

CENTRAL BANK OF TUNISIA

47th ANNUAL REPORT

Fiscal Year 2005

Presented to

His Excellency the President of the Republic of Tunisia

**on behalf of the Board of Directors of the
Central Bank of Tunisia**

by

Taoufik BACCAR, Governor

**Letter of introduction to the 47th Annual Report
of the Central Bank of Tunisia
on Tunisia's economic, monetary and financial
activity in 2005**

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Governor

Your Excellency the President of the Republic,

This 47th annual report of the Central Bank of Tunisia covering 2005, which I have the honour of submitting to you, analyses Tunisia's economic and financial situation in light of the major factors marking the national and international scene and presents the management results of the Issuing Institution.

Allow me to begin by pointing out the deep change that marked the financial sector this year through the strengthening of the mission of the Central Bank of Tunisia and the start of a new generation of reforms targeting faster modernisation of the banking sector, stronger financial bases, and improved quality of services at a level commensurate with international standards in order to enhance integration of the national economy in the world economy and increase monetary and financial stability.

Mr. President,

Despite an international environment marked by energy prices soaring at an unprecedented rates, ongoing geopolitical tension and global imbalances and reappearance of inflationary pressure, world economic growth remained sustained at 4.8%, though lower than in 2004. But this does not reflect great disparity from one region to another and from one country to another, with ongoing expansion in the United States, considerable growth in China and India and moderate growth in most European countries, Japan and developing countries that do not produce oil.

In the United States economic growth came in at 3.5% despite the effects of hurricanes, soaring oil prices and higher interest rates. But along with economic growth came renewed inflation and higher global deficits, especially the current deficit that hit a record 6.4% of GDP.

Weak recovery in the euro zone started in 2004 did not pick up in 2005, with flat domestic demand and slowdown in the process of European construction. Thus real GDP in the euro zone was up just 1.3% in 2005. Concurrently the budget deficit came in at 2.3% of GDP while inflation exceeded the targeted objective, rising to 2.2%.

Growth was slightly higher in Japan in 2005, reaching 2.7% thanks in particular to strong domestic demand. Household consumption benefited from a drop in unemployment and an increase in wages, while private investment was boosted by corporate better financial conditions as well as restructuring in the financial sector that facilitated access to credit.

China on the other hand was able to maintain a high 10% growth in 2005, despite measures taken by the government to attenuate the threat of an overheated economy. Such high growth was due in large part to strong export performance.

World trade in goods and services grew at a slower pace, especially trade in services affected by the drop in tourism and air transport. Foreign direct investment flows worldwide came in at about 900 billion dollars, up 29% in 2005, benefiting in particular developed countries and China.

International foreign exchange markets were marked by strong appreciation of the US dollar, up about 14% against the euro and the yen, notably, in the wake of greater differential in interest and growth rates, which weighed in favour of the United States. Moreover, China decided in July 2005 to modify its foreign exchange regime by discontinuing pegging of the yuan to the dollar and adopting a more flexible system based on controlled floating.

To hold down inflationary pressure caused to a large extent by soaring energy prices, there was a tightening of monetary policy in industrialised countries. Thus the US Federal Reserve increased its main key rate eight times in 2005, bringing it to 4.25% at the end of 2005. In December 2005, the European

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Central Bank for the first time since June 2003 has raised its key rate by 25 basis points to 2.25%. Tightening of monetary policy continued over the first half of 2006 in hopes of containing persistent inflationary pressure from higher prices for oil and a number of commodities, and from the ensued increase in international liquidity.

Mr. President,

Under these adverse international conditions, the Tunisian economy managed to sustain growth at a satisfactory rate and to improve fundamentals, thanks to reforms under way and the economy's greater ability to stand up to external shocks. GDP expressed in constant terms grew by 4.2%, despite a 5% drop in agricultural/fishing production. Investment grew at an unchanged rate of 22.6% of GDP, while foreign direct investment increased considerably in 2005 to more than a billion dinars.

Import and export of goods continued on an upward trend, posting a sizeable increase in the rate of coverage to almost 80%. A drop of more than 10% in the trade deficit along with higher earnings (notably from tourism) helped bring the current deficit to its lowest level in 17 years : 1.1% of GDP. Sustainability of the current account as it stands after an ongoing drop in the current deficit over six straight years reflects the better capacity of the economy to compete and adopt an appropriate foreign exchange policy.

Conduct of sound monetary policy helped keep inflation down to 2%, despite pressure from higher oil prices. The budget deficit came in at 2.6% of GDP, with the tax bite more or less stable at 21.3%.

Thus, 2005 was marked by sound macroeconomic balances made possible by budgetary, monetary and foreign exchange policies that were mutually supportive. It was also characterised by a satisfactory growth rate, though below target, which helped improve income per capita that rose to about 3750 dinars.

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However and taking into account the important share of consumption in GDP, the pursuit of such pace of growth in the future requires the strengthening of external sector and private investment contribution. Joint efforts are also required to rationalise consumption.

Mr. President

Armed with such good progress, Tunisia will be able to sustain its efforts to bring together the conditions needed for sustainable development, hasten the pace of growth, and construct a new, largely knowledge-based economy. The committed policy to promote and generalise access to new information and communication technologies through various support mechanisms (technological poles, higher institutes of technological education and business incubators as well as a set of financial incentives) constitutes a solid foundation for construction of a knowledge-based economy.

At the second phase of the World Summit on the Information Society held in Tunis in November 2005, the international community had the opportunity to experience firsthand Tunisia's potential in the field of new information and communication technologies, thanks notably to skilled human resources and ever better infrastructure. The positive impact of this event is already evident and its benefit can be increased by a targeted exploratory approach and constant efforts to work with major worldwide poles in promising sectors. This approach is dictated by the need to set up large scale companies with high potential for employment and exports and by tough international competition in attracting foreign direct investment.

The strategy requires an active contribution of all actors, particularly the banking sector which with the help of its network of international relations should take over and disseminate information on investment opportunities, not only in financial services, but also in innovative sectors.

Mr. President,

Businesses, the key to economic growth and job creation, have a decisive role to play in the country's economic strategy. To this end, you have made new businesses and investment promotion top priorities, and requested the improvement of institutional and regulatory framework as well as the development of a number of support mechanisms to promote private sector investment. Indeed it has been established that investment revival at the required pace depends on enhanced capacity by the country to generate new viable project ideas that meet the needs of a liberal, highly competitive environment. It is in this framework that a series of measures has been adopted to offer more opportunities to investors : promotion of spin-offs, encouragement of innovation in the field of new technologies, facilitation of procedures and multiplication of business centres aiming at providing better support to young promoters in carrying out their project ideas.

In support of this approach, the Central Bank encouraged lending institutions to develop their capacity to finance projects in promising sectors and intangibles and help Tunisian businesses to set up and carry out their activities abroad, notably through their networks of correspondents and a better presence on the regional scene. It will also attempt to support promotion of a network of consulting firms specialised in project identification and evaluation as well as identification and canvassing of partners.

As per your instructions in March 2005, the bank for financing small and medium size businesses (BFPME) has been a welcome addition to the national banking landscape. Designed as a federating structure for all parties participating in financing of small and medium size businesses and attached to the guarantee mechanism managed by SOTUGAR, the BFPME has already made a positive contribution to creating projects and boosting investments. Since it was first set up, it has approved more than 130 projects, almost 20% involving new technologies. This involved some 38 MTD and, given its

leverage, led to mobilisation of 152 MTD in global investment. On the basis of the number of projects currently under study, the pace of activity at BFPME has to be increased and a special effort should be made to favour innovative sectors.

There should also be a new boost in activity at the Tunisian Solidarity Bank, through better identification of new opportunities (notably in services) and introduction of greater flexibility in its intervention. Similarly, lending institutions should be more involved in the financial restructuring of businesses, especially those participating in the upgrading programme as well as financing of corporate transmission in order to guarantee a sustainable industrial base and ongoing activity and to avoid any problems in handing down from one generation to the next. In this regard, new financial mechanisms have been set up to increase capital stock equity and help new promoters. This is the case for start up funds, capital risk mutual investment funds and a wider field of activity for capital risk investment companies (SICAR), which should be revisited with a view to rehabilitation of capital risk by facilitating sale of their holdings and enhancing capacity building among staff through specialised training programmes.

This support for businesses at a time when the programme to dismantle tariffs is coming to an end will be reinforced by implementation of the new measures you announced on the occasion of Tunisia's 50 years of independence. Lower taxes on corporate profits, clarification of the tax system for companies that export their entire production, elimination of the maximum VAT rate so as to reduce the range to three rates, and integral restitution of VAT credit are some of the factors meant to boost corporate competitiveness and further improve Tunisia's business climate and attractiveness as an investment site.

Mr. President,

Energy conservation is one of the primary challenges to be met to lessen the impact of higher energy bills, both on

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corporate competitiveness and the balance of public finance/external accounts. Adjustment of legislation on energy conservation and regular monitoring of the national programme in this area should favour greater commitment by all economic operators. Rationalisation of energy consumption is a job for the Administration as well as households and businesses. The banking sector will support this effort by identifying and establishing specific mechanisms for appropriate financing of initiatives by households and businesses in the area of energy conservation. Particular attention should also go to the energy component in reviewing and evaluating projects.

Despite soaring oil prices, public finances fared well in 2005, thanks in particular to rational spending and price adjustment policy. Given the challenges to be met to maintain balanced public finances and move ahead on debt reduction (notably external debt), reform of tax policy will stress better allocation of resources in objective-oriented budget management and pursuit of more in-depth reform through more simplified procedures and better collection. On another front, allocation of a portion of the income from partial privatisation of Tunisie Telecom for early repayment of debt will improve indebtedness indicators and lower financial costs for the State, which further reinforces Tunisia's risk quality on international capital markets and at rating agencies.

Mr. President,

The reversal in trends in financial indicators that began in 2004 in the banking sector was confirmed in 2005, with stronger fundamentals for lending institutions and notably better profitability and financial bases. In effect, after three years of accumulated non performing loans because of adverse economic conditions, 2005 showed a significant drop in the proportion of these loans, down from 23.6% to 20.9%.

With the help of the dynamic activity that marked banking in 2005, bank earnings rose considerably, with a large part allocated to better coverage of risks. Reinforced by restrictive

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policies governing distribution of dividends and by additional, major inputs in capital, the allocation of earnings to cover risks is part of the logic adopted by the banking community to strengthen its financial bases.

Thus commercial banking's solvency rate rose to 12.4%, reflecting the sector's greater ability to stand up to shocks. But these efforts need to continue in the coming years if the banking sector is to post performance and financial solidity indicators good enough to ensure its integration in the international world of finance and to prepare for the various stages of external liberalisation on the calendar. To do so, objectives have been assigned to the sector to lower the rate of non performing loans and increase that of their coverage by provisions at rates comparable to those of countries similar to Tunisia. Efforts are required from all actors, aiming at making a credit-oriented culture take hold, thus contributing to sustainability of the banking system.

Mr. President,

Changes in the banking landscape which led to a virtual equal distribution between public, private and foreign shareholdings will hopefully continue to grow in the coming years at a faster pace. In this framework, reconfiguration of the banking system, made necessary by the ever growing challenges and needs of modern banking activity, should evolve in a process that reconciles the benefits of diversified partnership, optimal size, and the necessary implication of the sector in support to and financing of the economy.

On another front, adaptation of our legislation to international standards, already under way by recent amendment of banking law, must be pursued if international norms in the areas of risk management, governance and transparency are to be met. To this end, the law governing lending institutions has been amended to allow for greater flexibility in conditions for exercising this activity, improving the quality of banking services to bring standards up to an

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international level and better prudential rules. On the basis of worldwide trends and the requirements of Basel II, legislation governing banking activity was revised in line with a new generation of reforms in the framework of an equation targeting reconciliation between the requirements of competitiveness, the freedom of undertaking, and protection of clients' interests. This amendment introduced more flexibility in investment, shorter time frames and easing of conditions for approval, but also in management by eliminating a number of prohibitions and other incompatibilities affecting directors and managers. On the other hand, in a spirit of rehabilitation, this amendment gives governing structures at lending institutions new responsibilities by introducing for the first time the concepts of reference shareholder, conformity control and loan executive committee.

Quality and oversight of customer service received special attention in the new reform. Basic banking services, management of the deposit account, as well as deadlines for banking services and mediation are all instruments meant to promote a culture of quality for which the institution of a watch mechanism is to provide a sound base and sustainability. This new legislation requires that banks make a major effort to reorganise their structures and modernise their information systems.

Along with the banking sector's modernisation programme, the capital market is called on to increase its share of long term savings and financing of investments. Direct finance, is a necessary complement to the banking sector and sound financing will inevitably require a degree of self-financing through the capital market. New measures governing more flexible conditions for companies to enter the stock market, new legislation on the security of financial relations, and the institution of an alternative market should help achieve these objectives.

Mr. President,

As part of the liberalisation policy implemented since the new era and in a perspective of greater integration in the world economy and opening of the capital account, amendment of the statutes of the Central Bank of Tunisia marks a new stage in the process mapped out in your programme for the Tunisia of tomorrow. The amended statutes include a new focus for the Central Bank's mandate and new standards of transparency and communication.

In the area of monetary policy, amended statutes adopt an objective of price stability in place of protecting the currency's value. This comprehensive objective will be the main basis for sound, sustainable and job-creating economic growth in support of economic competitiveness. In this framework, the Central Bank has been given useful prerogatives for gathering information, which will help in selecting advanced financial indicators prior to adoption over the medium term of a strategy targeting inflation.

The efficiency and security of systems and means of payment required by recent changes in electronic clearing of values, promotion of monetics, development of a platform for electronic payments and introduction in the near future of a system for large amount transfers have led to greater regulatory responsibilities for the Central Bank. On another front, deep-seated changes over the past few years, both nationally and internationally, through the emergence of financial conglomerates and liberalised cross-border banking services have given a global dimension to financial stability, overriding sector-related and national obstacles. In response to these changes, amended statutes provide for useful instruments for cooperation between national and foreign supervisors as to confer on their function the required efficiency.

In line with these amendments, modifications were recently made in how the Central Bank is organised, notably by reorienting structures in charge of monetary policy and

reinforcing the department of studies, research and statistics and developing banking supervision. The Central Bank's new responsibilities imply in return greater accountability for adopted notably monetary policy through mandatory publication of a monthly communiqué from the governing board that will provide the market with pertinent indications on the evolution of economic and financial conditions and monetary policy to be followed, transmission of the Central Bank's annual report to the two legislative bodies, and submission of its accounts to external audit by a joint audit mechanism.

Mr. President,

The faster pace of growth and private investment and absorption of additional job demand (especially for graduates of higher education) call for ongoing efforts to restructure the economy by developing a knowledge-based economy, launching new dynamics in investment in innovative sectors, and greater mobilisation of foreign direct investment. Meeting these challenges requires that macroeconomic balances be maintained notably inflation contained and external factors kept in balance. This will require more in-depth reforms, especially in the financial sector, by strengthening market mechanisms and making new advances on the road to external financial liberalisation and convertibility of the dinar, requiring a number of prior conditions which the Central Bank of Tunisia is working to achieve.

The XIth development plan the working out of which reached an advanced stage will provide the best framework to deepen these aspects, set objectives and define appropriate policies to take up these challenges.

The Governor

Taoufik BACCAR

INTERNATIONAL ENVIRONMENT

I. INTERNATIONAL ENVIRONMENT

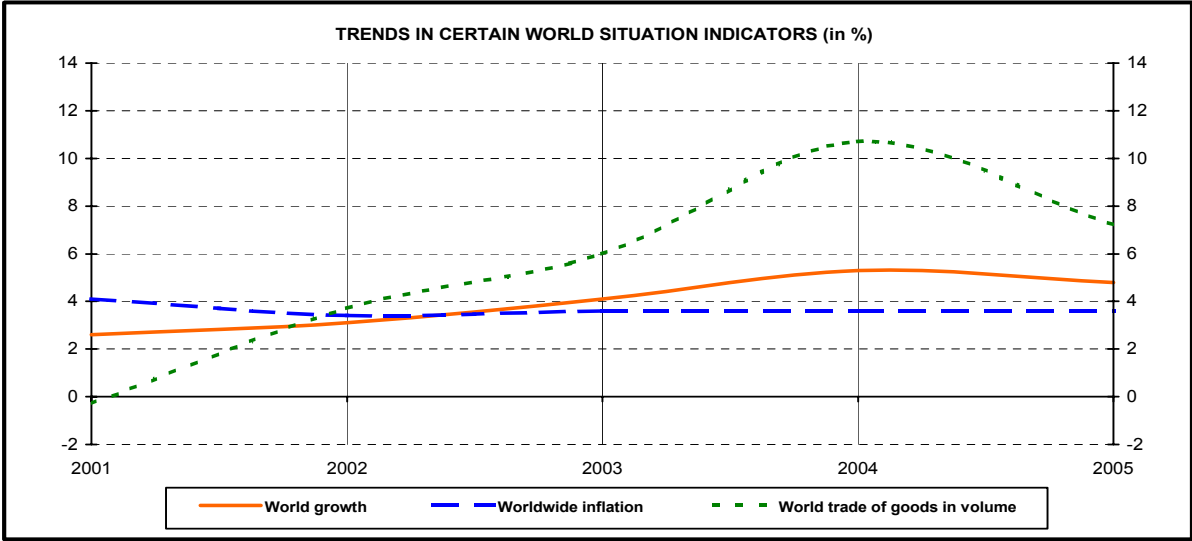
The international environment in 2005 was marked by a slight slowdown of world economic growth amounting to 4.8%, after exceptional 5.3% growth the year before. This development was reached despite several adverse factors, such as aggravation of the current payment imbalance in certain industrialised countries, sizeable increases in commodity prices (especially for crude oil), geopolitical uncertainty, and natural disasters.

Differences in growth rates from one region to another and from one country to another persisted, with strong expansion in the United States and especially in China and a number of emerging Asian economies but only moderate growth for most European countries, Japan, non oil-producing developing countries and those faced with tough foreign competition. Although Japan enjoyed a degree of economic recovery despite the impact of deflation weighing on the country for several years, the main countries of the European Union (Germany, France, Italy, the United Kingdom) continued to experience flat domestic demand. Furthermore, differences concerning future European unity and social difficulties in a number of countries affected the level of activity and may in the future weigh on the (for the most part) privileged position currently occupied by Europe on the world economic scene. Most emerging or developing countries, especially those who are net importers of oil and industrial raw materials, suffered from the impact of soaring world oil prices.

The differences in economic growth rates, the growing burden of energy costs and that of fluctuations on foreign exchange and stock markets were among the main causes of deepening macro-economic imbalances worldwide, especially in current external payments. This situation is best illustrated by the record level of the US current deficit, compared to fairly major surpluses for Japan, emerging Asian economies and oil-producing countries. The extent of these imbalances was further exacerbated by dismantling in January 2005 of the multifibre agreements that previously governed international trade in textiles, a change that has benefited China and thus provoked protectionist reactions on the part of its trading partners, especially in Europe and the US.

Strong world demand (especially from the US, China and other emerging Asian countries) drove up prices for raw materials in 2005, particularly prices for energy products and metals, which shot up in an alarming manner. This skyrocketing of costs was further complicated by geopolitical tension, natural disasters in certain areas such as the Gulf of Mexico and market speculation. The unprecedented rise in prices for crude oil in particular was to a large degree the result of an ongoing imbalance between supply and demand. In effect, supply was not able to keep up with strong demand from industrialised countries (especially China, the number two world importer of crude oil) because of limited refining capacity in the wake of low investment in this area over the last few years. To stabilise markets and keep prices down, a number of actions were undertaken. These included an increase in the production ceiling for OPEC countries and tapping of strategic reserves in developed

countries, notably the United States. But this kind of action had only limited impact, especially given the impact of hurricanes and ongoing geopolitical tension.



Direct investment flows worldwide came in at about 897 billion dollars in 2005, an increase of 29% compared to 2004's +9% figure. This trend reflected the high level of worldwide savings, more confidence on the part of international investors, and favourable financing conditions. It benefited developed countries in particular, notably Europe, which captured about two thirds of investment flows.

Stock markets in 2005 posted trends that varied from one financial centre to another. The Japanese Nikkei index, for example, put in the best performance of the year, influenced by vigorous recovery and renewed confidence on the part of investors in Japan's economy. The US Dow Jones index, on the other hand, closed for the year on a downturn, influenced by higher short-term interest rates that made other types of investment more attractive than stocks. The main European indexes posted increases of between 20% and 27%, thanks in particular to good corporate results in the energy sector as well as depreciation of the euro, which was advantageous for European exports.

Trends on international foreign exchange markets involved starting June 2005 appreciation of the dollar against the other main currencies: about 14% against the euro and 15% against the yen from an end of the year to another. The growing differential in interest as well as growth rates between the United States and other industrialised countries contributed handily to this increase in value, reflecting greater confidence in the ability of the American economy to stand up to external shocks. On 21 July 2005, China decided to modify the foreign exchange regime established in 1998, abandoning pegging of the yuan to the dollar and replacing it with a more flexible system of controlled floating rate based on a basket of currencies. It was also decided to revalue the Chinese currency by +2% against the US dollar.

1. WORLD ECONOMIC GROWTH

The slowing pace of world economic growth in 2005 was caused to a large degree by soaring energy prices and persistent global imbalances, affecting both developed and emerging/developing countries, with growth rates down from 3.3% in 2004 to 2.7% for the former and from 7.6% to 7.2% for the latter.

Economic growth in the United States fell from 4.2% in 2004 to 3.5% in 2005, largely due to the impact of higher oil prices, the gradual increase in interest rates, and the effects of the hurricanes that swept the country. Household consumption was affected by the drop in purchasing power, eroded by higher inflation, while companies reduced expenditure for investment as energy costs cut into profit margins and the cost of credit rose.

In the Euro zone, weak domestic demand also continued to affect the pace of economic activity. Household consumer expenditure suffered the effects of modest wage increases and "safety net" savings in anticipation of social security reform in several countries in the context of redressing budget deficits. Furthermore, businesses were obliged to cut expenditure for investment in light of weak demand and tougher competition. Thus real GDP in the euro zone went up by just 1.3% in 2005, compared to 2.1% the year before.

TRENDS IN THE MAIN ECONOMIC AND FINANCIAL INDICATORS OF THE DEVELOPED COUNTRIES

Description	Growth in GDP (volume & %)		Budget balance (% of GDP)		Inflation (Variation in consumer prices %) ¹		Interest rate (%) ²		Unemployment (% of working population)	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
All developed countries	3.3	2.7	-3.6	-3.1	2.0	2.3			6.3	6.0
Of which :										
United States	4.2	3.5	-4.7	-4.1	2.7	3.4	2.16	4.16	5.5	5.1
Japan	2.3	2.7	-6.6	-5.8	0.0	-0.3	0.0	0.0	4.7	4.4
Canada	2.9	2.9	0.7	1.7	1.8	2.2	2.50	3.24	7.2	6.8
European Union	2.4	1.6	..	..	2.0	2.1			9.1	8.7
of which :										
-Euro Zone	2.1	1.3	-2.7	-2.3	2.1	2.2	2.17	2.47	8.9	8.6
of which :										
*Germany	1.6	0.9	-3.7	-3.3	1.8	1.9	2.05	2.28	9.2	9.1
*France	2.1	1.4	-3.7	-2.9	2.3	1.9	2.25	2.00	9.5	9.6
*Italy	0.9	0.1	-3.4	-4.1	2.3	2.3	2.16	2.50	8.3	8.1
-United Kingdom	3.1	1.8	-3.2	-3.6	1.3	2.1	4.75	4.80	4.8	4.8

Source : World Economic Outlook and International Financial Statistics of the IMF and Eurostat

The Japanese economy continued on the path of recovery that began a year before reaching thus a growth rate of 2.7% in 2005 against 2.3% in 2004, attributable in large part to higher domestic demand. In effect, household consumption was sustained by the falling unemployment rate and higher wages, while private

¹ Base 100 in 2000.

² Money market rate for December of each year, except for France (Deposits interest rate).

investment was boosted by higher corporate profits and sounder finances, as well as by restructuring of the financial sector, favouring loans to businesses. But Japanese exports grew at a lower rate than the year before, in the wake of slowing growth in external demand from the United States and China.

The exception was China, which managed to maintain a high 9.9% growth rate in 2005 (compared to 10.1% the year before), despite measures taken by the government to prevent an overheated economy. This performance was attributable in large part to the external sector, with export of goods increasing by 28.4%, stimulated by suppression of textile quotas in January 2005, quite aside from structurally low production costs based on low wages and high productivity. Fixed capital investment continued to grow (+25.7%), especially with major external capital flows in the form of foreign direct investment amounting to some 60 billion dollars.

The economies of Southeast Asia, already strained by the tsunami that struck the region the end of December 2004 and by the spread of the bird flu epidemic, were then battered by soaring oil prices. This meant growing inflation, which a number of central banks in the region countered by raising key interest rates. Exports suffered from slowing international demand for high technology goods and the rise of China as a power in world trade, which meant lower external market shares for the other countries of the region. Slowing growth involved notably Hong Kong (5.7% vs. 6.9%) Singapore (3% vs. 3.4%), Malaysia (5.3% vs. 7.1%), Philippines (5.1% vs. 6%) and Thailand (4.4% vs. 6.2%).

In the countries of Latin America, economic growth slowed in 2005 to 4.3%, compared to 5.6% the year before. This was the case in particular for Brazil and Mexico where the growth rate went down from 4.9% to 2.3% and from 4.2% to 3% respectively. Tightening of monetary policy and adoption of restrictive fiscal policies seeking to contain inflation weighed on evolving domestic demand in the region. Exports (involving mainly commodities), spurred by sustained demand and high prices on the world market, were not high enough to offset weak local demand and thus maintain the pace of growth.

Economic expansion in Africa slowed slightly, growing at 5.2% on average vs. 5.5% in 2004, affected in particular by the growing energy bill, poor harvests and dismantling of the multifibre agreements. This was also the case for the countries of the Arab Maghreb Union, especially Tunisia and Morocco where the economic situation was influenced by higher world prices for raw materials (especially hydrocarbons), weak demand from European countries, the end of quotas for textile products worldwide, and the drop in agricultural production. Thus economic growth rates in these two countries fell in 2005 from 6% to 4.2% for Tunisia and from 4.2% to 1.8% for Morocco. The Algerian economy experienced higher growth (5.3% vs. 5.2% in 2004) thanks to a major increase in income from hydrocarbons. The Algerian government has also introduced a 55 billion dollar economic recovery plan for the period 2005-2009.

TRENDS IN SELECTED ECONOMIC AND FINANCIAL INDICATORS IN CERTAIN EMERGING AND DEVELOPING COUNTRIES AND THE EUROPEAN UNION COUNTRIES

Description	Economic growth (volume & %)		Inflation (Variation in consumer prices %) ¹		Budget balance ² (% of GDP)	
	2004	2005	2004	2005	2004	2005
Countries of the EU	2.4	1.6	2.0	2.1	..	..
of which :						
Spain	3.1	3.4	3.1	3.4	-0.1	1.1
Portugal	1.1	0.3	2.5	2.1	-3.2	-6.0
Greece	4.7	3.7	3.0	3.5	-6.6	-4.6
Emerging & developing countries	7.6	7.2	5.7	5.4	-2.1	-1.3
of which :						
Tunisia	6.0	4.2	3.6	2.0	- 2.3	-2.6
Morocco	4.2	1.8	1.5	1.0	..	..
Algeria	5.2	5.3	3.6	1.6	..	..
Egypt	4.1	5.0	10.3	11.4	..	..
South Africa	4.5	4.9	1.4	3.4	..	..
Turkey	8.9	7.4	8.6	8.2	..	..
Argentina	9.0	9.2	4.4	9.6	..	..
Chile	6.1	6.3	1.1	3.1	..	..
Chine	10.1	9.9	3.9	1.8	-1.5	-1.3

Sources : World Economic Outlook and International Financial Statistics of the IMF, Eurostat and Ministry of Development and International Cooperation and National Statistics Institute for Tunisia

In the countries of central and eastern Europe, reforms undertaken in the framework of programmes to align economic and monetary policies implemented by new members of the European Union weakened domestic demand, while external demand from European countries, especially those in the Euro Zone, was also weak, to the detriment of exports. Thus the growth rate for these countries as a whole fell from 6.5% in 2004 to 5.3% in 2005.

Economic growth in Russia slowed in 2005, due in particular to the drop in investments and lower production in the oil sector, which reached its maximum capacity. The country's growth rate thus came in at 6.4%, vs. 7.2% in 2004.

2. EMPLOYMENT

With economic activity growing at a slower pace, the world unemployment rate remained at 6.3% in 2005, after dropping over the previous two years. Though there were ups and downs during the year, the average unemployment rate in developed countries was down somewhat, from 6.3% in 2004 to 6% for 2005, thanks to recovery in economic activity in most of these countries starting the second half of 2005. In the United States vigorous economic activity created 2 million new jobs in 2005, bringing about a drop in the unemployment rate to 5.1%, from 5.5% a year earlier. In Japan too the unemployment rate was down, from 4.7% to 4.4%. This development was the result of better financial conditions for businesses, thanks to lower indebtedness over the past two years, leading to a drop in bankruptcies. In the euro zone, the job situation improved overall in 2005, especially with reform of the job market under way in Germany and France. On average, the unemployment rate

¹ Base 100 in 2000.

² Balance relating to the Central Administration for China.

in this zone dropped from 8.9% in 2004 to 8.6% in 2005. But it remained relatively high in the main European countries (except the UK) compared to other industrialised countries. There were no significant changes in the unemployment rate in emerging and developing countries, but it remained particularly high in the Middle East/North Africa and sub Saharan Africa reaching on average 13.2% and 9.7% respectively.

3. WORLD TRADE

The volume of world trade in goods and services in 2005 grew at a slower pace, due in particular to slower growth in imports by the United States and China, 1st and 3rd world importers of goods. Volume rose to 7.3% (vs. 10.4% in 2004), roughly the same rate as trade in goods (7.2% in terms of volume vs. 10.7% a year earlier). Expressed in dollars, the value of world export of goods also slowed, increasing by 13.6% vs. 21.4% in 2004 for a total of 10,171 billion dollars. This slowing growth was due in particular to weak worldwide demand over the first half of the year, along with appreciation of the dollar compared to the other main currencies. The terms of exchange for world trade in goods decreased by 1.7% for developed countries, following stabilisation in 2004, but improved from 2.5% to 6.2% for emerging and developing countries, following higher commodity prices, especially for crude oil. Growth in world export of services, expressed in dollars, saw growth fall from 19.4% in 2004 to 10.1% in 2005, amounting to 2470 billion dollars. They were affected in particular by slowing growth in tourism and air transport on the international scene in the wake of slower expansion worldwide, a number of natural disasters and ongoing geopolitical tension.

4. FISCAL AND MONETARY POLICIES

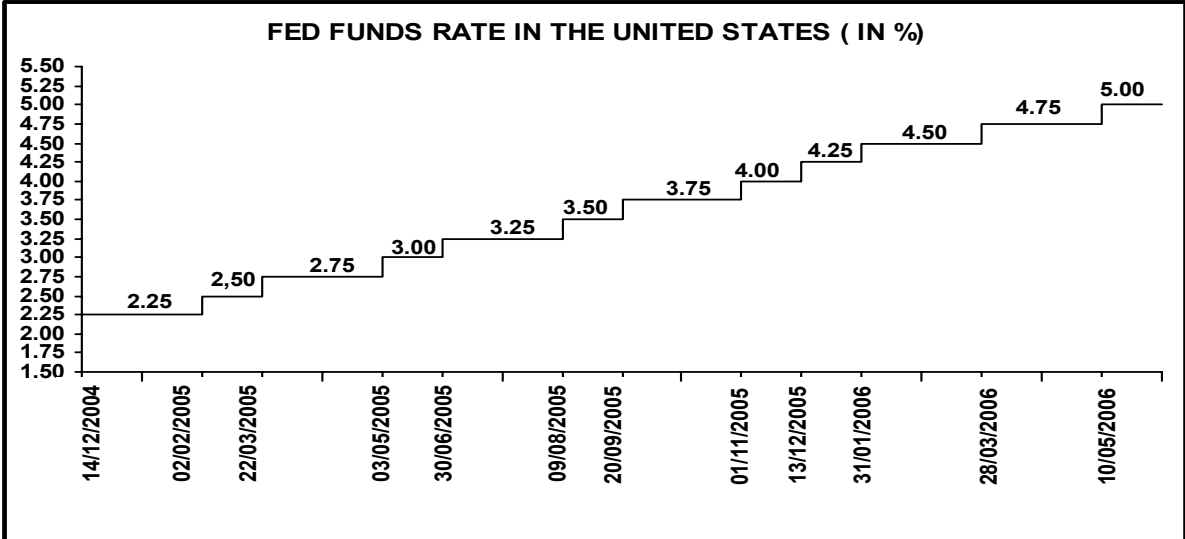
The overall budget deficit for developed countries as a whole came in at 3.1% of GDP in 2005, compared to 3.6% the year before. This was in line with application of restrictive budgetary policies in most countries, in a context characterised by overall slowing in the pace of economic growth and new challenges for a number of countries arising from aging of the population and higher social expenditure.

The public deficit in the United States dropped from 4.7% of GDP in 2004 to 4.1% in 2005, following the higher level of tax revenue, especially higher corporate profits and better control of expenditure. Also in the Euro Zone, public finances improved in 2005, with a global deficit of just 2.3% of GDP, against 2.7% in 2004. Such trend has been reached in the wake of efforts made by several countries which took exceptional measures to keep the budget deficit down, notably opening of capital and sale of holdings in public enterprises.

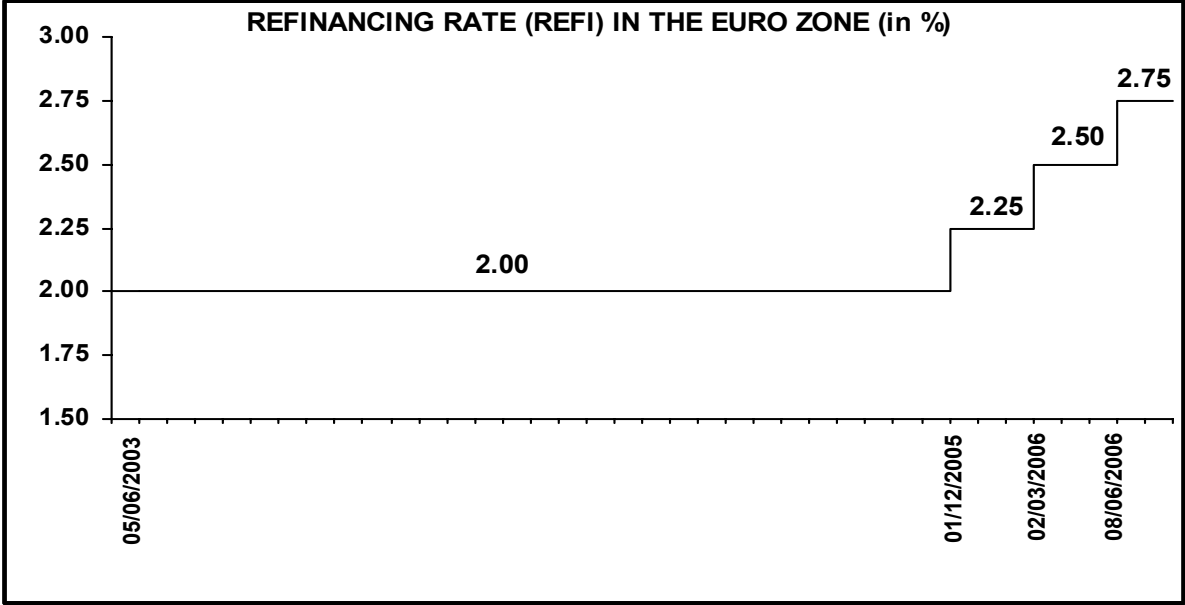
The public deficit was well above the ceiling set by the stability pact in several countries, pushing the European Commission to introduce procedures for excessive deficits. Italy in particular on 12 July 2005 was granted an additional two years (i.e. until 2007) to bring its deficit below the 3% ceiling, in line with the new rules outlined in the revised stability pact. Also Portugal, which has the highest deficit in the Euro zone, was authorised on 20 September 2005 to take another three years to

meet the terms of the stability pact. In Japan, the budget deficit dropped from 6.6% to 5.8% of GDP, mainly through lower expenditure by reducing public investment and expenses for defence and development assistance.

On another front, monetary policy, which up to this point had been accommodating, underwent tightening in industrialised countries in order to keep down inflationary pressure caused in particular by soaring energy prices. Thus the US Federal Reserve on each of eight occasions in 2005 raised its main key rate by 25 base points, bringing it to 4.25% by the end of the year.



In light of the slow pace of economic growth in the Euro zone, the European Central Bank on 1 December 2005, for the first time since June 2003, raised its key rate by 25 base points, to 2.25%. The Bank of Japan maintained its policy of quantitative flexibility, in effect for some four years, providing abundant liquidity at zero interest on the interbank market in an effort to put an end to the deflation in force since 1998.



Long-term interest rates remained low in 2005, in line with sustained demand for investment in bonds, favoured by abundant liquidity worldwide. This was also tied to growing surpluses in current transactions in Asian and oil-exporting countries, leading to a higher level of foreign currency reserves held by the central banks of these countries.

5. INFLATION

Because of the strong increase in world commodity prices (notably for oil), inflationary pressure appeared in 2005 in most countries, especially industrialised ones. Faced with this situation, certain central banks in developed countries, mainly the US Federal Reserve, tightened monetary policy, notably by raising key interest rates. This helped bring prices down, especially in the closing months of the year. All in all, the inflation rate worldwide remained at 3.6%, the same level as in 2004, but with differences from region to region and from country to country. For developed countries as a whole, the average inflation rate came in at 2.3%, up from 2% in 2004, influenced by higher prices in the United States where the inflation rate rose from 2.7% to 3.4%, fanned notably by soaring energy prices as well as slower growth in productivity (down from 3.4% in 2004 to 2.9% in 2005). In the Euro zone price increases grew at a slightly faster pace, reaching an average of 2.2% vs. 2.1% a year earlier. This relative success in keeping the inflation rate down is attributable to moderate growth in household consumption, which kept businesses from passing on higher production costs (largely due to soaring energy prices) to selling prices. Consumer prices in Japan fell by 0.3% in 2005, after no change the previous year. This drop, along with higher wages for the first time since 2000, was at least partially the result of lower telephone and electricity rates (in the process of being liberalised) as well as lower health costs. The inflation rate in emerging and developing countries dropped from 5.7% in 2004 to 5.4%, in line with slowing economic activity and with the application of policies to subsidise energy costs in most countries. Inflation rate was down notably in Latin America (6.3% vs. 6.5% in 2004) and in Asian countries (3.6% vs. 4.2%). On the other hand, inflation was up considerably in Africa (8.5% on average vs. 8.1% in 2004).

6. INTERNATIONAL COOPERATION

With the world economy changing continually, the international community tried harder in 2005 to strengthen international monetary cooperation, promoting a liberal international trade and payment system and favouring macroeconomic and financial stability, conditions essential for ongoing sustainable growth. Thus commitments made to poor countries were strengthened, with a view to helping them to establish sound macroeconomic frameworks that will underpin economic development, to reach a viable level of indebtedness, and to reduce poverty.

In an effort to further lighten the burden of external debt and in the framework of international support to low income countries, the Ministers of Finance of the G8 countries proposed at their 11 June 2005 meeting that the outstanding balance of debt to the International Monetary Fund (IMF), the World Bank, and the African

Development Fund (ADF) be cancelled for the most heavily indebted poor countries. This proposal was adopted by the institutions concerned, initially involving a list of 18 countries. It was later extended to 20 others that meet the conditions for eligibility under the debt relief programme launched by the IMF and the World Bank in 1996. Total debt in these countries as a whole to the above-mentioned institutions (including the ADF) amounts to some 55 billion dollars, 44 billion to the World Bank and 6 billion to the IMF. And while rich countries have agreed to assume the cost of repaying debt to the World Bank and the ADF, IMF will have to cover payment default for the countries in question from their core resources. The countries taking advantage of this initiative have committed to using the funds thus saved for social expenditure and economic reforms targeting poverty reduction. And since developing countries need to increase trade to achieve rapid sustained growth (without which there can be no real reduction in poverty), World Trade Organization (WTO) members agreed at their conference held in Hong Kong 13-18 December 2005 to eliminate by the end of 2013 subsidies on export of agricultural products, which distort trade and hinder international competition. Subsidies on exports of cotton in particular are to be abolished starting 2006. But the WTO agreement does not include any commitments concerning domestic support or customs duty. On the other hand, a new deadline of 30 April 2006 has been set to establish a draft agreement on future negotiations in the framework of the Doha Round that began in 2001 in Qatar and that is already two years behind the previously approved schedule.

On another front, 2005 was the most active year since 2000 in the move to regroup businesses. This trend was motivated by the low level of interest rates in general and high corporate investment capacity, which produced stronger balance sheets. Thus overall transactions involving mergers and acquisitions worldwide came in at about 2700 billion dollars, an increase of 38% compared to 2004. These transactions involved in particular energy, financial services, and telecommunications.

II. INTERNATIONAL FOREIGN EXCHANGE AND GOLD MARKETS

International foreign exchange markets were marked in 2005 by appreciation of the dollar against the main foreign currencies, after three years of considerable depreciation. Over the year as a whole, the euro/dollar fluctuated between 1.3558 and 1.1884 and the dollar/yen evolved over the same period from 102.45 to 117.24. Euro/yen parity rose from 138.82 to 139.65.

The appreciation of the dollar is due notably to the shifting in its favour of the differential in interest rates, which at the end of 2005 amounted to 200 basis points compared to the euro and 425 basis points compared to the yen. Vigorous economic growth in the United States (4.2% in 2004 and 3.5% in 2005) compared to low growth in the euro zone (2.1% in 2004 and 1.3% in 2005) and the major flow of foreign capital to the United States meant a stronger dollar against the other main currencies.

As for loan policy, there was significant monetary tightening in the US in 2005, with the Federal Reserve raising its key rate by 25 basis points on eight different occasions, bringing the federal fund rate from 2.25% to 4.25% for the year as a whole. The European Central Bank raised its refinancing rate in December 2005 for the first time after two and a half years of monetary status quo, up from 2% at the start of the year to 2.25%.

THE EXTENT OF VARIATION IN THE MAIN EXCHANGE RATES

YEAR EXCHANGE RATE	2004				2005			
	OPENING	LOWEST	HIGHEST	CLOSING	OPENING	LOWEST	HIGHEST	CLOSING
EUR/USD	\$1,2541	\$1,1759 (26/04/04)	\$1,3667 (30/12/04)	\$1,3558	\$1.3558	\$1,1638 (15/11/05)	\$1,3481 11/03/05)	\$1,1884
USD/JPY	¥134,94	¥125,77 (05/04/04)	¥140,3 (30/12/04)	¥138,88	¥138.82	¥130,59 (23/06/05)	¥143.61 12/12/05)	¥139.65
EUR/JPY	¥107,43	¥101,81 (02/12/04)	¥114,88 (14/05/04)	¥102,45	¥102.45	¥101,65 (17/01/05)	¥121.39 05/12/05)	¥117.24

The gold market in 2005 continued on the upward trend in effect since 2001. Gold once again profited from great interest on the part of investors' speculative funds, seeking to diversify their portfolios in a context characterised by higher energy prices and the related risk of inflation.

I. FOREIGN EXCHANGE MARKETS

A. INDUSTRIALISED COUNTRIES

Overall, international foreign exchange markets were characterised in 2005 by appreciation of the US dollar against the other main currencies, after three straight years of depreciation. The greenback took advantage in particular of the widening of the interest differential in its favour and strong growth in the US economy.

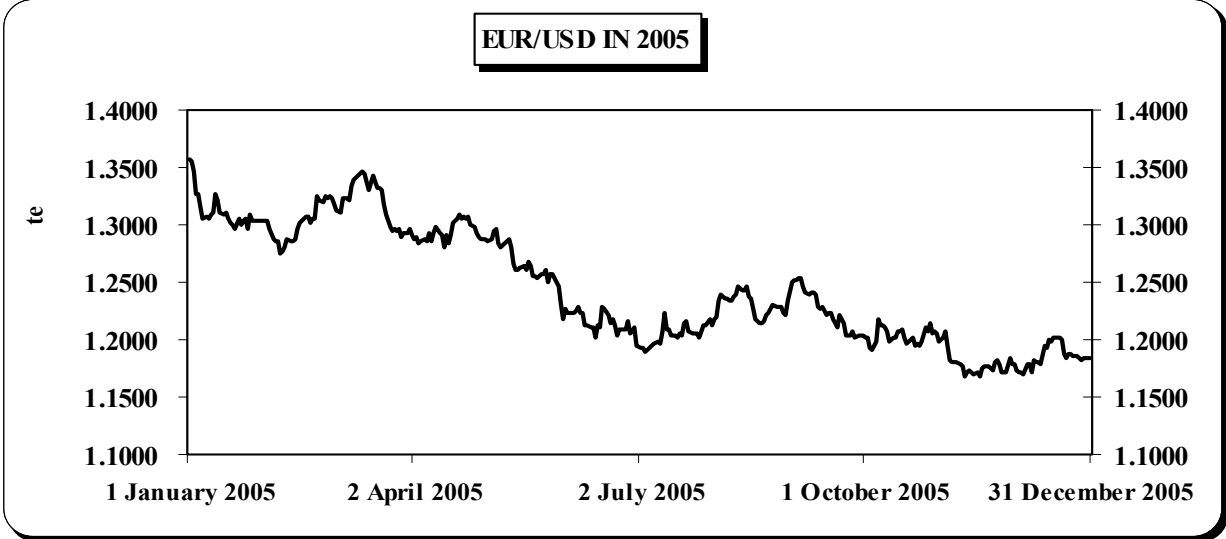
1- TRENDS IN THE EUR/USD AND USD/JPY

At the start of 2005, the dollar appreciated against the euro following statements by the President of the Federal Reserve in December 2004 to the effect that inflation is less controlled than expected. In January, a series of positive statistics reflecting

robust performance in the US economy boosted the dollar. Thus the widening of the interest differential in favour of the dollar, especially after the Fed introduced two other 25 basis points increases in its key rate, further boosted appreciation of the dollar. The euro thus evolved from 1.3558 dollar at the start of the year to 1.2961 dollar at the end of March.

Japan's currency, supported by strong national economic indicators at the start of the year (notably the figure for industrial orders in November 2004 and good results for Japanese companies), extended the upward trend in effect since the last quarter of 2004, reaching 101.65 JPY to the dollar in mid January, vs. 102.45 JPY at the start of the year. But then the yen took off on a downward spiral against the US dollar that continued until the end of the year, interrupted only by a few short breaks in the pattern.

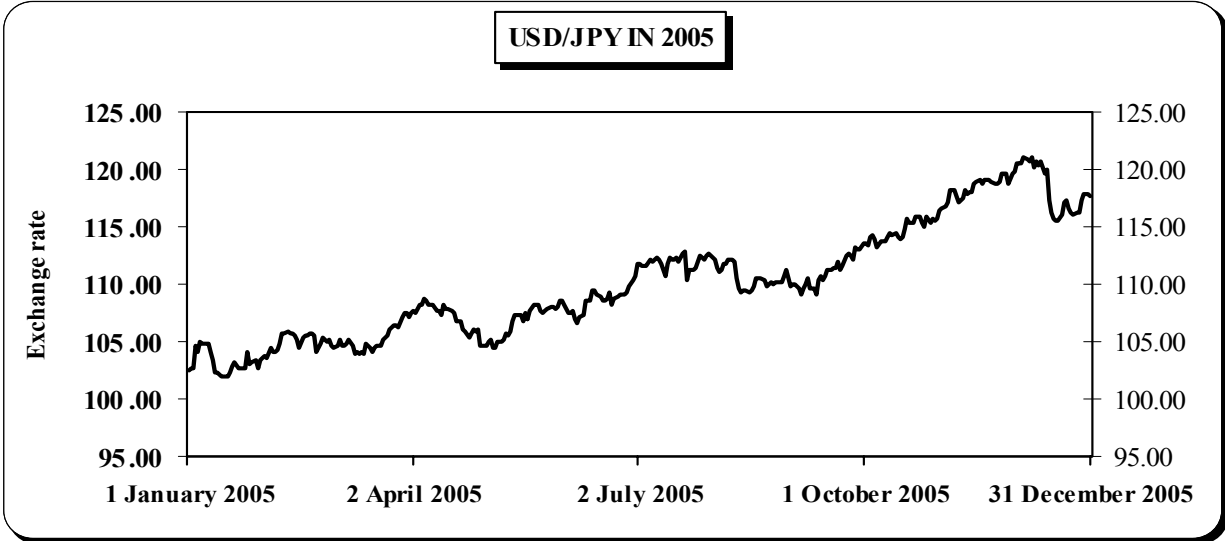
Starting the second week of February, the lowering of expectations of an imminent increase in flexibility for the Chinese yuan, publication of negative growth for Japan's real GDP over the last three quarters, and market perception of fairly weak prospects for growth in Japan affected the yen so that at the end of the first quarter it closed at 107.09 JPY to the dollar.



In the second quarter, the dollar depreciated slightly against the euro at the beginning of April, following publication of US economic statistics that were not as good as projected. Yet weak prospects for growth in the euro zone contributed to another episode of appreciation of the dollar. A strengthened dollar was further favoured by the publication of strong US economic indicators along with two initiatives to tighten monetary policy in the United States, the first on 3 May and the second on 30 June, bringing the Federal Reserve's key interest rate to 3.25%. Furthermore, France's «no» in the referendum on the European constitution, followed by Dutch rejection, considerably altered the market's attitude to the euro, boosting the dollar, which closed on 30 June at 1.21 USD to the euro.

The Japanese yen appreciated considerably in April, affected by renewed expectations of greater flexibility in exchange rates for Asian currencies. From 108.89 JPY

for dollar at the beginning of April, the yen rose to 104.15 JPY at the start of May, before starting off again on a downward trend and closing at the end of the second quarter at 110.8 JPY.



At the start of the third quarter, despite a differential in interest rates favourable to the dollar, the greenback fell against the euro when positive economic statistics were issued in the euro zone and especially as investor confidence was perceived to be on the rise. The euro thus rose from 1.2097 USD in early July to 1.2382 USD in mid August. But the lessening of concern about the US' external imbalances, notably after higher net flow of capital in June and a further 25 basis points tightening of monetary policy by the Fed in August, helped the dollar to appreciate. Despite initial thinking that Hurricane Katrina, which struck in early September, would have a negative effect on the US economy, it in fact had little impact on the dollar, which then took advantage of the sixth increase in the Fed's interest rate in September (bringing the Federal Reserve's key rate to 3.75%) to close at the end of September at 1.2029 USD to the euro.

At the beginning of the quarter, Japan's currency took advantage of the 2.1% revaluing of the Chinese yuan against the dollar to put an end to the pegging of the yuan against the dollar, in favour of a floating exchange rate based on a basket of currencies, along with better economic prospects for Japan and foreign capital flows to the Japanese stock market. Thus the dollar reached the level of 108.73 JPY on 5 September vs. 110.75 JPY at the start of July. Appreciation of the yen did not last very long, with concern about Japan's energy dependence in a context of ever higher oil prices and an intrinsically dynamic US dollar weighing in the balance. The dollar closed for the third quarter at 113.49 JPY.

Over the fourth quarter, the dollar appreciated for the most part against the euro and the yen. In October the euro traded at more or less 1.20 USD. The greenback took off on an upward trend in November, influenced by the widening differential in interest rates between the United States and the euro zone after the seventh increase of the year in the key rate, which rose to 4%. Appreciation of the dollar was

temporarily blocked by the ECB's 25 basis points higher key rate in December and by the appearance of good European economic statistics. Despite another episode of monetary tightening by the Fed in December (bringing the key interest rate to 4.25%), the dollar dropped in value after a statement by the President of the Federal Reserve to the effect that the upward cycle of rates would end and publication of a record high trade deficit. The dollar was able to recover losses by the end of the month, when positive economic indicators were issued. The euro closed for the year at 1.1884 USD, an increase of 14% over the figure at the beginning of the year.

The dollar continued to appreciate against the yen throughout the fourth quarter, except in December when the yen seems to have taken advantage of gains on short term positions as the end of the year approached, along with a change in the Federal Reserve's attitude, expressed in a final communiqué. After hitting 113.46 JPY in early October, the dollar came in at 121.39 JPY on 5 December, the highest level of the year, before falling against the yen to close for the year at 117.24 JPY. Thus the dollar appreciated by a total of 14.4% against the yen.

2. TRENDS IN GBP/USD

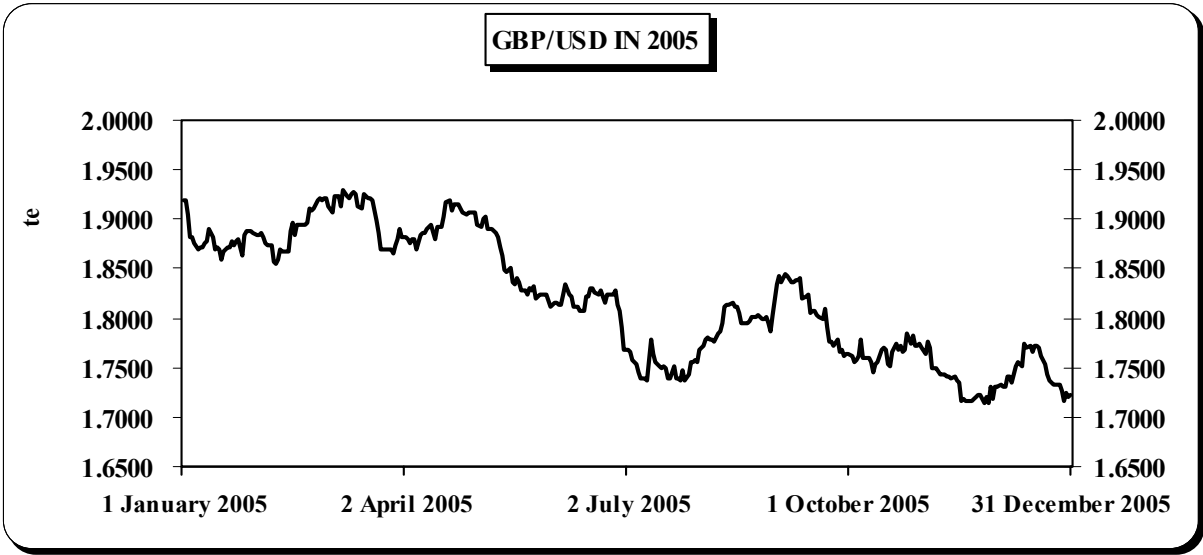
The pound began the year on a downturn, influenced by negative economic indicators. From 1.9184 USD at the start of the year, it posted 1.8506 USD in mid February. The drop in the US dollar in February was beneficial to the British currency, which went back up to 1.9325 USD at the beginning of March. This upturn was however short-lived, with the pound falling back to 1.85 USD at the end of March as the dollar appreciated.

Publication of the figure indicating higher inflation for the month of March (1.9% vs. 1.6% at the start of the year) renewed concern about a revival of inflationary pressure as well as speculation about higher interest rates in Great Britain. This propped up the pound, which appreciated against the dollar, reaching 1.9217 on 20 April. But with inflationary pressure due in particular to higher energy prices, operators focused on economic fundamentals. These indicated a slower pace for economic growth in Great Britain, as seen in the first quarter's GDP figure, which came in at +0.6% vs. +0.7% in the last quarter of 2004. Furthermore, analysts recognised seriously slower growth in household expenditure, linked to the decrease in pressure on the real estate market. British households in effect seemed to base plans for future expenditure on changing trends affecting the value of their real estate holdings. These factors fed speculation about an imminent drop in the key rate of the Bank of England, especially when the minutes of meetings of the British Central Bank's Monetary Policy Committee showed a growing minority of members favourable to a drop in the key rate.

The pound depreciated from the end of April to July, exacerbated by the terrorist attacks in London on 7 July. The British currency hit an 18 month record low against the dollar on 20 July: 1.7269 USD. To shore up slowing activity in the economy and to boost sluggish consumption, the Bank of England on 5 August announced easing of monetary policy for the first time in two years, reducing its main key rate by

25 basis points, to 4.50%. The pound then took off once again, influenced by good economic indicators (among other factors), especially the higher level of retail sales in July despite the terrorist attacks and speculation that the Bank of England might not further decrease its key rates. The pound thus reached 1.8499 USD on 5 September.

But signs of economic slowdown in Great Britain appeared anew. Economic growth at a 12 year low in the second quarter, retail sales at a record low in September, and sluggish industrial production in August all fed speculation about further monetary softening in Great Britain. The pound hit a two-year low in November (1.7043 USD), following publication of a Bank of England report downgrading projections for growth and inflation in 2005 and 2006. This leaves open the possibility of another lowering of rates in 2006, contrary to the Federal Reserve and the ECB, renewing speculation about further narrowing or even inversion of the interest rate differential, which up to this point had worked in favour of the pound. All this weighed on the British currency and the pound closed for the year at 1.7280 USD, representing depreciation of 11% for the year against the dollar.



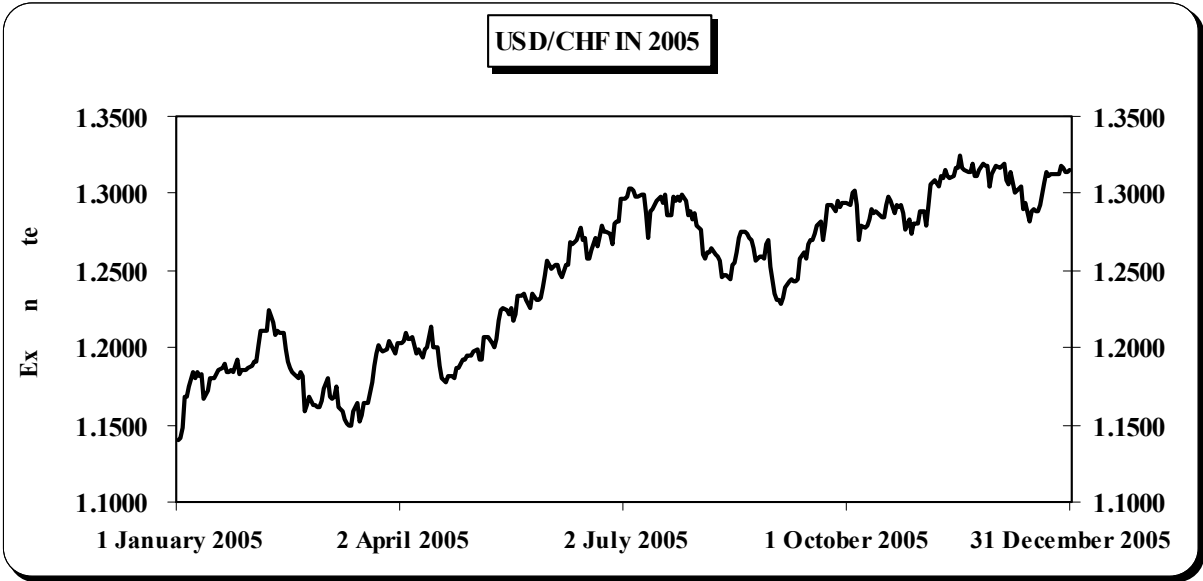
3. TRENDS IN USD/CHF

In Switzerland, 2005 began in a context which was, overall, quite gloomy. The job market was stagnant and there was only a very low increase in domestic demand, in the wake of budgetary policy that was only just expansionary. A few positive results did however emerge in the second quarter, such as the spectacular rebound in exports and net recovery in investments, notably in construction. Economic growth was stronger starting in the third quarter, stimulated mainly by exports. Surveys showed higher corporate confidence and the GDP posted a strong increase in the third quarter: 4.3% compared to the previous quarter.

But these developments were not enough to boost the Swiss franc, which in 2005 was influenced first and foremost by the evolution of the US dollar. Thus the Swiss franc started the year on a downturn, moving from 1.1380 CHF to the dollar at that time to 1.2262 CHF on 7 February. The ensuing drop of the dollar was beneficial to

the Swiss franc, which went back up to 1.1474 CHF to the dollar in mid March. It then suffered a downturn once again that lasted until the end of the year, with the exception of a short period of appreciation in July and August when the dollar weakened on international exchange markets. The Swiss franc closed for the year at 1.3099 to the dollar, amounting to depreciation of 13%.

On 15 December, the Swiss National Bank raised by 25 basis points the fluctuation margin for the three-month LIBOR, its key interest rate, bringing it to 0.50%-1.50%. This was done to adapt monetary policy to current trends and to counter inflationary pressure.



B. EMERGING COUNTRIES

2005 saw greater economic growth in most emerging countries, thanks to higher prices for commodities and capital that continued to come in at a steady pace.

Asia, as in the past, enjoyed sound growth, estimated at 7.6% compared to 8.1% in 2004. China and India remained the motors of growth in the region, up by some 10% and more than 7% respectively in 2005. Other Asian countries experienced somewhat slower growth, due in particular to weak domestic demand in the wake of soaring oil prices and the devastating effects of the tsunami for the countries hit. Malaysia posted a growth rate of 5.3% in 2005, down from 7.1% in 2004, while growth in GDP dropped from 4.6% to 3.9% in South Korea and from 6.2% to about 4.4% in Thailand. In the area of foreign exchange, most Asian currencies depreciated in 2005, except for the Chinese yuan, the Malaysian ringgit, and the Korean won.

China, under persistent pressure from the G7, revalued the yuan by 2.1% against the dollar on 21 July 2005, bringing it from 8.28 CNY to 8.11 CNY to the dollar. Furthermore, Chinese monetary authorities ended a decade of pegging of their currency to the US dollar, in favour of a floating exchange rate determined on the basis of a basket of currencies.

In pursuing the process of easing its system of foreign exchange, China on 23 September widened the range within which the yuan can fluctuate from +/-1.5% to +/-3% against the currencies used in the basket. But the range of fluctuation against the dollar was kept at +/-0.3%. Although the new exchange regime allows for greater flexibility, the yuan has remained within narrow margins, appreciating by only 0.5% between 21 July and the end of the year. The stability of the Chinese currency was favoured by consistent policy governing the intervention of the Popular Bank of China, which remained committed to keeping down growing upward pressure on the yuan due to the considerable trade surplus and the massive flow of foreign capital, which boosted the level of China's reserves to the record level of 819 billion dollars at the end of 2005. The Chinese yuan closed for the year at 8.0682 CNY to the dollar.

Following China's example, Malaysian monetary authorities announced right after revaluation of the yuan that it too would abandon pegging of the ringgit to the US dollar in favour of a controlled floating system determined on the basis of a basket of currencies. This decision brought about appreciation of the Malaysian ringgit, which rose to 3.74 MYR to the dollar compared to 3.80 MYR at the beginning of the year, but the Malaysian currency then fell somewhat to close for the year at 3.78 MYR to the dollar.

The Korean won too, for the most part, rose against the dollar, from 1037 KRW to 1007.44 KRW, gaining almost 3% in value. The Bank of Korea attributed appreciation of its currency to plentiful supply of foreign currencies, thanks to a higher level of exports, which continued to boost foreign currency reserves (more than doubling in four years), amounting to more than 210 billion dollars at the end of 2005.

In Eastern Europe, membership of eight new countries in the European Union boosted growth to more than 5% in 2005 for these countries as a whole and remained at over 4% on average for the second year in a row for the three main countries among the new member states: the Czech Republic, Poland and Hungary. Vigorous exports within the community were the principal motor for growth in the main new member states, with the Czech Republic posting trade surpluses for the first time since 1993. Performance by these countries was good enough to attract foreign investment, with strong demand for the currencies of these three countries, favouring appreciation against the euro (except for the Hungarian forint). The Czech crown gained some 5% against the euro, posting 28.9 CZK to the euro. The Polish zloty gained 6.5%, moving from 4.09 PLN to 3.84 PLN to the euro from start to end of year. But the Hungarian forint was volatile against the euro over the first three quarters, then fell starting in September to close for the year at 251.6 HUF (vs. 245.4 HUF at the start), depreciating by almost 2.5% against the single currency.

High prices for oil and raw materials secured to Russia considerable income in foreign currency, maintaining the current surplus at a high level of about 10% of GDP. In parallel, exchange reserves continued to grow, reaching almost 170 billion dollars at the end of 2005 vs. 124.5 billion dollars at the end of 2004. Aside from trade surpluses, the higher level of Russian exchange reserves was the result of massive intervention by the Central Bank of Russia on the domestic foreign

exchange market to slow down appreciation of its currency so as to preserve the competitiveness of its exports. These interventions helped keep down upward pressure on the rouble, even inversed the trend, so that it closed for the year down by about 3.5%, at 28.7 RUB to the dollar vs. 27.7 RUB at the start of the year.

There was slower growth in Turkey in 2005, just 7.4% vs. 8.9% in 2004. This was in fact a return to more sustainable growth rather than a change of direction based on conditions. The Turkish economy has expanded at an average annual rate of more than 7.5% over the past three years, following the serious economic and financial crisis that shook the country in 2001. The sound economic progress that resulted from vigorous monetary policy managed to keep inflation down between 8% and 9% (after a rate of 22% in 2003), favouring stabilisation of the Turkish pound, which for most of the year traded at about 1.35 TRL to the dollar.

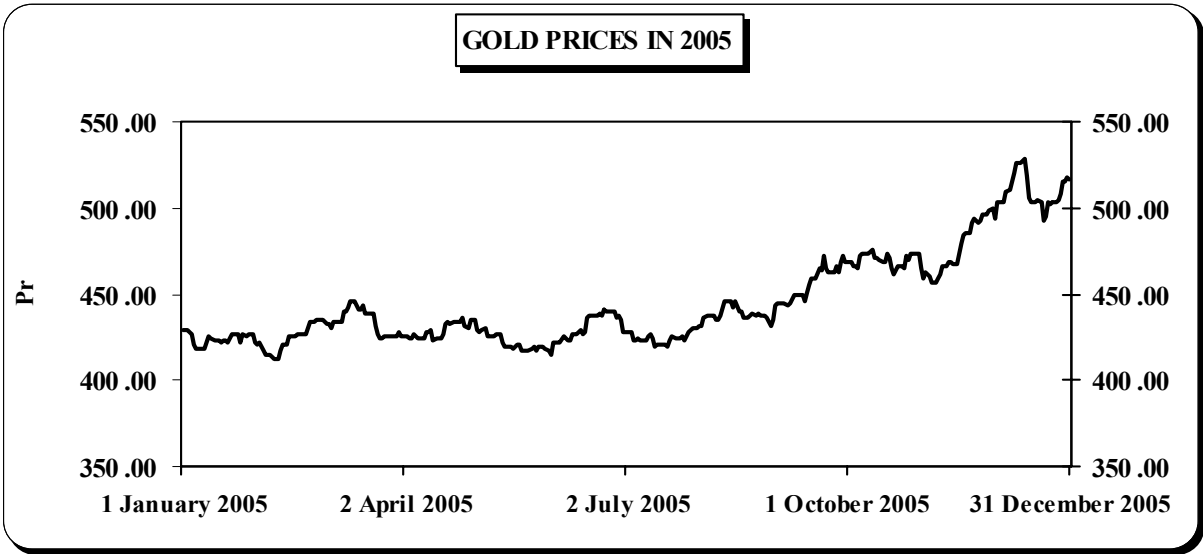
There was sound economic progress in Egypt in 2005, where GDP rose by about 5%, up from 4.1% in 2004. Vigorous growth was favoured by the sizeable hike in oil prices, which boosted exports of oil products. Soaring petrol prices also meant massive flow of private capital from the Arabian Peninsula. The Bank of Egypt's exchange reserves were up, surpassing the level of 20 billion dollars for the first time. Plentiful foreign currency liquidity on the exchange market, which is now largely liberalised, favoured appreciation of the Egyptian pound, up from 5.97 EGP to the dollar to 5.72 EGP, an increase of more than 4%.

In Morocco, after strong (4.2%) growth in 2004, GDP growth fell to 1.8% in 2005, affected by poor agricultural performance and higher oil prices. The economy was also adversely affected by the drop in textile exports in the wake of dismantling of the multifibre agreements. On top of this, appreciation of the dollar against the euro in 2005 had an impact on the Moroccan dirham, aggravating the trade deficit by both the higher cost of oil and the lower competitiveness-price position of Moroccan goods on European markets. In effect, the Moroccan dirham depreciated by about 10% against the dollar, down from 8.28 MAD at the start of the year to 9.21 MAD at the end, while appreciating by more than 2% against the euro, up from 11.15 MAD to 10.91 MAD.

II. THE GOLD MARKET

There were two main trends in the price of gold in 2005. The first more or less covered the first half, characterised by a degree of stability in the range of 410 to 446 USD/ounce. The second covered the rest of the year, characterised by a dazzling climb in the price of this precious metal. Gold prices started the year on a weak note, attributed to a stronger dollar in anticipation of higher rates and lower deficits in the US. Speculative funds showed less interest in gold, preferring to take their profits and await a more favourable exchange market. Furthermore, the lessening of geopolitical tension reduced the attraction of gold as a safe refuge. Another factor contributing to liquidation of gold holdings was speculation that the IMF might use its gold reserves to cancel debt for the poorest countries. The price of

gold thus fell from \$437.5 per ounce at the beginning of January to \$410.39 on 9 February.



Depreciation of the dollar in February and March was advantageous to the price of gold, which managed to regain lost ground and surpass the start-of-year level. An ounce of gold traded at \$446.70 on 11 March.

Despite considerable appreciation of the dollar for the most part from mid March to end June, the price of gold was sustained by strong demand for physical gold, notably for jewellery and investment. Another factor was the French and Dutch rejection of the European constitution, which caused some uncertainty on the foreign exchange market. From April to July the price of gold remained within a fairly narrow range, with a low of USD 413 to the ounce on 31 May and a high of USD 443.60 to the ounce on 24 June. After a period of relative stability in July, gold took off again on an upward trend starting in August, taking advantage of several factors, notably depreciation of the dollar, strikes in South African gold mines, higher oil prices and re-emerging political concern about Iran.

This upturn continued to the end of the year, with the main factors influencing gold prices remaining very solid, notably strong demand for gold for jewellery and investment funds, reflecting growing interest in portfolio diversification in an economic context marked by the re-emergence of inflationary pressure and higher energy prices. This increase was aggravated by speculative funds and rumours about the intentions of the Russian and South African central banks to increase their gold reserves. Even higher Fed interest rates (which normally would have lessened the attraction of gold since they increase the cost of holding on to it) seemed in this instance to have played in its favour, with the market attributing these increases to the inflationary context. Gold reached its highest level (USD 540.90 to the ounce) on 12 December, on the eve of the Federal Reserve meeting. This was the highest level in 22 years, but then yearend profits were taken and gold closed for the year at USD 517.20 USD to the ounce, having appreciated by more than 18%.

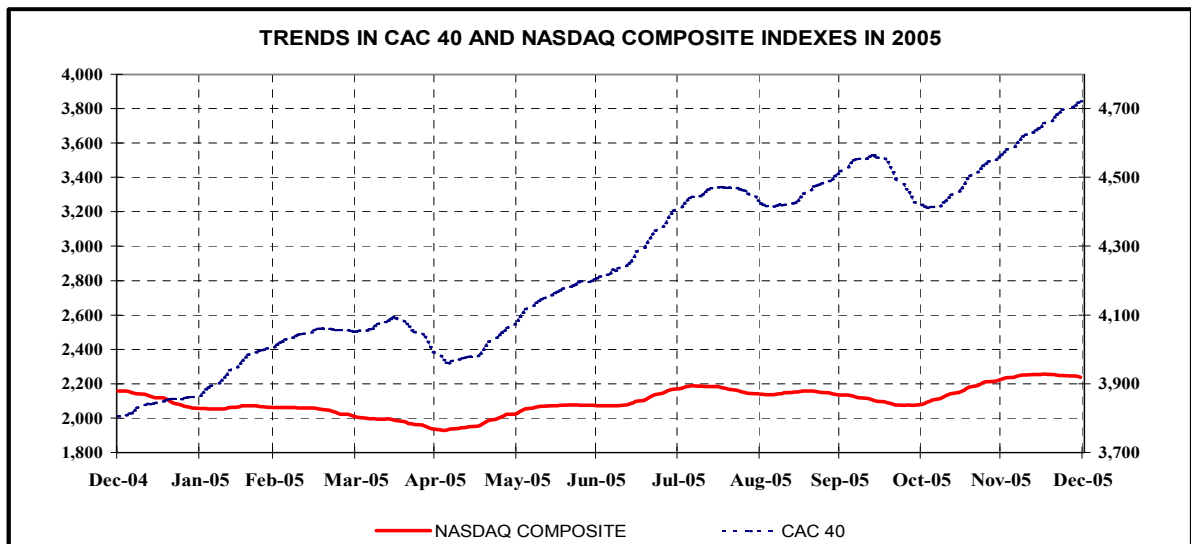
III. INTERNATIONAL CAPITAL MARKETS

Despite a world context marked by rising interest rates, soaring oil prices and the reappearance of inflationary pressure, international capital markets performed well in 2005. International stock markets recorded two-figure growth, with those in the US already well ahead in profitability. This phenomenon was also apparent on emerging markets where, despite slightly slower growth on Asian stock markets, the upward trend recorded over the two previous years continued in 2005. On bond markets, tighter monetary policy meant a slight increase in long term rates in the US, while long term rates for the euro (seemingly unaffected by trends in American yields) were down compared to the end 2004 figure.

1. THE STOCK MARKET

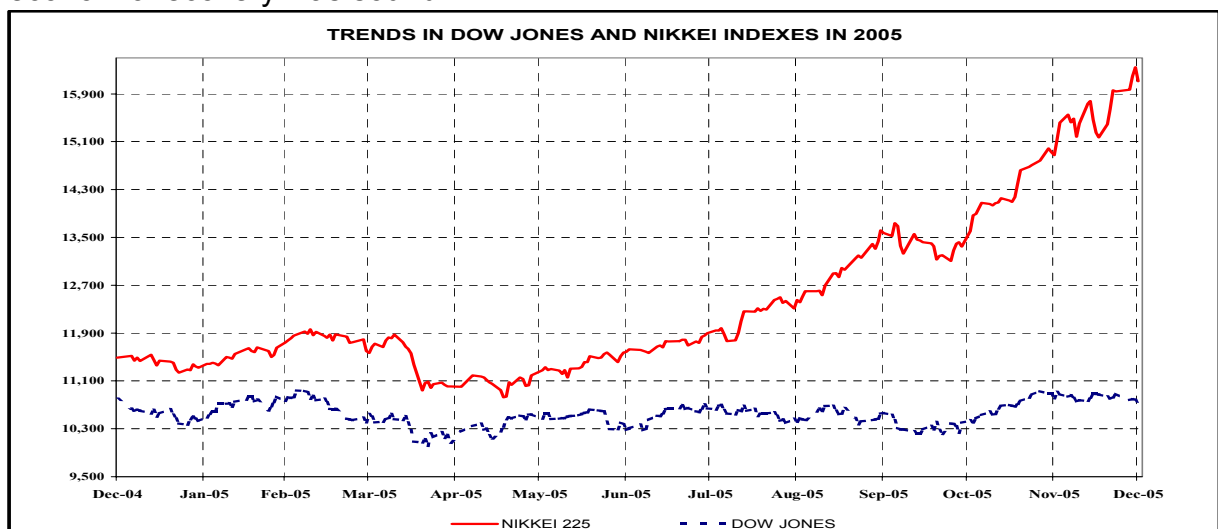
European and Japanese stock markets in 2005 continued overall on an upward trend, thanks to stronger world economic growth, sound corporate performance, and especially a new wave of mergers-acquisitions. But trends in US stock markets were mitigated by the impact of poor quarterly figures for companies in the technology sector, concern about the strength of the US economy and the increase in short term rates in the US, caused largely by soaring oil prices and fear of ensuing inflation.

As for US markets, NASDAQ dropped significantly from January to April, influenced by slower growing profits for securities in new technologies, especially internet. Dow Jones, after going up in February, went down in March and April, affected by the drop in energy stocks as oil prices fell below the level recorded at the end of 2004 and lower prices took hold for values in the financial sector, given prospects of rapid increases in the Federal Reserve's key rates, after the communiqué by the Fed's monetary policy committee on 22 March about rising inflationary pressure. Then starting in May the US market once again took off on an upward trend. Investors, reassured about the strength of the US economy, turned to stock markets. But over the summer US stocks took a dip once again, influenced by anticipated ongoing monetary tightening in the US and uncertainty about oil prices. August to October was a highly volatile period, following a trend that was for the most part downward, with investors hesitant to open themselves to risk after publication of disappointing US economic indicators and the natural disasters that hit the country. In November the US stock market went up once again in the wake of diminished concern about the risk of inflation along with higher GDP growth as evidence mounted concerning higher dividends and the proliferation of merger-acquisition transactions. This increase continued until the end of the year, compensating for losses in the opening months of the year. In this context, the Dow Jones dropped by 0.6%, while the NASDAQ rose by just 1.4% over the opening figure.



Like the performance of US stocks at the start of the year, European markets posted mixed returns in January. The price of stock in large exporting firms took advantage of a stronger dollar against the euro and oil companies benefited from higher oil prices. Most stocks in other sectors were influenced by higher energy prices. In May the main indexes for European stock markets rose, attenuating lower figures in April. This reversal of trend was due mainly to gradual stabilisation of the loan market, which stimulated the main European stock markets and allowed them to attain their highest levels since the start of the year. This progress continued over the summer and to the end of September, thanks to strong performance as confirmed by publication of first half 2005 figures, notably in automotive industries, tourism and insurance. Over the last quarter of the year, despite better economic prospects, the main European indexes dipped slightly as oil stocks fell in the wake of lower world prices for oil. But this was a decrease of relatively limited impact and most markets closed for the year with two-figure growth. CAC-40, DAX-30 and FTSE-100 were up by 23.4%, 27.1% and 16.7% respectively in 2005.

In Japan, the Nikkei rose over the first three months of the year at about the same pace as European indexes, thanks in particular to the feeling that the country's economic recovery was sound.



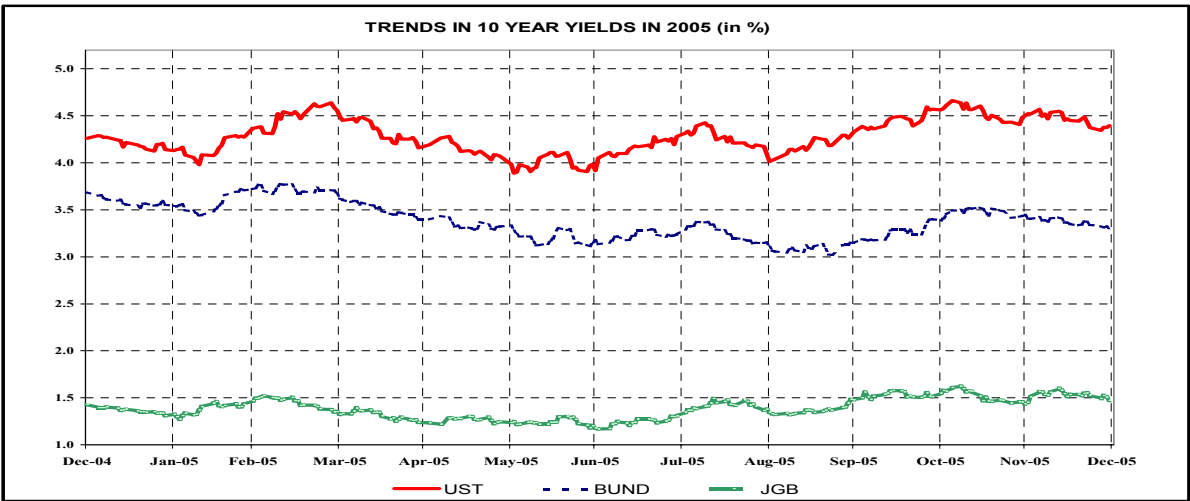
This increase came to an end in early spring because of an adverse macroeconomic context, illustrated in particular by the low level of household expenditure. Rising political tension involving China weighed heavily on stock prices for industrial groups that export heavy material and are dependent on the Chinese market. This trend remained in effect until August, with the lower house of parliament dissolved by the Prime Minister after rejection of postal reform. Re-election of the outgoing government at the 11 September legislative elections gave a decisive boost to reformers, who make no secret of their commitment to restructuring public finances and to breaking with public interventionism. This was very well received by investors. Depreciation of the yen by 8% against the dollar and by 5.5% against the euro, expectations that accommodating monetary policy would be maintained and the increase in foreign investment flows over much of the year contributed greatly to anticipation of high export stocks and performance in the banking and real estate sector. These factors stimulated the Japanese stock market, which remained on an upward trend to the end of the year. Thus the Nikkei posted noteworthy performance, closing for the year at a 40.24% higher level.

TRENDS IN MAIN STOCK INDEXES

Place	Index	31/12/2004	31/12/2005	Variation in %
Paris	CAC-40	3,821.16	4,715.23	23.40
Frankfort	DAX-30	4,256.08	5,408.26	27.07
London	FTSE-100	4,814.00	5,618.80	16.7
New York	DOW JONES	10,783.01	10,717.50	-0.61
New York	Nasdaq	2,175.44	2,205.32	1.37
Tokyo	NIKKEI-225	11,488.76	16,111.43	40.24

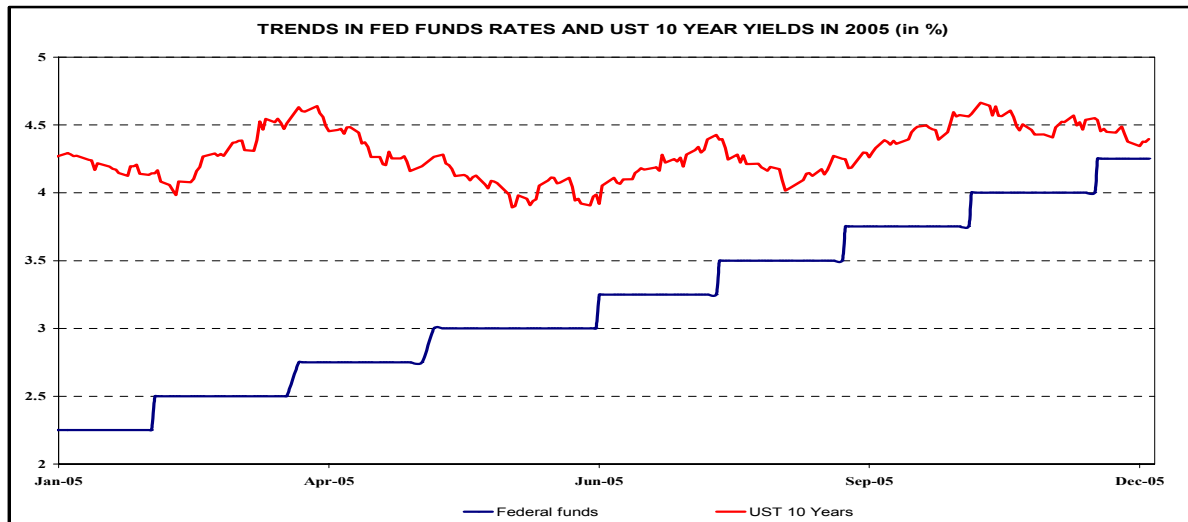
2. THE BOND MARKET

Given the strength of the US economy and the inflationary risks created by soaring oil prices, the Federal Reserve in 2005 pursued the upward cycle for interest rates, introducing a 25 basis point increase in its key rate on eight successive occasions. The federal fund rate thus rose from 2.25% to 4.25% over the year. In the euro zone, the Central Bank on 1 December increased its key rate from 2% to 2.25%.



But long-term rates did not evolve in a coordinated manner in Europe, the US and Japan. Ten-year US rates were up for the year from 4.26% to 4.39%, but European rates fell from 3.69% at the start of the year to 3.30% at the end and Japanese long-term rates remained virtually unchanged, closing for the year at 1.47% compared to 1.43% at the start of 2005.

In the United States, long-term rates remained on a downturn in January despite monetary tightening. This was due mainly to development of hedge funds and the surplus in world savings, often invested in US securities. The volume of foreign purchases of net securities increased from 40 billion in March to 107 billion in October.



Structural factors such as the possible reform of retirement benefits were behind the drop in long-term yields. Then in February the trend reversed itself, posting a jump in long-term rates on both sides of the Atlantic, although action was greater in the US than in Europe. In effect, the American ten-year yield grew by almost 70 basis points in just a little over a month and a half, compared to just 35 basis points in Europe, based on dissimilarities in these two economies. The upward trend in the US ended in March, in the wake of a second drop in the consumer confidence index (103 in March, down from 104.4 and 105.1 the preceding months), with ten-year US yields falling from 4.64% to 4.45% in three days. The drop for long-term rates continued into April, in reaction to disappointing macroeconomic statistics following the Fed's 22 March communiqué that once again signalled inflationary pressure, along with GDP growth that had come in well below projections. This downward trend was accentuated in the next couple of months, with a ten-year bond yield that dipped to its lowest level of the year (3.91%) on 30 June.

This downward spiral for long-term rates ended on 1 July, when an ISM survey was published showing much higher figures than the consensual projection and higher consumer confidence, which provided a sizeable boost for 10 year yields. Based on higher oil prices, short-term predictions for inflation rose, further reinforcing the trend. Hurricanes Katrina and Rita ravaged US coastlines at the end of August and the end of September respectively, exercising a negative effect on US growth, although this

turned out to be far less than initially estimated. Expectations of a pause in monetary tightening because of the damage wrecked by Katrina gradually dissipated the following month. And it turned out that Rita had caused less damage than feared at first. Thus the incidence on bond yields was fairly light.

US yield curves continued to flatten at the end of 2005, notably because of lessening inflationary pressure and slightly lower prospects for US growth, bringing about a slight drop of one quarter of a point in the US Treasury ten year yield, which closed at a slightly higher 4.39%. In the euro zone, lower yields were brought about by the drop in American yields as well as reform of Dutch retirement benefits and a more sizeable influx of life insurance funds in Germany (for tax reasons), creating excess liquidity to be invested in long-term bond securities. While such technical demand factors usually have only minimal impact on yields compared to macroeconomic data, they had a greater impact on long term maturities at the beginning of 2005.

Renewed expectations of a drop in key rates by the ECB starting in late spring amplified the downturn and brought the ten year rate to a record low of 3.13%, especially after the negative vote on the European constitution by France and the Netherlands along with pessimism about economic prospects in the euro zone. The terrorist attacks in London on 7 July had an even more transient effect on both the bond and stock markets. The second series of attacks two weeks later did not affect markets, but reactions were more marked after the announcement on 21 July that the Chinese yuan would be re-valued.

The tougher stance taken in the autumn by members of the ECB about inflationary pressure was the main factor influencing the market. The euro's yield curve flattened, but the low level of key rates prevented an inversion of the rate curve, which closed for the year at 3.30%, 39 basis points less than at the beginning of the year.

In Japan, long-term rates fell at the start of the year, due to expectations of a fast end to deflation and abandonment of the Bank of Japan's quantitative flexibility policy. The announcement on 19 January of a mid term review of inflation projections made the previous fall by the monetary policy council was decisive, since it indicated a notable decrease in pressure on prices, a sure sign of slower growth. But starting in February, thanks to fairly positive economic indicators, yields came back up, reaching 1.45% on 14 February, their highest level since November 2004. Yields followed a downward pattern over the second quarter, although much less so than in the euro zone or the United States. The bond market seemed to be more sensitive to both the drop in stocks and signs of macroeconomic stagnation. The announcement on 28 April of downward revision of CPI projections by the Bank of Japan took place along with a drop of some basis points for yields.

With growing signs of recovery in Japanese domestic demand, growth projections were revised upward for the third quarter, unlike the situation in the other major economies, with State yields subjected to upward pressure. Toward the end of the year, growing expectation of higher prices in 2006 led to questions about timing and the means the Japanese Central Bank would choose to end its ultra-accommodating

monetary policy. In effect, Bank of Japan declarations in September and October were interpreted as meaning that the zero interest rate policy would not be discarded before the following budget year. Money market rates thus remained unchanged and bond yields went up slightly to close for the year at 1.47%, a level that remained virtually unchanged compared to the beginning of the year.

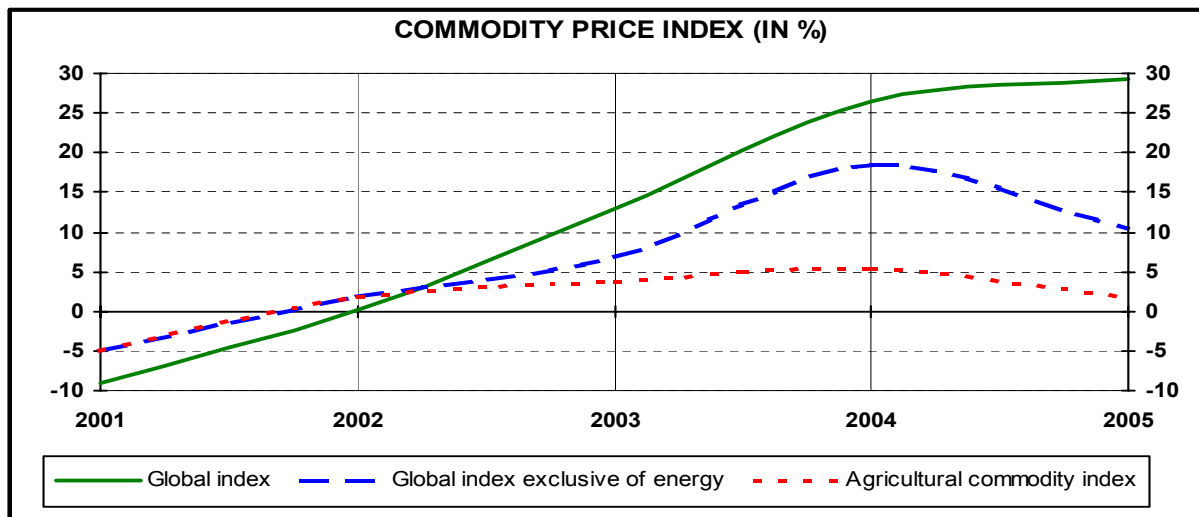
TREND IN 10 YEAR YIELDS FOR MAIN CURRENCIES

	Closure 2004	Closure 2005	Variations (bp)
Dollar	4.26	4.39	13
Euro	3.69	3.30	-39
Yen	1.43	1.47	4

IV. WORLD COMMODITIES MARKET

With international demand on the rise, mainly on the strength of vigorous economic growth in a number of countries (notably the United States, China and other emerging Asian countries like India), commodity prices were up considerably in 2005, especially for crude oil. This development was also due to lower supply of certain goods as well as higher costs (especially for energy), in conjunction with greater speculation on world markets. Appreciation of the dollar against the other main currencies since June 2005 had a negative effect on the cost of importing these goods, especially for developing countries.

