International Monetary Fund

Tunisia and the IMF

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June 7, 2013

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Tunisia: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

May 24, 2013

The following item is a Letter of Intent of the government of Tunisia, which describes the policies that Tunisia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Tunisia, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Tunis, May 24, 2013

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
USA

Dear Ms. Lagarde:

1. Following the Revolution of January 14, 2011, Tunisia resolutely began its transition to democracy. The democratic election of a Constituent Assembly in October 2011 was followed by the appointment of a new government in December 2011. The government's immediate priority was to jump-start economic activity and create an environment of stability and trust that would revitalize investment and the role of the private sector in the economy, at a time when fiscal and external buffers were rapidly eroding. In view of the major development challenges facing Tunisia, and in conjunction with the emergency measures it was forced to take, the government adopted a program to support growth, address high unemployment, and reduce regional disparities.

2. The implementation of this program helped to support Tunisia's economic recovery in 2012, though the recovery remains subject to major exogenous shocks as well as to uncertainties surrounding the democratic transition process. The Tunisian economy will be negatively affected by any further deterioration of the situation in Europe, which could widen the current account deficit, reduce foreign direct investment inflows, and increase sovereign risk. Moreover, domestic vulnerabilities linked to the uncertainties surrounding any political transition could jeopardize our employment and growth objectives. The aim of our policy and structural reform program is to minimize these vulnerabilities and weaknesses, preserve macroeconomic stability, and promote more inclusive growth.

3. We request the support of the International Monetary Fund (IMF) for a Stand-by Arrangement backed by a two-year program in the amount of SDR 1.1460 billion (400 percent of quota). This arrangement would signal that Tunisia is implementing appropriate macroeconomic policies, reduce Tunisia's vulnerability to exogenous shocks and contribute to restoring investors' confidence.

4. The attached Memorandum of Economic and Financial Policies (MEFP) outlines the main components of the government's economic program and the policies of the Central Bank of Tunisia, which we plan to implement during the 2013–15 period. It also describes the macroeconomic objectives, structural reforms, and indicators for the first year of the program. We plan to implement our program firmly, notwithstanding the difficulties we face in the domestic, regional, and international context.

5. Our program will be monitored through quarterly reviews with quantitative performance criteria and structural benchmarks, as described in the attached MEFP and in the Technical Memorandum of Understanding (TMU). There will be eight reviews to monitor progress in program implementation and to agree on additional corrective measures to achieve the program objectives. The first, second, and third reviews of Tunisia's performance under the stand-by arrangement will be concluded no later than September 30, 2013, December 31, 2013, and March 30, 2014, respectively .

6. We are confident that the policies described in the attached MEFP are appropriate to achieving the objectives of our economic program, but we stand ready to take any additional measures that may be necessary to attain those objectives. We will consult with IMF staff on the adoption of these measures, and in advance of any revision of the macroeconomic policies contained in this MEFP, in accordance with the IMF's policies on such consultations. All information and data necessary for program monitoring will be provided to IMF staff.

7. In accordance with the usual terms and conditions for this type of arrangement, a safeguards assessment of the Central Bank of Tunisia has been conducted. In this context, we have prepared a technical memorandum of understanding between the Central Bank of Tunisia and the Ministry of Finance to clarify responsibilities related to the financial obligations associated with IMF resources, which will be deposited at the Central Bank of Tunisia in case of the need for budget support .

8. We authorize the IMF to publish this Letter of Intent and its attachments (MEFP, Tables 1 and 2) as well as the related staff report.

Sincerely yours,

/s/	/s/
Mr. Chedly Ayari Governor of the Central Bank of Tunisia	Mr. Elyes Fakhfakh Minister of Finance

Attachment I. Memorandum of Economic and Financial Policies

Recent Economic and Financial Developments

1. **The Tunisian economy began to recover in 2012, despite a difficult international and domestic environment.** Helped by base effects, real GDP growth rose by 3.6 percent on account of rebounding tourism and foreign direct investment flows. This growth performance and our programs to foster employment have allowed us to reduce the unemployment rate, which, however, remains high (16.5 percent in March 2013), notably among graduates (about 33 percent).

2. **Overall inflation has increased recently, driven by higher food prices, but underlying inflationary pressures remain contained.** Overall CPI inflation rose from 4.2 percent at end-2011 to 6.4 percent in April 2013 (year-on-year), mostly reflecting higher food and energy prices, temporary constraints to the distribution system, and the pick-up in demand from Libya. Nevertheless, underlying inflation (inflation excluding energy and food products) remained relatively stable below 5 percent over the past few months, thanks to a tighter monetary policy and measures introduced to curb the excessive growth of banks' consumer loans.

3. **The external current account deficit widened, despite the improvement in tourism revenues and remittances.** Economic problems in the euro area continue to depress the demand for Tunisian goods (especially textiles and industrial goods), while imports have increased in most sectors, with transport and energy equipment growing by 27 percent in 2012. As a result, the current account deficit widened from 7.4 percent of GDP in 2011 to approximately 8.1 percent in 2012, notwithstanding the strong performance of tourism revenues and the remittances of Tunisians working abroad (30.4 percent and 23.7 percent, respectively) and exchange rate depreciation (roughly 2.4 percent in real effective terms in 2012). The increase in foreign direct investment inflows, bilateral and multilateral loans, and access to financial markets (with guarantee of the United States Treasury and the Japan Bank for International Cooperation (JBIC) allowed us to increase our foreign exchange reserves to $8.6 billion in 2012 (equivalent to 3.8 months of imports, still below the 2010 levels).

4. **The budget execution in 2012—centered on an increase in capital expenditures—was less expansionary than expected.** Delays in adopting the supplementary budget law, capacity constraints at the regional level and in procurement led to an under-execution of the investment budget, which recorded an execution rate of 75 percent in 2012. This under-execution and the higher-than-expected tax revenues (mostly due to the good performance of indirect taxes) offset

the larger-than-expected increase in subsidy payments (30 percent year-on-year, despite the accumulation of arrears of about 1 percent of GDP on energy subsidies) and wages. The 2012 fiscal deficit is thus estimated at 5.3 percent of GDP (excluding grants, privatization receipts, and sales of confiscated assets), about 2 percentage points of GDP lower than projected in the 2012 supplementary budget law (this deficit corresponds to 5 percent of GDP after including sales of confiscated assets as nontax revenues). This fiscal deficit was financed with domestic bond issuances and bilateral and multilateral loans, with public debt reaching 44 percent of GDP (the same level as in 2011).

