FOR AGENDA

EBS/86/236

CONFIDENTIAL

October 22, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Tunisia - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request from Tunisia for a stand-by arrangement equivalent to SDR 103.65 million. A draft decision appears on page 35.

It is proposed to bring this subject, together with the staff report for the 1986 Article IV consultation with Tunisia (SM/86/237, 9/10/86) to the agenda for discussion on Wednesday, November 5, 1986. It is expected that the Executive Director for Tunisia will be requesting a waiver of the circulation period.

Mr. R. J. Bhatia (ext. 6959) or Mr. Rothman (ext. 8652) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

TUNISIA

Request for Stand-By 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 A.D. Ouattara and S. Kanesa-Thasan

October 21, 1986

I. Introduction

In the attached letter dated September 25, 1986 to which is annexed a Memorandum on Economic and Financial Policy, the Government of Tunisia requests an 18-month stand-by arrangement in an amount equivalent to SDR 103.65 million (75 percent of quota, or 50 percent on an annual basis--Appendix I). Discussions on the proposed arrangement were held in Tunis during the period September 3-17, 1986. 1/

As of September 30, 1986, the Fund's holdings of Tunisian dinars subject to repurchase were nil, while the Fund's total holdings of Tunisian dinars totaled SDR 138.2 million, or 100 percent of quota. Tunisia withdrew the remaining amount of its reserve tranche (SDR 24.3 million, or 17.6 percent of quota) on August 1, 1986. The expected purchases and scheduled repurchases during the period of the requested stand-by arrangement are shown in Table 1. Assuming that the full amount of the proposed stand-by arrangement is purchased as well as an amount of SDR 114.71 million (or 83 percent of quota) under an expected request under the compensatory financing facility (CFF), the Fund's holdings of Tunisian dinars subject to repurchase would amount to SDR 218.4 million, or 158 percent of quota, at end-May 1988. A waiver of the limitation in Article V, Section 3(b)(iii) is required and is being proposed. Tunisia's relations with the Fund are summarized in Appendix II.

As of March 31, 1986, the latest date for which data are available, Tunisia's total outstanding debt to the World Bank Group, including undisbursed, amounted to US$1,949 million, of which US$1,286 million has

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1/ The staff members who took part in the discussions were Messrs. Bhatia (head-AFR), Rothman (AFR), Dairi (AFR), Mansoor (FAD), and Rodlauer (ETR), and Ms. Frambes (secretary-ADM).

Table 1. Tunisia: Fund Position During Period of the Proposed Stand-By Arrangement, 1986-88

	Outstanding at beginning of arrangement October 31, 1986	1986 Oct. 31- Nov. 30	1987 Jan. 31- March 31	1987 April 30- June 30	1987 July 31- Sept. 30	1987 October 31- December 31	1988 January 31- March 31	1988 April 30- May 5
					(In millions of SDRs)			
Transactions under tranche policies (net)								
Purchases	--	35.00 1/	9.00	10.00	10.00	12.00	15.00	12.65
Ordinary resources	(--)	(35.00)	(9.00)	(10.00)	(10.00)	(12.00)	(15.00)	(12.65)
Borrowed resources	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Repurchases	--	--	--	--	--	--	--	--
Ordinary resources	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Borrowed resources	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Transactions under special facilities (net)	--	114.71	--	--	--	--	--	--
Purchases	(--)	(114.71)	(--)	(--)	(--)	(--)	(--)	(--)
Repurchases	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Total Fund credit outstanding (end of period)	--	149.71	158.71	168.71	178.71	190.71	205.71	218.36
Under credit tranche policies	--	35.00	44.00	54.00	64.00	76.00	91.00	103.65
Special facilities	--	114.71	114.71	114.71	114.71	114.71	114.71	114.71
					(As percent of quota) 2/			
Total Fund credit outstanding (end of period)	--	108.3	114.8	122.1	129.3	138.0	148.8	158.0
Under credit tranche policies	--	25.3	31.8	39.1	46.3	55.0	65.8	75.0
Special facilities	--	83.0	83.0	83.0	83.0	83.0	83.0	83.0

Sources: IMF, Treasurer's Department; and proposed stand-by arrangement.

1/ Includes first credit tranche.
2/ Quota as of September 30, 1986: SDR 138.2 million.

been disbursed. Appendix III contains a description of the World Bank strategy in Tunisia. Fund and Bank staff have cooperated closely on major issues concerning Tunisia's adjustment and development efforts.

II. Background

As discussed in the recently issued staff report for the 1986 Article IV consultation with Tunisia (SM/86/237, September 10, 1986), although Tunisia's rate of economic growth was generally satisfactory over the past several years--with growth in real domestic product (GDP) averaging some 5 percent per year during 1983-85--it was accompanied by a marked deterioration in the domestic and external financial situation (Table 2). This deterioration manifested itself in a large resource gap, with the external current account deficit averaging 8.5 percent of gross national product (GNP) over the 1983-85 period, attributable to both a significant decline in the national savings rate (from 21.7 percent in 1982 to 18.9 percent in 1985), associated with expansionary financial policies, as well as to a decline in Tunisia's terms of trade (linked principally to world prices for petroleum, Tunisia's principal export), and the maintenance of a high investment ratio (about 29 percent on average, including changes in stocks). While repeated efforts were made to curtail the fiscal imbalance, mainly by containing the growth in expenditures, the Central Government's consolidated deficit averaged about 6.2 percent of GNP over the three years 1983-85. At the same time, monetary and credit policy was highly accommodative. Money plus quasi-money (M2) increased by fully one half, or by some 10 percentage points more than the cumulative growth in nominal GNP. Most of the increase in M2 was accounted for by a rise of about 60 percent in credit to the economy, equivalent to about 60 percent of M2 at end-1982, but the contribution of net credit to the Government was also significant (12 percent of M2 at end-1982). Moreover, the period was marked generally by rigidity in both the interest rate level and structure.

The external resource gaps led to a rising level of external debt (to SDR 3,825 million at end-1985, or 47.9 percent of GNP), a pronounced increase in the debt service ratio (to 21.6 percent in 1985), and a rapid running down of a once comfortable level of foreign exchange reserves (to the equivalent of one month of imports at end-1985). Moreover, in the face of pressures stemming from the resource imbalances, the Tunisian authorities increased their reliance on price controls and resorted to an intermittent tightening of investment controls and import restrictions. This has culminated in a pervasive rigidity of the economic system and to a distortion of relative prices, which have recently become glaringly apparent with the advent of declining petroleum production and the pronounced fall in petroleum prices.

Toward the end of 1985, the Tunisian authorities anticipated increased strains on the country's economic and financial situation in 1986 and, accordingly, formulated strengthened policies to reduce both

Table 2. Tunisia: Selected Economic and Financial Indicators, 1982-87

	1982	1983	1984	1985	1986 Program	1987 Program
	(Annual percent changes)					
National income and prices						
GDP at constant prices	-0.3	4.9	5.5	4.9	0.7	3.6
GDP deflator	15.4	9.2	7.9	4.8	5.0	8.7
Consumer price index	13.6	9.0	8.6	7.8	8.0	...
External sector (in SDRs)						
Exports, f.o.b.	-13.8	-2.9	1.0	-3.6	-14.0	4.3
Imports, f.o.b.	-4.2	-5.6	7.4	-14.8	-5.8	1.1
Terms of trade (deterioration -)	-2.6	-4.5	-2.2	-2.4	-14.4	-2.1
Nominal effective exchange rate (depreciation -) 1/	-2.7	-0.1	-0.3	-1.3	-21.8 2/	...
Real effective exchange rate 1/						
WPI-based (depreciation -)	8.0	-1.0	-3.0	-0.8	-19.8 2/	...
CPI-based (depreciation -)	-1.2	-0.8	-0.4	-0.9	-20.9 2/	...
Central government consolidated operations						
Revenue	24.3	12.3	22.7	7.2	0.3	7.6
Total expenditure and net lending	33.3	20.4	14.9	4.1	4.4	2.6
Current expenditure	41.8	20.3	12.6	8.5	6.0	7.7
Capital expenditure and net lending	18.8	20.7	19.6	-4.3	0.9	-9.0
Money and credit						
Domestic credit	23.4	19.3	15.4	17.1	10.5	8.4
Government	(20.4)	(15.3)	(27.4)	(22.8)	(14.6)	(7.7)
Economy	(23.8)	(19.9)	(13.7)	(16.3)	(9.8)	(8.5)
Money plus quasi-money	18.9	18.5	11.7	13.8	5.7	9.0
Interest rates						
Discount rate	7.00	7.00	7.00	9.25	9.25 3/	...
12- to 18-month time deposit	7.00	7.00	7.00	8.00	8.00 3/	...
General rediscountable advances	8-8 1/2	8-8 1/2	8-8 1/2	9 1/2-10	9 1/2-10 3/	...
	(Ratios: in percent of GNP; unless otherwise specified)					
Government revenue	34.3	33.6	36.4	36.0	34.2	32.7
Total expenditure and net lending	39.6	41.6	42.3	40.6	40.1	36.7
Current expenditure	26.7	28.0	27.8	27.9	27.9	26.8
Capital expenditure and net lending	13.0	13.7	14.4	12.8	12.2	9.9
Central government consolidated deficit (-)	-5.4	-8.1	-5.9	-4.6	-6.0	-3.9
Domestic bank financing	(1.1)	(0.9)	(1.5)	(1.5)	(1.1)	(0.6)
Gross fixed capital formation	32.5	30.4	29.9	25.4	24.0	22.0
Gross national savings	21.7	21.4	21.0	18.9	16.0	16.8
External current account deficit (-)	-9.4	-7.4	-10.8	-7.2	-9.0	-7.4
External public debt	40.1	43.2	46.9	47.9	55.2	63.4
Debt service/Exports of goods and services plus private transfers	14.7	16.6	19.5	21.6	25.3	27.2
Gross official international reserves (in months of imports, f.o.b.)	2.3	2.4	1.7	1.0	0.8	1.5
	(In millions of SDRs)					
Overall balance of payments surplus or deficit (-)	86	-11	-127	-203	-208 4/	99 4/
Gross official international reserves (at end of period)	556.3	548.4	421.0	218.4	160.0	300.0
External public debt	2,974	3,304	3,709	3,825	4,302	4,879
	(In millions of dinars)					
GNP at current prices	4,841	5,549	6,290	6,801	7,190	8,080

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.
2/ From December 1985 to end-August 1986.
3/ As of end-August 1986.
4/ Program targets (after gap-fill); the corresponding figures in Table 3 refer to the overall deficit prior to the gap-fill inflows.

the fiscal and external deficits--especially through new revenue measures and continued expenditure restraint, and further depreciation of the exchange rate. It had been intended at that time to narrow the consolidated central government deficit from 4.6 percent of GNP to 3.2 percent and to contain the external current account deficit to 6 percent of GNP. At the same time, the authorities intended to improve the efficiency in resource use by pursuing liberalization in the areas of domestic prices, imports, and investment. However, unanticipated adverse developments, including a further and sharp deterioration in Tunisia's terms of trade (stemming mainly from the fall in oil prices), slackened tourist activity associated with international tensions in the region, and unfavorable climatic conditions, which have led to a drop of about two thirds in the cereals crop, have been chiefly responsible for rendering unattainable the authorities' initial objectives for the year. It now seems certain that, even after the recent adjustment measures taken in the context of the program, the level of real GDP will be little changed from that in 1985 and that the fiscal and external current account deficits will widen somewhat. Of particular note, Tunisia's foreign exchange reserves at midyear were almost depleted. These unfavorable exogenous factors have also led to a delay in the intended liberalization of the economy, especially in the area of import restrictions. Nevertheless, within the context of Tunisia's program in support of which the Government is requesting the stand-by arrangement with the Fund, and as discussed in detail below, a broad range of demand-management measures is presently being undertaken to halt the worsening situation in 1986 and to provide the basis for significant improvements in 1987 and the medium term. Moreover, structural measures relating to the liberalization of the economy also are beginning to be implemented.

III. Proposed Program for 1986-87

1. Objectives

The proposed program, which is described in the Memorandum on Economic and Financial Policy, has been cast in the context of the medium-term objectives which the authorities have formulated for the forthcoming Seventh Development Plan (1987-91); the Sixth Development Plan is scheduled to be completed at the end of 1986. The main objectives for the Seventh Plan period may be summarized as follows: (i) achieving an average rate of growth of about 3-4 percent, (ii) providing additional employment opportunities to absorb about three fourths of the new entrants into the labor market, (iii) limiting the external debt service ratio to below 30 percent of current receipts, (iv) reducing the external current account deficit to 3 percent of GNP by the end of the plan period, despite a turnaround from a net exporter to a net importer of energy, and (v) reconstituting official external reserves to the equivalent of approximately two months of imports.

Within the above-mentioned medium-term context, the program aims at (i) a growth rate in real GDP of about 1 percent in 1986 and 3.5 percent in 1987, (ii) limiting the inflation rate (as measured by the GDP deflator) to 5 percent in 1986 and 8.7 percent in 1987, and (iii) containing the current account deficit in the balance of payments to 9.0 percent of GNP in 1986 and reducing it to 7.4 percent in 1987. 1/

In support of the above targets, the authorities are proposing a tight demand-management policy, associated with improved competitiveness of exports and a major reorientation of policies away from the hitherto significant reliance on centralized control and toward a more market-oriented economy. In particular, the authorities intend to liberalize almost completely prices, investments, and imports by the end of the plan period, to reduce the role of the state and public enterprises in production and marketing activities, to follow a flexible exchange rate policy, and to liberalize interest rates. A substantial part of the liberalization will take place during the program period 1986-87.

The quantified macro framework of the Seventh Development Plan is expected to be finalized before the end of 1986. In the meantime, in the context of their request for the stand-by arrangement, the authorities have established a medium-term scenario relating to the balance of payments through 1991, including preliminary projections for the external debt consistent with the targeted external adjustment (Tables 3 and 4). In conformity with the above-mentioned objectives, this scenario envisages a gradual reduction in the current account deficit from 9.0 percent of GNP in 1986 to 3 percent in 1991--a level which the authorities regard as sustainable by normal capital inflows, including continued commercial relations with the international capital markets. Such a scenario would also enable Tunisia to contain the level of external debt to a peak of 64 percent of GNP in 1988 and the annual debt service to an average of 28 percent of its current receipts.

The medium-term balance of payments scenario implies an average annual 3 percent rate of growth for non-energy import volumes and a 2 1/2 percent rate for energy import volumes, while export volumes would grow by an average 6 percent per annum. Taking into account the projected decline in crude oil production and exports, which by 1991 will be at about 40 percent of their level in 1987, nonenergy export volumes will have to continue their dynamic performance marked in 1986 and grow at an average annual rate of close to 9 percent. With market growth projected at around 5 percent 2/, this performance would imply that Tunisia regain market shares lost in recent years. A pivotal role in this endeavor will need to be played by an appropriate exchange rate

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1/ A part of the increase in the programmed external current account deficit, compared to 7.2 percent in 1985, is of an accounting nature, attributable to the exchange rate depreciation. At the average 1985 exchange rate, for example, the deficit ratios would be 8.2 percent for 1986 and 5.9 percent for 1987.

2/ Growth in major partner countries' import volumes.

