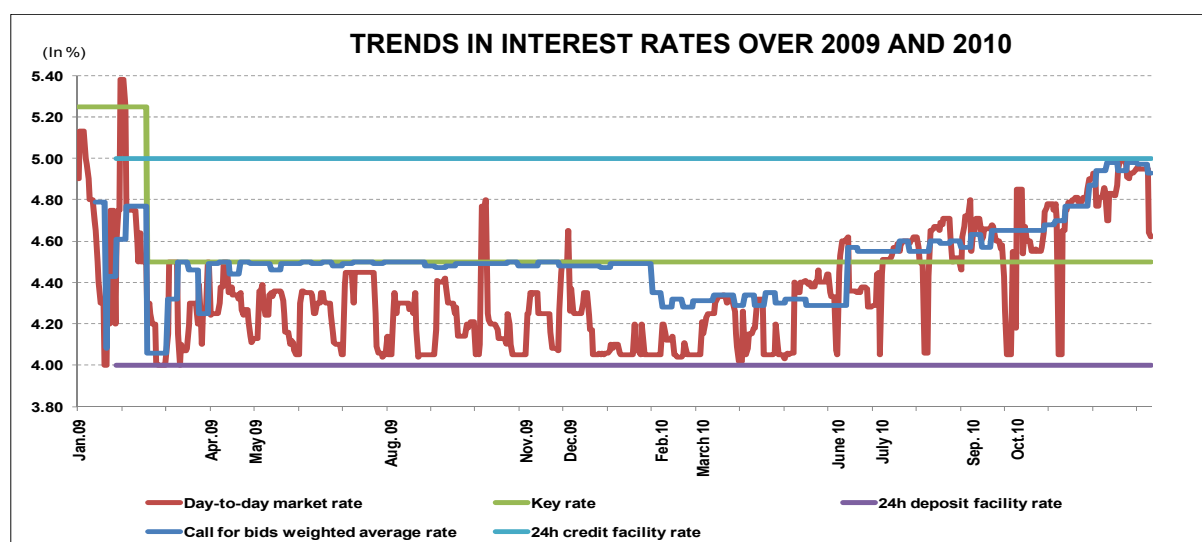


**MONETARY POLICY OPERATIONS IN TERMS OF AVERAGES OF THE PERIOD** (In MTD)

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
<b>Total</b>	<b>-756</b>	<b>921</b>

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

sales) a drop in private consumption (notably that of goods that are not destined to satisfy basic needs), with a preference for holding of liquidity, given the uncertainty reigning on prospects for economic trends.

On the monetary front, these events were accompanied by slower growth in the M3 aggregate over the first half of the year (3% vs. 4.7%) and change in the behaviour of non financial agents who prefer fiduciary holdings and other forms of liquid assets. In effect, available money (banknotes and coins in circulation) experienced an exceptionally high increase of 650 MTD in January, compared to just 40 MTD a year earlier. Furthermore, major drops were recorded that same month, both in certain savings products opened on the books of various banks and the Postal savings centre and in forward deposits and other financial products, in line with higher withdrawals and the search for liquid placements. This trend continued to reign through the end of the first half of the current year, although at a lower level, reflecting a degree of gradual recovery of confidence in the financial sector.

Financing of the economy grew by 7.9% in the first half of 2011, despite gloomy economic conditions. Such growth involved not only public enterprises but also financing of private companies in the form of commercial discount and overdrawn accounts including unpaid loans.

Net claims abroad posted a sharp drop (-37% vs. -6.6%), in line with widening of the current deficit, a drop in foreign direct investment, and the absence of external resources in the form of borrowings sought on international capital markets.

Economic and monetary trends over the first half of 2011 led the Central Bank to ease its monetary policy in order to relieve banks' cash position and support economic activity. The Issuing Institution decided on three occasions to lower reserve requirement rates<sup>1</sup>, which helped prop up banks' current accounts at the Central Bank in the amount of 1239 MTD.

