INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/223

TUNISIA

FIFTH REVIEW UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA, AND FOR REPHASING OF ACCESS

July 2019

In the context of the Fifth Review Under the Extended Fund Facility, and Requests for Waivers of Nonobservance and Modification of Performance Criteria and for Rephasing of Access, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 12, 2019, following discussions that ended on April 9, 2019, with the officials of Tunisia on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on June 3, 2019.
- A **Statement by the Executive Director** for Tunisia.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Tunisia*
Memorandum of Economic and Financial Policies by the authorities of Tunisia*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

© 2019 International Monetary Fund

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 19/211
FOR IMMEDIATE RELEASE
June 12, 2019

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under the Extended Fund Facility (EFF) Arrangement for Tunisia

On June 12, 2019, the Executive Board of the International Monetary Fund (IMF) completed the Fifth Review of Tunisia's economic program supported by an arrangement under the Extended Fund Facility (EFF). The Board's decision makes available to Tunisia an amount equivalent to SDR 176.7824 million (about US$245 million), bringing total disbursements to SDR 1,161.7133 million (about US$1.6 billion), and catalyze much-needed financing from other partners and international markets. In completing the review, the Board also approved the authorities' request for waivers of non-observance of end of March 2019 performance criteria on net international reserves and net domestic assets. These waivers were granted on the ground of the corrective measures undertaken by the authorities.

The Executive Board also approved the authorities' request for rephasing of purchases under the arrangement, including the requested reduction of the total access under the arrangement to an amount equivalent to SDR 1.9522533 billion (about 358.1 percent of Tunisia's quota). The four-year EFF arrangement was approved by the Executive Board in May 2016 (See Press Release No. 16/238) for an original amount equivalent to SDR 2.045625 billion (about US$2.9 billion or 375 percent of Tunisia's quota at the time of approval of the arrangement).

Socially-balanced macroeconomic stabilization remains the government's priority for 2019, which the EFF arrangement supports. Fiscal policies aim at mobilizing revenue and containing current spending to reduce Tunisia's budget deficit, while maintaining public investment and strengthening the social safety-net for low-income households. Monetary policy focuses on curbing inflation, and continued exchange rate flexibility will help to improve the current account deficit and international reserves. Structural reforms supported under the arrangement include measures to improve the business climate, broaden access to finance, and reduce corruption.

Following the Executive Board discussion on Tunisia, Mr. David Lipton, First Deputy Managing Director and Acting Chair, made the following statement:

"While improving over the course of 2017 and 2018, growth remains subdued and elevated macroeconomic vulnerabilities persist, but policy efforts are starting to show results. A strong revenue effort and energy subsidy reform have supported significant fiscal deficit reduction, monetary tightening has started to reduce inflation, and lower foreign exchange (FX) interventions have allowed the exchange rate to better reflect fundamentals. Against the backdrop of a challenging domestic socio-political environment and external pressures, program performance since the Fourth Review has been mixed.

“Socially-conscious stabilization efforts will have to remain center stage to reduce vulnerabilities. Near-term policies should continue to focus on improving fiscal and external deficits to reverse the adverse debt dynamics, reducing inflation, and strengthening the social safety net for low-income households. Improved communication of policy and reform objectives and their rationale will facilitate implementation.

“Reducing the fiscal deficit to 3.9 percent of GDP in 2019 will require unwavering discipline. The authorities’ strategy relies on strong revenue collection, targeted energy subsidy reforms with improved communication, and tight wage bill management. The budget allows for maintaining growth-enhancing investment and increasing social spending, but there is no room for relaxing the effort on taxes or current expenditure after the recent increase in civil service wages.

“Monetary policy needs to focus on maintaining price stability. Additional policy rate hikes would be warranted if inflation projections for December 2019 exceed the target. Success with disinflation will also depend on reducing central bank refinancing and on reforming the collateral framework, while preserving financial stability.

“Reducing external imbalances hinges on a market-determined exchange rate. Competitive FX auctions together with reduced Central Bank interventions and effective communication to the market remain critical to improve the current account and reserves cover. Efforts to strengthen social protection should continue. In particular, increased transfers to low-income households should quickly follow the recent measures to improve access to public health care.

“Structural reforms should focus on enhancing the business climate and improving access to finance to boost private-sector led growth. The appointment of the members of the High Anti-Corruption Authority would help address corruption concerns.

“Program risks remain very high. The authorities' steadfast commitment to the policy and reform agenda, quarterly monitoring, and strong financial and capacity building support by Tunisia’s external partners will remain essential for their mitigation.”

INTERNATIONAL MONETARY FUND

TUNISIA

June 3, 2019

FIFTH REVIEW UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA, AND FOR REPHASING OF ACCESS

EXECUTIVE SUMMARY

A subdued recovery unfolds amid economic imbalances and political uncertainty. Growth reached 2.6 percent in 2018, but the unemployment rate persisted above 15 percent. The current account deficit widened to 11.2 percent of GDP on the back of higher oil prices. Inflation has recently stopped its upward trend, but still stood at 6.9 percent in April. Strong revenue performance reduced the fiscal deficit to 4.6 percent of GDP in 2018 from 6.0 percent in 2017 and created space for higher investment and social outlays. All but two Quantitative Performance Criteria and four of the nine Structural Benchmarks for the Fifth Review were met.

This Review focuses on stabilizing the economy ahead of the fall 2019 elections. Civil service wage hikes and a pause in energy price hikes constitute departures from the policies agreed at the Fourth Review. The authorities will adjust their policy mix to correct for these slippages and keep the economy on a stabilization path, while maintaining social cohesion. Strong revenues, including due to improved collection that spreads the tax burden more equitably across society, continued energy subsidy reforms together with improved safety nets for low-income households, a tighter monetary policy stance, and a more flexible exchange rate are critical pillars of their strategy. These policies will help stabilize debt, reduce inflation, and rebuild reserves. More ambitious structural reforms will have to wait until after the elections.

Risks to the program objectives remain very high. Socio-political tensions and a deterioration in security are the main risks to the adjustment strategy. Higher oil prices, spillovers from conflicts in the region, a further slowing of EU growth, rising trade tensions, and shifts in investor sentiment could also jeopardize economic stability.

Staff supports the authorities' request for completion of the Fifth Review. It would make available SDR 176.7824 million (about US$245 million) and catalyze much-needed financing from other official partners and international markets. Staff also supports the waivers of nonobservance of performance criteria and the rephasing of access.

Approved By
Taline Koranchelian and Vitaliy Kramarenko

Discussions took place in Tunis during March 27–April 9, 2019, and continued from headquarters until April 17, 2019. The mission team comprised Björn Rother (head), Kerstin Gerling (advance team lead), Nicolas End, Alexei Kireyev (all MCD); Olivier Basdevant (FAD), Mariam El Hamiani Khatat (MCM), Rima Turk (SPR), and Jérôme Vacher (Resident Representative). Taline Koranchelian (MCD) and Monia Saadaoui (OED) participated in discussions. Staff met with Head of Government Chahed; Minister of Finance Chalghoum; Minister of Development, Investment, and International Cooperation Laâdhari; Minister in charge of Major Reforms Rajhi; Central Bank Governor El-Abassi; as well as other senior officials and representatives from the civil society, corporate and banking sector, diplomatic and donor community. Ramzy Al Amine, Tucker Stone, Nataliya Bondar, and Geraldine Cruz provided excellent research and production assistance.

CONTENTS

ANNEXES

APPENDIX

A SUBDUED RECOVERY IN A DIFFICULT CONTEXT

1. Short-term tradeoffs between economic and social stability have weighed on reforms. The authorities have advanced on measures to support macroeconomic stability, social protection, and private sector development (Text Table 1). However, they also granted civil service wage increases against staff's advice and retracted from planned energy price hikes in the fall of 2018 (Annex I). These slippages occurred amid two general strikes organized by the UGTT labor union and the refusal of higher utility bills by businesses. Socio-political pressures will likely continue to constrain policies and reforms ahead of the parliamentary and presidential elections in the fourth quarter, especially measures that would have negative short-term effects on purchasing power. Instability in neighboring countries and violent domestic attacks have added to the fragile environment.

Text Table 1. Tunisia: Key Reforms Implemented in 2018–19

Fiscal Policy	Monetary, Foreign Exchange, and Macroprudential Policies	Structural Reforms
• **Revenue measures:** - Ambitious 2018 revenue package (2.2 percent of GDP) and reinforcement of tax administration, which helped improve tax collection and outperform the 2018 deficit target. - Elimination of the preferential tax regime for off-shore companies in December 2018. • **Energy subsidy reforms:** - Fuel price adjustments in January, March, June, September 2018, and March 2019. Fuel prices remain about 20 percent below market prices at end-March 2019. - Reduction in electricity and gas subsidies in January, June, August, and September 2018. - 10 percent increase in electricity and gas tariffs for higher volume-users among low tension/customers in May 2019. - Phasing in of a price increase of 24 percent for medium tension/pressure customers over January to December 2019. • **Civil service reforms:** - Limitation of new recruits to the civil service to 3,000 in 2018 and 2019 (25 percent replacement ratio). - Departure of about 6,600 civil servants from the service, of which 5,000 through the early retirement scheme and 1,600 through voluntary separations during 2018.	• **Three policy rate hikes:** +100 bps in February 2019, +100 bps in June 2018, and +75 bps in March 2018. • **Broadening the interest rate corridor** from +/- 25 bps to +/- 100 bps in January 2018. • **Reduction of the outstanding volume of CBT FX swaps** used for dinar liquidity injections: from TD 2.9 billion in August 2018 to TD 1.6 billion as of March 29, 2019. • **Start of competitive FX auctions** in August 2018 and increase of the auction frequency in 2019 to support price discovery in the FX market. • **Gradual reduction of loan-to-deposit (LTD) ratios** by 2 percent each quarter for banks with ratios above 120 percent.	• **Social protection and private sector development:** - Extension of the National Program of Assistance to Vulnerable Families in January and June 2018. - Improved access to public health care for low-income households announced in March 2019. - Establishment of the AMEN social database of low-income households in March 2019. - Creation of a one-stop shop for investors in March 2018. • **Financial sector:** - Resolution committee's decision on the orderly resolution of the BFT in November 2018. - Laws supporting public bank restructuring adopted in May 2018. • **Fiscal policy and public institutions:** - Parliamentary passage of the organic budget law in January 2019. - Parliamentary passage of the law to reform the public pension fund in April 2019. - Completion of functional reviews of four key ministries (Health, Education, Finance, and Infrastructure, June 2018).

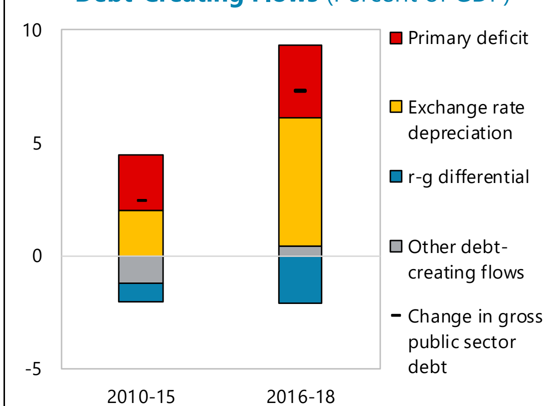
2. The economic recovery has remained subdued amid macroeconomic imbalances (Figures 1–4):

- ***Growth increased to 2.6 percent in 2018, remaining too low to reduce unemployment.*** The primary and tertiary sectors grew strongly, owing to a good harvest and a favorable touristic season. In contrast, many industries continued to suffer from structural impediments (Table 13), including corruption, a weak business environment, and inadequate access to finance; and the phosphate sector also from social protests. The unemployment rate persisted above 15 percent, and remains significantly higher among the youth, women, and graduates.

- ***Policy rate hikes have helped to decelerate inflation.*** After reaching a peak of 7.7 percent in June 2018, inflation started to decline to 6.9 percent in April. Alongside, underlying inflation fell from 8.8 percent in December 2018 to 7.6 percent in April. This deceleration has been supported by the Central Bank of Tunisia's (CBT) monetary tightening: the most recent 100 bps hike in February increased the policy interest rate to 7.75 percent. Because of the continued tightening, broad money growth halved while the growth of credit to the economy decreased from 13 percent in 2017 to 8 percent in 2018. These trends continued in the first quarter of 2019 with credit to the economy further decelerating to 7 percent.

- ***Despite strong fiscal performance in 2018, public debt continued to rise.*** The overall fiscal deficit narrowed to 4.6 percent of GDP in 2018. The primary deficit, excluding grants, reached 1.4 percent of GDP, outperforming the EFF target by 1.5 percentage points of GDP. This strong performance reflects tax policy measures, progress with tax administration, and higher-than-expected profit transfers from the CBT and energy companies. The higher revenue has created space for increased capital and social spending (outperforming Fourth Review projections by 0.4 and 0.2 percent of GDP, respectively); and more-than-offset slippages on energy subsidy reforms. Central government debt increased to 77 percent of GDP at end-2018, mostly driven by strong dinar depreciation in response to market forces (Text Figure 1). The strong revenue performance was sustained through the first quarter of 2019.

Text Figure 1. Central Government: Debt-Creating Flows (Percent of GDP)



Sources: Tunisian authorities and IMF staff calculations.

- ***External imbalances have persisted.*** The current account deficit widened to 11.2 percent of GDP in 2018 (its highest level since 1986) due to higher-than-expected energy imports. Export volumes declined year-on-year by an annualized 3.4 percent in the first quarter of 2019, mostly due to the lower performance of agriculture, mechanical and electrical industries, and textile exports, while phosphate exports improved significantly. Import volumes also fell by 5.1 percent over the same period, reflecting lower energy imports. After dropping to 72 days of imports in end-June 2018, international reserves recovered to 83 days in March on the back of donor disbursements and a pick-up in private capital inflows.[1]

- ***Financial market indicators weakened.*** The stock market index has been on a declining trend since August 2018. Credit spreads have trended upwards since early 2018, reflecting a rating downgrade in addition to a generalized weakening of investor sentiment toward emerging markets.

3. Program performance has been mixed (MEFP¶2 and Tables 1–2):

- ***All but two end-March quantitative targets were met.*** The Quantitative Performance Criteria (QPC) on the primary fiscal balance and current primary expenditures were met by wide margins, reflecting strong revenues and contained current expenditures. The QPCs on social spending and on net foreign exchange (FX) interventions of the CBT were comfortably met as well, the latter thanks to increased private FX inflows in the first quarter. However, the QPCs on net domestic assets (NDA) and net international reserves (NIR) were missed: the first because the CBT accommodated all commercial bank requests for refinancing in a negative real interest rate environment; the second due to lower-than-expected external financing received since June 2018.[2] All Indicative Targets (IT) were met up to April 2019, except for the monthly IT on the CBT's FX interventions in August–November 2018 and January 2019.

- ***Four of the nine SBs for the Fifth Review have been achieved.*** Two SBs were met (the vote on the resolution of the Banque Franco-Tunisienne (BFT) and the adoption of a budget law that eliminates the preferential tax regime for off-shore companies). Seven SBs were not met: two were implemented with delay (the establishment of the database on low-income households and the adoption of the organic budget law), four need to be reprogrammed (¶¶10, 12, and 21), and one remained unachievable amid strong social pressures (the SB on the fuel price hikes for the last quarter of 2018, along with the October and November utility tariff increases).

- ***All three Prior Actions (PA) for this Review were achieved in May.*** The authorities implemented and communicated on (1) a price increase of 6 percent on average for the main fuels; (2) a set of electricity and gas tariff hikes that reduce subsidies by TD 74 million; and (3) a set of measures worth TD 100 million to strengthen public health care for low-income families.

PROSPECTS FOR BETTER OUTLOOK, BUT HIGH RISKS

4. Sustained policy efforts and social stability are critical for a positive outlook. With sustained policy and reform implementation, as well as the continuation of adequate donor support,

[1] This reserve coverage is calculated using expected next year's imports of goods. Ratios published by the authorities use past imports of goods.

[2] While lower-than-projected disbursements since the end-June test date of the Fourth Review reduced the level of NIR, the adjuster considered for this Review only corrects for the period of January-March 2019 consistent with the TMU.

growth would gradually reach 4 percent, supported by higher investment and improved competitiveness. Inflation would fall to 4 percent to protect the purchasing power of Tunisians, while the current account deficit would reach 5.8 percent of GDP by 2024. Flexible exchange rates together with tight monetary policy would help strengthen reserve cover to 3.2 months of goods imports in 2019. External and central government debt would peak at 108 and 85 percent of GDP in 2020, respectively, before declining gradually as the twin deficits decrease (Text Table 2).

Text Table 2. Tunisia: Selected Economic Indicators, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Proj.			
Real GDP growth (percent)	1.1	2.0	2.6	2.7	3.2	3.4	3.9	4.0	4.0
Consumer price index growth (period average, in percent)	3.6	5.3	7.3	7.2	5.9	4.5	4.3	4.1	4.0
Gross central government debt (percent of GDP)	62.3	70.6	77.1	83.1	84.7	82.2	78.0	73.2	68.7
External debt (percent of GDP)	72.9	84.2	94.1	104.5	107.8	105.2	101.2	96.2	91.0
Current account balance (percent of GDP)	-9.3	-10.2	-11.2	-10.1	-9.1	-8.2	-7.3	-6.4	-5.8
Gross official reserves (billions of US$)	5.9	5.6	5.2	5.9	6.4	6.7	7.3	7.9	8.9
Gross official reserves (months of next year's imports of goods)	3.4	3.0	2.8	3.2	3.3	3.4	3.6	3.8	3.9
Gross official reserves (percent of IMF reserve adequacy metrics) 1/	97.7	88.8	78.7	90.7	93.0	96.2	99.8	102.4	120.5

Sources: Tunisian authorities and IMF staff calculations.
1/ Assuming capital controls and a flexible exchange rate.

5. Risks to the baseline projections remain particularly high (RAM, Annex II). On the domestic front, political risks and social pressures could result in the reoccurrence of policy and reform slippages ahead of the upcoming elections. Security incidents would dampen investment and tourism. On the external front, higher international oil prices would put substantial pressures on fiscal and external accounts.[3] A further slowdown in Europe and rising trade tensions would hurt exports and remittances, while an adverse shift in investor sentiment would affect the cost of external financing. Debt Sustainability Analysis (DSA, Annex III) highlights that public debt remains sustainable with strong policies, but also points to substantial risks from exchange rate depreciation and contingent liabilities. External debt would remain resilient to shocks—except for strong dinar depreciation, helped by a low average interest rate, relatively long maturities, a substantial share of concessional debt, and a large grant element in new loans.

AGENDA TO FOSTER MACROECONOMIC STABILITY

6. Socially-balanced macroeconomic stabilization remains the priority for 2019. Building on recent gains, the authorities are implementing an economic policy program for 2019 that aims at further fiscal consolidation while protecting investment and social spending; disinflation; and exchange rate flexibility to improve competitiveness and protect reserves (Section A). In parallel, it will be critical to make inroads in strengthening social protection especially for low-income households (Section B) and continue with measures to support the private sector in its critical role as chief engine of jobs creation and thus higher standards of living (Section C). Staff continues to support the authorities' program to maintain the EFF's broad stabilization objectives, noting that

[3] A US$10 increase in the international oil price would lead the energy subsidy bill to worsen by about 1.2 percent of GDP. A hedge for one-third of Tunisia's 2019 energy import needs at a price of US$65 per barrel will, however, reduce the expected budget cost.

recent policy slippages call for more vigilance in the time ahead to ensure macroeconomic stability and, preserve the purchasing power of Tunisians. The updated technical assistance (TA) program in Annex IV will facilitate structural reforms over the medium term.

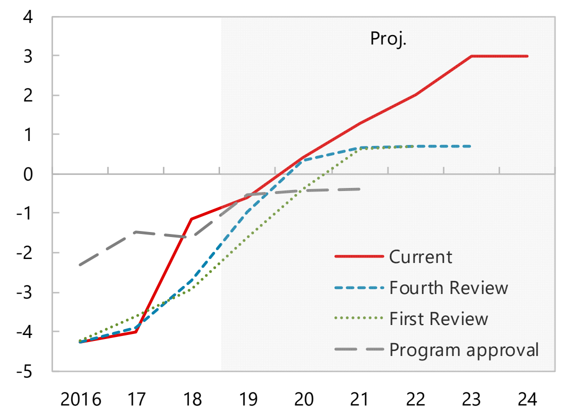
A. Reducing Macroeconomic Imbalances

Fiscal Policy

Background

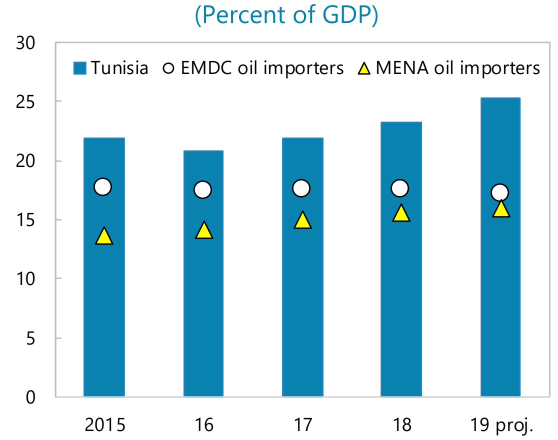
7. Continued fiscal discipline is imperative to break the unsustainable debt dynamics. High public debt (Annex III.A) and the objective to re-orient the budget towards investment and social spending call for an ambitious adjustment over the medium term (Text Figure 2). Building on the stronger 2018 outturn, the authorities seek to limit the 2019 deficit to 3.9 percent of GDP (excluding grants). This is consistent with a primary balance deficit of 1.0 percent of GDP. The medium-term policy anchor is a path to improve the primary fiscal balance to a surplus of 2.9 percent of GDP by 2023 and hence push public debt back below 70 percent of GDP. Measures to curb current expenditures will have to become center stage as Tunisia's revenue take is already high relative to peers (Text Figure 3). Specifically, the wage bill would need to grow significantly below nominal GDP; energy subsidies phased out; and budget outlays on pensions reduced. Containing contingent risks from SOEs will also be a priority.

Text Figure 2. Primary Balance
(Percent of GDP)



Sources: Tunisian authorities and IMF staff calculations.

Text Figure 3. Tax Revenue
(Percent of GDP)



Sources: Tunisian authorities, IMF WEO and staff calculations.

8. Ensuring both macroeconomic and social stability is critical in the pre-election period. The unanticipated wage increases for civil servants—granted against staff's concerns about the impact on social fairness, affordability within an already stretched budget, and macroeconomic stability—as well as the withdrawal of the energy price hikes planned for October and November 2018 threaten the deficit target for 2019. Further measures are thus required to stabilize the debt and reduce the large financing needs, especially in the context of volatile international oil prices and a more flexible exchange rate. At the same time, there has been strong opposition among Tunisians to measures that may affect their purchasing power such as energy subsidy reduction. Finding a set of policies and reforms that strike a workable balance between the economically necessary and socially acceptable is therefore crucial.

Policy Discussions

9. The authorities agreed with staff on a broad-based effort to meet the 2019 deficit target (Text Table 3 and MEFP¶¶3–9). Revenue projections were revised upwards relative to the Fourth Review, as a result of (1) higher personal income tax collection driven by a stronger-than-expected yield of the 2018 tax measures, significant tax administration gains, and unanticipated wage increases; (2) higher collection of import taxes and increased excises on tobacco and fuels; and (3) higher-than-expected CBT profit transfers reflecting the effect of depreciation. These together with the expenditure measures discussed below would ensure feasibility of the 2019 deficit target while maintaining investment constant in real terms and increasing social outlays. Both sides agreed on the need for strong budget discipline during this election year, governed by strict spending limits under the budget law, especially with a more front-loaded spending pattern for energy subsidies and capital expenditures to reduce recourse of SOEs to borrowing and improve the execution of public investment. Staff also highlighted the importance of effectively communicating the measures to increase buy-in among the population.

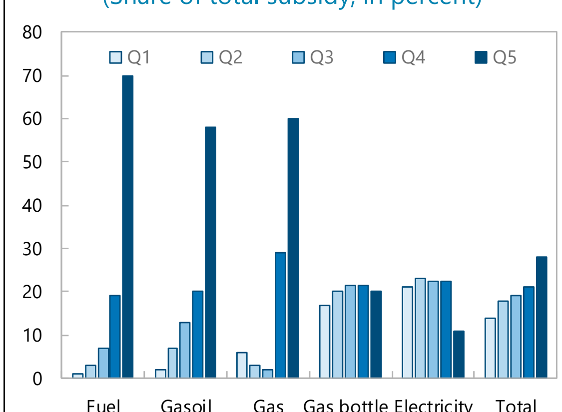
Text Table 3. Changes in Fiscal Program since the Fourth Review, 2019
(Percent of GDP)

Unanticipated revenue overperformance	**2.6**
Direct taxes	1.2
Indirect taxes	0.8
Non-taxes	0.4
Grants	0.2
Current spending pressures	**-2.2**
Wage bill	-0.8
Wage increase	-0.5
Other	-0.3
Goods and services	-0.1
Interest bill	-0.2
Food subsidy	-0.2
Energy subsidy	-0.4
Other transfers	-0.6
Social	-0.3
CNRPS	-0.2
Civil servants	-0.1
Unallocated spending	0.1
Net operating balance impact	**0.3**
Higher capital expenditure	-0.2
Net overall balance impact	**0.2**
Grants	0.2
Net overall balance impact, excl. grants	**0.0**

Sources: Tunisian authorities and IMF staff estimates.

- ***Energy subsidy reforms together with measures to protect low-income households*** (MEFP¶¶4–5). Energy subsidies are a large burden on the budget, mainly benefit the better-off (Text Figure 4), and hurt the environment and Tunisia's competitiveness by discouraging the use of energy-efficient technologies. At the same time, energy subsidy reforms affect the already weakened purchasing power. Mindful of the social impact, the authorities decided to strengthen the social safety net for low-income families in parallel with continued energy price hikes and other measures to cap the 2019 energy subsidy bill at

Text Figure 4. Energy Subsidies: Decomposition by Income Quintile
(Share of total subsidy, in percent)



Sources: Tunisian authorities and IMF staff calculations.

2.3 percent of GDP. A first set of energy subsidy measures (0.5 percent of GDP) was implemented between March and May, including increases of fuel prices and utility tariffs for low tension/low pressure customers (PAs). At the same time, social tariffs for electricity were reduced by 10 percent while prices for subsidized gas bottles were left unchanged (MEFP¶5).[4] More broadly, the authorities plan to protect low-income families' purchasing power through new social measures worth 0.3 percent of GDP (¶19). These policies were introduced to the public in a series of communications over March–May.

- ***Wage bill containment*** (MEFP¶7 and Annex I). The authorities agreed on the importance of strictly limiting new recruitments into the civil service (an overall replacement ratio of no more than 25 percent, consistent with the 2018 practice, which however leaves space for recruitment into priority sectors such as health and education) and refraining from any additional civil service wage increases over the time covered under the agreement with UGTT (until 2021)—including those currently demanded by UGTT for 35,000 higher-level civil servants.

- ***Pension reform*** (MEFP¶8). Parliament approved the reform law for the public pension fund (CNRPS) in April 2019. The law will improve the financial situation of the CNRPS thanks to an increase in the retirement age (from 60 to 62) and higher contributions (an additional 2 and 1 percentage points from employers and employees, respectively), thus eliminating the need for budget transfers from 2020. Given the delayed adoption of the law and the start of higher employee contributions only in 2020, the 2019 budget needs to absorb a one-off transfer of 0.2 percent of GDP.

- ***Buffer against risks.*** Unallocated spending of 0.3 percent of GDP and the hedging of one-third of Tunisia's oil import needs (Footnote 4) will provide a buffer against potential shocks, notably an increase in international oil prices beyond baseline assumptions.

10. Fiscal reforms in support of sustained deficit consolidation could be accelerated (MEFP¶¶16–17). The authorities agreed on maintaining the following reform priorities, supported by technical assistance (TA) from the IMF and others, to improve service delivery and reduce public debt. This is particularly pressing in the context of high contingent risks from the pension and health funds as well as the SOE sector. More ambitious efforts will only be possible after the 2019 elections.

- ***Growth-friendly and equitable revenue mobilization.*** A recent milestone involved the decision to eliminate the preferential tax regime for off-shore companies (*met December 2018 SB*) by 2021, which, however, may require further steps to reduce distortions in taxation across economic sectors. An important—and long-delayed—next step to ensure a more equitable sharing of the tax burden will be the raise of the VAT rate for liberal professions from 13 to 19 percent (*reprogrammed SB for December 2019*). Improvements in tax administration will further strengthen tax collection, including enhanced information exchange with international

[4] Two social electricity tariffs currently protect low-income households: consumption of up to 50 kWh and between 51-100 kWh per month costs TD 0.075 and 0.108 per kWh, respectively.

partners to fight tax evasion and strengthen AML/CFT efforts, targeted audits, and more IT-supported processes.

- ***Fiscal risk mitigation through better public financial management (PFM).*** The recently adopted organic budget law (*December SB implemented with delay in January*) paves the way for a formal medium-term framework to underpin annual budget preparation and a broader coverage of the public sector in fiscal planning. Tight liquidity in the banking system and uncertainty regarding the timing of external financing highlight the urgency of improved cash management and coordination with the CBT on the central government's liquidity needs. Another priority is to strengthen the financial oversight of SOEs through improved data collection on cash flows and debt (including liabilities denominated in foreign currency), alongside efforts to improve these firms' operational efficiency. The authorities expect to finalize the long-delayed performance contract for TUNISAIR by the summer (*reprogrammed SB for July 2019*).

Monetary Policy and Financial Sector Stability

Background

11. Tighter monetary policy has started to reduce inflation (Figure 5). Strong dinar depreciation (37 percent against the euro) and broad money growth (23 percent) between January 2016 and June 2018 fueled inflation in the absence of sufficiently high interest rates. The CBT's refinancing policy of satisfying banks' full demand for central bank liquidity contributed to these trends through its effect on credit and reinforced speculative pressures on the dinar, while banks' deposit growth suffered from negative real interest rates. These trends started to abate in August 2018, as a series of policy rate hikes, the enforcement of tighter loan-to-deposit (LTD) ratios among banks, and the reduction of liquidity injections through FX swaps started to show their impact on credit growth. Interest rates (except for some deposit rates) are now all positive in real terms; and overall CBT refinancing has broadly stabilized at about TD 16 billion—fluctuating mostly in response to daily changes in autonomous factors (Text Figure 5.a).

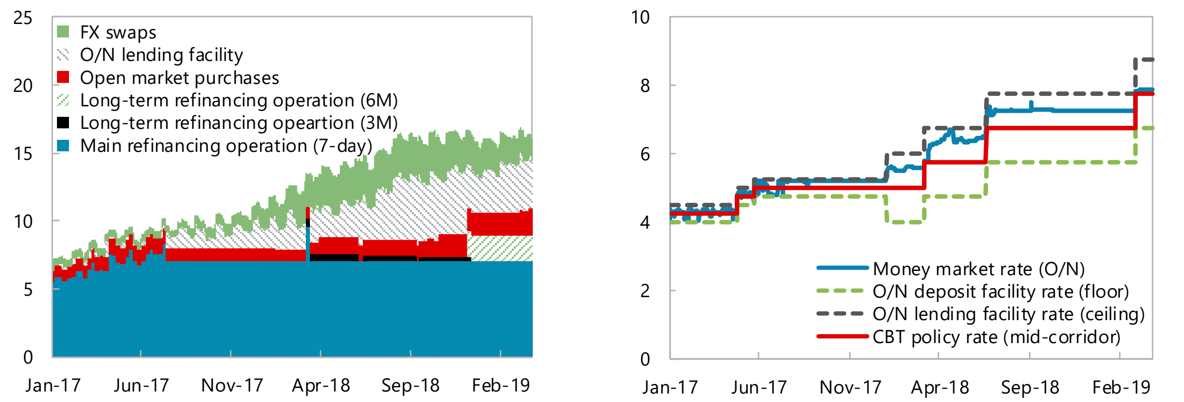
12. Distortions continue to affect monetary transmission. The money market rate has remained broadly stable within the interest rate corridor since mid-2018 (Text Figure 5.b), reflecting the high volume of CBT refinancing and other distortions in price formation. In addition, the interest rate channel is affected by delays incurred in passing on policy rate changes to lending rates (which would be remedied by the law on excessive lending rates, *reprogrammed SB for September 2019*) and the agreement among commercial banks to shield certain categories of loans from interest rate adjustment (for example, existing household mortgages).

13. The banking system remains well capitalized, but several banks do not comply with the regulatory liquidity requirements (Table 9). The system-wide capital adequacy ratio remained stable at 11.7 in December 2018. Nonperforming loans (NPLs) decreased to 13.4 percent of total loans in December 2018 from 14.2 in September as public banks achieved progress with the reduction of their NPL portfolios. By contrast, the system-wide ratio of liquid assets to total assets decreased to 4.5 percent at end-2018 from 5.7 percent at end-2017, and the ratio of liquid assets to short-term liabilities to 75.2 percent from 91.7 percent. As of March 2019, five banks were not compliant with the minimum liquidity coverage ratio (LCR) that was increased to 100 percent in January.

Text Figure 5. CBT Monetary Operations and Monetary Conditions, 2017M1–2019M3

a. CBT Liquidity Injection Operations (Billions of Tunisian dinar)

b. CBT Interest Rate Corridor and Money Market Rate (Percent)



Sources: Tunisian authorities and IMF staff calculations.

Policy Discussions

14. Further monetary tightening remains essential to contain price pressures (MEFP¶10). The authorities recognized inflation as the main policy challenge for 2019, with the economy absorbing the impact of dinar depreciation, wage increases, and energy price hikes. In addition to the recent interest rate hikes, this challenge would be addressed by the following:

- ***Less CBT refinancing.*** As a first line of defense, the authorities committed to reducing CBT refinancing as their chief means to decelerate money growth. Specifically, they envisage a reduction of the outstanding net refinancing volume to TD 14.0 billion in December from TD 16.5 billion at end-March, including lower FX swaps and open market purchases of government securities. This objective will be supported by tighter LTD ratios and collateral policy, including through raising the share of Treasury bills in eligible collateral from the current 40 percent to 50 percent (*new SB for September 2019*).

- ***Further policy rate hikes if disinflation stalls.*** The authorities agreed that a deviation of their quarterly inflation forecasts from the baseline shall trigger discussions on further policy rate increases. Staff emphasized the positive impact that further rate hikes would also have on reducing CBT refinancing. And it underlined that measures to dampen the impact of policy rate hikes on lending and deposit rates would risk impairing the effectiveness of monetary policy transmission.

- ***Effective monitoring of financial stability*** (MEFP¶¶11–12). The authorities are in the process of improving their capacity to monitor (and stress-test) the impact of monetary tightening and exchange rate depreciation on bank balance sheets. This is particularly important in the presence of maturity mismatches between assets and liabilities, including due to the strong reliance on short-term refinancing operations. The decision to move forward with the resolution of the BFT (*met November 2018 SB*) is an important milestone in demonstrating the authorities' willingness to address weaknesses in individual institutions. It would also be important to make use of the new emergency liquidity assistance framework to distinguish more clearly between CBT standard monetary operations and the provision of liquidity support for financial stability objectives, including regarding collateral requirements and the pricing of the operations.

- ***A stronger monetary policy framework.*** Both sides shared the view that more effective monetary policy hinges on (1) a more explicit communication of the CBT's medium-term inflation objective; (2) upgrading the CBT's monetary policy report and projection models; and (3) swift progress towards a quarterly inflation expectations survey. IMF TA priorities (Annex IV) are consistent with this agenda.

Exchange Rate Policy

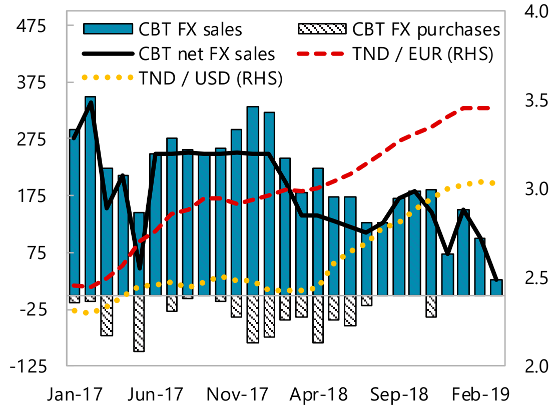
Background

15. More competitive FX auctions have facilitated exchange rate depreciation (Text Figure 6). The CBT has started to implement in December more frequent FX auctions with small volumes to support price discovery, while respecting the monthly net intervention limits since December except for a small overrun in January. The more competitive auction mechanism and the lower interventions contributed to strong depreciation in the fourth quarter of 2018, before the dinar stabilized vis-à-vis the U.S. dollar and the euro on the back of stronger FX inflows reflecting privatization receipts from the sale of confiscated assets (including from the previous regime), external borrowing, and profit repatriations. Notwithstanding long net open FX positions of the banking system, transaction volumes on the interbank FX market have remained low by historical standards (Text Figure 7).

