III Fiscal Policy and Reforms

At the beginning of the 1980s, the decline in oil production, coupled with the fall in oil prices in world markets, substantially reduced the resources available to the Tunisian public sector. Even though tax revenue mobilization efforts were stepped up, the growth in government consumption and investment was so high that the budgetary position of the Central Government deteriorated (Table 1 and Chart 1). As a result, domestic and external debt accumulated substantially during the first half of the 1980s. The fiscal imbalances contributed to reducing the resources available to the private sector and exerting pressure on the external sector position.

The strategy adopted by the authorities in late 1986 required a sustained fiscal adjustment so as to release resources to the private sector, improve the distribution of the tax burden, reduce tax distortions, ameliorate the savings performance of the government sector, reduce the weight of the Government in the economy, and ease the external debt burden. In line with this strategy, the fiscal policies under the adjustment programs focused on reforming the tax system and reducing government expenditure in relation to GDP while simultaneously protecting the poorest segments of the population and increasing the efficiency of government investment.

Tax System

Until the mid-1980s, Tunisia's tax system was economically distortionary, often inequitable, complicated, and difficult to administer. The direct income tax system was schedular, containing a large number of taxes whose scope and rates differed by type of income or sector of activity. The main taxes were levied on profits from commercial activities, profits from professional activities, wages, dividends, and interest income. A solidarity tax was attached to these taxes. In addition to the schedular taxes, a general income tax, with marginal rates ranging from 10 percent to 80 percent, was levied on the total personal income of all income earners.

Indirect taxes consisted of three turnover taxes—on production, consumption, and services—together with a series of excise taxes. The production tax and the consumption tax were levied on domestically produced and imported goods, while the tax on services applied to commercial services other than the sale of goods, including professional services. Many transactions were subject to both production and consumption taxes, which resulted in 16 different effective tax rates ranging from 6.4 percent to 45.9 percent. For each category of turnover tax, different exemption and deduction rules applied. Tax credits were granted for inputs, including equipment and buildings. In general, there was no deductibility among the three taxes, with two exceptions: the tax on services was deducted for producers who were subject to the production tax, and the consumption tax on alcohol could be deducted from the production tax on hotel operations.

In addition, customs duties were applied to imports to protect the local industry from foreign competition and to contain the demand for imports of consumer goods. These duties ranged from 5 percent to 236 percent, but imports of raw materials and semifinished goods used by local industry to produce exported goods were exempted. Import duties constituted an important source of revenue, accounting for close to two fifths of total tax revenue. Thus, the budgetary outcome was very much influenced by the changes in the level and the composition of imports from one year to another.

Finally, revenue earmarking distorted budget unity and complicated fiscal management. During 1982–86, only 76 percent of central government revenue was recorded in the budget. The rest was earmarked for extrabudgetary operations, involving 40 Special Treasury Accounts and investment and participation funds (*fonds de concours*).These operations were also financed directly through external grants and loans. They covered both current outlays and investment projects that remained outside budgetary control procedures and were equivalent to some 37 percent of total government expenditure during the same period.

