

### **The International Environment**

- Expected slowdown of economic growth in the industrialised countries over 2007 ;
- Sharp depreciation of the US dollar, notably, against the euro ;
- Soaring commodities prices, particularly, crude oil and cereals ;
- Appearance of inflationary tensions starting in September, mainly, in the industrialised countries.

### **The National Climate**

- Start up of the new agricultural season in favourable conditions ;
- Consolidated industrial activity, notably, in manufacturing industries ;
- Ongoing progress in tourist activity though at a moderate pace ;
- Faster pace of foreign trade ;
- Inflation regression following, notably, foodstuff price control ;
- Improvement of bank liquidity in the third quarter of 2007 and moderate increase in overall counterparts of M3 aggregate in the first nine months of the same year ;
- Lower surplus in the general balance of payments compared to 2006, marked by massive capital inflows ;
- Ongoing stagnation in stock market activity over the third quarter of 2007 ;
- Depreciation of the Tunisian dinar against the euro compared to its appreciation against the US dollar over the first nine months of 2007.

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## THE INTERNATIONAL ENVIRONMENT

At end September 2007, the **international environment** was marked by appearance of signs of slower economic activity in the industrialised countries, notably, the United States, due to impacts of sub-prime crisis that spread to other countries ; soaring commodities prices, particularly, crude oil ; and sharp depreciation of the dollar against the other main currencies, notably, the euro.

Thus, the **International Monetary Fund** reviewed downward in the beginning of October 2007 its economic growth provisions for industrialised countries in 2007 (2.5% vs. 2.6% in July and 2.9% in 2006). Yet, world economic growth, expected for the current year was maintained at 5.2% whereas the projected rate for 2008 was reviewed from 5.2% to 4.8%. The slowdown would hit both the industrialised countries (2.2% vs. 2.5% in 2007) and the emerging and developing countries (7.4% vs. 8.1%).

Despite this unfavourable environment, the **US economic** growth amounted to 3.9% in annual pace over the third quarter of 2007 compared to 3.8% in the previous quarter. This unexpected evolution is attributable, mainly, to dynamic private consumption and foreign trade, particularly, exports.

However in 2007 overall, the economic growth rate in the US would be limited to 1.9% vs. 2.9% in 2006 due to an expected slowdown of the activity in the last quarter with the impact of sub-prime crisis on the other sectors.

In the **Euro Zone** and following better progress of real GDP in the third quarter of 2007 (2.6% in annual pace vs. 2.5% in the previous quarter), activity

slowed down in October, notably, in Germany in the wake of slower world demand and disruption on capital markets as of last August further to the impact of a rising euro that made exports in this area less competitive. Thus, the economic growth rate expected for all the current year is estimated at 2.5% vs. 2.8% in 2006.

In **Japan**, the economic expansion recovered in the third quarter of 2007, reaching 2.1% in annual pace compared to 1.6% in the previous quarter. However, a slower activity over the fourth quarter is expected, mainly with loss of indicator of corporate confidence in industry and other sectors. Consequently, an economic growth regression to 2% is expected in this country for all the year 2007 compared to 2.2% last year.

On the **job market**, most of the industrialised countries posted increasing unemployment following the economic environment disruption. Thus, the unemployment rate amounted to 4.7% over September 2007 in the United States and to 4% in Japan compared to 4.6% and 3.8% respectively in the previous month. However, the jobless number dropped slightly in the Euro Zone to 7.3% in September compared to 7.4% in the previous month.

World price rise for **commodities** was pursued, more particularly for **crude oil**, the rate of which went beyond the threshold of 81 dollars the barrel of US light crude as of end September 2007, up by some 33% compared to its level of the beginning of the year. This price soaring was due to several factors, notably, decreasing crude stocks in the US, rising geopolitical tensions in the Middle East,

tightened production in a number of producing countries excluding the OPEC, such as Mexico and Nigeria, depreciating dollar and speculation phenomena on the markets.

**As for agricultural products**, price rise concerned particularly, **cereals and mainly wheat** the rates of which reached record high levels early October 2007 : some 350 dollars the ton, up by 87% compared to prices at end 2006.

Commodities soaring prices affected negatively consumer price evolution worldwide, mainly, in the industrialised countries. Thus, in terms of annual drift, the **inflation** rate came at 2.8% in September 2007 in the US and to 2.1% in the Euro Zone compared to 2% and 1.7% respectively in the previous month. This faster pace concerned almost all countries of the Euro Zone, particularly, Germany (2.7% vs. 2%). Inversely, consumer price index in Japan dropped by 0.2% in annual drift both in August and September 2007 compared to stagnation in July.

Despite inflationary tensions, the European Central Bank and the Bank of England maintained their main key

rates unchanged at 4% and 5.75% respectively. However, the US Federal Reserve reduced its key rate by 50 basis points on 18 September 2007. Worth of note that on 31 October there was a new reduction by 25 basis points, bringing the key rate to 4.5% in order to revivify the economic activity.

On the **international foreign exchange markets** the US dollar depreciated significantly, in particular against the euro, the Canadian dollar and the sterling pound. The euro exchange rate exceeded 1.42 dollar at mid-October 2007, an appreciation of 7% as of the beginning of the current year, against the US dollar. This trend is attributable, mainly, to the US economic difficulties and the impact of flexible monetary policy by the federal Reserve.

As for the **capital markets**, stock indexes recovered somehow in September 2007, following a drop in interest rate in the United States and depreciation of the dollar. In particular, the increase in Dow Jones and Nasdaq indexes came at 12.2% and 15.1% respectively at mid October 2007 compared to their levels at end 2006.

## NATIONAL CLIMATE

### **ECONOMIC ACTIVITY : Start up of 2007-2008 agricultural season in good conditions and ongoing progress in industrial production, combined with net acceleration in the pace of foreign trade and control of inflation**

Despite an unfavourable international environment marked, notably, by slower economic growth indicators, sharp rise of crude oil prices and other several commodities, in particular cereals, and by sharp fluctuations in the exchange rate of the main currencies, the **national economy**

pursued in September 2007 its positive development in most sectors and areas of activity.

In particular, the pace of industrial production was consolidated, which was favourably reflected on exports whereas the evolution of tourist activity was overall

satisfactory. Furthermore, the new agricultural season is going on in favourable conditions, mainly, after significant rainfall over the last period and new presidential measures decided in favour of agricultural sector.

However, positive results contrast with appearance of some tension, notably at the level of trend in consumer price and the State Budget.

## **1- Agriculture and fishing**

The **current agricultural season** enjoyed in the last-period, significant rainfalls in the different regions of the country, going beyond usual averages in October. This situation will yield positive impacts on the agricultural sector overall, notably, large scale farming and tree farming in particular olive trees and citrus fruits ; further to an expected improvement in late-season vegetable production.

These favourable weather conditions were accompanied by a series of presidential measures taken in the beginning of October for the agricultural sector. This concerned :

- Increasing cereals production prices in 2007-2008 agricultural campaign,

- Reviewing criteria for granting seasonal loans in large-scale farming to adapt them to evolution of production costs and this by increasing the amount of these loans by 15% (Circular of the Central Bank to banks n°22 of 9 October 2007).

- Extending to the governorates of the Centre supervised ordinary loans financed on the State Budget,

- Farmers' recuperation of 1.5 percentage point on seasonal loan interest with respect to large scale farming in case of reimbursement of their debts in the fixed deadlines,

- Granting a first irrigation freely to cereal producers in irrigated public zones,

- Maintaining the same price for selected seed and the same rate for cereal exchanging as the one into force,

- Extending area devoted to barley farming through transfer of 100 thousand quintals of barley at an encouraging price of 23 dinars per quintal,

- Increasing the investment premium meant to acquire tractors and moissonneuses batteuses up from 15% to 25%.

In this context, **cereal areas** program-med for the new season are estimated at 1.5 million hectares compared to some 1.3 million for 2006-2007 season. In considering undertaken decisions for the agricultural sector and good start-up of the current season, there is an expected increase of production and therefore control of **cereals imports**. The latter reached 2,248 thousand tons (almost 713 MTD) for **wheat, barley and pop corn** at end September 2007, up by 28.4% and 101% respectively compared to the same period of 2006.

As for **tree farming, olive oil** production over 2007-2008 season is estimated at 200,000 tons vs. 180,000 in the previous season. As for commercialising, **exports** reached 155,000 tons over last campaign vs. 167,000 tons in 2005-2006 season.

As for **table olive**, production forecasts in 2007-2008 account for a harvest varying between 16,000 tons and 18,000 tons (vs. 14.700 tons in the previous season), 66% of which from irrigated areas.

In **fishing and aquaculture**, production dropped by 1.2% in the first nine months of 2007, down to some 81,000 tons and this following notably a drop in coastal fishing (-2%) and trawl fishing (-8%) compared to 2% progress for deep-sea fishing and 3% for tuna.

