SM/85/261

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INFORMATION

September 19, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Tunisia - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Tunisia. A draft decision appears on page 20.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Dairi (ext. 8670) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

TUNISIA

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the
1985 Article IV Consultation with Tunisia

Approved by G.E. Gondwe and S. Kanesa-Thasan

September 18, 1985

I. Introduction

The 1985 Article IV consultation discussions with Tunisia were held in Tunis during the period July 22 to August 2, 1985. The Tunisian representatives included Messrs. M. Belkhodja, Governor of the Central Bank; S. M'Barka, Minister of Finance; I. Khelil, Minister of Planning; R. Sfar, Minister of National Economy; L. Ben Osman, Minister of Agriculture; E. Chelbi, Minister of Tourism; and other senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives were Messrs. R. Bhatia (head), I. Lienert, M. Dairi, R. Nord, and Ms. Z. Abdallah (secretary) all from the African Department. Mr. R. Msadek, Assistant to the Executive Director for Tunisia, attended most of the meetings.

Tunisia continues to avail itself of the transitional arrangements under Article XIV.

II. Recent Economic Developments and Prospects

Until the early 1980s, Tunisia experienced a period of relatively strong economic growth and a generally favorable balance of payments, owing mainly to the buoyant petroleum sector. Since then, with stagnating output in the oil sector and an adverse turn in the terms of trade, the external accounts have progressively deteriorated, and there has been a rapid increase in foreign indebtedness. Also, excessive demand pressures began to be built up in the early 1980s, as a result of expansionary fiscal, monetary, and incomes policies in pursuit of high economic growth rates. In 1982-83 Tunisia experienced two years of adverse climatic conditions which had an unfavorable impact on growth; more recently, with the return of favorable weather conditions and increased productivity in the agricultural sector, the growth rate has recovered. The balance of payments, however, remains a major preoccupation.

1. Developments in 1984 and early 1985

In 1984 real GDP growth accelerated to 5.4 percent (Table 1) under the impulse of a 6.2 percent increase of nonhydrocarbon GDP. The increase in agricultural output, at 11.6 percent, was the highest for a decade; in the manufacturing sector (especially the agro-processing industries), production also grew rapidly. While value added in tourism continued to be depressed, that of the hydrocarbon sector declined by over 2 percentage points. The increase in consumer prices decelerated to 8.3 percent, due in part to the wage freeze which began in 1984. Real wages declined by an average of 7.5 percent, as a consequence of the general wage freeze, but were still 7 percent above their 1981 level. Employment grew by 2.9 percent in 1984, but this was insufficient to meet the 3.9 percent increase in the labor force, and the official unemployment rate rose from 12.9 percent in 1983 to 13.7 percent. Total consumption grew at a rate faster than GNP, and the ratio of national savings to GNP consequently declined from 21.6 percent in 1983 to 20.9 percent in 1984. On the other hand the investment ratio to GNP increased by 2.4 percentage points to 31.6 percent.

In 1984 the consolidated deficit of the Central Government as a percentage of GNP fell marginally, to 7.4 percent, from 8.0 percent in 1983 (Chart 1). However, this apparent improvement was attributable to nonrecurrent revenue, mainly from the transfer to the Treasury of profits of the Central Bank of Tunisia, resulting from the 1983 revaluation of reserves, the first since 1973. These amounted to D 137 million, equivalent to 2.2 percent of GNP. On the expenditure side, growth of the wage bill decelerated under the impact of the freeze on general wage increases. However, given the rollback in the announced doubling of bread prices in January 1984, and notwithstanding the smaller increases (10 to 20 percent) implemented in July, the consumer subsidy bill rose to 4 percent of GNP in 1984, and there was a further buildup in domestic arrears with respect to subsidized goods. Also, transfers to nonfinancial public enterprises increased from 3.7 percent of GNP in 1983 to 4.1 percent and were more directed toward financing operational losses.

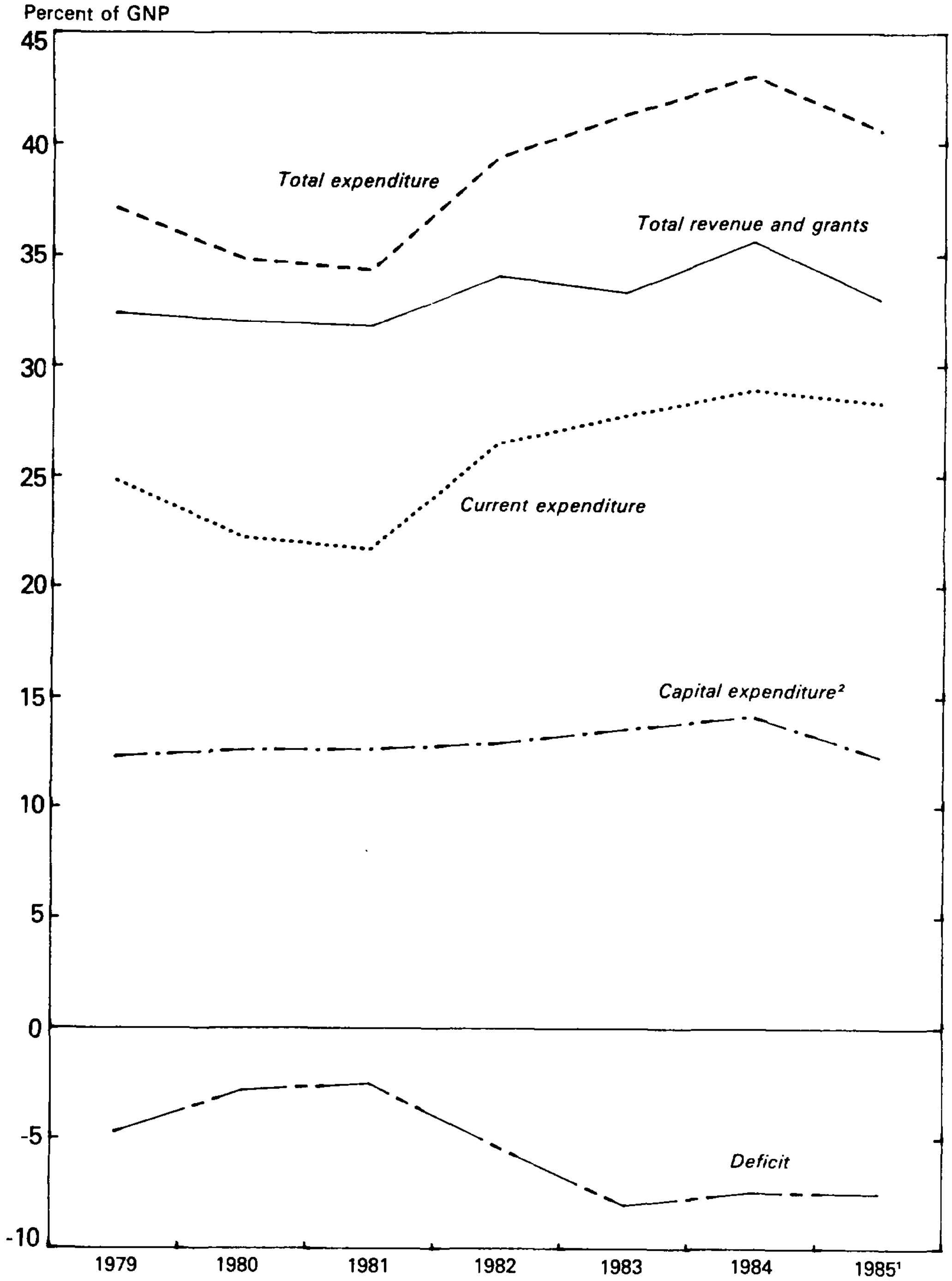
In contrast with 1983 when the Government relied heavily on foreign credit to finance its deficit, in 1984 the deficit was mainly financed from domestic resources, leading to a 27.3 percent increase in net credit to the Government. Total domestic credit again rose faster than nominal GNP (15.4 percent against 12.5 percent), but the increase in money and quasi-money moderated to 11.7 percent, largely due to a substantial decline in net foreign assets.