Table 3. Tunisia: Balance of Payments, 1982-91

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
					Projections					
					(In millions of SDRs)					
Current account	-695	-585	-854	-576	-709	-575	-464	-428	-375	-318
Trade balance	-1,122	-1,011	-1,199	-825	-917	-881	-828	-835	-842	-867
Exports, f.o.b.	(1,793)	(1,741)	(1,758)	(1,695)	(1,457)	(1,520)	(1,706)	(1,844)	(1,939)	(2,101)
Energy	825	778	778	709	322	270	271	207	135	113
Nonenergy	968	963	980	986	1,135	1,250	1,435	1,637	1,804	1,988
Imports, f.o.b.	(-2,915)	(-2,752)	(-2,957)	(-2,520)	(-2,374)	(-2,401)	(-2,534)	(-2,679)	(-2,781)	(-2,968)
Energy	-323	-306	-340	-340	-185	-172	-181	-195	-159	-199
Nonenergy	-2,592	-2,446	-2,617	-2,180	-2,188	-2,229	-2,353	-2,484	-2,623	-2,769
Nonfactor services (net)	346	338	284	317	273	355	431	487	548	615
Of which: tourism receipts	(521)	(537)	(449)	(489)	(437)	(488)	(561)	(613)	(669)	(730)
Transfers (net)	81	88	61	-68	-66	-49	-67	-79	-81	-66
Of which:										
Receipts from workers' remittances	(337)	(336)	(309)	(265)	(229)	(245)	(272)	(287)	(303)	(320)
Interest on external debt 1/	(-185)	(-195)	(-237)	(-252)	(-251)	(-275)	(-326)	(-358)	(-380)	(-383)
Capital account	789	556	664	315	407	298	401	395	355	381
Grants	17	24	28	25	33	20	20	20	20	20
Direct and portfolio investment (net)	364	209	201	136	142	118	134	152	174	198
Medium- and long-term borrowing (net) 1/	285	323	320	249	232	160	247	222	161	164
Of which:										
Disbursements 2/	(569)	(648)	(685)	(640)	(652)	(651)	(756)	(795)	(804)	(814)
Short-term capital 3/	123	--	115	-95	--	--	--	--	--	--
Valuation adjustment	-8	18	63	58	--	--	--	--	--	--
Overall surplus or deficit (-)	86	-11	-127	-203	-303	-277	-63	-33	-20	-63
Changes in reserves (increase -) 4/	-86	11	127	203	207	-99	-90	-90	-90	-70
Use of Fund resources	--	--	--	--	149	41	28	-19	-88	-87
Other items, net (increase -)	-86	11	127	203	58	-140	-118	-71	-2	17
Residual financing gap	--	--	--	--	96 5/	376	153	123	110	6
					(In percent of GNP)					
Memorandum items:										
Reserves (in months of imports)	2.3	2.4	1.7	1.0	0.8	1.5	2.0	2.2	2.1	1.9
Current account deficit (-)	-9.4	-7.4	-10.8	-7.2	-9.0	-7.4	-5.6	-4.8	-4.0	-3.1
Gross national savings	21.7	21.4	21.0	18.9	16.0	16.8	17-18	17-18	18-19	19-20
Gross fixed investment	32.5	30.4	29.9	25.4	24.0	22.0	21-22	21-22	21-22	21-22
					(Annual changes in percent)					
Principal assumptions										
Real GDP	--	5	6	5	1	3-4	3-4	3-4	3-4	3-4
Inflation (GDP deflator)	15	9	8	5	5	9	5-6	5-6	5-6	5-6
Real effective exchange rate (relative wholesale prices; depreciation -)	8	-1	-3	-1	-10	-12	--	--	--	--
Export volume	-9	4	1	-1	6	7	9	4	2	6
(Nonenergy exports)	(3)	(5)	(3)	(1)	(14)	(11)	(12)	(11)	(8)	(8)
Import volume	1	-3	-6	-15	--	1	3	3	1	4
(Nonenergy imports)	(9)	(-4)	(6)	(-18)	(--)	(--)	(3)	(3)	(3)	(3)
LIBOR	14	10	11	9	7	7	7	7	7	7

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

1/ Including debt service on gap-fill borrowing.
2/ For the period 1986-87, projections are based on existing commitments and assurances received on additional assistance (including policy-based IBRD lending). From 1988 onward, includes expected official capital flows (including IBRD).
3/ Including commercial banks and errors and omissions.
4/ For the period 1986-91: target increase (-) in reserves.
5/ Expected to be covered by suppliers' credit.

Table 4. Tunisia: Medium-Term External Debt Projections, 1985-91

	Actual 1985	Projections 1986	1987	1988	1989	1990	1991
				Debt Service Payments (In millions of SDRs)			
Total debt service	643	671	765	835	950	1,110	1,120
Interest	252	251	275	326	358	380	383
Principal	391	420	490	509	591	730	737
Of which:							
IMF	--	2	10	12	31	97	91
Charges	--	2	10	12	13	9	4
Repurchases	--	--	--	--	19	88	87
				(In percent of current receipts)			
Total debt service	21.6	25.3	27.2	26.5	27.9	30.6	28.5
Interest	8.4	9.4	9.7	10.3	10.5	10.5	9.8
Principal	13.1	15.8	17.4	16.1	17.4	20.1	18.8
Excluding IMF	21.6	25.2	26.8	26.1	27.0	27.9	26.2
Interest	8.4	9.4	9.4	9.9	10.1	10.2	9.7
Principal	13.1	15.8	17.4	16.1	16.8	17.7	16.6
Total interest in percent of GNP	3.1	3.2	3.6	3.9	4.1	4.0	3.8
IMF debt service in percent of gross reserves	--	1.4	3.4	2.9	6.4	19.7	19.2
				Debt Outstanding (In millions of SDRs)			
Total debt	3,825	4,302	4,879	5,307	5,633	5,818	5,900
Excluding IMF	3,825	4,153	4,688	5,088	5,434	5,705	5,875
Of which (in percent):							
Long-term	(61)	(60)	(63)	(63)	(64)	(66)	(68)
Medium-term	(39)	(40)	(37)	(37)	(36)	(34)	(32)
IMF	--	149	191	218	200	112	25
				(In percent of GNP)			
Total debt	47.9	55.2	63.4	64.3	63.8	61.5	58.3
Excluding IMF	47.9	53.3	60.9	61.6	61.5	60.3	58.1
IMF	--	1.9	2.5	2.6	2.3	1.2	0.2

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

policy; in this regard, the projected export volumes take account of the most recent depreciation of the Tunisian dinar and assume a constant real effective exchange rate throughout the projection period. An additional important contribution to export performance will be made by the programmed liberalization of the exchange and trade system and the planned reform of the tariff structure, which would remove the bias against exports of the present protective system. In regard to world energy prices, the projections incorporate the authorities' conservative outlook for 1986 and 1987 (US$13 per barrel for Zarzaitine quality), with moderate increases thereafter. It should be noted, however, that over the medium term the current account projections are not very sensitive to the oil price assumption as the net energy balance turns negative by 1990. The sagging performance in recent years of tourism receipts is expected to turn around in 1987-88, largely in response to the sizable exchange rate correction, and the return of more normal conditions in the region, followed by real growth of 5 percent thereafter. Workers' remittances are projected to grow only moderately over the medium term, following an initial pickup, the first signs of which are already being felt following the recent devaluation of the Tunisian dinar and the announcement of the adjustment program.

In the capital account, the authorities expect a bottoming out of the hitherto declining inflows of foreign direct and portfolio investment. Moreover, they count on stepped-up financial support from the World Bank in the context of a series of sectoral adjustment loans. Taking into account these additional resources, which will add to disbursements on loans already committed and the expected flow of project-related long-term credits, the authorities envisage long-term capital inflows to the tune of around SDR 0.5 billion per annum. Beyond these disbursements on long-term loans and the normal rhythm of import-related suppliers' credits, a residual financing requirement through 1990 would still need to be met. In projecting the medium-term external debt service in Table 4, it has been assumed that this residual gap would be met through borrowing on international financial markets where Tunisia has maintained normal access. However, the authorities wish to reduce their commercial borrowing through recourse to additional concessional borrowing. Should they succeed, the debt service ratio would be lower than shown in Table 4.

In line with the projected decline in the current account deficit, the buildup of total external debt would be relatively moderate after the initial adjustment period 1986-87, averaging about 5.8 percent per annum during 1988-91 and coming down to 3 percent in 1991, well below the projected rate of growth of nominal GNP for that year. This would entail a peak in the external debt to GNP ratio around 64 percent in 1988 and a subsequent decline to about 58 percent in 1991. The debt service ratio (in percent of current receipts) would peak in 1990 at 30.6 percent, before falling to 28.5 percent in 1991; excluding repurchases to the Fund, which in the case of Tunisia are bunched in the years 1990-91, the debt service ratio would remain in the range of 26-28 percent throughout the projection period.

In considering the targets for 1986, it should be noted that the program covers only the second half of the year, and that during the first half of the year a considerable deterioration had already manifested itself in the form of a virtual depletion of external reserves and increased budgetary deficit. Thus, it is estimated that if the trends of the first six months had continued in the second half of the year, the budgetary deficit would have reached about 6.6 percent of GNP, and the current account deficit in the balance of payments about 9.7 percent of GNP. Compared with this latter scenario, the program aims at a budgetary adjustment in the second half of the year of an amount equivalent to 0.7 percent of GNP to 6.0 percent of GNP and an equivalent correction in the external accounts.

Table 5 summarizes the main elements of the adjustment program, along with the status of implementation of the various policy measures. The following sections describe these measures in detail.

2. Elements of the program

a. Price liberalization

Until now, the authorities have tended to rely on price controls and subsidies both to moderate increases in the cost of living and to contain input costs for production, particularly in the agricultural sector. Thus, with the exception of most services and socially nonsensitive agricultural products, retail prices of most other goods have been controlled. In addition, prices of various consumer goods (especially cereals, milk, sugar, and vegetable oil), as well as agricultural inputs (such as seeds, animal feed, and fertilizers), have been subsidized. This policy has led to large and increasing budgetary costs of subsidies, stimulated consumption, and generally distorted the allocation of resources. The program aims at liberalizing prices of practically all the commodities, with the exception of a few socially sensitive staples. More specifically, it is the Government's objective to limit subsidies to goods of high social sensitivity, mainly cereals and edible oil, and to limit the subsidy bill to the equivalent of resources accruing to the Price Stabilization Fund (CGC) out of its presently earmarked resources. 1/ The Government has already made a significant move in this direction since early 1985, both by removing beef from the subsidized list and by increasing prices of most of the remaining products. More recently, in June 1986, the Government increased the prices of animal feed and fertilizers (see below), bread (effected through a reduction in the weight of bread loaves by 15 percent), and pasta (20 percent) leading to its elimination from the list of subsidized products. It also intends to raise the prices (by between 8 and 10 percent) of sugar, vegetable oil, and milk during the last quarter of 1986. As a result of these actions, only six products

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1/ Under the existing system, some tax and other revenues acrrue directly to the C.G.C. In 1986 the C.G.C.'s own revenue is estimated to amount to D 145 million.

Table 5. Tunisia: Summary of Adjustment Program, July 1986-December 1987

I. <u>No change policy scenario for 1986</u>

A. Overall consolidated budget deficit: 6.6 percent of GNP
B. Current account balance of payments deficit: 9.7 percent of GNP
C. Gross official reserves (end-June): SDR 66 million (10 days of imports)

II. Adjustment program scenario	1986	1987
A. Objectives		
1. Annual growth of real GDP	1 percent	3.5 percent
2. External current account deficit (% of GNP)	9.0	7.4
3. Gross official reserves (end-period; in months of imports)	0.8	1.5
4. External debt (incl. IMF; % of GNP)	55.2	63.4
5. External debt service (% of current receipts)	25.3	27.2

B. Measures	Status/Calendar of Implementation
1. Price liberalization	
i. Services	Mostly free of administrative controls.
ii. Agriculture	
a. Subsidized consumer goods	Price increases in August and during the last quarter of 1986. Further annual reduction of at least 5 percent in the annual subsidy bill. Number of products to be subsidized to be reduced.
b. Subsidized inputs	To be eliminated completely in accordance with the timetable agreed with the World Bank.
c. Producer prices	Raised by 6-16 percent in August in agreement with the World Bank to align them with international levels by 1988.
iii. Manufactured goods	Cumulative 65 percent of production to be liberalized by 1988.
Approximately 25 percent	Liberalized in September 1986.
" 35 percent	To be liberalized in January 1987.
" 45 percent	To be liberalized in July 1987.
" 55 percent	To be liberalized in January 1988.
" 65 percent	To be liberalized in July 1988.
2. Investment liberalization and state enterprises	
i. Liberalization of investment controls on projects requesting no special advantages from the Government.	
ii. Revised investment code involving:	
a. Focusing fiscal advantages for new investments on specific activities on the basis of specific criteria	To be introduced in January 1987 after discussions with the World Bank.
b. No distinction in the granting of advantages as between new investments and investments for replacement or extension of existing capacity	"
iii. Public enterprises	
a. Limit state control of existing enterprises to approximately 160	Appropriate legislation already passed. Specific timetable to be finalized before end-1986.
b. Gradual sale to the private sector of the Government's share in those enterprises in which the Government has presently up to 34 percent of equity participation	" "
c. Improve the financial viability of those enterprises that are to remain in the public sector	" "

Table 5 (continued). Tunisia: Summary of Adjustment Program, July 1986-December 1987

3. <u>Import liberalization</u>	
i. <u>All imports (with a small number of exceptions) to be liberalized by 1991, with the following specified timetable</u>	Policy announced.
a. Raw materials and semifinished products for industries exporting at least 25 percent of their turnover, and spare parts for agriculture and other specified sectors	Implemented in August 1986.
b. Investment goods for newly approved projects and raw materials for medicines (a. and b. will bring the proportion of imports on the free list to 31 percent from the present 18 percent).	September 1986
c. All other raw materials and spare parts; semifinished products for industries exporting at least 15 percent of their turnover and for industries reasonably well integrated	January 1987.
d. Investment goods for projects judged as of "intermediate" priority by the Investment Agency.	Early 1987 after the promulgation of the revised Investment Code.
e. All remaining imports of investment goods, and semifinished products with the exception of imports by weakly integrated industries (c. through e. will raise the proportion of imports on the free list to 60 percent.)	January 1988.
ii. <u>Tariff reform</u>	
Reform of import tariff to reduce effective protection to a reasonably uniform rate of about 25 percent by 1991. During the program period:	Policy announced.
a. Reduce maximum import duties to 50 percent.	
b. Reduce by 6 percent present rates between 26-55 percent (with minimum of 25 percent).	January 1987.
c. Set minimum tariff of 15 percent.	
d. Additional specified changes	January 1988.
4. <u>Exchange rate and external debt</u>	
i. Depreciate the nominal effective exchange rate of the dinar by 22 percent (in foreign currency terms) compared with the end-1985 level	Implemented by end-August 1986.
ii. Maintain the real effective value of the exchange rate at its post-August devaluation level through, if necessary, periodic adjustments of the nominal rate. Additional corrections if balance of payments position requires.	Being implemented.
iii. Limits on nonconcessional external debt of 1-12 years maturity, with sublimits on that in the maturity range of 1-5 years.	Established for the program period through 1987.
iv. Limit on short-term debt (of maturity up to 1 year) excluding import-related credits to present level.	