**By region**, production rose in the governorates of Gabès (29%) and Monastir (2%) but regressed in all the other governorates.

**Seafood exports** increased by 7.7% in quantity and 1.5% in value at end September 2007, reaching 14,000 tons for some 142 MTD.

**The balance of food with abroad** posted a deficit of some 100 MTD in the first nine months of 2007 compared to 212.3 MTD surplus in the same period of the previous year. This was due to foodstuffs imports progress at a faster pace than exports (49.1% and 11% respectively), following mainly an increase in the imported quantities of cereals at the international level further to a notable rise in potato imports. Thus, the rate of coverage of imports by exports came at 92.4% vs. 124.1% a year earlier.

**Domestic market supply** was abundant and diversified with several foodstuffs notably key products. In this context, the average index of foodstuff consumer prices rose by 1.8% over the first nine months of the current year compared to 5.7% increase over the same period of last year. Worth of note that a number of products posted a substantial rise in September, notably vegetables, fruits and fish in the wake of high consumption.

## **2- Industrial Activity**

Consolidation of the industrial activity was pursued over the first nine months of 2007 compared to the same period of the previous year. This is shown through faster pace of production and exports in the sector.

In this context, the general index of industrial production progressed by 10% at end September 2007 compared to 2.4% in the same period of last year. This evolution is, notably, attributable to an increase in

production of manufacturing industries (8.4% vs. 4.2% in 2006) and energy (19.1% vs. -2.9%) in line with positive development in mechanical and electrical industries and in the sector of textile, clothing and leather and footwear as well as a significant progress in crude oil production.

The notable rise in energy production, following 49% increase in oil production at end September (totalling some 3.9 million tons) contrasted with an ongoing regression in mining sector production (-2.4% vs. -11.7% a year before).

Influenced by industrial production recovery, imports of raw materials and semi-finished products rose by 27.4% during the first nine months of 2007 compared to 15.2% in the same period of 2006. Concurrently, imports of capital goods rose by 29.2% vs. 18.5% last year.

As for **exports, non-food manufactured products** progressed by 24% at end September 2007 compared to 12.3% in the previous year following, notably, a significant rise in exports of mechanical and electrical industries (34.5%) and textile and clothing (16.6%). Export progress concerned also agrofood industries (6.8%) in line with notable rise in dates exports (138.1% in quantity and 124.4% in value). Worth of note that olive oil exports maintained almost the same value (+0.4%) to reach 562.1 MTD at end September 2007 despite a net progress in the exported quantities compared to a year before (142,000 tons vs. 99,500 tons). This was due to a decline in prices.

**Energy exports** rose at end September 2007 by 49.5% vs. 25% last year following a substantial rise in crude oil sales (3 million tons for about 1,936 MTD vs. 1.8 million tons and some 1,178 MTD last year).

On the other hand, implementation of the different programmes in the industrial sector was pursued at a sustained pace. Thus, the number of companies having participated in the upgrading programme as of its start up in 1996 and up to end September 2007 reached 3,853 companies, 2,594 of which obtained approval for their upgrading requests with a global amount of 4,189 MTD. Progress in implementation of the **national programme for energy conservation** helped to save some 158,000 tons of oil equivalent.

### 3- Tourism

Tourist activity indicators regressed slightly in September 2007 compared to the same month of last year. The number of foreign tourists dropped by 1.2% compared to 5.6% rise a year earlier ; whereas overall bednights and tourist receipts in foreign currency posted a slower progress pace (1% and 3.8% respectively vs. 1.8% and 10.2% in September 2006).

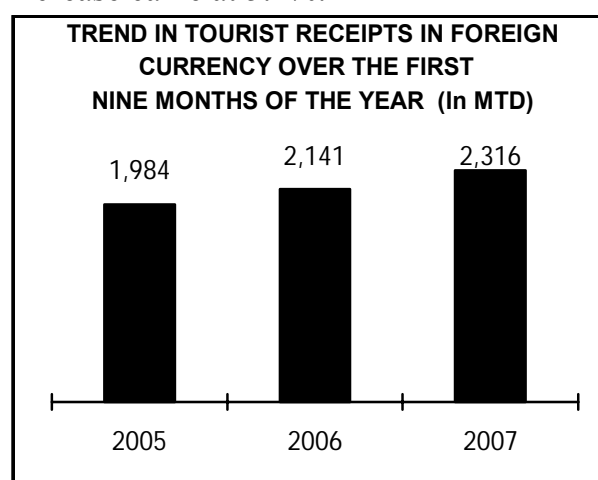
In the first nine months of 2007, **foreign tourist flows** progressed by 2.8% vs. 3% in the same period of the previous year, reaching some 5.5 million tourists. This evolution is attributable, mainly, to the **Europeans** (2.4% vs. 1.5% a year earlier), mainly the French (8.3% vs. 4.1%) and to a lesser degree, the **Maghreb tourists** (3.2% vs. 5.8%).

**Overall tourist bednights** posted a slight increase of 1.1% at end September 2007, amounting to some 31 million units. As for tourist zones, some of the main regions recorded a progress that varied between 1.7% for Monastir-Skanes and 8.5% for the zone of Mahdia ; whereas Nabeul-Hammamet, Yasmine-Hammamet and Tunis-Zaghuan posted 2.6%, 0.2% and 5.8% drops respectively.

**The relative occupancy rate** maintained almost the same rate as last year (56.7% vs. 56.5%). The zone of Mahdia posted a better occupancy rate (72.1%), followed by Jerba-Zarzis (68.8%), Yasmine-

Hammamet (65.6%) and Sousse (64.7%). The other regions posted an occupancy rate that is below the general average, notably, in the zone of Sbeitla-Kasserine (25.9%), Bizerte-Béja (29%) and Gafsa-Tozeur (33.3%).

In line with an ongoing increase in the exchange rate of the euro against the dinar, **tourist receipts in foreign currency** rose at end September 2007 at a faster pace than a year before (8.2% vs. 7.9%), to reach some 2,316 MTD. At the end of the second ten days of October, these receipts amounted to 2,525 MTD, up by 8.3% vs. 8% in the same period of 2006. Worth of note that without the exchange effect, this increase came at 5.4%.



### 4- Air transport

**Passengers air traffic** went up by 2.7% in September 2007 compared to 7.2% in the same month of last year. Over the first nine months of the year, the number of travellers rose by 3.3% vs. 1.5% a year earlier, to reach some 8.9 millions. This progress concerned both the **international lines** (3.3% vs. 2% in 2006), notably, **regular lights** (6.5%) and the **domestic lines** (3.7% vs. -8.8%).

**By airport**, passengers air traffic went up in the airports of Tunis-Carthage (6.4%), Monastir (1.1%), Jerba (3.3%), Sfax (18.3%) and Gafsa (41.8%) ; whereas it regressed in the airports of Tozeur (-18%) and Tabarka (-14%).

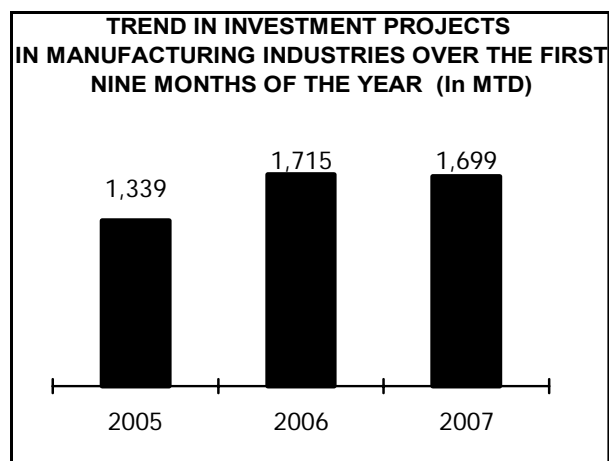
## 5- Investment projects

Investment projects declared in **manufacturing industries** totalled some 1,699 MTD over the first nine months of 2007, down by 1% compared to the same period of the previous year vs. 28.1% increase a year earlier. This investment volume will help create 2,780 projects and some 71 thousand jobs, up by 22.5% and 47.6% respectively. Progress of investment projects concerned **local market-oriented industries** that went up by 11.4% while **totally-exporting industries** dropped by 15.1%.

**Sector-related breakdown** shows an increase of investment projects in building materials, ceramics and glass (240.4 MTD vs. 123 MTD a year earlier), mechanical and electrical industries (342.4 MTD vs. 245 MTD), textile and clothing (243 MTD vs. 195.4 MTD) and miscellaneous industries (272.5 MTD vs. 193.4 MTD). The regression hit, mainly, chemical industries (153.9 MTD vs. 482.8 MTD in 2006) and leather and footwear (51.8 MTD vs. 75.3 MTD) due to a substantial rise of these two sectors last year after declaring a totally exporting project in Sfax for production of phosphoric acid and another project to manufacture security footwear in Bizerte for respective amounts of 259 MTD and 59.7 MTD. Investment projects in agrofood industries posted a slight drop of 1.5%, to reach 395 MTD.

