Tunisia

key figures

• Land area, thousands of km²	164
• Population, thousands (2002)	9 728
• GDP per capita, $ (2002)	2 175
• Life expectancy (2000-2005)	72.8
• Illiteracy rate (2002)	26.9

Tunisia

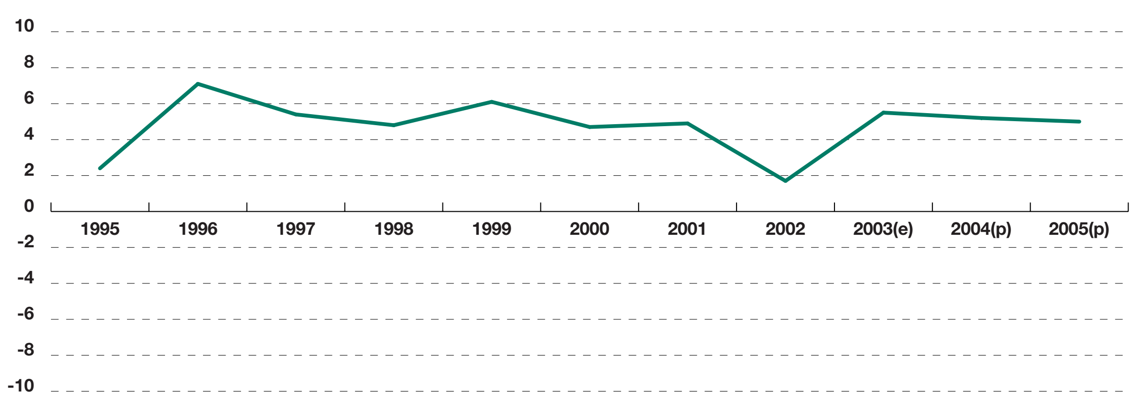
MORE THAN 15 YEARS AGO, TUNISIA set itself the goal of achieving sustained and shared growth, based on a balance between economic and social concerns. The country opted for a market economy in the context of a rebalancing of the respective roles of the public and private sectors, and for gradual integration into the world economy. This approach largely explains the results obtained, since it made the private sector more adaptable and helped to hold down the social cost of adjustment – a necessary condition for preserving political and social stability. In this context, Tunisia in 1995 became the first country to sign a free trade agreement with the European Union under the Euromed initiative.

On the basis of these policy choices, Tunisia embarked on a number of reforms aimed at improving competitiveness through a general upgrading of the economy. Such upgrading involves initiatives that affect firms directly as well as actions to improve the business environment by stabilising the macroeconomic framework, restructuring the banking and financial system, adjusting the legal framework and modernising government services.

The government needs to intensify reforms in order to cope with tougher competitive conditions.

Tunisia has recorded annual average growth of roughly 5 per cent over the last ten years, resulting in a substantial decline in poverty, which now affects only 4.2 per cent of the population. Its economy has become considerably more diversified, which has helped it to withstand downturns in economic conditions. In 2002, Tunisia's economy grew by only 1.7 per cent, owing to the negative

Figure 1 - **Real GDP Growth**

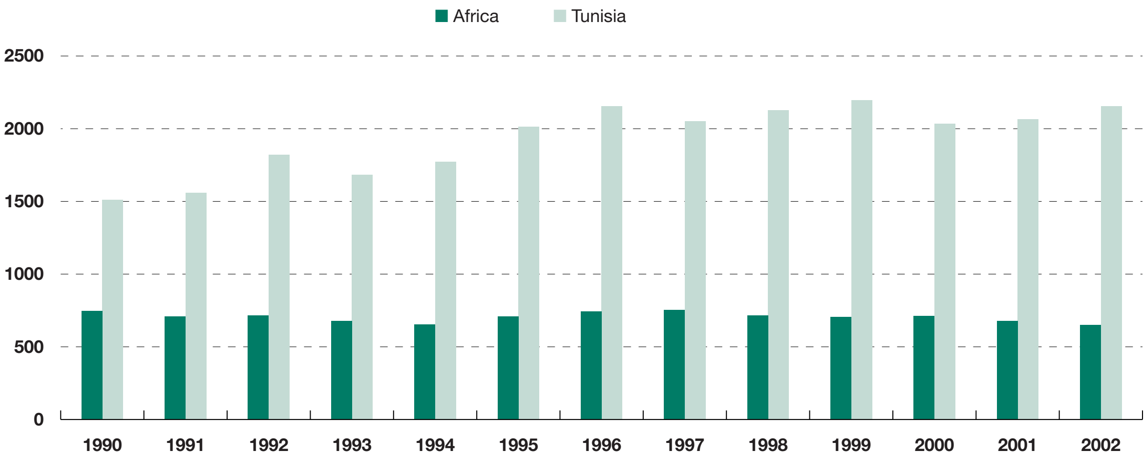


Source: Budget data; projections based on authors' calculations.

impacts of the international economic slowdown, the drop in revenue from tourism and another year of drought. The economy nevertheless stood up well to these adverse shocks, as shown by the preservation of its overall equilibria, owing to the continuation of the reforms and sound macroeconomic management. Moreover, it returned to a higher growth rate of 5.5 per cent in 2003, and is projected to grow by 5.2 per cent in 2004 and 5 per cent in 2005.

