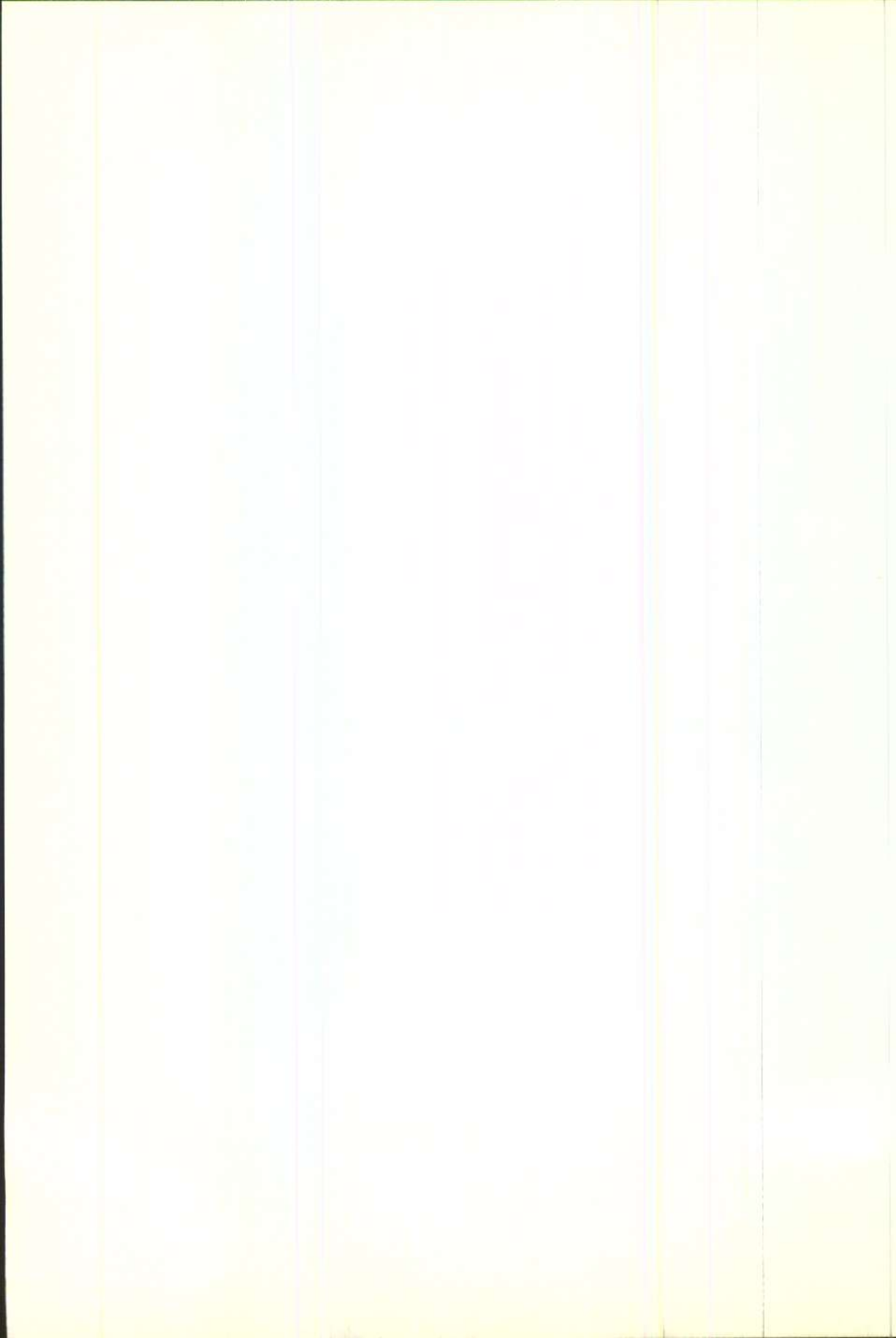


PART TWO

MONETARY EMANCIPATION AND THE REFORM OF THE
BANKING SYSTEM FROM THE PROCLAMATION OF
INDEPENDENCE TO THE FIRST TEN-YEAR
DEVELOPMENT PROJECTIONS 1962-1971



1. THE CONSEQUENCES OF THE 1955 CONVENTION WITH FRANCE AND THE REASONS FOR ITS CESSATION

The system established by the 1955 agreements with France had, as has already been pointed out, created a basically contradictory situation. Tunisia had its national independence, but as regards economic development, the new government had responsibility without power of effective control over the principal economic variables. In the absence of sovereignty in anything having to do with money, credit and external capital movements, political sovereignty was a mere formal assertion of principle. Such an absurd situation could not last, and soon created bitter political conflicts between the two signatories of the 1955 Convention. Many factors contributed to the disruption of the precarious balance in French-Tunisian relations. Some of them have already been touched upon, and will be mentioned again now merely in order to present a complete picture of the course of events and of the development which led Tunisia to shake off the fetters which still bound it to the administration of metropolitan France.

The 1955 agreements did not, as they were meant to, dispel the spirit of distrust which had taken hold of the French community in Tunisia ever since the demand for independence began to be discussed in 1954. The foreign investors were the first to disbelieve that the Convention might succeed in re-establishing stable relations between the two countries. Without political conditions of stability, there seemed little prospect that the monetary, financial and trade agreements could last. In this light one might even come to believe

that there is a grain of truth in the somewhat rash assumption that, apart from the unity of the Franc Zone, one of the purposes, perhaps even the main purpose, in the mind of the French negotiators was to buy time for the French community to liquidate their investments in Tunisia and repatriate their funds in a normal and tension-free atmosphere. If this is so, these agreements must at least to some extent be regarded as the price of independence for the Tunisian government. Their acceptance certainly must have been dictated by necessity and by the wish to take advantage of the substantial financial aid offered in counterpart under the terms of the Convention.

But it is vain to pursue this enquiry into the intentions of the negotiators, since there is now no firm information to go by. The fact remains that Tunisia's economic and financial situation kept deteriorating. As will be seen from Tables 4 and 5, the 1955 agreements failed to halt the decline of private investment or the rising tide of capital flight to metropolitan France; nor, as Table 1 shows, did they prevent a further alarming fall in the ratio of net investment to net domestic product. Taken in conjunction, these indicators prove that the French government's financial aid was not enough to make good the capital exports of private business, with the result that Tunisia kept being drained of financial resources. This state of affairs obviously could not go on, the less so as French financial aid was paid out on the basis of annual programmes and was suspended in August 1957.

In this tense atmosphere the Tunisian government soon afterwards proceeded to the unilateral abrogation of the French-Tunisian customs union set up by the 1955 agreements. This decision, however, was dictated not so much by deteriorating political relations, as by a growing awareness of the fact that the terms of trade with France were turning against Tunisia. With

inflationary pressures in France, the prices of Tunisian imports had risen above international levels and thus transmitted inflationary pressures to the Tunisian economy.

The mounting costs of imported factors of production were reflected in Tunisian export prices, lifting them in turn above international levels. It is true that thanks to the customs union Tunisian exports still had easy access to the French market, which was in a position to absorb the price increases. But this meant a danger, at the time, that Tunisian exports might lose their competitiveness on international markets and might thus find no alternative outlets in case the annual renewal of the customs union were refused on the French side. It was because the Tunisian government felt that export prices must be kept in line with international prices that Tunisia withdrew from the customs union¹.

What remained of the 1955 Convention, then, was only the monetary agreements, certainly its most unfavourable part so far as Tunisia was concerned. They imposed serious restrictions on the Tunisian state's sovereignty and independence in economic matters, and these restrictions became more onerous with the final loss of any purported benefits deriving from the discontinued financial and trade agreements. In this situation the rules of the Franc Zone, which allowed free internal capital movements and hence the flight of capital to France, worked entirely to the detriment of the Tunisian economy, since there were neither political nor economic reasons now for financial equilibrium. Without these basic conditions of reciprocity, the only effect of the monetary rules within the Franc Zone was to make it possible for the French to

¹ It was argued at the time that the global amount involved in the higher prices paid by Tunisia for its imports was not offset by the extra proceeds of Tunisian exports to France. This statement cannot be verified for lack of full statistics.

repatriate disinvested funds from Tunisia. And the Tunisian banks, mere appendices of the French banking system as they were, played an active part as channels for this capital drainage and impoverishment of the Tunisian economy.

Yet another reason for conflict between the two signatories of the 1955 Convention was the French government's unilateral decision in 1957 to devalue the franc, which directly affected the currencies of all members of the Franc Zone. Tunisia was one of the countries where the system of fixed exchange rates came under strong criticism at the time, even though the harmful effects of devaluation were initially mitigated by the introduction of multiple exchange rates. In all, the instability and the inherent conflicts of the situation were bound to end up with the Tunisian government's claim for monetary sovereignty.

2. THE CREATION OF THE *Banque Centrale de Tunisie*

After the swift dissolution of the 1955 agreements the first step the Tunisian government took towards the country's institutional emancipation from the Franc Zone was to set up a Central Bank. Not least in historical terms, the *Banque de l'Algérie et de la Tunisie* was in fact the very symbol of Tunisia's monetary dependence, and it was natural for the government to challenge the bank's powers with a view to gaining possession of the main instrument of monetary independence.

After prolonged negotiations with the French authorities Tunisia established its own central bank, the *Banque Centrale de Tunisie*, on 19 September 1958¹.

¹ The constituent law is Law No. 58-90 of 19 September 1958, published in the *Journal Officiel de la République Tunisienne* (J.O.R.T.), 23 and 26 September 1958. The law contains the statute of the B.C.T. together with a set of rules governing its activities. It has been published also by the B.C.T. itself, in *Textes organiques*, Tunis, pp. 13-36.

The law declares, in Part One, that the Central Bank is a public-law institute endowed with its own legal personality and financial autonomy. Its chief executive is the Governor, appointed for six years by a decree of the President of the Republic. The General Manager is likewise appointed by Presidential decree, but upon the proposal of the Governor and for a term of office of only three years. The management of the bank's affairs is in the hands of a ten-member Board of Directors, which consists of the Governor, the General Manager, four members "chosen in the light of the important functions they discharge in connection both with the conduct of the state's economic and financial affairs and with the administration of public and semi-public institutions in the field of credit or economic development", and another four members "chosen in the light of their professional experience in agriculture, trade or industry". All these eight members are appointed for three-year terms by Presidential decree, and so is the auditor, upon the recommendation of the Secretary of State for Finance.

The Board of Directors' numerous powers include those of laying down the conditions of the Bank's lending and borrowing operations (and hence the discount rate), and of taking decisions on the creation, issue and withdrawal of banknotes and coin, subject to a two-thirds majority of votes.

In Part Two, the law outlines the functions of the Central Bank in general terms. These may be summarized as follows:

- (1) to control monetary circulation and credit distribution;
- (2) to support the government's economic policy;
- (3) to propose to the government such measures as may exert a favourable influence on equilibrium in the national accounts, the movement of prices, the state of the public finances and national economic development;

- (4) to inform the President of the Republic of any matter likely to affect monetary stability;
- (5) to require banks to furnish such figures and information as may be judged useful for assessing credit developments and short-term economic conditions, and to run a central risk pool.

It is interesting to note how broad are the functions assigned by law to the Central Bank. The main emphasis is on supporting the government's development policy; the maintenance of monetary stability, on the other hand, does not appear as an overriding aim, nor as one to be pursued by the Bank directly and independently. All the Bank has to do in this respect is to propose suitable measures to the government and to keep the President of the Republic informed.

The main function assigned by the law to the Central Bank is the issue of notes and coin on behalf of the state¹. The law sets no limits to this privilege, but (in Chapter II of Part II)

¹ Previously, the issue of coin had been a prerogative of the Treasury. Under the Terms of Law No. 58-90 of 19 September 1958 (creation of the Central Bank) and Law No. 58-109 of 18 October 1958 (monetary reform), the Convention of 31 October 1958 transferred this function to the Central Bank as of 1 November 1958. Accordingly, the Central Bank was authorized to book among its assets a claim on the Treasury for an amount equal to the difference between the value of coins minted and the value of coins not yet issued and held by the Treasury at the moment of transfer. This Treasury debt was to be repaid by offsetting Central Bank earnings on Treasury accounts. In practice, the amount involved on 1 November 1958 equalled the value of coins in circulation, and as such appeared among the liabilities on the other side of the Bank's balance sheet.

The attribution of all issuing rights to the Central Bank is a matter of more importance than is generally realized. In Tunisia, as in many other developing countries, the creation of metallic money can have a considerable effect on monetary stability, since coins play a large part in commercial settlements because of their high velocity of circulation, the low level of individual incomes and the preference of the poorer and less educated population groups to use and own metallic money rather than banknotes.

specifies in detail what is meant by "money-generating operations", which are classified as follows:

- (a) Operations in gold and foreign exchange.
- (b) Credit operations. Provision is made for various technical forms in which the Central Bank may refinance banks, including different types of guarantees and a wide range of maturities. This reveals the clear intention of the law to endow the Central Bank with ample means of intervention to promote development finance and exercise control over the distribution of credit¹.

¹ Briefly, the Central Bank's refinancing of the banking system can take place in the following forms:

- (i) Rediscount of, or advances on, commercial bills with three good signatures and maturing in not more than three months (extendable to six months at the discretion of the Board);
- (ii) Rediscount of financial bills with at least two good signatures, if they represent farm working credits and fall due in not more than three months (renewable for up to nine months by decision of the Board), provided the bank concerned has applied for and obtained advance authorization to rediscount the bills;
- (iii) Rediscount of bills representing medium-term credits, of three-month maturities renewable up to five years, provided that (a) they have three good signatures, one of which may be replaced by a state guarantee; (b) they serve to finance means of production, specified exports or housing construction; (c) the applicant has requested and obtained advance authorization to rediscount the bills. This form of refinancing is available not only to banks but also to other agencies authorized by the Finance Minister, upon the recommendation of the Central Bank, to engage in medium-term credit operations. It is, however, subject to an overall ceiling fixed from time to time by the Board;
- (iv) Advances on private securities, gold and foreign exchange for at most three months, renewable up to nine months;
- (v) Discount or rediscount of government or government-guaranteed securities maturing within three months. This facility is available to anyone barring the Treasury and public agencies;
- (vi) For banks only, advances on the same kind of securities;
- (vii) For applicants other than banks, advances on the same kind of securities at the discretion of the Board, which lays down the maximum amount, the type of admissible securities and the duration of the advance.

- (c) The purchase and sale of negotiable public securities maturing within six months and of private securities admissible for rediscount. This facility is available only to banks. The total amount of public securities held, including those held under operations listed in footnote 1 on page 47, must not exceed 10 per cent of ordinary budget revenue during the previous financial year.
- (d) Loans to the Treasury. By statute, the Treasury has a right to an overdraft on current account to cover the government's cash requirements for current public expenditure. However, the overdraft may not exceed 5 per cent of ordinary revenue during the previous financial year, nor 240 days, consecutive or not, in any one year. The Central Bank may in addition discount, or make advances on, drafts and indemnity bonds subscribed to the order of the Treasury and maturing within three months.

This brief analytical catalogue makes it clear that the law was meant to lay down precise limits to the state's direct or indirect indebtedness to the Central Bank. But these limits were soon reached and exceeded, as will be explained later, by operations not explicitly envisaged and governed by the statute.

The law furthermore entitles the Central Bank to accept interest-free deposits from banks, other authorized credit institutes and, subject to approval by the Board, from individuals and corporations.

Among the Central Bank's other functions mentioned by the law, the more important are to set up and run a clearing; to act as the government's financial agent; to assist and possibly to represent the government in its relations with international financial institutions; to supervise the implementation of exchange control laws and regulations; to take part in preparing advance

estimates of foreign exchange receipts and outgoings; and to advise the government in the preparation of import programmes.

The establishment of a central Bank in Tunisia was followed immediately by a currency reform¹. Apart from its significance as a political gesture, the reform brought only a purely formal change. It introduced a new money unit, the dinar, at a fixed rate of 10 French francs; the old Tunisian franc was retained as a fractional division worth one thousandth of a dinar.

At the same time the Central Bank was endowed with a capital of 1,200,000 dinars² and provision was made to transfer to its assets the outstanding credits granted by the B.A.T. to the Treasury in 1948 and 1952 as counterparts to the renewal of the B.A.T.'s note-issuing privilege. These credits amounted to 850,000 dinars and were to be amortized before Novembre 1965 out of the central bank's earnings on Treasury accounts³.

With these steps Tunisia was definitely launched on the path of monetary emancipation. For one thing, the creation of a central bank was politically irreversible. It set up a chain reaction which could have only one end. Tunisia's external financial position made it inevitable that sooner or later a new monetary system would have to be adopted, involving the abandonment of a fixed exchange rate between the dinar and the French franc as well as strict controls over external financial movements. First of all, the independent exercise of the issuing privilege withdrawn from the B.A.T. would, as a matter of principle, have been incompatible in the long run with continued adherence to the monetary rules of the Franc Zone,

¹ Law No. 58-109 of 18 October 1958, *Journal Officiel*, 17 and 21 October 1958.

² Law No. 58-110 of 18 October 1958, *Journal Officiel*, 17 and 21 October 1958.

³ Convention of 31 October 1958, in B.C.T., *Textes organiques*, *op. cit.*, p. 32.

so that the unilateral secession of Tunisia was inevitable. Secondly, the mounting deficit in the Tunisian balance of payments, due in large part to increased financial transfers to France, would quickly have exhausted the dwindling reserves of French francs held by the Central Bank. The second consideration was obviously the more urgent of the two and carried to day.

3. THE DISENGAGEMENT OF THE DINAR AND THE INTRODUCTION OF CONTROLS ON CAPITAL TRANSFERS BETWEEN TUNISIA AND FRANCE

Tunisia did not have to wait long for a political opportunity of breaking the dinar loose from the French franc. Taking advantage of the fact that France had for the second time unilaterally devalued the franc — this time, on 28 December 1958, by 17.55 per cent — the Tunisian government decided not to follow suit but to maintain the dinar's rate of exchange with other currencies unaltered¹. The disengagement received formal expression in a new definition of the dinar in terms of gold, with an official par value of 2.115880 grams of fine gold per currency unit².

The immediate consequence was to sweep away what little balance remained in Tunisia's financial and economic relations with France. More capital than ever fled back to France for a number of reasons: apprehensions created by the deterioration in the political climate between France and Tunisia, the chance of considerable gains through the conversion of dinars into francs at the new exchange rate, and the fear that Tunisia would sooner or later

¹ In this crisis, the Tunisian government had the political advantage that Morocco at the same time decided not to devalue in line with the French franc.

² Law No. 58-140 of 30 December 1958, *Journal Officiel*, 30 December 1958.

be forced to follow the franc into devaluation or else to impose strict controls on capital transfers. A second danger which threatened to exhaust Tunisia's exchange reserves was the deterioration in the terms of trade vis-à-vis France, the chief supplier of capital goods and chief buyer of Tunisian agricultural exports. Falling import prices pushed up imports from France, while higher export prices made it difficult to sell grain, wine, citrus fruit and oil exports on French markets. Contrary to expectations, the Tunisian government refused to devalue the dinar with the franc, and took quick action to defend its French franc reserves.

On 13 January 1959 strict controls were introduced with respect to financial transfers to the countries of the Franc Zone¹. Transfers originating in imports required only formal checks, but those originating in capital movements and classifiable as invisibles, became subject to severe restrictions. Having broken its currency's ties with the franc, Tunisia thus broke also the last ties which still bound it to the Franc Zone in the form of free capital movements. In effect, this measure meant that Tunisia was leaving the Franc Zone, and thus it put the seal, at least in a formal sense, on the monetary emancipation which the government had initiated by the creation of the Central Bank. Yet it would be going too far to say that Tunisia had thus finally achieved monetary sovereignty; its new-found independence was theoretical rather than real, in that it rested only on an act of legislation and had no economic and financial foundations. In actual fact, external conditions at the time imposed rather narrow limits on the Tunisian government's exercise of its monetary powers.

¹ Law No. 59-8 of 13 January 1959, *Journal Officiel*, 9-13 January 1959, subsequently altered and amended by Law No. 59-145 of 5 November 1959, *Journal Officiel*, 2-5-9-12 November 1959.

The currency and financial measures intended to halt the flight of capital, were accompanied by a series of others designed to buttress exports to France. A system of export payments and subsidies was introduced as a stop-gap measure to help the sale of Tunisian products on the French market. This was successful¹, but raised the urgent problem of finding other solutions less costly for the state's finances. The government's two main lines of approach were to negotiate new commercial agreements with France and to diversify export markets².

The success of the government's action in this critical situation is apparent in the statistics. The trade deficit fell sharply³ and foreign exchange reserves rose⁴.

4. THE FRENCH-TUNISIAN AGREEMENTS OF 5 SEPTEMBER 1959

After these events, there was virtually nothing left of the 1955 agreements, which in fact had been in contradiction with Tunisia's status as an independent country. But economic relations between France and Tunisia were of such enormous importance as to make the conclusion of new agreements imperative. This proved no easy matter, and more than once negotiations nearly broke down. But eventually they did lead to a new convention on financial and

¹ Thanks, in part, to abundant harvests in 1958-1959 in Tunisia, to a simultaneous decline in exports of some agricultural commodities from other Mediterranean countries, and to the steady price rise in France. All this helped Tunisian exports, though the favourable effect was to some extent offset by the devaluation of the Spanish peseta (18 July 1959) and of the Moroccan franc (17 October 1959). See B.C.T., *Rapport annuel 1959*, pp. 8-9 and 33-41.

² See B.C.T., *Rapport annuel 1959*, pp. 33-34.

³ See Table 3.

⁴ Between 31 December 1958 and 31 December 1959 they increased by some 80 per cent, from 21,462,000 to 38,722,000 dinars. B.C.T., *Rapport annuel 1959*, p. 71.

commercial relations. This was conceived in a spirit of reciprocity not unlike that which had governed its predecessor. But contrary to the 1955 Convention, that of 1959 gives the impression of being intended not so much to consolidate existing relations within the now disintegrating Franc Zone, as to create the conditions for future reciprocal independence. In this light, it can be called distinctly favourable to Tunisia, without, incidentally, much cost to France.

The financial agreements conceded to Tunisia more independence in the management of its reserves in currencies other than French francs. Previously this had been incumbent on the Exchange Equalization Fund of the Franc Zone, but under the new arrangements the Tunisian central bank at last gained control over its own foreign assets¹.

The new convention, furthermore, conceded to Tunisia complete independence in tariff matters, liberalized trade and stipulated preferential customs treatment. A few restrictions were introduced at the same time, together with an undertaking by France to take up pre-established quantities of Tunisian wine and hard wheat. The agreements were concluded for one year, subject to tacit renewal. The tariffs fixed by Tunisia on French imports under the terms of this convention were, as was to be expected, higher for consumer goods than for capital goods².