The overall deficit of the balance of payments reached SDR 146 million in 1984 (Table 2). Exports stagnated in SDR terms: while exports of agricultural, mechanical, and electrical products rebounded, phosphates and derivatives, together with textiles, performed poorly.

CHART 1

TUNISIA

CONSOLIDATED FINANCIAL OPERATIONS OF THE CENTRAL GOVERNMENT, 1979-85



Source: Data provided by the Tunisian authorities.
[1] Budget estimates updated to account for new measures.
[2] Includes direct investment, capital transfers, participations, and net lending.

Table 1. Tunisia: Selected Economic and Financial Indicators, 1981-85

	1981	1982	1983	1984 Estimates	1985 Official projections
	(Annual percent changes)				
National income and prices					
GDP at constant prices	5.5	--	4.8	5.4	4.0
GDP deflator	11.4	15.7	9.4	7.2	7.5
Consumer prices	9.0	13.6	9.0	8.3	8.2
Wholesale prices	12.6	16.9	6.6	7.1	...
External sector (in SDRs)					
Exports, f.o.b.	13.2	-13.8	-2.9	0.7	0.8
Imports, f.o.b.	15.2	-4.2	-5.6	7.0	-5.1
Terms of trade (deterioration -)	7.0	-2.6	-4.4	-1.7	-2.0
Nominal effective exchange rate (depreciation -) 1/	3.0	-2.7	-0.1	-0.3	-0.7 2/
Real effective exchange rate (WPI based) (depreciation -) 1/	-0.2	8.0	-0.8	-3.1	-2.3 2/
Central government operations (consolidated basis)					
Revenue and grants	18.0	24.3	12.3	20.3	3.2 3/
Total expenditures and net lending	17.1	33.3	20.4	17.2	4.8 3/
Money and credit					
Domestic credit	24.3	23.7	19.4	15.4	16.9 4/
Government	(16.4)	(20.1)	(15.5)	(27.3)	(41.7)
Economy	(25.6)	(23.9)	(19.9)	(13.7)	(13.0)
Money plus quasi-money	19.3	18.9	18.5	11.7	14.8 4/
Interest rates					
Discount rate	7.0	7.0	7.0	7.0	9.25
12-18 month time deposits	7.0	7.0	7.0	7.0	8.0
General rediscountable advances	8.0-8.5	8.0-8.5	8.0-8.5	8.0-8.5	9.50-10.0
	(Ratios: in percent of GNP; unless otherwise indicated)				
Central government consolidated deficit (-)	-2.5	-5.4	-8.0	-7.4	-7.5 3/
Domestic bank financing	(0.9)	(1.1)	(0.9)	(1.4)	(2.7)
Gross capital formation	32.1	31.7	29.2	31.6	27.8
Gross national savings	24.5	22.4	21.6	20.9	20.4
External current account deficit (-)	-7.6	-9.3	-7.6	-10.7	-7.9
External debt	37.9	41.5	45.0	50.1	48.8
Debt service/Exports of goods, services, and transfers (in percent)	13.6	14.7	16.6	19.6	20.9
Gross official international reserves (in months of imports, f.o.b.)	1.8	2.3	2.4	1.7	1.2
	(In millions of SDRs)				
Overall balance of payments (deficit -)	78	25	-14	-146	-130 4/
Gross official international reserves (at end of period)	467	556	548	421	291
External public debt	2,654	2,974	3,304	3,708	4,027

Sources: Data provided by the Tunisian authorities.
1/ Weighted by non-oil trade and tourism; staff estimates.
2/ Second quarter of 1985 compared with 1984 average.
3/ 1985 Financial Law, updated for additional measures taken in 1985.
4/ Staff estimates.

Table 2. Tunisia: Balance of Payments and External Debt, 1981-90

(In millions of SDRs)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	Outcome				Proj.	A possible scenario 1/				
Balance of payments										
Exports, f.o.b.	2,082.1	1,793.3	1,740.8	1,754.0	1,768.9	1,934.0	2,075.5	2,211.1	2,370.3	2,629.7
Imports, f.o.b.	3,041.7	2,914.9	2,752.2	2,944.7	2,794.8	2,988.9	3,232.3	3,428.3	3,611.7	3,901.3
Services and transfers (net)	409.1	426.5	426.3	345.2	371.5	511.3	577.8	676.5	777.9	929.1
Current account deficit	-550.6	-695.1	-585.1	-845.5	-654.5	-543.6	-579.0	-540.7	-463.4	-342.6
(In percent of GDP)	(-7.7)	(-9.4)	(-7.7)	(-10.8)	(-8.0)	(-5.8)	(-5.5)	(-4.6)	(-3.6)	(-2.4)
Grants, direct and portfolio investment	328.5	381.5	233.1	228.9	212.3	212.3	212.3	212.3	212.3	212.3
Medium- and long-term loans (net)	233.6	285.3	323.3	320.2	312.5	331.4	366.8	328.4	251.2	130.3
Disbursements	512.5	569.2	648.0	684.9	713.4	754.7	819.6	794.8	778.3	766.5
Amortization	278.9	283.9	324.7	364.7	400.9	423.3	452.8	466.4	527.1	636.2
Short-term capital and other adjustments	-66.6	-52.8	-14.9	-150.4	--	--	--	--	--	--
Capital account	628.7	719.7	571.3	699.5	524.8	543.6	579.0	540.7	463.4	342.6
Overall balance	78.1	24.5	-13.8	-146.0	-129.7	--	--	--	--	--
Debt service										
Total service payments	458.2	468.6	519.5	602.0	654.5	697.2	764.4	815.6	919.3	1,028.7
Of which: interest	(179.3)	(184.8)	(194.8)	(237.3)	(253.5)	(273.9)	(311.6)	(349.2)	(392.2)	(392.5)
Debt service ratio 2/	13.6	14.7	16.6	19.6	20.9	20.0	20.2	19.9	20.7	20.9
External debt (disbursed)										
Amount outstanding	2,654.1	2,974.1	3,304.0	3,708.5	4,027.1	4,358.5	4,725.2	5,053.7	5,304.8	5,435.1
In percent of GDP	38.0	41.5	45.0	50.1	48.8	46.5	45.0	43.1	40.8	37.7
Memorandum items:										
Exports of goods, services, and transfers (in SDRs)	3,377.6	3,184.3	3,124.8	3,078.9	3,130.9	3,484.7	3,779.5	4,092.0	4,439.9	4,917.5
Consumption/GDP (percent)	76.1	78.5	79.3	79.7	80.0	79.5	79.4	78.7	77.9	77.2
Investment/GDP (percent)	32.3	31.8	29.5	31.9	28.0	27.9	27.3	26.7	26.1	25.7
Imports of goods and services/GDP (percent)	49.8	47.3	44.0	45.4	41.7	39.3	37.7	35.8	33.9	33.1
Exports of goods and services/GDP (percent)	41.4	36.8	35.2	33.9	33.3	32.8	31.9	31.1	30.6	30.9
GDP growth										
Nominal	17.6	15.7	14.6	13.0	11.8	13.3	12.5	11.8	11.3	10.8
Real	6.4	--	4.8	5.5	4.0	3.0	3.2	3.5	4.0	4.5

Sources: Data provided by the Tunisian authorities (Ministry of Plan); and staff projections.

