Report No. 5328-TUN

Tunisia
Country Economic Memorandum: Midterm Review of the Sixth Development Plan (1982–86)

(In Two Volumes) Volume I: Growth Targets and Policy Objectives

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Country Programs Department II
Europe, Middle East and North Africa

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CURRENCY EQUIVALENTS

SDR 1.00 = dinars (TD) .8486 (as of March 1985)

Official exchange Rate: Dinar (TD) Per US Dollar

Period	End of Period	Period Average
1973	0.4451	0.4200
1974	0.4065	0.4365
1975	0.4253	0.4023
1976	0.4309	0.4288
1977	0.4121	0.4290
1978	0.4034	0.4162
1979	0.3959	0.4065
1980	0.4187	0.4050
1981	0.5157	0.4938
1982	0.6158	0.5907
1983	0.7302	0.6785
1984	0.8666	0.7768
1985	0.8561 (March)	0.9107 (March)

Source: IMF, International Financial Statistics, May 1985

FISCAL YEAR

January 1 to December 31

ABBREVATIONS

API	Agence de Promotion des Investissements
CNP	Comité National des Prix
DGC	Direction Générale du Commerce
DPC	Direction des Prix et du Contrôle Economique
DRC	Domestic resource cost
EMIs	Electrical and mechanical industries
IEQ	Institut d'Economie Quantitative ali bach Mamba
MEN	Ministère de l'Economie Nationale
OC	Office des Céréales
ONAS	Office National de l'Assainissement
SMIG	Salaire minimum interprofessionel garanti
SONEDE	Société Nationale d'Exploitation des Eaux
STEG	Société Tunisienne d'Electricité et du Gas
TD	Tunisian Dinar
UTICA	Union Tunisienne des Industriels, Commerçants et Artisans.

ABSTRACT

1. Tunisia started its Five Year Plan (1982-1986) in difficult conditions marked by a prolonged drought, technical problems in the industrial sector and stagnated tourism earnings due to the recession in Europe. Notwithstanding the sluggish output growth, domestic demand grew rapidly, fueled by wage increases and expansionary credit policy. The resulting large increase in the resource gap resulted in a rapid increase of the external debt. The consolidated Central Government's overall deficit also deteriorated quickly while the unemployment rate has worsened.

2. Half-way through its execution, most of the macroeconomics targets of the VIe Plan have not been achieved, and only some limited adjustment and structural measures have been implemented.The main priority policy reforms set out by the Plan concerned demand restraint, export promotion, employment creation and regional development. In all these areas, the Government has made some progress. However, most of the new measures were introduced with substantial delays and focused on improvements in the administrative machinery rather than on fundamental macroeconomic adjustments. This has narrowed the margin of maneuver and the range of choices, increased the economic costs of policy changes and raised the urgency to implement these measures.

3. In the area of demand management, four groups of policies need to be adjusted. Wage policy needs to be corrected from the bias in favor of labor costs which discourages employment creation. Price policy, which is adressed more fully in volume 2 of the Report, needs to be thoroughly revised to improve productivity, equity and budgetary subsidies. Interest rate policy has to be made a more effective instrument for domestic demand management. Finally, in public savings mobilization, the tax reform must be implemented in full vigor, wages and salaries of civil servants must be contained, and specific measures to improve the financial situation of public enterprises must be implemented. In the area of export promotion, the exchange rate should be used more actively as a policy instrument for promoting exports and for restraining imports without quantitative controls.

4. Employment creation depends crucially on two main policies dealing with relative factor costs and the investment program. Thus far wage policy has been used not to promote employment but to improve the standard of living for those who hold jobs in the modern sector. Changes in wage and interest rate policies thus are needed to bring about an improvement in relative factor costs. The investment program has to be reduced substantially, mostly, but not exclusively, through a marked reduction in public enterprises investments. New investments will have to be more labor intensive, while controls for new investments and on imports of inputs have to be alleviated and procedures simplified. Finally, the Report recommended a careful monitoring of the external indebtedness and the current account deficit.

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FOREWORD

This report was prepared by members of an economic mission that visited Tunisia in April 1984. The mission was composed of:

René Vaurs	Mission Chief
Hinh T. Dinh	Deputy Chief, General Economist
Hans Reichelt	Investment Program
M'hamed Cherif	Modelling
Oli Havrylyshyn (Consultant)	Pricing Policy
Marto Ballesteros	Agricultural Prices
Margaret O'Donnell	Research Assistant

The report consists of two volumes. The first analyzes recent economic developments and assesses the achievements of the Five-Year Plan (1981-1986) macroeconomic targets, as well as the implementation of structural policy reforms that the Plan recommended. The second volume focuses exclusively on pricing policy issues, the main recommendations on which were incorporated in the first volume.

The preliminary version of the report was completed in September 1984 and was sent to the Government at its request for consideration in the preparation of the Budget 1985. Since then, data have been revised extensively, but the conclusions of the report stand, and the recent data will be reflected in forthcoming economic reports.

TUNISIA - SOCIAL INDICATORS DATA SHEET

	TUNISIA			REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b	
	1960/b	1970/b	MOST RECENT ESTIMATE/b	MIDDLE INCOME N. AFRICA & MID EAST	MIDDLE INCOME LAT. AMERICA & CAR
AREA (THOUSAND SQ. KM)					
TOTAL	163.6	163.6	163.6	.	.
AGRICULTURAL	68.8	70.3	81.4	.	.
GNP PER CAPITA (US$)	..	..	1290.0	1134.9	1875.9
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF OIL EQUIVALENT)	119.0	230.0	496.0	623.9	993.6
POPULATION AND VITAL STATISTICS					
POPULATION,MID-YEAR (THOUSANDS)	4221.0	5127.0	6886.0	.	.
URBAN POPULATION (% OF TOTAL)	36.0	43.5	53.6	49.0	67.7
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			10.0	.	.
STATIONARY POPULATION (MILL)			19.0	.	.
POPULATION MOMENTUM			1.9	.	.
POPULATION DENSITY					
PER SQ. KM.	25.8	31.3	42.1	37.8	48.0
PER SQ. KM. AGRI. LAND	61.4	72.9	82.4	470.1	91.1
POPULATION AGE STRUCTURE (%)					
0-14 YRS	43.3	46.2	40.3	43.5	38.5
15-64 YRS	52.4	49.9	55.7	53.0	57.1
65 AND ABOVE	4.1	3.7	3.8	3.3	4.2
POPULATION GROWTH RATE (%)					
TOTAL	1.8 /c	1.9 /c	2.3	2.8	2.4
URBAN	3.2	3.8	4.0	4.4	3.6
CRUDE BIRTH RATE (PER THOUS)	48.9	40.6	32.6	40.0	30.9
CRUDE DEATH RATE (PER THOUS)	21.0	14.6	9.1	11.5	8.0
GROSS REPRODUCTION RATE	3.5	3.2	2.4	2.8	2.0
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	29.2	180.9 /d	.	.
USERS (% OF MARRIED WOMEN)	..	..	41.0	21.4	45.3
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	97.0	96.0	128.0	95.1	109.6
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	95.0	96.0	111.0	118.2	113.2
PROTEINS (GRAMS PER DAY)	59.0	60.0	74.0	77.8	69.4
OF WHICH ANIMAL AND PULSE	13.0	14.0	23.0 /e	17.8	34.2
CHILD (AGES 1-4) DEATH RATE	36.1	23.9	8.0	12.8	4.8
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	48.1	54.2	61.5	57.8	64.8
INFANT MORT. RATE (PER THOUS)	157.5	131.0	83.0	96.8	59.7
ACCESS TO SAFE WATER (%POP)					
TOTAL	..	49.0	70.0	67.2	65.3
URBAN	..	92.0	91.0	93.4	76.5
RURAL	..	17.0	46.0	45.8	44.2
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	..	62.0	56.0 /f	45.9	56.3
URBAN	..	100.0	42.0	63.0	73.4
RURAL	..	34.0	..	28.6	25.5
POPULATION PER PHYSICIAN	10030.0	5930.0	3690.0 /f	4331.0	1909.7
POP. PER NURSING PERSON	..	730.0	890.0 /f	1845.0	808.2
POP. PER HOSPITAL BED					
TOTAL	410.0	410.0	460.0 /d	621.8	362.0
URBAN	230.0 /g	310.0	350.0 /h	545.0	422.0
RURAL	1040.0 /g	1270.0	1230.0 /h	2511.3	2716.7
ADMISSIONS PER HOSPITAL BED	..	24.1	25.0 /h	25.7	27.5
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	..	5.1 /i	..	..	..
URBAN	..	5.1 /i	..	..	..
RURAL	..	5.1 /i	..	..	..
AVERAGE NO. OF PERSONS/ROOM					
TOTAL	..	3.2 /i	..	..	..
URBAN	..	2.7 /i	..	..	..
RURAL	..	3.6 /i	..	..	..
PERCENTAGE OF DWELLINGS WITH ELECT.					
TOTAL	..	24.0 /i	..	..	..
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..

TUNISIA - SOCIAL INDICATORS DATA SHEET

	TUNISIA 1960/b	TUNISIA 1970/b	TUNISIA MOST RECENT ESTIMATE/b	REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b MIDDLE INCOME N. AFRICA & MID EAST	MIDDLE INCOME LAT. AMERICA & CAR
EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	66.0	101.0	111.0	89.8	106.7
MALE	88.0	121.0	123.0	103.7	108.5
FEMALE	43.0	80.0	98.0	75.2	104.6
SECONDARY: TOTAL	12.0	23.0	32.0	42.9	44.2
MALE	19.0	33.0	39.0	50.9	42.7
FEMALE	5.0	13.0	25.0	34.6	44.9
VOCATIONAL (% OF SECONDARY)	23.5	11.1	23.6	10.0	13.3
PUPIL-TEACHER RATIO					
PRIMARY	61.0	47.0	38.0	29.7	29.9
SECONDARY	16.0	28.0	19.0	18.8	16.7
CONSUMPTION					
PASSENGER CARS/THOUSAND POP	10.5	13.0	..	17.8	46.0
RADIO RECEIVERS/THOUSAND POP	40.3	75.7	164.0	175.9	328.3
TV RECEIVERS/THOUSAND POP	0.1	14.0	52.2	51.2	112.4
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	18.6	15.9	40.5	37.2	81.1
CINEMA ANNUAL ATTENDANCE/CAPITA	1.6	..	1.5	2.4	2.4
LABOR FORCE					
TOTAL LABOR FORCE (THOUS)	1138.0	1215.0	1770.0	.	.
FEMALE (PERCENT)	6.0	7.7	8.6	11.0	23.6
AGRICULTURE (PERCENT)	56.0	50.0	35.0 /f	42.4	31.4
INDUSTRY (PERCENT)	18.0	21.0	32.0 /f	27.9	24.3
PARTICIPATION RATE (PERCENT)					
TOTAL	27.0	23.7	25.7	26.2	33.5
MALE	50.2	44.2	46.4	46.2	51.3
FEMALE	3.3	3.6	4.4	5.8	15.9
ECONOMIC DEPENDENCY RATIO	1.8	2.1	1.7	1.8	1.3
INCOME DISTRIBUTION					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5% OF HOUSEHOLDS	..	..	..	..	..
HIGHEST 20% OF HOUSEHOLDS	..	..	..	..	..
LOWEST 20% OF HOUSEHOLDS	..	..	..	..	..
LOWEST 40% OF HOUSEHOLDS	..	..	..	..	..
POVERTY TARGET GROUPS					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	204.0 /e	226.3	288.3
RURAL	..	..	97.0 /e	134.0	185.3
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	193.0 /e	431.5	519.8
RURAL	..	..	193.0 /e	326.0	359.7
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)					
URBAN	..	..	20.0 /e	..	..
RURAL	..	..	15.0 /e	29.0	..

.. NOT AVAILABLE
. NOT APPLICABLE

NOTES

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1981 and 1983.

/c Due to emigration, population growth rate is lower than rate of natural increase; /d 1979; /e 1977; /f 1980; /g 1962; /h 1976; /i 1966.

DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "High Income Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when majority of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and reference groups.

AREA (thousand sq.km.)

Total—Total surface area comprising land area and inland waters; 1960, 1970 and 1983 data.

Agricultural—Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow, 1960, 1970 and 1982 data.

GNP PER CAPITA (US$)—GNP per capita estimates at current market prices, calculated by same conversion method as *World Bank Atlas* (1981-83 basis); 1983 data.

ENERGY CONSUMPTION PER CAPITA—Annual apparent consumption of commercial primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of oil equivalent per capita; 1960, 1970, and 1982 data.

POPULATION AND VITAL STATISTICS

Total Population, Mid-Year (thousands)—As of July 1; 1960, 1970, and 1983 data.

Urban Population (percent of total)—Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1983 data.

Population Projections

Population in year 2000—The projection of population for 2000, made for each economy separately. Starting with information on total population by age and sex, fertility rates, mortality rates, and international migration in the base year 1980, these parameters were projected at five-year intervals on the basis of generalized assumptions until the population became stationary.

Stationary population—Is one in which age- and sex-specific mortality rates have not changed over a long period, while age-specific fertility rates have simultaneously remained at replacement level (net reproduction rate=1). In such a population, the birth rate is constant and equal to the death rate, the age structure is also constant, and the growth rate is zero. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.

Population Momentum—Is the tendency for population growth to continue beyond the time that replacement-level fertility has been achieved; that is, even after the net reproduction rate has reached unity. The momentum of a population in the year *t* is measured as a ratio of the ultimate stationary population to the population in the year *t*, given the assumption that fertility remains at replacement level from year *t* onward, 1985 data.

Population Density

Per sq.km.—Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1983 data.

Per sq.km. agricultural land—Computed as above for agricultural land only, 1960, 1970, and 1982 data.

Population Age Structure (percent)—Children (0-14 years), working age (15-64 years), and retired (65 years and over) as percentage of mid-year population; 1960, 1970, and 1983 data.

Population Growth Rate (percent)—total—Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-83.

Population Growth Rate (percent)—urban—Annual growth rates of urban population for 1950-60, 1960-70, and 1970-83 data.

Crude Birth Rate (per thousand)—Number of live births in the year per thousand of mid-year population; 1960, 1970, and 1983 data.

Crude Death Rate (per thousand)—Number of deaths in the year per thousand of mid-year population; 1960, 1970, and 1983 data.

Gross Reproduction Rate—Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1983.

Family Planning—Acceptors, Annual (thousands)—Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family Planning—Users (percent of married women)—The percentage of married women of child-bearing age who are practicing or whose husbands are practicing any form of contraception. Women of child-bearing age are generally women aged 15-49, although for some countries contraceptive usage is measured for other age groups.

FOOD AND NUTRITION

Index of Food Production Per Capita (1969-71 = 100)—Index of per capita annual production of all food commodities. Production excludes animal feed and seed for agriculture. Food commodities include primary commodities (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded); they comprise cereals, root crops, pulses, oil seeds, vegetables, fruits, nuts, sugarcane and sugar beets, livestock, and livestock products. Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1982 data.

Per Capita Supply of Calories (percent of requirements)—Computed from calorie equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds for use in agriculture, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961, 1970 and 1982 data.

Per Capita Supply of Protein (grams per day)—Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Supply; 1961, 1970 and 1982 data.

Per Capita Protein Supply From Animal and Pulse—Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.

Child (ages 1-4) Death Rate (per thousand)—Number of deaths of children aged 1-4 years per thousand children in the same age group in a given year. For most developing countries data derived from life tables; 1960, 1970 and 1983 data.

HEALTH

Life Expectancy at Birth (years)—Number of years a newborn infant would live if prevailing patterns of mortality for all people at the time of of its birth were to stay the same throughout its life; 1960, 1970 and 1983 data.

Infant Mortality Rate (per thousand)—Number of infants who die before reaching one year of age per thousand live births in a given year; 1960, 1970 and 1983 data.

Access to Safe Water (percent of population)—total, urban, and rural—Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to Excreta Disposal (percent of population)—total, urban, and rural—Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per Physician—Population divided by number of practising physicians qualified from a medical school at university level.

Population per Nursing Person—Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.

Population per Hospital Bed—total, urban, and rural—Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private, general and specialized hospitals and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.

Admissions per Hospital Bed—Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average Size of Household (persons per household)—total, urban, and rural—A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.

Average Number of Persons per Room—total, urban, and rural—Average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

Percentage of Dwellings with Electricity—total, urban, and rural—Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION

Adjusted Enrollment Ratios

Primary school - total, male and female—Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations. While many countries consider primary school age to be 6-11 years, others do not. The differences in country practices in the ages and duration of school are reflected in the ratios given. For some countries with universal education, gross enrollment may exceed 100 percent since some pupils are below or above the country's standard primary-school age.

Secondary school - total, male and female—Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Vocational Enrollment (percent of secondary)—Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Pupil-teacher Ratio - primary, and secondary—Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

CONSUMPTION

Passenger Cars (per thousand population)—Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Radio Receivers (per thousand population)—All types of receivers for radio broadcasts to general public per thousand of population; excludes un-licensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

TV Receivers (per thousand population)—TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper Circulation (per thousand population)—Shows the average circulation of "daily general interest newspaper," defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema Annual Attendance per Capita per Year—Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

LABOR FORCE

Total Labor Force (thousands)—Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1983 data.

Female (percent)—Female labor force as percentage of total labor force.

Agriculture (percent)—Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1980 data.

Industry (percent)—Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1980 data.

Participation Rate (percent)—total, male, and female—Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1983 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.

Economic Dependency Ratio—Ratio of population under 15, and 65 and over, to the working age population (those aged 15-64).

INCOME DISTRIBUTION

Percentage of Total Disposable Income (both in cash and kind)—Accruing to percentile groups of households ranked by total household income.

POVERTY TARGET GROUPS

The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.

Estimated Absolute Poverty Income Level (US$ per capita)—urban and rural—Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated Relative Poverty Income Level (US$ per capita)—urban and rural—Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.

Estimated Population Below Absolute Poverty Income Level (percent)—urban and rural— Percent of population (urban and rural who are "absolute poor."

Comparative Analysis and Data Division
Economic Analysis and Projections Department
June 1985

SUMMARY AND CONCLUSIONS

(i) The Bank's 1983 Economic Report reviewed the VIth Development Plan (1982-86) and its main objectives. This report reviews the performance of the Tunisian economy during the first half of the Plan period and in particular the degree of execution of the main macroeconomic targets and the progress achieved in the implementation of its main policy objectives. Furthermore it provides a detailed review of pricing policy and public savings mobilization. Its analysis is complemented by studies on industrial employment issues and on the financial sector as well as by a forthcoming study on industrial sector policies. Social and regional policies are not covered in substance by this report.

Recent Economic Developments

(ii) The first two years of the VIth Plan (1982 and 1983) were difficult ones for Tunisia marked by pressures both on public finances and the balance of payments. These were the results of sluggish output growth and a rapidly rising domestic demand. In 1982, a prolonged drought depressed agricultural output and agro-industry production, technical problems hampered phosphate-based and cement output, tourism was adversely affected by the recession in Europe, factors which took place while oil production stagnated. While the economy showed a modest recovery in 1983 due to buoyant growth in manufacturing output, growth in the first two years of the Plan averaged only 2.4 percent p.a., compared to a 6.1 percent target.

(iii) In spite of sluggish economic growth, domestic demand (both investments and consumption) has continued to grow rapidly in 1982-83. This trend was facilitated by a rather expansionary credit policy. Investment averaged a high 30.5 percent of current GDP compared to a Plan target of 28.6 percent. This higher rate was caused mainly by the high level of investment in energy, infrastructure and housing. A larger share than planned was allocated to capital intensive projects leading to a 26 percent increase in average investment costs per job (in constant prices) over the two year period. Consumption, both public and private, expanded nearly twice as rapidly as output, fueled by substantial increases in wages and social expenditures. The wage bill is estimated to have increased by over 24 percent p.a. during 1982-83 compared to a GDP growth of 15 percent, (in current prices). The strong demand pressure was reflected in the rise of prices; the Cost of Living Index registered an increase of 13.6 percent in 1982 (compared to an average of 7.8 percent in 1977-81) but slowed down to 9 percent in 1983 due to an intensification of price control and "voluntary" reduction in some industrial product prices.

(iv) The strong domestic demand pressure, together with nearly stagnating exports (in real terms) led to a marked deterioration of the balance of payments, inspite of the introduction of severe import controls in 1982. Exports of petroleum products and of agricultural goods declined as did tourism receipts while imports of food products and consumers goods increased. This resulted in a large increase in the resource gap from a manageable 5.4 percent of GDP in constant prices during the Vth Plan (1977-81) to a high 10.4 percent in 1982-83. In spite of substantial direct private foreign investments (oil exploration, development banks) Tunisia had to step up net public foreign borrowing more than 2 1/2 times between 1980-81 and 1982-83 from an annual average of TD 126 million ($186 million) to TD 330 million ($486 million); close to one third of this new borrowing was short term. As a result, external debt (outstanding and disbursed) increased form 38.5 to 45.3 percent of GDP, while the foreign debt service ratio rose from 16.7 percent in 1981 to 18.2 percent in 1983. However,.Tunisia's foreign debt is still overwhelmingly long term , with debt service obligations evenly distributed over time. In consequence, there is no danger of an immediate balance of payments crisis. It is clear, however, that the deteriorating economic trend of the last few years cannot be sustained for much longer without creating serious balance of payments problems. Far reaching policy changes are needed, therefore, without delay to stimulate exports and to bring domestic demand in line with the country's productive potential. While Government has taken already a number of measures to this avail, more forceful and more thorough changes are urgently needed.

(v) Low overall economic growth, sharp increases in wage costs and continuing rapid growth in the supply of labor have resulted in a further worsening unemployment rate over the past two years. The total number of nonagricultural jobs created fell short of the Plan target by 23 percent, and the shortfall may have been even greater in agriculture due to the depressed agricultural performance in the last two years. It is estimated that open unemployment in all sectors has increased from 12 percent in 1980 to 14 percent in 1983, while unemployment and severe underemployment together probably affect close to one third of all potentially active Tunisians over 15 years of age.

(vi) The budgetary situation also deteriorated in 1982-83. The consolidated Central Government's overall deficit increased from 2.5 percent of GDP in 1981 to 5.6 percent in 1983 although public savings (current budget surplus) are still substantial, and finance about two-thirds of budgeted investments. This deterioration reflects essentially the accelerated growth in current expenditures caused by rapid increases in wages and salaries (over 70 percent during 1982-83), in subsidy payments to households and to public enterprises, and in debt service payments caused by the dollar appreciation vis-à-vis the Tunisian dinar (between 1981-83 the Tunisian dinar depreciated by about 30 percent vis-à-vis the US dollar). On the other hand, the dollar appreciation helped to maintain the rise in petroleum revenues expressed in domestic currency despite the drop in international oil prices; furthermore, revenues from indirect taxes rose more rapidly so that total revenues showed a robust growth despite the recession.

(vii) In 1984, while the economy's overall production expanded quite substantially, the underlying disequilibria did not improve. The rebound in agricultural output coupled with a substantial industrial growth brought GDP growth to about 5.4 percent, which is still below the Plan objective. Consumption expanded at about 5 percent while imports of goods and services slightly outgrew exports, the latter increasing at only about 1-2 percent in constant prices. The current account deficit may have exceeded 9 percent of current GDP, raising the external debt, outstanding and disbursed, to over 50 percent of GDP. Debt service payments are estimated to reach 20 percent of exports. The overall deficit of the Central Government budget is estimated to have increased further to over 7 percent of GDP reflecting additional growth in investments, in debt service, and in transfers to public enterprises. On the other hand, Government maintained a freeze on wages in the public sector. While the Government's attempt to double prices of cereal based products in January 1984 had to be rescinded in the wake of serious riots, it managed successfully to increase those prices by about 15-20 percent in July 1984.

Policy Objectives and Implementation

(viii) In the first two years of its execution, most of the macroeconomic targets of the VIth Plan have not been achieved, and only some limited adjustment and structural measures have been implemented. This disappointing result can be attributed to a combination of unfavorable external conditions together with delays in the introduction of policy reforms. As a result, to achieve the objectives of the VIth Plan in the second half of the period, the Government faces the difficult situation of having to accelerate the implementation pace of policy reforms under more difficult social and financial conditions. Taking account of the overall economic situation, this report aims at assessing a number of priority policy measures that are included in the Plan and which should be implemented without delay. It also recommends adjustments of the targets for GDP growth and investment below initial Plan targets so as to maintain financial balance and preserve the country's long term creditworthiness.

(ix) The VIth Plan chose an ambitious set of objectives requiring complex and far reaching policy reforms. They had been discussed extensively in the 1983 Plan Review Report, which found itself in general agreement with the Plan proposals. The main priority policy objectives to gradually prepare the Tunisian economy for the post-hydrocarbon era (when net hydrocarbon exports would disappear) were demand restraint, export promotion, employment creation and regional development. These were to be achieved in the framework of a gradual liberalization of the economy, stimulating private and public sector entrepreneurship and efficiency, while limiting the role of the Government.

(x) Preparation of the economy for the post-hydrocarbon era was to be achieved through policy changes designed to counter the impact of the unavoidable decline in net petroleum revenues. On the one hand, exports other than hydro-carbons were to be developed and expanded rapidly; on the other hand, the economy had to adapt to a situation of much less generous availability of foreign exchange. This requires, first of all, more vigorous domestic demand management, meaning a slowdown in the growth of domestic consumption (private and public) and a considerable reduction in the investment rate; these two policy changes figure prominently in the Plan as a precondition to maintain healthy domestic finances and a sustainable balance of payments situation in the long term. Wage policies, social and subsidy policies, interest policies are important policy instruments which can be used to reduce consumption and stimulate savings. As public enterprises, over the years, had become a major drain on Government resources and, thus, have reduced public savings, public enterprise restructuring has also taken on considerable importance and urgency in this context. Second, a number of policy changes were proposed in the Plan to stimulate non-oil exports, including wage policies, changes in effective protection and in real exchange rate, in the incentive and institutional framework, in domestic pricing policies, etc. Third, increased employment creation was to be achieved a) through a qualitative change in investments, giving priority to investments in directly-productive, labor-intensive sectors and to labor-intensive techniques within all sectors and b) through a change in relative factor costs by reducing the cost of labor (wage policies) and increasing that of capital goods (interest rates, import tariffs, incentives etc.). Finally, a more balanced regional development was to be stimulated first of all by increased investments in rural areas, measures to stimulate growth in small-scale enterprises, and changes in the incentive laws.

(xi) Government has made some progress in the fields enumerated above. Most of the new measures, however, were introduced with substantial delays, and, thus, had little impact so far. More importantly, they focused on improvements in the administrative machinery and on creating new institutions and did not address the "root cause" of the problems at stake. This reflects the Government's natural concern with immediate difficulties (inflation, balance of payments) which gave rise to quantitative, short-term controls that do little to solve the underlying macro-economic disequilibria. The postponement of the fundamental adjustment mentioned in the previous paragraph has resulted in a narrower margin of maneuver and a narrower range of choices; in addition it has increased the economic costs of policy changes; last but most importantly, it has sharply increased the urgency to implement these measures, so as to avoid major balance of payments difficulties. To speed up and improve the policy program implementation, it would be helpful for the Government to establish detailed time schedules which would help monitor regular progress and design appropriate adjustments when needed. A set of policy indicators could be associated with quantitative target indicators to help ensure that policies are carried out properly, even though these targets may not be fully achieved.

a) Demand Management

(xii) As mentioned above, the restrained demand targets were missed by a wide margin during the first two years of the Plan. Excessive real wage increases (larger than productivity increases) in 1981 and 1982 combined with an expansionary credit policy were largely responsible for the fast increase in both public and private consumption. These policies also raised relative labor costs, thus discouraging employment creation. To correct this trend the Government needs to: a) strictly limit wage increases in the public sector to less than cost of living plus productivity increases; b) promote a flexible policy oriented more systematically to enterprise performance and productivity improvement; c) set similar wage guideposts for other sectors; and d) limit legal minimum wage increases to those in the cost of living and productivity. Wage negotiations between Unions and enterprises should take into account limits set by productivity improvement and potential firm performance, as well as the need to provide employment to young job seekers.

(xiii) Pricing Policy Issues have been assessed in some detail in volume II of this report. Most prices remain strictly controlled and liberalization measures anticipated by the VIth Plan have remained limited so far. Four main groups of goods and services can be distinguished in terms of price regime structure: 1) key staple goods with low fixed prices and explicit budgetary subsidies; 2) public utilities and social services with low or even zero prices and financial subsidies both explicit and implicit; 3) manufactured goods and services with controlled prices calculated on a cost-plus formula; and 4) goods and services with free market prices.

(xiv) Changes in the price regime are recommended with the aim of improving equity, approaching opportunity cost pricing, and reducing budgetary costs. This would imply a shortening of the list of key staples under fixed-price regime with subsidies to be limited to cereal products, and with some directly targeted subsidies maintained for some others such as school paper, dairy products or selected agricultural inputs. Furthermore, a review of the price structure is needed to reduce possible excess subsidies to intermediates; finally, prices should be adjusted regularly. With regard to social services, the possibility of introducing and/or increasing user fees should be assessed starting with hospitals and higher education. In exceptional circumstances, a deviation of public utility tariffs from full economic cost recovery may be justified; such deviations should, however, be based on a clearly stated set of rules to be coordinated by a central regulatory agency. Prices of manufactured goods should be liberalized progressively by eliminating controls in sectors with sufficient domestic competition or with clearly inefficient domestic production and keeping it only for those with real potential justifying temporary protection and price control (infant industries). This requires a product by product assessment of the domestic competition structure, and the domestic price structure (using effective protection type of criteria). Price deregulation has to be coordinated closely with the liberalization of investment licensing (and incentives) and of imports (and export promotion).

(xv) Most of the above rather complex action program would have to be implemented gradually during the VIth and VIIth Plan (1986-91). Some urgent measures, however, need to be taken immediately; they include a) for the Directorate of Prices and Economic Controls, monitoring price changes more systematically, revising the two cost-plus based regime formulas, and defining criteria to check price adjustments ex-post; b) for the Stabilization Fund, reviewing the subsidy formula for intermediaries (in particular milling and baking), maintaining regular price adjustments on cereal-based products, sugar and oil, and starting a phase-out of the other items under fixed-price regime; and c) for the Government, setting up four working groups to define the liberalization process of the various administered price regimes; coordinate progressive prices liberalization with that of investment licensing and exchange trade control; to monitor public utility pricing and financial management; and to study user fees and cost recovery for social sectors.

(xvi) Interest rate policy is an effective instrument for domestic demand management. It is discussed in detail in the Bank's recent Financial Sector Study which makes a series of recommendations that are not repeated here. Suffice to point out that after the slight increase in April 1981 interest rates remained unchanged, and while they have improved in real terms in line with declining inflation, deposit rates and many lending rates still remain negative. Many measures were adopted in 1982 and 1983 to stimulate private savings through strengthening the network of banks and financial institutions and the creation of special schemes aimed at attracting small and popular savings. Tunisia, however, has passed the stage when institution building was critical, and more decisive action is needed on the level and structuring of interest rates in order to improve savings and borrowing behavior.

(xvii) Public savings mobilization depends crucially on three factors: fiscal policies, government expenditures, and public enterprise policies. In the area of fiscal policies, the tax reform which aimed at improving tax equity and efficiency was begun in 1983, but the measures taken were too modest and did not address the need to strengthen the administrative machinery. As a result, fiscal revenue structure did not evolve as initially envisaged, and the declining share of direct taxes indicates that tax equity may have worsened. The tax reform, thus, needs to be implemented in full vigor. First, income tax collection effort needs to be strengthened in parallel with measures to lower income tax rates. Second, the simplifying process and the replacement of the existing indirect taxes by the value added tax should be kept on schedule. Thirdly, property and land taxes should be revised frequently and adjusted in order to curb investment in high cost housing, promote intensive land use, and raise revenues. Fourthly, import taxes should be adjusted with the aim of reducing and unifying effective protection by sector and product. More importantly, penalties for tax evasion and delinquency should be stiffened, fines should be increased and the tax administration has to be expanded through training of tax agents. These measures are necessary to achieve: a) a more balanced, equitable tax structure; b) a gradual transformation of taxes from resource base to income base as the economy develops; and c) an increased effectiveness in the use of taxes as a policy instrument.

(xviii) With respect to current expenditures, the government's decision in early 1984 to freeze wages of civil servants is an important step to slow the past rapid growth of public consumption (and also to slow growth of private consumption of civil servants). As mentioned above (para. xiv), changes in price policies are crucial to reduce consumer subsidies, as well as to increase revenues of public enterprises. A number of additional measures are under consideration to improve the financial situation of public enterprises based on a careful analysis recently undertaken by a Government study. As a first step, public enterprise investments ought to be reviewed with a view to postponing new projects of low economic-return. Attention should be focussed on rehabilitation, improving capacity utilization, raising productivity and achieving long term financial autonomy. A special task force should be established as soon as possible to initiate fundamental and long-term reforms, reduce the large number of public enterprises that are supposed to carry out specific social or regional objectives, and promote contract programs between economic enterprises and the Government defining multiannual objectives, action programs and mutual obligations. Control and supervision of most economic enterprises could be transferred to the development banks following a specific effort at improving their profitability; this could allow an eventual equity financing by, and even ownership transfer to, the private sector.

b) Export Promotion

(xix) Some steps were introduced in 1982-1983 to help promote the financing and marketing of exports and to simplify the complex administrative procedures. Among others, an export credit insurance scheme was set up; the ceiling for prefinancing of export credits was raised; a law governing the establishment of export companies has been adopted, and the incentive system for exports has been strengthening. The adopted measures, however, came late and could not offset adverse effects of external factors on exports. Consequently, the authorities had to resort increasingly to import control to help limit the balance of payments deficit while in the Plan, gradual liberalization of imports was the objective. Together with existing protection measures, these quantitative controls could have perverse effects on domestic production in terms of excess profits, poor product quality, low capital utilization and decreasing overall efficiency. They may well reduce the competitiveness of Tunisian exports. In these conditions, the exchange rate should be used more actively as a policy instrument for promoting of exports and restraining imports without quantitative controls.

c) Employment Creation

(xx) Employment creation fell substantially short of Plan targets and this for two main reasons: contrary to Plan goals, relative factor prices did not change in favor of labor, and new investments were less labor intensive than planned. The first factor has been assessed already, i.e., wages have increased more rapidly than capital costs. In fact wage policy has been used not to promote employment but to improve the standard of living for those who hold jobs in the modern sector without benefitting the unemployed and the informal sector labor force. The employment creating measures adopted were mostly of an administrative nature and involved providing budgetary resources and setting up various funds to promote employment. So far, they have had a minimal impact on employment creation (para. iv).

(xxi) The investment program was designed as a key instrument to achieve the VIth Plan's employment objectives. While the investment rate was to be reduced substantially to relieve the pressure on the balance of payments, the employment creating effect was to be enhanced considerably by giving priority to directly productive and labor intensive sectors and to investments in the private sector. These targets have not been achieved. First, the investment rate increased rather than declined. Second, the share of immediately productive investment (mostly labor intensive) increased very marginally, from 22 percent to 23 percent, as compared to a Plan target of 28 percent. Third, the share of private investments again increased much less than projected while the share of relative capital-intensive investments by public enterprises declined much less than foreseen. At least as important as the above factors, however, was the fact that even within the relatively quite labor intensive sectors actual investments tended to be more capital intensive than expected; this reflects inter alia, the trend in relative factor prices in favor of capital and against labor and an incentive system favoring capital over labor.

(xxii) A major change in future investment policies, therefore, is crucial if the Plan's macroeconomic targets are to be achieved. First, the investment rate will have to be reduced substantially, mostly, but not exclusively, through a marked reduction in public enterprises investments; if these enterprises carried out their intended programs for 1984-86, investments would exceed by 14 percent what was initially projected by the Plan. Second, new investments will have to be more labor intensive; this can only be achieved through a change in relative factor prices, giving clear signals to the private sector which will have to implement the bulk of these types of investments. Finally, controls have to be alleviated and procedures simplified for new investments and imports of inputs.

d) Regional development

(xxiii) Regional development clearly has become a political priority and positive actions have been taken in this respect; the effect of these policy changes is difficult to measure at this stage. The incentive system has been adjusted in favor of outlying zones, and new approaches to rural programs have been initiated. Actual agricultural investments were slightly higher than planned for 1982-83. Yet the impact of these measures can only be gauged after, the completion of the on-going effort to evaluate the Rural Development Program.

Recommendations for a 1985-86 Viable Growth Strategy

(xxiv) In view of the considerable shortfalls from the targets in the first two years of Plan execution, it is now necessary to define a revised set of macroeconomic targets that preserve the main aspects of the initial Plan strategy while taking account of developments to date. The experience of the last two-years showed that, because of delays in policy execution, the impact of policy changes has been more limited than estimated originally. In practice, quantitative controls had to be introduced to slow down the divergence of actual macroeconomic figures from their original Plan targets. There is a need, therefore, to tackle immediately some of the underlying fundamental disequilibria even though there will be short term costs for the economy that have to be taken into consideration.

(xxv) The faster than expected increase in external debt requires careful management and long-term targeting of external borrowing to avoid an unmanageable debt service in the nineties. It is desirable that total debt outstanding and disbursed not exceed its present level of close to 50 percent of GDP. If present macroeconomic trends continue, this target would probably be exceeded soon. Up to now, Tunisia has benefited from borrowing terms softer than those obtained by the average middle-income countries although the level of indebtedness was much higher (42 percent compared to an average 25 percent of GNP in 1982). There is an obvious danger for Tunisia to be lured by these soft terms into accelerating foreign borrowing; the increase in the debt service would come as early as 4 to 5 years from now. It is recommended, therefore, that annual ceilings be imposed on loan commitments with government guarantee.

(xxvi) The vital importance of the balance of payments constraint on Tunisia's future development and of policies to alleviate this constraint rapidly, is demonstrated in the three macroeconomic projections scenarios prepared in this report:

1. Scenario I, represents informal revised growth targets considered feasible by the Planning Department. It indicates the long term results of a strategy of high export growth, continuous high investments and rapid growth of consumption. The projections show this strategy not to be sustainable in the long term;

2. Scenario II, the mission's base scenario, indicates that a strategy of high export growth, immediate sharp reduction in the investment rate and a slower growth of consumption can lead to a sustainable long term growth of 4 to 4.5 percent per year;

3. Scenario III indicates the consequences of a much lower than expected growth of exports on overall economic growth. It would result in a substantial slowdown in the growth of GDP.

(xxvii) The results of these simulations are quite clear:

a) A rapid growth of exports is of vital importance to Tunisia's future growth. Even assuming a rather optimistic average export growth rate of 5.3 percent p.a. in real terms (scenarios I and II) over 1984-86, overall economic growth during the remainder of the 1980s cannot be expected to exceed 4.5 p.a. as compared to a Plan target of 6.5 percent. Much lower export growth (scenario III) will lead to a corresponding lower growth of total GDP.

b) Even if Tunisia can maintain such high export growth, it can no longer sustain an investment rate of 30 percent or above, and a growth in domestic consumption above growth of total GDP. As demonstrated in scenario I, the resulting resource gap would lead very rapidly to unmanageable balance of payments deficits. An immediate major reduction in investments is vital to avoid such a situation (scenario II); a reduction of the investment rate to about 26 percent of GDP in 1984-86 and 21 percent by 1990 could be consistent with the overall economic growth assumption, if complemented with improving investment efficiency, a problem that needs immediate attention.

c) Stimulation of exports and reduction in investments have to be accompanied by a slowdown in the growth of consumption, which has clearly been excessive during the first years of the VIth Plan (elasticity to consume of nearly 1.9). As a minimum long term objective, consumption should grown only marginally faster than total GDP (elasticity of 1.00-1.09 in scenario II).

(xxviii) Based on these three projection scenarios, the report recommends that for the remainder of the VIth Plan (1984-86) GDP growth targets be adjusted downward to not more than 4-4.5 percent p.a. depending on how successfull export promotion policies will be, and to reduce the investment program to 25 percent of GDP in 1986. This sharp reduction from the VIth Plan growth target of 6 percent would require setting money and domestic credit growth at ratios below projected nominal GDP growth; it assumes moderate improvement in some macroeconomic variables such as investment productivity, labor costs, and relative factor costs. This growth rate reflects the suggested strategy in which it is crucial that the real exchange rate expressed in labor costs remains at competitive levels to intensify Tunisian exports. The mission also recommends a reduced maximum investment target of TD 3,700 million for 1985-86 (compared to TD 4,300 million in current prices intended by the main investors), based on a reduction of close to 10 percent in direct investments intended by the Government and the private sector, and almost 40 percent in that of public enterprises. This reduction should focus on infrastructure projects with dubious economic profitability (such as railways), as well as on luxury housing.

(xix) The reduction of the investment program and the slower growth strategy recommended are a direct consequence of the less satisfactory recent balance of payments and budgetary performance. Such policy would have several benefits in terms of lower equipment imports and in terms of savings requirements from the public or private sectors. If the investment reduction is accompanied by changes in the structure and quality of investments as suggested above, it might not have a negative impact on job creation and could improve overall productivity. To this avail, investment promotion policy should shift its encouragement to low import-content sectors such as agriculture (some premium on producer prices over world prices would be allowed as an incentive), small industries (particularly local subcontracting, electronics, spare parts and small equipment) and engineering services.

(xxx) In conclusion, the Tunisian authorities should react rapidly and preventively to the deteriorating macro-economic environment. This report identifies the following main fields for immediate actions:

- a thorough review of the investment program, including the postponement of any new investment projects not economically and financially justified; giving priority to equipment maintenance and management, capacity utilization improvement and financial prospects streamlining;

- a program of policy changes to address structural imbalances in the following priority areas: low capital costs in relation to labor costs, a too uniformly generous and ineffective investment incentive system, large subsidies to consumers and to public enterprises, negative lending interest rates and their complex structure, and an overvalued exchange rate;

- a program of gradual economic liberalization by freeing investment licensing, adjusting tariffs, phasing out import quotas, reducing controls of foreign trade and exchange, and streamlining price regulation.

- a careful monitoring of the external indebtedness and current account deficits. The latter should decline relative to GDP. In case the reduced targets are exceeded, severe restrictions on investments and on domestic consumption should be immediately implemented, combined with a more restrictive credit policy.

I. GENERAL BACKGROUND

A. INTRODUCTION

1.1 Tunisia's VIth Development Plan (1982-86) identified two major constraints for the Plan period: a) a fast growing labor supply resulting in an estimated 65,000 new job seekers annually compared to 56,000 for the Vth Plan; and b) a levelling off of domestic oil production estimated at 5.5 million t.o.e. per annum compared to 6 million for the Vth Plan resulting in increasing pressure on the balance of payments. To face these constraints, three main objectives were to be achieved: a) an adjustment in the sectoral allocation of fixed investments to promote labor-intensive and/or export-oriented projects; b) a slow-down in the growth of consumption in line with GDP growth to strengthen domestic savings and reduce imports; and c) a promotion of manufactured exports to compensate for the reduction in oil exports and the expected deterioration in the terms of trade.