5. **The tightening of monetary policy helped contain the rise in overall inflation.** After increasing its refinancing of banks, which rose by 53 percent in the first ten months of 2012, the Central Bank of Tunisia has reduced it by 35 percent and has responded to the rise in inflation by: (i) raising its policy rate to 4 percent (an increase of 50 basis points during the past six months), which still implies a negative real interest rate (-2.4 percent at end-April 2013); (ii) allowing the average monthly interbank rate to stay close to the upper band of the interest corridor (50 basis points until February 2013); (iii) adopting an asymmetric interest corridor of 100 basis points defined as 75 basis points above the policy rate for the lending facility and 25 basis points below for the deposit facility; and (iv) adopting a reserve requirement of 50 percent for the increase of consumer loans above the end-September 2012 level (reduced to 30 percent in April 2013). The replacement of banknotes curtailed the thesaurisation impact and allowed banks to attract more deposits, which reduced the need for direct CBT refinancing.

6. **Deteriorating loan quality continues to accentuate banks' existing weaknesses.** At end-September 2012, the nonperforming loan ratio remained at a persistently high level (13.5 percent of total loans); however the initial estimates indicate that this ratio could be 3 to 4 percentage points higher at end-December, in view of the forthcoming reclassification of loans rescheduled in 2011 as overdue loans. The capital adequacy ratios, averaging 12 percent at end-December 2012 for the banking system as a whole, could prove insufficient, especially because the average bank provisioning rate (slightly below 57.3 percent in September 2012) remains low. Moreover, the increase in bank deposits did not keep pace with growth in lending, which explains the banks' dependence on central bank's refinancing. Thus, liquidity ratios fell and some banks failed to comply with the liquidity prudential requirements in 2011/12. Furthermore, intermediation margins will remain under pressure from the combined effect of greater competition on deposit interest rates and restrictions on consumer lending.

Key Components of the Economic Program

7. **Our reform program will focus on addressing the critical vulnerabilities of the Tunisian banking sector and strengthening fiscal and external buffers.** The significant vulnerability of the financial sector and the worsening of fiscal and external imbalances are the main short-term challenges facing Tunisia. A priority of the government will be to implement a series of measures to mitigate banks' weaknesses that were accumulated during years of favoritism, inadequate standards, and weak banking supervision. For this purpose, and in line with tightened prudential regulations and measures to improve loan quality, we plan to generate additional fiscal space—through a modest fiscal loosening and better spending composition—to meet the possible recapitalization needs of public banks, which will depend on the choice made regarding the future role of government in those banks. This action will contribute to restoring domestic and foreign investors' confidence, spur foreign direct investment and other capital flows, and strengthen the banks' capacity to support the recovery of the Tunisian economy.

8. **Our reform program will promote the implementation of an appropriate policy mix to preserve macroeconomic stability**. A rebalancing of fiscal policy to support growth will be initiated, in particular by progressively containing energy subsidies while putting in place a better targeted social safety net and growth-supporting public investments. A prudent monetary policy will aim at containing inflation and preserving the stability of the banking sector. Greater exchange rate flexibility—in addition to structural reforms to improve the competitiveness of the economy and tighter fiscal policy—will contribute to strengthening Tunisia's external position and rebuilding foreign exchange reserve buffers.

9. **A final element of the strategy—to be pursued simultaneously with sound macroeconomic policies—is the implementation of structural reforms to promote more inclusive growth**. Reforms will aim at promoting private-sector development and reducing regional disparities.

A. Macroeconomic Framework

10. **The proposed program will be based on the following macroeconomic assumptions:**

- We based our program objectives on a growth rate of 4 percent in 2013, which will remain dependent on exogenous shocks, notably the outlook in Europe and the smooth unfolding of the political transition process. This growth performance will be sustained by the recovery of the tourism sector, and the recovery of industrial activity (notably in the phosphates sector) and private consumption. The increase in public and private investment will have a positive impact on economic activity, although net exports will only recover slowly. Growth is expected to pick up considerably in 2014, making it possible to close the output gap in 2016. The implementation of reforms aimed at improving the business climate and the financial sector will help foster investment and push growth in the medium term toward its potential.

- Headline inflation (year-on-year) could peak slightly above 6.5 percent in mid-2013, before slowing to 5.3 percent at the end of the year (year-on-year), thanks to a prudent monetary policy and despite some adjustment in administered prices. Inflation will converge to about 4 percent in the medium term.

- In the coming year, the current account deficit will remain high, at approximately 7.2 percent of GDP. Weak growth in Europe will continue to hinder export recovery, while a rebounding domestic demand will continue to spur imports. In the medium term, the current account deficit will narrow, thanks to recovering exports and workers' remittances. In addition, private capital inflows are expected to improve considerably during the program, thereby contributing to maintaining gross reserves above three-months of import coverage.

B. Fiscal Policy

11. **Fiscal policy will need to strike the right balance between supporting the ongoing economic recovery and the need for medium-term fiscal consolidation**. To that end, fiscal policy will aim at creating fiscal space—including through reforming the tax system— to: (i) meet social and infrastructure financing needs; (ii) protect the most vulnerable among the population; and (iii) address potential contingent liabilities (arising from banking recapitalization needs and higher deficits of the social security funds). In the medium term, debt sustainability will continue to anchor our program, which will reduce the overall fiscal deficit to 2.5 percent of GDP by 2018, thus keeping the debt-to-GDP ratio below 42 percent of GDP, even after accounting for bank recapitalization costs during the program period.

12. **A rebalancing towards more fiscal consolidation has been initiated in the 2013 budget law, while priority spending is preserved.** We continue facing pressing social needs and remain vulnerable to exogenous shocks, which made it necessary to increase budget appropriations for the wage bill (a 14 percent increase relative to 2012) and in transfers and subsidy payments (7.3 percent of GDP). We have also responded to the population's aspirations by increasing investment in the marginalized regions. On the revenue side, the adoption of new measures—such as higher stamp

duties and excises on alcoholic beverages—and a pick-up in economic activity would increase tax revenues to 21.8 percent of GDP. Consequently, the overall fiscal deficit (excluding grants) would reach 7.3 percent of GDP, and of 5.8 percent when including the sale of confiscated assets as nontax revenues, broadly in line with the budget target, and mostly financed by multilateral and bilateral external loans. This fiscal stance remains consistent with our objective of prudent fiscal policy since the structural deficit—which corrects for the economic cycle and one-off operations such as the recapitalization of public banks or arrears repayment—will be broadly stable at 5.1 percent of GDP, thanks to savings on non-allocated expenditures while preserving social expenditures. New offsetting measures, particularly cuts in nonessential spending or new revenues, will be identified to meet deviations from our fiscal target; capital and social spending will be preserved and will not be part of these measures. Key priorities for fiscal policy in 2013 are:

- **Banking recapitalization needs.** The recent Financial System Stability Assessment (FSSA) estimates that those needs could reach as much as 2.6 percent of GDP in the next two years. Accordingly, and as a precaution, a first tranche was included in the 2013 budget law, and we plan to allocate a second tranche reaching a maximum of 0.5 percent of GDP in the supplementary budget law, which will be introduced in the second half of 2013. The actual recapitalization needs will be determined based on the strategic orientation we will choose by mid-September 2013 (structural benchmark as part of the first program review), on the basis of the preliminary results of the public bank audit, which will examine all options(see Section D). Depending on the option chosen, this indicative amount may be revised upward or downward (or even eliminated). Recapitalization needs this year will be financed by the issuance of non-negotiable government securities.

