GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

CONSULTATION WITH TUNISIA

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures taken for Balance-of-Payments Purposes (BISD 26S/205-209) with a view to facilitating the consultations in the Committee.

I. Previous consultations with Tunisia

2. Tunisia acceded provisionally to GATT in November 1959. Four full consultations have been held with Tunisia since then, the most recent in November 1979.

3. Five simplified consultations were subsequently held, in November 1981, December 1983, December 1985, September 1988 and March 1991 respectively. At its March 1991 meeting, the Committee welcomed the efforts by Tunisia, which had acceded to GATT in 1990, to continue its liberalization programme despite a difficult economic environment. However, it noted that a substantial list of restrictions was still in force, as notified to GATT (L/6829). An analysis by the Secretariat of the data provided by the Tunisian authorities can be found in BOP/W/138/Add.1. The Committee also recalled that the last full consultation with Tunisia had been held in 1979 and welcomed its readiness to proceed to a full consultation, at a date to be determined in discussion with all interested parties (BOP/R/190).

II. Tunisia's trade régime: evolution since the last consultation

(a) Quantitative restrictions

4. Tunisia's basic trade régime has remained unchanged since the 1970's though the number of products subject to import restrictions has been steadily reduced as part of Tunisia's declared liberalization policy. Imports into Tunisia are classified either as "liberalized", i.e. not requiring import authorization or "prohibited" i.e. subject to authorization. "Liberalized" products can be imported by means of a certificate which is obtained upon presentation of a commercial contract. Import certificates are valid for a period of six months which can be extended. Items not included in the list of "liberalized" products can be imported with a specific import licence, an annual import authorization, or

an import card, provided they are not banned for health, religious or similar reasons.

5. Import licences which are issued by the Ministry of Industry and Commerce and endorsed by the Central Bank of Tunisia are normally valid for six months. In granting them, the authorities take into account the market situation for domestic production and eventual financial constraints.

6. Annual import authorizations are granted for certain staples or industrial products, to specific industrialists, agencies, or merchants, and are subject to a global annual limit expressed in dinars.

7. Import cards are granted to natural or legal persons for the importation of products related to their business activities for an amount not exceeding 1000 dinars per importer and per year.

8. Additionally, certain items, particularly consumer goods, can be imported under traders' quotas which are allocated among traders on a points system related to the sectoral balance of trade, the turnover of the enterprise, its employment and the number of trading outlets.

9. The following are the exceptions to the need to obtain specific licences:

- authorized manufacturers of pharmaceuticals can freely import, through the import certificate procedure, all raw materials and semi-finished products (whether or not on the liberalized list) necessary for the manufacturing process;

- industrial production enterprises which export less than 15 per cent of their turnover are similarly allowed to import all raw materials and semi-finished products for their business, up to the value of their exports; enterprises which export 15 per cent or over of their turnover are entitled to import raw materials and semi-finished products without limitation on value;

- sales to "export companies" as defined under Tunisian laws, or to domestic companies which are entirely export oriented, are counted as export sales under these regulations;

- the import certificate procedure may also be used for imports of normally prohibited capital goods by promoters of authorized or declared investment.

10. Imports of energy products and of sugar, coffee, tea, vegetable oils, tobacco and pharmaceutical products, are subject to a state monopoly.

11. In principle, all import documents involving payments must be handled by authorized banks. Foreign currency can be purchased from the Central

Bank or a delegated commercial bank for all payments that have received general or specific prior authorization. An import licence entitles the importer to purchase the necessary foreign exchange. All payments for invisibles, in principle, require the approval of the Central Bank. However, many exemptions exist.

12. The list of liberalized products was modified in July 1991 and the Government announced at the IMF - World Bank annual meeting held in Bangkok in October 1991, that all quantitative import restrictions would be removed by the end of 1991, except on a few subsidized articles of basic consumption. The realization of this objective was later postponed to 1992. On 15 may 1992, the Government liberalized 85 per cent of total imports and intends to continue the liberalization process according to the programme agreed with the World Bank in this regard.

