

SECTION 6 – PUBLIC FINANCES¹

Management of public finances was marked in 2010 by ongoing measures to boost economic recovery, seeking to mitigate the repercussions of the world economic crisis that was especially detrimental to exports. These measure included ongoing implementation of reforms, notably gradual progress in objective-oriented budgetary management *GBO* for the sectors chosen for the pilot stage and holding of the first Public Expenditure Financial Accountability exercise in Tunisia², carried out by the European Union, the World Bank, and the African Development Bank, which constitutes a diagnosis of public finance management.

The balance sheet for 2010 is marked by strong performance in tax revenue (+9.0%), in line with growing economic activity and a drop in net interventions by the Treasury illustrating a degree of budgetary tightening. This helped to post a positive primary result and to hold the budget deficit to 1.3% of GDP (compared to 3.1% projected and 3% effective in 2009). There was also a downward trend in the outstanding balance of public debt, which came to 40.4% of GDP at the end of 2010 vs. 42.9% a year earlier.

This favourable evolution constitutes a margin of manoeuvre for public finances, helping to boost the economy and accompany the private investment effort and job creation.

STATE BUDGET BALANCE

(In MTD unless otherwise indicated)

Description	2009	2010	S.F.L.* 2011	Variation in %		
				2009/2008	2010/2009	SFL 2011/2010
Core resources	13,762.0	14,854.9	16,415.0	0.3	7.9	10.5
- Tax revenue	11,685.2	12,738.8	12,813.0	3.1	9.0	0.6
- Non tax revenue	2,076.8	2,116.1	3,602.0	-12.9	1.9	70.2
Loan and cash resources	3,654.7	3,256.3	5,040.0	55.2	-10.9	54.8
Total resources	17,416.7	18,111.2	21,455.0	8.4	4.0	18.5
Expenditure and net loans	15,354.4	15,647.1	19,251.0	10.2	1.9	23.0
- Operating expenditure exclusive of equalisation	7,935.0	8,501.2	9,815.0	9.8	7.1	15.5
- Equalisation	1,430.0	1,500.0	2,869.0	-29.8	4.9	91.3
- Debt interest	1,180.0	1,152.0	1,210.0	3.3	-2.4	5.0
- Capital expenditure	4,013.6	4,326.1	5,232.0	21.1	7.8	20.9
- Net loans	795.8	167.8	125.0	274.5	-78.9	-25.5
Debt principal redemption	2,062.3	2,464.1	2,204.0	-3.4	19.5	-10.6
Total expenditure	17,416.7	18,111.2	21,455.0	8.4	4.0	18.5
Budget deficit excluding privatisation and grants	1,770.0	846.3	3,135.0			
In % of GDP	3.0	1.3	4.6			
Financing						
- Privatisation and grants	177.6	54.1	299.0			
- Net domestic financing	1,618.2	1,022.3	1,010.0			
- Net external financing	-25.8	-230.1	1,826.0			

* Supplementary finance law.

1. State budget resources

State budget resources in 2010 went up by 4% over the previous year's figure, but they were 1.2% less than what was provided for in the finance law, which had counted on higher economic growth.

¹ The source of data relative to this section is the Ministry of Finance.

² Report available on the Ministry of Finance website.

This came from the 7.9% increase in core revenue (tax and non tax) and the 10.9% drop in loan and cash resources. The structure of budgetary resources continues to be marked by the predominance of core revenue (82% in 2010, up from 79% the year before), allowing for more limited recourse to loans. This is in line with the approach that seeks to bring the rate of public indebtedness down to a manageable level.

1-1. Tax revenue

The positive trend for this category of revenue in 2010 was due to strong performance in direct taxes (up by 8.7%, in line with the increase in wages and economic activity in 2009) and in customs duty (up by 17.3%, in line with the 23% increase in imports). The increase in the level of the various components of tax revenue brought about an increase in their share in total State core resources, up from some 85% in 2009 to 86% in 2010.

