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September 7, 1988

To: Members of the Executive Board
From: The Secretary
Subject: Tunisia - Supplementary Background Material for the GATT

The attached paper has been prepared by the staff to supply more recent background information on Tunisia in connection with the forthcoming consultations between the CONTRACTING PARTIES to the GATT and Tunisia (EBD/88/244, 8/31/88). In the absence of objection from an Executive Director by noon on Wednesday, September 14, 1988, the paper will be transmitted to the CONTRACTING PARTIES for their information and use.

Mr. Anjaria (ext. 8357) or Mr. Khallouf (ext. 8670) is available to answer technical or factual questions relating to this paper.

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INTERNATIONAL MONETARY FUND

TUNISIA

Supplementary Background Material for the GATT

Prepared by the African and Exchange and
Trade Relations Department

Approved by A.D. Ouattara and H.B. Junz

September 2, 1988

This supplement updates the Fund report of September 30, 1987 entitled "Tunisia--Recent Economic Developments."

I. Recent Economic Developments

Following a stagnation in 1986 induced by a severe drought and a deterioration in the terms of trade, the Tunisian economy showed a remarkable recovery in 1987. Led by a strong performance of agriculture, tourism, and increasing exports, real GDP growth reached 5.8 percent (Table 1). After having increased to the equivalent of 8 percent of GDP in 1986, the current account deficit of the balance of payments was reduced sharply to 1.4 percent in 1987, resulting about equally from a drop in the investment to GDP ratio and an increase in the savings ratio. Thus, in spite of lower capital inflows, gross foreign reserves increased by SDR 137 million in 1987 or to the equivalent of 2 months of imports (Table 2). Reflecting in part the ongoing liberalization and adjustments to administered prices, the general consumer price index rose by 5.8 percent in 1986 and by 8.2 percent in 1987.

The overall favorable outturn in 1987 was due partly to temporary factors such as exceptionally favorable weather conditions and a temporary increase in oil prices. However, more important were the effects of the successful implementation since mid 1986 of a medium-term program of structural adjustment. In the context of this program, the authorities have been pursuing cautious monetary and fiscal policies including a reduction in the central government fiscal deficit from the equivalent of 5.7 percent of GDP in 1986 to 3.6 percent in 1987 (Tables 3 and 4). Timely implementation of structural policy measures and a real effective depreciation of the dinar of 26 percent during 1986-87 (Chart 1) also played an important role.

While the overall economic and financial situation thus improved significantly in 1987, reflecting in part the quick response of exports of goods and services to the adjustment measures, activity in those sectors geared towards the domestic market was affected by a larger than expected decline in domestic demand, as investment fell by 29 percent in