Table 1. Selected Indicators of Fiscal Performance

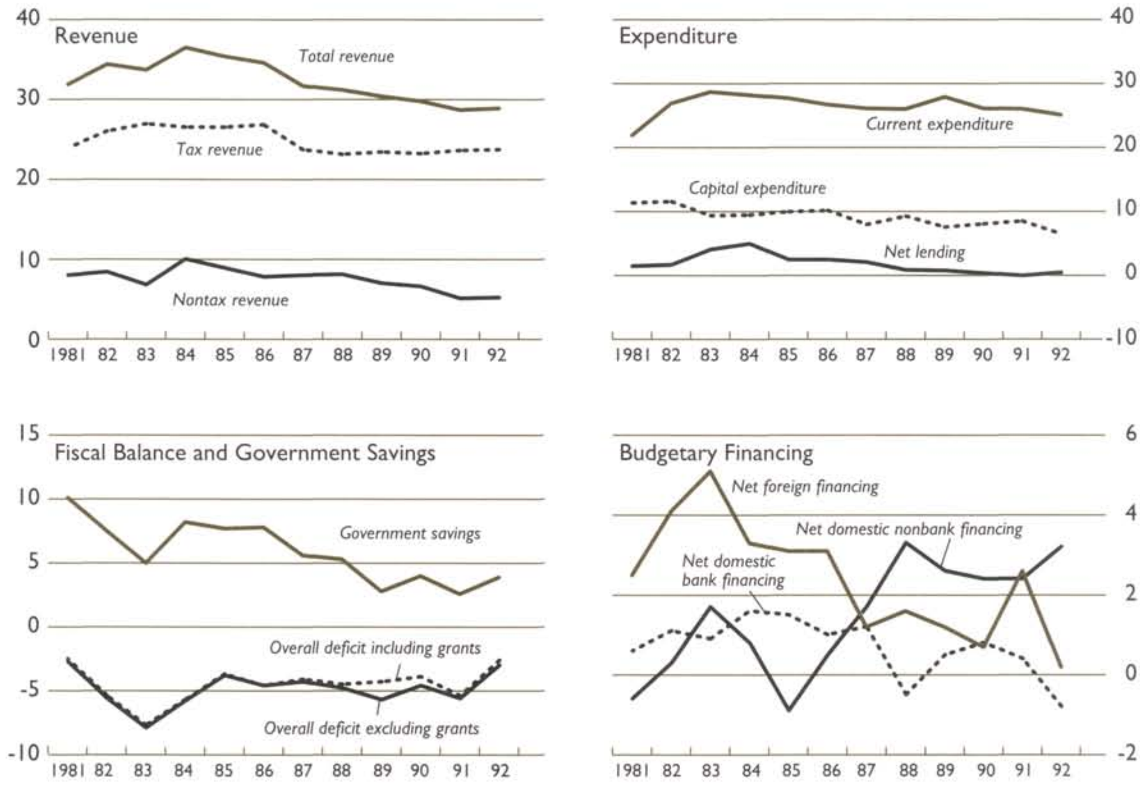
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
						(In percent of GDP)						
Total revenue	31.9	34.3	33.7	36.5	35.4	34.6	31.7	31.2	30.4	29.9	28.7	28.9
Tax revenue	23.9	25.9	26.9	26.5	26.5	26.7	23.7	23.1	23.4	23.2	23.6	23.7
Taxes on income and profits	4.9	5.1	4.6	4.5	4.5	4.8	4.2	3.7	3.9	4.6	4.1	4.0
Taxes on goods and services	7.4	7.2	7.4	7.2	7.2	8.0	7.2	6.7	6.3	7.6	6.8	6.8
Taxes on foreign trade	7.9	9.4	10.6	10.4	9.5	8.6	7.9	8.4	9.2	8.7	7.8	8.0
Other taxes	3.7	4.3	4.3	4.4	5.3	5.3	4.4	4.3	4.0	2.3	4.9	4.9
Nontax revenue	8.1	8.4	6.8	10.0	8.9	7.8	8.0	8.1	7.0	6.6	5.1	5.2
Petroleum sector	5.4	6.9	4.9	5.6	5.5	4.5	4.4	4.5	4.1	2.3	2.1	2.1
Other	2.7	1.5	1.9	4.4	3.4	3.3	3.6	3.6	2.9	4.3	3.0	3.1
Total expenditure and lending	34.6	39.9	42.0	42.5	40.0	39.2	36.0	36.0	36.1	34.5	34.3	31.9
Current expenditure	21.9	26.8	28.7	28.2	27.7	26.7	26.1	26.0	27.9	26.1	26.0	25.1
Wage bill	9.9	10.0	10.4	10.2	10.0	10.6	9.7	9.6	9.8	9.2	9.5	9.3
Goods and services	3.2	4.2	5.6	3.7	3.1	2.6	2.7	1.9	2.1	2.1	2.3	2.1
Interest payments	1.6	2.0	2.4	2.7	2.8	3.2	3.1	3.2	3.3	3.1	3.4	3.1
Subsidies and transfers	7.2	10.6	10.3	11.6	11.8	10.4	10.6	11.3	12.6	11.6	10.8	10.5
Of which: Consumer subsidies	3.4	3.3	3.1	4.1	3.4	3.0	2.3	2.7	3.6	2.7	2.2	1.8
Capital expenditure	11.3	11.5	9.3	9.4	9.9	10.1	7.9	9.2	7.5	8.0	8.4	6.4
Direct investment	6.1	6.8	4.5	5.1	4.6	5.6	4.0	5.2	4.2	4.5	5.7	4.0
Capital transfers	5.2	4.7	4.8	4.3	5.3	4.5	3.9	4.0	3.3	3.5	2.7	2.4
Net lending	1.4	1.6	4.0	4.9	2.4	2.4	2.0	0.8	0.7	0.3	–0.1	0.5
Overall deficit including grants	–2.5	–5.4	–7.7	–5.7	–3.7	–4.6	–4.1	–4.5	–4.3	–3.9	–5.4	–2.6
Overall deficit excluding grants	–2.7	–5.6	–7.9	–5.8	–3.8	–4.6	–4.3	–4.8	–5.7	–4.6	–5.6	–3.0
Total financing	2.5	5.4	7.7	5.7	3.7	4.6	4.1	4.5	4.3	3.9	5.4	2.6
Net foreign financing	2.5	4.1	5.1	3.3	3.1	3.1	1.2	1.6	1.2	0.7	2.6	0.2
Net domestic financing	—	1.3	2.6	2.4	0.6	1.5	2.9	2.9	3.1	3.2	2.8	2.4