In this context, the general price index for commodities as a whole, expressed in dollars, rose by 29.3% in 2005, compared to 26.5% the year before. This faster pace was due mainly to the high increase in prices for energy products (38.8% vs. 30.9% in 2004) in the wake of soaring crude oil prices (42.2% on average for a barrel of Brent compared to 32.7%), reaching record highs at the end of August.



If energy is excluded, the increase in the commodities price index is lower: 10.4% vs. 18.5% the year before. This is because prices for foodstuffs were down by 0.4% on average, after increasing by 14.3% in 2004, while prices for agricultural raw materials and metals rose more slowly, by 2.4% and 26.4% respectively compared to 5.5% and 36.2% in 2004. It should be noted that prices for most industrial raw materials recorded record highs, especially for copper and zinc, in line with strong demand from China and the US. Higher prices for commodities, which benefited producing countries as well as oil companies, fanned inflationary pressure throughout the world (especially in industrialised countries) while also aggravating the trade deficit in countries that are net importers of energy products and driving up the budget deficit in countries that grant considerable subsidies for domestic prices for these products in order to maintain corporate competitiveness and purchasing power for the population. In Tunisia, higher commodity prices in 2005 pushed up the trade deficit, mostly because of the higher cost of energy products.

A. FOODSTUFFS

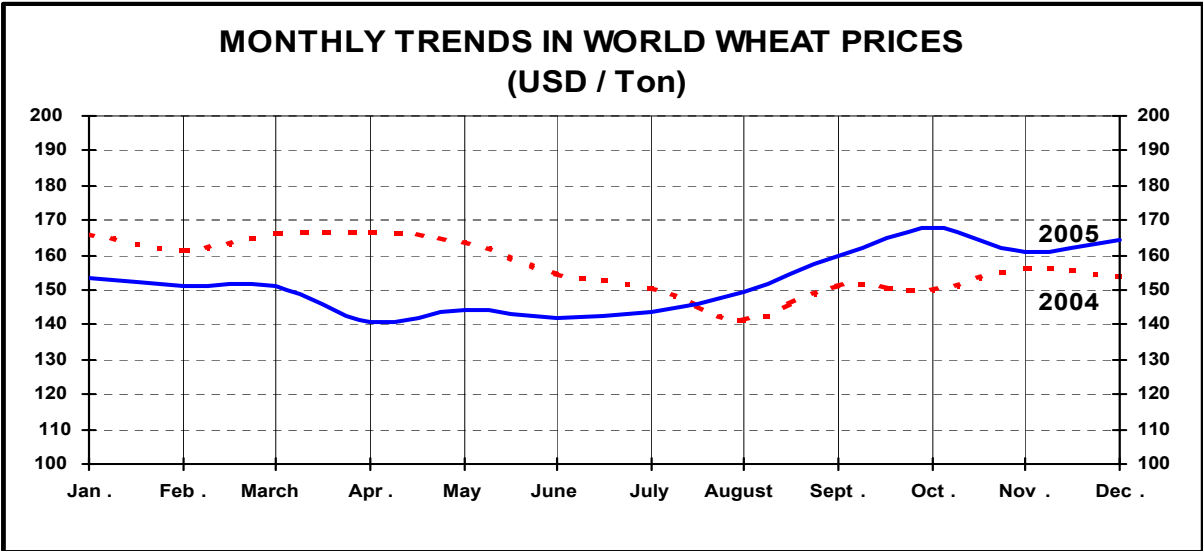
World prices for foodstuffs followed varying patterns in 2005. Prices for cereals (other than rice) and vegetable oils were down to a greater or lesser degree, in line with slower growth in demand, while prices rose for sugar, coffee, tea and (to a lesser degree) cocoa. World production of cereals fell by 1.9% in 2005, after increasing by 8.9% the year before, coming in at about 2228 million tons. This drop involved all cereals except rice, particularly barley.

CEREAL WORLD PRODUCTION (In millions of tons)

Description	2003	2004	2005	Variation in %	
				2004/2003	2005/2004
Total	2,085.7	2,270.4	2,227.9	8.9	-1.9
- Wheat	561.1	629.9	628.1	12.3	-0.3
- Secondary Cereals	941.6	1,032.1	981.3	9.6	-4.9
of which : *Corn	642.7	724.5	694.6	12.7	-4.1
*Barley	143.0	153.8	137.3	7.6	-10.7
- Rice	583.0	608.4	618.5	4.4	1.7

Source : Food and Agriculture Organisation (FAO)

Wheat production, representing about 28% of worldwide production of cereals, fell by 0.3% from the 2004 figure, providing more than 628 million tons. Larger harvests in a number of countries, especially Australia (18.6%), Argentina (9.6%) and China (4.6%) were not enough to completely offset lower production in Europe (-5.3%), the United States (-2.8%) and North Africa (-11.1%). Still, higher production of wheat over the summer meant lower prices, falling from \$154/ton in January 2005 to \$142/ton in July before gradually edging back up to \$164/ton in December in the wake of higher demand. The average level of prices for the year as a whole fell by 3.2%, after rising by 7.5% a year earlier, to \$152/ton.



Production of secondary cereals fell by 4.9%, following a 2004 increase of 9.6%, affecting in particular developed countries (-9.2%), especially the countries of the European Union (-14.7%). This drop involved both corn (-4.1%) and barley (-10.7%), meaning higher prices for corn, up 7.3% from 2004 to 2005 after falling by 14.3% a year earlier. In terms of annual averages, this was a drop of 11.6% vs. an increase of

6.7% the year before. With slower growth in world production (1.7% vs. 4.4% in 2004) in a context of sustained demand, rice prices rose by 9.2% in December 2005 compared to the figure 12 months earlier and by 14.4% in terms of annual averages. This compares to 13% and 5.9% respectively a year earlier.

Higher world production of oils (+2.8% in 2005 vs. +8% the year before) and the high level of stocks led to sizeable drops in prices for the main kinds of oil. The price of palm oil fell by 28.3% on average vs. an increase of 6.1% in 2004. Soybean oil prices were down by 19.2% vs. +10.4% and those of peanut oil decreased by 8.5% vs. -7.3% in 2004. Consumption of vegetable oil continued to rise for the most part, mainly in Asian countries. Olive oil production for the 2004-2005 season came in at 3 million tons, an increase of 30.4% compared to a drop of 14.8% the previous season. With world consumption about equal to production, the higher level of imports in a number of countries (especially the United States, Japan, Australia, Brazil and Canada) and prospects for lower production worldwide in 2005-2006 (-13.9%) put pressure on prices throughout 2005, fluctuating between \$3.90 and \$4.10 on average for a litre of premium olive oil.

VEGETABLE FATS WORLD PRODUCTION

(In millions of tons)

Description	2003	2004	2005	Variation in %	
				2004/2003	2005/2004
Total	123.5	133.4	137.1	8.0	2.8
of which :					
- Soybean oil	30.0	33.9	..	13.0	..
- Palm oil	28.5	31.0	32.8	8.8	5.8
- Olive oil	2.7	2.3	3.0	-14.8	30.4

Source : Food and Agriculture Organisation (FAO)

World sugar prices were up considerably in 2005 : +33.7% in terms of annual averages vs. 8.5% in 2004. This development was due to higher demand (especially from China and India), lower supply as world production fell, a reduction in European Union export subsidies and especially the processing by Brazil (n°1 world producer and exporter) of about half of its sugar cane harvest into ethanol to be used as a substitute for petrol.

Coffee prices continued to grow at a brisk pace (26.6% vs. 25.1% the year before), affected by lower world production, especially in Brazil, while demand continued to rise. Cocoa production remained virtually stagnant worldwide, acting in conjunction with the draw-down of stocks to push prices up somewhat (+1.6% on average vs. -13.3% in 2004). Tea prices rose in 2005 at a higher rate than the year before (9.2% vs. 2%), influenced by fairly strong demand in the main importing countries and a 2.3% drop in world production.

AVERAGE PRICES OF FOODSTUFFS

(In dollars per ton)

Products	Places of quotation	Averages for December			Annual averages		
		2004	2005	Variat. 2005/2004 in %	2004	2005	Variat. 2005/2004 in %
Wheat	Gulf Ports U.S.	154	164	6.5	157	152	-3.2
Corn	Gulf Ports U.S.	96	103	7.3	112	99	-11.6
Rice	U.S.(New Orleans)	305	333	9.2	270	309	14.4
Oil :							
.Soybean	Dutch Ports	552	466	-15.6	614	496	-19.2
.Palm	Malaysia/North Europe	422	369	-12.6	470	337	-28.3
.Peanut	Europe	1,113	950	-14.6	1,159	1,061	-8.5
.Olive ¹	Milan	..	3.69/	..	..	3.88/	..
		..	3.88	..	..	4.08	..
Sugar	Brazil	194	307	58.2	166	222	33.7
Coffee	New York	2,261	2,129	-5.8	1,766	2,236	26.6
Cocoa	London & New York	1,484	1,511	1.8	1,520	1,545	1.6
Tea	London	2,018	2,019	0.1	1,982	2,164	9.2

Source: International Financial Statistics (IMF)

B. INDUSTRIAL RAW MATERIALS

World prices for most industrial raw materials were up considerably in 2005, especially for metals (except tin). This was the result of sustained international demand tied to strong growth in the United States and the main countries of Asia, notably China, India and Japan. Disruption in supply (due to low stocks, poor weather and growing speculation) had a strong impact on prices. Prices for raw rubber reached \$1703/ton in December 2005, an increase of 40.5% over December 2004 levels. This faster growth over the second half of the year was attributable to sustained demand while 2005 world production grew more slowly than the year before (2% vs. 3.6%). In terms of annual averages, prices rose by 15.1% vs. 23.7% a year earlier. Cotton prices, on the other hand, were down by 11% on average, following a drop of 2.3% in 2004, affected by higher world production that for the first time since 2002 exceeded the level of consumption: 26.2 million and 23.7 million tons respectively.

AVERAGE INDUSTRIAL RAW MATERIALS PRICES

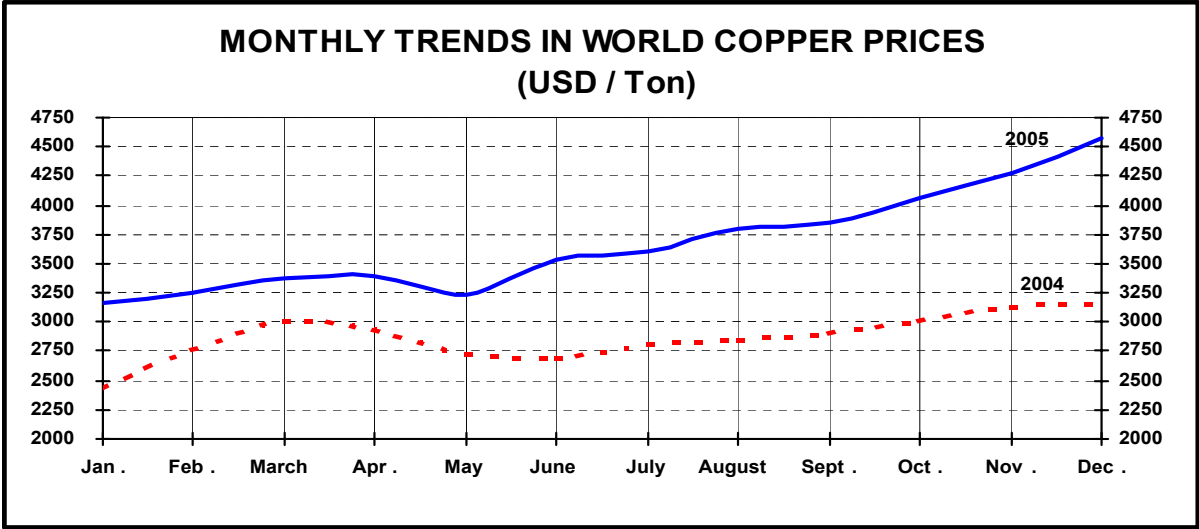
(In dollars per ton)

Products	Places of quotation	Averages for December			Annual averages		
		2004	2005	Variations 2005/2004 in %	2004	2005	Variations 2005/2004 in %
Cotton	Liverpool	1,071	1,246	16.3	1,367	1,216	-11.0
Natural rubber	Singapore	1,212	1,703	40.5	1,305	1,502	15.1
Copper	London	3,140	4,577	45.8	2,864	3,677	28.4
Tin	London	8,474	6,763	-20.2	8,481	7,385	-12.9
Zinc	London	1,182	1,819	53.9	1,048	1,381	31.8
Lead	London	972	1,120	15.2	882	974	10.4
Phosphate	Casablanca	42	42	0	41	42	2.4

Source: International Financial Statistics (IMF)

¹ Prices in U.S. dollar for a litre of premium virgin oil, obtained by applying crossed exchange rates (euro, Tunisian dinar and U.S. dollar) and as per the magazine "Marchés Tropicaux".

World metal prices (except for tin) reached record levels in 2005, affected in particular by the increase in demand from industrialised countries and the higher cost of extraction due to a number of factors including soaring oil prices. Copper prices went up 28.4% vs. 61% in 2004, to an average of \$3677/ton, with a record high of \$4577 in December 2005. This large jump was due in particular to steady demand from the United States and China, in conjunction with low stocks and modest growth in world supply (just 3.1% vs. 4% the year before) because of the drop in production in the main producing countries, including Chile and the United States.



Zinc prices also attained record levels in 2005, up 31.8% on average vs. 26.6% the year before. This development was due to faster growth in demand over the last quarter and virtual stagnation in world production at about 10.3 million tons. Thus the average level of prices went from \$1182/ton in December 2004 to \$1819/ton in December 2005, an increase of some 54%. Lead prices continued to climb, but at a much slower pace than the year before (10.4% vs. 71.6%), reaching an average of \$974/ton. China was a major source of world demand for lead, notably for the needs of its electronic component, telecommunications and information technology industries. And after a high 73.4% rate of increase in 2004, tin prices fell by 12.9% in 2005, influenced by 21% greater production in Indonesia and higher stocks. Overall world production of this metal grew by 6.1% to 280,000 tons, thanks to reopening of several previously closed or abandoned production sites.

Raw phosphate prices remained more or less unchanged throughout 2005, despite some recovery in international demand. In terms of annual averages, they increased by 2.4% vs. stagnation the year before, reaching \$42/ton. There was higher demand for phosphate by-products on the world market (mainly phosphoric acid) and higher prices for most other products, even in a context of lively competition. This was also the case for ammonia and unrefined sulfur, intermediary products used in phosphate processing industries.

C. CRUDE OIL

The steep upward trend in oil prices that began three years ago intensified in 2005. The average price for a barrel of Brent increased from \$44.28 in January to a record high of about \$70 at the end of August, following mainly the series of hurricanes that hit the Gulf of Mexico in the United States, leading to a halt in production and the closing of a number of oil facilities, further aggravated by geopolitical tension, especially in the Middle East. But increased production in OPEC countries and use of strategic reserves in the US and by the International Energy Agency (IEA) helped hold down prices somewhat, coming in at an average \$56.75 for a barrel of Brent in December 2005, an increase of some 37% over the December 2004 figure. In terms of annual averages, the price hike for a barrel of Brent came in at over 42% vs. about 33% in 2004, at an average price of \$54.44, almost double the 2003 figure.

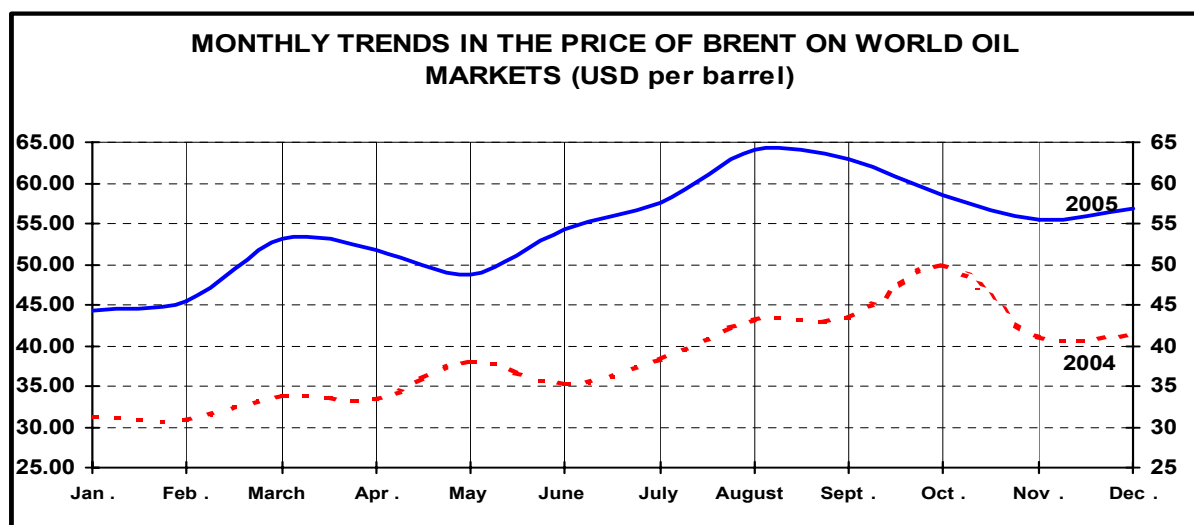
TRENDS IN WORLD SUPPLY AND DEMAND FOR CRUDE OIL

(In millions of barrels per day)

Description	2003	2004	2005	Variation in %	
				2004/2003	2005/2004
Oil supply	79.7	83.1	84.1	4.3	1.2
of which: OPEC	30.7	33.0	34.0	7.5	3.0
Outside OPEC	49.0	50.1	50.1	2.2	0
Oil demand	79.2	82.2	83.3	3.8	1.3
of which: OECD	48.6	49.5	49.6	1.9	0.2
Outside OECD	30.6	32.7	33.7	6.9	3.1
Difference : supply - demand	0.5	0.9	0.8		

Source: Magazine "Le Pétrole et le gaz arabes"

The ongoing skyrocketing of oil prices in 2005 was due not only to geopolitical uncertainty but also natural disasters, a climate of instability in a number of producing countries and an increase in world demand, although at a slower pace than the year before, mainly from the United States but also from China and India, two Asian countries that have become major importers. It was also attributable to insufficient supply and bottlenecks in refining and transport, resulting from low investment in these areas since the '80s. Added to these factors is the well known phenomenon of growing speculation when market forces are out of balance.



D. THE EFFECTS OF MAIN COMMODITY PRICES ON TUNISIA'S BALANCE OF TRADE

The ongoing increase in prices for most commodities on the international market (notably crude oil) had a negative impact in 2005 on Tunisia's balance of trade, although not as bad as the year before. Price trends for a sampling of traded products representing about 26% of exports and 32% of imports had a negative impact, illustrated by about 152 MTD (4.5%) widening of the trade deficit. This was due mainly to the negative net effect of trade in energy products (82.2 MTD or 54.3% of global impact), with profits on exports of crude oil and refined products (595.7 MTD) not high enough to completely offset the negative effect of the higher cost of importing these products as well as natural gas (677.9 MTD).

If energy is excluded, on the basis of a sampling of relevant products, the adverse impact of higher world prices on Tunisia's balance of trade comes in at 69.3 MTD. This was because the negative effect of higher import prices, notably cast metal, iron and steel (86 MTD), plastic raw materials (60.1 MTD), plastic items (37.4 MTD), sugar (33.3 MTD), unrefined sulfur (31 MTD) and copper/copper items (30.3 MTD) was only partially offset by gains on exports, especially olive oil (109.9 MTD), phosphoric acid (52.7 MTD) and phosphate diammonium (43.7 MTD).

IMPACT OF PRICE TRENDS FOR THE MAIN COMMODITIES ON TUNISIA'S BALANCE OF TRADE
(Quantities in thousands of tons ; prices in dinars per ton)

	2004			2005			Variations	
	Unit price	Quantity	Value in MTD ¹	Unit price	Quantity	Value in MTD ¹	Unit price	Impact in MTD
Exports			2,962.4			3,523.2		835.6
Olive oil	3,352	211.2	708.0	4,357	109.4	476.7	1005	109.9
Seafood	10,079	15.2	153.2	9,825	20.6	202.4	-254	-5.2
Dates	2,601	40.4	105.1	2,602	50.2	130.6	1	0.1
Cereal flours	440	14.1	6.2	393	74.3	29.2	-47	-3.5
Crude oil	334	2,797.8	935.5	497	2,848.1	1,416.2	163	464.2
Refined oil products	285	756.2	215.5	464	734.5	341.1	179	131.5
Lime phosphate	37	661.2	24.6	45	758.9	34.5	8	6.1
Triple superphosphate	212	873.5	185.3	245	837.6	205.0	33	27.6
DAP	287	1,219.1	349.5	331	992.8	328.6	44	43.7
Phosphoric acid	205	1,103.0	225.6	252	1120.9	282.9	47	52.7
Cement	55	978.2	53.9	62	1218.7	76.0	7	8.5
Imports			4,668.9			5,540.0		978.6
Dairy milk	1,664	31.8	52.9	2,882	15.3	44.1	1,218	18.6
Meat	3,444	9.9	34.1	4,181	8.3	34.7	737	6.1
Hard wheat	263	89.4	23.5	226	163.4	36.9	-37	-6.0
Soft wheat	228	954.1	217.6	198	965.6	191.0	-30	-29.0
Corn	208	723.3	150.2	179	661.5	118.4	-29	-19.2
Barley	156	205.3	32.0	201	641.1	128.6	45	22.4
Coffee	1,252	13.9	17.4	1,547	9.5	14.7	295	2.8
Tea	1,500	9.6	14.4	1,876	9.7	18.2	376	3.6
Sugar	270	368.2	99.4	374	320.2	119.7	104	33.3
Vegetable oil	812	256.3	208.1	810	302.4	244.9	-2	-0.6
Crude oil	357	1,105.0	394.8	517	1,084.9	561.3	160	173.6
LPG ²	486	328.9	159.7	602	404.0	243.4	116	46.9
Fuel oil ²	200	759.8	151.6	316	707.4	223.7	116	82.1
Gas oil ²	457	1,342.3	613.2	677	1,221.5	827.2	220	268.7
Kerosene ²	512	217.5	111.3	773	206.4	159.5	261	53.9
Other oil products	411	230.2	94.7	450	260.0	117.1	39	10.1
Natural gas	186	673.0	125.5	275	478.7	131.5	89	42.6
Non-refined sulphur	86	1,766.5	151.2	104	1,724.2	179.0	18	31.0
Ammonia	321	340.8	109.3	341	321.5	109.7	20	6.4
Wood & worked products	511	338.1	172.8	541	360.6	195.2	30	10.8
Bulk cotton	1,886	22.8	43.0	1542	21.6	33.3	-344	-7.4
Paper pulp	671	73.2	49.1	725	73.8	53.5	54	4.0
Natural rubber	1,986	14.3	28.4	2,250	13.2	29.7	264	3.5
Raw tobacco	3,300	8.0	26.4	3,645	9.3	33.9	345	3.2
Plastic raw materials	1,548	228.8	354.2	1,816	224.4	407.4	268	60.1
Plastic worked products	5,648	60.0	338.9	6,218	65.7	408.5	570	37.4
Cast iron, iron & steel	561	1,186.3	665.1	658	886.6	583.0	97	86.0
Copper & worked products	4,167	33.6	140.0	4,981	37.2	185.3	814	30.3
Aluminium & worked products	4,395	20.5	90.1	4,635	23.0	106.6	240	5.5
Overall effect								-151.5

Sources : National Statistics Institute, STIR and BCT

¹ Figures are rounded off and comply with the data in the section pertaining to foreign trade.

² Imports by STIR.

**DEVELOPMENT OF TUNISIA'S
ECONOMIC ACTIVITY**

GLOBAL TRENDS IN ECONOMIC ACTIVITY

Conditions were particularly difficult throughout the world in 2005, due notably to soaring oil prices, slower economic growth in most of the industrialised countries and in world trade in goods and services, growing inflationary pressure, fluctuating capital markets and foreign exchange markets, a worsening of financial imbalances in a number of countries, and greater competition in the wake of dismantling of the multifibre agreements in January 2005. It was in this context that the Tunisian economy, thanks to diversification, was able to post results that were for the most part positive.

Growth in gross domestic product rose by 4.2% in real terms in 2005, compared to 6% the year before and 5.6% in 2003. The many reforms undertaken in various areas of the economy, boosted by various measures and actions intended to limit the impact of negative external influences, helped to secure the foundations of the economy and to sustain the pace of economic activity. The growth rate would have been even higher if there had not been a 5% drop in added value in agriculture and fishing, down from 10.1% growth in 2004. This decrease involved in particular cereal and olive oil production, down from 23.5 million to 21 million quintals and from 280,000 to 130,000 tons respectively.

Excluding agriculture and fishing, economic growth was up slightly, from 5.5% to 5.6%. This increase was due mainly to sustained growth in market services (8.9% vs. 8.1%), especially communications (24% vs. 20.5%), despite somewhat slower growth in tourism (7.5% vs. 8.2%), with certain parameters attaining record levels and transport (6.5% vs. 7%). There was sustained growth in energy (4.7% vs. 3.6%), influenced mainly by enhanced activity in electrical industries. Manufacturing industries suffered slower growth (1.9% vs. 5% in 2004), in the wake of negative growth for agrofood industries (-0.6% vs. 12.4%) and the textile-clothing/leather-footwear sector (-2.5% vs. -0.4%). This drop was due mainly to lower production of oil olive (for the first sector) and the impact of tough international competition (for the second). Mechanical/electrical industries continued to grow by 8% for the second straight year. Growth was up in miscellaneous industries (6.5%) and in chemical industries (3.5%), compared to 5.6% and 3% respectively the year before. Building materials/ceramics/glass posted a slower growth rate of 2% compared to 6% in 2004.

Gross fixed capital formation (GFCF) was up by 6.3% in 2005 vs. 5% the year before, amounting to 8,410 MTD. In 2005 the private sector's share in GFCF came in at 56.3% (vs. 55.4% in 2004), in line with efforts to draw down the public sector's role in this area and boost the private sector's role in investment, production and job creation. The investment rate, however, remained unchanged at 22.6% of GDP for the second straight year.

Foreign direct investment (FDI) was up 27.6% to about 1,016 MTD, 145.5 MTD of which was for privatisation of the Bank of the South (97 MTD) and the Tuniso-

Algerian White Cement Company «SOTACIB» (48.5 MTD). As in the past, the major portion of FDI went to the energy sector and manufacturing industries.

National savings experienced slower growth, up just 2.2% vs. 9.5% in 2004, amounting to 7,968 MTD. Thus the savings rate, calculated on the basis of gross national available income, fell from 22% in 2004 to 21.3% in 2005. Overall mobilised savings covered 94.7% of needs for financing investments (vs. 98.5% in 2004), with the remainder funded from external resources.

The job market continued to provide a higher number of jobs: 76,500 in fishing and non agricultural activities compared to 74,400 in 2004. The coverage rate for additional demand (estimated at 81,000) thus increased, reaching more than 94% vs. 91.5% a year earlier. Despite the higher cost of world oil prices and its impact on production costs, price hikes remained under control in 2005. The inflation rate came in at 2% vs. 3.6% the year before, thanks to more ample supply of food products, stable prices for subsidised products, and the pursuit of appropriate monetary policy. Inflation gap with European partner countries went down in favour of Tunisia, meaning an improvement in competitiveness prices of national products.

In foreign trade, growth rates in 2005 came in at 12.9% for exports (down from 16.6% the year before) and 7.2% for imported goods (down from 13.7%). This meant a 411 MTD (10.5%) narrowing of the trade deficit and a 4.1 percentage point improvement in rate of coverage, to 79.6%.

Growth in exports was especially strong in mechanical/electrical industries, miscellaneous industries, phosphates and by-products, and energy, while export of textile/clothing goods more or less stagnated. The highest level of imports involved mainly energy, raw materials and semi-finished products.

Tourism earnings and worker remittances were up by 13% and 1.3% respectively in 2005, contributing to a lowering of the current deficit, which fell from 686 MTD (2% of GDP) to 393 MTD (1.1%). But net inflow of capital fell by 290 MTD (15%) in 2005, to 1,640 MTD. Still, this was enough to cover the current deficit and generate a surplus of 1,216 MTD in the general balance of payments. This compares to 1,213 MTD in 2004.

Thus net assets in foreign currency continued to grow significantly, to reach 5,872 MTD at the end of 2005, the equivalent of 124 days of imports, vs. 4,733 MTD and 107 days a year earlier. This positive trend in external payments took place along with control of the parameters of external debt. In effect, the rate of indebtedness remained virtually unchanged at 54.6% of GNAI (vs. 54.3% in 2004), while the ratio of debt service fell from 14.1% of current income in 2004 to 12.1% in 2005.

As for monetary and financial factors, the M3 aggregate rose in 2005 by 11%, compared to 10.3% the year before. Along with faster growth in money supply and slower growth in nominal GDP (6.2% vs. 8.8% in 2004), this meant an economy liquidity rate that increased by 1.9 of a percentage point to about 61%.

The counterparts of financial system resources were marked in particular by consolidation of net foreign assets, which rose by 986 MTD in 2005, up from 848 MTD a year earlier. Net claims on the State also increased, although at a slower pace than the previous year: 341 MTD vs. 536 MTD. Financing of the economy grew by 6.3% (vs. 5.3% in 2004), amounting to 24,538 MTD.

In the area of public finances, tax revenue rose by 9.2% in 2005 to 7,917 MTD, corresponding to a tax burden of 21.3% vs. 20.7% the year before. Inversely, non tax revenue fell by 6.2%, to 1,374 MTD, in the wake of lower income from State holdings in public enterprises : 311 MTD vs. 508 MTD in 2004.

Expenditure maintained almost the same level as the previous year : 13,025 MTD, 50.3% of which went for operating costs in the Administration, which grew by 10.9% from 2004 to 2005. Equipment and loan granting expenditure increased slightly to 2,637 MTD or 20.2% of the total State budget. These trends meant that the budget deficit (excluding repayment of debt principal that fell from about 3,487 MTD to 2,771 MTD) reached 963 MTD (2.6% of nominal GDP) vs. 800 MTD (2.3%) in 2004.

TRENDS IN TUNISIA'S MAIN ECONOMIC INDICATORS

(In MTD unless otherwise indicated)

Description	2002	2003	2004	2005	Variation in %	
					2004/03	2005/04
Accounts of the Nation						
-GDP (in constant 1990 prices)	18,330	19,349	20,517	21,384	6.0	4.2
*GDP exclusive of agriculture & fishing	16,339	16,930	17,853	18,853	5.5	5.6
*Added value in agriculture & fishing	1,991	2,419	2,664	2,531	10.1	-5.0
-GDP (in current prices)	29,924	32,202	35,035	37,202	8.8	6.2
-GDP deflator (1990=100)	163.3	166.4	170.8	174.0	2.6	1.9
-GNP per capita (in dinars)	2,921	3,122	3,368	3,530	7.9	4.8
-Gross national available income (GNAI)	30,121	32,489	35,399	37,458	9.0	5.8
-Total national consumption	23,520	25,366	27,600	29,490	8.8	6.8
*Public consumption	4,748	5,057	5,405	5,772	6.9	6.8
*Private consumption	18,772	20,309	22,195	23,718	9.3	6.9
-Av.propensity to consume (consump./GNAI) in % ¹	78.1	78.1	78.0	78.7	-0.1	0.7
-Gross national savings	6,600	7,123	7,799	7,968	9.5	2.2
-National savings rate (in % of GNAI) ¹	21.9	21.9	22.0	21.3	0.1	-0.7
-Gross fixed capital formation (GFCF)	7,607	7,536	7,914	8,410	5.0	6.3
*Public sector	3,317	3,180	3,530	3,675	11.0	4.1
*Private sector	4,290	4,356	4,384	4,735	0.6	8.0
-Investment rate (in % of GDP) ¹	25.4	23.4	22.6	22.6	-0.8	0.0
Prices						
-Industrial sale price index (base 100 in 1990)	148.2	151.8	157.5	163.3	3.8	3.7
-Consumer price index (base 100 in 2000)	104.8	107.6	111.5	113.8	3.6	2.0
. Foodstuffs	106.1	109.7	115.1	115.2	5.0	0.1
. Other than agrofood products	104.0	106.4	109.5	112.8	2.9	3.0
Job market						
-Jobs created (in thousand jobs) ²	65.0	67.4	74.4	76.5	10.4	2.8
-Coverage rate of additional demand (in %) ¹	79.4	81.3	91.5	94.4	10.2	2.9
-Unemployment rate in % ¹	15.3	14.5	14.2	14.2	-0.3	0.0
External payments						
-Rate of coverage (exports/imports in %) ¹	72.2	73.7	75.5	79.6	1.8	4.1
-Balance of trade deficit (FOB/CIF)	3,762	3,696	3,905	3,494	5.7	-10.5
-Tourism earnings	2,021	1,903	2,290	2,587	20.3	13.0
-Workers' remittances	1,522	1,611	1,783	1,807	10.7	1.3
- Current deficit ³	1,060	941	686	393	-255	-293
. In % of GDP ¹	3.5	2.9	2.0	1.1	-0.9	-0.9
-Net inflows of capital ³	1,291	1,467	1,930	1,640	463	-290
- Overall BOP balance ³	+200	+496	+1,213	+1,216	717	3
-External debt service ratio (in %) ¹	14.9	13.1	14.1	12.1	1.0	-2.0
-Rate of external indebtedness (in % of GNAI) ¹	53.5	53.4	54.3	54.6	0.9	0.3
Public finances						
-Tax ratio (in % of GDP) ¹	21.5	20.6	20.7	21.3	0.1	0.6
-Equipment and loan granting expenditure	2,505.1	2,596.1	2,616.4	2,636.7	0.8	0.8
-Budget deficit in % of GDP ^{1/4}	2.5	3.2	2.3	2.6	-0.9	0.3
-Total State indebtedness/GDP (in %) ¹	61.0	60.0	58.6	58.3	-1.4	-0.3
Money and its counterparts ⁵						
- M3 Money supply	18,302	19,457	21,466	23,821	10.3	11.0
. Liquidity rate of the economy (M3/GDP) in % ¹	59.1	58.9	58.8	60.7	-0.1	1.9
-Net foreign assets ³	1,909	2,279	3,127	4,113	848	986
of which : .Net assets in foreign currency ³	3,011	3,503	4,733	5,872	1,230	1,139
. In day of imports ⁶	80	90	107	124	17	17
-Net claims on the State ³	3,391	3,289	3,825	4,166	536	341
-Financing of the economy	20,954	21,911	23,083	24,538	5.3	6.3

Source : Central Bank of Tunisia, Ministry of Development & International Cooperation & Ministry of Finances & INS

1) Variations in percentage points.

2) In fishing and non-agricultural activities.

3) Variations in MTD.

4) Debt amortization excluded and privatisation proceeds included.

5) Financial system.

6) Variation expressed in days.

I. AGRICULTURAL ACTIVITY

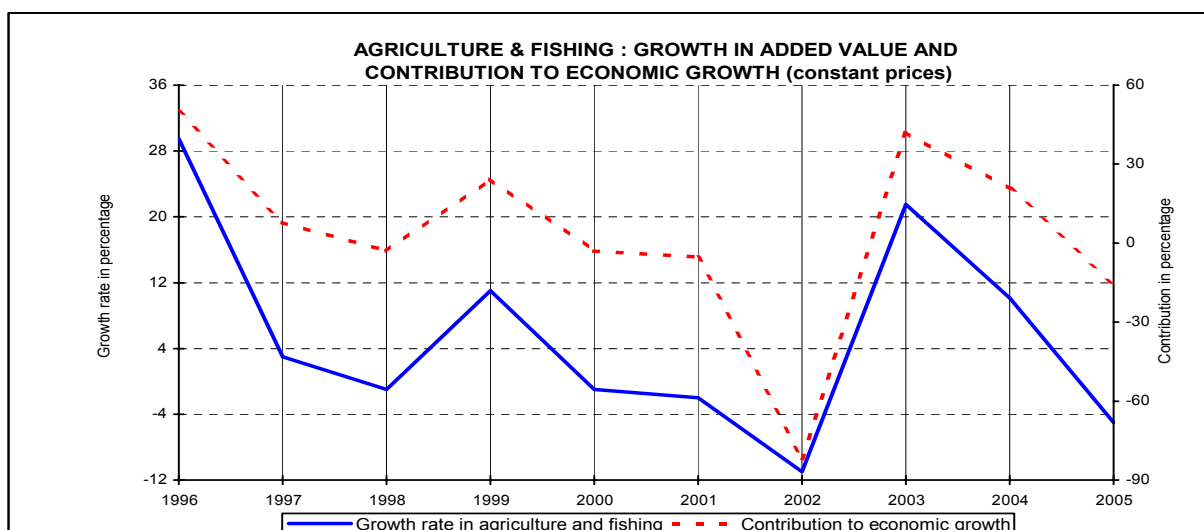
Agriculture and fishing continued to be of particular interest to the authorities, given the sector's role in economic growth, employment, and equilibrium in the balance of food, as well as its significant contribution to keeping inflation down. Thanks to the panoply of measures taken in the past involving mobilisation of hydraulic resources and more rational use thereof, extension of irrigated land, promotion of organic farming and of deep-water fishing, more intensive studies and scientific research and dissemination of results thereof, the sector has managed to make steady progress as far as most products are concerned. This is reflected in the significant level of export flows for products such as olive oil, dates, concentrated tomato paste and seafood, as well as self sufficiency in basic commodities such as milk since the end of the past decade, compared to domestic coverage of barely 50% of demand at the beginning of the '90s.

Aside from its positive influence on the rest of the economy (notably agrofood industries, transport and commerce), growth in agriculture/fishing has contributed to better living conditions in rural areas and to enhanced rural population stability. An in-depth evaluation of new-generation projects under the integrated rural development programme (PDRI) in 2005 pointed out the sector's essential role in promoting the regions of the country's hinterlands by increasing production yields, consolidating jobs and improving living conditions for the population.

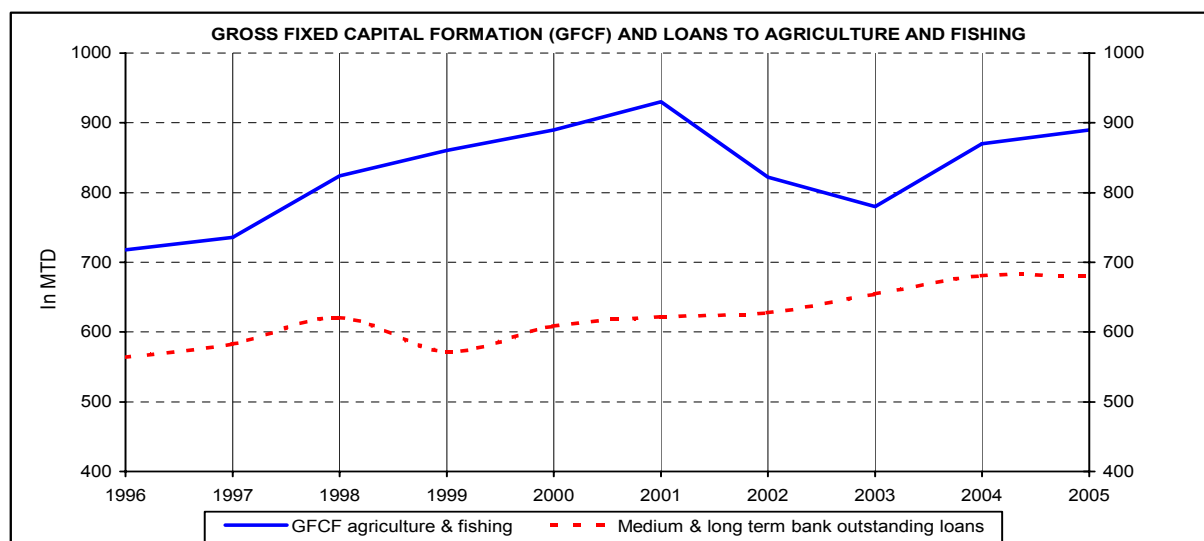
The sector's overall climate continued to improve, with greater adaptation of incentives in line with the specificities of each agricultural activity, with relevant professional and administrative organisations being called on to play a greater role in supporting farmers and fishermen and in promotional efforts for marketing of their products. Of particular note is the revision of the statutes of various structures to improve their services and help operators to take greater advantage of them in order to meet the challenge of tougher competition.

In any case, performance by agriculture and fishing in 2005 was in line with targets set by the current development plan. This was made possible with the help of the programme to upgrade and modernise the sector, which aims at making the qualitative leap needed to boost competitiveness and prepare the sector for liberalisation of agricultural products on an international scale as per the association agreement with the European Union and negotiations within the World Trade Organisation (WTO). But the impact of adverse weather on cereal harvests and of cyclical patterns for a number of agricultural products like olive oil meant that 2005 was a year in which added value in the sector dropped by 5% in real terms, compared to an increase of 10.1% in 2004. Thus the sector's contribution to economic growth became a negative 15.4% (-0.6 of a percentage point) vs. about 21% (1.3 percentage points) the year before.

Gross fixed capital formation increased by 2.3% in 2005 vs. 11.5% the year before, to 890 MTD, more than 53% by the private sector, mainly for irrigation, livestock, tree farming and acquisition of agricultural material.



As for employment, the active agricultural population came in at 542,000 in 2005, 1.3% less than in 2004, made up of farmers (54%), domestic help (36%), and wage earners (10%). Seasonal work provided 21.3 million workdays, 38% of which went to female workers. Concerning trade abroad, the balance of food yielded a surplus for the second straight year: 132.3 MTD vs. 190.1 MTD in 2004, despite higher imports of cereals, especially barley and hard wheat and the drop in exports of olive oil due to a drop in production. The rate of coverage of imports by exports thus dipped from 118.3% to 112.1%.



A. ANNUAL CROPS

All annual crops except tomatoes and onions registered lower production for the 2004-2005 agricultural year. This involved in particular cereals, pulses, melons and watermelons.

1. LARGE SCALE FARMING

a. Cereals

1,434,000 hectares were planted in cereals over the 2004-2005 campaign, down from 1,643,000 the previous season, corresponding to 92% of programmed plantings. The drop involved mainly barley and triticale (473,000 hectares vs. 608,000 for the 2003-2004 season) and, to a lesser degree, hard wheat (813,000 hectares vs. 881,000).

CEREALS : AREAS SOWED WITH CEREALS, PRODUCTION AND YIELD

Season	Areas sowed with cereals (in thousands of hectares)				Production (in millions of quintals)				Yields (in quintals per ha)		
	Hard wheat	Soft wheat	Barley ¹	Total	Hard wheat	Soft wheat	Barley ¹	Total	Hard wheat	Soft wheat	Barley ¹
1998-1999	850	148	520	1,518	11.4	2.5	4.2	18.1	13.4	16.9	8.1
1999-2000	857	134	597	1,588	7.1	1.4	2.4	10.9	8.3	10.4	4.0
2000-2001	705	119	437	1,261	9.4	1.8	2.3	13.5	13.3	15.1	5.3
2001-2002	639	117	404	1,160	3.7	0.5	0.9	5.1	5.8	4.3	2.2
2002-2003	794	133	592	1,519	16.4	3.4	9.2	29.0	20.7	25.6	15.5
2003-2004	881	154	608	1,643	14.0	3.3	6.2	23.5	15.9	21.4	10.2
2004-2005	813	148	473	1,434	12.9	3.4	4.7	21.0	15.9	23.0	9.9

Source : Ministry of Agriculture, Environment and Hydraulic Resources

With favourable weather, especially in northern Tunisia, the selected seeds made available to farmers were used at the optimal time: 222,000 quintals vs. 184,000 last season. Furthermore, in the framework of more intensive farming in new irrigated zones, farmers benefited in 2004-2005 from a 50% reduction in preferential fees for irrigation water managed by the regional agricultural development commissariats (CRDA). Thus there were 78,000 hectares of irrigated land, very near the previous year's figure of 5.4% of overall land. Yields per hectare improved slightly in the north, to an average of 20.7 quintals per hectare, while in the south they remained a weak 6 quintals per hectare.

Total cereal production came in at 21 million quintals for 2005: 12.9 million quintals of hard wheat, 3.4 million of soft wheat and 4.7 million of barley and triticale, compared to an overall harvest of 23.5 million quintals the year before. Aside from the decrease in area, this drop was due to falling production in central and southern Tunisia because of scarce rainfall. There were 8.2 million quintals of harvested cereals vs. 9 million over the previous season, a collection rate of 39% of total production.

TRENDS IN CEREAL PRODUCTION PRICES

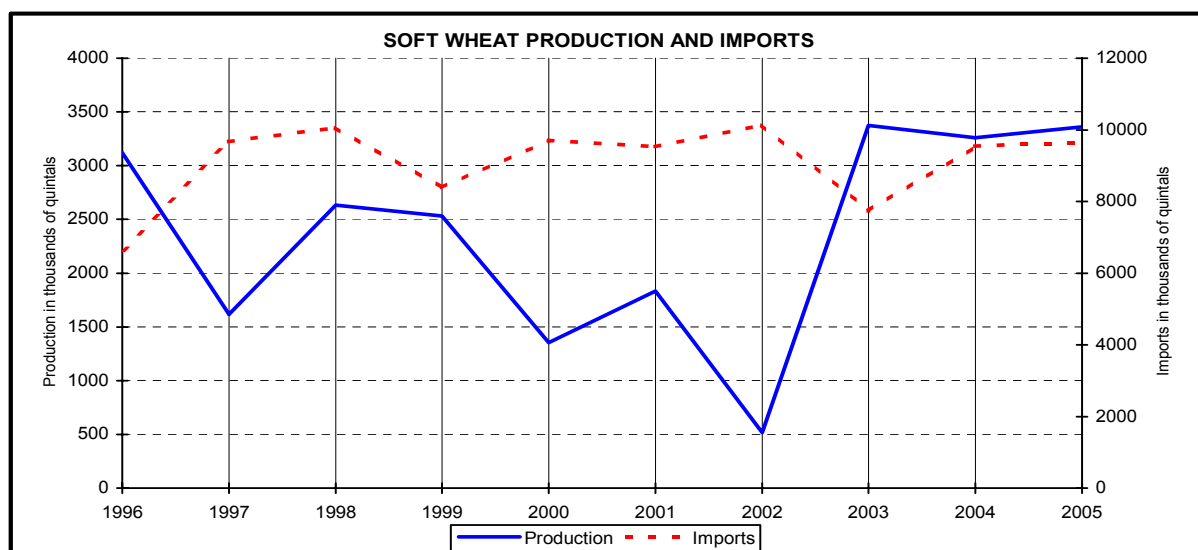
(In dinars per quintal)

	1998	1999	2000	2001	2002	2003	2004	2005
Hard wheat	28.5	28.5	29.5	29.5	29.5	29.5	29.5	30.5
Soft wheat	25	25	26	26	26	26	26	27
Barley	17	17	17	17	17	17	17	18
Triticale	17	17	17	17	17	17	17	18

Source : Ministry of Agriculture, Environment and Hydraulic Resources

After four years of stable prices, production prices went up by 1 dinar per quintal for the 2005 harvest (all varieties) to cover higher production costs, to 30.5 dinars a quintal for hard wheat, 27 dinars for soft wheat, and 18 dinars for barley and triticale.

¹ Including triticale.



Because of the drop in production (especially for barley) and higher import prices (up from \$136.76 to \$154.30 per ton), total imports of cereals increased in 2005 both in terms of quantity and value, coming in at 2,452,500 tons worth 484.4 MTD (+23.3% and +12.8% respectively compared to 2004). The increase involved in particular purchases of barley, rising to 641,000 tons worth 128.6 MTD vs. 205,300 tons worth 32 MTD in 2004.

TRENDS IN AVERAGE IMPORT PRICES FOR CEREALS

(In dollars per ton)

	2002	2003	2004	2005	Variations in %	
					2004/2003	2005/2004
Hard wheat	182.41	202.02	182.99	194.50		
Soft wheat	119.25	139.42	182.99	148.33	31.3	-18.9
Barley	107.33	112.64	136.76	154.30	21.4	12.8

Source : Cereals Board

b. Pulses

There were 69,000 hectares of pulse crops for the 2004-2005 season, compared to 70,200 the year before, a drop of about 2% mostly because of adverse weather in central and southern Tunisia. 53,000 hectares were planted in winter pulses and 16,000 in spring pulses. The average yield per hectare was down slightly and overall production dropped by 3% from the previous year's level, to 63,400 tons, of which winter pulses accounted for 50,800 tons.

2. GARDEN CROPS

The 2004-2005 season for garden crops saw increased production of tomatoes and onions but decreased production for other crops. Nonetheless, domestic market supply performed well, thanks to use of buffer stocks for a number of products along with supplementary imports. It should be stressed that industries that process agricultural products continued to suffer from the structural constraints of irregular production and sales abroad.

Tomatoes set a new record high for production in 2004-2005: 1,140,000 tons, an increase of almost 2% over the previous year's figure. This development was due in

particular to use of new farming techniques on a larger scale, notably drop irrigation. It was also due to the greater acreage of land planted in seasonal tomatoes, up from 18,900 to 19,200 hectares, 17,800 using drop irrigation. Processing of 713,000 tons of fresh tomatoes started in early July 2005, yielding 125,000 tons of concentrated tomato paste, about the same level as the year before. With 19,100 tons of carry-over stock, this meant that 144,000 tons were available for sale. 18,600 tons worth 20.2 MTD were exported, mainly to Libya, vs. 13,800 tons worth 17.5 MTD in 2004. Fresh tomatoes were sold to canning factories at an unchanged price of 95 millimes per kilogramme, by mutual agreement of farmers and industrialists.

GARDEN CROPS

(In thousands of tons)

	1998	1999	2000	2001	2002	2003	2004	2005
Tomatoes	663	930	950	750	810	880	1,119	1,140
Peppers	189	185	190	214	242	250	256	251
Melons & watermelons	300	350	370	380	411	395	515	451
Potatoes	295	320	290	330	310	310	375	315
Onions	270	241	272	259	257	241	310	335
Artichokes	23	19	17	18	16	13	12	12

Source : Interprofessional Vegetable Group and Ministry of Agriculture, Environment and Hydraulic Resources

Production of hot peppers in 2004-2005 came in at 251,000 tons, 5000 (2%) less despite the increase in land using drop irrigation and higher yields. Processing of hot peppers began the last week of August 2005. With a carry-over stock of 3500 tons of hot pepper paste (*harissa*), total available stocks of this product came in at 18,000 tons vs. 18,700 tons a year earlier.

Melon and watermelon crops recorded a slightly lower level of production, down from 515,000 to 451,000 tons. Exported quantities on the other hand more than doubled from 2500 to 5250 tons. Despite the approximately 4% increase in cultivated land to 25,100 hectares, due in particular to the larger area planted in late-season crops in new irrigated zones, potato production fell by 16% during the 2004-2005 season to 315,000 tons vs. the previous season's record 375,000 production. This drop involved mainly production of seasonal potatoes (-29%), with late season production up by 10%. Yields per hectare were down about 20% to 12.5 tonnes per hectare on average.

To meet consumer needs during gap periods, the interprofessional vegetables group (GIL) built up buffer stocks amounting to 24,300 tons of seasonal potatoes, compared to 26,600 tons programmed. Potato exports amounted to 3300 tons vs. 6800 in 2004.

Onion production was up about 8% in 2004-2005, to 335,000 tons. 14,000 hectares were devoted to onions, so that yields rose in proportion to increased production, to 23.9 tons per hectare on average. The artichoke harvest remained at the same level of 12,000 tons despite a 4% increase in planted fields, bringing the total to almost 2100 hectares.

B. TREE FARMING

With good weather prevailing, tree crop production for 2004-2005 rose for most products, with the exception of olive oil.

1. OLIVES FOR OIL

The 2004-2005 season produced about 650,000 tons of olives for oil, yielding 130,000 tons of oil. This compares to 1.4 million and 280,000 tons the year before, well below the annual average of 143,000 for the decade 1995-2004. This was due to natural rotation patterns proper to the olive tree, occurring in particular after a bumper harvest.

OLIVE OIL PRODUCTION AND EXPORTS

(In thousands of tons)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Production	180	225	115	30	72	280	130	220
Exports	172	114	95	22	39	209	98	160 ¹

Source : National Oil Board (ONH)

Thus the quantity of oil collected by the National Oil Board (ONH) fell from 53,600 to just 16,300 tons. Selling prices set by the Board came in at 2.2 dinars per kilogramme for premium oil at 0.3 degrees of acidity and 1.850 dinar per kilogramme for lighting oil at 4 degrees of acidity. This compares to 2.1 dinars and 1.750 dinars respectively for 2003-2004. But these prices were not in fact applied, given the major potential for export. Thus the National Oil Board continued to buy olive oil at the higher market prices determined by supply and demand.

TRENDS IN ONH INTERVENTION'S PRICES

(In dinars per kilogramme)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006 ²
Minimum advance	1.005	2.000	1.450	1.450	1.650	1.750	1.850	..
Maximum advance (Extra high quality oil)	1.300	2.300	1.700	1.700	1.950	2.100	2.200	..

Source : National Oil Board (ONH)

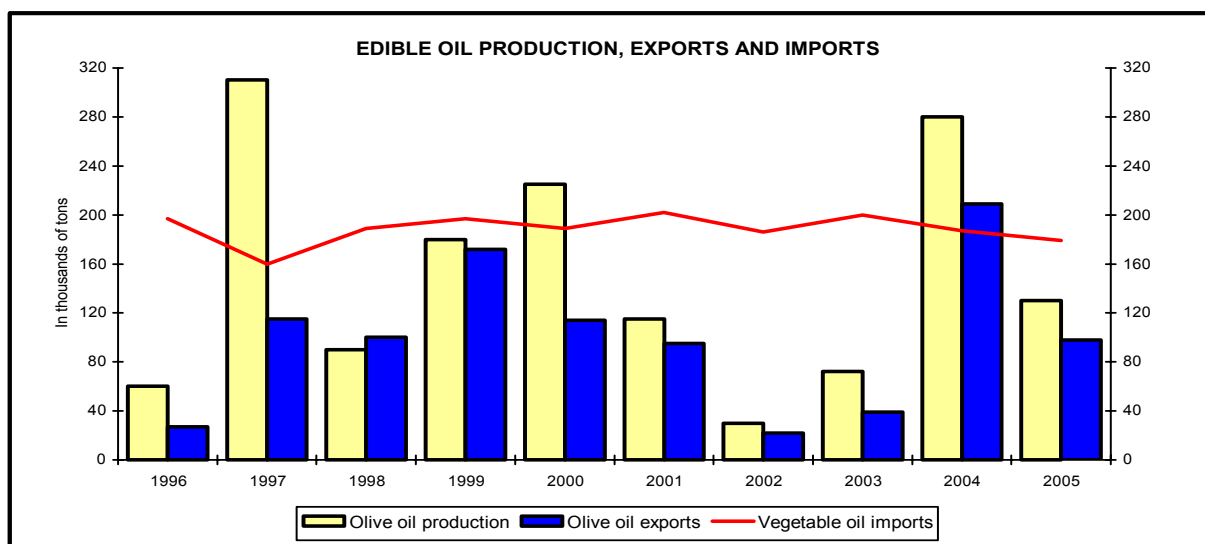
In this context, oil exports involving the 2004-2005 harvest came in at about 98,000 tons, with almost 80,000 handled by private operators. Private operators were authorised on an exceptional basis to export olive oil in bulk, above and beyond the organic oil and that bottled under a Tunisian label, under the quota established by the European Union for Tunisia.

It is significant that only 3% of Tunisian olive oil exports is in the form of processed olive oil, compared to 45% for Spain and 65% for Italy, countries that are in direct competition with Tunisia. In effect, exports are largely in bulk, and to a limited number of markets. This has held back the branch's competitiveness and pointed out the need for a strategy to boost exports. A fund to promote olive oil has been set up under the 2006 finance law to help producers get a better handle on production, enhance integration in marketing channels abroad under a Tunisian label, and finance promotional activities for this product. The fund will be financed by a tax on bulk exports of olive oil.

The 2005-2006 season produced about 220,000 tons of olive oil; 160,000 tons of exports are targeted.

¹ Projections.

² Taking into account the high level of prices on the domestic market, the National Oil Board has not determined prices for 2005-2006 season.



2. CITRUS FRUITS

Production of citrus fruit over the 2004-2005 season increased by 16.3% compared to the previous season, amounting to 243,000 tons. This included 101,000 tons of Maltese oranges. There were increases for all varieties but especially tangerines, with production up by 42.5% to 23,100 tons. Exports, made up largely of Maltese oranges, increased by 2.7% to 19,100 tons, less than the targeted volume of 25,000 tons. France continued to be the destination for virtually the entire volume.

CITRUS FRUIT PRODUCTION AND EXPORTS

(In thousands of tons)

	998-1999	999-2000	!000-2001	!001-2002	!002-2003	!003-2004	!004-2005	!005-2006
Production	211	226	240	236	225	209	243	262
Exports	21.2	27	24.8	22.0	17.2	18.6	19.1	22.0 ¹

Source : Interprofessional Citrus Fruits and Fruits Group (GIAF)

The citrus harvest for 2005-2006 came in at about 262,000 tons, an increase of some 19,000 tons or 8%. Against an export target of 22,000 tons, 19,300 tons were sold between the start of the campaign and 14 May 2006.

3. DATES

The rains that watered groves in southern Tunisia were followed by alternating periods of heat and humidity as dates matured in September and October 2005, producing a higher quality harvest than the year before. But production was 7.4% lower, following the previous year's record high of 122,000 tons, coming in at 113,000 tons including 70,000 tons of deglet nour vs. 76,000 for 2004-2005.

DATE PRODUCTION AND EXPORTS

(In thousands of tons)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Production	103	103	104	105	115	111	122	113
of which :								
Deglet nour	69	65	70	65	72	68	76	70
Exports	29	25.7	36	38	42	40.2	53	40 ¹

Source : Interprofessional Dates Group (GID)

¹ Projections.

It is expected that there will be a drop in the volume of dates to be exported for the 2005-2006 season, which will hopefully be offset by better quality and thus higher selling prices.

4. GRAPES

Table grape production was up in 2005 to 80,000 tons vs. 75,000 in 2004. The harvest was of good quality, thanks to weather favourable to vineyards. Wine grape production fell from 52,000 to 47,000 tons. Consequently, wine production dipped from 375,000 to about 330,000 hectolitres. With a carry-over stock of 230,000 hectolitres as of end August 2005, the total of wines available for sale was 560,000 hectolitres vs. 575,000 the year before.

WINE PRODUCTION AND EXPORTS

(In thousands of hectolitres)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Production	352	469	411	321	271	243	375	330
Exports	80	87	137	73	170	94	125	52

Source : National Grape Board

5. OTHER FRUITS

Except for some products, most harvests of spring and summer fruits continued to grow at a steady pace, favoured by extension and renewal of plantings and dissemination of the results of scientific research, notably crop techniques and the introduction of new varieties. Dry shell almond production amounted to 43,000 tons in 2005, compared to 44,000 the year before. There were 138 tons of exports, about the same amount as in 2004, virtually all to France.

DRY-SHELL ALMOND PRODUCTION AND EXPORTS

(In thousands of tons)

	1998	1999	2000	2001	2002	2003	2004	2005
Production	55	58	60	30	18	36	44	43
Exports	0.5	0.3	0.2	0.4	0.1	0.2	0.1	0.1

Source : GIAF and Ministry of Agriculture, Environment and Hydraulic Resources

The apricot harvest was down from 27,000 to 26,000 tons, for the most part early varieties, marked by better quality and the size of fruit. Exports came in at 513 tons (vs. 287 tons in 2004) of which 343 tons (two thirds of total) went to France.

APRICOT PRODUCTION AND EXPORTS

(In thousands of tons)

	1998	1999	2000	2001	2002	2003	2004	2005
Production	27	31	30	25	25	26	27	26
Exports	0.4	0.4	0.2	0.1	0.1	0.2	0.3	0.5

Source : GIAF and Ministry of Agriculture, Environment and Hydraulic Resources

C. INDUSTRIAL CROPS

1. TOBACCO

Tobacco was planted on 2200 hectares in 2005, up from 2000 the year before. Production was thus up by almost 54% to 3000 tons, thanks mainly to higher yields per hectare. The major product was smoking tobacco (2800 tons or about 93% of the total). As usual, the deficit in production meant that 9300 tons of raw tobacco worth 33.9 MTD had to be imported in 2005, compared to 8000 tons worth 26.4 MTD in 2004.

2. SUGAR

After phasing out unprofitable sugar beet crops over the past few years, the only activity involving sugar in 2005 was production of white sugar by refining imported raw sugar. These imports were handled by the Tunisian Sugar Company (STS) in Beja, amounting to 115,600 tons, yielding some 111,000 tons of white sugar. This compares to 139,700 and 129,600 a year earlier.

3. ESPARTO GRASS

The gathering of esparto grass began in September 2005, yielding 32,000 tons of green esparto grass compared to 42,400 the year before. Processing took place at the national esparto grass cellulose and paper company (SNCPA) located in Kasserine, producing 11,000 tons of esparto grass pulp, the same amount as in 2004. But exports fell from 12,700 tons worth 21.9 MTD to 11,600 tons worth 19,200 and Tunisia continued to import paper and cardboard to meet demand on the domestic market.

D. LIVESTOCK FARMING

Livestock enjoyed recovery in 2005, thanks to favourable weather. Plentiful rain in northern Tunisia contributed to better groundcover on pastureland, leading to better yields and greater stockpiling of fodder crops. The sector also took advantage of incentives and of systematic vaccination campaigns to combat disease. After dropping for two years, the number of breed cattle increased in 2005 from 436,000 to 444,000 head, made up of 205,000 purebred cows and 239,000 head of local and mixed blood races.

LIVESTOCK FOR REPRODUCTION

(In thousands of heads)

	1998	1999	2000	2001	2002	2003	2004	2005
Cows	459	480	482	484	485	450	436	444
Sheep	3,943	3,962	4,053	4,110	3,990	3,924	3,963	4,044
Goats	733	782	829	829	798	801	809	810

Source : Ministry of Agriculture, Environment and Hydraulic Resources

Sheep able to reproduce also grew in numbers, to more than four million females, an increase of 2% compared to the previous year. On the other hand, the number of goats able to reproduce remained at about the same number of 810,000 head.

Milk production continued to be a strategic activity for the livestock sector, given its impact on the country's food security. A set of measures to encourage, guide and support livestock farmers boosted performance in the sector and production of fresh milk rose from 864 million litres in 2004 to 920 million in 2005. 517 million litres of fresh milk were collected for delivery to the dairy industry, up from 483 million a year earlier. This represented 56% of production.

Production of red meat was up from 115,100 tons in 2004 to 118,000 tons in 2005. This included 55,000 tons of beef, 53,000 tons of lamb and 9800 tons of goat meat.

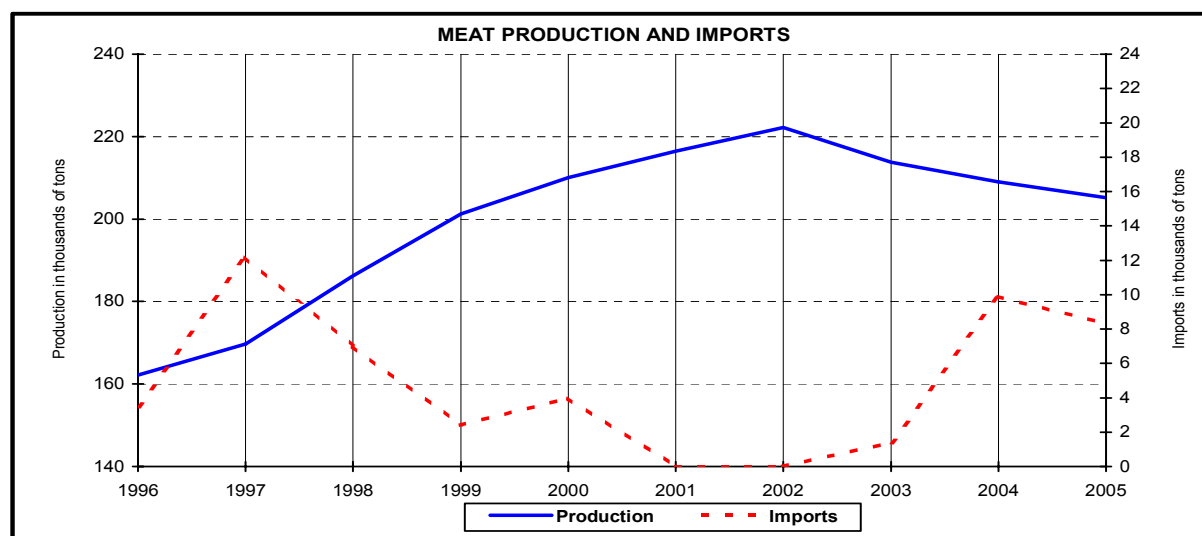
PRODUCTION OF RED MEAT AND MILK

(In thousands of tons)

	1999	2000	2001	2002	2003	2004	2005	Structure in %	
								2004	2005
Meat ¹	120.2	123.1	125.5	132.2	118.5	115.1	117.8	100.0	100.0
-beef	57.5	59.8	60.3	64.4	57.7	53.7	55.0	46.6	46.7
-lamb	52.9	54.1	55.9	58.3	51.4	52.0	53.0	45.2	45.0
-goat	9.8	9.2	9.3	9.5	9.4	9.4	9.8	8.2	8.3
Fresh milk	817	887	934	945	891	864	920		

Source : Ministry of Agriculture, Environment and Hydraulic Resources

The sector's current objective, aside from increased production to meet high consumer demand, is to improve the quality of products by means of an upgrading programme and restructuring of distribution channels. In this framework, a law was adopted to regulate livestock and related transport, marketing and genetic improvement of livestock.



There was steady supply of red meat to the domestic market in 2005. But in order to protect organised livestock operations against unlicensed, irregular slaughtering of animals and to meet demand for meat from both consumers and tourism, 8300 tons of meat worth 34.7 MTD had to be imported, compared to 9900 tons worth 34.1 MTD in 2004.

Poultry production encountered some problems in 2005 due to concern about cases of bird flu in certain areas of the world. Thus production was down 6.9% to 87.400 tons, due mainly to a drop in consumption at certain times as well as lower prices. But production of eggs was up some 5%, from 1344 million to 1413 million. This was enough to meet consumer demand and to reduce prices, down to an average of 80.5 millimes per egg vs. 85.8 millimes a year earlier.

POULTRY PRODUCTION

	1998	1999	2000	2001	2002	2003	2004	2005
Poultry meat (in 1000 tons)	74.2	81.0	87.0	91.0	90.0	95.3	93.9	87.4
Eggs (in millions)	1,407	1,523	1,476	1,434	1,487	1,390	1,344	1,413

Source : Ministry of Agriculture, Environment and Hydraulic Resources and GIPA

¹ Cleaned meat and offal.

E. FISHING

The fishing sector was closely monitored in 2005 to ensure conformity to the policy of restructuring and upgrading ports, modernisation of the fleet, improved yields (by strengthening measures to combat unregulated overfishing), rational use of port infrastructure and of the fishing fleet, and proper use of subsidised fuel. To safeguard national fish stocks against unlicensed fishing, a system to monitor boats by satellite has been set up and tested in a first phase on 20 units, which will expand to cover 1000 units over the next development plan.

As for results, overall fishing production (regardless of the kind of fishing) dropped by 2.1% in 2005, after increasing a strong 16.4% the year before, to 108,000 tons. There were however variations from one kind of fishing to another. Coastal fishing produced 26,800 tons (down from 27,400 in 2004), while lantern fishing was up by 3.4% to 48,600 tons. This increase was due to better yields thanks to new boats. Trawler fishing was down by 14.1%, from 29,000 to 24,900 tons.

Despite the increase in domestic demand, exports of fish, crustaceans and molluscs went up in 2005, both in terms of quantity and value, to 20,600 tons worth about 202 MTD, considerably higher than 2004's 15,200 ton and 153 MTD figures. Domestic prices rose accordingly. 12,500 tons of fish, mainly tuna, were processed, a drop of 5% compared to 2004.

FISHING PRODUCTION

(In thousands of tons)

	1999	2000	2001	2002	2003	2004	2005	Variations in %	
								2004/2003	2005/2004
Coastal fishing	26.6	26.0	26.1	27.0	26.2	27.4	26.8	4.6	-2.2
Lantern fishing	36.4	37.6	37.8	35.5	35.7	47.0	48.6	31.7	3.4
Trawling	25.0	24.7	26.2	26.5	27.8	29.0	24.9	4.3	-14.1
Miscellaneous	5.2	6.8	8.5	7.7	5.1	6.9	7.7	35.3	11.6
Total	93.2	95.1	98.6	96.7	94.8	110.3	108.0	16.4	-2.1

Source : General Department of Fishing and Aquaculture at the Ministry of Agriculture, Environment and Hydraulic Resources.

II. INDUSTRIAL ACTIVITY

Reforms moved ahead in 2005 to boost the competitive edge of Tunisian industry and increase its contribution to economic growth, exports and job creation. They targeted investment promotion in promising, innovative niches, strengthening of the sector's technological base, and participation of a greater number of small and medium size businesses in the upgrading programme.

A special three-year programme was launched in March to upgrade the textile/clothing sector, which will seek to strengthen structures and integration and thus help the sector to meet the challenge of tougher international competition through development of co contracting and design of final goods as well as promotion of partnership initiatives abroad.

A national campaign began in April 2005 to create and develop small and medium size businesses in the framework of the industrial modernisation programme (PMI). The campaign was based on the national programme to create companies, the national quality programme and the national coaching programme, the last two having been extended to the period 2005-2007.

3410 industrial companies had participated in the upgrading programme by the end of 2005, 2200 of which had plans approved by the steering committee (COPIL), giving a 95% rate for meeting Xth development plan objectives. The volume of approved investments rose to 3,375 MTD, 427 MTD (12.7%) of which were for intangible investments. Premiums for these investments came in at about 483 MTD, 14.3% in total approvals.

There were 267 upgrading files approved in 2005 for global investment of 501 MTD, compared to 303 files and 266 MTD in 2004. The average approved investment increased from 0.9 MTD in 2004 to 1.9 MTD in 2005, compared to 2 MTD prior to the Xth Plan. The upgrading programme for services to industry has involved 208 companies since it began in February 2000, with 85 plans approved for investments of almost 36 MTD and premiums worth about 10 MTD. Priority technological investments involved the study of 1705 files, including 1578 approved for an investment cost of 80 MTD and premiums of 36 MTD. The extension of this type of investment to all areas of technical supervision as well as simplification of procedures helped convince companies to increase technological investments, including intangible investments.

On another front, the energy sector was marked by ongoing efforts to conserve energy, setting up a national fund in 2005 to finance transactions to rationalise consumption and promote renewable energy. This fund is meant to finance action in the area of energy audit, instalment of diagnostic stations for vehicle motors, promotion of water heaters using solar energy, and development of the use of natural gas by industrialists and households.

But the industrial sector recorded slower growth in 2005: 2.5% in real terms vs. 4.7% in 2004. Activity in the energy sector grew, while mining activity decreased and

manufacturing industries grew at a slower pace. The sector's contribution to GDP in current prices grew slightly, from 28.2% to 28.6%.

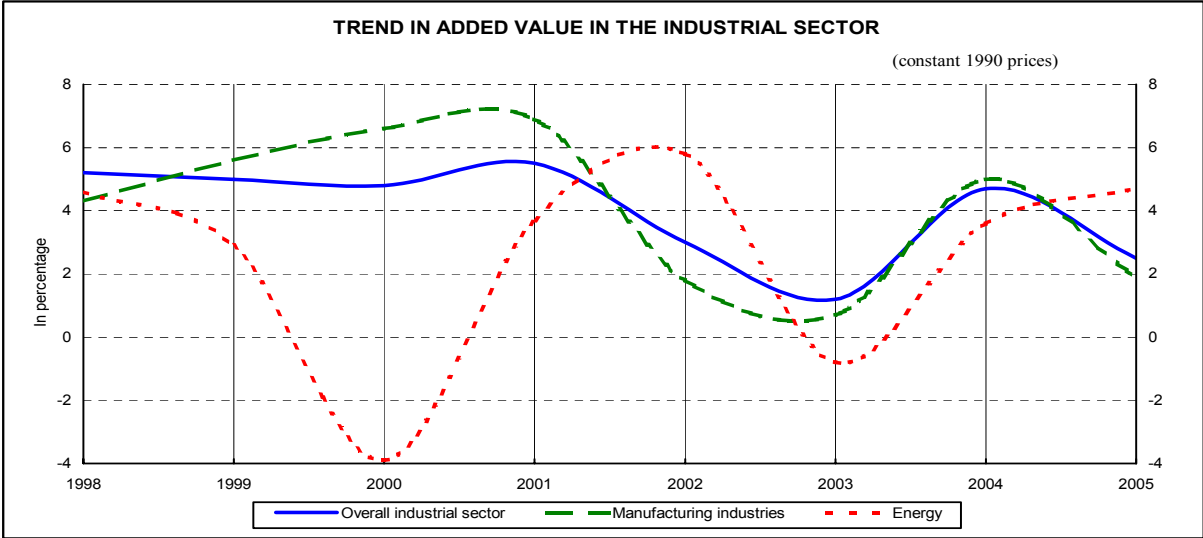
TREND IN ADDED VALUE IN THE INDUSTRIAL SECTOR, EXPRESSED IN REAL TERMS

(In %)

Description	2001	2002	2003	2004	2005
Mining	-1.6	-3.3	4.5	1.0	-3.7
Energy	3.7	5.8	-0.8	3.6	4.7
of which : Hydrocarbons	2.6	6.8	-3.8	3.3	4.1
Manufacturing industries	6.9	1.8	0.7	5.0	1.9
Building and civil engineering	3.7	5.1	5.2	5.1	3.0
Overall industrial sector	5.5	3.0	1.2	4.7	2.5

Source : Ministry of Development and International Cooperation

Slower growth in manufacturing industries was due mainly to a drop in the agrofood branch and ongoing decline for textiles/clothing, in contrast to sustained growth in mechanical/electrical, chemical and miscellaneous industries. In the field of non manufacturing industries, growth in real terms fell from 4.1% in 2004 to 3.4% in 2005, despite greater expansion for hydrocarbons and electricity.



Export of manufactured goods grew at a slower pace of 8.1% in 2005, down from 17.5% the year before, with a subsequent drop in their share in overall exports from 87.2% to 83.5%. This was due in particular to lower exports of olive oil (due to lower production) and the slight drop in textile/clothing exports (due to the impact of dismantling of the multifibre agreements in January 2005).

Investments were up 6.6% to 2,145 MTD (25.5%) of overall GFCF. The highest export growth rates were in mining (21.2%), construction and civil engineering (13.3%) and energy (8.1%), while those in manufacturing industries rose by just 3.7% after falling by 2.7% a year earlier. But the investment rate in the industrial sector dropped slightly, from 20.4% to 20.1%. There were 24,500 new jobs in industry in 2005, 18,500 in manufacturing industries, compared to 24,300 and 18,600 respectively the year before, 32% of total new jobs in the economy excluding agriculture.

SECTOR-RELATED SHARE OF GDP IN CURRENT PRICES

(In %)

Description	2001	2002	2003	2004	2005
Non manufacturing industries	10.4	11.0	10.4	10.5	11.1
Mining	0.8	0.8	0.7	0.6	0.6
Energy	4.8	5.0	4.3	4.6	5.3
-Hydrocarbons	3.4	3.4	2.9	3.1	4.0
-Electricity	1.0	1.1	0.9	1.1	0.9
-Water	0.4	0.5	0.5	0.4	0.4
Building & civil engineering	4.8	5.2	5.4	5.3	5.2
Manufacturing industries	18.5	18.6	17.9	17.7	17.5
Agrofood industries	3.1	3.1	3.1	3.3	3.2
Manufacturing industries other than agrofood	15.4	15.5	14.8	14.4	14.3
-Building materials, ceramics and glass	1.7	1.8	1.7	1.7	1.7
-Mechanical and electrical industries	2.7	2.8	2.9	3.0	3.2
-Chemical industries	1.9	2.0	1.9	1.9	1.9
-Textiles, leather & footwear	6.7	6.6	6.1	5.6	5.2
-Miscellaneous industries	2.4	2.3	2.2	2.2	2.3
Overall industrial sector	28.9	29.6	28.3	28.2	28.6

Source : Ministry of Development and International Cooperation

A. MINING ACTIVITY

Mining was affected in 2005 by closing of the Bougrine mine in September, almost a year after closing of the Boujabeur mine, because reserves gave out. This reflected the drop in production of zinc and an end to extraction of barytine. Production of lime phosphate grew slightly, while that of iron ore fell considerably. Consequently, added value for the sector, expressed in real terms, fell by 3.7% after increasing by 1% in 2004.

MINING PRODUCTION

Description	In thousand tons					Variation 2005/2004
	2001	2002	2003	2004	2005	In %
Lime phosphate	8,144	7,461	7,890	8,051	8,204	1.9
Iron ore	204	202	161	256	206	-19.5
Lead ore	11.2	8.2	8.2	8.5	13.6	60.0
Zinc ore	72.7	64.2	65.9	52.6	29.2	-44.5
Barytine	4.2	6.0	2.6	1.9	0	-100.0
Aluminium fluoride	43.9	38.9	44.5	41.8	42.1	0.7
Sea salt	654	659	700	834	710	-14.9

Source : Directorate General for Mining (Ministry of Industry, Energy and Small and Medium Companies).

1. LIME PHOSPHATE

12.3 million tons of raw phosphate were extracted in 2005, the same quantity as the year before and 3.5% more than initial projections. Most of this volume (12.2 million tons) came from quarries, especially those at Kef Eddour, Kef Eschfair and Jallabia, which produced a respective 30%, 23% and 18% of overall production. 136,000 tons of raw phosphate were extracted from the Redeyef underground mine. The Gafsa Phosphate Company (CPG) handled all production, without any help from subcontracting.

Following better yields from washing plants, up from 65.2% to 66.6% of extracted quantities, production of market phosphate increased by about 2% to 8.2 million tons.

The washing plants of Metlaoui, M'dhilla and Kef Eddour have remained the main processing centres, with a respective 29%, 25% and 24% of total production.

Commercially, overall sales of phosphate remained at about the same level of 7.3 million tons, 6.6 million of which were shipped to local processing plants belonging to the Tunisian Chemical Group. Exports came in at about 759,000 tons worth 34.5 MTD, growth of 14.8% and 40.2% respectively. This trend was due mainly to recovery in sales to Greece, which had been discontinued since 1997, and an increase in exports to Indonesia, New Zealand, Uruguay and Poland.

Given these trends, stock of market phosphate increased by 25% at the end of 2005 and by about 5% for raw phosphate, to 4.5 million and 955,000 tons respectively.

2. IRON ORE

Iron ore production was down by 19.5% in 2005, to 206,000 tons. 120,000 tons of this total were made up of pure iron ore produced at the Djerissa mine, compared to 150,000 tons in 2004. The rest came from deposits at Tamera-Douaria, where production fell from 106,000 in 2004 to 86,000 in 2005.

Local sales of iron ore, shipped mainly to El Fouladh's steel mill, fell by 12.5% to 207,000 tons. Only small quantities were exported: 13,700 tons vs. 11,600 the year before.

3. NON FERROUS METAL

With reserves giving out, extraction of non ferrous metals were marked in 2005 by a large drop in production of zinc ore, down from 52,600 tons in 2004 to 29,200 in 2005. Lead production, on the other hand, increased by a major 60%, to 13,600 tons. Production of these two minerals came from the Bougrine mine, until the end of September 2005 when the mine closed. As for other metals, production of aluminium fluoride remained at about 42,000 tons and that of barytine came to an end with the closing of the Boujabeur mine in July 2004.

4. SEA SALT

Total production of sea salt came in at 1,132,000 tons in 2005, vs. 1,117,000 the year before. 63% of this volume was provided by the Tunisian salt company (COTUSAL) and 37% by private producers, some of whom began operations only recently. COTUSAL's production was down 14.9% to 710,000 tons, while that of private operators went up 49% to 422,000 tons. Commercially the main share of sales continued to involve exports, with volume up to 945,000 tons in 2005 from 751,000 in 2004. Sales on the local market rose by 4% to 102,000 tons, 84,000 tons of which were handled by COTUSAL.

B. ENERGY

For the fifth straight year, the balance of primary energy yielded a deficit in 2005, of 543,000 tons of oil equivalent (toe), compared to 621,000 in 2004. This lower deficit was the result of the increase in resources, in conjunction with low growth in consumption of oil products in the framework of efforts to conserve energy. National

resources in primary energy, including gas royalties from the transcontinental gas pipeline, were up 2.7% in 2005 to 6,778,000 toe, in relation to increased production in crude oil and gas. Consumption increased but at a slower pace than the year before (1.4% vs. 4.1%), to 7,321,000 toe. The share of natural gas in consumption increased slightly, from 43.9% in 2004 to 44.8% in 2005, in line with the programme implemented by public authorities to use more of this cleaner and relatively cheaper energy source to replace other conventional sources, especially oil products.

The balance of energy with abroad yielded a deficit of 510.4 MTD vs. 507 MTD in 2004. At the same time, the rate of coverage rose by 8.1 percentage point to 77.5% vs. 69.4%. Given these trends, growth in the energy sector grew from 3.6% to 4.7% in real terms, especially after good performance for oil and electricity production.

1. ELECTRICITY

The Tunisian Electricity and Gas Company (STEG) handles about 70% of national electricity production that increased by 4.4% in 2005 to 13 billion kWh. Production by this company was up 5.7% to 9.2 billion kWh, 9 billion of which thermally produced (+6%), with production capacity up thanks to start up of combustion turbines at Feriana in June 2005 and at la Goulette in July 2005, with respective power of 118 and 123 megawatts. Inversely, hydraulically powered electricity production fell by 5.8% to 145 million kWh and wind powered by 4.5% to 42 million kWh.

ELECTRICITY PRODUCTION AND CONSUMPTION

Description	In million kWh					Variation 2005/2004 in %
	2001	2002	2003	2004	2005	
STEG production	9,787	8,270	8,302	8,664	9,162	5.7
. Thermal	9,709	8,176	8,103	8,466	8,975	6.0
. Hydraulic	54	64	166	154	145	-5.8
. Wind-power	24	30	33	44	42	-4.5
Independent private production(IPP)	161	2,070	2,599	2,844	2,905	2.1
Self-producers	906	941	929	947	939	-0.8
National production	10,854	11,281	11,830	12,455	13,006	4.4
Net trade with Algeria	10	-20	5	6	-3	-150.0
Total energy given out in Tunisia	10,864	11,261	11,835	12,461	13,003	4.3
High and medium-voltage consumption	6,062	6,170	6,308	6,657	6,830	2.6
- Industrial sector	4,095	4,193	4,294	4,537	4,596	1.3
. Mining industries	671	661	669	697	685	-1.7
. Steel and metal industries	220	209	181	171	186	8.8
. Chemical and oil industries	641	652	664	701	703	0.3
. Building materials	1,030	1,032	1,083	1,184	1,187	0.3
. Paper and publishing industries	137	137	157	164	166	1.2
. Textile, leather and footwear industries	496	510	534	544	538	-1.1
. Food industries	433	457	461	470	486	3.4
. Miscellaneous industries	467	535	545	606	645	6.4
- Other sectors	1,967	1,977	2,014	2,120	2,234	5.4
Low voltage consumption	3,544	3,792	4,102	4,227	4,409	4.3
Total national consumption	9,606	9,962	10,410	10,884	11,239	3.3
Exports	3	38	25	34	33	-2.9
Losses in transit and energy in metres	1,255	1,261	1,400	1,543	1,731	12.2

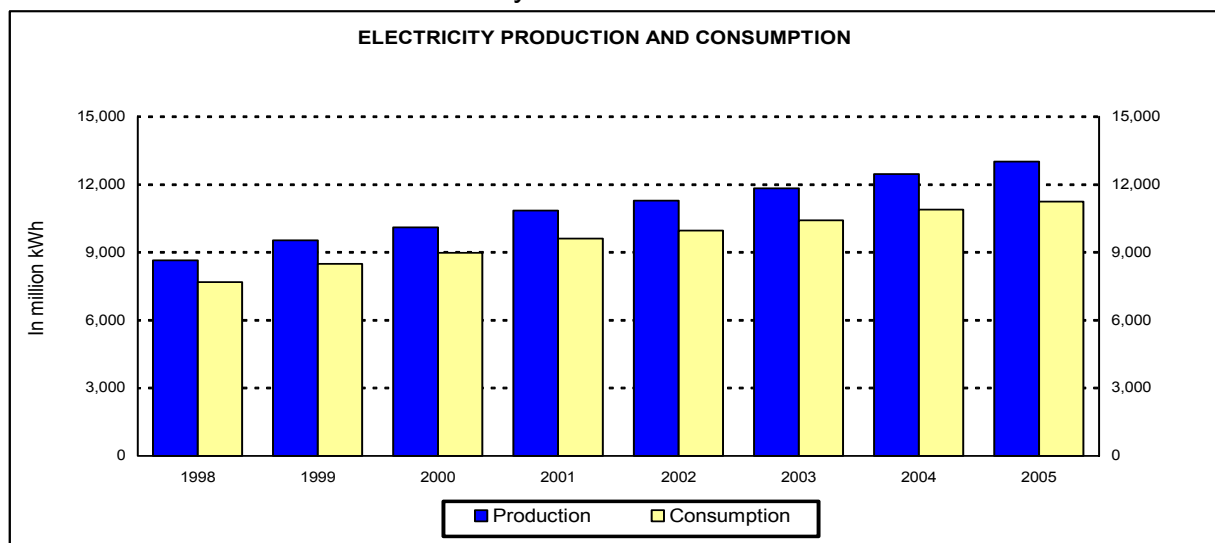
Source : Tunisian Electricity and Gas Company (STEG)

Private production was up by 2.1% (vs. 9.4% in 2004) to 2.9 billion kWh about 95% of which was supplied by the generating plant in Rades II. The rest came from the El Bibene plant, which produced about 140 million kWh.

To limit the impact of soaring fuel prices on production costs, STEG implemented a programme to conserve energy, targeting more optimal use of national production facilities. Thus energy consumed to produce electricity dropped on average to 238.9 toe for a million kWh. This meant energy savings, with natural gas remaining the basic source (98.6%) for electricity generated by both STEG and private producers.

National consumption of electricity was up by 3.3% (vs. 4.6% a year earlier) to exceed 11.2 billion kWh. Consumption of high and medium voltage, representing more than 60% of this volume, grew at a slower pace of 2.6% (vs. 5.5% in 2004), to 6.8 billion kWh. Growth in consumption of electricity was particularly slow in the industrial sector (1.3% vs. 5.7%), reaching 4.6 billion kWh, influenced by growth that was slower in 2005 than in 2004 and by energy conservation efforts.

Consumption of low voltage electricity continued to rise, up from 4.2 billion kWh in 2004 to 4.4 billion in 2005. This development was attributable to 93,000 new subscribers hooked up to STEG's distribution network that by the end of 2005 covered some 130,000 kilometres, including 84,000 in low voltage lines. The total number of subscribers came in at almost 2.7 million, corresponding to a global rate of electrification of 99.2% vs. 98.9% a year earlier.



2. CRUDE OIL

National crude oil production grew moderately, because of a natural decline in reserves at El Borma and Ashtart. It increased by only 1.9% in 2005 vs. 5.6% the year before, to 3.4 million tons vs. more than 5 million at the start of the 80s. This increase was due to efforts to develop production capacity at fields currently being exploited and at new discoveries, involving three new wells : Adam 3, where production began in January 2005 with an average debit of 3200 barrels a day, Nour1 that started up in June with volume of 6500 barrels a day and Janet 1, which

began in December with volume of 400 barrels a day. The Adam-Hawa-Dalia facility supplied almost a quarter of total oil production, becoming the biggest operating oilfield in the country, with average volume of 15,000 barrels a day. Inversely, production continued to decline at other fields, especially El Borma (-10.3%), Ashtart (-8.1%) and Didon (-27.5%).

CRUDE OIL PRODUCTION BY OILFIELD

Description	In thousand tons					Variation 2005/2004 In %
	2001	2002	2003	2004	2005	
El Borma	759	683	616	580	520	-10.3
Ashtart	681	669	644	577	530	-8.1
Adam-Hawa-Dalia	-	-	144	452	763	68.8
Other oilfields (Didon, Cercina, Franig etc.)	1,888	2,134	1,762	1,733	1,591	-8.2
Total	3,328	3,486	3,166	3,342	3,404	1.9

Sources : National Energy Watch (Ministry of Industry, Energy and Small and Medium Companies) and ETAP.

In an environment marked by soaring oil prices on the international market, there was more research and exploration in 2005. 10 new wells were drilled, about the average for past years aside from 2004 when only two were drilled. The premier development was discovery of three fields (Adam 3, Nour 1 and Janet 1), compared to a single discovery a year earlier (Dalia 1). There were 12 new licenses, 10 for exploration compared to an average of 3-4 over the past few years. This brought total licenses in the oil sector to 41 at the end of 2005, 26 of which were for onshore operations. These licenses are held by 31 national and foreign oil companies out of 42 companies working in the sector.

Shipments of oil to the Tunisian Refining Industries Company (STIR) increased slightly, from 1,607,000 tons in 2004 to 1,711,000 tons in 2005, 1,085,000 of which were imported (almost exclusively from Libya) for a value of 561.3 MTD. Exports increased by 1.8% in terms of quantity and about 51% in terms of value, reaching 2.8 million tons worth more than 1,416 MTD. Soaring prices for crude oil on the international market pushed the average selling price of Tunisian crude oil by about 43% for all qualities taken together, to US\$ 53.58 a barrel, compared to \$37.50 in 2004. The average price per exported barrel was \$56.10 dollars for zarzaitine and \$52.58 for Ashtart, compared to \$39.24 and \$35.70 respectively a year earlier.

3. NATURAL GAS

Natural gas continued to gain a higher share in the country's energy make-up, at about 48% of resources and 45% of primary energy consumption in 2005. Production continued to grow, by about 2% compared to 6.1% the previous year, reaching 2344 million metric cubes, a level covering more than 64% of national consumption for this product vs. 65% in 2004. This development was due mainly to increased production at the Miskar gas fields, which accounted for more than 80% of overall production, the rest being supplied by the El Franig field and the Adam reserves which became operational in February 2005. Total royalties for natural gas increased by 6.5% to 1275 million cubic meters, in line with higher quantities of Algerian gas going through Tunisia to Italy. Given a drop of about 10% in purchases from Algeria, global availability of natural gas rose by 1.5% in 2005, to 4185 million cubic meters.

