

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## Committee on Balance-of-Payments Restrictions

### DRAFT REPORT ON THE CONSULTATION UNDER ARTICLE XVIII:12(a) WITH TUNISIA

1. In accordance with its terms of reference, the Committee has conducted a consultation with Tunisia under Article XVIII:12(a). The Committee noted that a consultation under the simplified procedures (L/3772/Rev.1) had been held in November 1978 (BOP/R/105) when it had been decided that a full consultation would be held under the applicable procedures. The previous full consultation with Tunisia under the provisions of Article XVIII:12(b) had been held in 1969 (BOP/R/36). In conducting the present consultation the Committee had before it a basic document supplied by the Government of Tunisia (BOP/202 and Addendum 1) and a background paper provided by the International Monetary Fund, dated 5 June 1979.
2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 18th Supplement, pages 52-53). The consultation took place on 5 November 1979. The present report summarizes the main points of the discussion.

#### Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with this consultation with Tunisia. In accordance with the agreed procedures, the representative of the Fund made a statement concerning the position of Tunisia, as follows:

"Real output of Tunisia rose by 9 per cent in 1978, in contrast with only 4 per cent in 1977. The rate of increase in real investment, especially in the public sector, slowed down (to 9 per cent), as the Government delayed the execution of certain major projects, notably those linked to the exploitation of natural gas. Although the growth in consumption accelerated following the rise in agricultural production and upward adjustments in both wages and producer prices, the rate of increase was below that of GDP, and domestic savings increased noticeably. Minimum guaranteed wages rose by 11 per cent in May 1978, or only one third of the increase in 1977. Despite a further increase in outlays for wages and subsidies, the Treasury deficit declined substantially to 4.7 per cent of GDP (7.4 per cent in 1977), mainly because of a sharp increase in receipts from the petroleum sector, and a reduction in the Treasury's capital transfer and net lending. A large part of the deficit was financed by external resources, and most of the balance by recourse to the banking system. During 1978 the growth of net domestic credit was 18 per cent, compared with 14 per cent in 1977; most of the growth was financed with deposit money banks' own resources. The acceleration in credit growth together with an accumulation of net foreign assets, caused the stock of money and quasi-money to rise by 20 per cent, versus 13 per cent in 1977, increasing its ratio to nominal GDP to 43 per cent from 41 per cent a year earlier. The rate of inflation remained moderate, reflecting in part the government policy of subsidizing a number of essential commodities.

"In 1978, Tunisia's overall balance of payments showed a surplus of SDR 26 million compared with a deficit of SDR 58 million in 1977. Despite higher export volumes of petroleum, olive oil, and metal manufactures, the growth in export earnings slowed down to 10 per cent in 1978 (18 per cent in 1977), owing mainly to technical problems in the production of phosphate rock and the adverse repercussions of EC restrictions on textiles. Meanwhile, the growth of imports also slowed due to a higher domestic output and to a reduction of stocks. The terms of trade remained virtually unchanged. The inflow of tourism receipts and workers' remittances increased substantially. As a result, the current account deficit declined marginally to SDR 430 million or from 10 per cent of GDP in 1977 to 9 per cent in 1978. Net external borrowing increased to SDR 450 million in 1978 and enabled the authorities to rebuild gross official reserves, which increased by SDR 51 million to SDR 346 million, equivalent to two months' 1978 imports of goods and services.

"The overall balance of payments outlook for 1979 is favorable as exports are expected to increase by some 27 per cent and imports are projected to grow by 15 per cent (compared to the previous year's growth

rates of 15 per cent and 13 per cent, respectively). Much of the export growth results from higher volume and prices of exports of petroleum and phosphates, while exports of manufactured goods, mainly textiles, are projected to rise moderately following an increase in the EC quotas for 1979 and an easing of rules regarding exports under sub-contracting agreements. Prospects for agricultural exports are also favorable. With higher tourist receipts and workers' remittances, the current account deficit is projected to decline to some SDR 400 million. On the basis of a continued large net inflow of foreign capital, the overall balance of payments is forecast to be in surplus in 1979. During the first quarter of 1979 imports increased by 6 per cent over the previous quarter, while exports were virtually stable, but this may be largely due to seasonal factors. Compared to one year earlier, the trade balance in the first quarter of 1979 showed a small improvement.