Despite these generally positive results, the government needs to continue and intensify reforms in order to cope with tougher competitive conditions on both domestic and external markets. With this in mind, and to attain

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



Source: IMF.

the targets of the 10th national development plan (2002-2006), Tunisia must sharply increase investment (by nearly 70 per cent) in order to modernise and expand production capacity.

Recent Economic Developments

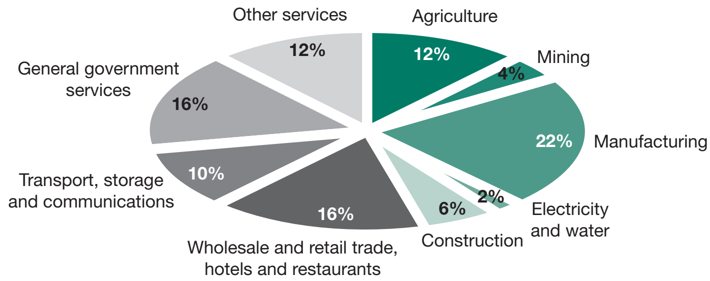
Economic growth in 2002 was heavily affected by the slowdown in the agricultural sector, which has suffered from four years of drought with notable adverse effects on field crops, tree crops and livestock raising.

Agricultural value added, which had already dropped by 2 per cent in 2001, fell a further 11 per cent in real terms. This drop was mainly due to the sharp decline in cereal grain production, down approximately 62 per cent from the preceding crop year (5.1 million quintals), and the relatively modest crop of olives for oil (150 000 tonnes), which meant that oil production fell by 74 per cent with respect to 2001. In addition, citrus fruit production (235 500 tonnes) dropped by 1.9 per cent over 2001, and fishing output by 1.8 per cent. The impact of the drought might have been worse had it not been for the reform measures taken by the Tunisian authorities throughout the preceding period, particularly those relating to the development and management of water resources, the preservation of forests, water and soil conservation, and modernisation of the agricultural sector. The sector posted better performance in 2003, with an estimated real growth rate of 21.6 per cent, and growth of 3.9 per cent is forecast for 2004.

Value added in the industrial sector grew 3.1 per cent in real terms in 2002, down with respect to the higher rate of 5.7 per cent observed in 2001. Non-manufacturing industries grew by 5.2 per cent in 2002 (3.7 per cent in 2001), primarily because of the relatively strong growth in construction and civil engineering (6 per cent in 2002, although this figure is down with respect to the previous two years: 7 per cent in 2001 and 10.2 per cent in 2000). Value added in the energy sector grew by only 4.9 per cent and that of mining by about 1 per cent. In 2003, these industries are expected to post a slower real growth rate of 2.8 per cent, reflecting a slowdown of two percentage points in the growth of construction, and even more importantly, the decline of nearly six points in the fossil fuels sector (0.6 per cent in 2003 as compared to 6.5 per cent in 2002). In 2004, however, the Tunisian authorities expect real growth of 4.6 per cent in non-manufacturing industry, owing to an upturn in construction and in fossil fuels.

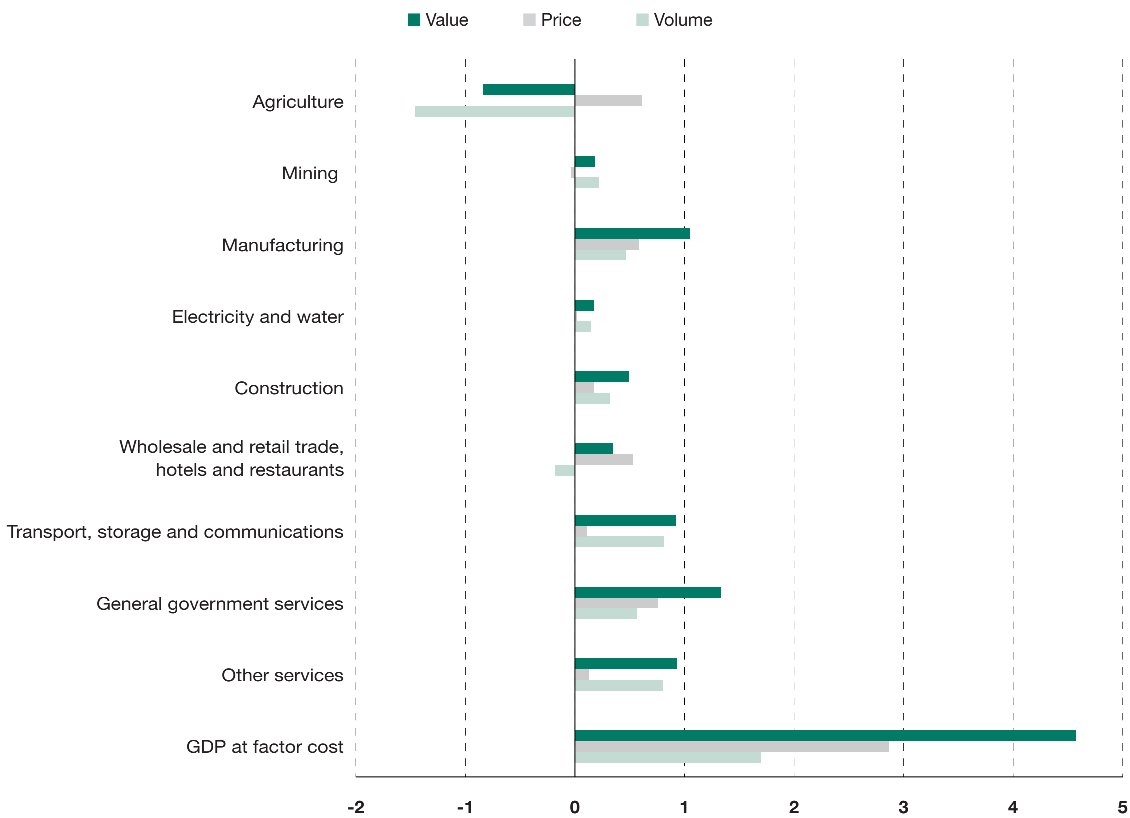
In manufacturing, activity slowed considerably after three years of substantial growth, reducing the real growth rate for these industries from 6.9 per cent in 2001 to 1.9 per cent in 2002. The chemical industries

