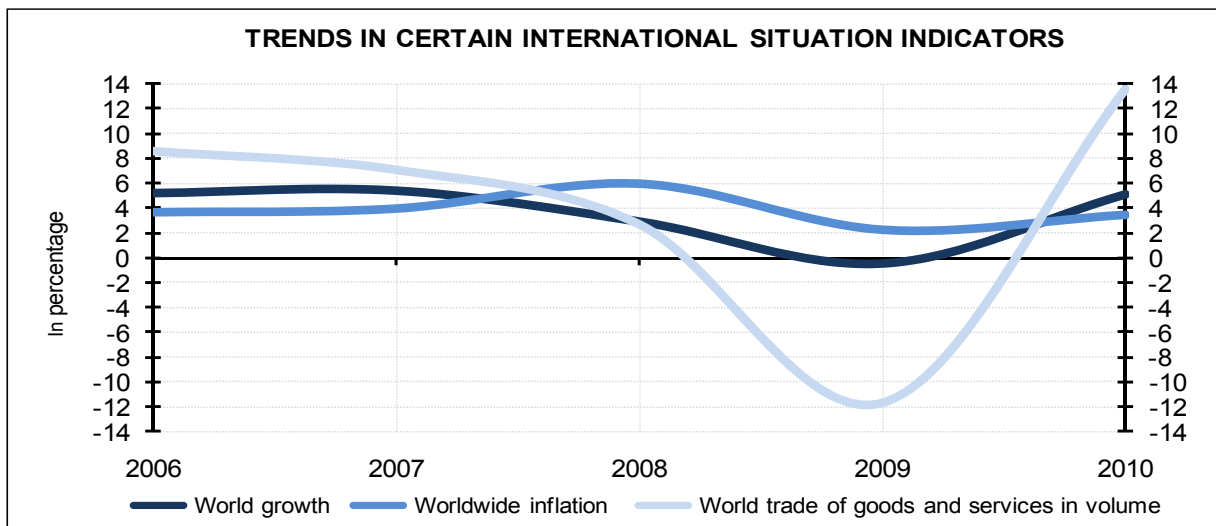


CHAPTER 1 - INTERNATIONAL ENVIRONMENT

SECTION 1 – INTERNATIONAL SITUATION

The world economy started to gradually recover in 2010, following 0.5% recession in the previous year, thanks to implementation of expansionary monetary policies and continuation of budget recovery programmes. Growth, stimulated in particular by growing international demand, came to 5.1%, comparable to figures prior to the world economic and financial crisis that began in 2008. Recovery was stronger in emerging and developing countries, while return to normal activity was more sluggish in developed countries, especially those that make up the Euro Zone, affected by the sovereign debt crisis that struck a number of countries. Unemployment remained high, coming to an average of 6.2% worldwide (compared to 6.3% in 2009), which had an impact on trends in private consumption.

Favoured by renewed economic activity and growing international demand, the volume of world trade in goods and services posted high 12.4% growth, following a drop of 10.8% the year before. This was far more advantageous for emerging and developing countries than for developed countries. But along with this trend, commodity prices soared, particularly for energy and foodstuffs, aggravated by the disruption that continued to mark the world market supply and adverse weather conditions in a number of producing countries, which led to faster growing inflation at an average of 3.4% vs. 2.2% a year earlier.



Source : IMF international financial statistics

At the same time, international capital and foreign exchange markets were hit by volatility in stock market indexes and by depreciation of the euro against the dollar, under the influence of persistent uncertainty about economic prospects and worsening of public indebtedness and of the budget deficit in a number of European countries.

The world economy continued to grow **in 2011**, although at a slower pace than the year before, due in particular to soaring commodity prices (especially for crude oil), an end to budget support measures, and implementation of austerity programmes in several developed countries, along with fallout from the earthquake in Japan and political unrest in the Middle East and North Africa. As per IMF forecasts for June 2011 world growth is projected at a lower 4.3% rate for developed countries as well as emerging and developing countries.

