# Tunisia


## key figures

- Land area, thousands of km² 164
- Population, thousands (2004) 9 937
- GDP per capita, $ (2003) 2 543
- Life expectancy (2000-2005) 72.8
- Illiteracy rate (2004) 24.8

African Economic Outlook 2004/2005

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BETWEEN 1999 AND 2004, reforms undertaken in Tunisia were chiefly aimed at preparing for opening to the world economy, encouraging diversification and increasing competitivity. These enabled the country to adapt to a difficult international environment and to survive three consecutive years of drought. In 2003, good performances in agriculture and tourism accelerated growth from 1.7 per cent (2002) to 5.6 per cent. According to estimates, this should reach 5.5 per cent in 2004 and over 5 per cent in 2005 and 2006, primarily driven by tourism and exports to the European Union (EU), furthered by the depreciation of the dinar *vis-à-vis* the euro.

Despite these positive results, efforts to encourage private investment, notably in sectors such as clothing and textiles, must be continued in order to meet future national and international challenges (such as the implementation of the free trade area with the EU in 2008). In order for Tunisia to consolidate its achievements and benefit from the advantages of opening its economy, several goals are key. These include reducing unemployment, improving commercial access to credit, reducing economic distortions and improving administration.

**Opening to the world market raises challenges of diversification economic competitivity.**

Figure 1 - Real GDP Growth


**Source:** Budget data; estimates (e) and projections (p) based on authors' calculations

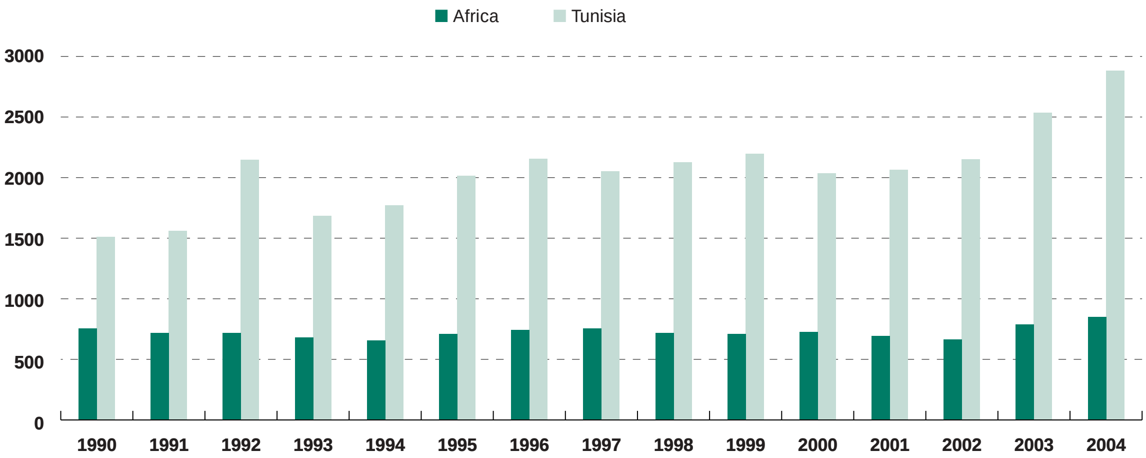
## Recent Economic Developments

After a disappointing 2002 (with growth at just 1.7 per cent), the growth rate returned to its five-year average in 2003 (5.6 per cent). In real terms, excluding agriculture and fishing, growth has remained practically stable at 3.6 per cent in 2003 against 3.5 per cent in 2002. Real growth is estimated at 5.5 per cent in 2004 and should reach 5.2 per cent in 2005. Excluding agriculture, it should reach 5.4 per cent in 2004 and 6.3 per cent in 2005.

In 2004, both agriculture and fisheries, which account for 14 per cent of GDP, registered good performances with real growth of 9 per cent, compared to 21.5 per cent in 2003.

Progress in 2004 is primarily due to favourable weather conditions, which resulted in an increase in the production of dates, apricots, peaches, plums and pomegranates in 2003/4. Olive oil production also more than doubled to 280 000 tons during the same season. The agricultural sector's growth, however, was

Figure 2 - GDP per Capita in Tunisia and Africa (current $)




**Source:** IMF.

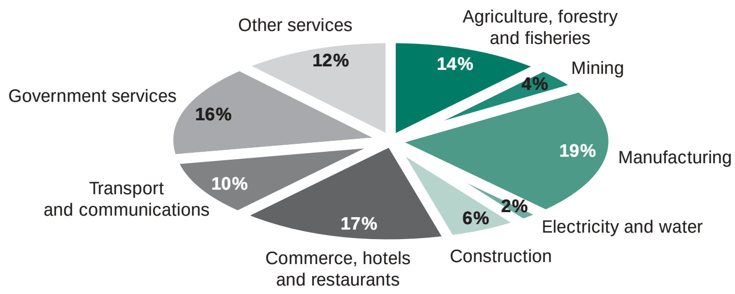
hampered by a less impressive performance of livestock: the number of breeding cattle and sheep fell by 14 and 2 per cent respectively, despite improved vegetative cover in pastures and increased fodder production (around 85 per cent). Though heavy rain and hail caused damage in June 2004, the cereal harvest is estimated at 24 million quintals in 2003/4, down by 17 per cent in volume and by 20 per cent in value over the previous year. However, the Tunisian authorities expect a significant fall in real growth in agriculture and fishing in 2005, which could be –9 per cent.