(b) Import taxes

13. In parallel with the steady elimination of quantitative restrictions, the Tunisian authorities have also reduced and rationalized customs duties since the mid-1980s. The average rate fell from 36 per cent to 26 per cent in 1989. However, the 1991 budget, adopted by the Tunisian Parliament on 26 March 1991, provided for a 5 per cent surcharge[1] on all imports for the rest of the year and an increase in the minimum charge payable at customs. These measures were designed to help ut the budget deficit which had risen as a result of the Gulf war. Throughout 1991 and 1992, modifications have been made to the list of products benefiting from a reduced import duty of 10 per cent. Changes in the import duties of a large number of products, mostly manufactured, were also made at the end of 1991.

III. Tunisia: Macroeconomic and trade developments

(i) Introduction

14. Tunisia is a country with an economy which is diversifying, but nonetheless vulnerable to external shocks. Manufacturing, especially textiles, is taking off and is a major source of growth. Natural resources (oil and phosphates) on the other hand are an important part of the economy, but are declining in relative importance. Agriculture is a dominant sector, but also one subject to large fluctuations in production because of irregular rainfall.

15. In 1986 a bad harvest, declining oil prices and decreased tourism revenues combined to put substantial pressure on the balance of payments.

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[1]Calculation of the surcharge is based on the amount of customs duties and taxes to be paid.

This, in turn, drew attention both to the vulnerability of Tunisia to external shocks and to the need to further diversify the economy. Since then, the situation has significantly improved and Tunisia plans further reforms, reflected in its 1992-1996 development plan. Cuts in consumer subsidies, trade liberalization, financial market reform and the privatization of many state assets are the priorities. The plan calls for an expansion of the manufacturing and tourism sectors to support the target of annual real GDP growth of 6 per cent.

(ii) Overview of the Balance of Payments situation 1988-91

16. In 1988, Tunisia's balance of payments reached a record surplus of US$396 million, with the current account showing a surplus equal to 1 per cent of GDP (Table 1 and Graph 1). However, the overall balance and the current account recorded increased deficits or reduced surpluses in 1989 and 1990. Despite a drop in tourism revenues and worker remittances because of the Gulf war, the current account deficit declined in 1991, partly due to an increase in oil production and a bumper harvest. Changes on the capital account side have been less dramatic over the last four years, with the surplus on a generally rising trend.

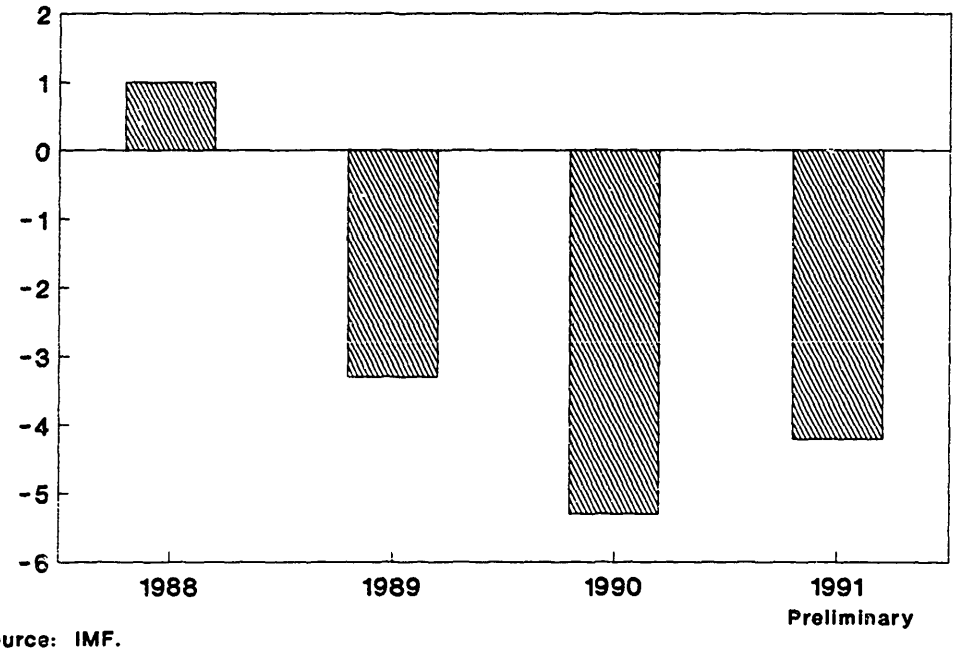
Table 1
Tunisia - Balance of payments, 1988-91
(Million US dollars)

