

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
<b>Privatisation and grants</b>	<b>177.6</b>	<b>10.0</b>	<b>54.1</b>	<b>6.4</b>	<b>299.0</b>	<b>9.5</b>
<b>Net domestic financing</b>	<b>1,618.2</b>	<b>91.5</b>	<b>1,022.3</b>	<b>120.8</b>	<b>1,010.0</b>	<b>32.2</b>
-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
<b>Net external financing</b>	<b>-25.8</b>	<b>-1.5</b>	<b>-230.1</b>	<b>-27.2</b>	<b>1,826.0</b>	<b>58.3</b>
* 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
<b>Total</b>	<b>1,770.0</b>	<b>100.0</b>	<b>846.3</b>	<b>100.0</b>	<b>3,135.0</b>	<b>100.0</b>

#### 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
<b>External debt</b>	<b>14,559.9</b>	<b>60.9</b>	<b>14,715.7</b>	<b>58.4</b>	<b>15,550.5</b>	<b>60.7</b>	<b>17,593.0</b>	<b>59.6</b>
In % of GDP	26.3		25.1		24.5		26.3	
<b>Domestic debt</b>	<b>9,366.6</b>	<b>39.1</b>	<b>10,474.3</b>	<b>41.6</b>	<b>10,089.1</b>	<b>39.3</b>	<b>11,935.8</b>	<b>40.4</b>
In % of GDP	17.0		17.8		15.9		17.8	
<b>Total</b>	<b>23,926.5</b>	<b>100.0</b>	<b>25,190.0</b>	<b>100.0</b>	<b>25,639.6</b>	<b>100.0</b>	<b>29,528.8</b>	
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.

**MAIN STOCK MARKET INDICATORS**

(In MTD unless otherwise indicated)

Description	2008	2009	2010	First half of 2011
<b>State issues<sup>1</sup></b>	<b>735</b>	<b>1,036</b>	<b>635</b>	<b>480</b>
- BTA and BTZc <sup>2</sup>	612	783	469	319
- BTCT <sup>2</sup>	123	253	166	161
<b>Outstanding balance of Treasury bonds (End of period)</b>	<b>5,973</b>	<b>6,162</b>	<b>5,849</b>	<b>6,175</b>
- BTA and BTZc	5,850	5,921	5,683	6,002
- BTCT	123	241	166	173
<b>Outstanding balance of Treasury bonds/GDP (In %)</b>	<b>10.8</b>	<b>10.5</b>	<b>9.2</b>	<b>9.1</b>
<b>Corporate issues through public call for savings</b>				
<b>Approved amounts</b>	<b>640</b>	<b>1,055</b>	<b>1,029</b>	<b>81</b>
- Capital increase	266	330	269	31
- Debenture loans	374	725	760	50
<b>Raised Funds</b>	<b>644</b>	<b>976</b>	<b>989</b>	<b>163</b>
- Capital increase	252	301	289	6
- Debenture loans	392	675	700	157
- Joint claim funds (FCC)	-	-	-	-
<b>Capital market share in financing private sector GFCF (In %)</b>	<b>8.1</b>	<b>12.1</b>	<b>11.3</b>	<b>-</b>
<b>Amount of transactions on the official quotation</b>	<b>2,109</b>	<b>1,814</b>	<b>2,702</b>	<b>574</b>
- Equity securities (a)	1,914	1,715	2,626	544
- Claim securities	195	99	76	30
<b>Number of listed companies (In units)</b>	<b>50</b>	<b>52</b>	<b>56</b>	<b>57</b>
<b>Stock market capitalisation (b)</b>	<b>8,301</b>	<b>12,227</b>	<b>15,282</b>	<b>13,210</b>
Stock market capitalisation/GDP (In %)	15.0	20.8	24.1	19.6
TUNINDEX in points (Base 1,000 on 31 December 1997)	2,892.40	4,291.72	5,112.52	4,296.59
Annual rotation rate (a/b) (In %)	23.1	14.0	17.2	-
Liquidity rate (In %)	63	58	59	60
<b>Amount of transactions on the off list</b>	<b>48</b>	<b>40</b>	<b>48</b>	<b>3</b>
<i>Amount of registry and declarations</i>	<b>1,973</b>	<b>1,470</b>	<b>1,087</b>	<b>1,054</b>
<b>Mutual funds investing in securities OPCVM (Exclusive of FCPR)<sup>3</sup></b>				
- Operating units	76	88	97	101
- Net assets	3,642	4,383	5,107	5,081

Sources : Tunis Stock Exchange Market (BVMT) and the Capital Market Council (CMF)

<sup>1</sup> Calculated on the basis of auction dates.

