

## X. PUBLIC FINANCES <sup>1</sup>

2008 was marked mainly by greater integration of Tunisia's economy both worldwide and regionally, especially in the framework of the association agreement with the European Union. This culminated in free trade in industrial goods in 2008 and a better business environment, following promulgation of legislation in December 2007 governing economic initiative and of the customs code in June 2008. But commodity prices continued to soar on world markets, especially over the first half of the year. Over the last quarter of the year, the financial crisis in the United States spread rapidly throughout the world, causing a major economic crisis as illustrated by projections of recession, which weighed on world demand and thus on prices for raw materials.

Public finances thus had undergone pressure related to higher level of subsidised product prices, notably in terms of equalisation expense. Thus the budget deficit (exclusive of privatisation and grants) came to some 593 MTD or 1.2% of GDP, well below the 1,518 MTD (3%) figure entered in the complementary finance law. The difference, despite higher costs, was due to an increase in core funds, which helped bring the outstanding balance of public debt to 47.5% of GDP, down from 50% in 2007, despite higher exchange rates for the main currencies (especially the euro and the yen) against the dinar.

### STATEMENT OF CENTRAL GOVERNMENT BUDGETARY FLOWS

(In MTD unless otherwise indicated)

Description	2006	2007	2008		Variation in %	
			SFL*	Actual	2007/2006	2008/2007
<b>Core resources</b>	<b>10,552.7</b>	<b>11,443.9</b>	<b>12,770.0</b>	<b>13,710.0</b>	<b>8.4</b>	<b>19.8</b>
- Tax revenue	8,469.9	9,508.0	10,669.0	11,320.9	12.3	19.1
- Non tax revenue	2,082.8	1,935.9	2,101.0	2,389.1	-7.1	23.4
<b>Borrowed resources</b>	<b>2,217.8</b>	<b>2,437.6</b>	<b>2,233.3</b>	<b>1,668.5</b>	<b>9.9</b>	<b>-31.6</b>
<b>Drawing on the Treasury</b>	<b>1,117.8</b>	<b>1,206.0</b>	<b>1,141.7</b>	<b>720.6</b>	<b>7.9</b>	<b>-40.2</b>
<b>Total resources</b>	<b>13,888.3</b>	<b>15,087.5</b>	<b>16,145.0</b>	<b>16,099.1</b>	<b>8.6</b>	<b>6.7</b>
<b>Expenditure exclusive of debt principal</b>	<b>11,103.7</b>	<b>12,348.0</b>	<b>13,951.0</b>	<b>13,965.0</b>	<b>11.2</b>	<b>13.1</b>
- Operation expenditure exclusive of equalisation	6,159.2	6,623.5	7,256.0	7,229.7	7.5	9.2
- Equalisation	953.1	1,281.0	2,036.0	2,036.2	34.4	59.0
- Debt interest	1,129.8	1,181.9	1,200.0	1,142.5	4.6	-3.3
- Capital expenditure	2,646.1	2,793.7	3,302.0	3,344.2	5.6	19.7
- Net loans	215.5	467.9	157.0	212.4	117.1	-54.6
<b>Debt principal redemption</b>	<b>2,784.6</b>	<b>2,739.5</b>	<b>2,194.0</b>	<b>2,134.1</b>	<b>-1.6</b>	<b>-22.1</b>
<b>Total expenditure</b>	<b>13,888.3</b>	<b>15,087.5</b>	<b>16,145.0</b>	<b>16,099.1</b>	<b>8.6</b>	<b>6.7</b>
<b>Budget deficit excluding privatisation and grants</b>	<b>1,174.2</b>	<b>1,332.9</b>	<b>1,518.0</b>	<b>593.4</b>		
In % of GDP	2.8	2.9	3.0	1.2		
<b>Net Financing of the deficit</b>						
- Privatisation and grants	623.2	428.8	337.0	338.4		
- Net domestic financing	1,497.9	1,332.6	1,014.8	96.0		
- Net external financing	-946.9	-428.5	166.2	159.0		

\* Supplementary finance law.

