STRUCTURAL ADJUSTMENT PROGRAM OF IMF AND WORLD BANK: CASE OF TUNISIA, OUTCOMES, ACHIEVEMENTS AND PROSPECT OF INTEGRATION

By

Mars Hedi

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
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MASTER OF PUBLIC POLICY

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Committee in charge:

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Approval as of July, 2011

ABSTRACT

STRUCTURAL ADJUSTMENT PROGRAM OF IMF AND WORLD BANK: CASE OF TUNISIA, OUTCOMES, ACHIEVEMENTS AND PROSPECT OF INTEGRATION

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This study aims to examine the effects of structural adjustment programs imposed by IMF and World Bank to Tunisian authority in order to stabilize the macroeconomic variables in the short run and to open the economy in order to integrate the world economy in the long run.

Indeed **Tunisia** as a country in the process of development has been since its independence reliance on external financing. Indebtedness has been mastering and has continued adverse economic factors; it took such magnitude that the structural adjustment program makes it suggested by the IMF. The SAPs introduced in 1986 aimed, through sectoral reforms, to reduce aggregate demand and stimulates aggregate supply and thus reduces the persistent balance of payments deficit. Approval of international monetary fund to development countries and especially Tunisia has become more indispensable to enable them to rebuild their external accounts.

The objective of my study is to analyze the economic situation of Tunisia before and after the implementation of structural adjustment programs which spread from 1986 to 1999.

we proceed, to explain the origins and characteristics of SAPs suggested by the World Bank and IMF, first, and in the second part of the work we elaborate on the case of Tunisia, by using tables and graphs that illustrates the performance of macroeconomic variables in several areas after the introduction of sectoral reforms, the third part will be devoted to give an outlook to the Tunisian economy and if it has been integrated in the international economy and what should be done in order to ensure a full integration with a safe manner.

ACKNOWLEDGEMENTS

The supreme power almighty ‘Allah’ made it possible for me to study and write this thesis.

Completion of this thesis would have not been possible without the help and generous support of some very wonderful people .I’m particularly grateful to my advisor, Dr Yoo Jong II for his guidance and moral support. With his constructive criticism and insight, he has taught me to think and write more analytically. I am also thankful to colleagues for taking time to review my draft and their helpful suggestions on improving this paper;

I am also grateful to my friends in Korea for making my study at the KDI School of public policy and management such a rewarding experience. I will always be indebted to them for their loving support and understanding and for enriching my life in so many ways:

Furthermore, all the librarians at our school always assisted me in finding the required books, articles and journals. I am grateful to all these people in particular, along with every member of the school for all the cooperation, help and assistance extended to me, which facilitated the successful completion of my studies. I am also thankful to the officials of my government especially ministry of development and international cooperation , the national institute of statistics and the central bank , for providing me appropriate materials and guidance .

I would like to thank the many professors who have contributed to my understanding of economic development issues.

Finally special thanks go to my colleagues whom I consider my friends for their warm interest and for sharing their knowledge.

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Chapter 1

INTRODUCTION

The experience of adjustment in Tunisia in the period 1986-1999 provides a useful overview of the macroeconomic and structural policies that have allowed the authorities to restore the balance of payments while transforming an economy heavily regulated to an economy more oriented towards the market and exports. Implementation of this program in Tunisia was under the aegis of the IMF and World Bank, enrolled at the evidence in a difficult economic context. Moreover, the previous delays of such a program, generating an amplification of the financial crisis, have made indispensable.

In the 7th and 8th plan Tunisia has set ambitious targets to support a high rate of economic growth needed to improve the quality of life and address the problem of unemployment while continuing the effort to reduce inflation and increase foreign trade. That said, even if the creation of jobs remained at the same level during the period of adjustment with growth of the workforce, braking sustainable rate of unemployment requires significant reforms that have been coming in the future years.

Facing difficulties of economic barriers for the development in the developing countries such as Tunisia for years, the persistent deficits in their balance of payment, the accumulation of external debts and the loss of their borrowing capacity, the downstream IMF for these countries have become more than indispensable to enable them to address their external accounts.

To meet the financial aid to Tunisia, IMF should know the causes of such deficiency, to evaluate and quantify the necessary steps to remedy it, it was this condition that only he could tell whether the policies of this restoring balance and pay in strict subordination to the negative financial assistance has strengthened.

However, a literature has employed in recent years to examine the effects of the adjustments proposed by the fund on the economies of third world countries. The findings of this review, we suspected, are far from being consistent. They range from full approval to this method as cohesion less criticism made by those who believe that these organism policies are too restrictive, too uniform and ultimately prejudicial to economic growth.

My proposal is not to position myself vis a vis these reviews was somewhat unfair and unsubtle, but to try to analyze the real impact of stabilization policies of the IMF on economic growth and social level in Tunisia.

The main interest for the first part of this work which attempts to show how major economic reforms known as structural adjustment programs that have been proposed or imposed on third world countries, since the '80s, have caused, raises or model all other reforms, including social reforms. The question is whether this broad reform plan, designed and led by the Bretton Woods institutions includes goals of social fairness?

To answer this question, we must first look at what is settled structural policy: what are the origins and philosophy, these objectives and characteristics? We will then be able to ask ourselves what are the impacts of these policies on social programs. Thirdly, to trace the different stages, we should follow the various steps that have leaded the international financial institutions and the elite bankers who heads, has involved a medical mission in the Third World.

The presentation of Tunisia, its economic and social situation before any reform will be necessary for the comprehension of different components of our study.

This study focused on the SAPs applied along the period 1986-1999 and its effects on the Tunisian economy and prospective to integrate the global economy, this part will be divided into three subparts which constitute the bulk of our analysis.

So the first part will involve the introduction of SAPs and their origin then an analysis of the Tunisian economy, a description of its pre-adjustment economic situation is better now, however, essential to understand the challenges of structural adjustment program in Tunisia. In effect, like a number of signatory countries of structural adjustment programs, Tunisia has managed its first phase for the restoration of the main macro-economic (reduction of inflation, budget deficit, the debt service and restoration of growth), all the time, the second phase which represent the structural reforms including liberalization (foreign trade and public sector) is the linchpin remains partial. Tunisia was in timidly encouraging privatization.

The priority in the privatization process was for public enterprises of small and medium sizes. FTA (Free Trade Area) is deemed to give a boost to adjustment by speeding up the privatization component. This could be translated only by a reinforcement of heavy tendencies to work since the early '80s to know the deepening of social inequality and the weakening of the regulatory function of the state.

The second part is a synthesis realization and performances of Tunisian economy, then realizations of 9th plan of development in the three volumes: overall, sectoral and regional. It has two parts: the first part deals with the achievements and key lessons derived from preceding plan (1992-1996), the broad guidelines of the 9th plan and its achievement to make the transition to regional integration and the first steps to broad the openness of the economy, the pattern of development and adopts that policies and programs that were implemented to achieve the goals set.

The focus is more on quantitative aspects, analysis of the main characteristics of the scenario of development and the basic data relating to different sectors of economic and social activity both nationally and regionally and especially the performance of Tunisian economy.

The final part of this study is more accurate and will focus on the period stretching from 1997-2006, it studies and forecasts the accomplishments of the 10th plan and the outlook of the 11th plan which has as a primary objective, international economic integration and the complete liberalization of foreign trade and relationship in the context of regional and international environment.

The last chapter will be preserved to recommendations and conclusions.

1. Research objectives

The object of our study is to analyze the economic situation of Tunisia before and after the implementation of structural adjustment and how IMF helped Tunisian authority to make a structural change. I will evaluate the performance of Tunisian economy within the IMF intervention, and then I will trace meticulously the challenges for the Tunisian economy and the prospect of its integration in the world economy.

2. Research questions

Apart from what I have mentioned above these particular research questions are outlined for this study:

- What are the origins of structural adjustment program?
- Did the adjustment program suggested by IMF and World Bank was successful for Tunisian economy?
- Did Tunisia benefited a lot from this program and the structural change was helpful for

stabilization and growth?

- Did the SAPs helped Tunisian economy to integrate the world economy?
- What are the negative effects of SAPs on Tunisian economy and society?

3. The significance of the study

As mentioned above, Tunisia is among the few countries that the WB and IMF consider it as a successful model for development in the developing world. Taking this into consideration it can be said that Tunisia has realized a great change in its economic situation in the last two decades. Despite this fact, there are few studies conducted in the recent years to evaluate the SAPs conducted in Tunisia and their effects on the Tunisian economy and society.

This study aims to clarify the results of SAPs conducted in Tunisia and the tools used to change the nature of regulated economy to a market oriented one. We will explain the political instrument of economic and financial reform and evaluate its impact on the performance of the whole economy by pursuing the behavior of certain macroeconomic variables. Such a job gives scientific analyses to the success or failure of IMF and Tunisian authority in term of changing the nature of the economy within stabilization and growth which was improved since 1986.

This study may attribute to provide some understanding on the performance of Tunisian economy.

Moreover, this study may become an important source for researchers to undertake more studies in this area of economics.

Chapter 2

What are the structural adjustment programs?

In this chapter I will introduce the Bretton woods institutions by focusing on the change of their policy after early 1970 and the origin of the SAPs as a tool to adjust developing economies to the global demand, and then I will give a clear picture about SAPs, their characteristics and the principles of the assessment of these programs in developing countries and the controversy related to these assessments.

I. Bretton Woods institutions and origin of the programs

Issued from the meeting of Bretton Woods at the end of WWII, IMF and WB are multilateral organization that their objective overlaps and complete:

The IMF which established in 1946 in order to ensure stability of exchange rates and to financially support temporary balance of payment deficits. When it was founded in 1944, IMF was assumed on fundamental insights of Keynesianism, its first and main mission was to stabilize the international monetary system. After the Second World War, the IMF′s main goal was to help prevent another worldwide depression like that of the 1930s. That depression was caused by a liquidity failure[1]. The IMF was intended to counter this by lending money to some

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[1] Journal of Money, Credit, and Banking, Vol. 24, No. 3 (August 1992)

countries and pressuring others to pursue more expansionary policies. However, the IMF′s policy against the debtor countries changed after the collapse of Bretton Wood′s system[2].

The 1980s were marked by severe strains in the international economy which witness many balance of payment problem for developing countries. External financing slowed to a trickle for many countries while primary commodity prices dropped sharply. Thus, most of the developing countries had balance of payments problems and that as a result the IMF lending rose to unprecedented levels during the late 1980s. One of the key functions of the IMF is to restore investor and consumer confidence in countries facing macroeconomic imbalances, through structural adjustment programs[3].

″IMF is not an aid organization, it is not a development organization, it is not into projects or anything of that kind, it is there as a purveyor of macroeconomic advice, balance of payments support with conditionality attached to its aid to try and encourage good macroeconomic government. Short loans are the main instrument through which the fund provides concessional finance to the poorest countries″.[4]

The changing role of the fund from providing shorter funds for macroeconomic stabilization to providing medium term finance for structural adjustment to achieve growth and poverty reduction objectives has blurred the distinction between it and the World Bank.

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[2] Gowa, J. (1983) Closing the Gold Window: Domestic Politics and the End of Bretton Woods, Ithaca, NY: Cornell University Press.

[3] IMF working paper"effect of IMFstructural adjustment programs on expectations: the case of transition economies" p 3

[4] Angela Wood , "The IMF's enhanced structural adjustment facility: what role for development " September 1997

In the same sense the World Bank which was created in 1944 to rebuild Europe and Japan under the Marshall plan after WWII (IBRD)[5], provides financial and technical assistance to emerging market countries. This usually has occurred when their economies are in danger of default through overspending, extensive borrowing, which often leads to hyperinflation and devaluation of its currency. The World Bank is not actually a bank in the common sense. Instead, it is made up of two development institutions owned by 186 member countries—the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The World Bank provides low-interest loans, interest-free credits and grants to developing countries. In return, the country must adhere to strict budgetary reforms. It must agree to cut back on spending and support its currency. The World Bank loans are usually to invest in education, health, and infrastructure. The loans can also be used to modernize a country's financial sector, agriculture, and natural resource management. In its side the WB was viewed as to encourage international investment and provide it with additional marginal complement.

In 1979 in a situation which they themselves had contributed to create it, the Bretton Woods institutions, deviated significantly from their original functions[6], considering that it was time for their jurisdiction to proceed to an overall transformation of the economies of Third World to adjust to the demands of global market. IMF has practically abandoned the role of providing liquidity to both developing and developed countries. Instead it has become half development agency, half loan drawing rescheduling facility, and a down-market policeman enforcing sound macroeconomic policies on small, poor countries. This change in focus was precipitated by the

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5 The International Bank for Reconstruction and Development (IBRD)

6 See the web site :http://www.globalissues.org/article/3/structural-adjustment-a-major-cause-of-poverty

development of structural adjustment programs and was reinforced by the establishment of the SAP facility in 1986 and the enhanced structural adjustment facility in 1987.

Indeed, most under-developed countries which, during the 70s, enjoyed unlimited supply of capital are so heavily indebted. Trapped in development on credit, they had no choice to continue in the same way and obtain new loans, only to submit to the conditionality of the Bank and the Fund. It was Robert McNamara[7], President proactive of World Bank from 1968 to 1981, who in 1979 inaugurated the era of structural adjustment which dominates till 1998, more than ever, the theory and practice of the Bretton Woods's institutions and IFIs in general. The philosophy underlying the policy of structural adjustment begin from an incontestable fact: The third world economies are not adapted to the world economy as it is practiced today, as it is unthinkable that world economy adjusts to the structures of economies often powered, it must proceed to the opposite; adjusting these economically obsolete to international economic system. This is the optimal goal of SAPs; hang underdeveloped economies to world market or, more precisely, of forging a single global market, based on roughly the current division of labor[8], Generalization of global free competition and free trade.

II. Structural adjustment programs:

Structural adjustment is a term used to describe the policy changes implemented by the international monetary fund and the World Bank in developing countries. These policy changes

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7 *April 1968 - June 1981* : Expansionist with a social consciousness. "...indefatigable builder and wielder of influence on behalf of the Bank and the development cause." - Banker's with a Mission: The Presidents of the World Bank, 1946-91, J. Kraske, 1996. "Robert McNamara shaped the Bank as no one before him. He came to the Bank brimming with energy, forceful, active, pushing to get things done. He brought with him the firm belief that the problems of the developing world could be solved. What was needed was clear analysis of the problems and determination in the application of appropriate remedies. If this happened, success could not fail to materialize."

8 Colin Stoneman, "The world bank and IMF in Zimbabwe", dans bonnie K.campbell et john loxley, structural adjustment in africa.st Martin's Press , New York,1989, p 44

are conditions for getting new loans from IMF or World Bank, or for obtaining lower interest rates on existing loans which was hardly accumulated. Conditionality is implemented to ensure that the money lent will be spent in accordance with the overall goals of the loan, especially for structural change and macroeconomic stabilities. The SAPs are created with goal of reducing the borrowing country′s fiscal imbalance. Through conditionality, SAPs try to implement ″free market″ programs and policy. These programs include internal changes (privatization and deregulation) as well as external ones (stabilization, openness of the economy to outside), especially the reduction of trade barriers. Countries which fail to enact these programs may be subject to severe fiscal discipline.

This policy is implemented under the structural adjustment programs supported by sectoral and specific loans from the bank and the fund and since their inception in 1979; over 50 billion U.S. dollars have been spent on these programs by both institutions. From 1980 to, 1991, the IMF has conducted 325 Adjustment Loan[9] and the World Bank, 241[10]. The bank continues to spend more than US $ 5 billion every year in this type of credit. In addition to this already considerable money come clumping requires the contribution of the countries concerned, as well as contributions from many donors, such as regional development banks and national agencies of international cooperation.

Adjustment policy is implemented using two kinds of loans:

- Structural adjustment loans which designed three specific objectives:

  1) Mitigate the debt crisis by reducing the deficit and expenditure;

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9 IMF statistics

10 See " Norm Setting or Following: The World Bank and the IMF in Comparison", Antje Vetterlein Department of SociologyUniversity of EssexWivenhoe ParkColchester CO4 3SQ

2) Increase exports by converting natural resources into exportable products of the country, in a context of globalization and debt repayment;

3) Encourage the establishment of multinationals in the economies as too inward on itself.

- Sector Adjustment Loans that attack, one by one, whole sectors of national economy such as energy, agriculture, industry and more recently health. Conditions attached to these loans determine policies and national priorities in the concerned sector.

III. Characteristics of SAPs:

Requirements of the fund and the bank are formulated in economic conditionality would be reflected in measures which aim at ensuring achievement of the objectives mentioned above. These measures can be grouped into the following major points:

- Primacy has a restrictive monetary policy which aims to reduce inflation;
- Incentives to exports to earn foreign exchange needed to balanced budgets and debt repayment;
- Liberalization of wages, prices (especially agricultural), interest rates and laws (especially those concerning foreign investments and the transfer of profits);
- privatization of enterprises and public services, given that the economy should be organized by the "invisible hand" of the market and not by politicians and officials;
- Reduction of administrative bureaucracy and expenditure in sectors or cuts do not directly affect the economy, according to international experts, it is the areas of health, education, housing and environment.

IV. Criticism of SAPs:

Critics claim that SAPs threaten the sovereignty of national economies because an outside organization is dictating a nation's economic policy. Critics argue that the creation of good policy is in a sovereign nation's own best interest also some evaluation study related the success or failure of these programs to domestic political-economy factors [11]. Thus, SAPs are unnecessary. While public debt in developing and developed countries face a much more vulnerable position to maintain an equilibrated balance of payments, with some of the world's 47 poorest nations already 422$ billion debt in 2003.[12]

Due to this near universality of debt, a popular criticism is that structural adjustment's terms have become a template for the governance of much of humanity. Hence , some argue that the democratic policy process of countless countries has been undermined by decisions formulated miles away by western economic bureaucrats and that the implementation of such policy has solely benefited the largest donor countries(the U.S, U.K, Canada , Japan)[13] for example, the opening of countries to outside investment allows U.S companies to build factories in impoverished areas. The corporations are able to exploit the surplus of inexpensive labor, and usual lack of environmental regulation to create goods at a lower price[14]. As a result, corporate profits rise and trade flows increase for that particular country .While this increases the GDP and

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11 What Explains the Success or Failure of Structural Adjustment Programmes? David Dollar and Jakob Svensson ,The Economic Journal, Vol. 110, No. 466 (Oct., 2000), pp. 894-917

12 See the factsheet on : http://www.imf.org/external/np/exr/facts/conditio.htm

13 See the factsheet" IMF lending" on :http://www.imf.org/external/np/exr/facts/howlend.htm

14 See the web site ;http://www.state.gov/r/pa/ei/bgn/2800.htm

the majority of the profit actually benefits the corporation and the country in which the corporation is based (the developed country always). Conversely many argue that the people employed by the corporations are desperately in need of any work at all, that the alternative forms of employment or life styles available to them are much worse.[15] Another claim for SAPs is that the common policy for these programs is privatization of state owned industries and resources. Ostensibly, this policy aims to increase efficiency and investment, and decrease state spending. State-owned resources are to be sold whether they generate a fiscal profit or not. Critics, however, have condemned privatization requirements. When resources are transferred to foreign corporations and/or national elites, the goal of public prosperity is replaced with the goal of private accumulation. Furthermore, SOE may show fiscal losses because they fulfill a wider social role, such as providing low-cost utilities and jobs. The agriculture, anti-land reform and food trade policies associated with SAPs have been pointed to as a major engine in the urbanization of the global south, the ballooning of megacities, worldwide migration towards the global north, and the growth in urban poverty and slums. A large portion of SAPs policy on agriculture focuses on the increased use of fertilizers and pesticides which harm the health of local bodies of water and therefore fish populations. The runoffs caused by the over use of fertilizers increase the amount of algae in local water bodies causing different scales of dead zones. Local environments can easily become casualties of pro-trade policies. Pro-trade policy promotes an increase of industry geared toward western needs. As a result of the new policy, local industries begin to focus on producing inexpensive goods to sell on the international market. The focus on creating the least expensive product often leads to environmentally exploitative industry. As these new industries are often unregulated there are no laws prohibiting this

[15] http://www.state.gov/r/pa/ei/bgn/2800.htm

exploitation. As a result, the environmental cost of producing a product like steel in china is much greater, than it would be in the U.S[16].Another example would be the run off of chemicals or pharmaceuticals into local rivers and other bodies of water. In developing nations the pollution of rivers has become a cause for international intervention (Haiti 2010). This pollution not only affects local populations who sometimes bathe and drink the polluted waters but is also damaging the oceans on a large scale.[17] It is possible for SAPs to include clauses that require industry regulations. However, for the most part, regulatory clauses have not been included in SAPs. The majority of the policy creators view these regulations as a hindrance to trade and therefore to economic development[18]. In addition, many argue that it is unfair for developed nations and IFIs to demand that there environmental policy be followed. All developed nations have gone through a period of industrialization where the local environments were damaged. While these periods of industrialization led to increased environmental problems, they also greatly attributed to the development, prosperity, and increased standard of living for the country′s citizens. They argue that developed countries essentially have had a head start in economic development, and that less developed countries deserve their own head start[19]. Critics debate whether the world can handle this head start. It has been argued that developing countries would benefit more from debt cancellation than an industrial ″head start″.

Critics hold SAPs responsible for much of the economic stagnation that has occurred in borrowing countries. SAPs emphasize maintaining a balanced budget which forces austerity

16 Steger, Manfred. "Globlization A Very Short Introduction" Oxford University Press, 2003

17 O'Meara, Patrick. Mehlinger, Howard. Krain, Matthew. "Globalization and the Challenges of a New Century" Indiana University Press, 2000

18 O'Meara, Patrick. Mehlinger, Howard. Krain, Matthew.

19 The developing countries should have their ownership strategies that born from them

programs. The casualties of balancing a budget are often social programs. The programs most often cut are education, public health, and other miscellaneous social safety nets. Commonly, these are programs that are already underfunded and desperately need monetary investment for improvement. For example, if a government cuts education funding, universality is impaired, and therefore long term economic growth. Similarly, cuts to health programs have allowed diseases such as AIDS to devastate some areas′ economies by destroying the workforce.

Since the implementation of traditional SAPs in the late 1970′s the global gap between rich and poor has been steadily increasing[20]. Critics cite not only SAPs but the fact that they promote neo-liberal ideas, and therefore corporations. The sole goal of a corporation is to lower costs and maximize profits. As a result, corporations contribute to the availability of goods at a lower cost, and thus arguably an increase in the standards of living. Yet in their cost consciousness, such policies also decrease wages. So while goods and services cost less, people generally earn less. SAPs have also contributed to the disparities between developed countries, and developing one, or the north and the south. The IFIs that provide need based loans still receive interest on the payments which harm the economic situation and the autonomy of the state making it in a continuous dependence.

With the adoption of SAPs comes a withdrawal from social spending. With less money going towards education, health, welfare, and local infrastructure, local people are burdened with increasing responsibility to provide for their villages and cities.

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[20] Chossudovsky, Michel. *The Globalization of Poverty and the New World Order.* Global Research, 2003

In total theses SAPs have been heavily criticized for many years for resulting in poverty, however SAPs have revealed little ability to reduce poverty by accelerating growth, partly because of extensive slippage in implementation[21]. In addition, for developing world countries, there has been an increased dependency on the richer nations[22]. This is despite the IMF and World Bank′s claim that they will reduce poverty. However the inverse happens in developing countries because the IMF and World Bank have demanded that poor nations lower the standard of living of their people and they demand them to pay back their increased debt, so the problem continue, moreover the SAPs limit the capacity of local enterprises to grow because those which can participate in these tender that come from loans and credit of SAPs are always great companies of foreign countries and usually developed countries, by this manner local industry will be limited to small and medium enterprises which cannot innovate and export easily, so the competitiveness of local industry will be harmed by those foreign companies which have the technology and knowhow. This approach theoretically can harm growth of local economy and limit its activities to non high added value industries.

