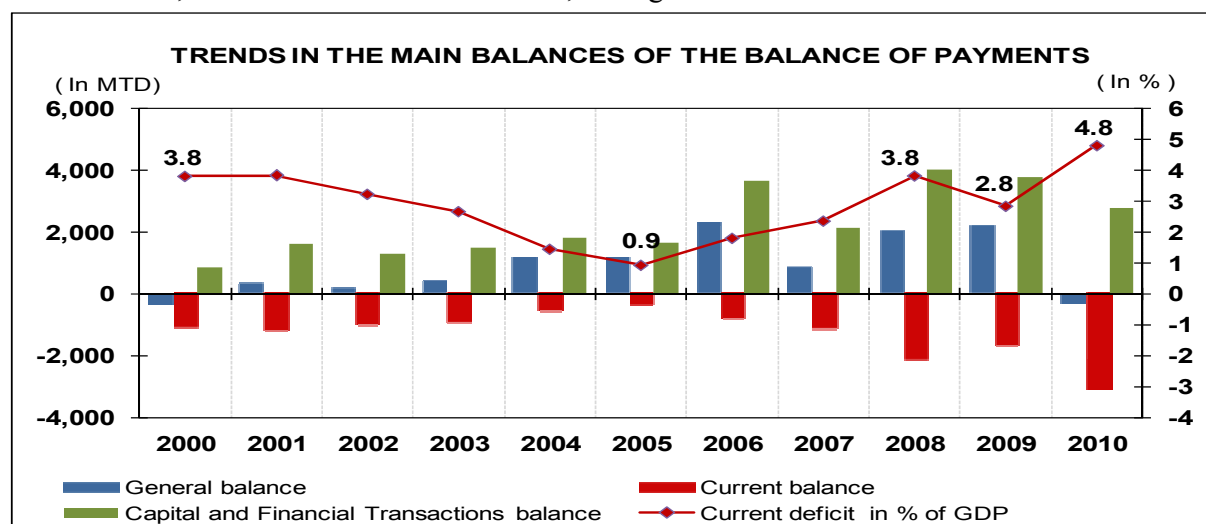


## CHAPTRE 3 - EXTERNAL PAYMENTS

### SECTION 1 - BALANCE OF PAYMENTS

The general balance of payments had posted a surplus since 2001, but this turned into a deficit of 274 MTD in 2010. The drop in net inflows of capital (in an international context marked by slow economic recovery in Tunisia's main partner countries) was compounded by widening of the current deficit, which came in at 4.8% of GDP, the highest level recorded in the decade 2000/2010.



**For 2011 as a whole**, current payments are likely to post even worse results, given persistent instability in Tunisia and in the region. Results recorded in the first half of 2011 indicate a current deficit at 3.7% of annual GDP (vs. 3.8% a year earlier), but the climate of uncertainty has weighed on tourism this summer and thus on export of services, which normally helps cover the trade deficit as well as that of factor income during this period. Thus the current deficit is likely to widen for the year as a whole between some 5% and 6% of GDP.

Financing the current deficit and drawing down external debt will mean a financing gap of some 4 billion dinars, requiring mobilisation of external resources in order to take pressure off down on assets in foreign currency. The latter amounted to 9923 MTD at the end June 2011, a drop of 3080 MTD compared to the beginning of the year, of which 930 MTD served to repay a debenture loan taken out in 2004 on the international capital market.

Given the amount of financing that has been announced to date (some 1.9 billion dinars), the level of net assets in foreign currency is likely to decrease by 2 billion dinars, from 13 billion dinars or five months of imports at the end of 2010 to four months.

In 2010, the considerable widening in the current deficit was due to a higher trade deficit of 31.1%, expressed in terms of FOB-FOB, while the surplus in the balance of services went up by just 3.3%, influenced by ongoing slowing of growth in tourist receipts, the major component in export of services with a share of almost 43%.

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

Description	2008	2009	2010	2011*
Merchandise (FOB)	-4,941	-4,994	-6,548	-5,499
Services	3,257	3,409	3,521	1,495
Factor income and current transfers	-425	-81	15	51
<b>Current balance</b>	<b>-2,109</b>	<b>-1,666</b>	<b>-3,012</b>	<b>-3,953</b>
In % of GDP	-3.8	-2.8	-4.8	-5.9

\*Estimates.