<sup>1</sup> Provisional statistical data for 2008.  
Source : Ministry of Finance.

## A. STATE BUDGET RESOURCES

Overall revenue for the State budget (exclusive of Treasury drawing) grew by 10.8% in 2008 (compared to 8.7% a year earlier) to some 15,379 MTD. The share of core resources rose from 82.4% in 2007 to 89.2%. This higher level of overall revenue is due in particular to the greater volume of taxes collected.

### TREND IN STATE BUDGET RESOURCES

(In MTD unless otherwise indicated)

Description	2006	2007	2008		Variation in %	
			SFL	Actual	2007/2006	2008/2007
<b>Core resources</b>	<b>10,552.7</b>	<b>11,443.9</b>	<b>12,770.0</b>	<b>13,710.0</b>	<b>8.4</b>	<b>19.8</b>
- Tax revenue	8,469.9	9,508.0	10,669.0	11,320.9	12.3	19.1
- Non tax revenue	2,082.8	1,935.9	2,101.0	2,389.1	-7.1	23.4
<b>Borrowed resources</b>	<b>2,217.8</b>	<b>2,437.6</b>	<b>2,233.3</b>	<b>1,668.5</b>	<b>9.9</b>	<b>-31.6</b>
- Domestic <sup>1</sup>	1,445.6	1,422.2	1,183.0	670.6	-1.6	-52.8
- External	772.2	1,015.4	1,050.3	997.9	31.5	-1.7
<b>Total</b>	<b>12,770.5</b>	<b>13,881.5</b>	<b>15,003.3</b>	<b>15,378.5</b>	<b>8.7</b>	<b>10.8</b>

### 1. TAX REVENUE

In reaching 11,321 MTD, tax revenue grew at a faster pace in 2008 : 19.1% or 1,813 MTD vs. 12.3% a year earlier. This trend was attributable to the following factors :

- Greater foreign trade for the second straight year, with imports up by 23.8% and exports by 21.8%, corresponding to a 501 MTD increase in revenue under the customs regime ;
- Economic growth of 6.3% in 2007 at constant prices, which was important for the 273 MTD increase in direct taxes (exclusive of oil) in 2008 ;
- Ongoing increases in oil prices on the international market, providing an additional 266 MTD in tax revenue from oil ; and
- A higher volume of economic activity : +773 MTD in domestic regime.

### TREND IN TAX REVENUE

(In MTD unless otherwise indicated)

Description	2006	2007	2008		Variation in %	
			S.F.L.	Actual	2007/2006	2008/2007
<b>Direct taxes</b>	<b>3,106.8</b>	<b>3,697.6</b>	<b>4,503.0</b>	<b>4,560.9</b>	<b>19.0</b>	<b>23.3</b>
Income tax	1,717.0	1,948.8	2,168.0	2,145.8	13.5	10.1
Corporate tax	1,389.8	1,748.8	2,335.0	2,415.1	25.8	38.1
Of which : oil companies	550.4	884.1	1,235.0	1,150.0	60.6	30.1
<b>Indirect taxes</b>	<b>5,363.1</b>	<b>5,810.4</b>	<b>6,166.0</b>	<b>6,760.0</b>	<b>8.3</b>	<b>16.3</b>
Customs duty	489.9	514.3	515.0	584.7	5.0	13.7
VAT	2,465.5	2,660.5	2,937.0	3,309.0	7.9	24.4
Consumer duty	1,254.9	1,361.6	1,425.0	1,464.8	8.5	7.6
Other levies and taxes	1,152.8	1,274.0	1,289.0	1,401.5	10.5	10.0
<b>Overall tax revenue</b>	<b>8,469.9</b>	<b>9,508.0</b>	<b>10,669.0</b>	<b>11,320.9</b>	<b>12.3</b>	<b>19.1</b>
<b>Overall tax burden (in % of GDP)</b>						
- Oil	20.5	20.8	20.9	22.5		
- Oil excluded	1.4	1.9	2.4	2.3		
	19.1	18.9	18.5	20.2		

Tax revenue maintained the lion's share of overall core resources in the State budget : 82.6% in 2008 vs. 83.1% in 2007. The tax burden came to 22.5% (up from 20.8% in 2007), compared to the 20.9% figure projected in the supplementary finance law. If oil is excluded, the tax burden came to 20.2% in 2008 vs. 18.9% in 2007.