Table 1. Tunisia: Selected Economic and Financial Indicators, 1984-87

	1984	1985	1986	1987 Preliminary
<u>(Annual percent changes)</u>				
National income and prices				
GDP at constant prices	5.7	5.7	-1.6	5.8
GDP deflator	7.3	4.7	3.3	7.5
Consumer price index ^{1/}	8.6	7.8	5.8	8.2
External sector (in SDRs)				
Exports, f.o.b.	1.0	-3.6	-11.5	9.7
Imports, f.o.b.	7.4	-14.8	-7.6	-5.5
Terms of trade (deterioration -)	-2.7	-3.1	-11.7	3.1
Nominal effective exchange rate (depreciation -) ^{2/}	-0.3	-1.3	-23.0 ^{2/}	-5.5
Real effective exchange rate ^{2/} CPI-based (depreciation -)	-0.4	-0.9	-21.5 ^{2/}	-4.7
Central government consolidated operations				
Revenue and grants	22.7	7.2	-0.9	4.9
Total expenditure and net lending	14.9	4.1	2.3	2.4
Current expenditure	12.6	8.5	0.8	4.4
Capital expenditure and net lending	19.6	-4.3	5.9	-9.1
Money and credit				
Domestic credit	15.4	17.2	8.3	7.9
Government	(27.4)	23.0	(13.2)	(14.9)
Economy	(13.7)	(16.3)	(7.5)	(6.7)
Money plus quasi-money	11.7	13.8	5.7	13.7
Interest rates				
Money market rates	9.00	10.63	10.25	9.50
12- to 18-month time deposit	7.00	8.00	8.00	8.50 ^{3/}
General short-term advances	10-10.50	11.50	11.50	12.50 ^{4/}
<u>(Ratios: in percent of GDP, unless otherwise specified)</u>				
Government revenue and grants	36.4	35.9	34.6	31.9
Total expenditure and net lending	42.3	40.5	40.3	35.5
Current expenditure	27.8	27.9	27.8	25.5
Capital expenditure and net lending	14.4	12.8	12.4	9.9
Central government consolidated deficit (commitment basis) (-)	-5.9	-4.6	-5.7	-3.6
Domestic bank financing	(1.5)	(1.5)	(1.0)	(1.2)
Gross fixed capital formation	30.8	26.8	23.8	20.4
Public	...	...	13.3	11.5
Private	...	...	10.5	8.9
Gross national savings	20.9	19.7	15.5	19.8
External current account deficit (-)	-10.8	-7.2	-8.0	-1.4
External public debt	47.0	47.4	56.1	57.8
Debt service/Exports of goods and services plus private transfers	19.5	21.6	27.9	26.2
Gross official international reserves (in months of imports, f.o.b.)	1.7	1.0	1.3	2.0
<u>(In millions of SDRs)</u>				
Overall balance of payments surplus or deficit (-)	-127	-203	-190	117
Gross official international reserves (at end of period)	421.0	218.4	256	393
External debt	3,709	3,825	4,229	4,315
<u>(In millions of dinars)</u>				
GDP at current prices	6,289	6,842	7,026	7,993

Source: Data provided by the Tunisian authorities.

^{1/} Yearly average; percentage change.

^{2/} Weighted by non-oil trade and tourism flows of 17 partner and competitor countries.