- **Subsidy reform.** Our subsidy reform strategy is articulated on several key short- and medium-term measures. The 2013 budget already included TDN 400 million savings on energy subsidies. Accordingly, we have raised fuel prices (gasoline and diesel) and electricity tariffs in order to achieve the anticipated savings. This price increase was accompanied by the implementation of social programs already included in the government budget (including higher social spending on education and health and to promote employment) and an increase in cash transfers to households in need during 2012 and 2013 (the amount for each household was raised by 40 percent and by 10 percent during 2013). This reduction in energy subsidies will go hand in hand with our reform plan, which aims to progressively replace generalized subsidies with a better-targeted social safety compensation system:

    - *Strategy and targeting.* We took the decision in August 2012 to create a new register of households in need, which is an important and necessary step to ensure effective targeting (the "leakages" to the non-poor in the existing systems are significant). An in-depth study of the impact of an increase in subsidized energy prices on vulnerable households and different productive sectors—conducted with the technical assistance of the World Bank—is under way. Following that study, the government plans to adopt in August 2013 a household compensation strategy to accompany the energy subsidy reform. This program will be accompanied by a broad public consultation and communication campaign.

    - *Designing a new automatic fuel pricing formula*. A pricing mechanism was introduced in 2008 but then suspended in 2011, following large swings in international prices. An ongoing assessment of the best mechanism to follow is under way, and a new formula will be adopted in 2013, to be implemented in early 2014 (at least for gasoline, which will be relatively close to the international price).

- **Control of the wage bill**. In the short term, we will contain wage increases and new recruiting within the limits announced in the 2013 budget law. For the future, we are in the process of evaluating a multi-criteria system for personnel recruitment in order to achieve a better match between needs and qualifications.

13. **A better composition of public expenditures will be needed to achieve a growth-supporting medium term fiscal consolidation and restore fiscal space**. The gradual replacement of generalized subsidies with a better-targeted compensation system and wage bill containment will free budget resources for higher social expenditures and growth-supporting public investments. Keeping wages at a sustainable level and controlling recruitment as part of a civil service reform will be key to reducing the weight of the wage bill in the government budget. Additional increases in retail energy prices and the forecasted fall in international food and fuel prices will lead to subsidy savings in 2014 and over the medium term. We also plan to undertake reforms in the following structural areas:

- **Tax revenue mobilization**. We have embarked on a comprehensive program of reforms to boost tax revenue and improve the equity, the efficiency, and transparency of the tax system. This program will encompass several reforms:

    - *Tax policy*. A preliminary diagnosis points to multiple issues such as a complex tax system, an unequal distribution of the tax burden, and the existence of significant distortions. In this context, we plan to implement a structural reform of our tax system on the basis of a participatory process. The launch of the reform took place on May 13, 2013 in the context of an enlarged National Fiscal Council. National tax consultations will be organized in October 2013 to finalize the work of the different working groups.

- ✓ One of our priorities is to rationalize tax benefits/incentives in a revenue-neutral way, by reforming the corporate income tax in parallel with the new investment code (scheduled for July 2013). This new investment code—which has benefited from the technical assistance of the World Bank and will be discussed in large consultation with the civil society—would contribute to reducing the dichotomy between the onshore and offshore sectors.

- ✓ In the context of a comprehensive tax reform, we plan to review the convergence of corporate income tax (CIT) rate in the onshore and offshore sectors, and announce by end-December 2013 the convergence according to a clear calendar and gradually over the next few years. A first step of this convergence, concerning the year 2014, will be announced in July 2013 (structural benchmark). Revising the favorable treatment of re-investment, and introducing taxes on dividends and export activities, are some of the options we are studying through simulation analysis, to ensure that the impact of this convergence of the CIT will be revenue-neutral.

- *Tax administration.* A preliminary diagnostic of tax administration has been conducted, with the support of an IMF technical mission. Following this analysis we are planning to introduce a program of reforms to modernize tax administration (including setting up a unified fiscal administration) and strengthen the control and evaluation mechanisms in the customs administration. In the short term, we will unify the control and tax collection functions within a strengthened Large Taxpayer Unit (LTU) (end-September 2013 structural benchmark) and restructure fiscal activities of the LTU. We will also reinforce the selectivity of controls by establishing targeted criteria and objectives.

- **Assess and improve the effectiveness of capital expenditures.** We have started a study to assess the impact of public investments realized in 2012 on growth and the welfare of the population, particularly in the marginalized areas. The results of this study, expected in the next three months, will allow us to review and, if necessary, reprioritize our investments. In cooperation with the World Bank, we launched a diagnostic analysis of public investments by analyzing the project cycle from project identification to impact assessment. In addition, the simplification of procurement procedures, planned for June 2013, will contribute to support investments in a more rapid and transparent way.

- **Public enterprises**. The financial situation of public enterprises, which are accumulating losses close to 4 percent of GDP, constitutes a major risk for the government finances. To remedy this situation, based on a study prepared with the World Bank in 2013, we plan to undertake a program of reforms tothe governance of public enterprises and to initiate audits of two large public enterprises, starting with the electricity company (STEG), and the petroleum products refinery company (STIR), to be finalized by December 2013.

- **Pension system**. The pension and health insurance systems are considered to be financially unsustainable in the long term. If these systems are not reformed, the combined deficit could amount to 2 percent of GDP by 2018. To avoid this risk, the Tunisian government has begun analyzing different scenarios for reform of the pension and health insurance in order to ensure the viability of the system. A decision on the appropriate reform will require consultation to reach national consensus, which will be initiated in 2013.

C. Monetary and Exchange Rate Policy

14. **The monetary policy objective for 2013–14 is to control inflation while preserving a healthy private-sector credit growth.** Pending the implementation of an inflation-targeting system, currently under development, the rate of growth of M3 remains the central bank's intermediate target. For 2013, M3 growth will reach 12.7 percent (year-on-year) with overall inflation at 6 percent (annual average) and credit to the private sector growing at about 11 percent. The central bank stands ready to further tighten monetary policy, including by raising the policy rate, to contain inflationary pressures, especially if core inflation rises rapidly. The establishment of a monetary policy committee, which met for the first time in January 2013, will increase the effectiveness of the assessment and communication of monetary policy. Monetary policy transmission will be strengthened by the reforms we plan to implement to promote the emergence of a reference yield curve.

