



BANKING SUPERVISION TUNISIA

Strategies to Implement Capital Requirement Approaches under Basel III

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01



TUNISIA : AN OVERVIEW



Overall View Of TUNISA

Key Figures

- ✓ Tunisia is a North African country which belongs to the Maghreb
- ✓ Experienced a revolution in 2011
- ✓ Political Transition



Population 11,8 Million (01/2022)

GDP(base2015)

- 2017 : 41069 MUSD
- 2018 : 37732 MUSD
- 2019 : 43801 MUSD
- 2020 : 44192 MUSD
- 2021: 45348 MUSD

Growth

- 2017 : 2,2%
- 2018 : 2,6%
- 2019 : 1,3%
- 2020 : -8,7%
- 2021 : 3,1%

Inflation

- 2017 : 5,3%
- 2018 : 7,3%
- 2019 : 6,7%
- 2020 : 5,6%
- 2021: 5,7%

Current Balance % of GDP

- 2017 : -10%
- 2018 :- 10,8%
- 2019 :-8,1%
- 2020 -6,1%
- 2021 :-6,3%

Unemployment

- 2017 : 15,5%
- 2018 : 15,5%
- 2019 : 14,9%
- 2020 : 17,4%
- 2021 :16,2%

The Tunisian Banking sector

Features

The physiognomy of the banking sector reflects the size of the economy

1

- 22 Resident Banks (1999 Branches)
- 7 non-resident Banks
- 8 leasing Institutions
- 2 Factoring
- 2 Merchant Banks
- 3 payment Institutions

Major contributor to GDP

2

- Total assets of resident banks : 48837 MUSD (12/2021) and represent 92,7% of total sector assets
- Total assets of banks and financial institutions /GDP=116,1%

No sophisticated and complex financial products

3

- Classic bank process: intermediation

Market activity is not developed

- Market capitalization 8246 MUSD; 18% of GDP(12/2021)
- Number of listed companies: 80 (12/2021)

4

Financially stable

- Regulatory minimum of 10% for the CAR and 7% for Tier 1

5

Satisfying credit risk management

- Major banking Risk : credit risk

6

(%)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Capital adequacy ratio	11,8	8,2	9,4	12,0	11,3	11,8	11,7	13,0	12,9	13,4
Tier 1 ratio	9,4	6,6	7,6	9,3	8,6	8,8	9,0	10,6	10,1	10,4

(%)	2019	2020	2021
NPL's ratio	13,3	13,5	13,1
Coverage ratio of NPL's by provisions	55,9	55,4	57,5

