

The International Environment

- Slower pace of the economic activity in the United States and Japan over the second quarter of 2006 contrasting with improved activity in the Euro Zone ;
- Sharp rise in commodities prices, mainly, crude oil and metal ;
- Ongoing tightening of monetary policy in line with faster pace of inflation ;
- Appreciation of the dollar against the euro and the yen.

The National Climate

- Drop of cereal production and increase in the production of other branches of agricultural activity allowing for regular supply of the markets ;
- Recovery of activity in manufacturing industries over the first six months of 2006 ;
- Slower pace in the main indicators of tourism following a year of exceptional performance ;
- Consolidation of the pace of foreign trade at end June 2006 ;
- Substantial rise in consumer prices, over the first half of 2006, attributable partly to imported inflation ;
- Tightening of bank liquidity over the second quarter of 2006 and faster progress pace in financing to the economy and net claims on the State combined with a drop in net claims on abroad over the first half of 2006 ;
- Consolidation of capital trading on the capital market and ongoing rise in stock indexes over the second quarter of 2006 ;
- Deficit of the general balance of payments attributable to current operations and financial operations and in capital ;
- Ongoing appreciation of the dinar against the US dollar and its depreciation against the euro ;
- Increase in the volume of transactions on the spot exchange market following a progress in currency/currency transactions and currency/dinar transactions.

THE INTERNATIONAL ENVIRONMENT

Over the second quarter of 2006, the international environment was marked by stronger pace of the economic growth in several industrialised countries as well as in emerging and developing countries, mainly, China. This evolution led, notably, to an increase in the volume of world trade in goods and a certain improvement on the job market.

Yet, international demand firming up along with persisting geo-political tensions and the phenomenon of speculation on the markets, led to record high prices for commodities, particularly, crude oil and metals, the prices of which reached a peak. This situation brought about a pressure on the prices, leading several central banks, notably, in the industrialised countries to tighten their monetary policies. On the other hand, the foreign exchange markets were marked by fluctuating rates for the main currencies ; whereas, stock market quotations went rather down.

In the **United States**, the economic growth posted a slower pace in real terms over the second quarter of 2006 (2.9% in annual pace compared to 5.6% in the previous quarter). This slowdown is attributable, notably, to slower domestic demand.

In the **Euro Zone**, and thanks to a progress in domestic demand, in particular, investment, the growth rate improved slightly over the second quarter of 2006, up to 2.4% in annual pace

compared to 2% in the previous quarter. This recovery concerned, mainly, France and Germany (2.6% and 2.4%, respectively compared to 1.5% and 1.7% over the first three months of the current year).

In **Japan**, slower pace of investment, in particular, led to flat economic growth in the second quarter of 2006 (0.8% in annual pace compared to 3.1% in the previous quarter).

In **China**, real GDP growth continued to be beyond 10% and this despite the revaluation of the national money and the tightening of monetary policy to curb the economy overheating. In fact, the economic growth came in at 11.3% in annual drift over the second quarter of 2006 compared to 10.3% over the first quarter.

Employment improved in several industrialised countries. Thus, unemployment regressed from 4.5% to 4.2% from January to June 2006 in Japan and from 8.2% to 7.8% in the Euro Zone. However, in the United States, the unemployment rate rose in June 2006 to 4.8% compared to 4.6% in May, a level that is similar to that of January.

Commodities prices continued to increase at a faster pace than a year before, mainly, for crude oil and metals.

Oil prices reached record high levels : 78.40 dollars the barrel of the US light over the session of 14 July 2006. This sharp rise is attributable to geopolitical

tensions inherent to the nuclear issue of Iran and the deteriorated situation in the Middle East, combined with a sharper drop than expected in the US stocks and net increase in demand for petrol in this country which represents 40% of world consumption. Yet, after this peak, crude oil prices posted a progressive drop, going below 70 dollars for the barrel following incurred efforts at the international level to solve, notably, the Lebanon crisis.

As for metals, faster pace of world demand, lower level of stocks and difficulties in a number of productive regions, mainly, for copper, led to soaring prices. Compared to their level at end December 2005, prices went up by about 74% for copper, 73% for zinc and 22% for gold on 18 July 2006.

Thus, **inflation** continued to rise over the second quarter of 2006, notably, in the industrialised countries. In terms of annual drift, consumer price rose from 3.6% to 4.3% in the United States, from 2.3% to 2.5% in the Euro Zone and from -0.1% to 0.5% in Japan.

Facing this situation, several central banks of the industrialised countries had to tighten their monetary policies in order to curb inflationary tensions. Thus, the US federal Reserve rose its key rate four times over the first six months of 2006 by

25 basis points each time, to bring it up to 5.25% on 29 June. In the same way, the European Central Bank rose two times its key rate by 25 basis points each, bringing in to 2.75% on 8 June. Furthermore, the Bank of Japan put an end on 14 July, to its “zero” interest rate policy into effect as of March 2001, raising its key rate to 0.25%.

On the **international foreign exchange markets** the dollar appreciated, over the first six months of 2006, against the other main foreign currencies, in particular, the euro against which it appreciated by 4.2% compared to a depreciation of 4.6% over the same period of last year. This appreciation is notably in line with successive rise in US interest rate and higher capital inflows in the United States that were led by international investors. Worth of note also that the dollar started to depreciate following the posting of statistics that confirmed slower economic activity in the United States as of the second quarter of the current year.

The **main stock indexes** posted a drop not only in the United States but also in Europe and Japan, reaching their lowest level at mid June 2006 due, notably, to soaring crude oil prices, rising interest rate and anticipated weakness in the financial results of a number of technological shares.

ECONOMIC ACTIVITY : Recovery of the industrial activity and sustained progress of foreign trade contrasting with slower tourist activity.

Despite ongoing rise in crude oil and metal prices on the international market, the national economy was marked over the first six months of 2006 by a recovery of the industrial production, notably, in mechanical and electrical industries and in agrofood industries and faster pace in foreign trade both for exports and imports. However, in agriculture, cereal production decreased compared to the previous season, whereas production in the other branches of the sector posted a globally satisfactory evolution. Concurrently, tourist and air transport activities recorded a slower pace following a virtual stagnation in non-resident European entries.

Inflation grew at a significantly faster pace due mainly to rising prices for energy and a number of foodstuff.

1- Agriculture and fishing

Favourable weather conditions and the availability of needed material contributed to positive development of harvesting over the current season. Yet, the level of **cereal production** remained below the previous year (16.1 million quintals vs. 21 million). At end July, the **collected quantities** totalled 6.8 million quintals, of which 5.3 million quintals hard wheat, 1.4 million quintals soft wheat and 60 thousand quintals of barley and triticale compared to a total of 7.7 million quintals in the same period of the previous season. Worth of note also that the

private sector contribution in cereal collection was 4.5% of the total.

In this framework, the **imported quantities of wheat, barley and corn** totalled 1,303 thousand tons over the first six months of the current year for a value of 264.4 MTD, up by 6.6% in quantity and 10% in value compared to the same period of 2005.

In **tree-farming**, the national production of **olive for oil** amounted to 1.1 million tons over the 2005-2006 season, corresponding to 220 thousand tons of **oil** compared to 650 thousand tons and 130 thousand tons respectively in 2004-2005 season. Worth of note that the share of super-extra oil improved (60% of the total) ; following early start up of the olive crop, in addition to favourable weather conditions for the crop and the processing. The collected quantities by the National Oil Board accounted for 51.6 thousand tons compared to about 85 thousand tons collected by the private sector.

Over the first six months of the current year, olive oil **exports** totalled 53.7 thousand tons for 334.5 MTD vs. 78.4 thousand tons and 315.2 MTD in the same period of the previous year. This situation is due, notably, to almost total absence of oil export to the European market from March 2006 to mid-May. This was led by a drop in prices. Exports are expected to reach 120,000 tons for the season as a whole.

In **livestock** sector, **fresh milk** production rose by 5.5% in the first five months of the current year, amounting to almost 415 thousand tons. Over the same period, the collected quantities rose by 4.2%, amounting to about 238 thousand tons.

Inversely, **red meat** production dropped, over the first five months of the year 2006, down to 46.8 thousand tons compared to 48.6 thousand tons over the same period of 2005.

Fishing and aquaculture production rose over the first five months of the current year by 4.3%, amounting to 41.6 thousand tons. This progress is, notably, led by an increase in the fishing of blue fish (17%) and tuna (20%) ; whereas coastal fishing dropped by 4% and benthic trawling by 7%.

By region, fishing production rose, particularly in the governorates of Bizerte, Monastir, Nabeul and Sousse and in the region of Tunis-Ben Arous, whereas it regressed in the governorates of Ariana, Gabes, Sfax, Mahdia and Jendouba.

Sea food exports regressed over the first six months of 2006 by 5.9% in quantity compared to a 2.4% increase in value, reaching 9.6 thousand tons and 101.2 MTD despite improved production.

Domestic market supply with agricultural products was abundant and regular, notably, for summer vegetables and fruits. Worth of note that in May 2006, supply by the wholesale market of bir-kassaa accounted for 36.4 thousand tons, distributed between vegetables, fruits and fish, up by 28.2% compared to April.