**Regional breakdown** shows 23.2% drop of investment projects in **regional development zones** with the share in total going down from 46.4% to 36% from one year to the next.

**As for achievements**, investment in manufacturing industries went up by 15.2% at end September 2007 compared to the same period of last year, coming in at some 825 MTD.



In **services other than tourism**, the volume of declared investment progressed by 13.3% at end September 2007 and the number of projects went up by 28%, to reach 516 MTD and 3,657 projects. These investments will help create some 21,000 jobs compared to 14,327 declared jobs in the previous year.

In **tourism**, investment projects totalled some 305 MTD over the first nine months of 2007 with a view to creating 159 projects compared to 224 MTD and 79 projects in the same period of last year. These projects will help create 1,918 jobs vs. 1,858 declared last year. Worth of note that **investment projects in hotel accommodations** continued to have the lion's share with 52 projects for a global cost of 194.3 MTD, which is likely to create an additional job capacity of 1,754 beds, 850 of which in the framework of extension.

## 6- Consumer prices

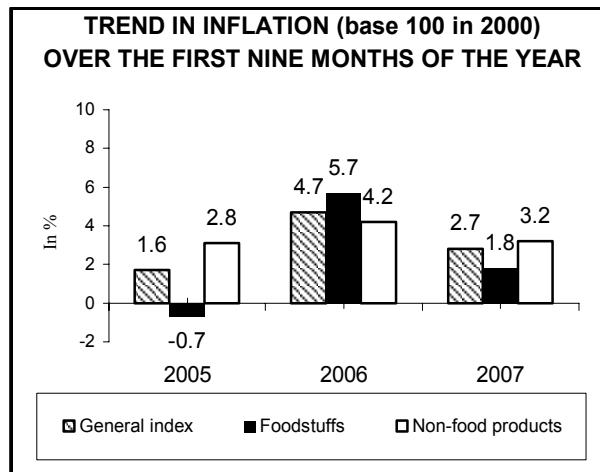
The **general index of household consumer prices** (base 100 in 2000) went up by 0.6% in September 2007 compared to August vs. 0.5% in the previous month and 0.3% in the same month of last year. This evolution was led by an increase in the prices of **clothing** (2.8%), **leisure, culture** and **miscellaneous** (0.9%), **foodstuffs** (0.5%) and the item **maintenance, hygiene** and **care** (0.4%)

compared to price stability for **transport** and **housing**.

**In annual drift**, the general index of prices rose by 3.5% at end September 2007, the highest rise as of the beginning of the year, compared to 3.2% in the previous month and 4.7% a year earlier. The deceleration compared to last year is attributable to prices of **foodstuff** (3.3% vs. 6.4%), **housing** (3.2% vs. 4.8%) and **transport** (4.2% vs. 5.4%). Prices for the other items of expenditure grew at a faster pace, particularly for **clothing** (4.8% vs. 3.7%) and **leisure, culture and miscellaneous** (3.7% vs. 1.8%).

**In terms of monthly averages**, the **inflation rate** regressed over the first nine months of 2007 : 2.7% compared to 4.7% in the same period of last year. Excluding **clothing** and **leisure, culture and miscellaneous**, the prices of which rose at a faster pace than a year before, the other items of expenditure grew at a slower pace, notably, **foodstuffs** (1.8% vs. 5.7%) in particular oil (-19.2% vs. 31.5%), vegetables (-1.5% vs. 7.1%) and fruits (3.7% vs. 6.7%), the item **maintenance, hygiene and care** (2.4% vs. 4%), mainly, medical and pharmaceutical expenditure (1.4% vs. 3.6%) as well as **housing** (2.8% vs. 5%). Prices of **transport**, evolved also at a slower pace than last year (4.6% vs. 6.7%) despite a substantial rise in private transport prices (8.2% vs. 10.8%).

**Excluding foodstuff**, the inflation rate came at 3.2% at end September 2007 vs. 4.2% a year earlier. Excluding **foodstuff** and **energy**, the inflation rate maintained almost the same level : 3% vs. 2.9% in 2006. Worth of note that prices for energy decelerated (5.2% vs. 16.1% over the first nine months of 2006).



**By regime of price fixing**, **freely fixed** product prices grew at a significantly slower pace over the first nine months of 2007 (2.6% in average vs. 4.8% last year) due, mainly, to foodstuff (1.5% vs. 6.9%). **Prices for controlled products** posted the same trend (2.9% vs. 4.7%), mainly, non-food products (2.8% vs. 5.8%).

**For the year as a whole**, the expected inflation rate would be 2.9% compared to initial forecasts of 3.5% in the economic Budget and 4.5% in 2006.

## **FINANCIAL SYSTEM SITUATION : Improvement of bank liquidity over the third quarter of 2007 and moderate increase overall in M3 aggregate counterparts over the first nine months of the same year.**

### **I - BANK LIQUIDITY AND REFINANCING OF THE FINANCIAL SYSTEM<sup>1</sup>**

#### **1- Bank liquidity**

Improvement of bank liquidity over the second quarter of 2007 was further consolidated over the following quarter, posting thus an excess liquidity following the expansive effect that was led by the increase in net assets on abroad and to a lesser degree the drop in the item "other net factors". This easing would have been more pronounced if it had not been for the restrictive impact exerted by an increase in bills and coins in circulation and the drop in the net balance of administrations.

At 7,121 MTD over the third quarter of 2007, net assets on abroad rose by 316 MTD. Their evolution was mainly influenced by :

- 668 MTD increase in net assets in foreign currency after mobilising significant external resources, notably, with respect to borrowings such as encashment, in August, of SAMURAI 2007 debenture loan raised on the Japanese capital market for 320 MTD and drawing in the framework of the programme to support economic competitiveness with respect to the BAD (102 MTD) as well as those given by the EIB, the JBIC, the IBRD and the Agence Française du développement. Foreign investment contributed also to this increase such as the one by TAV company that is in charge of constructing the new

airport of Enfidha concurrently with a 13 MTD grant given by the State of Qatar.

Better tourist receipts and consolidated work remittances by Tunisians living abroad led also to this increase. Yet this increase was lessened by wider trade deficit in the third quarter of 2007 and expenditures committed notably to honour the different maturities of external debt, particularly, reimbursement of the first portion of YANKEE 1997 for 250 million dollars as well as relating interest falling due. Worth of note that over the considered quarter, the level of net assets in foreign currency fluctuated sharply between a minimum of 8,629 MTD and a maximum of 9,701 MTD posted on 9 July and 30 August respectively.

- 261 MTD consolidation in the Tunisian Government special account, resulting notably from entering SAMURAI 2007 debenture loan, the borrowing given by the BAD in the framework of the programme to support economic competitiveness and transfer, in September, for the Treasury Current Account of an amount of 102 MTD.

- 68 MTD increase in the account "Intervention on the money market in foreign currency" due to intensified placement by banks on this market.

- Moderate increase of 23 MTD in the account "Currency of authorised intermediaries" over the considered period.

In the same way, the item "other net factors" which amounted to 2,791 MTD over the third quarter of 2007 contributed

<sup>1</sup> Statistical data are presented in terms of daily averages.

to bank liquidity improvement by 226 MTD under the effect, notably, of transfer to the Treasury of the portion going to the State from the Central Bank profit with respect to 2006 financial year (350 MTD).

However, bills and coins in circulation which came in at an average 4,134 MTD over the third quarter of 2007 rose by 250 MTD, contributing thus to a commensurate tightening in bank liquidity. Their evolution was influenced by faster pace of household expenditure in summer and intensified manual exchange with tourist inflows.

In the same way, net balance of administrations that regressed from 277 MTD to 244 MTD from one quarter to the next, had a restrictive effect of 33 MTD on bank liquidity, marked by 39 MTD increase in the balance of Treasury current account. The latter fluctuated significantly over the third quarter of 2007, varying thus between 76 MTD and 704 MTD on 28 September and 12 July respectively. In particular, its level was consolidated over the first half of July following encashment of the part going to the State from the above mentioned Central Bank profit and transfer of 100 MTD from the Tunisian Government special account in foreign currency.

Despite encashment, in July of 175 MTD (98 MTD of which in the form of short term Treasury bond : BTCT) with respect to subscriptions to Treasury bonds, the level of the Treasury current account balance dropped sharply following reimbursement of a substantial amount of Treasury bonds (677 MTD, of which 654 MTD in the form of bonds equivalent to Treasury bonds (BTA)). In August, resort to domestic borrowing resources was limited to 15 MTD, subscribed to in the form of short term Treasury bonds which combined with commitment in significant expenditure with respect to foreign debt

and reimbursement of part of bank claims on a number of public companies and agricultural cooperatives assumed by the State as per article 25 of the finance law for 1999 financial year (21 MTD).

