Committee on Balance-of-Payments Restrictions

REPORT ON THE OCTOBER 1992
FULL CONSULTATION WITH TUNISIA

1. The Committee consulted with Tunisia on 8 and 9 October 1992, in accordance with its terms of reference, pursuant to Article XVIII:12(b) of the General Agreement and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 265/205). The consultation was held under the chairmanship of Mr. J.-F. Boittin (France). The International Monetary Fund was invited to participate in the consultation in accordance with Article XV:2 of the General Agreement.

2. The Committee had the following documents before it:

   Basic document provided by Tunisia   BOP/311
   Background paper by the Secretariat   BOP/W/146

   International Monetary Fund, Supplementary Background Material for the GATT, dated 21 September 1992.

Opening statement by the representative of Tunisia

3. The opening statement of the representative of Tunisia is attached as Annex I.

Statement by the representative of the International Monetary Fund

4. The statement made by the representative of the International Monetary Fund is attached as Annex II.

Balance-of-payments position and prospects: alternative measures to restore equilibrium

5. Members of the Committee expressed their appreciation for the documents and statements presented to the Committee. Very strong support was expressed for the remarkable improvement which had taken place in the Tunisian economy since the last full consultation, especially in the last five years. In this context, the satisfactory growth rates in 1990 and 1991, structural reforms, substantial deregulation of the economy,
reduction in consumer subsidies, financial reform, privatization efforts, steps to liberalize foreign trade and better integrate the country into the world economy were particularly welcomed.

6. Members noted, however, that Tunisia's balance-of-payments situation, which had been positive in the end of the 1980s, deteriorated in 1990 and improved only slightly in 1991. It was recognized that Tunisia had a chronic balance-of-payments problem, mainly resulting from structural imbalances. In this context, the importance of stimulating foreign investments and export growth was underlined.

7. Members encouraged Tunisia to continue market-based economic and trade reforms. Tunisia was requested by several members to give consideration to establishing a schedule for eliminating its remaining trade restrictions maintained under Article XVIII:B of the General Agreement. One delegation asked, whether this goal had been envisaged within the time-period covered by the recently adopted Eight Development Plan.

Systems, methods and effects of import restrictions

8. Members welcomed that Tunisia had taken substantial steps toward liberalizing its trade and payments regimes since the last balance-of-payments consultation. It was noted with satisfaction that the share of total imports, free from quantitative restrictions, had been increased to 85 per cent. Recently introduced reductions in customs duties and rationalization of the tariff system were also highlighted. It was noted that trade liberalization would contribute to the success of economic reforms through promoting more efficient allocation of resources.

9. Members asked Tunisia to provide a time-schedule on further liberalization measures, including the date of elimination of the remaining quantitative import restrictions, compensatory duties which had been introduced in conjunction with the elimination of quantitative restrictions in 1991 and 1992 on certain semifinished and finished goods. The question was also raised by several members when Tunisia intended to phase out the 5 per cent import surcharge (conjunctural tax) and abolish state monopoly on the importation of certain products. Tunisia was asked to explain its policy and practice on the authorization and application of compensatory duties; the question was raised whether these duties were related to the minimum charge payable at customs. Clarification was asked regarding recent changes in import duties and the fulfilment of Tunisia's commitment to decreasing tariffs to a maximum of 25 per cent by 1995, as it had been agreed during Tunisia's accession to the GATT. One delegation asked Tunisia what was the reason behind maintaining export restrictions and whether Tunisia had any plans for their elimination.
10. It was pointed out by one member that Tunisia's foreign trade was strongly dependent on the EC and therefore common efforts should be made to find further markets for the country's exports. In this context, the importance of the regional cooperation among Mediterranean countries was also stressed.

11. In reply, the representative of Tunisia expressed the determination of the Government to continue the market-oriented reform process, which included, inter alia, the further integration of the country in international trade, continued trade liberalization and modernization of banking and financing. He stressed that 85 per cent of Tunisian imports had been freed from quantitative restrictions, an objective achieved by May 1992, well before the original target date, the end of 1992. The major economic objectives of Tunisia, including appropriate growth rates, had been established by the Eight Development Plan, adopted for the period 1992-1996. Safeguarding the country's internal and external balance, was an absolute priority for Tunisia. He stressed, however, that the balance-of-payments of Tunisia was still subject to serious pressure, due to structural imbalances. Therefore, Tunisia was not in a position to disinvoke Article XVIII:B, before the balance-of-payments recovered its structural stability.

