

The International Environment

- Consolidated world economic growth in 2006 and slower inflation ;
- Significant rise in commodities price though at a slower pace than in 2005 ;
- Tightening of monetary policies, mainly, in the industrialised countries ;
- Appreciation of the euro against the dollar and the yen and increase of the main stock indexes.

The National Climate

- Faster economic growth in 2006 despite soaring prices for imported commodities ;
- Faster evolution of private consumer prices in 2006 ;
- Improvement of bank liquidity in the last quarter of 2006 and control of the progress pace of M3 aggregate, notably, over the last four months of 2006, leading to 11.2% increase of this aggregate for the year as a whole, a rate that is close to updated forecasts (11%) ;
- Recovery of issues through companies public call for savings in line with a consolidated volume of transactions and soaring stock indexes over 2006 ;
- Significant surplus in the general balance of payments, despite higher energy deficit ;
- Appreciation of the dinar against the US dollar and depreciation against the euro in 2006.

THE INTERNATIONAL ENVIRONMENT

The world economic growth was in 2006 slightly higher than a year before : 5.1% vs. 4.9%, and this despite soaring commodities prices, particularly, crude oil which reached record high levels of 78 dollar the barrel in August, monetary policies tightening in a context of emergence of inflationary tensions, sharp volatility on the international exchange and stock markets.

The faster pace in the world economic activity is attributable, mainly, to the developed countries whose economic growth reached 3.1% in 2006 vs. 2.6% a year earlier ; following sound performance in the US and Japan and, mainly, net consolidation in the Euro Zone.

In the **United States** and despite slower pace of the activity over the second and the third quarters, due mainly, to tightening of real estate sector activity, the economic growth rate amounted to 3.4% in 2006 overall compared to 3.2% a year earlier. This rise was led by export progress (8.9% vs. 6.8% in 2005) and non residential investment rise (7.4% vs. 6.8%). Inversely, household consumption increased at a slower pace than a year before (3.2% vs. 3.5%).

In the **Euro Zone**, the economic activity firmed up in 2006 in line with recovery of domestic demand. Thus, the growth rate of the zone went up from 1.4% in 2005 to 2.7% in 2006. The recovery was notable, particularly, in Germany, first economy in the zone with the real GDP going up from 0.9% to 2.5% from one year to the next.

In **Japan**, the growth rate in 2006 was higher than in 2005 (2.2% vs. 1.9%). Good performance in corporate

investment and exports offset flat household consumption.

The emerging economies and developing countries maintained in 2006 the same growth pace as the year before (7.3% vs. 7.4%). This economic growth concerned the countries of Latin America, mainly, Brazil (3.6% vs. 2.3%) in line, notably, with soaring commodities prices, as well as the emerging countries of Asia, particularly, China which continues to post one of the highest growth rates worldwide (10.7% vs. 10.4% in 2005) and this despite restrictive measures aiming to slow the pace of the economic development.

The **employment** situation in 2006 improved overall in the developed countries with unemployment rates going, from one year to the next, from 5.1% to 4.6% in the United States, from 8.6% to 7.8% in the Euro Zone and from 4.4% to 4.1% in Japan.

Commodities prices continued to rise though at a slower pace than a year before (23.6% in average over the first ten months of 2006 vs. 29.3% in the same period of the previous year. This price easing is due to less accentuated rise in energy prices (22.1% vs. 39.5%). In particular, crude oil prices posted a drop as of September to close for the year at 60 dollars the barrel, due to slower economic activity and higher level of stocks in the industrialised countries.

The inflation remained in 2006 under control despite sharp rise in commodities prices, mainly, in the industrialised countries.

In the United states, the inflation rate regressed from 3.4% to 3.2% from one

year to the next ; whereas in the Euro Zone, consumer prices evolved at the same pace as a year before (2.2%). Inflation control was made possible thanks to tightening of monetary policies. In fact, the US Federal Reserve raised, in 2006, its key rate four times by 25 base points each time to bring it up to 5.25% on 29 June. In the same way, the European Central Bank increased its key rate five times by 25 base points each, bringing it up to 3.50% on 7 December 2006. The Bank of England raised its key rate twice by 25 base points each, coming at 5% on 9 September 2006. Furthermore, the Bank of Japan gave an end, on 14 July 2006, to its “close to zero interest rate” raising its key rate by 25 base points to 0.25%.

The foreign exchange markets were characterised, in 2006, by an appreciation of the euro against the dollar (11.5% from one end of year to the next) and the yen (12.5%) in line with better economic outlook in Europe and ongoing rise of the key rate in the Euro Zone compared to a stagnation in the United states and Japan as of June and July 2006 respectively.

The stock indexes closed the year 2006 at an increase varying between 7% for the Nikkei and 17.5% for the CAC 40 thanks, notably, to resumption of international investors confidence and drop in crude oil prices, mainly, in the last quarter of the year.

NATIONAL CLIMATE

ECONOMIC ACTIVITY : Faster pace of economic growth in 2006 despite negative effects of soaring commodities prices.

Despite fluctuations of the international climate in 2006, notably, soaring energy and raw material prices, the national economy posted positive results thanks to recovery of manufacturing industries and ongoing rise of tourist indicators and air transport. Foreign trade evolved at a sustained pace ; faster progress in the exports of a number of traditional sectors helped to reduce the effect of the balance of energy deficit.

As for prices, the inflation rate grew at a faster pace in 2006 due, mainly, to significant rise in oil and oil product prices and in raw materials at import.

1- Agriculture and fishing

The agricultural sector posted positive results over the previous campaign,

notably, olive for oil production, cereals, citrus fruits and fruits and vegetables.

The **imported** quantities of cereals totalled about 2.632 thousand tons in 2006 for a value of 589 MTD, up by 8.2% in quantity and 24% in value.

Tree farming sector was marked by olive for oil harvesting in good conditions. The **exported** quantities of **olive oil**, in 2006 accounted for about 168 thousand tons for almost 829 MTD (a level that is close to the deficit of the balance of energy), up by 53.3% in quantity and 73.9% in value compared to 2005. Worth of note also that the export prices rose by 13.4% in 2006, to reach 4,943 dinars per ton.

As for the **dates** campaign, production is estimated at about 131,000 tons vs. 113 thousand in the previous campaign.

On the contrary, exports in 2006 accounted for just 37.6 thousand tons for 117 MTD vs. 50.2 thousand tons and 130.6 MTD a year earlier.

As for **pulses**, cultivated areas with late season potato covered 12 thousand hectares compared to 11 thousand in the previous campaign. The expected production is estimated between 130 and 150 thousand tons, of which 17 thousand tons would be exported compared to a production of 100 thousand tons in the previous campaign. These quantities help to cover consumer needs over the gap period.

In **livestock** sector, provisional data show that **fresh milk** production rose by 6% in 2006, coming in at 971 million litres. This was favourably reflected on the level of the **collected quantities** that totalled 460 million litres vs. 432 million in 2005.

Sterilised fresh milk production posted the same trend, going up by about 4% in 2006 (362 million litres vs. 347 million a year earlier), whereas milk consumption posted about 5% progress. Worth of note that buffer stocks in the beginning of January 2007 totalled about 23.5 million litres of sterilised fresh milk.

In the **sector of fishing and aquaculture**, production stagnated at 100,000 tons over the first eleven months of 2006, compared to the same period of the previous year. All fishing modes posted a more or less significant drop, exclusive of **blue fish production** (9%) and **lagoon fish** (3%).

By **region**, production rose in the governorates of Monastir (23%), Bizerte (22%), Sousse (16%) and Nabeul (15%) and in the region of Tunis-Ben Arous (8%), whereas it regressed in the other governorates.

Seafood exports totalled about 20 thousand tons in 2006, for a value of 225.4 MTD vs. 20.6 thousand tons and 202.4 MTD in 2005. Thus, **the balance of food with abroad** posted a 259.2 MTD surplus compared to 132.3 MTD a year earlier, leading to an increase in the coverage rate of imports by exports (119.6% vs. 112.1% in 2005).

On the other hand, **domestic market supply** was regular both for winter vegetables and fruits.

2- Industrial Activity

In 2006, the industrial activity posted a recovery compared to the previous year which resulted in faster pace in production and higher level of exports.

In this framework, **the general index of industrial production** posted 3.4% increase in the first eleven months of 2006 compared to 0.7% in the same period of the previous year. This recovery is attributable to **manufacturing industries** which progressed by 5.5% vs. 0.3% at end November 2005 thanks to net increase in mechanical and electrical industries production (21.3% vs. 10.7%) and in agrofood industries (5.2% vs. -1.7%), in addition to shower decrease in textile clothing and leather footwear (-1.2% vs. -5.5%).

However, **the sector of energy** posted 2.6% drop at end November 2006 compared to 2.3% increase over the same period of 2005. Thus, production of the **mining sector** continued to regress for the second year in a row and at a faster pace (-10.3% vs. -1.3%), due to a drop in the production of phosphate (-4.8%) and suspension of production of other mining product such as zinc and lead following stock exhaustion.

Concurrently to manufacturing industries progress, **high and medium**

voltage electricity consumption in the industrial sector grew at a faster pace : 3.7% at end November 2006 vs. 1.5% in the same period of the previous year.

The industrial activity revival was accompanied by net increase in **the imports of raw materials and semi-finished products** : 15.4% in 2006 vs. 5.7% a year earlier. In the same way, **capital goods imports** grew by 20.5% vs. 3.8%.

As for **exports**, manufacturing industries sales, other than agrofood rose by 10.2% in 2006 vs. 8.9% in the previous year thanks to net increase in the exports of mechanical and electrical industries (22.9%), miscellaneous industries (24.6%) and building material, ceramics and glass industries (25.3%), whereas exports of textile and clothing posted a slight drop (-0.6% vs. -0.9%). Exports of agrofood industries were also consolidated following substantial rise in olive oil sales (829 MTD vs. 477 MTD in 2005).

On the other hand, the implementation of several programmes related to promotion of the industrial sector was pursued in 2006. In fact, the number of companies participating in the **upgrading programme** totalled 3,671 units, of which 2,434 companies obtained approval for their upgrading plan with a global amount of investment that amounted to 3.795 MTD.

The implementation of the **national programme of energy control** helped also to achieve energy conservation by about 270 thousand ton of oil equivalent and to save 87 MTD, considered as equalisation for 2006 to mitigate the impact of energy bill.

3- Tourism

In 2006 the tourist sector posted positive results that concerned all para-

meters despite a certain deceleration compared to 2005.

As for **foreign tourist flows**, December 2006 posted 11.7% drop in terms of annual drift compared to -10.1% in the same month of last year. This decline is attributable, mainly, to Maghreb tourist entries (-25.4%).

For the year 2006 as a whole, the number of foreign tourists amounted to about 6.55 million tourist, up by 2.7% vs. 6.3% a year earlier. The deceleration hit, mainly, the **Europeans** (2.3% vs. 11.1% in 2005), the German (-4.4% vs. 0.5%), the Italians (-1.9% vs. 5.6%) and the Spanish (-4.1% vs. 2.7%). On the contrary, Maghreb tourist flows posted a recovery (3.6% vs. -0.9%), notably, the Libyans (4.8% vs. -2.2%).