Figure 3 - GDP by Sector in 2002



Source: Authors' estimates based on budget data.

Figure 4 - Sectoral Contribution to GDP Growth in 2002



Source: Authors' estimates based on budget data.

sector and the construction materials, ceramics and glass industries recorded higher growth rates than the manufacturing sector as a whole (3.5 per cent and 4 per cent respectively in 2002, as against 2.5 per cent and 4.5 per cent in 2001). This was also the case for miscellaneous manufacturing industries, although this sector slowed by two percentage points (4 per cent in 2002 as against 6 per cent in 2001). The activity of the mechanical engineering and electrical industries and the textile, clothing and leather sector fell off sharply, with growth rates that fell from 14 per cent and 12 per cent respectively in 2001 to 3.5 per cent and 0.5 per cent. Lastly, food industry output fell by 0.5 per cent in real terms in 2002, owing to poor agricultural conditions.

Growth in manufacturing industry is expected to show a slight pickup in 2003, rising to about 2.9 per cent, and to accelerate further in 2004 to 6.1 per cent.

In the market services sector, activities relating to transport, tourism, domestic trade, communications and financial services showed a slowdown in growth, which stood at 4 per cent in 2002 after having reached 6.8 per cent in 2001. This decline was partly due to the trend in the transport sector, where value added decreased by 3.8 per cent in 2002 after a growth of 4 per cent in 2001, reflecting the impact of the climate for tourism and international trade on the sea and air transport sectors. For the upcoming period, and since the founding in 2002 of the new charter airline Air Carthage, the Tunisian authorities are planning to promote private investment in the transport sector, in order to control costs in the sector and simultaneously raise service quality.

The slower growth of commercial services can also be attributed to the performance of the tourism sector, which is very important to the Tunisian economy by virtue of its direct and indirect impact on economic growth, employment and external balances. This sector was hard hit by the consequences of the events of 11 September 2001 and the terrorist attack on the island of Djerba in April 2002, and saw its value added fall by 4.5 per cent in 2002, as against a growth of 2.5 per cent in 2001. The number of tourists dropped by 6 per cent and bed-nights of non-residents by 21.5 per cent.

The effect of this drop on overall sector performance was somewhat offset by the significant increase in bed-nights of Tunisian residents (12.6 per cent in 2002, as against 3.2 per cent in 2001). In addition, measures to step up promotional and marketing efforts to ease hotels' indebtedness to the banking system and to increase the potential capacity of airlines all helped to soften the impact of these events on the sector.

In 2003, value added in services grew by about 5.2 per cent, reflecting a pickup in tourist activity and in the transport and telecommunications sectors, with real growth of 2.5 per cent and 9.6 per cent respectively. The Tunisian authorities are expecting even stronger growth in services in 2004, perhaps as high as 7.8 per cent. Lastly, non-market services showed a 2002 growth rate of about 4.7 per cent, about the same as in 2001, and are expected to grow by 3.8 per cent in 2003 and 2004.

Domestic demand fell off considerably, from a growth of 5.3 per cent in 2001 to 1.5 per cent in 2002. This slowdown was mainly due to the 2.7 per cent decline in investment in 2002, as compared to a 4.1 per cent increase in 2001. Thus the investment rate dropped by more than two percentage points between 2001 and 2002, from 28.1 per cent to 25.8 per cent of GDP. In 2003, despite the better economic climate, the investment rate fell further to approximately 23.3 per cent of GDP. The Tunisian authorities expect it to climb back to 24 per cent in 2004.

Table 1 - **Demand Composition** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Gross capital formation	**24.7**	**27.3**	**28.1**	**25.8**	**23.3**	**24.0**	**23.7**
Public	4.4	4.4	4.9	4.4	4.1	4.3	4.6
Private	20.3	22.9	23.2	21.4	19.2	19.6	19.1
Consumption	**79.2**	**76.3**	**76.5**	**78.6**	**75.7**	**76.9**	**78.2**
Public	16.3	15.6	15.6	16.3	16.1	16.0	15.9
Private	62.9	60.7	60.9	62.3	59.6	60.9	62.3
External sector	**-3.9**	**-3.6**	**-4.6**	**-4.5**	**0.9**	**-0.9**	**-1.9**
Exports	44.9	44.5	47.7	44.3	48.2	47.7	48.3
Imports	-48.8	-48.2	-52.2	-48.7	-47.3	-48.6	-50.2

Source: Domestic authorities' data; projections based on authors' calculations.