16. The weaker dinar has not yet translated into a stronger current account. The real exchange rate depreciation since 2016 has strengthened Tunisia's price competitiveness. At the same time, it did not yet lead to an improved current account as higher oil prices and—in the short run—inelastic demand weighed on the import bill; phosphate exports continued to disappoint until end-2018; and tourism revenue increased by less than expected despite the highest number of visitors since 2010. As of March 2019, international reserves recovered to around 90 percent of the IMF's ARA metrics from 79 percent at end-2018.[5]

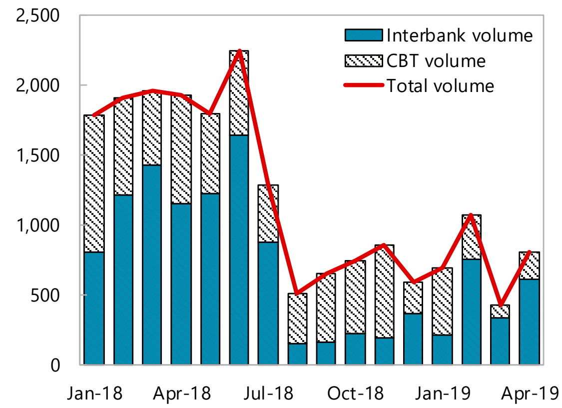
[5] Assuming capital controls and floating exchange rate.

Text Figure 6. Monthly Net FX Interventions and Bilateral Exchange Rates, 2017M1–2019M3
(Millions of U.S. dollars)



Sources: Tunisian authorities and IMF staff calculations.

Text Figure 7. Interbank and CBT FX Volumes, 2018M1–2019M4
(Millions of Tunisian dinars)



Sources: Tunisian authorities and IMF staff calculations.

Policy Discussions

17. Competitive FX auctions should support exchange rate flexibility (MEFP¶13). The authorities agreed that maintaining competitive FX auctions, combined with a reduced FX intervention budget going forward as well as effective communication to market-making commercial banks, will remain critical for turning around the current account deficit by at least 1 percent of GDP in 2019 and strengthening Tunisia's international reserve cover to 3.2 months of imports. They also concurred with staff that the recent stabilization of the dinar on exchange markets is driven mostly by cyclical factors, while the real exchange rate remains overvalued by about 15 percent at end-2018 according to the standard IMF EBA methodology.[6] Staff underlined that the CBT should continue its recent step to also use the auctions to purchases FX to help replenish reserves.

B. Ensuring Adequate Social Protection

Background

18. The authorities progressed with measures to ensure adequate social protection. Social spending has been increasing in 2018 (MEFP Table 1), notably through the expansion of Tunisia's main social program for vulnerable families (PNAFN). Supported by the World Bank, the authorities have also progressed on better identifying low-income households and their needs.[7] Specifically, they established a database of low-income households (*December 2018 SB, implemented with delay*

[6] See the Staff Report for the 2017 Article IV Consultation (July 2018) for a discussion of the methodology and the end-2017 results.

[7] 15 percent of the population live below the poverty line but only 9 percent are covered under the PNAFN program. PNAFN beneficiaries also benefit from free healthcare through the AMG 1 program, while other households with higher but still limited income benefit from access to subsidized healthcare under the AMG 2 program.

in March 2019)[8] and started issuing new medical and payments cards with a unique social identifier (MEFP¶¶5–6). Furthermore, Parliament adopted the CNRPS reform law (which is effective as of May 6, limiting the short-term need for government support, MEFP¶8) and a decree based on similar reform parameters for the private pension fund is about to be passed.

Policy Discussions

19. Strengthening social safety nets is critical to protect the reform agenda in 2019. A loss of purchasing power due to often precarious job situations (the informal sector represents between 35 and 50 percent of GDP) and higher consumer prices has hit Tunisia's population, and has been eroding public buy-in to the authorities' policy and structural reform agenda. The authorities thus acknowledged the importance of (1) reducing hardship among the 15 percent of Tunisians (about 1.8 million people) that live below the poverty line while (2) addressing leakages in existing social programs. Ensuring the financial sustainability of the social security system remains also a priority, including to help the middle class.

- ***Increased social spending*** (MEFP¶5). The authorities intend to increase social spending by 0.3 percent of GDP in 2019. They already made available new resources (TD 100 million, *met PA*) to improve the supply of free or subsidized health care to low-income households prior to the energy price increases implemented between March and May. They are preparing an additional package of measures worth TD 270 million, including financial support for low-income households' unpaid energy bills (TD 50 million, *new SB for September 2019*); targeted cash benefits (TD 35 million) to an enlarged group of low-income households (*new SB for September 2019*); and investment in health care infrastructure (TD 117 million).

- ***Better targeting*** (MEFP¶6). Beyond the immediate efforts, the authorities will take steps to improve social safety nets more systematically by leveraging the AMEN database to increase the coverage of the low-income population with verified needs and in procession of a payments card for social transfers from the current 9 percent to at least 12 percent by end-2019.

- ***Pension funds.*** Staff emphasized the importance of more ambitious parametric reforms to close the structural gap between the financial needs and available resources of the public and private pension plans and improve equity. The authorities confirmed that discussions with social partners on the next steps with pension reform have already started.

C. Creating More Opportunity for the Private Sector

Background

20. More ambitious growth and jobs creation depends on a stronger private sector. This calls for an acceleration of efforts, based on recently achieved gains such as the one-stop shop for

[8] At end-March, the AMEN social database covers some 600,000 households (about 20 percent of total households), half of which with validated income and expenditure data.

investors and the law on asset declarations, to address Tunisia's structural deficiencies that hamper private sector development (Table 13), especially in the interior regions. It will be critical to encourage businesses to invest more and move into the formal sector by improving governance, the business climate, and access to finance especially for small- and medium-sized enterprises (SMEs).

Policy Discussions

21. The authorities are committed to accelerating structural reforms. Staff, however, recognized that the political space for new initiatives ahead of the fall elections would be limited.

- ***Strengthening governance and reducing corruption*** (MEFP¶15). Efforts will continue to (1) establish the High Anti-Corruption Authority that requires Parliament to consider the shortlist of candidates for its Board (*reprogrammed* SB for September 2019); and (2) implement outstanding safeguards recommendations at the CBT.[9]

- ***Improving the business climate.*** Current priorities include the adoption of secondary legislation for recently passed laws to strengthen the attractiveness of Tunisia as an investment destination, including for public-private partnerships (MEFP¶14). Going forward, it will be important to advance on simplifying administrative procedures; updating product, service, and labor market regulations; modernizing infrastructure (energy, communication, and transport, especially in the interior regions); and addressing skill mismatches in the labor market.

- ***Improving access to finance*** (MEFP¶18). The authorities and staff agreed on the importance of achieving a significant reduction of non-performing loan portfolios among public banks to enhance their capacity to lend. The authorities also highlighted their resolve to progress on de-cashing, including by mandating the tax administration and SOEs to accept credit cards and e-payments. Staff emphasized the need to quickly adopt pending legislation, such as that on credit bureaus and a modern collateral registry.

- ***Completing the Financial Action Task Force (FATF) action plan*** (MEFP¶15). This would support the country's exit from the FATF list, including by demonstrating that the targeted financial sanctions regime against terrorism and proliferation financing is compliant with FATF standards and is fully functional.

- ***Encouraging trade*** (MEFP¶19). The authorities repealed the 2017 exchange restriction (banning trade credits for imports that are deemed non-essential).

[9] While the CBT has implemented several recommendations of the 2016 safeguards assessment, vulnerabilities remain, notably in the areas of internal audit and risk management. The CBT has recently approved a three-year strategic plan that addresses some safeguards concerns, including a commitment to transition to International Financial Reporting Standards to further strengthen transparency.

PROGRAM ISSUES AND MODALITIES

22. Staff supports the authorities' request for waivers of nonobservance of QPCs. The authorities have taken corrective actions for the missed end-March QPCs on (1) NDA by increasing the policy rate and adopting a refinancing reduction plan; and (2) NIR by tightening net FX intervention targets from May onward.

23. Strong and focused conditionality continues to guide program implementation. The quarterly review framework remains adequate for program monitoring.

- ***Quantitative targets*** (MEFP Table 1). Staff proposes to set new targets for end-September and end-December 2019. It also proposes to modify the QPCs for end-June 2019: (1) the ceiling on current primary expenditures would be increased and the floor on the primary balance would be lowered to reflect the recent wage increases and more frontloaded spending on investment and energy subsidies compared with past practice. Higher revenue, continued energy subsidy reforms, and wage restraint will ensure that the overall deficit (before grants) for the year as a whole remains as agreed at the Fourth Review; (2) the floor on social spending would be increased to reflect the recently announced measures (¶¶9 and 19); (3) the ceiling on NDA would be increased in view of the March outcome and a temporary increase in the demand for currency during Ramadan, but would remain consistent with strong monetary tightening over 2019 (MEFP¶10); (4) the floor on NIR would be reduced to reflect a shortfall in expected FX inflows; and (5) the ceilings on net FX interventions would be reduced to support greater exchange rate flexibility and reserves accumulation. The monthly IT on net FX interventions would be adjusted in line with the quarterly QPC.

- ***Structural benchmarks*** (MEFP Table 2). Staff proposes to reprogram four SBs (the nomination of the board members of the High Anti-Corruption Authority; the law on excessive lending rates; the VAT increase for liberal professions; and the performance contract for TUNISAIR) and set four new SBs (targeted transfers to low-income households; financial support for low-income households' unpaid energy bills; arrears collection of the STEG energy utility; and increasing the share of government paper to 50 percent in collateral for CBT refinancing operations).

- ***Access.*** Staff proposes rephasing the remaining access evenly starting from the Sixth Review (Table 11). As in the past, and in view of the central government's large financing needs, all funds would be made available for budget support.

24. The program remains fully financed while engagement of key partners has weakened. Financing needs for the next 12 months are fully covered, including due to an unanticipated budget support loan from Saudi Arabia disbursed in January 2019 (Text Table 4).[10] Pledges from traditional partners remain significantly below levels observed in recent years, partially due to headroom issues

[10] The authorities have received US$500 million in budget support (with a reported 7 years maturity and a 2-year grace period). In addition, an Aramco trade credit of US$200 million to STEG could reduce the need for sovereign market access by the same amount.

weighing on the World Bank and the AfDB. Market appetite for Tunisian sovereign paper appears to be strong. Staff will continue to work closely with Tunisia's other external partners to ensure adequate financial support throughout this year and beyond.

Text Table 4. Tunisia: Cumulative External Financing of the Central Government Budget, 2016–20
(In millions of U.S. dollars)

	2016	2017	2018		2019					2020	
	Q4	Q4	Q4 Est.	Q4 4th Rev	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Q4 4th Rev	Q4 Proj.	Q4 4th Rev
Total budget grants and loans	**1,876**	**3,747**	**2,669**	**3,439**	**657**	**2,131**	**2,542**	**3,205**	**3,548**	**2,417**	**3,019**
Budget grants	**57**	**89**	**81**	**90**	**22**	**67**	**113**	**140**	**86**	**81**	**82**
o/w EU	57	89	63	85	22	67	113	140	86	81	82
Budget loans	**1,818**	**3,659**	**2,588**	**3,349**	**636**	**2,063**	**2,429**	**3,065**	**3,462**	**2,335**	**2,936**
Multilateral	839	1,260	1,525	1,694	0	458	767	1,180	1,758	1,398	1,282
African Development Bank (AfDB)	477	144	150	150	0	0	137	137	0	55	55
Arab Monetary Fund (AMF)	0	0	120	120	0	40	40	40	40	40	0
European Union (EU)	0	345	0	174	0	171	343	343	175	174	176
IMF 1/	320	314	749	747	0	247	247	660	994	829	500
World Bank	42	456	506	503	0	0	0	0	550	300	550
Bilateral	0	1,000	119	235	557	671	671	843	234	231	235
G7	0	0	119	235	57	171	171	343	234	231	235
o/w France (AFD)	0	0	0	0	57	57	57	114	0	0	0
o/w Germany (KFW)	0	0	119	235	0	114	114	229	234	231	235
Other	0	1,000	0	0	500	500	500	500	0	0	0
o/w Saudi Arabia	0	0	0	0	500	500	500	500	0	0	0
Market issuance and other	979	1,399	943	1,420	79	934	990	1,042	1,469	707	1,420
Market issuance	497	905	571	1,000	0	800	800	800	1,050	500	1,100
Project loans	356	405	300	253	73	122	167	206	256	159	272
Multilateral	0	0	217	218	53	83	108	128	256	80	272
Bilateral	356	405	83	35	19	39	58	78	0	79	0
Loan transfers to SoEs	126	89	73	167	6	12	24	36	164	48	48
Multilateral	126	89	55	43	6	12	24	36	46	48	48
Bilateral	0	0	17	124	0	0	0	0	117	0	0

Sources: Tunisian authorities, and IMF staff estimates and projections.
1/ External financing includes the IMF's 2013 SBA and 2016 EFF, in line with the Tunisian authorities' budget law classification.

25. Tunisia's capacity to repay the IMF is adequate but subject to sizeable downside risks. Credit outstanding to the IMF will peak at 371 percent of quota and 45 percent of gross reserves in 2020. Obligations to the IMF reached a maximum of 1.4 percent of GDP or 23.1 percent of external debt service in 2018 (Table 12). Tunisia's public debt is sustainable only with strong policy implementation (Annex III) and the capacity to repay would deteriorate significantly in adverse scenarios as discussed in ¶5.

STAFF APPRAISAL

26. The recovery remains subdued, while recent policy efforts are starting to show results. Growth will likely record a marginal improvement in 2019, as investment and exports remain too weak to generate higher growth. Unemployment will thus persist at high levels. At the same time, the 2018 fiscal deficit reduction was strong, monetary tightening has started to tame credit growth and speculation against the dinar, and lower FX interventions have allowed exchange rates to better reflect fundamentals. This policy mix has helped to break the upward trend in inflation and contain the rise in debt ratios. It has also been instrumental in maintaining Tunisia's access to international financial markets. Structural reforms progressed, but at too slow a pace.

27. **Socially-conscious stabilization efforts will have to remain center stage.** Near-term economic policies should continue to focus on fortifying early stabilization gains to improve the twin deficits and reduce inflation. The authorities are right to support these efforts with stronger social policies focused on low-income households. Tunisia currently does not have the resources for substantial budget transfers to the middle class; the road to raising its standards of living is through more economic opportunities in the private sector, less corruption, and better provision of public goods such as schooling and health care, with the government assuming an enabling role. Structural reforms are indispensable to support private sector-led growth and jobs creation over the medium term but will require stronger support from political parties and social partners.

28. **Meeting the 2019 deficit target will depend on strong and socially-balanced measures.** Staff supports the authorities' efforts to reduce the fiscal deficit to 3.9 percent of GDP (excluding grants) while carving out growth-enhancing investment from the adjustment and allowing for higher social spending to protect low-income households from the impact of the necessary reforms. The strategy relies on strong revenue collection, targeted energy subsidy reforms, and tight wage bill management. The lack of fiscal space means that absorbing the recent civil service wage increases in the budget requires corrective actions especially on energy subsidies and adequate communication on these (¶33). There is no room for relaxing the revenue effort in the run-up to the elections. Moreover, further regressive policies such as higher indirect taxation should be avoided.

29. **Monetary policy needs to focus on maintaining price stability.** Inflation at almost twice its historical level reduces the purchasing power of all Tunisians. The longer the elevated inflation persists, the more it will be entrenched in price and wage setting. Additional policy rate hikes are warranted if quarterly inflation projections deviate from their downward trend towards 6.8 percent by December 2019. The adoption of the law on excessive lending rates is critical for these rates to respond better to policy rate changes. Success with disinflation will also depend on containing central bank refinancing (that would decline with further interest rate hikes) and a tighter collateral framework. Reinforced banking supervision, including through improved stress-testing capabilities, will be important to address individual institutions' liquidity and solvency issues.

30. **Reducing external imbalances hinges on a market-determined exchange rate.** The CBT's lower FX interventions in recent months as well as its competitive FX auctions should be sustained to help improve the current account and rebuild reserve cover. In this context, the authorities' recent step to also purchase FX is critical to help replenish reserves.

31. **Staff very much supports the authorities' efforts to strengthen social protection.** Increased transfers to low-income households, including through the scheme to assume outstanding debts to the STEG energy utility, should quickly follow the recent measures to improve access to public health care for low-income households. The pension law and the databank of low-income households are important milestones to improve social protection going forward; it is critical

to maintain the recently demonstrated reform momentum. Staff does not support reforms of subsidies for basic food staples until a more effective social safety net is in place.

32. More and better jobs will only come with accelerated reforms for the private sector. This will especially help the middle class who depends on high quality jobs for improved standards of living. The swift appointment of the members of the High Anti-Corruption Authority would address concerns about corruption at a structural level. The business climate would benefit from further enabling reforms, building on the recent gains that improved Tunisia's doing business ranking. Better access to finance requires reducing public banks' nonperforming loans, better information on prospective borrowers, and, at a broad level, a stronger AML/CFT regime.

33. Improved communication of policy and reform objectives is critical. Buy-in of households and businesses to measures such as energy subsidy reforms and policy rate hikes will improve with an effective explanation of their economic rationale. Such communication should also provide adequate time to the population to adjust. Communication on the reform needs of SOEs and the unsustainability of further wage increases in the public sector could also be strengthened. Linking all these reforms to a medium-term vision for a more prosperous economy underpinned by stronger private sector activity should help mobilize support, including among the middle class.

34. Staff is concerned that donor commitments remain below levels seen in the past. Sizeable financing from external partners—including grants or highly concessional loans—will remain indispensable to help cover Tunisia's financing needs during the country's transition. However, commitment levels for 2019 and beyond are often below the financing envelopes provided in the past. Continued TA engagement remains critical to address capacity constraints in upgrading policy frameworks and economic institutions.

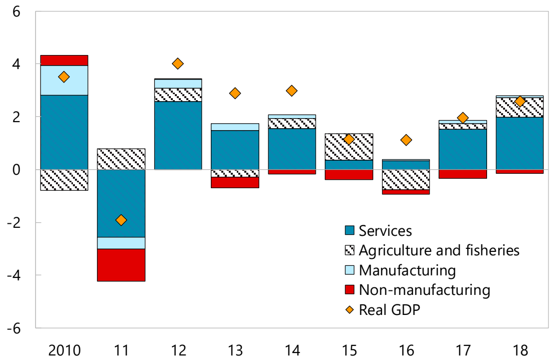
35. Program risks remain very high. Political stalemate over reforms and security incidents continue to threaten Tunisia's adjustment path, especially ahead of the parliamentary and presidential elections. Tunisia's external and fiscal balances are also exposed to higher oil prices, regional security spillovers, further slowdown in Europe, rising trade tensions, and adverse shifts in investor sentiment. The authorities' continued commitment to the program, close monitoring through quarterly reviews, and adequate donor engagement will be essential to mitigate these risks.

36. Staff supports the authorities' request for the completion of the Fifth EFF Review. It also supports: (1) waivers of non-observance on the QPCs for NIR and NDA for end-March based on corrective action; (2) modification of quantitative targets for end-June and setting of new targets for end-September and end-December 2019; (3) rephasing of access consistent with the remaining review schedule; and (4) making all funds available for budget support.

Figure 1. Tunisia: Real Sector Developments, 2010–18

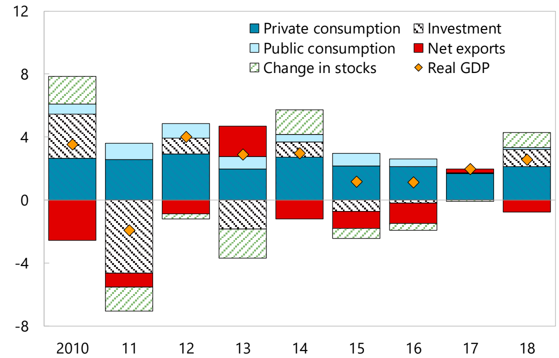
The 2015 attacks temporarily wiped out services as the main source of growth.

Sectoral Contributions to Growth
(Percent, annual growth)



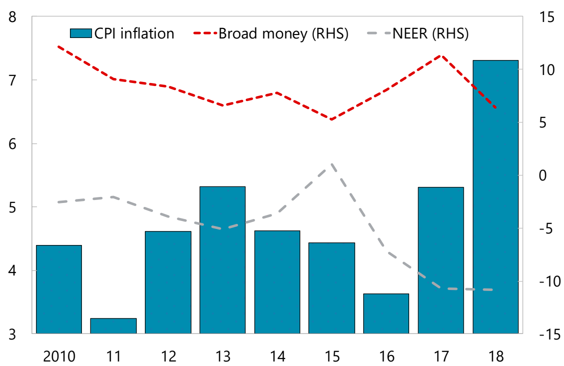
Demand has relied almost exclusively on consumption.

Demand Contributions to Growth
(Percent, annual growth)



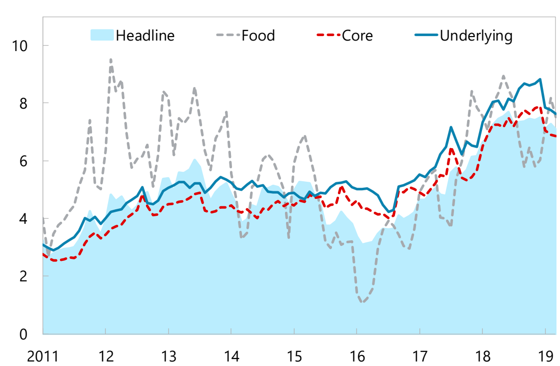
Inflation has accelerated since 2017, fueled by broad money growth and dinar depreciation.

Consumer Price Index
(Percent change, annual)



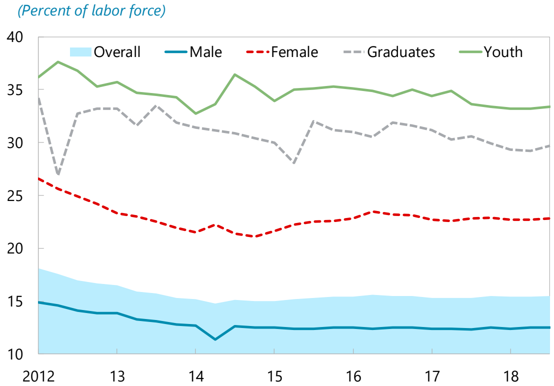
Inflation readings have recently stabilized at elevated levels.

Consumer Price Index, Main Components
(Percent change, year-on-year)



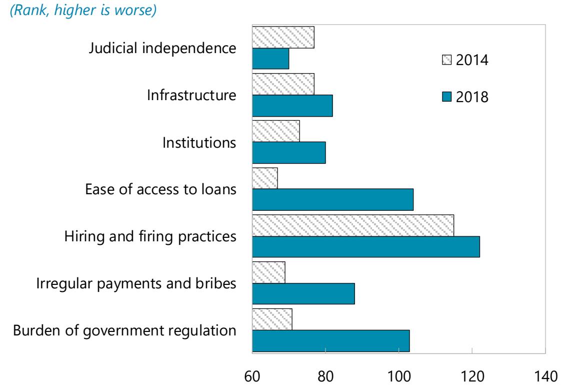
Tunisia faces a major and persistent unemployment problem, especially among the youth and women.

Unemployment Rate
(Percent of labor force)



The environment for doing business has worsened, before recording some progress in 2018.

Structural Indicators
(Rank, higher is worse)



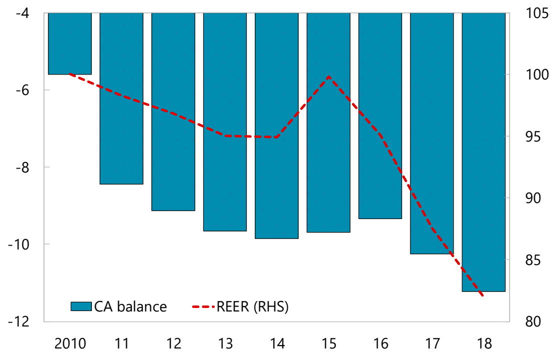
Sources: Tunisian authorities, World Bank Development Indicators, World Economic Forum, and IMF staff calculations.

Figure 2. Tunisia: External Sector Developments, 2010–18

The current account deteriorated since 2016, despite significant real exchange rate depreciation.

Balance on Current Account

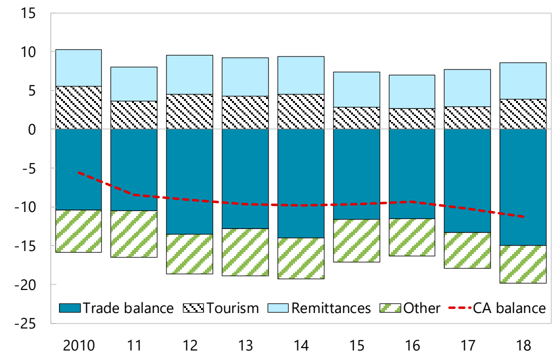
(Percent of GDP; REER base year 2010 = 100)



Tourism and remittances help cover a large trade deficit.

Current Account Dynamics

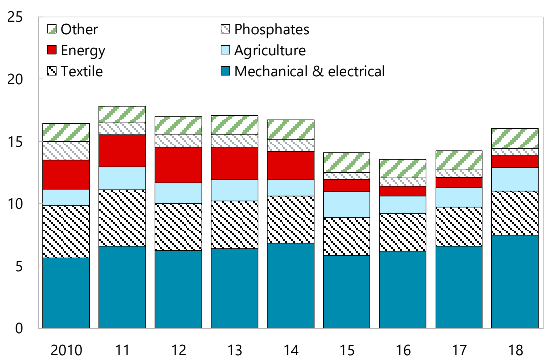
(Percent of GDP)



Exports have shown stronger growth recently, helped by real exchange rate depreciation.

Exports by Type of Good

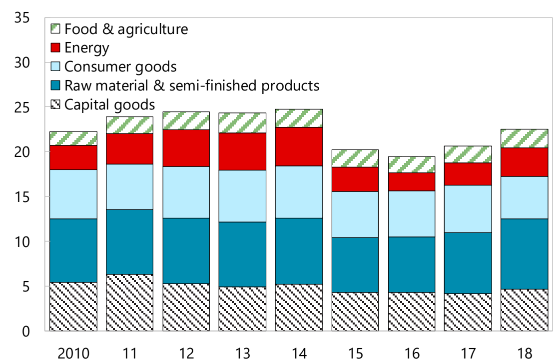
(U.S. dollars, billions)



Higher domestic prices have not yet led to an adjustment in consumption or energy imports.

Imports by Type of Good

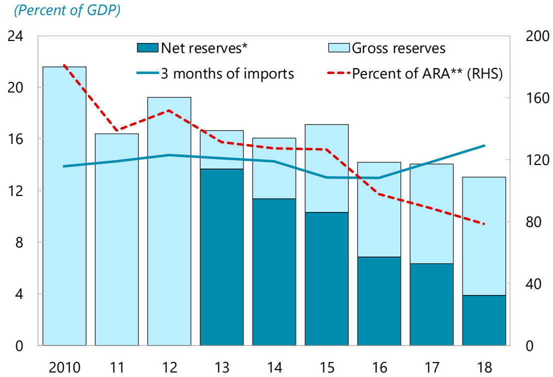
(U.S. dollars, billions)



Reserve coverage has slightly improved in 2018, but further reserve accumulation remains essential.

Reserve Coverage

(Percent of GDP)

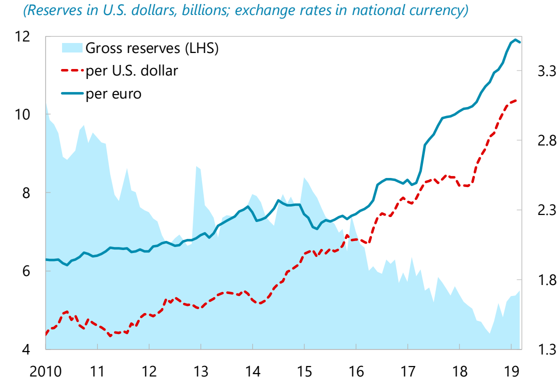


*Note: *Net reserves are only provided since 2013. **ARA metric is based on a floating ER regime, adjusted for capital controls.*

Depreciation accelerated since mid-2017, despite strong central bank FX interventions that weighed on reserves.

Reserves and Exchange Rate

(Reserves in U.S. dollars, billions; exchange rates in national currency)

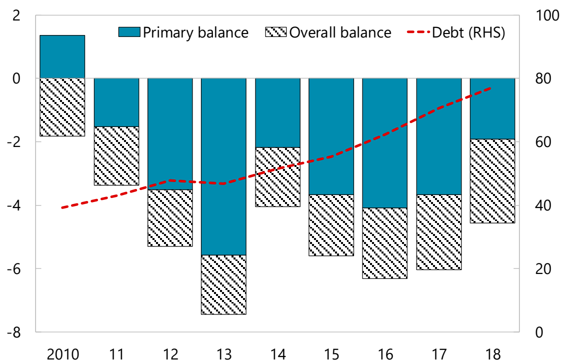


Sources: Tunisian authorities, Bloomberg, and IMF staff calculations and estimates.

Figure 3. Tunisia: Fiscal Sector Developments, 2010–18

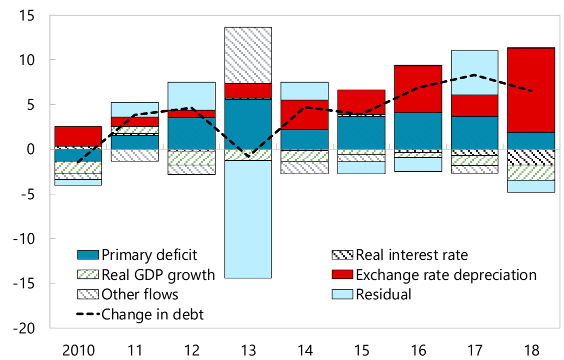
The EFF has supported fiscal consolidation since 2017.

Central Government Debt and Fiscal Balances
(Percent of GDP)



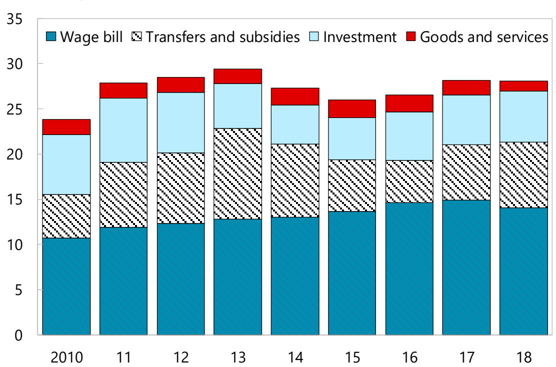
Debt dynamics in 2018 were mostly driven by exchange rate depreciation.

Debt-Creating Flows
(Percent of GDP)



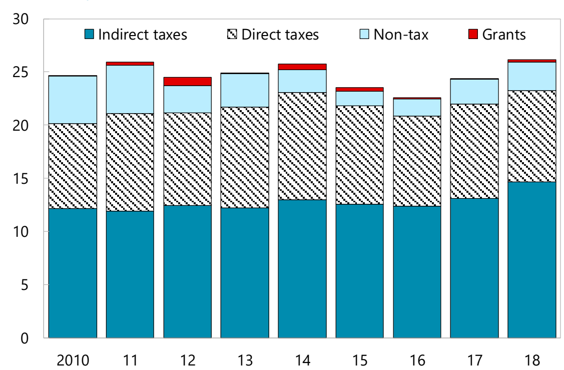
Expenditures are still dominated by current outlays, including an energy subsidy bill that increased in 2018.

Government Expenditures
(Percent of GDP)



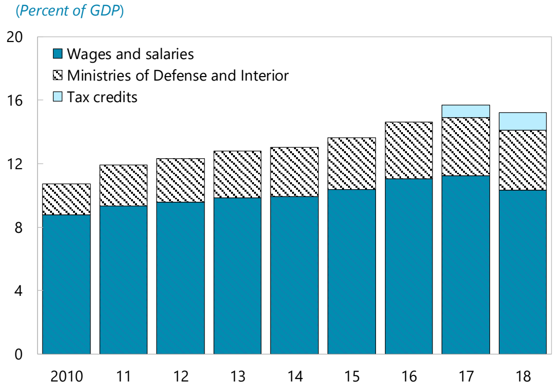
Revenue mobilization in Tunisia is strong and leaves little scope for further tax hikes.

Government Revenues
(Percent of GDP)



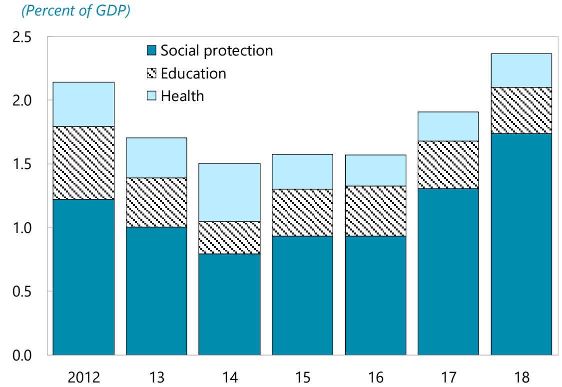
The wage bill continues to be one of the world's highest.

Wages and Salaries
(Percent of GDP)



The EFF supports an increase in social transfers to low-income households.

Social Transfers
(Percent of GDP)



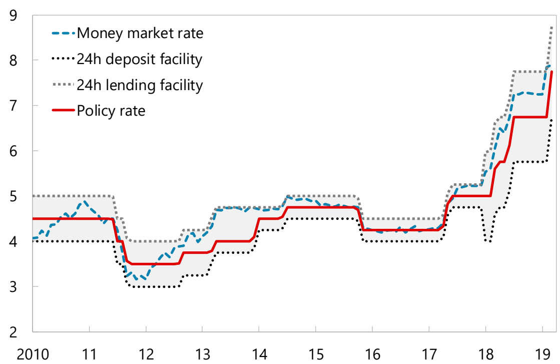
Sources: Tunisian authorities, and IMF staff calculations and estimates.

Figure 4. Tunisia: Monetary Sector Developments, 2010–19

Monetary tightening has responded to accelerating inflation.

Interest Rates

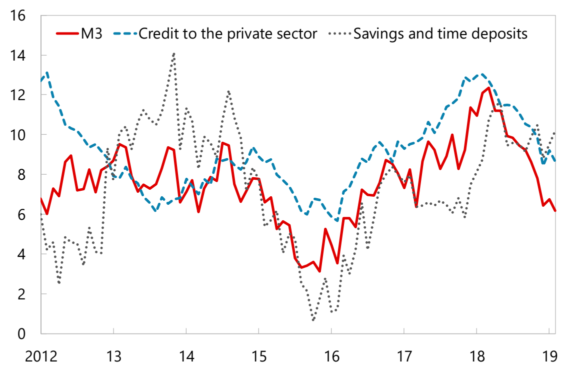
(Percent, nominal, period average)



The growth of key monetary aggregates has recently started to slow.

Credit and Deposit

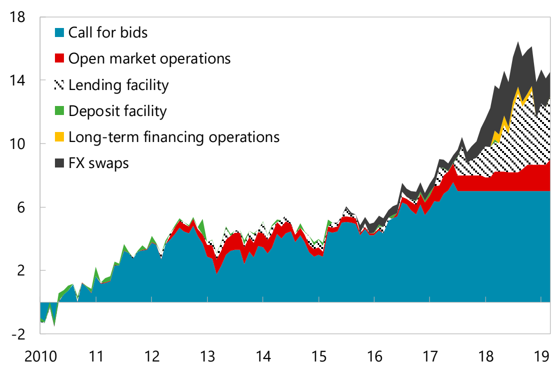
(Percent, year-on-year growth)



Refinancing has increased since early 2017 to mitigate the impact of NFA losses on base money.

Central Bank Money Market Operations

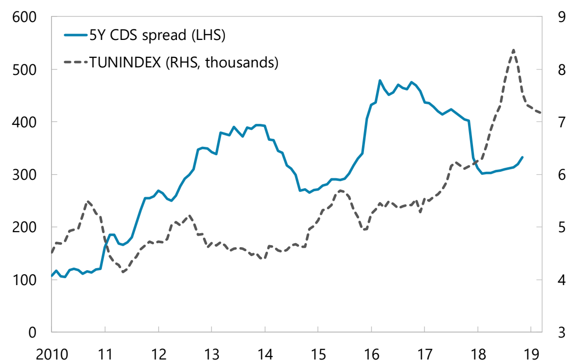
(Tunisian dinars, billions)



Spreads remained benign through most of 2018, while the stock market reached a peak in October.

Spreads and Stock Index

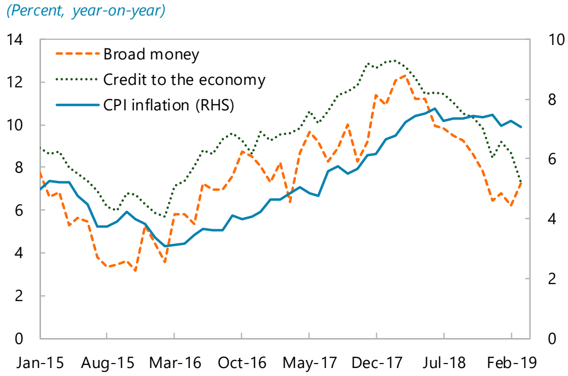
(Basis points, period average)



As broad money and credit growth started to decrease in 2018, inflation stabilized…

Inflation, Broad Money, and Credit Growth

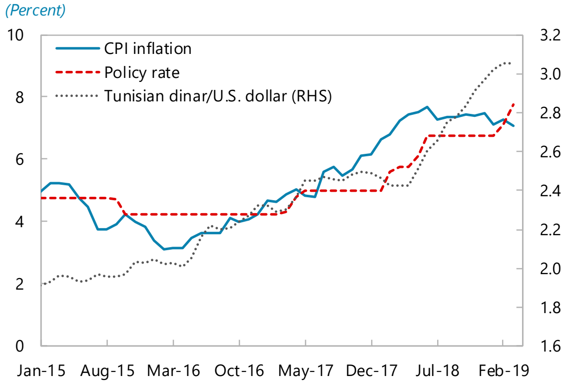
(Percent, year-on-year)



…supported by CBT's tightening monetary policy since March 2018.

