C. Instruments of Monetary Policy

70. The introduction of indirect monetary policy instruments has had a significant impact on the conduct of monetary policy. With the elimination of direct credit controls, the BCT's interventions in the money market have become the main monetary policy instrument. However, the transition to indirect instruments of monetary policy has not yet been completed and a number of nonmarket-based practices have been maintained.

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[22]Also see SM/98/122 (6/1/98).

[23]According to current regulations, public sector status is determined by government participation in a bank's capital of 34 percent or higher.

[24]A commercial bank (*Banque du Sud*) was privatized in September 1997 as a result of a capital increase in which the state did not participate. A new public sector commercial bank (*Banque tunisienne de solidarité (BTS)*) was chartered in December 1997, and is dedicated to microcredit financing.

[25]Merchant banks offer investment banking and financial advisory services.

[26]Offshore banks provide mainly trade financing and other short-term bank credits, foreign exchange services, and medium- and long-term lending for investment in offshore companies.

71. The framework for the use of monetary policy instruments has improved over the years, most notably through the elimination, in 1996, of the preferential rediscount window and the abolition of mandatory lending requirements to priority sectors and the government. The weekly liquidity auctions are used as the BCT's main monetary policy instrument for liquidity injections. The seven-day reverse repurchase operations facility serves as a daily refinancing window, at the initiative of banks. The interest rate on the seven-day reverse repurchase operations is set by the BCT at the auction rate plus a margin (1 percentage point since 1992). As access to this facility is automatic, the rate on the seven-day reverse repurchase operations establishes an upper limit for the money market rate. The main monetary policy instrument used by the BCT to drain liquidity, when needed, is the weekly bid for liquidity procedure. The end-of-day settlement operations are used to either accommodate short-term (overnight) liquidity shortfalls of certain banks or to mop up the residual amounts of overnight liquidity. Currently, the rate of these operations is the same as the auction rate.

Box 4. The Instruments of Monetary Policy

Weekly liquidity auctions (*appels d'offres*): the central bank invites bids for its weekly auction, with a maturity of seven days but does not specify the amount of the tender; it decides the amount to be injected and the bids are all satisfied at the same official intervention interest rate, in proportion to the quantity demanded. Collateral required is good claims on priority sectors (priority sectors are specified each week by the BCT).

Seven-day reverse repurchase operations (*prises en pension à 7 jours*): they are used to inject additional liquidity at the initiative of banks, at a premium rate over the official intervention rate (currently 100 basis points). Any bank with the necessary collateral can get credit under this facility.

End-of-day settlement operations (*opérations de fin de journée* or *opérations ponctuelles*): they allow commercial banks, at their own initiative, to obtain or place liquidity at the official intervention rate, during the day.

Weekly bids for liquidity *(appel d'offres de reprise de liquidité)*: they are used, instead of the liquidity auctions, when the banking system as a whole is over liquid, to mop up excess liquidity by accepting bids for the placement of liquidity over 7 days. The demands are ranked and satisfied according to the rate that is proposed; the rate cannot exceed that of the weekly liquidity auctions.

Reserve requirements *(réserves obligatoires)*: they are calculated as monthly averages, and must amount 2 percent of Tunisian dinar sight and term deposits, as well as other financial products and certificates of deposit. They are not remunerated, and are not actively used as a monetary policy instrument.

72. Nevertheless, the interest rate structure does not reflect market forces. De facto, the money-market rate does not fluctuate between the auction rate and the seven-day reverse repurchase operations rate since banks can obtain liquidity from the central bank at any time at the auction rate. In addition, the auction rate remained the same over the two years preceding its February 1999 reduction. Consequently the money-market rate is most of the time equal to the auction rate, and the money market is not very active.

73. Although most interest rates were liberalized in 1987, 1994 and 1996, some deposit rates remain regulated. Interest rates on sight deposits (up to 3 months) must not exceed a ceiling of 2 percentage points, and those on special saving deposits, which accounted for about 40 percent of total deposits of the public in the banking system at the end of 1998, are set at 2 points below the money market rate. Saving accounts dedicated to housing financing have a fixed credit rate of 5.25 percent.[27] As for interest rates on convertible dinar deposit accounts, they must be set, at least, at 2 points below the money market rate.

D. Monetary Developments

74. In 1997 and 1998, the growth rate of the **broad monetary aggregate** (M4), which includes long-term deposits, highly liquid treasury bills, and short-term commercial paper, remained roughly in line with nominal GDP growth (respectively 9.6 percent and 8.9 percent) and the authorities' monetary targets.[28] Inflation went down to 3.7 percent in 1997 and 3.1 percent in 1998.

75. Liquidity expansion in 1997 and 1998 resulted from three main factors: (i) the payment by the BCT of arrears of the Cereals Board and the National Oil Board on their liabilities to banks;[29] (ii) the increase in net foreign assets due to several Euromarkets issues by Tunisian banks; and (iii) the elimination of penalty reserve requirements related to mandatory lending provisions (*ratio des activités prioritaires*).[30] The central bank continued to absorb the excess liquidity, thus contributing to limiting the expansion of bank credit to the economy (9.7 percent in 1997, 7.8 percent in 1998). Bank credit to the central government remained negligible, both in 1997 and 1998.

76. After decreasing in late 1996 to reflect the slowing down of inflation, nominal interest rates were very stable in 1997 and 1998. The central bank cut its intervention rates by 1 percentage point in November 1996 to 6.88 (auction rate) and 7.88 percent (refinancing window rate) and kept them at the same level until February 1999, when it lowered them again by 1 percentage point. The overnight money market rate, which had been close to the

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[27]The detention of such an account is associated with the possibility of benefiting from housing loans at a fixed rate of 6.75 percent.

[28]The income velocity of money (GDP/M4) has been very stable since 1995, around 1.6.

[29]Government arrears on extrabugetary food subsidies had led the parastatal agencies (*Office des céréales* and *Office national de l'huile*) to seek substantial recourse to domestic bank credit (mainly from the national agricultural bank). Bank credits to these parastatal agencies, accumulated during 1988–96, and equivalent to 4.6 percent of GDP, were taken over by the central bank at end–1996 in the form of an interest-free government-guaranteed loan to the *offices*.

[30]At end–1996, penalty reserve requirements related to mandatory lending to priority sectors were eliminated.

refinancing window rate for several years, dropped at the end of 1996 to the level of the auction rate; i.e., at the bottom of the corridor defined by the central bank's intervention rates. At the beginning of 1997, the 52-week treasury-bill rate, which had been for several years above the refinancing window rate, fell toward the auction rate. As for the 5-year treasury-bill rate, after having been about 1 percentage point above the refinancing window rate, it progressively reached the level of the latter in May 1998 (Chart 2).

77. Since the Tunisian money market has been characterized by excess liquidity from the end of 1996 until the end of 1998, the BCT has been frequently using reverse *appels d'offres* in order to drain liquidity out of the system and to stabilize the money market rate. The use of *prises en pension* had decreased since 1996 due to high amounts of liquidity in the system and more frequent overnight injections in favor of a number of banks (Chart 3).

E. Developments in Financial Markets

Foreign exchange market

78. An interbank foreign exchange market was created in March 1994, and a forward foreign exchange market was established in July 1997. The latter covers forward transactions related to commercial activities: up to 12 months for imports, 9 months for exports of goods, and 12 months for exports of services. At the same time the limit imposed by banks on open positions on each foreign currency was increased from 5 percent to 10 percent of capital.[31]

79. The volume of operations on the interbank foreign exchange market amounted to US$4.2 billion in 1997 and US$5.1 billion in 1998, of which respectively 25 percent and 34 percent involved the central bank. There were very few forward operations between banks, since most of them were between banks and enterprises (for total amounts of US$77 million in 1997 and US$278 million in 1998).

Money market

80. The domestic money market in Tunisia, which is composed of the interbank market, the markets of certificates of deposit, commercial paper, and treasury bills, remains shallow. (Chart 4). Volume is stagnant and the average rates have remained almost completely stable for the past two years. The overnight rate is the same as the auction rate (*appel d'offres*).

Government securities market

81. The treasury bills, which were introduced mainly to finance the budget deficit, were issued until March 1999, in two different forms. The transferable treasury bills (*bons du*

[31]The limit imposed on open positions on all currencies remained at 20 percent of capital.

Chart 2. Nominal Interest Rates, 1995–99

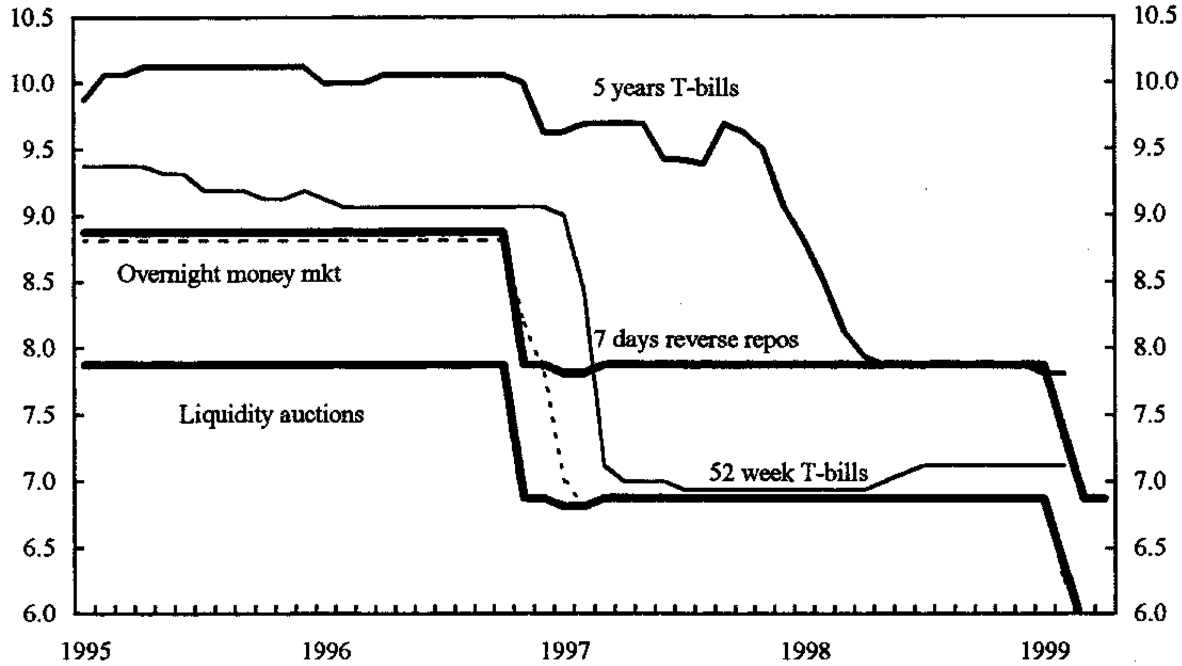
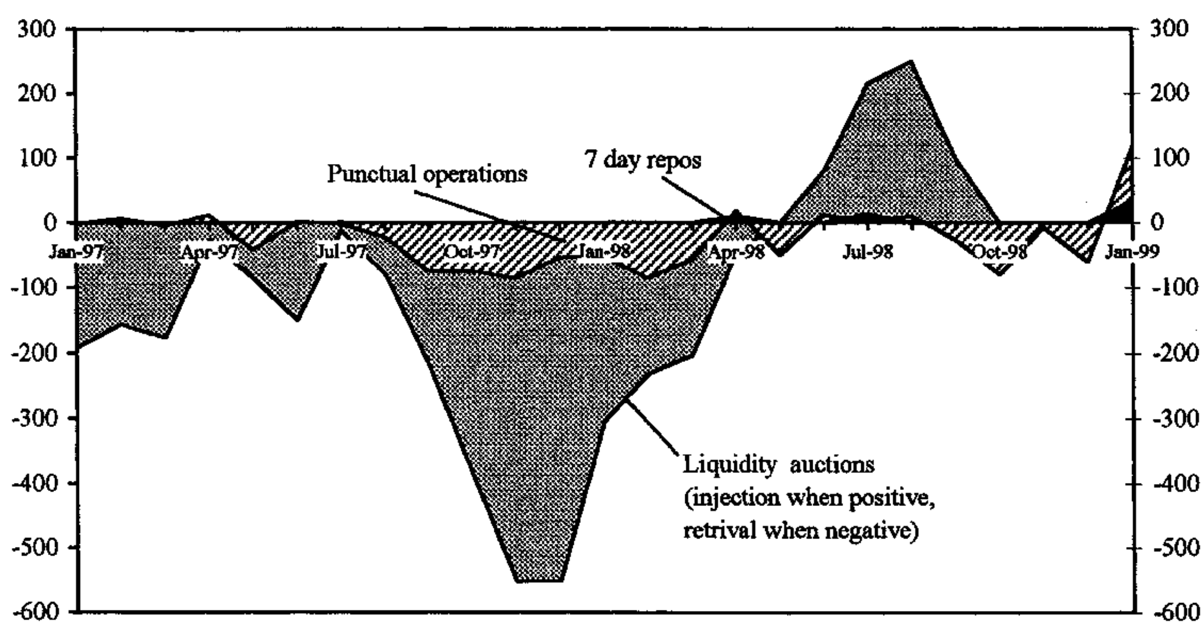


Chart 3. Central Bank's Interventions, January 1997–99



Source: Central Bank of Tunisia.

Trésor cessibles (BTC)), which were introduced in 1989 with maturities ranging from 13 weeks to 7 years, and have been sold to the public through the banks, are highly liquid instruments as banks are required to buy them back from their clients at face value (with only a small discount for operation costs). They have been sold to the public at interest rates below the rate, at which they were issued, ensuring a profit margin for the banks. Outstanding transferable treasury bills amounted to TD 3 billion at end-1998. The negotiable treasury bills (*bons du Trésor négociables en bourse (BTNB)*) were introduced in 1993 with a view to supplying a long-term financial instrument, fostering the development of a secondary market, and allowing for a market determined yield. They are auctioned to stock exchange intermediaries and listed on the stock exchange. While outstanding negotiable treasury bills amounted to TD 493 million at end-1998, a liquid secondary market did not develop for several reasons: the maturity dates changed from auction to auction, repayment could be either at the end or in equal annual installments, stock exchange intermediaries had no market-making obligations and the tax regime was complex to implement and penalizing for the traders.[32]

82. A new type of treasury bill, the fungible treasury bill (*bons du Trésor assimilables (BTA)*) was issued for the first time in March 1999 to overcome these problems. They will be auctioned monthly. The maturity dates, 5 and 10 years initially, and the coupon interest rates are to remain unchanged for several auctions, so as to create sufficiently large stocks for each line. The tax regime was also expected to be simplified and more neutral.

Stock market

83. The stock market index remained broadly stable in 1998 after plummeting in 1996/1997, and increased sharply over the first 4 months of 1999. Market capitalization stood at 11 percent of GDP at end-1998, still considerably lower than its peak of 23 percent of GDP in 1995. Trading volume increased by 57 percent in 1998, reaching a total amount of TD 927 million (Chart 5), of which 48 percent was net foreign purchase, and 4 additional enterprises were listed.[33] Nonresidents were holding 21 percent of the capitalization at the end of 1998.

84. Efforts to modernize the market were pursued in 1998 and at the beginning of 1999. To improve its compliance to international standards at the beginning of 1998, the Tunis stock exchange launched a new index weighted by market capitalization (TUNINDEX), and disseminated quotations on Reuters. In February 1999, additional measures were announced

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[32]Each time a BTNB was sold, 20 percent of the interest earned by the seller had to be withheld and transferred to the treasury.

[33]There were 38 listed enterprises at the end of 1998.

