

Research Update:

DRAFT: Republic of Tunisia Ratings Put On Watch Negative On Continuing Uncertainty; Local Currency Rating Lowered To 'BBB+'

Primary Credit Analyst:

Christian Esters, CFA, Frankfurt (49) 69-33-999-242; christian_esters@standardandpoors.com

Secondary Contact:

Manuel Maleki, London (44) 20 7176 7083; Manuel_Maleki@standardandpoors.com

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Overview

- Late last week, the President of the Republic of Tunisia left the country following weeks of protests. We believe the interim government may call general elections during the next few months.
- In our view, the current political instability and violent conflicts could hamper Tunisia's economic growth and public finances could deteriorate.
- We are therefore placing our 'BBB/A-3' foreign currency ratings on Tunisia and the Central Bank of Tunisia on CreditWatch negative.
- At the same time, we are lowering our long-term local currency ratings on Tunisia and the Central Bank of Tunisia to 'BBB+' from 'A-' and placing them on CreditWatch negative. We are also placing our 'A-2' short-term local currency ratings on CreditWatch negative.
- The CreditWatch placement reflects that we may lower the ratings, potentially by more than one notch, if we conclude that the political uncertainty in Tunisia could continue for an extended period and result in lower economic growth or materially weaker external liquidity.

Rating Action

On Jan. 18, 2011, Standard & Poor's Ratings Services placed its 'BBB/A-3' long- and short-term foreign currency sovereign credit ratings on the Republic of Tunisia and the Central Bank of Tunisia on CreditWatch with negative implications

At the same time, Standard & Poor's lowered its long-term local currency sovereign credit ratings on Tunisia and on the Central Bank of Tunisia to 'BBB+' from 'A-'. The ratings were subsequently placed, along with the 'A-2' short-term local currency sovereign credit ratings, on CreditWatch negative.

Rationale

After several weeks of street protests, Tunisia's president, Ben Ali, left the country late last week. We believe that the interim government may call general elections during the next few months. We expect the current political instability and violent conflict to affect Tunisia's economic growth in 2011 and, in particular, its tourism industry. GDP growth has been at 3%-4% over the past two years.

The conflict may also weigh on Tunisia's balance of payments if foreign direct investment (FDI) or remittances were to decrease. We understand from the Central Bank of Tunisia that, so far, reserves remain at about \$9 billion. FDI has exceeded Tunisia's current account deficits over the past few years, leading to a stronger external position relative to the median for peers rated 'BBB'. Furthermore, we see a risk that Tunisia's public finances could weaken. We currently have no information on the country's future political orientation or its stance toward fiscal and economic policy under a new government. We consider that a new government might be under pressure to increase subsidies to the domestic economy to limit price increases.

In 2010, we estimate Tunisia's general government deficit to have been at about 2% of GDP, and we understand from the authorities that Tunisia's general government debt burden had decreased to 39.7% of GDP as of year-end 2010, in line with the 'BBB' median of 39.2%.

The ratings on Tunisia have so far been supported by our view of its strong track record of prudent macroeconomic policies that have allowed regular growth and moderate fiscal deficits for more than a decade. The ratings are also supported by our view of Tunisia's resilient external position, despite the more challenging external environment of the past two to three years.

CreditWatch

Standard & Poor's aims to resolve the CreditWatch within the next three months. We may lower both the foreign currency ratings and the local currency ratings, potentially by more than one notch, if we conclude that the political uncertainty in Tunisia could continue for an extended period and result in lower economic growth or materially weaker external liquidity. We may also lower the ratings if a new government were to adopt what we view as a more populist approach to policymaking or embrace more expansionary fiscal policies.

We could extend the CreditWatch beyond three months or assign a negative outlook to the ratings if the political crisis were to remain unresolved and the extent of the downward pressure on the ratings were to remain unclear to us.

We could remove the CreditWatch and affirm the ratings if the political instability turns out to be temporary and we believe that it has not significantly affected Tunisia's medium-term economic and external profile, and if a new government appears committed to containing fiscal deficits at moderate levels of 3%-4% of GDP.

Related Criteria And Research

- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria For Determining Transfer And Convertibility Assessments, May 18,

2009

- Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009
- Rating Sovereign-Guaranteed Debt, April 6, 2009
- How Standard & Poor's Uses Its 'CCC' Rating, Dec. 12, 2008
- Sovereign Credit Ratings: A Primer, May 29, 2008
- Principles Of Corporate And Government Ratings, June 26, 2007
- Introduction Of Sovereign Recovery Ratings, June 14, 2007

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Tunisia (Republic of)		
Central Bank of Tunisia		
Sovereign Credit Rating		
Foreign Currency	BBB/Watch Neg/A-3	BBB/Stable/A-3
Sovereign Credit Rating		
Local Currency	BBB+/Watch Neg/A-2	A-/Stable/A-2
Tunisia (Republic of)		
Senior Unsecured	BBB+/Watch Neg	A-
Short-Term Debt	A-2/Watch Neg	A-2
Central Bank of Tunisia		
Senior Unsecured	BBB/Watch Neg	BBB
Short-Term Debt	A-2/Watch Neg	A-2
Rating Unaffected		
Tunisia (Republic of)		
Transfer & Convertibility Assessment	A-	A-

Additional Contact:

Sovereign Ratings;SovereignLondon@standardandpoors.com

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

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