TRENDS IN TAX REVENUE

(In MTD unless otherwise indicated)

Description	2009	2010	S.F.L. 2011	Variation in %		
				2009 2008	2010 2009	S.F.L. 2011/2010
Direct taxes	4,645.4	5,047.3	5,462.0	1.9	8.7	8.2
Income tax	2,379.4	2,615.0	2,843.0	10.9	9.9	8.7
Corporate tax	2,266.0	2,432.3	2,619.0	-6.2	7.3	7.7
<i>of which : oil companies</i>	<i>646.8</i>	<i>810.7</i>	<i>985.0</i>	<i>-43.8</i>	<i>25.3</i>	<i>21.5</i>
Indirect levies and taxes	7,039.8	7,691.5	7,351.0	4.0	9.3	-4.4
VAT	3,399.7	3,750.5	3,533.0	2.7	10.3	-5.8
Consumer duty	1,596.3	1,711.9	1,486.0	9.0	7.2	-13.2
Customs duty	520.2	563.9	560.0	-11.0	8.4	-0.7
Other indirect levies and taxes	1,523.6	1,665.2	1,772.0	7.9	9.3	6.4
Total	11,685.2	12,738.8	12,813.0	3.1	9.0	0.6
Overall tax burden (in % of GDP)	19.9	20.1	19.0			
Tax burden exclusive of oil (in % of GDP)	18.8	18.8	17.5			

The increase in direct taxes in 2010 largely involved tax on wages (177 MTD), in line with the third portion of wage increases, and tax on oil (164 MTD), the result of higher prices for crude oil, along with additional production of some 500,000 Toe of natural gas as production went on line at the new gas fields of Asdrubal, Maamoura and Elbaraka. Tax on non-oil companies remained at virtually the same level as in 2009 (1622 MTD vs. 1619 MTD). There was also encashment a year earlier of an exceptional tax payment from the Tunisian oil refining industries company *STIR* relating to 2008.

80% of the 9.3% increase in indirect taxes and levies in 2010 was due to recovery in foreign trade, while the increase in taxes and levies for the domestic regime was just 3.2% because of the high level of tax rebates, especially VAT (350 MTD).

1-2. Non tax revenue

Trends for non tax revenue continued to be marked by higher income from shareholdings in public enterprises and repayment of loans made to them, these two sources together accounting for 53% of total. Income from shareholdings represents the share due to the State budget from profits made by public enterprises for activities carried out the previous year. Non tax revenue mobilised in 2010 came to 448 MTD less than projected, due mainly to income from shareholdings (-331 MDT) because of the voluntary carrying forward of Central Bank of Tunisia profits for 2009, given strong tax performance.

TRENDS IN NON TAX REVENUE

(In MTD unless otherwise indicated)

Description	2009	2010	SFL 2011	Variation in %		
				2009/2008	2010/2009	SFL 2011/2010
Oil and gas revenue	423.3	414.8	476.0	14.3	-2.0	14.8
Shareholdings	788.6	796.0	2,311.0	-19.3	0.9	190.3
Loan collection	190.6	324.8	134.9	-9.5	70.4	-58.5
External grants	177.6	54.1	113.0	-7.3	-69.5	108.9
Privatisation proceeds	0	0	186.0			
Other non tax resources	496.7	526.4	381.1	1.9	6.0	-27.6
Total	2,076.8	2,116.1	3,602.0	-12.9	1.9	70.2

1-3. Loan resources

Consolidation of budget core resources and the favourable situation of the State treasury allowed for more limited recourse to domestic borrowing, which came to just 635 MTD, very near the figure recorded for 2008. Drawings on external resources in 2010, coming to some 1225 MTD, included the second portion of the integration support programme loan signed with the World Bank, the African Development Bank, and the European Union.

With fallout from the economic crisis and volatility on world capital markets driving financing costs up, Tunisia for the third straight year held off going to the international capital market.

