

**FOR  
AGENDA**

EBS/89/58  
Correction 1

CONFIDENTIAL

May 17, 1989

To: Members of the Executive Board  
From: The Secretary  
Subject: Tunisia - Staff Report for the 1989 Article IV Consultation  
and Review Under Extended Arrangement

The following corrections have been made in EBS/89/58 (3/28/89):

Page 20, second full para., line 4: for "1989" read "1991"

Page 50, Appendix VII, Table 5: inadvertently omitted.

Corrected pages are attached.

Att: (2)

Table 4. Tunisia: Medium-Term Balance of Payments, 1987-94

	1987	1988 Prelim. actual	1989 Program	1990	1991	1992	1993	1994
				Projections				
(In millions of SDRs)								
Current account	-76	17	-117	-194	-190	-201	-211	-196
Trade balance	-520	-814	-893	-956	-985	-1,023	-1,076	-1,108
Exports, f.o.b.	(1,653)	(1,782)	(1,800)	(1,970)	(2,112)	(2,282)	(2,478)	(2,731)
Energy	390	287	260	268	217	167	100	89
Non-energy	1,263	1,495	1,540	1,702	1,895	2,115	2,378	2,642
Imports, f.o.b.	(-2,172)	(-2,595)	(-2,693)	(-2,926)	(-3,097)	(-3,306)	(-3,555)	(-3,839)
Energy	-247	-181	-196	-231	-223	-195	-229	-302
Non-energy	-1,925	-2,414	-2,497	-2,695	-2,874	-3,111	-3,326	-3,537
Nonfactor services (net)	430	818	745	758	792	818	865	911
Of which: tourism receipts	(530)	(936)	(871)	(897)	(929)	(954)	(993)	(1,039)
Transfers (net)	14	13	31	4	4	4	0	0
Of which:								
Receipts from workers' remittances	(376)	(381)	(359)	(371)	(378)	(381)	(387)	(392)
Interest on external debt	(-290)	(-297)	(-293)	(-322)	(-338)	(-342)	(-356)	(-362)
Capital account	186	278	180	240	234	244	246	223
Grants	27	39	47	34	29	25	24	20
Direct and portfolio investment (net)	71	82	70	76	92	110	118	131
Medium- and long-term borrowing (net)	37	100	62	130	113	109	104	72
Of which:								
Disbursements	(555)	(769)	(585)	(694)	(652)	(625)	(609)	(575)
Amortization	(518)	(669)	(523)	(564)	(539)	(516)	(505)	(503)
Short-term capital (including valuation adjustment, and errors and omissions)	51	57	-	-	-	-	-	-
Overall surplus or deficit (-)	110	295	63	46	44	43	35	27
Changes in reserves (increase -)	-110	-295	-63	-46	-44	-43	-35	-27
Use of Fund resources	41	15	96	-18	-51	-21	-9	-19
Other items, net (increase -)	-151	-310	-159	-28	7	-22	-26	-8
(In percent)								
Memorandum items:								
Current account/GDP	-1.0	0.2	-1.5	-2.4	-2.2	-2.1	-2.1	-1.8
Gross reserves (in months of imports)	2.1	3.1	3.7	3.5	3.2	3.1	3.0	2.8
Debt service ratio	26.8	26.9	22.9	25.4	24.1	20.4	18.8	17.6
Debt/GDP ratio	58.9	60.7	57.8	55.2	52.1	48.7	45.8	42.2
(Annual changes in percent)								
Principal assumptions								
Real GDP	5.8	1.5	5.1	4.1	4.2	5.0	5.0	5.5
Inflation (GDP deflator)	7.7	6.3	6.8	6.3	6.2	5.8	5.4	5.3
Real effective exchange rate (- depreciation)	-5.6	-1.2	...	...	...	...	...	...
Export volumes	9.1	7.3	5.1	5.1	4.4	5.4	6.6	8.5
(Non-energy exports)	14.2	13.2	6.7	7.7	8.6	8.6	9.9	9.3
Import volumes	-2.9	16.6	6.3	4.7	3.0	3.8	5.2	6.0
(Non-energy imports)	-5.3	20.1	6.3	4.6	3.9	5.3	4.9	4.7

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

central scenario assumes a gradual decline in such revenues (by about 50 percent over three years). Other things being equal, if these receipts were to remain at their nominal 1988 level, the current account would register a deficit equivalent to 1.1 percent of GDP in 1991. If, on the other hand, these revenues were to disappear completely, the deficit would rise to the equivalent of 3.5 percent of GDP. As another indication of the sensitivity of the projections, an increase in the average growth rate of non-oil export volumes of 1 percentage point would yield an improvement equivalent to 0.6 percent of GDP in 1991, while a similar increase in the growth rate of non-oil imports would yield a deterioration of 0.9 percent of GDP.

The debt and debt service burden measured in relation to export revenues are projected to decline more than originally foreseen, to 115.2 percent and 24.1 percent, respectively, by the end of the program period and to 92.3 percent and 17.6 percent by 1994 (Appendix VII, Table V). The ratios compare reasonably well with the corresponding average ratios for developing countries without debt-servicing problems, which in 1988 were 99.9 percent and 17.6 percent, respectively. The large surplus in 1988, combined with smaller surpluses over the remainder of the program period, should ensure that gross foreign reserves remain above the equivalent of three months of imports during the program period.

Tunisia has consistently effected debt service payments at the original due dates. Over the next five years charges and repurchases to the Fund are projected to average SDR 58 million per year, or 1.4 percent of current receipts, peaking at 2.8 percent in 1991. In view of the balance of payments outlook and the level of gross reserves, Tunisia should be able to accommodate the projected debt service obligations to the Fund without difficulty.