1.2 The Bank's 1983 Plan Review Report 1/ was in broad agreement with the economic growth objectives recommended by the VIth Plan. It was, however, concerned whether the country was in a position to design and implement the complex set of adjustment and structural policies needed for achieving these objectives. Among them, income (and wage) policies were considered the most important, both to slow down growth of consumption (demand management) and to promote productive, export-oriented and/or labor-intensive investments. Second in importance, were a gradual liberalization in pricing and import control policies. Finally, adequate exchange rate policies and adjustment in interest rates were also considered essential macroeconomic policy adjustments.

1.3 The present Midterm Plan Review Report draws the lessons from the results achieved and the issues created after two to three years of execution of the Plan. Several of these issues were or will be tackled in special economic reports and are not dealt with in detail here. In particular, wage policies are reviewed in the Employment Report (to be issued), and the analysis should be deepened by a suggested study on income distribution; pricing policy is covered in detail in the second volume of this report; and financial policy (including interest rates) in a special report on the Financial Sector; the exchange rate policy will be addressed in the Industrial Sector Study early 1985. This report, therefore, focuses on the review of the Plan performance on the remaining issues, taking into account the other sectorial studies but excluding social and regional development policies.

1/ Tunisia: Review of the VIth Development Plan, 1982-86, No. 4137-TUN, in two volumes dated March 16, 1983 and June 29, 1983 respectively.

B. THE SOCIO-ECONOMIC FRAMEWORK

1.4 As in most developing countries, the first two years of the VIth Plan were difficult years for Tunisia. After the oil boom of 1979/80 which had provided easy money to finance a large investment program, the economy had to face a world recession, especially in Europe, sharp devaluation in the Dinar parity with the US dollar, and severe weather conditions. At the same time, it was confronted with the need for structural changes in order to adapt to declining oil exports and to move to a stage of a more diversified and self-sustained industrialization process. These structural changes were reflected adequately in the Plan strategy. This strategy, however, underestimated the difficulties of implementing fundamental structural changes after a decade of fast economic growth (4.8 percent p.a. of constant GDP per capita since 1960), which had triggered large but still unfulfilled expectations among all the country's social groups. GNP per capita reached about $1,390 in 1982; using the 1984 World Bank Atlas methodology this level puts Tunisia in 55th position among the 120 countries ranked in that Atlas, and in the 19th position for the 1960-82 average growth rate.

1.5 Since 1981, the political situation has been characterized by the delicate implementation of a democratization process with some cautious openings of the body politic. In this political process, which has remained relatively smooth, the Trade Unions have played an influential role. However, Trade Unions are no longer unified and split into two movements at the end of 1983. Causes were in part related to the Unions' position towards the deteriorating economic situation and the need for austerity measures.

1.6 Until recently, fast economic growth resulted in a regular and, sometimes, rapid improvement of the standard of living and basic needs coverage (food, education, health, shelter). As a result, the number of people living below the poverty level (defined using World Bank methodology) decreased to less than 14 percent in 1980. Some indicators, nevertheless, did point out to some less favorable developments such as fast rising unemployment among youngsters, growing slums around Tunis, and increasing regional imbalances. The January 1984 riots to protest the doubling of prices of cereal-based products confirmed that behind this global improvement of the well being of the average Tunisian household, disruptive factors were in action, and if not controlled, could jeopardize economic growth prospects.

1.7 An increasingly important socio-political factor are the recent changes (real and perceived) in the reallocation of wealth and power among social and regional groups, that often contradict the traditional values of the sixties. Indeed, the results of recent economic growth are perceived by a large majority of Tunisians as being unequally distributed. Although there are no precise figures on the changes in income distribution by social groups, there are indications that recent economic growth has widened the gap between social groups and more crucial by, changed the perception of their social co-responsibility. In the modern sector, the largest social group, encompasses wage earners in the Administration, the Government-owned industrial enterprises, the modern private enterprises (usually of more than 10 workers), and the state farms and cooperatives. This group is strongly unionized and benefits substantially from the social protection legislation implemented during the years of rapid growth and of large oil revenues (minimum wage, social security, retirement fund, subsidized loans). On the other hand, wage-earners feel that they contribute too large a share of fiscal revenues. Other social groups encompass owners of modern enterprises and private businesspersons including large farmers and traders who are diversifying their portfolio into small industrial units taking advantage of a heavily protected domestic market and large tax exemption for new investments. The general public's perception, which remains to be substantiated, is that their net profits have fastly grown since 1970. In the traditional sector, three groups could be distinguished: the informal urban sector 2/, the small farmers, and the "marginals" (or left-aside). The latter encompasses rural landless seasonal workers, other migrating informal workers, young unemployed (mostly school dropouts) and even married women looking for a supplementary income. They suffer from the lack of emigration possibilities, after Europe has restricted its migration policy and Arab countries increasingly look for trained manpower, often already scarce in Tunisia. Recently, these groups in the traditional sector expressed their discontent violently in both urban and rural zones, particularly in the Southern part of the country.

1.8 While the domestic political and social situation went through some difficult moments, Tunisia strengthened its relations with the rest of the world keeping a successful balance between the various ideological groups of nations. In particular, it strengthened its links with the Gulf countries, which have shown an increasing interest for Tunisia triggered by the past diplomatic policy of active neutrality followed by President Bourguiba and the transfer of the Arab League Headquarters from Cairo to Tunis. Investors from the Arab peninsula have increased their participations in the banking system and direct operations (or joint ventures) inall sectors, in particular luxury tourist complexes and real estate. Another development is the improved relations with neighboring countries (Algeria, Lybia). Combined with its long excellent relations with Morocco, Tunisia is trying to activate some economic cooperation among Maghreb countries by promoting joint ventures in banking and industry. Trade and labor migration have resumed with Libya. Close relations with France were maintained, and if trade relations with the EEC community were strained somewhat, the European countries have emphasized their willingness to discuss with Tunisia, ways of alleviating the economic impacts of European Market trade regulation.

2/ See the Annex on the informal sector in Tunisia Special Economic Report on Industrial Employment Issues (Ref. para. 1.3).

II. RECENT ECONOMIC DEVELOPMENTS

A. ACHIEVEMENTS OF MACROECONOMIC GROWTH TARGETS

2.1 The successful economic growth record which Tunisia enjoyed during the last decade has not been sustained since 1981, and economic performance for the first two years of the VIth Development Plan (1982-86) lagged behind most of the macroeconomic growth targets. On the supply side, except for chemical industries and public utilities, most sectors, and consequently GDP at factor prices grew at much lower rates than forecast (4.4 percent in two years compared to 12.7 percent forecast, Statistical Annex) and GNP per capita slightly declined. Aggravated by external factors, the worst performance was in agriculture and tourism. In spite of past large irrigation investments, agricultural production remains sensitive to weather conditions. These conditions being poor in 1982-83, production decreased in volume, drawing down food industry production as well. Faced with a depressed demand, especially in Europe, tourism activity declined markedly (minus 20 percent in two years). With crude oil production stagnating, manufacturing was the only sector achieving moderate growth during 1982-83.

2.2 In spite of sluggish economic growth, domestic demand (consumption and investment) has continued to grow rapidly in 1982-83. The rapid growth of consumption, both public and private, was in strong contradiction to the Plan's macro-economic scenario which depended crucially on consumption increasing only marginally faster than total GDP. This growth, twice as rapidly as output, was fueled by substantial wage increases. The wage bill is estimated to have increased by over 24 percent p.a. during 1982-83 (in current prices), compared to GDP growth of 15 percent (Table 2.2). The strong demand pressure was reflected in rising inflation: the Cost of Living Index registered an increase of 13.6 percent in 1982 compared to an average of 7.8 percent in 1977-81 (Statistical Annex). Inflationary pressures were slowed down to 9 percent in 1983 due to an intensification of price control and a "voluntary" reduction of 5 percent in producer and retail prices of some industrial products.

2.3 Investment averaged a high 30.6 percent of GDP in 1980 prices compared to a Plan target of 26.5 percent (Statistical Annex). The sharp growth in investments (TD 2461 million in 80 prices compared to TD2187 million forecast) in itself is a shortfall since the Plan had aimed at reducing it. This growth was caused mainly by public enterprise investments in energy and transportation sectors, and also by higher than estimated investments in oil exploration and private housing.

2.4 Understandably the rapid expansion of domestic demand, well above growth of GDP put heavy pressure on the balance of payments, which has deteriorated markedly. While the resource gap averaged a manageable 5.4 percent of GDP in constant prices during the Vth Plan (1977-81), it jumped to a high 10.4 percent in 1982/83. Inspite of substantially increased direct private investments Tunisia had to step up net foreign borrowing more than 2 1/2 times between 1980/81 and 1982/83 from an annual average of TD 126 million (US 186 million) to TD330 million (US 486 million); close to one-third of new borrowing was short term. Although Tunisia's foreign debt is still overwhelmingly long term, with debt serving obligations distributed over time, it is clear, that the trend of the last few years can not be sustained for much longer, without creating serious balance of payments problems. Substantial policy changes therefore, are needed within the next year or two to bring domestic demand more in line with the country's economic potential. While Government has taken already a number of measures to this avail, more forceful and more fundamental changes will be needed soon.

Investment structure.

2.5 In spite of the VIth Plan objectives of reducing investments, total investments actually increased in 1982-83. The shift from capital-intensive to labor-intensive techniques remained less than anticipated; among others, this contributed to the 25 percent increase in average investment costs per job (in constant prices, over the two-year period, par 3.26); consequently, job creation targets were far from being reached. The structure and sectoral allocation of this investment program should be revised without awaiting the preparation of the next VIIth Plan. Because of the large share of the program invested in the public sector, the Government will play a crucial role in this revision.

2.6 Structure by Investor Agents (Table 2.1): The public sector (Administration and public enterprises) has slightly reduced its relative importance in total investment from 59.3 percent for the Vth Plan to 57.8 percent for 1982-1983 but not as quickly as projected by the VIth Plan (56.1 percent). This slight reduction mainly comes from public enterprises. Some sectors, because of their monopolistic characteristics, are largely dominated by public enterprises; these are public utilities, mining and transportation. In manufacturing industries where the Plan projected a sharp shift from public to private enterprises the actual change was marginal, limited largely to two subsectors: construction materials and mechanical and electrical products.

2.7 Productivity Effects. Overall, the Plan projected that average economic growth of 6 percent p.a. will be achieved by a reduction in the investment ratio (from 30 percent to 26 percent of GDP), thus implying a greatly increased efficiency to be achieved through a structural reorientation of investments. The Planning Department distinguishes three main categories of investments depending on their impact on domestic production: A first category—immediate productivity—groups investments with a delay for entry in production of less than two years; a second one—delayed productivity—requires a longer timespan for entry in production. While the two first categories encompass directly productive investments, the third one—long maturity—regroups infrastructure in agriculture, communications, social sectors, and housing. Investments with immediate productivity occupied

Table 2.1: INVESTMENT STRUCTURE BY AGENTS' 1972-83
(in % of total sectoral investments)

	1972-81 Actual			1982-86 Plan			1982-83 Actual		
	GOT	PE	Private	GOT	PE	Private	GOT	PE	Private
Agriculture	41.5	17.5	41.0	50.3	15.5	34.2	48.5	17.3	34.2
Manufacturing Industries	—	57.6	42.4	—	45.8	54.2	—	55.7	44.3
Agroindustries	—	41.2	58.8	—	29.2	70.8	—	50.7	49.3
Construction Materials	—	77.5	22.5	—	66.0	34.0	—	68.6	31.4
Electricity/ Mechanicals	—	47.3	52.7	—	46.3	53.7	—	35.2	64.8
Chemicals	—	84.4	15.6	—	85.2	14.8	—	88.9	11.1
Textiles, shoes	—	19.8	80.2	—	7.3	92.7	—	24.1	75.9
Miscellaneous	—	15.5	84.5	—	6.7	93.3	—	23.8	76.2
Non-Manufacturing Industries	—	60.5	39.5	—	n.a.	n.a.	—	40.3	59.7
Mining	—	98.0	2.0	—	n.a.	n.a.	—	99.1	0.9
Electricity	—	100.0	—	—	100.0	—	—	100.0	—
Water Supply	—	100.0	—	—	100.0	—	—	100.0	—
Hydrocarbons	—	29.6	70.4	—	n.a.	n.a.	—	28.8	71.2
Construction	—	14.3	85.7	—	n.a.	n.a.	—	—	100.0
Services									
Transport	24.0	72.6	3.4	22.5	n.a.	n.a.	12.9	80.8	6.3
Tourism	2.8	6.4	90.8	—	7.6	92.4	0.7	2.3	97.0
Trade	48.4	6.7	44.9	45.5	n.a.	n.a.	—	70.0	30.0
Housing	—	—	100.0	—	—	100.0	14.5	—	85.5 1/
Social Sectors	75.5	23.6	0.9	78.3	n.a.	n.a.	83.7	15.7	0.6
Total	17.2	42.1	40.7	20.0	36.1	43.9	17.4	40.4	42.2
(Households)			(15.2)			(12.2)			(13.9)

Note: GOT: Government of Tunisia
PE: Public Enterprises

1/ There is a change of definition by allocating the share of housing financed by budgetary transfers to GOT.

Source: Documents supplied by the Ministry of Planning.

a low share in total investments during the seventies, and the VIth Plan had the objective to increase that share substantially by reducing both investments with long maturity and delayed productivity (infrastructure) as shown below (in percent of total investments):

	Actuals		Target
	1971-82	1982-83	VIth Plan
Immediate Productivity	22.0	23.3	28.1
Delayed Productivity	39.2	40.6	34.7
Long Maturity (infrastructure)	38.8	36.1	37.2

The first two years (1982-83) did not show any significant change in relative shares mainly because of the underestimation by the VIth Plan of investments in oil exploration and housing (paras. 3.32 and 3.37). The conclusions that can be drawn from this allocation, however, remain relatively limited in the sense that it should not be confused with the capital intensity of the investment program, which seems to be behind the stated objective of increasing immediately productive investments. In fact, for 1982-83 (para. 3.26), the cost per job created increased significantly in all sectors, and the issue is more of a general bias against labor-intensive techniques than an adequate sector allocation.

2.8 Low overall economic growth, overly capital intensive investments and the sharp increase in labor costs have resulted in a worsening of the unemployment rate over the past two years: the total number of non-agricultural jobs created fell short of the Plan target by 23 percent, and the depressed agricultural performance in the last two years may have caused even more a severe shortfall in the overall employment target. It is estimated that total open unemployment in the country has increased from 12 percent in 1980 to 14 percent in 1983, while the actual unemployment rate is likely to be considerably higher 3/.

2.9 The current account deficits of the balance of payments deteriorated in the first two years of the Plan from 7.6 percent of current GDP in 1981 to 8.7 percent in 1983 (Statistical Annex). While imports declined in volume because of tighter controls by quota, exports declined even further. This deterioration reflects: (a) the increase in imports of food products and consumption goods; (b) the fall in petroleum export receipts and exports of agricultural products due to unsufficient domestic demand; (c) the slowdown in tourism; and (d) non-energy exports lower than forecast. In 1983, there was a significant decrease in the capital account revenues. This was preceeded by a significant increase in 1981 and 1982 due to stepped up activities in hydrocarbon prospection and the creation of several development banks with considerable foreign participation. Because of these trends, the need for foreign borrowing was higher than projected.

3/ See the Employment Report, ref. para. 1.3.

2.10 In spite of these less than satisfactory balance-of-payments trends, Tunisia's net foreign exchange reserves increased substantially in 1983 to reach an all-time high of over 2.2 months of imports as compared to 1.6 months at the end of 1980. These reflect inter alia a revaluation of the Central Bank's foreign exchange assets which led to a nominal increase in reserves of about $200 million; the Government also drew down the remaining balance of $125 million from the syndicated Eurodollar loan contracted in 1982. External debt outstanding and disbursed increased to 45.3 percent of GDP, while debt service payments reached 18.2 percent of total exports (net of energy imports) in 1983 (compared to 38.5 and 16.7 percent respectively in 1982, Table 3.3). While the present situation of the external debt remains manageable, recent trends cannot continue too long without creating creditworthiness problems for the country (para. 3.8).

2.11 The budgetary situation also deteriorated in 1982-83; the Central Government consolidated budget deficit more than doubled from 2.5 percent of GDP in 1981 to 5.6 percent in 1983, although public savings are still substantial, equivalent to about two-thirds of investment (Table 2.3). This deterioration reflects essentially the accelerated growth in expenditure caused by wage and salary increases, as well as subsidy payments to households and to public enterprises. Wages and salaries grew by over 30 percent p.a. during 1982-83, compared to 15 percent p.a. during the Fifth plan, and consumer subsidies increased rapidly (see Annex on Public Finance). The wage bill now accounts for about 40 percent of current expenditures. Current expenditures also increased due to the growing dollar-denominated debt service payments caused by the dollar appreciation vis-à-vis the Tunisian dinar. Between 1981-83 the Tunisian dinar depreciated by about 30 percent vis-à-vis the US dollar. On the other hand, this factor helped to maintain the raise in petroleum revenues expressed in domestic currency in 1982. Total revenues thus showed a robust growth despite the recession. In 1983, with fiscal reforms beginning to take effect (see para. 2.42), growth of income and profit taxes slowed down considerably and were offset by increases in revenues from an import tax surcharge.

2.12 The expansion in aggregate demand was also facilitated by the growth of domestic liquidity reflecting the expansion of the banking system. Growth of liquidity surpassed growth of the economy in nominal terms, although it slowed down in 1983. This was reflected in the slow rise in the Cost of Living Index (9 percent). On the average, a high rate of about 32 percent of credit to the economy was absorbed by public enterprises.

2.13 Preliminary data on the actual economic performance in 1984 show a mixed picture. While overall economic production seems to have grown quite substantially, the underlying disequilibria have not improved. The rebound in agricultural output coupled with sustained industrial growth brought GDP growth to about 5.4 percent. Consumption expanded only slightly faster than GDP; exports of goods and services rose by 2 percent in volume and outgrow imports, the latter to grow at little over 1 percent. Agricultural products were cruical for the export recovery, while phosphates sustained their growth. Petroleum exports increased. The current account deficit is likely to have exceeded 9 percent of current GDP, raising the external debt outstanding and disbursed to over 50 percent of GDP, while debt service payments were probably close to 20 percent of exports net of energy imports. The overall deficit of the Central Government budget worsened further to over 7 percent of GDP. Besides rising transfers to public enterprises to compensate for foreign exchange losses in debt service payments public investments and Government debt service have also increased rapidly. These growing factors could only partially be compensated by the wage freeze in the Government sector, accelerate public enterprise reforms, and reduce food subsidies. The most important attempt in this direction, namely the doubling of cereal-based prices in January 1984 had to be rescinded in the wake of serious riots throughout the country. A second attempt, however, to increase these prices by about 15-20 percent in July 1984 was implemented without incident.

B. ACHIEVEMENT OF POLICY OBJECTIVES

2.14 In general, implementation of the VIth Plan policies has not progressed as expected. At the same time, there is a conscious effort to achieve the objectives by policy instruments least controversial politically. Overwhelmingly, these consist of creating various programs, funds and institutions which serve to strengthen the institutional framework . These, definitely, are steps in the right direction, but implementation has been slow and difficult, and their impact remains limited. However, the Government so far has shyed away from implementing structural reforms that could address the root causes of the country's most pressing economic problems. Many of these policies have been or will be studied in detail by the Tunisian Administration, some of which with the Bank's cooperation. This part overviews issues related to employment creation, domestic resource mobilization, and external balance. A special annex is devoted to public saving mobilization. Pricing issues are examined in detail in the second volume of this report.

I. Pricing Policy Issues

2.15 To achieve the VIth Plan objectives pricing policy was one of the key economic policies identified by the 1983 Plan Review Report. A dialogue on pricing policy issues between the World Bank and the Tunisian Government has developed through the preparation of projects jointly financed; it has concentrated on public utility tariffs (electricity and power) and agricultural products. A preliminary review of the pricing system was carried out in 1981 (see Tunisia, Country Economic Memorandum, No 3399-TUN dated September 1981). In the second volume of this report, a study of the main methodological aspects of the price system and its impact on the economy is presented. It aims at providing a coherent analytical framework to help future detailed reviews of the pricing system and prepare subsequent reforms. This part summarizes its main findings.

2.16 Although, during the VIth Plan there has been some limited liberalization, the price system still remains a largely administered one, with complete free-market pricing limited to only about a third of consumption expenditures and considerably less for intermediate and capital goods. The principal intended benefits of price regulation have been social equity improvement using low prices for key consumer staples; promotion of industrial expansion while controlling any monopolistic tendencies to excessive profits;

and more recently restraint of inflation. On the other side, negative effects include: resource allocation distortions; inducement to inefficient production and waste at the micro-level; and in cases of below-cost prices, the need to mobilize large budgetary subsidy payments, explicit or implicit, which are a heavy burden on the central Government budget. The functionning, advantages, and disadvantages of the administered price system vary widely among products.

2.17 Key staple goods (bread, semolina, meat, sugar, milk, oil) as well as animalfeed, fertilizers and some minor items, are subject to fixed pricing, and explicit subsidies are paid out at several intermediate points (between producers and consumers). In recent years producer prices - especially for cereals - have been allowed to approach world prices. But while this minimizes the resource allocation distortions of the policy, it has required huge increases in the subsidy payments of the Stabilization Fund (CGC), which reached TD 250 million or 4 percent of GDP in 1984. Consumers do benefit from these subsidies, but two caveats are in order. First, the subsidies benefit both low and high income households but, the net effect on income distribution is a slight improvement (see Volume II for details). Second, the subsidies may be overly generous to intermediary processing (milling, baking, transport & storage). Attempts to use a system of direct-targeting to given social groups as an alternative to across-the-board prices subsidies have been almost non-existent, though the possibility has been considered, especially as part of the planned 1983-84 price increases. Moderate price increases, from 15 to 20 percent depending on the product, were implemented in July 1984.

2.18 Prices or tariffs in the major social services-health and education-are essentially zero, though very modest fees are applied differentiated by income to some health services. These costs are in budgetary terms quite large (TD400 to 500 million at present, equivalent to 7 to 8 percent of GDP); with the need for reducing budgetary outlays (see para. 2.45), it is urgent to consider the principles and procedures of generalized systems of user fees in all social sectors.

2.19 Public utility prices or tariffs (electricity, water, sewage, transport) are decided by Government based on cost data proposed by the operating agencies but are adjusted by political decisions to reflect perceived social benefits such as economic externality or assistance to targeted groups. A number of tariffs have recently been increased, but nevertheless many remain below economic cost; in the case of railroad tariffs, they are even below financial operating costs, thus requiring large explicit subsidies. If capital subsidies are included, budgetary outlays to utilities are over TD 100 million (1.5 percent of GDP) at present. The principles behind price calculations (marginal or average cost; short-run or long-run) need to be clarified, with justification for below cost pricing.

2.20 Most manufactured production are under administered cost-plus price regime which covers a large proportion and wide variety of items, entailing an annual review of over 5000 files by the Directorate of Prices and Control (DPC). In 1982 changes were introduced to ease this burden by shifting most products from homologation (a cost plus regime which requires DPC to calculate prices given enterprise cost data), to auto-homologation a regime which gives enterprises the responsibility for price calculation. But in both regimes, the entire cost files are still submitted to DPC for control, and thus, the changes have not reduced the purely logistic tasks.

2.21 Many negative effects are created by actual cost-plus price regimes. These include in particular:

a. Tendency to collusive action among producers, weakening competition and helping the tendency to excessive profits.

b. Tendency to distort prices from opportunity cost, hence result in allocation inefficiency.

c. Tendency to excessive capital intensive investments and under-utilization of capacity.

d. Tendency to micro-inefficiency ("X-inefficiency)".

e. Tendency to inflationary cost increase.

f. Disincentive to productivity improvement and technological innovation.

g. Disincentive to quality improvement.

Just how important each of these is, or how large could be the value of the economic loss through distortion, misallocation, inefficiency at factory level etc..., cannot be easily determined, for the impacts are of a "general equilibrium" nature and difficult to trace without the use of a complete macroeconomic model. Two important consequences should be noted: first, any formula or rule devised to counter some of the above effects invariably seems to cause other negative effects or contains a loophole, or finally leads to increasing complexity of price administration; secondly, the price fixing procedures based on a systematic consultation of producers may create favorable conditions for collusion, with the paradoxical situation that these price regimes require large competition to be efficient.

2.22 The nexus of three elements-import protection, investment licensing, and price regulation - is so close that a price system must be considered in direct coordination with the other two regulatory and control policies. Small market size combined with import restriction and consequent oligopolistic tendencies limiting competition are a key concern motivating price regulation in Tunisia. The objective of promoting economic activity means that domestic industry needs some temporary protection through direct support as infant-industry against imports, and that domestic investments in manufacturing may need to be limited. The actual practice of price regulation does not always exhibit the necessary coordination, is generally ad-hoc, and is not sufficiently embodied in an overall sector strategy. In actual practice, it is difficult to tell how well price regulation has achieved its objectives as the data are sketchy.

2.23 The combination of import protection, investment licensing, and price regulation using the average (rather than marginal) cost formulas can only result in resource misallocation. In the mechanical and electrical sector, a study using effective protection calculations would indicate a resource allocation bias (mostly an anti-export bias) of about 25 percent loss in value added. The system favors production of end products against intermediate and capital goods. Moreover, considerable excess capacity is identified, and yet requests for new investment licensing continue to come. Because of shortages domestic products, even of inferior quality, are sometimes sold for higher prices than imports. Finally Tunisian entrepreneurs do not show sufficient aggressiveness, in particular in foreign markets. All of this suggests that the three regulation policies have built-in tendencies to induce low levels of production with poor quality, excess costs, but with assured profits at a level high enough to satisfy industrialists and thus bias them towards the easier domestic market.

2.24 One stated intention of the change to the auto-homologation system was to make producers more "responsible" for their actions. It is not certain that this change alone will have the desired effect since the formula is still cost-plus, and the administrative control is just as complex. In fact, the auto-homologation formula is, in at least one respect, inferior to the homologation one, for profits are calculated as a percent of costs rather than of invested capital inciting cost inflation even more strongly. It is also not clear how the capacity utilization rate intervenes in cost estimates.

2.25 An important issue in pricing policy has been whether the auto-homologation regime is more inflationary than homologation. Inflation actually declined from about 14 percent in 1982 to 7 percent in 1983 (average from beginning to end), but this decline was mainly coincidental with the shift to auto-homologation, because the success of curtailing inflation was due to a tough policy of "voluntary" price controls and even rollbacks, mechanically imposed through the price regime by tougher review of price increase requests, more frequent questioning of costs, and in the case of public enterprises, informal delays in ratification. But inherently the cost-plus formulas have a tendency to generate inflation by inducing excessive direct costs and passing them on to other costs as intermediate inputs are used in other goods and as higher consumption prices trigger cost of living adjustments for wages.

2. Employment Promotion Difficulties

2.26 The persistent, growing unemployment problem has been the preoccupation of Tunisian authorities for over a decade. Three major policies were intended in the VIth Plan to achieve the employment creation objective. First, the investment program was to be restructured toward more labor-intensive sectors and within each sector, to more labor intensive projects. Second, relative factor costs were to be changed in favor of labor, although the Plan was rather vague about how this could be done. Third, the incentive system was to be revised to encourage employment creation activities.

2.27 So far, the main policy measure effectively adopted for this objective has concerned the industrial incentive system. Thus, the 1974 investment code to encourage industrial investment was modified to provide exemption from social charges and taxes, and subsidies for jobs created outside the already industrialized zones; a National Fund to Promote

Handicraft and Small Scale Industries was established; and a system of employment - training contract was instituted to help train the young graduates and facilitate their entry into the labor force. In 1984, the role and functions of this National Fund and the Employment Training Contract system are to be strengthened, together with the launching of a new rural development program, focusing on the creation of productive employment in dispersed rural areas. With regard to relative factor cost, some measures dealing with capital cost were taken, including a minimum tax on capital good import imposed in late 1983,4/ and the increase in the lending rates of the development banks (BDET).

2.28 The special report on employment (Ref. para. 1.3) has identified many factors responsible for the chronic unemployment especially that of the youth and for the persistent, rising capital intensity of the production process. The impact of these measures on employment has been minimal so far as the result after two years showed (see para. 3.26). The measures adopted are mostly administrative, which involved providing budgetary resources and setting up various funds to promote employment. Whether they have addressed the root cause of the unemployment problem is rather doubtful.

2.29 First, the labor market and labor management tend to protect existing employees at the expense of the unemployed and underemployed. This protection is reflected clearly in the determination of minimum wage rates and the establishment of collective bargaining process. To improve this situation, it is essential to strengthen the link between salary and productivity and to simplify bargaining procedures; in particular, the link between minimum wage and salary structure should be weakened; the adjustment procedures of the latter should be liberalized and decentralized, so as to allow individual enterprises to take into account their own financial situation. Second, the education and training system exclude a large number of young people and leave them with few alternatives other than being unemployed. Consequently, open unemployment in this group (between 15 and 24 year old) is very high, estimated at 21 percent in 1980. This requires fundamental reforms of the education and training system aimed at better equipping young people with technical skills required in the labor market. Third, the incentive system provided by the industrial investment law still favors capital and capital intensive investment, while insufficient incentives are provided to employment creation. The system also favors newly established enterprises and tends to discriminate against existing ones. It clearly needs to be simplified; bias against labor intensive investment needs to be removed, and financial advantages to be linked to number of jobs created rather than capital invested, while equipment imports must be further taxed to compensate for the over valuation of the Tunisian dinar. Fourth, the protection of domestic production resulting from the various control policies and tax system creates an imballanced effective protection structure which favors production of consumer goods versus intermediate, capital and exportable

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4/ Although this was part of an across-the-board import duty levied to compensate budgetary revenue shortfalls and not specifically to redress relative factor cost (para. 2.42).

goods. Fifth, technology transfers from abroad have not been adequately dealt with so that the setting up of potentially labor intensive industries is discouraged. A national strategy is recommended (see employment report) to a) facilitate technology imports b) promote development of local technology; c) develop small and medium-scale industries; and c) provide assistance to industrial management.

2.30 The most important policies to effectively create employment are wage and price policies. Wage policy directly affects labor costs, and in the context of Tunisia where interest rates have been not been used as policy instruments but have been constant 5/ for a number of years it has been one of the main factors affecting the profitability of the firms. From the employment creation point of view wage policy performance of the last two years has been disappointing. While the VIth Plan stipulated that the Government should change the minimum salary as a function of the cost of living and productivity, leaving social partners to determine the appropriate salary increase, both the actual minimum salary and average salaries increased substantially faster than the cost of living and productivity combined. The average annual salary in the central government, which in principle should set an example for the public sector wage policy, increased by 17 percent in the last two years, while wholesale and consumption prices rose by about 11.5 percent and by 15 percent (Table 2.2). Together with the additional employment created, this increased the Government wage bill by 70 percent in 1982-83 (See Statistical Annex). The minimum wage rate in industry increased by over 21 percent. These larger than productivity increases in wages have not only increased unit labor costs per se, but have also distorted relative factor costs in favor of capital, stimulating indirectly capital-intensive techniques (see Employment Report). In conclusion, wage policy was used not to promote more employment but to improve the standard of living of those who hold jobs in the modern sector, at the expense of a rising unemployed or underemployed population.

2.31 The Government can influence the economy's wage structures by a) setting appropriate rates for SMIG and SMAG (the guaranteed minimum legal wage in industry and agriculture); b) setting salaries in the Central Government; c) influencing salary negotiations in the public enterprises. Its power, however, has historically been limited by the Trade Unions pressure. In addition, moral persuasion and changes in the incentive system can be used effectively to influence wage growth, as can changes in wage negotiation procedures whereby bargaining at the sector and enterprise levels is emphasized to take into consideration labor productivity and financial prospects. It is, however, crucial to remember that 40 percent of the labor force are not covered by any formal or legal wage negotiations because they belong to the informal sector. 6/

5/ Except for medium-term and long term lending rates by development banks, but these rates are subject to many subsidization schemes through numerous special credit schemes (para. 2.40).

6/ The dichotomy with the modern sector can be confirmed by studying wage levels in the informal sector where wages are negotiated outside the legal system. In the corresponding annex of the Employment Report, it is shown that wages for unskilled workers are on average below SMIG.

Table 2.2: MINIMUM GUARANTEED WAGES, 1977-83
(Growth Rates in Percentage)

	VTH PLAN (1977-81)	VITH PLAN 1982-83
Annual Minimum Wage Rate in Agriculture (SMAG)	12.8	14.9
Annual Minimum Wage Rate in Industry (SMIG) 1/	11.6	21.2
Annual Salary in Administration	10.6	16.9
Wholesale Price Index	7.2	11.6
Productivity		1.2
For memo:		
Annual Salary (Total)	10.7	19.6
Total Wage Bill	-	24.0
Consumer Price Index	7.8	11.3
GDP - Constant prices	5.9	2.4
Current prices	16.6	14.9

1/ Weekly wage for 48 working hours; SMAG is an hourly wage.

Source: Documents published by I.E.Q, Ministry of Plan and in Statistiques Financières from Central Bank

2.32 Moreover, the limited employment stimulating measures adopted in the first two years of the VIth Plan were of an administrative nature, aiming mostly at the creation of various programs to generate employment. This approach could have been effective to stimulate employment by easing certain rigidities of the labor market such as the mismatch of skill requirement and availability, and regional disparities 7/ but the marked increase in labor costs made it largely ineffective.

3. Controlling External Deficit

2.33 Maintaining the balance of payments deficit at a sustainable level in spite of declining oil exports is a primary concern of the VIth Plan. This was to be achieved through export promotion rather than import controls, recognizing that the latter would interfere with domestic policy to foster competition and efficiency 8/. The Plan also recognizes that the

7/ These programs are also costly in budgetary transfers and this cannot be continued indefinitely in a situation of increasing budgetary deficits.
8/ See para 3.25 on the existence of overcapitalization phenomena in the Tunisian economy and the need for improving capacity utilization rates.

external debt has to be managed carefully and prudently while direct foreign investment is to be encouraged, especially in non-oil sectors. As mentioned briefly above (para. 2.4) the balance of payments situation has deteriorated markedly during the first years of the VIth Plan; and as discussed in some detail below (para. 3.3) the objectives of the Plan have not been met in this respect with the resouce gap in 1983 nearly 20 percent larger than planned inspite of the introduction of severe import controls.

2.34 These disappointing results, however, do not mean that Government has not taken a number of measures to improve external policies. Steps were introduced in 1982-83 to help promote the financing and marketing of exports and to simplify the complex administrative procedures in exporting. An export credit insurance scheme has been set up; the ceiling for prefinancing of export credits has increased from 10 to 20 percent; the law governing the establishment of export companies has been adopted; and the incentive system has been revised to further promote export oriented activities. In addition, administrative procedures have been simplified regarding the temporary admission of imports, the introduction of a duty drawback, and a generalization of the computerized custom procedure.9/ Since these policies focussed on institution building and on creating an environment conducive to exports, their impact on the target is not immediately quantifiable, but is expected to be positive in the long term. They are also fairly easy to implement.

2.35 The good performance of Tunisian manufacturing exports, especially those by off-shore establishments (which produce mainly labor-intensive products, especially textiles) confirms that Tunisia has comparative advantages in several areas. This is a result of an export policy which has provided a fairly adequate incentive scheme to exporters since 1972. Indeed, measures introduced in 1981 (Law 81-56) improved the incentive system by granting benefits to any enterprise with no minimum limit on the share of exports to total sales. The fact that total exports performance have done so poorly over the last two years can, partially, be attributed to external factors. It, however, demonstrates the slow adjustment of the economy to external shocks. Indeed the policy changes came late: it was not until 1983 and early 1984 that most of them were adopted. By then the situation had deteriorated to the point where introduction of the two main export promotion measures, i.e. improving the incentive law and strengthening institutions to promote exports, themselves a necessary condition, may not be sufficient to prevent a further decline in total exports. In effect, other obstacles to a fast export promotion remain to be dealt with (heavy protection of the local market, exchange rate policy and raising real wages).

9/ Export promotion issues were first reviewed extensively for the preparation of an export promotion loan with Bank participation (see Staff Appraisal Report). The overall adequacy of export policy strategy will be reviewed in the context of the upcoming Industrial Study.

2.36 Responding to the worsening balance of payments deficit the Government has tightened import control in the last few years. The list of capital goods allowed to be imported has been reduced; authorizations to import raw materials and semi-finished goods has been reduced (on account of excessive stocks); and imports of non-food consumption goods were controled more tightly. The minimum rate of import duty has been raised, in addition to the Special Compensation Tax, and the share of duty-free goods in total imports was reduced from 69 to 48 percent 10/. The import control measures appeared to be very *ad hoc* and inflexible; they need constant revisions to avoid aggravating an already distorted system of incentives and protection. Moreover, changes in the tariff system seemed to be a response to budgetary revenue needs (attached Annex) rather than to the objective of a simpler and uniform set of import taxes as envisaged by the Plan, in particular to reduce and harmonize differences in effective protection by product and by sector. Nonetheless, these measures had an immediate effect, and imports slowed down considerably in 1983.

2.37 The trends have markedly increased the role of the exchange rate in the promotion of exports and the slowing down of imports without using quota. Like for any adjustment policy, the dilemma facing the Tunisian authorities is that policies improving the balance of payments situation in the long term do not have immediate beneficial effects whereas those capable of achieving short-term gains may well create long term distortions to the efficiency of production and resource allocation. This dilemma was aggravated by the delay in policy implementation which led to an increasingly difficult situation, demanding urgent corrections. Thus, import control cannot address the root cause of rising imports; despite the rise in tariffs on non-food consumption goods, their imports increased twice as fast as overall imports during the last two years.11/

4. Domestic Resource Mobilization

2.38 Mobilizing more domestic savings (which means implicitly slowing down the growth of consumption) is fundamental to the VIth Plan strategy at a time when savings from hydrocarbon exports will decline and foreign investment which in the past were mainly linked to oil and gas activities might well decline as well. Policy instruments to mobilize savings include fiscal and monetary policy, financial policy, as well as administrative measures. A number of them were mentioned in the VIth Plan. To improve public savings, tax collection was to be strengthened; expenditures were to be controlled while price adjustments were expected to reduce subsidies to public enterprises and households. This would reduce both private consumption and budgetary expenditures. To promote savings of enterprises, efforts were to be made to create an environment conducive to enterprise growth and self saving; wage policy was to be linked to productivity,

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10/ IEQ, Working Paper No. EQ/NKA/820317.

11/ The role of the exchange rate is not analyzed in this report; aspects of it will be by the forthcoming industrial policy mission (para. 3.11 and footnot 2/).Cooperation with the IMF on studying the exchange rate policy is essential.

pricing policy was to help profit and thus self-financing capacity, and finally, the reforms of public enterprises were to be implemented. To stimulate household savings, measures were planned to diversify and strengthen savings collection and mobilization and to improve saving remuneration. The issues of public savings including public enterprises is examined in detail in an attached Annex; wage policy issue was reviewed above (para 2.30); and pricing policy is extensively reviewed in the second Volume of this Report. A special World Bank report on the financial sector deals with means and measures to mobilize more private savings (Ref. para. 1.3). In consequence, this section only reviews the broad thrust in policy reforms aimed at improving private savings mobilization and assessing public savings mobilization efforts.

2.39 Overall savings performance actually deteriorated in 1982-83 (Table 2.3). The percentage share of domestic savings in GDP declined from 24 percent in 1981 to 20 percent in 1983 and is projected to drop further in 1984. Savings by the Administration and enterprises (private and public) accounted for this decline while household savings showed a slight improvement perhaps due to the wage increase in 1982. The marked decline in enterprises'savings might well be the result of the several price restraints "voluntary" and others impose on them during these years (para. 2.25) which have reduced their profit margins, and, thus, their savings capacity. Deteriorated total savings, coupled with a buoyant investment rate, have widened the resource gap from 7 percent of GDP (in current prices) in the Vth Plan to over 9 percent in 1983.

<u>Table 2.3</u> : INVESTMENT AND SAVINGS STRUCTURE, 1977-83
(percentage of current GDP)

	Vth Plan (1977-81)	1981	1982	1983	1984 Prel.
Total Investment 1/	29.8	32.5	32.7	29.4	30.5
Total Domestic Savings	22.9	24.0	22.1	20.2	20.3
Resource Gap	6.9	8.5	10.6	9.2	10.2
Total National Savings	23.6	24.7	23.1	21.2	21.0
Administration	9.6	9.8	9.3	9.0	
Enterprises)	14.0 2/	8.2	7.1	5.0	
Households)		6.7	6.7	7.2	

1/ Including change in stocks
2/ Breakdown not available

Source: Statistical Annex and documents provided by the Ministry of Plan

a) Private Savings

2.40 The measures adopted in 1982-83 reflected the view that strengthening banks and financial institutions and attracting small and popular savings are the main instruments to mobilize savings. Deposit interest rates, in contrast, have remained the same since April 1981, but have increased somewhat in real terms due to declining inflation. The "saving for new project" formula has been extended and strengthened; new development banks have been created; capital subscription of some development and deposit banks has been increased; and profit tax reduced on subscribed capital. Furthermore, various fiscal incentives were given to saving schemes (savings accounts aimed at promoting investment and project, in particular for small entrepreneurs and artisans). The Finance Law in 1983 also introduced schemes to promote workers remittances from abroad.

2.41 The impact of those mostly administrative and institutional mesures on household savings is difficult to assess, because two years may be too short a period to measure behavioral changes. Furthermore, the period covered also included large wage and salary increases, which are likely to increase the propensity to save at least in the short term. A first impact can be gauged by the sustained increase in housing saving accounts (see the Financial Sector Report). Another impact of the adopted measures can be gauged by the flow of financial savings, roughly defined as quasi money (time deposits plus special saving accounts). These savings rose sharply in 1981 when interest rates were increased and declined in 1982 and 83, despite the sharp rise in wages and salaries in these two years. (Table 2.4). This strongly suggests that financial savings have been interest sensitive; this sensitivity is often underestimated by many Tunisian officials, who give more importance to the role of institution and information. Tunisia, however, already has a well-structured financial network and efforts now should aim more at discouraging the creation of additional financial institutions and reorganizing the sector to avoid a fragmented, incompetitive market.

