

IV. PRICES

Soaring world prices for commodities, notably food and energy, over the first half of 2008, and fluctuating exchange rates for the main foreign currencies created inflationary pressure. In effect, trends in production and retail prices picked up in 2008 as the impact of imported inflation made itself felt, despite adjustment of regulated prices for a number of items, notably dairy and oil products. Thus the inflation rate went up from 3.2% in 2007 to 5% in 2008, especially in light of a considerable increase in the general price index for industrial sales (12.2% vs. 3.3% in 2007), with higher prices for imported inputs leading to higher production costs for businesses.

Faster growing industrial selling prices involved in particular lime phosphates, electricity, oil and gas products, items turned out by agrofood industries, mechanical and electrical goods, as well as basic chemical products and a number of semi-finished products and textile raw materials.

Price hikes for household consumption (5.6% on average vs. 3.6% in 2007) involved both regulated products whose prices cannot be freely set and those whose prices can be freely set (4.6% vs. 3%). In particular, the increase in regulated prices reflects adjustments made in 2008, especially for fuel and certain metals and building materials. But over the second half of 2008 there was an easing of inflationary pressure as prices for most commodities went down on the world market and inflation receded internationally. In effect, annual sliding in the consumer price general index fell by 4.1% in December, compared to a higher rate of 6% in April and 5.2% in July.

Inflation went up slightly compared to a number of countries (especially in Western Europe) with which Tunisia is a partner and competitor, but it remained favourable to Tunisia compared to other countries such as Egypt, Jordan, Turkey and South Africa.

TRENDS IN CONSUMER PRICES IN TUNISIA AND PARTNER/COMPETITOR COUNTRIES

Country	2004	2005	2006	2007	2008
France	2.3	1.9	1.9	1.6	3.2
Germany	1.8	1.9	1.8	2.3	2.8
Italy	2.3	2.2	2.2	2.0	3.5
Belgium	1.9	2.5	2.3	1.8	4.5
Spain	3.1	3.4	3.6	2.8	4.1
United Kingdom	1.3	2.0	2.3	2.3	3.6
United States	2.7	3.4	3.2	2.9	3.8
Japan	0.0	-0.3	0.3	0.0	1.4
Tunisia	3.6	2.0	4.5	3.2	5.0
Morocco	1.5	1.0	3.3	2.0	3.9
Algeria	3.6	1.6	2.5	3.6	4.5
Egypt	8.1	8.8	4.2	11.0	11.7
Jordan	3.4	3.5	6.3	5.4	15.8
Greece	3.0	3.5	3.3	3.0	4.2
Portugal	2.5	2.1	3.0	2.4	2.6
South Africa	1.4	3.4	4.7	7.1	11.5

Source : IMF

Despite the effect of imported inflation, keeping prices down was made easier by continuation of appropriate monetary policy to provide sufficient financing for the economy and by maintaining domestic and external financial balances in a very volatile and unfavourable international context. Thus the Central Bank introduced an increase in the reserve requirement rate, up to 7.5% starting 1 May 2008, then to 10% on 30 September for client deposits at banks of a duration of less than three months. This rate was brought down to 7.5% as of first January 2009 after a drop in the level of inflation, providing the banking sector with enough additional liquidity to boost the economy and counter fallouts from the world financial crisis.

State budgetary policy contributed to lower inflationary pressure thanks to more rational public expenditure and to acceptance of a level of outlays for equalisation that was considerably higher than a year earlier, in an effort to safeguard consumer purchasing power. And higher supply of goods and services thanks to greater local production and recourse to imports, along with tough competition in the national economy, consolidation and modernisation of distribution channels, and more rigorous economic control all played a major role in keeping prices down.

A. INDUSTRIAL SELLING PRICES

Soaring world prices for raw materials and semi-finished products over the first half of 2008 affected production costs at businesses and were passed on to industrial selling prices. In effect, the overall index for these prices (base 100 in 2000) rose sharply by 12.2% in 2008, up from just 3.3% the year before. This faster pace involved, to varying degrees, all sectors of activity but especially mining, energy, chemical industries, and mechanical/electrical industries.