2- Industrial Activity

The general index of industrial production posted a slower pace in May

2006 (0.1% in annual drift vs. 4.6% in the same month of the previous year), following a drop in the production of **mining** (-19.8% vs. 3% in May 2005) and **energy** (-8.9% vs. 6.8%). However, production in **manufacturing sector** continued to progress : 3.2% vs. 4.1% a year earlier. This evolution is attributable to higher production in mechanical and electrical industries (19.6% vs. 9.5% in the previous year), agrofood industries (3.2% vs. 7.4%) and miscellaneous industries (3.5% vs. 7.2%) ; whereas production decreased in other branches of activity, notably, in textile, clothing and leather and footwear (-5% vs. a stagnation in May 2005).

At the end of the first five months of the current year, industrial production index rose by 1.5% vs. 0.5% drop in the same period of last year. This recovery is led by higher manufacturing industries production which helped offset and by far the regression in the energy and mining sectors.

Manufacturing industries production index progressed by 3.3% at end May 2006 vs. 1.1% drop a year earlier, following higher production in most of the sectors of activity, mainly, mechanical and electrical industries (11.7% vs. 7.8%), agrofood industries (8.8% vs. -7.5%) and building materials, ceramics and glass (5.3% vs. 0.8%). However, production in textile/clothing and leather/footwear continued to regress (-5.3% at end May 2006 vs. -5.7% a year earlier).

Mining sector production regressed as well (-12.1% vs. 2.8% increase at end May 2005), due to suspension of production for a number of mining products such as **zinc, lead and barytine**,

following depletion of reserves in the oil fields of Bougrine, Boujabeur and Fej Lehdoum. During the same period, **energy** production regressed by 3.3% vs. 1.5% increase in the previous year.

Exports of the industrial sector evolved favourably overall. In fact sales of **energy products** progressed by 38.2% over the first six months of the current year compared to 38.7% over the same period of last year. Exports of **mining products and of phosphate and by-products** rose by 17.6% vs. 15.4% in 2005. The progress concerned also other than food manufacturing industries despite ongoing drop in the sales of the sector of textile and clothing (-3.9% vs. 0.9%) and leather and footwear (-1.1% vs. 10.4%). Exports particularly rose for mechanical and electrical industries (21.4% vs. 18.6% a year earlier).

On the other hand, **imports of raw materials and semi-finished products** rose by 9.6% at end June 2006 vs. 9.4% in the same period of the previous year. In the same way, **imports of capital goods** rose by 13.9% vs. 12.8% in 2005.

3- Tourism

The main indicators of tourist sector grew at a slower pace in the first six months of 2006 compared to the same period of the previous year.

The number of foreign tourists regressed in fact by 1% over June 2006, vs. 2.6% drop in May and 16.2% increase in the same month a year earlier, totalling about 636 thousand people. This is due to a virtual stagnation in **European** flows (0.3% vs. 20.6% in June 2005) and a tightening in the number of **Maghreb**

tourists (-4.1% vs. 7.3%) and tourists from **North America** (-7.3% vs. 28.6%).

Over the first half of 2006, the **total number of foreign tourists** reached 2.7 million people, up by just 0.6% vs. 10.6% in the same period of 2005. This slower pace is due to a slower progress in the European flows (1.3% vs. 17.2%), notably, the French (3.6% vs. 20.8%), the English (4.7% vs. 22%) and the Italians (-2.8% vs. 13.5%), in addition to a drop in the number of Maghreb tourists (-0.7% vs. 2.4%), mainly, the Libyans (-4.8% vs. 5.5%).

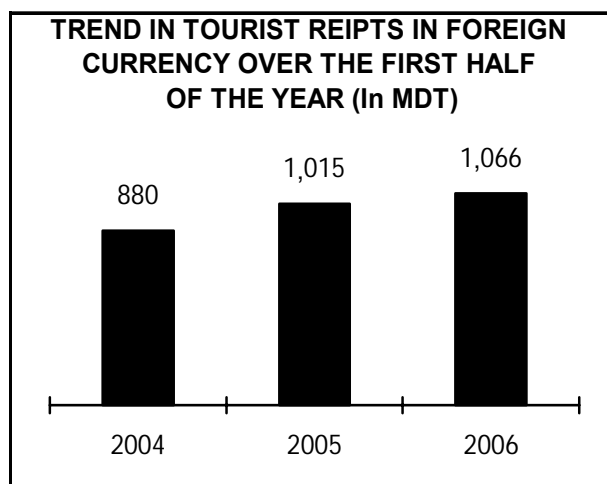
Overall tourists bednights progressed by 2.4% in June 2006 vs. 3.9% in May and 18.4% in the same month of last year. The increase in bednights in the zones of Yasmine-Hammamet (13.3%), Tabarka-Ain Draham (7.1%) and Monastir-Skanes (4.6%) was in line with a drop in the zone of Jerba-Zarzis (-2.3%) and Gafsa-Tozeur (-4.9%).

In the first half of 2006, overall bednights progressed by 2.3% vs. 11.8% in the same period of the previous year, totalling more than 14 million units. Most of tourist zones posted an increase varying between 3.4% in the zone of Mahdia and 15.6% in Yasmine-Hammamet. It should be noted that a number of traditional zones posted a slight drop in bednights, such as Sousse (-0.5%), Tunis-Zaghouan (-2%) and Monastir-Skanes (-2.1%).

Concurrently, the **relative rate of occupancy** totalled 63.5% in June 2006 vs. 62.3% a year earlier. Worth of note that the highest rate was recorded in the zone of Mahdia (90.7%) and the lowest in the region of Gabes (11.4%).

At end June 2006, the considered occupancy rate was up by one percentage point to 41.2%. The zone of Jerba-Zarzis posted the highest occupancy rate (56.4% vs. 52.6% in 2005), followed by Mahdia (48.6% vs. 47.7%), Sousse (47.7% vs. 46.8%) and Yasmine-Hammamet (45.3% vs. 43.6%). In the other zones, the occupancy rate was lower than the general average, going down even in the areas of Gafsa-Tozeur and Tabarka-Ain Draham (-3 percentage points).

Tourist receipts in foreign currencies rose, over June 2006, by 7.9% vs. 11% in the same month of the previous year. During the first six months, these receipts increased by 5% vs. 15.3% in the same period of 2005, totalling almost 1,066 MTD.



4- Air Transport

Passengers' air transport went up by 2.4% in June 2006 in terms of annual drift compared to 15.2% in the same month a year earlier. This slower pace reflects that of traffic on **international flights** (3.2% vs. 15.9% in 2005). Worth of note the sharp drop on **domestic flights** (-15.8% vs. 0.5%).

In the first half of the current year, the number of passengers grew by 1.3% vs. 11.6% in the same period of 2005, amounting to 4.4 million passengers. This slower pace is attributable to a decrease in the number of passengers on **domestic flights** (-13.8% vs. 2.4% last year) and to a slower increase in the number of passengers on **international flights** (2.3% vs. 12.8%), notably, **irregular ones** (3.5% vs. 12.4%).

The number of passengers rose at end June 2006 in the airports of Tunis-Carthage (1.3%), Monastir (2.3%), Tozeur (9.1%) and Tabarka (2.4%) compared to a stagnation in Jerba-Zarzis and a drop in the airports of Gafsa and Sfax (34.5% and 14.1% respectively).

5- Investment projects

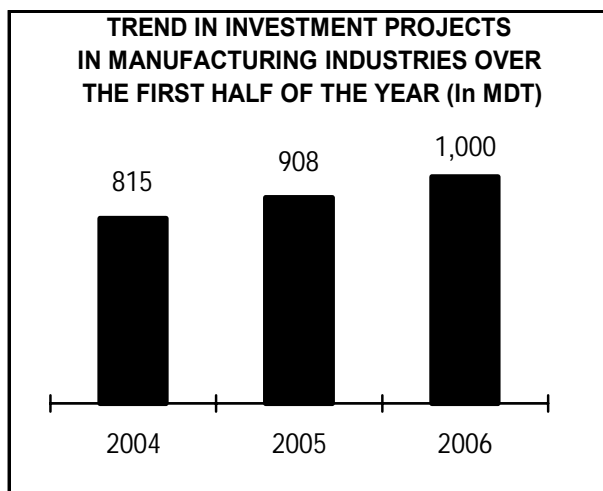
Declared investment projects in **manufacturing industries** during the first six months of the current year, progressed by 10.1% vs. 11.4% in the same period of the previous year, totalling 1,000 MTD. These investments correspond to 1,619 projects and would ensure the creation of about 35,000 jobs, up by 0.1% and 16.3% respectively compared to the first six months of 2005. Worth of note that these investments do not include the projects of the creation of the two export-oriented cement plants in the region of Nabeul for a global amount of 583 MTD.

Progress of investment projects concerned only **totally-exporting industries** (80.2%) ; whereas **domestic market-oriented industries** recorded 13.9% drop.

Sector-related distribution shows an increase of investment projects in all branches of activity, excluding building material industries, ceramics and glass

(-58.4%). In particular, investment projects rose sharply in leather and footwear and in mechanical and electrical industries.

In services other than tourism, investment projects progressed by 60.9% at end June 2006 vs. 18.2% drop over the same period of last year, amounting to 375 MTD. This net increase is attributable to 24.1% increase in the number of declared projects, compared to 0.2% a year earlier, totalling 2,044 projects. These projects would help create almost 10.5 thousand jobs.



6- Trend in prices

The **general index of household consumer prices** recorded a stagnation in June 2006 compared to the previous month vs. 0.4% rise in May and June 2005. **Foodstuff** prices regressed (-0.5%), mainly, for poultry (-4.9%), olive oil (-2.9%), eggs (-2.2%) and sheep meet (-1.6%) ; whereas prices of other items of expenditure increased, notably, for **housing** (0.6%), **clothing** (0.5%) and **transport** (0.3%).