Agriculture and fishing are still of great economic, social and environmental importance in Tunisia. The authorities thus continued to support the sector's development in 2004, particularly by promoting the modernisation of farming methods and management, strengthening technical know-how and exploitation and implementation of scientific research carried out in the field. A study of regional agricultural maps, finalised in 2003, should help farmers to better target their activities by taking regional climatic and economic data into account. Measures to improve the working environment of agricultural companies and operations were also undertaken. These included strengthening and restructuring joint-trade organisations, bolstering agricultural supply and marketing bodies, intensifying cattle vaccination campaigns and reinforcing sanitary import controls to protect the national herd. The fisheries sector benefited from the ongoing strategy of modernising the fleet and reinforcing both port infrastructures and refrigeration equipment in 2004. This was pursued in tandem with a rationalisation of the exploitation of fishing resources, particularly in the Gulf of Gabes. Further, to support production and improve safety, a satellite surveillance programme of fishing activities was adopted in 2003 and new measures to regulate boat movements in the Gulf of Gabes were taken.

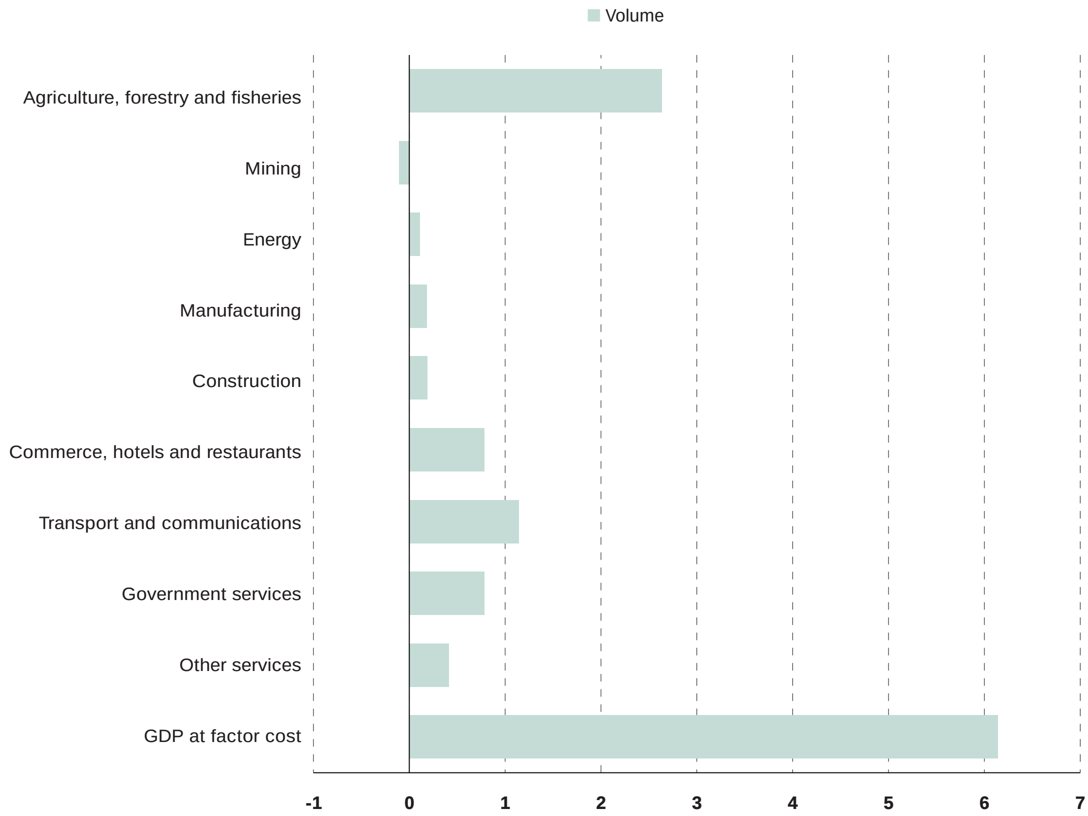
In the industrial sector, the government consolidated its efforts to improve the business environment by modifying the legal framework, improving human resources, developing infrastructure, stabilising the macroeconomic environment, restructuring the banking and financial system and modernising the administration. In parallel, the modernisation programme (*Programme de mise à niveau*) initiated at the beginning of 1996 was also continued, but the strictness of its financial eligibility criteria resulted in a low rate of spending. At the end of 2003, of the 2 818 companies applying to the programme, only 1 649 had been approved by the steering committee (*Comité de pilotage*, Copil). In all, 2 646 million dinars ($2 151 million) were invested. In the same token, and also at the end of 2003, 164 companies had benefited from the industrial services modernisation programme launched in February 2000. Of these, 65 had their applications approved leading to a total investment of 26 million dinars ($21 million), and state subsidies of 8 million dinars ($6.5 million).

Figure 3 - GDP by Sector in 2003 (percentage)




**Source:** Authors' estimates based on budget data.

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (percentage)




**Source:** Authors' estimates based on budget data.

Further, an EU-supported industrial modernisation programme (*Programme de modernisation industrielle*, PMI) was put in place. This five-year programme (2003-08) to assist industrial modernisation and restructuring in Tunisia targets the modernisation of companies. It is comprised of four main elements: development via innovation and creativity; reinforcing quality, metrology and standardisation; developing patent rights; and improving and facilitating access to financing for small and medium-sized enterprises (SMEs).