<sup>2</sup> BTA : Bonds equivalent to Treasury bonds.

BTCT : Short-term Treasury bonds.

BTZc : Zero coupon Treasury bonds.

BTNB : Treasury bonds negotiable on the stock market.

<sup>3</sup> FCPR : Venture capital mutual investment funds.

On another front, the capital market helped companies secure 989 MTD in financing by means of public call for savings, slightly more than in 2009, although the market share for financing of private investment went down to 11.3% for 2010. Savings raised through institutional funds went up by 16.5% to 5107 MTD at the end of 2010, managed by 97 mutual funds investing in securities (OPCVM), exclusive of venture capital mutual investment funds (FCPR).

Three new measures pertaining to the tax system governing direct financing were introduced :

- Companies newly posted on the stock exchange that open a minimum of 30% of their capital to the public remain eligible for a corporate tax rate of 20% for five years starting the year of posting on the stock exchange, which must take place before the end of 2014. Companies working in telecommunications and hydrocarbons (transport and refineries) are not eligible for this incentive<sup>1</sup>. This should help boost market depth, greater diversification of risk, and reduction of speculative pressure on certain stocks.

- There will be greater rationalisation in exempting gains on sale of listed stocks, by taxing short term stock gains while maintaining the exemptions provided for in current legislation, seeking to stabilise medium and long term savings and limit excessive speculation on the stock market<sup>2</sup>.

- The ceiling has been raised from 20,000 dinars to 50,000 dinars for money deposited in stock savings accounts, which can be deducted from individual taxable income, meant to boost long term savings invested in stocks.<sup>3</sup>

## **1. Financing the State and investment**

The primary market was marked in 2010 by the ongoing trend for companies to seek direct financing, contrasting with a drop in drawings from the Treasury. The first half of 2011 was marked by less issues by companies through public call for savings.

### ***1-1. State issues***

Public issues came to a total of 635 MTD. This corresponds to 42.3% of the projected amount for issues and 68.3% of the amount announced for auctions in 2010. This is made up of 469 MTD (73.9%) in bonds equivalent to Treasury bonds (BTA), the rest in 52 week short term Treasury bonds (BTCT). These issues were interrupted over the last four months of 2010 since the Treasury had sufficient liquidity, with the current account posting an average monthly balance of 816 MTD for the period compared to an average balance of 560 MTD for the rest of the year.

State issues were once again on offer in February 2011. This was in line with growing need for liquidity by the Treasury which opted for a long term financing strategy with an overall 480 MTD in issues up to end June 2011. This included 319 MTD (66.5%) in bonds equivalent to Treasury bonds and accounted for 73.8% of the provisional amount of issues for the first half of 2011 with an average monthly balance of the Treasury account that came to 466 MTD over the period.

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<sup>1</sup> Cf. Law n° 2010-29 of 7 June 2010 regarding incentives for companies to seek posting on the official list of the stock quotation.

<sup>2</sup> Cf. Art 41 of law n° 2010-58 of 17 December 2010, providing for the 2011 finance law, which introduces a tax on net gains on sale of listed stock acquired or subscribed to after 1 January 2011 and sold prior to the end of the year following that of their acquisition or subscription.

<sup>3</sup> Cf. Art 4 of decree-law n° 2011-28 of 18 April 2011 regarding tax and financial measures in support of the Tunisian economy.

## ***1-2. Corporate issues through public call for savings***

In 2010 companies continued to seek direct financing in order to consolidate their financial base. The cumulative amount of funds raised through public call for savings came to 989 MTD. But despite this progress, the capital market's share in providing funds for private investment broke with the upward trend that has characterised the past few years, coming to 11.3% in 2010. Financing continued to be dominated by lending institutions, with a 17.5% increase in the outstanding balance of professional loans to 32,353 MTD<sup>1</sup> in 2010.

