DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

0451

EBS/91/100
Supplement 1

CONFIDENTIAL

June 27, 1991

To: Members of the Executive Board

From: The Secretary

Subject: Tunisia - Lengthening of Extended Arrangement

Attached for consideration by the Executive Directors is the staff report on Tunisia's request for a lengthening of its current three-year extended arrangement, which is tentatively scheduled for discussion on Wednesday, July 17, 1991. A draft decision appears on pages 27-29.

Mr. Morrison (ext. 8393) or Mr. Duran (ext. 8655) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

TUNISIA

Lengthening of Extended Arrangement

Prepared by the African Department and the
Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal,
and Treasurer's Departments)

Approved by E.L. Bornemann and Michael Edo

June 26, 1991

Contents

Tables

Contents (concluded) Page

I. Introduction

A mission 1/ visited Tunis during May 7-21, 1991, to negotiate ad referendum a lengthening of the three-year arrangement under the extended Fund facility (EFF), which is scheduled to expire on July 24, 1991. 2/ The mission reached understandings with the authorities, expressed in a letter of intent dated June 18, 1991 (EBS/91/100), on economic and structural policies for 1991-92 that could be supported by a 12-month extension of the EFF arrangement. The proposed additional access for the equivalent of SDR 69.1 million (50 percent of quota) would bring total access for the four-year extended arrangement period to 150 percent of quota, which was the access under the initial three-year arrangement (Tunisia requested a reduction in access of 50 percent of quota at the third review in May 1990, EBS/90/71). The authorities believe that a major objective of an extension to a fourth year of the extended arrangement would be to help to ensure the broad achievement of the original program objectives, which has been delayed by the adverse impact of the Middle East crisis and the demand pressures generated by the strong economic recovery in 1990. The mission held discussions with Mr. Mohamed Ghannouchi, Minister of Finance, Mr. Mustapha Nabli, Minister of Planning and Regional Development, Mr. Beji Hamda, Governor of the Central Bank of Tunisia, and other senior officials.

Following completion of the fifth program review (EBS/91/46, 3/19/91) and confirmation that all performance criteria for end-March 1991 were observed, Tunisia made two purchases in May 1991 totaling SDR 122.30 million. These were the first two purchases made under the extended arrangement and represented the total accumulated undrawn purchases. A final purchase under the current arrangement of SDR 15.90 million was to have been available if end-May performance criteria were observed. If the full amount available under the extended arrangement were to be purchased, and taking into account the additional proposed access of 50 percent of quota and scheduled repurchases, the Fund's holdings of Tunisian dinars subject to repurchase would amount to SDR 218.3 million (158.0 percent of quota) upon expiration of the arrangement in July 1992, the same amount that would have been outstanding under the originally approved EFF arrangement if all purchases had been made (Table 1). Tunisia's relations with the Fund are summarized in Appendix I.

1/ The staff representatives were Messrs. Morrison (head-AFR), Duran (AFR), Yucelik (FAD), Georgiou (ETR), and Ms. Niare (assistant-AFR). Mr. Anjaria joined the mission for the last few days. Mr. Rouai, Assistant to the Executive Director for Tunisia, participated in the discussions.

2/ The three-year arrangement was approved by the Executive Board on July 25, 1988 in an amount equivalent to SDR 207.3 million (150 percent of quota).

Table 1. Tunisia: Fund Position During Period of the Extended Arrangement, June 1988-July 1992

	Outstanding June 30, 1988	1988 July-Sept.	1988 Oct.-Dec.	1989 Jan.-March	1989 Apr.-June	1989 July-Sept.	1989 Oct.-Dec.	1990 Jan.-March	1990 Apr.-June	1990 July-Sept.	1990 Oct.-Dec.	1991 Jan.-March	1991 Apr.-June	1991 July-Sept.	1991 Oct.-Dec.	1992 Jan.-March	1992 Apr.-June	1992 July 1-July 24
	(In millions of SDRs)																	
Transactions under tranche policies, net	...	—	—	—	—	—	—	-4.38	-5.50	-6.75	-8.00	-9.50	112.80	4.52	7.15	10.15	11.40	15.40
Purchases	...	—	—	—	—	—	—	—	—	—	—	—	122.30	15.90	17.28	17.28	17.28	17.28
Ordinary resources	(...)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(122.30)	(15.90)	(17.28)	(17.28)	(17.28)	(17.28)
Borrowed resources	(...)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Repurchases	...	—	—	—	—	—	—	4.38	5.50	6.75	8.00	9.50	9.50	11.38	10.13	7.13	5.88	1.88
Ordinary resources	(...)	(—)	(—)	(—)	(—)	(—)	(—)	(4.38)	(5.50)	(6.75)	(8.00)	(9.50)	(9.50)	(11.38)	(10.13)	(7.13)	(5.88)	(1.88)
Borrowed resources	(...)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Transactions under special facilities (net)	...	—	—	—	—	—	—	-14.34	-14.34	-14.34	-14.34	-14.34	-14.34	-14.35	-14.34	—	—	—
Purchases	(...)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Repurchases	(...)	(—)	(—)	(—)	(—)	(—)	(—)	(14.34)	(14.34)	(14.34)	(14.34)	(14.34)	(14.34)	(14.34)	(14.34)	(—)	(—)	(—)
Total Fund credit outstanding (end of period)	205.71	205.71	205.71	205.71	205.71	205.71	205.71	186.99	167.15	146.06	123.72	99.88	198.34	188.53	181.34	191.48	202.88	218.28
Under credit tranche policies	91.00	91.00	91.00	91.00	91.00	91.00	91.00	86.62	81.12	74.37	66.37	56.87	169.67	174.19	181.34	191.48	202.88	218.28
Special facilities	114.71	114.71	114.71	114.71	114.71	114.71	114.71	100.37	86.03	71.69	57.35	43.01	28.67	14.34	—	—	—	—
	(As percent of quota)																	
Total Fund credit outstanding (end of period)	148.80	148.80	148.80	148.80	148.80	148.80	148.80	135.30	120.95	105.69	89.52	72.27	143.52	136.42	131.21	138.55	146.80	157.95
Under credit tranche policies	65.80	65.80	65.80	65.80	65.80	65.80	65.80	62.68	58.70	53.81	48.02	41.15	122.77	126.04	131.21	138.55	146.80	157.95
Special facilities	83.00	83.00	83.00	83.00	83.00	83.00	83.00	72.62	62.25	51.87	41.50	31.12	20.75	10.38	—	—	—	—

Source: IMF, Treasurer's Department.

The net foreign assets of the Central Bank at end-May 1991 stood at SDR 108.3 million, compared to the performance criterion of SDR 138 million. The shortfall was attributable primarily to delays in programmed drawings on foreign loans that apparently were reversed in the first weeks of June. It is expected that the indicative target for net foreign assets at end-June will be respected. Additional information will be provided before the Executive board discussion.

The Fund staff continues to work closely with the World Bank staff in the various areas of sectoral adjustment, including public enterprise reform, import and price liberalization, and financial sector reform, and the reform of the system of consumer subsidies administered by the Caisse Générale de Compensation. An Economic and Financial Reform Support Loan is currently under preparation. Tunisia's relations with the World Bank Group are summarized in Appendix II.

II. Record of the Adjustment Program

1. Macroeconomic adjustment

During the first half of the 1980s, Tunisia suffered a serious deterioration in the terms of trade and a sharp decline in petroleum reserves. Petroleum exports fell from more than SDR 1.1 billion in 1981 to approximately SDR 370 million in 1986 owing to adverse price and volume developments. Large external and internal imbalances emerged in the 1980s as investment and consumption--particularly by the public sector--continued at levels close to those of the booming 1970s. The external current account deficit, which averaged 8.5 percent of GDP during 1981-86 and reached a peak of 10.9 percent of GDP in 1984, was accompanied by increased borrowing from private external sources at high interest rates. The rising level of external debt, combined with declining export earnings, led to a rise in the ratio of debt service to exports of goods and services from 14 percent in 1980 to 28 percent in 1986. The overall government budget deficit widened to 5-8 percent of GDP during 1982-86 from less than 3 percent of GDP in 1981. An accommodating monetary policy resulted in an average expansion of domestic credit of 20 percent a year during 1981-85 and an increase in the consumer price index of about 10 percent annually.

The Seventh Development Plan was designed primarily to address the large external and internal imbalances that had emerged in the first half of the 1980s. Tunisia's program of macroeconomic adjustment was supported first by an 18-month stand-by arrangement from November 1986 to May 1988, which was successfully completed, and subsequently by a three-year EFF arrangement approved in July 1988. A comprehensive series of measures adopted in 1986 and 1987, including a tightened credit policy and a sharp depreciation of the real effective exchange rate, contributed to a remarkable turnaround in the balance of payments. The current account deficit fell from 8 percent of GDP in 1986 to 1 percent in 1987 (Chart 1). The current account moved to an unprecedented surplus of 1 percent of GDP in 1988, assisted by a near doubling of tourist receipts owing, in part, to the opening of the border with Libya in April 1988. Non-energy export volume increased by 13 percent in 1987 and by 12 percent in 1988. Gross reserves reached the equivalent of more than three months of imports at the end of 1988.