<sup>1</sup> Exclusive of less than one year Treasury bonds.

## a. Direct taxes

Direct taxes (including taxes from oil) amounted to 4,561 MTD, an increase of 23.3% or 863 MTD vs. 19% in 2007. 197 MTD of this increase was from income tax, especially because of the new three-year wage increase programme (2008-2010) and 666 MTD from corporate tax (+266 MTD from oil companies and +400 MTD from non oil companies). The increase in taxes from non oil companies was due to higher profits in 2007. Direct taxes represented 40.3% of overall tax revenue, compared to 38.9% in 2007. Withholding is the principal means of direct tax collection, with a share of more than three quarters of the overall amount of direct taxes.

## b. Indirect levies and taxes

Indirect levies and taxes came to 6,760 MTD in 2008, an increase of 16.3% vs. 8.3% the year before. The difference (950 MTD) is broken down between 449 MTD from domestic regime (in line with greater economic activity) and 501 MTD from customs regime from imports (+23.8%), despite the ongoing drop in the number of customs duty rates, down from 54 in 2003 to 11 in 2007 and 9 in 2008.

The above-mentioned difference (950 MTD) can be broken down as follows :

- VAT : +649 MTD (3,309 MTD vs. 2,660 MTD in 2007), following enhanced economic activity ;
- Customs duty : +71 MTD (585 MTD vs. 514 MTD), due mainly to the influence of higher import prices for commodities such as cereals, iron rods for concrete... ;
- Consumer duty : +103 MTD, especially from tobacco and matches (+55 MTD), vehicles (+29 MTD) and alcoholic beverages (+5 MTD) ; and
- other indirect levies and taxes : +128 MTD, notably in the wake of income from fees on documents and transactions (+54 MTD), transport duty (+10 MTD) and revenue related to Treasury funds (+59 MTD).

### TREND IN INDIRECT LEVIES AND TAXES

(In MDT unless otherwise indicated)

Description	2006	2007	2008		Variation in %	
			S.F.L	Actual	2007/2006	2008/2007
<b>- Customs duty</b>	<b>489.9</b>	<b>514.3</b>	<b>515.0</b>	<b>584.7</b>	<b>5.0</b>	<b>13.7</b>
<b>- V A T</b>	<b>2,465.5</b>	<b>2,660.5</b>	<b>2,937.0</b>	<b>3,309.0</b>	<b>7.9</b>	<b>24.4</b>
. Domestic regime	1,251.8	1,346.1	1,467.0	1,627.5	7.5	20.9
. Customs regime	1,213.7	1,314.4	1,470.0	1,681.5	8.3	27.9
<b>- Consumer duty</b>	<b>1,254.9</b>	<b>1,361.6</b>	<b>1,425.0</b>	<b>1,464.8</b>	<b>8.5</b>	<b>7.6</b>
. Domestic regime	759.1	823.5	866.0	883.6	8.5	7.3
. Customs regime	495.8	538.1	559.0	581.2	8.5	8.0
<b>- Other indirect levies and taxes</b>	<b>1,152.8</b>	<b>1,274.0</b>	<b>1,289.0</b>	<b>1,401.5</b>	<b>10.5</b>	<b>10.0</b>
. Domestic regime	1,065.8	1,176.2	1,215.0	1,282.9	10.4	9.1
. Customs regime	87.0	97.8	74.0	118.6	12.5	21.1
<b>Indirect levies and taxes</b>	<b>5,363.1</b>	<b>5,810.4</b>	<b>6,166.0</b>	<b>6,760.0</b>	<b>8.3</b>	<b>16.3</b>
. Domestic regime	<b>3,076.7</b>	<b>3,345.8</b>	<b>3,548.0</b>	<b>3,794.0</b>	<b>8.7</b>	<b>13.4</b>
. Customs regime	<b>2,286.4</b>	<b>2,464.6</b>	<b>2,618.0</b>	<b>2,966.0</b>	<b>7.8</b>	<b>20.3</b>

Overall refund went up to 285 MTD in 2008, of which 238 MTD was from VAT (vs. 205 MTD and 164 MTD respectively in 2007).