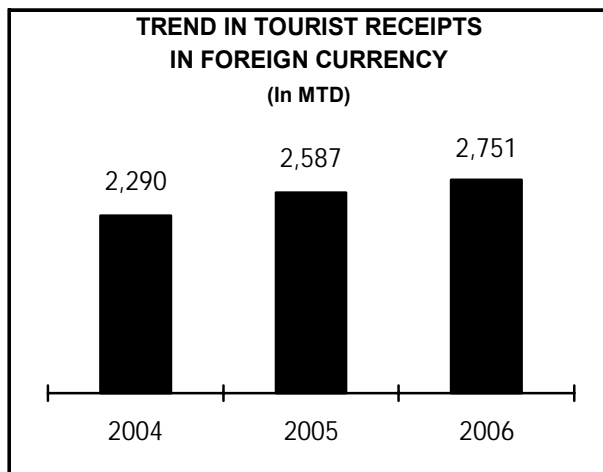
Overall tourist bednights dropped by 2.7% in December 2006 vs. -6% in the same month of 2005. Last year as a whole was marked by a growth rate of 1.4% vs. 2.4% a year before, amounting to 36.8 million . This trend was led, mainly, by a drop in the number of bednights in the areas of Monastir-Skanes and Tabarka-Ain Draham (-1.2% each), Tunis-Zaghouan (-3.7%) and Gafsa-Tozeur (-2.5%) ; in addition to a lower progress in other zones, notably, of Nabeul-Hammamet (11% vs. 10.5%), Jerba-Zarzis (1.4% vs. 5.9%) and Sousse (1.2% vs. 7%).

Thus, the **relative rate of occupancy** stood at 51.5% in 2006. The zone of Mahdia posted the highest rate (66.5%), followed by the zones of Jerba-Zarzis (62.4%), Sousse (59.7%) and Yasmine-Hammamet (58.3%). The other zones recorded an occupancy rate that is lower than the general average.

Tourist receipts in foreign currency progressed by 2.5% in December 2006 compared to 6.8% drop in the same month

of 2005. Over 2006, these receipts rose by 6.3% vs. 13% a year before, coming in at 2.751 MTD.

As for 2007, tourist receipts in foreign currency amounted, at the end of the first ten days of January, to 53.7 MTD, up by 15.7% vs. 17.2% in the same period of last year.



4- Air Transport

Concurrently with a decrease in the number of foreign tourist entries, passengers **air traffic** progressed in 2006 at a slower pace than a year before. Passengers' number increase came in at just 1.6% at end November vs. 9.1% in the same period of 2005. This trend hit, mainly, **international flights**. **Domestic flights** continued to drop despite advantageous fares.

5- Investment projects

Investment projects declared over the first eleven months of 2006 in **manufacturing industries** totalled 2.210 MTD vs. 1.657 MTD in the previous year, thanks to 7.2% increase in the number of declared projects vs. 0.9% in 2005. These projects would help create more than 61,000 jobs, up by 21.1% compared to a year before. Investment project progress in this sector concerned both **totally-exporting**

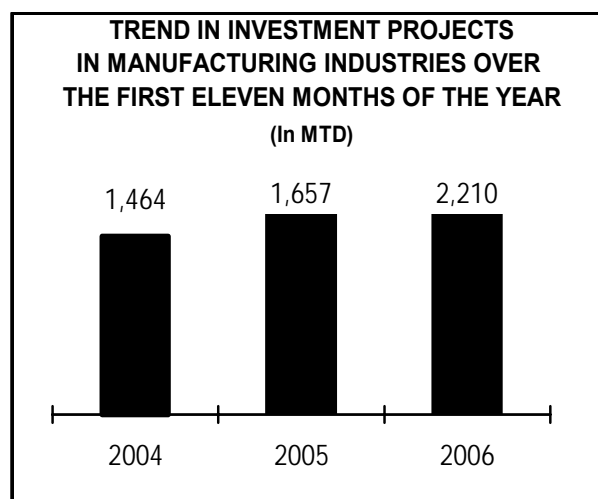
industries (81.4%) and **domestic market-oriented industries** (12%).

Sectoral breakdown of investment projects in the industrial sector posted a progress in all the sectors, exclusive of building material, ceramics and glass industries (-24.9%). In fact, investment projects were multiplied by 8 in leather and footwear industries and by 5 in chemical industries ; whereas in the other sectors they rose at rates varying between 2.7% in agrofood industries and 48.3% in mechanical and electrical industries.

Geographic breakdown shows net increase of investment projects in the **regional development zones** (92%). Thus, the share of these zones in overall declared investments went up from 33.4% to 47.9% from one year to the next.

In **services other than tourism** investment project rose substantially by 49.8% in November 2006 vs. 21.1% drop in the same period of the previous year, coming in at 539 MTD. This recovery is due to a progress of about 25% in the number of declared projects that amounted to 3,568 units. These investments would help create about 19,000 jobs, a level comparable to that of 2005.

As for achievements, investment in manufacturing industries totalled 939 MTD at end November 2006, up by about 10% compared to the same period of 2005.



6- Trend in prices

Household consumer price index regressed by 0.1% in December 2006 compared to -0.2% in November and 0.6% rise in 2005. This trend, is notably led by a substantial drop in foodstuff prices (0.7%), in particular, poultry (-8.5%), olive oil (-5.2%) and vegetables (-1.1%). Worth of note that the price rise concerned **housing** (0.5%), **transport** and **clothing** (0.3% each).

In terms of annual drift, consumer **price index** stood in December 2006 at its lowest level as of the beginning of the year (3.1% vs. 3.8% in the previous month and 3.9% in 2005). Worth of note that the progress pace of this index posted a downward trend as of July (5.2%).

In terms of monthly averages, the **inflation rate** grew at a significantly faster pace in 2006, reaching 4.5% (2.2 percentage points of which with respect to inherited inflation) compared to 2% a year earlier and 4.2% estimated in the framework of the economic Budget.

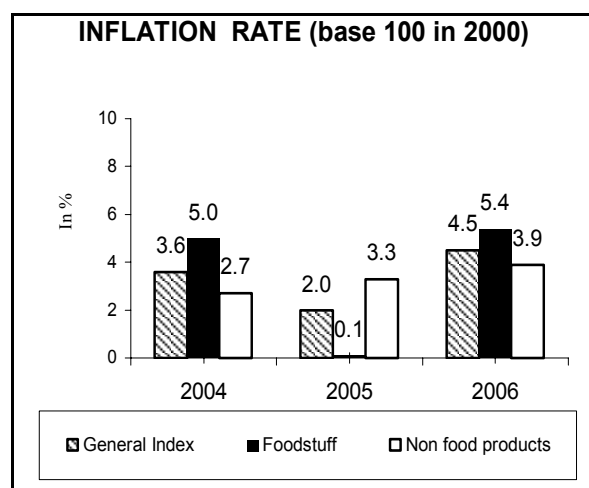
Excluding prices of **clothing**, **maintenance**, **hygiene** and **care** which grew at a slower pace than in 2005, prices of the other items grew at a more or less rapid pace that concerned, mainly, **transport** (6.4% vs. 4.8% in 2005), following adjustment of energy and **foodstuff** prices (5.4% vs. 0.1%) due to an increase in oil prices (21.8% vs. 17.2%), fruits (7.3% vs. -8.6%), vegetables (5.5% vs. -3.9%), sugar and candy (6.5% vs. 1.1%) and meat and poultry (6.2% vs. 1%), in addition to prices of housing (4.8% vs. 3%), due to an increase in home maintenance and repair

cost (6.7% vs. 2.7%) and expenditures related to energy (59.4% vs. 5.3%).

Excluding foodstuff, price rise reached 3.9% in 2006 vs. 3.2% a year before. **Exclusive of foodstuff and energy**, the **inflation rate** stood at almost the same level as last year (2.8% vs. 2.7%). Worth of note that **energy** prices went up by 14.9% in 2006 vs. 9% in 2005.

Foodstuff and energy price rise contributed with almost 62% in the inflation rate or 2.8 percentage points vs. 25% or 0.5 percentage point in 2005.

By regime of price fixing, **non-controlled product** prices grew at a significantly faster pace in 2006 (4.6% in average vs. 1.7% in 2005), mainly for **foodstuff** (6.5% vs. -0.1%). Concurrently, **controlled product** prices posted the same trend (4.3% vs. 2.9%) that concerned the prices of **foodstuff** (1.3% vs. 0.6%) and **other products** (5.3% vs. 3.8%).



FINANCIAL SYSTEM SITUATION : Improvement of bank liquidity in the last quarter of 2006 and control of M3 aggregate progress, notably, over the last four months of 2006, leading to 11.2% rise of this aggregate over the year as a whole, a rate that is close to updated forecasts (11%).

I - BANK LIQUIDITY AND REFINANCING OF THE FINANCIAL SYSTEM¹

1- Bank liquidity

After a tightening in the third quarter of 2006, bank liquidity improved significantly over the last quarter, marking thus the expansive effects exerted by net assets on abroad and, to a lesser degree, bills and coins in circulation.

At 6,460 MTD over the fourth quarter of 2006, **net assets on abroad** contributed to bank liquidity improvement by 615 MTD vs. 2,485 MTD over the previous quarter. Yet, exclusive of proceeds from the privatisation of Tunisie Télécom encashed in July, progress in this factor would be 103 MTD over the fourth quarter of 2006 vs. 23 MTD a quarter before. This evolution is attributable entirely to firming up of net assets in foreign currency which progressed by 691 MTD from one quarter to the next. Their level was consolidated following encashment of proceeds from the above mentioned privatisation on the one hand and drawings on external borrowings, notably, with respect to EIB (57 MTD), the Agence Française de Développement (51 MTD), the ADB (39 MTD), the World Bank (29 MTD) and the Japanese Bank of International Cooperation (20 MTD) concurrently with the encashment of 41 MTD with respect to European Union grants on the other hand. Net assets in

foreign currency would have been higher if it had not been for significant expenditure of loan granted by the World Bank and another by the EIB. Worth of note on the other hand that the above mentioned increase in net assets on abroad was lessened by the restrictive effects exerted simultaneously by the accounts «foreign currency of authorised intermediaries» and intervention on the money market in foreign currency with 38 MTD and 27 MTD, respectively.

In the same way, **bills and coins in circulation** which came in on average at 3,793 MTD over the considered period exerted an expansive effect of 56 MTD on bank liquidity vs. 204 MTD restrictive effect in the previous quarter. Over this period, this factor fluctuated between a minimum of 3,673 MTD and a maximum of 4,079 MTD. The last amount was recorded on 29 December 2006, Aid El Idha eve.

However, **the net balance of public administration** which regressed by 23 MTD vs. 104 MTD a quarter before, contributed to bank liquidity tightening. This trend reflects, mainly, the 26 MTD increase in the **balance of Treasury current account** due, notably, to net subscriptions to Treasury bonds (+186 MTD) combined with encashment of part of the profit of the Groupe Chimique Tunisien (62 MTD) and collection of 41 MTD with respect to the European Union grants. Worth of note that the transfer of 233 MTD as from the account «foreign currencies awaiting allocation» to the

¹ Statistical data are presented in terms of daily averages.

Treasury current account helped notably to reimbursed in advance loans given by the World Bank (185 MTD) and the EIB (5 MTD). The above mentioned rise was however lessened by significant amounts incurred with respect to reimbursement of external debt as well as payment of maturity with respect to firm claims vis-à-vis the Cereal Board and the National Oil Board (81 MTD).

The item «Other factors» which rose sharply in the third quarter of 2006 after computing the proceeds from the privatisation of 35% of the capital of Tunisie Télécom (2,250 million dollars) in the account «foreign currency awaiting allocation», (an operation with no impact on liquidity) was further consolidated, to reach 2,930 MTD, exerting thus a restrictive effect of 276 MTD on bank liquidity. This evolution is mainly led by :

- 170 MTD increase in the account «foreign currency awaiting allocation» and this despite transfer of 233 MTD in the Treasury current account on 25 December 2006 ;

- 90 MTD rise in the account «proceed on foreign currency operations» which varied between 172 MTD and 492 MTD over the considered period, with its level consolidating particularly towards the end of the year.

In considering the evolution of the main autonomous factors of bank liquidity, the central Bank intervened to mop up overall, **in the framework of its monetary policy operations**, an average amount of 21 MTD over the fourth quarter of 2006 compared to an average injection of 323 MTD over the previous quarter. Thus, assets in banks current account rose by 28 MTD to reach 246 MTD.