TRENDS IN BORROWED RESOURCES

(In MTD unless otherwise indicated)

Description	2008	2009	2010		Variation in %	
			F L	Achievements	2009/2008	2010/2009
- Domestic Borrowings	670.6	1,024.4	2,651.0	634.6	52.8	-38.1
. 52 week Treasury bonds	122.7	241.0	700.0	165.5	96.4	-31.3
. Bonds equivalent to Treasury bonds (BTA)	547.9	783.4	1,951.0	469.1	43.0	-40.1
- External Borrowings	969.8	1,163.0	1,218.0	1,224.5	19.9	5.3
. Programme to support integration	0	348.0	350.0	359.0		3.2
. Earmarked external borrowings : administrative projects	574.9	689.2	768.0	743.9	19.9	7.9
. Retroceded external loans : corporate projects	167.5	125.8	100.0	121.6	-24.9	-3.3
. International financial market	227.4*	0	0	0	-100.0	
Total	1,640.4	2,187.4	3,869.0	1,859.1	33.3	-15.0

* The portion, with the drawing carried out in August 2007, is budgetized in 2008.

2. State budget expenditure

After having grown at a faster pace in 2009 under the influence of higher growth in public investment, overall State budget expenditure in 2010 went up at a lower rate, down from 8.4% to 4%, affected mainly by slower growth in capital expenditure and a significant drop in net loans, a sign of restrictive budgetary policy. But outlays for equalisation were up by almost 5% because of higher world prices for most subsidised products. Furthermore, following the increase in repayment of principal on loans (some 402 MTD), debt service once again increased, involving 3616 MTD of which 2464 MTD or 68% was to redeem principal.

TRENDS IN STATE BUDGET EXPENDITURE

(In MTD unless otherwise indicated)

Description	2009	2010	SFL 2011	Variation in %		
				2009/2008	2010/2009	SFL 2011/2010
Expenditure exclusive of debt	14,174.4	14,495.1	18,041.0	10.8	2.3	24.5
- Operating expenditure exclusive of equalisation	7,935.0	8,501.2	9,815.0	9.8	7.1	15.5
- Equalisation	1,430.0	1,500.0	2,869.0	-29.8	4.9	91.3
- Capital expenditure	4,013.6	4,326.1	5,232.0	21.1	7.8	20.9
- Net loans	795.8	167.8	125.0	274.5	-78.9	-25.5
Debt service	3,242.3	3,616.1	3,414.0	-1.0	11.5	-5.6
- Principal	2,062.3	2,464.1	2,204.0	-3.4	19.5	-10.6
- Interest	1,180.0	1,152.0	1,210.0	3.3	-2.4	5.0
Total	17,416.7	18,111.2	21,455.0	8.4	4.0	18.5

2-1. Operating expenditure

Trends in operating expenditure in 2010 were marked by the lower level of State intervention in recruiting civil servants and in outlays for means of services, along with emerging pressure on equalisation as world prices shot up. For basic consumer products, the drop in international prices for certain foodstuffs meant an approximately 9% drop in the level of subsidies. Equalisation for fuel was up by some 28% to 550 MTD, due to higher oil prices.

TRENDS IN OPERATING EXPENSES

(In MTD unless otherwise indicated)

Description	2009	2010	SFL 2011	Variation in %		
				2009/2008	2010/2009	SFL 2011/2010
Wages and salaries	6,298.7	6,785.2	7,642.7	9.3	7.7	12.6
Means of services	832.6	841.3	842.9	15.0	1.0	0.2
Interventions exclusive of equalisation	803.7	874.7	945.0	8.2	8.8	8.0
Equalisation	1,430.0	1,500.0	2,869.0	-29.8	4.9	91.3
Unforeseen, non-allocated loans	0	0	384.4			
Total	9,365.0	10,001.2	12,684.0	1.1	6.8	26.8

For 2011, operating expenses will be marked by the considerable effort to create jobs in the civil service and by virtually doubling the budget for equalisation so as to keep domestic prices down during the current difficult situation, especially in light of the trend toward higher world prices for energy and food.