Despite these efforts, growth of the manufacturing industry – which went from 0.9 per cent in 2003 to nearly 4.3 per cent in 2004 – remains very uneven and varies according to sub-sector. While a few clearly improved over 2003 (food-processing, construction materials, chemicals, mechanical and electrical sector) owing to greater price competitivity, the largest sector – textiles/clothing/leather – experienced negative growth in 2004 (-1.5 per cent). This sub-sector should experience zero growth in 2005. The difficulties of the textile sector alone, which contracted by 1 per cent in 2004, pose serious problems for the Tunisian government. During the 1990s, the sector grew on average by 8 per cent in real terms per annum. This dropped to just 1 per cent during the 2001/03 period. With competition from Eastern Europe and Asia, which have lower labour and production costs, Tunisia is have difficulty maintaining its position as the fourth largest textile supplier to the European market. Structural problems remain large. In 2003, 17 factories were shut down, leading to the loss of approximately 8 000 jobs. Despite this stagnation, the sector continues to dominate the Tunisian manufacturing sector: in 2004, it accounted for approximately 2 000 companies, 280 000 jobs, a third of manufacturing production, 40 per cent of all exports and 6 per cent of GDP.

Non-manufacturing industries rebounded in 2004 after sluggish performances in 2003 (1.5 per cent, as opposed to 4.9 per cent in 2002), to reach 3.6 per cent. This was due to a 4.1 per cent growth in hydrocarbons and a 3.5 per cent growth in public buildings and works. This growth rate should be maintained in 2005.

In spite of increasing international competition, combined with ongoing geopolitical tensions and the April 2002 Djerba bombings, tourism performed well in 2004. The number of tourists increased by 17.3 per cent with 6 million visitors, compared to slightly more than 5 million the previous year. Overnight stays increased by 21.5 per cent in 2004, to 34 million, and the hotel occupancy rate reached 48.5 per cent, compared to 42 per cent in 2003. Tourism, which remains the leading source of foreign currency, generated revenue of 2.2 billion dinars in 2004 ($1.8 billion), against 1.9 billion dinars in 2003 – an increase of 17.7 per cent. The south, centre and coastal regions were the most visited, with tourists originating principally from Maghrebian countries (2.3 million in 2004), France (over 1 million, having increased by 22.5 per cent from 2003), Belgium and Spain. Domestic tourism developed strongly in 2004, to reach 2.8 million overnight stays, or 8.2 per cent of the tourism total.

The fall in Tunisia's share of tourism to the Mediterranean region reflects a level of fatigue in the sector. To assist its recovery, in addition to timely measures such as increasing the budget for promoting and marketing tourism, the Tunisian authorities are attempting to identify the structural levers capable of increasing the sector's competitivity. Elements being examined include hotel profitability, improving knowledge of tourist expectations and the demands of various sectors, differentiating products, improving the quality of facilities and diversifying ways for tourists to spend money. Promotional campaigns were carried out targeting the new markets of Eastern Europe (Poland, Czechoslovakia) and beyond (the United States, Japan, Russia). These began to bear fruit in 2004.

Partly due to the comparative increase in tourism, growth in the transport sector increased from 2.2 per cent in 2003 to 6.2 per cent in 2004. Similarly, the business sector also increased in 2003, with growth of 6.2 per cent.

In 2004, the continued growth in services led to it reaching 7.7 per cent in real terms, notably due to the good performance of the tourism and transport sectors. This trend should continue in 2005 with 9.7 per cent growth, driven by telecommunications (24 per cent), business (6.6 per cent) and transport (6.3 per cent). This should lead to an improvement in services contribution to overall growth, from 3.7 per cent in 2004 to 4.7 per cent in 2005.

Consumption fell, from 21.2 per cent in 2003 to 26.6 per cent in 2004 owing to increased domestic savings. Gross fixed capital formation (GFCF) contracted by –3.2 per cent in 2003, principally as result of a drop in investment in agriculture, fishing and energy. It continued to fall between 2003 and 2004, from 25 to 24.7 per cent, but should start to



| Table 1 - Demand Composition (percentage of GDP) | 1996 | 2001 | 2002 | 2003 | 2004(e) | 2005(p) | 2006(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **25.1** | **27.9** | **25.7** | **25.0** | **24.7** | **25.6** | **26.0** |
| Public | 4.7 | 7.8 | 7.5 | 7.4 | 7.1 | 7.5 | 7.7 |
| Private | 20.3 | 20.1 | 18.2 | 17.7 | 17.6 | 18.1 | 18.3 |
| **Consumption** | **76.5** | **76.7** | **78.6** | **78.8** | **73.4** | **72.2** | **72.4** |
| Public | 15.6 | 15.6 | 16.0 | 16.1 | 15.3 | 14.9 | 14.6 |
| Private | 60.9 | 61.1 | 62.6 | 62.8 | 58.1 | 57.3 | 57.8 |
| **External sector** | **-1.6** | **-4.6** | **-4.3** | **-3.9** | **1.9** | **2.2** | **1.6** |
| Exports | 42.1 | 47.7 | 45.2 | 43.8 | 48.5 | 50.6 | 50.4 |
| Imports | -43.7 | -52.3 | -49.5 | -47.6 | -46.6 | -48.4 | -48.8 |

**Source:** Budget data; estimates (e) and projections (p) based on authors' calculations.

increase again in 2005 and 2006, to 25.6 per cent and 26 per cent of GDP. In 2004, the Tunisian authorities stepped up their promotion of investments. In addition to the modernisation programme's measures, the activities of capital risk companies and their capacity to identify, evaluate and follow-up on projects was strengthened. The workings of the fund for industrial promotion and decentralisation (*Fonds de promotion et de décentralisation industrielle*, Foprodi) were revised and long-term savings (applied to investment financing) were encouraged through the introduction of favourable tax allowances for holders of share and investment savings accounts.

## Macroeconomic Policies

### *Fiscal and Monetary Policy*

In order to maintain budgetary balance, particularly in the framework of tariff dismantlement under the association agreements with the EU, the Tunisian authorities are focusing on accelerating the reforms to modernise and optimise the tax system.