Issues on the bond market were up in 2010, with 700 MTD<sup>2</sup> in subscriptions, of which 80 MTD were for the subordinated borrowing that helped boost complementary capital stock equity at Amen Bank. These issues were dominated by lending institutions (98.6% share), with just a marginal presence for industrial companies that continue to seek bank financing.

Funds raised on the market for corporate capital increases through public call for savings came to 289 MTD in 2010, going mainly to companies newly listed on the stock exchange that put new shares<sup>3</sup> (167 MTD) on the market, as well as ATB (67.5 MTD) in the wake of increased volume of activity and larger market share.

**The first half of 2011**, on the other hand, showed that companies only occasionally sought direct financing, as seen in the low number of approvals issued by the financial market council *CMF*<sup>4</sup> and the volume of funds mobilised on the market, coming to 157 MTD of which 110 MTD were for four debenture loans approved in 2010. Worth of note that from the two borrowings approved in 2011, the one relative to the Arab International Lease (AIL) was only subscribed in the amount of 17.2 MTD out of an approved package of 20 MTD.

## **2. The stock market**

The main event in 2010 was the double listing for the first time of a company on the official list of the Tunis Stock Exchange and a foreign stock exchange, with ENNAKL being posted on the boards of both the Tunis and Casablanca Stock Exchanges. The official list of the Tunis Stock Exchange was also enriched by introduction of three other stocks (SALIM insurance company, *Tunis Ré* and Modern Leasing) on the main market and Carthage Cement on the alternative market, bringing the total number of listed stocks to 56 at the end of 2010.

Trends on the stock market in 2010 were characterised by two successive phases :

- A period of growth held throughout the first nine months of the year, in the wake of good performance in 2009. This pushed the TUNINDEX up by 32.4% thanks to ever better results posted by listed companies and to the influx of liquidity, which together had a significant impact on the market at the time of new postings with attractive prices that caught the attention of investors.
- A period of declining growth marked the last quarter of the year. The TUNINDEX fell by 10%, bringing about annual yield of just 19.1% in line with plans for taxing short term gains on the stock exchange.

This downward trend became more pronounced **starting in early 2011**, impacted by current events and bringing about an 11% drop on the stock exchange at mid January. This led market officials to suspend trading as well as subscription transactions and those involving buy back of

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<sup>1</sup> Neither secured nor guaranteed.

<sup>2</sup> Of which 50 MTD were for two borrowings approved in 2009 and entirely subscribed to in 2010.

<sup>3</sup> SALIM Insurance, *Tunis Ré*, Carthage Cement, and Modern Leasing.

<sup>4</sup> The financial market council approved issue of two debenture loans (50 MTD) and two cash capital increases (30.8 MTD).