1. Economic activity

After a 2009 year marked by flat economic activity and deterioration of financial balances, the economies of **developed countries** in 2010 experienced gradual recovery that allowed for +3% growth, due essentially to growing exports and corporate investment. After significant slowdown of economic growth in 2009 due to fallout from the world financial crisis, **emerging and developing countries** enjoyed a considerable improvement in the growth rate, up from 2.8% to 7.4%, in line with dynamic domestic demand and recovery in international demand.

In developed countries, **the United States of America**, the world's leading economic power, posted higher growth, notably in the second half of 2010. This was due to strong investment by businesses and good export performance, which benefited from more favourable financing conditions and recovery in the financial sector. Thus, the growth rate for 2010 was 2.9%, compared to 2.6% in recession over 2009. With a deteriorated public finance situation that led to sovereign rating downgrading by Standard and Poor's, the pace of economic growth in this country would slowdown in 2011. This would weigh on financial balances and affect world growth.

TRENDS IN THE MAIN ECONOMIC INDICATORS IN THE WORLD

Description	Economic growth (in volume & %)			Unemployment (in % of working population)		
	2009	2010	2011 ¹	2009	2010	2011 ¹
Developed countries	-3.4	3.0	2.2	8.0	8.3	7.8
<i>of which :</i>						
<i>United States</i>	-2.6	2.9	2.5	9.3	9.6	8.5
<i>Japan</i>	-6.3	4.0	-0.7	5.1	5.1	4.9
<i>United Kingdom</i>	-4.9	1.3	1.5	7.5	7.8	7.8
<i>Euro Zone</i>	-4.1	1.8	2.0	9.5	10.0	9.9
<i>of which :</i>						
<i>- Germany</i>	-4.7	3.5	3.2	7.5	6.9	6.6
<i>- France</i>	-2.6	1.4	2.1	9.5	9.7	9.5
<i>- Italy</i>	-5.2	1.3	1.0	7.8	8.5	8.6
Emerging & developing countries²	2.8	7.4	6.6
<i>of which :</i>						
<i>- China</i>	9.2	10.3	9.6	4.3	4.1	4.0
<i>- Russia</i>	-7.8	4.0	4.8	8.4	7.5	7.3
<i>- India</i>	6.8	10.4	8.2
<i>- Brazil</i>	-0.6	7.5	4.1	8.1	6.7	6.7
<i>- Tunisia</i>	3.1	3.0	0.2	13.3	13.0	14.5

Sources : World Economic Outlook and IMF International Financial Statistics, Eurostat and Ministry of Planning and International Cooperation

In the **Euro Zone**, Tunisia's main economic partner, there was moderate growth of 1.8% in 2010, compared to -4.1% the year before. This occurred despite good export performance, stimulated by higher world demand and depreciation of the euro. As for domestic demand, corporate investment went up as profits rose while household consumption was adversely affected by higher unemployment and the budget austerity measures adopted by a number of countries facing a public debt crisis. Among the main economies in the Euro Zone, recovery was particularly strong in **Germany**, in line with higher demand (both domestic and external), but weak in other countries such as **France** and **Italy**.

¹ Forecasts.

² For this group of countries and as per estimates of the International Job Organization, the unemployment rate varied in 2010 between a minimum of 4.3% in South Asia and a maximum of 10.3% in the Middle East (9.8% in North Africa).

Those countries suffering from the sovereign debt crisis, notably Greece, Ireland and Portugal, were obliged to introduce budget austerity programmes, which put their economies in recession.

For 2011, economic expansion in the Euro Zone is expected to be about 2%, slightly higher than in 2010, despite the impact on domestic demand of the budget austerity measures being pursued by a number of member countries.