¹ This was an important innovation, since in recent years Tunisia's balance of payments with countries outside the Franc Zone had been in surplus, so that Tunisia had accumulated conspicuous exchange reserves in the common pool. Following the reform of Tunisia's relations with the Exchange Stabilization Fund of the Franc Zone, the Tunis branch of the French Foreign Exchange Office was closed down and its functions transferred to the *Banque Centrale de Tunisie*. On the technical aspects of the reform see B.C.T., *Rapport annuel 1959*, pp. 55-56.

² Duties on imports of consumer goods from France were raised immediately, as of October 1959.

So much for the 1959 Convention. It is worth pointing out, however, that it was not accompanied by any agreement of collaboration with respect to economic development in Tunisia.

In signing the 1959 Convention with France, Tunisia in a certain sense signed the final act of its gradual disengagement from the Franc Zone. The creation of a central bank, the simultaneous withdrawal of the issuing privilege from the B.A.T., the introduction of a national currency, the discontinuation of a fixed exchange rate between the dinar and the French franc, the adoption of severe restrictions on financial transfers to France, the assumption by the Central Bank of wider powers in the management of exchange reserves, and the conclusion of the 1959 customs agreement on a basis of substantial equality — all these were so many steps in the assertion of Tunisia's sovereignty and towards its real independence in economic, monetary and financial matters. With this first stage completed, the Tunisian government soon came to realize that complete independence required also far-reaching institutional reform at home. The centres of economic decision-making had to be transferred to Tunisian hands so as to enable the government to launch a co-ordinated and efficient development programme, under the direct control of Tunisian authorities and without foreign interference.

The significance and the implications of this political line were obvious. The European community in Tunisia would henceforth have to be subject to the decisions and directives of the Tunisian government and would have to subordinate its behaviour to the overriding requirements of the national interest. The tenuous relationship that had grown up between European and the Tunisian authorities since independence, came under critical pressure and many members of the French and Italian communities decided to go home. Especially after the events of 1959 this outflow assumed

massive proportions and became irreversible. The initial effect was very damaging, since it meant the depletion of top-level key personnel and raised difficult problems of replacement in the managerial class. Nevertheless, the departure of so many Europeans did make room for a more or less natural process of "Tunisification" of decision centres.

There remained the no less urgent problem of the reform of domestic economic institutions and their integration in the new national context of incipient economic development. At once, the Tunisian government concentrated its attention on the banking system, which, as was made clear before, was not only almost entirely in French hands, but constituted the most important centre of decision-making and power left over from the Protectorate economy. The banking system had, moreover, in the past contributed to the discrepancy between the modern and the traditional sector of the Tunisian economy and thus accentuated its dualism. Finally, since the largest possible volume of disposable resources now had to be channelled to economic development, the country needed a strong system of financial intermediation, and the first thing to do, therefore, was to create a banking and financial system that was at once efficient, flexible and fully integrated into the government's economic planning.

5. THE REORGANIZATION OF THE BANKING SYSTEM

During the early years of independence, two alternative courses were open to the government with respect to a reform of the banking system. One alternative was to keep the existing system alive and to try by suitable measures to correct its inadequacies and defects so as to bring it more into line with the requirements of national economic development. The other was to liquidate the

banks inherited from the Protectorate and to replace them by newly-created intermediaries of a kind that could be expected to make the greatest possible contribution to financing the national economy on its way to accelerated development.

In practice the Tunisian government chose a middle way between the two solutions, but one rather closer to the second than to the first. The choice was dictated by expediency. It would have been unreasonable, on many grounds, to rely on the existing banking system. The credit institutes serving the traditional sector¹ had in the past more than once proved inefficient and had in effect become agents of government assistance, since they had gradually lost their original character of financial intermediaries and had become mere disbursers of subsidies. Most of them had accumulated an enormous volume of unrecoverable debts, had come in time to operate on standards incompatible with orthodox banking principles and were in obvious decline. One by one these were liquidated and their functions transferred to new institutes set up by the Tunisian government.

Secondly, the mutual-credit institutes serving the modern sector² were bound to lose ground with the gradual withdrawal of French citizens from business in Tunisia and their eventual return home. They were also much resented by the indigenous population, who saw in them instruments of discrimination and a legacy of colonialism. Some of them went out of business voluntarily, while others were liquidated and their functions taken over by new institutes.

¹ The *Sociétés Tunisiennes de Prévoyance* and their *Caisse Centrale*, the *Caisse Foncière* and the *Caisse Centrale de Crédit Artisanal et Maritime*.

² The *Caisses Locales de Crédit Agricole* and the connected *Caisse Mutuelle de Crédit Agricole de Tunisie*, the *Caisse Mutuelle de Crédit Immobilier de Tunisie*, the *Crédit Commercial et Industriel de Tunisie* and the *Crédit Hôtelier de Tunisie*.

Thirdly, the Tunisian branches of public and semi-public French credit institutes¹ closed down for the very good reason that it seemed unprofitable to do business in a changing legal and institutional context for a vanishing group of clients, namely, the French community. The *Caisse d'Epargne*, on the other hand, carried on and in 1956 became part of the Tunisian Postal Administration under the new name of *Caisse Nationale d'Epargne*.

In effect, then, the private banks were virtually the only ones to survive as independent units. It is not known why the Tunisian government decided to leave this branch of banking alone. But certainly the monetary authorities, and especially the Central Bank, rested content with merely exercising rather discreet pressure on the private banks to make them conform with general directives, collaborate with national credit policy and loosen their dependence on the French parent banks by incorporating themselves under Tunisian law. Perhaps the reason why the government took this attitude was that it was anxious to avoid political incidents and damaging economic and financial reprisals by France. The private banks were, after all, the focus of virtually all the French community's industrial, commercial and financial interests in Tunisia. Or perhaps the government did not wish to prejudice its future chances of once more attracting private foreign capital to Tunisia, in the hope that the French banks would eventually again find profitable opportunities in the new setting of national economic policy. The first guess seems to be the more plausible and realistic, since the active part played by the private banks in speeding French

¹The *Crédit Foncier de France*, the *Crédit National* and the *Caisse Nationale des Marchés de l'Etat*.

² Unless the controls on financial transfers to France, introduced on 13 January 1959, be interpreted in that sense.

capital home during the years 1954 to 1958 surely can have left no doubt about the intention of most of them to get out in their turn.

But while the government took no specific coercive measures¹ with respect to the French private banks, it did take steps to curtail their predominance and that of French capital in private banking. To this end the government took an indirect stake in some of them via newly established Tunisian institutes, and also encouraged other foreign banks, of nationalities other than French, to set up in business in Tunisia, and tried to attract non-French banking capital interests.

The clearest picture of the transformations in the Tunisian banking system can perhaps be conveyed by tabulating them, and this is done in Tables 7, 8 and 9, with comments to follow.

6. PUBLIC SECTOR BANKING

One of the very first economic initiatives of the new government of independent Tunisia was to start setting up a public sector in banking. The speed with which the authorities tackled this task appears fully justified, especially in retrospect. No reliance could be placed on the banking system inherited from the Protectorate, as was explained above. It was a matter of urgency, therefore, to create a system of intermediaries subject to the strict control and the directives of the public authorities, which completely lacked any direct means of intervention in the credit market. The government's ultimate aim was clear: by setting up at the centre of the existing system a few national credit institutes and assigning to them a leadership function in financing the principal sectors

¹ Unless the controls on financial transfers to France, introduced on 13 January 1959, be interpreted in that sense.

TABLE 7

CREDIT INSTITUTES AND FINANCIAL ESTABLISHMENTS CLOSED DOWN IN THE PERIOD 1956 TO 1962

Outgoing institutes	Year of cessation	Successors
<i>Caissees Locales de Crédit Agricole</i>	1959	<i>Banque Nationale Agricole</i>
<i>Caisse Mutuelle de Crédit Agricole</i> ¹	1959	<i>Banque Nationale Agricole</i>
<i>Sociétés Tunisiennes de Prévoyance</i>	1962	<i>Banque Nationale Agricole</i>
<i>Caisse Centrale des S.T.P.</i>	1962	<i>Banque Nationale Agricole</i>
<i>Caisse Foncière</i>	1959	<i>Banque Nationale Agricole</i> and <i>Société Tunisienne de Banque</i>
<i>Caisse Centrale de Crédit Artisanal et Maritime</i>	1961	<i>Banque Coopérative</i>
<i>Caisse Mutuelle de Crédit Immobilier de Tunisie</i>	1961	—
<i>Crédit Commercial et Industriel de Tunisie</i>	1960	—
<i>Crédit Hôtelier de Tunisie</i>	1960	—
<i>Crédit Foncier de France</i>	1956	—
<i>Crédit National</i>	1956	—
<i>Caisse Nationale des Marchés de l'Etat</i>	1961	—
<i>Société pour le Financement des Ventes à Crédit</i>	1961	—
<i>Société Tunisienne de Financement</i>	1961	—
<i>Société Franco-Tunisienne pour le Financement du Matériel</i>	1961	—
<i>Caisse d'Epargne Agricole et Industrielle</i>	1956	<i>Caisse Nationale d'Epargne</i>

¹ Liquidation of the C.M.C.A. was a process which actually went on for many years. See B.C.T., *Rapport annuel* 1969, p. 89.

Note: "Outgoing institutes" indicates those wound up by formal liquidation, and "successors" are those taking over their residual assets and liabilities. Hence the table does not include companies which ceased doing business in their own name after incorporation in or merger with others.

of the economy, the government hoped to channel the largest possible volume of disposable financial resources into economic development, and at the same time to counterbalance the power of the private banks and to guide their activities.

[illegible]

TABLE 8 (continued)

TIMETABLE OF CONCENTRATION IN TUNISIAN BANKING, 1956 TO 1970

Banks	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Present names
<i>Crédit Foncier d'Algérie et de Tunisie</i>	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	<i>Crédit Foncier et Commercial de Tunisie</i> (new name since 1967 after separation from the French C.F.A.T.)
<i>Banque Franco-Tunisienne</i>	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	<i>Banque Franco-Tunisienne</i>
<i>Banque du Sud</i> ¹	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	<i>Banque du Sud</i>
<i>Société Marseillaise de Crédit</i>	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	<i>Société Marseillaise de Crédit</i>
British Bank of the Middle East	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	British Bank of the Middle East
Arab Bank	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	Arab Bank

¹ The *Banque du Sud* immediately after its establishment took over the *Banque du Peuple*, a foundation of the *Union Générale des Travailleurs Tunisiens*. This bank is omitted from the table; it formally began its activities at the end of 1965.

Note: The asterisks indicate the years of each bank's existence.

Sources: Banque Centrale de Tunisie, Annual Reports 1959 to 1968 and *Bulletin*, 1963 to 1970.

TABLE 9
PATTERN OF CAPITAL HOLDINGS IN TUNISIAN BANKING, 1956 TO 1969

Tunisian banks	Banks and financial institutes owning capital	Bank capital holdings
<i>Société Tunisienne de Banque</i>	—	<i>Société Nationale d'Investissement</i> (2.46%) <i>Société Franco-Tunisienne de Banque et de Crédit</i> (1960-1963; 85%) <i>Union Internationale de Banques</i> (since 1963, 25%) <i>Banque Franco-Tunisienne</i> (since 1964, majority holding) <i>Banque du Sud</i> (since 1968)
<i>Banque Nationale de Tunisie</i> (ex <i>Banque Nationale Agricole</i>)	<i>Caisses Locales de Crédit Mutuel</i> (1969) (23.7%)	<i>Société Nationale d'Investissement</i> (1%) <i>Banque du Sud</i> (since 1968)
<i>Société Nationale d'Investissement</i> (prior to the capital increase of 1970) ¹	<i>Banque Centrale de Tunisie</i> (4.75%) <i>Société Tunisienne de Banque</i> (2.46%) <i>Union Internationale de Banques</i> (1%) <i>Banque Nationale Agricole</i> (1%) <i>Union Bancaire pour le Commerce et l'Industrie</i> (1%) <i>Banque de Tunisie</i> (1%) <i>Banque d'Escompte et de Crédit à l'In- dustrie</i> (1%)	—

TABLE 9 (continued)
PATTERN OF CAPITAL HOLDINGS IN TUNISIAN BANKING, 1936 TO 1969

Tunisian banks	Banks and financial institutes owning capital	Bank capital holdings
<i>Banque de Tunisie</i>	Industrial Finance Corporation - BIRD (20%)	
	<i>Banca Commerciale Italiana</i> , Italy (2%)	
	<i>Bank für Gemeinwirtschaft</i> , Germany (2%)	
	<i>Stockholms Enskilda Bank</i> , Sweden (2%)	(8%)
	<i>Caisse Centrale de Coopération Economique</i> , France (1%)	
	<i>Caisse de Dépôts et Consignations</i> , France (1%)	
	<i>Banque Transatlantique</i> , Paris	
	<i>Crédit Industriel et Commercial</i> , Paris	
	<i>Société Générale</i> , Paris	
	B.U.P. - C.F.C.B., Paris	
<i>Union Internationale de Banques³</i>	Bankers International Corp., New York ²	(57%)
	<i>Bayerische Vereinsbank</i> , Munich ²	
	<i>Crédit Suisse</i> , Zürich ²	
	<i>Lavaro Bank</i> , Zürich ²	
	<i>Société Tunisienne de Banque</i> (25%)	
	<i>Société Financière de Gestion</i> (25%)	
	<i>Crédit Lyonnais</i> , France (34%)	
		<i>Société Nationale d'Investissement</i> (1%)

Société Nationale d'Investissement
(1%)

Société Nationale d'Investissement
(1%)

<i>Banque d'Escompte et de Crédit à l'Industrie en Tunisie</i>	<i>Banca Commerciale Italiana</i> , Italy (8%) <i>Commerzbank</i> , Germany (4%) Bank of America, U.S. (4%) <i>Banque Industrielle de l'Afrique du Nord</i> , France (20%) <i>Banque Nationale de Paris</i> , France (20%) <i>Banque Worm et Cie</i> , France (40%) Morgan Guaranty International Banking Corp., U.S. (20%) <i>Société Tunisienne de Banque</i> (since 1964, majority holding)	<i>Société Nationale d'Investissement</i> (1%) <i>Banque du Sud</i> (since 1968)
<i>Banque Franco-Tunisienne</i>	<i>Banque Nationale pour le Commerce et l'Industrie en Afrique</i> , France (56%) <i>Banco di Roma</i> , Italy (19%) <i>Banque Nationale Agricole</i> (since April 1968) (2.8%) <i>Société Tunisienne de Banque</i> (since April 1968) (1.3%) <i>Banque de Tunisie</i> (since August 1968) (2.3%) <i>Union Bancaire pour le Commerce et l'Industrie</i> (since August 1968) (1.3%)	<i>Société Nationale d'Investissement</i> (1%)
<i>Union Bancaire pour le Commerce et l'Industrie</i> ^a		
<i>Banque du Sud</i> (the percentages in the next column refer to the end of 1969, when the capital was 1.5 million dinars)	<i>Banque d'Escompte et de Crédit à l'Industrie</i> (since August 1968) (1.0%) <i>Union Internat. de Banque</i> (since April 1969) (1.3%) <i>Monte dei Paschi di Siena</i> , Italy (since April 1969) (30%)	

TABLE 9 (continued)
PATTERN OF CAPITAL HOLDINGS IN TUNISIAN BANKING, 1956 TO 1969

Tunisian banks	Banks and financial institutes owning capital	Bank capital holdings
<i>Crédit Foncier et Commercial de Tunisie</i> ¹	—	—
<i>Société Marseillaise de Crédit</i>	Branch of the <i>Société Marseillaise de Crédit</i> , France	—
British Bank of the Middle East	Branch of the British Bank of the Middle East, U.K.	—
Arab Bank Limited	Branch of the Arab Bank Limited, Jordan	—

¹ The splitting up of the S.N.I.'s capital among so many Tunisian and foreign shareholders began in 1965, when it was decided to transfer the bank from the public sector into private hands, and the public holding was cut down from 55 to 15.7 per cent. See B.C.T., *Rapport annuel* 1966, p. 88.

² These four stakes in the *Banque de Tunisie* were acquired in 1964. See B.C.T., *Rapport annuel* 1964, p. 84, and *Bulletin*, March 1965, p. 6.

³ Composition of capital holdings ever since 1963, when the U.I.B. was set up. See B.C.T., *Rapport annuel* 1963, p. 78.

⁴ The *Banco di Roma* acquired its 19 per cent stake in 1963. See B.C.T., *Rapport annuel* 1963, p. 78.

⁵ Virtually all the capital of the C.F.C.T. is in French hands, but the precise distribution of holdings is not known.

Note: Unless otherwise stated, the information in the table refers to 1968. It was difficult to locate information for this tabulation, and regrettably some gaps remain, perhaps even some inaccuracies.

Sources: *Banque Centrale de Tunisie*, *Société Tunisienne de Banque*, *Banque Nationale de Tunisie* and *Société Nationale d'Investissement*. Other information was gathered directly from the banks concerned.

Société Tunisienne de Banque

On 18 January 1957 the *Société Tunisienne de Banque* was set up. It soon became the kingpin of the Tunisian banking system.

The bank's statute and subsequent amendments thereto are drafted in rather general terms, and the information they contain does not do justice to the scope of the new venture¹. From the outset, the bank was in mixed private and public ownership, with the state reserving to itself a majority holding². Its purposes are defined as follows:

- (1) To accept sight and time deposits from whatever source;
- (2) to extend credit in the form of discount of bills, advances, credit lines, miscellaneous loans, secured or otherwise, and to engage in "all banking and credit operations" useful in assisting clients in the normal conduct of their business (though Art. 3 sets a ceiling of 9 months for discounts and of 12 months for advances);
- (3) to grant medium- and long-term credits in a total amount not exceeding medium- and long-term resources (time deposits, loans and bonds, special funds);
- (4) to acquire venture capital shares, exceptionally and upon formal authorization by the Finance Minister, in a total amount not exceeding own resources and only on condition that the company concerned be "of essential general interest" (investment and development companies are listed as preferentially eligible).

¹ See Société Tunisienne de Banque, *Statuts* (as amended on 23 June 1964), Tunis, 1964.

² At the foundation, the state subscribed 52 per cent of the capital amounting to 400,000 dinars (9 October 1957).

The S.T.B., therefore, was free to engage in virtually any kind of banking and credit business. The authors of the statute clearly wished to give the new institute the widest possible field of action, without however departing from the traditional, and in this case rather formal, principles of orthodox banking¹.

The statute does not, therefore, bear out the view² that the S.T.B. should be regarded as a development bank, even though the authorities clearly expected from it a major impulse for economic development in Tunisia. It might more suitably be described as a mixed bank with a bias towards development finance, or, as the Central Bank puts it, "a deposit bank with a merchant banking department (*département d'affaires*)". This last definition omits to mention medium-term credit, which subsequently assumed great importance³.

Among the statute's more formal provisions, the most important are the following. The company's shares may be registered or bearer stock, with a limit of 20 per cent of total capital for the latter. The S.T.B. has in fact taken advantage of

¹ The rigid link between the maturities of assets and liabilities is no real guarantee of a bank's liquidity and solvency. In practice, the effective duration of a loan depends mainly on the nature of the borrowing company and on its financial requirements. This is especially true in developing countries, where the combination of large capital needs, small own capital resources and scarce long-term credit forces firms to finance fixed investment by short-term credit, with a mortgage as security. In these conditions short-term bank credits inevitably get locked up in long-term financial assets, even on the most favourable assumption that the borrowing firm earns good profits and the bank managers are competent. The experience of the S.T.B., like that of many other banks in Tunisia and elsewhere in Africa, amply supports these statements, so much so as to cast doubt on the validity of orthodox banking principles in developing countries.

² A view put forward, among others, by Bistolfi, *op. cit.*, pp. 169-170.

³ B.C.T., *Bulletin*, April 1963, p. 5.

its right to issue bearer stock on several occasions, when it raised its own resources by capital increases¹.

S.T.B. bearer stock may be acquired only by the Tunisian state and by Tunisian companies or individuals, and may be transferred only subject to the Board of Directors' explicit approval of the new shareholder. The only exception to this rule is transfer to the Tunisian state.

The Board of Directors may consist only of Tunisian nationals, and by law must include several government representatives. Save for a few limitations and conditions, therefore, the S.T.B. is like any other joint stock company in which the state has a majority shareholding. It may be worth mentioning in this connection that the Tunisian authorities have always shown a marked preference for this formula of mixed public and private ownership, which offers the great advantage of flexibility. While in no way impairing public control of the management, this arrangement makes room for private venture capital in public enterprises² and leaves open the possibility of altering the proportion of public and private capital at will³.

¹ As of 28 June 1964, the bank's initial capital of 400,000 dinars had been raised to 2 million dinars, represented by 320,000 registered and 80,000 bearer shares. A further capital increase, to 3 million dinars, was under way at the end of 1969.

² The course of events in subsequent years proves that the state deliberately meant to encourage private equity investment. The state holding was kept constant around 52 per cent, and the S.T.B. from the outset always distributed fairly high dividends, fluctuating between 6 and 8 per cent of nominal capital value.

³ A case in point is the *Société Nationale d'Investissement*, of which more below. This company was founded by the state, which turned it over to private interests in 1965-1966 by reducing its own direct and indirect shareholding from 55 to 15.7 per cent. Most of the stock so released was taken up by private Tunisian banks and by foreign banks and financial institutes.

Ever since its foundation, the S.T.B. has largely concentrated on short-term operations — sight deposits and short time deposits on the one hand, and short-term credit on the other¹. In both fields, expansion was fast from the very outset, thanks to the solid state contribution and the support of the local population during the difficult initial phase. The S.T.B. was at the time the only wholly Tunisian bank explicitly serving the national interest, and as such foreseeably became the preferred bank of the economy's public sector and attracted a conspicuous volume of deposits from that source. For much the same reasons the new institute had an immediate appeal for the local population and very soon counted among its clients a large number of private depositors. And again the same sort of reasons helped lending operations to a quick start; the establishment and expansion of the first state-controlled enterprises pushed up credit demand in the economy, and many Tunisians, who often were unable to obtain credit from the Protectorate's banks, turned to the S.T.B. instead. Summary figures of the S.T.B.'s short-term operations are given in Table 10, for the years 1958 to 1963.

During that period, the composition of credit changed very much as regards its technical forms². This is an interesting point. Discounts of commercial paper accounted for 34.4 per cent of total credits outstanding at the end of 1958, but for only 9.9 per cent at the end of 1963. The proportion of advances on goods and directly mobilizable credits similarly declined, but that of overdrafts

¹ An exhaustive description of the S.T.B.'s activities in its early years will be found in Bistolfi, *op. cit.*, pp. 170-184. In the text, therefore, only the most significant aspects are discussed, on the basis of some of Bistolfi's compilations together with balance-sheet figures and others furnished directly by the S.T.B.'s Research and Documentation Unit.