## 1. Trade balance

### 1-1. Trends in trade

Following a drop in 2009 because of fallout from the world financial crisis on the economy, the pace of trade picked up in 2010. Imports rose at a higher rate than exports and this brought about an increase in the trade deficit and a reduction in the rate of coverage to its lowest level since 2003.

#### MAIN FOREIGN TRADE INDICATORS

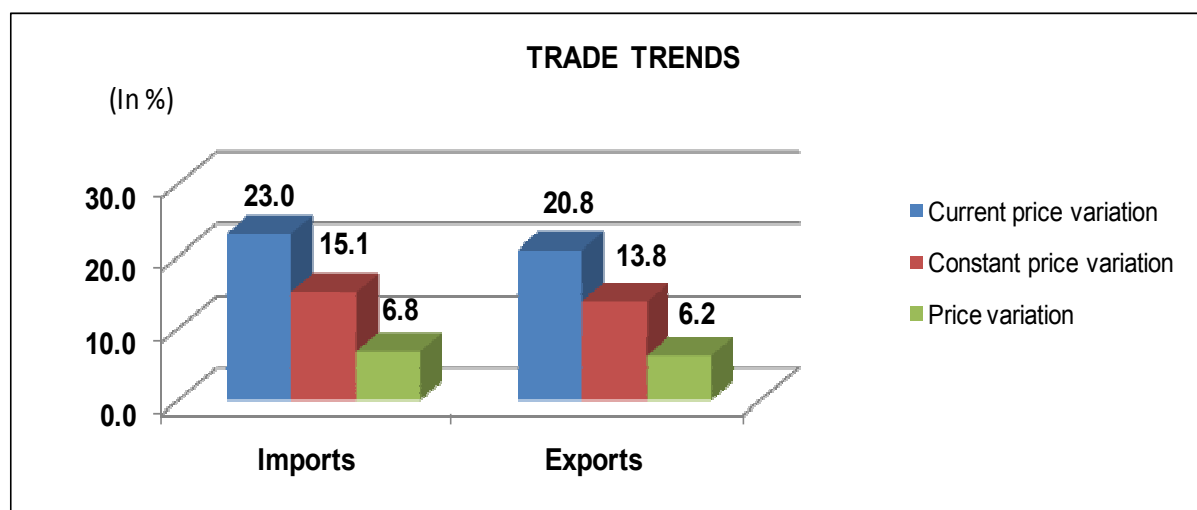
(In MTD unless otherwise indicated)

Description	2008	2009	2010	2011*	Variation in %		
					2009 2008	2010 2009	2011* 2010
Export FOB	23,637	19,469	23,519	26,376	-17.6	+20.8	+12.1
Import CIF	30,241	25,878	31,817	33,730	-14.4	+23.0	+6.0
Trade deficit (FOB-CIF)	6,604	6,409	8,298	7,354	-195 MTD	+1,889 MTD	-944 MTD
In % of GDP	12.0	10.9	13.1	11.0	-1.1 pt	+2.2 pts	-2.1 pts
* Rate of coverage (in %)	78.2	75.2	73.9	78.2	-3.0 pts	-1.3 pt	+4.3 pts
* Opening rate (in %)	97.6	77.2	87.3	89.7	-20.4 pts	+10.1 pts	+2.4 pts
* Effort rate at export (in %)	42.8	33.1	37.1	39.4	-9.7 pts	+4.0 pts	+2.3 pts
* Dependence rate (in %)	54.8	44.0	50.2	50.3	-10.8 pts	+6.2 pts	+0.1 pt
* Penetration rate (in %)	53.1	42.8	47.7	47.5	-10.3 pts	+4.9 pts	-0.2 pt

\*Estimates.

Source : National Statistics Institute

Foreign demand rose as economic activity picked up around the world in 2010 and this helped exports, which in turn meant an increase in supplies from abroad. Imports were further boosted by purchase of foodstuffs because of lower agricultural production due to adverse weather.