	1988	1989	1990	1991[a]
Trade balance	-1 097	-1 214	-1 711	-1 190
Exports FOB	2 396	2 932	3 519	3 707
Energy	386	585	610	529
Non-energy	2 010	2 347	2 909	3 178
Imports FOB	-3 493	-4 147	-5 230	-4 897
Energy	-245	-381	-487	-395
Non-energy	-3 248	-3 766	-4 742	-4 502
Total services	1 193	884	1 049	639
Non-factor services (net)	1 133	814	806	589
of which: Tourism receipts	1 266	928	944	670
Transfers (net)	60	69	243	49
of which: workers' remittances	544	489	599	540
interest on external debt[b]	-411	-413	-422	-432
Current account	97	-332	-661	-551
Capital account	300	410	559	485
Direct and portfolio investment	110	145	186	157
Medium- and long-term loans	58	141	219	243
Disbursements	732	908	1 060	1 082
Amortization[c]	-675	-767	-842	-838
Short-term capital and others	71	51	76	53
Grants	60	74	81	33
OVERALL BALANCE	396	80	-100	-66

a Preliminary.
b Including IMF charges.
c Not including IMF repurchases.

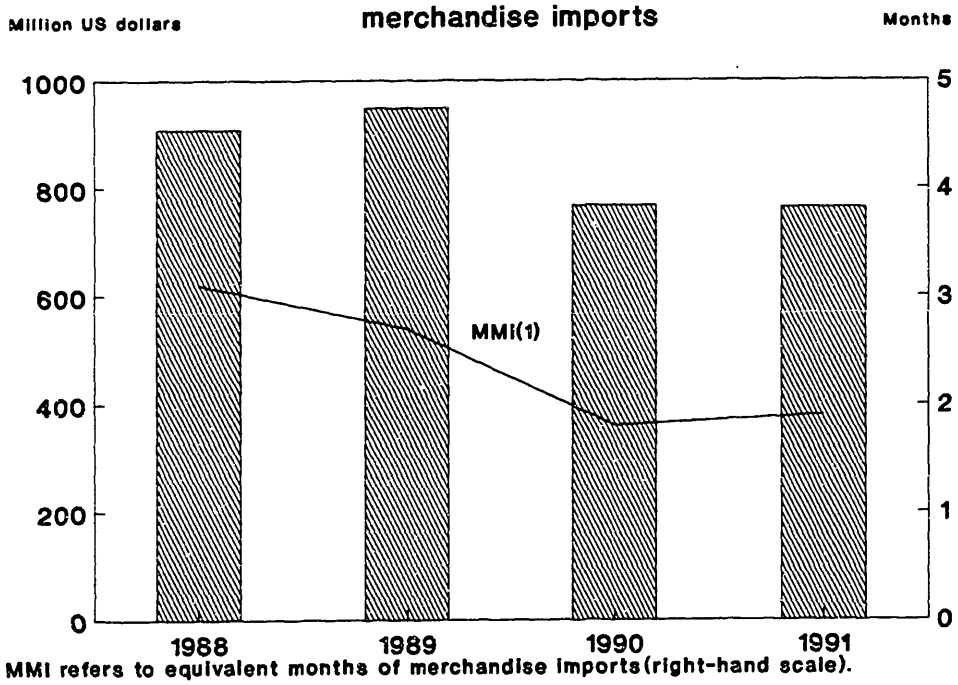
Source: IMF.

Graph 1 - Tunisia
Current account balance
(Percentage of GDP)



Source: IMF.

Graph 2 - Tunisia-International reserves (including gold) and month of merchandise imports