Macroeconomic Policy

Fiscal and Monetary Policy

To keep its budget under control and maintain macroeconomic stability, the Tunisian government in 2002 adopted a supplementary budget bill to adjust public revenue and spending to the slowdown in economic activity. The bill reduced the budget figures for both revenue and expenditure, to take account of the fact that receipts from indirect taxes were lower than the government's initial forecasts (due in particular to the fall off in imports) and to contain spending by deferring certain investments.

In this context, budgetary revenue (excluding borrowing) stood at 7 806.5 million dinars ($5.5 billion) in 2002, up 710.9 million dinars ($500 million) with respect to its level in 2001, and amounting to nearly 26 per cent of GDP.

Tax revenue rose by 3.2 per cent in 2002 to 6 423.4 million dinars ($4.5 billion), as a result of an increase in tax takings on the domestic market and a related drop in receipts from import taxes, as imports of goods declined by 1.1 per cent. Once these changes were taken into account, the tax ratio stood at 21.4 per cent or approximately the same level as in 2001.

Lastly, non-tax revenue, excluding oil revenue, grew at the substantial rate of 56 per cent to reach 1 313.6 million dinars ($920 million) in 2002. This increase was largely due to income from privatisation, which amounted to 339 million dinars ($240 million), exceeding the forecast figure of 50 million dinars ($35 million), and to shareholdings and profits paid into the central government budget, which rose from 224 million dinars ($160 million) in 2001 to 377 million dinars ($260 million) in 2002.

Table 2 - **Public Finances** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Total revenue and grants[a]	**30.3**	**25.4**	**24.6**	**25.8**	**24.8**	**25.1**	**25.4**
Tax revenue	25.0	21.3	21.6	21.4	20.9	21.3	21.6
Grants	0.3	0.1	0.3	0.4	0.2	0.2	0.2
Total expenditure and net lending[a]	**34.4**	**27.9**	**28.1**	**27.7**	**26.9**	**26.9**	**27.2**
Current expenditure	27.2	19.9	19.4	19.9	19.4	19.1	19.0
Excluding interest	*23.2*	*16.6*	*16.3*	*16.9*	*16.6*	*16.5*	*16.4*
Wages and salaries	10.4	11.6	11.9	12.1	12.0	11.8	11.7
Interest	4.0	3.3	3.1	3.0	2.9	2.7	2.5
Capital expenditure	6.5	7.4	8.1	7.4	7.0	7.3	7.8
Primary balance	**-0.1**	**0.9**	**-0.4**	**1.1**	**0.8**	**0.9**	**0.7**
Overall balance	**-4.1**	**-2.4**	**-3.5**	**-1.9**	**-2.1**	**-1.8**	**-1.8**

a. Only major items are reported.
Source: Domestic authorities' data; projections based on authors' calculations.

Budget expenditures rose by 3.8 per cent in 2002, as compared to 7.5 per cent in 2001, reflecting efforts to control the fiscal and external deficits while sparing the social sectors. These efforts held growth in current expenditure to 5.4 per cent in 2002, as against 6.4 per cent in 2001, and, more significantly, slowed the growth in direct public investment to 3.4 per cent in 2002, compared to 6.2 per cent in 2001.

These budget policies resulted in an overall fiscal deficit of only 1.9 per cent of GDP in 2002, as against 3.5 per cent in 2001. For the second consecutive year, the deficit was wholly financed by external borrowing. In 2003, the continuation of this cautious budget policy enabled Tunisia to hold the fiscal deficit to a similar level (estimated at 2.1 per cent of GDP), which is very close to the target laid down in the 2003 budget appropriation act. The budget bill for 2004 continues along the same lines, and should make it possible to cut the deficit to 1.8 per cent of GDP in 2004.

For more than a decade now, the Tunisian government has been following a monetary policy aimed at containing the growth in monetary aggregates within limits that allow control of inflation and a measure of stability in the real exchange rate, while trying to ensure that sufficient financing is available for an economy in the throes of restructuring.

The monetary policy followed in 2002 and 2003, under difficult economic conditions, was in keeping with this outlook. It was characterised by a slowdown in the growth of the money supply that, broadly speaking, reflected moderate growth in credit, an upturn in net external receivables and a contraction in central government debt. As a result, the liquidity ratio of the economy was relatively stable in 2002 and 2003. The growth in M3 fell to 5.1 per cent in 2002, as against 11.3 per cent in 2001. This slowdown can be observed in virtually all the components of the money supply, with slower growth of M2 and of the rate of increase in the stock of bonds issued by the financial system. In 2003, M3 grew at the somewhat faster rate of 6.5 per cent, owing to the improvement in economic conditions.

However, deposits in home ownership savings plans grew by 22.7 per cent in 2002, compared to 9.7 per cent at year-end 2001, as a result of the favourable terms offered by banks to encourage this type of saving. One bank also introduced a new savings scheme. The growth in home ownership savings plans should fall back to 8 .2 per cent in 2003.

Analysis of money supply counterparts in 2002 and 2003 shows that net external receivables increased by 302 million dinars ($210 million) in 2002 and that this increase continued in 2003 (+41 million dinars). Net claims on the state were down in 2002 (-80 million dinars or -$60 million), primarily because of a decline in the total amount of treasury bills held by the financial system; this decline continued in 2003 (-388 million dinars). Credit rose by 1 044 million dinars ($740 million) in 2002, and again by 1 067 million dinars in 2003.

