

## **TUNISIA—PROGRAM NOTE**

**Current IMF-Supported Program:** A 48-month Extended Fund Facility (EFF) in the amount of SDR 2.046 billion (US\$2.9 billion, amounting to 375 percent of Tunisia's quota), was approved by the Executive Board of the IMF on May 20, 2016. To-date, US\$319.5 million has been disbursed.

### **Background**

With the implementation of the IMF-supported Stand-By Arrangement (SBA) that expired in December 2015, Tunisia has managed to preserve macroeconomic stability and initiate fiscal and banking reforms in a context marked by a prolonged political transition, spillovers from the crisis in Libya, and numerous exogenous shocks, including tragic terror attacks. The policies supported by the recently-expired SBA led to gradual fiscal consolidation, lower energy subsidies, reduced inflation, stable reserve buffers, a stronger monetary policy framework, and a reduction in banking sector vulnerabilities (including the recapitalization of public banks). More recently, parliamentary approval of key legislation in the banking sector (banking, bankruptcy and central bank law) would strengthen the stability and efficiency of the banking sector and contribute to private sector credit growth.

Important challenges remain: growth has remained below expectations, productivity is declining, unemployment remains high, budget composition has become less growth-oriented, the dinar remains overvalued, external imbalances are high, banking sector fragilities remain, and progress on business climate reforms has been uneven.

### **Role of the IMF**

The Tunisian authorities have designed a comprehensive reform program, detailed in their five-year development plan, to promote stronger and more inclusive growth while protecting the most vulnerable households, which is supported by the IMF EFF. Key pillars of this home-grown economic and financial reform program are to:

- Consolidate macroeconomic stability by pursuing: (i) an appropriate fiscal policy that creates fiscal space for priority capital spending and aims at putting debt on a downward path; (ii) a prudent monetary policy aimed at containing inflation; and (iii) greater exchange rate flexibility that helps preserve reserves in the face of important exogenous shocks.
- Reform public institutions to increase the efficiency of public services, improve budget composition, safeguard fiscal sustainability, and strengthen anti-corruption efforts. To improve budget composition, including through containing the wage bill to 12 percent of GDP by 2020 while doubling pro-growth capital spending, it is essential

to reform taxes, energy subsidies, pensions and the civil service. Strengthening the monitoring and performance of state-owned enterprises is necessary to improve service delivery and reduce fiscal risks. The establishment of a high-level anti-corruption entity—among other anti-corruption initiatives—will protect the citizens against state abuse and set clear rules for conflicts of interests.

- Facilitate financial intermediation and strengthen banking sector resilience through continued progress on public bank restructuring, a proper resolution framework, a risk-based supervision system, and strengthened regulations. Financial inclusion will be developed through new credit bureaus, the revision of the cap on excessive lending rates, and the development of financing mechanisms for small and medium enterprises and microenterprises.
- Improve the business climate through the implementation of recently approved laws on competition and PPPs, the adoption of a new investment code to reduce barriers to entry and protecting investors' right, and further streamlining of burdensome administrative procedures.

The IMF will also continue to support Tunisia through technical assistance in tax policy and administration, monetary policy framework, banking supervision, debt, and treasury management.

### **The Challenges Ahead**

The key challenges facing the authorities are to:

- Reform public institutions, which requires wide consultations with all stakeholders. Early action on these reforms—including politically and socially difficult civil service and pension reforms—is essential to create the fiscal space necessary for higher priority spending to generate more inclusive growth. Strong communication efforts on the reform rationale—within an overall reform package that promotes greater equity (in particular through tax reform)—are necessary to garner broad-based support for reforms.
- Reduce banking sector fragilities by implementing the restructuring plans of public banks, implementing a risk-based supervision system, and strengthening regulations in line with international best practices.
- Implement a comprehensive structural reform agenda to promote private-sector development and create jobs, including through the adoption of the investment code and the implementation of the PPP and competition laws.

The commitment of the authorities and a broad spectrum of stakeholders to the reform agenda is essential to the success of the program.