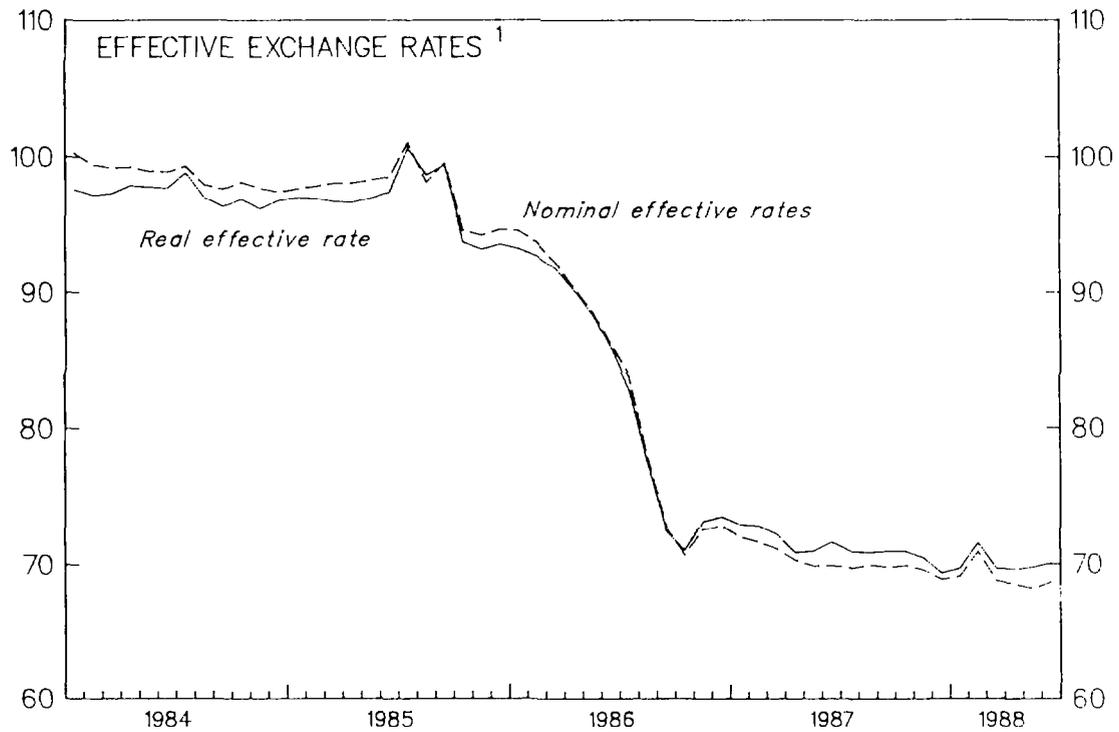
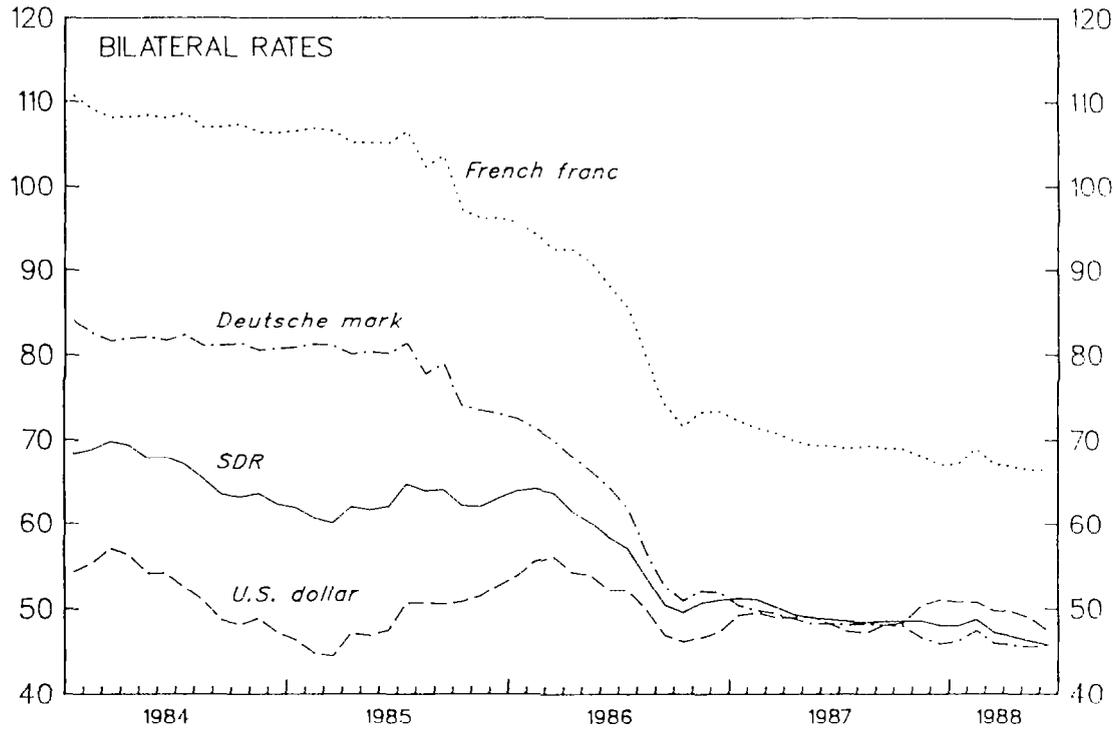
^{3/} Freely determined by banks.

^{4/} Freely determined by banks subject to a cap of 3 percent over the money market rate.

CHART 1
TUNISIA

INDICES OF SELECTED EXCHANGE RATES,
JANUARY 1984-JUNE 1988

(1980=100; foreign currency per Tunisian dinar)



Source: IMF, Economic Information System.