"Tunisia continues to maintain relatively complex and comprehensive controls on trade and payments which - with two exceptions - have remained largely unchanged over the last two years. In March 1978, a special import tax, with tax rates of 100-300 per cent for less essential consumer goods and 5-80 per cent for other consumer goods, was levied. However, there are indications of a gradual de facto easing of restrictions resulting from a more flexible administration of trade and payments controls.

"The relatively favorable prospects for Tunisia's balance of payments should be seen against the background of a steady decline in recent years in the level of gross official reserves as a proportion of imports. At the end of July 1979 international reserves stood at a level equivalent to about six weeks' imports of goods and services. The recently introduced special tax on imports does not appear to have had a discernible influence on the level of imports. The Fund would welcome further progress towards easing restrictions on trade and payments. In the meantime, the Fund considers that the overall restrictiveness of Tunisia's import regime does not go beyond what is necessary to prevent a decline in its international reserves."

#### Opening statement by the representative of Tunisia

4. In his opening statement, the full text of which is reproduced in the Annex, the representative of Tunisia said that Tunisia's balance of payments, although in slight surplus at the time showed a structural deficit in the trade account. The effects of the international economic slow-down were felt

in the terms of trade, which continued to deteriorate. He went on to enumerate some of the objectives of the Fifth Development Plan as well as some of the measures envisaged to overcome the difficulties facing the Tunisian economy.

Parts I and II - Balance-of-payments position and prospects and alternative measures to restore equilibrium

5. Members of the Committee noted with satisfaction the generally promising economic performance of Tunisia revealed by the data supplied by the International Monetary Fund and supplemented by the Fund representative's statement. They noted that GNP growth remained strong and that this growth was centred in the industrial and services sectors. The Tunisian Government had focused its policy efforts on restraining inflation and stimulating savings, so that most of the growth in domestic credit during 1978 was financed from the resources of the domestic banks. The overall balance of payments achieved a surplus in 1978 with exports rising at a faster rate than imports. The current account deficit was more than covered by net capital inflows and this balance-of-payments achievement was expected to be repeated in 1979, according to the Fund. A growth rate of exports of 27 per cent and a growth rate of imports of 15 per cent were expected. Asked whether the Tunisian authorities shared these forecasts, the representative of Tunisia confirmed the figure for imports and added that the figure of 27 per cent growth for exports for 1979 was likely to reach 30 per cent, according to budgetary forecasts, by the end of the year due to increases in oil prices during the second semester of 1979. In reply to questions concerning forecasts for 1980, the representative of Tunisia said that exports were expected to increase by 13.7 per cent and imports by 13.9 per cent.

6. Questions were asked concerning Tunisia's exchange rate policy. The representative of Tunisia referred to the material supplied by the International Monetary Fund which contained a detailed description of the exchange rate system and its developments since 1974.

7. Members of the Committee noted that the inflation rate in Tunisia was very moderate, due to a number of measures taken by the authorities, such as price controls, subsidization of essential products and the management of wage negotiations. It was also noted that the money supply had been increasing over the past two years, and it was asked whether the Tunisian authorities considered this rate of increase acceptable or whether they were considering supplementary measures, for instance in the field of credit control. The representative of Tunisia said that the present measures were considered sufficient to control and maintain a moderate rate of inflation. Price liberalization was being introduced, but very gradually so as to avoid any disruptions. Credit policy was well under control. He explained that the utilization of bank resources were subject to certain provisions. Thus 18 per cent had to be applied to medium-term development loans ..... 20 per cent had to be applied for public loans: and 5 per cent of deposits had to be applied for social housing. Only a very small proportion was left to be used for consumption credits.

8. In reply to questions concerning the significant growth of domestic savings the representative of Tunisia said that it was his authorities' policy to seek the development and growth of domestic savings in order to encourage domestic investments. Domestic savings amounted to 22.4 per cent of GNP; thus supplying finance sources for 73 per cent of development investments.

9. Members of the Committee noted that Tunisia's external debt was growing substantially and asked whether the Government had guidelines as to the maximum acceptable debt or debt servicing ratio. The representative of Tunisia replied that for the time being the level of Tunisia's foreign debt was not a matter of concern. The debt servicing ratio for 1979 was expected to be 11.4 per cent, and the figure for 1980 was expected to be 12 per cent, which was less than the figure of 14.9 per cent contained in the development plan.

10. Noting that the level of foreign investments had declined in 1978, it was asked whether the Tunisian authorities envisaged taking measures to encourage foreign investments in the future. The representative of Tunisia explained that the decline in 1978 was probably due to general economic conditions. It was generally felt that the different provisions contained in the Laws of ..... and August 1974 covering fiscal exoneration, transfer facilities etc. were sufficient to encourage foreign investment.