Tax revenue, which comprises 85 per cent of the state's income, dropped in 2004 to 20.1 per cent of GDP. To contain the effects of the rise in the price of oil, in August 2004 VAT on diesel oil, "blue petroleum", fuel and liquid petroleum gas (LPG), was reduced from 18 per cent to 10 per cent. An additional 200 million dinars in funding was granted. Customs revenues continued to fall, though at a slower rate, going from 2 per cent of GDP in 2002 to 1.7 per cent in 2003 and 1.6 per cent in 2004. This resulted in the contribution of taxes to GDP remaining more or less stable in 2004, but this should fall in 2005, from 24.1 to 23 per cent of GDP.

In spite of the elections in 2004 and the political priorities (increasing competitivity, job creation, raising standards of living and continuing reforms), the government's efforts to reduce spending were effective. Budgetary spending was significantly decreased, going from 27.2 per cent of GDP in 2003 to 25.6 per cent in 2004. This contraction should continue in 2005 and 2006. Almost half of current expenditure went to social sectors (education, health). The remaining half was almost evenly divided between general services and the economic sectors. Interest payments on debt decreased, from 3 per cent of GDP in 2003 to 2.7 per cent in 2004.

If privatisation receipts are included, the budgetary deficit in 2004 was 1.5 per cent of GDP, compared to 3.2 per cent in 2003 and 1.9 per cent in 2002. The forecast deficits for 2005 and 2006 are 2.3 and 2.2 per cent respectively. Excluding privatisation income and grants, the 2004 deficit was much higher (2.8 per cent): privatisations accounted for 334 million dinars, compared to just 8 million in 2003.

The monetary policy adopted by the Tunisian authorities in 2004 pursued the same objectives as the

Table 2 - Public Finances (percentage of GDP)

| | 1996 | 2001 | 2002 | 2003 | 2004(e) | 2005(p) | 2006(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants[a]** | **30.6** | **24.3** | **25.9** | **24.0** | **24.1** | **23.0** | **23.0** |
| Tax revenue | 25.0 | 21.7 | 22.6 | 20.7 | 20.1 | 20.1 | 20.3 |
| Grants | 0.2 | 0.3 | 0.4 | 0.2 | 0.2 | 0.3 | 0.2 |
| **Total expenditure and net lending[a]** | **35.5** | **27.8** | **27.8** | **27.2** | **25.6** | **25.3** | **25.2** |
| Current expenditure | 28.1 | 19.7 | 20.0 | 19.6 | 18.6 | 18.0 | 17.7 |
| *Excluding Interest* | *23.8* | *16.6* | *17.0* | *16.6* | *15.9* | *15.5* | *15.3* |
| Wages and salaries[a] | 10.3 | 11.8 | 12.2 | 12.2 | 11.6 | 11.1 | 10.8 |
| Interest | 4.3 | 3.1 | 3.0 | 3.0 | 2.7 | 2.5 | 2.4 |
| Capital expenditure | 6.9 | 7.7 | 7.5 | 7.2 | 6.9 | 7.3 | 7.5 |
| **Primary balance** | **-0.5** | **-0.4** | **1.1** | **-0.2** | **1.2** | **0.2** | **0.3** |
| **Overall balance** | **-4.9** | **-3.5** | **-1.9** | **-3.2** | **-1.5** | **-2.3** | **-2.2** |

a. Only major items are included.
**Source:** IMF data; estimates (e) and projections (p) based on authors' calculations

preceding years, i.e. restructuring the economy, controlling inflation, and maintaining stability in the real exchange rate. Reflecting the upturn in the economy in 2004, money supply (M3) grew by nearly 2.5 percentage points (9.3 per cent against 6.8 per cent in 2003), while liquidity (M3/GDP) dropped, from 60.3 per cent in 2003 to 54.1 per cent in 2004. The growth in money in circulation is as much due to the increase of money supply as to the development of quasi-money. On the opposite front, net foreign debt increased by 15.5 per cent in 2004, consolidating the trend perceived since 2001. In 2004, lending to the economy increased by 7.7 per cent, compared to 6.2 per cent in 2003. Deposit banks dominate financing to the economy. The decline in the state's net debt, already observed in 2002 and 2003, was underlined in 2004, falling by 8.6 per cent for the second consecutive year.



The financial market improved slightly, with two indices Tunindex and BVMT reflecting growth of 6.5 per cent and 3.7 per cent respectively throughout 2004. While stock market activity increased by 8 per cent in the first quarter of 2004, the second quarter was less convincing.

Having been maintained at its 2002 level in 2003 (2.7 per cent), inflation increased to 3.5 per cent in 2004. With increased household consumption – aided by higher salaries and an improved employment context – and a 5 per cent rise in oil product prices in February 2005, inflation should reach 3.2 per cent in 2005, before falling again to 2.2 per cent in 2006.

The value of the dinar fell against the euro and increased against the dollar. Over the course of 2003, the dinar fell by 7.9 per cent against the euro, though it rose against the dollar, yen and pound sterling by 10.4, 2.2 and 1.4 per cent, respectively. In 2004, the dinar rose again *vis-à-vis* the dollar, by 1.6 per cent, and fell by 6.4 per cent against the euro.

## External Position

In 2004, though liberalisation continued, trade remains protected and it is imperative to accelerate the reduction of tariffs on goods from outside the EU and to dismantle import monopolies of goods such as drugs, cereals, coffee and tea before liberalisation is complete. The most favoured nation (MFN) tariff is still significant and the gap between the preferential rights applied to EU imports is large. In 2003, the average MFN tariff was 28.6 per cent (35.9 per cent in 2000), compared to a tariff on EU goods of 24.3 per cent. The difference is even more pronounced for non-agricultural products. Liberalisation of services is still limited, in spite of Tunisia's adherence to the tourism, financial/business services and communication commitments of the World Trade Organization (WTO). On the whole, market opening is taking place slowly.