Inflation, Policy Rate, and Exchange Rate

(Percent)



Sources: Tunisian authorities, Bloomberg, Markit, and IMF staff calculations.

Table 1. Tunisia: Selected Economic and Financial Indicators, 2016–24

	2016	2017	2018		2019		2020		2021	2022	2023	2024
			Est.	4th Rev	Proj.	4th Rev	Proj.	4th Rev		Proj.		
Production and income					(Annual percentage change)							
Real GDP (at 2010 prices)	1.1	2.0	2.6	2.6	2.7	3.1	3.2	3.4	3.4	3.9	4.0	4.0
GDP deflator	4.9	5.2	6.8	6.9	6.9	6.8	5.8	5.2	4.5	4.3	4.1	4.0
CPI inflation (average)	3.6	5.3	7.3	7.8	7.2	7.0	5.9	5.7	4.5	4.3	4.1	4.0
CPI inflation (eop)	4.2	6.2	7.5	8.5	6.8	6.0	5.9	5.5	4.5	4.3	4.1	4.0
Saving investment balance					(Percent of GDP, unless otherwise indicated)							
Gross national savings	9.1	9.1	8.1	10.1	9.2	12.1	11.5	15.2	14.1	15.0	15.7	16.3
of which: central government	-0.9	-0.5	1.1	-0.1	2.0	1.7	3.1	4.2	3.7	4.5	5.8	6.2
Gross investment	18.4	19.3	19.3	19.8	19.3	20.7	20.5	23.0	22.2	22.3	22.1	22.1
of which: central government	5.3	5.5	5.6	5.2	5.6	5.4	5.9	6.7	6.0	6.2	6.4	6.8
Central government operations 1/												
Total revenue and grants	22.6	24.4	26.2	25.2	28.5	25.9	28.9	26.0	28.7	28.6	28.5	28.4
Total expenditure and net lending	28.9	30.4	30.7	30.4	32.0	29.6	31.7	28.5	31.0	30.3	29.2	29.0
of which: wage bill	14.6	14.9	14.1	14.0	14.9	14.0	14.4	12.4	13.8	13.2	12.7	12.3
of which: energy subsidies	0.2	1.6	2.6	2.8	2.3	1.8	1.7	0.9	1.1	0.8	0.0	0.0
of which: social expenditures 2/	1.6	1.9	2.4	2.2	2.7	2.2	2.8	2.2	2.8	2.9	3.0	3.0
of which: capital expenditure	5.3	5.5	5.6	5.2	5.6	5.4	5.9	6.7	6.0	6.2	6.4	6.8
Overall balance	-6.3	-6.0	-4.6	-5.2	-3.5	-3.7	-2.8	-2.5	-2.3	-1.7	-0.7	-0.6
Primary balance (cash basis)	-4.3	-4.0	-1.1	-2.7	-0.6	-1.0	0.4	0.3	1.3	2.0	3.0	3.0
Change in primary balance ("+": improvement)	-1.1	0.3	2.9	1.2	0.5	1.7	1.0	1.3	0.9	0.7	1.0	0.0
Gross central government debt	62.3	70.6	77.1	72.0	83.1	71.8	84.7	70.8	82.2	78.0	73.2	68.7
of which: share in foreign currency	40.6	48.6	56.9	52.8	64.1	55.3	66.5	56.1	65.8	64.0	60.8	57.2
Money and credit					(Annual percentage change, unless otherwise indicated)							
Broad money	8.1	11.4	6.4	9.0	5.4	8.7	6.0	7.4	7.7	7.9	8.8	9.9
Credit to the economy	9.7	12.7	8.4	10.1	5.4	6.9	6.2	7.0	7.1	7.0	7.1	7.2
Velocity of circulation (GDP/M3)	1.3	1.3	1.3	1.3	1.4	1.3	1.4	1.3	1.4	1.4	1.4	1.4
External sector					(Percent of GDP, unless otherwise indicated)							
Current account balance	-9.3	-10.2	-11.2	-9.7	-10.1	-8.5	-9.1	-7.8	-8.2	-7.3	-6.4	-5.8
Trade balance	-11.5	-13.3	-14.9	-13.6	-15.0	-12.9	-15.4	-12.1	-14.8	-13.4	-12.0	-10.7
Value of exports of goods (pct. change)	-3.6	4.9	8.8	13.4	0.2	5.4	4.1	4.2	4.3	4.9	4.9	5.2
Value of imports of goods (pct. change)	-3.8	6.3	9.7	10.6	-2.2	2.6	2.9	2.7	3.1	3.0	3.1	3.3
Volume of exports of goods (pct. change)	0.2	4.6	2.9	6.5	2.8	5.1	3.7	3.5	3.7	4.1	4.1	4.1
Volume of import of goods (pct. change)	2.5	2.8	0.0	1.1	0.0	0.6	0.2	2.1	2.0	2.8	2.8	2.8
Terms of trade (pct. change, "-": deterioration)	2.5	-3.1	-2.2	-1.8	-0.3	-1.4	-2.3	0.4	-0.6	0.5	0.5	0.6
Foreign direct investment (net)	1.7	2.0	2.5	1.8	2.5	2.3	2.7	2.5	2.6	2.6	2.7	2.7
Gross official reserves (eop, billions of US$)	5.9	5.6	5.2	6.3	5.9	7.3	6.4	7.8	6.7	7.3	7.9	8.9
Reserve coverage (months of next year's imports of goods)	3.4	3.0	2.8	3.4	3.2	3.8	3.3	4.0	3.4	3.6	3.8	3.9
External debt	72.9	84.2	94.1	89.4	104.5	91.7	107.8	93.0	105.2	101.2	96.2	91.0
of which: medium- and long-term external debt	55.4	65.2	74.4	71.1	83.7	72.7	85.7	74.1	83.7	80.7	76.6	72.3
of which: public external debt	51.2	60.9	70.7	63.0	80.0	68.4	82.2	69.8	80.5	77.7	73.8	69.6
External debt service (pct. of exports of GNFS)	13.1	16.5	13.6	17.8	18.1	18.3	15.8	15.3	18.1	14.3	16.4	19.4
Memorandum items:												
Population (millions)	11.4	11.5	11.7	11.7	11.8	11.8	11.9	11.9	12.0	12.1	12.2	12.3
Nominal GDP (millions of TD)	89,792	96,325	105,479	106,159	115,828	116,898	126,502	127,201	136,771	148,233	160,509	173,664
Nominal GDP (billions of US$)	41.8	39.8	39.9	...	...	...	...	...	...	...	...	...
GDP per capita (US$)	3,666	3,453	3,418	3,463	3,075	3,401	2,957	3,508	3,017	3,215	3,451	3,704
Unemployment rate (pct.)	15.6	15.3	15.4	...	...	...	...	...	...	...	...	...
Exchange rate (TD/US$, avg.)	2.15	2.42	2.65	...	...	...	...	...	...	...	...	...
Real effective exchange rate (avg., pct. change, "-": depreciation)	-4.7	-7.9	-6.4	...	...	...	...	...	...	...	...	...
Real effective exchange rate (eop., pct. change, "-": depreciation)	-5.5	-11.0	-7.9	...	...	...	...	...	...	...	...	...
Interest rate (money market rate, eop, pct.)	4.2	4.86	6.70	...	...	...	...	...	...	...	...	...
Stock market (TUNINDEX, 12/31/1997=1000)	5,489	6,282	7,275	...	...	...	...	...	...	...	...	...
Oil price (Brent, US$ per barrel)	44.0	54.4	71.1	71.9	61.8	72	61.5	69	60.8	60.4	60.6	61.0

Sources: Tunisian authorities; and IMF staff estimates and projections.

1/ Excludes social security accounts, public enterprises, and local governments.

2/ Social spending includes social transfers and programs as well as key ministries' capital expenditures. Its coverage was expanded in 2017.

Table 2. Tunisia: Real Sector, 2016–24
(In percent)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Proj.			
Real GDP growth									
Constant 2010 prices	1.1	2.0	2.6	2.7	3.2	3.4	3.9	4.0	4.0
Per capita	0.0	0.8	1.5	1.6	2.2	2.4	2.9	3.1	3.2
Inflation									
CPI (eop)	4.2	6.2	7.5	6.8	5.9	4.5	4.3	4.1	4.0
CPI (average)	3.6	5.3	7.3	7.2	5.9	4.5	4.3	4.1	4.0
GDP deflator	4.9	5.2	6.8	6.9	5.8	4.5	4.3	4.1	4.0
Contributions to growth (supply; constant 2010 prices)									
Total added value	**0.8**	**1.6**	**2.1**	**2.3**	**2.9**	**3.1**	**3.5**	**3.6**	**3.6**
Sectors	**0.3**	**1.5**	**2.0**	**2.1**	**2.7**	**2.8**	**3.1**	**3.3**	**3.3**
Agriculture	-0.8	0.2	0.8	0.1	0.4	0.2	0.4	0.4	0.4
Manufacturing	0.0	0.1	0.1	0.3	0.5	0.6	0.6	0.7	0.7
Non-manufacturing	-0.2	-0.3	-0.2	0.3	0.3	0.3	0.4	0.4	0.4
of which: oil and gas extraction	-0.2	-0.4	-0.1	0.1	0.1	0.1	0.1	0.1	0.1
Services	1.4	1.7	1.6	1.6	1.6	1.8	1.9	2.0	2.0
of which: hotels and restaurants	0.1	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2
of which: transport	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.4
Intermediary consumption (in - terms)	-0.1	-0.2	-0.3	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Public administration	**0.4**	**0.1**	**0.2**	**0.1**	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**
Indirect taxes net of subsidies	**0.3**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Contributions to growth (demand; constant 2010 prices)									
Consumption	**2.6**	**1.7**	**2.2**	**...**	**...**	**...**	**...**	**...**	**...**
Private	2.1	1.7	2.1	...	...	...	...	...	...
Public	0.5	0.0	0.1	...	...	...	...	...	...
Investment	**-0.2**	**0.0**	**1.1**	**...**	**...**	**...**	**...**	**...**	**...**
Private	0.2	0.0	0.1	...	...	...	...	...	...
Public	0.1	0.0	0.0	...	...	...	...	...	...
Change in stocks	-0.4	-0.1	1.0	...	...	...	...	...	...
Net exports	**-1.3**	**0.2**	**-0.8**	**...**	**...**	**...**	**...**	**...**	**...**
Exports	0.1	2.0	1.3	...	...	...	...	...	...
Imports	-1.4	-1.8	-2.0	...	...	...	...	...	...

Sources: Tunisia authorities, and IMF staff projections.

Table 3. Tunisia: Balance of Payments, 2016–24 1/
(In millions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018						2019						2020		2021	2022	2023	2024
	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Annual	Annual	Annual	Annual			
						Est.	Est.	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.	4th Rev	Proj.	4th Rev	Proj.			
Current account balance	**-3,901**	**-4,080**	**-1,164**	**-1,122**	**-1,135**	**-1,053**	**-4,474**	**-3,909**	**-881**	**-1,059**	**-902**	**-805**	**-3,648**	**-3,415**	**-3,187**	**-3,247**	**-2,970**	**-2,840**	**-2,698**	**-2,644**
Trade balance	**-4,806**	**-5,308**	**-1,187**	**-1,483**	**-1,890**	**-1,390**	**-5,951**	**-5,473**	**-1,176**	**-1,412**	**-1,761**	**-1,089**	**-5,438**	**-5,170**	**-5,411**	**-5,057**	**-5,382**	**-5,228**	**-5,078**	**-4,881**
Exports	13,568	14,231	4,176	4,045	3,346	3,917	15,485	16,135	4,132	3,935	3,497	3,958	15,522	17,004	16,153	17,715	16,843	17,669	18,536	19,503
Energy	765	846	235	221	171	253	880	983	218	163	169	219	769	1,072	813	1,083	932	945	967	994
Non-energy	12,804	13,384	3,941	3,824	3,175	3,665	14,605	15,152	3,914	3,773	3,328	3,739	14,754	15,933	15,340	16,632	15,910	16,724	17,569	18,509
of which: non-food	11,368	11,844	3,270	3,268	2,806	3,216	12,561	13,265	3,451	3,312	3,020	3,374	13,156	14,051	13,676	14,629	14,172	14,881	15,611	16,428
Imports	-18,374	-19,538	-5,363	-5,528	-5,236	-5,308	-21,435	-21,609	-5,308	-5,347	-5,258	-5,047	-20,960	-22,174	-21,564	-22,772	-22,225	-22,897	-23,614	-24,384
Energy	-2,024	-2,513	-802	-697	-942	-718	-3,159	-3,242	-665	-709	-680	-573	-2,627	-2,942	-2,674	-2,861	-2,706	-2,793	-2,915	-3,057
Non-energy	-16,351	-17,025	-4,561	-4,831	-4,294	-4,590	-18,276	-18,367	-4,643	-4,638	-4,578	-4,473	-18,333	-19,232	-18,890	-19,911	-19,519	-20,104	-20,699	-21,327
of which: non-food	-14,567	-15,101	-4,025	-4,319	-3,783	-4,154	-16,280	-16,272	-4,075	-4,136	-4,091	-3,961	-16,263	-16,835	-16,684	-17,435	-17,249	-17,769	-18,293	-18,848
Services and transfers (net)	**905**	**1,228**	**23**	**361**	**755**	**337**	**1,476**	**1,565**	**295**	**353**	**859**	**284**	**1,790**	**1,755**	**2,224**	**1,810**	**2,412**	**2,388**	**2,380**	**2,238**
Services	113	305	-44	137	421	200	714	648	224	281	582	180	1,266	689	1,678	827	1,473	1,422	1,375	1,178
of which: tourism	1,105	1,170	239	321	627	359	1,546	1,464	290	375	599	343	1,607	1,560	1,781	1,620	1,832	1,831	1,820	1,717
Transfers (net)	792	923	68	224	333	137	762	917	71	72	277	104	524	1,065	546	983	939	966	1,005	1,060
of which: workers' remittances	1,794	1,861	437	444	583	380	1,845	2,006	388	409	497	389	1,683	2,102	1,633	2,193	1,740	1,853	1,984	2,121
of which: interest payments on external debt	-756	-607	-234	-147	-197	-108	-685	-794	-240	-255	-131	-282	-908	-896	-972	-1,028	-1,106	-1,240	-1,369	-1,487
Capital and financial account	**2,506**	**4,079**	**538**	**1,119**	**1,438**	**2,004**	**5,099**	**4,225**	**941**	**982**	**751**	**1,054**	**3,728**	**4,433**	**3,003**	**3,806**	**3,318**	**3,592**	**3,607**	**3,984**
Capital account balance	95	184	5	3	3	116	127	77	18	42	42	23	124	32	71	66	71	71	70	70
Financial account balance	2,411	3,895	532	1,116	1,435	1,888	4,972	4,147	923	941	709	1,031	3,604	4,401	2,932	6,387	3,247	3,522	3,536	3,915
Direct investment and portfolio (net)	638	746	169	200	231	338	938	723	178	230	218	277	903	958	986	1,093	953	1,057	1,171	1,263
Medium- and long-term loans (net)	762	2,280	77	118	375	447	1,017	1,891	410	643	-236	-179	638	1,627	-143	1,450	968	1,281	966	949
Disbursements	2,191	4,266	401	463	735	865	2,464	3,920	760	1,298	567	249	2,875	4,030	1,924	3,526	3,572	3,025	3,064	3,606
Amortization	-1,428	-1,986	-323	-344	-361	-418	-1,447	-2,029	-350	-656	-803	-428	-2,237	-2,403	-2,067	-2,077	-2,604	-1,744	-2,098	-2,657
Short-term debt and other capital flows (net)	1,010	869	286	798	829	1,104	3,017	1,534	336	68	727	934	2,064	1,816	2,089	1,197	1,326	1,184	1,400	1,702
Overall balance	**-1,396**	**-1**	**-626**	**-3**	**303**	**951**	**625**	**316**	**60**	**-77**	**-152**	**249**	**80**	**1,019**	**-184**	**559**	**347**	**752**	**909**	**1,341**
Errors and omissions 2/	-350	-342	24	-282	-407	-589	-1,253	0	391	0	0	0	391	0	0	0	0	0	0	0
Financing	**1,746**	**343**	**602**	**285**	**104**	**-362**	**629**	**-316**	**-451**	**77**	**152**	**-249**	**-472**	**-1,019**	**184**	**-559**	**-347**	**-752**	**-909**	**-1,341**
Gross international reserves ("-": accumulation)	1,460	348	488	424	-23	-488	402	-545	-293	-70	227	-612	-748	-1,627	-467	-880	-267	-624	-652	-920
Use of IMF credit (net)	286	-5	114	-139	127	126	227	229	-158	147	-75	363	277	608	651	321	-80	-129	-256	-421
Purchases	320	314	257	0	248	245	749	753	0	247	0	413	660	994	829	500	0	0	0	0
Repurchases	34	319	143	139	121	119	522	524	158	100	75	50	383	386	178	179	80	129	256	421
Other financing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:																				
Current account balance (pct. of GDP)	-9.3	-10.2	-11.1	-10.8	-11.5	-11.4	-11.2	-9.7	-9.3	-11.4	-10.1	-9.5	-10.1	-8.5	-9.1	-7.8	-8.2	-7.3	-6.4	-5.8
Non-energy current account balance (pct. of GDP)	-6.3	-6.1	-5.7	-6.2	-3.7	-6.4	-5.5	-4.1	-4.6	-5.5	-4.4	-5.3	-4.9	-3.9	-3.8	-3.5	-3.3	-2.5	-1.8	-1.3
Exports (pct. of GDP)	32.5	35.7	39.9	38.8	34.0	42.1	38.9	40.6	43.5	42.2	39.1	46.3	42.8	42.4	45.9	42.4	46.4	45.3	43.9	42.7
Goods export real growth (pct.)	0.2	4.6	13.8	4.8	-8.0	2.6	2.9	6.5	-2.0	1.6	6.2	5.2	2.8	5.1	3.7	3.5	3.7	4.1	4.1	4.1
of which: non-energy (pct.)	1.7	4.2	11.0	7.9	-2.3	1.7	4.3	6.9	-2.2	3.0	5.7	4.9	3.0	4.9	3.6	3.4	3.0	4.3	4.2	4.3
Imports (pct. of GDP)	44.0	49.1	51.3	53.0	53.2	57.1	53.8	54.4	55.9	57.4	58.8	59.1	57.9	55.3	61.3	54.5	61.3	58.7	55.9	53.4
Goods import real growth (pct.)	2.5	2.8	0.4	3.9	2.0	-5.4	0.0	1.1	-3.5	1.7	-3.2	7.2	0.0	0.6	0.2	2.1	2.0	2.8	2.8	2.8
of which: non-energy (pct.)	5.3	2.1	-3.4	1.9	-1.3	-4.9	-2.1	-2.9	-2.2	0.7	-1.3	7.8	0.7	1.9	-0.1	2.2	1.9	2.6	2.6	2.6
Gross reserves (billions of US$)	5.9	5.6	5.1	4.7	4.7	5.2	5.2	6.3	5.5	5.6	5.3	5.9	5.9	7.3	6.4	7.8	6.7	7.3	7.9	8.9
Reserve coverage (months of next year's imports of goods)	3.4	3.0	2.8	2.4	2.7	3.0	2.8	3.4	3.0	2.8	3.0	3.2	3.2	3.8	3.3	4.0	3.4	3.6	3.8	3.9
Reserve coverage (months of next year's imports of GNFS)	3.1	2.7	2.6	2.3	2.4	2.7	2.6	2.9	2.8	2.6	2.7	2.9	3.0	3.3	3.1	3.5	3.1	3.3	3.5	3.6
Reserve coverage (pct. of short-term external debt) 3/	88.8	75.8	73.6	65.9	66.8	74.7	74.7	84.6	81.5	76.1	80.0	84.9	84.9	95.6	85.9	99.3	86.4	91.0	96.1	103.8
Net international reserves (eop at program exchange rate, billi	3.1	3.1	2.4	2.2	2.1	2.3	2.3	2.8	2.8	2.7	2.4	2.8	2.8	3.2	2.5	3.4	3.1	4.5	6.3	8.8
External debt (billions of US$)	28.0	32.6	33.1	31.5	30.9	33.1	33.1	32.3	33.0	33.5	31.7	35.1	35.1	34.9	36.4	36.1	37.8	39.5	40.6	41.6
Medium- and long-term external debt	21.3	25.3	26.1	24.4	23.8	26.2	26.2	27.2	26.2	26.2	25.1	28.1	28.1	29.2	29.0	30.9	30.1	31.5	32.3	33.1
of which: public external debt	19.6	23.6	24.4	22.8	22.2	24.9	24.9	25.4	24.9	24.9	23.8	26.9	26.9	27.4	27.8	29.1	29.0	30.3	31.1	31.8
Short-term external debt	6.7	7.4	6.9	7.1	7.0	6.9	6.9	7.4	6.7	7.3	6.7	7.0	7.0	7.6	7.5	7.9	7.7	8.0	8.3	8.5
of which: public external debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt service ratio (incl. IMF, pct. of exports of GNFS)	13.1	16.5	3.5	3.2	3.7	3.3	13.6	17.8	3.7	5.2	5.4	3.9	18.1	18.3	15.8	15.3	18.1	14.3	16.4	19.4
Nominal GDP (millions of US$)	41,802	39,817	10,455	10,427	9,841	9,303	39,850	39,756	…	…	…	…	…	…	…	…	…	…	…	…

Sources: Tunisian authorities; and IMF staff estimates and projections.

1/ In accordance with the Fifth Edition of the Balance of Payments and Investment Position Manual (BPM5).

2/ Differs from zero in current and future years because of stocks valuation effects.

3/ Short-term defined as one year or less remaining maturity.

Table 4. Tunisia: Central Government Fiscal Operations, 2016–20

(In millions of dinars, cumulative flow since the beginning of the year)

	2016	2017	2018					2019					2020	
	Annual	Annual	Q1	Q2	Q3	Annual	Annual	Q1	Q2	Q3	Annual	Annual	Annual	Annual
						Est.	4th Rev		Proj.	Proj.	Proj.	4th Rev	Proj.	4th Rev
Total revenue and grants	**20,269**	**23,500**	**6,665**	**13,600**	**19,873**	**27,589**	**26,723**	**8,050**	**15,002**	**23,444**	**33,007**	**30,286**	**36,541**	**33,086**
Revenue	20,207	23,396	6,663	13,598	19,871	27,353	26,474	7,989	14,941	23,383	32,533	30,031	36,241	32,835
Tax revenue	18,702	21,187	5,801	12,208	18,054	24,502	23,837	7,324	14,186	21,370	29,371	27,274	32,748	29,966
Direct taxes	7,577	8,560	2,146	4,717	6,983	9,064	8,613	3,406	6,456	9,668	11,448	10,096	12,601	11,234
PIT	5,943	6,205	1,579	3,225	4,792	6,358	5,761	2,336	4,440	6,660	8,321	7,070	9,214	7,844
CIT	1,634	2,355	567	1,492	2,191	2,706	2,852	1,070	2,016	3,008	3,127	3,026	3,386	3,390
Indirect taxes	11,126	12,627	3,655	7,492	11,071	15,438	15,224	3,918	7,730	11,702	17,922	17,179	20,148	18,732
Trade taxes	640	742	245	562	815	1,208	1,207	298	600	900	1,464	1,403	1,696	1,517
VAT	5,138	6,092	1,634	3,454	5,302	7,425	7,173	1,871	3,700	5,562	8,588	8,121	9,686	8,902
Excise	2,174	2,493	646	1,369	2,079	2,864	2,916	656	1,300	1,950	3,495	3,310	3,960	3,589
Other indirect taxes	3,174	3,300	1,130	2,106	2,876	3,941	3,928	1,093	2,130	3,290	4,376	4,345	4,805	4,725
Nontax revenue	1,494	2,209	862	1,390	1,817	2,851	2,637	665	755	2,013	3,162	2,757	3,493	2,869
of which: Energy sector	0	1,183	3,382	5,299	6,768	1,356	1,511	2,307	2,612	6,925	1,452	1,536	1,625	1,540
Capital income	11	0	0	0	0	0	0	0	0	0	0	0	0	0
Grants	62	104	2	2	2	236	249	61	61	61	474	256	300	251
Total expenditure and net lending	**25,930**	**29,303**	**7,745**	**15,303**	**23,075**	**32,403**	**32,277**	**8,904**	**18,708**	**27,905**	**37,074**	**34,590**	**40,113**	**36,269**
Total expenditure	25,839	29,342	7,503	15,283	22,757	32,420	32,337	8,552	18,512	27,709	37,124	34,640	40,123	36,280
Current expenditure	21,040	23,997	6,107	12,419	18,559	26,477	26,779	7,209	15,162	22,779	30,684	28,348	32,645	27,740
Wages and salaries	13,117	14,352	3,864	7,461	11,078	14,863	14,903	4,240	8,481	12,721	17,215	16,385	18,249	15,807
of which: one-off civil service reform costs	0	0	0	0	0	87	87	0	0	0	0	0	0	0
Goods and services	1,737	1,498	292	441	731	1,210	1,150	303	600	900	1,454	1,300	1,588	1,415
Interest payments	1,986	2,259	922	1,632	2,192	2,797	2,696	1,110	1,931	2,608	3,349	3,170	4,078	3,594
Domestic	821	1,255	464	931	1,125	1,516	1,297	537	866	1,305	1,387	1,237	1,468	1,179
External	1,165	1,004	458	701	1,067	1,282	1,399	573	1,065	1,302	1,962	1,934	2,610	2,414
Transfers and subsidies	4,200	5,888	1,029	2,884	4,557	7,607	7,930	1,556	4,150	6,550	8,367	7,042	8,288	6,470
Subsidies	2,211	3,492	520	1,810	2,894	4,900	5,233	988	2,550	3,850	5,045	4,392	4,846	3,587
Food	1,581	1,494	173	745	1,075	1,750	1,800	175	1,000	1,500	1,987	1,800	2,164	1,945
Energy	197	1,550	220	790	1,435	2,700	2,983	700	1,300	2,000	2,608	2,142	2,190	1,152
Fuel	…	…	0	0	0	1,500	1,700	0	0	0	1,625	1,568	1,432	1,152
Electricity and gas	…	…	220	790	1,435	1,200	1,283	700	1,300	2,000	983	574	758	0
Transport	433	448	127	275	385	450	450	113	250	350	450	450	491	490
Transfers	1,989	2,395	510	1,074	1,663	2,707	2,698	568	1,600	2,700	3,322	2,650	3,442	2,884
Other current expenditure (non-allocated)	0	0	0	1	1	0	100	0	0	0	300	450	443	454
Capital expenditure	4,798	5,345	1,396	2,864	4,198	5,943	5,559	1,343	3,350	4,930	6,439	6,292	7,478	8,539
Net lending	91	-39	242	20	319	-17	-60	352	196	196	-50	-50	-11	-11
Overall balance	**-5,661**	**-5,803**	**-1,080**	**-1,703**	**-3,203**	**-4,814**	**-5,554**	**-854**	**-3,706**	**-4,461**	**-4,067**	**-4,303**	**-3,572**	**-3,184**
Errors and omissions	-146	-311	42	300	223	811	0	-156	0	0	0	0	0	0
Financing (net)	**5,807**	**6,114**	**1,039**	**1,403**	**2,980**	**4,003**	**5,554**	**1,010**	**3,706**	**4,461**	**4,067**	**4,303**	**3,572**	**3,184**
Foreign financing 1/	2,631	5,070	489	566	2,003	3,822	5,482	928	3,806	2,973	4,110	4,834	2,894	4,285
Domestic financing 2/	3,175	1,044	550	837	976	181	72	82	-99	1,488	-43	-531	678	-1,101
Debt	2,059	1,552	797	-496	632	-187	-778	166	-14	1,573	-348	-1,081	919	-651
Non-debt	1,116	-508	-247	1,333	345	368	850	-85	-85	-85	305	550	-242	-450
Financing gap	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:														
Overall balance (excl. grants)	-5,723	-5,907	-1,083	-1,705	-3,205	-5,050	-5,803	-915	-3,767	-4,522	-4,541	-4,559	-3,872	-3,434
Overall balance (cash basis)	-5,807	-6,114	-1,039	-1,403	-2,980	-4,003	-5,554	-1,010	-3,706	-4,461	-4,067	-4,303	-3,572	-3,184
Primary balance (cash basis)	-3,820	-3,855	-116	229	-787	-1,206	-2,858	100	-1,775	-1,854	-718	-1,133	506	410
Primary balance (excl. grants, cash basis)	-3,882	-3,959	-119	227	-790	-1,442	-3,108	39	-1,836	-1,914	-1,192	-1,389	206	159
Total current primary expenditure	19,054	21,738	5,185	10,787	16,367	23,680	24,083	6,099	13,231	20,171	27,336	25,177	28,567	24,146
Social expenditures 3/	1,411	1,844	735	1,397	1,868	2,498	2,382	882	1,668	2,454	3,144	2,623	3,512	2,854
Gross central government debt	55,922	67,982	…	…	…	81,320	76,434	…	…	…	96,258	83,954	107,107	90,073
Domestic	19,508	21,155	…	…	…	21,341	20,389	…	…	…	22,045	19,308	22,965	18,657
External	36,414	46,828	…	…	…	59,978	56,046	…	…	…	74,213	64,646	84,142	71,417
Stock of government deposits	1,683	2,535	3,104	1,595	2,433	2,782	2,035	2,867	2,867	2,867	3,167	1,535	3,459	2,035
Nominal GDP	89,792	96,325	25,489	26,223	26,841	105,479	106,159	28,815	28,909	29,068	115,828	116,898	126,502	127,201

Sources: Tunisian authorities; and IMF staff estimates.

1/ External financing includes the IMF's 2013 SBA and 2016 EFF, in line with the Tunisian authorities' budget law classification.

2/ Domestic financing includes short-term financing. The coverage was expanded in July 2018."

3/ Social spending includes social transfers and programs as well as key ministries' capital expenditures. The definition was expanded in 2017.

Table 5. Tunisia: Central Government Fiscal Operations, 2016–24

(In percent of GDP)

	2016	2017	2018		2019		2020		2021	2022	2023	2024
			Est.	4th Rev	Proj.	4th Rev	Proj.	4th Rev	Proj.			
Total revenue and grants	**22.6**	**24.4**	**26.2**	**25.2**	**28.5**	**25.9**	**28.9**	**26.0**	**28.7**	**28.6**	**28.5**	**28.4**
Revenue	22.5	24.3	25.9	24.9	28.1	25.7	28.6	25.8	28.6	28.5	28.4	28.4
Tax revenue	20.8	22.0	23.2	22.5	25.4	23.3	25.9	23.6	25.9	25.9	25.9	25.9
Direct taxes	8.4	8.9	8.6	8.1	9.9	8.6	10.0	8.8	10.0	10.0	10.0	10.0
PIT	6.6	6.4	6.0	5.4	7.2	6.0	7.3	6.2	7.3	7.3	7.3	7.3
CIT	1.8	2.4	2.6	2.7	2.7	2.6	2.7	2.7	2.7	2.7	2.7	2.7
Indirect taxes	12.4	13.1	14.6	14.3	15.5	14.7	15.9	14.7	15.9	15.9	15.9	15.9
Trade taxes	0.7	0.8	1.1	1.1	1.3	1.2	1.3	1.2	1.3	1.3	1.3	1.3
VAT	5.7	6.3	7.0	6.8	7.4	6.9	7.7	7.0	7.7	7.7	7.7	7.7
Excise	2.4	2.6	2.7	2.7	3.0	2.8	3.1	2.8	3.1	3.1	3.1	3.1
Other indirect taxes	3.5	3.4	3.7	3.7	3.8	3.7	3.8	3.7	3.8	3.8	3.8	3.8
Nontax revenue	1.7	2.3	2.7	2.5	2.7	2.4	2.8	2.3	2.7	2.6	2.5	2.5
of which: Energy sector	0.0	1.2	1.3	1.4	1.3	1.3	1.3	1.2	1.2	1.1	1.1	1.0
Capital income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.1	0.1	0.2	0.2	0.4	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Total expenditure and net lending	**28.9**	**30.4**	**30.7**	**30.4**	**32.0**	**29.6**	**31.7**	**28.5**	**31.0**	**30.3**	**29.2**	**29.0**
Total expenditure	28.8	30.5	30.7	30.5	32.1	29.6	31.7	28.5	31.0	30.3	29.2	29.1
Current expenditure	23.4	24.9	25.1	25.2	26.5	24.2	25.8	21.8	24.9	24.1	22.7	22.3
Wages and salaries	14.6	14.9	14.1	14.0	14.9	14.0	14.4	12.4	13.8	13.2	12.7	12.3
of which: one-off civil service reform costs	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services	1.9	1.6	1.1	1.1	1.3	1.1	1.3	1.1	1.3	1.3	1.3	1.3
Interest payments	2.2	2.3	2.7	2.5	2.9	2.7	3.2	2.8	3.6	3.7	3.7	3.6
Domestic	0.9	1.3	1.4	1.2	1.2	1.1	1.2	0.9	1.2	1.1	0.9	0.9
External	1.3	1.0	1.2	1.3	1.7	1.7	2.1	1.9	2.4	2.6	2.7	2.8
Transfers and subsidies	4.7	6.1	7.2	7.5	7.2	6.0	6.6	5.1	6.0	5.6	4.8	4.7
Subsidies	2.5	3.6	4.6	4.9	4.4	3.8	3.8	2.8	3.2	2.7	1.8	1.6
Food	1.8	1.6	1.7	1.7	1.7	1.5	1.7	1.5	1.6	1.5	1.4	1.2
Energy	0.2	1.6	2.6	2.8	2.3	1.8	1.7	0.9	1.1	0.8	0.0	0.0
Fuel	…	…	1.4	1.6	1.4	1.3	1.1	0.9	0.7	0.6	0.0	0.0
Electricity and gas	…	…	1.1	1.2	0.8	0.5	0.6	0.0	0.4	0.2	0.0	0.0
Transport	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Transfers	2.2	2.5	2.6	2.5	2.9	2.3	2.7	2.3	2.8	2.9	3.0	3.1
Other current expenditure (non-allocated)	0.0	0.0	0.0	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Capital expenditure	5.3	5.5	5.6	5.2	5.6	5.4	5.9	6.7	6.0	6.2	6.4	6.8
Net lending	0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-6.3**	**-6.0**	**-4.6**	**-5.2**	**-3.5**	**-3.7**	**-2.8**	**-2.5**	**-2.3**	**-1.7**	**-0.7**	**-0.6**
Errors and omissions	-0.2	-0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing (net)	**6.5**	**6.3**	**3.8**	**5.2**	**3.5**	**3.7**	**2.8**	**2.5**	**2.3**	**1.7**	**0.7**	**0.6**
Foreign financing 1/	2.9	5.3	3.6	5.2	3.5	4.1	2.3	3.4	2.9	3.0	1.4	0.7
Domestic financing 2/	3.5	1.1	0.2	0.1	0.0	-0.5	0.5	-0.9	-0.6	-1.3	-0.8	-0.1
of which: privatization and sale of confiscated assets	0.6	0.2	0.1	0.3	0.1	0.3	0.1	0.3	0.1	0.1	0.1	0.1
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Overall balance (excl. grants)	-6.4	-6.1	-4.8	-5.5	-3.9	-3.9	-3.1	-2.7	-2.3	-1.7	-0.7	-0.7
Overall balance (cash basis)	-6.5	-6.3	-3.8	-5.2	-3.5	-3.7	-2.8	-2.5	-2.3	-1.7	-0.7	-0.6
Primary balance (cash basis)	-4.3	-4.0	-1.1	-2.7	-0.6	-1.0	0.4	0.3	1.3	2.0	3.0	3.0
Primary balance (excl. grants, cash basis)	-4.3	-4.1	-1.4	-2.9	-1.0	-1.2	0.2	0.1	1.2	1.9	2.9	2.9
Total current primary expenditure	21.2	22.6	22.5	22.7	23.6	21.5	22.6	19.0	21.4	20.4	19.1	18.6
Social expenditures 3/	1.6	1.9	2.4	2.2	2.7	2.2	2.8	2.2	2.8	2.9	3.0	3.0
Gross central government debt	62.3	70.6	77.1	72.0	83.1	71.8	84.7	70.8	82.2	78.0	73.2	68.7
Domestic	21.7	22.0	20.2	19.2	19.0	16.5	18.2	14.7	16.3	14.0	12.3	11.5
External	40.6	48.6	56.9	52.8	64.1	55.3	66.5	56.1	65.8	64.0	60.8	57.2
Nominal GDP (billions of TD)	89.8	96.3	105.5	106.2	115.8	116.9	126.5	127.2	136.8	148.2	160.5	173.7

Sources: Tunisian authorities; and IMF staff estimates.

