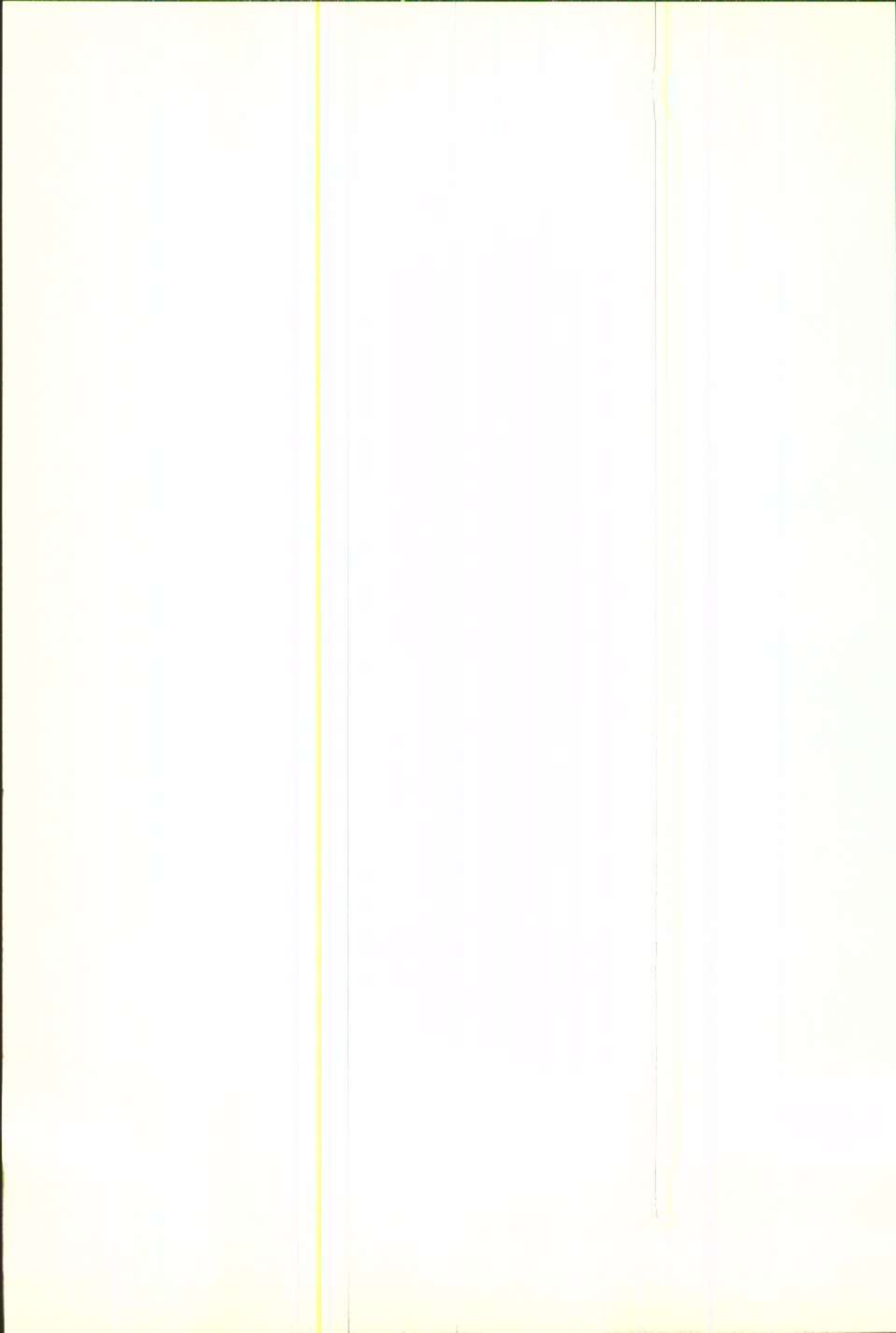


PART THREE

THE BANKING SYSTEM AFTER THE 1964
STABILIZATION PROGRAMME



1. THE 1964 STABILIZATION PROGRAMME AND THE DEVALUATION OF THE DINAR

The Tunisian economy's internal and external imbalance continued to get worse during the early months of 1964. All the key economic indicators pointed the same way. What caused most concern was the rapid dwindling of exchange reserves, so much so that several drawings had to be made on the International Monetary Fund¹ in order to cover the balance-of-payments deficit.

A radical turnabout in credit policy was called for. The processes of liquidity creation had to be made subject to much stricter control, so as to alleviate the pressure of demand on the general price level at home and on the balance of payments. There was the political complication, too, that in May 1964 agricultural land was nationalized and all land held by foreigners expropriated². The settlers affected most were the French and Italians, and diplomatic relations with the two countries concerned immediately got strained. The French government reacted very promptly indeed, and on 30 June 1964 refused to renew the 1959 trade and customs agreement which was due to expire on 30 September

¹ As a result, Tunisia's net IMF position became negative as of October 1964. See B.C.T., *Rapport annuel 1964*, p. 79, and Tables 32 and 77.

² Law No. 64-5 of 12 May 1964, published in the *Journal Officiel de la République Tunisienne*, No. 24, of the same date. The expropriated lands were at first handed over to the *Office des Terres Domaniales*, which could lease them temporarily to private farmers.

1964. It also suspended financial aid¹. The outlook for the future of the balance of payments was grim, and made it all the more urgent for Tunisia to strengthen the bases of its economic independence by diversifying its international financial and commercial relations and improving the balance of its external payments.

In this situation the Central Bank in August launched a complex one-year stabilization programme, by which it hoped quickly to restore internal and external equilibrium to the Tunisian economy. The programme was to enter into full force on 1 October 1964 and to achieve its aims by 30 September of the following year. Its coherent design and comprehensiveness bear witness to the B.C.T.'s and the other authorities' awareness of the gravity of the situation and to their determination to put an effective brake on the expansion of the monetary circulation.

The new restrictive course of central bank policy was clearly explained to the commercial banks, and they were invited to play their part in the stabilization programme by curtailing their credit to the economy. B.C.T. instructions fixed a maximum rate of credit expansion of 10 to 12 per cent for the period 1 October 1964 to 30 September 1965. This provision, which relied on the banking system's self-discipline, was reinforced by an across-the-board reduction in the rediscount and advances quotas available to separate banks².

The Central Bank also introduced a reserve requirement, by instructing the banks to pay into a non-interest-bearing account, by

¹ For more detailed information on the political and legislative developments in this crisis of French-Tunisian relations see *Annuaire de l'Afrique du Nord*, 1964, pp. 134-136 and 639-649.

² The B.C.T. laid down that the banking system's total borrowing from it (through rediscounts and advances, on pawned securities or otherwise) was not to exceed 25 million dinars. See B.C.T., *Conjoncture*, September 1964, p. 6.

the 15th of each month, 10 per cent of the monthly increase in their deposits, not counting time deposits tied for more than 12 months nor the special savings accounts — exceptions which were meant to encourage the supply of monetary savings. This provision entered into force on 1 October and, on the B.C.T.'s own admission, was designed to contain the use of the liquidities set free by the abolition of import deposits and by the suspension of free investment in Treasury Bills¹.

Furthermore, the banks were reminded of their obligation to meet the 10 per cent own-resources/deposits ratio introduced in 1961² and to discount medium-term bills up to a certain proportion of their deposits which was, at the same time, raised from 5 to 10 per cent. The B.C.T. had three ends in view when it introduced these measures, namely, to consolidate the financial structure of the system, to enforce closer compliance with existing regulations, and to improve the distribution of disposable financial resources among short- and medium-term credits. In addition, the B.C.T. strengthened its own qualitative control over the destination of bank credit by lowering from 75,000 to 50,000 dinars the upper limit of loans not requiring prior authorization, and from 10,000 to 5,000 dinars the ceiling for loans rediscountable without prior agreement with the Central Bank. In this way the banks were deprived of yet more discretion in their own investment decisions, and their behaviour was brought more closely into line with the objectives of economic planning.

At the same time, the proportion of deposits which banks were required to invest in public securities (*plancher des effets publics*) was raised from 25 to 30 per cent. Given that the

¹ This measure will be commented on later in the text.

² As can be seen from Table 25, this ratio was not always fully met, the private banks, and among them the French ones, being the worst offenders.

securities concerned could not be mobilized at the Central Bank, the main point of this provision was to keep down the B.C.T.'s support of Treasury issues, a support which, via refinancing to the banking system, led to runaway liquidity creation¹. The higher ratio was also designed to make sure that the Treasury had enough resources to finance budgetary investment expenditure. However, in an effort to forestall yet higher Treasury indebtedness to the banking system, the B.C.T. provisionally vetoed any bank subscriptions of Treasury Bills beyond the new public-securities/deposits ratio of 30 per cent. This suspension of free investment in Treasury Bills was meant to draw a very precise limit to the Treasury's access to bank credit.

For the rest, as has already been explained, it was the mounting deficit in Tunisia's public finances which was the main cause of the excessive increase in the monetary circulation and hence of imbalance at home (inflationary pressure) and in external payments (balance-of-payments deficit) alike. The current trends could not be halted by monetary and credit provisions alone. The government's whole financial and fiscal policy needed to be set on a new course. Conscious of its responsibilities, the Tunisian government in fact took steps to reduce the excess of its own expenditure over its revenue to more acceptable proportions. Investment expenditure and expenditure for the public works camps were kept down more or less to 1963 levels, while tax revenue was raised by stricter application of the 1962 fiscal reform. By this combined attack on the revenue and the expenditure side of

¹ In effect, the raising of the *plancher* did not make much difference to the composition of the banking system's assets, because public security portfolios already accounted for about 30 per cent of deposits. All it did was to reduce the liquidity of the banks' security investments, and to replace some part of Treasury borrowing from the B.C.T. by borrowing from the banks.

the budget, the deficit was reduced, and with it the Treasury's indebtedness¹.

In addition, a one-year wage freeze was introduced, so as to get quicker results in curtailing the expansion of domestic demand, pending the less immediate restrictive effects of the other measures.

As regards Tunisia's external financial position, however, the disequilibrium was too great for the stabilization programme to produce any significant improvement. Reserves were melting away so rapidly by now that nothing could stop the drain save devaluation of the dinar. This was officially announced on 28 September 1964, when the par value of the dinar was reduced by 20 per cent, from 2.11588 to 1.69721 grams of fine gold. At the same time a stand-by arrangement was agreed with the International Monetary Fund, by which drawings up to 14.25 million dollars were authorized in order to enable Tunisia to meet its most urgent foreign payments².

By and large, then, the 1964 stabilization programme was made up predominantly of measures belonging to the sphere of monetary and credit policy, and its stricter controls concerned banking and credit activities rather than the monetary base itself. In other words, the restrictions imposed by the government through the B.C.T. applied not so much to the creation of money in banknotes and coin as to the banking system's use of the monetary base, that is, the creation of bank money. In effect, the measures

¹ B.C.T., *Rapport annuel* 1964, pp. 32-44.

² The absolute necessity of this recourse to the IMF was beyond doubt, given that Tunisian foreign exchange reserves covered no more than a few days' import requirements and amounted to barely 2 per cent of monetary circulation at home (see Pariente, *op. cit.*, p. 39, and Bistolfi, *op. cit.*, p. 320). Certainly, IMF views had a major influence on the government's decision to devalue the dinar. The IMF had in fact never agreed the parity fixed when the dinar broke loose from the French franc, because this parity was considered too high. Devaluation may thus be seen as part of the price paid by Tunisia, in addition to the stabilization programme, for the IMF stand-by agreement.

adopted were designed to limit the potential multiplier effect of credit and deposits within the banking system.

This intrinsic feature of the stabilization programme reveals that the Central Bank had less than full control over the monetary variable, which, especially in the structural and cyclical context of the Tunisian economy at the time, depended largely on autonomous factors and exogenous causes amenable to no more than compensatory action on the part of the Central Bank. The issue of banknotes was often determined by autonomous government action (the Treasury's cash deficit), by the need to finance agricultural production and marketing, by the not always accurately predictable inflow of foreign capital earmarked for development finance, and by the irregular foreign exchange proceeds of exports. These autonomous monetary factors severely handicapped the Central Bank in the independent exercise of its issuing functions and forced it to fall back on energetic action vis-à-vis the banking system in order to offset monetary fluctuations of exogenous origin. Inevitably, the B.C.T.'s credit policy had to become more and more penalizing for the commercial banks. But even this compensatory function could not always be freely exercised, especially in the restrictive sense, because in developing economies production depends more closely and directly on bank credit than it normally does in more advanced and more highly capitalized economies. Tunisian agriculture is a case in point. Because farmers had little capital of their own and their financial requirements fluctuated greatly with the seasons, agriculture's credit demand was inelastic and incompressible. It was impossible for the Central Bank at certain times to enforce credit restrictions, except at the peril of obstructing the normal completion of production cycles as well as the marketing of agricultural produce¹.

¹ See Bistolfi, *op. cit.*, pp. 322-323.

Hence quantitative controls could be applied to bank credit only with great caution and in particular situations, and therefore not always effectively; selective controls gave the Central Bank rather more manoeuvring space.

All this serves to illustrate the limitations and difficulties encountered by the B.C.T. in its monetary and credit policy, and explains at least some of the reasons why ultimately the stabilization programme proved less effective than it was hoped it would be.

2. THE EFFECTS OF THE STABILIZATION PROGRAMME AND THE CENTRAL BANK'S NEW CREDIT POLICY

Before going on with the analysis of the Tunisian banking system in more recent years, a few words need to be said about the results achieved by the stabilization programme and about the subsequent new course of central bank policy. Without this background, it would hardly be possible to describe the conditions surrounding the activities of the banking system and its development in the years 1965 to 1970. Yet these conditions need describing, for they were very different from those of the years 1958 to 1963. In that earlier period, the driving influence had been the authorities' decision to restructure and expand credit activities in line with the financial requirements of economic development. From 1963 on, the main concerns were to consolidate the structure of the system and to co-ordinate the activities of the banks more closely with the time schedule and the aims of economic planning, by measures which became increasingly coercive at least until the end of 1969. It follows that as of 1964 the Central Bank had to exercise more and more incisive, influence on the banking system, via the general reinforcement of restrictive and selective measures. It became necessary to limit liquidity creation in order to avoid a repetition

of the errors which had led to the 1964 crisis, and at the same time to enhance the quality of credit and to use disposable financial resources according to higher standards of productivity, so as to keep up a high rate of economic development. The 1962-1964 plan had achieved its targets¹, but only at the price of inflation and devaluation. Investment under future plans would therefore have to be financed in different ways, so as to minimize any potential inflationary effects. This meant that instead of creating financial resources via the budget deficit, and refinancing the banking system, more reliance would have to be placed on a larger inflow of foreign capital and, above all, on the formation of domestic savings at a quicker pace. In these circumstances the Central Bank had to assume a more prominent position in the planning and control of the national economy.

A look at the key monetary and financial indicators in the years following 1964 shows that stabilization proved a more difficult and a longer job than had originally been foreseen and that in fact Tunisia's external accounts failed to get into equilibrium.

By the end of 1964, the figures begin to show the stabilization programme's marked restrictive effects on the economy's monetary aggregates. This trend continued in 1965 (Table 37). The sharp fall in the ratio of monetary assets, variously defined, to gross domestic product bears witness to a much slower expansion of liquidity. But in this case the movements of the aggregate monetary variables do not tell the whole story. Disaggregation reveals that near-money kept on increasing at a fairly fast pace throughout 1964 and 1965, thus raising potential liquidity. The main reason for this was that the blocked current accounts of non-residents were converted into time deposits bearing a higher rate of interest.

¹ Cf. Tables 33, 35 and 36, subject to the Note to Table 35.

Furthermore, time deposits of external origin (not shown in Table 37), representing the dinar counterpart of drawings on the IMF credit line, started rising very rapidly from the last months of 1964 on¹. It should be pointed out, too, that currency, after a brief pause in 1964, in its turn started increasing again in 1965, though at the rather moderate rate of 5.7 per cent. Nevertheless, this expansion of the banking system's monetary base created the conditions for a further increase in credit, bank money and near-money.

Once again one is led to suspect that the B.C.T. was not really in full control over the processes of liquidity creation. This is confirmed by the fact that the Treasury's debts to the B.C.T., in spite of their rescheduling and connected freezing in 1964, began to rise again strongly in 1965 (Table 38), and so kept the banknote presses busy. But the Central Bank was rather more successful in its effort to keep down refinancing to the banking system (Table 39), with the result that bank credit expanded only by a reasonable 14.8 per cent², though even that was more than the 10 to 12 per cent allowed for in the stabilization programme. Thus the Central Bank was able to enforce its restrictions mainly with respect to the banking system, but was unable to establish effective and complete control over the monetary variables, since the government's financial policy entailed continuous liquidity creation.

One of the most significant and worrying aspects of this situation was the upward pressure on prices. Until 1964 prices

¹ See Pariente, *op. cit.*, pp. 40-41. Unfortunately, the B.C.T.'s figures do not make it possible to reconstruct the movements of these deposits for the whole period covered by Table 35, but only for the years 1964 to 1966 (B.C.T. Annual reports 1965 and 1966). In December 1964 deposits of foreign origin amounted only to 2.875 million dinars, while the end-year figures for 1965 and 1966 are, respectively, 9.069 and 13.415 million dinars.

² The largest increase was in medium-term credit, which confirms the effectiveness of the Central Bank's selective measures.

TABLE 35

THE ORIGIN AND USE OF RESOURCES, 1960 TO 1964
(million dinars at 1960 prices)

Origin and use of resources	1960	1961	1962	1963	1964
<i>Origin</i>					
Gross domestic product at market prices	335.3	356.1	361.3	383.6	420.1
Imports of goods and services	85.0	91.5	94.1	93.0	106.0
Total	420.3	447.6	455.4	476.6	526.1
<i>Use</i>					
Public and private consumption	315.2	323.6	333.1	341.3	369.7
Gross fixed investment	59.8	63.9	73.8	82.6	93.0
Changes in stocks	-9.0	+9.1	-7.0	-4.9	...
Exports of goods and services	54.3	51.0	55.5	57.6	63.4
Total	420.3	447.6	455.4	476.6	526.1

Note: Although this table rests on the same sources as Tables 1 and 33, the figures are not directly comparable, because — apart from the problem of different money units (1957 and 1960 dinars), which would not be hard to solve — the aggregates of the national accounts after 1961 are not homogeneous with earlier estimates. See *Annuaire de l'Afrique du Nord* 1966, p. 415.

Source: Secrétariat d'Etat au Plan et à l'Economie Nationale.

TABLE 36

INVESTMENT RATIO AND DOMESTIC SAVINGS RATIO, 1960 TO 1964
(million dinars at 1960 prices)

Year	Gross investment		Gross savings		
	amount	% of GDP	amount	% of GDP	% of investment
1960	50.8	15.2	20.1	6.0	39.6
1961	74.0	20.9	32.5	9.2	43.9
1962	66.8	18.5	28.2	7.8	42.2
1963	77.7	20.3	42.3	11.0	54.4
1964	93.0	22.1	50.4	12.0	54.2

Source: B.C.T., *Rapport annuel 1964* (the figures rest on estimates worked out in 1965 by the appropriate statistical offices).

TABLE 37

MONETARY ASSETS, 1962 TO 1970 (end-year figures, in thousand dinars)

Year	Currency		Bank money		Total money		Time dep.	Cond. dep. & bonds	Total near-money		Total monetary assets	GDP at current prices	Ratio 7:8 %	Ratio 3:8 %
	amount	%	amount	%	amount	annual incr. %			amount	annual incr. %				
	1		2		3 = 1 + 2		4	5	6 = 4 + 5		7 = 3 + 6	8		
1962	37,440	37.0	63,626	63.0	101,066	...	8,311	4,719	13,030	...	114,096	373,700	27.1	30.5
1963	44,230	34.9	82,626	65.1	126,856	+25.5	12,354	4,844	17,198	+39.7	144,054	401,600	31.6	35.9
1964	44,866	35.3	82,076	64.7	126,942	—	16,417	6,380	22,797	+32.6	149,739	435,200	29.2	34.4
1965	47,449	36.6	82,059	63.4	129,508	+2.0	26,274	5,964	32,238	+41.4	161,746	495,900	29.6	32.6
1966	55,385	38.7	87,541	61.3	142,926	+10.4	33,642	7,975	41,617	+29.1	184,543	507,500	28.2	36.4
1967	57,454	38.5	91,770	61.5	149,224	+4.4	33,863	10,717	44,580	+7.1	193,804	531,200	28.1	36.5
1968	62,070	37.1	105,200	62.9	167,270	+12.1	36,469	12,938	49,407	+10.8	216,677	582,600	28.7	37.2
1969	64,539	35.4	117,682	64.6	182,221	+8.9	40,835	9,660	50,495	+2.2	232,716	633,000	28.8	36.8
1970	67,326	34.2	129,482	65.8	196,808	+8.0	47,761	9,998	57,759	+14.4	254,567	667,200	29.5	38.2

Note: The content of items 1, 2, 4 and 5 is as follows:

- 1 - banknotes and coin issued by the B.C.T.;
 2 - sight deposits at the B.C.T., banks and the *Centre Chèques Postaux* (but excluding foreign deposits);
 4 - time deposits at banks and the *Caisse Nationale d'Épargne*, excluding *dépôts d'origine extérieure* (deriving from drawings on IMF credit line);
 5 - conditional deposits (connected with documentary import credits) and bonds (excluding those held by the banking system).

Source: B.C.T., *Rapport annuel 1970*.

TABLE 38

CENTRAL BANK CREDITS TO THE TUNISIAN TREASURY, 1964 TO 1970
(end-year figures, in thousand dinars)

Technical form	1964	1965	1966	1967	1968	1969	1969
Short-term advances	4,032	2,591	1,680	2,890	2,077	3,849	...
Medium-term advances	4,000	3,000	2,000	1,000	...	...	...
B.C.T. deposits at the <i>Centre</i> <i>Chèques Postaux</i>	25,244	33,257	40,016	35,314	38,755	42,420	3,924
B.C.T. deposits at the <i>Caisse</i> <i>Nationale d'Epargne</i>	16,297 ¹	21,012 ¹	22,616 ¹	...	...	...	...
Special economic co-operation accounts	1,948	4,155	7,359	10,837	10,981	11,705	13,464
Permanent advance to the state	—	—	—	—	—	—	25,000
Reimbursable advance to the state	—	—	—	—	—	—	14,413
Advance to the state for S.D.R.'s	—	—	—	—	—	—	3,924

¹ These figures are borrowed from Pariente. The series is not carried on, because, oddly enough, the B.C.T. balance sheet does not record this item of assets, though it is known that it exists.

Note: This table is the continuation of Table 28, to which reference is made for explanatory notes.

Sources: B.C.T., *Bilans* 1964 to 1970, and G.A. Pariente, *op. cit.*, p. 42.

TABLE 39

MAIN SOURCES OF THE BANKING SYSTEM'S SUPPLY OF FUNDS, 1964 TO 1970
(end-year figures, in thousand dinars)

Sources	1964	1965	1966	1967	1968	1969	1970
Own resources	11,760	13,986	16,546	20,057	24,006	29,144	31,899
Deposits:							
sight	84,738	86,334	94,682	102,054	114,959	127,515	141,540
time	12,433	22,338	30,290	30,277	33,241	36,631	42,620
Short-term foreign debts	1,687	1,480	1,822	1,342	971	1,576	2,182
Special funds and allocations	18,386	26,477	30,680	32,467	38,983	45,588	52,419
B.C.T. refinancing:							
rediscounts	19,694	18,366	25,110	22,576	27,565	28,892	30,596
advances on public securities	15	71	—	—	—	—	—
Others	38,553	45,115	57,172	66,298	65,589	59,937	59,342
Total	187,266	214,167	256,302	275,071	306,314	329,283	360,598

Note: This table is the continuation of Table 16, to which reference is made for an explanatory note.

Source: B.C.T., Annual reports 1964 to 1970.

rose only at a moderate pace (Tables 40 and 41), but a surge in 1965 lifted wholesale prices by 12.7 and the cost of living by 6.6 per cent. Far from responding to the current restrictions, inflation at home was, if anything, gathering impetus, though it is hard to tell just how large a part of the price rise was attributable to the devaluation of the dinar and the resulting higher cost of imports.

Externally, the benefits of devaluation failed to come up to expectations. The trade deficit kept on rising in 1965 (Table 42),

TABLE 40

WHOLESALE PRICE INDICES, 1961 TO 1970
(1961-1967: 1940 = 100; 1967-1970: 1962 = 100)

Classes of goods	1961	1962		1963		1964		1965		1966	
	Index No.	Index No.	Annual change %	Index No.	Annual change %	Index No.	Annual change %	Index No.	Annual change %	Index No.	Annual change %
General index	2,176	2,169	—	2,283	+ 5.3	2,398	+ 5.0	2,693	+12.7	2,798	+ 3.4
Food	2,029	1,975	— 2.7	2,113	+ 7.0	2,154	+ 1.9	2,319	+ 7.6	2,370	+ 2.2
Industrial products	2,456	2,535	+ 3.2	2,606	+ 2.8	2,859	+ 9.7	3,423	+19.7	3,608	+ 5.4
Home-produced goods	2,070	2,029	— 1.5	2,153	+ 5.6	2,137	+ 0.6	2,351	+10.0	2,431	+ 3.5
Imported goods	2,361	2,393	— 2.7	2,364	+ 7.1	2,849	+11.1	3,312	+16.2	3,431	+ 3.4

Classes of goods	1967 ¹		1967 ²		1968		1969		1970	
	Index No.	Annual change %	Index No.	Annual change %	Index No.	Annual change %	Index No.	Annual change %	Index No.	Annual change %
General index	2,902	+ 3.6	133.7	...	138.1	+ 3.2	139.9	+ 1.3	145.4	+ 3.9
Food	2,515	+ 6.1	127.6	...	133.9	+ 4.9	136.1	+ 1.6	139.4	+ 2.4
Industrial products	3,634	+ 0.7	143.0	...	144.3	+ 0.9	145.7	+ 1.0	154.4	+ 5.8
Home-produced goods	2,594	+ 0.6	127.1	...	133.1	+ 4.7	134.7	+ 1.2	140.0	+ 3.9
Imported goods	3,435	—	143.4	...	145.5	+ 1.4	147.6	+ 1.4	153.5	+ 4.0

¹ 1940 = 100.