02

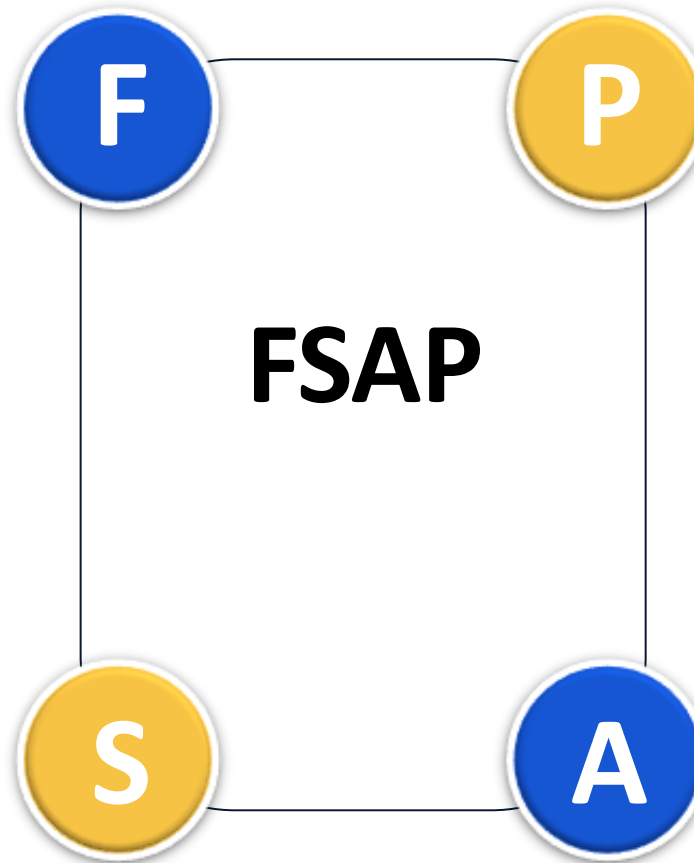
FSAP: KEY RECOMMENDATIONS

Financial Sector Assessment Program

AN OVERVIEW

Started in January 2012, is the third program that the Central Bank of Tunisia takes part in, and it was conducted in a specific context

- The classic aspects related to the banking sector evaluation
- Basel Core Principles
- Stress tests
- Specific aspect related to setting strategic orientations for the development of the financial sector(Banks, Insurance and financial Market).



The first FSAP 2001 focused on an overall assessment of the application of international norms and standards related to the financial sector and resulted in a report entitled «Report on the observance of standards and codes» ROSC

The second FSAP 2006 focused on the banking sector situation by updating the assessment of Basel principles for an effective Banking Supervision BCPs already carried out in 2001 through thorough stress tests.

Key FSAP Recommendations

Part 1

Bank supervision

Recommendations	Priority	Timeframe
Ensure appropriate independence of the supervisor, including regarding appointment and dismissal of senior officials	High	Short term
Significantly increase resources, including hiring staff with banking and market experience	High	Short term
Conduct in-depth on-site inspections starting with the largest banks	High	Short term
Apply international standards for loan classification, provisioning, and valuation of collateral	High	Short term
Address the serious weaknesses in data management by enhancing the collection and processing of bank data, and creating a uniform database and standardized template	High	Short term
Increase the minimum CAR to 10 percent by 2014 and to 12 percent by 2016, and increase the Tier 1 ratio to 7 percent by 2016	High	Medium term

Bank restructuring

Recommendations	Priority	Timeframe
Conduct an in-depth independent assessment of the balance sheets of the three large state-owned banks, and develop a strategy for ensuring they operate on a commercially oriented basis	High	Short term
Develop strategy to limit state ownership of banks to cases of clear public policy need	Medium	Medium term
Ensure that the same rules and regulations, including those related to governance structure, apply to state-owned banks and private banks	Medium	Medium term

Key FSAP Recommendations

Part 2

Crisis management and bank resolution

Recommendations	Priority	Timeframe
Develop a crisis-management framework and a special bank resolution regime	High	Short term
Revise the lender-of-last-resort framework to give explicit power to the CBT to advance funds, secured by adequate collateral, to solvent but illiquid banks	Medium	Medium term

Systemic Liquidity

Recommendations	Priority	Timeframe
Introduce a haircut on all collateral used for refinancing operations	Medium	Short term
Consider asking banks to pledge only treasury bonds as collateral for regular central bank liquidity provision	Medium	Medium term
The CBT should increase gradually the cost of banks' refinancing from the central bank in order to unwind CBT liquidity support to banks	Medium	Medium term

03

PROCESS OF REFORMS

Principles of reforms implementation

Objectives

Strengthening the resilience of the sector, ensuring the conditions for sound and prudent management of banking institutions

1

Enhancing the efficiency of the banking sector in financing the economy and supporting economic operators in their internal and external development

2

Enshrining the principles of good governance, competitive equity and transparency in the regulation of the banking market

3

Objectives

- Adjusting the international standards to take into account the features of the Tunisian banking sector and economy
- Quantitative Impact Studies (QIS) /Stress tests

TAILORING

- Concertation with the BFI: they are part of the process.
- There are discussions allowing them to give their opinions to ensure their adherence to the process of reforms