¹Weighted by total trade (excluding petroleum) plus tourism with 17 trading partners.



Table 2. Tunisia: Balance of Payments, 1984-87

(In millions of SDRs)

	1984	1985	1986	1987 Preliminary
(In millions of SDRs)				
Current account	<u>-854</u>	<u>-573</u>	<u>-601</u>	<u>-103</u>
Trade balance	-1,199	-829	-833	-563
Exports, f.o.b.	(1,758)	(1,703)	(1,507)	(1,653)
Energy	778	712	365	390
Non-energy	980	991	1,142	1,262
Imports, f.o.b.	(-2,957)	(-2,532)	(-2,340)	(-2,216)
Energy	-340	-341	-202	-233
Non-energy	-2,617	-2,190	-2,138	-1,983
Nonfactor services (net)	284	335	286	462
Of which: Tourism receipts	(449)	(491)	(414)	(517)
Transfers (net)	61	-80	-54	-2
Of which:				
Receipts from workers' remittances	(309)	(266)	(308)	(352)
Interest on external debt	(-237)	(-253)	(-277)	(-272)
Capital account	<u>670</u>	<u>433</u>	<u>432</u>	<u>193</u>
Grants	28	36	35	29
Direct and portfolio investment (net)	201	137	132	78
Medium- and long-term borrowing (net)	320	248	177	46
Disbursements	(685)	(641)	(644)	(555)
Amortization	(365)	(393)	(467)	(510)
Short-term capital	121	5	67	68
Overall surplus or deficit (-)	<u>-184</u>	<u>-147</u>	<u>-190</u>	<u>117</u>
Changes in net reserves (increase -)	<u>184</u>	<u>147</u>	<u>190</u>	<u>-117</u>
Use of Fund resources	--	--	150	41
Other assets, net (increase -)	184	147	40	-158
<u>Memorandum items:</u>				
Current account deficit (-)				
(in percent of GNP)	-10.8	-7.1	-8.0	-1.4
Gross reserves (in months of imports)	1.7	1.0	1.3	2.0
Debt service ratio	19.5	21.6	27.9	26.2

Source: Data provided by the Tunisian authorities.

Table 3. Tunisia: Consolidated Financial Operations of the Central Government, 1984-88 ^{1/}

