

VI. INVESTMENT

Policy to promote investment continued to be a fundamental focus of Tunisia's development strategy in 2008, given the major role it plays in meeting national objectives mainly for economic growth and job creation. Various reforms were introduced to encourage and boost private initiative, create more new businesses and initiatives throughout the country but especially in inland areas, and attract a higher volume of foreign direct investment (FDI).

There were new measures to strengthen the two main pillars of investment promotion : a better business environment and the availability of sufficient financing for undertakings. These involved mainly :

- faster development of public and private industrial zones by constituting land reserves and preparing a priority list of industrial zones for the XIth development plan
- implementation of a programme to build industrial premises in priority governorates
- establishment of industrial complexes as extensions to technological poles, notably that of EL GHAZALA for communication technologies
- regrouping of regional support structures in a single location called a «business space» and tendency toward establishment of business incubators at higher agricultural institutes
- extension of the field of intervention of the Tunisian guarantee company (*SOTUGAR*) to new promoters and small/medium sized businesses working in high added value services
- raising of the ceiling for agricultural land loans from 100,000 to 150,000 dinars and an increase in the loan rate from 90% to 95% of the cost of land.

A. OVERALL TRENDS IN INVESTMENT

In line with the objectives of national strategy in investment promotion, gross fixed capital formation (GFCF) continued in 2008 to experience sustained growth. Coming to 12,520 MTD, it went up by 14.8% vs. 12.7% in 2007, bringing the investment rate from 23.9% in 2007 to 24.9% of GDP in 2008.

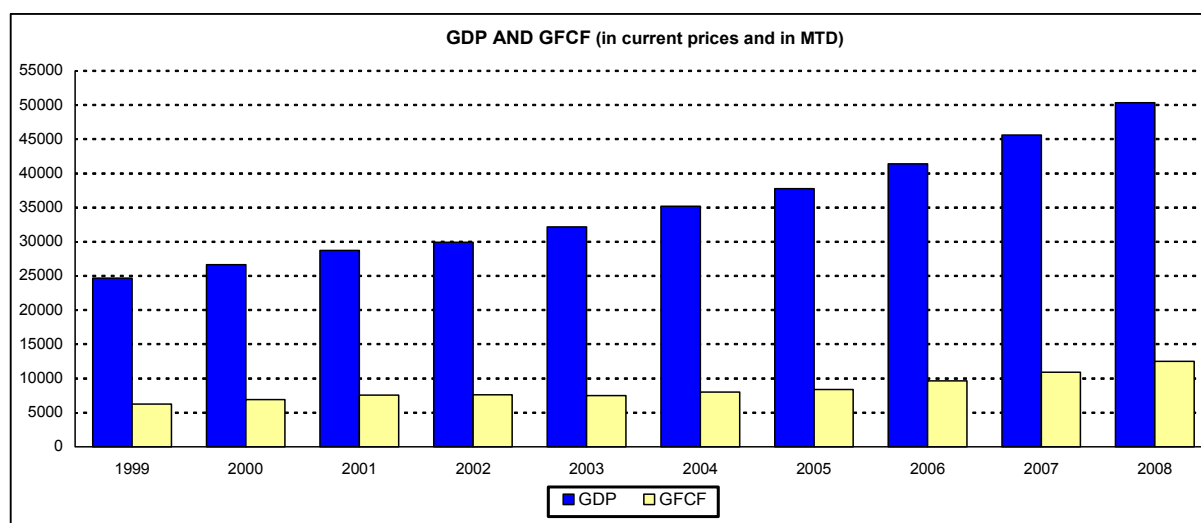
Higher investment was helped by State efforts to move toward achievement of the objectives targeted in the XIth development plan, particularly a greater contribution by the private sector, a higher volume of FDI in promising sectors and promotion of regional development. Policy to push for and encourage private initiative (especially granting of tax and financial incentives to businesses and young promoters and improving the business environment) led to a sustained increase in private sector investment, with share in overall GFCF growing steadily, up from 57.4% in 2005 to 62% in 2008.