GAS PRODUCTION AND CONSUMPTION

Description	In million cubic metres					Variation 2005/2004 in %
	2001	2002	2003	2004	2005	
Production	2,254	2,149	2,166	2,298	2,344	2.0
of which						
<i>Miskar</i>	1,805	1,739	1,763	1,858	1,899	2.2
Total royalties	1,117	1,047	1,082	1,197	1,275	6.5
Purchases	467	533	629	628	566	-9.9
Total availability	3,838	3,729	3,877	4,123	4,185	1.5
Consumption	3,209	3,208	3,381	3,520	3,642	3.5
- Electricity producers	2,532	2,515	2,617	2,668	2,779	4.2
. <i>STEG</i>	2,490	2,109	2,139	2,141	2,233	4.3
. <i>I P P</i>	42	406	478	527	546	3.6
- Other (industrial clients, residential and tertiary sectors)	677	693	764	852	863	1.3
Exports	629	521	496	603	543	-10.0

Sources : National Energy Watch (Ministry of Industry, Energy and Small and Medium Companies) and STEG.

Consumption of natural gas grew by 3.5% to 3642 million cubic meters. Of this total, 76% was used to produce electricity, 16% in industry, 6% for household consumption and 2% by hotels. It should be noted that STEG hooked up 44,891 new connections to the gas distribution system for residential service, helping the economy to save about a million bottles of gas, compared to 28,056 connections in 2004. In total, the number of subscribers came in at 238,422 at the end of 2005, including 916 hooked up to high and medium pressure networks compared to 207,592 and 858 respectively the year before.

4. FUEL

National fuel production increased by 1.2% in 2005 (after falling by 8.2% the year before) to 1.8 million tons. Production of fuel oil, gas oil, paraffin oil and virgin naphta grew at more or less significant rates, while that of premium and unleaded petrol were down. Production of standard petrol came to an end and that of liquefied petroleum gas (LPG) more or less stagnated (+0.9%) at 109,000 tons.

FUEL PRODUCTION

Description	In thousand tons					Variation 2005/2004 in %
	2001	2002	2003	2004	2005	
Liquefied petroleum gas	102	113	103	108	109	0.9
Premium and unleaded petrol	338	325	348	356	220	-38.2
Standard petrol	94	71	74	48	0	-100.0
Paraffin oil	203	207	165	169	229	35.5
Gas-oil	468	469	502	432	486	12.5
Fuel oil	593	604	609	595	605	1.7
Virgin naphta	80	104	112	46	130	182.6
Gasoline	31	28	28	28	23	-17.9
White spirit ¹	7	8	8	8	9	12.5
Total	1,916	1,929	1,949	1,790	1,811	1.2
In % of consumption	50.9	51.0	52.3	45.9	46.2	0.3 point

Sources : National Energy Watch (Ministry of Industry, Energy and Small and Medium Companies), STIR and INS

¹ Intermediary refined product between petrol and kerosene that serves as a paint thinner.

Fuel consumption stabilised at 3.9 million tons, especially after the drop in levels of fuel oil, kerosene and standard petrol. But consumption increased for LPG, premium and unleaded petrol, while consumption of gas-oil (about 46% of total) stagnated at 1.8 million tons.

46.2% of domestic demand for fuel was covered by national production, vs. 45.9% in 2004. To make up for the deficit, 2.8 million tons of refined products were imported, at a cost of about 1,571 MTD, vs. 2.9 million tons and 1,130 MTD a year earlier. Export volume fell by 2.9%, with income up by 58.3% to 734,500 tons and 341.1 MTD.

FUEL CONSUMPTION

Description	In thousand tons					Variation 2005/2004 In %
	2001	2002	2003	2004	2005	
Liquefied petroleum gas	397	415	431	447	463	3.6
Premium petrol	178	163	147	133	143	7.5
Unleaded premium petrol	144	182	203	228	261	14.5
Standard petrol	91	82	68	56	9	-83.9
Paraffin oil	203	201	187	196	193	-1.5
Kerosene	264	218	200	230	213	-7.4
Gas oil	1,711	1,705	1,726	1,801	1,801	0.0
Fuel oil	779	815	763	804	720	-10.4
Coal oil	-	-	-	4	119	
Total	3,767	3,781	3,725	3,899	3,922	0.6

Source : National Energy Watch (Ministry of Industry Energy, and Small and Medium Companies)

C. MANUFACTURING INDUSTRIES

Manufacturing industries grew at a slower pace in 2005, with a growth rate of 1.9% in real terms vs. 5% a year earlier. This slowdown was due mainly to lower growth in agrofood industries, affected by the sizeable drop in production of olive oil and ongoing negative growth in textiles and clothing because of tough international competition. Consequently, the share of manufacturing industries in nominal GDP was down from 17.7% in 2004 to 17.5% in 2005.

TRENDS IN ADDED VALUE IN MANUFACTURING INDUSTRIES, EXPRESSED IN REAL TERMS

(In %)

Description	2001	2002	2003	2004	2005
Agrofood industries	-2.7	-0.5	1.7	12.4	-0.6
Manufacturing industries other than agrofood	9.3	2.4	0.4	3.5	2.5
-Building materials/ceramics/glass	4.5	4.6	3.0	6.0	2.0
-Mechanical and electrical industries	14.2	3.6	6.1	8.0	8.0
-Chemicals and rubber	2.8	3.2	0.3	3.0	3.5
-Textiles, clothing, leather and footwear	12.0	0.5	-3.7	-0.4	-2.5
-Miscellaneous industries	6.0	3.5	2.3	5.6	6.5
Overall manufacturing industries	6.9	1.8	0.7	5.0	1.9

Source : Ministry of Development and International Cooperation

1. AGROFOOD INDUSTRIES

After considerable 12.4% growth in 2004, agrofood industries were down in 2005 by 0.6% in real terms. Their share in added value in manufacturing industries expressed in current prices fell slightly, from 18.7% to 18.5%. Investments grew by just 2.2% (vs. 7.1% a year earlier) to 230 MTD or 22.3% of the total for manufacturing

industries. The sector received a significant share of investment funding for upgrading, given the specificity, dimensions and technology of processing equipment and materials. In effect, since start up of this programme in early 1996, 706 MTD have gone for upgrading activities at 296 agrofood companies, about 21% of total approved investments, including 44 MTD in 2005.

MAIN PRODUCTION OF AGROFOOD INDUSTRIES

(In thousand tons unless otherwise indicated)

Description	2001	2002	2003	2004	2005	Variation 2005/2004 in %
Cereal-based products						
Baking flour	648	644	673	675	683	1.2
Semolina	640	650	588	534	546	2.2
Pasta	142	150	172	172	186	8.1
Couscous	46	48	46	52	56	7.7
Animal feed (concentrated)	1,552	1,425	1,300	1,400	1,450	3.6
Milk and dairy products						
Industrially-processed milk (in 1000 hl)	3,090	3,340	3,150	3,360	3,470	3.3
Yoghurt (in million units)	750	840	790	830	860	3.6
Cheese	13.5	14.4	14.2	14.8	18	21.6
Canned goods						
Tomato paste	77	98	106	126	125	-0.8
Harissa	12.7	17	21	18.7	18	-3.7
Canned vegetables and fruits	15.9	16.7	18.3	19.9	21.5	8.0
Canned fish	8.9	8.5	10.3	7.5	11.3	50.7
Sugar and confectionery						
Granulated sugar	102	126	131	130	111	-14.6
Lump sugar	14	15	15	17	18	5.9
Candy	36	38	39	39	42	7.7
Chocolates	6.8	7.4	8.2	8.4	8.9	6.0
Oil and fats						
Olive oil	115	30	72	280	130	-53.6
Margarine and vegetable fats	29.1	35.9	45.7	51.9	55	6.0
Processed seed oils	86	97	101	105	120	14.3
Beverages						
Mineral water (in million litres)	303	321	351	347	368	6.1
Carbonated beverages (in 1000 hl)	3,700	3,800	4,000	4,100	4,200	2.4
Beer (in 1000 hl)	1,089	1,100	996	1,050	1,100	4.8
Wine (in 1000 hl)	321	273	243	375	330	-12.0

Sources : National Statistics Institute, Ministry of Industry, Energy and Small and Medium Companies and concerned structures.

Production of cereal-based products was up for all varieties, including pasta, couscous and, to a lesser degree, animal feed. In the dairy industry, production also increased for all products, notably cheese, which helped reduce import of milk and dairy products, down from 31,800 tons worth 52.9 MTD in 2004 to 15,300 tons worth 44.1 MTD in 2005. Canned goods industries were marked by a drop in production of concentrated tomato paste (0.8%) and harissa hot pepper paste (-3.7%). On the other hand, production of canned fish revived considerably and that of canned vegetables and fruit continued to grow at a steady pace. Production of sugar and sweets was up for all products except granulated sugar, which fell from 130,000 tons to 111,000 tons, involving mainly candy and chocolate. In the branch of oils and fats, olive oil production dropped by more than half, down to 130,000 tons. On the other

hand, production of processed grain oils from imported vegetable oils increased by 14.3% and that of margarine and vegetable fats by 6%. As for beverages, production bounced back for mineral water and continued to grow for carbonated beverages and beer, but fell for wines.

2. BUILDING MATERIALS, CERAMICS AND GLASS

Because of difficulties caused by current conditions (after a number of brickyards closed down for mainly financial reasons) and weak growth in cement production, the building materials, ceramics and glass sector posted slower growth in 2005: 2% in real terms vs. 6% the year before. Some 129 MTD in investment was approved for upgrading, vs. 17 MTD in 2004 and 10 MTD in 2003.

As for binders, cement products increased by just 0.4% to 6.7 million tons. Of this total, 333,000 tons of white cement were produced, an increase of 9.5%. Production of lime fell by 11.1% to 424,000 tons.

PRODUCTION OF BUILDING MATERIALS, CERAMICS AND GLASS

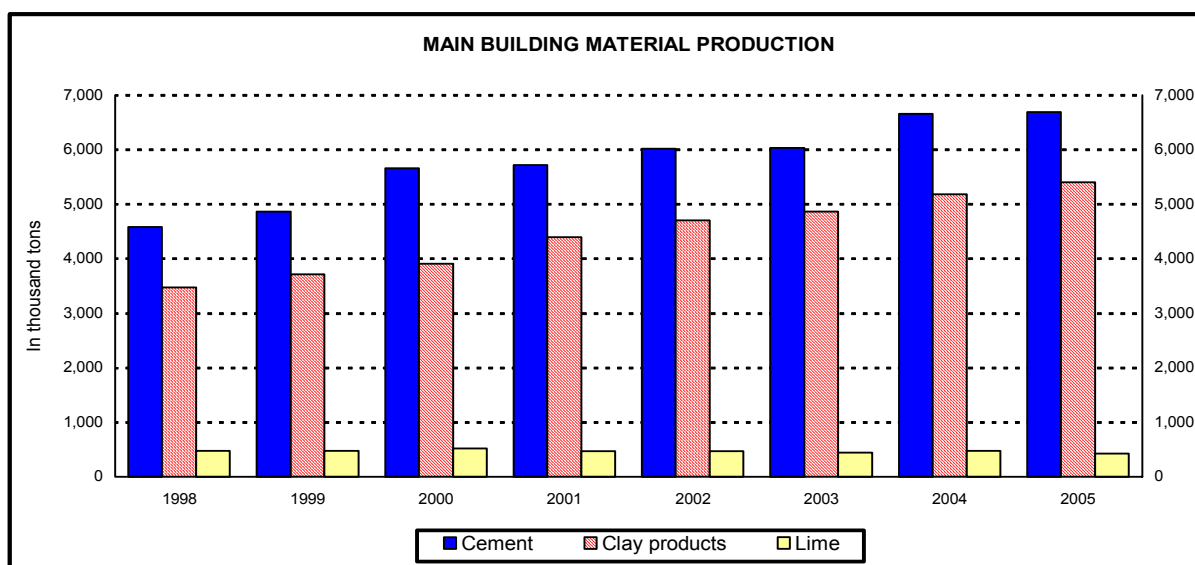
(In thousand tons unless otherwise indicated)

Description	2001	2002	2003	2004	2005	Variation 2005/2004 in %
Cement	5,721	6,022	6,038	6,662	6,691	0.4
<i>of which : White cement</i>	247	259	296	304	333	9.5
Lime	467	469	446	477	424	-11.1
Clay products	4,400	4,700	4,870	5,180	5,400	4.2
Mosaic tiles (in thousand m ²)	18,100	18,800	19,200	19,600	20,400	4.1
Earthenware tiles (in thousand m ²)	12,500	13,950	14,500	15,190	16,000	5.3
Bottles and drinking glasses	45	45	44	46	48	4.3

Sources : National Statistics Institute for binding products & Ministry of Development & International Cooperation for the rest.

In the area of trade, exports of cement increased in 2005 by 24.6% in terms of quantity and 41% in terms of value, reaching 1.2 million tons and 76 MTD. To ensure supply of the local market, some 95,000 tons of cement and clinker were imported at a cost of 8.3 MTD, compared to 7000 tons and 1.9 MTD in 2004. But there was not enough cement to regularly meet steadily growing domestic demand, estimated at 5.5 million tons. Production of clay products grew but at a slower pace : 4.2% vs. 6.4% a year earlier, to 5.4 million tons. Tiling industries turned out 4.1% more mosaic tiles and 5.3% more pottery tiles, thereby ensuring steady supply to meet local demand.

Foreign trade in ceramic goods continued to post a surplus in 2005. Exports rose to 181,500 tons worth 93.2 MTD, compared to 187,500 tons worth 82.9 MTD a year earlier. To diversify supply and heighten competitiveness, especially with regard to quality, imports of ceramic goods reached about 41,000 tons at a cost of 36.3 MTD, compared to almost 45,000 tons and 32.2 MTD in 2004.



In glass industries, production of bottles and drinking glasses posted about the same growth rate as in 2004: 4.3% vs. 4.5%, for a total of 48,000 tons.

3. MECHANICAL AND ELECTRICAL INDUSTRIES

Thanks to increasingly diversified production sustained by fairly firm external demand and ever-growing domestic demand, mechanical and electrical industries grew by 8% in real terms in 2005, for the second straight year. At the same time, exports grew by 21%, to about 3,142 MTD or 23% of overall exports of goods, vs. 21.5% in 2004. More companies in this sector participated in the upgrading programme in 2005, with approved investments up from 31 MTD in 2004 to 118 MTD in 2005.

Steel industries continued to decline, especially because of technical difficulties that stood in the way the sector's development. Production at El Fouladh was down for the fourth straight year for all products, upsetting steady supply to the local market and thus creating an ongoing need for imports. Purchases of cast iron, iron, steel and worked goods came in at about 921 MTD, compared to almost 950 MTD a year earlier.

IRON AND STEEL ITEMS

Description	In thousand tons					Variation 2005/2004 in %
	2001	2002	2003	2004	2005	
Cast iron	192	152	36	0	0	
Iron bars	239	200	86	70	66	-5.7
Iron rods for concrete	228	185	149	108	105	-2.8
Drawn iron	24	19	20	16	12	-25.0
Metal structures	9	10	8	6	5	-16.7

Source : El Fouladh Company

In automotive industries, the Tunisian Automotive Industries Company (STIA) assembled 785 commercial vehicles and 131 coaches and buses, compared to 512 and 261 respectively in 2004. 93 Mitsubishi pickups were assembled in the Sousse factory for the first time in 2005. The company's production thus rose to 1009 vehicles, compared to

773 a year earlier. But the rate of integration remained stable between 2004 and 2005 at about 4% for trucks and pickups and 25% for coaches and buses.

Electrical and electronic industries continued to develop at a sustained pace, in line with higher demand, especially external demand. This is reflected in exports by the sector that grew by 27.4% in 2005, compared to 25.8% the year before. Especially significant were exports of electrical wiring and cables, mostly for the European automotive market, up 35.7% to 684.4 MTD, about 36% of the total for this branch.

Despite higher production of refrigeration and air conditioning equipment, washing machines and cookers sold mainly on the local market, household appliances showed a trend toward partnerships with a number of foreign brands, but continued to suffer from a number of inadequacies, especially lower integration rates, weak added value, a modest level of exports, and dependency on foreign partners.

4. CHEMICAL INDUSTRIES

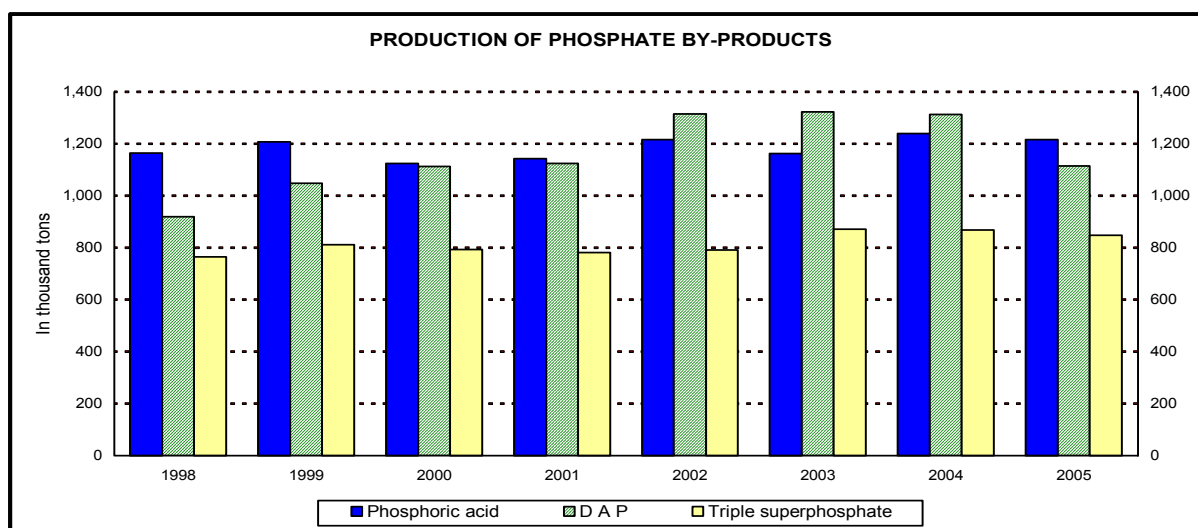
Taking advantage of sustained demand, especially for phosphate by-products, the main activity in this sector, chemical industries grew by 3.5% in real terms in 2005, up from 3% in 2004. But their share in nominal GDP remained weak at about 2%.

PRODUCTION OF PHOSPHATE BY-PRODUCTS

Description	In thousand tons					Variation 2005/2004 in %
	2001	2002	2003	2004	2005	
Phosphoric acid	1,144	1,216	1,164	1,240	1,217	-1.9
Triple superphosphate	782	791	872	868	848	-2.3
Diammonium phosphate (DAP)	1,125	1,315	1,324	1,314	1,115	-15.1
Ammonium nitrate	170	127	164	134	149	11.2
Simple superphosphate	8	9	9	9	9	0.0
Hyperphosphate (granules)	34	32	18	21	30	42.9
Compound fertiliser	11	21	30	38	28	-26.3
Bicalcium phosphate (DCP)	116	113	67	73	100	37.0
Sodium tripolyphosphate (TPPS)	118	119	119	126	141	11.9
Ammonium phosphate	-	-	-	-	17	

Source : Directorate General for Mining (Ministry of Industry, Energy and Small and Medium Companies)

In the phosphate processing industry world demand remained strong, especially for phosphoric acid. To meet this demand, the Tunisian Chemical Group (GCT) kept production of this product at a fairly high level of 1.2 million tons. Production of triple superphosphate was down by 2.3% and that of DAP by 15.1%, to 0.8 million and 1.1 million tons. For other products, with the exception of composite fertilisers, production grew at a more or less sizeable rate. GCT launched manufacture of a new product, ammonium phosphate, 17,000 tons of which were produced.



In the area of trade, exports of phosphate by-products grew by 9.2% in 2005, to 876.7 MTD (6.4% of total exports of goods, compared to 6.7% a year earlier), favoured by higher prices on external markets. Import prices for the raw materials needed for processing (like non refined sulphur and ammonia) recorded a considerable increase because of higher transport costs.

Production in other chemical branches, which cover a wide variety of activities, continued to grow, especially for paints, toiletries and hygiene items.

5. TEXTILE, CLOTHING, LEATHER AND FOOTWEAR INDUSTRIES

Because of difficulties posed by international competition that has become very tough with total dismantling of the multifibre agreements in January 2005, this sector continued to post a drop in activity. Thus growth expressed in real terms remained negative in 2005 for the third straight year: -2.5% vs. -0.4% in 2004 and -3.7% in 2003. At the same time, the sector's share in GDP fell from 5.6% in 2004 to 5.2% in 2005. Total exports in the sector remained virtually the same (+0.4%), compared to a 4.7% increase in 2004, with share in total exports of goods coming in at 37.7% vs. 42.4%.

Production in spinning and weaving activities remained stagnant in 2005, while apparel and hosiery as well as finishing actually declined. The sector-specific three year upgrading plan launched by the authorities in March 2005 in cooperation with the profession is likely to turn the situation around, especially by encouraging companies to turn to co-contracting, strengthening integration and manufacture of high added value goods, along with a greater presence on external markets, international cooperation and better financial structures.

PRODUCTION OF TEXTILE, CLOTHING, LEATHER AND FOOTWEAR MAIN ITEMS

(In thousand tons unless otherwise indicated)

Description	2001	2002	2003	2004	2005	Variation 2005/2004 in %
Cotton yarns	24.6	24.8	25.0	25.0	25.0	0.0
Wool yarns	8.6	8.8	8.9	9.0	9.0	0.0
Fabric (million metres)	193.0	201.0	195.1	178.5	181.6	1.7
Finishing (million metres)	65.0	70.0	70.0	75.0	74.0	-1.3
Ready-to-wear clothing (million items)	239.6	218.0	208.0	211.0	200.0	-5.2
Hosiery	32.0	36.4	34.6	34.3	32.5	-5.2
Carpets	3.0	3.1	3.2	3.2	3.3	3.1
Shoes (million pairs)	48.9	51.0	54.0	52.9	58.4	10.4
Footwear accessories	5.9	6.0	6.0	6.1	6.0	-1.6

Source : Ministry of Development and International Cooperation

Production was up in leather industries, especially for footwear (10.4% vs. -2% in 2004), but it dropped slightly for accessories (-1.6% vs. 1.7%). Carpet production increased by 3.1% in 2005, to 3,300 tons, with a steadily growing share for industrial carpets.

6. MISCELLANEOUS MANUFACTURING INDUSTRIES

Made up mainly of wood, paper and plastic industries, the sector grew in 2005 at a faster rate of 6.5% in real terms, compared to 5.6% a year earlier. Thus its share in nominal GDP rose slightly, to 2.3%.

Wood, cork and furnishings, the main branch in the sector, continued to grow markedly. Production was up 4.8% for construction carpentry, 5.2% for furniture, and 4.5% for cork items. In other branches, production was up 9.4% for plastic industries, 4.4% for paper packaging, and 4.3% for paper pulp, compared to 7.8%, 4.6% and 4.5% respectively in 2004.

D. CONSTRUCTION AND CIVIL ENGINEERING

After three years of growth exceeding 5%, the construction and civil engineering sector experienced slower growth in 2005, down to 3% in real terms vs. 5.1% the year before. Its share in nominal GDP remained at about the same 5.2% level as in 2004. Investment grew at a higher rate of about 13%, reflected in the high number of new jobs, up to 5800 from 5500 a year earlier.

III. SERVICES

A. TRANSPORT

The transport sector in 2005 continued to implement an extensive reform programme targeting its restructuring and modernisation so as to meet the demands of a competitive economy, the main objectives of these reforms being liberalisation of land transport, higher quality services, better basic infrastructure and upgrading of the companies in the sector. It was in this context that transport pursued fairly brisk growth: 6.5% in real terms vs. 7% in 2004. Its contribution to overall economic growth reached 8.1% (0.34 of a percentage point), compared to 6.1% and 0.37 a year earlier. Its share in nominal GDP remained virtually unchanged at 5.7% vs. 5.6% the two previous years.

Investment in 2005 was up 22.1% to about 1,238 MTD, 14.7% of gross fixed capital formation, vs. 12.8% in 2004. This increase concerned all kinds of transport but especially land, air and railway transport.

Maritime transport addressed modernisation of port infrastructure and better conditions for accommodating incoming ships and port surroundings. Along these same lines, a feasibility study was launched to build a deep water port that can meet the growing needs of the national economy for import and export of goods by accommodating large ships, up from a maximum of 25,000 tons currently to 80,000 in the future, so that Tunisia can become an international trade centre and strengthen its integration in the world economy.

Air transport continued to benefit from a modernisation programme, addressing in particular restructuring of the national carrier TUNISAIR by outsourcing a number of its activities to private companies: onboard sales, plane maintenance, and airport services. Furthermore, to meet the needs of ongoing growth in tourism, a new international airport will be built in Enfidha, which will give a new boost to tourism in the Cap Bon and the Sahel.

As for land transport, special attention has gone to better mass transport, by extending the light metro network to heavily populated urban neighbourhoods like El Mourouj. The metro line will in the future be further extended out to the university campus in Mannouba. There will also be electrification of the railway line between the capital and Borj Sedria and a programme to create a rapid railway network to a number of heavily populated suburbs of Tunis in the future.

1. MARITIME TRANSPORT

Maritime transport continued to be of strategic importance for the development of trade, most of which is shipped by sea. Reforms over the past few years have introduced greater liberalisation for this mode of transport as well as an increase in private investment, contributing to greater competitiveness through higher quality services and low costs.

2.5% more ships entered national commercial ports in 2005, after falling by 1.7% the year before, coming in at 6690 ships with a gross gauge of 77.3 million tons¹, vs. 6528 and 71.7 million respectively a year earlier. This increase involved all ports except Bizerte and Zarzis.

NUMBER OF SHIPS ENTERING TUNISIAN PORTS					(Units)	
Description	2002	2003	2004	2005	Variation in %	
					2004/2003	2005/2004
Tunis-Goulette-Rades	3,017	2,774	2,925	3,016	5.4	3.1
<i>of which : Rades</i>	1,727	1,501	1,567	1,582	4.4	1.0
Sfax	1,476	1,547	1,341	1,359	-13.3	1.3
Bizerte	569	508	454	428	-10.6	-5.7
Gabes	662	616	674	691	9.4	2.5
Sousse	661	556	558	626	0.4	12.2
Zarzis	564	642	576	570	-10.3	-1.0
Total	6,949	6,643	6,528	6,690	-1.7	2.5

Source : Merchant Marine and Port Authority (OMMP)

The structure of ship traffic was marked in 2005 by higher shares for conventional ships (up from a 23.2% share in 2004 to a 23.8% share in 2005, special ships (up from 14.4% to 16.2%) and cruise ships (up from 5.7% to 7%). Roll-on/roll-off ships held a 13.8% share, car-ferries a 10.2% share, and container ships a 9.2% share, about the same as the previous year. The share of bulk carriers in particular fell from 17.9% to 15.3%.

Overall transport of goods, including national coastal navigation, rose by 2.1% for incoming and outgoing traffic (vs. 3.4% in 2004), to 25 million tons. Such slowdown was due to slower growth in international traffic in exported goods (2.6% vs. 8.7% a year earlier) and the marked drop in coastal navigation (-19.2% vs. -12%). Incoming international transport of goods rose by 4.5% to almost 13.8 million tons, following an increase in imported cereals, vegetable oil, a number of raw materials and semi-finished products, and capital goods. The volume of merchandise shipped from Tunis increased by 2.6% to 9.8 million tons, influenced in particular by the increase in exported quantities of crude oil, lime phosphate, a number of textile items, cast iron, iron, steel, worked goods, and cement. There was higher traffic at Rades, Sfax and Sousse, both incoming and outgoing, as well as in Gabes although to a lesser degree (+19.2% only for incoming). Coastal shipping continued to concern mainly shipment of crude oil from the port of Skhira to the Bizerte refinery as well as fuel from the latter to other commercial ports, notably Rades and Sfax. It continued to decline, to 702,000 tons. Merchandise transported by the Tunisian Navigation Company (CTN) came in at about 1.7 million tons, 1.3 million of which were on regularly scheduled lines linking Tunisia to other Mediterranean countries, compared to 1.5 million and 1.2 million tons in 2004. The share of this company in overall maritime transport of goods (exclusive of coastal navigation) increased by 0.5 of a percentage point to 7.1%.

¹ International unit of volume to gage ships, corresponding to 2.83 cubic metres.

TRENDS IN SHIPPING TRAFFIC

(In thousands of tons)

Description	2004		2005		Variation in %	
	Entries	Exits	Entries	Exits	Entries	Exits
International traffic	13,163	9,583	13,753	9,832	4.5	2.6
Port of Tunis-Goulette-Rades	4,858	972	4,841	1,110	-0.3	14.2
<i>of which : Port of Rades</i>	3,944	937	3,996	1,058	1.3	12.9
Port of Sfax	2,040	2,173	2,273	2,226	11.4	2.4
Port of Bizerte	2,760	977	2,726	992	-1.2	1.5
Port of Gabes	2,167	1,885	2,584	1,666	19.2	-11.6
Port of Sousse	1,089	340	1,119	473	2.8	39.1
Port of Zarzis	249	528	210	626	-15.7	18.6
Port of Skhira and offshore Platforms ¹	0	2,708	0	2,739		1.1
Coastal ²	869	869	702	702	-19.2	-19.2
Port of Tunis-Goulette-Rades	256	0	127	0	-50.4	
<i>of which: Port of Rades</i>	256	0	127	0	-50.4	
Port of Sfax	16	14	14	15	-12.5	7.1
Port of Bizerte	553	108	544	119	-1.6	10.2
Port of Gabes	17	0	0	0	-100.0	
Port of Sousse	0	0	0	0		
Port of Zarzis	27	0	17	0	-37.0	
Port of Skhira and secondary ports	0	747	0	568		-24.0
Total	14,032	10,452	14,455	10,534	3.0	0.8

Source : Merchant Marine and Port Authority (OMMP)

Passenger traffic, incoming and outgoing, came in at 611,000 travellers in 2005, virtually all at the port of la Goulette. There were 219,400 vehicles brought on by passengers: 118,900 incoming and 100,500 outgoing, compared to a total of almost 195,000 units in 2004. Net flow of vehicles (incoming and outgoing), which corresponds to definitive imports mainly by Tunisians working abroad, increased from 12,300 to 18,400 vehicles.

PASSENGERS ENTERING THE PORT OF TUNIS-GOULETTE

(In thousands of passengers)

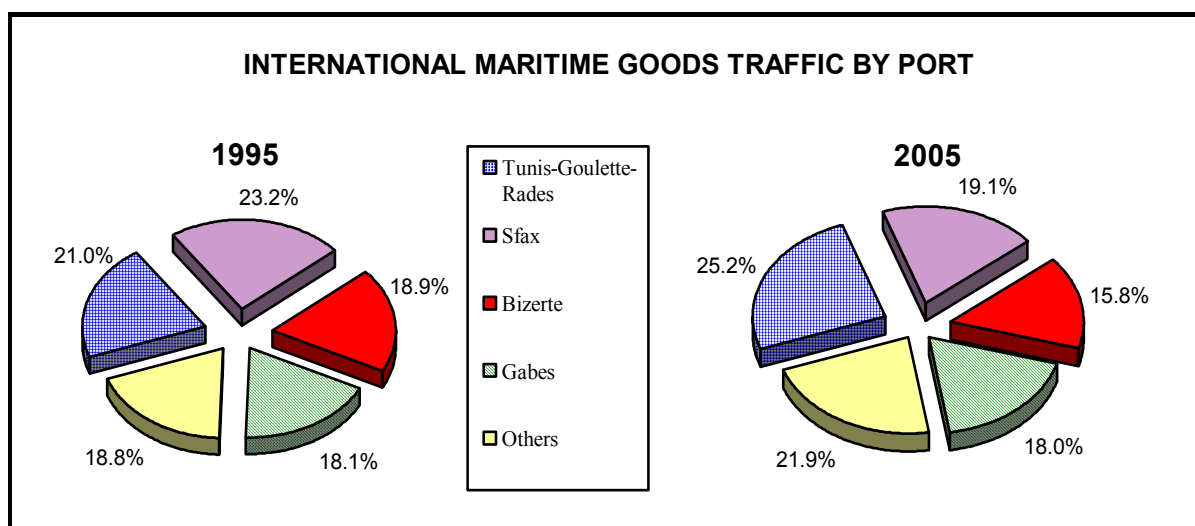
Description	2002	2003	2004	2005	Variation in %	
					2004/2003	2005/2004
Passagers entries	249	275	280	312	1.8	11.4
Passagers exits	225	251	269	288	7.2	7.1
Total	474	526	549	600	4.4	9.3

Source : Merchant Marine and Port Authority (OMMP)

CTN held a 52.9% share of travellers and a 56.4% share of passengers travelling with their vehicles, compared to 55.5% and 59.3% respectively in 2004, with 323,300 passengers and 123,800 vehicles transported. Of this total, 254,300 passengers and 99,300 vehicles travelled on the Habib and Carthage ferries, which served as cruise ships outside the summer season. Indeed, there has been steadily growing interest in cruises, with the number of passengers increasing by more than 30% in 2005 to about 585,000 people, most of whom (96.3%) went through the port of la Goulette.

¹ Crude oil only.

² Coastal shipping here involves only national commercial ports. But since the number of entries of merchandises is higher than exits, the gap is absorbed under the heading "Port of Skhira and secondary ports".



2. AIR TRANSPORT

In line with growth in tourism, although at a slower pace than a year earlier, air transport continued to show an increase in its main indicators in 2005. The number of planes departing and arriving at the country's seven international airports was up by 6.3% (compared to 13.5% in 2004) to 98,000. Aside from the Tozeur-Nefta Airport, most other airports, especially Tabarka 7 November and Monastir-Skanes, recorded a greater number of planes. This involved 14.3% more regularly scheduled and 2.8% more charter flights, while domestic flights were down by 1.7%. Passenger air traffic grew at a slower pace of 8.5%, down from 21.2% a year before, for a total of 10.4 million travellers, some 6 million (58%) on international charter flights. The number of passengers increased for all airports except Sfax, Tozeur and Gafsa, the highest increases being for Tabarka and Monastir, the latter in first place with 4.1 million or almost 40% of total.

COMMERCIAL PLANE AND PASSENGER TRAFFIC AT INTERNATIONAL AIRPORTS

(In thousands)

Description	2004		2005		Variation 2005/2004 in %	
	Planes ¹	Passengers ²	Planes ¹	Passengers ²	Planes ¹	Passengers ²
Tunis-Carthage	36.9	3,449.2	38.4	3,650.1	4.1	5.8
Monastir-Skanes	27.9	3,667.4	31.1	4,104.6	11.5	11.9
Jerba-Zarzis	20.3	2,240.4	21.3	2,416.9	4.9	7.9
Sfax-Thyna	4.5	73.3	4.5	71.0	0.0	-3.1
Tozeur-Nefta	1.5	87.9	1.4	80.1	-6.7	-8.9
Tabarka-November 7 th	0.7	57.0	0.9	66.3	28.6	16.3
Gafsa-Ksar	0.4	10.7	0.4	9.8	0.0	-8.4
Total	92.2	9,585.9	98.0	10,398.8	6.3	8.5

Source : Civil Aviation and Airport Authority (OACA)

The national carrier TUNISAIR, pursuing its restructuring programme, enjoyed stronger growth in 2005. 3.8 million passengers were transported, an increase of 3.6% compared to the 2004 figure, thanks to the increase in regularly scheduled travel to a number of African and Middle Eastern countries and more charter flights to new markets in central and eastern Europe.

¹ Number of planes recorded upon arrival and departure.

² Number of passengers recorded upon arrival and departure and in transit.

After sale of four Boeing 737-200 aircraft because they were no longer in conformity with current regulations, Tunisair's fleet came in at 29 planes at the end of 2005. There were 93,800 flight hours using both its own and chartered aircraft, an increase of 5.2% compared to the previous year. This yielded an aircraft occupancy rate of 69.2% vs. 69.5% in 2004. But Tunisair's share of the international passenger traffic market fell by 2.1 percentage points to 38%, due to greater competition from other airlines working in Tunisia. By kind of traffic, Tunisair posted a 7.4 percentage point drop in supplementary regularly scheduled international flights, but a 0.2 percentage point increase in charter flights, to 51.1% and 29.2% respectively.

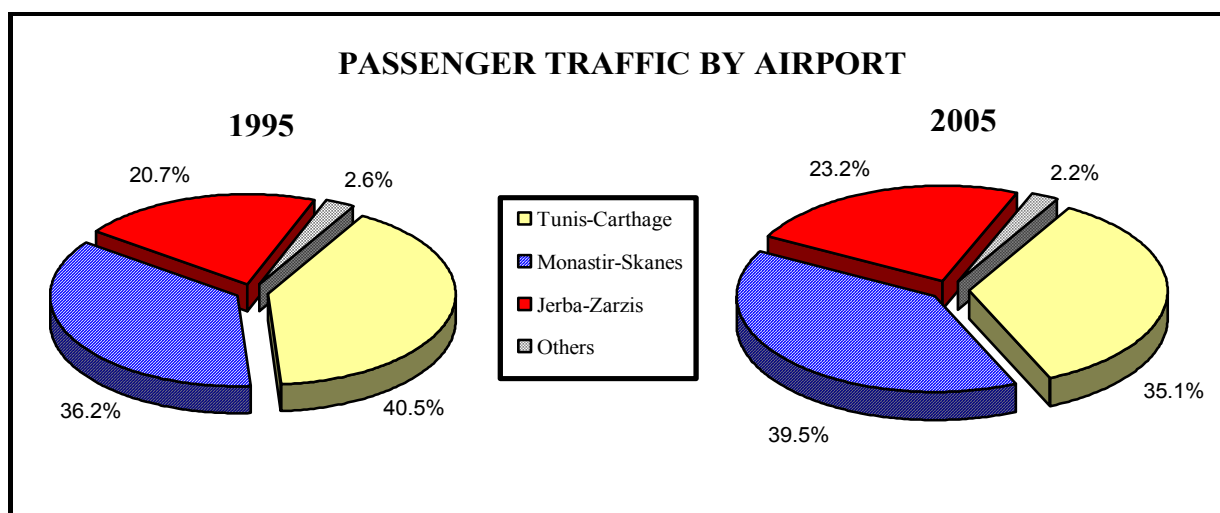
Nouvelair, specializing in charter flights, transported 1.5 million passengers in 2005, corresponding to 41,500 flight hours for its fleet, compared to 1.2 million passengers and 37,400 hours a year earlier. Routes to countries to the east, Spain and France were facilitated by replacement of two Mac-Douglas planes by two modern, higher capacity Airbus A321 models.

Passenger traffic by Karthago Airlines enjoyed a major 15% increase over 2004, up to about 556,000 passengers, almost all on charter flights.

Tuninter, whose main activity is domestic traffic for business and tourism by nationals, saw activity fall in 2005, especially charter flights. In effect, the total number of passengers transported was down by about 11% to 273,000, 236,000 on regularly scheduled flights. This compares to 308,000 and 249,000 respectively a year earlier. To boost activity, Tuninter is trying to develop short haul international routes to neighbouring countries. New regularly scheduled flights between Sfax and Tripoli, for example, were inaugurated on 27 September 2005.

Mediterranean Air Service (MAS), which since April 2001 has handled processing and warehousing of imported freight for foreign companies at the Tunis Carthage Airport, involved 8600 tons in 2005, compared to 8100 the year before.

Commercial air freight showed a drop of 11%, to about 19,000 tons, most of which continued to go through Tunis Carthage International Airport. Tunisair's share in this traffic came in at 12,600 tons, about two thirds. The drop in freight over the past few years is due to insufficient capacity and poor adaptation to needs, aside from the freeze on costs that has served as a disincentive for airlines to pursue a growth strategy. To reverse the situation, national authorities took action in 2005 to draw up and implement an action plan to handle more air freight in support of a higher volume of exports, especially highly perishable agricultural products. A symposium on development of commercial freight was held the second quarter of 2005 and it is expected that this activity will take off in support of production.



3. LAND TRANSPORT

In line with dynamic economic and social activity and the various reforms under way (notably liberalisation and improved quality of services), land transport grew in 2005 at a sustained pace. This is illustrated in particular by creation of new private transportation companies and ongoing expansion of the fleet.

a. Rail transport

Goods carried by the Tunisian National Railways Company (SNCFT) recorded a slight drop of 0.6% in 2005, to 2.1 billion ton-kilometres, corresponding to 10.8 million tons. The drop involves mainly minerals, building materials, fertiliser and sulphur.

RAIL FREIGHT

(In million ton/kilometres)

Description	2002	2003	2004	2005	Variation in %	
					2004/2003	2005/2004
Phosphate	1,661	1,614	1,540	1,527	-4.6	-0.8
Iron ore ¹	35	19	15	10	-21.1	-33.3
Building materials	124	134	157	140	17.2	-10.8
Fertiliser and sulphur	279	294	240	232	-18.4	-3.3
Cereals	85	61	71	66	16.4	-7.0
Energy	0	0	0	36		
Others	67	52	59	58	13.5	-1.7
Total	2,251	2,174	2,082	2,069	-4.2	-0.6

Source : SNCFT

Passenger traffic by SNCFT grew by 1.4% (compared to 1.7% in 2004) to 36.8 million passengers. Most of this traffic involved short haul lines (up 1.9%), mainly serving the southern suburbs of Tunis. But passengers were down on long haul lines by 1.9%, to 5.2 million. Urban railway transportation for travellers in the greater Tunis area was down by 2.3% in 2005, vs. an increase of 3.2% the year before, to a total of 125 million, including bus/light metro lines and vice versa. Of this total, 108.5 million travellers rode on the light metro lines and 16.5 million on the Tunis-Goulette-Marsa (TGM) train. It is expected that this activity will grow significantly after the metro network is extended to El Mourouj and the university complex of Mannouba.

¹ This includes iron, lead and zinc.

DEVELOPMENT IN RAIL PASSENGER TRAFFIC

(In million travellers)

Description	2002	2003	2004	2005	Variation in %	
					2004/2003	2005/2004
Tunisian National Railroad Company (SNCFT)	36.5	35.7	36.3	36.8	1.7	1.4
-Long distance routes	5.3	5.0	5.3	5.2	6.0	-1.9
-Short distance routes	31.2	30.7	31.0	31.6	1.0	1.9
Tunis Rapid Transit Company (SMLT)¹	122.1	124.0	128.0	125.0	3.2	-2.3
- Metro lines	103.9	106.3	111.0	108.5	4.4	-2.3
- Tunis-Goulette-Marsa line	18.2	17.7	17.0	16.5	-4.0	-2.9

Source : SNCFT and SMLT

b. Road transport

Land transportation of merchandise, mostly by the private sector, continued to develop, in line with a growing economy, but that of passengers varied from one operator to another. Passenger traffic grew, overall, by 1.3% to 704 million travellers, 352 million by the Tunis Transport Company (TRANSTU). People transported by regional companies with a fleet of 1936 buses increased by 1% to about 313 million travellers. On the other hand, the number of travellers transported by the National Interurban Transport Company (SNTRI) fell from 3.6 to 3.5 million. It should be noted that this company continued to suffer from an aging fleet which made it harder to compete with tough competition from private companies. To improve matters, 10 buses were purchased in 2005 (compared to 20 the year before), increasing the rate of availability of buses from 88.6% to 91.5%. Traffic at the private company Travellers Mass Transit (TCV) fell by 3.1%, to 3.1 million passengers, 1.4 million (45%) of whom rode on the Tunis-Marsa line, despite a fleet that grew by acquisition of four new buses. And the number of travellers fell by 4.1% in 2005 to 2.3 million. This decrease has occurred despite the launching of new lines and expanded rolling stock.

Other private operators continued to further develop passenger transport activity. This is reflected in statistics on licenses granted in 2005: 767 new taxi permits, 261 for collective taxis between towns/cities, and 623 for rural transport. Thus overall authorisations in 2005 came in at 22,900, 8100 and 8800 permits respectively.

Land transportation of goods, handled by private companies on their own behalf and/or for others, grew steadily. This trend is illustrated by the number of operators who are private individuals or corporate entities. This increased from 1265 to 1280 operators, with capacity of 167,000 tons, compared to almost 155,000 a year earlier. International road transportation of goods, which plays a major role in development of trade in transit, was marked in 2005 by low growth in the number of authorisations, up from 58 to 59 and capacity that remained virtually unchanged : 9100 tons vs. 9000 a year earlier.

B. COMMUNICATIONS

Over the past decade the communications sector has expanded considerably everywhere in the world as technology moved ahead briskly, causing most countries to restructure their ICT sector. This was done by attracting private investment and

¹ Including bus/light metro lines and vice versa.

generalising the availability of services to a wide range of beneficiaries at affordable prices. Realising how important information and communication technologies are as a promising channel for socio-economic development, Tunisia's last two development plans have set out a strategy to accelerate growth in the sector to meet the growing need for diversified, high quality services: land lines and mobile phones, international connections, data transmission, internet, etc. Along these same lines, public authorities continued in 2005 to give concrete form to the orientations and objectives relating to the foundations of a knowledge-based economy and to strengthen the role of sectors that develop scientific qualifications and skills, especially to support new information and communication technologies. The stakes are high: to increase economic competitiveness and promote employment, especially of graduates of higher education.

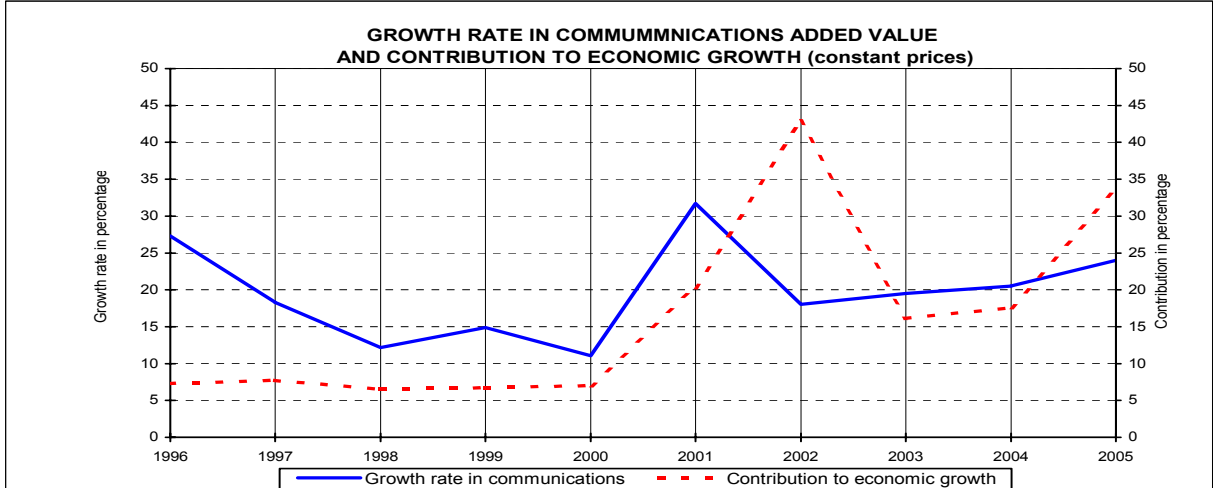
In this context, capacity for internet connection to the worldwide network was increased and subscription costs for internet and both land lines and mobile phones were reduced. It should be kept in mind that reforms were undertaken over the past few years regarding regulatory and institutional frameworks, notably drawing up of a new telecommunications code, adoption of a postal code and setting up of a regulatory body and a national agency for computer security.

Over the Xth development plan (2002-2006), the Tunisian State upped the effort to disseminate the digital culture by adopting a strategy to boost use of new ICTs in various sectors. One significant step was the introduction in April 2001 of a programme to help families with modest means acquire a personal computer, providing advantageous modalities for payment and prices, hooking up of education and research structures to the internet and promotion of electronic commerce since 1999. Consequently, at the end of March 2006, the total number of family computers acquired during the second stage of this programme (which began mid October 2005) came in at 7332, with 2319 computers financed by the Tunisian Solidarity Bank (BTS). There were 568,000 computers in 2005, compared to 472,000 in 2004 and 255,000 in 2001.

It was this impressive progress that influenced the decision to hold the second phase of the World Summit on the Information Society (WSIS) in Tunis, from 16 to 18 November 2005. This summit was a new opportunity to reduce the digital divide and to ensure equal access for all to the information society. The WSIS dealt with a number of key issues, notably the digital divide, seeking to ensure generalised tapping of the potential of ICTs in support of economic and social development in all countries without distinction. To this end, three fundamental issues were on the summit's agenda: governance of the internet, financing strategies, and mechanisms to implement the action plan drawn up during the first phase of the WSIS held in Geneva in 2003. Similarly, a monitoring process was established to ensure ongoing debate and review of the general policies adopted by participating countries. A major compromise was achieved on the sensitive issue of governance of the internet, which seeks to do away with the current monopoly and to facilitate equal access by all to this fundamental communication and management tool. But in order to apply the

Tunis Agenda, there remains the question of financing before a truly global information society can be achieved. This would consist of appropriate financing mechanisms capable of meeting set objectives, especially in governance and narrowing of the digital divide.

As for results, the communications sector continued to advance favourably in 2005. Added value increased by 24% in real terms, compared to about 20% for each of the previous two years. The sector’s share in nominal GDP increased from 3.6% in 2004 to 4.3% in 2005 and its contribution to overall economic growth went up significantly, reaching 33.5% or 1.4 of a percentage point vs. 17.6% and 1.1 point in 2004.



Investments which went in particular to expand telephone and communication networks, the services of which are numerous and cover the whole territory and the entire population, with in particular easy access to internet and greater capacity for this network as well as better security for users, netted 585 MTD in 2005 vs. 655 MTD the previous year, accounting for 7% of gross fixed capital formation (GFCF), compared to 8.3% in 2004

The strategy to develop communication technologies is based on the strengthening and modernisation of basic infrastructure and equipment, the extension and higher capacity of various networks, the best use of human resources through better targeted university training and promotion of international cooperation and partnerships. The number of subscribers to land lines has risen steadily, reaching 1,257,000 at the end of 2005, corresponding to an average of about 13 land lines per 100 inhabitants, compared to 12 lines a year earlier.

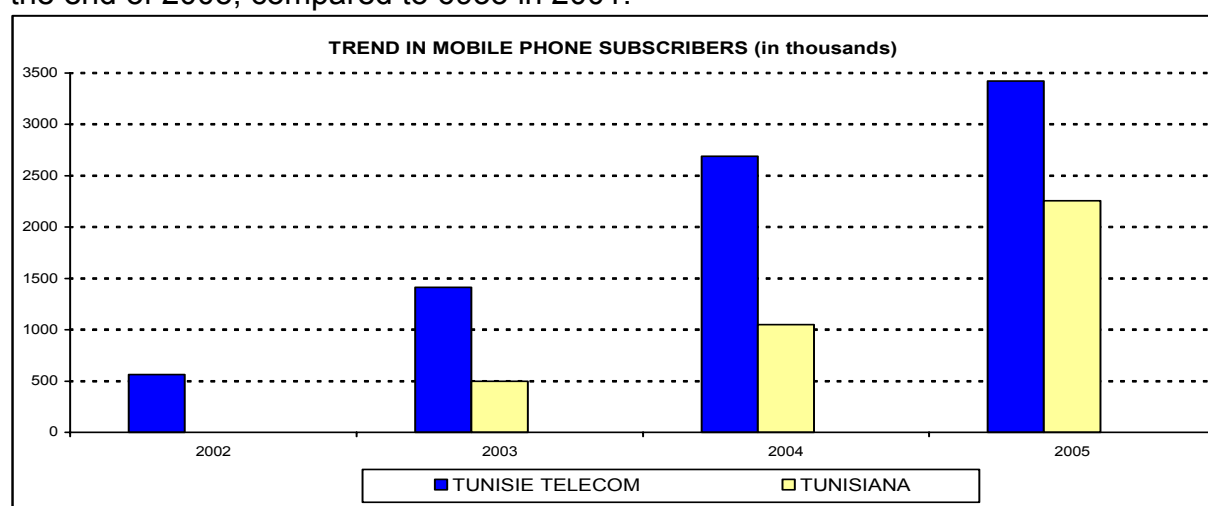
As for mobile phones, introduced by Tunisie Telecom in 1998 and stepped up in 2002 by the entry of a second operator (Tunisiana), this market has grown exponentially. The total number of subscribers for both companies was up to 5.7 million by the end of 2005, compared to just 561,000 three years earlier. There is a lot of competition in terms of prices and services, with Tunisiana (private operator) gaining ground, helping to better meet client demand. Tunisia’s mobile phone system is hooked up to the worldwide network, offering roaming services with 99 countries. More than half of the population has a mobile phone, with a penetration rate up from 37% in 2004 to 56% in 2005.

TREND IN COMMUNICATIONS SECTOR MAIN INDICATORS

Description	2002	2003	2004	2005
Real growth of added value (%)	18.0	19.5	20.5	24.0
Added value in current prices/GDP (%)	2.9	3.2	3.6	4.3
Investments (in MTD)	545	593	655	585
- Variation (%)	31.3	8.8	10.5	-10.7
- Share in overall GFCF (%)	7.2	7.9	8.3	7.0
Number of subscribers to land phone (thousands)	1,149	1,164	1,204	1,257
Number of subscribers to mobile phone (thousands)	561	1,912	3,736	5,681
Number of phone lines (land and mobile) per 100 inhabitants	17.6	30.9	49.5	68.8
Number of subscribers to internet (thousands)	76.7	91.8	121.0	150.2
Number of subscribers to internet per 1000 inhabitants	7.8	9.2	12.2	14.9
Number of internet users per 1000 inhabitants	50.9	63.5	83.7	94.6
Number of public centres of communications technology (units)	8,482	9,641	11,000	11,903
Postal coverage (number of inhabitants per post office)	7,300	7,200	7,100	7,055

Sources : Ministry of development and international cooperation and Ministry of communication technology.

Overall, the rate of coverage for landlines and mobile phones increased from 17.6 lines per 100 inhabitants in 2002 to 68.8 lines at the end of 2005, the objective being to reach a global rate of 80 lines per 100 inhabitants by 2009, 24 for landlines and 56 for mobile phones. The number of publitel (public telephones) has grown considerably over the past few years, up to 11,348 facilities throughout the country at the end of 2005, compared to 6933 in 2001.



Data transmission and internet benefited from a national programme to accelerate their development, given their importance for communication and facilitation of data exchange and commercial and financial transactions. In line with the ongoing increase in the number of internet subscribers which rose from 121,000 to 150,200, the number of users jumped from 505,000 in 2002 to about 954,000 at the end of 2005.

In the area of postal services, the main developments in 2005 involved :

- a network expanding to 1429 post offices, up from 1405 in 2004, as reflected in a rate of coverage of one post office per 7055 inhabitants on average;
- more mobile postal facilities in rural zones;

- installation of a website to support various electronic financial transactions (capacity to check on balances, transfers...) and another for paying bills (water, electricity, phone...);
- promotion of intangible postal services that help process remote transfers issued electronically by companies (bills, statements...);
- development of a rapid-post service guaranteed to arrive in the stated timeframe of one day after mailing, with return receipt confirmation;
- modernisation of postal services and financial services by the national postal Board through better use of new information and communication technologies.

So for broadcasting, Television can be seen virtually anywhere in the country on both channel 7 and youth channel 21. Hannibal, a private television station, began operations as did a privately-owned regional radio station (Jawhara) and a cultural radio station. These developments enhanced the country's audio-visual offerings, which over the past few years have benefited from introduction of regional radio stations and very recently the private radio station Mosaique.

C. TOURISM

Unlike the previous year, the main parameters of tourism experienced slower growth in 2005, both internationally and in Tunisia. This slowdown was due in particular to the overall drop in world economic growth, the impact of higher energy prices on transport costs, and ongoing geopolitical tension affecting travellers and insurance costs.

1. TRENDS IN WORLD TOURISM

Despite slower growth, world tourism was able to stand up to the impact of difficulties encountered in 2005, such as natural disasters, airplane accidents, health and terrorist threats and the spectacular increase in oil prices. In effect, the number of international tourist arrivals reached a record high of more than 800 million. This was an increase of 5.5% (vs. 10% in 2004), corresponding to 42 million additional tourists: 19 million in Europe, 10 million in eastern Asia and the Pacific, 7 million on the American continent, 4 million in Africa and 2 million in the Middle East. Results by region show once again that Europe is well in the lead with about 55% of the total number of arrivals (444 million tourists). This increase (4.5% vs. 4.2% in 2004) continued to be relatively low compared to the other regions of the world, but in absolute terms Europe had the highest increase, i.e. 45% of the total. In the southern part of Europe, on the northern rim of the Mediterranean, there were more than 158 million tourists, followed by western Europe (141 million), central and eastern Europe (92 million) and northern Europe (about 53 million).

TRENDS IN WORLD TOURIST ARRIVALS

Regions	In millions of tourists		Share in %		Variation in %	
	2004	2005	2004	2005	2004/2003	2005/2004
Europe	425	444	55.5	54.9	4.2	4.5
Eastern Asia and Pacific	138	148	18.0	18.3	27.8	7.2
America	126	133	16.5	16.5	11.5	5.6
Middle East (including Egypt)	36	38	4.7	4.7	20.0	5.6
Africa ¹	33	37	4.3	4.6	6.5	12.1
South Asia	8	8	1.0	1.0	18.7	0
Total	766	808	100.0	100.0	10.0	5.5

Source : World Tourism Organisation

In eastern Asia and the Pacific there were 148 million tourists in 2005, an increase of just 7.2% vs. 27.8% a year earlier, constituting an 18.3% market share. This slower growth was due in part to the adverse impact of the tsunami that hit the region end December 2004, the ill effects of which carried over into the first quarter of the following year. Northeast Asia saw an increase of 10%, corresponding to 88 million tourists. The hottest destinations were China (+13%), Taiwan (+15%) and Japan (+9%). Africa welcomed 37 million tourists, with faster growth (+12.1%) than in 2004 (6.5%). Tourism to sub Saharan Africa grew by 13% (23 million tourists), well ahead of North Africa where tourism grew by 6.1%. Of these 13.6 million visitors, 6.4 million tourists went to Tunisia. There was slower growth in tourism to the American continent: 5.6% in 2005 vs. 11.5% the year before. This amounted to 133 million people, representing a market share of 16.5% for the second year in a row. Growth was particularly high in South America (+13%), thanks to the higher number of tourists in Venezuela (+23%), Columbia (+22%), Argentina and Brazil (20% for each of these two countries). There were 4% more tourist in North America, involving more than 89 million people or about two thirds of the total for the hemisphere. After a year of high growth, tourists to the Middle East (including Egypt) were up just 5.6% (vs. 20% in 2004), with market share remaining unchanged at 4.7%. The ranking of tourist destinations remained practically unchanged, with France maintaining the first place with 75.3 million tourists and 34 billion euros in earnings from tourism. Spain was in second place with 55.6 million arrivals and 46 billion euros. The United States came in third, China fourth and Italy fifth.

2. TOURIST ACTIVITY IN TUNISIA

a. General trends

Tourism in Tunisia continued to evolve favourably in 2005, reflected in the improved figures for the main parameters, reaching record levels of foreign tourist entries, overall bednights, and earnings in foreign currency. This resulted in a higher share for tourism in GDP in current prices, up from 5.7% to 6%. But added value was up just 7.5% in real terms, compared to 8.2% in 2004, a year characterised by exceptional performance both nationally and worldwide.

¹ Egypt excluded.

MAIN TOURISM INDICATORS

Description	Unit	2003	2004	2005	Variation in %	
					2004/2003	2005/2004
Real growth of added value	%	2.3	8.2	7.5		
Added value in current prices/GDP	%	5.6	5.7	6.0		
Investments						
-In value	MTD	320	320	330	0.0	3.1
-In % of overall GFCF		4.2	4.0	3.9		
-Direct jobs creation	Unit	2,000	2,400	3,600	20.0	50.0
Available capacity						
-End of period	1000 beds	222	226	230	1.8	1.8
-Monthly average	1000 beds	217	223	229	2.8	2.7
Operational accommodation capacity (monthly average)	1000 beds	183	188	193	2.7	2.7
Non resident tourist entries	1000 beds	5,114	5,998	6,378	17.3	6.3
Overall bednights	1000 beds	28,110	33,487	36,310	19.1	8.4
-Non resident tourist bednights	1000 beds	25,301	30,665	33,587	21.2	9.5
-Resident bednights	1000 beds	2,809	2,822	2,723	0.5	-3.5
Occupancy rate ¹						
-Absolute	%	34.7	40.5	43.3		
-Relative	%	42.0	48.7	51.5		
Average length of stay	Days	4.9	5.1	5.3	4.1	3.9
Gross foreign currency earnings						
-In value	MTD	1,903	2,290	2,587	20.3	13.0
-In % of current earnings		11.9	12.3	12.3		
Expenditure per bednight	TND					
-General average	TND	75	75	77	0.0	2.7
-Maghrebians excluded	TND	66	65	70	-1.5	7.7
Expenditure per tourist	TND					
-General average	TND	372	382	406	2.7	6.3
-Maghrebians excluded	TND	551	549	569	-0.4	3.6

Source : Tunisian National Tourism Board ; Ministry of Development and International Cooperation and BCT

Good performance in tourism was favoured by several factors, both internal and external, notably sustained demand from the main European countries. This occurred despite slower economic growth, thanks to a wide range of competitive options, promotional/marketing efforts, and better service. After a year of non-growth, investment was up from 320 MTD in 2004 to 330 MTD in 2005, about 4% of overall GFCF. As in the past, most of this sum served to build new hotel units. Consequently, available beds increased in 2005 by 3684, mainly in the tourist zones of Yasmine-Hammamet (1054 beds), Tunis-Zaghouan (935 beds) and Tabarka-Ain Draham (800 beds). But investment policy in the tourist sector needs to take even greater account of the circumstances and expectations voiced by different tourists.

¹ The absolute occupancy rate is calculated with reference to overall bednights and to available accommodations, while the relative occupancy rate is determined in relation to the same bednights and the accommodations actually offered.

TRENDS IN AVAILABLE CAPACITY PER TOURIST ZONE

Zones	Number of beds (in units)			Structure in %	
	2004	2005	Variation 2005/2004 in %	2004	2005.
Jerba-Zarzis	49,662	49,742	0.2	22.0	21.6
Nabeul-Hammamet	44,830	45,292	1.0	19.8	19.7
Sousse-Kairouan	39,347	38,987	-0.9	17.4	17.0
Monastir-Skanes	24,783	24,721	-0.3	11.0	10.8
Tunis-Zaghouan	22,601	23,536	4.1	10.0	10.2
Yasmine-Hammamet	14,075	15,129	7.5	6.2	6.6
Mahdia-Sfax	11,657	11,968	2.7	5.2	5.2
Gafsa-Tozeur	10,486	10,950	4.4	4.6	4.8
Tabarka-Aïn Draham	5,278	6,078	15.2	2.3	2.6
Bizerte-Beja	2,865	2,865	0.0	1.3	1.2
Sbeitla-Kasserine	569	569	0.0	0.2	0.3
National Total	226,153	229,837	1.6	100.0	100.0

Source : Tunisian National Tourism Board

b. International tourism

(i) Non resident entries

The number of foreign tourists visiting Tunisia in 2005 came in at 6.4 million, an increase of 6.3% vs. 17.3% the year before. This involved mostly Europeans (11.1% vs. 22% in 2004), numbering almost 3.9 million, with share of total up from 58.1% in 2004 to 60.7% in 2005. Broken down by nationality, growth rates were 14.6% (vs. 22.4% in 2004) for the French, 9.9% (vs. 6%) for the Belgians, 9% (vs. 35%) for the English, and 5.6% (vs. 17.9%) for the Italians. On the other hand, the number of German tourists remained basically unchanged at 0.5% (vs. 16.6% a year earlier). Visitors from the Maghreb were down by 0.9%, after growing by 9.9% in 2004. This was the result of the lower number of Libyan visitors (-2.2% vs. 8.3% in 2004), who nonetheless remained in first place for non-resident entries with 1.4 million for the second year in a row.

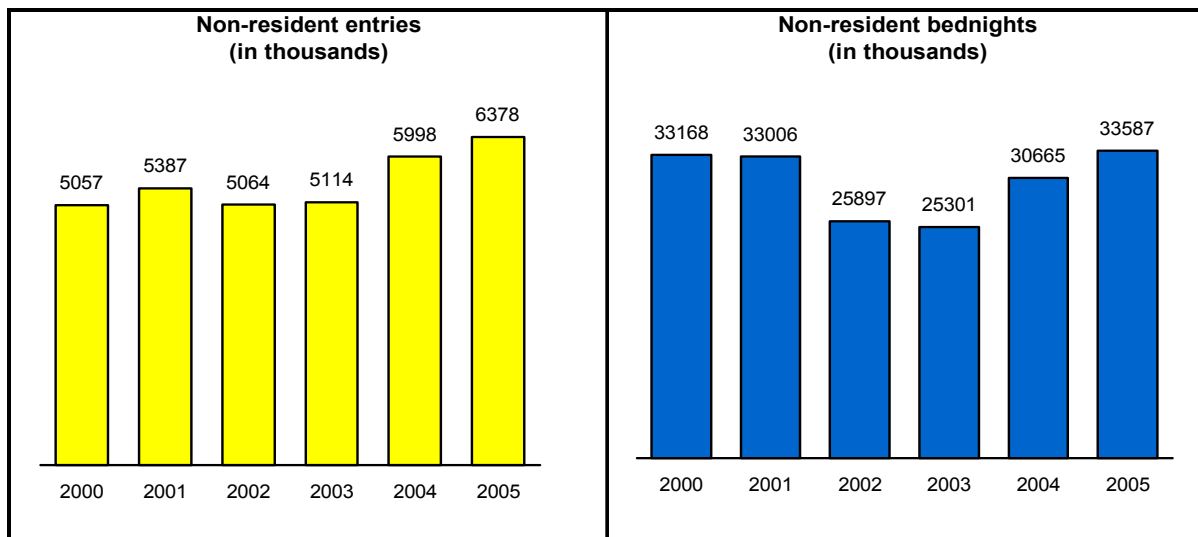
ENTRIES AND BEDNIGHTS OF NON RESIDENTS BY NATIONALITY

Description	Entries (in thousand persons)			Bednights (in thousand units)			Variat. 2005/2004 in %	
	2003	2004	2005	2003	2004	2005	Entries	Bednights
Europe	2,840	3,482	3,869	23,670	28,873	31,670	11.1	9.7
of which :								
France	834	1,021	1,170	5,671	6,835	7,799	14.6	14.1
Germany	488	569	572	5,499	6,535	6,641	0.5	1.6
Italy	380	448	473	2,712	3,251	3,394	5.6	4.4
Great Britain	223	301	328	2,290	2,964	3,234	9.0	9.1
Belgium	133	141	155	1,268	1,396	1,493	9.9	6.9
Czech Repub	90	128	146	984	1,289	1,432	14.1	11.1
Russia	73	99	96	859	1,181	1,210	-3.0	2.5
Spain	78	115	146	626	864	1,139	27.0	31.8
Poland	54	75	123	525	748	1,136	64.0	51.9
Scandinavia	70	81	112	624	646	904	38.3	39.9
Switzerland	86	99	93	650	740	605	-6.1	-18.2
Austria	70	84	86	465	544	516	2.4	-5.1
Netherlands	44	54	66	330	364	444	22.2	22.0
Maghreb	2,179	2,394	2,373	890	866	918	0.9-	6.0
of which :								
Algeria	811	914	931	581	565	631	1.9	11.7
Libya	1,326	1,436	1,404	257	247	243	-2.2	-1.6
Morocco	35	36	30	52	54	44	-16.7	-18.5
Middle East	31	37	37	114	138	149	0.0	8.0
America								
(USA & Canada)	22	29	33	185	243	255	13.8	4.9
Africa, Maghreb								
excluded	18	26	24	93	114	94	-7.7	-17.5
Miscellaneous	24	30	42	349	431	501	40.0	16.2
Total	5,114	5,998	6,378	25,301	30,665	33,587	6.3	9.5

Source : Tunisian National Tourism Board

(ii) Non resident bednights

Despite a slight increase in average stay, non-resident bednights grew more slowly in 2005 than the year before (9.5% vs. 21.2%) to 33.6 million. This drop involved Europeans (9.7% vs. 22% in 2004), whose bednights made up more than 94% of total. The share in total European bednights went down from 20.5% in 2004 to 14.1% in 2005 for the French, from 29.4% to 9.1% for the English, from 19.9% to 4.4% for the Italians, and from 18.8% to 1.6% for the Germans. On the other hand, bednights went up 51.9% for the Poles, 39.9% for the Scandinavians, 31.8% for the Spanish and 22% for the Dutch. Bednights for visitors from the Maghreb enjoyed a degree of recovery, up by 6% after dropping by 2.7% in 2004, thanks to an 11.7% increase in the number of bednights for Algerians (vs. -2.8% in 2004).



(iii) Average length of stay

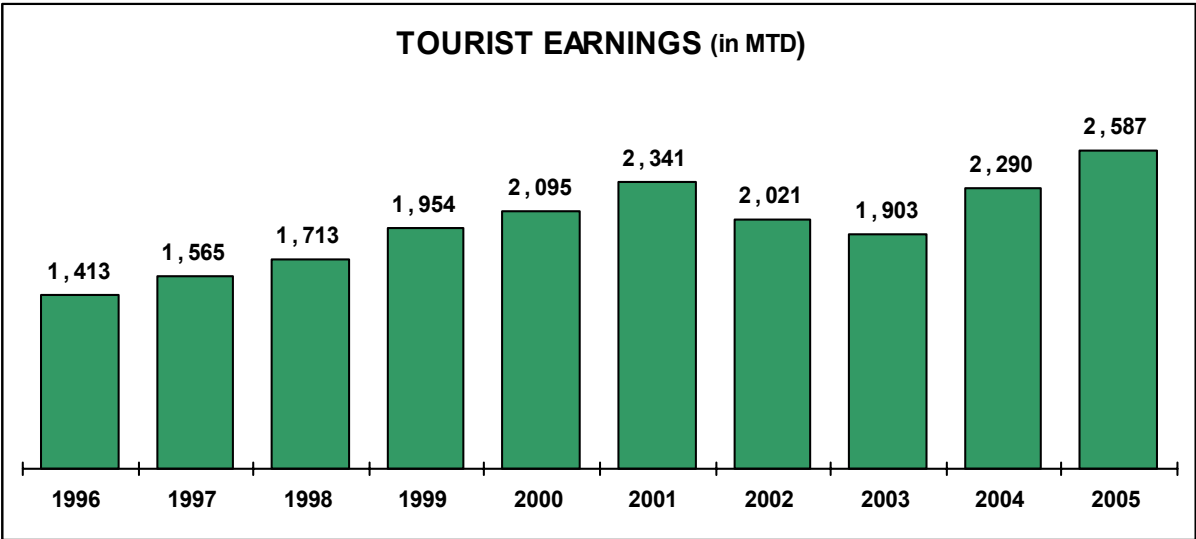
The average length of tourist stay in Tunisia was up from 5.1 days in 2004 to 5.3 days in 2005. This was well below the level recorded several years ago (more than 6 days in 2001) as well as hopes to further improve the rate of occupancy for hotels and to increase profits for tourism. This situation was due in particular to the overall tendency of tourists to take more frequent, shorter vacations in order to experience a wider range of tourist destinations and to take advantage of promotional deals worldwide. Thus the length of stay for Europeans, Tunisia's main clients, has remained unchanged (8.2 days on average vs. 8.3 in 2004). This is the case for the main tourist nationalities: the French (6.7 days in 2005), the Germans (11.6 days), the English (9.9 days) and the Italians (7.2 days).

(iv) Tourist earnings

Tourism has continued to play a major role as the primary source of foreign currency for the country. Thus, thanks to good performance in actual parameters, earnings from tourism were up in 2005 by 13% (compared to 20.3% the year before) to 2587 MTD or 12.3% of current income in the balance of payments for the second year in a row. Average expenditure by tourist, although still weak, also rose, from 382 dinars in 2004 to 406 dinars in 2005, an increase of 6.3%. If visitors from the Maghreb are excluded, the average rises to 569 dinars vs. 549 dinars a year earlier. Average expenditure by bednight went up slightly at 77 dinars vs. 75 in 2004. Despite steady progression, earnings from tourism have not grown very much, despite considerable effort to promote investment and in relation to tourist earning in a number of competing Mediterranean countries, especially Turkey, Morocco and Egypt.

Aside from diversification in the range of tourist options, it would be wise to give ever-greater attention to quality and to attracting new clients from countries that show promise (China, Japan, Australia ...) while also further developing traditional markets. Tapping the considerable cultural potential of all the regions of the country and developing special forms of tourism (such as Saharan tourism, health and leisure, and itineraries that have been carefully planned and adapted to the wants and needs

of tourists) will be sure to make Tunisian tourism ever more dynamic. But there must be ongoing attention to ever-better services, affordable costs, and appropriate commercial policy that quickly adapts to trends worldwide.



Application of a rational price policy that ensures quality services while avoiding cut-rate hotel prices (which can lead to customer dissatisfaction and low yields in the sector) is essential. In effect, no matter how low the price, if quality is not good enough it will be very difficult to maintain good results and ensure customer loyalty. The environment must remain supportive, especially proper maintenance of infrastructure and high standards of cleanliness, especially in hotel areas, while also paying close attention to animation, which is important in attracting tourists and in ensuring profitability for the sector and for related activities such as restaurants, retail trade, etc.

c. Domestic tourism

Despite measures and incentives introduced over the past few years by public authorities to promote domestic tourism and boost its share in overall tourist activity, to meet the expectations of the growing body of local clients (in line with growing means and life styles), and also to ensure better use of existing hotel infrastructure, domestic tourism has not grown as much as had been hoped, despite its considerable potential. In effect, resident bednights dropped by 3.5% in 2005, after virtual stagnation the year before, amounting to just 2.7 million units, only 7.5% of overall bednights vs. 8.4% in 2004 and 10% in 2003. The objective targeted by the State is two-fold: first to reach a minimum of 15%, then to target a gradual increase approaching the level recorded in other countries, especially developed countries where domestic tourism represents about 40% (or more) of overall tourist activity. It is essential, above and beyond the incentives provided by the public Administration, that professionals in the sector and other relevant operators give higher priority to promoting tourism by residents, notably adapting supply and demand, setting carefully calculated, reasonable prices that are affordable for the local population, better use of hotels during low and in-between seasons, and appropriate service for resident clients over the summer season, when they take their annual vacations.

d. Analysis of regional tourism

Overall bednights increased in 2005 at a slower pace than the year before: 8.4% vs. 19.1%, amounting to 36.3 million. This was not the case for Bizerte-Beja (-0.5%) or Sbeitla-Kasserine (-23.3%), but it did apply to the other regions, notably Yasmine-Hammamet (11.8% vs. 52.7% in 2004), Nabeul-Hammamet (10.5% vs. 21%), Jerba-Zarzis (7.3% vs. 25.3%) and Sousse-Kairouan (7.1% vs. 7.2%).

BREAKDOWN OF BEDNIGHTS AND RELATIVE OCCUPANCY RATE BY TOURIST ZONE

Region	Overall bednights						Occupancy rate in %	
	2004		2005		Variation in %		2004	2005
	In thousand	In % of the total	In thousand	In % of the total	2004/2003	2005/2004		
Jerba-Zarzis	8,306	24.8	8,916	24.5	25.3	7.3	56.4	60.2
Sousse-Kairouan	7,246	21.6	7,760	21.4	7.2	7.1	55.0	58.3
Nabeul-Hammamet	5,944	17.8	6,569	18.1	21.0	10.5	42.8	49.6
Monastir-Skanes	3,779	11.3	4,028	11.1	24.2	6.6	53.3	49.7
Yasmine-Hammamet	2,518	7.5	2,816	7.8	52.7	11.8	55.6	56.7
Tunis-Zaghouan	2,142	6.4	2,387	6.6	7.7	11.4	34.2	35.2
Mahdia-Sfax	1,784	5.3	1,930	5.3	12.9	8.2	51.4	55.4
Gafsa-Tozeur	1,029	3.1	1,121	3.1	20.1	8.9	33.2	35.2
Tabarka-Aïn Drahem	514	1.5	566	1.5	7.3	10.1	32.1	34.2
Bizerte-Beja	195	0.6	194	0.5	6.0	-0.5	23.8	23.7
Sbeitla-Kasserine	30	0.1	23	0.1	7.1	-23.3	16.7	15.9
Total	33,487	100.0	36,310	100.0	19.1	8.4	48.7	51.5

Source : Tunisian National Tourism Board

It should be noted that Tabarka-Ain Drahem and Tunis-Zaghouan were the only areas that posted higher growth in tourist bednights in 2005 than in 2004: 10.1% and 11.4% respectively, vs. 7.3% and 7.7% the year before. In line with good progress in bednights overall, the relative average occupancy rate for the most part continued to grow, up from 48.7% in 2004 to 51.5% in 2005, a gain of 2.8 percentage points compared to 6.7 in 2004. Broken down by tourist region, the traditional zones posted the best progress: Nabeul-Hammamet (+6.8 percentage points), Mahdia-Sfax (+4 points), Jerba-Zarzis (3.8 points) and Sousse-Kairouan (+3.3 points), while there was a drop in relative occupancy rates in Monastir-Skanes (-3.6 percentage points) and Sbeitla-Kasserine (-0.8 point) and virtual stagnation in Bizerte-Beja (-0.1 point). By tourist season, the relative average occupancy rate rose by 6.8 percentage points for high season to 92.8%. Middle season posted an occupancy rate higher than the national average for 2005 (53.6% vs. 50.9% in 2004), while low season saw a higher rate of 28.9%, up from 27.3%. But despite some progress, the relative occupancy rate for hotels and various other centres where tourists stay was not as good as could be hoped for, except during the summer season, when there is often overbooking, in line with the flood of late reservations and especially the fact that this is the major vacation period for the year almost everywhere in the world.

3. IMPACT ON THE MAIN SECTORS LINKED TO TOURISM

Sectors of the economy more or less linked to tourism, especially air transport and handicrafts, continued to progress in a manner that was for the most part satisfactory. Air transport, a critical factor for promoting tourism, grew by 6.3% in terms of planes going through the country's airports and by 8.5% in terms of the total number of passengers. This compares to 13.5% and 21.2% respectively in 2004. Handicrafts, considered quite rightly to be an important factor for development of tourism as well as a job-intensive activity that is also export oriented (quite aside from highlighting Tunisia's cultural heritage for tourists) has enjoyed steady development thanks to promotional policy and incentives. Thus investment in the sector grew from 7.6 MTD in 2004 to 9.1 MTD in 2005, with an estimated 4808 jobs created by these investments, up from 4798 in 2004. And more than 2300 artisans have taken advantage of loans from revolving funds, amounting to some 3.7 MTD, compared to 2403 artisans and 4 MTD in 2004, meaning more jobs overall. It should also be noted that handicrafts were responsible for 301 MTD in 2005 exports, most of which (250 MTD or 83%) took place indirectly, i.e. local sale to tourists of consumer goods and souvenirs. This constitutes an increase of almost 13% over the previous year's exports. Thus the sector's share in GDP in current prices has risen over the past few years, coming in at about 4%, expected to grow to 5.6% by 2009 as a result of the various reforms and programmes undertaken, especially in training, creation and innovation as well as promotion of traditional clothing with the local population, with a national day for traditional dress celebrated every year on 16 March.

D. DOMESTIC TRADE

1. GENERAL TRENDS

Reforms to further promote the trade sector and to boost its role in the country's economy continued in 2005. Several measures were adopted to modernise the sector's structures and to introduce further flexibility in its regulatory framework. These efforts target the quality of service and upgrading of the sector through better organised distribution channels, regular market supply, transparency in transactions, and a more pronounced climate of competition. Such reforms are essential to further strengthen the role of the sector in creating a more dynamic economy and to better prepare it for confronting increasingly tough external competition, especially in the context of liberalisation of services under way worldwide in line with WTO agreements and the association and partnership agreement between Tunisia and the European Union.

The main activities and measures undertaken in 2005 were as follows.

- Adoption of a national programme to upgrade distribution channels for agricultural and fishing products. This programme seeks notably to clarify the geographic breakdown of distribution channels for these products, modernise methods for the operating and management of wholesale markets, improve infrastructure and equipment, and reassert the principle of traceability of traded products.

- End of the first stage of the study regarding a 'national interest' wholesale market in the greater Tunis area.
- Passing of law n°2005-60 of 18 July 2005 modifying and adding to law n°91-64 of 29 July 1991 regarding competition and prices. The changes involve in particular strengthening of the consultative and legal role of the council on competition, measures to fight practices that go against competition, that are unfair or speculative and that strengthen oversight of operations involving economic concentration, quite aside from 'excellence' contracts and exclusive trade representations.
- Publication of various regulatory texts that lighten the domestic tax burden and customs duty on import of a number of products (especially oil products), some health sector products, and a number of agricultural and agrofood products.

Furthermore, in the framework of strengthening distribution channels and moderating the sector, especially large-scale stores, the Géant super store opened in Tunisia in September 2005 just outside the capital. This new entry consolidates the commercial base, which had already taken on new importance with Carrefour and Champion, opening the commercial sector to foreign investment in a move to boost the climate of competition in the field of distribution. This orientation will certainly serve consumers in various ways, particularly through supply of a wide range of products at competitive prices and improvement of the quality of services.

The seventh session of the annual «Tunisia Shopping» initiative took place around the time of the November 7th festivities and the second phase of the World Summit on the Information Society (WSIS) held in Tunis from 16 to 18 November. This was also near the month of Ramadan as well as religious and year-end holidays, providing a boost to trade nationwide. In this context, added value in the trade sector, expressed in constant prices, went up by 5.8% in 2005, far higher than the 4.2% increase in GDP growth in real terms. This trend meant a greater contribution by the sector to global economic growth, up by 13.3% vs. 10.2% in 2004. The sector's share of GDP in current prices grew slightly, from 9.3% in 2004 to 9.5% in 2005. The sector's share of investment, including certain tertiary services, remained unchanged at 10.3% of overall gross fixed capital formation (GFCF).

MAIN PARAMETERS OF ACTIVITY IN THE TRADE SECTOR

Description	Unit	2003	2004	2005
Real growth rate	%	6.4	6.4	5.8
Contribution to economic growth	%	11.1	10.2	13.3
Investment ¹	MDT	784	810	863
- Variation	%	4.8	3.3	6.5
- Share in overall GFCF	%	10.4	10.2	10.3

Source : Ministry of Development and International Cooperation.

¹ Investment concerns trade and other tertiary services other than transport, communications, tourism and housing.

2. MARKET SUPPLY AND DISTRIBUTION CHANNELS

Thanks to a combination of several factors (in particular better supply of agricultural and food products, use of buffer stocks, additional imports, and stronger economic controls), supply of various products on the local market, for final consumption as well as corporate use and investment was for the most part steady and incident-free in 2005. But the volume of fresh vegetables supplied to the wholesale market in Bir el Kasaa was down by some 7% from the 2004 figure, while fruits were up just 2%, compared to about 13% and 17% respectively a year earlier. Products of the sea sold on this market also dropped by 3.5% after increasing by almost 8% in 2004. These trends drove up prices for a number of foodstuffs such as tomatoes and potatoes, but ready availability on various other regional wholesale markets contributed overall to a degree of balance on retail markets throughout the country. So the global index for food consumer prices remained pretty much unchanged in 2005 (+0.1% on average), after the previous year's 5% increase. This is because the prices of most products went up only moderately, aside from olive oil and fish.

As for non-food products, market supply also took place under good conditions, thanks to mostly favourable trends for national production and the fact that economic operators are free to secure imports as required. It should be noted that periodic trade events organised throughout the country and sale periods in the winter and fall continued to play an important role in market supply and diversified offerings as well as in keeping prices down. Promotional sales and the lower prices offered by shop owners during the sale periods, religious holidays, and the back-to-school season contributed somewhat to preserving consumer purchasing power and price stability, as reflected in the inflation rate, which fell from 3.6% in 2004 to 2% in 2005.

3. TRENDS IN CONSUMPTION AND SAVINGS

National final consumption recorded a slower pace of growth in 2005, coming in at 4.7% in constant terms, down from 5.2%. Public consumption grew at the same rate as in 2004 (4.4%), while private consumption grew at a slower pace of 4.8%, down from 5.5%.

MAIN INDICATORS OF FINAL CONSUMPTION AND SAVINGS

Description	Unit	2003	2004	2005
Progress of final consumption in current prices	%	7.8	8.8	6.8
-Public	%	6.5	6.9	6.8
-Private	%	8.2	9.3	6.9
Progress of final consumption in constant 1990 prices	%	5.1	5.2	4.7
-Public	%	4.8	4.4	4.4
-Private	%	5.2	5.5	4.8
Average propensity to consume	% GNAI	78.1	78.0	78.7
of which : households	%	62.5	62.7	63.3
GNP/Capita	Dinar	3,122	3,368	3,530
- Annual variation	%	6.9	7.9	4.8
Private consumption per capita	Dinar	2,054	2,235	2,365
- Annual variation	%	7.0	8.8	5.8
Gross national savings	MTD	7,123	7,799	7,968
- Annual variation	%	7.9	9.5	2.2
- Savings rate	% GNAI	21.9	22.0	21.3

Source : Ministry of Development and International Cooperation and National Statistics Institute

In current terms, final consumption also grew more slowly, up 6.8% vs. 8.8% in 2004, in line with slower growth in private consumption (6.9% vs. 9.3%). Given slower growth in GDP in both constant and current prices (4.2% and 6.2% respectively), average propensity to consume increased slightly compared to GNAI, up from 78% to 78.7%. With these developments, national savings grew at a much lower rate in 2005 than the year before: 2.2% vs. 9.5%, to 7,968 MTD or 21.3% of gross national available income (GNAI) compared to 7,799 MTD and 22% the year before.

IV. PRICES

Despite soaring world prices for crude oil, metals and other industrial raw materials, prices in Tunisia did not increase excessively in 2005, neither at the level of production nor at that of distribution, thanks to a macroeconomic framework that has become more and more finely tuned. Monetary policy has addressed mainly price stability and financial balances, underpinned by a flexible foreign exchange policy that contributes to stronger economic competitiveness and by realistic budgetary policy that yields lower public deficits. This kept the increase in domestic demand down to a reasonable level, in a context of greater availability of goods and services. Production of agricultural products and foodstuffs (that account for a sizeable proportion of the basket serving as the basis for calculating price indexes) went up in the wake of better weather. Thus it has been possible to contain the impact of imported inflation while continuing to adjust prices for a number of products. This is done with a view to avoiding the adverse effect on corporate profits of higher production costs resulting from higher expenditure for imports. In this framework, the overall price index for industrial sales recorded an increase similar to the 2004 figure: 3.7% vs. 3.8%. And the general index for household consumption went up only 2%, compared to 3.6% in 2004.

Lower inflation was made possible by virtual standstill in the price of food products, with local production on the rise and prices down for the import of cereals and vegetable oils, as well as the absence of price adjustments for subsidised foodstuffs except for evaporated milk. Recourse to buffer stocks/supplementary imports and enhanced controls (especially during times of high consumption) acted in conjunction with better distribution channels and the holding of trade fairs and promotional events above and beyond the winter and fall sales periods and the annual «Tunisia Shopping» season to play a major role in keeping prices down and thus safeguarding personal purchasing power. Inflation in Tunisia in 2005 was very near that of the countries that are its main partners in the euro zone, especially France and Germany (1.9% for each of these two countries). Inflation in Tunisia was higher than in a number of competing countries like Morocco (1%) and Algeria (1.6%) but lower than in countries like Greece (3.5%), Turkey (8.2%), Egypt (11.4%), South Africa (3.4%) and even Portugal (2.1%) and Italy (2.3%). This helped maintain consumer purchasing power and boosted Tunisia's economic competitiveness.

TREND IN CONSUMER PRICES IN TUNISIA AND PARTNER/COMPETITOR COUNTRIES

(In %)

Country	2001	2002	2003	2004	2005
France	1.8	1.9	2.2	2.3	1.9
Germany	1.9	1.4	1.0	1.8	1.9
Italy	2.3	2.6	2.8	2.3	2.3
Belgium	2.4	1.6	1.5	1.9	2.5
Spain	2.8	3.6	3.1	3.1	3.4
United Kingdom	1.2	1.3	1.4	1.3	2.1
United States	2.8	1.6	2.3	2.7	3.4
Japan	-0.7	-0.9	-0.3	0.0	-0.3
Tunisia	2.0	2.7	2.7	3.6	2.0
Morocco	0.6	2.8	1.2	1.5	1.0
Algeria	4.2	1.4	2.6	3.6	1.6
Egypt	2.4	2.4	3.2	10.3	11.4
Jordan	1.8	1.8	1.6	3.4	3.5
Greece	3.7	3.9	3.5	3.0	3.5
Portugal	4.4	3.7	3.3	2.5	2.1
South Africa	5.7	9.2	5.8	1.4	3.4

Source : IMF

A. INDUSTRIAL SALE PRICES

The overall index for industrial selling prices increased in 2005 at practically the same rate as the year before (3.7% vs. 3.8%). Prices for manufactured goods (especially food products and mechanical/electrical items) grew at a slower pace, while prices for mining products rose once again and those of energy products grew at a faster pace. Prices for the products turned out by agrofood industries were up, but more slowly than in 2004 (2.2% vs. 4.7%), involving slaughterhouse products (3.2% vs. 6.7%), processing of cereals (0.3% vs. 4.1%), and tobacco (1.1% vs. 3.5%).

Selling prices for mechanical and electrical items also grew at a slower pace (1.7% vs. 5.3% a year earlier), due to lower growth in «automobiles, garbage trucks and cycles» (-2.5% vs. 1.1%) and household appliances (-1.5% vs. 2.5%), in conjunction with an appreciably lower increase in prices for steel products (5.8% vs. 18.4%). Similarly, selling prices in chemical industries increased at a slower pace of 2.4% (compared to 2.7% in 2004), involving prices for colouring, paints and glue (0.7% vs. 1.3%), cleaning products (0.6% vs. 4.1%) and toiletries (0.3% vs. 2.8%). Inversely, there was higher growth in the prices of pharmaceutical and fertiliser products: +11.2% and 5.2% respectively vs. 8.9% and 3.9% in 2004.