In terms of annual drifts, the inflation rate stood at 4.9% in June 2006 compared to 5.3% in May and 1.3% a year before. Compared to last year, this acceleration is, mainly, attributable to

higher prices for **transport** (6.6% vs. 4.6% in June 2005), **foodstuff** (6.5% vs. -1.6%) and **housing** (5.1% vs. 2.6%).

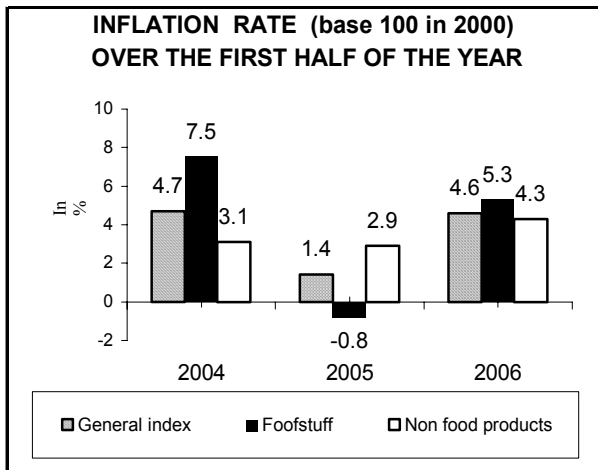
In terms of monthly average, the **inflation rate** stood, in June 2006, at the same level of the first five months of the year : 4.6% vs. 1.4% over the corresponding period of 2005.

Excluding **clothing** prices which posted a certain deceleration (2.5% vs. 2.8% in 2005), prices of the other items recorded a more or less accentuated pace. This concerns, notably, prices of **transport** (6.7% vs. 4.1%), particularly, personal one (11.2% vs. 9.2%) and public transport (3.4% vs. 0.6%), following the adjustment of fuels prices ; and **foodstuff** (5.3% vs. -0.8%), mainly, oil (34.5% vs. 14.6%), vegetables (8.3% vs. -8%), fruits (4.1% vs. -8.9%), fish (4.6% vs. 3.5%) and sugar and confectionery (6% vs. 0.8%). In the same way, prices for **housing** grew at a faster pace (5% vs. 2.7%), due to higher prices for energy expenditures (11.1% vs. 4.4%) and house maintenance and repair (4.7% vs. 2.4%).

Excluding **foodstuff**, the inflation rate came in at 4.3% in the first six months of 2006, vs. 2.9% in the same period of last year. Excluding **transport** and **housing**, affected by adjustment in the prices of fuel and energy expenditure (electricity, gas cylinder...) as well as the increase in a number of building materials, the inflation rate remains high compared to the first six months of 2005 (4.2% vs. 0.7%).

By regime of price fixing, **non-controlled product** prices grew at a significantly faster pace (4.5% in average vs. 1.1% in the first six months of 2005), notably, **foodstuffs** (6.4% vs. -1.1%). In

the same way, prices for controlled products evolved at a faster pace than in 2005 (4.9% vs. 2.4%), particularly, **non-food products** (6.1% vs. 3.1%). Worth of note the ongoing effort to subsidize the main food products with a view to preserving the consumer's purchasing power.



FINANCIAL SYSTEM SITUATION : Tightening of bank liquidity over the second quarter of 2006 and faster progress in financing to the economy and net claims on the State combined with a drop in net claims on abroad over the first six months of 2006.

I - BANK LIQUIDITY AND REFINANCING OF THE FINANCIAL SYSTEM¹

1- Bank liquidity

Bank liquidity tightening observed over the first quarter of 2006 was pursued over the second quarter but at a slower pace. This situation is in fact attributable to a restrictive effect exerted by net assets on abroad, the impact of which is lessened by the expansive effect exerted by the net balance of public administrations and bills and coins in circulation.

At 3,361 MTD in average over the second quarter of 2006, **net assets on abroad** posted 578 MTD drop compared to 250 MTD increase in the previous quarter. This drop is attributable to :

* a decrease of 481 MTD in net assets in foreign currency led by significant expenditures incurred with respect to reimbursement of foreign debt, notably, the Global Samurai II debenture loan (at end March 2006) and the early reimbursement of a loan contracted by the operator Tunisiana, combined with an increase in the trade deficit. This drop would have been more pronounced if it had not been for mobilized resources in the form of drawings on external borrowings notably, with respect to the African Development Bank, the European Investment Bank and the French Agency for development as well as the improvement of tourist earnings.

* 68 MTD increase in the account “currency of authorised intermediaries” which came in at 566 MTD over the considered quarter.

* 27 MTD increase in the Tunisian Government special account in foreign currency which went from 209 MTD to 236 MTD from one quarter to the next.

On the other hand, 453 MTD firming up in **the net balance of public administrations** contributed, over the considered quarter, to a commensurate improvement in bank liquidity. This evolution reflects, mainly, the 435 MTD drop in the balance of the Treasury current account attributable to significant amounts incurred in reimbursement of foreign public debt, notably, the above-mentioned Global Samurai II debenture loan as well as transfers with respect to public companies for fuel subsidies. This drop was however lessened by State encashment of the Central Bank profit over the 2005 financial year (236 MTD) and net subscriptions to Treasury bonds, mainly, those equivalent to Treasury bonds.

At 3,645 MTD, over the second quarter of 2006, **bills and coins in circulation** exerted an effect of increase of 48 MTD vs. a restrictive effect of 308 MTD in the previous quarter. Over the considered period, their level fluctuated between a minimum of 3,581 MTD and a maximum of 3,719 MTD.

¹ Statistical data are presented in terms of daily averages.

Excluding the evolution of the main autonomous factors mentioned above, the Central Bank intervened to inject, overall and in the framework of its monetary policies operations, an average amount of 168 MTD in the second quarter of 2006, compared to 49 MTD in the previous quarter. Consequently, **assets in banks' current account** came in at 188 MTD.

TREND IN FACTORS OF BANK LIQUIDITY ⁽¹⁾

(Daily averages in MTD)

Description	1 st quarter 2006	2 nd quarter 2006	Variat.
			2 nd quar.2006 1 st quar.2006
Bills & coins in circulation	-3,693	-3,645	48
Net balance of public administration	204	657	453
Of which : Treasury current account balance	-687	-252	435
Net assets on abroad	3,939	3,361	-578
Of which : Net assets in foreign currency	5,678	5,197	-481
Other factors	-309	-353	-44
= (A) TOTAL AUTONOMOUS FACTORS	141	20	-121
Calls for bids	-33	-12	21
One to seven-day allowance uptake	3	0	-3
Three-month Treasury bond allowance	0	0	0
Net tapping operations	-9	-12	-3
Open market operations	88	192	104
= (B) TOTAL OPERATIONS OF MONETARY POLICY	49	168	119
= (A)+(B) ASSETS IN BANKS' CURRENT ACCOUNT	190	188	-2

(1) The (-) sign indicates a restrictive effect and the (+) sign indicates an expansive effect.

2- Monetary Policy Operations

Bank liquidity was marked by a drop both at the level of surplus bank supply and deficit bank needs in the second quarter of 2006.

From one quarter to the next, transactions on the **interbank market** posted 94 MTD drop led by 50 MTD decline in sight operations and 44 MTD decrease in forward operations.

In the framework of **monetary policy operations** the Issuing Institution intensified its interventions in the form of open market operations. In fact, four firm purchase operations of Treasury bonds were carried out for a total amount of 195 MTD. These purchases operated on the bonds equivalent to Treasury bonds (BTA) lines falling due in July 2007, June 2008 and March 2009 respectively for respective amounts of 55 MTD, 32 MTD and 74 MTD and on short term Treasury bonds (BTCT) of January and February 2007 for a global amount of 6 MTD. As a result, the outstanding average of these operations went up from 88 MTD to 192 MTD from one quarter to the next.

Over this quarter, the Central Bank had to intervene twice to inject liquidity in May in the form of **positive calls for bids** with respective amounts of 100 MTD and 170 MTD and several times through **negative** calls for bids to mop up liquidity surplus in April and June. Mopped up amounts in this form fluctuated between a minimum of 33 MTD and a maximum of 124 MTD. Overall, an average amount of 12 MTD was mopped up in the form of calls for bids in the second quarter of the year vs. a tapping of 33 MTD in the previous quarter.

In the same way, the Issuing Institution carried out **fine tuning** operations of bank liquidity in the form of tapings with an average amount of 12 MTD over all the period.

In considering the evolution of the different modes of intervention of the Central Bank, **monetary policy operations** yielded an average injection of

168 MTD in the second quarter of 2006 vs. 49 MTD in the previous quarter.

Day-to-day interest rate on the money market fluctuated between 4.97% and 5.03%, leading to the maintaining of the money market average rate at 5% over the considered quarter.

II – TREND IN FINANCIAL SYSTEM RESOURCES AND THEIR COUNTERPARTS

M3 aggregate recorded a notably faster rise in the first six months of 2006 compared to the same period of the previous year (6.1% vs. 3.4%), reflecting thus an increase in the progress pace of financing to the economy and net claims on the State. This trend would have been more pronounced if it had not been for the drop in net claims on abroad.

1- Money supply M2

This aggregate grew at a faster pace in the first six months of 2006, doubling thus its level of the same period of last year (6.6% vs. 3.2%). This evolution is attributable to faster progress both in available and quasi-money resources.