	1984	1985	1986	1987 Preliminary	1988 Budget
(In millions of dinars)					
Revenue and grants	2,285.4	2,450.9	2,430.0	2,548.7	2,716.3
Tax revenue	1,652.3	1,832.2	1,877.7	1,914.9	2,039.3
On international transactions	(647.4)	(656.2)	(606.2)	(618.2)	(652.5)
Other	(1,004.9)	(1,176.0)	(1,271.5)	(1,296.7)	(1,386.8)
Other revenue and grants	633.1	618.7	552.3	633.8	677.0
Non-petroleum-related	(248.7)	(239.0)	(239.6)	(277.6)	(274.0)
Petroleum-related	(384.4)	(379.7)	(312.7)	(356.2)	(403.0)
Total expenditure and net lending	2,655.2	2,764.3	2,828.8	2,835.7	3,066.3
Current ^{2/ 3/}	1,761.1	1,914.3	1,955.4	2,041.6	2,228.7
Wages and salaries	(633.2)	(691.4)	(743.8)	(778.6)	(857.1)
Goods and services	(232.8)	(215.4)	(182.7)	(212.1)	(233.3)
Interest payments	(168.5)	(196.0)	(223.6)	(245.1)	(272.1)
Subsidies and transfers	(726.6)	(811.5)	(805.3)	(805.8)	(866.2)
Of which:					
Consumer subsidies ^{4/}	(255.1)	(232.2)	(213.0)	(183.2)	(183.0)
Transfers, other than to households	(273.8)	(359.5)	(301.3)	(315.3)	(331.3)
Capital and net lending	894.1	850.0	873.4	794.1	837.6
Direct investment	(318.7)	(314.3)	(393.6)	(321.1)	(370.8)
Capital transfers and equity	(267.6)	(368.7)	(314.2)	(312.6)	(361.3)
Net lending	307.8	167.0	165.6	160.4	105.5
Deficit (commitment basis) ^{5/}	-369.8	-313.4	-398.8	-287.0	-350.0
Adjustment for the complementary period	16.0	57.1	78.3	...	...
Deficit (payment-order basis) ^{6/}	-353.8	-256.3	-320.5	-287.0	-350.0
Financing	353.8	256.3	320.5	287.0	350.0
Foreign	207.0	212.4	213.7	100.6	237.0
Drawings	(377.4)	(418.6)	(470.6)	(393.6)	(560.0)
Budgetary	(112.9)	(215.6)	(230.6)	(185.6)	(330.0)
Extrabudgetary	(264.5)	(203.0)	(240.0)	(208.0)	(230.0)
Amortization	(-170.4)	(-206.2)	(-256.9)	(-293.0)	(-323.0)
Domestic	146.8	43.9	106.8	186.4	113.0
Banks	(97.0)	(102.5)	(72.7)	(94.0)	(50.0)
Other ^{7/}	(49.8)	(-58.6)	(34.1)	(92.4)	(63.0)
Memorandum items:					
GDP	6,289.0	6,842.0	7,026.0	7,993.0	8,455.0
(In percent of GDP)					
Revenue and grants	36.3	35.8	34.6	31.9	32.1
Expenditure	42.2	40.4	40.3	35.5	36.3
Deficit (commitment basis)	-5.9	-4.6	-5.7	-3.6	-4.1
Deficit (payment-order basis)	-5.6	-3.7	-4.6	-3.6	-4.1

Source: Data provided by the Tunisian authorities.

^{1/} Includes current and capital budgets, Special Funds, Fonds de Concours, extrabudgetary operations financed abroad, net treasury operations, and social security funds.

^{2/} On a payment orders issued basis for the budget year, including expenditure of the complementary period; the data coincide closely with the commitments of the calendar year.

^{3/} Figures for 1984-86 do not include accumulation of domestic arrears at early stages of the expenditure process, amounting to a float of about D 15 million; the expenditure figure for 1987 includes a provision of D 14 million for the elimination of such arrears and the figure for 1988 includes a provision of D 12 million.

^{4/} Figures include subsidy costs financed by net treasury advances; corresponding adjustments have been made to net lending.

^{5/} Reflecting content of footnote 3.

^{6/} Payment orders issued in the calendar year.

^{7/} Including payment float.

Table 4. Tunisia: Monetary Survey, 1985-88

	1985	1986	1987				1988
			March	June	Sept.	Dec.	March
<u>(In millions of dinars; end of period)</u>							
Monetary system							
Net foreign assets	201	54	-79	-51	183	176	76
Central bank	209	38	-78	-83	155	145	51
Deposit money banks	-8	16	-1	32	28	31	25
Domestic credit	3,935	4,263	4,228	4,371	4,327	4,600	4,626
Net credit to the Govt.	554	627	596	665	606	721	698
Credit to the economy	3,381	3,636	3,632	3,706	3,721	3,879	3,928
Money plus quasi-money	3,091	3,266	3,077	3,207	3,414	3,713	3,666
Money	1,987	2,058	1,612	1,689	1,802	2,025	1,771
Quasi-money	1,103	1,208	1,465	1,518	1,612	1,688	1,895
Other items net	1,046	1,051	1,072	1,114	1,096	1,062	1,036
<u>(In percent)</u>							
Memorandum items:							
Change over same period of previous year							
Domestic credit	17.2	8.3	8.5	8.2	8.9	7.9	9.4
Net credit to the Govt.	23.0	13.2	13.4	11.1	21.8	14.9	17.1
Credit to the economy	16.3	7.5	7.7	7.7	7.1	6.7	8.1
Money plus quasi-money	13.8	5.7	4.5	7.9	14.7	13.7	19.1
Money	12.6	3.5	-9.3	-5.9	-0.1	-1.6	9.9
Quasi-money	16.1	9.5	25.5	29.0	37.6	39.7	29.4