² As can be deduced from Bistolfi, *op. cit.*, p. 172.

TABLE 10

DEPOSITS AND SHORT-TERM CREDITS OF THE S.T.B., 1958 TO 1963
(end-year figures)

Year	Deposits (million dinars)	Share in banking system's total deposits (per cent)	Credits (million dinars)	Share in banking system's total credits (per cent)
1958	5.7	17.5	6.55	17.9
1959	11.0	23.8	11.86	28.9
1960	14.2	26.0	18.68	34.4
1961	18.5	29.9	23.52	38.4
1962	16.5	24.3	22.54	34.9
1963	22.7	24.9	29.79	39.5

Source: Compilation by Bistolfi on the basis of data furnished by the S.T.B. and the B.C.T.

on current account rose from 21.1 to 66.3 per cent. This is a situation common to the banking systems of many developing countries, and can be explained by a number of reasons. First of all, bills of exchange were generally used only among European businessmen, while the local population preferred settlement in cash. With the departure of the European community and the simultaneous decline of its industrial, commercial and financial activities, therefore, bills of exchange fell into disuse. A second reason is that, at least in the beginning, the development of the national economy was in large part incumbent upon the state, which had to build up industry, organize trade and rationalize agricultural production. This growing public sector was made up of public or state-controlled enterprises, which as a class are not generally given to settling their mutual transactions by bills but prefer paying through the bank. With the declining bill circulation the discount business naturally lost importance.

In credit distribution by sectors, the S.T.B. never seems to have gone in for specialization; its credits went to all sectors, with

some emphasis, however, on financing the so-called *marchés publics* for the marketing and export of the country's main products (phosphates, oil, grain, wine, food preserves) ¹.

As regards medium-term credit, on the other hand, the bank's activities were hamstrung by the statutory requirement of matching loans with resources of equal or longer maturity. Resources of this kind were not abundant and were slow to accumulate, as is shown by the time series of medium- and long-term liabilities in the company's balance sheets ².

In January 1958 a "Special Revolving Fund" was set up under an aid agreement with the United States ³. Its initial amount was 840,000 dinars, and its management was entrusted to the S.T.B., which was entitled to use the money for loans to finance the purchase of capital goods, subject to a maximum duration of 10 years and to pre-established terms and conditions. The loans concerned were, furthermore, required to contribute to industrilization, and were subject to direct government control as well as to prior approval by the American aid mission. For its services in managing the Revolving Fund, the S.T.B. received a commission of 2 per cent on loans disbursed, while its liability in

¹ See B.C.T., *Bulletin*, April 1963, p. 6.

² Additional material was furnished by the S.T.B.'s own Research and Documentation Unit.

³ The relevant convention signed by the two governments concerned assigned to this fund the sum of 3 million dollars (units of account). The money was made available by United States aid, which by this time had all but completely replaced French aid discontinued in 1957. It did not, however, represent an inflow of foreign exchange through the Tunisian balance of payments. The U.S. aid programme for Tunisia made provision for the supply of certain goods, and it was part of the sales proceeds from these goods on the domestic market which, according to the convention, was used to set up the Revolving Fund. Accordingly, the Fund kept growing over the years; its amount was 1,260,000 dinars in 1959, 2,310,000 in 1960, 2,420,000 in 1962 and 2,642,380 in 1963.

case of default was limited to 25 per cent of the loan capital. Repayments were returned to the Fund, the resources of which were used mainly to finance the modernization and new establishment of industrial plant.

In 1959 the government granted the S.T.B. the monopoly of building credits¹. The funds needed for financing such credits were raised by successive instalments of a 15-year bond issue carrying a coupon of 5 per cent. The first tranche brought in 697,760 dinars², a remarkably large amount which owed nearly everything to insurance companies, virtually the sole subscribers of the issue. This last fact goes to show that the public could not be counted on for the mobilization of long-term financial resources³. Part of the proceeds of this first issue was used to reschedule earlier and shorter housing credits.

In 1960 the S.T.B. received a modest endowment of 150,000 dinars from the state, for financing investment in connection with letters of indemnity issued by the state; this special fund was called *Fonds des lettres de garantie*, and since it was used up almost at once and its substance reconstituted only very slowly as repayments came in, later operations of this kind were severely limited⁴.

In 1961, the government asked the S.T.B. to take on the management of the National Housing Improvement Fund (*Fonds*

¹ Law No. 59-104 of 1 September 1959, and Law No. 59-144 of 5 November 1959.

² In subsequent years, as new bonds were issued and some of the earlier ones redeemed, funds from this source were available in the following amounts: 734,110 dinars in 1960, 757,220 dinars in 1961, 921,020 dinars in 1962, and 862,060 dinars in 1963.

³ A few months earlier, in May 1959, the *Société Nationale d'Investissement* had been able to carry out a capital increase only thanks to a compulsory share subscription scheme.

⁴ The Fund was raised to 235,550 dinars in 1961, and to 250,550 in 1962.

National d'Amélioration de l'Habitat)¹. That same year the bank obtained from the Agency for International Development (A.I.D.)² a 15-year loan of 2,100,000 dinars, at 4 per cent. This loan was paid out in dollars³ and thus gave a welcome fillip to Tunisia's foreign exchange reserves, especially since it was repayable in national currency. However, this major advantage was counterbalanced by the restrictive conditions governing S.T.B. loans from A.I.D. funds and their use by Tunisian borrowers. These resources were used to finance the purchase of capital goods.

In all, then, the S.T.B. managed in the years 1958 to 1963 to raise some 6,600,000 dinars of medium- and long-term resources, partly through grants and partly through loans. Of this total, 72 per cent (4,747,380 dinars) came directly or indirectly from foreign sources.

As merchant bankers, the S.T.B. from the outset kept its funds busy in trade investments, subject to the statutory limitations⁴. The proportion of the bank's own resources⁵ so

¹ This Fund grew quickly from 57,290 dinars in 1961 to 384,420 dinars in 1962 and 750,600 dinars in 1963.

² This was known also as D.L.F. Loan, since A.I.D. was only a new name for the United States Development Loan Fund.

³ Five million dollars, as per contract.

⁴ Though the S.T.B. did not always act in the spirit of the law allowing only "exceptional" equity investment.

⁵ The bank's own resources were made up of such heterogeneous items that it is impossible to calculate their effective volume at any moment. The figures published in the balance sheets display some strange omissions. Theoretically, disposable own resources should consist of capital and reserves (net of items under litigation and bad debts figuring on the assets side to the extent that they are not covered by corresponding liabilities), less fixed assets net of depreciation (since this could not be financed by the bank's medium- and long-term resources). Even this calculation is not altogether satisfactory, because it takes no account of the criteria adopted for the definition of the funds entered on the liabilities side of the balance sheet.

employed varied over the years, but it always had shareholdings in industry and the tertiary sector. Their total value was some 860,000 dinars on 31 December 1963. No specialization is discernible; the S.T.B. spread its trade investments widely throughout all branches of the economy, barring agriculture, and displayed no preference either for old-established or for new firms. A few common characteristics can nevertheless be identified in the S.T.B.'s equity investments. First of all, the bank hardly ever took out a majority stake in any company¹, and secondly it liked to invest in large companies, with which it also did business in other ways and whose shareholders usually included the state, directly or indirectly. This latter circumstance suggests that the S.T.B.'s equity investments, for all their fragmentation and apparent lack of consistency, were not as illogical as all that, since they probably fitted into the overall pattern of direct and indirect state holdings.

In its credit distribution, both of short-term and of medium- to long-term loans, the S.T.B. initially gave preference to small and medium-sized firms in industry and commerce. This policy, which the management itself spelt out explicitly at the beginning², was later altered under government pressure. Once the authorities had worked out and launched an industrialization programme involving the construction of several medium to large pilot plants, they naturally wanted the S.T.B. to finance the programme. By and large, the sectoral distribution of the bank's credits during the

¹ One of the few exceptions was a 85 per cent holding in the *Société Franco-Tunisienne de Banque et de Crédit*, taken on in 1960 when the latter bank was verging on bankruptcy. As a result, the S.T.B. was able to acquire a 25 per cent stake in the *Union Internationale de Banque* when it was set up in 1963 by the merger of the S.F.T.B.C. and the *Crédit Lyonnais* of Tunis. In 1959, the S.T.B. put some money into the *Société Nationale d'Investissement*.

² S.T.B., *Rapport annuel* 1959, pp. 8-9.

period under review was reasonably balanced¹, despite some administrative difficulties regarding the use of medium- and long-term resources.

The conditions governing their destination were in fact so rigid as to constitute a severe handicap for the bank's medium- and long-term operations. Worse still, the amounts earmarked for separate purposes were determined without reference to the future composition of demand for credit, or else on the basis of wrong forecasts. The result was that some of the longer-term resources (e.g. the Special Revolving Fund and the A.I.D. loan) were not fully used, thus wasting a quite considerable margin of credit potential². Other resources (especially the 5% bond issue 1959 and the "letters of indemnity fund") soon proved altogether inadequate, and the S.T.B. had to come to the rescue with its own resources, to the extent that they were not tied up in trade investments, or else with money raised by drawing on the Central Bank's rediscounting facilities.

This excess of longer-term loans over funds of the same maturity assumed quite alarming proportions³. At the end of 1963, not counting the Revolving Fund and the A.I.D. loan and credits from their resources, this excess amounted to almost 12 million dinars, nearly twice as much as the total sum of stable resources. This anomalous situation, which was largely due to overexpansion of medium-term loans for building and of government-guaranteed

¹ This statement should be checked against the actual composition of credit demand by economic sectors, but this cannot be done because there are no figures. A breakdown of financial requirements by branches is available only since 1962, when economic planning began.

² At the end of 1963, some 59 per cent (almost 2,800,000 dinars) of the Revolving Fund and the A.I.D. loan were still in hand.

³ For a detailed and authoritative analysis of the situation and the relevant statistics see Bistolfi, *op. cit.*, pp. 182-183.

loans, was bound to have harmful effects on the balance of payments and domestic monetary stability. The excess loans were in fact in large part covered by refinancing with the Central Bank, so that the expansion of medium-term credit was sustained by money creation. Yet in an economy so deficient in savings there was no other acceptable alternative, and economic development had to be financed somehow. Significantly, the S.T.B. began in 1963 to solicit time deposits, whereas until then it had merely issued small amounts of fixed-term notes (*bons de caisse*).

On the basis of the above brief analysis a few conclusions can be drawn concerning the early years of the *Société Tunisienne de Banque*, and especially its structural and functional adequacy. At the time when the new bank was set up, the authorities clearly opted against specialization, no doubt because they felt that the economy was not differentiated enough in terms of sectors of activity, that it was too small to justify the creation of several specialized banks, and that any kind of specialized bank would have encountered undue economic and financial risks. These arguments were sound enough, and accordingly only a few credit institutes were established, none of them strictly specialized; at most, they were assigned some "primary concern"¹. In order to forestall the risks involved in the combination of credits of varying maturity and equity investment, the banks were obliged, by statute, to match the maturities of their investments closely to those of their funds. This was why the S.T.B. was forced to meet demand for medium-term credit, or at least that part of it which exceeded the bank's scarce stable resources, either by raising liquid funds through rediscounts, or else by the expedient of repeated renewals of a major proportion

¹ A case in point is the *Banque Nationale Agricole*, which will be discussed below. On the other hand the assertion in the text does not apply to the *Société Nationale d'Investissement*, which, as will be seen, was not a deposit bank.

of its short-term credits. This practice meant that the bank had large amounts of frozen financial assets more or less hidden among its short-term ones. Predictably, this created difficulties for the bank. Its liquidity position gradually deteriorated in the course of the first few years. Worse, though less obvious, were the general consequences of this practice. The steady conversion of a considerable part of bank deposits at sight into medium- to long-term capital made it hard for the Central Bank to enforce the distinction between credit of different maturities and to control the transfer of financial resources from one category to another; it also more or less forced the hand of the Central Bank in expanding the monetary circulation. Inevitably, the Central Bank had to grant abundant credits to banks which got into difficulties because they had tied up growing amounts of sight deposits in medium- and long-term loans. In other words, an emergency situation was created which deprived the Central Bank of the possibility of choice, and caused it to some extent to lose control over the process of money creation. There can be no doubt that these developments were favoured and aggravated by the absence of an institutional distinction between short-term and longer-term credit operations. So far as the *Société Tunisienne de Banque* is concerned, one is led to wonder whether the "mixed" functions assigned to it were a contributory factor. If this were so, it would be an argument in favour of a banking system made up of units more clearly differentiated according to asset maturities.

Société Nationale d'Investissement

The next comer to public sector banking in Tunisia was the *Société Nationale d'Investissement*, founded under government auspices on 18 April 1959. But the authorities were not very sure at the beginning just what they wanted the new bank to

do, and its original statute was soon amended. Initially, no provision had been made for the S.N.I. either to accept deposits or to extend credit; but in 1960 the general meeting of shareholders redefined the company's object as follows (Art. 4): "La Société Nationale d'Investissement a pour objet de concourir au développement économique et social de la Tunisie. Elle peut, à cet effet, étudier et réaliser tout projet de création, d'extension, de modernisation, de réorganisation ou de transformation d'entreprises agricoles, industrielles ou commerciales, participer au capital de telles entreprises et leur accorder des crédits. Elle peut également recevoir des dépôts, émettre des emprunts à court, moyen ou long terme et entreprendre toutes autres opérations commerciales, industrielles, financières, mobilières ou immobilières pouvant se rattacher directement ou indirectement à l'objet social".

And thus the S.N.I. became a mixture of deposit bank, medium- to long-term credit institute and merchant bank¹. In the event, however, the company concentrated on the third aspect; it did not solicit deposits from the public, did not extend short-term credit and limited its ordinary banking business to serving the requirements of the companies it provided either with venture capital or with medium- to long-term loans.

Almost immediately after the company's foundation, its capital was increased on 9 May 1959 from 250,000 to 2 million dinars, and the state, which held 100 per cent of the original equity

¹ By decision of 10 June 1970 the company's object was broadened again by bringing the tourist industry into its scope. On that occasion it was also empowered to extend loans, though it is not clear what the distinction was meant to be between these and the "credits" which it was already entitled to grant. As regards the tourist industry, however, the decision was needed to legalize the company's already heavy commitments in that sector, including hotels (31.4 per cent of its equity portfolio on 31 December 1969).

either directly or through state-controlled agencies¹, reduced its stake to 55 per cent. The remaining 45 per cent of the capital were offered to private investors, who showed themselves rather reluctant. A compulsory subscription scheme was organized, therefore, under which the purchase price of the shares was deducted from the wages and salaries of the future shareholders — some 80,000 of them among the Tunisian population. Strict regulations had to be applied, of course, to prevent these new shareholders from selling their holdings before certain dates. The political and economic expediency of this forced subscription scheme was widely contested at the time on various grounds. It was said that it had a disincentive effect on people's willingness to save and invest in securities² and that the government had lost an opportunity to associate foreign interests in Tunisia with its own development enterprise³. But quite apart from the controversy as to whether or not it would be a good thing to take in foreign equity capital, the fact remained that the statute of the S.N.I., like that of the S.T.B., required Tunisian nationality of shareholders. This requirement was somewhat diluted by the company's right to issue bearer stock up to one quarter of its total capital, and in this case Tunisian nationality was not a condition of purchase.

¹ Including the Central Bank (22.5 per cent) and the *Société Tunisienne de Banque* (1 per cent).

² It may be mentioned, in addition, that the S.N.I. in the following years distributed rather low dividends, which did nothing to revive the confidence of small savers in equity investment.

³ It seems that there was a real chance at the time to secure for the company foreign capital of various nationalities. This is indirectly confirmed by the fact that, when the S.N.I. was turned over to the private sector in 1965, a number of foreign concerns as well as some Tunisian banks with mainly foreign capital (*Banque de Tunisie, Union Bancaire pour le Commerce et l'Industrie, Banque d'Escompte et de Crédit à l'Industrie*) acquired holdings (see Table 9).

In the end effect, the S.N.I.'s statute was much like that of the S.T.B., except for the company's object. Again the authorities chose the form of joint stock company in mixed public and private ownership, with a public majority holding and predominantly Tunisian capital.

During its early years, until 1963/64, the S.N.I. concentrated almost exclusively on building up its equity portfolio, and did little to develop its medium- and long-term credit operations. For its supply of resources, it relied largely on deposits from the companies to whose capital it had contributed. As can be seen from the few figures assembled in the footnote¹, the bank's situation at the end of its first five years was rather liquid. The equity portfolio amounted to only some 80.6 per cent of the capital, and there were no other major investments. The remaining ample liquid funds went in large part into a conspicuous "loan to the money market", which had nothing whatever to do with the bank's statutory purposes². This sparing employment of the S.N.I.'s resources seems somewhat astonishing if one thinks of the tight liquidity position of the S.T.B. at the same time, of the growing need for medium- and long-term finance just when economic development and industrialization got going in Tunisia, and of the

¹ On 31 December 1964, the key items in the balance sheet were as follows:
Capital: 2,000,000 dinars;
Medium- and long-term debts: 300,000 dinars;
Associated companies' deposit accounts: 839,298 dinars;
Equity investments: 1,613,105 dinars;
Money market loan: 1,140,000 dinars.

Figures for the preceding years will be found in Bistolfi, *op. cit.*, pp. 187-188.

² Since 1963 Tunisia has had a so-called money market, which handles nothing other than short-term interbank loans. It is organized and run by the Central Bank, where the dealings converge and which acts as intermediary among the banks.

general scarcity of investable funds. It was a situation which definitely gave cause for concern. One of its several causes, as can be seen from perusal of the company's successive annual statements, was continuous change in top-level management. This could have nothing but adverse effects on the progress and continuity of management in a company which, by its very nature, required rather forward-looking planning¹. Another reason was that it inevitably took a long time to plan new industrial ventures and set them up in business. Finally, one cannot escape the conclusion that the bank's technical consultants were far too few in relation to the amount of disposable resources and to the policy regarding their use. The bank employed a mere 20 or 30 technicians, and these were quite unable to work out an adequate number of industrial projects, and when a new firm was set up, the bank as a matter of policy took out only a minority holding, sometimes so small as to be symbolical². Resources were thus disbursed very slowly, and moreover came back to the S.N.I. in time, because, in line with its policy of promoting the creation and development of industry in Tunisia, the bank did not usually keep shares in its portfolio as a long-term investment, but sold some or all of them as soon as the company concerned could stand on its own feet and was through the running-in difficulties.

In these circumstances the S.N.I. could hardly be expected to earn very much. The costs and risks involved in the planning

¹ No reflection is intended on the managerial and professional competence of top-level staff, but it does seem worth drawing attention to an organizational shortcoming often mentioned in conversations and interviews with several financial experts. For the rest, the high turnover in managing personnel was, to some extent, connected with the bank's activities, for it often proved necessary to second high executives to the management of newly-established affiliated firms.

² Usually the bulk of the equity capital was contributed by the state and, more generally, the public sector, which thus gained control of the new company.

and design of a new venture, and of setting up and running in the firms concerned, were not always covered by returns from the equity portfolio. Earnings were not helped either by the bank's practice of often selling its best holdings at nominal value, without realizing any capital gain, while keeping those in companies which needed further help.

Sometimes the S.N.I. bought shares in companies controlled by foreign capital interests, the intention being to strengthen public control in the economy and to promote its "Tunisification". These operations, too, were not always profitable.

Taking together all the information and figures contained in the balance sheets and annual statements of the S.N.I. during its first five years, a certain basic policy line can be discerned. The distribution of equity holdings by sectors, and the relevant time series, show that the bank's main interest lay in the development of light industry, and that it gave lower priority to investment in heavy industry, the tertiary sector and agriculture. Out of its very broad statutory range, therefore, the S.N.I., concentrated on a narrower field, and ended up with much the same selection as the S.T.B. in its quality as merchant bank ¹.

¹ One of the reasons underlying the preference of the S.N.I. for manufacturing industry may have been the inherent difficulties of development in other sectors, not to speak of the implicit division of functions among the financial intermediaries established by the state. The development of heavy industry was only just beginning and clearly required government planning; agricultural progress, with all its problems, was the business of the *Banque Nationale Agricole*; and the tertiary sector was increasingly being served by the *Société Tunisienne de Banque*. This is, of course, a very rough distinction of no more than indicative value. In practice, the S.N.I. and the merchant bank department of the S.T.B. came to work along parallel lines, which certainly seems unwarranted in the light of the fact that, in the field of medium- and long-term credit, the resources of the S.N.I. were underutilized and those of the S.T.B. fell short of requirements.

With the initiation of economic planning in Tunisia, it was clear that the government would sooner or later have to rethink the problems of the S.N.I. and to redefine its sphere of competence in more functional and more specialized terms.

Banque Nationale Agricole

As was explained earlier, there was a very marked dualism in Tunisian agriculture at the end of the Protectorate. Alongside a modern sector consisting of large estates predominantly under the management of a limited number of French farmers who used the most up-to-date techniques, there survived the traditional sector of subsistence farming, generally with archaic methods in very small holdings fragmented among very many owners¹. There were virtually no agricultural technicians at all, and there was no precise definition of ownership and land rights². On the day of independence Tunisia had about 9 million hectares of agricultural land, of which 7 million were included in the topographical survey, the results of which are shown in Table 11.

¹ The ten-year projections for 1962-1971, of which more will be said below, reveal an enormous disparity in the distribution of farm land: 5,000 modern farmers owned 400,000 hectares (80 hectares per head), while some 450,000 or more small farmers had between them 3,500,000 hectares (7.8 hectares per head) and worked them at low productivity.

² The pattern of land tenure was the composite result of complex historical developments, in which the dominant influences were customs and usage, the Koran and the rules introduced by Moslem lawyers. The land tenure system at the time when Tunisia became independent was a serious obstacle to development and modernization in agriculture. Very briefly, the following categories of land may be distinguished:

(a) *Habou* land: this had its origin in the Moslem custom of immobilizing land ownership, with the returns reserved either for charity and social purposes (public *habou* land) or to the owner's descendants (private *habou* land). In the latter case, if the family died out, the land usually reverted to the public *habous*, which thus tended to occupy more and more land in time. Since the land in question was inalienable, the result was progressive rigidity in the ownership

TABLE 11

PATTERN OF LAND TENURE
(hectares)

Type	Total area	Area as per Ministry of Agriculture census
Forests	1,000,000	500,000
Collective and communal land	1,500,000	200,000
<i>Habou</i> land, <i>enzel</i>	600,000	500,000
<i>Habou</i> land, private	500,000	200,000
"State domains"	450,000	400,000
Land in French ownership	450,000	500,000
Land in other foreign ownership	150,000	
<i>Melk</i> (private freehold) or registered land in Tunisian ownership	2,350,000	500,000
Total	7,000,000	2,800,000

pattern. In order to introduce some flexibility into the system, Moslem lawyers had thought up a number of expedients. *Habou* land could be leased both for short and for long periods, it could even be sold under a procedure called *enzel*, a Moslem institution typical of Tunisian legislation, or under the rather similar *mogharsa* contract.