Table 2.4: FINANCIAL SAVINGS 1980-83
(in TD million, at current prices)

	1980	1981	1982	1983
Financial Savings 1/	60.2	115.0	61.8	105.8
Financial Savings 2/ (w/o IFDCE)	63.2	109.1	54.7	98.9
National Savings	871.0	1029.0	1118.0	1160.0
Ratio of Financial Savings to Total	6.9	11.2	5.5	9.1
Ratio of Financial Savings to Total (w/o IFDCE)	7.3	10.6	4.9	8.5

1/ Defined as annual increases in quasi-money (time deposits, special savings, and financial institutions for medium- and long-term credit (IFDCE)

2/ Defined as in 1/, but without IFDCE

Source: Statistiques Financières, Central Bank of Tunisia

2.42 Recent policy measures also had a high degree of selectivity. Thus, the many funds created are aimed at a particular segment of the market, and none of them affect the economy as a whole. This approach may have been appropriate some time ago when the country was still in the early stage of development, but is now no longer very effective because the institutional build-up has reached a maturity stage so that further improvements would yield only limited results. This makes interest rate policies by far the most important policy instrument to attract household savings. As discussed in detail in the Financial Sector Report, medium and long term lending rates should be increased to reflect real resource costs and the rate structure simplified. Similarly, price policies have a profound impact to promote enterprises savings.

b) Public Sector Savings

2.43 Even assuming a substantial improvement in private savings, an improved public savings effort is crucial to achieve the Plan's macroeconomic objectives. This is a fortiori true as petroleum revenues, which in the past constituted the bulk of public savings, are at best going to be stagnant in the 80's. The Plan counts on increasing revenues through improving tax collection while expenditures are to be curbed by limiting growth in the wage bill and in subsidies. In addition, the Plan envisaged reforms in the fiscal structure to bring about greater equity among different income groups. The public sector's role in mobilizing domestic resources is examined in detail in an Annex, and the main conclusions are summarized below.

2.44 As mentioned before, the public finance situation deteriorated sharply in 1982 and 1983, with the Central Government consolidated budgetary deficit more than doubled from 2.5 percent of GDP in 1981 to 5.6 percent in 1983; it is projected to reach over 7 percent in 1984 (Table 2.5). This deterioration was due to rapid expenditure growth and the growing debt service payments due to the dollar appreciation vis-à-vis the Tunisian dinar.

Table 2.5: CENTRAL GOVERNMENT'S CONSOLIDATED BUDGET
RECENT TRENDS IN REVENUE AND EXPENDITURE 1976-86 1/
(As percentage of current GDP)

	1976	1981	1982	1983 (Preliminary)	1984 (Budget)
Total Revenue	28.1	32.3	34.5	34.6	35.5
of which Income Taxes	5.0	5.8	5.9	5.5	5.4
Indirect Taxes	14.9	16.2	17.2	18.6	18.0
Custom Duties	2.5	4.1	5.0	6.7	6.9
Oil Revenue Share 2/	N/A	4.9	6.2	5.1	4.4
Total Expenditure	31.3	34.8	39.6	40.2	43.1
of which Current	19.9	22.0	26.6	27.6	30.6
Wage Bill	8.9	8.5	10.5	10.9	10.3
Transfers & Subsidies	7.5	10.4	10.2	9.9	13.0
Interest on Debt	.9	1.6	2.0	2.1	2.3
Total Deficit	3.2	2.5	5.1	5.6	7.6

1/ For definition of the Central Government consolidated budget, see attached Annex; this definition uses the IMF concept.

2/ Transfer of the surplus on production account held by ETAP, the State Oil Company to the budget. Does not include other components of oil revenues such as profit tax, etc. which are included in tax revenue. For detailed oil revenues see Tunisia: Oil and Gas Policies. Report No. 4752-TUN.

Source: Annex Table 2.1

2.45 Government revenues. Budgetary revenues increased rapidly sizably faster than GDP, even though no significant fiscal measures were adopted in 1982 and direct oil revenues stagnated in relation to GDP (and actually declined in 1984); a substantive revision of income tax began only in 1983. Most income tax rates were reduced to gradually replace the current system, whereby income is subjected to both a schedular tax and a general tax, with a unique, progressive income tax. Concerning indirect taxes, the base of the production tax was extended, and excise taxes were modified. However, the Plan's objective to improve efficiency and consistency of custom duties had to be aborted due to the need for additional revenues. The Plan had stated explicitly that these duties should be considered a development tool and not merely a means of collecting taxes, and that effective protection must be analyzed carefully to minimize distortions. In March 1983, however, the need for additional revenues dictated an across-the-board increase in minimum tariff rate on imports (including equipment), although customs duty rebate for exports still remained; for equipment, only the previous duties are exempted. To improve fiscal control, more detailed tax declarations were introduced; fines are to be given to infraction, and penalty to fraudulent delays. Further modifications to the fiscal system are to be implemented in 1984. After the unsuccessful attempt to curb food subsidies, revenues were to be raised through taxes on alcohol, foreign travel, and luxurious products, and other fees. Minimum import tariff rates were increased again.

2.46 The above tax measures would have yielded much more significant results if they had addressed the root cause of the problem, recognized in the Plan as the tax fraud and evasion. First, they are too moderate and have only marginal impact on the tax system. Second, the tax reforms risk creating another layer of complexity because of their selectivity and numerous exemptions. Last, but most importantly, the reforms were implemented without accompanied measures to strengthen tax administration. As a result, revenue structure did not evolve as initially envisaged. Thus, although total fiscal revenues were slightly higher than the Plan target due to the increase in import duties, direct taxes were lower than target, both in absolute terms and relative to total fiscal revenues. An unexpected outcome of the tax reforms comes from their impact on income distribution. If this objective can be measured by the degree of regressivity, then it must have worsened due to the declining share of direct taxes.

2.47 One of the most serious shortcomings of the new measures concerns implementation. Without a much improved administrative machinery capable to collect taxes and enforce tax rules and without a strengthened tax record processing and stiffened penalty, the likelihood that fiscal reforms will eventually lead to an expanded tax base and an improvement in equity is remote. Another aspect is the numerous, minor changes each year that are likely to wash away the main thrust of policy reforms to those who actually carry them out. In this respect, a simplified, clear and preannounced multi-year tax reform package with a time schedule to be implemented is preferable to annual, small revisions of tax policy.

2.48 While on the revenue side, the adopted measures are positive albeit slow and insufficient, on the Government expenditure side, the recent creation of additional special accounts to channel subsidies and transfers shows the difficulty experienced in controlling their growth. The number of these accounts increased from 29 in 1981 to 37 in 1984, with expenditures more than doubled equivalent to 19 percent and 23 percent of current revenue respectively (Attached Annex). As a matter of fact, there were no substantive measure to curb expenditures in 1982 and 1983. At the end of 1983, when subsidy expenditure through the Price Stabilization Fund became too large (3 percent of GDP) the Government decided to double the price of cereal-based products which led to riots and a subsequent rescind of the decision.

2.49 This obvious lack of success on the expenditure side is all the more disturbing as the scope to increase public savings through curbing expenditures would appear greater, at least in the short term, than through raising revenues. Instead the declining trend in Government savings in 1982 and 1983 was caused by rapid expenditure growth (Annex Table 3). This trend cannot continue unchecked during the remainder of the VIth Plan, without seriously jeopardizing the country's financial position. Curbing expenditure growth therefore not only addresses the root cause of the problem, but also is the most effective instrument as far as the speed and the likelihood of affecting the target is concerned. This is because unlike revenue generating activity which yields uncertain outcome on savings depending on factors such as collection ability or elasticity of demand for the good, the reduction in current expenditures could take place in a reasonably short time, with certainty in outcome.

2.50 Considering that wages and transfers are the true main components of the Government's current budget, recent trends are disturbing. Between 1981-1983 the Government wage bill increased by 70 percent, reaching 40 percent of current expenditures in 1983 (Annex Table 8). The Government's leverage on wage contracts with civil servants cannot be underestimated. In this respect, the decision to freeze Administration wages in 1984 is a step in the right direction. Similarly, transfers and subsidies to consumers and to public enterprises channelled through special accounts have been growing rapidly since 1980, but it was not until the end of 1983 that action was taken. In 1984, expenditures on these accounts are expected to rise by 50 percent, half of which are due to expenditures on account of Price Stabilization Fund and the other half to public enterprises. The former is used primarily to subsidize cereals-based products, and the latter largely to compensate for foreign exchange losses in debt service payments.12/

2.51 Implementation of public enterprise reforms, crucial to the public sector savings, has been slow. It was not until the Spring of 1984 that detailed measures were approved by the Council of Ministers. By then, the financial situation of these enterprises has deteriorated markedly. Net losses of the 50 most important public enterprises have more than doubled.

5. Regional Development

2.52 In the area of regional development, efforts have stepped up to implement a program of actions.13/ Studies are carried out by the newly created Commissâriat Général au Développement Régional, some of them with World Bank's assistance. These studies should help to design more concrete regional development policies for implementation during the next VIIth Plan. In the meantime, efforts are made to promote the decentralization of industrial activities (with limited results up to now), and to redefine rural development programs by promoting coordination and participation at grassroot levels.

12/ These losses are financed by the Central Bank's reevaluation of foreign assets, which clearly is an one-time measure and cannot be repeated in 1985; this is going to make the financing of that year's deficit even more difficult.

13/ Regional development was not taken into account in the various preparation phases of the VIth Development Plan (see the 1983 Plan Review Report). Before finalizing Plan targets and investment program, the Administration carried out a rapid survey of the regional impact of the program; this led to minor adjustments in particular an increase in rural water investments.

III. PROSPECTS FOR 1985-86

A. REVISED GROWTH TARGETS.

3.1 Based on the growth scenario, used in the Bank's 1983 Plan Review report, revised projections were carried out at a fairly high level of aggregation, and the main purpose was to analyze the financing of intended investments for 1984-86 (para. 3.28) and the corresponding current account deficits. They assume: (a) that there will be no drastic changes in national resource endowments and in particular, no major discoveries of new oil and/or gas fields; (b) that exports will be the driving force for achieving a diversified structure and adequate performance of domestic supply; and (c) that a number of structural policy measures are implemented (active export promotion, careful external debt management, better control of domestic demand and imports, improved investment efficiency) which will have an impact on future economic developments. Because of the rather simplistic formulation of the model used, there was no possibility of introducing explicit policy variables, for example wages, exchange rate, relative factor cost and domestic prices. Implicitly, however, we assumed that these variables would follow a conservative set of assumptions: i.e. real wages would not increase faster than labor productivity; relative costs of production factors would not deteriorate further in favor of capital; real exchange rate would remain at appropriate level; and relative sectoral prices would remain unchanged.

3.2 Projections focus primarily on the 1984-86 period, i.e., the remainder of the VIth Plan. However, to demonstrate the full impact of short term actions on the long-term balance of payments situation and particularly on the foreign debt, the projections extend over eight years, i.e. the period 1984-1991 14/. For this purpose, three different scenarios have been calculated. As the original macroeconomic framework of the VIth Plan clearly has become unfeasible by now, it is no longer used for projections, but only to discuss actual achievements during 1982-83.

1. Scenario I presents the Planning Administration's intended growth strategy for the remainder of the Plan period. The figures represent an informal review 15/ of the macroeconomic Plan objectives at mid-term, taking into account recent trends and short term plans for investments as well as the worsened balance of payments situation and outlook. They foresee a substantially lower growth of GDP than the

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14/ At the time this report was prepared, 1984 was not sufficiently advanced to be considered as given. Therefore, the analysis considers only 1982 and 1983 as actuals.

15/ The figures used were discussed by the mission and agreed upon with the Planning Department. An official revision of the VIth Plan targets was not available at the time the mission visited Tunisia.

original Plan (4.4 versus 6.5 percent p.a.), a more realistic import elasticity, lower growth of consumption, a lower saving rate, but much higher investments with a correspondingly worsened ICOR and a much larger resource gap. A longer term projection of such trends, as carried out in this report, shows clearly that this scenario is not sustainable but would lead to an unmanageable foreign debt burden well before the end of the 1980s.

2. Scenario II represents this report's best assessment of likely future trends, assuming that Government makes a number of important policy changes without undue delays. While some of these are difficult to implement in the present political and social context it is not unrealistic to expect them to be implemented, particularly as Government is in general agreement with most of these changes. The projections hinge critically on two points : (a) a rapid increase in exports (about 5.5 percent p.a) inspite of declining petroleum exports. This presupposes an improvement in Tunisia's competitive situation in the world market (wage policies, exchange rate policies), pursuance of an active export promotion policy, a slow down in the growth of domestic demand, etc; (b) an immediate, substantial reduction in the investment rate, accompanied by a marked improvement in the investment efficiency (lower ICOR). The overall growth rate of GDP would be about the same as in Scenario I, but imports would be lower because of less investments, but also as a result of either an exchange rate adjustment on continuous import controls. This scenario is sustainable until 1990 and beyond.

3. Scenario III has been prepared to demonstrate the impact of a much lower export performance on overall economic growth. While scenario II concludes that an overall economic growth rate as proposed in the revised Plan scenario (Scenario I) can be achieved if a number of difficult policy changes are implemented, Scenario III concludes that GDP growth would have to be curtailed substantially (as would investments) if the export objectives are not attained because the necessary policy changes were not implemented on time.

1. The Need for Controlling Foreign Resources

3.3 Potential for exports (Table 3.1). The main objective of the revised growth targets for 1984-86 and beyond is to control the deficits of the balance of payments and of the central budget, which both have aggravated since 1981. In that context, growth of domestic demand will have to be increasingly constrained, and therefore, the main engine for future growth should increasingly shift to exports. In 1983, exports of goods and non-factor services (GNFS) fell short of Plan objectives by 10 percent in current prices and 15 percent in volume. In 1980 prices, GNFS exports in 1983 were the same as in 1980.

3.4 With an active export promotion policy (Senarios I and II) growth potential of total GNFS exports in constant prices was estimated at about 5.5 percent per annum for 1984-91, somewhat less before 1986, somewhat more thereafter (Table 3.1). This compares to an actual decline of 1.7 percent

TABLE 3.1: EXPORT PERFORMANCE: 1983-86

	Level in TD Current Million				Annual Growth in % in 1980 Prices		
	1983		1986		1982-83	1984-86 Scenarios 2/	
	Forecast	Actual	Forecast	Projected	Actual	I & II	III
Total GNFS Exports	2,145	1,935	3,010	2,890	-1.7	5.3	4.0
Non factor services	(690)	(645)	(1050)	(950)	-3.1	5.3	5.0
Tourism	389	350	595	500	-9.1	5.3	5.0
Others 1/	301	295	455	450	3.8	5.0	5.0
Goods	(1,455)	(1,290)	(1,960)	(1,940)	-1.1	5.2	3.5
Petroleum	677	537	600	550	-10.6	-5.0	-5.0
Others	(778)	(753)	(1,360)	(1,390)	7.3	10.7	8.2
Agricultural based	149	95	253	210	-19.4	13.0	10.0
Phosphate based	232	259	342	430	19.0	9.5	5.5
Textiles	280	270	467	440	6.7	9.0	8.0
Non Traditional	117	129	298	310	4.4	15.0	10.0

1/ Excluding gas royalties included in factor services.
2/ The three projection scenarios are defined in para. 3.2.

Source: Mission estimates.

for 1982-83 but a 7.7 percent growth for 1977-81. Exports in constant prices recently declined for three main categories of goods and services: petroleum products for lack of domestic supply, reflecting long term trend; agricultural-based products also for lack of domestic supply due to the poor production performance of this sector during the drought years; and tourism caused in part by EEC recession. Even in the categories showing positive growth rates, performance remained moderate except for phosphate-based products for which, in spite of low world prices Tunisia maintained its market position (but with rapid deterioration in the financial results of the companies involved, also handicapped by the low quality of domestic phosphate rock). Non-traditional exports (shown as a residual in Table 3.1) did increase faster than forecast, but they still represent less than 10 percent of exports of goods; this is a promising performance considering the actual depressed world markets, but clearly insufficient to bring about a sustained rebound of total exports.

3.5 The actual export structure makes it difficult to obtain a high growth rate of total GNFS exports, except if export promotion is targeted at a rapid expansion of non-traditional exports, and exchange rates became more competitive. An objective of about 5.5 percent p.a. would require at least 10 to 11 percent p.a. growth for all non-oil exports and 15 percent p.a. for non-traditional products to compensate for the declining volume of oil exports and the limited growth prospects for tourism and phosphate-based products. The agricultural sector remains too uncertain in its performance to be a reliable source of increasing exports; the projected 15 percent growth reflects more a catching-up after recent decreases than an improved long term potential. Concerning textiles, many experts consider that with adequate wage and foreign exchange policies and better marketing promotion, Tunisia could continue to expand its sales abroad, but given the difficult EEC market prospects an 8 to 9 percent average annual growth may well be the maximum that can be expected and only if quotas and tariffs are changed. Tourism prospects also are difficult to assess. To counterbalance the depressed demand from European countries, a successful diversification towards Arab demand has developed since 1981. It is too early to estimate the resulting growth potential but, more generally, tourism could be developed only if quality of services is improved and attractive packages and competitive tariffs are maintained.16/ Tourism like all sectors will face the same constraints to keep production competitive in spite of fastly increasing labor costs (para. 3.50), and the low productivity of existing firms (para. 3.25) except offshore ventures. In fact these objectives illustrate the projected export potential that could result from making labor costs more competitive against Tunisia's

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16/ With the diversification of tourists' geographical origin, the type of tourism has changed. For example, the number of nights in hotels is not a reliable indicator anymore because Arab tourists use local housing more extensively by either renting or buying them. Also, this clientele might look for a more luxury kind of accommodation including luxurious tourist centers combining hotel and restaurant services and entertainment. Projects for building several of these centers are in progress, financed by direct foreign investments from Arab Gulf countries (para. 3.12).

main competitors. This will require careful wage and foreign exchange policies. Over the 1980-83 period, the IMF noted that the real exchange rate had a tendency to appreciate while labor costs increased very rapidly. In contrast with this voluntary strategy (Scenarios I and II), Scenario III analyses the impact of a less successful export promotion (4-4.5 percent p.a. for 1984-91).

3.6 External resource deficits. In 1982 and 1983, in spite of low overall economic growth, and substantial import restrictions, both resource gap and current accounts deficits exceeded their targets, reflecting a structural weakness in the economy 17/. In the past, this weakness was neutralized by the net foreign exchange surplus of the oil sector, a sizeable one compared to the current account deficits reached in the seventies. The projected levelling-off of domestic crude oil production will change this situation. Table 3.2 gives a broad structure of the resource gap and the preliminary prospects for 1986 and 1991. Under Scenario I (i.e., the revised Plan targets up to 1986, followed by five years of a rapidly declining investment rate), the already high 1983 resource gap would jump up another 34 percent (in current terms) within three years and decline only slightly between 1986 and 1991. As indicated in Table 3.6, it would exceed 10 percent of GDP on average in 1984/86 and still reach nearly 7 percent by 1990/91; and this in spite of rather optimistic export growth assumptions. Scenario II (assuming the same export performace but much lower investments, a reduced elasticity to import, and, thus, 6 percent lower imports in 1983/86 and 10 percent lower in 1990/91) indicates an almost static income gap (in current terms) over the entire period, i.e., a substantial decline relative to GDP from 12.5 percent actual in 1982/83 to 8.7 percent in 1984/86 and 3.9 percent in 1990/91. This is a sustainable scenario, but one that requires an immediate reduction in investments and a much lower growth of imports than during the Vth Plan; this can be achieved either by continuation of stringent import controls or a devaluation. If Tunisia were unable to achieve the export growth projected under Scenarios I and II, a sharp reduction in investments as well as in the overall economic growth rate (Scenario III) would become inevitable so as to keep the resource gap from becoming unmanageable. This is particularly so, because net factor services should become negative after 1986 for the first time since at least 1979. This results from mediocre prospects on the revenue side. Factor income revenue mainly comes from workers' remittances (an average 73 percent of total factor revenue in 1982-83); their prospects are gloomy in Europe and not too promising in the Arabian peninsula or Libya. 18/

17/ Tunisia is particularly vulnerable to external shocks because of the high importance of external trade relative to GDP. Compared to average middle-income country groups, exports and imports to GDP in Tunisia were 13 percent and 22 percent higher in 1982 (1984 World Report).

18/ Following the economic recession in the EEC countries and increasing restriction on migration, the Tunisian Government tried to develop migration with the Arab countries. Lybia was already a large demander of unskilled labor, but the others are looking for highly qualified workers, often in shortage in Tunisia. Also Tunisian labor force usually cannot compete with an Asian labor force with lower wage expectation.

3.7 Direct Foreign Investments. Considering the difficult balance of payments prospects, the inflow of foreign direct investment should be promoted strongly . For the 82-83 period, net direct investments from abroad were higher than foreseen mainly because oil field exploration remained quite active (TD 337 million invested in 1982-83 compared to TD 242 million forecast). Participations in other economic activities (tourism, manufacturing) remained much lower than forecast (TD 41 million compared to TD 63 million), while participations in banking equities was only slightly lower (TD 59 million compared to a forecast of TD 65 million). This latter inflow of foreign capital was achieved through the creation of several new development banks with foreign partnership, mainly from Arab Gulf countries. Prospects for maintaining these inflows will depend on more systematic efforts to diversify these flows because ventures in the hydrocarbon sector will at best be maintained at actual levels (if development of a large new field is excluded, para. 3.14). The new development banks and the policy of promoting exports will be instrumental in this endeavour. Joint ventures could be promoted, in particular to develop medium scale enterprises with new technology and know-how transfer.

3.8 External Borrowing Prospects. Lending terms for loans guaranteed by government 19/ were on average in 1983: 8.3 percent of interest, 14.2 years of maturity of which 4.6 of grace. As a result, most of the borrowing decided during the VIth Plan will have its full impact on the balance of payments after 1986. Therefore, it is crucial to monitor the external debt structure to avoid any delayed but unmanageable jumps in the external debt service in the medium-term, a well-known phenomena in many borrowing countries. Projections show that the external debt service after 1986 could become a serious problem; in fact, the longer term impact on the balance of payments of foreign borrowing during the next few years is one of the most important factors limiting Tunisia's economic growth over the next years. In consequence debt monitoring ought to be strengthened and future commitments carefully checked.

3.9 In assessing the growth potential for the 84-86 period (para 3.13), the mission took into consideration the long term impact of the projected borrowing, in particular to reflect Tunisia's traditional caution to avoid borrowing on non-concessional terms and/or outside ODA lenders. This in fact is one main reason why import controls were used extensively in 1982 and 1983 (see para. 2.36). Compared to middle income countries (see the 1984 World Report), Tunisia had an external debt and debt service significantly higher

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19/ External borrowing without Government's guarantee is assumed to be negligible in Tunisia, where all foreign loans have to be approved by the Central Bank. The quasi totality of official foreign borrowing is done by public institutions or enterprises. The impact of direct relations between offshore firms and foreign banks, however, is not well documented.

relative to GNP and lower relative to exports.20/ Assuming that the liberalization process defined earlier is taking place, a set of rules should define the borrowing constraints to be respected after 1986 in order to reflect the already high level of indebtedness relative to GDP and to maintain the excellent credit rating enjoyed by Tunisia with the international financial community after 1986. In this report these constraints were to limit total external debt outstanding to about 50 percent of GDP and total new commitments in 1991 not to exceed $2 billion (equivalent to TD 1.4 billion in current prices).

3.10 There is an extreme sensitivity of the external debt situation in 1990/91 to the growth trends of the 1984-86 period and the balance of payments situation in 1986. The three scenarios illustrate how difficult it will be to control external indebtedness and to mobilize the amount of new foreign loans required if the country reaches a too high current account deficit in 1986. For example in Scenario I the current account deficits in 1986 would reach 10 percent of GDP (Table 3.3); even by cutting GDP growth to 4 percent p.a. on average from 1987 to 1991 and reducing the investment rate drastically from 29 percent in 1984/86 to 21 percent in 1990/91 to reach a current account deficit of less than 7 percent of GDP by 1991, total external debt outstanding will exceed 50 percent of GDP at this time. In Scenario II, in which the current account deficit in 1986 is reduced to 8.7 percent of GDP only, it should be possible to control long term foreign indebtedness without cutting the investment rate below 21 percent after 1986. Another constraint that makes Scenario I financially unviable is the requirement for Tunisia to mobilize an annual amount of loan commitments equivalent to $1.5 billion in 1985/86. Tunisia borrowed $.5 billion on average for 1980-83. Scenario II would reduce the borrowing needs to an already high $1.2 billion.

3.11 Given these serious long term balance of payments constraints, projections in scenario I confirmed the need for lower growth objectives for 1985-86 than initially projected because of the performances that could be

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20/ In the 1984 World Atlas, external indebtedness structure is as follows:

		Middle Income countries max	Middle Income countries min	Tunisia 1982
Debt outstanding and disbursed/GNP		23.7	27.2	42.2
Debt Service payments/GNP		4.8	3.7	5.9
Debt Service payments/GS exports		19.7	15.9	15.1
Terms	interest	12.3	9.8	7.7
	maturity	16	11	18
	grace	4	4	4
(p.m. GNFS exports on GDP)		24	20	37

Table 3.2: RESOURCE GAP STRUCTURE, 1980-91
(in TD million)

	1980	Current Prices								1980 Prices							
	Actual	1983		1986			1991			1983		1986			1991		
		Plan	Actuals	Scenario			Scenario			Plan	Actuals	Scenario			Scenario		
				I	II	III	I	II	III			I	II	III	I	II	III
Exports GNFS																	
Energy	546	677	580	548	548	548	867	867	867	476	404	336	336	336	323	323	323
Others	879	468	1,355	2341	2341	2227	4910	4910	4436	1198	1021	1317	1317	1255	1857	1857	1681
Total	1425	2145	1935	2889	2889	2775	5777	5777	5303	1674	1425	1653	1653	1591	2180	2180	2004
Imports GNFS																	
Energy	324	474	255	350	350	345	879	879	826	332	193	209	209	205	303	303	284
Others	1291	2086	2185	3311	3088	3707	5631	5208	5180	1571	1633	1827	1778	1789	2254	2082	2068
Total	1615	2560	2440	3661	3438	3452	6510	6087	6006	1903	1826	2036	1987	1994	2557	2385	2352
Resource Gap	-190	-415	-505	-772	-549	-677	-733	-310	-703	-229	-399	-383	-334	-403	-377	-205	-348
(Energy supplies)	(126)	(203)	(325)	(198)	(198)	(203)	(-12)	(-12)	(41)	(144)	(211)	(127)	(127)	(131)	(20)	(20)	(39)
Price Indices (1981=100)																	
Export GNFS		128.1	135.6			157.4			174.7								
Non-energy exports		122.5	132.7			147.7			176.2								
Imports GNFS		134.5	133.6			169.2			173.2								
Non-energy imports		132.8	133.8			159.7			173.5								
Terms of Trade																	
GNFS		95.2	101.5			93.0			109.9								
non-energy exports		92.3	99.2			92.5			101.5								

Source: Mission Estimates

achieved by the Tunisian economy if a liberalization process is engaged without, however, significantly restricting domestic demand expansion. Implicitly, economic performance of the kind projected in scenario II would require a special action program including an appropriate exchange rate 21/ to compensate for recent labor cost increases and subsequent losses in competitiveness. Scenario II, however, illustrates the need for close coordination between the policy measures to be implemented: export promotion will not be sufficient without a revised investment program to improve productivity and lower imports. Scenario III illustrates the need for further reduction of both GDP growth and investment level if export promotion cannot enhance the same performance as expected in order to keep the external debt manageable after 1986.

3.12 Foreign borrowing policies are becoming critical. To remain a creditworthy country, the following factors which should influence future borrowing policies have to be considered:

- in the present conditions of financial markets, Tunisia can obtain favorable credit terms and it should take advantage of them. There is, however, a danger that the long term consequence on debt servicing be underestimated because of long grace periods.22/

- given the present large investment program in the public sector and the budgetary difficulties, there is a risk that public enterprise managers try to finance a large share of their investments with soft-term foreign borrowing presently available, without much concern on long term debt servicing constraints.

- the present administrative set up for managing Tunisia external debt is weak. Debt management is not considered an important factor in supervising government-guaranteed borrowers. Furthermore, debt recording lacks of accuracy and is often late.

Beside strengthening debt management, which should be an easy task to achieve in view of the quality of the Tunisian Administration, a regular and systematic assessment of long term implications of actual and future borrowing

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21/ The Tunisian currency shows all the signs of an overvalued exchange rate (increasing resource gaps, import quotas, restrictions on foreign transactions, small black markets on foreign currencies). The need for adjusting the exchange rate is a difficult issue and the impact on the economy, controversial. A devaluation could benefit exports but could trigger a price-wage increase which could be difficult to control and could rapidly neutralize the benefits of the devaluation. The mission could not address this issue but recommends that it be thoroughly studied promptly, in particular in the forthcoming industrial policy mission.

22/ It is also important to realize that a low debt service ratio to GS exports is slightly misleading because exports represent such a large share of economic resources (37 percent in 1983 compared to 24 percent on average for middle income countries, see 1984 World Report). The ratio of external debt outstanding to GDP is a much more reliable indicator.

Table 3.3: EXTERNAL DEBT STRUCTURE, 1981-1991
(in millions of current dinars)

	1981 Actuals	1983 Actuals	1986 Scenarios 1/ I	II	III	1991 Scenarios I	II	III
pm. GDP (at market prices)	4135	5460	7860	7860	7740	14010	14010	13170
Exports GS	1967	2220	3290	3290	3177	6416	6416	5944
Energy Imports	(369)	(255)	(350)	(350)	(345)	(880)	(880)	(825)
Current Account Deficit	317	480	747	537	631	810	206	734
Total guaranteed debt, outstanding, disbursed	1593	2475	4142	3796	4000	6829	5330	6614
Commitments	n.a.	613	1044	831	884	2033	1186	1581
concessional		270	330	330	330	310	310	310
nonconcessional		343	714	501	534	1723	876	1271
Disbursements	298	500	1000	790	824	1573	982	1316
Debt Service	267	360	629	611	566	1341	858	1162
of which interest	(104)	(141)	(229)	(211)	(208)	(436)	(286)	(331)
Lending terms (average)	n.a.							
Interest (%)		8.3	8.9	7.9	8.0	9.5	7.8	8.4
Maturity (years)		14.2	12.4	14.3	14.0	10.6	13.4	12.9
Grace Period (years)		4.6	3.9	4.4	4.4	3.6	4.3	4.1
pm. World Inflation		(11.3)	(9.0)	(9.0)	(9.0)	(6.0)	(6.0)	(6.0)
In % of GDP								
Total Outstanding	38.5	45.3	52.6	48.2	51.6	48.7	38.0	50.2
Current Account Deficit	7.6	8.7	9.5	6.8	8.1	5.7	1.5	5.5
In % of Exports Net								
Disbursements	18.6	25.3	34.0	26.8	30.1	28.4	17.7	25.7
Debt Service	16.7	18.2	21.3	20.7	20.7	24.2	15.5	22.6

1/ Net of energy imports

Source: Estimates based on Planning Department's information up to 1983 and mission projections thereafter should be provided to the Government. This report recommends that a mandatory ceiling on new foreign borrowings be included in each future economic budget. This ceiling should be backed up by long-term macroeconomic projections to help the Government monitor the country's creditworthiness, a major objective of the ongoing Plan.

2. Targets for a Viable Growth Scenario

3.13 Potential for domestic production: The report does not examine sectorial prospects in detail except for the petroleum sector for which a comprehensive sectorial model is available.23/ The prospects are based on a brief review of the Planning Department's suggested sectoral growth rates for 1984-86, mainly to check their consistency with export potential (Table 3.4). As mentioned above, external constraints (Table 3.3) are considered the binding constraints on domestic growth; among others, it helps calibrate the maximum import growth allowed. This consistency test convinced the mission that a growth of domestic production exceeding 4 to 4.5 percent p.a would not be sustainable in the longer term. For agriculture, it considers that internal factors will limit potential growth below the Planning Department's revised targets. Compared to initial Plan projections, the report proposes to reduce the growth rate from 6 percent to 3.5 percent p.a. between 1984 and 1986; this puts agricultural value added in 1986 at the same level as the exceptional one achieved in 1981. While this projection looks somewhat pessimistic, it reflects the several obstacles for sustained growth identified in the VIth Plan document. These include: comparatively low producer prices, which are a disincentive for rainfed crops in particular 24/; sensitivity to weather conditions; insufficient capacity utilization in some irrigated zones and large rainfed farms; low use of credits; weak integration between research, extension work and farming; and poor marketing network either for inputs or outputs. These obstacles can be overcome only with time, and a strong political will is necessary considering the strong social opposition in both rural and urban groups against changes in prices and income distribution. Such policy changes, nevertheless, were one of the main objectives of the VIth Plan, but so far have not been pursued in a very determined way (except for increase in producer prices). For the other sectors (except for agriculture and hydrocarbons) growth rates have not been adjusted in Scenarios I and II (with similar rates for 1985-86) but further reduced in Scenario III (Table 3.4).

23/ For details on this model and sectoral issues of the hydrocarbon sector, see the Bank special economic report, "Tunisia, a Macroeconomic Analysis of Oil and Gas Policies, No. 4752-TUN, dated January 1984.

24/ As explained in Annex II of the Second Volume, agricultural producer prices were increased close to world prices for the 1981-83 period. But because of a higher effective protection on industrial products, agricultural production still remains penalized compared to industrial one.

Table 3.4: DOMESTIC PRODUCTION - SECTORAL GROWTH
(average annual growth of value added at factor cost
in 1980 prices)

	1977-81	1982-83		1984-1986	
	Actual	Planned	Actual	Projected	
				Scenarios I and II	Scenario III
Agriculture	1.2	4.5	-5.1	3.5	3.5
(Non manufacturing)	(7.8)	(3.0)	(2.5)	(-0.4)	(-1.3)
petroleum	7.9	1.0	1.3	-3.9	-3.9
public utilities	8.5	1.8	10.1	6.1	5.4
construction	7.1	4.9	1.6	0.6	-1.3
(Manufacturing)	9.9	10.4	6.0	(8.5)	(7.9)
food industries	3.8	8.0	-2.2	6.0	6.0
construction materials	20.7	14.1	8.4	9.9	8.2
mechanical/electrical	14.9	13.2	9.7	11.9	11.0
chemicals	17.0	4.1	7.4	7.6	7.6
textiles	6.5	8.7	6.0	7.0	6.5
others	11.6	14.0	12.6	7.9	7.3
(Non-admin. Services)	(6.4)	(6.7)	(5.1)	(5.0)	(4.1)
transport	7.8	11.7	6.0	6.2	5.5
tourism	6.9	5.1	-9.8	5.3	3.0
Administration	5.4	7.8	5.3	4.3	4.0
GDP at factor cost	6.0	6.2	2.2	4.1	3.6

REMARKS: Scenario I reflects the growth prospects suggested by the Planning officials. Scenario II reflects the mission's view of the most likely events if [illegible] reforms are implemented in time as in Scenario I; Scenario III reflects the mission's suggestions to decrease these growth targets if export performance is less than anticipated (para. 3.2).

Source: Statistical Annex and Mission Projections

3.14 The hydrocarbon sector has helped Tunisia achieve a remarkable growth performance in the 70's; it is also the one that will impose stringent constraints on output growth and on financial equilibrium in the 80's. In 1983, net exports of energy products exceeded 19 percent of GNFS exports and 68 percent of the current account deficit (Table 3.5), compared to 21 and 87 percent respectively in 1981. Net oil revenues accruing to the central budget were equivalent to 15 percent of total budgetary resources (see Annex). The main characteristics of future growth assumed in our projections are as follows:

- domestic production of about 5.1 million toe in 1986, declining gradually to 4.9 million toe in 1991

- no opening of major gas field before 1986; this will limit domestic supply of gas to 800 million toe p.a. (including royalty gas from the Algerian-Italian pipeline).25/

- a pricing policy of adjusting domestic tariffs to world-level equivalent either at the intermediate or final consumer level before 1986.26/ This would allow the central budget to maintain its net oil revenues at their actual level relative to total revenues, and thus to domestic savings by eliminating the subsidies presently channeled through domestic energy pricing policy.27/

In conclusion, the squeeze on economic growth exercised by the declining oil production could be alleviated by strict policy measures to insure the optimal use of production and revenues.

25/ This report did not address the difficult issue of the optimal timing for the highly expensive schemes to open off-shore gaz fields. Our projections assume that no output from these gaz fields will be available for the period under consideration. (84-91)

26/ In 1983, such an adjustment would have required a price increase of 40 percent for fuel oil.

27/ Projections showed a constant level of net resources to GDP in current terms, which reflects the fact that the decrease in domestic production is compensated by the price assumption made by the World Bank that crude oil prices will increase in relative real terms by 2.5 percent p.a. on average after 1986.

Table 3.5: HYDROCARBON SECTOR - 1981-91

	1981	1983	Projections 1/ 1986	1991
Domestic Production ('000 toe)				
crude oil	5,410	5,560	5,100	4,900
(of which new fields)	(180)	(210)	(480)	(2,210)
Refined products 2/	1,511	1,430	1,500	1,500
Natural Gas 3/	390	525	800	800
Domestic Consumption of Products ('000 toe)	2,800	2,875	3,130	3,900
External Trade				
Quantities - exports of crude	4,980	4,030	3,550	3,350
('000toe) - imports of crude	1,090	-	-	
imports of ref. prod.	518	1,581	1,580	2,350
Current Value - exports	646	580	548	867
(DT million) - imports	369	255	350	879
- balance	277	325	198	-12
(in % of GNFS exports net of energy imports)	(20.5)	(19.3)	(17.7)	(-.3)
Performance Growth (% p.a.)				
production (incl gas) 5/	-	1.4	-1.0	-.8
consumption	-	1.3	5.0	4.5
(elasticity to GDP)	-	0.6 6/	1.2	1.1

1/ Based on Scenario II (Table 3.6)
2/ The second refinery is postponed beyond 1991
3/ Including royalty gas from the Algeria-Italian pipe line and no new major fields
4/ Assuming domestic prices adjusted to world prices by 1986
5/ Annual growth rates estimated for the 1982-83, 1984-86, and 1987-91 periods respectively.
6/ This elasticity reflects changes in storage policy caused by the shift from imported to domestic crude oil for refining purposes.

Source: Mission estimates based on a sectoral model (Ref. para 2.16)

3.15 The above targets for export and domestic production were used by the Planning Department in the preparation of Scenario I, i.e., the revised Plan scenario for 1984-86. The main characteristics of this scenario are as follows: (Scenario I in Table 3.6):

- an increase in the growth rate for exports compared with recent performance, but dependent on an efficient export promotion program (para 3.3);

- a lower growth rate for GDP (about 4.4 percent p.a. compared to the original Plan forecast of 6.5 percent);

- a high investment rate during 1984-86 (29% as compared to the original Plan target of 23%), which is to be reduced thereafter;

- an extremely low investment productivity for 1984-86 caused by the projected high investment program, and its sectoral allocation reflecting the main investors' intentions (see para. 3.28). Productivity would improved markedly during 1987-91;

- a reduced elasticity to consume compared to recent trends which results in a lower elasticity of imports to GDP and only a marginal decline in the savings rate.

- a much larger resource gap in 1986 than originally forecast by the Plan (10.2% versus 3.5%), in particular if related to GDP; also savings performance remains lower related to gross investments.

In spite of a marked reduction in GDP growth compared to the original Plan targets , most of the macroeconomic adjustment objectives of the VIth Plan are not being achieved in Scenario I; in particular the high investment rate causes a resource gap much too large to be sustainable in the long term (para. 3.10).28/ Therefore, it is recommended to streamline and reduce the intended investment program (scenario II). This reduction could have a minimum impact on production and employment by a more rigorous selection of projects, in particular, in the public sector (see para. 3.23).

3.16 In addition, Scenario I illustrates the short-term consequences of implementing the liberalization policies advocated by the VIth Plan as a means to guarantee sustained long-term economic growth, i.e., a general reduction in import controls and in the high effective protection. This is one of the reasons for the projected high import elasticity in Scenario I. Because of the delays in implementing specific policy measures, the margin

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28/ As in the 1983 Plan Review Report, our projections differ from those suggested by the Planning Department, mainly for import elasticity to GDP. For example, this report projects an elasticity of 1.14 for 1984-86 (Scenario I) compared to 0.6 suggested by the Planning Department.

Table 3.6: NATIONAL ACCOUNTS STRUCTURE, 1977-91
(based on projection in 1980 prices)

Indicators	1977-81	1982-83		Average 1984-86			Average 1987-91		
	Actual	Forecast	Actual	Mission Scenarios			Mission Scenarios		
				I	II	III	I	II	III
Annual growth rate GDP	6.1	6.1	2.4	4.4	4.4	4.0	4.0	4.0	3.0
Exports	7.7	7.3	-1.5	5.3	5.3	4.0	5.7	5.7	4.7
Ratios									
ICOR 1/	5.03	3.93	6.46	7.36	6.66	6.53	6.17	5.94	
Elasticity to import 2/	1.86	0.69	-0.48	1.14	0.65	0.77	.97	.94	1.12
Elasticity to consume 3/	1.25	0.93	1.88	0.86	1.09	1.45	1.34	1.00	.92
							(average 1990/91)		
In percent of GDP									
Fixed investments	28.6	27.3	32.3	29.0	26.4	25.5	21.3	21.3	22.0
Change in stocks	1.0	-	-0.1	0.4	0.4	0.4	.7	.7	.5
Domestic savings	24.2	20.5	19.7	19.2	18.1	16.7	15.1	18.0	15.6
Resource gap	5.4	6.8	10.4	10.2	8.7	9.2	6.9	3.9	6.9

1/ Ratio of cumulated fixed investments over GDP at factor cost increase with one-year time lag.
2/ Ratio of growth rates of imports and GDP
3/ Ratio of growth rates of household consumption and GDP

Source: Statistical Annex and mission estimates.

of maneuver is now drastically reduced.29/ Scenario I clearly shows that a large investment program and a sustained GDP growth close to 4.5 p.a. would require stringent controls on domestic demand and most probably on imports to prevent a current account deficit in 1986 of 10 to 11 percent of GDP; this is not sustainable in the long run.