Chart 4. Money Market, Stocks of Securities and Volume of Operations, 1997–99

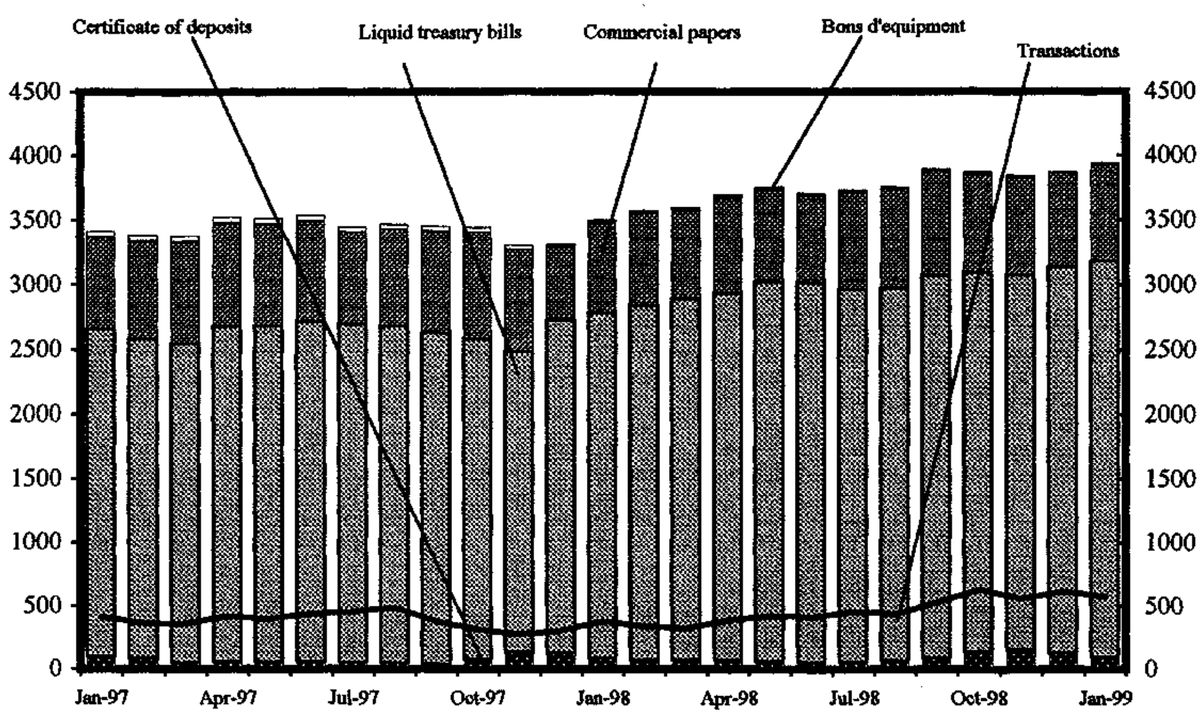
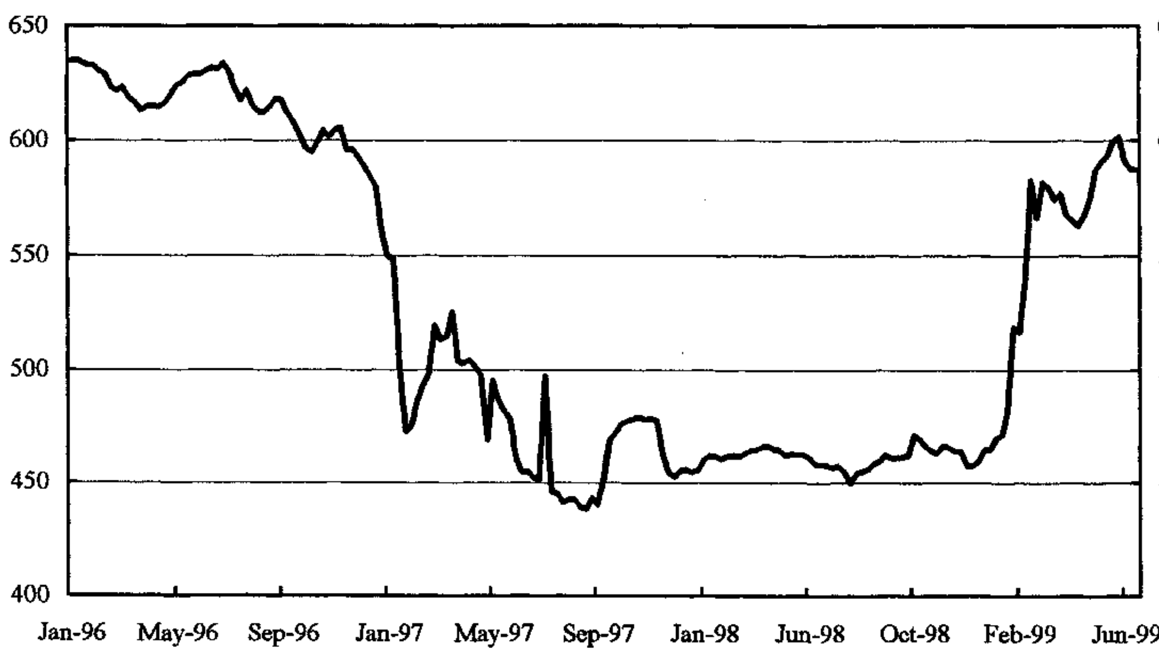


Chart 5. BVMT Index, 1996–99



Sources: Central Bank of Tunisia; and Middle East Economic Digest.

by the government to further develop the market; they will be effective in fiscal year 1999:

- The income tax rate will be cut from 35 percent to 20 percent during 5 years for enterprises which sell at least 30 percent of their capital to the public,

- Conditions will be eased for enterprises to buy back their own shares on the market,

- Stockholders will be authorized to deduct the depreciation of their stock portfolio from their taxable income,

- Small investors will be offered 5-year saving schemes in stock market accounts, that will involve tax cuts on earned income.

F. Financial Soundness of the Banking System[34]

85. While the capital structure and the quality of most banks' portfolios are still in need of substantial improvements, efforts undertaken in the last 6 years have already borne remarkable results, especially for commercial banks (see table below). Their nonperforming loans amounted to 34 percent of total commitments in 1993, against 19.5 percent at end–1998. 24.5 percent of these nonperforming loans were covered by provisions in 1993, against 59.8 percent at end–1998. The situation of the development banks is more worrisome, with 67.5 percent of their commitments classified as bad loans and only 41 percent of the latter provisioned at end–1998.

86. Comprehensive prudential regulations adopted at the end of 1991 introduced strict standards for loan classification and provisioning,[35] and in mid–1993 the central bank set detailed terms of reference for external audits of banks and off-site reporting requirements. However, there is no minimum ratio of capital over total non-risk weighted assets, neither capital requirements against market risks. In addition, there is no minimum ratio between demand liabilities and highly liquid assets, neither a minimum ratio between total liability and total liquid assets.

87. A major plan to restructure and strengthen the banking sector is under way with the support of the World Bank, under a second Economic Competitiveness Adjustment Loan (ECAL II). Its main components are the following:

- Restructuring of the stock of nonperforming loans to public enterprises:

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[34]Also see SM/98/122 (6/1/98).

[35]Banks must review loan classification quarterly and must apply a level of provisioning according to categories of classification. The central bank can require banks to increase provisions when they are not in compliance with bank regulation. Actually, some banks do not meet their provision requirements, but the situation keeps improving in this regard, under close supervision of the central bank.

✓ Government guarantee of banking claims on public enterprises that are to remain publicly-owned and active, for the amount registered at the end of 1997;

✓ Purchasing by the State of the banking claims on public enterprises liquidated or to be liquidated or privatized, without interest and with a 25-year repayment period.

- Strengthening of the regulatory and prudential framework:

✓ Higher capital adequacy standard; starting at the end of December 1999, the capital adequacy ratio will be raised from 5 percent of tier 1 capital to 8 percent of tier 1 and tier 2 capital;

✓ Increased tax deductibility of loan provision from 50 percent to 75 percent, from January 1998 to December 2001;

✓ New financial disclosure standard; a new bank accounting framework in line with international standards and requiring presentation of consolidated financial statements will be enforced in fiscal year 1999, and clear rules on loan write-offs will be introduced.

- Reorganizing the banking system structure:

✓ A single bank charter, governing all kinds of banks, will be introduced in 2000;

✓ Mergers between development and commercial banks will be authorized and the merger of UIB (*Union internationale de banques*) and BTEI (*Banque de Tunisie et des Emirats d'investissement*), as well as that of STB (*Société tunisienne de banque*), BNDT (*Banque nationale de développement touristique*) and BDET (*Banque de développement économique de Tunisie*) are expected to take place in 2001.

- Modernizing the check clearing and bank payments system with the implementation in year 2000 of an electronic payment system. This system will be under the responsibility of the central bank and should allow checks and other bank payments to be settled within 48 hours.

88. In addition, the central bank will implement two new databases directly accessible by the banks: one giving information on payment incidents and financial situation of clients (*centrale d'information*), and the other one providing information on the amount of credit by household (*fichier des crédits aux particuliers*).

Tunisia: Asset Quality Indicators of Tunisian Banks, 1993–98

	1993	1994	1995	1996	1997	1998 Prel.
Nonperforming loans (as a percentage of total commitments)						
Commercial banks	34.0	31.4	30.8	25.1	23.0	19.5
Private banks	19.4	17.9	18.2	17.0	19.4 1/	19.4
Public banks	40.7	37.7	36.8	29.3	25.8	19.6
Development banks	52.0	54.1	56.7	64.2	67.0	67.5
Loan provisions and interest in suspension (as a percentage of nonperforming loans)						
Commercial banks	24.5	29.5	32.0	46.7	50.4	59.8
Private banks	36.5	48.2	52.2	61.9	55.3	58.4
Public banks	21.8	25.4	27.3	42.1	47.5	60.8
Development banks	33.5	35.5	38.5	38.6	40.6	41.0

Source: Central Bank of Tunisia.

(1) The 1997 percentage increase for private banks mainly reflects the reclassification of Banque du Sud as a private bank following its privatization.

VI. External Sector Developments

A. Current Account

89. After several years of consolidation, Tunisia's current account deficit increased for the second consecutive year in 1998 (Table 22). The deficit reached 3.4 percentage of GDP, compared to 3.1 percent in 1997 and 2.4 percent in 1996. The 1997–98 current account deterioration is largely explained by adverse but temporary external price developments as well as by a surge in imports related to a large foreign direct investment. However, should the trend continued in 1999, it could also put into question the level of Tunisia's structural competitiveness. The terms of trade deteriorated by 2.7 percent in 1998, following a 3.6 percent fall in 1997. A drop in export prices of crude oil and agricultural commodities, unmatched by a smaller import price fall, caused the deterioration. These adverse external price developments account for 2 percentage points of GDP in the 1997 external imbalance and another 1.2 percent in 1998. Terms of trade are projected to bounce back by 3.4 percent in 1999.

Export performance

90. Over 1990–98, exports of goods increased by an annual average of 5 percent in real terms, a progression close to the real GDP growth, although significantly lower than the 6.8 percent world trade annual growth during the same period. In the last few years, however, export volume had been growing at a faster pace, of 10.1 percent in 1997 and 6.3 percent in 1998. Manufacturing exports were even more buoyant, reaching 7.7 percent growth during the 1990s, and more than 10 percent in the last two years, thereby improving Tunisia's world market share in the recent years. The coming into effect of the free trade association with the European Union (EU) (Box 5) may have played a positive role since it triggered in 1996 a significant decline in the cost of imported equipment and input prices, which lowered the production costs of exports industries. In the years ahead, however, Tunisian exports will be confronted with several challenges:

- Both geographical concentration and product specialization of Tunisian exports are not oriented toward fast-growing markets (Tables 26 and 21). Growth prospects of EU markets, which accounted for 79 percent of Tunisian exports in 1998, are modest, compared to those of buoyant North American, and re-emerging South East Asian markets. In addition, textile products, which account for more than half of Tunisian exports, are among the slow-growing segments of world demand.

- Competition in Tunisia's export markets is intensifying. A number of Asian competitors are now slowly emerging from the crisis, with depreciated currencies and improved structural competitiveness. They will likely take advantage of several ongoing multilateral and regional trade reforms, including increased access to European markets. Phase II of the WTO Agreement on Textile and Clothing (ATC) schedules the removal of quotas for an additional 17 percent of the concerned products, and a 25 percent increase in annual growth for remaining quotas of textile products over 1998–2001 for the EU and several other importers. These removal and increase of quotas should accelerate further after 2001, until a full liberalization is achieved in 2005. In addition, EU tariff barriers against Turkey and Central European countries are progressively removed with the recent entry into force of the customs union or association agreements between the EU and these countries.

91. Although it is too early to draw firm conclusions, available information for the five first months of 1999 indicate that export growth is slowing down in spite of record agricultural exports.[36] In the textile/clothing and mechanical/electrical industries—respectively the largest and the most dynamic export sectors—the slow-down is substantial and does not

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[36]Reflecting a traditional two-year cycle, a bumper crop of olives in 1998 boosted exports of olive oil in 1999.

seem to be triggered by specific and reversible factors.[37] The authorities are projecting for the year as a whole that total exports will grow by only 3.6 percent in real terms and non-oil exports by 3.5 percent.

Box 5. The Association Agreement Between Tunisia and the European Union

In an effort to further deepen its economic and financial relations with Europe, in mid-1995 Tunisia concluded an Association Agreement with the EU. The Agreement provides for a far-reaching liberalization of trade relations, enhanced financial and technical cooperation, and close collaboration in many areas, including cultural and political matters.

The Agreement phases in **free trade in industrial goods over 12 years**. Under the previous trade and cooperation agreements, in effect since 1976, nearly all of Tunisia's industrial exports had free access to EU markets. The main exemption was for certain textiles, for which a voluntary export restrain was, however, rarely binding. Under the new Agreement, this preferential access is preserved and extended to textiles, while Tunisia dismantles, over 12 years, all tariff and nontariff barriers to industrial imports from the EU, subject to a number of safeguard provisions. Quantitative restrictions and tariffs on a large number of items—mainly equipment goods—were abolished immediately as the Agreement came into effect; for other categories of products, tariff reductions are to be fully eliminated by 2008 with a five-year grace period (on starting date of implementation) accorded to locally produced goods facing competitions from EU producers. Agricultural products are not covered by the Agreement, and tariffs on certain goods may be maintained in proportion to their agricultural content (the "agricultural element"). The Agreement provides that the EU and Tunisia will review the trade regime for agriculture in the year 2000. For specific agricultural products, the Agreement consolidates, and in some cases improves, the existing preferential mutual access.

The Agreement goes well beyond the existing framework of cooperation by calling for a **comprehensive harmonization of norms and standards and of the regulatory framework**, with a view to eliminating practices that distort trade between the partners, including monopolies, government subsidies, or privileges granted to public enterprises. Economic and financial cooperation is to be strengthened, particularly to support industries that will face difficulties in adjusting to free-trade agreement (*mise à niveau* program), promote intra-Maghreb regional integration, and enhance environmental protection. Financial support for Tunisia's adjustment and development efforts is provided from EU resources under the EU's Mediterranean Initiative.

The Agreement also **calls for active cooperation in social areas**, such as social development and immigration to Europe, and consolidates the existing rights and obligation of expatriate workers.

Impact of the Agreement

A study commissioned by Tunisia's Ministry of International Cooperation and Foreign Investment estimated that the Agreement would produce a long-term (static) gain of 1.4 percent of GDP (when all factors of production are reallocated) and larger gains if liberalization is extended to non-EU imports. In the short run—when labor, but not capital, could be reallocated—gains are estimated to be negligible.