Table 5 (concluded). Tunisia: Summary of Adjustment Program, July 1986-December 1987

5. Public finance	
i. Limit 1986 consolidated budget deficit to D 429 million (6 percent of GNP)	Appropriate supplementary measures already announced.
ii. Limit 1987 consolidated budget deficit to 3.9 percent of GNP (D 318 million)	The draft 1987 budget consistent with this objective will be discussed with the staff in November 1986. The budget for 1987 will also be one of the subjects of discussion during the first program review.
iii. Cancellation of all outstanding but unused budgetary authorizations in respect of investment expenditures.	January 1987.
iv. Introduction of a VAT with specified timetable of various intermediate steps.	January 1988 for the VAT; will be both subjects of discussion under the second review of the program.
v. Establishment of a timetable for unification of income and profit taxes.	
6. Credit and monetary policies	
i. Limit domestic credit to D 4,348 million at end-1986 and to D 4,714 million at end-1987	Performance criteria with intermediate quarterly limits also as performance criteria.
ii. Limit net bank credit to the Government to D 635 million at end-1986 and to D 684 million at end-1987	
iii. Liberalize interest rates, with the exception of preferential lending rates and savings deposit rates (which will be related to rates prevailing in the money market)	To be introduced in January 1987.
iv. Channel most of the intervention of the Central Bank through the money market in relation to the credit and monetary targets	To be introduced in January 1987.
7. Monitoring of the program	
i. Quarterly and annual performance criteria relating to:	
a. Domestic credit	
b. Net bank credit to Government	
c. Limits on nonconcessional external debt of up to 1 year original maturity (excluding import-related credits) and on the contracting or guaranteeing by the Government of external debt with 1-12 years' original maturity, with a subceiling on that of 1-5 years' original maturity.	
d. External payments arrears (no accumulation)	
e. Customary clauses with respect to restrictions	
ii. Quarterly and annual indicative targets relating to:	
a. Consolidated budget deficit (triggering consultation with Management)	
b. Total revenue and grants	
c. Total expenditure (excluding amortization), including net lending	
d. Net foreign assets of the monetary system (triggering consultation with Management)	
iii. Reviews with the Fund to be completed:	
a. Before end-February 1987	
b. Before end-September 1987	
c. Before end-January 1988	

are now subsidized and the unit subsidy currently ranges between 12 percent (for certain animal feed) and 57 percent (for some fertilizers) of the total cost, as shown in Table 6. As will be noted, the total subsidy bill in 1986 is estimated at D 218 million (3 percent of GNP), of which 34 percent (D 75 million) is being financed by budgetary transfers; in 1985 the total subsidy bill was D 257 million (3.8 percent of GNP). It is the Government's intention to reduce the total subsidy bill (in nominal terms) by at least 5 percent a year, until the budgetary transfers are eliminated. 1/ The authorities intend to raise the prices of subsidized goods further in 1987 in the context of the budget for that year.

As regards subsidies on agricultural inputs (notably on fertilizers and seeds), the Government has already agreed with the World Bank on a timetable to eliminate them completely by the start of the 1990-91 crop season. Since 1985, a state enterprise (STEC) has had the trading monopoly for phosphate and nitrogen fertilizers, and the Government subsidizes the sale at that level. Retail marketing is done by the Cereals Office (OC), cooperatives, and the private sector. The OC's market share has been expanding, notwithstanding the trading losses it has incurred (and which are absorbed by the Government). The share of the private sector has declined as the Government has controlled private sector retail margins, in order to permit the OC to sell fertilizers at lower prices. Under the program agreed with the World Bank, the private sector and cooperatives will be encouraged to increase their participation in fertilizer retail marketing, by equalizing the retail markups charged by the public sector with those of the private traders and by liberalizing retail margins. In line with this policy, the Government recently increased the markup charged on fertilizers by the OC. Together with the increase in wholesale prices of fertilizers in mid-1986, this has resulted in a 17-27 percent increase in the retail price of fertilizer sold by public sector agencies. The Government intends also to reduce subsidies so as to ensure full costing by the public sector agencies, and to announce liberalization of retail margins on fertilizers by January 1, 1988.

As regards other agricultural inputs, the Government has undertaken to eliminate subsidies on animal feed (maize, soybean meal, and barley), herbicides, and cereal seed by the beginning of the 1989/90 crop season. A first round of price increases in this respect was announced in mid-1986, raising the price of maize by 15 percent and of soybean meal by 11 percent. Similarly, the Government has agreed with the World Bank on a ten-year program for fully recovering operating and maintenance costs of irrigation and water; for the 1986/87 season, irrigation and water charges are to be increased by approximately 15-17 percent.

1/ This will imply an annual reduction of at least D 11 million, at which pace the presently estimated budgetary transfers (D 75 million) would be eliminated in about seven years. However, the Government intends to achieve this objective before the end of the Seventh Plan, thus implying a greater percentage of annual reduction.

Table 6. Tunisia: Expenditure of the Price Stabilization Fund, 1986 1/

	Volume	Unit cost in dinars	Unit subsidy in dinars	Unit subsidy as a share of cost in percent	Total subsidy in millions of dinars
Cereals					123.2
Soft wheat (in tons)	710,000	134.47	61.97	46.1	44.0
Durum wheat (" ")	630,000	168.95	80.95	47.9	51.0
Bread processing (" ")	430,000	201.93	59.07	29.3 2/	25.4
Pasta processing (" ")	100,000	253.00 3/	28.00 3/	11.1 3/	2.8 3/
Vegetable oil					28.2
Edible oil mix (" ")	100,000	520.0	220.0 4/	42.3	22.0 4/
Acid oil (for soap) (" ")	21,000	430.0	295.0 4/	68.6	6.2 4/
Milk (1000 liters)	146,800	353.0	78.0 4/	22.1	11.5 4/
Sugar (in tons)	168,000	332.0	92.0 4/	27.7	15.5 4/
Animal feed					12.6
Barley (" ")	210,000	115.57	14.29	12.4	3.0
Maize (" ")	250,000	141.60	17.60	12.3	4.4
Soybean meal (" ")	120,000	243,33	43,33	17.8	5.2
Fertilizer					17.9
Ammonite (" ")	120,000	142,46	65.0	45.6	7.8
SSP (" ")	35,000	78.77	40.0	50.8	1.4
TSP (" ")	90,000	149.73	81.0	54.1	7.3
DAP (" ")	10,000	242.69	140.0	57.7	1.4
Miscellanaous	...	...	...	...	14.5 5/
Total					223.4 6/

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

1/ Including the effect of the depreciation of the dinar.
2/ Including the subsidy on soft wheat, unit subsidy on bread amounts to about 43 percent.
3/ The latest increase in prices (August 1986) resulted in the elimination of the subsidy on pasta processing.
4/ Excluding the effect of the price increases scheduled for the last quarter of 1986.
5/ Of which about D 5 million for school paper and D 5 million for the repayment of a treasury loan.
6/ D 218.4 million if we exclude the repayment of a treasury loan.

Since 1980 the Government has regularly increased agricultural producer prices, particularly for cereals, where domestic production is substantially below consumption. In July 1986, producer prices were increased again by between 6 and 16 percent, and the authorities have agreed with the World Bank on a formula which will be used to adjust the producer price of cereals in order to match international (unsubsidized) price levels by 1988. According to this formula, producer prices of cereals would be increased over the next two crop seasons (1987/88 and 1988/89) to reach a five-year moving average of unsubsidized f.o.b. prices (in constant terms) plus sea freight to Tunisia (15 percent) plus the minimum import duty (15 percent) converted into Tunisian dinars at the competitive exchange rate.

Under the 1986-87 program, the authorities have also committed themselves to a gradual decontrolling of manufactured product prices, which would be completed by 1991, with about two-thirds of the liberalization to be effected by early 1988. Such products to be liberalized include those where sufficient competition is assured either because of the existence of a minimum number (presently regarded as three) of domestic producers or because importation of the product is liberal. In this latter respect, therefore, the price liberalization program has been coordinated with the authorities' timetable regarding import liberalization. Thus, in the first phase of the program in late September 1986, the authorities announced the liberalization of prices of various construction materials, textiles, electrical and mechanical products, etc., estimated to account for approximately 25 percent of the value of manufactured output. This is to be followed by further liberalization measures in January 1987 (covering an additional 10 percent of manufactured output) and in mid-1987 (a further approximate 10 percent covering electrical and mechanical products, chemicals, fertilizers, tires and rubber products, processed agricultural goods, etc.). The balance of the goods (covering approximately a further 20 percent) would be liberalized in early 1988.

In addition to price-decontrol, the Government also plans to introduce at the beginning of 1987 a more flexible pricing system for commodities remaining under control in order to provide greater incentives to contain production costs and to avoid other shortcomings of the present cost-plus system.

b. <u>Liberalization of investment</u>

Under the present system, all new investments (including replacement investments and expansion of existing capacity) have to be approved by a government investment agency, and all approved investments are eligible for fiscal and other incentives. This procedure has the shortcoming that it delays many worthwhile projects, and provides incentives on a nonselective basis. Under the program, it is proposed to limit investment incentives to those investments which satisfy a specific set of criteria, and, beginning in 1987, to do away with the system of approvals for those investments which do not request special incentives. A revised Investment Code, incorporating the above principles, will be promulgated in January 1987.

c. Public enterprise reform

The public enterprise sector contributes a large share--between one quarter and one third--to employment creation, GDP, and investment. Moreover, it absorbs a sizable amount of financial resources, both domestic (credit and budget transfers) and external. In conformity with its objectives of improving competitiveness and resource use in the economy, rationalizing investment, and reducting the fiscal imbalance, the authorities have embarked on a reform of the public enterprise sector. The main thrust of this reform is to reduce the scope of the public enterprise sector by transferring the managerial responsibilities for a large number of enterprises to the non-government shareholders and also through privatization of enterprises in the nonmonopolistic sectors. For those enterprises remaining under government control, efforts will be made to improve their overall performance and curtail their burden on the budget. The number of enterprises slated to remain under direct government control has already been set at about 160 (from the existing 550 enterprises), and the authorities have taken measures to facilitate the purchase of public enterprise equity by the private sector (including through tax incentives), and the financial rehabilitation of public enterprises (a new special fund was created in 1986, which would receive the proceeds of the sale of government equity, to support the rehabilitation operations). A timetable will be drawn up before end-1986 on the specific actions to be taken in order to achieve the objectives of this reform. These measures and the timetable for their implementation will be discussed during the first program review.

d. Import liberalization

Under increasing pressures on the balance of payments, the Tunisian authorities have tightened import restrictions in the recent past. Thus, the proportion of imports that presently come under a free regime ("certificat d'importation") without prior authorization accounts for only about 18 percent of total imports. 1/ The authorities recognize that such a restrictive system has adverse effects on resource allocation, the competitiveness of the economy, and economic growth. They are, therefore, embarking upon a program of gradual liberalization of the system. In terms of the program, they intend to remove by 1988 controls on all imports of raw materials, semifinished products, spare parts, and capital equipment for all industries except those (clearly identified) which are not reasonably integrated (i.e., mainly assembly plants which add less than 10 percent domestically to the value of the

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1/ Excluding imports financed from external sources. In addition, a relatively liberal system of prior authorization prevails in respect of imports for approved investments and for re-exports (presently accounting for 16 percent of total imports).

product). Import liberalization will be extended to consumer goods after 1988 with a view to freeing all such imports, except a few products judged to be "luxury goods," by 1991. Under the program, the authorities have proposed a calendar of liberalization that foresees the proportion of imports under the free regime increasing to 31 percent at the end of 1986 and rising to 60 percent at the beginning of 1988.

In conformity with the above objectives, in August 1986 restrictions were lifted on imports of raw materials and semifinished products for enterprises exporting at least 25 percent of their turnover, and spare parts for agriculture, hospitals, and remaining service activities. 1/ Furthermore, in September 1986, import liberalization was extended to all capital imports for newly approved projects, as well as for inputs used in the manufacture of medicines. The authorities have also announced that, effective January 1987, industries which earn foreign exchange through exports will be allowed to effect correspondingly higher imports over their limit under the system of annual import authorizations. In January 1987, imports of all spare parts and raw materials will be liberalized as well as those of semi-finished products for industries which export at least 15 percent of their turnover or which are reasonably integrated. In addition, the liberalization would encompass imports of equipment for those projects which, although not judged eligible to receive fiscal incentives, are regarded by the Investment Agency as being of "intermediate priority." The authorities will consider an acceleration of the pace of liberalization, in light of experience during the first phase of the liberalization program.

In the past, apart from the inconveniences of import licensing, importers have also been subject to the delayed preparation and announcement of the annual import program. To enable importers and producers to better plan their imports and production, the Government is committed to confirm the annual import program for 1987 and to announce that part concerning the production sector before end-1986.

In tandem with the above-mentioned liberalization, the authorities intend to reform the import tariff system by reducing the higher import tariffs and by narrowing the disparities in the tariff schedule. The aim is to achieve a reasonably uniform effective protection rate of about 25 percent by 1991. As a first step toward this goal, in the context of the 1987 budget the Government will reduce tariff rates to a maximum of 50 percent and introduce a universal minimum tariff of 15 percent. All existing tariffs currently between 25 and 31 percent will be reduced to 25 percent, and those between 32 and 56 percent will be reduced by six percentage points. 2/ Further tariff reductions are planned for 1988.

1/ Spare parts for industry and hotels were already imported freely.
2/ The net revenue impact of these changes is estimated to be a loss of about D 30 million in 1987.

e. Wage policy

Under the program, the Government will continue its current approach to wage policy, adopted in mid-1983, i.e., to expand the link between wage awards and productivity and the financial position of enterprises, and to disassociate the tie between wages and the consumer price index. This policy, adopted after particularly large and generalized wage and salary awards in 1982 and early 1983, reflects the recognition that "indexing" had several adverse effects, including exacerbating inflationary pressures, reducing Tunisia's international competitiveness, putting financial strains on enterprises as well as the Government, and lessening new employment opportunities.

Subsequent to the wage and salary increases of 1982-83--when the average real wage rose by about 12.5 percent, compared with growth in real GDP of 2.5 percent--there has been a freeze on general wage and salary increases. However, aware of the deterioration in the purchasing power of lower-paid employees, whose real pay rate is estimated to have declined by more than 15 percent from early 1983 through mid-1986, in July 1986 the minimum wage rates for both agricultural and nonagricultural workers were raised by about 10 percent.

For the period of the Seventh Plan, the authorities intend to follow a policy in respect of minimum wage rates so as to prevent an increase in the share of the wage bill in domestic production. In the meantime, under the 1986-87 program the authorities have declared that no further increases in salaries would be granted during 1986, and that they intend not to increase minimum wages during the two-year period 1986-87 by more than the inflation rate. For 1987 also, the explicit commitments in respect of the budget deficit (see below) would leave only a little room for a general wage increase, at a rate well below that anticipated for domestic inflation.

f. Exchange rate

During the first three quarters of 1985, the real effective exchange rate of the dinar appreciated as the authorities pursued a policy of maintaining the nominal rate stable vis-à-vis a basket of seven currencies while prices in Tunisia rose faster than those in partner countries (see Chart). By September 1985 the real rate had appreciated by some 7 percent in relation to the beginning of the year. Beginning in October 1985 the authorities followed a conscious policy to offset this appreciation and by end-1985 the real effective rate had been depreciated by 5 percent, thus bringing it close to the level prevailing in 1980-81. In the meantime, however, Tunisia's terms of trade had continued to deteriorate, and there was a further sharp decline in oil prices in the first half of 1986.