12. In respect of the temporary import surcharge (conjunctural tax), the representative of Tunisia stated that it would be eliminated before the end of 1992. Both import and export licensing had been phased out completely. The State import monopoly covering oils, meat, milk powder, rice and pepper had been lifted. The trend for further demonopolization would be maintained to provide a more competitive environment in the product areas which were still subject to monopolies. Temporary compensatory duties had been introduced only for a temporary period, they were not of structural nature and would be eliminated in the future. In respect of tariffs, the representative of Tunisia stated that the aim of the authorities was to obtain an average tariff protection of about 25 per cent in order to maintain the production potential of the country.

Conclusions

13. The Committee welcomed the recovery which had taken place in the Tunisian economy since the last consultation, while recognizing that structural difficulties remained in the balance of payments situation of the country. Improvements in economic performance had, in large measure, resulted from the market oriented macroeconomic adjustment and structural reform programme initiated in 1986, which had been pursued continuously. The Committee congratulated Tunisia on this progress and encouraged the authorities to continue the reform and adjustment process vigorously in the context of the Eighth Development Plan adopted for 1992-96.
14. The Committee noted with satisfaction that Tunisia had taken substantial steps in the liberalization of its trade and payments régimes. These included rationalization of the tariff structure, elimination of quantitative restrictions on most imported goods and abolition of some State monopolies and foreign exchange restrictions. The Committee encouraged Tunisia to pursue the elimination of remaining State monopolies and the compensatory duties which had been introduced on a number of items in 1991.

15. The Committee welcomed Tunisia's commitment to phase out its conjunctural tax by the end of 1992 and to pursue its programme relating to elimination of quantitative restrictions. In this context, it looked forward to disinvocation of Article XVIII:B by Tunisia as soon as the balance of payments recovered its structural stability.
ANNEX I
OPENING STATEMENT BY THE REPRESENTATIVE OF TUNISIA

1. Tunisia attaches great importance to full consultations. It has participated in them on several occasions both as a provisional member and, now, for the first time, as a full contracting party to GATT.

2. Tunisia completed its accession process during the summer of 1990. This accession was part of a vast programme of economic reforms and structural adjustment launched in 1986 with the support of the World Bank and the International Monetary Fund, in accordance with GATT principles and Tunisia's fundamental aims of integrating its economic potential into the world economy. The objective is to reactivate growth primarily by means of a gradual liberalization of foreign trade and prices, encouragement to direct investment, and the general rewriting of the economic rules so as to adapt them to the new economic situation and its future developments.

3. Tunisia decided to rehabilitate the enterprise as the primary means of wealth creation, and allowed the private sector to play the leading rôle in productive investment and in the production process. Figures for the first nine months of 1992 show that private investment will exceed public investment this year. As part of this trend, a start has been made in adopting the necessary legal and institutional measures designed to ensure the smooth operation of market mechanisms, greater competition, and the consequent substantial reduction in the protection previously given to enterprises.

4. This programme has helped to boost economic growth, which has eased the difficulties encountered and allowed significant progress in structural reform. As a result, gains have been made, particularly in terms of economic growth and foreign trade, but at the price of significant sacrifices in terms of domestic demand.

5. Over recent years exports have shown positive growth, while imports have risen substantially and steadily, almost doubling in value over the last few years, from D 2,878 million in 1987 to D 5,319 million in 1991. At current prices, the average rate of growth of imports during the five-year period 1986-1991 was 17 per cent, well above the 9 per cent that had been forecast.

6. The import liberalization programme is already at an advanced state of implementation, with some 85 per cent of the total value of imports now liberalized, as against 23.6 per cent in 1986. Liberalization is moving
forward steadily, and, inter alia, is helping to make the Tunisian economy more competitive and to bring it into the world economy.

