

Sources : BCT and National Statistics Institute

Trends for these loans were influenced in particular by the increase in loans in foreign currency. This increase was due in part to commitment on the part of certain lending institutions to finance major initiatives, mainly construction of a new oil refinery by the Tunisian refining industries company *STIR* and expansion of the maritime and airline fleets by the Tunisian navigation company *CTN* and *Tunisair* respectively. Another factor was price increases on international markets for imported energy and food products.

Net external assets closed for 2010 with a 553 MTD drop, compared to an increase of 1455 MTD a year earlier, under the influence of a widening of the current deficit, which the surplus in the balance of capital and financial transactions was not high enough to offset. Indeed, the surplus was slightly below the level of the previous year, due in particular to the high level of outlays to draw down external debt.

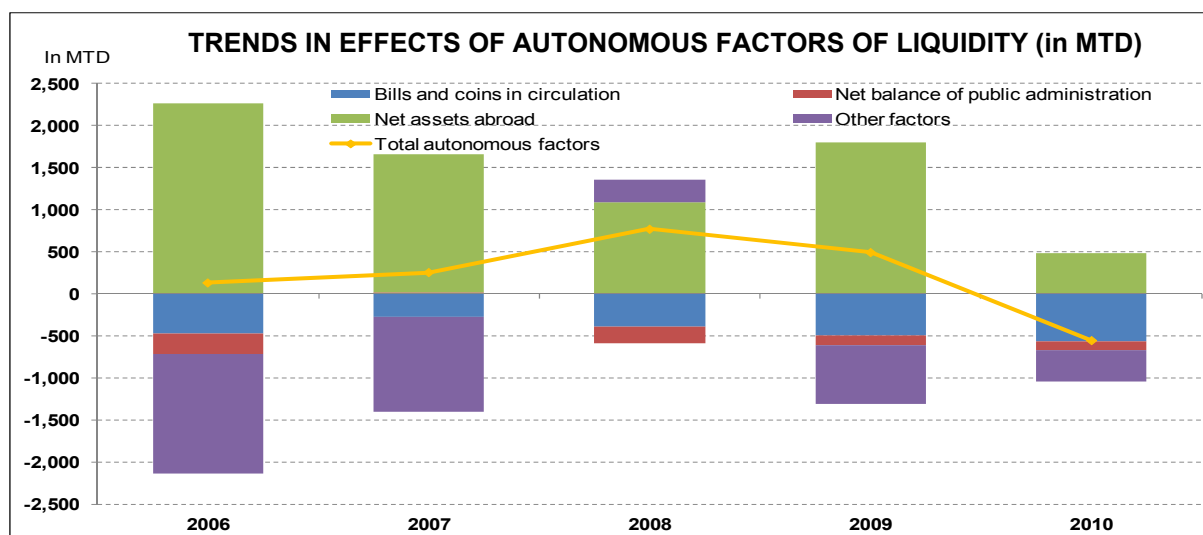
The drop in net assets in foreign currency would have been greater if it had not been for the exchange effect (335 MTD). This effect had no impact on trends in money supply in 2010, given that the relevant amount was recorded in the Issuing Institution's pending accounts.

Net claims on the State marked a 168 MTD drop in 2010, compared to a 953 MTD increase a year earlier. Their evolution was still marked by the high level of the outstanding balance of Treasury bonds in bank portfolio, which after growing substantially in 2009 (+488 MTD) fell by 115 MTD in 2010. In effect, the Treasury did not find it opportune to raise funds on the domestic market, considering the flush state of its cash position on the one hand and, on the other, the high rates proposed by economic agents.

SECTION 2 - LIQUIDITY AND MONETARY POLICY OPERATIONS IN 2010¹

The strong cash position at banks that characterised 2009 continued in the early months of 2010, leading the Central Bank to tighten its monetary policy. In effect, after experiencing a high increase in 2009, the surplus in liquidity was contracted in 2010, leading to a tighter cash position at banks. This trend was caused mainly by an increase in banknotes and coins in circulation (569 MTD) and a drop in the net balance of public administration (108 MTD), the restrictive effect of which was somewhat mitigated by the expansive effect of net assets abroad.