The Agreement will have a significant **fiscal impact**, resulting from the elimination of import duties, which accounted for about a fifth of total tax revenue at the time of the Agreement was signed. The cost of foregone revenues is estimated to reach 3.5 percent of GDP by 2008. This loss may be partially offset by the revenue impact of faster economic growth. IMF technical assistance was provided in 1996 to identify compensatory tax measures, most of which have since been put in place, except for the proposed elimination of tax exemptions.

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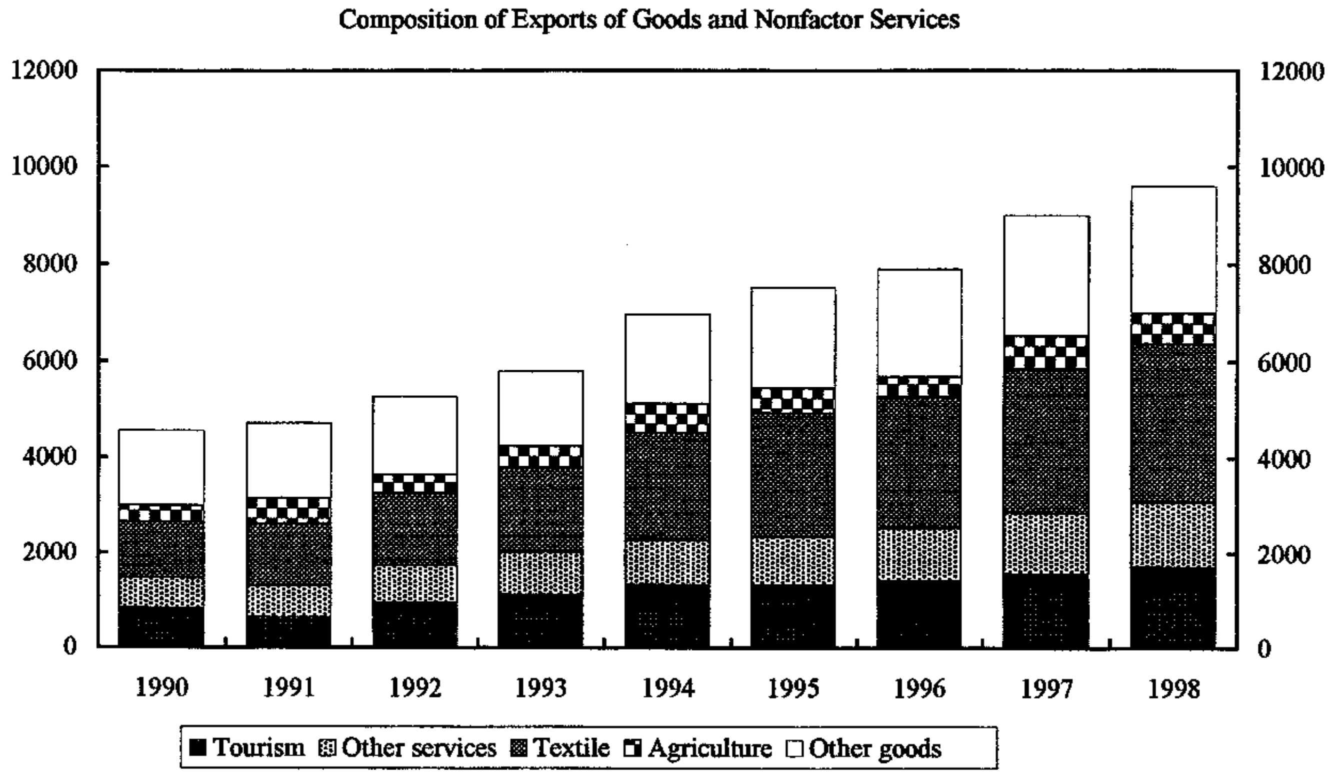
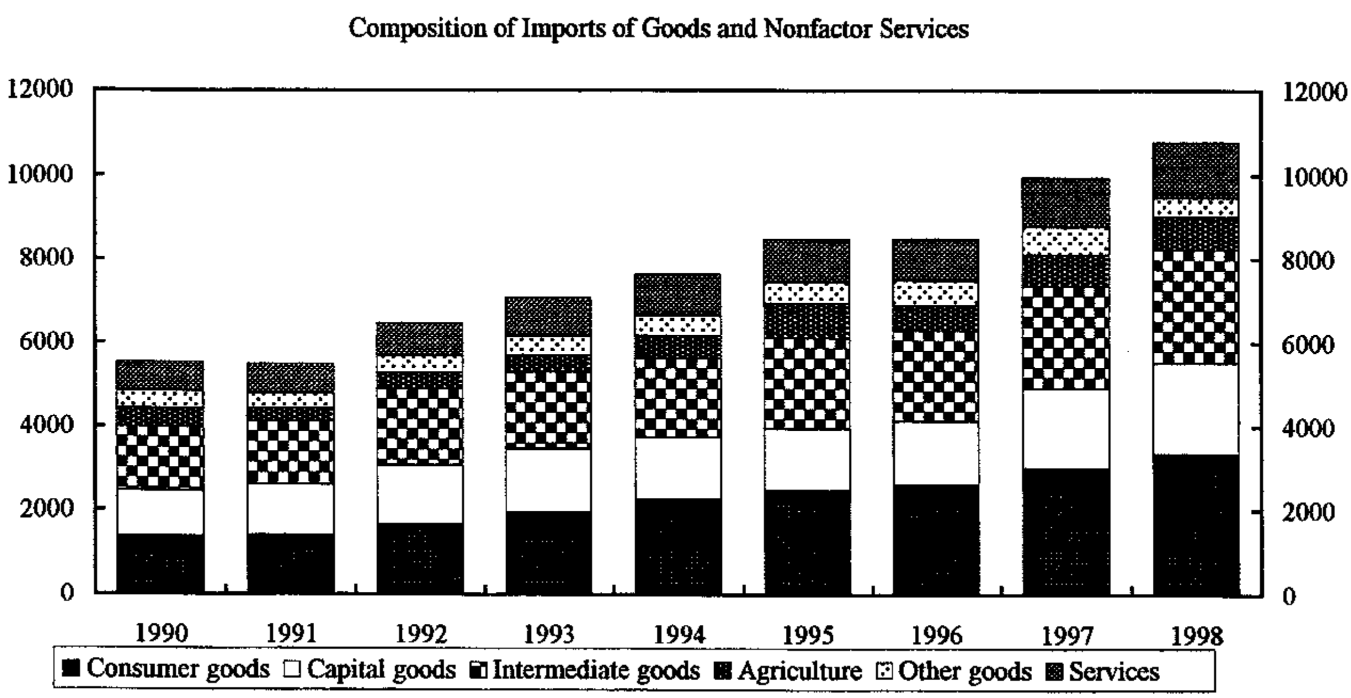
[37]Over the first five months of 1999, exports of textile and clothing have increased in dinar terms by a mere 4.9 percent over the same period last year, compared to 7.6 percent in 1998. Similar figures for mechanical/electrical exports are 12.5 percent, compared to 25.6 percent in 1999.

Chart 6. Tunisia: Composition of Trade, 1990–98
(In millions of dinars)





Source: Ministry of Economic Development.

Market shares

92. At the aggregate level, Tunisia has not gained market shares on its main market, the EU, since 1994. In contrast to the Central European countries, Tunisia's market share progression in textile products is not substantial enough to offset the lower than average growth of the EU textile market. Tunisia's market shares as a whole have been stabilizing over 1994–96 at 0.24 percent of total EU imports, from 0.19 percent in 1990. During the same period, Asian emerging economies market shares increased to 7.3 percent from 4.6 percent, and Eastern Europe's market shares trebled, to 2.4 percent.[38] A similar contrast exists for manufacturing imports in the EU between Tunisia and its main competitors (Chart 7).

93. Tunisia's textile market share in the EU continues to improve, however at a much lower pace than that of Eastern European countries. The gap between the two has widened sharply since 1990. In 1996, Tunisia's share was 3.6 percent as compared to 8.4 percent for the Eastern Europe. Preliminary figures for 1997 indicate a stabilization of Tunisia's market shares. The Asian emerging economies experienced a small decline in market share in EU from 10.8 to 9.6 percent over the same period, but this was offset by large gains in the market share of more dynamic segments such as electronic products.

94. These developments illustrate the main challenges facing the Tunisian export industries in the years ahead: resisting increased competition pressures from new European competitors on traditional markets while accelerating its product diversification in high growth high value-added segments.

Export promotion policies

95. Aware of these challenges, the authorities are considering a range of actions to promote exports, without resorting as in the past to distorting nonmarket incentives and state intervention. Several reforms have been implemented to make Tunisia a more attractive place for establishing export industries. Oligopolistic sea transportation arrangements between state-owned and foreign companies were suppressed in 1998, allowing for a reduction of 10 percent in transportation costs on the most frequently-used sea route (Tunis-Marseille). Sea transportation costs are also being reduced with the opening to private competition of certain port handling activities. Last but not least, customs clearance procedures are being simplified with the introduction of a single document (*liasse unique*).

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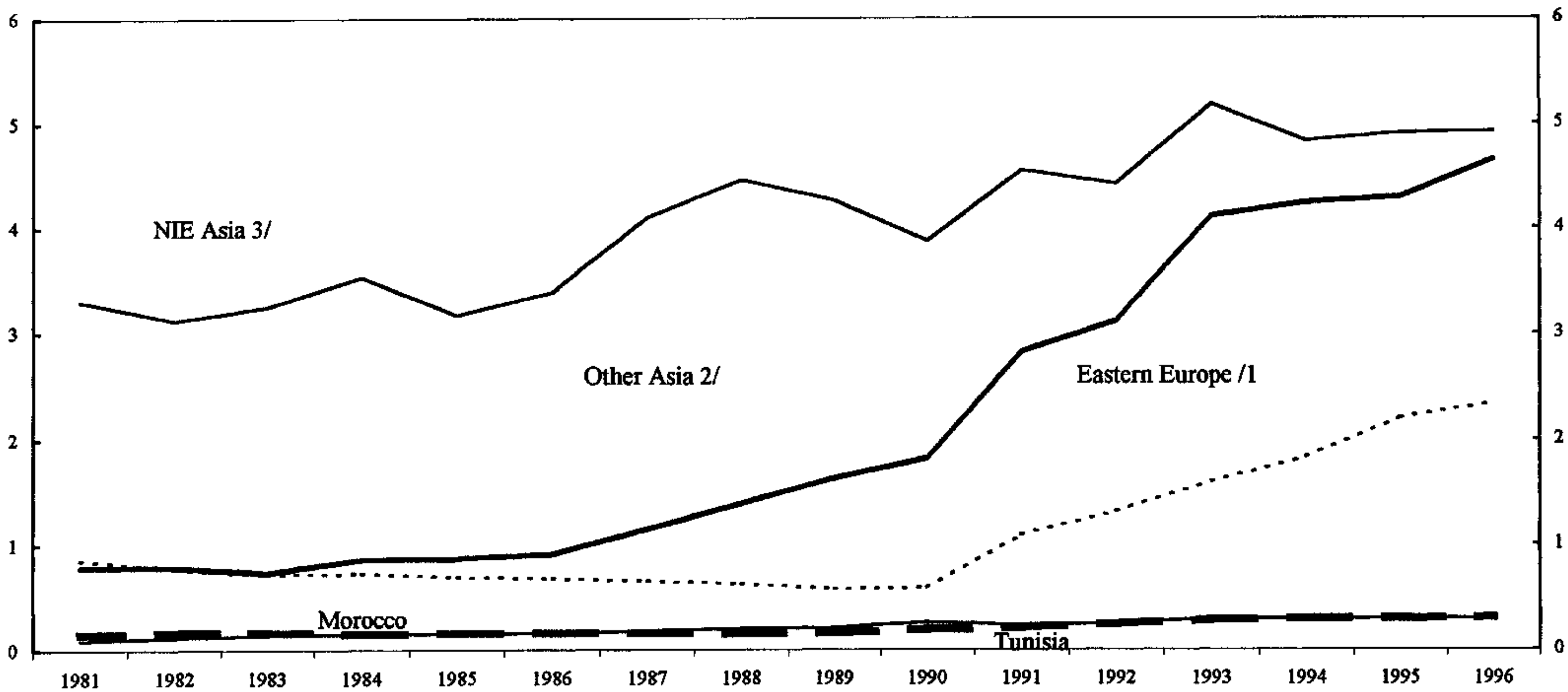
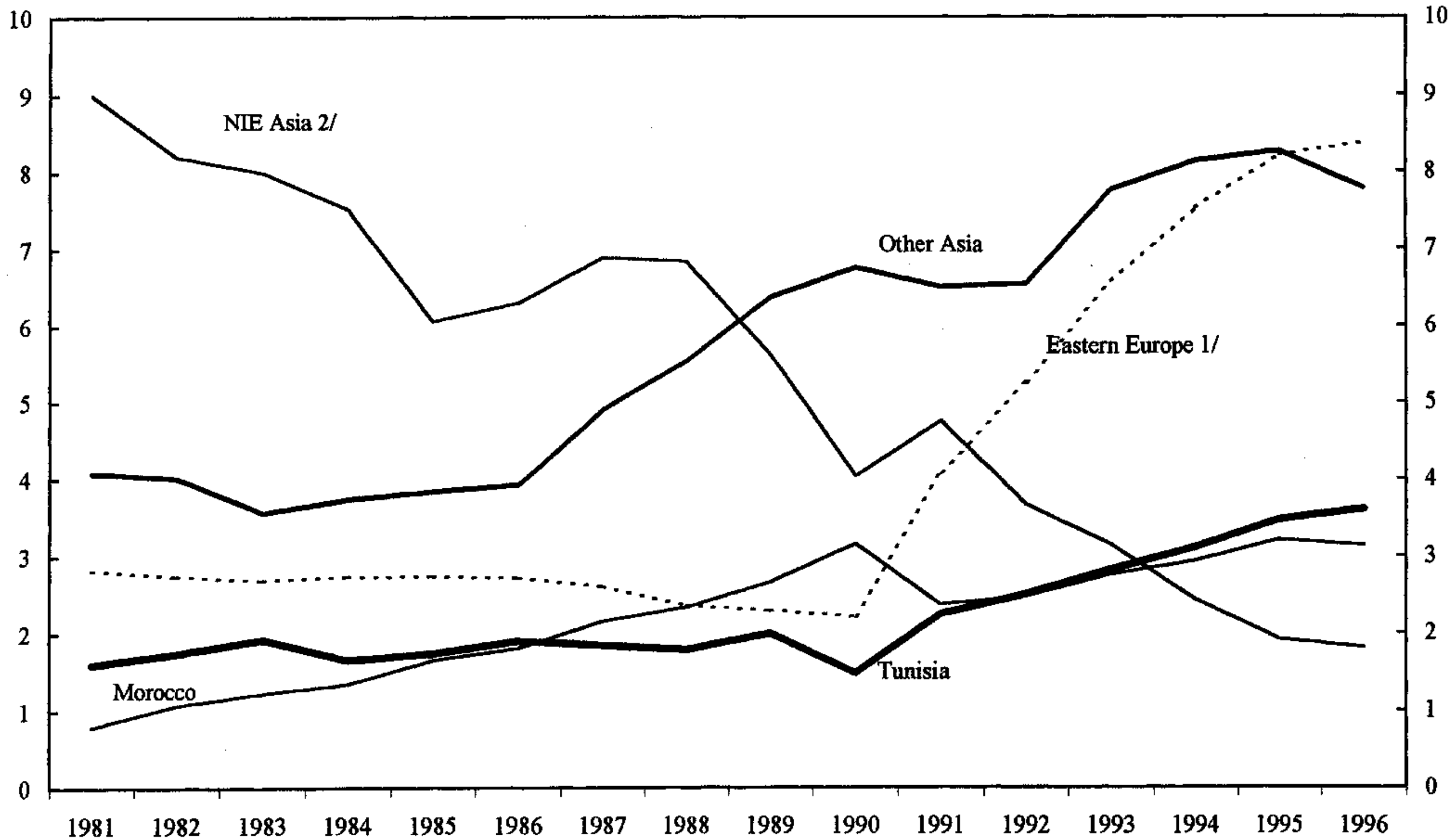
[38] In this report, the Asian emerging economies refers to the economies of Hong Kong SAR, Korea, Singapore, Taiwan Province of China, China, Malaysia, and Thailand; the Eastern Europe countries refers to Poland, Hungary, the Czech Republic, Slovakia, and Slovenia.