Aside from the association agreements with the EU – Tunisia's largest trading partner[1] – which will gradually alleviate trade barriers by 2008, Tunisia signed a number of other agreements: with Turkey, to establish a free-trade area by 2015; with Egypt, Jordan and Morocco, to develop a free-trade area by 2005 under the Agadir Agreement; and with the United States, the TIFA (Trade and Investment Framework Agreement), a mechanism for encouraging free trade between the two countries. However, the end of the Multi-Fiber Agreement (MFA) on 1 January 2005, and increased competition from Asian countries in the sector, forced Tunisia and the EU to adopt a number of measures. In effect, the end of the MFA risks translating into a significant reallocation of production to more competitive countries, and to a loss of several thousand jobs. In 2004, the WTO estimated that the end of the MFA would increase China's share of the European textile and clothing import market from 10 to 12 per cent, and India's share from 9 to 11 per cent. Within five to ten years, 50 000 Tunisians will lose their jobs in the textile sector. To contain the problem, the EU pushed forward implementing free circulation of raw textiles in all Mediterranean developing countries and Tunisia has undertaken some structural reforms, including greater co-operation with the Euro-Mediterranean countries.

The external position of the economy improved markedly in 2003, demonstrated by the positive balance of payments. In spite of a difficult international climate, this more than doubled to 383 million dinars (146 per cent of GDP), compared to 140 million dinars in 2002. This sizeable increase is partly the result of a contraction in the current deficit, from 3.5 per cent of GDP in 2002, to 2.9 per cent in 2003 and to 2.1 per cent in 2004, specifically owing to a reduction in the trade deficit during 2002-04. However, after a fall in imports in 2004 – to 40.5 per cent of GDP from 41.2 per cent in 2003 – imports should begin to increase again in 2005 (42.1 per cent of GDP) and in 2006 (42.4 per cent). This will exacerbate the trade deficit, which should be 9.6 per cent of GDP in 2005 and 10.6 per cent in 2006. The performance of imports in 2004 is largely explained by imports of non-food consumer goods and energy: +15.5 per cent increase in machinery and +20.2 per cent for raw and semi-finished materials. Tunisia is a net importer of oil, as its production (3.3 million tons equivalent in 2004) supplies only 46 per cent of annual needs. Nonetheless, the value of energy product imports advanced slower than exports, permitting a reduction in the energy deficit from 423.6 million dinars in 2003, to 406.1 million in 2004.



In 2004, exports as a proportion of GDP fell slightly (to 31.3 per cent, versus 32.1 per cent in 2003), but since the end of the 1990s, it has generally been above 30 per cent of GDP. Agricultural and food processing exports rose quite significantly (by 83 per cent) over 2003, accounting for 11.4 per cent of all exports in 2004, compared to 7.3 per cent in 2003. The textile sector fell however, from 47.1 per cent of exports in 2003 to 42.4 per cent in 2004.

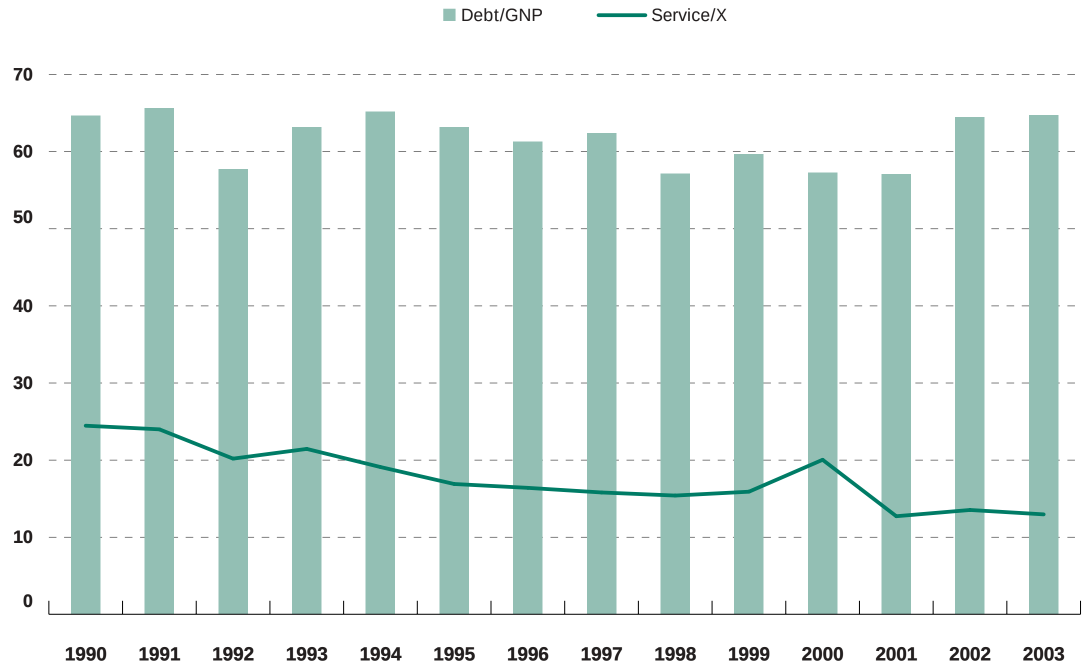
Table 3 - Current Account (percentage of GDP)

| | 1996 | 2001 | 2002 | 2003 | 2004(e) | 2005(p) | 2006(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -9.0 | -11.8 | -10.1 | -9.1 | -9.1 | -9.6 | -10.6 |
| Exports of goods (f.o.b.) | 28.2 | 33.2 | 32.6 | 32.1 | 31.3 | 32.5 | 31.8 |
| Imports of goods (f.o.b.) | -37.2 | -45.0 | -42.7 | -41.2 | -40.5 | -42.1 | -42.4 |
| Services | 9.6 | 7.4 | 5.9 | 7.3 | | | |
| Factor income | -5.3 | -0.2 | 0.3 | -4.4 | | | |
| Current transfers | 2.2 | 0.4 | 0.3 | 3.4 | | | |
| **Current account balance** | **-2.6** | **-4.2** | **-3.5** | **-2.9** | | | |