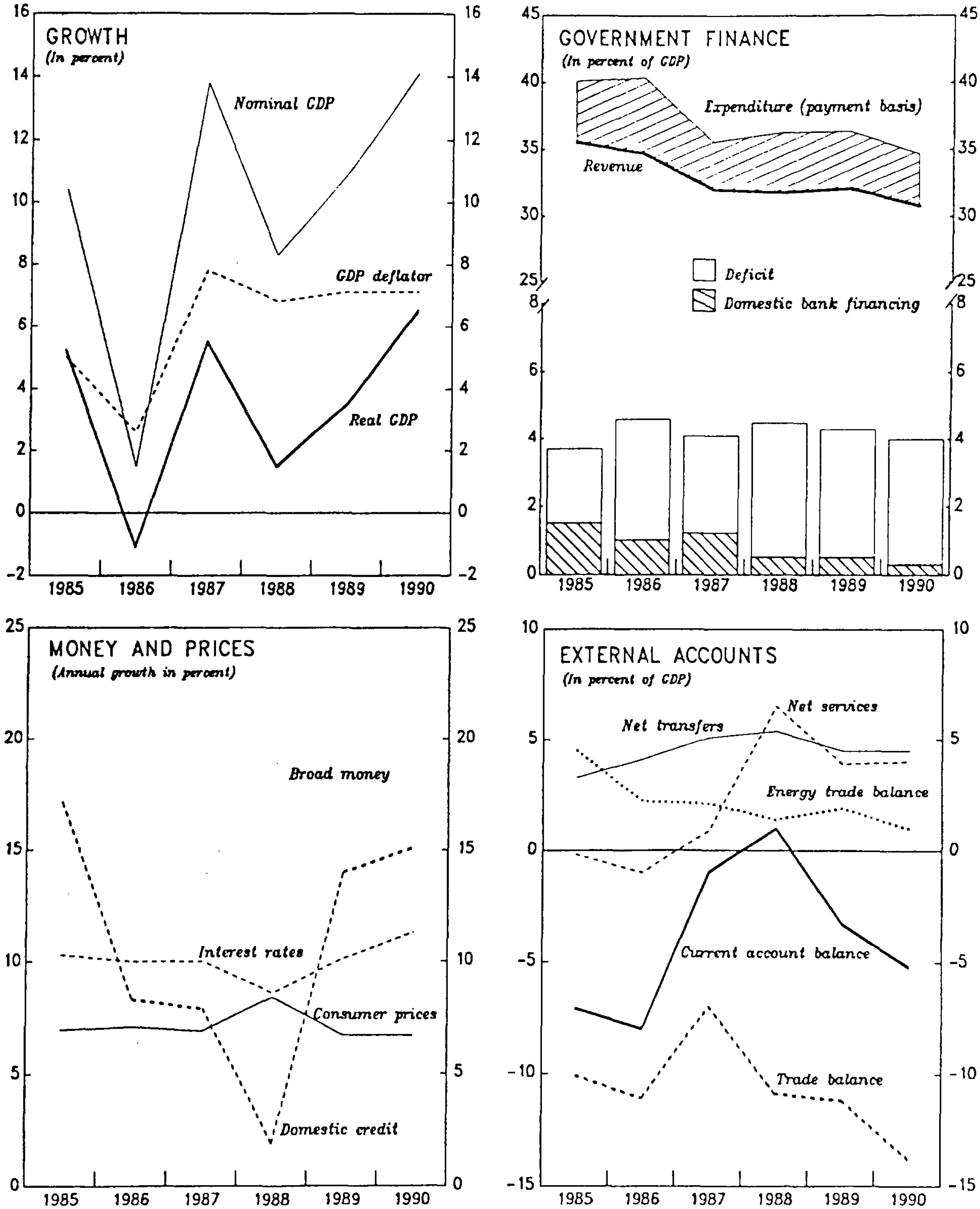
The earlier-than-expected achievement of the external objectives of the program introduced a new set of more complex policy choices. Given the unemployment rate of approximately 15 percent and a history of several years of declining real wages and investment, the Government actively sought to encourage a recovery of economic growth. Real investment responded by growing at rates of 8 percent in 1989 and 22 percent in 1990 (Table 2). Real GDP grew by 3.5 percent in 1989 and 6.5 percent in 1990. Sharp increases in capital goods imports weakened the current account balance, which recorded deficits of 3.3 percent of GDP in 1989 and 5.2 percent of GDP in 1990, with the 1990 deficit being accentuated by the Middle East crisis in the last part of the year. Monetary policy was tightened after mid-year in both 1989 and 1990, and positive real interest rates were maintained. The economic recovery was accompanied by a deceleration of inflation from 7.7 percent in 1989 to 6.6 percent in 1990. Non-energy exports continued at a brisk pace, with the result that by the end of the 1980s energy exports represented only 20 percent of total exports compared with over 50 percent in 1981. The larger current account deficits were covered primarily by concessional financing, permitting the debt service ratio to decline to 21.4 percent by 1990. Exchange rate policy has been consistently implemented in accordance with understandings under the program (Chart 2).

Monetary policy, although departing at times from program targets during the years 1989 and 1990, was brought back into line with the program by the end of each year. The fiscal deficit, however, remained stubbornly at 4 percent of GDP or more during 1988-90, compared with the programmed decline from 4.1 percent of GDP in 1988 to 2.9 percent by 1990 (Table 3). Containing expenditure on consumer subsidies has remained a problem over the course of the extended arrangement, and higher capital spending contributed to the deficit in 1990. The comprehensive tax reform implemented over the past few years has proceeded smoothly, largely conforming to its revenue-neutral objective while rendering the tax system more efficient and equitable.

2. Structural reforms

The adjustment program included from the beginning a comprehensive set of structural reforms in the areas of price and import liberalization, tax reform, financial sector liberalization, and public enterprise restructuring and privatization (Appendix III). Rapid progress was made in 1987-88 in lowering import tariffs, when the maximum tariff rate was reduced to 41 percent from 236 percent, and the minimum rate was raised to 15 percent from 5 percent, causing the average tariff rate to fall to 27 percent from 36 percent. The share of

CHART 1
TUNISIA
MAIN ECONOMIC INDICATORS, 1985-90

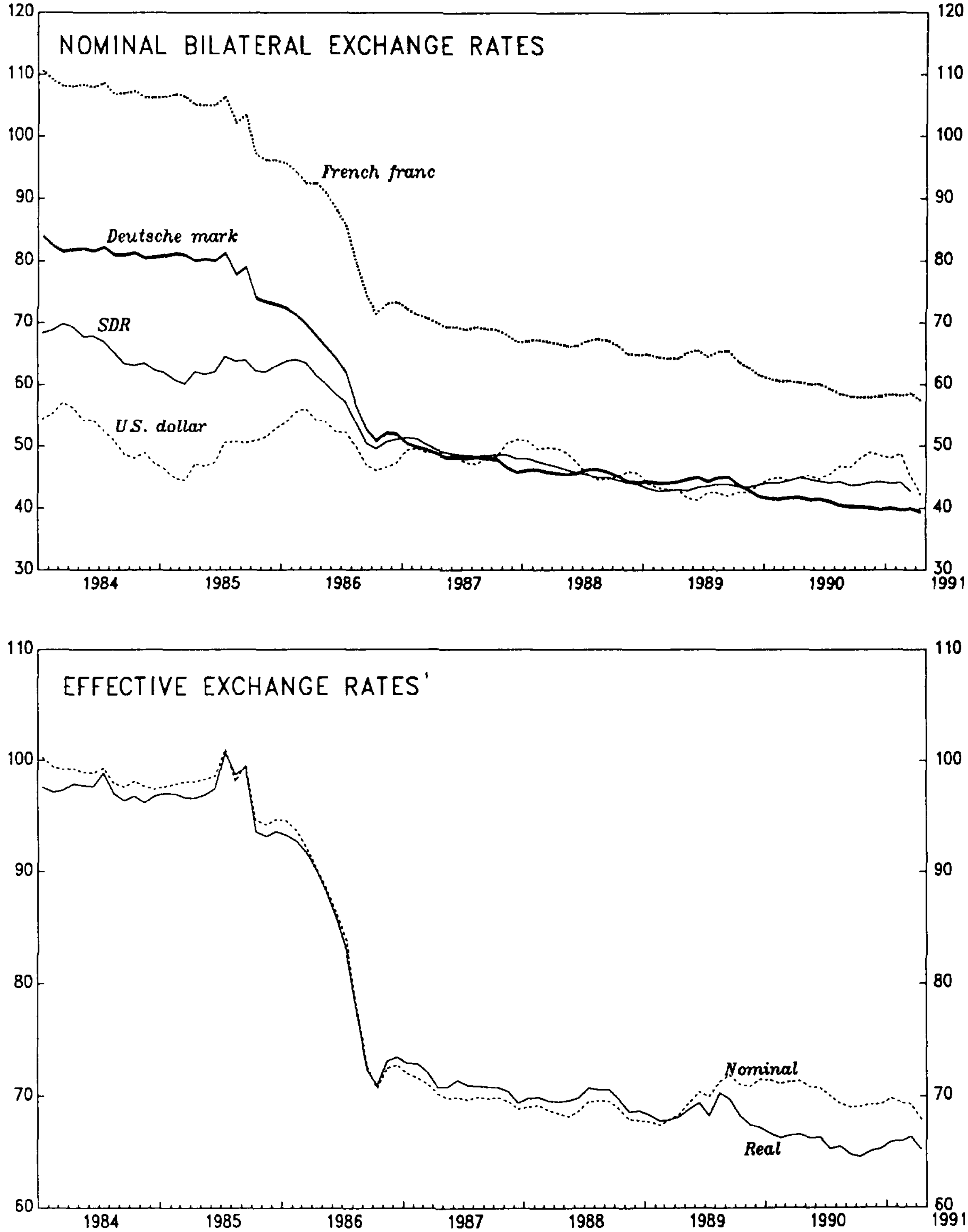


Sources: Data provided by the Tunisian authorities; and staff estimates.

CHART 2
TUNISIA

INDICES OF SELECTED EXCHANGE RATES
JANUARY 1984 TO APRIL 1991

(Period average, 1980=100; foreign currency per Tunisian dinar)



Sources: IMF Information Notice System; and staff estimates.
1/ Weighted by total trade (excluding petroleum) plus tourism with 17 trading partners.