In September, the balance of the Treasury current account posted substantial variations by significant mobilising of domestic borrowing resources (191 MTD, 113 MTD of which in the form of short term Treasury bonds and this concurrently with transfer from the Government special account in foreign currency of an amount of 102 MTD and encashment of 13 MTD with respect to a grant given by the State of Qatar on the one hand, and reimbursement of the first portion of YANKEE 1997 debenture loan for 250 million US dollar as well as relating payment in interest on the other hand.

In considering the evolution of the main autonomous factors of bank liquidity, monetary policy operations carried out by the Central Bank over the third quarter of 2007 yielded an average tapping of 96 MTD compared to an average injection of 137 MTD over the previous quarter. Consequently assets in banks' current account rose by 26 MTD, to reach 344 MTD.

## **2- Monetary Policy Operations**

The increase in surplus bank supply at a more sustained pace than deficit bank demand gave rise in the third quarter of 2007 to liquidity improvement on the market compared to the previous quarter.

Transactions on the interbank market improved by 26 MTD to reach 331 MTD over the considered period compared to 305 MTD a quarter before. This increase is fully attributable to forward transactions (+71 MTD) which accounted for 45% of the total, while sight operations regressed by 45 MTD, representing 55% of total.

**TREND IN FACTORS OF BANK LIQUIDITY <sup>(1)</sup>**

(Daily averages in MTD)

Description	3 <sup>rd</sup> quar.	2 <sup>nd</sup> quar.	Variat.
	2007	2007	$\frac{3^{\text{rd}} \text{ quar. } 2007}{2^{\text{nd}} \text{ quar. } 2007}$
Bills & coins in circulation	-4,134	-3,884	-250
Net balance of public administration	244	277	-33
Of which : Treasury current account balance	-354	-315	-39
Net assets on abroad	7,121	6,805	+316
Of which : Net assets in foreign currency	9,273	8,605	+668
Other factors	-2,791	-3,017	+226
<b>= (A) TOTAL AUTONOMOUS FACTORS</b>	<b>440</b>	<b>181</b>	<b>+259</b>
Calls for bids	-180	-37	-143
One to seven-day allowance uptake	10	0	+10
Three-month Treasury bond allowance	0	0	0
Net tapping operations	-4	-6	+2
Open market operations	78	154	-76
Repurchase agreement	0	26	-26
<b>= (B) TOTAL OPERATIONS OF MONETARY POLICY</b>	<b>-96</b>	<b>137</b>	<b>-233</b>
<b>= (A)+(B) ASSETS IN BANKS' CURRENT ACCOUNT</b>	<b>344</b>	<b>318</b>	<b>+26</b>

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

Over the considered quarter, the Issuing Institution focussed its monetary policy operations on auctions through calls for bids and Open market operations. It should be noted that no repurchase agreement was carried out over this period.

Thus, the Central Bank had to intervene nine times through calls for bids, of which only one positive call for bids given for 3 days for 194 MTD. Eight negative calls for bids with amounts fluctuating between a minimum of 234 MTD and a maximum of 550 MTD were launched to mop up the liquidity surplus that marked particularly the second half of

August and all of September. Overall, an average amount of 180 MTD was mopped up in the form of calls for bids over the third quarter of the year compared to 37 MTD over the previous quarter.

In the framework of monetary policy operations and facing excess liquidity situation that prevailed over this quarter, the Central Bank carried out a firm sale operation of public securities that accounted for 44 MTD (of which 34 MTD of bonds equivalent to Treasury bonds : BTA falling due in April 2010 and 10 MTD of BTA falling due in June 2008). On the other hand, the Central Bank reimbursed in July an envelope of BTA that fell due (84 MTD). Thus, the outstanding portfolio of Treasury bonds held by the Issuing institution regressed from 153 MTD in June to 25 MTD at end September. The average outstanding balance came at 78 MTD over the third quarter of 2007 compared to 154 MTD in the previous quarter.

The Issuing institution intervention was completed by allowance uptake operations for a period going from 1 to 7 days, representing an average 10 MTD over the quarter. However, no fine tuning operation was recorded throughout the quarter.

In considering the evolution of the different modes of intervention of the Central Bank, monetary policy operations yielded an average tapping of 96 MTD over the considered period compared to an average injection of 137 MTD over the previous quarter.

Day-to-day interest rate on the money market fluctuated between 5% and 5.40%. Thus, money market average rate in July, August and September 2007 came at 5.23%, 5.18% and 5.19% respectively.

## II – TREND IN FINANCIAL SYSTEM RESOURCES AND THEIR COUNTERPARTS

M3 aggregate rose, over the first nine months of 2007 by 9.2% vs. 10% in the previous year. This increase reflects the evolution of all its counterparts though at a slower pace than the same period of last year.

### TRENDS IN FINANCIAL SYSTEM RESOURCES AND THEIR COUNTERPARTS \*

(Figures at end of period in MTD)

Description	Sept. 2007	Variations in %	
		Sept. 2006	Sept. 2007
		Dec. 2006	Dec. 2007
M4 AGGREGATE	29,231	9.9	9.1
Money supply (M3)	28,998	10.0	9.2
Money supply (M2)	27,265	10.6	9.8
Money (M1)	10,863	10.4	10.0
Quasi-money	16,402	10.8	9.6
M3 – M2	1,733	1.6	1.2
M4 – M3	233	-1.8	-1.3
NET CLAIMS ON ABROAD**	7,456	2,909.0	580.0
DOMESTIC LOANS	33,412	8.6	6.7
Net claims on the State**	5,715	784.0	550.0
of which: Treasury bonds **	2,307	146.0	181.0
Treasury current account**	75	-250.0	-369.0
Financing of the economy	27,697	6.8	5.9

\* Provisional data for 2007.

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

### 1- Money supply M2

This aggregate rose by 9.8% over the considered period vs. 10.6% in 2006 due to slower progress pace of available money and quasi-money.

In annual drift, this aggregate posted a regression in its growth rate, down from 14.9% in September 2006 to 11.4% in September 2007.

Available money (M1) rose over the considered period by 10% compared to 10.4% in 2006 due to the combined effect of fiduciary money decrease (-0.1% vs. 3.7%) following slower progress pace of bills and coins in circulation (1.1% vs. 5.2%) and bank money firming up (16.6% vs. 14.8%) in line

with consolidated rate for sight deposits at banks (17.1% vs. 15.7%). From one month to the next, the latter rose by 5.5% or 328 MTD, notably after a number of categories of forward deposits and certificates of deposits fell due with being renewed. This evolution marked, particularly, the increase in deposits by the National Fund for Health Insurance (CNAM), the Tunisian Company for Refining Industries (STIR), Maghreb Insurance Company and Tunisair.

Concurrently, quasi-money rose by 9.6% over the first nine months of 2007 compared to 10.8% in 2006, reflecting the combined effect of firming up of forward deposit and other financial products (16.7% vs. 11.2%) on the one hand and a drop in the outstanding balance of certificates of deposits (-5.9% vs. +14%) as well as a deceleration in that of savings deposits at banks and the postal cheque Centre on the other hand.

Worth of note that the outstanding balance of forward deposits and other financial products posted a quasi-stagnation in September that was led by the combined effect of deposits rise, notably, of Tunisie Telecom, the National Fund of Social security, Tunisair and the Tunisian Company for Insurance and Reinsurance and the falling due of a number of deposits concerning particularly, the CNAM and the National Fund for Retirement and Social Contingency (CNRPS).

As for the outstanding balance of certificates of deposits, it dropped by 22 MTD in September, after deeds fell due by the CNAM, the affiliate of the Turkish company in Tunisia "TAV-Tunisie" and Nouvelair company.

### 2- "M3 - M2" aggregate

This aggregate increased by 1.2% over the considered period compared to 1.6% in the same period of last year. This evolution was led by the combined effect of slower growth pace in the outstanding

balance of housing-savings (2.2% vs. 3.4%) and the ongoing drop in that of debenture loans (-0.3% vs. -1.2%). Yet, compared to the previous month, the outstanding balance of debenture loans progressed by 7 MTD, following notably Arab International Lease issue of a 10 MTD debenture loan.

### **3- Net claims on abroad**

This aggregate rose over the first nine months of 2007 at a slower pace than the same period of last year (8.4% or 580 MTD vs. 70.7% or 2,909 MTD). This aggregate would have regressed by 1.6% over the first nine months of 2006 if it had not been for encashment of income from transfer of 35% of the capital of Tunisie telecom (2,250 million dollars).

Net assets in foreign currency rose by 718 MTD over the first nine months of 2007, to reach 9,423 MTD, corresponding to 147 days of import compared to 8,751 MTD and 163 days over the same period of the previous year.

From one month to the next, these assets regressed by 257 MTD following, notably, reimbursement of the first portion of the debenture loan "YANKEE 1997".

### **4- Net claims on the State**

This aggregate rose by 550 MTD over the considered period compared to 784 MTD over the same period of last year. This evolution is, mainly, attributable to a drop in the balance of the Treasury current account by 369 MTD and the increase in both the outstanding balance of Treasury bonds at banks (181 MTD) and

counterparts of deposits at the postal savings Centre (92 MTD) and those of the postal cheque Centre (59 MTD).