TREND IN THE INDEX OF INDUSTRIAL SELLING PRICES

(Base 100 in 2000)

(In %)

Description	2004	2005	2006	2007	2008
General index	2.6	4.3	7.0	3.3	12.2
Manufacturing industries	2.8	2.8	4.8	2.2	7.7
-Agrofood industries	3.5	2.3	4.9	-1.2	6.9
-Building materials/ceramics/glass	3.8	6.0	8.8	6.8	7.1
-Mechanical and electrical Industries	4.7	4.6	6.0	10.0	12.0
-Chemical industries	2.1	3.1	5.3	4.0	15.7
-Textiles/clothing-leather/footwear	0.7	0.8	1.2	3.4	5.8
-Miscellaneous manufacturing Industries	-0.2	1.9	2.0	2.0	2.6
Mining	-2.4	5.2	19.4	11.0	139.0
Energy	5.9	12.6	17.2	7.4	16.3
-Oil products and gas	7.8	19.4	24.4	10.3	15.6
-Electricity and water	3.8	5.0	9.2	4.1	17.1

Source : National Statistics Institute

In manufacturing industries, selling prices, up by 2.2% in 2007, rose by 7.7% in 2008, influenced by pressure on production costs at businesses because of higher prices for imported goods. Still, the climate of competition prevailing on the domestic market helped limit the increase in prices charged by industrial companies.

By sector of activity, there were considerably higher prices in chemical industries (15.7% vs. 4% in 2007), mainly because of the sharp increase in basic chemical products (59.7% vs.

8.9%) and faster growth in prices for items made of rubber (9.7% vs. 2.2%). On the other hand, selling prices for pharmaceutical products remained at the same level as in 2007, after increasing by 5.3% a year earlier.

Similarly, growth in the prices of mechanical and electrical goods was higher than in 2007 (12% vs. 10%). This was due in particular to higher prices for non ferrous metals (+51.2% vs. -0.9% the year before), steel products (41.6% vs. 10.3%), goods made of iron (24.6% vs. 14.5%), tubes and pipes (15.2% vs. 8.2%) and electrical material (10.4% vs. 5.9%). Prices for other mechanical and electrical goods were on the rise for the most part, but at a slower pace than the previous year, particularly for wires and cables, measuring instruments, tool set and hardware, electrical motors and metal construction.

Prices also rose more sharply than in 2007 for building materials, ceramics and glass, up by 7.1% vs. 6.8%. This increase involved in particular prices for quarry products (14.3%) and marble works (10%) compared to stagnation a year earlier, as well as prices for works made of cement and concrete (6.8% vs. -0.9%), tiles and bricks (8% vs. 10.6%) and cement, lime and plaster (7.2% vs. 8.9%).

Selling prices in agrofood industries posted recovery of +6.9% in 2008, after falling by 1.2% the year before. This increase was due mainly to higher prices for oils and fats (11.9% vs. -16.2% in 2007), food for animals (22.3% vs. 1.9%), dairy products (16.6% vs. 3.9%), canned fish (6.6% vs. 3%) and beverages (4.8% vs. 2.8%).



Selling prices in the textile/clothing-leather/footwear sector went up at a much faster pace than in 2007: 5.8% vs. 3.4%. This involved mainly prices for prepared textile materials as well as yarn and thread (16% vs. 8.1% a year earlier), fabric (13.7% vs. 3.8%) and leather goods (7.1% vs. 1.9%). Inversely, prices rose moderately for hosiery (2.3% vs. 1.8% the year before), textile articles (2.2% vs. -1.2%) and especially footwear (0.2% vs. 1.8%).

Selling prices for the goods turned out by miscellaneous manufacturing industries continued to grow at a slower pace (2.6% vs. 2% in 2007), despite a somewhat higher increase in prices for miscellaneous wooden objects (5.6% vs. 0.7%), miscellaneous manufactured

goods (3.9% vs. 1.8%), and frames/carpentry for construction (3.6% vs. stagnation the year before).

Selling prices for mining products more than doubled in 2008, posting a rate of 139% vs. 11% the year before. This trend was due mainly to higher prices for lime phosphates (about 145% vs. 11% in 2007), in line with major international demand, in particular from emerging countries like China, India and Brazil. On the other hand, prices dipped by 7.5% for iron ore, following the previous year's sharp increase of 29%.

B. HOUSEHOLD CONSUMER PRICES

As in most other countries, consumer prices in Tunisia rose more quickly in 2008, influenced by soaring world prices for commodities over the first half of the year, especially food and energy products. Inflation thus rose from 3.2% in 2007 to 5% in 2008, despite an easing of pressure on prices starting in the summer. It should be noted that higher prices for energy peaked in April 2008, corresponding to 6% in terms of annual sliding and 5.8% on average.

Prices rose faster for food, housing, transport and communications, and household cleaning/health/personal care products, but slower for clothing and leisure, culture and miscellaneous. It should be mentioned that contribution to inflation by the first two items under household expenditure (which represent about 54% of the base for the general consumer price index) reached 66% or 3.3 percentage points vs. 50% and 1.6 point in 2007.