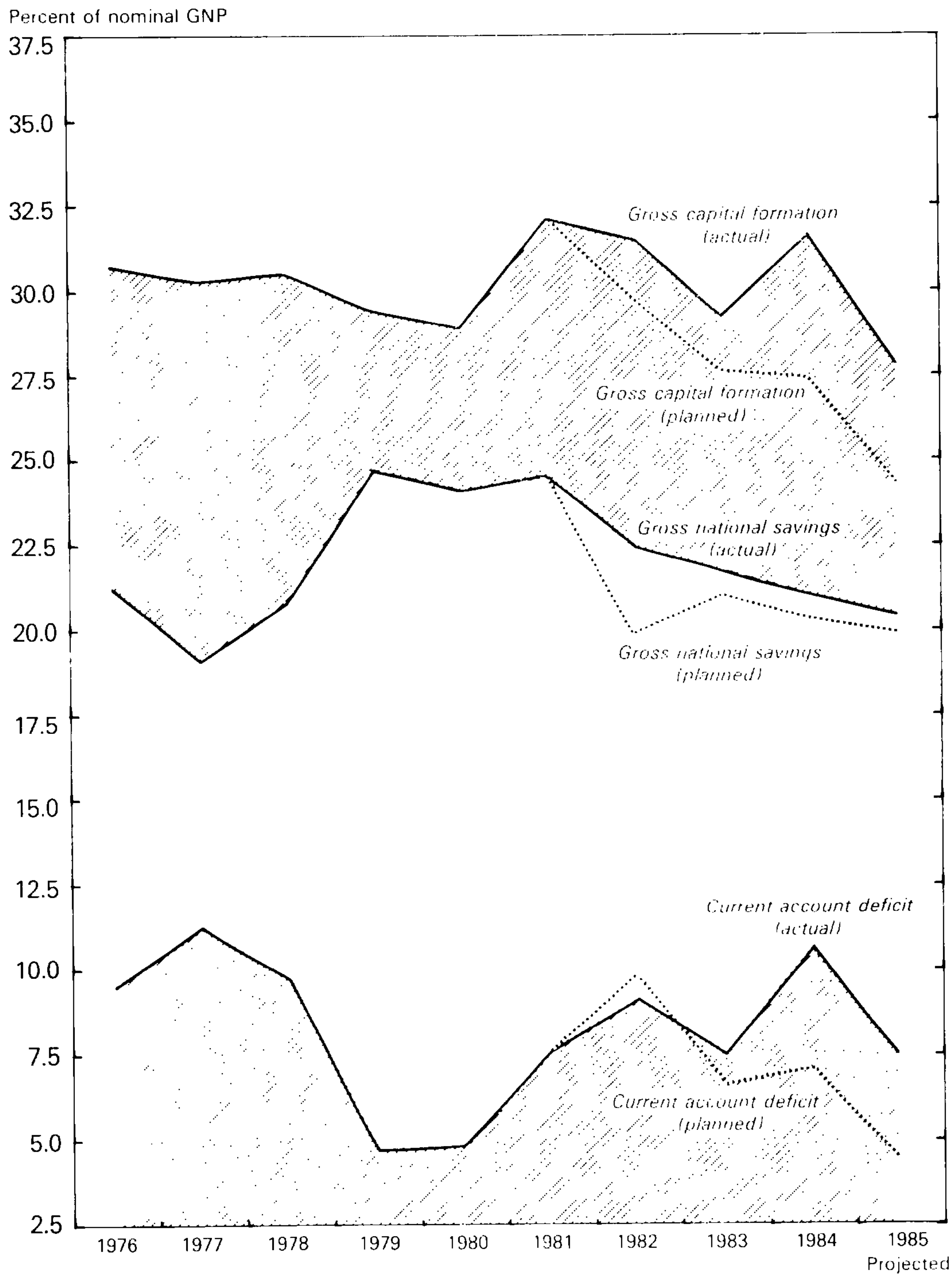
1/ This scenario was drawn up subject to the constraint that the debt service ratio should not exceed the estimated 1985 level in any year during the projection period.

2/ As a percent of exports of goods, services, and transfers.

CHART 2

TUNISIA

INDICATORS OF CAPITAL FORMATION AND SAVINGS, 1976-85



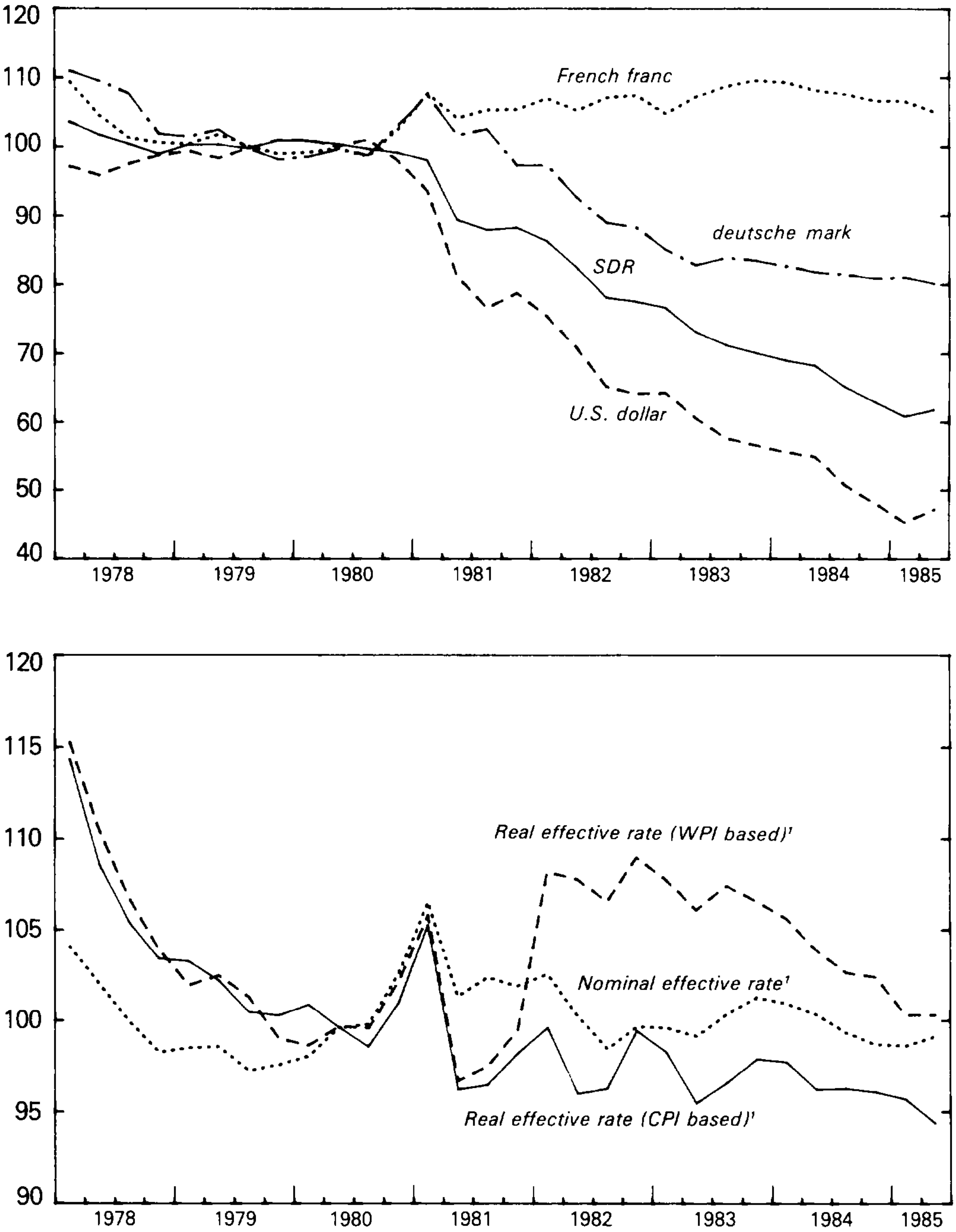
Source: Data provided by the Tunisian authorities.

CHART 3

TUNISIA

INDICES OF SELECTED EXCHANGE RATES, 1978-85

(1980 = 100; foreign currency per Tunisian dinar)



Source: IMF, Data Fund.