TRENDS IN EQUALISATION EXPENDITURE

(In MTD unless otherwise indicated)

Description	2009	2010	SFL 2011	Variation in %		
				2009/2008	2010/2009	SFL 2011/2010
Commodities	800.0	730.0	1,100.0	-23.7	-8.8	50.7
Fuel	430.0	550.0	1,536.0	-46.7	27.9	179.3
Transport	200.0	220.0	233.0	9.9	10.0	5.9
Total	1,430.0	1,500.0	2,869.0	-29.8	4.9	91.3

2-2. Capital expenditure, loans and advances from the treasury

After a year of notable progress, with the State committing major investment to support the economy and make up for flat private investment, capital expenditure (exclusive of loans and advances) grew in 2010 but at a slower pace, due to strong corporate investment and recovery in economic activity (except for agriculture).

Given net borrowings (external loans on-lended to public enterprises and net advances from the Treasury), overall capital expenditure by the State was down by 6.6% in 2010, after the exceptional measure of granting special advances in 2009 (670 MTD) to certain public enterprises in order to stand up to the situation created by the economic crisis.

For 2011, the extensive measures taken in the framework of the emergency economic and social programme elaborated by the transitional government will bring about a rebound in the volume of investment to boost recovery in the national economy.

CAPITAL EXPENDITURE, LOANS AND NET ADVANCES FROM THE TREASURY

(In MTD unless otherwise indicated)

Description	2009	2010	SFL 2011	Variation in %		
				2009/2008	2010/2009	SFL 2011/2010
Direct investment	1,276.2	1,450.3	1,566.5	20.8	13.6	8.0
Public financing	1,317.8	1,384.3	1,420.0	36.2	5.0	2.6
Investment on external resources	815.0	865.5	854.2	9.8	6.2	-1.3
- State investment earmarked external loans	689.2	743.9	729.2	19.9	7.9	-2.0
- External loans on-lended to public enterprises	125.8	121.6	125.0	-24.9	-3.3	2.8
Treasury fund	730.4	747.6	1,051.0	2.0	2.4	40.6
- Treasury special funds	694.3	695.8	1,051.0	-1.5	0.2	51.0
- Financing fund	36.1	51.8	0.0	211.2	43.5	-100.0
Loans and net advances from the Treasury	670.0	46.2	0.0	1,388.9	-93.1	-100.0
Unforeseen expenses	0	0	465.3			
Total	4,809.4	4,493.9	5,357.0	36.3	-6.6	19.2

2-3. Repayments to service public debt

Outlays to service public debt went up in 2010 by 11.5% (vs. 12.3% provided for in the finance law), following a slight decrease in 2009. This was attributable to higher retirement of principal on loans taken out on the international financial market and on bilateral loans. To redeem principal on domestic loans, the increase involved 52 week Treasury bonds in the amount of some 118 MTD, with an amount of 241 MTD has been settled. As for reimbursement of interest on debt, there was a drop of 2.4%, involving in particular external debt on the international financial market.

DEBT RETIREMENT

(In MTD unless otherwise indicated)

Description	2009	2010	SFL 2011	Variation in %		
				2009/2008	2010/2009	SFL 2011/2010
Domestic debt	1,434.2	1,566.5	846.0	-22.8	9.2	-46.0
Principal	873.5	1,009.5	271.0	-32.6	15.6	-73.2
Interests	560.7	557.0	575.0	-0.4	-0.7	3.2
External debt	1,808.1	2,049.6	2,568.0	27.5	13.4	25.3
Principal	1,188.8	1,454.6	1,933.0	41.7	22.4	32.9
Interests	619.3	595.0	635.0	6.9	-3.9	6.7
Total	3,242.3	3,616.1	3,414.0	-1.0	11.5	-5.6
Principal	2,062.3	2,464.1	2,204.0	-3.4	19.5	-10.6
Interests	1,180.0	1,152.0	1,210.0	3.3	-2.4	5.0