#### TRENDS IN THE RESERVE REQUIREMENT RATES

(In %)

In effect since	Deposits of less than 3 months	Deposits with maturities varying between 3 and 24 months	Deposits with 24 month maturities or more	Special savings accounts
16/05/2002	2	1	-	1
29/11/2006	3.5	1	-	1
01/12/2007	5	1	-	1
01/05/2008	7.5	1	-	1
01/10/2008	10	2	-	1
02/01/2009	7.5	1	-	1
01/03/2010	10	1	-	1
01/05/2010	12.5	1.5	-	1
01/03/2011	10	1	-	1
01/04/2011	5	1	-	1
01/06/2011	2	0	-	0

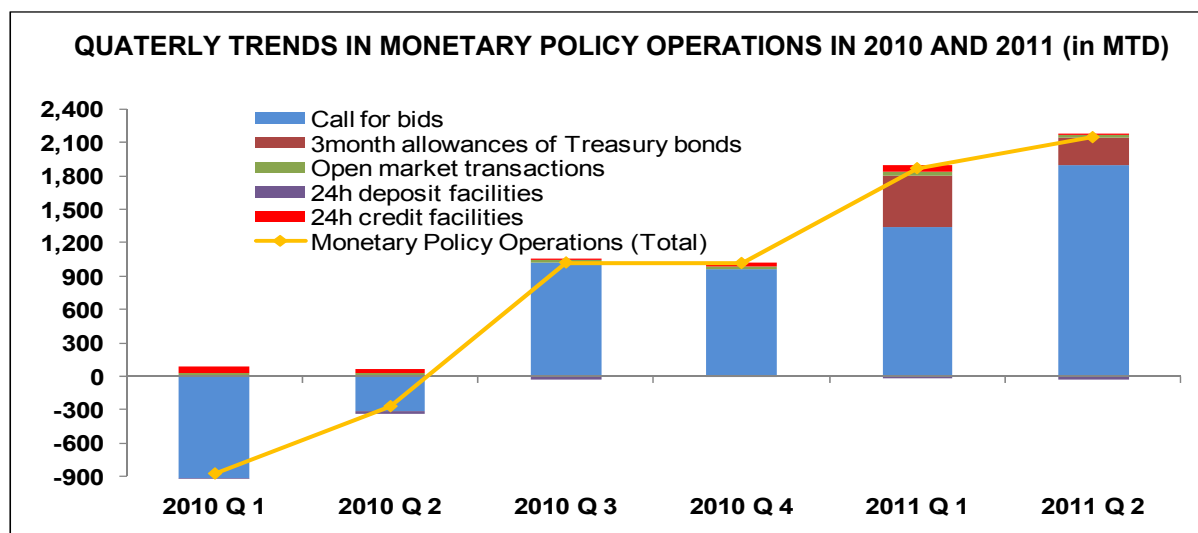
These measures were underpinned by the decision of the Central Bank's Executive Board to lower the key interest rate by 50 base points, from 4.5% to 4%, thanks to lower inflation to support economic activity and provide the financing needed by businesses to make up for the drop in the growth rate.

On the operational side, tight bank liquidity became more accentuated still over the first six months of 2011, influenced by the high increase in banknotes and coins in circulation needed to

<sup>1</sup> Cf. Central Bank of Tunisia circulars to banks n°2011-2 of 2 March 2011, n°2011-3 of 1 April 2011 and n°2011-7 of 26 May 2011.

cover household expenditure (influenced in turn by the urge to hoard) in the wake of the events that took place in mid January and the drop in net assets abroad in relation with the lower level of net assets in foreign currency.

Over the first half of 2011, in line with trends in the autonomous factors of liquidity, monetary policy operations went up considerably in order to meet the growing needs of banks. Amounts granted by the Issuing Institution in the framework of auctions through call for bids thus went up from 889 MTD on average in December 2010 to 2412 MTD in June 2011.



Transactions on the interbank compartment were affected by widening of the deficit in bank liquidity and they fell from 751 MTD on average in December 2010 to 485 MTD in June 2011.

**TRENDS IN FACTORS OF LIQUIDITY AND MONETARY POLICY OPERATIONS IN THE FIRST HALF OF 2011 (In terms of averages)** (In MTD)

Description	1 <sup>st</sup> quarter 2011	2 <sup>nd</sup> quarter 2011	Variation 2 <sup>nd</sup> quarter 2011 1 <sup>st</sup> quarter 2011*
<b>Banknotes and coins in circulation</b>	-6,328	-6,515	-187
<b>Net balance of administration</b>	-32	127	+159
<i>of which : Treasury current account balance</i>	-465	-466	-1
<b>Net assets abroad</b>	9,580	7,687	-1,893
<i>of which : Net assets in foreign currency</i>	12,418	10,578	-1,840
<b>Other net factors</b>	-3,640	-2,886	+754
<b>=Total autonomous factors (A)</b>	<b>-420</b>	<b>-1,587</b>	<b>-1,167</b>
Calls for bids	1,339	1,893	+554
1-7 day-allowance uptakes	0	0	0
Pawn of 3 month Treasury bonds	468	248	-220
Net tapping transactions	0	0	0
Open market transactions	26	26	0
Repurchase options	0	0	0
24 hour deposit facilities	-23	-34	-11
24 hour credit facilities	59	15	-44
<b>=Monetary Policy Operations (B)</b>	<b>1,869</b>	<b>2,148</b>	<b>+279</b>
<b>=Assets in banks current accounts (A)+(B)</b>	<b>1,449</b>	<b>561</b>	<b>-888</b>

