International Monetary Fund

Tunisia and the IMF

Press Release:
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December 8, 2017

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

June 22, 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.

Appendix I. Letter of Intent

Tunis, June 22, 2018

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

Madame Managing Director,

1. The economic recovery is confirming at the beginning of 2018. Growth accelerated to 2.5 percent in the first quarter thanks to an excellent agricultural season and a renewed performance of exports of goods and services. The increase in tourist inflows and foreign direct investment (FDI) is a positive signal of a return of confidence from economic operators. They are also tangible benefits of our efforts to improve the security climate and the business environment. We are, however, aware that these successes, while encouraging, could be weakened if macroeconomic vulnerabilities were to persist. We can thus assure the Tunisians that we are determined to fight inflation, which is weighing on people's purchasing power and growth. At the same time, we will continue to rebalance public finances and reduce the external deficit. We remain vigilant about the evolution of international oil prices and resolved to mitigate their impact on the budget by adequately adjusting domestic energy prices.

2. The consolidation of the democratic system continues in Tunisia. The first free and independent municipal elections were held on May 6, 2018, further anchoring the democratic culture among our citizens and laying the groundwork for local power based on decentralization, as required by the new Constitution. Tunisia remains a vibrant young democracy, a unique experience of successful political transition in the region that has much to contribute to its allies and partners. Today, the sustainability of this experience also means a significant improvement in economic conditions. Our choice to undertake far-reaching reforms is guided by this goal, but we must be careful that this process does not exacerbate social tensions to the point of jeopardizing the confidence of our people in their democracy. We therefore count on the constant and patient support of our partners, particularly through the International Monetary Fund (IMF), for the necessary financial and technical support during this pivotal period in our common history.

3. Performance under the four-year program supported by the IMF's Extended Fund Facility (EFF) has improved significantly. As expected, all quantitative targets at end-March 2018 were met. We observed all four quantitative performance criteria (QPC): (1) the floor on the primary balance of the central government (cash, excluding grants); (2) the ceiling on total primary current expenditure; (3) the cap on net domestic assets of the (NDA); and (4) the floor on net international reserves (NFA) of the Central Bank of Tunisia (CBT). We also observed the continuous zero ceiling on the accumulation of external arrears and the quantitative indicative target (IT) on social spending. The

new quantitative indicative target on net foreign exchange (FX) interventions of the CBT was observed in March, April, and May. We completed three Prior Actions (PAs) for the Third Review, and, at mid-June, three of the nine Structural Benchmarks (SBs) due for the Third Review, and one more SBs with a delay. Substantial progress has been made on many other SBs.

4. In view of the macroeconomic policies implemented to achieve the main objectives of the program and the continuation of the agreed structural reforms, we request the conclusion of the Third Review under the program supported by the EFF and the disbursement of SDR 176.7824 million. To strengthen further the monitoring of our reforms and highlight our commitment to preserve equity and social justice throughout our adjustment process, we propose to include two new QPCs from September 2018 onwards. The first will be related to CBT's net FX interventions, which will be added as a QPC in addition to the monthly IT. The second will be to convert the IT on social spending to a QPC. While end-June PCs appear on track to be met, data are not yet available to assess the performance. We therefore request a waiver of applicability for all end-June quantitative criteria. We have also implemented and are committed to implement the measures listed in the schedule of PAs and SBs, as described in the Memorandum of Economic and Financial Policies (MEFP, Tables 1 and 2) and the attached Technical Memorandum of Understanding (TMU).

5. This Letter of Intent is based on the previous Letter of Intent and the MEFP dated March 14, 2018. The attached MEFP outlines the main elements of the reform agenda and the policies of the Government and of the CBT, which we intend to put in place during the period 2018–20. We remain committed to applying our program rigorously, while being aware of the challenges of the national, regional, and international context.

6. We are convinced that the policies described in the attached MEFP are appropriate for achieving the objectives of our economic program. In addition, we remain vigilant and ready to take any additional measures that may be necessary to achieve these objectives. In line with the IMF's consultation policies, we will discuss with IMF staff the adoption of these measures prior to any revision of the macroeconomic policies contained in this MEFP. All information and data necessary for the monitoring of the program, as well as for the technical assistance (TA) missions requested under our EFF-supported program, will be provided to IMF staff within the agreed deadlines.

7. 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/	/s/
Marouane El-Abassi	Mohamed Rida Chalghoum
Gouverneur de la Banque Centrale de Tunisie	Ministre des Finances

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 at maintaining macroeconomic stability while promoting stronger and inclusive growth.

1. **Bringing the economic transition to a successful end will consolidate the political transition and remains a priority.** The determined choice we made for the overhaul of our economy calls for an acceleration of concrete reforms to strengthen the economic recovery through investment, exports, and more private initiative. Maintaining public finances and external balances in good health will also be essential. Beyond the economic merits, these policy priorities are necessary to make the democratic transition successful. Being committed to these economic objectives might seem difficult but is nevertheless indispensable and we must explain this choice to the public.

2. **The Government is committed to implementing its reform plan**. Since the last quarter of 2017, the Government has accelerated the pace of reform, both through the adoption of legal and regulatory texts, and the effective implementation of concrete reform proposals.

I. VULNERABILITIES ON THE RISE DESPITE THE RECOVERY

3. **The recovery is gaining strength in 2018.** Growth in the first quarter was 2.5 percent, the quickest pace since 2014. This result is mainly explained by the robust performance of olive oil production, but a renewed dynamism in exporting sectors benefiting from the improvement of European demand also played a significant role. In addition, tourism, transport, and financial services continue to show encouraging results. These results could have been better had it not been for the poor performance of the mining sectors due to social problems. The Tunisian economy is now on an upward trajectory, where growth is increasingly driven by investment and exports, promoting inclusive growth in the medium term.

4. **Gradual reorientation of fiscal policy.** The first quarter has launched fiscal consolidation in line with our commitments made in the 2018 Budget Law. Tax revenues grew 12 percent from their level in the first quarter of 2017, while current expenditure fell by 10 percent, with the wage bill declining by 9 percent at end-March. In parallel, capital spending increased by 22 percent, confirming our goal to reorient government spending towards investment. Outstanding public debt reached the level of 68.45 percent of GDP at end-March against 61.89 percent of GDP in the same period last year. The reduction of public debt is necessary in order to create the fiscal space required to sustain the recovery and create more jobs for young people.

5. **Inflation has become a major concern.** Inflation increased to 7.7 percent in May 2018, the highest level since 1991. Several one-off factors were at work: in addition to the effect of past salary increases, the surge in inflation is also due to increases in various stamp duties and taxes in the 2018 Budget Law. That said, a monetary policy stance that is not restrictive enough, accompanied by the depreciation of the exchange rate and robust growth in credit to the economy have also pushed up inflation. Indeed, the increase in the policy rate and the widening of the corridor between deposit

and lending rates at the Central Bank of Tunisia (CBT) did not manage to bring the money market rate (TMM) in real terms into positive territory and thus reduce commercial banks' refinancing volumes at the CBT. The latter reached new records to exceed TD 14 billion in mid-May 2018. Bringing inflation gradually back to historical averages (3 to 5 percent) will remain the main objective of the CBT, given that inflation at today's levels is detrimental to social cohesion, accentuates poverty, and discourages new investments.