TREND IN THE INDEX OF INDUSTRIAL SELLING PRICES

(Base 100 in 1990)

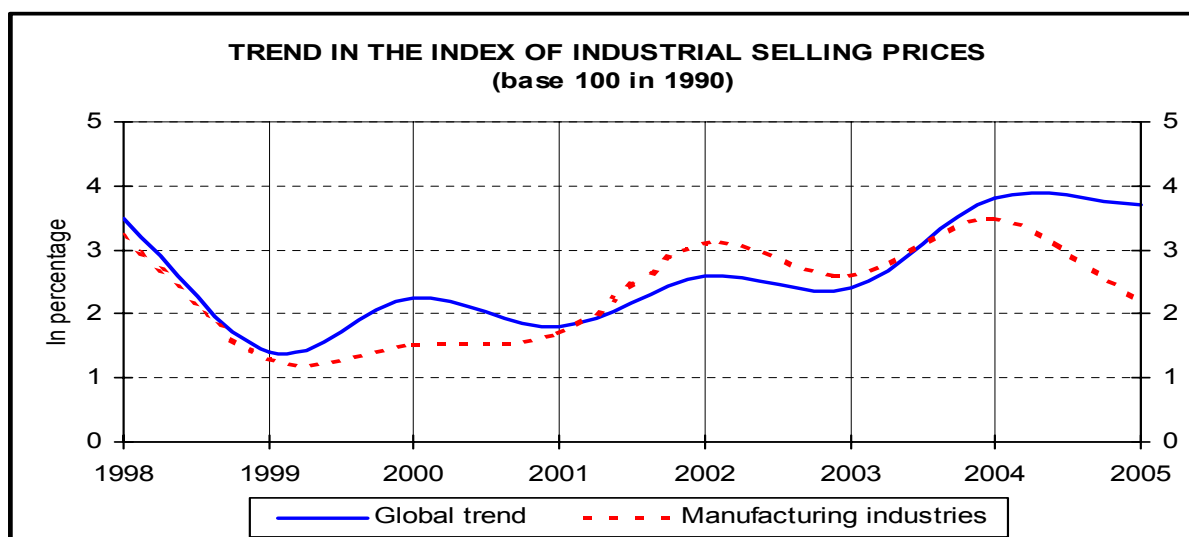
(In %)

Description	2001	2002	2003	2004	2005
General index	1.8	2.6	2.4	3.8	3.7
Manufacturing industries	1.7	3.1	2.6	3.5	2.2
-Agrofood industries	2.1	4.8	3.4	4.7	2.2
-Building materials/ceramics/glass	0.8	4.5	4.9	3.0	5.6
-Mechanical and electrical Industries	1.2	1.0	2.1	5.3	1.7
-Chemical industries	2.1	0.4	3.4	2.7	2.4
-Textiles/clothing-leather/footwear	1.5	0.1	0.5	1.4	1.6
-Miscellaneous manufacturing Industries	1.8	3.0	0.8	1.2	1.3
Mining	-5.8	-0.1	-11.0	-2.7	5.1
Energy	3.0	0.6	3.5	6.1	10.8
-Oil products and gas	2.7	0.2	3.2	6.9	14.4
-Electricity and water	3.5	1.4	4.1	4.5	4.2

Source : National Statistics Institute

Sectors in which selling prices grew more rapidly included in particular building materials/ceramics/glass (5.6% vs. 3% a year earlier). This trend held for «cement, lime and concrete» (4.7% vs. 1.5%), ceramics (11.6% vs. 10%) and glass items (1.6% vs. 1%). Selling prices for the textiles-clothing/leather-footwear sector also posted slightly higher growth (1.6% vs. 1.4% in 2004), despite pressure from tough international competition. This increase concerned mainly hosiery (5% vs. 3.8%), clothing (3.1% vs. 2.4%) and leather items (4.3% vs. stagnation the year before).

In miscellaneous manufacturing industries, the 2005 increase in selling prices was a bit higher than the previous year: 1.3% vs. 1.2%, involving mainly plastic items (6.6% vs. 1.3%). Energy products enjoyed selling prices that continued to grow at a faster pace (10.8% vs. 6.1% the year before). This was due mainly to soaring world prices for oil-based products and natural gas (14.4% vs. 6.9%) as well as electricity (5% vs. 4.7%). Selling prices for mining products rose once again in 2005, after several years of negative growth: 5.1% vs. -2.7% a year earlier. Recovery was due to steep increases in world commodity prices in conjunction with appreciation of the US dollar recorded in the second half of the year.



B. CONSUMER PRICES

Expressed in terms of monthly averages, the general price index for household consumption (base 100 in 2000) was up just 2% in 2005, compared to 3.6% the year before. This is the same rate of increase as in 2001, the lowest for about three decades. In terms of sliding, price increases from end 2004 to end 2005 rose from 1.1% to 3.9%, influenced by pressure since August 2005 on the prices of several food products and the increase in fixed prices for a number of goods and services such as oil products starting from June.

TREND IN THE GENERAL INDEX OF HOUSEHOLD CONSUMER PRICES

(Base 100 in 2000)

(In %)

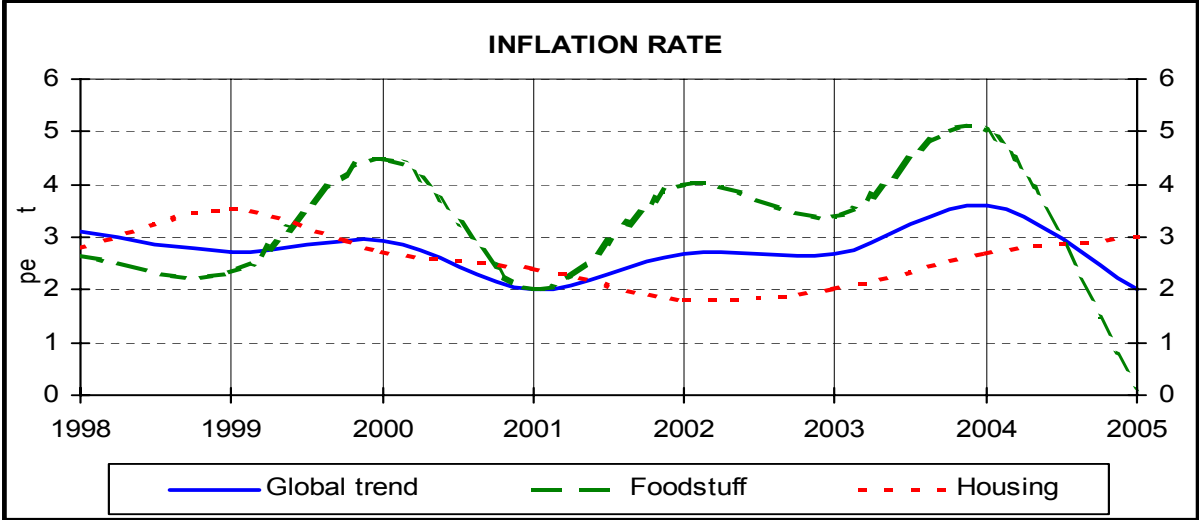
Description	In terms of annual slide					Yearly averages	
	Dec. 2004	Mar. 2005	June 2005	Sept. 2005	Dec. 2005		
	Dec. 2003	Mar. 2004	June 2004	Sept. 2004	Dec. 2004	2004/2003	2005/2004
General index	1.1	1.5	1.3	2.4	3.9	3.6	2.0
Food	-0.6	-0.4	-1.6	0.5	3.7	5.0	0.1
Housing	2.7	2.8	2.6	2.9	3.8	2.7	3.0
Cleaning, health and personal care	1.3	2.7	4.5	5.3	6.0	4.0	4.1
Transport & Communications	3.4	4.5	4.5	6.1	5.7	3.4	4.8
Clothing	1.4	1.2	3.5	1.8	3.4	1.6	2.9
Leisure, culture & misc.	2.2	2.3	1.3	2.0	2.3	2.5	1.8

Source : National Statistics Institute

Trends in consumer prices was marked in 2005 by stable food prices, lower increases for the item «leisure, culture and miscellaneous» and faster growth for other groups of products, especially transport, communications and clothing.

Prices for food products, representing the largest share in the household basket (36.5%), increased an average of only 0.1% vs. 5% in 2004. This was due mainly to the drop in prices for agricultural products (-3% vs. 7.5%), especially fruits (-8.6% vs. 4.5%), vegetables (-3.9% vs. 7.3%) and eggs (-2.8% vs. 10.7%). On the other hand, prices grew at a faster pace for processed food products (3.7% vs. 2.1%), mainly oils (17.2% vs. 2.1%) and non-alcoholic beverages (5.4% vs. 2.4%).

If food products are excluded, price hikes would have amounted to 3.1% vs. 2.8% the year before, influenced by higher growth in non-food manufactured items (3.5% vs. 2.6%), while the cost of services experienced slower growth (3% vs. 3.2%). Transport and communication prices rose by 4.8% vs. 3.4% in 2004, influenced by the increased cost of personal transport (10.2% vs. 4.5%), in line with higher fuel prices, up at an annual rate of 13.1%.



Prices relating to «cleaning, health and personal care» went up at about the same rate as the year before (4.1% vs. 4%). Faster growth in cleaning products and detergents (4.9% vs. 2.3%) and health services (4.5% vs. 3.1%) was offset by slower growth in prices for personal care and medicine (4.1% vs. 5.1%) and toiletries (2.9% vs. 3.2%).

Housing costs increased at a faster pace than in 2004 (3% vs. 2.7%). This slightly faster pace involved prices for energy products (5.3% vs. 3.8% in 2004), influenced by higher prices for gas (9%) and electricity (4.9%) as well as higher prices for cleaning and home repairs (2.7% vs. 1.3%), furniture and bed linens (2.1% vs. 1.3%).

Clothing prices increased at a higher rate in 2005 (2.9% vs. 1.6% a year earlier). This involved women’s clothing (4% vs. 0.2%), footwear (4% vs. 1.4%), men’s clothing (2.4% vs. 1.4%) and children’s clothing (2.2% vs. 0.3%). Prices for fabric and notions, second hand clothing, and clothing accessories went up more slowly.

Leisure, culture and miscellaneous costs went up at a moderate pace (1.8% vs. 2.5% the year before). There was slower growth in prices for tobacco and cigarettes (1.1% vs. 3.4%) and education costs (2.2% vs. 2.6%), while prices for items required for leisure activities and expenditure for carrying out these activities fell by 0.7% compared to +0.6% the year before.

Price trend by regime was characterised by a major slowing in the growth of freely set prices, which depend on supply and demand, up just 1.7% on average vs. 3.7% in 2004.

Fixed prices grew at a slower pace, up 2.4% vs. 3.1% a year earlier, given the impact of higher prices for fuel, electricity, gas, water, medicine, cement, lime, alcoholic beverages, school books, as well as transport and insurance rates.

In terms of annual sliding, faster growth in prices (3.9% at the end of December 2005 vs. 1.1% a year earlier) involved both freely set prices (3.9% vs. 0.7%) mainly foodstuffs (4.4% vs. -0.9%), and those products for which prices are regulated or aligned (3.6% vs. 1.6%) especially non food products (4.3% vs. 2.2%). Products for which prices are freely set contributed more to price sliding at end 2005 than did those of regulated products : 2.7 points and 1.2 of a percentage point respectively, compared to 0.5 point and 0.6 of a percentage point a year earlier.

TREND IN PRICE SLIDE BY REGIME (Base 100 in 2000)

Description	Variation (%)		Contribution (% points)	
	Dec2004/Dec2003	Dec2005/Dec2004	Dec2004/Dec2003	Dec2005/Dec2004
Unregulated goods	0.7	3.9	0.5	2.7
.Food	-0.9	4.4	-0.2	1.3
.Non food	1.9	3.6	0.7	1.4
Regulated goods	1.6	3.6	0.6	1.2
.Food	0.0	1.3	0.0	0.2
.Non food	2.2	4.3	0.6	1.0
Overall	1.1	3.9	1.1	3.9

Source : National Statistics Institute

C. INTERVENTION OF THE GENERAL EQUALISATION FUND

Costs for the general equalisation fund (CGC) were down by 7.1% in 2005 (after a 28.3% increase a year earlier), coming in at 243 MTD. They represented 0.7% of nominal GDP, practically the same rate as in 2004. Lower costs were the result of the lower level of subsidies for vegetable oil (-11.6 MTD), cereals and by-products (-4 MTD) and school paper (-3.2 MTD). This drop was influenced by the lower cost of imports in terms of dinars for hard wheat (-14.4%) and soft wheat (-13.9%) and the drop in quantities and prices for import of cooking oil.

TREND IN GENERAL EQUALISATION FUND OUTLAYS

(In MTD)

Description	2000	2001	2002	2003	2004	2005
Cereals and by-products	152.9	181.2	150.2	123.1	176.4	172.4
Vegetable oils	42.2	34.0	49.2	62.3	66.7	55.1
Milk	11.8	9.8	7.8	5.7	6.3	6.4
School paper	15.0	15.4	14.7	12.8	12.3	9.1
Others	3.4	7.5	4.3	0	0	0
Total	225.3	247.9	226.2	203.9	261.7	243.0

Source : Ministry of Trade and Handicrafts.

Costs for the general equalisation fund were financed by a 230 MTD budgetary allocation, the remainder being covered by core resources. The Fund's financial situation would have been better if it had not been for appreciation of the US dollar, the main currency for billing and payments for import of subsidised products.

V. EMPLOYMENT AND WAGES

Job creation continued to be a national priority, given the challenges posed by new conditions on the job market, especially high additional demand from the growing number of graduates of higher education. Greater opening of the economy to the outside world took place in a context of tougher competition, weighing heavily on critical aspects of the economy and requiring special efforts to maintain existing jobs at a time when new opportunities available through globalisation need to be properly tapped to boost employment and reduce the unemployment rate.

To win the battle for jobs, authorities continued in 2005 to carry out a range of activities and measures to stimulate economic growth and promote (mainly private) investment, while further developing promising sectors, characterised by higher added value and strong potential for generating new jobs. Furthermore, companies are being encouraged to recruit young candidates, especially graduates of higher education, in order to boost the supervisory rate. And incentives are being offered to these graduates to set up their own businesses.

In the framework of this pro-active job-promotion policy, emphasis is also put on intensifying mechanisms and various programmes are being implemented to improve the employability of job seekers and to maintain existing jobs. Thus the 2005 finance law introduced legislation governing a new type of contract for reinsertion in professional life, which took effect in January 2005. This provides job seekers with a second internship to help them get a hold in professional life. Similarly, a «contract-training» system for reintegration in professional life was set up to help those who have lost their jobs because of a bad economy and/or technical reasons. Consequently, there have been very good results in meeting additional job demand and in stabilising unemployment. 76,500 new jobs were created in fishing and non-agricultural activities in 2005, up from 74,400 the year before. The unemployment rate remained at 14.2% of the working population for the second straight year, down from 16% in 1999.

But despite these efforts and the ensuing positive results, employment remains one of the major challenges that must be met by the country working as a whole, given the ever growing volume of additional demand and qualitative changes in its structure, marked by an ongoing increase in the number of graduates of higher education. As for job availability, the solution consists in strengthening the capacity of the Tunisian economy to grow at a faster pace and generate new businesses and innovative undertakings with high job creation potential. The role of the private sector is essential to increase productive investments and support State efforts to keep unemployment down and to strengthen social balance and the population's well being.

As for wages, new negotiations between social partners yielded a three-year agreement covering the period 2005 to 2007, helping employees in the sectors governed by these collective agreements and those in the civil service. There was agreement on wage increases and the first portion took effect in May 2005 in several

sectors of activity. Similarly, on Labour Day (1 May 2005), the decision was announced to increase legally mandated minimum wage increases to keep up with higher consumer prices and thus maintain the purchasing power of low-income workers.

In the social realm, the authorities continued to take action to improve the rate of social security coverage, with a target of 95% in 2009 vs. 87% in 2005. Socio-professional categories with special needs benefited from special attention by the State, through strengthening of the national programme to help needy families and granting of direct financial aid to pupils and students in the most disfavoured segments of the population.

A. EMPLOYMENT

The job market was boosted in 2005 by the positive effects of growth in tourism, transport and communications along with recovery in construction/civil engineering thanks to higher global investment, both public and private, and promotion of jobs in the framework of the many programmes and mechanisms targeting this goal. Thus jobs in fishing and non agricultural activities increased by about 3% in 2005 to 76,500 posts, meeting about 94% of additional demand compared to 91.5% in 2004 and an objective of 95% in the Xth Development Plan. The unemployment rate thus remained stable at 14.2% of the working population, estimated at 3.4 million people.

Contributing to promotion of small-scale initiatives that are job intensive, the Tunisian Solidarity Bank (BTS) financed 7570 projects in 2005 at a cost of some 37 MTD. This generated 11,783 new jobs, compared to 12,211 the year before. Breakdown of projects financed by the BTS by region continued to be marked by concentration in the north eastern areas of the country with 2894 initiatives (38.2% of total), followed by the Centre-East with 1263 initiatives (16.7% of total). By sector of activity, interventions by the BTS, as in the past, went largely to market services and small trades: 6213 initiatives, about 82% of all projects financed. From creation of the BTS through the end of 2005, a total of 196,000 loan applications have been submitted and 82,000 approved for total funding of 326 MTD, generating almost 119,000 jobs.

Temporary employment in the framework of make-work programmes was funded by a budgetary allocation of 94.7 MTD in 2005 vs. 105.6 MTD in 2004. Of these funds, 59.5 MTD went to nation-wide initiatives and 35.2 MTD to regional initiatives. The latter amount includes 26.4 MTD for the regional development programme (PRD) and 8.8 MTD for the regional development sites programme (PCRD). These activities focus on forestry and water/soil conservation works, generating 4.8 million workdays or the equivalent of 19,200 jobs on a year round basis of 250 workdays. This compares to 3.7 million workdays and 14,800 jobs a year earlier.

Programmes to help create and consolidate jobs were funded by 100.9 MTD from the budget, 80 MTD affected to the National Job Fund (21-21). Intervention by this fund continued to involve mainly vocational training and improved employability of graduates of higher education as well as support and assistance to young promoters

in launching their initiatives. Thus some 119,000 people, mostly from the inland areas of the country (vs. 118,400 in 2004) were the beneficiaries of this Fund. From start up of operations in 2000 through the end of 2005, 566,000 have received financing from the job fund and 182,000 (about 32%) having opted to start their own businesses.

PROGRAMMES IN SUPPORT OF EMPLOYMENT

(In MTD)

Description	2002	2003	2004	2005	Variations 2005/2004 in %
Temporary employment in sites	71.2	144.0	105.6	94.7	-10.3
-National sites	40.7	52.0	66.2	59.5	-10.1
-Regional sites	30.5	92.0	39.4	35.2	-10.7
. Regional development programme (PRD)	20.5	82.0	29.4	26.4	-10.2
. Regional development sites programme (PCRD)	10.0	10.0	10.0	8.8	-12.0
Assistance in job creation and consolidation	109.2	95.4	102.0	100.9	-1.1
-Integrated rural development programme	1.9	0.1	0.9	1.8	100.0
.Agriculture & fishing	1.9	0.1	0.9	1.8	100.0
.Small trades	0	0	0	0	
-Regional development programme	3.6	3.4	7.7	6.5	-15.6
-Integrated urban development programme (PDUI)	7.0	6.2	4.5	5.4	20.0
-National fund to promote handicrafts and small trades (FONAPRA)	16.7	5.7	8.9	7.2	-19.1
-National Job Fund (21-21)	80.0	80.0	80.0	80.0	0
Programmes for insertion into professional life	14.4	16.9	23.3	29.7	27.5
-Training programmes for initiation into professional life (SIVP)	7.9	11.2	15.3	21.4	39.9
.SIVP1	7.1	9.7	12.8	18.4	43.8
.SIVP2	0.8	1.5	2.5	3.0	20.0
-Fund for professional initiation & adaptation (FIAP)	6.3	5.2	7.2	7.4	2.8
-Training-employment contracts (CEF)	0.2	0.5	0.8	0.9	12.5
TOTAL	194.8	256.3	230.9	225.3	-2.4

Source : Ministry of Development and International Cooperation and Ministry of Employment and General Commissariat for Regional Development

The integrated rural development programme (PDRI), which deals essentially with promotion of small scale farms, management of natural resources and better living conditions in rural areas, disposed of 1.8 MTD in 2005, up from 0.9 MTD in 2004. 255 jobs were created through this programme, up from 127 a year earlier. The regional development programme (PRD) and the integrated urban development programme (PDUI) continued to play an important role in boosting employment, especially for young people in rural areas and in high-population, low-income urban areas. 2005 funding amounted to 6.5 MTD for the PRD and 5.4 MTD for the PDUI, compared to 7.7 MTD and 4.5 MTD a year earlier.

The intervention of the national fund to promote handicrafts and small trades (FONAPRA) in support of employment in 2005 helped 3705 initiatives via the banking system. Of this total, 1793 initiatives were funded for total investment of 21 MTD. Medium term bank loans came in at 12.6 MTD and that of State budget allocations to 7.2 MTD, while the remainder (1.2 MTD) was approved in the form of self-financing. These projects generated some 6187 jobs, compared to 6616 in 2004.

Training programmes for initiation into professional life (SIVP) disposed of a higher volume of funds: 21.4 MTD vs. 15.3 MTD in 2004. 18.4 MTD went to the SIVP1

programme concerning graduates of higher education and 24,313 SIVP contracts were signed (18,492 for SIVP1 and 5821 for SIVP2) compared to 18,174 contracts for the two programmes in 2004. 7442 young interns had their first taste of professional activity, 5296 under the first programme and 2146 under the second, compared to 3924 and 1697 respectively a year earlier, representing a global rate of recruitment of 30.6%.

The fund for professional initiation and adaptation (FIAP) continued to provide additional training for young people looking to enter professional life as well as workers who have lost their jobs so that they can qualify for new jobs. This Fund disposed of 7.4 MTD in 2005, compared to 7.2 MTD in 2004 and helped 14,112 beneficiaries: 8003 received support and assistance to launch their own initiatives and 6109 received certification for a salaried position.

Training-employment contracts (CEF) for young people with a middling level of education mobilised 0.9 MTD in 2005 vs. 0.8 MTD the year before. The number of signed contracts came in at 2703 and the number of young people who were effectively launched in professional life came in at 1562. State assumption of 50% of salaries paid by the companies recruiting new graduates of higher education came in at 1963 in 2005, compared to 2808 a year earlier.

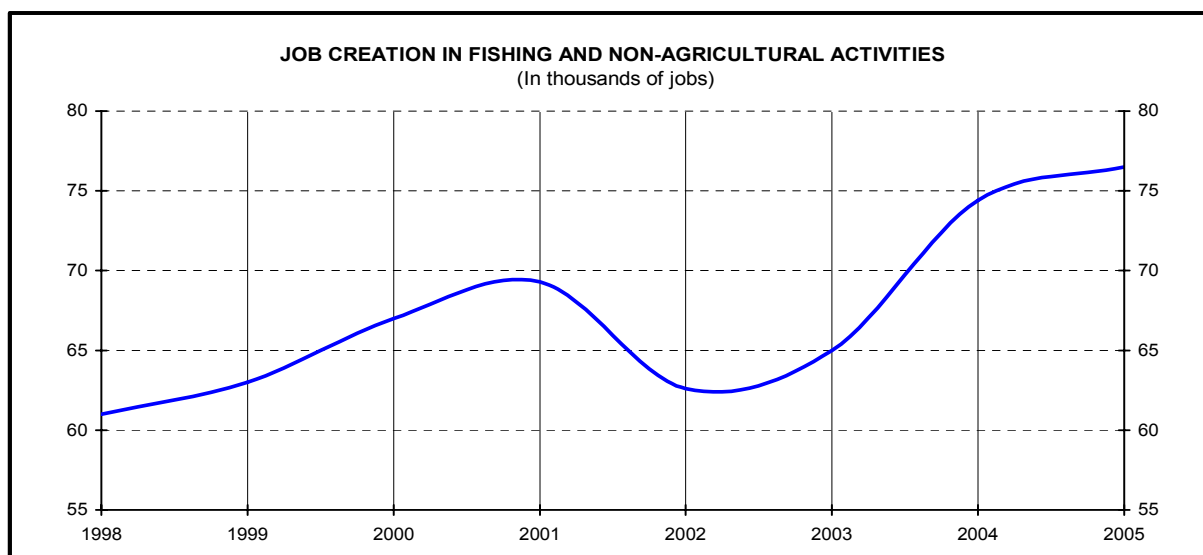
Broken down by sector, there was a sizeable increase in the number of new jobs in fishing, thanks to the higher level of investment: 940, compared to 550 in 2004. Construction and civil engineering also enjoyed a higher number of new jobs : 5800 compared to 5500 a year earlier, in the wake of the faster pace of investment in housing construction and good performance in the economy as a whole. Job creation in transport and communications continued to grow, reaching 9000 jobs vs. 8750 in 2004. This was made possible by the sizeable increase in investment in transport and by sustained progress in new information and communication technologies.

JOB CREATION IN FISHING AND NON-AGRICULTURAL ACTIVITIES (Number of jobs)

Description	2001	2002	2003	2004	2005
Fishing	1,200	350	650	550	940
Mining and energy	500	220	250	200	200
Building & civil engineering	5,000	4,770	4,850	5,500	5,800
Manufacturing industries	20,800	18,000	18,400	18,600	18,500
Transport & communications	6,200	6,000	6,000	8,750	9,000
Tourism	3,000	1,600	2,000	2,400	3,600
Other services	25,800	25,000	24,650	28,800	29,800
Government services	6,800	6,660	8,200	9,600	8,700
Total	69,300	62,600	65,000	74,400	76,540

Source : Ministry of Development and International Cooperation and Ministry of Employment

The number of new jobs in tourism was up considerably (by 50%) to 3600 jobs, in line with the higher level of activity in the sector, although at a slower pace than the year before. Other market services and manufacturing industries continued to generate the highest proportion of new jobs : 63.1% of total new jobs excluding agriculture vs. 63.7% in 2004.



B. WAGES

Wage negotiations began in March 2005 between representatives of wage earners and employers in the sectors governed by collective agreements and in the civil service. A new three-year agreement was reached, the sixth of its kind since 1990, covering the period 2005-2007. Furthermore, to maintain purchasing power for low income groups, the authorities decided to increase guaranteed minimum wages effective 1 September 2005. Thus the guaranteed minimum interprofessional wage (SMIG) went up by 6.032 dinars a month for a 48 hour work week and by 5.027 dinars for a 40 hour work week, for new monthly totals of 224.224 and 194.827 dinars respectively.

TREND IN MINIMUM LEGAL WAGES

(In dinars unless otherwise indicated)

Description	July 2001	July 2002	July 2003	July 2004	Sept. 2005	Variation in %	
						July 2004 July 2003	Sep.2005 July 2004
Guaranteed minimum inter-professional wage (SMIG)							
-Hourly SMIG (in millimes)							
. 48-hr week	940	974	1,015	1,049	1,078	3.3	2.8
. 40-hr week	986	1,020	1,061	1,095	1,124	3.2	2.6
-Monthly SMIG ¹							
. 48-hr week	195.520	202.592	211.120	218.192	224.224	3.3	2.8
. 40-hr week	170.905	176.799	183.906	189.800	194.827	3.2	2.6
Guaranteed minimum daily agricultural wage (SMAG)	6.059	6.259	6.509	6.709	6.909	3.1	3.0

Sources : Ministry of Social Affairs and solidarity and Official Journal of the Republic of Tunisia

The guaranteed minimum daily agricultural wage (SMAG) went up by 200 millimes to 6.909 dinars per workday. The technicity premium was extended to specialised agricultural workers (425 millimes) and to skilled workers (805 millimes). This premium is in addition to the SMAG, making up the overall daily wage for agricultural workers.

¹ Excluding the monthly TND 5 transport allowance instituted in July 1986.

Average annual wages for all sectors taken together increased by 5.2% in 2005, to 6795 dinars. The increase amounted to 11.8% in agriculture and fishing totalling 2526 TD, 3.1% in non agricultural production to 5938 dinars, and 8.3% in the civil service to 10,971 dinars. These rates of increase being higher than the 2% inflation rate, wage earners enjoyed a real increase in purchasing power.

The number of wage earners continued to rise in 2005, up to 2,082,000 people from 2,027,000 a year earlier: 175,000 in agriculture/fishing, 1,434,000 in non agricultural production, and 473,000 in the civil service. The economy's overall wage burden thus rose by 8% to 14,143 MTD, representing 38% of nominal GDP vs. 37.4% in 2004.

VI. INVESTMENT

In line with objectives set by the Xth development plan and those included in the presidential programme for the period 2005-2009, notably the setting up of 70,000 companies or initiatives over this five year period, investment promotion (especially private investment) continues to be a strategic axis of national economic policy. In effect, aside from building production capacity, improving the pace of economic growth and promoting exports, investment contributes to job creation, especially among graduates of higher education, thus helping to reduce the unemployment rate. 2005 was also marked by adoption of new measures to encourage private initiative and accelerate the launching of new businesses, notably:

- strengthening of incentives to promising activities and encouraging new promoters and small businesses to increase intangible investments;
- creation of the bank to finance small and medium size businesses (BFPME) in early March 2005;
- creation of three companies specialised in the field of developing economic spaces for the textile/clothing, agrofood and ICT sectors;
- reduction of the minimum capital required to set up certain kinds of companies, such as limited liability companies (minimum of 1000 dinars vs. 10,000 dinars previously) and shorter time frames for obtaining authorisation to set up individual projects;
- promulgation of a law governing spin-offs and another governing economic public interest business centres;
- creation of a start-up fund in the form of mutual investment funds, meant to build capital stock equity for innovative projects prior to actual start-up.

A. OVERALL TRENDS IN INVESTMENT

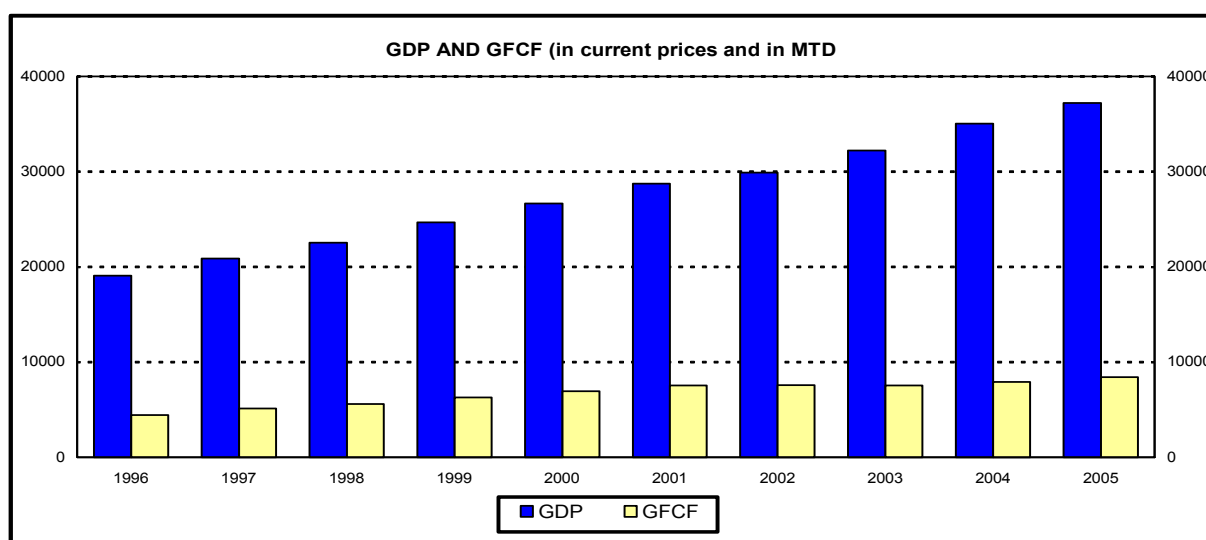
Continuing on the road to recovery that began in 2004, gross fixed capital formation (GFCF) went up 6.3% in 2005 to 8,410 MTD, 22.6% of GDP for the second straight year, compared to 23.4% in 2003. This trend occurred despite the impact of dismantling of the multifibre agreements and tougher foreign competition for exports and investments in the textile/clothing sector, above and beyond the repercussions of soaring world prices for energy and industrial raw materials on production costs. The increase in investment was due mainly to ongoing implementation of various programmes and projects launched under the Xth development plan, especially to improve basic infrastructure, promote human resources and modernise the banking and financial system. It was also favoured by the various measures taken to overcome the difficulties encountered by sectors such as textiles/clothing, tourism and commerce due to reigning economic conditions.

TREND IN MAIN INDICATORS OF GROSS FIXED CAPITAL FORMATION

Description	2002	2003	2004	2005
Global GFCF (in MTD)	7,607	7,536	7,914	8,410
Variation (in %)	0.9	-0.9	5.0	6.3
Investment rate (in % of GDP)	25.4	23.4	22.6	22.6
Structure of GFCF by economic agent (in %)				
Public sector	43.6	42.2	44.6	43.7
Private sector	56.4	57.8	55.4	56.3

Source : Ministry of development and international cooperation.

Private sector investments were up 8%, after more or less stagnating in 2004 (+0.6%), bringing their share of global GFCF from 55.4% to 56.3%. This trend was of course tied to expectations of sustained private consumption following the wage increase and greater number of new jobs as well as higher external demand in anticipation of economic expansion in the European Union. The faster pace in implementation of upgrading programmes, notably in industry and transport, is also worth noting. By the end of 2005, 2200 industrial company upgrading plans had been approved for total investments of 3,375 MTD, compared to 1933 companies and 2,874 MTD at the end of 2004. The number of companies providing services to industry with approved upgrading plans increased from 73 with investments worth 31 MTD to 85 with investments worth 36 MTD.



And foreign direct investment (FDI) grew by a significant 27.6% in 2005 (vs. 5.9% the year before) to 1,016 MTD or 12.1% of global GFCF. Their share in nominal GDP increased from 2.3% in 2004 to 2.7% in 2005. This trend was due to higher investment flows for energy (386 MTD vs. 274 MTD in 2004) and manufacturing industries (630 MTD vs. 522 MTD), as well as sale of shares in the capital of the Bank of the South to non residents for a total amount of 98 MTD.

B. GROSS FIXED CAPITAL FORMATION BY BRANCH OF ACTIVITY

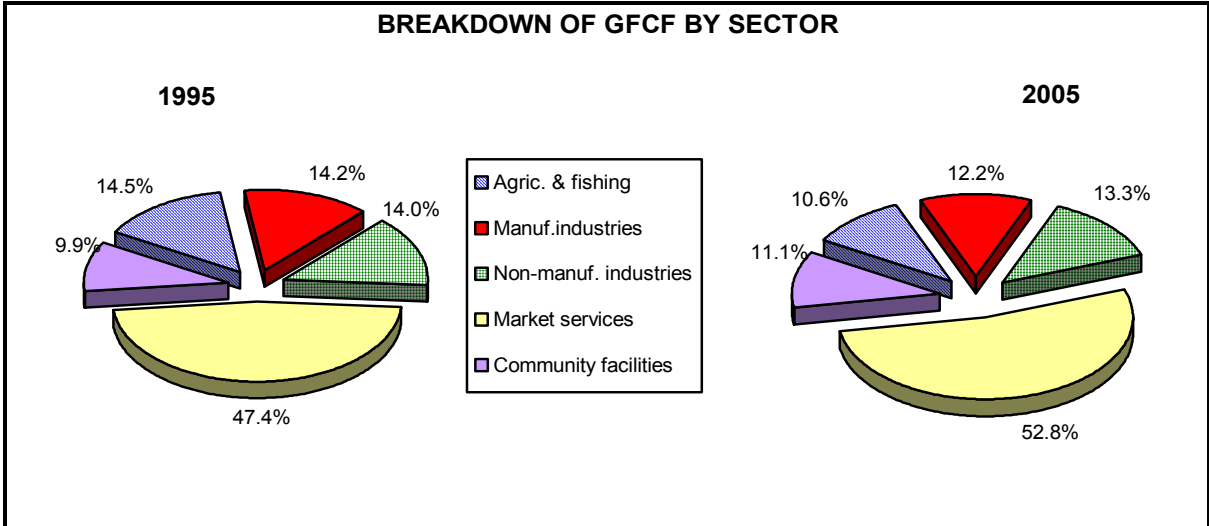
Investment in 2005 increased in most sectors, but especially hydrocarbons (17%), fishing (18.8%) and transport (22.1%). GFCF in manufacturing industries and tourism enjoyed a degree of recovery, but investment in agriculture grew at a slower pace. Breakdown by sector remained marked by a dominant share for market services, up

from 51.9% to 52.8%, influenced mainly by the large increase in GFCF in transport and housing construction. The share of agriculture and fishing and that of manufacturing industries, on the other hand, were down slightly, from 11% to 10.6% for the former and from 12.5% to 12.2% for the latter. And while the energy sector took advantage of a larger share of investments (10.8% vs. 10.6% in 2004), the share of collective equipment decreased from 11.7% to 11.1% because of slow growth in GFCF (1.3% vs. a drop of 6.9% the year before).

GROSS FIXED CAPITAL FORMATION BY BRANCH OF ACTIVITY

Description	Value in MTD			Variation in % 2005/2004	Structure in %		
	2003	2004	2005		2003	2004	2005
Agriculture & fishing	780	870	890	2.3	10.4	11.0	10.6
Mining	24	33	40	21.2	0.3	0.4	0.5
Energy (water, electricity & hydrocarbons)	730	837	905	8.1	9.7	10.6	10.8
Manufacturing industries	1,021	993	1,030	3.7	13.5	12.5	12.2
Construc. & civil engineering	145	150	170	13.3	1.9	1.9	2.0
Market services	3,842	4,106	4,438	8.1	51.0	51.9	52.8
Community facilities	994	925	937	1.3	13.2	11.7	11.1
Total	7,536	7,914	8,410	6.3	100.0	100.0	100.0

Source : Ministry of Development and International Cooperation



1. AGRICULTURE AND FISHING

After increasing by 11.5% in 2004, investment in the sector increased by just 2.3% in 2005, coming in at 890 MTD. This slower pace was due to public sector GFCF that remained at an unchanged level of 415 MTD (46.6% of total). Public investment, mainly by the Administration, continued to go particularly to agricultural hydraulics, forestry and water/soil conservation. Private investment was up by some 4% to 475 MTD, 53.4% of total GFCF in the sector, compared to 455 MTD (52.2%) a year earlier. These funds were invested for the most part in agricultural hydraulics, livestock, tree crops and fishing as well as acquisition of agricultural material.

Breakdown of investment by activity shows that agricultural hydraulics continued to dominate, absorbing more than 40% of total, some 368 MTD. 59% of these investments were made by the Administration, notably construction of dams and

waterways and equipping of irrigated land. Virtually all the rest was provided by private parties to develop agricultural land and expand irrigated crops.

GROSS FIXED CAPITAL FORMATION IN AGRICULTURE AND FISHING

Description	Value in MTD			Variat. in % 2005/2004	Structure in %		
	2003	2004	2005		2003	2004	2005
Agricultural hydraulics	318	352	368	4.2	40.8	40.6	41.3
Agricultural material	59	84	89	6.0	7.5	9.7	10.0
Livestock	103	108	112	3.7	13.2	12.4	12.6
Tree farming	65	76	81	6.6	8.3	8.7	9.1
Fishing	80	48	57	18.8	10.3	5.5	6.4
Forestry	49	58	58	0.0	6.3	6.7	6.5
Water & soil conservation (CES)	47	56	47	-16.1	6.0	6.4	5.3
Various integrated projects	46	68	61	-10.3	5.9	7.8	6.9
Studies, research & extension	13	19	17	-10.5	1.7	2.2	1.9
Total	780	870	890	2.3	100.0	100.0	100.0

Source : Ministry of Development and International Cooperation

Investment in livestock grew by 3.7% in 2005 to 112 MTD, about 80% of which was made by private parties to build up breeding stock. Investments to acquire agricultural material, mostly by the private sector, increased by 6% to 89 MTD, 10% of overall investment in agriculture and fishing. GFCF in tree crops continued to grow, up from 76 MTD in 2004 to 81 MTD in 2005. It was devoted largely to planting of fruit trees, especially in the framework of renewing and rejuvenating olive groves. And after a sizeable drop in investment for fishing in 2004, it was up by 18.8% in 2005 to 57 MTD. This increase involved both private investment serving to strengthen the fleet and public investment to consolidate fishing port infrastructure. Investment in forestry remained unchanged in 2005 at 58 MTD, after a major increase of some 18% the year before. Investment in water/soil conservation, studies/ research/extension and various integrated projects was down 16.1%, 10.5% and 10.3% respectively.

267 MTD of the financing for investments in agriculture and fishing in 2005 came from the profession's capital stock equity, 257 MTD from the State budget, 205 MTD from external resources, 142 MTD from bank loans and 19 MTD from special Treasury funds.

2. NON MANUFACTURING INDUSTRIES

Investment in non manufacturing industries continued to grow, reaching 1,115 MTD for 2005 vs. 1,020 MTD the year before. This increase involved hydrocarbons, mining and construction/civil engineering while investment in waterworks posted a drop. GFCF in hydrocarbons came in at 393 MTD, an increase of 17% in 2005, compared to the previous year's 4% decrease. Recovery was due in particular to soaring world oil prices, which stimulated investment in research and exploration as well as development of existing fields.

GROSS FIXED CAPITAL FORMATION IN THE ENERGY SECTOR

Description	Value in MTD			Variat. in % 2005/2004	Structure in %		
	2003	2004	2005		2003	2004	2005
Water	105	129	118	-8,5	14,4	15,4	13,0
Electricity	275	372	394	5,9	37,7	44,5	43,6
Hydrocarbons	350	336	393	17,0	47,9	40,1	43,4
Total	730	837	905	8,1	100,0	100,0	100,0

Source : Ministry of Development and International Cooperation

Investment in electricity slowed to a 5.9% growth rate, compared to 35.3% a year earlier, amounting to 394 MTD or about 44% of GFCF in energy. Investments went to develop production capacity to meet the ever-growing demand for electricity (5.7% in 2005 vs. 4.8% the year before), especially for high and medium voltage (7.6% vs. 6%). The higher cost of imported hydrocarbons and an orientation toward electrical production powered by renewable energies (notably solar and wind powered) also served to stimulate investment. In the field of water exploitation and distribution, GFCF was down 8.5% in 2005 after rising by about 23% in 2004, to 118 MTD. These investments were made by the national company to exploit and distribute water (SONEDE) as well as ongoing financing by regional development programmes. They served mainly to extend drinking water mains into new neighbourhoods, especially in rural areas.

Investment in mining continued to grow, reaching 40 MTD vs. 33 MTD in 2004 and 24 MTD in 2003. It was mainly the Gafsa Phosphate Company (CPG) that made these investments, while GFCF remained quite low for other mining products for which reserves are giving out.

3. MANUFACTURING INDUSTRIES

After a year of low investment, manufacturing industries in 2005 attracted an increase of 3.7% to 1,030 MTD. This development was due mainly to recovery in building materials/ceramics/glass and fairly rapid growth in mechanical/electrical industries, where production was sustained by ever-higher demand both on the local and export markets. It should be added that this effort was helped by upgrading and industrial modernisation programmes as well as those targeted to help certain activities overcome difficulties caused by prevailing economic conditions, like textiles/clothing.

Investment in agrofood industries was up from 225 MTD in 2004 to 230 MTD in 2005, virtually all by the private sector, largely in canning industries, processing of cereals and production of oils. Investment for upgrading in 2005 in this sector came in at 44 MTD, 8.8% of all approvals in industry.

GFCF in building materials/ceramics/glass posted recovery (6.7% vs. -19.1% in 2004), coming in at 190 MTD. This development was based on a major increase in investment for upgrading in the sector, amounting to 129 MTD or almost 26% of overall approvals in industry, compared to just 17 MTD a year earlier.

GROSS FIXED CAPITAL FORMATION IN MANUFACTURING INDUSTRIES

Description	Value in MTD			Variation in % 2005/2004	Structure in %		
	2003	2004	2005		2003	2004	2005
Agrofood industries	210	225	230	2.2	20.6	22.7	22.3
Building materials, ceramics and glass	220	178	190	6.7	21.5	17.9	18.4
Mechanical & electrical industries	160	185	200	8.1	15.7	18.6	19.4
Chemical industries	100	105	110	4.8	9.8	10.6	10.7
Textiles, clothing, leather & footwear	191	180	180	0.0	18.7	18.1	17.5
Miscellaneous industries	140	120	120	0.0	13.7	12.1	11.7
Total	1,021	993	1,030	3.7	100.0	100.0	100.0

Source : Ministry of Development and International Cooperation

Investment in mechanical/electrical industries continued to grow in 2005, though at a lower rate than the year before (8.1% vs. 15.6%) to 200 MTD. This development was attributable to high demand for the sector's goods, both locally and on foreign markets, presenting an opportunity for industrialists to increase production capacity. Furthermore, to meet the challenge of foreign competition, companies in the sector participated in greater numbers in the upgrading programme in 2005, with approved investments of 118 MTD, about 24% of total approvals in the industrial sector.

GFCF in chemical industries, mainly basic chemistry activities, paracheicals and pharmaceuticals, increased by 4.8% (vs. 5% in 2004) to 110 MTD. Approved investments for upgrading rose from 29 MTD to 30 MTD, 6% of the total for industry.

As for textile/clothing and leather/footwear, investments amounted to 180 MTD after falling by 5.8% in 2004. A special three-year (2005-2007) upgrading programme for textiles/clothing has been launched, seeking to enhance integration and to help the sector compete against international competition that has become increasingly tough. Upgrading investments in the sector rose in 2005 to 126 MTD, more than 25% of overall approvals in the industrial sector.

4. MARKET SERVICES

Investment in market services continued to grow at a steady rate in 2005: 8.1% vs. 6.9% in 2004, to 4438 MTD. The increase involved transport and housing in particular. Higher investment in services reflects the country's orientation toward development and modernisation of basic infrastructure, promotion of new information and communication technologies (ICT) and gradual introduction of a knowledge-based economy capable of making the most of human resources and of further intensifying economic growth and job creation. This approach is part of the deregulation of service activities at the international level and of the process to liberalise trade in services.

Gross fixed capital formation in transport was up by 22.1% in 2005 (compared to 16.7% the year before) to 1238 MTD or 27.9% of investment in market services. This faster pace was due to recovery in investment in railway and maritime transport and by ongoing increases in investment for land and air transport. Investment in railway transport came in at 95 MTD vs. 39 MTD in 2004, following a doubling of funds invested by the National Tunisian Railway Company (SNCFT), up from about 31 MTD to 60 MTD, serving to strengthen and renovate railway infrastructure. Furthermore, investment by the Tunis Transport Company (STT) rose considerably, following progress on the extension of the light metro line to El Mourouj. Land transport continued to absorb the major part of investments in transport: 937 MTD or about 76% of total vs. 886 MTD (87%) a year earlier. Most of these funds came from the Ministry of Equipment, Housing and Land Management, serving to consolidate basic infrastructure in the various regions of the country (the Tunis-M'Saken-Sfax highway, interchanges, roads, etc.) Investment by transport companies and private promoters involved mainly acquisition of equipment and rolling stock.

Investment in maritime transport posted net recovery in 2005, coming in at 44 MTD vs. 14 MTD in 2004. This trend was due mainly to the higher level of funds provided by the Merchant Marine and Port Authority (OMMP) and the Tunisian Lighterage and Handling Company (STAM) to build up port infrastructure and equipment. GFCF in air transport rose considerably in 2005, up to 151 MTD from 65 MTD the year before. This increase reflects higher investment by Nouvel Air to expand its fleet and by the Civil Aviation and Airport Authority (OACA) to consolidate and modernise airport infrastructure.

GFCF in communications was down by 10.7% in 2005 to 585 MTD, compared to an increase of 10.5% the year before. This was tied to the completion of work on a number of large-scale projects, such as extension of phone and communication networks. The major investments made every year in telecommunications helped increase the telephone rate of coverage from 17.6 lines per 100 inhabitants in 2002 to 68.8 lines at the end of December 2005, illustrating the marked advance made by the country in this area.

The higher level of investment made to strengthen and extend communication networks have allowed a seven-fold increase in Tunisia's capacity to connect to the worldwide internet over the period 2001-2005.

GROSS FIXED CAPITAL FORMATION IN MARKET SERVICES

Description	Value in MTD			Variat. in % 2005/2004	Structure in %		
	2003	2004	2005		2003	2004	2005
Transports	869	1,014	1,238	22.1	22.6	24.7	27.9
Communications	593	655	585	-10.7	15.5	16.0	13.2
Tourism	320	320	330	3.1	8.3	7.8	7.4
Housing	1,276	1,307	1,422	8.8	33.2	31.8	32.0
Trade and other services	784	810	863	6.5	20.4	19.7	19.5
Total	3,842	4,106	4,438	8.1	100.0	100.0	100.0

Source : Ministry of Development and International Cooperation

In tourism, investment committed in 2005 was up 3.1% to 330 MTD, after stagnating the year before. This development was due to the sector's performance since 2004, aside from investments in the framework of launching of the upgrading programme for hotels as well as sustained efforts to diversify the range of tourist products and provide a sound environment for the sector.

Thanks to sustained demand, investment in housing construction continued to grow in 2005 at a fairly brisk pace of 8.8% to 1,422 MTD, almost 17% of global GFCF, compared to 16.5% in 2004. As in the past, most of this amount came from private parties (real estate promoters and households) and the rest from the public sector.

5. COMMUNITY FACILITIES

Investment in community facilities recovered slightly in 2005 (1.3% vs. -7% a year earlier), coming in at 937 MTD. These funds served mostly to build administrative premises and to acquire equipment and materials, mainly in the fields of education and training, higher education, health, culture, sports and youth.

C. INVESTMENT FINANCING

Despite slower growth because of the overall slowdown in economic growth, national savings continued to be the source of almost all investment. In effect, the domestic financing rate reached 94.7% of GFCF in 2005 and 91.6% of total investment financing needs, taking into account stock variations. This compares to 98.5% and 92.1% respectively a year earlier. The rest was financed by external resources, in the form of foreign direct investment (FDI) and loan capital.

1. NATIONAL SAVINGS

In rising to 7968 MTD, national savings grew by just 2.2% in 2005 vs. 9.5% a year earlier, as private consumption grew in the wake of higher income and changes in the population's living conditions. Still, it allowed for financing of almost all investment, meaning an improvement in the current balance of the balance of payments and by favourable trends in the ratios of external indebtedness.

INVESTMENT AND ITS DOMESTIC FINANCING

Description	2002	2003	2004	2005	Variation in %	
					2004/2003	2005/2004
Global GFCF (in MTD)	7,607	7,536	7,914	8,410	5.0	6.3
Stock variation (in MTD)	77	548	550	286	0.4	-48.0
Total financing needs (in MTD) = GFCF + stock variation	7,684	8,084	8,464	8,696	4.7	2.7
National savings (In MTD)	6,600	7,123	7,799	7,968	9.5	4.0
- In % of GNAI	21.9	21.9	22.0	21.3		
- In % of GDP	22.1	22.1	22.3	21.4		
Rate of domestic financing						
- National Savings/GFCF (in %)	86.8	94.5	98.5	94.7		
- National Savings/Total financing needs (in %)	85.9	88.1	92.1	91.6		

Sources : Ministry of Development and International Cooperation and Central Bank of Tunisia

2. EXTERNAL RESOURCES

Gross long and medium term inflows of foreign capital were down 18.3% in 2005 (after an increase of more than 22% the year before) to 3,213 MTD. This drop involved borrowings that fell from 3,073 MTD to 2,125 MTD (-38%). Foreign assets, on the other hand, made up mainly of FDI, grew at a faster pace: 26.7% vs. 8.9% in 2004, to 1,088 MTD or about 34% of total gross external capital inflows.

MEDIUM AND LONG TERM FINANCIAL RESOURCES FROM FOREIGN SOURCES

Description	Value in MTD			Variation in % 2005/2004	Structure in %		
	2003	2004	2005		2003	2004	2005
Borrowings	2,431	3,073	2,125	-30.8	75.5	78.2	66.1
Foreign participations	789	859	1,088	26.7	24.5	21.8	33.9
of which : FDI	752	796	1,016	27.6	23.4	20.2	31.6
Gross foreign inputs	3,220	3,932	3,213	-18.3	100.0	100.0	100.0
Capital outflows	1,451	1,945	1,874	-3.7	45.1	49.5	58.3
Net foreign inputs	1,769	1,987	1,339	-32.6	54.9	50.5	41.7

Source : Central Bank of Tunisia

In light of capital outflows (mainly to redeem principal on foreign debt) amounting to 1,874 MTD, net external capital inflows fell by 32.6% to 1,339 MTD, more than enough to provide financing for investment. Thus net assets in foreign currency increased by 1,139 MTD (24.1%) between end 2004 and end 2005, amounting to 5,872 MTD or the equivalent of 124 days of imports, vs. 107 days at the end of 2004.

VII. FOREIGN TRADE

A. GENERAL DEVELOPMENT

The world economic environment in 2005 was marked by exceptional hikes in crude oil prices, reaching record highs several times throughout the year, and final dismantling of the multifibre agreements, eliminating the quotas previously governing trade in textile products and thus full liberalisation in this area. Strong world demand, led by the ongoing fast pace of growth in Chinese industry, continued to push up prices for industrial raw materials, while there was virtual stagnation if not an actual drop in the prices of several food products. In this context, economies grew but at a slower pace and to varying degrees, both in most developed countries and in emerging and developing economies, while China continued to enjoy high growth at practically the same rate of about 10% as in 2004. Meanwhile, there was slower growth in the volume of international trade in goods, down from 10.7% in 2004 to 7.2% in 2005.

In Tunisia, foreign trade closed for the year with exports up 12.9% and imports 7.2% (compared to 16.6% and 13.7% respectively a year earlier), helping to narrow the trade deficit by 411 MTD (10.5%) and to improve the rate of coverage of imports by exports by 4.1 percentage points.

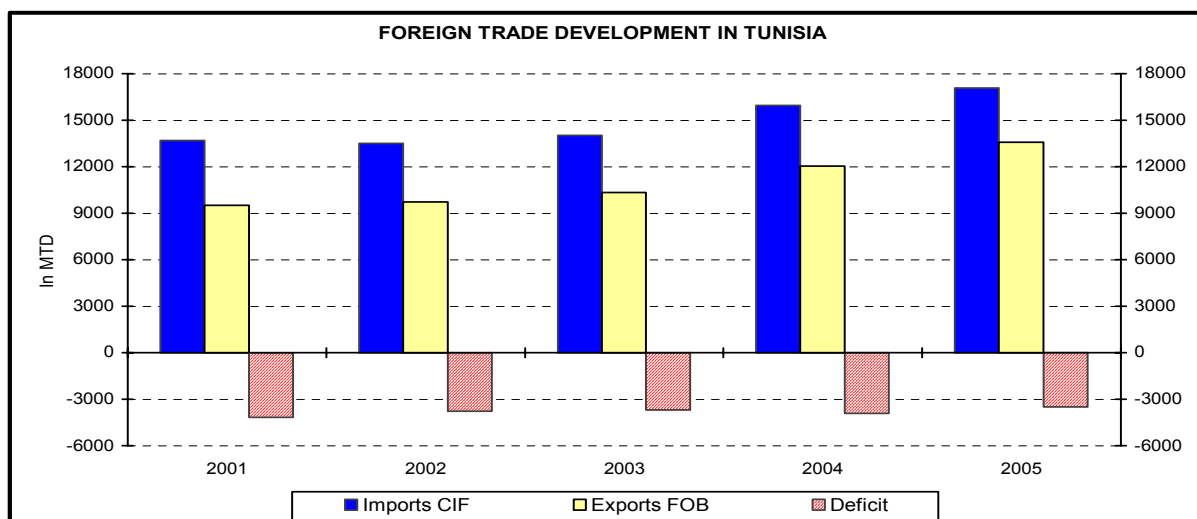
TRENDS IN TUNISIA'S FOREIGN TRADE

(in MTD unless otherwise indicated)

Year	Exports FOB	Imports CIF	Deficit	Rate of coverage of imports by exports (in %)
1993	3,760	6,172	2,412	60.9
1994	4,696	6,647	1,951	70.6
1995	5,173	7,464	2,291	69.3
1996	5,372	7,499	2,127	71.6
1997	6,148	8,794	2,646	69.9
1998	6,518	9,489	2,971	68.7
1999	6,967	10,071	3,104	69.2
2000	8,005	11,738	3,733	68.2
2001	9,536	13,697	4,161	69.6
2002	9,749	13,511	3,762	72.2
2003	10,343	14,039	3,696	73.7
2004	12,055	15,960	3,905	75.5
2005	13,608	17,102	3,494	79.6

Source : National Statistics Institute

Slower growth in exports involved mainly agriculture/fishing/agrofood industries and mining/phosphates/by-products, with a slight (0.9%) drop in sales of textile/clothing products but with all other sectors growing at a higher rate. As for imports, higher rates were in force only for energy products, accounting for more than 53% of the total increase in the value of Tunisian imports. There was even a slight (-1.1%) drop in purchases by the textile/clothing sector. If energy is excluded, exports grew by 8.7%, while imports were up just 3.7%, the trade deficit narrowing by 415 MTD or 12.2% and the rate of coverage increasing by 3.7 percentage points.



Expressed in terms of monthly averages, exports and imports continued to grow, up by 1,134 MTD and 1,425 MTD respectively, vs. 1,005 MTD and 1,330 MTD in 2004. Exports were dominated (63% of total) by the offshore regime, with growth at a slightly slower 9.2% rate, down from 9.9%. Growth was much slower (19.8% vs. 31.6%) for sales under the general regime.

Imports under the general regime, which represent about two thirds of Tunisia's overall imports, were up by 7.3% vs. 18.1% a year earlier. Under the offshore regime, purchases increased from 5.7% in 2004 to 6.9% in 2005. In any case, the main ratios for foreign trade increased at a faster pace.

TUNISIA'S BALANCE OF TRADE ENERGY EXCLUDED

(In MDT unless otherwise indicated)

Désignation	2003	2004	2005	Variations	
				2004/2003	2005/2004
Exports FOB	9,310.0	10,903.9	11,850.4	17.1%	8.7%
Imports CIF	12,582.7	14,302.3	14,833.8	13.7%	3.7%
Deficit	3,272.7	3,398.4	2,983.4	125.7 MDT	-415 MDT
Coverage rate (in %)	74.0	76.2	79.9	2.2 points	3.7 points

Source : Institut national de la statistique

The export effort rate (representing the share of exports in GDP) went up by 2.2 percentage points, with exports growing at a faster pace than local production. The dependency rate (which measures the ratio between imports and GDP) increased only slightly, thanks to the relatively low increase in purchases. The rate at which the economy opened up (corresponding to total exports and imports as a ratio of GDP) gained 2.6 percentage points, reaching 82.6%, reflecting greater integration in the world economy. The rate of penetration (share of domestic demand covered by imports) increased somewhat, to 44.8%, influenced by slower growth in private consumption.

TRENDS IN MAIN FOREIGN TRADE RATIOS

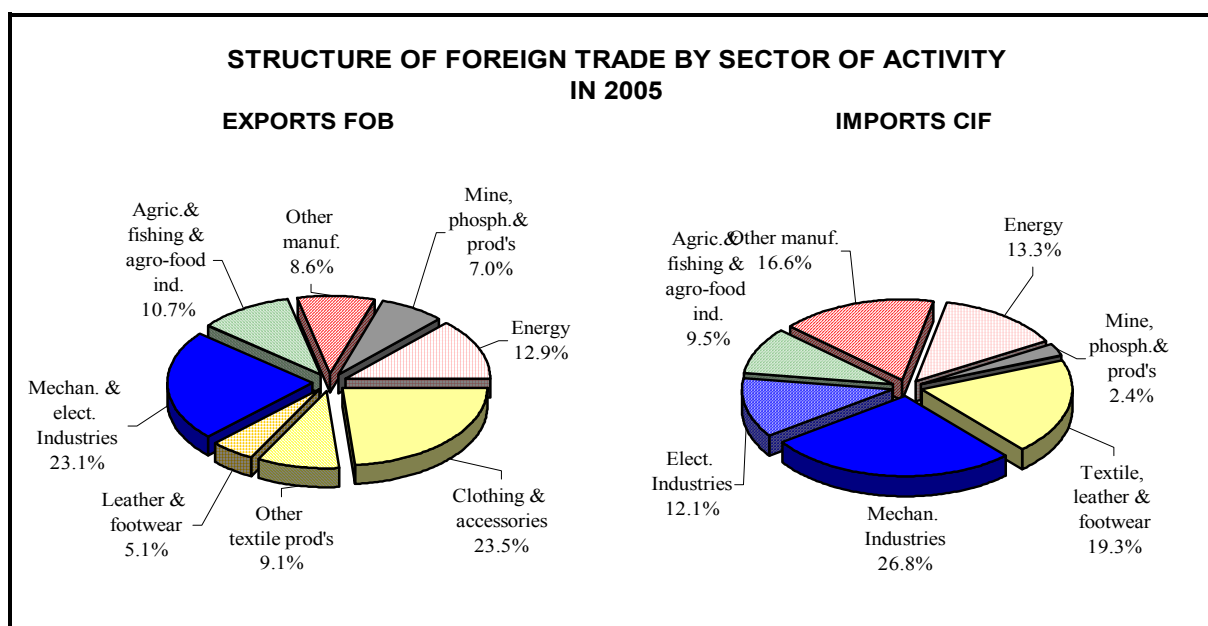
(in %)

Year	Export effort rate	Rate of dependence	Rate of openness	Rate of penetration
1993	25.6	42.1	67.7	39.1
1994	29.7	42.0	71.7	40.8
1995	30.3	43.8	74.1	42.1
1996	28.2	39.3	67.5	38.7
1997	29.4	42.1	71.5	41.1
1998	28.9	42.1	71.0	40.7
1999	28.2	40.8	69.0	39.9
2000	30.0	44.0	74.0	42.5
2001	33.2	47.6	80.8	45.5
2002	32.6	45.1	77.7	43.3
2003	32.1	43.6	75.7	42.0
2004	34.4	45.6	80.0	44.3
2005	36.6	46.0	82.6	44.8

Sources : National Statistics Institute, Ministry of Development and International Cooperation and BCT

B. TRENDS IN TRADE BY SECTOR OF ACTIVITY

2005 exports were marked by faster growth in sales of energy products, recovery in sales of mining products, slightly slower growth in export of non-food manufacturing products and virtual stagnation in sales by the agrofood sector. As for imports, the purchase of energy products increased considerably because of the high increase in world prices, while mining prices enjoyed recovery after falling in 2004. On the other hand, there were moderate increases in prices for agrofood and non-food manufacturing industry products.



TRENDS IN FOREIGN TRADE BY SECTOR OF ACTIVITY

Description	2 0 0 4			2 0 0 5		
	Value in MTD	Variation (in %)	Share of total (in %)	Value in MTD	Variation (in %)	Share of total (in %)
Exports	12,054.9	16.6	100.0	13,607.7	12.9	100.0
-Agriculture/fishing & agrofood industries	1,368.9	82.5	11.4	1,452.6	6.1	10.7
.Agriculture and fishing	334.6	11.3	2.8	411.6	23.0	3.0
.Agrofood industries	1,034.3	130.3	8.6	1,041.0	0.6	7.7
-Energy	1,151.0	11.5	9.5	1,757.3	52.7	12.9
-Mining products	61.9	- 11.8	0.5	76.8	24.1	0.6
-Non-food manuf. industries	9,473.1	11.6	78.6	10,321.0	9.0	75.8
.Textile, leather & footwear	5,111.8	4.7	42.4	5,133.1	0.4	37.7
.Mechanical & electrical indust.	2,597.9	20.8	21.5	3,141.7	20.9	23.1
.Phosphate by-products	803.0	30.4	6.7	876.7	9.2	6.4
.Other manufactured products	960.4	13.8	8.0	1,169.5	21.8	8.6
of which : * Building materials, ceramics and glass	176.4	14.8	1.5	218.8	24.0	1.6
* Chemical products	326.0	- 0.8	2.7	479.0	46.9	3.5
Imports	15,960.3	13.7	100.0	17,101.5	7.2	100.0
-Agriculture/fishing and agrofood industries	1,526.6	21.0	9.6	1,626.7	6.6	9.5
.Agriculture and fishing	725.5	15.8	4.6	805.5	11.0	4.7
.Agrofood industries	801.1	26.1	5.0	821.2	2.5	4.8
-Energy	1,658.0	13.9	10.4	2,267.7	36.8	13.3
-Mining products	32.8	-23.9	0.2	40.0	22.0	0.2
-Non-food manuf. industries	12,742.9	13.0	79.8	13,167.1	3.3	77.0
.Textile, leather & footwear	3,326.6	-2.4	20.8	3,303.5	-0.7	19.3
.Mechanical & electrical indust.	6,528.6	20.8	40.9	6,641.0	1.7	38.9
.Phosphate by-products	336.7	22.2	2.1	381.1	13.2	2.2
.Other manufactured products	2,551.0	16.6	16.0	2,841.5	11.4	16.6
of which : * Building materials, Ceramics & glass	152.6	15.2	1.0	174.3	14.2	1.0
* Chemical products	1,478.8	12.4	9.3	1,679.6	13.6	9.8

Source : National Statistics Institute

1. AGRICULTURE, FISHING AND AGROFOOD INDUSTRIES

Following the drop in production of olive oil after an exceptionally good 2003-2004 season, the rate of increase in exports by this sector plummeted, from 82.5% in 2004 to just 6.1% in 2005. Imports were up just 6.6%, vs. 21% the year before. Thus the trade deficit widened, from 157.7 MTD in 2004 to 174.1 MTD in 2005 and the rate of coverage decreased somewhat, from 89.7 to 89.3%.

Amounting to 1,452.6 MTD, exports involved mainly olive oil, the share of which in total dropped from 51.7% to 32.8% in the wake of lower sales (-48.2% in terms of quantity and -32.7% in terms of value), amounting to just 109,400 tons worth 476.7 MTD. The average export price was up by 30% to an average of 4357 dinars per ton. The share of olive oil exported by private operators increased from 74.6% in 2004 to 83.2% in 2005, to the detriment of exports handled by the National Oil Board, which held a monopoly on exports until 1994. The European Union, especially Italy and Spain, continued to be the primary destinations for Tunisian olive oil.

But other products in the sector enjoyed better export performance, helping to offset the drop in sales of olive oil. Export of seafood (44% of which went to Italy) went up

32.1% in terms of value, thanks to the large increase in exported quantities (35.5%), after growing by just 5.9% in 2004. Export of dates was also up considerably (+24.3%) both in quantity and value, shipped mainly to western Europe (France, Germany, Italy...) and Morocco. There was also sizeable growth in export of cereal-based prepared foods, cereal flour, concentrated tomato paste, tobacco, beverages and alcohol.

BALANCE OF TRADE IN AGRICULTURE/FISHING AND AGROFOOD INDUSTRIES

Description	Quantity in 1,000 tons			Value in MTD			Variat. 2005/2004 in %	
	2003	2004	2005	2003	2004	2005	Quantity	Value
Exports				749.9	1,368.9	1,452.6		6.1
<i>Human food</i>	349.3	588.5	582.2	565.6	1,227.4	1,225.6	-1.1	-0.1
Of which :								
.Olive oil	39.9	211.2	109.4	114.3	708.0	476.7	-48.2	-32.7
.Seafood	14.8	15.2	20.6	144.7	153.2	202.4	35.5	32.1
.Dates	37.1	40.4	50.2	95.2	105.1	130.6	24.3	24.3
.Citrus fruits	17.1	17.7	19.0	11.9	14.0	15.2	7.3	8.6
.Cereal-based preparations	57.2	58.4	77.5	49.3	53.9	75.8	32.7	40.6
.Concentrated tomato paste	5.5	13.8	18.6	8.4	17.5	20.2	34.8	15.4
.Harissa	5.2	5.2	5.0	12.9	14.0	12.6	-3.8	-10.0
.Cereal flours	11.1	14.1	74.3	3.7	6.2	29.2	427.0	371.0
<i>Other products</i>				184.3	141.5	227.0		60.4
Imports				1,261.6	1,526.6	1,626.7		6.6
<i>Human food</i>	2,735.0	2,876.6	3,210.9	894.1	1,037.3	1,093.3	11.6	5.4
of which :								
.Cereals	1,943.6	1,989.3	2,452.5	381.5	429.3	484.4	23.3	12.8
of which :								
-Soft wheat	773.0	954.1	965.6	138.0	217.6	191.0	1.2	-12.2
-Hard wheat	471.3	89.4	163.4	125.3	23.5	36.9	82.8	57.0
- Corn ¹	606.0	723.3	661.5	101.2	150.2	118.4	-8.5	-21.2
- Barley ¹	72.2	205.3	641.1	10.5	32.0	128.6	212.3	301.9
.Sugar	326.2	368.2	320.2	87.7	99.4	119.7	-13.0	20.4
.Vegetable oils ²	200.4	187.2	179.3	138.3	147.7	127.7	-4.2	-13.5
.Dairy products	29.1	31.8	15.3	41.8	52.9	44.1	-51.9	-16.6
.Meat	1.4	9.9	8.3	4.7	34.1	34.7	-16.2	1.8
.Tea	9.2	9.6	9.7	14.6	14.4	18.2	1.0	26.4
.Coffee	5.6	13.9	9.5	5.9	17.4	14.7	-31.7	-15.5
.Bananas	13.8	54.3	20.8	5.0	18.6	7.5	-61.7	-59.7
.Potatoes	36.6	46.7	36.1	20.8	25.9	24.6	-22.7	-5.0
.Various prepared foods	4.6	4.6	4.9	35.5	36.8	38.4	6.5	4.3
<i>Other products</i>				367.5	489.3	533.4		9.0
of which :Soy bean cakes	270.3	391.2	271.4	79.7	157.2	91.3	-30.6	-41.9
.Raw tobacco	7.0	8.0	9.3	23.7	26.4	33.9	16.3	28.4
Overall balance				511.7	157.7	174.1		10.4
Rate of coverage (in %)				59.4	89.7	89.3		point
Food balance				-328.5	190.1	132.3		-30.4
Rate of coverage (in %)				63.3	118.3	112.1		points

Source : National Statistics Institute

¹ Part of imports is destined to animal feed.

² This includes oil for food, another part of this product being classified in the sector under raw material and semi-finished products.

Imports by the sector increased from 1,526.6 MTD in 2004 to 1,626.7 MTD in 2005, an increase of 100.1 MTD (6.6%) vs. 265 MTD (21%) the previous year. This slowdown was due to the drop in purchases of a number of food items for which prices had gone up in 2004, such as corn, vegetable oil, milk and dairy products, coffee and bananas. Purchase of corn was down by 31.8 MTD (21.2%), in line with the 8.5% drop in imported quantities, decreasing from 723,300 to 661,500 tons, along with lower prices on the international market (about -12% in terms of dollars). For soft wheat, mainly from the Ukraine, Russia, France and Bulgaria, lower international prices in the wake of higher world production translated into a 26.6 MTD (12.2%) drop in the cost of imports, despite a slight (1.2%) increase in quantities purchased. Soft wheat continued to be the primary imported food product, with a 17.5% share compared to 21% a year earlier.

The drop in imported vegetable oils (-20 MTD or -13.5%) and milk/dairy products (-8.8 MTD or -16.6%) was due mainly to lower quantities purchased, the main sources being Germany, Spain, Argentina, Holland and Brazil. But import of several other products was on the rise, both in terms of price and volume purchased. This was the case for barley (96.6 MTD or 301.9%) and hard wheat (13.4 MTD or 57%). Imports rose for a number of products despite lower quantities purchased, as was the case for sugar (20.3 MTD or 20.4%). This trend was due to a significant increase in world prices (about 34% in terms of dollars), influenced by strong demand on the international market in the face of lower supplies. Decreased supply was due mainly to the drop in subsidies by the European Union to its member countries for the production and export of sugar and by increasing use of sugar cane (produced in the world especially in Brazil) to manufacture ethanol as a substitute for petrol for certain uses, quite aside from the speculation that led to soaring oil prices.

Trade in agriculture/fishing/agrofood industries, most of which took place under the general regime, accounted for 10.7% of Tunisia's exports and 9.5% of its imports in 2005, compared to 11.4% and 9.6% respectively in 2004.

2. ENERGY

As was the case the year before, 2005 was marked by historically high price levels for crude oil on the international market, rising to about \$60 a barrel at the end of December, with a peak of more than \$70 at the end of August. These high prices were due mainly to higher international demand, led by Asia's emerging economies (mainly China and India) as well as the United States.

Higher demand did not bring about higher supply, adversely affected by natural disasters (like hurricanes Katrina and Rita that caused damage at American oil sites), the overall climate of instability and geopolitical uncertainty in a number of producing countries, and the drop regarding untapped production and refining capacity. Despite this unfavourable international context, the deficit in Tunisia's balance of energy widened by just 0.7% in 2005 (down from 19.7% the year before) to 510.4 MTD. At the same time, the rate of coverage improved by 8.1 percentage points to 77.5%, following exports that grew at a faster pace than imports (52.7% vs. 36.8%).

BALANCE OF TRADE IN THE ENERGY SECTOR

Description	Quantity in 1,000 tons			Value in MTD			/ariat.2005/2004 in %	
	2003	2004	2005	2003	2004	2005	Quantity	Value
Exports				1,032.6	1,151.0	1,757.3		52.7
Crude oil	2,414.9	2,797.8	2,848.1	640.2	935.5	1,416.2	1.8	51.4
Refined products	1,733.2	756.2	734.5	392.4	215.5	341.1	-2.9	58.3
Imports				1,456.2	1,658.0	2,267.7		36.8
Crude oil	1,199.3	1,105.0	1,084.9	343.6	394.8	561.3	-1.8	42.2
Refined products	3,312.5	2,878.7	2,799.3	999.1	1,130.5	1,570.9	-2.8	39.0
Natural gas	814.3	673.0	478.7	102.8	125.5	131.5	-28.9	4.8
Coal & coke	63.5	32.6	17.5	10.7	7.2	4.0	-46.3	-44.4
Deficit				423.6	507.0	510.4		0.7
Rate of coverage (in %)				70.9	69.4	77.5		8.1 points

Source : National Statistics Institute

The 606.3 MTD increase in export of energy products involved both crude oil and refined products. Sales of oil were up not only in terms of value (51.4%) but also in terms of quantity, up from 2,797,800 tons in 2004 to 2,848,100 in 2005. A large part of these exports (about 55%) was handled by the Tunisian company for oil activities (ETAP), acting on behalf of the State. Exports went mainly to Italy (37.4%), France (30.8%), Spain (18.3%) and Holland (6.2%). For refined products, exports were up 125.6 MTD in terms of value (58.3%), while exported quantities fell by 21,700 tons or 2.9% (734,500 tons vs. 756,200 in 2004). 77% of these exports were handled by the Tunisian refining industries company (STIR), shipped mainly to France (40.7%) and Italy (40.1%).

The 609,700 MTD (36.8%) increase in the cost of energy imports was due solely to higher prices, the volume of acquisitions having fallen. Thus the cost of imported crude oil was up by 166,500 MTD (42.2%) despite a 20,100 ton (1.8%) drop in quantity, in line with slightly higher (1.9%) national production in 2005. Purchases were handled by ETAP, almost exclusively from Libya. Imports of refined products recorded a drop of 79,400 tons (2.8%) but a 440,400 MTD (39%) increase in cost. Italy remained Tunisia's number one supplier with 61.8%, followed by Spain (10.7%), Russia (9.5%) and France (4.5%).

Imports of natural gas increased by 4.8% following price hikes that more than offset the 194,300 ton (28.9%) drop in purchased quantities. This drop in imported volume was due mainly to greater national production and in-kind royalties from the transcontinental gas pipeline. Tunisia's entire supply of natural gas comes from Algeria. Purchase of coal, used mainly in cement plants, was down both in terms of quantity (-15,100 tons or -46%) and value (-3.2 MTD or -44.4%).

The share of energy products in Tunisia's overall exports and imports rose in 2005 to 12.9% and 13.3% vs. 9.5% and 10.4% the year before. These transactions took place entirely under the general regime.

3. MINING, PHOSPHATES AND BY-PRODUCTS

Phosphoric acid and diammonium phosphate (DAP) are the key products of Tunisia's phosphate sector, with production on the international scale up by 4% and 4.8% respectively. These trends evolved along with higher consumption, especially in

India, China and Pakistan, while demand was down from European and Latin American countries. Increased Asian demand for fertilizer pushed up prices, leading to higher costs for base raw materials: sulphur and ammonia. Higher prices for ammonia were caused mainly by soaring gas prices, which are aligned to oil prices.

Tunisia's traditionally surplus balance for mining/phosphates/by-products grew by 37 MTD or 7.5% (532.4 MTD vs. 495.4 MTD in 2004) despite exports that grew at a slower pace than imports: 10.2% and 14% respectively vs. 26.1% and 15.9% in 2004.

BALANCE OF TRADE IN MINING, PHOSPHATES AND BY-PRODUCTS

Description	Quantity in 1,000 tons			Value in MTD			Variat 2005/2004 in %	
	2003	2004	2005	2003	2004	2005	Quantity	Value
Exports				685.9	864.9	953.5		10.2
Fertilisers	2,132.0	2,155.7	1,885.6	446.3	544.4	544.4	-12.5	0.0
. Triple superphosph	774.9	873.5	837.6	142.8	185.3	205.0	-4.1	10.6
. DAP	1,304.8	1,219.1	992.8	297.3	349.5	328.6	-18.6	-6.0
. Other chemical fertilisers	52.3	63.1	55.2	6.2	9.6	10.8	-12.5	12.5
Phosphoric acid	863.4	1,103.0	1,120.9	158.3	225.6	282.9	1.6	25.4
Lime phosphate	865.3	661.2	758.9	33.1	24.6	34.5	14.8	40.2
Dicalcium phosphate	51.7	125.2	166.5	12.6	35.2	51.1	33.0	45.2
Zinc	63.8	49.4	36.7	15.5	14.9	14.6	-25.7	-2.0
Other products				20.1	20.2	26.0		28.7
Imports				318.7	369.5	421.1		14.0
Non-refined sulphur	1,833.2	1,766.5	1,724.2	131.2	151.2	179.0	-2.4	18.4
Ammonium nitrate	407.6	340.8	321.5	101.5	109.3	109.7	-5.7	0.4
Oil bitumen	138.9	234.0	273.4	31.6	48.4	48.1	16.8	-0.6
Fluorine spa	72.1	46.0	72.9	13.5	8.8	18.0	58.5	104.5
Cellulose padding	2.5	2.6	2.6	8.5	9.1	9.1	0.0	0.0
Fertilisers	66.4	83.1	43.6	15.7	22.5	16.4	-47.5	-27.1
Other products				16.7	20.2	40.8		102.0
Surplus				367.2	495.4	532.4		7.5
Rate of coverage (in %)				215.2	234.1	226.4		-7.7
								points

Source : National Statistics Institute

Exports were up by 88.6 MTD to 953.5 MTD, influenced by the general increase in prices despite a drop in volume for almost all exports.

Diammonium phosphate (DAP) continued to be the sector's number one export, although its share dropped from more than 40% in 2004 to 34.5% in 2005. Overall exports dropped by 6%, despite average prices that were 7% higher in terms of US dollars, not enough to offset the 18.6% drop in the volume of sales. Indeed, sales fell from 1,219,100 tons in 2004 to 992,800 tons in 2005, in contrast to a 7% increase in world exports in line with growing world demand. DAP was shipped mainly to Turkey (29.4%), Italy (20.6%), France (12.9%), Pakistan (9%), Spain (8.5%) and Libya (4.6%).

Exports of phosphoric acid increased by 25.4% in 2005 in terms of value, influenced by both a 1.6% increase in shipped quantities (up from 1,103,000 to 1,120,900 tons (especially to India and Saudi Arabia) and an approximately 16% increase in average prices in terms of US dollars. The share of this product in exports by the sector increased by 3.6 percentage points (29.7% vs. 26.1%), going mainly to India (44.2%), France (13.8%), and Saudi Arabia (8.4%). Tunisia is the second largest exporter of phosphoric acid in the world, after Morocco.

Sales of triple superphosphate (TSP), whose share in exports by this sector stabilised at about 21.5%, grew by some 10.6% (205 MTD vs. 185.3 MTD in 2004) thanks to an increase of almost 7% in average prices in terms of US dollars. TSP was shipped mainly to Bangladesh (25.5%), Brazil (23.4%), Iran (10.5%), Pakistan (8.9%) and Belgium (6.8%). Exported volume of TSP fell by 4.1%, from 873,500 to 837,600 tons, despite higher quantities sold to Bangladesh (up from 50,100 to 169,500 tons) thanks to import subsidies made available once again by the Government to importers. On the other hand, quantities of TSP exported to Brazil decreased by 26.4%, affected by slowing agricultural activity in that country. The volume of exports on the Iranian market fell by 40.9%, suffering from competition from Lebanon and Bulgaria.

Exports of dicalcium phosphate (DCP) were up by 45.2%, in line with average prices that were 14% higher in terms of US dollars and 33% higher in terms of exported quantities, shipped mainly to Egypt, Algeria, Morocco and Syria. Exports of lime phosphate were up 40.2%, influenced by a 14.8% increase in terms of quantities sold (758,900 tons vs. 661,200 in 2004) and an 11% increase in terms of US dollars. Inversely, exports of zinc were down by 2% in terms of value and by 25.7% in terms of volume.

Imports by the sector were up by 51.6 MTD (14%) to 421.1 MTD. Almost 54% of this increase involved purchase of non refined sulphur, up 27.8 MTD or 18.4% (from 151.2 MTD to 179 MTD), corresponding to 42.5% of the sector's imports, influenced by an increase of some 12% in average prices in US dollars. The volume of imported sulphur dropped by 2.4%, from 1,766,500 tons in 2004 to 1,724,200 tons in 2005. Russia remained the main supplier of this product (43% of total imports), despite a drop of 16.1% in the value of purchases from this country. Imports of ammonia, representing 26.1% of the sector's overall purchases, increased by just 0.4% to 109.7 MTD, despite a 3% increase in average prices in US dollars, due to the 5.7% decrease in the volume of imports, virtually all of which came from Russia. Imports of oil bitumen stayed at about 48 MTD, despite a 16.8% drop in purchased quantities. As for fertiliser, imports were down by 23.1%, from 22.5 MTD in 2004 to 16.4 MTD in 2005, 30.5% of which involved purchases of ammonium nitrate, pretty much entirely from the Ukraine.

Trade by the mining/phosphates/by-products sector represented 7% of Tunisia's overall exports and 2.4% of total imports. Like energy products, virtually all trade took place under the general regime.

4. TEXTILE-CLOTHING

Final dismantling of the multifibre agreements (MFA), involving elimination in January 2005 of the quota system for international trade in textile products was the major event of the year. This opened the gates to a flood of Chinese products on the European market at unbeatable prices, some of which were in direct competition with similar Tunisian items that have traditionally been exported to the countries of the European Union.

Tunisian textile/clothing exports, which represented 37.2% of overall exports in 2004 and 32.7% in 2005, were worth 39 MTD (0.9%) less. But this was not bad compared to tougher competition from Asia, allowing Tunisia to maintain its position as number four supplier to the European Union after China, India and Turkey. In this context, in order to support businesses in their efforts to stand up to tough competition from Asian goods, especially from China, and to maintain or even increase their market shares abroad, a national strategy was drawn up for the sector and launched in March 2005. It is based on technical assistance and coaching for businesses so they can advance from subcontracting to co-contracting and partnerships with European countries, certification in the various classifications of quality, corporate financial restructuring, increased equity, and more intensive commercial promotion on foreign markets. These measures contributed quite effectively to higher quality in exported Tunisian goods and thus higher selling prices.

Geographic breakdown of exports by sector shows France continuing in first place for sales by Tunisia, with a 39.2% share in total, despite a drop in the amount of sales to France. Share of exports rose for shipments to Italy, the United Kingdom and Belgium. An analysis of exports by foreign trade regime shows a drop of 39.9 MTD (0.9%) in sales under the offshore regime (governing some 97% of overall exports by the sector), while sales under the general regime were up by just 0.9 MTD or 0.8% (117.7 MTD vs. 116.8 MTD in 2004).

BALANCE OF TRADE IN THE TEXTILE AND CLOTHING SECTOR

Description	Quantity in 1,000 tons			Value in MTD			Variat 2005/2004 in %	
	2003	2004	2005	2003	2004	2005	Quant.	Value
Exports				4,252.8	4,483.6	4,444.6		-0.9
Clothing and accessories	95.6	92.9	82.3	3,050.2	3,221.4	3,204.5	-11.4	-0.5
Hosiery	28.7	28.2	26.3	834.8	849.2	818.6	-6.7	-3.6
Fabric	17.5	20.0	18.7	103.9	126.2	124.3	-6.5	-1.5
Textile yarns and thread	12.1	11.2	13.6	54.6	59.1	64.5	21.4	9.1
Apparel & second-hand clothes	36.2	34.7	37.8	189.2	207.8	217.7	8.9	4.8
Others				20.1	19.9	15.0		-24.6
Imports				2,944.5	2,987.9	2,956.3		-1.1
Fabric	116.9	115.0	107.2	1,691.2	1,723.0	1,720.7	-6.8	-0.1
Textile yarns and thread	42.2	43.2	46.2	196.4	200.5	211.4	6.9	5.4
Cotton in bulk	20.3	22.8	21.6	31.8	43.0	33.3	-5.3	-22.6
Apparel & second-hand clothes	85.0	91.4	93.2	90.7	83.8	84.0	2.0	0.2
Clothing & access.	20.0	19.0	18.2	542.5	559.9	539.9	-4.2	-3.6
Hosiery	16.0	14.2	12.4	319.8	305.9	284.4	-12.7	-7.0
Others				72.1	71.8	82.6		15.0
Surplus				1,308.3	1,495.7	1,488.3		-0.5
Rate of coverage (in %)				144.4	150.1	150.3		0.2 point

Source : National Statistics Institute

By product, exports of clothing and accessories (72.1% of the sector's overall sales) were down by 16.9 MTD or 0.5%, from 3,221.4 MTD to 3,204.5 MTD. Sales of hosiery items and fabric were down by 3.6% and 1.5% respectively. On the other

hand, exports of textile yarns/thread and apparel/second-hand clothes were up by 9.1% and 4.8% respectively, compared to 8.2% and 9.8% in 2004.

Imports fell at a slightly faster pace than exports: -31.6 MTD or -1.1%. The decrease was very slight for fabric (-0.1%), which is the main input for apparel, while purchase of textile yarns/thread was up by 5.4%. Also worthy of note is the drop in purchase of finished textile items such as clothing and accessories (-3.6%) and hosiery (-7%). Tunisia's main suppliers in textile and clothing products were France (30.8% of total), Italy (30.7%), Germany (6.8%) and Belgium (6.3%). China and Turkey stood in sixth and eighth place on the list of Tunisia's suppliers, with respective shares of 2.4% and 1.9%. Altogether, the sector's traditionally surplus balance of trade went down only slightly in 2005 (-0.5%), to 1,488.3 MTD vs. 1,495.7 MTD the year before. The rate of coverage even increased by 0.2 percentage point to 150.3%.

Given these trends in exports, it can be considered that the first year of total dismantling of the multifibre agreements took place without major upheaval for the sector. Still, the sector must continue its efforts to overcome structural weaknesses, especially the large number of small and medium size companies using outdated technologies. It also needs to meet a number of challenges (including a better level of integration and mastery of the production process) by greater recourse to co-contracting and total design of finished products, going beyond subcontracting and its vulnerability to tougher international competition.

Faster progress in setting up a technological pole in the region of Monastir specialising in textiles and another devoted to finishing in the greater Tunis area will help strengthen integration in the sector. Similarly, consolidation of the Euro-Mediterranean partnership could yield clear advantages for relevant countries in the region. Efforts in this direction have been launched with Turkey, by establishing a free trade zone between the two countries.

5. LEATHER AND FOOTWEAR

The sector performed well in 2005, as reflected in renewed growth in exports (9.6%) after virtual stagnation the year before. This progress took place in the wake of the 10.8% increase in sales under the offshore regime, compared to 0.9% in 2004. Under the general regime, exports (representing just 2.1% of the sector's overall sales) fell at a faster pace than in 2004: -27.8% vs. -19.1%. Imports, after a sizeable 27.2% decrease in 2004, enjoyed a moderate increase of 2.5% in 2005. Given these trends, the traditionally surplus balance for the sector further improved by 51.8 MTD (17.9%) and the rate of coverage increased by 12.8 percentage points.

91% of the 60.3 MTD increase in exports was due to higher sales of footwear, while uppers and shoe parts recorded a drop of 5.4%. Exports of footwear and their components went mainly to Italy (43.7%) and France (35.7%) followed by Germany and the United Kingdom with respective shares of 7.7% and 5.4%. Exported skins/leather and leather goods grew by 58.3% and 6.9% respectively but their shares in overall exports by the sector remained a weak 4.7% and 10.8% respectively.

There was a return to growth (3.4%) in purchase abroad of footwear and components, after a sizeable 59% drop in 2004, while purchase of skins and leather remained virtually stagnant in terms of value despite an 11.3% drop in quantities imported. Imports of footwear, uppers and other components came mainly from Italy (more than 50%) and France (26.8%). India and China were in fourth and fifth place as suppliers of these products, especially uppers and footwear components.

BALANCE OF TRADE IN THE LEATHER AND FOOTWEAR SECTOR

Description	Quantity in 1,000 tons			Value in MTD			Variat 2005/2004 in %	
	2003	2004	2005	2003	2004	2005	Quant.	Value
Exports				627.8	628.2	688.5		9.6
Skins and leather	3.7	2.6	3.4	27.8	20.4	32.3	30.8	58.3
Leather goods	2.1	2.1	2.2	67.8	69.4	74.2	4.8	6.9
Footwear	23.4	22.3	23.8	528.8	531.6	575.5	6.7	8.3
.Shoe uppers&parts	4.7	4.0	3.9	214.3	202.3	191.3	-2.5	-5.4
.Shoes	18.7	18.3	19.9	314.5	329.3	384.2	8.7	16.7
Others				3.4	6.8	6.5		-4.4
Imports				465.1	338.7	347.2		2.5
Skins and leather	10.9	11.5	10.2	205.0	216.6	215.3	-11.3	-0.6
Leather goods	1.2	1.6	2.0	17.7	14.9	16.1	25.0	8.1
Shoes	16.9	5.8	6.5	226.8	93.1	96.3	12.1	3.4
.Shoe uppers&parts	5.9	5.0	5.1	103.7	83.3	85.1	2.0	2.2
.Shoes	11.0	0.8	1.4	123.1	9.8	11.2	75.0	14.3
Others				15.6	14.1	19.5		38.3
Surplus				162.7	289.5	341.3		17.9
Rate of coverage (in %)				135.0	185.5	198.3		12.8 points

Source : National Statistics Institute

6. MECHANICAL AND ELECTRICAL INDUSTRIES

Exports by this sector were up in 2005 at about the same pace as the year before (20.9%), while imports rose by just 1.7% vs. 20.8% a year earlier. The trade deficit thus narrowed by 431.4 MTD or 11% (down to 3,499.3 MTD) and the rate of coverage improved by 7.5 percentage points to 47.3%. Mechanical and electrical industries held on to their ranking as the second biggest export sector in Tunisia after textiles/clothing, with respective shares of 21.5% and 23.1% in the country's overall exports. Its share of imports fell from 40.9% to 38.8%.