V. Literature on evaluation of SAPs and controversies

The SAPs has come under increased scrutiny and attack, with some of the most intense criticisms targeting the link between these programs and reduced economic growth in borrower countries (e.g. Przeworski and Vreeland 2000, Hutchison 2003). The channels by which the IMF could influence growth, however, have rarely been made explicit and it was seen as new policy to impose conditions on developing countries in order to increase their export of natural resources.

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21 Making Adjustment Work for the Poor, Tony Killick ODI 1999.

22 Making Adjustment Work for the Poor *Tony Killick 5 may 1999. p3*

The fact of change of policy of Bretton woods institutions also increased incredibility among countries receiving loans on their goals and trust.

It is striking to observe a certain degree of continuity in many of the criticisms leveled against the IMF right from its early encounters with the developing world. The traditional criticisms of the IMF have typically highlighted the inappropriate mix of conditions and incentives embodied in its programs designed to accomplish balance of payments adjustment. Countries, which approached the IMF in a situation of acute balance of payments crisis, found themselves confronted with rather harsh conditions with inadequate incentives to apply the mix of expenditure switching and expenditure reducing policies. Despite this critics addressed to SAPs designers; some scholars provided some assessments and analysis of the effect of these programs on the developing countries' economies, firstly to achieve stabilization targets and the whole effects on the growth.

Many studies shows that almost the countries adopting the SAPs of IMF between 1980 and 1990 witnessed a fall of their per capita income and increase in poverty. Others reviews about stabilization found that SAPs have had little effect in terms of the macroeconomic changes they are intended to bring out.

Killick (1995) finds little evidence confirming the significant effects of SAPs on macroeconomic stabilization. killick also think that the SAPs was designed without growth objectives in mind (kellick 1993), he extensively criticize the IMF model arguing that it's based on weak assumptions, in the same sense Woodward 1992 criticize the model used by IMF arguing that developing countries have no capacity to implement such programs and it's not suited to the economic circumstance facing developing countries.

Frances Stewart(1995),reviewing the empirical evidence from the 1980s on the macroeconomic impacts of IMF & WB SAPs's shows that , on the whole , there have been balance of payments improvement ; there is no clear influence on inflation or growth ; and there are negative impact on investment . In the same study he finds out that there is small effect on growth. David Dollar and Jakob Svensson (October 2000) explain the success or failure of SAPs by using a sample of 220 programs, they find that success depend on domestic political-economy forces. Mohsin S. Khan (jun1990) find that in the short run programs have led to improvement in the current account, balance of payment, a lowering in inflation, and a decline in growth. In the long run the positive effects on the external balance and inflation are strengthened and the adverse growth effect reduced. In the same way William Easterly (November 2003) try to find a correlation between SAPs and growth, he find that almost countries failed to achieve growth and stabilization. The WB in his report of development in 1981 indicates that successful adjustment implies "a minimum sacrifice of income Growth".[23] However two recent studies (Przeworski and Vreeland, 2000; Barro and Lee, (2002) find a significantly negative effect of IMF lending on growth.

This variety of studies in fact shows that SAPs was not successful in general and there is doubt on their effect on the long run for the economy performance and structural change, also they was similar, without relation to the context within which they are used, means that there is no specification for each country situation; the same tools to achieve the same goals for different situations that depend on each country's economy.

To clarify this ambiguity for the case of Tunisia, we will use the method before and after to evaluate the effect of SAPs on the economic situation of Tunisia.

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23 World Bank (1981a,b), p. 4.

Chapter 3

The Tunisian Structural Adjustment Program

I will try in this chapter to analyze the situation of Tunisian economy before the implementation of SAPs and the causes that led to its implementation , then we will describe and analyze the process of its implementation , especially the deregulation and privatization process which represent the bulk of IMF and world bank model tools to achieve the designed goals .we will evaluate SAPs using the method before and after the implementation of these programs by pursuing the behavior of certain macroeconomic variables such as GDP, Growth rate, Domestic savings, Budget deficit....in each plan of development between 1987 and 2001 , also we will pursue some sectors evolution within investments and of course some social indicators.

IMF proposed a several reform to Tunisian economy such as The tax reforms which was engaged by the government in 1988, particularly the institution of the value added tax (VAT), which allowed an adjustment of public finance, a re-establishment of the external accounts and a significant retreat of inflation, this reforms was successful in term of limiting inflation . Others reforms were suggested to Tunisian authority such as: widening of the taxable amount, suppression of the grants on the foodstuffs, reduction in the wage bill of the public sector, privatization, deregulation and disengagement of state.

We will try to explain and analyze each operation effect on Tunisian economy in general and its role to ameliorate the situation of certain macroeconomic variables and vice-versa.

I. Situation pre-adjustment:

During the period of pre-adjustment we can split up the process of development in two periods in accordance with various policy measures that were adopted: i) 1961-1970, the socialist period and ii) 1971-1986, the mixed economy period;

Indeed Tunisia was chosen since its independence in 1956, to periodically elaborate a development plans which is an economic policy framework for the realization of goals that are consistent with economic growth and social progress of the country. Every time it adopts a strategy of state control of production through a series of regulations through the successive development plans and the establishment of a major public sector. In the same time, Tunisia has focused on the development of human resources, the establishment of a public health system and social security which was reinforced in each decade of development process.

1. The socialist period (1961-1970):

This period was the first step to build the economy; it was dominated by a strong socialist orientation based on centralized planning and importation substitution strategy. The private sector was very poor to create any economic role, the state was obliged to create a cooperative sector that become widespread and played a great role to reinforce the base of economy especially agriculture and main basic infrastructures , the major investment was taken by government , indeed 67% of investment were undertaken by the public sector. Public investment took place not only in the main basic infrastructure projects but also it began the development of production activities such as petroleum refining , steel , cellulose ,cement , textile even services such as tourism and so on.

In the institutional level the government was aware about the importance of implementation of efficient institutional structures such as offices of agriculture′s development, organization for trade and distribution, state and mixed private\public owned companies, cooperative for production, services and consumers, transport companies and banks and top school such the national school of administration which formed the elite of civil servant.

In the period of 1962-1971 per capita income increased by 2.3% per year in average and per capita consumption increased by 2.5 % also. The state sector embraced agriculture 90% in late 1960.The growth rate over this period was 4.9% and this despite the fact that a good deal of investment was in the long-term projects such as infrastructure and human resources development , the investment rate reached 26.3% of GDP and capital stock grew by 11.5% on average per year . This growth was based on foreign capital accumulation. The current deficit reached 10% of GDP, the external debt ratio doubled between 1961 and 1967 and the debt services skyrocketed from 1.6% of export in 1961 to 26.1% in 1967 which led to difficulties in borrowing in the long term, the crisis began and aggravated with the cooperative movement and the big lobbying of landowners .This phase come to halt after the report of world bank showing the huge deficit of public enterprises especially hidden by ministry of finance and planning.

2. The mixed economy period (1971-1986):

In the late 1960, Tunisia has changed its policy to encourage the development of the private sector by protecting it from foreign competition while continuing its policy orientation.

The period of fifteen years which extends from 1970 to 1985 witness an entirely state-controlled economy and is characterized by two movements: a movement to promote the private sector with a significant protections and a movement of strong involvement of the state through significant investment in the industry sector. GDP grew in average by 6.2% and per capita GDP by 3.7% between 1971 and 1981. The Tunisians investor continuous enjoys a tariffs protection throughout the period of 70-85; the law of 1972 which gave a special advantage to exporting firms was the main incentive to boost the industry sectors reinforced by another law in 1974 in order to stimulate investment in the poor regions.

The main achievement of this policy was as following[24]:

- The share in investment for the public sector decreased from 67% to 57%;
- Industrial production capacity increased from 4.7% in 1974 to 25.6% in 1978.
- The share of oil products in total export went from 25.8% in 1972 to 54% in 1981.
- Agriculture grew significantly.

In spite of encouragement to the private sector the government still controls the economic activity and investment. Most of the prices at different stage of production were fixed by a system of government decree and approval. The price policy first objective is to protect consumers particularly those with low income, and to assure to producer of key sectors prices that were sufficient to stimulate investment, production and labor hiring. Later on three other objectives were pursued: export promotion, inflation control, and the equilibrium of supply and demand. Soon a number of difficulties become apparent among which:

- Restriction on the import of raw materials limited the growth of firms and lead to a market shrinking.
- There was excessive capital intensity and underutilization of production capacities.

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[24] Tunisia's path to development 1961-2001 ,sofiane ghali , shanghai may 2004

- Inflation increased the cost of production.
- The complexities of administrative tasks become burdensome.
- Tariffs and quotas leads to a level of protection even higher than the nominal level.

The 1981 witness a change of government which come with a new strategy that pursue the populist style of governance justify by the increase of wages that had no economic justification. This policy leads to non-competitive economic structures that had the following results:

- In 1982-1986 , the yearly average rate of GDP growth were 3.6% and 1% for GDP per capita which decreased compared to previous record;
- The investment rate was 30.2% in average which was the highest in the Tunisian experience of development;
- Nominal wages increased by 12.9% and real wages by 2.7% on average during the same period ;
- Total factors productivity growth was negative -1.7% and the productivity of capital declined by 4.3%;
- Exports decreased by 0.8% in average each year and imports by 1.1%;
- The large and inefficient public enterprises relied heavily on public support and bank financing ;
- A widespread system of price, investment, trade, and credit and exchange control substantially distorted consumption and investment decisions.

In the mid-80's gross international reserves were revised downward. The unemployment rate has climbed to 15% and could continue to climb rapidly if there is no major change in government attitudes. Indeed the way of Tunisia's progress was not always smooth. There were substantial fluctuations in real growth, from a high 17.7% in 1972 to a low of -1.5% in 1986 reflecting the adoption of different economic policies and the impact of domestic and international business cycles on development.

The new policy of development chosen in the early 70s, and which was implemented with varying degrees of continuity until the mid 80's, was more liberal because it advocated the reduction of state intervention, increased private sector role in the economy. In practice the private sector has grown, the public sector has retained its importance. The state continues to occupy a leading position thanks to the extension of public enterprise sector and the maintenance of leadership at all levels of economic activity.

The Tunisian government reassessed its political strategy while acknowledging that the economy is paralyzed by major distortions and an excess of interventionism that has limited productivity and encourages inefficient imports and discourages savings in financial sector.

Public sector accounts for all resources which hinders the contribution of the private sector to competition and job creation.

The main economic problems before reform were:

- A huge budget deficit of 5.2% of GDP in the period 81-86 with expenditures reaching 40% of GDP in the year 85-86;
- Non-oil revenue that constitutes 30% of GDP.
- Expansionary monetary policy maintained by the financial needs of the budget and public enterprises as well as real interest rates too , sometimes null, which contributes not only to demand of credit but also to some distortions in the allocation of credit and to a weakness financial system;

- Public sector inefficiency which heavily relied on government support and funding of banks;
- Price systems, investment, trade, credit and the exchange control, distorted decisions on consumption and investment;
- Rising external current account deficit which rose from 5% of GDP in 1980 up to 11% in 1984 and then stabilized at 8% in 1985-86 reflecting the high level of collective demand and slowing exports and the overvaluation of the currency;
- The rising level of external debt which amounts to 38% of GDP in 1981 to 63% in 1986 and the solvency ratio has doubled from 14% of current jobs to 28% in 1986[25].

To counter all these problems Tunisia has instituted since September 1986, a policy of Liberalization of the economy (imposed by IMF in order to adjust the whole economy and introduce a base for market economy). Indeed, following a severe economic and financial crisis, a structural adjustment plan, inspired by liberal, was adopted with the help of international financial bodies.[26]

This plan has come to break with the economic policies pursued until then. Indeed various measures were taken to stabilize and liberalize the economy:

- ➢ Liberalization and deregulation of imports and promotion of exports
- ➢ New legislation to suppress various authorization of investment and hence suppression of protected markets
- ➢ Fiscal reforms
- ➢ Privatization and exit of state owned firms from competitive sectors

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25 IMF , December 1993

26 P .Beraud “ajustement structurel ; perspective de development “ , les cahiers de l’orient 1996 n43 p 77

- Legislation in favor of competition
- Liberalization of the financial sector, the credit market and the capital market.

Compared to previous economic choice, the SAPs is a real turning point in the economic policy of independent Tunisia insofar as it involves transforming an economy largely managed and protected in a market economy which will be largely open to the outside.

The economic outlook in Tunisia for the period of the sixth plan (1982-86) and beyond raises several issues. Indeed Two main issues emerge: adaptation of the economy to the lower resource availability, and achievement of a maximum of new employment with the increasing financial and balance-of-payments constraints. The plan proposes to step up directly productive, labor intensive investments and to finance them through cutting investments in infrastructure and capital intensive industries and slowing down the growth of private consumption.[27] Following the crisis of balance of payment Tunisia has launched a series of programs of economic stabilization and adjustment. reforms were intended to maintain a prudent macroeconomic framework, liberalizing prices and gradually remove controls on the domestic market and to reduce public sector intervention in the production of goods (to a lesser extent in terms of services).[28]

Indeed, Tunisian authorities have later created a politically and socially stable framework much appreciated by foreign investors. The cornerstones of this framework include: legislation that favors the private sector, a series of simplified administrative procedures, and easy access to financing, training for economic operators...

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27 WB, report June2 9, 1983

28 Country sheet , WB 2003

3. The social indicators over the period of pre-adjustment:

After the dependence the first Tunisia challenges was to improve living conditions in all level, so the government give special intention to social sectors such as health , education and social security in order to alleviate poverty to its lowest level , in order to ensure that government heavily invested in education and health , the two successive decade of 1960 witness a tremendous increase in the level of education in fact the population having a primary education jumped to 14% in 1960 ,later the schooling of population aged between 6 and 24 was 37.4% in 1975 and the rate of literacy was 45% in the same year. In the early 1960 the health sector lacks human resources [29]but effort of state was great to ensure the basic needs of population. Life expectancy was 51 years in 1961 and infant mortality was 139 per thousand live births in 1966. The public expenditures in social program were 18.7% of GDP in late 1986.

The rate of poverty was 25.9%in 1975 which was very high compared to the rate of poverty in 2001 after SAPs.

II. IMF conditionality:

In order to receive structural adjustment loans, Tunisia had to agree to undergo structural adjustment programs, which were **apparently** designed to make the economy more efficient and better capable of sustained growth.

- Removing restrictions on foreign investments in local industry, banks and other financial services. Thus, local industry or banks could not be protected against giant foreign intervention.

[29] See table in the annexes

- Cutting tariffs, quotas and other restrictions on imports.
- Devaluing the local currency against hard currencies such as the US dollar in order to make exports still more competitive.
- Privatizing state enterprises, thereby providing further access for foreign capital.
- Reducing wages or wage increases to make exports more competitive. Radically reducing government spending, including spending on health, education and welfare combined with wage reduction would control inflation and ensure that all available money would be channeled into increasing production for export.
- Undertaking a deregulation program to free export oriented corporations from government controls that protect labor, the environment and natural resources, thereby cutting costs and further increasing export competitiveness.
- Reorienting the economy toward exports in order to earn the foreign exchange required for servicing the debt and to become correspondingly more dependent on the global economy.

The IMF demands high interest rates, high exchange rates and budgetary strictness, i.e. reducing spending on food subsidies, education, public health and other social services.

The IMF proposed tight prescriptions which can be summarized as liberalization, privatization, deregulation and smaller public sector or retirement of state from competitive sectors.[30]

[30] **Stiglitz** believes which he call "market fundamentalists"

III. Implementation of SAPs &Liberalization of Tunisian economy :

Just after the implementation of SAPs the economy begins to be broadly open and foreign direct investment was widely encouraged[31], primarily due to the accession to the G.A.T.T agreement and, thereafter, due to the sign up of the Marrakesh Agreement (WTO). Tunisia then sign with the European Union an agreement, which came into force on March 1, 1998, for the creation of a free trade area by the end of the year 2010.

The table below shows the different agreement of Tunisian government with tiers.

1. AGREEMENTS

Country or number of countries	nature of the agreement	Date
1. W.T.O		accession to G.A.T.T
2.European union	free trade area	July 1995
3.20 countries (Africa, middle east, America…)	trade agreements, tariff concessions	1963-1997
4.39 countries	Investment Guarantee Agreements	accession to MIGA
5.35 countries (Europe, US, Asia , Africa..)	Agreements on avoidance of double taxation	

31 IMF report 2004

This ″European linking for Tunisia" requires it to adapt its economy to the requirements of European standards. The efforts undertaken by the government since the adoption of SAP, to liberalize the economy was important. It was conducted in a stepwise manner, which helped to avoid major economic and social shocks.

I will try to give a whole picture about the liberalization effort of the economy, this liberalization which covers almost all the economic sectors (tax system, public finance, job flexibility) I will focus on three aspects: the deregulation, tax reform and privatization.

A. Deregulation:

Deregulation is now a quasi-universal phenomenon. Indeed, no country, eager to enter into the world economy, can sustainably maintain regulatory provisions that deviates the developments recorded in a majority of partners or economic competition. Today, governments are obliged to adopt measures of convergence with the foreign legal and tax practices. Tunisia is not an exception to this phenomenon. Indeed, governments have adhered to a policy of deregulation. However, its scope and pace of implementation remain registered by the country's specific economic context, that is to say an economy that aspires to become developed which still lies on a number of imbalances.

In this respect, the deregulation policy adopted by the Tunisian authorities is neither general nor absolute. It does not affect all sectors of the economy and, in case it exists, it is not always the same intensity[32]. Deregulation also did not in all cases accompanied by a decrease in regulation. It′s the content of this regulation that change. Today regulation is more liberal.

The study of deregulation itself is not always simple because of uncertainty of the definition of the term[33]. In this study deregulation means the policies which tend to change regulation against free entrepreneurship and loosening the constraints that weigh on economic operators.

1. The questioning of the rules against free entrepreneurship:

Deregulation in this field led to assertion of two principles; freedom of investment and freedom of establishment.

Before 1986 investment was subjected, especially in the field of industry and agreement activities. Since this date, some particular texts affirm freedom of investment. This freedom was confirmed and strengthened to some sector by the code of investment incentives[34].The latter distinguishes between the act of investing and profit incentive granted by public authorities, the code mention that the listed sector are subject to statement not to authorization, also this concerned nationals and foreigners, resident and not resident in some limits (appropriation of land for agriculture projects is not allowed for foreigners).

It′s to know if the practice of economic activities needs an authorization of public authority or not. Deregulation in this field is not generalized. It touch only specific sector like the distributive trade sector and subject to Article 3 of the act of Trade of distribution[35] which provides that

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32 Law n85 -108 of 6december 1985, jort 1985 n 87 , p 1626 and law n92-81 of 3 august 1992 n 52 ,p 1005.
33 J.chevalier ," les enjeux de la deregulation" 1987, p 281
34 Law n 93-120 of 27 December 1993, J.O.R.T 1994 n 11
35 Law n 91-44 of first July 1991, J.O.R.T, 1991, N 49, p 1263

"exercise of the activity of trade of distribution... is free and is not subject to prior authorization " . However, changing this law in 1994[36] to alleviate the principle of freedom, adding that "certain, specific, business activities which their list shall be fixed by decree, however, may be regulated in accordance with specifications approved by decree of the Minister of Trade."[37]

It is not enough that the contractor is free to invest or settle. It is necessary also that he does not meet the constraints in the exercise of his activity. This second aspect of deregulation has also been supported by the Tunisian authorities.

2. Loosening the constraint on economic operators:

It is about the simplification of rules and procedures and streamlining of rules in certain sectors which include legislation that favors the private sector, a series of simplified administrative procedures, easy access to financing, training for economic operators,..

Since the implementation of SAPs, Tunisia launched an important reform project that focuses on economic development and administrative reform. This last issue in particular is an indispensable condition for achieving development.

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36 Law n 94-38 of 24 February 1994, J.O.R.T, 1994 n 17, p 366

37 Foreigners should qualified for decree law of 30 august 1961

i. Simplification of rules and procedures:

In the context of administrative reform and as part of the upgrading of the administration[38] (1996) an effort was made to simplify administrative procedures. Firstly the ″Guichet unique ″has been created to fulfill the formalities required for the operation of investment and after that to unify the formalities of enterprises creation which has been promoted.

In parallel there has been simplification of rules for carrying out foreign trade operations. The Tunisian authorities are well aware of the country′s economic challenges and would like to boost the reforms in all levels in order to encourage local private investment and FDIs.

During the 1990′s, the pace of administrative reform increased significantly as Tunisia focuses on strengthening the bases of a modern administration that fulfils its duties competently and efficiently while establishing a trust-based relationship with the citizenry.

This process quickened in the late 1990′s with the 9th Development Plan, those implementation coincided with the renewal of the administrative programs adopted by the various departments. The 9th Development Plan entailed numerous administrative sectors and activities, including structural re-organization and better definition of responsibilities, modernization in the ICT sector, and a clearer division of roles between regional and central administrations and between the latter and the private sector. Within the public administration renewal framework, the following actions have been taken: reduction of authorizations (60% of which have either been

[38] Decree n 96-49 of 16 January 1996

substitute by the so-called "cahiers de charges" or abolished altogether); identification of a single interlocutor for investors who want to set up individual projects; creation of a quality system based on international ISO 9000 norms for several pilot projects in light of a future wide-scale implementation of such norms; creation of a regional administrative mediator to conciliate problems that can happen within administration.

Also, the government proceeded with the installation of a High Council of ordering of the laws and regulations in force[39]. The task of this council is to oversee the collection of matter by legislative provisions and the provisions of decrees and regulations in force to proceed to their ordering, with no resulting changes in their background.

This concern for improvement, relief and clarification of the law is important but must be accompanied by greater stability of legal rules, because what we see today is a frequent change of adopted texts. Stability and legal security are a necessary part of economic activity.

ii. The easing of rules in certain sectors:

The easing of rules has touched unequally a number of sectors and in a progressive manner. We can list the following;

- **Prices and competition:**

Till 1991, the administrations intervene in broad measures to fix prices. Law of 29 July 1991 reverses the tendency and establishes the principle of free pricing.[40]

[39] Decree n 96-48 of 15 January 1996, J.O.R.T 1996,N: 7 , P 205
[40] Law n 91-64 of 29 July 1991, J.O.R.T 1991,n 55, p 1393

Indeed, Article 2 of the Act provides that "the prices of goods, products and services are freely determined by the competition." However, Article 3 of this Law excluded from that freedom, the products, goods and essential services in the sectors where there is no competition. At the same time, this law regulates the competition for prohibition of anti-competitive practices by creating a Competition Commission to sanction[41].

- **Credit :**

Deregulation is also intervened in the matters of credit and more particularly in the fixing of interest rates[42]. Indeed, each bank is now free to fix the interest rate applicable to deposit accounts, certificates of deposit and to any financial product in dinars. It is also free to fix the rate applicable to credit balances. Finally the bank is free to set the interest rates applicable to other forms of funding irrespective of their shape and duration.

- **Exchange:**

The law of 3 may 1993[43] which proceed to a partial deregulation in the exchange issue. The first article of the law liberalized transfers for payments sent abroad under current operations and the transfer of net real products of the sale or liquidation of capital invested by importation of foreign currencies. In the same logic resident exporters companies can finance the open of their

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[41] become the Competition Council after modification of the law of july 29 ,1991 by law n 95-42 of abril 1995 , J.O.R.T 1995, N35 , P 976.

[42] Circular of the Central Bank n91-22 of December 17, 1991

[43] Law n 93-48 of may 3,1993, amending the Exchange Code and Foreign Trade, J.O.R.T 1993 n 35 , p 627

office or agencies abroad[44]. Moreover, during the year 1994, a market of exchange has been created. However, this market is only open to local banks.

The development of this market is to ensure the determination of the real value of the dinar and increase the current convertibility of the currency, pending its full convertibility[45].

