

Tunisia: Report on the Observance of Standards and Codes

This Report on the Observance of Standards and Codes for **Tunisia** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **May 16, 2002**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Tunisia** or the Executive Board of the IMF.

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TUNISIA

Update to the Report on the Observance of Standards and Codes

Prepared by the Middle Eastern Department based on information
Provided by the Tunisian authorities

May 16, 2002

I. INTRODUCTION

1. The first Report on the Observance of Standards and Codes (ROSC) on Tunisia was issued as part of the International Monetary Fund's (IMF) initial pilot project in September 1999, and included an assessment of Tunisia's performance against the following standards: data dissemination, fiscal transparency, the transparency of monetary policy, banking supervision and securities market regulation.¹ IMF staff prepared an update on Tunisia's observance of standards and progress on the original ROSC's recommendations for the Article IV consultation in January 2001.²

2. Tunisia's performance under the standards and codes pertaining to monetary policy and financial market stability was assessed in 2001 by IMF and World Bank staff in the context of the Financial Sector Assessment Program (FSAP). These standards include: (i) the Basel Core Principles for Effective Banking Supervision, (ii) the Principles of Insurance Regulation and Supervision (IAIS), (iii) the IOSCO Objectives and Principles of Securities Regulation, (iv) the CPSS Core Principles for Payment Systems, and (v) the Code of Good Practices on Transparency in Monetary and Financial Policies (covering monetary policy, banking supervision, insurance and financial policy). The FSAP report was finalized in November 2001 and the authorities intend to publish these standards assessments along with the Financial Sector Stability Assessment (FSSA) after the Executive Board review of the FSSA report in June 2002.³ Tunisia subscribed to the SDDS in June 2001 and its metadata

¹ See *Experimental Report on Implementation of Standards and Codes—Tunisia*, EBS/99/158, Supplement 6 (September 1, 1999).

² See *Update to the Report on the Observance of Standards and Codes—Tunisia*, SM/01/17, Supplement 1 (January 29, 2001)

³ See *Financial Sector Stability Assessment, Detailed Assessment of Observance of Standards and Codes—Tunisia*, (to be issued).

are posted on the Dissemination Standards Bulletin Board (DSBB). Information regarding recent data issues is provided in Appendix III (pages 49-50) of the 2002 Article IV staff report. Consequently, performance against only the Code of Good Practices on Fiscal Transparency is reviewed in this update.

II. FISCAL TRANSPARENCY

3. Tunisia has already achieved a considerable degree of transparency in fiscal management. Further improvements in data preparation and dissemination have come about recently during the process of subscribing to the SDDS. In addition, the implementation early this year of the new tax code (*code des procédures fiscales*) has further clarified the rights and obligations of taxpayers and the government on matters relating to taxation.⁴ It is also expected to improve revenue performance further by strengthening compliance and collection.

4. Nevertheless, several of the recommendations contained in the 1999 ROSC remain pertinent. In particular, in the area of comprehensive fiscal reporting (including extra budgetary funds), Tunisia still does not meet several requirements of the fiscal transparency code.⁵ The authorities have taken measures to correct earlier shortcomings or, in certain instances, they have provided a more detailed explanation of current practices. These are highlighted here (original recommendations in italics, revised recommendations in bold):

- *Better information on general government, particularly comprehensive reporting on the activities of local governments, would be beneficial.* The Minister of Finance prepares an annual budget report which describes the operations of both the central and local governments (*communes et conseils de gouvernorat*). Part of this report (information on central government) is included in the 2001 Annual Report of the Central Bank of Tunisia. The authorities indicated that a consolidated budget incorporating the public finances of all levels of government could be undertaken henceforth and included in the annual budget report. However, this report is not widely disseminated and it is not clear if it is available to the public. **While information on general government and the activities of local governments exists, it should be consolidated and more widely disseminated, including to the public.**
- *Equity holdings of the government should be made public.* The authorities indicated that the government's holdings in state enterprises are made on a case by case basis according to specific legislation. In addition, these holdings appear in the annual report of

⁴ See *Update to the Report on the Observance of Standards and Codes—Tunisia*, SM/01/17, Supplement 1 (January 29, 2001), page 2.