BALANCE OF TRADE IN MECHANICAL AND ELECTRICAL INDUSTRIES

(In MTD unless otherwise indicated)

Description	2003	2004	2005	Variations In %	
				2004/2003	2005/2004
Exports	2,149.8	2,597.9	3,141.7	20.8	20.9
Imports	5,404.7	6,528.6	6,641.0	20.8	1.7
Deficit	3,254.9	3,930.7	3,499.3	20.8	-11.0
Coverage rate (in %)	39.8	39.8	47.3	0.0 point	7.5 points

Source : National Statistics Institute

Companies working under the offshore regime accounted for 87.3% of the sector's overall exports, while companies working under the general regime accounted for 72.6% of overall purchases. Exports by mechanical industries were up by 11.9%, compared to 14.6% the year before, while imports grew at a slower pace of 1.1%, down from 21.7% in 2004. This meant a 79.2 MTD (2.3%) narrowing of the trade deficit (3,351.2 MTD vs. 3,430.4 MTD) and a 2.6 percentage point increase in the rate of coverage, from 24.1% in 2004 to 26.7% in 2005.

About 54% of the increase in exports by this sector (130.2 MTD) was made up of sales of mechanical apparatus and devices (70 MTD or 42.6%), going mainly to France (54.9%), Libya (16.2%), Saudi Arabia (9.6%), Italy (7.9%) and Morocco (7.7%).

Sales of «vehicles, cycles and tractors», representing more than 27% of exports by the sector, showed an increase of 26.2%, involving in particular Italy (109.2%) as well as France (18.2%), which remained the primary destination for these products with a 46% share. Exports of cast iron/iron/steel/worked items increased by 35.1% in terms of value and 5.2% in terms of quantity, going mainly to France (21.9%), Libya (19.6%), Italy and Algeria (14.4% each). Exports of cables and optic fibres, on the other hand, fell both in terms of value (-50.2%) and volume (-53.1%), especially to France (-25.7 MTD). This was also the case for sales of common metal worked goods as well as optics/scientific apparatus, down by 12.1% and 7.4% respectively.

Imports of mechanical products went up by 51 MTD, due mainly to purchase of two planes from France for a total value of 67.8 MTD, no planes having been purchased in 2004. Special purpose machines were also imported, for example apparatus to extract or process greasing oils and for soldering, purchases contracted in particular with Italy (30.6%), France (26.5%) and Germany (14.1%). There was 49.5% growth in imports of tubes, piping and accessories in the wake of higher prices. 22.3% of these products were purchased from Italy, 18.6% from China and 14.6% from France.

Similarly, imports of copper and worked articles were up in 2005 (10.7% in terms of volume and 32.4% in terms of value), following an increase of some 28% in copper prices on the international market in terms of US dollars. This was due to lower production in the main producing countries (Chile, the United States...), lower stockpiles and strong demand, especially from China, India and the US. Tunisia's main suppliers were Germany (35%), Belgium (26.2%), France (17.4%) and Italy (14.6%). Private cars, mainly from France (47.3%), Germany (10.7%), Turkey (10.5%) and Spain (8.8%), contributed 34.3 MTD (7.2%) more to the cost of imports; this was also the case for mass transit vehicles (10.9 MTD vs. 10.1 MTD in 2004). But there was a drop in imports of cast iron, iron and steel (-12.3%). This involved mainly purchases from Libya (-61.5%) and Turkey (-40.3%), which was Tunisia's number one supplier of these products, with a 28.2% share in total, with the Ukraine in number two position with 25%. Imports of lorries/small trucks and tractors also fell, by 42.5 MTD (14.3%) and 1.4 MTD (2.7%) respectively. Import of pumps/compressors and sewing machines/units also fell by 25.1% and 31.2% respectively.

BALANCE OF TRADE IN MECHANICAL INDUSTRIES

Description	Quantity in 1,000 tons			Value in MTD			Variat 2005/2004 in %	
	2003	2004	2005	2003	2004	2005	Quantity	Value
Exports				951.6	1,090.7	1,220.9		11.9
Machines and mechanical devices	16.3	19.1	25.8	171.5	164.4	234.4	35.1	42.6
Transport equipment of which : vehicles, cycles & tractors	27.8	31.7	36.7	221.4	284.7	351.9		23.6
Other vehicle machines	0.7	1.2	0.9	209.0	262.1	330.9	15.8	26.2
Cast iron, iron, steel and finished prod. of which :				14.1	23.7	27.2	-25.0	14.8
* Tubes, pipes and accessories	259.8	135.4	142.4	146.3	167.1	225.8	5.2	35.1
* Cast iron, iron and steel	25.5	24.0	20.9	30.0	31.4	35.4	-12.9	12.7
* Iron and steel springs	194.4	75.0	71.2	37.1	44.8	55.3	-5.1	23.4
* Metal structures	8.6	11.2	12.4	18.2	25.2	34.9	10.7	38.5
Cables and optical fibres	12.4	10.6	18.9	19.2	17.7	39.4	78.3	122.6
Ignition apparatus	3.6	4.9	2.3	92.1	156.9	78.2	-53.1	-50.2
Optics, scientific equip.	1.4	0.2	0.2	82.0	14.8	15.7	0.0	6.1
Aluminium and finished products	2.3	2.0	1.9	74.2	85.5	79.2	-5.0	-7.4
Metalworks	9.1	6.6	8.7	29.6	26.3	37.9	31.8	44.1
Other products	3.6	4.2	4.8	21.0	31.3	27.5	14.3	-12.1
Imports				99.4	136.0	143.1		5.2
Cast iron, iron, steel and finished products				3,715.8	4,521.1	4,572.1		1.1
* of wh: cast iron, iron & steel	1,045.7	1,318.7	1,009.0	662.4	949.7	921.1	-23.5	-3.0
* Tubes, pipes and accessories	939.1	1,186.3	886.6	423.5	665.1	583.0	-25.3	-12.3
* Other iron and steel-made products	40.0	72.9	69.4	62.8	99.6	148.9	-4.8	49.5
* Metal structures	8.5	9.0	8.8	37.6	45.9	45.0	-2.2	-2.0
Tools	13.9	8.8	8.4	28.8	21.0	30.4	-4.5	44.8
Machines, mechanical devices of which :	3.5	4.5	5.2	49.3	53.2	61.0	15.6	14.7
* Hoisting, drilling and handling equipment	111.4	132.3	123.8	1,343.8	1,576.0	1,522.4	-6.4	-3.4
* Turbines, engines and turbo jets	19.8	17.2	18.1	150.7	137.3	156.1	5.2	13.7
* Pumps & compressors	11.4	15.3	15.7	194.1	282.9	197.3	2.6	-30.3
* Machines with specific tasks	8.9	11.9	9.6	115.9	162.2	121.5	-19.3	-25.1
* Sewing machines/units	6.1	4.7	6.4	80.7	90.9	144.5	36.2	59.0
* Fridges and freezers	2.3	2.6	1.9	53.1	64.7	44.5	-26.9	-31.2
* Bearings and taps	6.5	10.5	9.3	49.5	71.7	64.8	-11.4	-9.6
* Textile machinery	4.7	4.9	4.7	70.4	80.1	75.5	-4.1	-5.7
* Agricultural machinery	2.8	2.7	3.2	45.0	34.3	47.2	18.5	37.6
Transport equipment of wh:	3.1	4.3	3.6	19.3	23.0	26.2	-16.3	13.9
* Air transport				998.8	1,210.5	1,265.7		4.6
* Sea transport				24.7	34.5	101.5		194.2
* Vehicles, cycles & tractors, of which :				25.7	10.5	10.6		1.0
- Private cars	83.0	99.7	97.6	935.9	1,162.2	1,141.2	-2.1	-1.8
- Frames and bodies	30.0	34.2	35.9	416.2	479.3	513.6	5.0	7.2
- Lorries & small trucks	22.0	26.8	27.0	211.7	257.7	251.0	0.7	-2.6
- Mass transit vehicles	15.6	20.3	17.8	204.2	297.7	255.2	-12.3	-14.3
- Tractors	0.7	0.9	1.0	6.7	10.1	10.9	11.1	7.9
Optical & scientific material	5.4	6.6	5.9	39.5	51.8	50.4	-10.6	-2.7
Copper and copper made products	3.3	3.1	3.4	175.3	173.8	175.0	9.7	0.7
Aluminium & finished prod.	31.8	33.6	37.2	94.6	140.0	185.3	10.7	32.4
Tools and electro-mechanical cables	17.0	20.5	23.0	75.2	90.1	106.6	12.2	18.3
Other products	9.9	10.5	8.5	142.2	159.5	140.1	-19.0	-12.2
Deficit				174.1	168.3	194.9		15.8
Rate of coverage (in %)				2,764.2	3,430.3	3,351.2		-2.3
				25.6	24.1	26.7		2.6 points

Source : National Statistics Institute.

Electrical industries enjoyed a sizeable narrowing of the deficit (352.2 MTD or 70.4%) and a 17.7 percentage point improvement in the rate of coverage of exports at a faster pace than imports: 27.4% and 3.1% vs. 25.8% and 18.9% in 2004. The 413.6 MTD increase in exports involved virtually all products, 43.5% being the 180 MTD (35.7%) increase in sales of electrical wire and cables. These items were shipped mainly to Germany (37.5%), France (31.5%) and Italy (9.2%). Exports also rose for other products, such as switches and circuit breakers (22%), integrated circuits and micro-assemblies (50.9%), optics and scientific apparatus (132.7%) and computer equipment (77.2%).

BALANCE OF TRADE IN ELECTRICAL INDUSTRIES

Description	Quantity in 1,000 tons			Value in MTD			Variat. 2005/2004 in %	
	2003	2004	2005	2003	2004	2005	Quantity	Value
Exports				1,198.2	1,507.2	1,920.8		27.4
Electrical machines and apparatus of which :	60.3	72.6	94.0	1,145.5	1,429.5	1,785.2	29.5	24.9
* Electrical cables and wires	28.2	34.1	46.3	414.5	504.4	684.4	35.8	35.7
* Switches and circuit breakers	7.3	7.6	9.5	273.6	316.5	386.1	25.0	22.0
* Electricity transformers	8.3	8.4	9.2	154.9	165.6	164.7	9.5	-0.5
* Integrated circuits and micro assembly	1.4	1.7	2.2	66.0	79.5	120.0	29.4	50.9
* Parts for electrical apparatus	1.9	2.8	3.8	91.0	166.9	184.1	35.7	10.3
* Machines with specific tasks	0.2	0.0	0.1	34.6	4.4	4.8		9.1
* Microphones and loudspeakers	4.7	4.5	4.1	46.9	44.0	47.5	-8.9	8.0
Computer equipment	0.1	0.3	0.8	4.6	26.3	46.6	166.7	77.2
Fridges and Freezers	1.0	0.7	2.1	4.9	3.7	8.3	200.0	124.3
Optics and scientific material	0.6	0.7	1.0	22.8	21.4	49.8	42.9	132.7
Other products				20.4	26.3	30.9		17.5
Imports				1,688.9	2,007.5	2,068.9		3.1
Electrical machines and apparatus, of which :	64.0	81.8	81.8	1,369.1	1,653.7	1,623.8	0.0	-1.8
apparatus	8.5	10.9	11.4	288.9	359.8	295.6	4.6	-17.8
* Switches and circuit breakers	9.7	12.0	12.2	222.1	303.4	337.6	1.7	11.3
* Electricity transformers	6.9	8.4	10.3	80.9	81.1	90.5	22.6	11.6
* Electrical cables and wires	11.9	22.8	16.6	169.4	274.1	221.8	-27.2	-19.1
* Broadcasting apparatus	1.9	1.3	1.2	195.3	234.2	210.7	-7.7	-10.0
* Electrical apparatus for telephony	0.9	0.7	0.8	80.7	54.5	81.8	14.3	50.1
* Machines with specific tasks	0.4	0.1	0.2	36.7	7.6	6.4	100.0	-15.8
* Boards and control boxes	0.6	0.7	0.8	24.4	31.1	29.4	14.3	-5.5
Computer equipment	4.0	4.3	6.0	192.1	218.9	285.6	39.5	30.5
Optics and scientific material	1.3	1.4	1.9	77.1	80.4	99.1	35.7	23.3
Other products				50.6	54.5	60.4		10.8
Deficit				490.7	500.3	148.1		-70.4
Rate of coverage (in%)				70.9	75.1	92.8		17.7 points

Source : National Statistics Institute

There was a 61.4 MTD increase in imports despite lower purchase of a number of products, such as parts and pieces for electrical apparatus (-17.8%) and electrical wire and cables (-19.1%). The increase involved mainly computer equipment (66.7 MTD or 30.5%), notably, from France (31.2%), China (18.8%), Ireland (9.5%) and Germany (7.2%), as well as switches and circuit breakers (11.3%), electrical apparatus for telephone equipment (50.1%) and optics/scientific apparatus (23.3%).

7. OTHER MANUFACTURING INDUSTRIES

Other manufacturing industries (which include chemical industries other than processing of phosphates, building materials/ceramics/glass, and miscellaneous industries) grew at a faster pace in 2005, up from 13.8% to 21.8%. Inversely, imports grew at a slower pace, down from 16.6% to 11.4%. But the trade deficit widened by 81.4 MTD (5.1%) to 1,672 MTD, while the rate of coverage improved by 3.6 percentage points to 41.2%. The sector's share in overall trade went up slightly, from 8% to 8.6% for exports and from 16% to 16.7% for imports. Breakdown of trade by regime shows that 53.3% of exports and 78.1% of imports took place under the general regime, compared to 50% and 81% in 2004.

Exports of building materials/ceramics/glass were up by 24% vs. 14.8% a year earlier, thanks to the 22.1 MTD (41%) increase in sales of cement, mainly to Libya (40.7%), Algeria (31.5%) and Italy (11.7%). Ceramics went mainly to France (28.2%) and Libya (27.6%), contributing to the 10.3 MTD (+12.4%) increase in value despite a 3.2% drop in quantities exported. Imports were up 14.2% (vs. 15.2% in 2004), mostly because of slower growth in purchases of ceramic products (12.7% vs. 15.8%) and glass/glass items (4.5% vs. 21.3%). But imports were on the rise for a number of products, notably kaolin and other clays (41% vs. 9.9%).

There was recovery in exports by chemical industries in 2005, up by 46.9% after 2004's slight 0.8% drop, due to steady growth in sales of rubber and rubber items (73.8% vs. 7.6%), mainly to Italy (25.2%), France (18.8%) and Morocco (18.5%). Export of essential oils/perfumes and aluminium fluoride enjoyed recovery with growth of 97.4% and 45.5% respectively, compared to decreases of 22.4% and 14.9%, somewhat attenuating the 10.8% drop in sales of pharmaceutical products (compared to +92.1% a year earlier) and virtual stability in export of tanning products and paints for the third straight year.

Imports of chemical products, which are the predominant category with a 59% share of overall purchases by the 'other manufacturing industries' sector, increased by 13.6% vs. 12.4% a year earlier, tied to slower growth in purchases of pharmaceutical products (9.7% vs. 13.3%), mainly from France (50.6%), Italy (8.2%), Germany and Switzerland (6.5% each). There was a 13.8% increase in imported antibiotics and related products (vs. 16.6% in 2004), following an 83.8% increase in purchased volume. France (22.6%), Italy (11.2%) and Germany (10.4%) were the main suppliers of these products.

BALANCE OF TRADE IN OTHER MANUFACTURING INDUSTRIES

Description	Quantity in 1,000 tons			Value in MTD			/ariat. 2005/2004 in %	
	2003	2004	2005	2003	2004	2005	Quant	Value
Exports				843.8	960.4	1,169.5		21.8
Building materials, ceramics and glass, of which :				153.6	176.4	218.8		24.0
* Cement	831.5	978.2	1,218.7	50.2	53.9	76.0	24.6	41.0
* Ceramics	133.0	187.5	181.5	66.9	82.9	93.2	-3.2	12.4
Chemical products of which :				328.6	326.0	479.0		46.9
* TPPS phosphate	101.4	106.7	128.4	55.2	58.3	90.2	20.3	54.7
* Essential oils and perfume	3.6	4.2	6.1	44.6	34.6	68.3	45.2	97.4
* Aluminium fluoride	44.3	35.2	48.4	39.0	33.2	48.3	37.5	45.5
* Rubber & rubber products	12.1	11.3	17.3	49.7	53.5	93.0	53.1	73.8
* Tanning agents and paints	35.5	37.8	31.0	28.9	28.7	28.0	-18.0	-2.4
* Soap, care products	20.5	19.0	19.3	21.8	22.6	24.3	1.6	7.5
* Pharmaceutical products	0.5	0.9	0.9	10.1	19.4	17.3	0.0	-10.8
Miscellaneous manufacturing industries, of which :				361.6	458.0	471.7		3.0
* Plastics and plastic items	29.3	31.4	42.4	116.2	166.2	162.8	35.0	-2.0
* Toys, games & sport wear	1.2	1.1	1.3	19.8	23.7	27.2	18.2	14.8
* Furniture, bedding & lustres	6.5	5.7	6.3	26.8	26.6	28.9	10.5	8.6
* Cork and worked products	7.5	10.0	14.1	25.4	28.9	19.0	41.0	-34.3
Imports				2,188.1	2,551.0	2,841.5		11.4
Building materials, ceramics and glass, of which :				132.5	152.6	174.3		14.2
* Ceramics	43.1	44.8	41.2	27.8	32.2	36.3	-8.0	12.7
* Glass & glassware	45.6	53.1	51.8	47.9	58.1	60.7	-2.4	4.5
* Cement	5.7	7.1	94.5	1.4	1.9	8.3	1,231.0	336.8
* Kaolin and other clays	119.5	109.9	158.9	13.1	14.4	20.3	44.6	41.0
* Marbels	78.0	76.6	77.8	8.0	7.6	7.6	1.6	0.0
Chemical products of which :				1,316.1	1,478.8	1,679.6		13.6
* Pharmaceutical products	4.8	4.7	6.3	272.1	308.4	338.4	34.0	9.7
* Chemical products (antibiotics and others)	56.0	52.6	96.7	145.5	169.7	193.1	83.8	13.8
* Miscellaneous chemical products	83.4	41.3	48.4	118.0	131.6	154.5	17.2	17.4
* Rubber & rubber products	18.3	20.2	18.7	92.3	101.8	105.3	-7.4	3.4
* Tanning agents and paints	41.0	41.8	38.9	93.8	98.9	106.6	-6.9	7.8
* Essential oils and perfume	4.5	5.3	5.1	52.0	56.0	63.3	-3.8	13.0
* Soap and care products	18.1	20.0	22.6	36.3	43.6	55.9	13.0	28.2
Miscellaneous manufacturing industries of which :				739.5	919.6	987.6		7.4
* Plastics and plastic items	286.0	288.8	290.1	583.9	693.1	815.8	0.5	17.7
Deficit				1,344.3	1,590.6	1,672.0		5.1
Rate of coverage (in %)				38.6	37.6	41.2		3.6
								points

Source : National Statistics Institute

Exports by miscellaneous manufacturing industries grew but at a slower pace, down from 26.7% in 2004 to 3%, the result of a drop in sales of cork and cork products (-34.3% vs. 13.8% a year earlier) and of plastic materials and worked goods (-2% vs. 43%). On the other hand, exports of furniture, bedding and chandeliers once again recorded growth (8.6%) after virtual stagnation the year before. Imports grew but at a slower pace than in 2004: 7.4% vs. 24.4%. This was the case in particular for purchase of plastic materials and worked goods (17.7% vs. 18.7%), mainly from France (25.8%), Italy (19.5%) and Saudi Arabia (9.6%).

C. TRENDS IN TRADE BY REGIME

As was the case the year before, trade in 2005 posted a higher figure in the traditionally surplus balance for the offshore regime, while the deficit in the balance for the general regime fell after increasing sizeably a year earlier. The rate of coverage continued to improve for both regimes.

1. GENERAL REGIME

Both exports and imports under the general regime grew at a slower pace than in 2004 : 19.8% and 7.3% respectively vs. 31.6% and 18.1%. The result was a slight reduction in the commercial deficit (48.7 MTD or 0.8%) vs. an increase of 634.6 MTD or 10.8% a year earlier. Thus the rate of coverage increased by 4.6 percentage points.

BALANCE OF TRADE UNDER THE GENERAL REGIME

(in MTD unless otherwise indicated)

Description	2003	2004	2005	Variations (in %)	
				2004/2003	2005/2004
Exports FOB	3,179.7	4,183.2	5,009.7	31.6%	19.8%
Imports CIF	9,030.9	10,669.0	11,446.8	18.1%	7.3%
Deficit	5,851.2	6,485.8	6,437.1	634.6 MTD	-48.7 MTD
Rate of coverage (in %)	35.2	39.2	43.8	4 points	4.6 points

Source : National Statistics Institute

Slower growth in exports, despite faster growth in sales by the energy sector (52.7% vs. 11.5% in 2004), other manufacturing industries (29.1% vs. 10.6%) and mechanical/electrical industries (26.6% vs. 3.2%) was due mainly to the drop in exports by agriculture/fishing/agrofood industries (-7.2% vs. 104.8%), due to lower sales of olive oil following a banner year in 2004. There was also slower growth in exports by the mining/phosphates/by-products sector (10.2% vs. 26.1% the year before) and textiles/clothing (0.8% vs. 26.1%).

The drop in imports was due to lower purchases by mechanical/electrical industries (-1.6% vs. 19.2%) and the slower pace of growth in imports by other sectors, especially agriculture/fishing/agrofood industries (2.7% vs. 22.4%) and textiles/clothing (0.8% vs. 11.5%). On the other hand, imports of energy products grew at a faster pace of 36.8%, up from 13.9% in 2004.

Trade in energy and mining/phosphates/by-products continued to be handled entirely under the general regime for both exports and imports. Sales were up from 34.7% of Tunisia's overall exports in 2004 to almost 37% in 2005, compared to a stationary share of 67% for imports.

2. OFFSHORE REGIME

Exports and imports under this regime grew by 9.2% and 6.9% respectively in 2005, compared to 9.9% and 5.7% the year before, representing an increase of 362.9 MTD (14.1%) in the trade surplus and of 3.3 percentage points in the rate of coverage.

Sales by the agriculture/fishing/agrofood sector enjoyed major recovery (125.9%), after falling by 7.8% in 2004. This was also the case for the leather/footwear sector :

10.8% vs. 0.9%. Exports by mechanical and electrical industries grew at a slightly slower pace than in 2004 : 20.2% vs. 23.8%, while exports by the textiles/clothing sector dropped by 0.9% after increasing by 5% in 2004.

BALANCE OF TRADE UNDER THE OFFSHORE REGIME

(in MTD unless otherwise indicated)

Description	2003	2004	2005	Variation in %	
				2004/2003	2005/2004
Exports FOB	7,162.9	7,871.7	8,598.0	9.9%	9.2%
Imports CIF	5,008.0	5,291.3	5,654.7	5.7%	6.9%
Surplus	2,154.9	2,580.4	2,943.3	425.5 MTD	362.9 MTD
Rate of coverage (in %)	143.0	148.8	152.1	5.8 points	3.3 points

Source : National Statistics Institute

The slight increase in purchases involved mainly agriculture/fishing/agrofood industries (36.1% vs. 11.1% a year earlier) and 'other manufacturing industries' (27.2% vs. 10.4%). Imports were down a bit for textiles/clothing (-1.3% vs. 0.5% the year before) and there was slower growth in imports by mechanical/electrical industries (11.8% vs. 25.7%).

Exports and imports under Tunisia's offshore regime held respective shares of 63% and 33% of total, compared to 65% and 33% in 2004. Trade in textiles/clothing, leather/footwear and mechanical/electrical industries together represent 90% of exports and almost 85% of imports under the offshore regime.

D. GEOGRAPHICAL DISTRIBUTION

The geographic distribution of Tunisian trade continued to be greatly concentrated on Europe, followed by Africa (especially the countries of the Arab Maghreb Union), Asia and America.

1. TRADE WITH EUROPE

Tunisian exports to Europe grew by 8.8% in 2005 to 11,128.5 MTD, 81.8% of overall exports. Imports also grew, by 6.7% to 13,291.6 MTD, 77.7% of overall imports. Tunisia's trade deficit thus narrowed by 72.2 MTD or 3.2% and the rate of coverage improved by 1.6 percentage point, from 82.1% in 2004 to 83.7% in 2005.

The European Union, Tunisia's number one trade partner, was the destination for 80% of exports and it supplied 69% of imports, compared to 83.3% and 69.3% the year before. The trade deficit fell by 110.2 MTD (10.7%), with exports growing at a faster pace than imports (844.8 MTD or 8.4% vs. 734.6 MTD or 6.6%). Trade was transacted mainly with countries in the euro zone, especially France, Italy and Germany. Trade with the 10 new countries that joined the European Union on 1st May 2004 remained weak, with a share of no more than 0.5% of total exports and 1.2% of imports.

Trade with bilateral partners involved a trade surplus with France for the first time in 2004, up a further 446.3 MTD in 2005 to 461.1 MTD thanks to exports that grew by 488.1 MTD (12.2%), mainly refined oil products, mechanical and electrical machines and apparatus, vehicles/cycles/tractors, and cast iron/iron/steel/worked goods. Imports from France, however, increased by just 41.8 MTD (1.1%). Trade with Italy yielded a deficit of

318.1 MTD after 2004's 40.3 MTD surplus, because of imports that grew at a faster pace than exports (567.6 MTD or 18.9% vs. 209.2 MTD or 6.9%). The higher volume of purchases involved mainly refined oil products, plastic materials and worked goods, cotton, and vehicles/cycles/tractors. As for trade with Germany, exports increased by 43 MTD (3.9%), involving mainly electrical machines and apparatus, while imports grew by 69.1 MTD (5.2%), involving mainly soy oil and copper/worked goods, causing a 26.1 MTD (11.1%) widening of the trade deficit, which climbed to 260.3 MTD.

Trade relations with the European Free Trade Association (EFTA), especially Switzerland and Norway, saw exports rise by 28.2% and imports by 5.2%, so that the trade deficit narrowed by 5.9 MTD (4.6%). Despite these trends, the share of trade with this group of countries remained weak, involving only 0.5% of Tunisia's exports and 1.1% of its imports. Switzerland remained Tunisia's main trade partner in EFTA, with exports up by 27.8% following higher sales of refined oil products and the much higher volume of imports that rose by 5.4%, involving mainly pharmaceutical products. The deficit in the balance narrowed by a slight 4.1 MTD (3.2%). Trade with other European countries (especially Russia, Turkey and the Ukraine) accounted for 1.3% of Tunisia's overall exports and 7.6% of imports. 2.8% of Tunisia's imports came from Russia while just 0.1% of its exports were shipped there. Purchases remained at about the same level of some 487 MTD, while sales almost doubled, up from 6.5 MTD to 12.9 MTD, yielding a 5.4 MTD (1.1%) reduction in the deficit. Turkey in 2004 concluded an association agreement for the establishment of a free trade zone with Tunisia, absorbing 1% of Tunisia's exports and supplying 2.3% of its overall imports. There was, notably, a 28.8% increase in sales of chemical fertilisers, contributing along with a 14.7 MTD (3.7%) drop in imports to a narrowing of the trade deficit with Turkey by 45.6 MTD (15.5%).

2. TRADE WITH AFRICA

The trade balance with Africa in 2005 yielded a surplus of 140.4 MTD after recording a deficit of 136.7 MTD in 2004. This was linked mainly to an additional 411.5 MTD (50.1%) in sales, bringing the total to 1,232.3 MTD. Imports from this continent were up by 134.4 MTD (14%) to 1,091.9 MTD. Sales to African countries accounted for 9.1% of overall exports, while the share of imports came in at 6.4% of overall purchases abroad. These figures compare to 6.8% and 6% respectively a year earlier, with trade dominated by transactions with the countries of the Arab Maghreb Union (UMA). The share of these countries in Tunisia's total exports and imports evolved from 5.6% to 7.4% and from 5% to 5.4% respectively. Increased exports to UMA countries grew at a faster pace than imports (331.9 MTD or 49.6% vs. 116.8 MTD or 14.6%), yielding a trade surplus of 83.9 MTD compared to a deficit of 131.2 MTD in 2004.

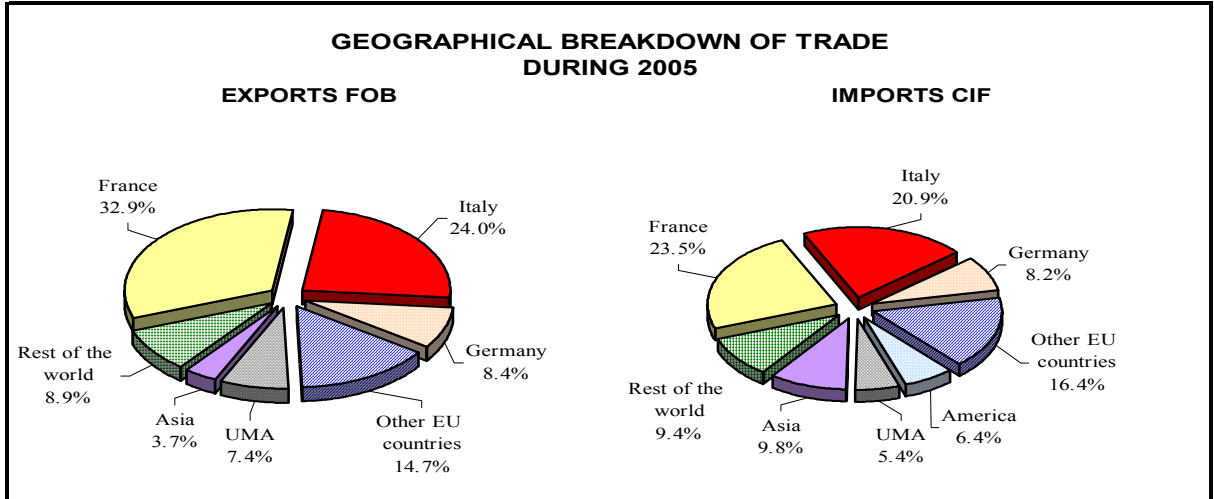
The higher volume of exports was due mainly to a 180.4 MTD (41.7%) increase in sales to Libya, which has been tied to Tunisia since 2002 by an agreement to set up a free trade zone. The products involved in this higher volume are greasing oils, chocolate, a number of food preparations, milled products and cement. Exports to Algeria increased by 101.6 MTD (74.9%), in line with the increase in sales of refined oil products, cast iron/iron/steel/worked goods, scientific apparatus and products in the category of

«vehicles, cycles and tractors». Sales to Morocco also increased by 49.5 MTD (53.6%), a trend involving mainly cast iron/iron/steel/worked goods, dates, tripolyphosphate soda (TPPS), and paper/cardboard/worked goods. It should be kept in mind that Tunisia and Morocco in 1999 signed a bilateral agreement to set up a free trade zone.

The higher level of imports from the countries of the Arab Maghreb Union was due to increased purchases from Libya (135 MTD or 25.6%), mainly crude oil, while imports from Algeria (involving mainly natural gas) were down by 9.6%. Purchases from Morocco remained at the same level of about 78 MTD.

Trade with Egypt, which signed a bilateral agreement with Tunisia in 1999 governing the establishment of a free trade zone, recorded a 60.6% increase in exports, especially of TPPS. This was also the case for imports, up by 14.2%, involving notably mechanical machines/apparatus and cement. This yielded a 12.4 MTD (31.7%) narrowing of the trade deficit, to 26.7 MTD.

Trade with sub-Saharan Africa remained very weak, accounting for 1.2% of Tunisia’s overall exports and 0.4% of imports, despite a 53% increase in sales and a 13.6% increase in purchases. Senegal, the Ivory Coast, Cameroon, Burkina Faso and Mali were Tunisia’s main partners in the region.



3. TRADE WITH AMERICA

The trade deficit with the American continent narrowed by 42.5 MTD (6.1%) in 2005, following a 70.7 MTD (7.4%) drop in imports, larger than the 28.2 MTD (10.9%) drop in exports. The share of the Americas in overall exports fell from 2.1% to 1.7% and that of overall imports from 6% to 5.2%. Trade flows with NAFTA countries (mainly the USA) accounted for about 51% of trade on the American continent. Exports to the US dropped at a faster pace than imports from there (-66.1 MTD or -46.1% vs. -21 MTD or -4.7%), causing a 45.1 MTD (14.9%) widening of the trade deficit with this country to 347.3 MTD.

Exports to Brazil, Tunisia’s second most important trade partner in the Americas, fell by 19 MTD (23.5%), while imports increased by 3.1 MTD (1.6%), causing a 22.1 MTD (19.4%) higher trade deficit, amounting to 136.1 MTD. Sales to Argentina dropped by 9 MTD (66.2%) and purchases increased by 23.4 MTD (11.6%), reducing the trade deficit by 14.4 MTD (7.6%) to 174.5 MTD.

TUNISIAN TRADE BY GROUP OF COUNTRIES

Group of Countries	Exports				Imports				Balance	
	In MTD		Share in %		In MTD		Share in %		In MTD	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Europe	10,226.2	11,128.5	84.8	81.8	12,461.5	13,291.6	78.1	77.7	-2,235.3	-2,163.1
EU, of which :	10,040.7	10,885.5	83.3	80.0	11,066.2	11,800.8	69.3	69.0	-1,025.5	-915.3
Euro Zone,	9,603.4	10,405.6	79.7	76.5	10,290.3	11,044.8	64.5	64.6	-686.9	-639.2
of which :										
France	3,986.7	4,474.8	33.1	32.9	3,971.9	4,013.7	24.9	23.5	14.8	461.1
Italy	3,051.4	3,260.6	25.3	24.0	3,011.1	3,578.7	18.9	20.9	40.3	-318.1
Germany	1,105.2	1,148.2	9.2	8.4	1,339.4	1,408.5	8.4	8.2	-234.2	-260.3
Spain	729.5	747.0	6.1	5.5	839.1	879.3	5.3	5.1	-109.5	-132.3
Belgium	358.9	373.8	3.0	2.7	445.0	449.4	2.8	2.6	-86.1	-75.6
United Kingdom	346.6	362.2	2.9	2.7	345.5	376.5	2.2	2.2	1.1	-14.3
Sweden	34.3	46.8	0.3	0.3	226.5	130.7	1.4	0.8	-192.2	-83.9
10 new countries	49.6	65.1	0.4	0.5	166.5	208.1	1.0	1.2	-116.9	-143.0
EFTA, of which :	54.6	70.0	0.4	0.5	182.5	192.0	1.2	1.1	-127.9	-122.0
Norway	4.7	6.2	0.0	0.0	6.3	6.4	0.0	0.0	-1.6	-0.2
Switzerland	49.0	62.6	0.4	0.5	175.8	185.3	1.1	1.1	-126.8	-122.7
Other European countries,	130.9	173.0	1.1	1.3	1,212.8	1,298.8	7.6	7.6	-1,081.9	-1,125.8
of which : Russia	6.5	12.9	0.1	0.1	486.1	487.1	3.0	2.8	-479.6	-474.2
Turkey	107.4	138.3	0.9	1.0	400.9	386.2	2.5	2.3	-293.5	-247.9
Ukraine	0.7	0.6	0.0	0.0	226.5	287.0	1.4	1.7	-225.8	-286.4
Africa of which :	820.8	1,232.3	6.8	9.1	957.5	1,091.9	6.0	6.4	-136.7	140.4
Arab countries	712.2	1,066.1	5.9	7.8	891.1	1,016.5	5.6	5.9	-178.9	49.6
of which :										
- UMA of which :	669.4	1,001.3	5.6	7.4	800.6	917.4	5.0	5.4	-131.2	83.9
.Algeria	135.6	237.2	1.1	1.7	194.4	175.7	1.2	1.0	-58.8	61.5
.Libya	432.6	613.0	3.6	4.5	526.9	661.9	3.3	3.9	-94.3	-48.9
.Morocco	92.4	141.9	0.8	1.0	78.1	77.9	0.5	0.5	14.3	64.0
- Egypt	38.8	62.3	0.3	0.5	77.9	89.0	0.5	0.5	-39.1	-26.7
America	257.6	229.4	2.1	1.7	954.5	883.8	6.0	5.2	-696.9	-654.4
NAFTA, of which :	155.0	92.0	1.3	0.7	505.4	477.2	3.2	2.8	-350.4	-385.2
USA	143.5	77.4	1.2	0.6	445.7	424.7	2.8	2.5	-302.2	-347.3
Canada	10.4	12.7	0.1	0.1	52.3	37.5	0.3	0.2	-41.9	-24.8
Latin America	102.6	137.4	0.8	1.0	449.1	406.6	2.8	2.4	-346.5	-269.2
of which : Brazil	81.0	62.0	0.7	0.5	195.0	198.1	1.2	1.2	-114.0	-136.1
Argentina	13.6	4.6	0.1	0.0	202.5	179.1	1.3	1.0	-188.9	-174.5
Ecuador	0.0	0.0	0.0	0.0	16.8	6.0	0.1	0.0	-16.8	-6.0
Cuba	0.0	0.0	0.0	0.0	7.2	0.2	0.0	0.0	-7.2	-0.2
Asia	377.2	509.8	3.2	3.7	1,496.4	1,674.4	9.4	9.8	-1,119.2	-1,164.6
Arab countries,	103.0	144.0	0.9	1.0	246.2	315.6	1.6	1.8	-143.2	-171.6
of which :										
- Gulf coop. cntr.	50.8	104.3	0.4	0.8	207.1	241.1	1.3	1.4	-156.3	-136.8
of which :										
Saudi Arabia	29.8	66.0	0.2	0.5	141.0	140.1	0.9	0.8	-111.2	-74.1
- Iraq	34.2	7.9	0.3	0.1	3.3	0.1	0.0	0.0	30.9	7.8
- Syria	6.4	10.7	0.1	0.1	16.2	46.2	0.1	0.3	-9.8	-35.5
Other Asian Cont's, of which:	274.2	365.8	2.3	2.7	1,250.2	1,358.8	7.8	8.0	-976.0	-993.0
China	31.8	23.2	0.3	0.2	362.5	494.6	2.3	2.9	-330.7	-471.4
Japan	28.0	28.9	0.2	0.2	317.6	276.4	2.0	1.6	-289.6	-247.5
India	106.9	126.7	0.9	0.9	136.2	133.7	0.9	0.8	-29.3	-7.0
Indonesia	2.5	15.3	0.0	0.1	18.2	26.4	0.1	0.2	-15.7	-11.1
Hong Kong	5.4	9.0	0.0	0.1	27.4	21.2	0.2	0.1	-22.0	-12.2
Other countries	373.1	507.7	3.1	3.7	90.4	159.8	0.5	0.9	282.7	347.9
TOTAL	12,054.9	13,607.7	100.0	100.0	15,960.3	17,101.5	100.0	100.0	-3,905.4	-3,493.8

Source : National Statistics Institute

4. TRADE WITH ASIA

Trade with the Asian continent was marked by a 35.2% increase in exports and an 11.9% increase in imports. Nonetheless, the trade deficit increased by 45.4 MTD (4.1%) to 1,164.6 MTD. The share of Asia in Tunisia's overall trade rose by 0.4 of a percentage point for imports and by 0.5 of a percentage point for exports, to 3.7% and 9.8% respectively. The 41 MTD (39.8%) increase in exports was due to an 88.3% increase in exports to Saudi Arabia, mainly TPPS, phosphoric acid, and mechanical machines and apparatus. The 28.2% increase in imports from this group of countries was due to the higher volume of purchases from the United Arab Emirates (35.1 MTD) and Syria (30 MTD), the latter having signed a free trade zone agreement with Tunisia in 2002.

Increased exports to other Asian countries involved mainly India (19.8 MTD or 18.5%), with phosphoric acid accounting for almost all sales, India having purchased almost half of all Tunisian exports of this product in 2005. Purchases from China represented 2.9% of overall imports, compared to 2.3% in 2004, an increase of 132.1 MTD (36.4%). This involved mainly mechanical and electrical machines and apparatus, plastic materials and rolling stock.

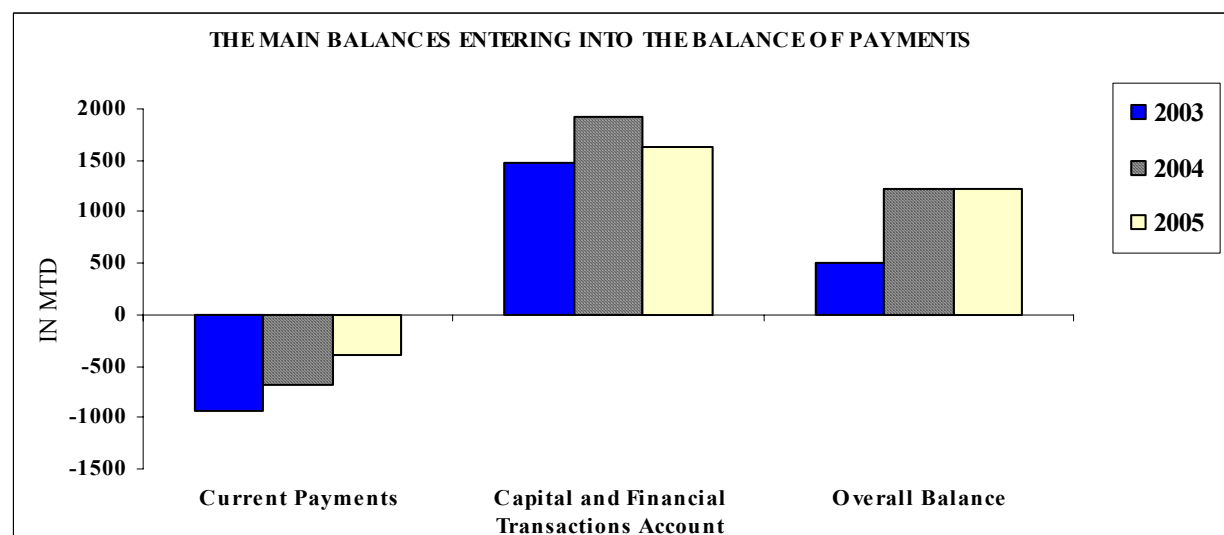
VIII. EXTERNAL PAYMENTS

For the second year in a row the general balance of payments yielded a sizeable surplus, amounting to 1,216 MTD in 2005 vs. 1,213 MTD the year before.

TRENDS IN THE MAIN BALANCES OF THE BALANCE OF PAYMENTS

(In MTD unless otherwise indicated)

Description	2001	2002	2003	2004	2005
A – Current payments	-1,209	-1,060	-941	-686	-393
<i>Current deficit/GDP (%)</i>	4.2	3.5	2.9	2.0	1.1
- Merchandise (FOB)	-3,408	-3,019	-2,924	-3,027	-2,553
- Services	2,138	1,750	1,707	2,048	2,364
- Factor income	- 49	105	182	151	-365
- current transfers	110	104	94	142	161
B – Capital & financial transactions account	1,618	1,291	1,467	1,930	1,640
of which :					
- Capital transactions	76	108	76	134	165
- Capital shares	629	1,133	713	767	940
- Medium & long term loan borrowings	1,319	1,108	1,055	1,217	385
C – Adjustment operations (net flows)	- 32	- 31	- 30	- 31	- 31
General balance	377	200	496	1,213	1,216



This was because the current deficit went down, influenced by the lower trade deficit and the higher surplus in the balance of services, thus offsetting the drop in the traditionally positive balance of the capital and financial transactions account. This has always remained at a high level, allowing both coverage of the current deficit and contribution to the country's foreign exchange reserves. Consequently, net assets in foreign currency posted a considerable increase, coming in at 5,872 MTD or 124 days of imports for 2005, compared to 4,733 MTD and 107 days at the end of 2004. The higher level of net assets in foreign currency reflected the solidity of the external sector, constituting one of the preconditions for pursuing under the best possible conditions the gradual, sequential opening of the capital account to total convertibility of the dinar.

Several factors contributed to achieving strong performance by the external sector in 2005. First, the consolidation of service activities which can be seen in the higher level of foreign currency flows generated by tourism and air transport, boosted income from services and helped build up the surplus. At the same time, export of goods continued to grow at a steady pace (but slower than the year before) in spite of markedly adverse international conditions, notably slower growth in the countries that are Tunisia's partners as well as in world trade of goods in general.

The export effort adopted in the framework of a commercial policy based on diversification of exported products and the ongoing search for new markets helped to counter adverse factors that could affect the balance of trade, especially final dismantling of the multifibre agreements in January 2005 and soaring oil prices, which reached a peak of \$70 a barrel in August 2005. And a flexible foreign exchange policy helped maintain the competitiveness of Tunisia's goods abroad. In this context, the trade deficit was reduced by more than 10% compared to its 2004 level, while the ratio of coverage of imports by exports went up considerably, to a new level of about 80% period. There were also positive signs for the balance of capital account and financial transactions, despite the drop in its surplus balance compared to the previous year.

In effect, contrary to all other forms of external financing, foreign direct investment continued to grow, with flows up over 1,000 MTD, constituting 28.8% of the total vs. 19.2% in 2004 and 22.3% in 2003, reflecting the growing interest in Tunisia on the part of foreign investors. Goals for external financing seek to favour mobilisation of FDI because of its many advantages for the country. Indeed, more FDI means lower external indebtedness, a lighter debt load and better debt parameters.

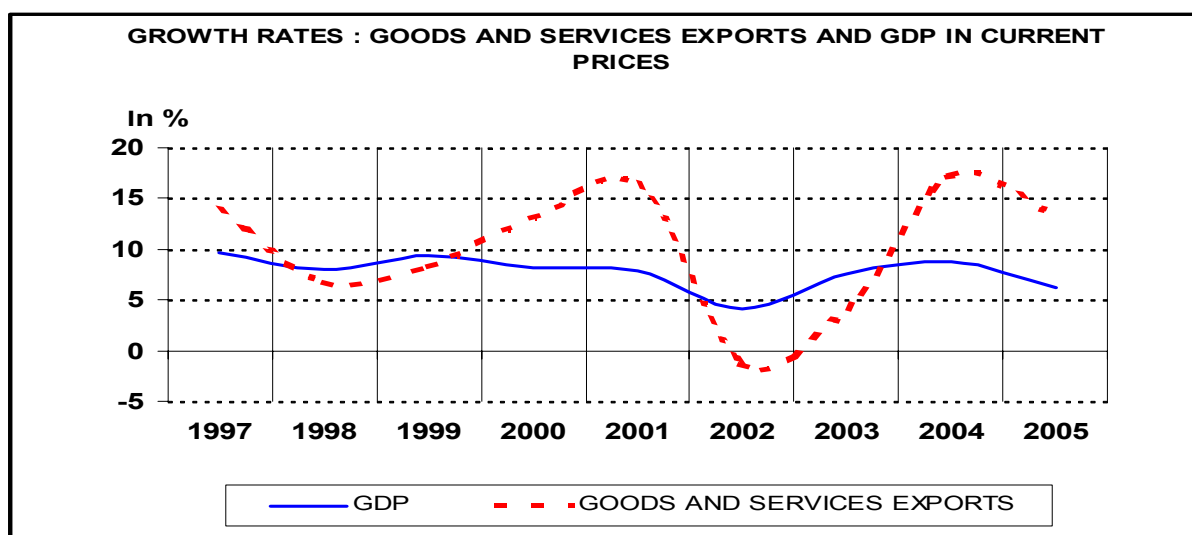
On another front, thanks to a favourable country rating, the Central Bank, intervening on behalf of the State, went on the international capital market to mobilise 400 million euros with a 15 year maturity period at an annual interest rate of 4.5%.

A. CURRENT TRANSACTIONS

The balance of current transactions yielded a deficit of 393 MTD in 2005, representing a 42.7% (293 MTD) improvement over the 2004 figure. This occurred despite new measures to liberalise foreign exchange regulations and the ongoing process to dismantle customs duty under way since 1995 in the framework of the association agreement with the European Union. As a ratio of GDP, this deficit fell from 2% to 1.1%, the lowest level since 1989.

CURRENT TRANSACTIONS BALANCE

Description	2001	2002	2003	2004	2005
Receipts (In MTD)	15,325	15,307	15,960	18,666	20,949
<i>Annual variations (%)</i>	17.0	- 0.1	4.3	17.0	12.2
Expenditure (In MTD)	16,534	16,367	16,901	19,352	21,342
<i>Annual variations (%)</i>	16.3	- 1.0	3.2	14.5	10.3
Balance (In MTD)	-1,209	- 1,060	-941	-686	-393



The improvement in the deficit balance of current payments was attributable to the combined effects of the lower deficit in trade of goods which, expressed in terms of FOB-FOB, came in at 2,553 MTD in 2005 vs. 3,027 MTD the year before and a 316 MTD higher surplus in the balance of services, which amounted to 2,364 MTD. The balance of factor income posted a deficit, after three straight years of surpluses.

1. TRADE

The trade deficit expressed in terms of FOB-CIF came in at 3,494 MTD in 2005, down by 411 MTD (10.5%) compared to 2004. This drop was due to exports that grew at a faster pace than imports, developments that yielded a 4.1 percentage point increase in the rate of coverage, which came in at 79.6%.

BALANCE OF TRADE

Description	2001	2002	2003	2004	2005
Exports FOB (in MTD)	9,536	9,749	10,343	12,055	13,608
<i>Annual variation (%)</i>	19.1	2.2	6.1	16.6	12.9
Imports CIF (in MTD)	13,697	13,511	14,039	15,960	17,102
<i>Annual variation (%)</i>	16.7	-1.4	3.9	13.7	7.2
Balance (in MTD)	-4,161	-3,762	-3,696	-3,905	-3,494

Source : National Statistics Institute

Exports amounted to 13,608 MTD, up from 12,055 MTD in 2004, an increase of 12.9% vs. 16.6% for 2004. Slower growth was due to slight drops in sales of food and textile/clothing products, while shipment of other categories of products continued to rise at a fairly sustained pace compared to those recorded a year earlier. Imports grew by just 7.2% to 17,102 MTD in 2005, vs. 13.7% and 15,960 MTD in 2004. Slower growth concerned all categories of goods aside from energy, which continued to grow markedly as a result of the high increase in world prices, involving slightly lower quantities.

Analysis of the evolving trade balance by group of products shows that lowering of the overall deficit was the result mainly of the combined effect of the higher surplus in the balance of consumer goods and the lower deficit in the balance of capital goods

and that of raw materials/semi-finished goods. The deficit in the balance of raw materials and semi-finished products fell by 158 MTD in 2005 to 1,727 MTD, a result that yielded a better rate of coverage, up from 61.6% to 66.7%. There was slower growth in imports, up just 5.7% to 5,191 MTD vs. 20.2% and 4,913 MTD in 2004, with exports up from 3,028 MTD in 2004 to 3,464 MTD in 2005, an increase of 14.4% vs. 20.1% in 2004.

Sales of raw materials and semi-finished products continued to grow quickly, although more slowly than in 2004, due to lower foreign demand, while purchases grew much more slowly in the wake of industrial activity that grew by just 2.5% in 2005 vs. 4.7% a year earlier. The balance of capital goods also posted a narrowing of its deficit by 56 MTD compared to 2004, coming in at 2,251 MTD. Slower growth in imports yielded an increase of just 3.8% to 3,436 MTD vs. 15.5% and 3,309 MTD in 2004. This compared to faster growth in exports, which came in at 1,185 MTD in 2005 compared to 1,002 MTD a year earlier, yielding an ongoing increase of 18.3% vs. 16.8% in 2004.

Sales of capital goods almost doubled in five years, reaching a new level that will help ensure ongoing improvement in the rate of coverage for this group of products, up from 30.3% in 2004 to 34.5% in 2005, contributing to greater diversification in global exports with a share that went up by 8.7% in 2005, vs. 8.3% in 2004. The balance of consumer goods evolved in a positive manner, yielding a surplus of 862 MTD vs. 603 MTD in 2004, an increase of 259 MTD thanks to the 5.8% increase in exports (vs. 5.2% in 2004) and slower growing imports (1.4% vs. 6.5% in 2004). The resulting figures for 2005 were 5,976 MTD and 5,114 MTD respectively vs. 5,647 MTD and 5,044 MTD in 2004. The rate of coverage thus went up by 4.8 percentage points to 116.8%.

Despite the impact of final dismantling of the multifibre agreements in January 2005, which caused a 0.9% drop in sales of textile/clothing products, the balance of consumer goods continued to post positive results, thanks to the dynamic performance of exports by mechanical, electrical and other manufacturing industries, which posted rates of increase of more than 20%. This helped to attenuate the downturn in textile/clothing sales, which in the future will face tough foreign competition. This is all the more important since the sector has for several years held first place in overall exports: a 32.6% share in 2005, down from 37.2% in 2004.

The balance of food posted a surplus balance for the second year in a row, after 2003's major deficit. But the 2005 surplus came in at just 132 MTD, compared to 190 MTD in 2004. Virtual stagnation in exports followed an increase of 117% in 2004, with imports up by just 5.4% in 2005 compared to 16% a year earlier, trends that brought the rate of coverage from 118.3% in 2004 to 112.1% in 2005. Export of foodstuffs amounted to 1,225 MTD in 2005 vs. 1,227 MTD in 2004, affected in particular by the 32.7% drop in sales of olive oil (down to 477 MTD in 2005 after 2004's record 708 MTD figure) in the wake of the lower quantity of exported oil. There was a 32.1% increase in sale of sea products and 24.3% in that of dates in 2005, which easily offset the drop in income from exported olive oil. 1,093 MTD were

spent on imported foodstuffs in 2005 (compared to 1,037 MTD in 2004), with varying trends from one product to another.

The higher volume of barley purchased abroad more than quadrupled in 2005 (to 129 MTD) and that of vegetable oils was up by 17.8% (to 245 MTD), in contrast to the 12.2% drop in purchases of soft wheat, worth just 191 MTD. Lower prices helped alleviate the cost of these imports, with that of soy cakes down from 157 MTD to 91 MTD, also due to the 30.6% drop in imported quantities.

The balance of energy continued to post a high deficit, comparable to that of the previous year : 510 MTD in 2005 vs. 507 MTD in 2004. But the rate of coverage went up by 8.1 percentage points to 77.5%. Exports came in at 1,757 MTD in 2005, up 52.7%, while imports over the same period increased by just 36.8% to 2,268 MTD, trends influenced by soaring energy prices at the international level. There was increased import of crude oil and diesel fuel, up by 42.2% and 34.9% for respective values of 561 MTD and 827 MTD, with quantities down by 1.8% and 9% respectively. Export of energy products was boosted by higher selling prices for crude oil (up 51.4%) under the influence of the 48.8% increase in prices, while quantities remained virtually unchanged.

TREND IN THE BALANCE OF TRADE BY CATEGORY OF PRODUCTS (In MTD)

Description	2001	2002	2003	2004	2005
Food	-250	-587	-328	190	132
Raw materials & semi-finished products	-1,327	-1,241	-1,565	-1,884	-1,727
Capital goods	-2,539	-2,180	-2,008	-2,307	-2,251
Consumer goods	351	561	629	603	862
Energy	-396	-315	-424	-507	-510
General balance	-4,161	-3,762	-3,696	-3,905	-3,494

Source : National Statistics Institute

The balance of trade, broken down by regime, shows a lower deficit for the general regime and an ongoing increase in the offshore regime's surplus. Trade under the general regime yielded a deficit of 6,437 MTD in 2005, a decrease of 49 MTD compared to the 2004 figure. Exports came in at 5,010 MTD, continuing to grow faster than imports, which amounted to 11,447 MTD. Both imports and exports grew at a slower pace than in 2004, the former posting just 19.8% compared to 31.6% in 2004 and the latter just 7.3%, down from 18.1% in 2004. These trends helped to further improve the rate of coverage for trade in goods under the general regime, up from 39.2% in 2004 to 43.8% in 2005. Exports under the general regime posted faster growth in industrial sales and hydrocarbons, more than compensating for lower shipments of agricultural products and textile/clothing/leather items. Except for oil and oil products, imports grew at a lower rate and in certain cases even decreased.

For the offshore regime, the balance of trade continued to evolve in a positive manner, posting a surplus of 2,943 MTD compared to 2,580 MTD in 2004, despite slower growth in exports. Amounting to 8,598 MTD, this represented 9.2% growth, down from 9.9% the year before. Increasing at a faster pace (6.9% vs. 5.7%), imports amounted to 5,655 MTD, creating a 3.3 percentage point improvement in the rate of coverage to 152.1%. Trade under the offshore regime was influenced by lower

exports (-0.9%) and imports (-1.3%) of textile/clothing items, which have traditionally dominated this category of trade. On the other hand, there was a sizeable increase in both sale and purchase of foodstuffs ; whereas mechanical/electrical industries posted a slower pace.

2. SERVICES

After strong recovery in 2004, the traditional surplus in the balance of services grew even more in 2005, increasing from 2,048 MTD in 2004 to 2,364 MTD. Earnings continued to rise, amounting to 5,193 MTD, up 14.9% compared to 2004's 19.5% figure, the latter reflecting strong recovery after two years of decrease.

SERVICES BALANCE

Description	2001	2002	2003	2004	2005
Receipts (In MTD)	4,189	3,813	3,784	4,521	5,193
<i>Annual variation (%)</i>	<i>10.5</i>	<i>- 9.0</i>	<i>- 0.8</i>	<i>19.5</i>	<i>14.9</i>
Expenditure (In MTD)	2,051	2,063	2,077	2,473	2,829
<i>Annual variation (%)</i>	<i>22.8</i>	<i>0.6</i>	<i>0.7</i>	<i>19.1</i>	<i>14.4</i>
Balance (In MTD)	2,138	1,750	1,707	2,048	2,364

Inflow of foreign currency, generated particularly by tourism as well as air and sea transport, which dominate earnings from services increased. Other services linked to production (such as telecommunications, computer/information services, public works and technical assistance) generated a higher level of earnings, in line with the priority given to these activities by the authorities. Aside from the advantages these activities confer in terms of skilled manpower and added value, they bring in foreign currency that helps to keep current payments and thus the overall external sector in balance. A number of initiatives were introduced in 2005 to promote services and to strengthen the sector's competitiveness. In this framework, a national consultation was organised in April 2005 at which several recommendations were formulated. It was in this context that a higher council for services is intended to be created and will serve to coordinate negotiations and dialogue about the policies needed to promote the sector. Income from services, representing 24.8% of current income in 2005, should take on a bigger share in the future, in line with set objectives and Tunisia's comparative advantages in this area.

Expenditure came in at 2,829 MTD in 2005, a 14.4% increase compared to 19.1% in 2004. This lower rate of growth was influenced mainly by that of expenditure committed for transport, representing more than half of total expenditure for services. On the other hand, following the increase in travel allowances that went into effect at the end of 2004, money committed by Tunisians travelling abroad grew at a faster pace. Growth was less than 12% despite doubling of the authorised allocation, but this was in line with projections.

a. Transport

The balance of transport which showed a deficit during the last four previous year yielded a 38 MTD surplus in 2005 in the wake of earnings that grew by 29.4% vs. 21.6% and expenditure that showed a slower growth (16.5% vs. 24.8%).

TRANSPORT BALANCE

Description	2001	2002	2003	2004	2005
Receipts (In MTD)	918	870	937	1,139	1,474
<i>Annual variation (%)</i>	12.6	-5.2	7.7	21.6	29.4
Expenditure (In MTD)	941	929	988	1,233	1,436
<i>Annual variation (%)</i>	25.5	-1.3	6.4	24.8	16.5
Balance (In MTD)	65	-23	-59	-94	38

In amounting to 1,474 MTD vs. 1,139 MTD in 2004, earnings from transport maintained an upward trend, taking advantage of stronger tourist activity and the increase in export of goods. Earnings were highest for passenger transport, which continued to grow in 2005 for the third straight year, amounting to 853 MTD vs. 576 MTD in 2004, due for the most part to the increase in tourist entries. The national carrier Tunisair, the main air transport company, increased its income by 1.9% in 2005 compared to the 2004 figure in line with higher traffic, with the number of passengers reaching 3,754,626. Despite tough competition and a difficult international context marked in particular by soaring fuel prices, Tunisair managed to improve its performance and to achieve higher productivity. This progress was supported by the restructuring programme under implementation, which has helped improve the company's competitiveness, especially better services in terms of quality and security as well as lower costs.

The Tunisian Navigation Company (CTN), the main operator in passenger sea transport, managed to boost activity, recording a 12.2% increase in its foreign currency earnings compared to 2004. Income from freight remained virtually at the same level of the previous year (132 MTD) compared to a 15.9% increase in 2004. However it is worth mentioning the efforts made by Tunisian ship owners like CTN, the New Kerkennah Company, and other private companies operating in the transport of hydrocarbons as they work to increase their market shares. The private Tunisian ship owner *Global Shipping* signed an agreement with Belgian partners at the beginning of 2005 to once again start up the route between Antwerp and Tunis. This sea link with the fourth biggest port in the world presents new business opportunities for Tunisia, helping to facilitate conventional transport of goods.

Income from air freight was also on the rise in 2005, in line with dynamic performance by the private companies Nouvelair and Karthago Airlines. There was greater activity at Karthago Airlines, both on the local market and outside the country. This ongoing improvement in terms of number of passengers and income from charter and freight activities helped to place the company's stock on the Tunis Stock Market in August 2005. Nouvelair secured exceptional income from freight. The second most important category for earnings from transport was gas royalties paid to the Tunisian State for transport in the transcontinental gas pipeline linking Algeria to Italy, which increased considerably in 2005, up from 200 MTD in 2004 to 339 MTD in 2005. With a sizeable increase in natural gas prices, the volume of gas going to Italy was worth lots more, further accentuated by appreciation of the dollar, the currency of billing, against the dinar.

TRENDS IN GAS ROYALTIES

Year	In cash		In kind		Total in MTD
	In MTD	In % of total	In MTD	In % of total	
2001	126	75.0	42	25.0	168
2002	82	64.1	46	35.9	128
2003	89	64.5	49	35.5	138
2004	97	48.5	103	51.5	200
2005	149	44.0	190	56.0	339

The increase was greater for royalties in kind than for royalties in cash, generated from sale to Italy of gas that is part of royalties-in-kind not needed in Tunisia. These developments have affected respective shares in total.

Expenditure for transport amounted to 1,436 MTD in 2005, an increase of 16.5% over the 2004 figure compared to the previous year's 24.8% increase. Slower growth is apparent in particular in the level of expenditure for freight, which dominates with a 60.1% share worth 863 MTD in 2005 (vs. 64.1% and 790 MTD in 2004). Trends for these expenses are closely linked to trends for import of goods, which grew more slowly than purchases abroad the year before. Expenditure for transport of resident passengers in the form of tickets purchased from foreign companies was down 7.3% to 101 MTD, compared to an increase by 51.4% and 109 MTD in 2004. Other categories of expenditure in the area of transport, notably royalties from air traffic and the chartering of planes, were up 41.3% to 472 MTD. This compares to 56.8% and 334 MTD in 2004, in line with essentially, higher traffic by resident companies.

b. Travel

The surplus in the balance of travel went up in 2005 to 2,284 MTD, vs. 2,031 MTD in 2004 when there was strong recovery in travel earnings as tourism picked up after decreasing for two years.

BALANCE OF TRAVEL-RELATED TRANSACTIONS

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	2,519	2,166	2,039	2,454	2,756
<i>Annual variation (%)</i>	9.2	- 14.0	- 5.9	20.4	12.3
Expenditure (in MTD)	393	370	387	423	472
<i>Annual variation (%)</i>	9.2	- 5.9	4.6	9.3	11.6
Balance (in MTD)	2,126	1,796	1,652	2,031	2,284

Foreign currency flows generated by tourism continued to grow, although more slowly than the year before, increasing from 2,290 MTD in 2004 to 2,587 MTD in 2005, influenced by higher numbers for entries (+6.3) and for non-resident bednights (+9.5%).

TRENDS IN THE MAIN INDICATORS OF TOURISM

Description	Units	2001	2002	2003	2004	2005
Tourist receipts	MTD	2,340.6	2,021.0	1,902.9	2,290	2,587
<i>Annual variation</i>	%	11.7	- 13.7	- 5.8	20.3	13.0
Non resident bednights	10 ³ bednights	33,006	25,897	25,301	30,665	33,587
<i>Annual variation</i>	%	- 0.5	- 21.5	- 2.3	21.2	9.5
Non resident entries	10 ³ persons	5,387	5,064	5,114	5,998	6,378
<i>Annual variation</i>	%	6.5	- 6.0	1.0	17.3	6.3

Source : BCT and ONTT.

Improved tourism indicators for the second year in a row resulted from promotional efforts by both the official authorities and operators in the sector. The hosting of the World Summit on the Information Society (WSIS) in Tunis from 16 to 18 November 2005 helped boost Tunisian tourism and earnings over a period that usually posts low figures.

Analysis of tourist flows by country of origin shows that the European market once again secured its dominant position, with shares of 60.7% for total non resident entries and 94.3% for total non resident bednights in 2005, compared to 58.1% and 94.2% respectively in 2004. These improvements were the result of growth of 11.1% and 9.7% respectively for these two indicators, developments that led to a 14.5% increase in earnings from European tourists, amounting to 2,184 MTD in 2005. This was 84.4% of overall earnings, compared to 83.3% (1,908 MTD) in 2004. France, Germany, Italy and Great Britain remain by far Tunisia's main European customers, with earnings of 1,528 MTD in 2005 vs. 1,356 MTD in 2004, representing 59.1% and 59.2% respectively of overall income from tourist earnings. Both entries and tourist bednights from these countries were on the rise, thus maintaining sizeable shares. Entries rose from 39% in 2004 to 39.9%, while tourist bednights changed very little, from 63.9% in 2004 to 62.7% in 2005. It should be noted that figures also continued to improve for other European countries. Eastern European countries, with significant shares of tourism to Tunisia over the past few years, accounted for 7.8% of overall entries in 2005 and 13.8% of overall non resident bednights, generating earnings that were up by 21.6% to 225 MTD in 2005. The same trend held for the Scandinavian countries, with entries up 38.3% and bednights up 39.9% in 2005 and earnings up by 67 MTD vs. 50 MTD in 2004. Tourists from Arab Maghreb countries were in second place (after the European market) in terms of tourist indicators. They contributed some 307 MTD to earnings, an increase of 1.6% over the 2004 figure, compared to 5.8% the previous year. This slower growth was due to the 0.9% drop in entries, with bednights up 6.0% reflecting better arrangements for visitors from the Maghreb to Tunisia, with more tourists staying in hotels. The 11.7% higher figure for Algerian bednights offset the lower figures for Libyans and Moroccans. But entries of visitors from the Maghreb remained an important factor, with a 37.2% share in total. Bednights accounted for 2.5% (2.8% in 2004).

Other income from travel was up overall from 164 MTD in 2004 to 169 MTD in 2005. Earnings from medical care was up from 35 MTD in 2004 to 45 MTD in 2005, an increase that reflects growing interest on the part of non residents for such services, in which Tunisia holds a comparative advantage both in terms of costs and quality of service by highly qualified medical staff. Aside from patients from the Maghreb or Africa, there were more Europeans seeking medical care, especially after the signing of agreements between several European social security administrations and a number of Tunisian thermal facilities and hospital complexes.

Earnings from studies and internships also grew, up from 17 MTD in 2004 to 19 MTD. This reflects the positive attitude on the part of foreign students regarding training at Tunisian universities. Foreign currency flows from professional travel were up by 13%

over the 2004 figure, amounting to 52 MTD. This trend has been building year after year, the result of an effort to diversify activity in the services sector by organising international gatherings. The higher level of transactions and trade abroad has of course contributed to enhanced flows.

Travel expenditure for residents travelling abroad involved a much lower volume than earnings, amounting to 472 MTD, an increase of 11.6% compared to the 2004 figure. The increase in travel allowances for residents travelling abroad (introduced in November 2004 and early 2005) did not result in an excessive increase in expenditure. Expenses for tourism came in at 274 MTD, up 11.4% from 2004. Thus the doubling of the tourist allowance at the end of 2004 did not bring about a big jump in expenditure by Tunisians travelling abroad. This was also the case for money committed for studies and internships, which increased by just 11.8% over the 2004 figure to 76 MTD, despite the increase that concerned different costs and allocations granted in this framework.

Expenditure for professional and official travel was up 15.6% in 2005 to 52 MTD (vs. 45 MTD the year before). The Central Bank of Tunisia has increased allocations for business travel¹ as follows.

- The allocation for business travel tied to exports has gone up from 15% to 25% of earnings from export of goods or services for the current year, up to an annual ceiling of 180,000 dinars compared to 120,000 previously.
- The allocation for business travel tied to promotional activities, which can be used just once per project, has gone up from 5,000 to 10,000 dinars.
- The allocation for business travel tied to markets to be secured abroad and for business travel tied to imports is now entirely exempt from limitations.

Expenditure for medical care continued to be low : 9 MTD in 2005 vs. 7 MTD in 2004, despite the raising of thresholds for costs and the allowances available to patients and residents who accompany them.

c. Government transactions.

The balance of governmental transactions posted a surplus of 5 MTD in 2005 vs. an 8 MTD deficit a year earlier.

BALANCE OF GOVERNMENT TRANSACTIONS

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	119	111	122	137	156
<i>Annual variation (%)</i>	0	- 6.7	9.9	12.3	13.9
Expenditure (in MTD)	133	139	132	145	151
<i>Annual variation (%)</i>	- 2.2	4.5	- 5.0	9.8	4.1
Balance (in MTD)	- 14	- 28	- 10	- 8	5

Earnings made up mainly of sums received by foreign diplomatic missions and the offices of international institutions in Tunisia, continued their upward trend posting an increase by 13.9% to 156 MTD. Expenditure made up mostly of costs for diplomatic

¹ Central Bank of Tunisia circular to authorised intermediaries n° 2005-02 of 3 January 2005.

missions and other Tunisian governmental institutions abroad were up just 4.1% to 151 MTD.

d. Other services

The balance of other services posted a surplus well below that recorded in 2004 : 37 MTD vs. 119 MTD the year before. This drop, following on two years of increases, was due to significantly slower growth in earnings, up just 2% to 807 MTD, a slowdown that was more moderate than for expenditure, up 14.6% to 770 MTD.

BALANCE OF TRANSACTIONS RELATED TO OTHER SERVICES

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	633	666	686	791	807
<i>Annual variation (%)</i>	<i>14.9</i>	<i>5.2</i>	<i>3.0</i>	<i>15.3</i>	<i>2.0</i>
Expenditure (in MTD)	584	625	570	672	770
<i>Annual variation (%)</i>	<i>37.7</i>	<i>7.0</i>	<i>-8.8</i>	<i>17.9</i>	<i>14.6</i>
Balance (in MTD)	49	41	116	119	37

Flows from commercial and international trade costs, the main component of earnings, went up 4.8% (vs. 11.8% in 2004) to 198 MTD. Slower growth was mainly attributable to lower export of goods. The second main component of earnings for other services was funding for public works and technical services, amounting to 186 MTD vs. 185 MTD in 2004. This involves in particular services rendered by residents abroad in the form of subcontracting and processing activities as well as technical assistance and expertise. Office costs transferred by non-resident companies for their branches and agencies in Tunisia came in at 117 MTD vs. 111 MTD in 2004. Higher flows received in this category were closely linked to the higher level of foreign investment in Tunisia. Indeed, FDI has increased steadily over several years, boosted since 1998 by privatisation transactions.

Earnings from financial costs, made up mainly of banking costs and fees, were also on the rise, up from 69 MTD in 2004 to 75 MTD in 2005, resulting from the increase in transactions by resident banks abroad.

Income from insurance premiums and indemnities rose by 39.5%, to 53 MTD. This development was caused by the instability that continues to characterise the international political, economic and financial environment. Foreign holdings and the increase in resident insurance company capital contributed to the increase in these flows.

In a similar manner, earnings inherent in communication services continued to grow, up from 17 MTD in 2004 to 24 MTD. The creation of technological poles and the availability of skilled manpower favoured higher inflows and attracted foreign investors. Several call centres and telecommunication companies that export all or part of their activity have broken into new markets, notably in Europe and the United States. Inflows from computer and information services amounted to 25 MTD, up from 23 MTD in 2004, a level that remains weak because of very tough competition abroad, notably from central European countries that have benefited from integration in the European Union since 2004.

License royalties and duties as well as personal and cultural services income regressed from one year to another to 18 MTD and 5 MTD vs. 22 MTD and 13 MTD respectively.

Expenses for other services went up 14.6% in 2005, with transfers up from 672 MTD to 770 MTD.

A package of 255 MTD was spent on public works and technical services in 2005, compared to 228 MTD in 2004. This involves major expenditure and the figure continues to grow, following work on large-scale infrastructure projects like the suspension bridge connecting Rades to La Goulette, an undertaking financed by the Japanese.

Expenditure for insurance premiums/indemnities and commercial/international trade costs also rose, the former from 123 MTD in 2004 to 167 MTD in 2005 and the latter from 107 MTD to 110 MTD. Fees for financial services went up, in line with the greater volume of transactions abroad, increasing from 56 MTD in 2004 to 65 MTD.

Like earnings, expenditure linked to communication services went up considerably, from 27 MTD in 2004 to 36 MTD. As is the case elsewhere in the world, these services are becoming more and more important, as seen in dynamic activity for both of the operators working in this area in Tunisia : Tunisie-Telecom and Tunisiana.

Expenditure for computer and information services as well as that for license duties remained at about the same level as the year before : 13 MTD and 10 MTD respectively, while expenditure related to office costs went down by 9.1% (10 MTD). Representing a low share in total expenditure for other services, personal and cultural services amounted to 8 MTD, virtually their level in 2004.

3. FACTOR INCOME

After posting surpluses for the previous three years, the balance of factor income yielded a deficit of 365 MTD in 2005.

BALANCE OF FACTOR INCOME

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	1,471	1,624	1,715	1,925	1,961
<i>Annual variation (%)</i>	20.6	10.4	5.6	12.2	1.9
Expenditure (in MTD)	1,520	1,519	1,533	1,774	2,326
<i>Annual variation (%)</i>	5.0	-0.1	0.9	15.7	31.1
Balance (in MTD)	-49	105	182	151	-365

This result was attributable to faster growing expenditure in the wake of the strong increase in transfer abroad of income from capital. It came about from the higher level of income from direct investment by oil companies, boosted considerably by soaring oil prices. Interest on debt, on the other hand, went up moderately, to a level near that of the previous year. At the same time, composite factor income (mainly worker remittances from Tunisians resident abroad) grew at a considerably slower rate.

a. Worker remittances

Savings from wages that Tunisians living abroad send home continued to rise in 2005, but at a slower pace than in 2004.

WORKER REMITTANCES BY MODE OF TRANSFER

Year	Total		Cash input		In kind input	
	MTD	Annual variation (%)	MTD	In % of total	MTD	In % of total
2001	1,334	22.3	1,014	76.0	320	24.0
2002	1,522	14.1	1,124	73.9	398	26.1
2003	1,611	5.8	1,216	75.5	395	24.5
2004	1,783	10.7	1,346	75.5	437	24.5
2005	1,807	1.3	1,391	77.0	416	23.0

Outflows for this category went up just 1.3%, compared to 10.7% the year before, influenced by the combined effects of slower growth in cash inputs and the drop in contributions in kind.

Work revenue received in cash went up 3.3% to 1,391 MTD, compared to 10.7% and 1,346 MTD in 2004. Despite this slower growth, the share of cash inputs in total work revenue went up from 75.5% in 2004 to 77.0% to 2005. In-kind inputs were down 4.8% to 416 MTD. Their share in total thus dipped over this same interval from 24.5% to 23.0%. Gradual softening of foreign exchange and external trade regulations created a shift in interest from this kind of input to cash inputs, which became more attractive with the favourable foreign exchange effect.

Analysis of worker remittances by country of origin shows that most of the transfers come from European countries : 1,610 MTD or 89.1% of total revenue. France remained far ahead in first place with transfers amounting to some 909 MTD, about 50.3% of total. In effect, Tunisians resident in France account for some 57.3% of overall expatriates, numbering 934,000 as of end 2005. The Maghreb countries where some 9.7% of expatriate Tunisians live were the point of origin for transfer of some 43 MTD, 2.4% of overall transferred savings from wages. The rest of worker remittances (154 MTD or 8.5% of total) came from the Gulf in particular and from various other countries.

b. Capital income

The balance of capital income showed a deficit of 2,151 MTD in 2005, compared to 1,616 MTD in 2004. This was due to the sizeable increase in expenditure, up from 1,758 MTD in 2004 to 2,305 MTD in 2005. Receipts amounted to 154 MTD (vs. 142 MTD the year before), made up mainly of interest earned on investments in foreign currency.

BALANCE OF CAPITAL INCOME

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	137	102	104	142	154
Annual variation (%)	6.2	- 25.5	2.0	36.5	8.5
Expenditure (in MTD)	1,490	1,501	1,511	1,758	2,305
Annual variation (%)	5.0	0.7	0.7	16.3	31.1
Balance (in MTD)	-1,353	- 1,399	-1,407	-1,616	-2,151

Increased expenditure was due to the considerable increase in expenses for direct investment, up 52.1% to 1,285 MTD. This increase involved revenue transferred by oil companies (up from 624 MTD to 996 MTD), greatly influenced by higher oil prices and appreciation of the dollar, the currency of billing. Revenue from direct investments transferred by companies working in other sectors grew also at a sustained pace, with an increase by 30.8% to 289 MTD.

Expenditure to cover interest on medium and long term debt posted a slight increase, up from 771 MTD in 2004 to 791 MTD. The Administration honoured 580 MTD in repayments as they fell due and the rest was paid by private companies. Breakdown of expenses to cover interest on medium and long term debt by kind of cooperation shows a growing volume of repayments to the international capital market and in the framework of multilateral cooperation, corresponding to 305 MTD and 312 MTD respectively in 2005, compared to 174 MTD for bilateral cooperation, 16.3% below the 2004 figure.

4. CURRENT TRANSFERS

The surplus in the balance of current transfers came in at 161 MTD in 2005, up 13.4% compared to 2004's level.

BALANCE OF CURRENT TRANSFERS

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	129	121	118	164	187
<i>Annual variation (%)</i>	61.3	- 6.2	- 2.5	39.0	14.0
Expenditure (in MTD)	19	17	24	22	26
<i>Annual variation (%)</i>	58.3	- 10.5	41.2	-8.3	18.2
Balance (in MTD)	110	104	94	142	161

Receipts came in at 187 MTD vs. 164 MTD in 2004. As in the past, funds went mainly to the private sector in the form of fellowships, grants and other transfers to non governmental structures and associations as well as households, up from 94 MTD in 2004 to 99 MTD. Funds going to the public sector increased from 70 MTD in 2004 to 88 MTD in 2005, made up in large part of taxes and levies paid by non-resident companies working in Tunisia.

Expenditure continued to post a low level of 26 MTD, down from 22 MTD in 2004. Virtually all expenditure was made by the private sector, largely to foreign consular services in Tunisia.

B. CAPITAL AND FINANCIAL TRANSACTIONS

Although they remained at a fairly high level, net inflow of capital fell in 2005 by 290 MTD to 1,640 MTD, influenced by a considerable drop in the surplus of the balance of loans/ borrowings, despite lower expenditure to redeem medium and long term debt. But this drop was lessened by higher surpluses in the balance of foreign investment and the balance of capital transactions.

BALANCE OF CAPITAL AND FINANCIAL TRANSACTIONS

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	3,714	4,101	3,370	4,142	3,532
<i>Annual variation (%)</i>	-0.1	10.4	-17.8	22.9	-14.7
Expenditure (in MTD)	2,096	2,810	1,903	2,212	1,892
<i>Annual variation (%)</i>	-27.3	34.1	-32.3	16.2	-14.5
Balance (in MTD)	1,618	1,291	1,467	1,930	1,640

1. CAPITAL TRANSACTIONS

The surplus in the balance of capital transactions continued in 2005 on the upward trend that began in 2004. It amounted to 165 MTD in 2005 vs. 134 MTD a year earlier.

BALANCE OF CAPITAL TRANSACTIONS

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	80	118	85	141	167
<i>Annual variations (%)</i>	566.7	47.5	-28.0	65.9	18.4
Expenditure (in MTD)	4	10	9	7	2
<i>Annual variations (%)</i>	-50.0	150.0	10.0	-22.2	-71.4
Balance (in MTD)	76	108	76	134	165

Income amounted to 167 MTD, up from 141 MTD in 2004. This increase was attributable mainly to the higher level of grants from the European Union in the amount of some 133 MTD vs. 120 MTD a year earlier. These grants served mainly to finance economic and social reforms. Tunisia also received 16 MTD in grants from Arab countries in 2005. Expenditure (corresponding to proceeds from liquidation of real estate holdings by foreigners who have left Tunisia for good) posted 2 MTD vs. 7 MTD in 2004.

2. FOREIGN INVESTMENT

The surplus in the balance of foreign investments went up in 2005 to 940 MTD (vs. 767 MTD in 2004), influenced by faster growth in receipts, up by 26.6% in 2005 vs. 8.6% the year before. But the higher level of income was somewhat attenuated by expenditure that went up by 58.9% to 151 MTD.

BALANCE OF FOREIGN INVESTMENT

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	718	1,194	794	862	1,091
<i>Annual variation (%)</i>	-36.9	66.3	-33.5	8.6	26.6
Expenditure (in MTD)	89	61	81	95	151
<i>Annual variation (%)</i>	-35.0	-31.5	32.8	17.3	58.9
Balance (in MTD)	629	1,133	713	767	940

Overall improvement was made up of diverging trends from one kind of investment to another. The higher surplus in the balance of direct investments contrasted with a lower surplus in the balance of portfolio investments.

(i) Direct investment

The surplus in the balance of direct investments (FDI) amounted to 925 MTD in 2005 up 188 MTD or 25.5% over the 2004 figure.

BALANCE OF DIRECT INVESTMENT

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	700	1,170	757	799	1,019
<i>Annual variation (%)</i>	- 34.5	67.1	-35.3	5.5	27.5
Expenditure (in MTD)	50	46	62	62	94
<i>Annual variation (%)</i>	25.0	-8.0	34.8	0	51.6
Balance (in MTD)	650	1,124	695	737	925

Direct investment flows to Tunisia surpassed the considerable level of over one billion dinars, posting an increase of 27.6% from 2004 to 2005 to reach 1,016 MTD. This was accomplished despite the absence in 2005 of major sales of company shares or privatisation transactions, aside from the Bank of the South (97 MTD) and SOTACIB (48.5 MTD). This increase involved practically all sectors except for tourism and agriculture/fishing. Manufacturing industries in particular received a higher level of investment: 375 MTD, up from 312 MTD in 2004, representing respective shares of 36.9% and 39.2% of total. These higher figures were due mainly to higher flows to mechanical/electrical industries : 142 MTD in 2005, up from 82 MTD in 2004. But investment in the textile/clothing sector fell by 7 MTD to 62 MTD.

145 new initiatives in manufacturing industries were completed in 2005, worth 133 MTD. Ongoing investments and those involving extensions amounted to 193 MTD for 159 initiatives. Sale of company shares to non residents involved privatisation of SOTACIB (48.5 MTD). Direct investment in the energy sector was also on the rise, up 40.9% to 386 MTD, a 38% share in total. This compares to 274 MTD and 34.4% in 2004. The increase involved funding of research and development (up from 170 MTD in 2004 to 233 MTD in 2005) as well as exploration (up from 71 MTD to 148 MTD).

Investment in tourism and real estate amounted to 17 MTD, compared to 22 MTD in 2004. This involved mainly acquisition and renovation of a number of hotels and spa facilities such as the Sahara Palace (4.4 MTD) and Abou Nawas Gammarth (3 MTD). There was also a drop in investment in agriculture and fishing, down from 10 MTD in 2004 to 7 MTD in 2005. Other services (exclusive of tourism) continued to attract a high volume of FDI (231 MTD) that went mainly to the financial sector (120 MTD) and telecommunications (99 MTD). Higher FDI flows thus helped finance the current deficit and the economy in general, gradually replacing recourse to external indebtedness, in line with targets for mobilising external resources, which promote FDI by facilitating access and establishment of foreign promoters in Tunisia. Aside from the advantages of this kind of financing (including transfer of technology, access to international markets, enhanced competitiveness and faster growth), FDI in 2005 was decisive in creating 13,124 jobs, compared to 13,556 in 2004.

Geographic breakdown of FDI flows to Tunisia in 2005 shows that funds from the countries of the European Union dominated, amounting to 623 MTD vs. 566 MTD in 2004, respective shares of 61.3% and 71.1% in total. France, Italy and the United Kingdom, Tunisia's main partners, provided 97 MTD, 114 MTD and 147 MTD in investment funds respectively. Investment in 2005 by promoters from Arab and NAFTA countries involved 200 MTD and 147 MTD respectively.

RECEIPTS FROM DIRECT INVESTMENT BY BENEFICIARY SECTOR (Commitment) (In MTD)

Description	2001	2002	2003	2004	2005
Energy	327	428	316	274	386
Tourism and real estate	101	22	19	22	17
Manufacturing industries	251	255	283	312	375
Other	21	462	134	188	238
Total	700	1,167	752	796	1,016

Expenditure for FDI went up sharply in 2005 to 94 MTD. This involved mainly repatriation by oil companies of material worth 42 MTD and recovery of investments by non resident through sale of shares in Tunisian companies (36 MTD). Investments by residents abroad (assets) went up significantly, from 5 MTD in 2004 to 16 MTD in 2005, almost half of which took place in Algeria. Further flexibility in the regulatory framework governing investment by Tunisians¹ abroad and efforts to boost bilateral cooperation with neighbouring countries were the basis for the major increase in FDI flows in the form of assets abroad.

(ii) Portfolio investment

With an upward trend in effect since 2002, the surplus in the balance of portfolio investments was down in 2005 to 15 MTD. This compares to 30 MTD in 2004, due to expenditure that grew much faster than income.

BALANCE OF PORTFOLIO INVESTMENT

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	18	24	37	63	72
<i>Annual variation (%)</i>	- 74.3	33.3	54.2	70.3	14.3
Expenditure (in MTD)	39	15	19	33	57
<i>Annual variation (%)</i>	- 59.8	- 61.5	26.7	73.7	72.7
Balance (in MTD)	- 21	9	18	30	15

The value of company shares sold by non residents on the Tunis Stock Market went up by 72.7% to 57 MTD in 2005, while acquisitions were up just 14.3% to 72 MTD, compared to 63 MTD in 2004.

3. MEDIUM AND LONG TERM BORROWING CAPITAL

The surplus in medium and long term borrowing capital fell considerably in 2005, down from 1,217 MTD in 2004 to 385 MTD in 2005, caused by the sharp drop in income compared to expenditure.

BALANCE OF MEDIUM AND LONG TERM BORROWING CAPITAL

Description	2001	2002	2003	2004	2005
Receipts (in MTD)	2,699	2,683	2,431	3,073	2,125
<i>Annual variation (%)</i>	23.3	-0.6	-9.4	26.4	-30.8
Expenditure (in MTD)	1,380	1,575	1,376	1,856	1,740
<i>Annual variation (%)</i>	-26.8	14.1	-12.6	34.9	-6.3
Balance (in MTD)	1,319	1,108	1,055	1,217	385

¹ Central Bank of Tunisia circular to authorised intermediaries n° 2005-05 of 16 February 2005 and a decree relating to foreign exchange issued by the Ministry of Finance published in the Official Journal of the Tunisian Republic (JORT) n°5 of 18 January 2005.

(i) Drawings

Drawings on medium and long term borrowing capital were down by 30.8%, from 3,073 MTD in 2004 to 2,125 MTD in 2005. This decrease was due to the drop in funds mobilised on the international capital market and in the framework of multilateral cooperation, a drop that was only partially offset by an increase in financing from countries that are Tunisia's partners.

BREAKDOWN OF DRAWINGS BY TYPE OF COOPERATION

Description	2004		2005	
	In MTD	Share (%)	In MTD	Share (%)
Administration	1,463	100	1,396	100
Bilateral cooperation	296	20.2	311	22.3
Multilateral cooperation	482	33.0	439	31.4
Financial market	685	46.8	646	46.3
Companies	1,610	100	729	100
Bilateral cooperation	343	21.3	357	49.0
Multilateral cooperation	633	39.3	344	47.2
Financial market	634	39.4	28	3.8
Total	3,073	100	2,125	100
Bilateral cooperation	639	20.8	668	31.4
Multilateral cooperation	1,115	36.3	783	36.9
Financial markets	1,319	42.9	674	31.7

Funds raised on the international capital market which accounted for 31.7% (674 MTD) of total drawings showed a sharp decrease by 645 MTD compared to funds raised in 2004. Drawings were made solely by the Administration, with the Central Bank going on the market to contract a euro-bond type borrowing in the amount of 400 million euros over a period of 15 years at an interest rate of 4.5%. Financing from multilateral cooperation was down 29.8% to 783 MTD, compared to 1,115 MTD in 2004. This drop was caused mostly by the lower level of drawings on the World Bank and the African Development Bank, down from 233 MTD to 224 MTD and from 342 MTD to 199 MTD respectively. Funds secured from these two institutions for the programme to support economic competitiveness (PACE) came in at 116 million euros in 2005. Countries that are Tunisia's partners provided a higher volume of financing : 668 MTD mobilised in 2005 vs. 639 MTD the year before. France released 464 MTD vs. 344 MTD in 2004 and Japan 113 MTD, the same package a year before.

Broken down by category of beneficiary, 65.7% of funds mobilised in 2005 went to the Administration (1,396 MTD), compared to 47.6% and 1,463 MTD in 2004. The remaining 729 MTD or 34.3% of total (down from 1,610 MTD and 52.4% in 2004) went to companies, mostly in the form of buyer or supplier credits linked to import transactions. Breakdown of drawings by origin shows a rise in the share of those from public origin, up from 49.9% to 52.6%, while funds from private structures went down by 2.7% percentage points to 47.4%.