Table 2. Tunisia: Selected Economic and Financial Indicators, 1985-91

	1985	1986	1987	1988	1989	1990 Prel.	1991 Prog.
			(Annual percentage changes)				
National accounts (constant prices) and prices							
GDP	5.2	-1.1	5.5	1.5	3.5	6.5	-
Domestic demand	-1.8	-3.5	-0.9	-2.4	8.6	9.2	0.2
Consumption	3.0	1.1	0.8	1.1	3.3	5.4	1.5
Investment (fixed)	-8.2	-17.5	-10.9	-5.1	8.4	21.7	-2.7
Exports of goods and services	3.3	5.2	14.5	23.6	3.3	3.3	-10.3
Imports of goods and services	-13.0	-2.1	-3.2	15.8	15.1	8.9	-10.1
GDP deflator	5.0	2.6	7.8	6.8	7.1	7.1	6.5
Consumer price index (CPI), average	7.6	6.2	8.2	7.2	7.7	6.6	7.0
Consumer price index (CPI), December-December	7.0	7.1	7.0	8.4	6.7	6.8	...
External sector (in SDRs)							
Exports, f.o.b.	3.1	-11.5	9.7	7.9	28.2	13.4	-0.5
Imports, f.o.b.	-14.4	-7.5	-7.2	19.7	24.4	19.2	-7.1
Terms of trade (deterioration -)	-4.3	-13.3	2.5	-1.4	1.7	-1.0	-1.1
Nominal effective exchange rate 1/	-1.1	-0.6	-5.5	-1.5	5.4	-3.2	...
Real effective exchange rate 1/	-15.0	-14.3	-5.6	-1.0	-2.2	-2.9	...
Central government consolidated operations 2/							
Revenue and grants	7.2	-0.9	4.9	9.8	12.0	9.3	6.1
Total expenditure and net lending	4.1	2.3	0.2	12.9	11.3	8.8	4.4
Current expenditure	8.7	2.1	4.4	12.4	19.4	4.1	10.4
Capital expenditure and net lending	-4.9	2.8	-9.1	14.1	-9.7	24.7	-12.6
Money and credit 3/							
Domestic credit	17.1	8.3	7.9	2.0	8.2	9.4	9.9
Government	(22.8)	(13.2)	(14.9)	(-6.1)	(14.1)	(4.7)	(6.2)
Economy	(16.3)	(7.5)	(6.7)	(3.5)	(7.3)	(10.2)	(10.5)
Money plus quasi-money	13.8	5.7	13.7	19.3	11.2	6.3	5.5
Velocity of circulation (GDP/M2)	2.32	2.21	2.15	1.94	1.93	2.07	2.09
Interest rates (end of period)							
Money market rate	9.75	10.25	9.50	8.63	11.31	11.81	...
Savings deposits	6.75	8.25	7.50	6.63	9.31	9.63	...
			(Ratios: in percent of GDP, unless otherwise specified)				
Government revenue and grants	35.6	34.7	32.0	31.8	32.1	30.8	30.7
Total expenditure and net lending	40.1	40.4	36.2	36.3	36.4	34.7	34.0
Current expenditure	27.8	27.9	26.2	26.2	28.2	25.7	26.9
Capital expenditure and net lending	12.3	12.5	10.0	10.1	8.3	9.0	7.1
Central government consolidated deficit							
(payment order basis) (-)	-3.7	-4.6	-4.1	-4.5	-4.3	-4.0	-3.4
(excluding grants) (-)	-3.7	-4.6	-4.3	-4.8	-5.8	-4.6	-3.6
Domestic bank financing	(1.5)	(1.0)	(1.2)	(0.5)	(0.5)	(0.3)	(0.4)
Gross fixed capital formation	26.8	24.1	20.4	19.5	20.9	23.8	23.2
Stocks	-0.2	-0.9	--	-0.3	1.9	3.0	1.9
Gross national savings	19.7	15.3	19.3	20.1	19.4	21.6	19.6
Gross domestic savings	20.5	15.9	19.4	19.6	18.7	20.1	19.1
External current account deficit (-)	-7.1	-8.3	-1.0	1.0	-3.3	-5.2	-5.6
External debt	55.5	60.1	59.2	60.8	58.6	54.3	55.6
Debt service/Exports of goods and services plus private transfers 4/	21.6	27.9	26.8	22.7	22.4	21.4	24.9
Gross official international reserves (in months of imports, f.o.b.)	1.0	1.3	2.1	3.1	2.7	1.8	1.5
			(In millions of SDRs)				
Overall balance of payments surplus or deficit (-)	-147	-195	110	295	62	-74	-163
Gross official international reserves (at end of period)	218	256	377	676	739	565	458
External debt (at end of period)	3,825	4,203	4,267	4,336	4,713	4,983	5,188
			(In millions of dinars)				
GDP at current prices	6,893	6,996	7,959	8,622	9,561	10,910	11,620

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

1/ Weighted by non-oil trade and tourism flows of 17 partner and competitor countries; (-) denotes depreciation.
2/ Data after 1987 employ a new classification (consistent with the Fund Government Finance Statistics format).
3/ Starting in 1989, data reflect the addition of several new deposit-taking institutions; D 49 million of external debt service payments made at end-1989 and settled in early 1990 are included in end-1989 net credit to the Government.
4/ Debt service includes repurchases from the Fund.

Table 3. Tunisia: Original Projections 1/ and Performance
Under the Extended Arrangement, 1988-91

	1988		1989		1990		1991	
	Prog. 1/	Act.	Prog. 1/	Act.	Prog. 1/	Act.	Prog. 1/	Proj.
	(Annual percent change)							
Real GDP	0.9	1.5	5.1	3.5	4.3	6.5	3.7	—
Investment	3.7	-5.1	7.0	8.4	6.5	21.7	6.0	-2.7
Consumer prices	6.5	7.2	6.5	7.7	6.1	6.6	5.2	7.0
	(In percent of GDP; at current prices)							
External current account deficit	-3.8	1.0	-3.4	-3.3	-2.8	-5.2	-2.3	-5.6
Fiscal deficit	-4.1	-4.5	-3.5	-4.3	-2.9	-4.0	-2.3	-3.4
External debt	60.6	60.8	59.5	58.6	56.8	54.3	53.7	55.6
	(In units indicated)							
Debt service/Exports of goods and services (in percent)	26.4	22.7	26.2	22.4	28.9	21.4	27.2	24.9
Gross reserves (in months of imports)	2.5	3.1	3.0	2.7	2.9	1.8	2.7	1.5

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

1/ As presented in EBS/88/119, 6/20/88.

total imports free of quantitative restrictions increased from 53 percent in 1988 to 70 percent at the end of 1990. Nevertheless, only some 30 percent of domestic production was subject to import competition at end-1990.

Significant price liberalization has taken place in Tunisia since 1985, when 95 percent of agriculture and manufacturing prices were controlled. Producer prices are now mostly free of controls. Approximately 70 percent of prices of manufactured goods at the production level were liberalized by the end of 1990, and the share of distribution margins liberalized was raised from less than 10 percent in early 1988 to 40 percent in early 1991. Less success has been achieved in reducing consumer subsidies, which are administered by the Caisse Générale de Compensation and were responsible for government expenditure in 1990 equivalent to 2.9 percent of GDP. Measures have been taken in an effort to reduce these subsidies, but rising world food prices and two successive years of drought in 1988-89 have made progress slow.

Substantial reform of the financial sector has occurred since 1987, including decontrol of banking decisions, liberalization of interest rates, and substitution of indirect instruments of monetary policy for direct credit controls. The money market became the Central Bank's main channel of intervention, replacing the old system of discounting commercial bank loans. The money market interest rate, which is influenced by injections of liquidity by the Central Bank in response to bids by deposit banks, determines most other interest rates. The introduction of two new instruments, certificates of deposit and commercial paper, served to deepen the financial system, and in late 1989 the Government inaugurated a weekly treasury bill auction. In addition, the scope of preferential credits has been significantly reduced.

An ambitious reform of the public enterprise sector was initiated in 1986 and has been supported by a World Bank public enterprise restructuring loan (PERL). This program has proceeded ahead of schedule. Of approximately 125 commercial public enterprises in Tunisia, 75 were selected to be privatized. Three-fourths of these cases have been completed. For the enterprises that will remain public, a restructuring program has been implemented whereby performance contracts are agreed between the Government and the enterprises in order to achieve more autonomy and greater productivity. Enterprises agree to financial targets, including the means to achieve them such as cost reductions and restructuring programs, while the Government agrees to certain tariff authorizations and levels of financial support (including equity contributions) for the restructuring programs. To date, three performance contracts have been finalized with the transport, railway, and phosphate companies.

A comprehensive tax reform has been implemented over the three years of the extended arrangement, in which the previous distorted and complicated system has been replaced with a more simple, transparent, and efficient one. A value-added tax on production, which was extended to most wholesalers in 1989, replaced a complex system of turnover and excise levies. A new system of direct taxes was adopted in 1989, to take effect on 1990 personal income and on corporate profits. This simpler and more efficient system is designed to prevent evasion, to eliminate unjustified exemptions, and to facilitate administration.

III. The 1991 Program and Lengthening of the EFF Arrangement

The economic and financial program for 1991 negotiated with the authorities in the context of the fifth program review was discussed by the Board on April 17, 1991 (EBS/91/46, 3/19/91). Directors welcomed the strong and timely adjustment measures undertaken in response to the impact of the Middle East crisis, which had amplified a current account deficit that had already widened in the wake of the demand pressures related to the economic recovery. An extension of the EFF arrangement was seen as an appropriate response to the current circumstances, in which a serious temporary shock has contributed to a delay in the attainment of original program objectives.

The macroeconomic objectives for 1991 remain (i) zero real economic growth; (ii) an inflation rate of 7 percent; and (iii) an external current account deficit of 5.6 percent of GDP. Without adjustment, the external current account deficit in 1991 was projected to jump to the equivalent of more than 8 percent of GDP. The depressed state of the economy is a major preoccupation of the authorities and a great disappointment considering that the long-awaited economic recovery was so short-lived. The unemployment rate could reach as high as 16 percent, from 14-15 percent in 1990. Favorable conditions for a second consecutive good agricultural crop provide one of the few positive sources of economic growth in 1991. Although inflation as measured by the consumer price index was somewhat higher than expected in the first quarter, partly as a result of the special tax measures taken, the authorities remain committed to the target of 7 percent for the year.

1. Access and program monitoring

The proposed 12-month lengthening of the extended arrangement will cover four test dates, end-September 1991, end-December 1991, end-March 1992, and end-May 1992. Performance criteria and indicative targets for the fourth year of the EFF arrangement relate to the same parameters as in the first three years. The financial and economic program for 1991 has remained essentially unchanged from that discussed by the Executive Board in April 1991. Accordingly, the appropriate indicative targets for end-September and end-December 1991 have been transformed into performance criteria (Table 4). The performance criteria for 1992 will

Table 4. Tunisia: Performance Criteria and Indicative Targets, 1991

	1990	1991					
	Actual	March		May	June 1/	Sept.	Dec.
		Program	Actual	Program			
A. Performance criteria		(In millions of dinars)					
1. Domestic credit	6,142.0	6,468.0	6,393.0	6,545.0	6,542.0	6,646.0	6,752.0
2. Net credit to the Government	807.0	949.0	841.0	945.0	927.0	914.0	857.0
		(In millions of SDRs)					
3. Net foreign assets of the Central Bank	415.1	207.0	239.0	138.0	139.0	248.0	252.0
4. Official borrowing abroad							
a. 0-1 year (amount outstanding, excluding import-related credits)	11.2	100.0	14.9	100.0	100.0	100.0	100.0
b. New nonconcessional borrowing abroad (cumulative amounts since beginning of each year)							
i. 1-5 years	43.2	170.0	—	170.0	170.0	170.0	170.0
ii. 1-12 years	186.4	400.0	11.1	400.0	400.0	400.0	400.0
5. External payments arrears (amount outstanding)	—	—	—	—	—	—	—
B. Indicative targets		(In millions of dinars)					
1. Consolidated budget deficit 2/	-431.6	-22.8	-85.8	-182.0	-247.0	-310.0	-350.0
2. Total revenue and grants 2/	3,356.3	638.7	809.8	1,436.0	1,714.0	2,598.0	3,562.2
3. Total expenditure and net lending (excluding debt amortization) 2/	3,787.9	661.5	895.6	1,618.0	1,961.0	2,908.0	3,952.2
4. Credit from monetary system to selected public enterprises	409.7	440.8	...	509.1	510.5	458.4	467.6
5. Credit from development banks							
a. To selected public enterprises	22.4	26.0	...	26.0	26.0	26.0	26.0
b. To the rest of the economy	961.5	943.1	...	957.6	959.5	978.7	1,061.2

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

1/ Indicative targets.
2/ From May the data have been revised following the approval of the supplementary finance law in March 1991.

be set during a review mission early next year. The proposed access of SDR 69.1 million (50 percent of quota) would be divided into four equal purchases conditional upon observance of performance criteria on the four test dates (Table 5). Purchases after March 14, 1992 would also be conditional upon the completion of a sixth program review, which will assess overall performance under the program and elaborate the 1992 program. The schedule for structural adjustment measures is contained in Appendix III.