TREND IN MAIN INDICATORS OF GROSS FIXED CAPITAL FORMATION

| Description | 2005 | 2006 | 2007 | 2008 |
|---|--------------|--------------|---------------|---------------|
| Global GFCF (in MTD) | 8,395 | 9,678 | 10,907 | 12,520 |
| Variation (in %) | 4.7 | 15.3 | 12.7 | 14.8 |
| Investment rate (in % of GDP) | 22.2 | 23.4 | 23.9 | 24.9 |
| Structure of GFCF by economic agent (in %) | | | | |
| Public sector | 42.6 | 42.9 | 40.0 | 38.0 |
| Private sector | 57.4 | 57.1 | 60.0 | 62.0 |

Source : Ministry of Development and International Cooperation

Investment promotion in inland areas of the country, contributing to regional development, was marked in 2008 by a series of regional conferences on creation of new businesses and financing of initiatives, as well as launching of a new programme of specialised conferences for the agricultural sector. Work to monitor the results of these conferences helped to confirm the success of these events in increasing investment to inland regions.



FDI flows in 2008 continued to see a significant 64.1% increase to 3,399 MTD or 27.1% of overall GFCF. This trend is linked to Tunisia's stability and a better business environment, which boosted the country's comparative advantages in terms of geographic proximity to European markets, modern basic infrastructure, and skilled manpower. There was higher FDI in most sectors of activity, particularly energy (42.3%) and manufacturing industries (32.1%), tourism and transport.

B. GROSS FIXED CAPITAL FORMATION BY BRANCH OF ACTIVITY

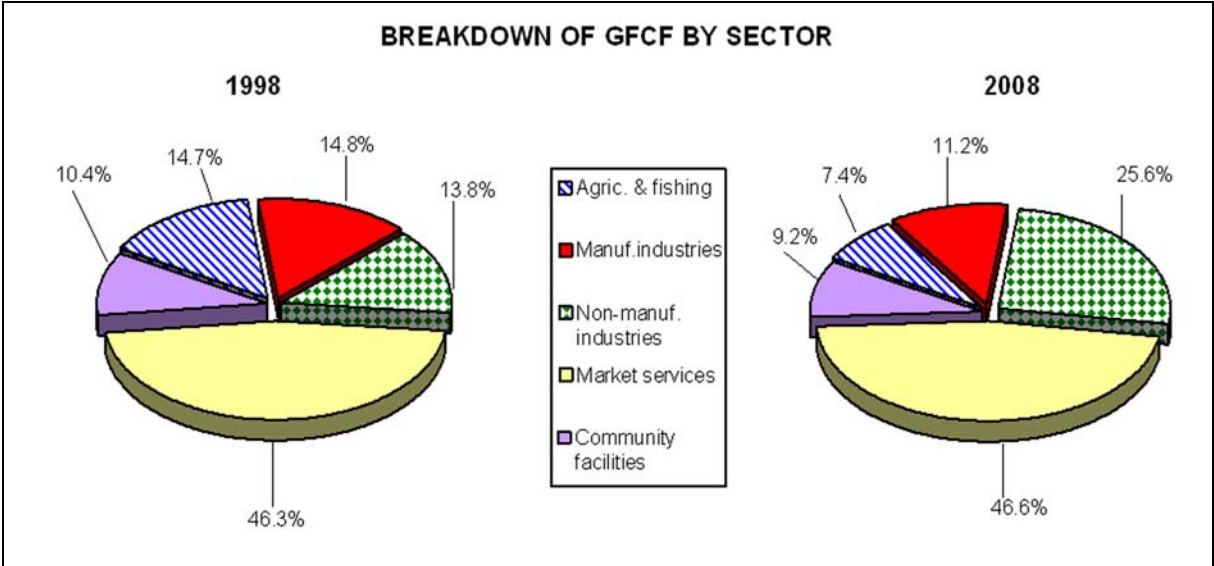
Growth in investment in 2008 involved, to varying degrees, most sectors but specially hydrocarbons (31.4%), mining (35.7%), building materials/ceramics/glass (65.6%), chemical industries (29.8%) and transport (15%). Inversely, GFCF in agriculture and fishing remained virtually unchanged for the second straight year (+0.2% in 2008 vs. +0.9% a year earlier).

