2001 Country Reports on Economic Policy and Trade Practices
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TUNISIA

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 1/
Income, Production and Employment:			
Nominal GDP	20,908.0	1,9652.0	20,292.0
Real GDP Growth (pct) 2/	5.4	6.2	5.2
GDP by Sector:			
Agriculture	1,954.2	1,667.2	1,675.9
Manufacturing	2,483.3	2,247.4	2,231.6
Services	5,039.2	4,619.6	4,712.6
Government	1,748.8	1,565.3	1,538.1
Per Nominal GDP per capita (US$)	2,177.9	2,026.0	2,070.6
Labor Force (000's)	3.15	3.21	3.28
Unemployment Rate (pct)	15.8	15.6	15.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	19.5	13.5	N/A
Consumer Price Inflation	2.7	2.9	2.9
Exchange Rate (TD/US$ annual average)			
Official	1.18	1.37	1.45
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB 3/	5,904.4	5,842.9	6,800.0
Exports to United States 3/	44.3	42.0	64.0
Total Imports CIF 3/	8,534.0	8,560.0	9,800.0
Imports from United States 3/	367.5	396.8	461.0
Trade Balance 3/	-2629.6	-2,717.1	-3,000.0
Balance with United States 3/	-323.2	-354.8	-397.0
External Debt	10,761.4	10,091.2	9,927.6
Budget Deficit/GDP (pct)	3.5	2.4	2.5
Current Account Deficit/GDP (pct)	2.2	3.2	3.0
Debt Service Payment/GDP (pct)	7.5	8.9	7.5
Gold and Foreign Exchange Reserves	2,455	1,890	1,720
Aid from United States 4/	0.9	8.4	11.5
Aid from All Other Sources 5/	N/A	N/A	N/A

1/ 2001 figures are all estimates based on monthly data available in September.
2/ Percentage changes calculated in local currency.
3/ Merchandise trade; 2001 figures are extrapolated from seven months results.
4/ For 2001, $9.76 million of this is military assistance.
5/ Tunisia does not publish official aid figures.

Source: Tunisian Central Bank, National Statistics Institute and other government sources.

1. General Policy Framework

Tunisia has made significant progress toward establishing a market economy over the past decade. A major step, the European Union (EU)-Tunisia Free Trade Accord (Association Agreement), was signed in 1995 and formally came into effect on March 1, 1998. Tunisia, having started implementing significant reforms in 1996, is on schedule reforming its economy as required by the agreement. Over a 12-year period, the terms of the agreement require the Tunisian government to eliminate import tariffs on EU origin goods and open the market to business competition. The Tunisian Government is under pressure from non-EU trading partners and the WTO to further reduce tariffs on products originating from non-EU countries in an attempt to maintain market diversity. In the short term, the government has taken steps to compensate for the fiscal deficit resulting from reduced tariff income by improving domestic tax collection. In the long run, Tunisia hopes the deal with the E.U. will help attract more foreign investment and consolidate its economic priority of expanding its manufacture-for-export sector.

Initially, the Tunisian government anticipated significant economic uncertainty as state-owned firms were privatized, jobs eliminated, and companies forced to become more efficient. Social disturbances have been avoided, but unemployment remains a serious concern. The official jobless rate is around 15.6 percent but real unemployment is widely believed to be higher, with some regions registering 30 percent. These figures, however, include a considerable amount of "underemployment" and, in the absence of reliable statistics, it is hard to evaluate the real level of unemployment in the country. In September 2001, Tunisia committed itself to participate in the Special Data Dissemination Standard (SDDS) program that should establish more reliable figures for all sectors of the economy. In 2001, Tunisia also began participating in two other IMF/World Bank programs: the Financial Sector Assessment program and the Financial System Stability Assessment program.

The government's fiscal policy is socially oriented, designed to raise living standards and reduce poverty while maintaining economic and political stability. Approximately 61 percent of the government budget is allocated to social programs, providing subsidies for education, basic foodstuffs, and support for the poorest sectors of society. Under a very generous definition, the Tunisian government claims that 80 percent of the population is "middle class," based on a qualifying per capita annual income between approximately $275 and $1650. Government figures indicate that less than three percent of the population lives below the poverty line, defined as annual per capita income of $250 in urban areas and $125 in rural regions. A total of 67,000 new jobs were created in 2000, compared with 63,000 the previous year. According to a government analysis, this meets over 90 percent of the annual demand for new jobs.

