International Monetary Fund

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

March 2018

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.

Letter of Intent

Tunis, March 14, 2018

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

Madame Managing Director,

1. Economic results in 2017 were generally positive. After two years of low growth, activity improved and growth reached 1.9 percent. This result was not only due to an improved security situation, but also to a rebound in confidence among Tunisians and our foreign partners. Investment intentions reached their highest levels since 2011, and tourist arrivals were up sharply, close to the levels of 2010. Today, the government is more determined than ever to reform the Tunisian economy into one that is dynamic and creates opportunity for all Tunisians. Our recovery program is based on a new concept of the government's role in the economy: support the economy and create the conditions for a favorable environment, allowing the private sector to fully play its role in generating economic growth. The courageous 2018 Budget Law seeks to rebalance public finances, while at the same time supporting macroeconomic growth and enhancing fairness. The Central Bank of Tunisia (CBT) increased its policy interest rate by 75 basis points in early March to mitigate inflation pressures that accelerated over recent months; the CBT stands ready to continue with monetary tightening in case inflation does not slow.

2. We have made important progress on structural reforms. We created an investment framework under the new Investment Code, which went into effect on April 1, 2017 and established the Strategic Investment Council and the Tunisian Investment Authority. The latter will operate as the one-stop shop for new investors in Tunisia. Economic reforms have already started to produce results. However, the implementation of structural reforms needs to be faster, especially of those that the IMF's Extended Fund Facility (EFF) arrangement supports. To better achieve this objective, the government has a new ministerial post in charge of major economic reforms, which will improve oversight of these critical economic and social measures.

3. Even if the political transition may sometimes appear slow and difficult, we reassure our friends and partners that Tunisia's choice for democracy is irrevocable. The upcoming municipal elections will be one more step to the establishment of democratic institutions. Moreover, the economic transition continues in its efforts to meet the legitimate expectations of our fellow countrymen. To accomplish this mission, we know that we can count on our international friends and partners for support. In this respect, the partnership with the IMF continues to be the main

anchor for our economic reforms. Beyond financial support, technical assistance (TA) from the IMF and other partners is a significant contribution towards implementing the types of policies that will modernize our economy. Our participation in the G20 initiative *Compact with Africa* is part of this approach and enables us to mobilize more foreign support, including private foreign investment as well as budget support and TA.

4. Performance under the four-year EFF arrangement has been mixed. As expected, we missed all four end-December 2017 Quantitative Performance Criteria (QPC): the floor on the primary balance, the ceiling on net domestic assets (NDA), the floor on net international reserves (NIR), and the ceiling on the total current primary expenditure. At end-June 2017, however, we had met the targets for the NIR and total current primary expenditure, but missed the ones on the primary balance and NDA. We observed the continuous Performance Criterion (PC) on the ceiling on the non-accumulation of new external arrears, but missed that on the non-imposition of exchange restrictions, as the CBT introduced temporary legislation that bars trade credit for certain non-essential imports. The Indicative Target (IT) on social expenditures was met in June and December 2017. As to the structural reform agenda, we met five Prior Actions for the Second Review and, by end-February, completed two of the 14 agreed Structural Benchmarks (SBs) on time and one with delay. Substantial progress was made on many others.

5. To facilitate program implementation and address macroeconomic vulnerabilities, the government requests a shift towards quarterly reviews of the EFF arrangement, supported by the proposed new QPCs for March, June, September, and December 2018; a new monthly Indicative Target on the ceiling of the CBT's net FX interventions; and a rephasing of remaining access consistent with the new schedule. We agree with the new timetable for SBs as described in the Memorandum of Economic and Financial Policies (MEFP Tables 1 and 2) and the attached Technical Memorandum of Understanding (TMU). Finally, regarding our recent *Circulaire* that restricts bank financing for import activities of certain products, we request (i) a waiver of non-observance of the continuous PC related to the exchange restriction, based on the corrective actions taken, and (ii) an approval of the exchange restriction, as the measures giving rise to this exchange restriction are maintained for Balance of Payments reasons, are not discriminatory, and are temporary.

6. Based on the implementation of our macroeconomic policies aimed at achieving the main objectives of the program and ongoing progress with the agreed structural reforms, the government is requesting the completion of the Second Review under the four-year arrangement under the EFF and the purchase of an amount equivalent to SDR 176.7824 million under the new phasing of purchases. We are also requesting a waiver for non-observance of the QPCs on the primary balance, total current primary spending, NDA, and NIR for end-December 2017 based on corrective measures that have since been taken.

7. This Letter of Intent is based on the previous Letter of Intent and MEFP dated May 29, 2017. The attached MEFP outlines the main points of our reform agenda and the policies of the government, as well as those of the CBT, which we plan to implement over the period 2018–20. We are determined to rigorously implement this program, notwithstanding the complex national, regional and international context that we are facing.

8. We are confident that the policies described in the attached MEFP are appropriate for achieving the objectives of our economic program consistent with the *Pacte de Carthage*. In addition, we remain vigilant and stand ready to take any additional measures that may be necessary to achieve our objectives. In accordance with the IMF consultations policy, we will consult with IMF staff on the adoption of these measures and before making any revisions to the macroeconomic policies contained in the MEFP. All information and data necessary for program monitoring and TA missions requested under the EFF-supported program will be provided to the IMF within the agreed timeframes.

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

Very truly yours,

/s/

Mohamed Ridha Chalghoum

Minister of Finance

/s/

Marouane El Abassi

Governor of the Central Bank

Attachments (2):

1. Memorandum on Economic and Financial Policies
2 Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

This memorandum describes the main features of our reform program, which aims to promote stronger and inclusive growth while maintaining macroeconomic stability.

1. **Accelerating growth and job creation for all Tunisians is an overarching objective that we, in Tunisia, put above all political differences.** The *Pacte de Carthage* remains at the heart of our reform agenda, which is built on consensus around the necessary reforms to bolster the ongoing recovery through investment, exports and private-sector dynamism. In addition to economic objectives, these priorities are necessary for the democratic transition to succeed. Our progress may seem slow, but we are forging ahead. Sometimes we must make difficult choices, but no compromise we reach will ever jeopardize socioeconomic stability. We are keenly aware of the necessity to maintain the good health of public finances and external balances. Stabilizing debt will avoid excessively penalizing future generations and create the necessary fiscal space to finance infrastructure, education, public health, and reduce unemployment. This strategy will put Tunisia on the right track for the near and distant future.

2. **Support from our international partners will remain essential**. We are determined to seize the opportunity offered to us to reinvigorate our reform agenda, mainly through Tunisia's participation in the G20 initiative Compact with Africa. However, this ambition will also depend on the willingness of the international community to support Tunisia's democratic transition, an experience that could serve as a model for other countries in the region. The reform program supported under the IMF's Extended Fund Facility (EFF) arrangement is a concrete example of this mutual trust and demonstrates our resolve to strengthen Tunisia's integration into the global economy, particularly through sound macroeconomic management.

A. A Nascent but Fragile Recovery

3. **A nascent recovery**. Economic growth reached 1.9 percent in 2017, twice as high as in the two previous years. A recovery in manufacturing—thanks to a more favorable environment in Europe, stronger phosphate production, and a good touristic season—facilitated by a more stable security situation, were the drivers of the recovery. However, even at this higher level, growth still falls short of our ambitions and the expectations of our fellow citizens, particularly young graduates looking for jobs. In terms of demand, consumption remained the main driver of growth, while investment (private and public) is yet to reach satisfactory levels. We are fully aware that consumption-based growth will not be sustainable in the medium term, given Tunisia's debt constraints and rising macroeconomic pressures.

4. **A difficult social situation**. Inflation accelerated to reach 7.1 percent in February 2018, driven by significant wage increases, the depreciation of the dinar, and the unavoidable increase in several administered prices. At the same time, unemployment remains a major concern for all Tunisians, with the nationwide unemployment rate at 15.5 percent at end-2017. Moreover, unemployment is distributed unevenly, despite our efforts for more equity. It continues to

particularly affect the young, university graduates, and women. Regional disparities are also a major concern, with unemployment rates that range from less than 10 percent in the coastal regions of eastern Tunisia to over 25 percent in the interior regions of the south and west.

5. An expansionary fiscal policy. In 2017, the budget deficit (excluding grants) reached 6.1 percent of GDP, in line with the 2017 Supplementary Budget Law. Wage bill overruns (+0.5 percent) were offset by slightly higher tax revenue (+0.1 percent), mainly due to the collection of arrears (about TD 300 million, or 0.3 percent of GDP), and a significant recovery in nontax revenue mostly from the oil sector (about TD 600 million, or 0.6 percent of GDP). This deficit had an impact on public debt, which reached TD 69 billion (71 percent of GDP) at end-2017. This level of debt strains our public finances and exacerbates the burden for future generations. One of our main objectives is to lower public debt to obtain the fiscal space necessary to support growth and reduce poverty.

6. External sector under pressure. The current account deficit continued to worsen in 2017, reaching the record level of 10.1 percent of GDP, despite a recovery in manufacturing exports and a better tourist season. Demand for imports has remained strong, especially for consumer goods, even if import volumes seemed to be slowing down in the last quarter of 2017. Consequently, the foreign exchange (FX) reserves of the Central Bank of Tunisia (CBT) dropped by US$215 million over the course of 2017. The interbank market for foreign exchange experienced a serious liquidity squeeze due to the persistently high current account deficit, but also due to a wait-and-see attitude among banks and some economic actors. This development coincided with a considerable increase in foreign currency holdings in the "professional foreign currency accounts."

7. Adjusting monetary and exchange policies. To protect the CBT's FX reserves and improve the persistent current account deficit, we chose to introduce greater flexibility in our exchange market. Reflecting market forces of supply and demand for foreign currencies, the dinar depreciated 10 percent on a real basis in 2017. At the same time, we have started to tighten monetary policy to ward off inflationary pressures originating from the depreciation. We raised the policy rate at three instances by 150 basis points in total since early 2017, bringing it to 5.75 percent today. Further, we widened the interest rate corridor around the policy rate by an additional 150 basis points to 200 basis points. Despite policy rate increases and a quantitative limit of TD 7 billion for seven-day tender auctions with commercial banks enforced since July 2017, banking sector refinancing with the CBT has reached a record level and exceeded TD 12 billion in January 2018. This reflects strong pressures on commercial bank liquidity.