## 2. NON TAX REVENUE

Non tax revenue came to 2,389 MTD in 2008 (vs. 1,936 MTD in 2007), an increase of 453 MTD made up of the following categories :

- surpluses at public enterprises that revert to the State budget: 977 MTD vs. 581 MTD in 2007 (an increase of 396 MTD), notably :

- Central Bank of Tunisia : +85 MTD (425 MTD vs. 340 MTD) ;
- Tunisie Telecom : +63 MTD ;
- Civil Aviation and Airport Authority : +56 MTD ;
- Tunisian Chemical Group : +30 MTD ;
- Merchant Marine and Port Authority : +17 MTD ; and
- Tunisian Oil Activities Company (ETAP) : +132 MTD.

Surpluses transferred to the State budget have been determined taking into account the financing needs for investment at these companies.

- 147 MTD going to the State following the sale of 60% of capital in the Tuniso-Kuwaiti Bank (*BTK*),

- 370 MTD in royalties from the transcontinental gas pipeline along with royalties and additional taxes on oil companies in a context of higher oil prices,

- 192 MTD in foreign grants in 2008 (up from 37 MTD in 2007), following the higher level of budgetary support from the European Union, at both the global and sectoral levels, for the most part to the following programmes :

- PACE IV : 69 MTD ;
- Higher education : 38 MTD ;
- Health insurance : 36 MTD ;
- Vocational training : 17.7 MTD ;
- Programme to support competitiveness : 16 MTD ; and
- Reform of secondary education : 13.3 MTD.

### TREND IN NON TAX REVENUE

(In MTD unless otherwise indicated)

Description	2006	2007	2008		Variation in %	
			SFL	Actual	2007/2006	2008/2007
Oil and gas revenue	289.3	290.3	337.5	370.4	0.3	27.6
Surplus	545.2	580.5	933.0	976.7	6.5	68.3
Loan collection	222.6	206.4	126.0	257.3	-7.3	24.7
External grants	43.7	37.5	190.0	191.5	-14.2	410.7
Privatisation proceeds	579.5	391.3	147.0	146.9	-32.5	-62.5
Other non tax resources	402.5	429.9	367.5	446.3	6.8	3.8
<b>Total</b>	<b>2,082.8</b>	<b>1,935.9</b>	<b>2,101.0</b>	<b>2,389.1</b>	<b>-7.1</b>	<b>23.4</b>

### 3. BORROWED RESOURCES

Given the positive status of core State funds, only 1,669 MTD had to be borrowed, contributing to the goal of reducing the outstanding balance of public debt. The amount of money borrowed abroad as recorded in 2008 included the balance of drawings on the Japanese financial market (30 billion yen) that was not budgeted in 2007.

#### TREND IN BORROWED RESOURCES

(In MDT unless otherwise indicated)

Description	2006	2007	2008	Variation in %	
				2007/2006	2008/2007
<b>Borrowed resources</b>	<b>2,217.8</b>	<b>2,437.6</b>	<b>1,668.5</b>	<b>9.9</b>	<b>-31.6</b>
- Domestic <sup>1</sup>	<b>1,445.6</b>	<b>1,422.2</b>	<b>670.6</b>	<b>-1.6</b>	<b>-52.8</b>
- External	<b>772.2</b>	<b>1,015.4</b>	<b>997.9</b>	<b>31.5</b>	<b>-1.7</b>
° Financial market	0	107.5	227.4		111.5
° PACE IV	0	201.9	0		-100.0
° Drawings on earmarked external borrowings	573.0	537.5	603.0	-6.2	12.2
° Onlended external loans	179.8	158.0	167.5	-12.1	6.0
° Others	19.4	10.5	0	-45.9	-100.0