Chart 7. Manufactured Export Market Shares in EU
(in percent)



Source: United Nations, TARS; and Fund staff estimates.
1/ Czech Republic, Slovak Republic, Bulgaria, Hungary, Poland, Romania.
2/ China, Malaysia, Thailand.
3/ Hong Kong, Korea, Singapore, Taiwan.

Chart 8. Textile Export Market Shares in EU
(in percent)



Source: United Nations, TARS; and Fund staff estimates.
1/ Czech Republic, Slovak Republic, Bulgaria, Hungary, Poland, Romania.
2/ China, Malaysia, Thailand.
3/ Hong Kong, Korea, Singapore, Taiwan.

96. Moreover, the program of industrial restructuring *(mise à niveau)* which has been designed to assist enterprises to adjust to the EU free trade agreement context has already enabled some export-oriented companies to shift to more profitable activities, including in the textile industry.

97. In spite of the already large share of textile products in Tunisian exports, the authorities consider that there is still some scope for further progression by: (i) diversifying away from the textile garment industry towards other segments such as footwear; (ii) helping the modernization of textile factories; (iii) systematizing a niche strategy that would take advantage of Tunisia's proximity with European consumer markets to produce highly-priced small series in short time spans; (iv) promoting Tunisian products in nontraditional European markets such as the United Kingdom; and (v) securing access to retail traders through direct investment in European trading companies.

98. This active strategy in the textile sector also aims at increasing the local value-added content of textile exports. Textile production is mostly undertaken under offshore arrangements. Duty-free imported inputs undergo little transformation before re-exports. Vertical integration efforts might well prove to be a risky strategy, first because it requires substantial capital investment to develop textile industries upstream, and second, it might run counter to the flexible cost-reducing strategies of international textile groups.

Imports of goods

99. The projected slowing down of exports growth in 1999 contrasts with a projected high growth of real imports, exceeding real GDP growth for the third consecutive year. Imports of capital goods, sustained by investment, remain the most dynamic component of imports. In 1997, they reached a 17 percent increase in real terms, reflecting mainly a catching up due to the pre-announced elimination of import duties on equipment goods, from end–1996. However, imports of capital goods increased by 10 percent in 1998 and are projected to grow by an other 15 percent in 1999, in part pushed by substantial investments by state-owned enterprises, including a TD 400 million import of airplanes by Tunis Air. Import volumes of energy products are projected to grow by 19 percent in 1999 while food imports should stay almost stable, these contrasted developments reflecting changing conditions in the local supply of these products.

100. Prospects for lower import growth in the coming years is all but unlikely, given the implementation of further trade liberalization, including the dismantling of tariffs on EU imports for products which are in direct competition with local products. Whether the investment efforts of the past three years will have a positive impact on the current account in the long run, either through reduced imports or increased exports, remains uncertain since part of these investments are still in the public sector, or in industries which benefit temporarily from increased effective protection (such as food processing or building materials).

101. Notwithstanding the impact of the Association Agreement, Tunisia's trade regime remains restricted and has a rating of 8 (on a scale of 1 to 10) in the Funds' overall trade

restrictiveness index. Tunisia's average tariff level is estimated at 33.6 percent as compared to the current average for all Fund members at 14 percent. There are currently 5,099 tariff lines and tariffs range between 0–225 percent.

Tourism and other services

102. Tourism receipts and exports of business services are Tunisia's main tools to offset a further deterioration in the trade balance. The surplus in the balance of nonfactor services remained large in 1998, at some 7.8 percent of GDP, thanks to buoyant tourism receipts, but also to the rapid development of several categories of business services, including construction and software and data-processing services. Tourism services account for more than half of service exports, equivalent to 26 percent of exports of goods. Over the last two years, tourism receipts increased by 25 percent in Tunisian dinar terms, in line with the growing entries of nonresidents in the country (21.4 percent) and the larger number of nights spent in Tunisia (19.3 percent) (Table 9). During the same period, a marked reduction in tourism investments slowed down the development of hotel capacities. As a result, the rate of occupancy improved from 49 percent to 52 percent, increasing thereby the profitability of the sector. In 1998, about 4.7 millions of foreign tourists visited Tunisia, of which 3 millions were Europeans. In 1999, tourism receipts will still be buoyant, in part due to exceptional factors such as the war in the Balkans and political unrest in Turkey that have diverted European tourists away from other Mediterranean regions. The authorities are nonetheless confident that tourism receipts will continue to progress in the medium term, thanks to the industry's efforts to improve the quality and diversify of services in this sector. Substantial projects for direct investment in the tourism sector by large European tour operators are an encouraging sign in this direction.

B. Capital Account[39]

103. In the face of unfavorable high spreads, Tunisia decided not to tap international markets in 1998. Net capital inflows amounted to only TD 500 million, insufficient to finance the current account deficit. The gap was financed by the depletion of official reserves, which declined to only 2.6 months of imports of goods (CIF) at end–1998. Gross official financing flows (TD 500 million) slowed down, a move partially offset by record direct investment (TD 850 million against TD 440 million in 1997) reflecting mainly privatization proceeds of two cement factories sold to foreign firms.

104. Net capital inflows are projected to more than double in 1999. Official financing will increase by TD 300 million, due in part to the recent disbursement of the first tranche of the World Bank's second economic competitiveness adjustment loan and parallel financing from the European Union and the African Development Bank. In addition, commercial loans have

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[39]We follow here the presentation of the Ministry of Economic Development, which differs slightly from that of the central bank.

been obtained for the import of airplanes. Finally, as spreads on emerging economies bond markets are currently returning to lower levels, the authorities are planning to tap again the international financial markets for about TD 500 million. A 10-year bond issue of € 250 million was issued in mid-July at a spread of 280 basis points over equivalent German Bunds. However, the slowing pace of the privatization process will not ensure foreign capital inflows of the same magnitude than those of last year. As a result, the authorities are projecting only a slight improvement in the level of official reserves (to 2.7 months of imports) at end–1999.

C. External Debt

105. As of end–1998, Tunisia had a sizeable although sustainable and declining external indebtedness. Total external debt amounted to US$11.3 billion, the equivalent of 55 percent of GDP, down from 61 percent in 1997.[40] Debt service payments absorbed 19.2 percent of the exports of goods and services. Public and publicly-guaranteed debt accounted for 80 percent of the total and consisted mostly in medium and long term maturity debts. Short-term debt (US$1.6 million) was mostly contracted by the private sector, of which US$400 million were trade credits.[41] The remaining debt was made of short-term liabilities of the banking system, the equivalent of two-thirds of the official reserves as of end–1998. Although the latter figure could indicate some short-term vulnerability in the Tunisian external position, more than half (US$673 million) of these short-term liabilities are foreign-currency or dinar convertible deposits of nonresidents in the banking sector. Since they consist mainly of saving by Tunisian expatriates in preparation for their return to Tunisia, they are thus, according to the authorities, subject to lower risk of massive and rapid withdrawals. The central bank acknowledged, however, that such deposits are also yield-sensitive. Their increase over the past years is in part attributable to the relatively attractive interest rates offered on the dinar convertible deposits.[42]

D. Capital Account Liberalization

106. Given Tunisia's increasing capital needs, but also in view of the recent developments in Asian capital markets, the authorities are comforted in their strategy of gradual and cautious capital account liberalization. Capital transactions in Tunisia are still subject to a large number of restrictions, both on the inward and outward directions. In the past two years, the central bank took some additional deregulation measures. Resident enterprises have been allowed to keep up to 50 percent (from 40 percent) of their export proceeds, and up to

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[40] As reported by the central bank. According to the World Bank, total external debt was 0.8 billion higher as of end–1998.

[41] In net terms however, Tunisia's balance of trade credits was positive as of end–1998.

[42] These sight deposits are offered at the same rates as residents' saving deposits.

50 percent of the proceeds of their borrowing abroad, in foreign currency deposits. Banks can now grant short term credits in Tunisian dinars to offshore enterprises, to finance local operations. Nonresidents, who are still forbidden to make any transactions on treasury bills, have been allowed to buy shares of Tunisian companies provided that the total share of foreign participation does not go beyond a ceiling of 50 percent. The latter measure may raise, however, a number of practical impediments when the actual foreign share is already close to this ceiling. More generally, the external challenges facing the authorities for the years ahead add to the need for a more ambitious strategy to attract foreign direct and portfolio investment. This might require broadening the authorizations of foreign investment, presently limited to the manufacturing, energy and tourism industries, to the other sectors.

E. Exchange Rate Policy

107. Exchange rate policy has been guided by a real exchange rate objective based on a basket of competitor and partner countries. The rule is interpreted flexibly by the central bank, which may allow the real exchange rate to deviate from the target in order to smooth movements in the nominal exchange rate. Information on the basket is not disclosed.

Table 1. Tunisia: Sectoral Distribution of GDP at Constant Prices, 1994–98

	1994	1995	1996	1997	1998
	(In millions of Tunisian dinars at constant 1990 prices)				
Agriculture and fishing	1,746	1,573	2,038	2,098	2,077
Mining	91	111	118	107	135
Hydrocarbons, electricity, and water	881	877	921	944	991
Manufacturing	2,292	2,404	2,469	2,645	2,745
Food processing	439	426	434	517	492
Construction materials and glass	247	264	263	265	275
Mechanical and electrical industries	317	335	338	362	388
Chemical and rubber industries	239	254	267	275	290
Textiles, clothing, and leather	748	804	832	873	926
Woodwork, paper, and other	302	321	334	352	373
Construction and public works	622	599	616	659	699
Services	5,618	5,928	6,216	6,593	7,017
Transport and telecommunications	940	986	1,091	1,183	1,284
Commerce and other services	2,293	2,460	2,557	2,684	2,864
Tourism	669	680	706	758	796
Government wages and salaries	1,717	1,801	1,861	1,967	2,073
Indirect taxes minus susbsidies	1,538	1,583	1,631	1,722	1,842
GDP (at market prices)	12,789	13,074	14,009	14,768	15,505
	(Percentage change at constant prices)				
Agriculture and fishing	-10.0	-9.9	29.5	3.0	-1.0
Mining	9.3	21.0	7.0	-9.3	25.6
Hydrocarbons, electricity, and water	-2.2	-0.4	5.0	2.5	5.0
Manufacturing	8.1	4.9	2.7	7.1	3.8
Food processing	9.2	-2.9	2.0	19.0	-4.8
Construction materials and glass	2.7	6.9	-0.3	1.0	3.8
Mechanical and electrical industries	3.7	5.6	0.9	7.0	7.2
Chemical and rubber industries	9.9	6.3	5.1	3.0	5.5
Textiles, clothing, and leather	11.7	7.4	3.5	5.0	6.0
Woodwork, paper, and other	6.3	6.3	4.1	5.4	6.0
Construction and public works	10.7	-3.7	2.8	7.0	6.0
Services	5.4	5.5	4.9	6.1	6.4
Transport and telecommunications	6.3	4.9	10.7	8.4	8.5
Commerce and other services	4.8	7.3	3.9	5.0	6.7
Tourism	9.5	1.7	3.7	7.4	4.9
Government wages and salaries	4.1	4.9	3.3	5.7	5.4
Indirect taxes minus susbsidies	6.5	3.0	3.1	5.5	7.0
GDP (at market prices)	3.3	2.2	7.1	5.4	5.0

Source: Ministry of Economic Development.

Table 2. Tunisia: Sectoral Distribution of GDP at Current Prices, 1994–98

	1994	1995	1996	1997	1998
	(In millions of Tunisian dinars at current prices)				
Agriculture and fishing	1,986	1,938	2,615	2,787	2,829
Mining	79	91	137	169	219
Hydrocarbons, electricity, and water	830	868	956	1,014	1,060
Manufacturing	2,910	3,234	3,489	3,847	4,146
Food processing	548	556	586	701	692
Construction materials and glass	320	351	350	361	390
Mechanical and electrical industries	391	428	454	499	553
Chemical and rubber industries	301	351	399	432	479
Textiles, clothing, and leather	984	1,134	1,252	1,368	1,498
Woodwork, paper, and other	366	414	448	487	534
Construction and public works	790	820	844	936	1,037
Services	7,153	7,915	8,620	9,505	10,480
Transport and telecommunications	1,197	1,278	1,406	1,589	1,770
Commerce and other services	2,818	3,158	3,445	3,736	4,123
Tourism	944	1,051	1,152	1,276	1,386
Government wages and salaries	2,194	2,427	2,618	2,905	3,201
Indirect taxes minus susbsidies	2,061	2,187	2,405	2,643	2,953
GDP (at market prices)	15,807	17,052	19,066	20,901	22,724
(As a percentage change)	7.8	7.9	11.8	9.6	8.7
	(In percent of GDP)				
Agriculture and fishing	12.6	11.4	13.7	13.3	12.4
Mining	0.5	0.5	0.7	0.8	1.0
Hydrocarbons, electricity, and water	5.3	5.1	5.0	4.9	4.7
Manufacturing	18.4	19.0	18.3	18.4	18.2
Construction and public works	5.0	4.8	4.4	4.5	4.6
Services	45.2	46.4	45.2	45.5	46.1
Transport and telecommunications	7.6	7.5	7.4	7.6	7.8
Commerce and other services	17.8	18.5	18.1	17.9	18.1
Tourism	6.0	6.2	6.0	6.1	6.1
Government wages and salaries	13.9	14.2	13.7	13.9	14.1

Source: Ministry of Economic Development.

Table 3. Tunisia: Supply and Use of Resources at Current Prices, 1994–98

	1994	1995	1996	1997	1998
	(In millions of Tunisian dinars at current prices)				
Consumption	12,414	13,505	14,586	15,841	17,195
Central government 1/	1,956	2,133	2,434	2,719	2,948
The rest of the economy 2/	10,458	11,372	12,152	13,122	14,247
Gross capital formation	3,869	4,213	4,776	5,576	6,257
Gross fixed capital formation	4,268	4,121	4,422	5,136	5,690
Central government 1/	666	746	902	955	1,408
The rest of the economy 2/	3,602	3,375	3,520	4,181	4,282
Changes in stocks	-399	92	354	440	567
Domestic demand	16,282	17,718	19,362	21,417	23,452
Net exports of goods and nonfactor services	-475	-666	-296	-516	-728
Export of goods and nonfactor services	7,091	7,657	8,030	9,183	9,638
Imports of goods and nonfactor services	7,567	8,323	8,326	9,699	10,366
GDP (at current prices)	15,807	17,052	19,066	20,901	22,724
Plus net factor payments abroad (-) 3/	-918	-811	-1,004	-998	-988
Gross national product	14,889	16,241	18,062	19,903	21,736
Plus net current transfers abroad (-)	703	712	801	834	942
Gross national disposable income	15,592	16,953	18,863	20,737	22,678
	(In percent of GDP)				
Gross investment	24.5	24.7	25.0	26.7	27.5
Of which					
Gazoduc and Miskar	2.0	0.7	0.0	0.0	0.0
Changes in stocks	-2.5	0.5	1.9	2.1	2.5
Gross national savings	20.1	20.2	22.4	23.4	24.1
Savings-investment gap	-4.4	-4.5	-2.6	-3.3	-3.4
Consolidated central government 1/	0.8	-1.4	-2.3	-1.5	-2.1
The rest of the economy 2/	-5.2	-3.1	-0.3	-1.8	-1.3

Sources: Ministry of Economic Development; and Fund staff estimates.