² 1962 = 100.

Note: Up to 1967, the reference year is 1940; from then on the Statistical Office of the Secrétariat d'Etat au Plan et à l'Economie Nationale published the series on the basis 1962 = 100. A reconstruction of the 1962-1966 indices on the basis 1962 = 100 is available in B.C.T., *Bulletin*, 1st quarter of 1969, p. 42.

Source: B.C.T., Annual reports 1962 to 1970.

TABLE 41

COST-OF-LIVING INDICES, 1962 TO 1970
(1962 = 100)

Classes of goods	1962		1963		1964		1965		1966	
	Index No.		Index No.	Annual change %	Index No.	Annual change %	Index No.	Annual change %	Index No.	Annual change %
General index	100		102.5	2.5	107.0	+ 4.1	114.1	+ 6.6	118.6	+ 3.9
Food	100		101.7	1.7	106.9	+ 5.1	115.2	+ 7.7	119.3	+ 3.5
Housing	100		100.1	0.1	103.6	+ 3.4	109.6	+ 5.7	113.5	+ 3.5
Health and hospitals	100		105.0	5.0	107.5	+ 2.2	111.8	+ 4.0	118.5	+ 5.9
Transport	100		100.5	0.5	109.7	+ 9.1	116.9	+ 6.5	122.0	+ 4.3
Clothing	100		113.4	13.4	114.6	+ 1.0	120.5	+ 5.1	126.3	+ 4.8

Classes of goods	1967		1968		1969		1970	
	Index No.	Annual change %	Index No.	Annual change %	Index No.	Annual change %	Index No.	Annual change %
General index	122.0	+ 2.9	125.0	+ 2.4	130.2	+ 4.2	131.6	+ 0.3
Food	123.0	+ 3.1	125.9	+ 2.3	132.6	+ 5.3	134.5	+ 1.2
Housing	113.2	- 0.4	116.1	+ 2.5	122.5	+ 5.5	121.6	- 0.7
Health and hospitals	129.6	+ 9.4	132.2	+ 2.0	129.5	- 2.0	131.4	+ 1.5
Transport	127.6	+ 4.6	139.8	+ 9.5	150.1	+ 7.4	151.0	+ 0.6
Clothing	127.5	+ 1.0	128.7	+ 0.9	129.0	+ 0.2	130.6	+ 1.2

Source: Secrétariat d'Etat au Plan et à l'Economie Nationale, *Bulletin de Statistique*. The figures can also be found in B.C.T., Annual reports 1963 to 1970.

TABLE 42

THE TRADE BALANCE AND BALANCE OF PAYMENTS, 1964 TO 1970
(end-year figures, in thousand dinars)

Year	Trade balance				Balance of payments	
	Imports 1	Exports 2	Deficit 3 = 1 - 2	Import coverage 4 = (2 : 1) %	Surplus 5	Deficit 6
1964	110,854	57,804	53,550	51.7	—	2,400
1965	129,062	62,916	66,146	48.0	—	1,000
1966	131,224	73,090	57,534	56.1	—	7,234
1967	137,087	78,860	58,727	57.2	—	4,457
1968	114,504	82,831	31,673	72.3	7,423	—
1969	139,777	86,860	52,817	62.2	8,846	—
1970	160,396	95,804	64,592	59.7	9,305	—

Note: This table is the continuation of Table 30.

Sources: Secrétariat d'Etat au Plan et à l'Economie Nationale, Service des Statistiques du Commerce Extérieur, and B.C.T., Annual reports 1964 to 1970.

TABLE 43

CHANGES IN OFFICIAL DISCOUNT RATES, 1962 TO 1970

Type of operation	1 Oct. 1962 to 4 Sept. 1966	5 Sept. 1966 to 31 Dec. 1970
Discount and advances on inland trade bills	4.00	5.00
Discount of foreign bills and mobilization of foreign credits	3.00	4.00
Mobilization of public securities (by pawning and advances)	4.25	5.50
Discount of finance paper	4.25	5.50
Discount of medium-term credit mobilization bills	4.50	5.75
Advances on current account against securities	6.00	7.00

Note: This table is the continuation of Table 27. The rates shown are minimum rates, but in some cases these may be raised in case the operation concerned exceeds a certain time limit or the indebtedness of the refinanced bank exceeds its quota.

Source: B.C.T., Annual reports 1964 to 1970, and *Bulletin*.

and was not entirely covered by surpluses elsewhere in the balance of payments. While the overall external deficit fell thanks to invisibles, the situation clearly needed watching so as to prevent a further widening of the gap between imports and exports. There is clear evidence in the external accounts after 28 September 1964 that devaluation did nothing very much to re-equilibrate the flows of capital, goods and services between Tunisia and the rest of the world. This had, of course, been predictable, since demand for imports was rather rigid and the supply of exportable goods (raw materials and food commodities) not very elastic. In any case, the Tunisian economy was of small size and depended heavily on imports, and when these became more expensive, the effect was bound to show up quickly in the general level of domestic prices and hence in large part also in the production costs of export goods and in their prices¹. In other words, the Tunisian economy was not well placed to absorb an increase in import prices, and the benefits of devaluation could not be expected to last long. For the same reasons it could not really be hoped that the new exchange rate would do much to attract private foreign capital. Even if domestic prices had remained stable, Tunisia had no glittering opportunities to offer to foreign private investors, given the rather coercive brand of economic planning, not to speak of the local political situation and the current controls².

In these circumstances of precarious internal and external balance the authorities thought it right to prolong their restrictive policies beyond the original time limit of the stabilization programme,

¹ To make matters worse, France had quickly adopted measures to counteract Tunisia's "exchange dumping", thus putting obstacles in the way of the sale of Tunisian exports on the French market.

² For a more detailed analysis of the effects to be expected from devaluation, see Bistolfi, *op. cit.*, p. 326 *et seq.*

on 30 September 1965, and extended it for another year, until September 1966¹.

Nevertheless, Tunisia's monetary and financial situation failed to improve in 1966, and some of its aspects began to cause new concern. The monetary circulation rose by 10.4 per cent, and within it an above-average increase of the currency circulation (+ 14.6 per cent) spells a danger of appreciable inflationary pressure. Even though near-money expanded at a slower pace, the ratio of the various monetary aggregates to the gross domestic product rose distinctly (Table 37). To make matters worse, the Tunisian economy had entered a phase of serious recession. The gross domestic product at current prices rose by a mere 2.3 per cent in 1966, not enough even to offset a 3.9 per cent increase in the cost of living². The causes of this renewed monetary expansion were the steady increase in the Treasury debt to the B.C.T., as well as the fact that the latter, after the drastic restrictions of 1965, again stepped up its refinancing credits to the banking system (Tables 38 and 39). The result was that bank credit rose by no less than 23.4 per cent, with short-term credit well in the lead.

In their turn, the external accounts deteriorated sharply and the net result of all the various inward and outward flows was a higher balance-of-payments deficit, which added further liabilities to the country's already existing net foreign debit position (see Tables 32 and 42). Compared with 1965, however, there was

¹ See B.C.T., *Rapport annuel 1965*, pp. 72 and 109. The continuation of internal liquidity restrictions can to some extent be attributed to the insistence of the IMF, which renewed its standby arrangements for Tunisia and had as yet received no reimbursement of its 1964 loans.

² According to corrected estimates (B.C.T., *Rapport annuel 1967*, p. 73) GDP at constant 1960 prices actually fell in 1966 from 431.7 to 431.3 million dinars. For a more detailed analysis of the changes in GDP and prices see Tables 37, 40 and 41.

at least the comfort of a diminishing trade deficit in response to a slower expansion of imports and a spurt in exports¹. Clearly, the increase in the monetary circulation threatened to compromise the future of this favourable trend, since, by sustaining the growth of demand, it was bound to push up imports (especially of consumer goods) as well as domestic prices, and with them ultimately export prices, to the detriment of the international competitiveness of Tunisian products.

The restrictive measures introduced in 1964 and prolonged in 1965 had by now exhausted their effect, and in any case were too weak in the context of the serious new economic situation. But this time it proved more difficult than before to devise suitable means for stabilizing the monetary variables. It was an unprecedented situation for the Tunisian authorities to have to reduce the rate of increase of the monetary aggregates and at the same time to have to pull the economy out of its current recession². Restrictive action by the Central Bank could certainly be expected to achieve the first purpose, but only at the cost of prolonging stagnation. The answer clearly lay outside the scope of monetary and credit policy, and other branches of economic policy would have to pull their weight.

The Central Bank's new restrictions first of all took the form of a rise of one point (and, in some cases, 1.25 points) in the official discount rates as of 5 September 1966 (Table 43), together with a rise in the banks' lending and borrowing rates, which were still governed by the B.C.T.'s circular of 12 September 1962. A few months later, by the circular of 11 January 1967, the B.C.T. tightened the reserve requirement, by introducing a system of

¹ See B.C.T., *Rapport annuel* 1966, p. 50.

² The situation is well illustrated by the figures of income, saving and investment in Tables 73 to 75 near the end of this volume.

progressive reserve ratios rising with the growth of each bank's deposits. In the same circular the B.C.T. instructed banks not to expand their credits by more than an overall 6 per cent during the year and not to extend new medium-term credit in excess of effective repayments in the same credit category. Soon afterwards, in March 1967, the computation basis for the reserve requirement was altered (but the special savings accounts as well as time deposits tied for more than one year were kept exempt), with respect only to increases after 28 February.

Thanks to these restrictions, which continued throughout 1967, the monetary circulation expanded by only 4.4 per cent in that year, and near-money by 7.1 per cent¹, and the ratios of the monetary variables to G.D.P. dropped slightly below their 1966 levels (Table 37). These results owed much to a drastic curtailment of the Treasury's debts to the B.C.T.² and of the latter's refinancing of the banking system (Table 39). Bank credit rose by 8.9 per cent, only a little more than the Central Bank had meant it to³. In this way the potential inflationary pressures were eliminated and the general price level kept stable (Tables 40 and 41). The external accounts did rather better, too, and the balance-of-payments deficit dropped quite appreciably (Table 42).

In all, then, the 1967 restrictions worked well enough, but their cost to the community was high. Investment scheduled for

¹ The sharp fall in the rate of increase of near-money from 1967 on was in part due to official instructions to public enterprises that they should transfer their time deposits at banks to the Treasury. The intention was to cover part of the public debt and hence to keep constant the Treasury's borrowing from the B.C.T. and the banking system.

² Table 38, incomplete as it is, confirms the restrictive trend. The Treasury kept down its borrowing from the B.C.T. thanks to a compulsory loan issue (*Emprunt national* 1967).

³ In line with B.C.T. instructions, medium-term credits did not exceed the previous year's total volume, indeed fell a little short of it.

1967 under the four-year plan 1965-1969 had to be cut down from 140 to 110 million dinars¹ and as a result the gross domestic product rose only by a negligible 0.5 per cent in real terms².

In 1968 the Central Bank decided to prolong and reinforce the restrictive measures introduced at the beginning of the preceding year³. The economy was by now out of its recession, thanks to better weather conditions and hence higher agricultural output, and recovery was beginning to push up the demand for money. Although economic conditions looked much healthier, the authorities thought it still premature to relax the controls in force, because they were afraid of new inflationary pressures and of a possible deterioration in the external payments accounts. This official attitude perhaps reveals the first signs of a reversal of views regarding the Central Bank's function in the economy. One can detect a tendency to attribute more importance to monetary stability and hence to the traditional techniques of preventing inflation⁴.

¹ See the conclusions of the Governor of the B.C.T., in its *Rapport annuel* 1966, p. 119.

² As in 1966, the stagnation of production in 1967 was largely due to harvest failure caused by drought.

³ The end of 1968, however, brought an innovation. The various ceilings introduced in 1964 on government borrowing and on refinancing to the banking system were replaced by one single ceiling imposing an overall limitation on the expansion of the Central Bank's domestic assets and on the banking system's short-term liabilities abroad.

⁴ This tendency was officially spelled out by the Governor of the Central Bank on 30 June 1969, on the occasion of his presentation of the annual report for 1968. He said (p. 126): "La stabilité monétaire, à laquelle le troisième plan quadriennal accorde une particulière importance, est en effet une condition essentielle pour assurer à l'expansion économique les bases de durée qui la mettraient à l'abri des ruptures brutales, et sauvegarder le pays des conséquences économiques et sociales néfastes qui auraient résulté d'un bouleversement profond et injuste de l'échelle des revenus réels." Note that while the Governor, Hédi Nourira, refers to the four-year plan 1969-1972, official recognition of the priority of monetary stability goes back to the preceding plan 1965-1968, when investment planned for 1967 was in fact cut down.

The continuous reinforcement of the 1964 monetary restrictions was, in addition, justified by the fact that the B.C.T., unable as it was to establish effective control over the monetary impulses deriving from Treasury borrowing and from the external accounts, was forced to offset monetary movements of exogenous origin by concentrating its own restrictive action on the banking system.

In this spirit, the banks were instructed (by B.C.T. circular No. 68-12, of 22 March 1968) to maintain a liquidity ratio of not less than 60 per cent. This was defined as the ratio between assets quickly realizable and liabilities payable at short notice¹. From the very outset, however, this rule had no more than indicative value, because it was quite impossible for the banks to achieve such a high liquidity ratio in the conditions of the Tunisian credit market. The effect was not so much to impart liquidity to the banking system, as to counteract the banks' general tendency to tie up their loan assets for prolonged periods.

In addition, the multiple ratios of the reserve requirement were altered by the B.C.T.'s circular of 11 April 1968. As of April, a new reserve ratio of 30 per cent had to be maintained for monthly increases in deposits above 1 per cent, while monthly increases up to 1 per cent had to be covered, as before, to the extent of 10 per cent². The same rules applied in reverse to any diminution of compulsory reserves in case of a fall in deposits.

¹ According to the B.C.T.'s definition, the numerator included cash, deposits with correspondents, the portfolio of rediscountable paper, Treasury Bills, half the portfolio of *bons d'équipements*, certain mobilizable securities and advances, and loans to the interbank money market. The denominator included sight deposits, deposits at notice, debts payable to banks, correspondents and sundry creditors, and claims payable after encashment of bills.

² The exemption of special savings accounts and time deposits tied for more than a year was renewed. This indirectly confirms the B.C.T.'s intention of encouraging the banks to attract financial savings.

As things turned out, the effects of the B.C.T.'s measures were less restrictive than had been expected. The monetary circulation and near-money expanded at the accelerated rates of 12.1 and 10.8 per cent, respectively, while the ratios of money assets to GDP, itself up 9.7 per cent at current prices, remained almost constant (Table 37). There was no steep rise either in the B.C.T.'s credits to the Treasury (Table 38) or in its refinancing of banks (Table 39), and this helped to consolidate monetary stability. Bank credit, on the other hand, rose sharply in response to demand generated by economic recovery; but the overall increase of 14.2 per cent was largely concentrated in medium- and long-term credit. In any case, the credit expansion was not large enough to upset the global equilibrium of the monetary variables. This proved the wisdom of the restrictive increase of the reserve requirement introduced by the Central Bank in April 1968. All in all, it was a year of fair monetary stability and recovery, as can be seen from price movements and the gross domestic product (Tables 37, 40 and 41).

In the external accounts, too, things went rather well. Exports rose and imports fell sharply, so that the trade deficit turned out a good deal smaller, and in any case was more than offset by surpluses elsewhere in the balance of payments, which closed with a very welcome overall surplus of 7.423 million dinars (Table 42). Hand in hand with this general improvement went a more balanced distribution of Tunisia's transactions with other countries, as seen in Table 44. French predominance had, in fact, been slowly weakening ever since 1964 to the benefit, above all, of relations with other countries of the European Economic Community. Even so, it would be an exaggeration to say that by 1968 Tunisia had at last got rid of its dependence on France, for France still occupied a leading position in the trade and financial flows between Tunisia and the world at large.

By contrast, little changed between 1964 and 1968 in the merchandise composition of Tunisian exports and imports (Table 45). Figures for the various categories of goods oscillate too much for any significant trend to be discernible, except perhaps for a steady rise in exports of raw materials and semi-manufactures. Overall, the composition of imports makes it clear that Tunisian economic development still depended heavily on outside supplies, while the export figures demonstrate the extent to which foreign exchange receipts were still vulnerable to the vicissitudes of agricultural production and to international movements of the prices of food commodities and certain raw materials.

Notwithstanding these structural drawbacks, the year 1968 certainly brought the turning point in the economic conditions which had bedevilled Tunisia since 1964. At last the stabilization measures were beginning to bite¹. At last, too, the continuous growth of net foreign indebtedness during the years 1964 to 1967 came to a halt, and the marked improvement in 1968 led in an opposite trend for the following years (Tables 32 and 77).

In 1969, all the variables relevant for our analysis so far kept on an orderly course. The ratio of the key monetary magnitudes to gross domestic product remained constant and aggregate investment rose vigorously by 28.6 per cent², with domestic saving up 27 per cent thanks to increased saving on the part of public administration. The external accounts for 1969 look less happy.

¹ When presenting the B.C.T. annual report for 1968, on 30 June 1969, Governor Nouria was able to state (p. 125) "Les différents plans de stabilisation que nous avons arrêtés depuis 1964 avec la collaboration du FMI et qui ont été appliqués avec efficacité et souplesse, ont commencé, dès 1968, à donner leurs fruits."

² Actually, gross fixed capital formation increased somewhat less, because stocks were reconstituted in 1969 after their depletion during the previous year. See B.C.T., *Rapport annuel 1969*, pp. 44-50 and Tables 73 and 75.

TABLE 44

GEOGRAPHICAL DISTRIBUTION OF FOREIGN TRANSACTIONS, 1964 TO 1970 (*per cent*)

Countries and zones	Receipts							Disbursements						
	1964	1965	1966	1967	1968	1969	1970	1964	1965	1966	1967	1968	1969	1970
France	38.92	39.77	34.35	33.27	27.95	29.91	33.94	45.31	47.09	40.22	37.89	39.44	36.48	34.95
European Economic Community ¹	9.36	16.09	17.99	19.30	20.43	22.20	23.75	13.39	13.65	17.42	17.31	19.73	22.00	22.94
European Free Trade Association	9.15	8.86	11.35	10.36	9.91	9.20	8.94	7.46	8.65	8.86	9.04	9.10	8.74	8.76
United States and Canada	18.90	17.26	15.93	17.84	13.49	21.30	12.88	18.36	18.89	15.12	22.13	18.31	20.08	17.46
Payments agreements	7.40	7.86	8.12	8.41	9.33	7.06	5.05	8.72	6.95	7.44	9.11	7.35	7.08	6.76
Maghreb countries ²	...	...	...	...	...	5.55	8.33	...	...	...	...	...	1.34	2.22
International organizations	2.70	0.73	2.61	2.46	1.74	2.48	2.67	0.51	0.75	0.59	0.82	1.88	1.40	1.56
Rest of the world	13.57	9.43	9.65	8.36	17.15	2.30	4.44	6.25	4.02	10.35	3.70	4.19	2.88	5.35
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100

¹ Excluding France.² Until 1968 the Maghreb countries were included in Rest of the world.

Source: B.C.T., Annual reports 1964 to 1970.

TABLE 45

COMPOSITION OF IMPORTS AND EXPORTS, 1964 TO 1970

(end-year figures, in thousand dinars)

Classes of goods	1964		1965		1966		1967		1968		1969		1970	
	amount	%	amount	%	amount	%	amount	%	amount	%	amount	%	amount	%
<i>Imports</i>														
Food	17,129	15.4	17,854	13.8	19,524	14.9	29,400	21.4	22,428	19.6	30,032	21.5	34,505	21.5
Raw materials and semi- manufactures	41,266	37.2	48,541	37.6	56,960	43.4	56,483	41.7	44,065	38.4	58,060	41.5	65,005	41.2
Capital goods	29,962	27.1	40,637	31.5	33,889	25.8	29,566	21.6	30,378	26.6	30,522	21.8	38,642	24.1
Consumer durables	22,488	20.3	22,030	17.1	20,851	15.9	21,638	15.8	17,627	15.4	21,163	15.2	21,254	13.2
Total	110,845	100	129,062	100	131,224	100	137,087	100	114,498	100	139,777	100	160,396	100
<i>Exports</i>														
Food	33,779	58.9	25,683	40.8	33,336	45.2	25,177	32.1	25,108	30.3	24,996	28.7	25,398	26.5
Raw materials and semi- manufactures	22,065	38.5	34,976	55.6	37,114	50.4	50,579	64.5	54,610	65.9	58,766	67.6	66,988	69.9
Capital goods	1,460	2.6	2,257	3.6	3,240	4.4	652	0.9	616	0.8	435	0.5	487	0.5
Consumer durables							1,952	2.5	2,497	3.0	2,763	3.2	2,931	3.1
Total	57,304	100	62,916	100	73,690	100	78,360	100	82,831	100	86,960	100	95,804	100

Note: This table is the continuation of Table 31.

Source: B.C.T., Annual reports 1964 to 1970.

The overall balance-of-payments surplus rose, but so did the trade deficit, with all items in the import bill, except capital goods, sharply up (Tables 42 and 45). Domestic prices advanced only moderately (Tables 40 and 41). The economy was on a stable course.

The monetary situation did not change much in 1970, except for a somewhat less expansionary mood. A few significant shifts nevertheless took place in the internal and external balance. First of all, imports and exports got further out of step, and the trade deficit widened conspicuously, but still not more than could easily be offset by surpluses on other external accounts. The higher overall balance-of-payments surplus enabled Tunisia to repay enough of its short-term foreign debts to reverse its net external position, which had been in debit since the 1964 crisis (Tables 32 and 77). But with imports racing ahead of exports, the overall surplus lacked substance, since it derived largely from unilateral transfers and capital movements¹.

This gave cause for concern. So did the slackening of the rate of investment growth to a mere 2.2 per cent. This was due to a decline in domestic saving (— 4.3 per cent) concentrated almost entirely in public administration (see Tables 73 to 75).

It has been pointed out more than once that in Tunisia the budget often proved a disequilibrating factor in the economy. In 1970 the government at last set about getting the public finances into some sort of order. A law (No. 70-22) was passed on 7 May 1970, which, among other things, led to far-reaching changes in the structure of Treasury debts to the Central Bank. As can

¹ Tourism began at this time to earn surpluses which went quite a way to offset the deficit on merchandise account, but the services accounts had heavy outgoings under the headings "transport" (freight and insurance) and "capital incomes" (interest payable) (B.C.T., *Rapport annuel* 1970, pp. 71-73).

be seen from Table 38, short-term advances were repaid integrally, and B.C.T. deposits at the *Centre Chèques Postaux* were cut down drastically. This indirect form of financing the Treasury via a Post Office current account had in fact created an ambiguous and volatile situation defying control. Under the new law this account passed into the management and control of the Central Bank, together with responsibility for not allowing the Treasury's credit balance ever to exceed 5 million dinars. In counterpart to this strict limitation, the Treasury received from the Central Bank a permanent advance of 25 million dinars and a reimbursable one of 17.5 million.

This reform should have the effect of limiting the Treasury's capacity of exercising autonomous influences on the processes of money creation and hence, in the last analysis, should strengthen the Central Bank's control over the monetary variable by weakening undue exogenous disturbances. It will be some years, of course, until judgement can be passed on the actual effects of this innovation.

3. STRUCTURAL CHANGES IN THE BANKING SYSTEM AND THE CREDIT MARKET, 1964 TO 1970

By the end of 1963, the numerous mergers, takeovers and liquidations of the previous years had done much to consolidate the structure of the Tunisian banking system. Apart from expansion of the system of *Caisses Locales de Crédit Mutuel*, which will be discussed below in connection with the activities of the *Banque Nationale Agricole*, the only further notable change in 1964 was that foreign capital interests increased their stake in Tunisian banking, via the *Banque de Tunisie*. As can be seen from Table 9, some of that bank's equity was in 1964 acquired by the Bankers International Corporation of New York, the *Crédit Suisse* and the *Lavoro Bank* of Zürich, and the *Bayerische Vereins-*

bank of Munich. This was done with the encouragement of the government and the B.C.T., both anxious to weaken and offset the predominance of French capital in the national banking system¹.

Towards the end of 1965 a new private bank, the *Banque du Peuple*, was set up entirely with Tunisian capital² and registered under Tunisian law. This bank owed its origin to the *Union Générale des Travailleurs Tunisiens*, and was meant to handle mostly medium-term credit for between two and fifteen years, on the basis of deposits of at least two years' duration; it was, also, specifically to serve the co-operatives affiliated to the U.G.T.T. During the same year preparations were begun for overhauling the capital structure of the *Société Nationale d'Investissement*, which the government had decided to transfer from public into private hands.

The only development in 1966 was the completion of the above operation, from which the S.N.I. emerged with lots of new shareholders, including private and foreign banks as listed in Table 9³.

The year 1967, on the other hand, was one of more far-reaching changes. First of all, the *Crédit Foncier d'Algérie et de Tunisie*, a branch of the corresponding French bank, was transformed into a subsidiary of the latter and registered under Tunisian law, when it assumed the new name of *Crédit Foncier*

¹ Note that in Table 46, which outlines the structure of the Tunisian banking system during the period 1964 to 1970, the 1964 figures include the *Société Nationale d'Investissement* both under Tunisian banks and under public banks, whereas it is not included at all in Table 25.

² As in the case of the S.N.I., some part of the capital was raised by means of an obligatory share subscription scheme.

³ The reasons for this change will be discussed below when dealing specifically with the S.N.I. Note that in Table 46 this bank is classified with private banks after 1965.