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

Imports of raw materials and semifinished products increased rapidly, partly because of a more flexible licensing policy for these goods, which had been subject to increased restrictions in 1983. Due particularly to falling petroleum prices, Tunisia's terms of trade continued to deteriorate. There was consequently a marked increase in the trade deficit, which was compounded by a decline in the surplus on services and transfers, engendered by falls in receipts from tourism and workers' remittances. The current account deficit, at 10.7 percent of GNP, was the highest recorded since 1977 (Chart 2). This deficit was partly financed by new foreign borrowing, including a US$60 million advance on a commercial bank credit of US$130 million contracted in November 1984 and the use of a cereal credit facility from the United States in an amount of about US$100 million. As a consequence, outstanding foreign debt rose by SDR 404 million in 1984 to 50 percent of GNP, compared with 38 percent three years earlier.

The exchange rate of the dinar had been determined since March 1981 with reference to a basket of currencies containing the U.S. dollar, the French franc, the deutsche mark, and the Italian lira. In early 1984, three additional European currencies (the Spanish peseta, the Belgian franc, and the Netherlands guilder) were added to the basket. At the same time, the base-year for calculating the daily exchange rate was updated from 1979 to 1983. Between the fourth quarter of 1983 and that of 1984, the nominal effective exchange rate depreciated by 2.7 percent (Chart 3). As wholesale prices in Tunisia did not rise by as much as in partner countries during 1984, the real effective exchange rate depreciated by 3.9 percent over the same period. These tendencies continued into 1985: by the second quarter, a further 2 percent real depreciation was recorded. The real effective exchange rate thus returned to its 1980 level, reversing the real appreciation that had occurred earlier, especially in 1982. Against the SDR, the dinar depreciated by 14.2 percent during the two years to end-June 1985.

Tunisia maintains an extensive set of restrictions over foreign exchange transactions. Only a small percentage of imports does not require prior authorization of both the Ministry of National Economy which assesses the need for importation and the Central Bank of Tunisia which approves on the basis of the availability of foreign exchange. Nonessential consumer goods are subject to particularly tight quantitative restrictions and/or high tariffs. A tightening for imports of capital equipment occurred in mid-1985. Previously, once an investment project had received the approval of the Investment Promotion Agency, the promoter was free to import any needed equipment. Now an import license is required, involving approval of both the Ministry of National Economy and the Central Bank. Concerning imports of raw materials and semifinished products used by industrialists, increased flexibility was introduced in 1984 and 1985. In particular, any unused portion of the firm's annual import authorization was allowed to be carried over to the following year; swapping between items within approved import programs is now also permitted, provided the firm's total allocation for imports is not exceeded. The sale of foreign exchange continues to be limited for most invisibles. However, more recently travel allowances and other payments for invisibles related to exporting activities were liberalized somewhat.

2. Prospects for 1985

Real GDP growth in 1985 is now projected at about 4 percent. Developments in industry are expected to be weaker than in 1984, particularly because of a sharp slowdown in output of agro-industries (notably olive oil). Value added in agriculture will again grow rapidly, due to a record cereal harvest of about 2.1 million tons, following ideal weather conditions, compared with 1.3 million tons presently regarded by the authorities as normal output. The rate of inflation is expected to stabilize at about 8 percent. In the first half of 1985, consumer price developments were favorable. In mid-year the Government announced moderate increases in the prices of subsidized goods, petroleum products, electricity, and transportation, as part of the policy to improve domestic and external finances, which will have an upward impact on the overall rate of inflation in 1985.

The consolidated deficit of the Government consistent with the 1985 Financial Law 1/ was envisaged to be about 7 percent of GNP. It now appears likely that the deficit will be of the order of 7.5 percent of GNP, despite recent measures to restrain government capital spending. The higher deficit is due especially to higher outlays on consumer subsidies and lower revenue from import taxes. Once again, net credit to the Government will grow rapidly (42 percent) and be the main stimulus of overall credit growth of some 17 percent, compared with 11.4 percent for nominal GNP. Credit to the private sector is projected to rise by 13 percent, as against 13.7 percent in 1984. Although credit requirements of the agricultural sector and public enterprises 2/ will accelerate, the authorities anticipate a slowdown in credit to other sectors following increased control over imports and investment.

1/ The "budget deficit" concept used in the Financial Law is limited to budgetary transactions, and includes amortization of government debt. In contrast, the consolidated government deficit is based on transactions of the Central Government, various special Funds, Treasury and extrabudgetary accounts, and the social security schemes; it excludes amortization of debt.

2/ In 1984, credit requirements of the public enterprise sector moderated due to special transfers from the Treasury.

The overall balance of payments deficit is expected to be about 1.5-2.0 percent of GNP for the second consecutive year. Foreign reserves were run down very quickly in the first half of 1985: at the end of June, they were SDR 137 million (2.5 weeks of imports), compared with SDR 421 million at the end of December 1984. Import controls over capital and consumer goods were tightened to cope with the rapidly rising imbalances. Current receipts, especially from phosphates and workers' remittances, are expected to be weaker than projected earlier. On the other hand, tourism in the first half of 1985 showed a strong increase, and the good agricultural crop will reduce the need for cereal imports in the second half. Overall, the current account balance could be reduced to around SDR 650 million (8 percent of GNP). As net foreign medium- and long-term borrowings are expected to be about the same as in 1984 (SDR 320 million), total outstanding debt as a percent of GNP may fall marginally to 49 percent. The debt service ratio is likely to continue to rise to 20.9 percent of total current receipts, compared with less than 15 percent three years ago.

III. Report on the Discussions

The discussions took into account the Chairman's summing-up at the conclusion of the 1984 Article IV consultation in August 1984, where it was noted that there was "a need to strengthen adjustment measures in view of the expected deterioration in the current account deficit. Significant adjustment was considered necessary for Tunisia to maintain a viable balance of payments position and to provide an environment conducive to economic growth and employment". In the same vein of thought, and following the Managing Director's meeting with President Bourguiba last June, the staff also discussed with the authorities possible medium-term policy scenarios to redress the growing disequilibria of the balance of payments. In this context, the mission presented to the Tunisian authorities a possible policy stance for 1986.

1. External sector

Tunisia is facing the major challenge of adjusting the structure of its exports to cope with the prospect that it will become a net energy importer in the early 1990s. Given the unfavorable outcome for the current account deficit in 1984 and developments concerning foreign reserves in the first half of 1985, it was clear that the external position was fast becoming unsustainable.

The Tunisian representatives were unanimous in recognizing the importance of reducing the external current account deficit. For this reason, the Government introduced some corrective measures and tightened administrative controls over imports of capital equipment and consumer goods in 1985. Instructions were given to the Investment Promotion Agency (API) to approve only those new investment projects that would have a positive net effect on the balance of payments. Direct government capital spending and public enterprise investments were being re-examined in the light of balance of payments considerations. The authorities were also encouraging imports financed out of importers' own foreign exchange resources, for raw materials, semifinished products, spare parts, and equipment goods, up to a value of D 20,000. Consumer goods (including automobiles) and energy products were excluded from this new regulation, which became effective in June 1985. In the case of investment goods not produced in Tunisia within the context of projects approved by the API, there were no limits on the value of imports of equipment which had been paid for from abroad.

The authorities regarded the additional import restrictions as both necessary and desirable, even though they recognized that they could create distortions if maintained. Although the renewed restrictions for equipment imports were expected to be temporary, no deadline was envisaged for their removal. The staff warned that the encouragement given to promoting imports which were paid for outside Tunisia risked strengthening the parallel market for the dinar, which is understood to be still small. Expatriates could also become interested in directing savings into this market, rather than transferring them into convertible dinar accounts in Tunisia, which had recently been made more attractive by the raising of the interest rate from 9 percent to 10 1/2 percent.

There was reluctance on the part of the Tunisian authorities to change the present system of annual import authorizations for domestic manufacturers. In their view, the system was working well at present: for 1985, 80 percent of the total requests for annual import allocations had been authorized in the first two months of the year; and for 1986, the objective was to have all annual import authorizations in the hands of firms by January 1. The Tunisian representatives stated that Tunisia needed administrative protection to avoid the dumping of foreign products on the local market and to protect infant industries. Tight quotas for consumer goods had to be maintained to avoid a surge in imports. According to the Tunisian authorities, other countries were erecting barriers on imports. In this context, the authorities expressed concern regarding access to the EC market once Spain and Portugal joined the EC. Already there were quotas relating to Tunisia's textile exports to selected EC countries. Tunisia was currently negotiating, in collaboration with the other Maghreb countries, assurances of market access for olive oil, wine, and citrus fruit exports in coming years. An agreement was expected before the end of 1985.