The trade balance, which shows a strong correlation between exports and imports because of the low rate of integration in Tunisia's industrial set-up, thus continues to be highly dependent on the often fluctuating results of agricultural activity but also trends in prices for major commodities on international markets.

Expressed in constant prices, trade showed a 13.8% increase in exports and a 15.1% increase in imports. The export price index went up by 6.2% in 2010 and the import price index by 6.8%, meaning slight deterioration in the terms of trade.

The price effect on the trade balance is particularly evident in the balance of energy, which posted an increase of 25.6% in the value of exports and of 36.1% in the value of imports, while the volume of sales went down by 4.5% and that of purchases rose by just 4.9%. Export and import price indexes went up by 31.5% and 29.8% respectively.

For other sectors, there was notably a 26.4% increase in the volume of sales by mechanical/electrical industries (+34.5% in current prices). This consolidated its position as Tunisia's leading export sector, while the volume of exports by the textiles/clothing/leather sector, exposed to tough competition on its traditional markets, rose at a slower pace of 7.4% (+8.6% in current prices).

The value of exports by mining/phosphates/phosphate-based products also increased significantly in 2010 (+30%). This was not as high as the level in 2008, a year marked by an exceptional increase in prices for phosphate-based products. Export volume for these products rose by 19.2%, while prices went up by 9% (vs. a drop of 56.2% a year earlier).

Exports by agriculture/agrofood industries recovered slightly in 2010 (+1.6%), in line with an export price index that was up by 8.6%, although sales went down by 6.4% in terms of constant prices.

As for imports, purchases by mechanical/electrical and agriculture/agrofood industries increased by 22.5% and 28.2% respectively, influenced mainly by volume that was up by 17.3% and 23.8% respectively.

Analysed by group of products, trade posted a 595 MTD widening of the deficit in the balance of food and a 601 MTD widening of the deficit in the balance of raw materials and semi-finished products. These two groups of products account for 64% of the increase in the trade deficit. Also of importance is the 331 MTD widening of the deficit in the balance of energy and the 381 MTD widening of the deficit in the balance of capital goods.

**For 2011**, the trade deficit is expected to narrow (compared to the 2010 figure), in line with the projected increase in exports (12.1%) at a faster pace than imports (6%). Slower growth in imports in 2011 was due to a drop in purchase of capital goods correlatively with tighter investment, a trend that marked the first half of 2011 with a drop of 12% in these purchases. As a results imports grew by just 4.5% during this period while exports went up by 13.8%, trends that helped reduce the trade deficit by 19.2% compared to that posted over the same period of 2010.

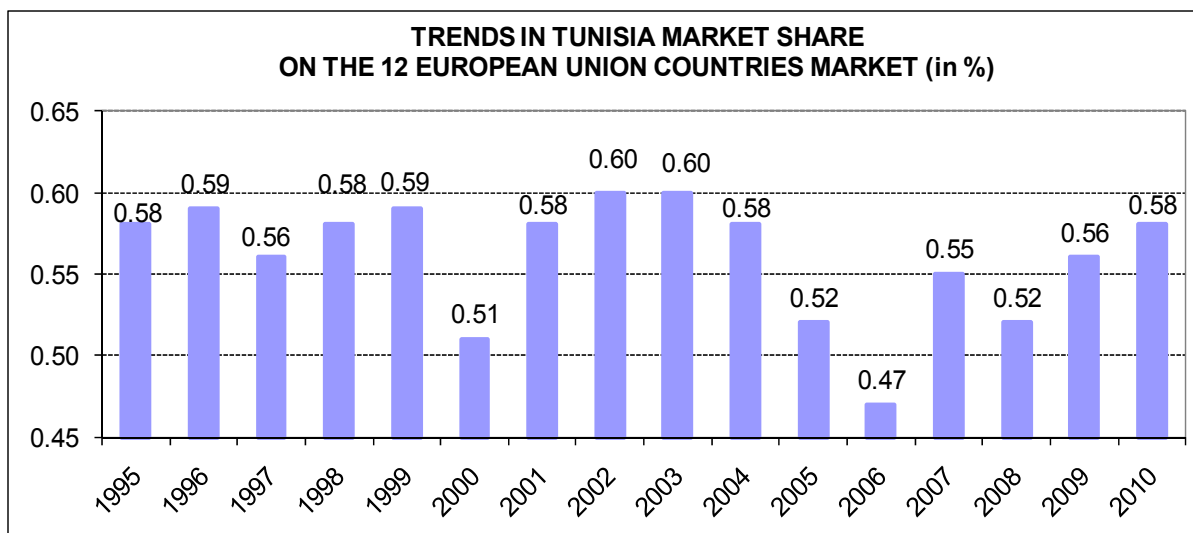
## ***1-2. Indicators of competitiveness***