6. **The current account improved somewhat but FX reserves remain under pressure.** The current account improved in the first four months of 2018, with the deficit reaching 3.7 percent of GDP (compared to 4.4 percent of GDP for the same period in 2017). This result owed to the good performance of exports of agriculture and agri-food industries, as well as to the recovery in exports of manufacturing industries. At the same time, tourism receipts and remittances have grown considerably. On the other hand, the import bill grew, partly driven by a large deficit in energy linked to the increase in international oil prices. The slight improvement in the current account was not enough to halt the ongoing deterioration of our level of foreign assets. Reserve coverage fell from 93 days of imports at end-2017 to 76 days of imports at end-May, partly due to high debt service and the current account deficit. We are aware that high oil prices for the remaining period of the year, combined with low domestic energy production, would put significant pressure on the external sector of our country.

7. **The banking sector remains resilient to tensions.** The banking sector remains stable and credit to the economy has been growing rapidly. On the other hand, deposit growth in 2017 was not enough to relieve pressure on banks' liquidity because of the significant contractionary effects from high government financing needs and strong demand for FX, which led to an excessive reliance of banks on Central Bank refinancing. This situation became more pronounced during the first months of 2018. However, the aggregate capital ratio of the banking sector remained around 12 percent at end-March 2018, supported by sound bank profitability arising from strong demand for consumer and housing loans. Non-performing loans remain high, at around 14 percent of total loans at the end of March 2018, provisioned at 58 percent (excluding reserved interest). The adoption of two laws giving public banks more flexibility in terms of credit activities and debt write-off in May 2018 will start the process of non-performing loans (NPL) resolution at public banks. We hope that reinvigorating this activity will improve access to finance for the entire economy, especially for small and medium-sized enterprises (SMEs).

8. **Improvements in the business environment.** The Government has paid particular attention to the implementation of major economic reforms to further improve the business environment. 2018 saw the establishment of the governance structures created by the new Investment Law, namely the Tunisian Investment Authority and the Strategic Investment Council. FDI has grown at its fastest pace since 2010. Moreover, the adoption of the "Startup Act" is part of our strategy "Startup Tunisia" aimed at transforming Tunisia into an attractive regional hub for new companies. Also, with the view to boost public-private partnerships (PPPs) in strategic investment projects, a high-level conference on PPPs and their possible applicability to concrete investment proposals is scheduled for June. In addition, our participation in the G20 initiative "Compact with

Africa" will be a good platform to highlight to potential investors our progress in improving the business climate.

9. **Urgent implementation of reforms is a top priority.** Recognizing the acute pressures and fragility of our macroeconomic conditions, the Government has embarked on a resolute effort to restore the soundness of economic fundamentals. To maintain macroeconomic stability, control fiscal and external balances and contain debt, it will be essential to foster more sustainable and inclusive growth. We will redouble our efforts in this vein, because the later the reforms are put in place, the higher will be the adjustment costs and the greater will be the delay in reaping the dividends of reform.

II. ACCELERATING REFORMS IS ESSENTIAL TO SUSTAIN THE RECOVERY

10. Our performance under the program improved at the beginning of this year, which allowed us to meet all the quantitative criteria of the program at end-March 2018:

Quantitative Performance Criteria (QPC)

- We observed the floor on the **primary balance** of the central government, thanks to a good performance of government revenue (tax and non-tax revenues) as well as strict discipline in expenditure execution.

- We observed the ceiling on **total primary current expenditure** at end-March following measures taken to contain the wage bill (limiting new recruitment and stopping promotions) and control energy subsidies (price increases of car fuel products and electricity).

- We observed the ceiling on **net domestic assets** (NDA) at end-March. Despite persistent pressure on the liquidity of commercial banks, we managed to contain somewhat the volume of refinancing of commercial banks at the CBT. Increases in the policy rate and the widening of the interest rate corridor have deterred banks from relying on CBT funding.

- We observed the floor on **net international reserves** (NIR) at end-March. This result is mainly due to two factors: (i) the slight improvement in the current account deficit in the first quarter (linked to the good performance of agricultural exports); (ii) our effort to restore confidence in the FX market, which has stimulated the supply of FX while containing our interventions in the form of sales.

Continuous Performance Criteria

- We observed the zero ceiling on the accumulation of new **external debt payment arrear** by the central government.

Quantitative Indicative Targets

- We observed the zero ceiling on the accumulation of new **domestic arrears**.
- We observed the ceiling on **net foreign exchange interventions** by the CBT for the months of March, April, and May.
- We observed the floor on **social spending** in line with our commitment to strengthen the protection of the most vulnerable.

11. We revised the list of Structural Benchmarks (SBs) with a view to rationalize their number and prioritize their effective implementation.

Met Structural Benchmarks

- **Structural reforms/private-sector development.** The new Investment Law has now entered into force, with the Tunisia Investment Authority (*met SB*) becoming fully operational and the publication of the government decree on the negative list of investment activities that remain subject to authorization on May 11, 2018.
- **Financial sector reform.** Parliament (i.e. the Assembly of the People's Representatives, ARP) adopted a law on May 22, 2018 simplifying loan write-off rules ensuring that final judicial judgments are no longer necessary. It also voted at the same meeting a law allowing public banks to write-off non-performing loans in the same way as private banks (*met SB*).
- **Fiscal policy and reforms of public institutions.**
  - After a long consultation with social partners on the parametric components of the pension reform, the Council of Ministers adopted a draft bill on June 20, 2018 (*SB not met, but implemented with delay*), and asked Parliament to pass it before end-September 2018.
  - After the completion of the functional review of the Ministry of Equipment, the final reports on the functional reviews of four key ministries were delivered. The results of the reviews will be the basis for the current reflection on how to implement the government's strategy for modernizing the public service.

Reprogrammed Structural Benchmarks

- **Governance/private-sector development.** The decree appointing the members of the High Anti-Corruption and Good Governance Authority could not be signed in due time in view of the need for further consultations between party blocs in parliament (*reprogrammed SB for December 2018*).
- **Financial sector reform.** The law on the effective lending rate ceiling (TEG) is currently under discussion in parliament. Contrary to what was initially envisaged, the interest rate cap for loans to individuals will remain at its current level of +20 percent above the average lending rate,

while the threshold for SME loans will be raised to +33 percent. We decided to leave the interest rate cap for individuals unchanged to support the bargaining power of households vis-à-vis banks (*reprogrammed SB* for December 2018).

- **Exchange rate policy.** The CBT's auction mechanism to sell FX to the market has improved as the auction now systematically rejects the least competitive offer on a bank by bank basis. We will need the time between now and end-August to render the auctions fully competitive (*reprogrammed SB* for August 2018). This new operational approach aims to keep our interventions in the FX market within the limits agreed in the program for April and May 2018 (*Prior Action*).

Not met Structural Benchmarks

- **Financial sector reform.** The banking resolution committee has become operational and is scheduled to hold its first meeting on June 28, 2018. The committee's first meeting will focus on examining and reviewing the situation of the *Banque Franco Tunisienne* (BFT), which the CBT had referred to the committee. The process leading to the orderly resolution of the BFT has thus started (*reprogrammed SB* for August 2018).