TRENDS IN DRAWINGS ON MEDIUM AND LONG TERM LOANS

(In MTD)

Description	2001	2002	2003	2004	2005	Variation (%)	
						2004/2003	2005/2004
Administration	2,007	1,599	1,680	1,463	1,396	-12.9	-4.6
<i>Public origin</i>	1,323	630	879	737	664	-16.2	-9.9
<i>Private origin</i>	684	969	801	726	732	-9.4	0.8
Companies	692	1,084	751	1,610	729	114.4	-54.7
<i>Public origin</i>	388	744	428	795	454	85.7	-42.9
<i>Private origin</i>	304	340	323	815	275	152.3	-66.3
Total	2,699	2,683	2,431	3,073	2,125	26.4	-30.8
<i>Public origin</i>	1,711	1,374	1,307	1,532	1,118	17.2	-27.0
<i>Private origin</i>	988	1,309	1,124	1,541	1,007	37.1	-34.7

Financial drawings involving transfer of funds represented about 75% of total, or 1,594 MTD. The remainder (25% of total), coming in at 531 MTD, were in the form of commercial use with medium and long term payment facilities for Tunisian companies (commercial loans).

(ii) Retirement of medium and long term debt

Retirement of medium and long term debt was down by 6.3% in 2005 to 1,740 MTD. This drop from the 2004 figure was due to lower repayments by the Administration, down from 1,240 MTD in 2004 to 1,094 MTD in 2005, due mainly to the lower level of repayments to the international capital market, down from 338 MTD in 2004 to 178 MTD. Repayment of the Samurai IV in 2005 involved only some 15 billion yen, far less than the 30 billion yen in repayments made in 2004 for the Samurai I. Repayment by the Administration of principal on medium and long term debt to partner countries was also down somewhat, amounting to 391 MTD vs. 396 MTD a year earlier. On the other hand, payments by the Administration in the framework of multilateral cooperation grew by 19 MTD to 525 MTD. This increase was made up of diverging trends from one beneficiary to another. Repayments to the World Bank and the Arab Fund for Economic and Social Development (AFESD) went up by 14 MTD and 17 MTD respectively, to 259 MTD and 50 MTD, while repayments to the ADB decreased from 143 MTD to 114 MTD.

BREAKDOWN OF MEDIUM AND LONG TERM DEBT RETIREMENT BY TYPE OF COOPERATION

Description	2004		2005	
	In MTD	Share (%)	In MTD	Share (%)
Administration	1,240	100	1,094	100
Bilateral cooperation	396	31.9	391	35.7
Multilateral cooperation	506	40.8	525	48.0
Financial market	338	27.3	178	16.3
Companies	616	100	646	100
Bilateral cooperation	364	59.1	307	47.5
Multilateral cooperation	190	30.8	205	31.7
Financial market	62	10.1	134	20.8
Total	1,856	100	1,740	100
Bilateral cooperation	760	40.9	698	40.1
Multilateral cooperation	696	37.5	730	42.0
Financial markets	400	21.6	312	17.9

Repayments by companies to redeem medium and long term debt rose by 4.9% in 2005 to 646 MTD compared to 616 MTD a year earlier. The increase was attributable to higher payments in the framework of multilateral cooperation and to the international capital market, involving 205 MTD and 134 MTD respectively in 2005, compared to 190 MTD and 62 MTD in 2004. But repayments to partner countries fell from 364 MTD in 2004 to 307 MTD in 2005, mainly because of the lower level of repayments to Japan: 45 MTD vs. 77 MTD in 2004.

MEDIUM AND LONG TERM DEBT RETIREMENT

(In MDT)

Description	2001	2002	2003	2004	2005	Variation in %	
						2004/2003	2005/2004
Administration	886	1,060	872	1,240	1,094	42.2	-11.8
<i>Public origin</i>	787	809	745	841	835	12.9	-0.7
<i>Private origin</i>	99	251	127	399	259	214.2	-35.1
Companies	494	515	504	616	646	22.2	4.9
<i>Public origin</i>	234	249	180	213	223	18.3	4.7
<i>Private origin</i>	260	266	324	403	423	24.4	5.0
Total	1,380	1,575	1,376	1,856	1,740	34.9	-6.3
<i>Public origin</i>	1,021	1,058	925	1,054	1,058	13.9	0.4
<i>Private origin</i>	359	517	451	802	682	77.8	-15.0

C. OVERALL EXTERNAL POSITION

Tunisia's overall external position yielded net external commitments of 39,500.8 MTD as of yearend 2005 compared to 37,363.8 MTD in 2004 up 5.7%. This trend was attributable mainly to the strengthening of commitments in the form of foreign direct investment following the increase in flows in favour of Tunisia. The outstanding balance of medium and long term debt was up slightly, due mainly to the foreign exchange effect, while the volume effect was relatively limited, in line with the major drop in drawings on borrowing capital. As for assets, positive performance by external payments yielded a considerable surplus of 1,216 MTD in 2005, topping up the country's reserve holdings, especially in foreign currency.

OVERALL EXTERNAL POSITION OF TUNISIA

(Year-end outstanding, in MTD)

Description	2002	2003	2004	2005
Direct investments	-18,442.7	-19,569.4	-21,268.7	-23,001.8
Assets	48.8	51.7	56.2	71.7
Liabilities	-18,491.5	-19,621.1	-21,324.9	-23,073.5
Portfolio investments ¹	-598.0	-679.3	-718.4	-1,008.8
Assets	66.5	68.0	71.4	74.1
Investment securities	66.5	68.0	71.4	74.1
Claim securities	0	0	0	0
Liabilities	-664.5	-747.3	-789.8	-1,082.9
Investment securities	-664.5	-747.3	-789.8	-1,082.9
Claim securities	0	0	0	0
Other investments	-17,580.0	-18,452.3	-20,194.2	-21,523.6
Medium and long term loans and borrowings to the Administration	-11,688.4	-12,528.7	-13,208.5	-14,026.0
Assets	0	0	0	0
Liabilities	-11,688.4	-12,528.7	-13,208.5	-14,026.0
Public origin	-7655.5	-7,838.1	-7,997.7	-8,052.9
Private origin	-4,032.9	-4,690.6	-5,210.8	-5,973.1
Medium and long term loans and borrowings to the companies	-4,293.2	-4,707.5	-5,909.6	-6,272.7
Assets	133.4	120.8	119.9	136.3
Liabilities	-4,426.6	-4,828.3	-6,029.5	-6,409.0
Public origin	-2,233.8	-2,596.5	-3,239.5	-3,648.6
Private origin	-2,192.8	-2,231.8	-2,790.0	-2,760.4
Short term loan	-1,598.4	-1,216.1	-1,076.1	-1,224.9
Financial	-1,080.0	-1,044.9	-1,274.0	-1,508.5
Assets	892.1	802.4	828.2	1,174.4
Liabilities	-1,972.1	-1,847.3	-2,102.2	-2,682.9
Commercial ²	-518.4	-171.2	197.9	283.6
Assets	1,413.1	1,939.4	2,158.1	1,789.5
Liabilities	-1,931.5	-2,110.6	-1,960.2	-1505.9
Reserve assets	3,108.9	3,604.6	4,817.5	6,033.4
Monetary gold	4.4	4.4	4.4	4.4
Special drawing rights	14.3	13.6	15.5	7.5
Reserve position at IMF	37.6	36.4	37.3	38.2
Foreign currency	3,052.6	3,550.2	4,760.3	5,983.3
Total	-33,511.8	-35,096.4	-37,363.8	-39,500.8

1. DIRECT INVESTMENT

At the end of 2005, Tunisia's gross commitments in the form of direct investments went up by 8.2% (1748.6 MTD) to 23,073.5 MTD, influenced by the 27.6% increase in direct investments for the year. Involving low amounts, similar assets were worth 71.7 MTD at the end of 2005, compared to 56.2 MTD at the end of 2004. This 8.1% increase yielded commitments of 23,001.8 MTD at the end of 2005, compared to 21,268.7 MTD at end of the previous year.

2. PORTFOLIO INVESTMENT

Net commitments in the form of portfolio investments went up by 40.4% in 2005 to 1,008.8 MTD. This compares to a 5.8% increase the year before. This is because gross commitments of this kind grew by 293.1 MTD to 1,082.9 MTD, influenced

¹ A new methodology was adopted to determine the stock of investment portfolio as of 2001.

² As of 2001, stock of short term commercial loans is calculated in gross terms instead of net terms.

mainly by higher prices for securities traded on the Tunis Stock Market. Assets grew by 2.7 MTD to 74.1 MTD, a level that remained low because of low volume.

3. EXTERNAL INDEBTEDNESS

At the end of 2005, the outstanding balance of medium and long term external debt came in at 20,435 MTD, compared to 19,238 MTD at the end of 2004, an increase of 6.2% vs. 10.8% in 2004 despite the sharp drop in loan capital mobilised in 2005. Net inflows of medium and long term borrowing capital fell from 1,217 MTD in 2004 to 385 MTD in 2005. The higher outstanding balance of medium and long term debt in 2004 was the result mainly of the foreign exchange effect, a consequence of depreciation, with the dinar falling by 12% against the dollar (the main currency of indebtedness) and 0.5% against the yen from the end of 2004 to the end of 2005. Appreciation of the national currency against the euro (1.6%) partially attenuated this impact.

Trends observed in 2005 at the level of flows helped moderate the increase in the outstanding balance and consequently better control external debt parameters. The rate of indebtedness, which expresses the ratio between this outstanding balance and gross national available income (GNAI), thus increased by only 0.3 of a percentage point compared to the figure recorded at the end of 2004, posting 54.6% at the end of 2005. Medium and long term debt service as a ratio of current receipts fell from 14.1% in 2004 to 12.1% in 2005, influenced by both the 3.7% drop in debt service and the 12.2% increase in current receipts, compared to 2004 levels.

MAIN PARAMETERS OF MEDIUM AND LONG TERM OF EXTERNAL DEBT

(In MTD unless otherwise indicated)

Description	2001	2002	2003	2004	2005
Outstanding debt	15,033	16,115	17,357	19,238	20,435
Rate of indebtedness (% of GNAI)	52.1	53.5	53.4	54.3	54.6
Medium & long term debt service	2,032	2,278	2,089	2,627	2,531
Principal	1,380	1,575	1,376	1,856	1,740
Interest	652	703	713	771	791
Debt service ratio (in %)	13.3	14.9	13.1	14.1	12.1

¹ Calculated with reference to current receipts.

Contrary to previous years, net transfer of medium and long term loan capital yielded 406 MTD in output of funds, compared to positive transfers of 446 MTD in 2004, a result of the sharp drop in drawings, while repayments for debt service remained at a high level, although slightly lower than in 2004.

NET TRANSFERS OF MEDIUM AND LONG TERM BORROWING CAPITAL

(In MTD)

Description	2001	2002	2003	2004	2005
Drawings	2,699	2,683	2,431	3,073	2,125
Medium and long term debt service	2,032	2,278	2,089	2,627	2,531
Net transfers	667	405	342	446	-406

4. SHORT TERM COMMITMENTS

Tunisia's short term net commitments amounted to 1,224.9 MTD in 2005, compared to 1,076.1 MTD at the end of 2004, increase of 148.8 MTD. Commitments and assets of a financial nature yielded net commitments of 1,508.5 MTD at the end of 2005 vs. 1,274 MTD the year before. This increase was due to the 580.7 MTD increase in gross commitments, to 2,682.9 MTD, while assets were up only by 346.2 MTD to 1,174.4 MTD. The vast majority of inventoried commitments was made up of non-resident deposits.

On the other hand, assets and commercial commitments yielded net assets of 283.6 MTD compared to 197.9 MTD in 2004. Gross commercial commitment reached in effect 1,789.5 MTD in 2005 against 2,158.1 MTD the previous year. As for commercial commitments, they dropped also, regressing from one year to another from 1,960.2 MTD to 1,505.9 MTD.

5. RESERVE ASSETS

Reserve assets amounted to 6,033.4 MTD at the end of 2005, an increase of 25.2% compared to the 2004 yearend figure. This was the result of the high increase in external payments, leading to a sizeable (1216 MTD) surplus in the general balance of payments. Gross holdings in foreign currency, the main component of reserve holdings, thus increased by 25.7% to 5,983.3 MTD, compared to 4,760.3 MTD a year earlier. In line with this, net assets in foreign currency posted an increase of 1,138.6 MTD to 5,871.6 MTD as of end December 2005, the equivalent of 124 days of imports. This compares to 4,733 MTD and 107 days at the end of 2004. For the other categories of reserve holdings, Tunisia's reserve position at IMF improved somewhat, amounting to 38.2 MTD at the end of 2005, but special drawing rights (SDR) fell by 8 MTD to 7.5 MTD. Monetary gold reserves remained at the same 4 MTD level as the year before.

TUNISIA'S EXTERNAL PAYMENTS : TREND IN CURRENT RECEIPTS AND CAPITAL INFLOWS
(5th edition) (In MTD)

Description	2002	2003	2004	2005
A – CURRENT RECEIPTS	15,306.9	15,960.1	18,665.5	20,949.2
EXPORT OF GOODS (FOB)	9,748.6	10,342.6	12,054.9	13,607.7
SERVICES	3,812.9	3,783.5	4,521.1	5,193.2
TRANSPORTS	869.7	936.7	1,139.5	1,473.6
Freight	104.4	112.8	130.8	131.5
Passengers	438.0	452.6	575.6	852.5
Other transports	327.3	371.3	433.1	489.6
<i>Of which : gas royalties</i>	127.6	138.3	199.9	339.4
TRAVEL	2,165.6	2,038.8	2,454.0	2,755.9
Tourism	2,021.0	1,902.9	2,290.0	2,587.0
Professional and official travel	40.4	38.1	45.8	51.9
Studies and training	14.4	14.6	17.4	19.1
Medical care	15.4	28.1	34.5	44.9
Other living expenses	74.4	55.1	66.3	53.0
GOUVERNEMENT TRANSACTIONS	111.3	121.8	136.5	156.4
Tunisian government	0	0	0	0
Foreign governments	111.3	121.8	136.5	156.4
OTHER SERVICES	666.3	686.2	791.1	807.3
Insurance premiums and benefits	28.9	26.0	38.3	52.9
Office costs	107.2	98.0	110.5	117.0
Commercial & international trade costs	164.4	169.2	189.2	197.6
Public works & technical services	127.3	156.9	184.5	185.9
Communication services	15.6	11.9	16.9	23.6
Financial services	60.5	71.1	69.2	74.8
Computer and information services	26.1	25.3	22.9	25.0
Royalties and licence rights	23.2	22.7	21.8	18.2
Staff and cultural services	4.4	6.8	13.1	4.8
Miscellaneous	108.7	98.3	124.7	107.5
FACTOR INCOME	1,624.0	1,715.1	1,924.7	1,960.5
Capital income	102.3	104.2	142.0	153.6
Interest on loans and investments	89.0	84.0	111.5	132.3
Dividends and profits	4.0	8.2	15.7	4.8
Direct investment income	9.3	12.0	14.8	16.5
Labour income	1,521.7	1,610.9	1,782.7	1,806.9
Worker remittances	1,372.3	1,426.7	1,579.6	1,550.6
Other labour income	149.4	184.2	203.1	256.3
CURRENT TRANSFERS	121.4	118.9	164.8	187.8
Tunisian private sector	62.3	65.8	94.0	99.4
Tunisian public sector	59.1	53.1	70.8	88.4

(In MTD)

Description	2002	2003	2004	2005
B – CAPITAL & FINANCIAL TRANSACTIONS	4,101.2	3,370.0	4,142.8	3,532.3
CAPITAL TRANSACTIONS	118.4	84.6	141.0	167.1
FINANCIAL TRANSACTIONS	3,982.8	3,285.4	4,001.8	3,365.2
DIRECT INVESTMENTS	1,169.8	757.1	799.2	1,018.7
Assets	2.5	5.2	3.3	3.0
Liabilities	1,167.3	751.9	795.9	1,015.7
Shareholding	1,162.8	748.7	794.4	1,014.5
Other	4.5	3.2	1.5	1.2
PORTFOLIO INVESTMENTS	23.8	36.9	62.6	72.5
Public sector	0	0	0	0
Assets	0	0	0	0
Liabilities	0	0	0	0
Private sector	23.8	36.9	62.6	72.5
Assets	0	0	0	0
Liabilities	23.8	36.9	62.6	72.5
MEDIUM AND LONG TERM LOANS TAKEN BY THE GOVERNMENT	1,599.2	1,680.1	1,462.6	1,395.8
Liabilities	1,599.2	1,680.1	1,462.6	1,395.8
Public origin	630.4	878.9	736.3	663.9
Private origin	968.8	801.2	726.3	731.9
MEDIUM AND LONG TERM LOANS BY AND TO BUSINESSES	1,084.1	751.1	1,610.0	729.5
Loans	0	0	0	0
Borrowings	1,084.1	751.1	1,610.0	729.5
Public origin	743.6	428.6	795.2	454.0
Private origin	340.5	322.5	814.8	275.5
SHORT TERM CAPITAL (net movements)	105.9	60.2	67.4	148.7
Loans	0	0	0	22.3
Borrowings	105.9	60.2	67.4	126.4
C-ADJUSTMENT OPERATIONS (net movements)	0	0	0	0
GENERAL TOTAL	19,408.1	19,330.1	22,808.3	24,481.5

**TUNISIA'S EXTERNAL PAYMENTS : TREND IN CURRENT EXPENDITURE AND CAPITAL
OUTFLOWS (5th edition)** (In MTD)

Description	2002	2003	2004	2005
A - CURRENT EXPENDITURE	16,367.1	16,901.0	19,351.6	21,342.2
IMPORT OF GOODS (FOB)	12,767.8	13,266.8	15,082.5	16,160.9
SERVICES	2,062.7	2,076.9	2,473.2	2,829.4
TRANSPORTS	928.3	987.9	1,233.2	1,436.3
Freight	668.8	703.0	790.3	863.4
Passengers	61.0	71.9	108.6	100.7
Other transport	198.5	213.0	334.3	472.2
TRAVEL	370.1	386.8	423.4	471.6
Tourism	228.8	234.1	246.3	273.7
Professional and official travel		40.0	45.4	51.7
Studies and training	56.1	64.9	68.2	75.7
Medical care	5.4	4.4	7.3	8.7
Other living expenses	42.7	43.4	56.2	61.8
GOVERNMENT TRANSACTIONS	139.1	132.0	144.6	151.2
Tunisian Government	139.1	132.0	144.6	151.2
-Technical assistance	14.1	9.0	4.5	8.8
- Other	125.0	123.0	140.1	142.4
Foreign governments	0	0	0	0
OTHER SERVICES	625.2	570.2	672.0	770.3
Insurance premiums and benefits	97.2	96.7	123.3	167.1
Office costs	6.0	8.9	10.6	9.6
Commercial & international trade costs	101.8	93.8	106.7	110.1
Public works & technical services	226.8	205.6	228.0	255.0
Communication services	19.9	18.3	27.0	36.0
Financial services	48.3	44.9	56.1	65.1
Computer and information services	9.9	8.8	12.6	12.7
Royalties and licence rights	9.0	7.8	10.0	9.7
Staff and cultural services	7.1	5.0	7.5	7.7
Miscellaneous	99.2	80.4	90.2	97.3
FACTOR INCOME	1,519.1	1,533.2	1,773.7	2,325.6
Capital income	1,500.7	1,511.1	1,757.6	2,305.3
Interest on medium & long term loans	702.4	712.9	771.2	791.2
Interest on short term loans	31.9	24.6	27.3	36.6
Dividends and profits	85.8	70.3	102.1	178.7
Direct investment income	671.7	691.8	844.5	1,285.0
Rent	8.9	11.5	12.5	13.8
Labour income	18.4	22.1	16.1	20.3
Work remittances	10.3	13.6	8.2	9.6
Other labour income	8.1	8.5	7.9	10.7
CURRENT TRANSFERS	17.5	24.1	22.2	26.3
Tunisian private sector	17.1	23.8	22.1	26.1
Tunisian public sector	0.4	0.3	0.1	0.2

(In MTD)

Description	2002	2003	2004	2005
B – CAPITAL & FINANCIAL TRANSACTIONS	2,810.7	1,903.2	2,212.4	1,892.8
CAPITAL TRANSACTIONS	10.6	8.9	7.3	2.1
FINANCIAL TRANSACTIONS	2,800.1	1,894.3	2,205.1	1,890.7
DIRECT INVESTMENTS	46.2	62.0	61.7	94.0
Assets	9.2	7.0	5.2	16.4
Liabilities	37.0	55.0	56.5	77.6
Shareholding	35.0	51.9	50.7	72.5
Other	2.0	3.1	5.8	5.1
PORTFOLIO INVESTMENTS	14.5	19.2	32.9	56.8
Public sector	0	0	0	0
Assets	0	0	0	0
Liabilities	0	0	0	0
Private sector	14.5	19.2	32.9	56.8
Assets	0	0	0	0
Liabilities	14.5	19.2	32.9	56.8
MEDIUM AND LONG TERM LOANS TAKEN BY THE GOVERNMENT	1,060.0	872.4	1,239.9	1,094.2
Liabilities	1,060.0	872.4	1,239.9	1,094.2
Public origin	888.6	745.3	841.3	834.6
Private origin	171.4	127.1	398.6	259.6
MEDIUM AND LONG TERM LOANS BY AND TO BUSINESSES	515.4	504.1	616.1	645.7
Loans from businesses	0	0	0	0
Loans taken by businesses	515.4	504.1	616.1	645.7
Public origin	240.3	180.3	213.3	223.1
Private origin	275.1	323.8	402.8	422.6
SHORT TERM CAPITAL (net movements)	1,164.0	436.6	254.5	0
Loans granted	1,164.0	436.6	254.5	0
Loans taken	0	0	0	0
C-ADJUSTMENT OPERATIONS (net movements)	30.7	30.2	31.4	30.6
GENERAL TOTAL	19,208.5	18,834.4	21,595.4	23,265.6
BALANCE	199.6	495.7	1,212.9	1,215.9

IX. FOREIGN EXCHANGE MARKET

In terms of annual averages, the exchange rate for the dinar depreciated by 4% in 2005 against the US dollar and the euro. This meant a 0.3 point depreciation in the actual effective exchange rate index. The exchange market in Tunisia, however, posted a 4% increase in 2005 in overall volume of cash transactions, influenced by the increase in volume of transactions from one foreign currency to another, which more than offset the drop in the volume of transactions between foreign currency and the dinar. The volume of forward transactions on the exchange market went up by 17% in 2005, linked to the increase in coverage transactions for both imports and exports. Transactions between authorized intermediaries and companies were dominated by those that cover imports.

I. TRENDS IN ACCOUNT AND SPOT TRANSACTIONS CONCERNING THE TUNISIAN DINAR AGAINST THE MAIN FOREIGN CURRENCIES

In terms of annual averages, the dinar depreciated in 2005 by 4% against the euro, the US dollar and the Moroccan dirham, by 3.2% against the pound sterling, and by 2.2% against the Japanese yen.

AVERAGE RATES OF MAIN FOREIGN CURRENCIES AGAINST THE DINAR ⁽¹⁾ (Spot and in account transactions)

Description	2001	2002	2003	2004	2005	Variation (%) ⁽²⁾	
						2004/03	2005/04
1 US dollar	1.4390	1.4212	1.2877	1.2456	1.2981	3.4	-4.0
1 euro	1.2877	1.3418	1.4573	1.5486	1.6126	-5.9	-4.0
1 pound sterling	2.0649	2.1242	2.0943	2.2730	2.3492	-7.9	-3.2
1,000 Japanese yens	11.7993	11.3004	11.0600	11.4812	11.7453	-3.7	-2.2
10 Moroccan dirhams	1.2737	1.2887	1.3391	1.4021	1.4601	-4.5	-4.0

⁽¹⁾ These are rates on the interbank market.

⁽²⁾ (-) means a depreciation of the dinar, (+) an appreciation.

Using end-of-period rates, the dinar depreciated by 12% against the US dollar, by 2.1% against the Moroccan dirham, by 1.8% against the pound sterling, and by 0.5% against the Japanese yen. Against the euro, however, it appreciated by 1.6%.

It was the dollar/dinar ratio that fluctuated the most throughout 2005 (by 14.4%), followed by the yen/dinar ratio (8.9%), that of the dirham/dinar (4%), then the euro/dinar ratio (2.8%).

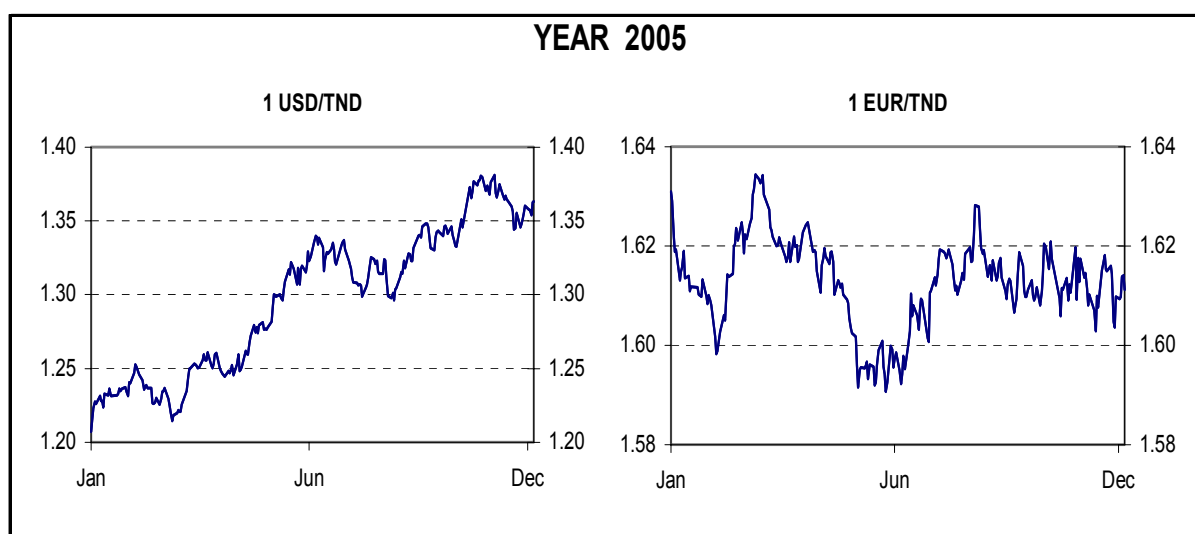
RANGE OF FLUCTUATION OF MAIN FOREIGN CURRENCIES AGAINST THE DINAR

Description	1 USD/TND	1 EUR/TND	1,000 JPY/TND	10 MAD/TND
Highest level	1.3813	1.6344	12.2126	1.4880
Lowest level	1.2074	1.5907	11.2150	1.4315
Range of fluctuation (%)	14.4	2.8	8.9	4

The dinar's exchange rate took a downturn against the US dollar, depreciating by 11.4% from the start to the end of the year. Monthly averages followed the same trend, with the dinar depreciating by 9.6%, from 1.2291 TND to 1.3590 TND to the dollar.

The dinar started the year at 1.6310 to the euro, then the rate appreciated by 2% until 8 February, rising to 1.5983 TND to the euro. There was then a reversal of trends, with the dinar depreciating by 2.2% to 1.6344 on 11 March. From that date until 23 June, the pattern changed direction once again and the dinar appreciated by 2.7% against the euro. Starting 23 June, the dinar took a downturn against the euro and that trend remained in force until the end of the year, depreciating by 1.3% from 1.5907 to 1.6112 TND to the euro.

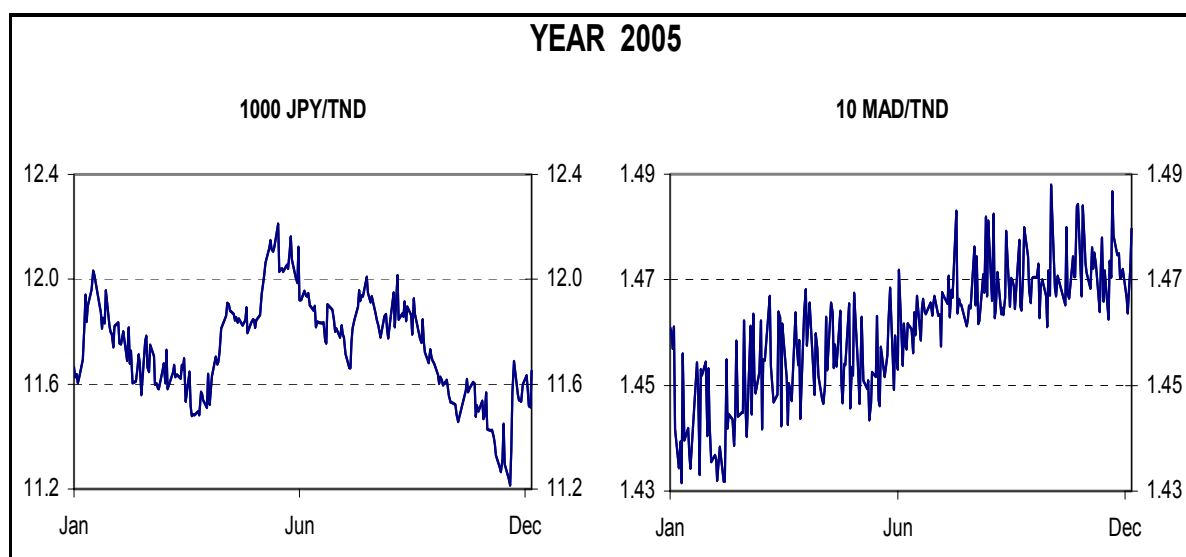
Practically the same pattern held for monthly averages, with the dinar appreciating initially by 1.3% between January and June, moving from 1.6156 TND to 1.5954 TND to the euro. Then it depreciated by 1%, posting a rate of 1.6113 TND at the end of December.



The dinar depreciated by 3% against the Japanese yen between the start of the year and 18 January. There was then a reversal of trend until 6 April, with appreciation of 4.8%. The pattern then changed once again, with depreciation of the dinar reaching 6% and a rate of 12.2126 on 13 June. The final phase posted appreciation of 4.8% to close for the year at 11.6500 TND for 1000 yen.

In terms of monthly averages, the dinar appreciated by 2% between January and April, moving from 11.8165 to 11.5851 TND for 1000 yen. It then depreciated by 4%,

posting 12.0676 TND in June. From that time until December, it appreciated by 5.3%, closing for the year at 11.4563 TND for 1000 yen.



The dinar depreciated by 1.3% against the Moroccan dirham in 2005, moving from 1.4610 TND for 10 dirhams at the beginning of the year to 1.4796 TND on 31 December. The dinar also depreciated (by 1.7%) in terms of monthly averages, moving from 1.4469 TND for 10 dirhams in January to 1.4725 TND in December.

II. TRENDS IN FOREIGN EXCHANGE MARKET TRANSACTIONS

A. Spot transactions

Spot transactions on the foreign exchange market amounted to 27,595 MTD in 2005, an increase of 995 MTD (4%) over their 2004 level. This development was due to the 1,151 MTD increase in transactions from one foreign currency to another, which more than compensated for the 156 MTD drop in transactions between foreign currency and the dinar. Thus the share of transactions from one foreign currency to another in overall cash transactions rose from 62% in 2004 to 64% in 2005.

TRENDS IN SPOT TRANSACTIONS (In MTD unless otherwise indicated)

Description	2003	2004	2005	Variation in MTD	
				2004/2003	2005/2004
Transactions from foreign currency to dinars	8,191	10,156	10,000	1,965	- 156
Transactions from one foreign currency to another	12,770	16,444	17,595	3,674	1,151
Total	20,961	26,600	27,595	5,639	995

1. TRANSACTIONS CONCERNING FOREIGN CURRENCY AGAINST THE DINAR

Transactions on this market sector amounted to 10,000 MTD in 2005, an average of 39.8 MTD a day vs. 10,156 MTD and 39.5 MTD respectively a year earlier, a drop of 156 MTD or 2%. 92% of this total in 2005 involved exchanges between banks, the remaining 8% representing transactions with the Central Bank of Tunisia. This

compares to 85% and 15% respectively the year before, reflecting higher liquidity on the market.

Central Bank intervention came in at 766 MTD in 2005, compared to 1480 MTD in 2004, a drop of 714 MTD or 48%.

Deposit banks dominated activity on the interbank market, with a 79% share of overall volume, compared to 19% for offshore banks and just 2% for development banks.

TRENDS IN FOREIGN CURRENCY/DINAR TRANSACTIONS (In MTD unless otherwise indicated)

Description	2003	2004	2005	Variation (%)	
				2004/03	2005/04
Interbank market	6,774	8,676	9,234	28.1	6.4
Resident banks	5,027	6,615	7,439	31.6	12.5
Off-shore banks	1,747	2,061	1,795	18.0	- 12.9
Central Bank of Tunisia	1,417	1,480	766	4.4	- 48.2
Total	8,191	10,156	10,000	24.0	- 1.5

As for breakdown by currency, the share of dollar/dinar transactions in total volume was up, from 42% in 2004 to 46% in 2005. On the other hand, the share of euro/dinar transactions over this same timeframe fell from 55% to 50%. Dinar/yen transactions remained at the same 1% share.

BREAKDOWN BY FOREIGN CURRENCY OF TRANSACTIONS ON THE SPOT FOREIGN EXCHANGE MARKET

Year	Currency	Interbank market		Central Bank		Total	
		Amount In MTD	Share In %	Amount In MTD	Share In %	Amount In MTD	Share In %
2003	USD	2,918	43.1	952	67.2	3,870	47.2
	EURO	3,703	54.7	366	25.8	4,069	49.7
	YEN	78	1.1	0	0.0	78	1.0
	Others	75	1.1	99	7.0	174	2.1
	Total	6,774	100.0	1,417	100.0	8,191	100.0
2004	USD	3,544	40.8	761	51.4	4,305	42.4
	EURO	4,894	56.4	644	43.5	5,538	54.5
	YEN	126	1.5	0	0.0	126	1.3
	Others	112	1.3	75	5.1	187	1.8
	Total	8,676	100.0	1,480	100.0	10,156	100.0
2005	USD	4,216	45.7	361	47.1	4,577	45.8
	EURO	4,826	52.2	214	28.0	5,040	50.4
	YEN	127	1.4	0	0.0	127	1.3
	Others	65	0.7	191	24.9	256	2.5
	Total	9,234	100.0	766	100.0	10,000	100.0

2. TRANSACTIONS FROM FOREIGN CURRENCY TO CONVERTIBLE DINAR

Exchange transactions between foreign currency and convertible dinars between authorised intermediaries and foreign correspondents increased by 19% in 2005, up from 1,236 MTD in 2004 to 1,474 MTD in 2005, corresponding to daily averages of 5.8 and 4.8 MTD respectively. Purchase of convertible dinars by foreign correspondents represented 70% of overall volume, with sales accounting for 30% of

transactions. The share of the US dollar was up from 33% in 2004 to 39% in 2005, while that of the euro fell over the same period from 67% to 61%.

3. Transactions from one foreign currency to another

Exchange transactions from one foreign currency to another amounted to 17,595 MTD in 2005, up from 16,444 MTD in 2004, an increase of 1,151 MTD or 7%. Consequently, their share in the overall volume of spot exchange transactions rose from 62% to 64%. Transactions involving foreign correspondents represented 93% in 2005, the same percentage as in 2004.

TRENDS IN TRANSACTIONS FROM ONE FOREIGN CURRENCY TO ANOTHER

(In MTD unless otherwise indicated)

Description	2003	2004	2005	Variat. (%) 2005/2004
Transactions between Tunisian Authorised Intermediaries	748	1,144	1,308	14.3
Transactions with foreign correspondents	12,022	15,300	16,287	6.5
Total	12,770	16,444	17,595	7.0

B. Forward transactions

The total amount of forward exchange transactions rose from 1430 MTD in 2004 to 1674 MTD in 2005, an increase of 244 MTD or 17%. The share of transactions between Tunisian authorised authorities and companies in overall volume went up from 98% in 2004 to 99% in 2005.

TRENDS IN FORWARD TRANSACTIONS

(In MTD unless otherwise indicated)

Description	2003	2004	2005	Variations in %	
				2004/03	2005/04
Transactions between Tunisian Authorised Intermediaries and businesses	945.0	1,398.1	1,654.6	47.9	18.3
Transactions on the interbank market	19.0	32.2	19.7	69.5	- 38.8
Total	964.0	1,430.3	1,674.3	48.4	17.1

Transactions between authorised intermediaries and companies were marked by an increase in sales by banks to cover imports, up from 1,063 MTD in 2004 to 1,179 MTD in 2005, an increase of 116 MTD or 11%. On the other hand, their share in total fell from 76% to 71%. Similarly, forward purchases by authorised intermediaries to cover exports increased from 335 MTD to 476 MTD, an increase of 140 MTD or 42%. Their share in volume between banks and companies rose from 24% to 29% over the same period.

VOLUME OF FORWARD BUYING AND SELLING BY AUTHORISED INTERMEDIARIES TO COMPANIES

(In MTD)

Description	2003	2004	2005
Forward buying	192.3	335.4	475.6
Forward selling	752.8	1,062.7	1,179.0
Total	945.1	1,398.1	1,654.6

The structure by currency of forward exchange transactions to cover imports shows a drop in the share of the US dollar, from 49% in 2004 to 40% in 2005. That of the euro

rose from 47% to 55%. As for the structure by currency of forward exchange transactions to cover exports, the share of the US dollar rose, from 24% in 2004 to 27% in 2005, while that of the euro fell from 75% to 72%.

STRUCTURE BY CURRENCY OF FORWARD BUYING AND SELLING BY AUTHORISED INTERMEDIARIES TO BUSINESSES IN 2005

Description	Euro		US Dollar		Other currencies		Total	
	MTD	%	MTD	%	MTD	%	MTD	%
Forward buying	342.7	72.1	128.5	27.0	4.4	0.9	475.6	100.0
Forward selling	643.9	54.6	472.2	40.1	62.9	5.3	1,179.0	100.0
Total	986.6	59.6	600.7	36.3	67.3	4.1	1,654.6	100.0

C. FOREIGN EXCHANGE SWAPS AND FORWARD RATE AGREEMENT “F.R.A.”

1. FOREIGN CURRENCY/DINAR EXCHANGE SWAP TRANSACTIONS

The volume of exchange swap transactions rose in 2005 to 323 MTD, a daily average of 1.3 MTD compared to 483 MTD and 1.9 MTD respectively over the previous year. The cumulative volume of this type of transaction since they were created in June 2001 amounted to 5,468.7 MTD. The share of exchange swap transactions with foreign correspondents came in at 97%, the remaining 3% involving companies.

TREND IN FOREIGN CURRENCY/DINAR EXCHANGE SWAP TRANSACTION

Description	2003	2004	2005	Variations in MTD	
				2004/03	2005/04
Interbank market	9	110.4	1.1	101.4	- 109.3
Transactions with foreign correspondents	429.8	366.4	311.7	- 63.4	- 54.7
Transactions between Tunisian Authorised Intermediaries and businesses	11.1	5.9	9.7	- 5.2	3.8
Total	449.9	482.7	322.5	32.8	- 160.2

80% of exchange swap transactions are denominated in dollars and 20% in euros.

2. F.R.A. TRANSACTIONS

There were no forward rate agreements signed in 2005, compared to 53.9 MTD a year earlier. The cumulative volume of these transactions since they have been created in June 2001 amounted to 265.3 MTD.

**MONETARY DEVELOPMENT
AND DISTRIBUTION OF CREDIT**

I. MAIN ECONOMIC, MONETARY AND FINANCIAL REGULATING MEASURES

2005 was marked by promulgation of a law to strengthen security in financial relations and by completion of the financial system restructuring program, notably transition of the remaining two venture capital development banks into all-purpose banks and sale of State holdings in the capital of the Bank of the South to non-residents, in a context of globalisation of financial services, which is increasingly influenced by tougher competition and greater modernisation of financial institutions. Capital markets were also a central concern for authorities. Well aware of the leading role of capital markets in mobilising long-term savings and meeting companies' financial needs, authorities concentrated throughout the year on promoting foreign investment in portfolio and creating new financial products. Another variant of the capital market, the money market underwent a number of modifications to develop mechanisms that can actively contribute to financing of the economy.

In the economy, special interest was given to investment, especially in the latest technologies, while the textile sector, impacted by competition from Asian goods in general and Chinese in particular, has required recapitalisation to help it diversify activities and strengthen the financial base of production units operating in the sector. This should help the sector face up to foreign competition and thus protect it from the adverse effects of globalisation. Special attention has also gone to development and modernisation of information technologies and to energy conservation, along with ongoing efforts to provide appropriate financing to the economy.

A. CONSOLIDATION OF TRANSPARENCY AND RULES OF GOOD GOVERNANCE

The terms of the law governing the security of financial relations¹ target three main priorities to strengthen :

- * the security of corporate accounts, by increasing the transparency of financial information, the independence of supervisory bodies, and the definition of their responsibilities and those of their leaders;
- * the policy of financial disclosure and good governance by companies, by stepping up the creation of permanent audit committees, reorganisation of disclosure requirements for companies that want to make public calls for savings, their shareholders and companies listed on the stock market, as well as a more dynamic role for the trade registry system;
- * the role of the Financial Market Council in carrying out its mandate and the definition and organisation of stock portfolio management on behalf of third parties.

Such strengthening can be accomplished only by applying the measures specified in this law, especially:

¹ Cf. Law n°2005-96 of 18 October 2005 published in the Official Journal of the Tunisian Republic (JORT) n°84 of 21 October 2005.

- * introduction of the requirement to rotate auditors, on the basis of three mandates for private individuals and five mandates for audit firms, on condition that the signatory and team in charge of the audit exercise are changed;
- * the introduction of auditor duality for companies that have to draw up consolidated financial statements and those whose balance sheet exceeds a given amount;
- * the requirement that auditors have to tell the Financial Market Council about anything that could endanger the company's interests;
- * consolidation of obligations to publish corporate financial information on public interest companies, which would involve:
 - a reduction of the time frame for submission and publication of financial information from six to four months; and
 - incorporation in the annual management report of the information specified by Financial Market Council regulations, notably an account of activities, their expected evolution, and any possible changes in methods for drawing up and submitting financial statements and internal audit ;
- * introduction of the obligation to set up permanent and independent internal audit committees made up of Board members for all companies quoted on the stock market as well as those whose balance sheet total exceeds a given amount.

In line with this legislation, lending institutions have been required to transmit their finalised financial statements to the Issuing Institution along with a report from one or more auditors and assessment of their assets at least two weeks before publication. Thus each lending institution must coordinate with the Central Bank of Tunisia's directorate general of banking supervision to set the date for holding its annual meeting, at which the financial situation is reviewed prior to the stockholders general assembly meeting¹.

B. REORGANISATION OF THE MONEY MARKET AND PURSUIT OF THE PROGRAMME TO RESTRUCTURE AND MODERNISE FINANCIAL INSTITUTIONS

The money market in 2005 took advantage of a series of measures meant to improve its operating framework and contribute positively to higher banking and corporate efficiency and competitiveness. On another front, the process of restructuring and modernising the banking system continued in 2005, allowing banks to strengthen their financial bases and thus stand up to the foreign competition that will emerge when financial services are liberalised.

1. Reorganisation of the money market

The circular governing organisation of the money market was modified² in 2005 to take into account the changes made in the statutes of the Central Bank of Tunisia by law n°2000-37 of 4 April 2000, the requirements of law n°2000-35 of 21 March 2000

¹ Cf. Note to lending institutions n°2006-02 of 19 January 2006.

² Cf. Central Bank of Tunisia circulars to lending institutions n° 2005-09 and n° 2005-10 of 14 July 2005.

governing paperless securities and the terms of circular to banks n°2004-02 of 26 May 2004 concerning the formula for rounding off interest rates to the nearest 1/100th of a percentage point. In this context, revision of the terms of article 45 of law n° 58-90 of 19 September 1958 modified the way in which the Central Bank intervenes on the money market, by enabling the Issuing Institution to buy or take in pawn from banks negotiable short-term public bills as well as any claim or value on companies and private parties, in line with conditions set by its Board. The money market, previously limited to banks and joint partnership enterprises subject to conditions governing access to this market, is now under the new terms open to private individuals as subscribers, in addition to public or private lending institutions and corporate bodies.

Cash exchanges on the money market continue to be transacted:

- between banks, in the framework of credit lines they make available to each other, or by means of firm purchases or pawning of public or private notes or any other means agreed between the two parties;
- between companies or with private individuals, through banks, by using nominative negotiable certificates of indebtedness, by transfer from one account to another labelled commercial paper;
- Between lending institutions and corporate bodies governed by public or private law or by private individuals (who are new players on this market) through certificates of deposits.

On another front, in application of law n° 2000-35 of 21 March 2000 and of decree n°2001-2728 of 20 November 2001, the Central Bank by means of circular n°2005-10 of 14 July 2005 set the terms of specifications for keeping and administering certificate of deposit accounts and commercial paper accounts. In the future these securities must be registered in specific accounts in the name of the holder at the lending institution that has issued them or at a lending institution mandated by the issuer. The title holder can also ask a lending institution called an «administering authorised intermediary» that has notably the authority to execute purchase or selling orders and to cash interest. The negotiability of securities is handled by transfers from one account to another. They are subject to remuneration at a fixed rate payable in advance for securities with a duration of no more than one year. For securities with a duration of more than one year, remuneration is effected at a set or floating rate and is payable at the end of each year ; payment is effected on due date for the remaining portion of the year. Payment on due date of interest due on securities with a duration of more than one year has been adopted in order to develop a secondary market for these securities, limit the difficulties that hamper their negotiability, and harmonise the method for calculating interest on money market transactions. It should be kept in mind in this context that remuneration of these securities was in the past deducted.

2. Ongoing restructuring of the banking system

Transition of the Tuniso-Saudi Company for Investment and Development (STUSID) in April 2005 and of the Tuniso-Libyan Arab Bank for Development and Foreign Trade (BTLD) in October of the same year to all-purpose banks brings the total number of banks in this category to 20¹.

These actions took place in conjunction with the sale in November 2005 to foreign investors of State and public enterprise holdings in the capital of the Bank of the South, involving 6,708,805 shares (33.54% of capital) for 61 MTD. The sale was made to the consortium ANDALUMAGHREB, made up of the Spanish *Banco Santander Central Hispano S.A.* and the Moroccan *Attijariwafa Bank*. With the acquisition of a further four million shares from other shareholders at a cost of 36 MTD, the consortium has become the majority shareholder in the Bank of the South with 53.54% of capital.

3. Increase in the rate for deductible provisions of taxable profits for lending institutions

In the framework of ongoing policy to strengthen the financial base of lending institutions, it has been decided to increase from 85% to 100% the rate of deductible provisions for taxable profits subject to corporate tax, for profits earned from 1 January 2005 to 31 December 2009².

4. More flexible procedures for claim collection

With a view to facilitating sale by order of the court of goods, thus shortening the time frame for collecting claims, the civil and commercial procedures code was modified by introducing a new system for setting prices for sale of real estate. The new terms provide for cases when there is no buyer for the initial setting of the price, a new price will be set at least at 60% of the value fixed by the expert³.

5. Introduction of a regulatory framework governing electronic transfer of funds

Proliferation of electronic transfers, favoured by use of new technologies, has created the need for a legal frame to regulate such transactions⁴. In line for the most part with basic principles introduced by a European directive in this area, legislation governing electronic transfer of funds is notably based on the following notions and principles :

- definition of the instrument for electronic transfer of funds and of the issuer of this type of instrument;

¹ Cf. Decree n° 2005-491 of 1 March 2005, published in the Official Journal of the Tunisian Republic (JORT) n° 19 of 8 March 2005 and laws n° 2004-69 of 2 August 2004 published in the Official Journal of the Tunisian Republic (JORT) n° 62 of 3 August 2004 and n°2005-76 of 4 August 2005 published in the Official Journal of the Tunisian Republic (JORT) n°63 of 9 August 2005 and approvals by the Minister of Finances dated 25 April 2005 and of 20 October 2005.

² Cf. Article 30 of law n°2005-106 of 19 December 2005, constituting the appropriations of 2006 finance law, published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005.

³ Cf. Law n°2005-79 of 4 August 2005 published in the Official Journal of the Tunisian Republic (JORT) n°63 of 9 August 2005.

⁴ Cf. Law n°2005-51 of 27 June 2005 published in the Official Journal of the Tunisian Republic (JORT) n°51 of 28 June 2005.

- need for the issuer to transmit to the beneficiary a document describing notably the instrument and its technical characteristics, the ceiling for transactions, and procedures for opposition in cases of loss or theft;
- requirement for the issuer to implement a system that will allow him or her to check that the transaction has been processed properly by the instrument used for electronic transfer of funds;
- irrevocability of the order to transfer funds handled by an electronic-transfer-of-funds instrument;
- limiting the responsibility of the beneficiary in cases of loss or theft of the instrument in cases when opposition has been made very quickly; the beneficiary does not hold responsibility for the loss or theft up to a maximum of 200 dinars, until such time as the opposition is fully established; and
- incrimination for falsification of an electronic-transfer-of-funds instrument or for knowingly accepting a transfer involving a falsified instrument.

These regulations will help considerably in the effort to modernise payment systems that began with the introduction of electronic clearing and monetics. This will move forward with the setting up by the Central Bank of a system for gross settlement in real time called *SGMT* meant to ensure management of electronic payments for transfer of large amounts in central currency, the start-up of which is planned for 2006. This system will thus provide the national banking system with an effective tool to guard against systemic risks, which will enhance the security of transfers, the speed of transactions, and the transparency of the system, in line with international norms.

6. Modifying the terms for calculating the technical provisions of insurance companies

Evaluation of assets eligible as technical provisions in insurance has undergone a number of modifications, meant to take into account possible changes in the value of these assets. Measures taken can be summarised as follows :

Assets eligible as technical provisions	Former regulation: Ministry of Finance decree of 27/2/2001	New regulation : Ministry of Finance decree of 28/3/2005
Real estate investments	- assessed at cost of acquisition for those that were costly, at fair value for those acquired free of cost, and at the cost of production for those produced by a company.	- assessed at the cost of acquisition for those that were costly, at fair value for those acquired free of cost, and at the cost of production for those produced by the company. - amortisation and provisions for depreciation to be constituted are deducted from these figures.
Fixed revenue bonds and securities	- drafts, bonds, and other fixed income securities are assessed at the price of acquisition, exclusive of accessory costs and coupon accrued at the time of purchase.	- drafts, bonds, and other fixed income securities are assessed at the price of acquisition, exclusive of accessory costs and coupon accrued at the time of purchase. - provision for depreciation is constituted as soon as a risk of recovery of the reimbursement value and/or of interest is identified. - the value retained to represent technical provisions is determined after deduction of provisions for depreciation to be constituted.
Variable income securities	- Assessed at the cost of acquisition, exclusive of accessory fees on purchases.	- Assessed at the cost of acquisition, exclusive of accessory costs on purchases. - the cost of acquisition is reduced by the share of dividends for which the date of the decision to distribute is earlier than the date of acquisition ; and that are linked to results achieved over the period before that of acquisition. - provisions for depreciation are deducted from the price of acquisition.
Investment representing account unit contracts	- Assessed at market value. The difference between accounting value and market value being taken into account in the results.	- Assessed at market value. The difference between accounting value and market value being taken into account in the results.

New terms apply to data in insurance company records for activities starting in 2004¹.

¹ Cf. Directive of the Minister of Finances of 28 March 2005 published in the Official Journal of the Tunisian Republic (JORT) n°27 of 5 April 2005.

7. Extension of the field of intervention for the system guaranteeing loans to medium-size industrial and service companies and for holdings in their capital

Introduced by article 24 of law n° 2002-101 of 17 December 2002, which constitutes the 2003 finance law, this regime was intended to guarantee a number of categories of loans by lending institutions to medium-size businesses working in industry, services and certain holdings of venture capital investment companies (SICAR) in the above-mentioned companies. Since then, following the setting up of start-up funds and capital risk mutual investment funds under the terms of laws n°2005-58 of 18 July 2005 and n°2005-105 of 19 December 2005 respectively, meant to strengthen capital stock equity at these companies, this regime has been extended to holdings in these funds. Moreover, it will from now on cover loans granted to small companies in order to encourage lending institutions to provide the financing required by this category of businesses¹.

C. ONGOING CONSOLIDATION OF CAPITAL MARKET ACTIVITY

Aware of its leading role in mobilising long-term savings and channelling these resources to productive investment, authorities in 2005 continued their efforts to make the capital market more dynamic, by adjusting relevant regulations on the one hand and diversifying the various ways to save on the other.

1. Amendment of Stock Market and Capital Market Council general regulations

In order to provide more flexible conditions for companies to access the financial market, modifications were introduced in the general regulations of both the Tunis Stock Market (BVMT) and the Capital Market Council (CMF)².

a. General regulations of the Tunis Stock Market

The main new element for the Tunis Stock Market targeting organisation of the stock market is unifying the first and second markets in a single market designated: «capital securities market». Thus under these new terms, stock market listings will include the capital securities market and the bond market. It should be kept in mind that capital securities cover common and preferred stocks, priority dividend shares without voting rights, and certificates of investment.

In the framework of entry on the capital securities market, companies must meet criteria relating to opening up to the public, size, performance, liquidity and transparency. They must have published certified financial statements for the two years preceding the application for admission (previously three years), which must show a profit. But the stock market can make an exception for companies that have been operational for less than two years. Furthermore, the company needs to provide projections for the next five years, along with the underlying hypotheses established by the board or the directorate and countersigned by the auditor. If on the date of the

¹ Cf. Articles 26 to 28 of law n°2005-106 of 19 December 2005, constituting the appropriations of 2006, finance law published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005.

² Cf. Directives of the Minister of Finance dated 24 September 2005, published in the Official Journal of the Tunisian Republic (JORT) n°79 of 4 October 2005.

decision for admission the last financial period has been closed for more than eight months (instead of nine in the past), the board or the directorate will have to establish and publish the accounts for the first half of the year, along with the auditor's opinion.

It is important to specify that the condition relating to profits is not required for companies that are requesting admission of their stock on the market by means of the ordinary procedure, following a public increase in capital. Company stocks held by the public for which admission to the market has been requested must be held by at least 200 stockholders, compared to 500 previously. The notion of «public» will in the future include institutional stockholders that individually hold no more than 5% of capital, given that they include mutual investment funds, lending institutions, insurance companies, close-ended investment companies (*SICAFs*) and venture capital investment companies (*SICARs*) as well as retirement funds, quite aside from stockholders who individually hold no more than 0.5% of capital, up from 0.1% previously.

To enter the capital securities market a company has to justify by the date of posting issue to the public of at least 10% of its capital compared to 20% for the first market and 10% for the second in the past. An exception can be granted by the Tunis Stock Market if the issuing body makes available to the public a minimum of a million dinars, compared to 200,000 stocks for the primary market and 100,000 stocks for the second market previously.

As for the procedure to distribute securities during the period immediately preceding their initial posting, a transaction can take the form of a guaranteed investment or an investment in the public domain by banks or stockbrokers, either individually or jointly, with the agreement of the Financial Market Council. This transaction was previously handled by one or several stockbrokers. If it is handled jointly, a bank or stockbroker must be designated as a leader. The Capital Market Council can authorise that an issue be handled partially in the framework of an investment proposed to one or more investors when the main procedure used is a public offer for sale and the transaction represents at least 10% of capital in the given company or an amount of 2 million dinars. It should be mentioned that in the past this rate was meant to be at least 20% of company capital or the equivalent of 2 million dinars for the first market and 10% of capital or an amount of one million dinars for the second market.

As for negotiation, to avoid pressure on the price of securities, the stockbroker, after informing the client and the Capital Market Council, can hold back from issuing the full volume on the market or provide only a portion of an order including volume on supply or demand that is disproportionate compared to the degree of liquidity of the security and the market's absorption capacity.

b. Capital Market Council regulations governing public calls for savings

In preparing prospectus for guaranteed borrowings, it is no longer required that the guarantor be presented if the latter is a bank listed on the stock market or tied by a

rating contract to one of the four rating agencies, as per Minister of Finance directive of 24 April 2003.

2. Adjustment of conditions for entry and keeping of stock accounts

Stock accounts have to date been handled exclusively by stockbrokers or lending institutions acting as authorized intermediaries, now extended to the Tunisian interprofessional stock clearing and deposit company (STICODEVAM). This activity is subject to signature of specifications governed by either a Central Bank of Tunisia circular or Capital Market Council regulations. But companies that issue stocks other than those eligible to negotiate on markets under the authority of the Central Bank of Tunisia can get specifications from the Capital Market Council and the tax authorities.

It should be kept in mind that authorised intermediaries remain subject to the authority of the Central Bank and of the Capital Market Council, in line with their mandates¹. They cannot delegate this responsibility to STICODEVAM, as was the case in the past, for stocks they have assumed.

3. Readjustment of conditions for issuing shares of joint stock investment funds dealing in securities

To encourage institutional bodies to subscribe to joint stock investment funds, the ceiling of the original value of shares in circulation for these funds, which in the past was set at 10 million dinars for issues of new shares, has now been raised to 50 million dinars².

4. Changes in conditions for managing stock savings accounts

To raise greater interest on the part of savers in stock savings accounts, additional flexibility has been introduced in conditions for managing these accounts. Thus the maximum timeframe for using sums in these accounts rose from 30 to 90 market days, starting the market day following the date of deposit. Nonetheless, sums unused at the end of the 30 market day period must be temporarily invested in the form of stock acquisition or shares in mutual funds investing in securities³.

5. Encouraging companies to enter the stock market

To mobilise long term savings through consolidation of supply on the capital market by encouraging companies to join the stock market, it was decided to extend tax incentives for subscribers to the capital of companies working in the field of services, computer engineering and related services as well as those operating in the field of communications and new technologies to all other companies listed on the stock market, regardless of their field of activity⁴.

¹ Cf. Decree n°2005-3144 of 6 December 2005 published in the Official Journal of the Tunisian Republic (JORT) n°99 of 13 December 2005.

² Cf. Decree n°2005-1976 of 11 July 2005 published in the Official Journal of the Tunisian Republic (JORT) n°57 of 19 July 2005.

³ Cf. Decree n°2005-1977 of 11 July 2005 published in the Official Journal of the Tunisian Republic (JORT) n°57 of 19 July 2005.

⁴ Cf. Article 29 of law n°2005-106 of 19 December 2005 constituting the appropriations 2006 finance law and published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005.

It should be kept in mind that these incentives relate to taking up options to subscribe to capital in these companies, constituted as follows:

- for companies that offer a subscription option:

- deduct from the tax base the loss from taking up an option, up to 25% of the actual value of stocks or company shares, on condition that the total deduction is no more than 5% of the company's taxable profits of a company subject to corporate tax, after deduction of provisions;
- exempt these companies from the vocational training tax and from contributions to the fund to promote housing for wage earners, on the basis of earning by their employees of gains from taking up a subscription option.

- and for wage earners at the above-mentioned companies, to benefit from exemption from the tax on income as gains on the transaction to take up a subscription option, in line with current tax regulations.

6. Setting up start-up funds

To help a company get started and to support investors with new project ideas, a mechanism has been set up to provide start-up funds, which should help provide the financing needed in the early stages of company creation.

These are mutual funds investing in securities that target a higher level of equity for innovative projects prior to the effective start-up phase. Intervention by these funds consists in helping promoters to tap patents, finishing the technical and economic study of the project and developing the technological process of the product, prior to marketing and final securing of finances. This is achieved by using their assets in holdings in the capital of companies which achieve the above mentioned projects, or in securities that provide access to the capital of these companies or in the form of advances to joint current accounts¹.

At least 50% of the assets of start-up funds must be made up of holdings in the capital of companies carrying out the above-mentioned activities or in securities that provide access to the capital of these companies. They can also consist of advances to joint current accounts at companies in which the fund holds at least 5%, in so far as the total of these advances does not exceed 15% of the fund's assets. These advances are taken into account in the above-mentioned rate of participation².

To keep risks divided, start-up funds cannot use more than 15% of their assets for shares holdings or in securities that give access to capital, or in other securities, or in the form of advances to joint current accounts for the same issuer, unless they are securities issued by the State, local government, or guaranteed by the State. It should be mentioned that use of assets by a start-up fund must take place no later

¹ Cf. Laws n°2005-58 and 2005-59 of 18 July 2005 published in the Official Journal of the Tunisian Republic (JORT) n°57 of 19 July 2005.

² Cf. Decree n° 2005-2603 of 24 September 2005 published in the Official Journal of the Tunisian Republic (JORT) n°78 of 30 September 2005.

than the end of the fourth year after that of subscription to the fund. Unused amounts must be temporarily invested in acquisition of securities.

Management of these funds is entrusted to a bank or a stockbroker in the form of a limited liability company or one that is legally empowered to manage securities portfolios for third parties.

Income reinvested in the acquisition of shares in these funds is deductible from the taxable base under certain conditions: accounting in line with legislation governing corporate accounting and production to support the corporate annual tax return in the year of deduction, a certificate of subscription and payment for shares issued by the fund manager.

7. Setting up of capital risk mutual investment funds

In order to diversify mechanisms for mobilising savings and secure the capital stock equity required by new projects, capital risk mutual investment funds have been set up¹. These are investments in securities mainly through holdings on behalf of shareholders, with a view to passing them on, increasing corporate equity for companies carrying out the activities listed in article 21 of law n°88-92 of 2 August 1988. These activities involve companies fostered by new promoters as defined in the investment incentives code, those working in regional development zones as set in that same code, those implementing upgrading operations or encountering economic difficulties and eligible for recovery support as well as companies that make investments to promote technology, master it or introduce innovation in all economic sectors.

Investment by these funds can take the form of subscriptions or acquisition of ordinary shares or with priority dividends without the right to vote, certificates of investment, participation certificates, bonds that can be converted to shares and company shares, and in general all categories of investment with the status of capital stock equity. These funds can also make advances to joint current accounts of companies in which they hold at least 5% of capital, on condition that the total of these advances does not exceed 15% of the fund's assets. Furthermore, capital risk mutual investment funds cannot use more than 15% of their assets in holdings of capital or securities that give access to capital or in other securities or advances in joint current accounts for a single issuer, unless they are securities issued by the State, local governments, or guaranteed by the State². These last two measures are likely to help these funds properly manage operational risks. The internal regulation of the fund sets the period at the end of which shareholders can call for buy-backs ; they are therefore able to demand liquidation of the fund if their calls for buy-back can not be honoured within one year from the date the request is submitted to the manager³.

¹ Cf. Law n°2005-105 of 19 December 2005 published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005.

² Cf. Decree n°2006-381 of 3 February 2006 published in the Official Journal of the Tunisian Republic (JORT) n°12 of 10 February 2006.

³ Cf. Article 22c (*ter*) of the code governing joint investment companies, added by law n°2005-105 of 19 December 2005 and published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005.

Given that these capital risk mutual investment funds intervene in the same fields as venture capital investment companies, it was decided that they should be eligible for the same tax incentives. Thus subscribers to shares of capital risk mutual investment funds can deduct their subscriptions from the tax base. They are subject to minimum tax if the fund uses at least 30% of its assets to increase the equity of companies working in development zones or those investing in communication/information or innovative technologies or in projects promoted by new entrepreneurs or those launching small/medium size companies.

These subscribers are also eligible for the above-mentioned deduction, without having to pay the minimum tax if the capital risk mutual investment fund uses more than 80% of its assets in the above-mentioned projects and at least 50% in development zones. The advantage of this deduction by subscribers is subject to the absence of buy-backs of subscribed shares for a period of five years from the first of January of the year following the subscription, as well as to accounting in line with legislation in force and to presentation of an attestation of subscription and release of shares as well as an attestation justifying use by the fund of its assets at the above-mentioned rates.

Moreover, like venture capital investment companies, income for capital risk mutual investment funds are treated like distributed profits, exempt from payment of both income and corporate tax. This is also the case for profits on sale of certificates of participation by capital risk mutual investment funds¹. They are however subject to withholding free of tax at a rate of 20%, as is the case for mutual investment funds dealing in securities.

8. Widening the field of intervention for venture capital investment companies

Given their role in increasing corporate equity, venture capital investment companies have been empowered to make advances to joint current accounts to companies in which they hold at least 5% of capital. These advances cannot exceed 15% of the relevant venture capital investment company's resources².

D. MEASURES TO PROMOTE INVESTMENTS

Closely linked to economic growth and job creation, investment continues to be a priority issue for authorities. In this context, a series of measures were taken in 2005 that will give more opportunities to investors, especially those that have new project ideas. In particular, the regulatory framework, which will need to adapt to changes in the business environment, has been bolstered by introduction for the first time of corporate spin-off initiatives and the institution of economic public interest business centres, concurrently with measures to encourage innovation in the field of information technologies.

¹ Cf. Articles 23 to 25 of law n°2005-106 of 19 December 2005 constituting the appropriations of 2006 finance law and published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005.

² Cf. Law n°2005-104 of 19 December 2005 published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005 and decree n°2006-380 of 3 February 2006 published in the Official Journal of the Tunisian Republic (JORT) n°12 of 10 February 2006.

1. Spin-offs from economic companies

'Spin-offs' are defined as any incentive or help that a company gives to promoters among its own personnel or to outsiders to support them in setting up a separate company or pursuing an activity the company was carrying itself. This support can take the form of helping promoters to give concrete form to project ideas, carry out relevant studies, finalise financing, obtain premiums/incentives and help the undertaking to become a reality.

The company adopting this technique must have a structure that allows it to provide any kind of technical or logistic assistance for the spin-off operation as well as monitoring of the initiative after it is under way. To this end, an agreement was signed between the company and the promoter, defining the contents of the project and the commitments of the two parties, in line with a standard agreement approved by a directive of the Minister in charge of small/medium-sized businesses.

On another front, companies fostering spin-offs can deduct relevant expenditure from the tax base for the year in which expenditure is committed, up to 1% of annual gross turnover and with a ceiling of 30,000 dinars by project. A company that takes advantage of this deduction must attach to its annual corporate tax return a statement giving detailed amounts and the nature of expenditure as well as a copy of the agreement signed with the promoter of the new activity.

Furthermore, any promoter of a spin-off activity who has received a premium for a study of his or her project idea will have to hand it over to the sponsoring company¹.

2. Setting up of economic public interest business centres

The setting up of economic public interest business centres is part of the framework for strengthening investment incentive mechanisms. They are defined as legally-constituted corporate entities with financial autonomy that offer services to promoters and investors in order to boost private initiative in targeted regions. Since they do not seek to turn a profit, these new structures, set up without a capital base, are intended to help promoters of new activities in the various phases of setting up their companies and to provide the services needed to get their business launched and flourishing. This is accomplished by providing them with information on procedures for forming a company, the advantages and incentives they might be eligible for, possible sites for setting up business and promising opportunities for investment and partnerships. These centres are set up under a constitutive contract between professional organisations, public development support structures, and private individuals/corporate bodies that carry out economic and financial activities ; the above-mentioned contract must be approved by directive of the Minister in charge of small and medium-size businesses, which sets the field of intervention for each centre. They are subject to a yearly audit carried out by a chartered accountant. The resources at the disposal of these centres come mainly from subsidies allocated by

¹ Cf. Law n°2005-56 of 18 July 2005 published in the Official Journal of the Tunisian Republic (JORT) n°57 of 19 July 2005 and decree n°2006-95 of 16 January 2006 published in the Official Journal of the Tunisian Republic (JORT) n°6 of 20 January 2006.

the State or other entities, income from services rendered, grants and bequests¹. The organisation and operating/management modes of these centres must be in conformity with a standard statute approved by decree, which defines the modalities for setting up these centres, their mandates, administrative and financial organisation, and means of oversight. They are run by an orientation council made up of between seven and ten members designated by directive of the Minister in charge of small and medium size businesses among representatives of the signatories of the constitutive contract, as per their proposals. Some of the main responsibilities of the orientation council are setting the workplan, yearly projections for operations and investment, and securing funding. Economic public interest business centres are subject to the same tax regime as public establishments of an administrative nature.

3. Material support to companies in the textile/clothing sector

In the framework of efforts to help the textile/clothing sector, which is encountering difficulties because of the current situation after dismantling of the multifibre agreements, combined with tough competition from Asian products in general and Chinese products in particular, the authorities have taken a number of measures to provide material support to promoters working in this sector. In effect, the fund to develop industrial competitiveness has been empowered to grant to promoters of businesses in the sector that are converting from subcontracting to co-contracting a reimbursable allotment or holdings in the capital of these companies, for recapitalising companies in the sector. But granting of these two support mechanisms is subject to the following conditions :

	Reimbursable allotment	Participation in capital
Amount.	One third of recapitalisation needs, not to exceed 100,000 dinars.	One third of recapitalisation needs, not to exceed 100,000 dinars.
Maximum duration of repayment or date of transfer of the fund's holdings.	Duration of repayment: 12 years, with a period of five grace years.	Transfer of fund holdings over a period not exceeding 12 years.
Interest rate.	3% annual interest rate.	Transfer of stock at nominal value, increased by an annual interest rate of 3%.
Initial minimal equity.	The beneficiary must make a contribution in cash of at least a third of recapitalisation needs.	-The beneficiary has to provide a contribution in cash equal to at least a third of recapitalisation needs. - One or more venture capital investment companies must participate, with a minimum amount of one third of recapitalisation needs.

¹ Cf. Law n°2005-57 of 18 July 2005 published in the Official Journal of the Tunisian Republic (JORT) n°57 of 19 July 2005 and decree n°2005-2611 of 24 September 2005 published in the Official Journal of the Tunisian Republic (JORT) n°78 of 30 September 2005.

It should be noted that if management of reimbursable allotments is entrusted to one or more lending institutions, that of holdings is to be handled by one or more venture capital investment companies, as per an agreement to be signed between such companies and the Minister of Finance¹.

4. Incentives for the information technologies sector

Information technologies in 2005 received special attention from the authorities to help the sector upgrade to a worldwide level and to help companies be more competitive both nationally and internationally.

a. Widening of the field of intervention of the regime to promote innovation in information technologies

To consolidate interventions carried out in the framework of the regime to promote innovation in the field of information technologies created under the terms of articles 12 to 14 of law n°98-111 of 28 December 1998 constituting the appropriations of 1999 finance law, modified by articles 16 and 17 of law n°2002-101 of 17 December 2002 and law n°2003-50 of 25 June 2003 and to ensure the required financing for projects in promising fields, it was decided to extend the possibility of providing reimbursable allotments under the innovation incentives regime for information technologies to lending institutions that manage these allotments under an agreement to be signed with the Ministry of Finance. This was an area in which only venture capital investment companies could work in the past².

b. Extending the field of intervention of the fund to develop communications, information technologies and telecommunications to new activities

The field of intervention of the fund to develop communications, information technologies, and telecommunications was extended to new activities, with a view to contributing to development of these fields³.

The new activities in question and their financing modalities are summarized as follows :

¹ Cf. Law n°2005-44 of 30 May 2005 published in the Official Journal of the Tunisian Republic (JORT) n°43 of 31 May 2005 and decree n°2005-2556 of 19 September 2005 published in the Official Journal of the Tunisian Republic (JORT) n°77 of 27 September 2005.

² Cf. Article 32 of law 2005-106 of 19 December 2005 constituting the appropriations of 2006 finance law and published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005.

³ Cf. Decree n°2005-3080 of 29 November 2005 published in the Official Journal of the Tunisian Republic (JORT) n°97 of 6 December 2005.

Activities	Financing modalities
- Creation of projects in the field of information/communication technologies in rural towns and areas.	- Direct financial participation in an amount equal to 50% of the cost of setting up a project, not to exceed 10,000 dinars.
- Associations working to disseminate information about the digital culture.	- Direct financial participation for a maximum of 5,000 dinars.
- Associations working in supervision, training and support to the programme to redistribute computers.	- Direct financial participation not to exceed 5,000 dinars as a counterpart to preparation of a program-contract.
- Remote work centres under the authority of the Ministry of communication technologies.	- Financing of the construction and equipping of remote work centres under the authority of the Ministry of communication technologies, no restrictions on amount.
- Family computers for needy families.	- Financing for the purchase of a family computer regardless of the amount.
- Creation of websites for associations.	- Financing for creating these websites regardless of the amount.

It should also be noted that participation by the fund in the financing mentioned below is attributed by decision of the Minister of communication technologies on the basis of a well-founded report presented by the relevant services of the Ministry, supported by any required justification:

- operating and investment expenditure by public institutions working in communication/ information/telecommunication technologies;
- incentives to encourage innovation in the field of information technologies;
- and approval of programmes to certify skills in the field of information/telecommunication technologies.

E. FINANCING OF THE ECONOMY

Financing of the economy was characterised in 2005 by ongoing efforts notably to support the agricultural sector and that of handicrafts/small trades.

1. Setting prices and payment modalities, storage and buy-backs of cereals for the 2005-2006 season

Base prices for sound, fair and marketable production and sale of the 2005 harvest went up by a dinar a quintal, set as follows :

(In dinar per quintal)

	Base prices at production of 2005 harvest	Normal prices for buy-backs
Hard wheat	30.500	35.165
Soft wheat	27.000	31.497
Barley	18.000	22.077
Triticale	18.000	22.077

It should be noted that barley can be freely sold and that the above-mentioned production base price is charged by collection and storage structures for barley that they buy from producers¹.

2. Revision of the list of seasonal crop loans

In the framework of revising loan scales for tree and garden seasonal crops, early and late season production following higher prices for production costs and to make available to farmers the financing they need while keeping down their indebtedness, it was decided to increase loan quotas in a range of 10% - 15%. Moreover, these loans have been extended to new varieties of crops such as apricot groves in central and southern Tunisia and «Haute Pergola» (HP) and «Pergolette or Double T» (PDT) vines. And now certain fruit tree crops (olive, almond and apricot) that were previously financed only for dryland farming are now eligible for loans for irrigated farming. The repayment schedule for loans involving these crops has been maintained virtually unchanged².

On another front, with regard to cereal crops, the amounts of complementary loans for supplementary fertilisation and fungus treatment of seasonal crops have remained at their 2005 levels : 81 dinars a hectare for irrigated cereals and dry cereals in zone 1 and 71 dinars a hectare for dryland cereals in zone II. Repayment is scheduled for 31 August 2006³.

3. Modification of modalities for granting and monitoring medium term loans that finance investment in handicrafts and small trades

In the framework of ongoing investment promotion, especially those investments being made by graduates of higher education, and taking into account the terms of decree n°2005-2024 of 18 July 2005 modifying decree n° 94-814 of 11 April 1994 concerning definition of small and medium-size businesses, listing of eligible activities, and setting of conditions and the way in which incentives are granted, article 26 “new” of circular n°87-47 of 23 December 1987 was cancelled and replaced by a new text. Henceforth medium term loans can be granted to handicrafts and small trade companies that have received support from FONAPRA (the national fund to promote handicrafts), project initiatives launched by graduates of higher education the cost of which does not exceed 80,000 dinars including working capital. The ceiling remains unchanged for other investment categories, at 50,000 dinars.

Loans can finance up to 60% of the cost of investment, including working capital. The difference will be made up by core funds including FONAPRA's reimbursable allotment and any personal input in cash, depending on the cost of investment. But this input must be at least 10% of equity for projects whose total investment cost does not exceed 10,000 dinars. For investment between 10,000 and 50,000 dinars,

¹ Cf. Decree n°2005-1983 of 11 July 2005 published in the Official Journal of the Tunisian Republic (JORT) n°57 of 19 July 2005.

² Cf. Central Bank of Tunisia circular to banks n°2005-16 of 21 September 2005.

³ Cf. Central Bank of Tunisia note to banks n°2006-03 of 23 January 2006.

personal input is 10% of equity for the first 10,000 dinar portion of investment and 20% for the second portion ranging from 10,000 to 50,000 dinars. For projects with the total investment exceeding 50,000 dinars, personal input is 10% of equity for the first 10,000 dinar portion, 20% for the second portion ranging from 10,000 dinars to 50,000 dinars and 40% for the portion over 50,000 dinars up to a maximum of 80,000 dinars.

At the same time the list mentioned in appendix 6 of circular n° 87-47, notably relating to groups of projects carried out by young graduates of higher education, has been expanded by introducing new activities, especially services such as setting up studies/consulting bureaux working in the area of industrial and commercial property, maintenance studies offices, monitoring and assistance in collecting claims for small businesses as well as for setting up bureaux in technical assistance, studies and computer engineering.¹

4. Setting up of a fund to promote processed olive oil

Private exporters were authorised in 2005 to export Tunisian olive oil, under the annual quota set by the European Union for Tunisia starting 1 May 2005 through 31 October of the same year, in line with procedures to export Tunisian olive oil in bulk, organic olive oil, and olive oil bottled under a Tunisian brand name, as per the terms of a Minister of Agriculture directive dated 4 July 2001². In this framework, a second quality control check on the quality of these products takes place at the time of shipment and at the expense of exporters.

To further promote marketing of quality olive oil, especially on foreign markets and given the high profit level from exporting processed olive oil rather than in bulk, it has been decided to set up a special Treasury fund entitled «fund to promote processed olive oil», which will finance operations to encourage production and marketing of this product. The relevant intervention modalities will be set by decree³. The fund is notably financed by a tax equal to 0.5% of the customs value of exported unprocessed olive oil as well as grants and subsidies from private individuals and corporate bodies.

F. ADDITIONAL FLEXIBILITY IN FOREIGN EXCHANGE AND FOREIGN TRADE REGULATIONS

To implement the step-by-step approach adopted for liberalising financial relations with abroad, there have been several initiatives to introduce flexibility in the mechanisms that currently handle foreign exchange and foreign trade. These improvements involved the capital account, resident accounts, re-export of foreign currency banknotes, and foreign trade.

¹ Cf. Central Bank of Tunisia note to banks n°2005-17 of 30 September 2005.

² Cf. Decree n°2005-1408 of 5 May 2005 published in the Official Journal of the Tunisian Republic (JORT) n°38 of 13 May 2005.

³ Cf. Articles 37 to 39 of law n°2005-106 of 19 December 2005 constituting the appropriations of 2006 finance law and published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005.

1. Measures related to foreign exchange regulations

a. Increase in the rate of subscription to issues of public securities by non resident foreigners

In the framework of the ongoing process to liberalise external finances, meant to gradually lead to total opening of the capital account and with a view to strengthening mobilisation of external resources without raising indebtedness while also increasing efforts to boost the capital market, it was decided to raise to 10% the rate of subscription and acquisition by non resident foreigners of bonds equivalent to Treasury bonds (BTA), up from 5% previously. Elsewhere, calculation of this share will in the future be done on the basis of a six-monthly projection of issues, which in the past was calculated on the basis of the outstanding balance of each line of issue, after communicating the result of the auction¹.

b. Subscription by non resident foreigners to private securities of debt

Starting with the same choices, to strengthen the role of the capital market in mobilising external savings and financing investment in Tunisia and to diversify financing sources for local businesses, non resident foreigners have been allowed to subscribe to and purchase (by means of imported foreign currency) bonds issued by resident companies listed on the stock market or that have been rated by a rating agency, within limits to be set by the Central Bank².

c. Enhanced conditions for foreign investment in the securities portfolio

In the framework of a policy to further open up the capital market, to seek greater mobilisation of foreign savings, and to facilitate foreign investment in the securities portfolio, the acquisition of securities with the right to vote or of shares in companies established in Tunisia between foreigners is no longer subject to approval by the Higher Commission for Investment. This was previously allowed only between foreign shareholders or partners in the same company³.

Along these same lines, it was also decided to exclude from this procedure any acquisition by resident or non resident foreigners or non resident corporate bodies in Tunisia that include foreign participation, stockholdings that confer the right to vote or company shares in small and medium-size businesses working in Tunisia in a sector eligible for foreign investment for setting up a company in line with legislation currently in force⁴. This measure will apply to small and medium-size businesses defined as having net fixed assets of less than 4 MTD that have no more than 300 employees⁵.

¹ Cf. Central Bank of Tunisia circular to authorised intermediaries n°2005-19 of 8 November 2005.

² Cf. Decree n°2005-3142 of 6 December 2005 published in the Official Journal of the Tunisian Republic (JORT) n°99 of 13 December 2005.

³ Cf. Decree n°2005-793 of 14 March 2005 published in the Official Journal of the Tunisian Republic (JORT) n°23 of 22 March 2005.

⁴ Cf. Decree n°2005-2397 of 31 August 2005 published in the Official Journal of the Tunisian Republic (JORT) n°71 of 6 September 2005.

⁵ Cf. Central Bank of Tunisia circular to authorised intermediaries n°2006-04 of 10 May 2006 and Capital Market Council release of 3 May 2006.

2. Introduction of a new kind of resident account in foreign currency or convertible dinars

To consolidate measures that target investment incentives in general and service activities in particular, as well as promotion of exports that bring in foreign currency, it was decided to exempt resident private individuals who provide services abroad from the obligation of having to hand over the foreign currency he or she has earned for services rendered. These earnings can now be placed in a new category of account created for this purpose, called «accounts for services rendered in foreign currency or convertible dinars». Implementation of this measure is up to the Central Bank of Tunisia, which will issue a circular specifying how these accounts will operate¹.

3. Modification of conditions for re-export of imported foreign currency by non residents

Given depreciation of the Tunisian dinar since 1994, the year in which regulation of the declaration for importing foreign currency in banknotes was issued, and with a view to simplifying formalities for departure from Tunisia of non residents and especially for foreign investors, non resident travellers can now freely re-export the unused balance of foreign currency in banknotes, up to the counter-value of 3,000 dinars, compared to 1,000 dinars previously. When the sum to be re-exported exceeds this amount, the operation will remain subject to a declaration of imported foreign currency submitted at the time of entry to Tunisia, duly filled in and signed by customs services².

4. New measures in foreign trade

a. Facilitating integration on the local market of companies that export their entire production

Companies that export their entire production can sell part of their production (or part of their services) on the local market, up to a maximum of 30% (up from 20% previously only for the first category). Contrary to former regulations, which make no distinction regarding the field of activity of the exporting company, the way to calculate the rate of production to be sold on the local market will vary under the new procedure depending on the kind of company :

¹Cf. Decree n°2005-581 of 7 March 2005 published in the Official Journal of the Tunisian Republic (JORT) n°21 of 15 March 2005.

² Cf. Notice of change by the Minister of Finances, published in the Official Journal of the Tunisian Republic (JORT) n°10 of 3 February 2006 and Central Bank of Tunisia circular to authorized intermediaries n°2006-02 of 5 May 2006.

Category	Base for calculating the sales rate
<u>Industrial company:</u> - Already established - Newly set up or recently launched activity.	Turnover from export, factory prices over the previous calendar year. Turnover from export, factory prices since start-up of activities.
<u>Service company:</u> - Already established - Newly set up or recently launched activity.	Export turnover over the previous calendar year. Export turnover from the start-up of activities.
<u>Agricultural/fishing company:</u> - Already established - Newly set up or recently launched activity.	Total production value over the previous calendar year, on condition that exports account for at least 70%. Total value of production since the start-up of activities.
<u>Aquaculture company:</u> - Already established - Newly set up or recently launched activity.	Quantity of production over the previous calendar year. Quantity of production since the start-up of activities.

Except for sales of Tunisian agricultural and fishing products, sales by companies that export their entire production are subject to all the procedures and regulations currently in force that apply to imports. Similarly, sales by these companies on the local market are subject to payment of tax and customs duties on import of inputs needed to produce finished products to be sold locally. These inputs can be eligible for tax breaks as per agreements signed between Tunisia and other countries and in line with current legislation¹. Furthermore, companies that export their entire production are now able to procure services or make sales through international calls for bids for public procurement of services, goods, material or equipment that have no locally-produced equivalent, as per a list to be set by decree. It should be kept in mind that only non resident companies can take part in such calls for bids² previously.

b. Use of electronic means to establish an advance cargo manifest

Administrative procedures relating to foreign trade have undergone major changes over the past few years. Thus after institution of the single bundle for import and export of goods on the one hand and of an integrated system for automatic processing of foreign trade formalities on the other, modalities have now been introduced governing the establishment of early cargo manifests by electronic means, with a view to facilitating customs documents assumption.

¹ Cf. Decree n°2005-1996 of 11 July 2005, published in the Official Journal of the Tunisian Republic (JORT) n°57 of 19 July 2005.

² Cf. Article 35 of law n° 2005-106 of 19 December 2005, constituting the appropriations of 2006 finance law and published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005.

An early cargo manifest is a list of loaded merchandise that has been established by the maritime or air freight transporter, submitted to the SINDA system through an integrated system in line with current legislation, prior to the ship's arrival at the port or the airplane's landing at the airport. Once it has arrived, the transit company (maritime or air) must proceed with confirmation of the early cargo manifest, electronically sign this manifest, and request its registration. The SINDA system will then check on the electronic messages sent by the transporter in order to confirm the early cargo manifest, proceed to verify the authenticity of the declared transit number and automatically issue a number and a registration date to the manifest, leading to registry by the SINDA system and the completion of other customs formalities¹.

c. Use of electronic means to submit a request for tax breaks prior to delivery of merchandise

To take greater advantage of the potential of the integrated automatic system for processing foreign trade formalities and to shorten the timeframe between declaring goods to customs and taking them out of customs (thus avoiding additional costs for the addressee), it will now be possible to submit requests for tax breaks using reliable electronic means, in line with legislation governing electronic trade, prior to arrival of the merchandise. Submission of a request for tax breaks replaces any other formality in this area².

G. MISCELLANEOUS MEASURES

Other measures were taken in 2005 in various fields, notably employment, energy conservation, and environmental preservation.

1. Conditions for benefiting from incentives for private sector companies and associations to hire new recruits

Private sector companies working in the sectors listed under the first article of the investment incentives code, development associations, those authorised to grant micro loans, those promoting dissemination of a digital culture or help the handicapped can take advantage of State assumption for a period of seven years of a portion of the employer's contribution to the legally-constituted social security system for wages paid to new recruits who are graduates of higher education. This covers 100% of contributions for the first and second years, going down to 85%, 70%, 55%, 40% and 25% respectively for the next five years.

To take advantage of the incentives outlined in articles 20 and 21 of law n°2004-90 of 31 December 2004 constituting the appropriations of 2005 finance law, relevant entities must submit to the office of employment and independent work for that geographic area a request supported by the required attachments as per models available at these offices. A consultative commission has been set up at each regional head office for the employment and insertion of young people, in charge of

¹ Cf. Decree n°2005-1490 of 11 May 2005 published in the Official Journal of the Tunisian Republic (JORT) n°39 of 17 May 2005.

² Cf. Article 34 of Law n°2005-106 of 19 December 2005, constituting the appropriations of 2006 finance law and published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005.

giving an opinion on requests to take advantage of the above-mentioned incentive. Chaired by the regional director for employment and professional insertion of young people, this commission has four members : the regional director of social affairs/solidarity/Tunisians abroad, the head of work inspection and conciliation, the head of the employment/independent work office, and the head of the regional office of the national social security body. The incentive is then granted as per decision by the local Governor, on the basis of the consultative commission's advice¹.

In this same context, the State can assume for a period of one year 50% of the wages paid by private sector companies to newly recruited Tunisian nationals who hold a higher education diploma awarded after at least two years of post-baccalaureate studies or an equivalent diploma. State intervention can go no higher than 250 dinars per month and per recruit, charged to the resources of the fund to develop industrial competitiveness. Loans are transferred from this fund to the national agency for employment and independent work, which provides management of these interventions as per an annual provisional schedule².

2. Introduction of a system to conserve energy

The ongoing increase in energy costs on the international scene has had an adverse impact on the national economy, keeping in mind that this category of products is subsidized and that any increase in the cost of these products means an increase in compensation in the State budget. Thus the authorities have introduced a system to conserve energy.

This system targets support to activities to rationalise energy consumption, promote renewable energies, and substitute energy. Adoption of this system has required introduction of a levy due when private cars are first registered under Tunisian plates, with fees ranging from 250 dinars to 1,000 dinars for petrol-powered cars and from 500 to 2,000 dinars for those burning heavy oil. Private vehicles for public transport, those used to transport the handicapped, those of car rental companies or those used to teach driving or for Saharan tourism and those imported by non residents are not subject to this tax. There is also another tax due upon import or local production (excluding export) of a number of apparatus for air conditioning, amounting to 10 dinars per 1,000 thermal units.

It is in this framework that a «national fund to conserve energy» has been set up, meant to finance operations to rationalise energy consumption, promote renewable energies, and substitute energy. There are also subsidies for implementing these operations³.

¹ Cf. Decrees n°2005-1856 and n°2005-1857 of 27 June 2005, published in the Official Journal of the Tunisian Republic (JORT) n°52 of 1^{er} July 2005.

² Cf. Law n°2005-91 of 3 October 2005, published in the Official Journal of the Tunisian Republic (JORT) n°79 of 4 October 2005.

³ Cf. Law n° 2005-82 of 15 August 2005, published in the Official Journal of the Tunisian Republic (JORT) n° 65 of 16 August 2005 and articles 12 and 13 of law n°2005-106 of 19 December 2005 constituting the appropriations of 2006 finance law and published in the Official Journal of the Tunisian Republic (JORT) n°101 of 20 December 2005.

II. LIQUIDITY AND BALANCE OF THE FINANCIAL SYSTEM

Banks' Core resources grew in 2005 at a faster pace than their use of funds. Consequently, liquidity improved more than in the previous year.

A. TRENDS IN FINANCIAL SYSTEM LIQUIDITY *

Bank liquidity improvement recorded in 2004 (80 MTD) enjoyed an even greater increase in 2005 (105 MTD), influenced by the expansionary effect of particularly net assets on abroad (+681 MTD) the size of which was attenuated by the restrictive effects due notably to the increase in bills and coins in circulation (-245 MTD) and, to a lesser degree, the drop in the net balance of public administration (-10 MTD). In this context, monetary policy operations amounted, on average, to just 225 MTD vs. 323 MTD a year earlier. Consequently, banks assets in current accounts went up by 7 MTD in 2005 to 177 MTD.

There were two distinct phases in how bank liquidity evolved in 2005:

For the first eight months of the year, bank liquidity registered a 457 MTD tightening, reflecting the high increase in bills and coins in circulation (424 MTD), the effect of which was somewhat lessened by the increase in the net balance of public administration and net assets on abroad. The contraction was relatively moderate over the first quarter, then became more marked between April and August.

Excess liquidity that marked the end of 2004 ended at the beginning of the following year, which was marked by slight tightening over the first quarter, due to the higher level of bills and coins in circulation and the drop in net assets on abroad.

Bills and coins in circulation came in at 3,154 MTD in March 2005, exercising a restrictive effect of 120 MTD on bank liquidity. They fluctuated over the period under review between a minimum of 3,105 MTD on 3 January and a maximum of 3,317 MTD on 19 January. The latter date corresponds to the Aid El Idha holiday, a time when there is always a high level of household withdrawals.

*

The analysis was made on the basis of average data.