### ***1-2.1 Trends in export market share<sup>1</sup>***

Trends in Tunisia's export market share to the 12 main countries of the European Union has shown some improvement over the past few years, posting 0.58% for 2010, the same level as recorded in 1995, which has been only very slightly surpassed since then.

---

<sup>1</sup> The market share for a country trading with the EU is measured as a ratio between the given country's exports to that region and imports from it. (This concerns 12 main countries of the EU)



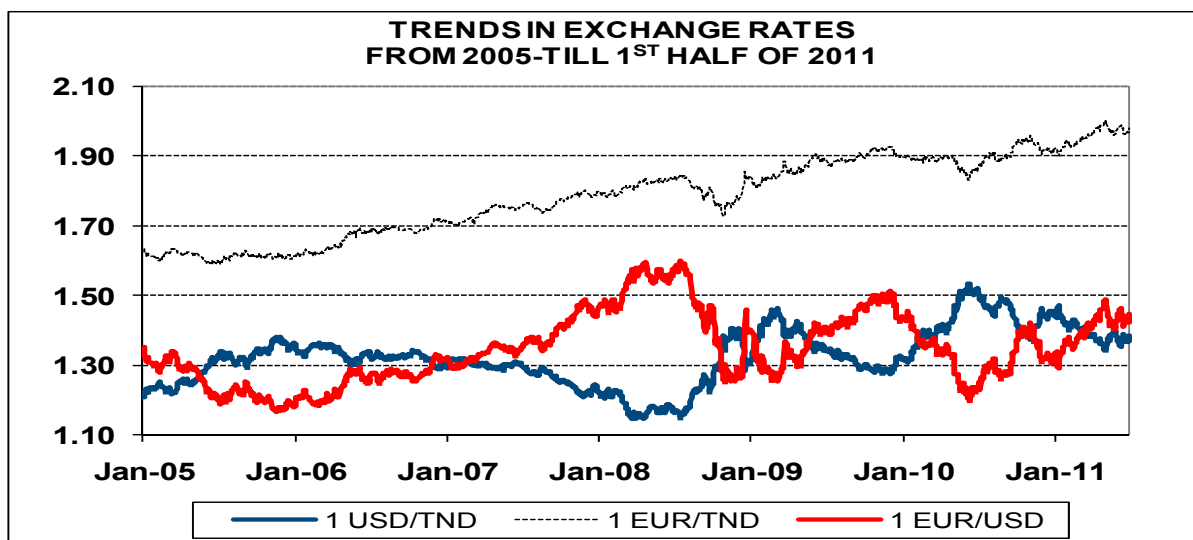
Tunisia is in tenth place in the chosen sample<sup>1</sup> of the main Tunisia's competitor countries. The three top spots go to China, Turkey and South Korea, with market shares of 14.18%, 1.98% and 1.66% respectively.

### ***1-2.2. Trends in exchange rates of the dinar***

#### **\* Bilateral exchange rates of the dinar**

The rate of exchange for the dinar in 2010 was influenced by the combined effects of variations on the international foreign exchange market (marked by depreciation of the euro against the US dollar) and higher inflation in Tunisia.

At the end of 2010, in comparison to the figure at the end of 2009, the dinar lost 8.4% in value against the USD but just 1.2% against the euro. This same trend held for average rates in 2010, compared to 2009. The exchange rate of the dinar depreciated by 5.8% against the USD as well as by a minimal 1% against the euro.