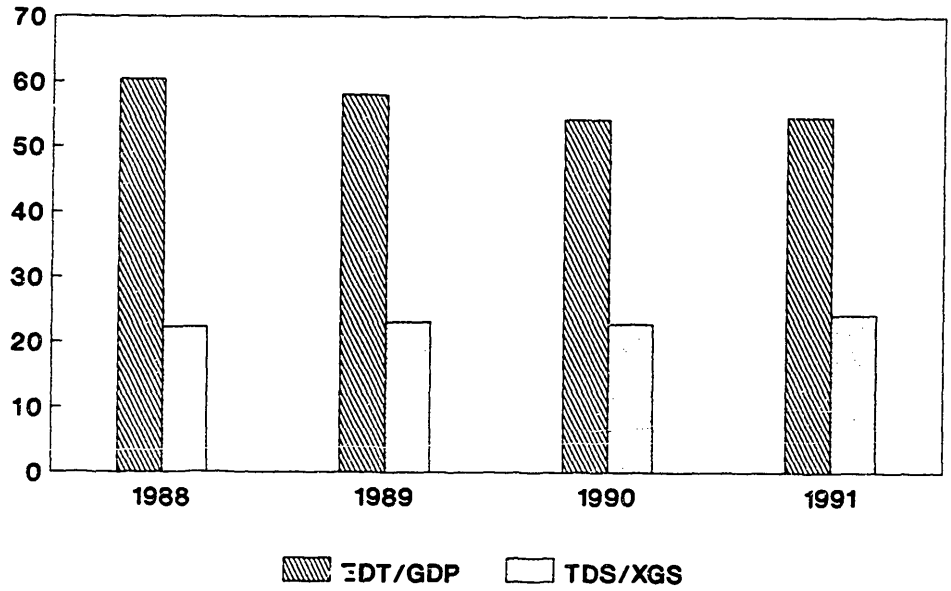
(1) MMI refers to equivalent months of merchandise imports (right-hand scale).

Source: IMF.

17. Thanks to the record balance of payments surplus, international reserves reached 3.1 months of merchandise imports in 1988 (Graph 2). Subsequent balance of payments developments brought international reserves back to 1.9 months of merchandise imports in 1991 (compared with 1.3 months at the time of the large payments deficit in 1986).

18. Current account developments have allowed Tunisia to decrease its external debt as a percentage of GDP, from 60.4 per cent in 1988 to 54.6 per cent in 1990 to 1991 (Graph 3). The debt level is still high, considering that 24.2 per cent of current receipts were necessary in 1991 for servicing the external debt. An increasing share of the debt is owed, however, to multilateral organizations (33 per cent in 1991) and OECD governments (53 per cent) at relatively low interest rates and with relatively long maturities.

Graph 3 - Tunisia -
External debt indicators
(Percentages)



EDT refers to total external debt: TDS refers to total debt service; XGS refers to current receipts.

Source: IMF.

19. The composition of merchandise trade reflects the changes in the Tunisian economy. A more or less flat trend for oil production and increased domestic energy needs have reduced the share of energy products in exports (Table 2). Manufacturing, especially textiles, is on the rise, as are exports of olive oil. The share of food in total merchandise imports decreased in 1990 and 1991 as a result of good harvests. Import shares of equipment needed for the development of the manufacturing sector and of non-food consumer goods, in contrast have increased (Table 3). Little has changed in the regional pattern of trade, with France, Italy and Germany remaining the main trading partners for both exports and imports (Graph 4). On a volume basis, export growth was relatively steady during 1988-91, while imports are estimated to have declined in 1991 (Graph 5).

Table 2
Tunisia - Principal Merchandise Exports, 1986 and 1991[a]
(Percentage share)

	1986	1991
Agriculture	12.5	14.7
of which: olive oil	3.5	9.8
Energy[b]	24.2	12.6
Phosphates and derivatives	21.6	13.5
Manufactured goods	41.7	59
of which - textiles and clothing	30.2	38.7
- mechanical and electrical industry	7.6	11.1
Total	100	100

a Based on customs statistics.
b Almost exclusively oil.

Source: IMF and the Government of Tunisia

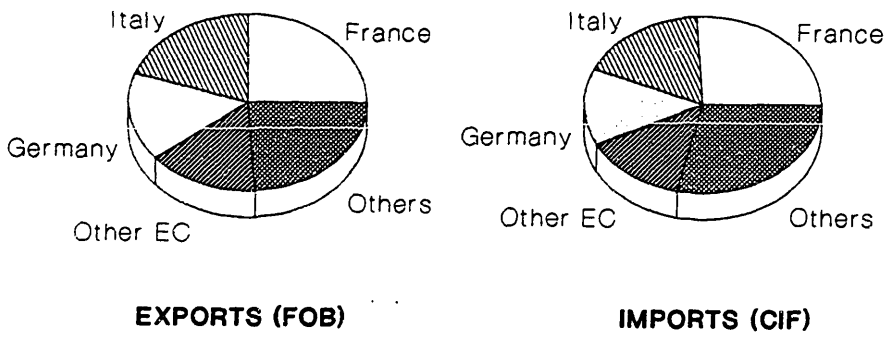
Table 3
Tunisia - Principal Merchandise Imports, 1986 and 1991[a]
(Percentage share)