- **Financial market:**

The financial market was also reorganized[46]. In this field reform has essentially consists in transforming the status of the stock exchange market from a public institution with industrial and commercial aspect, to became a limited company whose capital is exclusively endorsed by the brokers, whose last was obliged by law to create an Inter-professional Company Depository Clearing and settlement of securities. Finally, a regulatory body of the stock market has emerged: it is the council's financial market.

- **Foreign trade:**

Long time subject to approvals, foreign trade was liberalized. In this field freedom has become the rule and authorization the exception. Indeed articles 2 of the relative law of foreign trade[47] mention that "importation and exportation of products are free with the exception of the products subject to the restrictions prescribed by law".

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44 Decree 93-1696 of august 16 ,1993 and notice of change of minister of finance amending notice of change n 4-93, J.O.R.T 1997 N 64, P 1492
45 Circular of the Central Bank n97-07 of may 9 , 1997
46 Law n 94-117 of 14 November 1994, J.O.R.T , 1994, n90 p 1850
47 Law n 94-41 of mars 7 1994, J.O.R.T 1994,n 19, p 403

Next to deregulation and easiness of business and companies′ creation a tax reform also was installed in order to master inflation.

B. Tax reform

The IMF model for adjustment mention that tax reform is one of the pillars to achieve adjustment, indeed Tunisian authority was wise about importance of tax reform to widen the taxable amount in order to ensure the increase of public expenditure and to ensure a noninflationary financing of public expenditure. The most important thing implemented by the tax reform was the institution of the value added tax (VAT), which allowed an adjustment of public finance, a re-establishment of the external accounts and a significant retreat of inflation. Moreover, thanks to additional tax related to operations of privatization, the public deficit was brought back from 2.3% of GDP in 1999 to 1.6% of GDP into 2000. Inflation and deficit were contained during the first eight months of year 2003 within the limits of 2% and 1.5% respectively.

These operations seems successful in term of adjustment and structural change , this can be in harmony with **McKinnon and Shaw** who propose the adoption of tax reforms for financing the public deficit and Controlling inflation by the reduction in the inflationary financing .

The Tax reform is obviously a major mechanism met in place to ensure the successful transition from a Tunisian regulated economy to a market economy. Taxation is the process by which governments ensure the funds collected through mandatory to pay for government spending, an important means of State intervention in economic and social development. In this regard, tax reform aims to:

- Redistribution as fairly as possible the tax burden;

- stimulation of production;
- The balance of public finances;
- Lower tax rates;
- Broadening the tax base;
- Improved efficiency of the tax system;
- Reorganization of recovery procedures.

The tax reform requires a transitional period[48], which explains its gradual implementation, while seeking the maximum efficiency and equity. It was articulated around four main areas:

1.The imposition of value added tax (VAT) in lieu of taxes on turnover (TP, TC and TPS) and the arrangements of other indirect taxes;

2.The institution of the single tax on personal income taxes in lieu of tax and scheduler general overlay (CIP) and the fitting of the taxation of distributed profits and income from movable capital;

3. The adjustment of tariffs;

4. Strengthening the fiscal resources of local government bodies.

1. The value added tax:

The VAT system replaced an indirect tax is characterized by multiple rates tax revenues (45 rates with 23 specific rates and 22 ad-valorem) to give birth to a single tax, general and differential rates (6%, 17% and 29% in 1988) ,few years after changing these rates become: 6%, 10%, 18% and 29%).

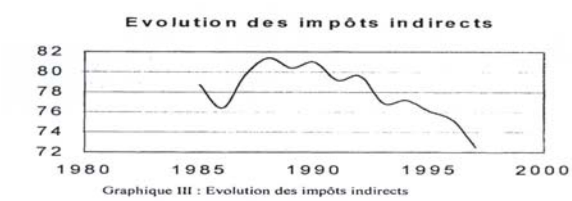
48 The government began in a first step, by introducing a new system of indirect taxation in 1988 to replace the old tax on transactions by value added tax (VAT). The second step is to introduce a single tax on personal income physical and corporation tax instead of many taxes under the old system. The third step is to target the reform of registration fees and stamp duty and review of all exemptions and tax benefits for investments. The next step is to continue to introduce reforms in the tax system in the sense of having greater transparency and harmonization between different modes of taxation and especially to replace the tax valuation due to the dismantling of tariffs following the introduction of a free trade area between Tunisia and the European Union.

The scope of the VAT covers all economic activities except agriculture and fisheries for which the quality of the taxable remains optional. Thus, "are subject to VAT, whatever the purpose or results, the business is done in Tunisia within the meaning of Article 3 and coating the industrial, commercial, or belonging to a profession and business transactions other than sales[49] .The exemptions provided by tax Legislations are taken for various reasons: economic, social and administrative sometimes.

2. Evolution of indirect tax:

Since 1988 (introduction of VAT), excise taxes have a slight downward trend due to a radical change in the organizing system of indirect taxation. Indeed, these taxes accounted in 1988, nearly 81% of total tax revenue, but only 73.8% in 1995 and above 69.2% in 1997. The graph below illustrates very clearly a tendency to the decline in indirect taxes, resulting in a tax valuation.

Despite this general trend of decline in the share of indirect tax in total tax revenue, the burden of these taxes is highly important in the tax structure of Tunisia (on average this share is around 75%).



1. Growth of indirect taxes

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[49] Article 1 of the Act of June 2, 1988.

3. Custom duties:

The tariff policy implementation until 1986 resulted in an increase in the average tariff, following successive increases in tariffs (the highest of which is equivalent to 231%, and the lowest 15%, to allow the exclusion of capital goods that do not have similar manufactured in Tunisia (graph set: average tariff).[50]

The development of tariffs began with the implementation of the Structural Adjustment Program (1987), in order to improve the competitiveness of domestic production by acting on the reduction of the effective protection of domestic market.

The decrease in customs revenues is also due to requirements imposed by the entry for Tunisia in the World Trade Organization (WTO) and especially by establishing a free trade agreement between Tunisia and the European Union (EU). Indeed, the WTO has required each member state to reduce its effective protection of domestic market in order to stimulate international trade. In this context, Tunisia presented at admission (1993) containing an agreement on the commitments to be followed to gradually reduce its tariff rates.

In addition, the Free Trade Area (FTA) requires the elimination by 2007 of all tariffs on industrial sector. In this sense, nearly 60% of Tunisian imports come of the EU, which confirm the importance of the depreciation tax generated by the FTA, estimated at 700 MTD dismantling after the planned customs duties. The evolution of customs revenue recorded a rising trend until 1995 (the date of the creation of an FTA between Tunisia and EU). Tariffs have provided 32.3 MTD in 1976;

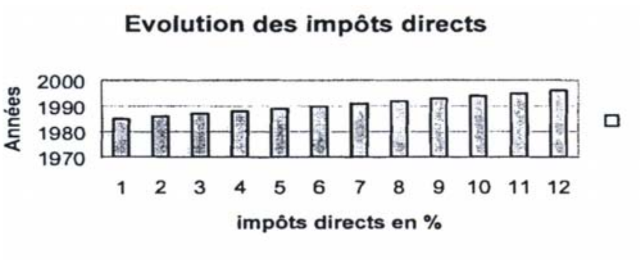
346.8 MTD in 1986; 399 MTD in 1988; 660 MTD in 1992 and reached a record 772.9 in 1995. From 1995, customs revenues have suffered a remarkable decline by recording 741 MTD in

[50] The average tariff t = CR/ M, with CR : customs revenue (net of tax exemptions) and M: imports

1996 and only 704.3 MTD in 1997. Revenues in 1998 are equivalent only to 679 MD[51].

The tax reform in general witness an increase of direct tax (Fig 2) and a decrease of indirect tax which increase the tax burden on citizens and favor export and competitiveness of economy.

This reform was also followed by the establishment of FTZ (free trade zone) with EU.



2. Growth of direct taxes

Tableau 5 : Evolution des impôts directs (en MDT)

Années		1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Imp. Direct	En valeur	332	384.4	335.2	329.7	378	403	503	563	700	737.7	810.9	892
	En %	21.3	23.6	20.3	18.6	19.6	18.9	20.7	20.3	23.1	22.9	23.9	24.8

Sources : Ministère des Finances et I.E.Q.

2. GORWTH OF DIRECT TAXES

4. The establishment of compensation measures

In an attempt to offset the tax shortfall caused by the dismantling of tariffs, two types of measures can be used (also used to reduce the budget deficit):

- Measures aimed at reducing government current expenditure or investment and (demand action);
- Measures based on the manipulation of Taxation (supply action).

The reduction of public spending is becoming under the influence of international institutions (IMF and World Bank) an economic sound measure which is why in our view the extensive use

51 Source : national institute of statistics

of this measure, particularly by developing countries where the role of the state is still powerful. The reduction of public spending is done by acting either on current expenditure or on capital expenditure. The first is a short-term action that remains difficult to be applied in developing countries for social reasons and in particular policies (Hicks and Kubiscli, 1984).

The second is a long-term action (most used), it is to reduce capital expenditures (for example infrastructure spending). This measure is less political risk, but it has adverse consequences on the economy.

The action of the tax (increase in tax rates) on supply aims to stimulate domestic production through more efficient use of production factors. In this regard, the role of taxation is through manipulation of tax rates, reduce price distortions. This measure aims therefore to stimulate, long-term production growth rate and increased investment, but at the expense of consumer goods.

Authorities have chosen as a primary measure to offset the tax valuation due to tariff reduction, higher rates of indirect taxation. The main actions are:

- A revision to the successive increase in excise duties related to goods subject to customs duties and will undergo tariff dismantling. The use of human consumption as a surrogate measure began in 1988 with the introduction of VAT and is to offset the tax shortfall due to the transition from a TCA to a VAT regime. This attempt alternative was reinforced in 1995 (creation of the FTA), where human consumption will replace customs duties on the tariff dismantling.
- A charge on customs services was introduced at a rate of 1.5% of the amount of duty and customs charges. The amount of this fee has doubled between 1988 and 1993 from 12.7 to 25 MTD. And also from 1991, two customs duties were established on an interim

basis that are the countervailing duty (DCP) at a rate of 10% to 30% and the inflation levy to importation (ICP) at 5% the amount of duties and taxes on import. The amount of DCP and ICP has almost doubled between 1991 and 1993, passing from 37,5 to 66 MTD.

Financially, the compensation measures are widely considered successes.

Economically, some compensatory measures are harmful, including higher rates of VAT on goods and services produced locally. In our opinion, this policy is dangerous insofar as it would in fact grant a bonus to imported products and to penalize local production.

Already under great pressure by the liberalization of imports, the rise of prices, driven by the increase in VAT will therefore cause a decline in investment, production and employment, and therefore a shrinking tax base as well as direct taxes (taxes on income of natural persons and legal persons) that indirect taxes (VAT, human consumption).

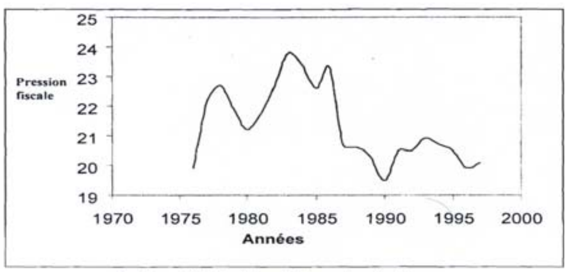
Governments and in order to increase tax inflows have forgotten or have ignored the fact that the manipulation of the rate of taxation is limited because a heavier taxation may have a negative effect on the behavior of economic agents and therefore on economic activity.

However, the increase of VAT has a beneficial effect on businesses using a high content of imported inputs and which they will export their production. It would result in lower prices composite (the combination of producer prices and import prices) and therefore an increase in exports[52].

[52] See Rutherford and Tarr Rustroin, 1993.

5. Tax burden

The overall tax burden in Tunisia is kept constant during the period 1988-1997. It is around 20% (net of transfers). Similarly, during the period 1961-1987, the tax burden is equal to 20% plus at least two points. It seems therefore that the tax burden is still bearable in Tunisia. Chart shows an oscillation around 20% of the overall tax burden. It also indicates that after the tax reform (indirect, direct 1988 and 1989), the tax burden is reduced by Compared with the period pre-reform.



Graphique IV : Evolution de la pression fiscale

3. Taxes burden

Next to the deregulation, Tax reform, Liberalization of Tunisian economy was made by the way of Privatization.

C. Privatization (APPENDICE 1):

In order to boost the country's economy and to establish a sustained growth, privatization in

Tunisia has been part of the macroeconomic policy since the late 1980s and has been pursued without interruption since then. In 1987, Tunisia introduced a series of reforms towards becoming a market-based economy. The privatization program was launched in 1989. Tunisia's privatization program is being implemented through the transfer of assets, the sale of shares, public tenders and concessions. Foreign investment has contributed to 67 % of the transfers. The privatization program offers wide opportunities for foreign investors in a variety of sectors, especially those related to improvements in infrastructure. Completion of the privatization program is expected in 2001 but it continues till now with a new vision (2010)[53].the following table provide a general view of privatization within the development plans.

	Development Plan		
	7th	8th	9th
	87-91	92-96	97-2001
Proceeds(MDT)	126	190	1139
The number of enterprises concerned	37	44	75
Number of operations realized	68	83	170

3. General view of privatization**,** Source: privatization web site www.privatisation.gov.tn

The table emphasize that the most increase in scope of privatization operations was in the 9th plan 1997 to 2001 which explain clearly that the first period was reserved to stabilization and the openness come later in the second decade.

1. **concept and goals of privatization**:

In Tunisia the concept of privatization is integrated in the framework of complementarities between public and private sector and in result, it contributes to the concretization of disengagement of state from competitive activities.

It′s based on this approach that governments have made it one of the axes of liberalization and

development of private sector and an important instrument for enhancing the effectiveness of economy, and consolidation of its opening on exterior and the rehabilitation of market

[53] See web site of privatization in Tunisia; www.privatisation.gov.tn

mechanisms. More concretely, the Privatization is defined as the transfer from public to private sector ownership control or management of a company producing a good or service. It can also take the form of an opening to private sectors and / or activities traditionally reserved for the public sector.

More accurately and more clearly, the Privatization in Tunisia has a double meaning in the process of economic development; privatization of some activities traditionally reserved to public sector and privatization of some state owned enterprises.

i. Privatization of activities traditionally reserved to public sector:

First launched in 1987, the privatization program has since consistently offered noteworthy opportunities for attracting the interest of foreign investors, including many operations for the sale of assets or stock in the capital of semi-public enterprises, as well as concessions to build highways, produce electricity, desalinate water, treat wastewater and solid waste, ...This policy aims to involve private sector in economic fields traditionally controlled by the public sector. This choice is in the framework of redistribution of role between public and private sector. In this vision the 8th plan of development provided "the possibility to carry out certain public functions by private sector"[54] in this spirit, the Government plans to entrust to private national developers (entrepreneurs) or foreigners, the construction and operation of a number of infrastructure projects like highways and power plants in the form of built operate transfer (B.O.T)[55]. Appeal of the government to the use of this kind of policy is not a mode but because it

[54] 8th plan of economic development(1992-1996) , general report , p 56

[55] BOT means that the client has a right to own the facility, while the third-party vendor builds the facility, hires the employees, and gets the operation running for a certain period of time (usually a period

entail some benefits. Indeed the appeal to private sector to build and operating some public infrastructure projects first allows developing new infrastructure without raising taxes, budget deficits and public debt; this advantage is not negligible when one considers that the state budget resources are limited and not extensible but will instead fall due to lower customs receipts under the agreements of G.A.T.T (W.T.O) and the free area with European union which enter in practice from 2008. Also the exploitation of these activities by private sector can entail productivity and knowhow of the private companies and benefits that can enhance competitiveness, the only question is about the capacity of Tunisians users (citizens) to pay the tariffs fixed by the private sector.

ii. Privatization of public sector enterprises:

The privatization policy adopted in Tunisia, has a number of objectives that are not specific in their majority to our country. These include providing new resources to the budget of the state, reduce the burden of subsidies to public enterprises, to reactivate the financial market, to contribute to the mobilization of domestic savings, to develop public ownership and improved performance of privatized companies. Governments also have to be financed with money from privatizations the Regional Development.

In 1989, with the promulgation of Law 89-9, this set the general framework for public enterprise restructuring and privatization. Approximately 45 companies, with an estimated total worth of about $90 million, were privatized in the early phase of the program. Roughly half of these companies were hotels; others were in the textile, construction material and agri-business sectors.

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of 3-5 years) and hand over the operations to the client after the said period. During the contract period, the vendor and the client work closely with a senior client representative monitoring the operations. At the time of the transition, the vendor is suitably compensated.

Most of the enterprises privatized in these early phases of the program had been unprofitable and/or relatively small and they were sold directly to private parties rather than to the public via the Tunis stock exchange. Some were simply liquidated and their assets sold to private buyers.

The Government then launched a second phase of privatization, targeting for the first time public enterprises that were typically larger and profitable. The first significant profitable state-owned company sold was ″Industries Chimiques du Fluor″ (ICF) in February, 1993. Forty percent of the shares were sold in a block to a major shareholder who took over management of the company, and the remaining shares were offered to the public with no more than 500 shares sold to any single shareholder (to prevent a blocking minority). After the sale of ICF, the privatization of companies basically stalled until late 1994. Then 20 percent of ″Ateliers mecaniques du Sahel″ (AMS), Tunisia's leading producer of stainless steel kitchen utensils and flatware, was sold through an Initial Public Offering (IPO) on the stock exchange for a value of $1.5 million. Also in 1994, Law 94-102 was passed. It allows the government to sell blocks of shares through a tender process on the stock exchange, and to create a "golden share″ for particularly sensitive privatization operations. Other achievements in 1994 were limited mainly to a number of preparatory studies of several privatization candidate companies and of specific sectors of the economy (e.g., cement, mineral water, and energy generation).

As far as macroeconomic policy is concerned, the Tunisian state appears to have resolved to disengage itself from a near totality of economic activities. Such an initiative forms part of a development strategy to build better economic structures and to redeploy the productive apparatus in such a way that will enhance its competitiveness by international standards. The state still retains final control over the privatization program, on account of the sensitive nature of the sectors in which privatizing companies operates.

Ultimately the privatization was aimed primarily the following points:

- Ensure the sustainability of enterprises by improving the efficiency and competitiveness of concerned enterprises, while ensuring the mobilization of capital, the flexibility of management and technology transfer necessary for their development
- Consolidate the balance of public finances by reducing spending supported by the budget of the state under certain public enterprises and by providing additional resources to support the effort of the state particularly in the fields of Education, training, health and infrastructure...
- Support the efforts of the state in providing some services traditionally provided by public sector.
- Boost the capital market and develop the public shareholding by the realization of public offerings and the introduction of some privatized companies to the Stock Exchange.

2. Characteristics and principles of privatization:

i. Characteristics of privatization program:

Evaluation of privatization program since its beginning in 1987, allow us to come up with double mutation on the quantitative and qualitative level.

Firstly in the quantitative level the results of privatization that finished in 1997 were 93 enterprises with total assets of 400 million dinars (Tunisian currency). Sector of transport and tourism are the first concerned in this phase of privatization. Then has the benefit of advances in economic reforms and the establishment of an appropriate legal and institutional framework including through the enrichment of terms and techniques used in this field, the program has accelerated since 1995. Indeed, with the promulgation of the law of August 1994, transactions of privatization by sale of control blocks of shares on the basis of a specification have developed. Well, it was made 45 operation during the privatization period 1995-1997 which represents an annual average of 15 companies against 6 between 1987and 1994 , again this means that the first step of SAPs was the stabilization which spread from 87 till 94.

ii. Basic principles of privatization:

The conduct of operations of privatizations obeys two fundamental principles:

The first principle concerns the preservation of general interest; the privatization is not limited in effect to a simple transfer of ownership from public to private sector. Motivations in this regard are many and exceeding the sole sake of getting the maximum price[56]. The State is concerned first and foremost the sustainability of the company in question; It also gives particular importance to the preservation of the greatest number of jobs that is consistent with the criteria of efficiency and profitability of the company, the interest of the state also bears on the market situation in which the company operates to ensure the smooth functioning of market mechanisms and avoid monopoly situations.

The second principle relates to the transparency of the privatization process. Indeed, the regulations in force that regulate privatization issues embody the following principles:

- ✓ The Competition Appeal;
- ✓ Advertising, mainly through the tendering;

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56 National survey about privatized enterprises and productive units, prime ministry of Tunisia

- ✓ The assessment conducted by professionals from outside the administration.

The procedures for assessment of tenders they investigate through an inter-departmental decentralized process, with contributions from stakeholders outside the administration to consequently ensure full transparency. So all stakeholders are directly involved in the decision making process.

D. Evaluation and financing of privatization program:

1. Evaluation methods:

Evaluation before any privatization is according to international norms and standards by professionals from outside the administration (Tunisian or foreign accounting firms) It should be noted in this context that, since 1997 the Ministry of Economic Development has adopted a new approach that aims to use the world famous banking institutions whenever privatization is complex and large scale as in the case of cement.

The choice of organizations that will make the evaluation is performed on the basis of an appeal to the competition.

2. Financing of the program:

In order to stimulate the privatization process, arrangements have been made to facilitate the financing of privatization.

Indeed, a circular of the Central Bank of Tunisia dated 23 November 1997, allows interested banks to grant directly, a medium term loans to finance the purchase of a block of control or an asset in the context of privatization operations. The second measure is to encourage investment companies with venture capital to participate in the privatization operations.

For this purpose, lines of credit contracted by Tunisia from the European investment bank have been put at the disposal of these companies to support the privatization program.

3. Privatization and foreign investment:

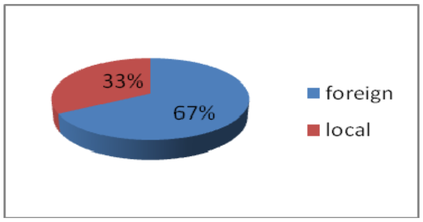
In Tunisia, foreign investment enjoys a special attention from the government, is reflected in the diverse actions and measures taken in this area.

Tunisia is indeed gather all the favorable conditions for the mobilization of this type of investment with the aim to further consolidate the assets available to the country, first and foremost being the political and social stability.

In this respect, privatization is an important vehicle to boost foreign investment; some privatizations are regarded as an additional attraction of this category of investment that contributes mainly to the transfer of technology and development of export.

The privatization program offers extensive opportunities that may arouse the advantage of foreign investors. These opportunities relate to construction projects for highways, power generation, water desalination and water uses treatment ...

Results in this side are good, indeed, at the end of 1997 and over the total program of privatization, more than ten enterprises representing 20% of the value of privatized companies (80 million of dollars) are taken by foreign investment(see table 4). The chart below shows the part taken by foreign holders in the operations of privatizations till 2000 and the table below show the amount of foreign assets in privatization investments.



4. Share of foreign investment in privatization receipts till 31-03-2000 source: central bank

Sector of activity	Amount of foreign investment (in MDT)	In % of total
Agriculture and fisheries	-	-
Industry	811	15.6
Agro-foods Industries	-	-
Construction materials, Ceramics and Glass industries	800	15.4
Mechanical and electrical Industries	6	0.1
Chemical Industries	-	-
Leather and textiles Industries	5	0.1
Other industries	-	-
Services	4370	84.4
Tourism and handicrafts	143	2.8
Commerce	27	0.5
Transport	22	0.4
Financial services	446	8.6
Telecommunication	3732	72.0
Other services	-	-
Total	5181	100.0

4. Part of foreign investments in revenues from privatizations and restructurings, broken down by sector of activity, source privatization web site www.privatisation.gov.tn

4. New era of privatization:

On the light of achieved results and with respect to requirements of the next stage especially in matters of leveling and openness of the economy, Privatization Program began a new phase characterized by the implementation of new provisions to accelerate the pace of operations, providing more flexibility in terms of procedures and techniques to strengthen publicity on companies to be privatized. In a context of liberalization the program of privatization after 1997 witness a diversification of operations and widening the scope of its program to many competitive activities especially those that can entail high value added.