<sup>1</sup> The sample of the competitor countries taken into account includes "MENA" region countries : Morocco, Turkey, Egypt and Jordan, and Asian countries : China, Taiwan, Indonesia, Malaysia, Philippines, Thailand, Singapore, Hong Kong, India and South Korea.

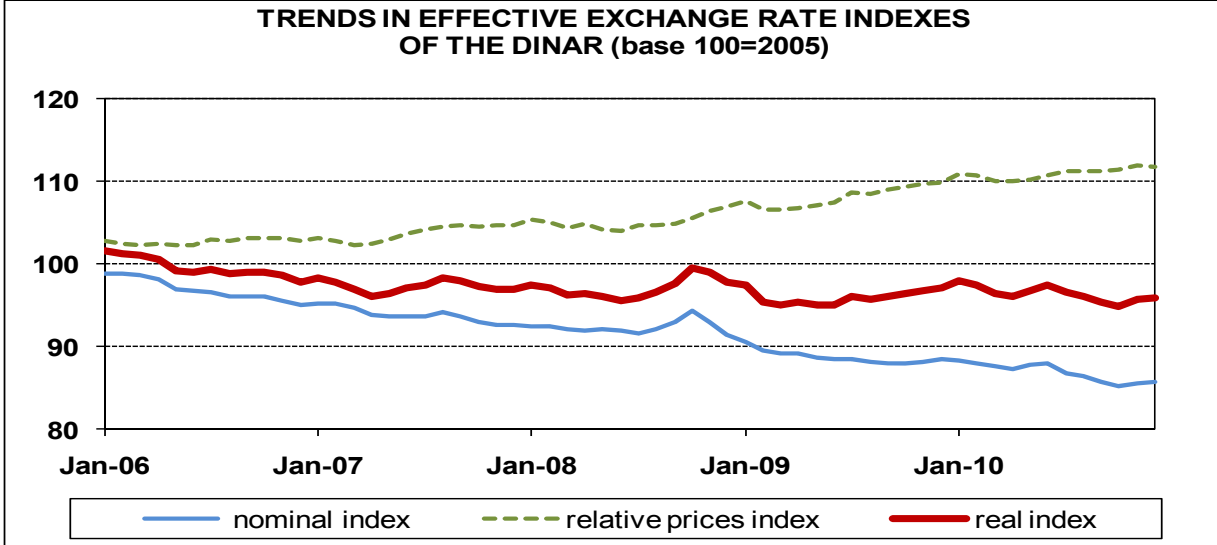
Exchange rates of the dinar in 2010 were less volatile than trends in the EUR/USD exchange rate. The extent of variation in the dinar against the US dollar (17.3%) and against the euro (6.8%) was lower than that of exchange rates for the euro/dollar (21.9%), in line with a policy of flexible foreign exchange that allows for mitigation of the impact on the dinar of the erratic variations prevailing on the international foreign exchange market.

At the end of the first half of 2011 and compared to its level of the beginning of the current year, the dinar appreciated contrary to 2010, by 5.2% compared to the US dollar and depreciated more sharply against the euro (3%).

**\* Trends in the dinar’s effective exchange rate**

**- Effective exchange rate index based on relative prices**

Over the past five years, the Tunisian dinar’s nominal effective exchange rate index posted average annual depreciation of 2.6 points, but given the positive inflation differential between Tunisia and its main economic partners, the real effective exchange rate index depreciated by 4.07 points compared to the base year (100=2005).