Money supply M1 rose by 8.1% in the first six months of 2006 compared to 4.8% in the same period of last year. This increase is attributable, notably, to higher bank money (12.5% vs. 5.8%) reflecting thus the progress in sight deposits at banks (13.6% vs. 4.2%) and this despite slower pace at the postal cheque centre (2.9% vs. 23.3%). Worth of note that from one month to the next, sight deposits at banks rose by 8.3% in 2006 vs. 2.5% in June 2005 following, mainly, the transfer carried out by a parent oil company for its subsidiary set up in Tunisia (British Gas Tunisie) and the payment on 30 June 2006 of 190 MTD for Tunisie Telecom with respect to the Treasury late payments carried out with respect to services given by the latter.

Compared to its level in December 2005, fiduciary money rose by 1.4% at end June 2006 compared to 3.1% in the same period of last year. This trend is mainly, attributable, to slower pace in bills and coins in circulation (2.8% or 100 MTD compared to 3.5% or 110 MTD). Following four straight months of decrease, this aggregate renewed with its rise following high household expenditure in line with the beginning of the summer season (+70 MTD).

Quasi-money posted 5.7% increase over the first six months of the year compared to 2.2% in the same period of 2005. This firming up is due, mainly, to faster progress in forward deposits and other financial products (7.9% or 416 MTD vs. 5.8% or 257 MTD), deposits in special savings accounts at banks (4.1% or 203 MTD vs. 2.2% or 101 MTD) and deposits at the postal savings centre (9.2% or 129 MTD vs. 7.3% or 91 MTD). However, the outstanding balance of certificates of deposits pursued its downward trend started as of the beginning of the year, down by 9.1% or -87 MTD vs. -15.9% or -162 MTD.

TRENDS IN FINANCIAL SYSTEM RESOURCES AND THEIR COUNTERPARTS *

(Figures at end of period in MTD)

Description	June 2006	Variations in %	
		Jun. 2006 Dec. 2005	Jun. 2005 Dec. 2004
M4 AGGREGATE	25,546	6.0	3.7
Money supply (M3)	25,273	6.1	3.4
Money supply (M2)	23,591	6.6	3.2
Money (M1)	9,446	8.1	4.8
Quasi-money	14,145	5.7	2.2
M3 – M2	1,682	-0.5	5.6
M4 – M3	273	-2.5	29.4
NET CLAIMS ON ABROAD**	3,233	-880.0	458.0
DOMESTIC LOANS	31,266	8.9	5.7
Net claims on the State**	5,207	1041.0	606.0
of which: Treasury bonds **	1,920	170.0	12.0
Treasury current account**	272	-416.0	-167.0
Financing of the economy	26,059	6.2	4.0

* Provisional data for 2005.

** For these aggregates, variations are expressed in MTD.

2- "M3 - M2" aggregate

This aggregate posted a slight drop at end June 2006 compared to its level in December 2005 (-0.5% vs. 5.6% increase), and this following a drop in the outstanding balance of debenture loans (-4.5% vs. 10.7% increase). Worth of note that debenture loans totalled 35 MTD as of the beginning of the year (Arab Tunisian Lease 30 MTD and El Wifack Leasing 5 MTD). However, the outstanding balance of housing-savings posted a faster pace, though modest, in its growth pace (2.2% vs. 1.8%).

3- Net claims on abroad

Net claims on abroad pursued in June 2006 their drop, amounting to 3,233 MTD, down by 880 MTD compared to its level in December 2005 vs. 458 MTD rise over the same period of last year. This evolution is led by absence of State mobilization of external borrowing resources (contrary to last years) and the reimbursement of Global Samurai II debenture loan in March 2006. Consequently, net assets in foreign currency dropped by 826 MTD over the considered period compared to 495 MTD increase in the same period of the previous year. From one month to the next, they regressed by 105 MTD, following incurred expenditure with respect to foreign debt service, notably, early reimbursement by Tunisiana company. Worth of note that net assets in foreign currency amounted to 8,212 MTD on 17 July 2006, corresponding to 163 days of import following higher receipts from the privatisation of 35% of the capital of Tunisie Telecom (2,250 million dollars).

4- Net claims on the State

Over the first six months of 2006, this aggregate posted 1,041 MTD increase compared to 606 MTD over the same period of last year. This evolution was led by a drop in the balance of the Treasury current account (-416 MTD) combined with an increase in the outstanding balance of Treasury bonds both at the lending institutions (+170 MTD) and at the Central Bank with respect to firm purchase operations (+296 MTD). Worth of note that over the first six months of the current year, net Treasury issues amounted to 710 MTD, almost the full totality of which (690 MTD) is in the form of bonds equivalent to Treasury bonds and this in the framework of reprofiling domestic public debt.

5- Financing of the economy

Financing to the economy rose by 6.2% or 1,521 MTD over the first six months of the year compared to 4% or 922 MTD in the same period of 2005 and 7.4% targeted for the year as a whole. This rise concerned loans on ordinary resources (7% or 1,489 MTD vs. 4.2% or 824 MTD) as well as the outstanding balance of securities-portfolio (7.2% or 99 MTD vs. 8.5% or 105 MTD). Faster pace of loans on ordinary resources is attributable, mainly, to important loans given for financing olive oil stock at the National Oil Board that is not yet commercialised. Worth of note that this stock came in at 49 thousand tons in June : 289 MTD vs. about 6 thousand tons and 19 MTD respectively over the same period of the previous year. Loans on special resources pursued their downward trend (-3.6% or -60 MTD vs. -4.1% or -74 MTD).

After rising in May 2006, the outstanding balance of approved treasury bills in June regressed by 22 MTD, to 7 MTD during the first six months of the year, compared to 67 MTD increase a year earlier.

The trend in loans to professionals and private individuals over the first five months of 2006, shows as per statistics of the risk Base and individual loan registry and excluding approvals and guarantees that the services sector enjoyed most of this increase (559 MTD vs. 555 MTD, of

which 134 MTD for real estate promotion and housing financing (vs. 106 MTD) ; 123 MTD to finance current expenditures of private individuals (vs. 222 MTD), 100 MTD for tourism (vs. 54 MTD) and 88 MTD for trade (vs. 139 MTD). The sector of industry enjoyed 205 MTD vs. 132 MTD (of which 74 MTD for energy vs. 13 MTD and 48 MTD for mechanical and electrical industries vs. 84 MTD). Agriculture benefited from an additional amount of 195 MTD (compared to 93 MTD drop last year).

CAPITAL MARKET : Stronger capital trading and ongoing rise in stock indexes over the second quarter of 2006

Recovery of capital market activity started as of the beginning of the year was confirmed in the second quarter, leading to net firming up in the volume of capital trading combined with soaring stock indexes which reached record high levels.

On the other hand, the marking events over the second quarter of the year 2006 are :

1)- The Stock Exchange Executive Board approval on 24 June 2006 for the admission of share of "Essoukna" and "El Wifack Leasing" companies on the capital securities market of the Stock quotation and this by distributing 30% of the capital through public sale bid with 15 and public subscription bid with 15%, for Essoukna and one public sale bid of 30% of the capital for "El Wifack Leasing".

2)- The CMF approval for the creation of 8 mutual investment funds, of which six mixed for an initial amount of 100 thousand dinars each¹.

¹ This concerns mutual investment funds initiated by the ATB and its stock intermediary subsidiary AFC, "FCP IRADETT

Worth of note also that this quarter was marked by the opening of the joint claim fund "FCC BIAT-Credimmol" authorized on 10 March 2006 and initiated by the BIAT and Tunisie Titrisation for 50 MTD, as well as the start-up of public subscriptions to shares of the "Amen Trésor SICAV" company and the shares of the mutual investment fund "MAC Excellence FCP" authorized on 16 February and 10 March 2006 respectively.

Primary market²

Contrary to the first quarter of 2006 that was marked by limited issues through public call for savings to the only drawings of the Treasury, the second quarter recorded the return back of companies

100", "FCP IRADETT 50", "FCP IRADETT 20" and "FCP IRADETT CEA", mixed funds, and "FCP SALAMET PLUS" and "FCP SALAMET CAP", bond funds, as well as mixed funds launched by the BNA and its stock intermediary subsidiary BNA Capitaux, "BNAC PROGRES FCP" and "BNAC CONFIANCE FCP".

² Statistics are set up on the basis of auction dates for public shares and visa dates of the Financial Market Council (CMF) for stocks and bonds.

carrying public call for savings on the primary market.

In this framework, the amount of issues of Treasury bonds amounted to 435 MTD over the second quarter, of which 267 MTD in the form of bonds equivalent to Treasury bonds compared to quarterly volumes of 522 MTD and 367 MTD respectively in 2005.

With respect to bonds maturity, the Treasury continued to issue exclusively on a 52 week maturity short term Treasury bonds and to focus drawings of bonds equivalent to Treasury bonds on 6 year lines, open for the first time in March 2006, accounting for 58.8% of the global package of bonds equivalent to Treasury bonds issued over the second quarter.

Average weighted rates at issues of short term Treasury bonds maintained the same 5.1% level whereas those relating to bonds equivalent to Treasury bonds pursued the same downward trend due to sharp demand by subscribers.

Issues by companies carrying public calls for savings accounted for 3 capital increase operations over the considered quarter, for a global amount of 31.5 MTD, 2.5 MTD or 8% of which in the form of injection of new money, the remainder being effected through incorporation of reserves¹.

As for issues on the bond market, 3 debenture loans were initiated by the leasing companies ATL and El Wifack leasing as well as by a hotel unit "Mouradi Palace" for an accumulated volume fully

¹ This concerns capital increase in cash operations for 2.5 MTD, initiated by General Leasing (GL) and those carried out by incorporation of reserves by the BT and the SFBT with 25 MTD and 4 MTD respectively.

subscribed, compared to 10 MTD in the second quarter of 2005.