The operations of privatization is more and more processed through the Tunisian stock exchange in order to create a dynamic in it and enhance its performance and ensure a public awareness of its importance.

The tables below assess the privatization operations till 2000:

period	1987-91	1992-94	1995-99	Total 1987-2000
Amount (MD)	131	64	1073	1268
Number of enterprises	38	10	90	138
Number of operations	65	35	192	292

5. The privatization operations till 2000

The privatization affected all the sectors as mentioned in the table below:

sector	receipts	Number of enterprises	Number of operation
tourism and crafts	153	29	61
transportation	72	18	35
chemical and mechanical	65	24	26
trade	112	18	39
Agriculture, fisheries and agro-food	57	18	56
building materials	766	17	31
Textile	13	5	9
others	30	9	35
Total	1268	138	292

6. PRIVATISATION BY SECTORS

Privatization was made by different manners as mentioned in the table below:

Sector	privatization by way of assignment from 1987-2000
Concession	77
sale of shares	869

public offering or sales offer	68
asset sales	254
Total	1268

7. PRIVATISATION MANNERS

There is also a partly repaired business as mentioned in the table below:

Repaired business	
tourism and crafts	29
Transportation	18
chemical and mechanical	24
Trade	18
Agriculture, fisheries and agro-food	18
building materials	17
Textile	5
Others	9
Total	138

8. REPAIRED BUSINESS

Source of tables: privatization web site

E. Economic and financial policies:

While the first step was the stabilization of macroeconomic variable and balance of payment trouble during the decade 1986-1996[57], the ninth plan(1997-2001) concentrate on structural change of the economy and its competitiveness and rational allocation of resources by promoting the private sector and opening the economy to foreign investors through encouraging the inflows of capitals and FDIs(Annex 4). In this framework a vast program has been implemented, consisting essentially on leveling of the whole economy.

In consequences efforts has focused on strengthening the effectiveness of measures and reforms and increased their pace in different areas, mainly through the further opening of economy to the outside and adjustment of pricing policy, foreign trade and settlement; further consolidation of fiscal reform, the continuing reform of the financial system and the acceleration of privatization programs.

Within this framework and to ensure the improvement of competitiveness of the Tunisian economy and the strengthening of its openness and integration into the global economy, Tunisia has carried out the implementation of a second operation of structural adjustment, supported by the World Bank and IMF with support of EU in the ninth plan.

The reform program implemented under this operation covers areas as diverse as foreign trade, taxation, the state withdrawal, deregulation and facilitation of trade (shipping and ports, telecommunication, legal framework) and the work market.

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[57] See Appendices

1. The further opening of the Tunisian economy and export promotion

The foreign trade policy has been marked during the 9th plan by implementing the Association Agreement with the European Union which provides the establishment of a free trade area and intensification of economic relations between the two parties.

It should be noted in this context that 1996 saw the implementation of the anticipated program of dismantling of tariff and that, in order to reduce costs and increase production, by the same the competitiveness of Tunisian products.

Concomitantly, the accession of Tunisia to the World Trade Organization (WTO), resulting in new commitments that concern agriculture and which shall include the conversion of all non-tariff measures into tariff equivalents and the reduction, over several years, subsidies and tariffs.

These commitments involve, also, the elimination of remaining quantitative restrictions and improve conditions for competition and the revision of anti-dumping system and procedures relating to foreign trade.

Emphasis has been placed on the harmonization of tariffs applied to imports from countries other than the European Union, as measured and the progress of tariff dismantling program to avoid the risk of diversion trade flows. This action was accompanied by the revision of customs code in order to adapt to the requirements of simplification of foreign trade.

In parallel, efforts have been made to boost business cooperation with brotherly and friendly countries, especially those of the Maghreb and the Arab world.

Special attention has been paid to export because of its role in realizing the objectives of the 9th plan. That in this context was the establishment of the Council of export, under the aegis of the President of the republic,[58] whose role includes the elaboration of strategies for export.

2. Adaptation of pricing policies, competition, inside trade and compensation

With the previous achievement in deregulation and improvement of environments of competitiveness and liberalization, the period after 1996, requires the intensification of efforts to consolidate the gains registered in this area and improve competitiveness as a prerequisite to enable the development process especially after signing the Association Agreement with the E U.

The pricing, competition, inside trade and compensation recommended for the 9th Plan have been contributed to the attainment of objectives in the next step through a better control of costs of production and quality improvement to ensure the upgrading of Tunisian enterprises, enhance their competitiveness and enable the full integration of the economy in the global sphere. The action in this area is the best organization of distribution channels because of their important role in the development of productive sectors.

In the context of liberalization of prices and the economy in a general way, the effort has been intensified to ensure consumer protection, to further improve the competitiveness and promote quality.

Regarding compensation, and while maintaining the subsidy of basic consumer products destined for needy families benefit from this initiative, solutions and appropriate measures have been considered, she designed the targeting of compensating products, direct compensation each whenever possible and the generalization of the package.

58 Speech of the president of the republic Le Bardo, 28 décembre 1996

The objective is to improve the effectiveness of the compensation and to reduce the expenses of clearing at a level smaller or equal to 1% of GDP by 2001.

3. Strengthening of fiscal reform and consolidation of different tax regimes

In addition to the added value tax reform implemented in 1988 and local fiscal reform of law 94-11 implemented in 1994 , the tax reform was continued during the 9th plan to introduce greater harmonization between the different tax regimes and to compensate the shortfall in revenue resulting from the entry into force of the program of dismantling of tariffs and charges having equivalent effect following the implementation of the agreement of association and cooperation agreement with the European Union.

The fundamental goal is to increase the share of direct taxes in total tax revenue and focus the effort level of indirect taxes on domestic rather than the taxes charged on imports.

To achieve this objective, the main reform revolves around the following points:

- The improvement of performance through better tax collection;
- The widening of tax base and taxes by the reduction of special tax regimes;
- Consolidation of the value added tax in order to put all the sectors on the same footing;
- Rationalization of tax incentives to promote investment in accordance with priorities.

In addition to these reforms, a range of measures has been taken to strengthen the efficiency of taxes and further optimize the distribution of tax burden.

Among these measures include the publication of the "code and tax procedures" and increased awareness of the operations of associations and professional bodies to encourage taxpayers to file their statements within statutory deadlines and with the transparency required and strengthening the control administration tax by the human and material necessary (software applications).

4. Financial and monetary policy

In addition to the reforms of preceding decade, the 9th plan period known for continuing the process of modernizing the banking system and strengthening its technical and financial capacity to support changes in the economic arena.

As such the focus has been placed on improved methods of management by the use of technology, the introduction of advanced computer systems and establishment of data bank systematically updated to master the operations of Risk assessment.

Effort was also taken on a more flexible legal framework to suit the requirements of the next period on opening on the outside and to strengthen the complementarities between the different categories of banks to promote the emergence of centers capable of mobilizing financial resources appropriate to double both internally and externally.

Regarding monetary policy, the 9th plan period has been, in addition to the continued mastery of liquidity, the consecration of the qualitative and indirect monetary policy and the gradual establishment of political open market and that, through the modernization of the mechanisms used in money market and product diversification especially Treasury bills and the revision of procedures relating to the financing of the treasure.

Also, development and revitalization of the financial market are considered among the main objectives set for the next period, given the role of this step in the mobilization of domestic and foreign savings and optimal allocation for the financing of various economic activities.

In this respect, efforts were intensified during the 9th plan to continue to modernize the financial market and the introduction of appropriate organizational measures to facilitate the task of the various structures and specialized agencies while ensuring the improvement of the quality of services provided both to investors and developers.

Specific interest was, also, given to the insurance industry to improve its efficiency and promote delivery and new services to support the productive sectors and allow the mobilization of savings, including the long term.

Liberalization of external financing was pursued with the objective to move towards full convertibility of the dinar which is a key factor in the completion of structural reforms, in addition to its role as an effective tool for promoting trade with outside and to ensure the entry of foreign capital including direct investment and venture capital.

F. Sectoral and social policy :

1. strategies of sectors development

The sectors guideline and policies seek to reinforce potentially profitable activities, to take advantage of all opportunities that could contribute to the development process, and to identify additional sources of growth particularly through getting access to new markets, and increasing the competitive advantages of firms. The ultimate purpose of this approach is to insure the participation of all sectors in achieving the objectives set in order to upgrade the national economy allowing its integration into the world economy.

The principal axes of sectors development was firstly to diversify production and improve the quality of products and thus the competitiveness of national production and an increase in exports, secondly to develop agricultural production and foster the continued growth of this sector decreasing the effects of natural factors, thus ensuring food security and the reduction of the trade deficit , thirdly to upgrade business firms operating in various sectors, and particularly in industry and agriculture. This would prepare them for the liberalization of foreign trade and the upcoming implementation of a number of agreements adopted within the WTO, especially those relating to the liberalization of the service sector and the elimination of the multi-fiber arrangements.

Fourth to develop and improve infrastructure since services such as transport, communication , etc play an important role in supporting productive activities and competitiveness, in improving living conditions for citizens, and in ensuring integration in the world economy .

Fifth to improve human resources and prepare them to meet the challenges of the future, particularly the challenge of acquiring technological know-how.

The last principal is to grant a greater role to the private sector in implementing sectors policies and programs by giving it access to new activities such as infrastructure support and public services through the concession system.

The optimal allocation of investments among sectors reflects the above objectives: the amounts set aside for each sector have been defined on the basis of defined priorities and in light of their potential contribution to exports and economic growth.

2. strategies of regional development

Guidance in this area aimed to ensure participation of all the regions with the national effort, and influence of development across the whole territory of the country, and in an environment which upholds the market economy and the gradual integration of the global sphere.

The main lines consist of:

- The adaptation of strategies of regional development based on own potentialities and exploitation of dynamic activities they cover;
- The granting of special interest to the region with no pre-development factors;
- Enhancing the complementarities and solidarity between the regions having the same problems of development;

More precisely the action of development at the regional level strived to:

- Confer the status of overall development efforts and ensure the spread of development across all regions as the leaves appear to increase public investments in all governorates, without exception;
- Boost the development in the governorates of the West through the strengthening of their shares in the total public investment has reserved the basic infrastructure and public facilities. This pulse refers to programs selected for the agricultural sector. Indeed, in addition to the dams of Sidi-Barrak, barbara and Zarga, governorates of the West saw the creation of 80 hillside dams, 226 small lakes and development of 12,000 ha of irrigated areas.
- These regions have also experienced the development of road network, while enjoying 50% of rural roads program, besides the establishment of two university centers such Jendouba and Gafsa and, in addition to the creation of some nucleus in the other governorates;
- supporting and strengthening the dynamism that knows the coastal zone of the country in connection with the specifics of the new step with what it requires as improving competitiveness through the development of basic infrastructure such as roads and structuring the doubling the railway line Tunis-Sousse, the extension of airports Tunis

Carthage, Monastir and Djerba , action also focused on the development of industrial areas, the consolidation of university centers including the creation of institutes of higher technology and diversification of courses and specialties in the field of vocational training;

- Develop the medial axis in order to extend the dynamic development of the coastline to the interior regions via the medial axis and through the consolidation of the east-west road network and the establishment of industrial zones appropriate in some cities.

It is clear from all these guidelines and policies that mark the action of development during the years 1995-2001, the goals are the achievement of a comprehensive and sustainable development based on a better distribution of the fruits of growth and broad participation of all potentialities.

3. Banking reform programs:

In this framework the second adjustment loan for the competitiveness of the economy supported efforts of government in the following areas:

- Settlement of debts hanging of public and semi-public enterprises vis-a vis banks
- Modernization of banking activities;
- Bank restructuring and improvement of management;
- Modernization of the Treasury securities market;
- Consolidation in the insurance sector.

i. Settlement of debts hanging of public and para-public enterprises vis-a vis banks

Strengthening the financial base of the Tunisian banking system is an absolute priority of economic and financial policy. The government has intensified efforts to overcome the difficulties inherent in recovering debts for banks and their interest Backup. Appropriate solutions have been identified to absorb the clean debts and hung bank's portfolio.
In this respect, a range of measures was implemented to ensure the settlement of most of the debts held by banks hung on public enterprises and public participation.

Immediate action on a list of 138 companies, for an amount of debts totaling to 768MD were arrested in connection with the Finance Act 1999 for management (budget of 1999).

The program was supported by the World Bank on the settlement of debts hanging of 49 public enterprises and semi-public totaling approximately 710MD.

In parallel, arrangements was met in place to ensure that public institutions that are an extension of the administration can any more use bank loans without the guarantee of the state.

In the Same vision and to reduce the time of liquidation of public sector enterprises, a bill amending the laws on 1 February 1989 related to participation , public enterprises and public institutions was adopted for a particular to limit the period of execution of programs of approved liquidation to 3 years.

ii. Modernization of banking activities

The actions foreseen in this program cover, at the same time, the institutional, legal and regulatory framework as well as logistical and technical.

The new provisions should aim for greater development of banking and the establishment of appropriate measures to ensure sound and secure banking system to shocks both external and internal.

In this framework, the government launched a comprehensive plan to tackle nonperforming loans (NPLs). The plan entailed government assumption of banks′ claims on certain public enterprises in return for noninterest bearing 25 year notes. Legislation allowing the transfer of NPLs to Asset Management Companies (AMCs) was also introduced and banking supervision was strengthened. As a result, NPLs fell from 25 percent in 1996 to 19 percent in 2001[59].

New dispositions should include the introduction of the single license to remove the partitioning of the banking activity and to allow each bank to perform according to its potential: financial, technical and commercial banking in all trades and specialize if that is his interest, clarifying the obligations and responsibilities board of directors and managers, definition the conditions and modalities of intervention of the authorities during the financial failure of a bank.

The government gives special attention to the implementation of the technical part of the modernization of the banking system to bring it into line with developments recorded on the international scene in this area.

The actions chosen are particularly:

- The improvement of payment methods through the introduction of a modern system of clearing which limit the operation to 48 hours.
- The establishment of an information center which will provide banks with reliable

59 IMF country report 2002

information in real time in order to assist them in the assessment of risk and decision making to optimize their management and control risks incurred.

- The establishment, under the control of the central bank of each bank's own back-up center to restore the data and ensuring where appropriate, resumption of normal execution of normalized daily operations.
- The constitution of a company specialized in order to secure transportation of funds.
- Consolidating electronic money system for improvement of its institutional framework and standardization and the development of offered products.

iii. Bank restructuring and improvement of management

Management of public banks has been more relaxed thanks to the Upgrades of their management. This purpose, the threshold of 34% giving banks the nature of public enterprise has been revised. Other actions have been implemented to allow more flexibility to management of banks structures through greater accountability and clarification of responsibilities and duties of the board of directors, managers and auditors, ...

Iv. Modernization of the Treasury securities market and monetary management instruments

Through the improvement of the efficiency of the financial system, the governments introduced more Harmonization between different compartments of the capital market and ensure its proper functioning. For this and to ensure a better mastery of the instruments of monetary management and optimize the process of refinancing and allocation of resources, the improvements were introduced on the mechanisms of market functioning and the mode of action of various operators to promote the conduct of indirect monetary policy. This purpose, the role of the central bank in the market for treasury bonds was broadened to enable it to conduct operations in open market.

Given the requirements of modernization, Tunis Stock Exchange, the financial market reforms advocated by the government touch specialized financial institutions, like mutual funds that occupy a privileged place of the strategy to boost the activity exchanges. Improvements were introduced at the last of these regulations and accounting system specific to their activities was adopted. Same brokerage firms have been equipped, for their part, a specific regulation that suits their requirements and allocation of the modernization of financial market structure.

V. consolidation in the insurance sector and strengthening the regulatory framework for non-bank institutions

Reform of the insurance sector is one of the main axes of the financial policy. The approach adopted by the government aims to restructure the financing of certain companies and the adoption of appropriate measures to promote certain classes of insurance and the development of the sector's regulatory framework.

Insurance companies were asked to modernize their methods of management to improve productivity of the sector in general and prepare for the opening on the outside.

A new accounting system was adopted to promote transparency in financial statements of insurance companies and harmonize the conduct of their accounts.

G. Macroeconomic policy and Stabilization :

Since its beginning the SAPs focus firstly on stabilization of macroeconomic indicators and balance of payment problems, monetary policy was the key to reestablish the BOP deficit.

Prior to 1986, the main objectives of the BCT were to provide credit to support the government's economic development plan. The BCT controlled the growth and distribution of credit as well as interest rate , commercial bank should seek the approval of BCT to fix their relative interest rate , particular low interest rate was given to a particular sector investment such tourism, manufacturing and heavy equipment, export and SMEs. In fact, the real interest rate given to priority sector loan was negative for most of the cases over the period 1972-1985. This heavy subsidized credit created an incentive to invest in low-return project and shortness investment in other fields of the economy. Repayment of loan was very low. The real interest rate on term deposit was also mostly negative over the same period. Thus reduced the amount of savings channeled through the banking sector could not satisfy the large demand for loans that the artificially low interest rates had generated. The excess demand for loans created the need for an expansion in money supply, which in turn led to a significant rise of inflation which reaches the rate of 8-9 per cent. Given that the nominal exchange rate was fixed with main trading partners, inflation hundred the competitiveness of Tunisian products designed for export which led later to unsustainable current account deficit by 1986. The BCT react quickly by devaluating the dinar (local currency) and changed its monetary and exchange rate policy.

The two major initiated policy which aim to improve the efficiency of credit allocation and maintaining equilibrium in the external account was ; (i) a shift from direct control of credit and money expansion to indirect management through refinance facilities and (ii) a gradual elimination of preferential interest rates and quotas.

i. interest rate policy :

Preferential interest rates for priority sector remain continuous. Although their share in outstanding banks loans declined sharply, authority intends to eliminate it totally. Non preferential interest rates have been considerably liberalized, and all interest rate controls have been removed. As results the interest rates have been surprisingly stable over the period 86-94 (Table 9).

TABLE 1.2

Selected interest rates

	1986	1987	1988	1989	1990	1991	1992	1993	1994
Money market rate	10.25	9.50	8.63	11.31	11.81	11.81	11.31	8.81	8.81
Central bank									
Appel d'offres[a]	—	—	—	10.31	10.38	10.38	10.38	7.88	7.88
Prise en pension[b]	—	—	—	11.31	11.88	11.88	11.38	8.88	8.88
Rediscount of preferential credit							8.25		
(end of period)							7.75		
Export-related credit	4.00	4.00	4.00	4.00	6.25	6.25	8.50	8.25	8.25
Crop credit	4.50	4.75	4.75	4.75	5.75	5.75	9.50	7.75	7.75
Agricultural equipment	5.50	6.00	6.00	6.00	6.50	6.50	—	8.50	8.50
Small- and medium-sized enterprises	6.50	6.50	6.50	6.50	7.50	7.50	—	9.50	9.50
Commercial banks									
Maximum lending rate[c]	12.63	13.00	11.63	13.75	14.81	14.81	16.50	14.44	—
Special saving deposit rate[d]	8.15	7.50	6.63	9.25	9.63	9.63	9.63	7.38	7.38

a. Auction of refinance credit. It is a fixed amount of seven-day liquidity that is auctioned against assets held by the bank.
b. Repurchase facility. It is an automatic repurchase window at the initiative of the bank.
c. The maximum lending rate was set at the money market rate plus 2.5 points in 1989 and plus 3 points in 1990–91. In 1992, the average lending rate for each bank was limited to the MMR plus 3 points. All restrictions were lifted in June 1994.
d. The interest rate for special saving deposits was set at the MMR of the previous month minus 2 points since 1987.
— Not available.
Source: Central Bank of Tunisia, *Statistiques Financières* and *Rapport Annuel*.

9. Interest rate evolution

The stability of the BCT-controlled rates over time results mainly from a policy of monetary expansion based on interest rate targeting. The BCT only partially fulfills the bank's demand for auctioned funds and through dissuasion, curtails the use of the pension. Although refinancing facilities are open to all banks, some credit access regulation must be in effect in view of the fact that the interest rates are so stable and the BCT has a target for monetary growth. The use of the interest rate as an intermediate target of monetary policy-that is, pegging the interest rate by accommodating money demand changes-may not accomplish an important objective of the Central Bank, namely the minimization of real GDP fluctuations around its full employment level. In an economy with limited international capital mobility and a managed exchange rate, targeting the interest rate will lead to smaller fluctuation in GDP only if the main source of uncertainty arises from shocks to the demand for money. However, if the main source of uncertainty resides in the demand for goods and services or in aggregate supply, then interest rate pegging will lead to higher GDP fluctuation. In Tunisia, shocks to aggregate supply and the demand for goods and services are a significant source of uncertainty. Given the importance of the nonmonetary shocks a mixed (interest rate /money supply) targeting rule seems more appropriate to minimize fluctuation of real GDP around its full-employment level in Tunisia. (See APPENDICE: monetary policy instrument).

ii. Inflation and other monetary developments:

The annual inflation rate decreased from an average of 9.5% during the first half of 1980s to 6.2% during the period of 1986-94 (table 10).

year	81	82	83	84	85	86	87	88	89	90	91	92	93	94
Inflation rate	8.9	13.7	9.0	8.5	8.0	5.8	7.2	6.3	7.7	6.5	8.2	5.8	4.0	4.5

10. Inflation rate (CPI) source BCT

After the stabilization program of 1986, the average growth rate of the money supply (M1 &M2) decreased significantly, in accordance with a policy of inflation control (Table 11). Starting in 1988, domestic credit was redirected away from the central government. As of 1994, 92% of domestic credit was allocated to the private sector and public enterprises. The reduction of money financing of the budget deficit was accomplished by the introduction of competitively priced treasury bills in late 1989. Since 1986 the growth rate of quasi money (M2) has been consistently higher than that of M1 due in part to the consistently positive real saving interest rates in the period. However, since 1989 the velocity of M2 has trended upwards as more attractive long-term financial instruments became available. In 1988, commercial paper (issued by nonfinancial institutions) and certificates of deposit (issued by commercial banks) were introduced, open-and closed-end mutual funds (SICAVs and SICAFs) were started, and in 1989 treasury bills were successfully introduced. The rising ratio of M3 to M1 provides evidence of the degree of financial deepening occurring in Tunisia over that period.

TABLE 1.3

Main monetary indicators

	1986	1987	1988	1989	1990	1991	1992	1993	1994
Annual percent change									
Domestic credit	8.3	7.9	1.9	18.7	10.4	9.7	14.7	7.4	7.1
Government	13.2	15.0	-6.2	6.7	11.9	5.6	10.1	-0.3	-6.5
Private sector	7.5	6.7	3.3	20.8	10.2	10.4	15.3	8.4	8.9
Money plus quasi-money (M2)	5.7	13.7	19.3	16.5	7.3	5.3	7.5	6.7	7.9
M1	3.5	-1.6	21.3	2.9	4.9	-0.4	5.4	4.8	10.2
Quasi-money	9.5	39.7	17.0	33.6	9.7	10.5	9.2	8.2	6.2
Net foreign assets	-73.3	228.6	199.3	25.6	-10.9	-12.2	-24.1	-34.9	-60.8
Inflation									
CPI	5.8	7.2	6.3	7.7	6.5	8.2	5.8	4.0	4.5
GDP deflator	3.1	6.7	8.5	7.9	5.1	7.0	6.2	4.6	5.2
Growth									
Nominal GDP	1.6	13.9	8.6	9.7	13.3	11.1	14.6	6.8	8.7
Real GDP	-1.4	6.7	0.1	1.7	7.8	3.9	8.0	2.1	3.3
Nominal effective exchange rate	-16.2	-17.2	-5.2	-4.2	-4.6	-2.3	0.7	-1.8	-1.1
Ratios									
Monetary base/GDP (percent)	11.0	10.0	13.0	14.0	11.0	11.0	10.0	10.0	11.0
M4/GDP (percent)	47.0	46.0	51.0	55.0	55.0	55.0	52.0	54.0	54.0
M3/M1	1.6	1.8	1.8	2.0	2.1	2.2	2.3	2.3	2.3
Velocity of M1 (GDP/M1)	3.4	3.9	3.5	3.8	4.1	4.5	5.0	5.0	5.0
Velocity of M2 (GDP/M2	2.1	2.2	2.0	1.8	1.9	2.1	2.2	2.2	2.2

Source: Central Bank of Tunisia and Ministry of Economic Development.