The authorities regard exchange rate policy as crucial to the attainment of their balance of payments objectives and to their medium-term strategy of export-led growth. Consequently, they decided to accelerate the depreciation of the dinar in the first half of 1986 bearing in mind also the need to provide adequate support to the planned import liberalization. They completed this process with the announcement of an additional depreciation of 9 percent on August 19, which brought down the nominal effective exchange rate of the dinar by 22 percent in comparison to the level prevailing at the end of 1985; in real terms the depreciation is estimated at about 20 percent. The authorities henceforth propose to follow a flexible exchange rate policy with a view to at least maintaining the real effective value of the dinar at its end-August level. Furthermore, the exchange rate policy will be one of the subjects for the three reviews planned with the Fund under the program. In conducting these reviews, the evolution of the external current account and of the net external reserves of the monetary system will constitute important elements.

g. Fiscal policies

Over the period of the Sixth Development Plan (1982-86), the authorities increased government expenditure from 34 percent of GNP in 1981 to 42 percent in 1984, as a result of higher capital expenditure and rapidly rising current expenditure related mainly to increased subsidies and transfers. As a result, the consolidated central government deficit (including social security) rose from 2.5 percent of GNP in 1981 to a peak of 8.1 percent in 1983. Thereafter, the authorities took a combination of revenue and expenditure measures to reduce the deficit and brought it down to 4.6 percent of GNP in 1985. The 1986 budget as originally approved also envisaged a further reduction in the deficit to 3.3 percent of GNP. Revenue would have been maintained at the 36 percent ratio to GNP achieved in 1984 and 1985, while expenditure would have been reduced to below 40 percent of GNP. However, the unfavorable economic environment 1/ and increased expenditure related to changes in welfare policy and a larger-than-anticipated increase in onlending of external assistance combined to potentially increase the deficit by 3.3 percent of GNP. In order to offset some of the adverse developments in the budget, the authorities passed a supplementary budget consistent with a net decrease in the consolidated deficit of 0.7 percentage point over the last four months of 1986. These included D 6.7 million of revenue measures arising from increases in taxes on alcohol, tobacco, and services, and D 62 million of savings on expenditure, which were partly offset by D 21.5 million of extra spending. The savings were concentrated on capital expenditure with D 20 million saved by delaying or canceling proposed investment and a further D 20 million cut in capital transfers. A reduction in subsidies generated a further saving of D 11 million with the remainder coming from cuts in purchases

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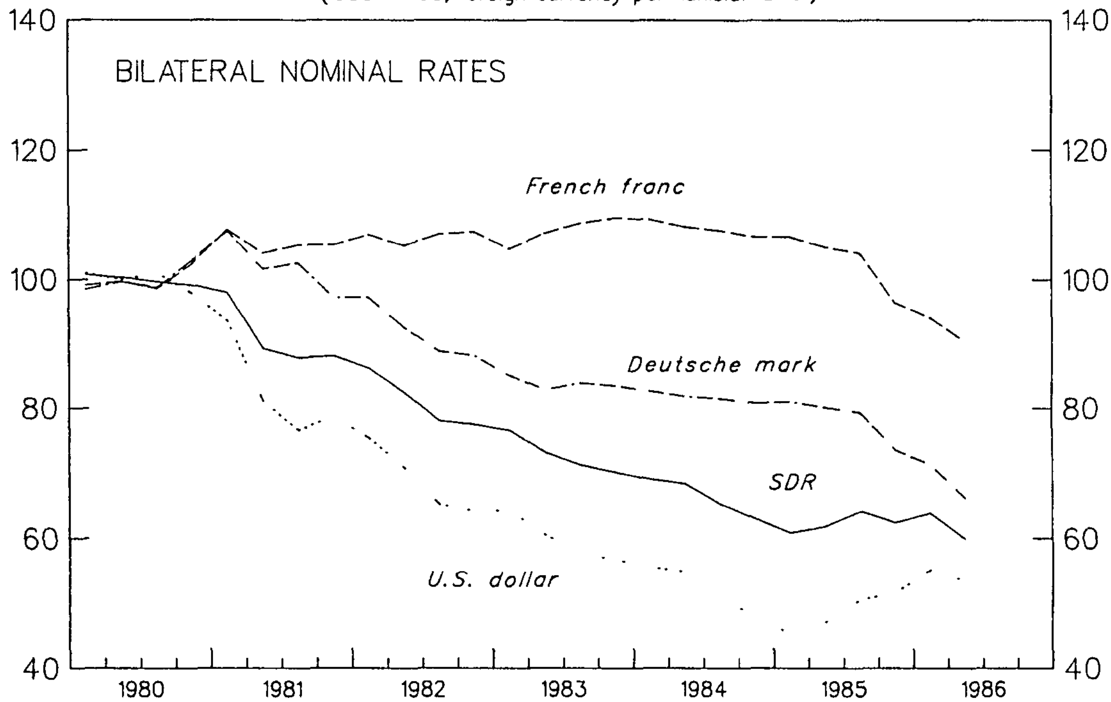
1/ The reduction in the export price of oil in particular had a significant impact on revenue. It is estimated that each US$1.00 change in the price of oil affects government revenue by D 6 million, and for 1986 the corresponding revenue shortfall is projected at D 66 million.

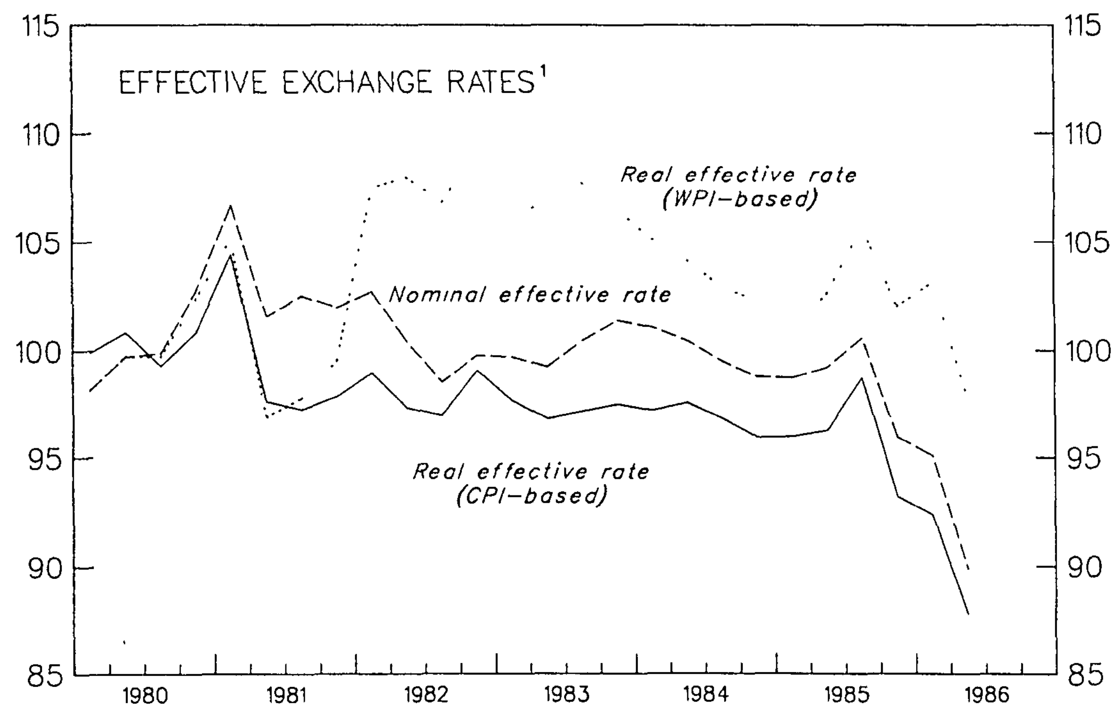
CHART 3

TUNISIA

INDICES OF SELECTED EXCHANGE RATES, 1980 - 86

(1980 = 100; foreign currency per Tunisian dinar)





Source: IMF Data Fund

[1] Weighted by total trade (excluding petroleum) plus tourism in 17 trading partners.

of goods and services. At the same time, education expenditures, principally school construction, will cost D 14 million and increases in family allowances will add D 7.5 million to budgetary expenditure.

As a result of these measures, revenue is now projected at a level just above that of 1985 with a ratio to GNP of 34 percent, while expenditure growth will be kept below 4 1/2 percent with a ratio to GNP of just over 40 percent, the lowest level since 1982 (Table 7). It is therefore expected that the 1986 overall fiscal deficit will be limited to D 429 million (6.0 percent of GNP), with D 282 million of the required financing coming from net drawings on external loans and D 66 million from nonbank domestic sources, thus allowing domestic bank financing to be limited to D 81 million, equivalent to 2.6 percent of beginning money stock (compared with D 103 million, 3.8 percent of beginning money stock in 1985).

For 1987 the authorities have undertaken to limit the consolidated deficit to D 318 million (3.9 percent of GNP), thus representing a reduction of over 2 percentage points of GNP. The detailed budgetary proposals that will allow the attainment of this objective will be discussed with the staff in November 1986, before the budget is finalized. Nevertheless, the authorities plan to introduce at least D 50 million of additional revenue measures which would imply an increase in revenues and grants of about 8 percent, or a reduction in the revenue ratio of 1 1/2 percentage points. To be consistent with the overall deficit target, such an increase would require limiting expenditure growth below 3 percent--a cut of 3 1/2 percent of GNP in the expenditure ratio. The Government will limit new recruitment to 2 percent and cut both capital transfers and current subsidies by at least 5 percent. Therefore, the required constraints on expenditure could still be consistent with a 4-5 percent general salary increase and sufficiently large increases in expenditure on goods and nonwage services so as to guarantee efficiency in government operations.

The expenditure control mechanisms have generally proven effective, although in recent years small amounts of arrears have arisen in connection with purchases of goods and services from public enterprises. These arrears were under D 16 million (0.2 percent of GNP) in both 1983 and 1984. While final figures for 1985 are not available, it is believed that the magnitude was similar at end-1985. These arrears have generally been liquidated within the first few months of the following budget year and have not constituted a serious problem. The 1987 budgetary allocation will include sufficient amounts to eliminate the carryover of arrears in the first months of the new year, as well as to prevent future accumulations. Furthermore, starting in January 1987, the authorities will computerize and centralize the monitoring of consolidated central government financial operations and new procedures will be introduced to allow the Ministry of Planning and Finance to monitor all disbursements of foreign loans as well as all extrabudgetary operations financed by such loans. In addition, the authorities plan at the start of the 1987 budget year to cancel all outstanding but unused

Table 7: Tunisia: Consolidated Financial Operations of the Central Government, 1982-87 1/

	1982	1983	1984	1985	1986 Budget	1986 Supplementary budget	1987 Preliminary projections 2/
	(In millions of dinars)						
Revenue and grants	1,658.3	1,862.7	2,285.4	2,450.9	2,618.9	2,457.5	2,643.5
Tax revenue	1,245.2	1,479.6	1,652.3	1,832.2	1,987.3	1,860.2	1,942.5
Other revenue and grants	413.1	383.1	633.1	618.7	631.6	597.3	651.0
Nonpetroleum related	(83.5)	(111.0)	(284.7)	(239.0)	(229.6)	(265.3)	(301.0)
Petroleum	(329.6)	(272.1)	(348.4)	(379.7)	(402.0)	(332.0)	(350.0)
New measures							50.0
Total expenditure and net lending	1,919.1	2,311.2	2,655.2	2,764.3	2,856.5	2,886.0	2,961.5
Current	1,289.8	1,551.9	1,746.8	1,895.1	2,048.6	2,009.4	...
Wages and salaries	(481.5)	(573.6)	(633.2)	(691.4)	(745.3)	(740.8)	(...)
Other goods and services	(203.0)	(308.9)	(232.8)	(215.4)	(224.0)	(219.5)	(...)
Interest payments	(104.0)	(130.0)	(168.5)	(196.0)	(229.5)	(239.8)	(...)
Subsidies, transfers, and other	(501.3)	(539.4)	(712.3)	(792.3)	(849.8)	(809.3)	(...)
Capital	432.1	516.5	586.3	683.0	664.2	624.2	...
Direct investment	(207.4)	(247.4)	(318.7)	(314.3)	(357.2)	(337.2)	(...)
Capital transfers and equity	(224.7)	(269.1)	(267.6)	(368.7)	(307.0)	(287.0)	(...)
Net lending	197.2	242.8	322.1	186.2	143.7	252.4	...
Deficit	-260.8	-448.5	-369.8	-313.4	-237.6	-428.5	-318.0
Financing	260.8	448.5	369.8	313.4	237.6	428.5	318.0
Foreign	196.2	284.1	207.0	205.2	77.8	281.9	223.0
Drawings	(287.2)	(415.0)	(377.4)	(410.9)	(344.4)	(535.4)	(539.0)
Amortization	(-91.0)	(-130.9)	(-170.4)	(-205.7)	(-266.6)	(-253.5)	(-316.0)
Domestic	64.6	164.4	162.8	108.2	159.8	146.6	95.0
Banks	(51.0)	(47.0)	(97.0)	(103.0)	(105.1)	(81.0)	(49.0)
Other	(13.6)	(117.4)	(65.8)	(5.2)	(54.7)	(65.6)	(46.0)
Memorandum items:	(In percent of GNP)						
Revenue and grants	34.3	33.6	36.4	36.0	36.4	34.2	32.7
Expenditure	39.6	41.6	42.3	40.6	39.7	40.1	36.7
Deficit	-5.4	-8.1	-5.9	-4.6	-3.3	-6.0	-3.9

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.
2/ Staff projections.

budgetary authorizations for capital expenditure, thus allowing the implementation of the Seventh Plan without a backlog of uncommitted but authorized expenditure.

To support their fiscal adjustment effort, the authorities are presently undertaking a major tax reform aimed at widening the tax base, increasing the elasticity of tax revenue, and reducing the dependency of the tax system on imports. Substantial progress has been made recently toward a progressive introduction of a value-added tax (VAT) through the widening of the scope of the production tax. In 1986 the rate of the tax on services was increased twice (in the initial and the supplementary budget) in order to put it closer to that of the production tax. In August, the Government announced, as part of its adjustment program, its decision to speed up the tax reform with the objective of introducing a VAT effective January 1988. For this purpose, a draft bill has been prepared and is presently being discussed. The authorities intend to submit the draft bill to the National Assembly during the first quarter of 1987. As regards taxes on income and profits, the authorities have also made substantial progress toward implementing a global income tax by progressively reducing the rates for schedular taxes and increasing the role of the general income surtax (contribution personnelle d'Etat). It is the authorities' intention to move further in this area and to draw up during the program period a timetable for a complete unification of income and profit taxation. The progress in the implementation of the tax reform will also be a subject for discussions during the second review of the program with the Fund.

h. Credit and monetary policies

Credit and monetary policies under the program have been designed to complement the program's other elements and help underpin the growth and external targets. Thus, in marked contrast with developments in recent years, the authorities intend to keep the growth in money plus quasi-money to a rate below that in nominal GNP over the program period. Simultaneously, a fundamental change is being introduced in the determination of most interest rates and in the modalities of the Central Bank's intervention in the money supply process and in credit distribution.

It should be noted that already in 1985, the authorities had recognized the need to introduce flexibility in the interest rate policy and to move rates to positive real levels. Thus, various interest rates were increased, with the result that most lending rates became positive in real terms and an increased proportion of deposit rates secured real positive returns. However, the Central Bank retained rather complete control of interest rate determination. In addition, the Central Bank has continued to influence credit expansion and allocation by a variety of means, including numerous rediscount facilities, prior approval for credits accorded by banks, and issuing specific instructions to individual banks.

Under the program, the Tunisian authorities will free most interest rates and, to influence credit developments, will channel a major part of the Central Bank's intervention through the money market. Thus, beginning in January 1987, the Central Bank will fix only the preferential lending rates (relating to agriculture, exports, small- and medium-sized enterprises, and energy savings projects, accounting together for about 25 percent of credit to the economy) and saving (but not time) deposit rates. All other rates will be freely determined by banks (subject to usury ceilings which are expected to be flexible and take into account the existing inflationary and other considerations). Furthermore, central bank lending to banks will take place essentially through the money market at rates to be determined by the Central Bank as a function of its targeted credit policy; its rediscount facilities at fixed rates will be confined to credits provided at preferential rates. Thus, it is expected that the monetary authorities will set as targets, within a reasonably narrow range, monthly amounts of central bank credit to be injected into the economy in support of the authorities' overall monetary and credit targets. The interest rate at which the Central Bank will provide credit through the money market to the deposit money banks will be a function of the amount demanded in relation to the targeted amount to be offered by the Central Bank. Finally, the present requirement of obtaining the Central Bank's prior approval for loans granted by banks will be modified, and most short-term loans below D 5.0 million will be exempt from the requirement, compared with the present limit of D 1.0 million.