1/ External financing includes the IMF's 2013 SBA and 2016 EFF, in line with the Tunisian authorities' budget law classification.

2/ Domestic financing includes short-term financing. The coverage was expanded in July 2018."

3/ Social spending includes social transfers and programs as well as key ministries' capital expenditures. The definition was expanded in 2017.

Table 6. Tunisia: Monetary Survey, 2016–20
(In millions of dinars, end-of-period stocks

	2016	2017	2018					2019					2020	
	Annual	Annual	Q1	Q2	Q3	Annual	Annual 4th Rev	Q1	Q2 Proj.	Q3 Proj.	Annual Proj.	Annual 4th Rev	Annual Proj.	Annual 4th Rev
						(Millions of Tunisian dinars)								
Net foreign assets (NFA)	**-949**	**-2,385**	**-4,484**	**-5,388**	**-5,307**	**-3,784**	**-4,940**	**-3,179**	**-3,596**	**-4,272**	**-3,569**	**-3,797**	**-4,558**	**-3,470**
Foreign assets	16,644	16,420	14,526	15,056	15,893	18,731	17,401	19,819	20,968	21,217	24,115	21,416	27,906	23,532
Central bank	13,932	13,932	12,406	12,407	13,237	15,601	14,764	16,675	17,694	17,786	20,556	17,727	24,043	19,431
Foreign liabilities	-17,592	-18,805	-19,010	-20,444	-21,199	-22,515	-22,342	-22,998	-24,564	-25,489	-27,684	-25,213	-32,464	-27,002
Central bank	-6,404	-5,758	-6,001	-6,242	-6,750	-7,315	-7,136	-7,479	-8,302	-8,449	-10,014	-9,447	-13,297	-10,763
Net domestic assets (NDA)	**67,832**	**76,869**	**79,557**	**81,742**	**82,719**	**83,056**	**86,129**	**83,707**	**84,976**	**86,495**	**87,125**	**92,047**	**93,125**	**98,283**
Domestic credit	88,135	99,530	101,681	105,534	105,890	107,313	112,552	108,376	108,849	110,961	111,553	119,143	117,999	124,945
Credit to the government (net)	15,662	17,882	18,192	19,862	18,873	18,776	22,746	18,783	18,889	20,476	18,255	24,333	18,882	22,124
Central bank net credit	762	351	7	1,623	963	912	5,487	1,134	1,034	1,034	734	7,175	442	6,465
Commercial banks	8,649	10,096	10,622	10,401	10,390	9,728	9,824	9,508	9,713	11,300	9,379	9,824	10,299	9,824
Other	6,251	7,435	7,563	7,839	7,520	8,136	7,435	8,142	8,142	8,142	8,142	7,335	8,142	5,835
Credit to the economy	72,472	81,648	83,490	85,671	87,016	88,537	89,894	89,593	89,960	90,486	93,298	96,097	99,117	102,820
Other items (net)	-20,303	-22,660	-22,125	-23,791	-23,170	-24,257	-26,424	-24,669	-23,873	-24,467	-24,428	-27,095	-24,874	-26,661
Broad money (M3)	**66,883**	**74,485**	**75,073**	**76,355**	**77,413**	**79,271**	**81,188**	**80,528**	**81,380**	**82,223**	**83,556**	**88,251**	**88,567**	**94,813**
Money plus quasi-money (M2)	63,660	71,086	71,700	73,052	74,125	76,018	77,653	77,391	78,211	79,021	80,302	84,408	85,312	90,685
Money (M1)	26,409	30,865	30,404	31,118	31,729	31,969	33,323	32,719	33,066	33,408	33,950	36,222	36,068	38,915
Currency	9,749	11,182	11,180	11,387	11,785	11,817	21,138	11,960	12,064	12,189	12,387	22,977	13,159	24,686
Demand deposits	16,661	19,682	19,225	19,731	19,944	20,153	12,184	20,759	21,002	21,219	21,563	13,244	22,909	14,229
Quasi-money	37,251	40,221	41,295	41,934	42,396	44,048	44,330	44,672	45,145	45,613	46,352	48,187	49,244	51,770
Long-term deposits (M3-M2)	3,223	3,399	3,373	3,303	3,288	3,254	3,535	3,136	3,169	3,202	3,254	3,842	3,254	4,128
						(Annual percentage change)								
Net foreign assets	**-156.3**	**151.4**	**231.5**	**137.5**	**101.2**	**58.7**	**107.2**	**-29.1**	**-33.3**	**-19.5**	**5.7**	**23.2**	**-27.7**	**8.6**
Net domestic assets	**12.7**	**13.3**	**16.7**	**14.0**	**12.5**	**8.0**	**12.0**	**5.2**	**4.0**	**4.6**	**4.9**	**6.9**	**6.9**	**6.8**
Domestic credit	12.9	12.9	14.7	14.0	11.9	7.8	8.8	6.6	3.1	4.8	4.0	5.9	5.8	4.9
Credit to the government (net)	31.1	14.2	24.8	26.3	19.0	5.0	4.4	3.3	-4.9	8.5	-2.8	7.0	3.4	-9.1
Credit to the economy	9.7	12.7	12.7	11.5	10.5	8.4	10.1	7.3	5.0	4.0	5.4	6.9	6.2	7.0
Broad money (M3)	**8.1**	**11.4**	**12.3**	**9.9**	**9.2**	**6.4**	**9.0**	**7.3**	**6.6**	**6.2**	**5.4**	**8.7**	**6.0**	**7.4**
						(Growth in percent of broad money)								
Net foreign assets	**-4.3**	**-2.1**	**-4.7**	**-4.5**	**-3.8**	**-1.9**	**-3.4**	**1.7**	**2.3**	**1.3**	**0.3**	**1.4**	**-1.2**	**0.4**
Net domestic assets	**12.3**	**13.5**	**17.0**	**14.4**	**13.0**	**8.3**	**12.4**	**5.5**	**4.2**	**4.9**	**5.1**	**7.3**	**7.2**	**7.1**
Domestic credit	16.3	17.0	19.5	18.7	15.9	10.4	12.2	8.9	4.3	6.6	5.3	8.1	7.7	6.6
Credit to the government (net)	6.0	3.3	5.4	5.9	4.2	1.2	1.3	0.8	-1.3	2.1	-0.7	2.0	0.8	-2.5
Credit to the economy	10.3	13.7	14.1	12.7	11.7	9.2	11.1	8.1	5.6	4.5	6.0	7.6	7.0	7.6
Broad money (M3)	**8.1**	**11.4**	**12.3**	**9.9**	**9.2**	**6.4**	**9.0**	**7.3**	**6.6**	**6.2**	**5.4**	**8.7**	**6.0**	**7.4**
Memorandum items:														
Nominal GDP	89,792	96,325				105,479	106,159				115,828	116,898	126,502	127,201

Sources: Tunisian authorities; and IMF staff estimates and projections.

Table 7. Tunisia: Central Bank Survey, 2016–20
(In millions of dinars, end-of-period stocks)

	2016	2017	2018	2018	2019	2019	2019	2019	2019	2020	2020
	Annual	Annual	Annual	Annual 4th Rev	Q1	Q2 Proj.	Q3 Proj.	Annual Proj.	Annual 4th Rev	Annual Proj.	Annual 4th Rev
					(Millions of Tunisian dinars)						
Net foreign assets	**7,528**	**8,174**	**8,286**	**7,628**	**9,196**	**9,392**	**9,337**	**10,542**	**8,280**	**10,747**	**8,668**
Assets	13,932	13,932	15,601	14,764	16,675	17,694	17,786	20,556	17,727	24,043	19,431
Liabilities	6,404	5,758	7,315	7,136	7,479	8,302	8,449	10,014	9,447	13,297	10,763
Net domestic assets	**5,094**	**7,062**	**11,319**	**8,929**	**12,355**	**12,215**	**11,816**	**10,600**	**8,205**	**10,417**	**7,135**
Domestic credit (net)	6,252	8,835	12,758	16,899	14,037	13,937	13,587	12,317	18,889	13,026	19,343
Net credit to government 1/	762	351	912	7,173	1,134	1,034	1,034	734	10,572	442	13,055
Credit to banks 2/	5,490	8,484	11,846	9,726	12,903	12,903	12,553	11,583	8,317	12,585	6,289
Other items net	-1,159	-1,773	-1,439	-7,971	-1,682	-1,722	-1,771	-1,717	-10,684	-2,610	-12,209
Reserve money 3/	**12,622**	**15,236**	**19,605**	**16,557**	**21,550**	**21,607**	**21,152**	**21,142**	**16,485**	**21,163**	**15,802**
					(Annual percentage change)						
Net foreign assets	**-17.1**	**8.6**	**1.4**	**-6.7**	**43.6**	**52.3**	**43.9**	**27.2**	**8.5**	**1.9**	**4.7**
Assets	-7.6	0.0	12.0	6.0	34.4	42.6	34.4	31.8	20.1	17.0	9.6
Liabilities	6.9	-10.1	27.0	23.9	24.6	33.0	25.2	36.9	32.4	32.8	13.9
Net domestic assets	**164.7**	**38.6**	**60.3**	**26.4**	**49.8**	**25.5**	**9.9**	**-6.4**	**-8.1**	**-1.7**	**-13.0**
Domestic credit (net)	27.7	41.3	44.4	32.7	48.5	21.6	11.2	-3.5	11.8	5.8	2.4
Net credit to government 1/	-144.3	-54.0	160.2	68.6	16,149.5	-36.3	7.3	-19.6	47.4	-39.8	23.5
Credit to banks 2/	30.4	54.5	39.6	14.6	36.6	31.1	11.5	-2.2	-14.5	8.6	-24.4
Other items net	-61.0	53.0	-18.8	40.4	39.3	-0.6	20.6	19.3	34.0	52.0	14.3
Reserve Money 3/	**14.7**	**20.7**	**28.7**	**8.7**	**47.1**	**35.9**	**22.7**	**7.8**	**-0.4**	**0.1**	**-0.4**
Memorandum items:											
Open market purchases (OMPs)	804	982	1,660	1,207	1,966	1,866	1,866	1,866	1,207	1,866	1,207
Monetary base, excl. bank FX deposits	10,638	12,142	12,780	…	12,936	13,113	13,262	13,431	…	14,223	…
FX swap operations 4/			2,280	2,809	1,580	1,100	750	500	2,809	500	2,809
Total CBT refinancing of banks	6,294	9,466	15,786	13,742	16,449	15,869	15,169	13,949	12,333	14,950	10,305

Sources: Central Bank of Tunisia; and IMF staff estimates.

1/ Includes subscription to the IMF and the AMF.

2/ Includes the main refinancing facility (appel d'offres) and the lending and deposit facilities.

3/ Excludes deposits of other financial institutions, individuals, and non-financial enterprises.

4/ Introduced at end-2014.

Table 8. Tunisia: External Financing Needs, 2016–20

(In millions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018					2019					2020
	Annual	Annual	Q1	Q2	Q3	Q4 Est.	Annual Est.	Q1	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.	Annual Proj.
Total gross financing requirements	**5,364**	**6,385**	**1,630**	**1,606**	**1,617**	**1,591**	**6,443**	**1,389**	**1,815**	**1,781**	**1,284**	**6,268**	**5,432**
Current account deficit	**3,901**	**4,080**	**1,164**	**1,122**	**1,135**	**1,053**	**4,474**	**881**	**1,059**	**902**	**805**	**3,648**	**3,187**
Amortizations	**1,462**	**2,305**	**467**	**484**	**481**	**538**	**1,969**	**507**	**756**	**878**	**479**	**2,620**	**2,245**
Central government 1/	609	1,245	171	154	207	215	747	181	405	640	170	1,397	1,352
Central Bank 2/	376	358	148	144	125	123	539	163	100	75	50	388	178
Corporate 3/	477	702	148	186	150	199	684	164	251	163	258	836	715
Total gross financing sources	**5,364**	**6,385**	**1,630**	**1,606**	**1,617**	**1,591**	**6,443**	**1,389**	**1,815**	**1,781**	**1,284**	**6,268**	**5,432**
Foreign direct investment and portfolio (net)	638	746	169	200	231	338	938	178	230	218	277	903	986
of which: FDI (net)	695	810	225	184	234	336	979	187	227	222	274	910	961
Disbursements	**2,521**	**4,741**	**645**	**481**	**974**	**1,136**	**3,236**	**773**	**1,586**	**519**	**797**	**3,674**	**2,834**
Central government 1/	1,876	3,747	501	342	846	980	2,669	657	1,473	411	663	3,205	2,417
Multi- and bilateral budget support	896	2,348	407	243	727	348	1,726	579	618	355	612	2,163	1,710
of which: IMF budget support loans	0	0	0	0	0	0	0	0	0	0	0	0	0
of which: grants	57	89	1	1	1	79	81	22	46	46	26	140	81
Financial market access	497	905	0	0	0	571	571	0	800	0	0	800	500
Other (incl. project loans)	482	494	94	99	119	61	373	79	55	56	52	242	207
of which: grants	0	0	0	0	0	0	0	0	0	0	0	0	0
Central Bank 2/	0	0	0	0	0	0	0	0	0	0	0	0	0
of which: IMF BOP support loans 4/	320	314	257	0	248	245	749	0	247	0	413	660	829
Corporate 3/	646	993	144	139	128	156	567	115	113	108	133	469	417
Short-term debt and other capital flows (net)	**1,010**	**869**	**286**	**798**	**829**	**1,104**	**3,017**	**336**	**68**	**727**	**934**	**2,064**	**2,089**
Other flows (net) 5/	**-266**	**-318**	**42**	**-297**	**-395**	**-499**	**-1,149**	**396**	**1**	**90**	**-112**	**376**	**-10**
Drawdown of gross reserves ("-": buildup)	**1,460**	**348**	**488**	**424**	**-23**	**-488**	**402**	**-293**	**-70**	**227**	**-612**	**-748**	**-467**
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:													
Gross international reserves (eop)	5,941	5,594	5,106	4,682	4,705	5,192	5,192	5,485	5,555	5,328	5,941	5,941	6,407
Central government rollover rates (pct.)										57	374	220	173
Corporate rollover rates (pct.)	135	142	97	75	86	78	83	71	45	66	52	56	58

Sources: Tunisian authorities; and IMF staff projections.

1/ Central government includes IMF purchases made available for budget support.

2/ Central Bank includes IMF purchases made available for BOP support.

3/ Includes public and private entreprises.

4/ IMF purchases available under the 2013 SBA and under the proposed schedule of purchases during the 2016 EFF.

5/ Includes changes in banks', corporates', and households' net foreign assets; errors and omissions; and other liabilities.

Table 9. Tunisia: Financial Soundness Indicators of the Banking Sector, 2010–18

(Percent, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Regulatory capital									
Regulatory capital to risk-weighted assets	11.6	11.9	11.8	8.2	9.4	12.0	11.3	11.9	11.7
Tier 1 capital to risk weighted assets	10.2	10.0	9.5	6.6	7.6	9.3	8.6	8.9	9.0
Capital to assets	8.4	8.5	7.8	5.6	6.2	7.8	8.1	8.4	8.4
Asset quality									
Sectoral distribution of loans to total loans									
Industry	30.5	28.6	27.9	27.8	27.2	27.3	27.0	27.6	28.7
Agriculture	2.9	2.9	2.8	2.8	2.8	2.6	2.6	2.6	2.5
Commerce	15.0	16.0	15.4	15.1	15.6	15.8	16.0	16.0	16.1
Construction	5.9	5.6	5.4	5.5	5.7	6.2	6.2	5.8	5.8
Tourism	7.3	7.3	6.9	6.5	6.1	6.2	5.8	5.3	4.7
Households	22.1	23.4	25.4	26.2	26.2	26.6	26.4	25.8	24.8
Other	16.3	16.3	16.2	16.0	16.5	15.4	16.0	16.8	17.4
FX-loans to total loans	5.3	5.1	4.8	4.8	5.5	5.8	5.7	5.1	4.8
Credit to the private sector (pct. of total loans) 1/	70.6	67.4	67.7	73.7	73.8	73.5	73.7	74.5	75.2
Nonperforming Loans (NPLs) to total loans	13.0	13.3	14.9	16.5	15.8	16.6	15.6	13.9	13.4
Specific provisions to NPLs	0.0	48.6	45.7	56.4	58.0	56.9	57.9	57.0	56.5
NPLs, net of provisions, to tier 1 capital	60.3	66.2	86.3	111.6	90.3	78.8	71.2	63.7	60.0
Specific provisions to total loans	7.6	7.6	8.0	10.3	10.1	10.5	10.0	8.8	8.5
General provisions to total loans	...	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.5
Profitability									
Return on assets (ROA)	0.9	0.6	0.6	0.3	0.9	0.9	1.0	1.2	1.2
Return on equity (ROE)	10.2	5.9	7.2	3.0	11.2	10.9	11.4	13.8	14.1
Interest rate average spread (btw. loans and deposits)	3.5	3.0	3.0	3.3	3.1	3.0	2.9	3.2	3.9
Interest return on credit	6.2	5.7	5.4	5.9	6.4	6.3	6.0	6.5	7.9
Cost of risk (pct. of credit)	1.7	1.2	1.2	1.9	1.1	1.1	0.9	0.9	0.0
Net interest margin to net banking product (PNB)	58.6	57.2	58.1	58.9	57.2	54.6	50.9	49.7	51.9
Operating expenses to PNB	46.5	51.1	50.3	47.3	48.5	49.2	48.5	47.6	47.4
Operating expenses to total assets									
Personnel expenses to non-interest expenses	59.1	62.6	61.5	60.8	59.3	60.1	58.7	59.1	52.4
Trading and other non-interest income to PNB	21.8	22.5	20.9	21.6	22.4	24.3	29.5	29.2	29.2
Liquidity									
Liquid assets to total assets 2/	29.8	26.5	28.2	28.4	28.2	5.6	5.6	5.7	4.5
Liquid assets to short-term liabilities	104.1	89.4	89.2	92.6	96.6	83.8	94.4	91.7	75.2
Deposits to loans	94.6	87.4	89.5	89.6	88.8	87.4	86.8	85.7	85.3
Deposits of state-owned enterprises to total deposits	13.8	12.6	13.2	13.0	11.7	9.5	7.8	6.8	5.0
Sensitivity to market risk									
FX net open position to tier 1 capital	1.4	1.9	2.3	3.1	2.2	3.3	4.9	6.4	5.5

Source: Central Bank of Tunisia.

1/ Coverage of private sector credit may differ from that of Table 7.

2/ The definition of the liquidity ratio was modified in 2015. Liquid assets now include only treasury bills and cash. Using the new definition, the end-December 2014 liquidity ratio would have been 6 percent.

... = not available.

Table 10. Tunisia: Illustrative Medium-Term Outlook, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Proj.			
			(Annual percentage change)						
Real GDP	**1.1**	**2.0**	**2.6**	**2.7**	**3.2**	**3.4**	**3.9**	**4.0**	**4.0**
Total consumption	**2.9**	**1.9**	**2.5**	**0.1**	**0.6**	**1.8**	**2.7**	**3.1**	**3.2**
Private consumption	3.1	2.4	3.0	0.3	0.9	2.3	3.4	3.8	3.9
Public consumption	2.5	0.3	0.5	-0.6	-0.7	0.1	0.1	0.2	0.2
Investment	**-1.1**	**0.0**	**6.2**	**7.4**	**6.1**	**5.8**	**5.3**	**4.9**	**4.5**
Gross fixed capital formation	1.1	0.3	0.6	4.5	4.7	5.1	5.0	4.8	4.4
Change in stocks	-1.4	-1.4	-0.8	-0.4	-0.2	-0.1	-0.1	0.0	0.0
Trade balance	**-2.3**	**1.8**	**2.9**	**2.8**	**3.5**	**1.8**	**1.4**	**1.3**	**1.3**
Exports of goods and non-factor services	0.2	4.6	2.9	2.8	3.7	3.8	4.1	4.1	4.1
Imports of goods and non-factor services	2.5	2.8	0.0	0.0	0.2	2.0	2.8	2.8	2.8
Inflation (annual average)	**3.6**	**5.3**	**7.3**	**7.2**	**5.9**	**4.5**	**4.3**	**4.1**	**4.0**
			(Percent of GDP)						
Gross national savings	**9.1**	**9.1**	**8.1**	**9.2**	**11.5**	**14.1**	**15.0**	**15.7**	**16.3**
Central government 1/	-0.9	-0.5	1.1	2.0	3.1	3.7	4.5	5.8	6.2
Rest of the economy	9.9	9.6	7.0	7.2	8.4	10.3	10.5	10.0	10.1
Gross investment	**18.4**	**19.3**	**19.3**	**19.3**	**20.5**	**22.2**	**22.3**	**22.1**	**22.1**
Central government 1/	5.3	5.5	5.6	5.6	5.9	6.0	6.2	6.4	6.8
Rest of the economy	13.1	13.8	13.7	13.7	14.6	16.2	16.2	15.7	15.3
Total consumption	**92.3**	**93.0**	**93.6**	**92.0**	**89.9**	**88.3**	**87.3**	**86.5**	**85.9**
Private consumption	71.8	72.2	72.8	71.4	69.8	69.0	68.7	68.6	68.5
Public consumption	20.5	20.9	20.8	20.7	20.1	19.3	18.6	17.9	17.4
Savings-investment balance	**-9.3**	**-10.2**	**-11.2**	**-10.1**	**-9.1**	**-8.2**	**-7.3**	**-6.4**	**-5.8**
Central government 1/	-6.2	-6.1	-4.6	-3.6	-2.8	-2.3	-1.7	-0.7	-0.6
Rest of the economy	-3.1	-4.2	-6.6	-6.5	-6.2	-5.9	-5.6	-5.7	-5.2
Memorandum items:									
Nominal GDP (in millions of TD)	89,792	96,325	105,479	115,828	126,502	136,771	148,233	160,509	173,664
Overall fiscal balance (excl. grants, pct. of GDP) 2/	-6.4	-6.1	-4.8	-3.9	-3.1	-2.3	-1.7	-0.7	-0.7
Social expenditures (pct. of GDP) 3/									
Gross public debt (pct. of GDP)	62.3	70.6	77.1	83.1	84.7	82.2	78.0	73.2	68.7
Current account balance (pct. of GDP)	-9.3	-10.2	-11.2	-10.1	-9.1	-8.2	-7.3	-6.4	-5.8
External debt (pct. of GDP)	72.9	84.2	94.1	104.5	107.8	105.2	101.2	96.2	91.0
Credit to the economy (yoy growth, pct.)	9.7	12.7	8.4	5.4	6.2	7.1	7.0	7.1	7.2

Sources: Tunisian authorities; and IMF staff estimates.

1/ Excludes social security, public enterprises, and local governments.

2/ Including grants and excluding privatization.

3/ Public capital expenditures of key ministries and social transfers and programs.

Table 11. Tunisia: Proposed Schedule of Purchases Under the Extended Fund Facility, 2016–20

Review	Availability Date	Action	Purchase: Millions of SDRs	Purchase: Percent of quota 1/	Total Purchases: Millions of US$ 2/
	May 20, 2016	Board approval of the EFF	227.2920	41.6897	315.9052
First Review	September 30, 2016	Observance of end-Dec. 2016 performance criteria, completion of the first review	227.2917	41.6896	315.9048
Second Review	September 30, 2017	Observance of end-Dec. 2017 performance criteria, completion of the second review	176.7824	32.4252	245.7036
Third Review	June 15, 2018	Observance of end-Mar. 2018 performance criteria, completion of the third review	176.7824	32.4252	245.7036
Fourth Review	September 17, 2018	Observance of end-Jun. 2018 performance criteria, completion of the fourth review	176.7824	32.4252	245.7036
Fifth Review	December 17, 2018	Observance of end-Mar. 2019 performance criteria, completion of the fifth review 3/	176.7824	32.4252	245.7037
Sixth Review	September 18, 2019	Observance of end-Jun. 2019 performance criteria, completion of the sixth review	294.6373	54.0421	409.5061
Seventh Review	December 18, 2019	Observance of end-Sep. 2019 performance criteria, completion of the seventh review	294.6373	54.0421	409.5061
Eighth Review	April 29, 2020	Observance of end-Dec. 2019 performance criteria, completion of the eighth review	294.6371	54.0420	409.5058
Total			2,045.6250	375.2063	2,843.1427

Source: IMF staff projections.

1/ Quota is SDR 545.2 million.

2/ Indicative amounts based on the program exchange rate.

3/ Given the Board meeting for the Fifth Review is scheduled for May 31, 2019, end-March 2019 performance criteria would be applied to this review.

Table 12. Tunisia: Indicators of Fund Credit, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.	Proj.					
Existing and prospective Fund credit (millions of SDR)									
Disbursements	227.3	227.3	530.3	471.4	589.3	-	-	-	-
Stock	1,205.3	1,205.6	1,366.7	1,563.8	2,026.7	1,969.8	1,879.3	1,700.5	1,408.6
Obligations	42.8	251.6	402.1	314.2	192.8	132.6	163.1	245.0	347.3
Repurchase	24.7	227.0	369.3	274.4	126.4	56.8	90.5	178.9	291.8
Charges and surcharges	18.1	24.6	32.8	39.9	66.4	75.8	72.6	66.1	55.5
Stock of existing and prospective Fund credit									
In percent of quota	221.1	221.1	250.7	286.3	371.0	360.6	344.1	311.3	257.9
In percent of GDP	4.0	4.2	4.9	6.0	8.1	7.7	6.9	5.8	4.4
In percent of exports of goods and services	9.9	9.5	10.0	11.2	14.0	13.3	12.3	10.7	8.6
In percent of gross reserves	27.3	30.5	36.5	36.9	44.6	41.9	36.8	30.7	23.0
Obligations to the Fund from existing and prospective Fund arrangements									
In percent of quota	7.8	46.2	73.7	57.5	35.3	24.3	29.9	44.9	63.6
In percent of GDP	0.1	0.9	1.4	1.2	0.8	0.5	0.6	0.8	1.1
In percent of external debt service	2.8	11.5	23.1	11.7	7.4	4.0	6.2	7.8	9.1
In percent of exports of goods and services	0.3	2.0	2.9	2.3	1.3	0.9	1.1	1.5	2.1
In percent of gross reserves	1.0	6.4	10.7	7.4	4.2	2.8	3.2	4.4	5.7

Source: IMF staff estimates.

Table 13. Tunisia: Inclusive Growth Trends

	Tunisia Trend	Tunisia Indicator	EMDE Average
Growth			
GDP per capita growth (percent; 2015-17 average)	↘	-0.2	1.4
Gross Fixed Capital Formation (percent of GDP; 2015-17 average)	↘	20.2	23.8
Poverty and Inequality			
Poverty headcount ratio at $3.20/day (percent of population; 2011	↘	9.1	33.1
Multidemensional poverty (percent of population)		1.5	31.2
Prevalence of stunting (% of children under 5, 2012)	↗	10.1	23.8
GINI Index (2010)	↘	35.8	39.7
Child mortality (per 1,000, 2015)	↘	14.0	39.7
Growth in mean consumption (growth, %, bottom 40th percentile)		n.a.	2.4
Human Development and Access to Services			
Human Development Index (2015)	↗	0.7	0.6
Life expectancy at birth (years, 2016)	↗	75.7	69.4
Access to electricity (% of population, 2016)	↗	100.0	78.0
Net school enrollment, secondary, total (% population, 2016)	↗	n.a.	62.9
Individuals using internet (% population, 2016)	↗	49.6	40.6
Literacy rate (% population, 2014)	↗	79.0	78.1
Government			
Commitment to reducing inequality index (2017)		0.47	0.35
Government spending on social safety net programs (percent of GDP, 2018)		0.8	1.6
Coverage of social safety net programs in poorest quintile (% population, 2010)		19.8	15.4
Government expenditure on education, total (% GDP, 2015)	↗	6.6	4.7
Health expenditure, domestic general government (% of GDP, 2015)	↗	3.8	2.9
Access to finance			
Account at a financial institution (% age 15+, 2017)	↗	36.8	43.0
Domestic credit to private sector (% GDP, 2016)	↗	77.0	38.9
Loans to SMEs (% of GDP, 2016)		n.a.	7.8
Financial Inclusion Index (IMF, 2017)		0.2	0.3

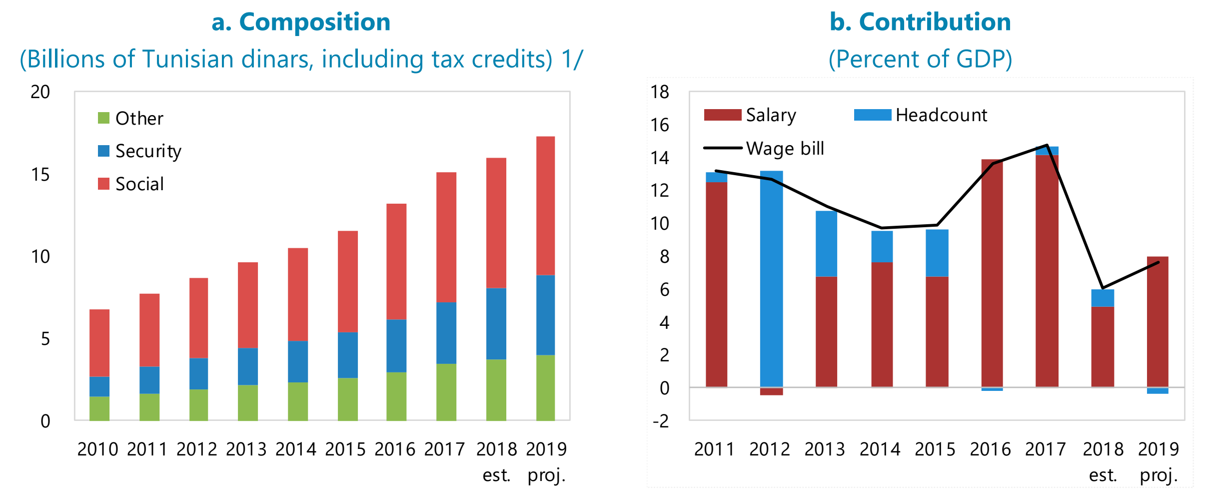
	Tunisia Trend	Tunisia Indicator	EMDE Average
Labor markets			
Unemployment rate (% of total labor force, 2017)	↘	15.2	8.2
Female unemployment rate (% of female labor force, 2017)	↘	21.5	9.8
Youth unemployment rate (% of total labor force ages 15-24, 2017)	↘	35.8	17.7
Labor force participation (% of total population ages 15+, 2017)	↘	46.9	62.6
Female labor force participation (% of female population ages 15+, 2017)	↘	24.3	51.7
Youth labor force participation (% of population ages 15-24, 2017)	↗	34.3	43.5
Business environment			
Ease of Doing Business (DTF, 2018)	↘	63.6	56.2
Registering property (DTF, 2018)	↘	63.2	57.4
Enforcing Contracts (DTF, 2018)	↘	59.3	52.4
Paying Taxes (DTF, 2018)	↘	60.1	63.8
Getting electricity (DTF, 2018)	↘	82.3	60.0
Trading across borders (DTF, 2018)	↘	60.1	62.8
Getting credit (DTF, 2018)	↗	45.0	47.7
Global Competitiveness Index (2018)	↘	3.9	3.9
Governance			
Global Competitiveness Index - Institutions Index (2017)	↘	3.8	3.6
Government Effectiveness (WGI, 2016)	↘	-0.2	-0.5
Regulatory Quality (WGI, 2016)	↘	-0.5	-0.4
Rule of Law (WGI, 2016)	↗	0.0	-0.4
Control of Corruption (WGI, 2016)	↘	-0.1	-0.3
Gender			
Account at a financial institution (female vs male, %), 2014		60.2	79.6
Female employment to population ratio (%, 2017)	↗	19.0	47.2
Literacy rate (female vs male, %, 2014)	↗	83.9	86.1
Net school enrollment, secondary (female vs male, %, 2016)	↗	111.1	97.3
Gender Gap Index		n.a.	0.7

Sources: Development Indicators, Doing Business, Health Nutrition and Population Statistics Database, Worldwide Governance Indicators, Transparency International, UNDP, Oxfam International, World Economic Forum, and IMF WEO.

Annex I. Trends in the Civil Service Wage Bill

1. Tunisia's civil service wage bill is one of the highest in the world. It has grown from 10.7 percent of GDP in 2010 to 15.2 percent of GDP in 2018 (including wage components paid out as tax credits to public sector workers, Figure 1.a). It consumes more than half of the budget, two thirds of tax revenues, and represents the equivalent of three times public investment.

Figure 1. Tunisia: Civil Service Wage Bill



Sources: Tunisian authorities, and IMF staff calculations and estimates.
1/ Wage spending in the social sector comprises that of the Ministries of Education, Higher Education, Health, and Social Affairs; and in the security sector that of the Ministries of Defense and Interior.

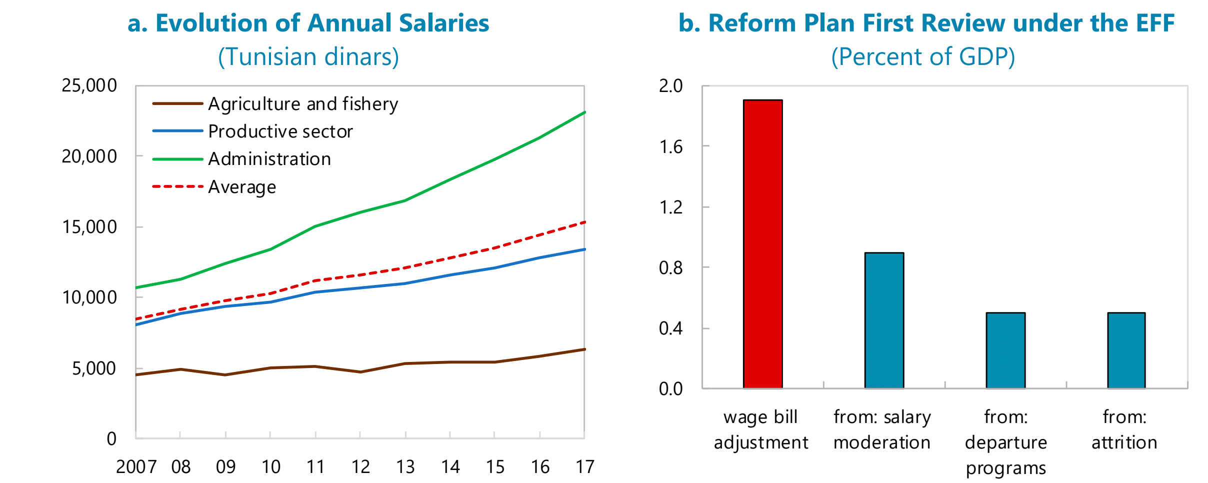
2. Headcount additions and salary hikes have contributed to the wage bill growth:

- ***Headcount additions.*** In the first year after the revolution (2011–15), the civil service saw a significant expansion. Many of the new recruits were in the lower staff categories (manual workers). Effective strength went from about 500,000 to 700,000. A further push happened for security personnel after 2015 to address higher threat levels in Tunisia's post-attack environment.

- ***Salary hikes.*** Notwithstanding the headcount additions, the wage bill increased mostly due to wage increases since the revolution (Figure 1.b) that were only partially followed by the private sector. As a result, public sector salaries are on average about twice as high as those in the private sector (Figure 2.a). Under the EFF, the wage bill had to absorb a package of legacy—and unanticipated—wage hikes for 2016–18 (1.2 percent of GDP) in December 2016 that were legally agreed by a previous government. This was the main policy issue at the time of the First Review. The Fund only moved forward with the program at the time once the authorities presented a strategy to maintain a path towards the 12 percent of GDP wage bill target for 2020 (Figure 2.b). This strategy relied on the absence of new wage increases through 2020, voluntary departure schemes, and strict hiring limits to achieve a 2-percent-of-GDP reduction over three years. The authorities deviated from the no-increase policy in February 2019, when they accepted wage increases totaling about 1.3 percent of GDP after two general strikes. A first tranche of

0.6 percent of GDP to be paid out in 2019, with a part of this tranche (0.1 percent of GDP) taking the form of a transfer to civil servants. A second tranche of 0.7 percent of GDP will be implemented in the 2020 budget. These increases are equivalent to a 3.5 percent average wage hike for each year, about half the rate of inflation.

Figure 2. Tunisia: Civil Service Wage Bill



Sources: Tunisian authorities, ITCEQ (2017), and IMF staff calculations.

3. Containing the wage bill has been a challenge under the EFF arrangement. The element of the 2016 strategy that has proven to work well involves the strict hiring limits, which limited new recruitments to 3,000 in 2018 and a similar number in 2019. The voluntary departure and early retirement schemes have generated significantly less interest than hoped (6,600 civil servants left compared with an expected 20,000–25,000), reflecting the poor state of the private sector job market. The most recent episode of wage increases has again shown the limits of exercising wage restraint in the face of powerful labor unions, while efforts to streamline benefits (that represent up to 60 percent of total compensation) are progressing only slowly due to the high complexity involved (Tunisia has more than 100 different civil service functional pay lines) and as most of these changes require union consent.