TRENDS IN BANK LIQUIDITY FACTORS ¹

(Daily averages in MTD)

Description	Year 2004	Quarterly averages in 2005				Year 2005	Variations
		I	II	III	IV		2005 2004
Bills and coins in circulation	-3,029	-3,182	-3,146	-3,381	-3,385	-3,274	-245
Net balance of public administrations	+411	+372	+466	+419	+346	+401	-10
Of which :Treasury current account balance	-464	-518	-429	-494	-570	-503	-39
Net assets on abroad	+2,385	+2,871	+2,622	+3,080	+3,689	+3,066	+681
Of which:Net assets in foreign currency	+4,128	+4,689	+4,557	+5,556	+5,686	+5,122	+994
Other net factors	+80	-135	-184	-286	-358	-241	-321
= Total autonomous factors (A)	-153	-74	-242	-168	+292	-48	+105
Calls for bids	+196	+235	+195	+105	-112	+106	-90
1-7 day-allowance uptakes	0	+1	0	0	+4	+1	+1
Pawn of 3 month Treasury bonds	+101	0	0	0	0	0	-101
Net tapping transactions	+5	-23	+13	-1	-23	-9	-14
Open market transactions	+21	+34	+206	+246	+21	+127	+106
= Monetary Policy Operations (B)	+323	+247	+414	+350	-110	+225	-98
= Assets in banks current accounts (A)+(B)	+170	+173	+172	+182	+182	+177	+7

1. The (-) sign indicates a restrictive effect and the (+) sign indicates an increase.

Net assets on abroad came in at 2,776 MTD in March 2005, vs 2,945 MTD in December 2004, a drop of 169 MTD, exercising an equivalent restrictive effect on bank liquidity. The decrease was due mainly to a 76 MTD increase in the account "foreign currency held by authorised intermediaries" and the 84 MTD drop in net assets in foreign currency, influenced by major expenditure for repayment of foreign debt, notably public debt. This decrease would have been even greater if it had not been for external resources mobilized in particular by drawings on loans from the Bank of Japan for International Cooperation (56 MTD), the World Bank (30 MTD) and the French Development Agency - AFD - (29 MTD) as well as grants (15 MTD), 12 MTD of which came from the State of Qatar.

«Other net factors», coming in at 146 MTD in March 2005, had a restrictive effect of 7 MTD.

On the other hand, the net balance of public administration, which came in at 440 MTD in March 2005, improved bank liquidity by 9 MTD. This development was influenced by the 12 MTD drop in the Treasury current account balance, which fell from 462 MTD to 450 MTD over the period under review. This drop is due mainly to expenditure for external public debt, somewhat attenuated by net subscriptions to Treasury bonds (152 MTD), notably bonds equivalent to Treasury bonds (121 MTD).

TRENDS IN BANK LIQUIDITY FACTORS ¹

(Data at the end of period in MTD)

Description	Dec. 2004	2 0 0 5				Variations
		March	June	Sept.	Dec.	<u>Dec. 2005</u> <u>Dec. 2004</u>
Bills and coins in circulation	-3,111	-3,162	-3,220	-3,342	-3,620	-509
Net balance of public administrations	+228	+313	+408	+206	+226	-2
Of which :Treasury current account balance	-664	-572	-497	-714	-688	-24
Net assets on abroad	+2,904	+2,700	+2,700	+3,666	+3,960	+1,056
Of which:Net assets in foreign currency	+4,733	+4,444	+5,228	+5,695	+5,872	+1,139
Other net factors	-99	-166	-255	-320	-298	-199
= Total autonomous factors (A)	-78	-315	-367	+210	+268	+346
Calls for bids	0	0	150	0	-190	-190
1-7 day-allowance uptakes	0	0	0	0	0	0
Pawn of 3 month Treasury bonds	0	0	0	0	0	0
Net tapping transactions	+90	+167	+10	0	0	-90
Open market transactions	+28	+179	+255	+130	+15	-13
= Monetary Policy Operations (B)	+118	+346	+415	+130	-175	-293
= Assets in banks current accounts (A)+(B)	+40	+31	+48	+340	+93	+53

¹ The (-) sign indicates a restrictive effect and the (+) sign indicates an increase.

Trends in bank liquidity autonomous factors over the first three months of 2005 meant an increase in banks' liquidity requirements. In this context, the Central Bank intervened in various ways to inject an average of 246 MTD. Assets in banks' current accounts thus came in at 162 MTD in March 2005.

MAIN TRENDS IN AUTONOMOUS FACTORS OF BANK LIQUIDITY

(Daily average in MTD)

Description	<u>March 2005</u> <u>Decem. 2004</u>	<u>August 2005</u> <u>March 2005</u>	<u>Decem. 2005</u> <u>August 2005</u>
Bills and coins in circulation	-119.9	-304.1	+8.5
Net balance of public administrations	+9.2	+75.9	-183.9
Of which :Treasury current account balance	+12.1	+49.5	-180.2
Net assets on abroad	-169.3	+201.3	+805.1
Of which:Net assets in foreign currency	-83.7	+984.3	+220.3
Other net factors	-6.6	-143.9	-106.8
= Total autonomous factors (A)	-286.6	-170.8	+522.9

Over the following period, covering April to August 2005, the cash position at banks became tighter, under the influence of the restrictive effects of bills and coins in circulation and, to a lesser degree, of the item «other net factors». This tightening would have been even greater if it had not been for the expansive effects of net assets on abroad and the net balance of public administration.

At 3,458 MTD in August, bills and coins in circulation caused a 304 MTD tightening in banks cash position compared to March figure. The higher level of money in circulation was due notably to increased manual exchange, thanks to a good tourist season and the influx of Tunisians resident abroad as well as higher household expenditure over the summer holidays. For the period under review, this factor rose to a maximum of 3,480 MTD on 29 August.

«Other net factors», which amounted to 290 MTD in August 2005 (compared to 146 MTD in March of that year), had a restrictive effect of 144 MTD, contributing by an equivalent amount to bank liquidity tightening. This development was the result of the 63 MTD increase in proceeds from foreign currency transactions, along with the increase in foreign currency in the process of being allocated (14 MTD) and proceeds from refinancing transactions (7 MTD). The restrictive effect of these various trends was lessened by the expansionary effect of the 26 MTD increase in fees on transactions in foreign currency.

On the other hand, the 201 MTD increase in net assets on abroad, which came in at 2,977 MTD for the period under consideration meant an expansionary effect by an equivalent amount on bank liquidity. This rise was due to the 984 MTD increase in net assets in foreign currency, highly attenuated by the restrictive effects of both the Tunisian Government's special account in foreign currency (-647 MTD, following notably the entry of the debenture loan in euros in the amount of 400 million euros encashed in June) and the «foreign currency held by authorised intermediaries» (-120 MTD). The favourable trend for net assets in foreign currency, up from 4,574 MTD to 5,558 MTD between March and August 2005, was set in motion by encashment of major drawings on external borrowings, especially the above-mentioned debenture loan and the higher level of tourism earnings and remittances from Tunisian workers abroad. This development was however lessened by the impact of the growing trade deficit as world oil prices soared.

The net balance of public administration, which came in at 516 MTD in August 2005, had an expansionary effect of 76 MTD on bank cash position. This trend was characterized by the 50 MTD drop in the balance of the Treasury's current account, affected by expenditure to settle public debt maturities, both domestic and external. This decrease would have been even greater if it had not been for major inflow of tax revenue. One source was the substantial level of Treasury bonds issued by the public Treasury over the period under review, amounting to 651 MTD of which 443 MTD were in the form of bonds equivalent to Treasury bonds.

Given the trends in bank liquidity's autonomous factors over the period under review, the Central Bank injected an average of 455 MTD on the money market, up 209 MTD over the first quarter figure. In this context, banks assets in current accounts came in at 167 MTD in August.

Over the last four months of the year, like the previous year, bank cash position showed excess liquidity, reflecting in particular the significant expansionary effect exerted by net assets on abroad. The 805 MTD increase in net assets on abroad from September to December was due to the following factors :

- A 220 MTD increase in net assets in foreign currency, mainly from drawings on external loans, notably in the framework of the programme to support economic competitiveness *PACE IV* (58 million euros from the World Bank and 58.5 million euros from the African Development Bank) and 39 million euros from a European Union grant. These funds were refloated by proceeds from privatisation of the Bank

of the South (61 million euros) in November and of SOTACIB (48.5 million dinars) in September. This increase would have been even higher if it had not been for higher expenditure to draw down external debt, notably the Samurai IV debenture loan (15 billion yen) in September.

- A substantial drop in the Tunisian Government's special account in foreign currency, following transfers to the Treasury's current account: 485 MTD on 12 September, 152 MTD on 28 September, and 93 MTD on 28 December. It should be kept in mind that these amounts involve the loan in euros encashed in June and the loan contracted with the World Bank in the framework of *PACE IV*, which were not entered into accounting on the Treasury current account at the time of release.
- A 93 MTD drop in foreign currency held by authorized intermediaries.

Likewise, bills and coins in circulation, down from 3,458 MTD in August to 3,449 MTD in December, contributed to a 9 MTD improvement in bank liquidity. This factor showed different trends over this period, strongly influenced by a good tourist season, a good agricultural year (especially for olive oil), increased household expenditure during Ramadan/Aid-El-Fitr and preparations for Aid el Idha. The record for the year was 3,620 MTD on 30 December.

On the other hand, coming in at 332 MTD in December 2005, the net balance of public administration was down 184 MTD over the August figure, exerting an equivalent tightening effect on bank cash position. This was due in particular to the 180 MTD increase in the balance of the Treasury's current account, particularly in the wake of encashment of profits from the Tunisian Chemical Group (100 MTD) and the Central Bank (148 MTD), the State's share of proceeds from privatisation of SOTACIB (32 MTD), as well as transfers from the Tunisian Government's special account in foreign currency, loans from the ADB and the World Bank, and the European Union grant, as mentioned above. The increase thus recorded would have been even greater if there had not been a high level of expenditure for operating costs and for repayment of public debt, both domestic and external.

«Other net factors», coming in at 397 MTD in December 2005, exerted a restrictive effect of some 107 MTD on bank liquidity, due to the 87 MTD increase in proceeds from foreign currency operations and the 6 MTD increase in proceeds from refinancing transactions. But this higher figure was lessened by the 22 MTD increase in fees on foreign currency transactions.

Given the trends in the main autonomous factors mentioned above and the resulting situation of excess liquidity, the Central Bank intervened to absorb excess funds over this period, in the framework of monetary policy operations, for an average envelope of 79 MTD. Consequently, banks assets in current accounts went up to 183 MTD in December, 15 MTD more than the level recorded in August of the same year.

B. MONETARY POLICY OPERATIONS ¹

The regulatory framework governing the money market underwent a major change in 2005 meant to take into account decisions made in this area over the past few years (notably those concerning the shift to paperless securities and the promulgation of the 2001 banking law), in the one hand, and to widen the field of those intervening on the market and introduce more flexibility in liquidity exchanges on the other hand. Thus the money market, which from the outset was limited to banks, companies and corporate entities, is now open not only to lending institutions but also to private individuals and other corporate entities as defined by public or private law.

To benefit from the advantages of securities that have become paperless, certificates of deposit and commercial paper will be issued in the form of nominative certificates of debt, paperless and negotiable by transfer from one account to another. Some adjustments were also made regarding conditions for remuneration, (but without changing the conditions for issue specific to the amount, the due date and the duration of these securities). Furthermore, counterparts for Central Bank interventions, which previously involved negotiable public securities and good private sector claims, have been extended to claims and values on private parties.

On another front, monetary policy operations taken by the Central Bank were marked in 2005 by intensive use of open market transactions (56% of interventions on the money market, compared to 7% in 2004) to regulate the global level of bank liquidity. This should help to develop a secondary market for public securities, likely to produce a yield curb.

In effect, at 225 MTD for 2005 (compared to 323 MTD the year before), intervention by the Issuing Institution on the money market was down considerably, a result of bank comfortable cash position. It should also be pointed out that there were no pawns of three-month treasury bonds in 2005 and that there was a lower level of funds injected in the form of calls for bid (47% vs. 61%).

Transactions on the interbank market were down 16.2% in 2005, after increasing by 2.6% the year before, due to a 58.6% decrease in forward transactions vs. a 38.8% increase in sight transactions.

QUARTERLY TRENDS IN THE VOLUME OF MONETARY POLICY OPERATIONS

(Daily averages in MTD)

Description	Year 2004	Quarterly averages 2005				Year 2005
		I	II	III	IV	
Calls for bids	196	235	195	105	-112	106
1-7 day-allowance uptakes	0	1	0	0	4	1
Pawn of 3 month Treasury bonds	101	0	0	0	0	0
Net tapping transactions	5	-23	13	-1	-23	-9
Open market transactions	21	34	206	246	21	127
Total	323	247	414	350	-110	225

¹ The analysis was made on the basis of average data.

In line with trends in bank liquidity, there were two distinct phases in monetary policy transactions in 2005. Over the first eight months of the year, a period marked by tighter bank liquidity, the Central Bank provided a higher level of financing to banks. Then for the rest of the year the Issuing Institution intervened to absorb excess liquidity.

For the first period (January-August), the Central Bank injected an average envelope of 376.9 MTD. Consequently, the volume of monetary policy operations went from net tapping of 62 MTD in December 2004 to net injection of liquidity amounting to 423 MTD in August 2005, with a record 611.6 MTD recorded in July. This period can be further divided into two sub-phases, in light of major Central Bank intervention. Over the first quarter, the Central Bank intervened to inject an average envelope of 235 MTD in the form of positive calls for bids, along with one to seven day allowance uptakes (1 MTD) and fine tuning transactions yielding net tapping of 23 MTD for the quarter.

Open market operations in the form of firm purchases of Treasury bonds evolved from low levels of 1.1 MTD in February and 2.3 MTD in early March to 147.6 MTD by the end of that month. The last transaction, on 29 March, involved the purchase of bonds equivalent to Treasury bonds on lines 2005 and 2007 for a total amount of 42.1 MTD and of short-term treasury bonds on lines 2005 and 2006 for a total of 105.5 MTD. But this transaction, carried out at the end of the quarter, did not affect the average level of open market transactions, which came in at 33.7 MTD for the quarter under review.

During this period, transactions between banks were down by 5 MTD, influenced by a 54 MTD drop in sight transactions, attenuated by a 49 MTD increase in forward transactions.

Over the next period (April to August), banks had greater recourse to Central Bank refinancing. Intervention by the Issuing Institution on the money market came in at an average 455 MTD for the period under consideration, 51% in the form of open market transactions, 46% in the form of calls for bids, and 3% in the form of tapping operations. Over this time frame, the Issuing Institution worked to consolidate its public securities portfolio by proceeding with firm purchase of Treasury bonds, which helped it to regulate bank liquidity by use of this instrument when deemed necessary, in line with new orientation of Central Bank monetary policy.

TREND IN THE VOLUME OF MONETARY POLICY OPERATIONS

(Data of end of period in MTD)

Description	Dec.2004	2005			
		March	June	Sept.	Dec.
Calls for bids	0	0	150	0	-190
1-7 day-allowance uptakes	0	0	0	0	0
Pawn of 3 month Treasury bonds	0	0	0	0	0
Net tapping transactions	90	167	10	0	0
Open market transactions	28	179	255	130	15
Total	118	346	415	130	-175

Transactions carried out on the interbank market rose an average 32 MTD over the period April-August 2005 compared to the first quarter, resulting from the 52 MTD increase in sight transactions and the 20 MTD drop in forward transactions.

In the framework of monetary policy operations, the Central Bank intervened to inject an average of 211 MTD in the form of calls for bids, complemented by fine-tuning transactions amounting to 11 MTD and open market transactions. Over this period, the outstanding balance of open market transactions was up significantly, from 178.6 MTD at the end of March to 296.2 MTD at the end of August. During this time, the Issuing Institution carried out four firm purchases of Treasury bonds amounting to 175.1 MTD, 95 MTD of which were in the form of bonds equivalent to treasury bonds, keeping in mind that there were 57.5 MTD in repayments over this period, 33.5 MTD of which involved bonds equivalent to treasury bonds.

MAIN TRENDS IN MONETARY POLICY OPERATIONS

(Daily averages in MTD)

Description	March 2005 Decem. 2004	August 2005 March 2005	Decem. 2005 August 2005
Calls for bids	305.9	-120.0	-164.3
1-7 day-allowance uptakes	-1.2	0.0	0.4
Pawn of three-month Treasury bonds	0.0	0.0	0.0
Net tapping transactions	-14.0	+46.8	-64.0
Open market transactions	+17.5	+249.7	-279.8
Total	+308.2	+176.5	-507.7

The final period of the year, from September to the end of the year, was marked by excess liquidity that obliged the Issuing Institution to intervene to tap liquidity through negative calls for bids and to effect firm sale operations of Treasury bonds in the framework of the open market. Thus the amount absorbed over this period, in the form of calls for bids, fluctuated between a minimum of 100 MTD and a maximum of 337 MTD, an average of 123 MTD for the period as a whole. There were also one to seven day allowance uptakes for an amount of 3 MTD as well as fine tuning transactions for tapping liquidity, varying between a minimum of 40 MTD and a maximum of 340 MTD, yielding net tapping of 23 MTD.

At the same time, the Central Bank proceeded to transact firm sales of treasury bonds, in the framework of the open market, to absorb excess liquidity. This meant a 281.2 MTD drop between August and December in the end-of-period outstanding balance for these transactions, down from 296.2 MTD to 15 MTD. In effect, two firm sale transactions were carried out (164.4 MTD on 12 September and 49.1 MTD on 4 October), keeping in mind that repayment transactions amounting to a total of 67.7 MTD also took place over this period.

There were no major fluctuations in 2005 in Central Bank intervention interest rates. The main refinancing transactions (that is, calls for bids) continued to be carried out throughout the year at the rate of 5%, that of one to seven day allowance uptakes at 6%, while injection operations took place at the rate of 5.03% and tapping operations at 4.97%, excepting in June where these transactions were carried out at 5%.

The interbank market day to day rate fluctuated between a minimum of 4.97% and a maximum of 5.03%. Consequently, the average money market rate remained at 5% throughout the year.

C. TRENDS IN BANKING ACTIVITY AND AT OTHER FINANCIAL INSTITUTIONS

There are currently 20 banks in the Tunisian banking system. Major structural changes in 2005 involved founding in March 2005 of a new bank (the Bank for financing small and medium size businesses BFPME), privatisation of the Bank of the South (by sale in September of State holdings in its capital to the ANDALUMAGHREB consortium made up of the *Banco Santander Central Hispano* and the Attijariwafa Bank), and granting to the two remaining development banks (STUSID and BTL) in April and October respectively of authorizations to operate as all-purpose banks.

The network of bank branches grew by 32, 19 in the greater Tunis area and 10 in the central eastern portion of the country, bringing the total number of branches to 902, one per 11,100 inhabitants. This compares to 870 branches and one per 11,400 inhabitants in 2004. 114 new cash dispensers and automatic teller machines were installed, bringing the monetics network to 729 machines. And the number of electronic payment terminals continued to grow, with 1,042 new units being added to bring the total to 6,577 by the end of 2005.

1. Deposit banks

To ensure the coherence and homogeneity of statistics, our analysis this year will involve only the 14 pre-existing deposit banks¹.

a. Use of funds and resources

As in 2004, 2005 was marked by growth in banks' core resources (+8.5%) at a faster pace than their use of funds (+7.3%). This meant a situation of liquidity improvement which was confirmed over the last quarter of the year, when the Issuing Institution had to launch operations to tap excessive liquidity.

(i) Use of funds

Use of funds by banks amounted to 25,607 MTD for 2005, growing at a somewhat lower pace of 7.3% compared to 8.5% in 2004. This lower growth was attributable mainly to lower growth in claims on the State and in cash accounts.

USE OF FUNDS AND RESOURCES

(In MTD)

Description	2004	2005			
		March	June	Sept.	Dec.
Financing of the economy	20,853	21,277	21,686	22,154	22,409
Claims on the State	2,076	2,151	2,090	2,113	2,167
Cash accounts	1,699	1,630	1,791	2,155	1,849
Other net headings	-771	-889	-892	-953	-818
Total uses = Total resources	23,857	24,169	24,675	25,469	25,607
Monetary and quasi-monetary resources	18,297	18,461	18,811	19,732	20,131
Special resources	2,230	2,213	2,251	2,228	2,275
Provisions	1,570	1,622	1,711	1,773	1,611
Available capital stock equity	1,670	1,706	1,742	1,736	1,780
Refinancing	90	167	160	0	-190

¹These 14 banks are: ATB, BFT, BNA, BS, BT, AB, BIAT, STB, UBCI, UIB, BH, CB, BTS and ABC.

❖ Financing of the economy

Financing of the economy grew steadily throughout 2005, representing 87.5% of overall use of funds by the end of the year. Such financing amounted to 22,409 MTD, an increase of 7.5% vs. 6.8% the previous year. This higher rate was influenced by faster growth in the securities portfolio of deposit banks and the higher level of loans from ordinary resources, while loans from special resources continued on the downward trend in effect since 2002.

FINANCING OF THE ECONOMY

(In MTD)

Description	2004	2 0 0 5			
		March	June	Sept.	Dec.
Loan from ordinary resources	18,009	18,411	18,808	19,265	19,556
Loan from special resources	1,668	1,611	1,601	1,579	1,548
Securities portfolio	1,176	1,255	1,277	1,310	1,305
Total	20,853	21,277	21,686	22,154	22,409

Breakdown of bank loans by sector shows a higher share for services (59.4% vs. 57.8%), to the detriment of industry (32.4% vs. 33.5%) and agriculture (8.2% vs. 8.7%). The ongoing rise in loans to the services sector (10.7% vs. 10.5%) involved mainly private individuals (24.5% vs. 17.2%), notably to finance current expenses (+44.6% vs. +29.9%), accounting for 30.6% of the increase in loans recorded in 2005. This development was due to reclassification in this category of certain loans that had previously been declared at the level of global banking risks as well as the empowering of banks since 1999 to grant consumer loans both to finance purchase by private parties of durable consumer goods and to cover current expenses.

The outstanding balance of loans from ordinary resources grew at about the same pace as in 2004: 8.6% vs. 9.2%, amounting to 19,556 MTD in December 2005.

A review of the discount portfolio held by banks shows a sizeable increase in the growth rate : +16.1% in 2005 vs. +8.5% in 2004, almost doubling from 855 MTD to 1,756 MTD. After a considerable drop over the first two months of the year (-396 MTD), it took off again on an upward trend for the rest of the year, aside from drops in July and October. In December alone it increased by 934 MTD, influenced in particular by year-end window dressing operations.

Non performing loans on the other hand, amounted to 4,443 MTD in 2005, reflecting a reversal in trend, down 3.8% (-177 MTD) compared to an increase of 14.5% (585 MTD) the year before. Aside from banks' efforts to collect on bad loans, this decrease was attributable to transactions to write off and to transfer claims to collection companies, involving 631 MTD in 2005 compared to just 139 MTD in 2004.

Loans from special resources closed for 2005 at 1,548 MTD, continuing on the downward trend in effect since 2003 although not as steep, decreasing by 7.2% vs. -12.3% in 2004. This drop was due mainly to the lower volume in loans from external loan funds (-12.7% vs. -19.9%). On the other hand, loans from State funds were up 2.7% (16 MTD) in 2005 vs. 5.7% (32 MTD) in 2004, following the increase in loans from certain Funds, notably FOSDA (the special fund for agricultural development) for +9 MTD and FOPROLOS (the fund to promote social housing) for +9 MTD.

Furthermore, it should be noted that the share of long term loans from special resources total fell from 68.7% in 2004 to 67.1% in 2005.

Banks' securities portfolio returned to faster growth in 2005 after suffering slower growth the year before: 11% vs. 3.7% in 2004 and 9.6% in 2003. This trend reflected notably the increase both in the overall volume of equity securities and that of equity loans: 46 MTD and 69 MTD respectively vs. 35 MTD and 12 MTD in 2004. Almost the entire increase in the securities portfolio took place in March (56 MTD) and August (18 MTD), involving mainly acquisitions in tourist facilities and other companies, notably the SFBT (14 MTD), Airliquide (10.7 MTD) and Astree (6 MTD). This faster growth would have been even higher if it had not been for a drop in December (-12 MTD), following the sell off by certain banks of a portion of their securities portfolios.

❖ Claims on the State

State indebtedness to banks grew more slowly in 2005, up just 4.4% (91 MTD) vs. 25.4% (421 MTD) the year before, amounting to 2,167 MTD. The outstanding balance of Treasury bonds held in deposit bank portfolios came in at 1,728 MTD in 2005, up by just 97 MTD vs. 431 MTD in 2004. This trend was due to a slowdown in the volume of net subscriptions to Treasury bonds, coming in at 107 MTD vs. 462 MTD in 2004.

It should be noted that the share of medium and long term Treasury bonds in deposit bank portfolios increased by more than 12 percentage points between 2004 and 2005, representing 94.9%. This was due to the policy to reprofile State indebtedness, with more longer-maturity issues in the form of bonds equivalent to Treasury bonds.

❖ Cash accounts

After rising at a steady pace in 2004, cash accounts grew at a lower rate, coming in at 8.8% (just 150 MTD) in 2005 vs. 20.9% (294 MTD) the year before. This slower growth was attributable for the most part to foreign currency accounts and the «bank correspondents» heading, which were up by 7.4% and 4.3% respectively vs. 86.7% and 16.8% in 2004.

CASH ACCOUNTS

(In MTD)

Description	2004	2005			
		March	June	Sept.	Dec.
Cash	161	175	177	185	159
Ordinary current accounts	49	37	49	256	92
Postal current account deposits	6	6	7	6	8
Foreign currency accounts	704	590	726	726	756
Minus : Other BCT financing	3	10	16	8	4
Bank correspondents (net amount)	771	765	792	970	804
Head offices, branches&agencies (net amount)	11	67	56	20	34
Total	1,699	1,630	1,791	2,155	1,849

Banks' ordinary current accounts at the Central Bank enjoyed overall recovery in 2005, increasing by 43 MTD (87.8%) compared to a drop of 132 MTD (-72.9%) a year earlier.

(ii) Resources

Deposit bank resources grew by 7.3% in 2005 vs. 8.5% a year earlier. Slower growth involved all core resources except those of a special nature.

❖ Monetary and quasi-monetary resources

Monetary and quasi-monetary resources amounted to 20,131 MTD at the end of 2005, a 10% increase compared to 11.7% a year earlier. Monetary resources rose by 10.9% in 2005 to 6,000 MTD, compared to 10.3% in 2004. Resident sight deposits experienced uneven trends throughout the year, rising in December to a maximum of 4,649 MTD, a 9.9% (420 MTD) increase over the 2004 figure. This involved mainly deposits by private sector companies, insurance companies and private individuals. Non-resident sight deposits recorded about the same increase as in 2004 : +172 MTD to 1,351 MTD.

Quasi-monetary resources amounted to 14,131 MTD in December 2005, up by 9.6% vs. 12.3% the year before, resulting from differing trends from one component to another. Forward deposits and other resident financial products came in at 5,201 MTD in 2005, up 17.2% (763 MTD) vs. 12.9% (506 MTD) in 2004. Trends throughout the year were attributable to high growth in public sector deposits and consolidation of deposits by private sector companies and private individuals. Forward deposits and other non resident financial products continued to rise, coming in at 560 MTD at the end of 2005, an increase of 28.1% (123 MTD) vs. 22.8% (81 MTD) in 2004.

MONETARY AND QUASI-MONETARY RESOURCES

(In MTD)

Description	2004	2005			
		March	June	Sept.	Dec.
Monetary resources	5,408	5,356	5,675	5,998	6,000
Residents' sight deposits	4,229	4,152	4,406	4,569	4,649
Non residents' sight deposits	1,179	1,204	1,269	1,429	1,351
Quasi-monetary resources	12,889	13,105	13,136	13,734	14,131
of which : Residents' forward deposits & other financial products	4,438	4,616	4,692	5,030	5,201
Residents' savings accounts	4,774	4,862	4,877	4,945	5,087
Residents' home savings accounts	954	966	971	980	1,002
Residents' certificates of deposit	1,020	891	858	921	955
Bonds & borrowings with a duration of more than 1 year (residents)	321	391	353	352	332
Non residents' forward deposits and other financial products	437	419	460	540	560
Total	18,297	18,461	18,811	19,732	20,131

Savings accounts increased by 6.3% (vs. 7% in 2004) to 6,089 MTD. This lower rate was due to slower growth in home savings accounts, which was up by just 5% vs. 9.7% a year earlier. Resident certificates of deposit, after rising by 352 MTD (52.7%) in 2004, experienced a reversal of trends, decreasing by 65 MTD to 955 MTD in December 2005. This drop involved all economic agents except insurance companies, where subscriptions grew at a higher pace than repayments, bringing about an increase of some 158 MTD in the outstanding balance of this category.

On the other hand, the volume of resident bonds and borrowings with a duration of more than one year recorded recovery of 3.4% (11 MTD) in 2005, compared to a drop of 9.1% (-32 MTD) in 2004. This trend was the result of the issue of a private borrowing by a bank in February in the amount of 70 MTD, largely attenuated by repayments by banks. And with an outstanding balance of 355 MTD, non-resident bonds and borrowings with a duration of more than one year dropped by 29 MTD in 2005, after increasing by 115 MTD in 2004. This took place in line with loan repayments, which fell due at a higher pace than new issues.

❖ Special resources

In amounting to 2,275 MTD in 2005, special resources enjoyed double the previous year's rate of increase: 2% vs. 1%. This improvement reflects that of State funds, which grew by 10.5% (72 MTD) vs. 6.2% (40 MTD) in 2004, mainly after transfers to the special fund for agricultural development (24 MTD) and the assistance and loans fund (13 MTD).

❖ Available capital stock equity

The 32 MTD cash increase in BIAT's corporate capital in February (12 MTD in the form of issue premiums), the 22 MTD increase at ABC in June, and the 52 MTD increase at ATB in December (32 MTD in the form of issue premiums) contributed to a higher level of available capital stock equity : 1,780 MTD (6.6%) compared to 1,670 MTD (10.2%) the year before. The allocation of an additional amount from 2004 financial year to reserves helped raise the new balance of reserves from 769 MTD in 2004 to 831 MTD in 2005. This increase was due mainly to higher exceptional reserves (54 MTD) and reserves for tax-exempt reinvestment (13 MTD). The ensuing increase would have been even higher if it had not been for incorporation in December by a Tunisian bank of 5 MTD from its reserves to its corporate capital. The ratio of coverage of fixed assets and worthless securities net of amortisation capital stock equity thus remained stable at 22.6% in 2005.

COVERAGE OF FIXED ASSETS AND WORTHLESS SECURITIES NET OF AMORTISATION BY CAPITAL STOCK EQUITY * (In MTD unless otherwise indicated)

Description	2004	2 0 0 5			
		March	June	Sept.	Dec.
(1) Capital stock equity	2,157	2,188	2,241	2,241	2,301
of which : Paid-up capital	1,020	1,040	1,063	1,064	1,090
Reserves	769	769	830	830	831
Issuing premiums	278	290	260	260	292
Subordinated borrowing	77	77	77	77	77
(2) Fixed assets & worthless securities net of amortisation	487	482	499	505	521
Buildings & furniture	923	933	952	961	988
Worthless securities	20	19	24	26	27
Amortisation	-456	-470	-477	-482	-494
Ratio of fixed assets and worthless securities net of amortisation 2/1 (in %)	22.6	22.0	22.3	22.5	22.6
Available capital stock equity (1-2)	1,670	1,706	1,742	1,736	1,780

* Before distributing results.

❖ Provisions

In the framework of ongoing efforts to build up provisions, deposit banks continued to increase provisions in 2005, up 2.6% (41 MTD) over the previous year's figure to 1,611 MTD. This compared to an increase of 8.7% (126 MTD) in 2004. This slower pace was due mainly to the higher volume of non performing loans handed over to collection companies as well as the increase in claim write-offs and the increased volume of provisions for depreciation of securities, up by 14.4% (20 MTD) vs. 61.8% (53 MTD) in 2004.

❖ Financing by the Central Bank of Tunisia

As was the case in 2004, deposit banks sought refinancing from the Central Bank at the beginning of the year, intensifying from the second quarter until August. Then a better cash position took hold, creating a situation of excess liquidity on the market that required intervention by the Issuing Institution to absorb excess liquidity.

*b. Management*¹

Activity at deposit banks was characterised in 2005 by increases in all intermediary operating balances compared to 2004, after steady growth in activity and better financial indicators, notably those linked to portfolio quality. There was a major increase in the interest margin: 64 MTD or 11.5% vs. 6.3 MTD or 1.1% in 2004.

Interest and similar income grew by 127.4 MTD or 10.1% (vs. 25.9 MTD or 2.1% at the end of 2004) thanks to the 119.9 MTD (10.6%) increase in income on loan transactions (vs. 12.5 MTD or 1.1% in 2004) despite a slight drop in the rate of growth for the average outstanding balance of loans, from 7.3% in 2004 to 6.7% in 2005. This increase in revenue was made possible by better handling of risks, with a slight improvement in yield on loans, up from 6.3% in 2004 to 6.4% in 2005. Accrued interest and similar charges, despite a drop in treasury charges due to a decrease in the level of average indebtedness at deposit banks on the money market (from 334.9 MTD in 2004 to 261.6 MTD in 2005) increased by 63.4 MTD or 9%, mainly influenced by a 46.6 MTD (17.2%) increase in interest from forward accounts and certificates of deposit.

NET BANKING PROCEEDS

Description	In MTD		Variation 2005/2004	
	2004	2005	In MTD	In %
(+) Interest and similar income	1,256.6	1,384.0	127.4	10.1
(-) Accrued interest and similar charges	700.9	764.3	63.4	9.0
(=) Interest margin	555.7	619.7	64.0	11.5
(+) Net commissions on banking transactions	226.8	249.6	22.8	10.1
(+) Net gains on commercial securities portfolio and financial transactions	156.1	168.8	12.7	8.1
(+) Investment portfolio income	49.8	54.3	4.5	9.0
(=) Net banking proceeds	988.4	1,092.4	104.0	10.5

¹ Provisional figures for 2005.

At the same time, net commissions on banking transactions rose by 22.8 MTD (10.1%) compared to 18.7 MTD (9%) the year before, notably those linked to financing of foreign trade and monetics transactions. Net gains on the commercial securities portfolio and financial transactions recorded a drop in rate of increase, up 12.7 MTD or 8.1% vs. 31.3 MTD in 2004, following a lesser increase in income from Treasury bonds. This is also the case for income from the investment portfolio, which increased by 4.5 MTD or 9% vs. 5.7 MTD or 12.9% the year before to 54.3 MTD. Net banking proceeds at deposit banks increased by 104 MTD (10.5%) to 1092.4 MTD in 2005.

Operating costs increased by 26.1 MTD (4.6%) vs. 43.4 MTD (8.3%) the year before to 594.5 MTD, keeping in mind that the exceptional increase in staff costs in 2004 is linked to outlays by a number of banks for their voluntary early retirement programme in the framework of staff restructuring. Net banking proceeds grew faster than operating costs, yielding a 3.1 percentage point increase in the operating coefficient, which came in at 54.4% at the end of 2005.

NET FISCAL YEAR RESULTS

Description	In MTD		Variation 2005/2004	
	2004	2005	In MTD	In %
Net banking proceeds	988.4	1,092.4	104.0	10.5
(+) Other operating proceeds	21.2	25.3	4.1	19.3
(-) Operating costs	568.4	594.5	26.1	4.6
* Staff costs	418.6	434.7	16.1	3.8
* General operating costs	149.8	159.8	10.0	6.7
(-) Allocation for amortisation	54.3	55.7	1.4	2.6
(-) Allocation for provisions and result of correction of assets on claims (off balance sheet and liabilities)	226.2	315.0	88.8	39.3
(-) Allocation for provisions and result of correction of assets on investment portfolio	17.8	-11.4	-29.2	-164.0
(=) Operating result	142.9	163.9	21.0	14.7
(+) Balance in gain (+)/loss (-) from other current items	-3.1	9.3	12.4	-400.0
(-) Tax on profit	32.4	30.9	-1.5	-4.6
(=) Net fiscal year income	107.4	142.3	34.9	32.5
(=) Result after accounting changes	108.9	143.3	34.4	31.6

Thanks to the increase in net banking proceeds, deposit banks managed to build up provisions by taking 315 MTD as allotments to provisions on claims, representing 28.8% of net banking proceeds vs. 226.2 MTD (22.9%) in 2004. Despite this major provisioning effort, operating result was up 21 MTD or 14.7% to 163.9 MTD at the end of 2005. Thus net income rose by 31.6% to 143.3 MTD, after an ongoing decline since 2002. The increase in deposit bank income had a positive repercussion on profitability since return on equity rose by 6.7% and return on assets rose by 0.5%. This compares to 5.1% and 0.4% respectively in 2004.

PROFITABILITY AND FINANCIAL SOUNDNESS INDICATORS

(In %)

Description	2003	2004	2005
Return on equity (ROE)	7.7	5.1	6.7
Return on assets (ROA)	0.6	0.4	0.5
Risk coverage ratio	9.3	11.6	12.4

On another front, deposit banks continued their efforts to consolidate their financial bases through transactions to increase capital, leading to a 148 MTD (5.6%) increase in capital stock equity to 2,425.2 MTD, thus improving the level of the average ratio of risk coverage, up from 11.6% at the end of 2004 to 12.4% at the end of 2005.

As for portfolio quality, 2005 was marked by better handling of risk, as reflected in the 2.8 percentage point lower share of non performing loans in total commitments, to 20.9% at the end of 2005 vs. 23.7% at the end of 2004. Net of provisions and reserved bank charges, the share of non performing loans came in at 12.2% at the end of 2005.

INDICATORS OF BANKS' PORTFOLIO QUALITY

(In %)

Description	2003	2004	2005
Share of non performing loans in total commitments	24.0	23.7	20.9
Share of non performing loans net of provisions and reserved charges in total commitments	15.2	14.4	12.2
Rate of coverage of non performing loans by provisions and reserved charges	43.1	45.8	47.4

The considerable effort made by deposit banks for provisions and use of bank charges helped increase the rate of coverage of non performing loans by provisions, up 1.6 of a percentage point to 47.4% at the end of 2005, despite the impact of transactions to write off and sell claims to collection companies.

2. Venture capital banks¹

a. Use of funds and resources

Activity at venture capital banks remained fairly stable in 2005, with approved financing at the same level as in 2004 (168 MTD), after increasing the previous year, This was due mainly to faster growth in medium and long term financing (+10.9%), while leasing loans fell by -57.7%. Tourism and real estate had the largest share of approvals (46.1%), followed by industry (30.1%) and services (23.5%). Commitments stagnated at the same level as in 2004 (107 MTD) because of the lower volume of leasing loans (-7 MTD or -46.7%), which was covered by the increase in financing commitments in the form of holdings (+8 MTD or +133.3%).

APPROVALS, COMMITMENTS AND DISBURSEMENTS OF VENTURE CAPITAL BANKS

(In MTD unless otherwise indicated)

Description	2004	2005	Variation			
			2004/2003		2005/2004	
			In MTD	In %	In MTD	In %
Approvals	168	168	39	30.2	0	0.0
Loans	129	143	16	14.2	14	10.9
Shareholding	13	14	11	550.0	1	7.7
Leasing	26	11	12	85.7	-15	-57.7
Commitments	107	107	-14	-11.6	0	0.0
Loans	86	85	-13	-13.1	-1	-1.2
Shareholding	6	14	1	20.0	8	133.3
Leasing	15	8	-2	-11.8	-7	-46.7
Disbursements	115	96	-1	-0.9	-19	-16.5
Loans	96	74	-5	-5.0	-22	-22.9
Shareholding	5	13	0	0.0	8	160.0
Leasing	14	9	4	36.4	-5	-35.7

¹ Provisional figures for 2005.

Disbursements dropped by 19 MTD (16.5%) to 96 MTD at the end of 2005, caused mainly by the drop in disbursements on medium and long term loans (-22.9%) and outlays (-35.7%). Breakdown by sector of these disbursements shows ongoing priority for tourism and real estate (46.7%), followed by industry (34.7%). Financing of the economy by venture capital banks was up by 23 MTD (2.6%) over the 2004 figure, amounting to 892 MTD of which 70 MTD were in the form of short term loans vs. 32 MTD at the end of 2004, after sale of a number of compromised claims to their collection company affiliates in the amount of 16.7 MTD. This increase involved mainly services other than tourism and real estate (+41.8%), industry (+21.6%) and tourism/real estate (+2.2%). Claims on the State remained at virtually the same level as in 2004 : 95 MTD at the end of 2005. The outstanding balance of domestic borrowings by venture capital banks dropped in 2005 by 18 MTD or 10.4% from the year-end 2004 figure, coming in at 155 MTD. This trend is due to the drop in net banks' borrowings (-10 MTD or -8%) and that of bonds and borrowings with a duration of more than one year (-8 MTD or -16.7%), posting 115 MTD and 40 MTD respectively. The drop in borrowings was taken over by a 22 MTD increase in client resources, which rose to 119 MTD by the end of 2005. It should be noted that the outstanding balance of external borrowings remained at more or less the same level as in 2004 (131 MTD), despite repayment by other venture capital banks, following drawings by one venture capital bank on an ADB credit line.

USE OF FUNDS AND RESOURCES

(In MTD)

Description	2004	2005			
		March	June	September	December
Financing of the economy	869	858	884	875	892
<i>Loans to the economy</i>	700	694	722	716	721
<i>Securities portfolio</i>	169	164	162	159	171
Claims on the State	96	95	95	95	95
Total uses = Total resources	965	953	979	970	987
Capital stock equity	505	484	490	490	490
<i>of Which : reserves</i>	116	94	101	100	100
Provisions	44	33	35	43	41
Domestic borrowings	173	165	170	170	155
<i>Bonds and borrowings on more than one year</i>	48	48	48	48	40
<i>Net borrowings from banks</i>	125	117	122	122	115
Special resources	130	132	134	130	131
<i>of which :</i>					
External borrowings fund	130	132	134	130	131
Other net resources	113	139	150	137	170
<i>of which : clients' deposits</i>	97	100	110	105	119

Venture capital bank capital stock equity fell by 15 MTD (3%) to 490 MTD at the end of 2005, affected notably by use of a portion of reserves at one bank to cancel out losses incurred in clearing up its financial situation in the framework of its programme to convert to being an all-purpose bank. It should be noted that another bank also became an all-purpose bank in 2005, thus fulfilling the first stage in restructuring of former development banks to become all-purpose banks.

**COVERAGE OF FIXED ASSETS AND WORTHLESS SECURITIES NET OF AMORTISATION
BY CAPITAL STOCK EQUITY** (In MTD)

Description	2004	2005			
		March	June	Septem.	Dec.
1- Capital stock equity	505	484	490	490	490
of which :					
Paid-up capital	389	389	389	389	389
Reserves	116	94	101	100	100
2- Fixed assets and worthless securities net of amortisation	19	18	21	21	22
of which :					
Buildings and furniture	39	39	42	42	43
Amortisation	-20	-21	-21	-21	-21
Available capital stock equity (1-2)	486	466	469	469	468

b. Management and financial situation

Venture capital bank activity generated an interest margin in 2005 of 36.6 MTD, a slight 0.2 MTD (0.5%) increase compared to 2004. This occurred in the wake of an increase in interest and similar income that was slightly more important than accrued interest and similar costs. Net banking proceeds were up 4.3 MTD (9.1%) to 51.4 MTD at the end of 2005, thanks to the higher level of net commissions and income from the investment portfolio due to greater commercial activity at one bank and dividends paid by collection companies that are affiliates of these banks.

NET BANKING PROCEEDS

Description	In MTD		Variation 2005/2004	
	2004	2005	In MTD	In %
(+) Interest and similar income	58.6	59.8	1.2	2.0
(-) Accrued interest and similar charges	22.2	23.2	1.0	4.5
(=) Interest margin	36.4	36.6	0.2	0.5
(+) Net commissions on banking transactions	2.4	3.4	1.0	41.7
(+) Net gains/losses on commercial securities portfolio and financial transactions	0.9	1.1	0.2	22.2
(+) Investment portfolio income	7.4	10.3	2.9	39.2
(=) Net banking proceeds	47.1	51.4	4.3	9.1

Operating costs were up 1.6 MTD (8.2%) to 21.1 MTD at the end of 2005, influenced by the combined effects of higher wages and recruitment by the sector in the framework of their new status as all-purpose banks. In support of higher net banking proceeds, the operating coefficient remained at the same level as in 2004 : 41.1%. 2005 ended with net profits of 18.1 MTD compared to 17.9 MTD in 2004, thanks to building of provisions at a faster pace than in 2004: 11.6 MTD in 2005 vs. 8.5 MTD.

NET FISCAL YEAR RESULT

Description	In MTD		Variation 2005/2004	
	2004	2005	In MTD	In %
(=) Net banking proceeds	47.1	51.4	4.3	9.1
(-) Allocation for provisions and result of correction of assets on claims off balance sheet & liabilities	9.2	20.6	11.4	123.9
(-) Allocation for provisions and result of correction of assets on investment portfolio	-0.7	-9.0	-8.3	-
(+) Other operating proceeds	1.0	1.0	0.0	0.0
(-) Operating costs	19.5	21.1	1.6	8.2
* Staff costs	13.8	15.0	1.2	8.7
* General operating costs	5.7	6.1	0.4	7.1
(-) Allocation for amortisation & provisions on fixed assets	1.6	1.6	0.0	0.0
(=) Operating result	18.5	18.1	-0.4	-2.2
(+) Balance in gain/loss from other current items	0.2	0.3	0.1	50.0
(-) Tax on profits	0.8	0.3	-0.5	-62.5
(=) Result of current activities	17.9	18.1	0.2	1.1
(=) Net fiscal year results	17.9	18.1	0.2	1.1

The solvency ratio remains high: 50.3% at the end of 2005, vs. 55.3% a year earlier, reflecting fairly good operational capacity for boosting activity. The quality of venture capital banks' portfolio improved slightly, as can be seen in the share of non performing loans in total commitments, down from 21.5% at the end of 2004 to 21% at the end of 2005. Along with better quality was a 5.5 percentage point increase in coverage, influenced by the greater building up of provisions.

FINANCIAL SITUATION

(In %)

Description	2003	2004	2005
Solvency ratio	54.3	55.3	50.3
Share of non performing loans in total commitments	29.6	21.5	21.0
Share of non performing loans net of provisions and reserved charges in total commitments	17.9	17.4	16.0
Rate of coverage of non performing loans	48.3	23.0	28.5

3. Leasing companies¹

a. Use of funds and resources

The leasing sector continued to contribute to financing of the economy, but at a slower pace than in 2004. The rate of penetration in private gross fixed capital formation fell from 10.8% in 2004 to 9.6% in 2005, following a 3.3% drop in disbursements after a 10.6% increase in 2004, coming in at 456.9 MTD in 2005, 9.8% for real estate vs. 12.1% a year earlier. This decrease was due to the lack of availability on the market of certain categories of rolling stock and the unusual circumstances affecting two companies in the sector. If these two companies were excluded, production would have grown by 5.9% in 2005. Along with the trend in production in the sector and better portfolio quality, the outstanding balance of leasing fell by 1.1% to 1,094 MTD at the end of 2005, compared to 1,106.8 MTD at the end of 2004.

¹ Provisional figures for 2005.

(In MTD unless otherwise indicated)

Description	2003	2004	2005
Disbursements	427.2	472.5	456.9
Of which : real estates	68.1	57.1	44.9
Private GFCF	4,313	4,384	4,735
Rate of penetration (in %)	9.9	10.8	9.6

This level of activity was financed mainly by borrowed resources, down in about the same proportion as production (-3.1%) to 823 MTD, 44.6% in the form of bonds, although leasing accounted for 80% of issues in 2005. The sector looked more to external loans, posting a 25.6% share, an increase of 10 percentage points over the period 2003-2005, which reflects the degree of confidence by donors in leasing. These resources helped to partially take over from banking resources, notably short term and thus better handle transformation and rate risks.

(In MTD unless otherwise indicated)

Description	2003	2004	2005
Outstanding balance of leasing	1,085.6	1,106.8	1,094.1
Capital stock equity	159.5	142.9	142.2
Borrowed resources	833.2	849.4	823.0
of which : External resources (share in %)	15.6	23.5	25.6
Bank resources (share in %)	27.6	25.3	20.8
Bond resources (share in %)	42.1	40.1	44.6

b. Management

Leasing generated operating indicators in 2005 that were lower than in 2004. The gross margin fell by 3.3% to 103.5 MTD, giving a loan yield of 9.4%, 0.4 percentage point lower than in 2004, influenced by the drop in production and the 1 percentage point drop in conditions for resource mobilisation for the period 2003-2005 because of competition.

NET PROCEEDS

Description	In MTD		Variation 2005/2004	
	2004	2005	In MTD	In %
(+) Proceeds on leasing transactions	516.5	533.4	16.9	3.3
(-) Allocation for amortisation of leased fixed assets	409.6	429.9	20.3	5.0
(=) Gross margin	106.9	103.5	-3.4	-3.2
(+) Factoring interest	0.3	0.5	0.2	66.7
(-) Net financial charges	59.9	59.5	-0.4	-0.7
(=) Interest margin	47.3	44.5	-2.8	-5.9
(+) Investment proceeds	2.4	2.9	0.5	20.8
(+) Other operating proceeds *	1.5	1.2	-0.3	-20.0
(=) Net proceeds	51.2	48.6	-2.6	-5.1

* Including factoring commissions.

Consequently, net proceeds for the sector dropped by 5.1% to 48.6 MTD, 19.7 MTD of which served to cover operating costs. In conjunction with the wage increase, the drop in net proceeds meant an operating coefficient of 40.5% vs. 35.7% in 2004.

NET FISCAL YEAR RESULT

Description	In MTD		Variation 2005/2004	
	2004	2005	In MTD	In %
(=) Net proceeds	51.2	48.6	-2.6	-5.1
(-) Net allocation for provisions	39.7	19.7	-20.0	-50.4
(-) Operating costs	18.3	19.7	1.4	7.7
* Staff costs	10.2	11.2	1.0	9.8
* General operating charges	8.1	8.5	0.4	4.9
(-) Allocation for amortisation	2.4	2.7	0.3	12.5
(=) Operating result	-9.2	6.5	15.7	170.7
(+) Balance in gain/loss from other ordinary items	-0.7	0.4	1.1	157.1
(-) Tax on profits	3.0	2.8	-0.2	-6.7
(=) Net fiscal year result	-12.9	4.1	17.0	131.8

Improved coverage of non performing loans continued in 2005 thanks to net build up of provisions that came in at 19.7 MTD (40.5%) of net proceeds vs. 39.7 MTD (77.5%) in 2004. But it must be kept in mind that two thirds of the build up of provisions in 2004 was done by the two above-mentioned companies and their exceptional circumstances. The sector also posted profits once again, amounting to 4.1 MTD vs. losses of 12.9 MTD in 2004, due mainly to losses by these two companies.

(In %)

Description	2004	2005
Leasing yield	9.8	9.4
ROA	-1.1	0.4
ROE	-8.2	2.9

c. Financial situation

Financial conditions in the sector were marked in 2005 by a higher quality portfolio thanks to better collection, notably of claims due for the year and writing off of non performing loans. The volume and share of non performing loans fell by 10.8 MTD and 0.5 of a percentage point respectively to 260.3 MTD and 24.4%.

(In %)

Description	2003	2004	2005
Share of non performing loans in total commitments	25.1	24.9	24.4
Share of non performing loans net of provisions and reserved margins	16.5	13.6	11.0
Rate of coverage of non performing loans by provisions and reserved margins	40.9	52.6	61.8
Solvency ratio	16.0	13.9	14.1

Coverage of non performing loans by provisions and reserved margins was up by 9.2 percentage points to 61.8% in 2005, following tightening by companies in the sector of rules governing the building up of provisions. Consequently, non performing loans net of provisions and reserved margins in 2005 came in at only 74.7% of net capital stock equity in the sector, compared to 98.1% in 2004. Helping capital increase at certain companies, the sector's solvency ratio came in at 14.1% vs. 13.9% in 2004. It is important to note that if these two companies experiencing special circumstances were excluded, financial indicators by the sector would have gone up.

(in %)

Description	2004	2005
Share of non performing loans in total commitments	20.0	17.5
Share of non performing loans net of provisions and reserved margins	10.4	7.4
Rate of coverage of non performing loans	53.6	62.1
Share of non performing loans net of provisions and reserved margins in capital stock equity	59.0	40.4
Solvency ratio	17.5	17.9

4. Offshore banks ¹

a. Use of funds and resources

Activity at offshore banks remained focused on cash transactions, amounting to US\$ 938.4 million, 52.6% of total assets. Investments at banks grew at a faster pace than the year before, amounting to US\$ 896.9 million, US\$ 261 million of which (29.1% vs. 33.7% at the end of 2004) were invested in the Tunis market. This was two thirds of the funds mobilised on the market by the offshore sector out of total banking resources of US\$ 695 million at the end of 2005.

Loans by these banks fell by US\$ 113.2 million (18.6%) to US\$ 496.5 million, 72.7% of which went to residents. The outstanding balance of the securities portfolio grew by US\$ 91,6 million (52.9%) to US\$ 264.7 million in the wake of subscription by an offshore bank to Treasury bonds issued by the US Government and by another bank to investment in Islamic funds. The outstanding balance of the securities portfolio held by residents came in at US\$ 105.9 million (40%) of the overall portfolio, made up mainly of Central Bank of Tunisia bonds amounting to US\$ 99.1 million.

OFFSHORE BANK USE OF FUNDS

Description	In million USD		Variation 2005/2004	
	2004	2005	In M\$US	In %
Cash transactions	865.9	938.4	72.5	8.4
Cash holdings and ordinary accounts	58.9	41.5	-17.4	-29.5
Investment at Banks	807.0	896.9	89.9	11.1
Banks set up in Tunisia	272.0	261.0	-11.0	-4.0
Banks set up abroad	535.0	635.9	100.9	18.9
Loans	609.7	496.5	-113.2	-18.6
To residents	393.6	361.2	-32.4	-8.2
To non residents	216.1	135.3	-80.8	-37.4
Securities portfolio	173.1	264.7	91.6	52.9
Other uses	103.3	84.0	-19.3	-18.7
Total	1,752.0	1,783.6	31.6	1.8

The contribution of offshore banks to financing of the Tunisian economy (loans and shareholdings) continued for the most part to be allocated by banks with Tunisian holdings (78.1% vs. 76.8% in 2004).

¹ Provisional figures for 2005.

Description	Offshore banks with Tunisian shareholdings		Other offshore banks		Total offshore banks	
	In M\$US	Share (in %)	In M\$US	Share (in %)	In M\$US	Share (in %)
Loans + shareholdings	511.1	67.1	250.1	32.9	761.2	100.0
Residents	364.6	78.1	102.5	21.9	467.1	61.4
Non Residents	146.5	49.8	147.6	50.2	294.1	38.6

2005 was also marked by sizeable recovery in commercial activity by two offshore banks with Libyan shareholdings, as reflected in the US\$181.5 million increase in signature commitments (41.4%) to US\$ 619.6 million. These commitments represented more than a third of total offshore banking assets, involving confirmations and opening of documentary loans, 86.5% of which were handled by offshore banks with Libyan shareholdings to finance foreign trade with Maghreb countries.

SIGNATURE COMMITMENTS

Description	In millions \$E.U		Variations 2005/2004	
	2004	2005	In M\$E.U	In %
Total signature commitments	438.1	619.6	181.5	41.4
Confirmation of documentary loans	209.2	332.1	122.9	58.7
Opening of documentary loans	121.0	143.2	22.2	18.3
Guarantees	106.2	109.8	3.6	3.4
Other signature commitments	1.7	34.5	32.8	-

As uses evolved, banking resources represented 39% of total liabilities, coming in at US\$ 695 million. Client deposits increased at a faster pace than the year before : 16.2% or US\$ 84.7 million vs. 2.7% or US\$ 13.4 million, consisting mainly of deposits by residents, 96% of which went through two offshore banks.

OFFSHORE BANK RESOURCES

Description	In million USD		Variation 2005/2004	
	2004	2005	In M\$US	In %
Investment at Banks	738.5	695.0	-43.5	-5.9
Banks set up in Tunisia	445.8	394.5	-51.3	-11.5
Banks set up abroad	292.7	300.5	7.8	2.7
Clients' deposits	523.1	607.8	84.7	16.2
Resident	115.6	192.9	77.3	66.9
Non resident	407.5	414.9	7.4	1.8
Capital stock equity	232.0	265.5	33.5	14.4
Provisions	90.9	60.2	-30.7	-33.8
Other resources	167.5	155.1	-12.4	-7.4
Total	1,752.0	1,783.6	31.6	1.8

b. Management

Operations by offshore banks generated US\$ 55.1 million in net banking proceeds, an increase of US\$ 1.5 million or 2.8%. 31.2% of net banking proceeds were generated by cash and financing transactions, 23.8% by commercial activity and 45% by management of the securities portfolio.

NET BANKING PROCEEDS

Description	In million USD		Variation 2005/2004	
	2004	2005	In M\$US	In %
(+) Interest and similar income	38.9	45.4	6.5	16.7
(-) Accrued interest and similar charges	22.1	28.2	6.1	27.6
(=) Interest margin	16.8	17.2	0.4	2.4
(+) Net commissions on banking operations	13.0	12.7	-0.3	-2.3
(+) Net gains on commercial securities portfolio and financial transactions	13.6	16.2	2.6	19.1
(+) Investment portfolio income	10.2	9.0	-1.2	-11.8
(=) Net banking proceeds	53.6	55.1	1.5	2.8

Operating costs grew by US\$ 2.1 million or 10.2% due to an increase in general operating expenses, with net commissions more than covering staff costs. The operating coefficient came in at 41% vs. 38.2% in 2004.

NET FISCAL YEAR RESULT

Description	In million USD		Variation 2005/2004	
	2004	2005	In M\$US	In %
(=) Net banking proceeds	53.6	55.1	1.5	2.8
(-) Allocation for provisions and result of correction of assets on claims off-balance sheet and liabilities	-4.6	-6.4	-1.8	-39.1
(-) Allocation for provisions and result of correction of assets on investment portfolio	-0.1	-0.1	0.0	0.0
(+) Other operating proceeds	0.0	0.0	0.0	-
(-) Operating charges	20.5	22.6	2.1	10.2
* Staff costs	12.0	12.4	0.4	3.3
* General operating costs	8.5	10.2	1.7	20.0
(-) Allocation for amortisation	2.0	2.1	0.1	5.0
(=) Operating result	35.8	36.9	1.1	3.1
(+) Balance in gain/loss from other current items	0.0	-0.1	-0.1	-
(-) Tax on profits	0.2	0.0	-0.2	-100.0
(=) Result of current activities	35.6	36.8	1.2	3.4
(+) Balance in gain/loss from extraordinary items	0.0	0.0	0.0	-
(=) Net fiscal year result	35.6	36.8	1.2	3.4

2005 yielded net profits of US\$ 36.8 million vs. US\$ 35.6 million in 2004, thanks to net recovery in provisions that was higher than the year before due to the better quality of one offshore bank's portfolio. Consequently, profitability indicators improved.

(In %)

Description	2003	2004	2005
ROA	0.2	2.3	2.4
ROE ¹	6.6	6.2	10.7

Offshore banks meet all prudential rules, notably the solvency ratio which posted an average of 29.1%, reflecting a fairly high level for development of operational capacity. The quality of assets improved as the share of non performing loans in total commitments continued to fall, down from 16.6% at the end of 2004 to 15.2% at the end of 2005. But coverage of these assets by provisions and reserved bank charges dropped by 25.3 percentage points. This came in at 49.7%, largely the

¹ Offshore banks holding legal and financial autonomy.

result of writing off by an offshore bank of a number of claims and recovery by another of provisions made possible by improvement in the quality pertaining to relevant risks.

Description	(In %)		
	2003	2004	2005
Risk coverage ratio	44.9	33.4	29.1
Share of gross non performing loans in total commitments	19.8	16.6	15.2
Share of non performing loans net of provisions and reserved charges in total commitments	6.5	5.1	8.3
Rate of coverage of non performing loans by provisions and reserved charges	73.5	75.0	49.7

5. Factoring companies and merchant banks¹

a. Factoring companies

Factoring continued to contribute to financing and management of commercial claims at about the same rate as in 2004. In effect, the volume of purchased invoices rose by 17.3% to 323.6 MTD at the end of 2005, 86.4% of which were domestic activity vs. 89.6% in 2004. International activity was up 53.9% after a drop in 2004 because of difficulties in the textile sector. Recent consolidation of foreign shareholdings in the capital of one of the companies in the sector will help to develop this activity.

The outstanding balance of financing increased by 7.9% vs. 15.7% in 2004, amounting to 77.5 MTD at the end of 2005, affected by rapid rotation of funds as seen in the ratio of encashment/disbursements amounting to 104% vs. 97% in 2004. The sector helped 366 members with 19,617 buyers in 2005, compared to 344 members and 17,617 buyers a year earlier, with ever-greater participation by economic agents in this kind of financing and better distribution of risks.

(In MTD unless otherwise indicated)

Description	In MTD		Variation 2005/2004	
	2004	2005	In MTD	In %
Volume of purchased invoices	275.9	323.6	47.7	17.3
Outstanding balance of financing	71.7	77.4	5.7	7.9
Capital stock equity	16.1	18.1	2.0	12.4
Borrowed resources	60.8	68.9	8.1	13.3
Of which :				
Short term borrowings from banks (in%)	39.3	15.2	-	-24.1
Commercial paper (in %)	44.5	41.7	-	-2.8
Bond resources (in %)	6.9	33.1	-	26.2

Activity in the sector was financed mainly by 68.9 MTD in borrowed resources, representing 3.8 times its capital stock equity at the end of 2005. 56.9% of these resources were made up of short-term resources in the form of commercial paper and banking borrowings. Like the trends in the sector, income from factoring increased by 1.7 MTD over the 2004 figure, for a total of 11.4 MTD, 7.4 MTD (64.9%) of which was in financing commissions.

¹ Provisional figures for 2005.

Description	In M T D		Variation 2005/2004	
	2004	2005	In MTD	In %
Financing commissions	6.3	7.4	1.1	17.5
(-)Financial charges	3.7	4.4	0.7	18.9
(=)Interest margin	2.6	3.0	0.4	15.3
(+)Factoring commissions	3.3	4.0	0.7	21.2
(+) Securities portfolio income	0.8	0.8	-	-
(+)Other operating proceeds	0.0	0.0	-	-
(=)Net Factoring proceeds	6.7	7.8	1.1	16.4

Factoring commissions increased at a rate similar to that of 2004 : 21.2% to 4 MTD or 35.1% of factoring income, influenced by ongoing growth in the volume of purchased invoices. Net proceeds from factoring grew by 1.1 MTD (16.4%) to 7.8 MTD, a third of which served to cover operating costs of 2.6 MTD. 57.7% (1.5 MTD) of these operating costs were staff costs, which increased by 15.4% over 2004 level thanks to higher wages and new recruitments for a staff that counts now 60 people with a supervisory rate of 58.3%. The sector improved coverage of risks despite the improved quality of the portfolio due to better mastery of additional risks. The net provisioning effort came in at 1.4 MTD or 17.9% of net proceeds for the sector, up from 1 MTD (14.9%) in 2004.

Description	In M T D		Variation 2005/2004	
	2004	2005	In MTD	In %
(=) Net factoring proceeds	6.7	7.8	1.1	16.4
(-) Operating charges	2.4	2.6	0.2	8.3
* Staff costs	1.3	1.5	0.2	15.4
* General operating costs	1.1	1.1	0.0	0.0
(-) Allocation for amortisation	0.3	0.3	0.0	0.0
(-) Allocation for provisions net of refunds	1.0	1.4	0.4	40.0
(=) Operating results	3.0	3.5	0.5	16.7
(-) Taxes	0.7	0.8	0.1	14.3
(=) Net results	2.3	2.7	0.4	17.4

Factoring generated 2.7 MTD in profits, up 17.4% from the 2004 figure, helping to post satisfactory profitability indicators.

(In %)

Indicators	2004	2005
Return on loans	9.6	9.5
ROA	3.0	3.0
ROE	16.2	17.1

Financial conditions in the sector remain satisfactory, with a 6.5% share of non performing loans and an 86% rate of coverage of these loans by provisions. The sector meets all prudential ratios, notably the solvency ratio, which came in at 21.1% at the end of 2005.

(In %)

Description	2004	2005
Share of non performing loans in total commitments	6.9	6.5
Share of non performing loans net of provisions and reserved margins	2.3	1.0
Rate of coverage of non performing loans by provisions and reserved margins	68.0	86.0
Solvency ratio	22.2	21.1

b. Merchant banks

The Merchant bank sector in 2005 led a business wave that remained focused on a number of public privatisation and consulting operations, for example the opening of capital at *Tunisie Télécom* to a strategic partner, finalisation of the transaction to sell public holdings in the capital of the Bank of the South and the study to privatise the national oil distribution company (SNDP), as well as a number of studies and consulting at private companies.

Description	In MTD		Variation 2005/2004	
	2004	2005	In MTD	In %
Total operating proceeds	1.2	1.5	0.3	25.0
Net banking proceeds	1.2	1.5	0.3	25.0
Operating charges	1.1	1.4	0.3	27.3
* Wage bill	0.5	0.4	-0.1	-20.0
* General operating costs	0.6	1.0	0.4	66.7
Allocations for provisions and amortisation	0.0	0.1	0.1	-
Net results	0.1	-	-0.1	-100.0

This business trend generated global proceeds that were up by 0.3 MTD (25%) to 1.5 MTD, based on income from investment of the surplus funds available to the sector. Despite containing staff costs, operating charges increased at a rate higher than that of turnover : 27.3% to 1.4 MTD, 71.4% being operating costs that increased by almost 2/3 because of the sector's recourse to subcontracting from specialised consulting firms to help meet its mandate and joint action in the framework of consortiums. Thus operating proceeds were just enough to cover operating charges, yielding a balanced result vs. a surplus of 0.1 MTD in 2004.

6. Bank for financing small/medium businesses (BFPME)

Set up in March 2005 to give concrete form to the presidential electoral programme, BFPME approved its first loans in May 2005. The number of requests for financing as of 31 December 2005 came in at 273 : 242 for new initiatives and 31 for expansion of existing activities. The volume of approvals came in at 16 MTD, involving 54 projects for an overall investment cost of 65.4 MTD, generating 1,350 jobs. These activities involved 45 new businesses and 9 expansion initiatives. Approved projects were in all sectors except agriculture, tourism and real estate. Three quarters of approved projects were in industry. BFPME has 50 MTD in capital, 25% of which was paid in from the outset and the second 25% over the first quarter of 2006.

III. MONEY AGGREGATES AND THEIR COUNTERPARTS

The financial system was marked in 2005 by a higher level of net foreign assets, faster growth in financing of the economy, and an increase (although at a lower rate than the year before) in the level of net claims on the State. These trends meant faster growth in the M3 aggregate.

FINANCIAL SYSTEM¹ RESOURCES AND THEIR COUNTERPARTS

Description	M T D			Variation (%)	
	2003	2004	2005	2004/2003	2005/2004
M4 AGGREGATE	19,814	21,694	24,101	9.5	11.1
Money supply, broad sense (M3)	19,457	21,466	23,821	10.3	11.0
Money supply, strict sense (M2)	17,859	19,846	22,130	11.1	11.5
Money M1	6,992	7,686	8,742	9.9	13.7
Fiduciary money	2,664	2,968	3,478	11.4	17.2
Bank money	4,328	4,718	5,264	9.0	11.6
Quasi-money	10,867	12,160	13,388	11.9	10.1
M3-M2	1,598	1,620	1,691	1.4	4.4
M4-M3	357	228	280	-36.1	22.8
OTHER RESOURCES	7,665	8,341	8,716	8.8	4.5
TOTAL RESOURCES=TOTAL COUNTERPARTS	27,479	30,035	32,817	9.3	9.3
NET FOREIGN ASSETS *	2,279	3,127	4,113	848	986
DOMESTIC LOANS	25,200	26,908	28,704	6.8	6.7
Net claims on the State*	3,289	3,825	4,166	536	341
Financing of the economy	21,911	23,083	24,538	5.3	6.3
Loans to the economy	20,696	21,848	23,168	5.6	6.0
Securities portfolio	1,215	1,235	1,370	1.6	10.9

* For these aggregates, variations are expressed in MTD.

A. THE M3 AGGREGATE

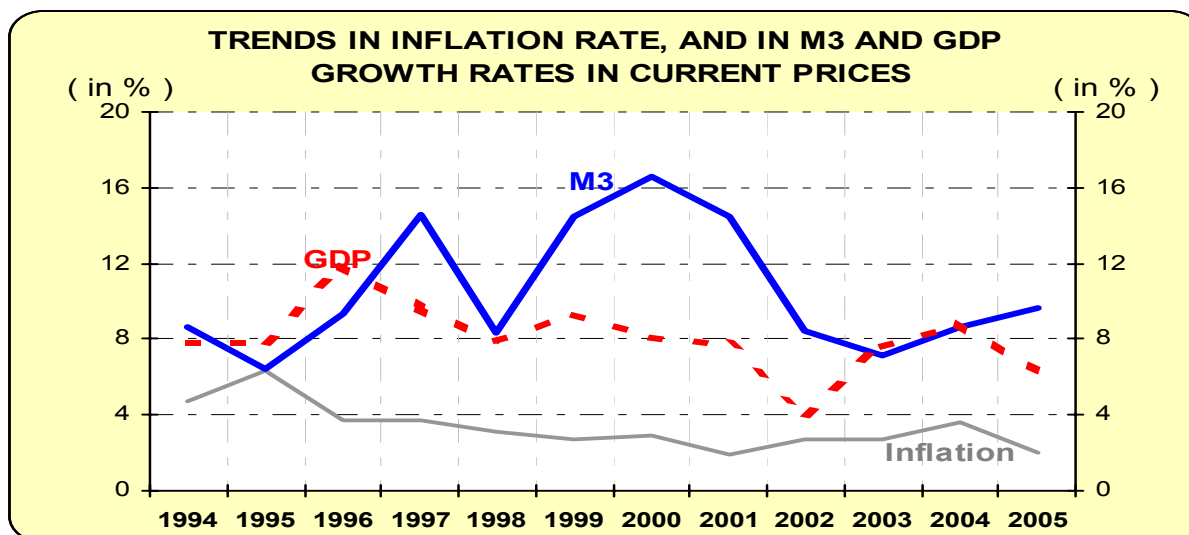
The M3 aggregate rose to 23,821 MTD at the end of 2005, up 11% vs. 10.3% in 2004. On the basis of average of the month-end outstanding balances, this aggregate grew by 9.6% in 2005 (vs. 8.6% in 2004) for nominal economic growth rates of 6.2% and 8.8% respectively. Consequently, the liquidity rate for the economy (the ratio of M3/GDP) went up from 58.8% in 2004 to 60.7% in 2005. On another front, the inflation rate came in for 2005 at a level well below that of the previous year : 2% vs. 3.6%.

TRENDS IN THE LIQUIDITY RATE OF THE ECONOMY AND THE RATE OF INFLATION

YEARS	MTD		In %	
	M3 (annual average)	GDP (in current prices)	Liquidity rate of the economy (M3/GDP)	Inflation rate
2001	16,323	28,757	56.8	2.0
2002	17,697	29,924	59.1	2.7
2003	18,963	32,202	58.9	2.7
2004	20,596	35,035	58.8	3.6
2005	22,575	37,202	60.7	2.0

Source : BCT and Ministry of Development and International Cooperation and INS

¹ As defined in this context, the financial system is made up of the Central Bank of Tunisia, the deposit banks, the postal cheques centre (CCP), the joint-venture development banks, leasing companies and the Postal Savings Centre (CEP).



1. Money supply M2

Money supply M2 grew in 2005 at a rate of 11.5% vs. 11.1% the year before. This was the result of both faster growth in monetary availability and the increase (at a slower pace than the previous year) in quasi-money. Monetary availability, made up of fiduciary and bank money, continued to grow at a brisk pace: 13.7% in 2005 vs. 9.9% in 2004. Almost 32% of this increase took place in December, reflecting faster increases for both components.

Fiduciary money increased by 17.2%, up from 11.4%. In line with the usual seasonal trends, this aggregate followed an uneven pattern throughout the year. After fluctuating over the first five months, an upward trend took hold in June and rose in August, in line with high summer expenditure and the greater volume of manual exchange thanks to a good tourist season and the influx of Tunisians resident abroad. After a slight drop in September, the growth of fiduciary money was in October once again on the rise, a trend boosted by expenditure during Ramadan and the Aid El Fitr holiday. The highest level was reached at yearend (3,478 MTD), as withdrawals increased, mainly due to record olive oil production and preparations for the Aid El Idha holiday that took place early in the new year. Consequently, the share of fiduciary money in the M1 aggregate rose, up from 38.6% in 2004 to 39.8% in 2005. Bank money amounted to 5,264 MTD in 2005, up 11.6% vs. 9% in 2004, influenced by the higher level of sight deposits at both banks and the postal cheques centre.

Sight deposits at banks, the main component of bank money, rose steadily in 2005, up from 6.5% in 2003 to 8.7% in 2004, then 10.2% in 2005. After fluctuating significantly over the first eight months of 2005, sight deposits at banks took off in September on a virtually continual upward trend that lasted until the end of the year, when their outstanding balance peaked at 4,690 MTD.

BANK MONEY AND ITS MAIN COMPONENTS

Period	Bank money		Of which :			
			Sight deposits at banks		Sight deposits in postal cheques centre	
	MTD	Variation*(%)	MTD	Variation*(%)	MTD	Variation*(%)
2003	4,328	5.5	3,917	6.5	402	-3.4
2004						
March	4,410	1.9	3,877	-1.0	514	27.9
June	4,645	7.3	4,141	5.7	493	22.6
September	4,545	5.0	4,070	3.9	460	14.4
December	4,718	9.0	4,256	8.7	438	9.0
2005						
March	4,753	0.7	4,179	-1.8	555	26.7
June	4,994	5.8	4,434	4.2	540	23.3
September	5,175	9.7	4,598	8.0	567	29.5
December	5,264	11.6	4,690	10.2	557	27.2

* Compared to the level in December of the previous year.

Amounting to 557 MTD in December 2005, deposits at the postal cheques centre also posted a strong surge in growth, up 27.2% vs. 9% the year before.

Quasi-money grew at a slower pace, down from 11.9% end 2004 to 10.1% end 2005. In fact, faster growth in forward deposits and other financial products (17.3% vs. 13.4%), was sharply lessened by negative growth in certificates of deposit (-6.4% vs. 52.7%). After a drop in January 2005, forward deposits and other financial products started on a virtual upward trend that continued until the end of the year. On the other hand, after an exceptional increase in 2004, the outstanding balance of certificates of deposit took a downturn the following year, falling from 1,020 MTD in December 2004 to 955 MTD end 2005.

QUASI-MONEY AND ITS MAIN COMPONENTS

Period	Quasi-money		Of which :					
			Forward deposits and other financial products		Certificates of deposit		Savings deposits	
	MTD	Variat.* (%)	MTD	Variat.* (%)	MTD	Variat.* (%)	MTD	Variat.* (%)
2003	10,867	8.0	3,936	7.7	668	0.6	5,583	7.0
2004								
March	10,913	0.4	3,961	0.6	601	-10.0	5,681	1.8
June	11,226	3.3	4,128	4.9	707	5.8	5,766	3.3
September	11,843	9.0	4,447	13.0	894	33.8	5,841	4.6
December	12,160	11.9	4,465	13.4	1,020	52.7	6,024	7.9
2005								
March	12,373	1.8	4,645	4.0	891	-12.6	6,182	2.6
June	12,431	2.2	4,722	5.8	858	-15.9	6,216	3.2
September	12,946	6.5	5,060	13.3	921	-9.7	6,290	4.4
December	13,388	10.1	5,237	17.3	955	-6.4	6,489	7.7

* Compared to the level in December of the previous year.

Deposits at the postal savings centre grew at a slightly slower pace than the year before : 12.1% vs. 13.5%. But deposits in special savings accounts at banks continued to grow at a somewhat higher rate than the previous two years : 6.6% vs. 6.4% in 2004 and 6.3% in 2003.

SAVINGS ACCOUNTS

Period	Special savings accounts		Savings at the Postal Savings Centre		Other savings accounts	
	MTD	Variat.*(%)	MTD	Variat.*(%)	MTD	Variat.*(%)
2003	4,321	6.3	1,105	9.0	157	11.3
2004						
March	4,352	0.7	1,174	6.2	155	-1.3
June	4,402	1.9	1,204	9.0	160	1.9
September	4,466	3.4	1,212	9.7	163	3.8
December	4,598	6.4	1,254	13.5	172	9.6
2005						
March	4,687	1.9	1,325	5.7	170	-1.2
June	4,699	2.2	1,345	7.3	172	0.0
September	4,768	3.7	1,349	7.6	173	0.6
December	4,901	6.6	1,406	12.1	182	5.8

* Compared to the level in December of the previous year.

2. The M3-M2 aggregate

This aggregate increased by 4.4% in 2005 vs. 1.4% the year before. This faster pace was influenced by recovery in the outstanding balance of debenture loans (3.2% vs. -8.2%), following signature of a private borrowing agreement between a Tunisian bank and a national institution involving 70 MTD, combined with an increase in issues on the bond market. This figure would have been higher if it had not been for the exceptional slowdown in growth of home savings: 5.1% vs. 9.7% in 2004 and 9.6% in 2003. It should be noted that debenture loans issued and subscribed to in 2005 amounted to 105 MTD and were entirely effected by leasing companies.

THE «M3-M2» AGGREGATE AND ITS COMPONENTS

Period	M3-M2		Home savings		Bonds & borrowings for more than one year		Savings for projects and investments	
	MTD	Variat.* (%)	MTD	Variat.* (%)	MTD	Variat.* (%)	MTD	Variat.* (%)
2003	1,598	-1.4	870	9.6	721	-12.0	7	0.0
2004								
March	1,645	2.9	897	3.1	741	2.8	7	0.0
June	1,648	3.1	912	4.8	729	1.1	7	0.0
September	1,659	3.8	929	6.8	724	0.4	6	-14.3
December	1,620	1.4	954	9.7	662	-8.2	4	-42.9
2005								
March	1,740	7.4	966	1.3	768	16.0	6	50.0
June	1,710	5.6	971	1.8	733	10.7	6	50.0
September	1,722	6.3	980	2.7	737	11.3	5	25.0
December	1,691	4.4	1,003	5.1	683	3.2	5	25.0

* Compared to the level in December of the previous year.

B. NET FOREIGN ASSETS

In rising by 986 MTD in 2005 (vs. 848 MTD the year before), the upward trend of net foreign assets in effect since 2001 continued steadily. This trend was due, in particular, to significant improvement in the outstanding balance of the balance of trade, which more than compensated for the drop in the positive balance of the balance of loans-borrowings.

After rising in January 2005, net foreign assets started on a downward course that continued until April, when they hit the lowest point of the year: 2,888 MTD. This drop was the result of the considerable increase in expenditure committed to service debt, despite mobilisation of external resources, notably from the Bank of Japan for International Cooperation (70 MTD), the World Bank (34 MTD) and the French development agency AFD (32 MTD). Since then, net foreign assets rose until August, thanks to encashment of the debenture loan in euros (400 million euros) contracted in June and drawing (also in June) of the first portion of a special loan from AFD to the Bank for Housing in the amount of 15,2 million euros. From September to end November, net foreign assets fell as a result of major expenditure, notably to service debt. The «SAMURAI IV» debenture loan was entirely paid back in September in the amount of 15 billion yen. Income from privatisation of SOTACIB (48.5 MTD) was encashed in September, income from privatisation of the Bank of the South (61 million euros) in November, while drawings in September from the loan granted by the World Bank in the framework of the programme to support economic competitiveness «PACE IV» (58 million euros) and the improved balance of current payments helped to limit the impact of that decrease.

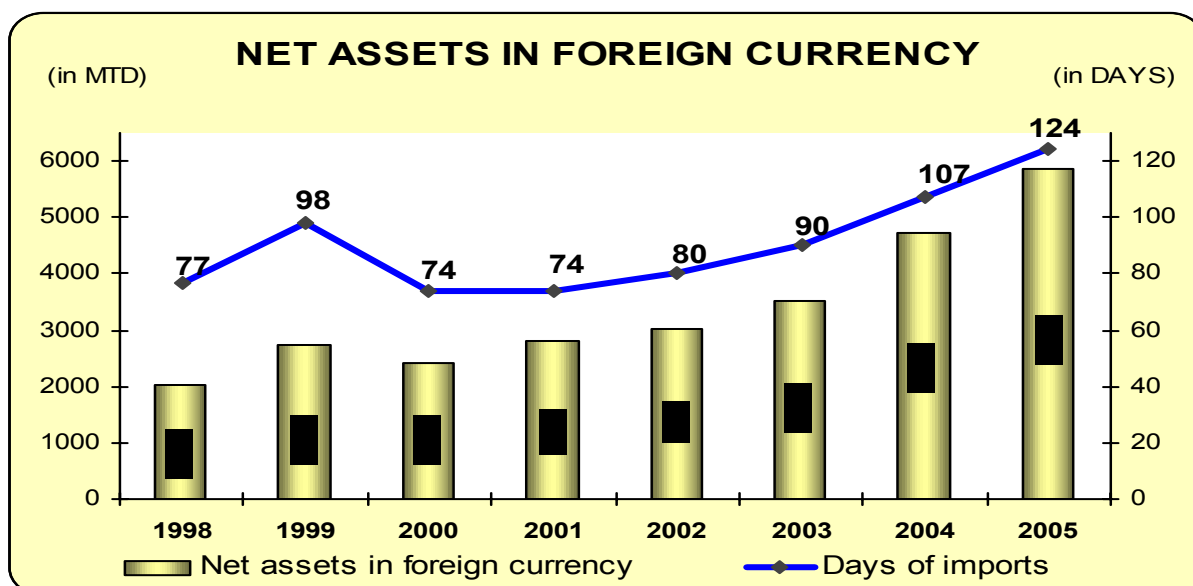
In December, due in particular to encashment of a European Union grant (39 million euros) and drawing of some 58.5 million euros from the loan granted by the African Development Bank in the framework of «PACE IV», net foreign assets rose by 186 MTD, closing for the year at 4,113 MTD.

FOREIGN ASSETS AND LIABILITIES

(In MTD)

Period	International reserves			Other foreign assets	External liabilities		Net foreign assets	
	Total	Of which : Foreign currency assets			Total	Of which : Deposits by non residents	Amount	Variat.*
		Amount	Variat*					
2003	3,605	3,550	497	942	2,268	1,443	2,279	370
2004								
March	3,310	3,255	-295	890	2,273	1,443	1,927	-352
June	4,238	4,154	604	962	2,477	1,505	2,723	444
Sept.	5,025	4,954	1,404	959	2,723	1,601	3,261	982
Dec.	4,818	4,760	1,210	984	2,675	1,683	3,127	848
2005								
March	4,547	4,490	-270	1,002	2,659	1,693	2,890	-237
June	5,304	5,246	486	1,075	2,794	1,806	3,585	458
Sept.	5,832	5,782	1,022	1,318	3,061	2,046	4,089	962
Dec.	6,033	5,983	1,223	1,309	3,229	1,975	4,113	986

* Compared to the level in December of the previous year.



Consequently, net assets in foreign currency rose considerably in late 2005, amounting to 5,872 MTD, the equivalent of 124 days of imports. This compares to 4,733 MTD and 107 days in December 2004.

C. DOMESTIC LOANS

Domestic loans amounted to 28,704 MTD at the end of 2005, up by 6.7%, the same rate as the previous year. This was due to the higher level of financing of the economy, coinciding with slower growth in State indebtedness to the financial system.

1. Net claims on the State

Totalling 4,166 MTD in 2005, State indebtedness to the financial system was up by just 341 MTD (8.9%), compared to 536 MTD (16.3%) the previous year. This slower growth was due to the outstanding balance of Treasury bonds held by the financial system, up just 103 MTD vs. 444 MTD in 2004 due to the lower level of Treasury bond issues, which were down from 2,597 MTD in 2004 to 1,622 MTD in 2005. Total repayments came in at 1,515 MTD in 2005 vs. 2,135 MTD a year earlier. On the other hand, deposits at both the postal cheques centre and the postal savings centre recorded higher increases than the year before : +119 MTD and +152 MTD respectively vs. +36 MTD and +149 MTD.

In response to a monetary policy that focuses increasingly on open market operations, targeting development of a dynamic secondary market for State securities, it was banks that subscribed to virtually the entire amount of net issues of Treasury bonds.

In application of its policy to reprofile domestic debt, the State continued to issue medium and long term Treasury bonds (notably bonds equivalent to Treasury bonds

BTA) rather than short term bonds (BTCT). Thus the share of BTAs in the overall outstanding balance of Treasury bonds continued to rise, up from 71.9% in 2003 to 86.2% in 2004, then 90.7% in 2005.

NET CLAIMS ON THE STATE

(In MTD)

Period	Net claims on the State		Of which :			
			Treasury current account		Treasury bonds	
	Amount	Variat.*	Amount	Variat.*	Amount	Variat.*
2003	3,289	-103	550	137	1,203	42
2004						
March	3,809	520	260	-290	1,252	49
June	3,747	458	411	-139	1,309	106
September	3,495	206	857	307	1,543	340
December	3,825	536	664	114	1,647	444
2005						
March	4,321	496	572	-92	1,716	69
June	4,431	606	497	-167	1,659	12
September	4,146	321	714	50	1,704	57
December	4,166	341	688	24	1,750	103

* Compared to the level in December of the previous year.

2. Financing of the economy

Financing of the economy by the financial system came in at 24,538 MTD at the end of 2005, up by 6.3% vs. 5.3% a year earlier. This faster growth reflects that of the securities portfolio (10.9% vs. 1.6%), given the high level of shareholdings by certain banks in the capital of companies in various sectors of the economy (notably tourism and industry), recovery in the outstanding balance of commercial paper (+52 MTD vs. -129 MTD), and the increase in loans granted by the financial system from ordinary resources (7.1% vs. 8.2%). Loans from special resources, on the other hand, continued to fall, although at a slower pace than the year before (-7.8% vs. -10.7%).

It should be noted that following the upturn that held throughout the first 11 months of 2005 (up to 24,762 MTD), financing of the economy fell by 224 MTD in December. This was due to the increase in loans, which was more than offset by, notably, transfer of claims to collection companies, settlement by the State of maturities for claims purchased firm from the National Oil Board and the Cereals Board, as well as several write-offs.

FINANCING OF THE ECONOMY

Description	MTD			Variation (%)	
	2003	2004	2005	2004/2003	2005/2004
Loans to the economy	20,696	21,848	23,168	5.6	6.0
Loans from ordinary resources	18,320	19,817	21,226	8.2	7.1
Loans from special resources	2,019	1,803	1,662	-10.7	-7.8
Commercial paper *	357	228	280	-129	52
Securities portfolio	1,215	1,235	1,370	1.6	10.9
Total	21,911	23,083	24,538	5.3	6.3

* For this aggregate, variations are expressed in MTD.

At the end of 2005, loans from Central Bank resources came in at a lower level than in previous years : 52 MTD vs. 413 MTD at the end of 2004 and 839 MTD at the end of 2003, reflecting excess liquidity at banks over the last four months of 2005. Given the high level of banks cash position, the share of loans from their resources compared to total financing rose even higher, from 93% in 2004 to 95.1% in 2005.

LOANS TO THE ECONOMY

Origin	MTD			Variation (%)	
	2003	2004	2005	2004/2003	2005/2004
Central Bank	839	413	52	-50.8	-87.4
Banks	18,783	20,310	22,031	8.1	8.5
Leasing companies	1,074	1,125	1,085	4.7	-3.6
Total	20,696	21,848	23,168	5.6	6.0

IV. TOTAL INDEBTEDNESS

This indicator includes all financing through indebtedness of resident non financial economic agents (including the State) that is secured either through intermediates or capital markets. In amounting to 49,116 MTD at the end of 2005, total indebtedness went up for the year by 6.5%, compared to 7.4% the year before. Both State indebtedness and that of non financial economic agents grew at a slower pace.

TOTAL INDEBTEDNESS

(In MTD unless otherwise indicated)

			2005	Variation in %		Structure in %	
				2004/03	2005/04	2004	2005
	27,625	29,277	30,936	6.0	5.7	63.5	63.0
-State	6,778	7,310	7,667	7.8	4.9	15.9	15.6
-Other non financial economic agents	20,847	21,967	23,269	5.4	5.9	47.6	47.4
From the financial system	23,628	25,445	27,054	7.7	6.3	55.2	55.1
-State	3,289	3,825	4,166	16.3	8.9	8.3	8.5
-Other non-financial economic agents	20,339	21,620	22,888	6.3	5.9	46.9	46.6
On capital markets	3,997	3,832	3,882	-4.1	1.3	8.3	7.9
*Money market	357	228	280	-36.1	22.8	0.5	0.6
-State	0	0	0	-	-	0.0	0.0
-Other non-financial economic agents	357	228	280	-36.1	22.8	0.5	0.6
*Bond market	3,640	3,604	3,602	-1.0	-0.1	7.8	7.3
-State	3,489	3,485	3,501	-0.1	0.5	7.6	7.1
-Other non-financial economic agents	151	119	101	-21.2	-15.1	0.2	0.2
External indebtedness	15,294	16,834	18,180	10.1	8.0	36.5	37.0
-State	12,529	13,209	14,026	5.4	6.2	28.6	28.6
-Other non-financial economic agents	2,765	3,625	4,154	31.1	14.6	7.9	8.4
Total indebtedness	42,919	46,111	49,116	7.4	6.5	100.0	100.0
-State	19,307	20,519	21,693	6.3	5.7	44.5	44.2
-Other non-financial economic agents	23,612	25,592	27,423	8.4	7.2	55.5	55.8

Source : Central Bank of Tunisia, Capital Market Council (CMF), Ministry of Development and International Cooperation.

Indebtedness from domestic sources came in at 30,936 MTD at the end of 2005. This represented 63% of total and an increase of 5.7%, down from 6% the year before. This was the result of recovery in net issues on capital markets (1.3% vs. -4.1%), in conjunction with slower growth in financing from the financial system (6.3% vs. 7.7%).

After net recovery in 2004, financing by the financial system for the State grew in 2005 at a more moderate pace, up from 3,825 MTD to 4,166 MTD, an increase of 8.9% vs. 16.3% the year before. This trend was due mainly to radically slower growth in the outstanding balance of Treasury bonds in banks portfolio (6.1% vs. 37.1%), partially somewhat attenuated by the higher level of deposits at postal cheques centre and postal savings centre.