- **Fiscal policy and reforms of public institutions.** After a first increase in January, the quarterly fuel price adjustments continued in April; although the price increases remained below the level prescribed by the automatic fuel price formula (*missed SB*). In order to cope with recent pressures from higher international oil prices and contain the fiscal deficit, future adjustments will be significant and based on the measures described in paragraph 14 of this memorandum (*Prior Action*).

Dropped Structural Benchmarks

- **Fiscal policy and reforms of public institutions.** We created a General Committee on Taxation, Public Accounts, and Collections (CGFCPR) in December 2017 to overcome the challenges associated with the fragmentation of tax functions. This committee will follow the model launched by France in 2007. We are aware that the merger of the General Directorate of Taxes (DGI) and the General Directorate of Public Accounting and Collections (DGCPR) is an onerous operation that includes technical, human, legal, managerial, and procedural challenges. Completing the merger can take several years. We request to drop two important SBs related to the establishment and operationalization of the new Large Taxpayers Unit (LTU) since its implementation will require more time, given the new direction in our efforts to modernize tax administration. The dropping of the SBs will not have a direct impact on tax revenues.

A. Maintaining Macroeconomic Stability

12. We intend to urgently implement measures to address pressing vulnerabilities and protect the ongoing recovery. The good performance of the Tunisian economy during the first quarter confirms our forecast of a growth rate of 2.4 percent for the whole of 2018. This positive signal encourages us to persevere on our path of reform, as major pressures on the budget, external balances and inflation persist. Without a proactive response, we run the risk of negatively affecting macroeconomic stability, which would undermine the nascent recovery, tarnish the social climate, and derail the economic transition. Our response in terms of economic policies will focus on: (i) the pursuit of well-targeted fiscal consolidation in an international context characterized by higher oil prices and greater risk aversion in international markets; (ii) a tightening of monetary policy to avoid unhinging inflation expectations; and (iii) a continuation of increasing the flexibility of the exchange rate.

Fiscal Policy

13. The fiscal consolidation course remains on track. The fiscal deficit reduction path agreed in the Second Review of the Program remains relevant, based on a consolidation of around 1 percent of GDP per year, starting in 2018, to reduce the deficit to less than 2.5 percent of GDP by 2020. This strategy will reverse the unsustainable trend that public debt has taken in recent years. Strict spending discipline, fairer taxation, more dynamic tax collection (including for the collection of arrears), and a reorientation of spending to social sectors and public investment remain priorities. Although desirable in the presence of inflationary pressures, a stronger fiscal adjustment is unrealistic given the imperfection of social safety nets and the sharp rise in international oil prices. To ensure adequate financing of the budget, we are counting on mobilizing external resources, notably by issuing two sovereign bonds in international markets in July and in December of this year. Domestic financing will be consistent with the financing needs established in the 2018 Budget Law.

14. Our greatest priority will be to minimize expenditure deviations from the agreed ceilings. Strong spending pressures in the first half of the year would likely increase the budget deficit by around 1 to 2 percent of GDP in the absence of an appropriate policy response. As a result, we are considering the following measures to minimize any slippages in spending and we will introduce by the end of September a Supplementary Finance Law that takes the following commitments into account:

- ***Controlling the wage bill.*** The expected results of the two departure programs—(i) the early retirement program and (ii) the negotiated voluntary departures—may unfortunately prove unachievable. Approximately 5,000 civil servants will benefit until July 2018 from early retirement, which will result in savings of TD 120 million a year. However, to date, only 1,771 employees have shown an interest in the negotiated voluntary departure program. To maintain the objective of a wage bill of 12.4 percent of GDP by 2020, we have decided to launch a second wave of the voluntary departures program in July 2018. At the same time, we continue our policy of strictly limiting the number of new hires to less than 3,000 civil servants per year in 2018 and to less than 3,000 in 2019. Regarding wage bargaining, we renew our commitment not to grant no additional wage increases in 2018 and 2019, unless growth surprises on the upside compared to our current forecasts for the period 2019–20, and without affecting the planned adjustment path of the wage bill to 12.4 percent of GDP in 2020. Besides, in the interest of budget transparency, we will eliminate the use of tax credits starting in 2019.

- ***Containing energy subsidies.*** The sharp rise in international oil prices since the beginning of the year is a major risk for the budget. Without additional measures, assuming an average price per barrel of US$70 in 2018, the total energy subsidy bill in 2018 would be around TD 3,600 million (compared to TD 1,500 million included in the 2018 Budget Law). Despite important policy measures, especially regarding price adjustments, which can generate savings of about TD 900 million, we will have to increase the energy subsidy budget to TD 2,700 million (2.5 percent of GDP), while maintaining the overall deficit at 5.2 percent of GDP. To achieve the savings, we will adjust fuel prices upwards on a monthly basis. We made a first increase on June 22 of 70 millimes on average, which will be followed by monthly adjustments from July to the end of 2018 to achieve a saving of TD 250 million. If the cap of TD 2,700 million for energy subsidies in 2018 risks to be exceeded, we will make an extraordinary increase in October to stay within the limits of the programmed envelope. The increase in June and subsequent monthly adjustments, as well as the possibility of an extraordinary adjustment in October, were the subject of public statements in June 2018 (Prior Action). In addition, we will continue to revise upward the electricity and gas rates mostly for corporates after the May hike for corporates, which will save another TD 300 million. The remaining savings will come from other measures aimed at rationalizing consumption, notably by reducing the supply of subsidized fuels in exchange for a new, more efficient and non-subsidized product offering. To protect the most vulnerable from the impact of this price adjustment policy, we will increase targeted social spending (see Section B, Paragraph 18).

- ***Reforming the social security funds.*** After extensive consultations with social partners, the Government adopted the pension reform on June 20, 2018 (SB not met, but implemented with delay), aiming to reduce the financial imbalances of our two pension funds, for public (Caisse Nationale de Retraite et de Prévoyance Sociale, CNRPS) and private-sector employees (Caisse Nationale de Sécurité Sociale, CNSS) and the medical insurance fund (Caisse Nationale d'Assurance-Maladie, CNAM). Parliament approval and the entry into force of the law is expected before the end of September 2018, with retroactive effect from 1 July 2018. The main components of the reform include: (i) a parametric reform of pensions (including retirement age, contribution rate, and indexation); (ii) a governance reform of the funds; and (iii) the implementation of a new arrears recovery strategy for CNRPS, CNSS, and CNAM. Due to the delay in the implementation of the reform, the Government will transfer about TD 300 million to the CNRPS, with the remaining shortfall being filled by renewed efforts in arrears collection. The projected deficit of CNSS would be fully covered by a stronger collection effort (including from some state-owned companies that have seen their bank accounts frozen due to their failure to transfer contributions to the pension fund). The adoption of the reform law is a first step towards a comprehensive consolidation of the financial position of the social security funds, and will be complemented by larger reforms in the years to come.

15. Greater revenue mobilization remains a priority. Regarding tax administration, we intend to merge the DGI and the DGCPR, in line with the model of the French tax administration. To this end, we have initiated a large-scale program of technical assistance and capacity building. We hope to complete the first step of merging the collection and control functions before the end of 2018. At the same time, in the context of the 2019 Budget Law, we have planned to implement the convergence of tax rates between the "offshore" and "onshore" tax regimes to respond to requests from the European Union (EU), with a view to permanently remove Tunisia from the EU's list of non-cooperative tax jurisdictions. In addition, the 2019 Budget Law will also introduce a VAT reform for the liberal professions[1] (raising the rate from 13 to 19 percent) from 2019 to reinforce the impartiality of the reforms (*SB* for December 2018).