For 1986, the authorities are committed to limiting the rate of growth in M2 to that projected for nominal GNP (5.7 percent), while, for 1987, the intention is to contain the increase in M2 to 9 percent, a rate considerably below that projected for the growth in GNP (12.4 percent--Table 8). Taking into account the external reserve targets, these rates of growth in money supply imply that domestic credit expansion be limited to 10.5 percent in 1986 and to 8.4 percent in 1987. Accordingly, and as performance criteria, the level of domestic credit would not exceed D 4,348 million at the end of 1986 and D 4,714 million at end-1987. Within these limits, and also as performance criteria, the level of net credit to Government would not exceed D 635 million at end-1986 and D 684 million at end-1987. The end-1987 limit on the level of net credit to Government presupposes that D 223 million of net external financing will be available to finance the government deficit. Should such financing exceed this level, the ceiling would be adjusted downwards correspondingly, to the benefit of credit to the economy. Similarly, the end-1987 limit on the level of domestic credit presupposes that the additional exceptional assistance to cover the balance of payments gap in 1987 would amount to SDR 376 million. Should this assistance turn out to be higher, either the limit on the level of domestic credit or the medium-term nonconcessional external borrowing would be adjusted accordingly. For 1987, and as indicative targets (to be reviewed and established as performance criteria at the time of the reviews of the program), the level of domestic credit would not exceed D 4,334 million and D 4,502 million at end-March 1987 and end-June 1987,

Table 8. Tunisia: Monetary Survey, 1984-87

(In millions of dinars; end of period)

	1984	1985	1986			1987		
			June	Sept.	Dec.	March	June	Dec.
						Projections		
Monetary system								
Net foreign assets	289	201	-51	-30	11	-150	-170	120
Central Bank	(285)	(209)	(-51)	(-30)	(11)	(-150)	(-170)	(120)
Deposit money banks	(4)	(-8)	(--)	(--)	(--)	(--)	(--)	(--)
Domestic credit	3,359	3,935	4,036	4,028	4,348	4,334	4,502	4,714
Net credit to the Govt.	(451)	(554)	(598)	(508)	(635)	(606)	(666)	(684)
Credit to the economy	(2,908)	(3,381)	(3,438)	(3,520)	(3,713)	(3,728)	(3,836)	(4,030)
Money plus quasi-money	2,715	3,091	2,976	3,032	3,266	3,161	3,222	3,560
Of which:								
Deposits of CCP	(82)	(84)	(84)	(84)	(84)	(84)	(84)	(84)
Other items (net)	933	1,045	1,009	966	1,093	1,023	1,110	1,274
Central Bank								
Net foreign assets	285	209	-51	-30	11	-150	-170	120
Net credit to the Govt.	-36	-31	32	32	32	32	32	32
Credit to the economy	118	140	155	165	170	175	180	185
Claims on the deposit money banks	688	811	999	904	1,032	1,097	1,211	1,148
Currency in circulation	573	633	627	606	653	632	644	712
Private sector deposits	1	7	7	7	7	7	7	7
Other items (net)	481	489	501	458	585	515	602	766
Deposit money banks								
Net foreign assets	4	-8	--	--	--	--	--	--
Net credit to the Govt.	405	501	482	392	519	490	550	568
Credit to the economy	2,790	3,241	3,283	3,355	3,543	3,553	3,656	3,845
Monetary and quasi-monetary deposits	2,059	2,367	2,258	2,335	2,522	2,438	2,487	2,757
Credit from Central Bank	688	811	999	904	1,032	1,097	1,211	1,148
Other items (net)	452	556	508	508	508	508	508	508

Sources: Central Bank of Tunisia, Statistiques Financières; and data provided by the Tunisian authorities.

respectively. The indicative targets for net credit to Government are D 606 million for end-March 1987 and D 666 million for end-June 1987. The limits on net credit to Government imply that a declining proportion of the increase in domestic credit goes to the Government. Whereas over the 18-month period ended June 1986 net credit to Government absorbed almost 22 percent of domestic credit expansion, the Government's share over the program period July 1986-December 1987 would fall sharply to about 12.5 percent. Moreover, the domestic credit targets imply that central bank accommodation of the deposit money banks be sharply curtailed. For the program period, the increase in central bank claims on the deposit money banks is projected by the staff at only 15 percent, compared with a 45 percent increase in the 18-month period ended June 1986.

i. Balance of payments and financing gaps

In order to support the new liberalization policy, the authorities have set as an objective the reconstitution of gross foreign reserves of the Central Bank to a minimum of 1 1/2 months of annual imports by the end of the program period, compared with less than two weeks of annual imports at end-August 1986. Consistent with this objective, the program aims at containing the loss in gross international reserves during 1986 to less than SDR 60 million--notwithstanding a decline of SDR 154 million during the first half of the year--and at a reserve increase of SDR 140 million in 1987. An important element in this respect would be the projected narrowing in the current account deficit, which would derive in the main from a significant increase in nonenergy export volumes as well as restrained growth of import volumes. On the export side, the most dynamic performance is expected for phosphates and derivatives (reflecting the start-up of new production capacity) and textiles, while the volume of energy exports is projected to fall mirroring the dwindling of crude oil reserves. In SDR terms, total export earnings in 1986 will drop by about 14 percent, largely due to the decline by over one half in the price of energy exports; a moderate recovery of 4.3 percent is projected for 1987. Nonenergy exports, however, are projected to increase by more than 15 percent in 1986 and by 10 percent in 1987. 1/ The decline in imports in 1986 and only a marginal growth expected in 1987 reflect the price related drop in energy imports, the significant reduction foreseen for investment goods imports associated with the programmed rationalization of investment, as well as the impact of restrained demand-management policies on consumer goods imports. An important role in the authorities' efforts to contain imports, notwithstanding a gradual lifting of restrictions, will doubtless be played by an appropriate exchange rate policy.

1/ A more detailed description of the staff's export projection is contained in the accompanying paper on Tunisia's request for a purchase under the compensatory financing facility.

A further significant contribution to the narrowing in the current account deficit is expected from a turnaround in the services and transfers balance. This turnaround, which would be attained despite increasing interest payments abroad, would derive from a recovery in tourism receipts and workers' remittances from their declining trend over the recent years. Important elements in this regard would be a competitive exchange rate, a return of calm to the Mediterranean region, and a general strengthening of confidence as the authorities' adjustment program takes hold.

Allowing for the programmed current account deficits of SDR 709 million in 1986 and SDR 575 million in 1987, the targets for the changes in gross international reserves of minus SDR 58 million and plus SDR 140 million, respectively, as well as amortization payments of SDR 420 million and SDR 490 million, respectively, Tunisia's gross financing requirement amounts to SDR 1,071 million in 1986 and SDR 1,205 million in 1987. Of this need, approximately SDR 175 million in 1986 and SDR 137 million in 1987 is to be met by expected grants and net investment inflows. In addition, gross disbursements on medium- and long-term loans already committed, or for which firm indications of supplementary assistance have been received, will amount to SDR 652 million in 1986 and SDR 651 million in 1987. 1/

On the basis of these elements, a remaining financing need of SDR 245 million in 1986 and of SDR 417 million in 1987 exists. The need for 1986 is expected to be covered as follows: a total of SDR 149 million would be purchased from the Fund under the proposed stand-by arrangement as well as under the requested compensatory financing facility, and the remaining SDR 96 million is expected in the form of additional private and development bank borrowing as well as suppliers' credits related to imports. For 1987, after proposed purchases from the Fund (SDR 41 million) a residual gap of SDR 376 million remains to be covered. The authorities are seeking additional assistance in the form of long-term bilateral or multilateral aid, as they feel that medium-term borrowing on the scale referred to above would unduly worsen the maturity profile of Tunisia's external debt. Accordingly, they have requested that the World Bank, in close cooperation with the Fund, convene an informal meeting of principal aid donors to mobilize the needed financing.

In terms of the program, ceilings have been established for the contracting or guaranteeing by the Government of nonconcessional medium-term external debt. These limits are consistent with the level needed to satisfy the projected financing needs. Moreover, limits have been set for the short-term external debt, which imply no increase from the present level of such debt. The limits on medium-term borrowing are lower than the residual gap for 1987, in line with the authorities' intention to preserve an adequate profile of Tunisia's external debt.

1/ These include sectoral adjustment loans from the World Bank and exceptional assistance from friendly countries on a bilateral basis.

The details of the financing of the gap for 1987 will be among the principal subjects to be covered during the first review of the program with the Fund.

j. <u>Performance criteria, targets, reviews, and phasing of purchases</u>

Quantitative performance criteria have been established for end-December 1986 and end-December 1987 with respect to domestic credit of the banking system, and net credit to the Government from the banking system (Table 9). Also, quantitative performance criteria have been established for the period September-December 1986 and the period September 1986-December 1987 with respect to the cumulative amounts of external nonconcessional debt contracted or guaranteed by the Government with maturities of between one and five years and between one year and up to 12 years. In addition, there is a performance criterion covering the program period through December 1987 in respect of the stock of government or central bank external debt of one year or less, with the exception of credits relating to import financing. Finally, as a performance criterion, there will be no accumulation of external payments arrears during the period of the stand-by arrangement.

Indicative targets have been established for the periods ending December 1986, March 1987, June 1987, and December 1987 with respect to the level of net foreign assets of the monetary system; for the fiscal years ending December 1986 and December 1987 with respect to the consolidated budget deficit; for the fiscal year ending December 1986, with respect to government revenue and grants and with respect to government expenditures and net loans; and for the periods ending March 1987 and June 1987 with respect to the levels of domestic credit of the banking system and of net credit to the Government from the banking system. In the event that the targets with respect to the net foreign assets of the monetary system or the consolidated budget deficit are not met, consultation with Fund management would be required.

Three reviews are scheduled with the Fund, to be completed before end-February 1987, end-September 1987 (discussions for which are envisaged to take place during the 1987 Article IV consultation mission), and end-January 1988. The first review will focus on the 1987 budget, the exchange rate, progress with respect to the liberalization of imports and prices, and efforts to secure financing to close the external financing gap for 1987, and will establish performance criteria for the periods ending March 1987, June 1987, and September 1987, with respect to domestic credit of the banking system and with respect to net credit to the Government from the banking system. Also, during the first review, indicative targets will be established for the periods ending March, June, and September 1987 with respect to the consolidated government deficit, for all four quarters of 1987 with respect to total government expenditures and revenues, and for end-September 1987 with respect to net foreign assets of the monetary system. The second review will concentrate on the exchange rate, progress relating to fiscal

Table 9. Tunisia: Performance Criteria and Indicative Targets, 1/
September 1986-December 1987

	1986		1987		
	Sept.	Dec.	March	June	Dec.
A. Performance criteria			(In millions of dinars)		
1. Domestic credit	4,028 2/	4,348	4,334 3/	4,502 3/	4,714
2. Net credit to the Government	508 2/	635	606 3/	666 3/	684
			(In millions of SDRs)		
3. External public debt 4/					
3.a 0-1 year (amount outstanding, excluding import-related credit)	120 2/	120	120	120	120
3.b New nonconcessional external borrowing (cumulative)					
i. 1-5 years	...	15	65	65	65
ii. 1-12 years	...	100	450	450	450
4. External payments arrears (outstanding)	--	--	--	--	--
B. Indicative targets 5/			(In millions of dinars)		
1. Consolidated budget deficit 6/	...	429	... 7/	... 7/	318
2. Total revenue and grants 6/	...	2,458	... 7/	... 7/	... 7/
3. Total expenditure and net lending (excluding amortization) 6/	...	2,886	... 7/	... 7/	... 7/
			(In millions of SDRs)		
4. Net foreign assets of the monetary system	-29	10	-147	-167	109

1/ The performance criteria and indicative targets for September 1987 and March 1988 will be set during the reviews mentioned in the Memorandum.
2/ Not a performance criterion.
3/ Indicative targets to be reviewed and made into performance criteria during the reviews mentioned in the Memorandum. The ceilings on net credit to the Government will be reduced in accordance with paragraph 34 of the Memorandum.
4/ Contracted or guaranteed by the Government.
5/ The specified targets for 1987 will be revised, if necessary, during the first program review.
6/ Cumulative level for the fiscal year.
7/ Targets to be set during the first program review.

reform, especially with a view to ensuring the implementation of the value-added tax at the beginning of 1988, and will establish indicative targets for March 1988 with respect to domestic credit of the banking system, net credit to Government from the banking system, net foreign assets of the monetary system, and external borrowing. The third review will encompass the overall economic and financial policy stance for 1988 and will establish performance criteria for the period ending March 1988 with respect to domestic credit of the banking system, net credit to the Government from the banking system, and external borrowing.

There would be seven purchases under the stand-by arrangement. Subsequent to an initial purchase of SDR 35 million (25.3 percent of quota) to be available upon Fund approval of the arrangement, further purchases, available at quarterly intervals, would be phased as follows: SDR 9 million (6.5 percent of quota) to be available no earlier than January 31, 1987 subject to observance of the end-December 1986 performance criteria; SDR 10 million (7.2 percent of quota) to be available no earlier than April 30, 1987, subject to observance of the end-March 1987 performance criteria and completion of the February 1987 review; SDR 10 million (7.2 percent of quota) to be available no earlier than July 31, 1987, subject to observance of the end-June 1987 performance criteria; SDR 12 million (8.7 percent of quota) to be available no earlier than October 31, 1987, subject to observance of the end-September 1987 performance criteria and completion of the September 1987 review; SDR 15 million (10.9 percent of quota) to be available no earlier than January 31, 1988, subject to observance of the end-December 1987 peformance criteria and completion of the January 1988 review; and SDR 12.65 million (9.2 percent of quota) to be available no earlier than April 30, 1988, subject to observance of the end-March 1988 performance criteria.

IV. Staff Appraisal

The staff's assessment of recent economic and financial developments in Tunisia and its recommendations as to the broad elements of an adjustment strategy needed to redress the situation are contained in the staff report for the 1986 Article IV consultation with Tunisia (SM/86/237). The adjustment program proposed by the authorities in support of their request for a stand-by arrangement conforms closely with those recommendations. It also incorporates many of the recommendations of the World Bank staff, with whom the Tunisian authorities have had extensive discussions in the context of negotiations on two sectoral loans in agriculture and industry (see Appendix III). The Tunisian program carefully blends structural measures with demand management policies within the medium-term development perspective of the Seventh Development Plan (1987-91).

The objectives of the program are both realistic and attainable. The programmed real economic growth rate of about 1 percent in 1986 and 3.5 percent in 1987 may not appear high compared with the average annual growth rate of about 5 percent realized during the three-year period 1983-85. However, the earlier growth rates reflected a very high rate of investment and were obtained at the cost of a severe deterioration in the financial balances, including a large increase in external indebtedness and a substantial loss of foreign reserves. In contrast, the coming years are expected to witness a declining trend in the production and export of petroleum and sharply lower terms of trade. Moreover, Tunisia will also need to operate within a greater resource constraint in view of its already large external debt. Thus, the stated objective of the program to allow for only a moderate increase in the debt service ratio appears appropriate. The proposed borrowing limits for 1986 and 1987 were set in the context of this objective.

Given the resource constraint facing Tunisia, the authorities have correctly placed emphasis on structural policies to improve the efficiency of resource use, and on reducing financial imbalances. Until recently, they have relied on state intervention in the form of either publicly owned production and marketing enterprises or regulation of private activity through an extensive system of controls on prices, investment, and imports. Under the program, there would be a major reorientation of policies away from controls toward liberalization and privatization of the economy. For this purpose the authorities have prepared specific and detailed timetables for the liberalization of prices, investment, and imports. A similar timetable would be prepared before end-1986 regarding the substantial reduction in the number of enterprises that would remain in the public sector and the privatization of the remainder. The authorities plan to complete this process of liberalization gradually over the period covered by the Plan, with a large part of the process being implemented in 1986 and 1987 as described in the attached Memorandum on Economic and Financial Policy. The staff believes that the pace of liberalization could be accelerated to provide clearer signals to the economy. The authorities do not disagree with this and have indicated their readiness to consider an accelerated implementation in light of the experience during the initial phase of liberalization.

It is also recognized that the above-mentioned liberalization policies would have their maximum impact if they were complemented with appropriate exchange rate and interest rate policies. In this connection, the 20 percent depreciation of the dinar in real terms, effected during the first eight months of 1986, has improved significantly the international competitiveness of the Tunisian economy and compensated for the adverse turn in the terms of trade; the current real effective exchange rate is now approximately 20 percent below the level prevailing in 1980-81. The authorities have declared their intention to maintain the level of the real effective exchange rate at least at its end-August 1986 level. This should help Tunisia toward realizing theexport targets of the program and to underpin progress toward a liberal import system. However, the exchange rate policy will be one of the subjects for the three reviews of the program.