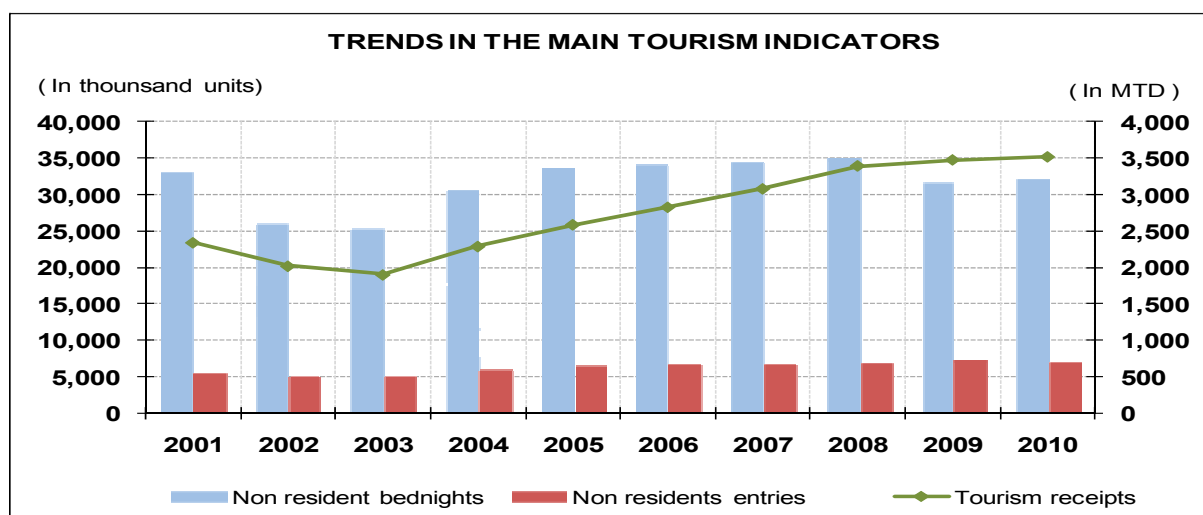


**-Real effective exchange rate index based on manpower unit cost**

The Tunisian dinar’s real effective exchange rate index based on manpower unit cost posted depreciation of 6.22 points in 2010 compared to the base year of 2005. Trends apparent in a sample of countries show that in terms of competitiveness in the area of manpower costs, Tunisia is more competitive than the euro zone, although it is less competitive than a number of countries in eastern Europe and Latin America.

**2. Balance of services**

There was a 3521 MTD surplus in the balance of services, a lower increase for the second straight year due in particular to slowing tourist receipts. The latter were up by just 1.5% to 3523 MTD, in line with virtual stagnation in non residents entries and a 1.8% increase in non residents bednights. If the foreign exchange effect is excluded, there is a decrease in tourist receipts, for the second straight year (-2.3% in 2009 and -0.9% in 2010).



2010 was marked by a lower figure for visitors from the Maghreb (-2.4% vs. +7.9% in 2009), notably Libyans (-8.5% vs. +12.9% in 2009), while visitors from Europe were up (+1.9% vs. -8.8% in 2009), influenced in particular by notable increase in the number of British, Scandinavian, Russian and Turkish tourists.

Deterioration of the main indicators for tourism is attributable to the inability of the sector to overcome the difficult conditions created by the international financial crisis but also to structural considerations resulting from the lack of adaptation of tourist options to ever-changing tourist demand.

In this framework, an action plan was implemented in 2010, based on the strategic study for the tourism sector. This plan provides in particular for a promotional supplementary budget, enhanced quality of services, diversification of tourism options, upgrading of hotel units, and use of new communication and information technologies by the various actors in the field of tourism.

As for other service receipts, those related to transport posted renewed growth (+18%), in line with faster growth in trade. There was also growth in still other services, notably those linked to ICT and large scale construction projects/technical services, promising sectors with high added value but whose shares in overall service receipts have not exceeded an average of 5% and 7% respectively over the past three years.