TREND IN FACTORS OF BANK LIQUIDITY ⁽¹⁾

(Daily averages in MTD)

Description	4 th quarter 2006	3 rd quarter 2006	Variat.
			4 th quar.2006 3 rd quar.2006
Bills & coins in circulation	-3,793	-3,849	+56
Net balance of public administration	530	553	-23
Of which : Treasury current account balance	-398	-372	-26
Net assets on abroad	6,460	5,845	+615
Of which : Net assets in foreign currency	8,505	7,814	+691
Other factors	-2,930	-2,654	-276
= (A) TOTAL AUTONOMOUS FACTORS	267	-105	+372
Calls for bids	-86	-20	-66
One to seven-day allowance uptake	0	13	-13
Three-month Treasury bond allowance	0	0	0
Net tapping operations	2	-9	+11
Open market operations	201	349	-148
Repurchase agreement	-138	-10	-128
= (B) TOTAL OPERATIONS OF MONETARY POLICY	-21	323	-344
= (A)+(B) ASSETS IN BANKS' CURRENT ACCOUNT	246	218	28

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

2- Monetary Policy Operations

Bank liquidity easing as of the second half of August 2006 particularly accentuated over the next months leading to liquidity surplus in October and November. This situation was, notably, boosted by faster pace of M3 aggregate led by rapid evolution of net claims on the State and an increase in financing to the economy. Worth of note in this context and as a reaction to the renewed outbreak of inflation led, notably, by soaring hydro-carbon and commodities world prices, the Central Bank intervened towards end September to raise its key rate by 25 base points, up to 5.25%, a rise that was impacted on the money market rate (TMM) and therefore on the sayings interest rate (TRE).

To help monetary policy transmission mechanisms to fully come out with their effects, notably, with respect to curbing liquidity surplus, the Central Bank raised at end November its reserve requirement rate, bringing in up from 2% to 3.5%¹ and modified its period of constitution². On the other hand and as a result of money market average rate rise, the savings interest rate rose by 25 base points in December 2006, to reach 3.25%.

At the operational level, transactions on the interbank market came in at 259 MTD over the fourth quarter of 2006 compared to 318 MTD over the previous quarter. Sight transactions accounted for 42% vs. 65% over the third quarter. However, the share of forward transactions was consolidated from 35% to 58% from one quarter to the next.

In the framework of its monetary policies, the Issuing Institution intensified its interventions in the form of Open-market operations in a context marked by bank liquidity easing. In the fourth quarter of 2006, two firm purchases of Treasury bonds operations were carried out for respective amounts of 31 MTD and 32 MTD, corresponding to a total of 63 MTD. These operations were carried out on bonds equivalent to Treasury bond (BTA) lines falling due in June 2008 (10 MTD) and March 2009 (53 MTD). Thus, the outstanding balance of **Open Market Operations** updated to market price regressed from 221 MTD at end September 2006 to 156 MTD at end December ; whereas the outstanding balance came in at 201 MTD, 148 MTD less than the previous quarter.

¹ Outstanding balance of sight deposits, other sums owed to the clientele, certificate of deposits with initial duration of less than 3 months and failure to respect the liquidity ratio over the considered month.

² The period for building up the reserve requirement for a given month varies between the first and the last day of the following month.

Over the considered period, the Central Bank intervened four times, through **negative calls for bids** to mop up liquidity surplus for amounts fluctuating between a minimum of 143 MTD and a maximum of 230 MTD. Overall, an average amount of 86 MTD was mopped up in this form, compared to 20 MTD in the previous quarter.

Repurchase agreement operations introduced for the first time on 15 September 2006 were consolidated in the last quarter of 2006. Their average outstanding balance was up from 10 MTD to 138 MTD from one quarter to the next.

To adjust bank liquidity, the Central Bank carried out also **fine tuning operations**. In October and November, which were marked by liquidity surplus, the Issuing Institution carried out four tapping actions in the form of uptakes for amounts varying between 80 MTD and 204 MTD. However, three liquidity injection operations were carried out towards end December, Aid El Idha eve following, notably, bank liquidity tightening which was particularly led by an important rise in bills and coins in circulation. Overall, net tapping operations yielded liquidity injection that amounted to 2 MTD vs. 9 MTD tapping in the previous quarter.

In considering the evolution of the different modes of intervention of the Central Bank, **monetary policy operations** yielded over the fourth quarter of 2006 an average tapping of 21 MTD vs. an injection of 323 MTD in the previous quarter.

Day-to-day interest rate on the money market fluctuated over the considered period between 5.13% and 5.42%. Thus, the money market average rate came in at 5.22%, 5.26% and 5.33% respectively in October, November and December.

Repurchase agreement transactions were carried out at rates varying between 4.97% and 5.25%.

II – TREND IN FINANCIAL SYSTEM RESOURCES AND THEIR COUNTERPARTS

Financial system use of funds in 2006 was marked by firming up of all components. This evolution was impacted on M3 aggregate which rose by 11.2%, to reach 2,668 MTD vs. 11% in the previous year and an updated forecast of 11% for all the year 2006. Worth of note that the faster growth in M3 aggregate over the first eight months of 2006 and which accounted for about 90% of the above mentioned rise could be curbed over the last four months of the year, period over which this aggregate rose by just 266 MTD vs. 1,063 MTD rise over the same period of the previous year. On the other hand, the pursuit of a restrictive monetary policy over the last quarter of the year that was marked by an increase in the key rate of the Central Bank on the one hand and the reserve requirement rate on the other helped to limit the impact of this evolution.

In terms of monthly averages the growth rate of M3 was up by 12.4% in 2006 vs. 9.6% in 2005 compared to nominal growth rates of 8.7% and 7.2% respectively, leading thus to an increase in the economy liquidity rate : up from 60.1% to 62.1%.

1- Money supply M2

Money supply M2 rose by 12% at end 2006 compared to 11.5% in the previous year. This evolution reflects the combined effect of faster growth in quasi-money and slower growth in available money.

Available money (M1) rose by 12.6% compared to its level in December 2005 vs. 13.7% a year before. This slower pace is due to slowdown in the progress pace of

fiduciary money. In fact, the latter progressed at end 2006 but at a slower pace than the previous year : 11.8% vs. 17.2%. This trend is attributable mainly, to slower growth in bills and coins in circulation which went up by just 12.7% or 460 MTD compared to 16.3% or 508 MTD. This aggregate which posted an uneven evolution throughout the year (characterised by the seasonal effect), reached its highest level in December (4,079 MTD) and this in the wake of firming up of expenditures in Aid El Idha which coincided this year with the end of year holidays.

The share of fiduciary money which accounted for 38.1% of overall available money (M1) in November 2006, came in at 39.5% in December of the same year compared to 39.8% in the previous year.

Representing 60.5% of overall available money in December 2006, bank money amounted to 5,959 MTD, a firming up by 13.2% vs. 11.3% in the previous year. This trend is due, mainly, to faster pace in sight deposit at banks which rose by 14.5% vs. 10.2%. From one month to the next, the latter grew by 3.4% (186 MTD). This rise concerned, mainly, deposits of the company «Tunisie Télécom» and the company for promoting tourism «BKALTA».

In parallel, quasi-money rose by 11.6% in 2006 vs. 10.1% in the previous year. This progress is due to notable firming up in certificates of deposits (4.1% or 39 MTD vs. a drop of 6.4% or 65 MTD) and faster progress pace both for deposits in special savings accounts at banks (9.5% or 468 MTD vs. 6.6% or 303 MTD) and savings at the postal savings centre (13.2% or 186 MTD vs. 12.1% or 152 MTD). In the same way, forward deposits and other financial products rose but at a slower pace than a year before (13.1% or 685 MTD vs. 17.3% or 771 MTD).

Following a continued drop over the first eight months of the year, quasi-money regressed in September due notably, to a drop in the outstanding balance of certificate of deposits then went on an upward trend as of October to reach its record high level before regressing by 114 MTD in December due to 157 MTD drop in the outstanding balance of certificate of deposit. This evolution was, mainly, led by reimbursement of certificates falling due and which were subscribed to beforehand by the national fund of social security (CNSS).

TRENDS IN FINANCIAL SYSTEM RESOURCES AND THEIR COUNTERPARTS *

(Figures at end of period in MTD)

Description	Dec. 2006	Variations in %	
		Jun. 2006 Dec. 2005	Jun. 2005 Dec. 2004
M4 AGGREGATE	26,728	11.1	10.9
Money supply (M3)	26,489	11.0	11.2
Money supply (M2)	24,793	11.5	12.0
Money (M1)	9,846	13.7	12.6
Quasi-money	14,947	10.1	11.6
M3 – M2	1,696	4.4	0.3
M4 – M3	239	22.8	-14.6
NET CLAIMS ON ABROAD**	6,881	986.0	2,768.0
DOMESTIC LOANS	31,530	6.7	9.8
Net claims on the State**	5,117	341.0	951.0
of which: Treasury bonds **	2,137	103.0	387.0
Treasury current account**	444	24.0	-244.0
Financing of the economy	26,413	6.3	7.6

* Provisional data for 2005.

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

2- "M3 - M2" aggregate

This aggregate posted a deceleration in 2006, going by just 0.3% vs. 4.4% in the previous year. This trend is due, mainly to a regression in the outstanding balance of debenture loans (-7.2% vs. 3.2% in the previous year combined with an increase in the outstanding balance of home-savings (5.3% vs. 5.1%). It should be noted that bond issues over the considered period totalled 210 MTD, 90 MTD of which subscribed to entirely (vs. 55 MTD over the same period of the previous year) and

issued by the ARAB TUNISIAN LEASE (30 MTD in May 2006), El WIFACK LEASING (5 MTD in June 2006) TUNISIE LEASING (15 MTD in August 2006) and the Banque Tuniso-Koweitienne (40 MTD in September 2006). From one month to the next, the outstanding balance of debenture loans dropped by 21 MTD, due mainly to reimbursement of the second portion of the debenture loan of the BIAT (BIAT 2002), the fifth portion of the debenture loan of MODERN LEASING (MODERN LEASING 2001) and the fourth portion of the debenture loan of AMEN LEASE (AMEN LEASE 2002/1). Worth of note that AMEN BANK and ETTIJARI BANK issued two debenture loans for respective amounts of 40 MTD and 80 MTD which were not fully subscribed to.

3- Net claims on abroad

This aggregate went up notably by 2.768 MTD over the considered period compared to its level in December 2005 vs. +986 MTD in the previous year. This trend was led by an increase in net assets in foreign currency (+2,833 MTD vs. +1,139 MTD). Worth of note that net assets in foreign currency which followed a downward trend as of the beginning of the year that was accentuated in March (-499 MTD) following reimbursement with respect to debt service, and particularly the debenture loan «GLOBAL SAMURAI II» (415 MTD, corresponding to 35.4 billion yens) increased significantly as of July following the encashment of proceeds from the privatisation of 35% of the capital of Tunisie Télécom (2,250 million dollars), to reach their highest level (8,751 MTD or 165 days of import) in September 2006. This evolution was also attributable to mobilising of external resources, of which notably the 85 MTD borrowing given by the EIB to the STEG.

Thus, and following the encasement of the above-mentioned privatisation proceeds, the State decided to reimburse in advance a number of external borrowings at high costs. In this context, a global amount of 432 MTD was reimbursed, of which 166 MTD in August (notably with respect to the borrowing given by the ADB in the framework of the programme to support economic competitiveness «PACE II» for an amount of 113 MTD) and 199 MTD in September (of which the loan given by the IBRD for a global amount of 185 MTD).

From one month to the next, net assets in foreign currency progressed by 357 MTD, reaching 8,705 MTD at end 2006, corresponding to 159 days of import vs. 5,872 MTD and 124 days in December 2005. This evolution is led by encashment of 123 MTD in external borrowings, of which 57 MTD with respect to the EIB, 26 MTD to the Agence Française développement (AFD) for the Banque de l'Habitat, 19 MTD with respect to the Japanese Bank for International Cooperation (JBIC) and 10 MTD with respect to IBRD and this concurrently with a grant given by the European Union in December for 41 MTD, 7.7 MTD of which for the company «SOTUGAR ». The above-mentioned rise would have been more pronounced if it had not been for the reimbursement of 236 MTD with respect to external debt service, 19 MTD of which reimbursed in advance for the EIB.