The Tunisian representatives enumerated various export promotion measures that had been introduced since the last Article IV consultation discussions, which were expected to create a better environment for selling new products to nontraditional markets. These covered three main areas: improvements in the institutional framework, relaxation of exporting procedures, and better conditions for export finance. Four export companies (sociétés d'exportation) had been established under the new law which was passed in May 1984. The aim of these companies, which benefit from various tax exemptions, was to sell abroad products of enterprises which may not have the ability to operate in the international markets directly. An export insurance company (COTUNACE) began operations in 1985. It was seen as a necessary backup for promoting nontraditional exports to new markets. Export licensing was abolished for certain products in January 1985; the main products still requiring licenses are those which are subsidized by the Subsidy Fund (Caisse Générale de Compensation). Imports using the "temporary admission" procedure were now exempted from all exchange and trade procedures, and the deposit required to be left with Customs had been reduced. Improvements in the area of export finance included the elimination of prior central bank authorization for certain payment modes and the extension of the payment period, the raising of export pre-financing limits, and the exclusion of export credits from the general interest rate increase in April. Also, the ceilings for various allowances in exporters' foreign currency travel accounts (EFAC accounts) were raised. Finally, an Export Promotion Fund was created in 1985 financed by a 1 percent tax on earmarked imports. Presently, this fund fully covers air-freight costs for exports to new markets in the Middle East and Africa, and it subsidizes travel costs for exporters in search of new markets.

With regard to the financing of the external deficit in 1985, the Tunisian representatives expected that there would be a loss in reserves amounting to about D 100 million, notwithstanding the use of the remainder of the commercial bank loan contracted in 1984. The authorities recognized the need to avoid a further deterioration in the external debt position. Accordingly, they had decided to avoid any further recourse to international financial markets in 1985.

Concerning the exchange rate, the conclusion of the 1984 Article IV consultation discussions was that policy should be conducted so that, as a minimum, a further real appreciation of the dinar would be prevented. Tunisia indeed went further: various competitiveness indicators showed that the real effective appreciation during 1981-83 (especially when measured in terms of relative unit labor costs) had now been reversed. However, the staff pointed out that, compared with 1980, the dinar had still appreciated in real terms against key trading partners such as France and Germany, and major competitor countries such as Spain and Morocco. The staff noted that the rebound of textile exports and tourism receipts in early 1985 was an example of the favorable effects given by the real depreciation of the dinar during 1984.

2. Wage and price policies

The minimum wage (SMIG) has remained unchanged since the last general increase granted in March 1983; other wages in the private sector have increased only to the extent agreed in previously-negotiated wage contracts. The staff noted that wage drift was strong: in the public sector in particular, about 5 percentage points of the 11 percent growth of the wage bill in 1984 was explained by normal promotions and grade increases. Nonetheless, the policy of wage moderation pursued over the last 18 months or so had partially offset the excessive increases granted earlier, especially in 1982, and had contributed toward a stabilizing demand management policy.

The Tunisian authorities recognized the importance of containing wage and salary increases, and were currently attempting to convince the social partners that, in the future, wage rises should be linked to productivity gains. Otherwise, the objective of providing an adequate number of jobs for the rapidly rising young labor force would be jeopardized. It was planned to continue to freeze minimum wages for the remainder of 1985. In the view of the Tunisian authorities, it was especially important not to repeat the wage/price spiral that had occurred in earlier years, which had resulted in a deterioration of Tunisia's cost-competitiveness. For 1986, they wished to pursue a policy of keeping wage increases down to a bare minimum. The mission pointed out that wage increases should be linked to sectoral productivity and enterprise profitability, a policy which implied greater decentralization in wage setting than was presently the case.

Regarding the prices of subsidized products, the Tunisian authorities felt that there was a need for more realistic prices, but noted that the adjustments must be limited and carefully monitored, given their social implications and the declines in real wages that wage earners had already experienced. A policy of small, but regular price adjustments had now been adopted by the Government. Subsidy policy was also being rationalized by differentiating between commodities, with the ultimate aim being to reduce subsidy coverage to a few essential goods. Thus, beef prices were liberalized completely during July 1985. The price of bread, which was likely to remain subsidized, was increased by about 13 percent in July 1985. The Government's objective was to eliminate budgetary transfers to the Caisse Générale de Compensation by 1990; after that date, the remaining subsidies would be financed entirely out of the tax revenue received by the Subsidy Fund.

As far as the pricing of other goods was concerned, the Tunisian authorities indicated a willingness to allow a greater role to be given to market forces. Already agricultural producer prices were close to international levels, following increases of 45-60 percent for the the prices of various cereals over the three years through 1984. Given that price increases for 1985 were small, the staff urged that, as a minimum, producer prices for the next season be maintained in real terms. Similarly, there was a need for regular adjustments of public tariffs, to improve the financial performance of public enterprises. In this context, the Government had increased retail prices for petroleum products twice over the last year, by a cumulative amount of about 15 percent, and it was their intention to continue to increase them to reflect world prices. Finally, for manufactured products, the staff recommended greater flexibility, through the liberalization of goods subject to the "homologation" and "auto-homologation" regimes (ex-ante and ex-post price control, respectively). For these products, the Tunisian representatives considered that the present cost-plus formulae for price setting were not satisfactory, and indicated that rationalization of the price system would become an important objective during the Seventh Plan period (1987-91).

3. Fiscal policies

The 1985 Financial Law assumed a continued increase in imports and related taxes, and also that action would be taken early in 1985 to reduce consumer subsidies and raise energy prices. The budget had planned a stabilization of expenditure of the Caisse Générale de Compensation at the previous year's level of about D 250 million (3.6 percent of GNP). Subsequently, the outcome for the 1984 balance of payments was worse than earlier estimated, necessitating additional measures to restrain imports. As a consequence, a shortfall of about D 90 million in tax revenue was expected. Also, most of the price adjustments implemented in 1985 were moderate and occurred only in July, and it was likely that the budgeted level of consumer subsidies would be exceeded by about D 30 million. For these reasons, the Government decided to reduce investment spending, by slowing down project implementation and by deferring less essential capital spending. The reduction did not apply to investment for which foreign finance had already been secured. Including reduced transfers to public enterprises, total expected savings from this measure and from reductions in current expenditure should amount to D 49 million. In addition, extra-budgetary capital expenditure for rural development was expected to be D 40 million less than projected at the time the Finance Law was enacted. Taking into account the impact of these measures, the consolidated central government deficit for 1985 was expected by the Tunisian representatives to amount to 7.5 percent of GNP, about the same ratio as in 1984.

The Tunisian representatives indicated that their preliminary budget for 1986 was based on limiting the increase in current expenditure to 6 percent and reducing capital spending by 10 percent. Concerning current expenditure, they intended to continue a policy of wage moderation, and to curtail new public sector recruitment, except for education and health. They indicated that a reduction of the consumer subsidy bill could be achieved by further reducing the coverage and by regularly raising the prices of subsidized commodities in moderate steps. Also, they wished to eliminate the arrears to domestic suppliers of the Caisse Générale de Compensation, estimated at about D 100 million, and were considering a Treasury loan to the Subsidy Fund to achieve this, as was the case in 1981. To reduce capital spending by 10 percent projects amounting to about D 100 million would be deferred. In addition, to reduce the overhang of committed capital expenditure, the authorities intended to cancel all outstanding commitments which had not given rise to payment orders by end-1986 (the last year of the Sixth Plan).