Taking advantage of favourable evolution of demand (both domestic and external), **emerging and developing countries** saw a considerable increase in their growth rate in 2010, notably in **Asia** (9.6%). This progress was supported by ongoing economic recovery plans and accommodating monetary policies along with renewed external capital flows. **China's** economy in particular, which is increasingly gaining ground on the world scene, continued to post rapid growth of 10.3% (up from 9.2% a year earlier), following robust domestic demand and dynamic exports.

In other regions, the **Middle East and North Africa** enjoyed a higher growth rate of 4.4% (up from 2.5% in 2009), taking advantage of a more favourable international environment and higher prices for exports, especially energy exports.

2. World trade

Stimulated by recovery in economic activity and international demand as well as better financing conditions after a year marked by fallout from the economic and financial crisis, the volume of world trade in goods rose in 2010 by 13.6%, up from a drop of 11.7% a year earlier. In terms of value, world export of merchandise, expressed in dollars, increased at a noteworthy rate of 21.4% (following a decrease of 22.2% a year earlier) to 14,986 billion dollars or the equivalent of some 24% of world GDP, in line with an increase in both quantity and prices. In terms of trade, figures dipped slightly in developed countries, contrary to 2009, and remained virtually unchanged in emerging and developing countries, despite higher prices for exported commodities.

World exports in services enjoyed an 8.3% increase in value after 11.5% decrease the previous year's, coming to 3727 billion dollars. This increase was due in particular to renewed activity in the sectors of international finance, tourism, and air transport.

For 2011, it is expected that international trade will grow at a slower pace, affected by the adverse effects of the earthquake on Japan's economy, events in the Middle East and North Africa, ongoing price hikes for commodities, and budget austerity plans in a number of advanced countries, notably European.

3. International investment

International investment flows recovered some of the ground lost in 2009, going up by 13.2% to 1346 billion dollars. This increase was much greater for emerging and developing countries (22.7%) than for developed countries (13.2%), thanks to the interest shown by transnational companies about doing business in promising new markets. But advanced countries continued to attract almost three quarters of these investment flows. Indeed, investment in Africa fell by 11%, its share decreasing in the wake of fallout from the world economic and financial crisis, bringing the figure down to some 0.3% of total or 4 billion dollars (vs. 0.4% or 4.5 billion dollars in 2009).

Trends in international investment continued to be closely tied to trends in international corporate merger-acquisition transactions, which were up by 23% compared to 2009, involving 2434 billion dollars, after a drop of some 28% a year earlier. This increase was due in particular to clearing up of finances, corporate restructuring, as well as better financing conditions. The energy sector received the highest share of overall funds (20%), followed by the financial sector (15%). By region, the American continent and Europe continued to take in the major portion of these operations, at some 75% of total.

For 2011, international investment flows and corporate merger-acquisition operations would continue to increase, in line with favourable prospects for the world economy, higher profits for large corporate groups, as well as ongoing efforts to restructure and privatise businesses.

4. Monetary policies

In order to support recovery in economic activity, which was a priority worldwide, central banks (especially those in industrialised countries) continued to adopt very flexible monetary policies, maintaining key interest rates at very low levels (0 to 0.25% in the United States, 1% in the Euro Zone and 0.1% in Japan) and by recourse to non conventional measures, notably in the form of programmes to purchase public and private securities. The **US Federal Reserve** decided at the beginning of August 2010 to purchase public securities, reinvesting the influx of funds from repayment of debt by government mortgage refinancing agencies and from securities backed up by these agencies' mortgage claims. In November it also committed to a supplementary programme to buy 600 billion dollars in long term public securities going through the second quarter of 2011.

After emergence of the sovereign debt crisis in a number of countries in the Euro Zone, the **European Central Bank** decided to return back to the system for integral auction at a set interest rate for all refinancing operations and set up a programme to purchase public and private claims on the secondary market of the stock exchange, involving 73.5 billion euros. The ECB also reactivated the foreign currency swap arrangement with other central banks, in order to ensure that the liquidity in USD required by banks having positions in this currency is available to them.