8. Tensions in the banking sector. A growing shortage of liquidity characterizes the banking sector. Deposit mobilization in 2017 improved, but still remained insufficient to alleviate growing pressures on commercial bank liquidity related to a set of liquidity-draining autonomous factors, including high demand for government financing, which contributed to the excessive use of the central bank refinancing facilities. Likewise, structural difficulties persist in resolving non-performing loans (NPLs). The capital adequacy ratio of the banking sector remained broadly unchanged at about 11 percent, supported by bank profits. But the ratio of NPLs remains high: roughly 15 percent of total assets are non-performing, covered by a 65 percent provisioning rate. Moreover, access to credit continues to be an obstacle for small- and medium-sized enterprises (SMEs). Total private-sector credit, which stood at about 80 percent of GDP at the end of 2017, consists primarily of loans to large enterprises as well as to households.

9. Persistent uncertainty. Encouraged by considerable progress in the political transition, Tunisians have legitimate economic expectations. They expect tangible improvements in their standard of living in the short term. At the same time, it will take time for the structural reforms that we are now putting in place to have their desired effects. Our efforts to overhaul the economy may therefore face a new spell of uncertainty. However, postponing the necessary reforms will be even more costly, further exacerbating macroeconomic imbalances and deterring external financing. Similarly, in a different area and despite the considerable progress made by security forces, terrorism continues to pose risks to our security environment.

10. Inevitable reforms for the benefit of all Tunisians. The remainder of this document presents the government's plans to stabilize public finances, improve external balances, contain debt, and boost growth. Priority areas include efforts to reduce fiscal deficits and combat inflationary pressures (Section C). At the same time, structural reforms will create more opportunities for Tunisians, in terms of jobs as well as in terms of creating wealth (Section D). With stronger and more inclusive growth, Tunisia will honor the promise of the Revolution.

B. Strengthening the Implementation of the EFF Arrangement

11. Only some of the program's quantitative objectives were met, reflecting the political and social constraints that affected economic performance in 2017:

- After meeting the end-June 2017 target, the end-December 2017 Quantitative Performance Criterion (QPC) on **net international reserves** (NIR) was missed. This was due to the sluggish performance of the current account with a higher-than-envisaged deficit, reflecting mainly higher-than-expected energy imports and the absent recovery of phosphate exports. To keep the exchange market in good working order, the CBT carried out substantially more net FX interventions than planned, which generated additional pressure on the stock of reserves.

- The end-December 2017 QPC and end-June 2017 target on **net domestic assets** (NDA) were missed. The pressure on commercial bank liquidity persisted, leading banks to make up for their liquidity shortfall by resorting to record levels of refinancing from the central bank. To better manage commercial bank liquidity, we limited the liquidity offered in the weekly tender to TD 7 billion since July 2017, encouraging banks to reduce their recourse to central bank refinancing through using other money market instruments.

- The end-December 2017 QPC and end-June 2017 target on the **fiscal deficit** were missed, mainly due to unanticipated overruns in the wage bill that could not be fully offset by corrective measures taken on the wage bill (hiring limits) and on nonpriority investments.

- The end-December 2017 QPC on **total current primary expenditures** was missed, while the end-June 2017 target had been met.
- The IT on **social spending** was met in June and December 2017.
- The continuous performance criterion (PC) on the **non-imposition of new exchange restrictions** was not observed due to the CBT's decision to restrict bank financing for certain products in October 2017.

12. We implemented crucial Structural Benchmarks (SBs) and reprogrammed delayed SBs.

Met SBs:

- *Governance and private sector development*. More than ever, we are determined to fight corruption and impunity. Given this irrevocable commitment of the government, we published the statute establishing the High Anti-Corruption and Good Governance Authority in September 2017.
- *Financial sector reform*. With delay, we completed the inspections of the seven largest private banks. As a result, the risk management capacity of the banking supervision department has improved significantly in January 2018. We also adopted a decree under Article 474 of the Commercial Code, creating a standing committee to guide the Minister of Finance on measures to settle debts of the central government, local governments and public establishments.
- *Budgetary policy and reforms of public institutions*. The circular that set off the preparation of the 2018 Budget Law, published last May, limited new recruiting into the civil service to the graduates of state training schools. Consistent with the civil service reform strategy and our objective to contain the wage bill, hiring will be capped below 3,000 civil servants for 2018.

Reprogrammed Delayed SBs:

Governance/Private Sector Development

i. To make the new High Anti-Corruption and Good Governance Authority fully operational, after their selection by the Assembly of the People's Representatives (ARP), the members will take oath before the President of Republic, followed by the signature of the appointment decree (*reprogrammed SB*, June 2018). The other steps required under this SB have already been completed as a Prior Action (PA) for the Second Review under the EFF, notably: (i) adequate resources for the High Authority in the 2018 Budget Law; (ii) the call for applications for the members of the High Authority's executive board; and (iii) a government decree fixing their remuneration. This PA also included the finalization of the performance contracts with four of the five largest public enterprises (STEG, STIR, Office des Céréales, and Régie des Tabacs), which now incorporate in their annexes indicators of the companies' financial performance.

ii. The survey that aims at identifying vulnerable households made considerable progress. It was completed for 450,000 households. The full survey for 900,000 households will be completed by the end of 2018 (*reprogrammed SB*, December 2018). The implementation of a targeting system remains a priority for the government to reduce the fragmentation of social assistance programs and improve resource allocation in a context of significant resource constraints.

Financial Sector Reform

iii. The Council of Ministers (CMR) passed a new legal framework to facilitate the resolution of NPLs in public banks in February 2018 as a PA for this Review under the EF. We will make members of Parliament aware of the economic and social importance of these draft laws and are working to publish them in the Official Journal of the Republic of Tunisia after their adoption (*reprogrammed SB*, June 2018).

iv. The ARP is expected to adopt the new law on the lending rate ceiling in the first half of the year (*reprogrammed SB*, May 2018).

Budgetary Policy and Reforms of Public Institutions

v. The reform of the social security system is a major challenge. In Tunisia, all stakeholders are aware of the urgency of the situation and they share the same assessment: without reform, the financial stability of social security funds is at risk. The dialogue on the parametric components of the reform is in progress and the revised schedule provides for the draft law to be approved by the CMR in the coming months (*reprogrammed SB*, April 2018). However, the reform agreed upon by social partners only covers some of the components necessary to ensure the medium-term sustainability of the social security funds. Therefore, the tripartite committee consisting of the government, the UGTT public sector union and the UTICA employers' federation will continue its work to review the impact of the reform measures that were taken and propose others as necessary to ensure the medium- and long-term financial stability of the funds. To improve the financial viability of social security in the short run, we transferred TD 200 million of public sector liabilities to the CNSS pension fund as a PA for the Second Review under the EFF, and will continue to clear arrears throughout 2018.

vi. The functional reviews of the Ministries of Education, Health and Finance were completed in December 2017. The review of the Ministry of Public Works was delayed due to the lengthy procurement process and the identification of suitable experts for conducting the review but will be concluded in the first half of 2018 (*reprogrammed SB*, June 2018).

vii. The preparation of the contract for TUNISAIR has yet to be completed due to labor negotiations that are underway as part of the restructuring process. This contract should incorporate the financial performance indicators and will be signed before the end of 2018 (*reprogrammed SB*, December 2018).

viii. The financial commission of the Parliament started reviewing the Organic Budget Law and will transfer the draft to the plenary session for approval (*reprogrammed SB*, December 2018).

ix. The purpose of the General Taxation, Public Accounting and Recovery Committee, whose organization will be established by decree, is to create a unified administration that performs the roles of the two general directorates (particularly control and arrears recovery). The processes will be entirely integrated to ensure greater efficiency. In the umbrella organization, the large taxpayer unit (LTU), a pillar of the umbrella structure, is partly operational. The next to make it fully operational will be to bring together the audit and recovery functions within the LTU (*reprogrammed SB*, December 2018). Pending the full implementation of the LTU, the objective to unify tax functions will be achieved by merging the audit functions (in-depth verification) and tax arrears recovery (collection) in the new committee, which is the umbrella structure for the tax administration created by the 2018 Budget Law (*new SB*, July 2018). At the end of this process, the *Direction des Grandes Entreprises* (DGE) will be the sole contact point for 200 large enterprises regarding tax matters.

x. In 2017, the social context was not conducive to the repeated application of the automatic fuel price adjustment mechanism. Nevertheless, we implemented an *ad-hoc* increase greater than the increase prescribed by the mechanism in July 2017 (about 6½ percent) to partially catch up the distance from fuel prices at the pump relative to what would have been prescribed by the mechanism if applied consistently through the end of the first quarter of 2017. Moreover, we implemented another increase in January 2018 as a PA for the Second Review under the EFF. But to soften the simultaneous impact of the VAT increase rate in the difficult social context that we witnessed in January, the increase remained below what the formula would have called for. We remain however committed to apply quarterly adjustments to reduce the elevated energy subsidy bill (*continuous reprogrammed SB*, from March 2018). We are also determined to make additional adjustments to other energy products, such as electricity, gas and Liquefied Petroleum Gas (LPG), as needed to stay on budget.

Monetary policy

xi. We have started to use an auction mechanism to implement the central bank's FX interventions in August 2017. So far, however, auctions have not been executed in a fully competitive fashion. Going forward, we will improve the auction mechanism, potentially seeking IMF technical assistance (TA) (*reprogrammed SB*, June 2018).

Trade Policy

13. Entrenching economic openness through free trade. Since independence, Tunisia has always strived to be fully integrated into the global economy, and trade has always been a strategic source of income for Tunisians. We are determined to preserve this economic asset, especially during this difficult period. In the interest of promoting trade and observing our commitments to the international community, we will phase out by the end of 2018 the Circular No. 2017/09, which limits access to bank credit for financing imports of certain non-priority goods.