Loans from the financial system to other non financial economic agents, especially those granted from ordinary resources, went up by 5.9% in 2005, compared to 6.3% a year earlier. This increase would have been higher if it had not been for the high increase in transactions to sell and to write off bank claims in the framework of

clearing up their financial situations (648 MTD vs. 239 MTD). Meanwhile, the outstanding balance of indebtedness on capital markets recorded a slight increase in 2005 (1.3%), after dropping by 4.1% the year before.

While financing on the money market recovered significantly in the wake of the increase in net issues of commercial papers (22.8% or 52 MTD vs. a drop of 36.1% or -129 MTD the year before), indebtedness on the bond market remained at virtually the same level (-0.1% vs. -1%). This is because the drop recorded for the second straight year in the outstanding balance of debenture loans issued by other non financial agents (-15.1% vs. -21.2%), due to the absence of new issues, worked in conjunction with a slight increase in net subscriptions to Treasury bonds by the public (0.5% vs. -0.1%). Subscription to these securities by non residents involved just 0.5 MTD in 2005.

After the high increase recorded in 2004, due mainly to mobilisation by TUNISIANA of external resources to extend its network, external indebtedness in 2005 returned to a more moderate growth rate of 8%, compared to 10.1% in 2004 and 6.7% in 2003. More than 60% of this increase went to the State, whose external indebtedness rose by 6.2% vs. 5.4% in 2004. This is because the State went on the international bond market in 2005 to mobilise 400 million euros in borrowings and encashed two drawings, 58 million euros from the World Bank and 58.5 million euros from the African Development Bank, in the framework of the programme to support economic competitiveness «PACE IV». On the repayment side, 15 billion yens were disbursed for the «SAMURAI IV» debenture loan.

The outstanding balance of external indebtedness for other non financial economic agents grew at a slower although steady pace of 14.6% vs. 31.1%. This trend helped boost the share of the relevant aggregate in total indebtedness, up from 6.4% in 2003 and 7.9% in 2004 to 8.4%, reflecting efforts by Tunisian companies to mobilise external resources and to access external financial markets in better conditions.

Given slower growth in GDP in current prices (6.2% in 2005 vs. 8.8% in 2004), the share of total indebtedness in this aggregate went up slightly, from 131.6% in 2004 to 132.0% in 2005. The share of the outstanding balance of external indebtedness in gross national available income (GNAI) increased for the second straight year, up 47.1% in 2003 and 47.6% in 2004 to 48.5% in 2005. This ratio will go down in the coming years as scheduled early repayment of external debt takes place thanks to the expected proceeds from partial privatisation of Tunisie Telecom.

MAIN FINANCING PARAMETERS

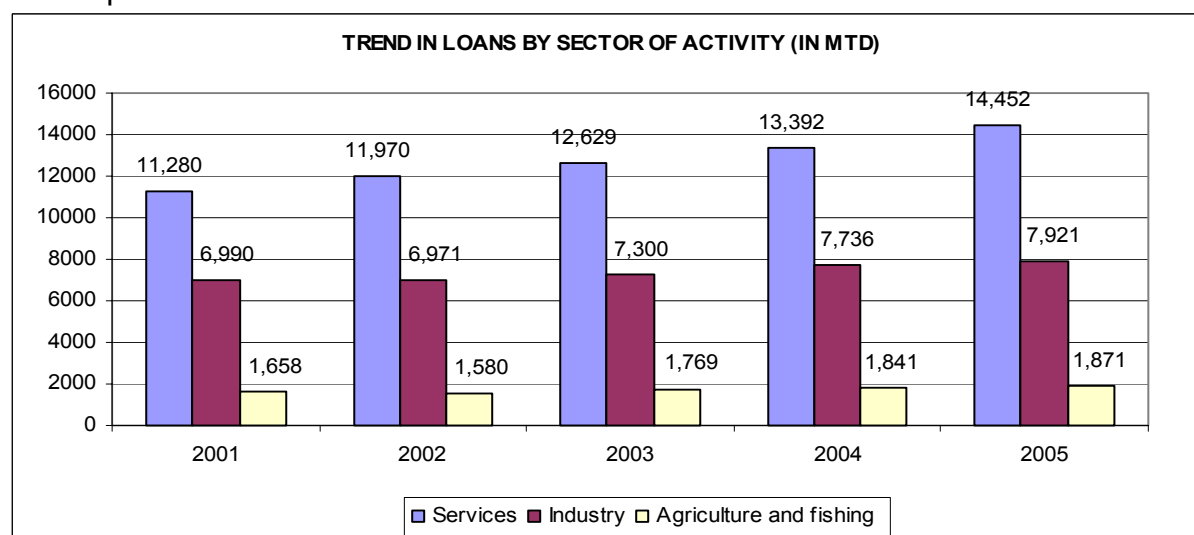
(In % unless otherwise indicated)

Description	2003	2004	2005
Total indebtedness/GDP in current prices	133.3	131.6	132.0
*State	60.0	58.6	58.3
*Other non-financial economic agents	73.3	73.0	73.7
Domestic indebtedness/GDP	85.8	83.6	83.1
*State	21.1	20.9	20.6
*Other non-financial economic agents	64.7	62.7	62.5
External indebtedness/GDP	47.5	48.0	48.9
*State	38.9	37.7	37.7
*Other non-financial economic agents	8.6	10.3	11.2
State domestic indebtedness/Domestic indebtedness	24.5	25.0	24.8
Domestic indebtedness of other non-financial economic agents/Domestic indebtedness	75.5	75.0	75.2
External indebtedness /GNAI	47.1	47.6	48.5
GDP in current prices (in MTD)	32,202	35,035	37,202
GNAI in current prices (in MTD)	32,489	35,399	37,458

V. DISTRIBUTION OF CREDIT

The outstanding balance of loans granted by the financial system to the economy as recorded in the credit registry and the individual loan registry came in at more than 24.2 billion dinars at the end of 2005. This was an increase of 5.6%, a slightly lower rate than the year before. Aside from bank transactions to write off and sell claims to collection companies, this lower rate was the result of slower growth in the outstanding balance of short term loans, despite a slight increase in the outstanding balance of medium and long term loans.

Amounting to 10.9 billion dinars at the end of 2005, the outstanding balance of short term loans was up by 2.1%, compared to 3.1% a year earlier. This development was due to slower growth in the outstanding balance of operational loans to agriculture and fishing (1.9% vs. 6.1%) and industry (4.5% vs. 7.2%). On the other hand, the outstanding balance of operational loans to services continued to drop, although at a slower pace of 0.4% vs. 1.5% in 2004.



The outstanding balance of medium and long term loans went up 8.5% in 2005 vs. 8.3% in 2004. This slightly higher rate was the result of faster growth in the outstanding balance of investment loans to service companies, which increased by 1.8 percentage point. On the other hand, the outstanding balance of medium and long term loans to agriculture and fishing grew as a slightly slower pace, while the outstanding balance of loans to industry actually decreased. Faster growth in investment loans to services was due to the large increase in the outstanding balance of loans to private parties, which reached 4,493 MTD at the end of 2005 vs. 3,605 MTD in 2004, an increase of 24.6% vs. 17.3% a year earlier. It should be noted that this category represented a major 18.5% of overall loans to the economy and 31.1% of the outstanding balance of loans to services. It is also important to note that the volume of transactions to write off and sell claims to collection companies by a number of banks amounted to almost 648 MTD in 2005, while issues of treasury bills by companies to lighten the cost of indebtedness to banks came in at 567 MTD.

**BREAKDOWN OF THE OUTSTANDING BALANCE OF LOANS TO THE ECONOMY BY SECTOR
AND BY TERM**

(In MTD unless otherwise indicated)

Description	2004	2005				Variation (in %)		Share of total (in %)	
		March	June	Sept	Dec	2004/2003	2005/2004	2004	2005
Agriculture & fishing	1,841	1,817	1,727	1,846	1,871	4.1	1.6	8.0	7.7
Short term	1,024	999	910	1,032	1,043	6.1	1.9	4.4	4.3
Medium & long term	817	818	817	814	828	1.6	1.3	3.6	3.4
Industry	7,736	7,768	7,891	7,931	7,921	6.0	2.4	33.7	32.7
Short term	4,972	5,059	5,169	5,273	5,197	7.2	4.5	21.7	21.5
Medium & long term	2,764	2,709	2,722	2,658	2,724	3.9	-1.4	12.0	11.2
Services	13,392	13,756	13,987	14,373	14,452	6.0	7.9	58.3	59.6
Short term	4,640	4,827	4,835	4,829	4,622	-1.5	-0.4	20.2	19.1
Medium & long term	8,752	8,929	9,152	9,544	9,830	10.5	12.3	38.1	40.5
Of which : loans to individuals	3,605	3,815	3,940	4,318	4,493	17.3	24.6	15.7	18.5
Total	22,969	23,341	23,605	24,150	24,244	5.9	5.6	100.0	100.0
Short term	10,636	10,885	10,914	11,134	10,862	3.1	2.1	46.3	44.9
Medium & long term	12,333	12,456	12,691	13,016	13,382	8.3	8.5	53.7	55.1
Of which : loans to individuals	3,605	3,815	3,940	4,318	4,493	17.3	24.6	15.7	18.5

Breakdown of the outstanding balance of loans by sector shows a 1.3 percentage point increase from 2004 to 2005 for loans to services, up from 58.3% to 59.6%. Breakdown of loans to industry and to agriculture/fishing, on the other hand, dropped by 1 and 0.3 percentage point respectively, from 33.7% to 32.7% and from 8% to 7.7%.

BREAKDOWN OF THE OUTSTANDING BALANCE OF LOANS TO PUBLIC AND PRIVATE COMPANIES

(In MTD unless otherwise indicated)

Description	2004			2005			Variations (in %)	
	Short term	Medium & long term	Total	Short term	Medium & long term	Total	2004/2003	2005/2004
Agriculture&fishing	1,024	817	1,841	1,043	828	1,871	4.1	1.6
Public companies	324	49	373	331	42	373	36.6	0.0
Private companies	700	768	1,468	712	786	1,498	-1.9	2.0
Industry	4,972	2,764	7,736	5,197	2,724	7,921	6.0	2.4
Public companies	190	100	290	139	126	265	-1.0	-8.6
Private companies	4,782	2,664	7,446	5,058	2,598	7,656	6.3	2.8
Services	4,640	8,752	13,392	4,622	9,830	14,452	6.0	7.9
Public companies	67	212	279	98	213	311	-26.8	11.5
Private companies	4,573	8,540	13,113	4,524	9,617	14,141	7.0	7.8
Of which : loans to individuals	-	3,605	3,605	-	4,493	4,493	17.3	24.6
Total	10,636	12,333	22,969	10,862	13,382	24,244	5.9	5.7
Public companies	581	361	942	568	381	949	-0.5	0.7
Private companies	10,055	11,972	22,027	10,294	13,001	23,295	6.1	5.8
Of which : loans to individuals	-	3,605	3,605	-	4,493	4,493	17.3	24.6

Increasing from 11.7 billion dinars in 2004 to 11.9 billion in 2005, the outstanding balance of loans to companies belonging to various corporate groups was up 1.7% vs. 3.5% a year earlier. The share of public enterprises in the outstanding balance of loans to the economy continued to fall, from 4.1% in 2004 to 3.9% in 2005, involving industry. The share for agriculture and fishing, on the other hand, remained unchanged, while that of services rose slightly over the same period. The outstanding balance of loans to public enterprises rose from 942 MTD in 2004 to 949 MTD in 2005, an increase of 0.7% vs. a drop of 0.5% the year before. This development was due to the higher outstanding balance of loans to services, following a decrease the previous year. On the other hand, the outstanding balance of loans to agriculture and fishing remained unchanged and that of industry was down even more than the year before.

The outstanding balance of loans to private companies increased from more than 22 billion dinars to almost 23.3 billion, an increase of 5.8% vs. 6.1% a year earlier. This slower pace was evident for both operating and investment loans, despite faster growth in the outstanding balance of loans to agriculture/fishing and services, reflecting the outstanding balance of loans to industry.

Public banks continued to play a dominant role in financing of the economy, providing more than 7.2 billion dinars, almost 30% of the overall outstanding balance of loans to the economy. In effect, the National Agricultural Bank covered almost 63% of loans to agriculture and fishing, while the Tunisian Banking Company (STB) provided 40% of loans to tourism. More than 31.5% of loans for real estate promotion came from the Bank for Housing.

And at the end of 2005, the bank to finance small and medium size businesses (BFPME), founded in March 2005 to implement the measure announced in the presidential electoral programme to create jobs by supporting initiative and encouraging new businesses, approved a total of 54 projects for almost 16 MTD, 13.7 MTD for industry and 2.3 MTD for service activities linked to new technologies.

A. FINANCING FOR AGRICULTURE AND FISHING

Totalling 1,871 MTD in 2005 (vs. 1,841 MTD in 2004 and 1,769 MTD in 2003), the outstanding balance of loans granted directly or indirectly to agriculture and fishing grew at a slower pace for the second straight year, up just 1.6% vs. 4.1% and 12% the previous two years. This was the case for both the outstanding balance of direct loans and that of indirect loans. Increasing from 656 MTD in 2004 to 661 MTD in 2005, the outstanding balance of indirect loans increased by 0.8% vs. 8.1% the year before. New loans went to structures that collect and market agricultural products, with an outstanding balance that rose by 5 MTD. At 1,210 MTD in 2005 vs. 1,185 MTD in 2004, the outstanding balance of loans going directly to farmers and fishermen went up by 25 MTD (2.1%) vs. 23 MTD (2%) the year before.

OUTSTANDING BALANCE OF LOANS TO THE AGRICULTURE AND FISHING SECTOR

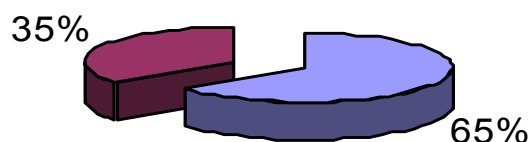
(In MTD)

Description	Short term loans		Medium & long term loans		Total	
	2004	2005	2004	2005	2004	2005
Direct loans	504	530	681	680	1,185	1,210
Indirect loans	520	513	136	148	656	661
.Agricultural products commercialisation structures	520	513	78	90	598	603
of which:						
National Oil Board	47	115	33	30	80	145
Cereals Board	270	212	-	-	270	212
Central Wheat Cooperative	29	27	4	4	33	31
Central Cooperative for Large Scale Cropping	72	73	28	27	100	100
.Agricultural equipment commercialisation companies			58	58	58	58
Total	1,024	1,043	817	828	1,841	1,871

1. Short term loans

The outstanding balance of operational loans to agriculture and fishing went up from 1,024 MTD in 2004 to 1,043 MTD in 2005, an increase of just 19 MTD (1.8%) vs. 59 MTD (6.1%) a year earlier. This slower pace was due to the lower outstanding balance of loans to farmers through structures that store and market agricultural products, while that of direct loans grew at a faster pace. In effect, the outstanding balance of operating loans granted indirectly to agriculture and fishing fell from 520 MTD to 513 MTD, a drop of 7 MTD (1.3%) in 2005 after increasing by 62 MTD (13.5%) in 2004. This drop was apparent in the outstanding balance of loans to structures that market agricultural products, mainly the Cereals Board, in the wake of lower national cereal production. On the other hand, financing to the National Oil Board increased by 68 MTD, given production and price levels that were higher than the year before.

BREAKDOWN OF LOANS TO AGRICULTURE AND FISHING BY CREDIT FORM IN 2005



■ Direct loans to farmers
 ■ Indirect loans

In increasing from 504 MTD in 2004 to 530 MTD in 2005, the outstanding balance of management loans to farmers and fishermen grew by 5.2%, after dropping by 0.6% a year earlier. Given favourable weather conditions, the agricultural season called for complementary loans for weeding and supplemental fertilisation¹ of seasonal crops.

2. Investment loans

Amounting to 828 MTD in 2005 vs. 817 MTD the year before, the outstanding balance of medium and long term loans increased by 1.3%, vs. 1.6% a year earlier. This is because recovery in indirect loans was not enough to offset the drop in the outstanding balance of direct credits. The outstanding balance of investment loans granted indirectly to agriculture and fishing rose from 136 MTD in 2004 to 148 MTD in 2005, an increase of 12 MTD (8.8%) vs. a drop of 8.7% the year before. Recovery was due to consolidation of short term debt held by viticulture companies. Dropping from 681 MTD in 2004 to 680 MTD in 2005, the outstanding balance of investment loans granted directly to farmers and fishermen dropped by a slight 0.1% vs. an increase of 4% a year earlier. This trend was attributable to low level participation by banks in financing new investments by farmers, along with a higher recovery rate for agricultural loans granted by the National Agricultural Bank.

B. FINANCING FOR INDUSTRY

The outstanding balance of loans to industry came in at 7,921 MTD at the end of 2005 vs. 7,736 MTD at the end of the previous year, an increase of 2.4% vs. 6% a year earlier. The slower rate of increase in the outstanding balance of short term loans took place in conjunction with a drop in the outstanding balance of investment loans.

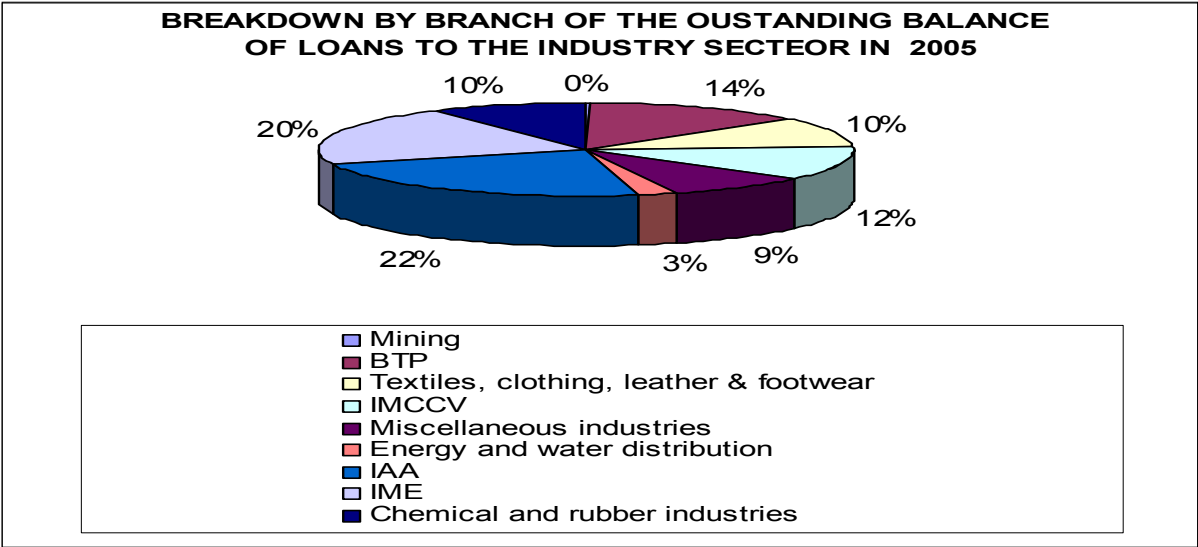
BREAKDOWN BY BRANCH OF THE OUTSTANDING BALANCE OF LOANS TO THE INDUSTRIAL SECTOR (In MTD)

Description	Short term loans		Medium & long term loans		Total	
	2004	2005	2004	2005	2004	2005
Mines	5	4	5	8	10	12
Energy & water distribution	154	47	152	158	306	205
Construction & public works	729	768	333	303	1,062	1,071
Agriculture & agrofood industries	1,172	1,231	576	568	1,748	1,799
Textile, clothing, leather and footwear	595	590	250	230	845	820
Mechanical & electrical industries	1,017	1,145	491	500	1,508	1,645
Construction materials, ceramics & glass	466	500	450	438	916	938
Chemical & rubber	413	485	266	268	679	753
Miscellaneous industries	421	427	241	251	662	678
Total	4,972	5,197	2,764	2,724	7,736	7,921

The outstanding balance of operating loans, up from 4,972 MTD in 2004 to 5,197 MTD in 2005, recorded an increase of 4.5% vs. 7.2% the year before. This increase involved chemical/rubber, mechanical/electrical and miscellaneous industries. The outstanding balance of investment loans was down by 1.4% (from 2,764 MTD to

¹ Central Bank of Tunisia note to banks n°2005-5 of 25 January 2005.

2,724 MTD) compared to an increase of 3.9% a year earlier. This drop involved construction/public works, agrofood industries, textiles/clothing, leather/footwear and building materials/ceramics/glass.



1. Mining

The outstanding balance of loans to mining companies came in at 12 MTD in 2005 vs. 10 MTD in 2004, an increase of 20% vs. 11.1% a year earlier. This development was due to the higher outstanding balance of investment loans, while that of operating loans was lower. In reaching 8 MTD in 2005 vs. 5 MTD in 2004 and 2 MTD in 2003, the outstanding balance of investment loans recorded a major increase for the second straight year: 60% vs. 150% the year before. New loans went mainly to the Gafsa Phosphate Company to finance extension and renewal of investments. In falling from 7 MTD in 2003 to 5 MTD in 2004 then 4 MTD in 2005, the outstanding balance of operating loans to this branch continued to decrease, but at a slower pace, corresponding to a 20% drop in 2005 vs. 28.6% the year before.

2. Energy and water distribution

Down from 306 MTD in 2004 to 205 MTD in 2005, the outstanding balance of loans to this branch fell at a faster pace than the year before: 33% vs. 1.6%. This involved operating loans, while the outstanding balance of investment loans rose. In reaching 47 MTD in 2005 (vs. 154 MTD in 2004), the outstanding balance of operating loans to this branch fell by 107 MTD or 69.5% vs. 2 MTD (1.3%) the year before. This drop involved a number of companies in the branch, mainly the Tunisian Electricity and Gas Company (STEG) and a number of oil companies including ETAP, as well as mineral water companies. The outstanding balance of investment loans went up from 152 MTD in 2004 to 158 MTD in 2005, an increase of 3.9% vs. a drop of 1.9% a year earlier. New loans went in particular to STEG for expansion of thermal plants and to companies working in mineral water and oil to finance investments.

3. Construction and public works

The outstanding balance of loans to this sector came to 1,071 MTD in 2005 vs. 1,062 MTD in 2004, an increase of 0.8% vs. 12.5% the year before. The drop in the outstanding balance of investment loans took place in conjunction with slower growth in management loans. The outstanding balance of these management loans went from 729 MTD in 2004 to 768 MTD in 2005, an increase of 5.3% vs. 15.5% in 2004. New loans, mainly in the form of advances on administrative claims and overdrafts, went to public works companies, notably SOMATRAGET in the framework of extending the highway from Msaken to El Jem and developing the port of Rades. Falling from 333 MTD in 2004 to 303 MTD in 2005, the outstanding balance of medium and long term loans dropped 9% after increasing by 6.4% the year before.

4. Agrofood industries

The outstanding balance of loans to the agrofood sector (which received the largest share of loans to industry) went up from 1,748 MTD in 2004 to 1,799 MTD in 2005, an increase of 2.9% vs. 8.4% a year earlier. Such slower growth was due to restructuring at companies manufacturing dairy products, either by writing off part of their debts or by selling claims to collection companies. The outstanding balance of operating loans came to 1,231 MTD in 2005 vs. 1,172 MTD in 2004, an increase of 5% vs. 12.7% a year earlier. New loans went mainly for financing stock, prefinancing exports, and covering overdrafts, especially for units that process and export oil, that manufacture carbonated beverages and pasta, or that run mills. The outstanding balance of investment loans came to 568 MTD in 2005, down from 576 MTD in 2004, a drop of 1.4% after increasing by 0.5% a year earlier.

5. Textile, clothing, leather and footwear

In falling from 845 MTD in 2004 to 820 MTD in 2005, the outstanding balance of loans to companies in this sector decreased by 3%, vs. 0.9% a year earlier. This trend reflects the pattern for loans (both operating and investment loans), after the sale of claims by a number of companies in the branch to collection companies. Coming to 590 MTD in 2005 vs. 595 MTD in 2004, the outstanding balance of short term loans posted a lower drop than the previous year : -0.8% vs. -3.4%. This drop involved overdrafts for companies working in spinning and weaving. The outstanding balance of investment loans dropped by 8%, from 250 MTD in 2004 to 230 MTD the following year.

6. Mechanical and electrical industries

Up from 1,508 MTD in 2004 to 1,645 MTD in 2005, loans to companies in this branch rose by 9.1%, vs. 10.8% the previous year. This slightly slower pace in growth was due mainly to the change in the outstanding balance of investment loans. On the other hand, the outstanding balance of short term loans maintained practically the same rate of increase. In reaching 1,145 MTD in 2005 vs. 1,017 MTD in 2004, operating loans increased by 128 MTD (12.6%) vs. 112 MTD (12.4%) in 2004. New loans, notably in the form of commercial discount, financing of stocks and overdrafts,

went to companies working in metallurgy, general mechanics and miscellaneous mechanical items. Medium and long term loans increased from 491 MTD in 2004 to 500 MTD in 2005, a smaller increase of 9 MTD (1.8%) compared to the previous year's 35 MTD (7.7%) figures. New loans served to finance investments by a number of foundries.

7. Building materials, ceramics, and glass industries

The outstanding balance of loans to companies in this branch went up from 916 MTD in 2004 to 938 MTD in 2005, an increase of 2.4% vs. 2.6% a year earlier. This development was caused by the higher outstanding balance of short term loans, while that of investment loans went down. In rising from 466 MTD in 2004 to 500 MTD in 2005, the outstanding balance of operating loans grew by 34 MTD (7.3%) compared to 19 MTD (4.3%) the year before. New loans, released mainly as commercial discount on Tunisia and overdrafts, went mainly to cement plants and brick yards. After a 4 MTD (0.9%) increase in 2004, the outstanding balance of investment loans to this branch fell by 12 MTD (2.7%) in 2005, from 450 MTD to 438 MTD.

8. Chemical and rubber industries

The outstanding balance of loans to chemical and rubber industries came to 753 MTD in 2005, compared to 679 MTD in 2004, an increase of 10.9% vs. 9% a year earlier. Faster growth was due to the greater increase in the outstanding balance of short term loans, with investment loans growing at a slower pace. In reaching 485 MTD in 2005 vs. 413 MTD in 2004, the outstanding balance of operating loans recorded 17.4% faster growth vs. 7.6% the year before. New loans went to companies in the field, especially as commercial discount on Tunisia, financing of stock, and overdrafts. The outstanding balance of medium and long term loans grew at a slower pace, up just 2 MTD or 0.8% in 2005 vs. 27 MTD or 11.3% in 2004.

9. Miscellaneous industries

The outstanding balance of loans to companies in this branch went up from 662 MTD in 2004 to 678 MTD in 2005, an increase of 2.4% after dropping by 4.5% a year earlier. Recovery was made possible by growth in loans of all durations. The outstanding balance of operating loans, up from 421 MTD in 2004 to 427 MTD in 2005, posted an increase of 1.4% compared to the previous year's 7.1% drop. New loans went to companies working in wood and paper, in the form of commercial discount, financing of stocks, and overdrafts. The outstanding balance of medium and long term loans reached 251 MTD in 2005 (vs. 241 MTD in 2004), an increase of 10 MTD or 4.1% vs. 1 MTD or 0.4% a year earlier. New loans were granted mainly to companies working in tobacco and paper production.

C. FINANCING FOR SERVICES

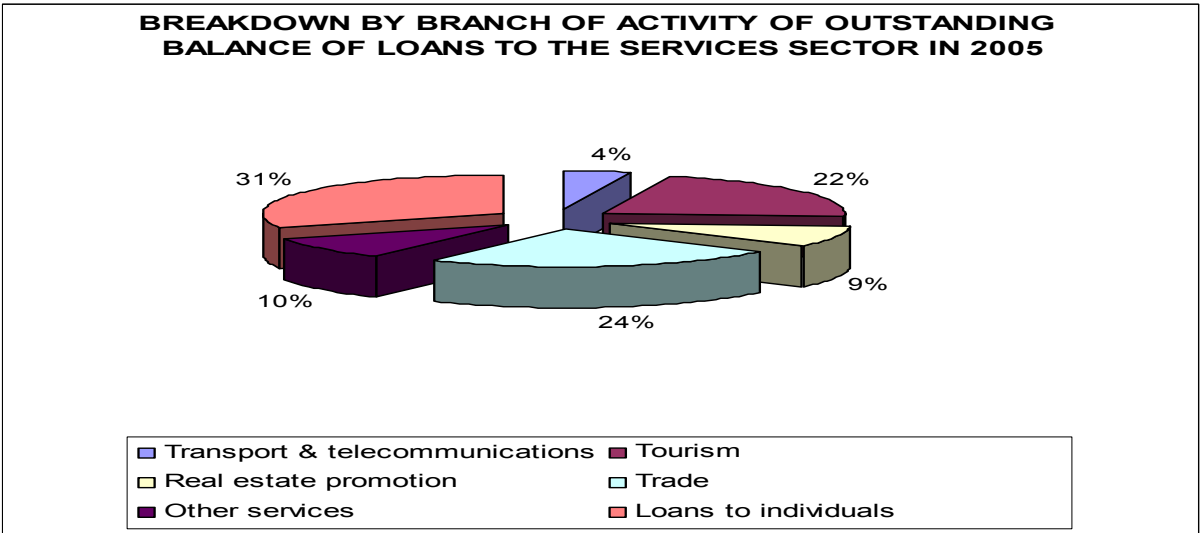
Up from 13.4 billion dinars in 2004 to more than 14.4 billion in 2005, the outstanding balance of loans to the tertiary sector grew by 7.9%, up from 6% the year before. This faster pace involved only investment loans, while operating loans went down. Coming to 9,830 MTD in 2005 vs. 8,752 MTD in 2004, the outstanding balance of

investment loans grew by 12.3% vs. 10.5% a year earlier. This development involved all branches of activity except transport and telecommunications, which fell by 1.6%. The outstanding balance of operating loans, down from 4,640 MTD in 2004 to 4,622 MTD in 2005, dropped for the second straight year, down 0.4% vs. -1.4% a year earlier. There was also a drop for tourism.

BREAKDOWN BY BRANCH OF THE OUTSTANDING BALANCE OF LOANS TO THE SERVICES SECTOR

(In MTD)

Description	Short term loans		Medium & long term loans		Total	
	2004	2005	2004	2005	2004	2005
Transport & telecommunication	250	262	375	369	625	631
Tourism	1,028	841	2,300	2,333	3,328	3,174
Real estate promotion	456	474	744	837	1,200	1,311
Trade	2,317	2,496	911	947	3,228	3,443
Other services	589	549	817	851	1,406	1,400
Loans to individuals	-	-	3,605	4,493	3,605	4,493
Total	4,640	4,622	8,752	9,830	13,392	14,452



1. Transport and telecommunications

Coming to 631 MTD in 2005 vs. 625 MTD in 2004, the outstanding balance of loans to this branch recorded an increase of one percentage point vs. a drop of 6.4% a year earlier. The increase in operating loans was more than offset by the drop in investment loans. The outstanding balance of short term loans, up from 250 MTD in 2004 to 262 MTD in 2005, recorded an increase of 4.8% after falling by 8.4% the year before. New loans went to a number of public enterprises in this branch, especially the Tunisian National Railway Company, regional transport companies and a number of private land and maritime transport companies. In dropping from 375 MTD in 2004 to 369 MTD in 2005, the outstanding balance of investment loans went down 1.6%, compared to 4.8% a year earlier. This drop involved mainly Tunisair, the Tunisian National Railways Company, and a number of private maritime, land and air transport companies.

2. Tourism

The outstanding balance of loans to tourism fell from 3,328 MTD in 2004 to 3,174 MTD in 2005, a drop of 4.6% after an increase of 1.6% a year earlier. This drop was due mainly to the sale of claims held by companies in the sector in the amount of almost 200 MTD to collection companies. Up from 2,300 MTD in 2004 to 2333 MTD in 2005, the outstanding balance of investment loans rose by 1.4% compared to 2.9% in 2004. The outstanding balance of short term loans fell from 1,028 MTD in 2004 to 841 MTD in 2005, a drop of 18.2% vs. 16.7% a year earlier. The lower level of operational loans and the higher level of investment loans for the tourism sector were due mainly to a drop in overdrafts, especially after a better tourist season, consolidation of short term debt by a number of hotels as part of debt restructuring in the sector, and regularisation of advances on medium and long term loans to finance new businesses as well as expansion and renovation financed by investment loans.

3. Real estate promotion

Coming to 1,311 MTD in 2005 vs. 1,200 MTD in 2004, the outstanding balance of loans to this branch increased by 9.3% vs. 2% a year earlier. This faster pace involved the outstanding balances of both short term and medium/long term loans. The outstanding balance of investment loans came to 837 MTD in 2005, up from 744 MTD in 2004, up by 12.5% vs. 5.2% respectively. This increase was attributable to release of new investment loans to finance real estate and housing initiatives and regularisation as medium term loans of advances made in the form of overdrafts for private and public real estate promoters. The outstanding balance of operating loans increased from 456 MTD in 2004 to 474 MTD in 2005, an increase of 3.9% compared to the previous year's 2.4% decrease.

4. Trade

The outstanding balance of loans to this branch came in at 3,443 MTD in 2005, up from 3,228 MTD in 2004, an increase of 6.7% vs. 7.6% a year earlier. This is the result of slower growth in the outstanding balance of investment loans, while the outstanding balance of operating loans grew at a faster pace. Totalling 2,496 MTD in 2005 vs. 2,317 MTD in 2004, the outstanding balance of operating loans, notably in the form of overdrafts and commercial discount, grew by 7.7% vs. 3.9% a year earlier. New loans went to companies working in the various branches of commerce. The outstanding balance of investment loans was up from 911 MTD in 2004 to 947 MTD in 2005, an increase of 4% vs. 18.3% the year before. This held for all branches of commerce except trade in raw materials/fuels, and trade in textiles/leather-footwear, for which the outstanding balances went down.

5. Other services

Falling from 1,406 MTD in 2004 to 1,400 MTD in 2005, the outstanding balance of loans to companies in this field continued to fall, posting -0.4% in 2005 vs. -2.9% in 2004. This drop involved the outstanding balance of operating loans, while the outstanding balance of investment loans continued to increase. Reaching a total of

549 MTD in 2005 (vs. 589 MTD in 2004), the outstanding balance of operating loans fell by less than the previous year: 6.8% vs. 15.7%. This drop involved overdrafts for leasing, factoring and collection companies as well as a number of insurance companies. And in rising from 817 MTD in 2004 to 851 MTD in 2005, the outstanding balance of investment loans grew by 4.2% vs. 10.3% a year earlier. New loans served mainly to finance the disbursement schedule for leasing companies and the renovation/setting up of a number of polyclinics, medical and imagery centres and leisure activities facilities.

6. Loans to individuals

Overall indebtedness of private parties to banks as recorded at the individual loan registry came to 4,493 MTD in 2005 vs. 3,605 MTD in 2004, an increase of 888 MTD (24.6%) vs. 532 MTD (17.3%) a year earlier. New loans served mainly to finance acquisition of new housing and improvement/extension of existing housing, the outstanding balance of which came in at 2,569 MTD at the end of 2005 vs. 2,265 MTD a year earlier, an increase of 13.4% vs. 8.3%. Other loans served to cover current expenditure, purchase of building materials, household equipment and vehicles, up from 1,340 MTD in 2004 to 1,924 MTD in 2005, an increase of 43.6%.

VI. CAPITAL MARKET

The capital market was characterised in 2005 by a substantial development in trade of capital accompanied by soaring stock market indexes culminating in record highs while issues through public call for savings were on the decline.

MAIN STOCK MARKET INDICATORS

(In MTD unless otherwise indicated)

Description	2001	2002	2003	2004	2005
- Volume of issues through public call for savings	2,976	2,752	2,305	2,800	1,818
- State (BTA and BTCT)*	2,510	2,473	2,123	2,596	1,631
- Corporate (capital securities and debenture loans)	466	279	182	204	187
Volume of issues through public call for savings/national savings (in %)	43.8	41.6	32.5	35.9	22.8
Volume of issues through corporates public call for savings /private sector's gross fixed capital formation (in %)	11.1	6.7	4.3	4.6	3.9
Overall volume of transactions	1,204	1,006	948	689	1,660
of which : Official quotation(b)	509	343	238	317	701
Number of listed companies (in units)	45	46	45	44	45
Stock market capitalisation(a)	3,276	2,842	2,976	3,085	3,840
Stock market capitalisation/GDP (in %)	11.4	9.5	9.2	8.8	10.3
BVMT index in points (base 465.77 on 31 March 1998)	996.09	782.93	939.78	974.82	1,142.46
TUNINDEX in points (base 1,000 on 31 December 1997)	1,266.89	1,119.15	1,250.18	1,331.82	1,615.12
Rotation rate (b/a) (in %)	15.5	12.1	8.0	10.3	18.3
Liquidity rate (in %)	49	42	33	38	55
Mutual funds investing in securities (OPCVM)					
Number (in units)	34	35	36	34	35
Managed assets	1,452	1,512	1,672	1,999	2,354

Sources : Tunis Stock Exchange (BVMT) and the Capital Market Council (CMF)

* BTA : Bonds equivalent to Treasury bonds
BTCT : Short-term Treasury bonds.

Aside from privatisation of the Bank of the South (BS), with the State and public enterprises selling off their holdings to a consortium of two foreign banks, three new companies were posted on the stock exchange in 2005 : the general industrial filtration company (GIF filter. SA), the Tunisian accumulator company ASSAD, and Karthago Airlines¹. And on 9 September 2005, the stock market's executive board approved the posting of the Tuniso-Saudi real estate company (SITS), which took place at the beginning of 2006. On the other hand, two companies (STIL and Amen Lease) were taken off the board and transferred to the off-list quotation, on 17 January and 19 September 2005 respectively. Thus the overall number of listed companies rose from 44 in 2004 to 45 in 2005.

¹ GIF, ASSAD and Karthago Airlines stocks were first quoted on 8 March, 24 March and 10 August 2005 respectively, at respective prices of 15, 18.8 and 4.8 dinars per share.

A. CAPITAL MARKET ACTIVITY

1. The primary market

2005 was marked by slowing activity on the primary market. Volume of issues through public call for savings amounted to just 1,818 MTD, down by 982 MTD (35.1%) from the previous year's level. This decrease affected both public and private issues. Thus the share of issues by public call for savings in national savings was down from 35.9% in 2004 to 22.8% in 2005. Their share in gross fixed capital formation (GFCF) dropped to just 21.6% in 2005, down from 35.4% a year earlier.

Public issues, after increasing considerably in 2004, performed in a rather lacklustre fashion in 2005, coming in at just 1,631 MTD vs. 2,596 MTD the year before, a drop of 965 MTD or 37.2%. This drop was due in particular to mobilisation by the State in June of a debenture loan in the amount of 400 million euros on the international capital market, involving both bonds equivalent to Treasury bonds (related issues were down from 1,916 MTD to 1,137 MTD) and short-term Treasury bonds (related issues were down from 680 MTD to 494 MTD). And although the share of BTAs in the overall block of public issues was lower (69.7% vs. 73.8% in 2004), these securities continued to occupy a prominent position, reflecting the Treasury's preference for long term issues.

On another front, as was the case in 2004, there was diversification in issues of BTAs, along with a marked preference for ten-year lines (which constituted more than half), in contrast to a concentration of drawings on 52 week-BTCTs. These accounted for 90.2% of the overall volume of BTCTs issued in 2005. Consequently, the average maturity for domestic public debt was about five years and one month at the end of 2005, compared to 4 years and 11 months at the end of 2004 and 3 years and 5 months at the end of 2003.

As for weighted average rates for issue of Treasury bonds, low satisfaction rates on the part of tenderers (estimated at 30.4% for BTAs and 23.4% for BTCTs), meant that the overall downward trend in force in 2003 and 2004 continued in 2005, involving in particular long-term maturity lines. Thus the weighted average rate for issues of 10 year (due in February 2015) BTAs at 7%, constituting the major portion of drawings on bonds equivalent to Treasury bonds (in the amount of 571 MTD), dropped from 6.992% at the beginning of the year to 6.924% for the tender put out in September 2005.

Weighted average rates for issues of BTCTs evolved, as is generally the case, at levels very near that of the monthly average money market rate, (about 5% throughout 2005). Weighted average rates for 52 week BTCTs started the year at 5.23%, stabilising at 5.1% for tenders over the last quarter of 2005.

It should be pointed out in this context that initial transactions for buying and subscribing to bonds equivalent to Treasury bonds on behalf of non resident foreigners took place in 2005. But there were very few such transactions, involving low volume. BTAs held by foreign national non residents amounted to 182 MTD as

of 31 December 2005. From a regulatory point of view, circular to authorised intermediaries n°2005-19 of 8 November 2005 set a ceiling for the amount of BTAs that foreign national non resident private parties or corporate entities can subscribe to and buy: 10% of the projected six-month amount of issues, instead of 5% of the outstanding balance of each line of issue, depending on the results of tenders, initially forecasted by article 1 of circular n°2004-03 of 19 July 2004.

VOLUME OF ISSUES THROUGH PUBLIC CALL FOR SAVINGS *

(In MTD unless otherwise indicated)

Description	2003	2004	2005	Variations	
				2004/2003	2005/2004
Volume of issues through public call for savings	2,305	2,800	1,818	495	-982
*Capital securities	57	93	87	36	-6
. Banking sector issues	0	83	57	83	-26
<i>Number of transactions (units)</i>	0	3	1	3	-2
. Non-banking sector issues	57	10	30	-47	20
<i>Number of transactions (units)</i>	16	8	8	-8	0
*Claims securities	2,248	2,707	1,731	459	-976
a – Bonds	125	111	100	-14	-11
. Banking sector issues	0	20	-	20	-20
<i>Number of transactions (units)</i>	0	1	-	1	-1
. Leasing sector and other financial institutions issues	97	85	100	-12	15
<i>Number of transactions (units)</i>	8	6	7	-2	1
. Other sectors issues	28	6	0	-22	-6
<i>Number of transactions (units)</i>	4	1	0	-3	-1
b – Public securities	2,123	2,596	1,631	473	-965
<i>Bonds equivalent to Treasury bonds (BTA)</i>	<i>1,039</i>	<i>1,916</i>	<i>1,137</i>	<i>877</i>	<i>-779</i>
<i>Short term Treasury bonds (BTCT)</i>	<i>1,084</i>	<i>680</i>	<i>494</i>	<i>-404</i>	<i>-186</i>

Source : Capital Market Council (CMF)

* Data are established on the basis of the date of visa issued by the CMF for capital securities and bonds and the date of auction for public securities.

The overall volume of private issues through public call for savings dropped by 8.3%, down from 204 MTD in 2004 to 187 MTD. Consequently, the share of these issues in private sector GFCF fell from 4.6% to 3.9%. Issues of capital securities came in at 87 MTD, 67 MTD in cash, vs. 93 MTD and 70 MTD respectively in 2004. As was the case the year before, this infusion of new funds went mostly to the banking sector, helping to boost the core resources of a Tunisian bank by 52 MTD¹.

Other cash issues were launched by SOMOCER (9.5 MTD), ASSAD and SITS, the last two having sought capital increases through public tender for subscriptions in the amounts of 2.3 MTD and 3.3 MTD respectively, in parallel with a public tender for sale of their shares in the framework of their listing. At the same time, the drop in the volume of issues on the bond market in effect the last few years continued in 2005, with borrowings amounting to just 100 MTD, entirely subscribed to. Borrowings were down slightly compared to 111 MTD in 2004 and 125 MTD in 2003, well below the totals of 233 MTD in 2002 and 311 MTD in 2001.

¹This was capital increase, partly in cash, by the ATB in November 2005.

This volume of 100 MTD was the result of seven borrowings launched over the first seven months of the year. Relevant issues varied between 10 MTD and 20 MTD, for durations of between five and seven years, at fixed rates of 6.5% or 7% and variable rates between 1% and 1.4% above the money market's average monthly rate. 80 MTD of these borrowings were taken out by five leasing companies, which remain the main issuers on the bond market, with the rest taken out by a factoring company. As in the past, subscribers expressed a clear preference for borrowings issued at a fixed rate. Six out of these seven borrowings were issued at two different rates, for a total amount of 90 MTD, 79 MTD (87.8%) of which was subscribed to at a fixed rate.

As for the structure of subscribers to these borrowings, mutual funds investing in securities (OPCVM) were predominant, like the year before, their share in the overall total of subscriptions having increased to 70.3%, compared to 66.1% a year earlier. On the other hand, retirement funds – for the third straight year - did not figure among subscribers. After dropping in 2004, the share of banking institutions in bond issues was on the rise, up from 7.9% to 14.7% of total subscribed volume, but not as high as the 2003 level of 24.8% of issues. The share of subscriptions taken out by insurance companies and private individuals was down from 14.8% and 4.1% respectively to 10.5% and 3.1%.

2. The secondary market

The balance for activity on the secondary market was positive in 2005, with all stock market indicators improving markedly. Thus after several years in a row of decreases in the volume of transactions, 2005 was marked by renewed activity on the secondary market, with the overall amount of trade in capital, all market segments taken together, having increased considerably. It came in at 1,660 MTD, up from 689 MTD a year earlier, an increase of 971 MTD, involving in particular transactions posted on the official quotation and registry transactions. This dynamic performance was accompanied by soaring stock market indexes that shot up over the year to their highest levels.

TRENDS IN SECURITIES EXCHANGES ON THE SECONDARY MARKET

(In MTD unless otherwise indicated)

Description	2003	2004	2005	Variation in %	
				2004/2003	2005/2004
Overall volume of transactions	948	689	1,660	-27.3	140.9
*Number of securities handled (in thousand)	47,232	43,546	83,527	-7.8	91.8
.Official quotation	238	317	701	33.2	121.1
*Number of securities handled (in thousand)	12,921	21,127	41,461	63.5	96.2
.Unlisted companies	67	20	25	-70.1	25.0
*Number of securities handled (in thousand)	3,251	2,209	1,761	-32.1	-20.3
.Registry transactions & declaration	643	352	934	-45.3	165.3
*Number of securities handled (in thousand)	31,060	20,210	40,305	-34.9	99.4

Source : BVMT

a. Official quotation

Transactions carried out on the official quotation increased significantly, more than doubling from 317 MTD in 2004 to 701 MTD in 2005, a level well below the record 919 MTD posted in 2000. The average daily volume thus rose to 2.8 MTD for 250 trading sessions, almost three times the daily average of 1 MTD recorded in 2004. At the same time, the number of securities handled on the official quotation almost doubled, to reach 41 million vs. 21 million a year earlier. This higher volume of trade in securities was due on the one hand to interest in public tenders for sale in the framework of new listings on the stock market and, on the other hand, to the high level of block transactions, which more than tripled from one year to the next. They came in at 160 MTD in 2005, 22.8% of the volume in trade on the official quotation, compared to 50 MTD and 15.8% the year before.

VOLUME OF TRANSACTIONS BY TYPE OF STOCK

(In MTD unless otherwise indicated)

Description	2003	2004	2005	Variation in %	
				2004/2003	2005/2004
Overall market	948	689	1,660	-27.3	140.9
.Shares & rights	921	653	1,580	-29.1	141.9
.Bonds & public securities	27	36	80	33.3	122.2
Official quotation	238	317	701	33.2	121.1
.Shares & rights	213	283	621	32.9	119.4
.Bonds & public securities	25	34	80	36.0	135.3
Off-list quotation	67	20	25	-70.1	25.0
.Shares & rights	65	18	25	-72.3	38.9
.Bonds	2	2	0	-	-100.0
Registry transactions & declarations (Shares & rights)	643	352	934	-45.3	165.3

Source : BVMT

As was the case in 2004, trade in securities was not very diversified in 2005, involving a limited number of stocks, notably BIAT, BS, Karthago Airlines and SOTRAPIL, accounting for more than a third of overall transactions on the official quotation.

As for breakdown of trade in capital by sector, it was banks that continued to prime and activate transactions. They accounted for a third of the overall amount traded on the official quotation, due notably to the high volume of transactions involving, on the one hand, Bank of the South stock in the framework of its privatisation and, on the other hand, BIAT stock, thanks to growing interest on the part of foreign investors since the bank launched a capital increase in 2004. The rate of foreign participation in BIAT capital increased from 27.36% at the end of 2004 to 33.03% on 31 December 2005.

Higher volume in transactions on the official quotation had a positive impact on the market's rotation rate and liquidity rate, up from 10.3% to 18.3% and from 38% to 55% respectively. Moreover, stock market capitalisation grew by 755 MTD (24.5%)

from end 2004 to end 2005, amounting to 3,840 MTD, 10.3% of GDP, not as high as the 3,889 MTD recorded at the end of 2000. This increase was due in particular to new listings on the stock market and good performance by highly capitalised stocks.

In this context, the performance of listed stocks was fairly mixed in 2005, although market trends remained for the most part on the rise, thanks notably to the strong rebound of several small and medium-scale capitalisations undertaken starting the end of the first half of the year as well as sound performance by most banking sector's stocks, whose share in stock market capitalisation came in at 55%, helping considerably to boost the market.

Thus 24 listed stocks posted a price increase at rates of between 0.3% and 102%. The best performance was attained by SOTRAPIL, thanks notably to the major undertaking of a pipeline between Skhira and the Sahel currently on the drawing board and the expected impact of a new crude oil refinery at the Skhira terminal. It was followed by SIPHAT (+73.4%), on the strength of its joint venture with the Pierre Fabre laboratories, and by BIAT (+71%). Other stocks, on the other hand, recorded negative yield rates of between -0.3% and -34.5%. The greatest drop was recorded by ICF, followed by General Leasing, the price of which was down by 29% for the year, after a 5 MTD tax adjustment in 2004.

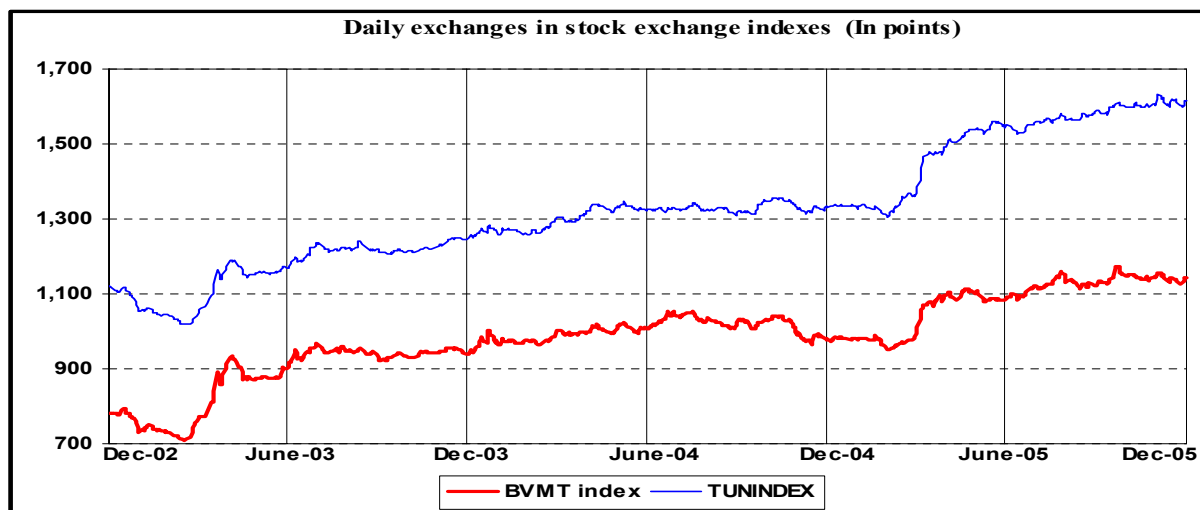
With very high demand in the market and interest on the part of investors in recently introduced stocks and soaring prices for certain high-flying stocks, there was an end by March 2005 to the period of stagnation for stock indexes that had begun the second half of 2004, as the upward trend took hold at a sustained pace, culminating for the year at historic highs.

TRENDS IN THE MAIN SECONDARY MARKET INDICATORS

End of period Description	Dec. 2003	Dec. 2004	2 0 0 5				Variation (%)	
			March	June	Sept.	Dec.	Dec.2004 Dec.2003	Dec.2005 Dec.2004
-BVMT index (in points)	939.78	974.82	993.42	1,082.66	1,121.29	1,142.46	3.7	17.2
-TUNINDEX (in points)	1,250.18	1,331.82	1,368.74	1,544.65	1,588.96	1,615.12	6.5	21.3
-Stock market capitalisation (in MTD)	2,976	3,085	3,263	3,602	3,823	3,840	3.7	24.5

Source : BVMT

The capitalisation index TUNINDEX rose by 21.3% and closed for the year at 1615.12 points, a slight drop from the peak of 1630.77 points recorded on 2 December 2005. The Tunis Stock Market index (BVMT) rose over the year by 17.2%, posting 1142.46 points at the end of 2005.



b. Off-list quotations, registry transactions and declarations

The off-list quotation, which was the most affected by the drop in the volume of transactions over the previous year, improved slightly (by 5 MTD) in 2005, amounting to 25 MTD, a volume that remained relatively low compared to 2003 and 2002 levels: 67 MTD and 66 MTD respectively. On the other hand, the overall volume of registry transactions and declarations rebounded significantly, reaching 934 MTD, of which 79 MTD were in declarations, compared to 352 MTD in 2004. This trend was notably the result of the greater number of privatisation transactions and trading of shares in the capital of companies, such as the package of 61 MTD concerning sale of State holdings and those of some public enterprises in the capital of the Bank of the South to the consortium Andalumaghreb S.A. There was also the 97 MTD transaction to privatise the Tuniso-Algerian white cement company (SOTACIB), sold to two groups of Spanish companies, as well as the 48 MTD sale of a portion of capital in the Tunisian biscuit company SOTUBI to the French group DANONE.

As for foreign portfolio investments, the substantial increase registered in 2004 was confirmed in 2005 thanks, notably, to selling transactions of capital shares involving foreign investors as well as their growing interest in acquiring certain stocks. Thus acquisitions and sales by foreign investors both on official and off-list quotation amounted to 147 MTD and 95 MTD respectively, compared to 63 MTD and 33 MTD in 2004.

Foreigners acquired 320 MTD in registry transactions, up from 106 MTD in 2004, with sales rising over the same period from 84 MTD to 181 MTD. Consequently, the net balance rose considerably for the second straight year, from 52 MTD to 191 MTD.

While registry transactions by foreigners involved largely the stocks mentioned above (BS, SOTACIB and SOTUBI), those traded both on official and off list quotation involved notably shares in ASTREE as well as Karthago Airlines, the Bank of the South, BIAT and the Bank of Tunisia, which presented great interest on the part of foreign investors. Shares in ASTREE involved foreigners interested in sale by the French insurance company AGF of its 42% share in the capital of this company to

the French insurance firm ACM and the Bank of Tunisia group. The majority shareholder Fime Leasing Spa sold its 11% share in the capital of CIL.

B. THE ACTIVITY OF MUTUAL FUNDS (OPC)

In 2005 the Financial Market Council (CMF) approved the founding of four new open-end investment companies (SICAV), each with capital of 1 MTD, three bond-based : «SICAV Entreprise», «SICAV Amen Tresor», «SICAV Patrimoine» and one mixed: «Strategie Actions SICAV». Only «SICAV Entreprise» began to seek public subscriptions to its stock, on 1 August 2005. Also set up in 2005 were six joint stock investment funds (FCP), each with initial capital of 0.1 MTD, with three focused on life insurance. Three such funds with mixed holdings, created by MAC SA and Amen Bank and approved in February 2005, opened public subscriptions in their shares on 15 November. Thus the total number of active mutual funds investing in securities (OPCVMs) increased from 34 at the end of 2004 to 38¹ at the end of 2005. The Financial Market Council also approved the first joint claims fund (FCC), initiated by BIAT and entitled «Tunisie Titrisation», with capital of 250 thousand TD.

TREND IN OPCVM ACTIVITY

Description	2004			2005		
	Bond OPCVMs	Mixed OPCVMs	Total	Bond OPCVMs	Mixed OPCVMs	Total
Managed assets (in MTD)	1,908	91	1,999	2,201	153	2,354
Number of OPCVM (in units)	17	17	34	18	17	35
Number of shareholders (in units)	27,590	2,225	29,815	29,600	2,459	32,059
Net assets per shareholder (in mTD)	69	41	67	74	62	74

Sources : CMF and BCT.

Unlike the previous year, when two companies were liquidated, the market for OPCVMs grew in 2005 with the start-up of these new entities. Assets managed by these structures grew by 17.8%, from 1,999 MTD at the end of 2004 to 2,354 MTD at the end of 2005. At the same time, these entities continued to attract investors, with the total number of shareholders increasing by 7.5% in 2005.

Activity at OPCVMs remained dominated by those dealing in bonds, despite a slight decrease of their share in managed assets, coming in at just 94% in 2005 vs. 95% in 2004 and 96% in 2003. The share of these structures in the total number of OPCVMs shareholders has been stable for several years at 92%. Average net assets for this kind of fund came in at 122 MTD for 2005, while eight companies with net assets of over 100 MTD accounted for 83% of managed assets. Average net assets of mixed OPCVMs came in at 9 MTD, up from 5 MTD in 2004, with activity pretty much concentrated at three companies, accounting for 75% of managed assets.

¹ These statistics and the analysis concerning mutual funds investing in securities do not take into account the three joint stock investment funds (FCPs) that began activity on 15 November 2005.

BREAKDOWN OF OPCVMs BY CLASS

Description	2 0 0 4			2 0 0 5		
	OPCVM Number	Average net assets in MTD	Shareholders number	OPCVM Number	Average net assets in MTD	Shareholders number
1- Bond OPCVMs						
[1 to 10 MTD]	2	5	482	1	7	240
[10 to 50 MTD]	4	19	849	6	24	1,389
[50 to 100 MTD]	4	64	2,359	3	78	2,271
> 100 MTD	7	223	23,900	8	228	25,700
Sub-total 1	17	112	27,590	18	122	29,600
2- Mixed OPCVMs						
< 1 MTD	3	0.8	40	2	0.7	35
[1 to 10 MTD]	11	3	1,723	12	3	1,662
> 10 MTD	3	19	462	3	38	762
Sub-total 2	17	5	2,225	17	9	2,459
General total	34	59	29,815	35	59	32,059

Sources : CMF and BCT.

The increase in OPCVMs net assets was due in a proportion of 96% to the collection effect resulting from the difference between subscriptions and buy-backs over the period, illustrating the success of these structures in attracting new capital. Thus for OPCVMs as a whole, there was a positive collection effect of 343 MTD, in the wake of 2,749 MTD in new subscriptions, vs. 2,406 MTD in buy-backs. Thus collected net capital increased in 2005 by 12.8%.

TREND IN CAPITAL COLLECTED BY OPCVMs (COLLECTION EFFECT)

(In MTD)

Description	2 0 0 4			2 0 0 5		
	Bond OPCVMs	Mixed OPCVMs	Total	Bond OPCVMs	Mixed OPCVMs	Total
Subscriptions	2,115	112	2,227	2,531	218	2,749
Buy-backs	1,835	88	1,923	2,245	161	2,406
Net flows	280	24	304	286	57	343

Sources : CMF and BCT.

Furthermore, the coupon effect involves amounts disbursed by these entities in the form of dividends, totalling 81 MTD in 2005 vs. 71 MTD the year before. And the price effect, which measures management performance by OPCVMs, resulting mainly from income from portfolio securities, was up slightly, from 94 MTD in 2004 to 97 MTD in 2005.

OPCVM NET ASSETS TREND ANALYSIS

(In MTD)

Description	2 0 0 4			2 0 0 5		
	Bond OPCVMs	Mixed OPCVMs	Total	Bond OPCVMs	Mixed OPCVMs	Total
Net assets, beginning of period	1,606	65	1,671	1,907	91	1,998
Collection effect	+280	+24	+304	+286	+57	+343
Price effect	+89	+5	+94	+90	+7	+97
Coupon effect	-68	-3	-71	-79	-2	-81
Total effect	+301	+26	+327	+297	+62	+359
Net asset, end of period	1,907	91	1,998	2,204	153	2,357

Sources : CMF and BCT.

Bond OPCVMs collected 286 MTD in 2005 vs. 280 MTD the year before. Dividends paid by these funds came in at 79 MTD, 11 MTD more than in 2004. The price effect remained virtually unchanged at about 90 MTD.

Mixed OPCVMs collected 57 MTD in 2005 vs. just 24 MTD a year earlier. Dividends paid in 2005 came in at 2 MTD vs. 3 MTD a year earlier and management performance at these OPCVMs was up from 5 MTD to 7 MTD.

As for the breakdown of assets managed by bond OPCVMs, the share of corporate bonds continued to drop, from 27% in 2003 to 18% in 2005. This decrease benefited bonds equivalent to Treasury bonds, the share of which has steadily increased, reaching 42% in 2005 vs. 38% in 2004. Monetary and other short-term investments and liquidity posted the same levels of increase as the previous year: 23% and 14% of managed assets respectively.

BREAKDOWN OF ASSETS MANAGED BY OPCVMs (In MTD)

Description	2004			2005		
	Bond OPCVMs	Mixed OPCVMs	Total	Bond OPCVMs	Mixed OPCVMs	Total
Shares	42	34	76	50	38	88
Corporate bonds	399	11	410	399	16	415
Bonds equivalent to Treasury bonds	728	22	750	932	52	984
Treasury bonds negotiable on the stock market	36	0	36	19	0	19
Monetary and other short-term investments	442	9	451	502	19	521
Liquidity	261	15	276	299	28	327
Total	1,908	91	1,999	2,201	153	2,354

Source : CMF

For mixed OPCVMs, the portion of investment in shares fell in 2005, down from 37% to 25%, in favour of bonds equivalent to Treasury bonds, the share of which increased from 24% to 34%. The share of monetary and other short-term investments was up from 10% in 2004 to 12% in 2005 and that of liquidity from 16% to 18%. Average yield for bond OPCVMs continued to fall, from 4.36% in 2004 to 4.15% in 2005. That of mixed OPCVMs was also down, from 6.48% in 2004 to 5.46% in 2005. The drop in yields for OPCVMs was due in part to the drop in the weighted average rate for bonds equivalent to Treasury bonds, which came in at 6.211% in 2005, vs. 6.604% the year before.

AVERAGE YIELD RATE OF OPCVMs (In %)

Description	2003	2004	2005
Bond OPCVMs	4.42	4.36	4.15
Mixed OPCVMs	4.71	6.48	5.46

Source : CMF

**NOTES RELATED TO FINANCIAL STATEMENTS
OF THE CENTRAL BANK OF TUNISIA**

NOTES RELATED TO FINANCIAL STATEMENTS OF THE CENTRAL BANK OF TUNISIA

A. LEGAL FRAMEWORK AND ACCOUNTING REFERENTIAL

The financial statements of the Central Bank of Tunisia (BCT) are drawn up in line with the terms of law n°58-90 of 19 September 1958, which governs the founding and organisation of the Central Bank of Tunisia as well as Tunisian accounting standards, taking into account the nature of the work assigned to the BCT. Areas not specifically covered by Tunisian accounting standards will follow international accounting standards and generally accepted accounting principles.

BCT's financial statements include :

- the balance sheet,
- the off balance sheet commitment statement,
- the result's account statement, and
- notes relating to the financial statements.

B. ACCOUNTING PRINCIPLES AND RULES OF ASSESSMENT

1. Gold holdings

The value of the Bank's holdings in gold is assessed on the basis of the official price of gold, as per decree-law n°64-18 of 28 September 1964 governing definition of the dinar. In effect, article 2 of this decree stipulates that «*official parity of the dinar is set at 1.69271 gram of fine gold for one dinar*». Thus, a gram of fine gold is worth 0.590768649 dinar. After devaluation of the dinar in 1986 in application of decree n°86-785 of 18 August 1986, the official price of gold has been set at 0.6498475 dinar for one gram of fine gold.

2. Assets and liabilities in foreign currency

Assets and liabilities denominated in foreign currency are converted to dinars at «*accounting reference rates*» that remain the same for one month. Accounting reference rates represent average rates (purchase rate + selling rate divided by two), set by the Central Bank of Tunisia the last working day of each month. Assets and liabilities in foreign currency are revalued at the end of each month. Unrealised losses and gains resulting from monthly revaluation are recorded in the balance sheet account entitled «*differences on conversion*».

3. Assumption of proceeds and costs

3.1. Proceeds and costs are entered in line with the accounting principle of «*independence of financial exercises*». Thus proceeds and costs are entered for the accounting period in which they were acquired or due.

3.2. Proceeds and costs from transactions in foreign currencies are converted to dinars at the exchange rate in effect the day they are carried out.

3.3. On the closing day of the financial year, the balance of the account entitled «*differences on conversion*» is handled, as appropriate, in the following manner:

- Debit balance: The entire balance is recorded as costs for the financial year.
- Credit balance: Only the amount remaining after establishing the portion of the above-mentioned balance to be carried forward to the following exercise (to cover possible losses on exchange that could be recorded during that period) is entered on the result account as gain on exchange for adjustment of foreign currency accounts.

3.4. Differences between rates in effect the day of the transaction and accounting reference rates are entered under results as either gain or loss on exchange, since these gains and losses arise from achieved transactions.

4. Fixed assets

Tangible and intangible fixed assets are accounted for by applying the rule of «*historical cost*», i.e. the cost of acquisition or the actual amount disbursed in the case of construction. Except for land, depreciation of fixed assets is calculated in a linear manner on the basis of estimated life span for the specific asset, applying the usual rates for each category of fixed goods. For certain equipment specific to the Central Bank of Tunisia (cashier equipment, for example), life span and depreciation rates are determined by referring to user practices. Tangible fixed assets are made up mostly of land, buildings, technical equipment, computer material, cashier equipment, transport material and office equipment. Intangible fixed assets involve mainly computer software.

5. Securities

5.1. The securities portfolio denominated in foreign currency, which falls under the heading «*assets in foreign currency*», is assessed at market prices on the closing date of the financial year.

Unrealised losses from the difference between accounting value (possibly corrected for amortisation of premiums and discounts) and the market value of the securities imply the constitution of provisions for depreciation. Unrealised gains are not entered.

5.2. Securities in dinars purchased in the framework of open market transactions are assessed at market prices on the balance sheet's closing date. Unrealised losses or gains resulting from revaluation are recorded in the balance sheet account «*differences on revaluation*».

6. Shareholding portfolio

BCT's shareholding portfolio is made up of stocks to which it has subscribed in the framework of article 53 of its statutes, representing its shareholdings in the capital of a number of non-resident institutions and companies as well as resident companies that manage common banking services. These shares are accounted for at the cost of acquisition.

C. DETAILED EXPLANATION OF THE VARIOUS HEADINGS IN THE FINANCIAL STATEMENTS

NOTE 1 : IMF RESERVE POSITION

The amount registered under this heading (38.2 MTD) represents the counter value in dinars of the portion subscribed to in foreign currency (20.2 million in special drawing rights - SDRs) of Tunisia's share in the capital of IMF (286.5 million of SDRs) and IMF's holdings in dinars, held in its n° 1 account on the books of the Central Bank of Tunisia. Like holdings in foreign currency, the IMF reserve position is part of Tunisia's overall international reserves. If needed to prop up the balance of payments, these assets (denominated in SDRs) can be drawn on at IMF without any prior conditions having to be met, by converting them to those currencies most easily converted.

NOTE 2 : HOLDINGS AND INVESTMENTS IN SDRs

This heading includes:

- the balance of the SDR account opened in the name of the Central Bank of Tunisia on the books of the IMF, which on 31 December 2005 amounted to 1.5 million SDRs, the equivalent on that date of 2.9 million dinars; and
- the amount in SDRs of the Central Bank of Tunisia's contribution to the Poverty Reduction and Growth Facility / Heavily Indebted Poor Countries trust administered by the International Monetary Fund, amounting to 2.4 million SDRs, the equivalent of 4.6 million dinars.

NOTE 3 : FOREIGN CURRENCY ASSETS

Assets in foreign currency are made up mainly of forward deposits and securities.

NOTE 4 : ECONOMIC COOPERATION ACCOUNTS

This heading covers the outstanding balance of external financial aid available to the Tunisian Government in the framework of bilateral economic cooperation with foreign countries, the management of which is entrusted to the Central Bank under the terms of implementation agreements signed with central banks or other financial institutions designated by their respective government to ensure proper management of these funds. This is the counterpart of the heading entitled «*economic cooperation accounts*» that appears under liabilities on the balance sheet recording Central Bank commitments to the foreign financial institutions intervening in this framework. Given its role of intermediary, transactions carried out in the above-mentioned framework will not generate any costs or proceeds for the Bank.

The amount of the difference between assets and liabilities (12.9 MTD) represents the counter-value in dinars of balances for special accounts opened in the name of the Central Bank of Tunisia on the books of relevant central banks or foreign financial institutions as of 31/12/2005. These balances represent foreign currency at the disposal of the Bank to finance import of goods and services in the framework of

the projects and programmes specified in bilateral economic cooperation agreements. They are considered to be foreign currency assets available for specific use, entered on the Bank's book in «*assigned foreign currency assets*» under «*assets in foreign currency*», its counterpart recorded under the liabilities heading «*economic cooperation accounts*».

**NOTE 5 : REFINANCING TO THE LENDING INSTITUTIONS
RELATED TO MONETARY POLICY TRANSACTIONS**

This category shows the outstanding balance of financing to lending institutions in the framework of monetary policy operations. The amount of 90 million dinars recorded under this heading as at 31 December 2004 represents the amount of a 24-hour liquidity injection transaction made on that day.

NOTE 6 : CLAIMS PURCHASED FIRM

The amount recorded under this heading corresponds to the outstanding balance of claims on the National Oil Board (78.1 MTD) and the Cereals Board (164.1 MTD) that were the object of firm purchases by the Central Bank of Tunisia from the National Agricultural Bank, guaranteed by the State, since December 1996.

**NOTE 7 : ADVANCE TO THE STATE PERTAINING TO MONETARY FUNDS
SUBSCRIPTION**

This category enters as an advance to the Treasury the counter-value in dinars of Tunisia's subscriptions to the capital of the International Monetary Fund and the Arab Monetary Fund, in application of the terms of law n°77-71 of 7 December 1977 specifying relations between the Central Bank of Tunisia and these two financial institutions.

- International Monetary Fund: The total amount of Tunisia's subscription to the capital of this institution comes in at 286.5 million SDRs, 266.3 million of which are subscribed to in dinars and credited to IMF account n°1 and 20.2 million subscribed to in convertible currencies.

- Arab Monetary Fund: Tunisia's total share in the capital of this institution comes in at 12.85 million Arab accounting dinars, as per decision n°3/2005 of the Fund's Board of Governors approving release of the remaining portion of capital by incorporation of reserves. This transaction led to distribution of new shares to member countries in proportion to their initial shareholding, with the share attributed to Tunisia amounting to 5.85 million Arab accounting dinars. Since the transaction generated no financial flows, this increased share did not require any accounting entry on the books of the Central Bank of Tunisia. It should be kept in mind that the previously subscribed share in cash came in at 7 million Arab accounting dinars (0.1 million of which were in local currency credited to the AMF account in dinar open on the books of the Central Bank) and 6.9 million in convertible currency. The Arab accounting dinar is worth 3 SDRs.

Subscriptions in dinars to the capital of these two institutions, recorded as credits to their respective accounts opened on the books of the Central Bank, are

adjusted annually to take into account trends in SDR exchange rates for the Tunisian dinar, in line with rates set by the International Monetary Fund.

NOTE 8 : STANDING ADVANCE TO THE STATE

This item posts the amount of the standing advance to the State, under the terms of the agreement signed by the Central Bank and the Ministry of Finance on 29 June 1970 in application of law n°70-22 of 7 May 1970 concerning restructuring of public finances. In counterpart of this advance, the State pays interest at an annual rate of 0.5%.

NOTE 9 : REIMBURSABLE ADVANCE TO THE STATE

Under this heading is recorded the outstanding balance of the reimbursable advance to the State made in line with the above-mentioned agreement, at an annual interest rate of 3%.

NOTE 10 : POSTAL CURRENT ACCOUNT

The amount recorded under this heading represents the balance of the current account opened in the name of the Central Bank of Tunisia on the books of the Postal Cheques Centre. It is considered an indirect advance to the Treasury.

NOTE 11 : CURRENT COLLECTION OF VALUES

The amount recorded under this heading represents the net debit position of values collection accounts, including cheques, notably those drawn for the Treasury. The Central Bank deposits in the Treasury's current account the amounts of these cheques as they come in and then later handles their collection.

NOTE 12 : BILLS TO BE ENCASHED

The amount recorded under this heading represents the outstanding balance of securities subscribed to by the State, notably guaranteed bonds subscribed to settle taxes and other duties. These securities are kept in the BCT's portfolio until they fall due.

NOTE 13 : SHAREHOLDING PORTFOLIO

The amount recorded under this heading concerns BCT holdings in the capital of the following institutions :

- Tunisian Banking Union (UTB) :	7,153,000	euros
- The SWIFT Company :	5,330	euros
- The African Import-Export Bank :	10,000,000	US dollars
- The programme to finance Inter-Arab Commerce :	1,250,000	US dollars
- The Clearing Interbank Company (SIBTEL) :	105,000	Tunisian dinars

NOTE 14 : MISCELLANEOUS DEBTORS

The main entry under this heading is the outstanding balance for various kinds of loans to Bank employees that are financed from social funds. This amounted to 24 million dinars as at 31 December 2005.

NOTE 15 : MEMORANDUM AND ADJUSTMENT ACCOUNTS (ASSETS)

This heading includes mainly costs paid in advance, proceeds to be received, and other debit amounts awaiting settlement.

NOTE 16 : GOVERNMENT ACCOUNTS

This category consists mainly of the balance of the Treasury's current account (687.9 MTD), the balance of Tunisian Government special accounts in foreign currency that record drawings on external loans and grants to the State or to public institutions with a guarantee from the State (226.2 MTD), and the balances of other accounts relating to various funds managed by the Central Bank on behalf of the State, such as the Fund for industrial promotion and decentralisation (FOPRODI) and the national Fund to promote handicrafts and small trades (FONAPRA).

NOTE 17 : COMMITMENTS TOWARDS LENDING INSTITUTIONS RELATED TO MONETARY POLICY TRANSACTIONS

This category records the outstanding balance of Central Bank of Tunisia intervention on the money market to absorb excess liquidity in the banking system, either through regular tapping or by sale of securities through auctions. The auctions amount recorded as of 31 December 2005 corresponds to the outstanding balance of an auction carried out on 27 December 2005.

NOTE 18 : ALLOCATION OF SPECIAL DRAWING RIGHTS

This category includes the counterpart of cumulative amounts in SDRs allocated by the IMF to Tunisia in its capacity of member state. Amounting to 34,243,000 SDRs as of 31 December 2005, these SDRs will be returned to IMF if cancelled. Allocations thus represent a commitment of unlimited duration to the IMF.

NOTE 19 : FOREIGN INSTITUTION CURRENT ACCOUNTS IN DINARS

This category includes the balances of accounts open in dinars in the name of foreign institutions such as the International Monetary Fund, the World Bank, the African Development Bank and the Arab Monetary Fund.

The balance of IMF's account n°1 (which includes the amount of Tunisia's subscription in dinars to the capital of this Fund) constitutes the largest component of this category: 503.1 MTD.

NOTE 20 : COMMITMENTS IN FOREIGN CURRENCY TOWARDS TUNISIAN AUTHORISED INTERMEDIARIES

This category covers the sight holdings in foreign currency of authorised intermediaries as well as the outstanding balance of borrowings by the Central Bank on the foreign currency money market.

NOTE 21 : FOREIGN ACCOUNTS IN FOREIGN CURRENCY

These are accounts opened in foreign currency or convertible Tunisian dinars in the name of non-resident banks or institutions.

NOTE 22 : OTHER COMMITMENTS IN FOREIGN CURRENCY

This heading includes the outstanding balance of borrowings from the AMF in the framework of the third structural adjustment facility (15.5 million SDRs) and the balance of the special deposit account in foreign currency opened in the name of the Abu Dhabi Fund for Arab Economic Development, in line with the agreement signed with the Central Bank of Tunisia (USD 19.4 million).

NOTE 23 : DEPOSITORS OF PAID-IN BILLS

This heading represents the counterpart of the assets item entitled «bills to be encashed». The difference between these two headings represents the value of securities that have fallen due and that are sent for collection, the amount not yet having been encashed.

NOTE 24 : DIFFERENCES ON CONVERSION AND REVALUATION

This heading includes the portion of the credit balance for the «*differences on conversion*» account held as provisions to cover the risk of variations in exchange rates in 2006 (42 MTD) as well as losses from revaluing securities purchased in the framework of open market transactions at market price (-0.002 MTD).

NOTE 25 : MISCELLANEOUS CREDITORS

This heading includes mainly deposit accounts belonging to Bank employees and similar accounts, withheld tax due to the State, contributions for social coverage pending payment, and the amount of attachment orders on current accounts.

NOTE 26 : PROVISIONS FOR BANKNOTES, COINS AND MEDALS MANUFACTURING COSTS

The amount under this heading represents available resources (prior to distribution of profits) assigned to fund programmes to manufacture banknotes, coins and medals, at the time when profits from previous exercises are distributed.

NOTE 27 : MEMORANDUM AND ADJUSTMENT ACCOUNTS (LIABILITIES)

This heading involves mainly credits pending settlement, costs to be paid, proceeds received in advance, and the counterpart of the IMF reserve position.

NOTE 28 : RESERVES

This heading is made up of :

- the legally mandated reserve : 3 MTD
- the special reserve : 35.3 MTD
- social fund reserves : 25 MTD
- provisions to construct buildings : 18 MTD

NOTE 29 : OFF BALANCE SHEET COMMITMENTS

Off balance sheet commitments' statement includes those made for guarantees and those involving foreign currency swap transactions and forward foreign exchange transactions:

- Commitments for guarantees

Recorded under this heading are debenture loans (capital and interest) issued by the Central Bank of Tunisia on behalf of the Tunisian Government on foreign capital markets (Japanese, American and European) and a number of State external borrowings (capital and interest) contracted in the framework of bilateral economic cooperation. These borrowings are managed by the Central Bank on behalf of the State, against signature of a commitment to the foreign party (foreign bank or financial institution) to settle maturities as specified. Since Central Bank financial commitments relating to the above-mentioned borrowings involve a concurrent commitment by the State to meet all repayments of capital as well as related financial costs, it has been decided to enter them on Bank books as off balance sheet commitments. These commitments are, in effect, considered as surety bonds, in line with the «*substance over form*» accounting convention.

- Commitments on foreign currency swap and forward foreign exchange transactions

This heading includes commitments made (foreign currency to be provided) and commitments received (foreign currency to be acquired) in the framework of foreign currency swap transactions to cover foreign exchange risk relating to a number of debenture loans denominated in Japanese yen, on the one hand and in the framework of forward foreign exchange transactions, on the other hand.

NOTE 30: OTHER PROCEEDS ON FOREIGN CURRENCY TRANSACTIONS

This heading includes mainly commissions encashed on foreign exchange transactions (22.7 MTD), net gains on exchange from the difference between exchange rates in effect on the date of the transaction in currency and accounting reference rates (12.4 MTD), and profits from transfer of securities in foreign currency (7.7 MTD).

NOTE 31: OTHER COSTS ON FOREIGN CURRENCY TRANSACTIONS

This heading includes mainly costs for instruments to cover foreign exchange risk (foreign exchange swap, foreign currency swap, forward foreign exchange ...) and costs for spreading out of the premium for securities in foreign currency.

D. COMMENTARY ON THE MAIN VARIATIONS FOR FINANCIAL STATEMENTS

The Central Bank of Tunisia's balance sheet came in at a total of 7,347.6 MTD as of 31 December 2005 vs. 6,307.8 MTD in 2004, an increase of 1,039.8 MTD or 16.5%. Operating results came in at 239.6 MTD vs. 155 MTD in 2004, an increase of 84.6 MTD or 54.6%. These trends are due mainly to the increase in foreign exchange reserves and the higher interest rate for the US dollar.

1. Trends in balance sheet headings

a. Assets

Foreign currency assets amounted to 5,983.3 MTD as of 31 December 2005, compared to 4,760.3 MTD in 2004, an increase of 1,223 MTD or 25.7%. This increase was due mainly to the higher level of income from tourism, the increase in exports, the encashment of proceeds from privatisation of the Bank of the South and of SOTACIB, as well as resources from drawings on external borrowings, especially the debenture loan in euros issued on behalf of the State in the amount of 400 million euros. The expansionary effect on bank liquidity of the increase in net assets in foreign currency was evident mainly over the last four months of the year, a period marked by excess liquidity in the banking sector, which required the intervention of the Issuing Institution to absorb this surplus liquidity, either through auctions or by sale of securities in the framework of the open market. This situation is reflected on the liabilities side of the Bank's balance sheet by an outstanding balance for commitments to lending institutions in the amount of 190 MTD, representing the amount of an auction carried out on 27 December 2005, at the same time that the portfolio of auctions securities purchased in the framework of open market transactions was contracted for 12.6 MTD. It should be noted in this context that the annual average for the global volume of refinancing fell by 97.6 MTD, from 323.2 MTD in 2004 to 225.6 MTD in 2005. On the other hand, the outstanding balance of claims purchased firm dropped by 80.7 MTD, following reimbursement by the Treasury of the 9th portion of claims on the Cereals Board and the National Oil Board. The advance to the State for subscription to monetary funds increased by 12.9 MTD following annual readjustment of IMF dinar accounts. This reflects appreciation of SDRs against the dinar.

b. Liabilities

Bills and coins in circulation recorded an increase of 508.8 MTD, up from 3,111.1 MTD at the end of 2004 to 3619.9 MTD at the end of 2005. This development was due mainly to the good olive harvest and higher prices for olive oil, with closing for the year falling in conjunction with the onset of the Aid El-Idha holiday. Commitments in foreign currency to authorised intermediaries also increased (by 80.6 MTD), reflecting the rise in the banking system's foreign currency assets on deposit at the Central Bank. Foreign accounts in foreign currency increased by 84.4 MTD, due notably to the credit balance of Maghreb central banks accounts in convertible Tunisian dinars, in the framework of the unified convention on bilateral settlements between the countries of the Maghreb. The heading «*differences on conversion and revaluation*» remained at its 2004 level, with an amount of 42 MTD kept in the «*differences on conversion*» account as provisions for covering the risk of variation on foreign exchange rates in 2006. An amount of 127.7 MTD was entered on the result account, representing net profits in 2005 as accounts denominated in foreign currency were adjusted, mainly to reflect strong appreciation of the US dollar.

2. Status of off balance sheet commitments

Guarantee commitments increased by 850.7 MTD from the end of 2004 to the end of 2005, following recording of the principal and of interest on the debenture loan

denominated in euros issued in 2005 on behalf of the Tunisian Government in the amount of 400 million euros. Commitments given and received on foreign currency swap transactions decreased by 161 MTD and 105.2 MTD respectively, following repayment of portions due in 2005 to cover debenture loans in Japanese yen. Commitments regarding forward foreign exchange transactions were recorded in the amounts of 218.4 MTD and 219.2 MTD, representing respectively foreign currency to be delivered and foreign currency to be received pertaining to forward purchase transactions of Japanese yen and US dollars.

3. Operating balance

a. Proceeds

Total proceeds increased by 88 MTD, up from 260 MTD in 2004 to 348 MTD in 2005, an increase of 33.8%. This was due to a large extent to the sizeable increase in proceeds from investments in foreign currency, coming in at 140.2 MTD vs. 95.7 MTD in 2004, an increase of 44.5 MTD (46.5%). This was mainly led by higher level of foreign exchange reserves and the higher US dollar interest rate. Gains on exchange to readjust foreign currency accounts, transferred from the «differences on conversion» account to the results account, came in at 127.7 MTD compared to 93.9 MTD in 2004, an increase of 33.8 MTD.

b. Costs

Total costs came in at 108.6 MTD vs. 105.2 MTD in 2004, an increase of 3.4 MTD or 3.2%. This is because while there were 6.8 MTD less in losses on forward foreign exchange transactions on the coverage of debenture loans in Japanese yen and 2.3 MTD less in losses on discount for current foreign exchange swap transactions, interest paid on money market borrowings in foreign currency rose by 8.9 MTD and allotments to provisions for depreciation of securities in foreign currency were up by 3.1 MTD. Staff costs came in at 34.9 MTD vs. 33.3 MTD in 2004 (an increase of 1.6 MTD, mainly from higher wages), while general operating costs were up by just 0.4 MTD.

4. Breakdown of financial year results

As per the terms of article 68 of the statutes of the Central Bank of Tunisia, the Bank's Executive Board has approved breakdown of 2005 financial year results as follows:

Financial year results	239,609,021	dinars
Provisions for banknotes, coins and medals manufacturing expenses	4,000,000	dinars
Results carried forward	9,021	dinars
Share transferred to the State	235,600,000	dinars

BALANCE SHEET

(In dinars)

ASSETS	Notes	31/12/2005	31/12/2004
Gold holdings		4,402,477	4,402,477
Subscriptions to international organisations		2,371,793	2,371,793
IMF reserve position	1	38,206,014	37,298,112
Assets and investments in special drawing rights	2	7,487,552	15,497,808
Foreign currency assets	3	5,983,256,207	4,760,304,931
Economic cooperation accounts	4	338,531,561	338,269,923
Refinancing to the lending institutions related to monetary policy transactions	5		90,000,000
Securities purchased / open market		14,997,826	27,641,327
Claims purchased firm	6	242,171,000	322,894,667
Advance to the State pertaining to Monetary Funds subscription	7	555,347,934	542,473,086
Standing advance to the State	8	25,000,000	25,000,000
Reimbursable advance to the State	9	2,053,125	2,553,125
Postal current account	10	4,740,466	4,999,889
Current collection of values	11	6,946,360	10,555,105
Bills to be encashed	12	20,099,369	24,223,597
Shareholding portfolio	13	26,958,811	25,189,945
Fixed assets		22,547,154	20,353,490
Miscellaneous debtors	14	24,055,558	22,216,149
Memorandum accounts and accounts calling for adjustment	15	28,453,337	31,567,362
TOTAL ASSETS		7,347,626,544	6,307,812,786

LIABILITIES AND CORE CAPITAL	Notes	31/12/2005	31/12/2004
LIABILITIES			
Banknotes & coins in circulation		3,619,851,237	3,111,097,741
Bank and financial institutions current accounts		106,759,686	60,784,440
Government accounts	16	936,401,869	926,772,873
Commitments towards lending institutions related to monetary policy transactions	17	190,000,000	
Allocation of special drawing rights	18	66,651,740	63,393,860
Current account in dinar of foreign institutions	19	512,193,887	499,610,539
Commitments in foreign currency towards Tunisian authorised intermediaries	20		658,640,156
Foreign accounts in foreign currency	21	111,704,778	27,289,420
Other commitments in foreign currency	22	56,557,214	66,046,573
Economic cooperation accounts		351,385,223	357,887,239
Depositors of paid-in bills	23	21,640,607	26,572,212
Differences on conversion and revaluation	24	41,997,827	42,218,711
Miscellaneous creditors	25	14,032,627	8,534,913
Provisions for banknotes, coins and medals manufacturing expenses	26	10,003,689	14,309,053
Memorandum accounts and accounts calling for adjustment	27	242,202,275	207,141,929
TOTAL LIABILITIES		7,020,642,050	6,070,299,659
CORE CAPITAL			
Capital		6,000,000	6,000,000
Reserves	28	81,314,262	76,551,916
Results carried forward		61,211	
Total core capital prior to financial year results		87,375,473	82,551,916
Financial year results		239,609,021	154,961,211
Total core capital prior to allocation		326,984,494	237,513,127
Total liabilities and core capital		7,347,626,544	6,307,812,786

OFF BALANCE SHEET COMMITMENTS

(In thousand dinars)

	Notes	31/12/2005	31/12/2004
<u>Commitments for guarantee</u>	29	8,888,683	8,037,950
Debenture loans		8,419,070	7,533,599
Other external borrowings		469,613	504,351
<u>Commitments on foreign currency swap transactions</u>	29		
Commitments given		650,148	811,169
Commitments received		441,515	546,693
<u>Commitments on forwards exchange transactions</u>	29		
Commitments given		218,364	
Commitments receives		219,229	

RESULT ACCOUNT

(In dinars)

	Notes	31/12/2005	31/12/2004
PROCEEDS			
Proceeds from intervention on the money market		15,289,124	20,837,968
Interest on forward investments in foreign currency		140,244,287	95,654,358
Other proceeds on foreign currency transactions	30	46,231,187	44,691,912
Proceeds on transactions with international organisations		1,433,979	1,451,273
Interest on claims on the State		194,094	209,094
Interest on banks and financial institutions' accounts		345,101	283,230
Miscellaneous proceeds		2,414,386	2,412,502
Returned provisions for banknotes, coins and medals manufacturing costs		6,305,364	540,947
Provisions returned on securities		8,001,537	168,573
Gains on exchange/readjustment of foreign currency accounts		127,706,084	93,927,635
TOTAL PROCEEDS		348,165,143	260,177,492
COSTS			
Costs related to money market intervention		3,177,271	4,087,020
Interest paid on transactions in foreign currency		16,326,928	6,946,949
Other costs on foreign transactions in currency	31	23,308,592	33,411,069
Costs on transactions with international organisations		3,238,087	3,282,503
Miscellaneous costs		93,889	135,371
Staff costs		34,888,829	33,263,877
General operating costs		8,322,599	7,890,969
Costs for banknotes, coins and medals manufacturing		6,305,364	6,490,947
Allocations for fixed asset amortisation		1,779,864	1,707,576
Allocation for provisions/depreciation of securities		11,114,699	8,000,000
TOTAL COSTS		108,556,122	105,216,281
Financial year results		239,609,021	154,961,211

AUDITOR'S STATEMENT
FOR FISCAL YEAR 2005

Mr. Minister,

In compliance with the legal prescriptions and in fulfilment of the mission with which you have entrusted me, it is my honour to inform you that I have verified the accounts of the Central Bank of Tunisia drawn up as at 31 December 2005.

As per the law I have carried out a series of verifications and random checks to make sure that the balance sheet, the off-balance sheet, the profits and losses accounts and the table of distribution of results for the fiscal year are in compliance with the entries on the books of the Central Bank of Tunisia and with legal prescriptions.

This control helped me to note the consistency of the operations and their conformity with the statutory law.

Thus, the balance sheet, the off-balance sheet and the profits and losses accounts attached may be considered accurate, reflecting correctly the situation of the Central Bank of Tunisia as at 31 December 2005.

The Auditor

Hédi BEN CHEIKH