COMMUNICATION AND TRANSPRENCY

Principles

01



PRIORITIZATION

- Reflecting a strategic vision of CBT to
- first, ensure a balance between financial stability and the financing of the economy;
 - second, Catch up in many areas;
 - and then third, implement the legal frameworks

02



03



PROGRESIVNESS

- Gradual approach at a well-chosen pace
- Preparing The BFI in terms of technical human and financial resources

04



05



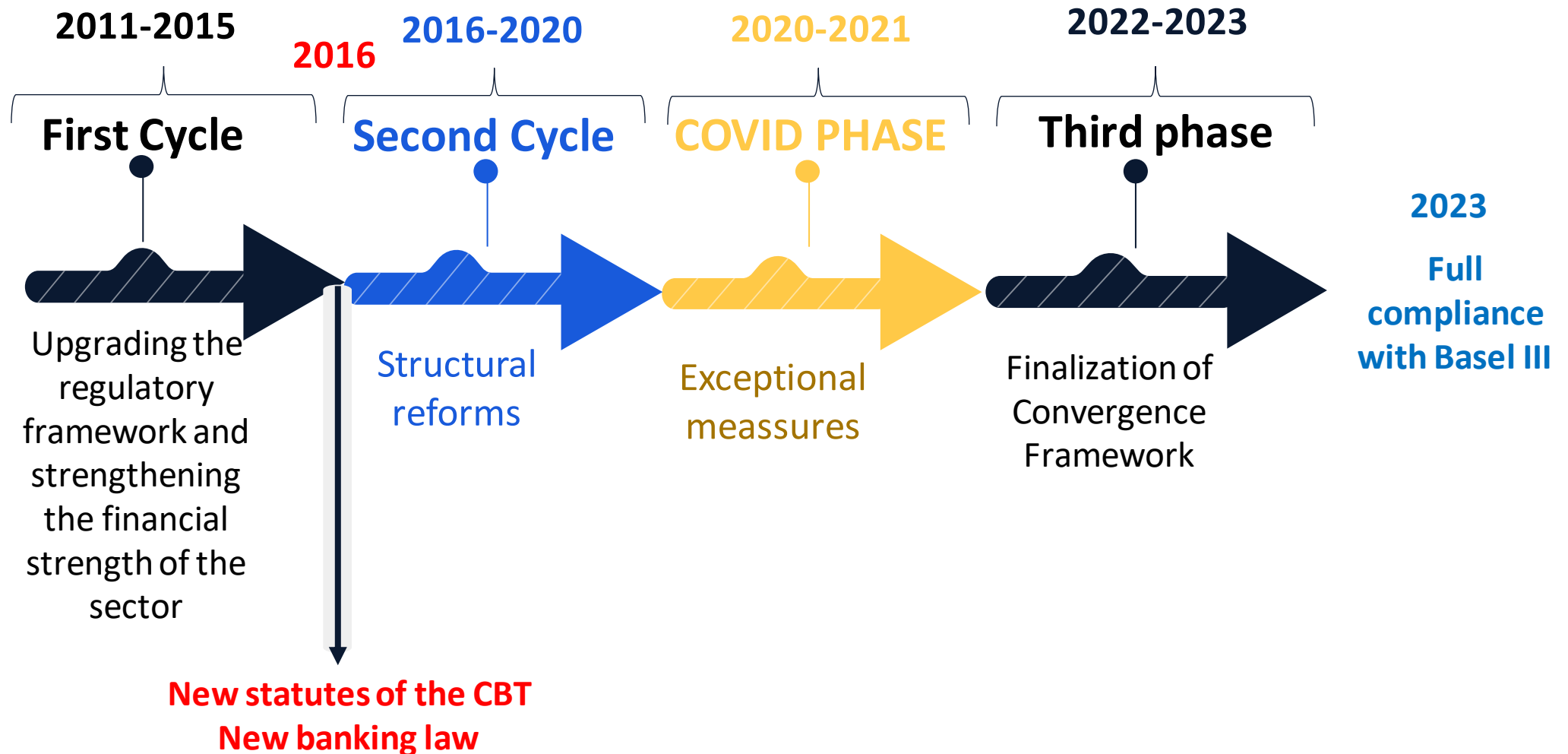
STRENGTHENING BANKING SUPERVISION

- Capacity building: human resources
- Improvement of internal processes : database and data processing software
- Appropriation of the reforms by supervisors