C. Dealing with the Macroeconomic Vulnerabilities

14. Economic activity should continue to pick up in 2018. The strength of the ongoing recovery continues to depend on containing internal and external imbalances and implementing reforms on time. Without reforms, uncertainty would prevent a sustainable improvement in investment. Consequently, our efforts aim at protecting short- and medium-term macroeconomic stability, a prerequisite for growth. The growth path should improve, reaching 2.4 percent in 2018 and 3.4 percent in 2020, mainly due to strong performance of the phosphate sector and upstream chemical industries, but also agriculture on the back of a favorable olive harvest. Export industries and tourism should also be sources of growth in 2018 and beyond.

Text Table 1. Decomposition of GDP Growth, 2017–20

	2017		2018		2019		2020	
	Growth contribution	GDP share	Growth contribution	GDP share	Growth contribution	GDP share	Growth contribution	GDP share
Real GDP growth	1.9	100.0	2.4	100.0	2.9	100.0	3.4	100.0
Sectors	1.8	80.9	2.3	80.9	2.7	81.1	3.2	82.3
Agriculture	0.3	10.0	0.4	10.3	0.2	10.0	0.4	10.0
Manufacturing	0.2	16.6	0.7	16.6	0.7	16.6	0.6	16.8
Non-manufacturing	-0.4	9.3	0.1	9.3	0.3	9.5	0.4	9.7
Services	1.7	45.0	1.1	44.6	1.4	44.9	1.8	45.9
Public administration	0.2	19.1	0.1	19.1	0.2	18.9	0.2	17.7

Sources: Tunisian authorities; and IMF staff estimates and projections.

15. Our strategy for addressing elevated vulnerabilities is based on three priorities. Given recent unsustainable trends of public finances and external accounts, an adjustment is unavoidable. Our choice is to achieve this adjustment in an orderly way with the burden shared fairly across society, and with view to protect the vulnerable members of society. If we do not decide to adjust today, we run the risk of continuing the status quo, which could lead to an economic crisis with even higher costs than the policies needed today for maintaining macroeconomic stability. Our strategy will center on the following priorities: (i) proactive and well-designed fiscal consolidation; (ii) tighter and adequate monetary policy to decelerate inflation; and (iii) continued exchange policy flexibility.

16. Our medium-term fiscal strategy is to lower the deficit excluding grants to no more than 3.0 percent of GDP by 2020 and the wage bill to 12.4 percent. Our strategy is based on the following pillars: (i) a gradual reduction in the number of civil servants, mainly through negotiated voluntary departures, voluntary early retirement, and strict limits on hiring to take advantage of natural attrition; (ii) no further salary increases over 2018–20 unless growth substantially improves relative to baseline projections and provided the wage-bill-to-GDP ratio can be maintained on a downward trajectory towards 12.4 percent of GDP; (iii) a decrease in energy subsidies through quarterly automatic price adjustments with the goal of eliminating these subsidies in the medium term (*reprogrammed SB*, from March onwards); (iv) comprehensive social security reform, including continued parametric reform of pensions; and (v) revenue mobilization. Regarding the latter, we expect to obtain considerable budget support from our multilateral partners over the period

2018–20, including from the World Bank (US$1,500 million), the European Union (US$650 million), the African Development Bank (US$490 million), and bilateral partners.

17. This fiscal strategy is not free of risk. The risks are primarily related to uncertainties regarding growth, external developments (especially international oil prices), and Tunisia's political and social context, which remains difficult. To contain these risks, we decided to implement deep reforms starting in 2018, based on the priorities described in the paragraph above. In addition, we have started a dialogue with civil society on the necessity of having everyone share in the efforts, and, as indicated below, we have designed measures that are socially equitable.

18. There will be a major effort to mobilize revenue in 2018. The 2018 Budget Law contains a set of tax and other revenue measures that will yield additional revenue of about 2.2 percent of GDP. These measures include an increase in the VAT rates of 6 percent, 12 percent, and 18 percent to 7 percent, 13 percent, and 19 percent, respectively. We also raised excise taxes on some goods, such as tobacco, alcohol and automobiles. Some import duties were increased as well for fiscal reasons. These tax measures are permanent and will replace the temporary 2017 measure on corporate taxation (0.9 percent of GDP). They were designed to limit the negative impact on growth and job creation. Overall, the tax burden on businesses will not change, and the emphasis placed on VAT will reduce any negative effect on investment. Moreover, we will implement a catalogue of 10 measures that were already adopted in the 2014–17 Budget Laws to increase collection of tax revenue, especially from liberal professions,[1] but were so far not enforced. The increase in oil prices has generated additional nontax revenue. Transfers from public oil companies to the central government should increase by about TD 300 million compared with the projections retained in the 2018 Budget Law.

[1] Those are professions that derive profit from intellectual activity.

Text Table 2. Revenue Measures, 2018

	Millions de DT	Pourcentage du PIB
Total permanent revenue measures	**2,288.0**	**2.2**
Direct taxes	**138.0**	**0.1**
Introduction of a 5 percent duty on the profits of financial institutions	71.0	0.1
Increase in the dividend tax rate from 5 to 10 percent	58.0	0.1
Increase in CIT to 10 percent for selected firms	6.0	0.0
Increase on taxes in non-resident bank interest	3.0	0.0
Indirect taxes	**395.0**	**0.4**
Increase of one point in the 18 and 6 percent VAT rates	313.0	0.3
VAT exemption removal	3.0	0.0
Impact of the revision of customs duties and consumption tax on VAT receipts	50.0	0.0
Introduction of a tax on freight containers	29.0	0.0
Excise tax	**320.0**	**0.3**
Other measures	**935.0**	**0.9**
Solidarity contribution on the income of natural persons	300.0	0.3
Increase in the customs duties of certain agricultural and food products	242.0	0.2
Increase in the advance payment on imported consumer products from 10 to 15 percent in 2018 and 2019	114.0	0.1
Introduction of a customs duty on the export of edible oils	3.0	0.0
Increase in internet card surcharges	96.0	0.1
Increase in the tobacco price	65.0	0.1
Introduction of a tourist tax in hotels of 3 dinars per day	51.0	0.0
Increase in stamp duty on certain documents	25.0	0.0
Increase in chancellery fees	13.0	0.0
Increase in the single insurance tax rate from 5 and 10 to 6 and 12 percent, resp	26.0	0.0
Collection efforts (including tax arrears)	**500.0**	**0.5**
Memorandum item:		
Nominal GDP	106,178.6	…

Source: Tunisian authorities.

19. Prudent expenditure management will be necessary:

- **Wage bill**. After the adoption of the law on negotiated voluntary departures in January 2018, we are targeting the departure of 20,000 civil servants as follows: 10,000 negotiated voluntary separations; 6,400 voluntary early retirements; and the rest would come from natural attrition. Based on the expected cohort of volunteers, the total budget savings from the 10,000 negotiated voluntary separations will be about TD 280 million. An additional effort to bring the number of voluntary separations to 15,000 civil servants would generate about TD 420 million of savings on an annual basis. Due to the departure schedule, only a share of these savings (TD 320 million) will be realized in 2018, with the remainder occurring from 2019. To finance the volunteer financial packages, we are now talking to our external partners about dedicated budget support. At the same time, about 6,400 civil servants have expressed an interest for early retirement, which will generate additional savings of TD 120 million per year. As a result of the departures (negotiated and early retirement), an equivalent number of positions in the civil service will be eliminated. Redeployment of existing personnel will provide a way to avoid disrupting the quality of public services. Finally, with hiring limited to 3,000 persons in 2018, we will obtain another net decrease in the wage bill through natural attrition on top of the effect of the two aforementioned programs. Through centralized negotiations starting this year, mainly through the 5+5 committee with the mandatory presence of the Ministry of Finance, we will be able to avoid any decentralized salary negotiations. This will strengthen the link between productivity and wage increases. In the interest of budget transparency, we will eliminate the use of tax credits entirely starting in 2019.

- **Energy subsidies**. Effective January 1, 2018, we raised the price of hydrocarbons at the pump by 50 millimes per liter and 300 millimes per bottle. This amounts to an *ad-hoc* increase of 4.1 percent for gas oil and gas bottles, 3.3 percent for gas oil without sulfur, and 2.9 percent for unleaded premium. To cushion the impact of the simultaneous application of the higher price of oil and the measures in the 2018 Budget Law (particularly the increase in the VAT rate), we decided to remain below the five percent price increase indicated by the fuel price adjustment mechanism. For 2018, we are committed to containing the total spending on energy subsidies at TD 2,108 million. The 2018 Budget Law was based on TD 1,500 million, underpinned by an oil price of US$54 per barrel. This remains our point of reference. However, under the assumption of a price of US$62, we will likely not be able to maintain the same objective without proceeding with price increases that would undoubtedly jeopardize social cohesion and the stability of the country. As a result, we decided to increase the maximum budget allocation for energy subsidies by TD 608 million. Based on total spending of 2,108 million and a price of US$62 per barrel, the required energy price increases for 2018 will amount to an average 13 percent. We will make gradual adjustments every quarter to meet this ceiling of TD 2,108 million (*continuous reprogrammed SB*, from March 2018). If average oil prices were above US$62, then we would make additional price adjustments as needed. A "task force" was set up, under the chairmanship of the Minister of Major Reforms, to monitor the fiscal risks associated with fluctuations in oil prices and to propose measures necessary for strict compliance with the budgetary target under the program.

- **Social security funds**. Our general strategy is to restore the financial viability of the public (CNRPS) and private (CNSS) pension funds. Achieving financial balance will enable them to honor their contributions to the medical insurance fund (CNAM), thus also restoring its financial viability. For 2018, the CNRPS's financial needs will in part be covered by implementing a reform of contribution rates (+1 point for employees and +2 points for employers) as well as by additional revenue generated by the new social welfare tax (CSS). According to our estimates, there will still be a gap of roughly TD 150 million, which will be filled from the budget's unallocated expenditures (this buffer amounts to a total of TD 400 million). The CNSS is co-managed with social partners. The effort to restore its financial soundness must be decided by the government and social partners. The central government will contribute indirectly to restoring its financial balance through a plan to clear the arrears of public entities to the CNSS. We already recovered about TD 200 million of arrears by February 2018, even if this remains below the target of TD 600 million set at the time of the First Review under the EFF. The CNSS should improve collection, governance and, if feasible, sell some of its assets to close the financial deficit in 2018. We agree to ensure the financial sustainability of the social protection and health system (including the CNRPS, CNSS, CNAM, and the central pharmacy) and, if needed, stand ready to prepare a supplementary budget law that would make necessary transfers or advances to the various funds.