A mission will visit Tunisia in November 1991 to carry out the Article IV consultation discussions and to review the draft 1992 government budget. Reaching understandings with the authorities on the 1992 budget will be a critical element in attaining the objective of returning to the original program targets in 1992, and in completing the sixth program review.

2. External sector policies

As negotiated and agreed in the context of the fifth review, the program to achieve the external targets in 1991 is meant to address the temporary effects of the Middle East crisis and the excess demand pressures carried over from 1990. The total loss of exports of goods and services owing to the impact of the crisis is estimated at SDR 730 million, or 28 percent of 1990 exports. Given the import content of exports in the sectors affected, the net loss of current foreign exchange receipts in 1991 is estimated to be on the order of SDR 470 million, or 4.8 percent of projected 1991 GDP. The authorities have undertaken corrective fiscal measures in the context of a supplementary finance law to support a tight monetary policy aimed at containing the balance of payments deficit at SDR 163 million (Table 6). With a capital account surplus of SDR 367 million, the current account deficit for 1991 is projected at SDR 530 million, or 5.6 percent of GDP. This includes an anticipated adjustment of the current account of about 2.5 percent of GDP, as measured against the projected outcome with no measures.

Under the program, imports in 1991 are projected to decline by 10.5 percent in volume terms, compared with an increase of 10.4 percent in 1990. All categories of imports would show reductions in volume, with consumer goods likely to show the largest decline. Total export volume is projected to decline by about 3 percent, while non-energy export volume is forecast to fall by 2 percent. Tunisia would continue in 1991 to be a marginal net exporter of energy, with a small surplus close to that of 1990. The overall terms of trade are expected to deteriorate by about 1 percent in 1991. In order to maintain competitiveness in 1991, the authorities are aiming to maintain the real effective rate of the dinar at approximately its end-1990 level. This rate would be broadly consistent with further import liberalization, equivalent to 10 percent of total imports, which would raise the

Table 5. Tunisia: Proposed Schedule of Purchases During Remaining Period of the Extended Arrangement

Amount (in millions of SDRs)	Scheduled availability date	Conditions for purchase
15.900	July 10, 1991	Compliance with quantitative performance criteria as of end-May 1991.
17.275	November 15, 1991	Compliance with quantitative performance criteria as of end-September 1991.
17.275	March 15, 1992	Completion of sixth review (elaboration of program for 1992), and compliance with quantitative performance criteria as of end-December 1991.
17.275	May 15, 1992	Compliance with quantitative performance criteria as of end-March 1992.
17.275	July 10, 1992	Compliance with quantitative performance criteria as of end-May 1992.

Source: IMF Treasurer's Department.

Table 6. Tunisia: Medium-Term Balance of Payments, 1989-96

	1989	1990			1991		1992	1993	1994	1995	1996
		Prog. (Third review)	Fourth review	Prov.	Fourth review	Prog.			Projections		
					(In millions of SDRs)						
Current account	-257	-239	-362	-479	-300	-530	-277	-272	-273	-265	-242
Trade balance	-947	-1,010	-1,132	-1,261	-1,115	-1,002	-1,159	-1,244	-1,365	-1,507	-1,615
Exports, f.o.b.	(2,286)	(2,406)	(2,534)	(2,593)	(2,738)	(2,580)	(2,955)	(3,194)	(3,610)	(4,104)	(4,708)
Energy	456	359	430	449	339	399	285	158	132	106	96
Non-energy	1,830	2,047	2,103	2,144	2,400	2,180	2,671	3,036	3,477	3,998	4,612
Imports, f.o.b.	(-3,233)	(-3,416)	(-3,666)	(-3,854)	(-3,853)	(-3,582)	(-4,114)	(-4,438)	(-4,975)	(-5,611)	(-6,324)
Energy	-280	-256	-351	-340	-260	-300	-243	-215	-278	-372	-471
Non-energy	-2,953	-3,160	-3,351	-3,514	-3,593	-3,282	-3,871	-4,223	-4,697	-5,239	-5,853
Services (net)	690	771	771	781	815	472	882	972	1,092	1,242	1,374
Nonfactor services (net)	622	715	680	642	758	423	854	961	1,084	1,234	1,393
Of which: tourism receipts	(720)	(766)	(760)	(699)	(833)	(481)	(898)	(981)	(1,082)	(1,192)	(1,306)
Factor services (net)	69	56	91	140	57	49	28	12	8	8	-19
Of which: workers' remittances	(386)	(391)	(413)	(420)	(421)	(391)	(419)	(442)	(476)	(515)	(538)
interest on external debt	(-327)	(-359)	(-330)	(-295)	(-356)	(-326)	(-388)	(-431)	(-469)	(-511)	(-557)
Capital account	319	259	381	405	340	367	396	410	423	434	457
Grants	58	48	50	42	32	16	32	31	31	31	31
Direct and portfolio investment (net)	107	108	111	130	121	114	146	163	184	211	261
Medium- and long-term borrowing (net)	115	103	169	189	186	237	218	217	208	193	165
Disbursements	(686)	(722)	(809)	(766)	(801)	(840)	(835)	(849)	(853)	(857)	(864)
Amortization	(-571)	(-619)	(-640)	(-577)	(-615)	(-603)	(-617)	(-632)	(-645)	(-664)	(-699)
Short-term capital (including valuation adjustment and errors and omissions)	39	—	51	44	—	—	—	—	—	—	—
Overall surplus or deficit (-) 1/	62	20	20	-74	40	-163	119	138	150	169	215
Changes in net reserves (increase -)	-62	-20	-20	74	-40	163	-119	-138	-150	-169	-215
Use of Fund resources (net)	—	8	8	-82	-51	56 2/	31	-4	—	-10	-29
Other assets, net (increase -)	-62	-28	-28	156	11	107	-150	-134	-150	-159	-186
Memorandum items:					(In units indicated)						
Current account deficit (-) (in percent of GDP)	-3.3	-2.8	-4.0	-5.2	-3.1	-5.6	-2.6	-2.3	-2.1	-1.8	-1.5
Gross reserves (in months of f.o.b. imports)	2.7	2.7	2.5	1.8	2.3	1.5	1.8	2.0	2.2	2.2	2.3
Debt service ratio (in percent)	22.4	24.8	23.8	21.4	22.5	24.9	20.0	19.2	17.9	16.8	16.2
Debt/GDP (in percent)	58.6	57.4	54.5	54.3	52.1	55.6	51.1	47.0	43.2	39.5	35.8
					(Annual percentage changes)						
Principal assumptions											
Real GDP	3.5	5.1	6.3	6.5	4.2	—	7.5	5.9	6.4	6.5	7.0
Inflation (GDP deflator)	7.1	6.7	7.4	7.1	6.3	6.5	6.2	6.9	6.3	5.9	5.6
Real effective exchange rate (- depreciation)	-1.9	—	—	-2.9	—	—	—	—	—	—	—
Export volumes	18.3	4.0	5.7	6.0	4.7	-3.1	10.1	4.3	8.0	8.6	9.7
(Non-energy exports)	16.6	8.0	9.7	9.5	8.9	-2.0	18.1	9.5	9.8	9.8	10.3
Import volumes	16.5	3.0	9.6	10.4	1.3	-10.5	11.3	5.5	7.0	7.7	7.9
(Non-energy imports)	14.8	3.6	10.4	10.7	2.5	-10.0	13.5	7.0	6.6	6.8	7.4

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

1/ Change in the net foreign assets of the Central Bank.
2/ Assuming that Fund purchases are effected as shown in Table 1.

liberalization ratio to 80 percent by the end of 1991. In this context, limited compensatory tariff protection was introduced in early 1991 to temporarily shelter affected domestic producers from new foreign competition.

The net foreign assets of the Central Bank fell to SDR 239 million at the end of March 1991, compared with the performance criterion of SDR 207 million, while the net foreign assets of the banking system were in line with the programmed level. These results were achieved despite the fact that demand for money balances was lower than anticipated in the program, reflecting the public's larger-than-projected holdings of treasury bills (by D 78 million) at the end of the first quarter of 1991. The monetary authorities, in keeping with the balance of payments objectives of the program, appropriately kept total credit to D 75 million lower than the program ceiling.

The capital account in the first quarter registered a smaller-than-expected surplus on account of lower medium- and short-term loan disbursements and foreign investment flows; however, the authorities expect that for the year as a whole the capital account outcome will be as programmed. The shortfall in capital inflows in the first quarter was accompanied by a smaller-than-programmed current account deficit. Exports of goods (in particular, textiles) and tourism performed better than anticipated, while imports were somewhat lower. Although this performance may indicate a possibly smaller negative effect from the Middle East crisis than was projected at the time of the fifth review, the staff agreed with the authorities that the marginal and tentative nature of these indicators was counterbalanced by remaining downside risks and did not warrant a change in the net foreign assets target for the year. For example, the better-than-expected outturn for tourism in the first quarter was attributable to an increase in visitors from the region, which is historically a very unstable source of tourist receipts. Significant downside risks remain, not the least of which is related to regional political tensions that could affect primarily tourism and foreign investment. Should the adverse impact of the crisis be less than expected, the first priority of the authorities is to add to reserves, which fell to the equivalent of 1.2 months of imports at the end of March. At the same time, they are prepared to take whatever measures are required to safeguard the balance of payments target should the impact of the crisis turn out to be worse than expected.

The authorities intend to put into place the policies necessary to achieve a decline in the current account deficit from 5.6 percent of GDP in 1991 to 2.6 percent in 1992, only slightly higher than the original target of 2.3 percent. This current account deficit would be consistent with an overall balance of payments surplus of SDR 119 million and a net capital inflow of SDR 396 million. The balance of payments surplus would be achieved through an appropriately tight monetary policy, which would be supported by strong fiscal adjustment. Gross reserves are projected to increase to the equivalent of 1.8 months of imports by the end of 1992.