Secondary market

Secondary market activity was particularly intensive over the second quarter of 2006, the volume of transactions having almost doubled from one quarter to the next from 273 MTD to 538 MTD compared to 220 MTD over the second quarter of 2005. The high volume of capital trading which hit all levels of the market is mainly due to raising interest by investors for certain shares, notably, banking shares. Added to this the infatuation led by some listed companies disclosure of their intention to reduce the nominal value of their stocks during the holding of their Extraordinary General Assembly². Worth of note that the split in listed companies' shares helps to largely distribute shares with respect to the public and contributes, as a result, to improvement of liquidity and boosting of transactions.

In this framework, capital trading carried out on the stock quotation totalled 238 MTD vs. 116 MTD in the second quarter of 2005.

However this firming up is relative taking into account the multiplying of bloc transactions which totalled 81 MTD, almost 1/3 of the package of capital trading and which concerned in particular the BIAT³ share.

² Listed companies having disclosed their shares are : ATB, Tunisie Leasing, SITS, SOMOCER, Tunisair, SOTUMAG and SIAME.

³ Registered bloc transactions are detailed as follows : BIAT (60.3 MTD) ASTREE (6.4 MTD), SIAME (5.5 MTD), STEQ (5.1 MTD), CIL (2 MTD) and TL (1.6 MTD).

Concurrently, trading on the offlist and registry operations were firmed up, total-ing 23 MTD and 277 MTD respectively over the considered quarter compared to 3 MTD and 101 MTD in the second quarter of 2005.

Activity firming up had a positive impact on the stock capitalisation which amounted to 4,616 MTD at the end of the second quarter of 2006 compared to 3,602 MTD at the end of the same quarter of the previous year.

Market liquidity posted a quarterly average of 44% vs. 42% in the second quarter of last year.

As for listed shares performance and despite profit taking in June, the market trend remained overall upward, sustained notably by positive performance of bank share and particular interest led by disclosure of reduction in the nominal value of a number of listed shares.

In this framework, 25 shares recorded an increase varying between 0.4% and 27.8%, the best performance being achieved by the share ICF due, notably, to disclosure of signing of a joint venture contract with the Saudi group "Al Zamil" for the construction of a plant in Saudi Arabia.

However, 21 other shares posted negative yields varying between -1.8% and -39.2%, the share SOMOCER having recorded its sharpest drop due to 7 MTD deficit over the 2005 financial year compared to a net benefit of 4.7 MTD over 2004.

In this context, stock indexes pursued their upward trend, reaching new record high levels over the quarter before

regressing in June 2006 due to the effect of profit taking.

Thus TUNINDEX, the capitalisation index reached a peak on 5 June 2006, coming in it 2,036.67 points before closing for the same month at 1,945.11 points, up by 4% from one quarter to the next.

Concurrently, BVMT index gained 1.8% over the quarter, closing for June 2006 at 1,340.52 points.

On the other hand, the second quarter of the current year was marked by dynamic transactions with respect to foreign investors in portfolio.

Worth of note however that if the first two quarters were marked by high interest in buying by these investors, June was characterised by a change in tendency. In fact, the sustained demand that prevailed as of the beginning of the year, gave way to sharp movement of profit taking.

Nevertheless, the net balance of transactions remained positive (7 MTD), thanks to an accumulated quarterly volume of 88.2 MTD for acquisitions compared to 81.2 MTD for sales. The same balance accounted for 8.4 MTD over the second quarter of 2005.

ACCUMULATED VOLUME OF STOCK TRANSACTIONS AND ISSUES THROUGH PUBLIC CALL FOR SAVINGS (figures in MTD)

Description	June 2005	June 2006
Global volume of transactions	220.0	538.0
Stock quotation	116.0	238.0
Off list	3.0	23.0
Registry Operations	101.0	277.0
Volumes of issues through public call for savings	532.0	510.0
Shares	0.0	32.0
Bonds	10.0	43.0
Treasury bonds	522.0	435.0

TREND IN STOCK EXCHANGE INDICATORS

(Figures of end of period unless otherwise indicated)

Description	June 2005	Decemb. 2005	June 2006
BVMT index in points (base 465.77 on 31 March 1998)	1,082.66	1,142.46	1,340.52
TUNINDEX index in points (base 1.000 on 31 Dec. 1997)	1,544.65	1,615.12	1,945.11
Stock exchange capitalisation (in MTD)	3,602	3,840	4,616
Nber of listed companies (in units)	45	45	46
Liquidity rate (in%)	30.0	55.0	33.0

OPCVM and investment companies' activity

Following agreement given for eight new FCP, the number of OPCVM went from 46 to 54 authorised funds from one quarter to the next, amounting to 2,611 MTD at end June 2006 compared to a package of 2,237 MTD at end June 2005. As for investment companies, SICAR core capital amounted to 272 MTD at the end of the second quarter of 2006, following the start-up of a new unit by private parties "Sharif SICAR" with an initial capital of 1.5 MTD, bringing the number of SICAR up to 39. As for SICAF, the number of these companies was maintained at 91 following "SORIK SICAF" change of its field of activity and the coming into

operation of new unit initiated by private parties "MARYAM" SICAF, with a capital of 500,000 dinars. SICAFs core capital posted a slight drop, down to 497 MTD at the end of the second quarter of 2006 compared to 499 MTD in the same period of last year.

TREND IN NUMBER OF INVESTMENT COMPANIES AND ASSETS MANAGED BY OPCVM

(Figures in MTD unless otherwise indicated)

Description	June 2005	June 2006
OPCVM		
FCP		
Units	7	16
Managed assets (in MDT)	0.420	20
SICAV		
Units	36	38
Managed assets (in MDT)	2,237	2,591
Investment company		
SICAR		
Units	40	39
Managed assets (in MDT)	286	272
SICAF		
Units	92	91
Managed assets (in MDT)	499	497

EXTERNAL PAYMENTS : Deficit of the general balance of payment attributed to current operations and in capital and financial operations

The general balance of payments posted a deficit of 899 MTD over the first six months of 2006 compared to a surplus of 491 MTD over the same period of last year.

This evolution is due to widening of the current deficit by 316 MTD, amounting to 750 MTD and 149 MTD deficit in the balance of in capital and financial operations, compared to a surplus of 925 MTD in the first six months of 2005.

As a result, net assets in foreign currency came in at 5,046 MTD at end June 2006 (corresponding to 100 days of import compared to 5,228 MTD and 112 days a year earlier) and 5,872 MTD and 124 days of import at end 2005.

TREND IN THE MAIN BALANCES OF THE BALANCE OF PAYMENTS

DESCRIPTION	2004	2005	(In MTD)	
			1 st half	
			2005	2006*
A - CURRENT PAYMENTS	-686	-393	-434	-750
- Merchandises (FOB)	-3027	-2553	-1213	-1487
- Services	+2048	+2364	+786	+808
- Factor income	+151	-365	-88	-162
- Current transfers	+142	+161	+81	+91
B - CAPITAL & FINANCIAL TRANSACTIONS	+1930	+1640	+925	-149
- Operations in capital	+134	+165	+54	+45
- Investment	+767	+940	+363	+363
- Short. medium and long term loan borrowings	+1029	+535	+508	-557
C - ADJUSTMENT OPERA- TIONS (NET FLOWS)	-31	-31	-	-
GENERAL BALANCE	+1213	+1216	+491	-899

* Provisional figures.

I- Balance of current operations

The balance of current operations posted 750 MTD deficit in the first six months of 2006, accounting for 1.9% of

GDP vs. 434 MTD and 1.2% in the same period of last year.

This trend is attributable to trade deficit widening which expressed FOB-FOB reached 1,487 MTD in the first quarter of 2006 vs. 1,213 MTD a year earlier and to worsening of the deficit of the balance of factor income by 74 MTD, to reach 162 MTD. However, the surplus balance of services was improved by 22 MTD, to reach 808 MTD in the first six months of the current year.

A- Balance of trade

Expressed FOB-CIF, the trade deficit rose by 332.6 MTD in the first six months of 2006, to reach 2,008.1 MTD ; and this following import rise at a faster pace than exports : 12.5% and 10.7% respectively compared to 10.6% and 9.8% in the same period of the previous year.

Following these evolutions, the rate of coverage regressed by 1.3 percentage point over the same period, to reach 78.8%.

The main evolution of the different items of the balance of trade are the following :

- 223.9 MTD widening of the deficit of the balance of energy in the first six months of 2006, totalling 465.6 MTD. This evolution was led by import rise at a faster pace than exports (52.2% and 38.2% respectively) due, notably, to soaring crude oil prices. As a result, the rate of coverage dropped by 6.9 percentage points, to reach 67.4%.

- 51.9 MTD or 34.8% drop in the surplus balance of food over the first six months of 2006, amounting to 97.1 MTD. This evolution is led by import rise by 11.8% whereas exports rose by just 1.4%. The rate of coverage decreased as a result by 12 percentage points to reach 116.8% in the first half of 2006.

- Tightening of the surplus of the balance of consumer goods, coming in at 520.4 MTD vs. 548.5 MTD a year earlier and this following export drop by 0.8% and import virtual stagnation. As a result, the rate of coverage dropped from 121.3% to 120.2% from one period to the next.