3. Budget deficit and its financing

The increase in State core resources in 2010 along with budgetary restrictions helped reduce the budget deficit, which (exclusive of privatisation and grants) dropped from 3% of GDP in 2009 to

1.3% in 2010. This deficit was financed entirely by mobilising cash resources and tapping income from privatisation and grants, with net borrowings having been negative both domestically (-375 MTD) and externally (-230 MTD).

BUDGET DEFICIT FINANCING

Description	2009		2010		SFL 2011	
	In MTD	In % of total	In MTD	In % of total	In MTD	In % of total
Privatisation and grants	177.6	10.0	54.1	6.4	299.0	9.5
Net domestic financing	1,618.2	91.5	1,022.3	120.8	1,010.0	32.2
-Net domestic borrowings	150.9	8.6	-374.9	-44.3	1,010.0	32.2
* Domestic borrowed resources	1,024.4	57.9	634.6	75.0	1,281.0	40.8
* Redemption of debt principal (in -)	873.5	49.3	1,009.5	119.3	271.0	8.6
-Cash resources	1,467.3	82.9	1,397.2	165.1	0.0	0.0
Net external financing	-25.8	-1.5	-230.1	-27.2	1,826.0	58.3
* External borrowed resources	1,163.0	65.7	1,224.5	144.7	3,759.0	119.9
* Redemption of debt principal (in -)	1,188.8	67.2	1,454.6	171.9	1,933.0	61.6
Total	1,770.0	100.0	846.3	100.0	3,135.0	100.0

4. Trends in the outstanding balance of public debt

Thanks to a budget deficit that remained at a manageable level, issues of Treasury bonds on the capital market were down considerably in 2010 compared to the previous year and this had a positive effect on trends in the outstanding balance of public debt, which went up by just 1.8% compared to 5.3% the year before. The 5.7% increase in the outstanding balance of external debt is attributable to the increase in exchange rates of the main currencies (euro, dollar and yen).

However the outstanding balance of domestic debt fell by 3.7%, on the basis of a drop in the outstanding balance of Treasury bonds issued by the State.

THE OUTSTANDING BALANCE OF PUBLIC DEBT

Description	2008		2009		2010		SFL 2011	
	In MTD	In % of total	In MTD	In % of total	In MTD	In % of total	In MTD	In % of total
External debt	14,559.9	60.9	14,715.7	58.4	15,550.5	60.7	17,593.0	59.6
In % of GDP	26.3		25.1		24.5		26.3	
Domestic debt	9,366.6	39.1	10,474.3	41.6	10,089.1	39.3	11,935.8	40.4
In % of GDP	17.0		17.8		15.9		17.8	
Total	23,926.5	100.0	25,190.0	100.0	25,639.6	100.0	29,528.8	
In % of GDP	43.3		42.9		40.4		44.1	

SECTION 7 – CAPITAL MARKET

Activity on Tunisia's capital market was marked in 2010 by an ongoing upward trend for the main stock market indicators, despite reversal in the last quarter in a context marked by historic political and social challenges at the national level. This had an adverse effect on the economy and on the capital market, leading to suspension of stock market quotation on two occasions at the beginning of 2011.

The capital market evolved in 2010 in line with dynamic bid, reflected through the number of new companies posted on the stock market and the volume of trading on the primary market, along with good performance for listed companies, which boosted investor confidence in their potential.

These factors taken together maintained the positive growth that the Tunis Stock Exchange enjoyed for the eighth straight year, with the TUNINDEX going up by 19.1% (compared to 48.4% in 2009) and stock capitalization by 25% to 15,282 MTD, corresponding to 24.1% of GDP at the end of 2010.