In the view of the Tunisian representatives, transfers to public enterprises was another area where savings were possible. A public enterprise reform bill had recently been approved. It envisaged reducing the number of public enterprises from over 500 at present to about 150 by the end of 1987. Government involvement will be limited to those enterprises where its participation exceeds 34 percent in the case of direct ownership, or more than 50 percent in the case of subsidiaries. Privatization was not envisaged for some of the large public enterprises which would not survive without the support of government transfers or which were considered strategically important (e.g., phosphates and derivatives, mining, transport, water, oil, and gas). In view of the present large budgetary transfers to nonfinancial public enterprises (about 4 percent of GNP), and given that the development banks only wished to take up ownership of a limited number of financially-viable enterprises, the authorities felt that they had to advance as quickly as possible with the financial rehabilitation of these enterprises. Once their financial situation had been improved through better management, more realistic pricing and employment policies, and increased efficiency, these enterprises could become more dependent on development bank credit, rather than on budgetary transfers. A World Bank mission scheduled for next year is to review the progress made under the reform.

Turning to revenue aspects, tax rates in Tunisia were quite high, according to the authorities. At the beginning of 1985, customs duties were raised, and a new 0.5 percent tax on foreign exchange payments was implemented. 1/ There was an ongoing tax reform which had three main objectives: to reduce tax rates and improve administration; to simplify the tax system; and to introduce a value-added tax. Also, nonfiscal revenues were projected to decline over the medium term, in line with the reduction in petroleum resources. To offset this decrease, annual increases in petroleum product prices were expected to be implemented, progressively aligning domestic prices with world levels. At the request of the authorities, a Fund technical assistance mission had just submitted a report giving a detailed review of the tax system. The Tunisian authorities indicated their readiness to

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1/ The tax is not subject to Fund approval under Article VIII of the Articles of Agreement because the rate is below the 2 percent limit.

accelerate the tax reform, stating that they had now accepted the principle of introducing a value-added tax generalized across all economic sectors, instead of the step-by-step approach they had been following so far. This would decrease the excessive reliance of government revenue on taxes from imports.

4. Money and credit policies

The staff noted that, as in previous years, the projected growth in domestic credit in 1985 would again exceed the expected rise in nominal GNP. There was likely to be a particularly rapid growth of credit to the Government, to finance a deficit higher than initially projected. Credit growth to the private sector (including public enterprises) was likely to be more restrained. Nonetheless, the expansion of overall credit, including that accorded by development banks, 1/ was likely to be high and thereby place pressure on prices and the balance of payments. Notwithstanding the deficit in the balance of payments, the growth in money supply in 1985 is likely to exceed that in nominal GNP.

Interest rates were increased in April 1985 for the first time in four years. Deposit rates were raised by 1-1 1/2 percentage points, and were now positive in real terms 2/ for term deposits exceeding 18 months. Most lending rates also rose, with nonpreferential rates reaching levels which now appeared to the authorities to be broadly appropriate. They stated that these changes reflected their decision to adopt a flexible attitude in this area and to entertain further adjustments should excess liquidity or other considerations so require. The structure of interest rates had also been simplified. The monetary authorities felt that the present three categories of lending rates -- preferential, normal, and penalty -- were appropriate. Nonetheless, they indicated that more flexibility was being introduced and that small adjustments would be made more frequently than in the past. As an example, interest rates on term deposits exceeding two years could be liberalized completely once the development banks were given authority to raise their own deposits.

The staff also sought the authorities' views on the World Bank Financial Sector Report's recommendation for the replacement of the present credit control mechanism based on rediscount facilities of the

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1/ Credit growth of the eight development banks, which are excluded from the monetary survey, has been particularly rapid. For example, credit to the private sector in 1984 would have been almost 4 percentage points higher if credit from the development banks and the National Savings and Housing Loan Fund were included.

2/ Nominal interest rates deflated by the increase in the consumer price index.

Central Bank by a system of global ceilings on bank credit expansion. In addition, the staff inquired whether credit policy would not be made more efficient by the introduction of a deregulated system where market-determined interest rates allocated credit and the monetary authorities regulated overall liquidity through the use of global instruments such as reserve requirements. For their part, the Tunisian authorities considered that there had already been considerable liberalization in the system of bank credit allocation. In March 1985 the limit for credits requiring prior central bank approval or rediscount agreement was raised to D 1 million, compared with D 150,000 only in 1980. Each bank is allowed recourse to central bank refinancing, up to a limit of 17.5 percent of deposits. The Central Bank preferred to maintain sectoral credit control, to ensure that priority sectors such as agriculture and exporting activities did not suffer in times of bank liquidity shortages. In these circumstances, the adoption of a system of global credit control was not considered appropriate. In the Tunisian view, such a system would also be difficult to implement so long as the financial situation of some public enterprises remained precarious. Finally, the possibility that the offshore banks would soon be providing finance to residents also had implications for domestic credit policy, as it would provide some competition within the banking sector. The authorities stated that the domestic activities of nonresident banks would be confined to a few areas only, such as trade-related financing.

5. Development planning and medium-term prospects

The staff was provided with estimates for the five years covered by the Sixth Development Plan (1982-86) which indicate that GDP growth would average 3.5 percent per annum (compared with a target of 6 percent) and the external current account deficit would average 8.2 percent of GNP, instead of the 6.6 percent envisaged. In the first two years, drought conditions caused considerable slippage in agricultural production targets, and despite the exceptionally good years of 1984 and 1985 a complete catch-up seemed unlikely.

Investment under the Plan had been projected to average 25.0 percent of GNP, but it was likely to be considerably higher (28.5 percent of GNP). The Tunisian representatives stated that it was in the light of this development that a review of investment began in 1985; it aimed at greater selectivity of investment, through the postponement or elimination of projects with an unfavorable effect on the balance of payments. Customs duties exemptions for imported equipment goods were to be removed for projects not meeting the new trade-balance-effect criterion. Also, investment licensing procedures were being altered to allow renewal of existing investments, rather than encouraging new investment in sectors where capacity utilization was already low.

The Tunisian authorities are in the process of establishing the preliminary orientations of the Seventh Plan (1987-91). They are aware that the balance of payments will be the principal constraint to economic growth over the next medium-term period. Starting from a normative assumption that the debt service ratio expected in 1985 (20.9 percent of exports of goods, services, and transfers) should not increase further during 1986-90, the staff prepared a possible scenario for the balance of payments and economic growth through 1990 (Table 2). Under this scenario, net foreign medium- and long-term borrowing would have to be limited to about SDR 280 million per annum during 1986-90, and the average ratio of net medium- and long-term capital inflow to total current receipts would decline from an average of 10.3 percent during 1983-85 to 7.1 percent during 1986-90. With merchandise exports assumed to grow by about 4 percent in volume (implying a growth rate of some 12 percent per annum for the volume of nonhydrocarbon exports), the increase in imports would need to be constrained to 2.8 percent per annum in volume terms, assuming that oil prices remain constant in real terms as from end-1986. Should Tunisia's terms of trade continue to deteriorate over the projection period, imports would need to be restrained even more or exports increased further. The current account deficit and the level of outstanding debt would drop to 2.4 percent of GNP and 38 percent of GNP respectively, by 1990. The staff noted that the assumed growth of exports was much higher than that realized in the past years, and would require a deliberate policy to encourage exports through appropriate incentives and improved cost competitiveness.

The Tunisian representatives agreed that normative medium-term scenarios should be drawn up on the basis of no increase in the debt service ratio. With such an approach, the growth of both consumption and investment will have to be limited to less than that in GNP, implying tight incomes policies, firm control over government expenditure, and an intensification of the re-ordering of investment priorities. In the coming months, the Tunisian Government intends to refine its own medium-term projections through 1991, which are already at an advanced stage, and will be examining carefully the domestic and external policies required to meet the next Plan's targets.

In the context of these discussions, an exchange of views also took place on the role of exchange rate policy in achieving the medium-term objectives. The staff referred to the immediate positive effects on exports and tourism from the recent depreciation of the real effective exchange rate of the dinar and suggested that a similar approach would be necessary to ensure the appropriate growth in nonhydrocarbon exports and to provide the authorities with enough flexibility in respect of employment and wage policy, as well as for investment outlays. The staff also felt that the intended increase in the efficiency of investment and improvement in resource allocation could only be achieved within a more liberalized system of import regulations. For these purposes, the staff reiterated that a more flexible exchange rate would be appropriate.