(b) *Enzel* land owed its origin to the custom of *habou* beneficiaries to cede to others, as a perpetual title against fixed regular payments, the possession and usufruct of *habou* land (*enzel* contract).

(c) Collective land: land in steppe or semi-steppe zones unsuitable for permanent cultivation and used from time to time by various tribal groups. Hence there was no private ownership, but each group claimed certain rights on the land it used. In recent years the spread of irrigation had led to certain implicit individual rights, but these were ill defined legally and were recognized only by virtue of the area's ancient tribal solidarity.

(d) Communal land: land originally owned by tribal groups, but, with the weakening of tribal bonds, divided up among those who in fact farmed it. But since these individuals had no legal title to the land, it was communal so far as the law was concerned.

(e) State domains: land confiscated from the tribes by the Bey of Tunis. However, the confiscation had been purely formal, for taxation purposes, and the Bey never had taken effective possession of the land. It was thus occupied and cultivated by the original population, but without any defined legal title.

For more detail on the land tenure system of Tunisia see Banque Centrale de Tunisie, *Etudes économiques et monétaires: la réforme agraire en Tunisie*, Tunis, October 1964 (mimeographed).

There had been a census, too, but it had left uncovered the enormous area of 4.2 million hectares, in which property titles were ill defined, uncertain or even non-existent. A great deal of census work remained to be done, therefore, together with a drastic reform of land tenure legislation, before the authorities could begin even to think of an agricultural development programme. The chief aims of the government were to reorganize the institutional pattern of agriculture, to reform the existing land tenure system, and to rationalize the size of holdings and the scale of farming. Without these prior conditions, investment in agriculture would not have contributed anything to raising the latter's productivity, and valuable resources would have been wasted. There was the warning experience of the Protectorate, when agricultural credit to the traditional sector had ended up with being the mere distribution of unproductive subsidies to thousands of small farmers, most of them engaged in subsistence farming.

The authorities at once took drastic steps, as can be seen from the following, most instructive timetable:

Decree of 17 May 1956: abolition of the *enzel* system;

Law of 31 May 1956 (with subsequent amendments of 18 July 1957): abolition of the *habou* system;

Law of 28 September 1957: census, liquidation and allotment of collective land;

Law of 10 October 1959: introduction of a "certificate of possession", against which credit could be granted to farmers having no legal title to their land;

Decree-law of 30 September 1961: establishment of a "state domains board";

Law of 21 April 1964: introduction of compulsory land registration and replacement of "traditional titles" by legal ones;

Law of 12 May 1964: Census and reorganization of communal land.

At the same time, the government also gradually liquidated the old institutions of agricultural credit and laid the foundations for a new system by the creation of the *Banque Nationale Agricole* (B.N.A.) on 1 June 1959. The *Caisse Mutuelle de Crédit Agricole* went into voluntary dissolution, and by decree of 15 June 1959 its functions were transferred to the B.N.A. The same was done in the case of the *Caisse Foncière*, which was discontinued by the law of 21 July 1959. Later, by the decree-law of 3 April 1962, the authorities similarly dissolved the *Sociétés Tunisiennes de Prévoyance*, whose functions were taken over by the B.N.A. under the convention of 15 October 1962.

During the first few years following the accession to independence the Tunisian government was aiming at a tripartite structure in agriculture, involving the delimitation of a private sector, the creation of a state sector and the organization of a co-operative sector.

Direct state action initially took the form of setting up a number of boards, called *offices*, which were to go all out in developing agriculture in certain priority areas or for certain priority crops. These *offices* had the legal status of companies in mixed public and private ownership, and each of them had the primary task of agricultural improvement with respect to a specified zone or product. These terms of reference were interpreted to include social betterment for the rural population concerned¹.

¹ The following list shows the respective spheres of competence of these agricultural boards: *Office des céréales, légumineuses alimentaires et autres produits agricoles*; *Office du vin*; *Office de l'huile*; *Office de motoculture et de mise en valeur agricole*; *Office national de mise en valeur des terres domaniales*; *Office de mise en valeur de la Vallée de la Medjarde*; *Office de mise en valeur de l'Enfida*; *Office de mise en valeur des Sonassis*; *Office de mise en valeur de Sidi Bon Fid*. Many of these contributed to the initial capital of the *Banque Nationale Agricole*. For further information on their functions and organization see Hassen

Co-operative arrangements were first tried out on the lands of the state boards¹ and then gradually introduced in agriculture. This new system was soon extended, and eventually became one of the imperatives in Tunisian development planning. As will be seen presently, it was applied also in the field of credit, when, from 1963 on, the *Caisses Locales de Crédit Mutuel* were set up and later attached to the B.N.A. The basic idea behind the co-operative system was to use the state domains, often old colonial land, as impulse centres for various "agricultural production units" by attaching to them a circle of small and medium-sized traditional farms. This principle was first applied in two different types of co-operatives; the Production Units of the North, which were mainly concerned with large-scale grain farming on broad acres in northern regions², and the Diversification and Development Co-operatives in the central and southern zones of the country³. To round off the organizational pattern, Regional Unions were created to which both the Development Co-operatives and the Production Units belonged. These Regional Unions had important functions; they supplied the member groups with inputs and

Belkhodja, *Les conditions de l'agriculture et le développement du crédit agricole en Tunisie*, pp. 20-24, report to the Réunion Internationale d'Etudes sur le Crédit Agricole dans les Pays d'Afrique, Tunis 25-27 October 1965. This meeting was organized by the International Confederation of Agricultural Credit in collaboration with the B.N.A.

¹ From the political point of view, co-operation in agriculture may be said to have its origin in the speech delivered by President Bourguiba to the National Congress of Tunisian Co-operators, on 25 May 1962 in Tunis.

² The intention was that these units should gradually concentrate less on grain crops alone and should introduce more diversified farming. For more information about this type of co-operatives see Banque Centrale de Tunisie, *Les unités de production du nord*, Tunis, March 1967, pp. 15-28 (mimeographed).

³ These co-operatives were organized mainly on former collective land, which covered large areas in the central and southern regions.

marketed their produce, helped them with their accounts and offered administrative and technical advice, and ascertained their credit requirements for submission to the appropriate financial institutes¹. This new institutional support was intended to enhance the efficiency of the co-operatives and to raise their productivity². It is in the context of this organization of Tunisian agriculture that the *Banque Nationale Agricole* had to find its fitting place — a bank financed exclusively by Tunisian capital, both private and public but with a public majority. Again, the statute defines the bank's purposes in rather general terms and assigns it a variety of functions in a broad field. In Article 3 the company's object is described as follows:

“La création d'un établissement de Banque et de Crédit pour favoriser le développement de l'agriculture en Tunisie par l'attribution aux agriculteurs, personnes physiques ou morales pour leurs exploitations, de crédits à court terme, à moyen terme ou à long terme, avec ou sans garanties, et plus généralement de faire en Tunisie et à l'Etranger pour elle-même, pour le compte de tiers, même avec de non agriculteurs, toutes opérations de banque, d'escompte, d'avance, de crédit, de commission, de souscriptions, émissions, dépôts de fonds et toutes les opérations directes ou indirectes, financières, industrielles, commerciales, mobilières et immobilières des maisons de Banque et des établissements de crédit; et enfin, de prendre toutes participations dans toutes opérations

¹ The last-named function was only temporarily assigned to the Regional Unions, pending the effective organization of the system of *Caisses Locales de Crédit Mutuel*.

² Legislation on agricultural co-operation in Tunisia is embodied primarily in Law No. 63-19 of 27 May 1963, which enacted a code for co-operatives, and in Law No. 65-383 of 6 August 1965, which contains standard statutes for the various categories of co-operatives.

pouvant se rattacher à l'un des objets précités, par voie de création de sociétés nouvelles, d'apport, de commandite, de souscription ou d'achat de titres ou droits sociaux, de fusion, d'alliance, d'association en participation ou autrement." ¹

The B.N.A.'s initial capital was 400,000 dinars — all in registered stock of which the state subscribed 50 per cent and the *Sociétés Tunisiennes de Prévoyance* 25 per cent, the rest being taken up in smaller amounts by a number of companies and individuals ².

It may be well to point out at once that the company's legal status, the composition of its shareholders and its statutory object were not particularly suited to the task of agricultural development which the government meant to assign to the bank. As a company in mixed private and public ownership, the B.N.A. had to conduct its business with a view to earning a profit and ensuring an adequate return on capital, some of which after all was in private hands. But farm loans involve high risks and bring in moderate returns, and by themselves could not be expected to produce a profit. This inherent contradiction was side-stepped by authorizing the B.N.A. to engage in a wide range of other business, even outside the agricultural sector, as can be seen from the statute. And in fact the B.N.A. did use its resources well outside the limits of its specific field, which no doubt reduced the impact which it could and should have had on agriculture.

This deviation of the B.N.A.'s credit policy from its intended line becomes very clear if one looks, on the one hand, at the way

¹ Note that unlike the *Société Tunisienne de Banque*, the B.N.A. was not by statute required to match the maturities of its assets and liabilities.

² As usual, Tunisian nationality was required of any B.N.A. shareholder. But contrary to the rules applying to the S.T.B. and the S.N.I., the transfer of B.N.A. stock was not subject to approval by the Board of Directors.

the bank organized itself, and, on the other, at the actual business it developed in the years 1959-1963.

Starting from the premise that agricultural development required a dense network of credit facilities, the B.N.A. after its foundation at once set about extending its territorial coverage. At the end of 1960, nineteen months after its establishment, it had in addition to its head office in Tunis, 13 permanent branch offices all over the country and 77 "local agricultural credit sections". These latter were a characteristic part of the bank's network and were meant to integrate credit into the rural economy at local level. Initially, the bank had secured the services of a number of so-called permanent correspondents in all the major agricultural zones. These acted as agents of the B.N.A. and as such helped farmers in preparing their applications for credit, and then collected these applications and passed them on, together with the relevant documentation, to the appropriate B.N.A. branch in the area. This organization was a provisional one, for the correspondents had the additional task of setting up, on the spot, the afore-mentioned agricultural credit sections. These were organized on very simple lines. They were associations of some ten or more farmers selected as representative of the area concerned¹, and were run by some of the members under the supervision and with the help of the local B.N.A. correspondent. Their functions were somewhat broader than those of the correspondents. They did extension work on behalf of the bank by making farmers familiar with its loan conditions, and they also checked the credit applications in their area and supervised the use of the loans. This pre-cooperative system was set up very quickly and soon produced good results,

¹ Membership had to be at least ten and not more than fifty, and members had to satisfy certain standards of trustworthiness and had to undertake to apply modern farming methods on a specified area of farmland.

even though some sections failed either because they were not adequately backed by the local B.N.A. office or because farmers did not join in sufficient numbers¹. By 31 December 1963, the B.N.A. had 22 branch offices (of which two in the urban area of Tunis), plus two mobile units and 87 local sections. An interesting point is that the urban offices were opened with a view to attracting more deposits, the supply of which was rather unsatisfactory in the other branches located in areas where the population was still given to the traditional custom of hoarding and invested their monetary savings in land or jewels².

After 1963, the system of local sections was not further developed, because, so the bank's annual reports state, it became necessary to consolidate those that had already been set up. Actually the bank no doubt was marking time, because in 1963 the Planning and Finance Ministry had initiated an entirely independent programme of agricultural credit co-operatives and had started, on an experimental basis, to set up *Casses Locales de Crédit Mutuel Agricole*. The B.N.A. was indeed asked to supply qualified staff for launching the programme, but was not invited to collaborate in its preparation and management. The reasons for this are not clear. Whatever they were, the result was a problem of co-ordination between the bank's local sections and the new *Caisses Locales*. In the circumstances, the B.N.A. management did not further develop its own system but suggested instead to take over the *Caisse locales* or to take part in the establishment of new ones³. This uncertain situation of course did nothing to help the orderly expansion of agricultural credit. It

¹ See B.N.A., *Rapport 1959-1960*, p. 13 (mimeographed).

² B.N.A., *Rapport 1961* (on the seventh of the unnumbered pages. The B.N.A. gave up numbering the pages of its annual reports after 1960).

³ See B.N.A., Annual reports for 1963 and 1964, final part.

was brought to an end in August 1965 by an agreement under which the B.N.A. assumed responsibility for the control, reorganization and promotion of the *Caisses locales*¹.

The expansion of the B.N.A.'s network during the early years provided the backbone for a no less rapid expansion of the bank's lending and borrowing activities.

The main concern of the management was to found its credit policy on principles other than those which had governed the activities of agricultural credit institutes in the Protectorate, especially with reference to the traditional farm sector. According to its own explicit declarations, the B.N.A. intended to adhere strictly to orthodox banking principles and to repudiate the welfare function of merely distributing government subsidies. In this context it was made clear more than once that farmers would not be granted credit unless they could show that they were earning a profit².

However, this admirable principle was hardly a suitable one in the backward and underdeveloped situation of traditional

¹ The B.N.A. annual report for 1966 contains the critical remark that in the 12 *Caisses locales* taken over "...la gestion laissait beaucoup à désirer à cause de l'incompétence de leurs Directeurs et de l'absence totale des moyens de contrôle."

The agreement in question was later formally incorporated in the convention of 10 January 1967, concluded between the B.N.A. and the Ministry of Planning and the National Economy. This convention officially put the B.N.A. in charge of the control, promotion and development of co-operative credit in Tunisia.

More will be said later on the *Caisses locales* and their place in the B.N.A. organization. These are matters belonging to a period subsequent to that discussed here.

² This principle was stated very clearly by the B.N.A.'s chairman in his speech to shareholders on the occasion of his presentation of the annual statement for 1959/60: "...notre Société print-elle pour règle de n'accorder des crédits qu'à des agriculteurs exploitants des unités économiquement valables." It was, he added, necessary to dissipate the confusion which the Protectorate authorities had created between the concept of assistance and the concept of credit. (B.N.A., *Rapport 1959-1960*, pp. 11-12).

agriculture. Its implication was severe credit rationing to the detriment of a host of small farmers who had neither the means nor the training for successful farming. The B.N.A. management thus made a choice which, unexceptionable as it was from the point of view of economic theory and in the context of a market economy, was yet wrong in realistic terms and with reference to the government's social development policy. In any event, the B.N.A.'s adoption of the restrictive principle of granting credit only to profit-earning farm enterprises to some extent meant a betrayal of its own vocation as an agricultural development bank. This would have required a broader and more forward-looking view. Perhaps the management thought it could justify its strict credit policy by engaging in a number of complementary activities — of which more below — designed to raise farming returns and thus to help create the conditions on which farmers were eligible for loans. In the meantime, it was argued, until these collateral activities of the B.N.A. produced the results expected of them, traditional farmers would still receive aid from the *Sociétés Tunisiennes de Prévoyance*. Despite these attenuating circumstances, it is hard to avoid the critical conclusion that the B.N.A. helped to consolidate the existing dualism in Tunisian agriculture¹. However, the bank's credit operations took a new turn after 1962 when, under the terms of the convention of 15 October 1962, the B.N.A. took over the *Sociétés Tunisiennes de Prévoyance* and the *Banque Coopérative*², which financed traditional farmers on much less restrictive principles.

¹ This is the view of Bistolfi, *op. cit.*, pp. 201-204.

² The *Banque Coopérative* had been set up by the government a year earlier specifically for the co-operative sector of the economy. For a number of reasons, to be discussed later, the venture had however proved unsuccessful.

Allowing for these latter developments, the farm credits extended by the B.N.A. during the period under consideration may be classified as follows.

(a) *Short-term working credits* were available both to individuals and to co-operatives¹ and were designed to finance farmers during the season when they were producing their various crops, usually about nine months. The handling and screening of credit applications were much the same in the case both of individuals and co-operatives, except for the channels through which they reached the B.N.A., since co-operatives dealt indirectly with the bank through the appropriate central supervisory office². Appraisal of credit applications rested largely on the following factors: the honesty and competence of those responsible for the farm; the size and means of production of the farm (cultivated area, location, irrigation facilities, machinery and equipment, livestock, etc.); crop yields; proceeds from marketing; indebtedness; profits earned by the farm and hence its capacity to repay a loan; economic justification of the investment³. A real collateral security was regarded as a necessary but not sufficient condition of granting a loan; this was usually given in the form of a pledge (*nantissement*) of the crops and livestock, and reinforced by the borrower's obligation to insure his crops against fire and hail. In the case of any deterioration in the borrowing farm's capacity to repay, the B.N.A. usually asked for registration of mortgage or an "Arab

¹ Credit to co-operatives expanded especially from 1964 on.

² Credit applications of the *Unités de Production* and the pre-cooperatives of the north were transmitted through their *Bureau de Contrôle*, and those of the diversification production co-operatives through their regional unions wherever these were still extant.

³ In the case of working credits this condition was generally fulfilled, and in processing such credit applications no special investigations were usually made regarding this point, once it was ascertained how the borrower meant to use the credit.

property title". In the case of co-operatives, repayment of the bank's credits was guaranteed by the state.

(b) *Medium- and long-term loans* were granted to finance land improvement, the purchase of machinery and equipment, infrastructures and tree plantations. Their duration varied widely, between 2 and 30 years, according to their specific purpose. To finance these loans, the B.N.A. drew on "special resources" either of state or of foreign origin. For this reason, and also in order to make sure that available funds were invested in a rational and co-ordinated manner, applications for medium- and long-term credits were scrutinized much more rigorously and were subject to official approval. The B.N.A. first did its own careful investigation and screening, and then passed the file on to the Ministry of Agriculture for a technical opinion on the proposed investment and, if this were favourable, for approval of the loan. The technical assessment was done by a number of specialized offices attached either to the Ministry itself or to its regional outposts, the *Commissariats Régionaux au Développement Agricole*. The applications with all their documentation were then handed back to the B.N.A. for finalization and disbursement. The criteria applied by the B.N.A. to such loan applications were in principle much the same as those described for short-term credits, but of course a much closer look was taken at each item, especially at the detailed description of the returns the applicant expected from the proposed investment, and also at how the project fitted into the priorities of national economic policy (development of agriculture, land improvement, modernization of production systems, increase of employment of the agricultural labour force, rationalization of production processes.) The ultimate justification of any investment project lay in its expected contribution to value added in the national economy as a whole. In the assessment of this basic requirement,

there was some overlapping of the functions of the B.N.A. and the Ministry of Agriculture, seeing that the latter could not judge the technical validity of a project without entering into the question of its economic justification. Security was required usually in the form of a registered mortgage or an "Arab property title", or yet, if the loan was to finance the purchase of machinery and equipment, their pledge. For co-operatives the whole procedure was much the same, except for the different channels described above.

(c) *Special working credits* were a heritage of the *Sociétés Tunisiennes de Prévoyance* taken over by the B.N.A. under the convention of 15 October 1962, when the B.N.A. undertook to continue, for the time being¹, their former activities, including the distribution of seed to small traditional farmers. These were called credits in kind for grain production, but in fact had a strong element of assistance, as can be deduced from their very wide dispersion, small individual amounts and low proportion of repayment². The bank had special government funds for this scheme, but the B.N.A. management was always rather critical of this sort of credit-cum-assistance approach, which conflicted sharply with the original principles of management³. Although the intention was, at first, to distribute seed credits only for the 1962/63 crop year, a certain amount of them — fewer in number and less in total value — was again distributed for 1963/64, before they were finally discontinued.

¹ The deadline fixed by the convention was 30 November 1963.

² See Table 12 below. From the B.N.A.'s statements for 1963 and 1964 it can be seen that on 31 December 1964 roughly 55 per cent of the seed credits for the crop year 1962/63 were still not repaid.

³ See the B.N.A.'s annual reports for 1962, 1963 and 1964. In the 1962 report, for instance, we read: "...nous demeurons fidèles à notre politique de distinguer le crédit de l'assistance et, bien entendu, de fixer nos concours en fonction de la capacité de remboursement de nos débiteurs."

Table 12 gives details of the B.N.A.'s farm credits for the years 1959 to 1963. But these were, of course, not the only ones. Departing somewhat from its statutory primary concern, the B.N.A. also extended credit to industry and trade. On various occasions the bank's management defended this practice on several grounds, which are not altogether convincing in the light of the financial requirements of farmers and the overriding need to develop Tunisian agriculture. One of the main arguments of the B.N.A. management was that credits to different sectors were complementary, in that the seasonal nature of farm credits precluded the full employment of disposable financial resources and factors of production¹. It was also said that in the absence of state subsidies agricultural credit was not remunerative enough, and that in any case it was necessary also to finance activities placed ahead and below agriculture in the production chain², and finally that, as an agricultural development bank, the B.N.A. had to extend its activities also to what it called "para-agricultural sectors"³. And so the B.N.A. devoted a conspicuous part of its resources to short- and medium-term credits to various branches of industry (conservation, refrigeration and transformation of agricultural products, fertilizers, farm machinery and equipment) as well as to trade (imports of farm machinery, marketing and storage of produce, export of agricultural commodities and processed foods). All this no doubt meant dispersing the B.N.A.'s resources throughout many activities whose growth could have only a rather remote effect on agricultural development. The balance-sheet figures and annual statements of the B.N.A. do not make it possible to quantify its

¹ B.N.A., *Rapport 1959-1960*, p. 14.

² B.N.A., *Rapport 1961*.

³ B.N.A., Annual Reports for 1962 and 1963.

TABLE 12

NUMBER AND AMOUNT OF B.N.A. FARM CREDITS, 1959 TO 1963
(*end-year flow figures, in dinars*)

Year	Short-term working credits ¹			Special working credits		Medium- and long-term loans ¹		
	Number	Total amount	Unit amount	Number	Total amount	Number	Total amount	Unit amount
1959 (7 months)	1,292	798,168	618	—	—	161	161,187	1,001
1960	1,914	1,133,463	592	—	—	1,167	701,966	602
1961	1,782	1,423,697	799	—	—	1,383	634,647	459
1962	3,047	1,807,566	593	115,521	1,476,466	1,186	588,998	497
1963	8,014 ²	2,622,577	327	17,316	430,087	803	777,134	968

¹ All to individuals, since credits to co-operatives do not predate 1964.² The marked increase in the number of loans in 1963 was due to extraordinary credits to tobacco and olive growers.

Note: All figures refer to credits granted in the course of each year.

Source: B.N.A., Annual reports 1961 and 1963; B.N.A., Research Unit.

sectoral credit distribution, but it is believed that the diversion of resources to sectors other than agriculture assumed considerable proportions.

The same argument applies, of course, also to the B.N.A.'s equity holdings in various industrial firms, though the amounts involved were small compared with the bank's other assets¹.

Finally, a sizeable part of the bank's own resources (as shown in Table 13) was always, from the outset, invested in public securities².