3.17 Scenario II takes account of the serious balance of payments bottleneck made apparent by Scenario I. It proposes an immediate major reduction in the investment program, with the investment rate declining from the high 32.3 percent of GDP achieved in 1982-83 to 26.4 percent in 1984-86 and 21.3 percent in 1990/91. This reduction would have to be accomplished by measures to prevent a further marked decline in the efficiency of investments in 1984-86 and a substantial improvement thereafter, so that the same overall growth of GDP could be attained as in Scenario I with a lower investment program. Price policy, which is fully addressed in Volume II of this report, is essential to bring about an improvement in investment efficiency. A second major policy change necessary to achieve Scenario II concerns the management of domestic consumption and of imports; the future growh of both these factors has to be slowed down considerably below past trends. A number of concrete policy measures to achieve these objectives are discussed in the latter parts of this report. To slow down growth of private consumption, more cautious wage and salary policies are necessary. To slow down growth of public consumption, reduced subsidies, slower growth of civil servants' salaries and reduced public enterprise deficits are important. Import elasticities have to be maintained around one through a combination of reducing domestic demand (see above), maintaining stringent import controls and/or a devaluation. Finally, domestic price distortions should be corrected.

3.18 Major improvements on all these fronts are essential to achieve Scenario II. Even so, the debt service ratio is likely to exceed 20 percent by 1986 and decline only gradually to about 15-16 percent by 1991. Thus, any major deviations from the above targets concerning the growth of exports, investment, domestic consumption and imports, would very rapidly lead to unmanageble balance of payments difficulties. This would almost certainly require a sizable reduction in the overall economic growth rate with corresponding effects on employment. This is demonstrated in Scenario III.

3.19 Scenario III projections illustrate the impact of less favorable performance for export promotion, either because labor cost are growing faster than productivity or institutional (and political) bottlenecks are weakening the impact of the incentive system. To help reduce the growth of imports and of the current account deficits and thus, maintain the long-term creditworthiness of the country, in spite of lower exports it is necessary

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29/ Two key signals to confirm this reduced margin: current accounts deficits (para. 3.6) and Central Government consolidated budget deficits (see Annex), which are both much higher in 1983 than forecast by the VIth Plan.

to decrease GDP growth to about 3-4 percent p.a. and to reduce the investment program further. Some macroeconomic trends are less favorable than in Scenario II, like savings mobilization and household consumption. With a debt service ratio of over 20 percent in 1986 gradually increasing to nearly 23 percent by 1991, the overall economic growth projected in Scenario III is about the highest consistent with export growth of only 4-4.7 percent p.a.

3.20 The financing of investments shows deteriorating trends compared to Plan targets with a higher ratio of investments to GDP causing a sharp increase in the need for foreign resources (Table 3.7). The main sources of these trends could be determined by breaking down investments and financing by main type of investors - government, public investments, private enterprises and households. This report will not, however, review this issue because the study is carried out in the Report on the Financial Sector (ref. para. 1.3).

3.21 The level of fixed investments that can be safely financed depends on the ratio of gross domestic saving to gross investments (including changes in stocks). Recent trends show a rapid deterioration of this ratio as shown below: (in current prices)

			1983		1986			
	1976	1981	Plan Forecast	Actual	Plan Forecast	Mission Scenarios		
						I	II	III
In % of GDP								
gross investments	28.1	30.2	26.8	29.4	22.4	30.5	25.5	23.6
resource gap	0.9	8.0	5.5	9.2	2.3	10.4	7.5	9.2
domestic savings	27.2	22.2	21.3	20.2	20.3	20.1	18.0	14.4
In % of gross investments								
gross savings	96.8	73.8	80.3	62.8	96.7	65.9	70.6	61.0

Updated projections indicate how difficult it will be to stop this ratio deteriorating further and to improve it. Specific measures are recommended in the Financial Sector Report and in the attached Annex on Public Finance to improve domestic resource mobilization. But because of short-term constraints a significant reduction in the investment program is recommended by the report (para. 3.22). A first reduction (Scenario II compared to Scenario I) should be applied to the intended investment program, even if export performance are excellent. A further reduction (Scenario III) would, of course, be required if export performance are less promising.

Table 3.7: STRUCTURE OF INVESTMENT FINANCING 1977-1986
(value in TD million at current prices)

	Actuals for 1977-81	Planned for 1982-83		Actuals for 1982-83		Planned for 1984-86		Scenario I for 84-86		Scenario II for 84-86	
	in % of GDP	Value	in % of GDP	Value	in % of GDP	Value	in % of GDP	Value	in % of GDP	Value	in % of GDP
Fixed Investments	29.8	2,890	28.6	3,135	30.5	5,310	24.2	6,040	23.1	5440	26.3
Changes in Stocks	0.2	-10	0.1	15	0.1	360	1.6	50	0.3	50	0.2
Domestic Savings	22.9	2,020	20.1	2,165	21.2	4,385	19.9	4,120	19.9	830	18.5
Resource Gap	-6.9	-860	-8.5	-985	-9.9	-1,285	-5.9	-1,970	-9.5	-1660	-8.0
Factor Service	0.3	28	0.5	63	0.6	-5	-	40	0.2	40	0.2
Transfers, Grants	0.5	32	0.3	44	0.4	40	0.2	60	0.3	60	0.3
Direct Investments 3/	2.4	360	3.6	446	4.3	495	2.2	570	2.7	520	2.5
Net Official Borrowing	4.9	440	4.3	486	4.7	915	4.2	1,390	6.7	1130	5.4
Increase in Reserves	0.7	20	0.2	52	0.5	160	0.7	90	0.4	90	0.4
(p.m. GDP)	(15,209)	(10,067)		(10,268)		(21,935)		(20,690)		(20,690)	

Note: Scenario III corresponds to an investment financing structure close to the one projected for Scenario II but for a lower level of investments (TD 5,210 million for 1984-86).

1/ Based on Scenario which includes the 1984-86 program as intended by the main investors (Table 3.8)
2/ Based on Scenario II (Table 3.6)
3/ Including short term loans and errors and omissions.

Source: Budget Economique, 1984 and Statistical Annex of the VIth Plan document, June 1982.

B. INVESTMENT STRATEGY

1. Need for reducing the investment program

3.22 Considering the recent investment performance, and the main investors' intentions for 1984-86, total fixed investments could well average nearly 30 percent of GDP in 1984-86. Such a level is absolutely not financially viable given the macroeconomic prospects (Scenario I, Table 3.6) even assuming a rapid decline in the investment rate after 1986 (para. 3.20). In consequence, the investment program should be reduced without delay to an average of not more than 25 percent of GDP in 1984-86. This would require a 12 percent minimum reduction from the TD 6,040 million program as intended by investors for the 1984-86 to TD 5,440 million. After 1986 the investment rate ought to decline somewhat further so as to average not more than 22-23 percent of GDP in 1987-91. Such lower rates, as imposed by balance of payments constraints, can be consistent with the projectd overall economic growth of 4-4.5 percent p.a. if investment productivity is improved, i.e., if the worsening trend if ICOR is reversed. However, if export performances are not as good as projected in Scenario II the investment program will have to be cut down even further (TD 5,200 millions) for 1984-86 as indicated in the alternative Scenario III.

3.23 The following analysis concentrates on possible investment reduction in the short term (1984-86) which are crucial to Tunisia's longer term balance of payment equilibrium. The appropriate investment strategy after 1986 will be assessed in detail in the framework of the preparation of the VIIth Development Plan (1987-91). Without going into details, Table 3.8 illustrates a general framework of reduction which would meet some of the macroeconomic objectives discussed in this report. The reduction should focus on non-manufacturing industries, transportation and tourism. Priority should be given to private investments in manufacturing and agriculture. In fact, the reduction have to come mainly from public enterprises that should concentrate on restructuring their activities before thinking to expand them (para. 3.53). This period of tight screening of public investments should be used to develop better methods of project selection with systematic application of financial and economic profitability criteria. Investments to strengthen maintenance and improve capacity utilization, employment creation and export promotion should receive first priority. Some of the policy measures recommended in the following paragraphs are directly geared to this investment strategy; two of them, also suggested by the Employment Report, are particularly important: granting automatic investment licensing to new projects with no need for special incentives 31/ and revising the investment

31/ Right now, API (Investment Promotion Agency) grants a license only if domestic capacity are not in excess of demand. As shown in Volume II on pricing policy, this has a serious impact on domestic competition and firm efficiency. The new policy of automatic licensing could be limited to firms below a maximum size as a temporary measure.

code to simplify the exemptions, to link incentives to job creation, and to spread incentives through time to promote long-term viable firms. But these changes will succeed in promoting efficiency and job creation only if the right signals are given to the investors: unit labor costs, relative factor costs, domestic protection and real exchange rate.

3.24 For the remaining two years of the Sixth Plan, if fixed investments were to reach TD 1,750 million in 1984, investments by main investors could be as follows (in TD current millions):

	Estimates 1982-84	Projections 1985-86				
		Scenario I	Scenario II		Scenario III	
			Level	% Reduct.	Level	% Reduct.
Total	5050	4290	3690	16.2	3460	23.9
Government	880	840	770	9.0	740	13.5
Public Enterprises	2040	1320	960	37.5	900	46.6
Private Enterprises	1430	1470	1400	5.0	1300	13.0
Households	700	660	560	17.8	520	26.9

2. Impact on Productivity and Employment Creation

3.25 With the recommended reduction in investment programs, the impact in terms of overall productivity and employment becomes crucial, and this report attempted to deepen the analysis of this impact. The starting point of this analysis was the capital stock by sectors.32/ Its variation indicates the

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32/ Data sources used by the mission were the following ones:

+ value added:
- in 1980 prices and TD million at factor prices
- National Accounts from the General Directorate of Planning.

+ employment:
- in thousands of units.
- total employment in 1980 based on the Census and corrected by occupation rate to convert employed workers into full-time jobs.
- annual variations obtained by using job creation in Annual Economic Budgets (Ministry of Planning).

+ capital stock:
- in 1980 prices and TD million.
- based on the Institut Bach Hamba methodology (in the working paper No. IEQ/BC/831004, October 1983), which estimates capital stock and amortization by main sectors up to 1983.
- including mission estimates for amortization for years 1984 and after, using capital stock up to 1983 and gross fixed investments by sector projected afterwards by the mission.

Table 3.8: VIth PLAN INVESTMENTS PROSPECTS
(in TD million, at current prices)

	Value for the VIth Plan			In % of Total VIth Plan			
	Forecast	Revised 1/	Suggested 2/	VIth	Forecast	Scenario I	Scenario II
TOTAL	8,200	9,340	8,740	-	-	-	-
By Sector							
Agriculture	1,550	1,530	1,450	12.9	18.9	16.4	16.5
Industry	(3,190)	(3,840)	(3,630)	(40.4)	(40.2)	(41.1)	(41.5)
Non-manufacturing	1,690	2,080	1,880	22.5	20.7	22.2	21.5
manufacturing	1,600	1,760	1,750	17.9	19.5	18.9	20.0
Services	(3,360)	(3,970)	(3,660)	(46.7)	(40.9)	(42.5)	(42.0)
Transport	1,100	1,180	1,030	17.6	13.4	12.6	11.8
Social	760	770	730	9.2	2.1	8.2	8.3
Others	1,500	2,020	1,900	19.9	18.4	21.6	21.9
By Agent							
Public Sector	(4,600)	(5,080)	(4,650)	(59.3)	(56.1)	(54.4)	(53.2)
Government	1,643	1,720	1,650	17.2	20.0	18.4	18.8
Enterprises	2,957	3,360	3,000	42.1	36.1	36.0	34.4
Private Sector	(3,600)	(4,260)	(4,090)	(40.7)	(43.9)	(45.6)	(46.8)
Enterprises	2,600	2,900	2,830	25.5	31.7	31.0	32.3
Households	1,000	1,360	1,260	15.2	12.2	14.6	14.5

1/ Based on the investment intentions expressed by the main investors and the Planning Department to the mission when it visited Tunisia (Senario I.

2/ Program revised in Scenario II to take into account the macroeconomic constraints projected in Table 3.6.

Source: Mission Estimates

Table 3.9 : CAPITAL STOCK 1981-86
(in DT million and 80 prices)

	Capital Stock				In percent of Total			
	1981	1983	1986		1981	1983	1986	
			Forecast	Project. Mission			Plan Forecast	Projected Mission
Total	8,569	10,049	12,029	11,388	(100.0)	(100.0)	(100.0)	(100.0)
Infrastructure	(2,224)	(2,598)	(3,198)	(3,168)	(26.0)	(25.9)	(26.6)	(27.8)
hydraulic	784	891	1,114	1,120	9.1	8.8	9.3	9.8
transport	397	545	725	709	4.6	5.4	6.0	6.2
social sectors	1,043	1,162	1,359	1,339	12.3	11.7	11.3	11.8
Housing	(1,976)	(2,198)	(2,657)	(2,381)	(23.1)	(21.9)	(22.1)	(20.9)
Productive	(4,369)	(5,253)	(6,174)	(5,839)	(50.9)	(52.2)	(51.3)	(51.3)
agriculture	593	722	984	998	6.9	7.2	8.2	8.8
non-manufacturing	1,447	1,806	2,055	1,815	16.9	18.0	17.1	15.9
manufacturing	1,131	1,425	1,768	1,675	13.2	14.2	14.7	14.7
others	1,198	1,300	1,367	1,351	13.9	12.8	11.32	11.9

Using the investment programs projected for Scenarios I and II, (Table 3.11)

Source: Mission estimates.

amount of fixed investments net of amortization, a somewhat more accurate indicator to measure capital productivity than the traditional ICOR used in Table 3.6 for example. Preliminary estimates of capital stock were made by the mission (Table 3.9).

3.26 Overall Productivity. Table 3.10 gives general trends of investment productivity in terms of production factor returns expressed by gross value added at factor cost. These trends show a clear slow down in overall labor productivity, which has accelerated since 1981 with even an apparent decline in non manufacturing sectors. The causes are complex and involve the incentive system which promotes capital-intensive techniques and does not penalize excess capacities and poor maintenance and management. The analysis also indicates another crucial element for future assessment of investment productivity: because of the fast increasing capital stock, amortization required to maintain the productive stock is going to take a growing share of future fixed investments. The issue is therefore to improve the efficiency of new investments as well as the existing stock of capital (installed capacity utilization) in all sectors. Improved management efficiency is therefore a crucial objective. The Employment report (ref. para. 1.3) presents a detailed analysis of the main causes for low investment productivity; reforms suggested by this report should be complemented by a special study on industrial policy.

3.27 One worrisome consequence of this low investment efficiency is the potential for employment creation.33/ The VIth Plan had an objective of creating 300,000 jobs or 60,000 per year (270.000 in non-agricultural sectors). For the first two years, it created 41,700 annually, assuming no new permanent jobs were created in the agricultural sector. The two indicators - capital cost per job created and value added per full-time worker - are quite revealing of the magnitude of the differences between objectives and actuals (Table 3.10). The cost of creating new jobs (measured by net capital stock increase per new full time job) increased from TD14,170 in 1980 prices for the Vth Plan to TD17,830 for 1982-83 compared to a target of TD9,700 for the VIth Plan. The trend for overcapitalization and for poor utilization of the existing capital stock mentioned earlier is indirectly confirmed by the decrease in global labor productivity (measured by value added per full-time job). As a result, while the stock of capital at the

33/ This part concentrates on job creation projections using three macroeconomic aggregates - value added, employment and capital stock - for each main sector. Projections will assume no domestic changes in key policy measures like wage structure, relative factor cost, and direct or indirect incentives; they use capital cost per worker and global labor productivity as indicators of the economic performance for job creation.

Table 3.10: FIXED INVESTMENTS, EMPLOYMENT AND OVERALL PRODUCTIVITY, 1976-1986
(value in 1980 prices)

	Actual 1976	1981	1983	1986 Projections 1/ Forecast	Projections
Capital Stock (in DT million)					
Cumulated investments	-	4,750	2,460	5,480	6,010
Cumulated increase	-	2,920	1,480	2,820	3,460
Cumulated amortization	-	1,830	980	2,660	2,550
(in % of stock)		(21.4)	-	(23.4)	(21.2)
Total stock	5,650	8,570	10,050	11,390	12,030
for infrastructure 2/	3,030	4,200	4,780	5,550	5,860
for agriculture	420	590	720	990	980
for manufacturing	600	1,130	1,430	1,680	1,770
Production at factor costs					
GDP	2,440	3,240	3,390	4,360	3,830
for agriculture	500	530	480	680	540
for manufacturing	290	470	530	770	670
Employment					
Total 3/	1,126	1,332	1,415	1,632	500
of which agricultural	420	420	420	450	420
manufacturing	204	291	322	400	370
Capital Productivity (Stock on value added)					
for GDP (total stock)	2.32	2.65	2.96	2.61	3.16
(w/o infrastructure 4/	1.07	1.35	1.55	1.34	1.61
for non-agricultural	1.13	1.39	1.56	1.32	1.58
for manufacturing	2.07	2.40	2.70	2.18	2.64
for non manufacturing	0.94	1.17	1.34	1.31	1.39
Labor Productivity (value added on employment)					
Total	2.17	2.43	2.39	2.67	2.50
non-agricultural	2.75	2.97	2.94	3.12	2.96
manufacturing	1.44	1.61	1.65	1.92	1.80
non-manufacturing	3.29	3.61	3.54	3.73	3.69
Capital Productivity (stock on employment)					
Total	5.03	6.43	7.09	7.06	7.88
(w/o infrastructure)	2.33	3.28	3.72	3.78	4.05
non-agricultural	3.10	4.14	4.56	4.11	4.65
manufacturing	2.93	3.89	4.43	3.69	4.78
non-manufacturing	3.55	4.27	4.64	4.05	4.82

1/ Changes based on Scenario I; see Table 3.11 for assumptions, stock increase is estimated on the 1982-86 period.

2/ Infrastructure includes irrigation, transportation, social sectors and housing.

3/ Assuming no permanent job creation in agriculture. The employment figures correspond to fulltime jobs, and thus differ from the number of estimated employees by the various surveys (see Table 1.2, Statistical Annex).

4/ Using total capital stock minus stock for infrastructure.

Source: Mission Estimates based on documents prepared by Institut Bach Hamba disposition of every economically employed person has increased by nearly 41 percent between 1976 and 1983, value added per employed has increased by only 10 percent in constant prices. The chances of correcting these negative trends are somewhat limited for the remaining three years of the VIth Plan.

3.28 The investment breakdown by sector (shown in Table 3.8 and reflected in capital stock in Table 3.9) indicates that the share of total capital stock with a long gestation period (mainly housing and infrastructure in irrigation, transportation, and social sectors) should not be much different from what the Plan projected. In general, changes in sectoral allocation of investments are small and cannot be the main cause of the further marked increase in capital costs per job created during 1982-83. The main reason seemed to have been a sharp increase in capital intensity within each sector. For non-agricultural, directly productive investments, (Table 3.10) investment cost per new permanent job increased significantly compared to the Vth Plan period while the average value added per permanent job showed a tendency to stagnate between 1981 and 1983. This trend confirms that, even excluding poorly-performing agriculture, global productivity did not improve. For the 1984-86 period, job creation by new investments will be limited by the proposed reduction in the investment rate as well as by a decrease in annual levels of net investments because capital amortization will continue to grow. The objective is therefore to improve productivity, i.e. to increase the efficiency in capital utilization. The leading sector for such an objective could probably be the manufacturing sector. Compared to recent performances (Table 3.10), investment cost per new job increased by more 50 percent in 1982-83 compared to the cost obtained in the Vth Plan period, and global productivity was almost stagnant (13 percent increase in unit vallue added).

3.29 Only drastic changes in the characteristics of the investment program can match the challenge of supplying enough jobs to meet the net increase in job seekers. The main constraints on an adquate manpower planning policy are the following ones:

(a) labor supply is projected to grow at about 3.0 percent p.a. over the 1981-86 period. This high growth reflects the age structure of the population; it also takes into account the still low activity rate among the female active population. This latter rate remains difficult to project because any increase in jobs for women (for example in textiles) may not reduce unemployment but increase labor supply. As a result, the VIth Plan projected the need for providing 324,000 new jobs for new seekers only. The number of unemployed was estimated at 270,000 in 1983.

34/ This is using Scenario I investment projections. For Scenario II, which suggests a reduction by 6 percent of Scenario I program (para. 3.22), the impact on employment may be minimal because reduction should affect capital-intensive sectors.

(b) actual employment structure shows a high level of under or partially employed workers. For example, the job allocation by number of working hours shows that the 1,625 thousands of jobs estimated in 1981 are equivalent to 1,332 thousand fulltime jobs (Table 3.10 and Table 2.1 in Statistical Annex).

(c) investment costs per new jobs should decrease drastically to meet the objective of creating 270,000 new jobs in nonagricultural sectors as shown below (unit cost in TD thousand at 1980 prices estimated, using Table 3.12).

	1976-78 Actual		1981-83 Actual		Projected		
	Manuf.	Non-Manuf.	Manuf.	Non-manuf.	Manuf.		Non-manuf.
Net Investment Cost	530	1050	300	470	290		300
					(a)	(b)	
Fulltime jobs created	87	119	31	52	48	32	38
Unit Cost	6.09	8.82	9.68	9.03	6	3	8

The nonagricultural sectors could create 170 thousand fulltime jobs for the VIth Plan period only if investments in manufacturing sectors became as labor-intensive as they were before 1980. Those in nonmanufacturing have been highly capital intensive since 1976. Obviously, too much of the investment program is allocated to infrastructure. At the same time, the gap between labor demand and supply is growing rapidly. A more detailed and thorough exercise of manpower planning is required within the framework of the VIIth Plan preparation. For the 1985-86 period, emergency actions are required to implement the main recommendations of the Employment Report. An important aspect of these recommendations relates to investment efficiency including utilization rate, adequate maintenance, workshop management, and appropriate technology. With minor investments, it should be possible to improve capital efficiency in all sectors and thus to create new jobs at low costs.

3. Intended sectoral investment

3.30 The VIth Plan anticipated an increase in total investments of 15 percent in real terms over the Vth Plan. Actuals for 1982 and 1983 indicate that the increase, higher than forecast, is close to 19 percent over the first two years of the Vth Plan. An analysis by sector indicates that this trend is likely to continue for the remainder of the Plan period (Table 3.11). It should be noted that the investment programs by sector for 1984-86 analyzed below reflect the intentions of the Planning Department and the main investors in the public sector. There are no officially revised targets for the last three years of the VIth Plan. It is, also, important to note that the reduced programs recommended in Scenarios II and III will be built out of a careful selection of the projects described below. The mission was not equipped to go beyond stating the general guidelines for this selection process (para. 3.23).

3.31 Agriculture. Investment during the first two years of the Plan exceeded the Plan figures slightly as a result of a much stronger than anticipated demand for agricultural machinery by the private sector (56 percent above original Plan projections for 1982/83). Much of this increase may have been due to price increases (expressed in current Dinars) of imported machinery rather than volume factors. The strong investment performance of the private sector thus more than compensated investment shortfalls in the public sector, which occurred mainly as a result of delays in implementation of two large projects (grain storage and rural water supply). Intended investment in agriculture for the VIth Plan period as a whole would nonetheless remain slightly below Plan targets even after allowing for a strong rebound in private sector investments in livestock and tree crops. This would nevertheless represent a considerable achievement and raise the share of agricultural investment in total investment from about 13 percent during 1978/82 to about 16 percent during 1982-86 (compared to a high 18.9 percent projected by the Plan).

3.32 Manufacturing Industries. Investment outlays in manufacturing during 1982-83 exceeded those projected by the VIth Plan by 13.7 percent, due mainly to cost overruns in the capital intensive construction materials and chemicals subsectors (mostly carried out by public enterprises). Construction material industries, particularly in the private sector, benefit from the continuing boom in housing construction. In addition, the construction or rehabilitation of several publicly owned cement factories proved to be more expensive than expected in the Plan. This applies particularly to the 200,000t cement mill in Western Tunisia which, as a joint venture with Algeria, is designed to sell 50 percent of its output to that country. The total cost of the project, the construction of which started in 1983, is estimated at TD130 million about half of which is expected to be spent during the Plan period (as against TD20.3 provided for in the Plan). Among chemical industries, a number of fertilizer projects have been completed during the first two years of the Plan, or are about to be completed. Investment cost overruns during the first two years of the Plan, which amounted to about 30 percent, were mainly due to faster than expected expenditures on the ICG fertilizer project at Gafsa (to produce 400,000t p.a. of triple superphosphate) and on SIAPE I (renewal and storage). These will be largely compensated for by the postponement of the uranium recovery project that has not proven to be financially viable. In textiles, investment in both the public and private sectors could exceed the original VIth Plan projections; for the public sector, this is mainly due to the SOGITEX rehabilitation project.35/ The original Plan estimates

35/ A program of rehabilitation and modernization of the entire holding is implemented with success. In 1981, the World Bank participated to a first phase of the program through a US$18.2 million loan.

for investments in electrical and mechanical industries and other industries can still be considered realistic in spite of underruns during the first two years. In this context, the Government expects an important impetus from several compensation agreements that were recently concluded with foreign partners in the automotive industries. Since such compensation deals have recently been adopted as a major instrument for industrialization, it would be useful to evaluate their exact profitability using a detailed cost-benefit analysis.

3.33 Non-manufacturing industries. The mining, water supply and energy sectors (investments in construction enterprises are comparatively low) invested substantially more than planned during the first two years of the Plan period, and could exceed the Plan targets for the period as a whole by about 23 percent if present intentions are carried out. This would be due to particularly large investments by the electricity company — STEG — in power transmission and distribution, which had not been foreseen when the VIth Plan was prepared. The additional transmission lines were needed to support new large industries in some rural towns, the expanded distribution program was included after a reassessment of the rehabilitation needs of urban networks, and an extension of the rural electrification program in response to the higher than anticipated demand for electricity in rural areas.

3.34 In the hydrocarbon sector, investments during the VIth Plan could exceed targets as much as by 36 percent mainly because the Plan heavily underestimated likely investments in exploration as well as exploitation; revised estimates for exploration are 173 percent above the original Plan estimate. Most of these exploration investments are financed directly from abroad through private venture capital, and indicate a continuous high interest in hydrocarbon development by foreign companies. As regards exploitation investments, overruns during the first two years of the Plan are mainly due to higher investments than expected on the off-shore Tabarka oil field, which has now reached the production stage. Prospects for the remainder of the Plan are uncertain although exploration works are continuing on several of oil and gas prospects both onshore and offshore. Investments to extend the refinery capacity were reduced from TD185 million to TD20 million for the Plan period because of the postponement of a large new refinery project.36/

3.35 Investments in mining are expected to remain below the Plan figures, as a result of the difficult financial situation of the largest company in the sector, the Gafsa Phosphate Company (CPG), following a period of depressed world market prices of phosphates. Revised projections show investments in mining of TD212 million over the VIth Plan period, or about 12 percent below

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36/ The postponement is assumed to go beyond 1991 in the macroeconomic projections (para. 3.14).

Table 3.11: Investments During the VIth Plan (1982-86)
(in TD million at current prices)

Sectors	1977-81 Actuals	1982-83 Plan	1982-83 Prelim. Actual	1982-83 Diff. %	1984-86 Plan	1984-86 Revised Forecast	1984-86 Diff. %	1982-86 Plan	1982-86 Revised	1982-86 Diff. %	Structure (%) 1977-81 Actuals	Structure (%) 1982-86 Plan	Structure (%) 1982-86 Revised
Agriculture: Sub-total	584	430	440	+ 2.3	1120	1090	- 2.7	1550	1530	- 1.3	12.9	18.9	16.4
Manuf. Industries: Sub-total	816	547	622	+ 13.7	1053	1138	+ 8.1	1600	1760	+ 10.0	17.9	19.5	18.9
Agro-Industries	160	95	94	- 1.1	145	146	+ 0.7	240	240	-	3.5	2.9	2.6
Constr. Mat. industr.	269	125	170	+ 36.0	175	230	+ 31.4	300	400	+ 33.3	5.9	3.7	4.3
Electro. & mech. ind.	108	120	106	- 11.7	265	279	+ 5.3	385	385	-	2.4	4.7	4.1
Chem. ind.	156	102	130	+ 27.5	258	260	+ 0.8	360	390	+ 8.3	3.4	4.4	4.2
Textiles, Shoes	73	54	66	+ 22.2	111	129	+ 16.2	165	195	+ 18.2	1.6	2.0	2.1
Misc. ind.	50	51	56	+ 9.8	99	94	- 5.1	150	150	-	1.1	1.8	1.6
Other Industries: Sub-total	1022	720	868	+ 20.6	970	1207	+ 24.4	1690	2075	+ 22.8	22.5	20.7	22.2
Mining	165	86	52	- 39.5	154	148	- 3.9	240	200	- 16.7	3.6	2.9	2.1
Electricity	201	112	163	+ 45.5	253	277	+ 9.5	365	440	+ 20.5	4.4	4.5	4.7
Water Supply	157	100	113	+ 13.0	175	162	- 7.4	275	275	-	3.5	3.4	2.9
Hydrocarbons	490	418	513	+ 22.7	382	577	+ 51.0	800	1090	+ 36.3	10.8	9.8	11.7
Public works, constr.	9	4	27	+ 575.0	6	43	+ 616.7	10	70	+ 600.0	0.2	0.1	0.8
Services: Sub-total	941	607	616	+ 1.5	998	1034	+ 3.6	1605	1650	+ 2.8	20.7	19.6	17.7
Transport	800	466	480	+ 3.0	634	700	+ 10.4	1100	1180	+ 7.3	17.6	13.4	12.6
Tourism	117	123	121	- 1.6	327	304	- 7.0	450	425	- 5.6	2.6	5.5	4.6
Trade	24	18	15	- 16.7	37	30	- 18.9	55	45	- 18.2	0.5	0.7	0.5
Housing: Sub-total	760	366	500	+ 36.6	634	1050	+ 65.6	1000	1550	+ 55.0	16.7	12.2	16.6
Social Services: Sub-total	416	220	252	+ 14.5	535	523	- 2.2	755	775	+ 2.6	9.2	9.1	8.2
Education	153	70	66	5.7	221	224	+ 1.4	291	290	- 0.3	3.4	3.5	3.1
Health	85	49	51	4.1	131	129	- 1.5	180	180	-	1.9	2.2	1.9
Sewerage	78	46	57	23.9	79	68	- 13.9	125	125	-	1.7	1.5	1.3
Misc.	100	55	78	41.8	104	102	- 1.9	159	180	+ 13.2	2.2	1.9	1.9
TOTAL	4539	2890	3298	14.1	5310	6042	+ 13.8	8200	9340	+ 13.9	100.0	100.0	100.0

1/ This total differs by TD 13.3 million from fixed investments estimated by the National Accounts. (Statistical Annex). The difference comes from an underestimation in the hydrocarbons sector.

2/ Mission's estimates based on main investors' intentions.

Source : Mission estimates based on documents given by the Ministry of Planning and interviews with Administration officials.

Plan targets. An even lower figure would not be desirable, since this would be insufficient in the long run to maintain present production. 37/ The water supply sector covers the operations of the Water Supply Company (SONEDE). During the first two years of the Plan period the Company's own accounts show investments below the revised figures of the Ministry of Planning, apparently as a reflection of financial constraints in 1983. For the Plan period as a whole, the original Plan target can be achieved in nominal terms although in real terms it is likely to be achieved to only about 90 percent.

3.36 Services. In the services sector, transportation plays an especially important role as the sector with the largest and most capital-intensive investment program. Tunisia built up a strong transport infrastructure. While, with present intentions, investment performance during the VIth Plan could exceed Plan forecasts by only about 7 percent, all expansion projects in the sector need a thorough assessment of their priority and economic justification. Several projects, in particular those under the responsibility of the Railway Company (SNCFT) and the light railway (Metro) project of Tunis, appear only marginally justified, and economic studies are lacking. These include the Gabes-Madenine project, the doubling of track from Hammam Lif to Sousse, the Sahel light rail project as well as the rather important railway rehabilitation program generally. In light of the decrease of the relative importance of the railways in the transport system, a thorough examination of their future role should be undertaken. Economic studies have also been lacking on the Tunis Metro project of which the revised costs during the Plan period exceed original estimates by about 40 percent. The reduction by two-third in planned investments for highway rehabilitation on the other hand indicates a surprisingly low priority to investments aimed at maintaining existing road capacity. As regards air and sea transport, revised investment estimates are about 20 percent below original Plan targets, as a result of financial difficulties of the public sea and air transport companies. These led to a postponement of investments, and to a decision by Tunis Air to lease rather than to buy additional aircrafts.

3.37 In tourism, the private sector continues to invest heavily in supra-structure (hotels, etc.), largely financed with participation from Arab sources. Large complexes are under preparation or construction in Tabarka (22,000 beds), Bizerte (17,000 beds) Monastir (5,000 beds) and Tunis, all requiring substantial local resources in addition to the foreign equity and loan financing. The uncertain short-term prospects for tourism, because of the continuing recession in Europe and other factors (competitiveness, quality of services) make some of these projects questionable risks and, given also the low present capacity utilization well below Plan expectations (average 47 percent bed utilization in 1983 instead of 57 percent expected), new investments should be considered circumspectly.

37/ A Technical Assistance project financed with World Bank's cooperation is now getting underway to address areas of how to increase the efficiency of operation of CPG in addition to studying the feasibility of expansion projects.

3.38 Housing. The Ministry of Planning increased its investment forecasts for private housing construction by nearly 100 percent. In the public sector, the main parastatal company - SNIT - did not achieve original Plan estimates, as it is suffering from a shortage of serviced land, particularly in urban areas. In view of rapidly increasing building cost it may be advisable for SNIT to reduce its role as a housing construction company and focus on encouraging self-construction by future occupant-owners through the provision of infrastructure. SNIT uses this instrument already in rural areas with considerable success. Overall, investment in housing during the Plan period is expected to exceed that of most other sectors, including agriculture. This raises the question whether the Government should continue to provide the same amount of total incentives to the sector as it provides at present, including the form of subsidized credit, or whether more resources should not be released for other more directly productive sectors 38/ or fiscality increased on high-cost dwellings.

3.39 Social Services. Investment in social services (education, health, sewerage, government construction) during 1982/83 exceeded Plan estimates by about 15 percent, mainly due to large cost overruns in Government buildings and sewerage. Increasing budgetary constraints are likely to lead to a stricter control on those outlays during the remainder of the Plan period and the Planning Department is preparing reduced overall Plan targets for the sector. For education and health, the remaining amount left for 1984-86 to reach the initial Plan targets for the overall 1982-86 period shows that annual investments in 1980 prices would have to double for education from 82-83 to 84-86, and to increase by 50 percent for health. Health investment targets may be reached because of a large program of hospitals now underway. For education, this report suggests to adjust targets for primary, secondary and university education and to give priority to training. The reduction in total social investments suggested in this report should come first from Government buildings and to a lesser extent from education. (para. 3.23).

3.40 As the above analysis of the investment program demonstrates, the discrepancies between original Plan figures and revised estimates (based on intentions in 1984) vary considerably from sector to sector. Large investments overruns in housing and hydrocarbons are partly compensated by shortfalls in other sectors, such as agriculture, mining and tourism. The discrepancies between the originally planned investments and the revised figures are due to insufficient provision for both volume and price variations and physical contingencies. When estimating investment cost, volume variations should be allowed for by including adequate physical contingencies to deal with (i) projects that are not yet identified when the

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38/ A special study on the Institutional Housing Finance Sector Review (No. 5199-TUN, dated July 1984) was prepared in cooperation with the Tunisian Administration. Its main recommendations are to increase the supply of service land, to modify lending terms, and to develop mortgage markets.

Plan is drafted through inclusion of an "unidentified" item in the project list of each sector and (ii) variations in the concept or size of identified projects, particularly if they are at an early stage of preparation. The Plan also did not sufficiently allow for price escalation when forecasting investments. 39/

39/ Price deflators increasing from 7 to 9 percent per year were given to sectoral planners to convert their estimates in current prices. At the macroeconomic level a much higher deflator (11 percent per year) was used which was more in line with what actually happened, in particular following the Dinar depreciation to some currencies.

C. PRIORITY POLICY OBJECTIVES

3.41 Two important constraints have emerged clearly from the policy experience of the last two years. First, popular resistance to income restraining measures, particularly those concerning wages and prices, is likely to remain strong, making it difficult for the Government to introduce reforms in this area. Second, the country's financial resources have become more scarce and are likely to become even scarcer. The current account deficit has increased by half, and the budget deficit has more than doubled over the period. This has forced Government to take a number of emergency measures that conflict with some of the long-term structural reforms it planned to implement. Taken together, these constraints imply that the policy reform effort has to be intensified in the remainder of the VIth Plan to regain the lost grounds. Structural policy reforms have to be implemented in the following areas: prices and wages, budgetary expenditures (recurrent and investments), public enterprises, fiscal reforms, interest and exchange rates, and trade policies. Not only is the timely implementation of these policies important, but the pace of implementation should avoid possible shocks and disturbances. Some of these policies need to be applied simultaneously while others require a time sequence to be respected.

3.42 The urgent need to foster productivity growth in domestic production requires a gradual easing up of administrative control in the three main areas: domestic price regulation, local investments and foreign trade. As explained in the second Volume, these three areas are closely related, and effective policy measures have to address them in a simultaneous and coordinated way. Given the nature of pricing policy, it is expected that the pricing reform can only be implemented over a reasonable long period. In parallel, the structure of import tariffs needs to be thoroughly revised to move towards a simpler and more uniform system with lower and more uniform nominal and effective protection. The incentive system needs to be examined and regulations on domestic competition need to be revised to stimulate productivity increase through increasing competition, for example by freeing investment licensing 40/ and suppressing quota, in particular on imports. More generally foreign exchange controls should be liberalized gradually. For public enterprises, these measures need to be undertaken together with other measures such as price increases aimed at reducing their dependence on budget transfers.

1. Liberalizing the pricing policy

3.43 On general aspects, the report makes two main recommendations. First, Government should actively pursue the objective of gradual liberalization outlined in the VIth Plan, going beyond the steps already implemented. But in so doing it will be important to assure better coordination of the three inter-related policies: import protection and export

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40/ See footnote 31, para. 3.23.

incentives; domestic investment licensing; and price regulation of manufactured goods. It will also be important to consider whether and how much to compensate, at least partially, those who are hurt by any policy adjustment, so as to make it socially acceptable and economically viable. Secondly, the price system should define clearly the various categories of goods and services to fall under the different price regimes. The objective should be to have <u>four catagories</u> of administrative price fixing and control:

1. Items whose prices should be directly fixed. They should be limited to key staples with significant equity effects and public goods with demonstrable social or economic spill-over effects.

2. Items for which domestic industry is competitive enough that neither price regulation nor import protection is necessary, and gradual liberalization should be envisaged.

3. Items for which domestic industry is not competitive and thus, prices and imports should be liberalized.

4. Items for which domestic production demonstrates infant-industry potential, and temporary protection is justified with perhaps direct support.

A special study on the industrial policy will have to identify the practical aspects of such a classification along the four categories and to assess the consequences in terms of price regulation and economic controls in general.

An appropriate working group would prepare such long and medium-term policy objectives in the context of the VIIth Plan preparation. The type of goods for which some amount of price regulation can be justified are broadly identical to the ones officially defined and actually used. However, what is recommended is to shorten the list of items to be actively controlled. Beyond these general recommendations, the second volume justified a certain number of policy reforms, which are summarized below.

3.44 <u>Key staple goods</u>. Liberalization of the price system related to consumer staples goods should be aimed at approaching opportunity cost pricing, achieving equity improvement, reducing the budgetary costs of CGC subsidies, and minimizing the adjustment burden to those who presently benefit from these policies. The budgetary allocation for subsidies to key products should be at least stablizized at its current level after 1986. The following policy measures are recommended in this regard:

1. to shorten the list of key staples to comprise bread, durum flour, and semolina.

2. to remove price control of most other items with some limited substitution to control by introducing some direct targeting for secondary such as school paper, dairy products, and perhaps agricultural inputs.

For the key staples still under direct price control:

3. to eliminate of any possible excesses in per unit subsidies, such as in baking and perhaps milling by expediting the present DPC's intention to review the sector and revise the subsidy formula.

4. to regularly increase consumer prices for these products.

5. to develop long term direct targeting for these staples with the intention of gradually phasing out price subsidization.

3.45 Social Services. Though the major social services (health and education) are characterized by large socio-economic externalities justifying below-cost user fees, these cannot justify a zero-fee policy. Because the magnitude of expenditures is so large - about twice the level of CGC's interventions - even small percentages in cost recovery can be financially important. The incidence of these costs is particularly regressive for education, even more than for health. It is therefore recommended (a) that in the health sector the user-fee systems be further improved by refining the present system of user cards (Cartes d'indigent) to stratify recipients by income groups, and (b) that the possibility of partial cost recovery in higher education be studied.

3.46 Public utilities. Greater justification (and potential) exists for increasing cost-recovery, though this will not mean free-market pricing or, in specific cases, full economic cost recovery. In these cases, the deviation of prices from these conventional norms can be justified because public utilities tend to be natural monopolies and may have large economic spill-over effects. This Report recommends the four following options:

1. consider the gathering of a working group responsible for defining a coherent approach to all public utilities tariff structure and adjustment.

2. require all public utilities to follow a more systematic procedure for tariff-proposal calculations (as presently done by STEG). This would include a review of the issue as to which cost-basis is most appropriate: marginal or average? long-run or short-run?

3. require that for all tariff proposals more explicit attention be given to analysis social and economic spill-over, before decisions are made to set tariffs at levels different from the technical cost calculations.

4. review, by the Administration, the general policy of financing public utilities with the general objective of making the financing of new capacity more explicit (rather than covered by current tariffs). The long-run objective should be to move gradually from implicit financing to explicit capacity subsidies, and from government loans to floatation of bond issues by the utilities themselves.

3.47 Manufactured Goods. Many specific improvements in price-regulation formulas and mechanisms have been considered in Tunisia, and some have been implemented in the period 1982-84; yet others can be recommended. First, the policy medium term objective should continue to be liberalization of prices and imports under administrative coverage. It is therefore necessary to identify the products for which domestic competition is sufficient to avoid price regulation and protection or for which unecessary domestic production is far too inefficient (level 2 and 3 of para. 3.43). It is therefore recommended that:

1. a review of the policies of competition, protection and pricing be reviewed in a comprehensive framework to isolate the few industrial goods (infant industry) for which temporary protection and then possibly price regulation are justified (infant industries). Since this is closely related to trade policy incentives, such a review should use sectoral studies on effective protection.

2. a study to assist the above review, the degree of competitiveness in each industry, be assessed systematizing information on number of firms, concentration ratios and market structure in general.

3. a procedure of liberalization be rapidly implemented for products for which domestic industry is reasonably large and its efficiency close to world prices.

3.48 The above recommendations have a medium and long-term perspective. But because liberalization cannot be immediate for evident reasons, one should also consider some short-run improvement of the existing price regimes which should be coupled with immediate limitation of the existing extent and thus, social costs attached. These recommendations are that:

1. annual activity reports on price regulation be produced (if possible going back a few years) providing systematically such information as product coverage of the different price regimes; caracteristics of price request by branch plus some average indicators of production.