As the authorities had already made some preliminary preparations for their 1986 budget, the staff suggested that appropriate targets for the external current account and consolidated government deficits should be a reduction of around 2 percentage points in their ratios to GNP. Without an appropriate exchange rate policy, the staff considered that for such a reduction to be realized, the Government would have to continue the wage freeze, sharply curtail public sector employment, substantially increase the prices of subsidized goods, and further scale back public investment. The authorities perceived that a depreciation by itself would have adverse effects on both the external current account and government deficits, but agreed with the staff that an exchange rate adjustment within the context of a comprehensive policy package could be entertained. They stated that they would carefully study the staff's projections and policy recommendations, and proposed to discuss them further with the staff later in 1985.

IV. Staff Appraisal

In 1984 Tunisia continued to register relatively satisfactory economic growth, with real GDP increasing by over 5 percent. More importantly, the growth of the economy was broadly based; with the exceptions of the hydrocarbon sector, construction and mining, other sectors showed significant increases in production and value added. However, this rate of growth was not sufficient to prevent a further increase in the unemployment rate, which rose by about 1 percentage point to 13.7 percent. The rate of price increase remained moderate, being helped by the wage freeze and the authorities' continued reliance on widespread price controls. Developments so far in 1985 suggest a slowdown in the rate of growth in GDP of over 1 percentage point, reflecting a generalized deceleration across economic sectors.

While recent developments concerning economic growth may be regarded as satisfactory, those in the financial sector have become increasingly worrisome. The overall balance of payments deficit reached SDR 146 million in 1984, with the current account deficit equaling a record high of 10.7 percent of GNP, notwithstanding continued reliance on import controls. Although some of the recent deterioration in external finance is attributable to the diminishing oil exports and a worsening of the terms of trade, it is also related to the increasingly large public sector deficit and higher-than-planned investment ratios that have characterized the economy during the current plan period. In 1984 the consolidated budget deficit amounted to 7.4 percent of GNP, which was financed primarily from domestic sources. Consumption in the private sector also remained high, reflecting both the earlier large wage increases and the prevalence of widespread consumer subsidies. In addition, until about mid-1983, the real effective exchange rate of the Tunisian dinar was allowed to appreciate significantly.

The authorities sought to meet the increasing deficit of the external current account through borrowing and, more recently, by reducing their foreign exchange reserves. As a result, between 1980 and 1984 Tunisia's external debt increased from 35 percent of GNP to about 50 percent, and its debt service as a percent of total current receipts increased from 12 to 19.5 percent. At the end of June 1985, Tunisia's gross official reserves amounted to the equivalent of only 2.5 weeks' imports.

In the face of the growing financial imbalances, a consensus appears to have emerged within the Government to implement corrective adjustment policies. Over the last year, the Government took two broad types of actions: the first included a rationalization of investment priorities in both the public and private sectors, a marked moderation of wage increases, an upward revision of prices of petroleum products and of subsidized food products, increases in interest rates, and measures to promote exports. The other group of actions comprised a further intensification of import restrictions, and extended the scope of self-financed imports.

The staff welcomes the growing awareness and willingness of the authorities to address their financial problems, and endorses the corrective measures taken recently as being both necessary and in the right direction, with the exception of the intensification of import restrictions and the encouragement given to imports financed from abroad, which are likely to counter the intended efforts of the adjustment measures. The staff believes that the measures of the first type would yield beneficial results both in terms of reducing the budgetary deficit and improving the balance of payments. However, in the staff's view, these measures do not go far enough and would not bring about a sufficiently rapid adjustment from the present unsustainable situation. Thus, the consolidated government deficit for 1985 would remain at 7.5 percent of GNP, and the expansion in net credit to the Government would still accelerate to a high rate of over 40 percent, and amount to about 7 percent of end-1984 broad money. The external current account deficit would still be about 8 percent of GNP. For 1986, it is difficult to foresee any additional improvement in the external current account deficit under present policies, as the 1985 tightening of import controls cannot be repeated. Given the present external debt service ratio, as well as the low level of external reserves, the authorities' margin to absorb further large deficits is limited, and their ability to deal with sudden adverse external developments is reduced. On the other hand, both the level of indebtedness as well as the size of the disequilibria have not yet reached crisis proportions and could be tackled by policies that would not be unduly disruptive if implemented soon and in a comprehensive framework.

The Tunisian authorities are cognizant of the need for further adjustment, and they propose to address it more fully in the context of the 1986 budget and their next development plan. Under the present plan, priority was accorded to achieving high growth rates and increasing employment opportunities, to the detriment to the quality of investment and its consequences for the balance of payments. The focus of the next plan will have to be on redressing the external imbalances. In the staff's view, the present debt service ratio, at around 21 percent, is about the maximum that could be sustained within the medium-term context, and, accordingly, the next plan should be framed within the constraint that this ratio would be stabilized, if not actually reduced somewhat. A satisfactory growth rate should still be possible provided the authorities pursue rigorously their present intentions to tighten demand management policies, continue wage moderation, improve the efficiency of investment, and further reorient policies consciously toward export promotion. In particular, there is a need to restrain the growth in government expenditure which, as a ratio of GNP, is amongst the highest of the developing countries.

The attainment of these objectives would require increasing capital productivity by reducing infrastructure and highly capital-intensive investment, easing investment controls, and reorienting relative factor costs in favor of labor. In order to restrain consumption growth, appropriate incomes and employment policies should be followed and increased rationalization introduced into the present system of consumer subsidies as quickly as possible, limiting them to a few essential goods and reviewing prices at more frequent intervals. Similarly, realistic pricing policies should be adopted for energy and public utilities, thereby supporting the ongoing reform of the public enterprise sector. Greater liberalization of price controls for manufactured goods is called for to increase efficiency and competitiveness. In the context of the tax reform, the staff considers that a timetable should be set for an early implementation of a value-added tax, and that efforts be made rapidly to simplify the tax system and improve tax collection. Monetary objectives, in the staff's view, would be more easily achieved through greater simplification of the interest rate structure, especially a review of preferential rates (e.g., those for housing finance), and increased reliance on market forces and indirect credit control instruments. The scope of quantitative import controls should be reduced not only by reversing the recent decision to intensify controls over equipment goods, but also by liberalizing restrictions on raw materials, intermediate goods, and eventually consumer goods. Finally, a more flexible exchange rate policy would facilitate the achievement of balance of payments objectives (including liberalization of imports) and ease the social cost of adjustment policies.

In the next few months the Tunisian authorities will be finalizing their policies for 1986 which, the staff has been assured, will address the problem of external disequilibria within a medium-term context. Already preliminary decisions have been made regarding the fiscal objectives and some of the related policies. The staff feels that the authorities should integrate more explicitly their exchange policies with domestic policies as the thrust of the latter with regard to incomes, employment, and investment will be importantly influenced by the decisions regarding the exchange policies. In any event, the authorities' present objective regarding the reduction in the budgetary deficit needs to be further reviewed, and in the absence of an exchange rate action such a reduction would require unduly restrictive expenditure and investment policies.

Tunisia continues to maintain restrictions on payments and transfers for current international transactions in the form of limits on the availability of foreign exchange for most invisibles and the requirement of prior authorization for the payment of most imports. The authorities' emphasis on improving the efficiency of investment would be more effective were they at the same time to liberalize the present restrictions on imports. *Since the restrictions on payments and transfers for current international transactions are maintained by Tunisia in accordance with Article XIV, they are not subject to Fund approval.*

The next Article IV consultation with Tunisia will be on the standard 12-month cycle.

V. Proposed Decision

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

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Tunisia, in the 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. Tunisia's system of exchange restrictions has been tightened since the last consultation. The Fund urges the authorities to ease restrictions on payments and transfers for current international transactions.