1/ Includes the social security system.
2/ Includes all economic agents except the consolidated central government.
3/ National account concept.

Table 4. Tunisia: Supply and Use of Resources at Constant Prices, 1994–98

	1994	1995	1996	1997	1998
	(In millions of Tunisian dinars at constant 1990 prices)				
Consumption	10,018	10,306	10,724	11,203	11,756
Consolidated central government 1/	1,564	1,643	1,806	1,925	1,995
The rest of the economy 2/	8,454	8,663	8,918	9,279	9,761
Gross capital formation	3,014	3,119	3,472	3,668	3,893
Gross fixed capital formation	3,332	3,113	3,181	3,495	3,709
Changes in stocks	-318	6	291	173	185
Domestic demand	13,032	13,424	14,195	14,872	15,650
Export of goods and nonfactor services	5,894	5,999	5,953	6,581	6,822
Imports of goods and nonfactor services	6,137	6,349	6,140	6,685	6,967
GDP	12,789	13,074	14,009	14,768	15,505
	(Annual percentage change)				
Consumption	3.4	2.9	4.1	4.5	4.9
Consolidated central government 1/	4.3	5.0	9.9	6.6	3.7
The rest of the economy 2/	3.2	2.5	2.9	4.0	5.2
Gross capital formation	-11.5	3.5	11.3	5.7	6.1
Of which					
Gross fixed capital formation	7.9	-6.6	2.2	9.9	6.1
Domestic demand	-0.5	3.0	5.7	4.8	5.2
Export of goods and nonfactor services	13.0	1.8	-0.8	10.5	3.7
Imports of goods and nonfactor services	3.5	3.5	-3.3	8.9	4.2
GDP (at constant 1990 prices)	3.3	2.2	7.1	5.4	5.0

Sources: Ministry of Economic development; and Fund staff estimates.

1/ Includes the social security system.

2/ Includes all economic agents except the consolidated central government.

Table 5. Tunisia: Gross Fixed Capital Formation by Economic Sector and Financing, 1994–98
(In millions of Tunisian dinars)

	1994	1995	1996	1997	1998
Agriculture and fishing	516	597	718	736	824
Industry	1,422	1,106	1,041	1,338	1,484
Mining	30	25	21	41	33
Hydrocarbons 1/	516	316	182	230	230
Electricity and water	310	179	196	348	376
Manufacturing	566	586	642	719	845
Food processing	115	130	140	173	221
Construction materials and glass	122	104	112	106	100
Mechanical and electrical	76	77	85	100	136
Chemical and rubber	63	65	70	75	66
Textile and leather	126	141	155	170	225
Woodwork and other	64	70	81	95	97
Construction and public infrastructure	1,085	1,146	1,257	1,411	1,560
Housing	627	677	699	783	850
Construction and public works	46	58	70	82	95
Public infrastructure	412	410	488	546	615
Services	1,246	1,272	1,406	1,652	1,822
Transport 1/ and telecommunications	704	661	735	928	1,035
Lodging, food, and beverages	279	306	336	315	329
Commerce and other	263	305	336	409	458
Total gross fixed capital formation	4,268	4,121	4,422	5,136	5,690
Change in stocks	-399	92	354	440	567
Financing requirement	3,869	4,213	4,776	5,576	6,257
Gross national savings	3,178	3,448	4,277	4,896	5,483
In percent of GDP	20.1	20.2	22.4	23.4	24.1
Foreign resources 2/	691	765	500	680	774
In percent of GDP	4.4	4.5	2.6	3.3	3.4

Source: Ministry of Economic Development.

1/ Includes Gazoduc (1992–94) and Miskar (1992–95) projects.

2/ National account concept.

Table 6. Tunisia: Production of Major Agricultural Crops, 1994–98
(In thousands of metric tons)

	1994	1995	1996	1997	1998
Cereals	654	620	2,605	1,053	1,665
Hard wheat	436	472	1,630	723	1,090
Soft wheat	66	59	250	162	263
Barley 1/	1,152	89	725	168	312
Fruits and vegetables					
Citrus fruit	210	194	210	211	229
Dates	74	69	74	95	100
Tomatoes	480	580	700	500	610
Red peppers	165	150	190	186	200
Potatoes	210	233	270	289	295
Melons and watermelons	375	300	370	315	285
Almonds	52	35	42	51	59
Table grapes	60	60	55	63	62
Olives	1,050	350	300	1,550	450
Others					
Meat	153	155	163	176	188
Sugar beets	232	268	306	268	143
Milk	523	565	615	657	740
Fish	87	84	84	89	92

Source: Ministry of Agriculture.

1/ Includes triticale.

Table 7. Tunisia: Supply and Use of Cereals, 1994–98 1/
(In thousands of metric tons)

	1994	1995	1996	1997	1998
Hard wheat					
Production	436	472	1,706	723	1,090
Commercialization 2/	786	333	349	880	448
Imports	49	687	205	238	393
Producer price (dinar/ton) 3/	260	275	285	285	285
Soft wheat					
Production	66	59	312	162	263
Commercialization 2/	201	51	38	203	116
Imports	802	965	655	966	783
Producer price (dinar/ton) 3/	225	240	250	250	250
Barley					
Production	152	89	835	160	303
Commercialization 2/	87	7	15	230	21
Imports	454	687	31	303	139
Producer price (dinar/ton) 3/	150	150	170	170	170

Source: Ministry of Agriculture.

1/ By crop year (July/June).
2/ Commercialization of the previous year's crops.
3/ Covered by official marketing.

Table 8. Tunisia: Energy Production and Consumption, 1994–98
(In thousands of metric tons)

	1994	1995	1996	1997	1998
Production	5,161	5,247	5,853	6,204	6,656
Crude petroleum	4,461	4,309	4,276	3,870	3,987
Gas 1/	688	929	1,562	2,324	2,653
Production	157	126	724	1,504	1,720
Royalties 2/	531	803	838	820	933
Consumption	4,996	5,115	5,307	5,623	5,917
Liquified petroleum gas	321	334	357	375	388
Gas	1,271	1,307	1,378	1,485	1,534
Fuel oil	978	796	812	831	801
Lighting oil	159	170	173	184	187
Gasoline	321	325	338	354	363
Jet fuel	259	250	257	292	311
Natural gas 1/	1,687	1,933	1,992	2,102	2,333
Surplus	165	132	546	581	739
	(In millions of kilowatt-hours)				
Electricity production 3/	6,031	6,625	6,852	7,387	7,937

Sources: Ministry of Industry; and Direction Générale des Mines.

1/ In thousands of tons of oil equivalent.

2/ In kind royalties from the trans-Tunisia pipeline carrying gas from Algeria to Italy.

3/ Production by the state company STEG (excluding production by private plants).

Table 9. Tunisia: Indicators of Tourism Activity, 1994–98

	1994	1995	1996	1997	1998
Annual fixed investment in tourism sector (in millions of dinars)	279	295	295	325	329
Accommodation available (in thousands of beds)	153	161	169	178	184
Number of foreign visitors (in thousands)	3,856	4,120	3,885	4,263	4,717
Visitor bed-nights (in thousands)	26,440	5,346	24,712	27,684	28,786
Of which					
Foreigners	24,681	23,514	22,906	26,236	27,282
Average length of stay (in days)	6	6	6	6	6
Average occupancy rate (in percent)	53	49	49	52	52
Tourism receipts (in millions of dinars)	1,317	1,323	1,369	1,565	1,712
Average daily expenditure per tourist (in dinars)	53	56	57	57	60

Sources: National Tourism Office; and Central Bank of Tunisia.

Table 10. Tunisia: Consumer Price Index, 1994–98
(Annual average: 1990 = 100)

	Weights in general index (in percent)	1994	1995	1996	1997	1998
Food	41.2	121.9	132.0	137.0	142.8	146.7
Housing	18.7	120.6	125.4	129.1	132.2	135.9
Clothing	10.4	129.0	138.6	147.4	152.8	159.2
Health	9.1	128.3	135.2	137.3	144.3	147.0
Transport	8.8	131.9	134.1	136.8	138.4	142.9
Services and other	11.8	128.6	136.3	143.5	149.4	156.6
General index	100.0	124.6	132.4	137.4	142.4	146.8
General index (excluding food)	100.0	126.6	132.7	137.6	142.1	146.9
		(Percentage change)				
Food		4.3	8.3	3.8	4.2	2.7
Housing		3.8	4.0	2.9	2.4	2.8
Clothing		4.6	7.4	6.3	3.7	4.2
Health		7.3	5.4	1.5	5.1	1.9
Transport		3.8	1.6	2.0	1.2	3.3
Services and other		6.1	6.0	5.2	4.1	4.8
General index		4.7	6.3	3.8	3.7	3.1
General index (excluding food)		5.0	4.9	3.7	3.3	3.4

Sources: Central Bank of Tunisia; and National Institute of Statistics (INS).

Table 11. Tunisia: Producer Price Index, 1994–98
(Annual average: 1990 = 100)

	Weight (in percent)	1994	1995	1996	1997	1998
Manufacturing	79.3	121.6	129.9	135.2	137.6	142.0
Food processing	31.0	125.2	131.0	141.0	146.9	152.5
Construction materials and glass	8.0	113.8	112.1	110.4	111.5	113.4
Mechanical and electrical products	11.2	108.6	113.3	115.8	117.7	120.1
Chemicals and rubber	5.9	117.9	121.7	182.4	132.2	134.9
Textiles, clothing, and leather	11.3	121.4	140.8	145.6	139.3	142.8
Other manufacturing	11.9	131.9	148.6	148.6	150.5	157.3
Mining	2.2	97.6	93.6	111.5	142.4	155.7
Hydrocarbons	12.2	101.9	102.1	102.1	102.4	109.1
Electricity and water	6.3	114.8	118.6	119.9	120.9	123.2
General index	100.0	118.3	125.0	129.7	132.3	137.1
Percent change		3.4	5.7	3.8	2.0	3.6

Sources: Central Bank of Tunisia; and National Institute of Statistics (INS).

Table 12. Tunisia: Producer Prices of Principal Agricultural Commodities, 1994–98 1/
(In Tunisian dinars per ton)

	1994	1995	1996	1997	1998
Cereals					
Hard wheat	260	275	285	285	285
Soft wheat	225	240	250	250	250
Barley	150	150	170	170	170
Sugar beets	38	38	38	38	38
Olive oil					
High grade	1,315	1,315	2,730	1,800	1,800
Low grade	1,055	1,055	2,330	1,420	1,420
Tomatoes	85	85	90	95	95

Source: Ministry of Agriculture.

1/ By crop year (July/June).

Table 13. Tunisia: Consolidated Financial Operations of the Central Government, 1994–98 1/

	1994	1995	1996	1997	Est. 1998
	(In millions of Tunisian dinars)				
Total revenue	4,943	5,104	5,786	5,933	6,579
Tax revenue	3,961	4,263	4,776	5,224	5,884
Social security contributions	678	771	996	993	1,114
Taxes on foreign trade	754	799	774	728	751
Other taxes	2,529	2,694	3,006	3,502	4,019
Nontax revenue 2/	982	841	1,010	709	695
Total expenditure and net lending	5,337	5,864	6,764	6,804	7,223
Expenditure	5,196	5,739	6,675	6,618	7,115
Current expenditure	4,210	4,636	5,362	5,283	5,644
Wages and salaries 3/	1,609	1,776	1,969	2,320	2,533
Goods and services	347	357	465	399	415
Interest payments	587	684	825	720	692
Domestic debt	267	339	475	317	257
External debt	321	345	350	403	435
Transfers and subsidies	1,666	1,820	2,103	1,843	2,004
Social security benefits	666	747	953	946	1,076
Consumer subsidies by CGC 4/	319	346	418	378	375
Other	681	727	732	519	553
Capital expenditure	987	1,103	1,313	1,335	1,471
Direct investment	666	746	902	955	1,408
Capital transfers	321	357	411	381	63
Net lending	140	125	89	186	108
Overall deficit (-) excluding grants and privatization	-393	-759	-978	-871	-644
Grants	64	45	42	66	89
Privatization	16	17	10	3	418
Overall deficit (-) including grants and privatization	-314	-698	-926	-803	-136
Financing	314	698	926	803	136
Foreign	218	490	526	492	4
Domestic	96	208	400	311	132
Banking system 5/	-78	-89	-102	299	-114
Nonbank	174	298	501	12	246
Of which					
Debt of the CGC	95	155	302	-80	-80

Table 13. Tunisia: Consolidated Financial Operations of the Central Government, 1994–98 1/

	1994	1995	1996	1997	Est. 1998
	(In percent of GDP)				
Total revenue	31.3	29.9	30.3	28.4	29.0
Tax revenue	25.1	25.0	25.1	25.0	25.9
Social security contributions	4.3	4.5	5.2	4.8	4.9
Trade taxes	4.8	4.7	4.1	3.5	3.3
Other taxes	16.0	15.8	15.8	16.8	17.7
Nontax revenue 2/	6.2	4.9	5.3	3.4	3.1
Expenditure and net lending	33.8	34.5	35.5	32.6	31.8
Current expenditure	26.6	27.3	28.1	25.3	24.8
Capital expenditure and net lending	7.1	7.2	7.4	7.3	6.9
Capital expenditure	6.2	6.5	6.9	6.4	6.5
Net lending	0.9	0.7	0.5	0.9	0.5
Overall deficit (-) excluding grants and privatization	-2.5	-4.5	-5.1	-4.2	-2.8
Grants	0.4	0.3	0.2	0.3	0.4
Privatization proceeds (net)	0.1	0.1	0.1	0.0	1.8
Overall deficit (-) including grants and privatization	-2.0	-4.1	-4.9	-3.8	-0.6
Primary balance, excluding grants and privatization	1.2	-0.4	-0.8	-0.7	0.2
Central government debt 6/	59.2	58.4	60.6	62.5	58.1
Foreign	39.0	38.4	36.5	38.8	35.3
Domestic	20.2	20.0	24.1	23.7	22.8
Memorandum item:					
Tax revenue excluding social security contributions	20.8	20.5	19.8	20.2	21.0

Source: Data provided by the Ministry of Finance.

1/ Includes special funds, *fonds de concours*, operations financed abroad, net treasury operations and the social security funds.

2/ Excludes privatization proceeds.

3/ Starting in 1997 includes the wage bill of local governments, *établissements publics à caractère administratif* (EPA) and *établissements à caractère industriel commercial non marchands* (EPIC), and of embassy personnel previously classified as transfers.

4/ Includes interest on arrears related to the operations of the consumer subsidy fund (CGC).

5/ Excludes the social security system.

6/ Includes government debt instruments held by the social security system, and the debt assumed by the CBT in 1996 related to quasi-fiscal operations.