* 11. Monetary indicators; source BCT

iii. Balance of payment and exchange rate policy:

During 1986-87, the BCT devalued the Tunisian dinar, including a real depreciation of about 27%. Starting in 1987, the Tunisian government initiated a program of trade liberalization, aimed at shifting resources from inefficient import-substituting activities to the export sector, and a policy of fiscal deficit control, to diminish the need for external savings. These policies were successful in reducing the current account deficit to an average of 4% of GDP during 1986-93.

The reduction of the current account deficit was particularly important in 1987 and 1988 due to the strong effects of the real exchange rate depreciation combined with an excellent agriculture crop, an increase in oil prices, and the near doubling of tourism receipts caused by the opening of the border with Libya in 1988. From 1989 to 1993, the current account deficit gradually rose and due to a deteriorate of the term of trade in the period 90-92 and a recovery of private sector investment, following some trade liberalization measures and the devaluation of the dinar .the current account deficit fell sharply in 1994 with an unusually large sale of olive oil stocks, lower imports with the economic slowdown, and stronger manufactured exports.

Tunisia rather sizable trade deficit and the large role of tourism receipts and worker′s remittances in financing the trade deficit make Tunisia′s external position vulnerable to adverse developments in the region′s economic and political stability.

In early 1994 the BCT introduced an interbank foreign exchange market, which expected to lead to a market determined exchange rate. The Tunisian government aimed to full convertibility of the dinar.

iv. saving and investment :

The savings-investment relationship is, of course, the domestic counterpart to the current account balance, and its analysis sheds light on, among other things, the sustainability of the country's external position. National (and domestic) savings decreased steadily during the first years of the 1980s from 24.6 percent in 1980 to 15.5 per cent in 1986. Subsequently, the declining trend was reversed and in 1992-93, national savings averaged 22.2 percent of GDP .This recovery was strongly led by non central government national savings, which rose gradually from 9.6 percent in 1986 to an average of 21.0 percent in 1992-93. Gross domestic investment was fairly stable during 1980-84 at around 31 percent of GDP Then, in the midst of the balance-of-payment crisis and the ensuing adjustment program, it decreased to 19.4 percent of GDP in 1988.Most of this decline was due to a contraction in gross fixed investment by the non central government, especially by public enterprises. From 1989, gross domestic investment recovered strongly to an average of 29.7 percent of GDP in 1992-93 this recovery was led by private investment, which responded favorably to the stronger macroeconomic stability and the new incentive structure generated by the structural reforms, and by some public enterprises.

Overall many reforms was made in different fields and with a step wise manners in order to avoid shocks and to ensure awareness about the openness of the economy, so what was there effect on the economy and macroeconomic variables .

In the next chapter we will analyze the performance of the economy and the effects of SAPs.

Chapter 4

Performances of Tunisian economy and analysis of SAPs effects

In this chapter I will try to analyze the results of the practice of SAPs and the performance of Tunisian economy after 1986 compared to the pre-adjustment period. I will try to answer the questioning impacts of SAPs on Tunisian economy, especially by focusing on the behavior of certain specific macroeconomic variables.

I. Situation before any reforms:

As mentioned before the economic situation before any reforms was critic especially over the period of 1980 -1986 which witnesses a profound crisis that harmed the economy competitiveness, touched all the economy and deteriorate the external position of Tunisian economy especially the main macroeconomic indicators which lead to a rethinking about the policy of protectionism pursued until that time.

The main economic and social indicators were as follow;

- Total factors productivity growth was negative -1.7% and the productivity of capital declined by 4.3%
- Exports decreased by 0.8% in average each year and imports by 1.1%
- In 1982-1986, the yearly average rate of GDP growth was 3.6% and 1% for GDP per capita.
- The investment rate was 30.2% in average in the period of 1980-1986.
- Nominal wages increased by 12.9% and real wages by 2.7% on average during the same period

- A huge budget deficit of 5.2% of GDP in the period 81-86 with expenditures reaching 40% of GDP in the year 85-86
- Non-oil revenue that constitutes 30% of GDP.
- Expansionary monetary policy maintained by the financial needs of the budget and public enterprises as well as real interest rates too , sometimes null, which contributes not only to demand of credit but also to some distortions in the allocation of credit and to a weakness financial system,
- Rising external current account deficit which rose from 5% of GDP in 1980 up to 11% in 1984 and then stabilized at 8% in 1985-86 reflecting the high level of collective demand and slowing exports and the overvaluation of the currency, in the face of deteriorating terms of trade.
- The rising level of external debt which amounts to 38% of GDP in 1981 to 63% in 1986 and the solvency ratio has doubled from 14% of current jobs to 28% in 1986.

II. Realization after the reforms of 1986-1997:

The reforms was implemented by steps so it should be mention that each step led to certain results that encourage to begin the next step but we can identify two main phases , the stabilization and the openness of the economy.

1. Economic reforms of the period 1986-92:

In 1986 Tunisia has implemented a great reform implied by the Structural adjustment programs provided by the IMF and World Bank to save the economy from the big recession that happened in that time and causes many macroeconomic problem and weakness. These programs aimed to accelerate the GDP growth in the framework of openness to the exterior. Obtained results were on the level of expectations. In average the product is increased in pace of 4.4% by year over the period 1987-92 with an inflation rate that achieve more than 7%. The balance of current payments and the fiscal balance (public budget) remained in the margins financially bearable deficits, less than 4%. Golf crisis (august 1991) and the decrease of oil revenues induces a flow of new decade beginning more difficult.

Between 1992 and 1993, the current account balance has been particularly heavy loss, requiring a careful management of monetary mass. In average the M2 grew at a real growth target of around 5 to 6% and an expected global inflation of around 3%. In parallel, the exchange rate policy was sufficiently flexible to stabilize and even slightly improve the competitiveness of the economy by comparison with Europe, its main export market. Between 1987 and 1992, the index of real effective exchange rate has indeed depreciates by 2.5 %.(**APPENDICE 6**)

2. Effects on macroeconomic variables:

This period was very interesting to stabilize growth and main economic indicators such mastering inflation and reducing budget deficit and debt ratio. Indeed the IMF was successful to help Tunisian authority to achieve these goals, in fact the GDP growth increase to 4.4 and inflation decrease to 6.9 in the end of 1992.

3. Controlling inflation rate policy :

Implementation by government a monetary and fiscal conservative policy, certainly has a restrictive effect on domestic demand and hence on price developments. However, measures of regulation by the application whose scope is essentially short term are often ineffective and result in a negative impact on investment and production and, consequently, employment and export which are cornerstones of economic policy and social life. That's why they put more emphasis on expanding production, so supply, to adapt to changing demand and thus successfully controlling the phenomenon of inflation. Meanwhile, authorities have spared in recent years, no effort to fight inflation by implementing a package of measures in order institutional and regulatory affecting several aspects. These include, reducing rigidities in existing distribution channels to avoid hindering the supply of markets through, inter alia, the consolidation of the transport sector and encouragement by financial resources, intermediaries to improve conditions for the establishment of buffer stocks. Similarly, control of inflation through cost containment production, the only guarantee for lasting stability in prices and hence the exchange rate of the currency. Thus, households will have to accept a moderate evolution of their income, because their purchasing power is saved, and businesses can properly and positively anticipate their investment decisions.

Furthermore, great efforts have been made towards the liberalization of prices, promoting competition, respect for market rules and transparency of distribution channels and trading. The new legislative and regulatory framework that came into force in 1991 was therefore made a qualitative leap in this area. As for the Administration which continued to act indirectly through mechanisms of control of supply and demand and Punishment, where appropriate, of course slippages in accordance with the spirit of liberalization and law. Moreover, if an excessive increase in prices not justified by objective factors, governments can directly act to restore equilibrium and impose a normal evolution of prices.

In addition, the law on competition and prices for July 1991 contains provisions deterrent against unfair competition. This was supplemented in this sense by the rules on consumer protection for the repression of false advertising, deception and falsification.

Under the draft law on consumer protection, the role of the state is limited to control and regulate the market, ensuring the presentation of any goods or services under normal conditions of use and safety. It was also reinforced by the establishment of a National Institute of consumption (NIC) to be the vocation of a technical center for consumers, in addition to strengthening the work of existing structures for hygiene control, as this is particularly true of the National Institute of Nutrition.

Regarding distribution channels, the agenda includes, among others, their level of sanitation in the flow of agricultural products and this by adopting a framework law regulating the operation of the business of wholesale and retail sales.

In the same vein, the increased competition, both internal and externally to give the economy more efficient and competitiveness was supported by a progressive liberalization of imports of competitive products that are interested, now the final consumer goods[60].

4. Results and lessons from eighth plan

The period 1992-1996 which represent the eighth plan aiming at maintaining a five-year of incentive was a good tool to mobilize all forces in order to boost the economy and enhance liberalization. Compared to interventionism that witnessed the last decade (before implementation of SAPs in 1986) government become more attached to develop the base for market-based economy with agreement to political will of liberalization. With a certain manner the plan prepare the administration to meet these challenges in a macroeconomic coherence, to negotiate with international institutions and especially European Union.

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60 Central bank report 1991. pp 91-92

In the eighth plan in which Tunisia obtain a 160 million Euros under aid common program, the question is what are the results of this challenging plan of transformation?

In the period of 1992-1996 Tunisia acquired many results in different fields and this in spite of cyclical difficulties which affect the economic situation.

The principal results were (Appendice 6):

The realization of an average annual growth rate of around 4.6% thanks to the evolution of the sectors of non-food manufacturing (6.5%) and services (6.3%), which revealed the contribution of these sectors to the GDP growth of 45.5% in 1991 to 48.4% in 1996; the substantial improvement in productivity of production factors which contributed one-third due to the realization of the growth rate recorded, reflecting the impact of reforms and reflects a significant change in the behavior of different stakeholders and their commitment to these reforms; increased exports by an annual average of about 6.3% in constant prices exceeding thus the evolution of global demand, which has strengthened the hand of Tunisia on foreign markets and increase the rate of coverage of imports by exports from 89% in 1991 to 96.6% in 1996. Mastery of the price increased reflected through an average annual rate not exceeding 4.8% to support the competitiveness of Tunisian products, knowing that the period of eighth plan was crowned by the achievement of an inflation rate of 3.7% in 1996, a rate close to the level in several partner countries, safeguard of financial equilibrium through the rationalization of public expenditures and limiting the budget deficit to about 3.5% of GDP on average per year, as well as through the intensification of efforts to mobilize adequate external resources to further the improvement of debt indicators. Indeed, the debt ratio has reached 51.4% of national disposable income in 1996, against 53.2% in 1991 and the ratio of debt servicing fell from 21.5% of current revenue in 1991 to 17.7% in 1996.

The results of economic policy have been accompanied by significant achievements in social level, obtained thanks to the proactive policy in this area and has enjoyed particular attention to the Social Dimension.

This realizations was intensified of job creation and by an amelioration and increase in wages by the adoption of two three-year programs of wage increases and the continued policy of clearing commodity, while ensuring that they refer to the classes who are most in need and most disadvantaged and the implementation of accompanying measures in their favor. These measures relate in particular to the raising of the amount of compensation awarded to needy families and the adoption of specific programs for the benefit of shadows[61]. Moreover, the social costs are given priority in allocation of resources; social transfers reached 19.3% of GDP in 1996 against 18.3% in 1987.

Effort was, also, increased to improve living conditions in different regions of the country. Thus, the rate of rural electrification has improved from 29.3% in 1984 to 63.7% in 1994 and the rate of drinking water supply reaches approximately 68.3% in 1994 [62] . Also the creation of national funds for solidarity 26-26[63] was the most important measure taken in the eighth plan in the social field ,this funds allow in a very short time to improve life condition in the shadows areas and

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[61] The interior areas which mean the rural area and those isolated from economic circuit; it was the base for creation of the national funds of solidarity 26-26.

[62] Source :The national company of exploitation and distribution of water (soned)

[63] Established by virtue of the 1993 Finance Law (articles 29 through 33), the National Solidarity Fund (also known as "26-26 Fund " with reference to its current account number) aims at financing the various interventions decided by the Head of State for low-income social categories and for regions deprived of the basic infrastructure, and which are not covered by the ordinary projects and programs of the State and local collectivities. Presidency web site

strengthen the value of mutual aid and support between different social groups making the solidarity of a national culture.[64]

These results confirm the capacity available to the economy to adapt to demands for greater openness to the outside. They also highlight a number of key lessons including:

- The imperative to preserve the internal and external financial balance given the impact of tariff dismantling on the rate of import tax revenues, which requires the strengthening of national savings and greater rigor in public Finance as to mobilize own resources to allocate these resources according to priorities of the plan.
- The need to work towards greater diversification of the economy and finding new sources of growth based in particular on the areas in which Tunisia has a competitive advantage having regard to the depletion of some traditional sources of growth and fluctuating nature of certain sectors, particularly agriculture whose share in GDP declined from 16.7% in 1991 to 13.7% in 1996
- The great interest to pursuit the improvement of productivity and the overall factors of production as a key source of growth, further intensifying the pace of investment both domestic and foreign, regarded as an effective means of acquiring technology, modernization of production units and strengthening The infrastructure.

5. The performance of the economy at the end of 1996:

The policy of liberalization and openness which has been followed for nearly ten years (1996) has already produced the following results[65]:

- Resumption of growth: +4.5% per year between 1987 and 1996, despite four

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64 Washington Report on Middle East Affairs, April/May 1999, pages 30-32

65 COMET Report , written by Radhi meddeb , London, October 1997

years of drought.

- Improved competitiveness: exports have increased at an annual rate of 6.75%, and accounted for 43% of GDP in 1996.
- A sound financial situation: the budget deficit was brought down to 3.8% of GDP in 1996 after reaching a high of 6% in 1986, and service on the debt was reduced to 17.7% of export proceeds, after peaking at 28% in 1986.
- The per capita GDP growth rate increased significantly from an average of 1.15 percent a year for the period 1981-86 to 2.44 percent a year for the period 1987-94.
- Lastly, improved living conditions and an improved standard of living: in 1996, Tunisia's middle class represents 60% of the population, with only 6.7% of the population affected by poverty, compared with 11% in 1985.

These results was encouraging steps to make an agreement with EU and the establishment of a free-trade zone with it , which is an element in the logic of expanded structural adjustment of the Tunisian economy, and is perceived as an opportunity to confirm and intensify efforts that began in 1986-87, and to induce substantial transmittal of growth.

The orientation towards gradual integration into the world economy is now (end of 8th plan of development) considered irreversible in Tunisia and the SAP should be continued.

Nevertheless, much still remains to be done if Tunisia achieves further acceleration of economic growth and welfare for its citizens.

III. Global analysis of effects of SAPs on Tunisian economy till 1997

The first period of adjustment concerned mainly the effort of stabilization and internal restructuring through the deregulation and easiness of procedures to invest and do business, these in order to create a dynamic for economy and promote trade and build a base of market economy to open it to outside competition later.

The period witnesses an amelioration of macroeconomic situation of all indicators as we can see in the table below (table 12).

1. Evolution of macroeconomic key indicators

Period		1987-92	1992-97	1997	Reference norm
Results					
(I)	GDP growth	4.4	3.9	5.4	6 to 7
(II)	Inflation rate(consumption prices)	6.9	4.6	3.7	2 to 3
(III)	fiscal balance (excluding grants) to GDP	1992=-6.9	1997=-3.1(a) -3.7(b)		0 to -2
(IV)	Current external balance relative to GDP	1992=-2.8	1997=-4.0		0 to -1
	Tools				

(V)	Growth of M2	10.4	9.8	16.5	
(VI)	index change of real effective exchange rate	-0.4	0.2	100=1990 104.5=1997	

12. Evolution of macroeconomic key indicators

(a) Central bank of Tunisia
(b) IMF statistics
Source: IMF and central bank

The average growth rate has slowed by half a point compared to the 4.4% registered in 1987-92,but this rate covers population growth and allows elevation of the average standard of living as defined by the ratio of GDP to population. This rate is also similar to these of nine Mediterranean partners. Inflation continues to decline year after year to be at the level of drift in prices observed in industrialized countries. Perform were gained, despite the reduction of subsidies and the liberalization of domestic prices and without a restrictive growth of M2.

The budgetary and current account also reveals a level of deficit that needs correcting.

Since 1992 Tunisia was present on the international financial markets. This presence is the sign of the credit granted him by the international financial community. But like all emerging countries, such recognition has recently been coupled with a tightening of conditions for granting loans. Therefore, that the public debt and guaranteed by the state is acceptable in the evolution of its stock and its structure, the authorities should exercise caution in managing demand.

The acceleration of growth of GDP should first results from efforts at the offer which the authorities succeeded to achieve in the next plan.

In this approach the government should promote the private sector growth which should be able to face international competitiveness; cost and price of exchange. This major challenge involves making more effort to modernize the productive system and the mastery of salary costs.

In summary, Tunisia has maintained a balanced macroeconomic framework so that the liberalization of foreign trade began and was manifested with her and the period witness the first consequence of the operation in the budget and balance of payments (1997). The obtained performance out between 1992 and 1997 fully justified the financial support from the European Union. The structural adjustment process should, however, accelerate and strengthen the coherence of the liberalization of goods with that of factors to create the conditions for faster development of the private sector which now holds the solutions of the effective use of abundant human resources.

2. Orientations of 9th plan and achieved results:

i. Principal orientations of 9th plan of Structural adjustment

While the world has experienced profound changes, Tunisia entered a new stage of its development process, marked by openness and integration of increasingly thrust into the world economy. Signing the Association Agreement with the European Union is in this respect, a central phase and an appropriate way to strengthen the liberalization of the Tunisian economy and intensify cooperation with EU.

Orientations and priorities of development was designed in the light of previous results and lessons learned and taking into account the requirements of the period which have the goal to confer more effectiveness to structure of production and to diversify the economy in order to enhance its capacity to defend competitiveness.

This is needs to upgrade all the economy. The principal orientation concern:

- Strengthening the openness of the economy through the establishment of free zone of trade with European union and pursue the integration in the exterior environment also consolidation of the role of private sector and enhancement of initiative as an engine of development measures .
- Adaptation of sectoral orientation to imperatives to streamline the allocation of resources on the one hand, and requirements for acceleration of growth, increased job creation and export promotion, on the other;
- The development of the infrastructure and modernization to improve the efficiency of services provided, and thereby contribute to strengthening the economy competitiveness;
- The human resource development so that it fits the requirements for command of technology and creation of new sources of productivity;
- Strengthening achievements recorded in terms of social development , mainly through increased job creation and improvement of prospects for integration of jobseekers in the economy and this, beyond the consolidation of operations from the National fund of Solidarity which aim to eradicate poverty in all areas of shadow and improve living conditions in general;
- Driven regional development crossing the preparation conditions that can ensure the contribution of all regions with the national effort for development.

In total the principal objectives of 9th plan was to:

- ✓ Rising of the rate of growth that is expected to average 6% in constant prices;
- ✓ Increased investment effort by increasing the investment rate that should be increased from 23% realized in 1996 to 27.5% in 2001;
- ✓ Reduction of deficit of current external payments of 2.9% of GDP in 1996 to 2.2% in 2001;
- ✓ The control of budget deficit by limiting it to 2.0% of GDP in 2001 against 4.3% in 1996.

The 9th plan was a transition period for Tunisian economy witnessing a great change to reach real liberalization and openness and good try of integration to the world economy which represent a long run goal of the structural adjustment that begin in late 1986, the plan build the basic base to begin the second reform generation which target the global integration of the economy.

ii. Evolution of principal economic indicators in the 9th plan

13. Evolution of main economic indicators (Current prices, in Million Dinar) source: ministry of development and international cooperation

	1996	1997	1998	1999	2000	2001	Average growth 1997-2001 (%)
GDP(market prices)	18966.5	20868.6	22947.6	25284.2	27998.1	30938.1	10.2
GNP	17937.9	19829.8	21796.6	24048.9	26705.1	29591.4	10.4
Gross national disposable income	19699.8	20571.6	22620.0	24977.3	27771.2	30770.6	10.3
National saving	3995.4	4580.2	5199.4	5945.4	6935.5	7971.9	14.6
Investment	4569.9	5350.0	5900.0	6613.0	7405.0	8507.0	13.4
External debt	9620.0	10360.0	10980.0	11505.0	12060.0	12580.0	6.0

Debt rate	51.4	50.4	48.5	46.1	43.4	40.9	
Debt service	1599.1	1800.0	2060.0	2130.0	2535.0	2390.0	12.0
Rate debt service	17.7	18.1	18.7	17.5	19.1	16.2	
Population(thousand)	9095.0	9243.4	9391.5	9539.2	9684.4	9833.1	1.6
Income per capita(dinar)	2070.0	2226.0	2409.0	2591.0	2868.0	3140.0	8.5

The entire indicators witness big increases which justify the effort implemented by the authority in order to enhance the economy to meet the challenge of new century, this was a successful advice of IMF in term of transforming the economy from regulated to open economy after the period of stabilization which spread from 1986 to 1994 and which was also successful. Despite unfavorable international conditions, the Tunisian economy performed well in 2001, with 4.9% GDP growth, lower inflation and a drop in the unemployment rate, thanks to structural reforms carried out over the past decade.

Trade:

External transactions(MD, constant prices)	1996	1997	1998	1999	2000	2001
Export of goods and services	5998	610.4	6712.8	7160.7	738.4	882.9
Import of goods and services	6156.7	661.6	6867.1	7307.2	7741.6	801.7

14. EVOLUTION OF TRADE

Foreign trade is one of the main determinants of development scheme which assumes an annual growth of 6% of exports of goods and services and 7.2% of exports excluding energy. Imports of goods and services witnessed an important rose and this, taking in consideration needs of the production, investment requirements and the need to preserve the equilibrium of the balance of payments and the impact of dismantling of customs tariffs.

We can see the value of export product which exceeds import in 2001; this can be an indicator for the success of the trade policy which stimulates global supply and free exchange without harming investment, this is also a sign of success in term of competitiveness challenging of Tunisian economy but the question here is about the nature of product exported (high value added or not) which can give an idea about the composition of Tunisian industry that lack innovation and use of high technology, but Tunisia was successful at least in term of substitution of importation and export promotion. In this side IMF was successful to guide Tunisian authority to apply a good tools for free trade such as decreasing exportation taxes, liberalization of import and simplification of quantitative restrictions.

Macroeconomic variables:

Principal data at the end of 9th plan		
Investment rate	24.1	27.5
Saving rate	22.3	26.9
current account deficit / GDP	2.9	2.2
budget deficit / GDP	3.9	2.0
Debt ratio	51.4	40.9
rate debt service	17.7	16.2

15. Macroeconomic variable at the end of 9^{th} plan

The realization of the 9th plan in the macroeconomic level was encouraging making it possible to reach the stabilization of the major variables; this is more helpful with the structural change that witnesses the economy in general.