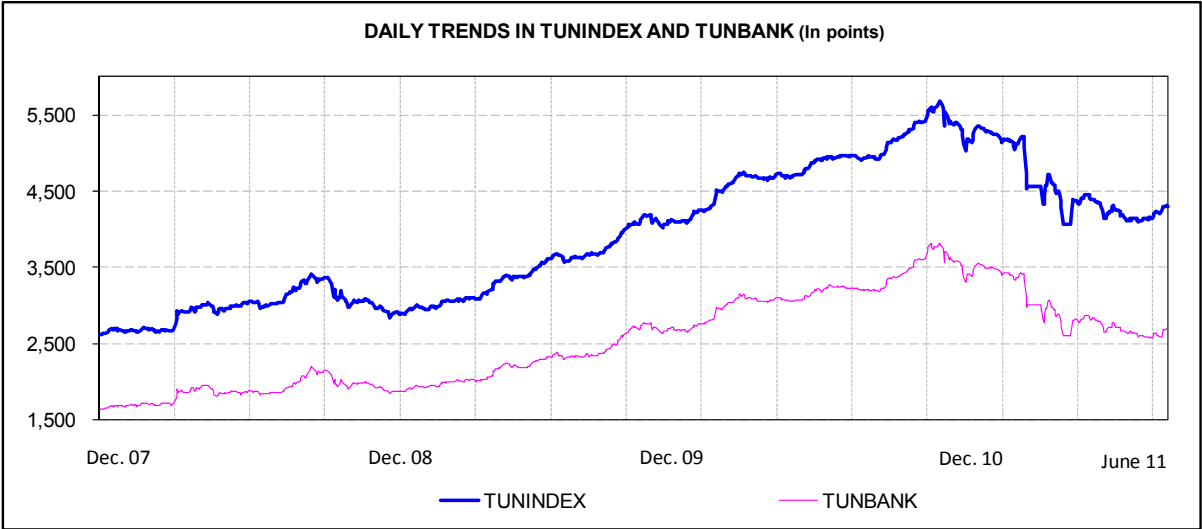
OPCVM. This occurred on two occasions<sup>1</sup>, with a view to protecting savings invested in securities and to preserving market integrity and equality among investors. Nevertheless, suspension of trading and listed corporate financial reporting to reassure investors following the impact of the events on their activity and their commitment to scrupulously respect their obligation for relevant financial disclosure were not enough to restore actors confidence. The downward trend was pursued up to May 2011 with 19% drop in the TUNINDEX from the beginning of the year, in line notably with lack of clear prospects with respect to evolution of the situation, mixed indicators of activity for the first quarter of 2011 and the decision of certain listed companies to suspend distribution of dividends for 2010.

Yet, recovery signs were observed towards the end of the first half of 2011 with 4.3% positive yield posted by TUNINDEX in June, limiting thus the losses, recorded from the beginning of the year, to 16%.

Despite the difficult situation “Telnet Holding”, a company operating in the area of new information and communication technologies, was introduced on the main market in May 2011. This enriched the sectoral base of stock quotation by a new economic promising sector, bringing thus the number of listed companies to 57.

At the sectoral level, all indexes posted positive yields for 2010, helped by higher prices for 42 out of the 56 listed stocks at rates varying from 1.1% (*Placement de Tunisie SICAF*) and 136.5% (*SERVICOM*). The best performance was in the financial sector, where the «financial services» branch posted 38.6% growth. Bank stocks enjoyed healthy growth, with the TUNBANK index up by 19.6%. **The first half of 2011** recorded an overall drop in sectoral indexes, (exclusive of “building and construction materials” index which grew by 0.2%) in line with a drop in 48 listed stocks, TUNBANK index having posted the sharpest drop (-20.4%).

This trend was due to some degree to the inability of certain companies where activity had been affected by unrest in the country to make scheduled repayments on their loans, along with bank exposure (especially at public banks), to risks related to companies and business groups belonging to the former regime. This downward trend also weighed on the leasing sector (where there was a 28% drop in funds released in the first quarter of 2011) as well as on insurance and reinsurance companies, which suffered deterioration of their claim rate<sup>2</sup> due to unrest.



<sup>1</sup> From 17 to 28 January then from 28 February to 4 March 2011.

<sup>2</sup> Claim paid out/premiums paid in.

Upward market trend and new listings on the stock exchange had pushed up stock market capitalisation by 25% to 15,282 MTD, with a floating share of 27.5% at the end of 2010 before reversing, with a drop of 13.6% to 13,210 MTD at the end of June 2011.

The share of foreign investors in stock market capitalisation fell to 20.15% as of end December 2010, with -142 MTD in net flow of their intervention on the official list of the stock quotation, made up of 184 MTD in acquisition volume and 326 MTD in selling. This included in particular BIAT stock, following sale by a foreign investor of shares to a strategic investor in the framework of restructuring of capital at this bank. Despite ongoing divestiture of these investors (with a negative net balance of 19 MTD for the first half of 2011), their share in market capitalisation remained stable at 20.16%, confirming the strategic nature of foreign shareholdings.