### B. STATE BUDGET EXPENDITURE

Overall outlays from the State budget went up by 6.7% in 2008 (vs. 8.6% the year before) to almost 16,100 MTD. These involved :

- wage increases (1<sup>st</sup> portion) : +435 MTD ;
- increased subsidies for cereals and fuel : +755 MTD ;
- higher expenditure for service means and other interventions : +190 MTD ;
- higher expenditure for equipment and the granting of loans : +295 MTD ; and
- a drop in debt service redemption : -645 MTD.

Expenditure to support prices for basic consumer products, fuel and transport went up to some 2,036 MTD, a 59% increase over the 2007 figure, in particular to offset higher prices for cereals and fuel.

#### TRENDS IN STATE BUDGET EXPENDITURE

(In MTD unless otherwise indicated)

Description	2006	2007	2008		Variation in %	
			SFL	Actual	2007/2006	2008/2007
<b>Expenditure exclusive of debt</b>	<b>9,973.9</b>	<b>11,166.1</b>	<b>12,751.0</b>	<b>12,822.5</b>	<b>12.0</b>	<b>14.8</b>
- Operating expenditure exclusive of equalisation	6,159.2	6,623.5	7,256.0	7,229.7	7.5	9.1
- Equalisation	953.1	1,281.0	2,036.0	2,036.2	34.4	59.0
- Capital and loan granting expenditure	2,861.6	3,261.6	3,459.0	3,556.6	14.0	9.0
<b>Debt service</b>	<b>3,914.4</b>	<b>3,921.4</b>	<b>3,394.0</b>	<b>3,276.6</b>	<b>0.2</b>	<b>-16.4</b>
- Principal	2,784.6	2,739.5	2,194.0	2,134.1	-1.6	-22.1
- Interest	1,129.8	1,181.9	1,200.0	1,142.5	4.6	-3.3
<b>Total</b>	<b>13,888.3</b>	<b>15,087.5</b>	<b>16,145.0</b>	<b>16,099.1</b>	<b>8.6</b>	<b>6.7</b>

As in past years, functional breakdown of expenditure (exclusive of debt service) was marked by the predominance of public funding for social expenditure, which accounts

<sup>1</sup> Exclusive of less than one year Treasury bonds.

for 58% of total or 7,443 MTD vs. 55.2% in 2007. Economic and common services accounted for 22% and 20% of overall expenditure respectively, compared to 23.5% and 21.3% a year earlier.

#### FUNCTIONAL BREAKDOWN OF STATE BUDGET EXPENDITURE EXCLUSIVE OF DEBT

Description	2007		2008		Variation in %	
	In MTD	In % of total	In MTD	In % of total	2007/2006	2008/2007
Common services	2,377	21.3	2,565	20.0	1.3	7.9
Economic services	2,621	23.5	2,815	22.0	20.5	7.4
Social services	6,168	55.2	7,443	58.0	13.2	20.7
<b>Total</b>	<b>11,166</b>	<b>100.0</b>	<b>12,823</b>	<b>100.0</b>	<b>12.0</b>	<b>14.8</b>

#### 1. OPERATING EXPENDITURE

Operating expenditure (exclusive of equalisation costs for basic consumer items, fuel and transport) went up by 9.2% (compared to 7.5% in 2007) to some 7,230 MTD.

#### OPERATING EXPENDITURE EXCLUSIVE OF EQUALISATION FOR BASIC CONSUMER GOODS, FUEL AND TRANSPORT

(In MTD unless otherwise indicated)

Description	2006	2007	2008		Variation in %	
			SFL	Actual	2007/2006	2008/2007
Wages and salaries	4,931.7	5,327.5	5,774.6	5,762.7	8.0	8.2
Means of services	601.2	636.3	661.2	724.3	5.8	13.8
Interventions exclusive of equalisation	626.3	659.7	663.7	742.7	5.3	12.6
Non allocated loans	0	0	156.5	0		
<b>Total</b>	<b>6,159.2</b>	<b>6,623.5</b>	<b>7,256.0</b>	<b>7,229.7</b>	<b>7.5</b>	<b>9.2</b>

There was faster growth in expenditure for all categories in 2008, especially for salaries and wages, which accounted for a major portion (some 80% of total), posting an increase of 8.2% to 5,763 MTD.