TUNISIA -- Fund Relations

(As of August 31, 1985)

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:	111.2 (80.4 percent of quota)
Fund credit:	None
Reserve tranche position (amount):	27.0
Current operational budget (maximum use of currency):	Not applicable
Lending to the Fund (amount):	None

III. Current stand-by or special facilities

None

IV. SDR department

Net cumulative allocation (amount):	34.2
Holdings:	0.83 (2.4 percent of net cumulative 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

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 July 31, 1985, the dinar rate of the U.S. dollar was D 1 = US$1.213, equivalent to D 1 = SDR 1.170.

IX. Last Article IV consultation

The last Article IV consultation discussions were held in Tunis during the period March 20-April 3, 1984, and the staff report (SM/84/118) and the recent economic developments paper (SM/84/130) were discussed by the Executive Board on August 10, 1984. The decision adopted was as follows:

1. The Fund takes this decision in concluding the 1984 Article XIV consultation with Tunisia, in light of the 1984 Article IV consultation with Tunisia conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. No significant changes have been made in Tunisia's system of exchange restrictions since the last consultation. The Fund encourages the authorities to ease restrictions on payments and transfers for current international transactions.

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

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)

Financial Relations of the World Bank Group with Tunisia

Date of membership IBRD: April 1958

Capital subscription IBRD: SDR 37.3 million

IBRD/IDA lending operations 1/	Committed		Disbursed	
	IBRD	IDA	IBRD	IDA
	(In millions of U.S. dollars)			
Agriculture and rural development	288.3	8.9	135.1	8.9
Education	60.5	19.4	11.9	19.4
Health and population	12.6	9.5	2.0	9.5
Energy	143.7	--	94.5	--
Transportation	222.4	16.9	139.5	16.9
Industry and tourism	360.2	10.0	183.8	10.0
Technical assistance	4.5	--	0.8	--
Urban, water supply and sewerage	373.0	10.5	149.7	10.5
Total	1,465.2	75.2	717.3	75.2
Repayments	195.8	9.1		
Debt outstanding (including undisbursed)	1,269.4	66.1		
IFC operations (gross commitments)	22.6			

Source: World Bank.

1/ Through the end of May 1985.

Recent World Bank missions:

May-June 1984: Financial Sector Study (Draft Report discussed with Tunisian Government in April 1985)

January 1985: Industrial Policy Study (Draft Report, April 1985)

TUNISIA - Basic Data

Area, population, and GDP per capita

Area	164,154 square kilometers
Population: Total (1984)	7.0 million
Growth rate	2.5 percent
GDP per capita (1984)	SDR 1,119

	1981	1982	1983	1984	1985 Proj.
	(In millions of dinars)				
Gross domestic product at 1980 prices	3,736	3,736	3,915	4,126	4,290
Agriculture and fishing	533	480	493	550	600
Hydrocarbons	364	346	372	363	347
Mining, electricity, and water	107	109	122	125	127
Manufacturing	469	482	521	566	600
Construction and public works	237	244	244	247	241
Services	1,559	1,599	1,663	1,748	1,830
Indirect taxes minus subsidies	467	476	500	527	545
Gross national product at current prices	4,194	4,870	5,584	6,284	7,000
Gross domestic product at current prices	4,162	4,817	5,520	6,235	6,970
Private consumption	2,553	2,994	3,464	3,940	4,425
Public consumption	616	786	914	1,030	1,150
Gross capital formation	1,345	1,543	1,630	1,987	1,945
Resource gap	-352	-506	-488	-722	-550
Prices (percent change)					
GDP deflator	11.4	15.7	9.4	7.2	7.5
Consumer prices	9.0	13.6	9.0	8.3	8.2
Central government finance 1/					
Current revenue and grants	1,334.6	1,658.3	1,862.7	2,241.6	2,313.3
Of which: oil revenue	(368.4)	(487.0)	(437.0)	(559.6)	(567.3)
Total expenditure and net lending	1,440.1	1,919.1	2,311.2	2,708.5	2,838.5
Current	909.9	1,289.8	1,551.9	1,817.1	1,980.2
Capital and net lending	530.2	629.3	759.3	891.4	858.3
Overall surplus or deficit (-)	-105.5	-260.8	-448.5	-466.9	-525.2
Foreign financing (net)	108.7	196.2	284.1	185.3	208.0
Domestic borrowing (net)	-3.2	64.6	164.4	281.6	317.2
Of which: from the banking system	(24.4)	(17.7)	(50.0)	(88.8)	(188.0)

1/ Consolidated operations.

TUNISIA - Basic Data (concluded)

	1981	1982	1983	1984	1985 Proj.
Money and credit (end of period)			(In millions of dinars)		
Foreign assets (net)	236	252	389	295	185
Domestic credit	1,978	2,440	2,912	3,359	3,925
Central Government	(255)	(307)	(354)	(451)	(639)
Economy	(1,723)	(2,133)	(2,558)	(2,908)	(3,286)
Money and quasi-money	1,725	2,051	2,431	2,715	3,118
Money	(1,115)	(1,379)	(1,652)	(1,765)	(1,983)
Quasi-money	(609)	(671)	(778)	(950)	(1,135)
Other items (net)	490	642	870	939	992
Balance of payments			(In millions of SDRs)		
Exports, f.o.b.	2,082	1,793	1,741	1,754	1,769
Imports, f.o.b.	3,042	2,915	2,752	2,945	2,795
Trade balance	-960	-1,122	-1,011	-1,191	-1,026
Services and transfers (net)	409	427	426	345	372
Current account balance	-551	-695	-585	-846	-655
Capital account (net)	629	720	571	700	525
Grants	17	17	24	28	24
Direct investment	311	364	209	201	189
Medium- and long-term loans	234	285	323	320	312
Other 1/	67	53	15	150	--
SDR allocation	6	--	--	--	--
Overall surplus or deficit (-)	84	25	-14	-146	-130
Gross official foreign reserves (end of period)	467	556	548	421	291
External public debt					
Disbursed and outstanding (end of period)	2,654	2,974	3,304	3,708	4,027
Terms of trade (percentage changes)					
Export prices (in SDRs)	10.3	-5.8	-6.5	-1.1	-1.5
Import prices (in SDRs)	3.1	-3.3	-2.0	0.6	1.3
Terms of trade	7.0	-2.6	-4.5	-1.7	-2.8
Exchange rates (period averages)					
D/SDR	0.581	0.651	0.725	0.796	0.852 3/
D/French franc	0.091	0.090	0.089	0.089	0.091 3/
D/US$	0.494	0.591	0.679	0.777	0.859 3/
Nominal effective exchange rate 2/	103.0	100.2	100.1	99.8	99.1 3/
Real effective exchange rate 2/ (based on wholesale prices)	99.9	107.9	106.9	103.6	100.3 3/

1/ Including short-term capital of commercial banks, and errors and omissions.
2/ 1980 = 100. Index is weighted by total trade (excluding petroleum), plus tourism.
3/ Level in second quarter.

Tunisia -- Statistical Issues

1. Outstanding Statistical Issue

Monetary accounts

The Bureau of Statistics has, in the past, requested information on the offshore banking activities of banks in Tunisia. During 1984 a number of developments were reported to have taken place regarding the scope of this sector. The authorities indicated during the 1985 Article IV consultation discussions that data on offshore banks would be made available to the Fund's Bureau of Statistics soon after they were submitted to domestic monetary regulations (a bill for this purpose is presently under the authorities' consideration).

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Tunisia in the September 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Tunisia, which during the past year have been provided on a timely basis.

Status of IFS Data

		Latest Data in September 1985 IFS
Real Sector	- National Accounts	1984
	- Prices	Dec. 1984
	- Production (industrial)	Q4 1983
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Spending	1982
	- Financing	1982
	- Debt	1982
Monetary Accounts	- Monetary Authorities	April 1985
	- Deposit Money Banks	March 1985
	- Other Financial Institutions	March 1985
External Sector	- Merchandise Trade: Values	Dec. 1984
	Prices:	
	Exports (unit values)	1982
	Imports (WPI component)	Dec. 1984
	- Balance of Payments	1984
	- International Reserves	June 1985
	- Exchange Rates	July 1985