15. **The Central Bank of Tunisia continues to closely monitor the liquidity needs of the banking sector**. A gradual exit strategy from massive liquidity injections has been started to reduce banks' reliance on central bank refinancing and eliminate an increasingly structural phenomenon. To solve this problem, we plan to:

- **Reinforce the current liquidity forecasting framework** by extending the liquidity forecasting horizon and analyzing forecasting discrepancies with budget data. We also plan to enhance coordinating mechanisms with fiscal policy by establishing a coordination committee that will meet weekly to discuss the liquidity situation for the week and the month ahead.

- **Establish a sound collateral management framework to minimize the risks to the CBT balance sheet, and encourage banks to manage their liquidity in a more forward-looking way**. Thus, we intend to put in place a haircut system for loans accepted as collateral in CBT's refinancing operations (an announcement will be made in July 2013, *structural benchmark*). The reform in the next two years would involve using only government securities as collateral. In the meantime, considering the current level of refinancing, the CBT will require that 40 percent of the banking system refinancing be, in general, guaranteed with government securities, with at least 10 percent for each bank starting from end-August. The ceiling for each bank will be raised to 20 percent by end-December 2013 and will be progressively increased during the next two years.

- **Establish a lender of last-resort facility**. As the range of eligible collateral is reduced, a lender of last resort facility should be established for solvent but illiquid banks. This facility—which will charge significant penalties—will keep illiquid but solvent banks from defaulting. Any bank using this facility will be required to present a plan to strengthen its balance sheet within six months and will be closely monitored. The creation of this facility will require the amendment of the banking law and the CBT organic charter law.

- **Step up outright purchases of government bonds in the secondary market in order to reduce the structural liquidity deficit**. We plan to increase the use of open market operations in 2013 (currently amounting to about TDN 950 million, compared to TDN 450 at end-September 2012), notably by purchasing longer-term government bonds. This will allow us to inject liquidity into the banking system, reduce weekly refinancing operations, and encourage interbank transactions.

- **Ease the existing interest rates ceilings with a view to eliminating them and improving the monetary transmission mechanism**. We eliminated in March 2013 the ceilings on creditor interest rates which had been introduced in December 2011; this was done for all maturities, will allow for more efficient allocation of capital, and will facilitate the development of the interbank market. We also plan to revise the legislation on excessive interest rates on loans set by the Ministry of Finance aiming at eventually raising the threshold.

16. **The ongoing change in the exchange rate operational framework has resulted in a more flexible exchange policy**. The modification during 2012 in the CBT's mode of intervention on the foreign exchange market, on the basis of a fixing based on interbank rates instead of a reference rate calculated using a fixed basket of currencies, allowed the adoption of a more flexible exchange rate policy than in the past. A more flexible exchange rate regime will help preserve CBT foreign exchange reserves, facilitate external adjustment, and support demand for money by reducing the liquidity absorption due to interventions in the foreign exchange market. We plan to increase exchange rate flexibility further by:

- **Strengthening the market mechanism** by the adoption of an electronic bank interlinking platform and the adoption of the Market Makers Agreement (at this stage we have identified 12 candidate banks, on the basis of a survey, for the role of market maker and the setting up of the information and interconnection system, is expected by October 2013). These two actions will constitute an important prerequisite for introducing weekly auctions in the first months of 2014. Improving cash flow forecasts will also be a prerequisite to this reform.

- **Limiting CBT interventions** in the foreign exchange market to smoothing excessive exchange rate fluctuations. Our mode of intervention will continue to be in two currencies. This approach will later be revised towards intervening in a single currency vis-à-vis the dinar.

17. **The measures we introduced to limit the deterioration of the current account deficit led to a reduction in consumer lending but failed to sufficiently reduce consumer goods imports.** We are aware that maintaining these measures over the long term could create distortions and halt the development of the private sector. Thus, we defined and announced the criteria for the withdrawal of the measures, to reassure the private sector that they are temporary. Our development strategy will remain based on openness and free trade. In accordance with World Trade Organization rules, we will impose import surcharges only if necessary and subject to very clear criteria for phasing them out.

D. Financial Sector Policies

18. **We have launched a comprehensive set of reforms to maintain the stability of the banking sector and reduce its vulnerabilities.** Notably, our focus was on aligning banking practices with international standards and strengthening bank supervision. These reforms led to:

(i) the introduction of collective provisioning to improve risk coverage; (ii) the tightening of risk concentration ratios, which will take effect at end-2013; (iii) a gradual increase and/or increases in the capital adequacy ratio from 8 percent to 9 percent at end-2013 and to 10 percent at end-2014, with a Tier 1 ratio of 6 percent at end-2013 and 7 percent at end-2014; (iv) the preparation of a circulaire decree aimed at improving the governance of credit institutions; and (v) the launch of an independent strategic audit of the three public banks (close to 40 percent of total banking sector assets). For the first time in Tunisia's history, we have prepared the annual report on bank supervision and intend to publish it in the next few weeks.

19. **We plan to continue the reform of the financial sector to further reduce its vulnerabilities.** Reforms will aim at ensuring that the banking system plays its proper financial intermediation role, including proper credit allocation and monitoring of risks to credit, liquidity and solvency. Our strategy is based on four pillars:

- **Improving banking data reporting.** With the support of the technical assistance of the IMF expert, we plan to correct data management deficiencies by designing the architecture of a new reporting system covering bank-related accounting, financial, and institutional functions by August 2013. This will help to establish a system with better controls and reliability of reporting.

- **Tackling the fragilities of public banks**. These banks were the victims of poor governance in the past that led to a significant accumulation of nonperforming loans. Thus, we launched the audit of the three public banks, which will be completed by December 2013. The interim report at end-August will allow us to decide the government's strategy by mid-September based on an assessment of all possible options, including whether we will need to: (i) recapitalize them to address weak loan quality and absorb any future losses within the framework of the existing banking mechanisms; (ii) merge them; or (iii) reduce the participation of the State. In order to implement this strategy and reduce existing vulnerabilities, we plan to:

    - *Mobilize all necessary resources* for a possible recapitalization of the public banks in the next two years, which, according to FSSA estimates, could reach 2.6 percent of GDP. This amount may be reduced or increased, depending on the strategic orientation chosen and the final results of the audit.

    - *Solve the problem of the nonperforming loans of the tourism sector*. These loans are especially significant for one public bank and account for more than 20 percent of all nonperforming loans in the banking system. On the basis of an in-depth study carried out jointly with the World Bank, the authorities decided to set up an Asset Management Company (AMC) to remove tourism-related nonperforming loans from the banking system and minimize their side effects on the real economy. We intend to consult extensively with all concerned partners, with a view to establishing a clear and transparent legal framework by end-July 2013 to guarantee the AMC's operational autonomy. We plan to update by June 2013 the amount of financial resources necessary for the conduct of AMC operations (which will require a cash contribution from the government to meet working capital needs and government guarantees for AMC bonds).