All administered interest rates, with the exception of preferential lending rates and savings deposit rates, will be abolished, in order to allow market forces to determine their level and structure. The Central Bank will also restrict the scope of its rediscount facilities, which are provided at fixed rates, to only those credits in the preferred activities. Thus, most of its credit to the banks will be channeled through the money market and at rates that take into account the overall monetary and credit targets. This implies that the authorities have a firm grasp of the relationship between the provision of primary liquidity and the expansion of credit and money in the economy, and that they accept the possibility of adjusting interest rates continuously. If properly executed, such a policy would greatly simplify the interest rate structure and would be a potent means of ensuring an efficient utilization of financial flows. Under the program, the expansion of domestic credit will be limited to only 10.5 percent in 1986 and to 8.4 percent in 1987. This would require that the expansion of primary liquidity by the Central Bank be kept to a rate substantially below that in recent years. This restrained expansion, along with the realization of the balance of payments targets, should reverse the past trends where monetary growth exceeded by a considerable margin the growth in nominal GNP.

A further significant part of the adjustment effort is to be derived from a substantial strengthening of public finance. The fiscal side of the program for 1986 and 1987 has three main aspects: (i) a reduction in the overall deficit by 2.7 percentage points during the program period through 1987 (of which 0.7 percentage points in 1986); (ii) a limit on net bank credit to Government so as to reduce the proportion of domestic credit expansion going to the Government; and (iii) a strengthening of the budget monitoring process. Accordingly, the 1987 budget will need to be formulated within tight constraints. While on the revenue side the authorities do propose to introduce certain new tax measures, the bulk of the restraint will have to be exercised on the expenditure side. In particular, expenditures on subsidies must continue to be reduced, and capital transfers and subsidies curtailed sharply; the latter points to the importance of an early implementation of the proposed reform of state enterprises. For 1987, the program envisages that sufficient amounts will be included in expenditure allocations to avoid any new accumulation of arrears (which in the past have been small). Furthermore, the monitoring of expenditures will be centralized for all foreign loan disbursements and all extrabudgetary operations financed by such loans. Finally, all unused budgetary authorizations for capital expenditure will be canceled at the start of the 1987 budget to allow the Seventh Plan to start without a backlog of uncommitted but authorized expenditures. On the revenue side, a major tax reform is being undertaken by the authorities to increase the elasticity of the tax system and to reduce its dependency on imports. The VAT will be discussed by the legislature in early 1987 with a view to introducing it in 1988. A timetable is also to be established in 1987 for the unification of income and profit taxation. Finally, a cautious wages and employment policy will also be needed, though, in the longer term, a policy of complete wage freeze would be unsustainable and mask the needed underlying budgetary adjustment. The limits on net bank credit to the Government for 1987 are adjustable downward in the event the net amount of external financing for the budget exceeds the projected level. This would provide for a necessary margin of flexibility for credit to the economy, which would appear to be relatively tight, given that the dinar has been depreciated significantly and the scope for private sector activity is to be enhanced.

The balance of payments objectives imply a residual financing gap of SDR 96 million in 1986 and SDR 376 million in 1987 (after taking into account the proposed purchases under the stand-by arrangement and the CFF). The authorities believe, and the staff agrees, that the gap in 1986 will in fact be covered by additional private sector (development bank) borrowing on the international financial markets and by suppliers' credits of medium-term maturity. However, the financing of the 1987 gap remains problematic. Some new public borrowing from international financial markets in 1987 could be reasonably expected, as discussions with the banks are to be initiated soon. In addition, some recourse to suppliers' credits can also be anticipated. However, the staff fully supports the authorities' view that it would be preferable to limit recourse to borrowing on commercial terms below that provided under the program's ceilings on short- and medium-term borrowing, in order to prevent an undue deterioration in Tunisia's external debt profile. Thus, the authorities have requested the World Bank to convene, in cooperation with the Fund, a donors' meeting in early 1987 where it is hoped that additional, exceptional, and concessional assistance to cover the bulk of the external financing gap would be forthcoming. The covering of the 1987 financing gap would be one of the principal subjects of the first review of the program to be completed before end-February 1987.

Over the medium-term period, the program aims at reducing the external current account deficit to about 3 percent of GNP by 1991 and at reconstituting Tunisia's gross external reserves to a level equivalent to nearly two months of imports by end-1988. At the same time, the level of external debt will be limited to 64 percent of GNP in 1988, before declining to 58 percent in 1991, while the debt service ratio will increase from 25.3 percent in 1986 to 30.6 percent in 1990, before dropping to 28.5 percent in 1991. These estimates of debt service ratios are based on the assumption that a significant part of the financing gaps during the period would be covered by nonconcessional medium-term loans. However, the staff hopes that recourse to such borrowing would be significantly lower and that the international community would support Tunisia's adjustment effort by providing additional concessional assistance.

The staff believes that the implementation of the proposed program constitutes an important advance toward adjustment along with structural reform of the economy. The authorities intend to pursue the adjustment effort for a number of years in order to restore the balance of payments to a sustainable position over the Seventh Plan period. The projected decline over the medium term in the external current account deficit, the consequent modest growth in external debt and an improvement in the debt profile, and the targeted increase in external reserves should enable Tunisia to service its debt obligations in a timely and orderly fashion, including repurchases from the Fund in respect of the proposed purchases under the stand-by arrangement and the CFF. Tunisia has a good record in servicing its external debt and its debt service commitments to the Fund will average only 1.1 percent of current receipts during the period 1987-91. In the two years 1990 and 1991, when repurchases to the Fund are bunched, Tunisia's debt service obligations to the Fund would be only about 2.7 percent of current receipts, or the equivalent of 20 percent of the programmed gross reserves.

V. Proposed Decision

In view of the above, the following draft decision is proposed for adoption by the Executive Board:

1. The Government of Tunisia has requested a stand-by arrangement for the period of 18 months from November --, 1986 in an amount equivalent to SDR 103.65 million.

2. The Fund approves the stand-by arrangement attached to EBS/86/236.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Tunisia - Stand-By Arrangement

Attached hereto is a letter with annexed Memorandum on Economic and Financial Policy dated September 25, 1986, from the Minister of Planning and Finance and the Governor of the Central Bank of Tunisia, requesting a stand-by arrangement and setting forth (a) the objectives and policies that the authorities of Tunisia intend to pursue for the period of this stand-by arrangement; and (b) understandings of Tunisia with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Tunisia will pursue for the period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of 18 months from November __, 1986, Tunisia will have the right to make purchases from the Fund in an amount equivalent to SDR 103.65 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 35.0 million until January 31, 1987; the equivalent of SDR 44.0 million until April 30, 1987; the equivalent of SDR 54.0 million until July 31, 1987; the equivalent of SDR 64.0 million until October 31, 1987; the equivalent of equivalent of SDR 76.0 million until January 31, 1988; and SDR 91.0 million until April 30, 1988.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Tunisia's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary resources only.

4. Tunisia will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Tunisia's currency in the credit tranches beyond 25 percent of quota, or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that:

(i) the limit on domestic credit of the banking system described in paragraph 33 of the annexed Memorandum, or

(ii) the limit on net claims on the Government by the banking system described in paragraph 33 of the annexed Memorandum, or

(iii) the limits on new nonconcessional foreign indebtedness contracted or guaranteed by the Government described in paragraph 22 of the annexed Memorandum are not observed; or

(b) if there is any accumulation of external payments arrears; or

(c) after February 28, 1987, until the reviews contemplated in paragraph 36 of the annexed Memorandum have been completed, and suitable performance criteria have been established, or after such performance criteria have been established, while they are not being observed; or

(d) during the entire period of this stand-by arrangement if Tunisia

(i) imposes new or intensifies existing restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices; or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Tunisia is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Tunisia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Tunisia will not make purchases under this stand-by arrangement during any period of the arrangement in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. Tunisia's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal made by an Executive Director or the

Managing Director, formally to suppress or to limit the eligibility of Tunisia. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Tunisia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Tunisia, the Fund agrees to provide them at the time of the purchase.

8. Tunisia shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) Tunisia shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement, in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Tunisia's balance of payments and reserve position improves.

(b) Any reductions in Tunisia's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

10. During the period of the stand-by arrangement, Tunisia shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Tunisia or of representatives of Tunisia to the Fund. Tunisia shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Tunisia in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 35 of the annexed Memorandum, Tunisia will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the stand-by arrangement and while Tunisia has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Tunisia's balance of payments policies.

ATTACHMENT

Tunis, September 25, 1986

Mr. Jacques de Larosière
Managing Director
International Monetary Fund

Dear Mr. de Larosière:

As you are aware, Tunisia experienced sustained economic development throughout the 1970s, as a result of which it was able to achieve a number of substantial gains and attain new levels of development.

Since the beginning of the 1980s, however, unfavorable and largely exogenous factors have arisen and have thwarted the achievement of the objectives set out in our development plans.

To confront this situation, in the Sixth Plan we adopted a strategy based on rapid export growth and control of domestic demand with a view to assuring growth and creating jobs in a framework of sustainable and tolerable financial equilibria.

The measures implemented throughout the last four years (1982-85) have thus made it possible, in spite of the difficulties and obstacles encountered, to preserve the thrust of development and continue the effort to achieve growth and create jobs while containing pressures on the balance of payments and government finance, as witnessed by the results obtained during the period, including:

real GDP growth at an average annual rate of 5 percent in 1983-85, after the stagnation of 1982;

169,000 jobs created over the period as a whole, making it possible to absorb 75 percent of the additional demand;

a cut in the consolidated central government budget deficit from 8.1 percent of GDP in 1983 to 4.6 percent in 1985;

an external current account deficit of only 7.2 percent of GNP in 1985, compared with 9.4 percent in 1982.

For 1986, as you know, the initial forecasts referred to increased adjustment in order to consolidate the recovery begun in 1985 and bring about conditions for more balanced growth for the next Plan.

However, the unexpected deterioration in the terms of trade at the beginning of 1986 (particularly as a result of the collapse in oil prices), the stagnation of tourism due to the situation in the Mediterranean Basin, and unfavorable climatic conditions led to a marked deterioration in the economic and financial situation and mean that it is no longer possible to achieve the objectives set out in the Economic Budget.

This evolution has led the Government to accelerate implementation of the structural adjustment program so as to adapt the economy to the new context, and to take additional measures to strengthen export promotion and to contain domestic demand.

This program, the details of which are set out in the attached memorandum, is intended to ensure, for the period of the Seventh Plan, real GDP growth of 3.5-4 percent, job creation to meet three quarters of additional demand, gradual absorption of the net budget deficit, a substantial reduction in the external current account deficit, and a limitation on external debt service.

In order to achieve these objectives, we intend to accelerate the gradual liberalization of the economy and vigorously to continue to pursue policies to contain domestic demand and promote exports.

For this we hope to obtain the support of the International Monetary Fund in the form of an 18-month stand-by arrangement, in the amount of SDR 103.65 million, to enable us to carry out the program in accordance with the established schedule and without recourse to temporary precautionary measures.

The Tunisian Government believes that the policies described in the memorandum should make it possible to achieve the objectives of the program for 1986 and 1987. It will take any additional measures necessary to achieve the objectives laid down, and it will of course consult the Fund throughout the period of the stand-by arrangement in accordance with the institution's policies.

Sincerely yours,

/s/

Mohamed SKHIRI
Governor
Central Bank of Tunisia

/s/

Ismaïl KHELIL
Minister of Planning and Finance

Memorandum on the Economic and Financial Policy of the Government of the Republic of Tunisia

I. Introduction

1. During the 1970s and until the early 1980s, Tunisia registered relatively fast economic growth while preserving its internal and external financial equilibrium. During this period, the annual rate of growth of real GDP was about 6-8 percent, and, thanks to a favorable evolution of the terms of trade, the balance of payments registered substantial surpluses, which led in turn to a significant improvement in external reserves to US$540 million at the end of 1981. However, since 1982, and while Tunisia has continued to have a relatively satisfactory rate of growth over the period of the Sixth Plan (1982-86), its financial equilibrium has come under strong pressure from domestic demand, unfavorable climatic conditions, stagnant oil production, and a reduction in the prices of some of its export products. In order to meet these pressures, the Government has strengthened its policies of investment rationalization, demand management, and selective control of imports. In the meantime, the deterioration has continued, resulting in an aggravation of financial disequilibria, principally in savings, public finance, and the external accounts, and has led to an increase in external debt and to a reduction in external reserves. This deterioration was particularly marked in 1986 due to unfavorable factors at the beginning of the year, including a sharp reduction in oil prices, a decline in receipts from tourism, and a fall in the production of cereals, all of which led to a shortfall in foreign exchange receipts of about US$300 million and a loss in budgetary revenue of about D 200 million, compared to the economic budget's projections. In the absence of the additional adjustment measures decided within the recently adopted supplementary budget, it is estimated that the budget deficit would have reached the equivalent of about 7 percent of GNP and the external current account deficit could have reached SDR 750 million (9.7 percent of GNP).

II. Adjustment Program

2. Faced with this situation, the Government has decided to implement a comprehensive and coherent adjustment program including both short- and medium-term actions to rationalize domestic demand and increase exports and structural measures to improve the efficiency of the productive system. The structural measures comprise a gradual liberalization of the economy in the areas of prices, interest rates, investment, and imports, as well as a much larger opening toward external markets. The general orientation of the program, as well as its objectives and measures, will be incorporated into the Seventh Development Plan (1987-91).

3. The specific medium-term objectives of the program include an average annual rate of growth of 3.5-4 percent, a moderation of inflation, and a progressive reduction of the external current account deficit to about 3 percent of GNP by the end of the Seventh Plan. These objectives will be achieved principally through an increase in exports, control of consumption, and a rationalization of investment to permit a rapid improvement in savings and a reconstitution of gross foreign reserves to a level equivalent to about 2 months of imports and a limitation of the debt service ratio to an average of 28 percent during the period, which is also the ratio projected for the last year of the Plan (1991). In this context, the program for 1986-87 is intended to secure an increase in real GDP of a little under 1 percent in 1986 (despite the unfavorable developments mentioned above) and about 3.5 percent in 1987. Simultaneously, the external current account deficit will be limited to SDR 710 million in 1986 (9.0 percent of GNP) and SDR 575 million (7.4 percent of GNP) in 1987. The GDP deflator is estimated to rise by 5 percent in 1986 and by about 8.5 percent in 1987.

a. Price liberalization

4. For several years the authorities have aimed at progressively liberalizing agricultural producer prices. With the exception of cereals and a few other products, agricultural prices are at present completely uncontrolled. This is also the case for most services. The authorities are determined to continue to pursue this policy and to extend its scope to the industrial sector. The Government's objective is to eliminate price controls on all but a few products by 1991. Over the period 1986-88 the Government intends to liberalize, according to the attached timetable, the price of all manufactured products for which there exists sufficient competition, either because of the number of producers or because there is freedom to import similar products. According to available data, the products whose prices will be liberalized over this period represent about two thirds of domestically marketed industrial output. Meanwhile, for products that will remain subject to controls, the Government will exercise greater flexibility through a new pricing formula to be finalized by end-1986 so as to induce enterprises to exercise greater control over costs and to utilize their production capacity more rationally. In the light of experience during the initial phase of liberalization, the Government will examine the possibility of accelerating its program of liberalization.

5. In order to encourage agricultural production--particularly that of cereals, for which there is a substantial deficit--the Government has regularly increased producer prices since 1980. These increases have significantly improved the terms of trade of the agricultural sector, but prices have failed to reach international levels. In July 1986 producer prices were again increased, by between 6 and 16 percent. In addition, a formula for reviewing producer prices was recently agreed upon with the World Bank. This formula will be used to adjust producer prices in order to match international price levels by 1988.