2. the process of reviewing files be made more explicit, as not all files can (or need) be reviewed in depth. Either the process should involve a scientifically random sample selection, or more systematic criteria should be specified to identify files for review.

3. the profit margin basis of the auto-homologation be reconsidered to avoid the inducement to inflate production costs, and perhaps return to the homologation margin formula without returning to the homologation procedure. Another improvement will be to explicit the corrective factor for capacity utilization to be used in the price formula.

4. large-scale checks be undertaken of efficiency improvements for specific industries by greater use of import liberalization, even if it be temporary. Also it would be more effective if such a review could also be used to identify industries that are so inefficient that protection ought to be removed immediately (level 3 in para. 3.43) that protection will be eventually remove immediately or gradually if there is infant industry potential (level 4 in para. 3.43).

This action program will require a more efficient use of DPC's staff and computer facilities, to allow the simple data management tasks to be done adequately and to leave enough time for the more important tasks of verification and control of price change requests.

3.49 These recommendations constitute a rather complex action program,41/ but implementation of the first steps should start immediately to be fairly advanced when the main strategy components of the VIIth Plan are decided. These first steps could include:

- for the Directorate of Prices and Economic Control: to strengthen its manpower capacities and own computing facilities; to prepare detailed annual reports on its activities; to adjust the autohomologation price fixing formula; and to choose the criteria to select firms to be controlled ex-post.

- for the Caisse Générale de Compensation (Stabilization Fund), to review its subsidy formula to intermediaries; to carry out a detailed analysis of the baking sector; to maintain a gradual price increase in cereal-based products, sugar and oil; and to prepare a plan to phase out the other items under fixed price regime, to be replaced by direct-targeting if justified.

41/ More specific studies are required focussing on practical issues created by the pricing regulation system by main subsector and at the firm level. The forthcoming mission on industrial policy could start giving more operational recommendations. Similar studies are required in the other sectors.

- for the Government, to set up four working groups: the first one will define the categories of goods and services to fall under the different price regimes and the procedures to liberalize the entire system; the second one will prepare policy guidelines to coordinate import protection, export promotion, competition control and price regulation; the third one will organize the monitoring of public utilities and public entities tarification procedures and the criteria for allocating budgetary subsidies; and the fourth one will study the user fee principles for all social sectors.

2. Controlling demand and mobilizing domestic resources 42/

3.50 Wage policy remains one crucial means to achieve the Plan macroeconomic objectives. Together with pricing, it constitutes the most effective instrument to curb both private and public consumption while making relative factor costs more favorable to employment creation. Aware of the role of wage policy in redressing the structural imbalances of the economy, Government has attempted to persuade the Trade Unions to link nominal wage increase to GDP increase. This attempt completely failed in 1981 and 1982 when most enterprises had to accept this nominal increase as a minimal increase, which had to be corrected for special benefits. A completely different approach should be negoniated to emphasize productivity and financial results by enterprise. This would require from both enterprises and trade unions a better social and political awareness of the issues at stake (See Employment Report for details). In the meantime, efforts need to be intensified within the timeframe of the VIth Plan following the commitment to freeze wages in the Government sector in 1984. The wage drift whereby remuneration in certain skilled occupations was allowed to increase by raising bonus and allowances (indemnities) should not be continued in the Government sector. Other policy measures could include: a) extending the wage restraint to public enterprises; b) after 1984, a flexible policy for wage rate increases in the public sector taking into account cost of living and productivity increase by interprise; c) setting similar wage guideposts for each sector; and d) linking minimum wage increase to the cost of living increase only retroactively.

3.51 Food subsidies remain a complex issue in Government expenditure control. These subsidies are discussed in the second Volume. With regard to transfer payments, the Social Security Fund should be closely monitored as its net surplus has rapidly eroded, particularly because coverage was extended to all wage earners. The fact that the Tunisian population is quite young (50 percent in the working age group) implies that revenues have not kept pace despite recent large wage increases.

42/ Policies dealing with demand management and savings mobilization are examined in other economic and sector reports, in particular in the Financial Sector Report (ref. para. 1.3).

3.52 For <u>public enterprises</u>, Government should take advantage of its direct control over them to initiate reforms, not so much in the area of administrative control, but concerning their wage and price policies in the short run while long-term measures are to be initiated without delay. The first step of the priority actions is to review public entreprise investment (see para. 3.23). Request for operating subsidies should be scrutinized in the framework of pricing policy and of public sector management reforms. Loan requests could be channelled to development banks or commercial banks, where approval should be granted based on economic viability. The reduction in investment, while conforming to the overall strategy of the VIth Plan, also gives time to initiate and implement fundamental, long-term reforms. Some of these reforms will be studied by the Industrial Sector Mission.

3.53 In these endeavours, timing is nearly as important as substance. Public enterprises should prepare a timetable outlining their plans of action within the framework of a "contract program" whereby each enterprise specifies its medium term objectives and plans and the Government matches any changes in these contracts imposes on the enterprise, for example, by budgetary transfers. Furthermore, public enterprise reforms should aim at using economic indicators more systematically such as wage, output pricing, and self saving, rather than at creating more layers of administrative control. The Government's gradual disengagement from directly managing these enterprises can be greatly facilitated if the transfer is done through outside participation. Several stages can be envisaged whereby some of the public enterprises can be transferred first to the development banks where initial restructuring has to be done to make them profitable before calling on the private sector to participate in their capital financing and/or ownership.

3.54 The <u>fiscal reforms</u> already initiated in 1982 need to be continued vigourously. First, income tax collection needs to be strengthened in parallel with a lowering of income tax rates. Tax administration can be improved <u>inter alia</u> through training of tax agents. More importantly, penalties for tax evasion and delinquency should be stiffened and fines should be increased. Second, the process of simplifying indirect taxes and replacing of the existing indirect taxes by the value added tax should be kept on schedule. Third, property and land tax assessments should be revised frequently in order to curb high cost housing, intensify land use and to raise revenues. Fourth, import taxes should be revised so as to achieve more uniform effective protection by sector and product. These measures are necessary to achieve: a) a more balanced, equitable tax structure; b) a gradual transformation of taxes from resource base to income base as the economy develops; and c) an effective use of tax as a policy instrument.

3.55 Fiscal reforms to mobilize domestic resources should be accompanied by structural reforms in interest and exchange rates. Specific proposals to simplify interest rate structures proposed to raise and simplify interest rates are included in the Financial Sector Report in cooperation with IMF (Ref. para. 1.3). Foreign control issues will be addressed by the Industrial Policy mission; in recent years the exchange rate has appreciated and needs to be realigned with domestic resource costs to improve the competitiveness of Tunisian exports.

3. Improving policy implementation

3.56 Timely implementation of the above set of policy recommendations requires a strong political consensus and specific redistributive measures to overcome the short-term adjustment problems in return for a viable, long-term growth path. Clearly, any adjustment entails costs. The strategy outlined above is the minimum necessary to bring about an effective transition to the post hydrocarbon era; it is designed in the belief that the most effective policies are the ones that fulfill the country's objectives in the least distortive way. Such strategy, if accompanied by policies to promptly assist the poorest segments of the population, could minimize the impact of adjustment costs in the country. The greatest cost to the economy would come from further postponement.

3.57 In preparing details for implementing the policy measures, the following approach is recommended: a) a time schedule of implementation be attached to each policy; b) the pace of implementation be monitored regularly and appropriate adjustments be designed when needed. For this purpose a set of policy indicators will be required along with target indicators to insure policies are carried out in the desired fashion, even though the target may or may not be achieved. Table 3.12 shows a sample of the relevant policy indicators; c) care should be taken to ensure that policies are taken within a comprehensive framework where both short-term and long-term considerations are taken into account, and that the overriding concerns should be with long-term growth of the country rather than short-term, easy-way-out measures that will aggravate structural imbalances at a later stage. The example at hand is price and import control in 1983; d) instruments should be chosen according to their efficiency in implementating the above criteria; and finally e) the temptation should be resisted to use administrative measures in tackling fundamental economic desequilibrium which can only be solved satisfactorily through changes in the pricing of the relevant factors of production.

3.58 In Table 3.13 a possible list of priority policy actions in the context of the VIth Plan is listed along with targets, short-term and long-term effects, time frame and impact on major development objectives of the country. Some of these actions have already been taken by the Government, others ought to be promptly implemented. With the observed delays in policy implementation due to external circumstances and political difficulties, some of these actions are more pressing than others. Based on an analysis of what is needed most urgently to improve the Plan implementation, a short list of high priority changes for 1985 and 1986 is singled out in Table 3.13. This list is not meant to be exclusive, for these are only necessary but not sufficient conditions to achieve the targets.

Table 3.12: ECONOMIC POLICY MONITORING INDICATORS

Objectives	Performance Indicators	Policy Implementation Indicators
1. Employment Creation	Number of jobs created per year	- Distribution of capital-intensive investment
	Unemployment rate (by sex and age group)	- Relative factor cost
Policy: 1 - Investment strategy 2 - Wage Policy		- Nominal and real wage increase in the public/private sectors - Nominal and real minimum wage rate increase
3 - Price Policy		- Number of commodity prices covered by each price regime
2. Domestic Saving Mobilization	- Ratio of gross domestic savings to GDP(public and private sector)	- Ratio of income tax to GDP - Ratio of PE's investment to GDP - Number of PE's under strict Government control
Policy: 1 - Tax policy		- Ratio of current expenditures to GDP
2 - Expenditure policy		- Ratio of OCC expenditures to GDP
3 - Public enterprise policy		- Ratio of social security payment to nominal wage bill
4 - Interest rate policy		- Real interest rate on savings deposits/ Structure of deposits
5 - Financial policy		- Ratio Domestic Energy Price to border prices.
3. Balance of Payments Equilibrium	- Current account deficit/GDP	- Unit labor cost - Real effective exchange rate - Effective protection rates - Debt service ratio
Policy: 1 - Export promotion	- Ratio of non-oil imports to non-oil exports	
2 - External Trade Management	- Growth and share of non-traditional exports	- Total debt outstanding as % of GNP
3 - External debt management	- Debt service ratio/reserves as months of imports	- Percentage of imports under license
4. Income Distribution/Regional Development	- Gini coefficient	- Periodic calculation of tax/benefit incidence
Policy: 1 - Fiscal policy 2 - Anti-poverty program 3 - Investment strategy 4 - Social Services	- Terms of trade/agriculture/ industry - See API data	- Distribution of investment by region - Regional distribution of jobs created
5. Inflation		
Policy: 1 - Wage/Price policies	Consumer price index	- Wage structure by skill in public and private sectors
2 - Monetary policy	Average real wage increase	- Growth of credit
3 - Fiscal policy		- Percentage of government deficit by the financial banking system

Table 3.13: PRIORITY ECONOMIC POLICY ACTIONS IN 1985-86

Policy Instruments	Actions	Time Frame
1. Employment Promotion	- Link public sector's wage & salary increase to CPI and productivity by enterprise	Immediate
Wage Policy	- Set wage guideposts for each private sector	Immediate
	- Link minimum wage increase to the CPI	Immediate
	- Other policies (impact on relative factor costs)	See Employment Report
Price Policy	- Reduce a reduced list of prices to be fixed by Government	Immediate
	- Liberalize the price regimes	To be studied during remainder of VIth Plan
	- Realign tariff structure	" " " "
	- Liberalize investment licensing	To be done after Industrial Mission
	- Adjust the incentive system	
	- Other policies	See Price Study
2. Public Enterprise Reforms	- Cut and screen investment by PE's	Immediate
	- Initiate the price regime changes (above) with PE's	One Year
	- Realign prices of PEs	Two years
	- Reduce the number pf PEs under Government control	Two years
	- Announce time table for these reforms	One year
	- Announced policy of annual subsidy to PE's of public good nature	Immediate
	- Transfer direct management to the development banks	See Price Study
	- Study of financial resources diverfication	For the VIIth Plan
3. Expenditure Control Policy	- Adjust Wage policy for Government (above)	
	- Limit subsidies by:	
	- Periodic, consistent, preannounced increases of prices of fixed priced products, over a long period according to import price	
	- Increase domestic energy prices to economic prices	Two years
	- Review social policies (user cost, cost recovery)	For the VIIth Plan
4. Tax Reform	- Increase penalities and fines for tax evasion and delinquency	Immediate
	- Strengthen tax collection	"
	- Reduce and simplify the number of taxes, procedures, exemptions	"
	- Revise property tax	"
	- Gradually introduce VA tax	"
	- Increase social security tax on employees	"
	- Maintain fiscal incentives for Regional Development	"
	- Expand tax administration	2-3 years

Table IV.6: TUNISIA: PRIORITY POLICY ACTIONS IN 1985-86 (continued)

Policy Instruments	Actions	Actions	Time Frame
5. Financial reforms	- Increase interest rates on deposits of less than two years by 3 percentage points while liberalizing rates over two years		See Financial Report " " "
	- Increase interest rate on savings account by 2 1/2 percentage points		" " "
	- Adjust term deposit and savings accounts in light of actual inflation rate		" " "
	- Motivate banks to actively seek savings deposits		" " "
	- Study on making reserve requirement and credit ceiling a function of savings deposits		" " "
	- Ease up regulations on SNEL		" " "
	- Implement other measures		" " "
6. Export promotion	- Realign real exchange rate in terms of labor cost (to be elaborated)		Pending on Industrial Mission
	- Realign effective protection rates		"
	- Reduce administrative procedures		"
	- Require CEPEX to provide a guide explaining administrative procedures, incentives and advantages to exporters		"
	- Extend the drawback system to include turnover taxes		"
	- Ensure that sales to resident and non-resident "off-shore" exporters are considered exports with all privileges thereof		"
7. External Trade Management	- Reduce quotas, realign tariffs in accordance with domestic pricing policy (to be elaborated in Industrial Mission)		" Immediate
	- Require all external borrowing done by PE to be approved by Ministries of Planning and Finances		"
	- Computerize the debt reporting system		"
8. Regional Development Policy	- Complete the PDI evaluation, use these results to modify PDRI		Immediate
	- Target subsidies to poorest groups		To be studied
	- Use social cost benefit analysis for project evaluation		Immediate
	- Simplify investment licensing		To be studied
	- Prepare regional programs		For the VIIth Plan

ISSUES IN PUBLIC FINANCE

A. The Public Sector in the Economy

1. The public sector in Tunisia consists of the central government, state institutions, local authorities, and public enterprises. It has played a vital role in mobilizing the country's resources for development from the time of Independence and successively throughout various phases of economic and social policy orientation. In the late 1970's, with the oil price boom, this role was reinforced by virtue of the rent captured by the Government. In discussing public finance, the following analysis focusses on the central government, state institutions and public enterprises because local authorities' budgets are minimal. After a brief introduction to the central government budget, the objectives and recent adopted measures will be examined, followed by an analysis of recent actual trends in revenues and expenditures. In the discussion of expenditures, the role of public enterprises will be evaluated before final recommendations are made.

2. Table 1 shows a comparison of Tunisia with a number of comparable countries in terms of Government revenues and expenditures. The selected countries are all in the group of lower middle-income. It can be seen that Tunisia ranks higher than her comparators in both revenues and expenditures. Indeed, a comparison of Tunisia with 36 countries of lower middle-income category shows that Tunisia ranks among the highest in terms of overall Government revenues and expenditures to GNP.1/ It is worth noting that income taxes account for a relatively small share of total revenues and that a large part comes from non-tax sources (virtually all from petroleum royalties and oil production shares).

Table 1: COMPARISON OF GOVERNMENT REVENUES AND EXPENDITURES a/ IN SELECTED COUNTRIES, 1981

	Tunisia	Turkey	Morocco	Costa Rica
Per capita GNP (US dollar 1982)	1390.0	1370.0	870.0	1430.0
Current revenues (% GNP)	31.8	22.0	25.8	20.1
Percentage of total current revenues				
- Taxes on income, profit and capital gains	15.3	51.7	18.5	14.6
- Social Security contributions	8.8	-	5.4	25.2
- Domestic taxes on goods and services	23.4	19.9	31.6	25.7
- Taxes on international trade and transactions	25.5	5.3	20.9	27.3
- Other taxes	3.2	6.7	7.0	1.8
- Current non-tax revenues	23.9	16.4	16.6	5.3
Total expenditures (% GNP)	32.4	23.3	39.8	23.7

a/ Revenues and expenditures are those of the Central Government only.
Source: World Development Report 1984.

1/ World Development Report, 1984 p.268-271.

3. Indeed, the Government savings and their significant contribution to the financing of the country's investment (32 percent over the Vth Plan) may not have been possible without oil, a fortuitous factor which took place during the late 1970's. With successive world price increases in 1974/75 and later in 1978/79, the Government was able to mobilize over a quarter of its current revenues from oil in the form of royalties, production shares and taxes. Indeed, petroleum revenues amount to over 90 percent of Government savings on the average over the last four years. The benefit to the country was even larger because of subsidies given to domestic consumption of petroleum products.

4. Since prospects for oil prices remain pessimistic at least in the medium-term, and Tunisia's net oil exports are diminishing, the base of Government savings is likely to be eroded without further mobilization effort. In fact, total Government savings already have declined continuously since 1981 (Table 2). While domestic savings declined continuously from an average of nearly 23 percent of GDP in the Vth Plan to an estimated 20.2 percent in 1983, Government savings decreased from 9.6 percent to 9 percent in 1983. If we include the negative savings of non-oil public enterprises (Section D) then, indeed, public savings performance as a whole could threaten the fulfillment of the VIth Plan's financial objectives.

Table 2 : TUNISIA: INVESTMENT AND SAVINGS, 1977-83
(Percentage of GDP in current prices)

	Vth Plan (1977-81)	1981	1982	1983
Total Investment 1/	29.8	32.5	32.7	29.4
Total Domestic Savings	22.9	24.0	22.1	20.2
Total National Savings	23.2	24.7	23.1	21.2
Administration	9.6	9.8	9.3	9.0
Enterprises)	13.6 2/	8.2	7.1	5.0
Households)		6.7	6.7	7.2

1/ Including stocks
2/ Breakdown not available

Source: Ministry of Plan

Fiscal Objectives of the VIth Plan

5. There are two areas where the Plan explicitly called for fiscal policy 2/ to help achieve the main objectives. First, to mobilize the country's savings to finance a sustained growth, the Plan called for the public sector to continue to shoulder about 42 percent 3/ of national savings. Second, to address the issue of equity, the Plan envisaged reforms in the fiscal structure to bring about a greater equality among different income groups. Recognizing that taxes and expenditures affect multiple policy objectives such as employment, exports, regional development, industrial incentives, the Plan did not hesitate to call on a variety of fiscal measures in virtually all these areas.

6. To mobilize domestic savings, the Plan called for private consumption to grow at par with GDP (6 percent) while public consumption, mainly due to expanding interventions in social sectors and to employment creation, is to grow at 9.5 percent. To restrain private consumption, wage and price increases, as well as import and budgetary policies have a crucial role to play. For example, subsidies to consumers through the Price Stabilization Fund (CGC), mostly on cereals based products, were to be reduced to about 2 percent of GDP in 1986 from 4 percent in 1981, by phasing out the difference between "real" economic cost and "administered" fixed price. 4/

7. The requisite public savings were to be generated from fiscal reforms which would increase fiscal revenues by 16.6 percent p.a. (with an elasticity to GDP of 1.06); of which direct taxes accounted for 28 percent (26 percent during the Vth Plan) and indirect taxes for 70.6 percent (71.2 during the Vth Plan). It was expected that the overall Central Government deficit would be limited to 5.9 percent of GDP. The proportion between recurrent and capital expenditures would remain unchanged at (55/45)during this period. For the former to grow at 19 percent, wage bill expenditures would have to grow at 21 percent with the total amount of wage increase estimated at TD 1 billion from 1981 to 1986. The Plan also envisaged an increasing share of direct investment in the capital budget (34 percent of total investment in 1986 compared to 22 percent in 1982), while lending to and participation in public enterprises was to be assumed gradually by the newly created development banks.

2/ Hereafter, fiscal policy denotes both revenue and expenditure policies, unlike the Tunisian public finance system which traditionally distinguishes fiscal policy from budgetary policy. The former refers to tax, or revenue policy while the latter is used to mobilize budgetary savings. See M. El Ayadi Habib, La Politique fiscale de la Tunisie depuis l'indépendance. Mimeo. Université de Tunis 1980.

3/ VIth Plan p. 117

4/ VIth Plan. Ibid. p. 176; for more details on pricing policy and relations to central government budget, see the Volume II of this report.

8. To raise revenues, the Plan recognized the high fiscal pressure in Tunisia, and therefore did not recommend higher taxes. Rather, tax collection was to be improved through stepping up the fight against fraud and this was to be done at three levels: a) Organization whereby tax payers' record-keeping was to be improved. Professional societies needed to be regulated by an Accounting Commission; b) Control whereby human and physical resources to enforce the tax rules were to be increased; c) Sanction whereby penalty to fiscal fraud was to be stiffened (there was no penalty on late tax payments, and the legal and administrative procedures to convict tax evaders was complicated).

9. Besides raising revenues, another objective of the Tunisian fiscal reforms was to use the tax instrument to reduce the inequity in the system and to serve other economic objectives. On the eve of the VIth Plan, the tax system, despite numerous provisions, amendments and changes, remained very much the same as during the protectorate period. It was characterized by: a) a very large share of indirect taxes (about three-quarters of total) and a disproportionate share of the income tax burden shouldered by salaried workers, mainly civil servants whose tax proceeds are withheld at source. The system whereby independent professionals pay taxes according to declared income (forfait) easily lent itself to fraud, particularly since tax rates were very high; b) the system was overburdened with special provisions which allow various deductions and exemptions.

10. To help achieve a more equitable income distribution, the Plan placed a more importance on direct taxes. The existing system 5/ whereby income is subjected to both a schedular tax (according to income source) and a general tax (progressive) was to be replaced by a general, unique progressive income tax. The exceptionally high rate of income tax on corporate profit was to be reduced to help improve these profits and enhance enterprises' self-financing capability. The reforms of indirect taxes aimed at extending the coverage of value-added tax and involved the simplication of taxes and fees (for a country of Tunisian size, the number of different types of taxes, both direct and indirect, was exceptionally high as para 18 below indicates). Thus, for example, the excise tax on consumption was to be merged with a consumption tax to be phased out over time, while the production tax was to be applied to all sectors.

11. The Plan stated clearly that customs duties were to be reformed to improve efficiency and consistency and that they should be considered a development tool and not merely a means to collect taxes. Effective protection must be carried out selectively to minimize distortions. In addition, the fiscal reforms were also expected to bring about desired changes in other economic objectives. Thus, to promote exports, to discourage consumption and to encourage private savings, the Plan envisaged fiscal provisions to serve these purposes. In this respect, however, it was rather vague about fiscal instruments and did not seem to have placed the highest priority in them.

5/ See Appendix for a detailed account of the existing system.

C. Fiscal Measures Adopted in 1982-83

12. The pace of policy implementation in the fiscal area was rather slow in 1982. Apart from minor modifications in some income taxes (the surtax on individual income) concerning hotel owners and in alcohol and registration taxes, the only major fiscal changes are those concerning customs duties. 6/ While measures to f cilitate customs clearance and to refund import duties to exporters were implemented, they ultimately required further administrative work. 7/ Furthermore, although an attempt was made to modify customs duty rates, generally in the downward direction, in the beginning of the year, the growth in current expenditures necessitated an upward revision of these rates three months later (March 1982).

13. Substantive measures were, however, taken in 1983 in the fiscal areas. Almost all direct taxes are revised, generally in the downward direction. 8/ The following is a list of changes concerning direct taxes.

Tax Category	Changes
Surtax on Individual Income	Reduce tax rate and raise deduction amount.
Tax on Wages, Salaries and Pensions	Adjust tax rate downward; set ceiling on deduction of 40 percent taxable income
Tax on Industrial and Commercial Profits	
- For Individuals	Change to encourage rural development.
- For Corporate profits	Reduce tax rates; rate vary between 15 percent for agriculture - related activities and 44 percent for commerce - related ones.
Tax on Dividends and Interests	Modify tax, consider a tax credit for the surtax on individual income. Exemption on reinvested earnings was also modified.
Tax on Profits of Non-commercial professions	Reduce the rate. Allow for relocation incentives.

6/ Finance Law 81-100 of December 31, 1981. Journal Officiel de la République Tunisienne, 29-31 December 1981.

7/ For instance, exporters need authorization from high administrative officials to get a refund.

8/ For a description of different tax categories, see Appendix.

14. Concerning indirect taxes, the base of the production tax was extended in 1983 to cover enterprises in various sectors previously exempted. Excise taxes were also modified. In addition there are some minor modifications of various small fees. To improve fiscal control, Law No. 82-91 requires further details in income declaration forms (specification of personal property and assets). Furthermore, fines are to be given to infraction, while the penalty given to fraudulent delays is 10% of the amount owned (with TD 50 maximum; even in case it is proven that fraud repeatedly takes place, the maximum penalty is still only 35 percent of the amount owned.) One aspect of fiscal control was instituted, namely that late payments are subject to interest rates equal to the maximum rate of overdraft fixed by the Central Bank. In the beginning, the Government intended to continue to suspend import duties and turnover tax on imports of equipment goods needed for enterprises (this applies to equipment goods not made in Tunisia.) In addition, customs duties on imports of goods used for exports were to be reimbursed. In March 1983, due to the need for additional revenues, a flat minimum tariff on imports (including equipment) was introduced, although the customs duty rebate was to remain.

15. The Law of Finance 83-113 outlines further modifications to the fiscal system, to be implemented in 1984. In addition to numerous fiscal provisions for minor fees such as parking and building plots, several modifications for turnover taxes are made. For turnover taxes, the deposits in convertible foreign exchange are tax exempted. Unification of taxes in "forfaitaire" category was adopted, and fiscal provisions to encourage investment in manufacturing industries and to industrial decentralization were specified. A compensation tax on vehicles was imposed. Most importantly, customs duties were significantly revised with a view to reduce or to reestablish tariff rate. Materials imported by communes are duty exempted. In the wake of the January 1984 events, the Finance Law 83-113 was revised whereby revenues were to increase by TD 91 million through taxes on alcohol, foreign travel, additional tax on luxurious products, and other fees. Minimum tariff rates were increased.

16. But, while on the revenue side, the proposed measures are positive signs of the Government's commitment to fiscal reforms, on the expenditure side, the legal creation of additional special accounts to channel subsidies and transfers shows the difficulty experienced in controlling expenditure growth. In 1981, there were 29 of these, with expenditures totaled TD 252 million. In 1984, this number has increased to 37, with expenditures more than doubled, and officially estimated at TD 507 million. Among the recently created special accounts, the Exchange Equalizing Fund and the Fund to Consolidate Public Enterprises are among the most important. The latter accounts for almost 50 percent of the increase in expenditure for 1984. 9/ Except for the creation of these accounts and the freeze in Government wages, no substantive measure was taken to curb expenditures, which remain a crucial objective for the remainder of the VIth Plan.

9/ In 1984, this increase was financed by the Central Bank reevaluation of foreign assets (para. 24) which was clearly non-recurrent.

D. Recent Trends in Public Finance

17. The public finance situation deteriorated sharply in 1982 and 1983, with the consolidated budgetary deficit more than doubled from 2.5 percent of GDP in 1981 to 5.6 percent in 1983 (Table 31). Preliminary figures indicate a further deterioration in 1984. This deterioration was due to rapid expenditure growth despite robust revenue growth. Major trends in revenues have been: a) the rapid growth of indirect taxes, particularly of customs duties; b) the decline in absolute and relative importance of income taxes; c) the declining role of energy revenues. Major trends in expenditures include: a) the rapid growth of wage bill; b) the fast growing expenditures of transfers and subsidies, especially those of the special accounts. Adding to these negative aspects is the growing dollar-denominated debt service payments due to the dollar appreciation vis-à-vis the Tunisian dinars. Each of these trends will be discussed in detail below.

Table 3: RECENT TRENDS IN CONSOLIDATED CENTRAL GOVERNMENT REVENUE AND EXPENDITURE, 1976-84
(As percentage of GDP in current prices)

	1976	1981	1982	1983 (Prelim.)	1984 (Budget)
Total Revenues	28.1)	(32.3)	(34.5)	(34.6)	(35.5)
Current Revenues	26.8	31.8	34.2	34.5	35.5
Tax Revenues	22.6	24.4	25.9	27.1	26.7
Non-tax Revenue	4.2	7.4	8.3	7.4	8.8
Non-current Revenues	1.3	.5	.3	.1	-
Total Expenditures	(31.3)	(34.8)	(39.6)	(40.2)	(43.1)
Current	19.9	22.0	26.6	27.6	30.6
Capital	9.9	10.7	10.7	10.4	10.4
Financial Oper.	1.4	2.1	2.3	2.2	2.1
Total Deficit	3.2	2.5	5.2	5.6	7.6

Source: Statistical Appendix Table 5.1. Figures may not add up due to roundings.

1. Trends in Revenues

18. The Tunisian tax system is characterized by a great number of taxes levied on a variety of products and services, each with a set of rates, exemptions, special procedures and/or provisions. The annual budget law contains details on at least 30 different types of taxes and fees. Although it is true that depending on the tax capacity, 10/ the number of taxes in itself may not necessarily be of any harm, for a country of 7 million people, this is an extraordinary burdensome system, which results from ad hoc decisions accumulated overtime. Thus, none of the individual taxes mentioned above account for more than 20 percent of total tax revenues (the highest, being turnover tax on imports, accounts for 18 percent of total). By way of contrast, two types of taxes, namely income and payroll taxes, account for over 90 percent of US federal income tax. Another aspect of the tax system is the gross and net contribution to the budget. Because of the pervasive nature of the Government intervention at all stages of production and distribution, taxes are often used to capture part of the subsidies given at an earlier, or later, stage. Thus the amount of taxes on any particular product may be misleading in that their net contribution to the budget may be smaller. Although in the end, this should not matter to the consolidated deficit of the Government, it clearly overstates the fiscal pressure on the economy and obscures the analysis of tax and benefit incidence.

19. The fact that Tunisia has a relative favorable position in mobilizing public resources (Table 1) suggests that the scope for further substantial improvement in saving performance through taxation may be limited. This is confirmed in a recent study on tax effort in 44 developing countries in which Tunisia is ranked consistently in the top 30 percent in terms of international tax comparison index (Table 4). This index is an expression of actual tax revenue ratio to potential ratio and, with all the pitfalls it entails, provides a rough measure of the adequacy of the overall tax effort. A value greater than unity indicates that satisfactory tax effort has been made.

Table 4: INTERNATIONAL TAX COMPARISON INDICES IN SELECTED COUNTRIES

	1978-80	1972-76
Tunisia	1.252	1.184
Turkey	1.210	1.474
Morocco	1.209	1.214
Costa Rica	.743	.858

Source: Sadiq Ahmed. Public Finance in Egypt - World Bank Staff Working Paper Number 639

10/ The capacity of a tax is defined as the level of tax yield at which further utilization of the tax would not give a marginal social cost as low as that which would result from another tax.

The overall tax effort, however, conceals a great deal about the tax structure as well as the efficiency and equity of the tax system.

20. A measure of the extent to which different tax revenues have increased in relation to output is the tax buoyancy (Table 5). 11/ Several points emerged from this measure. First, the range of values for the individual tax buoyancy is considerable , with individual income tax among the lowest and with the exception of petroleum tax, 12/ import duties the highest. Although for the sake of uniformity of comparison, all coefficients are calculated in relation to GDP at market price, a more reasonable measurement of the tax base for import duties should be imports of goods (at current prices). Measured in this way, the import duty buoyancy reaches 1.20. Second, the buoyancy of almost all indirect taxes is greater than unity while that of all direct, individual income taxes is considerably less. There is evidence that the equity aspect of the tax system has eroded over the years. This adverse movement in direct and indirect tax shares became more pronounced in the last two years as a result of tax reforms. Third, the buoyancy of excise taxes was quite low, compared to other indirect taxes and to the overall revenues. Because of these factors, the overall tax buoyancy over the period 1976-84 does not appear large. Finally, corporate profit tax, excluding petroleum companies, appears quite weak compared to other countries (Table 6).

21. After a robust growth in 1982 despite an economic recession in 1982, the growth rate slowed down to about 14 percent in 1983 due mainly to stagnated petroleum revenue.13/ With fiscal reforms beginning to take effect in 1983, taxes on income and profits slowed down considerably, and import taxes rose quickly following the imposition of import surcharges. Thus, although the share of fiscal receipts in total revenues increased slightly from 75 to 78 percent, the tax structure has, nevertheless, shifted in an unfavorable direction. To the extent that direct taxes are more progressive and are therefore more in line with the "ability to pay" principle of taxation, fiscal equity did not improve when their share gradually declined rrom 27 percent to 25 percent over the 1982-83 period. At the same time, indirect taxes, which are perceived by the VIth Plan to be regressive, have increased their share to 75 percent. The systematic decline in the share of individual and corporate non-petroleum taxes is shown in Table 7 below.

11/ The buoyancy, as distinct from elasticity, measures the change in a particular tax revenue in relation to a particular variable (e.g., income) irrespective of factors underlying these changes. In contrast, an elasticity coefficient measures the change in tax revenues due to a change in income, tax rate being held constant. Calculation of elasticity thus requires details on tax changes and is not feasible given the many taxes in the system.

12/ Note that petroleum tax here refers to only direct income tax on oil companies and does not constitute the whole of petroleum revenues.

13/ The decline in world oil price from $34 per barrel to $29 did not affect Tunisia until the end of 1982. Petroleum revenues in the budget thus still rose in 1982, particularly with the depreciation of the dinar (oil price is set in dollar) and only declined slightly by 2 percent in 1983.

Table 5: BUOYANCY OF THE TAX SYSTEM, 1976-84
(Based on non-consolidated data)

	Buoyancy 1/	Growth Rate 2/	1983 % Total	1983 % GDP
Total Tax Revenues 3/	1.08	15.9	100.0	23.2
A. Direct Taxes	1.10	15.5	24.9	5.8
1. Individual	.87	12.6	9.4	2.2
Salary	.91	12.9	7.2	1.7
CPE	.87	12.3	3.7	.9
ITS	.92	13.1	3.2	.8
CES/ITS	1.47	21.4	.3	-
Other	.77	11.9	.2	.5
CPE	.88	12.4	.7	.2
2. Corporate	1.34	18.7	14.2	3.3
Profit tax	1.29	18.1	11.4	2.6
Petroleum Co.	2.60	34.2	5.4	1.3
Others	.74	11.8	5.9	1.4
Capital tax	1.43	20.1	1.5	.3
Petroleum Co.	1.69	21.3	.5	.1
Others	1.29	19.4	.9	.2
3. CES for others	2.16	28.7	1.3	.3
4. Local Direct Taxes	.66	10.6	1.4	.3
B. Indirect Taxes	1.07	16.0	75.1	17.4
1. Turnover Taxes	1.09	16.8	34.5	8.0
Production Tax	1.05	16.8	24.1	5.6
On Imports	1.10	16.4	18.0	4.2
On Domestic Goods	0.94	17.4	6.1	1.4
Consumption tax	1.23	20.7	6.2	1.4
On Imports	1.13	19.5	3.5	.8
On Domestic Goods	1.38	22.5	2.7	.6
Service Tax	1.14	8.7	4.2	1.0
Forfait	0.91	15.7	-	-
2. Import Duties	1.68	25.3	23.0	5.3
Duties	1.65	25.7	15.7	3.7
TFD on Imports	1.78	25.4	6.3	1.5
TFD on Exports	1.34	17.8	.9	.2
3. Excise Taxes	.56	6.9	12.2	2.8
On Consumption	.61	10.0	3.9	.9
On Fiscal Monopolies	.89	-25.7	5.1	1.2
Other Taxes	.82	11.4	5.8	1.3
Transport	.99	15.9	1.1	.3
4. Transaction Taxes	.87	12.6	3.3	.8
5. Local Indirect Taxes	.72	10.6	1.4	.3

1/ The buoyancy coefficients are calculated from ordinary least squares regression with the following functional form:

$$\ln T = a + b \ln Y + e$$

where T is tax revenues
Y is GDP at market prices
e is error term

All coefficients are significant at 1 percent

2/ Least Squares Growth Rates

3/ Excluding Social Security Contribution

Source: Ministry of Plan. Bach Hamba Institute. Note that this classification is based on a non-consolidated basis and thus differs from Table 5.2, Statistical Appendix.

Table 6: AN INTERNATIONAL COMPARISON OF TAX BUOYANCY

	Egypt (1976 - 82)	Pakistan (1973 - 82)	Tunisia (1976 - 83)
Total	1.13	1.10	1.08
Direct	.68	1.21	1.10
Indirect	1.06	1.06	1.07
Personal Income	.89	1.21	.87
Profit Tax		1.21	
(excluding petroleum)	1.49	N/A	.97
Excise	N/A	1.04	.56
Custom Duties	.98	1.59	1.67

Source: Tunisia: Mission Estimate using OLS via Time Series Processor, Table 5.
Egypt: Ibid. p. 34, Table 13.
Pakistan: Domestic Resource Mobilization in Pakistan. World Bank Staff Working Paper #632, p. 58, Table 4-10.

Table 7: SHARE OF TAX COMPONENTS IN TOTAL, 1976-83
(In percentage)

	1976	1977	1978	1979	1980	1981	1982	1983
Total Taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Direct Taxes	26.3	23.8	26.8	25.4	27.1	27.3	26.3	24.9
Individual	11.7	11.8	12.3	12.5	11.7	10.9	10.4	9.4
Corporate	12.6	10.1	12.9	11.1	14.0	15.0	14.6	14.2
(Non Petroleum)	(10.8)	(8.4)	(9.8)	(9.8)	(9.8)	(9.1)	(8.3)	(8.3)
(Petroleum)	(1.8)	(1.7)	(3.1)	(1.3)	(4.2)	(5.9)	(6.3)	(5.9)
Others	2.0	1.9	1.6	1.8	1.4	1.4	1.3	1.3
Indirect Taxes	73.7	76.2	73.2	74.6	72.9	72.7	73.7	75.1
Turnover	32.2	31.1	29.4	30.1	29.3	29.2	29.8	34.5
(Imports)	(19.8)	(19.4)	(17.3)	(18.0)	(17.6)	(18.0)	(18.3)	(21.5)
(Domestic Goods)	(12.4)	(11.7)	(12.1)	(12.1)	(11.7)	(11.2)	(11.5)	(13.0)
Import Duties	12.2	13.8	12.6	13.3	14.0	18.1	21.2	23.0
Excise Taxes	21.7	24.0	24.7	25.1	23.1	19.5	16.9	12.1
Others	7.6	7.3	6.5	6.1	6.5	5.9	5.8	5.5

Source: Ministry of Plan, Bach Hamba Institute. Figures may not add up due to roundings. Note that this classification is not based on a consolidated basis and thus differs from Table 5.2, Appendix.

22. The regressive trend in the tax structure could be due to several factors, by far the most important being income tax fraud and evasion. Causes for this could vary from high income tax rates to taxpayers' attitude. Another factor is the weak tax administration with limited resources such as data processing and skilled personnel. Furthermore, sanctions are often minimal.

23. Before the first phase of tax reforms took place in 1983, it was often said that high income tax rates in Tunisia encouraged tax evasion. Upon a closer examination of the tax rates and comparing them with those from a number of other countries, it appears that the problem did not lie so much with the rates as with the complexity of the tax system. Thus an individual in Tunisia had to pay a schedular tax on income, the marginal rate on which not only varied between income sources but also within each source, between specific professions.14/ Then his income was subject to the general tax, which varies by income brackets: it is progressive until TD 8,500; 80 percent between 8,500 and 12,500 and 55 percent thereafter. In contrast, Turkey has a single personal income tax (with a rate between 0-66%).15/ Even Egypt, with a similar two-tier system on income tax, has a simpler procedure than Tunisia.16/

14/ Because the deductions varied by profession. Thus a pilot and a bus driver, both of them have income from service, have different deductions; the former 39 percent and the latter 22 percent.

15/ *Turkey, Industrialization and Trade Strategy*. World Bank 1982, pages 133-138.

16/ Egypt, Ibid.

24. Similarly the corporate income tax in Tunisia applies different tax rates to industrial and non-industrial sectors, in addition to different rates on investment income. The 1983 Finance Law further distinguished between industrial, tourism, and transport activities among others. The rates on profits did not differ greatly from other countries (40 percent in Turkey and between 32-40 percent in Egypt). What distinguished Tunisia from others, however, is a great deal of taxes which cause multiple taxation on the same income source. Thus equity earnings can be taxed at the corporate level, at the dividend and finally at the personal income level.

25. This complexity has certainly contributed to the weakness observed in income collection performance. With literally hundreds of income sources, provisions and special exemptions, the limited number of three to four hundred auditors, each one manually auditing at most 40 declarations per year, are clearly inadequate to check tax delinquency let alone to reduce tax evasion. Tax forms furthermore are complicated and do not easily lend to routine or computerized checking. The Finance Laws of 1982 and 1983 have elaborated the details of the Commission of Accountants in the hope of strengthening the auditing process, but this in itself would not be enough to resolve the problem. Progress in this area would require a concerted effort on tax simplification, administrative personnel training and adequate remuneration, and computerizing the tax processing.

26. More importantly, the sanction against tax fraud and evasion remains too lenient. Current legislation treats fiscal fraud as a simple civil offense, and the same legal system which allows the offenders to go through a long appeal process does not provide any monetary penalty for the amount actually owed. As a result, as pointed out by the Commission on Tax Reforms it may be more profitable to get caught and to be convicted than to pay taxes. The Government is well aware of this problem but so far no action has been taken on this front.

27. The above discussion has shown that a scope for generating additional revenues from direct taxes <u>effectively exist</u>. The unexpected outcome in 1983, i.e., share of income taxes declined while that of indirect taxes increased, was due to the reduction in the individual income surtax without, however, a commensurate effort on tax collection and enforcement. To compensate for the shortfall in revenue, a special surtax on imports was instituted, and import taxes rose by 70 percent in 1982. They increased further in 1983 by 30 percent.