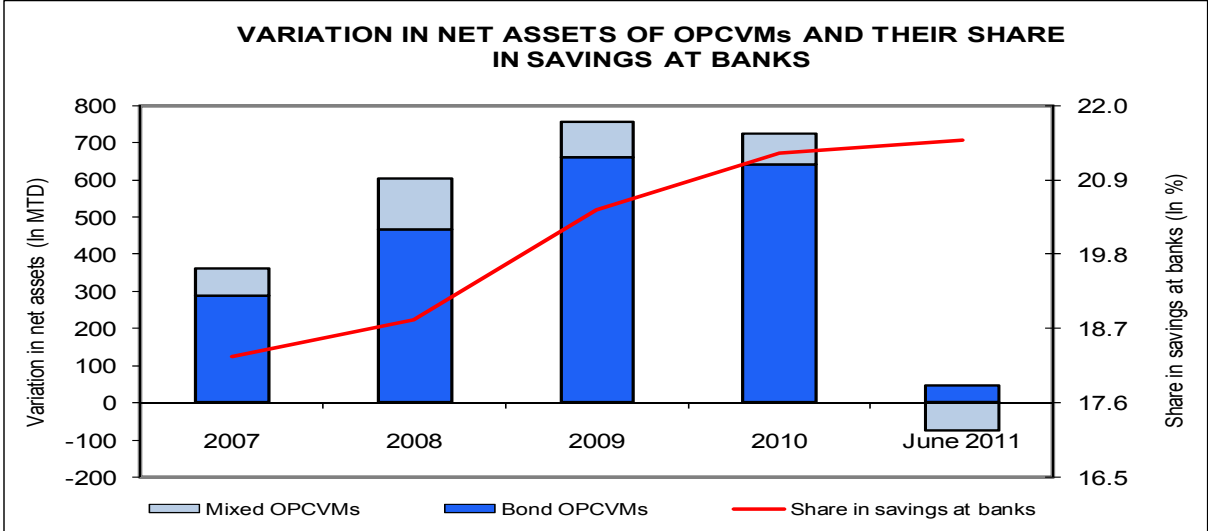
Besides, the influx of liquidity that took place in 2010 helped boost trading on the secondary market, with annual volume of transactions on the official list of the stock exchange up by 49% to 2702 MTD (of which 2626 MTD were in equity securities), for an annual turnover rate of 17.2% on equity securities.

Trading in capital on the off list compartment came to 48 MTD, while registry transactions and declarations involved 1087 MTD, notably for *BIAT* and *TAV Tunisie SA* stocks.

Suspension of trading along with distrust on the part of investors and lack of liquidity on the market led to a low volume of trading **over the first half of 2011**, with transactions on the stock listing totalling just 574 MTD, almost half the transactions posted in the same period of 2010. Registry transactions and declarations amounted to 1054 MTD, of which 869 MTD were for “Orascom Télécom Tunisie” stock, with 25% of its capital changing hands.

**3. Activities at mutual funds investing in securities (OPCVM)**

2010 was marked by authorisation by the financial market council of 20 OPCVM and by start up of activity at 17 such funds, bringing the total number of active OPCVM to 114 as of end December 2010 (17 of which FCPR).



Review of a sample of the 79 OPCVM<sup>1</sup> that hold 98% of net assets shows that bond units dominate, with an 89% share of net assets. 77% of these assets are held by 10 units.

The 15.6% increase in funds mobilised by these vehicles (a considerably higher rate than for savings mobilised by banks) shows how interested investors are in institutional savings, with a

<sup>1</sup> Exclusive of venture capital mutual funds (FCPR).

21% share of bank savings in 2010. This trend is confirmed by the higher number of shareholders and stockholders, up by 13.7% in 2010, for an average increase of 10.6% over the past five years.

#### OPCVM ACTIVITY

Description	2009			2010		
	Bond	Mixed	Total	Bond	Mixed	Total
Number of OPCVM	29	46	75	30	49	79
Net assets in MTD	3,851	500	4,351	4,459	569	5,028
Number of shareholders and stockholders	41,219	5,259	46,478	46,678	6,183	52,861

Sources : BCT and the Capital Market Council (CMF)

On another front, the events of early 2011 that led to a sharp decrease in stock market prices had a negative influence on net assets of mixed OPCVM (-12.5% over the first half of 2011), while the net assets of bond OPCVM continued to increase, although at a slower pace of +1%.

