TUNISIAN FINANCIAL SYSTEM

Banque Centrale de Tunisie

The following is an account of the banking system in Tunisia. It deals first with the Central Bank, describing its role and the tools of monetary policy it uses including credits, exchange rates and currency accounts system. In a second stage, it presents the deposit institutions, the financial service institutions, and the non-creating money financial institutions.

A. THE CENTRAL BANK OF TUNISIA

The Central Bank has a general mission which consists in defending the dinar's value and assuring its stability. In this context, it controls the monetary policy and credit supply and sees to the good management of the financial and banking system.

The Central Bank supports the economic policy of the government. In this regard, it proposes to the government all measures likely to have a positive effect on the balance of payments, the price trend, the public finance position and, generally speaking, the promotion of the national economy.

1. Monetary Policy Instruments

a. Rates And Exceptions Regarding Reserves Commitments

The Central Bank disposes, through the reserve requirement which has been set up since the 28th of September 1964, of a privileged instrument which enables the regulation of the banking liquidity and the controlling of the resources and uses of banks according to monetary equilibrium imperatives.

This reserve requirement underwent many modifications, the most important of which happened in 1989. As a matter of fact, the monetary authorities, who noticed a relative acceleration in the liquidity increase during the first months of 1989, reactivated the reserve requirement in order to contain the money supply increase within the limits set in accordance with the rate of economic growth and inflation control.

Thus, the banks were invited to constitute, as a reserve requirement at the Central Bank, a part of their deposits collected in dinars with the exception of savings deposits and deposits intended for specific financing. The amount of this reserve corresponds to 40% of suspense and capital accounts deposits and to 2% of a total made up of other term and sight deposits, cash bonds, other financial returns and deposits certificates.

Moreover, the Central Bank has authorised banks not to freeze the reserve requirement amount in order to permit a softer management of their liquidity but they have to constitute monthly an average daily balance of their current accounts at least equal to the required amount for the reserve and provisional deposits.

In case of inadequacy to the required amount, the Central Bank collects interests on overdue amounts. However, the possible surplus of a given month can be carried back only once if an inadequacy is noticed the following month.

Finally, the reserve requirement underwent a new modification at the beginning of 1990. The new measures stipulate that the banks have to constitute beyond the 2% of their total deposits, 100% of every increase of these deposits with regard to their level in December 1989 which exceeds the ceiling fixed by the Central Bank. Thus, the reserve amount concerns the overall sight deposits, term deposits, deposits certificates and savings special accounts with the exception of linked savings deposits such as housing, project and investment savings.

b. Discount Rate

The Central Bank has increased since the second of January 1981 preliminary authorisation floors and rediscount agreements in order to motivate banks to ensure an adequate financing of the economy and notably the preferential sectors of production and export. This measure is also undertaken to ease prior control measures and help banks satisfy rapidly credit demands requested by companies in order to make them more responsible for credit supply and activity follow up of their customers and at last help them play the role which is theirs in the framework of the general policy of decentralisation.

The Bank of issue offers to banks many refinancing opportunities. Thus, in the framework of rediscount, the Central Bank refinances, without limiting ceilings and at special favourable rates, seasonal crop credits particularly olive oil, cereals and wine as well as certain credits granted to preferential sectors and mainly export credits, agricultural credits and public markets financing credits. The Central Bank expected, when it deemed necessary, other rediscount possibilities in favour of banks.

The Central Bank introduced during 1988 some modifications to banks conditions related to rediscounted credits and to the setting of the prime rate applied by banks as a basis to determine the maximum annual interest rates applied to various credits granted to non preferential activities. In this context, the rediscount rate for medium term discounted credits has been increased by 3/4 point.

As for short term credits, the rediscount rate has been reduced by one percentage point to amount respectively to 6% and 4.75% as of September 12th, 1988.

c. Selective Credit Control

The new monetary policy adopted at the end of 1986 has assigned among other objectives, the setting of global instruments of control and evaluation rules of banks commitments to their customers and follow up.

Public authorities have decided, at the end of 1987, not to submit short, medium and long term credits to preliminary authorisation and rediscount agreement in order to let banks evaluate more freely their customers' needs and allow them to take rapid decisions. A later control will be done on some important dossiers.