**Source:** IMF data; estimations (e) and projections (p) based on authors' calculations.

1. In 2004, the EU accounted for 81 per cent of Tunisia's exports and 71 per cent of its imports.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports)




**Source:** World Bank.



Net foreign currency reserves increased to $3.2 million in 2004, compared to 3 million the previous year; they covered around 2.9 months of goods and services imports.

External debt stock slightly increased, to $14.4 million at the end of 2004, against 14.3 million at the end of 2003. This represented a 6-point percentage fall against GDP (51 per cent versus 57 per cent in 2003). The debt service ratio expressed as a percentage of current income, increased between 2003 and 2004, from 15.1 to 19 per cent.

## Structural Issues

In spite of the country's good economic performances, structural reforms are of particular importance: in the context of strong international competition, these are aimed at supporting the business environment and improving overall competitivity in various sectors. Generally speaking, these reforms are advancing slowly.

In comparison with other high-growth countries, Tunisia has a structural deficit of private investment, in spite of having a generous incentive system and measures targeted for export activities and establishing offshore companies. Several steps have been taken to reduce business costs (shortening registration delays, reducing customs procedures and documents, simplifying foreign-business regulations, etc). The government also sponsored several funds to support lending to SMEs and emerging enterprises and it put in place a regulatory framework for developing capital risk.

Strengthening the investment climate nonetheless requires improving regulatory transparency and predictability as well as market contestability, and reducing barriers to entry in services (transport and new technologies, especially information and communications). The state's strong interference in business strengthens the positions of insiders, thus discouraging other entrepreneurs from taking risks.

In 2004, the World Bank pointed out the weak role of SMEs in job creation, particularly in highly qualified sectors, and this persists although recruiting procedures are much more flexible than redundancy ones. The high number of non-performing loans in the banking system reduces SMEs' access to credit even if initiatives such as micro-credit could enable the formation of new companies in employment-creating sectors. In order to meet some of the demand for jobs, the state has set a goal of having 70 000 new SMEs within five years (2004-09). An SME financing bank was created in 2004 with a capitalisation of 50 million dinars and effectively launched in 2005. Working in partnership with credit institutions, its mission is to facilitate the creation of SMEs by financing projects, participating in company capital, expansion operations and pledging guarantees.

Micro-credit in Tunisia operates through two axes: public institutions and programmes, and the activities of various NGOs, which has recently boomed. On the public front, without a doubt, the largest organisation is the *Banque tunisienne de solidarité* (BTS).

Begun in 1992, the urban development programme (*Programme de développement urbain intégré*, PDUI) and its equivalent for rural areas, the PDRI (*Programme de développement rural intégré*) became involved in micro-credit activities, among other things. These two programmes, whose aim is to improve living conditions and fight poverty in their respective areas, financed businesses by granting loans at 6 per cent (to underwrite 70 per cent of project costs) and subsidies (for the remaining 30 per cent). Entering its final phase, the so-called second generation of PDRI support led to no less than 941 small projects and 13 000 small farm improvement projects being financed. The scale of investment was 267 million dinars ($217 million). At the end of 2004, the PDUI was responsible for the creation of 6 604 projects. On the other hand, it had intervened to reinforce 557 projects and had contributed to the working capital of 2 239 projects in 32 different villages throughout the country.

The legal and regulatory framework of micro-credit organisations was laid out in an act of July 1999. This stipulated that their creation had to be approved by the Finance Ministry, advised by a consultative commission. Loans intended as aid and to increase economic and social integration by financing the acquisition of small



**The Banque tunisienne de solidarité**

The *Banque tunisienne de solidarité* (BTS), which is 62 per cent owned by public shareholders, was created in 1997. Its principal aim is to grant loans to small developers lacking access to financing and guarantees. It is also charged with the task of intervening in underprivileged areas covered by the *Fonds de solidarité nationale* (FSN). Since January 2003, the BTS has also undertaken the management of the lending and micro-credit programmes of the national employment fund (*Fonds national de l'emploi*, Fonds 21-21), created in 1999. By 31 December 2004, BTS had granted 74 138 loans totalling 306 million dinars, and thus contributing to the creation of 106 793 jobs. Three categories of loans, aimed at reducing poverty by promoting jobs, exist: *i)* loans in underprivileged areas in which the FSN operates (15 771 loans, 86 per cent of which were for new projects, leading to 22 352 jobs); *ii)* loans granted in 119 job-creation priority areas [32 142 loans, of which 87.3 per cent were for new projects, leading to 47 125 new jobs ( 71 per cent for men, 41 per cent for the 30-39 year age bracket)] ; *iii)* loans granted under the framework of the national employment fund, [22 081 loans, 95 per cent for new projects and 33 960 jobs ( 50 per cent for those with a secondary school education and 42 per cent to those between 18-29 years of age)] . These loans were granted with a maximum interest rate of 5 per cent per annum, but the system favours an individualised approach to setting lending conditions (amount, grace period and repayment period). It also provides for ongoing support of successful projects via further loans even before repayment. The regional distribution of BTS loans suggests that the authorities' action has been concentrated on the poorest areas, specifically in the north and centre-east.