¹ This analysis is made on the basis of the database, expressed in terms of averages.



In line with the level of market liquidity, monetary policy operations resulted in average injection of 222 MTD in 2010 vs. tapping of 844 MTD a year earlier. 86% of total financing by the Central Bank was provided in the form of auctions by calls for bids (190 MTD), compared to average tapping of 855 MTD the year before.

Consequently, given the increases in reserve requirement rates¹, assets in banks' ordinary current accounts held at the Central Bank went up by 509 MTD to 1255 MTD.

The sustained increase in banks' needs for liquidity, along with the drop in surpluses at banks that have liquidity to lend, led to a 196 MTD deficit in liquidity over 2010, compared to a net surplus of 869 MTD a year earlier.

Transactions on the interbank compartment grew, up from 508 MTD in 2009 to 692 MTD in 2010, an increase of 36%. Forward transactions went up by 53% from one year to the next, represent 85% of total vs. 75% in 2009, reflecting a market that had returned to dynamic activity.

TRENDS IN BANK LIQUIDITY FACTORS AND MONETARY POLICY OPERATIONS (In MTD)

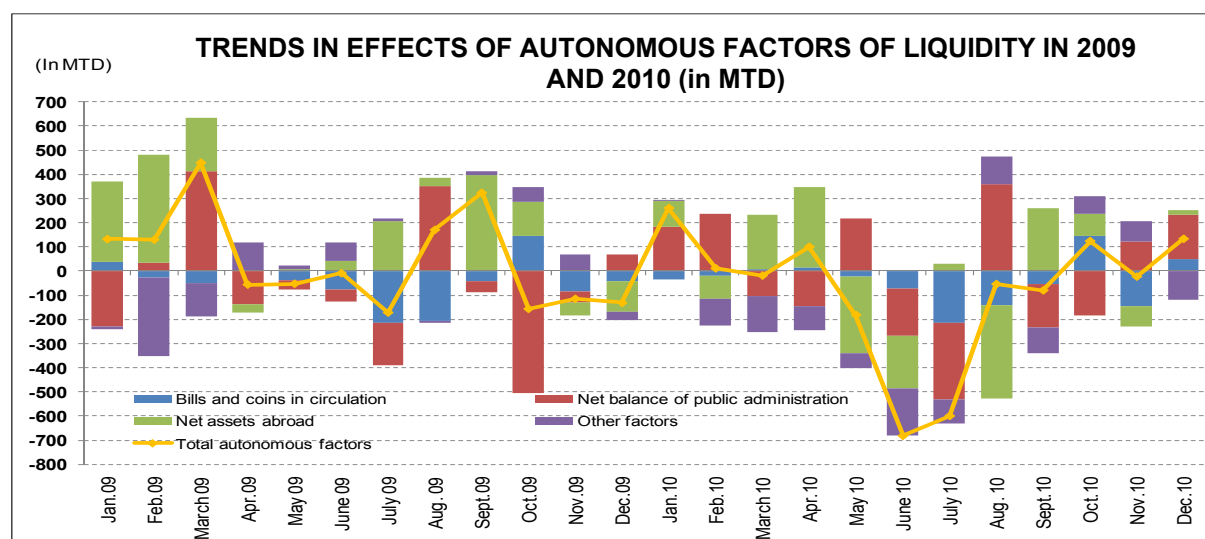
Description	2009	2010	Variation 2010/2009*
Banknotes and coins in circulation	-4,916	-5,485	-569
Net balance of administration	-132	-240	-108
<i>of which : Treasury current account balance</i>	-660	-663	-3
Net assets abroad	9,859	10,344	+485
<i>of which : Net assets in foreign currency</i>	12,550	12,963	+413
Other net factors	-3,221	-3,586	-365
=Total autonomous factors (A)	1,590	1,033	-557
Calls for bids	-855	190	+1,045
1-7 day-allowance uptakes	1	0	-1
Pawn of 3 month Treasury bonds	0	0	0
Net tapping transactions	-1	0	+1
Open market transactions	25	26	+1
Repurchase options	0	0	0
24 hour deposit facilities	-23	-30	-7
24 hour credit facilities	9	36	+27
=Monetary Policy Operations (B)	-844	222	+1,066
=Assets in banks current accounts (A)+(B)	746	1,255	+509

* The (-) sign indicates a restrictive effect on bank liquidity.