This monetary policy, combined with increased efficiency in public spending, allowed the Tunisian government to hold inflation to 2.7 per cent in 2002, a rate comparable to that of 2001 (2.8 per cent). The recent trend is towards consolidation of this progress: inflation is estimated at 2.5 per cent for 2003 and is predicted to fall to 2.4 per cent in 2004 and 2005.

Where the exchange rate is concerned, the dinar fell against the euro and appreciated against the dollar in 2002 and 2003, the main explanation being roughly the euro's recovery on the international currency markets. In annual average terms, the dinar depreciated by 4 per cent with respect to the euro in 2002 and by 7.9 per cent in 2003, and rose against the dollar by 1.3 per cent in 2002 and 10.6 per cent in 2003.

External Position

Tunisia has made a commitment to trade liberalisation. The association agreement signed with the European Union in 1995, which came into effect in 1998, provides for the complete dismantling of customs barriers between the two economies by 2010, where manufactured goods are concerned. This process is well under way, as 55 per cent of the planned tariff reductions had already been implemented as of July 2003. Moreover, the budget bill for 2004 provides for simplification of the customs system through reduction of the number of tariffs from 54 to 17 and the harmonisation of most-favoured-nation customs duties with the (lower) duties in effect under the association agreement with the European Union. Efforts still need to be made, however, to simplify technical inspections and customs procedures.

Under its 9th national plan (1997-2001), Tunisia enjoyed annual average export growth of nearly 6 per cent, and its economy diversified to such an extent that today manufactured goods account for over 85 per cent of exports, although the improvement in its price and non-price competitiveness is considered to be insufficient. Economic openness (measured as the ratio of exports plus imports to GDP) increased to an average of 94.5 per cent over the 2000-2002 period, as against 89.3 per cent during the 1990s, making Tunisia one of the most open economies in the region. Exports are still highly concentrated on a few European countries, despite a sustained effort at geographical diversification reflected in a free trade agreement signed with Egypt, Morocco and Jordan in 2002 and initiatives with respect to certain Asian, North American and Latin American countries.

In 2002, the economy's external situation was strongly marked by international economic conditions and the continued drought.

Despite this difficult economic context, the balance of payments showed a surplus of nearly 199 million dinars ($140 million) in 2002. The current account deficit fell to 1 066.1 million dinars ($750 million), or 3.5 per cent of GDP. This improvement in the current account was mainly due to the drop in capital goods imports (-7.7 per cent), reflecting the downward trend in investment, which offset the increase in food imports (+21.3 per cent) due to the continued drought. The current account is expected to remain stable in 2003 as a proportion of GDP, followed by a slide in 2004 and 2005 as imports increase owing to the predicted recovery in the investment ratio.

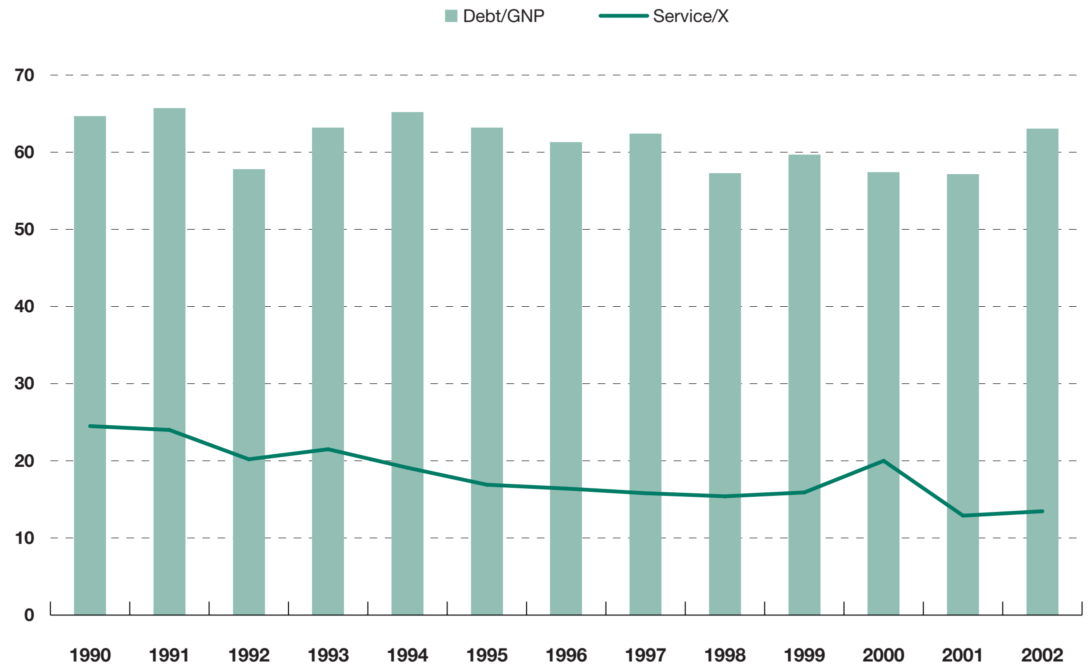
Moreover, the balance of current transfers increased in 2002 by 14.5 per cent, offsetting the substantial 12.8 per

Table 3 - **Current Account** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Trade balance	-11.0	-11.6	-11.8	-10.0	-10.6	-12.3	-13.2
Exports of goods (f.o.b.)	30.3	30.0	33.1	32.4	30.7	30.0	30.5
Imports of goods (f.o.b.)	-41.4	-41.6	-45.0	-42.5	-41.2	-42.3	-43.7
Services	7.7	8.0	7.4	5.8			
Factor income		-0.9	-0.2	0.3			
Current transfers	-1.0	0.3	0.4	0.3			
Current account balance	**-4.3**	**-4.2**	**-4.2**	**-3.5**			

Source: Domestic authorities' data; projections based on authors' calculations.