Principles

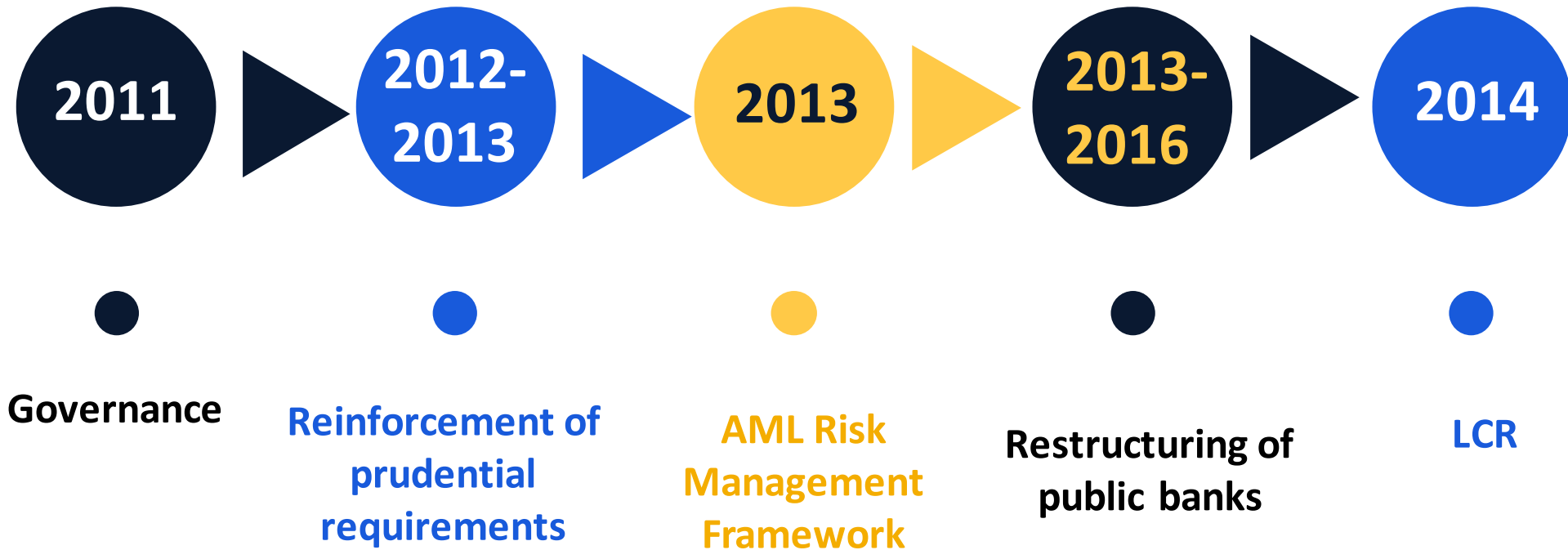
Timeline of reforms

Starting at 2011



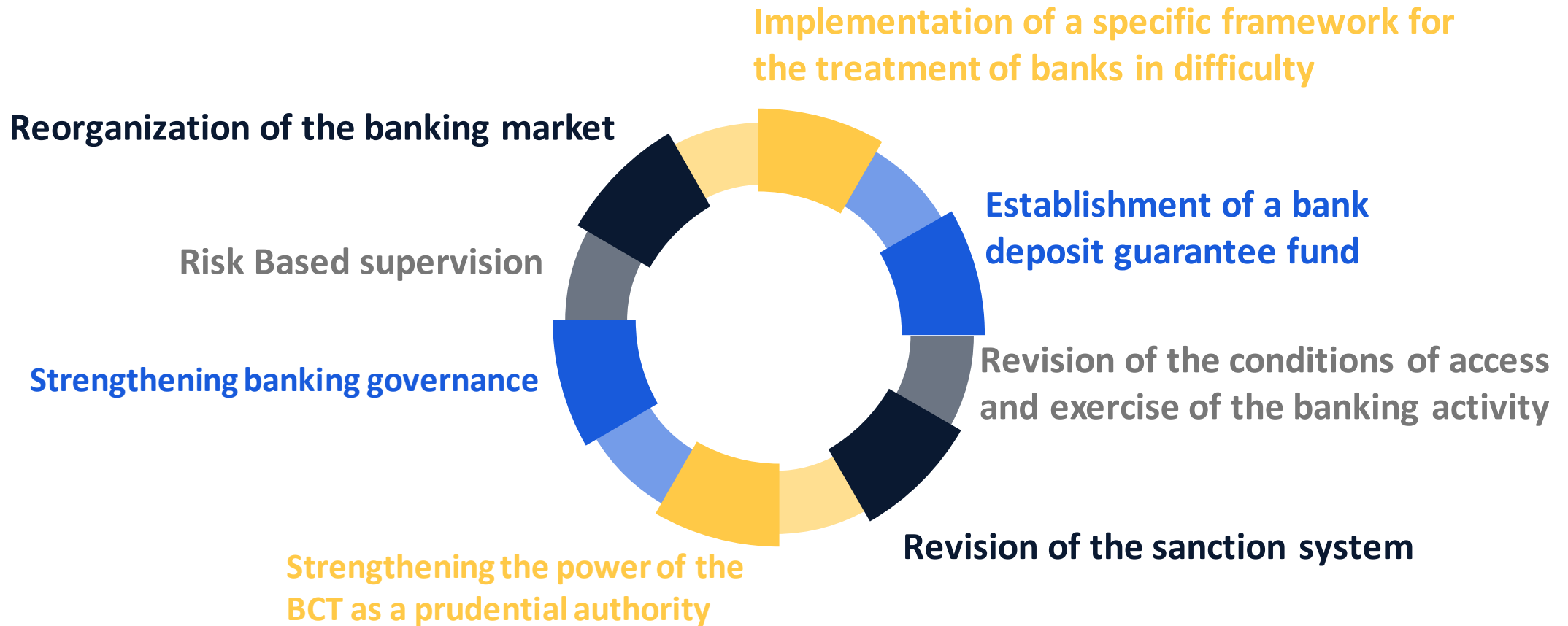
First Cycle

2011→2015



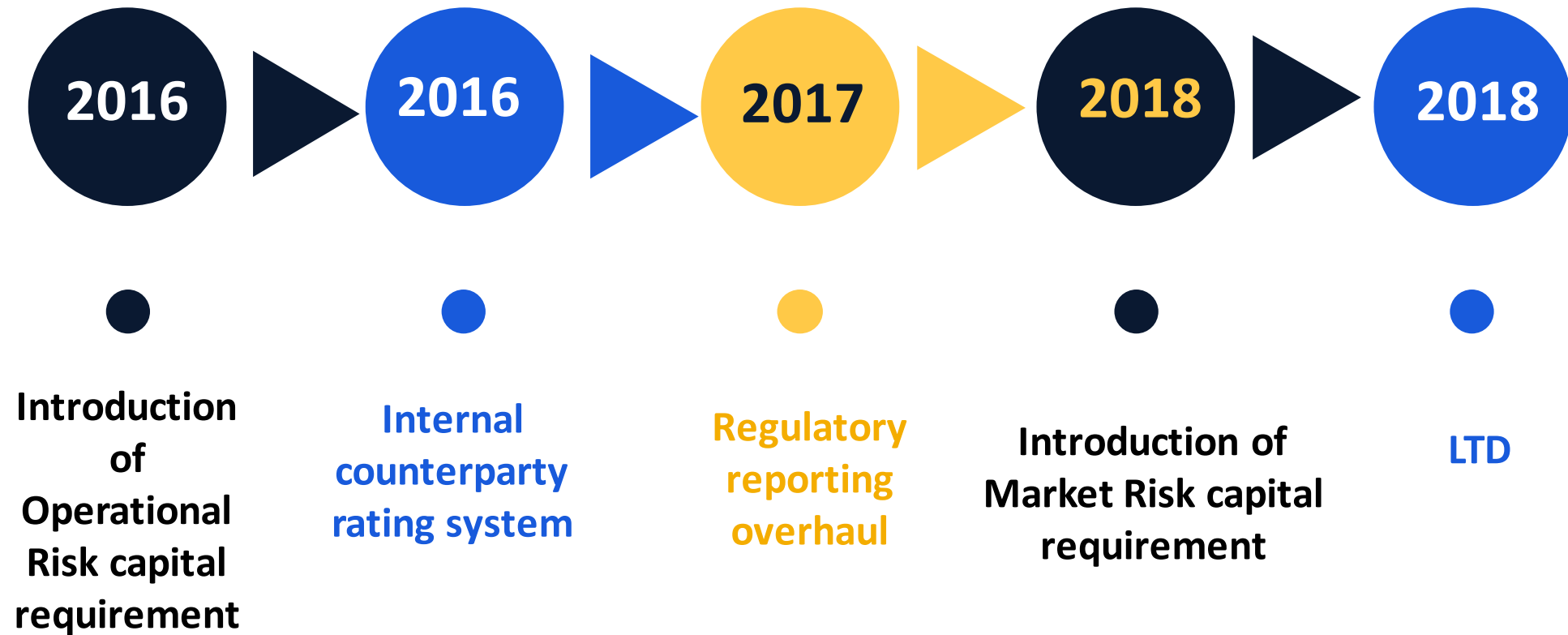
Banking LAW 2016

Keys axes of reforms



Second Cycle

2016 → 2020



Covid-phase

Exceptional measures(2020→2021)

1

Deadlines postponements

March 2020: This measure was put in place to support economic operators.

2

Close follow-up

Close monitoring based on continuous reporting on liquidity and evolution of credit activity and risk indicators.

5

Stress test

Conducting two stress test exercises in 2020 and 2021 to assess their resilience over a three-year horizon (2020, 2021 and 2022).

3

LTD

March 2020: Relaxation of the calculation method and requirements of the loan/deposit ratio through the quarterly decrease of the ratio to 1% instead of the 2% initially planned.

4

Dividend distribution

April 2020- 1st phase: suspension of all distributions for 2019.
March 2021- 2nd phase: Authorization to distribute dividends on the accumulated profits of fiscal years 2019 and 2020 under certain conditions,
March 2022: distribute dividends under certain conditions.