GROSS FIXED CAPITAL FORMATION BY BRANCH OF ACTIVITY

| Description | Value in MTD | | | Variation in % 2008/2007 | Structure in % | | |
|--|--------------|---------------|---------------|-----------------------------|----------------|--------------|--------------|
| | 2006 | 2007 | 2008 | | 2006 | 2007 | 2008 |
| Agriculture & fishing | 913 | 921 | 923 | 0.2 | 9.4 | 8.5 | 7.4 |
| Mining | 52 | 56 | 76 | 35.7 | 0.6 | 0.5 | 0.6 |
| Energy (water, electricity & hydrocarbons) | 1,606 | 2,284 | 2,905 | 27.2 | 16.6 | 20.9 | 23.2 |
| Manufacturing industries | 1,047 | 1,174 | 1,401 | 19.3 | 10.8 | 10.8 | 11.2 |
| Construc. & civil engineering | 190 | 190 | 225 | 18.4 | 2.0 | 1.7 | 1.8 |
| Market services | 4,890 | 5,277 | 5,840 | 10.7 | 50.5 | 48.4 | 46.6 |
| Community facilities | 980 | 1,005 | 1,150 | 14.4 | 10.1 | 9.2 | 9.2 |
| Total | 9,678 | 10,907 | 12,520 | 14.8 | 100.0 | 100.0 | 100.0 |

Source : Ministry of Development and International Cooperation

The structure of investment by sector continued to be dominated by market services, although their share in total fell from 48.4% in 2007 to 46.6% in 2008. On the other hand, the share of the energy sector grew significantly, from 16.6% in 2006 to 20.9% in 2007 then 23.2% in 2008. For other sectors of activity (exclusive of agriculture and fishing, the share of which fell from 8.5% in 2007 to 7.4% in 2008), shares remained more or less at the same levels as the year before.



1. AGRICULTURE AND FISHING

Investment in agriculture and fishing came to 923 MTD in 2008, virtually unchanged from the previous year’s figure due to a drop in funds allotted by the public sector from 374 MTD to 362 MTD between 2007 and 2008. This was attributable to the lower level of public investment (mainly by the Administration, which accounts for some 90% of such investment) in agricultural hydraulics and reforestation : -10.6% and -11.3% respectively.

Private sector investment continued to grow, up to 561 MTD or 60.8% of GFCF in the sector, compared to 547 MTD and 59.4% in 2007. This trend, involving in particular acquisition of material and agricultural hydraulics, was caused by dynamic activity on the part of private promoters, thanks especially to State incentives and an increase in irrigated zones.

The breakdown of agricultural investment by branch of activity continued to see agricultural hydraulics predominating at about 35% of overall GFCF in agriculture and fishing. This was linked to the high level of funds needed for implementation of these investments, especially dam construction, drainage works, and equipping of irrigated land.

30.2% of financing of investment in agriculture and fishing in 2008 came from State budgetary resources, 17% from external resources, 18.6% from bank financing and the rest (34.2%) from self financing.

GROSS FIXED CAPITAL FORMATION IN AGRICULTURE AND FISHING

| Description | Value in MTD | | | Variation in % 2008/2007 | Structure in % | | |
|---------------------------------|--------------|------------|------------|-----------------------------|----------------|--------------|--------------|
| | 2006 | 2007 | 2008 | | 2006 | 2007 | 2008 |
| Agricultural hydraulics | 356 | 328 | 320 | -2.4 | 39.0 | 35.6 | 34.7 |
| Agricultural material | 88 | 113 | 127 | 12.4 | 9.6 | 12.3 | 13.8 |
| Livestock | 111 | 119 | 111 | -6.7 | 12.2 | 12.9 | 12.0 |
| Tree farming | 91 | 100 | 102 | 2.0 | 10.0 | 10.9 | 11.0 |
| Fishing | 56 | 44 | 37 | -15.9 | 6.1 | 4.8 | 4.0 |
| Forestry | 53 | 69 | 61 | -11.6 | 5.8 | 7.5 | 6.6 |
| Water & soil conservation (CES) | 55 | 40 | 43 | 7.5 | 6.0 | 4.3 | 4.7 |
| Various integrated projects | 84 | 93 | 105 | 12.9 | 9.2 | 10.1 | 11.4 |
| Studies, research & extension | 19 | 15 | 17 | 13.3 | 2.1 | 1.6 | 1.8 |
| Total | 913 | 921 | 923 | 0.2 | 100.0 | 100.0 | 100.0 |