- *Ensure that public banks are subject to the same management rules as private banks.* To that end, by September 2013 we plan to exempt public banks from certain obligations imposed on them by the law on public enterprises, in order to give them greater freedom in the area of governance.

- **Strengthen the banking supervision and regulatory framework.** This will involve:

  - *From January 2013, rigorously applying sanctions on banks* that are in breach of regulatory and prudential standards.

  - *Update by end-September 2013 the situation of banks on the basis of the 2012 end-year results.* A report on banks' performance and solvency, including an update of the last stress testing, will be produced to identify the existing risks and identify banks that should be subject to inspection.

  - *Moving towards international prudential standards,* particularly with regard to prudential norms on collateral guarantees (a study on the haircut of guarantees will be finalized by December 2013), revising the liquidity ratio to include off-balance sheet transactions, adopting a more forward-looking approach, and establishing consolidated prudential rules.

  - *Strengthening banking supervision capacity by significantly increasing dedicated human and financial resources.* With these resources, we plan to undertake an on-site general inspection of at least one large local bank (the first since 2006), and at least four credit risk inspections in other banks. The methodology for onsite and offsite inspection will also be strengthened.

- **Develop a crisis management mechanism and a special bank resolution regime.** With the support of the technical assistance program, we plan to put in place a mechanism defining the respective roles and responsibilities of the CBT and the Ministry of Finance (MoF) in the event of a financial crisis. We also intend to create a special bank resolution regime. The draft banking law that we are currently preparing will describe in detail these new mechanisms.

E. Structural Reforms

20. **Our structural reform program focuses on improving the business climate and promoting a competitive private sector that generates inclusive growth and reduces unemployment and regional disparities.** The development strategy pursued in the past has exacerbated regional disparities, with an offshore sector benefiting from fiscal and regulatory incentives while the onshore sector was neglected. Our plan is to gradually modify the existing development model by making it more inclusive and balanced and less dependent on low-value added goods exports that require unskilled labor. In addition to strengthening social safety nets (mentioned above), our structural reform priorities will focus on:

- **The business climate and competitiveness**, through the adoption of an investment code that will ensure greater equity between the onshore and offshore sectors, and will include the adoption of a simplified and transparent incentive system—(tax measures will be incorporated into the tax code in parallel with the adoption of the investment code— and in which freedom to invest is the norm. We also plan to reduce administrative constraints and authorization, limit discretionary decisions, and reduce monopolistic and oligopolistic behavior in order to guarantee the same opportunities for every private operator. A revised competition law will be adopted in 2013 to address these issues.

- **Regional development.** Sustained public investment will help substantially improve infrastructure projects in the marginalized regions, thus attracting the private investment needed for developing those regions. This increase in public investment will also be accompanied by the decentralization/deconcentration of the administration and the setting of objective criteria for selecting investment projects.

21. **We are committed to reducing the obstacles to the proper functioning of the labor market.** To that end, we signed a new social contract on January 14, 2013 with employers and trade unions, which will serve as a common social roadmap. The organization of a permanent council for a tripartite social dialogue in 2013 was agreed, as well as the establishment of an insurance fund to

cover loss of employment for economic reasons. A broad consultation is planned to discuss the new employment strategy currently under preparation. The main priorities for the medium term will consist, in particular, in reforming the labor code to promote greater flexibility and reduce the structural asymmetry of skills prevailing on the market.

22. **We are aware of the crucial role or reliable statistical information in the preparation, assessment, and monitoring of macroeconomic policies and the implementation of social programs.** To strengthen transparency, we will continue to publish regularly the results of our surveys on leading indicators and economic developments, employment and households. In this regard, we are currently involved with EUROSTAT in a full diagnostic of our statistical system, which will allow us to evaluate and reinforce the capacity of our national statistical system. With IMF technical assistance, we are also planning to strengthen national accounts data (notably the demand-side) and the balance of payments. Establishing a mechanism for improving and strengthening training in the statistical area will help buttress the statistical function in different ministries.

Table 1. Tunisia: Quantitative Performance Criteria and Indicative Targets 1/2/

	Dec 2012	Jun 2013	Sep 2013	Dec 2013
		Cumulative Flows since the beginning of 2013		
	Prel.	PC	PC	PC
Quantitative Performance criteria		(Millions of Tunisian Dinars)		
1. Floor on the primary balance of the central government excluding grants /3	-2,168	-37	-532	-4,318
2. Ceiling on net domestic assets of the Banque Centrale de Tunisie (Stock)	-1,332	-829	-196	-1,084
		(Millions of US$)		
3. Floor on net international reserves of the Banque Centrale de Tunisie (Stock) /4	7,937	6,667	6,751	8,066
Continuous Performance criteria		(Millions of Tunisian Dinars)		
4. Ceiling on the accumulation of new external debt payment arrears by the central government	...	0.0	0.0	0.0
Quantitative Indicative Targets		(Millions of Tunisian Dinars)		
5. Social Spending 5/	1,251	794	1,191	1,588
6. Ceiling on the accumulation of new domestic arrears	...	0.0	0.0	0.0
Program assumptions on which adjusters are calculated in case of deviations				
Disbursement of public external Financing on a cumulative basis (in millions of US$)		410	520	2,239
Public Debt service (interest and amortization) on a cumulative basis (in millions of US$)		956	1,169	1,387
Bank recapitalization (in millions of TD)				500
Program exchange rate TD/ U.S. dollars	1.55235			

1/ Quantitative performance criteria and structural benchmarks are described in the Technical Memorandum of Understanding.

2/ For purposes of calculating program adjusters, foreign currency amounts will be converted at program exchange rates.

3/ The floor on the primary fiscal balance of the central government excluding grants (cash basis) will be adjusted downward (upward) by the cumulative upward (downward) deviations in government budgeted bank recapitalization relative to program assumptions.

4/ The floor on the stock of net international reserves of the BCT will be adjusted upward (downward) by the cumulative downward (upward) deviations in government external debt service, downward (upward) by the cumulative downward (upward) deviations in government external financing - excluding project loans and financing issued through international capital markets - relative to program assumptions, and upward (downward) by the cumulative upward (downward) deviations in resident deposits at the BCT from December 31, 2012 level.

5/ Public capital expenditures on social sectors and programs.