Table 14. Tunisia: Consolidated Revenue and Grants of the Central Government by Main Categories, 1994–98

	1994	1995	1996	1997	Est. 1998
	(In millions of Tunisian dinars)				
Revenue	4,943	5,104	5,786	5,933	6,579
Tax revenue	3,961	4,263	4,776	5,224	5,884
Taxes on income and profits	734	807	893	1,113	1,294
Of which					
Petroleum sector	40	58	47	62	51
Social security contributions	678	771	996	993	1,114
Taxes on payroll	58	62	76	78	69
Property taxes	65	68	73	78	83
Taxes on goods and services	1,586	1,649	1,855	2,112	2,438
VAT	855	899	1,008	1,170	1,443
Excises	589	596	642	722	775
Other	142	154	205	220	221
Taxes on international trade and transactions	771	815	782	736	751
Import taxes	745	790	765	717	742
Export taxes	10	9	9	11	9
Other	16	17	8	8	0
Other tax revenue 1/	70	97	101	114	134
Nontax revenue	982	841	1,010	709	695
Petroleum sector	349	302	309	177	233
Other nontax revenue 2/	629	537	684	525	458
Capital revenue	4	3	17	7	5
Grants	64	45	42	66	89
Privatization receipts	16	17	10	3	418
Total revenue and grants	5,022	5,166	5,838	6,001	7,086
	(In percent of GDP)				
Revenue	31.3	29.9	30.3	28.4	29.0
Tax revenue	25.1	25.0	25.1	25.0	25.9
Taxes on income and profits	4.6	4.7	4.7	5.3	5.7
Social security contributions	4.3	4.5	5.2	4.8	4.9
Taxes on goods and services	10.0	9.7	9.7	10.1	10.7
Of which					
VAT	5.4	5.3	5.3	5.6	6.4
Excises	3.7	3.5	3.4	3.5	3.4
Taxes on international trade and transactions	4.9	4.8	4.1	3.5	3.3
Of which					
Import taxes	4.7	4.6	4.0	3.4	3.3
Other tax revenue 1/	1.2	1.3	1.3	1.3	1.3
Nontax revenue	6.2	4.9	5.3	3.4	3.1
Petroleum sector	2.2	1.8	1.6	0.8	1.0
Other nontax revenue 2/3/	4.0	3.2	3.7	2.5	2.0

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes payroll and property taxes.

2/ Excludes privatization proceeds.

3/ Includes capital revenue.

Table 15. Tunisia: Economic Classification of Consolidated Expenditure of the Central Government, 1994–98 1/

	1994	1995	1996	1997	Est. 1998
	(In millions of Tunisian dinars)				
Current expenditure	4,210	4,636	5,362	5,283	5,644
Wages and salaries 2/	1,609	1,776	1,969	2,320	2,533
Goods and services	347	357	465	399	415
Interest on public debt	587	684	825	720	692
Foreign debt	267	339	475	317	257
Domestic debt	321	345	350	403	435
Subsidies and other current transfers 3/	1,666	1,820	2,103	1,843	2,004
Of which					
Social security benefits	666	747	953	946	1,076
Transfers to households	478	513	572	560	537
Of which					
Food subsidies	319	346	418	378	375
Capital expenditure	987	1,103	1,313	1,335	1,471
Direct investment	666	746	902	955	1,408
Capital transfers	321	357	411	381	63
Of which					
To nonfinancial public enterprises	299	330	342	342	...
Total expenditure	5,196	5,739	6,675	6,618	7,115
	(In percent of GDP)				
Current expenditure	26.6	27.2	28.1	25.3	24.8
Wages and salaries 2/	10.2	10.4	10.3	11.1	11.1
Goods and services	2.2	2.1	2.4	1.9	1.8
Interest on public debt	3.7	4.0	4.3	3.4	3.0
Foreign debt	1.7	2.0	2.5	1.5	1.1
Domestic debt	2.0	2.0	1.8	1.9	1.9
Subsidies and other current transfers 3/	10.5	10.7	11.0	8.8	8.8
Of which					
Social security benefits	4.2	4.4	5.0	4.5	4.7
Transfers to households	3.0	3.0	3.0	2.7	2.4
Of which					
Food subsidies	2.0	2.0	2.2	1.8	1.7
Capital expenditure	6.2	6.5	6.9	6.4	6.5
Direct investment	4.2	4.4	4.7	4.6	6.2
Capital transfers	2.0	2.1	2.2	1.8	0.3
Of which					
To nonfinancial public enterprises	1.9	1.9	1.8	1.6	....
Total expenditure	32.9	33.7	35.0	31.7	31.3

Source: Ministry of Finance.

1/ Includes all expenditure in the treasury accounts, extrabudgetary operations financed by external assistance, and expenditure of the social security funds.

2/ Starting in 1997 outturn and projections include public entities (EPAs and EPICs), and diplomatic posts.

3/ Starting in 1997 outturn and projections exclude transfers to public entities (EPAs and EPICs), and diplomatic posts on account of wage bills.

Table 16. Tunisia: Functional Classification of Central Government Total Expenditure, 1994–98

	1994	1995	1996	1997	1998
	(In millions of Tunisian dinars)				
Total	5,101	5,584	6,374	6,618	7,115
General public services 2/	227	242	209	308	345
Defense	356	322	341	403	424
Public order and security 3/	436	471	501	549	572
Education	964	1,079	1,189	1,318	1,398
Of which					
Higher education	206	233	241	269	285
Health	360	397	429	469	503
Social welfare	60	68	71	86	97
Social security	666	747	953	946	1,076
Housing and infrastructure	248	236	246	345	430
Culture, recreation, and religious affairs	129	133	140	174	212
Economic services	1,070	1,052	1,063	1,648	1,657
Of which					
Agriculture	322	352	374	560	568
Tourism	51	54	56	70	83
Transportation and telecommunications	110	119	125	152	158
Vocational training	49	57	63	75	90
Economic development, industry, and commerce	451	377	346	620	633
Other 4/	585	839	1,232	371	401
	(In percent of GDP)				
Total	32.3	32.7	33.4	31.7	31.3
General public services 2/	1.4	1.4	1.1	1.5	1.5
Defense	2.3	1.9	1.8	1.9	1.9
Public order and security 3/	2.8	2.8	2.6	2.6	2.5
Education	6.1	6.3	6.2	6.3	6.2
Of which					
Higher education	1.3	1.4	1.3	1.3	1.3
Health	2.3	2.3	2.2	2.2	2.2
Social welfare	0.4	0.4	0.4	0.4	0.4
Social security	4.2	4.4	5.0	4.5	4.7
Housing and infrastructure	1.6	1.4	1.3	1.7	1.9
Culture, recreation, and religious affairs	0.8	0.8	0.7	0.8	0.9
Economic services	6.8	6.2	5.6	7.9	7.3
Of which					
Agriculture	2.0	2.1	2.0	2.7	2.5
Tourism	0.3	0.3	0.3	0.3	0.4
Transportation and telecommunications	0.7	0.7	0.7	0.7	0.7
Vocational training	0.3	0.3	0.3	0.4	0.4
Economic development, industry, and commerce	2.9	2.2	1.8	3.0	2.8
Other 4/	3.7	4.9	6.5	1.8	1.8

Source: Ministry of Finance.

1/ Excludes quasi-fiscal outlays related to food subsidies and net lending.
2/ Chamber of Deputies, office of the President, office of the Prime Minister, the Justice Department, and the Ministry of Foreign Affairs.
3/ Ministry of Interior.
4/ Includes inter-alia the special funds, interest payments, and capital transfers.

Table 17. Tunisia: Revenue from the Petroleum Sector, 1994–98
(In millions of Tunisian dinars)

	1994	1995	1996	1997	1998
Nontax revenue	349	301	309	177	233
Surplus from petroleum exploitation, ETAP 1/	230	222	220	101	164
Dividends, SITEP-TRAPSA 2/	26	7	10	8	5
Transfer of excess funds of public companies, ETAP-STIR 3/	61	36	58	52	38
Surtax of petroleum companies 2/	32	36	21	16	26
Direct taxation of petroleum companies	39	58	47	62	51
Total	388	359	356	239	284
(In percent of GDP)	2.5	2.1	1.9	1.1	1.2

Source: Ministry of Finance.

1/ Entreprise tunisienne des activités pétrolières (ETAP).
2/ Société italo-tunisienne d'exploitaion pétrolière (SITEP), Compagnie de transport par pipeline au Sahara (TRAPSA).
3/ Société tunisienne des industries de raffinage (STIR).

Table 18. Tunisia: Monetary Survey, 1994–98

	1994	1995	1996	1997	1998
	(In millions of Tunisian dinars; end of period)				
Foreign assets (net)	885	843	1,138	1,511	1,353
Foreign assets	2,007	1,971	2,486	2,979	2,788
Foreign liabilities	-1,121	-1,128	-1,348	-1,468	-1,435
Net domestic assets	6,361	6,893	7,623	8,669	9,358
Domestic credit	8,568	9,286	10,464	11,746	12,500
Credit to the government (net)	562	473	371	670	556
Central bank	-104	-52	-150	-174	-164
Deposit money banks	544	341	291	682	556
Counterpart of CCP deposits	122	184	230	162	164
Credit to the economy	8,007	8,813	10,093	11,076	11,944
Central bank	20	15	973	888	807
Deposit money banks	7,986	8,798	9,121	10,188	11,137
Of which					
Public enterprises	1,350	1,202	747	687	557
Other items (net)	-2,207	-2,393	-2,841	-3,077	-3,142
Special resources	-983	-877	-906	-971	-1,000
Capital accounts	-1,315	-1,751	-1,999	-2,241	-2,433
Other	91	235	64	135	291
Money plus quasi-money (M2)	6,811	7,221	8,204	9,556	10,062
Money	3,214	3,527	3,993	4,482	4,799
Currency	1,196	1,315	1,472	1,592	1,695
Demand deposits	2,018	2,213	2,521	2,890	3,104
Financial institutions	14	18	20	16	17
Nonfinancial enterprises and households	2,004	2,195	2,501	2,873	3,087
Quasi-money	3,597	3,694	4,211	5,074	5,262
Financial institutions	123	116	59	46	47
Nonfinancial enterprises and households	3,474	3,578	4,151	5,028	5,216
Broad Money (M3) 1/	7,246	7,735	8,762	10,175	10,711
Broad Money (M4) 2/	9,347	10,344	11,658	12,778	13,915
	(Change in percent of initial stock of broad money M2)				
Foreign assets (net)	5.1	-0.6	4.1	4.5	-1.7
Domestic credit	7.8	10.5	16.3	15.6	7.9
Credit to the government (net)	-1.2	-1.3	-1.4	3.6	-1.2
Credit to the economy	9.1	11.8	17.7	12.0	9.1
Other items (net)	-65.4	-2.7	-6.2	-2.9	-0.7
Money plus quasi-money (M2)	7.8	6.0	13.6	16.5	5.3
Money	4.7	4.6	6.4	6.0	3.3
Currency	0.3	1.7	2.2	1.5	1.1
Demand deposits	4.5	2.9	4.3	4.5	2.2
Quasi-money	3.1	1.4	7.2	10.5	2.0
Memorandum items:					
Velocity (GDP/M2)	2.32	2.36	2.32	2.19	2.26
Velocity (GDP/M4)	1.69	1.64	1.64	1.64	1.63
Multiplier (M2/M0)	4.47	4.33	3.62	3.91	4.60

Sources: Tunisian authorities; and Fund staff estimates and projections.

1/ M2 plus long term deposits.
2/ M3 plus liquid treasury bills (*bons cessibles*) and short-term commercial paper (*billets de trésorerie*).

Table 19. Tunisia: Selected Interest Rates, 1994–98
(In percent; end of period)

	1994	1995	1996	1997	1998
Money market rate (TMM)	8.81	8.81	7.81	6.88	6.88
Central bank					
Liquidity auction 1/	7.88	7.88	6.88	6.88	6.88
Repurchase facility 2/	8.88	8.88	7.88	7.88	7.88
Rediscount of preferential credits 3/					
Export-related credit	8.25	8.25	8.25	...	...
Crop credit	7.75	7.75	7.75	...	...
Agricultural investment	8.50	8.50	8.50	...	...
Small enterprise investments	9.50	9.50	9.50	...	...
Commercial banks					
Special savings deposit rate 4/	6.88	6.88	6.13	5.00	5.00

Source: Central Bank of Tunisia.

1/ Under the *appel d'offres* a fixed amount of seven-day liquidity is auctioned against assets held by the banks.

2/ The *prise en pension* is an automatic repurchase window at the initiative of the banks.

3/ Preferential rediscount abolished in November 1996.

4/ The interest rate for special savings deposits are set administratively. Rates on deposits with terms of at least three months are free. The maximum rate on deposits of shorter maturities has been set at 2 percent since July 1990.

Table 20. Tunisia: Assets and Liabilities of the Central Bank, 1994–98
(In millions of Tunisian dinars; end of period)

	1994	1995	1996	1997	1998
Foreign assets	1,482	1,556	1,938	2,304	2,080
International reserves (gold, SDRs, foreign exchange)	1,467	1,541	1,918	2,282	2,058
Other foreign assets 1/	15	15	20	22	21
Claims on government 2/	93	85	103	58	78
Claims on development banks	20	15	4	0	0
Claims on other private sector			969	888	807
Claims on deposit money banks	799	799	154	93	93
Assets = liabilities	2,395	2,455	3,168	3,343	3,058
Reserve money	1,523	1,667	2,264	2,446	2,187
Currency outside banks	1,196	1,315	1,472	1,592	1,695
Currency with banks	57	56	84	78	84
Banks' deposits	227	250	673	734	363
Claims of development					
Banks and other financial institutions	42	46	34	40	42
Demand deposits	1	3	1	1	2
Term deposits	41	42	33	39	41
Deposits of nonfinancial entities	2	1	1	2	2
Foreign liabilities	334	311	272	255	174
Government deposits and					
currency holdings	198	137	254	232	242
Counterpart funds	49	39	47	67	80
Allocation of SDRs	50	48	49	53	53
Capital accounts	69	79	84	89	98
Other items (net)	172	173	198	201	224

Source: Central Bank of Tunisia.

1/ Excludes rediscounted foreign assets of banks, which are included in banks' foreign assets.
2/ Excludes subscription to IMF/AMF considered by Central Bank of Tunisia as claim on government.

Table 21. Tunisia: Assets and Liabilities of Deposits Money Banks, 1994–98
(In millions of Tunisian dinars; end of period)

	1994	1995	1996	1997	1998
Reserves	294	275	760	816	356
Currency	57	56	84	78	84
At central bank	237	219	676	738	272
Foreign assets	517	414	548	676	708
Claims on government	544	341	291	682	556
Equipment bonds (II-1-A)	144	58	17	9	3
Treasury bills	368	267	262	667	543
Emprunts nationaux	25	11	8	0	0
Other (deposits CCP)	7	6	4	7	11
Claims on the economy	7,986	8,798	9,121	10,181	11,137
Credit financed by ordinary resources	6,789	7,637	7,904	8,842	9,696
Credit financed by special resources	892	827	872	919	954
Equity portfolio	305	335	345	420	487
Assets = liabilities	9,341	9,829	10,720	12,355	12,756
Demand deposits	1,893	2,024	2,288	2,724	2,937
Development banks (II-1-B)	13	14	18	15	15
Nonfinancial enterprises and households	1,880	2,010	2,270	2,709	2,922
Quasi-money liabilities	3,556	3,652	4,178	5,035	5,222
Development banks	82	74	27	8	6
Nonfinancial enterprises and households	3,474	3,578	4,151	5,027	5,216
Term deposits	624	662	983	1,515	1,421
Certificates of deposits	65	56	122	121	124
Special savings deposits	2,387	2,408	2,643	2,973	3,155
Other savings deposits	43	39	58	79	104
Deposits in foreign exchange or convertible dinars	6	6	1	6	3
Other	349	407	345	334	408
Long-term monetary liabilities	435	514	558	619	649
Foreign liabilities	780	816	1,076	1,214	1,260
Special resources	934	839	859	904	919
Credit from central bank	796	799	186	132	127
Capital accounts	1,245	1,672	1,914	2,150	2,361
Other items net	-299	-486	-340	-423	-719

Source: Central Bank of Tunisia.