4. Staff has consistently advised against the new civil service increase. It emphasized that these new increases are unfair, unaffordable, and detrimental to macroeconomic stability. Civil servants already earn significantly more than their counterparts in the private sector and enjoy job stability. Moreover, the wage increases required additional energy price measures affecting the broader population, in order to maintain the deficit ceiling for 2019 needed to mitigate adverse debt dynamics—burdening society at large for the benefit of those who are already (in relative terms) privileged. Finally, the wage hikes (coming on top of about 2 percent of GDP in hikes for the private sector and public enterprises) negatively impact inflation and the current account. In this context, it is important to note that there is a risk of even further wage increases for 2019 (of some 0.2 percent of GDP of additional spending): the UGTT labor union currently seeks to open negotiations on additional hikes for 35,000 higher-level civil servants. Staff opposes this demand, warning about its potential implications on macroeconomic stability.

Annex II. Risk Assessment Matrix[1]

Source of Risk, Relative Likelihood, and Time Horizon	Expected Impact and Recommended Policy Response
Domestic Risks	
High (ST, MT) **Slow reform implementation**, due to continued political uncertainty, social tensions, and opposition to reforms from vested interests. *High (ST, MT)* **Intensification of security risks**, including due to spillovers from Libya and other conflicts in the region. These could take the form of refugee flows, increased illicit economic activity including smuggle trade, and violent attacks.	*High* Growth may fall and macroeconomic stability may be impaired by a halt of structural reforms and stability-focused macroeconomic policies, lower confidence and investment, and diversion of growth-enhancing expenditures to security-related items. Budget financing could be affected by delays in support from IFIs and bilateral donors. Mitigation strategies include (i) effective communication to generate broad buy-in to reforms; (ii) measures to rebuild fiscal and external buffers, including growth-friendly fiscal consolidation and sustained exchange rate flexibility; (iii) acceleration of structural reforms to increase productivity, improve governance, and strengthen the resilience of the financial sector; and (iv) close cooperation with external partners.
External Risks	
High (ST, MT) **Rising protectionism and retreat from multilateralism.** In the near term, escalating and sustained trade actions threaten the global trade system, regional integration, as well as global and regional collaboration. Additional barriers and the threat of new actions reduce growth both directly and through adverse confidence effects (increasing financial market volatility). In the medium term, geopolitical competition and fraying consensus about the benefits of globalization lead to economic fragmentation and undermine the global rules-based order, with adverse effects on growth and stability.	*Low* Growth may fall due to lower confidence and investment; lower demand for Tunisia's exports in Europe; the impact of protectionism on trade and finance flows; and increased security spending. Mitigation strategies are the same as above.
Medium (ST, MT) **Large swings in energy prices.** Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. In the near term, uncertainty surrounding the shocks translates to elevated price volatility, complicating economic management and adversely affecting investment in the energy sector. As shocks materialize, they may cause large and persistent price swings. While, on aggregate, higher oil prices would harm global growth, they would benefit oil exporters.	*High* In case of a sizeable increase of international oil prices, Tunisia's fuel subsidies would exceed the budgeted level and put fiscal consolidation at risk. Mitigation strategies include following through with adjustments of pump prices, further hikes in electricity and gas tariffs, and other measures to reduce consumption of subsidized fuels.
High (ST, MT) **Weaker-than-expected global growth, in particular in the Euro Area.** In the near term, weak foreign demand makes euro area businesses delay investment, while faltering confidence reduces private consumption. Adverse financial market reaction to debt sustainability concerns further dampens growth. A disorderly Brexit could cause market disruption with negative spillovers. In the medium term, disregard for the common fiscal rules and rising sovereign yields for high-debt countries test the euro area policy framework, with adverse impact on confidence and growth.	*Medium* Tunisia's growth would be adversely affected through trade, remittances, and investment channels, especially from Europe. Mitigation strategies are similar to above, with a strong focus on competitiveness reforms.
Low (ST) / *Medium (ST)* **Sharp tightening of global financial conditions.** This causes higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; capital account pressures; and a broad-based downturn. The tightening could be a result of: • **Market expectation of tighter U.S. monetary policy** triggered by strong wage growth and higher-than-expected inflation. • **Sustained rise in risk premium** in reaction to concerns about debt levels in some Euro area countries; a disorderly Brexit; or idiosyncratic policy missteps in large emerging markets.	*Medium* Sovereign refinancing risks and debt service would increase, but Tunisia's strong reliance on debt to official creditors would limit the impact. A worsening of investor sentiment toward Emerging Market Countries could affect the envisaged sovereign bond issuance. Pressures on international reserves could also intensify, even if the capital account remains relatively closed. Mitigation strategies are the same as above, with an additional focus on debt management and measures to ensure financial sector stability. Moreover, the Financial Action Task Force's (FATF) inclusions of Tunisia to lists of jurisdictions with significant AML/CFT deficiencies increase the risk of a loss of correspondent banking services (CBS). This would hurt cross-border payments, trade finance, and remittances. To mitigate this risk, the authorities are working with the FATF and MENA-FATF to strengthen the effectiveness of their AML/CFT regime.

Source: IMF staff.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex III. Debt Sustainability Analysis

Public debt remains sustainable if strong adjustment policies are implemented, but substantial risks arise from exchange rate depreciation and contingent liabilities. External debt would remain resilient to shocks except for a large dinar depreciation, helped by a low average interest rate, relatively long maturities, a substantial share of concessional debt, and a large grant element in new loans.

A. Public Debt Sustainability Analysis

1. Tunisia's public debt remains sustainable, but risks have increased substantially. Under the baseline, staff projects that central government debt would peak at 85 percent of GDP in 2020 (from an average of 45 percent over 2010–14) before declining to 69 percent by 2024. This is conditional on ambitious measures to reduce the budget deficit over 2019–24. Gross financing needs are expected to stay elevated, although declining from 10.9 percent of GDP in 2019 to 8.0 percent by 2024. Stress scenarios identify significant risks from exchange rate depreciation, loose fiscal and monetary policies, and contingent liabilities, especially if combined with sustained lower growth.[1] Strong policy implementation will be paramount to achieve the envisaged debt reduction.

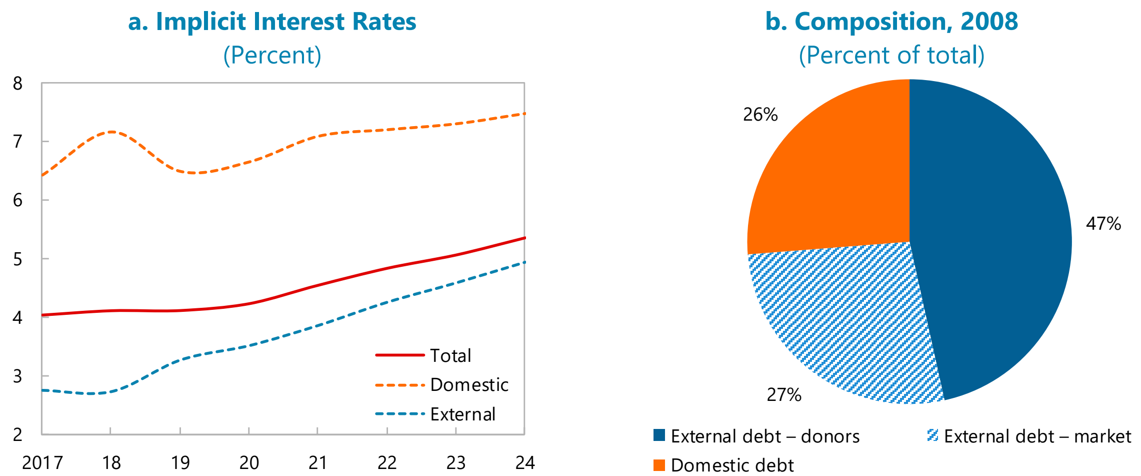
Background: Continued Access to Financing, But Rapidly Rising Debt

2. Debt vulnerabilities continued to increase in 2018, in part due to depreciation. Public debt reached 77 percent of GDP in 2018, from 53 percent of GDP at the start of the program in June 2016. The increase has been driven by elevated primary fiscal deficits (4.3 percent of GDP in 2016, 4.0 percent in 2017, and 1.1 percent in 2018), currency depreciation (54 percent against the euro over 2016–18), and low growth. While Tunisia's creditor structure limits rollover risks, debt service has increased significantly. The gross borrowing requirement amounted to 10.8 percent of GDP in 2018.

3. Tunisia maintained access to financing at a low cost. Tunisia's debt remains characterized by relatively long maturities. Most of the debt is contracted in foreign currency, and almost half is owed to bilateral donors and multilateral institutions. About one quarter of public debt consists of Eurobond issuances on international financial markets, with maturities ranging from 5 to 18 years. Most of these issuances are covered by third-party sovereign guarantees. Domestically, Tunisia has issued government bonds that represent 26 percent of total debt, most of which have maturities of five years or more. Tunisia has continued to benefit from low interest rates, in large part owing to favorable terms from official creditors. For 2018, the implicit interest rates were 7.2 percent on domestic debt (-0.1 percent in real terms), 2.7 percent on external debt (-4.6 percent in real terms), and 4.1 percent for total debt (-3.2 percent in real terms). Inflationary pressures and risks regarding Tunisia's ratings and exchange rate path could translate into higher financing costs. Containing macroeconomic vulnerabilities by strong policy and reform implementation is therefore a priority.

[1] State guarantees (12 percent of GDP) are excluded from the baseline stock of debt; the contingent liability shock provides an estimate of the impact of most guarantees being called simultaneously.

Figure 1. Tunisia: Central Government Debt



Sources: Tunisian authorities, and IMF staff calculations and projections.

Overall Assessment

4. **Tunisia's public debt is sustainable, but only with strong policy implementation.** The current fiscal program should be considered as a minimum level of desirable effort. Contingency planning could help fiscal and monetary policymakers to respond quickly in the event of unanticipated negative shocks. Staff is of the view that most risks can be addressed through (1) continued support from the international community in the form of concessional financing; and (2) a strong multi-year fiscal adjustment.

5. **Public debt would fall to 69 percent of GDP by 2024 under the baseline scenario.** This outlook is consistent with low rollover risk and only slight increases in interest rates. The gross borrowing requirement would decline to 8.0 percent of GDP by the end of the projection horizon. Currency composition, maturity composition, and interest costs would remain broadly unchanged. However, potential interest rate risks could emerge over the medium term with Tunisia gradually relying more on market financing.

6. **There are significant risks to debt sustainability.**

- ***The heat map flags the debt level and its composition as main risks.*** These risks are partly mitigated by continued access to concessional financing and steadfast fiscal adjustment.

- ***The stochastic approach stresses the need for continued policy discipline.*** The asymmetric distribution of estimated outcomes in the fan chart shows that debt levels could become durably entrenched above 80 percent of GDP. This result is also backed by our customized scenario on a political stalemate leading to lower-than-expected fiscal adjustment.

Baseline: Frontloaded Fiscal Adjustment to Reduce Debt

7. Key assumptions: continued growth recovery and commitment to fiscal reforms. Growth is expected to continue to recover to reach 4 percent over the medium term, in line with the economy's potential (which is broadly consistent with growth rates in the past). These growth projections are within the confidence interval as defined in Table 2, except for the years 2015–16 that were marked by the impact of the terrorist attacks. Inflation is expected to decelerate gradually, supported by monetary tightening. A key assumption of this DSA is the steadfast fiscal adjustment, which would bring the primary balance to a surplus of about 3 percent of GDP from 2023. Such an adjustment is ambitious, but still looks feasible as shown in Table 2.

Risk Mitigation Through Buffers and Contingency Planning

8. A series of plausible stress tests highlights risks to debt sustainability. Tunisia's debt-to-GDP ratio exceeds the emerging market debt burden benchmark of 70 percent of GDP, which signals the need for cautious policies to maintain investor confidence. Stress tests confirm the vulnerability of the country's public debt to interest rate risk, a growth shock, and real exchange rate depreciation. Several standard tests plus two customized scenarios—one highlighting the impact of maintaining loose fiscal and monetary policies due to strong political pressure; the other analyzing the impact of a major security incident like the 2015 terrorist attacks but starting from weaker initial conditions—signal that the debt-to-GDP ratio could significantly deteriorate relative to the baseline and, in some cases, push it above 90 percent. Moreover, the test including contingent liabilities highlights risks from government guarantees to SOEs.[2]

[2] The one-off 10 percent of GDP shock to contingent liabilities reflects an additional three percent of GDP in bank recapitalization costs and the realization of about 7 percent of GDP of the government's contingent liabilities to public enterprises.

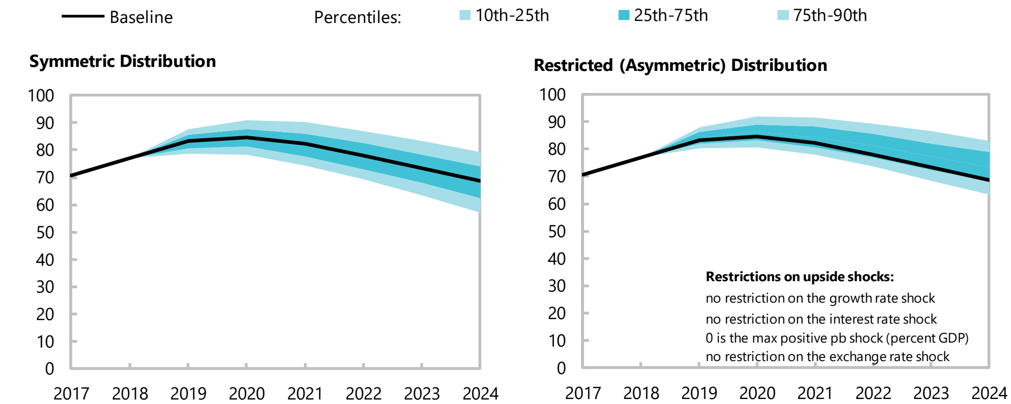
Table 1. Tunisia: Public Sector DSA – Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

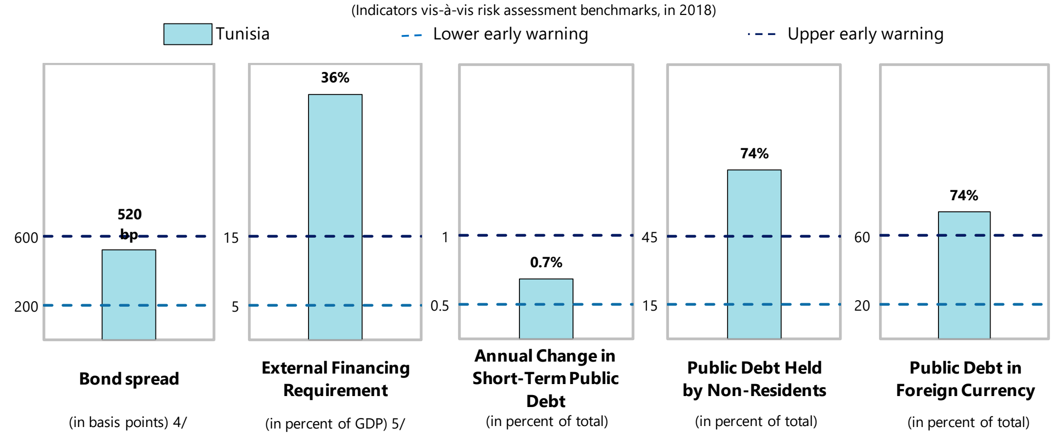
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

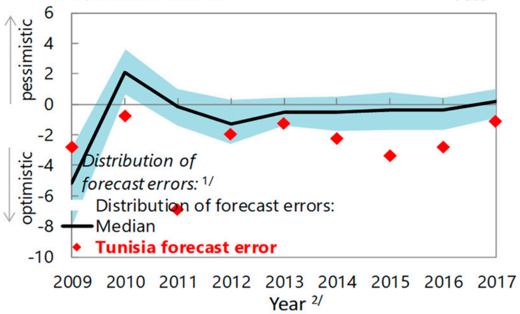
4/ Long-term bond spread over German bonds, an average over the last 3 months, 03-Nov-18 through 01-Feb-19.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

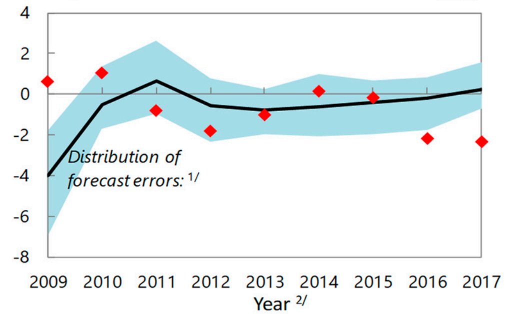
Table 2. Tunisia: Realism of Baseline Assumptions

Forecast Track Record, versus all countries

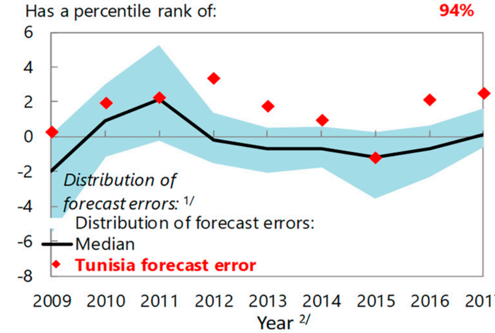
Real GDP Growth
(in percent, actual-projection)
Tunisia median forecast error, 2009-2017: -2.24
Has a percentile rank of: 11%



Primary Balance
(in percent of GDP, actual-projection)
Tunisia median forecast error, 2009-2017: -0.83
Has a percentile rank of: 33%

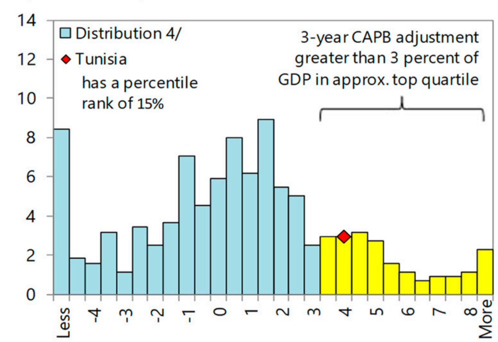


Inflation (Deflator)
(in percent, actual-projection)
Tunisia median forecast error, 2009-2017: 1.92
Has a percentile rank of: 94%

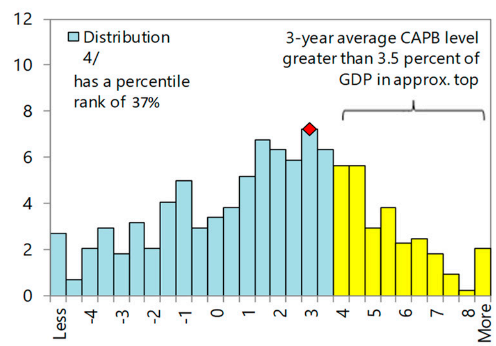


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

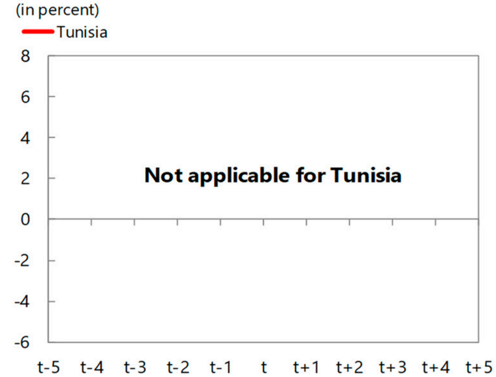


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)



Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Tunisia, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Table 3. Tunisia: Public Sector DSA – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

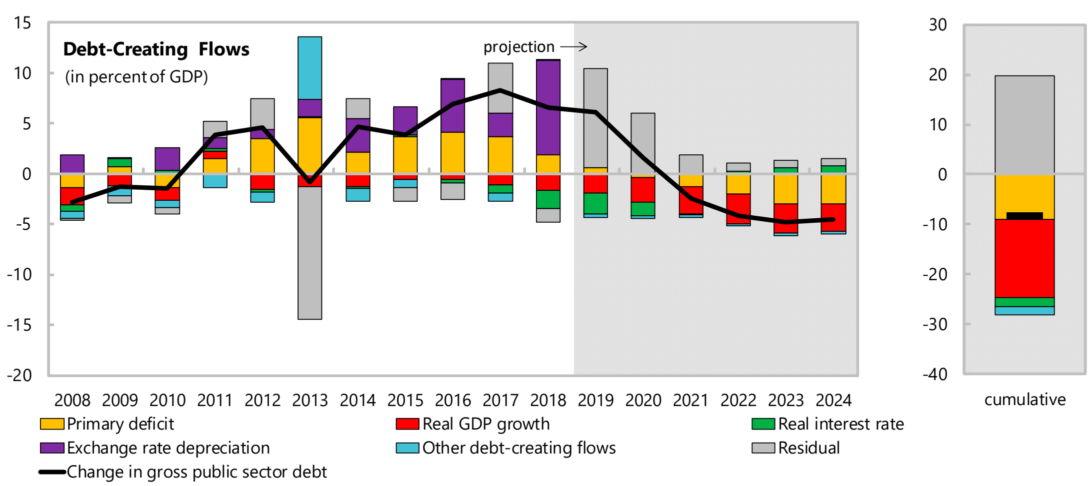
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2008-2016 [2]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	47.6	70.6	77.1	83.2	84.7	82.2	78.1	73.2	68.7
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public gross financing needs	7.8	10.9	10.8	10.6	9.1	9.6	7.5	7.5	8.0
Net public debt	43.2	67.9	74.5	80.4	82.0	79.5	75.3	70.5	66.0
Public debt (in percent of potential GDP)	48.0	69.3	75.7	81.6	83.3	81.0	77.3	72.8	68.6
Real GDP growth (in percent)	2.3	2.0	2.6	2.7	3.2	3.4	3.9	4.0	4.0
Inflation (GDP deflator, in percent)	4.3	5.2	6.8	6.9	5.8	4.5	4.3	4.1	4.0
Nominal GDP growth (in percent)	6.8	7.3	9.5	9.8	9.2	8.1	8.4	8.3	8.2
Effective interest rate (in percent) [4]	4.6	4.0	4.1	4.2	4.2	4.5	4.8	5.1	5.4

As of February 24, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		514
5Y CDS (bp)		435
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	D	D
Fitch	B+	B+

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	1.9	8.3	6.5	6.1	1.6	-2.5	-4.2	-4.8	-4.5	-8.4	
Identified debt-creating flows	3.2	3.3	7.9	-3.7	-4.5	-4.3	-4.9	-5.6	-5.2	-28.2	
Primary deficit	2.1	3.6	1.9	0.6	-0.4	-1.3	-2.0	-3.0	-3.0	-9.1	-2.2
Primary (noninterest) revenue and gr	24.4	24.4	26.2	28.5	28.9	28.7	28.6	28.5	28.4	171.6	
Primary (noninterest) expenditure	26.4	28.0	28.1	29.1	28.5	27.4	26.6	25.5	25.4	162.5	
Automatic debt dynamics [5]	1.2	0.5	5.9	-4.0	-3.8	-2.8	-2.7	-2.3	-1.9	-17.5	
Interest rate/growth differential [6]	-0.9	-1.9	-3.5	-4.0	-3.8	-2.8	-2.7	-2.3	-1.9	-17.5	
Of which: real interest rate	0.0	-0.7	-1.8	-2.1	-1.3	-0.1	0.3	0.6	0.8	-1.9	
Of which: real GDP growth	-1.0	-1.1	-1.7	-1.9	-2.5	-2.7	-2.9	-2.9	-2.7	-15.6	
Exchange rate depreciation [7]	2.1	2.4	9.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	-0.8	0.1	-0.4	-0.3	-0.2	-0.2	-0.2	-0.2	-1.6	
CG: Privatization Proceeds (negative	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
CG: Total Financing: Domestic Borro	0.2	-0.7	0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-1.4	
Residual, including asset changes [8]	-1.2	5.0	-1.4	9.8	6.0	1.8	0.8	0.7	0.7	19.8	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as .

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

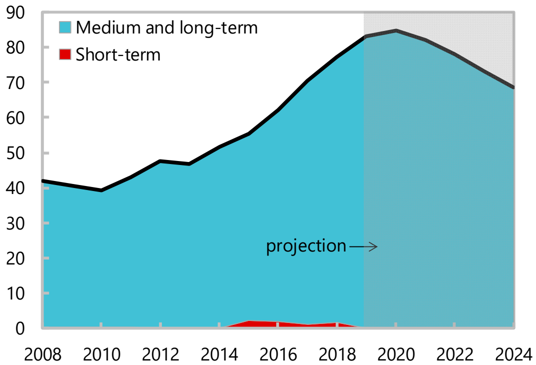
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

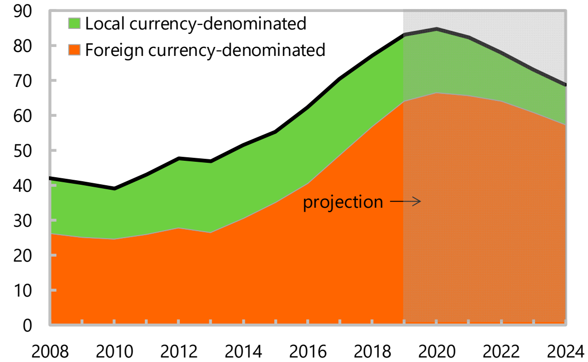
Table 4. Tunisia: Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



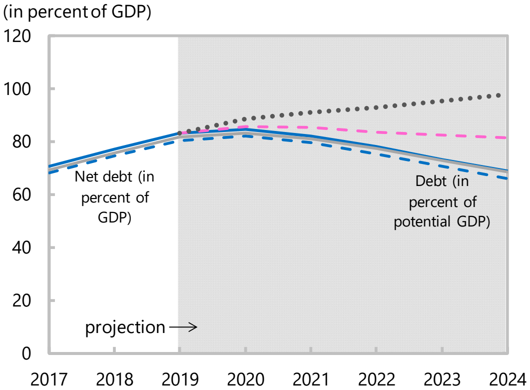
By Currency
(in percent of GDP)



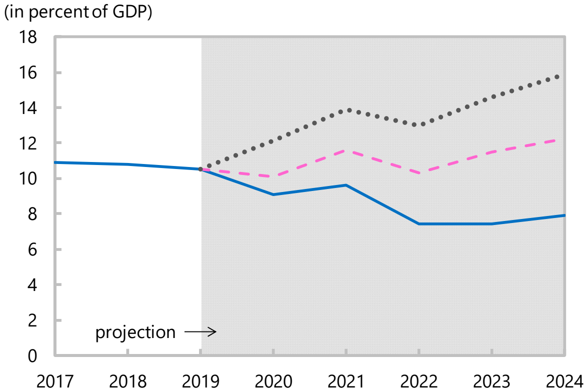
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

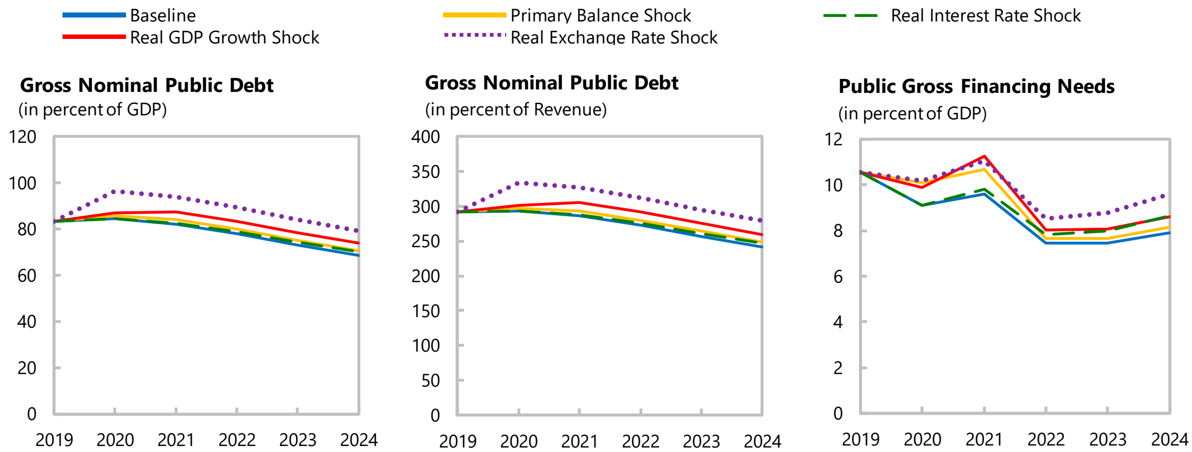
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	2.7	3.2	3.4	3.9	4.0	4.0
Inflation	6.9	5.8	4.5	4.3	4.1	4.0
Primary Balance	-0.6	0.4	1.3	2.0	3.0	3.0
Effective interest rate	4.1	4.2	4.5	4.8	5.1	5.4
Constant Primary Balance Scenario						
Real GDP growth	2.7	3.2	3.4	3.9	4.0	4.0
Inflation	6.9	5.8	4.5	4.3	4.1	4.0
Primary Balance	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Effective interest rate	4.1	4.2	4.6	4.9	5.2	5.5

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	2.7	2.1	2.1	2.1	2.1	2.1
Inflation	6.9	5.8	4.5	4.3	4.1	4.0
Primary Balance	-0.6	-2.5	-2.5	-2.5	-2.5	-2.5
Effective interest rate	4.1	4.2	4.6	5.0	5.3	5.7

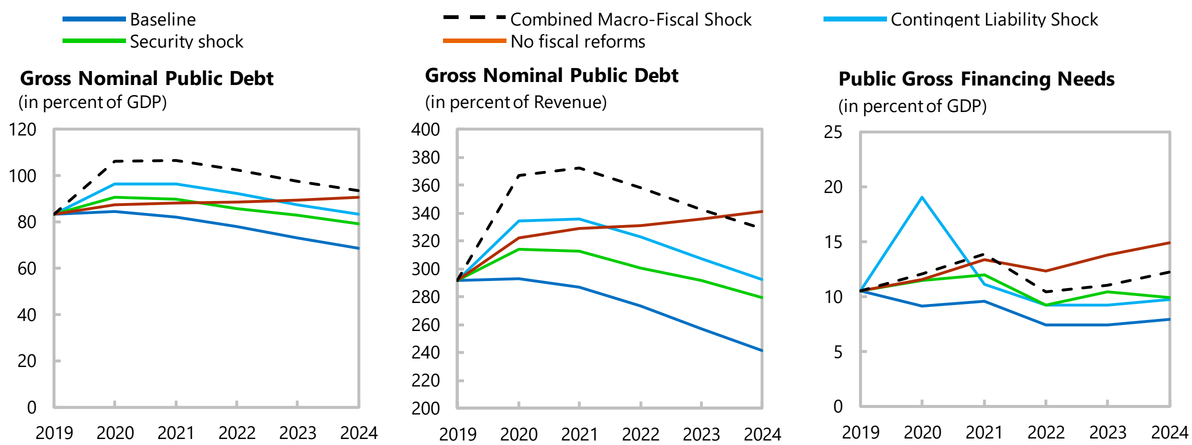
Source: IMF staff.

Table 5. Tunisia: Public DSA Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	2.7	3.2	3.4	3.9	4.0	4.0
Inflation	6.9	5.8	4.5	4.3	4.1	4.0
Primary balance	-0.6	-0.6	0.3	2.0	3.0	3.0
Effective interest rate	4.1	4.2	4.6	4.9	5.2	5.4
Real Interest Rate Shock						
Real GDP growth	2.7	3.2	3.4	3.9	4.0	4.0
Inflation	6.9	5.8	4.5	4.3	4.1	4.0
Primary balance	-0.6	0.4	1.3	2.0	3.0	3.0
Effective interest rate	4.1	4.2	4.8	5.3	5.8	6.3
Combined Shock						
Real GDP growth	2.7	1.5	1.7	3.9	4.0	4.0
Inflation	6.9	5.4	4.1	4.3	4.1	4.0
Primary balance	-0.6	-0.6	0.1	2.0	3.0	3.0
Effective interest rate	4.1	5.0	4.7	5.3	5.8	6.3

Real GDP Growth Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	2.7	1.5	1.7	3.9	4.0	4.0
Inflation	6.9	5.4	4.1	4.3	4.1	4.0
Primary balance	-0.6	-0.2	0.1	2.0	3.0	3.0
Effective interest rate	4.1	4.2	4.6	4.9	5.2	5.4
Real Exchange Rate Shock						
Real GDP growth	2.7	3.2	3.4	3.9	4.0	4.0
Inflation	6.9	12.7	4.5	4.3	4.1	4.0
Primary balance	-0.6	0.4	1.3	2.0	3.0	3.0
Effective interest rate	4.1	5.0	4.4	4.7	5.0	5.3
Contingent Liability Shock						
Real GDP growth	2.7	1.5	1.7	3.9	4.0	4.0
Inflation	6.9	5.4	4.1	4.3	4.1	4.0
Primary balance	-0.6	-9.2	1.3	2.0	3.0	3.0
Effective interest rate	4.1	4.5	5.2	5.5	5.6	5.9

Source: IMF staff.

B. External Debt Sustainability

9. Tunisia's external debt has been rising since 2011. After a sharp decline during the 2000s (from 61 percent of GDP in 2002 to 49 percent of GDP at end-2010), the trend in external debt reversed post-revolution. At end-2018, the external debt-to-GDP ratio increased to 94 percent, reflecting dinar depreciation, lower-than-expected growth, and higher fiscal and current account deficits following a series of external shocks and rising social pressures. Most of the new debt commitments are either with official creditors or backed by a third-party guarantee (IMF Country Report No.17/203), except for a US$1 billion Eurobond issued in January 2015, a EUR 850 million Eurobond in February 2017, and a EUR 500 million Eurobond in October 2018 (Table 6).

10. External debt will continue to increase. On the back of the recent Eurobond issuance, another market issuance in 2019Q2, and continued official funding, external debt is expected to rise to 105 percent of GDP in 2019, peaking at 108 percent of GDP in 2020. After that, improving current account dynamics would lead to a gradual decline to 91 percent of GDP by the end of 2024 (Table 7).

11. External debt would remain resilient to shocks, except for exchange rate depreciation. Tunisia's debt profile is characterized by a low average interest rate, relatively long maturities, a substantial share of concessional debt, and a large grant element on new external debt (Figure 2). This makes the debt robust to most shocks, except for a large real exchange rate depreciation. The DSA results suggest that the external debt-to-GDP ratio would remain below 110 percent of GDP throughout the projection period under all but the FX depreciation scenario. For example, a negative combined shock to the real interest rate, growth and the current account would increase the debt ratio to 97 percent of GDP by the end of 2024 compared with 91 percent under the baseline. However, a sharp real exchange rate depreciation (one-time 30 percent in the second year of projection) would propel the external debt ratio to 155 percent of GDP in 2020 before declining to 131 percent at the end of the projection horizon (Figure 3).

Table 6. Tunisia: External Debt Stock: Composition, 2018

	TD Mio	US$ Mio	%GDP	% of total
Total external debt stock	**99,261**	**33,149**	**94.1**	**100**
Maturity				
MLT	78,454	26,200	74.4	79.0
ST	20,807	6,949	19.7	21.0
Currency				
US$	22,036	7,359	20.9	22.2
EUR	55,189	18,431	52.3	55.6
JPY	9,231	3,083	8.8	9.3
Others	12,805	4,276	12.1	12.9
Interest				
Fixed rates	**70,674**	**23,602**	**67.0**	**71.2**
0 %	298	99	0.3	0.3
0% < i < 5%	62,634	20,917	59.4	63.1
5% < i < 7%	7,544	2,519	7.2	7.6
7% < i < 10%	199	66	0.2	0.2
>10%	0	0	0.0	0.0
Variable rates	**28,587**	**9,547**	**27.1**	**28.8**
Creditor, 2017				
Official	**45,323**	**15,136**	**43.0**	**45.7**
Multilateral	32,852	10,971	31.1	33.1
o/w AfDB	7,937	2,651	7.5	8.0
o/w EIB	6,755	2,256	6.4	6.8
o/w IMF	4,238	1,415	4.0	4.3
o/w World Bank	8,117	2,711	7.7	8.2
Bilateral	12,471	4,165	11.8	12.6
G-7	7,642	2,552	7.2	7.7
o/w France	4,448	1,485	4.2	4.5
o/w Japan	1,590	531	1.5	1.6
Other	4,829	1,613	4.6	4.9
o/w Saudi Arabia	404	135	0.4	0.4
o/w Kuwait	189	63	0.2	0.2
Private	**17,198**	**5,744**	**16.3**	**17.3**
Market	17,198	5,744	16.3	17.3
o/w guaranteed	5,769	1,927	5.5	5.8
Banks	0	0	0.0	0.0
Other (incl. sukuk)	**18,335**	**6,123**	**17.4**	**18.5**

	TD Mio	US$ Mio	%GDP	% of total
Debtor				
Public	**74,578**	**24,906**	**70.7**	**75.1**
Administration	60,136	20,083	57.0	60.6
CG	54,341	18,148	51.5	54.7
CBT	5,795	1,935	5.5	5.8
SoEs	14,442	4,823	13.7	14.5
Private	**24,683**	**8,243**	**23.4**	**24.9**
Debtor, MLT				
Public	**74,578**	**24,906**	**70.7**	**75.1**
Administration	60,136	20,083	57.0	60.6
CG	54,341	18,148	51.5	54.7
CBT	5,795	1,935	5.5	5.8
SoEs	14,442	4,823	13.7	14.5
Private	**3,876**	**1,294**	**3.7**	**3.9**
Debtor, ST				
Public	**0**	**0**	0.0	**0.0**
Administration	0	0	0.0	0.0
CG	0	0	0.0	0.0
CBT	0	0	0.0	0.0
SoEs	0	0	0.0	0.0
Private	**20,807**	**6,949**	**19.7**	**21.0**
Memo item:				
GDP (Mio TD)	105,479			
TD/US$ (eop)	2.99			

Sources: Tunisian authorities, and IMF staff calculations and estimates.