This expenditure was marked by application of the new three-year (2008-2010) wage increase programme. To make up for the delay in labour-management negotiations, a presidential decision was made to authorise an advance equivalent to 80% of the previous agreement to prop up the purchasing power of civil servants. Outlays for the State service means (acquisition of goods and services) went up by 13.8% to 724 MTD and outlays for interventions and transfers (exclusive of the general equalisation fund, fuel and transport) rose by 12.6% between 2007 and 2008.

In line with soaring world prices for subsidised consumer products, disbursements by the general equalisation fund (CGC) grew considerably, up from 668 MTD<sup>1</sup> or 1.5% of GDP to 1,048 MTD or 2.1%.

Similarly, the unprecedented increase in oil prices, especially over the first half of the year, weighed heavily on the equalisation expenditure for fuel, with 806 MTD in disbursements vs. 450 MTD in 2007, despite the graduated adjustment of domestic prices on two occasions in 2008. These two factors generated an additional need for subsidising of basic consumer items (348 MTD) and fuel (406 MTD) compared to projections in the initial finance law, requiring adoption of a supplementary finance law for 2008.

<sup>1</sup> 598 MTD or 1.3% of GDP were actually used in 2007 and the rest (70 MTD) was used in 2008 to partly cover equalisation charges for cereal and cereal-based products.

## 2. CAPITAL EXPENDITURE

Capital expenditure, including the granting of loans, went up by 9% in 2008 (vs. 14% the year before) to about 3,557 MTD, 98 MTD more than the funds envisaged in the supplementary finance law, i.e. 3,459 MTD (including loans that have been onlended). Direct investment by the State in various economic and social sectors grew at a faster pace of 10.2% vs. 4.5% in 2007 to almost 1,058 MTD. And public financing rose by 15.4% to some 968 MTD, reflecting the preponderant role of the State in investment.

### CAPITAL EXPENDITURE AND FOR LOAN GRANTING

(In MTD unless otherwise indicated)

Description	2006	2007	2008		Variation in %	
			SFL	Actual	2007/2006	2008/2007
Direct investment	918.7	960.0	1,052.0	1,057.5	4.5	10.2
Public financing	639.0	838.3	1,041.8 <sup>1</sup>	967.7	31.2	15.4
of which : ETAP investment	0	176.0	200.0	200.0		13.6
Direct payments on external resources	752.8	695.5	802.9	770.5	-7.6	10.8
-State direct investment	573.0	537.5	655.9	603.0	-6.2	12.2
-Loans onlended to public enterprises	179.8	158.0	147.0	167.5	-12.1	6.0
Treasury funds	515.4	457.9	552.3	716.5	-11.2	56.5
- Special funds	490.7	448.0	552.3	704.6	-8.7	57.3
- Contingency funds	24.7	9.9	0	11.9	-59.9	20.2
Advances and net loans of Treasury	35.7	309.9	10.0	44.4	768.1	-85.7
<b>Total</b>	<b>2,861.6</b>	<b>3,261.6</b>	<b>3,459.2<sup>2</sup></b>	<b>3,556.6</b>	<b>14.0</b>	<b>9.0</b>

## 3. DEBT RETIREMENT

Expenditure to draw down debt (principal and interest) decreased by 16.4% in 2008 to some 3,277 MTD vs. virtual stagnation the year before (+0.2%). This drop which concerned mainly foreign debt service, was attributable to the absence in 2008 of early repayments and the falling due of a borrowing from the Japanese financial market (317 MTD). In effect, payments to service foreign debt went down by 30.6%, involving mainly repayment of principal (-42%). This figure was helped by early repayment in 2007 of foreign borrowings contracted at high variable rates (341 MTD).