4- Net claims on the State

This aggregate rose in 2006 by 951 MTD vs. 341 MTD in the previous year. This trend is attributable to a drop in the balance of the Treasury current account (-244 MTD) combined with a decrease in the outstanding balance of the Treasury current account (-244 MTD) combined with an increase in the outstanding balance of Treasury bonds in banks portfolio

(+387 MTD). Worth of note that overall net issues of Treasury bonds totalled 808 MTD at end 2006 (801 MTD of which in the form of bonds equivalent to Treasury bonds vs. 107 MTD in 2005). Thus, the global outstanding balance of Treasury bonds came in at 6,074 MTD at end 2006, of which 2,137 MTD with respect to banks.

5- Financing of the economy

This aggregate rose by 7.6% or 1,875 MTD vs. 6.3% or 1,455 MTD in the previous year, an increase that was close to forecasts (7.8%) for the year as whole. This trend is attributable both to an increase in loans from ordinary resources (8.7% or 1,839 MTD vs. 7.1% or 1,409 MTD in 2005) and securities-portfolio (8.8% or 121 MTD vs. 10.9% or 135 MTD). Loan from special resources continued their downward trend at a slower pace than a year before (-2.6% or -44 MTD vs. -7.8% or -141 MTD). From one month to the next, financing to the economy progressed by 0.4% or 108 MTD.

The outstanding balance of treasury bills including approval and guarantee posted an uneven trend. In fact, after reaching record high levels in May (295 MTD), it went down to 239 MTD at end December 2006, going thus down by 41 MTD compared to December 2005 vs. 52 MTD rise in the previous year.

Trend in loans to professionals and private individuals over the first eleven months of 2006 shows as per statistics of the risk base and private individual credit registry including approvals and guarantees that the sector of services enjoyed most of this rise : 1,528 MTD (of which 391 to finance trade vs. 201 MTD, 352 MTD to finance current expenditure of private individuals vs. 454 MTD ; 331 MTD for real estate promotion and home financing vs. 399 MTD and 59 MTD for

tourism vs. 37 MTD last year) compared to 1,185 MTD in the previous year. Loans to industry rose by 175 MTD (79 MTD of which for mechanical and electrical industries vs. 167 MTD ; 31 MTD for building materials, ceramics and

glass vs. 30 MTD and 26 MTD for printing paper and polygraphist industry vs. 33 MTD) compared to 429 MTD a year earlier. Furthermore loans to agriculture rose by 141 MTD vs. a stagnation in the previous year.

CAPITAL MARKET : Recovery of issues through public call for savings for companies along with a consolidated volume of transactions and soaring stock indexes in 2006

In 2006, the capital market activity was positive. In fact issues through public call for savings for companies were consolidated along with high volume of capital trading and ongoing rise in stock indexes at an accelerated pace.

On the other hand, major events marked the year 2006, and concerned :

1- The stock listing enriching by 3 new entries : the Société Immobilière Tuniso-Séoudienne (SITS), the leasing company El Wifack Leasing and the company Essoukna. This brought the number of listed companies up to 48 at end 2006¹ ;

2- Reduction in the nominal value of capital securities for 7 listed companies : the Arab Tunisian Bank (ATB), the Société Immobilière Tuniso-Séoudienne (SITS), the société Tunisienne des Marchés de gros (SOTUMAG), Tunisie Leasing (TL), the Société Moderne de Céramique (SOMACER) and the Société Générale Industrielle de Filtration (GIF filter)² ;

¹ - These companies reduced the nominal value of their shares up to the regulation minimum of 1 dinar per share, except Tunisie Leasing whose share's nominal value was brought from 10 to 5 dinars.

² -These companies reduced the nominal value of their shares up to the regulation minimum of 1 dinar per share, except Tunisie Leasing whose share's nominal value was brought from 10 to 5 dinars.

3- Listed companies disclosure of quarterly indicators of their activity in compliance with the n°2005-96 of 18 October 2005 dealing with reinforcing financial relations security ;

4- Agreement for new types of mutual investment funds (OPC) and companies managing portfolio on behalf of third parties and this for the first time as from the promulgation of the law governing them³ ;

5- Transfer of 35% of the capital of the national company of telecommunications Tunisie Télécom, by the State to the Emirate Consortium «Tecom-Dig» for a global amount of 2,250 million dollars.

Primary market ⁴

Issues through public call for savings which dropped by 35.1% in 2005, recovered in 2006 with their global package

³ - This concerns the laws :

-n° 2001-83 of 24 July 2001 promulgating the code of OPC as completed by law n°2005-105 of 19 December 2005 dealing with the creation of capital risk mutual investment funds ; and (FCPR) ;

-n°2005-58 OF 18 July 2005 dealing with start up funds ;

-n° 2005-96 of 18 October 2005 relating to reinforcement of financial relations security.

⁴ 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.

totalling 1.958 MTD, up by 140 MTD or 7.7% compared to 2005.

The recorded rise is due to consolidation of issues through public call for savings for companies, contrasting with a drop in the Treasury drawings.

State issues were limited to 1,495 MTD in 2006, compared to a global amount of 1,631 MTD a year earlier, down by 136 MTD or 8.3%, in line notably with encashment of the remaining portion of the sale of the mobile phone license -ORASCOM- and a portion from the transfer of 35% of the capital of «Tunisie Télécom».

Worth of note that in order to diversify instruments of the State domestic indebtedness and to boost the capital market activity, The Treasury started as of October 2006 to issue a new category of bonds called zero coupon Treasury bonds (BTZc) created by decree n°2006-1208 of 24 April 2006, fixing terms and conditions of issue and reimbursement of Treasury bonds.

The accumulated annual volume of issues of these bonds amounted to 107 MTD vs. 902 MTD and 486 MTD respectively for bonds equivalent to Treasury bonds (BTA) and short term Treasury bonds (BTCT).

Treasury bond issue breakdown by maturity shows in 2006 diversified BTA issues with the opening of 2 new lines of 6 and 7 years contrasting with the exclusive drawing on 52-week maturity for BTCT. BTZc issues accounted exclusively for 10-year maturity.

As for bond issues yield, the limited offer by the Treasury combined with the decision of the central bank to raise its key rate by $\frac{1}{4}$ of a percentage point up to 5.25% on 26 September 2006 gave an end to the downward movement in the weighted average rate -TMP- at BTA and

BTCT issues.

The latter stood out as of September of the 5.1% rate at which they had been maintained as of the last quarter of last year and followed an upward trend, increasing to 5.408% over the last auction of December 2006.

Contrasting with a drop in public issues, companies issues through public call for savings posted a sharp rise, giving thus an end to 4 consecutive years of drop and totalling, in 2006, a global amount of 463 MTD vs. 187 MTD a year earlier.

In this framework, capital securities issues came in at 235 MTD¹, of which 198 MTD representing a contribution in new money and the remainder was carried out through incorporation of reserves. These same volumes were 87 MTD and 67 MTD respectively in 2005.

Concurrently, the bond market activity was revived with 8 debenture loans having been issued by 7 lending institutions and a hotel unit for a global amount of 228² MTD compared to 100 MTD a year earlier.

Worth of note in this respect that the year 2006 was marked by the launching of the first debenture loan convertible into shares ; this operation of 80 MTD was initiated by Attijari Bank at end December 2006.

Secondary market

Revival of the activity on the secondary market in 2005 was confirmed in 2006. The volume of capital trading was

¹ The subscribed amount in 2006 was limited at 197.5 MTD in considering the capital increase operation of the BIAT for 50 MTD paid up at the quarter of the amount in addition to an issuing premium of 75 MTD.

² From this amount, 150.8 MTD were raised in 2006, the remainder (77.2 MTD) related to debenture loans issued by Amen Bank and Attijari Bank having been subscribed to in 2007.

up despite the adjustment movement started in June and extended up to August 2006.

This revival is, in particular, due to new entries on the stock quotation as well as investors attraction with respect to a number of shares and positive development for bank shares which largely contributed to market boosting.

The impact of split operations initiated by a number of listed companies on the trend in rates and volumes of transactions was mitigated.

In this framework, transactions on the stock listing totalled 746 MTD, of which 100 MTD for transactions in bloc vs. 701 MTD and 160 MTD respectively a year before.

Concurrently, the number of shares traded on the stock listing rose from 41 million to 56 million from one year to the next.

As for the year 2005, capital trading accounted for a limited number of shares, of which 7 contributed with more than half of the global volume of transactions. This concerned the BIAT, TUNISAIR, SOTRAPIL, SFBT, BT, STB and BH.

In this context, stock capitalisation was consolidated from one year to the next, up from 1,651 MTD or 43% to 5,491 MTD at end 2006.

However, market liquidity rate posted a slight drop, down from 55% in 2005 to 52% in 2006.

Listed shares performance was up significantly thanks to significant rise in a number of shares which contributed to upward trend of the market.

Thus, 41 listed shares posted positive annual yields varying between 2.4% and 149.2% ; whereas the 7 remaining shares

posted a drop in their rates that varied between -6.3% and -26%.

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

Description	2005	2006	Variations
Global volume of transactions	1,660	1,555	-105
Stock quotation	701	746	45
Off list	25	39	14
Registry Operations	934	770*	-164
Volumes of issues through public call for savings	1,818	1,958	140
Shares	87	235	148
Bonds	100	228	128
Treasury bonds	1,631	1,495	-136

* Exclusive of Tunisie Telecom

The sharps increase was achieved by TUNISAIR thanks to high demand by local and foreign investors for this share and good performance by the company in 2006 to which was added the positive impact of the split operation at end August 2006.

However, STIP share was the least performing one over the year due notably to wider deficit for the company. Worth of note that the latter set a restructuring plan after seeing its capital stock equity reaching a level that is below 50% of its share capital.

Influenced by upward trend and tendency toward high demand on the market, stock indexes went on a rise, reaching record high levels over the year.

Thus, TUNINDEX, the stock capitalisation index posted an annual yield of 44.3%, closing for the year 2006 at 2,331.05 points, slightly below its record high level in closing as on 21 December 2006 (2,343.38 points). In the same way, BVMT index gained 40% over the year, amounting to 1,599.07 point at end December 2006.

TREND IN STOCK EXCHANGE INDICATORS
(Figures of end of period unless otherwise indicated)

Description	2005	2006
BVMT index in points (base 465.77 on 31 March 1998)	1,142.46	1,599.07
TUNINDEX index in points (base 1.000 on 31 Dec. 1997)	1,615.12	2,331.05
Stock exchange capitalisation (in MTD)	3,840	5,491
Nber of listed companies (in units)	45	48
Liquidity rate (in%)	55	52

As for the activity on the other market places, traded volume on the offlist was up by 14 MTD but is still fairly flat, amounting to 39 MTD in 2006.

However, registry operations posted a significant increase, coming in at 3,822 MTD¹ vs. 934 MTD over the previous year following notably the transfer of 35% of the capital of Tunisie Télécom.

As for foreign investment in portfolio and despite a noticed interest in acquisition of a number of shares, the rate of foreign participation in stock capitalisation regressed from 28.2% at end 2005 to 27.6% at end 2006.

In this framework, acquisition and transfers by foreign investors on the offlist totalled 143 MTD and 100 MTD respectively, whereas these same volumes were 77 MTD and 83 MTD respectively for registry operations². This yielded a net balance of 37 MTD vs. 191 MTD in 2005.

On the other hand, transactions on behalf of foreign investors carried out in 2006 concerned in particular, the shares of the airline companies Karthago Airlines and TUNISAIR, the share BH, SOTRAPIL and SPDIT which accounted for more than

half of the acquisitions on the stock quotation.

Registry operations focused on the shares of the «Société de Promotion Touristique de Mahdia» and «Jerba Golf» in addition to the shares of Tunisie Télécom.