At the same time, banking activity liberalisation coincided with the setting of a cover system and risk division. This system which has been reinforced in 1991, imposed new prudential norms of management in order to consolidate bank financing foundations and preserve their credibility to have access directly to external financial markets and ensure depositors' security. Beyond these risk concentration norms, the new regulation framework assigns banks to classify their total assets in four categories. It assigns also severe rules in the capitalisation of returns and minimum quotas to supply certain assets.

d. Interest Rate Setting

The interest rates reform policy which has been adopted since 1987, satisfies the structural adjustment plan short term objectives set by the public authorities and aiming to control domestic demand and soften balance of payments pressures. This reform is among the structural measures related to the liberalisation of the economy aiming to assure a better allotment of resources.

Only favourable debit interests applied to preferential sectors notably agriculture, export and small and medium companies continue to be fixed by the Central Bank. They have been progressively increased to come close to market rates. The applied rates to other credits are, from now on, fixed freely between the bank and its customers in order to confer more flexibility on interest rate fixing, taking into account credit nature and borrowers quality. However, rates must not exceed the money market average rate increased by an average margin of 3 percentage points.

So, banks are free in yielding the savings made up of deposits on savings booklets and the savings in convertible dinars deposit accounts of Tunisian residents abroad. If the interest rates related to first category deposits are fixed at a level which corresponds to the money market average rate after deducting two percentage points, the banks must offer to the second category a yield at least equal to the money market rate after deducting two percentage points.

The freedom granted to banks in fixing credit and debit interest rates leads banks to be competitive in granting credits and mobilising savings. They must, in order to obtain a better profit, identify new products and set them on the market mainly in the medium and long terms. In this connection, a new savings linked category named savings debenture loan account has been created in order to encourage savers to move towards medium and long term investment and expand the bond market.

e. The Money Market

Money market reorganisation has taken place since January 1988. It will promote the creation of a real short term capital market which will be open to a great number of operators and where the interest rates will reflect the real value of money.

Indeed, the Central Bank still plays an important role after the new organisation but its intervention takes place in the interbank market where operators can exchange directly their liquidity and agree upon interest rates and delays.

Strong companies capable of improving their management methods can rationalise the yield of their surplus on the one hand and borrow at a low cost on the other hand by resorting directly to the money market. They dispose, to carry out these operations, of two new financial instruments, namely, the deposit certificates issued by banks and subscribed by companies and non banking institutions and treasury bills issued by limited companies justifying a paid up capital of one million Tunisian dinars subscribed by a third party. The companies can, in addition to issuing and subscription operations, intervene in the money market to carry out sales and purchases related to these two new instruments. Thus, they participate in money market reinforcement and activation.

As everywhere in the world, the Central Bank assures the readjustment of this market by injecting or draining liquidity as the case may be. The Bank of Issue offer is carried out in the form of purchase of securities or claims held by banks against periodical competitive bidding and in the form of seven day repurchases and 24 hour specific interventions.

The Central Bank takes into account, when fixing the competitive bidding interest rate, the developments in the rates applied in the interbank market, the overall consumer price index as well as monetary and credit policy objectives.

2. Credits

a. Credits to the economy

The measures taken by the Central Bank in the field of credit are characterised by a constant concern for appropriateness between the financing scheme on the one hand and the specific needs of each branch of the economic activity on the other hand. The main measures taken in this field cover investment credits and export financing. Medium term credit repayment periods were lengthened from 5 to 7 years in 1975. In 1981, deposit banks have been authorised to grant credits on their deposits with repayment periods exceeding 7 years. Before that date, the banks could grant such credits only on their available capital stock or on their special resources allocated to such credits.

In 1972, a new medium term investment credit form named production credit was instituted. In practice, this kind of credit has sometimes proved to be more suitable than credits granted directly to investors.