	1986	1991
Food	12.5	7.4
Energy	8.7	7.0
Non-food consumer goods	21.4	28.8
Equipment	21.9	25.6
Raw materials and semi-finished goods	35.5	31.2
Total	100	100

a Based on customs statistics

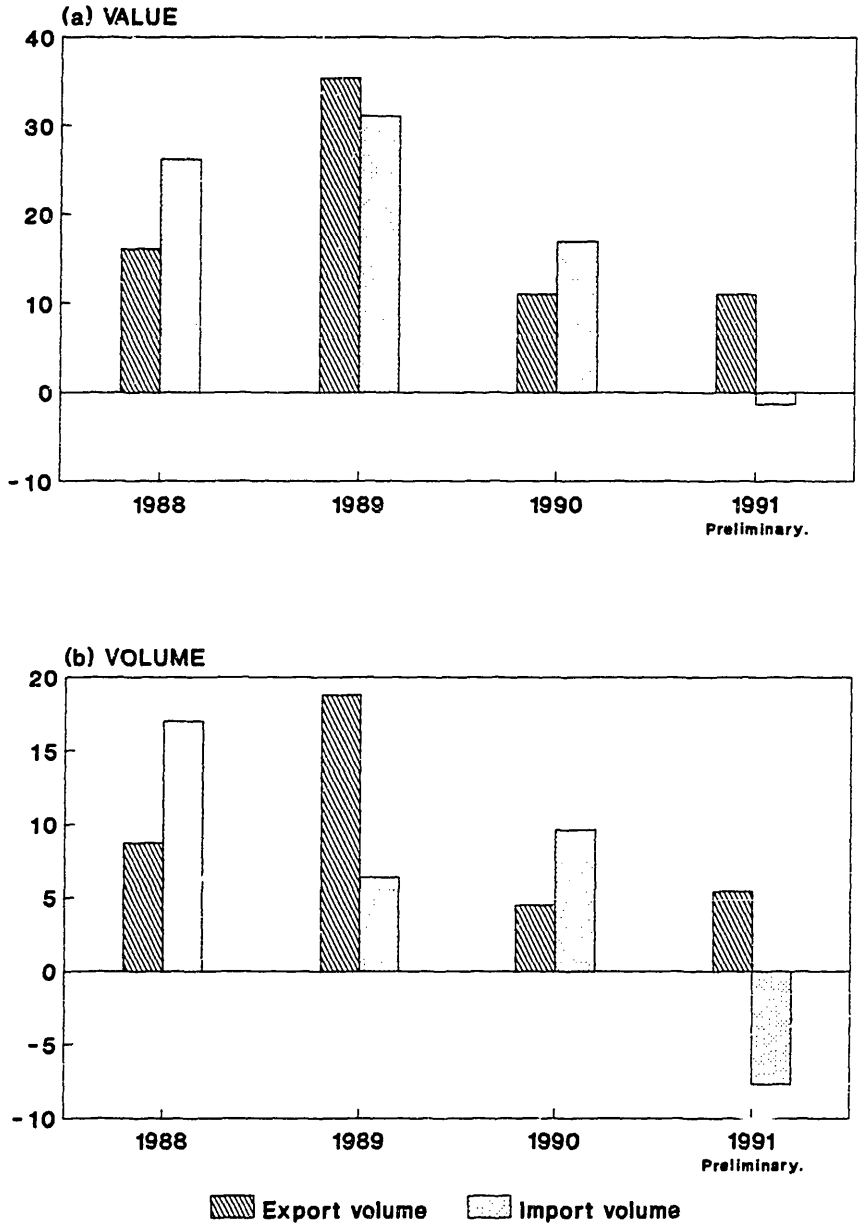
Source: IMF and the Government of Tunisia

Graph 4 - Tunisia - Regional patterns of merchandise export and imports, 1991
(Percentage share)



Note: Preliminary data.
Source: IMF.