Monetary Policy

16. Accelerating inflation requires a tighter monetary policy stance. Inflation reached 7.7 percent in May, an unprecedented level since 1991. Even more worrying, these upward trends in inflation are expected to continue for the remainder of the year due to the depreciation of the dinar and rising international prices, especially for energy. Given that inflation is now outside the 3 percent to 5 percent corridor for 9 months and continues to accelerate, there is a risk that inflation expectations become unanchored. The sharp increase in money and credit aggregates observed so far, as well as the record performance of the Tunis stock market index following the rise in interest rates in March, suggest that the stance of monetary policy remains accommodative. In fact, it adds to inflationary pressures. Given that inflation at such levels weighs on the purchasing power of the Tunisian people, affects the competitiveness of the economy and undermines the recovery as well as the social climate, we are implementing a strategy to combat inflation based on the following main elements:

- ***Steering the real money market rate (MMR) to a positive level.*** Our short-term operational target will be a positive real money market rate. Following the 75-basis point increase in March, we raised the policy rate by another 100 basis points in June. Thanks to these efforts, we expect that our credibility as the guarantor of price stability would strengthen and the acute pressure on banks' liquidity would decline, which would then slow the supply of credit to the economy. After the two increases this year, the money market rate in real terms remains negative, calling for additional adjustments in the second half of the year to reach neutrality. We stand ready to tighten monetary policy faster than expected if inflation (especially core inflation) remains above our forecast in the coming months. Efforts to tighten monetary conditions will also help us reduce the record level of bank refinancing from the Central Bank. We will contain the refinancing by TD 1 billion by the end of the year.

- ***Strengthening the forward-looking communication of monetary policy.*** Direct and ongoing communication to the public about our commitment to prioritize our price stability mandate will help guide inflation expectations. The better we manage to anchor expectations, the smaller the

[1] Activities where profits are derived from intellectual activity.

necessary adjustment will be to bring down inflation towards its historical average over the medium term.

- ***Enhancing the monitoring of balance sheet effects and managing macro-prudential risks.*** We have strengthened the refinancing framework of the Central bank to better control risks to the Central bank's balance sheet. We have increased the haircut of private assets from 25 percent to 30 percent and we will proceed to a daily valuation of negotiable securities used as collateral for refinancing operations based on the new yield curve as of July 4, 2018. We will continue to deepen our understanding of the impact of the envisaged monetary tightening and more exchange rate flexibility. To date, our analysis suggests that monetary tightening would not cause significant risk to the solvency or liquidity of banks, businesses and households. Interest expenses, for the average firm, for example, represent only 2 percent to 3 percent of total expenses. Similarly, the overall profitability of the banking system was 1.2 percent in terms of return-on-assets (ROA) and 13.9 percent in terms of return-on-equity (ROE) last year, and exposure to currency risk remains low (about 8 percent of assets). However, we will develop new analytical capabilities to analyze balance sheet effects, particularly new supervision instruments and new skills for banking supervisors.

- ***Continuing to improve transmission channels.*** Better monetary transmission will depend on: (i) strengthening the role of the CBT as a guarantor of price stability through proactive monetary policy that puts price stability above all other competing objectives; (ii) reducing commercial banks' use of the CBT's refinancing window in favor of more activity in the interbank market; (iii) relaxing the constraint posed by the interest rate cap applied to business loans and a more frequent updating of the calculation used to determine the level of the effective lending rate ceiling (the TEG).

Exchange Rate Policy

17. More exchange rate flexibility is necessary to facilitate a reduction in external imbalances. The observed improvement in the current account in the first quarter is partly due to greater exchange rate flexibility. This approach will allow us to stimulate exports, especially manufacturing, discourage imports of consumer goods, and ultimately protect the CBT's FX reserves by giving more importance to the fundamentals of supply and demand for FX. According to our empirical estimates, the elasticity of the current account with respect to the real effective exchange rate is non-negligible, confirming the important role of the exchange rate flexibility to ensure the sustainability of Tunisia's external position. In the short term, we are committed to:

- ***Limiting net sales of FX.*** We have strictly observed the limit on net sales by the CBT in the FX market agreed under the program in the months of April and May (*Prior Action*). This achievement has helped maintain the dinar on a flexible path, where the exchange rate better reflects market forces. In addition, we will introduce more competitive FX auctions in the coming months (*reprogrammed SB* for August 2018). This operational change will ensure that the CBT's interventions serve to smooth excessive volatility without leaning against an alignment of the dinar with fundamentals that determine its equilibrium rate. We will seek technical assistance from the IMF to guide this transition to a competitive currency auction system.

- ***Reviewing exchange restrictions.*** We reaffirm our commitment to withdraw the circular 2018-01 (which replaces the original circular 2017-09) limiting access to financing for imports of non-priority goods by the end of the year. We found that the effect of this measure on imports was mixed and that its introduction created uncertainty for economic operators about the prospects for FX regulation in the years to come.

B. Providing Adequate Social Protection

18. Strengthening the scope of social protection remains a central moral commitment in our reform agenda:

- ***Broadening the social safety net.*** In order to compensate the poorest families and the most vulnerable (the unemployed and retired) against rising energy prices and rising inflation, the Council of Ministers met twice on 1 and 11 June 2018 to examine social intervention policies. We have increased the financial envelope for the financing of social expenditures by about TD 100 million (for the remaining six months of the year) over and above the measures announced in January 2018, while at the same time increasing the effectiveness of the targeting of the poorest.

    - The National Program of Assistance to Necessary Families (PNAFN) will be our main instrument to reach our goal of protecting the most vulnerable. We have already increased the allowances for the average needy family by around TD 30 (TD 75 million) at the beginning of the year. We will strengthen this policy further through the following measures:

        (i) extending coverage to 35,000 households on the waiting list to increase the number of targeted households from 250,000 to 285,000 (TD 108 million a year); and

        (ii) covering transport costs for children and students from families in need (TD 1 million a year).

    - To mitigate the back-to-school and university expenses of the population in general and the middle class in particular, this year we have planned two re-entry allowances for families:

        (i) granting allowances of TD 500 for back-to-school expenses for new graduates per family (TD 26 million per year); and

        (ii) granting exceptional return allowance of TD 150 for categories B, C, D and A3 (TD 40 million per year).

    - To consolidate the provision of health care through our network of health centers close to the vulnerable populations, we decided to:

(i) increase the stockpile of medicines for chronic and heavy diseases (TD 25 million per year) for the benefit of primary care facilities; and

(ii) consolidate the maternal health care program (TD 15 million a year).

The measures to increase social spending have been the subject of a public announcement by the Government (*Prior Action*).

- ***Protecting social spending.*** Social spending will play a key role in our efforts to mitigate the social impact of fiscal and monetary adjustment in this difficult time. For this reason, we have agreed to elevate the current indicative target on social spending to a formal quantitative performance criterion from September. Two-thirds of our social expenditures take the form of social assistance (mainly cash transfers to vulnerable families and job training programs) and two-fifths are dedicated to education spending (mainly scholarships).