TABLE 46

STRUCTURE OF THE TUNISIAN BANKING SYSTEM AND THE
OWN-RESOURCES/DEPOSITS RATIO, 1964 TO 1970
(end-year figures, in thousand dinars)

Year	Tunisian banks	French banks	Other foreign banks	Private banks ¹	Public banks ²
1964					
Number	5	3	2	10	4
1. Own resources	10,480	901	374	4,050	7,711
2. Deposits	110,830	16,176	2,431	63,737	65,700
3. Percentage ratio 1:2	5	6	15	6	12
1965					
Number	10	3	2	11	4
1. Own resources	12,668	945	373	5,046	8,940
2. Deposits	125,690	16,580	2,663	71,050	73,889
3. Percentage ratio 1:2	10	6	14	7	12
1966					
Number	10	3	2	12	3
1. Own resources	15,128	1,026	393	7,983	8,564
2. Deposits	147,315	19,292	2,953	88,269	81,289
3. Percentage ratio 1:2	10	6	13	9	11
1967					
Number	11	2	2	12	3
1. Own resources	18,740	827	490	9,461	10,596
2. Deposits	170,545	12,767	3,690	88,469	98,537
3. Percentage ratio 1:2	11	6	13	11	11
1968					
Number	11	1	2	11	3
1. Own resources	23,211	326	468	11,082	12,924
2. Deposits	193,981	6,149	3,604	101,355	102,379
3. Percentage ratio 1:2	11	5	13	11	13
1969					
Number	11	1	2	11	3
1. Own resources	28,328	360	456	13,330	15,814
2. Deposits	203,875	6,752	4,332	110,852	104,111
3. Percentage ratio 1:2	14	5	11	12	15
1970					
Number	10	1	2	10	3
1. Own resources	31,064	394	441	14,651	17,248
2. Deposits	226,861	6,783	4,392	127,045	110,993
3. Percentage ratio 1:2	14	6	10	12	16

¹ From 1965 to 1967 including the *Banque du Peuple*, and from 1966 the *Société Nationale d'Investissement*, passed into private hands in 1965.

² Still including the *Caisse Mutuelle de Crédit Agricole de Tunisie*, in process of liquidation.

Note: This table is the continuation of Table 25, to which reference is made for the explanatory notes. According to the B.C.T.'s classification, "own resources" here includes also provisions.

Source: B.C.T., Annual reports 1964 to 1970.

et Commercial de Tunisie. After that, there were only two French banks left in Tunisia, the *Société Marseillaise de Crédit* and the *Compagnie Française de Crédit et de Banque*. However, although the "Tunisification" of the C.F.A.T. fitted in formally with the official policy of emancipating the banking system, it did not in substance alter the situation very much. The new C.F.C.T., to be sure, adapted its memorandum and articles of association to Tunisian law and its ties with the parent bank were looser, but its capital was still almost exclusively in French hands and so it kept up its close connections with French financial interests. In these circumstances there could be no reasonable hope that the bank would take an active part in financing Tunisian economic development.

Apart from this minor matter, the year 1967 stands out in the history of Tunisian banking and credit as one when the problems of saving and the organization of a capital market came in for serious rethinking, and when the institutional framework was consolidated by the creation of a National Credit Council and the passing of a Bank Act.

In June, a national seminar on saving was held in Tunis¹, at which many of the country's prominent bankers took part in discussions ranging over all the major problems connected with the subject.

The starting point of the studies and debates was a situation diagnosed more or less as follows: national saving, though

¹ The seminar was organized by the *Ecole Nationale d'Administration*, one of Tunisia's foremost research institutes, and met from June 8 to 10. The proceedings were published by the E.N.A. in 1969 under the title *Séminar National sur l'Épargne*, in the series *Cahiers du Centre des Recherches et d'Études Administratives*.

accounting for a growing share of the gross domestic product, still fell far short of the investment needs of economic development; scant public saving covered only a minute part of investment expenditure under the budget; the rate of self-financing by firms (corporate saving) was unable to sustain their accelerated growth in conditions of financial equilibrium; the volume of household savings was altogether inadequate both in absolute and in relative terms and testified to excessive liquidity preference; and finally the system of collecting financial savings and channelling them into investment was inefficient and suffered from serious structural deficiencies (absence of a stock market).

On this basis, studies and recommendations had been prepared in advance on four main subjects; the channels and means of collecting savings, the remuneration to be paid for savings as well as other forms of incentives, reinforcement of the self-financing capacity of firms, and the development of a capital market. It is impossible here to summarize all the many proposals put forward in the commission report; and during the discussions relating to them, let alone to enter into their merit. However, when it came to drafting the final resolution, there appeared to be enough consensus of opinion for the formulation of a few general recommendations addressed more particularly to the authorities and leading personalities in the relevant sectors. These recommendations concerned:

- (1) the use of collection techniques and incentives adapted to the psychology and motivations of different categories of savers;
- (2) incentives for corporate saving and control of self-financed investment in line with development plans and taking the long view;
- (3) the establishment of a stock exchange.

The technical and operational conditions for achieving these aims are not specified in the final resolution, which instead makes reference to the reports of the separate commissions. As will be seen presently, some of the above suggestions were followed up in subsequent years.

In December 1967, the government finally brought to fruition two projects which had been under discussion for quite some time. One of them was the establishment of a National Credit Council¹, and the other the passing of the Bank Act.

The National Credit Council was to be essentially a consultative body, in so far as it had the function of examining, in advance, all general measures concerning "the regulation, guidance, distribution and control of credit"². An interesting point is that the Council was also to express opinions on measures designed to stimulate the growth and mobilization of savings. The Council was furthermore generally responsible for supervision of the banking system and the Central Bank was to report to it each year on monetary and credit conditions, on the banking situation and on stock market developments.

The new Council had 26 members. They were the Minister of Planning and the National Economy, in the chair, and his under-secretaries in charge of the departments of Finance and Development, Industry and Trade, and Agriculture, the Governor and three other representatives of the Central Bank, the Minister of Public Works and Housing, the Postmaster General, the head of the Socialist Destour party, the Chairman of the National

¹ This idea goes back at least to 1963, and since then had been taken up several times in various forms. See Bistolfi, *op. cit.*, pp. 230-231.

² Law No. 67-50 of 7 December 1967, *Journal Officiel* of 5, 8 and 15-19 December 1967.

Economic and Social Council, and a number of representatives appointed by the Minister of Planning and the National Economy upon proposal by various groups, as follows: four representatives of industry and trade and one of the workers (upon the proposal of the trade union movement), three representatives of agriculture and fisheries (upon the proposal of the National Farmers' Union of Tunisia), four representatives of banks (upon the proposal of the Governor of the B.C.T. after consultation with the *Association Professionnelle des Banques*)¹, and finally two expert members chosen for their technical and financial competence and appointed by the Minister of Planning and the National Economy in agreement with the Governor of the B.C.T.

It is clear from the composition of the Council that the law deliberately gave it a political complexion, with a majority of government and trade union representatives, leaving the technicians (B.C.T. representatives, bankers and experts) in a minority. The reason was no doubt the need for close co-ordination between economic planning and credit activities, and ultimately the subordination of the latter to the former. But if this subordination may have been logical, it certainly makes one wonder whether the lessons of the past had been forgotten, for it was precisely the implementation of the 1962-1964 plan and the associated growth of the Treasury's debts to the B.C.T. which had unleashed the 1964 crisis, a crisis that was overcome only in 1968 after a long period of monetary instability and external deficits. However that may be, the National Credit Council with its carefully weighted composition and highly political complexion, clearly was meant

¹ This association was only just being set up at the time, though it had been talked about at least since 1963.

as an organ of political control, in which experts who knew about credit had little say. It so happens that none of this has so far begun to matter. A number of organizational and political difficulties were encountered in actually setting up the Council, and as of March 1970 it was not as yet functioning¹ and therefore made no difference to the pattern of economic, financial and monetary power.

On the same date when the National Credit Council was set up by law, Tunisia's Bank Act was passed. This is Law No. 67-51, of 7 December 1967², and it filled a long-felt need in a country where banking was not governed by any specific law at all, but only by the appropriate provisions of the commercial code.

This law belatedly promulgated rules for a banking system which, in ten years of independence, transformation and consolidation, had acquired its own, by now more or less stable and definitive, structure. The law could therefore hardly be innovational, and in effect does no more than define banking activity, classify the firms engaging in this activity, and lay down rules for it. In other words, it was mostly a matter of tidying up and codifying provisions applying to a field by now too complex to be governed any more merely by a general code and by circulars issued by the B.C.T. in the exercise of its supervisory functions.

Article 2 of the Bank Act defines as a "bank" any firm which habitually engages in at least one of the following activities: accepting deposits from the public in whatever form and of whatever duration, extending credit in whatever form, intermediation in stock exchange and foreign exchange transactions, or cash

¹ B.C.T., *Bulletin*, March 1970, pp. 9-10.

² *Journal Officiel de la République Tunisienne*, 12 December 1967.

settlements on behalf of depositors¹. Article 5 defines as a "deposit bank" any firm which accepts "deposits without time limit, but uses them mainly in short-term credits", or at any rate in credits repayable in not more than five years, within the limits fixed by the B.C.T. Deposit banks were, however, authorized to grant loans for more than five years up to the limit of their effective supply of long-term special resources, or within the terms of the respective conventions. An "investment bank", on the other hand, is defined by Article 6 as one whose "main activity consists in setting up enterprises, acquiring a share in the capital of existing enterprises and extending medium- and long-term credit". Long-term loans were to be financed mainly by own resources and by the proceeds of bond issues, and medium-term credits (*crédits d'équipement* of not more than five years' duration) by time deposits tied for more than one year. Investment banks were as a matter of principle not to grant short-term credits, but were entitled to accept deposits for less than twelve months as well as sight deposits from their own personnel and from companies in which they had a majority holding; to these latter they were also authorized to extend short-term credit.

Patently, the law's definitions on the whole are a codification of the existing structure and formalize a *de facto* situation. The law lays down no principles of specialization in banking, witness

¹ The law explicitly states that Art. 2 does not apply to the *Administration des Chèques Postaux*, the *Caisse Nationale d'Epargne* and Tunisian agencies of international financial organizations. Furthermore, Article 3 narrows down the applicability of Art. 2 by declaring that the term "deposits received from the public" was not to include funds raised by the issue of shares and bonds, deposits of bank employees with their own bank (subject to these deposits not exceeding 10 per cent of the capital of the bank concerned), and other minor funds received under various headings (guarantees, etc.). Nor was the term "banking operations" to include trade credits and loans by parent banks to their subsidiaries.

the absence of any specific delimitation of the medium-term and long-term credit sectors, but rests content with putting the seal of legal approval on a pragmatic and flexible system (the specification of a "main concern") adopted by the banking authorities. Under the definitions of the new law, Tunisia had, at the end of 1967, one investment bank only, the *Société Nationale d'Investissement*, while all the others belonged to the category of deposit banks¹.

In Articles 7-29 the Bank Act enumerates all the rules governing banking activities. They deal with specific aspects, but add nothing much that was new and hence need not be examined in depth². As a matter of interest it may be mentioned that the law vests supreme control of banking in the *Secrétariat d'Etat au Plan et à l'Economie Nationale*, while at the technical level many supervisory functions are assigned to the B.C.T., which, however, remains subordinate to the Ministry. It certainly is highly significant that the banks were thus placed under the authority of those responsible at government level for economic planning, contrary to the widespread and traditional practice of attributing these powers to the ministry either of the Treasury or of Finance.

The major changes to be reported for the year 1968 were the takeover of the *Compagnie Française de Crédit et de Banque*

¹ Allowing for the *Banque du Peuple*, which was still struggling to organize its activities on a stable basis, the formal count of investment banks rises to two.

² For instance, Article 13 requires that no bank must have a capital of less than 200,000 dinars. Deposit banks must not invest more than 5 per cent of their own resources in any one equity, and must not hold more than 20 per cent of the equity of any one company (Art. 16). Art. 25 requires banks to lend their collaboration to all public security issues and conversions, on terms laid down from case to case by the Minister of Planning and the National Economy. Art. 26 lays an obligation on the banks to set up an *Association Professionnelle des Banques*, to take care of liaison between themselves and the government. The statutes of this association were to be subject to approval by the above minister and the B.C.T.

by the *Banque de Tunisie*, and the establishment of the *Banque du Sud* on 8 July. This meant the disappearance of yet one more French bank, and the entry of a new bank into the public sector, with specific responsibilities for financing development projects in the country's southern regions. The *Banque du Sud* started life with a capital of 250,000 dinars, subscribed by the *Société Nationale de Mise en Valeur du Sud* (15.8 per cent), the *Société Régionale d'Investissement de Sfax* (30 per cent), the *Caisse Nationale de Sécurité Sociale* (12 per cent), the B.N.A. (12 per cent), the S.T.B. (8 per cent), and a number of other southern companies (22.2 per cent). Soon after the bank's foundation, its capital was increased to one million dinars, on 24 August 1968; of the additional capital, 500,000 dinars came from the merger with the U.G.T.T.'s short-lived *Banque du Peuple*, 180,000 dinars from a further subscription by the S.O.N.M.I.V.A.S., and 70,000 dinars from three other banks, namely, the *Banque de Tunisie* (35,000), the *Union Bancaire pour le Crédit et l'Industrie* (20,000) and the *Banque d'Escompte et de Crédit à l'Industrie en Tunisie* (15,000). Another capital increase, on 12 April 1969, resulted in further changes in the composition of shareholders; this is the version recorded in Table 9, and is noteworthy for the large stake of the Italian *Monte dei Paschi di Siena* (30 per cent). In spite of the bank's rapid expansion, all these changes seem to have diluted its original specifically southern character¹.

¹ Not surprisingly, the Board of Directors decided on 18 October 1969 to transfer the seat of the company and its general management from Sfax to Tunis, on the grounds that the bank was unable to carry out its functions unless it were in direct contact with the major economic and financial decision centres (public administration, central bank, other banks, etc.). This decision implicitly confirms the marked dualism in the Tunisian banking system and its concentration, and also the domination of the whole country's economy by the capital city. The very fact that all banks had their headquarters in Tunis and from there managed most of

One other event of 1968 was that the Central Bank issued regulations designed to co-ordinate the banks' efforts to encourage saving. These are contained in the B.C.T.'s circular No. 68-57¹ and concern mostly the maximum rates payable to different categories of depositors. This was not in practice a very important

their investment and supply of funds, casts some doubt on the wisdom of this move by the *Banque du Sud*, since Tunis itself was already amply supplied with banking services. But subsequent events fully vindicated the decision. By 31 December 1969 the geographical distribution of the bank's investment assets and deposits was as follows (in thousand dinars):

Area	Deposits	Loans	Equity investments (*)
Tunis	4,775.8	2,448.8	103.7
Sfax	478.5	1,895.9	92.0
Gabès	137.1	400.2	2.5
Gafsa	135.4	120.6	—
Médénine	415.3	328.6	107.5
Djerba	41.8	601.7	—
Total	5,983.9	5,795.8	305.7

(*) Capital subscribed, including instalments not fully paid up.

Source: Banque du Sud, *Rapport annuel, Exercice 1969*.

These figures make it clear that the *Banque du Sud*, while to some extent less definitely southern in its orientation, was effectively and usefully raising financial resources in the central and northern areas of the country and investing them in the south. The quick success of this policy raises some interesting questions and, perhaps, also some misgivings. Two possible explanations come to mind: either the *Banque du Sud* must have opened up a new field of intermediation and managed to attract new depositors not yet served by other banks, or it must have lured deposits away from banks already established in the area. Neither assumption speaks well for the Tunisian banking system. The first suggests that, concentrated as it was, the banking system was far from "total intermediation" with respect to the capital city's financial resources, and the second points to some inefficiency of the banks in matters of competition. The second assumption seems to be nearer the truth, because of the very conspicuous expansion of the *Banque du Sud*'s deposits in 1970 (+ 235 per cent), with particular reference to fixed-term notes and time deposits (+ 440 per cent). By the end of that year, its total deposits amounted to 14.045 million dinars (of which on sight 8.676 million, and on time 5.369 million or 38.23 per cent of the total), and it was all set for doing even better and for a rapid rise in the league table of Tunisian Banks.

¹ Also in B.C.T., *Bulletin*, March 1970, p. 11.

step, but it does at least testify to the monetary authorities' interest in the problems of financial saving and to their willingness to follow up some of the proposals put forward at the national seminar on saving in 1967.

The following year, 1969, brought some important changes and novelties for the banking and financial world. Within the banking system, there were some structural shifts owing to the capital increases carried out by the *Banque de Tunisie*, the *Banque du Sud*, and the *Union Bancaire pour le Crédit et l'Industrie*, which was getting ready to take over the *Banque d'Escompte et de Crédit à l'Industrie en Tunisie*.

In February, the Stock Exchange of Tunis was set up to replace the former *Office Tunisien de Cotation des Valeurs Mobilières*, an interbank group dating back to 1946¹. Law No. 69-13, of 28 February 1969, which established the Stock Exchange, is heavily indebted to the rules and usages of many stock exchanges abroad and is in no way innovational. It does, however, bear witness to the authorities' intention to strengthen the capital market and, more particularly, the securities market. Certainly, the economy needed more efficient financial channels, offering large firms a better chance to raise, through share and bond issues, funds in sufficient volume and of the right quality to finance industrial development², not to speak of making it easier to place Treasury issues directly with the public and promoting the stable investment

¹ See the decrees of 23 April 1945 and 20 March 1957. The *Office*, whose members were banks only because they were the sole authorized intermediaries in security transactions, had at the time taken on the functions of the former *Chambre de Compensation des Valeurs Mobilières Tunisiennes*, which had worked in Tunis since 1936.

² Many of the state-controlled enterprises were in fact undercapitalized, in the sense that they did not have enough own resources and had to rely too much on bank credit.

of savings¹. The 1967 national seminar on saving, it will be recalled, had incorporated in its final resolution the suggestion that an organized market for securities should be set up, after an appropriate study of its feasibility and advantages². Finally, the idea had for some time been championed by the S.T.B. and the S.N.I., which saw in a stock exchange a welcome means of mobilizing their equity holdings more easily and quickly.

The management of the Stock Exchange and the conduct of its affairs are in the hands of a seven-member committee, composed as follows (Art. 5 of the law): the chairman, appointed by decree upon the proposal of the Minister of Planning and the National Economy, and six representatives — one each of the above ministry, the Central Bank, the stockbrokers' association³ and the Economic and Social Council, and two of the Bankers' Association. All the representatives, save that of the B.C.T., are appointed by the Minister of Planning and the National Economy upon the proposal of their respective sponsoring bodies. Although, therefore, the Stock Exchange Committee had a majority of experts, it was subject to direct control by the planning authorities, as indeed was the National Credit Council⁴.

¹ In the words of Article 2 of the law, "La Bourse des Valeurs est chargée... de faciliter aux sociétés la recherche de capitaux nouveaux... de promouvoir et d'encourager la collecte et la mobilisation de l'épargne dans les placement en valeurs mobilières."

² See *Seminaire National sur l'Epargne*, *op. cit.*, pp. 66-75. However, the commission concerned with this question had come to the rather discouraging conclusion that, while the supply of negotiable securities was easily large enough for the good functioning of an organized securities market, there was not enough demand (p. 75).

³ The *Association des Agents de Change* was attached to the *Société Tunisienne de Banque* and all its members were banks or financial establishments.

⁴ Since the Stock Exchange did not begin to function effectively until 1970, it is too early to assess its first results. As an example, and in order to

Another event of some importance in 1969 was the promulgation of an Investment Code by Law No. 69-35, of 26 June 1969¹. This was intended to create favourable conditions for investment in Tunisia, and hence defined principles and methods of investment incentives, guarantees and protection (Article 1). There can be no doubt that such a code was necessary, for a variety of political and economic reasons. In the first place, some of the Tunisian government's measures with respect to the nationalization of foreign property and to the control of external capital movements had frightened off private foreign investors. Secondly, the increasingly coercive complexion of economic planning was leaving little elbow room for private enterprise, and the resulting climate of "negative expectations" was certainly not propitious for the growth of foreign investment. But Tunisia's foreign debts had by now assumed very large proportions, so that there was a strong case for trying to keep down further borrowing abroad and instead

convey some idea of the size of the market, it may be interesting to quote a few figures of dealings on 24 July 1970 (initially the Stock Exchange was open only on two, non-consecutive days a week).

Transactions	Number	Nominal value (dinars)
Bonds	1,577	17,005
Shares	123	870
Total	1,700	17,875

Source: Bourse des Valeurs Mobilières, *Bulletin Officiel*, 25 July 1970.

All transactions are in cash, because dealings for later settlement were regarded as too speculative. The bonds traded most actively were government stock, all with a 5 per cent coupon and with current yields between 6 and 7.5 per cent, according to the chance of their being drawn. Share prices, though barely representative, were reasonably firm.

¹ *Journal Officiel* of 20-24-27 June 1969.

attracting private venture capital¹. And in any case, it had been realized for some time that a legal clarification of the conditions in which non-resident investors could contribute to national economic development was overdue².

Turning now to developments in 1970, the concentration of private banks was taken another step further by the takeover, in January, of the *Banque d'Escompte et de Crédit à l'Industrie* by the *Union Bancaire pour le Commerce et l'Industrie* (see Table 8). This takeover was in all likelihood the result of decisions taken abroad, given that both the banks involved had part of their capital in the hands of the *Banque Nationale de Paris*, set up on 1 July 1966 after the merger of the *Comptoir National d'Escompte de Paris* (a former shareholder in the B.E.C.I.T.) and the *Banque Nationale pour le Commerce et l'Industrie* of Paris (a former shareholder in the U.B.C.I. via the *Banque Nationale pour le Commerce et l'Industrie en Afrique* (see Table 9).

To round off this brief account of changes in the structure of the Tunisian banking system, it may be useful to add a few words on the overall situation and trends on the basis of the figures set

¹ Foreign investors had for some time been disinclined to give credit to Tunisia, because its high indebtedness opened up a prospect of considerable difficulties with reimbursement. Foreign financial groups were therefore reluctant to place capital in Tunisia, and if at all only on condition of retaining control over the investments concerned through equity holdings (see *Annuaire de l'Afrique du Nord*, 1969, p. 615). As regards the political situation in Tunisia at the time when the investment code was promulgated, there clearly was a crisis in the making, and there was no way of foreseeing the future political course of the government. In these circumstances the investment code can be regarded as a sort of official commitment to safeguard foreign investment against political instability.

² This complex matter was still governed by rather incoherent rules, the most recent of which dated from 1962. See B.C.T., *Bulletin*, September 1964, pp. 9-13.

out in Table 46. Private banks, as a category, are still in a strong position, notwithstanding the preference often accorded to public banks by the government and the B.C.T. The figures of Table 46, however, tend to overstate their strength, in so far as they include among private banks the *Société Nationale d'Investissement* which, though transferred into private hands in 1965, always enjoyed strong public patronage, and the *Banque du Sud*, which clearly is rooted in the public sector. That said, the position of the private banks still remains remarkable and testifies to their adaptability. Some of them, notably the U.I.B., the U.B.C.I. and the *Banque de Tunisie*, found their way — though admittedly through progressive concentration — to a new sound basis, such as seemed to have been compromised for ever by the detachment of Tunisia from France. It would be interesting to pursue this line of enquiry, but unfortunately there are not enough data.

It is impossible at the moment to foretell the future pattern of the Tunisian banking system. Certainly, further changes cannot be ruled out, especially in the private sector. A few of the surviving private banks date back to the days before independence and are now too small for the market. They are not particularly enterprising, and are kept alive largely by what remains of the Protectorate's interests and clients; they may well find it difficult to survive the next few years.

Even less can be guessed with regard to possible new additions to the banking system. For some time the authorities have been thinking of introducing a system of building societies or savings and loan associations, or, more precisely, of *épargne-logement* on the French model, as a partial solution to the problems of residential building, but so far as can be ascertained at present the idea is still at an embryonic stage and no firm project has as yet emerged.

4. BANKING ACTIVITIES, 1964 TO 1970

The consolidated assets and liabilities of the Tunisian banking system during the years following the 1964 crisis shed an interesting light on the major trends in banking activities in connection with monetary and credit policy and with the structural changes described so far. Comparing Tables 15 and 47, it will be seen that in the aggregate expansion settled down after 1964 to a more normal pace than in the immediately preceding years 1962 and 1963, largely in response to the Central Bank's restrictive policy. A second trend apparent in the two Tables is the consolidation of the public sector's predominance. Having raised their market share to 56.5 per cent in 1963, public banks subsequently increased it further until they lost some slight part of it in 1969 and 1970. Even then, at the end of 1970, they still accounted for just over half the banking system's consolidated balance-sheet total. This trend was definitely encouraged by the authorities, which always accorded preferential treatment to the public banks, especially with regard to refinancing — witness the figures of Tables 18 and 49, even though they stop in 1965. The B.C.T.'s restrictions discriminated strongly against the private banks, whose credits were refinanced to a progressively smaller extent from 1961 on, until the percentage dwindled to almost nil. One reason why the Central Bank acted in this way was no doubt that it found the public banks a good deal more amenable to official directives regarding credit distribution. Moreover, the B.C.T., it will be recalled, was bent on "Tunisifying" the banking system and on making it the principal instrument of financing planned economic development. In this light, the Central Bank's discrimination assumes great significance.

Nevertheless, as can be seen from Table 48, the private banking sector kept a striking lead in the composition of sight deposits,

especially from non-commercial clients. This proves, among other things, that the private banks managed to retain a wide circle of clients, and that the public banks were more intent on expanding their credit activities than their supply of deposits and their intermediation¹.

The pattern of the banking system's consolidated assets appears fairly stable after 1964 (Table 52).