Table 22. Tunisia: Balance of Payments, 1994–99
(In millions of U.S. dollars, unless otherwise indicated)

	1994	1995	1996	1997	Prel. 1998	Proj. 1999
Current account	-654	-777	-479	-593	-675	-786
Trade balance	-1,567	-1,988	-1,761	-1,955	-2,150	-2,357
Exports, f.o.b.	4,643	5,469	5,519	5,559	5,722	6,038
Energy	437	462	578	503	367	385
Nonenergy	4,206	5,007	4,940	5,057	5,355	5,653
Imports, f.o.b.	-6,210	-7,458	-7,280	-7,514	-7,872	-8,395
Energy	-466	-541	-607	-597	-396	-495
Nonenergy	-5,744	-6,917	-6,673	-6,918	-7,476	-7,900
Services and transfers (net)	913	1,212	1,283	1,362	1,475	1,571
Nonfactor services (net)	1,245	1,396	1,563	1,528	1,552	1,640
Of which						
Receipts from tourism	1,302	1,399	1,452	1,415	1,503	1,588
Factor services and transfers (net)	-332	-184	-281	-166	-77	-68
Of which						
Workers' remittances	688	753	820	765	792	833
Interest on external debt	-516	-605	-661	-535	-542	-572
Capital account	1,218	928	838	711	600	971
Grants	103	46	46	95	82	94
Direct foreign investment (net)	442	283	261	355	697	414
Medium- and long-term loans	578	540	472	484	-174	504
Disbursement	1,491	1,577	1,506	1,481	856	1,584
Amortization	-913	-1,038	-1,034	-997	-1,030	-1,080
Short-term capital and other 1/	95	59	58	-222	-5	-41
Overall surplus or deficit (-)	564	151	359	118	-74	186
Official net foreign assets (increase -)	-564	-151	-359	-118	74	-186
Of which						
Use of IMF resources	0	-15	-47	-50	-50	-50
Other assets, net (increase-)	-564	-136	-312	-68	124	-136
Memorandum items:						
Current account balance (in percent of GDP)	-4.2	-4.3	-2.4	-3.1	-3.4	-3.7
Gross official reserves (in months of imports)	2.6	2.5	3.1	3.1	2.6	2.7
External medium- and long-term debt (in billions of US$	8.8	9.8	9.9	9.6	9.7	9.6
External medium- and long-term debt (in percent of GDP	55.5	54.9	51.8	52.8	47.4	45.2
External short-term debt (in billions of US$)	1.1	1.3	1.5	1.5	1.6	1.7
External short-term debt (in percent of GDP)	7.1	7.3	8.0	8.1	8.0	8.0
Debt-service ratio 2/	20.7	20.9	21.4	19.4	19.2	19.1
Export volumes 3/	18.3	3.0	-2.4	10.1	6.3	3.6
Of which						
Nonenergy exports	21.0	2.9	-3.6	12.9	7.0	4.0
Import volumes 3/	-1.1	6.3	-2.5	8.7	5.2	8.3
Of which						
Nonenergy imports	-2.2	6.2	-2.2	9.0	7.1	7.3

Sources: Tunisian authorities; and Fund staff estimates and projections.
1/ Includes changes in net foreign assets of commercial banks, and errors and omissions.
2/ As a percent of exports of goods and services; including IMF charges.
3/ Annual percentage change.

Table 23. Tunisia: Foreign Trade By Commodity, 1994–98 1/

	1994	1995	1996	1997	1998
	(In millions of U.S. dollars)				
Exports, f.o.b.	4,643	5,469	5,519	5,559	5,722
Energy products	437	462	578	503	367
Nonenergy	4,206	5,007	4,940	5,057	5,355
Phosphates and derivatives	591	713	783	760	773
Agriculture and agroprocessing	603	545	416	616	550
Textile and leather	2,210	2,731	2,823	2,709	2,887
Mechanical and electrical industry	616	752	688	751	916
Other goods	187	266	231	220	228
Imports, c.i.f.	6,571	7,892	7,704	7,951	8,317
Energy products	466	541	607	597	396
Nonenergy	6,105	7,351	7,096	7,355	7,922
Raw material and semifinished goods	1,877	2,312	2,230	2,214	2,377
Equipment	1,434	1,547	1,562	1,724	1,917
Food	537	871	622	691	692
Nonfood consumer goods	2,258	2,621	2,683	2,726	2,936
Memorandum item:					
Net energy exports	-30	-79	-29	-94	-29
	(In percent of total)				
Exports, f.o.b.	100.0	100.0	100.0	100.0	100.0
Energy products	9.4	8.4	10.5	9.0	6.4
Nonenergy	90.6	91.6	89.5	91.0	93.6
Phosphates and derivatives	12.7	13.0	14.2	13.7	13.5
Agriculture and agroprocessing	13.0	10.0	7.5	11.1	9.6
Textile and leather	47.6	49.9	51.1	48.7	50.5
Mechanical and electrical industry	13.3	13.7	12.5	13.5	16.0
Other goods	4.0	4.9	4.2	4.0	4.0
Imports, c.i.f.	100.0	100.0	100.0	100.0	100.0
Energy products	7.1	6.9	7.9	7.5	4.8
Nonenergy	92.9	93.1	92.1	92.5	95.2
Raw material and semifinished goods	28.6	29.3	28.9	27.8	28.6
Equipment	21.8	19.6	20.3	21.7	23.0
Food	8.2	11.0	8.1	8.7	8.3
Nonfood consumer goods	34.4	33.2	34.8	34.3	35.3

Sources: Central Bank of Tunisia; and Ministry of Economic Development.

1/ Based on customs statistics.

Table 24. Tunisia: Trade Balance in Hydrocarbons, 1994–98
(In thousands of tons of oil equivalent)

	1994	1995	1996	1997	1998
Crude oil					
Exports	3,367	3,290	3,171	2,794	2,990
Imports	656	855	910	853	917
Balance	2,710	2,435	2,261	1,941	2,074
Refined products					
Exports	564	569	727	848	704
Imports	2,172	1,874	2,285	2,558	2,469
Balance	-1,608	-1,305	-1,558	-1,710	-1,754
Gas					
Exports	289	257	571	618	685
Imports	1,492	1,774	1,213	648	682
Balance	-1,207	-1,518	-643	-28	3
Total					
Exports	4,215	4,116	4,469	4,260	4,380
Imports	4,321	4,503	4,408	4,045	4,067
Balance	-105	-387	61	203	312

Source: Ministry of Industry.

Table 25. Tunisia: Exports of Phosphate Rock and Phosphate Derivatives, 1994–98
(Volume in thousands of tons; value in millions of Tunisian dinars)

	1994		1995		1996		1997		1998	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Phosphate rock	1,311	31	1,300	32	1,222	36	1,262	48	951	39
Phosphoric acid 1/	1,130	164	1,172	200	1,176	212	1,378	287	1,237	264
Superphosphate	767	107	746	111	691	116	694	125	723	134
Other phosphate derivatives 2/	870	179	989	217	1,042	248	957	243	1,025	264

Sources: Ministry of Industry; and Central Bank of Tunisia.

1/ Acid solution (100 percent).
2/ Other phosphate derivatives.

Table 26. Tunisia: Exports and Imports of Primary Products by Major Categories, 1994–98

(Volume in thousands of tons; value in millions of Tunisian dinars)

	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
	1994		1995		1996		1997		1998	
Exports										
Olive oil	193	305	90	217	29	117	126	288	124	213
Dates	21	57	21	58	18	47	21	52	27	70
Almonds	0	1	0	0	0	0	0	0	0	0
Citrus	21	8	25	11	22	9	15	7	23	10
Wine 1/	15	22	10	15	10	14	5	23	7	19
Fish	14	83	10	74	13	91	16	107	17	126
Imports										
Soft wheat	803	90	911	147	664	132	967	172	927	146
Hard wheat	50	12	668	138	206	54	239	55	393	101
Barley	454	38	669	75	29	5	304	48	140	13
Maize	254	33	311	43	315	58	446	69	467	66
Sugar	284	94	187	69	242	87	247	92	310	108
Tea	13	19	7	11	11	17	12	23	12	25
Milk	28	31	19	36	12	21	13	6	0	0
Soybean oil	154	92	177	111	197	113	160	100	189	140
Meat 2/	9	16	6	12	4	10	12	27	7	18

Sources: Central Bank of Tunisia; and National Statistics Institute.

1/ Includes other alcoholic beverages.

2/ Including live animals for slaughter.

Table 27. Tunisia: Direction of Trade, 1994–98

(In percent of total)

	1994	1995	1996	1997	1998
Exports, f.o.b.					
EU countries 1/	80.1	78.7	79.7	78.0	79.8
Of which					
France	27.2	27.9	25.7	25.4	27.0
Italy	19.6	19.0	20.7	21.3	1.4
Germany	15.5	15.7	15.6	14.5	15.4
Netherlands	3.1	2.8	3.1	2.8	3.3
Belgium/Luxembourg	6.5	6.5	7.1	6.1	6.1
United Kingdom	1.5	1.5	1.9	2.9	2.1
Greece	1.3	0.6	0.7	0.4	0.3
Spain	4.7	4.0	3.6	3.6	3.5
Arab Maghreb Union	6.4	7.4	6.0	5.9	5.0
Of which					
Libya	3.4	3.5	3.6	4.6	3.9
Algeria	0.3	3.4	1.7	0.7	0.5
Morocco	0.6	0.5	0.7	0.6	0.6
Mauritania	0.0	0.0	0.0	0.0	0.0
Other countries	13.5	13.9	14.3	16.1	15.2
Of which					
United States	1.0	1.3	0.8	0.7	0.5
Turkey	0.3	0.6	0.9	1.1	0.8
FSU	0.1	0.0	0.0	0.0	0.0
Japan	0.3	0.3	0.3	0.2	0.2
Switzerland	0.5	0.9	0.5	0.5	1.1
Total	100.0	100.0	100.0	100.0	100.0
Imports, c.i.f.					
EU countries 1/	69.5	70.2	69.5	70.9	73.0
Of which					
France	27.4	26.1	24.1	23.2	27.1
Italy	15.4	15.6	18.6	19.3	19.9
Germany	12.2	12.7	12.6	13.5	12.0
Netherlands	2.1	2.7	2.3	2.0	2.5
Belgium/Luxembourg	4.3	4.5	4.4	4.0	3.8
United Kingdom	2.2	2.0	2.0	2.6	2.1
Greece	0.7	0.9	0.8	0.5	0.5
Spain	3.6	4.2	3.9	4.2	4.3
Arab Maghreb Union	4.5	4.4	5.4	4.7	3.3
Of which					
Libya	1.9	0.3	3.0	3.1	2.1
Algeria	1.9	1.4	1.6	1.0	0.6
Morocco	0.7	0.8	0.7	0.6	0.6
Mauritania	0.0	0.0	0.0	0.0	0.0
Other countries	26.0	25.3	25.1	24.4	23.7
Of which					
United States	6.6	5.0	4.4	4.3	3.5
Canada	0.5	1.0	0.6	0.8	0.5
Brazil	1.0	0.6	0.8	0.8	0.6
Argentina	0.7	0.2	1.2	1.6	0.9
Austria	0.6	0.4	0.0	0.4	0.4
Turkey	1.3	1.4	1.3	1.1	1.6
Sweden	1.1	1.1	1.1	1.0	1.1
Switzerland	1.5	1.5	1.3	1.2	1.4
FSU	1.6	2.8	1.1	1.7	1.0
Former Yugoslavia	0.1	0.1	0.1	0.1	0.1
Romania	0.1	0.3	0.9	0.4	0.3
China, People's Republic of	0.8	0.7	0.8	0.8	0.9
Japan	2.3	1.8	2.1	2.4	2.1
Saudi Arabia	0.4	0.6	0.4	0.5	0.5
Total	100.0	100.0	100.0	100.0	100.0

Sources: Central Bank of Tunisia; and National Statistis Institute of Tunisia.

1/ Outside Austria, Finland, and Sweden.

Table 28. Tunisia: Composition of External Debt by Creditor, 1993–97
(In millions of Tunisian dinars; end of period)

	1993	1994	1995	1996	1997
Multilateral organizations 1/	3,066	3,144	3,395	3,591	3,872
Of which					
World Bank	1,582	1,540	1,507	1,629	1,785
African Development Bank	1,037	1,167	1,327	1,402	1,494
OECD countries	3,904	4,120	4,194	4,047	4,275
Of which					
France	1,122	1,269	1,348	1,290	1,292
Germany	686	695	750	634	830
Japan	639	689	673	643	650
United States	631	650	618	655	717
Italy	468	434	432	409	434
Arab countries and organizations 2/	616	676	593	697	661
Of which					
Saudi Fund	124	113	105	162	99
Kuwaiti Fund	127	164	154	142	137
Arab Fund for Economic and Social Development	234	288	225	265	298
Other countries	86	154	29	56	56
Financial markets	122	368	874	1,230	1,956
Total medium- and long-term debt	7,794	8,462	9,085	9,620	10,820
Arab Monetary Fund	12	4	0	16	18
International Monetary Fund	298	300	279	237	199
Total external debt	8,104	8,766	9,364	9,872	11,037
(As percent of GDP)	55.3	55.5	54.9	51.8	52.8

Sources: Central Bank of Tunisia; and Fund staff estimates.

1/ Includes BID (Banque islamique de développement) and OPEC Fund.
2/ Algeria, Saudi Arabia, United Arab Emirates, Kuwait, Libya, Arab organism (AFESD).

Table 29. Tunisia: External Debt and Debt Service Payments, 1994–98

	1994	1995	1996	1997	1998
	(In millions of U.S. dollars)				
Disbursement	1,491	1,577	1,506	1,481	856
Long-term capital	665	670	634	552	439
Medium-term capital	826	907	872	929	417
Total debt service	1,428	1,658	1,742	1,583	1,622
Interest	516	605	661	535	542
Principal	913	1,053	1,081	1,047	1,079
Medium and long term	1,411	1,623	1,681	1,521	1,564
Interest	498	585	647	524	534
Principal	913	1,038	1,034	997	1,030
IMF	18	35	61	62	58
Charges	18	20	14	11	9
Repurchases	0	15	47	50	50
Total debt outstanding	9,973	11,152	11,408	11,102	11,314
Medium- and long-term debt	8,537	9,556	9,634	9,429	9,545
AMF	4	0	0	16	0
IMF	303	293	237	173	129
Short-term debt	1,129	1,304	1,536	1,484	1,640
	(In percent of current receipts)				
Total debt service (including IMF)	18.6	18.6	19.2	17.4	17.2
Interest	6.7	6.8	7.3	5.9	5.8
Principal	11.9	11.8	11.9	11.5	11.5
Debt service (excluding IMF)	18.3	18.2	18.5	16.8	16.6
Interest	6.5	6.6	7.1	5.8	5.7
Principal	11.9	11.7	11.4	11.0	10.9
	(In percent of exports of goods and services)				
Total debt service (including IMF)	20.7	20.9	21.4	19.4	19.2
Interest	7.5	7.6	8.1	6.6	6.4
Principal	13.3	13.2	13.3	12.9	12.8
Debt service (excluding IMF)	20.5	20.4	20.7	18.7	18.5
Interest	7.2	7.4	8.0	6.4	6.3
Principal	13.3	13.0	12.7	12.2	12.2
	(In percent of GDP)				
Total debt outstanding	62.5	62.2	59.8	60.9	55.4
Of which					
Short-term debt	7.5	7.1	7.3	8.0	8.1

Sources: Central Bank of Tunisia; Ministry of Economic Development; and International Monetary Fund.

