

**In a press conference, Mr. Taoufik BACCAR, Governor of the Central Bank of Tunisia (BCT) announced that the Executive Board of the BCT decided on Tuesday 17 February 2009 to decrease its key rate by 75 basis points, down from 5.25% to 4.50% and to set up credit and deposit facilities for local banks.**

Mr. BACCAR underlined that this decrease in the key rate, which should not be confused with the interbank interest rate, aims at boosting the industrial fabric of the country, improving competitiveness at Tunisian small and medium-sized businesses and allowing them to maintain jobs and their market share.

He indicated that this measure comes in the framework of the BCT efforts to reduce fallouts of the international crisis on the Tunisian economy, in the wake of slower world demand.

The Governor of the BCT stated that this decision is justified by a drop in the inflation rate which went, in terms of annual sliding, from 4.1% in December 2008 to 3.5% in January 2009, down by 0.6 points.

As per forecasts, this tendency would go on throughout 2009.

This is because, he added, if nothing is done on time, the major risk that will be incurred by all countries of the world is the "deflation trap" (price decrease that does not bring about high consumption). He quoted in this context the case of Japan which could not be sorted out for ten years.

Another factor which contributed to this decision is the morose international environment. The Governor of the BCT added that recent projections of the International Monetary Fund (IMF) account for a world growth rate of some 0.5% in 2009, with about (-2%) drop in the industrialised countries, (-1.6%) in the United States of America, (-2.6%) for Japan, whereas the emerging countries (China, India...) would post a positive growth of some 3.3% in 2009 compared to 6.3% in 2008.

As for the second measure, the Governor of the BCT stressed that the target consists in facilitating bank deposits and loans to meet their liquidity demands and to help them place their surplus at the BCT at favourable rates.

On this occasion, Mr. Taoufik BACCAR focussed on the need to follow up the international situation and its possible repercussions on the national economy, the target being to undertake appropriate measures while accounting for price stability objective.

Mr. BACCAR recalled in this framework that President Ben Ali recommended in 2008 the creation, within the BCT, of a national committee to follow up the evolution of the international environment and play a watch-over role. Worth of note that a first assessment of the current situation will be worked out in March 2009.

## **Preventive measures for export and investment**

The Governor of the BCT noted that the set of measures that have been, up to now, undertaken are founded on two niches: export and investment.

As for exports, this concerned mainly the increase in the annual ceiling of exporting-business travel allowance, up from 300,000 Tunisian dinars to 500,000 Tunisian dinars, bringing the annual ceiling that can be freely carried by non-exporting resident companies for investment abroad up to 500,000 Tunisian dinars and authorising banks to discount bills on abroad with a 360-day maturity compared to 180 days currently.

As far as investment is concerned, the capital of the bank to finance small and medium-sized businesses (BFPME) was doubled, which will help this institution to finance no less than 500 projects in 2009 compared to 320 in 2008.

### **100 million euro- credit line for non-resident companies**

Mr. BACCAR underlined that the Government made available to offshore banks a 100 million euro-credit line for non-resident companies experiencing difficulties in securing loans.

Businesses concerned by this line will enjoy this financing through "revolving loans" to finance new projects or extend already existing ones.

He noted that it was decided to reduce, at least by two points in average, the exchange cost of external credit lines to businesses.

As for the exchange policy, Mr. BACCAR stated that the BCT has, till today, adopted a "flexible" exchange policy to help exporting companies maintain their international market share. The Governor referred also to another action incurred by the BCT and which consists in decreasing the reserve requirement rate, which helped to inject a supplementary amount of no less than 250 MTD for local banks.

The governor indicated that the Tunisian banking sector has succeeded in standing up to external shocks thanks to numerous strong spots: available liquidity on the local market, enough foreign currency reserves, significant decrease in external debt and relatively better situation of Tunisian banks.

This same sector is, however, called to improve service quality and promote its human capital.