⁵ See *Revised Manual on Fiscal Transparency, Box 1. Basic Requirements of Fiscal Transparency*, IMF (February 28, 2001).

the Auditor General (*Cour des Comptes*). However, this report is not widely disseminated and it is not clear if it is available to the public. **In general, more information should be available on the financial and operating performance of public enterprises and information on the government's equity holdings in state enterprises should be made public.**

- *Taxpayers' rights and appeals procedures need to be better defined and observed; a simplification of tax regulations, particularly regarding extra budgetary taxes and fees, would help to ensure the integrity of the tax system.* As noted above, the new tax code has enshrined the rights and obligations of taxpayers and the government on matters relating to taxation. As regards extra-budgetary taxes and fees, these are accounted for in the annual central government budget (*Loi de Finances*) and associated revenues are generally ear-marked directly to pre-specified purposes.⁶ **To improve transparency, these taxes and fees should be enshrined in permanent legislation (or repealed) rather than being based on ad hoc annual laws.**
- *Information on the state budget (Loi de Finances) should be more widely available through press statements or posting on the government's web site.* The authorities have increased the transparency of budget activities with their subscription to the SDDS. **Greater transparency could be achieved with the establishment of a government web site.**
- *During the year, regular and timely reporting of budget outturns, including extra-budgetary funds, should be published and disseminated.* The authorities have responded to this with their subscription to the SDDS. In addition, they prepare a monthly report on the main budget outturns, although this report is currently only disseminated within the government. The authorities are considering enhancing reporting by releasing this monthly report to the public.
- *Budget documents should include detailed outturns and budget estimates for the two preceding years.* The budget documents submitted to parliament with the *Loi de Finances* include the results of the preceding year, estimates of the current year, and projections for the following year.
- *Final central government budget accounts should be prepared earlier, and their external audit conducted more rapidly so that a report can be presented to the National Assembly within 12 months of the fiscal year.* The actual budget outcome is presented in an annual report required by legislation. The authorities have taken several measures to speed up the process, including computerizing the management of expenditures, eliminating a grace period on public expenditures, creating new positions in key spending

⁶ Once approved by Parliament, the *Loi de Finances* is available to the public.

departments, and reorganizing relevant accounting functions in the Ministry. These measures have reduced the reporting time to approximately 12-15 months (the report on the 2000 budget outcome was completed by April, 2002.)

5. The following remaining recommendations highlighted in the 1999 ROSC continue to be relevant:

- *Disclosure of activities of nonfinancial public enterprises and public banks should be available.* All quasi-fiscal activities of public enterprises and all contingent liabilities and operating losses created by noncommercial activities performed on behalf of the state should be identified and quantified and made available to the public.
- *A fiscal risk statement and an accurate estimate of net lending should be published.* This would assist in developing a greater appreciation of the fiscal situation.
- *Macroeconomic forecasts and aggregate fiscal forecasts should be prepared for a three-year horizon based on the most recent estimates of likely outcomes, instead of being constrained by the five-year Economic Development Plan.*
- *Comprehensive information on tax expenditures, public debt and financial assets should be published.*
- *Although the national audit institution (Cour des Comptes) is seen in practice as exercising independent oversight and discipline over public finances, it could be made more independent of the executive branch by being appointed by the legislative branch, and its independence could be guaranteed by law.*

6. The authorities have increased the transparency of fiscal management over the past few years. In many instances, information is compiled and prepared by the authorities but is not widely disseminated or made available to the public, particularly the reports (annual and monthly) on budget execution. As noted earlier, the Ministry of Finance could address this shortcoming, and many other issues highlighted in this Update, by establishing a web site with direct links to the relevant information.