Table 30. Tunisia: Selected Exchange Rate Indices, 1994–98 1/
(period averages; 1995=100)

	USD	FRF	SDR	Effective exchange rate Nominal	Real	Relative Prices
1994 Q1	89.8	105.6	98.0	98.9	97.2	98.3
Q2	92.2	105.1	98.7	100.2	98.3	98.1
Q3	95.9	102.9	99.9	99.7	97.7	98.0
Q4	96.3	102.4	99.3	99.8	98.3	98.4
year	93.5	104.0	99.0	99.7	97.9	98.2
1995 Q1	97.6	101.1	98.4	99.7	98.8	99.1
Q2	101.4	99.9	98.5	99.8	99.8	100.0
Q3	100.8	100.0	101.5	100.5	100.9	100.4
Q4	100.2	99.0	101.6	100.0	100.6	100.5
year	100.0	100.0	100.0	100.0	100.0	100.0
1996 Q1	97.8	98.7	101.7	99.8	99.9	100.1
Q2	96.4	99.7	101.4	100.6	100.4	99.7
Q3	97.7	99.8	101.4	101.0	101.0	100.1
Q4	96.6	100.2	100.0	101.3	101.4	100.1
year	97.1	99.6	101.1	100.7	100.7	100.0
1997 Q1	88.3	99.0	96.7	99.7	100.0	100.3
Q2	86.9	100.5	93.4	100.3	101.1	100.8
Q3	83.0	101.3	93.5	100.2	101.1	100.9
Q4	84.2	99.2	92.8	99.5	100.2	100.7
year	85.6	100.0	94.1	99.9	100.6	100.7
1998 Q1	81.0	99.0	90.6	99.1	100.3	101.2
Q2	81.5	98.3	92.5	99.0	100.2	101.2
Q3	82.9	98.1	96.0	99.5	100.8	101.3
Q4	86.9	97.2	92.6	99.2	100.7	101.5
year	83.1	98.2	93.0	99.2	100.5	101.3

Sources: IMF, International Financial Statistics, and Information Notice System.

1/ Foreign currency units per Tunisian dinar.

Tunisia: Summary of the Tax System as of January 1, 1999

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Income tax and corporate tax			
1.1 Income tax (Personal Income Tax and Corporate Tax; (Code de l'impôt sur le revenu des personnes physiques et de l'impôt sur les sociétés--CIRPPIS)	Levied on the worldwide income of individuals domiciled in Tunisia. Income categories include: • Business profits (BIC); • Profits of noncommercial enterprises; • Farming and fishing operating profits; • Salaries, wages, pensions, and life annuities; • Income from securities and capital assets; • Income from land; and • Other income. Nonresidents are also subject to tax on their Tunisian-source income. Tax is collected in some cases through withholding (on wages and salaries, interest, fees, contracts), on payment instruments in favor of nonresidents (fees other than those paid by fully exporting corporations, interest, attendance vouchers), or advance payments (corporations of individuals and imported goods). Income tax can also be paid in three installments, each equal to 30 percent of the previous year's income tax, in the 6th, 9th, and 12th months of the relevant tax year.	Exemptions: remuneration of foreign diplomats, (on a reciprocal basis); life annuities paid to work-related accident victims; indemnities paid to victims of physical attacks by virtue of a court verdict; social security and welfare payments; special allowances to cover work-related expenses; dividends; interest income from bank deposits in foreign currency or convertible dinars; interest income from housing-savings accounts; expatriation indemnity, in certain circumstances, for wage earners working abroad, interest income from education-savings accounts. Professional deductions (BIC): • Linear or degressive depreciations are allowed for fixed assets. Housing purchased or constructed to accommodate personnel may be subject to amortization at the rate of 50 percent in the first year, with the remainder payable over a period of 10 years. • Provisions for bad debts and for depreciation of merchandise stocks earmarked for sale totaling up to 20 percent of taxable profit. • Grants and subsidies totaling up to 2 percent of turnover. However, this ceiling is not applicable to grants made to certain bodies, the list of which is established by decree. • Reception expenses of up to 1 percent of turnover and not exceeding D 20,000. Ordinary deductions • Interest on special savings accounts maintained with banks and with the National Savings Fund of Tunisia (CENT) and on bonds for up to D 1,500 and not exceeding D 1,000, for interest from banks and from the CENT. • Premiums under insurance contracts of up to D 800, plus D 400 for a spouse and D 200 for each dependent child. • income from exports. • income from housing and catering provided to students. • Income reinvested in subscriptions to the capital of enterprises, within the limits and under the terms specified in the legislation governing tax benefits. • annuities on student loans.	Bracket — Rate (In percent) First 1,500 — zero Next 3,500 — 15 " 5,000 — 20 " 10,000 — 25 " 30,000 — 30 Over 50,000 — 35 Minimum tax rate: 0.5 percent of the turnover and not exceeding D 1,000 (for nonbusiness and business profits). A flat tax is established for business enterprises whose annual turnover does not exceed the amount specified in the CIRPPIS.

Tunisia: Summary of the Tax System as of January 1, 1999

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 Corporate tax	Levied on all resident corporations, cooperatives, and autonomous public entities and government agencies engaged in industrial or commercial activity, as well on Tunisian-source profits of nonresident corporations (interest, fees, attendance vouchers, assembly operations). Losses can be carried forward as deductions against profits realized over the following three years. Corporate tax is paid in the same way as income tax (i.e., withholding, advances, and installments). Adjustments are made upon submission of the tax return.	Exemptions: nonprofit professional associations with income from tax or quasi-tax sources; mutual funds; savings and assistance funds managed by unpaid officials; nonprofit public entities; service cooperatives in agriculture and fishing; employee-owned production cooperatives. Deductions (same as for individuals on business profits). However: • Deductible provisions for doubtful claims are raised to 75 percent (fiscal years 1997–2001) or 100 percent, depending on the circumstances, for banks, and 100 or 50 percent for leasing corporations. • Provisions for depreciation of shares and equity are deductible from the taxable profits of banks and risk-capital mutual funds (SICAR) up to 30 percent of taxable profits, with a rate of 50 percent for fiscal years 1997–2001. The rate of 75 percent covers provisions for doubtful claims constituted by the banks. • income from exports. • interest on foreign currency deposits and convertible dinar deposits. • Income reinvested in enterprises and in subscriptions to the capital of enterprises is deductible within the limits and under the terms specified in the legislation governing tax benefits.	Rate: 35 percent. Reduced rate: 10 percent, applicable to the profits of enterprises engaged in handicraft, agricultural, and fishing activities and profits earned by youth employment programs or handicraft and small trade promotion funds. Minimum tax: 0.5 percent of turnover, with a ceiling of D 1,000 for corporations subject to corporate tax at the rate of 10 percent and D 2,000 for corporations subject to corporate tax at the rate of 35 percent.
2. Payroll taxes			
2.1 Vocational training tax	Levied on wages and salaries.	None.	Rate: 2 percent; Reduced rate: 1 percent (for jobs in the manufacturing sector).
2.2 Contribution to the Fund to Promote Low Cost Housing for Wage Earners (Fo Prolos)	Levied on wages and salaries.	None.	1 percent.
3. Registration and stamp duties			
3.1 Sales of buildings.	Levied on the value of property sold.		• 5 percent on the value of property sold.
3.2 Swaps of buildings.	Levied on the value of property swapped.		• 2.5 percent on the value of property swapped.

Tunisia: Summary of the Tax System as of January 1, 1999

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.3 Gifts and inheritances.	Levied on the value of property passed on.	Rebate of D 5,000 for each dependent spouse, child, and descendant, with a ceiling of D 30,000 established on any such rebate, per inheritance. Additional rebate of D 10,000 per handicapped heir. Exemption for agricultural land if the heirs undertake to farm the land jointly for 15 years.	• 2.5 percent for direct transfers between spouses and between parents and children. • 5 percent for direct transfers between brothers and sisters. • 25 percent and 35 percent for other relatives.
3.4 Corporations	Instruments creating, extending, dissolving, or increasing the capital of a corporation.	Exemption for the instruments of fully exporting corporations. Waiver of the formality of registering instruments changing the capital of mutual funds, cooperatives, and mutual associations.	D 100 per instrument.
3.5 Judgments and decisions.	Levied on the amount of the fine or liquidation pronounced.		• 5 percent on the amount of the fine or liquidation pronounced, with a minimum of D 5-10 or D 20. • Application of the minimum duty when the proceedings are requested by a party not convicted. Prorated duty will be payable subsequently on any amounts collected.
3.6 Stamp duty.	Fixed duties levied on certain civil and administrative instruments subject to prorated or progressive stamp duty and on certain specifically designated documents (commercial paper, international transportation contract) or on administrative documents (passports, identification cards).		Various duties ranging from D 0.200 to D 100.000.
4. Duties and taxes on goods and services			
4.1 Value-added tax (Value Added Tax Code of June 2, 1988)	Levied on industrial and handicraft production activities, wholesale trade, retail trade (turnover > D 100,000), services, and imports. Tax base: • At the time of importation: * By taxpayers: customs valuation, inclusive of all duties and taxes except VAT. * By nontaxpayers: value specified above 25 percent. • Under the domestic regime: In general, price of the merchandise, work, or services, inclusive of all costs, duties, and taxes except VAT.	Exemptions: exports, as well as selected goods (books, newspapers, periodicals, milk, vegetable oil, vans used to transport disabled people, etc.) and services (international air transport, maritime transport, etc.).	18 percent: industry and services. 6 percent: fertilizers, handicrafts, and medical activities. 10 percent: hotel and restaurant services, capital goods not manufactured locally, noncommercial professional services, and 4-hp cars. 29 percent: luxury goods.

Tunisia: Summary of the Tax System as of January 1, 1999

Tax	Nature of Tax	Exemptions and Deductions	Rates
	However, for purchase made by exempted people from nonexempted people, the base is increased by 25 percent. The system of deductions is applied across the board except in a few cases. Credit is granted for tax paid in the course of previous phases, with a refund in full (export duty and VAT withheld on public contracts) or in yearly tranches of 50 percent for the other cases.		
4.2 Consumption duties (Law 88-62 of June 2, 1988).	Levied on selected goods (products, tobacco, wine, beer, and alcoholic beverages).	None.	Ad valorem rates vary from 25 percent to 683 percent (alcoholic beverages). Specific rates (petroleum products, alcohol, wine, and beer).
4.3 Tax on insurance contracts.	Levied on insurance premiums issued.	• Reinsurance • Agricultural and fishing risks underwritten with the Tunisian Agricultural Mutual Fund (CTAMA) • Risks for export goods and export credits • Mandatory insurance for the construction of housing • Life insurance, capitalization, and life annuities • Risks located outside Tunisia	• 5 percent on maritime and air transport; • 10 percent; other.
4.4 Motor vehicle tax.	Levied annually on motorcycles and cars.	Vehicles registered abroad, during their first three months in Tunisia.	Motorcycles: D 30-450, depending on the size of the engine. Cars: D 45-1,500, depending on the horsepower. These rates are doubled in the case of individuals.
5. Taxes on foreign trade. 5.1 Import duty. 5.1.1 Customs duty on imports.	A tariff based on the OECD nomenclature, with three columns (minimum, preferential, and general rates). The preferential rate is applied to goods from 15 countries of North Africa and the Middle East, provided they satisfy origin criteria. The general tariff is applied to goods from countries not having special commercial relations with Tunisia or to which the most favored nation clause does not apply.	Exemptions apply to certain categories of importers or imports, such as: • Enterprises authorized under the investment promotion legislation (Law 93-120 of 12/27/93 Establishing the Investment Incentive Law); • Goods used in manufacturing under special customs regimes (e.g., temporary admission, industrial warehousing); • Goods used by certain institutions and organizations: the armed forces, diplomats, international organizations, airlines, etc.; • Goods used for educational, cultural, social, and health purposes; • Personal effects and travel goods	Rates: 0-43 percent; for agricultural products: 0-230. All duties are ad valorem on c.i.f. values.

Tunisia: Summary of the Tax System as of January 1, 1999

Tax	Nature of Tax	Exemptions and Deductions	Rates
		within specified limits. Exemptions or deductions may also be applied to certain foodstuffs imported under special temporary tax regimes.	
5.1.2 Service fee on imports.	Flat duty on all imports, regardless of their origin.	Numerous exemptions.	3 percent of total import duties, including VAT consumption duty and anticyclical tax.
5.1.3 Complementary duty on imports (Droit complémentaire à l'importation)	Additional temporary import duty levied on limited range of finished and semi-finished goods produced locally.		Rate: 10 percent. Eliminated as at January 1, 1998. During 1997, the rate was 10 percent.
5.2 Service fee on exports.	Applied only on hydrocarbon.		1.5 percent of export value.
6. Taxes earmarked for special Treasury funds			
6.1 Taxes earmarked for the development fund to promote competitiveness in agriculture and fishing			
6.1.1 Fees on fishing products	Levied on local sales of fishing products	Exports	2 percent on sales
6.1.2 Tax on fruits and vegetables	Tax payable upon import and on production		2 percent
6.1.3 Tax on corn and soybean cakes	Tax payable upon import and on local production		2 percent
6.1.4 Tax on meat	Levied on quantities of meat produced locally or imported		D 0.050 per kilogram
6.2 Taxes earmarked for the development fund to promote competitiveness in the industrial sector			
6.2.1 Tax on canned food	Levied on the value of packaging materials and, for imports, on the value of canned food		1 percent
6.2.2 Professional tax on footwear	Payable on leather articles produced locally or imported		1.5 percent
6.2.3 Tax on construction, ceramic, and glass materials	Levied on the turnover of enterprises producing construction materials		0.5 percent
6.2.4 Tax on fabric sales	Levied on factory gate prices and on customs valuation		1 percent
6.2.5 Tax on products of the mechanical, electrical, chemical, and packing goods industries	Payable on industrial products produced locally or imported		1 percent
6.3 Tax earmarked for the development fund to promote competitiveness in the tourism sector	Payable by operators of hotels and restaurants in the tourism category and by travel agencies in Category A		• 1 percent of turnover for hotels and restaurants • D 1.700 per month and per seat provided in tourism vehicles, for travel agencies.

Tunisia: Summary of the Tax System as of January 1, 1999

Tax	Nature of Tax	Exemptions and Deductions	Rates
7. Tax earmarked for local governments			
7.1 Tax on industrial, commercial, and professional establishments	Payable by legal entities subject to corporate tax, by individuals subject to income tax in the BIC and BNC categories, by shareholder associations and companies of individuals engaged in business under the BIC or BNC category	The following are exempt from this tax: • Persons having no permanent address in Tunisia; • Tourism establishments; • Certain persons, by virtue of special laws or conventions.	• 0.2 percent of local gross turnover under the general regime; • 25 percent of income tax for those paying the flat tax; • 25 percent of the minimum income tax or corporate tax for enterprises in deficit; • 25 percent of the tax payable by enterprises whose gross profit margin does not exceed 4 percent by law; • Maximum: D 50,000 per year for each enterprise; • Minimum: tax on constructed buildings calculated on the basis of the surface covered and the services provided by the local government.
7.2 Hotel tax	Payable by operators of tourism establishments as defined by the legislation in force.		2 percent of turnover, which goes to the tourist area protection fund.

Sources: Personal Income Tax and Corporate Tax Code; Value Added Tax Code; Customs Code; Law 88-62 of June 2, 1988 Revising the Rules and Regulations on Consumption Duties; and Registration and Stamp Duty Code.