

**Rating Action: Moody's downgrades Tunisia's to Baa3, outlook negative**

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**Central Bank of Tunisia's rating also downgraded to Baa3, outlook negative.**

London, 19 January 2011 -- Moody's Investors Service has downgraded to Baa3 from Baa2 the local and foreign currency government bond ratings of the Tunisian government and changed the outlook to negative from stable. Concurrently, Moody's has also downgraded the government's foreign currency bond ceiling to Baa1 from A3, the foreign currency deposit ceiling to Baa3 from Baa2 and the short-term rating to P-3 from P-2. All the other ratings and ceilings are unchanged.

The main drivers for today's rating action are as follows:

- (1) The country's instability due to the unexpected recent regime change, which resulted from the ongoing political crisis that first began as social unrest.
- (2) The significant uncertainties surrounding both the economic and political outcomes.
- (3) The ongoing unrest and the fluidity of the political situation which further endangers the country's future stability.

In a related action, Moody's has today also downgraded to Baa3 from Baa2 the ratings of the Central Bank of Tunisia, which issues debt on behalf of Tunisia's Ministry of Finance and is therefore fully and unconditionally guaranteed by the government of Tunisia.

**RATINGS RATIONALE**

"The current uncertainties about the economic and political consequences of the collapse of Tunisia's previous political regime are the main drivers for the decision to downgrade the government's bond ratings by one notch and assign a negative outlook," says Aurelien Mali, Moody's lead sovereign analyst for Tunisia. Moody's cautions that a protracted crisis could potentially be very damaging to the country's economy given its reliance on tourism and foreign direct investment. The recent events will affect fiscal performance and real growth in 2011.

"Moody's will closely monitor Tunisia's political risk and stability over the next few months, as a further outburst of violence and disorder could exert added negative pressure on the economy," Mr. Mali adds. "This would in turn generate downward pressure on the rating."

However, in terms of the Tunisian government's debt payments, the rating agency notes that the risk seems limited for now. There are only two international government-issued bonds that are due in April and September of 2011, amounting to a total of USD775 millions. Moody's notes that the government has some room for manoeuvre as it still holds USD1.6 billion at the Central Bank as a result of the partial privatization of Tunisia Telecom. More importantly, Moody's expects the country to receive some form of external assistance from abroad, if needed. As of 14 January, official foreign reserves exceeded USD9 billion, which is equivalent to five months' worth of imports. Moreover, the risk of capital outflows appears rather limited for now as the Tunisian Dinar is not convertible and capital controls are in place, thereby limiting external vulnerabilities.

Tunisia's moderate level of economic development is underpinned by a long track record of stable and forward-looking economic policies. Even though the political landscape has changed, the country's competent civil servants, who have been the backbone of the state, are likely to remain in place for now.

Over the past ten years, the authorities' objective has been the strengthening of the government balance sheet. Tunisia's debt-to-GDP ratio is expected to be 39% by the end of 2010, representing a steady decline from 55.6 % of GDP in 2003, the year in which Moody's upgraded Tunisia to Baa2. Tunisia's fundamental metrics are relatively good compared to those of its peers, and this should act as a cushion in the event of a limited deterioration of the government balance sheet. The next few months will allow Moody's to assess the true cost of this revolution in fiscal terms, the country's prospects as well as the policies and priorities of the next government.

"Tunisia has often proved its resilience, even during a challenging economic environment," the analyst says. Indeed, the country's real GDP growth amounted to 3.1% in 2009 and is expected to have reached 3.8% by the end of 2010. Moody's says that the country's capacity to rebound should therefore not be underestimated. "If the transition towards democracy, although probably chaotic, is successful and political stability assured, Moody's could potentially maintain Tunisia's credit rating in the investment-grade category," Mr. Mali adds.

The principal methodology used in this rating was Moody's Sovereign Bond Methodology published in September 2008.

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