Following the measures introduced with a view to containing Treasury debts, the banks' public security portfolios settled down at an all but constant volume in absolute terms, with the result that their share in total assets diminished steadily. Long-term credit, by contrast, expanded in response to the economy's needs which it had been unable to meet in previous years. Within medium-term credit, the proportion destined for building dropped sharply as a result of the B.C.T.'s specific restrictions and of a partial conversion of such credits into long-term loans². All these shifts certainly helped the banking system to a more balanced assets structure and one more in line with the requirements of planned economic development. The sources from which credit was financed assumed a more normal pattern, too, as can be seen from Tables 18, 20, 49 and 51, which show a rapid diminution of the proportion of bank credits refinanced by the B.C.T. This applies especially to medium-term credit, for which more abundant special resources were earmarked.

The distribution of short-term credits among recipient sectors has been too erratic since 1963 to make it possible to identify any definite trend (Table 53). In medium-term credit (Table 54),

¹ This suggests an important difference in the management principles of public and private banks, especially as regards liquidity.

² See B.C.T., *Rapport annuel 1965*, p. 98.

TABLE 47

TUNISIAN BANKING SYSTEM: BALANCE SHEET TOTALS AND THEIR COMPOSITION BY SECTORS, 1964 TO 1970
(end-year figures, in thousand dinars)

Year	Balance sheet totals	Increase per cent	Public sector	Private sector	Share of public sector (per cent)
1964	185,869	14.4	102,736	83,133	55.3
1965	218,306	16.9	126,971	91,335	58.2
1966	259,535	18.9	144,469	115,066	55.7
1967	279,947	7.9	162,402	117,545	58.0
1968	337,078	20.4	197,362	139,716	58.6
1969	362,433	7.5	206,308	156,125	56.9
1970	399,547	10.2	211,915	187,632	53.0

Note: This table is the continuation of Table 15.

Source: B.C.T., Annual reports 1964 to 1970.

there was a marked increase in loans to agriculture and a decrease in those to construction, the food industry and petrochemicals. But these few figures are not enough to give any indications of official policy with regard to credit distribution.

On the liabilities side (Table 39), a certain structural consolidation is apparent after 1964. The share of sight deposits in the banking system's consolidated liabilities dropped from 45.2 per cent in 1964 to 36.9 per cent in 1966 and in 1970 stood at 39.3 per cent. Similarly, the proportion of B.C.T. refinancing kept declining under the pressure of restrictive monetary policy. A rising trend, on the other hand, can be observed in the shares of total finance funds attributable to the banking system's own resources (6.3 per cent in 1964 and 8.8 per cent in 1970), to time deposits (6.6 per cent in 1964 and 11.8 per cent in 1970)

TABLE 48

COMPOSITION OF SIGHT DEPOSITS, 1964 TO 1970
(end-year figures, in thousand dinars)

Type of depositors	1964	1965	1966	1967	1968	1969	1970
Commercial clients							
private banking sector	23,385	24,843	30,401	28,445	32,010	38,160	41,305
public banking sector	26,468	25,828	21,804	27,407	30,400	35,419	39,326
<i>public sector share (per cent)</i>	53	51	42	49	49	48	49
Non-commercial clients							
private banking sector	21,653	23,453	27,158	28,261	32,018	33,627	37,665
public banking sector	8,310	7,291	9,224	10,018	12,430	14,221	16,620
<i>public sector share (per cent)</i>	28	24	25	26	28	30	31
Other clients	4,932	4,939	6,094	7,923	9,101	6,088	6,624
Total sight deposits							
private banking sector	46,841	50,267	59,613	59,275	66,173	73,882	81,740
public banking sector	37,907	36,067	35,068	42,779	49,786	53,633	59,800
<i>public sector share (per cent)</i>	45	42	37	42	43	42	42

Note: This table is the continuation of Table 17.

Source: B.C.T., Annual reports 1964 to 1970.

and to special funds and allocations (up from 9.8 to 14.5 per cent). To some extent, however, this consolidation is more apparent than real. The sharp rise in savings deposits in 1965 and 1966 owed more to the partial conversion of sight deposits on blocked non-

TABLE 49

COMPOSITION OF SHORT-TERM BANK CREDITS AND THEIR REFINANCING, BY SECTORS OF ORIGIN,
1964 TO 1970
(end-year figures, in thousand dinars)

Credits	1964	1965	1966	1967	1968	1969	1970
Short-term credits extended by public banking sector ¹	60,389	66,858	...	...	...	...	...
Percentage refinanced by B.C.T. ¹	12.1	8.9	...	...	...	...	...
Short-term credits extended by private banking sector ¹	32,117	33,136	...	...	...	...	...
Percentage refinanced by B.C.T. ¹	0.3	0.1	...	...	...	...	...
Total short-term credits ²	92,506	99,994	130,938	145,096	149,744	156,209	171,575
Percentage refinanced by B.C.T. ³	8.9	6.4	10.5	9.5 ⁴	12.4	12.7	13.1

¹ Figures not available after 1965.

² Not including sundry debtors and doubtful debts (*crédits douteux et litigieux*).

³ Estimate on the basis of information from the B.C.T.

Note: This table is the continuation of Table 18.

Source: B.C.T., Annual reports 1964 to 1970.

TABLE 50

TRADE BILLS DISCOUNTED AND REFINANCED, 1964 TO 1970
(*end-year figures, in thousand dinars*)

Trade bills	1964	1965	1966	1967	1968	1969	1970
Discounted by banks	12,370	14,085	15,709	16,521	16,008	16,257	17,833
Refinanced by B.C.T.	2,220	2,269	2,495	2,859	1,640	1,405	1,110
<i>Percentage refinanced by B.C.T.</i>	17.9	16.1	15.9	17.3	10.2	8.6	6.2

Source: B.C.T., Annual reports 1964 to 1970.

TABLE 51

MEDIUM-TERM BANK CREDITS AND THEIR COMPOSITION BY SOURCE OF FINANCE FUNDS, 1964 TO 1970
(*end-year figures, in thousand dinars*)

Credits and source of funds	1964	1965	1966	1967	1968	1969	1970
Medium-term credits	29,020	39,197	39,524	37,051	35,843	38,296	37,442
<i>Percentage financed by special resources</i>	16	29	30	34	18	22	26
<i>Percentage refinanced by B.C.T.</i>	39	31	29	24	25	24	22
<i>Percentage financed by banks</i>	45	40	41	42	57	54	52

Note: This table is the continuation of Table 20, to which reference is made for the explanatory note.

Source: B.C.T., Annual reports 1964 to 1970.

TABLE 52

COMPOSITION OF BANK CREDITS BY MATURITIES AND DESTINATION, 1964 TO 1970
(end-year figures, in thousand dinars)

Credits	1964		1965		1966		1967	
	amount	%	amount	%	amount	%	amount	%
Short-term credits	92,506	60.3	99,994	57.5	130,938	63.1	145,096	64.8
Medium-term credits	29,020	18.9	39,197	22.5	39,524	19.0	37,051	16.5
Percentage for building ¹	38.4		27.8		26.4		23.2	
Long-term credits ²	6,560	4.3	7,993	4.6	11,339	5.5	15,996	7.2
Credits to the Treasury ³	25,421	16.5	26,691	15.4	25,797	12.4	25,863	11.5
Total	153,507	100	173,875	100	207,598	100	224,006	100
Credits	1968		1969		1970			
	amount	%	amount	%	amount	%	amount	%
Short-term credits	149,744	60.9	156,209	60.9	171,575	61.5		
Medium-term credits	35,843	14.8	38,296	14.9	37,442	13.4		
Percentage for building ¹	20.8		25.5		22.4			
Long-term credits ²	30,584	12.6	34,084	13.3	38,614	13.8		
Credits to the Treasury ³	25,866	11.7	28,044	10.9	31,369	11.3		
Total	242,037	100	256,633	100	279,000	100		

¹ Residential, industrial and commercial building. Because of restrictive measures, the share of residential building steadily declined from 1965 on.

² From 1968, this category includes French and Dutch economic and technical co-operation credits, which were previously classified as medium-term.

³ *Bons d'équipement* and Treasury Bills.

Note: This table is the continuation of Table 21.

Source: B.C.T., Annual reports 1964 to 1970.

TABLE 53

DISTRIBUTION OF SHORT-TERM BANK CREDITS BY RECIPIENT SECTORS, 1964 TO 1970
(end-year figures, in thousand dinars)

Sectors	1964		1965		1966		1967	
	amount	change %	amount	change %	amount	change %	amount	change %
Agriculture	3,470	+ 46	2,620	- 24	4,266	+ 63	8,410	+ 97
Energy and transport	2,471	+ 8	7,114	+ 20	8,221	+ 16	8,290	-
Mining and quarrying	2,742	+ 44	3,224	+ 18	8,194	+ 154	9,591	+ 17
Metallurgy and metal-using industries	5,088	+ 32	4,562	- 10	9,243	+ 103	12,187	+ 32
Construction and public works	8,764	+ 26	10,258	+ 17	11,215	+ 9	11,766	+ 5
Chemicals	1,467	- 20	2,036	+ 39	4,549	+ 123	4,883	+ 7
Food industries and trade	22,633	- 21	27,449	+ 21	27,946	+ 2	25,475	- 9
Textiles	6,868	+ 153	9,034	+ 32	9,877	+ 9	11,385	+ 15
Hides and skins	411	+ 23	412	-	640	+ 55	616	- 3
Hotel industry ¹	...	...	...	...	...	...	...	...
Other industries and trade	9,731	+ 28	12,446	+ 28	19,180	+ 54	27,965	+ 46
Total	66,421	+ 13	79,155	+ 19	103,331	+ 31	120,568	+ 17

Sectors	1968		1969		1970	
	amount	change %	amount	change %	amount	change %
Agriculture	12,528	+ 49	10,202	- 19	9,640	- 6
Energy and transport	8,319	-	8,284	-	8,402	+ 1
Mining and quarrying	9,857	+ 3	8,165	- 17	9,009	+ 10
Metallurgy and metal-using industries	11,738	- 4	13,234	+ 13	15,597	+ 18
Construction and public works	13,263	+ 13	14,682	+ 11	14,009	- 5
Chemicals	3,532	- 28	3,992	+ 13	2,946	- 25
Food industries and trade	26,223	+ 3	23,349	- 11	25,398	+ 9
Textiles	10,824	- 5	13,369	+ 24	15,896	+ 19
Hides and skins	607	- 1	805	+ 33	1,225	+ 50
Hotel industry ¹	...	...	18,057	...	23,013	+ 27
Other industries and trade	27,975	-	15,302	- 45	15,386	-
Total	124,866	+ 4	129,441	+ 4	140,521	+ 9

¹ Until 1969 figures for the hotel industry were included among "other industries and trade".

Note: This table is the continuation of Table 22, to which reference is made for explanatory notes.

Source: B.C.T., Annual reports 1964 to 1970.

TABLE 54

DISTRIBUTION OF MEDIUM- AND LONG-TERM BANK CREDITS BY RECIPIENT SECTORS, 1963 TO 1967
(end-year figures, in thousand dinars)

Sectors	1963		1964		1965		1966		1967	
	amount	change %	amount	change %	amount	change %	amount	change %	amount	change %
Agriculture	3,632		3,333	- 8	5,400	+ 62	6,838	+ 26	7,987	+ 17
Extraction of mining products	195		176	- 10	127	- 28	59	- 54	—	- 100
Extraction of building materials	187		638	+ 241	1,206	+ 89	992	- 18	816	- 17
Construction and public works	749		922	+ 23	812	- 12	616	- 24	498	- 19
Food and soap industries	3,411		3,418	—	3,233	- 5	2,821	- 13	1,814	- 35
Esparto fibre industry	678		678	—	677	—	675	—	672	—
Transport	1,244		1,125	- 10	1,279	+ 14	1,126	- 12	907	- 19
Food trade	661		647	- 2	771	+ 19	965	+ 25	1,388	+ 43
Petroleum and fuels	1,054		966	- 8	174	- 82	60	- 66	30	- 50
Textile and clothing trade	1,319		1,488	+ 14	1,514	+ 2	2,591	+ 71	2,504	- 3
Hotels, restaurants, etc.	1,072		4,399	+ 310	5,649	+ 28	5,069	- 10	5,958	+ 17
Real property sale and management	5,846		7,009	+ 20	7,917	+ 13	8,566	+ 8	8,954	+ 4
Other industries and trade	824		1,794	+ 118	3,138	+ 75	3,514	+ 11	3,006	+ 14
Total	20,872		26,593	+ 25	31,897	+ 20	33,892	+ 6	34,534	+ 2

Note: Notwithstanding the somewhat divergent classification of sectors, this table is a continuation of Table 23. It stops with the year 1967, because in 1968 the B.C.T. (central risk pool) once again changed its classification.

Source: B.C.T., Annual reports 1963 to 1967.

TABLE 55

SAVINGS DEPOSITS IN BANK AND POSTAL ACCOUNTS, 1964 TO 1970
(end-year figures, in thousand dinars)

Deposits	1964	1965	1966	1967	1968	1969	1970
Bank: time deposits and fixed-term notes	12,433	22,338	30,290	30,277	33,241	36,631	42,620
Percentage share in total bank deposits	12.8	20.6	24.2	22.9	22.3	22.3	23.1
Deposits with the <i>Caisse Nationale d'Epargne</i>	4,791	5,412	6,124	6,509	7,088	7,825	8,517

Note: This table is the continuation of Table 24. The figures for time deposits are taken from the Table headed *Ressources et emplois bancaires*, which does not tally with the near-money statistics.

Sources: B.C.T., Annual reports 1964 to 1970, and P.T.T., Annual reports 1964 to 1969.

resident accounts¹ than to any real change in the preferences of Tunisian depositors or to the banking system's increased capacity of intermediation. Hence the figures of Table 55 are less significant than they appear at first sight. There is reason to believe that the higher interest rates offered to depositors and the introduction of special savings accounts did not yield the hoped-for results, but instead merely caused internal shifts in the composition of bank deposits.

An entirely different trend is evident in deposits with the *Caisse Nationale d'Epargne*. These dropped very sharply at first with the declaration of independence (from 5.197 million dinars in 1955 to 2.026 million in 1956), when foreign depositors transferred their money to France. But the number of accounts hardly fell, since foreign depositors were few and each had to his credit an amount well above the average. At the end of 1956

¹ Pariente, *op. cit.*, p. 41.

the C.N.E. had just over 140,000 savings accounts with an average credit balance of not more than 16 dinars.

Thereafter, the C.N.E.'s activities slowly expanded, until at the end of 1961 it had about 168,000 accounts with 3.293 million dinars in all, or just over 19 dinars per account on the average. An intensive publicity campaign quickly lifted the number of accounts to 310,000 at the end of 1963, but only at the cost of a drastic fall in the average individual credit balance to about 13.6 dinars. The unit figure recovered later to 22.8 dinars at the end of 1969, when the *Caisse Nationale d'Epargne* had 343,100 accounts showing a combined credit balance of 7.825 million dinars¹. In overall terms, therefore, the expansion of postal savings and especially their nation-wide distribution certainly helped the mobilization and use of national financial resources².

5. THE ACTIVITIES OF PUBLIC BANKS 1964 TO 1970, AND THEIR PARTIAL TRANSFER TO PRIVATE HANDS

It will be of interest to follow up the above general analysis by taking a closer, if still brief, look at the activities of public banks, which after all constitute the principal part of the whole banking system and are directly connected with the country's economic and financial authorities, and therefore can be regarded as representative of Tunisian banking activities.

¹ See P.T.T., *Rapport annuel 1969*. Post Office savings books offered good remuneration for deposits which, after all, could be withdrawn on demand; the rate paid was 2.75 per cent annually, and this was raised to 3 per cent on 1 January 1968 (P.P.T., *Rapport annuel 1967*, p. 36).

² This remark needs to be qualified by an appraisal of the C.N.E.'s investment policy in terms of the efficiency of its financial processes. Actually, the C.N.E.'s deposits represented a major part of the state's indebtedness to the public.

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Throughout the years 1964 to 1970 the S.T.B. retained its key position in the banking system. In 1964, it accounted for some 33.2 per cent of total sight deposits and 46.5 per cent of credits; by 1970 these proportions had, by divergent paths, reached 37.0 and 38.2 per cent¹. In all, the S.T.B. can be said to have consolidated its market position, with some slackening, perhaps, of its credit expansion. Certainly, the share of the S.T.B. in the banking system's total loan assets dropped quite considerably, because central bank restrictions made it impossible for the bank to expand its supply of funds from refinancing, special resources and the money market. But although these difficulties forced the S.T.B. to be more careful in lending out its liquid assets and to rely more heavily on deposits, it more or less doubled its size, in monetary terms, between 1964 and 1970².

Deposits were the main source of the S.T.B.'s supply of funds, and they rose steadily, though at a tendentially decreasing rate, as can be seen from Table 56. At the same time their composition underwent some change. Originally, the S.T.B.'s deposits had consisted largely of the liquid assets of public enterprises, but from 1964 on this began to change. In 1965 and 1966 the amount

¹ The following changes are apparent from S.T.B. balance sheets for the years 1964 to 1970:

S.T.B. share	1964	1965	1966	1967	1968	1969	1970
Sight deposits per cent of total bank deposits	33.2	34.8	40.8	(*)	40.5	37.5	37.0
Credits per cent of total bank credits	46.5	50.2	46.3	46.6	43.5	41.0	38.2

(*) Figure not available.

² In organizational terms, too, it grew from 26 to 30 branches, of which three abroad (in Paris, Marseilles and Beirut), and from 439 to 758 staff members in Tunisia. See S.T.B., Annual Reports 1964 to 1970.

TABLE 56

S.T.B. DEPOSITS, 1964 TO 1970
(end-year figures, in thousand dinars)

Type of deposits	1964		1965		1966		1967	
	amount	%	amount	%	amount	%	amount	%
Sight deposits ¹	24,902	91.3	25,333	76.1	26,835	69.9	31,764	75.6
Time deposits ²	2,375	8.7	7,659	23.0	10,613	27.6	8,708	20.7
Special savings accounts ³	—	—	287	0.9	940	2.5	1,568	3.7
Total	27,277	100	33,279	100	38,388	100	42,040	100

Type of deposits	1968		1969		1970	
	amount	%	amount	%	amount	%
Sight deposits ¹	33,700	73.0	40,246	75.5	42,647	76.1
Time deposits ²	9,882	21.4	9,180	17.2	8,353	14.9
Special savings accounts ³	2,585	5.6	3,884	7.3	5,074	9.0
Total	46,167	100	53,310	100	56,074	100

¹ *Comptes de chèques* and correspondents' current accounts.² Deposits on fixed term and at notice, and fixed-term notes.³ First introduced in 1964.

Source: S.T.B., Annual reports 1964 to 1970.

of time deposits rose spectacularly, as large funds were transferred from current accounts¹. This trend was later reversed, and though in absolute terms the volume of time deposits remained fairly stable, their share in total deposits, which had risen from 8.7 per cent in 1964 to 27.6 per cent in 1966, dropped back to 14.9 per cent in 1970. Over the same period, the figures tell of a rapid expansion of deposits on special savings accounts, a new category created to encourage the formation and intermediation of small private savings². In this field, the S.T.B.'s promotional campaign launched in 1965 and intensified in subsequent years with the introduction of new incentives (lotteries, prizes, etc.), yielded encouraging results especially in terms of the diffusion of the new type of deposits. Within five years of launching the campaign, at the end of 1970, the S.T.B. was administering 31,286 such accounts, each with an average credit balance of some 165 dinars³. This shows that the

¹ According to the S.T.B.'s annual report for 1965 (p. 29), these transfers were encouraged by the spread of interest rates between the two categories of deposits. Many firms shifted very considerable sums in order to earn the higher interest.

² Special savings accounts were introduced in 1962 (see the Central Bank's circular of 12 September 1962), but it was not until 1965 that the S.T.B. really set out to attract them with a massive publicity campaign on the occasion of World Savings Day, on 31 October 1965 (see the B.C.T., Annual report for 1965, p. 31).

³ S.T.B., *Rapport annuel, Exercice 1970*, p. 64. It is interesting to note the enormous difference between the average amounts on the S.T.B.'s special savings accounts and on the savings accounts of the *Caisse Nationale d'Épargne*. The latter had far more accounts, but on the average only some 25 dinars on each of them, which shows that it was serving much broader groups in the low-income bracket. This suggests that the social impact of the S.T.B.'s savings promotion campaign was perhaps not all that great. On the policy of the S.T.B. with regard to savings it is interesting to look at what its Assistant General Manager, Habib Ghenim, has to say in his communication to the 1971 Milan savings conference (*The Mobilization of Savings in African Countries, Proceedings of an International Conference held in Milan, 20 to 23 September 1971*, Milan, International Savings Banks Institute and Cassa di Risparmio delle Provincie Lombarde, 1972, pp. 295-302).

management were anxious to extend the bank's intermediation to a wider market area, with the help of a socially more sophisticated approach to savers. We find diversification of depositors, too, in the cheque and current accounts that make up sight deposits, at least to judge by occasional references in the annual reports to private clients' deposits tending to grow faster than those by public enterprises. All in all, the S.T.B. certainly seems in all these ways to have enhanced its efficiency in attracting deposits.

Geographically speaking, on the other hand, its intermediation activities appear rather less efficient. They seem to have been concentrated to an overwhelming degree in the economic area of Tunis itself, which contributed well over 70 per cent of sight deposits, while the other governorates were the origin of only marginal amounts¹. Though operating on a nation-wide scale and dedicated to the public interest, the S.T.B. had not really succeeded in exercising its functions in such a way as to overcome the inherent dualism in the country's economic and social set-up.

Table 57 gives details of the S.T.B.'s medium- and long-term resources over the years 1964 to 1970. Among the former, two items stand out for their conspicuous increase, namely, the Special Revolving Fund, which was fed by the dinar counterpart of U.S. aid to Tunisia, and the National Housing Improvement Fund. In addition to the special funds already administered by the S.T.B. in 1964, the bank received the F.O.D.A.C. Fund and a state advance in 1968, and in the following year took on the management

¹ In S.T.B., *Rapport annuel (provisoire), Exercice 1967*, p. 1, we find the information that sight deposits from the Tunis area accounted for 77.5 per cent of the total, while those from Sfax and Sousse, both sizeable towns, accounted for only 6 per cent.

TABLE 57

MEDIUM- AND LONG-TERM RESOURCES OF THE S.T.B., 1964 TO 1970
(end-year figures, in thousand dinars)

Type of resources	1964	1965	1966	1967	1968	1969	1970
Medium-term resources							
Special revolving fund	2,681	2,739	3,772	4,862	4,867	4,401	4,507
"Letters of indemnity" fund	251	260	260	260	260	260	260
National housing improvement fund	1,200	2,086	2,223	2,484	2,659	3,047	3,394
A.I.D.-D.L.F. fund	1,199	1,831	1,930	1,761	1,575	1,388	1,196
Tunisian state advances	—	—	—	—	500	500	500
F.O.D.A.C.	—	—	—	—	199	201	205
Kreditanstalt fund	—	—	—	—	—	143	538
Capital goods import fund	—	—	—	—	—	500	500
Total	5,331	6,916	8,185	9,367	10,060	10,440	11,103
Long-term resources							
5 per cent bonds 1959	800	734	666	595	519	440	357
5 per cent Tourist Loan	—	242	836	858	815	769	720
Capital Goods Loan	—	—	725	725	725	725	714
5 per cent Real Property Loan 1967	—	—	—	232	1,288	1,240	1,177
Total	800	976	2,227	2,410	3,347	3,174	2,968
Grand total	6,131	7,892	10,412	11,777	13,407	13,614	14,071

Source: S.T.B., Annual reports 1964 to 1970.

of a foreign exchange loan from the West German *Kreditanstalt*¹ and a new Capital Goods Import Fund of American money earmarked for the purchase of capital goods in the United States, the procedures being rather like those applying to the Special Revolving Fund.

As regards long-term resources, those which the S.T.B. had in 1964 were later supplemented by two issues of 5 per cent bonds — the Tourist Loan 1965, for financing tourist and hotel amenities, and the Real Property Loan 1967, for funding building credits — as well as by the so-called Capital Goods Loan floated in 1966 to finance industrial plant. In short, there were no innovations in this field and no major changes either, and the critical remarks made earlier with respect to undue fragmentation of longer-term resources and to the over-restrictive conditions governing their use can only be repeated. Their validity is confirmed by the fact that some of the special funds (e.g. the Special Revolving Fund, the A.I.D. loan and F.O.D.A.C.) were less than fully used (compare Tables 57 and 60), while others, like the Letters-of-indemnity Fund, were soon exhausted, so that the S.T.B. had to curtail the credits for which the fund was earmarked and sometimes come to the rescue with resources of other origin, like deposits and rediscounts.

Finally, the S.T.B. during the years 1964 to 1970 supplemented its financial resources by a lot of short-term borrowing. Unfortunately, it was not possible to reconstruct the size and nature of these so-called 'other short-term resources' (Table 58), which clearly are a residual, but by no means negligible, item in the balance sheet. With some difficulty an attempt has been made to

¹ The *Kreditanstalt* loan involved 10 million DM put at the disposal of Tunisia by the Federal Republic of Germany. The loan agreement specifies the duration of the loan as 30 years, and the rate of interest payable by Tunisia as 2.5 per cent.

trace the S.T.B.'s recourse to central bank credit and to the money market, but the results are subject to reservations. The annual statements are not very clear on this point, and the information they furnish is difficult to interpret conclusively. The figures of Table 58 are culled from the "outside the balance sheet" records, and show that at the end of each year the S.T.B. had a debit balance both with the Central Bank and the money market. The latter item, which represent the S.T.B.'s use of the liquid assets of other banks, is usually not very large, but bill rediscounts are sizeable. Comparing this figure with total bank debts to the B.C.T. (Table 39), it will be seen that the latter always accorded generous preferential treatment to the S.T.B. and refinanced it to an extent far in excess of its market share. It follows that it must have been official policy to shield S.T.B. lending from the effects of current monetary restrictions. The explanation no doubt lies in the close link between S.T.B. loans and planned investment, and in the direct control of credit distribution to which the S.T.B., as a public bank, was subject. In these circumstances strict selective control to make sure that the S.T.B.'s loanable funds were used exclusively for priority investment under the national development plan, could very well be applied instead of restrictive quantitative controls, and this would justify the discriminatory treatment.