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

Interest rates on the money market were affected by the various dispositions taken over this half of the year. Day to day interest rates fluctuated between 3.54% and 4.96%, although it slipped

below 4% only after the decision to lower the key rate at the end of June. This was a decision that also affected the corridor of fluctuation in market rates, ranging from the 24 hour deposit facility rate (threshold) to the 24 hour loan facility rate (ceiling), the new limits of which are now set at between 3.5% and 4.5%.

#### SECTION 4 – DISTRIBUTION OF CREDIT

The outstanding balance of loans exclusive of endorsements and guarantees granted by the financial system to the economy, as recorded in the credit registry and individual loan registry, amounted to 43 billion dinars at the end of 2010, an increase of 18.5%, well above the 7.8% figure from the year before. This increase was attributable mainly to the higher outstanding balance of medium and long term loans, which represents 57.8% of the overall outstanding balance.

Loans recorded by the financial system went to almost 302,000 companies and more than 983,000 private individuals, an increase of 10,000 companies and 43,000 individuals compared to the 2009 figures.

#### BREAKDOWN OF THE OUTSTANDING BALANCE OF LOANS TO THE ECONOMY BY BENEFICIARY, BY SECTOR AND BY TERM

(In MTD unless otherwise indicated)

Description	2009	2010	June 2011	Variation (in %)	
				2009/2008	2010/2009
<b>Loans to professionals</b>	<b>27,532</b>	<b>32,353</b>	<b>34,606</b>	<b>8.1</b>	<b>17.5</b>
<b>Agriculture &amp; fishing<sup>1</sup></b>	<b>1,340</b>	<b>1,506</b>	<b>1,585</b>	<b>6.6</b>	<b>12.4</b>
Short term	807	859	906	2.7	6.4
Medium & long term	533	647	679	13.2	21.4
<b>Industry</b>	<b>9,935</b>	<b>11,568</b>	<b>12,489</b>	<b>2.9</b>	<b>16.4</b>
Short term	6,233	7,202	7,719	-1.8	15.5
Medium & long term	3,702	4,366	4,770	12.0	17.9
<b>Services</b>	<b>16,257</b>	<b>19,279</b>	<b>20,532</b>	<b>11.6</b>	<b>18.6</b>
Short term	7,109	8,193	9,064	-0.4	15.2
Medium & long term	9,148	11,086	11,468	23.2	21.2
<b>Loans to individuals</b>	<b>8,813</b>	<b>10,702</b>	<b>11,531</b>	<b>19.6</b>	<b>21.4</b>
<b>Consumer loans</b>	<b>2,177</b>	<b>2,323</b>	<b>2,333</b>	<b>-6.2</b>	<b>6.7</b>
Short term	1,828	1,902	1,911	-8.7	4.0
Medium & long term	349	421	422	9.7	20.6
<b>Housing loans</b>	<b>6,636</b>	<b>8,379</b>	<b>9,198</b>	<b>31.5</b>	<b>26.3</b>
Medium & long term	6,636	8,379	9,198	31.5	26.3
<b>Total</b>	<b>36,345</b>	<b>43,055</b>	<b>46,137</b>	<b>10.7</b>	<b>18.5</b>
Short term	15,977	18,156	19,600	-1.8	13.6
Medium & long term	20,368	24,899	26,537	23.0	22.2

The outstanding balance of loans granted as of end 2010 by the financial system, broken down by category of beneficiary, shows a drop in the share of loans to professionals, posting 75.1%. This was caused by the lower volume of loans to industry (a drop of 0.4 percentage point) and agriculture/fishing (a drop of 0.2 percentage point). Consequently, the share of loans to private individuals increased to 24.9% (up from 24.2% in 2009), influenced by the higher share of housing loans, which account for 78% of the outstanding balance of loans to individuals.

Loans granted by the financial system to the economy would have been more important if it had not been for transactions by certain banks to write off and sell claims to collection companies, involving 95.7 MTD. There was also increasingly common recourse by companies to issuing

<sup>1</sup> This concerns loans granted directly to farmers and fishermen.