Table 2. Tunisia: Structural Benchmarks		
	Objective	*Date*
I. Financial sector		
Adoption by the Council of Ministers of the strategic vision of the government's future role in banks, on the basis of the preliminary results from the audit of public banks.	*Financial sector stability*	*Mid-September 2013*
Approval of the new reporting system architecture covering bank-related accounting, financial, and institutional functions.	*Financial sector stability*	*Aug-13*
General on-site inspection of one major bank and inspection of the credit risks of four other banks.	*Financial sector stability*	*Dec-13*
Presentation to the board of the CBT of a study concerning the impact on banks of liquidity ratio changes toward international standards.	*Financial sector stability*	*Dec-13*
II. Fiscal policy		
Approval by the Council of Ministers of the corporate tax reform announcing the convergence of the tax rates of onshore and offshore sectors for 2014 and identification of countervailing measures to ensure a neutral impact on revenues.	*Minimization of distortions, and tax fairness and simplification*	*Jul-13*
Adoption of a Ministry of Industry decree approving a new automatic fuel pricing formula.	*Lower energy subsidies*	*Aug-13*
Submission to the Council of Ministers of a new targeted household support program to accompany the reform of generalized energy subsidies.	*Protection of society's most vulnerable segments*	*Aug-13*
Merge at the level of the large taxpayer unit the management, tax collection, and control of large enterprises.	*Broadening of the tax base*	*Sep-13*
Finalize the audit of the electricity company (STEG) and of the petroleum refinery company (STIR).	*Lower fiscal risks*	*Dec-13*
III. Monetary and exchange rate policy		
Publication of a circulaire by the CBT that announces a haircut on all loans used as collateral for refinancing operations at the central bank.	*Enhancement of the monetary transmission mechanism*	*Jul-13*
Ensure that the proportion of the refinancing volume at the CBT backed by government securities is at least 10 percent for each bank	*Enhancement of the monetary transmission mechanism*	*Aug-13*
Implementation of an electronic bank interlinking platform and launch of the Market Makers Agreement.	*Greater exchange rate flexibility*	*Oct-13*
Ensure that the proportion of the refinancing volume at the CBT that is backed by government securities is at least 20 percent for each bank	*Enhancement of the monetary transmission mechanism*	*Dec-13*
IV. Structural reforms/private-sector development		
Adoption of the Investment Code (tax measures will be referred to in the tax code).	*Support for balanced growth driven by the private sector*	*Jul-13*

Attachment II. Technical Memorandum of Understanding

1. This Memorandum establishes the agreement between the Tunisian authorities and IMF staff concerning the definition of the quantitative performance criteria and indicative targets. It also sets out the content and frequency of data reporting to IMF staff for program monitoring purposes.

2. The quantitative criteria and benchmarks are defined in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent dated May 24, 2013. For program purposes, all assets, liabilities, and flows denominated in foreign currencies will be valued at the "program exchange rate," as defined below, with the exception of items affecting the government's budgetary accounts, which will be measured at current exchange rates. For program purposes, the exchange rate corresponds to the accounting exchange rate of the CBT prevailing on December 31, 2012, as shown in the table below. For the SDR, the program exchange rate is 1SDR = 2.38852 Tunisian dinars.

Program Exchange Rates, Tunisian Dinar per FX Currency,
(Accounting Exchange Rate of the CBT)
December 31, 2012

Currency	Units	Exchange rate
Algerian dinar	10	0.19860
Saudi riyal	10	4.13930
Canadian dollar	1	1.56175
Danish krone	100	27.44020
USA dollar	1	1.55235
British pound sterling	1	2.50510
Japanese yen	1000	18.02650
Moroccan dirham	10	1.83535
Norwegian krone	100	27.73730
Swedish krona	10	2.37995
Swiss franc	10	16.95450
Kuwaiti dinar	1	5.51955
United Arab Emirates dirham	10	4.22660
Euro	1	2.04725
Libyan dinar	1	1.23740
Mauritanian ouguiya	100	0.51230
Bahraini dinar	1	4.11770
Qatari riyal	10	4.26380

Source: Central Bank of Tunisia.

3. Monetary gold assets will be valued at the price of 0.6498 dinar per gram of gold as established in the decree No. 86-785 of August 18, 1986. The stock of gold is 6.73 tons (6739902 grams) on December 31, 2012.

4. For data reporting purposes, the Ministry of Finance, the Ministry of Development and International Cooperation, the National Institute of Statistics (INS), and the Central Bank of Tunisia

(CBT) will follow the rules and the format considered appropriate for data reporting as covered by this technical memorandum of understanding, unless otherwise agreed with IMF staff.

DEFINITION OF PERFORMANCE CRITERIA AND INDICATIVE TARGETS

A. Performance Criteria and Indicative Benchmarks

5. **The quantitative performance criteria and indicative benchmarks specified in Table 1 of the MEFP are**:

Performance criteria

- A performance criterion (floor) on the net international reserves of the Central Bank of Tunisia.
- A performance criterion on the net domestic assets (ceiling) of the Central Bank of Tunisia.
- A performance criterion (floor) on the primary balance of the central government, excluding grants.
- A continuous performance criterion on the accumulation of external arrears (zero ceiling).

Indicative benchmarks

- An indicative benchmark (ceiling) on total domestic arrears.
- An indicative benchmark (floor) on capital expenditures in priority social sectors and social programs.

6. **Measurement of criteria.** The performance criteria on net international reserves and net domestic assets are measured on a stock and quarterly basis. The performance criterion on the central government deficit is measured on a quarterly basis and cumulatively from the previous year. Adjustment factors will also be applied to some of these criteria. The performance criterion on the accumulation of external arrears is measured on a continuous basis.

B. Institutional Definition

7. The **central government** comprises all ministries and agencies subject to central budgetary administration in accordance with the organic law on the government budget. Regional governments and municipalities subject to central budgetary administration are part of the central government.

8. The authorities will inform Fund staff of any new entity and any new program or special budgetary or extra-budgetary fund created during the period of the program to carry out

operations of a budgetary nature. Such funds or new programs will be included in the definition of the central government.

C. Floor on the Net International Reserves of the Central Bank of Tunisia

9. The **net international reserves (NIR)** of the Central Bank of Tunisia (CBT) are defined as the difference between the CBT's reserve assets and its liabilities in foreign currency to nonresidents.[1]

10. The **CBT's reserve assets** are the foreign assets immediately available and under the CBT control, as defined in the fifth edition of the IMF *Balance of Payments Manual*. They include gold, SDR assets, reserve position at the IMF, convertible foreign currencies, liquid balances held outside Tunisia, and negotiable foreign securities and bills purchased and discounted.

11. The **CBT's liabilities in foreign currency** to nonresidents include any commitment to sell foreign currencies associated with financial derivative transactions (such as swaps, futures, options), any portion of the CBT's assets (gold, for example) used as collateral, IMF and Arab Monetary Fund (AMF) credits outstanding, and deposits at the CBT of international organizations, foreign governments, and foreign nonbank institutions. The government's foreign currency deposits at the CBT are not included in the liabilities, nor is any SDR allocation received after May 15, 2013.