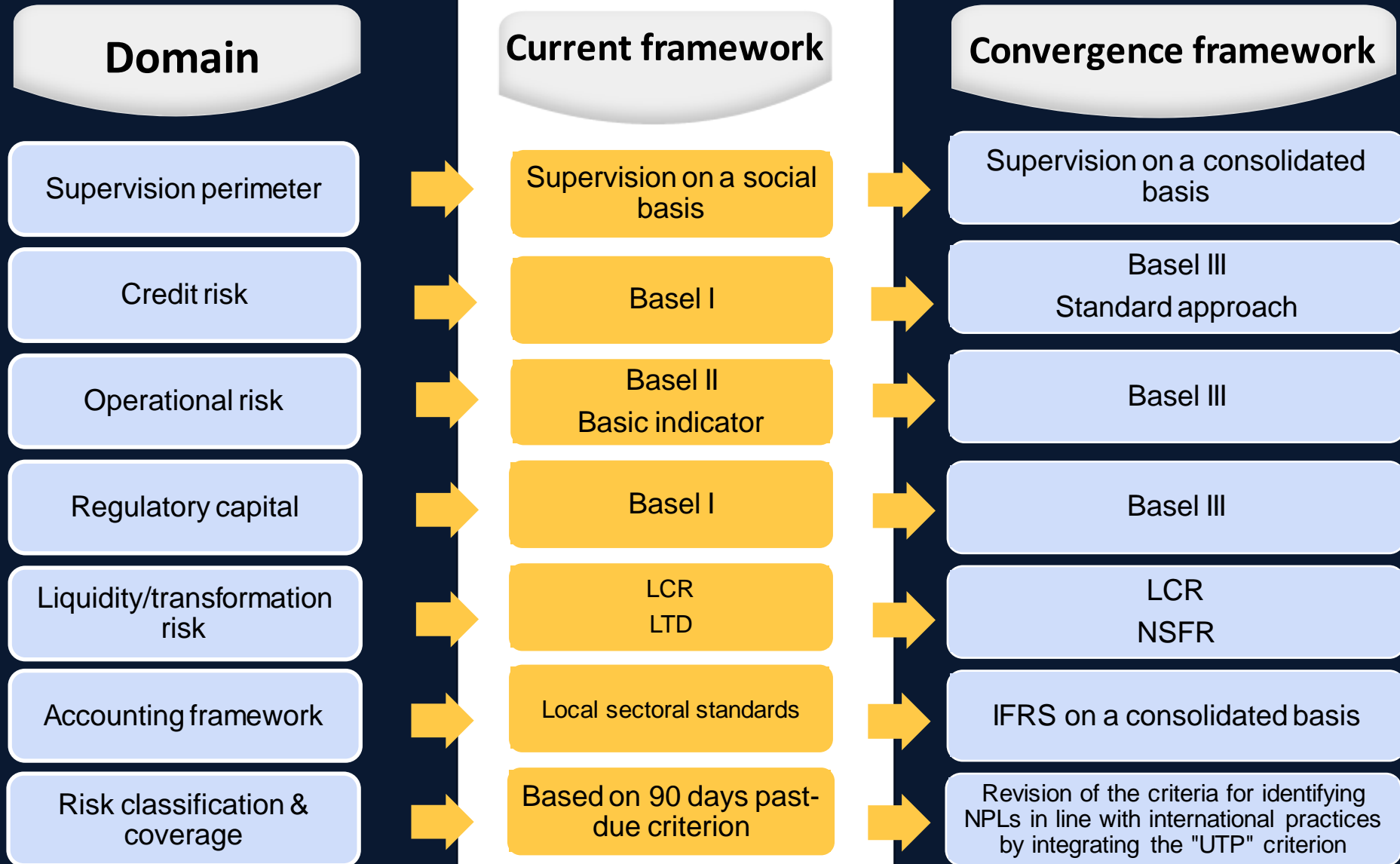
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Collective provisions

Revision of the methods for calculating collective provisions twice in 2021 and 2022 to ensure better coverage of latent risks.

THIRD CYCLE

2022→2023



04

CHALLENGES OF CONVERGENCE

CHALLENGES

2022

The CBT has relaunched the convergence process with a completion horizon 2023 while taking into account the interconnection between the various projects

	SBC	Credit Risk (CR)	Operational Risk(OR)	Equity	IFRS	Prudential Rules of Identification, and CR Coverage
SBC						
RC	Group scope of application					
RO	Group scope of application					
FP	Group scope of application	Impacts of the new CR/Equity approach	Impacts of the new OR/Equity approach			
IFRS	Application on a consolidated basis			Prudential filters to be defined at the equity level		
91-24	Application on a consolidated basis	Impact of NPL coverage on weighted assets (on an individual basis)	Impact of coverage on equity (on an individual basis)		Harmonization: - Definition of default - Staging rules - Provisioning rules on individual and consolidated basis	