Source : Ministry of Development and International Cooperation

2. NON MANUFACTURING INDUSTRIES

Thanks to significantly higher investment in energy, GFCF in non manufacturing industries went up in 2008 for the third straight year, for a net increase of 26.7% vs. 36.9% in 2007 and 75.7% in 2006. This increase was particularly high for hydrocarbons (2,450 MTD vs. 1,864 MTD a year earlier). Higher investment in this branch was linked to FDI flows that went up by some 42% vs. 44.5% in 2007 to about 1,934 MTD.

GROSS FIXED CAPITAL FORMATION IN THE ENERGY SECTOR

| Description | Value in MTD | | | Variation in % 2008/2007 | Structure in % | | |
|--------------|--------------|--------------|--------------|-----------------------------|----------------|--------------|--------------|
| | 2006 | 2007 | 2008 | | 2006 | 2007 | 2008 |
| Water | 76 | 78 | 94 | 20.5 | 4.7 | 3.4 | 3.2 |
| Electricity | 382 | 342 | 361 | 5.6 | 23.8 | 15.0 | 12.4 |
| Hydrocarbons | 1,148 | 1,864 | 2,450 | 31.4 | 71.5 | 81.6 | 84.4 |
| Total | 1,606 | 2,284 | 2,905 | 27.2 | 100.0 | 100.0 | 100.0 |

Source : Ministry of Development and International Cooperation

There was renewed investment in electricity (5.6% vs. -10.5% in 2007) and construction/civil engineering (18.4% vs. stagnation). GFCF in mining, attributable in particular to the Gafsa Phosphate Company, went up more quickly than a year earlier (35.7% vs. 7.7%) to 76 MTD.

3. MANUFACTURING INDUSTRIES

At a total of 1,401 MTD, investment in manufacturing industries went up in 2008 by 19.3% (vs. 12.1% the year before). This increase held for all sectors but especially building materials/ceramics/glass (65.6%) and chemical industries (29.8%). But growth was slower for the two main export sectors: mechanical/electrical industries (11.6% vs. 26.7% in 2007) and textile/clothing, leather and footwear industries (12.2% vs. 24.2%), especially because of difficulties in selling on foreign markets due to the world economic and financial crisis.

GROSS FIXED CAPITAL FORMATION IN MANUFACTURING INDUSTRIES

| Description | Value in MTD | | | Variation in % | Structure in % | | |
|---|--------------|--------------|--------------|-------------------|----------------|--------------|--------------|
| | 2006 | 2007 | 2008 | 2008/2007 | 2006 | 2007 | 2008 |
| Agrofood industries | 240 | 270 | 280 | 3.7 | 22.9 | 23.0 | 20.0 |
| Building materials, ceramics and glass | 195 | 180 | 298 | 65.6 | 18.6 | 15.3 | 21.3 |
| Mechanical & electrical industries | 225 | 285 | 318 | 11.6 | 21.5 | 24.3 | 22.7 |
| Chemical industries | 97 | 104 | 135 | 29.8 | 9.3 | 8.8 | 9.6 |
| Textiles, clothing, leather & footwear | 165 | 205 | 230 | 12.2 | 15.8 | 17.5 | 16.4 |
| Miscellaneous industries | 125 | 130 | 140 | 7.7 | 11.9 | 11.1 | 10.0 |
| Total | 1,047 | 1,174 | 1,401 | 19.3 | 100.0 | 100.0 | 100.0 |

Source : Ministry of Development and International Cooperation

Dynamic activity for investment in manufacturing was, in general, favoured by the country's strategic orientations, which focus on promotion of investment in activities with high added value that use skilled manpower, especially in regional development zones. This trend also reflected the positive impact of various programmes to support development of manufacturing industries, notably the upgrading programme and the industrial modernisation programme. The upgrading programme between start up in 1996 and the end of December 2008 approved 2,837 upgrading plans for investment worth some 4,658 MTD.