We can mention here specially the success of stabilization policy which had a dual objective of growth and stabilization and it seems that it reached that goal. Indeed external borrowing must promote a long maturity rate of economic growth both high and stable and compatible with a situation of balance of payments viable in the medium and long term. It must therefore ensure that funds borrowed will generate enough resources for the real foreign service of external liabilities can be assured timely which was ensured in the case of Tunisia.

iii. Comparison of evolution between 8th plan and 9th plan

Main Indicators	8th Plan	9th Plan
Global Factor Productivity	1.3	**2.4**
Maginal capital-output ratio	5.4	**4.4**
Consumer price increases	4.8	**3.7**
Global results (Average annual growth rates at constant 1990 prices)		
GDP	4.6	**6.0**
Per capita income	2.9	**4.3**
Consumption	4.8	**5.3**
Investment	5.6	**9.2**
Investment rate	26.0	**26.4**
Savings	8.7	**14.6**
Savings rate	21.6	**25.1**
Import	5.4	**5.9**
Export	6.3	**6.0**
New jobs (in 1,000)	280.0	**320.0**
% satisfaction of job demand	89.4	**91.4**
Main end-of-period figures		
Investment rate	24.1	**27.5**
Savings rate	22.3	**26.9**
Current deficit / GDP	2.9	**2.2**
Budget deficit / GDP	3.9	**2.0**
Debt ratio	51.4	**40.9**
Debt service ratio	17.7	**16.2**

16. Comparison between 8th and 9th plan performances

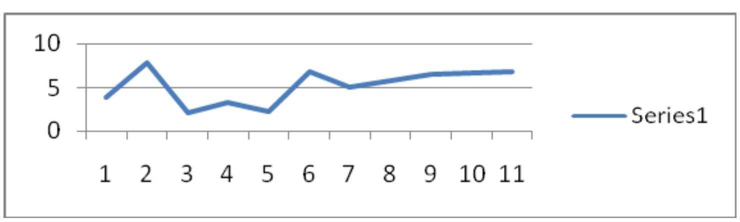
What we can remark in this comparison that there is a great evolution of all the macroeconomic indicators due to upgrade of all the economy in the period of 9th plan of development which affect the entire sector without discrimination.

17. Growth of GDP by sector

Growth rate by sector	8th plan	9th plan
Constant prices	Annual %	Annual %
Agriculture and fishing	-1.2	4.3
Manufacturing Industries	5.8	6.9
Non-manufacturing	3.6	4.4
Services	6.3	7.0
GDP	4.6	6.0

We can mention here that there is an increase in the part rate of industry and services in GDP against a decrease in the part rate of agriculture; this was the orientation of structural adjustment which wants to liberalize private initiative and encouragement of market economy.

5. GDP growth rate (constant prices in %) from 1991-2001(8th & 9th plan)



18. GDP growth by sectors

Sectors	Annual average: 7th Plan period (1987-91)	Annual average: 8th Plan period (1992-1996)	Forecast of annual average: 9th Plan period (1997-2001)
Agriculture and fisheries	4.02	-1.2	4.3
Manufacturing industry	6.23	6.5	6.9
Non-manufacturing industry	-0.16	3.6	4.4
Services	5.84	6.3	7
Total	5.84	4.6	6.0

At the end of SAPs the Tunisian economy seems to perform well and its evolution seems accepted in comparison to expectation. All the macroeconomic variables witness an important change in favor of economic growth and structural change, the next plan which has a first goal the integration of the Tunisian economy to the regional and international environment will be more challenging.

Tunisia needs to remain vigilant in facing these challenges in order to ensure the ongoing quality of its macro-economic framework, while also pursuing structural reform which has already produced convincing results. The economy over the 1990's reached a new stage in growth of more than 5% per year in real terms vs. 3.5% over the previous decade, far above the annual 1.2% level of demographic growth, allowing coverage of 90% of additional demand for jobs.

This development raised national product per capita to 2530 dinars in 1999 vs. 1293 dinars in 1990, while holding inflation to its lowest level in three decades: 2.7%. There has also been a qualitative change in growth, as seen in the emergence of certain more promising new sectors which supports reasonable expectations that young graduates' demands for good jobs will be met. In light of external payments and improvement in the import / export coverage rate, the current deficit in the balance of payments was down to 2.1% of GDP in 1999 vs. 4.3% in 1990. Foreign Currency assets were up from the equivalent of 1 .5 months of imports to almost 3 .5 months.

IV. Social performances after SAPs compared to pre-adjustment period

The policies pursued during the structural adjustment programs strengthened the previous performances and had a beneficial effect on individual and collective welfare; the main social indicators were as following[66]:

- GDP grew by an annual average rate of 5% between 1961 and 2001(Table 19).
- There was a tremendous increase in the level of education; the percentage of population having a primary education increased from 14%in 1960 to 42% in 1997, the percentage of population having a secondary level of education increased from 65 to 31% in the same period (Table20).
- The schooling rate in the 6-24 age brackets went up from 37.4 in 1975 to 53.1 in 1984 and close to 70% in 2001.
- Public expenditures in the social programs went up from 18.6% of GDP in 1986 to 19.2% in 1997, of which 6.9% went to education ,2.3%to health care and close to 10% to direct transfers and consumer subsidies

66 See tables ,national institute of statistics

- Access to health care, drinking water supply and electricity all increased by a substantial margin(Table 22).
- The number of inhabitant by physician went from 1,637 in 1994 to 1,284 in 2000.
- Infant mortality was 138,6 per thousand in 1966, 51.4 per thousand in 1984 and finally 25,8 per thousand in 2000.
- The income per capita rose from 953 in 1986 to 2978 in 2001.
- The birth rate dropped from 3%in 1966 to 1.o9% in 2000 following an active planning family policy.
- The rate of literacy rose from 45% in1975 to 75.3 in 2001.

19. GDP growth rates:

GDP annual average growth rate	
Period	Percentage
1961-2001	5.0
1961-1970	4.9
1971-1986	5.3
1987-2001	4.6

20. Population split by level of education

	None	Primary	Secondary and higher
1960	80	14	6
1966	77	16	7
1975	51	33	16
1980	45	35	20
1989	33	39	28
1997	27	42	31

21. Working population split by level of education

	None	Primary	secondary	higher
1966	73.9	17.8	7.1	1.2
1975	53.7	32.0	12.8	1.4
1984	42.0	34.8	19.9	3.3
1994	24.2	41.7	28.1	6.0
1997	19.0	44.2	29.7	7.1

22. Health environment, access to electricity and drinking water

Health					
Number\million person					
	Physicians	Dentists	Pharmacists	Nurses	hospital beds
1960	105	11	56	174	2030
1980	282	52	120	798	2122
1990	534	66		1306	1938
2000	783	99	133	1471	1754

Access to electricity and drinking water		
Percentage of households		
	Electricity	Drinking water at home
1966	24	40
1989	73	58
1994	87	70
1999	94	75

Source of tables: national institute of statistics

V. Achievement and performance of Tunisian economy during the decade 1997-2006

The 1997-2006 decade is marked by a further tendency towards deregulation, in particular through the introduction of a FTZ with the EU, in addition to the continuation of the structural reforms whose objective is to consolidate the competitiveness of the economy and its integration in the world economy. In addition to the modernization of basic infrastructure, the development of human resources, and the upgrading of the industrial sector, these reforms related mainly to the tax system, the financial sector, the legislative framework, privatization and the improvement of the administrative services.

Tunisia was able to achieve great progress in the way of deregulating the economy and integration in the world economic circuit, during the 1997-2006 decade, especially through the installation of the Free Trade Zone with the European Union. Thus, after the deregulation of the Dinar as regards current transactions in 1993 and the abolishing of import control in 1994, Tunisia made great strides in terms of dismantling customs duties within the framework of association agreements with the European Union as well as with other groups of countries. Correlatively, the degree of the opening of the economy, total exports and imports compared to the GDP, increased to 99% in 2005 versus 86% in 1996.

Moreover, the process of integration of the national economy within the world economy was consolidated through its access to the international financial market, where Tunisia was granted positive rating which enabled it to channel important financial resources and to increase its international commitments passing from 6.5% of the GDP in 1996 to 17.6% in 2005, at the same time with the continued improvement of the conditions on contracted credits. The increased integration is also materialized through the evolution of FDI which recorded an upward trend from 1.9% of the GDP in 1996 to 2.7% in 2005. In addition, the number of established companies, several of which are multinationals, passed from 1604 in 1996 to 2726 in 2005.

Tunisia was able to realize a 5% annual average growth rate from 1997 to 2006, which made it possible to increase per capita income from 2090 Dinars in 1996 to 4000 Dinars in 2006 and, consequently, to get closer to the OECD countries as the adjustment (catch-up) indicator illustrates passing from 25% in 1996 to 29% in 2005 .

As for the sources of growth, this decade was characterized by the favorable contribution of the total productivity of factors (TPF), the diversification of the economic base and the crucial role played by domestic demand, especially consumption, which made it possible to compensate for the decrease in foreign demand during these last years of the decade.

As regards the TPF, the results reveal an improvement of its contribution to the growth of GDP going from 26% during the 8th Plan to 45% during the decade 1997-2006. Such a report is attributable mainly to different reforms carried out by the State in order to consolidate competitiveness in domestic as well as foreign markets and this, in spite of decreased protection and increased competition, in particular, with the widening of the EU and the accession of China to the WTO. Moreover, it is important to note that the share of productive services continued to increase passing from 39.2% in 1996 to 47% in 2006. Such a result is ascribable mainly to the emergence of new sectors with a high potential in the services activities. The share of knowledge-intensive activities in GDP continued improving passing from 12.8% in 1997 to 20.3% in 2006. These activities especially include financial services, health, education, data processing, telecommunications and services rendered to the companies and other activities like biological agriculture, the pharmaceutical industry, mechanical engineering industries, electronics and electrical industries. On the other hand, traditional manufacturing industries, such as textiles and clothing and activities directed towards the domestic market underwent a deceleration of their growth.

As far as the contribution of foreign demand to growth is concerned, the results reveal the important contribution of exports to the enhancement of growth.

Indeed, it was expected that exports will increase by 6% on average during the decade 1997-2006 for a growth of 5% of GDP. Such a contribution proves larger than that of the 10th Plan because of the precarious international economic situation of the first years of this plan. Such results confirm the role of exports in the enhancement of the pace of growth. GDP growth would have been more considerable (5.6% versus an expected 4.6%) if exports had maintained their rate of growth of the 9th Plan (7.2%).

Moreover, domestic demand, with its two components of consumption and investment, continues to contribute considerably to growth. This contribution is attributable mainly to private consumption which increased at a rate of 5.2%, exceeding the growth of GDP. For this reason, it is important to note that if domestic demand managed to compensate for the decrease in exports during the 10th Plan, the savings rate appreciably dropped in 2006 to account for 21.7% versus 23.5% in 2001 and 22.7% in 1996. However, this tendency did not affect foreign payments due to the slowdown of investments recorded during this period.

Total investments, which recorded an average annual growth of 7.6% at current prices, underwent important structural changes. Thus, if the investment rate experienced a fall during the past decade putting it at 24.4% of GDP versus 25.9% during the 8th Plan, the private sector′s share was strengthened from one plan to another with an average annual growth of 8.2%

enabling it to increase its share in the total investment from 51% during the 8th Plan to 54.1% during the 9th Plan and 56.5% in the 10th Plan.

Nevertheless, considering the decrease in public sector investments, this share remains insufficient to face external repercussions and the sharp increase in the prices of imported raw materials. Moreover, the evolution of investments for certain traditional sectors experienced a drop related to the saturation of agriculture and agri-business investment and increased competition on the foreign market, in particular, in the textile and clothing sectors. However, investments carried out in knowledge-intensive activities underwent a significant rise insofar as their share of total investment passed from 14% in 1997 to 19.5% in 2004 and to 20% in 2006.

In parallel, the investments in the growth and innovation sectors increased on average by 14.7% compared with only 6.5% for all investments which increased their share from 10% in 1997 to 16% in 2003. Moreover, foreign investments experienced a quantitative and qualitative rise increasing from 733TD on average during the 9th Plan to approximately 1000TD during the 10th Plan. It was especially the growth sectors and those with strong value-added such as the mechanical, electrical and new information technologies industries which attracted most FDIs. The ICT sector saw its imports of equipment increase reaching 16% during the period 2002-2005 compared with only 9% during the 9th Plan.

Such results provide evidence for the qualitative change of the development model thanks to the policies, measures and programs adopted during the 10th Plan aimed at building a knowledge-based economy.

The table below shows the performance of Tunisian economy in the whole period 1987-2007.

Economic Development and General Balances	1987	2007
Gross Domestic Product (MD)	7,160	44,254
Growth rate (at constant prices)	-2%	4.6%
Debt ratio	57.9%	46.1%
Debt service	26.3%	15.4%
Inflation rate	8%	3%
Global investment (MD)	1,789	10,000
National Savings (MD)	1,404.8	9,118.9
Distribution of investment		
- **Public**	52.2%	43%
- **Private**	47.8%	57%
Sector-based distribution of GDP		
- Agriculture	14.9%	11.4%
- Non-manufacturing industries	16.9%	11%
- Manufacturing industries	18.1%	17.5%
- Services	50.1%	59.8%

23. PERFORMANCE OF TUNISIAN ECONOMY 1987-2007 Source: National Institute of Statistics

The table show the structural change that witnessed the economy and the success of the stabilization of the main macroeconomic variables such as the decreasing of inflation from 8% in

1987 to 3% in 2007 , the decrease of debt ratio and debt service, the increase of national saving and the investment rate which was most shared by the private sector means there is a relative success of the orientation to market economy .the transformation of the economy is also marked by the grow of industry and services sectors and the decrease of agriculture sector in term of GDP distribution which trust the orientation of the government . Efforts made by the government to integrate its regional and international economic environment were partially achieved but indicators are favorable for that goal.

Chapter 5

Conclusion and recommendations

The opinion of the international financial community and any informed observer and lens, there is no doubt that the Tunisian economy has experienced positive qualitative changes in terms of both financial stability and in terms of economic restructuring (APPENDICE 3).

Indeed, before 1986 the country was in crisis: financial crisis, fiscal crisis, debt crisis. The loss of the legitimacy of the regime of BOURGUIBA[67], Progress of the Islamic opposition had little increase the implementation of structural adjustment program decided in 1986, but the broad consensus that realizes the new President, the unfailing support of Western powers, a favorable international economic conditions have given some impetus to the Tunisian economy, many reforms in different fields was done in order to restore growth and achieve stabilization in the first step.

These reforms, which concern almost all areas, and in particular the regulatory framework, taxation, prices, foreign trade, investment, incentives system, the banking and financial system have made it possible to change the economic landscape of the country and to realize important qualitative and quantitative advances.

To adhere to generally accepted economic indicators, the results are certainly the most convincing of controlling inflation, which decreased from 9% to 5% between 1986 and 1996 to achieve 3% in 2007 and the fiscal deficit from 5 to 3% over the same period. Regarding the growth rate, the figures are less encouraging than it has said.

[67] The first president of independent Tunisia

Tunisia has, indeed, experienced peak: 6.7% in 1987 (constant price), to 7.8% in 1990 and 1992, annual average on the entire period indicates, at best, stagnation when compared to the period of crisis that preceded 1986: 4% in 1982-1986, 4.2% in 1987-1991 and 3.5% in 1992 - 1996.

For the year 1998 the growth rate of GNP would have been 5%, it also often brings forward the export performance of the Tunisian economy. The period 1987-1990 corresponds to an increase in exports of 18.7% per year. Services, especially tourism, had a very important contribution to this increase which explains in addition to the international situation, the adjustment measures: devaluation of the dinar (1993), reduction of inflation has continued compression of domestic consumption, lower real wages, many financial incentives and subsidies to exports. This dynamic, however, quickly reached its limits: the growth rate of exports do not exceed 2.4% between 1991 and 1993 and knows an increase in saw tooth until 1997. This curve reveals an indisputable fragility that can be explained by the first connection has shortness of breathe "effect in price competitiveness” but also has the dual polarization: concentration around a reduced number of products, a hand, and geographic polarization, on the other hand, since the EU is by far the main market of Tunisia.

No changes in investment, nor has hardly encouraged optimism as it seems random. After a modest recovery of domestic investment between 1989 and 1992, the service sector has also been the main beneficiary; there was a significant decline between 1993 and 1995, and further growth the following year. FDI in Tunisia have experienced over the same period a breath from 565.4 million Tunisian dinars in 1992 to 365.0 in 1995. while the country remains unattractive to foreign capital, the signing of the agreement on free trade area between Tunisia and European Union in July 1995 involving the progressive dismantling of tariff protection, directly threatens an important part of the Tunisian Industry uncompetitive by compared to imported products and weighed on fiscal revenue of the state. The free trade zone, resulting in the dismantling of the customs guard, planned over a period of 12 years by the new Free Trade Agreement, will mean a medium-term shortfall of $ 4 billion for the budget us government official indicates.

Tunisia is heavily dependent on a few EU markets. About 71 percent of its export is shipped in four countries in Europe: France (33 %), Italy (24 %), Germany (8 %) and Spain (5 %). Over the past decade, exports to France and Italy, Tunisia's two largest export markets, have grown at a faster pace than the overall import growth in these countries, resulting in a 30 % increase in market share in both markets .However, this performance has not allowed Tunisia to increase its world market share, which remained quasi-constant in this period.

Nonetheless, despite good macroeconomic policies, a qualified workforce and high-quality infrastructure, international observers have underscored the lack of vigor of the private sector as one of the country's main weaknesses. It is essential to **improve the business climate**. The other big challenges to the Tunisian economy are: to maintain its competitiveness as it faces the rapid opening of its markets to European competition and employment. The unemployment rate exceeds an average of 14 per cent and particularly affects women and graduates from higher education.

As a signatory of several structural adjustment programs, Tunisia has managed its first phase to restore the major macroeconomic balances (reduction of inflation, budget deficit, the debt service and restoration of growth). However, the second phase, structural reforms including the liberalization (foreign trade and public sector) is the linchpin remains partial. Tunisia was in timidly that encourage privatization. Over 250 public enterprises privatized between 1986 and 1998, 77 have been effectively.

Process of privatization initially concerned the public enterprises of small and medium sizes continuous. Revenues from these privatizations have generated only $ 570 million until 1998. Disposal of businesses say strategy began in 1998 with the sale of two major cement plants worth 400 million U.S. dollars.

The free trade zone was expected to give a boost to adjustment by speeding up the privatization component. This could be translated only by reinforce of trends has been working since the early 80's know the deepening of social inequality and the weakening of the regulatory function of the state.

casting new light on the development strategies adopted by Tunisia since the 70s, a Tunisian economist (Hakim Ben Hammouda) questioned the effectiveness of structural adjustment plan, implemented in 1987, he say that one can notice that the economy is "on track" according to the experts of IMF, it would be "the best risk Maghreb, " added the French company CEUs insurance for Foreign Trade (Coface), a recent country risk report show a high risk especially in the financial system (Appendice 5). The fact remains that foreign capital inflows have remained modest and concentrated in the energy field.

Integration into the global economy, especially the conclusion of the Free Trade Agreement with the European Union has changed the conditions of competitiveness to the detriment of Tunisia. What are internal factors blocking are? Low diversification of exports, which remain dependent on textiles, the erosion of the preferential position of the country on the European market, which he enjoyed since 1976, combined with new data from the global economy (openness of the countries of eastern and of multilateralism). This will lead to shortness of dynamics.

The revival of a strong and sustainable growth can be achieved without maintaining a stable macroeconomic framework and without the completion of structural reforms aimed at private sector development and better integration into the international economy.

Great efforts have been made in the direction of encouraging investment and especially FDI. "There is no development without a good amount of investment," it is these belief economic experts which led Tunisia for many years to reflect seriously on this issue and develop appropriate approaches. Then place comprehensive reforms: economic, fiscal, administrative, legislative ... not to mention the significant financial incentives.

Overall we can conclude that Tunisia's positive performance in general can be attributed to for main factors:

- Implementation of reforms and stabilization program , particularly financial and trade liberalization , which significantly improved the competitiveness of Tunisian economy
- The priority given to social policies –the development of education and social security , the attention devoted to health and the aid given to poorest of the population
- The slowdown of the population growth through the enhancement of women status and education policies
- Continuing investment in basic infrastructure

The major results registered for the 9th Development Plan (1997-2001), the 10th Development Plan (2002-2006) and during the current 11th Development Plan (2007-2011) confirm the capacity of the Tunisian economy to adapt to new demands and to face the challenges of the future and in keeping with the country’s adhesion to the World Trade Organization and the signing in 1995 of the Partnership Agreement with the European Union.

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APPENDICES

APPENDICE 1: privatization program

Sectors	Privatization period						TOTAL	
	Before 1996		1996- 1999		2000- 2004			
	Number of enterprises	Cession value (thousand dinars)	Number of enterprises	Cession value (thousand dinars)	Number of enterprises	Cession value (thousand dinars)	Number of enterprises	Cession value (thousand dinars)
Agriculture	0	0	0	0	5	1.183	**5**	**1.183**
Industries								
Agro-food Industries	5	8.490	4	4.868	3	28.340	**12**	**41.698**
Construction materials, ceramics and glass industries	13	9.883	3	26.193	4	35.318	**20**	**71.394**
Cement	0	0	2	409.330	2	361.600	**4**	**770.930**
Mechanical and electrical Industries	3	11.943	2	12.233	7	17.495	**12**	**41.671**
Chemical Industries	1	18.242	1	7.000	0	0	**2**	**25.242**
Leather, textiles and clothing Industries	2	12.005	1	210	3	6.299	**6**	**18.514**
Other Industries	1	2.150	5	7.381	2	1.030	**8**	**10.561**
Services								
Trade	4	4.923	7	18.821	1	21.000	**12**	**44.744**
Tourism	5	69.464	1	58.113	11	119.894	**37**	**247.471**
Transport	8	8.281	4	7.499	0	0	**12**	**15.780**
Other Services	2	695	0	0	6	128.285	**8**	**128.980**
TOTAL	**54**	**146.076**	**40**	**551.648**	**44**	**720.444**	**138**	**1.418.168**

APPENDICE 2: monetary policy instrument

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BOX 1.1

Monetary policy instruments, government securities, and foreign-exchange markets

Monetary instruments

The control of monetary expansion is conducted on a bank-by-bank, rather than a system-wide, basis through two instruments: the *appel d'offres* and the *prise en pension*. The *appel d'offres* is a weekly auction of a fixed amount of seven-day funds. The *prise en pension* is a seven-day repurchase facility at a punitive, higher interest rate, designed to provide banks with additional liquidity to that obtained through the *appel d'offres*. Whereas for *prise en pension* operations the BCT accepts as collateral all refinanceable papers (except Treasury bills), *appel d'offres* operations are conducted on the basis of precisely defined collateral (certain loans to priority sectors, for example, agriculture, microenterprises).

The *appel d'offres* and pension rates maintain a fixed spread between them: 1.5 percentage points through 1991 and 1992, and 1 percentage point since December 1992 (see table 1.2). Since 1990, the interbank (money-market) interest rate has stayed fairly constant for long periods of time, changing discretely when the *appel d'offres* and the *pension* rates are changed by the Central Bank; since December 1990, the interbank rate has remained at 1/16th below the *pension* rate.

Interbank trading, which on average amounts to only one-third of the liquidity obtained through the Central Bank facilities, has remained low because of the lack of easily tradeable financial instruments and the banks convenient access to the *pension*. As explained below, banks have been virtually unable to trade government securities with each other in the secondary market.

Government securities

Prior to 1991, non-bank domestic financing of the fiscal deficit consisted of the forced placement of ten-year Treasury investment bonds (*bons d'équipement*) at below-market rates. As part of the financial liberalization program, the government has, since 1991, relied mainly on Treasury bills (*bons du Trésor*) at market-related interest rates to finance the deficit. Treasury bills were first introduced in 1989 and modified on several instances. These securities are placed through weekly auctions to the banks, which then sell them to the public at a slightly lower interest rate. The rates for Treasury bills bid by the banks have remained virtually constant with respect to the *appel d'offres* rate, and the interest rates for the shortest maturities are only slightly lower than for the longest-maturity Treasury bills.

Treasury bills have been quite successful as a means to finance the budget deficit. In principle, Treasury bills may also serve as the basic instrument of open market operations and interbank trading. However, a secondary market on Treasury bills has not developed in Tunisia due to (1) the lack of competition among banks on the placement of government securities and (2) restrictions in clearance and settlement procedures. In fact, transactions have been limited to those between each bank and its customers because property rights cannot be transferred from one bank to another in the accounts of the BCT. The market-making responsibility assigned to the banks by the BCT has been thus interpreted as an implicit *contrat de liquidité*, by which banks are obligated to repurchase government securities virtually on demand, regardless of maturity. Consequently, the term structure of interest rates (yield curve) has been basically flat.