OPCVM and investment companies' activity

The year 2006 was marked by the creation of the first joint claim fund (FCC) for 50 MTD and the achievement of the first securitisation transaction which accounted for the mortgage claims of the BIAT.

In the same way, over 2006 the first start-up fund and the first seven capital risk mutual investment funds (FCPR) were launched and this with a view to boosting investment.

On the other hand, the number of SICAV was consolidated following the CMF agreement for the creation of 3 new bond companies, bringing the total number of SICAV up to 41 at end 2006.

Concurrently, the number of mutual investment funds (FCP) went up from 7 to 20 following the agreement for 13 new funds, 2 of which of bond type.

The activity of mutual funds investing in securities (OPCVM) over 2006 was marked by an increase in the volume of managed fund, up by 309 MTD or 13.1% compared to its level at end 2005, amounting to 2,663 MTD, 2,468 MTD of which managed by bond units.

¹ Exclusive of «Tunisie Télécom», this amount come in at 770 MTD.

² Exclusive of « Tunisie Télécom ».

As for performance, the average annual yield of bond OPCVM went on the same downward trend to 4.09% vs. 4.15% a year earlier ; whereas mixed units increased from 5.46% to 9.83% from one year the next.

As for SICAR, the number of operating activities came in at 39 companies at end 2006 following the launching of a new unit by a private structure «Sharif SICAR» for a capital of 1.5 MTD.

Their capital stock equity regressed from 285 MTD to 266 MTD from one year to the next due to multiplied number of capital change operations by a number of SICAR in 2006¹.

TREND IN NUMBER OF INVESTMENT COMPANIES AND ASSETS MANAGED BY OPCVM

(Figures in MTD unless otherwise indicated)

Description	2005	2006
<u>OPCVM</u>		
FCP		
Units	7	21 (*)
Managed assets (in MDT)	1,430	23
<u>SICAV</u>		
Units	38	41
Managed assets (in MDT)	2,352	2,640
<u>Investment company</u>		
<u>SICAR</u>		
Units	38	39
Managed assets (in MDT)	285	266
<u>SICAF</u>		
Units	91	91
Managed assets (in MDT)	498	497

*Including start-up fund.

¹ This concern notably the operation of capital reduction of «SICAR Amen» (15 MTD), «Tunisie SICAR» (0.5 MTD) ; «Tuninvest SICAR» (1,071 MTD), and «SPPI SICAR» (3,0418 MTD) and the only capital increase operation (from 20 MTD to 23 MTD) carried out by «SICAR Avenir».

EXTERNAL PAYMENTS : Significant surplus in the general balance of payments despite higher energy deficit

The general balance of payments posted an important surplus of 2,779 MTD in 2006 compared to 1,216 MTD a year before.

This trend is due to notable improvement in the surplus of the balance of capital and financial operations which totalled 3,712 MTD in 2006 vs. 1,640 MTD, a year before and this following the transfer of 35% of the capital of Tunisie Télécom for 2,250 million dollars. However, the current deficit was worsened by 528 MTD, to reach 933 MTD in line with trade deficit widening that was led by significant rise in the energy deficit.

Thus, net assets in foreign currency went up to 8,705 MTD, corresponding to 159 days of imports in 2006 compared to 5,872 MTD and 124 days of imports a year earlier.

TREND IN THE MAIN BALANCES OF THE BALANCE OF PAYMENTS (In MTD)

DESCRIPTION	2004	2005	2006*
A - CURRENT PAYMENTS	-686	-405	-933
- Merchandises (FOB)	-3027	-2553	-3364
- Services	+2048	+2364	+2466
- Factor income	+151	-377	-190
- Current transfers	+142	+161	+155
B - CAPITAL & FINANCIAL TRANSACTIONS	+1930	+1640	+3712
- Operations in capital	+134	+165	+164
- Investment	+767	+940	+4282
- Short. medium and long term loan borrowings	+1029	+535	-734
C - ADJUSTMENT OPERATIONS (NET FLOWS)	-31	-19	-
GENERAL BALANCE	+1213	+1216	+2779

* Provisional figures.

I- Balance of current operations

This balance posted a 933 MTD deficit in 2006, accounting for 2.3% of GDP vs. 405 MTD and 1.1% in 2005.

This evolution is attributable, mainly, to larger trade deficit (up by 811 MTD) which, expressed FOB-FOB totalled 3,364 MTD) in 2006. However, the surplus of the balance of services improved, to reach 2,466 MTD in 2006 vs. 2,364 MTD a year earlier.

A- Balance of trade

Expressed FOB-CIF, the balance of trade was widened by 957.5 MTD in 2006, to reach 4,451.3 MTD and this was due to import rise at a faster pace than exports (15.6% and 12.6% respectively vs. 7.2% and 12.9% a year earlier).

In light of these evolutions, the rate of coverage regressed by 2.1 percentage points, to reach 77.5% in 2006.

The main evolutions of the different items of the balance of trade are :

- Worsening of the deficit of the balance of energy in 2006 by 331 MTD to 841.4 MTD. This evolution was led by imports rise at a faster pace than exports (26.1% and 14.8% respectively vs. 36.8% and 52.7% a year earlier). The rate of coverage dropped consequently from 77.5% to 70.6% from one year to the next.

- In the same way, the deficit of the balance of raw materials and semi-finished products was up in 2006 to 2,072.2 MTD vs. 1,726.2 MTD a year earlier following imports rise comparatively to exports (15.4% and 13.1 respectively vs. 5.7% and 14.4% in 2005). Thus, the rate of coverage dropped by 1.3 percentage points to 65.4%.

- Concurrently, the deficit of the balance of capital goods worsened in 2006, up from 2,251.1 MTD to 2,464.3 MTD. The rate of coverage improved however by 6 percentage points to 40.5% following an increase in the export of capital goods : up by 41.3% vs. 20.5% for imports.

- Reduction in the surplus of consumer goods in 2006, down to 667.6 MTD vs. 861.7 MTD a year earlier following import rise at a more sustained pace than exports (6.7% and 2.5% respectively) vs. 1.4% and 5.8% last year. The rate of coverage dropped consequently from 116.8% in 2005 to 112.2% in 2006.

- However, the surplus of the balance of food improved in 2006, to reach 259.2 MTD vs. 132.3 MTD in 2005. This trend was led by 29% rise in exports vs. 0.2% drop a year earlier ; whereas imports grew by 20.9% vs. 5.4% a year before. Thus, the rate of coverage increased by 7.5 percentage points, to reach 119.6% in 2006.

B- Balance of services and factor income

1- Balance of services

This balance improved in 2006, to reach 2,466 MTD vs. 2,364 MTD in 2005. This rise is mainly, led by higher tourist earnings, up by 6.3% to 2,751 MTD vs. 2,587 MTD a year earlier. Worth of note that overall bednights progressed by 1.4% in 2006.

2- Balance of factor income

The deficit of the balance of factor income reduced 187 MTD, to reach 190 MTD at end 2006. This improvement was led by 8.9% increase in work remittances (in cash and in kind) that totalled 1,967 MTD. This was in line with lower expenditure with respect to capital income which went up by just 2% to 2,364 MTD over the same period vs. 31.9% and 2,318 MTD a year earlier. In particular, expenditure with respect to medium and long term debt interest maintained almost the same levels in 2005, coming in at 843 MTD.

II- Balance of financial operations and in capital

This balance posted a significant surplus of 3,712 MTD in 2006 vs. 1.640 MTD the year before.

The main evolutions recorded in this framework are :

* The balance of foreign investment in 2006 posted a 4,282 MTD surplus vs. 940 MTD in 2005 and this following the transfer of 35% of the capital of Tunisie Télécom for 2,250 million dollar. This helped to consolidate earnings with respect to foreign direct investment which amounted to 4,342 MTD in 2006 vs. 1,016 MTD in 2005. Exclusive of this operation, these earnings totalled 1,370 MTD in 2006 vs. 1,016 MTD a year earlier, up by 34.8%.

* However the balance of loans borrowings posted a 734 MTD deficit in 2006 vs. 535 MTD. This trend was led by :

- Sharp rise in expenditure with respect to payment of medium and long term debt principal following early reimbursement by the administration for an amount of 432 MTD, 160 MTD of which for the ADB (August 2006) and 185 MTD

for the World Bank (October 2006). Furthermore, an early reimbursement of a syndicated borrowing was carried out in June 2006 with respect to a private debt of 266.5 million euros, which corresponds 447.5 MTD. Furthermore, Samurai II borrowing was reimbursed in March 2006 for an amount of 35 billion Japanese yen, corresponding to 405 MTD.

- Drop in drawings in lack of external resource mobilising on the international capital market, contrary to June 2005 which was marked by the Administration mobilising of 400 million euros, which corresponds to 634 MTD with respect to a debenture loan (euro-bond).

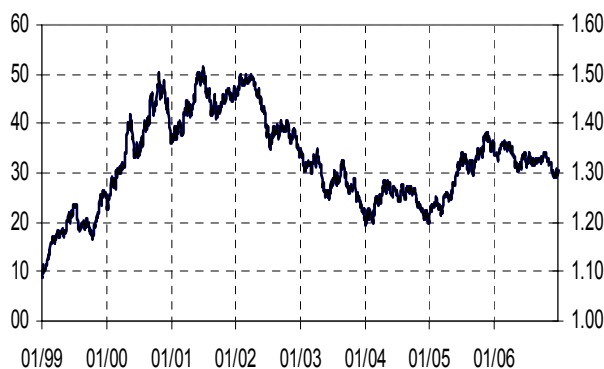
**TREND IN THE DINAR EXCHANGE RATE
AND FOREIGN EXCHANGE MARKET ACTIVITY IN 2006 :
Appreciation of the dinar against the Japanese yen and the US dollar
and depreciation against the euro and the Moroccan dirham.**

I. TREND IN THE DINAR EXCHANGE RATE

Over 2006, the dinar exchange rate on the interbank market posted an appreciation against the Japanese yen (7.3%) and the US dollar (5.1%). However, it depreciated against the euro (5.7%) and the Moroccan dirham (3.2%).

TREND IN THE EXCHANGE RATE USD/TND

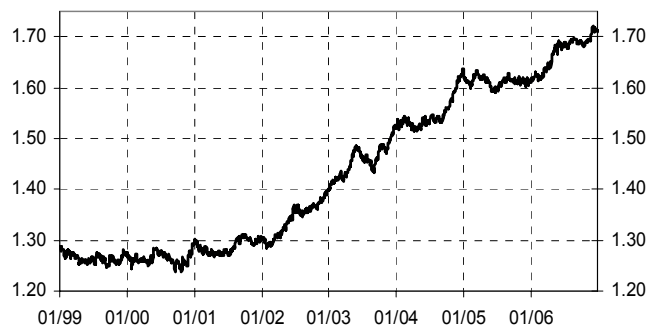
In dinar



In terms of annual averages and between the year 1999, date of launching the euro and 2006, the dinar depreciated on the interbank market against the euro (24.3%), the Moroccan dirham (19.2%), the US dollar (10.6%) and the Japanese yen (7.8%).

TREND IN THE EXCHANGE RATE EUR/TND

In dinar



II. TREND IN FOREIGN EXCHANGE MARKET ACTIVITY

A- Spot market

Transactions on the spot exchange market totalled 33,098 MTD in 2006 vs. 27,595 MTD in 2005, up by 5,503 MTD or 20%.

This evolution is in line with 4,260 MTD increase in currency/currency transactions and 1,243 MTD rise in currency/dinar transactions.

TREND IN SPOT EXCHANGE TRANSACTIONS

(in MTD)

Description	2005	2006	Variations in MTD
Transactions currency against dinar	17,595	21,855	+4,260
Transactions currency against currency	10,000	11,243	+1,243
Total	27,595	33,098	+ 5,503

1- Currency/dinar transactions

The volume of these transactions on the foreign exchange market in 2006 totalled 11,243 MTD vs. 10,000 MTD in 2005, up by 1,243 MTD or 12%.