Finally, to round off the picture of the sources of the S.T.B.'s supply of funds, a few words on its own resources (Table 59). Capital has remained unchanged at 2 million dinars since the last increase in June 1964, though in July 1971 the shareholders' assembly voted another increase to 3 million dinars. Profits were generally high enough not only to pay out a reasonable dividend, but to make sizeable appropriations to reserve year after year. This broadening of the bank's own capital base was important,

TABLE 58

OTHER SHORT-TERM FINANCIAL RESOURCES OF THE S.T.B., 1964 TO 1970
(*end-year figures, in thousand dinars*)

Resources	1964	1965	1966	1967	1968	1969	1970
Rediscount of bills ¹	14,549	16,906	20,039	16,176	16,621	17,702	12,190
Loans from the money market ²	3,797	1,249	4,800	"	1,800	2,900	4,120
Other short-term resources ³	...	...	...	...	13,815	15,694	15,475
Total ⁴	...	...	...	...	32,236	36,296	29,815

¹ This item consists almost entirely of B.C.T. rediscounts of bills, which, once rediscounted, no longer appear in the balance sheet of the S.T.B.

² Funds borrowed on the money market are similarly recorded "outside the balance sheet", and until 1966 were classified as "bills lodged as collateral", since this is the most common technical form of interbank loans.

³ Figures are available only from 1968 on, because until then the item was included under "sundry creditors", together with liabilities to "banks and correspondents" and "sundry creditors" properly speaking.

⁴ Figure not available.

⁵ Totals for the years 1964 to 1967 are not given, because available data are not homogeneous enough to add up to a meaningful total.

Source: S.T.B., Annual reports 1964 to 1970.

TABLE 59

S.T.B. CAPITAL, RESERVES AND PROFITS, 1964 TO 1970
(end-year figures, in thousand dinars)

Year	Capital	Reserves *	Operating profit	Profit distributed to shareholders	Dividend
	1	2	3	4	5 = 4 : 1 %
1964	2,000	1,009	630	160	8
1965	2,000	1,440	719	120	6
1966	2,000	1,994	805	120	6
1967	2,000	2,630	846	120	6
1968	2,000	3,304	847	120	6
1969	2,000	3,964	866	160	8
1970	2,000	4,579	711	160	8

* Amount before profit appropriation.

Source: S.T.B., Annual reports 1964 to 1970.

because it enabled the S.T.B. to expand its activities as a merchant bank within statutory limits, and to make new equity investments.

Table 60 illustrates the composition of S.T.B. credits in the years 1964 to 1970, on the basis of balance-sheet figures. These are, however, not very satisfactorily classified as regards both technical form and maturity, and provide no full picture of actual credit distribution. The S.T.B.'s annual statements, furthermore, usually do not enlarge on the figures in the official balance sheet, but comment instead — and often in somewhat synthetic terms — on other statistics either not originating in the accounts at all or derived from unexplained aggregation and disaggregation of balance-sheet entries. Therefore it is difficult, if not impossible, to reclassify lending operations on homogenous or valid scientific principles. Subject to these reservation, the figures as they stand do reveal a few important general trends. The bill portfolio,

TABLE 60

COMPOSITION OF S.T.B. CREDITS BY FORM, MATURITY AND SOURCE OF MEDIUM-TERM FUNDS,
1964 TO 1970 (*end-year figures, in thousand dinars*)

Credits	1964		1965		1966		1967	
	amount	%	amount	%	amount	%	amount	%
Bill portfolio	12,004	25.8	15,883	26.9	19,616	27.6	19,793	23.5
Warrants trade and finance bills	7,718	16.6	11,507	19.5	13,866	19.5	11,390	13.5
Building credits	4,286	9.2	4,376	7.4	5,750	8.1	8,403	10.0
Advances on current account	29,805	64.2	36,116	61.1	44,434	62.5	55,370	65.6
Medium-term credits	4,625	10.0	7,091	12.0	7,027	9.9	9,210	10.9
from								
Special revolving fund	1,086		2,047		2,211		3,820	
"Letters of indemnity" fund	251		260		260		64	
"Rediscountable letters of indemnity" fund	1,449		1,662		1,304		1,416	
National housing improvement fund	876		1,495		1,909		2,197	
A.I.D.-D.L.F. fund	963		1,627		1,343		907	
F.O.D.A.C.	—		—		—		—	
Kreditanstalt fund	—		—		—		—	
Capital goods import fund	—		—		—		—	
Tourist loan fund	—		—		—		806	
Capital goods loan fund	—		—		—		—	
Total	46,434	100	59,090	100	71,077	100	84,373	100

Credits	1968		1969		1970	
	amount	%	amount	%	amount	%
Bill portfolio	17,483	21.6	17,197	21.5	19,505	22.5
Warrants trade and finance bills	6,526	8.1	4,725	5.9	6,160	7.1
Building credits	10,957	13.5	12,472	15.6	13,345	15.4
Advances on current account	53,006	65.6	52,095	65.4	56,037	64.6
Medium-term credits	10,364	12.8	10,421	13.1	11,222	12.9
from						
Special revolving fund	4,319		3,948		4,047	
"Letters of indemnity" fund	42		32		28	
"Redisable letters of indemnity" fund	1,420		1,230		1,208	
National housing improvement fund	2,437		2,657		3,036	
A.I.D.-D.L.F. fund	615		453		371	
F.O.D.A.C.	94		83		75	
Kreditanstalt fund	—		145		591	
Capital goods import fund	—		326		330	
Tourist loan fund	712		822		822	
Capital goods loan fund	725		725		714	
Total	80,853	100	79,713	100	86,764	100

Source: S.T.B., Annual reports 1964 to 1970.

except in so far as it represents building credits¹, has over the years come to account for a decreasing proportion of total credits. This is due to a number of causes which combined to reduce the circulation of bills, notably the reorganization of trade channels on a co-operative basis (and the consequent disappearance of many private middlemen) and the expansion of the economy's public sector (where producers are not much given to settling transactions by means of bills of exchange). Another point that emerges from the figures is the high amount and proportion of overdrafts on current account, the technical form of borrowing most used, especially by public enterprises. This category, of course, includes a great deal of pre-financing of medium-term credits applied for and eligible for financing from various earmarked funds, but not as yet granted². The item therefore conceals a considerable amount of longer-term financial assets, and this makes it difficult to distinguish credits precisely by their maturity. It also clearly reduced the bank's liquidity, both by keeping down the proportion of mobilizable assets and by slowing down turnover. In these circumstances the management decided to discourage any further expansion of overdrafts, and from 1967 on favoured the use of discounts as an alternative, eased the repayment of the more risky debts and applied stricter standards to new lending in this form³. In spite of all these restrictive efforts, the results were disappointing, so much so that the government was led to set up a special commission for studying and putting into effect the rehabilitation of the financial

¹ Although formally discounts, these really fall into the category of medium-term credits.

² See S.T.B., *Rapport annuel, Exercice 1964*, pp. 29-30.

³ See S.T.B., *Rapport annuel, Exercice 1969*, p. 69.

structure of public enterprises¹. This should enable the S.T.B. to consolidate and mobilize a sizeable part of its credits on current account.

As regards medium-term credits, the situation looks better and certainly much clearer, since there are details for the use of all the special and earmarked funds. The expansion of medium-term credits both in absolute and in relative terms testifies to the continuing efforts of the S.T.B. to finance investment of special relevance to economic development.

The clients financed by the S.T.B., so we learn from the annual statements, were mostly public enterprises, without distinction as to economic sectors. This credit distribution policy reflects the S.T.B.'s readiness, as a public bank, to finance any government projects within the purview of economic planning.

What was said about the geographical distribution of depositors, applies also to borrowers. As much as 81.6 per cent of credits outstanding at the end of 1967 pertained to the economic area of Tunis, to the detriment of all other regions². Once again we see the dualism of the Tunisian economy clearly reflected in the location pattern of the leading public bank's activities.

To conclude this review of the S.T.B.'s activities during the years 1964 to 1970, it will be useful to examine its operations

¹ See S.T.B., *Rapport annuel, Exercice 1970*, pp. 67-68. The serious financial situation of the public sector of the economy had been openly denounced by the new Prime Minister, Bahi Ladgham, when he outlined his programme on 15 November 1969 to the newly elected National Assembly. According to his declarations, the rehabilitation of loss-making public enterprises alone would have cost the state more than 50 million dinars. See Jean Poncet, "L'Economie tunisienne depuis l'indépendance", in *Les Economies maghrébines*, Paris, Centre National de la Recherche Scientifique, 1971, p. 108.

² E.g. Sousse (9.4 per cent) and Sfax (1.5 per cent), whose credit demand was strongly influenced by fluctuations of agricultural output. See S.T.B., *Rapport annuel (provisoire), Exercice 1967*, p. III.

on the capital market. The bank's holdings of public securities dropped sharply at first, in response to the official policy of reducing the Treasury's debts to the banking system. This led to the total disappearance of the Tunisian Treasury Bill portfolio by 1967, and from this date the S.T.B.'s holdings of public securities remained remarkably stable. These holdings, however, never came anywhere near the 30 per cent of deposits (cf. Table 56 and 61) required by the B.C.T. under the "*placher effets publics*" introduced in 1964.

Active dealings on behalf of clients placed the S.T.B. in a leading position in transactions through the *Office Tunisien de Cotation des Valeurs Mobilières* (30 to 50 per cent, according to years), and also led to its being responsible, at the end of 1970, for the management of 1,561 security deposit accounts (of which 1,300 in the name of individuals) with a total nominal value of some 20 million dinars¹. These deposits contained almost 2 million stocks and shares of many Tunisian and French companies², and testify to the S.T.B.'s interest in developing the capital market. In pursuance of this interest, the S.T.B. proposed as early as 1964 the creation of an open-end investment fund, or SICAV (*Société d'investissement à capital variable*), in order to spread the habit of security investment among the public³, and in 1967 offered its depositors a new facility for investing their savings, by subscribing specific "progressive investment schemes"⁴. Finally, the S.T.B. played an active part in the foundation of the Tunis

¹ S.T.B., *Rapport annuel, Exercice 1970*, pp. 75-76.

² S.T.B., *Rapport annuel, Exercice 1969*, pp. 73-74, where it is stated that the deposits contained 355 different securities, of which 212 issued by Tunisian companies accounted for almost the entire total value.

³ S.T.B., *Rapport annuel, Exercice 1964*, p. 34.

⁴ S.T.B., *Rapport annuel provisoire, Exercice 1967*, p. VI.

TABLE 61

S.T.B. SECURITIES PORTFOLIO, 1964 TO 1970
(end-year figures, in thousand dinars)

Securities	1964	1965	1966	1967	1968	1969	1970
Investment securities ¹	227	267	366	456	436	447	429
Treasury Bills, Tunisia	2,450	1,500	100	—	—	—	—
Treasury Bills, Paris	74	53	53	43	43	38	27
Bons d'équipement	3,500	4,000	3,500	3,500	3,500	3,500	3,500
Total	6,251	5,820	4,019	3,999	3,979	3,985	3,956
Equity holdings	1,043	1,518	1,846	2,524	2,972	3,096	3,786

¹ Various securities held either as investments, or in the normal course of market transactions.

Source: S.T.B., Annual reports 1964 to 1970.

Stock Exchange¹. It is too early, however, to assess the results of these more recent efforts, all of which aim at increasing and diversifying the participation of household savings in development finance. It would be unreasonable to expect spectacular results in the short run, given that the promotion of individual saving usually requires a prolonged, continuous and large-scale campaign, and in any case presupposes a general improvement in the community's economic conditions.

In its capacity as merchant bankers, the S.T.B. more than quadrupled its trade investments during the period 1964-1970, by placing the bulk of its capital reserves in equities (cf. Tables 59 and 61). At the beginning of 1964, the S.T.B. had sizeable, but generally minority holdings in 29 recently established companies² belonging to the most diverse branches of industry and the tertiary sector. By the end of 1970, it had equity holdings worth 3,786,000 dinars (against 861,000 at the beginning of 1964), in altogether 55 companies. During the intervening years, the S.T.B. was very active as a company promoter, examined and worked out a great many investment projects, acted as a useful link between the capital market and its own associated companies, and kept renewing its portfolio by replacing shares in well-established companies with shares in new ones. Clearly, in this field the S.T.B. concentrated on the public interest without regard to its own profits.

As regards the composition of the S.T.B.'s equity portfolio on 31 December 1970, it is interesting to note that financial companies (banks and credit institutes, insurance companies, finance houses, etc.) accounted for 30.6 per cent of the total value, with companies

¹ S.T.B., *Rapport annuel, Exercice 1970*, p. 76.

² In many cases, the S.T.B. took an active part in their foundation.

in the tourist industry taking second place with 22.7 per cent¹. By this policy, the S.T.B. extended the influence sphere of public administration to the private financial sector, even though its holdings, the most important of which are listed in Table 9, did not yet give it the standing of a real "financial group". This is not to be excluded for the future, however. A straw in the wind, perhaps, is the fairly large holding taken out by the S.T.B. in the SO.FI.GES. (*Société Financière de Gestion*), a company set up in 1967 for the specific purpose of managing equity portfolios². This may well turn out to be a first step in trying to gain entry to collateral sectors, in connection with the S.T.B.'s plans to increase the participation of individual and household savings in the expansion of the capital market.

Société Nationale d'Investissement

During its early years, 1959 to 1964, the general results of the S.N.I.'s activities had not been very satisfactory, and had raised the problem of a reorganization of the company's structure and functions. The composition of the S.N.I.'s assets and liabilities on 31 December 1964 (Tables 62 and 63) reveals a shortage of medium- to long-term resources placed in credits, together with excessive liquidity of loan assets³ in blatant contradiction to the S.N.I.'s statutory function of financing economic development. These serious shortcomings were attributable to a variety of causes. First of all, the S.N.I. had not succeeded in marking out a place for itself on the national credit market, given that its activities

¹ At the end of the preceding year, holdings in financial companies accounted for as much as 34.75 per cent of the total value. See S.T.B., Annual report for 1969, p. 73, and Annual report for 1970, p. 71.

² S.T.B., *Rapport annuel (provisoire), Exercice 1967*, p. V.

³ Witness the large amount lent out on the money market.

TABLE 62

FINANCIAL RESOURCES OF THE S.N.I. AND THEIR COMPOSITION, 1964 TO 1970
(end-year figures, in thousand dinars)

Resources	1964		1965		1966		1967	
	amount	%	amount	%	amount	%	amount	%
Capital	2,000.0	62.3	1,500.0	31.0	1,500.0	29.8	1,500.0	28.2
Reserves	1.5		142.1		216.5		311.3	
Medium- and long-term debts	300.0	9.3	1,000.0	18.8	1,360.2	23.6	1,900.5	29.5
Loan from <i>Caisse Nationale de Sécurité Sociale</i>	300.0		385.0		469.9		438.6	
Loan from the state	—		615.0		615.0		615.0	
World bank loan, 1st credit line	—		—		90.3		661.9	
World bank loan, 2nd credit line	—		—		—		—	
World bank loan, 3rd credit line	—		—		—		—	
Swedish loan (S.I.D.A.)	—		—		—		—	
Loan from the B.C.T.	—		—		185.0		185.0	
Non-reimbursable state grant	—	—	500.0	9.5	500.0	8.6	500.0	7.8
Short-term debts	911.4	28.4	2,158.7	40.7	2,191.6	38.0	2,221.6	34.5
Sight deposits	844.9		(*)					
Time deposits	52.2		(*)		1,949.8		1,834.5	
Blocked deposits	—		(*)		—		—	
Others	14.3		(*)		241.8		387.1	
Total	3,212.9	100	5,300.8	100	5,768.3	100	6,433.4	100

Resources	1968		1969		1970	
	amount	%	amount	%	amount	%
Capital	1,500.0	24.9	1,500.0	19.2	1,500.0	13.9
Reserves	327.0		514.9		533.8	
Medium- and long-term debts	3,795.4	51.6	5,990.5	56.9	8,546.6	58.4
Loan from <i>Caisse Nationale de Sécurité Sociale</i>						
Loan from the state	438.6		372.3		337.1	
World bank loan, 1st credit line	615.0		615.0		615.0	
World bank loan, 2nd credit line	1,798.7		2,005.6		1,792.1	
World bank loan, 3rd credit line	484.5		2,060.9		3,688.0	
Swedish loan (S.I.D.A.)	—		—		1,001.7	
Loan from the B.C.T.	273.6		751.7		942.7	
	185.0		185.0		170.0	
Non-reimbursable state grant	500.0	6.8	500.0	4.7	500.0	3.4
Short-term debts	1,227.6	16.7	2,014.6	19.2	3,562.7	24.3
Sight deposits	(*)		1,097.1		1,595.7	
Time deposits	(*)		200.0		50.0	
Blocked deposits	(*)		323.5		1,321.1	
Others	(*)		394.0		595.9	
Total	7,350.0	100	10,520.0	100	14,643.1	100

(*) Not available.

Source: S.N.I., Annual reports 1964 to 1970, and miscellaneous documentation.

TABLE 63

FINANCIAL ASSETS OF THE S.N.I. AND THEIR COMPOSITION, 1964 TO 1970
(end year figures, in thousand dinars)

Assets	1964		1965		1966		1967	
	amount	%	amount	%	amount	%	amount	%
Liquid and current assets	1,374.9	43.4	3,051.7	57.4	3,458.6	59.4	3,478.7	53.5
Cash in hand and at banks	87.6		(*)		73.4		249.6	
Money market loans	1,140.0		2,150.0		2,320.0		1,700.0	
Advances on current account	—		(*)		684.1		829.9	
Others ¹	147.3		(*)		381.1		699.2	
Medium- and long-term assets	1,790.3	56.6	2,261.6	42.6	2,359.5	40.6	3,023.2	46.5
Medium- and long-term loans	177.2		(*)		522.5		1,378.1	
Equity holdings ²	1,612.1		1,908.9		1,836.7		1,611.1	
Others ³	1.0		(*)		0.3		34.0	
Total	3,165.2	100	5,313.3	100	5,818.1	100	6,501.9	100

Assets	1968		1969		1970	
	amount	%	amount	%	amount	%
Liquid and current assets	2,294.2	30.4	2,311.1	21.6	3,716.9	25.0
Cash in hand and at banks	1,158.6		1,657.2		2,245.4	
Money market loans	—		—		—	
Advances on current account	706.4		87.9		—	
Others ¹	429.2		566.0		1,471.5	
Medium- and long-term assets	5,246.8	69.6	8,397.4	78.4	11,163.0	75.0
Medium- and long-term loans	3,681.1		6,193.8		9,242.6	
Equity holdings ²	1,557.0		2,178.8		1,895.7	
Others ³	8.7		24.8		24.7	
Total	7,541.0	100	10,708.5	100	14,879.9	100

¹ Various minor assets: sundry debtors, interest and dividends due, advances to staff, investment securities, cheques to be cashed (until 1967, later shown under "cash in hand and at banks").

² Including shares subscribed but not fully paid up (in negligible amount).

³ Including bonds (*Emprunt National* 1967) and guarantees deposited.

(*) Not available.

Source: S.N.I., Annual reports 1964 to 1970, and miscellaneous documentation made available by the management.

were in direct competition with those of the S.T.B., which, as a merchant bank, studied and launched a good many new industrial ventures, to which it contributed equity capital. Secondly, the S.N.I. had no branches outside its head office at all, so that, given the very limited capital market as well, it had failed to raise adequate resources both of the short-term and the longer-term variety. Unlike the S.T.B., furthermore, the S.N.I. had no special resources from the state. Its equity portfolio yielded small returns and much of it was frozen, and this impaired the S.N.I.'s self-financing capacity as well as its ability to provide continuous, new impulses for industrial development. And finally, there were staff deficiencies, both as regards the number of personnel employed and their technical and financial competence.

In an effort to improve the company's working efficiency, the management in 1964 set up a development division, which was to study, plan and put into effect industrial projects, and a credit division, with the task of expanding medium- and long-term lending. In a simultaneous effort to strengthen the company's financial resources, all national financial institutes were asked to deposit with the S.N.I. some part of their funds on blocked accounts, and a cash and payments service was organized for associated companies¹. Finally, the S.N.I. obtained a 15-year loan of 500,000 dinars from the *Caisse Nationale de Sécurité Sociale*, concluded an agreement with the Ministry of Planning and the National Economy for a special revolving fund of another 500,000 dinars, and made contacts with international financial organizations with a view to long-term loans. The intention was that the company, having thus revitalized itself, should adopt new statutes together with the

¹ This was a highly successful move which raised the S.N.I.'s sight deposits from associated companies to 839,000 dinars by the end of 1964.

new name of *Banque Tunisienne de Développement* (shareholders' meeting of 28 June 1965).

However, on the advice of the International Finance Corporation, an affiliate of the International Bank for Reconstruction and Development, these plans were altered and the S.N.I. was instead transferred from the public to the private sector. For background information, it should be recalled that towards the end of 1963 the Tunisian government had asked the IFC to prepare a study on the Tunisian economy's prospective demand for medium- and long-term credit. This study was duly prepared in 1964, and recommended a general structural rationalization of medium- and long-term credit institutes, and, with particular reference to the S.N.I., that this company should either be replaced or reorganized. In response to these recommendations the government decided to transform the S.N.I. into an essentially private development finance company, and asked the IFC to take part in the reorganization and to contribute to the capital of the reorganized company (January 1965).

On this occasion the capital of the S.N.I. was reduced from 2 to 1.5 million dinars and its distribution was changed radically. Direct and indirect state holdings (via the Central Bank, and public firms and banks) were reduced from 55 to 15.7 per cent, the IFC took over 20 per cent of the shares, and various European banks another 8 per cent (see Table 9). In this way the state gave up control of the S.N.I. without any corresponding reduction in its capital contribution, for the company received a "non-reimbursable state grant" of 500,000 dinars. By virtue of a special convention, furthermore, the state undertook to guarantee equity holdings in the S.N.I.'s portfolio on 31 December 1965. In connection with its transfer to private hands, the company's object

was redefined in more restrictive terms, which limited investments in the public sector of the economy to 25 per cent of the S.N.I.'s total investments. A simultaneous staff reorganization was to improve the competence and productivity of personnel.

All these changes were intended, essentially, to redefine the S.N.I.'s sphere of activity with more emphasis on financing the private sector, to pave the way for the obtainment of foreign loans¹ and to upgrade management thanks to the direct participation of leading financial organizations and institutes.

The results are manifest in the rapid growth of foreign loans in the years following 1965².

Additional funds were raised by a bond issue in 1966, which was wholly subscribed by the B.C.T., and on deposit accounts³.

On the lending side, too, considerable growth is apparent after 1965 (Table 63), most of all in medium- and long-term loans, as originally recommended by the IFC. Short-term loan assets, by contrast, started declining from 1966 on, and the total value of equity holdings remained more or less constant. All this suggests that after the 1965 reorganization the S.N.I. worked out and

¹ Obviously, the presence of the IFC and several European banks on the board of directors was going to be a prior condition for obtaining foreign loans.

² Thanks to the good offices of the IFC, the S.N.I. obtained three credit lines from the World Bank, the first in 1966 for 5 million dollars, the second in 1968 for 10 million dollars, and the third in 1970 for another 10 million dollars. The S.N.I. furthermore received a three-million dollar loan from the Swedish Government via the Swedish International Development Authority. For details of the actual loan amounts disposable see Table 62.

³ See Table 62, with the following comments: the 1967 drop in deposits was largely due to withdrawal by the *Caisse des Prêts aux Commerces* (S.N.I., Annual report 1968, p. 22), and the strong rise in 1970 reflects subscriptions to the capital increase then in course and temporarily accounted for under the heading blocked deposit accounts (S.N.I., Annual report 1970, p. 35).

followed a distinct policy line, which in practice meant a major change in its contribution to development finance. But why it preferred medium- and long-term lending to equity capital is not so easy to explain. It looks as though the management meant to reduce the bank's direct participation in the risks of associated companies, and to interpret its role more in technical than in creative terms. And of course, as was mentioned before, equity holdings brought little return and tied up funds for too long. Annual statements reveal that only about 25 per cent of the companies in which the S.N.I. had a stake distributed any dividend at all, that the yield of the equity portfolio was never more than 3.6 per cent¹, and that of the 39 companies affiliated to the S.N.I. at the end of 1964, 19 still were on 31 December 1969, at which date they accounted for 61 per cent of the portfolio². More than once, in presenting their annual reports, the board of directors mentioned that the low returns on equity holdings were due to newly established companies not yet on stream³. Nevertheless the S.N.I. often renewed its equity portfolio, selling shares of companies as soon as they were well established and taking instead a stake in new ones. In so doing, the S.N.I. certainly adhered to the

¹ Taking the dividends cashed during any one year and the value of the portfolio at the end of the preceding year, returns were 1.8 per cent in 1965, 2 per cent in 1966, 3.1 in 1967, 2.8 in 1968, 3.6 in 1969 and 2.4 per cent in 1970. Strictly speaking, the calculation should include income from scrip issues and from the sale of portfolio holdings, that is, capital appreciation; but no figures are available for this.

² Of these 19 companies, only 6 had paid dividends for at least three years (*Société Tunisienne du Sucre, Société Nationale du Liège, Compagnie Générale des Salines de Tunisie, Société "Skane", Société Tunisienne d'Industrie Automobile* and *Société Tunisienne de Filature et de Tissage*).

³ In the experience of the S.N.I. it takes at least two to three years to run in a new company.

spirit of its statutes, but it is worth stressing this point, because no doubt it would have been more profitable for the S.N.I. to transform itself gradually into a holding company for those of its associates that were doing best. On the other hand, the sale of equity holdings was facilitated by government guarantees under a number of conventions after the end of 1965¹. And the S.N.I.'s own management, like that of the S.T.B., did its best to make its shareholdings more negotiable by repeatedly suggesting the establishment of an open-end investment fund, which, it was hoped, would make the market more receptive for equities. Again like the S.T.B., the S.N.I. took an active part in the preparatory work for the Stock Exchange.