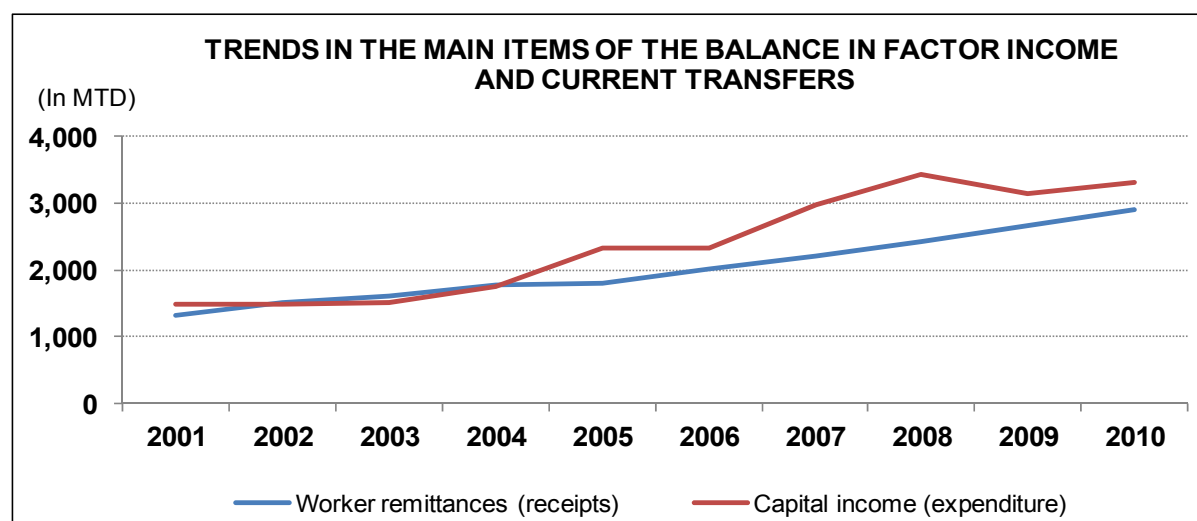
**For 2011 as a whole**, the surplus in the balance of services is expected to show a sharp decrease, in line with lower tourism and transport receipts. During the first half of 2011, the surplus balance of services regressed by 58.9% compared to that posted over the same period of 2010 mainly in the wake of lower tourist receipts (-50.7%).

### 3. Balance of factor income and current transfers

The balance of factor income and current transfers has posted a deficit since 2007, but there was slight improvement in 2010, with a surplus of 15 MTD, well below the levels regularly recorded prior to 2004. This is explained mainly by the fact that outlays, made up essentially of capital income, have over the past few years exceeded transfers by Tunisians working abroad (which went up by 11.3% in 2010 to 2953 MTD). It is to be noted that in 2010 there were more than one million Tunisian expatriates.

However, outlays in the framework of remuneration of foreign capital (notably FDI remuneration) have posted increasingly higher figures, given the higher stock of foreign investment on the one

hand and price hikes for oil on the other. It should be kept in mind that remuneration to companies in the energy sector are essentially in kind.



**For 2011 as a whole**, the balance of factor income and current transfers should maintain virtually the same balance from the 2010 figure. The slight drop in worker remittances is expected to be offset by a similar drop in income with respect to investment remuneration and interest on medium and long term debt.

#### 4. Balance of capital and financial transactions

The surplus in the balance of capital and financial transactions posted a drop for the second year in a row, coming to 2615 MTD in 2010.

##### TRENDS IN THE MAIN BALANCES OF THE BALANCE OF CAPITAL AND FINANCIAL TRANSACTIONS

Description	2008	2009	2010	2011*
- Capital transactions	97	222	118	50
- Foreign investment	3,156	1,940	1,873	980
- Other investment <sup>1</sup>	769	1,619	624	-1,077
<b>Balance of capital and financial transactions</b>	<b>4,022</b>	<b>3,781</b>	<b>2,615</b>	<b>-47</b>
<b>Financing gap</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,500</b>

\* Estimates.

Foreign investment flows (direct and portfolio) recorded virtually continuous growth since the middle of the 1990s, before beginning to drop in 2009 because of financing difficulties tied to the international financial crisis. There was slight recovery in 2010.

The sale of stock in resident companies and renewed investment in the energy sector as oil prices rose helped foreign investment flows to Tunisia get back on an upward trend these past few years. There were 3135 companies with foreign holdings in 2010.