- **Contingency measures were identified to deal with unexpected shocks**. We budgeted about TD 400 million in unallocated expenditures to prevent us from missing program targets. In addition, we strengthened the oversight of public enterprises. In addition, a buffer could come from a series of tax measures in the 2016, 2017 and 2018 budget laws. The potential impact of those provisions on tax revenue has yet to be evaluated, notably those aimed at strengthening tax audits of companies and at improving tax compliance by liberal professions.

- **Strengthened tax controls**. We have intensified audits of financial services providers that operate under the offshore regime to proactively prevent possible tax fraud. Also, with support from USAID, we will perform a comprehensive integrity check of companies that take advantage of tax incentives by the end of May 2018.

20. Monetary policy will focus on controlling inflation. Price stability remains the CBT's main objective. The increase in inflation is a major driver of lower real income, including of vulnerable populations. Inflation also affects negatively the competitiveness of the Tunisian economy. For 2018, despite the negative output gap, inflation risks are growing due to the planned adjustments of fuel prices, the implementation of the 2018 Budget Law, and the pass-through of the dinar's depreciation. However, we think that inflation expectations will remain well-anchored, thanks to the following developments: (i) proactive policy actions by the CBT (see below); and (ii) the expectation of no new wage increases over the next two years. More specifically, we are taking the following actions to facilitate a gradual return of inflation to the low- to mid-single digits:

- **Tightening monetary conditions.** The CBT already raised the policy rate by an unprecedented 75 basis points on March 5, 2018 to 5.75 percent, for a cumulative increase of 150 basis points since early 2017. It stands ready to continue with policy rate increases in case inflation (especially core inflation) does not decelerate sufficiently fast and key interest rates (in real terms) remain in negative territory. The aim is to bring real interest rates back into positive territory to smooth the path of consumption. Moreover, the CBT has significantly widened the interest rate corridor used for money market operations. Market forces of supply and demand for liquidity will therefore play a stronger role.

- **Better monitoring of monetary aggregates**. The CBT intends to contain the increase in credit to the economy, and particularly consumer credit, to nominal GDP growth. To achieve this, the CBT will ensure that net domestic assets (NDA), including bank refinancing, are contained through close monitoring on a monthly basis. The IMF will support us with TA to refine the instruments we currently use to monitor liquidity factors and monetary aggregates. The CBT agrees to consult IMF staff whenever the monthly NDA outturns do not meet the path agreed under the EFF arrangement.

- **Improving transmission channels**. The full impact of the 2017 interest rate hike will be felt in 2018, when it will affect credit to the economy and consumption. Moreover, to facilitate the transmission of changes in the monetary policy stance, the CBT will contain the regular refinancing operations with the banking sector and will continue to limit the level of liquidity available for tender. Finally, the lender of last resort facility, initiated in December 2016 and made operational in July 2017, has become effective following the implementation of a new collateral framework and the creation of a credit committee. The facility is an essential tool to distinguish regular bank refinancing operations from those that originate from banks with a structural deficit in liquidity. There has been significant progress in implementing the IMF's recommendations from the 2016 TA report, in particular regarding the operational arrangement for the lender of last resort (LOLR) facility and the credit committee charged with granting emergency liquidity assistance (ELA). That said, in addition to these findings and recommendations, the CBT reiterates its unequivocal commitment to implement the IMF's recommendations, consistent with past and ongoing reforms and the new central bank and banking sector laws.

21. Exchange rate policies will contribute to maintaining adequate reserve coverage. The CBT faced a current account deficit that was higher than projected and contributed to severe liquidity shortages on the FX market. In 2017, the dinar depreciated by about 20 percent against the Euro. Notwithstanding this trend, foreign currency demand (including for debt service) increased in the FX market, mainly driven by energy imports (up 23.4 percent to a total of US$ 3.283 billion, compared with US$2.660 billion in 2016). This led the CBT to increase its net interventions by 53 percent to US$2.866 billion in 2017 versus US$1.872 billion in 2016. For 2018, the CBT is strongly committed to adhere strictly to a net intervention budget, facilitated by the recovery in tourism and in exports of phosphates and manufacturing. The intervention budget would help meet the demand for foreign currency by STEG and STIR, regarding their energy demand. The factors that enable the CBT to gradually reduce its interventions include the following: (i) a recovery in exports due to competitiveness gains of the Tunisian economy; (ii) the beginning of exploration of the "Nawara" gas project, which will reduce energy import needs; and (iii) price adjustments of oil products, which will slow demand. In addition, in the short term, we will request TA from the AFD to improve the cash management of STEG and STIR. This TA will fine-tune the recommendations that the CBT presented in its January 2018 guide for the public enterprises on how to manage market risk. In the same vein, we will hold monthly meetings with both companies to better project their FX demand.

D. Consolidating the Recovery to Lay the Ground for Sustainable Growth

Governance and the Business Environment

22. Fighting corruption. Corruption is a challenge that undermines citizens' trust, stymies strong and equitable growth, and pollutes the business environment. Last September, we established by law the High Anti-Corruption and Good Governance Authority, which will be the main tool in our mission to eradicate this evil. To make this new effort fully operational, the 2018 Budget Law included sufficient allocations for the High Authority. We also published a call for candidates for membership on the executive committee, and the CMR passed a governmental decree that specifies the remuneration of the executive board. Parliament is expected to elect the members of the executive committee by March 2018, with the respective decree expected by June 2018 (*reprogrammed SB,* June 2018). Once appointed, the executive committee of the High Authority can rely on the staff and resources of the current National Authority to Fight Corruption (INLCC).

23. Improving the business environment. Following the adoption of crucial reforms to improve the business environment, the government has started implementing these measures to strengthen their impact on investment decisions.

- The implementation of the new investment law started with the adoption of a decree that specifies the list of activities that require authorization (including the short list of activities not subject to the rule of "silence is deemed to be consent") and the implementation of the Tunisia Investment Authority:

    i. It will be a one-stop shop for investors. It will provide a single point of access for all investors who wish to invest in Tunisia. Also, for domestic and foreign investors alike, it will facilitate the procedures required to create new companies and conduct business, lower transaction costs, and increase transparency in making investment decisions. The government has already put in place its management and employees and has allocated a budget for its operations (*new SB,* May 2018).

    ii. It is currently reviewing a list of authorizations necessary for investments with the aim of making recommendations for streamlining this list. Furthermore, it will propose—and begin to execute before March 2018—a plan to simplify regulations over the next two years. We are receiving TA from the International Finance Corporation (IFC) in this endeavor. After this step, we will begin to revise and, if necessary, eliminate authorizations to access certain sectors.

- The government plans to take advantage of its international relations to stimulate investment, particularly through Tunisia's participation in the G20's "Compact with Africa" initiative.

- Furthermore, the government intends to strengthen the quality of public investments. Following the approval of the law on public-private partnerships (PPP), we will operationalize the framework for their management. Supported by the new framework, the use of PPPs will increase to complement public investment from 2018. PPPs will be subject to a strict pre-assessment of the budgetary risks they may entail.

Financial Sector

24. Financial sector reforms. We are committed to reinforcing financial stability by improving the quality of bank loan portfolios, continuing to strengthen bank supervision, and preparing a strategy to reduce banks' liquidity deficits. We will also strengthen the quality of financing to the economy by improving access to financing for SMEs that create jobs. The government will continue to pursue its strategy to exit nonstrategic banking institutions, while continuing the process of selling off two banks in 2018 by June 2018 we will finalize a divestiture program for 2019:

- **The measures necessary to strengthen the quality of loan portfolios will be taken promptly, especially for the public banks**. Public banks are still subject to specific legal constraints that limit their ability to reduce their volume of NPLs, which makes it difficult for them to achieve the objectives of the restructuring plans. All banks suffer from restrictive rules on writing off NPLs, and collection companies are subject to many operating constraints.

  i. In January 2018 the CMR passed a series of measures to deal with these problems, which include the following: (i) the draft law that allows public banks to abandon NPLs loans just like private banks; (ii) the draft law that streamlines the rules for write-offs so that a final definitive judgment is not necessary; (iii) the decree that provides that public banks are not subject to the assent of the committee established by Article 474 of the Commercial Code; and (iv) a white paper that sets forth the strategy to eliminate delinquent claims in the tourism sector. We expect Parliament to adopt these draft laws (i) and (ii) (*modified SB*, June 2018*)*.

  ii. In May 2018 the CMR will pass the draft law on collection companies, which allows them to canvass clients. Parliament will adopt it by September 2018.

  iii. By March 2018, the Ministry of Justice, in collaboration with the Ministry of Finance, the CBT and the bank association, will put in place a program to train specialized judges for bank conflicts as part of the professional development of magistrates, supervised by the High Institute of Magistrates/Academy of Banks and Finance. The Ministry of Justice will identify the commercial courts that will specialize in bank conflicts.

  iv. By April 2018, the Ministry of Tourism, in conjunction with other ministries, will propose solutions to change the tourism focus of hotels whose sustainability is not assured to restructure their debts and upgrade the level of tourism opportunities offered in Tunisia.

  v. By June 2018, the Financial Sector Reform Committee (Comité de Réforme du Secteur Financier, COREFI) will prepare a comprehensive strategy to improve the treatment of NPLs, covering the judicial system, the change of vocation of hotels, taxation, land use registration, supervision, and other relevant areas.

- **The CBT will continue to strengthen bank supervision**. The inspection of the seven largest private banks (*SB met with delay* in January 2018) resulted in the identification, for one bank, of internal control weaknesses and the need for provisioning this bank, which will be met by raising capital from its own sources. No unexpected risks for the six other banks were found. In February 2018, the CBT published a new circular that consolidates all the rules on capital requirements, including the new requirements related to market risk. Consolidated supervision will be operational by the second half of 2019. In the white paper that establishes a strategy to eliminate NPLs in the tourism sector, the CBT is planning to provide an exemption from the contagion principle for new loans to clients whose debt has been renegotiated, subject to certain prerequisites. The CBT will ensure that the exemptions to the contagion principle are supervised and limited, and it will review the implementation of exemptions if there are abuses. The staff of the General Directorate of Bank Supervision at the CBT will be increased by a dozen employees in the first half of 2018 to strengthen its capabilities.