Worth of note that net subscriptions to Treasury bonds totalled 101 MTD over the first nine months of 2007, of which 77 MTD in the form of short term Treasury bonds (BTCT). From one month to the next, the package of Treasury bonds held by banks rose by 143 MTD on a global volume of securities issued by the State in September that amounted to 192 MTD.

Subscriptions to BTA concerned zero coupon 2016 line, October 2016 and 6.75% line of July 2017 for respective amounts of 27.9 MTD and 50.4 MTD at weighted rates of 6.836% and 6.900%.

Subscriptions to BTCT with the amount totalling 113 MTD concerned exclusively 52-week bonds with a weighted rate varying between 5.463% and 5.470%.

### **5- Financing of the economy**

Financing to the economy rose over the first nine months of 2007 but at a slower pace than that of the same period of last year : 5.9% and 6.8% respectively. This slower pace reflects that of loans on ordinary resources (6.4% or 1,451 MTD vs. 7.7% or 1,626 MTD).

Worth of note that financing to the economy rose by 53 MTD from one month to the next. These loans benefited, mainly, the Cereal Board and the Central Cooperative of Large Scale Farming.

## **CAPITAL MARKET : Ongoing stagnation of stock market activity over the third quarter of 2007**

Though it was not affected by the negative impact of sub-prime crisis that emerged in August 2007 in the United States of America and that disturbed the main international stock exchange markets, Tunis stock market was still marked by a flat activity that prevailed throughout the second quarter as shown through the weak volume of transactions and the almost general stagnation in stock indicators.

Flat activity over the considered quarter due, in particular, to slower activity usually in summer and weak trade on blue-chip stocks, notably bank shares.

On the other hand, the marking event over the third quarter of the year was introduction, on 9 August 2007 at a rate of 4.2 dinars per share, of the company "Tunisie Profilés Aluminium" -TPA- of the Bayahi group on the Stock listing through a public subscription bid for 4.8 million new shares for one nominal dinar each, which corresponds to 16.1% of the share capital after the increase.

The number of listed companies amounted thus to 50 at end September 2007.

The other major events that marked the considered quarter consist in :

1- CMF agreement for :

- launching the second start up fund "Phénicia Seed Fund" promoted by ATB and the management company "Alternative Capital Partners" for an amount of 2,513 MTD and with a foreign holding of one million euro held by an affiliate of the French Deposit and Consignment Office ;

- creating 5 joint investment funds (FCP) for an initial amount of 100 thousand dinars each, two of which promoted

by ATB and three by BIAT and its Stock intermediary affiliate "Companie Gestion Financière"<sup>1</sup> ;

2- Reducing the nominal value of ATL and SFBT shares from 10 and 5 dinars respectively to the regulating minimum of 1 dinar per share<sup>2</sup> .

Thus, the number of listed companies having up to now split their shares amounted to 14, of which 2 banks and 3 leasing companies<sup>3</sup> .

3- Tunisie Valeurs granting of agreement to Algerian and Moroccan regulating authorities to operate as a broker in Stock operations and as a Stock company on Algerian and Moroccan markets respectively.

Worth of note that this is the first time a Tunisian brokers obtains agreement to intervene on foreign capital markets.

### **Primary market**<sup>4</sup>

At the level of the primary market, the third quarter of 2007 posted a drop in public issues accompanied by a similar drop in corporate issues through public call for savings (APE).

<sup>1</sup> This concerns FCP "Al Amanah equity", "Al Amanah prudence" and "Al Amanah obligataire", promoted by BIAT and its CGF affiliate and the funds "Axis Actions Dynamique" and "Axis Tunisie Indice" created by ATB and Axis Gestion, Axis Tunisie Indice being the first index-related fund launched in Tunisia.

<sup>2</sup> ATL and SFBT split the nominal value of their shares on 2 and 10 July 2007 respectively.

<sup>3</sup> The chronological order of companies having split the nominal value of their shares are : ATB, SITS, TUNISAIR, SOTUMAG, Tunisie Leasing, SOMOCER, GIF, SIAME and ASSAD, SPDIT SICAF, CIL, BNA; ATL and SFBT.

<sup>4</sup> 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.

Thus, State issue dropped by 102 MTD (21%), down from 485 MTD to 383 MTD from one quarter to the next due to a drop in issues of bonds equivalent to Treasury bonds (BTA) and zero coupon Treasury bonds (BTZc), the accumulated volume of which regressed from 339 MTD to 156 MTD over this period.

Limiting Treasury auctions to the sole 52-week maturity for short term Treasury bonds (BTCT) was pursued, contrasting with diversified issues of BTA that concerned 6,10 and 15-year maturities with a preference for 10-year line “6.75% July 2017” which represented 60.3% of the global volume of BTA issues for the third quarter of 2007.

Concurrently, corporate issues through APE dropped by 52 MTD or 40.3%, down from 129 MTD to 77 MTD from one quarter to the next.

The bond market was thus marked by launching 3 borrowings over the third quarter of 2007 for a global envelope of 54 MTD, fully subscribed to and broken down between two leasing companies (40 MTD) and a tourist company (14 MTD) for 5 and 7-year durations<sup>1</sup>.

Furthermore, 3 capital increase operations were carried out over this period for a total amount of 23 MTD, 20 MTD of which by raising new funds in the framework of TPR listing ; the remainder was achieved through incorporation of reserves by SOTRAPIL (1.4 MTD) and Air Liquide Tunisie (1.4 MTD).

### **Secondary market**

Slower activity in the second quarter of the year was pursued throughout the following quarter, the market having acted only moderately to the new listing and to

<sup>1</sup> This concerns debenture loans issued by ATL (30 MTD), AIL (10 MTD) and El Mouradi tourist company (14 MTD).

listed companies' publication of a globally satisfactory half-year financial statements.

This easing is due to a usual flat activity in summer on the one hand and to absence of investors enthusiasm for the market blue-clips, notably, bank shares that account for some 55% of the global stock capitalisation on the other.

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

Description	3rd quarter 2006	3rd quarter 2007	Variations
<b>Global volume of transactions</b>	<b>287</b>	<b>239</b>	<b>-48</b>
Stock quotation	142	117	-25
Off list	9	29	+20
Registry Operations	136 (*)	93	-43
<b>Volumes of issues through public call for savings</b>	<b>249</b>	<b>460</b>	<b>+211</b>
Shares	14	23	+9
Bonds	55	54	-1
Treasury bonds	180	383	+203

\* Excluding Tunisie Télécom.

In this framework, the volume of trading on the Stock listing in the third quarter of 2007 was fairly weak, totalling 117 MTD compared to 169 MTD a quarter before. This corresponds to a daily average of 1.9 MTD vs. 2.9 MTD as from the beginning of the year.

These same volumes were 142 MTD and 2.2 MTD respectively over the third quarter of last year.

These transactions focussed on MONOPRIX, TPR and BH securities which accounted for 38% of the global volume of transactions. Worth of note that MONOPRIX security carried out in September 2007 an intra-group bloc transaction that accounted for more than 18% of the company's capital for an amount of 21 MTD<sup>2</sup>.

<sup>2</sup> This transaction meant going beyond the threshold by 66.6% of the capital of MONOPRIX by the majority shareholder “EXIS” that holds henceforth 77.1% of the capital.

Worth of note that on CMF demand and after disclosure of conclusion of transfer agreement between the majority shareholder of the Tunisian glass company (SOTUVER) and the Moroccan group SEVAM, SOTUVER listing was suspended as of 28 September 2007, to resume on 5 November after freezing the above mentioned transfer.

Activity on the other markets yielded a volume of transactions on the offlist that amounted to 29 MTD whereas that relating to registry operations totalled 93 MTD vs. 9 MTD and 136 MTD <sup>1</sup> respectively over the third quarter of 2006.

As for listed share yield over the third quarter of 2007, the market tendency was mitigated, 26 shares having posted positive yields going between 0.1% and 43.3% whereas the 24 remaining listed shares posted a drop that varied between -0.6% and -28.7%.

In this framework, SOTUVER posted the best performance over the quarter with 43.3% increase in its rate due, notably, to the interest raised by disclosing the transfer of a part of its capital to a foreign strategic investor.

SOTUVER share is followed by STAR share which posted a quarterly yield of 27.7% in line with the latter's publication of increasing financial indicators over the first six months of 2007. Worth of note that STAR decided to open its capital to a strategic partner via a capital increase that will help it to hold a 35% share and this in the framework of the policy to restructure and develop the insurance sector.

The share TPR closed for September 2007 at 5 dinars, a gain of 19% compared to its introduction rate.

However, SOTRAPIL share posted a more pronounced quarterly drop of -28.7%

<sup>1</sup> Exclusive of the registry operation on the shares of Tunisie Télécom.

after its net results declined by 26.5% to 1 MTD in the first six months of 2007.