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



Source: World Bank.

cent drop in the services balance due to the impact of the international climate on the tourism and transport sectors.

The capital account showed a surplus of 1 264.8 million dinars ($890 million) as a result, among other things, of a substantial increase in direct investment, which showed a positive balance of 1 136.4 million dinars ($800 million). Foreign direct investment (FDI), which had dropped 34.5 per cent in 2001, surged 66.7 per cent in 2002 thanks to Orascom's payment of 328 million dinars ($230 million) for the first tranche of the second GSM mobile phone licence and the sale of the publicly held shares in *Union Internationale de Banques* (UIB) to the French bank Société Générale for an estimated 103 million dinars ($72.5 million).

The movements in all these components of the balance of payments in 2002 led to a slight increase (2.7 per cent) in Tunisia's external debt, which rose to 15 410 million dinars ($10.9 billion) from its 2001 level of 15 010 million dinars ($10.5 billion). As a result, indebtedness as a proportion of GNP rose by 5.8 percentage points (to 63 per cent of GNP) and the debt service ratio rose by 0.5 percentage points (to 13.4 per cent of goods and services exports).

Net foreign currency assets increased by 199.5 million dinars ($140 million) to 3 108.9 million dinars ($2189 million) at year-end 2002, or the equivalent of 2.5 months of imports, as against 2.3 months in 2001.

Structural Issues

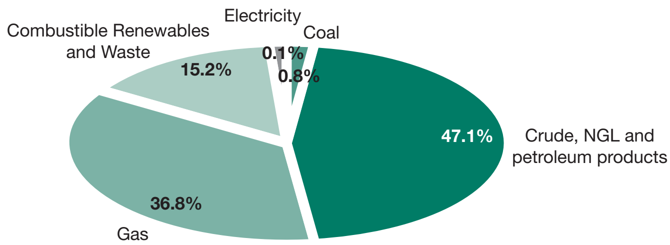
Despite its strong economic performance, Tunisia still faces a number of challenges for the future, as shown by the fall off in private investment as the country draws nearer to the date when its market will be completely open to European products. To meet these challenges, Tunisia is continuing its economic reforms, aided in this endeavour by the World Bank, the European Union and the African Development Bank, within the framework of a third economic competitiveness adjustment loan (ECAL III). The required reforms relate not only to the upgrading of private-sector firms, but also the modernisation of their structural environment and the institutional framework.

Tunisia's energy strategy takes account of the country's natural endowments and prospects for their development; the expected trend in demand, driven by economic growth and the rise in living standards; and regional and international developments in this sector.

With 85 per cent of its primary energy consumption in the form of fossil fuels, of which it has rather little, Tunisia is increasingly dependent on imports to meet its energy requirements. After nearly three decades in surplus, the energy balance has turned negative, running a deficit of about 1.4 million tonnes of oil equivalent (TOE) under the 10th economic development plan. To hold the deficit to this level while ensuring supply of the required quantities on the best possible terms, Tunisia has adopted a strategy with three main thrusts.

The first pillar of this strategy is the rebalancing of consumption to increase the proportion of gas and reduce that of oil, motivated by three factors having convergent effects: the gradual exhaustion of known oil reserves, the increase in the available supply of gas via gas pipelines that traverse the country, and the recent discoveries of gas deposits in southern Tunisia. In this respect, the 2.4 million TOE increase in fossil fuel production called for in the 10th development plan (30 million TOE compared to 27.6 under the 9th plan) will come entirely from the increase in natural gas, whose share in total fossil fuel production will rise, between the two plans, from 31 to 39 per cent. To consolidate this rebalancing, the Tunisian authorities are working to develop the gas market at both local and Mediterranean level, in order to create the conditions required for building infrastructure to transport gas from southern to northern Tunisia. The *Société Tunisienne d'Electricité et du Gaz* is contributing to this effort by expanding its gas transport network from the southern town of Gabès to supply the privately-owned power plant known as Radès II and to increase household consumption of natural gas (as a substitute for LPG). Households also

Figure 6 - **Structure of Domestic Energy Supply in 2001**



Source: International Energy Agency.

enjoy a very large reduction on the cost of connection to the network, which now stands at 140 dinars (approximately $97) instead of the previous level of 500 dinars ($352). For the same reasons, the Tunisian and Italian governments have signed a partnership agreement reflecting their mutual interest in broadening the gas market (from the Tunisian standpoint) and obtaining a more secure supply of electrical power (from the Italian standpoint).