¹ Cf. Central Bank circulars to banks n°2010-05 of 25 February 2010 and n°2010-07 of 30 April 2010.

Bank liquidity and bank refinancing experienced two distinct phases during the year :

The initial period covered the first five months of the year, characterised by ongoing excess liquidity, brought about mainly by an increase in the **net balance of public administration** (+387 MTD), in line with a sharp drop in the level of the Treasury's current account balance. The evolution of the latter, the level of which fluctuated between 25 MTD and 1258 MTD, was attributable mainly to the commitment of major expenditure to draw down domestic debt principal (782 MTD, of which 707 MTD were in bonds equivalent to Treasury bonds) and interest (244 MTD), despite transfers made from the Tunisian Government's special account in foreign currency¹ and encashment of income from State holdings in the capital of a number of public enterprises (240 MTD) : *Tunisie Télécom* and the Gafsa phosphate company *CPG* in 2009.



Over this period, despite the drop in net assets in foreign currency due in particular to a widening of the trade deficit and a drop in income from tourism, **net assets abroad** went up by 250 MTD, on average, exerting an expansive effect on liquidity. This trend was the result of a drop in the Tunisian Government's special account in foreign currency, in line with the above-mentioned transfers made from this account to the Treasury's current account. These transactions had no impact on liquidity.

On the other hand, **banknotes and coins in circulation**, which went up by 54 MTD in May 2010 from their level in December, exerted a restrictive effect of the same amount on banks' cash position.

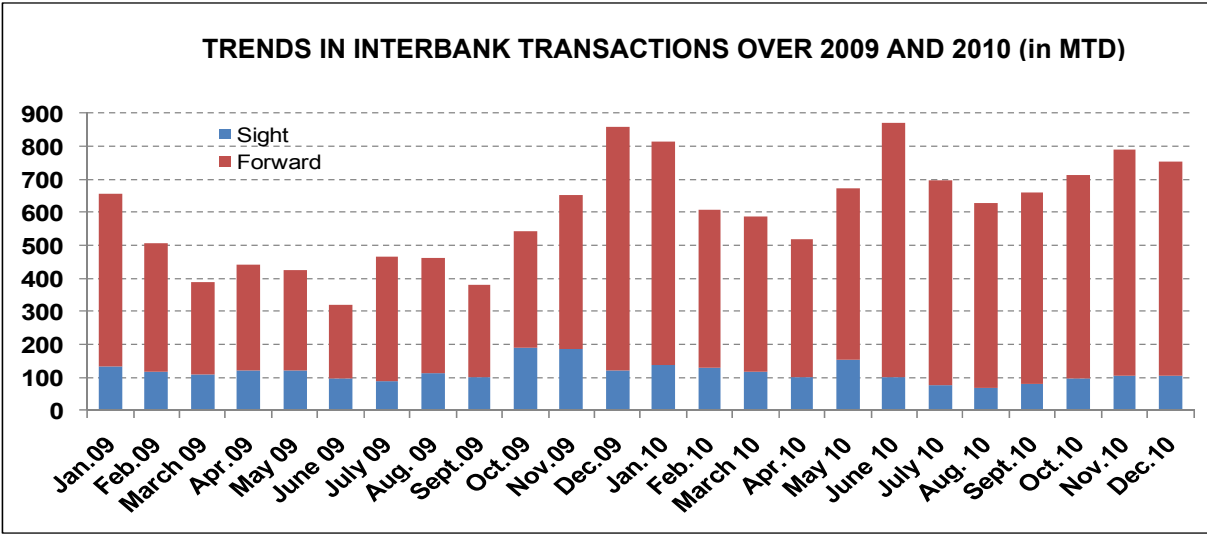
Given trends in the autonomous factors of bank liquidity over the first five months of 2010, **monetary policy operations** led to average tapping of 756 MTD, most of which was handled through calls for bids. Considering the impact of successive increases in reserve requirement rates, assets in banks' ordinary current accounts held at the Central Bank went up by 561 MTD over their level in December 2009 to 1351 MTD in May 2010.