#### 10. Performance criteria and reviews in 1989

Performance criteria and indicative targets relate to the same variables as in 1988. The authorities have decided not to request a shift to semiannual performance criteria and to semiannual purchases, in order to ensure a tighter domestic monitoring of the financial program. Therefore, understandings have been reached on performance criteria for end-March, end-June, end-September, and end-December as shown in Table 5. Should bank financing of operating agents relating to the 1988 deficit of the Caisse de Compensation, which will be converted into credit to Government in the first quarter of 1989, prove to be less than D 42 million, the subceilings on credit to Government for September and December will be adjusted accordingly. The ceiling on new nonconcessional borrowing abroad (1 to 12 years) excludes the credits for two aircraft, for which the contracting date is uncertain.

The second review under the arrangement is to be completed before August 15, 1989. This review will examine in particular the implementation of the tax reform and the measures put in place to improve the

Table IV. Tunisia: Medium-Term Fiscal Projections, 1988-92

	Est.	Prog.	Projections		
	1988	1989	1990	1991	1992
(In millions of dinars)					
Revenue and grants	2,784.0	3,069.7	3,248.6	3,512.0	3,828.0
Tax revenue	2,086.5	2,260.5	2,514.6	2,777.0	3,082.0
Of which: social security contributions	(303.5)	(335.6)	(370.0)	(403.0)	(445.0)
Other revenue	675.9	679.2	694.0	705.0	726.0
Of which: petroleum-related	(388.0)	(391.0)	(386.0)	(380.0)	(383.0)
Grants	21.6	130.0	40.0	30.0	20.0
Total expenditure and net lending	3,152.3	3,449.7	3,574.6	3,782.0	4,073.0
Current	2,310.5	2,598.4	2,710.6	2,875.0	3,117.0
Capital and net lending	841.8	851.3	864.0	907.0	956.0
Deficit (commitment basis)	-368.3	-380.0	-326.0	-270.0	-245.0
Financing	368.3	380.0	326.0	270.0	245.0
Foreign (net)	165.7	184.8	140.0	65.0	50.0
Domestic (net)	202.7	195.2	186.0	205.0	195.0
Of which: banking system	(46.0)	(50.0)	(...)	(...)	(...)
(Annual increase in percent)					
Revenue and grants	9.2	10.3	5.8	8.1	9.0
Tax revenue	9.0	8.3	11.2	10.4	11.0
Tax revenue (excluding social security contributions)	7.8	8.0	11.4	10.7	11.1
Other revenue	9.2	0.5	2.2	1.6	3.0
Expenditure and net lending	11.1	9.4	3.6	5.8	7.7
Current	13.2	12.5	4.3	6.1	8.4
Capital and net lending	6.0	1.1	1.5	5.0	5.4
(In percent of GDP)					
Revenue and grants	32.2	31.7	30.3	29.6	29.0
Tax revenue (including social security contributions)	24.2	23.3	23.5	23.4	23.4
Tax revenue (excluding social security contributions)	20.7	19.9	20.0	20.0	20.0
Other revenue	7.8	7.0	6.5	5.9	5.5
Petroleum revenues	4.5	4.0	3.6	3.2	2.9
Grants	0.2	1.3	0.4	0.3	0.2
Expenditure and net lending	36.5	35.6	33.3	31.9	30.9
Current	26.8	26.8	25.3	24.2	23.6
Capital and net lending	9.7	8.8	8.0	7.7	7.3
Deficit	-4.3	-3.9	-3.0	-2.3	-1.9
Foreign financing	1.9	1.9	1.3	0.6	0.4
Domestic financing	2.4	2.0	1.7	1.7	1.5

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

Table V. Tunisia: Medium-Term External Debt Projections, 1987-94

	1987	1988 Prelim. Actual	1989 Program	1990	1991	1992 Projections	1993	1994
(In millions of SDRs)								
Total debt service	808	967	815	968	976	879	870	883
Interest	290	297	293	322	338	342	356	362
Principal	518	669	523	646	639	537	514	521
Of which:								
IMF	10	13	20	100	114	35	22	31
Charges	10	13	20	18	15	14	13	12
Repurchases	0	0	0	82	99	21	9	19
(In percent of current receipts)								
Total debt service	26.8	26.9	22.9	25.4	24.1	20.4	18.8	17.6
Interest	9.6	8.3	8.2	8.5	8.3	7.9	7.7	7.2
Principal	17.2	18.7	14.7	17.0	15.8	12.4	11.1	10.4
Excluding IMF	26.4	26.6	22.3	22.8	21.3	19.6	18.3	17.0
Interest	9.3	7.9	7.7	8.0	8.0	7.6	7.4	7.0
Principal	17.2	18.7	14.7	14.8	13.3	12.0	10.9	10.0
Total interest in percent of GDP	3.9	4.0	3.9	4.0	3.9	3.6	3.5	3.3
IMF debt service in percent of gross reserves	2.8	1.9	2.4	11.9	13.6	4.0	2.5	3.4
(In millions of SDRs)								
Total debt outstanding	4,267	4,336	4,281	4,409	4,465	4,508	4,554	4,619
Of which: IMF	191	206	302	283	232	211	202	183
(In percent of GDP)								
Total debt	58.8	60.7	57.8	55.2	52.1	48.7	45.8	42.2
Excluding IMF	56.2	57.8	53.7	51.7	49.4	46.4	43.8	40.5
IMF	2.6	2.9	4.1	3.5	2.7	2.3	2.0	1.7
Total debt in percent of current receipts	141.3	120.9	120.2	115.8	110.2	104.5	98.4	92.3

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