The share of transactions in currency/dinar transactions accounted for 34% of the global volume of spot exchange transactions vs. 36% in 2005.

The Central Bank intervention came in at 1,205 MTD vs. 766 MTD in 2005, up by 439 MTD. In the same way, transactions on the interbank market rose by 804 MTD or 9%.

The share of interbank exchange came in at 89% in 2006, vs. 11% for the Central Bank (92% and 8% respectively in 2005).

TREND IN SPOT EXCHANGE TRANSACTIONS OF CURRENCY AGAINST DINAR

(in MTD)

Description	2005	2006	Variations in MTD
Interbank market	766	1,205	+439
Transactions with the Central Bank of Tunisia	9,234	10,038	+804
Total	10,000	11,243	+ 1,243

2- Currency/currency transactions

In 2006, the volume of currency/currency transactions amounted to 21,855 MTD vs. 17,595 MTD in 2005, up by 4,260 MTD or 24%.

The share of these transactions in overall spot exchange operations is 66%.

Transactions with foreign correspondents accounted for 95% of the global volume.

TREND IN SPOT EXCHANGE TRANSACTIONS FROM ONE FOREIGN CURRENCY TO ANOTHER

(in MTD)

Description	2005	2006	Variations in MTD
Interbank market	1,308	1,010	-298
Transactions with foreign correspondents	16,287	20,845	+4,558
Total	17,595	21,855	+4,260

The share of the Central Bank amounted to 4% of the global volume of spot transactions in 2006 compared to 3% in 2005.

B - Forward market

The volume of transactions on the forward market amounted to 2,417.6 MTD in 2006 compared to 1,674.3 MTD in 2005, up by 743.3 MTD or 44%. Most of the operations were carried out between the Tunisian Authorised Intermediaries and companies.

The share of transactions in import coverage came in at 70% of the volume between banks and companies compared to 30% for those in export coverage.

Operation with respect to hedging against the incurred exchange risk by importers totalled 1,609.2 MTD, up by 430.2 MTD. These operations were, mainly, denominated in US dollar (58%) and in euro (38%).

Forward purchase operations by banks totalled 687.5 MTD or 30% of the

global volume between banks and companies compared to 475.6 MTD or 29% in 2005. The share of operations denominated in euro totalled 57% vs. 43% for the dollar.

TREND IN FORWARD EXCHANGE TRANSACTIONS
(in MTD)

Description	2005	2006	Variations in MTD
Between banks and companies	1,654.6	2,296.7	+ 642.1
Interbank market	19.7	120.9	101.2
Total	1,674.3	2,417.6	+ 743.3

III. SWAP EXCHANGE OPERATIONS

In 2006, the value of swap exchange transactions came in at 1,042.8 MTD vs. 322.5 MTD in 2005, up by 720.3 MTD.

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

Description	2005	2006	Variations in MTD
Interbank market	1.1	82.9	+81.8
With foreign correspondents	311.7	957.9	+646.2
With companies	9.7	2	-7.7
Total	322.5	1,042.8	+720.3

NEW REGULATING PROVISIONS

I. MAIN PROVISIONS OF THE FINANCE LAW FOR THE FINANCIAL YEAR 2007

The finance law for the financial year 2007 was marked by a reconciliation between the tax Authority and the tax payers (private individuals or business concerns) through the adoption of a serie of measures aiming at lightening the tax ratio and the companies' burden.

While watching over a consolidated public claim collection, rationalized tax incentives, harmonized fiscal procedure and ongoing tax reform with a view to extending the tax base, undertaken measures concerned several economic sectors, notably, the financial sphere and company creation and better level of competitiveness.

A- MEASURES TO CONSOLIDATE THE FINANCIAL SYSTEM AND ENCOURAGE COMPANY CREATION AND REINFORCEMENT OF COMPETITIVENESS

Measures undertaken in this framework concerned the harmonizing of the tax systems for similar categories of taxable products. Particular attention has been paid to development of capital market and consolidation of financial soundness, notably, of financial institutions.

On another level and to consolidate investment while encouraging start ups and therefore job creation, the authorities continued to show an appropriate care about this area with a view to encouraging private initiatives.

1- Measures concerning the financial sector

a- Deduction of forgiven claims by the leasing and factoring companies with respect to companies in economic difficulties (article 22)

Like the banking institutions, the leasing and factoring companies were authorised to deduct from their taxable profit forgiven claims with respect to companies in economic difficulties governed by provisions of the law n°95-34 of 17 April 1995 and this in the framework of either the preventive concordat or the rule of Court. This measure would encourage these institutions to finance the mentioned companies and help them to overcome their difficulties and even resume their activities.

Worth of note that to enjoy the mentioned deduction, the concerned company has to present, during its annual corporate tax return, a detailed list of claim forgiveness showing owed capital and interest as well as the debtor identity and the reference of the sentences in virtue of which the abandon decision was taken.

b- Total deduction of provisions and write off of non-performing loans from factoring companies' balance sheet (articles 37 to 39)

In the framework of harmonizing the tax system for provisions built up by the financial institutions with respect to non-performing loans, it was decided to entitle the factoring company to fully deduct provisions built up in this framework within the limit of taxable profit and this without being subdued to the condition of having the legal proceedings started and this like the lending institutions acting as a

bank and the leasing companies. The deduction is not limited in time when claims are related to loans granted to companies operating in development zones, provided for by articles 23 and 24 of the code giving incentives to investment, or to small-sized companies operating in all sectors. For the other claims, provisions built up with respect to profit achieved from 1st January 2006 to 31st December 2009 enjoy the deduction.

On another level and as for financial institutions acting as banks and the leasing companies, those operating in the factoring activity can write off from their balance sheet non performing loans providing that they build up necessary provisions for their coverage. Worth of note that the write off operation must result neither in an increase nor a decrease in taxable profit for the write off year.

c- Extending the deadline for deduction of gains on shares' transfer by banks (article 33)

As per provisions of article 48 of the code of private individuals income tax and corporate tax, gains on shares' transfer by the lending institutions acting as banks are accepted in deduction for determining the taxable profit as long as these shares are subscribed in the assets of their balance sheet and the above-mentioned gains are earmarked in the liabilities heading of the balance sheet in an account called "reserve with a special regime" and blocked over a five-year period following that of the transfer. These provisions concern transfer operations carried out between 1st January 2002 and 31st December 2006. This deadline was extended to 31st December 2009 in the framework of pursuing the policy aiming to boost capital securities' Transactions.

d- Exemption of gains on transfer of shares listed on Tunis Stock Exchange Market : BVMT (article 30)

In order to consolidate the capital market and encourage stock exchange transactions as well as introduction on the stock quotation and to harmonize the tax system with respect to shares' transfer, it was decided to exempt from taxes, listed share transfer as well as gains on transfer of shares in the framework of introduction operations on the stock quotation. Worth of note that previously, only listed shares, untied to a balance sheet, could enjoy tax exemption for gains on transfer.

e- Extending the deadline for deduction of provisions for venture capital investment companies : SICARs (article 40)

In virtue of provisions of articles 15 and 16 of the law n°2001-123 of 28 December 2001 providing for the finance law for 2002 financial year, provisions built up by SICARs for depreciation of the value of shares and participations are :

- totally deductible from taxable profit when referring to shares or participation in companies operating in development zones or shares or participation in companies operating in the sectors of communication and information technology and new technologies ;

- deductible at 50% in the other cases and this with respect to profit achieved between 1st January 2002 and 31st December 2006.

This advantage was extended up to 31st December 2009 as per the present article.

2- Measures aiming to encourage company creation and transformation and to improve competitiveness

a- Ongoing incentives for company creation (article 29)

As per provisions of article 19 of the law n°2002-101 of 17 December 2002, providing for the finance law for the 2003 financial year, start ups in the sectors stated in the code giving incentives to investment carried out by private individuals or business concerns in the framework of small-sized companies, and with a project cost of no more than 50,000 dinars, enjoy an investment premium within the limit of 6% of the project cost (exclusive of working capital), State assumption of employers' contribution to the legal regime of social security with respect to salaries paid to employees of Tunisian nationality over the first three years as of the date of project entry into operation, exemption from contribution to the fund for social housing promotion (FOPROLOS) over the mentioned three-year period and exemption from the professional training tax over the same period. These incentives concerned projects declared between 1st January 2003 and 31st December 2006.

In considering the importance of these incentives in promoting investment and encouraging private initiatives, it was decided to extend them to 31 December 2009.

b- Incentives for project creation in promising activities (article 27)

With a view to encouraging some promising activities, it was decided to give lands for investors in cyber-parks at the symbolic cost of the dinar and this over the period going from 1st January 2007 through 31st December 2009. This advantage is subdued to the condition of carrying out the project and entering it into operation within a maximum deadline of 2 years as of the date of obtaining the land and using

the latter as per the set target and in compliance with a specifications book set up by the relevant ministry during a minimum period of 15 years.

Worth of note, that changing the initial destination of investment, after this period, is subdued to approval of the Minister in charge of communication technologies.

The above-mentioned advantage is granted by decree after advice of the high Investment Committee.

c- Encouraging company transmission (articles 12 to 20)

Gains from total transfer of elements of assets or partial transfer of assets representing an independent autonomous economic entity is henceforth deductible from taxable profit and this for transfer operations that occur when the company's owner reaches the retirement age or when he becomes unable to pursue management of the company (article 11A of the code of private individuals' income tax and corporate tax).

To enjoy this deduction, transferred assets must be subscribed in the balance sheet as at the date of transfer. A statement of the mentioned assets indicating their net accounting value, their transfer value and recorded gains or losses must be accounted for along with the annual tax return over the deduction year. The company to which the assets are transferred must pursue management of the acquired company or unit over at least a three-year period as of 1st January of the year following the year of acquisition. Failure to respect this condition leads the beneficiary of deduction to payment of the due tax to which is added a late payment penalty.

In the same way, gains on total transfer of shares or capital shares held by a manager in the capital of the company he runs when the latter reaches the retirement

age or when he becomes unable to pursue management of the company are not taxable. To enjoy this exemption, the manager must be holder of more than 50% of the capital of the company he runs. Worth of note that direct and indirect participations of the company's manager and of his non-emancipated children are taken into account in computing this 50% rate. Furthermore, the company operation must go on at least three years as of 1st January of the year following that of the transfer. If the company operation was given up before the expiry deadline, the beneficiary would have to pay the tax in addition to late payment penalties.

Revenues or profits reinvested in acquisition of the above mentioned shares or share capital are deducted from the taxable profit within 35% of the revenues or profit subduced to income tax for the acquisition year. This deduction is given on decision of the Minister of Finance or his deputy and is subduced to keeping books in compliance with the regulation into force and to backing the annual tax return of the deduction year by a statement on the acquired stocks and share capital.

In the same context and with a view to encouraging transformation of companies that faced economic difficulties, gains on the transfer of these companies in the framework of assets the regulation provided for by the law n°95-34 of 17 April 1995 relating to transformation of companies facing economic difficulties or of a branch of their activities or even a set of complementary branches is deductible from the taxable profit. To enjoy this deduction, a statement of the transferred assets mentioning references of the transfer decision, references of the JORT including publication of the transfer decision and recorded gains or losses must be presented along with the annual tax return for the deduction year.

As in the case of gains on shares, in the framework of companies merger or total split, governed by provisions of article 49 deci of the code of individual or corporate income tax, contribution of individual companies in the capital of companies subduced to corporate tax is deducted from taxable profit under certain conditions.

On another level, private individual and business concerns acquiring companies in the framework of paragraphs I and II of article 11A of the code of private individual and corporate tax enjoy deduction of revenues or profits reinvested to this end within 35% of income or profit subduced to income tax over the year of acquisition. The deduction is given on the basis of a decision of the Minister of Finance or any person seconding him. However, to enjoy this deduction, a number of conditions must be met, notably, the transferred company carrying out of its activity in the sectors provided for by the code giving incentives to investment, the pursuit of running the transferred company by the purchaser over a minimum period of three years as of 1st January of the year following that of acquisition, the keeping of books in compliance with the regulation into force and the presentation of a statement on the acquired equity along with an annual tax return for the deduction year.