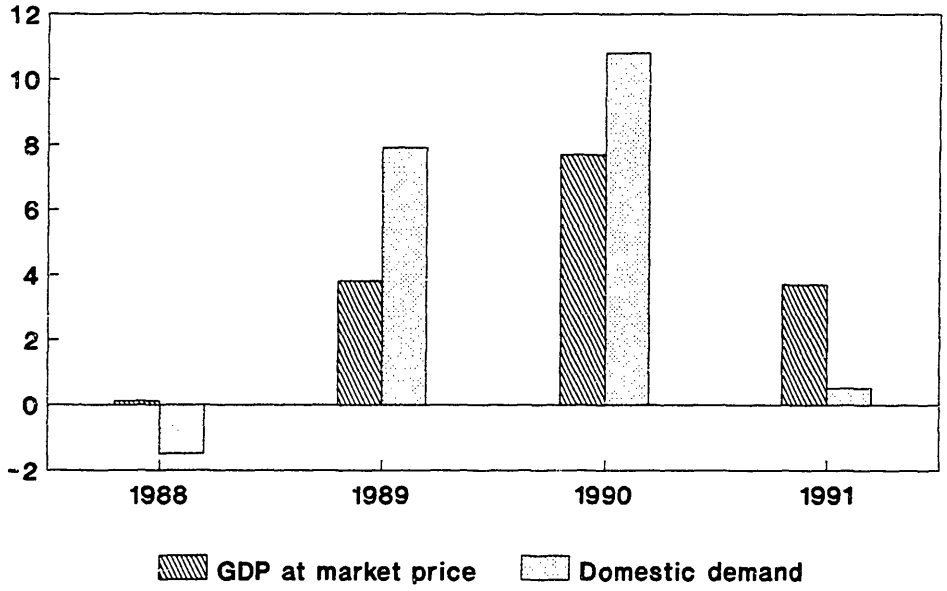
Graph 5 - Tunisia - Value and volume of merchandise imports and exports
(Annual percentage change)



Note: Values are expressed in dinars. Imports are on a CIF basis.
Source: IMF.

20. Real growth in GDP and (domestic demand) has fluctuated considerably over the last four years, increasing from a meager 0.1 per cent in 1988 to 7.6 per cent in 1990, then slowing to about 3.5 per cent last year (Graph 6). For the most part, developments in the current account balance have mirrored developments in GDP growth rates. Strong GDP growth, as in 1990, has meant a large current account deficit, whereas the very weak growth in 1988 was coupled with a modest current account surplus. This relationship, in turn, is explained mainly by the correlation between investment growth and GDP growth during the years in question. With savings as a share of GDP more or less constant, strong investment growth has created a need for additional resources from abroad - additional resources which were made available to the economy via an increased current account deficit. The sectoral distribution of GDP in Tunisia shows that developments in agricultural output strongly affect the real growth of the economy.

Graph 6 - Tunisia - GDP and domestic demand at constant market prices
(Annual percentage change)



Source: IMF.

21. Government deficits have decreased slightly as a percentage of GDP over the period 1988-1991, from 4.5 per cent in 1988 to 3.9 per cent in 1991 (Table 4). Both total revenues and total expenditures have declined relative to GDP. Revenues and grants now equal 29.1 per cent of GDP and total expenditures 32.9 per cent. On the revenue side, it was mostly grants and non-tax (petroleum) revenues that declined. Capital expenditures and net lending declined most relative to GDP on the expenditure side. The decline in the budget deficit, in turn, has contributed to monetary stability.

Table 4
Tunisia - Consolidated Public Sector, 1988-1991[a]

	1988	1989	1990	1991[b]
		In millions of dinars		
Total revenue and grants	2 743.6	3 071.1	3 356.3	3 524.1
- Tax revenue	2 002.9	2 257.8	2 551.4	2 874.7
- Non-tax revenue	710.3	670.1	734.8	616.9
- Grants	30.4	143.2	70.1	32.5
Total expenditure and net lending	3 130.2	3 482.8	3 787.1	3 993.7
- Current	2 255.6	2 693.3	2 862.9	3 176.1
- Capital	802.3	724.8	880.4	841.2
- Net lending	72.3	64.7	43.8	-23.6
Overall deficit (-)	-386.6	-411.7	-430.8	-469.6
		In per cent of GDP		
Revenue and grants	31.6	31.8	30.5	29.1
Total expenditure and net lending	36.0	36.1	34.5	32.9
Overall deficit	-4.5	-4.3	-3.9	-3.9

a Includes current and capital budgets, special funds, fonds de concours, extra-budgetary operations financed abroad, net treasury operations and social security fonds.
b Provisional data.

Source: IMF.