Agricultural investment financing has been a constant concern for the Central Bank of Tunisia. Hence a number of measures have been taken in favour of agriculture; these include notably the application of preferential interest rates to credits financing agricultural dealings, the institution of a new formula for financing agricultural machinery purchase and repair through medium term loans, and the setting of long term agricultural loans granted on banks deposits with payment terms exceeding seven years. The Central Bank has authorised the banking system to participate in the financing of housing.

Also, the Central Bank has authorised the financing of buildings and warehouses, of projects aimed at promoting and extending supermarkets, of acquisition of equipment necessary for the liberal professions of working capital, and of actions aimed at restructuring and stabilising public companies.

In this context, it is worth mentioning the credits to craftsmen and small companies aiming at developing this sector in order to contribute actively to the national effort aimed at creating jobs. The Central Bank has created in 1982 in the global ratio of development financing a medium term credit ratio granted to banks to motivate them to intensify their interventions in financing small companies and craftsmen. At the same time, the Central Bank of Tunisia has accepted to rediscount these credits without limiting the amount. The Bank of Issue pays a special attention to exports. Indeed, the latter benefit nowadays from short term credits at favourable terms and also from medium term credits financing exports of capital goods instituted in 1988.

b. Credits granted to the State (Treasury)

The public authorities have created at the end of the 1989 short term public bonds called “treasury bonds” in order to help the treasury to adjust to financing at the rates in force on the market as other economic agents are doing. The bond issue aims also at reinforcing the financial market and promoting a public bonds secondary market because the monetary authorities dispose from now on of an additional instrument to improve the functioning of the money market.

Banks can subscribe to these Treasury bonds which have a unitary value of 1000 dinars and a relatively short term rate when they are put on the market which means 13, 26 and 52 weeks. The subscription is made either for the banks itself or for its customers. Since 1991, the issue of these bonds for longer terms namely 2, 3 and 5 years has been possible. These bonds are at a fixed interest rate resulting from auction commitments during each operation starting with the lowest rates.

The Treasury bonds are negotiable in all banks participating in the auction. The latter must display during the whole day the purchase and sale prices to which they refer when executing their operations and provide the Central Bank of Tunisia with the prices at the opening and closing of paydesks as well as the global volume of dealings.

3. Exchange Rates And Currency Accounts System

The public authorities have taken new measures since 1986 in external trade liberalisation and exchange control softening. These measures fall under the policy of economy liberalisation in order to allow some flexibility in the running of companies which use imported products and stimulate productivity gains and encourage local production in the face of foreign competition.

Thus, resident travel allowance has been increased first from 100 to 200 dinars then to 500 dinars cumulative over two years.

While pursuing their export promotion action, the monetary authorities have taken a number of measures permitting the setting of an institutional and regulatory framework in order to gain a better profit from developments in the world economy. Convinced that exchange control constitutes a real handicap which affects the competitivity and performance of the Tunisian economy, the monetary authorities have begun since the end of 1987 the gradual liberalisation of external trade and relaxation of exchange controls.

The liberalisation continued in 1991 by improving transfer facilities granted to external trade operators and by multiplying the possibilities of non transferable currencies use as well as the relaxation of investment regulations related to service-exporting companies. Additional measures have been undertaken to improve the system of term cover exchange risks and set a system of exchange risks cover in favour of borrowers. In 1989, exchange regulations have been softened in the field of currency and convertible dinars professional accounts, professional dossiers and business travel expenses. It is a softening which allows more important facilities to goods and services exports.

Moreover, a currency money market has been set up to ease short term lending and borrowing operations.

Measures related to dinar convertibility have affected all production sectors at the real and financial levels in order to create the adequate conditions for a greater opening of the national economy on the outside world helping it become integrated into the international market.

Thus, the monetary policy which is being pursued is based on the absolute necessity of monetary stability. That means a minimum increase in prices, a balanced balance of payments and a stable exchange rate in real terms in order to preserve the competitivity of the Tunisian economy and make the dinar a convertible currency. Indeed, this approach has paved the way for the eventual liberalisation of the exchange market and the convertibility of the dinar, all the more so as the positive developments in the economic situation in Tunisia since the endorsement of the structural adjustment plan in 1986 has restored national and foreign companies confidence. This double task can only be achieved within the framework of a safe and solid financial system. To this end, the monetary authorities stressed these two main fields, namely, exports and foreign investment.