12. All debt instruments issued in foreign currency by the CBT on behalf of the government before May 15, 2013 are also excluded as liabilities of the CBT. All debt instruments issued in foreign currency by the CBT on behalf of the government after May 15, 2013 will be treated as **CBT liabilities**, unless the offering documents (prospectus) state clearly that (i) the CBT is acting as an agent to execute all sovereign debt instruments issued in foreign currency raised through the international markets for general budgetary purposes of the Republic of Tunisia (ii) debt is a liability of the central government; and (iii) a protocol between the CBT and the Ministry of Finance provides clearly that the CBT is authorized to pay all expenses and costs pertaining to the implementation of this issue as well as the interest and principal of the issue sum through direct deduction from the Treasury's current account established in the CBT's books.

[1] Deposits of residents in foreign currency (excluding government deposits) at the CBT are a form of external liability of the CBT; for operational and accounting purposes, and because of legal considerations related to the regulation of foreign exchange, the CBT includes residents' foreign currency deposits in the monetary base. To preserve the accounting consistency of the CBT's accounts and be in line with the standard definition of NIR within the framework of IMF stand-by arrangements, it is agreed: (i) to retain the accounting definition of external liabilities used in the CBT balance at December 31, 2012; (ii) to adopt the principle of adjusting NIR (in the opposite direction of the net domestic assets of the CBT) on the basis of the variation in the residents' deposits in foreign currency. It also agreed that the residents' deposits in foreign currency at the CBT include the following components of reserve money: intervention/monetary market in foreign currency, foreign currency of aggregate intermediaries, non-negotiable placement of foreign currencies, and all other items of deposits in foreign currencies created or included in reserve money. At end-December 2012, the value of the stock of deposits in foreign currencies of residents at the CBT was US$1,488.608 million at the program exchange rate.

13. The value of CBT reserve assets and liabilities in foreign currency will be calculated using program exchange rates (see Table above). On December 31, 2012, the value of the stock of net international reserves was US$7.937 billion, with the stock of reserve assets equal to US$8.645 billion and the stock of CBT liabilities in foreign currency equal to US$730.399 million (at program rates).

D. Ceiling on Net Domestic Assets

14. The **CBT's net domestic assets** are defined as the difference between the monetary base and the net foreign assets of the CBT.

15. The **monetary base** includes: (i) fiduciary money (money in circulation outside the banks and cash balances of commercial banks); (ii) deposits of commercial banks at the central bank (including foreign currency and deposit facility); and (iii) deposits of all other sectors at the central bank (i.e., other financial enterprises, households, and companies).

16. The **CBT's net foreign assets** are defined as the difference between the CBT's gross foreign assets, including foreign assets that are not part of the reserve assets, and all foreign liabilities of the CBT. Net foreign assets are valued at the program exchange rate defined in the above table.

E. Floor on the Primary Balance of the Central Government (Excluding Grants)

17. Under the program, the **primary fiscal balance of the central government (excluding grants, on a cash basis)** is measured on a financing basis and will be the negative sum of: (i) total net external financing; (ii) privatization receipts; (iii) net domestic bank financing; (iv) net domestic nonbank financing; *plus* (v) interest on domestic and external debt paid by the central government and *less* external budgetary grants received by the central government.

18. **Total net external financing** is defined as net external loans of the government, that is: new loan disbursements, *less* repayments of the principal. Project and budgetary loans of the central government are included, as well as any form of debt used to finance central government operations.

19. **Privatization receipts** are the government receipts from the sale of any government asset. This includes revenues from the sale of government shares in public and private enterprises, sales of nonfinancial assets, sales of licenses, and the sale of confiscated assets, excluding the confiscation of bank accounts. For the adjustor in NIR (see below), only receipts in foreign currency are included.

20. **Net domestic bank financing of the central government** is the sum of: the change in net bank loans to the central government (in Tunisian dinars and foreign currency) and the change in central government deposits at the CBT (this includes all central government accounts at the CBT, in particular (i) Treasury current account; (ii) Tunisian government account (miscellaneous dinar accounts); (iii) loan accounts; (iv) grant accounts; (v) FONAPRA-FOPRODI accounts; (vi) special account of Tunisian government in foreign currency; (vii) current accounts of paying U.S. Treasury;

(viii) accounts in foreign currency pending adjustment (subaccount: available); (ix) and any other account that may be opened by the central government at the CBT).

21. **Net government borrowing from the banking system** is defined as the change in the stock of government securities (Treasury bills and bonds) held by banks and any other central government borrowing from banks, less repayments. The stock of nonnegotiable bonds issued to banks during the recapitalization of public banks, and which are serviced entirely by the government, is excluded from bank claims on the government.

22. **Net domestic nonbank financing** includes: the change in the stock of government securities (Treasury bills and bonds) held by nonbanks (including social security funds) and any other central government borrowing from nonbanks, less repayments. Total Treasury bills and other public debt instruments to be taken into consideration are calculated at the nominal/face value shown on the institutions' balance sheet and does not include accrued interest.

F. Ceiling on the Accumulation of External Arrears

23. **Arrears on external debt payment** are defined as late payments (principal and interest) on external debt or guarantees as defined in *External Debt Statistics: Guide for compilers*[2] by the central government or the CBT after 90 days from the due date or the expiration of the applicable grace period.

[2] The definition of debt set forth in *External Debt Statistics: Guide for Compilers* reads as the outstanding amount of those actual current, and not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy. Debts owed to nonresidents can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property.

G. Indicative Ceiling on the Accumulation of Domestic Arrears

24. For program purposes, arrears on **domestic debt payment** are defined as amounts owed to domestic financial and commercial creditors that are 90 days or more overdue with respect to a specific maturity date (or as defined in the contractual grace period, if any). If no maturity date is specified, arrears are defined as amounts owed to domestic creditors that remain unpaid 90 days or more after the date on which the contract was signed or upon receipt of the invoice.

H. Indicative Floor on Social Expenditures

25. **Social expenditures** are defined as capital expenditures (development expenditures) on education, health, social transfers to needy families, the AMEL employment training program (and university scholarships), UTSS indemnities, family allocation as well as development expenditures of the Ministry of Women and Family Affairs, Youth and Sports and Social Affairs; all current expenditures ("dépenses de gestion") of the above-mentioned sectors and programs, as well as food and energy subsidies, are excluded.

I. Adjustment Factors for the Program Performance Criteria

26. The **NIR** targets are adjusted upward (downward) if the cumulative sum of net external financing of the central government (excluding project loans and any access to capital markets), the sum of budgetary grants, privatization receipts received in foreign currency, the increase (decrease) in the residents' foreign currency deposits at the CBT are greater (lower) than the levels indicated in the table below. The NIR targets will be also adjusted upward (downward) if the total amount of cash payments on external debt service of the government is greater (lower) than the levels included in the table below.