In the framework of money market activity marked by a continuation of the excess liquidity prevailing since August 2007, the Issuing Institution focused its intervention on negative calls for bids for durations of between one week and a month. **In all**, an average of 794 MTD was absorbed in this form. Furthermore, banks had recourse to 24 hour deposits permanent facilities

¹ 250 million US dollars (349 MTD) made available in equal shares in 2009 by the International Bank for Reconstruction and Development (IBRD) and the African Development Bank (ADB) in the framework of the integration support programme.

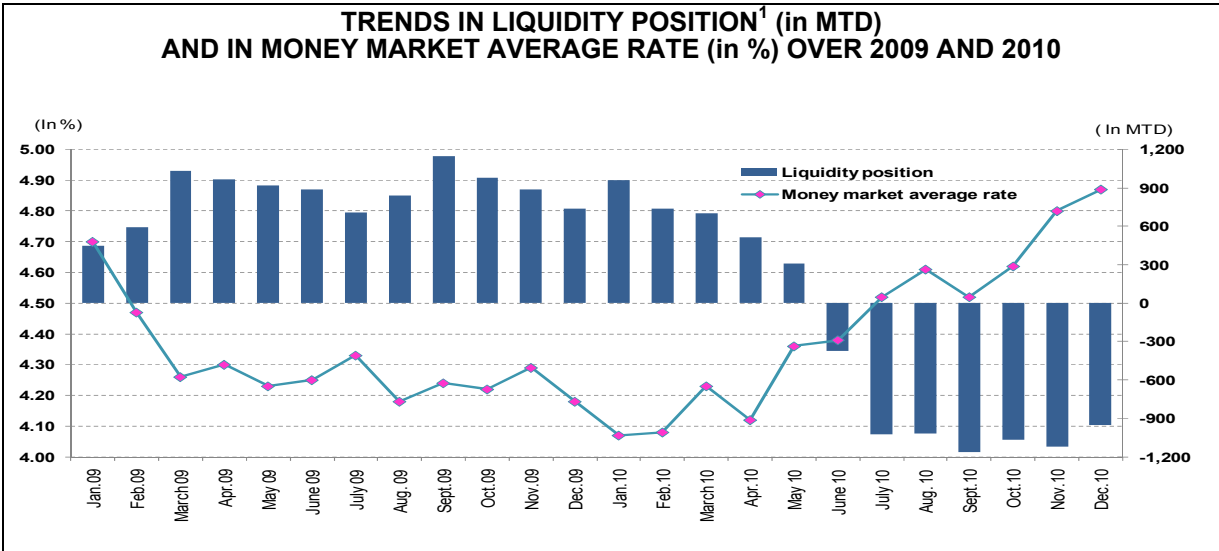
to place their surpluses. These placements, which took place largely the last week of the month, involved more or less large amounts, ranging from a minimum of 82 MTD to a maximum of 713 MTD.

Activity on the interbank compartment was dominated by forward transactions, coming to a total on average of 511 MTD, representing 80% of the volume of transactions on this market.



Reflecting a comfortable cash position at banks over the first five months of 2010, **the day to day weighted interest rate on the money market** fluctuated in a range between the key rate and that of the 24 hour deposit facility. In effect, over this period, the market was structurally in surplus, leading banks with available liquidity to carry out interbank transactions at rates below those practiced by the Central Bank in the framework of the main refinancing options. Consequently, the monthly average money market rate was lower than the key rate, fluctuating over this period between 4.07% and 4.36%.

Between **June and December**, banks' cash position, which had been affected by changes in reserve requirement rates over the previous period as well as trends in autonomous factors, showed a need for liquidity that was particularly marked in September and October.