- **The resolution framework for institutions in difficulty will be made operational promptly for the BFT.** The resolution committee was appointed in December 2017. The CBT will submit its analysis of BFT's situation to the resolution committee as soon as the committee is created, and the committee will issue a decision regarding the orderly resolution of BFT (*new SB*, May 2018). The resolution process will begin immediately after that. The operationalization of the deposit guarantee fund (scheduled for September 2017) was finalized in January 2018.

- **By December 2018, COREFI will prepare a comprehensive strategy to fight against the liquidity shortages in the Tunisian financial system** to enable it to fully play its role in financing the economy. The topics studied will include the following issues: de-cashing, fighting the informal economy, digitization, financial inclusion, controlling the budget deficit, fighting the current account deficit, money market reform, revitalizing the bond market, and stock market reform.

- **COREFI will prepare a strategy to improve financing for SMEs and the law on the ceiling of the maximum lending rate will be adopted promptly**. COREFI will prepare by September 2018 a strategy to review the modalities of providing financial support to SMEs—through the SME Financing Bank BFPME, the Tunisian Guarantee Company SOTUGAR, and the Tunisian Solidarity Bank BTS, among others—to simplify the various existing programs and provide guarantee tools and/or lines of financing in partnership with the banks. The strategy will also include a module to assist SMEs in collaboration with private banks in preparing business and financial plans. The CBT will strengthen its corporate information center (Centrale des Bilans) by consolidating national statistics, mainly by creating a data exchange system with the Ministry of Finance. Parliament will adopt the law that sets the interest rate ceiling (*reprogrammed SB*, May 2018). The ceiling for corporates and SMEs will be increased from +20 percent above average to+33 percent. The averages are differentiated for each category of borrowers (retail, corporates). Contrary to original intentions though, the ceiling for individuals will remain at 20 percent above the average rate, because there is less need to differentiate risks among borrowers in this segment. The law that covers the operation and supervision of the credit bureau will be adopted by April 2018.

- **The Minister of Finance/COREFI will validate the financial inclusion strategy by March 2018**. It will especially focus on the development of digital finance, microinsurance, refinancing microfinance, the social and solidarity economy, and financial education. By June 2018, the CBT financial inclusion observatory will identify the indicators that will be put in place.

- **The CMR approved in November 2017 the measures listed in the FATF action plan that Tunisia needs to implement.** This plan will be monitored continuously in the context of improving compliance with the standards. The significant improvement in Tunisia's technical compliance rating, decided at the MENA-FATF plenary meeting from December 2 to 7 in Bahrain, demonstrates the progress Tunisia has made in having its AML/CFT system converge with international standards.

- **Progress has been made in implementing the recommendations of the IMF's safeguards assessment mission** to further anchor the independence and performance of the CBT's internal audit function. In this context, we took the following steps: (i) drafted an action plan for the risk management unit and a legal text to create a risk committee, which will be submitted to the CBT's Supervisory Board for approval as soon as possible; and (ii) issued new regulation on the lender of last resort framework in December 2016. In order to reinforce internal controls of lending operations, the Bank has drawn up and published a circular for the implementation of monetary policy in March 2017. Regarding an external evaluation of the internal audit function, the General Control Department of the CBT will undertake a preliminary self-assessment before resorting to an external evaluation, following our request for IMF TA.

Use of Public Resources

25. The reforms in support of fiscal consolidation are progressing:

- **Modernization of tax administration**. The Large Taxpayer Unit (LTU), established and put in place in 2008, lacked national jurisdiction and did not have the entire suite of tax-related activities under its purview, hence the importance of the two governmental decrees (2017-1156 and 2017-1157) adopted on October 27, 2017. These decrees strengthen the scope of the LTU and task it with tax audits for large taxpayers and a mandate to cover all Tunisian territory effective January 2, 2018. The LTU now has a tax monitoring and verification unit alongside the records management unit and a task force in charge of risk management and programming, as well as another group in charge of reporting. Several new auditors have joined the LTU as of January 2, 2018, after they received special training. In parallel, the umbrella entity, established by the 2018 Budget Law, has begun operations. This umbrella entity will oversee control and collection, which will allow the merger of these two crucial tax administration functions, including for large enterprises (*new SB*, July 2018).

- **Tax reform**. As part of our effort to strengthen revenue mobilization and lower the fiscal deficit, we are working with IMF staff to build tax administration capacity and move ahead with tax policy reform. In this regard, we will introduce changes in the VAT for the services of liberal professions (by raising the rate from 13 percent to 19 percent) to boost the fairness of ongoing tax reforms in 2019 (*new SB,* December 2018). In the past, our policy of giving tax incentives has helped Tunisia's economic development. Today, we believe that there are high costs associated with this system in terms of foregone tax revenue. Tax incentives are also inconsistent with our overall tax policy strategy in which fairness plays a key role. We therefore remain committed to gradually reducing the gap between the onshore and offshore tax regimes consistent with our agreements with the European Union, our largest trading partner. Through considerable communication and diplomatic efforts, we have demonstrated to the European Union that Tunisia has a transparent tax system and that it is committed to adopting the full set of measures in the Base Erosion and Profit Shifting project (BEPS) of the Organization for Economic Cooperation and Development (OECD). Tunisia is in full compliance with its commitment to the automatic exchange of information with the Global Forum on Transparency and Exchange of Information for Tax Purposes. Thanks to this measure, Tunisia has been removed from the European Union's list of uncooperative tax jurisdictions.

- **Improving the supervision of SOEs.** Monitoring and oversight will be further strengthened for the four SOEs that have already signed performance contracts. For each contract, we have also requested annexes that amend the performance contracts to incorporate financial performance indicators. We will also establish a performance contract with TUNISAIR that reflects the commitments the company made in its restructuring plan (*modified SB*, December 2018). In parallel, and supported by the AFD, we will overhaul the entire governance structure for SOEs. As a result, we will be better positioned to manage contingent liabilities arising from SOE activities. The General Directorate of Government Holdings (DGP) in the Ministry of Finance will monitor a complete set of performance indicators on a quarterly basis (financial statements, in particular) of the 30 biggest SOEs by April 2018.

b. **Leveraging the results of the functional reviews**. With support from the European Union, we completed three of the four functional reviews in the key ministries of the Tunisian administration. The last review, now in progress at the Ministry of Public Works, will soon be completed (*reprogrammed SB,* June 2018). We will use the results to identify additional measures needed to ensure that the wage bill remains on track to reach 12.4 percent of GDP in 2020.

26. The reforms to make our social policies more effective and better targeted are in progress:

- **Make the pension system sustainable**. The reform of the social security funds, which we plan to adopt soon (*reprogrammed SB*, April 2018), will enable us to limit the deficits of the social security funds in the coming years. This reform is largely based on parametric pension reform. It is expected to result in a gradual increase in the retirement age by two years, an increase in contributions, and a change in the indexing mechanism for pensions. However, we will need additional reforms to restore long-term financial viability to ensure that the funds are on a sustainable basis for the younger generations of Tunisians. A high council for financing social security will be put in place. Alongside the tripartite committee, it will continue to monitor the ongoing reform and propose any new corrective measures to ensure the financial sustainability of the social funds.

- **Better-targeted social assistance**. We plan to put in place the new unique social identifier in December 2018, which uses a new database of vulnerable households (*reprogrammed SB,* December 2018). Beginning in January 2019, we will accelerate the technical work to move from the universal subsidy system to targeting households in in need. This could take the form of a system of conditional money transfers.

Transparency and International Relations

27. Transparency and sharing information. We are convinced that transparency is a basic pillar of good governance. Since 2011, our approach in this regard has been to strengthen the institutional and regulatory framework to bring it in line with best international practices. Thus, the National Authority for Access to Information has been fully operational since Parliament elected the members of the authority on July 18, 2017. Likewise, efforts to revamp the national statistics system have led to the CMR adopting a draft law on statistics on December 8, 2017.

28. We are improving coordination for the implementation of the EFF-supported program. To simplify information sharing and facilitate interaction with IMF technical staff, we appointed two focal points in the Ministry of Finance and the CBT charged with coordinating the program. Therefore, we reiterate our commitment to submit data on a timely basis to formulate and review our economic policies and to improve information sharing with the IMF and other international institutions.

Table 1. Quantitative Performance Criteria and Indicative Targets 1/
(Cumulative flow since the beginning of the year, unless otherwise indicated)