B. DEPOSIT INSTITUTIONS

1. Public Banks

The banking system includes five governmental banks:

- Banque Nationale Agricole (BNA)

- Société Tunisienne de Banque (STB)
- Banque du Sud (BS)
- Banque de l'Habitat (BH)
- Union Internationale de Banques (UIB).

These banks are classified in the category of deposit banks which play an efficient economic role and follow the financial and monetary policy adopted in the development plan. These banks gather all sight and term deposits categories and encourage all kinds of savings.

Pursuant to monetary policy, deposit banks contribute to project financing in public and private sectors by granting short and medium term credits at favourable rates according to sectors.

These banks are bound to submit monthly to the Central Bank of Tunisia their positions and the Central Bank controls all their executed operations.

2. Saving Banks

The government financial sector includes a bank specialised in collecting dinar and currency savings. It is under the tutelage of the communications ministry in order to encourage small savings. It is called "caisse d'épargne nationale tunisienne" (CENT).

3. Private Banks

The banking system includes six private deposit banks:

- Arab Tunisian Bank (ATB)
- Banque Franco-Tunisienne (BTF)
- Banque de Tunisie (BT)
- Crédit Foncier et Commercial de Tunisie (CFCT)
- Banque Internationale Arabe de Tunisie (BIAT)
- Union Bancaire pour le Commerce et l'Industrie (UBCI)

These banks, much like the public banks, are bound to follow the financial and monetary policy drawn up by the Central Bank of Tunisia.

4. Foreign Banks

The banking sector includes a foreign bank specialised in collecting deposits and governed by deposit banks regulation. It performs all banking operations and is called the Citibank.

5. Non Resident Banks

A number of foreign banks having dealings with the outside world carry out their activities in Tunisia. The seven representations of international banks in Tunisia are:

- Citibank
- Union Tunisienne de Banques (UTB)
- Tunis International Bank (TIB)

- Loan and Investment Co. (LINK)
- Beyt At-Tamuil As-Saudi At-Tunusi (BEST)
- North African International Bank (NAIB)
- Alubaf International Bank (AIB)

C. FINANCIAL SERVICES INSTITUTIONS

1. Stock Exchange

Financial market development and activation constitute a pillar of the financial reform which has been started since 1987 by the monetary authorities and a necessary condition to encourage financial innovation and guarantee its success. The new law endorsed to reorganise the financial market stipulates the creation of a financial market higher council and a redefinition of the stock exchange mission, its resources and organs, the functions of the operators, the terms of their appointment and the functioning rules of the market.

The financial market higher council which plays a consultative role is entitled to examine and propose all measures capable of stimulating and developing the financial market.

The stock exchange is in charge of drawing up action programmes aimed at mobilising savings and channelling them into stock investment or any other negotiable financial instrument. It facilitates for these companies the mobilisation of internal and external assets to finance their investment. It ensures the protection of the invested savings in stocks or any other financial return negotiable in the stock exchange. It also provides the public with continuous and reliable information.

Moreover, the system of fixed capital and variable capital companies, the creation of which was encouraged by granting tax incentives, has been reorganised. In this regard, the 1988 law was passed to regulate the issuing terms of bond loans in order to activate the securities market.

D. NON CREATING MONEY FINANCIAL INSTITUTIONS

1. State Banks

The two state banks specialised in the field of development and which have not the function of creating money are:

- Banque de Développement Économique de Tunisie (BDET)
- Banque Nationale de Développement Touristique (BNDT).

These banks intervene also in specific fields. Indeed, the first grants long term credits to the sectors of industry and tourism and the second is specialised in financing and developing tourism projects and encouraging all projects related to tourism.

2. Development Banks

The development of the financing needs of the Tunisian economy, resulting from an increase in the volume of investments, led to the creation of new development banks with particularly Arab partners.

The Central Bank supported this policy by participating at the beginning in the capital of these financial institutions. The latter are specialised in the support of the country development policy.

These institutions finance great development projects by granting term credits at preferential rates according to the importance of the economic sector.