A return to normal levels of exports and tourism is projected in 1992. Export volume is forecast to recover by 10 percent, with non-energy exports rising by 18 percent in real terms. Tunisia will continue in 1992 to be a marginal net exporter of energy, albeit with a surplus of SDR 42 million projected for 1992. Total imports are projected to increase by 11.3 percent in volume terms, compared with a reduction of 10.5 percent in 1991. Consumer goods imports (which include some imports for processing and re-export) are projected to show the largest increase, while imports of capital goods are also expected to recover strongly. The overall terms of trade are expected to improve by 0.8 percent in 1992.

The authorities intend to continue their cautious debt management policy, limiting the amount of nonconcessional debt contracted in 1992 in the maturity range of 1-5 years and 1-12 years. Short-term credit (excluding import-related credits) will also continue to be limited. The debt to GDP ratio is expected to decline to 51.1 percent, while debt service as a fraction of current receipts is projected to decrease to 20.0 percent.

The exchange rate policy followed throughout the program period is expected to be continued. Concerning import liberalization, the authorities plan to raise the share of total imports free of quantitative restrictions from 80 percent at the end of 1991 to 85 percent by the end of June 1992. The compensatory customs duties that would be introduced would be eliminated progressively over a three-year period. The authorities also intend to proceed during 1991 with a relaxation of exchange regulations affecting invisible transactions. New authority will be given to banks to process certain transfers, and routine transfers of enterprises will be carried out more freely. Entrepreneurs who intend to initiate new projects will now also be allowed to make transfers. In addition, the system of professional accounts in foreign exchange will be relaxed appreciably. These accounts, which can currently be opened by enterprises that export 15 percent of their sales with the purpose of depositing up to 20 percent of their export receipts, will be made available to all enterprises irrespective of the share of exports in their sales. The foreign exchange in these accounts will be utilized for importing goods and services necessary to the operations of the enterprise. At the same time, banks will be authorized to give credits in foreign currencies to nonresidents and to manage in a more flexible manner the nonsurrendered foreign exchange of residents and nonresidents.

3. Fiscal policy

The 1991 fiscal program includes strong measures taken in the context of a supplementary finance law to address the effects of the Middle East crisis and the excess demand pressures carried over from 1990. In response to the crisis, which resulted in a revenue loss of 1.5 percent of GDP, the Government introduced a compensating package of revenue and expenditure measures representing 1.8 percent of GDP, 1/ which should reduce the overall government budget deficit to the equivalent of 3.4 percent of GDP in 1991, compared with 4.0 percent of GDP in 1990 (Table 7).

Total revenue and grants are projected at D 3,562.2 million (30.7 percent of GDP). The total revenue increase is programmed at 7.8 percent and the tax revenue increase at 9.7 percent. Tax revenue is expected to rise to the equivalent of 24.1 percent of GDP in 1991 from 23.4 percent in 1990. To achieve the revenue targets in February 1991, the Government raised the excise tax rates on petroleum products, tobacco, and alcohol, which are projected to yield D 25 million in additional revenue. Moreover, the supplementary finance law introduced a surcharge on individual income tax and company tax (D 55 million); a surcharge on import duties (D 36 million), and an increase in the customs service fees (D 4 million). Nontax revenue will increase by D 5 million, through a transfer from the Post and Telecommunications Office. Total revenue measures in the fiscal package amount to D 125 million.

Total expenditure and net lending are programmed to reach D 3,952.2 million, representing 34 percent of GDP, compared with 34.7 percent in 1990. This amount reflects D 87 million of measures included in the supplementary finance law, comprising cutbacks in expenditure (D 25 million) and net lending (D 62 million). The reductions in net lending and in capital transfers reflect both the improved financial position of public enterprises resulting from their restructuring programs and the reduced investment program of public enterprises. The reduction in expenditure was accounted for mostly by capital expenditure, but also by a reduction of D 4 million in the wage bill. Wages are expected to increase by approximately 8 percent compared to projected inflation of 7 percent.

The 1991 fiscal deficit--projected at D 390 million--is to be financed by external borrowing of D 58 million and domestic borrowing of D 332 million. Borrowing from the domestic banking system is to be limited under the program to D 50 million and nonbank borrowing is projected at D 282 million, of which D 265 million would stem from the sale of treasury bills to the public. Preliminary results for the first quarter of 1991 indicate that the fiscal program is on track.

1/ The fiscal package negotiated in the fifth review and described in EBS/91/46 (3/19/91) was changed slightly in the final supplementary finance law that was approved by the Parliament, although the overall impact of the measures was not changed. The changes involved expanding the revenue part of the package and reducing the wage bill by D 4 million, while restoring most of the cuts in capital outlays.

Table 7. Tunisia: Consolidated Financial Operations of the Central Government, 1987-91 1/

	1987	1988	1989	1990 Prog. (Third review)	1990 Fourth review	1990 Est.	1991 Program 2/
	(In millions of dinars)						
Revenue and grants	2,548.7	2,743.6	3,071.1	3,296.9	3,325.0	3,356.3	3,562.2
Tax revenue	1,896.7	2,002.9	2,257.8	2,506.1	2,510.2	2,551.4	2,800.1
On international transactions	632.4	730.6	816.7	916.1	916.1	888.2	966.9
Other	1,264.3	1,272.3	1,444.1	1,590.0	1,594.1	1,663.2	1,833.2
Other revenue	635.9	710.3	670.1	673.2	697.2	734.8	740.8
Non-petroleum-related	283.6	322.0	276.2	293.2	295.2	341.9	350.8
Petroleum-related	352.3	388.3	393.9	380.0	402.0	392.9	390.0
Grants	16.0	30.4	143.2	117.6	117.6	70.1	21.3
Total expenditure and net lending	2,878.5	3,130.2	3,482.8	3,684.7	3,706.7	3,787.9	3,952.2
Current	2,084.4	2,255.6	2,693.3	2,790.5	2,810.5	2,803.7	3,127.8
Wages and salaries	778.6	833.7	949.7	998.5	1,041.5	1,013.5	1,159.9
Goods and services	212.1	165.4	207.4	249.6	205.6	224.6	268.9
Interest payments	245.1	278.1	316.7	341.4	341.4	341.3	363.6
Subsidies and transfers	848.6	978.4	1,219.4	1,201.0	1,222.0	1,224.3	1,335.4
Of which: consumer subsidies	(183.2)	(231.0)	(346.3)	(295.8)	(316.8)	(315.0)	(280.0)
Capital and net lending	794.1	874.6	789.5	894.2	896.2	984.2	824.4
Direct investment	321.1	448.5	403.2	421.7	443.7	498.4	532.2
Capital transfers and equity	312.6	353.8	321.6	423.1	423.1	432.9	304.4
Net lending	160.4	72.3	64.7	49.4	29.4	52.9	-12.2
Deficit, payment-order basis 3/	-329.8	-386.6	-411.7	-387.8	-381.7	-431.6	-390.0
Financing	-329.8	386.6	411.7	387.8	381.7	431.6	390.0
Foreign	100.6	140.4	117.7	162.6	162.6	75.0	58.0
Drawings	393.6	466.8	520.9	625.7	625.7	538.0	547.0
Budgetary	185.6	263.8	310.9	480.0	480.0	336.0	371.0
Extrabudgetary	208.0	203.0	210.0	145.7	145.7	202.0	176.0
Amortization	-293.0	-326.4	-403.2	-463.1	-463.1	-463.0	-489.0
Domestic	229.2	246.2	294.0	225.2	219.1	356.6	332.0
Banks	94.0	46.0	45.2	40.0	40.0	36.0	50.0
Other 3/	135.2	200.2	248.8	185.2	179.1	320.6	282.0
Memorandum items:							
GDP	7,959.0	8,622.3	9,560.9	10,641.1	10,920.0	10,910.0	11,620.0
	(In percent of GDP)						
Revenue and grants	32.0	31.8	32.1	31.0	30.4	30.8	30.7
Grants	0.2	0.4	1.5	1.1	1.1	0.6	0.2
Tax revenue	24.1	23.2	23.6	23.6	23.0	23.4	24.1
Expenditure	36.2	36.3	36.4	34.6	33.9	34.7	34.0
Deficit including grants	-4.1	-4.5	-4.3	-3.6	-3.5	-4.0	-3.4

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

1/ Includes current and capital budgets, Special Funds, Fonds de Concours, extrabudgetary operations financed abroad, net treasury operations, and social security funds. Data for and after 1988 are presented in a new classification consistent with the Fund Government Finance Statistics format. This change in classification slightly affects gross levels of revenue and expenditure, but not the deficit.

2/ As modified in Supplementary Finance Law, approved in March 1991.

3/ Including payment float.

The authorities have committed themselves to the broad achievement in 1992 of the original fiscal objectives of the extended arrangement, which would entail a further reduction of the overall budget deficit of approximately 1 percent of GDP from the projected 1991 outcome. It is expected that the 1992 budget will include additional revenue measures, including increased revenue from the value-added tax (VAT) from elimination of unjustified exemptions and extension of the VAT to large enterprises at the retail level. Moreover, subsidies administered by the Caisse Générale de Compensation are expected to be reduced substantially in 1992, reflecting continued price adjustments on certain commodities and the introduction of a targeting system for flour, vegetable oil, sugar, and milk. In addition, direct income support will begin to be substituted for more expensive commodity subsidies for a target population of 120,000 very poor families. The full package of measures for 1992 is currently being developed and will be reviewed by a staff mission to Tunisia in November.

4. Monetary policy

The monetary program for 1991 envisages an expansion of broad money by 5.5 percent, somewhat less than the projected nominal GDP growth (Table 8). Consistent with the balance of payments target and an expansion of bank credit to the Government of D 50 million, credit growth to the private sector will be limited to 10.5 percent. Total bank credit is projected to increase by about 10 percent in 1991.

Information for the first quarter 1991 indicates that the monetary program was in line with the program, with both credit ceilings being respected. Net credit to the Government in the first quarter was substantially less than programmed, mainly because of higher-than-expected financing by the nonbank public. The larger-than-programmed net purchases of treasury bills by the nonbank public were fully offset by a smaller-than-expected increase in holdings by banks, with net issues of treasury bills amounting to D 55 million as programmed. Credit to the private sector was slightly higher than forecast, primarily because of agricultural credit, owing to the large crop that accounted for more than half of the increase. Total domestic credit at end-March 1991 was D 6,393 million, or D 75 million under the performance criterion.

In the area of financial sector reform, the authorities have accelerated their schedule in 1991 for reducing the scope of preferential lending rates. In addition to the 1 percent increase in these rates before end-1991 that had been stated in the fifth review, they now plan to eliminate the eligibility of certain sectors for these rates (accounting for approximately one third of outstanding preferential credits) before the end of 1991. They also plan to raise the preferential rates on the remaining credits by another percentage point before the end of June 1992, with the objective of eliminating preferential credits altogether by the end of 1992.