6. As regards subsidized products, in recent years (including 1986) the Government has regularly adjusted the prices of some and removed a number of others from the subsidies list, thus reducing the total amount of subsidies. The authorities will continue to pursue a policy to reduce both the number of products benefiting from subsidies and the amount of subsidies, with due attention to their social sensitivity. The medium-term objective of the Government is to limit subsidies to highly sensitive products (cereals and edible oils) and gradually to adjust their prices with a view to covering their subsidy cost with the own resources of the Compensation Fund. Furthermore, in accordance with a timetable already agreed with the World Bank in the context of an Agricultural Structural Adjustment Loan, the Government will eliminate all existing subsidies on agricultural inputs.

b. Investment liberalization and reform of public enterprises

7. The Government intends to abolish the prior approval procedure for projects which do not request special benefits from it. It also intends to be more selective in providing incentives, on the basis of specific criteria such as exports, level of integration, regional development, and technology transfer. To this effect, a new investment code is under preparation and will be discussed with the World Bank in the coming months, during the negotiations on an Industrial Trade and Policy Adjustment Loan. Furthermore, the authorities envisage that the new code will not discriminate in granting incentives between new investment and the extension or renewal of existing capacity. The new code will come into force at the beginning of 1987.

8. Another structural adjustment area is the reform of public enterprises. Of the approximately 550 public enterprises, the Government has already decided to limit its direct control to about 160 and to transfer the remaining ones to shareholder management. The Government also intends to privatize non-monopoly enterprises on the basis of an objective assessment of their net assets. For enterprises in which the Government has less than 34 percent participation, its shares will be gradually sold off on the market. For the remaining public sector enterprises, the Government will undertake reform programs to improve their management and profitability. In this context, before the end of 1986 the Government will establish a specific timetable of actions to reduce the size of the public enterprise sector and to reform it. This timetable will be discussed with the Fund during the first review of the program. While this reform is being undertaken, the Government does not intend to increase its participation in existing enterprises in the competitive sectors.

c. Import liberalization

9. The Tunisian authorities are aware that, because of the excessive costs it generates, an import restriction system hinders required competitiveness, and they reaffirm their decision to liberalize imports progressively by gradually reducing quantitative restrictions and by

rationalizing import duties. As a medium-term objective, during 1986-88 the Government will liberalize all imports of raw materials, semifinished products, spare parts, and capital goods, with the exception of products required by weakly integrated industries. Beginning in 1989, a timetable will be established for the elimination of the remaining restrictions by 1991, with the exception of those on luxury consumer goods.

10. In accordance with this plan, in August 1986 the Tunisian authorities removed restrictions on imports of raw materials and semi-finished products for enterprises exporting at least 25 percent of their turnover and on spare parts for use in the agricultural sector, hospitals, and service industries (industry and hotels already benefit from this exemption). They also intend to eliminate before end-September 1986 the restrictions on imports of capital goods for newly approved investment projects and raw materials for pharmaceutical industries. It is estimated that these measures will increase the proportion of imports under open general license from 18 to 31 percent and the proportion of imports under all the liberal license systems (import-approval certificate, temporary admission, and open general license) from 27 to 42 percent of estimated 1986 import value.

11. The authorities also intend to remove, by early January 1987 at the latest, all remaining restrictions on imports of spare parts and raw materials and on imports of semifinished products for enterprises which export at least 15 percent of their turnover or are reasonably integrated. They hope further to reduce this limit of 15 percent depending on the experience with the early stages of liberalization. Furthermore, after the introduction of the new investment code, the authorities intend to liberalize imports of capital goods for projects not granted incentives but approved by the Investment Commission as having intermediate priority. Also, the new system (IMEX) being introduced will allow enterprises to import additional raw materials and semifinished products up to the value of their exports. The import program for 1987 will be drawn up and that relating to the productive sector will be published before end-1986 in order to enable importers to make the necessary arrangements.

12. By January 1, 1988, at the latest, the authorities envisage lifting import restrictions on capital goods and semifinished products, with the exception of a list of products destined exclusively for weakly integrated industries. Taking into account products to be liberalized in 1987 and at the beginning of 1988, the value of imports covered by open general licenses will be around 60 percent.

13. In parallel with this policy of liberalizing imports and in line with the priorities of promoting exports and securing a better allocation of resources, the Tunisian authorities propose gradually to reduce import duties and to narrow the disparities in effective protection among the different sectors of the economy, the objective being to reach in 1991 a

reasonably uniform effective rate of protection of about 25 percent. In the context of the tariff reform, the authorities envisage introducing on January 1, 1987, under the 1987 Budget Law, a revision of the tariff structure consisting of:

increasing the minimum duty to at least 15 percent (including the customs formality tax);

reducing all import duty rates to a maximum of 50 percent; and

reducing import duties in the 26-55 percent range by 6 percentage points, the minimum being nevertheless fixed at 25 percent.

14. They intend, moreover, to continue this process by implementing on January 1, 1988 a further reduction of 9 percentage points in import duties between 26 and 50 percent (subject to a minimum of 25 percent). They also expect to prepare, before end-1988, an additional program to reduce import duties gradually with a view to reaching, by the end of 1991, the above-mentioned objective of reducing the effective rate of protection and possibly integrating the customs formality tax with the import duty structure so as to simplify the system.

d. External policies

15. In recent years the exchange rate of the dinar has appreciated quite substantially, particularly against the currencies of competitor countries, significantly reducing the competitiveness of exports. Moreover, as mentioned above, the terms of trade have deteriorated markedly. These considerations have led the authorities to reabsorb the appreciation of the last few years and at the same time to compensate for the deterioration in the terms of trade. The authorities intend to continue the flexible exchange rate policy with a view to maintaining the real effective value of the dinar and ensuring the international competitiveness of the Tunisian economy.

16. Fully aware that the exchange rate is a trade policy instrument, on August 19 the Tunisian authorities devalued the dinar by 9 percent, bringing the total depreciation over the first eight months of 1986 to 22 percent in nominal terms. The Tunisian authorities believe that the current exchange rate is consistent with balance of payments requirements. During the program period, the authorities will maintain the real effective exchange rate at least at the level reached after the last devaluation in August 1986. The exchange rate policy will be discussed with the Fund during the periodical program reviews, which will take special account of developments in the external current account and in the net foreign assets of the monetary system relative to the indicative targets mentioned below.

17. Taking into account this exchange rate policy, the import liberalization, and the external objectives mentioned above, the authorities expect an increase of more than 6 percent in the volume of exports

(more than 14 percent for non-energy exports) in 1986 and 6.5 percent (10.8 percent excluding energy) in 1987. In SDR terms, the value of non-energy exports will increase by more than 15 percent in 1986 (compared with a reduction of almost 14 percent for total exports due to the energy price fall of more than 52 percent in 1986) and by 10 percent in 1987 (4 percent for total exports, despite an expected 8 percent fall in average petroleum prices). On the import side, the forecasts show only a slight increase in non-energy imports in SDR terms in 1986 and 1987, reflecting the significant expected reduction in imports of investment goods (associated with the rationalization of investment).

18. The authorities expect a net capital inflow (on the basis of agreements already signed) of SDR 330 million in 1986 and SDR 48 million in 1987, including repayments of SDR 420 million in 1986 and SDR 490 million in 1987. Moreover, in order to support the new import liberalization policy, the authorities have set the goal of reconstituting the gross foreign reserves of the Central Bank to the equivalent of SDR 160 million by end-1986 (against some SDR 30 million at end-August 1986) and SDR 300 million, equivalent to 1 1/2 months of imports, by end-1987. In line with these objectives, and taking into account seasonal variations, the authorities have set as indicative targets the maintenance of the net foreign assets of the monetary system, estimated at about SDR -29 million at end-September 1986, at SDR 10 million at end-December 1986, SDR -147 million at end-March 1987, SDR -167 million at end-June 1987, and SDR 109 million at end-December 1987. These targets will be re-examined during the first program review.

19. Taking into account all the above elements, the authorities estimate that there remains a financing gap of SDR 321 million in 1986 and SDR 667 million in 1987. They have already received indications of additional assistance of about SDR 170 million in 1986 and about SDR 250 million in 1987. They are confident that, with the support of the International Monetary Fund, the remaining gap will be entirely covered. The financing of the gap will be among the subjects covered during the first review of the program with the Fund.

20. In spite of the growing pressures on the balance of payments, Tunisia has no external payments arrears. The authorities reassert their determination not to accumulate payments arrears during the program period. Moreover, the Government strongly intends not to impose or intensify restrictions on payments and transfers for current international transactions, or to impose or intensify import restrictions for balance of payments reasons. It will not introduce or modify multiple currency practices nor conclude bilateral payments agreements with memb s of the Fund.

21. In addition, the Government is determined to continue its prudent policies with respect to the external debt and to maintain its level within tolerable limits. It proposes, as a medium-term objective, to

reduce gradually the country's recourse to external borrowing and to maintain an appropriate external debt profile. It is foreseen that this policy will limit Tunisia's external debt to a level equivalent to 55 percent of GNP in 1991 and the debt service ratio to 28 percent of current receipts.

22. The level of nonconcessional loans contracted or guaranteed by the Government at maturities from 1 to 12 years will not exceed SDR 100 million during the period from September 1, 1986 to December 31, 1986, of which no more than SDR 15 million will be for maturities from 1 to 5 years, and SDR 450 million during the period from September 1, 1986 to December 31, 1987, of which no more than SDR 65 million will be for maturities of 1 to 5 years. During the entire program period, outstanding short-term (up to 1 year) external borrowings by the Government and the Central Bank, with the exception of import financing credits, will not exceed SDR 120 million (approximately their current level). These limits on external debt constitute performance criteria under the program.

e. Public finance

23. After reaching a high level of 8.1 percent of GNP in 1983, the consolidated budget deficit was brought down, owing to the measures introduced by the Government, to a level of only 4.6 percent of GNP in 1985. Anticipating a deterioration in the economic environment in 1986, the 1986 Budget Law set the objective or reducing the consolidated deficit to D 238 million (3.3 percent of GNP). In the context of the Budget Law, the Government introduced fiscal measures whose yield had been estimated at the equivalent of 1.4 percent of GNP and limited expenditure growth to 3 percent.

24. However, the economic situation deteriorated more than anticipated, resulting in a shortfall in revenue and an increase in expenditure equivalent to 3.3 percent of GNP, compared to budget estimates; in the absence of new measures, this would have led to an increase in the consolidated budget deficit to D 475 million, or 6.6 percent of GNP. Within the Government's program, the Chamber of Deputies last August approved a supplementary Budget Law introducing new measures with a net yield equal to approximately 0.7 percent of GNP. These include, among other measures, an increase in the tax on services (TPS) and in taxes on alcohol and tobacco. Also, investment expenditure has been reduced. Thus, the consolidated deficit for 1986 will be limited to D 429 million, equivalent to about 6 percent of GNP. This deficit will be financed through net foreign borrowing of D 282 million and net domestic borrowing of D 147 million, of which D 81 million in the form of net credit from the banking system.

25. For 1987, and while the preparation of the draft Budget Law is still at an early stage, the Government intends to reduce the consolidated central government deficit (on a payment authorization basis) to a maximum

of D 318 million, equivalent to 3.9 percent of GNP, representing a reduction of more than 2 percentage points of GNP. To achieve this target, the Government intends to introduce new measures yielding D 50 million of additional renewable receipts. This implies an increase of less than 3 percent in consolidated government expenditure on a commitment basis, entailing an increase in current expenditure of less than 8 percent and an additional cut in capital transfers. The authorities intend to continue to pursue their moderate wage policy, especially by limiting government hiring to 2 percent of existing civil servants. A further cut in current subsidies and transfers will also be effected (including a reduction in expenditure of the Price Stabilization Fund and in subsidies and loans channeled through Special Funds).

26. The Government considers that the estimated level of expenditure will be sufficient to allow for a substantial increase in purchases of goods and services to a level consistent with efficient government while maintaining investment expenditures at their 1986 nominal level. However, it will discuss the budgetary estimates with a Fund mission in November 1986 in line with the above-mentioned preliminary objectives of the 1987 program.

27. To improve public finance management, from January 1, 1987 the monitoring of consolidated government revenue and expenditure will be computerized at the Computing Center of the Ministry of Planning and Finance, and new procedures will be introduced to enable the Ministry to follow all external debt disbursements and thus the volume of extrabudgetary expenditure directly financed from abroad. Moreover, the authorities intend to cancel early in 1987 all unused capital commitment appropriations outstanding at the end of the 1986 fiscal year. The Government reaffirms that there will be no accumulation of arrears during the program period. In the past few years these arrears have been small (D 15.4 million at end-1983 and D 15.6 million at end-1984). Their level at end-1985 has not yet been established, but preliminary estimates indicate a level of roughly D 20 million. Measures will be taken to ensure full elimination of these arrears early in 1987.

28. The Government is in the process of introducing a tax reform aimed at improving tax-revenue elasticity by widening the tax base and reducing dependency on import taxes. Within this framework, in August 1986 the Government announced that a value-added tax (VAT) will be introduced effective January 1, 1988. A preliminary draft of this reform has been prepared and is presently being discussed. This draft bill will be submitted to the Chamber of Deputies during the first quarter of 1987. At the same time, further studies will be made on the unification of income and profit taxes. The progress made toward introducing the VAT and drawing up a timetable for unification of income and profit taxes will be discussed with the Fund during the second review of the program before end-September 1987.

f. Wage policy

29. The Government considers that a moderate wage policy is essential to its demand restraint policy, the improvement of the international competitiveness of the Tunisian economy, and the acceleration of job creation. In this context, the authorities decided in 1983 to deindex wages. Consequently, the minimum wage has not been increased for 3 1/2 years (January 1983-July 1986) and average wages declined by 15 percent in real terms during this period. The authorities intend to continue to pursue this policy by linking wage increases to productivity gains and the financial performance of each enterprise. In July 1986, the Tunisian authorities increased the minimum wage by 10 percent, but they intend to limit the average increase in minimum wages during 1986-87 to no more than the inflation rate. During the remainder of the Seventh Plan, the authorities intend to pursue a minimum wage policy aimed at containing the increase in the wage bill at the rate of the increase in nominal GDP.

g. Monetary and credit policies

30. In the context of the policy of containing domestic demand, the authorities envisage adapting monetary and credit policies to the new requirements of the economy. Accordingly, they intend to reduce the rate of growth of the money supply (M2), which has been above that of nominal GNP, to a level consistent with the economic growth and balance of payments objectives by limiting the expansion of liquidity in the economy.

31. Moreover, in line with the policy of liberalizing the economy and to ensure a better allocation of financial resources, the Government is presently modifying its monetary and credit policy instruments with the objectives of (i) decontrolling interest rates and simplifying their structure, and (ii) controlling credit through global instruments. Thus, beginning January 1, 1987, lending interest rates will be classified classified into two principal categories: (i) preferential rates for priority sectors (export activities, agriculture, small and medium-sized businesses, and energy-saving projects), which will continue to be administered by the Central Bank, and (ii) rates freely determined by the market (subject to a ceiling to prevent usurious rates, varying with the monetary situation). Beginning on the same date, deposit rates will be negotiated freely between banks and depositors, except for the special savings accounts, for which the Central Bank will fix the rate of return on the basis of the money market rate, and for deposits in convertible dinars of Tunisian residents abroad, for which the Central Bank will fix a minimum rate also based on the money market rate.

32. Moreover, the Central Bank will channel most of its interventions with banks through the money market. Rediscounts at fixed rates will be available only for loans to the priority sectors noted above, and the bulk of the banks' refinancing will be effected on the money market. The

refinancing of each bank at the daily rate on the money market will also be limited by reference to the banks' deposits, and demand for liquidity exceeding these limits will be able to be satisfied only at penalty rates. The authorities will influence the supply of bank credit by raising or lowering the refinancing limits depending on the evolution of bank credit and the money supply relative to the objectives set by the monetary authorities and taking into account the aim of ensuring a positive real rate of return for time deposits. At the same time as the global instruments of control and the responsibility of banks are being strengthened, the monetary authorities will increase from D 1 million to D 5 million the limit above which prior authorization of the Central Bank is required for bank lending.