machinery or essential intrants, or taking the form of working capital are considered "micro-credit". Loans can also be granted to improve living conditions. Those eligible for micro-credit include those without salaried employment coming from needy families in vulnerable categories. These loans – of 2 000 dinars for revenue-generating activities and 500 dinars for loans intended to improve the quality of life – are granted at a maximum rate of 5 per cent and a term of not more than three years. Micro-credit associations are not empowered to take deposits. Instead, they must rely on funds put at their disposal: under the aegis of international co-operation through partnership agreements and programme contracts; on grants or public or private financial aid; on revenue from repaid micro-credit loans; and, from investment revenue. In order for these associations to have appropriate levels of transparency, they are obliged to keep regular accounts, to carry out internal audits of their accounts and must submit to the authority of the Finance Ministry. Micro-credit organisations also benefit from certain tax advantages, specifically free loan contract registration and exemption from VAT on loan commissions and interest. In 2004, 81 organisations operated in the micro-credit sector, together financing 104 783 projects with an overall value of 79.276 million dinars ($64.462 million).



The reform of the financial sector was accelerated during the 2000-04 period, to cope with development needs and the expectations of the productive system, itself restructuring. However, new measures must be taken to open the sector to foreign competition, in accordance with agreements with the WTO and EU. For the moment, reforms have affected the banking, insurance and capital market sectors, aiming to make them capable of playing a more active role in both mobilising domestic resources and in financing investments geared towards more profitable activities. Begun in 1988 and strengthened in the mid-1990s, the first step in reforming the banking sector focused on liberalising financing within the sector. Banks were empowered progressively to determine resource remuneration and job yields. Furthermore, the sector's financial situation has improved with the reinforcing of prudential regulations. This strong stabilisation effort, which took place at the end of the 1990s, prompted nearly all banks to adhere to the programme. The result has been an increase in private funding of more than 80 per cent, respect for the solvency ratio (8.9 per cent), a tripling of the value of capital reserves and a marked reduction in unproductive assets. To support this effort, the state took over some long-term debts on public companies, implemented a suitable tax system and introduced various techniques for discharging balances, such as ceding loans to collection agencies, and cancelling totally irrecoverable debts. A new programme, initiated at the end of the 1990s by the Central Bank of Tunisia (BCT), aimed at following up on these results. It is comprised of several branches, including modernising the system of payments, improving the quality of financial information and adapting the legal environment to banking activity. An electronic balancing system of all bank transactions was put in place. The development of electronic money was furthered in 2001 with the issuing of a national payment card. The central information bank of the BCT is made up of eight databases: risk, unpaid cheques, personal financial statements and loans, economic information, listed assets, loans eligible for refinancing and debt ceded to collection agencies. Furthermore, and at the BCT's instigation, banks work together to develop their information systems. The revision of the banking law in 2001 sanctioned the principle of decompartmentalising activities and furthering the idea of a universal bank. This reconfiguration of the banking environment was completed in 2002 with the cession of a majority stake in the capital of the *Union Internationale de Banques* (UIB) to the French bank, *Société Générale*, the merger of two development banks with a public commercial bank, and the transformation of five other development banks into universal banks. Several other measures were also taken obliging banks to: implement internal control systems; provide recent ratings to non-publicly listed clients with bank investments of over 25 million dinars; obtain the certification of financial statements of clients with bank investments of over 5 million dinars by a legally empowered auditor; tighten risk sharing norms; and, install a new level of risk division.

In spite of this progress, non-performing loans continue to weigh heavily on the economy. They increased by 3 percentage points in 2003, to 24 per cent (5 million dinars) of banking credits. The *Banque du*

*Sud* also failed to attract a buyer in 2004 and the public sector still holds the majority of assets in the banking sector.

Accelerated privatisation has increased the standing of the private sector in the past five years. In effect, from 1999 to mid-2004, privatisation operations increased markedly compared to the 1994-98 period, increasing from 63 transactions (711 million dinars) to 85 (1 501 million dinars). Numerous sectors were involved: telecommunications, business, tourism, banks, agriculture and some industries (construction materials, ceramics, glass, machinery and electrical).

In order to support local and overseas private investment, the government followed on with its efforts to develop industrial zones and improve the infrastructure of roads (developing and reinforcing nearly 1 350 km of listed roads, improving the Grand Tunis road and the road networks structuring the large towns, building the Tunis-Bizerte and Tunis-Medjez El Bab expressways), ports, and airports (modernising and increasing the capacity of the Tunis-Carthage and Djerba-Zarzis airports, beginning service at the new airport of Gabès-Matmata).

The 2000-04 period was equally marked by interest in the telecommunications and information technologies sector. The infrastructure in this sector was developed with a view to improving the competitivity of businesses and included standardising digital transmission, setting up a second satellite transmission (V-SAT) operator and improving network data transmission (ADSL, Frame relay, dedicated lines, etc.). A second mobile telephone operator was also approved. In addition, data transmission tariffs were reduced by 50 per cent, those of international calls by 25 to 40 per cent and subscription fees by 25 per cent for land lines and 25 to 42 per cent for mobile lines.

## Political and Social Context

The 2004 presidential and legislative elections were a major political event. These were the first to follow the constitutional reform passed by referendum in May 2002, adopting a two-round ballot in the presidential election. In October 2004, Tunisians were called to choose their president from four candidates and their parliamentary representatives from around a thousand candidates, representing seven political parties and several independents. In the legislative elections, the ruling party won 152 of the 189 seats, or 80.4 per cent of the total. The opposition obtained 19.6 per cent of seats (against 18.7 per cent in 1999 and 11.7 per cent in 1994). In the presidential elections, President Ben Ali was accorded his fourth mandate, with 94.48 per cent of the vote.