Table 8. Tunisia: Monetary Survey, 1988-91 1/

	1988	1989	1990				1991					
			March	June	Sept.	Dec.	March		May	June	Sept.	Dec.
			Actual				Prog.	Act.	Program 1/			
	(In millions of dinars)											
Net foreign assets	542	661	579	495	688	596	341	340	257	258	391	396
Domestic credit	5,188	5,563	5,815	5,951	5,991	6,142	6,468	6,393	6,545	6,542	6,646	6,752
Net credit to the Government 2/	676	722	818	880	827	807	949	841	945	927	914	857
Credit to the economy	4,512	4,841	4,997	5,071	5,164	5,335	5,519	5,552	5,600	5,615	5,732	5,895
Money supply (M2)	4,422	4,909	4,979	4,995	5,052	5,220	5,220	5,132	5,204	5,199	5,366	5,507
Money (M1)	2,460	2,526	2,468	2,560	2,410	2,649	...	2,507	...	...	...	...
Quasi-money	1,962	2,383	2,511	2,435	2,642	2,571	...	2,625	...	...	...	...
Long-term deposits	226	254	260	277	276	321	330	325	340	345	355	381
Other items, net	1,082	1,061	1,155	1,174	1,351	1,197	1,259	1,276	1,258	1,256	1,316	1,260
Memorandum items:	(Percent change from previous December)											
Domestic credit		7.2	4.5	7.0	7.7	10.4	5.3	4.1	6.6	6.5	8.2	9.9
Net credit to the Government		6.8	13.3	22.0	14.5	11.8	17.6	4.2	17.1	14.9	13.3	6.2
Credit to the economy		7.3	3.2	4.7	6.6	10.2	3.4	4.1	5.0	5.2	7.4	10.5
Money plus quasi-money		11.0	1.4	1.8	2.9	6.3	—	-1.7	-0.3	-0.4	2.8	5.5

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

1/ As indicated in Buff document 91/74, April 16, 1991, data for net foreign assets, money supply, long-term deposits and other items, net have been modified to take account of revisions of December 1990 data.

2/ The change in net credit to the Central Government in 1990 takes into account the settlement in the first quarter of D 49 million of external debt service payments made at end-1989.

Although interest rates for the most part have been liberalized since 1987, a maximum spread between the lending rate and the money market rate has been maintained because of inadequate competition in the banking sector. Steps have been taken to increase competition, including the entry of a major international bank into domestic operations in 1990 and the authorization of two large investment banks to accept deposits as a move toward "universal banking." The authorities plan to liberalize the maximum lending spread before the end of June 1992, either by raising the spread between the lending rates and the money market rate from 3.0 percentage points to 3.5 percentage points, or by another equivalent measure. At present, only approximately 20 percent of loans are at the maximum lending rate, while the average is between 2.0 percent and 2.5 percent above the money market rate. The loans with rates at the maximum spread, however, are predominantly for new and small enterprises, which the authorities are afraid may be unfairly disadvantaged by higher rates.

The authorities intend to continue to diversify and deepen the range of financial instruments. They plan before the end of 1991 to introduce treasury bills with maturities longer than one year. In addition, in March 1991, the authorities facilitated a more active secondary market for treasury bills by broadening the requirement for banks to hold a minimum amount of government bonds to include government bonds that banks place with the public. Technical assistance from the Fund is helping the authorities in the management of monetary and credit policies through indirect instruments that will include the eventual use of secondary markets and open market operations.

5. Other structural policies

In addition to the financial sector reform and import liberalization discussed above, the authorities plan continued progress in the areas of public enterprise reform and privatization, price liberalization, tax reform, and unification of the investment codes.

Following the completion of three fourths of the planned 75 privatization cases, the authorities intend to privatize the remaining enterprises by the end of June 1992. This will complete the privatization phase of the public enterprise reform. Regarding the enterprises remaining in the public sector, the authorities intend to finalize performance contracts with the electricity and gas, refining, and cement companies before the end of 1991. The Government is currently preparing a list of future multiyear performance contracts with enterprises that will be implemented during the period of the Eighth Development Plan.

In the area of price liberalization, the authorities plan to increase the share of manufactured prices free of controls to 75 percent by the end of 1991. The share of distribution margins liberalized will soon be raised to 50 percent. Following the enactment of legislation in

1991 on distribution and competition, the share of distribution margins free of controls will be raised to 55 percent before the end of June 1992.

The tax reforms achieved since 1988 include the introduction of the VAT and new codes for income taxation of individuals and corporations. In 1991-92, exemptions from the VAT will be reduced and lump-sum taxation procedures will be reviewed to prevent tax evasion. The final stage of tax reforms involves registration and stamp duties, which will be modernized and rationalized. Administrative procedures in tax administration will be revised and training of tax officials will be strengthened.

Separate investment codes for various sectors have created overlaps and contradictions, particularly regarding incentives for investment. A commission has been recently established to unify and rationalize the various investment codes and regulations. The objectives of this project are to eliminate incentives that are not justified and to ensure better targeting of the incentives that are maintained. During the rest of 1991, the commission will develop a strategy to implement this project during the period of the Eighth Development Plan.

IV. Medium-Term Outlook

Assuming that appropriate aggregate demand policies are implemented during the period, the overall balance of payments is expected to register rising surpluses from 1992 onward, enabling gross reserves to increase continuously from their low point in 1991. Gross reserves are expected to reach the equivalent of 2.0 months of imports by 1993 and 2.3 months of imports by 1996. The debt service ratio is slated to decline from 25 percent in 1991 to 16 percent by 1996, while the debt to GDP ratio is forecast to decrease from 55 percent to 36 percent (Table 9). The current account deficit (as a percent of GDP) is projected to shrink from 5.6 percent in 1991 to 2.3 percent in 1993 and then narrow progressively to 1.5 percent by 1996.

Exports are expected to rebound in 1992, with total non-energy exports rising by 18 percent in real terms, before slowing to an average annual growth rate of 10 percent in the period 1993-96. These rates would imply continued growth in Tunisia's export market shares in sectors such as textiles and mechanical/electrical industries. Total non-energy imports, after increasing by 13.5 percent in 1992, are projected to grow at a more moderate rate of 7 percent on average.

The energy trade balance is projected to register small surpluses in 1991 and 1992 before turning into a deficit. The increasing role of the private sector in the economy in the years ahead is reflected in the capital account projections where higher medium-term foreign borrowing and foreign direct investment are in turn supported by Tunisia's greater openness to international capital markets.

Table 9. Tunisia: Medium-Term External Debt Projections, 1989-96

	1989	1990			1991		1992	1993	1994	1995	1996
		Prog. EBS/90/71	Prog. EBS/90/173	Prov.	Proj. EBS/90/173	Prog.	Projections				
	(In millions of SDRs)										
Disbursement	686	722	809	766	801	831	835	849	853	857	864
Long-term capital	485	519	537	479	510	554	570	504	461	415	415
Medium-term capital	201	204	272	287	291	277	265	344	393	442	449
Debt service											
Medium- and long-term	878	955	948	850	949	913	986	1,043	1,094	1,155	1,237
Interest	306	337	308	273	334	310	369	410	448	491	538
Principal	571	619	640	577	615	603	617	632	645	664	699
IMF	20	104	104	104	121	115	40	24	20	30	48
Charges	20	22	22	22	22	16	19	20	20	20	19
Repurchases	—	82	82	82	99	99	21	4	—	10	29
Total debt service	898	1,060	1,052	954	1,070	1,028	1,026	1,067	1,114	1,186	1,285
Interest	327	359	330	295	356	326	388	431	469	511	557
Principal	571	701	722	659	714	702	638	636	645	675	728
Debt outstanding	4,713	4,803	4,865	4,983	5,045	5,188	5,313	5,448	5,631	5,813	5,737
Medium- and long-term debt	4,500	4,589	4,651	4,856	4,882	5,008	5,102	5,241	5,423	5,616	5,569
Arab Monetary Fund	7	—	—	3	—	—	—	—	—	—	—
Fund credit	206	214	214	124	163	180	211	207	207	197	168
	(In percent)										
Debt service in percent of current receipts											
Total debt service	22.4	24.8	23.8	21.4	22.5	24.9	20.0	19.2	17.9	16.8	16.2
Interest	8.2	8.4	7.5	6.6	7.5	7.9	7.6	7.7	7.5	7.3	7.0
Principal	14.2	16.4	16.4	14.8	15.0	17.0	12.5	11.4	10.4	9.6	9.2
Excluding IMF	21.9	22.4	21.5	19.1	19.9	22.1	19.3	18.7	17.6	16.4	15.6
Interest	7.6	7.9	7.0	6.1	7.0	7.5	7.2	7.4	7.2	7.0	6.8
Principal	14.2	14.5	14.5	13.0	12.9	14.6	12.1	11.4	10.4	9.4	8.8
Memorandum item:	(In millions of SDRs)										
Current receipts	4,008	4,266	4,414	4,457	4,760	4,133	5,120	5,563	6,231	7,036	7,946

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

Assuming no further purchases after the fourth-year extension of the EFF arrangement, Tunisia's charges and repurchases to the Fund are projected not to exceed 0.8 percent of current receipts through the repurchase period ending in 2002 (Tables 10 and 11). In the same period, debt service to the Fund would not exceed 4.3 percent of total debt service, or 6.6 percent of gross reserves. Given Tunisia's record in meeting its obligations to the Fund, its prudent debt policy, and the fact that its repayments to the Fund are only a small part of its total external debt obligations, it is not envisaged that Tunisia will experience difficulty in making repayments to the Fund over the medium term.

V. Staff Appraisal

Despite the success achieved in the last half of the 1980s in reducing external imbalances and diversifying exports, the events of 1990-91 have demonstrated the continued vulnerability of Tunisia's balance of payments to exogenous shocks. In the wake of a long-awaited recovery accompanied by investment growth of 8 percent in 1989 and 22 percent in 1990, a burst of capital goods imports contributed to a substantial widening of the current account deficit, which was then compounded by the adverse impact of the Middle East crisis. The timely response of the authorities was incorporated in the 1991 program discussed by the Executive Board in April 1991.

The authorities believe that the 1991 program remains valid. The hostilities in the Middle East have ended and the strong economic recovery of 1990 has been displaced by a recession. Anticipating a gradual return to normalcy, they have committed themselves to the broad achievement in 1992 of the same macroeconomic objectives as in the original program for 1991. The authorities' request for a lengthening of the extended arrangement is a welcome sign of their determination to persevere with their program of adjustment and structural reform. A fourth year of the arrangement would provide Fund support during the critical period of recovery from the impact of the Middle East crisis. The elaboration of the 1992 program in the context of the sixth program review will be of crucial importance in that it will set out the policies and measures required to return to the original path of adjustment.