					(In percent of total revenue)							
Tax revenue	74.7	75.5	79.9	72.6	74.9	77.4	74.9	73.8	77.1	77.6	82.3	81.7
Taxes on income and profits	15.3	14.7	13.6	12.2	12.8	13.9	13.2	12.0	12.9	12.3	14.3	13.9
Taxes on goods and services	23.4	20.9	22.0	19.8	20.3	23.1	22.6	21.6	20.7	21.8	23.9	23.4
Taxes on foreign trade	24.8	27.3	31.4	28.4	26.8	25.0	25.0	26.9	25.0	27.0	27.3	27.5
Other taxes	11.2	12.6	12.9	12.2	15.0	15.4	14.1	13.3	18.5	16.5	16.8	16.9
Nontax revenue	25.3	24.5	20.1	27.4	25.1	22.6	25.1	26.2	22.8	22.4	17.7	18.3
Petroleum sector	17.0	20.0	14.7	15.3	15.5	12.9	13.9	14.3	13.5	12.0	7.3	7.4
Other	8.3	4.5	4.4	12.1	9.6	9.7	11.2	11.9	9.3	10.4	10.4	10.9
					(In percent of total expenditure)							
Current expenditure	65.9	70.0	75.3	75.0	73.7	72.6	76.7	73.8	78.8	76.5	75.6	79.7
Wage bill	29.7	26.1	27.4	27.0	26.6	28.8	28.7	27.3	27.8	27.1	27.6	29.7
Goods and services	9.6	11.0	14.8	9.9	8.3	7.1	7.8	5.4	6.1	6.2	6.8	6.6
Interest and public debt	4.7	5.2	5.7	6.7	7.5	8.6	9.0	9.1	9.2	9.1	9.9	10.0
Subsidies and transfers	21.9	27.7	27.5	31.4	31.3	28.1	31.2	32.0	35.7	34.1	31.3	33.4
Capital expenditure	34.1	30.0	24.7	25.0	26.3	27.4	23.3	26.2	21.2	23.5	24.4	20.3
Direct investment	18.4	17.8	11.8	13.6	12.1	15.2	11.8	14.7	11.8	13.3	16.6	12.8
Capital transfers	15.7	12.2	12.9	11.4	14.2	12.2	11.5	11.5	9.4	10.2	7.8	7.5
					(In percent of total financing)							
Foreign financing (net)	103.0	75.2	66.7	58.5	82.9	66.7	30.5	36.3	28.6	17.4	48.7	6.2
Domestic financing	–3.0	24.8	33.3	41.5	17.7	33.3	69.5	63.7	71.4	82.6	51.3	93.8
Banks	23.1	19.6	11.1	27.4	40.0	22.7	28.5	–11.4	10.9	19.7	6.9	–31.6
Nonbank[1]	–26.1	5.1	22.2	14.1	–22.9	10.6	41.0	75.1	60.5	62.9	44.4	125.4

Source: Ministry of Finance.