Table 7. Tunisia: External Debt Sustainability Framework, 2014–2024

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						Debt-stabilizing non-
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	interest current acocunt 6/
Baseline: External debt	**60.7**	**65.4**	**72.9**	**84.2**	**94.1**			**104.5**	**107.8**	**105.2**	**101.2**	**96.2**	**91.0**	**-6.4**
Change in external debt	4.6	4.7	7.5	11.3	9.9			10.4	3.3	-2.6	-3.9	-5.0	-5.2	
Identified external debt-creating flows (4+8+9)	9.9	9.2	13.3	7.2	17.3			4.6	2.6	1.7	0.5	-0.4	-0.7	
Current account deficit, excluding interest payments	8.4	8.1	7.5	8.7	9.5			7.2	5.8	4.6	3.6	2.8	2.2	
Deficit in balance of goods and services	11.5	11.4	11.2	12.6	13.1			11.0	9.8	9.6	8.6	7.8	7.2	
Exports	45.5	40.6	40.6	44.4	48.8			51.2	53.3	51.4	49.4	47.5	45.6	
Imports	57.0	52.0	51.9	56.9	61.9			62.1	63.1	61.0	58.0	55.3	52.8	
Net non-debt creating capital inflows (negative)	-2.9	-3.1	-1.8	-2.3	-2.7			-2.7	-2.8	-2.5	-2.6	-2.6	-2.6	
Automatic debt dynamics 1/	4.4	4.3	7.6	0.8	10.4			0.0	-0.5	-0.4	-0.6	-0.5	-0.3	
Contribution from nominal interest rate	1.6	1.7	2.0	1.6	1.9			2.7	2.9	3.1	3.2	3.2	3.3	
Contribution from real GDP growth	-1.7	-0.7	-0.8	-1.4	-2.4			-2.7	-3.3	-3.5	-3.8	-3.8	-3.6	
Contribution from price and exchange rate changes 2/	4.6	3.3	6.4	0.7	10.9			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets 3/	-5.2	-4.5	-5.8	4.1	-7.4			5.8	0.7	-4.3	-4.4	-4.7	-4.5	
External debt-to-exports ratio (in percent)	133.2	160.9	179.3	189.7	192.9			204.3	202.1	204.7	205.1	202.5	199.6	
Gross external financing need (in billions of US dollars) 4/	**12.5**	**12.2**	**12.2**	**13.2**	**14.2**			**13.4**	**12.4**	**12.9**	**12.4**	**13.1**	**14.1**	
in percent of GDP	26.3	28.4	29.1	33.3	35.6			35.2	32.5	31.8	28.1	27.4	27.2	
A. Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**104.5**	**111.8**	**120.0**	**130.0**	**139.5**	**149.3**	**4.5**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.0	1.2	1.1	2.0	2.6	2.1	1.7	2.7	3.2	3.4	3.9	4.0	4.0	
GDP deflator in US dollars (change in percent)	-7.5	-5.2	-8.9	-0.9	-11.4	-3.7	4.6	-7.2	-2.5	2.9	4.3	4.1	4.0	
Nominal external interest rate (in percent)	2.7	2.7	2.8	2.2	2.1	3.2	0.9	2.7	2.8	3.0	3.3	3.5	3.7	
Growth of exports (US dollar terms, in percent)	-1.8	-19.1	-3.2	4.0	10.0	-2.0	10.7	0.0	5.0	2.5	4.1	4.2	3.9	
Growth of imports (US dollar terms, in percent)	1.1	-17.3	-3.5	4.6	8.8	-0.2	11.2	-4.3	2.2	2.9	3.1	3.2	3.3	
Current account balance, excluding interest payments	-8.4	-8.1	-7.5	-8.7	-9.5	-6.9	2.5	-7.2	-5.8	-4.6	-3.6	-2.8	-2.2	
Net non-debt creating capital inflows	2.9	3.1	1.8	2.3	2.7	2.8	0.9	2.7	2.8	2.5	2.6	2.6	2.6	
B. Bound Tests														
B1. Nominal interest rate is at historical average plus one standard deviation								104.5	108.2	106.0	102.5	97.8	92.9	**-6.1**
B2. Real GDP growth is at historical average minus one standard deviations								104.5	109.1	107.6	104.8	100.6	96.3	**-5.6**
B3. Non-interest current account is at historical average minus one standard deviations								104.5	109.0	107.6	104.8	100.9	96.7	**-6.6**
B4. Combination of B1-B3 using 1/2 standard deviation shocks								104.5	109.0	107.6	104.8	100.8	96.6	**-6.1**
B5. One time 30 percent real depreciation in 2016								104.5	154.8	151.0	145.4	138.1	130.7	**-9.2**

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

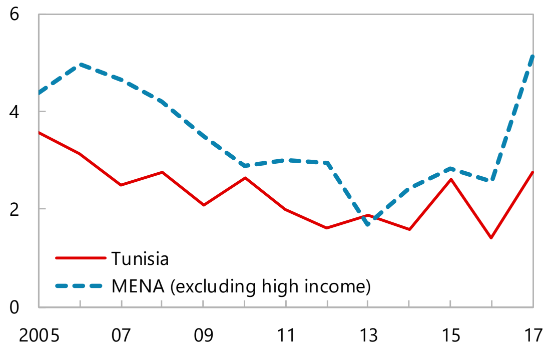
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 2. Tunisia: Features of External Debt

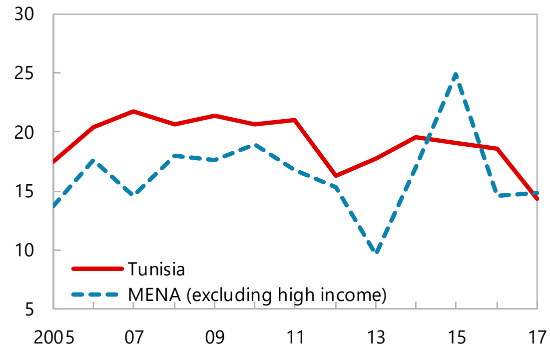
Compared with other non-high-income MENA countries, external debt in Tunisia carries lower interest rate, …

Average Interest on New External Debt
(Percent)



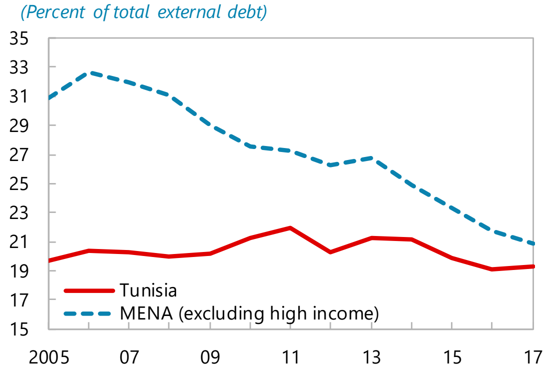
… its maturity has historically been higher until recently, …

Average Maturity on New External Debt
(Years)



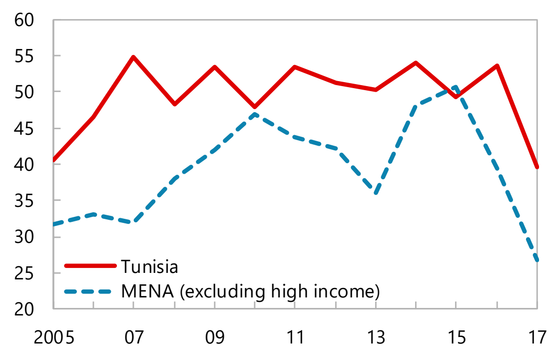
… it includes a greater share of concessionality, …

Concessional Debt
(Percent of total external debt)



… and it has a larger grant element.

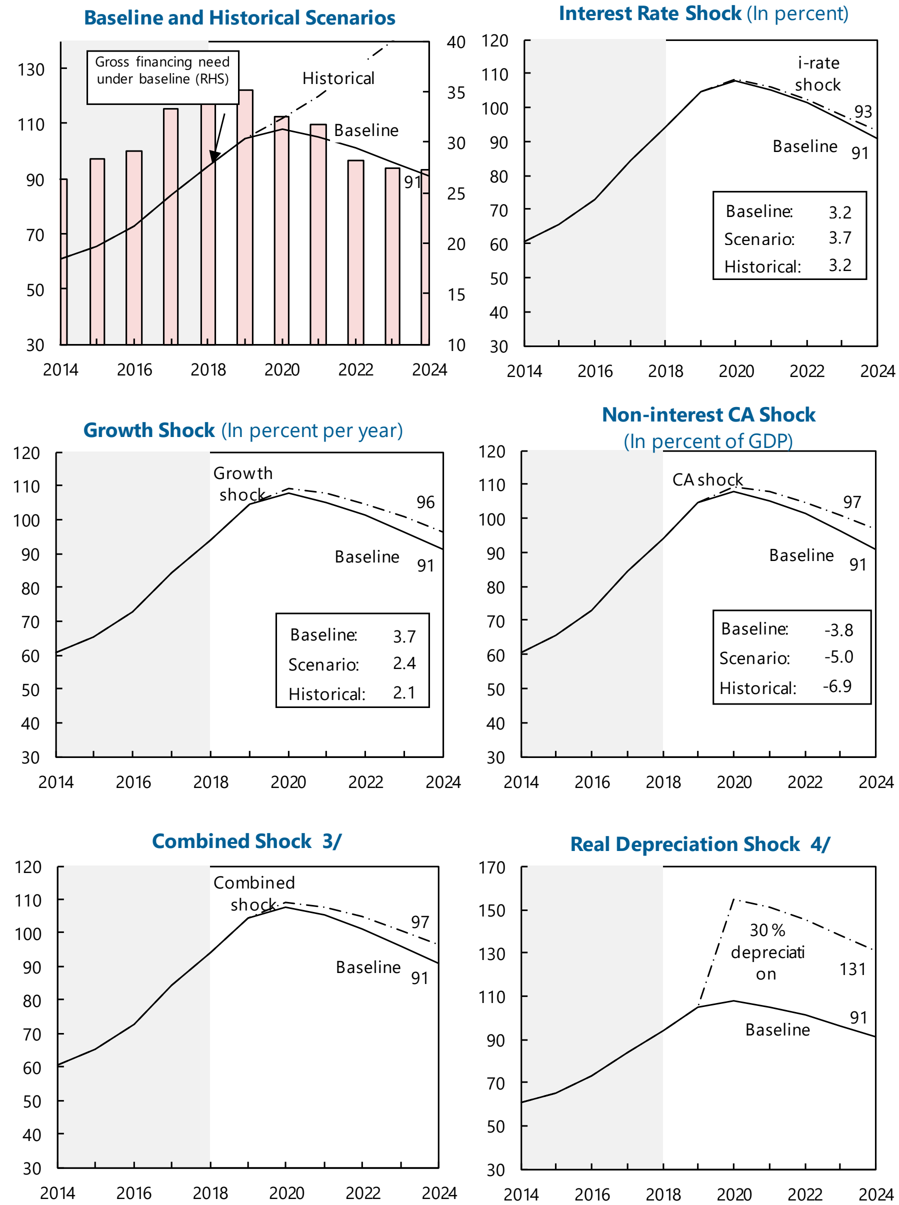
Average Grant Element on New External Debt
(Percent of total new external debt)



Sources: World Bank International Debt Statistics.

Figure 3. Tunisia: External Debt Sustainability: Bound Tests 1/2

(Percent of GDP)



Sources: IMF, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks (except for growth which is a 3/4th standard deviation). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2019.

Annex IV. Capacity Building Priorities

Technical Assistance	Key Objective
Fiscal Affairs Department (FAD)	
• Treasury Single Account (TSA) and cash management	Improve fiscal and monetary policy coordination
• Management of state-owned enterprises (SoEs)	Improve consolidated public sector monitoring
• Budget preparation	Improve budget preparation procedures and transparency, including by introducing a medium-term perspective
• Tax equity	Rebalance the tax structure to make in more progressive
Monetary and Capital Markets Department (MCM)	
• Foreign exchange (FX) regulations	Help defining a strategy for capital account flows
• Monetary policy framework	Help moving to interest rate-based monetary policy and introduction of inflation targeting
• Central bank governance and strategic planning	Improve central bank efficiency and operations
• FX interventions	Strengthen intervention calibration and procedures
• Banking supervision	Accelerate transition to Basle III
• Stress testing	Reinforce tools for testing resilience of the banking system
Legal Department (LEG)	
• AML/CFT national risk assessment	Improve procedures for risk assessment
• Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) and anti-corruption measures: legal framework	Strengthen the legal framework for AML/CFT
• Framework for non-performing loans (NPL) resolution	Improve procedures for NPL resolution
Statistics Department (STA)	
• Government Finance Statistics (GFS) public sector consolidation	Consolidate SOEs balance sheets in the public sector statistic for consolidated monitoring
• Special Data Dissemination Standard (SDDS) platform reforms	Review internal CBT procedures for data submissions
• Financial institutions	Improve consolidated reporting of financial institutions
Institute for Capacity Department (ICD)	
• Financial programming	Improve macroeconomic monitoring and policy implementation capabilities
• Monetary policy	Strengthen the implementation of monetary policy instruments
• Exchange rate policy	Explore options and trade-offs in selecting exchange rate regiments

Appendix I. Letter of Intent

Tunis, May 22, 2019

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
USA

Madame Managing Director,

1. The economic recovery gathered strength in 2018, thanks to the good performance of the agricultural sector and the confirmed improvement in the tourism sector. This renewed growth remains fragile, however. More robust growth engines are needed: only a stronger recovery in exports and investment will guarantee sustainable and inclusive growth and offer the opportunities needed to create jobs. At the same time, significant macroeconomic vulnerabilities continue to raise concern. The current account and the dinar are still under pressure, with a widening external trade imbalance in 2018, which has tended to run down foreign exchange (FX) reserves. The inflation rate remains high, despite a slight downward turn noted at the beginning of 2019. Recent wage increases are weighing on fiscal space, as is the slowdown in the reduction of energy subsidies. All these factors call for vigilance and prompt action, if we are to continue reducing macroeconomic imbalances and vulnerabilities.

2. Our economic stability and prosperity are intimately linked to the social climate. The inflationary pressures that depress purchasing power are upsetting the social peace that was established after years of protests. In this delicate context, it has been difficult for us to undertake, within the deadlines, all the planned energy price adjustments. We are however determined to pursue our efforts to contain energy subsidies, and to put the necessary adjustments in place promptly, while imperatively protecting the most underprivileged social categories. The social protection system, notably for low-income households, will be reinforced in parallel to the increase in energy tariffs.

3. By this letter, we would like to reassure our partners of our full commitment to pressing ahead with planned reforms. We can confirm that the 2019 budget will be executed in line with the agreed priorities: (1) another significant reduction in the deficit, anchored in important savings on energy subsidies; (2) an increase in social spending to protect low-income households; and (3) a boost in public investment to support growth. In addition, to tame inflation, reduce the current account deficit, and reconstitute our FX reserves, we will continue with monetary tightening and ensuring exchange rate flexibility as necessary. Structural reforms will seek to improve protection for the less well-off social groups, enhance the business climate, reinforce efforts at combating corruption, and achieve better financial inclusion.

4. The performance in the context of our program supported by the Extended Fund Facility (EFF) arrangement continues to improve. As expected, four of the six quantitative performance criteria (QPCs) were achieved at the end of March: (1) the floor on the central government's (CG) primary balance (on a cash basis, excluding grants); (2) the ceiling on the CG's total current primary expenditures; (3) the floor on social spending; and (4) the quarterly ceiling on the Central Bank of Tunisia's (CBT) net FX interventions. Nevertheless, we exceeded the CBT's ceiling on net domestic assets and undershot the floor for net international reserves—the latter due to the fact that the target under the program was adjusted only for the shortfall in external flows relative to expectations for the first quarter of 2019 rather than for the accumulated shortfall since the last test date in June 2018. We have also respected the continuous zero ceiling on the accumulation of arrears on the CG's external debt service and the indicative target (IT) relating to the zero ceiling on the accumulation of new arrears on domestic payments. In addition, we observed the monthly ceiling on net FX interventions FX by the CBT in December 2018, February and March 2019, but not during August to November 2018 or in January 2019. As for structural reforms, we have completed three prior actions and have met four of the nine planned structural benchmarks (SBs). We have had to reprogram four of the SBs, but we have made substantial progress on many others.

5. In view of our performance under the program supported by the IMF, we request the completion of the Fifth Review under the EFF arrangement, approval of the related purchase of the SDR 176,782,400, waivers of nonobservance of the two QPCs on NIR and NDA, and a modification of end-June QPCs. To support our policy and reform efforts, we also request a re-phasing of the remaining access under the program. We are also committed to respecting the quantitative targets and putting in place the measures listed in the schedule of SBs, as described in the Memorandum of Economic and Financial Policies (MEFP, Tables 1 and 2) and in the Technical Memorandum of Understanding (TMU), which are attached to this letter. This letter of intent is based on the letter of intent and the MEFP from the Fourth Review, dated September 14, 2018. The MEFP details the main elements of the reform program and the economic policies that we intend to put in place during 2019–20. We remain determined to apply our program in a rigorous way, while paying due heed to the difficulties arising at the national, regional and international levels.

6. We believe that the policies described in the MEFP are consistent with achieving the objectives of our economic program. Moreover, we remain vigilant and ready to take any supplementary measures necessary to achieve these objectives. Consistent with the IMF's consultation policy, we will discuss the adoption of these measures with IMF staff, prior to any revision of the macroeconomic policies contained in the MEFP. All the information and data needed for monitoring the program and for the technical assistance missions requested in the context of our program supported by the EFF, will be provided to IMF staff within the agreed deadlines.

7. We authorize IMF staff to make public this letter of intent, along with the attached documents (the MEFP and its Tables 1 and 2, and the TMU) as well as the related IMF Staff Report.

Please accept, Madame Managing Director, the expression of our highest consideration.

/s/	/s/
Youssef Chahed	Marouane El-Abassi
Head of Government	Governor Central Bank of Tunisia

Attachments (2):

1. Memorandum on Economic and Financial Policies (MEFP)
2 Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

This memorandum describes our program of reforms, which seeks to maintain macroeconomic stability while promoting stronger, more equitable and more inclusive growth.

I. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

1. The economic recovery remains fragile, due primarily to elevated political uncertainty and persistent structural vulnerabilities. In 2018, the economy grew by 2.6 percent (at 2010 prices), a growth rate that was slightly lower than expected. Exports of goods and services recovered, thanks particularly to an exceptional olive harvest and the growing influx of tourists, which reached its pre-Revolution level. Unemployment rose slightly, reaching 15.4 percent in 2018. Inflation stabilized at around 7.3 percent in the second half of 2018, but underlying pressures on prices have persisted, due to the continuing depreciation of the dinar, as well as wage hikes and higher energy prices. The current account deficit reached a record level in 2018 (11.2 percent of GDP), reflecting the widening trade deficit, and particularly its energy component that worsened due to the increase in international energy prices and the contraction of domestic production. Healthy tax revenues made it possible to reduce the fiscal deficit to 4.6 percent of GDP (including grants). Nevertheless, the CG's debt reached 77 percent of GDP compared with the 72 percent planned in the supplementary 2018 budget—this overshoot can be explained primarily by the effect of the dinar's depreciation on the FX-denominated debt.

2. We have continued to implement the program supported by the EFF.

- ***Quantitative performance criteria*** (Table 1). We have met four of the six QPCs set for end-March 2019: (1) the floor on the CG's primary balance (on a cash basis, excluding grants); (2) the ceiling on the CG's total current primary expenditure; (3) the floor on social expenditures; and (4) the quarterly ceiling on the CBT's net FX interventions. We have also respected the continuous criteria of not accumulating new arrears on the CG's external debt service and the indicative quantitative target of not accumulating new domestic payment arrears. However, we have exceeded the QPC on the ceiling on the CBT's net domestic assets (NDA), due to refinancing needs that have appeared in response to the evolution of autonomous liquidity factors amidst a context of weak bank reserves. The QPC on the floor on net international reserves (NIR) was also missed as a result of lower-than-expected external financing flows since June 2018.[1] Besides, while the monthly IT on the ceiling on the CBT's net FX interventions was respected in December 2018, February and March 2019, it was missed during August and November 2018 and in January 2019—this may be attributed to SOEs' significant purchases of FX, especially in the energy sector.

[1] The accumulated shortfall since the Fourth Review test date in June 2018 affected the stock of international reserves observed in March 2019. However, the target under the program was adjusted only for the shortfall in external flows relative to expectations for the first quarter of 2019.

We have been successful in offsetting this overrun by under-executing our FX intervention budget from February 2019.

- ***Structural benchmarks*** (SBs, Table 2).
    - *Achieved*. We have met or implemented with delay four of the nine SBs to which we have committed ourselves for the Fifth Review. Two SBs were met: the BFT resolution committee has voted on the orderly resolution plan for the BFT and the 2019 budget law provides for convergence between the preferential taxation regime for offshore companies and the normal regime. Two additional SBs were not met but implemented with delay: the database on vulnerable households has been established and the organic budget law was adopted.
    - *Reprogrammed*. Four SBs are going to require more time to be achieved: the nomination of the Board of the High Anticorruption and Good Governance Authority (reprogrammed for September 2019); adoption of the law on excessive lending rates (reprogrammed for September 2019); the increase in the VAT for the liberal professions (reprogrammed for December 2019); and the performance contract for Tunisair (reprogrammed for July 2019).
    - *Not achieved*. The quarterly SB on fuel price hikes was not met: although we increased fuel prices in September 2018, we did neither implement the planned fuel price increases for the last quarter of 2018, nor the planned utility tariff increases for October and November 2018, in light of strong social tensions. As a compensation, (1) we have raised fuel prices by around 6% as of March 31, 2019, as well as the prices of other oil products, thereby achieving annual savings of around TD 250 million; and (2) we raised prices for low-pressure natural gas and low-voltage electricity in May for annual savings of TD 74 million.

II. MACROECONOMIC POLICIES

A. Fiscal Policy

3. The government continues with budget consolidation to reduce the pressures arising from servicing the public debt. For 2019, we target an overall budget deficit, excluding grants, of 3.9 percent of GDP (as envisaged at the time of the Fourth Review), while maintaining investment expenditures at their 2018 level (5.6 percent of GDP) and boosting social spending. Achieving this deficit target will require mobilizing additional tax revenue in 2019 and implementing the measures detailed below. An unallocated contingency of TD 300 million (0.3 percent of GDP) will constitute a buffer against potential shocks, especially against a renewed hike in international oil prices.

4. We will move forward decisively with energy subsidy reforms.

- ***Energy subsidies.***
    - *Implemented price measures.* We already raised (1) fuel prices by 6 percent on average in end-March (*met Prior Action*) and (2) selected electricity and natural gas tariffs in May (*met*

Prior Action). In the case of electricity, these increases apply to the consumption tariffs of more than 300 kWh per month, which only represent 4 percent of households and 2.6 percent of non-residential clients. Other tariffs were adjusted downward or maintained: the social tariffs for electricity (for a monthly consumption of less than 100 kWh) were adjusted downward by around 10 percent to help the most disadvantaged social groups, and the tariffs for the tranche of 100 kWh to 300 kWh were maintained to protect the middle class. Thus, 94 percent of energy consumers in the country will be protected. At the same time, these measures will help dissuade overconsumption, rationalize household consumption, and generate savings of some TD 74 million.

Table A. Adjustment of Energy Product Prices, 2019
(TD millions, unless otherwise indicated)

	May		June		Jan-April 2%		May-Dec 2%		October		**TOTAL**
	Adj. 1/	Impact	Adj. 1/	Impact	Adj. 1/	Impact	Adj. 1/	Impact	Adj. 1/	Impact	**Impact 2/**
Saving efforts	**...**	**317**	**...**	**151**	**...**	**170**	**...**	**95**	**...**	**65**	**798**
Oil products (STIR)	**...**	**243**	**...**	**151**	**...**	**...**	**...**	**...**	**...**	**65**	**459**
Gasoil w/o sulfur	80	32	85	47	...	...	...	...	85	20	99
Gasoil	90	121	85	67	...	...	...	...	85	29	217
Super	80	46	85	37	...	...	...	...	85	16	99
Domestic oil	90	20	...	...	...	...	...	...	...	...	20
Fuel oil	70	12	...	...	...	...	...	...	...	...	12
GPL domestic	0	...	...	...	...	...	...	...	...	...	...
GPL industrial	70	12	...	...	...	...	...	...	...	...	12
Electricity and gas (STEG)	**...**	**74**	**...**	**...**	**...**	**170**	**...**	**95**	**...**	**...**	**339**
Electricity	**...**	**56**	**...**	**...**	**...**	**170**	**...**	**95**	**...**	**...**	**321**
High and middle tension	...	...	...	...	...	170	...	95	...	...	265
Low tension	10% 3/	56	...	...	...	...	...	...	...	...	56
Gas	**...**	**18**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**18**
High pressure	...	...	...	...	...	...	...	...	...	...	...
Middle pressure	...	...	...	...	...	...	...	...	...	...	...
Low pressure	10% 4/	18	...	...	...	...	...	...	...	...	18

Source: Tunisian authorities.

1/ In millimes per liter for fuels, in percent for electricity and gas prices.

2/ The total impact does not include (1) savings of an additional TND 100 million through the increased supply of unleaded fuels (and corresponding decline in leaded fuels), which are subject to a higher excise tax than leaded fuels; and (2) the collection of outstanding utility bills from private and public customers to the STEG utility company of TND 140 million.

3/ The 10 percent tarif increase for the low tension will only be applied to households consuming more than 300 kWh, thereby protecting the poorest segments of the population (who benefit from social tarifs, up to a consumption of 100 kWh, which will even be reduced by 10 percent).

4/ Similarly to the increase in the electricity tarif, the 10 percent increase will only apply to households with a consumption higher than 30 m^3.

- *Implemented quantitative measures*. To protect the environment, respect international norms on carbon dioxide emissions, and rationalize hydrocarbon consumption, the government decided to make progressive cuts in the supply of ordinary diesel (the most polluting fuel) and to raise in the same proportion the supply of sulfur-free diesel fuel (a less polluting fuel): The Ministry of Industry has thus notified the STIR in April that there will be a rebalancing of import volumes of ordinary diesel and sulfur-free diesel for 2019. This measure will help generate an increase in revenue of TD 100 million due to the heavier taxation of sulfur-free fuels (which are subject to a higher excise tax of around 0.3 dinar per liter, compared to 0.1 dinar for ordinary diesel).

- *Planned price measures for the remainder of 2019.* For the remainder of 2019, we plan to maintain the scheduled adjustment of 2 percent per month that started in January 2019 for the tariffs for medium voltage electricity and medium pressure natural gas. Consistent with the SB on quarterly adjustments of fuel prices, we also plan an increase of the three main fuel categories on June 1st, 2019, to be followed by another increase on October 1st, 2019 (see Table A). This is necessary to reduce the gap between sales and production prices, which currently causes an excessive subsidy bill for the government.

- ***Communication.*** We have flanked the increase in electricity and gas prices as well as the reduced offer of ordinary diesel with an effective communication campaign that makes the link, for the public, between the adjustment policy of energy prices and quantities (those already implemented and those yet to come in 2019–20, see Table A) on the one hand and measures designed to improve social protection for low-income households on the other (see Table B).

- ***Other measures.*** The government is also working on other measures that could reduce the weight of energy in households' consumption basket and improve the energy sector's efficiency:

  - *Rationalize the consumption of domestic liquified petroleum gas (LPG).* We launched a campaign to combat the diversion of subsidized domestic LPG for commercial purposes. The consumption of bottled domestic LPG will be reduced, and drivers and businessmen who currently use the domestic bottle will be steered towards other, less heavily subsidized products, namely industrial LPG and LPG fuel. Accordingly, the Ministry of Industry notified STIR in early May to rebalance the quantities produced of domestic LPG and industrial LPG, and the government will publish a decree reorganizing the distribution channels for domestic LPG.

  - *Reduce losses from STEG*, thanks to a system of "smart meters" (see Section III.B).

  - *Reduce unpaid invoices to STEG* (TD 140 million). STEG intends to discontinue service for customers who do not pay their bills: this task will be simplified thanks to the "smart meters" system that allows for automated and remote disconnection (*new SB for June 2019*, see ¶13).

5. The government is strengthening the existing social safety nets, particularly to offset the impact of higher energy prices on people's purchasing power. We took the following measures:

- ***Access to health care services.*** To improve care of low-income households (20 percent of the population) in public hospitals, we allocated an overall amount of TD 150 million to be distributed as follows:

  - *Dotation of a health fund* to subsidize health care for low-income households (categories AMG1 and AMG2; TD 100 million; *met Prior Action*).

- *Supply of medications* and settlement of arrears owed to the central pharmacy (annual envelope of TD 50 million, over four years).

- ***Other measures to help low-income households in 2019:***

  - *Improved social integration* (TD 15 million) through measures that benefit children from underprivileged families and handicapped persons, to facilitate their access to transportation (school transport) or to financing for small projects (credit lines). These measures have a significant impact on these population segments.

  - *Social transfers for AMG1 and AMG2 program beneficiaries*. Beneficiaries of the AMG1 and AMG2 programs have been registered in the new AMEN database. This effort will allow for a partial coverage by the budget of the beneficiaries' unpaid energy invoices for a total amount of TD 50 million (*new SB for September 2019*). In addition, the government will pay, for a total cost of TD 35 million (*new SB for September 2019*): (1) an additional one-off transfer for the month of Ramadan of TD 80 per vulnerable household (category PNAFN); and (2) a one-off transfer in support of the back-to-school period for other low-income households (category AMG2).

Table B. Social Measures, 2019

(Excluding support to the social security funds)

	Annual cost	
	TD millions	Percent of GDP
Total social measures	**367**	**0.32**
Current expenditure	**250**	**0.22**
• Dotation of a health fund to subsidize health care for low-income households (i.e. AMG1 and AMG2)	100	0.09
• Higher budget allocation for medicine purchases in the public sector 1/	50	0.04
• Promotion of social integration	15	0.01
- Free school transportation for kids form vulnerable households (i.e. PNAFN)	5	0.00
- Measures to help social insertion of deprived or disabled people	10	0.01
• Payment support by the budget for unpaid energy bills of low-income households (i.e. AMG1 and AMG2, registered in the new AMEN database)	50	0.04
• One-off transfers (1) for Ramadan to each vulnerable household (PNAFN); and (2) for the new school year to other low-income households (AMG2)	35	0.03
Capital expenditure	**117**	**0.10**
• Purchase of light equipment for hospitals	35	0.03
• Purchase of heavy equipment for hospitals	82	0.07

Source: Tunisian authorities.

1/ This program represents a total amount of TND 200 million, to be spent over 4 years.

6. **Beyond these immediate efforts, we are systematically improving the infrastructure for the targeting of our social programs.** We are determined to improve the coverage of low-income households with social programs and will no longer accept delays in our work in this area. We are committed not to reduce food subsidies, as long as well-targeted social safety nets are not yet in place. The AMEN database (*SB implemented with delay in March 2019*) represents an important step forward; it allowed to register 575,000 families, of which 475,000 have already been surveyed and

processed, and 375,000 validated. A payment card ("smart card") will be in general use by June 2019, and a health card ("AMEN card") will be operational for providing health care by November 2019.[2] We are now working according to the following calendar to achieve better coverage of low-income households:

- ***Efforts through the end of 2019.*** We strive for the registration of additional households in the AMEN database, which could cover up to 800,000 households by November 2019, of which 400,000 will have been surveyed. This target is ambitious, but we are determined to achieve it through pro-active public campaigns and the mobilization of all our administrative resources. We will be pursuing these efforts at a sustained pace of around 20,000 surveys completed per month, supported by an immediately allocation of around TD 2 million from the Ministry of Social Affairs to cover the cost of transportation for social workers. Next, the distribution of payment cards ("smart cards") to administer the assistance will be expanded from the current two regions to the entire country. As a result, our systems' coverage of low-income households with verified needs and in procession of a payments card will increase from the current 9 percent to at least 12 percent of the population by end-2019 and 15 percent (the share of the population living below the poverty line) in 2020. This will constitute an improved basis for the targeting of social policies (for example, recurrent cash transfers) from 2020, including through reduced leakages.

- ***Further considerations for the medium term.*** We are planning to reinforce transfers in favor of school enrollment for children from the most disadvantaged households. We are going to develop an action plan to boost resources in support of school enrollment, particularly through the development of transfers for households that are beneficiaries under the AMG2 program, with terms similar to those of the PNAFN program, and by extending the benefits covered by the PNAFN program to children up to the age of five years. We already receive technical support in this area from UNICEF and the World Bank. Depending on the action plan, these measures could be put into effect as of 2020.

7. We will pursue efforts to reduce the public wage bill. We deem it essential to maintain strict hiring limits for 2019 and 2020 (replacement rate of 25 percent), notably given the decisions on the gradual increase in the retirement age and the salary increases for the civil service in January 2019 (which will be administered in 2019 and 2020, see Table C). We are not planning any new salary increases in 2019 or 2020.

[2] The health cards of the AMG1 and AMG2 programs will become invalid as of that date. In order not to disrupt health services, we will continue to implement an outreach campaign and facilitate registration to the new cards in our public health centers (including public hospitals).

Table C. Public Wage Bill, 2018–19

	2018		2019	
	TD millions	%GDP	TD millions	%GDP
Wage bill	**14,863**	**14.1**	**17,215**	**14.9**
Base (previous year after corrections 1 /)	14,776	14.0	14,814	12.8
Increases in wages 2 /	...	...	1,727	1.5
2019 salary increases	...	...	580	0.5
Tax credits	...	...	1,147	1.0
Savings 3/	...	...	90	0.1
Other factors	...	...	584	0.5
Recruitments and promotions	...	...	674	0.6
Regularization of 2018 promotions	...	...	60	0.1
Correction of 2018 recruitment	...	...	45	0.0
Corrections security forces	...	...	116	0.1
2019 promotions, including automatic promotions	...	...	120	0.1
Ministerial increases	...	...	132	0.1
2019 recruitment 4/	...	...	70	0.1
Other regularizations of old conventions	...	...	151	0.1
2019 identified savings	...	...	-20	0.0
Natural attrition	...	...	-90	-0.1
Transfers reclassified in the wage bill in line with the program 5/	87	0.1	0	0.0
Memo items:				
GDP	105,479		115,828	

Sources: Tunisian authorities; and IMF estimates.

1/ Budget classification: the 2018 wage bill is TD 87 million lower than that under the program because of the accounting of the cost of voluntary departures, which are classified as a transfer in the budget. The 2019 base wage bill is slightly higher than the 2018 wage bill due to the defered payment of certain bonuses to 2019.

2/ 2019 includes TD 1,054 million from the elimination of tax credits.

3/ Includes the increase of the employer contribution mandated by the reform law for the public pension fund.

4/ 4,184 positions created (mainly in education, but also magistrates, officers and other ministries).

5/ Cost of 2018 voluntary departures.

8. **We will limit budgetary transfers to the social security funds.** We welcome the reform law for the public pension fund CNRPS, recently adopted by Parliament on April 3, 2019: it (1) increases the retirement age from 60 years to 61 in 2019, and to 62 years in 2020; and (2) rises contributions by 1 percentage point for the employee and 2 percentage points for the employer. This reform will help improve the financial viability of the social security funds, particularly of the CNRPS. However, given the delays relative to the Fourth Review (arising from the late approval of the law and the increase in employee contributions only from 2020), the budget will have to provide a transfer of TD 230 million to the CNRPS (0.2 percent of GDP). A government decree with similar reform elements for the private pension fund CNSS will be published shortly.

9. **Our financing program for 2019 takes into account these needs and constraints.** We intend to mobilize TD 10.3 billion in external financing this year, of which around TD 2.6 billion (US$0.8 billion) will come from the international market in the second quarter. On the domestic financing side, we will reduce our needs, to facilitate the work of the CBT towards its objective of reducing both the monetary base and commercial banks' refinancing.

B. Monetary Policy

10. The CBT has recently implemented a more restrictive monetary policy. The 100 basis points increase in the policy rate last February should have an impact on the demand for credit and should help stabilize inflation in 2019. The CBT, whose mandate is to preserve price stability, is determined to take all the actions necessary to reduce inflation:

- ***Interest rate policy geared to control inflation.*** In the space of 12 months, the policy rate has been raised three times for a total of 275 basis points, bringing it to 7.75 percent in February 2019. Inflation will therefore slow in 2019 to a level of 6.8 percent at the end of the year. The CBT will not hesitate to raise its policy rate further to contain inflationary pressures, if quarterly projections point to deviations from the programmed path to preserve the turnaround recently observed in the direction of overall inflation.