- ***Continuing social security reform.*** The reform bill approved by the Council of Ministers (*SB not met, but implemented with delay*) and scheduled to be discussed in Parliament is in itself insufficient to ensure the viability of the social security system due to the structural gap between benefits (pensions up to more than 80 percent of salaries) and the financial resources available to the pension funds. The financial situation, already precarious in 2018, is likely to worsen in the coming years, particularly with longer life expectancy. This bill is only a first step towards a more comprehensive reform of the retirement system aimed at resolving its structural deficits. We will continue to work closely within the Social Protection Committee with our social partners—the public labor union (*Union Générale Tunisienne du Travail*, UGTT) and employers' association (*Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat*, UTICA)—and with the technical support of the World Bank and the International Labor Office to improve the quality of the reforms with the objective of achieving financial equilibrium of the pension funds.

C. Creating More Opportunities for the Private Sector

Governance and Business Climate

19. Boosting the business climate. The first half of 2018 saw the establishment of the governance bodies of the new Investment Law. Put differently, the law effectively came into force. Specifically, the Tunisian Investment Authority started operations (*met SB*), which is now the sole interlocutor of new investors, operating as a "one-stop shop" to facilitate formalities and administrative procedures. Second, the Strategic Investment Council brings together private and public representatives to promote global and sectoral strategies. In addition, the government has made concrete progress towards its goal to substantially reduce the number of authorizations necessary for new investment. The publication of a government decree on May 11 specifies eight sectors ("negative list") where authorizations remain mandatory—for all other sectors, any investment is now free of prior authorization. If an authorization remains necessary, the decree also sets the deadlines for granting authorizations, between 60 and 90 days. If these time limits have lapsed, the authorization is considered granted according to the principle of "silence is consent".

20. Strengthen good governance and the fight against corruption. The Government reiterates its irreversible commitment to fight against this economic evil that undermines public confidence and weakens political support for the reform program. To this end, our main instrument will be the High Anti-Corruption and Good Governance Authority (HACGGA), which will be created on the basis of the current National Anti-Corruption Authority (*Instance Nationale de Lutte Contre la Corruption*, INLCC). Despite considerable efforts, the decree appointing the members of the Board of the High Authority could not be published because of the complex consultations between the party blocs in Parliament in charge of selecting the members. Parliament is aware of the importance of quickly nominating the board members and we hope that the process will be completed by September (*reprogrammed SB* for December 2018).

Financial Sector

21. Continue financial sector reforms. The overhaul of the financial sector is a major component of our economic vision for the country, leading to economic and social inclusion and more economic opportunities for all Tunisians. In concrete terms, the overhaul of the system involves improving the quality of banks' loan portfolios, strengthening financial stability and bank liquidity, enhancing banking supervision, and improving access to finance.

- ***Resolving non-performing loans.*** We are moving forward in our effort to strengthen the asset quality of the banking system, especially of public banks:

    - Parliament adopted two fundamental laws to put public banks on an equal footing with private banks when it comes to resolving NPLs. These laws will better enable public banks to achieve the objectives of their restructuring plans (*met SB*): (i) a law allowing public banks to abandon classified loans on the same basis as private banks, (ii) a law simplifying the rules for write-off so that only a first judicial judgment of a first instance is necessary. Regarding the law of write-off, the Directorate General of Tax Legislation at the Ministry of Finance will issue guidance notes on applying the new rules to the industry by end-June 2018.

    - The decree stipulating that the public banks are not subject to the assent of the commission established by Article 474 of the Commercial Code was adopted in January by the Council of Ministers and should be signed by the Head of Government by end-June 2018.

    - The Ministry of Justice, in collaboration with the Ministry of Finance, has already requested technical assistance from the United Kingdom. We are waiting for the development of the training schedule that will be finalized by the end of June 2018. The Ministry of Justice remains committed to identifying the commercial courts that will specialize in banking issues, and the training program will be set up by September 2018.

    - The Ministry of Tourism (in collaboration with the *Agence Foncière Touristique*, the Banking Association and the Federation of Hoteliers) is continuing to explore a mechanism to reprofile hotels whose sustainability is not assured. The objective will be to allow them to restructure their debts and upgrade the level of their touristic services. We are committed to propose concrete actions by September 2018.

  - The draft bill on collection companies has been delayed. We continue to work on the text to refine the details of Article 19 related to the protection of debtors. Parliament will adopt the law by December 2018.

  - The Ministry of Finance and the Financial Sector Reforms Committee (COREFI) continue to prepare a comprehensive strategy on NPL treatment and resolution in the banking sector, which will be published in December 2018.

- ***Operationalizing the resolution framework for banks and financial institutions in difficulty.*** Following the consultation with ministerial departments in charge of the litigation that opposes the Tunisian State and ABCI (former majority shareholder of BFT), the resolution committee, constituted last December, is scheduled to hold its first meeting on June 28, 2018 to examine the situation of the BFT transmitted by the CBT. The committee will prepare a roadmap for the next steps in resolving the BFT, considering the legal, financial and political complexities involved in this process (*reprogrammed SB* for August 2018). The deposit guarantee fund started its activities and began to build its pool of financial resources through contributions from the CBT, the Ministry of Finance and commercial banks in June 2018.

- ***Pursuing the modernization of banking supervision.*** In the current context of monetary tightening and rising inflation, we are committed to continue improving our supervision capacity to ensure that the financial sector remains sound. To this end, the staff of the Banking Supervision Directorate at the CBT will hire an additional 12 supervisors by the end of September 2018. We will continue to work closely with METAC to develop the tools put in place by Pillar II of the Basel Accord aimed at monitoring market and interest rate risk and assessing the capital adequacy of commercial banks. These initiatives include: (i) continuing to strengthen the CBT's internal capacity to implement ICAAP; (ii) issuing a circular on capital adequacy based on Basel II guidelines for measuring and managing market risks; and (iii) clarifying the CBT's regulatory framework for interest rates (IRRB), concentration and strategic risks. We are also continuing our efforts to move to consolidated supervision by the second half of 2019 and continue to monitor the resolution strategy for bad debts in the tourism sector (based on the white paper adopted in February 2018), including with respect to the loans granted an exemption to the contagion principle.

- ***Facilitating access to financing.*** The Ministry of Finance and the *Comité de Réforme du Secteur Financier* (COREFI) have made considerable progress towards the National Strategy for Financial Inclusion, which should be validated by the Government in September 2018. We continue to work on the development of financial inclusion indicators based on a survey (with the assistance of the European Investment Bank, EIB) to be finalized by the end of 2018. These indicators should be regularly published to monitor financial inclusion in Tunisia. We are also waiting for the adoption of the law on the regulation for credit bureaus (pending the discussion in Parliament), which aims to improve financial access by collecting and sharing financial data.

COREFI continues to work on the De-Cashing Strategy, which will be published by the end of June 2018. This topic has become even more important in the light of the liquidity pressures in the banking system. The objective of reducing currency in circulation and moving towards innovative payment services (such as online and mobile payments) is part of the fight against the parallel financial system and tax evasion. The strategy will contain an action plan for the short term that aims to limit cash payments within the public administration and adapting the regulatory framework for electronic payments. Finally, with the assistance of the *Kreditanstalt für Wiederaufbau (KfW)*, we are exploring a strategy to increase financial access for small and medium-sized businesses through the *Banque de Région* (approved by the Government in February 2018). In the medium term, we also aim to unify and strengthen other state instruments to support SMEs.