[1] Including payment float, errors, and omissions.

Chart 1. Fiscal Indicators
(In percent of GDP)



Source: Tunisian authorities.

Tax Reforms

As part of the adjustment process, Tunisia reformed its tax system by adopting a VAT and introducing a single personal income tax and a new simplified corporate tax. The reform measures, designed to be revenue neutral, were broadly in line with the recommendations of the report prepared by an IMF technical assistance mission in 1985. The overall objectives of the reform were to (1) enhance the elasticity of the tax system; (2) improve tax equity and administrative efficiency; (3) streamline tax incentives to the private sector; and (4) eliminate distortions created by the large number of rates.

The three turnover taxes were replaced by the VAT, effective July 1988. The VAT had three rates: (1) a general rate of 17 percent on most goods and services; (2) 6 percent on basic consumer goods and services; and (3) 29 percent on luxury goods. Under the new system, the VAT paid on all elements in the cost structure, including fixed capital, was in general fully deductible from the tax due on transactions in final goods and services. The distortions inherent in a system of cascading taxes, which were imposed at various stages of production, were thereby avoided. Because exports were not subject to the VAT, all taxes levied during the production process of export goods were eligible for full reimbursement. In October 1989, the VAT was extended to wholesale trade activities, except in the food sector.

The authorities embarked on a comprehensive, direct tax reform by introducing a new tax code,

effective January 1990, that covered the taxation of personal and corporate profits. The existing schedular, general income, and solidarity taxes were abolished and replaced by a single personal income tax, and the existing corporate tax by a new corporate tax. Under the new personal income tax, the number of income brackets was reduced to 6 from 18, and tax rates ranging from 15 percent to 35 percent were established. Under the new corporate tax, the six rates—differentiated according to economic sector, with a top rate of 44 percent—were replaced by two rates, a standard rate of 35 percent and a special rate of 10 percent applicable to cooperatives and to enterprises in the handicrafts, agriculture, and fishing sectors. At the same time, exemptions and deductions were reduced to expand the tax base, and tax withholding was extended to payments of interest, professional fees, and commissions and to rentals paid by public authorities and corporations. Finally, tax payments were shifted to a current basis to reflect the taxpayers' actual ability to pay.

To liberalize the Tunisian economy, the authorities gradually removed quantitative restrictions on imports and implemented a customs tariff reform with a view to rationalizing and reducing tariffs. Under the customs tariff reform, the maximum tariff was reduced to 43 percent from 236 percent, and the tariff dispersion was narrowed substantially. As a result, the average tariff rate fell from 36 percent in 1986 to 26 percent in 1992. To simplify the existing system of duties so as to increase compliance, the authorities also elaborated a draft code for stamp and registration duties. It was adopted by the Parliament in May 1993.

In line with the objective of reducing the Government's role in the economy, the authorities did not introduce major new taxes. However, some revenue measures taken in the last half of the 1980s involved increases in tax rates on alcohol, tobacco, services, and petroleum. In addition, to mitigate the impact of the Middle East crisis on government finances, temporary surcharges on income taxes and import duties were introduced in March 1991. The surcharge on income taxes was subsequently eliminated at the beginning of 1992, but that on import duties was extended until the end of 1993.

Meanwhile, the tax administration was strengthened significantly through improvements in tax assessment and collection procedures and the reinforcement of tax auditing procedures. The authorities granted a tax amnesty in late 1987, with a view to bringing potential taxpayers into the tax net and reducing tax evasion. Subsequently, the tax administration continued its efforts to enlarge the tax base by identifying potential taxpayers.

Expenditure Issues and Policies

The decline in oil revenue and the increased debt-service payments, in the absence of significant new or higher taxes, required a substantial reduction in the ratio of government expenditure to GDP in order to lower the budget deficit. Under the adjustment program, the Government envisaged significant reductions in expenditure and net lending, aimed at improving the efficiency of resource use, and planned to reduce its share in total investment.