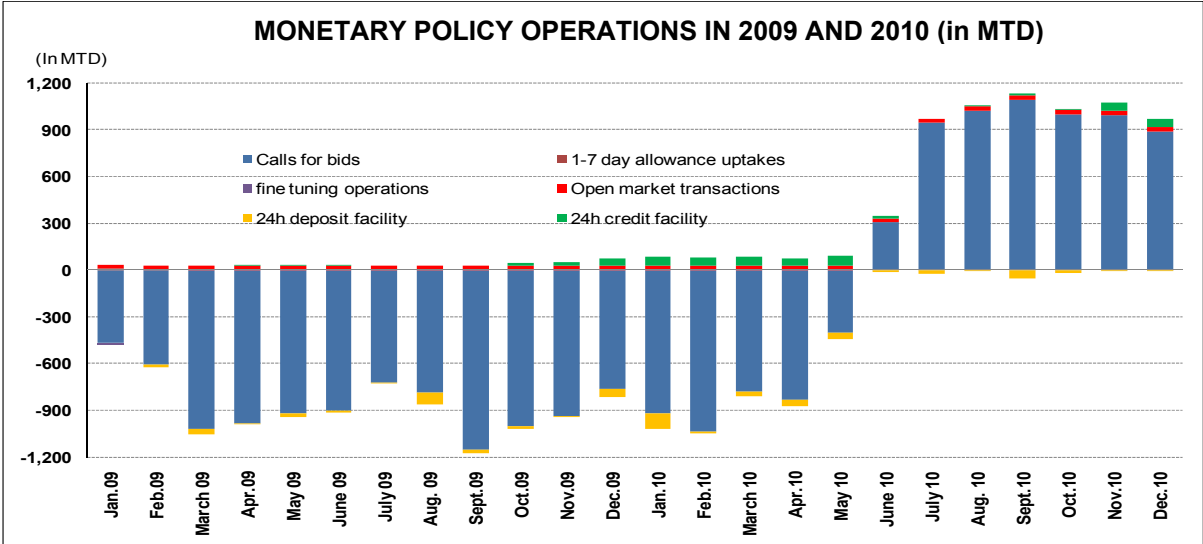
¹ Liquidity position is the difference between the total autonomous factors and the amount of required reserves.

Banknotes and coins in circulation went up in average by 434 MTD in December 2010 compared to their level in May, exerting a restrictive effect in this same amount on bank liquidity. Trends reflect seasonal patterns in household expenditure, which peaks over the summer and during the month of Ramadan, the *Aid el Fitr* holiday at the end of Ramadan and the *Aid el Idha* holiday commemorating the sacrifice of Abraham.

Similarly, the **net balance of public administration**, which went down by 211 MTD in December 2010 compared to the figure in May of that same year (following the 253 MTD increase in the balance of Treasury’s current account), contributed to tightening of liquidity. The increase in the Treasury account, with the prospect of a major repayment of external debt maturity (as mentioned above), is due to mobilisation of a high level of tax revenue, thanks in particular to renewed economic activity and encashment of a portion of revenue from State holdings in *CPG* capital. The restrictive effect of these resources was however mitigated by the impact of outlays to draw down domestic debt (311 MTD, of which 166 MTD were in short term Treasury bonds) and transfers to public structures and enterprises. There was also a 597 MTD¹ repayment in July for principal and interest on the debenture loan contracted in 2000 on the Japanese capital market, keeping in mind that this transaction had no effect on liquidity since it was offset by an equivalent transaction in net assets in foreign currency.

Net assets abroad, the average level of which dropped by 284 MTD between May and December 2010, were also affected by the widening of the current deficit, in line with the increase in the trade deficit brought about by higher growth in imports, notably energy products and basic raw materials, commitment of large amounts to service external debt, and a slowing of growth in foreign direct investments, despite the high level of drawings on external loans.

Given the impact of the autonomous factors of bank liquidity, **monetary policy operations** carried out over the period June-December led to average injection of 893 MTD by means of calls for bids. Consequently, bank assets in ordinary current accounts held at the Central Bank went up to 1484 MTD in December 2010.



During this period when bank liquidity fell considerably and surpluses were completely absorbed, average daily needs for bank refinancing came to 895 MTD, reflecting a net deficit status for liquidity. In this context, the Central Bank intervened, using its main refinancing operations. Its average intervention involved injection of 893 MTD using calls for bids.