7. The reform process - launched in a more stable international economic environment than at present - has not escaped the impact of major exogenous upheavals that have affected the Tunisian economy. The first of these is the debt-service burden and the consequent outflow of funds. In addition, the deterioration in the terms of trade, allied to unfavourable weather, have also helped to keep pressure on the balance of payments and to maintain the deficit. Over the last few years our balance of payments has been hit hard by two consecutive years of drought in 1988 and 1989, floods in 1990, and the Gulf crisis in 1990-91. The Gulf crisis has had a major adverse impact on my country's economy so much so that certain economic sectors are still suffering the effects. The current account deficit of the balance of payments was D 314 million in 1989, and some D 535 million in 1991. The continuing effects of the Gulf crisis and the problems arising from the acceleration in import liberalization, mean that the balance of payments remains subject to strong pressures.

8. At the national level, our efforts - usually accompanied by heavy sacrifices - will be pursued with the same vigour and in the framework of the same outward-looking economic development policy as before. In this respect, I wish to stress Tunisia's determination to pursue the liberalization process. As has been emphasized repeatedly at the very highest levels in Tunisia, this is an irreversible process, and one that is vital for the success of the country's development programme. Our accession to GATT, and our commitment to the Uruguay Round and in the negotiations themselves are the best evidence of this.

9. While restating our faith in the multilateral trading system as embodied by GATT, we would like to emphasize the necessity of integrating the economies of developing countries into the world economy.

10. I do not want to finish this brief speech without expressing my warm thanks for the support given by the international community, including the IMF, the World Bank and all contracting parties. Tunisia will continue to turn to these parties during its liberalization process - a process that it is determined to continue to pursue unswervingly. While taking due account of the overall balance of its internal as well as external accounts.
STATEMENT BY THE FUND STAFF REPRESENTATIVE
TO THE GATT BALANCE-OF-PAYMENTS COMMITTEE

1. Tunisia has been engaged in a macroeconomic adjustment and structural reform programme for a number of years, supported by arrangements from the Fund during the period from 1986 to mid-1992. The initial adjustment programme, introduced in 1986, was designed to address the growing domestic and external financial imbalances of the early 1980s, which stemmed from a serious deterioration of the terms of trade and a sharp decline in petroleum reserves, and had been aggravated by expansionary demand management policies and substantial recourse to external borrowing on commercial terms. The programme involved (i) a comprehensive set of structural reforms aimed at increasing the efficiency and competitiveness of the Tunisian economy and, (ii) a prudent macroeconomic policy aimed at strengthening the external sector position and reducing inflationary pressures.

2. The structural measures taken since 1986 included a significant reduction of administrative controls on domestic producer prices and distribution margins, the lifting of prior authorization requirements for most bank credits, and the gradual liberalization of interest rates. In addition, a far-reaching tax reform was put in place, and several public enterprises were privatized or restructured.

3. The Tunisian authorities also took concrete steps toward liberalizing their trade and payments system. Rapid progress was made in 1987-88 on lowering import tariffs, over which period the maximum tariff rate was reduced from 236 per cent to 41 per cent, causing the average tariff rate to fall from 36 per cent to 27 per cent. The removal of quantitative restrictions on imports proceeded somewhat less rapidly. Nonetheless, the share of imported goods subject to quantitative restrictions fell from 47 per cent in 1988 to 26 per cent at the end of 1991, and to 15 per cent in May 1992. In conjunction with the lifting of quantitative restrictions, some compensatory duties were introduced in 1991 and 1992 on a limited range of semi-finished and finished products. These duties are scheduled to be eliminated progressively over a three-year period from the date of their introduction. Indeed, rate reductions have already begun to take effect for several goods in early 1992. In addition, the Government eased payments restrictions on some foreign exchange transactions, and gave more freedom to banks in the management of their foreign exchange positions.