Source: Data provided by the Tunisian authorities.

real terms between 1985 and 1987 and consumption increased only marginally (Table 5). This was the result not only of the strict demand-management policies pursued, and the measures adopted to increase financial savings, but also a cautious response of the private sector to the change in policy direction, perhaps reflecting in part political uncertainties prior to the change in leadership in November 1987. The reduction in the level of investment had a negative impact on the rate of employment creation thus aggravating the rate of unemployment currently estimated at 15 percent.

In 1988, exogeneous factors are having a significantly negative impact on economic developments. Owing to a severe drought and an invasion of locusts, value added in the agricultural sector is now projected to decline by 22 percent. Thus in spite of continued strong performance of the tourist and other export oriented sectors, real GDP growth is likely to be limited to around 1 percent. The shortfall in agricultural production will necessitate a significant increase in imports of food products which together with the decline in average export price for petroleum products and the structural decline in oil production will cause a deterioration in the current account in 1988 to a level estimated at the equivalent of 3.8 percent of GDP. This deterioration would be in spite of continued strong growth of non-oil exports, which rose by 23 percent during the first four months of 1988, and of further increases in tourist revenues. Nevertheless higher capital inflows should enable a further balance of payments surplus; during the first half of the year gross foreign reserves increased by SDR 40 million.

The monetary and fiscal policy stance remains cautious in 1988. Meanwhile the authorities are pursuing a flexible exchange rate policy and continuing their efforts towards liberalizing prices and imports, strengthening the financial sector, and implementing strong tax reforms, including the introduction of a VAT as of July 1.

II. Recent Changes in the Trade Regime 1/

Since the publication of the Fund report of September 30, 1987, the Tunisian authorities have continued pursuing their objective of reducing the average import tariff and of rendering it more homogenous. In January 1988, the maximum tariff was reduced from 52 percent to 43 percent. 2/ The minimum tariff was kept unchanged at 17 percent while intermediate rates were reduced by between 1 and 9 percentage points.

1/ Tunisia's trade and payments system is described in the Fund report of September 30, 1987, which also contains a description of changes during the first half of 1987; there was no further changes in 1987.

2/ Including 2 percent for the customs valuation tax and the special tax for export promotion.

Table 5. Tunisia: Supply and Use of Resources--
Real Growth Rates, 1983-87

(In percent)

	1983	1984	1985	1986	<u>1987</u> Preliminary
Consumption	4.9	5.9	3.1	0.6	1.4
Private	4.6	5.7	3.4	1.0	1.3
Public	5.9	6.7	1.8	-0.9	2.2
Gross fixed capital formation	-4.2	3.4	-8.2	-18.3	-13.4
Exports of goods and nonfactor services	0.9	2.7	3.3	5.2	14.0
Imports of goods and nonfactor services	-2.2	5.7	-13.0	-2.1	-4.2
GDP at market prices	4.7	5.7	5.6	-1.6	5.8

Source: Data provided by the Tunisian authorities.

Following the liberalization measures taken during 1987, described in the abovementioned report, in January 1988 most capital goods were freed from administrative controls. 1/ Thus as of January, imports of raw materials, spare parts, semi-finished products, and capital goods are now liberalized, with the exception of certain goods most of which are produced by infant industries or imported by industries that are weakly integrated. With the recent change, the ratio of products that are freely importable to total imports increased from 37 percent to 53 percent (1987 base). Other products (including consumer goods) will be liberalized gradually over the remaining period of the Seventh Plan (1987-91).

1/ Remaining only subject to the import notification system.