Increases to the minimum wage (currently $135 per month for a 48-hour workweek) have kept pace with the official inflation rate, which was 2.9 percent in 2000. With price-regulated products accounting for only one third of the general price index, the Central Bank claims that the low inflation rate is due to a rigorous monetary policy, improved distribution networks, enhanced competition, diversified economic control, and a sound consumer behavior awareness campaign. Inflation in the first eight months of 2001 was 1.6 percent, compared with 3 percent for the same period in 2000, and the rate for the 12-month period will probably be lower than early estimates of 3 percent for the year. The government, which exercises considerable control over the Central Bank, the stock market, and other financial institutions, maintains tight control of the money supply. In 2000, year-end foreign exchange reserves were, in dinar terms, 10 percent lower than the previous year. At $1.9 billion this provides nearly three months import cover. The budget deficit in 2001 is projected to be about 2.5 percent of GDP, slightly more than last year but still significantly better than the 3.5 percent registered in 1999.

With its opening market, Tunisia's merchandise trade deficit expanded by over 20 percent in dinar terms in 2000, rising to $2.6 billion. This big increase follows a much more modest 5.4 percent the previous year and is mostly the result of implementation of the Association Agreement. In addition, the agriculture sector showed a 10.6 percent drop in exports and 15.1 percent growth in imports. Exports of non-food manufactured products grew by over 11 percent. Overall in 2000, exports grew by 14.9 percent and imports by 16.6 percent. Trade with EU countries accounted for 79.9 percent of exports and 70.5 percent of imports. The United States is the fourth largest exporter to Tunisia but its share of the market is less than five percent, France accounts for 26.3 percent, Italy 19.1 percent, and Germany 9.6 percent. On a value basis, U.S. exports have historically been heavily influenced by aircraft sales. However, the state airline, Tunisair has recently up-dated its fleet, with Airbus Industries outpacing Boeing on aircraft sales. Tunisia is in the process of opening its market for higher education and adult education, and diplomas from accredited private institutions are now recognized.

2. Exchange Rate Policy

Government policy does not permit the Tunisian dinar to be traded on international markets, although it is convertible for most investment and trade operations; however, certain restrictions apply. For example, Central Bank authorization is needed for large-scale foreign exchange operations. The dinar is traded on an intra-bank market, established in 1994. Trading operates around a "fix" established by the Central Bank based upon a “basket” dominated by the euro, the U.S. dollar, and the Japanese Yen. All exchange rate transactions are done internally, and the Tunisian Central Bank allows the rate to float only within a narrow band fixed by the Bank. However, in the face of a weakening euro, the Central Bank did allow the dinar to depreciate slightly in real terms in 2000 and 2001. Since 1995, Tunisia permits restricted spot market trading of foreign currency.

The dollar/dinar value fluctuates on a daily basis. As of October 10, 2001, one dollar bought 1.43 dinar, as opposed to 1.47 one year ago. This marks the second year of a strong dollar's negative influence on U.S. exports to Tunisia, particularly in the clothing and oil-services sectors. There is no "parallel" or black market for currency exchanges within Tunisia, although such markets for the Tunisian dinar reportedly exist in Libya and Algeria. Government exchange controls for Tunisians traveling abroad remain strict: citizens are permitted to carry the foreign currency equivalent of up to1,000 dinar, approximately $700, out of the country per year.

3. Structural Policies

To meet the terms of the EU Association Agreement, the government is continuing the structural economic reforms initiated in 1987 with the IMF and World Bank. As customs duties are eliminated over a 12-year period for a wide range of imports, Tunisian producers must become more competitive. In conjunction with the Agreement, and in response to World Bank recommendations, the government has vowed to accelerate its privatization program, which has covered nearly 140 companies since it was launched in 1987, and brought in $950 million by the end of 2000. Nearly $660 million was in the form of Foreign Direct Investment (FDI). "Privatization" of a considerable number of state-owned companies has, in fact, only been a partial sale of state-owned shares. With the full privatization of two cement plants in 1998 and two more in 2000, the government has turned its attention to a variety of public assets, and about 40 companies have been selected for privatization in 2001.

Tunisia has begun to take steps to reform the banking sector in advance of greater competition from foreign banks. Until recently, weak lending practices and poor banking supervision have resulted in a large stock of non-performing loans. Though sector reforms and public enterprise restructuring are reversing this trend, the value of bad loans remains near 20 percent of GDP, with only half of this amount covered by loan loss provisions.