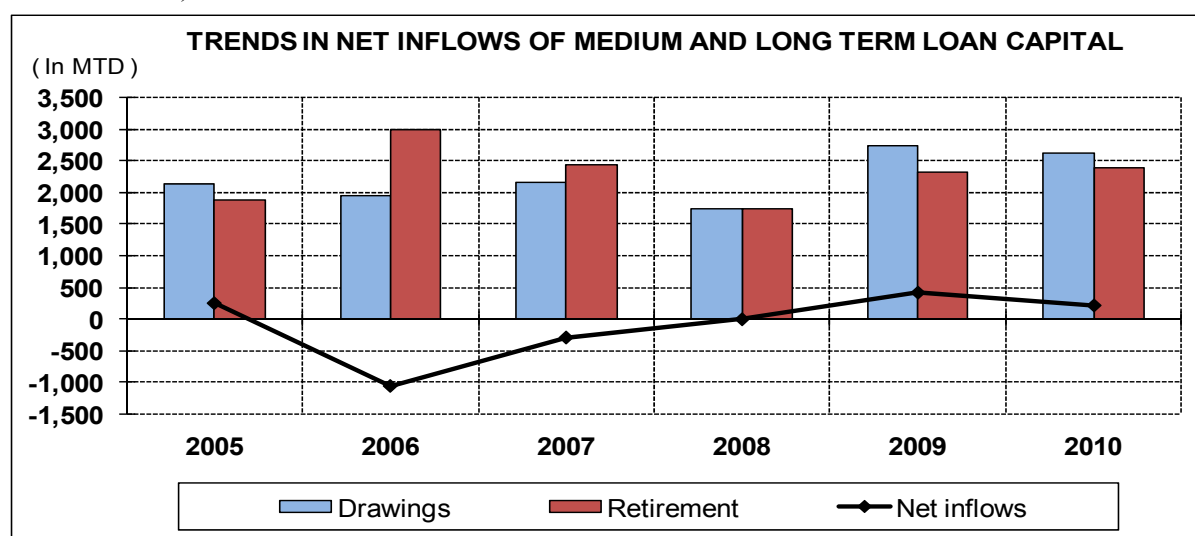
<sup>1</sup> This involves financial transactions tied to medium and long term loan capital, to short term assets and liabilities as well as SDR allocations.

**FOREIGN INVESTMENT RECEIPTS (Liabilities)**

(In MTD)

Description	2006	2007	2008	2009	2010
Energy	940	1,359	1,934	1,234	1,317
Tourism and real estate	18	72	199	85	95
Manufacturing industries	347	486	642	772	574
Financial sector	22	0	371	0	43
Telecommunications	3,056	80	40	154	127
Other	20	74	213	34	9
<b>Foreign direct investment</b>	<b>4,403</b>	<b>2,071</b>	<b>3,399</b>	<b>2,279</b>	<b>2,165</b>
<b>Portfolio investment</b>	<b>159</b>	<b>87</b>	<b>198</b>	<b>78</b>	<b>253</b>
<b>Total</b>	<b>4,562</b>	<b>2,158</b>	<b>3,597</b>	<b>2,357</b>	<b>2,418</b>

Net inflows of medium and long term loan capital went down to 214 MTD in 2010. This was the result of 114 MTD less in drawings (to 2612 MTD) and a 3.7% increase in outlays to draw down debt (to 2398 MTD, of which 582 MTD were for repayment of the 35 billion yen Global Samurai I loan).



It should be kept in mind that Tunisia in 2009 took advantage of SDR allocations made available by IMF in the amount of 238.5 million SDRs, the equivalent of 496 MTD. This transaction took place largely because of the lower surplus in the balance of financial transactions in 2010.

**For 2011 as a whole**, the economy's need for external funding will be met mainly by recourse to foreign donors, while foreign investment is expected to go down, in line with conditions in the country and in the region.

## SECTION 2 - OVERALL EXTERNAL POSITION

Overall external position is a statistical measure that helps determine at a given time the stock of a country's financial assets and liabilities abroad. This helps measure the degree of a country's financial opening and provides indicators on the sustainable nature of its external debt and its liabilities towards the world.

At the end of 2010, Tunisia's overall external position involved net liabilities abroad amounting to some 62193 MTD, following the upward trend in evidence over the years.

This trend was caused by an increase in gross liabilities in the form of foreign investment and external indebtedness that grew faster than gross assets, keeping in mind that reserve assets, the major component of these assets, dropped in line with the deficit in the general balance of payments.