In case of transfer of a company governed by provisions of paragraph I and II of the above-mentioned article 11A, having enjoyed advantages with respect to State assumption of employer's contribution to the legal regime of social security and with respect to income tax or corporate tax, the purchaser may continue to enjoy the above mentioned advantages for the remaining period as per the same conditions and this on the basis of a decision of the Minister of Finance or his deputy.

Worth of note that beneficiaries from reimbursable allotments and real estate loans are called to reimburse the remaining amounts in this respect when transferring the company as long as they have not been assumed by the purchaser eligible to enjoying funds and loans.

On the other hand, transmission of companies in financial difficulties and companies whose owner either reached the retirement age or became unable to pursue management or even died, give the right to enjoying tax incentives related to gains from transmission of companies in the form of assets or transmission of participations as well as the registration charges due with respect to transmission of ownerships and deduction of profit or reinvested income in the framework of the above mentioned transmission.

d- Exemption of gains from contribution to the capital of companies in the framework of operations of companies' restructuring (article 31 and 32)

Gains from contribution of stocks and share capital in the capital of the parent company or the holding company is deductible from the taxable profit on condition that the company commits itself to introducing its shares on Tunis Stocks Exchange Market (BVMT) by the end of the year following the year of deduction at the latest. This deadline may be extended by one year through directive of the Minister of Finance on the basis of a justified report by the CMF.

However in order to enjoy this deduction, the above-mentioned commitment signed by the CMF must be accounted for along with the annual tax return of the deduction year. If these documents were not accounted for, the companies having enjoyed the following deduction must pay the non-discharged tax with respect to the deduced gain in

addition to late payment penalties. The latter are not due in case of delivery of a certificate by the CMF showing that the company is not listed on the stock quotation in considering the reasons that are not attributed to it.

e- Ongoing encouragement of the private sector to invest in university housing (article 28)

Tax incentives to investment in university housing continue for a supplementary year, going to 31 December 2007.

f- More flexible conditions for deduction of provisions with respect to claims of companies facing economic difficulties over the period of suspension of legal procedures (article 21)

In compliance with the regulation into force, provisions built up with respect to non-performing loans subject of a legal proceeding are deductible from the taxable profit, which is not the case for non-performing loans of companies facing economic difficulties governed by provisions of the law n°95-34 of 17 April 1995.

For a more compliance of the tax regulation with directives of the above-mentioned law, companies in difficulties were authorized to deduct the provisions built up with respect to non-performing loans from their taxable profit over the period of suspension of legal proceeding, the condition related to taking legal action is not longer due.

Furthermore, the statement of deductible provisions with respect to claims of companies in economic difficulties must include the reference of the decision of suspension of legal procedures.

g- Companies deduction of amortisation with respect to fixed assets used in the framework of leasing contracts (articles 41 to 44)

Amortisation of fixed assets, company's ownership, is deducted from the taxable profit ; which is not the case when these assets are in the framework of leasing contracts.

Thus, and with a view to harmonizing the tax system for the above-mentioned amortisation while complying with the accounting standards of the leasing sector, companies resorting to leasing of a number of their fixed assets in the framework of leasing contracts can deduce the relating amortization from the tax base and this for leasing contracts concluded as of 1st January 2008. Worth of note that the annual value of amortisation relating to the mentioned assets is fixed on the basis of duration of the leasing contract ; but this duration must correspond to a minimum period that will be set, according to the nature of assets, by decree of the Minister of Finance.

On the other hand, the amortisation is computed as of the date of putting into services for fixed assets used in the framework of a leasing contract and on the basis of their purchasing price by the leasing companies.

B- MEASURES FOR A NUMBER OF ECONOMIC SECTORS

The finance law for the financial year 2007 gave particular attention to the sector of agricultural and fishing.

On the other level and in order to encourage the residence tourism, particular measures were taken for this activity given its contribution in tourist sector growth and in mobilizing foreign currency resources.

1- The sector of agriculture and fishing

a- Reduction of fixed registration charges with respect to agricultural loans (article 66)

In order to encourage the sector of agriculture and fishing, it was decided to reduce the fixed registration charges with respect to agricultural loans (landed property loan or seasonal loans), regardless of their nature, from 15 dinars to 1 dinar the page.

Worth of note that the loan contracts given to farmers and fishermen with a maximum amount of 4 thousand dinars, as for micro-loans granted by associations are subduced to a fixed registration charge of 1 dinar per page.

b- Exemption of mending and maintenance of fishing ships and boats from VAT (article 65)

With a view to harmonizing the tax system in the fishing sector and to control the cost of input, it was decided to exempt mending and maintenance of fishing ships and boats from VAT at an 18% rate, the same as for import and sale of these equipments and parts and products used for their maintenance and mending on the one hand and boats equipped for domestic and international maritime transport of goods and individuals on the other hand.

c- Rationalizing terms of tax collection for fishing products (article 82)

Fishing products are subduced to payment of a 2% tax of the value of whole sales levied by markets intermediaries and canned food manufacturers as well as any actor involved in wholesale commercialisation of seafood if it is proved that no prior payment was effected in this respect.

Thus and in order to rationalize terms of collection of this tax at the level of wholesale markets ran by a State owned company, market commissioners and any other operator in the wholesale commercialisation of these products are called to pay the mentioned tax to the above stated company within the same deadlines and as per the same conditions applied to amounts going to the company with respect to market position concession.

The company managing the whole sale market is in charge of paying to the Treasury the collected amounts with respect to the mentioned tax on the basis of a statement and this within the same deadlines related to the private individuals withholding tax and corporate tax.

2- Tourist sector

a- Incentive to residence tourism in Tunisia (article 34)

In order to encourage residence tourism which contributes favourably to the promotion of the sector and to foreign currency inflows, changes subject to payment, of housings purchased, in foreign currency by non-residents enjoy fixed registration charges.

b- Lightening of the tax burden of tourist sector (article 60)

It was decided to bring to 0.5% the rate of the professional tax for the Fund to develop competitiveness in the tourist sector.

Worth of note that this tax, which was set up in virtue of provisions of article 60 of the law n°95-109 of 25 December 1995 providing for the finance law for the financial year 1996 was set at 1% of the turnover recorded by tourist companies managers as well as managers of rated restaurants.

3- Other economic measures

a- Reducing customs duties on a number of equipments, raw materials and other products (article 23)

The customs duties in autonomous tariffs due on a number of equipments, raw materials and other products fixed at 20%, 100% and 150% respectively were reduced to respective rates of 17% for the first and 73% for the two others.

This measures comes in the frameworks of an ongoing process of economic openness.

b- Incentives for handicrafts sector (article 24)

In order to promote the handicraft sector, it was decided to exempt raw materials and inputs destined to this sector from payment of customs duties.

c- More flexible conditions for integration of totally-exporting companies in the national economic sphere (article 26)

Totally-exporting companies were entitled, as per provisions of article 26 of the finance law for the 2007 financial year to carry out services or sales operations in the framework of international calls for bids relating to public deals. However previously, they had only the right to purchase services or merchandise, material or equipments having no similar type manufactured locally, subject of a list fixed by decree.

C- MEASURES TARGETING AN ONGOING REFORM OF TAX SYSTEM AND BETTER RETURN ON TAXATION

Several provisions targeting more harmony between the tax system and the social and economic development prerogatives marked the finance law for the financial year 2007.

In this context, undertaken measures concerned lightening the tax burden, achieving convergence between the accounting and the tax systems, improvement of public claim collection and reconciliation between the tax payer and the tax authority.

1- Measures to lighten the tax burden

a- Reviewing the base of provisional instalments (article 45)

With a view to harmonizing the provisional instalments with the due tax it was decided not to consider gains or losses resulting from the transfer of tangible and intangible fixed assets and from the transfer of securities portfolio in determining the base of these instalments. Worth of note, that these operations have an exceptional feature. Provisional instalment must not be below the tax minimum.

It should be pointed out on another level that companies subdued to corporate tax, excluding those carrying out their activity in the sector of agriculture and fishing as well as private individuals having posted industrial commercial or non-commercial profit are called to pay provisional instalments on three payments of 30% each of the due tax on income and profit over the previous year.

b- Extending the privileged regime to users of vehicles meant for rural transport (article 61)

Users of vehicles meant for rural transport enjoy a set of tax incentives, notably, a privilege VAT, at a 10% rate and exemption from consumer charge payment and this over the period going up to 31 December 2006.

In considering the commendable services supplied by these transporters, notably, in areas having no public transport service, benefits given to transporters were

extended to an additional 3 year period going up to 31 December 2009.

c- Sustaining the sector of passengers' public transport, multi-passengers taxi category (article 62)

After being reduced to 30% as per article 70 of the law n°97-88 of 29 December 1997, consumer charge rate applicable to vehicles of "taxi" and "multi-passengers taxi" categories was further reduced to 7% and this with a view to improving the quality of services given by passengers' public transport and encouraging renovation with respect to the number of cars on the road in this type of activity.

II- MEASURES CONCERNING THE BANKING SECTOR

A- MODIFYING THE RESERVE REQUIREMENT RATE

The ongoing surplus of liquidity which marked, mainly, the last quarter of 2006 led the Central Bank to raise to 3.5% its reserve requirement rate applied to sight deposits, other sums owed to the customers, the certificates of deposits with an initial duration of less than 3 months, and failure to respect the liquidity ratio over the considered month. Worth of note that this rate was set previously at 2%.

Furthermore, the period for constituting the reserve requirement for a given month was modified. It goes henceforth from the 1st to the last day of the following month, noting that for November 2006, this period started on 26 November 2006 and was closed on 31 December of the same year.

(Circular of the BCT to lending institutions n°2006-20 of 29 November 2006).

B- FIXING THE CONDITIONS FOR GIVING AND REIMBURSING CONSUMER LOANS

Consumer loans, which are meant to finance private individuals' purchases of consumer durable goods as well as their current expenditures, are granted for a period of no more than 3 years. Yet, consumer loans given for purchasing cars may be granted over 7 years but the credit amount must not, in this case, go beyond 80% of the value of the car to be purchased. Loans to finance purchase of equipments or products in the framework of national programmes (exp : family PC and solar water heater) may be given over a period going up to five years.

(Circular of the BCT to banks n°2006-21 of 7 December 2006).

III- REINFORCING CONTROL OF LENDING INSTITUTIONS

In application of article 34 and 34A of the law 2001-65 of 10 July 2001 as modified and completed by law 2006-19 of 2 May 2006 urging the lending institutions and offshore banks to be endowed with a system of internal control, the Central Bank defined, in a circular, the procedure to be implemented by these institutions with respect to the mentioned system and the setting up of a standing committee of internal Audit.

The internal control system must include notably :

- a system for controlling internal operations and procedures,
- an accounting and data processing organisation,
- systems to measure, watch over and curb risks,
- and a system of data documentation.

The standing committee of internal Audit must consist of at least three members, of whom a president. Members

are appointed either by the Executive Board or the supervision Board and chosen as far as possible among executives who are qualified in financial and accounting areas.

The committee reports regularly to the Board of Directors or the Supervision Board on the carrying out of its assignment. It must submit a report on the activity to the Board before any approval of financial statements, of which a copy is communicated to the Central Bank.

(Circular of the BCT to lending institutions n°2006-19 of 28 November 2006).

IV- MORE FLEXIBLE CONDITIONS IN FOREIGN EXCHANGE AND FOREIGN TRADE

In the framework of the orientation towards full convertibility of the dinar, many flexible measures continue to be given to foreign exchange and foreign trade regulation. These flexible measures concerned the "foreign exchange assignee in convertible dinar" accounts and "export-profit" account as well as conditions for recourse to external borrowings.