It should be noted that State efforts to improve the business environment, modernise and strengthen infrastructure (notably development of industrial zones and setting up of structures to support and accompany promoters) were factors for higher investment in manufacturing and for attracting foreign investors to the inland areas of the country.

4. MARKET SERVICES

Investment in market services continued to grow in 2008 (by 10.7% vs. 7.9% a year earlier) to 5,840 MTD or almost 47% of overall GFCF. There was growth in all sectors but especially transport, tourism and trade. GFCF in transport went up at practically the same 15% rate as in 2007 to 1,800 MTD. This was attributable to high investment in large scale infrastructure projects, which came to 1,283 MTD or more than 71% of total. The major undertakings were construction of the Enfidha International Airport and completion of the M'Saken-Sfax highway, which absorbed investment of 331 MTD and 118 MTD respectively in 2008.

Investment in tourism in 2008 posted renewed growth of 40 MTD (+13.3% vs. -9.1% in 2007) to 340 MTD, despite the impact of adverse international conditions starting in October. This was made possible by the various measures taken in support of the sector, notably diversification and promotion of tourism options and better services thanks to implementation of the hotel upgrading programme.

Investment was also up in the communications sector, although at a slower pace than in 2007 (5.7% vs. 7.7%) to 740 MTD or 12.7% of overall GFCF in market services. The extent of investment in this sector reflects the strategic orientation of the Tunisian economy to achieve large scale use of promising information and communication technologies (ICT).

GROSS FIXED CAPITAL FORMATION IN MARKET SERVICES

| Description | Value in MTD | | | Variation in % | Structure in % | | |
|--------------------------|--------------|--------------|--------------|-------------------|----------------|--------------|--------------|
| | 2006 | 2007 | 2008 | 2008/2007 | 2006 | 2007 | 2008 |
| Transport | 1,360 | 1,565 | 1,800 | 15.0 | 27.8 | 29.6 | 30.8 |
| Communications | 650 | 700 | 740 | 5.7 | 13.3 | 13.3 | 12.7 |
| Tourism | 330 | 300 | 340 | 13.3 | 6.8 | 5.7 | 5.8 |
| Housing | 1,570 | 1,597 | 1,650 | 3.3 | 32.1 | 30.3 | 28.3 |
| Trade and other services | 980 | 1,115 | 1,310 | 17.5 | 20.0 | 21.1 | 22.4 |
| Total | 4,890 | 5,277 | 5,840 | 10.7 | 100.0 | 100.0 | 100.0 |

Source : Ministry of Development and International Cooperation

Housing in 2008 continued to benefit from a high level of investment funds, amounting to 1,650 MTD (28.3% of GFCF in market services). This development was influenced by policy to promote housing, in line with sustained demand from households.

Investment in commerce and other tertiary services grew at a fast pace of 17.5% (vs. 13.8% in 2007) to 1,310 MTD. This increase reflected promotion and modernisation of trade environment to accompany the country's economic and social development.

5. COMMUNITY FACILITIES

Investment in community facilities went up in 2008 by 14.4% vs. 2.6% the year before to 1,150 MTD or 9.2% of overall GFCF for the second straight year. This went largely for construction of new administrative premises and acquisition of equipment and material, notably in the fields of education, training, higher education and health.

C. INVESTMENT FINANCING

Resources from national savings in 2008 continued to finance the major portion of investment (93.2% of overall GFCF and 84.3% of total financing needs including stock variation, compared to 96.4% and 89.7% respectively a year earlier). There was also a high volume of FDI flows, which represented 27.1% of overall GFCF vs. 19% in 2007, contributing to a better external payment position and consequently a higher level of reserves in foreign currency.