22. Inflation as measured by consumer prices (end of period) peaked in 1988 at 8.4 per cent, with the latest figures showing a rate of around 7 per cent. Not surprisingly, there was also a slowdown in the growth of the money supply, down from a 19 per cent growth of M2 in 1988 to 5.5 per cent in 1991 (Table 5). Tunisia has been able over the period 1986-91 to keep inflation stable, reflecting the generally prudent financial policies and the liberalization of imports that limited the impact of the annual reductions in consumer subsidies and the liberalization of producer prices and of distribution margins.

Table 5
Tunisia - Selected Factors Affecting Changes in Money
(Percentage change)

	1988	1989	1990	1991
Money (M2)	19.0	11.0	6.3	5.5
Selected sources of change in M2				
- M1	21.3	2.7	4.8	-0.3
- Quasi money	16.3	21.5	7.9	11.5
Credit (domestic)				
- to the government (net)	-6.1	6.6	11.8	5.7
- to the economy	3.4	7.3	10.2	10.4
Net foreign assets	202.3	23.2	-8.4	-14.1

Source: IMF.

23. After the 1986 devaluation of the dinar, the currency continued depreciating in nominal and real terms until 1990. In 1991 the effective real exchange rate appreciated by 3 per cent.

(iii) Developments in key sectors

24. Agriculture represented 18 per cent of GDP (at factor cost) in 1991, compared with 13.4 per cent in 1988. Even the smaller of the two figures is sizeable, indicating the importance of sufficient rainfall and a good harvest on the performance of the Tunisian economy. In 1988, only 290,000 tons of cereals were harvested, leading to the importation of 1.6 million tons in the 1987/88 season and 1.2 million tons in 1988/89. In 1991, on the other hand, a record harvest of 2.6 million tons followed the 1990 success of 1.6 million tons, leading to a sharp decline in cereal imports. Olives for oil are the other major agricultural crop, with annual production averaging around 550,000 tons over the period 1986-91. Bumper harvests in 1990 (650,000 tons) and 1991 (825,000 tons) helped compensate for the disappointing result for 1989 (270,000 tons).

25. Oil production dropped from 4.9 million tons in 1988 to 4.6 million tons in 1990, then increased to 5.3 million tons in 1991. Gas production did not change much over the 1988-91 period. Consumption of oil and gas products, on the other hand, has increased steadily, reflecting the growth of the economy and the population. This explains the tendency for there to be a decline in net fuel exports (except 1991). No increase in production is expected for the 1990's, as there have been no discoveries of new reserves and production has to shift more and more to marginal oil fields.

The effect of this decline in net exports has been partially compensated in 1989 and 1990 by higher oil prices. From a low of US$14.15 in 1988, the average crude price increased to US$17.19 in 1989 and US$22.05 in 1990. Increased production in 1991 on the other hand was offset by a drop in the price to US$18.30. The share of the production of hydrocarbons, electricity and water in GDP (at factor cost) also shows a declining trend, currently it is at 7.7 per cent.

26. While tourism earnings do not represent a large share of GDP (3 per cent in 1991), they are an important source of foreign exchange (annual tourism receipts exceed the current level of reserves for example). In the period 1988-91, 3.2 million foreigners visited Tunisia annually. In 1991, however, the average length of stay, occupancy rates and total tourism receipts dropped significantly. Although the number of visitors from Maghreb countries increased by more than 60 per cent, the Gulf war kept many European tourists away. As for the medium term, the most recent development plan, tourism has been targeted as one of the sectors that could contribute the most to growth.

27. Another important source of foreign exchange are worker's remittances. It is estimated that about 400,000 Tunisians work abroad, out of a population of 8.3 million. They sent US$540 million back to Tunisia in 1991, the same amount as in 1988. The relative importance of this source of revenue is therefore declining. As with tourism receipts, this source of revenue is also sensitive to external and domestic economic and political developments.

(iv) Policy developments

(a) Fiscal policy

28. As was noted above, the deficit of the central government declined from 4.5 per cent of GDP in 1988 to 3.9 per cent in 1991 (Table 4). The size of the government sector has decreased as well. Total government expenditures represented 33 per cent of GDP in 1991, down from 36 per cent in 1988. On the revenue side there has been a decline of non-tax revenues, especially petroleum revenues. Although there has been a program of tariff reductions, revenues from taxes on foreign trade kept pace with other revenues thanks to the general expansion of trade. Grants have been an insignificant share of revenues, except in 1989 when they reached 143 million dinars (4.7 per cent of revenues) in response to the bad harvest of 1989.