- ***Contain the overall volume of refinancing granted by the CBT to banks.*** The volume of refinancing, which has been rising swiftly since 2016, is still too high, but it should fall during 2019. The CBT is committed to reducing refinancing to bring it to TD 13.9 billion by the end of 2019, compared to TD 16.4 billion in March 2019. The limit to the loan-to-deposit ratio imposed on banks since November 2018 should continue to rein in refinancing by end-2019. In a context of the reduction of domestic indebtedness of the state, a more restrictive collateral policy should serve to stabilize the overall volume of refinancing. The share of public securities accepted as collateral in monetary policy operations will be increased from 40 percent currently to 50 percent of the volume of refinancing (*new SB for September 2019*). This measure represents part of the overall effort to tighten collateral policy.

- ***Rationalize liquidity injection instruments.*** The overall volume of FX swap operations will be gradually reduced to TD 500 million by the fourth quarter of 2019. The CBT will not raise the ceiling of the main 7-day refinancing operations until a credible quarterly path has been established for reducing refinancing operations and not without consultation with the IMF.

- ***Monetary programming.*** The NDA target at end-December 2018 was missed by nearly TD 510 million. The expansion of the monetary base reflects essentially the growth in FX bank deposits. For the coming quarters of the year 2019, the monetary base and NDA assets will shrink in line with the policy to reduce the global refinancing volume.

- ***Clarify the monetary policy framework.*** The CBT is committed to: (1) communicate a medium-term inflation target as soon as possible; (2) continue publishing the monetary policy report; (3) improve its inflation forecasting tools (for example, by including a credit variable); and (4) introduce a quarterly survey of inflation expectations. We will be requesting technical assistance from the IMF to strengthen the monetary policy framework, the governance and strategic planning of the CBT, the framework for the CBT's FX interventions, reform FX regulations, as well as implement an inflation expectations survey. We also plan to start preparations for the monetary policy consultation clause (MPCC), which could be implemented during a subsequent stage of the reform program.

11. We will monitor the banking sector's liquidity situation on a monthly basis. We plan to impose the sanctions included in banking regulations on banks that do not respect prudential rules. The corresponding data will be transmitted monthly to IMF staff in accordance with the Technical Memorandum of Understanding (TMU).

12. We will analyze in detail the impact of recent changes in monetary and financial policies on the financial sector. On this point, we will be asking for technical assistance to strengthen the CBT's capacity to manage macro-prudential risks.

C. Exchange Rate Policy

13. The CBT is committed to continue with the changes made to its FX intervention framework since August 2018. The CBT is committed to: (1) pursuing its regular competitive auctions with the objective of supporting price discovery, and leaving the dinar to adjust in response to the liquidity situation on the FX market; (2) avoiding any intervention outside the auction mechanism; (3) strengthening its communications in order to enhance the transparency of the intervention mechanism; and (4) ensuring strict respect of the FX intervention limits. The intervention ceiling will be reduced to US$100 million on average during May and December 2019, compared to an average US$126 million in 2018. The practice of direct FX sales by the CBT, intended to satisfy the demand of public enterprises in support of energy imports, will be terminated.

III. STRUCTURAL REFORMS

A. Promoting the Private Sector

14. The government will continue to enhance the business climate through the following measures:

- ***Promoting the private sector.*** A draft of a cross-cutting law for the promotion of investment and improvement of the business climate has been adopted by a parliament committee and will shortly be debated in full session. The intent is to simplify procedures, reduce the number of prior authorizations, alleviate administrative costs for the creation and financing of a business, and computerize procedures on an integrated platform.

- ***Making the Start-up Act operational.*** We have started implementing the Start-up Act adopted in 2018 and we are preparing a second plan of action, *Doing Business*, which seeks to simplify procedures for obtaining construction permits, creating a business, and selling property.

- ***Reducing administrative formalities.*** We will pursue the simplification of administrative authorizations based on government decree no. 2018-417.

15. The government will strive to improve governance and conform to international standards:

- ***Making operational the National Anticorruption and Good Governance Authority.*** We are working with Parliament to finalize the appointment of members of the Board of Directors of the authority, who will be named by September 2019 (*reprogrammed SB for September 2019*).

- ***Combating money laundering and the financing of terrorism (AML/CFT).***

    - *Financial Action Task Force (FATF).* The government is doing everything in its power to have Tunisia removed from the FATF "gray list" of jurisdictions with weak measures to combat money laundering and the financing of terrorism (AML/CFT). We will continue to make progress through measures that appear in the action plan adopted by the Council of Ministers on January 22, 2018. Specifically, prior to April 26, the intent is (1) to finalize the prior audit arrangements and have them effectively applied by lawyers, notaries and accountants; (2) launch the national business registry and make the information on their beneficiaries available; and (3) apply the penalties stipulated by decree 2019/72.

    - *Taxation.* We will continue sharing fiscal information with other jurisdictions to facilitate the fight against money laundering and the financing of terrorism. These exchanges will henceforth be facilitated through the provisions included in the 2019 budget law and the organic budget law.

B. Public Financial Management

16. Strengthen the governance of state-owned enterprises. In addition to the performance contracts now required for certain public enterprises, we will step up financial surveillance over all state-owned firms:

- ***Boost the performance of Tunisair.*** The performance contract for Tunisair is now being implemented (*reprogrammed SB for July 2019*). Nevertheless, a more comprehensive restructuring plan has already been prepared by the company's management.

- ***Enhance the monitoring of the financial soundness of state-owned enterprises.*** Through the *Direction Générale des Participations* (DGP) and representatives of the government on the boards of directors of state-owned enterprises, we are going to require those enterprises to transmit to the DGP and to the budget office monthly balance sheets on their treasury operations (including the details on proceeds and expenditures) and their indebtedness (including arrears).

- ***Improve governance of the STEG (Tunisian Electricity and Gas Company).*** Through measures, such as reducing technical losses and stepping up the campaign against fraud with the introduction of electronic meters, we will achieve savings of some TD 300 million in 2019 (including the collection of unpaid invoices), and this will help to reduce the energy bill.[3] These measures will rely in large part on "smart grid" technology and assistance from the World Bank

[3] "Smart meters" make it possible to detect fraud automatically and immediately (in cases of fraudulent manipulation of the meter).

to the STEG, in particular on reducing technical and non-technical losses and improving invoice recoveries.

- ***Study the impact of energy subsidies.*** The outcomes from a study on the impact of raising energy rates on the profitability of enterprises should be available by the end-2019. Moreover, we are also paying close attention to the impact of reforms in the energy area on the most disadvantaged households. With the recent strengthening of social coverage, these households will get savings from the adjustment of prices for energy products.

17. To strengthen good governance in the tax administration we intend to:

- ***Strengthen international cooperation by the Tunisian tax authorities.*** Tunisia was the subject of an international evaluation in 2015, at the end of which a group of peers considered that the legal framework was overall consistent with international standards for the exchange of required information. Tunisia has undertaken to adhere to the multilateral agreement among competent authorities on automatic sharing of information on financial accounts. Lastly, the tax administration will create in 2019 an international unit for the exchange of tax information.

- ***Introduce one-off audit controls in tax legislation.*** These one-off audits are essential for allowing the tax administration to correct anomalies promptly, whereas the current legislation allows only for in-depth audits that can take several years to carry out. An amendment to the code of fiscal procedures will be proposed in the context of the supplementary budget law for 2019.

- ***Facilitate tax collection, combat tax evasion, and strengthen governance.*** We are putting in place a mechanism for monthly and automatic sharing of information between customs and the tax administration to replace ad hoc exchanges. The system is now being developed and should be fully operational by December 2019.

- ***Pursue computerization of the tax administration.*** By December 2019, we will have operational a complete information system that will include: (1) a new electronic taxpayer registry; (2) automatic reminders of tax obligations; (3) electronic payments; and (4) online tax filing. This system already exists, but we are going to work more on audits of the taxpayers' database and, at the same time, on new taxpayers' registration. Moreover, we have made electronic tax filing obligatory for enterprises with a turnover of at least TD 500,000 (previously 750,000). We have undertaken to introduce an automatic electronic reminder system for non-filers by the end-2019. At the same time, the public commercial registry now publishes online information indicating whether the registered enterprises are up to date with their tax obligations (law approved in October 2018 and application decrees published on February 7, 2019).

- ***Develop price indices for residential real estate that will allow us to enhance the collection of property taxes.*** We are coordinating our efforts with the National Statistics Institute (INS) to improve the information e on real estate properties. These efforts are being supported by technical assistance from the country's development partners and the IMF.

C. Financial Supervision and Inclusion

18. To bolster financial sector stability and improve access to finance, we are planning to:

- ***Strengthen banking supervision.*** We are going to: (1) monitor the impact and the observance of the tightening of the CBT's refinancing policy, as well as prudential requirements (i.e. the loan-to-deposit and liquidity ratios); (2) continue strengthening the solvency requirements, as since 2018 the capital adequacy ratio covers market risk requirements in addition to credit and operational risks; and (3) improve the monitoring of banks' financial soundness, in particular as it concerns the impact of policy rate hikes on bank balance sheets.

- ***Strengthen risk management.*** CBT's objectives for 2019 are: (1) to review the credit risk approach and adopt prudential standards on a consolidated basis; and (2) to prepare for the adoption of Basel III tools and IFRS rules.

- ***See to the proper restructuring of the state-owned banks and the reduction in nonperforming loans*** (NPLs), through implementation of recent laws allowing out-of-court workouts and softening the conditions for writing off unrecoverable bank loans. Speeding the process of NPL resolution will require implementing a concerted, global approach that involves all stakeholders (government, CBT, banks, the judiciary). This approach must combine measures to support certain economic sectors, promote financial recovery, and improve the business climate. CBT will benefit from World Bank technical assistance on this subject.

- ***Improve monitoring of the banks' financial soundness.*** With a view to ensuring closer monitoring of banks, an internal committee of the CBT will be constituted to carry out a more detailed and more frequent assessment of the situation of each bank, on the basis of an in-depth analysis of its soundness and its liquidity indicators. Banks that no longer fulfill the conditions of access to the money market must be excluded from that market and henceforth handled through the emergency liquidity assistance mechanism.

- ***Implement the decashing strategy.*** As e-payment institutions are to be launched, the banking community will acquire a new mobile payment solution that is by nature interoperable. The tax administration and state-owned enterprises will accept new modes of payment. This should reduce cash in circulation in the economy, thus relieve pressures on the overall volume of refinancing.

D. Trade Policy

19. Non-tariff measures recently implemented with respect to trade policy have been removed. At the end of 2018, we withdrew the exchange restriction introduced in 2017 (prohibiting the granting of loans for imports deemed nonessential). Capital account liberalization can take place only as a function of domestic financial market development and the strengthening of prudential regulation.

IV. PROGRAM MONITORING

20. Progress in the implementation of our IMF-supported policies will continue to be monitored through quarterly reviews. The related QPCs, continuous PCs, ITs, and SBs for the upcoming test dates end-June, end-September, and end-December 2019 are detailed in Tables 1a, 1b, and 2, with definitions and data requirements provided in the attached TMU (including a clarification of the QPC on NIR in TMU¶¶21–22 that does not change the existing coverage). Finally, we continue to intend not to keep IMF disbursements with the CBT, but to on-lend to the government.

Table 1a. Quantitative Performance Criteria and Indicative Targets, 2018 1/

(Cumulative flow since the beginning of the year, unless otherwise indicated)

	2018																									
	Mar.				Apr.		May		Jun.				Jul.		Aug.		Sep			Oct.		Nov.		Dec.		
	Prog.	Adj. prog.	Act.	Prog. status	Ind.	Act.	Ind.	Act.	Prog.	Adj. prog.	Act.	Prog. status	Ind.	Act.	Ind.	Act.	Prog.	Adj. prog.	Act.	Ind.	Act.	Ind.	Act.	Prog.	Adj. prog.	Act.
Quantitative Performance Criteria																										
• Floor on the primary balance of the central government (cash basis, excl. grants, millions of TD)	-1,722	-1,722	-119	Met	...	...	...	...	-2,961	-2,961	227	Met	...	...	...	...	-2,592	-2,592	-790	...	...	...	...	-3,108	-3,108	-1,442
• Ceiling on total current primary expenditure of the central government (millions of TD)	6,237	6,237	5,185	Met	...	...	...	...	11,517	11,517	10,787	Met	...	...	...	...	17,540	17,540	16,367	...	...	...	...	24,083	24,083	23,680
• Floor on social spending (millions of TD) 2/	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	1,692	...	1,868	...	...	...	...	2,382	...	2,498
• Ceiling on net domestic assets of the Central Bank of Tunisia (end of period stock, millions of TD)	9,374	9,379	8,247	Met	...	...	...	...	8,150	10,082	9,732	Met	...	...	...	...	11,425	11,891	10,753	...	...	...	...	8,929	10,808	11,319
• Floor on net international reserves of the Central Bank of Tunisia (stock, millions of US$)	2,352	2,350	2,408	Met	...	...	...	...	2,966	2,006	2,184	Met	...	...	...	...	2,103	1,871	2,079	...	...	...	...	2,770	1,836	2,300
Continuous Performance Criteria																										
• Ceiling on the accumulation of new external debt payment arrears by the central government (millions of US$)	0	...	0	Met	...	...	...	...	0	...	0	Met	...	...	...	...	0	...	0	...	...	...	...	0	...	0
Quantitative Indicative Targets																										
• Ceiling on the accumulation of new domestic arrears (millions of TD)	0	...	0	Met	...	...	...	...	0	...	0	Met	...	...	...	...	0	...	0	...	...	...	...	0	...	0
• Floor on social spending (millions of TD) 2/	721	...	735	Met	...	...	...	...	1,144	...	1,397	Met	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Program assumptions on which adjusters are calculated in case of deviations (at program exchange rates)																										
• External financing of the central government (excluding IMF, millions of US$)	209		220						1,640		544						1,263		1,111					2,692		1,734
• External debt service of the central government (interest and amortization, millions of US$)	466		479						994		858						1,216		1,295					1,697		1,672
• Bank recapitalization and civil service reform costs (millions of TD)	0		0						0		0						0		0					0		0
• Privatization receipts in FX (millions of US$)	0		0						0		0						0		0					0		0
• Program exchange rate TD/US$	2.01285		2.01285						2.01285		2.01285						2.01285		2.01285					2.01285		2.01285

Source: Tunisian authorities; and IMF staff estimates.

1/ Quantitative performance criteria and adjusters are described in the Technical Memorandum of Understanding (TMU). "..." represents "not applicable."

2/ Social spending includes social transfers and programs as well as key ministries' capital expenditures. Its coverage was expanded in 2017. Besides, the quantitative indicative target on social spending will be converted into a quantitative performance criterion from September 2018 onwards.

Table 1b. Quantitative Performance Criteria and Indicative Targets, 2019 1/
(Cumulative flow since the beginning of the year, unless otherwise indicated)

	2019																		
	Jan.		Feb.		Mar.				Apr.		May	Jun.		Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
	Ind.	Act.	Ind.	Act.	Prog.	Adj. prog.	Act.	Prog. status	Ind.	Act.	Ind.	4th Rev. prog.	Revised prog.	Ind.	Ind.	Prog.	Ind.	Ind.	Prog.
Quantitative Performance Criteria																			
• Floor on the primary balance of the central government (cash basis, excl. grants, millions of TD)	...	...	...	...	-347	-347	39	Met	...	...	...	-607	-1,836	...	...	-1,914	...	...	-1,192
• Ceiling on total current primary expenditure of the central government (millions of TD)	...	...	...	...	6,294	6,294	6,099	Met	...	...	...	12,501	13,231	...	...	20,171	...	...	27,336
• Floor on social spending (millions of TD) 2/	...	...	...	...	656	...	882	Met	...	...	...	1,311	1,668	...	...	2,454	...	...	3,144
• Ceiling on net domestic assets of the Central Bank of Tunisia (end of period stock, millions of TD)	...	...	...	...	7,427	6,385	12,355	Not Met	...	...	...	7,557	12,215	...	...	11,816	...	...	10,600
• Floor on net international reserves of the Central Bank of Tunisia (stock, millions of US$)	...	...	...	...	2,914	3,432	2,768	Not Met	...	...	...	2,997	2,650	...	...	2,405	...	...	2,806
Continuous Performance Criteria																			
• Ceiling on the accumulation of new external debt payment arrears by the central government (millions of US$)	...	...	...	...	0	...	0	Met	...	...	...	0	0	...	...	0	...	...	0
							0												
Quantitative Indicative Targets																			
• Ceiling on the accumulation of new domestic arrears (millions of TD)	...	...	...	...	0	...	0	Met	...	...	...	0	0	...	...	0	...	...	0
• Floor on social spending (millions of TD) 2/	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	n.a.	...	...	n.a.
Program assumptions on which adjusters are calculated in case of deviations (at program exchange rates)																			
• External financing of the central government (excluding IMF, millions of US$)				n.a.	240		646					473	1,884			2,295			2,545
• External debt service of the central government (interest and amortization, millions of US$)				n.a.	631		519					1,243	1,180			1,915			2,251
• Bank recapitalization and civil service reform costs (millions of TD)				n.a.	0		0					0	0			0			0
• Privatization receipts in FX (millions of US$)				n.a.	0		0					0	0			0			0
• Program exchange rate TD/US$				n.a.	2.01285		2.01285					2.01285	2.01285			2.01285			2.01285

Source: Tunisian authorities; and IMF staff estimates.

1/ Quantitative performance criteria and adjusters are described in the Technical Memorandum of Understanding (TMU). "..." represents "not applicable."

2/ Social spending includes social transfers and programs as well as key ministries' capital expenditures. Its coverage was expanded in 2017. Besides, the quantitative indicative target on social spending will be converted into a quantitative performance criterion from September 2018 onwards.

Table 2. Tunisia: Prior Actions and Structural Benchmarks

Prior Actions	Objective
√ **Fuel prices.** Implementation of a price increase of an average of at least 5 percent at least for the main fuels.	*Fiscal sustainability and fairness*
√ **Utility tariffs.** Implementation of a set of electricity and gas tariff hikes that reduce subsidies by TD 74 million.	*Fiscal sustainability and fairness*
√ **Social protection.** Implementation of a set of measures to strengthen public health care for low-income families (TD 100 million).	*Social protection and fairness*

Structural Benchmarks	Objective	Date	Revised Date	Status
I. Sectoral reforms/private sector development				
• **High anti-corruption and good governance authority (HACGGA).** Signature of the decree appointing the members of the HACGGA.	*Good governance and fairness*	Dec-18	Sep-19	Not met. A shortlist of candidates is prepared, but Parliamentary vote not yet scheduled.
√ **Social policy.** Establishment of the AMEN databank on vulnerable households.	*Social protection and fairness*	Dec-18		Not met. Implemented with delay in March 2019.
II. Financial sector reform				
√ **Banque Franco Tunisienne (BFT).** Vote of the resolution committee on the orderly resolution of the BFT.	*Financial sector stability*	Nov-18		Met
• **Maximum lending rate.** Adoption by Parliament of a law and decree on increasing the maximum lending rate for corporates and SMEs from +20 percent above the average lending rate to +33 percent.	*Financial sector stability*	Dec-18	Sep-19	Not met. Draft law in Parliament.
III. Fiscal policy and reforms of public institutions				
• **Fuel prices.** Quarterly application of the automatic fuel price adjustment mechanism.	*Fiscal sustainability and fairness*	Mar-18 until end of program		Not met. Fuel price increases happened in 2018-Q3 (September) and 2019-Q1 (March), but not in 2018-Q4.
√ **Tax regime.** Adoption of a Budget Law that eliminates the preferential tax regime for "off-shore" companies.	*Fiscal sustainability and fairness*	Dec-18		Met
• **Value-added tax (VAT).** Adoption of a Budget Law that increases the VAT rate for liberal professions from 13 to 19 percent.	*Fiscal sustainability and fairness*	Dec-18	Dec-19	Not met. Rejected by the Council of Ministers before proposing to Parliament.
• **State-owned enterprises (SOEs).** Signature of a performance contract for TUNISAIR.	*Better monitoring of fiscal risks*	Dec-18	Jul-19	Not met.
√ **Organic budget law.** Publication, in the official journal, of the Organic Budget Law.	*Fiscal sustainability and fairness*	Dec-18		Not met. Implemented with delay at end-January 2019.
IV. Monetary and exchange rate policies				
• **Communication of monetary policy decisions.** Start publishing quarterly monetary policy reports including medium-term projections of inflation and growth.	*Monetary policy effectiveness*	Jun-19		
New SBs				
• **Social protection.** Payment of (1) a TD 80 one-off transfer for Ramadan to each vulnerable household (PNAFN); and (2) a subsidy for the new school year to low-income households (AMG2). The total cost will be TD 35 million.	*Social protection and fairness*	Sep-19		
• **Social protection.** Payment support by the budget for unpaid energy bills of low-income households (i.e. AMG1 and AMG2, registered in the new AMEN database) for an amount of TD 50 millions.	*Social protection and fairness*	Sep-19		
• **Efficiency of STEG.** Collection of outstanding utility bills from private and public customers to the STEG utility company (TD 140 million).	*Fiscal sustainability and fairness*	Jun-19		
• **Monetary policy operations.** Increase in the share of government bonds accepted as collateral in refinancing operations with commercial banks to 50 percent.	*Monetary policy effectiveness*	Sep-19		

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) establishes the agreement between the Tunisian authorities and IMF staff concerning the definition of the **quantitative criteria and targets** under the program supported by the Extended Fund Facility (EFF). They are listed in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent dated May 22, 2019.

2. This TMU also sets out the **content and frequency of data reporting** to IMF staff for program monitoring purposes. To this aim, the Ministry of Economy and Finance (MoF), the Ministry of Planning and Economic Cooperation (MDCI), the National Institute of Statistics (INS), and the Central Bank of Tunisia (CBT) will follow the rules and the format considered appropriate for data reporting as covered by this TMU, unless otherwise agreed with IMF staff.

DEFINITION OF PERFORMANCE CRITERIA AND INDICATIVE TARGETS

A. Performance Criteria and Indicative Targets

3. The **quantitative criteria and targets** specified in MEFP Table 1 are:

- ***Quantitative Performance Criteria (QPC):***
  - (quarterly floor) on the **primary balance** of the central government (cash basis, excluding grants);
  - (quarterly ceiling) on total **current primary expenditure** of the central government;
  - (quarterly floor) on **social spending** (starting from end-September 2018);
  - (quarterly ceiling) on **the net domestic assets** (NDA) of the CBT;
  - (quarterly floor) on **the net international reserves** (NIR) of the CBT; and
  - (quarterly ceiling) on **net foreign exchange interventions** of the CBT (starting from end-September 2018).
- ***Continuous Performance Criterion (CPC):***
  - (zero ceiling) on the **accumulation of new external debt payment arrears**.
- ***Indicative Targets (IT):***
  - (quarterly ceiling) on **accumulation of new domestic payment arrears**;
  - (monthly ceiling) on **net foreign exchange interventions** of the CBT; and
  - (quarterly floor) on **social spending** (through end-June 2018).

4. **Measurement of criteria**. The QPCs on the central government's (1) primary balance (cash basis, excluding grants), (2) total current primary expenditure, and (3) social spending are measured on a quarterly basis and cumulatively from the end of the previous year. The QPCs on the CBT's (1) NDA and (2) NIR are measured on a quarterly and stock basis. The QPC on the CBT's net foreign exchange interventions is measured on a quarterly and non-cumulative basis. The CPC on the accumulation of new external debt payment arrears is measured on a continuous basis. The IT on the CBT's net foreign exchange interventions is measured on a monthly and flow basis. The other ITs on (1) the accumulation of new domestic payment arrears and (2) social spending are measured on a quarterly and cumulative basis. Adjustment factors will apply to some of these criteria.

5. Valuation. For program purposes, all assets, liabilities, and flows denominated in foreign currencies will be valued at the "program exchange rate" (as defined below)—except for items affecting the government's budgetary accounting and assessment of the performance criteria related to the budget (which will be calculated using current exchange rates). The program exchange rates correspond to the CBT's accounting exchange rates that prevailed on December 31, 2015 (see table below). For the special drawing rights (SDR), the program exchange rate is 1 SDR = 2.797590 Tunisian dinars (TD). Moreover, monetary gold assets will be valued at the US$/TD program exchange rate applied to the price of 2,138.15 Tunisian dinars per ounce of gold in the international market on December 31, 2015 (London morning fixing). The stock of gold was 4.13 tons (4,129,806 grams) on December 31, 2015.

Program Exchange Rates: Tunisian Dinars per FX Currency at End-December 2015
(Accounting exchange rate of the CBT)

Currency	Exchange rate	Currency	Exchange rate
AED	0.54802	KWD	6.63225
BHD	5.3373	LBP	0.00133465
CAD	1.45005	LYD	1.44535
CHF	2.0322	MAD	0.203175
CNY	0.3099	NOK	0.228923
DKK	0.2947335	QAR	0.552815
DZD	0.01878	SAR	0.53634
EGP	0.25705	SDR	2.79759
ESP	0.0132186	SEK	0.23918
EUR	2.1993	SNP	2.9837
GBP	2.9837	TRY	0.6902
JPY	0.0167135	ULP	2.9837
KRW	0.001707098	US$	2.01285

B. Institutional Definition

6. The **central government** comprises all ministries and agencies subject to central budgetary administration in accordance with the organic law on the government budget. Regional governments and municipalities subject to central budgetary administration are part of the central government. The authorities will inform IMF staff of any new entity and any new program or special budgetary or extra-budgetary fund created during the period of the program to carry out operations of a budgetary nature. Such funds or new programs will be included in the definition of the central government.

C. Floor on the Primary Balance of the Central Government (Cash Basis, Excluding Grants)

7. Under the program, the **primary balance of the central government (cash basis, excluding grants)** is measured on a financing basis and will be the negative sum of the following: (1) total net external financing; (2) privatization receipts; (3) net domestic bank financing; (4) net domestic nonbank financing; *plus* (5) interest on domestic and external debt paid by the central government; and *less* (6) external budgetary grants received by the central government.

8. **Net external financing** is defined as net external loans of the central government, i.e. new loan disbursements *less* repayments of the principal. Also included are project and budgetary loans of the central government, and any form of debt used to finance central government operations.

9. **Privatization receipts** are the government receipts from the sale of any government asset. This includes revenues from the sale of government shares in public and private enterprises, sales of nonfinancial assets, sales of licenses, and the sale of confiscated assets, excluding the confiscation of bank accounts. For the adjustor in NIR (see below), only receipts in foreign currency are included.

10. **Net domestic bank financing** of the central government is the sum of: the change in net bank loans to the central government (in Tunisian dinars and foreign currency) and the change in deposits of the central government at the CBT. The latter includes all central government accounts at the CBT, in particular: the (1) Treasury current account excluding the sub accounts N-bis, those related to Public Administrative Entities (EPA) and to local governments; (2) Tunisian government account (miscellaneous dinar accounts); (3) loan accounts; (4) grant accounts; (5) accounts of *Fond National de Promotion de l'Artisanat et des Petits Métiers* and *Fonds de Promotion et de Décentralisation Industrielle* ("FONAPRA-FOPRODI account"); (6) special accounts of the Tunisian government in foreign currency; (7) accounts in foreign currency pending dinarization (subaccount: "mise à disposition"); (8) and any other account that may be opened by the central government at the CBT or banks. Following the unification of government accounts at the CBT into a Single Treasury Account, government accounts are consolidated in two categories (*Compte Central du Gouvernement* and *Comptes Spéciaux du Gouvernement*) on the CBT's balance sheet (liabilities side).

11. **Net government borrowing from the banking system** is defined as the change in the stock of government securities (i.e. Treasury bills and bonds) held by banks and any other central government borrowing from banks, less repayments.

12. **Net domestic nonbank financing** includes the change in the stock of government securities (Treasury bills and bonds) held by nonbanks (including social security funds) and any other central government borrowing from nonbanks, less repayments. In particular, any use of cash from non-banking institutions (including La Poste) to finance the Treasury would be counted as domestic non-bank financing. Total Treasury bills and other public debt instruments to be taken into consideration are calculated at the nominal/face value shown on the institutions' balance sheet and do not include accrued interest.

D. Ceiling on Total Current Primary Expenditure of the Central Government (Excluding Interest Payments on Public Debt)

13. Under the program, **total current primary expenditure of the central government** is defined as the sum of its expenditure on the following items: (1) personnel wages and salaries; (2) goods and services; (3) transfers and subsidies; and (4) other unallocated current expenditure.[1]

E. Floor on Social Spending

14. Under the program, **social spending** is defined as capital expenditures (development expenditures) on education; health; social transfers to low-income families, employment training programs (and university scholarships), *Union Tunisienne de Solidarité Sociale* (UTSS) indemnities; family allocation as well as development expenditures of the Ministries of Women and Family Affairs, Youth and Sports and Social Affairs; and all new targeted cash transfers in support of low-income households. Excluded are All current expenditures ("dépenses de gestion") of the above-mentioned sectors and programs, as well as food and energy subsidies.

F. Ceiling on Net Domestic Assets of the CBT

15. Under the program, the **CBT's net domestic assets** (NDA) are defined as the difference between the monetary base and the net foreign assets of the CBT.

16. The **monetary base** includes the following: (1) fiduciary money (i.e. money in circulation excluding cash balances of banks and the Treasury); (2) deposits of banks at the CBT (including foreign currency and deposit facility); and (3) deposits of all other sectors at the CBT (i.e. other financial enterprises, households, and companies).

17. The **CBT's net foreign assets** are defined as the difference between its gross foreign assets (including foreign assets that are not part of the reserve assets) and all its foreign liabilities. Net foreign assets are valued at the program exchange rate defined in the above table.

18. The Directorate General of Statistics (i.e. Directorate of Monetary and Financial Statistics) will be responsible for **monthly forecasts of reserve money** and will calculate NDA projections for the next six months. These projections will be submitted to IMF staff, after consultation with the Directorate General of Monetary Policy.

G. Floor on the Net International Reserves of the CBT

19. Under the program, the **CBT's net international reserves (NIR)** are defined as the difference between the its reserve assets and its liabilities in foreign currency to nonresidents.

[1] The methodologies used to measure current expenditure categories for the central government are those used to design the table of central government financial operations presented in the macroeconomic framework.

20. The **CBT's reserve assets** are the foreign assets immediately available and under CBT control, as defined in the fifth edition of the IMF *Balance of Payments Manual*. They include gold, SDR assets, reserve position at the IMF, convertible foreign currencies, liquid balances held outside Tunisia, and negotiable foreign securities and bills purchased and discounted.

21. The **CBT's liabilities in foreign currency** to nonresidents include any commitment to sell foreign currencies associated with financial derivative transactions (e.g., swaps, futures, options); any portion of the CBT's assets (e.g., gold) used as collateral; IMF and Arab Monetary Fund (AMF) credits outstanding for reasons of balance of payment support or budget support onlent to the central government; and deposits at the CBT of international organizations, foreign governments, and foreign bank and nonbank institutions. Those liabilities do neither include the government's foreign currency deposits at the CBT, nor any SDR allocation received after March 31, 2017.

22. All debt instruments issued on international capital markets in foreign currency by the CBT on behalf of the government after May 15, 2013 will be treated as **CBT liabilities**, unless the offering documents (prospectus) state clearly that (1) the CBT is acting as an agent to execute all sovereign debt instruments issued in foreign currency raised through the international markets for general budgetary purposes of the Republic of Tunisia; (2) debt is a liability of the central government; and (3) all charges and expenses arising from the issued debt securities are the responsibility of the State. As such, the Minister of Finance authorizes the reimbursement of the costs, interest and capital by debiting the Treasury account after informing the Treasurer General of Tunisia, supported by the necessary supporting documents (Article 32, new organic law of the CBT 2016-35).

23. The value of **CBT reserve assets and liabilities** in foreign currency will be calculated using program exchange rates (Table above). On December 31, 2017, the value of the stock of NIR reserves was US$3,120.2 million, with the stock of reserve assets equal to US$5,480.6 million and the stock of CBT liabilities in foreign currency equal to US$2,360.4 million (at program exchange rates).

H. Ceiling on Net Foreign Exchange Interventions of the CBT

24. Under the program, the CBT's **net foreign exchange interventions** are defined as the difference between outright foreign exchange sales (including conversions) and outright foreign exchange purchases (including conversions), via the following channels: Reuters, auctions, and the interbank market. The computation of net sales may also include CBT net sales in other formal or informal markets (or instruments) that the CBT may choose to substitute for outright net sales (e.g., transactions in derivatives). Transactions of the CBT with the central government in the context of budget operations of the central government are not considered net sales (unless they take place through one of the channels mentioned above). In this respect, purchases of the foreign currency proceeds of a potential Eurobond or other official financing cannot be interpreted as CBT purchases of foreign exchange for the computation of the CBT net sales total.

I. Ceiling on the Accumulation of External Arrears

25. Under the program, **arrears on external debt payment** are defined as late payments (principal and interest) on external debt or guarantees as defined in *External Debt Statistics: Guide for compilers*[2] by the central government or the CBT from the due date or the expiration of the applicable grace period.

J. Ceiling on the Accumulation of Domestic Arrears

26. Under the program, **arrears on domestic payments** are defined as amounts owed to domestic financial and commercial creditors that are 90 days or more overdue with respect to a specific maturity date (or as defined in the contractual grace period, if any). If no maturity date is specified, arrears are defined as amounts owed to domestic creditors that remain unpaid beyond 90 days or more after the date on which the contract was signed or upon receipt of the invoice.

K. Adjustment Factors for the QPCs

27. The **primary fiscal balance** targets (cash basis, excluding grants) are adjusted upward/downward based on the amount used to (1) recapitalize public banks and (2) finance the severance pay of the voluntary departures which may be part of the civil service reform.

28. The **NDA** targets are adjusted upward (downward) if (1) the cumulative sum (at the program exchange rate) of external budget financing (including grants and loans, excluding from the IMF) and privatization receipts received by the central government in foreign currency is lower (greater) than the levels indicated in MEFP Table 1. The NDA targets are also adjusted upward (downward) if (2) the total amount of cash payments on external debt service of the central government (at the program exchange rate) are greater (lower) than the levels included in MEFP Table 1. The NDA ceiling will be converted into Tunisian dinars at the program exchange rate specified in the table above and adjusted downward (upward) based on (3) the amount of CBT reserves released (mobilized) because of a possible decrease (increase) in the reserve requirement.

[2] The definition of debt set forth in *External Debt Statistics: Guide for Compilers* reads as the outstanding amount of those actual current, and not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy. Debts owed to nonresidents can take a number of forms, the primary ones being as follows: (1) loans, that is, advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (2) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (3) leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property.

29. The **NIR** targets are adjusted upward (downward) if (1) the cumulative sum (at the program exchange rate) of external budget financing (including grants and loans, excluding from the IMF) and privatization receipts received by the central government in foreign currency is greater (lower) than the levels observed in MEFP Table 1. The NIR targets will also be adjusted upward (downward) if (2) the total amount of cash payments on external debt service of the central government (at the program exchange rate) is lower (greater) than the levels included in MEFP Table 1.

L. Monitoring and Reporting Requirements

30. Performance under the program will be **monitored** using data supplied to the IMF by the Tunisian authorities as outlined in the table below, consistent with the program definitions above. The authorities will promptly transmit to the IMF staff these data and any data revisions previously transmitted to the IMF Resident Representative's office in Tunisia.