#### EXPLANATORY EFFECT OF TRENDS IN NET ASSETS OF OPCVM

(In MTD)

Description	2009			2010		
	Bond	Mixed	Total	Bond	Mixed	Total
<b>Net assets (end of period)</b>	<b>3,851</b>	<b>500</b>	<b>4,351</b>	<b>4,459</b>	<b>569</b>	<b>5,028</b>
<b>Net assets (beginning of period)</b>	<b>3,213</b>	<b>306</b>	<b>3,519</b>	<b>3,851</b>	<b>500</b>	<b>4,351</b>
<b>Collection effect</b>	<b>+620</b>	<b>+141</b>	<b>+761</b>	<b>+590</b>	<b>+22</b>	<b>+612</b>
Subscriptions	5,350	303	5,653	7,044	327	7,371
Buy-backs	-4,730	-162	-4,892	-6,454	-305	-6,759
<b>Distribution effect</b>	<b>-130</b>	<b>-2</b>	<b>-132</b>	<b>-146</b>	<b>-3</b>	<b>-149</b>
<b>Price effect</b>	<b>148</b>	<b>55</b>	<b>203</b>	<b>164</b>	<b>50</b>	<b>214</b>
<b>Total effect</b>	<b>638</b>	<b>194</b>	<b>832</b>	<b>608</b>	<b>69</b>	<b>677</b>

Sources : BCT and the Capital Market Council (CMF)

The increase in net assets at OPCVM in 2010 was due mainly to the **collection effect** for savings using these vehicles though at a slower pace than in 2009 for both bond and mixed units, reflecting thus investor concern about possible changes in the tax system for gains on securities.

Furthermore, the **distribution effect** (which expresses the drop in the value of the net assets of OPCVM in the wake of distribution of dividends) continued to increase at a faster pace, following strong performance by these funds in 2009.

The **price effect**, which reflects management performance at OPCVM also continued to grow but at a slower pace. This was due in particular to a drop in return on listed stocks in 2010, compared to the exceptionally high returns enjoyed in 2009.

#### AVERAGE YIELD RATE OF OPCVM<sup>1</sup>

(In %)

Description	2006	2007	2008	2009	2010
Bond OPCVM	4.09	4.07	4.08	3.94	3.67
Mixed OPCVM	10.26	4.02	5.18	14.07	10.02

Source : The Capital Market Council (CMF)

Consequently, 2010 recorded lower yields at OPCVM (both mixed and bond), in line with slower growth in the stock market indexes as a whole and in bond yields.

<sup>1</sup> This involves yield rates at overall active OPCVM at the end of the year.

**BREAKDOWN OF ASSETS MANAGED BY OPCVM**

(In MTD)

Description	2 0 0 9			2 0 1 0		
	Bond	Mixed	Total	Bond	Mixed	Total
<b>Long term securities</b>	<b>2,739</b>	<b>388</b>	<b>3,127</b>	<b>3,209</b>	<b>466</b>	<b>3,675</b>
<i>of which :</i>						
- <i>Stocks</i>	-	153	153	-	211	211
- <i>Corporate bonds</i>	892	60	952	1,256	60	1,316
- <i>State securities</i>	1,723	154	1,877	1,809	178	1,987
<b>Investment in banking products</b>	<b>878</b>	<b>100</b>	<b>978</b>	<b>986</b>	<b>94</b>	<b>1,080</b>
<b>Other short term securities*</b>	<b>238</b>	<b>15</b>	<b>253</b>	<b>270</b>	<b>14</b>	<b>284</b>
<b>Total managed assets</b>	<b>3,855</b>	<b>503</b>	<b>4,358</b>	<b>4,465</b>	<b>574</b>	<b>5,039</b>

(\*) Treasury bills and short term Treasury bonds.

Sources : BCT and the Capital Market Council (CMF)

The structure of assets managed by OPCVM remained marked by the predominance of long term investments (73% of managed assets), especially State securities (39 % of managed assets). The share of State securities dipped slightly in 2010 in favour of private debt securities, due to dynamic activity on the market issuing private bonds compared to that dealing in Treasury bonds.