### DEBT RETIREMENT

(In MTD unless otherwise indicated)

Description	2006	2007	2008		Variation in %	
			SFL	Actual	2007/2006	2008/2007
<b>Domestic debt</b>	<b>1,564.8</b>	<b>1,877.8</b>	<b>1,895.0</b>	<b>1,858.3</b>	<b>20.0</b>	<b>-1.0</b>
Principal	1,065.5	1,295.6	1,310.0	1,295.2	21.6	0.0
Interests	499.3	582.2	585.0	563.1	16.6	-3.3
<b>External debt</b>	<b>2,349.6</b>	<b>2,043.6</b>	<b>1,499.0</b>	<b>1,418.3</b>	<b>-13.0</b>	<b>-30.6</b>
Principal	1,719.1	1,443.9	884.0	838.9	-16.0	-42.0
of which :						
Early repayment	429.4	341.3	0	0	-20.5	-100.0
Interests	630.5	599.7	615.0	579.4	-4.9	-3.4
<b>Total</b>	<b>3,914.4</b>	<b>3,921.4</b>	<b>3,394.0</b>	<b>3,276.6</b>	<b>0.2</b>	<b>-16.4</b>
Principal	2,784.6	2,739.5	2,194.0	2,134.1	-1.6	-22.1
Interests	1,129.8	1,181.9	1,200.0	1,142.5	4.6	-3.3

<sup>1</sup> Including non allocated loans.

<sup>2</sup> Including onlended loans.

Disbursements to service domestic debt went down by just 1% to 1,858 MTD. Payment of interest dipped by 3.3%, influenced by a lower outstanding balance of 52 week transferable Treasury bonds (122.7 MTD vs. about 544 MTD in 2007), allowing for gains on interest payable at the time of issue and a lower level of issues of bonds equivalent to Treasury bonds (547.9 MTD vs. 879 MTD a year earlier), leading to less payment of related fees.

### C. THE BUDGET DEFICIT AND ITS FINANCING

The budget deficit exclusive of income from privatisation and grants came to some 593 MTD or 1.2% of GDP vs. 3% projected in the supplementary finance law and 2.9% in 2007. This was due to good performance for core income, despite the pressure generated by higher world commodity prices (for example cereals and fuel), which required adoption of a supplementary finance law. Financing of the budget deficit was covered by 338 MTD in income from privatisation and grants, 159 MTD in net borrowings abroad, and 96 MTD in domestic resources.

#### FINANCING THE BUDGET DEFICIT

(In MTD unless otherwise indicated)

Description	2006		2007		2008	
	In MTD	In % of total	In MTD	In % of total	In MTD	In % of total
<b>Privatisation and grants</b>	<b>623.2</b>	<b>53.0</b>	<b>428.8</b>	<b>32.1</b>	<b>338.4</b>	<b>57.0</b>
<b>Net domestic financing</b>	<b>1,497.9</b>	<b>127.6</b>	<b>1,332.6</b>	<b>100.0</b>	<b>96.0</b>	<b>16.2</b>
Net domestic borrowing	380.1		126.6		-624.6	
* Domestic borrowed resources	1,445.6		1,422.2		670.6	
* Redemption of debt principal (in -)	1,065.5		1,295.6		1,295.2	
Drawing on the Treasury resources	1,117.8		1,206.0		720.6	
<b>Net external financing</b>	<b>-946.9</b>	<b>-80.6</b>	<b>-428.5</b>	<b>-32.1</b>	<b>159.0</b>	<b>26.8</b>
* External borrowed resources	772.2		1,015.4		997.9	
* Redemption of debt principal (in -)	1,719.1		1,443.9		838.9	
<b>Total</b>	<b>1,174.2</b>	<b>100.0</b>	<b>1,332.9</b>	<b>100.0</b>	<b>593.4</b>	<b>100.0</b>

### D. TRENDS IN THE OUTSTANDING BALANCE OF PUBLIC DEBT

The outstanding balance of public debt went up by 4.8% in 2008 to some 23,927 MTD. But expressed as a percentage of GDP, this outstanding balance posted a drop from 50% to 47.5%, despite the adverse influence of exchange rates for the foreign currencies in which foreign debt is labelled.