- Widening of the deficit of the balance of capital goods by 24.8 MTD over the first six months of 2006, amounting to 1,204.5 MTD. Yet, the rate of coverage improved, reaching 39.4% vs. 32.4% in the same period of the previous year following export rise at a faster pace than imports (38.5% and 13.9% respectively vs. 14.2% and 12.8% a year before).

- In the same way, the deficit of the balance of raw materials and semi-finished products was up slightly over the first six months of 2006, coming in at 955.5 MTD compared to 951.7 MTD over the same period of the previous year. Exports and imports progressed by 14.8% and 9.6% respectively compared to 13% and 9.4% in the same period of 2005. These trends helped to improve the rate of coverage by 3.1 percentage points, coming in at 67.1%.

B- Balance of services and factor income

1- Balance of services

The surplus of the balance of services rose by 22 MTD over the first six months of 2006, coming in at 808 MTD, taking advantage of tourist receipts increase by 5% to 1,066 MTD compared to 1,015 MTD a year earlier and this correlatively with higher level of overall bednights (up by 2.3% in the first six months of the current year).

2- Balance of factor income

The balance of factor income posted 162 MTD deficit over the first six months of 2006, compared to 88 MTD a year earlier. This trend is attributable to rising expenditure with respect to capital income, up by 186 MTD or 20.4% to 1,096 MTD over the first six months of 2006. In fact, transfers by foreign oil companies with respect to income from foreign direct investment pursued their upward trend correlatively with soaring crude oil prices. Expenditures with respect to medium and long term debt interest rose by 43 MTD, coming in at 451 MTD. Work remittances rose by 9.7% (in cash and in kind) over the first six months of 2006, amounting to 837 MTD.

II- Balance of in capital and financial operations

This balance posted 149 MTD deficit in the first six months of 2006 compared to a surplus of 925 MTD a year earlier.

The main evolutions recorded in this framework are the following :

* The balance of loan-borrowings recorded a 557 MTD deficit in the first six months of 2006 compared to 508 MTD surplus a year earlier. This evolution was led by :

- Sharp rise of expenditures to reimburse medium and long term debt principal. Worth of note that in March 2006, Samurai II borrowing was fully reimburse for an amount of 35 billion Japanese yen, corresponding to 405 MTD and that in June 2006, "Tunisiana" effected an early reimbursement of a syndicated loan for 266.5 millions euros, corresponding to 447.5 MTD. To cover a portion of carried out reimbursement, this company mobilised 200 million euros,

corresponding to 335.8 MTD with respect to a group of foreign banks.

- Drop of drawings, noting that in June of the previous year, the Administration mobilised 400 million euros, which correspond to 634 MTD with respect to a debenture loan (euro-bond).

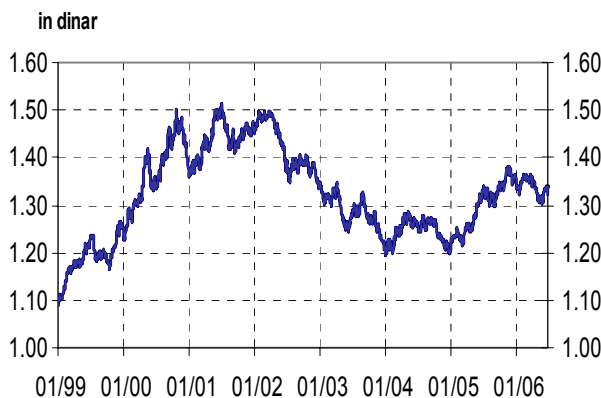
* The surplus of the balance of foreign investment came in at 363 MTD, almost the same level as the same period of last year.

TREND IN THE DINAR EXCHANGE RATE AND FOREIGN EXCHANGE MARKET ACTIVITY OVER THE FIRST SIX MONTHS OF 2006 : Appreciation of Tunisian dinar against the US dollar and the Japanese yen and its depreciation against the euro and the Moroccan dirham.

I. TREND IN THE DINAR EXCHANGE RATE

Over the first six months of 2006 the dinar exchange rate on the interbank market posted an appreciation against the US dollar (2.9%) and the Japanese yen (1.7%). However, it depreciated against the euro (4.5%) and the Moroccan dirham (1.7%).

TREND IN THE EXCHANGE RATE USD/TND



Compared to the beginning of the year 1999, date of launching the euro and up to

end June 2006, the dinar depreciated on the interbank market against the euro (23.7%), the Moroccan dirham (21.1%), the US dollar (17.8%) and the Japanese yen (16.1%).

TREND IN THE EXCHANGE RATE EUR/TND



II. TREND IN FOREIGN EXCHANGE MARKET ACTIVITY

A- Spot market

Transactions on the spot exchange market totalled 16,891 MTD over the first six months of 2006, compared to 13,649

MTD over the same period of last year, up by 3,242 MTD or 24%.

This trend is related to an increase in currency/currency transactions (2,252 MTD) and in currency/dinars transactions (990 MTD).

TREND IN SPOT EXCHANGE TRANSACTIONS
(in MTD)

Description	1st half 2005	1st half 2006	Variations
Transactions currency against dinar	8,588	10,840	+2,252
Transactions currency against currency	5,061	6,051	+990
Total	13,649	16,891	+ 3,242

1- Currency/dinar transactions

The volume of these transactions on the foreign exchange market over the first six months of 2006 totalled 6,051 MTD compared to 5,061 MTD in the same period of last year, up by 990 MTD or 20%.

The share of currency/dinar transactions accounted for 36% of the global volume of spot exchange transactions compared to 37% in the same period of 2005.

The share of interbank exchange represented 81% of the total over the first six months of 2006 compared to 19% for the Central Bank.

The Central Bank intervention came in at 1,164 MTD vs. 618 MTD in the first six months of 2005, up by 546 MTD. Transactions on the interbank market rose by 444 MTD or 10%.

TREND IN SPOT EXCHANGE TRANSACTIONS OF CURRENCY AGAINST DINAR
(in MTD)

Description	1st half 2005	1st half 2006	Variations
Interbank market	618	1,164	+546
Transactions with the Central	4,443	4,887	+444

Bank of Tunisia			
Total	5,061	6,051	+990

2- Currency/currency transactions

Over the first half of 2006, the volume of currency/currency transactions totalled 10,840 MTD vs. 8,588 MTD in the same period of 2005, up by 2,252 MTD or 26%.

Thus, the share of currency/currency transactions went from 63% of overall spot exchange transactions over the first half of 2005 to 64% over the same period of the current year.

Transactions with foreign correspondents accounted for 94% of the global volume.

TREND IN SPOT EXCHANGE TRANSACTIONS FROM ONE FOREIGN CURRENCY TO ANOTHER
(in MTD)

Description	1st half 2005	1st half 2006	Variations
Interbank market	667	627	-40
Transactions with foreign correspondents	7,921	10,213	+2,292
Total	8,588	10,840	2,252

B - Forward market

The volume of forward exchange transactions represented 1,175.2 MTD over the first six months of 2006 compared to 791.5 MTD in the same period of 2005, up by 383.7 MTD or 49%. The share of transactions in import coverage came in at 65% of the volume carried out between banks and companies, compared to 35% for those in export coverage.

Currency forward sale transactions between Tunisian Authorised intermediaries and with respect to coverage against

the exchange risk incurred by importers totalled, 753.3 MTD, up by 229.9 MTD. These transactions were mainly, denominated in US dollar (56%) and in euro (42%).

Forward purchase transactions went up also by 156.2 MTD, going from 254.8 MTD to 411 MTD from one period to the next. The share of transactions denominated in euro came in at 55% vs. 45% for the dollar.

Transactions between Tunisian Authorised Intermediaries and companies represented 99% of overall transactions.

TREND IN FORWARD EXCHANGE TRANSACTIONS (in MTD)

Description	1st half 2005	1st half 2006	Variations
Between banks and companies	778.2	1.164.3	+ 386.1
Interbank market	13.3	10.9	- 2.4
Total	791.5	1.175.2	+ 383.7

III. SWAP EXCHANGE OPERATIONS AND INTEREST RATE GUARANTEE

A- Swap exchange Transactions : currency/dinar

The volume of swap exchange transactions over the first six months of 2006 amounted to 648.4 MTD vs. 178.7 MTD over the same period of last year, up by 469.7 MTD.

OVERALL TRANSACTIONS CONCERNING FOREIGN CURRENCY/DINAR SWAPS (in MTD)

Description	1st half 2005	1st half 2006	Variations
Interbank market	0.4	74.5	+74.1
With foreign correspondents	174.5	573.9	+399.4
With companies	3.8	0	-3.8
Total	178.7	648.4	+469.7

B - Interest rate guarantee agreement "FRA"

As in the first six months of 2005, no transactions relating to interest rate guarantee agreement (FRA) were carried out in 2006. The accumulated volume of this type of operations as of its creation in June 2001 totalled 265.3 MTD.

NEW REGULATING PROVISIONS

I. ADAPTING THE CONDITIONS GOVERNING THE BANKING ACTIVITY TO THOSE PREVAILING IN THE DEVELOPED COUNTRIES

With a view to adapting the conditions governing the banking activity to those prevailing in the European Union countries and in order to modernize the legal and organisational framework of the banking sector called henceforth to face up a major challenge, notably, in a context of external finance liberalisation and full convertibility of the dinar, the law related to the creation of the Central Bank as well as the law governing the lending Institutions were modified.