Notwithstanding the management's predilection for investing in sectors other than agriculture, they did all the same make an effort to think out and apply a number of measures by which they hoped to improve the efficacy and conditions of the B.N.A.'s agricultural credit. The three main objectives were to give farmers easy access to credit, to reduce the inherent risks of agricultural credit, and to increase the impact and productivity of loans for agricultural investment.

To this end the bank organized extension services by which to make the rural population familiar with elementary economic, financial and technical concepts; introduced a standard farm account book for borrowers to keep obligatory regular records in; insisted on hail and fire insurance as a prior condition for obtaining credit; promoted the introduction of a "certificate of possession", which gave access to credit to such farmers as did not have any legal title to their land and therefore could not mortgage it; adopted a rather

¹ On 31 December 1963, equity holdings amounted to 143,907 dinars.

² The item "*Effets publics et autres titres*" is shown in successive balance sheets at the following values (in thousand dinars):

1960: 300	1961: 550	1962: 1,375	1963: 2,965	1964: 4,049.
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The conspicuous increase in the later years was due largely to the purchase of bonds issued by the government to finance the three-year plan 1962-1964. See B.N.A., *Rapport annuel* 1969.

TABLE 13

THE B.N.A.'S FINANCIAL RESOURCES, 1959 TO 1963
(end-year figures, in thousand dinars)

Resources	1959-1960	1961	1962	1963
Deposit and current accounts	2,721.9	3,477.3	7,948.5	14,810.5
Fixed-term notes and time deposits ¹	76.8	139.3	603.0	2,314.7
Total deposits	2,798.7	3,616.6	8,551.5	17,125.2
Fixed-term notes and time deposits per cent of total deposits	2.7	3.9	7.1	13.5
Special funds	1,493.7	1,544.9	3,397.2	4,370.0
Utilization ratio of special funds (per cent)	83.1	105.8	101.0	78.7
Capital and reserves ²	441.2	502.8	582.8	696.3

¹ Including blocked accounts.

² After profit appropriation and including carryovers to the following year. During the period under review the B.N.A. each year distributed a dividend of 5 per cent.

Source: B.N.A., Annual reports 1959-1960, 1961 to 1963.

liberal policy with respect to real security and relied instead more heavily on the borrower's character and technical competence; speeded up its credit procedures and adapted them more closely to the actual financial cycle of farm production; stepped up its credits in kind, which, while more expensive for the bank to handle, gave it more control over the borrowers; and worked out a system of supervision of farmers' activities through co-operatives, which it regarded as a good channel both for easier access to credit and for the control of borrowers and the organization of collective guarantees¹.

¹ Every annual statement of the B.N.A. during the years 1959 to 1963 contains information about all these activities.

Nevertheless, results fell short of expectations, for a number of reasons. Chief among them were widespread illiteracy among farmers, their traditionalism and lack of co-operative spirit, and on the side of the bank shortage of trained personnel and of disposable means. An indirect confirmation of the fact that the B.N.A.'s contribution to agricultural development was insufficient and, under certain aspects, unsatisfactory, can be found in the law of 27 May 1963 (state encouragement to agricultural development) and of the subsequent protocol of an agreement signed on 12 November 1963 by the ministries concerned and the B.N.A. These provided for an extension of the system of supervised credit, and laid down that medium- and long-term loans were to be financed entirely from state funds made available to the B.N.A., which in turn was to use its own resources to finance short-term farm credit, if necessary by drawing on the rediscounting facilities of the Central Bank ¹.

The B.N.A.'s financial resources came from four different sources: its capital and reserves, deposits, earmarked funds of state or foreign origin, and rediscounts from the Central Bank.

From Table 13 it will be seen that the bank kept increasing its own resources by allocating the bulk of its profits to reserves. Nevertheless these resources expanded much less over the years than did deposits and earmarked funds ².

Deposits rose by a remarkable 511 per cent during the three years 1961-1963, with fixed-term notes and time deposits in the lead. While this expansion no doubt owed much to deposits by

¹ The law of 27 May 1963 thus gave the authorities the possibility of more effective selection, as has rightly been observed by Hamda Beji, "La situation du crédit agricole en Tunisie", *Servir*, February 1969, p. 30.

² In relative terms, the *Société Tunisienne de Banque* had stronger own resources at the end of 1963.

public agencies and enterprises, it does also testify to the confidence of private individuals and firms. It proves, too, that the B.N.A. was right in extending the coverage of its network, even though branches in rural areas found it more difficult to increase their supply of deposits because of the diffidence of the local population and their hoarding instinct¹. Despite all the bank's efforts to attract rural savings and fixed-term deposits, these latter at the end of 1963 still accounted for only a low proportion (13.5 per cent) of total deposits. This very fact lent some force to the management's argument that by extending credit to industry and trade they would gain more depositors².

The earmarked funds at the disposal of the B.N.A. at the end of 1963 included both a number of special funds provided by the state for specified purposes, and medium- and long-term foreign loans under aid agreements. It may be helpful to give a brief description of the nature and size of these funds as well as of the conditions of their use (see also Table 14).

(1) Special Agricultural Fund of the Tunisian government. This consisted of U.S. aid funds³ and was made available to the B.N.A. by the state under the Convention of 26 August 1959, subsequently amended on 23 December 1959. It could be used for medium- and long-term loans to finance specified agricultural investment and was "revolving" in the sense that repayments reverted to disposable resources.

(2) Tunisian state advances for debt consolidation. In 1960 the Tunisian government made a special appropriation to the B.N.A.

¹ B.N.A., *Rapport 1961*.

² B.N.A., *Rapport 1961*.

³ As in the case of the S.T.B.'s Special Revolving Fund, resources came from the proceeds of the government's sale on the domestic market of goods provided by U.S. aid in kind.

TABLE 14

SPECIAL FUNDS AT THE DISPOSAL OF THE B.N.A. AND THEIR USE, 1959 TO 1963
(*end-year figures, in thousand dinars*)

Funds	1959-1960			1961		
	Total allocation	Amount disposable by B.N.A.	Amount used	Total allocation	Amount disposable by B.N.A.	Amount used
Special Agric. Fund of the Tunisian Government	(*)	1,054.3	981.1	(*)	1,154.3	1,229.8
Tunisian state advances for debt consolidation	400.0	400.0	225.2	360.0	360.0	379.2
Special Fund O.M.V.V.M.	(*)	39.4	35.6	(*)	30.6	26.6
Fund for the Protection of Viticulture	—	—	—	—	—	—
Loan from the Development Loan Fund (D.L.F.)	—	—	—	2,100.0	—	—
Special Agricultural Fund for 1962/63 credits to grain farmers ¹	—	—	—	—	—	—
Special Fund for the Development of Agricultural Service Co-operatives	—	—	—	—	—	—
Allocations for 1963/64 seed credits to grain farmers ²	—	—	—	—	—	—
Special Agric. Development Fund (F.O.S.D.A.) ³	—	—	—	—	—	—
Total		1,493.7	1,241.9		1,544.9	1,635.6

Funds	1962			1963		
	Total allocation	Amount disposable by B.N.A.	Amount used	Total allocation	Amount disposable by B.N.A.	Amount used
Special Agric. Fund of the Tunisian Government	(*)	1,664.2	1,437.5	(*)	1,671.8	1,516.3
Tunisian state advances for debt consolidation	320.0	320.0	347.9	320.0	320.0	289.5
Special Fund O.M.V.V.M.	(*)	26.4	22.4	(*)	26.4	19.8
Fund for the Protection of Viticulture	150.0	150.0	...	150.0	150.0	...
Loan from the Development Loan Fund (D.L.F.)	2,100.0	75.6	148.4	2,100.0	247.2	505.4
Special Agricultural Fund for 1962/63 credits to grain farmers ¹	1	1,161.0	1,476.4	1	1,161.0	1,132.9
Special Fund for the Development of Agricultural Service Co-operatives	—	—	—	(*)	850.0	19.8
Allocations for 1963/64 seed credits to grain farmers ²	—	—	—	218.4	—	—
Special Agric. Development Fund (F.O.S.D.A.) ³	—	—	—	500.0	—	—
Total		3,397.2	3,432.6		4,426.4	3,483.7

(*) Figure not ascertainable.

¹ Under the Convention of 15 October 1962 this Fund should have amounted to 1,500,000 dinars. See B.N.A., *Rapport* 1962.

² Used during the following year.

³ Although formally placed under B.N.A. management by the protocol of 12 November 1963, this Fund became available for use only after the enabling decrees of 12 March and 19 May 1964. See B.N.A., *Rapport* 1964.

Note: The term "total allocation" means the overall amount to be made available to the B.N.A. under the relevant provisions. In practice, the authorities released funds to the bank in instalments upon its documented requests. For this reason the B.N.A.'s effective liabilities fall short of total allocations.

Source: B.N.A., Annual reports for 1959-1960, 1961, 1962 and 1963.

for the purpose of rescheduling the unduly high short-term debts of some agricultural sectors. These advances were to be repaid according to a fixed amortization schedule, with funds accruing to the B.N.A. from repayments by debtors benefiting from consolidation of their debts. But the B.N.A. found it difficult to recover its loans¹ and had to draw on its own resources to meet the amortization schedule. In 1961 and 1962 (see Table 14) the fund was actually overdrawn, and the B.N.A. had to ask the government for a revision of the repayment clauses of the convention and in fact obtained a suspension of the amortization schedule².

(3) Special fund *Office pour la mise en valeur de la Vallée de la Medjerda*. This dates from 1960 and was earmarked for farmers and co-operatives within the purview of the then newly established O.M.V.V.M.

(4) Fund for the Protection of Viticulture. This was allocated to the B.N.A. by the Ministry of Agriculture, but was never used³.

(5) Loan from the Development Loan Fund. Under an agreement of 1961 the B.N.A. obtained from the U.S. Development Loan Fund a 5 million dollar loan guaranteed by the Tunisian state. The loan carried interest at 4 per cent, was repayable in 15 years and intended to finance imports of capital goods for agriculture⁴. Because of the restrictive conditions governing its

¹ It seems that the facility of converting short-term into longer-term debts was extended also to farm enterprises not viable enough to repay even in these more favourable conditions.

² B.N.A., *Rapport* 1962.

³ It seems that the government never gave the B.N.A. any instruction governing its use.

⁴ The characteristics and conditions of this loan were much the same as those of the A.I.D.-D.L.F. loan obtained by the S.T.B.

use, disbursements from this loan fund were subject to much delay and the utilization ratio was low, while the B.N.A. had to draw on its own resources to finance part of the operations concerned (see Table 14).

(6) Special Agricultural Fund for 1962/63 Credits to Grain Farmers. As mentioned earlier, the B.N.A. took over the functions of the *Sociétés Tunisiennes de Prévoyance* under the terms of the Convention of 15 October 1962, and on that occasion was allocated special funds by the government for seed loans to small grain farmers for the current crop year. The amount involved was to have been 1,500,000 dinars, but for unknown reasons it was never fully paid out to the B.N.A., although the latter overdrew its actual allocation in 1962.

(7) Special Fund for the Development of Agricultural Service Co-operatives. Allocated to the B.N.A. in 1963, this fund was drawn on slowly and only to a small extent, perhaps because of the difficulties encountered in getting the co-operatives going.

(8) Allocation for 1963/64 Seed Credits to Grain Farmers. These funds, which were earmarked for the same purpose as those allocated to the B.N.A. under the Convention of 15 October 1962, were actually used in the following year.

(9) Special Agricultural Development Fund (F.O.S.D.A.). This fund was made available to the B.N.A. by the protocol of agreement dated 12 November 1963 and was paid out to it from 1964 on. It was earmarked for medium- and long-term farm loans falling within the scope of the government's agricultural development programme under the law of 27 May 1963.

So much for the composition of the special funds available to the B.N.A. No further comments are required beyond those already made in connection with the S.T.B.'s special funds. In

both cases resources were too scarce and the conditions of their use too restrictive, particularly in the case of the D.L.F. Loan. In addition, one might mention a certain lack of co-ordination and planning, as well as some organizational shortcomings (failure to mobilize the Fund for the Protection of Viticulture). In any event, these special funds cannot wholly be regarded as effective instruments of agricultural development; those described under (2), (6) and (8) above certainly did nothing to raise medium- and long-term investment in agriculture.

Lastly, the B.N.A. raised resources by rediscounts with the Central Bank. It had some difficulty, however, in mobilizing its farm credits, because of the unduly restrictive and complicated rules which governed rediscounting facilities. Under Article 42 of the Central Bank's statute farm working credits were eligible for rediscount only if the bills representing them bore two good signatures and fell due in not more than three months, renewable up to nine months. These conditions placed obstacles in the way of agriculture's access, through the B.N.A., to central bank credit. Credit on bills was unusual in the agricultural community, which consisted very largely of small, traditional and often illiterate farmers, who in any case could hardly ever produce what was meant by "good signatures". Furthermore, farm working credits often had a duration of more than nine months, and there was no provision for a preferential rediscount rate for agricultural paper.

Banque Coopérative

The next step the Tunisian government took in creating a public banking sector was to found the *Banque Coopérative* in 1961. This was meant, in the field of credit, to complete the tripartite structure which Tunisia's planners had designed for the

economy, with the intention of co-ordinating the private and the public sector through a third, the co-operative, sector. The idea was that through the co-operative system private interests could be polarized and guided towards balanced economic and social development, without coercion and without excessive direct state ownership in the economy. The *Ecole Nationale de la Coopération*, which was founded in 1962, was intended as a sort of cultural mainspring of the nascent co-operative sector. In order to give the latter adequate financial backing, it was decided to set up a special bank for the purpose and to assign to it, in addition, the functions of promoting the co-operative movement.

And so the *Banque Coopérative* was set up by the law of 7 July 1961, with capital released by the liquidation of the *Caisse Centrale de Crédit Artisanal et Maritime*, whose net assets were transferred to the new bank¹. Since these assets consisted mostly of the C.C.C.A.M.'s outstanding loans, the new bank started life with scarce liquid funds, not to speak of the administrative costs of its inherited loan assets.

In line with the then prevailing general trend against specialization in banking, the statute of the *Banque Coopérative* gave the institute ample scope, but did specify that its primary concern was to be the co-operative sector. The state even conceded to the bank the monopoly of credit to co-operatives, thus trespassing on the interests of the S.T.B. and the B.N.A., both of which were already handling credits of this kind. This step immediately came

¹ The description of the characteristics of this bank will be less detailed and less well documented than that of the S.T.B., the S.N.I. and the B.N.A., not so much because the *Banque Coopérative* had only a short life, as because it proved difficult, eight years after its demise, to get hold of the relevant documentation and because there still is an understandable reluctance to talk about this unfortunate venture.

in for criticism on the grounds that it was an obvious transgression of the principle of unity in agricultural credit, a principle implicit in the very creation of the *Banque Nationale Agricole*. In any case, the co-operative sector simply was not big enough for three separate credit institutes. This inherent contradiction perhaps explains to some extent why the *Banque Coopérative*, no sooner founded, at once began to diversify its operations and to finance sectors well outside its primary field.

The bank concentrated largely on the traditional sector of the economy, which was rather neglected by other public institutes. This policy certainly was in line with the intentions of the government, which had deliberately meant to set up a new type of bank, less hamstrung by the traditional standards of orthodox banking and more amenable to the notion that credit should serve public and social purposes. The *Banque Coopérative* was to extend credit on the basis not so much of the borrower's earning power, credit worthiness and collateral security, as of the economic and social usefulness of the credit itself in relation to Tunisia's economic development, with particular reference to the co-operative movement.

The bank's concentration on the traditional sector entailed the danger of resuscitating the very dualism which the government was trying to eliminate by the reform of the banking system inherited from the Protectorate. This policy was nevertheless justified in the light of the government's determination to lift the traditional sector out of its situation of chronic and endogenous underdevelopment by the gradual creation of a co-operative structure.

The *Banque Coopérative* was indeed assigned the task of promoting co-operation by all suitable means, including credit and assistance even if not remunerative from the company's own point of view. It was also to act as a centre of co-ordination for all

co-operative ventures and to contribute, as a matter of priority, to the training of key personnel for the Tunisian economy.

Regrettably, the whole experiment came to a premature end in October 1963, when the *Banque Coopérative* closed its doors and its residual assets were divided among the S.T.B. and the B.N.A. in accordance with their respective fields of competence. The main reasons for the failure of the *Banque Coopérative* were no doubt shortage of disposable financial resources, the vastness of the problems which it was called to solve, organizational difficulties and the intrinsic weakness of the co-operative movement¹. The same fate later befell the *Banque du Peuple* founded at the end of 1965 by the *Union Générale des Travailleurs Tunisiens*.

7. THE OVERALL SITUATION OF THE BANKING SYSTEM FROM THE FOUNDATION OF TUNISIA'S CENTRAL BANK TO 1963

The choice of 31 December 1963 as the closing date for the discussion which follows is justified on several grounds. The year 1963 was in fact a crucial one when all the major problems of financing economic development in Tunisia came into focus.

First of all, the year 1963 marks the end of the first, and most important, stage in the banking system's reorganization initiated by the government in the early years of independence. The Tunisian economy now had a firmly integrated public banking sector consisting of three newly founded and by now well established state-controlled banks (the S.T.B., S.N.I. and B.N.A.), all with wide scope and each with a specified primary concern defined in sectorial

¹ For a more detailed analysis of the problems of co-operative credit in Tunisia see Bistolfi, *op. cit.*, pp. 215-225.

and functional terms. The private banking sector, too, was assuming more stable, if not yet definitive, form after numerous liquidations and mergers and thanks to a process of radical internal transformation.

Secondly, the year 1963 marks the end of the expansionary monetary and credit policy pursued by the Central Bank since its foundation. As of 1963-1964 there was, on the contrary, an urgent problem of cutting back drastically on excessive liquidity creation, which had generated serious inflationary pressure at home and was causing the deficit in the balance of payments to grow so rapidly as to make it necessary, eventually, to devalue the dinar. It was indeed a turning point for the policy of the Central Bank, which henceforth adopted a more selective and restrictive approach designed to minimize the potential inflationary effect of the direct part it played in financing national economic development.

Finally, the events of 1963, which represented the last act of expansionary monetary and credit policy, also created the economic and financial premises for a new political orientation. The need to curtail the Central Bank's direct contribution to development finance via increased selectivity was certainly one of the elements which imposed a more coercive character on economic planning than it had at its inception in 1962¹.

The expanding activities of the Tunisian banking system during the years 1958 to 1963 are of primary interest, because, while the banks certainly made a key contribution to financing national economic development, they also created the monetary and credit conditions which culminated in the crisis of the dinar in 1964.

¹ In this light it can be argued convincingly that the year 1962, the date of the first ten-year development projections and the associated three-year plan, was not in effect the real turning point either for Tunisia's economy or for its banking system.

Afterwards, it will be useful to take a closer look at the Central Bank's policy during the same period, to see how and to what extent it backed the banks.

Tables 15 to 26 illustrate the movements in aggregate bank assets and liabilities over the period 1958 to 1963¹. For the sake of brevity and precision, the reader is referred to these tables, which form the background for the following brief analysis of the salient aspects of Tunisian banking during the period concerned.

By 1958, the public banking sector already accounted for 47.5 per cent of the banking system's consolidated balance sheet, and in subsequent years it further strengthened its position until its share reached 56.5 per cent in 1963. These figures do not, however, accurately reflect the real situation. In 1958, the public sector still comprised a number of banks belonging to the Protectorate era, and while the S.T.B. was already functioning, the B.N.A. was still at the planning stage. The weight of the state in the banking system is somewhat overstated, therefore, allowing for the bureaucratic and undynamic character of the public institutes in process of liquidation. A more accurate picture can be gained from the public sector's quickly growing share in total deposits and short-term credits (Tables 17 and 19).

As regards sight deposits, the market share of public banks rose steadily from 21 to 47 per cent, thanks largely to new commercial custom gained, no doubt, among the rapidly expanding group of public enterprises, which, with or without government prompting, must have chosen to bank preferentially with their counterparts among credit institutes.

¹ Unfortunately, there are no systematic bank statistics prior to 1958, the year of the foundation of the Central Bank. Figures for earlier years are less complete and generally based on different criteria, so that they do not lend themselves to inclusion in a continuous analytical time series.

TABLE 15

TUNISIAN BANKING SYSTEM: BALANCE SHEET TOTALS AND THEIR COMPOSITION BY SECTORS, 1958 TO 1963
(end-year figures, in thousand dinars)

Year	Balance sheet totals	Increase per cent	Public sector	Private sector	Share of public sector (per cent)
1958	66,353	...	31,539	34,814	47.5
1959	77,305	16.5	36,876	40,829	47.7
1960	90,279	16.8	39,811	50,468	44.1
1961	99,289	10.0	49,107	50,182	49.4
1962	123,235	24.1	61,048	62,087	49.5
1963	162,443	31.8	91,857	70,586	56.5

Source: B.C.T., Annual reports 1958 to 1963.

TABLE 16

MAIN SOURCES OF THE BANKING SYSTEM'S SUPPLY OF FUNDS, 1958 TO 1963
(end-year figures, in thousand dinars)

Sources	1959	1960	1961	1962	1963
Own resources	4,697	5,134	5,691	7,297	8,325
Deposits:					
sight	44,115	51,108	57,092	63,071	82,532
time	2,140	3,620	4,882	5,161	8,797
Short-term foreign debts	884	1,026	984	1,582	567
Special funds and allocations	11,482	12,633	12,577	13,541	15,550
B.C.T. refinancing:					
rediscounts	5,050	10,490	15,610	12,855	10,096
advances on public securities	1,115	1,009	720	1,157	1,100
Others ¹	10,277	11,930	14,278	21,051	33,943
Total	79,760	96,950	111,834	125,715	160,910

¹ According to B.C.T., *Rapport annuel 1959*, p. 85, footnote 2, this item includes only the net balance of "claims payable after encashment". This is puzzling in view of the large amounts involved. On 31 December 1958, the item in question amounted only to 2,994,152 dinars (*ibid.*, p. 81), but the principles of definition and classification were different.

Note: This table cannot be reconstructed for 1958, because the necessary statistics do not go further back than September 1959.

Source: B.C.T., Annual reports 1959 to 1963.

TABLE 17

COMPOSITION OF SIGHT DEPOSITS, 1958 TO 1963
(end-year figures, in thousand dinars)

Type of depositors	1958	1959	1960	1961	1962	1963
Commercial clients						
private banking sector	11,028	15,346	18,121	16,633	18,835	22,824
public banking sector	3,935	5,015	6,595	13,330	17,640	29,858
<i>public sector share (per cent)</i>	26	25	27	40	48	57
Non-commercial clients						
private banking sector	10,199	11,289	13,878	14,296	17,537	19,001
public banking sector	4,517	8,821	9,192	8,430	4,545	6,539
<i>public sector share (per cent)</i>	31	44	40	37	21	25
Other clients	1,481	3,235	2,114	2,650	4,514	4,490
Total sight deposits						
private banking sector	31,160	29,362	33,300	33,205	38,466	43,897
public banking sector	8,463	14,344	16,600	22,134	24,605	38,635
<i>public sector share (per cent)</i>	21	33	33	39	39	47

Note: These figures are not identical with those of Table 16, because of differences in statistical treatment by the B.C.T.