The Bank of Japan in early October 2010 introduced more flexible monetary policy, reducing its already very low key interest rate to between 0 and 0.1%, allotting 5000 billion yen (the equivalent of 43 billion euros) for the purchase of public and private securities.

Long term yield rates on bond markets remained low for the most part, influenced by investor preference for assets carrying less risk, in a context of uncertain economic prospects in industrialised countries. This led to a downward trend for these rates, in the wake of new programmes at central banks to purchase public securities in the framework of quantitative easing of their monetary policies as well as reconstitution of major reserves in foreign currencies in a number of emerging countries. But long term yields in European countries soared, influenced by greater concern about sovereign risk, especially after downgrading of ratings for some of these countries by international rating agencies.

And while the trend prior to the end of 2010 was toward tighter monetary policy in certain developed and emerging countries in a context marked by increasing economic activity and growing inflation, pressure on the pace of economic recovery led central banks in certain industrialised countries such as the US and Japan to pursue in 2011 an accommodating monetary policy, with a view to boosting economic activity, especially since core inflation remains moderate. On the other hand, the European Central Bank raised its key rate on two occasions in April and July 2011 in order to keep prices stable.

TREND IN CERTAIN FINANCIAL INDICATORS IN THE WORLD

Description	Current balance (in % of GDP)			Budget balance (in % of GDP)			Inflation (variation in consumer prices in %) ¹		
	2009	2010	2011 ²	2009	2010	2011 ²	2009	2010	2011 ²
Developed countries	-0.3	-0.2	-0.3	-8.6	-7.6	-6.9	0.1	1.6	2.6
<i>of which :</i>									
<i>United States</i>	-2.7	-3.2	-3.2	-12.7	-10.6	-10.8	-0.3	1.6	2.2
<i>Japan</i>	2.8	3.6	2.3	-10.3	-9.5	-10.0	-1.4	-0.7	0.2
<i>United Kingdom</i>	-1.7	-2.5	-2.4	-10.3	-10.4	-8.6	2.1	3.3	4.2
<i>Euro Zone</i>	-0.2	0.1	0.0	-6.3	-6.1	-4.4	0.3	1.6	2.3
<i>of which :</i>									
<i>- Germany</i>	5.0	5.3	5.1	-3.0	-3.3	-2.3	0.2	1.2	2.2
<i>- France</i>	-1.9	-2.1	-2.8	-7.6	-7.7	-6.0	0.1	1.7	2.1
<i>- Italy</i>	-2.1	-3.5	-3.4	-5.3	-4.6	-4.3	0.8	1.6	2.0
Emerging & develop- ing countries	1.8	1.8	2.7	-4.2	-2.9	-1.5	5.2	6.1	6.9
<i>of which :</i>									
<i>- China</i>	6.0	5.2	5.7	-3.1	-2.6	-1.6	-0.7	3.3	5.0
<i>- Russia</i>	4.1	4.9	5.6	-6.3	-3.6	-1.6	11.7	6.9	9.3
<i>- India</i>	-2.8	-3.2	-3.7	-9.4	-9.0	-8.0	10.9	13.2	7.5
<i>- Brazil</i>	-1.5	-2.3	-2.6	-3.1	-2.9	-2.4	4.9	5.0	6.3
<i>- Tunisia</i>	-2.8	-4.8	-5.9	-3.0³	-1.3³	-4.6³	3.5	4.4	3.6

Sources : World Economic Outlook and IMF International Financial Statistics. Eurostat. Ministry of Planning and International Cooperation and National Statistics Institute

5. Public finance

After undergoing strong pressure in 2009, under the influence of a world economic and financial crisis that required implementation of major budget recovery plans and recapitalisation of banks, public finance in 2010 enjoyed slight improvement overall. Thus, following an increase in tax receipts (boosted by economic recovery) and lower outlays for measures to support and re-launch the economy, the budget deficit in **developed countries** posted 7.6% of GDP on average, compared to 8.6% in 2009. This was the case for the **United States**, **Japan** and the **Euro Zone** as a whole and it is expected to continue and thus help boost financial balances.