#### THE OUTSTANDING BALANCE OF PUBLIC DEBT

Description	2006		2007		2008	
	In MTD	In % of Total	In MTD	In % of Total	In MTD	In % of Total
<b>External debt</b>	<b>13,285.5</b>	<b>59.8</b>	<b>13,300.4</b>	<b>58.3</b>	<b>14,559.9</b>	<b>60.9</b>
In % of GDP	32.1		29.1		28.9	
<b>Domestic debt</b>	<b>8,935.5</b>	<b>40.2</b>	<b>9,528.8</b>	<b>41.7</b>	<b>9,366.6</b>	<b>39.1</b>
In % of GDP	21.6		20.9		18.6	
<b>Total</b>	<b>22,221.0</b>	<b>100.0</b>	<b>22,829.2</b>	<b>100.0</b>	<b>23,926.5</b>	<b>100.0</b>
In % of GDP	53.7		50.0		47.5	

Breakdown of the outstanding balance of external debt by currency is marked notably by a slight drop in the euro (57.3% vs. 59.5% in 2007) and an increase in the yen (22.2% vs. 18.1%).

#### STRUCTURE OF EXTERNAL PUBLIC DEBT BY CURRENCY

(In %)

Currency	2007	2008
Euro	59.5	57.3
USA dollar	14.8	13.1
Japanese Yen	18.1	22.2
Others	7.6	7.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Trends in Treasury bonds were marked in particular by drops in the outstanding balance of 52 week transferable Treasury bonds (BTC) and of interest rates for most issues, as indicated in the table below :

#### TREASURY BONDS (BTC, BTCT, BTA, BTNB AND BTZc)<sup>1</sup> BY MATURITY

(Outstanding in thousand TD; WAR<sup>2</sup> in %)

Description		2004	2005	2006	2007	2008
13 weeks	Outstanding					
	W A R					
26 weeks	Outstanding					
	W A R					
52 weeks	Outstanding	660,400	463,500	486,800	543,550	122,700
	W A R	5.1380	5.1600	5.161	5.450	5.274
2 years	Outstanding	65,000	208,200			
	W A R	5.4020	5.3370			
3 years	Outstanding	304,400	533,900	653,950		
	W A R	5.5870	5.5410	5.484		
4 years	Outstanding	627,100				
	W A R	7.0270				
5 years	Outstanding	614,300	612,800	630,400	630,400	
	W A R	6.6090	6.3070	6.277	6.277	
6 years	Outstanding			260,800	417,300	423,300
	W A R			5.867	6.000	5.617
7 years	Outstanding			96,400	360,800	521,700
	W A R			6.421	6.514	5.964
10 years	Outstanding	1,999,635	2,559,329	3,056,984	3,447,909	3,869,859
	W A R	6.9280	6.9020	6.735	6.742	6.367
12 years	Outstanding	888,900	888,900	888,900	888,900	888,900
	W A R	8.2350	8.2350	8.235	8.235	8.235
15 years	Outstanding				122,700	147,100
	W A R				7.183	6.816
<b>Total</b>	<b>Outstanding</b>	<b>5,159,735</b>	<b>5,266,629</b>	<b>6,074,234</b>	<b>6,411,559</b>	<b>5,973,559</b>
	<b>W A R</b>	<b>6.8010</b>	<b>6.7040</b>	<b>6.6039</b>	<b>5.655</b>	<b>5.962</b>

<sup>1</sup> BTC = transferable Treasury bonds ;  
 BTCT= short term Treasury bonds ;  
 BTA = bonds equivalent to Treasury bonds ;  
 BTNB = Stock market-negotiable Treasury bonds ;  
 BTZc = Zero coupon Treasury bonds.

<sup>2</sup> WAR = Weighted Average Interest Rate.