29. The government of Tunisia has committed itself to a reduction of consumer subsidies. The bad harvest of 1988 interrupted this plan temporarily in 1989, with subsidies for cereals (which represent 60 per cent of all consumer subsidies) increasing from 116 million dinars

in 1988 to 200 million in 1989. In 1991 total consumer subsidies were down again, from 346 million dinars in 1989 to 272 million dinars (which is still equal to 2.3 per cent of GDP, as in 1988). Further reductions in consumer subsidies are planned as part of the 1992-96 development plan.

30. Capital expenditures represent a declining share of government expenditures, down from 26 per cent in 1988 to 21 per cent of total expenditures in 1991. Capital transfers and equity participation, mostly in public enterprises, declined even in nominal terms, reflecting in part the government's commitment towards privatization.

31. The Tunisian government is increasingly relying on domestic financing. In 1988, 140 million dinars or 36.3 per cent of the deficit was financed by funds from abroad. In 1991, only 92 million dinars, equivalent to 19.6 per cent of the deficit, was borrowed abroad. Although part of this domestic financing was done through the banking sector, monetisation of the deficit is not a major problem in Tunisia. The share of credit to the government in the assets of the monetary sector remained constant throughout the entire 1988-1991 period at 13 per cent. This is down from 16 per cent in 1987 and 15 per cent in 1986. Therefore we could conclude that fiscal policy has not contributed to the balance of payments deterioration in 1989-1991. The Tunisian government wants to reduce the fiscal deficit and does not intend to use fiscal policy to utilize GDP growth or to influence the current account.

(b) Monetary policy

32. Fiscal moderation has facilitated stabilization of the Tunisian money supply. When the money supply (M2) increased by 19 per cent in 1988, it was not because of increased credit by the central and deposit money banks to the government to finance a budget deficit (credit to the government by these banks actually declined by 6 per cent). Net foreign assets, on the other hand, more than tripled due in large part to the surplus in the balance of payments (as foreign currencies are exchanged for dinars, the domestic money supply increases). In 1989-91, the monetary sector did increase credit to the government by 7, 12 and 6 per cent respectively, but these increases essentially matched the increases in credit to the private economy (Table 5), so that the share of government credit in the assets of the monetary sector remained at its 1988 level of 12 per cent. A decline in net foreign assets was a contributing factor in the slowdown in money growth in 1990-91.

33. The slowdown in monetary growth in 1989-91, due to a decline in net foreign assets and moderate credit growth, was reflected in real interest rates. In 1988, like in 1986-87, real interest rates were between 0 and 4 per cent. In 1989 and 1990, the maximum lending rate rose to 7 per cent and 8 per cent respectively. It declined to about 7½ per cent in 1991. The rise in real interest rates was possible because of the liberalization

of interest rates and financial market reform in Tunisia. It resulted in a large shift out of M1 into quasi money (Table 5).

34. Low real interest rates in 1986-88 probably helped to fuel the investment boom in 1989-90. High investment demand for credit, and monetary restraint by the Central Bank to dampen domestic demand pressures pushed real interest rates up in 1989-91, which in turn choked further growth in investment and GDP. A decline in investment demand in 1991, combined with a good harvest and increased oil production, allowed the current account improvement in 1991 despite the consequences of the Gulf war on tourism receipts and workers remittances.

35. Unlike fiscal policy, monetary policy has clearly had on impact on GDP growth and the current account. The large switch from loose money in 1986-88 to tight money in 1989-91 contributed to the large variation in GDP growth and current account deficits. The changes in the current account translated into the overall balance of payments situation, given the stability of the capital account surplus.

36. Although prices in Tunisia have increased more rapidly than in its thirteen most important trading partners, the continuous depreciation of the dinar has more than compensated for that in most years. From 1986 to 1989 the cumulative depreciation of the effective exchange rate was 21½ per cent in nominal terms and about 15½ per cent in real terms. Only in 1990 (1.9 per cent) and 1991 (0.9 per cent) was there a small appreciation of the real effective exchange rate. Given the stability of the exchange rate over the 1988-91 period, it was not a major factor in the large changes in the current account and overall balance of payments.