Reducing current expenditure was difficult because of the rigidities in the system and the need to complement these cuts with other structural reforms. The major item in current expenditure was the wage bill. At the beginning of the program period, civil service wage rates had been frozen for two years at their 1984 level. Although the freeze continued during 1986–87, the wage bill rose owing to the wage drift built into the system and the increase in the size of the civil service. The increase in the civil service, primarily to meet the needs of the education and health sectors, was limited to an average growth rate of about 2 percent a year in 1986–88. After a four-year wage freeze, the authorities granted increases, equivalent to about 3 percent each, in productivity premiums in January and October 1988. At the beginning of 1989, they granted an increase in public sector salaries of about 5 percent, which reversed the declining trend in the ratio of the wage bill to GDP from 1986 onward.

In 1990, employers, employees, and the Government collaborated on a three-year wage policy aimed at avoiding annual confrontations between employers and employees while providing a framework in which productivity could be encouraged, competitiveness preserved, and real wages prevented from declining to levels that would erode incentives to work. The resulting guidelines that were agreed upon on July 1, 1990 provided for annual salary increases of about 5.6 percent in the public administration over the following three years. During this period, some seven thousand employees a year were recruited, representing increases of about 2–3 percent in the number of government employees.

At the beginning of 1986, the other major category of current expenditure was subsidies and transfers, which do not affect Tunisia's aggregate resource position but are reflected in the Government's savings performance. Budgetary expenditure under subsidies and transfers includes consumer subsidies, social security payments, transfers to hospitals and schools to cover their current outlays, and transfers to public enterprises to cover their operating losses. The authorities' policy aimed at gradually reducing the ratio of consumer subsidies to GDP. The gradual approach was

intended to safeguard the benefits of the poorest segments of the population to the extent possible by raising prices initially on goods they were less likely to need. In addition, mechanisms were developed to target subsidies more effectively and to limit them to low-income groups.

The authorities also improved cost-recovery mechanisms to reduce transfers to public enterprises from the Government's budget, which included operating subsidies and financing of the enterprises' losses. However, they had difficulty because, to reduce these transfers significantly, they had to strengthen the financial position of the enterprises through comprehensive reforms that took time to formulate and implement.

Expenditure on goods and services had been substantially reduced in 1984–85, with adverse effects on the operation and maintenance of public assets. Starting in 1986, more importance was given to maintenance programs to increase returns on existing capital and infrastructure as well as to reduce, over time, the need for replacement investment. In these circumstances, the authorities aimed at keeping expenditure on goods and services more or less constant in real terms under the adjustment program while increasing operation and maintenance outlays, especially for infrastructure.

Public investment averaged 56 percent of total gross fixed capital formation during Tunisia's Sixth Development Plan (1981–86), with public enterprises typically accounting for two thirds, and the Central Government for one third, of this total. In line with the overall objective of reducing the role of the public sector in the economy, the authorities' policy in the second half of the 1980s was to reduce the Government's direct and indirect share in investment and to increase its efficiency. The impact of the decline in public sector investment was expected to be offset by a pickup in private sector investment, while the budgetary position of the Central Government was expected to strengthen. Accordingly, the authorities canceled all outstanding but unused budgetary authorizations for capital expenditure at the beginning of 1987, thus allowing the Seventh Development Plan (1987–91) to be launched without a backlog of uncommitted but authorized expenditure.

During 1987–92, the growth of capital expenditure was limited to an average of about 5.2 percent a year, lower than the average annual increases in inflation of about 7.2 percent during the same period. In the meantime, the authorities, with assistance from the World Bank, reviewed the public expenditure program, identifying and eliminating projects of doubtful economic value and formulating a core investment program compatible with the changing resource availability and policy objectives of the authorities. Specifically, government investments were redirected to build up the infrastructure needed to support private sector investment and to meet the needs of the social sectors, particularly education and health. At the same time, the planning, evaluation, and budgeting for public investment were significantly improved, with a view to increasing the efficiency of investment.

Toward the mid-1980s, arrears had accumulated primarily in connection with purchases of goods and services from public enterprises. Under the adjustment program, these arrears, which amounted to less than 0.2 percent of GDP, were eliminated in 1988, and improved monitoring procedures prevented the accumulation of new arrears.

The overall budget monitoring process was also strengthened substantially. The authorities computerized and centralized the monitoring of consolidated central government financial operations and introduced new procedures to allow the monitoring of disbursements of foreign loans as well as extrabudgetary operations financed by such loans. Furthermore, 19 Special Treasury Funds were incorporated into the 1987 budget and revenue earmarking was eliminated. The remaining special funds were constrained to operate within the limits of their own resources and those of budgetary transfers authorized in the budget law.