33. The pace of monetary expansion observed in recent years was maintained in the first half of 1986, and the money supply at end-June 1986 was more than 8 percent above the June 1985 level. Over the same period, domestic credit increased by almost 13 percent. Within the framework of the program for 1986-87, the authorities are seeking a significant slowdown in the growth of both money and credit. Thus, the growth in the money supply envisaged for 1986 is equivalent to that in nominal GNP (5.7 percent). To attain this objective, and taking into account the balance of payments objectives, the level of domestic credit, which was D 4,036 million at end-June 1986, is projected at D 4,028 million at end-September 1986 and should not exceed D 4,348 million at end-December 1986. Within this limit, net credit to the Government, which was D 598 million at end-June 1986, is projected at D 508 million for end-September 1986 and should not exceed D 635 million at end-December 1986. The ceilings on domestic credit and net credit to the Government for end-December 1986 constitute performance criteria under the program.

34. For 1987 the Government intends to limit the increase in the money supply to 9 percent, well below the rate of growth of nominal GNP (12.4 percent). To this end, the monetary authorities expect to limit domestic credit to D 4,714 million and net credit to the Government to D 684 million at end-1987, with intermediate targets of D 4,334 million at end-March 1987 and D 4,502 million at end-June 1987 for domestic credit and D 606 million at end-March 1987 and D 666 million at end-June 1987 for net credit to the Government. The ceilings on domestic credit and net credit to the Government for end-December 1987 constitute performance criteria under the program. The above-mentioned limit on net credit to the Government for end-December 1987 assumes a level of net external financing of the Government of D 223 million in 1987 (taking into account indications already received on additional assistance as mentioned in paragraph 19 above). In the event of a higher level of such financing, the ceiling on net credit to the Government will be reduced by that amount to the benefit of credit to the economy.

III. Performance Criteria and Indicative Targets

35. The Government will monitor the execution of the program by reference to quarterly performance criteria and indicative targets as shown in the appended table. The performance criteria will condition purchases from the Fund under the stand-by arrangement, while nonobservance of the indicative targets for the budget deficit and net foreign assets of the monetary system will require consultations with the Managing Director of the Fund with a view to ascertaining the causes and agreeing on any necessary supplementary measures.

36. In addition to the performance criteria mentioned above, three reviews with the Fund will be held and completed before end-February 1987, end-September 1987 (discussions for which are expected to be conducted at the time of the 1987 Article IV consultation mission) and end-January 1988 and will also constitute performance criteria. The first review will concentrate on the budget for 1987, the exchange rate, progress with respect to import and price liberalization, efforts to secure financing of the external gap for 1987, the establishment of the March and June performance criteria for domestic credit and net credit to the Government, and the indicative targets, including those for September 1987. The second review will focus primarily on exchange rate policy; progress on tax reform, in particular to assure introduction of the VAT at the beginning of 1988; and the establishment of performance criteria for domestic credit and net credit to the Government for September 1987 and the indicative targets for December 1987 and March 1988. The third review will cover the overall economic and financial policy stance for 1988 and the establishment of performance criteria for March 1988 for domestic credit, net credit to the Government, and external debt.

Table I: Performance Criteria and Indicative Targets 1/

	1986		1987		
	Sept.	Dec.	March	June	Dec.
A. Performance criteria			(In millions of dinars)		
1. Domestic credit	4,028 2/	4,348	4,334 3/	4,502 3/	4,714
2. Net credit to the Government	508 2/	635	606 3/	666 3/	684
			(In millions of SDRs)		
3. External public debt 4/					
3.a 0-1 year (amount outstanding, excluding import-related credit)	120 2/	120	120	120	120
3.b New nonconcessional external borrowing (cumulative)					
i. 1-5 years	...	15	65	65	65
ii. 1-12 years	...	100	450	450	450
4. External payments arrears (outstanding)	--	--	--	--	--
B. Indicative targets 5/			(In millions of dinars)		
1. Consolidated budget deficit 6/	...	429	... 7/	... 7/	318
2. Total revenue and grants 6/	...	2,458	... 7/	... 7/	... 7/
3. Total expenditure and net lending (excluding amortization) 6/	...	2,886	... 7/	... 7/	... 7/
			(In millions of SDRs)		
4. Net foreign assets of the monetary system	-29	10	-147	-167	109

1/ The performance criteria and indicative targets for September 1987 and March 1988 will be set during the reviews mentioned in the Memorandum.
2/ Not a performance criterion.
3/ Indicative targets to be reviewed and made into performance criteria during the reviews mentioned in the Memorandum. The ceilings on net credit to the Government will be reduced in accordance with paragraph 34 of the Memorandum.
4/ Contracted or guaranteed by the Government.
5/ The specified targets for 1987 will be revised, if necessary, during the first program review.
6/ Cumulative level for the fiscal year.
7/ Targets to be set during the first program review.

Table II: Price Liberalization Timetable

September 1, 1986

- Building materials except lime, cement, and sanitary fixtures
- Textiles, except underwear and jute products
- Mechanical and electrical industries:
  - Automobile parts, including batteries
  - Hardware
  - TV antennas and accessories
- Preserved and semipreserved sardines
- Miscellaneous:
  - Plastic products
  - Graphics
  - Watches and watch parts
  - Cabinets
  - Cork products
  - Chandeliers
  - Footwear and accessories
  - Tanned goods
  - Paper and carton packaging
  - Printing supplies
  - Notions

January 2, 1987

- Mechanical and electrical industries:
  - Electric switches and connectors
  - Cable
  - Refrigerators and stoves
  - Boilers
- Carpentry supplies
- Glue
- Ink
- Liquid detergents
- Tires and rubber products

July 1, 1987

- Soap, except laundry soap
- Agricultural products and foods:
  - Preserved and semipreserved tuna
  - Preserved and semipreserved tomatoes
  - Preserved and semipreserved *harissa*
  - Yogurt
  - Cheeses, except spreads
  - Beverages
- Furniture
- Fertilizers:
  - Phosphoric acid
  - Hyperphosphate
  - SPS, SPT
  - Dicalcium phosphate
  - MAP, TPP
  - Compound fertilizers

Table II: Price Liberalization Timetable (concluded)

January 2, 1988

Mechanical and electrical industries:
- Loudspeakers and accessories
- Plumbing fixtures
- Bicycles and mopeds
- Batteries, etc.

Animal feed

Parachemicals:
- Paints and varnishes
- Laundry soap
- Detergents
- Essential oils
- Linseed oil
- Perfume
- Insecticides and pesticides

July 1, 1988

Household articles of stainless steel and aluminum
Copper products
Aluminum cabinets
Electric motors and transformers
Tomato paste
Preserved and semipreserved vegetables and fruits

TUNISIA--Relations with the Fund

(As of September 30, 1986)

I. Membership status

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

A. Financial Relations

(In millions of SDRs)

II. General Department (General Resources Account)

Quota:	138.2
Total Fund holdings of Tunisia's currency:	138.2 (100.0 percent of quota
Fund credit:	None
Reserve tranche position (amount):	--
Lending to the Fund (amount):	Not applicable

III. Current stand-by arrangement or special facilities — None

IV. SDR Department

Net cumulative allocation (amount):	34.2
Holdings:	0.003 (0.01 percent of allocation)

V. Administered accounts — Not applicable

VI. Overdue obligations to the Fund — None

VII. Most recent use of Fund resources

1977: compensatory financing facility	24.0

B. Nonfinancial Relations

VIII. Exchange rate arrangement

The exchange rate of the Tunisian dinar is determined in accordance with a basket of currencies. Buying and selling rates for foreign currencies are determined daily by the Central Bank. As of August 29, 1986, the dinar rate of the U.S. dollar was US$1 = D 0.860 equivalent to SDR 1 = D 1.038.

TUNISIA--Relations with the Fund (concluded)

IX. Last Article IV consultation

The 1985 Article IV consultation discussions were held in Tunis during the period July 22-August 2, 1985, and the staff report (SM/85/261) and the report on recent economic developments (SM/85/281) were discussed by the Executive Board on November 12, 1985. The decision adopted was as follows:

1. The Fund takes this decision in concluding the 1985 Article IV consultation with Tunisia, in light of the 1985 Article IV consultation with Tunisia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. In the framework of its policy of rationalizing domestic investment, Tunisia has modified, since the previous consultation, its system of exchange restrictions by shortening the list of freely importable products; at the same time, there has been an easing of restrictions in respect of some invisible transactions. The Fund urges the authorities to ease the remaining restrictions on payments and transfers for current international transactions.

The summing-up specified the standard 12-month consultation cycle.

The 1986 Article IV Consultation discussions were held in Tunis during the period July 7-24, 1986, and the staff report (SM/86/237) was issued on September 10, 1986.

X. Technical assistance

FAD:	Study of planned tax reform (April 18-May 7, 1982)
	Assistance in preparing government financial accounts on a GFS basis (January 11-February 3, 1983)
	Study of the fiscal reform (January 13-February 1, 1985)
BUR-AFR:	Lectures in Tunisia (Central Bank) on balance of payments methodology and analysis (March 31-April 18, 1986)

World Bank Activities and Strategies in Tunisia

Since 1962 the Bank has committed to Tunisia 72 loans and ten IDA credits amounting to US$1,665 million and US$75.2 million (net of cancelations), respectively, of which 44 loans and credits have been fully disbursed. Bank lending at first emphasized support for long-term investments in infrastructure and social development, with increasing support in recent years for agriculture and industrial financing. Most recently, a US$150 million Agricultural Sector Adjustment Loan was approved on September 18, 1986, which would support the first phase of implementation of the Government's program of agricultural sector reforms, within the framework of a general macroeconomic restructuring program. Attached is a summary statement of Bank loans and IDA credits. 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 sub-sectors.

The Bank's lending strategy in Tunisia aims at supporting the country's transition from a situation of reliance on petroleum exports to a sectorally-balanced post-hydrocarbon era through appropriate changes in economic policies and programs, while taking measures to increase employment and target development to low-income groups. In support of the above, the overall objective of Bank lending is to emphasize projects which have a direct and rapid impact on production, employment, and exports (or import savings) and which minimize government net contributions. The focus of lending for agriculture and industry meets this objective. In addition to the above, proposed Bank lending would focus on improvement of public enterprise performance, conservation and development of energy resources, and continued support to the social sectors and operations targeted to low-income groups. For the latter, attention would be given to increased efficiency and cost-effectiveness of institutions and investments, and to linkages with directly-productive sectors (e.g., education reforms stressing vocational training). The Bank envisages only marginal lending for basic economic infrastructure, focussed in areas where Bank guidance would still be useful, such as rural water supply and highways maintenance. In addition to the recent Agricultural Sector Adjustment Loan, programmed lending in the next couple of years would include an Industrial and Trade Policy Adjustment Loan (appraised during the first half of October 1986) as well as projects for highways maintenance, forestry, public enterprises, and credit lines for small-scale industries and agriculture.

The Bank's economic and sector work will address the increasing complexity of the macroeconomic and sector problems that Tunisia will face in the medium term, and continue to focus on strengthening the macro-economic and sector base for the lending program. However, while in the past it was mainly devoted to the study of major structural problems, it is now focussed on implementing the policy recommendations of these studies through the Bank's lending; it will, therefore, concentrate on the following main tasks: (a) preparation and monitoring of the macroeconomic framework of the VIIth Plan, which provides the policy base of sector lending; (b) review of public expenditures under the Plan to provide guidance for the necessary reductions in budget outlays; (c) assessment of public enterprise reforms prepared by the Government to reduce their drain on the state budget; and (d) monitoring of the agreed macroeconomic and sector policy changes. The program also includes studies on education administration and finance, municipal finance and development, energy pricing, and the impact of the adjustment program on various income groups.

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

STATEMENT OF BANK LOANS AND IDA CREDITS (As of March 31, 1986) a/

Loan or Credit Number	Year	Borrower	Purpose	US $ Million Amount (Less Cancellation) Bank	IDA	Undisbursed
Forty-four Loans and Credits Fully Disbursed				468.94	75.15	
1601	1978	Republic of Tunisia	Rural Roads (Third Highways)	32.00		5.87
1675	1979	Republic of Tunisia	Second Urban Sewerage	26.50		7.09
1705	1979	Republic of Tunisia	Second Urban Development	15.00		2.77
1746	1979	Republic of Tunisia	Second Fisheries	28.50		12.95
1796	1980	Republic of Tunisia	Southern Irrigation	25.00		11.01
1797	1980	Office des Ports Nationaux	Third Port	42.50		9.98
1841	1980	Republic of Tunisia	Fourth Highways	36.50		16.43
1864	1980	Société Tunisienne de l'Electricité et du Gaz	Second Natural Gas Pipeline	37.00		14.21
1885	1980	Banque Nationale de Tunisie	Third Agricultural Credit	30.00		5.96
1961	1981	Republic of Tunisia	Fourth Education	26.00		21.60
1969	1981	Republic of Tunisia	Small-Scale Industry Development	30.00		16.98
1997	1981	Republic of Tunisia	Northwest Rural Development	24.00		14.81
2003	1981	Société Tunisienne de l'Electricité et du Gaz	Third Power	37.50		4.70
2005	1981	Republic of Tunisia	Health and Population	12.50		9.82
2052	1981	Republic of Tunisia	Grain Distribution and Storage	38.00		21.71
2108	1982	Republic of Tunisia	Fifth Highway (Rural Roads)	35.50		23.63
2113	1982	BDET	Electrical and Mechanical Industries	30.50		13.11
2134	1982	SONEDE	Sixth Water Supply	30.50		5.72
2157	1982	Republic of Tunisia	Irrigation Development	22.00		17.35
2197	1982	Republic of Tunisia	Technical Assistance	4.50		2.99
2223	1983	Republic of Tunisia	Urban Development III	25.00		21.98
2230	1983	Republic of Tunisia	Education V	27.00		25.48
2234	1983	Republic of Tunisia	Central Tunisia Irrigation	16.50		11.28
2255	1983	Republic of Tunisia	Urban Sewerage III	34.00		32.16
2289	1983	Republic of Tunisia	Sfax Flood Protection	25.00		22.32
2301	1983	SOFOMECA	Industry (IV) Foundry	16.80		12.07
2346	1984	Republic of Tunisia	Mining Technical Assistance	13.40		11.45
2368	1984	Republic of Tunisia	Seventh Water Supply	50.00		47.61
2429	1984	Republic of Tunisia	Second Urban Transport	33.00		32.92
2455	1984	Société Tunisienne de l'Electricité et du Gaz	Fourth Power	38.70		38.60
2502	1985	Republic of Tunisia	North West Agricultural Production	15.00		15.00
2522	1985	Republic of Tunisia	Export Industries	50.00		50.00
2554	1985	Republic of Tunisia	Second Electrical and Mechanical Industries	54.00		54.00
2573	1985	Republic of Tunisia	Irrigation Management Improvement	22.00		22.00
2605	1985	Republic of Tunisia	Gabes Irrigation	27.70		27.70
		TOTAL		1,481.04	75.15	663.26
		Of which has been repaid		260.31	9.84	
		Total now outstanding		1,220.73	65.31	
		Amount Sold	23.38			
		of which has been repaid	14.33			
		Total now held by Bank and IDA b/		1,197.35	65.31	
		Total Undisbursed				663.26

a/ Does not include Energy Conservation Demonstration Project (Loan No. 2735-TUN of July 18, 1986 for $4.0 million), Fourth Urban Development Project (Loan No. 2736-TUN of July 18, 1986 for $30.2 million), and Agricultural Sector Adjustment Loan (Loan No. 2754-TUN of October 3, 1986 for $150.0 million).

b/ Prior to exchange rate adjustment

October 9, 1986
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