Affected by slower activity on the market and the decline of blue-chips, stock indexes pursued their downward trend started over the previous quarter without however going to their lowest level of the year posted in January.

Thus, TUNINDEX, the capitalisation index dropped by 1.9% closing for September at 2,465.66 points ; whereas BVMT index closed for the quarter at 1,821.92 points, down over the quarter by 3.1%.

Stock capitalisation increased slightly by 57 MTD, 0.9% compared to its level at the end of the previous quarter, totalling 6,120 MTD at end September 2007.

Concurrently, the average quarterly liquidity rate regressed from 43% to 39% from one quarter to the next.

#### TREND IN STOCK EXCHANGE INDICATORS

(Figures of end of period unless otherwise indicated)

Description	Sept. 2006	Dec. 2006	Sept. 2007
BVMT index in points (base 465.77 on 31 March 1998)	1,454.05	1,599.07	1,821.92
TUNINDEX index in points (base 1.000 on 31 Dec. 1997)	2,139.43	2,331.05	2,465.66
Stock exchange capitalisation (in MTD)	5,085	5,491	6,120
Nber of listed companies (in units)	48	48	50
Liquidity rate (in%)	54	22	31

Foreign investors in portfolio's participation in stock capitalisation maintained almost the same level recorded at the end of last quarter (28%).

However, these investors intensified their intervention on the Tunisian capital market over the considered quarter as shown in the rising volume of transactions on their behalf.

Thus, their acquisitions and transfers, all market included, went from 24.4 MTD

and 24.7 MTD to 52.1 MTD and 33.6 MTD respectively from one quarter to the next, yielding at net positive inflow of 18.5 MTD.

As it was the case over the previous

quarter, foreign operators showed great interest for BH and Karthago Airlines shares to which was added the share TPR recently introduced on the stock listing.

**EXTERNAL PAYMENTS OVER THE FIRST HALF OF 2007 :  
Lower surplus in the general balance of payments compared  
to the 2006 which was marked by massive capital inflows**

The general balance of payments posted 794 MTD surplus over the first nine months of 2007 compared to 2,864 MTD in the same period of 2006 which was marked by the transfer of 35% of the share capital of the company Tunisie Télécom.

This positive result is attributable to 1,496 MTD surplus in the balance of financial operations and in capital whereas current payments posted 702 MTD deficit compared to 589 MTD a year earlier, up by 19.2%.

Consequently, net assets in foreign currency totalled 9,423 MTD at the end of the first nine months of 2007 which corresponds to 147 days of import vs. 8,751 MTD and 163 days a year before and 8,705 MTD and 159 days at end 2006.

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

DESCRIPTION	2005	2006	9 Months	
			2006	2007*
<b>A - CURRENT PAYMENTS</b>	<b>-395</b>	<b>-843</b>	<b>-589</b>	<b>-702</b>
- Merchandises (FOB)	-2,553	-3,364	-2,499	-2,571
- Services	+2,374	+2,450	+1,812	+2,001
- Factor income	-377	-123	-52	-291
- Current transfers	+161	+194	+150	+159
<b>B - CAPITAL &amp; FINANCIAL TRANSACTIONS</b>	<b>+1,640</b>	<b>+3,647</b>	<b>+3,453</b>	<b>+1,496</b>
- Operations in capital	+165	+193	+80	+21
- Investment	+940	+4,399	+3,715	+973
- Short. medium and long term loan borrowings	+535	-945	-342	+502
<b>C - ADJUSTMENT OPERA- TIONS (NET FLOWS)</b>	<b>-29</b>	<b>-31</b>		
<b>GENERAL BALANCE</b>	<b>+1,216</b>	<b>+2,773</b>	<b>+2,864</b>	<b>+794</b>

\* Provisional figures.

**I- Balance of current operations**

Over the first nine months of 2007, the balance of current operations yielded 702 MTD deficit which corresponds to 1.6% of GDP compared to 589 MTD and 1.4% in the same period of last year.

Widening of the current deficit compared to the same period of the previous year was led by an increase in the negative balance of factor income which reached 291 MTD vs. 52 MTD a year earlier and a rise in the trade deficit which expressed FOB-FOB went up from 2,499 MTD to 2,571 MTD from one period to the next. However, the surplus of the balance of services improved by 189 MTD, to reach 2,001 MTD;

**A- Balance of trade**

Expressed FOB-CIF, the trade deficit totalled 3,559.4 MTD over the first nine months of 2007, widening thus by 250.6 MTD compared to the same period of 2006. Imports which came at 17,976.5 MTD progressed by 22% compared to 26.2% for exports which totalled 14,417.1 MTD.

These evolutions helped however to improve the rate of coverage which went up by 2.7 percentage points to 80.2%.

The main evolutions of the different items of the balance of trade over the first nine months of 2007 are the following :

- Significant rise in the deficit of the balance of raw materials and semi-finished products which went up from 1,576.5 MTD to 2,041.5 MTD from one period to the next, and this following an increase of imports at a faster pace than exports : 27.4% and 26.3% respectively compared to 15.2% and 15.9% over the same period of the previous year. Thus, the rate of coverage regressed by 0.5 percentage point to 65%.

- Widening of the deficit of the balance of capital goods by 409.8 MTD, to reach 2,237.7 MTD. However, the rate of coverage improved by 3.2 percentage points to reach 42.5%, marking thus export rise by 39.6% vs. 29.2% for imports.

- Worsening of the balance of food deficit by 100.2 MTD vs. 212.3 MTD surplus over the same period of 2006. This regression was led by import rise by 49.1%, more particularly cereals (+101%) vs. 11% progress for exports. The rate of coverage dropped by 31.7 percentage points, to reach 92.4%.

- Improvement of the balance of energy which yielded 12.3 MTD surplus vs. 734.3 MTD deficit over the same period of the previous year. Exports rose by 49.5% whereas imports maintained almost the same level. Following these evolutions, the rate of coverage improved significantly from 67.5% to 100.5% from one period to the next.

- Increase in the surplus of the balance of consumer goods by 190.1 MTD to reach 807.7 MTD following export rise at a faster pace than imports : 18.6% and 16.7% respectively vs. 1.4% and 6% in the same period of 2006. The rate of coverage firmed up as a result from 115.4% to 117.3% from one period to the next.

## ***B- Balance of services and factor income***

### *1- Balance of services*

The surplus of this balance improved by 189 MTD, to reach 2,001 MTD over the first nine months of 2007. This improvement was mainly led by 8.2% increase in tourist receipts, totalling 2,316 MTD vs. 2,141 MTD a year earlier. Worth of note that overall bednights grew by 1.1%.

### *2- Balance of factor income*

The deficit of this balance rose by 239 MTD over the first nine months of 2007, to reach 291 MTD marking thus the increase in expenditure with respect to capital income, up by 530 MTD or 30.5% to reach 2,270 MTD. This evolution was mainly led by an increase in transfer of oil companies with respect to direct investment income which totalled 1,150 MTD vs. 767 MTD in the same period of 2006. However, expenditure to reimburse medium and long term debt interest dropped to 618 MTD vs. 678 MTD a year earlier. On the other hand, work remittances (in cash and in kind) rose by 128 MTD, to reach 1,683 MTD, curbing thus, though partially, the impact of sharp increase in capital income expenditure.

## **II- Balance of financial operations and in capital**

This balance posted 1,496 MTD surplus in the first nine months of 2007 compared to 3,453 MTD in the same period of 2006.

The main evolutions are :

- The balance of loan-borrowing posted a surplus of 502 MTD vs. 342 MTD deficit a year earlier, a trend that was led by :

- A drop in expenditure to reimburse the principal of medium and long term

debt interest which came at 1,472 MTD vs. 2,267 MTD a year before and this despite reimbursement, in September 2007, of YANKEE borrowing for 250 million US dollar (about 315 MTD). This amount is significantly below last year's amount which involves mainly Samurai II borrowing for 35 million Japanese yen (404 MTD) and the anticipated reimbursement by the State of 160 MTD for the ADB.

- Concurrently, receipts with respect to drawings on medium and long term borrowings rose over the first nine months of 2007.

The main drawings are the following :

\* Mobilising 30 billion Japanese yen on the international capital market (which corresponds to 315 MTD) in the framework of SAMURAI VII debenture loan (August 2007).

\* 102 MTD in drawing with respect to the ADB in the framework of the third programme to sustain economic competitiveness (PACE III).

\* 100 MTD in drawing on the loan given by the world Bank in the framework of the fourth programme to sustain economic competitiveness (PACE IV).

\* Mobilising a syndicated borrowing by ETAP for 150 million US dollar.

- However, the surplus of the balance of foreign investment dropped compared to the same period of last year, down from 3,715 MTD to 973 MTD. Yet and exclusive of Tunisie Télécom, the surplus of the balance of foreign investment would rise by 230 MTD or 30.9%.