Fiscal Outcome

During 1986–92, the overall budgetary position of the Central Government fluctuated considerably in response to the continuing decline in petroleum revenue and the adverse effects of exogenous factors, including two successive years of drought (1988–89) and the Middle East crisis (1990–91). By 1992, however, it had strengthened significantly. Although the ratio of revenue to GDP declined steadily as the Government reduced its absorption of resources, it was more than offset by a contraction in the ratio of expenditure and net lending to GDP. During this period, the prompt policy adjustments of the authorities in response to changing circumstances contributed to the improved fiscal performance.

Total revenue declined from 34.6 percent of GDP in 1986 to 28.9 percent in 1992, of which 3.1 percentage points were related to tax revenue. Almost all of the decline in tax revenue took place in 1987, the first full program year. Thereafter, the ratio of tax revenue to GDP remained at about 23 percent. The analysis of the tax performance suggests that, with the implementation of tax reforms and the strengthening of the tax administration, the tax system in 1991–92 was substantially more buoyant than in the early part of the program period. Furthermore, the concerns that the tax reforms would be

initially detrimental to revenue performance do not appear to have been borne out.

During 1987–92, the ratio to GDP of taxes on income and profit remained at about 4 percent, and of taxes on goods and services at about 7 percent. The ratio of taxes on foreign trade to GDP fluctuated from year to year, mirroring movements in the imports-to-GDP ratio. However, because of the reductions in customs duties under the trade reform, the ratio of trade taxes to GDP did not show the significant increasing trend seen in the imports-to-GDP ratio. Over the program period, nontax revenue declined more or less steadily, by about 2.6 percentage points of GDP, reflecting the decline in petroleum revenue. Petroleum revenue consisted of the Government's share of the receipts of crude oil exports and other operating surpluses paid by the government petroleum companies, contributions in kind from different oil fields, and the receipts of a surtax paid by the petroleum companies.

In terms of revenue composition, the share of tax revenue in the total increased while that of nontax revenue declined during the adjustment period. Taxes on foreign trade remained the most important source of tax revenue, the share of which increased slightly despite the lowering of average customs duties. The share of taxes on goods and services, which declined early in the program period, increased significantly after 1989 when the VAT became fully operational and its base was extended to wholesale trade activities. The share of taxes on incomes and profits did not show a particular trend, with fluctuations remaining between 12 percent and 14 percent.

Total expenditure and net lending, which amounted to about 40 percent of GDP on average during the first half of the 1980s, declined steadily under the adjustment program, from 39.2 percent in 1986 to 31.9 percent in 1992. Most of this decline was accounted for by reductions in capital expenditure and net lending, reflecting the difficulties the authorities encountered in cutting current expenditure.

In current expenditure, the authorities brought the wage bill below 10 percent of GDP starting in 1987 and reduced it to 9.3 percent in 1992 by imposing a wage freeze early in the program period, signing a three-year wage agreement, and limiting new hiring. Subsidies and transfers showed an increasing trend during 1987–89, mainly because of larger transfers by social security schemes to households, increases in transfers to schools and hospitals for current outlays, and higher consumer subsidies in 1988–89 to compensate for two years of drought and high international cereal prices. Between 1989 and 1992, the ratio of subsidies and transfers to GDP declined by 2.1 percentage points, to reach 10.5 percent of GDP in 1992, as transfers to public enterprises declined and consumer subsidies were reduced. The reduction in consumer subsidies resulted from the phasing out of subsidies on fertilizers and from increases in prices. Expenditure on goods and services, which had peaked at some 5.6 percent of GDP in 1983, was maintained at about 2 percent of GDP during 1988–92.

Under the program, capital investment and net lending as ratios to GDP were also sharply reduced. Direct investment by the Government, which was largely limited to economic infrastructure to support private sector activity, was held at about 4 percent of GDP, except in two years when it exceeded 5 percent—in 1988, owing to an increase in rural projects to alleviate the adverse effects of the drought, and in 1991, owing to an expansion in projects directly financed from abroad. Capital transfers and net lending declined more or less continuously from the beginning of the program period, as investment programs of public enterprises were scaled down significantly, in line with the objective of reducing the share of the public sector in total investment, and as the restructuring of public enterprises reduced their need to borrow from the Government. The decline more than offset the transfers that went toward financing the restructuring of public enterprises.