They are six banks:

- Banque de Coopération du Maghreb Arabe (BCMA)
- Banque de Tunisie et des Émirats d'Investissement (BTEI)
- Banque Tuniso-Qatarie d'Investissement (BTQI)
- Banque Tuniso-Koweitienne de Développement (BTKD)
- Société Tuniso-Saoudienne d'Investissement et de Développement (STUSID)
- Banque Tuniso-Libyenne de Développement et de Commerce Extérieur (BTLD).

3. Insurance Companies

The enlarged financial sector includes many public and private insurance companies. It is worth mentioning that most of these companies operate the insurance sector in all its forms except one: the Compagnie Tunisienne d'Assurances du Commerce Extérieur - COTUNACE.

** Public Companies*

- Société d'Assurances et de Réassurances (STAR)
- Llyod Tunisien

** Private Companies*

- Groupement des Assurances Tunisiennes (GAT)
- Société Astrée (Astrée)
- Société Méditerranéenne d'Assurances et de Réassurances (STAR)
- Société Maghrébia d'Assurances et de Réassurances (Maghrébia)
- Compagnie d'Assurances et de Réassurances Tunisio-Européenne (CARTE)
- Caisse Tunisienne d'Assurance Mutuelle Agricole (CTAMA-MGA)
- Mutuelle d'Assurances de l'Enseignement (MAE)
- Société "Ittihad" d'Assurance

** Specialised Companies*

- Compagnie Tunisienne d'Assurance du Commerce Extérieur (COTUNACE)
- Société Amina (Amina)
- Société Hayett (Hayett)
- Société Tunisienne de Réassurance (Tunisie-RE)

** Non Resident Companies*

- Best-RE
- Succursale du Groupe des Mutuelles du Mans (France)
- MAPREE Assistanzia
- Groupe ITEA

4. Investment Companies

The reorganisation of the system of fixed capital and variable capital investment companies constituted the object of a new law promulgated on the second of August 1988. This law regrouped in one text the provisions related to the two categories of investment companies.

Considered as being a modern form of savings the capital of which is totally paid up at the subscription, the investment companies devote their activity exclusively to the purchase and management of securities in portfolio. Their aim is to protect people who trust them and become their shareholders. The management of the latter's savings is carried out jointly according to the principle of risk sharing out.

The minimum capital required for variable capital investment companies remains fixed at 100 thousand dinars shared out in shares the maximum value of which is 10 dinars each in order to encourage small savings. Companies the capital of which is less than 5 million dinars must obey certain management rules. Indeed, they cannot hold shares representing more than 30 per cent of their capital stock in shares expressed in nominal value issued by the private institution the shares of which do not benefit from government guarantee.

As for variable capital investment companies, they must have a minimum capital of 300 thousand dinars at their creation. The capital can be increased by issuing new shares or reduced by recovering shares from the shareholders. However the amount must not be less than 200 thousand dinars. Savers can get access and leave the investment company at any moment through this system without going through the stock exchange and hence the demand and supply law. These companies must, two years following their creation, justify the use of 70% of their net assets in shares.

This category of companies are exempted from any tax on their creation, their capital variation, profits and returns of their shares. They are also exempted from the sympathy exceptional contribution, and from customs duties on equipment necessary for their operation and unavailable in Tunisia.

The ministry of finance, after consultation with the Central Bank of Tunisia and the stock exchange authorises the operation of these investment companies.

5. Leasing Companies

The recent leasing sector includes three private capital companies. These companies task consists in purchasing very modern agricultural, industrial and administrative equipment and hiring them to those in need of them. These companies are committed to submit to the Central Bank of Tunisia, at the end of each month, all their accounts positions to be controlled from a distance.

This sector includes the following companies:

- Société Tunisienne de Leasing
- Union Tunisienne de Leasing
- Société Internationale de Leasing

E. PARA-FINANCIAL COMPANIES

The para-financial companies are social security institutions holding substantial resources deriving from deductions from wages of public workers and workers in general. These institutions can contribute to the capital of some companies in order to make their funds yield a profit. They play an important social role consisting in granting credits at favourable rates to underprivileged social strata.