Inversely, the budget deficit remained high in the **United Kingdom**, coming in at over 10% of GDP for the second straight year, as well as in those member states of the Euro Zone that were hardest hit by the sovereign debt crisis, such as Greece, Ireland, Spain and Portugal, despite draconian budget austerity programmes.

In **emerging and developing countries**, the budget deficit narrowed for the most part, from 4.2% of GDP in 2009 to 2.9% in 2010, with variations from one country to another.

Deficits in public accounts are expected for the most part to continue on a downward trend in 2011, in developed as well as emerging/developing countries, in the wake of an end to economic support measures and the austerity programmes implemented in a number of advanced countries.

¹ Price index base 100 in 2005.

² Forecasts.

³ Excluding privatization and grants and as per complementary finance law forecasts.

6. Inflation

After a year marked by deflation in the main advanced countries, inflationary pressure reappeared in 2010, notably in the second half, affected by soaring world prices for commodities, particularly energy and foodstuffs. Thus consumer prices went up by 1.6% on average in **developed countries** after virtual stagnation in 2009.

Similarly, inflation increased somewhat in **emerging and developing countries**, up from 5.2% in 2009 to 6.1% in 2010 on average, leading some countries (like China) to tighten monetary policy to reduce the risk of overheating their economies.

Over the first half of 2011, and in light of disruptions in supply but still high demand, notably in emerging countries, the increase of international prices for commodities (especially energy and foodstuffs) exerted higher pressure on consumer prices in both advanced and emerging/developing countries, fanning thus inflation.

SECTION 2 - CAPITAL MARKETS

2010 was marked by volatility of the main international stock exchanges indexes, with globally an upward trend. The MSCI¹ world index rose by 9.55% for the year.

In the United States, stock exchanges posted major gains: S&P-500 +19.85%, Dow Jones +11%, and Nasdaq Composite +16.9%. Such performance reflects renewed interest in risky assets, helped in particular by the Fed's active policy of quantitative easing.

Stock exchanges in Europe posted differing performance. The CAC 40 fell by 3.34%, due to high exposure of French banks to Greek credit risk. German and British stock exchanges went up over the year, in line with sound economic performance : Dax 30 +16.06% and FTSE 100 +9%. The markets of southern Europe, deeply involved in the debt crisis, had a bad year, with the Greek stock market falling by more than 35% and the Spanish IBEX 35 down by 17.43%.

In Japan, the Tokyo stock exchange closed for 2010 with a drop of 2.26%. The NIKKEI 225 suffered from a strong yen and its adverse impact on export value performance.

As for stock exchanges in emerging countries, the MSCI world index for emerging stocks rose by 16% in 2010, far lower than the previous year's growth rate of 74%.

Globally, the main stock exchange markets pursued over the **first half of 2011** an upward trend in the wake of regain of confidence in the economic recovery of the western countries. The US stock indexes recorded some 7% in gains for Dow Jones and 4.5% for Nasdaq Composite. As for the European markets, and over the considered period, Dax progressed by 6.6%, Cac 40 by some 4.7%, while FTSE posted a virtual standstill. Nikkei was the only index to post a decrease (some 9.6%) over the first quarter of 2011 in the wake of the natural disaster that ravaged the Japanese Archipelago.

The international bond market, after a short period of loss, posted higher yields as economic prospects improved in the United States, with a rate for ten-year US bonds reaching a peak for the year of 3.99% on 5 April for the first time since June 2009, compared to 3.61% in February.

This trend reversed in the second half of the year, with the ten-year rate for US bonds hitting a low for the year of 2.38%, influenced by a series of negative economic indicators in the United States and announcement by the Fed of a new programme to purchase \$ 600 billion in long term Treasury securities. Still, the yield for ten-year US bonds managed to check its losses to close for the year at 3.30%, in line with optimistic outlook of the world economic growth.

¹ MSCI : Morgan Stanley Capital Index.