11. Several questions were asked concerning export promotion measures by Tunisia. The representative of Tunisia said that this was an important aspect of his authorities' policy. The Fifth Development Plan set certain goals such as the diversification of export markets, the diversification of sources of supplies and the development of long-term contracts; it also aimed at achieving more competitive prices, quantities and qualities of Tunisian products. A number of agreements had been signed with African, ASEAN and Arab countries to encourage the development of trade. A centre

of export promotion had been set up to prospect new markets and undertake market surveys for particular products. It was essential for Tunisia to develop its exports beyond the three or four products that it exported at present. Members of the Committee noted that proceeds from tourism had increased substantially in 1978 and that the prospects for 1979 appeared excellent. Asked what measures were envisaged to further encourage this development the representative of Tunisia said that new tourist centres would be opened in Tunisia and that it was hoped that the favourable trend of 1978 and 1979 would continue. His authorities were aware of the importance of tourism receipts in the balance of payments. However, tourism being a volatile source of income, not too much reliance should be placed on it.

Parts III and IV - System and method of the restrictions and effects of the restrictions

12. Members of the Committee noted that the import régime was clearly described both in Tunisia's basic document and in the background document supplied by the International Monetary Fund. This régime had been introduced by a law of 21 January 1976 followed by a decree of application of 27 July 1977. The Fund had noted that few modifications had been made in the past two years except for the introduction of a special import tax, which according to the Tunisian authorities affected mainly non-essential products. The representative of Tunisia explained that until 1976 and the introduction of the new law, Tunisia's trade and exchange system was based on texts dating from 1939 and based on French law. Its new 1976 law and decrees of application were not all in force yet and as further decrees of application would be introduced more



flexibility would be achieved in the trade and payments system. He recalled that since 1976 considerable liberalization had been achieved including the abolition of the dual currency areas. With respect to the special import tax members of the Committee asked whether the Tunisian authorities would envisage replacing it with normal customs duties. The representative of Tunisia explained that although the tax was high, ranging up to 300 per cent his authorities had noted that in its application the average rate amounted to only 30 per cent, because the high rate of the tax affected only a small percentage (7 per cent in volume of imports). It was not envisaged at this stage to replace the tax with customs duties.

13. Members of the Committee asked for clarification as to the percentage of imports affected under Category A liberalized imports and those entering under the restricted list. The representative of Tunisia replied that only 15 to 20 per cent of total imports in terms of value, not in terms of tariff lines, were on the restricted list. The structure of Tunisia's imports consisted of equipment goods for roughly one third, another third or more of raw materials and semi-finished products, 13 per cent foodstuffs and some 13 per cent consumption goods. Capital goods and raw materials were imported under the liberalized list and had no restrictions. Nearly all foodstuffs were imported by State-trading enterprises which automatically obtained import licences. This was done in order to rationalize and optimize food imports as to price, quantities and quality. The majority of capital goods



when imported for approved development projects did not require import licences but only an import certificate. He added that by 1980 when a new law (decree of application) would be introduced this system would be further simplified.

14. Members of the Committee noted that liberalized imports could be freely imported but only by eligible importers and asked what procedures were used to select eligible importers and whether these procedures did not discriminate against non-traditional suppliers to the Tunisian market. The representative of Tunisia said that authorized importers were firms that had registered with the customs authorities and obtained a registration number. The procedure did not involve any discrimination to non-traditional suppliers.

15. Members of the Committee noted that a number of import restrictions had been liberalized in recent years but that the system maintained was nevertheless complex and asked whether the Tunisian authorities intended to simplify the system and further liberalize it. The representative of Tunisia replied that greater flexibility would be introduced as the decrees of application gradually brought the different provisions of the 1976 law into force.

#### Conclusions

16. The Committee welcomed the trend toward a progressive relaxation in the application of Tunisia's import restrictions. It noted the view of the International Monetary Fund that the overall restrictiveness of the import régime did not go beyond what was necessary to prevent a decline in Tunisia's international reserves. It also noted the relatively favourable prospects for

Tunisia's balance of payments. The Committee noted with satisfaction the Tunisian authorities' determination to continue relaxing remaining restrictions, and hoped that positive developments in Tunisia's balance of payments and international reserves would enable the authorities to accelerate this process.