28. It is reasonable to assume that in the past customs duties fell more on consumption goods or intermediate goods, (until 1982, duties on capital goods were exempted), notwithstanding the high buoyancy of this tax (Table 5). However, there is reason to suspect that this tax has increasingly fallen on a limited number of commodities while a variety of goods bypasses the customs duties via the numerous exemptions or special status granted by the tax laws. This conjecture may be confirmed by comparing the theoretical tax proceeds which could have been collected if there had been no exemptions or special provisions. Such tax proceeds are calculated by taking the average tax rate in each major category of imports

and multiply this rate by the value of such category. This theoretical tax amount is then compared to the actual amount. Through data available from another study, 17/ we calculated that the theoretical tax value may be two-thirds higher than the actual amount. 18/

29. The first step to control the loopholes in custom duties is by simplifying the tax procedures. Currently, there are numerous import taxes, surtaxes and fees, each with too many exemptions and special provisions. This complexity also extends to turnover and excise taxes on domestic goods. The introduction of a value added tax therefore is necessary to gradually replace the indirect tax system with a single kind. A timely implementation of this tax according to the schedule set out in the VIth Plan is fundamental to the efficiency and equity goal of fiscal policy.

30. The value added tax (VAT) also has other advantages over turnover and excise taxes in the particular context of Tunisia. The built-in cross check of tax records can help reduce tax delinquency, and deductions for exporters in the case of VAT may prove to be easier than special exemption of turnover taxes. Furthermore, if the retail level is also covered, the adverse economic effects of the turnover taxes such as distortions in production organization and integration can be avoided. 19/ These advantages can be maintained if care is taken to minimize exemptions and rate differentiations. In view of the weak tax administration, the success of this tax also depends on strengthening the capability for record keeping. A computerization of tax processing may be a first requisite step.

31. Recent economic developments have also implifications on other taxes. The successive wage bill increases without a corresponding increase in the social security tax have virtually wiped out the net surplus of social security funds so that their net contributions to savings became negligible. In fact, it is projected that this surplus will turn into a deficit as soon as 1984. While workers' contribution to social security has hardly increased in 1983, despite a 20 percent increase in the wage bill, expenditures rose by over 30 percent due to an increase in coverage. In line with the general objective of restraining consumption, and in order to prevent a budgetary crisis, immediate measures need to be taken to raise additional revenues through employee's contributions. Another tax that may be worth looking into, not so much in terms of proceeds as in its effect on curbing aggregate domestic demand are the property and land taxes. The rapid growth in housing investment in recent years may warrant a reassessment of real estate. The priority given to agriculture also requires land taxes to promote intensive land use.

17/ Institute of Quantitative Economics Bach Hamba. Working Paper Number IEQ/HKL/821019.

18/ To be fair, one should allow for some bias introduced by using the average rate. Statistically speaking, however, this should not influence our conclusions.

19/ See J.F. Due, Indirect Taxation In Developing Economies (The Johns Hopkins Press, 1970), Chapter 6.

32. Of the non-tax revenues, petroleum has been a major source for the Government during the second half of the 1970's, contributing some 27 percent of total revenues in the Vth Plan. 20/ There are several components of the revenues. First, the state petroleum company (ETAP) directly exports Tunisia's share of crude oil. Second, the foreign companies have to pay income taxes and royalties. Third, there are royalties from the transcontinental pipeline. Fourth, there are indirect taxes levied on petroleum products at the distribution stage. These taxes (as in the case of gasoline) may be very high. However, they are used to partially cover the subsidy given at the refinery stage and the net contributions to the budget therefore is not significant (see para. 18).

33. The above discussion has pointed to the restricted role of tax policy in mobilizing resources. In the short to medium terms, the recommended measures are not likely to generate substantial revenues. Furthermore, recent unfavorable events both from oil and gas exploration such as El Franig and the oil price outlook make chances for revenue increase unlikely. Within these confines, however, there is considerable room for raising direct taxes both for efficiency and equity reasons. Simplification of the tax system, improvement of the tax collection and administration are priority actions in this respect.

2. Trends in Expenditures

34. If the scope for mobilizing public savings through revenues is limited at least in the medium-term, public expenditures remain an area

Table 8: CENTRAL GOVERNMENT EXPENDITURES

	Average Annual Growth (in %)		Forecast	% in Total
	1976-81	1981-83	1984	(1983)
Current Expenditures	18.8	28.7	25.5	100.0
Wage Bill	15.3	30.7	8.0	39.6
Subsidies & Transfers	24.5	12.0	50.3	35.9
Interest Payment	29.3	34.2	23.1	7.8
Others	28.9 1/	21.2 1/	14.7	16.7
Capital Expenditures	18.3	13.1	12.5	-
Financial Operations	25.5	16.5	11.0	-
Memo:				
Elasticity to GDP (Current Expenditures)			1.26 (1976-83)	
(Wages and Salaries)			1.14	
(Subsidies and Transfers)			1.26	

1/ Because of arrear accumulation in 1981, the percentages here are calculated on 76-80 and 80-83 periods respectively.

Sources: 1980, 81 - Government Financial Statistics 1983, IMF. 82, 83, 84 - Ministry of Finance.

20/ See Tunisia. A Macroeconomic Analysis of Oil and Gas Policies, Jan. 1984.

where the impact of Government action can be felt much more quickly. As discussed earlier, the Plan called for a slowdown in public expenditures, keeping an elasticity of .8 of current payments with respect to GDP. The actual elasticity during 1982-83 turns out to be about 1.92. The percentage of total expenditures (on a consolidated basis) to GDP rose rapidly from 34.8 percent in 1981 to 40.2 in 1983 and is expected to rise to 43.1 percent in 84 (Table 8). While capital expenditures have been stable (11 percent of GDP in the last few years), current expenditures grew at 29 percent p.a. due to: a) the growth in the wage bill; b) rising transfers and subsidies; c) rising interest payments on debts.

35. Government salary increase in real terms was higher than the increase in minimum wages in the private sector. While the range of salary increase in the public sector was between 15 and 36 percent in 1982-83, the average increase for minimum wages was only 14 percent for industry and 11.5 percent for agriculture (Table 9). Furthermore, the public sector has absorbed a larger part of the work force during that period, creating over force during that period, creating over 28,000 new jobs in the economy (35 percent of total). 21/ As a result, the wage bill in the Central Budget increased by over 45 percent in the two-year period, reaching 40 percent of current expenditures in 1983.

Table 9: MINIMUM GUARANTEED WAGES IN THE FIRST YEAR OF THE VTH AND VITH PLANS
(Growth rates in percentage)

	1978/1977 (VTH PLAN)	1983/1982 (VITH PLAN)
Annual Minimum Wage Rate in Agriculture (SMAG)	9.4	11.5
Annual Minimum Wage Rate in Industry (SMIG) 48 h.	9.5	14.1
Annual Salary in Public Sector	8-18	15-36
Wholesale Price Index	3.1	6.6
GDP in current Prices	13.3	13.6
GDP in constant prices	6.4	4.5

Sources: Conjuncture, No. 88 April 1984, Ministry of National Economy Statistiques Financières. May 1984. Banque Centrale de Tunisie, Ministère du Plan.

21/ Indeed, this has been the traditional role of the public sector in Tunisia. During the last decade, the Aministration, together with the public enterprises accounted for more than 40 percent of the new jobs created in the economy. See Tunisia, EMployment/Promotion, Report, No. .

36. In 1984, the Government budgeted for a wage bill growth of only 8 percent. This increase, even with a freeze on basic wages, will make it difficult to maintain its share in employment creation and especially to meet the initial objective of creating 13,000 jobs per annum in the sector. Thus, the 8 percent represents a lower bound on the wage bill, even under the most favorable assumption of wage and salary freeze. The freeze would still be a short-term measure because it cannot be maintained for long without creating morale, social, and political problems. A reasonable solution after the freeze would be to announce well in advance the wage increase in the three-year period, linking it to variables such as Consumer Price Index, or export earnings of the non-oil sector. 22/ Given that the average salary increase of the administration is still above GDP growth, and the level of salary remains high compared to other sectors (except oil and gas, transport and chemical) the decision to freeze wages and salary freeze may be socially justifiable and one of the most crucial decisions in order to meet the Plan target on Government expenditures.

37. The second largest current expenditure group which has been growing rapidly in the last few years is subsidy and transfer expenditures. Together they account for over 35 percent of total current spending and include expenditures in the ordinary accounts as well as those in the special accounts. Ordinary account expenditures are fairly stable and are used to finance activities of government offices, while special account expenditures are subsidies to both households and public enterprises. The rapid growth of this category, compared to the VIth plan targets, make this the main cause for current expenditures not meeting the initial targets (Table 10).

Table 10: SUBSIDY AND TRANSFER EXPENDITURES, 1976-84
(percentage of GDP)

	VIth Plan (Planned)	1982	1983 (Prelim.)	1984 (Budget)
Total Subsidy and Transfers	6.5	10.2	9.9	13.2
of which Ordinary Accounts 1/	1.1	2.8	3.0	3.1
" " Special Accounts	2.7	4.5	4.1	6.9
" " Social Security	2.6	2.5	2.7	3.1
" " Others (extra budgetary)		.3	.2	.1
Total Current Expenditures	27.1	26.6	27.6	30.6

1/ Ordinary accounts excludes extra budgetary expenditures (hors budget) which is in "others".

Source: Ministry of Finance.

22/ For an analysis of the latter, see Dudley Seers, "The Mechanism of an Open Petroleum Economy." Journal of Social and Economic Studies (1964), 233-242.

38. Special Accounts: The establishment of special accounts dates back to the protectorate period and the number of these accounts has steadily increased over the years to some 37 from 29 in 1981 (para. 16). These accounts have earmarked revenues and are used to finance specific expenditures, mostly subsidies to public enterprises (such as the Consolidated Fund for Public Enterprises established in 1984 to help offset their foreign exchange loss) or consumers (such as the Price Stabilization Fund). The largest special account, the Price Stabilization Fund (CGC), is used to subsidize prices of selected imported foodstuffs, mainly cereals and some agricultural goods. In 1984, expenditures on these special accounts are expected to rise by 73 percent, about half of which are due to CGC subsidies and the other half to public enterprises in compensating for the foreign exchange losses in debt service payments (see para 16).

39. Subsidy expenditures channeled through CGC rose from TD 54 million to 149 million between 1981-83 and account for 3 percent of GDP (Table 11). About two-thirds of these expenditures are used for cereal based products which include wheat for human consumption and maize and soybeans for animal feed. The other one-third concerns a number of commodities such as olive oil, fertilizers, sugar and milk. 23/

Table 11: EXPENDITURES OF PRICE STABILIZATION FUND, 1982-84
(In millions of current Dinars)

	1982	1983 (Prelim.)	1984 Budget	% 1984
Cereals	119.3	135.5 1/	156.5	62.4
Wheat	N/A	109.0	N/A	
To Millers	N/A	65.0	N/A	
Bread	N/A	44.0	N/A	
Fertilizers	13.6	11.5	14.8	5.9
Sugar	-	-	15.0	6.0
Olive Oil	9.0	6.0	33.5	13.3
Milk	3.8	5.5	6.6	2.6
Others	19.3	22.5	24.6	9.8
Total	165.0	181.0 1/	251.0	100.0
Memo:				
As percentage of GDP	3.7	2.0	4.0	

1/ Including 32 million dinars due but not paid in 1982.

Source: CGC

23/ See the Second Volume for details on pricing policy.

40. It is useful to compare Tunisia's relative position in terms of wheat subsidy to a number of other countries. This is done in table 12 where subsidies per capita and in percentage of GDP are shown. It can be seen that while the wheat subsidy per capita may be high in Tunisia, total subsidies (and wheat subsidy) as a percentage of GDP are comparable to that of other countries.

Table 12: AN INTERNATIONAL COMPARISON OF WHEAT SUBSIDY

	Per Capita Income (1982)	Total Subsidy (% GDP)	Wheat Subsidy (% GDP)	Wheat Subsidy Per Capita (Current $)
Tunisia	$1390	2.8 (4.0)	1.9 (2.5)	$ 22.00
Egypt	$ 690	10.7	2.2	$ 14.60
Pakistan	$ 380	.9	.3	$ 3.90
Morocco	$ 870	3.8	1.1	$ 20-30

Sources: World Development Report 1984, p. 218.
Tunisia: Data for 1983 from Ministère des Finances. (Number in parentheses are for 1984 from the Budget)
Egypt: Data for 1981/1982 from Public Finance in Egypt. W.B.Staff paper #639 p. 90 and 52, 12.
Pakistan: Data for 1981/82 from Domestic Resource Mobilization in Pakistan: Selected Issues, World Bank Staff Working Papers #632 p. 10 and 14.
Morocco: Country Data for 1981 from Staff Estimate.

41. Beginning in 1984, a new special account was set up to help compensate public enterprises for their foreign exchange losses in debt service payments due to the dinar devaluation to the dollar. Expenditure on this account amounts to about TD 100 million, financed by the gains from the Central Bank's re-evaluation of foreign assets. The non-renewable, one-shot nature of this kind of revenue warrants a careful study of the financial situation of public enterprises. Furthermore, budgetary transfers to these public enterprises under various forms such as equipment subsidy, Treasury net lending and capital participation have been on the rise, amounting to about 27 percent of total capital expenditures. Although this report does not deal explicitly with public enterprises (PEs), their role in mobilizing resources is too important to ignore.

3. Public Enterprise Financial Issues

42. There are several reasons why a focus on public enterprises is appropriate at this difficult financial period. First, making these enterprises efficient would reduce the drain of Government resources, enable these scarce funds to move somewhere else needed. Second, given the Government equity investment into these enterprises in the past, the time

should come for them to contribute to the budget. At a time when the most easily collectible revenue, namely oil, is stagnant, the PE reforms are needed to play a positive role in resource mobilization. Third, PEs' are also an area where Government policy actions and reforms can be most rapidly effective due to the extent of direct control.

43. Public Enterprise in the Economy. Since 1978, complete information on public enterprises has not been systematically collected. According to a Ministry of Finance Survey, there are about 547 public enterprises 24/ in Tunisia, of which about 345 are under actual Government financial control. Most of them are in industry (31 percent), services (28 percent) and tourism (20 percent), while only 7 percent are in agriculture. The importance of these PE's in the Tunisian economy is sketched out in Table 13. Their raison d'être since Independence varied from natural monopoly (STEG, SONEDE), large investment (cement, metallurgy), promotion of new sectors (hotels, textiles) to improvement of an administrative management (investment agency). Roughly 20 percent of them are of administrative and public characters, while 80 percent are producers of goods and services 25/.

Table 13: PUBLIC ENTERPRISES IN THE ECONOMY
(Percentages of relevant values to economy-wide totals)

Employment (1981)	23.9
Wage bill (1981)	31.2
Value added (1979)	25.0
Investment (1982)	40.0
Exports (1979)	75.5
Imports (1979)	44.8
Capital Expenditures (1982)	34.9

Source: Ministère des Finances

44. The VIth Plan already recognized this important role and the factors which would allow PE's to contribute to resource mobilization, namely a) a social climate conducive to growth; b) wage and salary growth commensurate with productivity; and (c) an appropriate, flexible pricing policy. To reach PE's target share of 37 percent of investment and 21 percent of national savings during the Plan period, the VIth Plan called for: (a) revision of legislative texts to focus the Government control on enterprises where it has a direct interest and leave the rest to the development banks or private sector; (b) creation of a Department of PEs attached to various ministries to oversee their interest; (c) elaboration of document for each PE (program contract) in which objectives would be

24/ Defined as all enterprises where Government has an interest. The figure of 300 usually quoted refers to those where Government interest is 10 percent or more.

25/ Réforme des Entreprises Publiques, 1982. Ministère des Finances.

specified and means to achieve them spelled out. In this contract a 5-year mandate could be given to PE's to improve the results with each enterprise preparing simple indicators to evaluate performance; (d) separation of managers' functions in PE's, taking into account the difference between day-to-day management and long-term strategic thinking; and (e) streamlining the control via appropriate internal and external auditing of financial performance.

45. Investment and Financing. The implementation of PE's reforms has been slow. It was not until the Spring of 1984 that the measures were approved by the Government. In the meantime, their financial situation has worsened: savings of non-oil public enterprises dropped sharply in 1982 and in 1983 barely reached the level two years earlier (Table 14). More importantly, while their combined investments accounted for over 38 percent of total domestic investments in 1982-83, their savings accounted for less than 7 percent of total domestic savings. Including petroleum companies, these ratios are no less discouraging and amount to 39 and 13 percent respectively.

Table 14: INVESTMENT AND FINANCING OF PUBLIC ENTERPRISES, 1976-83
(in TD Millions)

	1976	1981	1982	1983
Investment of non-oil PE's	N/A	N/A	314.9	238.6
Savings Capacity	47.6	74.1	48.2	74.2
Profits or Losses	-.3	-21.4	-59.2	-47.1
Depreciation Allowance	38.0	99.7	112.7	126.8
Subsidy	9.9	4.2	5.3	5.5
Percentage of savings/inv.	N/A	N/A	15.3	31.1
Total Investment of All PE's	244.8	461.8	335.8	254.3
Saving capacity	56.1	121.6	107.4	139.9
Percentage of savings/inv.	N/A	N/A	32.0	55.0
Memo Items:				
Percentage share of non-oil PE's in the sample to economy-wide				
-total investment	37.7	33.1	37.6	40.6
-domestic savings	11.0	7.5	4.5	6.6
percentage share of all PE's in the sample to economy-wide				
total investment	41.7	34.3	39.0	41.6
domestic savings	13.0	12.2	10.1	12.4

Source: Sample of 50 enterprises, Ministère de Finances

46. From a sample of 51 most important enterprises which constitute virtually all economic activities of public enterprises, all available indicators pointed to a weak financial performance. The current ratio (working capital ratio) rarely exceeds unity while debt/equity ratio rises continuously. In fact, excluding petroleum, net profit before taxes of these public enterprises has been negative since 1980. Yet their investment was still buoyant, their employment creation and average salary have increased ever since.

47. Causes for Poor Performance. Causes for the poor performance of PE's are manifold and include a) pricing policy; b) wage policy; c) postponed reform; d) loose management and control. Other identified causes include investment underestimation, poor financing scheme, and inadequate accounting procedures. 26/ Moreover, the ready access to Government financing to domestic bank credit and to the international financial market account of the country's good creditworthiness, coupled with the lack of profit motivation may have made these PE's reluctant to initiate reforms.

48. Although detailed information is lacking, by nature, prices of PE's tend to be more controlled than those of private enterprises. Prices are fixed for public utilities, transport, and for a number of key commodities. For most manufacturing and services, a cost-plus formula is applied to output prices (see Volume II for details). As for export products, prices are determined internationally, although they are fixed for the portion sold domestically. The present pricing system, in combination with import policy controls and competition restrictions gives little incentive to improve efficiency. Furthermore, the administration of the price system is burdensome and delays the response of prices to changes in costs; this erodes profits and requires growing budgetary subsidies. Finally, Government often imposes prices on PE's which even under the best of circumstances can not cover their operating costs.

49. In addition to their limited freedom in fixing output pricing, the PE's are further squeezed by their little control over the wage bill. The Law of 68-13 set out the policy of recruitment and wage determination. Often PE's are pressured to increase employment in spite of their weak performance while wages, determined by a tripartite wage commission representing the Trade Union, employers and the Government, are influenced by changes in minimum wage levels (SMIG and SMAG). The average wage increase of PE's in the past few years has far exceeded productivity improvements (Table 14) in a sample of the most important PE's. While output in some of them (notably phosphates, chemicals) is falling, the number of employees has risen. This, coupled with rising raw material costs and wage increases, led to severe losses in some of the most important export industries. In others, such as the railroad company revenues have failed to keep up with costs and can barely cover the wage bill. Table 15 shows that mining and transport are the two sectors which incurred the largest losses. Of these, the Compagnie des Phosphates de Gafsa (CPG) and the railroad company (SNCFT) are the most important.

26/ Réforme des Entreprise Publiques, Ibid.

Table 15: PERFORMANCE OF SELECTED PE'S BY SECTOR

(In TD Millions)

	Profit		Savings Capacity 1/		Investment	Savings as % of Investment
	1980	1982	1980	1982	1982	1982
Agriculture	-12.8	-8.7	-10.5	-2.3	13.9	-16.5
Mining	-7.5	-22.1	5.8	-4.3	20.5	-21.0
Textile & Paper	2.1	-1.2	-.5	.9	4.8	18.8
Chemicals	5.6	-4.1	12.8	3.4	25.4	13.4
Refinery	58.0	73.5	46.9	59.2	20.9	283.3
Construction Materials	5.4	-2.5	11.2	.6	7.2	8.3
Utilities & Tourism	12.7	11.7	25.3	40.3	103.3	39.0
Transports	-4.3	-34.8	23.2	7.6	136.0	5.6
Other Services	4.9	8.8	5.5	7.3	3.8	192.1
Subsidy 2/			N/A	5.3 2/		
Total	60.5	20.6	119.7	107.4	335.8	32.0

1/ Defined as profit plus depreciation less taxes; subsidy has not been broken down for lack of data on sectoral distribution.
2/ Breakdown by sector not available.

Source: Sample of 50 enterprises, Ministère des Finances.

50. Situation of Companie des Phosphates de Gafsa (CPG). Phosphate and chemicals account for over 15 percent of total goods exported, and over 90 percent are produced by PE's 27/. A detailed financial analysis of these PE's reveals mounting losses and a persistent drain on the budget. While export price increases ranged from 6 to 14 percent in 1982, the wage bill rose by 19 percent and raw material cost rose between 13 and 17 percent (due partly to dollar appreciation). Cash flow dropped by one-third, and debts rose by 60 percent between 1980-1981. As a result, net losses jumped to TD 33 million dinars from 2 million the previous year. The critical situation can best be illustrated by examining in detail the Compagnie des Phosphates de Gafsa (CPG), the sole producer of phosphate in Tunisia.

51. Since 1975, an increase in investment, mechanization and personnel of CPG 28/ with no increase in production led to an increase in unit costs per washed ton. The unit extraction cost (after depreciation, but before overhead) increased from TD 2.3 to 3.6 per ton in 1981. The financial situation of the company deteriorated. The liquidity ratio dropped from 2.7

27/ See Situation des Entreprises Publiques dans le Secteur Chimie 1980-1982, Chapter III, page 2
28/ The ensuing discussion is based on the World Bank's Completion Report dated January 31, 1983 Loan No. 1042-TUN.

in 1975 to .8, and the debt equity ratio has deteriorated from 8:92 in 1975 to 66:34 in 1982 (Table 16). It was in no position to undertake a new major investment project in 1982. The transfer of technology (the long wall, although a suitable experience) was not adapted easily because in-house resources for logistic support such as organization management, skilled labor, high cost and spare parts control are lacking. In addition, absenteeism and manpower turnover due to the hardship of underground mining coupled with managerial and training deficiencies caused delays in mine development.

Table 16: CPG ANALYTICAL RATIOS

	1975	1978	1981	1982
Production Index (mines)	100.0	106.7	154.0	124.7
(plants)	100.0	115.2	154.3	124.7
Average Net Selling Price	100.0	52.9	94.7	103.2
Average Cost	100.0	128.0	195.0	230.3
Liquidity Ratio 1/	2.7	.9	.9	N/A
LTD:Equity 2/	8:92	44:56	63:37	66:34
Employment	100.0	106.0	113.0	115.0
Wage Bill	100.0	150.0	217.9	270.1
Average Salary	100.0	141.6	193.2	234.4

1/ Liquidity ratio = Current assets/current liabilities
2/ LTD:Equity = Long-term debt/equity

Source: World Bank Completion Report. Loan 1042-TUN.

52. In 1982, there was work stoppage due to ventilation problems. While it was thought that CPG have already developed a manpower surplus of 860 workers between 1974-1979 due to a general surplus of unproductive labor and the impact of modernization program, its actual workforce increased by an additional 2,000 workers, although qualified professionals are still below the needs.

53. CPG's social obligations to some 14,000 workers, a number well above needs with qualifications below needs, thus pose a conflict to the objective of reducing Government subsidy and of making CPG efficient. Several possibilities are being considered. One could turn CPG into a holding company with financially independent activity centers. In 1981 CPG management was negotiating with the Unions to reformulate a pay system which may be more adaptable to mechanized operations and to tie bonuses to production. They also wished to seek the Government's cooperation in creating jobs elsewhere and anticipated to lay off about 3,000 (22 percent) unqualified workers and replaced these with qualified staff. By the end of 1982, however, although growth in the work force slowed down considerably to 1 percent from 4.4 percent the previous year, the wage bill had increased by 24 percent.

54. Government Subsidy and Bank Credit. Government subsidy and bank credit are the two factors which have kept these PE's afloat. In a sense, the petroleum revenues served to finance the deficit of these PE's, which eventually benefit some consumers through artificially low prices. To what extent they have benefitted and to what income group they belong is beyond the scope of this report. Total central government support to PE's amounted to TD 271 million in 1983, over 14 percent of total government revenues (Table 17). This percentage has declined recently because loan and equity participations by the Government have been stabilized with the coming-on stream of the development banks. Besides loans and equity participation, Government financial assistance consists of operating and equipment (capital) subsidies. Although in principle, the former is used to help cover losses and the latter for the purchase of capital goods, in practice, they are used interchangeably. The most important component, equipment subsidy, has risen rapidly and remains a threat to future efforts to curb expenditures and to mobilize savings. Operating subsidy, the smallest component is given mostly to PE's performing public services such as various offices (tourism promotion, craftsmen) or transportation although most of the subsidies to the latter are in the form of equipment subsidies.

Table 17: CENTRAL GOVERNMENT SUPPORT TO PUBLIC ENTERPRISES
(in TD Millions)

	1976	1981	1982	1983
Operating subsidies	9.9	12.3	12.2	13.3
Equipment subsidies	68.2	146.3	162.6	197.7
Equity participation	19.6	23.3	39.6	31.9
Loans	3.2	33.2	26.1	27.9
Total support	110.9	215.1	240.5	270.8
Total budgetary revenues	542.3	1334.1	1655.7	1890.1
Support as % of Revenues	20.4	16.1	14.5	14.3

Sources: Ministère du Plan
Ministère des Finances
GFS

55. The Railroad Company (SNCFT). Equipment subsidies, in fact, are grants given to PE's whose poor financial performance necessitates new injection of money whether to finance current deficit or investment. Of these, a lion share goes to the transport sector, in particular, to support the railroad company (SNCFT). Manufacturing appears to be least dependent on the Government for support (Table 18).

56. In the case of SNCFT, the wage bill has increased at 23 percent per annum due to both personnel (4.6 percent) and a salary growth over the 1979-82 period. Despite tariff increases in 1981 and 1982, operating revenues could barely cover the wage bill in 1982 because of sluggish traffic growth in both passengers and freight services. It is estimated

Table 18: SECTORAL DISTRIBUTION OF EQUIPMENT SUBSIDIES, 1980-1983
(In TD millions)

	1980	1981	1982	1983	1983 %
Agriculture	31.5	40.8	36.0	45.7	23.1
Industry	22.6	27.3	27.8	42.2	21.3
Mining	2.8	4.0	7.9	9.6	4.9
Electricity, Water	17.8	17.8	18.0	27.5	13.9
Manufacturing	2.0	5.5	1.9	5.2	2.6
Services	59.5	78.1	98.7	109.7	55.5
Transport	20.4	52.7	66.7	66.5	33.6
Housing	9.8	5.4	8.4	13.2	6.7
Tourism	9.5	6.8	7.6	10.4	5.3
Others	19.5	13.2	16.0	19.6	9.9
Total	113.6	146.2	162.5	197.7	100.0

Source: Ministère des Finances. Figures may not add up due to roundings.

that Government support to SNCFT amounted to about 60 million dinars per annum between 1979-1982, about 28 percent in the form of operating subsidies and the rest in equipment subsidies. A Bank study of the transport sector has recommended an in-depth study of the role of railways to assess what lines and services can be justified based on the cost of rail and of competing modes.

57. The weak financial preformance of PE's also necessitates growing bank credits to help meet the liquidity shortage. Such credits grew by 22 percent per annum since 1980 with a slightly growing portion short term (Table 19). Most of medium and long-term credits are in mining and transport, since the existence of development banks has shifted demand for these credits by the industrial sector away from commercial banks.

Table 19: BANK CREDIT TO PE's, 1981-83
(in TD Millions)

	1981	1982	1983
Total	513.3	619.5	683.6
Short Term	316.9	395.7	448.7
Medium & Long Term	196.4	223.8	234.9
Percentage of total Bank credits going to PE's	33.0	32.2	32.0

Source: Banque Centrale de Tunisie & Statistiques Financières

4. Deficit Financing

58. Finally, the financing of Government deficit will be briefly discussed here as it has implications on interest payment, the expenditures of which have risen rapidly in recent years. In 1982, the larger part of the budget deficit was financed by external drawings including $20 million from a Eurodollar loan of $125 million. In 1983, there was a marked shift to domestic financing with a large part from changes in the net position of social security schemes (Table 20). It is expected that a large part of the widening fiscal deficit in 1984 will be financed by borrowings from the domestic banking system. This, together with the growing bank credit demand by PE's, will likely lead to higher inflationary pressures.

Table 20: BUDGET DEFICIT FINANCING 1981-83
(In TD Millions)

	1981	1982	1983 (Prelim.)	1984 (Budget)
Central Government Consolidated Deficit	105.5	248.2	303.2	473.3
Financed by				
- External	108.7	176.0	74.9	146.4
- Internal	-3.2	72.2	228.3	326.9
Banking System	24.4	41.7	30.9	129.0
Central Bank	(-16.4)	(-2.3)	(-20.2)	-
Deposit Banks	(40.8)	(39.4)	(51.1)	-
Others (including Social Security)	-27.6	30.5	197.4	197.9
Private Sector	(25.5)	(24.9)	(12.6)	-3.3

Source: Ministère des Finances

E. Performance Evaluation of Fiscal Policy

59. In order to assess fiscal performance in the last two years, it is useful to recall briefly the Plan objectives, in this respect. To generate the requisite public savings to finance the investment program, the Plan focussed on expenditure control, rather than on raising revenues, although in this respect it is rather vague about what components of current expenditures are to be reduced and how. Tax policy, or "fiscal reforms", is to achieve the equity objective of the Plan; these reforms aim at an equitable income distribution either via a more progressive tax structure (toward a higher proportion of income tax), or via enforcing tax collection and fighting tax evasion, believed to be rampant among the highest income groups. In the following analysis we will attempt to distinguish the exogenous factors which lie beyond the authorities' control, and which cause a shortfall in outcome, and the intrinsic factors which are inherent in the system and which result from policies undertaken.

1. Equity Objective

60. So far the tax reforms have had little impact on income distribution. In fact, if this objective can be measured by the degree of regressivity, then it has worsened due to the declining share of direct taxes. 29/ But tax equity involves more than the distributional aspect of the tax. It encompasses the enforcement of the tax structure and the elimination of tax evasion and delinquency. In this respect little attempt was made to help reduce the widespread fiscal fraud. As a result, although some direct tax simplifications were implemented, they result in lower revenues for the Government. In fact, the root cause of inequity in the tax system appears to lie in the fiscal fraud so widely practiced by high income groups.

61. A critical look at the measures adopted during the past two years reveals the following. First, no fundamental changes in the tax system has been made. It is true that some efforts were initiated in the direction of fiscal reforms, but they by far are too piecemeal, and the magnitude of their impact is too marginal. Second, the numerous changes were of secondary importance to the attainment of the objective. Third, each of the changes in the tax law is accompanied by numerous provisions giving various exemptions to tax-payers. The reforms thus risk creating another layer of complexity. Finally implementation of the reforms was contradictory to Plan objectives.

62. Against the VIth Plan fiscal objectives, namely, a) the progressive imposition of unique income and value added taxes; and b) the improvement in fiscal administration, control and sanctions, the fiscal measures adopted represent a step in the wrong direction, albeit a small step. Thus, after two years, the tax rates on various income taxes (para 13) were reduced, but none of the numerous taxes was abolished. Similarly, the coverage of the value-added tax was extended, but the many indirect taxes that plagued the system were not eliminated nor reduced. As for tax enforcement, the fact that tax evasion is still treated as a civil offense, not a criminal one, means that the situation has little improved, despite other measures, such as the reorganization of the Tax Accountant Commission, increase in interest rate on penalty, etc.

63. The marginal impact of these measures results from the fact that they did not address the root cause of the problem. Thus reduction of tax rates, increases in the level of forfaitaire 30/ are only effective if they are accompanied by measures to enforce the tax rules. Furthermore, the essence of tax reforms should be the simplification of the taxes in order to broaden the tax base. Policy measures in this respect are sometimes conflicting, reflecting less of a confusion than an attempt to achieve many

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29/ Although it is true that indirect taxes such as import taxes have some built-in progressivity, they are by far more regressive than income taxes.
30/ See appendix for fuller detail

things at the same time. Thus, while the dividend tax was reduced to triple taxation (para. 13), the revision specified various rates in order to encourage equity participation. In fact, the changes in turnover tax legislation were so numerous that it was reported that one year after its implementation, not a single company had voluntarily taken advantage of the new system.31/ Similarly, one year after the duty drawback systems was instituted, not one single export company has profited from the system.32/ Fragmented, imperfect information flow is only part of the problem. The other part, of course, is the complexity of both the system and the reforms.

64. Similar to other measures implemented during 1982-1983, the first phase of fiscal reforms contains numerous provisions and exemptions to tax payers. This excessive degree of selectivity, besides risking unintended distortions in the economy, can lead to inertia and inflexibility in the use of this policy instrument, thus preventing a quick and effective adjustments when the need arises. It appears to result from a preference for administrative control over pricing variables, since the exceptions can more easily be made with the former than with the latter.

65. Thus, in the case of profit tax, its reduction was accompanied by a special exemption for small taxpayers who can request profit tax to be fixed for the next three years according to certain criteria set by the Government for each profession. Similarly, the tax on professional income was reduced but at a special rate (50 percent) for medical and paramedical professions introduced in specified regional zones. These examples serve to illustrate the administrative characteristics, found commonly in the recent fiscal measures. To what extent they result from a reconciliation of various political self-interest groups and to what extent they reflect a habit of attempting to achieve many things at once, is an open question.

66. One of the most serious shortcomings of the new measures is their implementation procedure. Without an adequate machinery to collect and enforce tax rules, without a strengthened tax record processing and stiffened penalties, the likelihood that fiscal reforms will lead to an expanded tax base and an improvement in equity is remote. Another aspect of the numerous, minor changes each year is that they give the impression of major policy reforms to those who actually carry them out. In this respect, a simplified, clear and preannounced multi-year tax reform package with a time schedule to be implemented is preferable to annual revisions of tax policy.

67. In conclusion, some fiscal measures in 1982-83 have been taken in the direction of the Plan, and thus represent a conscientious effort to achieve the desired objectives. Unfortunately, the measures were too

31/ Level above which small businesses have to prepare tax returns instead of paying a fixed, agreed-upon amount.

32/ Jean Marc Tirard. Tunisia: An Overview of its Tax System. Bulletin for International Fiscal Documentation, Vol. 38, January 1984.

partial and their implementation too slow. Lacking a more decisive effort to enforce the tax rules, and given the numerous special provisions and exemptions, the policies taken, resulted in lower tax revenues and a slightly worsened regressivity in income distribution. The implementation of the tax reforms has to be accelerated in order to prevent further deterioration. External events would in no way affect these outcomes.

2. Saving Mobilization Objective

68. The years 1982 and 1983 saw a decline in domestic savings both as a percentage of GDP and as a percentage of investment financing. The absolute level of Government savings may not be as alarming, but its trend is. This is even more striking as revenues have increased at a fairly rapid rate of 19 percent per annum. The cause of the deterioration came from the expenditure side. Indeed, more than once, the Finance Laws had to be revised in order to raise additional taxes. In the past, the comfortable financial situation made possible by oil revenues has caused expenditures to grow at a rapid pace and indeed the growth of social expenditures has certainly helped to improve the standard of living, including that of the poor.

69. This trend in expenditure cannot continue during the remainder of the VIth Plan, without seriously jeopardizing the country's financial position, given that on the revenue side: a) oil revenues will stagnate given dim prospects of reserves and world prices; b) until the tax reforms are fully implemented, revenues from direct taxes are uncertain; c) import taxes, already high and bearing a disproportionate fiscal burden, cannot be expected to increase further when the external constraints dictate imports to grow at no more than 10 percent per annum.

70. Curbing expenditure growth therefore addresses the root cause of the problem. It is also the most effective instrument as far as the speed and the likelihood of affecting the target is concerned. Whereas revenue increasing policies would yield uncertain result, depending on factors such as collection ability or elasticity of demand for the good, the reduction in current expenditures could take place within a reasonably short time, with certainty in outcome. The most important drawback, especially in the context of the present Tunisian political scene, is the social impact of this policy. The successful strategy thus lies in minimizing the impact of current expenditure cuts on the poorest segments of the society by more efficiently utilizing social expenditures and by focussing more on those who need them most.

71. To the extent the Government can control the wage bill and transfers and subsidies, the recent growth of current expenditures is a disturbing trend. The Government wage bill increased much faster than current revenues (para. 37). In particular in 1983 the Government has twice increased the bonus (indemnities). Although the difficulty to hold down wage demand in the public sector while that of private sector is rapidly rising is well known, the Government's leverage to negotiate wage contracts with civil servants cannot be underestimated. The Government's willingness and ability to moderate wage demand in the public sector would set an example of stringent expenditure based on dwindling resources.

72. The Government wage freeze in 1984 is a step in the right direction. Assuming that the Administration creates about 10,000 new jobs (rather than the ambitious 13,000 envisaged in the plan) to keep its share in employment generation, each percentage point in the average nominal salary would cost the Government at least TD6 million in 1984. Of course this is a short term measure as wages cannot be contained for long before productivity starts declining. To avoid future sudden increases in the wage bill as a result of catching-up effect, the Government could announce a long-term program whereby after the initial freeze period, wages in the Government sector will be indexed to the consumer price index.

73. But the role of Government in wage policy goes well beyond its own wage bill. The influence it can exert on wages in public enterprises and in the private sector is tremendous. This leverage ought to be fully used. Thus, to help contain aggregate demand, the buoyant growth of which was linked to wage and price policy, the Government has to take a leading role in restraining wage growth in both the Administration and public enterprise sectors. Through moral persuasion and in its role as an arbitrator, it can persuade enterprises and trade unions to follow wage price guidelines set in each sector.

74. Growth in consumer subsidies, particularly through the Price Stabilization Fund (CGC) will be difficult to reduce without raising consumer prices. Given the political constraints, it may be best to maintain these subsidies in absolute terms in the short term while further studies to better target them to the truly needy are carried out. Even maintaining the absolute size would require periodic, consistent, pre-announced increases of subsidized product prices according to import price. To further facilitate the control of these subsidies, annual and quarterly budgeting and forecasting of CGC expenditure is recommended. Changing the method of recording expenditures from an accrual basis to a cash basis could also help reduce arrears which tend to slow the decision-making process.

75. Public enterprises appear to be an area where policy actions are urgently needed and perhaps most effective. The situation represents both a problem and a challenge. The problem, viz, budgetary drain, distortions, etc.has been explored at some length earlier. <u>The challenge is the leverage that the Government can have on them</u>. Here we distinguish two levels. In the short run, it is the Government control on these enterprises that should be used more effectively to initiate changes in the desired direction. In particular, because of the role that these enterprises play in the economy, the adjustments made through them will have a ripple effect throughout the economy. <u>In the long run, for efficient resource allocation, and to reduce the administrative burden on the Government, the role of these PE's should be gradually reduced</u>. This is indeed reflected in the spirit of the "Public enterprises reforms" currently being undertaken by the Government.

76. The first and most urgent priority action is to reduce PE's investment by postponing the start of new projects and/or extend current projects over a longer time period. Equipment subsidies other than replacement investment should be frozen together with participation. Operating subsidies should be reduced it in the framework of PE's reforms. Loan requests could be channelled to development banks or commercial banks,

where approval should be based on economic viability. The reduction in investment, while conforming to the overall objective of the VIth Plan also gives time to initiate and implement fundamental reforms. Indeed, there is no reason why excess capacity 34/ should exist side by side with overinvestment done mostly by PE's in capital intensive industries. There is evidence that many PE's look at investment targets as a performance yardstick and therefore attempt to fulfill this goal, sometimes at the expense of employment creation and financial equilibrium, the main objectives of the VIth Plan.

77. In parallel, measures to stem the rising tide of PEs' losses should be started. Most importantly, wage policy should be used in the long run to re-adjust the distorted relative factor costs which discourage employment creation and in the short run to contain PEs' losses. Thus, it is recommended, as a first step, that PEs freeze wages for a period and to link wage increases to CPI thereafter. Although experience of other countries has shown that this kind of measure usually is not effective for more than a short period (1-2 years), such a move is recommended because such a break in wage increases, and the corresponding "savings" in the Government subsidy budget, could help keep afloat some public enterprises in the short term, thereby mitigating the effect on unemployment.

78. Pricing policy in general has been addressed in Volume II of this report. Its key importance to PE's profits warrants further elaboration here. Public enterprises can roughly be classified into three categories according to the three price regimes namely, fixed price, free price and cost-plus prices. Most commodities in the first price group are produced (or at least marketed) by PE's, and include some staple goods, social services, and public utilities. The proportion of the second group produced by PE's is smaller although no less important since they include export goods, the prices of which are determined internationally. 35/ The third group consists mostly of manufactured goods, the price of which are regulated on a cost-plus basis.

79. If pricing policy measures discussed in Volume II are implemented, the number of staples would be reduced to the most basic, necessary commodities such as wheat, sugar and oil, while products such as school paper and dairy products could have their price subsidy gradually replaced by some direct targeting subsidy mechanism. In the case of dairy products, this should be accompanied by increasing access to imports currently limited to the two public enterprises (STIL and Tunisie Lait) to improve their efficiency (over-charging of packaging).

34/ As evidenced by production capacity and mission's informal discussion. Estimate of excess capacity is said to run as high as 50 percent in some industries.

