



sector external debt less than 10% of the total, Tunisia does not have a debt structure like that of countries in Eastern and Central Europe that have been pummeled by the financial crisis, where defaults on the private sector's debts can lead quickly to a loss of confidence in the central government among lenders.

Since 2006 the central government has restrained the fiscal deficit to within 3% of GDP, through efforts such as repeated fuel price increase adjustments in order to moderate fiscal pressure from higher fuel subsidies in conjunction with soaring oil prices, restraint on civil servants' pay raises, and increase of dividends from public corporations. In 2008, the government held the fiscal deficit to 1.2% of GDP, and reduced outstanding government debt at the end of December to 47.5% of GDP, despite having to provide large increases in food subsidies as well because of a jump in grain prices. While there is a possibility the fiscal deficit will exceed 4% of GDP in 2009 as Tunisia is forced to face sluggish growth, the government has no plans to loosen fiscal discipline by sharply increasing government debt, and its policy is to lower the fiscal deficit to within 3% of GDP once external shocks have passed. In addition, in 2007 the government began a sweeping overhaul of the social security system, which is managed with the philosophy of covering all working individuals, including phased increases in the pension contribution rate and the age when individuals are eligible for pension benefits. Despite rising marginally, the social security fund deficit in 2008 was held below 0.3% of GDP.

Nevertheless, the delinquency ratio in the banking sector, declined as it has been, is still high from an international perspective. Further improving the capital adequacy and loan loss reserve ratios remain a medium to long-term issue. Moreover, the unemployment rate is hovering around a high 14%. Tunisia's ability to create jobs by nurturing and developing new industries, and addressing banks' non-performing loan problems at a quicker pace while enhancing the growth potential, will hold the key to a further improvement in creditworthiness.