Tax and customs policies favor "offshore" Tunisian-based foreign companies which manufacture locally and export 80 percent or more of their production. Tunisia continues to be successful in attracting such investments, which enjoy 10-year tax-free status and other benefits. Foreign companies that import materials for use or sale in the Tunisian market, however, continue to see customs duties rise, where permitted by WTO rules. This has adversely affected Tunisian-based U.S. companies that depend on materials produced in the United States for their products. Also, in practice it remains very difficult for foreign companies to produce in Tunisia for the domestic market.

Tunisia has three Value Added Tax (VAT) rates (6, 18 and 29 percent) based on the category of goods sold (i.e., staple, regular, or luxury items). In 1997, in order to make up for the decline in import duties, the government raised its middle VAT rate (by far the largest group) from 17 to 18 percent, and is also making greater efforts to enforce compliance. Accordingly, income from VAT is expected to rise by eight percent this year. On top of this, the government has recently announced that income from direct taxes will rise nearly 11 percent in 2001, with indirect tax revenue rising by 6.5 percent. This reflects the effort to compensate for falling receipts from customs' duties and taxes, which were 6.6 percent lower in 2000 than the previous year, and are expected to fall even more this year.

4. Debt Management Policies

According to recent reports by the World Bank and the IMF, Tunisia has managed its external debt portfolio well. Tunisia has never requested to rescheduling its debt repayment. The budget deficit for 2000 was $462 million, including receipts from privatization. In mid-October 2001, the Finance Minister announced the deficit for 2001 would be near $500 million. Estimated nominal GDP for 2001 is $20.3 billion. Outstanding foreign debt at the end of 2000 was $10.1 billion, with debt service payments totaling $1.85 billion, a manageable burden for Tunisia.

Tunisia's timely completion of the IMF structural adjustment program, 1987 - 1994, and subsequent fiscal conservatism, have won it investment grade ratings from a number of international institutions, including Standard and Poors (bbb), Moody's (baa3) and Fitch (bbb). Its strong economic performance and low perceived commercial and political risk have been recognized in international financial markets, permitting the government to successfully float loans in the bond market. This has included tapping the Global Samurai Bond markets, where Tunisia successfully raised 50 billion Japanese Yen ($463 million) in July 2000 (Tunisia's first 30-year bond issuance), and a further 55 billion Yen in March 2001. Merrill Lynch International brokered the operations. The 2000 report on Competitiveness in Africa, produced by the World Economic Forum, ranked Tunisia first among African countries.

5. Significant Barriers to U.S. Exports

The most significant barriers to trade with Tunisia are the small size of the market and the legal and practical limitations to regional trade with other North African countries. While Tunisia allows about 90 percent of goods to be imported without a license, import duties range from 10 to 230 percent. The high tariffs are often used to protect locally produced items from competition. In recent years, the Tunisian government has also used certain non-tariff barriers to block imports, particularly for non-capital items. Many imports are also liable to a consumption tax, which can be prohibitive on some luxury items i.e., large engine automobiles 295 percent and champagne 500 percent. In theory, this consumption tax is levied on luxury goods regardless of whether they are imported or produced in Tunisia.

In addition, import licenses are still required for certain categories of goods. A major category affected by this non-tariff barrier is motor vehicle imports, for which there is strong local demand for greater supply and choice. Imports of certain imported products, including weapons or security-related materials and health-care products, remain strictly controlled.

Tunisia is updating its customs regulations to bring them into line with WTO requirements. A new law on the transactional value of imported goods eliminates the authority of Customs officials to arbitrarily fix a value. The authorities can no longer overrule an evaluation made in full compliance with the requirements of the law, unless there is evidence that the operation may be fraudulent or that it could initiate an anti-dumping action.

Customs' administrative procedures are often complex and burdensome, requiring time and patience. Problems are addressed on a case by case basis, and business or political connections can greatly affect the rate at which products are cleared. Most foreign companies choose to work with private customs agents to expedite processing their imports.

While foreign investment is welcomed in most sectors, investment barriers exist. For on-shore companies within the services' sector (defined as those with more than 20 percent of output destined for the Tunisian market), the government must authorize any foreign capital share of more than 49 percent. Statistics indicate that over 40 percent of new FDI now goes into the services' sector. In the agricultural sector, foreign investors are denied treatment on par with Tunisians. Although land may be secured on long-term leases (40 years), foreign ownership of agricultural land is prohibited. In an effort to attract greater foreign participation in the agriculture sector, Tunisia now allows foreign nationals to own up to 66 percent of the non-property assets in an agriculture enterprise.