## TREND IN THE DINAR EXCHANGE RATE AND FOREIGN EXCHANGE MARKET ACTIVITY IN THE FIRST NINE MONTHS OF 2007 : Depreciation of the Tunisian dinar against the euro and the Moroccan dirham and appreciation against the Japanese yen and the US dollar.

### I. TREND IN THE DINAR EXCHANGE RATE

Over the considered period and compared to the same period of last year, the dinar exchange rate depreciated on the interbank market against the euro (4.5%) and the Moroccan dirham (3.0%). However, it appreciated against the Japanese yen (6.2%) and US dollar (3.0%).

**TREND IN THE EXCHANGE RATE USD/TND**



Compared to the beginning of 1999, date of launching the euro and up to end September 2007, the dinar depreciated on the interbank market against the euro (27.4%), the Moroccan dirham (23.7%), the US dollar (12.9%) and the Japanese yen (10.5%).

**TREND IN THE EXCHANGE RATE EUR/TND**



### II. TREND IN FOREIGN EXCHANGE MARKET ACTIVITY

#### A- Spot market

Transactions on the spot foreign exchange market totalled 26,440 MTD compared to 24,625 MTD over the first nine months of last year, up by 1,815 MTD or 7%.

This evolution was due to a simultaneous increase in currency/currency transactions (+9%) and currency/dinar transactions (+5%).

**TREND IN SPOT EXCHANGE TRANSACTIONS**

(in MTD)

Description	9 months 2006	9 months 2007	Variations in MDT
Currency against currency transactions	16,011	17,422	+1,411
Currency against dinar transactions	8,614	9,018	+404
<b>Total</b>	<b>24,625</b>	<b>26,440</b>	<b>+1,815</b>

#### 1- Currency/dinar transactions

The volume of these transactions on the foreign exchange market totalled 9,018 MTD vs. 8,614 MTD over the first nine months of last year, up by 404 MTD.

The share of currency/dinar transactions accounted for 34% of the global volume of spot foreign exchange transactions compared to 35% in the same period of 2006.

Over the considered period, the share of interbank exchange transactions totalled 89% vs. 11% for the Central Bank.

The Central Bank intervention came at 964 MTD vs. 1,182 MTD, down by 218 MTD, whereas transactions on the interbank market went up by 622 MTD or 8%.

#### TREND IN SPOT EXCHANGE TRANSACTIONS OF CURRENCY AGAINST DINAR

(in MTD)

Description	9 months 2006	9 months 2007	Variations in MDT
Transactions with the Central Bank of Tunisia	1,182	964	- 218
Interbank market	7,432	8,054	+622
<b>Total</b>	<b>8,614</b>	<b>9,018</b>	<b>+404</b>

#### 2- Currency/currency transactions

The volume of these transactions totalled 17,422 MTD vs. 16,011 MTD over the first nine months of 2006, up by 1,411 MTD or 9%.

Thus, the share of these transactions in overall spot exchange transactions went from 65% to 66%.

Transactions with foreign correspondents accounted for 96% of the global volume of exchange.

#### TREND IN SPOT EXCHANGE TRANSACTIONS FROM ONE FOREIGN CURRENCY TO ANOTHER

(in MTD)

Description	9 months 2006	9 months 2007	Variations in MDT
Interbank market	831	690	-141
Transactions with foreign correspondents	15,180	16,732	+1,552
<b>Total</b>	<b>16,011</b>	<b>17,422</b>	<b>+1,411</b>

#### B - Forward transactions

The volume of forward exchange transactions totalled 2,878 MTD vs. 1,771 MTD over the first nine months of 2006, up by 1,107 MTD or 63%. The share of these transactions in import hedging in

the volume carried out between banks and companies came at 85% vs. 15% for export hedging.

Forward sale transactions carried out by Tunisian Authorised Intermediaries and relating to hedging against the incurred exchange risk by imports totalled 1,993 MTD, increasing by 859 MTD. These operations were mainly denominated in US dollar (60%) and in euro (35%).

However, forward sale transactions dropped by 220 MTD, down from 561 MTD to 341 MTD over the same period. The share of transactions denominated in euro totalled 56% vs. 43% for the dollar.

Transactions between Tunisian Authorised Intermediaries and companies accounted for 81% of overall transactions.

#### TREND IN FORWARD EXCHANGE TRANSACTIONS

(in MTD)

Description	9 months 2006	9 months 2007	Variations in MDT
Between banks and companies	1,694.8	2,333.9	+ 639,1
Interbank market	76	543,7	+467,7
<b>Total</b>	<b>1,770.8</b>	<b>2,877.6</b>	<b>+ 1,106.8</b>

#### III. SWAP EXCHANGE TRANSACTIONS

The volume of these transactions amounted to 1,290.1 MTD, vs. 821.9 MTD over the first nine months of last year, up by about 57%.

#### OVERALL TRANSACTIONS CONCERNING FOREIGN CURRENCY/DINAR SWAPS

(in MTD)

Description	9 months 2006	9 months 2007	Variations in MDT
Interbank market	82.9	107.9	+25.0
With foreign correspondents	737	1,179.2	+442.2
With companies	2	3	+1
<b>Total</b>	<b>821.9</b>	<b>1,290.1</b>	<b>+468.2</b>

## NEW REGULATING PROVISIONS

### I. REVIEWING THE SCALE FOR CEREAL FARMING LOANS

The scale for cereal farming loans was reviewed upward to account for the increase in input costs and cereal prices on the international market and to better exploit the planted areas and therefore increase the national production in this respect.

The maximum amount of the loan that is modulated according to the size of the land, the expenditures to be incurred, the yields and the marketed quantities over the previous campaigns is fixed for farming of dry wheat, soft wheat and pulses at 495 dinars per hectare for zone I and 385 dinars for zone II compared to 430 dinars and 335 dinars respectively in the past.

As for dry barley farming, the maximum amount per hectare for loans to be given is set at 330 dinars for zone I, 300 dinars for zone II and 130 dinars for zone III compared to 285 dinars, 260 dinars and 110 dinars previously. The scale for fodder speculation went from 240 dinars to 275 dinars for winter farming and from 300 dinars to 345 dinars for summer farming. (Circular of the BCT to banks n°2007-22 of 9 October 2007).

### II- MEASURES WITH RESPECT TO EXCHANGE

#### *1- Resident participation in the capital of non-resident companies set up in Tunisia*

In application of the exchange note of the Minister of Finance published in JORT n°18 of 2 March 2007, the Central Bank of Tunisia fixed by Circular, terms for carrying out transfers by authorised

intermediaries with respect to participation of resident private individuals or legal entities in non resident companies set up in Tunisia either during the creation phase or when increasing the capital through acquisition of shares in these companies. (Circular of the BCT to banks n°2007-23 of 10 October 2007).

#### *2- Modifications in terms of transfers with respect to current operations*

A number of provisions of circular n°93-21 of 10 December 1993 relating to transfers with respect to current operations were reviewed to take into account the modifications that concerned terms for transfer of a number of these operations and the introduction of new operations such as the professional training allowance. Furthermore and following the development of information technologies, the new circular fixed terms of transfer carried out for :

- Transactions by resident companies via internet such as expenditure for lodging the web site, subscriptions, and advertisements,

- Fees related to international telephone line renting by resident call centres ;

- Expenditure related to voting services via the voice mail or SMS incurred by resident companies authorised in this respect.

Other terms of transfers were also provided for :

- Reimbursement of transport fees for non-resident private individuals (technicians, experts, advisors, engineers, lecturers, interpreters) to whom resident operators

resort with respect to operations provided for by this circular as well as travelling fees for non-resident members of the board of directors in resident companies,

- Interest on arrears provided for by contracts related to current commitments incurred between residents and non-residents.

Yet, it was decided that foreign wage earners who are residents' spouses, be them contractuels or cooperators, can no more enjoy transfers with respect to work remittances.

Transfers operations carried out in bank bills by authorised intermediaries with respect to current operations were extended to foreign private individuals operating in Tunisia as contractual or cooperative wage earners.

(Circular of the BCT to Authorised Intermediaries n°2007-21 of 14 August 2007).

### **III- MODIFYING THE STATUS OF STOCK BROKERS**

In the framework of reinforcing security of financial relations, the decree describing the stock brokers' status was modified and completed to make from the stock brokerage a more rigorous activity, to consolidate the CMF information authority and strengthen transparency and customer protection in addition to boosting the consulting activity with respect to stock brokerage.

#### ***1- More rigorous activity for stock brokerage and reinforcing transparency***

Limited companies' managers operating in stock brokerage must henceforth hold a higher education degree and a 5-year professional experience in this area (compared to 3 years previously).

In case the activity is given up, the broker must inform the CMF about his decision in a written note two months

before stopping activity.

On the other hand, keeping contracts by brokers is henceforth subdued to prior approval by the CMF instead of the stock market previously. It consists in bringing stock liquidity to the market, by permanently publishing both the purchasing and the selling prices of a minimum quantity of securities.