	2016		2017											
	Dec.		Mar.		Jun.				Sep.		Dec.			
	Act.	Prog.	Ind.	Act.	Prog.	Adj.	Act.	Prog.	Ind.	Act.	Prog.	Adj.	Act.	Prog.
Quantitative Performance Criteria 2/														
1. Floor on the primary balance of the central government (cash basis excl. grants, in millions of TD) 3/	-3,951	Not Met	-814	-92	-1,247	n.a.	-3,123	Not Met	-1,141	-2,868	-3,784	n.a.	-3,959	Not Met
2. Ceiling on net domestic assets of the Central Bank of Tunisia (stock, in millions of TD) 4/	5,094	Not Met	2,363	5,351	5,500	5,605	6,640	Not Met	4,337	6,761	3,834	1,684	7,062	Not Met
3. Floor on net international reserves of the Central Bank of Tunisia (stock, in millions of US$) 5/	3,335	Not Met	4,773	3,105	2,906	2,884	2,951	Met	3,311	3,117	2,937	3,660	3,120	Not Met
4. Ceiling on total current primary expenditure of the central government (in millions of TD) 3/	19,054	Met	5,244	5,574	10,379	n.a.	10,284	Met	14,932	14,702	21,757	n.a.	21,823	Not Met
Continuous Performance Criteria														
5. Ceiling on the accumulation of new external debt payment arrears by the central government (in millions of US$)	0	Met	0	0	0	n.a.	0	Met	0	0	0	n.a.	0	Met
Quantitative Indicative Targets														
6. Floor on social spending (in millions of TD) 6/	1,411	Not Met	285	589	965	n.a.	1,132	Met	1,226	1,502	1,533	n.a.	1,844	Met
7. Ceiling on the accumulation of new domestic arrears (in millions of TD)	0	Met	0	0	0	n.a.	0	Met	0	0	0	n.a.	0	Met
Program assumptions on which adjusters are calculated in case of deviations														
• External financing of the central government on a cumulative basis (in millions of US$) 7/	1,498		475	1,016	2,200		2,217		3,007	2,765	3,078		3,224	
of which: multilateral (excluding IMF) and bilateral budget grants (in millions of US$)	576		400	0	108		1,110		871	1,580	927		2,138	
• Public external debt service (interest and amortization) on a cumulative basis (in millions of US$)	930		270	263	1,055		1,067		1,481	1,493	1,823		1,855	
• Bank recapitalization and civil service reform costs (in millions of TD)	0		0	0	0		0			0			0	
• Privatization receipts in FX (in millions of US$)	0		0	0	0		0			0			0	
• Estimated cost of liquidating the Banque Franco Tunisienne (BFT, in millions of TD) 3/	n.a.		n.a.	n.a.	n.a.		n.a.		n.a.	n.a.	n.a.		n.a.	
• Residents' FX deposits at the Central Bank of Tunisia (in millions of US$) 5/ 8/	908		-1,269	960	960		963		960	963	960		1,224	
• FX swaps between the Central Bank of Tunisia and commercial banks (in millions of TD) 5/ 8/	445		603	453	453		393		453	594	453		1,147	
• FX swaps between the Central Bank of Tunisia and commercial banks (in millions of US$) 5/	221		299	225	225		195		225	295	225		570	
• Program exchange rate TD/US$	2.01285		2.01285	2.01285	2.01285		2.01285		2.01285	2.01285	2.01285		2.01285	

Source: IMF staff estimates.

1/ Quantitative performance criteria and adjusters are described in the Technical Memorandum of Understanding. Further, for purposes of calculating program adjusters, foreign currency amounts will be converted at program exchange rates.

2/ From 2018 onwards, the test dates for quarterly QPCs will be end-March, end-June, end-September, and end-December.

3/ From 2018 onwards, a new adjuster on bank liquidation applies.

4/ End of period. From 2018 onwards, the adjuster on FX swaps between the Central Bank of Tunisia and commercial banks will no longer apply.

5/ From 2018 onwards, the adjuster on FX swaps between the Central Bank of Tunisia and commercial banks, and that on residents' FX deposits at the Central Bank of Tunisia will no longer apply.

6/ Social spending includes social transfers and programs as well as key ministries' capital expenditures. Its coverage was expanded in 2017.

7/ Disbursment, includes project loans and capital market access, but excludes IMF.

8/ At program exchange rate.

Table 1. Quantitative Performance Criteria and Indicative Targets (Concluded) 1/
(Cumulative flow since the beginning of the year, unless otherwise indicated)

	2018									
	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.
Quantitative Performance Criteria 2/										
1. Floor on the primary balance of the central government (cash basis excl. grants, in millions of TD) 3/	-1,722	n.a.	n.a.	-1,943	n.a.	n.a.	-2,493	n.a.	n.a.	-3,113
2. Ceiling on net domestic assets of the Central Bank of Tunisia (stock, in millions of TD) 4/	9,374	n.a.	n.a.	8,131	n.a.	n.a.	7,652	n.a.	n.a.	7,497
3. Floor on net international reserves of the Central Bank of Tunisia (stock, in millions of US$) 5/	2,352	n.a.	n.a.	3,099	n.a.	n.a.	3,301	n.a.	n.a.	3,245
4. Ceiling on total current primary expenditure of the central government (in millions of TD) 3/	6,237	n.a.	n.a.	11,399	n.a.	n.a.	16,522	n.a.	n.a.	23,931
Continuous Performance Criteria										
5. Ceiling on the accumulation of new external debt payment arrears by the central government (in millions of US$)	0	n.a.	n.a.	0	n.a.	n.a.	0	n.a.	n.a.	0
Quantitative Indicative Targets										
6. Floor on social spending (in millions of TD) 6/	721	n.a.	n.a.	1,021	n.a.	n.a.	1,534	n.a.	n.a.	2,041
7. Ceiling on the accumulation of new domestic arrears (in millions of TD)	0	n.a.	n.a.	0	n.a.	n.a.	0	n.a.	n.a.	0
Program assumptions on which adjusters are calculated in case of deviations										
• External financing of the central government on a cumulative basis (in millions of US$) 7/	209	n.a.	n.a.	1,422	n.a.	n.a.	2,108	n.a.	n.a.	3,029
of which: multilateral (excluding IMF) and bilateral budget grants (in millions of US$)	0	n.a.	n.a.	182	n.a.	n.a.	780	n.a.	n.a.	1,105
• Public external debt service (interest and amortization) on a cumulative basis (in millions of US$)	466	n.a.	n.a.	904	n.a.	n.a.	1,325	n.a.	n.a.	1,726
• Bank recapitalization and civil service reform costs (in millions of TD)	0	n.a.	n.a.	0	n.a.	n.a.	0	n.a.	n.a.	0
• Privatization receipts in FX (in millions of US$)	0	n.a.	n.a.	0	n.a.	n.a.	0	n.a.	n.a.	0
• Estimated cost of liquidating the Banque Franco Tunisienne (BFT, in millions of TD) 3/	0	n.a.	n.a.	0	n.a.	n.a.	0	n.a.	n.a.	400
• Residents' FX deposits at the Central Bank of Tunisia (in millions of US$) 5/ 8/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
• FX swaps between the Central Bank of Tunisia and commercial banks (in millions of TD) 5/ 8/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
• FX swaps between the Central Bank of Tunisia and commercial banks (in millions of US$) 5/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
• Program exchange rate TD/US$	2.01285	n.a.	n.a.	2.01285	n.a.	n.a.	2.01285	n.a.	n.a.	2.01285

Source: IMF staff estimates.

1/ Quantitative performance criteria and adjusters are described in the Technical Memorandum of Understanding. Further, for purposes of calculating program adjusters, foreign currency amounts will be converted at program exchange rates.

2/ From 2018 onwards, the test dates for quarterly QPCs will be end-March, end-June, end-September, and end-December.

3/ From 2018 onwards, a new adjuster on bank liquidation applies.

4/ End of period. From 2018 onwards, the adjuster on FX swaps between the Central Bank of Tunisia and commercial banks will no longer apply.

5/ From 2018 onwards, the adjuster on FX swaps between the Central Bank of Tunisia and commercial banks, and that on residents' FX deposits at the Central Bank of Tunisia will no longer apply.

6/ Social spending includes social transfers and programs as well as key ministries' capital expenditures. Its coverage was expanded in 2017.

7/ Disbursment, includes project loans and capital market access, but excludes IMF.

8/ At program exchange rate.

Table 2. Prior Actions and Structural Benchmarks

	Due for the Second Review		
	Prior Actions	**Objective**	
√	**2018 budget.** Adoption of a satisfactory 2018 budget law by Parliament.	*Fiscal sustainability*	Met
√	**Governance.** *(i) High Anti-Corruption and Good Governance Authority* (HACGGA)*:* publication of a call for candidature for the members of the HACGGA, signature of the decree specifying the remuneration of its members, and submission of its budget in the context of the 2018 budget law preparation; (ii) *Performance contracts:* signature of annexes with financial performance indicators for four of the five largest SOEs (i.e. Office des Céréales, Régie des Tabacs, STIR and STEG).	*Good governance and fairness*	Met
√	**Fuel prices.** Significant ad-hoc increase of fuel prices.	*Fiscal sustainability and fairness*	Met
√	**Caisse Nationale de Sécurité Sociale (CNSS).** Start of arrears clearance with a first tranche of TD 200 million by public sector entities.	*Fiscal sustainability and fairness*	Met
√	**Portfolio quality**. Adoption by the Council of Ministers of (i) a draft law allowing public banks to abandon claims on credits like their private peers; (ii) a draft law simplifying write-off rules so that a final judgment is not necessary; (iii) a decree stipulating that public banks are not subject to the consent of a committee for the renegotiation of receivables in the context of insolvency proceedings; and (iv) the white book defining the strategy for the elimination of outstanding debts in the context of insolvency proceedings in the tourism sector.	*Financial sector stability*	Met

Table 2. Prior Actions and Structural Benchmarks (Continued)

Due for the Second Review

	Structural Benchmarks	Objective	Date	Revised Date	Status
I. Sectoral reforms/private sector development					
√	**High anti-corruption and good governance authority (HACGGA).** Creation of an independent, high anti-corruption authority.	*Good governance and fairness*	Dec-16	Sep-17	Met
•	**High Anti-Corruption and Good Governance Authority (HACGGA).** (i) Signature of the decree appointing the members of the HACGGA; (ii) signature of the decree specifying the remuneration of its members; and (iii) submission of its budget in the context of the 2018 budget law preparation.	*Good governance and fairness*	Nov-17		Not met. Replaced by Prior Action and reprogrammed Structural Benchmark.
•	**High anti-corruption and good governance authority (HACGGA).** Signature of the decree appointing the members of the HACGGA.	*Good governance and fairness*	Nov-17	Jun-18	Not met
•	**Social policy.** Establishment of a databank on vulnerable households.	*Social protection and fairness*	Dec-17	Dec-18	Not met. In progress.
II. Financial sector reform					
√	**Supervision.** Completion of the reports on the inspection of the seven largest private banks in line with the best standards and with IMF Technical Assistance as agreed with the BCT.	*Financial sector stability*	Sep-17		Met with delay.
•	**Portfolio quality.** Adoption of: (i) a law to make it possible for public banks to abandon claims on credits like their private peers (both in the context of the insolvency law and outside of this context); (ii) a government decree creating a permanent committee that will grant an assent to the Ministry of Finance for all measures concerning debt settlement of the State, local collectivities and public establishments; the decree will specify the claims of public banks will not be within the purview of the permanent committee; and (iii) simplified rules to write-off claims, eliminating the requirement for a final judgment.	*Financial sector stability*	Oct-17		Partly met with delay: (ii) met, (i) and (iii) are replaced by a Prior Action and a reprogrammed Structural Benchmark.
•	**Portfolio quality.** Adoption by Parliament of (i) a law to make it possible for public banks to abandon claims on credits like their private peers (both in the context of the insolvency law and outside of this context); and (ii) a law simplifying write-off rules, eliminating the requirement for a final judgment.	*Financial sector stability*	Oct-17	Jun-18	Not met
•	**Maximum lending rate.** Adoption by Parliament of a law and decree on increasing the maximum lending rate for corporates and SMEs from +20 percent above the average lending rate to +33 percent.	*Financial sector stability*	Sep-17	May-18	Not met. Draft law in Parliament. Augmentation limited to +20% for individuals.