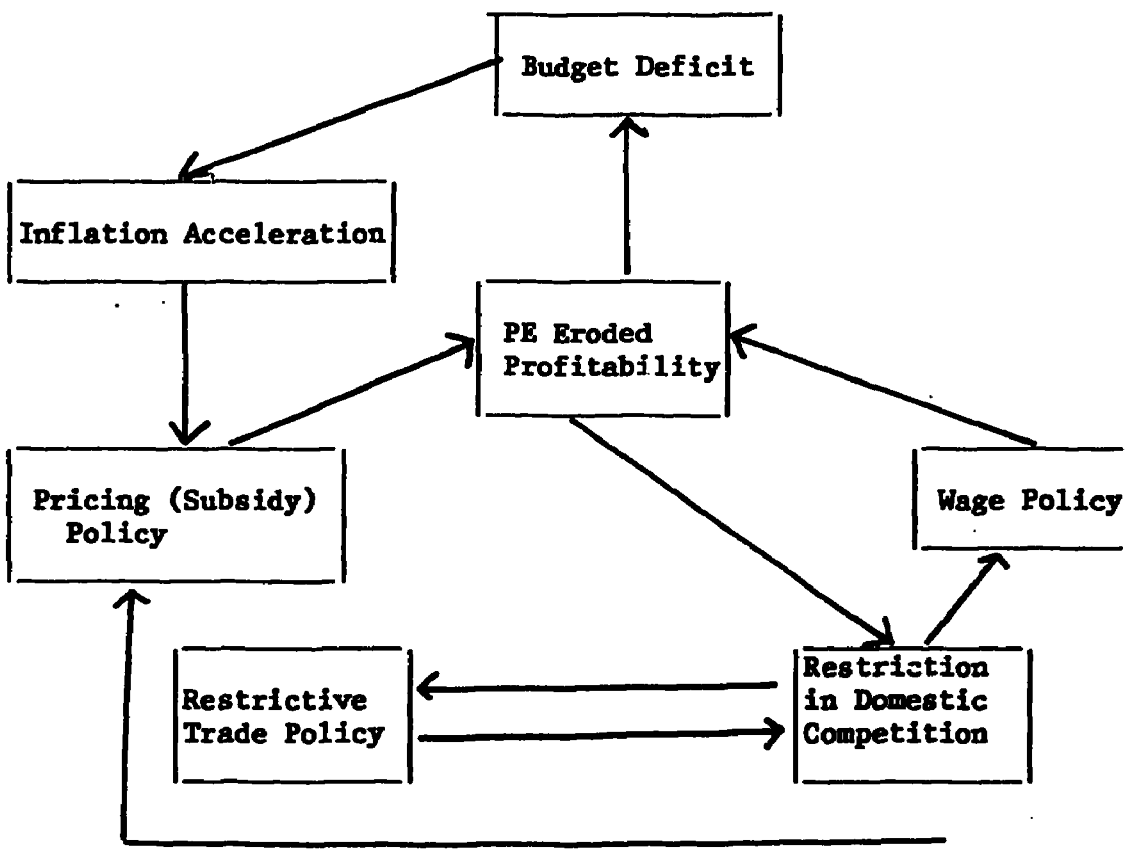
35/ Although as discussed earlier, price of the portion sold domestically is subject to control, as well as prices of raw materials and inputs.

80. For social services and public utilities, systematic procedures for tariff determination are called for. More attention needs to be paid to economic costs and benefits before below-cost pricing is decided. When such a decision is taken for social reasons, it may be more useful to set a pre-announced multi-year annual subsidy to be agreed upon and implemented by individual agency. The establishment of a central regulatory agency to coordinate this activity may prove beneficial.

81. Pricing policy of manufacturing commodities (and of tradeables in general) is intimately linked to other policies. As was made abundantly clear in this report, domestic pricing of tradeables encompasses two other aspects: external trade policy and domestic competition policy. Thus, the efficiency of PE's producing them and the extent to which Government subsidy expenditure can be curbed depend on: (a) enterprises being allowed to charge remunerative prices sufficient to cover costs; and (b) that these costs being contained through opening up the domestic market to competition, including foreign competition, in a gradual manner. These measures relate to the long term efficiency and their impact will not be felt immediately, although their implementation needs to be quickened.

82. Long term measures: The link between these three policies and their impact on PE's profit and ultimately the budget deficit is sketched out in Figure 1 below.

FIGURE I



It can be seen that pricing, international trade and competition policies have direct feedback among themselves. Domestic restriction of competition (investment licensing) necessitates a restrictive trade policy and price control to offset monopolistic tendencies. Wage and price policies can jeopardize the profitability of public enterprises which then causes or aggravates budget deficits. Government financing of these deficits may accelerate inflationary pressures which then require further price control; or the Government may raise additional taxes through customs duties as in 1982-83 which then affects further pricing policy.

83. This circular policy trap is perpetual in itself and only persistent, long-term and committed measures can break this vicious circle by first reducing the link between the budget deficit and PE's. The most logical step is to cut down the number of PE's which carry out objectives other than profit-seeking (social, national security, etc.) It was proposed earlier that

the number of subsidized basic commodities could be reduced. The PE's that produce the commodities removed from the list could, together with the other PE's in manufacturing, form a group for which financial control could be transferred gradually to the development or commercial banks. The transfer would involve either broadening of ownership or concessionary sale.

84. The gradualy transfer of PE's to the banks and the simultaneous liberalization of the prices they can change, will not simply stem the budgetary drain, but also facilitate a number of long-term measures, to bring the inefficient PE's back in a viable financial position. These measures include, but are not restricted to, wage policy, waste control, and energy conservation. Once these enterprises at least stop the losses, their transfer to the private sector can be envisaged, and this could be facilitated if the commodity they produce is in a free regime. In parallel, the domestic market should be opened up via the relaxation of the trade regime. Indeed, as mentioned above, competition from abroad seems to be the only effective way to stem excessive real wage increases and to improve a number of inefficiencies in the production system, viz, product quality, capacity utilization.

85. The Government is well aware of the need for public enterprises reform and has included in the VIth Plan a program to that effort. As noted earlier, in practice, no measures had been taken before March 1984 when the Council of Ministers adopted an urgent set of measures, including for the first time a deadline to elaborate a program to revamp about 20 enterprises which incurred the largest losses. This is a commendable step although it is taken quite late and the budgetary deterioration in 1982-83 has made it more difficult to implement than had been the case two years earlier: while losses of PE's grew larger, Government's net financial surplus has declined and therefore its ability to rehabilitate them is reduced.

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APPENDIX

NOTE ON PUBLIC FINANCE DATA

The public sector in Tunisia consists of: a) the central administration account which in turn consists of ordinary account, capital account, special accounts, the most important of which is the Price Stabilization Fund (CGC), special assistance funds (Fonds de Concours), and the annexed budgets of post office and television; b) the social security scheme which consists of unemployment insurance, national retirement fund and insurance fund for old people; c) municipal government consisting of about 170 municipalities (communes) which are grouped in 19 gouvernorats; d) public enterprise sector consisting of some 547 public enterprises of which only about 63 percent are under financial control of the Government.

Data Sources and Problems: In 1983 two events took place which changed the way data on public finance are presented. First, recognizing the complexity of various accounts which often prevents policy makers from apprising the situation promptly, the Tunisian authorities have undertaken jointly with the International Monetary Fund the reclassification of the budget in accordance with the standard methodology of IMF's Government Financial Statistics. After a great deal of efforts, Tunisian data on central administration and social security scheme are thoroughly revised and reclassified, which shows a budget deficit different from the standard presentation of the Ministry of Planning and Finance (MOPF). Basically, the difference is due to five major elements. First, the new approach (hereafter denotes IMF) proposed a period coverage different from official statistics (expenditures are recorded when they are disbursed). Second, the relationship between the Treasury and Annexed Budgets (PTT) is redefined. (PTT budget is defined as a non financial PE, rather than part of the Treasury). Third, other adjustments, such as leads and lags in payments and receipts are made. Fourth, internal movements are recorded and taken into account, although the situation is not yet ideal until public debts information is clarified. Fifth, the reclassification of some categories to confirm to the Government Financial Statistics (GFS) Methodology. For instance, borrowing is treated not as receipts but as financing. Similarly, principal payment of a loan is not considered on expense but to reduce financing.

Second, the separation of the two ministries in 1983, from the Ministry of Planning and Finances to Ministry of Planning and Ministry of Finances appeared to have been a factor in having two different sets of data for public finance. The Ministry of Planning has jurisdiction over the capital budget while the Ministry of Finance has control over other budgets, together with technical ministries.

Consequently, the Ministry of Finance (MOF) data on budget, which correspond to the IMF classification, are completely distinct from those published by the Ministry of Planning (MOP). In addition to the basic differences mentioned earlier, data from MOF also includes a category called Extrabudgetary category (Hors Budget), mostly in expenditures, which are transactions which do not pass through the Treasury, usually with creditors countries. Until public debts accounts are clarified, there are serious disputes between the two ministries as to the magnitude of these extraordinary budget accounts.

Even disregarding the category called "Hors Budget", and after redefining the categories from official accounts on the basis of the new methodology, there still remains large statistical discrepancies, particularly for 1983 to be resolved. One possible explanation lies in the period coverage, PTT relationship, and leads and lags in receipts and payments (above). The second possible explanation is for 1983, with the separation of the two Ministries, a reconciliation of data has not been reached yet and MOP data may lag behind actual recordings. Both explanations seem feasible in the context of Tunisia. For the purpose of our analysis, we use the MOF data. This decision comes from two factors. First, these data are derived from detailed, carefully-checked categories of revenues and expenditures classified by IMF according to a methodology which is well defined and standardized. Second, except for 1983, data for which may lag for MOP, the two sources are fairly close. Thus, we use data from MOF in the analysis.

APPENDIX

A SUMMARY OF THE TUNISIAN TAX SYSTEM

(A) DIRECT TAXES

(1) Tax on Industrial and Commercial Profits. (Patente) is levied on business profits and consists of two types: standard minimum tax (droit d'exercise) and proportional tax (droit proportionnel). The former consists of a general tax of 1 percent on total business receipts and a special tax, also based on gross receipts (the amount of this tax varies between 80 and 300 dinars). The proportional tax is levied on corporations or on individuals and varies with activity (the rate on profits ranges from 6 percent in the case of fishing industries with profit less than 1000 dinars and 44 percent in the case of commercial activities). In the case of estimated tax base (régime forfaitaire), those activities submitted to turnover tax on services must pay taxes on industrial and commercial profit between 30 and 260 dinars. For those not submitted to turnover tax, between 30 and 320 dinars.

(2) Tax on Profits of Non-Commercial Professions. (IBPNC: Impôts sur les Bénéfices des Professions Non Commerciales) is levied on professionals in a similar way to patente, except the rate for proportional tax varies between 17 and 20 percent in the case of actual tax base; and 11.5 percent in the case of estimated tax payments.

(3) Tax on Dividends and Interest. (IRVM: Impôts sur les Revenus des Valeurs Mobilières). For individual societies, 25 percent of dividends valued on CPE and for unincorporated societies, 25 percent of dividends distributed.

(4) Tax on Interest. (IRC: Impôts sur les revenus des créances): 11.5% (exception: bonds 27.7%).

(5) Tax on Real Estate. (ISLPVM: Impôts sur les Plus Valeurs Immobilières) is levied on profits from sale, gift, contribution, and exchange of real estate and land used for contributions or acquired (1 year or less: 30 percent; 2nd or 3rd year: 10 percent; from 4th to 10th year: 20 percent).

(6) Tax on Wages, Salaries and Pensions. (ITS: Impôts sur les traitements et salaires) levied on gross income after deduction of social contribution and 10 percent professional fees. The rate varies between 5 and 8.9 percent by income categories.

(7) Surtax on Individual Income. (CPE: Contribution personnelle d'Etat) is levied on all family income, defined as resources after family deductions and varies progressively between 5 and 80 percent for income larger than 900 dinars.

(8) Solidarity Contribution. (CES: contribution exceptionnelle de solidarité). The rate, calculated on the basis of other taxes, varies between 5 and 10 percent.

(9) Tax on Industrial and Commercial Establishments. Levied to profit local communes, calculated as .2 percent of gross receipts and 25 percent on estimated base.

(10) Hotel Taxes. Levied on gross receipts with 1% rate.

(11) Tax on Professional Training. Calculated on gross salary.

(B) Indirect Taxes: consist mainly of turnover taxes (taxes sur les chiffres d'affaires), custom duties (droits de douane), excise taxes (droits sur produits, monopoles fiscaux et transport), transaction taxes (droits sur les actes et les transactions).

(1) Turnover taxes consist of tax on production (taxe à la production), tax on consumption (taxe à la consommation) and tax on services (taxe sur les prestations de services).

a. Tax on production varies between 6 and 14.4 percent, distributed between domestic and imported goods;
b. Tax on consumption: varies between 8 and 23 percent, distributed between domestic goods and imports;
c. Tax on services : varies between 4 and 11 percent.

(2) Custom Duties consist of import duties (droits de douane à l'importation), tax on import procedure (taxe de formalité douanière à l'importation) and tax on export procedure (taxe de formalité douanière à l'exportation).

a. Import duties: vary between 0 and 200 percent;
b. Tax on import procedure.

C. Excise Taxes

D. Transaction Taxes

APPENDIX

TAX RATES

I - Tax on Industrial and Commercial Profit (Patent)

A) Actual Tax Base: 1%

1) Standard Minimum Tax on Gross Receipts
a) General
b) Special

Progressive Tax on Gross Receipts:

Up to 15,000 D	80 D
From 15,001 to 25,000 D	100 D
From 25,001 to 35,000 D	150 D
From 35,001 to 50,000 D	200 D
From 50,001 to 100,000 D	250 D
Above 100,000 D	300 D

2) Proportional Tax:

a) Corporations

Commercial activities	44%
Industrial, touristic or transportation activities	38%
Handicraft activities	20%
Fisheries activities	6%
Inf. profit or equal to 1000 D	6%
Exceeding	15%
Agricultural activities	15%

b) Individual and Grouped Entrepreneurs

- Commercial activities:

From 0 to 1000 dinars (profits)	10%
Exceeding	40%

- Industrial, Handicraft, Touristic or Transportation Activity

From 0 to 1000 D	10%
Exceeding	25%
- Industry, transportation and tourism	
- Handicraft	20%

- Pharmaceutical Activity:

- Up to 1000 dinars increase	10%
- From 1000 to 9000 dinars	25%
- Above 9000 dinars	40%

- Fisheries activities
  - Up to 1000 dinars increase 6%
  - Above 1000 dinars 15%

B) ESTIMATED BASE:

1) Activity subject to TPS (Min. 30 D)
- Sales - 10,000 dinars for consumption (Max. 180 D)

- Sales - 7,000 dinars for other required services (Min. 30 D)
(Max. 260 D)

2) Other Activities (commerce, transformation, production, etc.)
- Sales 15,000 dinars (Min. 30 D)
(Max. 320 D)

- Not importers nor exporters: the amount of tax is determined according to the scale.

II - TAX ON BENEFIT OF NON-COMMERCIAL PROFESSIONS

1) Standard minimum tax 1%

2) Proportional Tax
a) System
IBPNC according to results 20%
Rent and agricultural leases 17%

b) Contractual system calculated on 80% of the Sales 11.5%

III - TAX ON DIVIDENDS (IRVM)

a) Persons or associates 25%

b) Percentage, profit, token or vouchers, etc. 25%

IV - TAX ON INTEREST 11.5%
- Treasury Bond bearer 27.7%

V - REAL ESTATE TAX
Tax taken from gains on sales, gifts, shares or exchanges of buildings and lands for construction or acquired for one year or less 30%

- The second or third year 10%
- From the 4th or 10th year 20%
- Above the 10th year exemption

VI - TAX ON WAGES, SALARIES

Rates are as follows:

- Up to 2,500 dinars net income	5%
- From 2501 to 4000 dinars net income	6.3%
- From 4001 to 6000 dinars net income	7.6%
- More than 6000 dinars net income	8.9%

A reduction in tax of 10% per child with a maximum of 3 dinars and for 4 children is allowed.

VII - TAX ON INDIVIDUAL INCOME

1) Income subject to tax:
Total of net income after deductions:

- For married taxpayer		150 D
- For dependent children	- first	90 D
-	- second	75 D
-	- third	60 D
-	- fourth	45 D
- For a child without scholarship going to University		200 D
- For dependent parents: 10% of net revenue with a maximum of		150 D
- For life insurance		
- Insurance holder		100 D
- Spouse		50 D
- First child		25 D
- Second child		15 D
- Third child		10 D

2) Tax Rates:
a) Detailed tables showing taxes for different income categories are provided at the Tax Office
b) Progressive Rates by Income Brackets:

- Income less than 900 dinars	0%
- First bracket for income between 900 and 1300 dinars	5%
- Last bracket for income more than 100,000	80%

VIII - SOLIDARITY CONTRIBUTION

- Calculated on the amount from ITS	5%
-	10%
- Calculated on the amount of the legal contract	10%
- Calculated on the amount of the special system	10%
- Calculated on the IRVM or IRC	10%

IV - TAX ON INDUSTRIAL AND COMMERCIAL ESTABLISHMENT
Levied for communes and calculated:

- On gross receipts	0.2%
- On estimated base	25%
- On special base	25%

X - TAX ON HOTELS

- Calculated on gross receipts except shows	1%

XI - TAX ON PROFESSIONAL EDUCATION

Calculated on gross salaries	2%

II - INDIRECT TAXES - 1983

1 - Production Taxes:(P.T.)

- P.T. without Consumption Tax	14.40%	to	16.82%
- P.T. with C.T. (Table A)	14.40%	-	23.00%
- P.T. with C.T. (Table Abis)	14.40%	-	20.68%
- P.T. with C.T. (Table A ter)	14.40%	-	18.55%
- P.T. without C.T. Table E)	8.00%	-	8.69%
- P.T. with C.T. (Table A)	8.00%	-	11.59%
- P.T. with C.T. (Table A bis)	8.00%	-	10.52%
- P.T. with C,T. (Table A ter)	8.00%	-	9.52%
- Gas and electricity	6.00%	-	6.33%

2 - Consumption Tax: (C.T.)

- Regular rates:			
Table A	23.00%	to	36.74%
Table A bis	16.00%	-	22.98%
Table A ter	8.00%	-	10.30%
C.T. with P.T. (limited activities)			
Table A	23.00%	to	33.33%
Table A bis	16.00%	-	21.05%
Table A ter	8.00%	-	9.52%

3 - Tax on Services

Regular rate	8.00%	to	8.69%
Table D (building)	4.00%	-	4.16%
Non commercial activities	4.00%	-	4.16%
SNCFT (Railroad Company) and persons exercising exclusively transport of merchandise	11.00%	-	12.36%
Hotels and touristic enterprises	10.00%	-	11.11%

Art. 34, Law 82:91 of 31 December 1982

STATISTICAL ANNEX

1/ These three tables were prepared in a standardized format to facilitate cross-country comparisons. The presentation, therefore, may differ somewhat from the one used by the Tunisian authorities.

Table No.

TABLE 1A/10
TUNISIA: NATIONAL ACCOUNTS SUMMARY, 1970-84
(MILLIONS OF CURRENT DINARS)

ITEM		1980	1981	1982	1983	1984
GROSS DOMESTIC PRODUCT	10	3,540.5	4,162.0	4,816.5	5,520.0	6,235.0
RESOURCE GAP (M-X)	131	189.9	352.4	498.2	488.9	595.0
IMPORTS, G&NFS	9	1,614.5	2,074.3	2,271.5	2,431.4	2,715.0
EXPORTS, G&NFS	8	1,424.6	1,721.9	1,773.3	1,942.5	2,120.0
TOTAL EXPENDITURES	125	3,730.4	4,514.4	5,314.7	6,008.9	6,830.0
CONSUMPTION	1	2,690.9	3,168.9	3,780.5	4,378.9	4,970.0
GENERAL GOVERNMENT	3	512.2	615.7	786.0	914.4	1,030.0
PRIVATE	2	2,178.7	2,553.2	2,994.5	3,464.5	3,940.0
INVESTMENT	4	1,039.5	1,345.5	1,534.2	1,630.0	1,860.0
FIXED INVESTMENT	5	1,002.0	1,290.0	1,565.0	1,630.0	1,900.0
CHANGE IN STOCKS	6	37.5	55.5	-30.8	-	-40.0
DOMESTIC SAVING	126	849.6	993.1	1,036.0	1,141.1	1,265.0
NET FACTOR INCOME	11	-1.5	11.0	25.8	33.3	10.0
CURRENT TRANSFERS	111	23.7	25.0	30.1	38.2	35.0
NATIONAL SAVINGS	128	871.8	1,029.1	1,091.9	1,212.6	1,310.0
AVERAGE EXCHANGE RATE						
DINARS PER $	129	0.405	0.494	0.591	0.678	0.777
DINARS PER SDR	130	0.534	0.600	0.679	0.764	0.849

SOURCE: STANDARD TABLE- FROM NATIONAL ACCOUNTS TABLES

TABLE TUN/1A/10

The following three tables have been prepared according to standardized World Bank concepts and definitions to facilitate cross-country comparisons and aggregations. These data may not agree with similar data in the main text and this statistical appendix. Moreover, they are the revised figures which were not available at the time the report and the statistical appendix were prepared.

TABLE 1A/11
TUNISIA: NATIONAL ACCOUNTS SUMMARY, 1980-84
(MILLIONS US$ AT CONSTANT 1980 PRICES)

ITEM		1980	1981	1982	1983	1984
GROSS DOMESTIC PRODUCT	135	8,745.0	9,227.9	9,227.9	9,670.1	10,201.1
TERMS OF TRADE	136	-	99.1	161.1	132.0	19.1
GROSS DOMESTIC INCOME	137	8,745.0	9,327.0	9,389.0	9,802.1	10,220.2
RESOURCE GAP	138	469.1	765.4	997.3	898.0	991.1
IMPORTS (G&NFS)	139	3,987.8	4,505.3	4,547.3	4,465.8	4,522.6
CAPACITY TO IMPORT	140	3,518.8	3,739.9	3,549.9	3,567.8	3,531.4
EXPORTS (G&NFS)	141	3,518.8	3,640.8	3,388.8	3,435.8	3,512.3
TOTAL EXPENDITURES	142	9,214.1	10,092.4	10,386.4	10,700.0	11,211.3
CONSUMPTION	143	6,646.5	7,140.8	7,382.8	7,817.6	8,197.9
GENERAL GOVERNMENT	144	1,265.1	1,370.9	1,452.4	1,531.4	1,612.9
PRIVATE	145	5,381.4	5,769.9	5,930.5	6,286.2	6,585.0
INVESTMENT	146	2,567.6	2,951.7	3,003.5	2,882.5	3,013.4
FIXED INVESTMENT	147	2,474.9	2,833.1	2,914.6	2,766.4	3,013.4
CHANGES IN STOCKS	148	92.6	118.6	88.9	116.1	-
DOMESTIC SAVING	149	2,098.5	2,186.3	2,006.2	1,984.5	2,022.3
NET FACTOR INCOME	150	-3.7	24.6	50.4	47.2	16.4
CURRENT TRANSFERS	151	58.5	55.9	58.7	68.0	57.4
NATIONAL SAVING	152	2,153.3	2,266.8	2,115.3	2,099.7	2,096.1
DINAR DEFLATORS (1980=100)						
GROSS DOMESTIC PRODUCT	153	100.0	111.4	128.9	141.0	151.0
IMPORTS (G&NFS)	154	100.0	113.7	123.4	134.5	148.3
EXPORTS (G&NFS)	155	100.0	116.8	129.2	139.6	149.1
TOTAL EXPENDITURES	156	100.0	110.5	126.4	138.7	150.5
GOVERNMENT CONSUMPTION	157	100.0	110.9	133.7	147.5	157.7
PRIVATE CONSUMPTION	158	100.0	109.3	124.7	136.1	147.8
FIXED INVESTMENT	159	100.0	112.5	132.6	145.5	155.7
CHANGES IN STOCKS	160	100.0	115.9	-85.6	-	-
EXCHANGE RATE INDEX (US$ PER DINAR)	161	100.0	82.1	68.4	59.7	52.2

SOURCE: STANDARD TABLE

TABLE TUN/1A/11

TABLE 1A/12
TUNISIA: BALANCE OF PAYMENTS, 1980-84
(MILLIONS OF US DOLLARS)

ITEM		1980	1981	1982	1983	1984
EXPORTS OF G&NFS	77	3,518.8	3,495.5	2,996.9	2,863.2	2,732.7
GOODS, FOB	78	2,395.9	2,461.2	1,976.3	1,861.1	1,798.2
NON-FACT. SERV.	79	1,122.9	1,034.3	1,020.6	1,002.2	934.5
IMPORTS OF G&NFS	80	3,987.8	4,210.8	3,838.8	3,583.9	3,499.6
GOODS, CIF	81	3,623.7	3,788.0	3,383.4	3,119.0	3,061.4
NON-FACT. SERV.	82	364.1	422.8	455.5	464.9	438.2
RESOURCE BALANCE	83	-469.1	-715.4	-842.0	-720.6	-767.0
NET FACTOR INCOME	84	-3.7	22.3	43.7	49.1	12.9
PAYMENTS	85	398.5	422.9	418.4	372.3	373.8
RECIEPTS	86	394.8	445.1	462.1	421.4	386.7
NET CURRENT TRANSFERS	87	58.5	50.6	50.9	56.3	45.1
PAYMENTS	88	11.9	-	-	-	-
RECIEPTS	89	70.4	50.6	50.9	56.3	45.1
CURRENT ACCOUNT BALANCE	90	-414.2	-642.5	-747.4	-615.2	-709.0
NET DIRECT FOREIGN INVEST.	91	236.1	368.4	401.5	223.9	219.1
GRANTS	92	41.5	20.3	18.9	25.4	25.8
NET M&LT LOANS	93	344.3	295.0	340.7	371.3	399.6
DISBURSEMENTS	94	559.0	607.2	629.0	741.7	734.7
PAYMENTS	95	214.6	312.2	288.3	370.4	335.1
OTHER M&LT (NET)1/	162	-129.1	-19.6	-26.2	-25.7	-
NET IMF	96	-	-	-	-	-
DISBURSEMENTS	163	-	-	-	-	-
REPAYMENTS	164	-	-	-	-	-
NET SHORT-TERM CAPITAL	165	-	-	-	-	-
OTHER CAPITAL, NEI 2/	97	-143.6	-114.0	-14.5	35.0	103.2
CHANGE IN RESERVES	98	65.0	92.4	27.0	-14.7	-38.7

1/ INCLUDES DEBT DISCREPANCY BETWEEN DRS AND TUNISIAN DATA
2/ INCLUDES SHORT TERM CAPITAL, ERRORS & OMMISSIONS

SOURCE:STANDARD TABLE

TABLE TUN/1A/12

Table 1.1: POPULATION, LABOR FORCE AND EMPLOYMENT, 1975-80

	Age Group in thousands				In % of Total
	15 - 17	18 - 59	60 + and NA	Total	
1975 Census (Total Population)					
Total Working Age Population	401.1	2,465.2	363.7	3,230.0	100.0
Labor Force	175.6	1,338.5	157.5	1,621.6	30.2
Employment	101.9	1,166.2	98.4	1,366.5	42.3
Unemployment	73.7	172.3	9.1	255.1	7.9
Sub-total Male	206.0	1,221.3	198.9	1,626.2	50.3
Labor Force	120.0	1,100.9	91.4	1,318.3	40.8
Employment	63.3	953.9	88.8	1,106.0	34.2
Unemployment	56.7	147.0	8.7	212.4	6.6
Sub-total Female					
Labor Force	55.6	237.6	10.1	303.3	9.4
Employment	38.6	212.3	9.6	260.5	8.1
Unemployment	17.0	25.3	0.4	42.7	1.3
1980 Survey (Total Population)					
Total Working Age Population	459.7	2,807.0	425.7	3,692.4	100.0
Labor Force	170.1	1,528.1	111.6	1,809.8	49.0
Employment	124.4	1,347.7	106.8	1,579.9	42.7
Unemployment	45.7	180.4	4.8	230.9	6.3
Sub-total Male	230.8	1,358.2	237.1	1,826.1	49.4
Labor Force	119.4	1,225.5	101.4	1,446.3	39.1
Employment	78.7	1,059.5	96.8	1,235.0	33.4
Unemployment	40.7	166.0	4.6	211.3	5.7
Sub-total Female	228.9	1,448.8	188.6	1,866.3	50.6
Labor Force	50.7	302.6	10.6	363.5	9.9
Employment	45.7	288.6	10.0	343.9	9.3
Unemployment	5.0	14.4	0.2	19.6	0.6

TABLE 1.2: SECTORAL DISTRIBUTION OF EMPLOYMENT
(IN THOUSANDS)

	Census	Survey	Estimates	
	1975	1980	1981	1983
Agriculture	508.9	551.7	552.7	554.0
Mining/Energy	38.1	46.7	47.0	48.8
Manufacturing	235.2	299.9	319.7	350.7
Construction	128.4	158.1	164.4	169.4
Transport/Communication	56.0	70.0	72.5	75.5
Commerce/Banking/Insurance	124.3	119.8	123.6	135.1
Services	213.3	271.6	285.8	315.6
Unclassified	62.3	59.1	59.1	59.1
Total	1,366.5	1,576.9	1,624.8	1,708.2

Source: Census for 1975 and Population/Employment Survey for 1980.

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TABLE 2.1: MAJOR AGGREGATES AND SAVINGS IN CURRENT PRICES (1)
(IN MILLIONS OF DINARS)

	1971	1976	1980	1981	1982	1983
GDP AT MARKET PRICES	891.0	1931.5	3525.0	4134.8	4806.3	5462.0
NET FACTOR INCOME PAYMENTS (2)	-3.4	-25.2	22.2	36.0	55.9	25.0
GNP AT MARKET PRICES	887.6	1906.3	3547.2	4170.8	4862.2	5487.0
DEPRECIATION	60.0	145.0	325.0	380.0	464.0	562.0
INDIRECT TAXES	115.0	253.5	487.8	521.3	619.6	699.7
NATIONAL INCOME	712.6	1507.8	2734.4	3269.5	3778.6	4225.3
CONSUMPTION	730.7	1497.8	2688.9	3142.3	3743.5	4359.0
INVESTMENT	178.0	587.5	1026.0	1346.0	1572.0	1608.0
DOMESTIC SAVINGS	160.2	433.7	836.1	992.5	1062.8	1103.0
RESOURCE GAP	17.8	153.8	189.9	352.5	509.2	505.0
NATIONAL SAVINGS (2)	156.8	408.5	858.3	1028.5	1118.7	1128.0
CURRENT ACCOUNT BALANCE (DEFICIT)	-21.2	-179.0	-167.7	-316.5	-453.3	-480.0
MEMO ITEM:						
NET CURRENT TRANSFERS	8.5	-0.2	23.7	9.0	12.4	5.0

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.
(2) INCLUDES NET CURRENT TRANSFERS.

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TABLE 2.2 : MAJOR AGGREGATES AND SAVINGS IN 1980 PRICES (1)(2)
(IN MILLIONS OF DINARS)

	1976	1980	1981	1982	1983
GDP AT MARKET PRICES	2751.0	3525.0	3708.5	3720.5	3887.7
NET FACTOR SERVICE INCOME	-36.2	22.2	33.0	45.2	18.5
GNP AT MARKET PRICES	2714.8	3547.2	3741.5	3765.7	3906.2
GROSS NATIONAL SAVINGS	712.3	858.5	873.8	799.2	765.6
CONSUMPTION	2002.5	2688.7	2867.7	2966.5	3140.6
INVESTMENT	773.5	1026.0	1234.4	1234.0	1148.1
TERMS OF TRADE ADJUSTMENT (3)	-196.1	0.0	76.2	66.5	23.4
DOMESTIC SAVINGS	552.4	[illegible]	[illegible]	[illegible]	[illegible]
RESOURCE GAP	221.1	[illegible]	[illegible]	[illegible]	[illegible]
EXPORT PRICE INDEX (1980=100)	55.9	100.0	116.8	129.3	135.8
IMPORT PRICE INDEX (1980=100)	69.5	100.0	111.1	123.3	133.6

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.
(2) DATA IN 1980 PRICES HAVE NOT BEEN ESTIMATED PRIOR TO 1976.
(3) BANK CALCULATION.

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TABLE 2.3 : GROSS DOMESTIC PRODUCT BY ORIGIN (1)
(IN MILLIONS OF DINARS IN CURRENT PRICES)

	1971	1976	1980	1981	1982	1983
AGRICULTURE/FISHERIES	167.7	349.6	485.4	568.8	629.9	688.8
AGRICULTURE	162.1	335.0	460.0	542.6	593.7	646.2
FISHERIES	5.6	14.6	25.4	26.2	36.2	42.6
EXTRACTIVE INDUSTRIES	50.1	128.4	423.0	514.2	556.3	628.5
PETROLEUM	40.0	102.2	378.0	449.3	503.6	563.5
MINING	10.1	26.2	45.0	64.9	52.7	65.0
ELECTRICITY/WATER	14.6	27.8	53.5	62.4	70.7	89.9
MANUFACTURING	73.1	202.4	421.3	493.9	554.8	649.0
FOOD PROCESSING	30.3	61.1	101.2	126.8	130.1	134.4
TEXTILES/LEATHER	14.2	60.7	103.1	121.0	142.8	164.9
MECHAN./ELECTRICAL	8.8	23.8	55.7	66.6	80.0	94.2
BUILDING MATERIALS	5.8	19.0	61.3	74.8	85.7	109.9
CHEMICAL	6.5	11.2	49.1	45.7	42.4	56.4
OTHER	7.5	26.6	50.9	59.0	73.8	89.2
CONSTRUCTION	45.7	141.0	234.0	262.0	308.0	332.9
TRANSPORT/COMM	44.8	97.4	170.2	193.9	230.0	287.8
SERVICES	272.6	514.7	881.3	1075.9	1272.7	1409.1
TOURISM	29.4	66.2	138.8	160.6	184.6	191.6
HOUSING	54.2	80.5	115.5	194.3	220.7	239.7
COMMERCE & OTHER	189.0	368.0	627.0	721.0	867.4	977.8
GOVERNMENT SALARIES	107.4	216.7	368.5	442.4	564.3	676.3
GDP AT FACTOR COST	776.0	1678.0	3037.2	3613.5	4186.7	4762.3
INDIRECT TAXES	115.0	253.5	487.8	521.3	619.6	699.7
GDP AT MARKET PRICES	891.0	1931.5	3525.0	4134.8	4806.3	5462.0

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.

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TABLE 2.4 : GROSS DOMESTIC PRODUCT BY ORIGIN (1)(2)
(IN MILLIONS OF DINARS AT 1980 PRICES)

	1976	1980	1981	1982	1983
AGRICULTURE AND FISHERIES	511.8	485.4	533.0	480.0	482.5
EXTRACTIVE INDUSTRIES	265.3	423.0	412.8	398.1	429.3
PETROLEUM	228.0	378.0	363.7	351.6	373.4
MINING	37.3	45.0	49.1	46.5	55.9
ELECTRICITY/WATER	38.3	53.5	55.5	61.5	67.0
MANUFACTURING	284.6	421.3	468.9	481.3	526.0
FOOD PROCESSING	92.7	101.2	115.2	106.6	110.3
TEXTILES, CLOTHING & LEATHER	85.0	103.1	110.8	115.6	124.5
MECHANICAL & ELECTRICAL	34.6	55.7	63.1	69.0	76.0
CONSTRUCTION MATERIALS & GLASS	25.7	61.3	70.3	71.5	82.6
CHEMICAL	15.3	49.1	53.1	55.3	61.2
OTHER MANUFACTURING	31.3	50.9	56.4	63.3	71.4
CONSTRUCTION AND PUBLIC WORKS	180.0	234.0	236.7	244.2	244.4
TRANSPORT AND COMMUNICATIONS	130.5	170.2	179.0	185.6	201.0
SERVICES	688.9	881.3	954.8	965.7	989.6
TOURISM	103.3	138.8	143.8	130.1	119.5
HOUSING	95.7	115.5	170.0	176.0	181.5
COMMERCE & OTHER SERVICES	489.9	627.0	641.0	659.6	688.6
GOVERNMENT WAGES AND SALARIES	288.5	368.5	400.7	422.4	444.1
GDP AT FACTOR COST	2387.9	3037.2	3241.4	3238.8	3384.3
INDIRECT TAXES LESS SUBSIDIES	363.1	487.8	467.1	481.7	503.4
GDP AT MARKET PRICES	2751.0	3525.0	3708.5	3720.5	3887.7
MEMO ITEM:					
GDP DEFLATOR (1980=100)	70.2	100.0	111.5	129.2	140.5

SOURCE:MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.
(2) DATA IN 1980 PRICES HAVE NOT BEEN ESTIMATED PRIOR TO 1976.

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TABLE 2.5 : RESOURCES AND USES IN CURRENT PRICES (1)
(IN MILLIONS OF DINARS)

	1971	1976	1980	1981	1982	1983
GDP AT MARKET PRICES	891.0	1931.5	3525.0	4134.8	4806.3	5462.0
TRADE DEFICIT	17.8	153.8	189.9	352.5	509.2	505.0
IMPORTS	230.2	716.0	1614.5	2074.4	2277.9	2440.0
EXPORTS	212.4	562.2	1424.6	1721.9	1768.7	1935.0
TOTAL RESOURCES/USES	908.8	2085.3	3714.9	4487.3	5315.5	5967.0
CONSUMPTION	730.7	1497.8	2688.9	3142.3	3743.5	4359.0
PRIVATE	592.7	1204.6	2177.3	2520.4	2955.3	3438.3
PUBLIC	138.0	293.2	511.6	621.9	788.2	920.7
CAPITAL FORMATION	172.9	558.0	990.0	1290.0	1540.0	1625.0
GOVERNMENT	40.6	83.3	164.6	213.9	257.1	294.5
PUBLIC/MIXED ENTER.	64.8	243.3	342.5	461.8	608.2	669.5
PRIVATE ENTERPRISES	45.2	144.7	297.9	433.3	477.4	430.0
HOUSEHOLDS	22.4	86.7	185.0	181.0	197.3	231.0
CHANGES IN STOCKS	5.1	29.5	36.0	55.0	32.0	-17.0

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.

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TABLE 2.6 : RESOURCES AND USES IN 1980 PRICES (1)(2)
(IN MILLIONS OF DINARS)

	1976	1980	1981	1982	1983
GDP AT MARKET PRICES	2751.0	3525.0	3708.5	3720.5	3887.7
TERMS OF TRADE ADJ.	-196.1	0.0	76.2	66.5	23.4
GDY AT MARKET PRICES	2554.9	3525.0	3784.7	3787.0	3911.1
TRADE DEFICIT (3)	221.1	189.6	317.4	413.5	377.6
IMPORTS	1030.0	1614.2	1867.3	1848.0	1826.0
EXPORTS (3)	808.9	1424.6	1549.9	1434.5	1448.4
TOTAL RESOURCES/USES	2776.0	3714.6	4102.1	4200.5	4288.7
CONSUMPTION	2002.5	2688.7	2867.7	2966.5	3140.6
PRIVATE	1604.0	2177.1	2306.0	2370.0	2520.7
PUBLIC	398.5	511.6	561.7	596.5	619.9
FIXED INVESTMENT	752.0	990.0	1160.0	1271.0	1190.0
CHANGE IN STOCK (4)	21.5	36.0	74.4	-37.0	-41.9

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.
(2) DATA IN 1980 PRICES HAVE NOT BEEN ESTIMATED PRIOR TO 1976.
(3) INCLUDES TERMS OF TRADE ADJUSTMENT
(4) INCLUDES STATISTICAL ADJUSTMENT

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TABLE 2.7: GROSS INVESTMENT BY SECTOR AND ITS FINANCING (1)
(IN MILLIONS OF DINARS AT CURRENT PRICES)

	1971	1976	1980	1981	1982	1983
GROSS FIXED CAPITAL FORMATION	172.9	558.0	990.0	1290.0	1540.0	1625.0
AGRICULTURE	27.3	64.3	147.0	178.1	202.5	236.8
MINING	6.0	19.2	22.0	23.4	26.3	29.0
PETROLEUM	17.3	69.9	98.1	203.2	267.0	150.0
ELECTRICITY/WATER	12.7	50.8	71.9	89.4	109.2	134.3
MANUFACTURING	20.2	95.5	134.5	216.0	267.7	346.3
TRANSPORT/TELECOMMUNICATION	30.6	97.0	205.0	235.4	249.7	247.2
HOUSING	22.4	86.7	185.0	198.0	236.0	265.0
TOURISM	17.8	9.5	32.3	33.0	47.8	62.0
COMMERCE/OTHER SERVICES	2.0	4.0	6.0	3.5	4.4	4.6
INFRASTRUCTURE	16.7	61.1	88.2	98.0	116.4	135.8
CHANGE IN STOCKS	5.1	29.5	36.0	55.0	32.0	-17.0
GROSS INVESTMENT	178.0	587.5	1026.0	1345.0	1572.0	1608.0
FINANCING:						
NATIONAL SAVINGS	156.8	408.5	858.3	1028.5	1118.7	1128.0
OF WHICH: GOVERNMENT (2)	70.4	285.6	587.4	780.8	849.0	933.1
CAPITAL INFLOWS	97.7	229.0	311.3	510.2	645.9	741.1
PUBLIC	65.1	98.6	144.2	199.1	232.8	338.9
PRIVATE	32.6	130.4	167.1	311.1	413.1	402.2
CAPITAL OUTFLOWS	29.3	66.6	117.3	148.2	173.9	125.1
CHANGE IN FOREIGN ASSETS (INCREASE = -)	-47.2	16.6	-26.3	-45.5	-18.7	-136.0
TOTAL FINANCING	178.0	587.5	1026.0	1345.0	1572.0	1608.0

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.
(2) GOVERNMENT SAVINGS ARE DEFINED AS GENERAL GOVERNMENT CURRENT REVENUE MINUS SALARIES, CONSUMPTION, AND INTEREST PAYMENTS.