For foreign companies producing for the Tunisian market, local content provisions may apply, and hiring of foreign personnel is subject to regulation and usually limited to senior management. Foreign companies cannot distribute products locally without a Tunisian distributor. The establishment of foreign franchise operations continues to be a complicated process and, in practice, there are few franchises in Tunisia. There is no limit on the amount of foreign currency that can be brought into the country, but any amount over TD 1,000 must be declared at the port of entry and only the unused dinar balance of declared foreign currency may be reconverted and taken out of the country. Tunisia is hoping that the Association Agreement will increase U.S. manufacturing investment by offering duty-free exports to the EU. However, the calculation of required minimum local value-added content to qualify for such treatment remains unclear.

6. Export Subsidies Policies

The government does not provide export subsidies to Tunisian companies. However, it operates an export assistance agency, FAMEX, which helps companies finance research and development in, and access to, targeted export markets.

7. Protection of U.S. Intellectual Property

Tunisia has the legal requirements for IPR protection in place, and in 2001, Tunisia began a major campaign to improve its IPR enforcement. The motivation behind this effort is not only to comply with its international obligations, but also to promote growth of the local software industry and to help attract new foreign investment. In the local market, pirated software, music, and videos remain readily available, but these items are not exported in any notable volume.

Tunisia is a member of the World Trade Organization (WTO), the World Intellectual Property Organization (WIPO), the Berne Convention for the Protection Of Literary and Artistic Works (copyright), and the Paris Convention for the Protection Of Industrial Property (patent, trademark, and related industrial property).

Registration of foreign patents and trademarks with the National Institute for Standardization and Industrial policy is required. Tunisia's patent and trademark laws are designed to protect only duly registered owners. In the area of patents, U.S. businesses are guaranteed treatment equal to that afforded to Tunisian companies. In 2001, a major U.S. company won damages from its Tunisian representative in a Tunisian court for illegal registration of trademarks owned by the American manufacturer.

Copyright protection is the responsibility of a separate government agency, which also represents foreign copyright organizations. Tunisian copyright law has been updated, but its application and enforcement have not been consistent with foreign commercial expectations. Print and video media are considered particularly susceptible to copyright infringement. The Tunisian authorities have pursued IPR protection when the foreign company has made a formal and stringent complaint.

8. Worker Rights

a. *The Right of Association:* The constitution and the Labor Code stipulate the right of workers to form unions, which is generally observed. The Tunisian General Federation of Labor (UGTT) is Tunisia's only labor federation. About 15 percent of the country's work force are members, but a greater number are covered by UGTT negotiated contracts. The UGTT is independent of the government but certain laws restrict its freedom of action. The UGTT leadership has tried to cooperate with the government and support its economic reform programs, in return for regular wage increases and protection for workers.

b. *The Right to Organize and Bargain Collectively:* This right is protected by law and observed in practice. Wages and working conditions are set in triennial negotiations between the UGTT member unions and employers, and antiunion discrimination by employers is prohibited. Though the government does not participate in private sector negotiations, it must approve, but cannot modify, the negotiated agreements.

c. *Prohibition of Forced or Compulsory Labor:* Tunisia abolished compulsory labor in 1989, and ended the practice of sentencing convicts to "rehabilitation through work" in 1995.

d. *Minimum Age for Employment of Children:* The minimum age for employment in manufacturing is 16 years, and 18 for certain hazardous occupations. The minimum age for light work in agriculture and non-industrial sectors is 13 years, but children aged 13-15 may only work two hours per day. The government requires children to attend school until age 16 and employers must observe certain rules to ensure children obtain adequate rest and attend school. The UGTT has expressed concern that child labor continues to exist, disguised as apprenticeship.

e. *Acceptable Conditions of Work:* The Labor Code provides for a range of minimum wages, which are set by a commission of government, UGTT, and employers' representatives. Most business sectors observe a 48-hour workweek, with one 24-hour rest period. The government often has difficulty enforcing the minimum wage law, especially in non-unionized sectors of the economy. The government enforces workplace health and safety standards.

f. *Rights in Sectors with U.S. Investment:* Working conditions tend to be better in export-oriented firms than in those producing exclusively for the domestic market.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		(D)
Food & Kindred Products	(D)	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	-4	
Other Manufacturing	0	
Wholesale Trade		0
Banking		1
Finance/Insurance/Real Estate		0
Services		26
Other Industries		0
TOTAL ALL INDUSTRIES		55

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.