- ***Improving the safeguards framework of the CBT.*** To date, we have made progress in implementing the recommendations of the IMF safeguards assessment mission. In this context, and concerning: (i) risk management, we have drafted a text establishing the Risk Committee; (ii) the lender as a last resort framework, we issued a circular in December 2016 to regulate the framework. In addition, and to consolidate the controls on liquidity lending operations, the Bank prepared and shared a circular in March 2017 on the operational framework underpinning the conduct of monetary policy; (iii) as regards an external assessment of the internal audit function, the CBT's General Control Directorate will first carry out a self-assessment before resorting to an external evaluation.

- ***Reinforcing our AML/CFT framework and combatting the parallel economy.*** Under the leadership of the Financial Intelligence Unit "the Tunisian Commission for Financial Analysis (CTAF)", the commitments made under the action plan agreed with the Financial Action Task Force (FATF) are progressing. Tunisia has made progress since the adoption of the action plan in November 2017:

    - The government published a new decree on 4 January 2018 on the freezing of terrorist assets.

    - The Government has adopted two draft laws. The first law amends the 2015 AML/CFT law to consider, in particular, the fight against proliferation. The second law will deal with the commercial register, the register of effective beneficiaries, and the register of associations. Their adoption by Parliament is expected by June.

    - On 5 April 2018, the CTAF published six new decisions guiding the designated non-financial businesses and professions (DNFBPs), including accountants, lawyers, notaries, real estate agents, jewelers and casinos, on the detection and reporting of suspicious transactions. The CTAF organized awareness raising days for these professions. The government has issued ministerial orders on the same subject.

    - The Board of the *Ordre des Experts Comptables* has published standards on due diligence measures for accountants.

- In this context, the CTAF organize a workshop for more than 50 controllers of the various professions grouped under the DNFBPs as well as associations with a view to prepare an operational manual for the control function.

- Banks, Financial Market and Insurance Authorities finalized their risk assessments and have started to implement controls and imposed sanctions, based on a risk-based approach.

- The CTAF has strengthened its human resources by hiring 12 new staff members.

- As part of our efforts to refine the regulatory framework governing the banking sector in the area of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), the CBT has prepared a draft amendment to Circular No. 2017-08 to ensure full compliance with international standards, particularly taking into account the latest updates of the FATF Recommendations (February 2018).

Use of Public Resources

22. Actions that support fiscal consolidation continue:

- ***Better managing state-owned enterprises.*** The implementation of the performance contracts with four large state-owned enterprises allows us to monitor their financial situation, thanks to the dashboards of key indicators (particularly financial indicators) for the 30 largest state-owned enterprises, which is now operational at the Directorate General of Participations (DGP). We will also sign a performance contract with TUNISAIR that reflects the company's commitments made in its restructuring plan (*SB* for December 2018).

- ***Exploiting the results of functional reviews.*** The last outstanding functional review, involving the Ministry of Equipment, has been completed and validated (*met SB*). The information from all functional reviews to date is closely aligned with the priorities established by our Civil Service Reform Strategy, including improving management of human resources, the redeployment of excess staff to address potential staffing needs in other areas (especially in the interior regions), and the simplification of the pay and benefits system.

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, millions of TD) 3/	-3,951	Not Met	-814	-92	-1,247	-1,247	-3,123	Not Met	-1,141	-2,868	-3,784	-3,784	-3,959	Not Met
2. Ceiling on total current primary expenditure of the central government (millions of TD) 3/	19,054	Met	5,244	5,574	10,379	10,379	10,284	Met	14,932	14,702	21,757	21,757	21,823	Not Met
3. Floor on social spending (millions of TD) 6/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Ceiling on net domestic assets of the Central Bank of Tunisia (stock, 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
5. Floor on net international reserves of the Central Bank of Tunisia (stock, millions of US$) 5/	3,335	Not Met	4,773	3,105	2,906	2,884	2,951	Met	3,311	3,117	2,937	3,660	3,120	Not Met
Continuous Performance Criteria														
• Ceiling on the accumulation of new external debt payment arrears by the central government (millions of US$)	0	Met	0	0	0	n.a.	0	Met	0	0	0	n.a.	0	Met
Quantitative Indicative Targets														
• Ceiling on the accumulation of new domestic arrears (millions of TD)	0	Met	0	0	0	n.a.	0	Met	0	0	0	n.a.	0	Met
• Floor on social spending (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
Program assumptions on which adjusters are calculated in case of deviations														
• External financing of the central government (excluding IMF, millions of US$) 7/	1,555		475	992	2,166		2,196		3,007	2,757	3,226		3,419	
of which: multilateral and bilateral budget grants (millions of US$)	57		0	0	0		0		48	14	108		75	
• Public external debt service (interest and amortization, millions of US$)	1,431		270	263	1,055		1,080		1,481	1,521	1,823		1,902	
• Bank recapitalization and civil service reform costs (millions of TD)	0		0	0	0		0			0			0	
• Privatization receipts in FX (millions of US$)	0		0	0	0		0			0			0	
• Estimated cost of liquidating the Banque Franco Tunisienne (BFT, 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 (millions of US$) 5/ 8/	908		-1,269	960	960		963		960	963	960		1,224	
• FX swaps between the Central Bank of Tunisia and commercial banks (millions of TD) 5/ 8/	445		603	453	453		393		453	594	453		1,147	
• FX swaps between the Central Bank of Tunisia and commercial banks (millions of US$) 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 end-June 2018 onwards, the adjuster on bank liquidation no longer 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. Besides, the quantitative indicative target on social spending will be converted into a quantitative performance criterion from September 2018 onwards.

