



International
Monetary Fund

Statement by the IMF Mission on the Article IV Consultation with Tunisia

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An International Monetary Fund (IMF) staff mission issued the following statement in Tunis on June 16, 2010: An IMF mission headed by Mr. Joël Toujas-Bernaté has been in Tunis since June 2, 2010 to conduct the regular consultation under Article IV of the IMF Articles of Agreement, which requires an annual review of the economic policies of all IMF member countries. This review will conclude with the preparation of a report, which will be discussed by the Executive Board of the IMF in July 2010.

The mission's concluding statement and final report will be published on the IMF website: www.imf.org/external/country/TUN/index.htm. Reports for previous years and other IMF publications on Tunisia are also available on this site.

The discussions focused on economic policies as well as the short- and medium-term outlook. The mission held wide-ranging discussions with the government, private sector representatives, and the social partners. The IMF staff wishes to express their deep appreciation to the Tunisian authorities for their excellent cooperation, the high quality of the discussions, their customary warm hospitality, and full accessibility.

Despite a challenging international environment, Tunisia performed well economically in 2009 with real Gross Domestic Product (GDP) growth exceeding 3 percent. This favorable outcome is largely attributable to the reform program undertaken in recent years as well as to sound macroeconomic policies which have enabled the authorities to mitigate the impact of the crisis through appropriately supportive policy measures.

After slowing down in early 2009, growth in the Tunisian economy has accelerated since mid-2009; in particular, Tunisian exports have gathered momentum in recent months in the context of the global

recovery. However, the current account deficit has worsened since early 2010, after the growth in imports outpaced exports, and remittances from Tunisians abroad and tourism revenues stagnated. Despite an increase in foreign direct investment (FDI) relative to the same period in 2009, international reserves have declined since early 2010 but remain comfortable at around US\$9 billion at end-May 2010. Inflation increased from 3.7 percent on average in 2009 to 5.0 percent in May 2010 (year-on-year) on account of rising food prices, although the monetary policy stance remains appropriate. The fiscal deficit widened somewhat in 2009 to 3.0 percent of GDP, reflecting government policies to support domestic demand; however, the rate of public indebtedness continued to decline, reaching 42.8 percent of GDP at end-2009. At the same time, medium-term and long-term external debt declined to 37 percent of GDP at end-2009 compared to almost 49 percent of GDP in 2005.

The Tunisian financial sector was not affected by the global financial crisis. Credit to the economy has held steady, thanks to the ongoing strength of deposit mobilization at banks, and the Tunis stock exchange continues to record exceptional growth. In addition, the authorities have pursued their long-term strategy for restructuring the banking sector, which has led the rate of nonperforming loans (NPL) as a percentage of total loans to decline from 15.5 percent in 2008 to 13.2 percent in 2009 and the provisioning rate to rise from 56.8 percent in 2008 to 58 percent in 2009. In the context of the presidential program for the period 2010-14, which aims inter alia to strengthen the financial system, the government intends to pursue this necessary restructuring effort. The mission also notes the government's decision to establish a deposit insurance fund and to implement the Basel II system, which should be accompanied by a more forward-looking and comprehensive approach to prudential regulation.

Global economic growth has picked up more swiftly than anticipated, but remains very uneven from one country to the next. For the countries of the European Union, where Tunisia's main partners are located, growth is expected to recover more gradually and is subject to downside risks. In this context, Tunisia's macroeconomic policies must adapt to trends unfolding in an uncertain international environment if they are to support Tunisian growth as effectively as possible. The authorities are maintaining a moderate fiscal policy stance, with a budget deficit at around 3 percent of GDP in 2010, to avoid that a withdrawal of the fiscal stimulus undertaken in 2009 would undermine the recovery of economic activity. The budget deficit is not expected to undermine macroeconomic stability, in particular regarding public indebtedness and inflation, although the external balance could deteriorate temporarily.

Furthermore, the Central Bank of Tunisia's successful efforts to sterilize abundant liquidity should be pursued in 2010 to ward off any resurgence of inflationary pressures or excessive growth in credit. The BCT's performance in the area of monetary policy operations also continues to improve through the modernization of money market instruments. The mission supports the government's fiscal and monetary policy stance in 2010, which are designed to maintain macroeconomic stability while providing further support for economic activity and maintaining the room for maneuver needed to address the risks associated with the international environment. On this basis, the target of 3.8 percent GDP growth in 2010 may be achieved, provided that there are no further delayed repercussions from the global crisis.

In the medium term, Tunisia's main goal is to reduce unemployment through sustained growth and to strengthen the resilience of the Tunisian economy to external shocks, including by diversifying their export markets. The unemployment rate, already relatively high, particularly among young graduates, increased slightly in 2009 as a result of the economic slowdown. In a context of moderate medium-term growth in Tunisia's traditional partners, the policies and reforms programmed by the authorities to develop new markets and identify new sources of growth in high value added sectors must deliver results rapidly if they are to enhance the potential for long-term growth.

The mission believes that with gradual economic recovery, the need to maintain the fiscal stimulus will fade and will allow the authorities to revert to fiscal consolidation as of 2011 as they seek to quicken the decline in the rate of public indebtedness and maintain room for maneuver if necessary. This approach adopted by the authorities will rely on control of current fiscal spending, particularly through reform of the social security system to ensure the financial sustainability of the pension funds. Vigilant monetary policy by the BCT aimed at preventing any resurgence of inflationary pressures, the preservation of macroeconomic stability, and further gradual liberalization of the Tunisian economy—with the goal of achieving convertibility for the dinar by 2014—will continue to create a sound environment conducive to private investment. Tunisia is also taking further steps to improve the business climate, in particular by simplifying customs procedures and creating better infrastructures with a view to promoting investment and international trade.

"The mission held productive discussions with H.E. Mr. T. Baccar, Governor of the Central Bank of Tunisia, as well as with H.E. Mr. M. R.

Chalghoum, Minister of Finance, H.E. Mr. M. N. Jouini, Minister of Development and International Cooperation, H.E. Mr. A. Chelbi, Minister of Industry and Technologies, H.E. Mr. N. Gharbi, Minister of Social Affairs, Solidarity, and Tunisians Abroad, H.E. Mr. A Mansour, Minister of Agriculture, Water Resources, and Fisheries, H.E. Mr. S. Tlatli, Minister of Tourism, H.E. Mr. M. Bouden, State Secretary to the Minister of Finance responsible for Taxation, Mr. A. Triki, State Secretary to the Minister of Development and International Cooperation responsible for International Cooperation and Foreign Investment. The mission also met with other members of the government and the administration, members of the Economic and Financial Committees of the Chamber of Deputies, representatives of the banking sector and business community, and social partners.”