Table 1. Tunisia: Information to Be Reported in the Context of the Program

Type of Data and Description	Periodicity	Delay (in days)	Responsible Department
Real Sector			
• **GDP:** supply and demand at current, constant, and the previous year's prices, including sectoral indices.	quarterly	45	INS
• **Inflation:** including the underlying inflation of non-administered and administered prices.	monthly	14	INS
Fiscal Sector			
• **Total revenue of the central government:**			
o ***Tax and nontax revenue,*** with breakdown of main tax and nontax revenues items.	monthly	30	MoF
o ***Disbursement of foreign grants***, with breakdown into budgetary and project grants received by the central government—by donor, amounts in the original currency, and their equivalent in Tunisian dinars converted at the current exchange rate at the time of each transaction.	monthly	45	MoF/CBT
• **Total expenditures of the central government:**	monthly	30	MoF
o ***Current expenditure****,* by type of expenditure: wages, goods and services, transfers and subsidies.	monthly	45	MoF
o ***Capital expenditure****,* by type of financing: domestic and external (differentiating loans and grants), and by main sectors and projects (agriculture, social, infrastructure).	monthly	45	MoF
o ***Social expenditure.***	quarterly	45	MoF
• ***Domestic and foreign debt:***			
o ***Stock of domestic and foreign debt*** of the central government and debt guaranteed by the government, with breakdown by instrument and type of currency (in dinars and FX with the equivalent in domestic currency).	quarterly	30	MoF
o ***Stock of domestic arrears*** as per TMU, as well the stock of accounts payable that correspond to expenditures committed/payment ordered more than 90 days before (and by type of expenditures).	quarterly	45	MoF
o ***Disbursement of foreign loans***, with breakdown into budgetary and project loans—by donor, amounts in the original currency and their equivalent in Tunisian dinars (converted at the current exchange rate at the time of each transaction).	monthly	45	MoF/CBT
o ***Domestic borrowing from banks and nonbanks,*** including bonds, Treasury bills, and other issued securities.	monthly	30	MoF
o ***Debt guaranteed by the government***, by instrument and type of currency (in dinars and in FX and its equivalent in national currency).	monthly	60	MoF
o ***Debt service of the central government:***			
- *Domestic debt service* (amortization and interest).	monthly	45	MoF
- *External debt service* (amortization and interest, by FXs).	monthly	45	MoF/CBT

Table 1. Tunisia: Information to Be Reported in the Context of the Program (continued)

Type of Data and Description	Periodicity	Delay (in days)	Responsible Department
○ ***External payment arrears***, on external debt contracted and guaranteed by the government.	quarterly	30	MoF/CBT
○ ***Debt rescheduling***, incl. possible rescheduling of debts contracted and guaranteed by the government, agreed with creditors.	quarterly	45	MoF
• **Consolidated accounts of the central government at the CBT:** with a breakdown of the stock of deposits as follows: (1) Treasury current account; detailed by sub accounts of the central government, N BIS, outstanding payments, Public administrative entities (EPA), and local governments (2) special account of the Tunisian government in foreign currency and its equivalent in dinars; (3) miscellaneous dinar accounts; (4) loan accounts; (5) grant accounts; (6) FONAPRA-FOPRODI accounts; and (7) FX accounts pending adjustment in dinars (available).	monthly	30	CBT MoF/TGT for sub-account
External Sector			
• **Imports of petroleum products:** average import price and volume of main petroleum products.	monthly	30	CBT
• **Deposits:** stock of FX deposits, according to the residence of the holder.	monthly	14	CBT
• **External debt:**			
○ ***Debt service*** (amortization and interest) of institutional agents by type of currency (in FX and its equivalent in dinars).	quarterly	45	CBT
○ ***Total disbursements*** of external debt of institutional agents by type of currency (in FX with its equivalent in dinar).	quarterly	45	CBT
○ ***Stock*** of external debt of institutional agents by type of currency (in FX and its equivalent in dinars).	quarterly	90	CBT
○ ***Overall net external position*** of Tunisia (in conformity with our obligations under SDDS).	annually	180	CBT
• **Balance of payments:** prepared by the CBT.	quarterly	30	CBT
• **FX market operations, interbank market, retail market and wire transfers for CBT purchases on the retail market:**			
○ ***CBT FX reserves***, with breakdown by currency and instrument.	monthly	7	CBT
○ ***CBT interventions*** (sales and purchases) on FX market in millions of dinars (and equivalent in US$ million) including total market transactions, FX sales to energy companies and all exchange rates for all such transactions, total FX demand by banks, total FX positions of banks, stock of CBT currency swap (provide details on direction of transactions (TND/FX or FX/TND), amounts of principal, spot exchange rate in swaps agreement, interest rate applied on FX counterpart), detailed information on other CBT's forward FX operations, including outright forward sales of Tunisian dinar. The terms and conditions of any new transactions (including the extension or renewal of existing terms and conditions) will also be provided.	monthly	7	CBT

Table 1. Tunisia: Information to Be Reported in the Context of the Program (continued)

Type of Data and Description	Periodicity	Delay (in days)	Responsible Department
Monetary and Financial Sector			
• **CBT accounts at the current exchange rate:** monthly situation of the Central Bank by sector (figures at the end of the period).	monthly	15	CBT
• **Reserve money and net domestic assets (NDA):** monthly forecast.	monthly	15	CBT
• **Monetary policy operations and liquidity factors**: daily and monthly balances. Detailed table including: (1) intervention on the money market of the central bank (Dinars); (2) deposit facility; (3) ordinary tenders; (4) loan facility; (5) overnight lending; (6) repo at 1-7 days and 3 months; (7) FX swap exchange; (8) open market operations; (9) minimum reserves; and (10) excess reserves.	monthly	15	CBT
• **Monetary survey at the current exchange rate**: monthly balance of the banking sector, counterparts of broad money, leasing banks, and resources of the resident financial system; preliminary (30 days) and definitive (45 days).	monthly	30 and 45 days	CBT
• **Interest rates of financial operations:** detailed tables on lending and savings rates and effective global tariffs produced by the Observatory of Financial Inclusion.	monthly	30	CBT
• **Credit data:** monthly data on credit distribution by sector (private/public); credit to enterprises (by economic sector); and credit to individuals (by purpose).	monthly	30	CBT
• **IMF account statements:** monthly consolidated statements of the IMF No. 1, No. 2, and Securities Account.	monthly	30	CBT
• **Banks' financial soundness ratios:** indicators of financial soundness and regulatory capital adequacy ratios of the banking system, including the quality of assets and the profitability of banks. The indication of the different banks is optional.	monthly	30	CBT
• **Direct refinancing of commercial banks by the CBT:** breakdown by bank.	monthly	14	CBT
• **NPLs:** stock of banking sector NPLs and breakdown by commercial banks.	quarterly	60	CBT
• **Balance sheets of commercial banks**, including detailed income statements, in accordance with "Uniform Bank Performance Reporting" agreed with Fund staff.	quarterly	60	CBT

Table 1. Tunisia: Information to Be Reported in the Context of the Program (concluded)

Type of Data and Description	Periodicity	Delay (in days)	Responsible Department
Other Information to Be Reported			
• **Information on fiscal, monetary, and financial policy:** decrees or circulars newly adopted or revised concerning changes in tax policy, tax administration, foreign exchange market regulations, and banking regulations. A copy of official notices of changes in gas and electricity rates and any other surcharge (automatic or structural), as well as the prices of petroleum products and levies/surcharges on gas and petroleum.	daily	3	CBT/MoF
• **Petroleum:** price structure of the petroleum products and the needed data to monitor the automatic adjustment mechanism (formulas and data).	daily	15	Min. of Energy

INTERNATIONAL MONETARY FUND

TUNISIA

June 11, 2019

FIFTH REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA, AND REPHASING AND REDUCTION OF ACCESS—SUPPLEMENTARY INFORMATION, AND SUPPLEMENTARY LETTER OF INTENT

Approved By
Taline Koranchelian (MCD) and Vitaliy Kramarenko (SPR)

Prepared by the Middle East and Central Asia Department in consultation with other Departments

The authorities have requested a reduction in access under Tunisia's Extended Fund Facility (EFF). This would maintain access within normal access limits during the remainder of the program. This request does not alter the thrust of the staff report and staff continues to recommend completion of the Fifth Review.

1. The scheduled purchases for the last year of the arrangement as presented in EBS/19/41 would exceed the annual limit under the Fund's policy on access to the Fund's general resources. The combined scheduled seventh, eighth and ninth purchases in Table 11 of EBS/19/41 (becoming available upon the completion of the Sixth, Seventh and Eighth Reviews in the fourth year of the arrangement, respectively) amount to 162.1261 percent of quota. This proposed rescheduling would exceed the annual threshold of 145 percent of quota that determines exceptional access. It was the result of the delays in completing the quarterly reviews as previously scheduled under the arrangement, which left a large access amount for the remaining reviews that could not be spaced out further before the expiration of the arrangement at its four-year mark in May 2020. The staff report (EBS/19/41) does not include a discussion of exceptional access considerations as it was not intended to provide financing support in excess of normal access limits.

2. The authorities and staff agree that the EFF arrangement for Tunisia was designed under the policies governing normal access. The authorities therefore request a reduction in access from SDR 2.045625 billion (375 percent of quota at the time of program approval) to SDR 1.9522533 billion (358 percent of quota). This reduction would affect the scheduled ninth purchase available at the time of the completion of the Eighth Review, which would decline to SDR 201.2654 million from SDR 294.6371 million envisaged in EBS/19/41. The program remains fully financed through its expiration date, with the reduction of Fund financing to be compensated by an increase in market financing. Staff would expect that the latter would be supported by improved confidence after the elections while remaining below its 2019 level.

3. **Staff supports the authorities' request for reduction of access as stated in the supplemental letter of intent attached to this supplement.** A revised set of tables reflecting the new access level and a revised proposed decision are also included in this supplement. The authorities' request does not alter the thrust of the staff report and staff continues to support the completion of the Fifth Review.

Table 1. Tunisia: Cumulative External Financing of the Central Government Budget, 2016–20

(In millions of U.S. dollars)

	2016	2017	2018		2019					2020	
	Q4	Q4	Q4	Q4	Q1	Q2	Q3	Q4	Q4	Q4	Q4
			Est.	4th Rev	Proj.	Proj.	Proj.	Proj.	4th Rev	Proj.	4th Rev
Total budget grants and loans	**1,876**	**3,747**	**2,669**	**3,439**	**657**	**2,131**	**2,542**	**3,205**	**3,548**	**2,417**	**3,019**
Budget grants	**57**	**89**	**81**	**90**	**22**	**67**	**113**	**140**	**86**	**81**	**82**
o/w EU	57	89	63	85	22	67	113	140	86	81	82
Budget loans	**1,818**	**3,659**	**2,588**	**3,349**	**636**	**2,063**	**2,429**	**3,065**	**3,462**	**2,335**	**2,936**
Multilateral	839	1,260	1,525	1,694	0	458	767	1,180	1,758	1,266	1,282
African Development Bank (AfDB)	477	144	150	150	0	0	137	137	0	55	55
Arab Monetary Fund (AMF)	0	0	120	120	0	40	40	40	40	40	0
European Union (EU)	0	345	0	174	0	171	343	343	175	174	176
IMF	320	314	749	747	0	247	247	660	994	697	500
World Bank	42	456	506	503	0	0	0	0	550	300	550
Bilateral	0	1,000	119	235	557	671	671	843	234	231	235
G7	0	0	119	235	57	171	171	343	234	231	235
o/w France (AFD)	0	0	0	0	57	57	57	114	0	0	0
o/w Germany (KFW)	0	0	119	235	0	114	114	229	234	231	235
Other	0	1,000	0	0	500	500	500	500	0	0	0
o/w Saudi Arabia	0	0	0	0	500	500	500	500	0	0	0
Market issuance and other	979	1,399	943	1,420	79	934	990	1,042	1,469	838	1,420
Market issuance	497	905	571	1,000	0	800	800	800	1,050	631	1,100
Project loans	356	405	300	253	73	122	167	206	256	159	272
Multilateral	0	0	217	218	53	83	108	128	256	80	272
Bilateral	356	405	83	35	19	39	58	78	0	79	0
Loan transfers to SoEs	126	89	73	167	6	12	24	36	164	48	48
Multilateral	126	89	55	43	6	12	24	36	46	48	48
Bilateral	0	0	17	124	0	0	0	0	117	0	0

Sources: Tunisian authorities, and IMF staff estimates and projections.

1/ External financing includes the IMF's 2013 SBA and 2016 EFF, in line with the Tunisian authorities' budget law classification.

Table 2. Tunisia: Balance of Payments, 2016–24 1/

(In millions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018						2019						2020		2021	2022	2023	2024
	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Annual	Annual	Annual	Annual			
						Est.	Est.	4th Rev	Proj.	Proj.	Proj.	Proj.	Proj.	4th Rev	Proj.	4th Rev	Proj.			
Current account balance	**-3,901**	**-4,080**	**-1,164**	**-1,122**	**-1,135**	**-1,053**	**-4,474**	**-3,909**	**-881**	**-1,059**	**-902**	**-805**	**-3,648**	**-3,415**	**-3,193**	**-3,247**	**-2,978**	**-2,848**	**-2,706**	**-2,652**
Trade balance	**-4,806**	**-5,308**	**-1,187**	**-1,483**	**-1,890**	**-1,390**	**-5,951**	**-5,473**	**-1,176**	**-1,412**	**-1,761**	**-1,089**	**-5,438**	**-5,170**	**-5,411**	**-5,057**	**-5,382**	**-5,228**	**-5,078**	**-4,881**
Exports	13,568	14,231	4,176	4,045	3,346	3,917	15,485	16,135	4,132	3,935	3,497	3,958	15,522	17,004	16,153	17,715	16,843	17,669	18,536	19,503
Energy	765	846	235	221	171	253	880	983	218	163	169	219	769	1,072	813	1,083	932	945	967	994
Non-energy	12,804	13,384	3,941	3,824	3,175	3,665	14,605	15,152	3,914	3,773	3,328	3,739	14,754	15,933	15,340	16,632	15,910	16,724	17,569	18,509
of which: non-food	11,368	11,844	3,270	3,268	2,806	3,216	12,561	13,265	3,451	3,312	3,020	3,374	13,156	14,051	13,676	14,629	14,172	14,881	15,611	16,428
Imports	-18,374	-19,538	-5,363	-5,528	-5,236	-5,308	-21,435	-21,609	-5,308	-5,347	-5,258	-5,047	-20,960	-22,174	-21,564	-22,772	-22,225	-22,897	-23,614	-24,384
Energy	-2,024	-2,513	-802	-697	-942	-718	-3,159	-3,242	-665	-709	-680	-573	-2,627	-2,942	-2,674	-2,861	-2,706	-2,793	-2,915	-3,057
Non-energy	-16,351	-17,025	-4,561	-4,831	-4,294	-4,590	-18,276	-18,367	-4,643	-4,638	-4,578	-4,473	-18,333	-19,232	-18,890	-19,911	-19,519	-20,104	-20,699	-21,327
of which: non-food	-14,567	-15,101	-4,025	-4,319	-3,783	-4,154	-16,280	-16,272	-4,075	-4,136	-4,091	-3,961	-16,263	-16,835	-16,684	-17,435	-17,249	-17,769	-18,293	-18,848
Services and transfers (net)	**905**	**1,228**	**23**	**361**	**755**	**337**	**1,476**	**1,565**	**295**	**353**	**859**	**284**	**1,790**	**1,755**	**2,218**	**1,810**	**2,404**	**2,380**	**2,372**	**2,230**
Services	113	305	-44	137	421	200	714	648	224	281	582	180	1,266	689	1,678	827	1,473	1,422	1,375	1,178
of which: tourism	1,105	1,170	239	321	627	359	1,546	1,464	290	375	599	343	1,607	1,560	1,781	1,620	1,832	1,831	1,820	1,717
Transfers (net)	792	923	68	224	333	137	762	917	71	72	277	104	524	1,065	540	983	931	958	997	1,052
of which: workers' remittances	1,794	1,861	437	444	583	380	1,845	2,006	388	409	497	389	1,683	2,102	1,633	2,193	1,740	1,853	1,984	2,121
of which: interest payments on external debt	-756	-607	-234	-147	-197	-108	-685	-794	-240	-255	-131	-282	-908	-896	-978	-1,028	-1,115	-1,248	-1,377	-1,495
Capital and financial account	**2,506**	**4,079**	**538**	**1,119**	**1,438**	**2,004**	**5,099**	**4,225**	**941**	**982**	**751**	**1,054**	**3,728**	**4,433**	**3,134**	**3,806**	**3,318**	**3,592**	**3,607**	**4,008**
Capital account balance	95	184	5	3	3	116	127	77	18	42	42	23	124	32	71	66	71	71	70	70
Financial account balance	2,411	3,895	532	1,116	1,435	1,888	4,972	4,147	923	941	709	1,031	3,604	4,401	3,063	6,387	3,247	3,522	3,536	3,939
Direct investment and portfolio (net)	638	746	169	200	231	338	938	723	178	230	218	277	903	958	986	1,093	953	1,057	1,171	1,263
Medium- and long-term loans (net)	762	2,280	77	118	375	447	1,017	1,891	410	643	-236	-179	638	1,627	-12	1,450	968	1,281	966	974
Disbursements	2,191	4,266	401	463	735	865	2,464	3,920	760	1,298	567	249	2,875	4,030	2,056	3,526	3,572	3,025	3,064	3,606
Amortization	-1,428	-1,986	-323	-344	-361	-418	-1,447	-2,029	-350	-656	-803	-428	-2,237	-2,403	-2,067	-2,077	-2,604	-1,744	-2,098	-2,633
Short-term debt and other capital flows (net)	1,010	869	286	798	829	1,104	3,017	1,534	336	68	727	934	2,064	1,816	2,089	1,197	1,326	1,184	1,400	1,702
Overall balance	**-1,396**	**-1**	**-626**	**-3**	**303**	**951**	**625**	**316**	**60**	**-77**	**-152**	**249**	**80**	**1,019**	**-59**	**559**	**339**	**744**	**901**	**1,357**
Errors and omissions 2/	-350	-342	24	-282	-407	-589	-1,253	0	391	0	0	0	391	0	0	0	0	0	0	0
Financing	**1,746**	**343**	**602**	**285**	**104**	**-362**	**629**	**-316**	**-451**	**77**	**152**	**-249**	**-472**	**-1,019**	**59**	**-559**	**-339**	**-744**	**-901**	**-1,357**
Gross international reserves ("-": accumulation)	1,460	348	488	424	-23	-488	402	-545	-293	-70	227	-612	-748	-1,627	-461	-880	-259	-615	-644	-912
Use of IMF credit (net)	286	-5	114	-139	127	126	227	229	-158	147	-75	363	277	608	519	321	-80	-129	-256	-445
Purchases	320	314	257	0	248	245	749	753	0	247	0	413	660	994	697	500	0	0	0	0
Repurchases	34	319	143	139	121	119	522	524	158	100	75	50	383	386	178	179	80	129	256	445
Other financing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:																				
Current account balance (pct. of GDP)	-9.3	-10.2	-11.1	-10.8	-11.5	-11.4	-11.2	-9.7	-9.3	-11.4	-10.1	-9.5	-10.1	-8.5	-9.1	-7.8	-8.2	-7.3	-6.4	-5.8
Non-energy current account balance (pct. of GDP)	-6.3	-6.1	-5.7	-6.2	-3.7	-6.4	-5.5	-4.1	-4.6	-5.5	-4.4	-5.3	-4.9	-3.9	-3.8	-3.5	-3.3	-2.6	-1.8	-1.3
Exports (pct. of GDP)	32.5	35.7	39.9	38.8	34.0	42.1	38.9	40.6	43.5	42.2	39.1	46.3	42.8	42.4	45.9	42.4	46.4	45.3	43.9	42.7
Goods export real growth (pct.)	0.2	4.6	13.8	4.8	-8.0	2.6	2.9	6.5	-2.0	1.6	6.2	5.2	2.8	5.1	3.7	3.5	3.7	4.1	4.1	4.1
of which: non-energy (pct.)	1.7	4.2	11.0	7.9	-2.3	1.7	4.3	6.9	-2.2	3.0	5.7	4.9	3.0	4.9	3.6	3.4	3.0	4.3	4.2	4.3
Imports (pct. of GDP)	44.0	49.1	51.3	53.0	53.2	57.1	53.8	54.4	55.9	57.4	58.8	59.1	57.9	55.3	61.3	54.5	61.3	58.7	55.9	53.4
Goods import real growth (pct.)	2.5	2.8	0.4	3.9	2.0	-5.4	0.0	1.1	-3.5	1.7	-3.2	7.2	0.0	0.6	0.2	2.1	2.0	2.8	2.8	2.8
of which: non-energy (pct.)	5.3	2.1	-3.4	1.9	-1.3	-4.9	-2.1	-2.9	-2.2	0.7	-1.3	7.8	0.7	1.9	-0.1	2.2	1.9	2.6	2.6	2.6
Gross reserves (billions of US$)	5.9	5.6	5.1	4.7	4.7	5.2	5.2	6.3	5.5	5.6	5.3	5.9	5.9	7.3	6.4	7.8	6.7	7.3	7.9	8.8
Reserve coverage (months of next year's imports of goods)	3.4	3.0	2.8	2.4	2.7	3.0	2.8	3.4	3.0	2.8	3.0	3.2	3.2	3.8	3.3	4.0	3.3	3.5	3.7	3.9
Reserve coverage (months of next year's imports of GNFS)	3.1	2.7	2.6	2.3	2.4	2.7	2.6	2.9	2.8	2.6	2.7	2.9	3.0	3.3	3.1	3.5	3.1	3.3	3.5	3.6
Reserve coverage (pct. of short-term external debt) 3/	88.8	75.8	73.6	65.9	66.8	74.7	74.7	84.6	81.5	76.1	80.0	84.9	84.9	95.6	85.8	99.3	86.2	90.7	95.7	103.4
External debt (billions of US$)	28.0	32.6	33.1	31.5	30.9	33.1	33.1	32.3	33.0	33.5	31.7	35.1	35.1	34.9	36.4	36.1	37.8	39.5	40.6	41.6
Medium- and long-term external debt	21.3	25.3	26.1	24.4	23.8	26.2	26.2	27.2	26.2	26.2	25.1	28.1	28.1	29.2	29.0	30.9	30.1	31.4	32.3	33.0
of which: public external debt	19.6	23.6	24.4	22.8	22.2	24.9	24.9	25.4	24.9	24.9	23.8	26.9	26.9	27.4	27.8	29.1	28.9	30.3	31.1	31.8
Short-term external debt	6.7	7.4	6.9	7.1	7.0	6.9	6.9	7.4	6.7	7.3	6.7	7.0	7.0	7.6	7.5	7.9	7.7	8.0	8.3	8.5
of which: public external debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt service ratio (incl. IMF, pct. of exports of GNFS)	13.1	16.5	3.5	3.2	3.7	3.3	13.6	17.8	3.7	5.2	5.4	3.9	18.1	18.3	15.8	15.3	18.2	14.3	16.4	19.4
Nominal GDP (millions of US$)	41,802	39,817	10,455	10,427	9,841	9,303	39,850	39,756	…	…	…	…	…	…	…	…	…	…	…	…

Sources: Tunisian authorities; and IMF staff estimates and projections.

1/ In accordance with the Fifth Edition of the Balance of Payments and Investment Position Manual (BPM5).

2/ Differs from zero in current and future years because of stocks valuation effects.

3/ Short-term defined as one year or less remaining maturity.

Table 3. Tunisia: External Financing Needs, 2016–20

(In millions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018					2019					2020
	Annual	Annual	Q1	Q2	Q3	Q4 Est.	Annual Est.	Q1	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.	Annual Proj.
Total gross financing requirements	**5,364**	**6,385**	**1,630**	**1,606**	**1,617**	**1,591**	**6,443**	**1,389**	**1,815**	**1,781**	**1,284**	**6,268**	**5,438**
Current account deficit	**3,901**	**4,080**	**1,164**	**1,122**	**1,135**	**1,053**	**4,474**	**881**	**1,059**	**902**	**805**	**3,648**	**3,193**
Amortizations	**1,462**	**2,305**	**467**	**484**	**481**	**538**	**1,969**	**507**	**756**	**878**	**479**	**2,620**	**2,245**
Central government 1/	609	1,245	171	154	207	215	747	181	405	640	170	1,397	1,352
Central Bank 2/	376	358	148	144	125	123	539	163	100	75	50	388	178
Corporate 3/	477	702	148	186	150	199	684	164	251	163	258	836	715
Total gross financing sources	**5,364**	**6,385**	**1,630**	**1,606**	**1,617**	**1,591**	**6,443**	**1,389**	**1,815**	**1,781**	**1,284**	**6,268**	**5,438**
Foreign direct investment and portfolio (net)	638	746	169	200	231	338	938	178	230	218	277	903	986
of which: FDI (net)	695	810	225	184	234	336	979	187	227	222	274	910	961
Disbursements	**2,521**	**4,741**	**645**	**481**	**974**	**1,136**	**3,236**	**773**	**1,586**	**519**	**797**	**3,674**	**2,834**
Central government 1/	1,876	3,747	501	342	846	980	2,669	657	1,473	411	663	3,205	2,417
Multi- and bilateral budget support	896	2,348	407	243	727	348	1,726	579	618	355	612	2,163	1,579
of which: IMF budget support loans	0	0	0	0	0	0	0	0	0	0	0	0	0
of which: grants	57	89	1	1	1	79	81	22	46	46	26	140	81
Financial market access	497	905	0	0	0	571	571	0	800	0	0	800	631
Other (incl. project loans)	482	494	94	99	119	61	373	79	55	56	52	242	207
of which: grants	0	0	0	0	0	0	0	0	0	0	0	0	0
Central Bank 2/	0	0	0	0	0	0	0	0	0	0	0	0	0
of which: IMF BOP support loans 4/	320	314	257	0	248	245	749	0	247	0	413	660	697
Corporate 3/	646	993	144	139	128	156	567	115	113	108	133	469	417
Short-term debt and other capital flows (net)	**1,010**	**869**	**286**	**798**	**829**	**1,104**	**3,017**	**336**	**68**	**727**	**934**	**2,064**	**2,089**
Other flows (net) 5/	**-266**	**-318**	**42**	**-297**	**-395**	**-499**	**-1,149**	**396**	**1**	**90**	**-112**	**376**	**-10**
Drawdown of gross reserves ("-": buildup)	**1,460**	**348**	**488**	**424**	**-23**	**-488**	**402**	**-293**	**-70**	**227**	**-612**	**-748**	**-461**
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:													
Gross international reserves (eop)	5,941	5,594	5,106	4,682	4,705	5,192	5,192	5,485	5,555	5,328	5,941	5,941	6,401
Central government rollover rates (pct.)										57	374	220	173
Corporate rollover rates (pct.)	135	142	97	75	86	78	83	71	45	66	52	56	58

Sources: Tunisian authorities; and IMF staff projections.

1/ Central government includes IMF purchases made available for budget support.

2/ Central Bank includes IMF purchases made available for BOP support.

3/ Includes public and private entreprises.

4/ IMF purchases available under the 2013 SBA and under the proposed schedule of purchases during the 2016 EFF.

5/ Includes changes in banks', corporates', and households' net foreign assets; errors and omissions; and other liabilities.

Table 4. Tunisia: Proposed Schedule of Purchases Under the Extended Fund Facility, 2016–20

Review	Availability Date	Action	Purchase: Millions of SDRs	Purchase: Percent of quota 1/	Total Purchases: Millions of US$ 2/
	May 20, 2016	Board approval of the EFF	227.2920	41.6897	315.9052
First Review	September 30, 2016	Observance of end-Dec. 2016 performance criteria, completion of the first review	227.2917	41.6896	315.9048
Second Review	September 30, 2017	Observance of end-Dec. 2017 performance criteria, completion of the second review	176.7824	32.4252	245.7036
Third Review	June 15, 2018	Observance of end-Mar. 2018 performance criteria, completion of the third review	176.7824	32.4252	245.7036
Fourth Review	September 17, 2018	Observance of end-Jun. 2018 performance criteria, completion of the fourth review	176.7824	32.4252	245.7036
Fifth Review	December 17, 2018	Observance of end-Mar. 2019 performance criteria, completion of the fifth review 3/	176.7824	32.4252	245.7037
Sixth Review	September 18, 2019	Observance of end-Jun. 2019 performance criteria, completion of the sixth review	294.6373	54.0421	409.5061
Seventh Review	December 18, 2019	Observance of end-Sep. 2019 performance criteria, completion of the seventh review	294.6373	54.0421	409.5061
Eighth Review	April 29, 2020	Observance of end-Dec. 2019 performance criteria, completion of the eighth review	201.2654	36.9159	279.7318
Total			1,952.2533	358.0802	2,713.3686

Source: IMF staff projections.
1/ Quota is SDR 545.2 million.
2/ Indicative amounts based on the program exchange rate.
3/ Given the Board meeting for the Fifth Review is scheduled for June 12, 2019, end-March 2019 performance criteria would be applied to this review.

Table 5. Tunisia: Indicators of Fund Credit, 2016–24

	2016	2017	2018 Est.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Existing and prospective Fund credit (millions of SDR)									
Disbursements	227.3	227.3	530.3	471.4	495.9	-	-	-	-
Stock	1,205.3	1,205.6	1,366.7	1,563.8	1,933.3	1,876.5	1,786.0	1,607.1	1,298.5
Obligations	42.8	251.6	402.1	315.9	189.3	127.8	158.2	240.2	359.2
Repurchase	24.7	227.0	369.3	274.4	126.4	56.8	90.5	178.9	308.6
Charges and surcharges	18.1	24.6	32.8	41.6	62.9	70.9	67.7	61.3	50.6
Stock of existing and prospective Fund credit									
In percent of quota	221.1	221.1	250.7	286.3	354.0	343.5	327.0	294.2	237.7
In percent of GDP	4.0	4.2	4.9	6.0	7.7	7.3	6.5	5.5	4.1
In percent of exports of goods and services	9.9	9.5	10.0	11.2	13.3	12.7	11.7	10.1	7.9
In percent of gross reserves	27.3	30.5	36.5	36.9	42.6	40.0	35.1	29.2	21.3
Obligations to the Fund from existing and prospective Fund arrangements									
In percent of quota	7.8	46.2	73.7	57.8	34.7	23.4	29.0	44.0	65.8
In percent of GDP	0.1	0.9	1.4	1.2	0.8	0.5	0.6	0.8	1.1
In percent of external debt service	2.8	11.5	23.1	11.8	7.2	3.8	6.0	7.6	9.4
In percent of exports of goods and services	0.3	2.0	2.9	2.3	1.3	0.9	1.0	1.5	2.2
In percent of gross reserves	1.0	6.4	10.7	7.5	4.2	2.7	3.1	4.4	5.9

Source: IMF staff estimates.

Supplementary Letter of Intent

Tunis, June 11, 2019

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
USA

Madame Managing Director,

1. In addition to our letter of intent dated May 22, 2019, we would like to request a reduction in our total access under the Extended Fund Facility (EFF) arrangement approved by the IMF in May 2016 from SDR 2.045625 billion (around 375 percent of Tunisia's quota at the time of approval of the arrangement) to SDR 1.9522533 billion (around 358 percent of quota). The reduction of access would be applied to the ninth (and final) purchase available upon completion of the Eighth Review under the EFF arrangement. This reduction would bring the annual access during the last twelve months of the arrangement to 145 percent of Tunisia's quota, which is the normal annual limit under the IMF's access policy.

2. We authorize IMF staff to make public the present letter, along with the other documents relevant to the Fifth Review—our May 22, 2019 letter of intent, the memorandum of economic and financial policies, the technical memorandum of understanding, and the IMF Staff Report.

Please accept, Madame Managing Director, the expression of our highest consideration.

/s/

Youssef Chahed

Head of Government

/s/

Marouane El-Abassi

Governor
Central Bank of Tunisia

Statement by Mr. Jafar Mojarrad, Executive Director for Tunisia, Mr. Daïri, Alternate Executive Director and Ms. Saadaoui. Advisor June 12, 2019

On behalf of our Tunisian authorities we thank staff for their hard work, constructive interactions and sound policy advice, as well as for a well-written and balanced report. They are also grateful to the Executive Board and management for their continued guidance and support. Our authorities look forward to Board approval of the completion of the fifth review under the Extended Fund Facility, and their requests for waivers of nonobservance and modification of performance criteria, and rephasing of access.

Overview

Program implementation continues to face strong headwinds, including social pressures, regional tensions and, more recently, weakening global economic growth and increasing trade frictions. The upcoming legislative and presidential elections in October and November 2019 have added to the uncertainty. Nevertheless, the authorities have strengthened program implementation and kept the program on track. All three prior actions were carried out, and four out of six end-March quantitative performance criteria (QPC) were met comfortably. Out of the two missed QPCs, the floor on net international reserves was not met due to the fact that the respective adjuster only corrected for lower-than-expected external financing in the last quarter rather than since the last review. Four of the nine structural benchmarks (SBs) were also met, two of them with a short delay, 4 SBs will be reprogrammed, and implementation of the remaining SB turned out to be very difficult in view of strong social pressure.

Recent Economic Developments and Outlook

The subdued economic recovery (with GDP growth increasing from 2.0 to 2.6 percent in 2018) was not strong enough to make a dent in unemployment, especially among the youth—a major source of social discontent. Growth was primarily driven by higher olive exports and the recovery of tourism, which reached its pre-revolution level in term of numbers of tourists. Despite the sharp depreciation of the dinar, the inflation rate gradually decelerated from a record of 7.7 percent in June 2018 to 6.9 percent in April 2019 as monetary policy was tightened. The current account deficit climbed to over 11 percent of GDP, primarily reflecting the sharp rise in international energy prices, despite the gains in competitiveness from a depreciating *dinar*. The strong performance of tax revenue helped to trim the budget deficit (including grants) to 4.6 percent of GDP in 2018, from 6 percent in 2017, but central government debt climbed to 77 percent of GDP, mainly due to the impact of dinar depreciation on external debt.

The economic outlook is more favorable, with trend improvements in growth, inflation and reserves cover. Our authorities agree with staff that building fiscal and external buffers and improving the business climate will be critical to strengthen the economy's resilience to external shocks and garner investor confidence. They expect that following the upcoming elections and the dissipation of related uncertainty, the medium-term outlook will improve further, with growth picking up in 2020 and averaging 4 percent during 2022-24. The inflation rate is expected to trend down from 7 percent in 2019 to 4 percent by 2024. In addition, the expected rebound in exports and tourism is projected to cut the current account deficit by almost half to 5.8 percent of GDP and raise the reserves cover to almost 4 months of imports by 2024.

Fiscal Policy and Reforms

Fiscal adjustment has gained momentum and end-December 2018 and end-March 2019 fiscal targets were met as revenue overperformed. Our authorities are committed to stay firmly on the fiscal adjustment path through a combination of well-calibrated fiscal measures and structural reforms to reduce the pressure on the balance of payments and ensure debt sustainability over the medium term. They are targeting an overall fiscal deficit (excluding grants) of 3.9 percent of GDP in 2019 through improved revenue mobilization and better prioritization of current spending, while maintaining investment spending at 5.6 percent of GDP. In order to strengthen social cohesion and support for the reforms, the authorities have increased social spending by 0.3 percent of GDP in 2019, by extending coverage of the current support provided to vulnerable population and by higher spending on healthcare infrastructure. Additional support measures were extended to vulnerable households through energy prices (see below).

Energy Subsidies

Energy subsidy reform is at the core of fiscal consolidation in 2019, accompanied by measures to protect low-income households through targeted social programs and preferential energy tariffs. Also, importantly, the authorities plan to strengthen their communication strategy to build public support for reforms. Significant progress was made in 2018 in reducing energy subsidies—including through the elimination of fuel subsidies to cement companies as well as the increase of electricity tariffs. Subsidy reforms are continuing in 2019. Fuel prices were hiked by 6 percent at the end of March and electricity tariffs for consumption exceeding 300kWh per month as well as gas prices were increased by more than 10 percent in May (prior action). To protect low-income consumers, the social electricity tariffs for consumption up to 100kWh per month were decreased by 10 percent and there were no changes in tariffs for consumption between 100kWh to 300kWh per month—these two categories cover 94 percent of consumers.

To comply with international environmental standards, the government has decided to gradually adjust the structure of hydrocarbon consumption by reducing the supply of high polluting ordinary gas oil, while increasing the supply of sulfur-free diesel which is subject to a higher excise tax. In addition, the authorities are determined to maintain, for the remainder of 2019, the monthly tariff adjustments of 2 percent for medium voltage electricity and medium pressure natural gas, a process that started in January. Quarterly fuel price adjustments will take place in June and October 2019.

Monetary and Exchange Rate Policies

Monetary policy will continue to be geared towards price stability and preserving international reserves, while providing adequate liquidity to the banking system to support productive economic activity. In order to reduce inflationary and exchange rate pressures, the CBT has preemptively tightened monetary policy by increasing its policy rate three times in the last 12 months—the last time in February 2019—for a cumulative total of 275 bps. While all interest rates are currently positive in real terms, except for deposit rates, the CBT will remain vigilant and continue to closely monitor inflation developments, and stands ready to tighten the monetary stance, if and when needed.

Further improvements of the monetary policy framework are also in train. While maintaining the loan-to-deposit (LTD) ratio imposed on banks in November 2018, the CBT is committed to gradually reducing the stock of central bank refinancing to TD13.9 billion by end-December 2019 from TD16.4 billion at end-March 2019. Moreover, to reduce the risk to its balance sheet and strengthen the monetary policy transmission, the CBT will tighten LTD and collateral policy for refinancing operations by raising the share of government securities used as collateral from 40 to 50 percent.

Greater exchange rate flexibility since the last review has allowed the dinar to better reflect market conditions and the exchange rate to play its pivotal role as the economy's main shock absorber. The CBT is committed to maintaining the competitive FX auctions and significantly reducing its FX intervention budget, supported by an effective public communication strategy.

Financial Sector Stability

Tunisia's banking sector is well capitalized and NPLs are declining and are well provisioned, thanks to the regulatory and supervisory reforms implemented since the inception of the program to enhance banking sector resilience. Addressing the vulnerabilities of the financial sector remains one of the key priorities and, to that end, steps are being taken to further strengthen bank supervision and risk management. Also, in the context of the action plan agreed with FATF in November 2017, significant progress has already been made to strengthen the AML/CFT framework and accelerate Tunisia's exit from the FATF grey list.

The authorities remain strongly supportive of private sector growth and focus on measures to improve the business environment. These include streamlining the regulatory environment and strengthening governance and transparency. Indeed, the authorities established the new investment governance structure under the new investment code, as well as the Strategic Investment Council (CSI) and the Tunisian Authority for Investment as a one-stop shop for investors.

Conclusion

Despite a very challenging socio-political environment, regional tensions and global uncertainties, the Tunisian authorities are pressing ahead with the implementation of their ambitious reform agenda with the critical support of the IMF and other development partners. The authorities are fully committed to the program objectives with the belief that there will be light at the end of what has proved to be a long tunnel. The palpable social costs of the program are heavy, and social cohesion can only be maintained if there is conviction on the part of the public that there will be an early end to its sacrifices and that the reforms will make a major difference in the people's livelihood in a not too distant future.