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															2019		
	Mar.				Apr.		May		Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan	Feb	Mar
	Prog.	Adj.	Act.	Prog.	Ind.	Act.	Ind.	Act.	Prog.	Ind.	Ind.	Prog.	Ind.	Ind.	Prog.	Ind.	Ind.	Prog.
Quantitative Performance Criteria 2/																		
1. Floor on the primary balance of the central government (cash basis excl. grants, millions of TD) 3/	-1,722	-1,722	545	Met	n.a.	n.a.	n.a.	n.a.	-2,961	n.a.	n.a.	-2,760	n.a.	n.a.	-3,151	n.a.	n.a.	-394
2. Ceiling on total current primary expenditure of the central government (millions of TD) 3/	6,237	6,237	5,185	Met	n.a.	n.a.	n.a.	n.a.	11,517	n.a.	n.a.	17,566	n.a.	n.a.	23,616	n.a.	n.a.	6,032
3. Floor on social spending (millions of TD) 6/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,766	n.a.	n.a.	2,382	n.a.	n.a.	656
4. Ceiling on net domestic assets of the Central Bank of Tunisia (stock, millions of TD) 4/	9,374	9,279	8,244	Met	n.a.	n.a.	n.a.	n.a.	8,150	n.a.	n.a.	7,387	n.a.	n.a.	6,855	n.a.	n.a.	6,602
5. Floor on net international reserves of the Central Bank of Tunisia (stock, millions of US$) 5/	2,352	2,400	2,408	Met	n.a.	n.a.	n.a.	n.a.	2,966	n.a.	n.a.	3,075	n.a.	n.a.	3,153	n.a.	n.a.	3,186
Continuous Performance Criteria																		
• Ceiling on the accumulation of new external debt payment arrears by the central government (millions of US$)	0	n.a.	0	Met	n.a.	n.a.	n.a.	n.a.	0	n.a.	n.a.	0	n.a.	n.a.	0	n.a.	n.a.	0
Quantitative Indicative Targets																		
• Ceiling on the accumulation of new domestic arrears (millions of TD)	0	n.a.	0	Met	n.a.	n.a.	n.a.	n.a.	0	n.a.	n.a.	0	n.a.	n.a.	0	n.a.	n.a.	0
• Floor on social spending (millions of TD) 6/	721	n.a.	735	Met	n.a.	n.a.	n.a.	n.a.	1,144	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Program assumptions on which adjusters are calculated in case of deviations																		
• External financing of the central government (excluding IMF, millions of US$) 7/	209		292		n.a.	n.a.	n.a.	n.a.	1,640	n.a.	n.a.	2,400	n.a.	n.a.	3,506	n.a.	n.a.	104
of which: multilateral and bilateral budget grants (millions of US$)	0		1		n.a.	n.a.	n.a.	n.a.	1	n.a.	n.a.	71	n.a.	n.a.	136	n.a.	n.a.	0
• Public external debt service (interest and amortization, millions of US$)	466		502		n.a.	n.a.	n.a.	n.a.	994	n.a.	n.a.	1,353	n.a.	n.a.	1,789	n.a.	n.a.	635
• Bank recapitalization and civil service reform costs (millions of TD)	0		0		n.a.	n.a.	n.a.	n.a.	0	n.a.	n.a.	0	n.a.	n.a.	0	n.a.	n.a.	0
• Privatization receipts in FX (millions of US$)	0		0		n.a.	n.a.	n.a.	n.a.	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, millions of TD) 3/	0		0		n.a.	n.a.	n.a.	n.a.	n.a.	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 (millions of US$) 5/ 8/	n.a.		n.a.		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
• FX swaps between the Central Bank of Tunisia and commercial banks (millions of TD) 5/ 8/	n.a.		n.a.		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
• FX swaps between the Central Bank of Tunisia and commercial banks (millions of US$) 5/	n.a.		n.a.		n.a.	n.a.	n.a.	n.a.	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		2.01285		n.a.	n.a.	n.a.	n.a.	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 end-June 2018 onwards, the adjuster on bank liquidation no longer 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. Besides, the quantitative indicative target on social spending will be converted into a quantitative performance criterion from September 2018 onwards.

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

8/ At program exchange rate.

Table 2. Prior Actions and Structural Benchmarks

Prior Actions	Objective			Status
√ **Foreign exchange interventions.** Compliance with the monthly intervention budget in April and May.	*Exchange rate flexibility*			Met
√ **Fuel prices.** (1) Adoption of a ministerial order announcing a signficiant increase in the prices of the three main fuel products in June; and (2) public announcements of (i) the cap on energy subsidies at 2.5 percent of GDP (2,700 million dinars) in 2018; (ii) a monthly price adjustment for the three main fuel products from July; and (iii) an additional one-off price correction in October if the energy subsidy budget were likely to be exceeded.	*Fiscal sustainability and fairness*			Met
√ **Social protection.** Public announcements of an increase in social transfers for vulnerable households.	*Social protection and fairness*			Met
Structural Benchmarks	***Objective***	**Date**	**Revised Date**	**Status**
I. Sectoral reforms/private sector development				
√ **Operationalization of the investment code.** Establishment of a one-stop investment agency.	*Private sector development*	May-18		Met
• **High anti-corruption and good governance authority (HACGGA).** Signature of the decree appointing the members of the HACGGA.	*Good governance and fairness*	Jun-18	Dec-18	Not met
• **Social policy.** Establishment of a databank on vulnerable households.	*Social protection and fairness*	Dec-18		
II. Financial sector reform				
• **Banque Franco Tunisienne (BFT).** Vote of the resolution committee on the orderly resolution of the BFT.	*Financial sector stability*	May-18	Aug-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*	May-18	Dec-18	Not met. Draft law in Parliament. Augmentation limited to +20% for individuals.
√ **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*	Jun-18		Met
III. Fiscal policy and reforms of public institutions				
• **Fuel prices.** Quarterly application of the automatic fuel price adjustment mechanism.	*Fiscal sustainability and fairness*	Mar-18 until end of program		Not met at end-March.
√ **Pensions.** Adoption, by the Council of Ministers, of the comprehensive pension reform strategy to ensure financial sustainability.	*Fiscal sustainability and fairness*	Apr-18		Not met, but fully implemented on June 20.
√ **Functional review.** Completion of the functional review of four ministries (Health, Education, Finance, and Infrastructure).	*Fiscal sustainability and quality public services*	Jun-18		Met
• **State-owned enterprises (SOEs).** Signature of a performance contract for TUNISAIR.	*Better monitoring of fiscal risks*	Dec-18		
• **Organic budget law.** Publication, in the official journal, of the Organic Budget Law.	*Fiscal sustainability and fairness*	Dec-18		Draft law in Parliament.
• **Value-added tax (VAT).** Increase of the VAT rate for liberal professions from 13 to 19 percent.	*Fiscal sustainability and fairness*	Dec-18		
• **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		Dropped because the authorities opted for a different and more comprehensive reform path. This change in strategy is not macro critical given continued revenue performance.
• **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*	Dec-18		
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*	Jun-18	Aug-18	Not met

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) establishes the agreement between the Tunisian authorities and IMF staff concerning the definition of the **quantitative criteria and targets** under the program supported by the Extended Fund Facility (EFF). They are defined in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent dated June 22, 2018.

2. This TMU also sets out the **content and frequency of data reporting** to IMF staff for program monitoring purposes. To this aim, 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 TMU, unless otherwise agreed with IMF staff.

DEFINITION OF PERFORMANCE CRITERIA AND INDICATIVE TARGETS

A. Performance Criteria and Indicative Targets

3. The **quantitative criteria and targets** specified in MEFP Table 1 are:

- ***Quantitative Performance Criteria (QPC):***

  (1) (quarterly floor) on the **primary balance** of the central government (cash basis, excluding grants);

  (2) (quarterly ceiling) on total **current primary expenditure** of the central government;

  (3) (quarterly floor) on **social spending** (starting from end-September 2018);

  (4) (quarterly ceiling) on **the net domestic assets** (NDA) of the CBT;

  (5) (quarterly floor) on **the net international reserves** (NIR) of the CBT; and

  (6) (quarterly ceiling) on **net foreign exchange interventions** of the CBT (starting from end-September 2018).

- ***Continuous Performance Criterion (CPC):***

  (7) (zero ceiling) on the **accumulation of new external debt payment arrears**.

- ***Indicative Targets (IT):***

  (8) (quarterly ceiling) on **accumulation of new domestic payment arrears**;

  (9) (monthly ceiling) on **net foreign exchange interventions** of the CBT; and

  (10) (quarterly floor) on **social spending** (through end-June 2018).