In order to obtain a suitable, longer-term debt maturity structure, the Tunisian authorities introduced in late 1993 the option of having banks convert a Treasury bill (*bon du Trésor*) into a negotiable Treasury bond (*bon du Trésor négociable*), which would be traded solely at the Bourse. At first, due to problems in the settlement procedure, trading in the new securities did not take place. In June 1994, the authorities changed the bon du Trésor négociable into a bond with maturities of five years or more, to be issued through and traded at the Bourse. Correspondingly, the maturities of the simple bon du Trésor were limited to four years or less. It is expected that this change, together with improvements in the settlement procedure, will increase the attractiveness and marketability of the negotiable Treasury bonds, thus increasing their share in domestic public debt.

Foreign exchange markets

Until recently, the BCT has tightly controlled the determination of the nominal exchange rate. In March 1994, the BCT introduced an interbank foreign-exchange market with the purpose of obtaining a more flexible and market-determined rate. During the launching period, the BCT sets a central exchange rate on a daily basis around which banks trade among themselves within a ± 1 percent band. Furthermore, in order to protect small customers, the BCT dictated a maximum buy-sell spread of 0.25 percent. Although these controls help avoid erratic daily fluctuations of the exchange rate, they should be relaxed, and eventually eliminated, in order to obtain market-determined rates as banks adapt to the new system. The BCT has instituted prudential regulations to prevent the excessive exposure of banks to foreign exchange risks. Currently, 70 to 80 percent of all foreign exchange transactions are conducted in the interbank market. Such a large bank participation is an early indication of the success of the new system. The level of sophistication in foreign-exchange transactions is bound to improve: presently, derivative products (swaps, reverse repurchase agreements, futures, and options) are absent from the market.

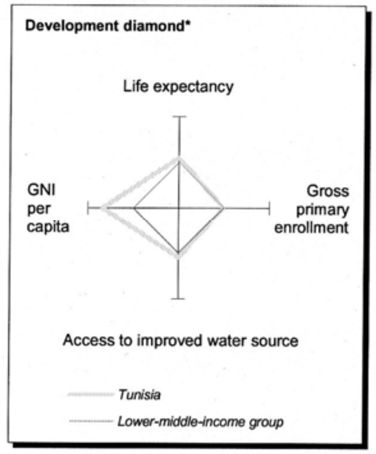
Note: Also Brun and Burakreis 1995.

APPENDICE 3:

Tunisia at a glance

12/9/09

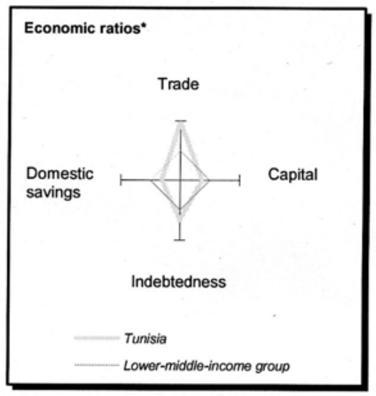
POVERTY and SOCIAL	Tunisia	M. East & North Africa	Lower-middle-income
2008			
Population, mid-year *(millions)*	10.3	325	3,702
GNI per capita *(Atlas method, US$)*	3,480	3,242	2,078
GNI *(Atlas method, US$ billions)*	36.0	1,053	7,692
Average annual growth, 2002-08			
Population *(%)*	0.9	1.9	1.2
Labor force *(%)*	1.9	3.0	1.6
Most recent estimate (latest year available, 2002-08)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	65	57	41
Life expectancy at birth *(years)*	75	70	68
Infant mortality *(per 1,000 live births)*	18	32	46
Child malnutrition *(% of children under 5)*	3	..	26
Access to an improved water source *(% of population)*	94	88	86
Literacy *(% of population age 15+)*	78	73	83
Gross primary enrollment *(% of school-age population)*	108	106	109
Male	109	109	112
Female	106	104	106



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

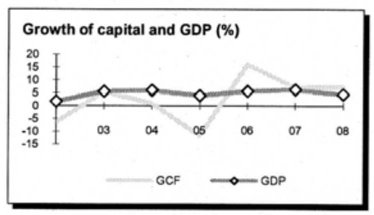
	1988	1998	2007	2008
GDP *(US$ billions)*	10.1	19.8	35.0	40.3
Gross capital formation/GDP	20.7	26.9	24.8	27.0
Exports of goods and services/GDP	42.0	43.0	54.1	61.0
Gross domestic savings/GDP	21.1	23.6	22.4	22.7
Gross national savings/GDP	21.7	23.6	22.6	22.5
Current account balance/GDP	1.0	-3.4	-2.6	-4.2
Interest payments/GDP	4.0	2.8	2.6	2.4
Total debt/GDP	67.3	54.7	58.4	51.5
Total debt service/exports	21.9	15.3	11.3	7.7
Present value of debt/GDP	..	..	56.2	47.4
Present value of debt/exports	..	..	89.2	69.7

	1988-98	1998-08	2007	2008	2008-12
(average annual growth)					
GDP	4.6	4.8	6.3	4.5	4.0
GDP per capita	2.8	3.8	5.3	3.5	3.0
Exports of goods and services	4.8	4.4	8.5	3.5	1.8

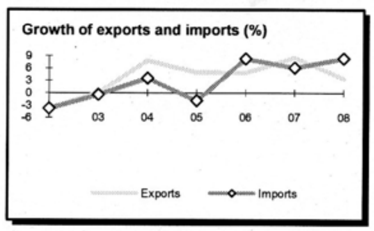


STRUCTURE of the ECONOMY

	1988	1998	2007	2008
(% of GDP)				
Agriculture	11.8	12.7	10.3	9.9
Industry	30.6	28.4	29.6	32.6
Manufacturing	16.8	18.5	17.2	17.9
Services	57.6	58.9	60.0	57.5
Household final consumption expenditure	62.3	60.8	63.2	62.8
General gov't final consumption expenditure	16.6	15.6	14.4	14.6
Imports of goods and services	41.7	46.4	56.5	65.3



	1988-98	1998-08	2007	2008
(average annual growth)				
Agriculture	4.4	2.3	2.1	0.5
Industry	4.7	-0.7	7.2	-59.9
Manufacturing	3.5	-15.8	6.4	-98.9
Services	4.7	7.0	6.7	33.7
Household final consumption expenditure	4.0	5.2	5.0	6.8
General gov't final consumption expenditure	4.0	4.4	4.1	4.6
Gross capital formation	5.4	2.7	7.1	7.3
Imports of goods and services	4.1	3.7	6.1	8.3



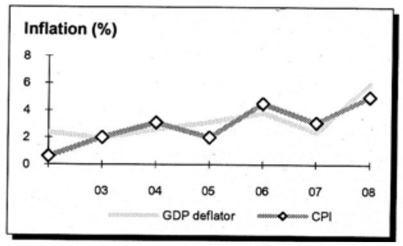
Note: 2008 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

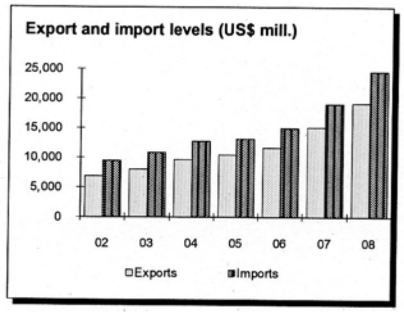
PRICES and GOVERNMENT FINANCE

	1988	1998	2007	2008
Domestic prices				
(% change)				
Consumer prices	7.3	3.2	3.1	5.0
Implicit GDP deflator	7.7	3.0	2.4	5.9
Government finance				
(% of GDP, includes current grants)				
Current revenue	28.3	24.7	24.3	26.9
Current budget balance	4.9	3.5	3.9	5.7
Overall surplus/deficit	0.0	-3.2	-2.8	-0.8



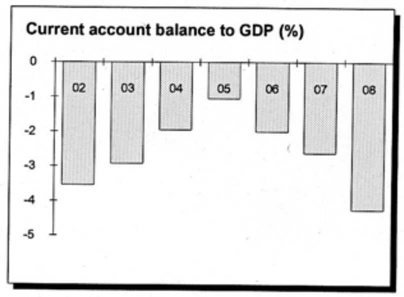
TRADE

	1988	1998	2007	2008
(US$ millions)				
Total exports (fob)	2,396	5,725	15,147	19,184
Fuel	386	367	2,449	3,311
Agriculture	299	551	1,469	1,750
Manufactures	1,179	4,033	10,177	11,565
Total imports (cif)	3,692	8,334	19,071	24,544
Food	554	705	1,594	2,111
Fuel and energy	243	396	2,342	3,988
Capital goods	618	1,918	4,053	4,694
Export price index *(2000=100)*	48	87	182	..
Import price index *(2000=100)*	73	121	182	..
Terms of trade *(2000=100)*	66	72	100	..



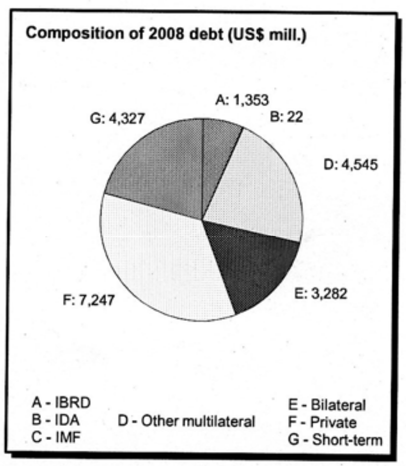
BALANCE of PAYMENTS

	1988	1998	2007	2008
(US$ millions)				
Exports of goods and services	4,242	8,481	20,056	25,198
Imports of goods and services	4,206	9,131	20,826	26,565
Resource balance	36	-650	-769	-1,367
Net income	-498	-856	-2,028	-2,509
Net current transfers	558	831	1,880	2,164
Current account balance	96	-675	-917	-1,712
Financing items (net)	282	482	1,640	3,278
Changes in net reserves	-378	193	-723	-1,566
Memo:				
Reserves including gold *(US$ millions)*	908	1,861	7,863	8,946
Conversion rate *(DEC, local/US$)*	0.9	1.1	1.3	1.2



EXTERNAL DEBT and RESOURCE FLOWS

	1988	1998	2007	2008
(US$ millions)				
Total debt outstanding and disbursed	6,799	10,845	20,445	20,776
IBRD	1,019	1,458	1,571	1,353
IDA	62	43	24	22
Total debt service	1,058	1,431	2,496	2,117
IBRD	199	268	236	347
IDA	2	2	2	2
Composition of net resource flows				
Official grants	124	65	169	118
Official creditors	208	-152	9	-115
Private creditors	37	-20	37	29
Foreign direct investment (net inflows)	61	650	1,532	2,638
Portfolio equity (net inflows)	9	58	30	-39
World Bank program				
Commitments	241	222	34	0
Disbursements	173	142	161	70
Principal repayments	112	180	172	275
Net flows	61	-39	-10	-205
Interest payments	89	91	67	74
Net transfers	-28	-129	-77	-280



Note: This table was produced from the Development Economics LDB database. 12/9/09

APPENDICE 4: FDIs in Tunisia report

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

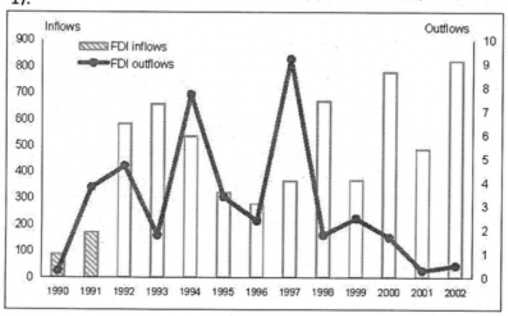
FDI in brief*: Tunisia FDI flows to Tunisia in 2002, the highest in the last twelve years *Complete tables are presented in the Country Profile: Tunisia World Investment Directory online, Africa

FDI flows to Tunisia, in 2002, were the highest since 1990 and almost double the total inflows recorded in 2001. The FDI inflows to Tunisia in 2002 were buoyed by investment in oil exploration activities and manufacturing sectors. FDI outflows, on other hand, were small but equally edged up in 2002 (figure 1). Inward FDI stock grew from $11.7 billion in 2001 to $14 billion in 2002. Outward stock also increased from $33 million in 2001 to $37 million in 2002 (figure 2). The developed countries were the main source of FDI flows to Tunisia, accounting for about 85% of the country's FDI in 2001 (figure 3).

Primary and secondary sectors accounted for almost equal shares of Tunisia's FDI in 2002 (figure 4). As a percentage of the gross fixed capital formation, FDI inflows has grown in importance from 9.3% in 2001 to a little over 13 % in 2002. For outflows, it was insignificant and had been declining since 1999 (figure 5).

Inward FDI stock was also highest in 2002, at 66% of GDP. Outward FDI stock was low and amounted to 0.2% of Tunisia's GDP in 2002 (figure 6). The three largest affiliates of foreign TNC in Tunisia originated from the Netherlands and France, and are engaged in petroleum exploration activities and textile production (table 1).

Figure 1. FDI flows, 1990-2002 Figure 2. FDI stock, 1990, 1995 and 2002
(Millions of dollars) (Millions of dollars)



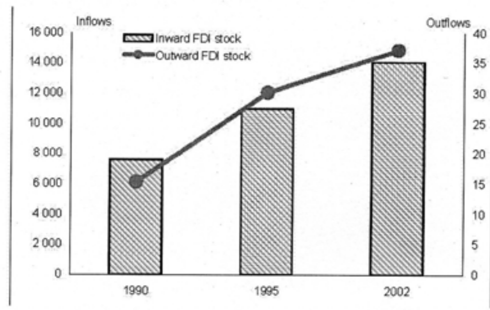
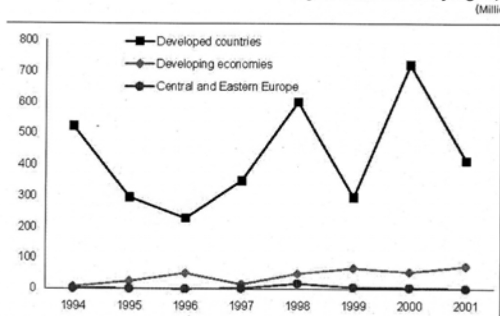


Figure 3. FDI inflows by region, 1994-2001 Figure 4. FDI inflows by industry, 1990-2002
(Millions of dollars) (Millions of dollars)



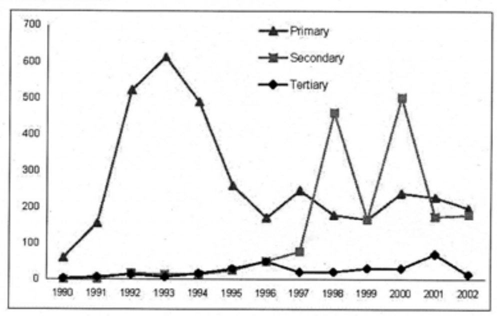


Figure 5. FDI flows as a percentage of gross fixed capital formation, 1990-2002
(Per cent)

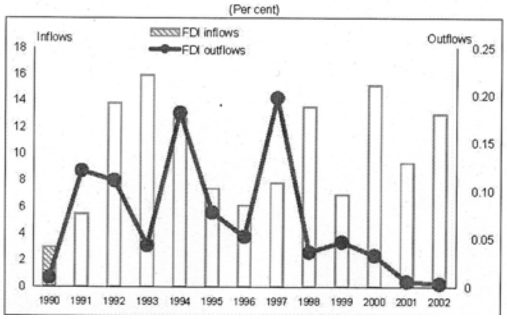
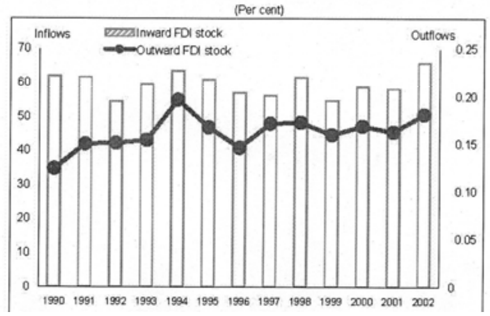


Figure 6. FDI stock as a percentage of gross domestic product, 1990-2002
(Per cent)



FDI in brief: Tunisia (concluded)

Table 1. Largest three home-based TNCs, largest three foreign affiliates of home-based TNCs, and largest three affiliates of foreign TNCs

Company	Host/home economy	Industry	Sales	Employees

A. Industrial

a) Largest home-based TNCs, 2002 (Millions of dollars and number) Coficab Tunisie Tunisia Electrical and electronic equipment Tunirama Industries Tunisia Electrical and electronic equipment Societe Franco Tunisienne des Talons Tunisia Rubber and plastic products

110
300
134.23.60.7 40

b) Largest affiliates of home-based TNCs, 2002 (Millions of dollars and number)

Coficab Portugal - Companhia de Fios e Cabos Portugal Electrical and electronic equipment 24 120

c) Largest affiliates of foreign TNCs in the host economy, 2002 (Millions of dollars and number)
Societe Shell de Tunisie Netherlands Petroleum Cablea Tunisie France Textiles Lee Cooper Tunisie Netherlands Textiles

185
1 450
99.443.6 36.6 953

B. Tertiary

a) Largest home-based TNCs, 2002 (Millions of dollars and number) Societe Tunisienne de L'air Tunisia Transport and storage Office National du Tourisme Tunisien Tunisia Other business services Societe Sahelienne de Materiels Agricole et Pieces Autos Tunisia Other business services

3 144 1
340.1 .. .. 000 3

b) Largest affiliates of home-based TNCs, 2002 (Millions of dollars and number) Societe d' Importation de Pieces Detachees Ivory Coast Trade Gepa Elektronische Bauelemente Vertriebsges Germany Trade Omega S.A.R.L. Repraesentanz Deutschland Germany Trade

182.. 130 4 3

c) Largest affiliates of foreign TNCs in the host economy, 2002 (Millions of dollars and number)
Tunisian Business Machines United States Trade Weitnauer Tunisie Switzerland Trade Tunis Hilton Hotel United Kingdom Hotels

60 30
18.38.06.5 300

C. Finance and Insurance — Assets — Employees

a) Largest home-based TNCs, 2002 (Millions of dollars and number) .. .. ..

.. ..

b) Largest affiliates of home-based TNCs, 2002 (Millions of dollars and number) .. .. ..

.. ..

c) Largest affiliates of foreign TNCs in the host economy, 2002 (Millions of dollars and number)
The Arab Investment Company Saudi Arabia Finance Beit Ettamouil Tounsi Saudi Saudi Arabia Finance Citibank N A Offshore United States Finance 10 91 70

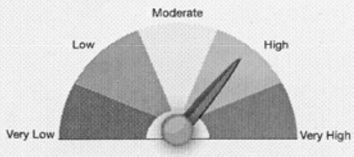
APPENDICE 5: country risk report

Tunisia

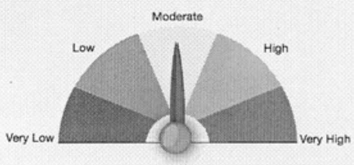
Country Risk Tier

CRT-4

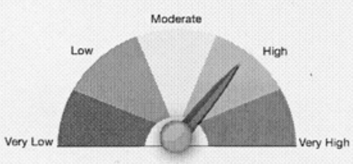
Economic Risk



Political Risk



Financial System Risk



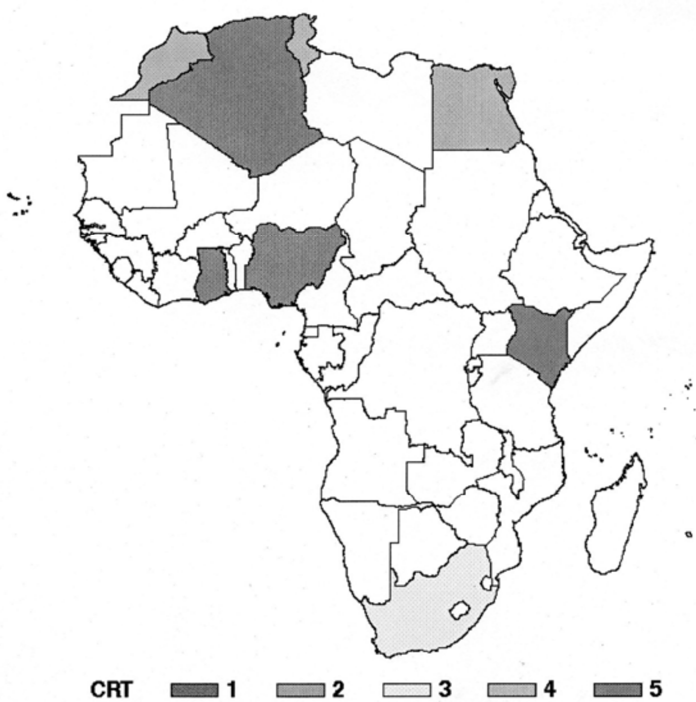
For information on companies followed

Market Outlooks

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political and Financial System Risk.

- Tunisia is a CRT-4 country and has relatively high levels of economic and financial system risk. Tunisia's CRT-4 assignment is the same as two other countries evaluated in Northern Africa, Morocco and Egypt.

- Tunisia's economy has been fairly resilient in the face of the global economic slowdown. The future growth prospects for the Tunisian economy are dependent on the pace of the economic recovery in Europe as industrial exports to Europe are a large component of Tunisian economic activity.



Regional Summary: Middle East & North Africa

- The Middle East & North Africa region includes several wealthy oil producing nations and is characterized by regional instability and periods of regional violence.

- After more than five years of rapid expansion, driven primarily by a boom in oil prices, the Middle East & North Africa region has experienced a sharp decline in economic activity.

- The global economic slowdown has impacted the region through reduced tourism and tightening credit conditions. With the World Bank forecasting oil prices to remain below their peak levels for the foreseeable future, the region will continue to face economic challenges.

Economic Risk: High

- Tourism, agriculture and services are particularly important for Tunisia's economy, accounting for over 90% of GDP.

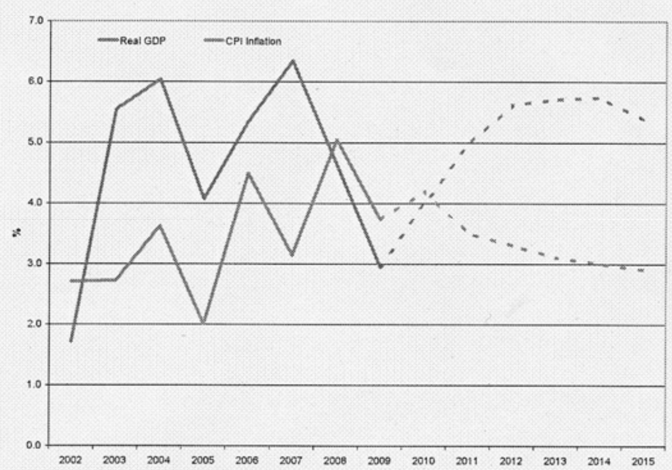
- Tunisia's close trade relationship with the European Union (EU), including an agreement to liberalize trade, has been a huge positive for the Tunisian economy and more than 70% of exports go to the EU.

- However, the economic contraction in the EU has reduced demand for Tunisian exports and has led to a slowdown in economic growth in Tunisia.