Source: B.C.T., Annual reports 1959 to 1963.

The same applies to the share of public banks in short-term credits, which rose from 42.1 to 63.1 per cent in the years 1959 to 1963. Here again, the increasing contribution of public enterprises to the growth of credit demand must have worked to the benefit of the new banks set up by the state. So did the Central Bank's readiness to give them preferential access to rediscount facilities, while applying much stricter standards in the case of the private banks with their much larger and more balanced bill portfolio (see Tables 18 and 19).

In the field of medium-term credit the situation was very similar. Since time deposits accounted for only a very small proportion of total deposits (Table 24), the amount of medium-term

credit that could be granted depended largely on special resources and central bank refinancing (Table 20). For obvious reasons of control and planning the government entrusted its special funds and allocations exclusively to the public banks, which at the same time enjoyed preferential treatment by the central bank as regards rediscount of medium-term paper. All this applies, with even greater force, to long-term loans. It is fair to conclude, therefore, that the expansion, penetration and consolidation of the public banking sector owed much to the public authorities, in the context of that ascendancy of public over private enterprise which was necessary for development planning.

The build-up of the Tunisian banking system's liabilities (Table 16) shows the characteristics typical of developing economies, especially a rapid expansion of sight deposits combined with continuous and large-scale recourse to the central bank. There is an indirect connection between the two time series, in so far as credit expansion fed by growing recourse to central bank refinancing must have swelled the volume of bank money. But this increase in the economy's liquidity was not accompanied by an adequate accumulation of financial savings and of stable resources. Even though time deposits rose by a spectacular 311 per cent during the five years 1959 to 1963, they still accounted for only 9.6 per cent of total deposits at the end of the period. In any case, the increase certainly cannot be attributed wholly to household saving, but owed much to circumstances which had no direct connection with saving at all. The item included part of the blocked accounts of French citizens, as well as obligatory import deposits¹ and the excess cash of some companies tempted by the

¹ These were introduced, for consumer goods only, in 1961. See B.C.T., *Rapport annuel* 1961, p. 39.

higher rate of interest. By comparison, there was a mere 35 per cent expansion in special funds and allocations earmarked for medium- and long-term credits. This shortage of stable resources helps to explain why the Central Bank so continuously refinanced the banking system.

Given this composition of bank resources, the bulk of bank credit was for the short term. Nevertheless, the proportion of medium-term credits in total credits did, over the period 1959 to 1963, rise from 10.6 to 16.1 per cent, thanks not least to constant help by the Central Bank (Tables 20 and 21). But long-term credits were not refinanced by the Central Bank, and, at a stationary volume over the whole period, naturally lost ground in relative terms, their proportion falling from 10.2 per cent in 1959 to 5.8 per cent in 1963. All this goes to show that the credit activities of the Tunisian banking system were far from adequately backed by the formation of financial savings and hence depended closely on resources made available in one form or other by the state (special funds and allocations) and the Central Bank (rediscount). Another point worth mentioning is that quite a considerable part of bank credits went to finance the Treasury, which was forever having to find coverage for the budget deficit.

The distribution of short-term bank credit by recipient sectors (Table 22) shows very wide fluctuations, largely connected with the limited size of the economy and the market as well as with the varying rate of growth in different branches of industry and trade — many of them still in their infancy. In these circumstances it is impossible to identify any general and continuous credit distribution policy on the part either of the banks or of the authorities. Just a few significant trends can be discerned. Construction was clearly being fostered, while agriculture suffered from rather severe credit rationing. Similar features can be

observed in the distribution of medium- and long-term bank credits (Table 23). But it can be argued that these trends reflect not so much any deliberate line of official credit policy, but rather an inherent structural defect in the Tunisian banking system. As was mentioned before in connection with the establishment of public credit institutes, each with a "primary concern", the state had given the S.T.B. a virtual monopoly of building credit, together with special funds for the purpose, while the B.N.A. handled nearly all agricultural credit, again with special state allocations. Neither bank, of course, was precluded from business in other sectors. Nevertheless, the S.T.B., recognizing profitable investment opportunities in building, devoted to this sector a considerable part of its own resources, plus refinancing funds from the Central Bank. The B.N.A. on the other hand was rather selective in its credits to agriculture and fanned out instead into industry and trade, where returns were bigger and risks smaller. Hence the above-mentioned distortion in credit distribution.

Despite a few things that did not go quite right, the banking policy of the Tunisian government in the early years of independence nevertheless by and large achieved what it had set out to do. This becomes perfectly clear if one looks at the situation before and after, as it were. Before 1958, the banking system, as inherited from the Protectorate, had obvious shortcomings from the point of view of the requirements of national economic development, and it was dominated by French influences which worked largely through the private banks and thus escaped the control of Tunisian authorities. At the end of 1963, the banking system was almost wholly in Tunisian hands, was one of the chief instruments of the government's economic policy and had become closely integrated in the national economy. What had made this great change possible was the creation of a Tunisian central

TABLE 18

COMPOSITION OF SHORT-TERM BANK CREDITS AND THEIR REFINANCING, BY SECTORS OF ORIGIN,
1958 TO 1963
(*end-year figures, in thousand dinars*)

Credits	1958	1959	1960	1961	1962	1963
Short-term credits extended by public banking sector	...	17,250	25,047	33,298	36,817	47,645
<i>Percentage refinanced by B.C.T.</i>		16.8	29.1	32.2	13.0	7.3
Short-term credits extended by private banking sector	...	23,719	29,235	27,886	27,781	27,804
<i>Percentage refinanced by B.C.T.</i>		7.9	6.7	7.8	1.0	0.6
Total short-term credits	36,664	40,969	54,282	61,184	64,598	75,449
<i>Percentage refinanced by B.C.T.</i>		11.6	17.0	21.1	7.8	4.9

Source: B.C.T., Annual reports 1958 to 1963.

TABLE 19

SHORT-TERM BANK CREDITS AND THEIR COMPOSITION BY ORIGIN AND CATEGORIES OF OPERATION,
1958 TO 1963
(*end-year figures, in thousand dinars*)

Origin and category	1958		1959		1960		1961		1962		1963	
	amount	%	amount	%	amount	%	amount	%	amount	%	amount	%
Public banking sector												
commercial paper	...		3,981		6,128		4,125		4,051		4,997	
finance paper ¹	...		13,269		18,919		29,173		32,767		42,648	
Total	...		17,250	42.1	25,047	46.1	33,298	54.4	36,818	57	47,645	63.1
Private banking sector												
commercial paper	...		8,069		10,904		8,743		7,589		7,022	
finance paper ¹	...		15,650		18,331		19,143		20,192		20,779	
Total	...		23,719	57.9	29,235	53.9	27,886	45.6	27,781	43	27,804	36.9
Grand total	36,664		40,969	100	54,047	100	61,184	100	64,599	100	75,449	100

¹ In Tunisian bank usage, credit in forms other than bills of exchange (overdrafts on current account, advances on securities, etc.) are backed by bills.

Source: B.C.T., Annual reports 1959 to 1963.

TABLE 20

MEDIUM-TERM BANK CREDITS AND THEIR COMPOSITION BY SOURCE OF FINANCE FUNDS, 1958 TO 1963
(*end-year figures, in thousand dinars*)

Credits and source of funds	1958	1959	1960	1961	1962	1963
Medium-term credits	6,437	6,606	8,023	9,657	15,179	20,609
<i>Percentage financed by special resources</i>	...	15.5	27.5	31	19	16
<i>Percentage refinanced by B.C.T.</i>	29.9	4.5	15.5	28	51	51
<i>Percentage financed by banks¹</i>	...	80.0	57.0	41	30	53

¹ Since medium-term credits granted by banks from earmarked funds allocated by the state or of foreign origin are not refinanced by the B.C.T., credits financed by the banks themselves represent the residual proportion making up 100 per cent.

Source: B.C.T., Annual reports 1959 to 1963.

TABLE 21

COMPOSITION OF BANK CREDITS BY MATURITIES AND DESTINATION, 1958 TO 1963
(end-year figures, in thousand dinars)

Credits	1958		1959		1960		1961		1962		1963	
	amount	%	amount	%	amount	%	amount	%	amount	%	amount	%
Short-term credits	36,664	40,969	65.9	54,282	69.0	61,184	68.9	64,599	65.2	75,449	59.0	
Medium-term credits	6,437	6,606	10.6	8,023	10.3	9,657	10.9	15,197	15.4	20,609	16.1	
percentage for building	(*)	(*)		16.9		17.9		30.4		40.5		
Long-term credits	7,289	6,312	10.2	6,863	8.7	6,638	7.5	6,703	6.8	7,404	5.8	
Credits to the Treasury ¹	...	8,202	13.3	2,485	12.0	11,287	12.7	12,507	12.6	24,362	19.1	
Total	...	62,189	100	78,653	100	88,766	100	99,006	100	127,824	100	

(*) Figure impossible to calculate on a comparable basis.

¹ *Bons d'équipement* and Treasury Bills.

Source: B.C.T., Annual reports 1959 to 1964.

TABLE 22

DISTRIBUTION OF SHORT-TERM BANK CREDITS BY RECIPIENT SECTORS, 1958 TO 1963
(end-year figures, in thousand dinars)

S e c t o r s	1958		1959		1960		1961		1962		1963	
	amount	Change %	amount	Change %	amount	Change %	amount	Change %	amount	Change %	amount	Change %
Agriculture	3,455	—	3,144	— 9	3,270	+ 4	3,646	+ 11	3,516	— 4	1,860	— 47
Energy and transport	1,038	—	1,725	+ 65	3,034	+ 76	3,991	+ 31	4,295	+ 8	4,812	+ 12
Mining and quarrying	798	—	863	+ 8	1,196	+ 39	761	— 36	1,716	+ 125	1,510	— 12
Metallurgy and metal-using industries	982	—	1,043	+ 6	2,558	+ 145	2,664	+ 3	3,269	+ 23	3,478	+ 6
Construction and public works	1,093	—	1,972	+ 80	2,200	+ 12	4,176	+ 90	5,012	+ 20	6,480	+ 29
Chemicals	469	—	592	+ 26	997	+ 68	1,108	+ 11	1,522	+ 37	2,203	+ 45
Food industries and trade	13,360	—	14,790	+ 9	19,958	+ 35	24,977	+ 25	19,435	— 22	27,393	+ 41
Textiles	999	—	1,177	+ 18	2,070	+ 76	1,738	— 16	2,148	+ 24	2,714	+ 26
Hides and skins	152	—	362	+ 140	493	+ 36	397	— 19	316	— 20	315	...
Other industries and trade	2,081	—	2,182	+ 5	3,667	+ 68	4,003	+ 9	4,380	+ 9	6,945	+ 59
Total	24,427	—	27,850	+ 13	39,443	+ 42	47,461	+ 20	45,609	— 4	57,710	+ 27

Note: The figures are compiled from the records of the *Service Central des Risques*, which include all credits in excess of 3,000 dinars (except for discount of trade bills, where the lower limit is 5,000 dinars). The central risk pool also records the debit positions of individual borrowers, if the total amount involved exceeds 5,000 dinars, regardless of the amounts of separate loans. During the years under consideration the central risk pool recorded the following percentages of total credits granted: 67.4 in 1958; 68 in 1959; 72.7 in 1960; 77.6 in 1961; 70.6 in 1962; 76.5 in 1963. The figures are, therefore, fairly representative.

Source: B.C.T., Annual reports 1959 to 1963.

TABLE 23
DISTRIBUTION OF MEDIUM- AND LONG-TERM BANK CREDITS BY RECIPIENT SECTORS, 1959 TO 1962
(end-year figures, in thousand dinars)

Sectors	1959		1960		1961		1962	
	amount	Change %	amount	Change %	amount	Change %	amount	Change %
Crop farming	2,476	—	2,305	— 171	2,278	— 27	2,218	— 60
Extraction of mining products	197	—	49	— 148	9	— 40	222	+ 213
Extraction and manufacture of building materials	8	—	...	— 8	8	+ 8	241	+ 233
Construction and public works	439	—	573	+ 134	480	— 93	556	+ 76
Food and soap industries	902	—	860	— 42	1,531	+ 671	2,632	+ 1,101
Transport	344	—	914	+ 570	791	— 123	1,092	+ 301
Food trade	416	—	615	+ 199	655	+ 40	598	— 57
Petroleum and fuel trade	40	—	40	...	40	...	...	— 40
Trade in building materials	...	—	5	+ 5	5	...	...	— 5
Textile and clothing trade	91	—	113	+ 22	96	— 17	81	— 15
Activities ancillary to industry and trade	57	—	54	— 3	48	— 6	45	— 3
Real property management, sale and construction	934	—	1,144	+ 210	1,724	+ 580	3,222	+ 1,498
Other industries and trade	829	—	1,344	+ 515	2,521	+ 1,177	4,635	+ 2,114
Total	6,733	—	8,016	+ 1,283	10,186	+ 2,170	15,542	+ 5,356

Note: The figures are compiled from the records of the *Service Central des Risques*, which include all credits in excess of 3,000 dinars. Despite this rather low limit, the statistics of the central risk pool are not highly representative, because of the large balancing item (Other industries and trade) and because of the somewhat unsatisfactory proportion of credits recorded in 1959 and 1960 (the percentages were 52 in 1959; 54 in 1960; 62.5 in 1961; 71 in 1962). One of the reasons was that many medium-term loans (especially for housing and agriculture) were short of the lower limit (3,000 dinars) beyond which they must be declared to the central risk pool.

In 1963 the central risk pool changed its classification, and the table therefore stops at 1962.

Source: B.C.T., Annual reports 1959 to 1962.

TABLE 24

SAVINGS DEPOSITS IN BANK AND POSTAL ACCOUNTS, 1958 TO 1963
(end-year figures, in thousand dinars)

Deposits	1958	1959	1960	1961	1962	1963
Banks: time deposits and fixed-term notes ¹	1,450	2,140	3,620	4,882	5,161	8,797
Percentage share in total bank deposits	4.7	4.6	6.6	7.9	7.6	9.6
Deposits with the Caisse Nationale d'Epargne	2,272	2,566	2,926	3,293	3,910	4,291

¹ The figures for time deposits in banks from 1959 on are taken from the Table headed *Ressources et emplois bancaires*.

Source: B.C.T., Annual reports 1959 to 1963.

Bank, the disengagement of the Tunisian currency from the other currencies of the Franc Zone, the control of capital movements between Tunisia and France, and the gradual establishment of a public banking sector designed to steer credit activities towards national interests.

By the end of 1963 numerous mergers and liquidations had given the banking system a much more concentrated structure than it had when independence was proclaimed (see Tables 8, 25 and 26). Of the thirteen banks¹ in existence at the end of 1963, only six had survived more or less unchanged from Protectorate days. They were the *Caisse Mutuelle de Crédit Agricole* (by now in an advanced stage of liquidation), the *Banque de Tunisie* and the *Banque Franco-Tunisienne* (both private banks under Tunisian law), the *Compagnie Algérienne de Crédit et de Banque*, the *Crédit Foncier d'Algérie et de Tunisie*, and the *Société Marseillaise*

¹ Thirteen, that is, without the *Société Nationale d'Investissement*, which was not a deposit bank.

TABLE 25
STRUCTURE OF THE TUNISIAN BANKING SYSTEM AND THE OWN-RESOURCES/DEPOSITS RATIO,
1938 TO 1963 (end-year figures, in thousand dinars)

Classification	1958			1959			1960		
	No.	Own resources	Deposits	Ratio %	No.	Own resources	Deposits	Ratio %	No.
Tunisian banks	9	4,371	18,284	24	10	3,674	25,983	14	8
French banks	8	634	23,428	3	8	913	26,059	4	8
Other foreign banks	1	28	400	7	1	110	548	20	2
Private banks	13	1,906	31,718	6	13	2,411	35,641	7	14
Public banks	5	3,127	10,394	30	6	2,286	16,949	13	4
Tunisian banks	8	3,932	43,396	9	8	5,270	55,882	9	8
French banks	8	1,405	26,077	5	7	1,550	28,776	5	3
Other foreign banks	2	354	1,092	32	2	477	1,782	27	2
Private banks	14	2,986	43,303	7	14	3,363	50,261	7	10
Public banks	4	2,705	30,262	9	3	4,619	36,179	11	3

Note: "Own resources" means the sum of capital, legal reserve and other capital reserves, statutory or otherwise. "Deposits" means the sum of all deposits with the sole exception of the *Comptes spéciaux d'épargne* introduced in September 1962. This own-resources/deposits ratio was called "solvency ratio" by the Central Bank and fixed by it in July 1961 at an initial minimum of 5 per cent; soon after it was raised to 10 per cent. Discrepancies between this table and Tables 7 and 8 as regards the number of banks in each category are due to different (but unexplained) classification criteria adopted by the B.C.T., but disappear from 1963 on. For instance, the *Société Nationale d'Investissement*, not being a deposit bank, has not been included by the B.C.T. in the present table, while the *Caisse Mutuelle de Crédit Agricole de Tunisie*, though in process of liquidation, figures both among Tunisian banks and among public banks.

Source: B.C.T., Annual reports 1960 to 1963.

TABLE 26

LEAGUE TABLE OF TUNISIAN BANKS ON 31 DECEMBER 1963 (amounts in thousand dinars, R = ranking number)

B a n k s	Total deposits ¹		Balance sheet total		Total credits ²		Total own resources		Import credits ³		Export credits ³	
	amount	R	amount	R	amount	R	amount	R	No.	amount	R	No.
<i>Société Tunisienne de Banque</i>	21,625	1	54,674	1	38,650	1	2,733	1	7,118	6,490	2	2,813
<i>Banque Nationale Agricole</i>	17,120	2	34,318	2	11,652	2	655	3	2,592	1,621	8	1,630
<i>Banque de Tunisie</i>	10,611	3	16,430	3	4,638	3	1,013	2	11,503	7,690	1	1,844
<i>Union Internationale de Banques</i>	10,174	4	14,477	4	4,607	4	345	6	9,062	4,646	4	2,403
<i>Union Bancaire pour le Commerce et l'Industrie</i>	7,150	5	10,506	5	2,547	7	386	4	11,942	5,998	3	1,290
<i>Banque d'Escompte et de Crédit à l'Industrie en Tunisie</i>	5,668	6	8,588	6	3,546	5	350	5	3,650	4,609	5	452
<i>Compagnie Algérienne de Crédit et de Banque</i>	5,506	7	7,918	7	2,402	8	320	8	10,024	3,015	6	771
<i>Société Marseillaise de Crédit</i>	3,552	8	5,008	8	2,746	6	152	11	5,038	2,065	7	1,007
<i>Crédit Foncier d'Algérie et de Tunisie</i>	2,626	9	4,292	9	1,354	9	325	7	—	—	—	334
<i>British Bank of the Middle East</i>	991	10	1,665	10	604	10	165	10	—	—	—	—
<i>Banque Franco-Tunisienne</i>	612	11	848	11	487	12	64	12	—	—	—	—
<i>Arab Bank</i>	261	12	854	12	284	11	273	9	—	—	—	—
<i>Others⁴</i>	—	—	—	—	—	—	—	—	5,455	1,386	—	964
Total	85,916		159,578		73,517		6,781		66,383	37,520		13,508
												24,050

¹ This total does not include special funds and allocations at the disposal of some public banks (S.T.B. and B.N.A.).² This total does not include credits financed from special funds and allocations.³ The numbers of import and export credits refer exclusively to foreign trade between Tunisia and the countries of the Franc Zone during the first ten months of 1963. In both cases the numbers are cumulative.⁴ This item is relevant only for import and export credits, and includes those financed by the Post Office.Note: The table does not include the *Société Nationale d'Investissement*, which is a different kind of bank, nor the *Caisse Mutuelle de Crédit Agricole en Tunisie*, in liquidation.Source: B.C.T., *Bulletin*, January 1964.

de Crédit. The last three were the only private banks still under French law and closely connected with their parent banks abroad, but their importance was diminishing for obvious reasons. All the other French banks of the Protectorate had been closed down or taken over or merged with others, and in the course of this process had registered under Tunisian law and acquired foreign shareholders other than French. The original predominance of French capital interests had thus been diluted in two ways, though they were still far from negligible¹. In the meantime two other foreign, non-French banks had set up branches in Tunis, the British Bank of the Middle East and the Arab Bank. From the outset, both of them kept rather aloof from strictly local business, both as regards deposits and credits, but were active in developing commercial relations between Tunisia and the Middle East, and, more generally, the sterling area. This fitted in well with the government's foreign policy of intensifying and broadening commercial relations with countries outside the Franc Zone.

The public banking sector, while consisting of only three units (the *Caisse Mutuelle de Crédit Agricole*, in process of liquidation, the *Société Tunisienne de Banque* and the *Banque Nationale Agricole*), handled more than half of all banking business, and its influence covered an even wider area if allowance is made for the *Société Nationale d'Investissement* and for the fact that the S.T.B. had a 25 per cent stake in the *Union Internationale de Banques*² and was on the point of acquiring control of the

¹ Statutes under Tunisian law usually required Tunisian nationality both of the chairman and the general manager, which certainly put considerable limitations on the power of foreign capital interests in any company.

² The S.T.B. had in 1960 taken over 85 per cent of the shares of the near-bankrupt *Société Franco-Tunisienne de Banque et de Crédit*, and when the latter merged in 1963 with the Tunisian branch of the *Crédit Lyonnais* to constitute the U.I.B., the S.T.B. had automatically come to own part of the U.I.B. equity.

*Banque Franco-Tunisienne*¹ (see Table 9). In practice, the weight of the public sector was further increased by the preferential treatment it enjoyed from the state, via the allocation of special funds, and from the Central Bank in matters of refinancing. Certainly a large part of the medium- and long-term credit business was concentrated in public banks.

By 1963, then, the Tunisian banking system had definitely acquired a physiognomy of its own. But before going on to other matters, it may be well to recapitulate briefly the main distortions and shortcomings which had emerged in the course of all these quantitative and qualitative transformations and which required corrective action on the part of the authorities.