As regards the distribution of the S.N.I.'s equity holdings by branches of industry (Table 64), the earliest comparable figures go back to 1967, but the four years for which they are available are enough evidence of the company's new investment policy, that is, its growing commitments in the tourist and hotel industry in 1969 and 1970. In 1969 the S.N.I. became a founder member of the *Compagnie Financière et Touristique*, contributing about 800,000 dinars of its initial capital of five million². CO.FI.TOUR. was set up to co-ordinate and strengthen the financing of tourist development (building new hotels, enlarging existing ones,

¹ The portfolio guaranteed by the state originally amounted to 1,908 million dinars, and during the five years 1966-1970 59.22 per cent of it was sold, either on the market or to the government, leaving a residual portfolio valued at 778,000 dinars on 31 December 1970 (S.N.I., *Rapport annuel, Exercice 1970*, p. 27).

² The International Finance Corporation contributed 20 per cent of the capital, and other shareholders include a consortium of Tunisian banks and various foreign financial groups, which own about 25 per cent of the capital. See Société Financière Internationale, *La S.F.I. en Afrique*, pp. 45-46.

TABLE 64

DISTRIBUTION OF S.N.I. EQUITY HOLDINGS BY SECTORS, 1967 TO 1970
(end-year figures, in thousand dinars)

Sectors	1967		1968		1969		1970	
	amount	%	amount	%	amount	%	amount	%
Tourism and hotels	129.0	8.0	104.0	6.7	683.5	31.4	713.5	37.7
Industry	1,482.1	92.0	1,453.0	93.3	1,495.3	68.6	1,182.2	62.3
Metals	270.5	16.8	300.5	19.3	346.9	15.9	178.4	9.5
Textiles and clothing	250.3	15.6	48.1	3.1	48.1	2.2	48.2	2.6
Wood and paper	161.0	10.0	160.9	10.3	159.3	7.3	158.6	8.4
Construction and construction materials	273.5	17.0	383.5	24.6	381.1	17.5	263.7	13.9
Food	478.9	29.7	474.5	30.5	474.5	21.8	473.6	24.9
Petroleum	—	—	—	—	—	—	—	—
Transport	—	—	—	—	—	—	37.0	1.9
Others industries	47.9	2.9	85.5	5.5	85.4	3.9	22.7	1.1
Total	1,611.1	100	1,577.0	100	2,178.8	100	1,895.7	100

Source: S.N.I., Annual reports 1968 to 1970.

TABLE 65

DISTRIBUTION OF S.N.I. MEDIUM- AND LONG-TERM CREDITS AND THEIR USE, BY SECTORS, 1967 TO 1970
(end-year flow figures, in thousand dinars)

Sectors	1967				1968			
	Authorized		Used		Authorized		Used	
	amount	%	amount	%	amount	%	amount	%
Tourism and hotels	1,914	50.3	420	48.0	2,130	65.5	1,023	40.0
Industry	1,890	49.7	454	52.0	1,122	34.5	1,524	60.0
Textiles and clothing	56	1.5	20	2.3	329	10.1	74	2.9
Metals	438	11.5	11	1.2	217	6.7	243	9.6
Food	244	6.4	126	14.5	150	4.6	297	11.7
Wood and paper	115	3.0	91	10.4	87	2.7	288	11.3
Construction and construction materials	781	20.6	122	13.9	68	2.1	446	17.5
Chemicals	—	—	—	—	—	—	—	—
Plastics	129	3.4	46	5.3	45	1.4	76	3.0
Transport	—	—	—	—	—	—	—	—
Petroleum and derivatives	—	—	—	—	—	—	—	—
Other industries	127	3.3	38	4.4	226	6.9	100	4.0
Total	3,804	100	874	100	3,252	100	2,547	100

Sectors	1969				1970			
	Authorized		Used		Authorized		Used	
	amount	%	amount	%	amount	%	amount	%
Tourism and hotels	955	19.9	1,705	62.7	1,580	24.5	1,616.4	43.5
Industry	3,859	80.1	1,004	37.3	4,868	75.5	2,103.6	56.5
Textiles and clothing	617	12.9	253	9.3	593	9.1	882.2	23.7
Metals	389	8.0	305	11.2	401	6.2	177.9	4.7
Food	247	5.1	96	3.6	118	1.8	128.6	3.4
Wood and paper	715	14.8	84	3.2	213	3.4	164.3	4.4
Construction and construction materials	23	0.4	190	7.1	922	14.3	42.9	1.2
Chemicals	—	—	—	—	270.5	4.2	87.5	2.4
Plastics	68	1.4	35	1.3	335	5.2	54.3	1.5
Transport	—	—	—	—	1,600	24.9	409.4	11.0
Petroleum and derivatives	1,500	31.3	—	—	58	0.9	93.4	2.5
Other industries	300	6.2	41	1.6	357.5	5.5	63.1	1.7
Total	4,814	100	2,709	100	6,448	100	3,720	100

Note: The figures refer to credits authorized in the course of any one year and to those used during the same year even if authorized in an earlier year. The figures are therefore not comparable with those of Table 63.

Source: S.N.I., Annual reports 1969 to 1970.

improving tourist transport, planning tourist amenities for certain regions, promotion, etc.). Other industries in which the S.N.I. always showed an interest were the food industry, construction and construction materials.

By contrast, no definite trends are discernible in the distribution of S.N.I. medium- and long-term credits during the years 1967 to 1970 (Table 65) except the marked diminution of the proportion of total such credits going to tourism and hotels in the last two years. One interesting point is the time lag between the authorization of credits and their use, which goes to show that in these years borrowed funds simply could not be spent as fast as new credits were granted.

In all, then, the S.N.I. went through a phase of conspicuous expansion after its reorganization in 1965. It found its place on the national credit market, and in time turned itself into a medium- and long-term credit institute rather than a development finance company. This was, incidentally, fully in line with the principles of credit specialization laid down by the 1967 Bank Act for "investment banks".

After several successful years¹, the company's board of directors and the authorities decided it was time to strengthen its financial structure by doubling its capital from 1.5 to 3 million dinars. The operation was begun on 10 June 1970 and ended on 19 February 1971 with a slightly altered equity distribution. Comparing Tables 9 and 66, it will be seen that non-Tunisian banks raised their combined stake from 8 to 12.22 per cent, but

¹ Indirect confirmation of this success is found in the company's raising its dividend from 4 to 5 per cent in 1969 and then to 6 per cent in 1970, and in the 1970 book value of S.N.I. shares, which was estimated at about 9 dinars for 5 dinars nominal value.

TABLE 66

DISTRIBUTION OF S.N.I. EQUITY BEFORE AND AFTER THE 1970 CAPITAL INCREASE

Shareholders	Before		After	
	%		%	
State and state agencies	15.7	7.65	24.29	7.09
State-controlled companies		9.55		
State-controlled banks		3.0		
Private Tunisian banks	53.3	33.98	42.38	20.00
Private Tunisian shareholders	20.0	12.22		
International financial organizations (IFC)	8.0	1.11		
Non-Tunisian banks	—	—	33.33	—
Non-Tunisian private shareholders	—	—		
	100	100	100	100

Source: Mimeographed documentation made available by the S.N.I. management.

with shifts within the group¹. Among Tunisian bank shareholders, it is worth mentioning the disappearance of the *Banque d'Escompte et du Crédit à l'Industrie* (absorbed in 1969 by the *Union Bancaire pour le Commerce et l'Industrie*), as well as two newcomers, the *Crédit Foncier et Commercial de Tunisie* and the *Banque du Sud*, both with insignificantly small holdings. In all, however, Tunisian

¹ Holdings before and after the capital increase compare as follows (per cent):

	Before	After
<i>Caisse Centrale de Coopération Economique</i>	1	6
<i>Banca Commerciale Italiana</i>	2	2
<i>Banque Nationale de Paris</i>	—	1.22
<i>Caisse de Dépôts et Consignations</i>	1	1
<i>Bank für Gemeinwirtschaft</i>	2	1
<i>Stockholms Enskilda Bank</i>	2	1
	8	12.22

banks increased their combined stake in the S.N.I. None of these changes was big enough to make any difference to management policy.

Having thus reinforced its own capital base, the S.N.I. has been trying to raise additional medium- and long-term resources. Negotiations are in course for a second credit line, of about 3 million dollars, from the Swedish International Development Authority, as well as for a fourth one from the World Bank, in an amount of about 12 million dollars.

The S.N.I. looks all set, therefore, for vigorous expansion in the future¹.

Banque Nationale Agricole and Caisses Locales de Crédit Mutuel

Despite the government-sponsored radical structural reforms in agriculture, the activities of the *Banque Nationale Agricole* during the years 1964 to 1970 display remarkable continuity. The two key points of the government's agricultural policy were the total expropriation of all land belonging to foreign settlers (law of 12 May 1964) and the large-scale, rapid and compulsory introduction of the co-operative system involving an altogether new social and economic approach. Actually, the spread of agricultural production, service and credit co-operatives did have a strong bearing both on the resources and the lending of the bank, which was forced to adapt itself flexibly to quick changes in the composition of its clients, but it did not appreciably alter the pace of expansion. This is surprising, given that the sudden switch in 1969 from a policy of farm collectivization back to the original formula of balanced

¹ Oddly enough, the rapid growth of the S.N.I.'s assets was not matched by personnel expansion; at the end of 1970, the bank still had barely 75 staff members.

development of public, private and co-operative enterprises¹ makes it clear that the abortive experiment must have been very costly for the B.N.A., especially in terms of the incidence of defaults on the aggregate volume of loans to co-operatives². Unfortunately, the bank's official balance-sheet figures are not fully informative on this point and the extent of these defaults cannot be quantified, but their existence is proved by the poor financial situation of very many agricultural co-operatives. Since this matter cannot be further analysed for lack of adequate statistical data, the discussion will have to be limited to the B.N.A.'s assets and liabilities as a whole, and their changes during the period concerned.

The B.N.A.'s financial resources more than doubled between 1964 and 1970, mainly thanks to special funds and allocations made available to it by the government under a variety of headings. Deposits were highly unstable (see Table 67); they dropped very sharply in 1964, owing to withdrawals on the part of several government-controlled agencies which were transferring funds to the Treasury, and it took the B.N.A. three years and an intensive publicity campaign until it fully recovered the lost ground by the end of 1966³.

But in spite of the bank's efforts to attract the cash assets of its clients, deposits declined again in 1967, though not nearly so much as before and only for a short while. After that deposits were on an upward but uneven trend, with temporary falls either in time deposits (1968) or in sight deposits (1970). As regards

¹ See Law No. 69-56 of 22 September 1969, on the structural reform of agriculture, *Journal officiel*, 23 September 1969.

² B.N.T. (formerly B.N.A.), *Rapport annuel, Exercice 1970*.

³ The conspicuous growth of time deposits in 1965 owed much to an exceptional inflow of funds from foreign depositors. See B.N.A., *Rapport annuel, Exercice 1965*.

TABLE 67

MAIN FINANCIAL RESOURCES OF THE B.N.A.-B.N.T., 1960 TO 1970
(end-year figures, in thousand dinars)

Resources	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Sight deposits ¹	2,693	3,476	7,948	14,810	11,788	11,847	12,773	12,325	14,449	18,162	17,938
Fixed-term notes and time deposits	77	139	603	2,315	1,491	3,170	4,819	4,736	4,476	5,835	7,145
Total deposits	2,770	3,615	8,551	17,125	13,279	15,017	17,592	17,061	18,925	23,997	25,083
Fixed term notes and time deposits per cent of total deposits	2.8	3.8	7.0	13.5	11.2	21.1	27.4	27.7	23.6	24.3	28.5
Special funds and resources tied for more than one year	1,494	1,545	3,397	4,426	6,957	7,624	9,269	9,464	12,686	14,869	17,695
Utilization ratio of special funds (per cent)	83.1	105.9	101.0	78.7	72.2	79.0	74.8	68.5	81.5	90.6	84.3
Capital	400	400	400	400	400	400	400	400	1,200	1,600	1,600
Reserves ¹	—	13	67	147	269	367	471	597	442	709	967
Grand total	4,664	5,573	12,415	22,098	20,905	23,408	27,732	27,522	33,253	41,175	45,345

¹ Deposit accounts, current accounts and special savings accounts (separate figures for the latter are not available).
: Before profit appropriation.

Note: In reconstructing the time series, the B.N.T. corrected some figures, which accounts for the slight discrepancies between this table and Table 13.

Source: B.N.T., Annual reports 1969 and 1970.

the latter, their decline can probably be attributed to economic recovery after the liberalization process initiated late in 1969, for many firms had been marking time during the period of political uncertainty and a sizeable part of their working capital had accumulated in cash on the bank's sight deposit accounts, only to be withdrawn later for financing renewed output growth. The temporary decline of time deposits in 1968, on the other hand, seems to have been at least partly due to a shift of funds to the new savings accounts, which the B.N.A. had introduced in that year with a fairly intensive publicity campaign. But leaving aside these incidental causes, the discontinuous and not altogether satisfactory growth of the B.N.A.'s deposits during the period 1964-1970 had without doubt much to do with the calamities which successively hit agricultural output: first extremely irregular rainfall in 1964, then drought in 1966 to 1968, and finally disastrous floods in 1969¹. All this slowed down the accumulation of new deposits in rural areas, though it must be added that these were not the primary source of B.N.A. deposits. In these areas, moreover, the B.N.A. encountered growing competition from the *Caisses Locales de Crédit Mutuel*, which, as will be seen presently, in the years 1965-1969 successfully attracted deposits from their members and local communities, thus skimming off a major part of the small enough financial savings of the farm population. One last important point to note with reference to the B.N.A.'s deposits is that during the period under discussion the share of time deposits in the total rose from 11.2 to 28.5 per cent, much to the benefit

¹ Furthermore, in 1964-1965 Tunisian exports of agricultural commodities suffered from the French unilateral repudiation of the commercial and tariff agreements, and from a decline of sales to EEC markets not fully offset by higher sales on EFTA markets.

of the overall structure of the bank's financial resources and of their suitability for the type of lending the bank went in for¹.

While deposits rose in all by 46.5 per cent from the beginning of 1964 to the end of 1970, the other main source of the B.N.A.'s loanable resources, special funds and allocations, increased by some 300 per cent, and thus came to account for a much higher proportion of total liabilities. These special funds came from a variety of sources and were set up at differing dates, as can be seen from Table 68.

In 1964 the B.N.A. began disbursing money from the Special Agricultural Development Fund (F.O.S.D.A.), after the signature, on 12 November 1963, of the relevant protocol of agreement with the government. This fund started with 500,000 dinars, was greatly augmented in subsequent years, and used on a large scale for financing medium- to long-term agricultural investment². With the resources of the D.L.F. Loan pretty fully committed, the B.N.A. started negotiations with the United States Agency for International Development (U.S.A.I.D.) and the World Bank for further foreign loans.

In 1967 the government set up an entirely new special fund and turned it over to the B.N.A. for management. This was known as the Special Tunisian Government Fund for Financial Consolidation (F.O.S.A.F.), was started up with 500,000 dinars, and was intended

¹ From this point of view the S.T.B. was less successful, even though its total deposits expanded more than those of the B.N.A.

² As indeed envisaged by the law 27 May 1963, on government incentives for agricultural development. Cumulative state allocations to the fund were as follows (in thousand dinars): 500 in 1964, 1,500 in 1965, 3,500 in 1966, 4,867 in 1967 and 5,579 in 1968, at which point the bank's annual statements stop giving further information. The reason why these figures do not tally with those of Table 68 is that successive allocations were not always immediately disposable for use, and were therefore not immediately shown in the balance sheet as additions to the bank's liabilities.

TABLE 68

SPECIAL FUNDS AT THE DISPOSAL OF THE B.N.A. AND THEIR USE, 1964 TO 1967
(end-year figures, in thousand dinars)

Funds	1964		1965		1966		1967	
	Dispo- sable	Used	Dispo- sable	Used	Dispo- sable	Used	Dispo- sable	Used
Special Agric. Fund of the Tunisian Government (F.S.A.)	1,678.4	1,423.3	1,698.7	1,305.0	1,706.8	1,050.2	1,712.4	1,148.6
Tunisian State advances for debt consolidation	320.0	252.4	320.0	218.2	320.0	178.5	320.0	162.1
Fund for the Protection of Viticulture	150.0	—	150.0	—	150.0	—	150.0	—
Loan from the Development Loan Fund (D.L.F.)	2,229.2	1,755.3	2,382.4	1,652.9	2,207.0	1,191.8	2,047.1	916.4
Special Agricultural Fund for 1962/63 credits to grain farmers	1,161.0	1,007.2	1,161.0	944.1	1,082.9	919.1	160.1	—
Special Fund for the Development of Agricultural Service Co-operatives	700.0	368.1	660.0	465.1	660.0	483.1	660.0	470.0
Allocation for 1963/64 seed credits to grain farmers	218.4	216.2	213.7	209.6	196.7	209.0	—	—
Special Agric. Development Fund (F.O.S.D.A.)	500.0	—	1,037.8	1,231.2	2,945.3	2,901.8	3,914.9	3,789.7
Special Tunisian Government Fund for Financial Consolidation (F.O.S.A.F.)	—	—	—	—	—	—	500.0	—
Total	6,957.0	5,022.5	7,623.6	6,026.1	9,268.7	6,933.5	9,464.5	6,486.8

Note: This table is a continuation of Table 14, except that total allocations for each fund are not available, because the B.N.A.'s annual statements give less detail after 1963. After 1967, furthermore, they no longer contain analytical data with respect to special funds.

Source: B.N.A., Annual reports 1964 to 1967.

to make good part of the unrecoverable debts of agricultural co-operatives and individual farmers to the B.N.A.¹, as well as the debts of co-operatives to their suppliers.

During the same year, the above-mentioned international negotiations came to a successful conclusion with an 18-million dollar loan from the World Bank to the Tunisian government, earmarked for investment projects of the Production Units in the north of the country. This loan, too, became the responsibility of the B.N.A., which received a first instalment of some 1.4 million dollars in 1968.

Finally, to supplement its resources from loans and special funds, the B.N.A. doubled its own reserves in the course of the four years 1964 to 1967, and raised its capital in successive stages. On 18 May 1968 the Assembly voted a capital increase from 400,000 to 1,200,000 dinars, to be carried out by a free scrip issue of 40,000 10-dinar shares (and a corresponding capitalization of reserves in the amount of 400,000 dinars) and a simultaneous issue of 40,000 new shares at par. The subscription of the latter did not significantly alter the distribution of the bank's equity, even though the state ceded its option rights to the *Unions Centrales des Coopératives*².

¹ To be eligible for F.O.A.S.F. financing, a debt had to be overdue for more than one year and its non-repayment had to be shown to involve a capital loss for the B.N.A. (B.N.A., *Rapport annuel, Exercice 1967*). The creation of this fund says much about the difficult financial situation of many of the co-operatives which had been set up compulsorily and in some haste, and hence were not always able to count on a true co-operative spirit among their members, not to speak of lack of equipment, competent managers and organization.

² At the end of 1968 the B.N.A.'s 120,000 shares were distributed as follows:

Tunisian state	40,010 shares
Government-controlled agencies and co-operatives	56,676 „
Private investors	23,314 „

On 8 August 1969, on the occasion of the B.N.A.'s ten-year anniversary, the Assembly again decided to raise the capital, this time to 2 million dinars. This was to be done by means of two successive new share issues of 400,000 dinars each. The first issue was fully subscribed and paid up in the course of 1969¹. These capital increases were judged necessary because, after ten years of almost uninterrupted expansion, the bank's equity capital base was definitely too narrow.

On the same occasion, the shareholders' assembly decided to change the name of the B.N.A. to *Banque Nationale de Tunisie*, which was felt to be more in line with the bank's non-specialized character. For all its being purely formal, the change was significant, in that it confirmed the policy followed by the management since the outset, with full official concurrence. In practice the management of the B.N.A. had always interpreted the bank's intermediation functions as being multi-sectoral, notwithstanding repeated reassertions of its "primary concern" with agricultural development. The reason for this are common knowledge and were discussed earlier, in connection with the B.N.A.'s activities in the years 1959 to 1963. The key factor was no doubt the combination of small returns and high risk associated with agricultural credit. Since the authorities had not set up the B.N.A. as a specialized bank, had given it equal status with all other credit institutes and required it to stand on its own feet economically, the bank was forced to diversify its risks, borrowers and activities. Experience during the first ten years had, for the rest, made it amply clear that Tunisian agriculture offered the B.N.A. no

¹ In the course of the capital increases of 1968 and 1969 the *Caisses Locales de Crédit Mutuel*, too, acquired conspicuous holdings, which, on 31 December 1969, amounted to 23.7 per cent of the B.N.A.'s share capital.

opportunity of normal business, except at the cost of credit selection so strict as to be in patent contradiction with the aim of agricultural development¹.

As regards the B.N.A.'s credit operations, the figures given in annual statements are not homogeneous, and can therefore be neither aggregated nor compared. Sometimes the figures refer to flows, that is, the volume of credit granted in the course of any one year, sometimes to stocks, in terms of credits outstanding at the end of any one year. Nothing precise can, therefore, be said about the composition of B.N.A. credits by destination and maturity. It is hard to know, even, how much of the bank's credit went to agriculture as such, to activities connected with agriculture (storage, marketing and processing of farm produce), and to other sectors (industry and non agricultural services).

Rather more can be said about the technical forms of credit. For instance, Table 69 reveals a marked, though perhaps not as yet definite, shift from bill discounts to overdrafts. This was due, in part, to the bank's reorganization of its accounts in 1969, and in part to changes in its clients' preferences and composition. Firms in the rapidly expanding co-operative sector on the whole preferred overdrafts to bill discounts. This change certainly was not helpful so far as the bank was concerned, because it reduced the proportion of quickly mobilizable assets and increased the risk of funds getting tied up in current accounts with unduly slow turnover². These, incidentally, were problems which the B.N.A. shared with the S.T.B.

¹ The degree to which the B.N.A. conducted its business in "normal" ways is reflected, among other things, in the growth of its reserves (Table 67) and in its dividend distributions (5 per cent from 1964 to 1969 and 7 per cent in 1970).

² This did, in fact, happen fairly often, because many of the B.N.A.'s clients, especially the co-operatives, were somewhat short of own resources.

TABLE 69

B.N.A.-B.N.T. LOANS, SECURITY INVESTMENTS AND EQUITY HOLDINGS, 1960 TO 1970
(end-year figures, in thousand dinars)

Assets	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
<i>Loans:</i>											
Bill portfolio	2,887	2,203	6,332	9,354	6,152	7,674	5,036	5,933	13,966	11,583	11,809
Advances on current account	701	1,638	2,189	2,403	3,959	3,061	3,464	3,452	2,275	10,223	12,754
Medium- and long-term loans from special funds	1,242	1,636	3,433	3,484	5,023	6,026	6,934	6,487	10,338	13,470	14,920
Total	4,830	5,477	11,954	15,241	15,134	16,761	15,434	15,872	26,579	35,276	39,483
<i>Securities:</i>											
Public securities and others	300	550	1,375	2,965	4,049	4,094	5,462	3,714	3,913	3,913	3,902
Equity holdings	10	32	85	144	155	207	275	285	337	337	485

Note: See explanatory note to Table 70.

Source: B.N.T., Annual reports 1969 to 1970.

The time series of short-term working credits and medium- and long-term credits to agriculture look somewhat confused and erratic (Table 70), but nevertheless reveal a few basic trends worth mentioning. First of all, the changing number of credits granted, respectively, to individual farmers and to co-operatives reflects the changing structural pattern of agriculture. Both as regards the number and the volume of credits, and more particularly short-term working credits, co-operatives absorbed a growing share from 1964 to 1969, which suggests rather severe discrimination against individual farmers. With this policy, of course, the B.N.A. did no more than keep in step with current agricultural policy, which deliberately aimed at strengthening the co-operative sector. This trend was reversed in 1970 — a circumstance which lends force to the assumption of discrimination, because it follows the initiation, late in 1969, of large-scale liberalization in agriculture.

Another set of trends that can be discerned is that the average amount of separate credits increased in the case of individual borrowers, decreased in the case of medium- and long-term loans to co-operatives, and remained more or less constant in the case of working credits to co-operatives. The first of these trends can probably be explained by the fact that the new co-operative system mainly involved the consolidation of small farms, but had as yet made no impact on the pattern of land tenure higher up in the scale. If this interpretation is correct, the trend in question would reflect credit demand on the part of medium-sized to large farms not yet drawn into the orbit of neighbouring co-operatives. The second trend, on the other hand, bears witness to the B.N.A.'s efforts to stretch its slender resources in order to meet the growing demand of a mounting number of co-operatives for credit of more than short-term duration.

Finally, the average unit amount of credits as a whole is seen to have risen slowly, probably in the wake of structural change and the progressive concentration of farm enterprises. This might ultimately have led to more risk concentration, but does not seem to have had any harmful effects on the B.N.A.'s operational situation.

From Tables 67 and 68, which latter unfortunately stops in 1967, it can be seen that special funds were less than fully used for the medium- and long-term credits for which they were earmarked. Yet there must have been enough demand for such credits in agriculture for the full use of these funds. One can only conclude that the bank was somewhat lacking in efficiency, not to speak of the no doubt unduly rigid clauses governing the use of each fund or allocation. Actually, loans extended by the B.N.A. from most of the special funds were covered in some way or another by a state guarantee, especially when the beneficiary was a co-operative¹. Just how willing the public administration was to shoulder the losses incurred by the B.N.A. through defaults on its loans to agriculture is shown by the creation of the Special Fund for Financial Consolidation. This surely proves that the B.N.A. did not try to keep down its risks at the cost of a restrictive credit policy, however firmly the management refused to interpret credit as a form of assistance.