A- FOREIGN EXCHANGE ASSIGNEE ACCOUNTS IN CONVERTIBLE DINAR

These accounts are open on behalf of resident private individuals entitled by an authorised intermediary to carry out the exchange assignment and resident private individuals having participated in the capital of a resident business concern entitled to carry out the same activity.

These accounts which could, previously, be credited freely at a 2% rate, are raised henceforth up to 5% of the exchange value in dinar of the sold currency in the framework of the foreign exchange assignment by holders of these accounts or by business concerns in which they hold shares and carry out the same activity.

This rise will help them enjoy higher amounts from receipts of their activity in foreign currency.

(Circular of the BCT to Authorised Intermediaries n°2006-22 of 11 December 2006).

B- SPECIAL ACCOUNTS "EXPORT-PROFIT" :

The same as for foreign exchange assignees accounts, those who opened "export-profit" special accounts may henceforth credit their accounts freely at 15% (vs. 10% previously) with profit from export operations they carried out or paid for them by companies in which they are shareholders.

(Circular of the BCT to Authorised Intermediaries n°2006-23 of 11 December 2006).

C- BUSINESS TRAVEL ALLOWANCE

Business travel allowances (exporters, businesses feasible abroad, importers, other activities and promoters) are given by Authorised Intermediaries for resident private individuals and business concerns and meant to cover their fees of stay abroad when carrying out their activity.

More flexible measures were taken with respect to conditions for granting these allocations. This concerns notably :

- Raising the annual ceiling of exporter's business travel allowance from 180,000 dinars to 250,000 dinars with their rate remaining at 25% of receipts from export of goods and services over the current year.

- Modifying the amount of importer's business travel allowance. Henceforth, it will be fixed at 10% of the value of imports carried out over the previous year with a 50,000 dinars-ceiling for imports going beyond 50,000 dinars. Import portion varying between 5,000 and 50,000 dinars continues to enjoy the same amount of allowance (5,000 dinars). Worth of note that this amount was previously 6,000 dinars for

import portion varying between 50,001 dinars and 100,000 dinars and 6% with a ceiling of 30,000 dinars for imports going beyond 100,000 dinars.

- Liberalizing the granting of other activity-business travel allowance (AVAA) and promoter-business travel allowance (AVAP) which was previously subdued to authorisation of the Central Bank. Worth of note that for the first category, the activity must not be listed in the annex 8 of this circular.

- Modifying the amount of other activity-business travel allowance (AVAA) which amounts henceforth to 2,000 dinars for the previous year turnover going between 10,000 dinars and 30,000 and to 8% with a 30,000 dinars ceiling for the turnover going beyond 30,000 dinars. Worth of note that this amount was 2,000 dinars for the turnover portion varying between 10,000 dinars and 50,000 dinars, 4,000 dinars for the 50,001 – 100,000 dinars portion and 4% with a 20,000 dinar ceiling for the portion going beyond 100,001 dinars.

- Not to allow resident private individuals any more to enjoy promoter-business travel allowance and to raise the amount of this allowance from 10,000 dinars to 15,000 dinars.

- The transforming of the regime of any of the business travel allowance is henceforth free and no more subdued to authorisation of the Central Bank of Tunisia, as was the case previously.

(Circular of the BCT to Authorised Intermediaries n°2007-03 of 5 February 2007).

D- CONDITIONS FOR RECOURSE TO EXTERNAL BORROWINGS

In order facilitate mobilising of long-term external borrowings and to encourage companies to be introduced on the official quotation, lending institutions and companies listed on the official quotation that would like to mobilise external

borrowings with a duration of more than twelve months are no more obligatorily subdued to an assessment by a rating agency. Only off list companies must be submitted to a rating in order to mobilize external resources. (Circular of the BCT to Authorised Inter-mediaries n°2007-01 of 09 January 2007).

E- ABOLITION OF CERTIFICATE OF IMPORT

In the framework of an ongoing progressive liberalisation of commercial relations with abroad, new measures and regulations concerning the financial regulation and terms of imports and exports were adopted in 2006.

In fact, the certificate of import, foreign trade deed in the form of which are carried out the operations of import of products enjoying the regime of free imports was abolished. These operations are henceforth carried out in the form of a domiciliated commercial invoice with respect to an authorised intermediary in compliance with provisions of decrees n°2006-2619 and n°2006-2620 of 2 October 2006.

In order to domiciliate the invoice, the importer has to indicate clearly the NSH numbers (Nomenclature of Harmonized System) for the products to be imported. In need be, these numbers may be mentioned in a joint document bearing the importer's sealing and the same references as the commercial invoice.

(Circular of the BCT to Authorised Inter-mediaries n°2006-16 of 13 November 2006).

F- MODIFYING DEADLINES WITH RESPECT TO EXPORT REGULATION

The deadline above which any sale on credit at export requires authorisation of the Central Bank was brought up to 360 days as of the date of shipment compared to 180 days previously. Thus, any sale with the settlement deadline going up to 360 days is carried out freely when accompanied by

a payment guarantee, an irrevocable letter of credit or a standby letter of credit, a guaranteed bill or an export credit insurance policy.

(Circular of the BCT to Authorised Inter-mediaries n°2006-24 of 18 December 2006).

V- MEASURES IN FAVOUR OF AGRICULTURE

To cut down costs of short-term agricultural loans, it was decided to reduce the contribution of beneficiaries from these loans declared to the guarantee of the national fund of guarantee to 1% flat compared to 2% flat previously. Contribution in other loans remained the same (2%).

(Decree n°2006-2545 of 25 September 2006 published in JORT n°79 of 03 October 2006).

VI- FISCAL REGULATION

A series of measures were taken with a view to lightening the tax burden on payers and harmonizing the relating legislation. This concerned mainly :

A- REDUCTION OF CORPORATE TAX RATE

In the framework of an ongoing policy giving incentives to investment and encouraging the Tunisian companies to be more competitive, it was decided to reduce from 35% to 30% the corporate tax rate ; but this is exclusive of :

- Companies operating in financial areas,
- Telecom network operators,
- Service, production and hydro-carbon transport companies and companies operating in oil refinery and oil product sale sector.

B- REDUCING THE MINIMUM THRESHOLD OF ANNUAL TAX

Furthermore and with a view to watching over a harmonized fiscal system with reduction of corporate tax rate, the minimum threshold of corporate tax for companies subduced to a 30% rate was down to 250 dinars compared to 2,000 dinars previously.

C- DETERMINING THE TAXATION RATE OF INTEGRATED RESULTS

Results of companies concerned by the regime of result integration subduced to corporate tax at rates other than those applied to the parent company, are accounted for in the integrated result within a share that corresponds to the ratio of the considered company's rate and the taxation rate of the parent company.

D- SETTING UP OF A DEFINITIVE REGIME FOR EXPORT

Income from export will be as of 1st January 2008 deductible from the income tax base for 2/3 of export income. Export operations were defined to include :

- Sales abroad of goods produced locally,
- Services provided abroad,
- Services achieved in Tunisia and meant to be used abroad,
- and sales of goods produced locally and services given to totally exporting companies as defined by the code giving incentives to investment, to companies operating in economic activities, to totally-exporting international trade companies as well as financial and banking institutions operating, mainly, with non-residents if these goods and services are necessary for the activity of these companies.

These companies will be subduced to income on profit at a 10% rate.

Worth of note that these companies enjoyed previously total deductibility of income from export operations over the first ten years and at 50% for more than 10 years.

However, companies operating as before 1st January 2008 and whose period of total deduction from their profit or income from export did not come to an end, continue to enjoy the total deduction up to the end of the period granted to them as per the legislation into force before the above-mentioned date.

E- INSTITUTION OF A NEW REGULATION WITH RESPECT TO VALUE ADDED AND CONSUMER CHARGE TAX

1- Removal of value added tax

Products listed in table "C" of the VAT code are no more subduced to the 29% VAT rate. Yet, a consumer charge of 10% will be applied to five categories of these products. This concerns products under the customs tariff n° (33-06 ; 33-04 ; 84-15 ; Ex 84-18 ; Ex 84-22) and includes, mainly, perfumes and lotions, cosmetics and make-up, machines and apparatus for air conditioning, refrigeration units and electric heating-dishwasher.

2- Improving VAT credit refund and readjusting the tax rates

Procedure for refunding the VAT credit was improved and facilitated. Worth of note that VAT credit may be reimbursed on presenting an application to the relevant centre of tax control along with any necessary justifying document.

Furthermore a 10% rate provided for by legal and regulating texts into force was replaced by a 12% rate (Law n°2006-80 of 18/12/2006 published in JORT N°101 of 19 December 2006).

MAIN ECONOMIC INDICATORS

(In MTD unless otherwise indicated)

Description	YEARS			Variations in %	
	2004	2005	2006	2005/2004	2006/2005
Investment projects (1)	1,920.5	2,016.9	2,748.8	5.0	36.3
- Manufacturing industries	1,464.3	1,657.1	2,209.8	13.2	33.4
- Services (other than tourism)	456.2	359.8	539.0	-21.1	49.8
Index of industrial production (base 100 in 1990) (1)	172.8	174.0	179.9	0.7	3.4
Of which : manufacturing industries	199.1	199.8	210.7	0.3	5.5
Balance of Trade					
- Overall exports FOB	12,054.9	13,607.7	15,316.3	12.9	12.6
- Overall imports CIF	15,960.3	17,101.5	19,767.6	7.2	15.6
- Trade deficit excluding energy FOB-CIF (2)	3,398.4	2,983.4	3,609.9	-415.0	626.5
- Overall trade deficit FOB-CIF (2)	3,905.4	3,493.8	4,451.3	-411.6	957.5
- Overall coverage rate (%) FOB-CIF (%)	75.5	79.6	77.5	4.1 points	-2.1 points
Increase in consumer prices :					
- Shift from the beginning of the year (%)	1.1	3.9	3.1		
- In terms of monthly averages (%)	3.6	2.0	4.5		
Tourism					
- Non-residents' inflows (1,000 individuals)	5,998	6,378	6,549	6.3	2.7
- Overall bednights (1,000 units)	33,487	36,310	36,831	8.4	1.4

(1) End of November of each year.

(2) Variations are expressed in millions of dinars.

MAIN MONETARY AND EXTERNAL FINANCE INDICATORS⁽¹⁾

(In MTD unless otherwise indicated)

Description	December		Variations in %	
	2005	2006	<u>Dec. 2005</u> <u>Dec. 2004</u>	<u>Dec. 2006</u> <u>Dec. 2005</u>
MAIN MONETARY AGGREGATES OF THE FINANCIAL SYSTEM (2)				
M4 AGGREGATE				
Money supply M3	24,101	26,728	11.1	10.9
Net claims on abroad (3)	23,821	26,489	11.0	11.2
Domestic loans	4,113	6,881	986.0	2768.0
Net claims on the State (3)	28,704	31,530	6.7	9.8
of which : -Treasury bonds (3)	4,166	5,117	341.0	951.0
- Treasury current account (3)	1,750	2,137	103.0	387.0
Financing of the economy	688	444	24.0	-244.0
	24,538	26,413	6.3	7.6
EXTERNAL PAYMENT INDICATORS (2)				
Tourist earnings (4)	2,587	2,751	13	6.3
Cash labour income (4)	1,391	1,494	3.3	7.4
Debt service (4)	2,716	3,761	2.0	38.5
Current deficit (3) (4)	-405	-933	281	-528
General balance of the balance of payments (3) (4)	1,216	2,779	3	1563
EXCHANGE RATE (in dinar) (5)				
1 US dollar	1.3634	1.2971	13.7	-5.1
1 Euro	1.6112	1.7091	-1.5	5.7
1.000 Japanese yen	11.6500	10.8594	0.5	-7.3
1 Pound sterling	2.3387	2.5500	1.9	8.3
10 Moroccan dirhams	1.4796	1.5280	2.2	3.2

(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.