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TABLE 3.1 : BALANCE OF PAYMENTS (1)
(IN MILLIONS OF DINARS)

	1971	1976	1980	1981	1982	1983
CURRENT ACCOUNT:						
RECEIPTS, TOTAL	253.3	640.3	1613.0	1966.8	2071.9	2230.0
MERCHANDISE FOB	117.2	338.3	970.0	1212.4	1164.8	1290.0
NON-FACTOR SERVICES	95.2	223.9	454.6	509.5	603.9	645.0
FACTOR SERVICES	30.5	72.2	159.9	226.9	281.1	280.0
TRANSFERS	10.4	5.9	28.5	18.0	22.1	15.0
PAYMENTS, TOTAL	274.5	819.3	1780.7	2283.3	2525.2	2710.0
MERCHANDISE FOB	176.0	598.3	1398.6	1782.3	1911.8	2040.0
NON-FACTOR SERVICES	54.2	117.7	215.9	292.1	366.1	400.0
FACTOR SERVICES	42.4	97.2	161.4	199.9	237.6	260.0
TRANSFERS	1.9	6.1	4.8	9.0	9.7	10.0
CURRENT ACCOUNT DEFICIT	-21.2	-179.0	-167.7	-316.5	-453.3	-480.0
BALANCE OF TRADE FOB	-58.8	-260.0	-428.6	-569.9	-747.0	-750.0
NET NON-FACTOR SERVICES	41.0	106.2	238.7	217.4	237.8	245.0
NET FACTOR SERVICES	-11.9	-25.0	-1.5	27.0	43.5	20.0
NET CURRENT TRANSFERS	8.5	-0.2	23.7	9.0	12.4	5.0
CAPITAL ACCOUNT:						
NET FOREIGN INVESTMENT	14.3	44.0	95.6	181.3	237.6	165.0
GRANTS	18.4	22.8	16.8	10.0	11.2	15.0
NET SHORT-TERM CREDITS(2) (3)	6.2	23.6	-48.9	26.0	37.0	168.8
M & LT CAPITAL, NET (4)	29.5	72.0	130.5	144.7	186.2	267.2
PUBLIC SOURCE, NET	31.5	55.9	98.0	122.0	153.7	212.1
--GROSS DISBURSEMENTS	40.4	72.6	127.4	189.1	221.6	323.9
--REPAYMENTS	8.9	16.7	29.4	67.0	57.9	111.8
PRIVATE SOURCE, NET	-2.0	16.1	32.5	22.7	32.5	55.1
--GROSS DISBURSEMENTS	14.9	25.8	90.0	110.1	145.8	217.2
--REPAYMENTS	16.9	9.7	57.5	87.4	113.3	162.1
TOTAL NET CAPITAL INFLOW	68.4	162.4	194.0	362.0	472.0	616.0
SDR ALLOCATION	2.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN RESERVES (INCREASE = -)	-47.2	16.6	-26.3	-45.5	-18.7	-136.0
TOTAL NET RESERVES (3)	55.2	131.2	220.0	259.0	261.0	378.0

SOURCE: MINISTRY OF PLANNING, CENTRAL BANK
(1) ESTIMATES FOR 1983.
(2) INCLUDES ERRORS AND OMMISSIONS.
(3) INCLUDING FOREIGN RESERVE REVALUATION FOR 1983.
(4) ADJUSTED TO REFLECT DATA ON EXTERNAL BORROWING IN TABLE 4.1.

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TABLE 3.2 : EXPORTS OF GOODS BY CATEGORY & MAJOR COMMODITIES (1)
(IN MILLIONS OF DINARS AT CURRENT PRICES)

	1971	1976	1980	1981	1982	1983
AGRICULTURE AND FISHING	10.9	15.6	25.8	37.9	29.4	36.7
OF WHICH: FISH	1.1	4.2	11.3	10.8	14.3	16.0
PROCESSED FOOD	30.9	54.2	43.0	79.9	77.6	58.3
OF WHICH: OLIVE OIL	24.6	36.3	24.9	50.1	56.7	32.5
EXTRACTIVE INDUSTRIES	16.5	29.6	22.1	22.7	24.3	27.0
OF WHICH: PHOSPHATE ROCK	11.6	26.1	22.1	22.7	24.3	27.0
ENERGY	31.4	143.2	545.7	645.9	533.3	580.0
OF WHICH: CRUDE OIL	28.7	138.5	529.7	624.8	504.8	547.0
WOOD AND CORK	0.9	0.6	1.8	3.0	3.0	3.0
MECHANICAL/ELEC. INDUSTRY	5.0	9.8	30.7	40.0	58.5	60.0
CHEMICAL INDUSTRY	10.4	35.5	119.7	157.5	181.9	224.9
OF WHICH: PHOSPHORIC ACID	0.0	19.8	42.8	46.0	58.5	86.0
OF WHICH: SUPER PHOSPHATES	9.6	12.2	40.3	52.3	48.5	55.0
PAPER PRODUCTS	2.0	3.4	4.6	5.8	5.8	6.5
TEXTILES	3.3	43.3	170.4	197.7	236.6	270.0
OF WHICH: CARPETS	1.9	3.7	7.9	7.5	7.2	7.0
OF WHICH: CLOTHING	0.5	30.0	134.5	156.8	191.4	220.0
OTHER	5.9	3.1	6.2	22.0	14.4	23.6
TOTAL GOODS	117.2	338.3	970.0	1212.4	1164.8	1290.0

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.

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TABLE 3.3 : IMPORTS OF GOODS (1)
(IN MILLIONS OF DINARS
AT CURRENT PRICES)

	1971	1976	1980	1981	1982	1983
CAPITAL GOODS	52.9	209.6	300.5	474.1	609.4	580.0
RAW MATERIALS & SEMI-FINISHED PRODUCTS	57.5	189.3	445.0	524.3	620.9	645.0
ENERGY PRODUCTS	6.9	73.0	323.7	368.9	243.5	255.0
CONSUMER GOODS	25.3	103.9	240.8	287.3	338.5	400.0
CEREALS (2)	12.3	22.2	74.2	211.4	196.1	265.0
OTHER FOODSTUFFS (2)	25.1	58.7	82.9	0.0	0.0	0.0
OTHER GOODS	10.9	0.0	0.0	0.0	0.0	0.0
TOTAL IMPORTS (CIF)	190.9	656.7	1467.1	1866.0	2008.4	2145.0
LESS: FREIGHT & INSURANCE	14.9	58.4	68.5	83.7	96.6	105.0
TOTAL IMPORTS (FOB)	176.0	598.3	1398.6	1782.3	1911.8	2040.0

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.
(2) ALL FOOD IMPORTS COMBINED FROM 1981 ONWARDS.

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TABLE 3.4 : BREAKDOWN OF SERVICE RECEIPTS AND PAYMENTS (1)
(IN MILLIONS OF DINARS AT CURRENT PRICES)

	1971	1976	1980	1981	1982	1983
RECEIPTS						
NONFACTOR SERVICES	95.2	223.9	454.6	509.5	603.9	645.0
TOURISM & TRAVEL	56.5	133.8	276.5	312.3	367.2	380.0
FREIGHT & INSURANCE	15.5	44.8	97.6	122.3	150.1	165.0
GOVERNMENT	15.3	19.3	35.9	35.2	48.1	60.0
OTHER SERVICES	7.9	26.0	44.6	39.7	38.5	40.0
FACTOR SERVICES	30.5	72.2	159.9	226.9	281.1	280.0
INVESTMENT INCOME	2.9	10.1	32.6	41.6	53.5	35.0
WAGES & SALARIES	22.7	61.3	122.8	178.3	219.6	235.0
OTHER INCOME	4.9	0.8	4.5	7.0	8.0	10.0
CURRENT TRANSFERS	10.4	5.9	28.5	18.0	22.1	15.0
PAYMENTS						
NONFACTOR SERVICES	54.2	117.7	215.9	292.1	366.1	400.0
TOURISM & TRAVEL	15.3	25.0	43.2	54.0	87.2	90.0
FREIGHT & INSURANCE	28.5	68.8	132.8	162.0	188.4	205.0
OTHER SERVICES	10.4	23.9	39.9	76.1	90.5	105.0
FACTOR SERVICES	42.4	97.2	161.4	199.9	237.6	260.0
INTEREST PAYMENTS	12.0	20.6	87.6	104.4	120.0	140.0
OTHER INVESTMENT INCOME	5.0	21.2	25.4	36.4	40.7	43.0
TECHNICAL ASSISTANCE (2)	10.9	11.3	2.6	0.0	0.0	0.0
OTHER WAGES & SALARIES	5.0	4.1	5.5	5.7	6.9	7.0
OTHER SERVICE PAYMENTS	9.5	40.0	40.3	53.4	70.0	70.0
CURRENT TRANSFERS	1.9	6.1	4.8	9.0	9.7	10.0

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.
(2) COMBINED WITH OTHER SERVICE PAYMENTS FROM 1981 ONWARDS.

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TABLE 4.1 - TUNISIA

SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL PUBLIC DEBT

PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC. 31, 1983
DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
(IN THOUSANDS OF U.S. DOLLARS)
TOTAL

YEAR	DEBT OUTSTANDING AT BEGINNING OF PERIOD		TRANSACTIONS DURING PERIOD					OTHER CHANGES	
	DISBURSED ONLY	INCLUDING UNDISBURSED	COMMIT-MENTS	DISBURSE-MENTS	SERVICE PAYMENTS			CANCEL-LATIONS	ADJUST-MENT *
					PRINCIPAL	INTEREST	TOTAL		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1979	2,457,309	4,067,165	892,498	637,798	153,195	162,737	315,932	25,423	62,368
1980	3,023,572	4,843,413	704,819	557,936	214,861	216,114	430,975	1,507	-194,599
1981	3,229,155	5,137,265	831,986	606,705	312,516	204,950	517,466	15,334	-377,225
1982	3,281,732	5,264,176	565,788	620,375	289,685	195,781	485,466	3,677	-206,684
1983	3,471,624	5,327,918	348,764	554,739	403,480	194,617	598,097	1,991	-258,097
1984	3,427,090	5,013,114							
			****** THE FOLLOWING FIGURES ARE PROJECTED ******						
1984	3,427,090	5,013,114	-	546,121	420,622	199,598	620,220	-	-7
1985	3,552,565	4,592,465	-	394,530	407,336	196,139	603,475	-	32
1986	3,539,800	4,185,181	-	278,081	390,882	187,789	578,671	-	26
1987	3,427,034	3,794,325	-	164,249	357,301	178,770	536,071	-	27
1988	3,233,998	3,437,051	-	77,633	359,357	165,499	524,856	-	-
1989	2,952,272	3,077,694	-	50,715	343,399	149,652	493,051	-	13
1990	2,659,598	2,734,308	-	36,967	325,970	133,177	459,147	-	12
1991	2,370,612	2,406,350	-	27,666	304,011	116,685	420,696	-	11
1992	2,094,280	2,104,350	-	10,070	275,453	100,759	376,212	-	11
1993	1,828,908	1,828,908	-	-	255,011	85,406	340,417	-	28
1994	1,573,925	1,573,925	-	-	223,491	70,962	294,453	-	-12
1995	1,350,422	1,350,422	-	-	207,613	58,234	265,847	-	7
1996	1,142,816	1,142,816	-	-	195,357	46,523	241,880	-	13
1997	947,472	947,472	-	-	177,256	35,626	212,882	-	-1
1998	770,215	770,215	-	-	133,884	26,538	160,422	-	-3
1999	636,328	636,328	-	-	112,100	19,552	131,652	-	26
2000	524,254	524,254	-	-	93,552	14,386	107,938	-	-12
2001	430,690	430,690	-	-	79,059	10,592	89,651	-	14
2002	351,645	351,645	-	-	64,650	7,646	72,296	-	10
2003	287,005	287,005	-	-	51,479	5,373	56,852	-	-2

* THIS COLUMN SHOWS THE AMOUNT OF ARITHMETIC IMBALANCE IN THE AMOUNT OUTSTANDING INCLUDING UNDISBURSED FROM ONE YEAR TO THE NEXT. THE MOST COMMON CAUSES OF IMBALANCES ARE CHANGES IN EXCHANGE RATES AND TRANSFER OF DEBTS FROM ONE CATEGORY TO ANOTHER IN THE TABLE.

Table 5.1: CONSOLIDATED CENTRAL GOVERNMENT FINANCIAL OPERATIONS
(in millions of Dinars)

	1971	1976	1980	1981	1982	1983
Total Receipts	239.5	542.3	1131.2	1334.1	1655.7	1890.1
Current Revenue	220.9	518.5	1108.5	1327.9	1646.4	1882.4
Capital Revenue	1.6	8.4	0.7	0.8	0.9	1.1
Grants	17.0	15.4	22.0	5.4	8.4	6.6
Total Outlays	254.5	604.7	1230.1	1433.6	1903.9	2193.3
Current Expenditure	194.1	385.4	784.1	909.9	1280.2	1507.4
Capital Expenditure	59.7	191.8	333.3	443.5	557.9	603.6
Net Lending	0.7	27.5	112.7	86.2	65.8	82.3
Overall Deficit	- 15.0	- 62.4	- 98.9	- 105.5	- 248.2	- 303.2
Current Surplus	26.8	133.1	324.4	418.0	366.2	385.0
Capital Deficit	- 31.8	- 195.5	- 423.3	- 523.5	- 614.4	- 688.2
Financing	15.0	62.4	98.9	105.5	248.2	303.2
Foreign borrowing	4.7	20.2	80.4	108.7	176.0	74.9
Drawing	28.7	36.8	117.5	167.2	267.0	193.6
Repayment	- 24.0	- 16.6	-37.1	-58.5	- 91.0	- 118.7
Domestic borrowing	10.3	42.2	18.5	- 3.2	72.2	228.3
Banking System	...	27.0	- 8.3		22.7	80.0
Private Sector	...	-	10.4	- 5.5	24.9	12.6
Public Sector (Adjustment)		...	15.2	16.4		

Source: 1971 Mission estimates
1976 to 1981: Government Finance Statistics (IMF)
1982 and 1983 Ministry of Finance, Tunisia

Note: This presentation confors to IMF functional classifications but differs from the National Accounts prepared by the Ministry of Planning at least for the figures published up to May 1984.

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Table 5.2: CONSOLIDATED CENTRAL GOVERNMENT REVENUE AND GRANTS
(in millions of Dinars)

	1971	1976	1980	1981	1982	1983
Total Receipts	239.5	542.3	1131.2	1334.1	1655.7	1890.1
Grants	17.0	15.4	22.0	5.4	8.4	6.6
Total Revenue	222.5	526.9	1109.2	1328.7	1647.3	1883.5
Capital Revenue	1.6	8.4	0.7	0.8	0.9	1.1
Current Revenue	220.9	518.5	1108.5	1327.9	1646.4	1882.4
Direct Taxes		197.4	297.3	352.2	430.1	475.6
Income Tax	57.1	82.6	162.2	203.0	242.8	251.8
Individual	-	33.8	75.0	88.7	108.0	111.4
Others	-	48.8	87.2	114.3	134.8	140.4
Social Security	24.3	51.0	102.9	116.8	146.9	178.6
Employees	-	21.6	53.6	60.7	68.1	81.1
Employers	-	29.4	49.3	56.1	78.8	97.5
Other Direct Taxes	-	13.8	32.2	32.4	40.4	45.2
Indirect Taxes	121.5	289.2	548.8	665.2	812.6	1003.5
Taxes on Goods/Services		138.0	264.5	310.6	345.0	405.0
Sales Taxes		34.3	56.3	67.4	80.5	122.0
Excises		32.3	87.5	116.4	126.8	147.2
Others		71.4	120.7	126.8	137.7	135.8
Taxes on External Trade		126.3	273.3	338.2	450.2	578.6
Import Duties		118.0	263.6	325.6	438.7	567.1
Export Duties		8.3	9.7	12.8	11.5	11.1
Other Taxes		24.9	11.0	16.4	17.4	20.3
Non-Tax Revenue	18.0	81.9	243.4	316.8	403.7	403.3
Oil receipts		51.1	173.3	248.5	312.6	308.7
Others		30.8	70.1	68.3	91.1	94.6
(Adjustment)	-	-	+ 19.0	- 6.3	-	-

Source and Note: See Table 5.1

Table 5.3: CONSOLIDATED CENTRAL GOVERNMENT EXPENDITURES BY ECONOMIC TYPE
(in millions of Dinars)

	1971	1976	1980	1981	1982	1983 Preliminary
Total	254.5	604.7	1,230.1	1,439.6	1,903.9	2,193.3
Current Expenditures	194.1	385.4	784.1	909.9	1280.2	1507.4
Wages and Salaries	107.5	172.0	326.0	350.4	503.0	597.6
Consumption of Goods and Services	31.1	51.6	145.3	132.8	197.2	236.0
Interest Payments	13.5	17.7	50.4	64.7	98.1	116.8
Subsidies and Transfers	42.0	144.1	267.4	431.7	490.6	540.7
- Social Security	16.7	45.9	70.5	100.3	122.1	147.1
- Special Accounts)	25.3 1/	98.2 1/	196.9 1/	331.4 1/	217.2	221.2
- Other)					151.3	172.4
Capital Expenditures	59.7	191.8	333.3	443.5	623.7	685.9
Direct Investment	59.0	1/	1/	1/	515.9	567.7
Financial Operations					107.8	118.2
Net Lending	.7	27.5	112.7	86.2	65.8	82.3
Participations	1/	1/	1/	1/	42.0	35.9

1/ Breakdown not available

Source and Note: See Table 5.1

Table 5.4: CONSOLIDATED CENTRAL GOVERNMENT EXPENDITURE BY FUNCTION
(In Millions of Dinars)

	1977	1976	1980	1981	1982	1983
Total Outlays	254.5	604.7	1230.1	1439.6	1903.9	2193.3
Current Expenditure	194.1	385.4	784.1	909.9	1280.2	1507.4
General Services			114.6	123.2	53.5	63.7
Defence, Security			136.0	113.0	267.3	308.7
Education			165.4	187.0	227.9	277.6
Health			66.6	82.9	97.9	124.9
Social Welfare			79.1	102.6	162.8	185.1
Housing Communities			10.0	9.3	40.0	55.0
Culture			26.9	28.5	30.5	41.0
Agriculture			80.2	145.2	61.8	75.2
Industry			8.4	16.0	50.6	55.0
Services			48.3	85.6	156.6	208.0
Others and Adjustment			48.6	16.6	131.3	113.1
Capital, Net Lending	60.4	219.3	446.0	529.7	623.7	685.9
General Services			13.2	7.1	5.4	9.5
Defense, Security			0.4	-	0.4	10.7
Education			25.1	19.9	28.0	39.4
Health			13.9	20.7	21.7	28.0
Social Welfare			8.8	9.2	11.7	35.9
Housing			70.5	63.5	79.2	84.9
Culture			10.7	5.4	13.6	9.3
Agriculture			122.5	85.3	114.6	115.1
Industry			54.5	34.5	66.2	66.0
Services			88.4	92.9	139.6	220.1
Others and Unclassified			38.0	105.0	132.8	57.0

Source and Note: See Table 5.1

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TABLE 6.1: MONETARY SURVEY
(IN MILLIONS OF DINARS)

	1971	1976	1980	1981	1982	1983
ASSETS						
NET FOREIGN ASSETS	55.2	131.2	190.8	235.7	252.0	389.1
NET CLAIMS ON GOVERNMENT	76.5	124.8	219.3	255.4	306.6	354.2
CLAIMS ON ENTERPRISES AND HOUSEHOLDS	285.6	763.4	1371.8	1722.5	2133.3	2558.2
ASSETS = LIABILITIES	417.4	1019.5	1781.9	2213.6	2691.9	3301.5
LIABILITIES						
MONEY	241.2	513.8	950.2	1114.9	1379.4	1653.4
CURRENCY (1)	80.4	185.0	299.6	342.8	440.0	533.3
DEMAND DEPOSITS	160.8	328.7	650.6	772.1	939.4	1120.1
QUASI-MONEY (2)	62.8	258.5	495.2	610.2	672.0	777.8
LONG-TERM LOAN FUNDS	24.8	57.1	94.7	109.5	120.5	130.4
COUNTERPART FUNDS	12.1	13.0	11.2	13.9	29.2	26.6
GOVERNMENT LOAN FUNDS	19.0	42.9	80.4	95.7	111.5	135.5
CAPITAL ACCOUNTS	36.1	100.5	159.1	205.8	268.1	324.0
OTHER ITEMS	21.4	33.8	-9.0	63.6	111.3	253.7

SOURCE:CENTRAL BANK
(1) INCLUDING POST OFFICE CHECKING DEPOSITS
(2) INCLUDING SAVINGS BANK DEPOSITS AND DEPOSITS UNDER THE HOUSING DEPOSIT SCHEME

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TABLE 6.2: MEDIUM AND LONG-TERM RESOURCES AND USES OF COMMERCIAL BANKS
(IN MILLIONS OF DINARS)

	1971	1976	1980	1981	1982	1983
MEDIUM AND LONG-TERM RESOURCES, TOTAL	148.4	427.2	775.5	957.8	1070.8	1243.4
CAPITAL ACCOUNTS	31.6	59.8	96.3	133.7	157.7	191.7
SPECIAL RESOURCES	54.0	108.9	184.5	214.7	241.6	275.7
TERM AND SAVING DEPOSITS	62.8	220.1	466.3	572.7	622.0	720.7
OTHER COMPONENTS OF QUASI-MONEY (1)	0.0	38.4	28.4	36.7	49.5	55.3
MEDIUM AND LONG-TERM USES, TOTAL	101.1	306.9	602.8	731.9	837.2	952.4
GOVERNMENT EQUIPMENT BONDS (NET)	22.6	70.1	201.4	242.5	281.4	333.5
INVESTMENT PORTFOLIO	8.2	33.5	39.2	45.0	50.4	60.7
CREDIT FROM SPECIAL RESOURCES	40.4	103.7	175.8	207.1	234.8	273.4
CREDIT FROM ORDINARY RESOURCES	29.9	99.6	186.4	237.3	270.6	284.8
SURPLUS OF RESOURCES OVER USES	47.3	120.3	172.7	225.9	233.6	291.0

SOURCE: CENTRAL BANK

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TABLE 6.3: DISTRIBUTION OF BANK CREDIT BY ECONOMIC SECTOR
(IN MILLIONS OF DINARS)

	1971	1976	1980	1981	1982	1983
AGRICULTURE	26.5	58.1	128.1	157.9	197.9	0.0
INDUSTRY	83.2	337.8	722.9	911.1	1158.2	0.0
MINING	7.3	7.3	49.3	58.1	73.9	0.0
PETROLEUM	1.2	2.8	4.6	0.8	4.0	0.0
ELECTRICITY/WATER	0.5	6.9	16.2	26.5	33.2	0.0
CONSTRUCTION/PUBLIC WORKS	11.2	50.3	80.2	99.6	130.0	0.0
MANUFACTURING	63.0	270.4	572.7	726.4	917.0	0.0
--FOOD PROCESSING	13.3	52.5	129.5	157.2	179.9	0.0
--CONSTRUCTION MATERIALS	6.9	41.4	84.8	106.2	136.2	0.0
--MECHANICAL/ELECTRICAL	15.1	58.7	141.5	175.5	228.5	0.0
--CHEMICAL	2.3	34.8	65.8	107.8	156.2	0.0
--TEXTILES	14.1	46.4	62.9	65.3	71.7	0.0
--CLOTHING & LEATHER	4.2	15.6	31.8	38.5	50.7	0.0
--WOOD & CORK	2.3	7.8	20.2	27.5	38.6	0.0
--PAPER & OTHER	4.8	13.2	36.3	47.4	55.2	0.0
SERVICES	105.4	382.0	619.3	770.0	936.4	0.0
TRANSPORT & COMMUNICATIONS	3.6	43.0	54.7	80.3	110.8	0.0
TOURISM	40.0	81.2	107.0	116.3	138.5	0.0
COMMERCE	44.0	154.5	230.1	288.0	353.1	0.0
OTHER SERVICES	17.9	103.3	227.5	285.4	333.9	0.0
TOTAL REGISTERED CREDIT (1)	215.1	777.8	1470.4	1839.5	2292.5	2721.0

SOURCE:CENTRAL BANK
(1) BY THE "SERVICE DES RISQUES" AT THE CENTRAL BANK

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TABLE 6.4: DISTRIBUTION OF BANK CREDIT BY TERMS OF LENDING
(IN MILLIONS OF DINARS)

	1971	1976	1980	1981	1982	1983
TOTAL REGISTERED CREDIT (1)	215.1	777.8	1470.4	1839.5	2292.5	2721.0
NON-REGISTERED CREDIT	-61.5	53.9	157.0	190.1	257.5	295.8
OVERALL TOTAL CREDIT	276.6	723.9	1313.4	1649.4	2035.0	2425.2
OF WHICH:						
REDISCOUNTED AT THE CENTRAL BANK	11.8	94.7	138.9	256.6	391.6	465.6
OF WHICH:						
SHORT-TERM CREDITS	198.9	518.5	953.0	1148.2	1418.5	1708.4
MEDIUM-TERM CREDITS	43.6	138.9	235.9	340.1	440.8	512.4
LONG-TERM CREDITS	34.1	66.5	124.6	161.1	175.7	204.3

SOURCE:CENTRAL BANK AND MINISTERY OF PLANNING
(1) BY THE "SERVICE DES RISQUES" AT THE CENTRAL BANK

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TABLE 7.1 : VOLUME OF AGRICULTURAL PRODUCTION (1)
(IN THOUSANDS OF TONS)

	1971	1976	1980	1981	1982	1983
HARD WHEAT	460.0	700.0	740.0	804.0	753.0	509.0
SOFT WHEAT	200.0	110.0	129.0	159.0	163.0	109.0
BARLEY	160.0	240.0	296.0	270.0	339.0	303.0
ARTICHOKES	11.9	13.0	13.0	18.0	15.0	12.0
TOMATOES	167.0	250.0	280.0	380.0	260.0	360.0
POTATOES	90.0	105.0	120.0	140.0	110.0	150.0
PEPPERS	96.0	120.0	115.0	124.0	90.0	130.0
MELONS	138.3	250.0	280.0	280.0	310.0	320.0
OTHER VEG.	249.0	270.0	315.0	305.0	325.0	330.0
CITRUS FRUITS	77.0	163.0	160.0	220.0	165.0	138.0
OLIVES	450.0	870.0	425.0	725.0	400.0	275.0
DATES	39.0	50.0	53.0	50.0	45.0	56.0
WINE GRAPES	125.0	83.0	94.0	70.0	63.0	70.0
TABLE GRAPES	20.0	25.0	30.0	35.0	28.0	35.0
APRICOTS	20.0	29.0	26.0	21.0	15.0	22.0
ALMONDS	13.0	24.0	37.0	35.0	30.0	32.0
OTHER FRUITS	69.3	80.0	115.0	125.0	117.0	138.0
LEGUMES AND PULSES	33.0	81.0	81.0	73.0	74.0	87.0
SUGAR BEETS	27.4	83.0	73.0	62.3	82.0	67.0
ESPARTO GRASS	76.0	60.0	100.0	71.0	24.4	60.0
TOBACCO	2.0	4.0	4.0	4.3	5.8	6.5
CORK	7.4	11.0	7.0	11.0	11.0	11.0
CATTLE	35.7	55.0	56.0	57.0	54.0	50.0
SHEEP	51.6	65.0	63.0	56.9	57.0	62.0
GOATS	5.1	10.0	10.0	8.2	8.4	8.3
POULTRY	13.6	27.0	55.0	53.3	67.0	53.5
OTHER MEAT	4.4	5.0	5.0	6.0	6.0	6.0
EGGS (2)	254.5	376.0	726.0	777.0	830.0	900.0
MILK	183.5	247.0	245.0	264.0	244.0	269.0
OTHER DAIRY PROD.	5.1	7.0	8.0	8.0	8.0	8.0
FISH	30.8	49.0	60.2	57.5	62.8	67.0

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.
(2) IN TENS OF THOUSANDS

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TABLE 7.2 : VALUE OF AGRICULTURAL PRODUCTION (1)
(IN MILLIONS OF DINARS AT CURRENT PRICES)

	1971	1976	1980	1981	1982	1983
CEREALS, TOTAL	35.2	60.8	91.0	109.6	126.2	106.7
HARD WHEAT	22.1	44.1	63.6	77.2	82.8	65.2
SOFT WHEAT	8.6	6.4	9.9	13.8	16.3	12.7
BARLEY	4.5	10.3	17.5	18.6	27.1	28.8
VEGETABLES, TOTAL	28.0	62.8	111.6	136.5	132.4	161.8
ARTICHOKES	0.7	1.1	1.5	2.4	1.7	1.7
TOMATOES	4.7	12.2	14.0	24.3	19.5	30.6
POTATOES	3.9	7.9	10.6	14.0	15.2	20.2
PEPPERS	5.9	13.8	29.1	31.0	16.6	24.7
MELONS	4.6	9.8	28.0	29.7	37.2	38.4
OTHER VEGETABLES	8.2	18.0	28.4	35.1	42.2	46.2
FRUIT, TOTAL	45.4	101.4	164.0	196.7	182.8	183.0
CITRUS FRUIT	3.1	10.7	25.3	29.5	29.7	30.4
OLIVES	20.7	54.8	38.2	72.5	60.0	35.8
DATES	4.3	10.5	21.2	22.5	26.1	30.8
WINE GRAPES	4.8	3.7	9.4	6.3	5.4	7.0
TABLE GRAPES	1.1	2.2	7.5	7.4	8.0	9.8
APRICOTS	1.0	2.1	3.4	3.0	2.7	3.4
ALMONDS	3.5	6.2	27.4	28.0	24.0	27.2
OTHER FRUITS	6.9	11.2	31.5	27.5	26.9	8.6
LEGUMES AND PULSES	1.7	8.0	10.5	9.9	20.2	32.3
INDUSTRIAL PRODUCTS	1.2	3.5	4.4	4.3	5.3	6.3
SUGAR BEETS	0.2	1.0	1.3	1.1	1.7	1.3
ESPARTO GRASS	0.4	0.6	1.3	0.9	0.4	1.2
TOBACCO	0.4	1.5	1.6	1.9	2.8	3.4
CORK	0.2	0.3	0.2	0.4	0.4	0.4
ANIMAL AND DAIRY PRODUCTS	71.9	129.8	182.4	194.2	260.7	293.8
CATTLE	17.3	28.6	32.8	38.2	44.8	46.0
SHEEP	25.8	43.8	60.8	60.3	74.7	85.6
GOATS	2.3	5.7	8.8	8.0	9.7	10.0
POULTRY	6.7	13.5	23.2	25.1	42.2	41.7
OTHER MEAT	0.9	1.4	2.5	3.5	4.5	5.0
EGGS	6.3	10.9	17.4	19.4	30.8	40.5
MILK	10.0	21.4	30.9	33.3	43.9	53.8
OTHER DAIRY PRODUCTS	2.6	4.5	6.0	6.4	10.1	11.2
OTHER AGRICULTURAL PRODUCTS NEI	2.2	3.5	5.6	6.2	6.7	7.0

FISH	7.1	14.6	37.7	37.4	51.6	63.1
TOTAL AGRICULTURAL VALUE	191.2	384.4	607.2	694.8	785.8	854.0

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.

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TABLE 8.1 : VOLUME OF MAJOR INDUSTRIAL PRODUCTS (1)
(IN THOUSANDS OF TONS UNLESS OTHERWISE INDICATED)

	1971	1976	1980	1981	1982	1983
EXTRACTIVE INDUSTRIES						
CRUDE OIL	4017.0	3710.0	5650.0	5400.0	5140.0	5550.0
REFINED OIL	1095.0	1115.0	1549.0	1511.0	1435.0	1430.0
NATURAL GAS (2)	17.6	235.7	311.0	390.0	445.0	425.0
PHOSPHATE ROCK	3162.0	3294.0	4502.0	4924.0	4729.0	5800.0
IRON ORE	935.0	511.0	390.0	396.0	274.0	310.0
LEAD CONCENTRATE	34.0	16.5	14.3	9.7	8.6	8.5
ZINC CONCENTRATE	21.5	12.5	16.3	15.5	15.2	15.5
SEA SALT	250.0	326.0	315.0	430.0	415.0	425.0
CHEMICAL FLUOR-SPAR	27.9	33.4	39.5	34.8	36.6	39.0
BARITE AND OTHERS	6.2	22.3	29.3	25.8	33.9	40.5
FOOD PROCESSING						
CEREAL PRODUCTS	659.4	905.5	1265.1	1282.7	1348.2	1401.5
OLIVE OIL	90.4	180.0	85.0	145.0	80.0	55.0
SUGAR	80.9	95.7	104.0	102.3	71.0	97.0
WINE (1000 HL)	950.0	650.0	619.0	548.0	500.0	600.0
BEER (1000 HL)	265.0	290.0	350.0	316.0	360.0	370.0
CANNED FRUITS & VEGETABLES	37.6	56.5	67.6	82.8	60.3	75.0
BISCUITS & CHOCOLATES	8.3	10.0	21.2	24.2	25.7	31.0
TEXTILES, CLOTHING & LEATHER						
YARN (3)	11518	13677	22910	24200	25680	27020
FABRIC (4)	60492	70489	77380	81700	88517	98690
READY-MADE CLOTHING (5)	5000	40000	29727	34170	35676	38463
SHOES (1000 PAIRS)	4190	7500	10200	11000	12100	13300
CARPETS (3)	750	1500	2053	2264	1824	2000
CONSTRUCTION MATERIALS						
CEMENT	584	478	1756	2040	1838	2500
RED CERAMICS	268	700	1400	1550	1800	2000
LIME	237	321	525	460	473	620
TILES (4)	1328	3620	8800	10000	11200	11850
CHEMICALS						
HYPERPHOSPHATE	7.0	30.7	67.0	44.0	39.1	30.0
SINGLE SUPERPHOSPHATE	36.0	49.0	66.0	61.2	40.9	60.0
TRIPLE SUPERPHOSPHATE	424.0	343.0	571.0	617.0	607.6	600.0
PHOSPHORIC ACID	1.0	236.7	474.0	453.4	505.8	620.0
FERTILIZER	9.4	41.5	291.9	483.8	498.0	499.0
PAPER						
PAPER PULP	20.4	19.4	22.0	21.4	17.9	19.0
NEWSPRINT	11.5	16.0	19.0	17.7	19.6	18.5
PACKAGING	13.8	19.3	36.8	39.0	40.7	53.0

SOURCE: MINISTRY OF PLANNING

(1) ESTIMATES FOR 1983.
(2) IN MILLIONS OF CUBIC METERS
(3) IN TONS
(4) IN THOUSANDS OF SQUARE METERS
(5) IN THOUSANDS OF ITEMS THRU 1979; CHANGE TO TONS FOR 1980 ONWARDS.

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TABLE 8.2 : VALUE OF MAJOR INDUSTRIAL PRODUCTS (1)
(IN MILLIONS OF DINARS AT CURRENT PRICES)

	1971	1976	1980	1981	1982	1983
EXTRACTIVE INDUSTRIES						
CRUDE OIL	44.0	108.4	354.0	460.0	506.0	566.0
REFINED OIL	14.4	20.6	16.0	78.0	118.0	125.0
NATURAL GAS	0.6	2.3	7.6	17.8	25.4	29.6
PHOSPHATE ROCK	13.2	37.4	72.0	96.1	88.6	110.4
IRON ORE	3.1	2.6	3.3	3.7	3.2	4.2
LEAD CONCENTRATE	1.8	1.3	2.0	1.6	1.1	1.1
ZINC CONCENTRATE	1.0	0.9	1.3	2.0	2.2	1.9
SEA SALT	1.2	2.2	2.9	3.7	4.0	4.3
CHEMICAL FLUOR-SPAR	1.0	1.1	1.4	1.8	2.1	2.3
BARITE AND OTHERS	0.3	0.6	0.5	0.7	1.4	1.7
FOOD PROCESSING						
CEREAL PRODUCTS	46.4	74.5	148.6	151.9	159.7	165.7
OLIVE OIL	27.0	72.0	47.9	96.5	76.5	46.0
SUGAR	8.0	17.5	26.1	27.9	18.4	24.6
WINE	5.2	4.4	8.4	6.0	6.1	9.5
BEER	3.2	4.8	7.4	7.8	9.3	10.0
CANNED FRUITS & VEGETABLES	8.2	15.2	36.5	49.1	40.6	54.3
BISCUITS & CHOCOLATES	3.3	5.3	21.0	26.8	27.1	34.5
TOBACCO	4.9	15.2	18.9	19.7	28.7	35.3
TEXTILES, CLOTHING & LEATHER						
YARN	8.6	15.0	40.8	44.4	48.8	53.9
FABRIC	19.8	38.4	58.7	62.1	76.9	91.4
READY-MADE CLOTHING	7.2	76.0	153.6	178.8	213.7	244.8
SHOES	4.6	12.2	32.1	37.4	46.0	55.6
KNITTED CLOTHING	6.5	17.2	54.3	64.4	74.3	83.9
CARPETS	3.8	10.4	14.3	21.2	22.5	26.8
CONSTRUCTION MATERIALS						
CEMENT	4.1	5.8	30.7	45.1	42.0	65.6
RED CERAMICS	1.9	5.9	18.4	27.1	33.3	40.0
LIME	1.2	2.2	6.1	6.7	7.7	11.7
TILES	1.6	6.1	21.4	24.3	33.3	37.5

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.

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TABLE 8.2 (CON'T) : VALUE OF MAJOR INDUSTRIAL PRODUCTS (1)
(IN MILLIONS OF DINARS AT CURRENT PRICES)

	1971	1976	1980	1981	1982	1983
CHEMICALS						
HYPERPHOSPHATE	0.0	0.6	2.2	2.0	2.1	1.4
SINGLE SUPERPHOSPHATE	0.6	0.6	1.0	1.5	1.0	1.5
TRIPLE SUPERPHOSPHATE	10.3	14.0	42.5	59.4	55.9	59.0
PHOSPHORIC ACID	0.0	22.6	80.6	82.7	94.1	122.8
PAINTS	1.5	5.3	10.2	15.9	20.2	23.1
TIRES	2.1	4.5	5.7	8.4	10.0	12.2
PHARMACEUTICALS	1.2	2.1	3.5	3.9	3.3	6.1
SOAP	2.9	6.3	14.0	12.3	14.7	16.4
FERTILIZER	0.3	3.4	37.3	64.2	68.3	69.5
MECHANICAL & ELECTRICAL INDUSTRIES						
STEEL	6.7	18.7	34.9	38.1	42.4	43.8
METALLURGY	4.6	9.8	17.5	16.9	16.6	17.5
METAL CONST. MATERIALS	7.5	16.3	60.0	62.3	74.1	86.1
NAVAL CONSTRUCTION	0.6	2.6	3.9	5.1	6.3	7.7
MECHANICAL HARDWARE	8.4	22.4	54.5	79.6	95.9	113.5
ELECTRICAL INDUSTRY	4.5	16.6	53.8	64.1	77.5	98.0
OTHER						
PAPER PULP	2.1	3.2	5.4	6.3	5.9	6.8
NEWSPRINT	1.8	4.1	7.0	7.7	9.6	9.8
PACKAGING	2.5	5.9	13.5	16.8	21.4	27.9
BOOKS & PRINTED MATERIAL	4.0	8.3	11.0	13.2	15.3	17.4
PLASTIC	3.0	9.9	18.6	22.4	28.8	34.3
FURNITURE	3.0	6.3	26.9	31.5	39.1	47.7

SOURCE: MINISTRY OF PLANNING
(1) ESTIMATES FOR 1983.

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TABLE 8.3 : INDUSTRIAL PRODUCTION INDEX
(1970 = 100 THRU 1977; THEREAFTER 1977 = 100)

	1971	1976	1977	1978	1979	1980	1981	1982
TOTAL MANUFACTURING	109.9	141.9	153.5	107.6	120.2	131.8	141.8	143.4
FOOD PROCESSING	120.5	139.6	155.0	105.9	114.1	113.5	119.5	129.9
TEXTILES	101.8	96.8	108.9	104.4	112.8	120.7	128.3	120.8
PAPER PRODUCTS	112.0	127.6	139.6	107.1	113.5	115.7	123.0	119.6
LEATHER & SHOES	98.4	107.9	109.2	96.6	98.8	79.3	72.6	84.1
CHEMICAL INDUSTRY	106.2	134.1	154.9	107.7	118.8	153.7	157.5	161.8
PETROLEUM DERIVATIVES	100.9	104.6	109.6	99.7	136.4	141.9	137.7	146.6
MECHANICAL/ELECTRICAL	110.3	212.3	227.4	107.3	118.0	131.1	147.3	152.4
CONSTRUCTION MATERIALS	110.9	139.9	150.3	117.5	145.5	171.1	190.3	182.3
CORK & OTHERS	120.4	160.0	173.1	0.0	0.0	0.0	0.0	0.0
EXTRACTIVE INDUSTRIES	100.5	99.4	110.0	113.0	126.4	130.2	127.3	120.8
OF WHICH: CRUDE OIL	98.7	89.4	102.7	114.9	128.6	130.7	125.5	118.4
OF WHICH: PHOSPHATES	104.7	109.3	119.7	103.6	115.2	124.7	130.2	123.9
ELECTRICITY	112.0	192.8	217.8	112.6	127.2	144.5	157.7	162.9
GENERAL INDEX	107.7	137.5	150.6	110.3	123.5	132.3	137.2	135.7

SOURCE: NATIONAL INSTITUTE OF STATISTICS

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TABLE 9.1 : WHOLESALE PRICE INDEX
(1970 = 100)

	1971	1976	1980	1981	1982	1983
GENERAL PRICE INDEX	107.4	154.2	198.1	223.0	260.6	277.7
LOCAL GOODS	109.4	149.9	194.1	212.1	259.8	280.4
IMPORTED GOODS	103.9	161.6	205.1	241.7	261.9	273.1
COMPONENTS:						
FOOD	111.6	163.7	201.4	216.4	261.5	281.4
INDUSTRIAL PRODUCTS	102.0	145.2	183.0	199.9	223.7	230.2
ENERGY	103.8	145.9	205.8	245.5	312.5	363.4
RAW MATERIALS	111.1	220.6	260.4	399.1	441.8	474.6

SOURCE: NATIONAL INSTITUTE OF STATISTICS

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TABLE 9.2 : COST OF LIVING INDEX
(1977 = 100)

	1971	1976	1980	1981	1982	1983
COST OF LIVING INDEX	73.2	93.7	124.9	136.1	154.6	168.5
COMPONENTS:						
FOOD	74.5	95.5	131.9	143.7	162.8	175.9
HOUSING	81.2	97.6	117.0	127.9	146.9	162.4
TRANSPORTATION	61.6	86.1	123.2	134.6	154.3	186.0
CLOTHING	72.0	94.2	115.8	123.6	136.5	147.5
PERSONAL CARE	62.1	83.9	120.3	133.1	159.5	173.0
LEISURE & OTHER	68.1	87.8	116.4	127.2	143.8	153.1

SOURCE: NATIONAL INSTITUTE OF STATISTICS

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Table 9.3: EVOLUTION OF LEGAL MINIMUM WAGE' 1971-83
(Monthly Salary in TD)

	Industrial SMAG)		Agricultural (SMAG)	
	40-Hour Work Week	48-Hour Work Week	Daily Wage	Monthly Equivalent 2/
1971	18.026	21.632	0.600	12.000
1972	18.026	21.632	0.600	12.000
1973	18.026	21.632	0.600	12.000
1974	22.533	27.040	0.800	16.000
1975	25.133	30.160	0.900	18.000
1976	25.133	30.160	0.900	18.000
1977	33.452	40.144	1.200	24.000
1978	37.136	44.564	1.332	26.640
1979	40.212	48.256	1.440	28.800
1980	45.585	54.704	1.630	32.600
1981	55.586	64.704	2.000	40.000
1982	75.586	85.072	2.400	48.000
1983	83.906 1/	95.056 1/	2.640	52.800

1/ Comprised of a base salary (TD53.906 and TD64.688) and a temporary allowance (TD30.368 and TD30.0). The allowances were instituted in 1981 and increased in 1982.
2/ Based on a 240 day year.

Source: Ministere du Plan

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