The share of current expenditure in the total increased by about 7 percentage points during 1986–92, to reach some 80 percent in 1992, while the shares of capital expenditure and net lending declined correspondingly. Within current expenditure, the share of interest payments on public debt grew steadily, as the outstanding level of debt rose and the deficits were financed increasingly at market-determined interest rates. The decline in the share of capital expenditure was almost totally attributable to the decline in capital transfers.

Mirroring developments in revenue and expenditure, the overall budget deficit of the Central Government, including grants, remained in the range of 3.9–5.4 percent of GDP in 1986–91 before declining to 2.6 percent in 1992. Excluding interest payments, the overall fiscal balance in 1992 recorded a surplus, amounting to 0.5 percent of GDP, for the first time in recent years. The 1988–89 drought was responsible for the deterioration in the overall budgetary position, excluding grants, although its impact on the budget was attenuated in 1989 by the inflows of drought-related grants. The budget deficit widened again in 1991, when the Government stepped up its investment to mitigate the adverse economic impact of the Middle East war. In both instances, the deterioration was reversed in the following year thanks to the authorities' prompt policy actions.

The share of the budget deficit financed from foreign sources declined during 1986–92, while that from domestic sources, in particular the nonbanking sector, increased. Net foreign financing, which covered on average more than three fourths of the budget deficit in the first half of the 1980s, declined to 6.2 percent in 1992, except in 1991 when direct foreign financing for investment projects increased substantially. The share of the budget deficit financed by the domestic banking system also fell from about 23 percent in 1986 to 7 percent in 1991 before turning negative in 1992. Meanwhile, nonbank domestic financing became the main source of budgetary financing. Initially, nonbank financing was largely in the form of low-interest development bonds subscribed to by institutional investors (insurance companies, social security funds, and the National Saving Fund). As part of the financial sector reforms, the Government started in 1989 to issue treasury bills with market-related interest rates, which are held by individuals and nonbank institutional investors. Furthermore, the Government accelerated the amortization of the outstanding development bonds, which further boosted the cost of outstanding domestic debt.

Social Issues and Protection

Tunisia accorded great emphasis to social development, poverty reduction, and family planning, as well as to the protection of the population through an extensive social security system consisting of several funds. During the 1980s, the social indicators in Tunisia improved significantly and are currently better than in many other countries at similar income levels (see Table 2). Comparisons of data at the beginning of the 1980s with those of the beginning of the 1990s show that primary school enrollment, as a ratio of the total number of primary school-aged children, increased from 103 percent to 115 percent; secondary school enrollment, as a ratio of the total number of secondary school-aged children, increased from 27 percent to 44 percent; the illiteracy rate declined from 54 percent to 35 percent; the proportion of the population living in absolute poverty was halved, to 6 percent; the infant mortality rate declined from 72 per thousand to 44 per thousand; and population growth slowed down from over 2.7 percent a year to below 1.8 percent.

During the adjustment period, the Tunisian authorities took measures to alleviate the hardships for the poorest segments of the population and to foster the development of the social sectors. They reduced consumer subsidies by raising prices on the goods that constituted the smallest proportion of the purchases of the poor, and by targeting subsidies and direct income support more efficiently. Furthermore, government investment was redirected, and the bulk of the increase in the number of civil servants was aimed at meeting the needs of the social sectors, particularly education and health. Finally, the improvements in the growth performance of the economy during the adjustment period provided increased employment opportunities that prevented the unemployment rate from rising.

In addition to implementing measures to protect the poorest segments of the population and to develop the social sectors, the authorities took steps to improve the social security system and strengthen the social safety net. Their goals in terms of the social security system were to (1) improve the financial viability of the system—adversely affected by a declining population growth rate—by restructuring the various funds; (2) harmonize benefits and premiums; and (3) broaden its coverage to include the self-employed and workers in the agricultural sector. Furthermore, the criteria for defining needy families were reviewed, and, on that basis, revisions were proposed with a view to improving the allocation of direct income support. Meanwhile, the authorities undertook a detailed survey of the poorer segments of the population with the goal of identifying individuals whose economic potential could be realized through training.