Table 2. Prior Actions and Structural Benchmarks (Concluded)

Due for the Second Review (Concluded)

	Structural Benchmarks	*Objective*	Date	Revised Date	Status
III. Fiscal policy and reforms of public institutions					
√	**Civil service.** Adoption, by the Council of Ministers, of a decree giving the authority to the Prime Minister's office to review and exclusively authorize recruitments and setting the maximum recruitments into the civil service at 3,000 for 2018 while confirming the number of 7,500 for 2017.	*Fiscal sustainability and fairness*	Oct-17		Met
•	**Pensions.** Adoption, by the Council of Ministers, of the comprehensive pension reform strategy to ensure financial sustainability.	*Fiscal sustainability and fairness*	Sep-17	Apr-18	Not met. At an advanced stage of implementation.
•	**Functional review.** Completion of the functional review of four ministries (Health, Education, Finance, and Infrastructure).	*Fiscal sustainability and quality public services*	Aug-17	Jun-18	Not met. At an advanced stage of implementation.
•	**State-owned enterprises (SOEs).** Signature of performance contracts for the five largest SOEs (i.e. Office des Céréales, Régie des Tabacs, STIR, STEG and TUNISAIR).	*Better monitoring of fiscal risks*	Jul-17		Not met. Replaced by Prior Action; except for TUNISAIR (reprogrammed Structural Benchmark).
•	**State-owned enterprises (SOEs).** Signature of a performance contract for TUNISAIR.	*Better monitoring of fiscal risks*	Jul-17	Dec-18	Not met
•	**Organic budget law.** Publication, in the official journal, of the Organic Budget Law.	*Fiscal sustainability and fairness*	Sep-17	Dec-18	Not met. Draft law in Parliament.
•	**Large Taxpayers Unit (DGE).** Transfer of control (in-depth verification) and tax arrears management (recovery) functions for large enterprises to the DGE and their operationalization.	*Fiscal sustainability and fairness*	Oct-17	Dec-18	Not met
•	**Fuel prices.** Quarterly application of the automatic fuel price adjustment mechanism.	*Fiscal sustainability and fairness*	Sep-17	Mar-18 until end of program	Not met
IV. Monetary and exchange rate policies					
•	**Foreign exchange auctions.** Implementation of a full foreign exchange auction mechanism by the Central Bank of Tunisia.	*Exchange rate flexibility and price stability*	Aug-17	Jun-18	Not met

Due for Future Reviews

	Structural Benchmarks	*Objective*	Date	Revised Date	Status
I. Sectoral reforms/private sector development					
•	NEW 1/4: **Operationalization of the investment code.** Establishment of a one-stop investment agency.	*Private sector development*	May-18		
II. Financial sector reform					
•	NEW 2/4: **Banque Franco Tunisienne (BFT).** Vote of the resolution committee on the orderly resolution of the BFT.	*Financial sector stability*	May-18		
III. Fiscal policy and reforms of public institutions					
•	NEW 3/4: **Value-added tax (VAT).** Increase of the VAT rate for liberal professions from 13 to 19 percent.	*Fiscal sustainability and fairness*	Dec-18		
•	NEW 4/4: **Large Taxpayers Unit (DGE).** Operationalization of the transfer, and merger, of control (in-depth verification) and tax arrears management (recovery) functions into the new umbrella structure for tax administration (created by the 2018 budget law).	*Fiscal sustainability and fairness*	Jul-18		

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 (QPCs) and Indicative Targets (ITs) under the program supported by the Extended Fund Facility (EFF). It also sets out the content and frequency of data reporting to IMF staff for program monitoring purposes.

2. The quantitative criteria and targets are defined in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent dated March 13, 2018. For program purposes, all assets, liabilities, and flows denominated in foreign currencies will be valued at the "program exchange rate," as defined below, except for 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, 2015, as shown in the table below. For the SDR, the program exchange rate is 1 SDR = 2.797590 Tunisian dinars.

Program Exchange Rates: Tunisian Dinars per FX Currency at End-December 2015
(Accounting exchange rate of the CBT)

Currency	Exchange rate
AED	0.54802
BHD	5.3373
CAD	1.45005
CHF	2.0322
DKK	0.2947335
DZD	0.01878
EUR	2.1993
GBP	2.9837
JPY	0.0167135
KWD	6.63225
LYD	1.44535
MAD	0.203175
NOK	0.228923
QAR	0.552815
KRW	0.001707098
CNY	0.3102
SAR	0.53634
SEK	0.23918
US$	2.01285

3. Monetary gold assets will be valued against the corresponding value in Tunisian dinar (at the program exchange rate) at the price of 2,138.15 Tunisian dinar per ounce of gold in the international market on 12/31/2015 (London morning fixing). The stock of gold is 4.13 tons (4,129,806 grams) on December 31, 2015.

4. For data reporting purposes, the Ministry of Economy and Finance (MoF), the Ministry of Planning and Economic Cooperation (MDCI), 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 Targets

5. The Quantitative Performance Criteria and Indicative Targets specified in MEFP Table 1 are:

- ***Performance Criteria:***
  - A Performance Criterion (**floor**) on **the net international reserves (NIR)** of the CBT.
  - A Performance Criterion (**ceiling**) on **the net domestic assets (NDA)** of the CBT.
  - A Performance Criterion (**floor**) on the **primary balance of the central government**, excluding grants.
  - A Performance Criterion (**ceiling**) on total **current primary expenditure of the central government**.
  - A continuous Performance Criterion (**zero ceiling**) on the a**ccumulation of new external debt payment arrears**.
- ***Indicative Targets:***
  - An Indicative Target (**ceiling**) on accumulation of new domestic arrears.
  - An Indicative Target (**floor**) on capital expenditures in priority social sectors and social programs.
  - An Indicative Target (**ceiling**) on **net foreign exchange interventions of the CBT**.

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 Criteria on the central government primary balance and on the central government total current primary expenditure are measured on a quarterly basis and cumulatively from the end of the previous year. Adjustment factors will also be applied to some of these criteria. The Performance Criterion on the accumulation of new external arrears is measured on a continuous basis. The Indicative Target on net foreign exchange interventions will be monitored on a monthly basis and measured on a monthly flow basis. All other Indicative Targets will be monitored on a quarterly 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 IMF 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 CBT

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

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 bank and nonbank institutions. The government's foreign currency deposits at the CBT are not included in the liabilities, nor is any SDR allocation received after March 31, 2017.

12. 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.

13. The value of **CBT reserve assets and liabilities** in foreign currency will be calculated using program exchange rates (Table above). On December 31, 2017, the value of the stock of NIR reserves was US$3,120.2 million, with the stock of reserve assets equal to US$5,480.6 million and the stock of CBT liabilities in foreign currency equal to US$2,360.4 million (at program rates).

D. Ceiling on Net Domestic Assets of the CBT

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

15. The **monetary base** includes the following: (i) fiduciary money (money in circulation excluding cash balances of banks and the Treasury); (ii) deposits of 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.

17. The Directorate General of Statistics (Directorate of Monetary and Financial Statistics) will be responsible for **monthly forecasts** of reserve money and will calculate NDA projections for the next six months. These projections will be submitted to IMF staff, after consultation with the Directorate General of Monetary Policy.

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

18. 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 the following: (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.

19. **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.

20. **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.

21. **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 excluding the sub accounts N-bis, those related to Public Administrative Entities (EPA) and to local governments; (ii) Tunisian government account (miscellaneous dinar accounts); (iii) loan accounts; (iv) grant accounts; (v) FONAPRA-FOPRODI accounts; (vi) special accounts of the Tunisian government in foreign currency; (vii) accounts in foreign currency pending dinarization (subaccount: "mise a disposition"); (ix) and any other account that may be opened by the central government at the CBT or banks. Following the unification of government accounts at the CBT into a Single Treasury Account, government accounts are consolidated in two categories ("Compte Central du Government "and "Comptes Spéciaux du Government") on the CBT's balance sheet (liabilities side).

22. **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.

23. **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. In particular, any use of cash from non-banking institutions (including La Poste) to finance the Treasury would be counted as domestic non-bank financing. 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 Total Current Primary Expenditure of the Central Government (Excluding Interest Payments on Public Debt)

24. Under the program, **total current primary expenditure of the central government** is defined as the sum of central government expenditure on the following items: (i) personnel wages and salaries; (ii) goods and services; (iii) transfers and subsidies; and (iv) other unallocated current expenditure.[2]

[2] The methodologies used to measure current expenditure categories for the central government are those used to design the table of central government financial operations presented in the macroeconomic framework.

G. Ceiling on the Accumulation of External Arrears

25. **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*[3] by the central government or the CBT from the due date or the expiration of the applicable grace period.

H. Indicative Ceiling on the Accumulation of Domestic Arrears

26. 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 beyond 90 days or more after the date on which the contract was signed or upon receipt of the invoice.

I. Indicative Floor on Social Expenditures

27. For program purposes, **social expenditures** are defined as capital expenditures (development expenditures) on education, health, social transfers to low-income families, employment training program (and university scholarships), Union Tunisienne de Solidarité Sociale (UTSS) indemnities, family allocation as well as development expenditures of the Ministries of Women and Family Affairs, Youth and Sports and Social Affairs, and all new targeted cash transfers in support of vulnerable groups; all current expenditures ("dépenses de gestion") of the above-mentioned sectors and programs, as well as food and energy subsidies, are excluded.