The extent to which the B.N.A. financed activities connected with agriculture is shown in Table 71. The activities concerned are mostly the storage, marketing and preservation of major farm products, notably grain, pulses, wine and oil². Credits for these purposes help to buttress agricultural markets, and hence proved

¹ See B.N.A., *Rapport annuel, Exercice 1965*.

² Credits of this kind most often took the form of advances on warrants.

TABLE 70

NUMBER AND AMOUNT OF B.N.A.-B.N.T. FARM CREDITS, 1964 TO 1970
(*end-year flow figures, in dinars*)

Type of credit and beneficiary	1964			1965			1966			1967		
	No.	Amount total (thou- sand)	unit	No.	Amount total (thou- sand)	unit	No.	Amount total (thou- sand)	unit	No.	Amount total (thou- sand)	unit
Short-term working credits	Individuals	3,660	1,617	441	3,722	1,687	453	2,314	1,660	717	1,456	1,326
	Co-operatives	156	702	4,500	618	2,853	4,616	532	2,561	4,814	1,254	5,377
Total A	3,816	2,319	608	4,340	4,540	1,046	2,846	4,221	1,483	2,710	6,703	2,473
Medium- and long-term credits	Individuals	549	325	592	643	361	561	1,459	830	569	725	455
	Co-operatives	311	1,553	4,994	274	1,709	6,237	713	1,831	2,568	760	2,571
Total B	860	1,878	2,184	917	2,070	2,257	2,172	2,661	1,225	1,485	3,026	2,038
Total A + B	4,676	4,197	898	5,257	6,610	1,257	5,018	6,882	1,371	4,195	9,729	2,319

Type of credit and beneficiary	1968			1969			1970		
	No.	Amount total (thou- sand)	Amount total (thou- sand)	No.	Amount total (thou- sand)	Amount total (thou- sand)	No.	Amount total (thou- unit sand)	Amount total (thou- unit sand)
Sort-term working credits									
Individuals	1,068	1,148	1,075	762	964	1,265	2,051	2,217	1,081
Co-operatives	1,468	6,375	4,343	2,431	6,802	2,716	1,085	4,630	4,267
Total A	2,536	7,523	2,966	3,193	7,566	2,366	3,136	6,847	2,183
Medium- and long-term credits									
Individuals	465	491	1,056	142	225	1,552	1,524	1,845	1,211
Co-operatives	3,842	5,624	1,464	2,305	2,988	1,296	2,074	2,878	1,388
Total B	4,307	6,115	1,420	2,447	3,213	1,313	3,598	4,723	1,313
Total A + B	6,843	13,638	1,993	5,640	10,779	1,911	6,734	11,570	1,718

Note: This table is in terms of flows, and therefore not comparable with Tables 69 and 71, which are in terms of stocks. In other words, in Table 70 the figures refer to credits extended during any one year, in Tables 69 and 71 they refer to credits outstanding at the end of any one year.

Source: B.N.A. and B.N.T., Annual reports 1964 to 1970.

TABLE 71

B.N.A.-B.N.T. CREDITS FOR THE STORAGE AND MARKETING OF MAJOR AGRICULTURAL PRODUCTS, 1965 TO 1970
(end-year figures, in thousand dinar)

Credits	1965	1966	1967	1968	1969	1970
Credits for grain ¹	5,066	3,434	4,037	5,355	5,255	6,024
Credits for wine	1,374	1,774	2,270	2,905	3,030	1,928
Credits for oil	1,144	1,351	303	313	80	1,685
Credits for food preserves	150	1,572	1,161	1,323	(*)	(*)
Total	7,734	8,131	7,771	9,896	8,365	9,637

¹ Including certain pulses handled by the *Office des Céréales*.

(*) Figure not mentioned in the annual reports concerned.

Note: See explanatory note to Table 70.

Source: B.N.A. and B.N.T., Annual reports 1966 to 1970.

a useful and necessary supplement to farm credit as such, in that they certainly did much to improve the profits and the solvency of agricultural producers in general. These credits can therefore not be said to be out of line with the bank's primary function of financing agricultural development. The figures of Table 71 require no particular comments. They reflect, by and large, the fluctuating harvest results of the products concerned. The exceptionally low credits to oil producers in the years 1967 to 1969, for instance, are connected with the drastic fall in oil output. One point that should be mentioned is that the figures given for wine are in some cases cumulative, in that they include loans extended in earlier years and not yet repaid; they therefore overstate the B.N.A.'s financial backing for this particular commodity, compared with the others¹

¹ See B.N.T., Annual reports 1969 and 1970.

The annual statements as a rule do not say much about the conditions and principles governing the bank's credit operations. They do, nevertheless, shed some light on a few important aspects, from which one can learn much about how the bank actually worked. It is interesting, first of all, to note the board of directors' repeated insistence that credit must not be granted without prior, strict scrutiny of the earning and repayment capacity of the applicant enterprise. This was fully in line with the bank's policy in the years 1959 to 1963¹, and explains the board's critical attitude to the special seed credits to grain farmers in the years 1962/63 and 1963/64. It is a fact that these credits, which were financed from special government funds, were most often repaid very late, if ever — witness the B.N.A.'s inability to finally liquidate them before 1967 (see Tables 14 and 68). However hard the B.N.A. tried to combat the notion that agricultural credit was eminently a matter of assistance to farmers, a notion which went back to Protectorate days, the annual statements again and again refer to the chronic tendency of borrowers to delay repayments beyond the agreed date. This never ceased to cause trouble, and often forced the B.N.A. to draw heavily on central bank credit in order to finance farm production cycles, because a considerable part of its financial resources was still tied up in credits for the preceding year². It would seem that this particular situation got worse after the more or less compulsory spread of co-operatives under government auspices.

¹ The Annual report 1964 stresses that this "style" of credit policy would be applied equally to the many newly-established co-operative units, which initially enjoyed state guarantees. As will be seen later, the B.N.A. tried its best, too, to bring the conduct of the *Caisses Locales de Crédit Mutuel* into line with orthodox banking principles, in the sense outlined in the text. See B.N.A., *Rapport annuel, Exercice 1965*.

² See B.N.T., *Rapport annuel, Exercice 1970*.

The bank's security investments fluctuated a great deal during the years 1964 to 1970. Table 69 shows, in 1964 and 1966, big increases in the portfolio of public securities (*bons d'équipement* and Treasury Bills), initially no doubt in response to the raising of the public securities/deposits ratio from 25 to 30 per cent under the 1964 stabilization programme. After that there was a sharp drop, and subsequently the figures settled down at a level well below the required ratio. This needs no comment, since it in no way differs from general practice throughout the whole banking system.

The B.N.A.'s equity holdings, on the other hand, grew steadily and very fast, though of course they represented only a very small portion of total assets. It is worth pointing out that such venture capital as the B.N.A. did provide often went to companies which had nothing to do with agriculture at all. This certainly was in contradiction with the bank's primary institutional concern, but still represented a non-specialized contribution to economic development and was fully in line with the general political and economic responsibilities which the B.N.A., as a public bank, could not evade. In any case, the B.N.A. also provided financial backing for the establishment and growth of a number of companies in branches collateral to farming and hence very useful for agricultural development¹.

So much for the growth of the *Banque Nationale Agricole*, now *Banque Nationale de Tunisie*, during the years 1964 to 1970. As to how the bank organized itself to cope with this growth, there is an odd discrepancy. In all these years, it opened only

¹ The B.N.T., for instance, is a shareholder in the following companies: *Société Tunisienne d'Industrie Laitières*, *Société d'Importation et de Diffusion de Produits Alimentaires et Diététiques*, *Société Tunisie-Glaces*, *Société de Mise en Valeur du Sud*.

one new branch, raising the total from 24 to 25; but its staff increased from 333 to 592. Part of the explanation lies in the management's own policy of structural consolidation, and part in the spread of the *Caisses Locales de Crédit Mutuel*, which acted as channels and adjuncts for B.N.A. credit in outlying rural areas, but also committed a high proportion of B.N.A. executives in supervisory and liaison work. By attaching to itself these gradually multiplying *Caisses Locales*, the B.N.A. as it were assumed the character and functions of a central co-ordinating agency for agricultural credit, which relegated the question of broadening geographical coverage to second place and gave prominence instead to the need for more staff capable of discharging the tasks of co-ordination, supervision and development.

The geographical pattern of the B.N.A.'s activities is of some interest, too. At the end of 1968 the B.N.A. had three branch offices in Tunis, and 22 in other major towns¹. These 22 employed 91 of the total staff of 531, and were responsible for 25.8 per cent of all deposits and for 39.5 per cent of all credits then outstanding. Geographically speaking, therefore, the B.N.A. had a better spread than the S.T.B., with its more marked concentration in the capital. Even so, it was not satisfactory for an agricultural credit institute, whose efficiency depends to a large extent on the dispersion of loans throughout the rural areas. Furthermore, of all the credits outstanding with the 22 provincial branch offices on 31 December 1968, only 39.3 per cent were actually concerned with agricultural activities in the strict sense². Again, this suggests less than full

¹ The figures were furnished by the bank's *Division de Contrôle, Animation des agences et des C.L.C.M.*

² Excluding, that is, the storage, marketing, preservation and processing of agricultural produce.

efficiency on the part of the B.N.A. as an agricultural credit institute.

But it is vain to speculate on possible solutions to these problems, because with the recent general political realignment, it is impossible to make any reasonable guesses about the government's future agricultural policy. So far as its credit aspects are concerned, the 1969 and 1970 annual statements of the B.N.T. give no cue to its future activities, but merely reassert the principle of the balanced development of state, private and co-operative enterprise in agriculture, while also dwelling on the economic and financial shortcomings of the co-operative system. However, recent legislation on agricultural credit¹ provides for conspicuous state contributions to the financing of agricultural development. These may take the form of loans to cover up to 50 or 80 per cent of investment costs, of subsidies up to 10 or 20 per cent of investment costs, or of specially low interest rates not exceeding 4 per cent, and in some cases even less.

In 1963, the Ministry of Planning and the National Economy launched an experimental programme of co-operative agricultural credit by setting up *Caisses Locales de Crédit Mutuel* in the pilot zone of Cap Bon. These *Caisses* were organized on co-operative lines, and were meant to develop credit activities at strictly local level for their members, who could be farmers or craftsmen². Their capital consisted of membership subscriptions, they accepted deposits, and to supplement their financial resources they had a

¹ Decrees No. 70-522, 70-523, 70-524 of 6 October 1970, and a number of departmental orders by the Ministries of Finance and Agriculture dated 20 October 1970. These are published, respectively, in the *Journal Officiel de la République Tunisienne* of 2-6-9 October and of 20-24 October 1970.

² Initially, no member was entitled to credit from a *Caisse* in excess of 50 times his own membership subscription; later this multiplier was reduced to 20.

state grant and were entitled to retain, and add to their capital, 1 per cent of loans granted. Whether there was any real necessity to create this elaborate new credit infrastructure for agriculture is a moot question, because, as was mentioned before, the B.N.A. had for some time been developing its own network of *Sections Locales de Crédit Agricole*, which, through gradual consolidation and transformation, might well have ended up as a system of local credit co-operatives. While this was admittedly a slow process, it is not at all proved that it was wise for the government to step in with a programme of its own, which was bound to entail duplication of infrastructures and, in the absence of adequate co-ordination, a waste of effort and resources. Precisely on this argument, the B.N.A. management more than once took occasion to insist on the unity of agricultural credit and to urge the government to work out a scheme of co-ordination between the existing local credit sections and the new *Caisses*¹.

Such a co-ordination scheme was brought into effect in 1965 by a formal agreement between the B.N.A. and the Ministry of

¹ See, e.g., the B.N.A.'s Annual reports 1963 and 1964, and also Hamda Beji, "La Situation du crédit agricole en Tunisie", *Servir*, February 1969, pp. 30-31. However, it needs to be pointed out that the B.N.A.'s arguments were valid only up to a point, since the *Caisses* were not concerned exclusively with credit to farmers, but also to craftsmen. There was a case for their autonomy therefore, and the question of co-ordination with the B.N.A. arose only with respect to agricultural credit as such. Furthermore, after the unsuccessful experiment with the *Banque Coopérative*, the government had an obvious interest in promoting credit co-operation in new forms, especially from the bottom up by means of the gradual establishment of small co-operative units, placing their trust in the spontaneous co-operative spirit of rural communities. In any case, there was already some sort of co-ordination at operational level between the B.N.A. and the Ministry of Planning and the National Economy, since, as of 1963, the B.N.A. had promised to lend continuous technical assistance to the *Caisses*, through seconding to them some of its own staff. See B.N.A., *Rapport annuel, Exercice 1963*.

Planning and the National Economy. By virtue of this agreement the B.N.A. assumed responsibility for the good functioning, technical and financial, of the *Caisses* and for promoting the development of co-operative credit throughout the country. This decision was officially explained by the need to preserve the unity of the agricultural credit system, after the authorities had launched their own scheme, tested it in its experimental stage, and developed it. But, leaving aside these theoretical and programmatic declarations, it seems that there were sound practical reasons which led the government to conclude this agreement with the B.N.A. The experience of 1963 and 1964 had made it only too clear that the *Caisses* were incapable of running their own affairs, while the state could not take care directly of making them work properly from the technical, organizational and financial point of view. There is clear evidence of all this in the B.N.A. reports for 1965 and 1966, where the shortcomings of the *Caisses* are exposed in the following terms: serious financial and economic deficiencies, lack of organization, incompetence of executive staff, insufficient controls, non-observance of the most elementary management principles, and inadequacy of the accounts.

Notwithstanding these circumstances, the B.N.A. moved quickly to assume effective control over the *Caisses* (September 1965), by making their accounts subject to strict supervision, drastically reorganizing their management and strictly confining their autonomy. In practice, the boards of directors (who were elected by the assembly of members) were asked to make room in their midst for B.N.A. representatives with advisory functions. The B.N.A. furthermore assigned a number of "agents" to the various units, with responsibilities for reorganizing the accounts and management, and also made available to them sufficient resources to back their activities within a pre-established financial

programme. At its own headquarters, the B.N.A. set up a special department for centralizing the accounts of the *Caisses*, checking their balance sheets, supervising their administration and developing their activities. For obvious reasons of convenience and control each *Caisse* was instructed to adopt a uniform accounting system. The B.N.A. also made considerable efforts to train top-level staff for the *Caisses* and put its financial support for them on an institutional basis by systematically rediscounting their bill portfolio at rates lower than those of the Central Bank¹. In many cases this reorganization of the *Caisses* left them with merely mechanical and subordinate functions, such as actually distributing loans and accepting local savings, while all management and administrative functions were shifted either to the nearest B.N.A. branch or to the head office.

The integration of the *Caisses* into the B.N.A. received its final, formal seal in the Convention of 10 January 1967, whereby the Ministry of Planning and the National Economy officially put the B.N.A. in charge of the promotion and control of co-operative credit throughout the country, given that co-operative credit concerned primarily agriculture. It is a matter of some interest that, while the B.N.A. certainly did develop the *Caisses* as part of the co-operative system then being introduced in agriculture as elsewhere in the economy, it never seems to have trusted them much, for it never relaxed its initial controls and made no concession to their autonomy. In practice, the B.N.A. representatives attached to the *Caisses* became their permanent managers, leaving the boards of directors without authority beyond the right to concede loans of up to 500 dinars. Furthermore, by virtue of the rules laid down

¹ This initial form of refinancing was later supplemented by facilities for overdrafts on current account.

in B.N.A. circulars, the *Caisses* were entitled to extend only short-term (working) credits for financing certain crops, specified from case to case. Credit for consumption purposes was firmly ruled out altogether, and all lending was subject to detailed and rather restrictive rules.

This cautious policy was obviously dictated by the risk to which the *Caisses* were exposed and by their poor economic performance in past years. It was reaffirmed over and over again by the B.N.A.'s board of directors, who, in their annual statements, were always critical of the *Caisses* or, at best, reserved judgement on what they consistently regarded as an experiment. Nevertheless, the *Caisses* multiplied and expanded during the years 1966 to 1969, as can be seen from Table 72. This apparent contradiction can perhaps best be explained by the inability or the unwillingness of the B.N.A. to assume the political responsibility of refusing to support a government policy it did not entirely approve of, the policy, that is, of forcing a co-operative system upon agriculture. After the final failure of the co-operative experiment and the complete revision of the government's economic policy in September 1969¹, the B.N.A. took up a much more clear-cut position. In reviewing the state of co-operative credit in 1969², the bank, by now under its new name of *Banque Nationale de Tunisie*, for the first time admits that the situation of the *Caisses* was causing

¹ On that occasion many agricultural co-operatives were dissolved and their liquid funds deposited with banks were blocked. This explains the sudden jump of clients' deposits held by the *Caisses* at the end of 1969 (when co-operatives were unable to withdraw money from their accounts, as they usually did late in the year, in order to finance current agricultural production), and their subsequent fall in 1970.

² B.N.T., *Le Crédit mutuel en 1969*, Tunis, 13 July 1970 (mimeographed).

TABLE 72

THE CAISSES LOCALES DE CREDIT MUTUEL, 1965 TO 1970 *
(amounts in thousand dinars)

Items	1965	1966	1967	1968	1969	1970
Number of <i>Caisses</i> ¹	14	28	41	49	52	45
Number of founder members ¹	7,651	22,303	32,292	36,450	37,088	...
Total number of members ¹	14,701	34,089	53,046	63,548	70,631	77,690
Initial capital ²	44	133	215	268	293	...
Total capital ¹	70	186	338	472	633	707
Retentions of 1 per cent on loans ¹		30	50	69	105	...
Number of staff ¹	...	...	...	...	105	...
Deposits from clients ¹	495	1,156	1,502	2,536	4,332	3,236
Debts to B.N.A. or B.N.T. ¹	...	80	730	194	1,660	...
State grants ¹	290	290	290	290	290	...
Number of loans applied for ²	...	...	...	...	89,230	...
Number of loans granted ²	...	...	...	...	66,340	...
Number of loan applications refused ²	...	...	...	...	22,890	...
Amount of loans granted ²	...	...	...	...	10,496	...
Amount of loans repaid ²	...	...	...	...	6,838	...
Amount of loans outstanding ¹	...	...	...	...	3,658	...
not yet due: individuals	427	908	1,028	1,096	651	...
co-operatives					664	...
overdue: individuals	152	227	587	883	1,135	...
co-operatives					211	...
contentious	...	13	33	80	194	...
rediscounted	...	...	...	...	803	...
Number of loans granted during the year ³	...	14,882	19,129	14,811	10,990	...
Amount of loans granted during the year ³	...	1,532	2,055	1,941	3,645	2,610

* Available statistics being fragmentary and sometimes heterogeneous, the table is not complete (... mean figure missing).

¹ On 31 December of the year indicated.

² From inception.

³ From 1 January to 31 December of the year indicated.

Source: Banque Nationale de Tunisie, Division de contrôle, animation des agences et des C.L.C.M.; B.N.A. and B.N.T., Annual reports 1965 to 1970.

concern. They owed the B.N.T. a great deal of money, a rapidly growing proportion of their loans was proving unrecoverable¹, and many of them were either earning nothing or even making an outright loss for reasons connected with the environment in which they had to work.

This diagnosis, which was confirmed and discussed in detail in the annual report for 1969, led the B.N.T. to adopt a policy of structural consolidation. The definitely loss-making *Caisses* were merged with or taken over by sounder ones, and the possibility was explored of concentrating existing units in a few regional *Caisses*. A large-scale information campaign was launched to acquaint all members of the *Caisses* with their serious situation and to solicit support for their rehabilitation. And finally, new restrictive rules were issued to force the *Caisses* to be more selective and rational in their lending. After these emergency measures, the B.N.T. turned to the government with a request for its collaboration in schemes put forward by the bank for a structural reform of co-operative credit. The *Caisses*, for all their shortcomings, had after all proved a suitable and useful channel. They had made it possible for credit to penetrate more effectively to peripheral rural areas, much to the benefit of small farmers with no other access to banks, and had broadened the banking system's area of intermediation by attracting the small savings of rural folk, who otherwise would no doubt have hoarded them. As indispensable intermediaries at local and peripheral level, the *Caisses* had shown themselves to be worth preserving, improving and strengthening

¹ The widespread insolvencies among borrowing clients had much to do with unfavourable weather conditions, but it was also a fact that many private farmers, in the expectation of being "collectivized" sooner or later, simply did not repay their loans at the stipulated date, while many agricultural production co-operatives were in a state of financial disarray.

in the general interest of agricultural development and the social betterment of the farm community.

While a large part of the co-operative structure in agriculture was put into liquidation, the authorities and the B.N.T. decided, therefore, not to dismantle the *Caisses Locales de Crédit Mutuel*, even though it might take a long time to get them into some sort of economic and financial order¹.

6. CONCLUSIONS

So much for the history and description of the Tunisian banking system. We have followed it through the years to see how it became what it now is, and we have examined how it works. Now let us set these purely financial aspects of the Tunisian economy against the background of the real magnitudes that make up the national accounts. For our purposes, these need not be critically analysed; their mere comparison with the government's ten-year projections 1962-1971 will indicate approximately to what extent and along what lines the outcome differs from the targets, and on this basis we can attempt an answer to the final question that remains to be asked. This question is whether and in what manner the divergence of plans and achievement affected the country's financial infrastructure, with particular reference to the nature and functioning of the banking system's processes of financial intermediation. This approach may serve to single out, in generalized and abstract terms, the chief typical factors which characterize the expansion of banking activity in an economy at a stage of planned and accelerated development.

¹ It would have been quite unrealistic to even think of this in the short run, since the recovery by the *Caisses* of their credits to agricultural co-operatives now in liquidation was by no means assured.

First, a word on the methods of the proposed comparison. The results stand out more clearly if we take as a reference base the ten-year projections rather than the successive three-year and four-year plans by which they were to be put into effect, for these plans in practice represent gradual adjustment of the original targets to a contingent reality. Furthermore, it was thought useful to confine the comparison mainly to the years following the stabilization programme of September 1964, because the earlier system of financing investment so largely with monetary resources created by the central bank in response, predominantly, to government requirements, had done much to upset the economy's internal and external equilibrium by pushing up the general level of prices at home and eventually necessitating the devaluation of the dinar. By limiting the comparison between outcome and planned targets to the post-crisis years it is hoped to obtain more meaningful results, because after September 1964 the economic and monetary authorities turned to more normal methods of financing development, in the sense that the processes of money creation were kept under stricter control.

The targets of the ten-year projections for the major economic variables of development (income, consumption, saving and investment) are set out in Table 33. They show that the planners clearly meant national development to become, in time, less and less dependent on foreign capital. The high rate of investment throughout the ten years was to be backed by growing domestic savings, which meant that the expansion of total consumption was to be kept down to make room for a rising proportion of the gross domestic product to be devoted to investment. If indeed the savings ratio were to rise from 11 to 26 per cent, as planned, the foreign share of investment coverage could be reduced from 55 to 20 per cent. By thus gradually lessening the country's dependence

on foreign capital, the governing class was clearly pursuing the ambitious aim of self-financed growth in the medium to long run, meaning that the economy itself should be able to finance a high rate of growth¹.

The first tactical approach to this ultimate aim was spelled out in what is known as the pre-plan for the years 1962-1964². Its outstanding features are the predominant share of resources to be devoted to infrastructural investment and the leading part assigned to self-financing by public administration and firms in the mobilization of domestic resources³.

With such a large part of investment going into social overhead capital, returns were bound to be very small especially in the initial stage and, predictably, would do little to raise either the gross domestic product or the formation of savings. As things turned out, domestic saving in the three years did not come up to expectations, so that investment planned for the period could not be carried out in full and the shortfall in savings was in part made good by liquidity creation on the part of the Central Bank⁴ (Tables 32-35).

All this goes a long way towards explaining the composition of the Tunisian banking system's financial resources and the conspicuous part played in them by public funds of one kind or

¹ This concept of *développement autocentré* was really the key element in the whole of Tunisian policy from the years 1958 and 1959 (foundation of the Central Bank, breaking the dinar loose from its fixed parity with the French franc, withdrawal from the Franc Zone) until 1963 and 1964, when it began to be seen that the economy's rate of self-financing, in real terms, fell short of expectations.

² See pp. 148-154 above.

³ Together 71 per cent of total domestic investment resources, plus the entire coverage of depreciation.

⁴ A contributing and aggravating factor was that the effective supply of foreign capital in its turn fell far short of expectations (see p. 154 above).

another — state contributions to capital, all the various special funds and allocations, and rediscounts and advances from the Central Bank¹. This means that public administration, in the broad sense, contributed in large measure to the formation of the banking system's monetary base. Pursuing this line of thought one is led to conclude that the growth of bank deposits, in its turn, was probably in large part induced by bank lending financed by public funds, and amplified by the well-known mechanism of the multiplier. This self-cumulative process probably found all but ideal conditions in the financial flows leading to and from the public sector of the economy; in other words, public enterprises must have been the most important and most efficient link in the credit-deposits chain. This, to be sure, is an intuitive assumption that is hard to quantify; but if there is any truth in it, it scales down very much the real importance of the intermediary function discharged by Tunisia's banking system and more particularly by the public banks, which not only received the great bulk of public funds but were also more closely integrated than the rest into the financial circuits of the public sector of the economy. It would be interesting to find out to what extent the banking system succeeded, by intermediation, to acquire any monetary base beyond that put at its disposal under various headings by the public administration. This would give us the measure of the banking system's own active contribution to the mobilization of the country's financial resources.