Vital Statistics 2009		
Nominal GDP	USD bn	40.17
Population	mil	10.4
GDP Per Capita	USD	3,852
Real GDP Growth	%	3.0
Inflation Rate	%	3.7
Premiums Written (Life)	USD mil	100
Premiums Written (Non-Life)	USD mil	551
Premiums Growth (08-09)	%	-2.5

Regional Comparison	
	Country Risk Tier
Tunisia	CRT-4
Nigeria	CRT-5
Ghana	CRT-5
Kenya	CRT-5
Morocco	CRT-4
Egypt	CRT-4

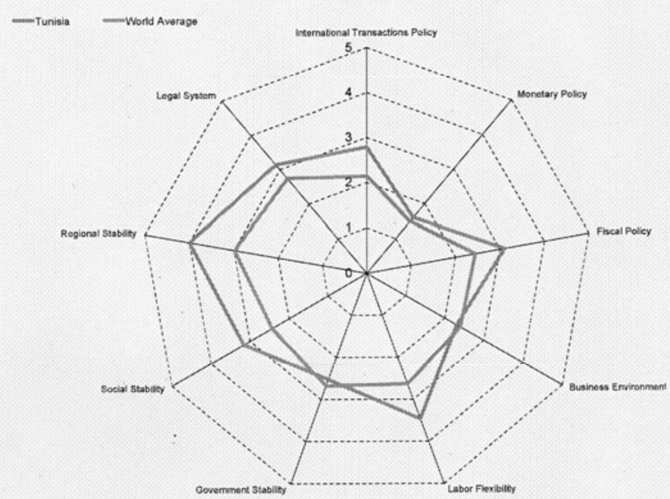
Source: IMF, Axco, Swiss Re and A.M. Best



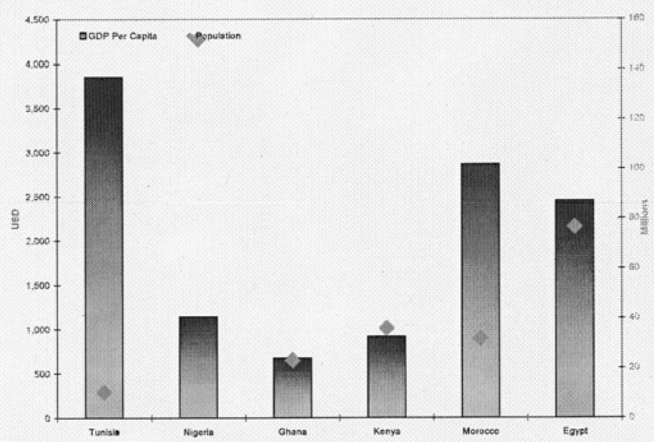
Source: IMF World Economic Outlook (10/09) and A.M. Best

Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best



Source: IMF and A.M. Best

Political Risk: Moderate

- Tunisia has had only two presidents in the past 50 years. The political system has been essentially dominated by a single party during that time.

- Freedom of the press is heavily restricted in Tunisia, as is political opposition.

- The government budget deficit will likely increase due to increased food and energy subsidies implemented to ease the hardship of the current economic slowdown.

Financial System Risk: High

- The Tunisian insurance industry is regulated by the Comite General des Assurances.

- While the Tunisian government encourages foreign direct investment, it is hampered by the state's protection of certain industries such as agriculture, banking and telecommunications. Economic reforms to privatize state-owned firms have been attempted since the mid-1990's. However progress has been slow.

GUIDE TO BEST'S COUNTRY RISK TIERS

A.M. Best defines country risk as the risk that country-specific factors could adversely affect the claims paying ability of an insurer. Country risk is evaluated and factored into all Best's Credit Ratings. Countries are placed into one of five tiers, ranging from "CRT-1" (Country Risk Tier 1), denoting a stable environment with the least amount of risk, to "CRT-5" (Country Risk Tier 5) for countries that pose the most risk and, therefore, the greatest challenge to an insurer's financial stability, strength and performance.
A.M. Best's Country Risk Tiers are not credit ratings and are not directly comparable to a sovereign debt rating, which evaluates the ability and willingness of a government to service its debt obligations.

Country Risk Tiers

Country Risk Tier	Definition
CRT-1	Predictable and transparent legal environment, legal system and business infrastructure; sophisticated financial system regulation with deep capital markets; mature insurance industry framework.
CRT-2	Predictable and transparent legal environment, legal system and business infrastructure; sufficient financial system regulation; mature insurance industry framework.
CRT-3	Developing legal environment, legal system and business environment with developing capital markets; developing insurance regulatory structure.
CRT-4	Relatively unpredictable and nontransparent political, legal and business environment with underdeveloped capital markets; partially to fully inadequate regulatory structure.
CRT-5	Unpredictable and opaque political, legal and business environment with limited or nonexistent capital markets; low human development and social instability; nascent insurance industry.

Country Risk Reports

A.M. Best Country Risk Reports are designed to provide a brief, high level, explanation of some of the key factors that determine a country's Country Risk Tier assignment. It is not intended to summarize A.M. Best's opinion on any particular insurance market, or the prospects for that market.

Categories of Risk

Country Risk Reports provide "scores" for three categories of risk for each country. These "scores" are: (1) Very Low; (2) Low; (3) Moderate; (4) High and (5) Very High.

Category of Risk	Definition
Economic Risk	The likelihood that fundamental weaknesses in a country's economy will cause adverse developments for an insurer. A.M. Best's assessment of economic risk evaluates the state of the domestic economy, government finances and international transactions, as well as prospects for growth and stability.
Political Risk	The likelihood that government or bureaucratic inefficiencies, societal tensions, inadequate legal system or international tensions will cause adverse developments for an insurer. Political risk comprises the stability of the government and society, the effectiveness of international diplomatic relationships, the reliability and integrity of the legal system and of the business infrastructure, the efficiency of the government bureaucracy and the appropriateness and effectiveness of the government's economic policies.
Financial System Risk	Financial system risk (which includes both insurance and non-insurance financial system risk) is the risk that financial volatility may erupt due to inadequate reporting standards, weak banking system or asset markets and/or poor regulatory structure. Along with the risk that the insurance industry's level of development and public awareness, transparent and effective regulation and reporting standards and sophisticated regulatory body will contribute to a volatile financial system and compromise the ability of an insurer to pay claims.

Political Risk Summary

To provide additional detail on the political risk in a given domicile the Country Risk Reports include the Political Risk Summary. The Political Risk Summary is a radar chart that displays scores for nine different aspects of political risk scored on a scale of 1-5 with 1 being the least amount of risk and 5 being the highest amount of risk.

Category	Definition
International Transactions Policy	Measures the effectiveness of the exchange rate regime and currency management.
Monetary Policy	Measures the ability of a country to effectively implement monetary policy.
Fiscal Policy	Measures the ability of a country to effectively implement fiscal policy.
Business Environment	Measures the overall quality of the business environment, and ease of doing business.
Labor Flexibility	Measures the flexibility of the labor market, including the company's ability to hire and fire employees.
Government Stability	Measures the degree of stability in a government.
Social Stability	Measures the degree of social stability including human development and political rights.
Regional Stability	Measures the degree of stability in the region
Legal System	Measures the transparency and level of corruption in the legal system.

Country Risk Tier Disclosure

A Country Risk Tier (CRT) is not a credit rating, rather it represents a component of A.M. Best's credit rating methodology that is applied to all insurers. A CRT is not a recommendation to purchase, hold or terminate any security, insurance policy, contract or any other financial obligation issued by a government, an insurer or other rated issuer, nor do they address the suitability of any particular policy, contract or other financial obligation for a specific purpose or purchaser.

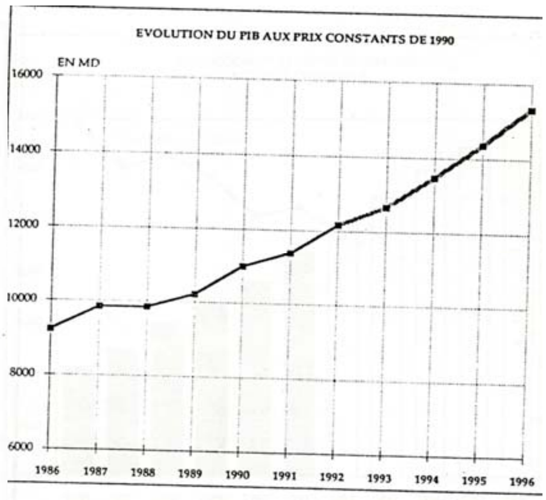
APPENDICE 6: 8th plan's statistics (92-96)

1. Balance of payment evolution

2.GDP growth

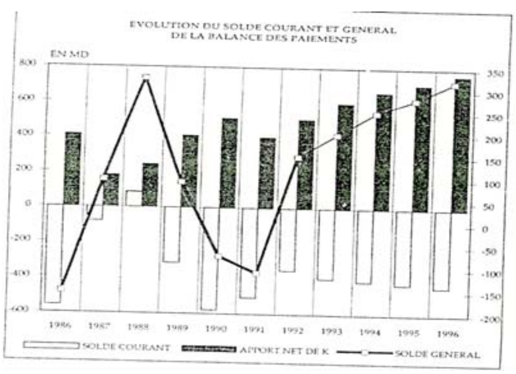
(EN MD)

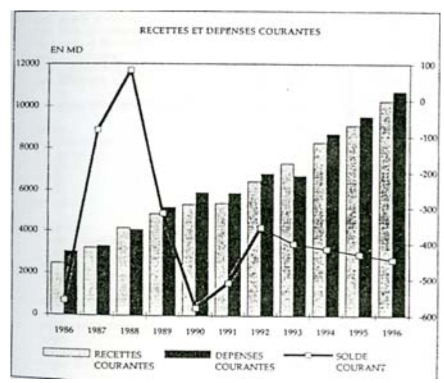
	1991	1992	1993	1994	1995	1996
Recettes courantes totales	5.379,0	6.458,9	7.316,7	8.298,9	9.106,2	10.269,4
Depenses courantes totales	5.889,0	6.813,9	7.716,8	8.713,9	9.536,2	10.714,5
Solde courant	-510,0	-355,0	-400,0	-415,0	-430,0	-445,0
Entrées de Capitaux	1.220,0	1.355,0	1.480,0	1.585,0	1.660,0	1.760,0
•Dons	30,0	70,0	55,0	55,0	50,0	50,0
•Participations	190,0	230,0	260,0	290,0	325,0	390,0
•Prêts long terme	685,0	750,0	750,0	800,0	800,0	800,0
•Prêts moyen terme	315,0	305,0	415,0	440,0	485,0	520,0
Sorties de Capitaux	820,0	850,0	880,0	920,0	950,0	995,0
•Amortissement	775,0	810,0	835,0	870,0	900,0	945,0
•Participation	45,0	40,0	45,0	50,0	50,0	50,0
•CT et ajustement	0,0	0,0	0,0	0,0	0,0	0,0
Apports nets	400,0	505,0	600,0	665,0	710,0	765,0
Solde Général	-110,0	150,0	200,0	250,0	280,0	320,0



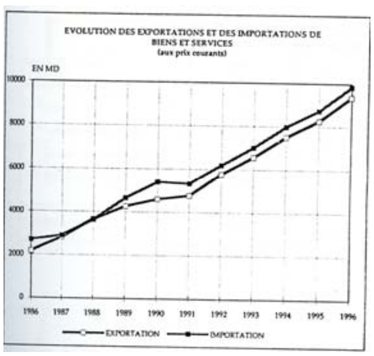
3. Current account

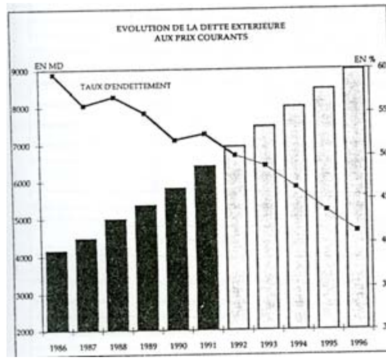
4. Current receipts and dispenses

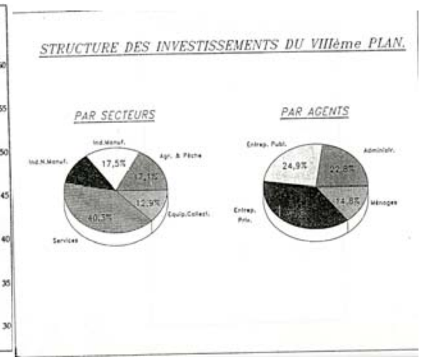




5. Export and import 6.exterior debt 7.investment







APPENDICE 7: 9th plan's statistics

1. Keys economic indicators

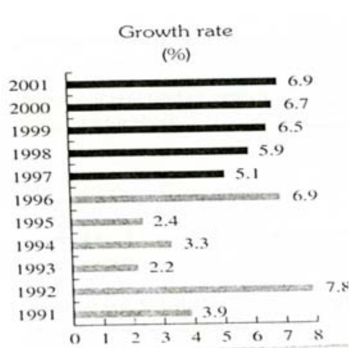
(Constant prices) Million Dinars

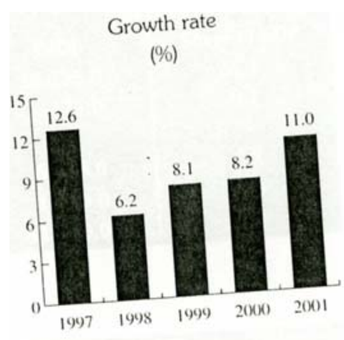
	1996	1997	1998	1999	2000	2001	Average growth (%) 1997-2001
GDP (market price)	18,966.5	20,868.6	22,947.6	25,284.2	27,998.1	30,938.1	10.2
GNP	17,937.9	19,829.8	21,796.6	24,048.9	26,705.1	29,591.4	10.4
Gross National Disposable Income	18,699.8	20,571.6	22,620.0	24,977.3	27,771.2	30,770.6	10.3
Domestic savings	3,995.4	4,580.2	5,199.4	5,945.4	6,935.5	7,971.9	14.6
Investment	4,569.9	5,350.0	5,900.0	6,613.0	7,405.0	8,507.0	13.4
External Debt	9,620.0	10,360.0	10,980.0	11,505.0	12,060.0	12,580.0	6.0
Debt ratio	51.4	50.4	48.5	46.1	43.4	40.9	-
Debt service	1,599.1	1,800.0	2,060.0	2,130.0	2,535.0	2,390.0	12.0
Debt service ratio	17.7	18.1	18.7	17.5	19.1	16.2	-
Population (1,000)	9,095.0	9,243.4	9,391.5	9,539.2	9,684.4	9,833.1	1.6
Per capita income (Dinars)	2,070.0	2,226.0	2,409.0	2,591.0	2,868.0	3,140.0	8.5

2. GDP by Sector

Million Dinars

GDP by sector Constant prices	1996	1997	1998	1999	2000	2001	Average growth (%) 1997-2001
Agriculture & fishing	2,036.8	2,055.1	2,188.7	2,276.2	2,456.1	2,615.7	4.3
Manufacturing industries	2,452.6	2,622.4	2,780.5	2,967.1	3,199.7	3,452.9	6.9
Non manufacturing industries	1,675.5	1,785.3	1,848.4	1,959.5	1,966.6	2,003.9	4.4
Services	4,742.4	5,015.9	5,348.4	5,769.5	6,249.9	6,800.9	7.0
Intermediate consumption	466.6	491.0	520.4	554.9	593.4	636.4	6.1
Total market activities	10,440.0	10,987.6	11,645.2	12,417.9	13,278.8	14,237.1	6.1
Non market activities	1,865.4	1,945.7	2,042.9	2,151.2	2,269.5	2,398.9	5.0
GDP at factor cost	12,306.1	12,933.3	13,688.2	14,568.9	15,548.4	16,636.0	5.9
Indirect taxes net of subsidies	1,686.3	1,779.0	1,885.8	2,010.2	2,144.9	2,284.3	6.1
GDP at market prices	13,992.3	14,712.3	15,573.9	16,579.1	17,693.3	18,920.3	6.0



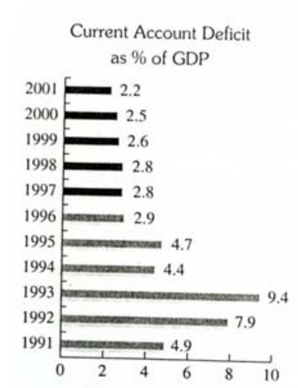


3. Growth rate 4. Investment growth rate

5. Debt ratio

	1996	1997	1998	1999	2000	2001
Current revenue	9,604.1	10,517.6	11,633.2	12 799.0	13,974.7	15,439.9
Current expenditure	9,057.1	9,931.6	10,998.4	12,147.5	13,284.1	14,761.4
Balance	**-547.0**	-586.0	-634.8	-651.5	-690.6	-678.5
Transfers	**68.1**	150.0	150.0	150.0	150.0	150.0
Financing needs	**-478.9**	-436.0	-484.8	-501.5	-540.6	-528.5
Financial resources	994.0	1,144.0	1,210.2	1,313.5	1,649.4	1,421.5
Debt reimbursement	955.6	1,050.0	1,120.0	1,220.0	1,550.0	1,320.0
Equity investment	52.4	80.9	81.1	89.7	93.3	96.5
Short-term borrowing	-14.0	13.1	9.1	3.8	6.1	5.0
Financial uses	1.773.2	1,820.0	1,925.0	2,045.0	2,440.0	2,220.0
Equity investment	302.0	340.0	395.0	505.0	515.0	545.0
Long-term borrowing	617.3	750.0	740,0	720,0	710,0	680.0
Medium-term borrowing	853.9	730.0	790.0	820.0	1,215.0	995.0
Balance of financial operations	779.2	676.0	714.8	731.5	790.6	798.5
Total balance	300.3	240.0	230.0	230.0	250.0	270.0

Million Dinars



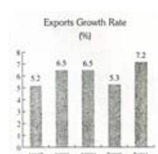
6. Balance of payment

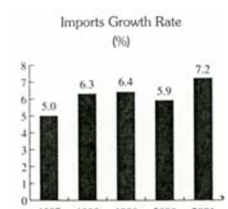
7. Current account deficit

8. Import- export

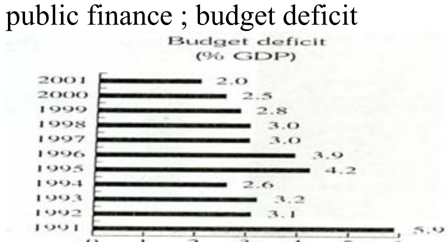
	1996	1997	1998	1999	2000	2001	Average growth (%) 1997-2001
IMPORTS							
Goods	7.689.7	8,410.7	9,275.2	10,246.0	11,235.9	12,481.9	10.0
Services	621.9	706.6	792.0	875.5	972.6	1,066.5	11.9
Total	8.311.6	9,117.3	10,067.2	11,121.5	12,208.5	13,548.4	10.1
Goods & services excluding energy	7.682.2	8,549.2	9,463.3	10,487.1	11,616.7	12,871.7	10.9
EXPORTS							
Goods	5.501.3	6,098.8	6,742.6	7,455.1	8,079.2	8,980.7	10.4
Services	2.530.0	2,738.5	3,017.4	3,321.8	3,665.6	4,057.0	9.7
Total	8.031.3	8,837.3	9,760.0	10,776.9	11,744.8	13,037.7	10.1
Goods & services excluding energy	7.468.2	8,293.4	9,205.3	10,214.0	11,377.2	12,718.9	11.1

Million Dinars

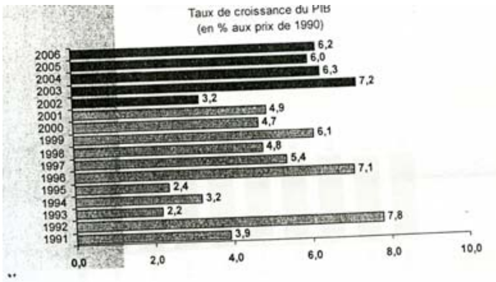




9. public finance ; budget deficit



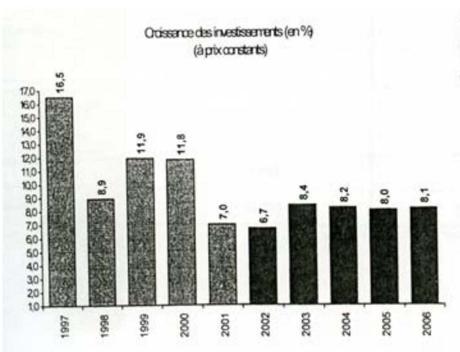
APPENDICE 8: 10th plan's statistics

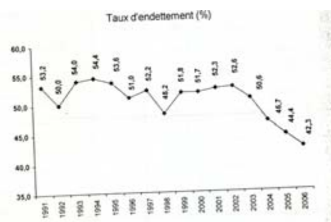


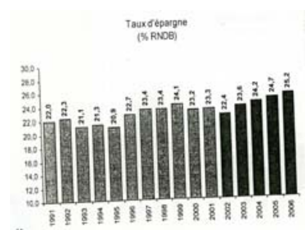
PIB par secteur (Prix constants)	2001	2002	2003	2004	2005	2006	Croissance moyenne (%) 2002-2006
Agriculture et pêche	2 248,8	2 068,9	2 420,6	2 565,8	2 655,6	2 775,1	3,5
Industries manufacturières	3 332,1	3 427,9	3 638,4	3 841,4	4 051,0	4 282,9	4,9
Industries non manufacturières	2 051,4	2 172,6	2 240,2	2 344,6	2 411,1	2 469,5	4,2
Services	6 752,6	7 139,1	7 714,2	8 364,8	9 085,1	9 897,5	7,5
CI non vent. en serv. fin. (en -)	788,1	811,4	877,4	937,8	997,3	1 064,3	6,0
Total des activités marchandes	13 596,7	13 997,1	15 136,0	16 178,8	17 205,5	18 360,7	5,8
Activités non marchandes	2 327,5	2 427,6	2 531,9	2 645,9	2 765,0	2 888,0	4,4
PIB aux coûts des facteurs	15 924,1	16 424,7	17 667,9	18 824,7	19 970,4	21 248,7	5,6
Impôts ind. nets de subventions	2 103,4	2 177,0	2 274,9	2 377,3	2 496,2	2 621,0	4,3
PIB aux prix du marché	18 027,5	18 601,7	19 942,8	21 202,0	22 466,6	23 869,6	5,5

1. GDP growth

2. GDP by sector



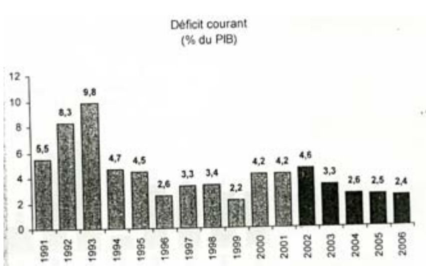


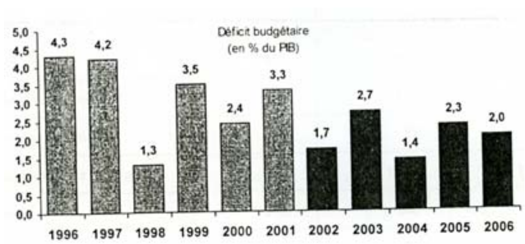


3. Investment growth

4. Debt rate

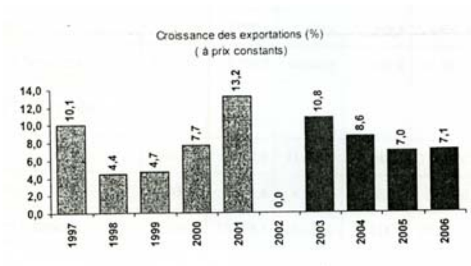
5.saving rate

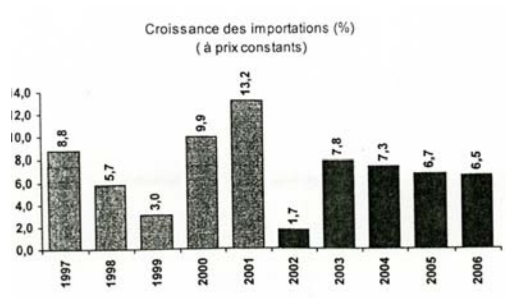




6. Current deficit

7.budget deficit





8. Exportation growth

9.importation growth