J. Indicative Ceiling on Net Foreign Exchange Interventions of the CBT

28. The CBT's **net foreign exchange interventions** are defined as the difference between outright foreign exchange sales (including conversions) and outright foreign exchange purchases

[3] 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.

(including conversions), via the following channels: Reuters, auctions, and the interbank market. The computation of net sales may also include CBT net sales in other formal or informal markets (or instruments) that the CBT may choose to substitute for outright net sales (e.g., transactions in derivatives). Transactions of the CBT with the Central Government in the context of budget operations of the Central Government are not considered net sales (unless they take place through one of the channels mentioned above). In this respect, purchases of the foreign currency proceeds of a potential Eurobond or other official financing cannot be interpreted as CBT purchases of foreign exchange for the computation of the CBT net sales total.

29. The value of **non-US$ denominated transactions** will be calculated using program exchange rates (Table above).

K. Adjustment Factors for the Program Performance Criteria

30. The **NIR** targets are adjusted upward (downward) if the cumulative sum of net external financing of the central government, the sum of budgetary grants, and privatization receipts received in foreign currency than the levels observed 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 lower (greater) than the levels included in the table below.

31. The **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, the sum of budgetary grants, and privatization receipts received in foreign currency are lower (greater) than the levels indicated in the table below. 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, and also adjusted downward/upward based on the amount of CBT reserves released/mobilized because of a possible decrease/increase in the reserve requirement.

32. The **primary fiscal balance** targets, excluding grants, will be adjusted upward/downward based on the amount used to recapitalize the public banks and all amount used to finance the severance pay of the voluntary departures which may be part of the civil service reform. It will also be adjusted downward in an amount equal to the estimated cost of liquidating the BFT.

33. The **total current primary expenditures** targets will be adjusted upward in an amount equal to the estimated cost of liquidating the BFT.

Program Assumptions on Adjustment Factors for the Quantitative Performance Criteria

(In millions of U.S. dollars)

	2017					2018					2019				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Official External Financing	1,016	1,517	547	556	3,636	349	1,467	940	1,174	3,930	358	558	908	1,408	3,233
Project loans	72	72	72	72	287	88	88	88	88	350	88	88	88	88	350
Multilateral donors	-	424	456	362	1,243	245	363	836	454	1,898	254	454	804	254	1,767
AFDB	-	-	-	144	144	-	-	-	91	91	-	200	-	-	200
IMF (budget support starting 2017) 1/	-	315	-	-	315	245	254	254	254	1,006	254	254	254	254	1,017
World Bank Group	-	-	456	-	456	-	-	400	-	400	-	-	550	-	550
European Union	-	109	-	219	328	-	109	182	109	401	-	-	-	-	-
Bilateral donors	-	998	-	109	1,107	-	-	-	116	116	-	-	-	-	-
Germany	-	-	-	109	109	-	-	-	116	116	-	-	-	-	-
Qatar	-	998	-	-	998	-	-	-	-	-	-	-	-	-	-
Turkish loan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Market Access and other	944	22	19	13	999	17	1,017	17	517	1,566	17	17	17	1,067	1,116
Sukuk and other market financing	929	-	-	-	929	-	1,000	-	500	1,500	-	-	-	1,050	1,050
Market issuance with US Treasury guarantee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loan Transfers to SOEs	15	22	19	13	70	17	17	17	17	66	17	17	17	17	66
Budget Grants	-	27	49	38	115	25	25	25	25	100	25	26	27	28	106
Privatization Receipts	n.a.	n.a.	n.a.	n.a.	-	n.a.	n.a.	n.a.	n.a.	-	n.a.	n.a.	n.a.	n.a.	-
Government External Debt Service	263	817	420	415	1,914	466	452	442	432	1,791	608	603	598	594	2,403
Amortization	139	726	312	325	1,502	343	332	324	317	1,316	449	445	442	438	1,774
Interest	124	91	108	90	413	124	120	117	114	475	159	158	156	155	628
Bank recapitalization and one-off costs linked to the civil service reform	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Estimated cost of liquidating the Banque Franco Tunisienne (in millions of TD)	...	...	...	...	...	-	-	-	400	400	-	-	-	-	-
FX swaps between the CBT and the commecial banks 2/	225	195	295	570	570	...	...	...	...	...	...	...	...	...	...
FX swaps between the CBT and the commecial banks (in millions of TD) 2/	453	393	594	1,147	1,147	...	...	...	...	...	...	...	...	...	...
Resident deposits at the BCT, including FX swaps 2/	1,185	1,158	1,391	1,794	1,794	...	...	...	...	...	...	...	...	...	...

Sources: Tunisian authorities and IMF staff estimates.

1/ The SDR/USD exchange rate used for the conversion of IMF disbursements is 0.7391 in 2017 anmd 0.7399 in 2018.

2/ From 2018 onwards, the adjuster on FX swaps between the Central Bank of Tunisia and commercial banks, and that on residents' FX deposits at the Central Bank of Tunisia will no longer apply.

L. Monitoring and Reporting Requirements

34. 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 these data and any data revisions previously transmitted to the IMF Resident Representative's office in Tunisia.

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)	Responsible Department
Real Sector			
GDP: Supply and demand at current, constant, and the previous year's prices, including sectoral indices.	q	45	INS
Inflation: Including the underlying inflation of non-administered and administered prices.	m	14	INS
Fiscal Sector			
Tax and nontax revenue of the central government, decomposed on the basis of main tax and nontax revenues items.	m	30	MoF
Total expenditures: current and capital, transfers and subsidies.	m	30	MoF
Capital expenditure: by type of financing: domestic and external (differentiating loans and grants), and by main sectors and projects (agriculture, social, infrastructure).	m	45	MoF
Current expenditure: by type of expenditure: wages, goods and services, transfers.	m	45	MoF
Social expenditure.	q	45	MoF
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	MoF
Stock of domestic arrears as per TMU, as well the stock of accounts payable that correspond to expenditures committed/payment ordered more than 90 days before (and by type of expenditures).	q	45	MoF
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.	m	30	MoF
Domestic borrowing from banks and nonbanks: including bonds, Treasury bills, and other issued securities.	m	30	MoF
Debt guaranteed by the government: by instrument and type of currency (in dinars and in foreign currencies and its equivalent in national currency).	m	60	MoF
External and domestic debt service: amortization and interest.	m	60	MoF
External payment arrears: external debt contracted and guaranteed by the government.	q	30	MoF/CBT
Debt rescheduling: possible rescheduling of debts contracted and guaranteed by the government, agreed with creditors.	q	45	MoF
Consolidated accounts of the central government at the CBT: with a breakdown of the stock of deposits as follows: (i) Treasury current account; detailed by sub accounts of the central government, N BIS, outstanding payments, Public administrative entities (EPA), and local governments (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; and (vii) Foreign exchange accounts pending adjustment in dinars (available).	m	30	CBT MoF/TGT for sub-account

Information to Be Reported in the Context of the Program (continued)

External Sector			
Imports of petroleum products: average import price and volume of main petroleum products.	m	30	CBT
Deposits: Stock of foreign currency deposits, according to the residence of the holder.	m	14	CBT
External debt:			
Debt service (amortization and interest) of institutional agents by type of currency (in foreign currency and its equivalent in dinars).	q	30	CBT
Total disbursements of external debt of institutional agents by type of currency (in foreign currency with its equivalent in dinar)	q	30	CBT
Stock of external debt of institutional agents by type of currency (in foreign currency and its equivalent in dinars).	q	90	CBT
Overall net external position of Tunisia (in conformity with our obligations under SDDS).	a	180	CBT
Balance of payments: Prepared by the CBT.	q	30	CBT
Monetary and Financial Sector			
CBT accounts at the current exchange rate: Monthly situation of the Central Bank by sector (figures at the end of the period).	m	15	CBT
Reserve money and net domestic assets (NDA): Monthly forecast.	m	15	CBT
Monetary policy operations and liquidity factors: Daily and monthly balances. Detailed table including: i) intervention on the money market of the central bank (Dinars); (ii) deposit facility; iii) ordinary tenders iv) loan facility; (v) overnight lending; vi) repo at 1-7 days and 3 months; vii) FX swap exchange; viii) open market operations; (ix) minimum reserves; and x) excess reserves.	m	15	CBT
Monetary survey at the current exchange rate: Monthly balance of the banking sector, counterparts of broad money, leasing banks, and resources of the resident financial system; preliminary (30 days) and definitive (45 days).	m	30 and 45 days	CBT
Interest rates of financial operations: Detailed tables on lending and savings rates and effective global tariffs produced by the Observatory of Financial Inclusion.	m	30	CBT
Credit data: Monthly data on credit distribution by sector (private/public); credit to enterprises (by economic sector); and credit to individuals (by purpose).	m	30	CBT
Foreign exchange market operations, interbank market, retail market and wire transfers for CBT purchases on the retail market:	w	1	CBT
CBT interventions (sales and purchases) on the foreign exchange market in million of dinars (and equivalent in US million) including total market transactions, foreign exchange sales to energy companies and all exchange rates for all such transactions, total FX demand by banks, total FX positions of banks, stock of CBT currency swap (provide details on direction of transactions (TND/FX or FX/TND), amounts of principal, spot exchange rate in swaps agreement, interest rate applied on FX counterpart), detailed information on other BCT's forward foreign exchange operations, including outright forward sales of Tunisian dinar. 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.			

Information to Be Reported in the Context of the Program (concluded)

Type of Data and Description	Periodicity Weekly (w) Monthly (m) Quarterly (q)	Delay (in Days)	Responsible Department
IMF account statements: Monthly consolidated statements of the IMF No. 1, No. 2, and Securities Account.	m	30	CBT
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	CBT
Direct refinancing of commercial banks by the CBT: Breakdown by bank.	m	14	CBT
NPLs: Stock of banking sector NPLs and breakdown by commercial banks.	q	60	CBT
Balance sheets of commercial banks, including detailed income statements, in accordance with "Uniform Bank Performance Reporting" agreed with Fund staff.	q	60	CBT
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	CBT/MoF
Petroleum: Price structure of the petroleum products and the needed data to monitor the automatic adjustment mechanism (formulas and data).	d	15	Min. of Energy