No conclusive answer can be given to this fundamental question. But we may ask ourselves whether the three-year plan's proposed methods of financing investment offered any real chance

¹ Strictly speaking, one should include also part of the deposits from public enterprises whose own financial resources are to a large extent of public origin (budgetary funds).

of expansion to financial intermediation. For one reason or another, perhaps in order to make sure of better control over the variables concerned, the authorities had decided to assign the leading part in the mobilization of domestic resources to self-financing by public administration and firms. The associated containment of the growth of total consumption implied rather strict control of individual incomes and their distribution, which means, in macro-economic terms, that no conspicuous accumulation of financial assets could be expected in the consolidated balance sheet of "households". And this in turn implied that one of the main functions of financial intermediation was frustrated in advance, or in other words, that the area of intermediation was confined within the narrower limits of those macro-economic categories (public administration and firms) among whose assets there was room for the formation of financial savings. This may help to explain why the banks managed to attract only such a small amount of time deposits, the form of deposits as a rule preferred mainly by households. There is reason to suspect, therefore, that there was no effective financial integration between the banking system and households. Granted that the latter had a low propensity to deposit their money in a bank to begin with, as against a widespread and deeply rooted hoarding instinct especially in rural areas, the fact remains that the three-year plan did much to keep voluntary individual savings out of investment finance and thus created a break of incalculable social implications between economic development and the community's own direct participation in its financing. These remarks are not meant as a criticism of those responsible for planning in Tunisia, but merely as an explanation of the obstacles to any expansion of bank intermediation. Nor does the question of the responsibilities of bank managements, especially in the public sector, enter into these considerations; their sole purpose is to indicate the terms

of reference on which to base any judgement of the efficiency of the banking system in relation to the mobilization of financial resources for use in financing economic development. In the specific case of Tunisia, the method of financing the three-year plan, the large amount of public investment expenditure and of the money flows generated by the central bank certainly did much to increase the banking system's dependence on financial resources of public origin and hence to retard the expansion and to curtail the autonomy of the processes of intermediation.

Then came the 1964 crisis, which led to the devaluation of the dinar and the introduction of a rather harsh stabilization programme. What this crisis demonstrated above all was the difficulty, not to say the impossibility, of the country's financing its own development by its own resources, at least within the time limit of the ten-year projections. The formation of domestic savings fell short of the planners' targets, and, to boot, was so discontinuous as to force the authorities to keep intervening in order to make good the shortfall of resources. The most eye-catching of the harmful effects of this policy were the growth of the Treasury's direct and indirect debts to the Central Bank, the growing imbalance in external payments and the inflationary pressure on domestic prices. Given that economic development could not be conceived in terms of autarky but on the contrary required the economy to be "open" to a high degree¹, and given that consumption could not be compressed any further, the only solution was to look for more foreign capital.

This new policy emerges quite clearly from a comparison of the original ten-year projections (Table 33) with the outcome of the

¹ Table 35 shows how large a part of the gross domestic product was accounted for by imports and exports.

years 1965 to 1970 (Table 73) ¹. The actual share of foreign capital in investment coverage, while on a downward trend, was well in excess of the originally planned proportions. Even so, foreign indebtedness was not high enough for reaching the target rate of investment set by the ten-year projections.

The mounting flow of foreign aid and loans to Tunisia has been described earlier, and the funds handled by the banking system in the years 1965 to 1970 indeed display the higher incidence of financial resources of direct or indirect foreign provenance. This applies particularly to banks of public origin ². The process of the formation of the banking system's monetary base thus underwent a notable change, since the liquidity created by the Central Bank in counterpart to its advances to the Treasury and the banking system was supplemented, and in part replaced, by liquidity generated by foreign transactions. But while this is clearly important for an understanding of the nature and characteristics of the processes of intermediation through the banking system, it is not a full explanation.

To round off the picture, we must still enquire how the formation of savings was distributed among the macro-economic categories of savers. This is done in Table 74, where it can be seen that in recent years firms have been responsible for much the largest share of national savings, whereas the contribution of public administration was not only much lower, but also very uneven.

¹ Such a comparison must be confined to the relationship of aggregates within any one year, because absolute values are expressed in 1957 dinars in Table 33, and in current dinars in Table 73. None of several possible conversion factors proved satisfactory, and so it seemed better not to try to reduce the two sets of figures to a common money unit. In any case, the two Tables rest on different national accounting schedules and are not comparable in strictly quantitative terms.

² Witness more specially the changes in the structure of the liabilities of the S.N.I., now formally in private hands.

TABLE 73

THE MAJOR ECONOMIC AGGREGATES OF THE TUNISIAN ECONOMY, 1965 TO 1970¹
(million current dinars)

Year	Gross domestic product	Gross investment	Investment ratio %	Changes in stocks	Gross fixed capital formation	GFCF ratio %	Gross domestic saving	Gross sav./inv. ratio %	Net foreign capital inflow	Foreign share of investment coverage %
	1	2	3-2.1	4	5-2-1	6-5.1	7	8-7.2	9-2.7	10-9.2
1965	495.9	138.4	27.9	(*)	...	...	57.5	41.5	80.9	58.5
1966	507.5	132.0	26.0	+ 3.1	128.9	25.4	67.4	51.1	64.6	48.9
1967	531.2	126.8	23.9	+ 0.1	126.7	23.9	57.0	45.0	69.8	55.0
1968	582.6	118.0	20.3	- 9.3	127.3	21.9	80.0	67.8	38.0	32.3
1969	633.0	151.8	24.0	+ 7.1	144.7	22.9	101.6	66.9	50.2	33.1
1970	667.2	155.2	23.3	+ 2.0	153.2	23.0	97.2	62.6	58.0	37.4

¹ The figures for 1970 are provisional.

(*) Figure not available.

Source: Secrétariat d'Etat au Plan, *Rapport sur le budget économique*, successive years.

TABLE 74

DISTRIBUTION OF GROSS DOMESTIC SAVINGS BY SOURCES, 1966 TO 1970¹
(million dinars)

Source	1966		1967 ²		1968		1969		1970	
	amount	%	amount	%	amount	%	amount	%	amount	%
Public administration	21.5	31.9	12.6	21.9	3.8	4.8	25.6	25.2	20.8	21.5
Firms	38.4	57.0	37.0	64.2	65.8	82.2	63.4	62.4	61.3	63.0
non-financial	36.1	53.6	34.0	59.0	61.9	77.3	59.3	58.4	57.0	58.6
financial	2.3	3.4	3.0	5.2	3.9	4.9	4.1	4.0	4.3	4.4
Households	7.5	11.1	8.0	13.9	10.4	13.0	12.6	12.4	15.1	15.5
Total	67.4	100.0	57.6	100.0	80.0	100.0	101.6	100.0	97.2	100.0

¹ The figures for 1970 are provisional.² For reasons of statistical method, the figure for the 1967 total is not identical with that given in Tables 73 and 75.Source: Secrétariat d'Etat au Plan, *Rapport sur le budget économique*, successive years.

Households contributed an admittedly small, but by no means negligible part. The figures thus bear out, *a posteriori*, the original plan of covering investment, and hence development, largely by self-financing. Clearly this way of mobilizing domestic resources, based as it was mainly on sectoral self-financing, did much to limit the potential widening of the banking system's area of intermediation. The figures suggest that to this day a large proportion of households remains outside the circuits of financial intermediation. The special savings accounts, for instance, which were introduced precisely to attract household savings, still do not account for any appreciable part of total deposits, even though the intensive publicity campaigns conducted by some public institutes¹ did yield promising results. Even for the future, it looks as though the planners' policies for investment finance and income distribution are going to leave little room for the formation of any conspicuous financial surplus in the consolidated assets of households, with the result of making it difficult for the banks, even if they tried, to mobilize funds from this source. On the other hand, it is hard to see how the authorities could realistically have assigned to households a larger share in the formation of domestic savings, given that the overwhelming majority of the population still do not have enough income even to cover all their primary needs (housing, food, clothing and schooling). In these circumstances the mobilization of domestic savings cannot do without the concept of forced saving, and without the use of the more or less explicit techniques by which it is put into effect, pending the emergence of conditions propitious for the voluntary formation of savings.

Meanwhile, there is a strong case for both the authorities and the banks to go ahead with every possible scheme, however

¹ Especially the S.T.B., whose campaign is described on pp. 219-220 above.

expensive and however unproductive at first, which holds out a promise of the future integration of household financial flows into the circuits of financial intermediation. What has been done so far is not enough. The mere fact that the financial savings of households are so small does not justify the failure to mount an adequate promotion campaign, especially since it can be expected that at later stages of development more freedom will be allowed to the processes of saving. It is not too early for a forward-looking policy designed to promote the propensity to save and to put savings into bank deposits, and to do so on the largest possible geographical and social scale. As things are at present, the banking system simply has not got the facilities needed for taking in household savings, especially in peripheral and rural areas where, among other things, the hoarding instinct is still very strong. According to the most conservative estimates at least 70 per cent of total bank deposits come from the area of the capital city. Of course, this concentration is to some extent due to the fact that the financial flows of many firms whose production is decentralized nevertheless converge in and around Tunis; but even so, the rest of the country contributes astonishingly little to deposits. For this, two possible explanations come to mind. First, a blatant disparity between centre and periphery in terms of comparative development¹, and secondly, serious inefficiency of the peripheral financial infrastructure, whose capacity of intermediation seems to fall short of the effective deposit potential. The truth probably lies in a combination of the two, which means that the unequal geographical distribution of deposits is not solely a reflection of the certainly existing dualism of the Tunisian economy. However

¹ It will be recalled that at most one third of the population live within the economic radius of Tunis.

TABLE 75

THE ORIGIN AND USE OF FINANCIAL RESOURCES IN TUNISIA, 1966 TO 1970
(million dinars at current prices)

Origin and use	1966	1967	1968	1969	1970 ¹
<i>Origin</i>					
Gross domestic saving	67.4	57.0	80.0	101.6	97.2
Gross foreign capital inflow	71.7	87.1	69.5	84.4	90.5
public capital	...	...	44.1	68.3	70.0
private capital	...	...	25.4	16.1	20.5
Total	139.1	144.1	149.5	186.0	187.7
<i>Use</i>					
Gross fixed capital formation	128.9	126.7	127.3	144.7	153.2
Repayment of foreign debts	15.7	23.3	25.4	26.7	25.5
Changes in stocks	+ 3.1	+ 0.1	- 9.3	+ 7.1	+ 2.0
Changes in currency reserves	- 8.6	- 6.0	+ 6.1	+ 7.5	+ 7.0
Total	139.1	144.1	149.5	186.0	187.7

¹ The figures for 1970 are provisional.

Source: Secrétariat d'Etat au Plan, *Rapports sur le budget économique*, successive years.

that may be, there can be no doubt about the urgency of altering the present pattern of the country's financial infrastructure, in the sense not so much of decentralizing it as of strengthening it at the margin. A more balanced structure could do a lot to promote a more even geographical distribution of banking activities, much to the benefit of the peripheral areas whose economic development often depends crucially upon the possibility of mobilizing local resources. All this gains added significance in the perspective of planned development, where it seems obvious that financial intermediaries should counteract economic dualism rather than allowing themselves to be governed by it.

TABLE 76

FOREIGN DEBT AND DEBT SERVICE¹, 1964 TO 1970
(million current dinars)

Items	1964	1965	1966	1967	1968	1969 ¹	1970 ¹
1. Foreign debt	122.8	153.8	200.0	235.3	258.2	286.4	323.8
2. public loans	68.3	87.9	119.6	149.4	168.6	197.8	235.3
3. private loans	54.5	65.9	80.4	85.9	89.6	88.6	88.5
4. <i>Share of public loans</i> <i>(2:1) per cent</i>	55.62	57.15	59.80	63.49	65.30	69.06	72.67
5. Debt service ²	(*)	17.5	21.8	31.3	34.3	36.0	36.0
6. Proceeds from export of goods and services	(*)	98.7	114.3	120.4	132.4	141.5	151.4
7. <i>Share of export earnings</i> <i>absorbed by debt</i> <i>service (5:6) per cent</i>		17.7	19.1	26.0	25.9	25.4	23.8

(*) No comparable figures available.

¹ The figures for 1969 are provisional, those for 1970 are estimates.² Interest and repayment of principal.Source: Secrétariat d'Etat au Plan, *Rapport sur le budget économique de l'année 1970*.

It is necessary, too, to intensify the mobilization of domestic resources to the utmost extent possible, by drawing into the circuits of intermediation households, the rural world and the peripheral economic areas alike. For some time now Tunisia has been owing far more to the world at large than is safe, not to speak of the economic and political limitations entailed by these foreign debts.

An analysis of the flows of resources and their use (Table 75) shows how constantly and largely Tunisia depends on foreign capital for financing its gross investment in fixed capital. But if we then look at the cumulative debts incurred by the country up to the end of 1970 (Table 76), we see that service of the foreign

TABLE 77

TUNISIA'S SIGHT AND SHORT-TERM FOREIGN ASSETS AND LIABILITIES,
1962 TO 1970
(thousand current dinars)

Year and month		Gold and foreign exchange assets 1	Claims 2	Debts on sight and short-term 3	Balance 4 = 1 + 2 - 3
1962	December	26,890	1,924	6,992	21,882
1963	December	27,091	3,297	23,302	7,086
1964	December	18,867	1,813	23,693	- 3,013
1965	December	21,174	1,910	29,873	- 6,789
1966	December	17,013	3,721	35,011	- 14,277
1967	December	21,995	4,443	47,152	- 20,714
1968	March	13,801	4,525	41,545	- 23,219
	June	16,872	3,861	41,282	- 20,549
	September	19,492	4,338	38,182	- 14,352
	December	21,529	2,989	36,325	- 11,807
1969	March	19,314	2,418	37,917	- 16,185
	June	19,498	2,778	34,484	- 12,208
	September	28,324	1,624	30,693	- 745
	December	21,997	2,568	28,699	- 4,134
1970	March	24,040	3,117	33,413	- 6,256
	June	30,427	3,378	30,938	+ 2,867
	September	36,889	4,601	30,990	+ 10,510
	December	33,100	3,685	30,240	+ 6,545

Note: This table is a disaggregation of column 5 in Table 32.

Source: B.C.T., Annual reports 1968 to 1970.

debt absorbs almost one quarter of the proceeds of exports of goods and services, and thus in itself tends to create a permanent and growing need for more foreign capital. And of course, the more foreign debts a country has already, the more difficult will it be for it to obtain further foreign loans. The declining proportion of debts to private investors in Tunisia's total indebtedness may

well be a symptom of the country's weakening capacity to obtain credit on the terms and conditions of the international market. The situation is highly precarious, for there is a threat of potential instability behind the new-found balance of Tunisia's foreign assets and current liabilities (Table 77).

It follows that it is all the more urgent to do everything possible to step up the efficiency of existing financial infrastructures in mobilizing domestic resources. The banks, in particular, should give the highest priority to intensifying and extending by every possible means the processes of financial intermediation in the strict sense — meaning, in this context, intermediation excluding the financial flows generated by the banking system's borrowing from public administration, the central bank and abroad. If indeed the banks' monetary base were in the future to form in more autonomous ways, this would surely create more favourable conditions for the economy's internal and external balance and for its capacity to finance its own development.

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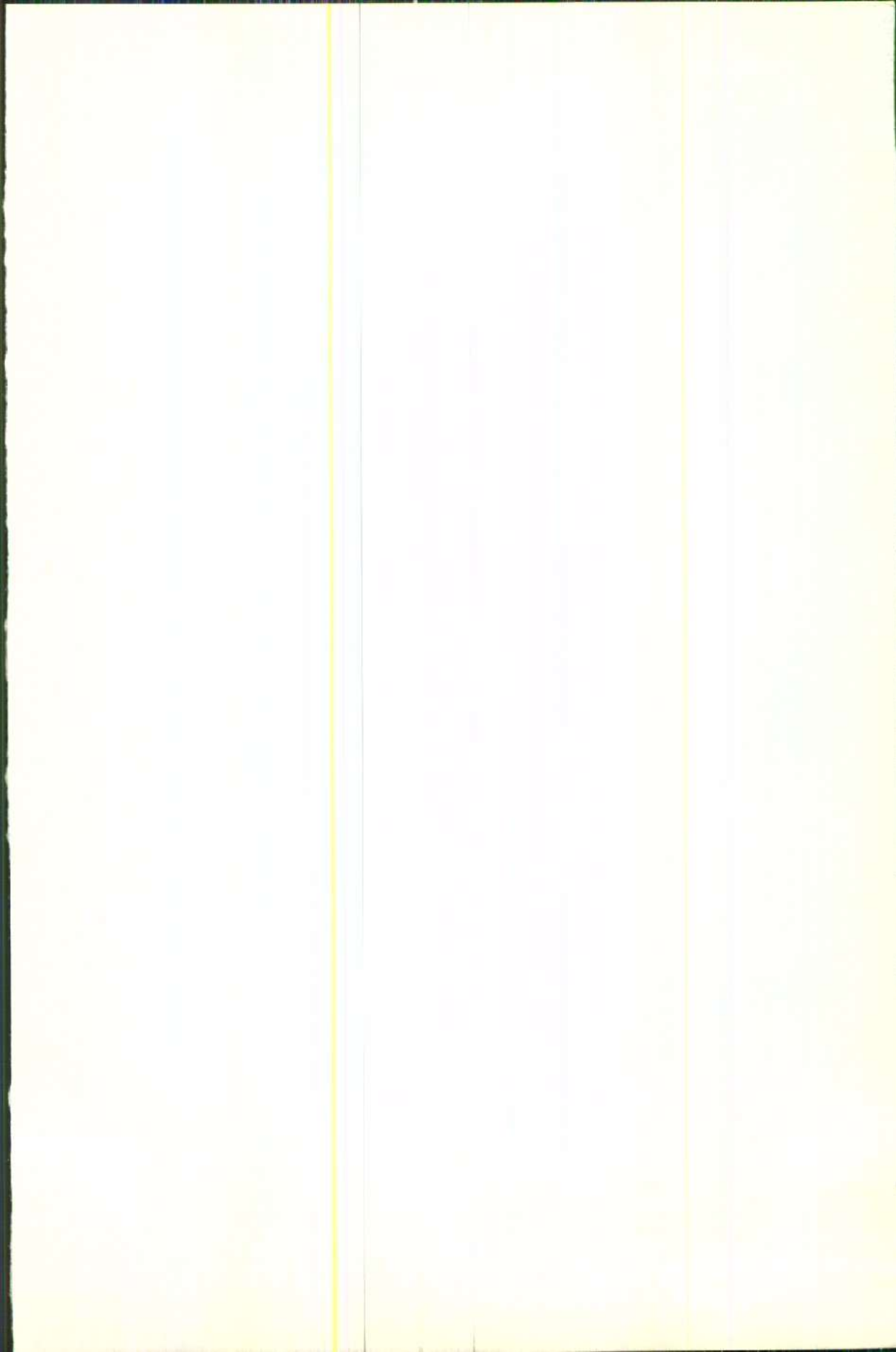
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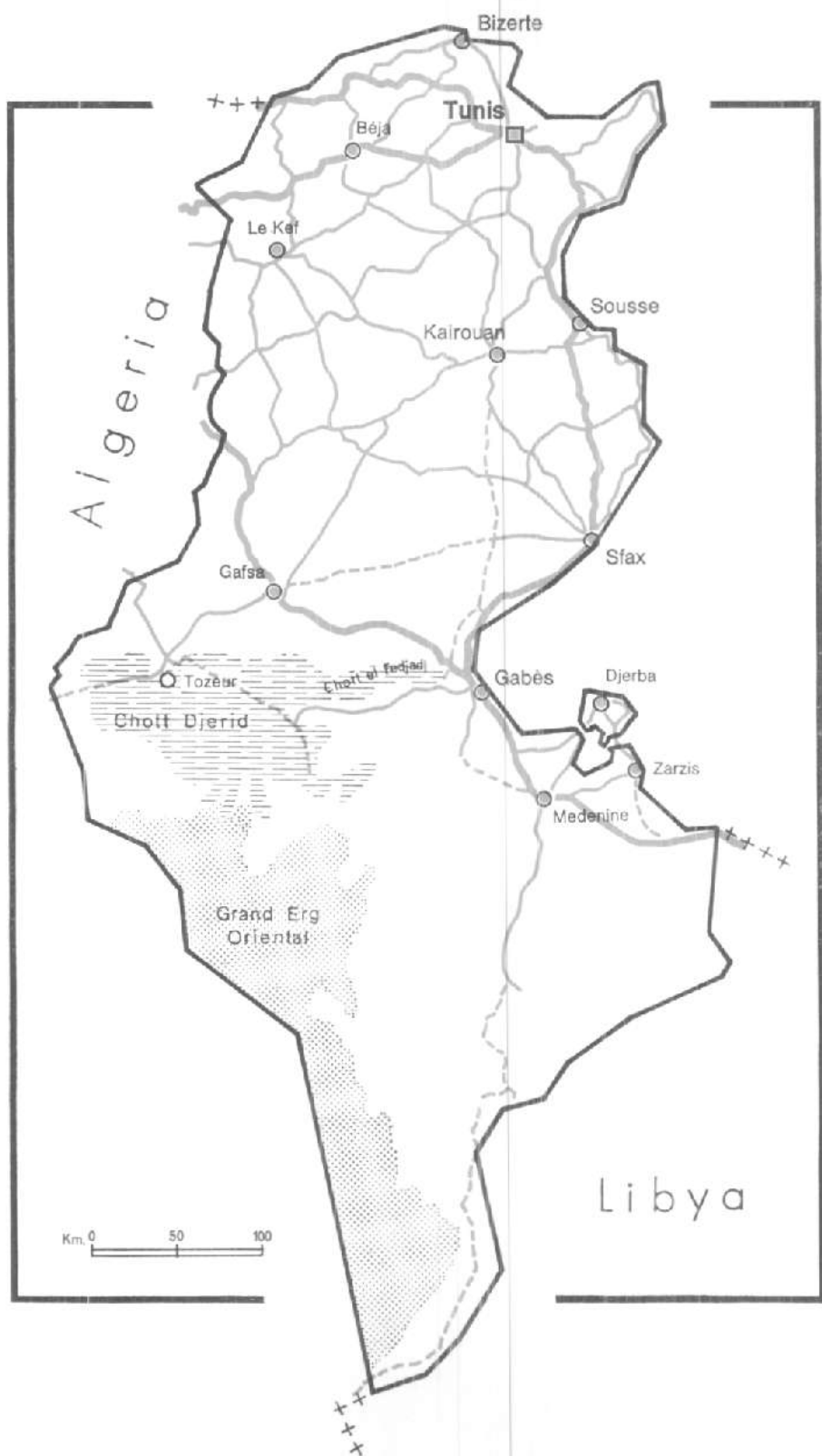
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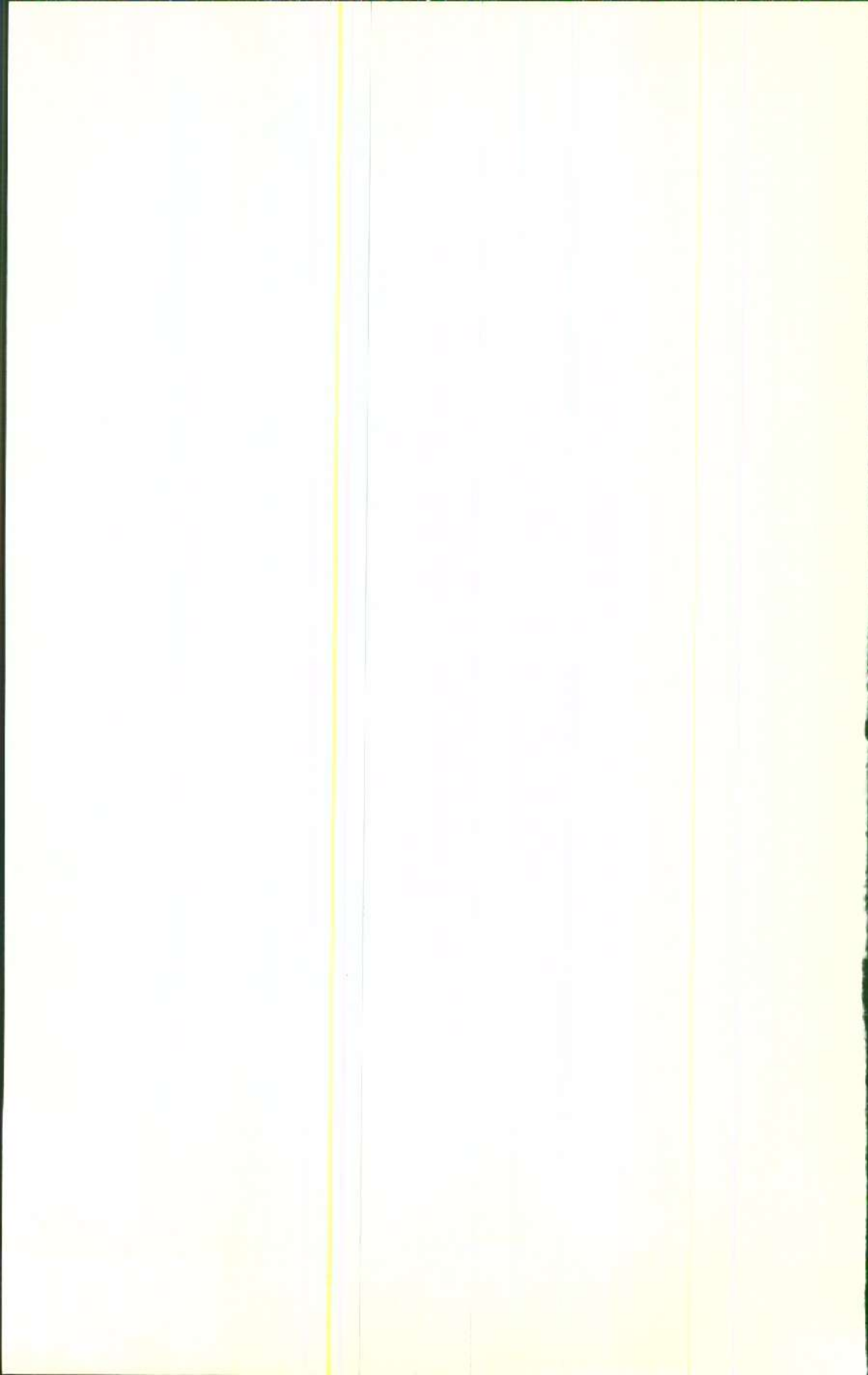
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