Outstanding Issues

The authorities intend to increase government savings further, so as to continue releasing resources to the private sector, and to improve the efficiency of public expenditure. Accordingly, they plan to implement revenue-enhancing and expenditure-containing measures as well as to restructure government expenditure.

The authorities' revenue-enhancing plans include broadening the tax base, adapting the tax system to the changing structure of the economy, and strengthening the tax and customs administration. The VAT and income taxes will be broadened through a more vigilant treatment of small and medium-size enterprises. The VAT can also be extended to the retail stage to close the circuit of goods and services from the importation and production stage through the retail level. This step will also help strengthen tax control by providing cross-checks in commercial operations for tax purposes. In addition, the scope of lump-sum taxes can be narrowed if more categories of taxpayers are brought under the general tax regimes.

The informal sector in Tunisia is expanding rapidly, eroding the tax base. The authorities are

Table 2. Social Indicators
(In percent, unless otherwise indicated)

	1980	1985	1990
Primary school enrollment/primary school-aged children[1]	103.0	116.0	116.0[2]
Secondary school enrollment/secondary school-aged children	27.0	39.0	45.0
Illiteracy rate[3]	53.5	42.4	34.7
Pupils per teacher (primary school)	38.5	31.6	27.8
Infant mortality rate			
(per thousand live births)	72.4	54.8	44.4
Life expectancy at birth (in years)	61.9	64.6	67.3
Population per physician (number of people)	3,694.4	2,161.9[4]	1,872.4[5]
Population growth rate	2.7	2.4[4]	2.0[5]
Population living in poverty/total population	11.1	7.0	5.7
Urban population/total population	52.2	53.0	55.0[5]

Source: World Bank, Social Indicators of Development, data base.
[1]The ratio exceeds 100 percent because some pupils are younger or older than Tunisia's standard primary school age.
[2]In 1989.
[3]As a percentage of the population 15 years and older.
[4]In 1986.
[5]1992.

considering measures to bring this sector within the tax net, including enforcing business license fees. In addition, the surveys being conducted by the tax department to identify individuals in the informal sector and to register them as taxpayers will provide useful information.

The authorities are also focusing on improving tax assessment and collection procedures and reinforcing tax auditing operations. In early 1993, the Ministry of Finance launched a taxpayer information campaign through the media and sent direct mail notices to advise taxpayers about their tax obligations. Simultaneously, the tax department intensified its efforts to collect arrears from delinquent taxpayers. The tax department's computer system will also be improved and centralized to follow up taxable operations.

On the expenditure side, the authorities intend to contain the growth of the wage bill and reduce low-priority expenditure while continuing to meet the needs of the social sectors and improve the infrastructure. Envisaging a major reform of the civil service, they are currently evaluating its status and recommending improvements in recruitment procedures, staff training, the wage system, promotion rules, incentives, and sanctions. The survey of the entire civil service is aimed at establishing the identity, status, and job position of civil servants, as well as the total number in each department. A new salary scale will replace the existing system of base salary and automatic indemnities, and an incentive system based on merit is expected to be developed. The authorities hope to complete these reforms as early as possible to provide a basis for redeploying civil servants, limiting recruitment, and linking remunerations more closely with productivity so as to be able to achieve their objective of reducing the share of the wage bill in the budget.

To improve social conditions, the authorities plan to (1) provide adequate resources for social sectors; (2) target subsidies to the poorer segments of the population more efficiently; and (3) broaden the social security system to cover the self-employed and workers in the agricultural sector. They intend to complement these efforts by reducing unproductive expenditure. Better targeting of consumer subsidies should allow reductions in the overall level of consumer subsidies, and the results of the survey of needy families should allow the Ministry of Social Affairs to improve the allocation of direct income support. In addition, budgetary transfers can be reduced through improved cost recovery for public utilities and a strengthening in the financial position of the public enterprise sector.

Other items on the authorities' agenda include improving the timeliness and coverage of fiscal data so as to improve the monitoring of budgetary operations. They are focusing particularly on the collection of budgetary data and on the monitoring of direct, foreign-financed investment.