First of all there is the small proportion of time deposits in total deposits. This must surely be regarded as one of the banking system's chief weaknesses and suggests failure in the banks' function to act as financial intermediaries especially with regard to household savings. In other words, intermediation did not effectively cover all social groups nor the whole of the economy, and instead concentrated mainly on the financial and monetary circuits of the more advanced sectors consisting largely of new enterprises created under government auspices. It looks suspiciously as though the banking system's expansion was achieved almost entirely by recycling the liquid assets of these companies and multiplying the liquidity created by the budget deficit and by the associated expansionary policy of the Central Bank. It would have been better, perhaps, to extend intermediation to wider financial circuits, including households, smaller firms and the rural areas and population groups. Such a policy would certainly have been rather costly and would perhaps not have

¹ The operation was completed in 1964.

yielded spectacular results in the short run, since low individual incomes precluded a large flow of savings to the banks. But it would have had a social and educational effect, would have helped to lay the foundations for the future consolidation of the supply of deposits and would thus have strengthened the country's medium- and long-term credit potential and with it the prospect of more self-sustaining growth. Economic development cannot in the long run be financed by budget deficits, central bank credit and borrowing from abroad. Such a strategy involves far too much economic, financial and political danger. In the long run, economic development and the accumulation of capital needed for it must rely on the formation of domestic savings. This being so, it must be the aim of banking policy to stimulate and attract individual savings, even if initial results are bound to be disappointing because of low personal incomes. Banks should create, maintain and strengthen the propensity to save with a view to future, higher real incomes per head. Such a policy, of course, is eminently one conceived in the public interest and its implementation is therefore incumbent on public authorities, especially those concerned with banking. It would seem that the Tunisian government did not give a sufficiently high priority to the solution of these problems, and that the banks, both private and public, were not particularly responsive to them either¹.

Another matter to give cause for concern was the situation of agricultural credit, as has been pointed out more than once. The B.N.A. applied rather restrictive standards to its farm credits, especially in regard to the traditional sector of agriculture. Yet if the dualism which the Protectorate administration had created

¹ The only bank that showed any interest at all in these problems was the B.N.A., to judge from its annual reports, e.g. *Rapport 1961*.

in Tunisian agriculture was to be finally eliminated, urgent steps needed to be taken to forestall and prevent traditional farmers being barred from access to the credit market. This was, of course, a problem beyond credit policy alone and required all sorts of collateral action, not only financial, in order to create the conditions of profitable agricultural investment. This indeed was the aim of the large-scale co-operative scheme for agriculture which the government launched in 1963.

8. THE POLICY OF THE CENTRAL BANK

(a) *The instruments of credit policy*

The instruments at the disposal of the Central Bank for its monetary and credit policy are specified in its statute, the main outlines of which have been described earlier. But this, as it were, was an abstract framework only. In practice, the Central Bank adapted these instruments to its own policy and used them in its own particular way. In time, too, the B.C.T. worked out and introduced a set of regulations for the control of the banking system, beyond any specific statutory provisions. It will be useful, therefore, to retrace briefly the methods of intervention adopted by the Central Bank as time went on, and to comment on their economic and financial reasons as well as on their repercussions on banking activities.

From the very outset, the B.C.T. followed two parallel and complementary policy lines. One of them was to strengthen its qualitative credit control, for the obvious and explicit purpose of promoting economic development by channelling available financial resources to priority investment. The Central Bank's other and increasingly growing concern was with its means of quantitative credit control, which appeared particularly necessary in a situation

where capital shortage inevitably caused economic development to be financed to a large extent by the creation of money.

For purposes of selective credit control, the B.C.T. introduced a system of "rediscount agreements" and "prior authorizations". The system of rediscount agreements was provided for in Article 42 of the statutes, and governed by rules subsequently specified by the B.C.T. in its circular of October 1958. For any bank credit in excess of 10,000 dinars, of whatever nature and technical form other than discount of commercial bills and certain "special credits" subject to separate rules, rediscounting facilities were available only by prior agreement with the Central Bank. This agreement obviously had to be requested by the bank concerned before granting the credit. If the request was not made or if it was refused, the credit could still be granted, but was not eligible for rediscount¹. For paper representing medium-term credits the Central Bank's prior agreement had to be obtained even for loans of less than 10,000 dinars, on pain of not being rediscountable.

Furthermore, loans in individual amounts of 75,000 dinars or more needed prior authorization by the Central Bank in order to be eligible for rediscount. These two requirements gave the Central Bank an effective influence on the distribution of credit, without imposing undue restrictions on the deposit banks' freedom of action². The Central Bank always had enough information to work this system in a rational way, because the records of the

¹ Even by obtaining the Central Bank's prior agreement, a bank did not acquire any right to rediscount, but merely a possibility of mobilizing the credit concerned.

² The system of rediscount agreements did not, however, apply to short-term credits in individual amounts of less than 10,000 dinars, which on a rough estimate must have accounted for about half the total.

central risk pool enabled it to keep a constant watch on credit distribution¹.

A third, though less direct, means of qualitative credit control was the application of multiple rediscount rates, so fixed as to grade refinancing costs in inverse proportion with the priority rating of the investment financed by the loan concerned². This system made it possible to apply more favourable refinancing rates to export credits and to medium-term loans for the purchase of capital goods and equipment for agriculture.

Quantitative credit control, on the other hand, was achieved mainly by manipulating rediscounting facilities and advances to banks³ not so much in terms of the rate of interest charged as via the so-called refinancing quotas. The credit quota system was introduced by the B.C.T. in its circular of 10 October 1958 and fixed a ceiling for refinancing facilities available to each bank, these facilities being differentiated by purpose and technical form. The regulations provided for different types of quotas, as follows.

A "permanent ordinary quota" was available to each bank throughout the year, for refinancing any kind of credit. An additional "seasonal or special quota" could be drawn on by each bank for refinancing credits for the marketing and storage of major agricultural commodities (grain, oil, wine). Finally, there was an "ex-quota refinancing system", which in effect enabled the banks,

¹ The *Service Central des Risques* kept records of all short-term and medium-term loans of 3,000 dinars or more (or 5,000 and up in the case of discount of commercial bills), on the basis of monthly declarations by the banks. See the B.C.T. circular of 17 December 1958.

² Table 27 shows the B.C.T.'s official discount rates classified by major classes of operations. For more detail see the statistical annexes of the B.C.T. *Bulletin*.

³ A third facility, advanced against "pawned" bills of exchange or bonds, was used much less and for this reason is not discussed in the text.

within pre-established limits, to rediscount credits guaranteed in some way or another by the state as well as loans destined to finance "activities of general interest", such as export credits and medium-term loans for the purchase of capital goods. This quota and ex-quota refinancing system was a very ingenious device for using quantitative controls as a means of credit selection with a view to optimal credit distribution¹.

To refinance advances, each bank had a "mobilization quota for public securities", which covered discount of and advances on the Treasury issue of *bons d'équipement*, as well as fixed-term advances (30 days) and current account credits against the collateral of the same securities. This quota conferred a measure of liquidity upon the large public security portfolios which the banks were holding, voluntarily or otherwise.

The Central Bank was free to use all these means of quantitative and qualitative credit control entirely at its own discretion, although admittedly the system of prior rediscount agreements did imply a sort of moral obligation for the B.C.T., up to the ceiling of the appropriate quota. It may be pointed out, too, that the system of controls described above had a built-in bias towards a selective credit policy, while leaving ample scope for quantitative control through rationing rather than interest rate adjustments. As will be seen more clearly presently, the B.C.T. was always anxious to prevent credit control from directly pushing up the cost of credit, because it did not wish to compromise the returns on investment for national economic development.

To round off the system of credit controls, there was an obligation for banks to hold a certain minimum of public securities.

¹ For more detail on the quota system see B.C.T., *Bulletin*, April 1963, pp. 10-11.

This was called the *plancher d'effets publics*, or *ratio d'emplois en effets publics*, and was initially fixed at 25 per cent of each bank's total supply of deposits; when, later, the so-called special savings accounts were introduced, they alone did not have to be included in the compilation of total deposits. At first the banks found it impossible to meet this ratio, for the very simple reason that there were not enough *bons d'équipement* around (and there were no Treasury Bill issues before 1963). Actually, this ratio was meant to serve two purposes, namely, to counteract the expansionary effect of the banking system's continuously increasing monetary base¹, and to widen the state's opportunities for borrowing — since obviously the public securities within the minimum quota could not be used by the banks to obtain refinancing in any form.

The Central Bank's own supervision of the banking system certainly enhanced the speed and efficiency of its credit controls. From the outset, the B.C.T. took its supervisory functions very seriously and required the banks to submit fairly detailed monthly statements of condition. These provided useful information, which, in conjunction with the records of the central risk pool, enabled the Central Bank to adjust its credit policy flexibly and rationally to changing situations. In view of the Central Bank's own direct contribution to development finance, immediate and continuous supervision of banking activities was all the more necessary, so as to keep a close watch on the inflationary effects of money creation.

¹ It will be recalled that the Central Bank was itself responsible for a great deal of money creation. Since there was no reserve requirement at all, it was necessary to put up some barrier, however weak, against the multiplier effect of bank credit.

(b) 1958-1961: *The phase of expansionary credit policy and take-off*

During its early years, the *Banque Centrale de Tunisie* pursued a distinctly expansionary credit policy and thus made a signal contribution to financing the first stage of economic development. In practice, of course, this policy meant more and more money creation. But conditions were exceptionally favourable during the years 1958 to 1961. Agricultural and industrial output were rising, and the balance of payments, though structurally weak, was doing as well as could be expected for the beginning. In these circumstances the B.C.T. felt it would not be incurring undue risk in expanding its own credit to the economy and to the Treasury. And so it encouraged the banks to develop their credit operations with the help of continuous recourse to refinancing facilities — witness successive reductions in official discount rates, as shown in Table 27, and the growing indebtedness of the banking system to the Central Bank (Table 16). The government, in its turn, had on its hands the fight against underdevelopment and an industrialization policy, which were bound very quickly to get the budget into mounting deficit and hence to oblige the Treasury to borrow more and more from the Central Bank (Table 28). The consequences of this expansionary credit policy are manifest in the time series of monetary statistics, as summarized in Table 29. In the event, however, the inflationary effect of the liquidity created by the B.C.T. and multiplied by the banks was not all that strong, because bank money was used only in the more advanced sectors of the economy, and the multiplier effect of deposits was therefore limited. Other helpful factors were that the increase in monetary resources was in part absorbed by the mobilization of idle factors of production, and that trade and the economy in general were not yet fully monetized, so that the

TABLE 27

CHANGES IN OFFICIAL DISCOUNT RATES, 1958 TO 1963

Type of operation	Before 1 June 1959	1 June 1959 to 31 Jan. 1960	1 Feb. 1960 to 30 Sept. 1962	1 Oct. 1962 to 31 Dec. 1963
Discount and advances on inland trade bills	3.25	3.25	3.00	4.00
Discount of foreign bills and mobilization of foreign credits	3.25	3.25	2.00	3.00
Mobilization of public securities (by pawning and advances)	3.25	3.25	3.25	4.25
Discount of finance paper	4.00	3.75	3.00	4.25
Discount of medium-term credit mobilization bills	5.00	4.00	3.50	4.50
Advances on current account against securities	6.00	6.00	6.00	6.00

Note: The rates shown are the minimum rates, but in some cases these may be raised in case the operation concerned exceeds a certain time limit.

Source: B.C.T., Annual reports 1959 to 1963, and *Bulletin*.

liquidity created by the B.C.T. went mostly into the monetary and financial circuits of investment and did relatively little to raise unit wages and consumption¹.

In these circumstances the overall effect of the Central Bank's money creation worked itself out mainly through a growing deficit in the trade balance. As will be seen from Table 30, the first symptoms of this trend became apparent in 1959. But the divergence in the flows of exports and imports was not a direct

¹ Both wholesale and retail prices fluctuated a good deal during the years 1958 to 1961. They rose most between August 1960 and March 1961, but even then not alarmingly so in the light of the volatile price levels normal in developing economies. For more information on this matter see B.C.T., Annual reports 1959 to 1961.

TABLE 28

CENTRAL BANK CREDITS TO THE TUNISIAN TREASURY, 1959 TO 1963
(end-year figures, in thousand dinars)

Technical form	1959	1960	1961	1962	1963
Short-term advances ¹	1,117.5	1,009.0	720.0	1,157.0	12,078.6
Medium-term advances ²	...	...	...	5,500.0	5,000.0
B.C.T. deposits at the <i>Centre</i> <i>Chèques Postaux</i> ³	211.3	295.4	4,368.7	9,241.0	17,458.9
B.C.T. deposits at the <i>Caisse</i> <i>Nationale d'Epargne</i> ⁴	...	...	...	...	15,211.0
Special economic co-operation accounts	...	...	...	...	504.9

¹ The item "short-term advances" originally included only advances for between 5 and 30 days on public securities held by banks and with a residual period to maturity of less than three months. From 1963, these were renamed "avances à terme" and included also advances made to the state and to banks on foreign exchange time deposits in the name of non-residents. From 1964 the B.C.T. no longer made advances on public securities, because the banks were obliged to invest in such securities 30 per cent of their deposits.

² These represent short-term credits consolidated in 1962 because, under the terms of its statute, the B.C.T. was precluded from granting the Treasury short-term credits beyond certain limits (5 per cent of ordinary budget revenue, and 240 days, consecutive or otherwise, during any one year). The consolidation was made possible by the decree-law No. 62-19 of 27 August 1962.

³ For a detailed explanation of the expedients used by the B.C.T. for financing the Treasury indirectly via the C.C.P. see Bistolfi, *op. cit.*, pp. 306-307.

⁴ This item does not occur in the official balance sheets of the B.C.T. The figures have been calculated by Pariente, in the work cited among the sources for this table.

Note: The table does not include all the direct and indirect forms in which the B.C.T. made credit available to the Treasury, in that it omits public securities in the B.C.T.'s portfolio (the B.C.T. was entitled to purchase public securities with a residual period to maturity of less than six months) as well as the discount of certain claims on the Treasury by business (short-term certificates subscribed by tax debtors and guaranteed by a bank).

Sources: B.C.T., *Bilans* 1959 to 1963, and G. A. Pariente "Emission monétaire, équilibre financier et développement économique", *Servir*, January 1968, pp. 32-34 and 42.

and exclusive consequence of the B.C.T.'s credit policy. It was due also, and in the initial phase indeed mainly, to the rupture of the dinar's ties with the French franc and to the associated repercussions on the balance of commercial relations between

TABLE 29

THE MONEY SUPPLY, 1958 TO 1964
(end-year figures, in thousand dinars)

Year	Currency ¹		Bank money ²		Total	Annual change per cent
	amount	%	amount	%		
1958	27,855	43.5	36,112	56.5	63,967	...
1959	32,643	41.4	46,131	58.6	78,774	+ 23.1
1960	37,812	40.8	54,879	59.2	92,691	+ 17.7
1961	43,313	40.5	63,504	59.5	106,817	+ 15.2
1962	37,440	35.5	68,140	64.5	105,580	+ 1.2
1962	37,440	37.0	63,626	63.0	101,066	—
1963	44,230	34.9	82,626	65.1	126,856	+ 25.5
1964	44,866	35.3	82,076	64.7	126,942	—

¹ Bank notes and coin in circulation net of cash holdings by banks and the Treasury.

² Sight deposits at banks, and deposits of individuals and non-banking firms at the *Centre Chèques Postaux*.

Source: B.C.T., *Bulletin*, September 1968, p. 24. Since, however, the B.C.T.'s reconstruction of the series on the latest (1968) criteria goes back only to 1962, the figures for earlier years are those of the time series reconstructed on 1967 criteria by Hédi Enneifer, in "La Masse monétaire", *Servir*, January 1968.

Tunisia and the Franc zone. The composition of imports and exports during the period 1959-1961 (Table 31) reveals no particularly significant trends and on the whole looks fairly stable. The marked increase in food imports in 1961 was due to a shortfall of domestic agricultural output compared with previous years. Logically, one would have expected the credit expansion sustained by the B.C.T. for the purpose of financing economic development to push up capital goods imports rather faster than most. But in practice the additional monetary demand was distributed fairly evenly among all classes of imports, without concentration on capital goods. The reason for this was probably twofold. In the first place, industrialization was only just

TABLE 30

THE TRADE BALANCE AND BALANCE OF PAYMENTS, 1957 TO 1963
(end-year figures, in thousand dinars)

Year	Trade balance				Balance of payments	
	Imports	Exports	Deficit	Import coverage	Surplus	Deficit
	1	2	3 = 1 - 2	4 = (2 : 1) %	5	6
1957	63,352	54,187	9,165	85.5	—	5,600
1958	64,886	64,405	481	99.3	1,700	—
1959	64,202	59,585	4,617	92.8	6,400	—
1960	80,092	50,267	29,825	62.8	2,180	—
1961	88,447	46,345	42,102	52.4	—	2,462
1962	90,890	48,688	42,202	53.6	—	9,317
1963	93,662	52,922	40,740	56.5	—	9,300

Source: Secrétariat d'Etat au Plan et à l'Economie Nationale, Service des Statistiques du Commerce Extérieur.

beginning and technical gestation periods were long, and secondly a major part of the financial resources destined for economic development was absorbed by the so-called public works camps for the fight against underdevelopment¹ and by the construction of social overhead capital. At the same time the growth of domestic demand, equally under the impact of the same anti-unemployment policy, made inroads into the exportable domestic supply of food commodities and raw materials. The rising deficit in the trade balance was at first, in the years 1958 to 1960, offset

¹ These were also called "assistance camps" and were designed to combat widespread unemployment by using available manpower in infrastructural improvements. They were directly financed by the Treasury and thus had the effect of converting a considerable portion of public expenditure into demand for consumer goods. The financial resources so committed must have been large, as can be guessed from the rapid increase in the number of unemployed persons occupied in these camps; their number rose from 100,000 in 1958 to 275,000 in 1961.

TABLE 31

COMPOSITION OF IMPORTS AND EXPORTS, 1959 TO 1963
(end-year figures, in thousand dinars)

Classes of goods	1959		1960		1961		1962		1963	
	amount	%	amount	%	amount	%	amount	%	amount	%
<i>Imports</i>										
Food	12,500.4	20	15,150	18.9	23,822	27.0	20,928	23.2	15,484	16.5
Raw materials and semi-manufactures	20,526.8	32	25,557	31.9	26,292	29.7	28,719	31.4	34,669	37.1
Capital goods	9,287.7	14	15,536	19.4	16,674	18.8	18,272	20.2	22,018	23.4
Consumer durables	21,887.6	34	23,849	29.8	21,659	24.5	22,971	25.2	21,491	23.0
Total	64,202.5	100	80,092	100	88,447	100	90,890	100	93,662	100
<i>Exports</i>										
Food	35,894.7	60.2	28,346	56.4	25,507	55.0	29,293	60	32,312	61
Raw materials and semi-manufactures	22,760.2	38.1	20,855	41.5	19,913	43.0	18,548	38	19,454	37
Capital goods	417.0	0.8	498	1.0	397	0.8	847	2	1,156	2
Consumer durables	513.0	0.9	568	1.1	527	1.2				
Total	50,584.9	100	50,267	100	46,344	100	48,688	100	52,922	100

Source: B.C.T., Annual reports 1959 to 1963.

by surpluses elsewhere in the balance of payments, but from 1961 on this precarious equilibrium quickly vanished and Tunisia's global external payments got into deficit.

The national accounts, too, while generally fluctuating, display a growing imbalance between 1960 and 1961 (see Table 1), when the decline in the gross domestic product was not matched by a corresponding fall of consumption, with the result of precluding the formation of any savings at all, so that domestic saving net of depreciation appears with a negative sign. In this unpropitious situation net investment nevertheless again rose in 1961, but only at the cost of a sharp increase in foreign debts.

In their turn, the financial accounts, as briefly summarized in Table 32, indicate a generally deteriorating situation in 1961 and in particular show up the connection between liquidity creation, growing Treasury indebtedness and shrinking foreign assets.

At this point the Central Bank was simply marking time instead of adopting restrictive measures at the first signs of internal and external disequilibrium. The official discount rates offer a faithful reflection of this policy. In 1958 the B.C.T. decided to encourage an expansion of credit and hence of investment by a progressive lowering of interest rates induced by judicious cuts in official discount rates¹. One of the underlying arguments was that this would help to keep down the production costs of Tunisian firms, to the benefit of their exports to foreign markets. But the B.C.T. had to proceed with some caution, because any sudden and sharp fall in interest rates might have given yet more impetus to the outflow of French capital. In fact, the cheap money policy was not fully applied until after the introduction of controls on

¹ See B.C.T., *Rapport annuel 1959*, pp. 52-53.

TABLE 32

FINANCIAL LIABILITIES AND THEIR COUNTERPARTS, 1959 TO 1970
(end-year figures, in thousand dinars)

Year	Money supply	Near- money	Special resources	Other financial resources	Total	Foreign	Treasury	Economy
	1	2	3	4		5	6	7
1959	79,996	4,706	11,482	1,552	97,736	37,421	8,601	51,714
1960	94,065	5,761	12,633	3,822	116,281	38,514	10,632	67,135
1961	108,624	7,435	12,577	14,680	143,316	30,598	30,853	81,865
1962	108,072	8,311	13,541	24,391	154,315	23,593	43,710	87,012
1962	101,066	13,030	19,614	17,367	151,078	21,822	32,244	90,012
1963	126,856	17,198	21,583	17,008	182,645	7,086	67,384	108,175
1964	126,942	22,797	26,410	21,502	197,651	— 3,013	70,892	129,772
1965	129,508	32,238	33,137	26,686	221,569	— 6,789	78,845	149,513
1966	142,926	41,617	33,097	34,863	252,503	— 14,277	85,416	181,364
1967	149,224	44,580	32,628	36,655	263,087	— 20,714	84,262	199,539
1968	167,270	49,407	40,588	46,029	303,294	— 11,807	87,730	227,731
1969	182,221	50,495	49,906	48,925	331,547	— 4,134	94,223	241,458
1970	196,808	57,759	58,044	52,027	364,638	6,545	93,174	264,919

¹ Bank note + bank money (and, up to 1962, + foreign deposits).

² As per note on disaggregation of columns 4 and 5 in Table 37.

³ State funds + foreign loan funds.

⁴ Own resources + other liabilities.

⁵ Gold and foreign exchange assets + foreign claims — short-term foreign debts.

⁶ B.C.T. and bank credits to the Treasury + deposits at the Centre *Chèques Postaux* and the *Caisse Nationale d'Épargne*.

⁷ Ordinary bank credits + credits from special resources + securities.

Sources: B.C.T., *Bulletin*, September 1969 and March 1971, and Hédi Enneifer, "La Masse monétaire", *Servir*, January 1968. For further information, see notes to Table 29.

money transfers to countries of the Franc Zone (law of 13 January 1959). Official discount rates were cut twice in the following months (on 1 June 1959 and 1 February 1960) and were then kept constant until they were raised again on 1 October 1962,

more than a year after the destabilizing effects of expansionary policy had become evident.

Some time earlier, in 1961, the authorities did adopt some restrictive measures of limited effect, without however basically altering their expansionary policy. The aim of the measures concerned was not so much to contain the expansion of liquidity, as to achieve a selective limitation of its more harmful effects, and to influence the distribution of credit.