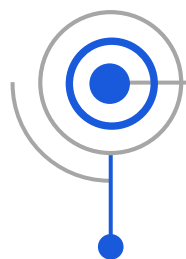
Full compliance with Basel

Axis I

Completion of pillar 1 of Basel II

Implementation of supervision on a consolidated basis

Semester 1 2022



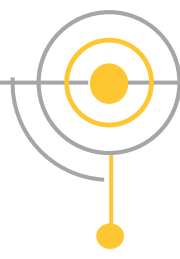
- Finalization of the supervision project on a consolidated basis through the publication of a circular defining the prudential scope of consolidation and its methods.
- Finalization of the IFRS macro impact study and launch of the micro impact study on IFRS 9

Axis II

Completion of Basel III compliance

- 1- Revision of the credit risk approach
- 2- Revision of the operational risk approach
- 3- Review of the definition & composition of prudential capital

Semester 2 2022



- Impact study on the new approach to credit risk and operational risk
- Publication of the circular on IFRS 9
- Redesign of the circular on the Internal Rating system

Axis III

Adoption des normes IFRS

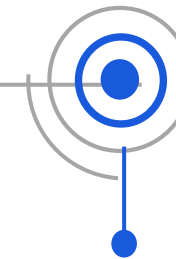
- 1- Publication of a circular on IFRS 9 & Internal Rating system.
- 2- Revision of circular n°91-24.

Semester 1 2023



- Finalization of the circular 91-24 overhaul project
- Equity impact study

Semester 2 2023



- Revision of Circular 2018-06 on capital adequacy
- Review of circular 2017-06 on reporting

Basel III Implementation in Tunisia

DASHBOARD

Adoption completed	Not applicable
Adoption in progress	Not yet started

TOPIC	Basel Standards	Current status	Deadlines	Details
Capital	Countercyclical capital buffer	Not yet started	-	Banks have a sufficient buffer thanks to all the measures taken by the CBT including the increase to 10% of the solvency ratio
	Definition of Equity	Adoption in progress	2023	The definition of equity is very similar to Basel III for tier 1 and Tier 2.
	Calculation of RWA for credit risk	Adoption in progress	2023	The CBT aims at adopting the standardized approach as defined in Basel III.
	Revised requirements for market capital	Not applicable	-	The CBT is applying Basel II requirements since it is more appropriate for a small market activity
	Revised operational risk framework	Adoption in progress	2023	The CBT is applying Basel II requirements and aims at moving to the Standardised approach Version effective as of 01 Jan 2023
Leverage	Leverage ratio	Not yet started	-	The CBT have launched discussions to define an action plan to start working on the leverage ratio. It is not as urgent as other requirements due to the specificities of the tunisian sector.
SIB	G-SIB Requirements	Not applicable	-	Not applicable in Tunisia.
	D-SIB Requirements	Not yet started	-	The banking law adds to the CBT's prerogatives the publication of a list of systemic banks and the imposition of a supervision adapted to this type of institutions (Knowing that CBT is now dealing with all banks as they were systemic)
IRRBB	Internal Rate Risk in the Banking Book	Adoption in progress	2023	A project is in progress, but it has been delayed due to the sanitary crisis.
Liquidity	Monetary tolls of intraday liquidity management	Not yet started	-	A close monitoring and a special reporting has been introduced during the period of high liquidity risk and banks are working hard to develop ALM
	Net Stable Funding Ratio	Adoption in progress	-	The CBT introduced the LTD ratio as a transitional ratio before moving to the NSFR
	Liquidity Coverage Ratio	Adoption completed	2014	Introduced since 2014 with a first application starting at 2015
Large exposure	Large Exposure	Not yet started	-	The ratio currently in force: The risks incurred on a single beneficiary must not exceed 25% of the net equity.
Discoloure	Keys metrics, CAR, Tier 1, Capital composition, IRRBB	Not yet started	-	The CBT privileges to finish the total adoption of its program of reforms to engage a clear communication, structured and which reflects the reality of the establishment according to the best practices.

البنك المركزي التونسي

Banque Centrale
de Tunisie



Central Bank
of Tunisia

Thank You

BANKING SUPERVISION
TUNISIA

October 2022