4. The structural reforms were underpinned by prudent demand management and external debt policies, combined with an appropriate exchange rate policy. More specifically, the increased competitiveness resulting from
the real depreciation of the Tunisian dinar by more than 25 per cent in 1986-87 was subsequently maintained, as inflationary pressures were contained through the mix of a relatively moderate fiscal stance and a restrained monetary policy. The budget deficit to GDP ratio, after increasing from 4.8 per cent in 1988 to 5.7 per cent in 1989, dropped to 4.1 per cent in 1991. This fiscal adjustment contributed to the effectiveness of the restrictive credit policy, which was reflected in a significant slowdown of monetary expansion, from 11 per cent in 1989 to 5.5 per cent in 1991.

5. In 1991, the outbreak of hostilities in the Middle East adversely affected the Tunisian tourism industry, exports, and economic activity. The authorities promptly accelerated the pace of structural reform, in particular in regard to the liberalization of domestic prices and the modernization of the financial sector. On the side of stabilization policy, they took additional measures to restrict monetary growth and to strengthen the fiscal stance, including the introduction of a temporary import surcharge amounting to 5 per cent of duties and taxes paid on imports. This surcharge, extended in the latest budget, is to expire at end-1992.

6. Economic growth, which had virtually stalled in 1986, picked up and averaged 4.3 per cent annually during the period 1987-91, despite two successive years of drought (1988-89) and the sharp drop in real value added from tourism that resulted from the Middle East crisis. The rate of inflation, as measured by the consumer price index, was held to an annual average rate of some 7.5 per cent during the same period, notwithstanding the impact of the depreciation of the Tunisian dinar and the liberalization of domestic prices. The external current account deficit (excluding grants), which had reached some 8 per cent of GDP in 1986, narrowed to 4.2 per cent of GDP by 1991, when the overall balance of payments deficit amounted to SDR 48 million, down from SDR 195 million in 1986. The external debt service ratio declined from 27.9 per cent in 1986 to 24.2 per cent in 1991, while the external debt-to-GDP ratio fell from 63.0 per cent in 1986 to 54.6 per cent in 1991. Throughout this period, Tunisia stayed current on its external debt obligations and thus maintained its creditworthiness.

7. In the period ahead, the Tunisian authorities intend to continue the vigorous pursuit of their adjustment efforts, in the context of the Eighth Development Plan recently adopted for 1992-96. This Plan places the emphasis on promoting and improving the efficiency of domestic and foreign investment, while enhancing private sector savings and continuing to reduce government absorption. To these ends, the Tunisian Government is deepening the structural reforms and gearing financial policies to increase domestic savings.
8. In the area of structural reforms, and reflecting the improving trend in the balance of payments, all quantitative restrictions and compensatory duties on imports of goods are to be eliminated during the Plan period, while foreign exchange restrictions on current account transaction will be phased out with a view to establishing the convertibility of the Tunisian dinar. Producer prices and distribution margins will be fully liberalized, and a reform of the labour code will help increase the flexibility of the labour market. Special incentives for investment will be rationalized by the adoption of a unified and harmonized investment code. The liberalization of interest rates will be completed and financial instruments will be further diversified, while prudential regulations and banking supervision will be brought in line with international practices. The development of financial markets will be further boosted by the elimination of distortions in the taxation of assets.

9. Tunisia's medium-term strategy is predicated on a substantial increase in government savings so as to release resources to the private sector. More specifically, the Government aims at reducing the budget deficit to 1.0 per cent of GDP in 1996, through the implementation of revenue-enhancing measures and a restrained expenditure policy. In addition, an acceleration of the reform of the public enterprises is envisaged, with a view to reducing their reliance on budgetary support and bolstering their contribution to the overall savings performance.

10. The strengthening of the financial position of the public sector will be essential to allow the monetary authorities to redirect credit increasingly to the private sector, while maintaining a prudent monetary stance. Concurrently, the financial policies will aim at preserving Tunisia's external competitiveness, while maintaining relative exchange rate stability, and laying the ground for the establishment of current account convertibility.

11. In conclusion, the Fund commends the Tunisian authorities for their sustained implementation of sound demand-management and structural policies, as well as for their readiness to adapt their policies promptly to mitigate the impact of adverse exogenous shocks. In the view of the staff, the medium-term policies envisaged in the Eighth Development Plan should contribute to the rapid development of the country, the strengthening of the external position, and the further integration of Tunisia's goods, services, and financial markets into the world economy, without further reliance on import restrictions.