TREND IN THE GENERAL INDEX OF HOUSEHOLD CONSUMER PRICES

(Base 100 in 2000)

(In %)

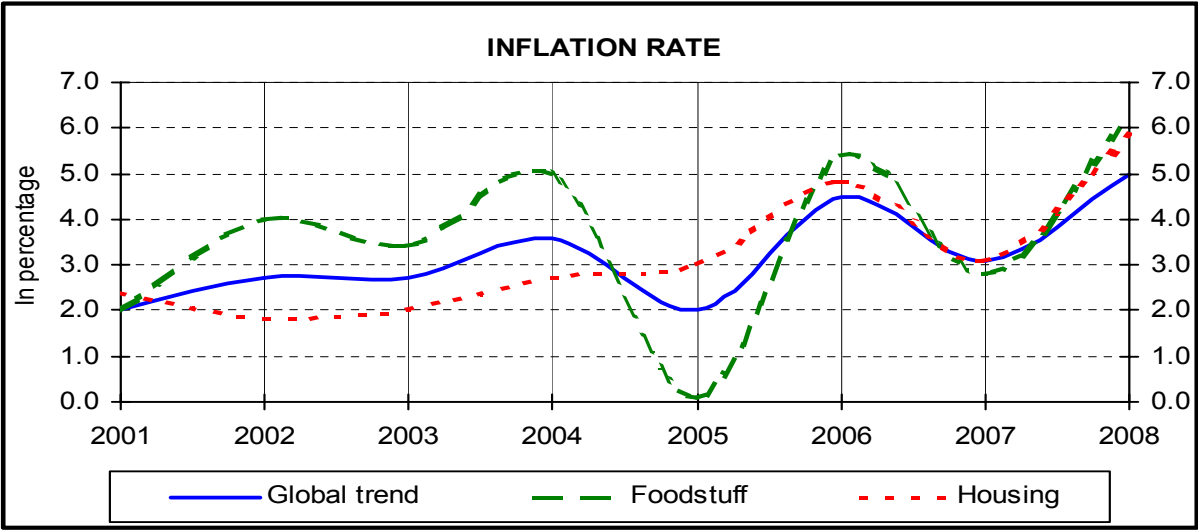
Description	In terms of annual slide					Yearly averages	
	Dec. 2007	Mar. 2008	June 2008	Sept. 2008	Dec. 2008	2007	2008
	Dec. 2006	Mar. 2007	June 2007	Sept. 2007	Dec. 2007	2006	2007
General index	5.3	5.9	4.9	4.3	4.1	3.2	5.0
Food	7.6	8.5	6.3	4.8	3.1	2.8	6.2
Housing	3.9	5.1	6.3	6.1	6.2	3.1	5.8
Cleaning, health and personal care	3.6	4.2	4.7	5.0	5.7	2.6	4.6
Transport & Communications	5.0	6.4	3.5	5.8	5.0	4.9	5.2
Clothing	3.3	1.3	2.6	-0.3	4.0	3.3	2.4
Leisure, culture & misc.	4.3	4.1	2.4	2.4	2.2	3.2	2.9

Source : National Statistics Institute

The increase in prices for food products accelerated from 2.8% in 2007 to 6.2% in 2008. This development was due mainly to higher prices for oil (12.2% vs. -14.7% in 2007), milk/ dairy products (14.8% vs. 4.1%), and cereals/cereal-based products (7.5% vs. 4.5%). There were also significant increases for eggs (12.1% vs. 17.6% in 2007), vegetables (6.6% vs. -0.3%) and non alcoholic beverages (6.8% vs. 5.5%). Inversely, several foodstuffs experienced faster-growing prices, but at a slower pace than in 2007, for example tea and coffee (0.5% vs. 1.7%), meat and poultry (2% vs. 4.6%), fruit (3.4% vs. 5%) and sugar & sweets (3.7% vs. 4%).

Exclusive of food, consumer price rise posted a higher level than a year earlier (4.2% vs. 3.4%). This increase involved the prices of services (4.7% vs. 2.8% a year earlier) and, to a lesser degree, those of manufactured goods (4.1% vs. 3.8%).

After food products, housing prices posted the highest rise in 2008 : 5.8% vs. 3.1% the year before. This was due in particular to higher prices for energy (10% vs. 3.2% in 2007), following adjustment of prices for oil, gas and electricity. Similarly, there were price increases for dishes and kitchen utensils (5.3% vs. 2.9% the year before), furnishings (4.9% vs. 1.4%) and, to a lesser degree, rent and utilities (4% vs. 3.6%).



Prices for transport and communications rose by 5.2% (vs. 4.9% a year earlier). This increase involved prices for public transport (4.8% vs. 1.4% in 2007) and the cost of personal transport continued to rise at a fairly brisk pace (8% vs. 8.5%), influenced by adjustment of fuel prices. On the other hand, postal and telecommunication rates continued to fall (-12.6% vs. -3.7% the year before).