As for bonds, which are related to stock brokers activity, the latter may henceforth open more than one account for each customer but must maintain the same bank identity for each. In case the amount of the commission is modified, they have to inform their customer in a written note about any new rate fixing at least 45 days before its application. They must also establish the stock market orders in a written note or any other electronic means.

#### ***2- Consolidating the CMF information authority and reinforcing customer's interests***

The CMF was entitled with respect to termination of activity of stock broker, to take necessary measures to safeguard the customers' interest further to controlling the liquidation operation, an activity that is already part of its tasks. Worth of note that the broker must inform the CMF about this operation two months before the date of activity completion, a deadline that was not fixed before.

Furthermore, the authorised intermediary has to obtain a prior agreement from the CMF for the creation of any affiliate, any merger operation and any acquisition of a proportion of the capital in a brokerage company, by one or several individuals, that leads to holding, directly or indirectly at least 40% of the right to vote provided that no other shareholder holds a higher proportion.

On the other hand, the CMF must be informed about any modification in the capital of a stock brokerage company accounting for a proportion that is equal to at least 10%, about any change in organization and internal control and its business name.

In order to guarantee a better security of the computer system, the CMF fixes by decision the minimal norms that must be met in records held in this respect. Furthermore, the control authority set a deadline for communication by the stock brokers of a statement of operations carried out 10 days following the end of each month and obliged stock brokers to set daily statements of balances of credit and debit accounts and their liquidity.

### **3- Generalizing the stock brokerage activity to all lending institutions**

As it is the case for banks, the financial institutions have been authorised to exert financial canvassing, stock portfolio management on behalf of third parties, stock keeping as well as collecting and transmitting stock market orders.

In this respect, the lending institutions carrying out these activities are subdued to the same requirements as the stock brokers.

### **4- Developing the activity of the financial board**

In the framework of developing the financial board, the listing sponsor activity was created in the form of a company that advises the company that intends to go into the stock market and helps it to prepare its file and accompany and assist those whose shares are listed. These companies that can not carry out their activity without the CMF approval are called to respect disclosure of financial secret requirements.

(Decree n°2007-1678 of 5 July 2007 published in JORT n°56 of 13 July 2007).

## **IV- FIXING TERMS FOR THE WITHHOLDING TAX ON STOCK CAPITAL INCOME WITH RESPECT TO NEGOTIABLE BORROWING DEEDS**

After reviewing the texts fixing terms and conditions for issuing and reimbursing the Treasury bonds that conferred to specialists in Treasury bonds (SVT) a major role in Treasury bond auction as well as in their negotiability and their liquidity, terms of withholding on income from stock capital with respect to negotiable borrowing securities were resumed to account for new specificities.

Thus, interest on short term Treasury bonds, bonds equivalent to Treasury bonds and zero coupon Treasury bonds as well as interest on bonds issued by companies through a public call for savings and falling within operations of the Inter-professional Tunisian Company for Clearing and Depositing Stocks (STICODEVAM) are subdued to the withholding tax provided for by article 52 of the code of income tax of private individuals and the corporate tax.

The SVT concerning Treasury bonds as well as financial institutions members of STICODEVAM related to bonds, carry out the withholding tax when paying incurred or falling due interest with respect to bonds equivalent to Treasury bonds and zero coupon Treasury bonds and debentures. Withholding is operated by SVT when selling or reimbursing short term Treasury bonds. It is carried out on incurred interests that correspond to the period of holding these bonds.

The SVT and financial institutions members of STICODEVAM deliver to beneficiaries interest on each payment, the withholding certificate provided for by article 55 of the code of income tax for private individuals and the corporate tax.

The interest related to short term Treasury bonds and paid at subscription as well as interest on SVT and financial institutions members of STICODEVAM are not subduced to the withholding tax.

Worth of note that excluding the case of withholding that is exempt from the income tax on corporates, withholdings are deductible from the provisional accounts or the income tax or the corporate tax in conditions provided for by legislation into force.

(Decree n°2007-1870 of 27 July 2007 published in JORT n°60 of 27 July 2007).

## **V- ENCOURAGING INVESTMENT BY NEW PROMOTERS IN AGRICULTURAL AND FISHING ACTIVITIES AND IN SMALL BUSINESSES**

### ***1- Investment in agriculture and fishing***

To encourage the private initiative with respect to investment and notably that of new promoters in agriculture and fishing "A" category (investment by small farmers and fishermen), it was decided to give to new promoters belonging to needy family listed in the national record of poverty and those having specific needs and who can not afford the cash equity

required for financing their projects, a reimbursable allotment of 30% of the required self-financing without interest for a maximum duration of 12 years, of which a 5-year grace period. This advantage is given on delivering a certificate in this respect from the ministry in charge of social affairs. (Decree n°2007-2032 of 8 August 2007 published in JORT n°66 of 17 August 2007).

### ***2- Investment in small businesses***

In the same context, new promoters belonging to needy family and listed in the national record of proverty or those having specific needs and who can not afford the cash equity required for financing their projects (40% of the cost of the project) enjoy a reimbursable allotment of 100% of capital equity given on delivering a certificate in this respect from the ministry in charge of social affairs.

This allotment is given without interest and is reimbursable on 11 years and the grace period must not go beyond the period of reimbursing the investment loan taken from banks to carry out the project.

(Decree n°2007-2035 of 14 August 2007 published in JORT n°66 of 17 August 2007).

**MAIN ECONOMIC INDICATORS**

(In MTD unless otherwise indicated)

Description	FIRST HALF			Variations in %	
	2005	2006	2007	2006 2005	2007 2006
<b>Investment projects</b>	<b>1,642.5</b>	<b>2,170.8</b>	<b>2,214.8</b>	<b>32.2</b>	<b>2.0</b>
- Manufacturing industries	1,338.9	1,715.4	1,698.8	28.1	-1.0
- Services (other than tourism)	303.6	455.4	516.0	50.0	13.3
<b>Index of industrial production (base 100 in 1990)</b>	<b>111.3</b>	<b>114.0</b>	<b>125.4</b>	<b>2.4</b>	<b>10.0</b>
Of which : manufacturing industries	112.3	117.0	126.8	4.2	8.4
<b>Balance of Trade</b>					
- Overall exports FOB	10,123.4	11,423.2	14,417.1	12.8	26.2
- Overall imports CIF	12,643.3	14,732.0	17,976.5	16.5	22.0
- Trade deficit excluding energy FOB-CIF (1)	2,177.1	2,574.5	3,571.7	397.4	997.2
- Overall trade deficit FOB-CIF (1)	2,519.9	3,308.8	3,559.4	788.9	250.6
- Overall coverage rate (%) FOB-CIF (%)	80.1	77.5	80.2		
<b>Increase in consumer prices :</b>					
- Shift from the beginning of the year (%)	2.4	3.1	3.6		
- In terms of monthly averages (%)	1.6	4.7	2.7		
<b>Tourism</b>					
- Non-residents' inflows (1,000 individuals)	5,168	5,325	5,474	3.0	2.8
- Overall bednights (1,000 units)	30,232	30,562	30,897	1.1	1.1

(1) Variations are expressed in millions of dinars.

**MAIN MONETARY AND EXTERNAL FINANCE INDICATORS<sup>(1)</sup>**

(In MTD unless otherwise indicated)

Description	September		Variations in %	
	2006	2007	Sept. 2006 Dec. 2005	Sept. 2007 Dec. 2006
<b>MAIN MONETARY AGGREGATES OF THE FINANCIAL SYSTEM (2)</b>				
M4 AGGREGATE	26,475	29,231	9.9	9.1
Money supply M3	26,200	28,998	10.0	9.2
Net claims on abroad (3)	7,022	7,456	2,909.0	580.0
Domestic loans	31,162	33,412	8.6	6.7
Net claims on the State (3)	4,950	5,715	784.0	550.0
of which : -Treasury bonds (3)	1,896	2,307	146.0	181.0
- Treasury current account (3)	438	75	-250.0	-369.0
Financing of the economy	26,212	27,697	6.8	5.9
<b>EXTERNAL PAYMENT INDICATORS (2)</b>				
Tourist earnings (4)	2,141	2,316	7.9	8.2
Cash labour income (4)	1,185	1,289	10.4	8.8
Debt service (4)	2,944	2,090	48.3	-29.0
Current deficit (3) (4)	-589	-702	-482	-113
General balance of the balance of payments (3) (4)	2,864	794	1837	-2070
<b>EXCHANGE RATE (in dinar) (5)</b>				
1 US dollar	1.3333	1.2515	-2.2	-3.5
1 Euro	1.6884	1.7742	4.8	3.8
1.000 Japanese yen	11.2201	10.7382	-3.7	-1.1
1 Pound sterling	2.4752	2.5133	5.8	-1.4
10 Moroccan dirhams	1.5259	1.5553	3.1	1.8

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

(2) Provisional data for 2007.

(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.