1- AMENDMENT OF THE ORGANIC LAW DEALING WITH THE CREATION AND ORGANISATION OF THE CENTRAL BANK OF TUNISIA

The modifications introduced by the law N°2006-26 of 15 May 2006 dealing with amendment of the law N°58-90 of 19 September 1958 aim at providing the Central Bank of Tunisia with tools necessary for its sound functioning and enabling it to fully ensure its role with respect to monetary policy conducting. These modifications were led by deep changes in the economic and financial spheres and new prerogatives ensured henceforth to the Issuing Institution with respect to monetary policy.

The amendment operated in this respect is based on four main points :

- Defining the main prerogatives of the Central Bank, notably, with respect

to conducting the monetary policy and modernising its mechanism, supervision of lending institutions and maintaining of stability and security of the payment system ;

- Reinforcing the transparency policy, notably, with respect to dissemination and transmission of information ;

- Boosting the independence of the Central Bank, notably, with respect to conducting the monetary policy and the choice of means to be used in this respect ;

- And reinforcing control and auditing operations notably by subduing the Bank's accounts to an external auditing.

a- Redefining the Issuing Institution Prerogatives

The 2006 law conferred to the Central Bank new prerogatives. Henceforth, **the Issuing Institution's assignment is to ensure price stability.** In this respect, it watches over a good conducting of monetary policy and sound functioning of the payment system, controls the money in circulation, exerts its supervision over the lending institutions and works out with a view to preserving stability and security of the financial system.

As for the credit operations, **the Central Bank can take in pawn from banks and specialised institutions authorised** by the Minister of Finance, on proposition of the latter, **deeds and claims on companies and private individuals** under conditions it considers necessary for the achievement of monetary policy objectives. The allowance uptakes' rates as

well as their duration, forms and modalities are fixed by the Executive Board.

On another level, the new law gives the Central Bank a determining role in **compiling statistics** related to money and to the balance of payments.

With respect to maintaining stability and security of the financial system, the Central Bank is called at the national level to cooperate with the authorities in charge of regulating the capital market and the insurance. At the international level, the Central Bank is entitled to conclude bilateral conventions of cooperation with the supervision authorities of foreign countries.

On the other hand, **a banking service observatory** was created at the Central Bank. It is, notably, in charge of following up the quality of services given by the lending institutions to their customers, assuring availability of needed data and information on services and banking products as well as their costs, and conducting studies on the mentioned services and their quality.

b- Reinforcing the transparency policy

With a view **to reinforcing the disclosure effect with respect to monetary policy**, the Executive Board of the Bank is called to publish, following its monthly meetings, a press release on the economic and financial situation, in which it discloses the monetary policy orientations. This press release is published in at least two daily newspapers.

In order to reinforce the role of the Central Bank with respect to transmission and publication of data inherent

to the Bank, the Governor is called to present to the President of the Republic, in addition to the financial statements and to the annual report of each financial year, the report of the two auditors in charge of auditing the accounts of the Bank in compliance with the new law. These documents are, on the other hand, published in the Official Journal of the Tunisian Republic within one month as of their submission to the President of the republic. In the same way, a copy from the annual report of the Bank is transmitted to the presidents of the Chamber of Deputies and the Chamber of Councillors.

c- Reinforcing the independence of the Central Bank

In order to confer to the Central Bank the required independence that may help it to conduct efficiently its monetary policy, while avoiding direct financing of the public deficit, the financing given by the Issuing Institution to the Treasury, notably, in the form of overdrafts, loans or direct acquisition of securities issued by the State was given up. However, the Central Bank may buy or sell claims on the money market ; in this case the Issuing Institution is subrogated in the rights, the shares, the privileges or guarantee of the beneficiary from financing vis-à-vis his own debtor. In the same way, it was decided to do away with the 10% ceiling of the State ordinary receipts due on operations on State securities for the lending institutions.

d- Reinforcing control and audit operations

On another level, the accounts of the Central Bank are subdued to an **external audit exerted by two auditors** in charge

of examining true and fair nature of financial statements.

Other new measures were also introduced, notably, with respect to **suppression of the role of the auditor** who was previous in charge of checking the accuracy of accounts. (Law N°2006-26 of 15 May 2006 published in JORT N°40 of 19 May 2006).

2- AMENDMENT OF THE 2001 BANKING LAW

In the framework of modernising the banking system and with a view to bringing the Tunisian lending institutions up to the level of their peers at the international scale and to enabling them to better face up the globalisation of financial services, the law relating to the lending institutions was significantly modified. These modifications are based on four main points :

- More flexible conditions for access to banking activity ;
- Reinforcing the financial basis of the lending institutions ;
- Boosting rules of good governance ;
- Clarifying the relationship between the customer and the bank, notably, through better quality of services.

a- More flexible conditions for access to banking activity

In order to set more flexible conditions for carrying out the lending institutions' activity, the deadline implemented by the Central Bank with respect to notifying the concerned party of the decision of agreement for carrying out this activity was reduced from six to fourth months as of the

date of transmission of all the required information.

On another level, any acquisition, be it direct or indirect, by one or several private individuals of shares in the capital of a lending institution that is likely to lead to control over this institution and in any case, every operation resulting in the acquisition of 1/10 or 1/5 or 1/3 or 1/2 or 2/3 of the right to vote (vs. 10% previously) is subduced to an agreement. The Central Bank has to notify the concerned party within one month of the agreement decision.

Opening and closing a subsidiary, a branch or a periodic bureau which were previously subduced to authorisation of the Minister of Finance and the Central Bank are henceforth subduced to a specifications book fixed by the BCT as per appendix 1 of circular to lending institutions N°2006-5 of 20 June 2006. This specifications book fixes the minimum conditions required for opening, closing or transferring the premises of the subsidiary, the branch or the periodic bureau to be created.

Furthermore, the opening and closing of periodic bureaus set up in the framework of particular economic or seasonal conditions are not subduced to compulsory informing of the public. As for opening and closing of subsidiaries or branches abroad , they are subject to joint authorisation of the Minister of Finance and the Central Bank of Tunisia. (Circular of the BCT to lending institutions N°2006-5 of 20 June 2006).

To preserve the particular interest of the lending institutions, article 25 of the law N°2001-65 of 10 July 2001 was reviewed to expressly establish prohibition

of chief executive officers, general managers, assisting general managers, presidents or members of the directorate from carrying out a similar function in another lending institution or from exercising simultaneously the function of a member of executive board in another bank.

On the other hand, the change in the structure of an executive board or supervisory board of an institution as well as any new appointment of chief executive officer, president of executive board or of supervisory board, general manager or president of directorate are no longer subject to an authorisation and must be declared, without deadline, to the Central Bank of Tunisia.

b- Reinforcing the financial basis of lending institutions

In order to reinforce the financial basis of the lending institutions, the minimum capital of the lending institutions was raised from ten to twenty five million dinars for banks and from three to ten million dinars for the other financial institutions, except for merchant banks, the capital of which can not be less than 3 million dinars.

With respect to protecting deposits, the new law defined the notion of reference shareholder and main shareholder. Worth of note that any shareholder or group of shareholders holding as per an express or tacit convention, directly or indirectly, a share in the capital of the lending institution giving them a majority voting right or allowing them to exert control of this lending institution can be considered a reference shareholder. However, a main

shareholder is any holder of 5% or more of the capital.

The Governor of the Central Bank may invite the reference shareholder and the main shareholders of the lending institution to give help to the latter when necessary.

c- Reinforcing rules of good Governance

In the framework of reinforcing mechanism of control, each lending institution is henceforth called to adopt an internal control system to ensure a permanent assessment of internal procedures and to determine, to follow up and to curb different kinds of risks that the lending institutions may face up.

In the same way, each lending institution has to set up in its organigramme a **credit executive committee** chaired by the chief executive officer or the general manager or the president of the Directorate and made up of at least two members of the Executive Board or the Supervisory Board. This committee which meets at least four times a year on demand of its president is, notably, in charge of examining the bank's financing activity and presenting to the Executive or Supervisory Boards, suggestions on the adopted financing policy, its revision as well as credit breakdown by category, region or economic sector, limits of risk density by beneficiary, norms of evaluation of customers-risks and conditions for delegation of authority for credit granting.

The credit executive Committee must give its opinion with respect to granting of:

- loans going beyond the threshold fixed by the Executive or the Supervisory Boards ;

- loans to customers whose commitments towards the lending institution go beyond a threshold set by the Executive or the Supervisory Boards ;

- loans for restructuring with amounts or durations going beyond a threshold set by the Executive or the Supervisory Boards;

- loans to private individuals having links with the lending institution as per article 23 of the law N°2001-65 of 10 July 2001 and article 200 of the code of businesses ;

- loans to customers whose commitments towards the lending institution go beyond the threshold set by article 7 of circular of the Central Bank N°91-24 of 17 December 1991 with respect to sharing risks and following up commitments ;

- loans to customers whose claims are filed as per the above-mentioned circular of the Central Bank N°91-24 of 17 December 1991.

Worth of note that application of the circular related to the mentioned committee comes into force as of 2 January 2007. (Circular to lending institutions N°2006-7 of 24 July 2006).

On another level and with a view to reinforcing external control, the accounts of lending institutions resorting to public call for savings must be certified by two auditors subscribed in the list of the Tunisian auditors' association and named for a three-year period renewable just one. Conditions related to content of the auditors report are set by the Central Bank of Tunisia. Worth of note that previously the certification of the annual accounts of

the lending institutions was ensured by only one auditor whether the concerned institution resorts or not to public call for savings.

