



البنك المركزي التونسي
Banque Centrale de Tunisie

*Letter of introduction to the 52nd Annual Report
of the Central Bank of Tunisia*

presented to

*His Excellency the Interim President
of the Republic of Tunisia*

*on behalf of the Board of Directors of the
Central Bank of Tunisia*

by

Mustapha Kamel NABLI

Governor

Mr. President,

In accordance with law n°58-90 concerning the setting up and organisation of the Central Bank of Tunisia, as modified by law n°2006-26 of 15 May 2006, I have the honour of submitting to you the Bank's 52nd annual report concerning the fiscal year 2010. This report provides a concise analysis of the main economic trends in Tunisia and throughout the world and presents the institution's activities and financial statements for the year. Given the significant developments that took place in the country after the 14 January 2011 Revolution, the report also summarises events in the first half of 2011.

Mr. President

The Tunisian economy evolved in 2010 in an international environment marked by recovery in the world economy, led to a large degree by more dynamic activity in emerging economies, while a return to economic activity remained hesitant in the main advanced countries. The pace of recovery in the countries of the European Union, Tunisia's primary economic partner, was adversely affected by budgetary austerity measures made necessary by the sovereign debt crisis in a number of countries. Still, the world economy managed to grow by 5.1%, similar to levels recorded prior to the economic and financial crisis of 2008-2009.

In this context, Tunisia's economy posted a growth rate of just 3%, influenced by a drop of almost 9% in real terms in agriculture and fishing while output in industry and services went up marginally. Unemployment thus remained at about 13%, a figure that does not fully reflect considerably higher levels for graduates of higher education and especially for those living in the interior of the country.

The low level of economic growth and higher world prices for commodities, in particular foodstuffs and energy, led to a worsening of macroeconomic balances. The current account deficit widened to 4.8% of GDP (vs. 2.4% on average over the previous five years), in line with a growing trade deficit and slowing export of services. These developments, in conjunction with declining foreign direct investment, had a negative impact on the balance of payments and consequently on reserves in foreign currency,

which fell to the equivalent of 147 days of imports. This illustrates the external sector's vulnerability to unstable commodity prices on the one hand and volatile international financial markets on the other, posing the problem of the medium term sustainability of Tunisia's external position. The inflation rate rose to 4.4%, well above the average for the previous five years. On the other hand, the budgetary deficit came to just 1.3% of GDP, thanks to a higher level of core resources and expenditure that grew more slowly, especially for investment and net loans.

These developments, which reflect the structural vulnerability of Tunisia's economy (notably the insufficient level of private investment, the low rate of economic integration both by sector and by region as well as stagnation in export market shares), highlight the limits of the growth dynamic and of its capacity to meet the challenge of bringing down unemployment, notably that of young graduates.

Mr. President

The 14 January 2011 Revolution, based on the universal values of dignity, liberty, democracy and social justice, has opened broad prospects for economic development and social progress over the medium term, through private initiative undertaken without constraint, an enabling business environment, and renewed commitment to the values of merit and equity. Still, in the short term, the economic and social environment remains strained, affected by falling production and exports in the opening months of 2011, suffering from insecurity as well as political and social instability, especially in certain key sectors such as energy, mining and tourism. This was further complicated by the impact of events in Libya, Tunisia's primary economic partner in the region.

Faced with these developments, Tunisia's monetary authority has done its utmost from the beginning of the year to ensure the continuity and normal functioning of financial services and the sustainability of payment systems both in dinars and in foreign currency by providing the liquidity needed for banks. It accompanied the emergency economic and social programme drawn up by the government by adopting accommodating monetary policy that favours assistance to businesses and preservation of the production apparatus with a view to maintaining jobs. In this framework, banks'

cash position and consequently their ability to provide financing needs was further improved by lowering the reserve requirement rate from 12.5% to 2%, while businesses enjoyed some relief in the area of financial costs thanks to lowering by the Central Bank of its key rate from 4.5% to 3.5%. Thus financing of the economy has gone up by more than 10% since the beginning of the current year.

These various efforts, in the wake of declining growth over the first half of 2011, are showing promise of better economic conditions, as reflected in renewed growth in production and exports in those sectors hardest hit in previous months. Still, despite this positive turn of events, growth in 2011 is likely to remain fairly stagnant, which means higher unemployment and a worsening of macroeconomic balances.

Mr. President

The current period of political and economic transition that followed the Revolution constitutes a decisive turning point in the history of Tunisia. The democratic process to which the Tunisian people (particularly young people) aspire will succeed only if economic and social conditions are favourable, which in turn depends on the visibility of political prospects. The crucial challenge is to quickly make up for the loss of economic activity and then launch an economic programme commensurate with the country's ambitions, a programme capable of boosting economic performance and ensuring strong and inclusive growth and makes the most of Tunisia's many strengths, notably the high quality of its human resources, its strategic positioning and the establishment of a democratic system of governance. The major challenges concern adapting to world economic environment as well as reconfiguration of the country's economy at the sectoral and regional levels.

The stabilization of economic situation will have to be gradual, given how difficult it is to predict the evolution of the international and regional environment or the time required to make the transition to democracy and to set up new institutions. This will require the renewed confidence of all economic operators both inside the country and abroad and encourage the private sector's commitment to investments that will structure and create activities leading to sustainable jobs. To this end, the State

will have to assign budgetary resources to maintain social stability while also boosting properly targeted investment for infrastructure and a wide range of initiatives.

In this framework, the Central Bank of Tunisia, recognising the decisive role of the banking and the financial sector at this crucial time of transition toward a more solid and high-performing economy, affirms its commitment to doing its utmost to reach this objective, with due attention to all the factors that affect financial stability. It will move ahead to modernise monetary policy and upgrade the banking system by consolidating its financial resources, reforming its governance, and strengthening its capacity for management and risk assessment, so as to effectively back up economic operators and enterprises in their efforts to generate wealth and jobs and to contribute to the success of this critical stage in Tunisia's history.

Mustapha Kamel NABLI

Governor