The second pillar of Tunisia's strategy is a better and more secure supply of energy. Where oil products are concerned, efforts under the 10th national plan will be directed to encouraging distribution companies to invest in storage of these products, especially LPG, to enable better coverage of peak consumption periods. Along the same lines, the plan provides for increasing the efficiency of supply by resolving the issue of how profit margins are to be shared among the players involved, by adjusting the specifications for businesses in this sector and by preparing to privatise the *Société Nationale de Distribution des Pétroles* (SNDP). Furthermore, foreign investors will be encouraged to develop refining and storage capacity for export products in the Skhira region. In the electrical power sector, the 10th plan calls for further opening of the power generating segment to private initiatives via the construction of a third power plant at Nakta, a 500 MW facility fired by gas from the Miskar gas field. Lastly, the plan calls for the consolidation of partnerships with neighbouring countries by increasing the capacity of the existing gas pipelines between Algeria and Tunisia from 24 billion cubic metres to 30 billion cubic metres annually, building a gas pipeline between Tunisia and Libya with a capacity of 2 billion cubic metres a year and another pipeline carrying 1.5 million tonnes of oil products a year, expanding Tunisia's connections with these countries' power grids and establishing a grid connection with Italy.

The third pillar of the energy strategy has two components: energy savings and renewable energy sources. Tunisia has obtained encouraging results in terms of controlling energy consumption: energy intensity fell throughout the last decade, from 0.437 under the 8th national plan to 0.425 under the 9th plan, and the intention is to cut it to 0.402 during the 10th plan. This decline reflects a shift towards a mode of economic growth that consumes less energy, particularly for transportation, where energy intensity has fallen by 1.4 per cent per year, and manufacturing industry, where it has fallen by an annual average of 1.2 per cent. As regards the development of renewable energy sources, the main thing to note is the government's recent call for expressions of interest in carrying out the first phase of a wind turbine project that is supposed to have capacity of 300 MW by 2011. This would raise the contribution of wind energy to Tunisia's electric power production from its current level of 0.1 per cent to 6 per cent.

The Tunisian government is continuing its efforts to quicken the upgrading of private-sector companies, particularly in the manufacturing sector, where firms are subject to heightened competition owing to the liberalisation of consumer goods imports (part of the fourth list of products to be liberalised under the association agreement with the European Union), which is already under way. The number of firms that have entered the manufacturing sector upgrading programme had risen by year-end 2002 to 2 389 units, of which 1 349 had received approval of their applications from the Steering Committee, for investments of approximately 2 320 million dinars ($1.6 billion), and with state subsidies of 326.6 million dinars ($230 million).

To boost private investment, which must be done if Tunisia is to reach its targets for the growth and modernisation of the economy, it is necessary to improve the business environment, which requires a more transparent and predictable regulatory framework. It is also advisable to put all companies on an equal footing, whereas exporting companies currently enjoy tax advantages not available to firms serving the domestic market. These tax advantages have taken on greater importance owing to the extent to which protection of the domestic market has been rolled back, which creates distortions in the economic system.

The financial sector has already been subjected to an extensive reform package that enhanced its efficiency and its solidity. The liberalisation of interest rates was completed in 1996, and the deregulation of the banking market in 2001. The banking sector has been restructured, with recent developments including the privatisation of the *Union Internationale de Banques* and the rehabilitation of the development banks (which still need to be privatised, however). Oversight of the banking system was improved by the implementation of new prudential regulations in 1991, the creation of a central data storage system and improvement of the security of financial transactions in 2000, and better protection for depositors as from 2001. An upgrading programme for the banking sector has been initiated, aimed among other things at modernising the means of payment used. Consolidation of the financial system is still needed, however, to allow easier access to investment finance for private-sector firms and more efficient allocation of savings. Further progress is especially necessary as regards provision for non-performing loans, which undermine the balance sheets of public banks in particular.

Political and Social Context

In 1987, Tunisia initiated a process of change that was supposed to be both comprehensive, encompassing the political, economic, social and cultural spheres, and gradual, in that reforms in all these spheres would systematically be implemented in a measured, step-by-step fashion.

With this approach in mind, and on the basis of a consensus illustrated by the signature of the National Pact, the government has been working to ensure a smooth political transition and make progress in democratising public affairs. These reforms have been given practical expression in a law providing for the organisation of political parties and a law on public financing of parties. Other actions undertaken under this framework include the creation of regional councils, the enlargement of their powers, the creation of local councils and the consolidation of the prerogatives of municipalities. This drive to rehabilitate institutions and strengthen the principle of citizens' equality before the law is also illustrated by progress in terms of judicial independence (abolition of the Court of State Security, the office of the *Procureur général de la République* [attorney-general], and special tribunals) and the protection of citizens against oppression on the part of government (introduction of the principle of the right of appeal to the Administrative Court and the Arbitration Board, of appeal from the administrative courts to the judicial courts, and the creation of the posts of "Administrative Mediator" and "Supervising Citizen").

Tunisia's approach to this matter is noteworthy for the position granted to women and their role in the development strategy. In this perspective, existing legislation was bolstered by amendments to the Personal Status Code, establishing the principles of equality before the law and of a more suitable balance between spouses in managing family matters; to the Criminal Code, introducing provisions to repress violence towards family members; to the Labour Code, consolidating the principle that there should be no gender discrimination; and to the Code of Nationality, giving Tunisian women married to non-Tunisians the right to pass on their nationality to their children.

There has also been enough political progress, as shown by the pluralistic presidential elections and the presence of the opposition in all representative bodies, that Tunisia should be in a position today to quicken the pace of its political transition. The next presidential and parliamentary elections, in late 2004, should be a propitious occasion for a further step forward in this transition.