The improving social context is particularly reflected in the reduction in poverty, which fell from 7.7 per cent of the population in 1984 to 4.2 per cent in 2000. The annual revenue per inhabitant increased, from 1 059 dinars in 1987 to 3 300 dinars in 2003; the government's goal is for this to reach 5 000 dinars by 2009. Social development is at the heart of the country's tenth plan (2002-06).



In the social sector, the first priority is to improve the education system and its links to the labour market. Employment is the greatest challenge to the Tunisian economy, with private sector job creation slowing down. The 2004 unemployment rate should be 13.9 per cent, down by almost two points from the 1999-2003 average. The general census, carried out in April 2004 revealed that unemployment, lasting approximately one year on average, affected 432 900 people between the ages of 18 and 59 years, out of a total population of around 10 million. Women are more vulnerable to unemployment than men (16.7 per cent versus 12.9 per cent). More alarming, unemployment is very high among young people and graduates. While young higher education graduates accounted for 7 per cent of job seekers in 2000, their numbers are constantly rising. To address this problem, the state is seeking to subsidise half of graduate salaries in the private sector in 2005 and to offer them 7 800 of the 12 000 posts that it intends to create in 2005. Strong growth, particularly in high-skill sectors, and continued improvement of labour market flexibility, would appear indispensable to significantly reducing the overall unemployment rate.

With the same perspective of improving quality of life, the government's housing policy supports the construction of decent housing, particularly for low-income groups. The campaign to eradicate slums was followed through: it accounted for only 0.8 per cent of residences in 2002, compared to 11.4 per cent in 1980. The proportion of households owning their residence significantly increased, reaching 79.2 per cent in 2003. The impact of this housing policy on improving quality of life has been more widespread, however, as it was reinforced by moves to improve collective facilities. The first results of the general and housing census, the *Recensement général de la population et de l'habitat* (RGPH) carried out in 2004, revealed: a sizeable increase in the proportion of those connected to a water distribution network (83.4 per cent in 2004 compared to 69.1 per cent in 1994); a huge increase in electrification (reaching 100 per cent in several towns and 98.9 per cent throughout the country in 2004, versus 85.9 per cent in 1994); and, a substantial increase in connection to the drainage network (77.4 per cent of households in 2004 versus 29.9 per cent in 1994). The RGPH also showed a strong increase in household possession of consumer goods in the last ten years, with increases in the proportion of households owning a car (21 per cent in 2004, over 15.7 per cent in 1994), television set (90.2 per cent versus 79 per cent), refrigerator (81.7 per cent compared to 55.4 per cent) or telephone (35.6 per cent over 15.7 per cent for a land line, given that in 2004, 46.1 per cent of households owned a mobile telephone). The government's social transfers policy underlies these results: between 1999 and 2003, transfers increased from 203.6 dinars to 258.4 dinars per household per month, bringing the social spending per inhabitant per annum from 507.2 to 640.6 dinars in nominal terms over the same period. Social security coverage – which accounts for almost 31 per cent of all social transfers – escalated, going from 82.7 per cent in 1999 to almost 87 per cent in 2004.

Considerable efforts have been made to develop the necessary human resources and facilities to extend this coverage and to adapt the system to free access. Since 2003, a reorganisation of the health system has been ongoing to increase its capacity to meet the needs of several segments of the population via services ranging from the preventative (vaccinations, testing, maternal and infant protection) to curative. To this end, the newest and most specialised techniques have been used. Tunisia's efforts at improving health and sanitary coverage (in 2003, more than 80 per cent of the population were within 4 km of a hospital) have most notably resulted in the improvement of some tangible indicators. Thus, life expectancy at birth has increased, from 67.1 years in 1984 to nearly 73 years in 2003; infant mortality has fallen, from 37.3 per thousand in 1990 to 22.1 per thousand in 2003; the total fertility rate reached nearly two in 2004; and medical coverage during pregnancy and birth of state-assisted segments neared 92 and 90, respectively. The increase in these last two indicators, combined that of household size (4.53 members versus 5.16 in 1994), give an indication of a profound change in women's behaviour and of their new status, both within the family and in Tunisian society.



The government is seeking to improve the quality and efficiency of basic education and to increase pre-school education coverage, to 25 per cent in 2006 from 17 per cent today. As part of this, the government has extended its priority schooling programme, begun in 2001. This entails strengthening teaching resources (increasing the hours spent consolidating each class's standard each week, fitting out libraries), logistics (multi-purpose/vocational rooms, revision rooms) and administration.

In respect to higher education, the government intensified its efforts to consolidate decentralisation and diversification of courses, as well as increasing the attractiveness of short courses and courses linked to information technology and new technologies.

After projects focusing on basic education (largely complete), and those now begun on higher education, the challenge to Tunisia's competitivity and modernisation lies in reforming secondary education. The public authorities have intensified their efforts to reinforce the education sector's resources, with almost one-quarter of the population in the education system. The education budget thus increased from 6.2 per cent of GDP in 2000 to 6.8 per cent in 2004.

In 2004, literacy in ten-year old children was nearly 80 per cent, compared to 54 per cent in 1984. The primary school enrolment rate was 98.1 per cent (97.8 per cent in 1995) and enrolment rates for six-year olds were 99.1 per cent. The drop-out rate was 1.8 per cent. In secondary education, enrolment was nearly 77 per cent (girls representing 52.4 per cent) and completion was nearly 61 per cent (68 per cent in public education). Enrolment in higher education was 29.2 per cent (with girls accounting for 56.5 per cent of the total).