1. NATIONAL SAVINGS

In coming to 11,664 MTD, national savings posted an increase of 10.9% in 2008, compared to 12.8% the year before. The savings rate went up from 23.1% to 23.3% of GNDI between 2007 and 2008. But expressed as a ratio of GDP, the savings rate remained lower than the investment rate: 23.2% and 24.9% respectively vs. 23.1% and 23.9% in 2007. The difference in terms of GFCF financing needs continued to be met by recourse to external resources, mainly FDI.

INVESTMENT AND ITS DOMESTIC FINANCING

(In MTD unless otherwise indicated)

| Description | 2005 | 2006 | 2007 | 2008 | Variation in % | |
|---|--------------|---------------|---------------|---------------|----------------|-------------|
| | | | | | 2007/2006 | 2008/2007 |
| Global GFCF | 8,395 | 9,678 | 10,907 | 12,520 | 12.7 | 14.8 |
| Stock variation | 26 | 511 | 816 | 1,311 | 59.7 | 60.7 |
| Total financing needs = GFCF + stock variation | 8,421 | 10,189 | 11,723 | 13,831 | 15.1 | 18.0 |
| National savings | 8,037 | 9,325 | 10,518 | 11,664 | 12.8 | 10.9 |
| - In % of GNDI | 21.4 | 22.5 | 23.1 | 23.3 | | |
| - In % of GDP | 21.3 | 22.5 | 23.1 | 23.2 | | |
| Rate of domestic financing | | | | | | |
| - National Savings/GFCF (in %) | 95.7 | 96.4 | 96.4 | 93.2 | | |
| - National Savings/Total financing needs (in %) | 95.4 | 91.5 | 89.7 | 84.3 | | |

Sources : Ministry of Development and International Cooperation and Central Bank of Tunisia

2. EXTERNAL RESOURCES

Gross foreign capital inputs enjoyed renewed growth in 2008, posting an increase of 23.8% compared to the previous year's figure of -33.6%, for a total of 5,342 MTD. This trend was commensurate with the considerable increase in foreign holdings, in particular FDI flows that rose by 64.1% between 2007 and 2008. Inversely, drawings on external borrowings dropped by 19.1% after increasing by some 11% in 2007 to 1,745 MTD. Capital outflows, made up mainly of repayment of principal on external borrowings, dropped by 17.7% in 2008 to 2,144 MTD.

MEDIUM AND LONG TERM FINANCIAL RESOURCES FROM ABROAD

| Description | Value in MTD | | | Variation in % 2008/2007 | Structure in % | | |
|-----------------------------|--------------|--------------|--------------|--------------------------------|----------------|--------------|--------------|
| | 2006 | 2007 | 2008 | | 2006 | 2007 | 2008 |
| Borrowings | 1,941 | 2,157 | 1,745 | -19.1 | 29.8 | 50.0 | 32.7 |
| Foreign holdings | 4,562 | 2,158 | 3,597 | 66.7 | 70.2 | 50.0 | 67.3 |
| of which : FDI | 4,403 | 2,071 | 3,399 | 64.1 | 67.7 | 48.0 | 63.6 |
| Gross foreign inputs | 6,503 | 4,315 | 5,342 | 23.8 | 100.0 | 100.0 | 100.0 |
| Capital outflows | 3,114 | 2,604 | 2,144 | -17.7 | 47.9 | 60.3 | 40.1 |
| Net foreign inputs | 3,389 | 1,711 | 3,198 | 86.9 | 52.1 | 39.7 | 59.9 |

Source : Central Bank of Tunisia

Consequently, net foreign capital inputs improved considerably, up from 1,711 MTD in 2007 to 3,198 MTD in 2008. This helped round out investment financing and yielded a major increase in net assets in foreign currency. In effect, these assets at the end of 2008 came to 11,656 MTD or the equivalent of 139 days of imports, compared to 9,582 MTD or 141 days at the end of the previous year.