Assumptions on Adjustment Factors of Quantitative Performance Criteria

(Millions of US dollars)

	31-Dec-12	2013				
		2013 Q1	2013 Q2	2013 Q3	2013 Q4	Year
Government external financing		100.1	309.8	109.8	1719.4	2239.1
Project loans		100.1	109.8	109.8	119.4	439.1
Multilateral donors		0.0	0.0	0.0	800.0	800.0
AFDB					300.0	300.0
World Bank Group					500.0	500.0
Bilateral donors		0.0	200.0	0.0	0.0	200.0
Turkish loan			200.0			200.0
Financial Market Access		0.0	0.0	0.0	799.9	799.9
Sukuk					400.0	400.0
Financial markets+additional Samurai bond issuance					399.9	399.9
Budget grant		21.1	0.0	0.0	227.1	248.1
Privatization receipts		0.0	50.0	50.0	100.0	200.0
Government external debt service		640.7	315.0	213.1	218.3	1387.2
Amortization		524.0	181.7	116.4	149.6	971.6
Interest		116.7	133.3	96.7	68.8	415.5
Resident deposits at the BCT	1,488.6					

27. The net domestic assets (NDA) targets will be adjusted upward (downward) based on the downward (upward) adjustment of the NIR floor if the cumulative sum of net external financing of the central government (excluding project loans and any access to capital markets), the sum of budgetary grants, privatization receipts received in foreign currency, the increase (decrease) in residents' foreign currency deposits at the CBT are lower (greater) than the levels indicated in the following table. The NDA targets are also adjusted upward (downward) based on the downward (upward) adjustment of the NIR floor if the total amount of cash payments on external debt service are greater (lower) than the levels included in the table below. The NDA ceiling will be converted into Tunisian dinars at the program exchange rate.

28. The ceilings on the **NDA of the CBT** will also be adjusted downward or upward based on the amount of CBT reserves released/mobilized because of a possible decrease/increase in the reserve requirement.

29. The floor on the primary balance of the central government, excluding grants, will be adjusted upward/downward based on the amount used to recapitalize the public banks. The recapitalization amounts for 2013 are assumed to be 500 million dinars (Q4 2013).

J. Monitoring and Reporting Requirements

30. Performance under the program will be monitored using data supplied to the IMF by the Tunisian authorities as outlined in the table below, consistent with the program definitions above. The authorities will promptly transmit to the IMF staff any data revisions.

Information to be reported in the Context of the program

Type of Data and Description	*Periodicity* *Weekly (w)* *Monthly (m)* *Quarterly (q)*	*Delay in days*
GDP: Supply and demand at current, constant, and the previous year's prices, including sectoral indices.	*q*	*45*
Inflation: Including the underlying inflation of non-administered and administered prices.	*m*	*14*
Fiscal Sector		
Tax and nontax revenue of the central government decomposed on the basis of main tax and nontax revenues items	*m*	*30*
Total expenditures: current and capital, transfers and subsidies.	*m*	*30*
Capital expenditure: by type of financing: domestic and external (differentiating loans and grants), and by main sectors and projects (agriculture, social, infrastructure).	*m*	*45*
Current expenditure: by type of expenditure: wages, goods and services, transfers.	*m*	*45*
Social expenditure	*q*	*45*

Domestic and foreign debt		
Stock of domestic and foreign debt: of the central government and debt guaranteed by the government, with breakdown by instrument and type of currency (in dinars and foreign currency with the equivalent in domestic currency).	*q*	*30*
Disbursement of foreign loans: Breakdown into project loans and budgetary loans by principal donor and identifying the most important projects to be financed in the original currency and its equivalent in Tunisian dinars converted at the current exchange rate at the time of each transaction. **Domestic borrowing from banks and nonbanks:** including bonds, Treasury bills, and other issued securities.	*m*	*30*
Debt guaranteed by the government: by instrument and type of currency (in dinars and in foreign currencies and its equivalent in national currency) **External and domestic debt service:** amortization and interest.	*m*	*60*
External payment arrears: external debt contracted and guaranteed by the government.	*q*	*30*
Debt rescheduling: possible rescheduling of debts contracted and guaranteed by the government, agreed with creditors.	*q*	*45*
Consolidated accounts of the central government at the CBT: The stock of deposits will be broken down as follows: (i) Treasury current account; (ii) special account of the Tunisian government in foreign currency and its equivalent in dinars; (iii) miscellaneous dinar accounts; (iv) loan accounts; (v) grant accounts; (vi) FONAPRA-FOPRODI accounts; (vii) current accounts of the U.S. Treasury; and (viii) ordinary accounts and accounts pending adjustment (including in foreign currency pending allocation) with a breakdown between the amount in foreign currencies and its equivalent in domestic currency).	*m*	*30*

External Sector		
Imports of Petroleum Products: average import price of main petroleum products.	*m*	*30*
Foreign trade: imports and exports of goods, including volumes and prices, by sector.	*m*	*30*
Deposits: Stock of foreign currency deposits, according to the residence of the holder.	*m*	*14*
External debt:	*q*	*30*
Debt service (amortization and interest) of institutional agents by instrument and at type of currency (in foreign currency and its equivalent in dinars).	*m*	*30*
Stock of external debt of institutional agents by instrument and type of currency (in foreign currency and its equivalent in dinars) (in conformity with our obligations under SDDS).	*q*	*90*
Overall net external position of Tunisia (in conformity with our obligations under SDDS).	*q*	*90*
Balance of payments: Prepared by the CBT	*q*	*30*
Monetary and Financial Sector		
CBT accounts at the current exchange rate: detailed table including the monetary system.	*m*	*30*
CBT accounts at the program exchange rate: Including net international reserves.	*m*	*30*

Foreign exchange market operations: Interbank market, retail market and wire transfers for CBT purchases on the retail market, CBT sales and purchases on the foreign exchange market, foreign exchange operations and outright forward sales, stock of CBT foreign exchange operations, including foreign exchange operations and outright forward sales. The terms and conditions of any new transactions (including the extension or renewal of existing terms and conditions) will also be provided. CBT foreign exchange reserves, breakdown by currency and by instrument, and the institutions where such reserves are held.	*m*	*30*
Banks' financial soundness ratios: Indicators of financial soundness and regulatory capital adequacy ratios of the banking system, including the quality of assets and the profitability of banks. The indication of the different banks is optional.	*m*	*30*
Direct refinancing of commercial banks by the CBT: Breakdown by bank.	*m*	*14*
Interest rates: Deposit rates, interbank rates, and lending rates.	*w*	*14*
Other information to be reported		
Information on Fiscal, Monetary, and Financial Policy: Decrees or circulars newly adopted or revised concerning changes in tax policy, tax administration, foreign exchange market regulations, and banking regulations. A copy of official notices of changes in gas and electricity rates and any other surcharge (automatic or structural), as well as the prices of petroleum products and levies/surcharges on gas and petroleum.	*d*	*3*