On the other hand, the lending institutions are called to set up **a system for control of conformity** approved by the Executive board or the Supervisory board and is in charge, notably, of determining and evaluating risks of non-conformity to laws and regulations into vigour, to rules of good functioning of the profession and good practice, and their impact on sound conducting of the institution and watching over good implementation of the laws into force. For this reason, the lending institution must provide it with necessary logistic and human resources and put a good information channel at its disposal. Besides, this structure is called to make a report for the Executive Board or the Supervisory Board and to suggest appropriate solutions to cure non-conformity cases. It gives also support to the different structures of the bank in its area of activity and proposes training actions for the employees in charge of control of conformity.

Procedures for control of conformity are defined in a charter called "charter of the function of control of conformity". It is approved by the Executive Board or the Supervisory Board, includes the function objectives, prerogatives of the structure in charge of this function, rules guaranteeing its independence as well as the rights for access to the information attributed to it.

Worth of note that the application of this circular comes into force as of 2 January 2007. (Circular to lending institutions N°2006-6 of 24 July 2006).

d- Clarification of the customer-bank relationship and improvement of the quality of banking services

It order to alleviate the banking services deficiency, the lending institutions are called to fix policies and measures of organisation meant to give their services the quality parameters. In this respect they are called to provide basic banking services, the list and conditions of which will be set by decree. They are also called to fix in a written note, the deadline for the carrying out of the banking operations for their customers, to answer in a written note to financing applications and to requests of the latter and to supply their customers, on a regular-basis, with information relating to their debit and credit operations the conditions of which will be set by the Central Bank.

Within the same respect, management of deposit accounts of private individuals and business concerns for non professional needs is subdued to a written convention between the account holder and his bank. This convention fixes the general conditions for the opening, the functioning and the closing of the account and particular conditions relating to products, services and related means of payments as well as the amount of applicable commissions.

Any modification in these conditions must be notified to the customer at least forty five days before its coming into force and this by any means leaving a written proof. Furthermore, the client has a one-month deadline as of receipt of the information note to oppose to modification in a written note or through any means leaving a proof. Default on the customer's opposition within the deadlines means

acceptance of the modification. In case of substantial modification or a new applied tariff, the customer may ask for closing his deposit account without bearing the fees if he contests within the deadlines.

Worth of note that the general and particular conditions of the convention are set by the Central Bank of Tunisia.

To establish more efficiency in the bank-customer relationship, each lending institution is called to designate one or several mediators in charge of examining the customers' requests. The mediator suggests the appropriate mediation solutions within a maximum deadline of two months. (Law N°2006-19 of 2 May 2006 published in JORT N°37 of 9 May 2006).

II- SCALE FOR CREDITS TO POULTRY FARMING

To help poultry farmers to overcome difficulties in the sector of poultry breeding and as was the case for aquaculture, it was decided to create a seasonal credit line to help banks to finance this speculation. Worth of note that this sector used previously to benefit from bank financing in the form of non-discountable loans and suppliers loans.

In this context, the scale of loans which varies according to species was fixed as follows :

- for breeding projects of gooseflesh poultry for a unit with a production capacity of 5,000 hens, the intervention scale is 2,100 dinars for chick purchase and 7,100 dinars for breeding fees ;

- for projects of laying hens breeding for a unit with a production capacity of 10,000 hens, the intervention scale amounts

to 5,500 dinars for chick purchase and 78,500 dinars for breeding fees ;

- for projects of turkey breeding for a unit with a production capacity of 5,000 poultry, the intervention scale is 6,300 dinars for the purchase of chick and 34,200 dinars for breeding fees.

Worth of note that these scales represent the maximum that can be granted and that the bank is habilitated to adjust the amount of the loan in line with estimated expenditure and expected yield.

The reimbursement maturity amounts to three months for gooseflesh poultry breeding, 4 months for turkey breeding and 12 months for laying hens breeding. (Circular of the BCT to banks N°2006-3 of 9 May 2006).

III- REGULATING MEASURES WITH RESPECT TO MUTUAL INVESTMENT FUNDS AND TO SHARES

A- Modifying the conditions for the use of assets of joint stock investment funds dealing in securities (FCPVMs)

In order to encourage investors to further invest in FCPVMs, it was decided to exempt from the compulsory reserving of a 20% portion of their assets in the form of liquidity and quasi-liquidity, funds providing in their internal regulation a guarantee of all the invested capital or part of it. This exemption must be provided when obtaining the CMF agreement.

However, the mutual funds investing in securities (OPCVMs) are not supposed to meet the above-mentioned conditions over the last two years of the period fixed in the internal regulation or the statutes of the considered funds. (Decree N°2006-

1248 of 2 May 2006 published in JORT N°37 of 9 May 2006).

B- Conditions for the holding companies' carrying out of the activity of management of the shares portfolio on behalf of third parties

The management of shares portfolio on behalf of third parties which was provided for by provisions of the law N°2005-96 of 18 October 2005 related to reinforcement of financial relations' security consists in issuing orders relating to shares bearing the name of the customer and on his behalf as per a written proxy. It might be carried out by a lending institution, a stockbroker or even holding companies which are limited companies with the objective to manage the shares portfolio on behalf of third parties.

The minimum capital for these companies managing the portfolio of shares was set at 100,000 dinars to be paid up entirely at the creation. These companies are called to prove at any moment that their capital is at least equal to 0.5% of the overall managed assets. This condition is not due when the capital reaches 500,000 dinars.

Agreement for practicing the activity of management of the share portfolio is granted by the CMF on the basis of an application deposited by the promoters of the holding company accompanied by a list of documents fixed by the CMF regulation. The CMF has to announce the agreement decision within one month as of the date of deposit of the application accompanied by the necessary documents.

Worth of note on another level that any merger or break-up operation between the companies managing the share portfolio on behalf of third parties and any direct or indirect acquisition of a proportion of the capital of the holding

companies by one or several private individuals leading to control of the latter are subject to agreement. Furthermore, after obtaining the CMF agreement, companies managing OPCVMs may be transferred into companies managing the portfolio of shares on behalf of third parties.

The CMF has the necessary prerogatives to fix, as per regulation, the rules helping to guarantee the invested funds and the positive development of operations. (Decree N°2006-1294 of 8 May 2006 published in JORT N°38 of 12 May 2006).

MAIN ECONOMIC INDICATORS

(In MTD unless otherwise indicated)

Description	1 st half			Variations in %	
	2004	2005	2006	2005/2004	2006/2005
Investment projects	1.100	1.141	1.375	3.7	20.5
- Manufacturing industries	815	908	1.000	11.4	10.1
- Services (other than tourism)	285	233	375	-18.2	60.9
Index of industrial production (base 100 in 1990) (1)	172.8	171.9	174.5	-0.5	1.5
Of which : manufacturing industries	201.8	199.5	206.0	-1.1	3.3
Balance of Trade					
- Overall exports FOB	6,135.9	6,740.2	7,459.4	9.8	10.7
- Overall imports CIF	7,610.3	8,415.7	9,467.5	10.6	12.5
- Trade deficit excluding energy FOB-CIF (2)	1,282.6	1,433.8	1,542.5	151.2	108.7
- Overall trade deficit FOB-CIF (2)	1,474.4	1,675.5	2,008.1	201.1	332.6
- Overall coverage rate (%) FOB-CIF (%)	80.6	80.1	78.8	-0.5point	-1.3point
Increase in consumer prices :					
- Shift from the beginning of the year (%)	1.2	1.4	2.4		
- In terms of monthly averages (%)	4.7	1.4	4.6		
Tourism					
- Non-residents' inflows (1,000 individuals)	2,443	2,701	2,718	10.6	0.6
- Overall bednights (1,000 units)	12,286	13,739	14,057	11.8	2.3

(1) End of May of each year.

(2) Variations are expressed in millions of dinars.

MAIN MONETARY AND EXTERNAL FINANCE INDICATORS⁽¹⁾

(In MTD unless otherwise indicated)

Description	June		Variations in %	
	2005	2006	June 2005 December 2004	June 2006 December 2005
MAIN MONETARY AGGREGATES OF THE FINANCIAL SYSTEM (2)				
M4 AGGREGATE	22,489	25,546	3.7	6.0
Money supply M3	22,194	25,273	3.4	6.1
Net claims on abroad (3)	3,585	3,233	458.0	-880.0
Domemstic loans	28,436	31,266	5.7	8.9
Net claims on the State (3)	4,431	5,207	606.0	1041.0
of which : -Treasury bonds (3)	1,659	1,920	12.0	170.0
- Treasury current account (3)	497	272	-167.0	-416.0
Financing of the economy	22,795	26,059	4.0	6.2
EXTERNAL PAYMENT INDICATORS (2)				
Tourist earnings (4)	1,015	1,066	15.3	5.0
Cash labour income (4)	588	637	2.4	8.3
Debt service (4)	1,165	1,873	-18.5	60.8
Current deficit (3) (4)	-434	-750	-80	-316
General balance of the balance of payments (3) (4)	491	-899	-144	-1390
EXCHANGE RATE (in dinar) (5)				
1 US dollar	1.3229	1.3254	10.3	-2.8
1 Euro	1.5971	1.6863	-2.4	4.7
1.000 Japanese yen	11.9213	11.4575	2.8	-1.7
1 Pound sterling	2.3683	2.4158	3.2	3.3
10 Moroccan dirhams	1.4530	1.5051	0.3	1.7

(1) Figures of end of period for monetary statistics and accumulated from the beginning of the year for external payments.

(2) Provisional data for 2006.

(3) Variations are expressed in millions of dinars.

(4) Variations compared with the same period of the previous year.

(5) Interbank average market rate of end of period.