The achievement of the program's original objectives will not be easy and will require the abandonment of a gradualist approach in some areas in favor of a more ambitious course, particularly regarding fiscal policy. Although the supplementary finance law approved in early 1991 represented a strong response to the adverse impact of the crisis, the attainment of the program's original fiscal objectives will require the implementation of more permanent measures in the period ahead. With the completion of the main elements of the comprehensive tax reform in 1991, the staff welcomes the authorities' plans to eliminate unjustified exemptions under the VAT and to unify and rationalize investment

Table 10. Tunisia: Obligations Falling Due to the Fund, 1992-2002

(In millions of SDRs)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
A. Obligations from existing drawings	35.1	16.7	12.9	23.0	31.8	29.9	28.3	26.6	24.9	13.2	2.4
Principal 1/	20.9	3.8	—	10.2	20.4	20.4	20.4	20.4	20.4	10.2	—
Charges and interest 2/	14.2	12.9	12.9	12.8	11.4	9.5	7.9	6.2	4.5	3.0	2.4
B. Obligations from prospective drawings	4.9	7.3	7.3	7.3	15.7	20.4	19.0	17.7	16.3	13.8	7.4
Principal 1/	—	—	—	—	8.4	14.2	14.2	14.2	14.2	12.7	7.2
Charges and interest	4.9	7.3	7.3	7.3	7.3	6.2	4.8	3.5	2.1	1.1	0.2
C. Cumulative obligations	40.0	24.0	20.2	30.3	47.5	50.3	47.3	44.3	41.2	27.0	9.8
Principal 1/	20.9	3.8	—	10.2	28.8	34.6	34.6	34.6	34.6	22.9	7.2
Charges and interest 2/	19.1	20.2	20.2	20.1	18.7	15.7	12.7	9.7	6.6	4.1	2.6

Source: Staff projections.

1/ Repurchases; there are no ESAF/SAF repayments.
2/ Includes net SDR charges estimated at SDR 2.4 million annually.

Table 11. Tunisia: Indicators of Capacity to Repay the Fund in the Medium Term, 1992-2002

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Debt service to the Fund											
(In percent of current receipts)	0.8	0.4	0.3	0.4	0.6	0.6	0.5	0.4	0.3	0.2	0.1
(In percent of total debt service)	3.9	2.2	1.8	2.5	3.7	4.3	3.9	3.6	3.3	2.2	0.8
(In percent of gross reserves)	6.6	3.2	2.2	2.9	3.8	3.5	2.9	2.3	1.8	1.0	0.3
(In percent of quota)	28.9	17.4	14.6	22.0	34.4	36.4	34.2	32.0	29.8	19.5	7.1

Source: Staff projections.

incentives. The staff also urges the authorities to begin to implement in an ambitious manner in 1992 the new strategy to reduce consumer subsidies by complementing continuing price adjustments with the introduction of a targeting system for several essential commodities and through direct income support. The progress achieved so far in privatizing and restructuring public enterprises should be continued, as it will yield lasting reductions in capital transfers to these enterprises.

A prudent wage policy, combined with steps to encourage greater labor market flexibility and productivity, will be of crucial importance if Tunisia's external competitiveness is to be preserved principally through reliance on demand management policies. The moderate depreciation of the exchange rate over the last several years that has served to compensate for the margin of Tunisia's inflation over its trading partners should not be viewed as a permanent part of the economic policy mix, but rather as a temporary feature until inflation can be reduced.

Monetary policy must continue to be restrictive in order to support the inflation objective and to safeguard the balance of payments targets. The staff welcomes the substantial liberalization and broadening of the financial system since 1987, but cautions the authorities that the rapid growth of new financial instruments, particularly treasury bills and commercial paper, must be monitored closely in view of their potential impact on net foreign assets. Interest rate policy is an essential element in support of the efficient allocation of financial resources, and the authorities have wisely made a decision to reduce further the scope of preferential lending rates and to liberalize the maximum spread on lending rates. However, they should be prepared to allow greater flexibility of market interest rates than in the recent past and permit the money market interest rate to reach market-clearing levels.

In the event that the Middle East crisis or other adverse factors have a worse impact than expected, the authorities are prepared to take any additional measures that are necessary to achieve this year's program targets. At the same time, they have as a first priority the accumulation of additional international reserves should the external outcome evolve more favorably than projected. The authorities' perseverence in continuing to liberalize quantitative restrictions on imports during this difficult period is commendable, including their determination to go beyond the program's original objectives in 1992. As it is evident that further liberalization will increasingly involve exposing domestic production to import competition, the authorities should limit strictly the scope and duration of any compensatory protection. Over the medium term, the achievement of currency convertibility will require additional liberalization, covering not only trade but also exchange restrictions on current international transactions, and the staff welcomes the authorities' intention to relax various exchange regulations in 1991-92.

In the staff's view, the dual objectives of returning broadly to the program's original macroeconomic objectives in 1992 and making further significant progress in the various key areas of structural reform are deserving of the Fund's support for a fourth year of the extended arrangement. Rigorous implementation of the 1991 program, particularly with respect to demand management during the recovery period, will be critical to the success of these objectives.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board.

1. At the request of Tunisia, the extended arrangement for Tunisia (EBS/88/119, Supplement 1, 7/28/88, as amended by Executive Board Decision No. 9429-90/75, 5/14/90) is lengthened through July 24, 1992.

2. The letter dated June 18, 1991 from the Minister of Finance, the Minister of Planning and Regional Development, and the Governor of the Central Bank of Tunisia shall be attached to the extended arrangement, and the letters, dated June 16, 1988, March 23, 1989, December 1, 1989, April 12, 1990, October 10, 1990, and March 18, 1991, together with their respective annexes, shall be read as supplemented by the letter dated June 18, 1991 and annexed table.

3. Accordingly,

A. Paragraphs 1, 2, 3 and 4 of the extended arrangement for Tunisia shall be amended to read:

1. For a period of four years from July 25, 1988, Tunisia will have the right to make purchases from the Fund in an amount equivalent to SDR 207.3 million, subject of Paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. Purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of 138.2 million until November 15, 1991, the equivalent of SDR 155.475 million until March 15, 1992, the equivalent of SDR 172.75 million until May 15, 1992, and the equivalent of SDR 190.025 million until July 10, 1992.

3. Purchases under this extended arrangement shall be made from ordinary resources until the outstanding use of ordinary resources in the upper credit tranches and under the extended facility equals 140 percent of Tunisia's quota in the Fund of SDR 138.2 million. Thereafter, purchases shall be made from borrowed resources, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Tunisia will not make purchases under this extended arrangement:

(a) during any period after July 24, 1991, in which at the end of the preceding period indicate that

(i) the limit on domestic credit on the banking system, or

(ii) the limit on net claim on the government by the banking system, or

(iii) the target for net foreign assets of the Bank of Tunisia, or

(iv) the limits on the contracting of guaranteeing by the Government of nonconcessional external debt, referred to in paragraph 2 of the letter dated June 18, 1991 and as specified in the table annexed to that letter are not observed; or

(b) if Tunisia accumulates any new external payments arrears; or

(c) after March 14, 1992, until the review contemplated in paragraph 2 of the attached letter dated June 18, 1991 has been completed and performance criteria have been established for the remaining period of the extended arrangement, or having been established, while they are not being observed."

B. Paragraphs 8 and 10(c), previously deleted by Executive Board Decision No. 9429-90/75, 5/14/90, shall be reinstated to the extended arrangement for Tunisia, as follows:

8. The value date for purchases under this extended arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's Rules and Regulations. Tunisia will consult with the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

10(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this extended arrangement will be normally either the 6th day of the month, or the next business day, provided that the repurchase will be completed not later than seven years from the data of purchase.

TUNISIA--Relations with the Fund

(As of May 31, 1991)

I. Membership status

Date of membership: April 14, 1958
Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

(a) *Quota: SDR 138.2 million*
(b) Total Fund holdings of Tunisia's currency: SDR 337.78 million (244.41 percent of quota)

	Millions of SDRs	Percent of quota
(c) Fund credit:	199.60	144.43
Credit tranches	170.92	123.68
CFF	28.68	20.75

(d) Reserve tranche position: SDR 0.02 million

III. Credit tranche or special facilities

(a) Extended arrangement

(i) Duration: July 25, 1988-July 24, 1991
(ii) Amount: SDR 138.2 million (100 percent of quota)
(iii) Utilization: SDR 122.30 million

(b) Stand-by arrangement

(i) Duration: November 4, 1986-May 31, 1988
(ii) Amount: SDR 103.65 million (75.0 percent of quota)
(iii) Utilization: SDR 91.0 million

(c) Compensatory financing facility

(i) Date: November 4, 1986
(ii) Amount: SDR 114.71 million (83.0 percent of quota)

IV. SDR Department

(a) Net cumulative allocation (amount): SDR 34.24 million
(b) Holdings: SDR 49.92 million (145.78 percent of allocation)

TUNISIA--Relations with the Fund (continued)

V. Administered accounts Not applicable

VI. Financial obligations due to the Fund (in millions of SDRs)

	Overdue financial obligations May 31, 1991	Principal and interest due 1/ 1991 (6/1-12/31)	1992	1993	1994	1995	1996
Repurchases	--	52.68	20.88	3.75	--	10.19	28.80
Charges (provisional)	--	9.32	19.09	20.24	20.15	20.15	18.70
Total	--	62.00	39.97	23.99	20.15	30.34	47.50

B. Nonfinancial Relations

VII. Exchange system: The exchange rate of the Tunisian dinar is determined flexibly vis-à-vis a basket of currencies under a system of managed floating. Buying and selling rates are determined daily by the Central Bank. As of end-May 1991, the dinar rate of the U.S. dollar was US$1 = D 0.9512, equivalent to SDR 1 = D 1.275.

VIII. Last Article IV consultation

The 1990 Article IV consultation discussions were held in Tunis during July 10-24, 1990, and the staff report (EBS/90/173) and the report on recent economic developments (SM/90/203) were discussed by the Executive Board on November 7, 1990. The decision adopted was as follows:

1. The Fund takes this decision relating to Tunisia's exchange measures subject to Article VIII, Sections 2 and 3, in concluding the 1990 Article XIV consultation with Tunisia, in light of the 1990 Article IV consultation with Tunisia conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

1/ Based on the assumption of purchases under the extended arrangement contained in Table 1.

TUNISIA - Relations with the Fund (concluded)

2. Tunisia maintains restrictions on the making of payments and transfers for current international transactions as described in EBS/90/173, in accordance with Article XIV, except that the multiple currency practice arising from the operations of the old exchange rate risk guarantee fund is subject to approval of the Fund under Article VIII, Sections 2 and 3. The Fund urges the authorities to remove this multiple currency practice and, in the light of the circumstances grants approval of its retention until November 30, 1991, or the next Article IV consultation, whichever is earlier. The Fund also encourages Tunisia to continue its liberalization of the exchange system.