Prices went up by 4.6% (compared to 2.6% in 2007) for household cleaning, health and personal care products. This trend was due in particular to an increase in the prices of cleaning products and detergents (7.2% vs. 4.6% a year earlier), toiletries (6.3% vs. 3%) and health services (5.8% vs. 3.7%).

Clothing prices rose in 2008 but at a slower pace (2.4% vs. 3.3% the year before). This slowdown involved the cost of most products, but especially footwear (1.5% vs. 3.6% in 2007), men’s clothing (2.5% vs. 4.1%), women’s clothing (2.9% vs. 4.7%) and men’s underwear (4.8% vs. 7%).

Prices were also up in 2008 (although at a slower pace than the year before) for leisure activities, culture and miscellaneous items (2.9% vs. 3.2% in 2007). This slower growth was due in particular to the drop in prices for leisure items and expenses (-5% vs. -0.7% in 2007) and a moderate increase in expenditure for tobacco and cigarettes (1.3% vs. 2.7%).

In terms of annual sliding, the increase in the general consumer price index slowed from 5.3% in December 2007 to 4.1% in December 2008. This trend was made possible following easing of pressure on prices starting in the summer in the wake of lower prices for most commodities on the world market, the calming of inflationary pressure around the world, and better supply on the domestic market.

Price rise for unregulated goods was 3.9% in December 2008 compared to December 2007, vs. 5.1% a year earlier, caused exclusively by slower growth in food (2.9% vs. 6.8%). This same trend held for prices of regulated goods (4.1% vs. 5.8% the year before), particularly prices for food products (3.7% vs. 10.6%).

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

Description	Variation (%)		Contribution (% points)	
	<u>December 2007</u> December 2006	<u>December 2008</u> December 2007	<u>December 2007</u> December 2006	<u>December 2008</u> December 2007
Unregulated goods	5.1	3.9	3.5	2.7
.Food	6.8	2.9	2.0	0.8
.Non food	3.8	4.7	1.5	1.9
Regulated goods	5.8	4.1	1.8	1.4
.Food	10.6	3.7	0.8	0.3
.Non food	4.3	4.3	1.0	1.1
Overall	5.3	4.1	5.3	4.1

Source : National Statistics Institute

For the second straight year, prices for unregulated goods contributed 66% to annual sliding in the general household consumption price index, corresponding to 2.7 percentage points vs. 3.5 points a year earlier.

C. GENERAL EQUALISATION FUND

Funds disbursed by the general equalisation fund posted a sharp increase in 2008, reaching 1,048 MTD (2.1% of GDP) vs. 598 MTD (1.3%) for 2007. This was due mainly to soaring world food prices over the first half of 2008. Similarly, in line with the considerably higher value of the USD on international foreign exchange markets, appreciation of the US dollar against the dinar from July to December contributed to higher prices for imported products. This was compounded by insufficient local production, notably a 2007-2008 cereal harvest that was some 40% lower than the year before, amounting to 11.9 million quintals.

TREND IN GENERAL EQUALISATION FUND OUTLAYS

(In MTD)

Description	2004	2005	2006	2007	2008
Cereals and by-products	176.4	170.9	239.5	474.2	873.0 ⁽¹⁾
Vegetable oils	66.7	57.8	69.0	111.5	167.5
Milk	6.3	6.7	7.3	7.3	2.8
School paper	12.3	7.7	5.6	5.0	4.6
Total	261.7	243.1	321.4	598.0	1.048.0

Source : Ministry of Trade and Handicrafts

The structure of funds remained marked by predominance of subsidies for cereals and by-products, which represented some 84% of total, including an amount of 70 MTD allocated by the 2007 State budget but disbursed only in 2008 to partially cover equalisation outlays in November and December. Remaining funds went mainly for vegetable oils (167.5 MTD), an increase of 50.2% over the previous year's amount, following higher international prices for oils (+41.8% for soybean oil and 20% for palm oil) and the absence of compensated price adjustments in 2008, the last increase dating back to December 2007.

⁽¹⁾ Exclusive of 70 MTD allocated by 2007 State Budget which was held for the cereals Board and disbursed to partially cover equalisation outlays in November and December.

As for other subsidised products, funding went down considerably for milk (from 7.3 MTD to 2.8 MTD), since this product became ineligible for funding after adjustment of its price on 23 January 2008. The price of industrial milk does however remain under State regulation, with an eye to balance in dairy industries. Equalisation funds were also down for school paper (4.6 MTD vs. 5 MTD in 2007), following a more rational approach to subsidised quantities.

Financing of expenditure by the general equalisation fund was entirely covered by the State budget subsidies.