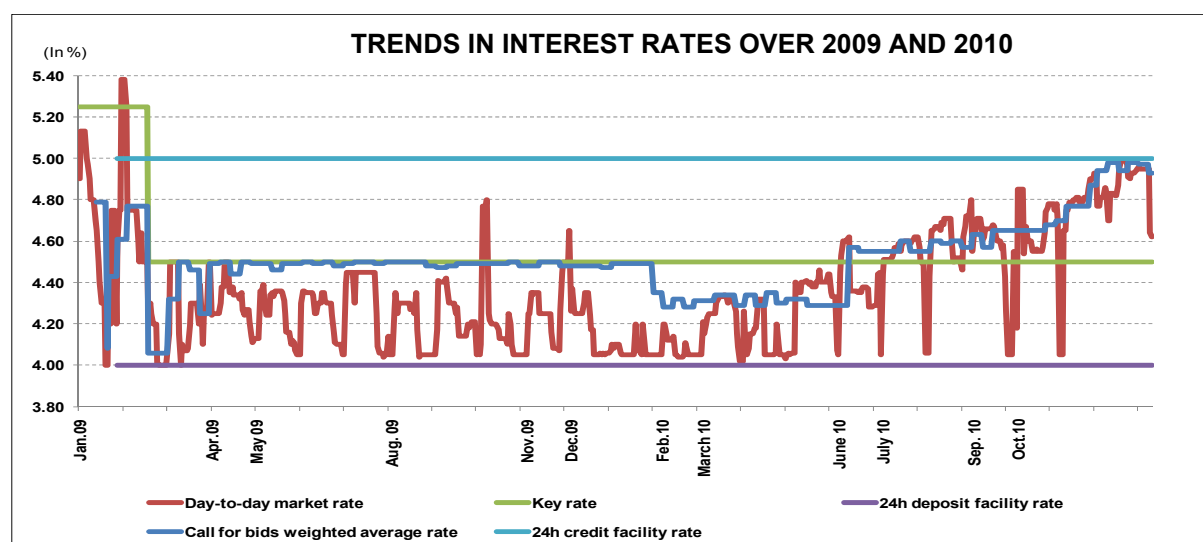
¹ Amount calculated at the accounting reference rate.

MONETARY POLICY OPERATIONS IN TERMS OF AVERAGES OF THE PERIOD (In MTD)

Description	January-May 2010 average	June-December 2010 average
Calls for bids	-794	893
1-7 day-allowance uptakes	0	0
Net tapping transactions	0	0
Open market transactions	26	26
Repurchase options	0	0
24 hour deposit facilities	-45	-19
24 hour credit facilities	57	21
Total	-756	921

As for the interbank market, transactions were on the rise, up from 639 MTD over the first period to 730 MTD, with the share of forward transactions continuing to grow, reaching 88% of total.

Lower bank liquidity over the period under review and the resulting increase in banks' needs influenced interest rates. This is why major banks looking for liquidity opted to carry out interbank transactions at higher rates than those practiced by the Central Bank in the framework of its main refinancing operations. Consequently, the average monthly money market rate rose, up from 4.38% in May to 4.87% in December 2010, reflecting banks' cash position and liquidity situation.



24 hour deposit and credit facilities rates set at 4% and 5% respectively throughout the year, 50 base points above and below the Central Bank's key rate. **The savings remuneration rate** came to 2.25% in the first half, then starting in July it went up by 25 base points to 2.50%. Furthermore, in line with the increase in the average monthly money market rate, it closed for the year at 2.80%.

SECTION 3 – MONETARY POLICY IN 2011

The unprecedented political and social events that have affected the country since the beginning of the year as well as repercussions from the conflict in Libya led to a considerable drop in economic activity. In effect, real growth fell by 3.3% in terms of annual sliding over the first quarter of 2011, influenced by deterioration in tourism and trade and a drop in industrial activity. Despite signs of recovery in the second quarter, economic growth will slow considerably in 2011, with a growth rate that will not, according to projections, exceed 1%.

Inflation continued to decline, reaching 3.1% in terms of annual sliding at the end of the first half of the year. This compares to 4.6% for the same period the year before, reflecting (aside from lower prices for certain basic goods the prices of which are regulated and the impact of seasonal