Where the social sectors are concerned, a consensus seems to be emerging as to the strong socio-economic performance of Tunisia, as indicated by growth in per capita income, the significant decline in poverty, and improvements in living conditions, the quality of infrastructure, the environment, health and school enrolments. Tunisia's approach to social affairs, in keeping with its economic choices, is based on replacing the past conception of social protection, as a combination of welfare and measures to counteract the undesired consequences of adjustment, with an active social policy based on developing the individual capacities of those capable of pursuing an economic activity. This is the aim of Tunisia's education, vocational training and health policies, as well as programmes for population groups with special needs, such as the disabled and the elderly. This policy, which depends on a measure of national solidarity, has allowed Tunisia, with the help of a growing economy, to become one of the countries in which liberalisation and steadily increasing economic openness have been accompanied by tangible progress in all the social sectors and by substantial improvement in the living conditions of the population with respect to the pre-adjustment period.

The improvement in the socio-economic situation can be seen in the steady rise in available gross national income per capita and by the reduction in poverty: 4.2 per cent of the population was below the poverty line in 2000, as against 7.7 per cent in 1984. The Tunisian government has made employment one of its leading priorities and a preferred instrument in its strategy to combat poverty, marginalisation and social exclusion. With this in mind, it has made the impact on employment one of the main criteria for evaluating growth scenarios for the country, including sectoral policies. This policy has allowed Tunisia to increase the average number of jobs created annually from 40 000 in the late 1980s to 63 200 in 2002, despite a difficult economic environment, and to hold the unemployment rate to 14.9 per cent, as compared to 15.6 per cent in 2000. As unemployment is still very high, however, it will probably remain a central concern of the government, especially since in relative terms it is increasingly affecting young people and degree-holders.

Rapid growth and a distributional policy that spreads the benefits of this growth to all social categories have brought substantial improvements in the living conditions of the population as a whole, as shown by the following indicators:

- 78.2 per cent of households owned their own homes in 2002, and the proportion of makeshift housing dropped from 8.8 per cent in 1984 to about 1 per cent in 2002;
- the percentage of housing units connected to the electrical grid rose by nearly 32 percentage points (from 63.4 per cent in 1984 to 96 per cent in 2002), the percentage connected to the drinking water supply system by 26.5 percentage points (from 49.9 per cent in 1984 to 76.4 per cent in 2002) and the percentage connected to the sewerage system by 16.5 percentage points (from 51.5 per cent in 1984 to about 68 per cent in 2002);
- the proportion of households owning a car rose from 9.5 per cent in 1984 to 17.8 per cent in 2000. Considerable progress has also been observed for television sets (from 57.4 per cent of households in 1984 to 88.6 per cent in 2000), refrigerators (from 31.9 per cent in 1984 to 67.8 per cent in 2000) and telephones (from 6 per cent in 1984 to 31.9 per cent in 2000).

As regards public health, Tunisia's health system provides free or highly subsidised care to approximately 50 per cent of the population, and the social security system covers roughly 87 per cent of the working population, a level comparable to that of many higher-income countries.

The broadening of access to health services is reflected in the greatly increased number of basic health centres (from 1 294 in 1986 to 2 028 in 2002), the growth in hospital capacity (32 regional hospitals and 18 teaching hospitals in 2002), the increase in medical personnel (one physician per 1 115 inhabitants in 2002, as compared to one physician per 2 438 inhabitants in 1985) and the fact that health services have been brought closer to beneficiaries (over 80 per cent of the population has access to a hospital or clinic less than 4 km from their place of residence).

Between the pre-adjustment to post-adjustment periods, this improvement in health services raised life expectancy at birth by more than five years (from 67.1 years in 1984 to 72.9 in 2002), reduced infant mortality from 51.4 per thousand in 1984 to 22.8 per thousand in 2001, increased the proportion of assisted childbirths from 56 per cent in 1984 to 90 per cent in 2001, and raised the proportion of children under five years old who are immunised against the six diseases targeted by the Expanded Programme on Immunisation to 96 per cent in 2001 (70 per cent in 1984).

Lastly, the government's concern for education can be seen in the implementation of reforms aimed at instituting free compulsory schooling for all children up to the age of 16 and ensuring universal primary education, enhancing the image of vocational training so that it will cease to be considered a second-best solution for those who fail to get through the traditional education system and for their families, revising the content of secondary curricula and reviewing the tracks offered, and guiding scientific and technological research to give greater weight to the concerns of businesses and the priorities laid down in the development strategy.

This increased interest in education, a sector that absorbs 6.4 per cent of GDP, has not yet yielded all the hoped-for effects in terms of quality and internal rates of return. However, it has raised the enrolment rate for six-year-olds (from 92 per cent in 1984 to 99 per cent in 2002), increased the literacy rate of the 10 years and older age group by about 23 percentage points (from 53.6 per cent in 1984 to 76.7 per cent in 2002), boosted the secondary school enrolment rate by nearly 36 percentage points in 20 years (73.1 per cent overall and 76.5 per cent for girls in 2002, as against 37.5 per cent overall and 30.3 per cent for girls in 1984), reduced the dropout rate in primary education from 5.4 per cent in 1984 to 2 per cent in 2002 and to a lesser degree in secondary education (from 7.6 per cent in 1984 to 6.3 per cent in 2002), and lastly raised the enrolment rate in higher education from 5.7 per cent in 1984 (4 per cent for girls) to about 26.4 per cent in 2002 (29.5 per cent for girls).