Tunisia--Relations with the World Bank Group

Since 1962, the Bank has committed to Tunisia 87 loans and 10 IDA credits amounting to US$2,374.4 million and US$75.2 million (net of cancellations), respectively. As of April 1991, the sector shares of the Bank Group commitments were as follows: agriculture (23.5 percent), industry and energy (23.8 percent), urban infrastructure and transport (30.3 percent), population and human resources (10.3 percent) and nonsector adjustment loans (12.1 percent). Bank lending at first emphasized support for long-term investment in infrastructure and social industrial financing. From 1986 to 1989 Bank lending supported increasingly policy reforms at the sector and macroeconomic levels. Agricultural policy reform was supported by a US$150 million Agricultural Sector Adjustment Loan approved in September 1986, followed by a second such operation in 1989 for US$50 million, to which an investment component of US$34 million was attached. An Industry and Trade Policy Adjustment Loan was approved in February 1987 and supported the first phase of implementation of the Government's program of industrial and trade policy reforms. In June 1988 the Bank approved a Structural Adjustment Loan, which supported price and trade liberalization, fiscal reform, and improvements in the interest rate structure and in mid-1989 a US$130 million Public Enterprise Restructuring Loan.

With the above adjustment loans the Bank was expected to phase out adjustment lending, while continuing its country dialogue on macro-management and policy reform. However, because of the adverse repercussions of the Gulf crisis on the Tunisian economy, the Bank is now preparing an adjustment operation, Economic and Financial Reform Support Loan (EFRSL), scheduled for Board presentation before the end of the current year, for an approximate amount of US$150 million.

Project implementation has been generally satisfactory and, in a number of sectors, important policy changes and institutional improvements have been achieved, and autonomous agencies have been created or strengthened to ensure the efficient management of the related sectors or subsectors. The current amount of undisbursed funds as of April 1991 was US$547.9 million. The Bank will continue its investment lending program committed at around US$250-300 million per year. The projects under preparation support health, education, energy development, municipal development, and industrial financing.

Bank-Fund cooperation has always been close, with participation of Fund staff in Bank economic and sector missions and close informal contacts in Washington and in the field.

Tunisia--Relations with the World Bank Group (concluded)

Tunisia: World Bank Loans and Debt Service, 1990-93

(In millions of U.S. dollars)

	1990	1991	1992	1993
Commitments	29.0	266.0	365.0	280.0
Investment projects	29.0	116.0	365.0	280.0
Adjustment loans	--	150.0	--	--
Agricultural sector adjustment loan	--	--	--	--
Industrial and trade policy adjustment loan	--	--	--	--
Structural adjustment loan	--	--	--	--
Public enterprise restructuring loan	--	--	--	--
Agricultural sector loan II	--	--	--	--
Economic and financial reform loan II 1/	--	150.0	--	--
Disbursements	212.5	372.1	294.1	202.7
Investment loans	134.8	15.2	139.6	202.7
Adjustment loans	77.7	356.9	154.5	--
Agricultural sector adjustment loan	--	--	--	--
Industrial and trade policy adjustment loan	--	--	--	--
Structural adjustment loan	30.4	56.7	--	--
Public enterprise restructuring loan	47.3	47.7	35.0	--
Agricultural sector loan II	--	52.0	20.0	--
Economic and financial reform loan II 1/	--	100.0	50.0	--
Total debt service	213.7	243.8	268.0	274.5
Amortization	110.7	127.3	143.6	144.9
Interest and charges	103.0	116.4	124.5	129.6

Source: World Bank, DRS for historical including 1989, and World Bank lending program for projections.

1/ Operation still under evaluation.

Tunisia: Summary of Adjustment Program, July 1988-July 1992

Objectives and Measures	Timing of Measures										
A. Objectives	1987	1988		1989			1990		1991		1992
	Act.	Prog.	Act.	Prog.	2nd Rev.	Act.	Prog.	Est.	Prog.	Proj.	Proj.
1. Annual growth of real GDP	5.5	0.9	1.5	5.1	3.1	3.5	4.3	6.5	3.7	—	7.5
2. Consumer prices, average (annual percentage change)	8.2	6.5	7.2	6.5	7.4	7.7	6.1	6.6	5.2	7.0	6.5
3. External current account deficit (-) (percent of GDP)	-1.0	-3.8	1.0	-3.4	-3.9	-3.3	-2.8	-5.2	-2.3	-5.6	-2.6
4. Gross official reserves (in months of imports)	2.1	2.5	3.1	3.0	2.7	2.7	2.9	1.8	2.7	1.5	1.8
5. External debt (including IMF; percent of GDP)	59.2	60.6	60.8	59.5	60.7	58.6	56.8	54.3	53.7	55.6	51.1
6. External debt service (percent of current receipts) 1/	26.8	26.4	22.7	26.2	23.8	22.4	28.9	21.4	27.2	24.9	19.3

B. Measures

Areas	Calendar of implementation in program	Current status of implementation
1. Price liberalization		
a. Services.	Mostly free of administrative controls.	
b. Agriculture.		
(1) Subsidized consumer goods.	Expenditure to be maintained unchanged in nominal terms in 1988 and thereafter.	Overruns in 1988, 1989 and 1990; medium-term structural reform of the Caisse Générale de Compensation to be implemented.
(2) Subsidized inputs.	To be eliminated completely during program period in accordance with timetable agreed with the World Bank.	Fertilizer subsidies reduced by 50 percent in May 1990.
(3) Producer prices.	Mostly free of controls (80 percent). Remaining raised significantly in 1986-87 in agreement with World Bank. To be aligned with international levels according to formula agreed with the World Bank.	Broad policy achieved.
c. Manufactured goods.		
Approximately 55 percent	Liberalized by January 1988.	
" 60 percent	Liberalized by July 1988.	
" 70 percent	To be liberalized by March 1989.	Implemented in late 1989.
" 75 percent	To be liberalized by January 1991.	To be implemented in 1991.
d. Distribution margins.		
Approximately 10 percent	Liberalized by July 1988.	
" 20 percent	To be liberalized by January 1989.	Implemented in late 1989.
" 35 percent	To be liberalized by January 1990.	Implemented in September 1990.
" 50 percent	To be liberalized by January 1991.	To be implemented shortly.
" 55 percent	To be liberalized by end-June 1992.	
2. Public enterprises		
a. Privatization	75 enterprises identified for complete privatization.	Three-fourths of these cases have been completed. Remaining quarter to be completed before June 1992.
b. Restructuring program	Autonomy given to public enterprises. Performance contracts being negotiated between government and enterprises to improve efficiency.	Performance contracts completed with transport, railway, and phosphate companies. Contracts for gas, refining, and cement companies to be completed before the end of 1991.
3. Import liberalization		
a. Import liberalization.		
(1) Liberalization of imports of raw materials, semifinished goods, and investment goods.	Liberalized in three stages by January 1988 (with minor exceptions), taking the ratio of free imports to total imports to 53 percent in 1988.	

1/ Includes repurchases from the Fund.

Tunisia: Summary of Adjustment Program, July 1988–July 1992 (continued)

Objectives and Measures		Timing of Measures
(2) Liberalization of remaining imports except certain goods (essential goods, luxury goods, and goods produced by infant industries).		
Approximately 53 percent.	Liberalized by January 1988.	64 percent liberalized by December 1989; 70 percent liberalized by October 1990.
" 68 percent.	To be liberalized by June 1989.	
" 80 percent.	To be liberalized by March 1991.	To be implemented in 1991.
" 85 percent.	To be liberalized by June 1992.	
b. Tariff reform. Reform of import tariff to reduce effective protection to about 25 percent by 1991.		
(1) Reduction in maximum import duties to 41 percent and reduction in other rates by between 1 percent and 9 percent.	January 1988.	Implemented on schedule.
(2) Additional measures to achieve an average rate of tariff protection of 25 percent.	January 1991.	
4. Exchange rate, exchange system, and external debt		
a. Maintenance of the real effective value of the dinar through periodic adjustment of the nominal value. Additional corrections if the balance of payments position requires.	To be implemented throughout program period.	Implementation on track.
b. Elimination of present system of granting exchange rate guarantees to development banks and establishment of new system to selectively grant guarantee on loans contracted at the direction of the Government.	August 15, 1988.	Implemented on schedule.
c. Limit nonconcessional external debt of 1- to 12-year maturity, with sublimits on that in maturity range of 1-5 years.	To be established annually.	Being observed.
d. Limit short-term debt (of maturity up to one year) excluding import-related credit.	To be established annually.	Being observed.
5. Public finance		
a. Limit 1988 central government deficit (on a commitment basis) to D 350 million (4.1 percent of GDP).	Budget announced.	1988 consolidated deficit: 4.5 percent of GDP.
b. Limit central government deficit to 3.5 percent of GDP in 1989, 2.9 percent in 1990, and 2.3 percent in 1991.		1989 program: 3.9 percent of GDP. 1989 outturn: 4.3 percent of GDP. 1990 outturn: 4.0 percent of GDP. 1991 budget law: 3.4 percent of GDP.
c. Introduce VAT.	July 1988.	Implemented on schedule; extended to the wholesale sector in October 1989.
d. Reform personal income taxation.	With effects on incomes earned in 1988.	Delayed to take effect on incomes earned in 1990; draft law approved end-1989.
e. Reform corporate taxation.	With effects on incomes earned in 1988.	Delayed to take effect on 1990 corporate profits; draft law approved end-1989.

Tunisia: Summary of Adjustment Program, July 1988-July 1992 (concluded)

Objectives and Measures			Timing of Measures
6.	Credit and monetary policies		
a.	Elimination of prior credit and refinancing approval by the Central Bank.	January 18, 1988.	Implemented on schedule.
b.	Strengthening of reserve loss provisions.	January 18, 1988.	Implemented on schedule.
c.	Strengthening of money market.	January 18, 1988.	Implemented on schedule.
d.	Increase in interest rate on treasury bonds from 6.5 percent to some 8.5 percent to compensate for the elimination of their fiscal advantage.	January 18, 1988.	Implemented on schedule.
e.	Introduction of market for treasury bills.	Early 1989.	To be implemented by June 1989; implemented in October 1989.
f.	Elimination of differential between interest rate on money market and preferential credits by 1991. The first step will be the elimination of one third of the differential.	September 1988.	One third of preferential credits eliminated and increase in interest rates by 1 percentage point in July 1990. Interest rates to be raised by an additional 1 percent in 1991, and another one-third of preferential credits to be eliminated by end-1991. Interest rates to be raised by another 1 percent by end-June 1992.