To this end a system of import deposits for consumer durables was introduced in 1961¹, in the hope of mitigating the effects of growing domestic demand on the trade balance. For the same reason, severe restrictions were imposed on consumer credit in July 1961². The new rules fixed a maximum duration for credits for the purchase of certain consumer durables, as well as a minimum down-payment in cash. For all goods not specifically listed, barring capital goods for agriculture or industry, consumer credit was limited to twelve months and 50 per cent of the purchase price (in the case of imported goods, three months and 25 per cent of the purchase price)³.

At the same time the B.C.T. instructed all banks to maintain an own-resources/deposits ratio of 5 per cent, subsequently raised to 10 per cent⁴. This provision was introduced not in order to stem the credit expansion, but to strengthen the position of the French banks, whose own resources covered only about 2 per cent

¹ B.C.T., *Rapport annuel* 1961, p. 39.

² See the B.C.T.'s circular of 21 July 1961, subsequently published in its *Bulletin*, July 1961, pp. 7-9.

³ These hire purchase restrictions led to the liquidation of two finance houses, the *Société pour le Financement des Ventes à Crédit* (SO.FI.VE.C.) and the *Société Tunisienne de Financement* (SO.FU.FI.). See B.C.T., *Rapport annuel* 1961, p. 73.

⁴ B.C.T., *Rapport annuel* 1961, pp. 75-78.

of their deposits¹. Even though the new rule was not fully observed, it did help to consolidate the liabilities of the banks, as can be seen from Table 25.

The fact that these measures did not reflect the adoption of a more restrictive credit policy by the Central Bank, is proved by its circular of 21 March 1961, in which it renewed the current maximum lending and borrowing rates of the banks "in consideration of the need to reduce the cost of credit"².

(c) 1962-1963: *The phase of selective credit policy and the beginning of economic planning*

In the course of 1961 the government prepared the final version of the development plan which was to guide economic policy for ten years to come³. The projections were published

¹ The own-resources/deposits ratio was called "solvency ratio" by the B.C.T. Its introduction was, at the time, variously interpreted as a discriminatory measure against French banks, or else as a device to force them to import capital from France and reinvest their profits locally. Obviously, neither of these interpretations is confirmed by official documents.

² These maximum rates were as follows:
sight deposits: 0.75 per cent;
three-, six- and twelve-month time deposits: 1.50, 2 and 2.50 per cent;
overdrafts on current account not represented by rediscountable bills: 7 per cent;
discount of rediscountable commercial bills: 3.75 to 4.75 per cent;
discount of non-rediscountable commercial bills: 4.75 to 5.75 per cent;
discount of bills representing medium-term credits: 6.50 per cent (or 5.50 per cent if state-guaranteed).
B.C.T., circular of 21 March 1961.

³ The idea of economic planning had been in the air for a long time, ever since 1956 when a Planning Department was set up. A further step was taken in 1958 with the establishment of a National Planning Council with broad representation of all the political, economic and social groups concerned in the country's development. But no detailed programme was worked out until Ben Salah, former secretary of the *Union Générale des Travailleurs Tunisiens*, was appointed Minister of the Economy.

in 1962 by the Ministry of Planning and Finance, under the title *Perspective décennale de développement*. The aims of Tunisian planning are worth analysing carefully, if necessarily briefly, because together with the current economic situation, they were a major factor in determining central bank policy, the behaviour of the banking system as well as the internal and external equilibrium of the national economy.

The key point in the official ten-year projections was a steady annual increase in the real gross domestic product of not less than 6 per cent. Then there were three other main objectives, no less important but logically subordinate to the first, namely, elimination of structural unemployment¹, a drastic redistribution of income to

¹ Forecasts put the population of working age (between 20 and 60 years) in 1971 at 2,312,000 (of whom 1,000,000 male). Investment under the plan was to ensure employment for 1,100,000 persons. However, expected population growth had been calculated on the assumption that the annual growth rate of the Moslem population would drop from more than 2 per cent (the average of estimates for the period 1956-1961) to 1.9 per cent in 1962-1966 and to 1.7 per cent in 1967-1971. This forecast was at the time regarded as optimistic by some (e.g. Claude Zarka, "L'économie tunisienne à l'heure de la planification impérative", *Annuaire de l'Afrique du Nord*, 1962, p. 280), and in fact turned out to be quite inaccurate, for the Moslem population kept on increasing at an annual rate of over 2 per cent. Moreover, the ten-year projections took account only of people between 20 and 60 years, and made no provision for those between 15 and 20, a particularly large age group in Tunisia's population structure. Finally, with 1,100,000 jobs projected for 1971, and assuming full employment of the whole male population of working age (1,000,000), there would have been work for only 7.6 per cent of the female population between 20 and 60, and many women willing to work could not have found jobs. The demographic assumptions underlying the ten-year projections were thus too low in the first place, the lower limit of the working age implied the totally unrealistic assumption that all young people up to 20 would be at school, and finally the planners failed to take account of the female labour supply. It was surely heroic optimism to expect that the ten-year employment targets would really solve the problem of structural unemployment, though they would of course have reduced it.

the benefit of the poorer classes¹, and the final emancipation of the Tunisian economy from its dependence on foreign capital, leading to a process of self-sustained growth².

The ten-year projections for the major economic aggregates, as shown in Table 33, rest on the hypothesis of a marginal capital/output ratio in the economy equal to 4, or in other words, that four units need to be invested in order to raise income by one unit. This seems a reasonable and realistic assumption, at least in the light of the growth figures for the net domestic product and net investment during the period 1950 to 1960³.

On this assumption, and allowing for depreciation, the rate of investment had to be high — around 30 per cent, and certainly more than one could hope to finance by domestic saving alone⁴. On the other hand, it would not do to rely too heavily on foreign capital, since its inflow and use were often tied to political conditions. In any case, the Tunisian authorities meant to liberate the economy from the bonds of foreign dependence and had explicitly stated it as their aim to put the country in a position to finance its

¹ The target for 1971 was that each Tunisian should have an annual income of at least 45 dinars, compared with the less than 30 dinars average annual *per caput* income which, according to the planners' own estimate, three quarters of the population had in 1959. The projections, therefore, had a pronounced social content and implied so drastic an income redistribution as to appear utopian. Even supposing steady growth of the gross domestic product at the projected rates, income redistribution on that scale would have required the standard of living of the high-income group to be reduced very considerably—by more than 20 per cent according to conservative estimates. Zarka, *op. cit.*, pp. 231-232, rightly points to the danger of a disincentive effect on the higher social classes, who might then contribute less to national development.

² Self-sustained growth, however, was a target set only for 1974, beyond the ten-year projections.

³ See Zarka, *op. cit.*, p. 233.

⁴ The term "to finance" is here used in the broad sense, without reference to the economy's financial circuits.

own development. So the planners decided to budget initially for no more foreign capital than had come into the country in the years 1960-1961 and to plan ahead for a reduction in foreign indebtedness. The projections therefore provide for 55 per cent of investment to be financed from foreign sources in 1962, with progressively lower proportions down to 20 per cent in 1971.

At the same time, domestic saving would have to finance a growing proportion of investment, and so the savings ratio would have to rise steadily from 11 per cent in 1962 to 26 per cent in 1971. To meet this fundamental target, the growth of consumption naturally had to be held back to the extent possible. So the projections allow consumption to rise at an annual average rate of only about 4.4 per cent, barely enough to maintain the standard of living of the population at its assumed rate of growth. But otherwise there was no chance of mobilizing within the country enough resources to finance development at the planned rate.

Attached to the ten-year projections was a schedule outlining the distribution of investment among broad classes of economic activities, as shown in Table 34.

The high priority assigned to investment in infrastructures and agriculture makes it clear that the Tunisian planners were going for development of the traditional type, leaving industrialization lower down the scale.

The ten-year projections were to be implemented through a series of shorter-term plans, worked out in more detail and allowing of adjustments. The first three-year plan, a sort of pre-plan for 1962-1964, represented an experimental stage, in so far as the planners themselves regarded it as a test of the assumptions underlying the ten-year projections, and designed it to create the conditions for the implementation of subsequent plans. To this end, net investment during these three years, in a total amount

TABLE 33

THE MAJOR ECONOMIC AGGREGATES IN THE TEN-YEAR PROJECTIONS 1962-1971
(thousand 1957 dinars)

Year	Gross domestic product	Gross investment	Investment ratio %	Total consumption	Rate of consumption growth %	Gross saving	Savings ratio	Foreign capital inflow	Foreign share of investment coverage %
	1	2	3 = 2:1	4	5	6 = 1-4	7 = 6:1	8 = 2-6	9 = 8:2
1962	287,000	73,600	25.7	254,000	...	33,000	11	40,600	55
1963	304,000	87,300	28.7	256,000	+ 0.8	48,000	16	39,300	45
1964	322,000	97,300	30.2	264,000	+ 3.1	58,000	18	39,300	40
1965	341,000	107,600	31.5	272,000	+ 3.0	69,000	20	38,600	36
1966	362,000	114,100	31.5	287,000	+ 5.5	75,000	21	39,100	34
1967	384,000	120,700	31.4	300,000	+ 4.5	84,000	22	36,700	30
1968	407,000	131,400	32.3	317,000	+ 5.7	90,000	23	41,400	32
1969	432,000	138,400	32.0	328,000	+ 3.5	104,000	24	34,400	25
1970	458,000	149,500	32.6	344,000	+ 4.9	114,000	25	35,500	24
1971	486,000	156,900	32.3	360,000	+ 4.7	126,000	26	30,900	20

Note: The sequence of the columns does not necessarily reflect the logic of their construction.

Source: Secrétariat d'Etat au Plan et aux Finances, *Perspective décennale de développement*. The figures have often been published elsewhere as well, e.g. in B.C.T., *Rapport annuel* 1961, pp. 95-97.

TABLE 34

DISTRIBUTION OF INVESTMENT BY SECTORS
(thousand dinars)

Sectors	Amount	Per cent
Infrastructures	413,650	46.2
Agriculture and fisheries	244,850	27.4
Industry	140,000	15.6
Training of key personnel	77,000	8.6
Tourism and spas	20,500	2.2
Total	896,000	100

of 270 million dinars, was to go largely into a reform of the country's economic and administrative structures and into social overhead capital required for the achievement of later targets, as is clear from the following distribution:

Agricultural infrastructures	42 per cent
Industrial infrastructures	24 per cent
Social and administrative infrastructures	23 per cent
Personnel training	11 per cent

An interesting point is that this first plan contained no time schedule formally distributing gross investment expenditure over the three years. The total was set at 330 million dinars, including 60 million for depreciation. In the ten-year projections, gross investment for the years 1962-1964 adds up to less, 258.2 million in all. The intention clearly was to beat the original time table and achieve the final targets more quickly. Correspondingly, all the other figures set by the three-year plan for 1964 are higher than those contained in the ten-year projections, as shown below — in figures directly comparable with those of Table 33, since both sets are expressed in constant 1957 dinars.

Gross domestic product	355,100
Gross investment	125,100 (35 per cent of GDP)
Total consumption	277,300
Gross saving	77,800 (21 per cent of GDP)
Foreign capital	47,300 (38 per cent of gross investment)

Note, however, that over the whole three-year planning period foreign capital was scheduled to cover 47 per cent of gross investment, involving a total amount of 155 million dinars, of which 90 million in foreign aid and the rest in loans¹.

It is the targets and projections of this three-year plan which go further than anything else to explain the Central Bank's credit policy. As early as 1961, it will be recalled, some warning symptoms had appeared in the economy, a prelude as it were to the coming internal and external imbalance. The trend of the key economic indicators in 1962 confirmed that things were going wrong. At this point the monetary authorities might have introduced restrictive measures designed to keep the national accounts in balance, but only at the risk of seriously compromising the achievement of the targets fixed by the 1962-1964 plan. Instead it was decided to keep up to the flow of funds needed to finance planned investment, confident that foreign aid and loans would be available and that domestic saving would go up².

This is why, in 1962, both the Tunisian government and the Central Bank made intensive efforts to secure more foreign capital. It was a matter of extreme urgency, seeing that at the beginning of the planning period the effective supply of foreign

¹ The targets and main outlines of implementation of the 1962-1964 plan are set out in B.C.T., *Rapport annuel* 1961, pp. 97-100, and, in more detail, in *Rapport annuel* 1962, pp. 24-30.

² On the financing of investment for the years 1962-1964 see B.C.T., *Rapport annuel* 1962, pp. 24-30.

funds was only 29 million dinars, whereas 155 million were needed for the coming three years. The government's efforts were rather successful, witness the long-term agreements with the United States involving commitments for 180 million dollars (some 75.6 million dinars) and the project submitted to the World Bank for the creation of a Tunisia aid club with broad international membership. In addition, bilateral financial agreements were concluded with a number of foreign governments and financial institutions¹. In all, Tunisia succeeded in 1962 in adding to its available 29 million dinars of foreign resources total commitments for another 97 million, spaced out over time and subject to certain conditions. This made 126 million, plus another 18.9 million of U.S. origin — an altogether satisfactory outlook as regards the planned foreign share in financing the three-year plan.

Concurrently, the authorities prepared a plan for the mobilization of domestic financial resources, detailing the sources as follows (thousand dinars)²:

Public administration	self-financing	47,000
Firms		35,000
Households		600
Bank credit		23,100
<i>Bons d'équipement</i> and deposits with the <i>Caisse Nationale d'Epargne</i>		7,000
Special resources from counterpart funds of U.S. aid in kind		2,300
Total		115,000

¹ Italy, Western Germany, Czechoslovakia, Yugoslavia, Sweden, the First National City Bank and the International Development Association (an offspring of the International Bank for Reconstruction and Development).

² The tabulation in the text reproduces the somewhat unusual one used by the B.C.T. to illustrate the origin of the finance resources for the three-year plan. See B.C.T., *Rapport annuel 1962*, p. 26.

The above figures show that the government was relying mainly on state finances and on the self-financing capacity of state-controlled enterprises. An interesting point is that the authorities were counting on a sizeable ordinary budget surplus to be available for investment. The planned excess of current revenue over current expenditure was to be secured by higher tax revenue following the introduction of a tax reform effective as of 1 January 1963. On the other hand, the figure for households savings is conspicuously low.

This, then, was the proposed coverage of net investment in an amount of 270 million dinars over the three years of the planning period, leaving 60 million dinars for depreciation to be found by self-financing and saving by the businesses concerned¹.

In these circumstances, the Central Bank felt it would be enough to adopt a selective credit policy designed to channel finance funds to priority investment under the plan, and for the rest to keep a careful watch on the distribution of financial resources so as to contain money creation to the extent possible. As things turned out, however, the Central Bank was forced to inject growing amounts of new liquidity into the system so as to make good the shortfall in the supply of foreign capital, which, in spite of the prior commitments, failed to meet expectations. In practice there were long delays in the inflow of foreign funds, owing to various bureaucratic and administrative difficulties².

¹ B.C.T., *Rapport annuel* 1962, p. 25.

² See Bistolfi, *op. cit.*, p. 302 *et seq.* Pariente (*op. cit.*, p. 37) has calculated that the foreign funds actually received by Tunisia amounted to 21,305 million dinars in 1962 and to 36.158 million in 1963. What is worse, there were considerable delays in investing the counterpart of the foreign funds received, so that they were less than fully used. In the event, the foreign capital actually invested in Tunisia in 1962 and 1963 amounted, respectively, to 20.549 and 26.176 million dinars, and covered, respectively, 25.7 and 29.3 per cent of planned net investment, compared with the 57 per cent budgeted for in the three-year plan.

Since the authorities were unwilling to allow these setbacks to slow down the implementation of the plan, the Central Bank had to "advance" the necessary investment funds and to fill with its own credit the gap left open by the shortfall of foreign capital. The additional liquidity went mostly to swell the Treasury's debt to the B.C.T. However, the latter tried, at least initially, to counteract the effects of the growing budget deficit by rationing and greater selectivity in its refinancing of the banking system. The growing contribution of the Central Bank to the financing of the economy, as well as its attempts at restrictions, are evident in the figures of Tables 16, 18, 28 and 32¹.

It is not easy to explain the behaviour of the key monetary aggregates in 1962. The circulation of bank notes and coin fell by more than was offset by the increase in bank money (Table 29). This is puzzling and looks contradictory in the context of the potentially inflationary situation at the time. Actually, the phenomenon was due not to any significant contraction of the volume of transactions, but to a strong decline in monetary hoarding, the growing use of bank money and a higher velocity of circulation². The Central Bank's own behaviour in 1962 indirectly confirms that the diminution of the supply of money

¹ Nevertheless, the proportion of medium-term credit refinanced by the Central Bank rose sharply to 51 per cent in 1962, compared with 28 per cent the previous year (Table 20), thus offsetting to some extent the restrictions on short-term refinancing.

² When, in 1962, the change of 5-dinar notes induced many hoarders to deposit their savings in a bank, the expansion of the money flows via the Treasury helped to increase the use of bank money, and the first structural reforms under the plan had the effect of shortening the trade circuits and thus reducing the need for means of payment and increasing the velocity of their circulation. This is indirectly confirmed by the falling ratio between money supply and gross domestic product. See B.C.T., *Rapport annuel 1962*, pp. 59-60.

did not really reflect any abatement of the inflationary pressures which were getting hold of the economy.

Up to a point, the cheap money policy was abandoned at that stage. The official discount rates were raised by one per cent on 12 September 1962, with effect as of 1 October, leaving intact their differentiation by types of operation (Table 27). At the same time the ceilings of deposit rates were raised by between 0.5 and 1 per cent, while loan rates were either left unaltered or raised less¹. This differentiated treatment of interest rates was meant to make it less attractive for the banks to refinance their assets, to increase the banks' supply of deposits and at the same time to reduce the financial costs incurred by firms. In other words, the Central Bank was trying not only to curtail its own contribution to the economy via the banking system, but to induce the latter to expand its intermediary activities at less cost to users. Another step in the same direction was the creation by the monetary authorities of a new category of deposits, called special savings deposits, which offered comparatively high returns and were meant to attract small household savings².

In spite of these gently restrictive measures, the Tunisian economy's internal and external imbalance worsened further in 1963, with widespread price rises³ and a bigger balance-of-payments

¹ See the B.C.T.'s circular of 12 September 1962.

² The main features of these accounts were as follows: the full sum of deposits could be withdrawn on demand, not more than 1,000 dinars could be deposited on any one account, interest was payable at the rate of 2.25 per cent annually (or 2.75 per cent if the deposits were tied for at least six months). The importance of household savings was underlined at the time by the Governor of the B.C.T. (see *Rapport annuel* 1962, p. 72 and 105).

³ The are amply illustrated in the appropriate chapter of the B.C.T.'s annual report for 1963. See also Table 40.

deficit¹. The B.C.T.'s restrictions on bank credit, which had proved effective enough in 1962, now failed because the Treasury's growing indebtedness to the Central Bank (see Table 28) entailed continuous money creation, and the new cash entering the economy's financial circuits via public expenditure in turn did much to expand the monetary base of the banking system. On this broader monetary base the banks, of course, expanded their credit and, through the latter's well-known multiplier effect, the supply of bank money increased (see Tables 16, 29 and 32).

In this serious situation the Central Bank adopted no restrictive measures with respect either to the banks or the Treasury, whose budget by now was clearly identifiable as the main cause of internal and external imbalance. All the B.C.T. did was to introduce, as of 31 August 1963, a so-called private-bills/deposits ratio, which required banks to finance the discount of rediscountable medium-term bills to the extent of at least 5 per cent of deposits². With this, the B.C.T. hoped to achieve two results, namely, to induce the banks to devote more of their own resources to financing medium- and long-term investment³, and to discourage the banks from drawing on refinancing facilities for these operations⁴.

As of 14 August 1963, furthermore, the Treasury started issuing three- six- and nine-month Treasury Bills⁵, as a useful new channel of public borrowing alongside the issues of *bons d'équipe-*

¹ See Table 30.

² B.C.T. circular of 23 July 1963.

³ Private banks, especially, were rather reluctant to grant loans of this kind.

⁴ This was very necessary, seeing that in 1962 the B.C.T. had refinanced 51 per cent of the banks' medium-term credits (see Table 20).

⁵ See the decree-law of 9 August 1963 and the B.C.T.'s circular No. 63-45 of 13 August 1963.

ment. These bill issues were clearly meant to relieve the debit position of the public finances vis-à-vis the Central Bank and to absorb a sizeable portion of the banking system's liquid assets, thus making them at least temporarily unavailable for credits to business. Banks were, in fact, obliged to subscribe Treasury Bills to the extent necessary to meet the requirement that a fixed proportion of their total deposits must be invested in public securities. This public-securities/deposits ratio, it will be recalled, was introduced in 1959¹ and was now fixed at 20-25 per cent. In effect, therefore, the new provision was tantamount to introducing a reserve requirement.

At about the same time, on 10 August 1963, dealings started on the new interbank money market², set up and run by the Central Bank for the quick and convenient adjustment of the banks' cash positions. This market was the meeting place of demand for and supply of bank funds either at sight or at very short notice (from a few days up to three months); deals were handled by the Central Bank's offices, which took care of matching the bank's demand and supply without giving away the names of the contractants. Settlement was daily and went through the B.C.T. accounts of the banks concerned, generally in the technical form of lodging commercial bills or public securities to obtain an advance, or else discounting them. The idea was that this new market would enable the monetary base of the banking system to be utilized more rationally and intensively, thanks to the quick and efficient clearing of the separate banks' temporary cash requirements and surpluses. The first effect of the new structural reform was to cause a moderate

¹ The volume of *bons d'équipement* in circulation was too small to meet the banks' demand for public securities in the required ratio.

² B.C.T., Circular No. 64-43 of B.C.T.

expansion of bank credit, But, by facilitating the better use of the monetary base, it also gave the Central Bank a means of exercising more effective and direct control on the volume of bank credit, and in any case of keeping immediate track of day-to-day changes in the cash position of banks.

In all, the measures taken by the B.C.T. in 1962 and 1963 proved altogether inadequate to stem the inflationary pressures in the economy and to prevent an increase in the balance-of-payments deficit as well as the rapid diminution of foreign exchange reserves. But in the context of the three-year plan, to the achievement of which the government gave top priority to the exclusion of virtually all else, a restrictive, deflationary credit policy would quickly have plunged the country back into depression and the vicious circle of underdevelopment. Perhaps we should ask ourselves whether, in not adopting a restrictive policy, the monetary authorities were indeed merely standing by passively and accepting the inevitable course of events, or whether they deliberately chose inflation as the lesser evil. For the rest, restrictive monetary policy would certainly have been no cure for the major evils behind the incipient crisis in Tunisia, the evils, that is, of a shortage of foreign capital, of poor harvests especially of olives in 1962/63, and of the initial low productivity of infrastructural investment under the three-year plan.