4. **Measurement of criteria**. The QPCs on the central government's (1) primary balance (cash basis, excluding grants), (2) total current primary expenditure, and (3) social spending are measured on a quarterly basis and cumulatively from the end of the previous year. The QPCs on the CBT's (1) NDA and (2) NIR are measured on a quarterly and stock basis. The QPC on the CBT's net foreign exchange interventions is measured on a quarterly and non-cumulative basis. The CPC on the accumulation of new external debt payment arrears is measured on a continuous basis. The IT on the CBT's net foreign exchange interventions is measured on a monthly and flow basis. The other ITs on (1) the accumulation of new domestic payment arrears and (2) social spending are measured on a quarterly and cumulative basis. Adjustment factors will apply to some of these criteria.

5. Valuation. 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). The program exchange rate corresponds to the CBT's accounting exchange rate that prevailed on December 31, 2015, as shown in the table below. For the SDR, the program exchange rate is 1 SDR = 2.797590 Tunisian dinars. Moreover, monetary gold assets will be valued against the corresponding value in Tunisian dinars (at the program exchange rate) at the price of 2,138.15 Tunisian dinars per ounce of gold in the international market on December 31, 2015 (London morning fixing). The stock of gold is 4.13 tons (4,129,806 grams) on December 31, 2015.

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

B. Institutional Definition

6. 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. 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 Primary Balance of the Central Government (Cash Basis, Excluding Grants)

7. Under the program, the **primary balance of the central government (cash basis, excluding grants)** is measured on a financing basis and will be the negative sum of the following: (1) total net external financing; (2) privatization receipts; (3) net domestic bank financing; (4) net domestic nonbank financing; *plus* (5) interest on domestic and external debt paid by the central government; and *less* (6) external budgetary grants received by the central government.

8. **Net external financing** is defined as net external loans of the central government, i.e. new loan disbursements *less* repayments of the principal. Also included are project and budgetary loans of the central government, and any form of debt used to finance central government operations.

9. **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.

10. **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 deposits of the central government at the CBT. The latter includes all central government accounts at the CBT, in particular: the (1) Treasury current account excluding the sub accounts N-bis, those related to Public Administrative Entities (EPA) and to local governments; (2) Tunisian government account (miscellaneous dinar accounts); (3) loan accounts; (4) grant accounts; (5) accounts of *Fond National de Promotion de l'Artisanat et des Petits Métiers* and *Fonds de Promotion et de Décentralisation Industrielle* ("FONAPRA-FOPRODI account"); (6) special accounts of the Tunisian government in foreign currency; (7) accounts in foreign currency pending dinarization (subaccount: "mise à disposition"); (8) 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 Gouvernement* and *Comptes Spéciaux du Gouvernement*) on the CBT's balance sheet (liabilities side).

11. Net government borrowing from the banking system is defined as the change in the stock of government securities (i.e. Treasury bills and bonds) held by banks and any other central government borrowing from banks, less repayments.

12. 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 do not include accrued interest.

D. Ceiling on Total Current Primary Expenditure of the Central Government (Excluding Interest Payments on Public Debt)

13. Under the program, **total current primary expenditure of the central government** is defined as the sum of its expenditure on the following items: (1) personnel wages and salaries; (2) goods and services; (3) transfers and subsidies; and (4) other unallocated current expenditure.[2]

E. Floor on Social Spending

14. Under the program, **social spending** is defined as capital expenditures (development expenditures) on education; health; social transfers to low-income families, employment training programs (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. Excluded are All current expenditures ("dépenses de gestion") of the above-mentioned sectors and programs, as well as food and energy subsidies.

F. Ceiling on Net Domestic Assets of the CBT

15. Under the program, the **CBT's net domestic assets** (NDA) are defined as the difference between the monetary base and the net foreign assets of the CBT.

16. The **monetary base** includes the following: (1) fiduciary money (i.e. money in circulation excluding cash balances of banks and the Treasury); (2) deposits of banks at the CBT (including foreign currency and deposit facility); and (3) deposits of all other sectors at the CBT (i.e. other financial enterprises, households, and companies).

[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.

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

18. The Directorate General of Statistics (i.e. 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.

G. Floor on the Net International Reserves of the CBT

19. Under the program, the **CBT's net international reserves (NIR)** are defined as the difference between the its reserve assets and its liabilities in foreign currency to nonresidents.

20. The **CBT's reserve assets** are the foreign assets immediately available and under 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.

21. The **CBT's liabilities in foreign currency** to nonresidents include any commitment to sell foreign currencies associated with financial derivative transactions (e.g., swaps, futures, options); any portion of the CBT's assets (e.g., gold) 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. Those liabilities do neither include the government's foreign currency deposits at the CBT, nor any SDR allocation received after March 31, 2017.

22. 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 (1) 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; (2) debt is a liability of the central government; and (3) a protocol between the CBT and the MoF 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.

23. 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 exchange rates).

H. Ceiling on Net Foreign Exchange Interventions of the CBT

24. Under the program, the CBT's **net foreign exchange interventions** are defined as the difference between outright foreign exchange sales (including conversions) and outright foreign exchange purchases (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.

I. Ceiling on the Accumulation of External Arrears

25. Under the program, **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.

J. Ceiling on the Accumulation of Domestic Arrears

26. Under the program, **arrears on domestic payments** 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.

[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: (1) 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); (2) 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 (3) 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.

K. Adjustment Factors for the QPCs

27. The **primary fiscal balance** targets (cash basis, excluding grants) are adjusted upward/downward based on the amount used to (1) recapitalize public banks and (2) finance the severance pay of the voluntary departures which may be part of the civil service reform.

28. The **NDA** targets are adjusted upward (downward) if (1) the cumulative sum of external budget financing (including grants and loans, excluding from the IMF) and privatization receipts received by the central government in foreign currency is lower (greater) than the levels indicated in MEFP Table 1. The NDA targets are also adjusted upward (downward) if (2) the total amount of cash payments on external debt service are greater (lower) than the levels included in the MEFP Table 1. The NDA ceiling will be converted into Tunisian dinars at the program exchange rate specified in the table above, and adjusted downward (upward) based on (3) the amount of CBT reserves released (mobilized) because of a possible decrease (increase) in the reserve requirement.

29. The **NIR** targets are adjusted upward (downward) if (1) the cumulative sum of external budget financing (including grants and loans, excluding from the IMF) and privatization receipts received by the central government in foreign currency is greater (lower) than the levels observed in MEFP Table 1. The NIR targets will also be adjusted upward (downward) if (2) the total amount of cash payments on external debt service of the government is lower (greater) than the levels included in the MEFP Table 1.

L. Monitoring and Reporting Requirements

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

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

Type of Data and Description	**Periodicity** Weekly (w) Monthly (m) Quarterly (q) Annual (a)	**Delay** (in Days)	**Responsible Department**
○ **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
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

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

Type of Data and Description	Periodicity Weekly (w) Monthly (m) Quarterly (q) Annual (a)	Delay (in Days)	Responsible Department
• **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:** ○ **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.	w	1	CBT
• **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

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

Type of Data and Description	**Periodicity** Weekly (w) Monthly (m) Quarterly (q) Annual (a)	**Delay** (in Days)	**Responsible Department**
• **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