

**DEVELOPMENT OF TUNISIA'S
ECONOMIC ACTIVITY**

GLOBAL TRENDS IN ECONOMIC ACTIVITY

2008 was marked by intensification, starting in September, of the financial crisis that began in 2007 under the impact of the subprime crisis in the United States and its spreading to most advanced and emerging countries. This led to drying up of bank liquidity and loans, sharp downturns on stock markets, and bankruptcy at major financial institutions. As a result, the world economy suffered from overall slowdown and the beginning of recession in the main industrialised countries.

In Tunisia, although the financial sphere was spared from the repercussions of this crisis, the economic activity - wide open to the outside world - could not help but be affected by the record increase in world commodity prices (especially for energy and cereals) over the first half of 2008 and the drop, starting in October, in foreign demand for the goods turned out by Tunisia's main exporting sectors, notably textiles/clothing and mechanical/electrical industries.

Despite these adverse circumstances, the Tunisian economy managed to post a 2008 growth rate of 4.6% in real terms, compared to 6.3% a year earlier. This was made possible by robust foreign trade and strong domestic demand, notably household consumption and private investment, mainly with major foreign direct investment (FDI) flows boosted by reforms and an enhanced business environment.

Exclusive of agriculture and fishing, which experienced a slower pace in added value in real terms (0.1% vs. 3.3% in 2007), the economy grew by 5.2%, down from 6.7% the year before. This was due in particular to the strong performance of market services, which posted 7.6% growth vs. 8.2% a year earlier, contributing 3.3 percentage points to real GDP growth, just slightly less than the 2007 figure of 3.5 percentage points. There was higher growth for transport (5.5% vs. 5.3% in 2007) and tourism (4% vs. 3.5%). There was also strong although slower growth in the communications sector: 17.7% vs. 20%.

Industrial growth came in at a slower 2.7% rate, following 2007's remarkable increase of 7.7%. Slower growth was posted by manufacturing industries (4.2% vs. 6.8%), notably mechanical/electrical industries (8.4% vs. 15.1%) and textiles/clothing-leather/footwear (2% vs. 5.7%), influenced by lower demand from abroad over the closing months of 2008. On the other hand, agrofood industries as well as building material, ceramics and glass industries posted sustained growth. Growth was down in non manufacturing industries, from 9.2% in 2007 to 0.3% in 2008, affected by negative growth in mining (-4% vs. 1% in 2007) and hydrocarbons (-6.5% vs. 22.5%), due in particular to lower production of lime phosphates and crude oil. Overall, the contribution of the industrial sector to economic growth fell in 2008, posting 0.7 percentage point (15.9%) compared to 2.1 percentage points or 32.9% a year earlier.

Despite the slower pace of economic growth, and taking into consideration the increase in net current foreign transfers (mainly savings on wages sent home by Tunisians living abroad), average per capita income rose in 2008 at a faster pace than the year before (8.8% vs. 8.3%), to almost 4,832 dinars or about 3,926 dollars. This helped improve the standard of living for the population at large, which in turn boosted the economy.

Gross fixed capital formation (GFCF) rose in 2008 by 14.8% in current prices vs. 12.7% a year earlier, to 12,520 MTD. This translated into an increase in the investment rate from 23.9% of GDP in 2007 to 24.9% in 2008. The private sector's contribution to the national investment effort has continued to rise, up from 60% in 2007 to 62% in 2008, thanks to reforms targeting a better business environment, greater private initiative, and setting up of new businesses.

The higher level of investment went in particular to non manufacturing industries, mainly hydrocarbons and mining, manufacturing industries, in particular, building material, ceramics and glass industries, chemical industries, market services such as transport, trade and miscellaneous services as well as utilities.

There was a considerable increase in FDI, up by 64.1% between 2007 and 2008 to some 3,399 MTD, 27.1% of overall GFCF. This increase went in large part to the energy sector (65.6% share in 2007, 57% in 2008) and manufacturing industries (23.5% share in 2007, 19% in 2008).

At the same time, national savings grew considerably (10.9% vs. 12.8% in 2007) to 11,664 MTD. Thus the savings rate expressed as a ratio of gross national available income (GNAI) rose from 23.1% in 2007 to 23.3% in 2008. But the domestic financing rate for investment fell slightly, from 96.4% in 2007 to 93.2%.

Global final consumption expressed in current prices went up steadily, at a rate very near that of nominal GDP: 9.7% and 10.3% respectively, up from 8.5% and 10.2% in 2007. Private consumption in particular enjoyed sound growth (10.3% vs. 8.6% last year), representing some 62% of GDP.

79,800 new jobs in fishing and non agricultural activities were created in 2008, a somewhat lower number than 2007's 80,000. Given the slight increase in additional job demand (estimated at about 88,300 vs. 87,000 a year earlier), the rate of coverage by newly created jobs went down, dropping from 92% in 2007 to 90.4% in 2008. But the unemployment rate remained stable at 14%, vs. 14.1% the year before.

Influenced by higher consumption and a considerable increase in commodity prices over the first half of 2008 under the impact of imported inflation, domestic prices rose at a faster pace, both at the level of production and of retail sales. Thus despite some easing starting in August, the inflation rate rose from 3.2% in 2007 to 5% in 2008.

Excluding food and energy, with the world prices reaching record high levels in 2008, the increase in the general price index for household consumption was very near the 2007 figure of 3.3% on average, vs. 3.1%. Prices were kept down thanks to higher production of most agricultural products, rational use of budgetary funds, an increase in subsidies by the general equalisation fund in order to maintain purchasing power, and the conduct of monetary policy that seeks to ensure sufficient financing for the economy and price stability.

As for external payments, trade continued to increase significantly in 2008, at 21.8% for exports and 23.8% for imports, vs. 24.8% and 22.2% in 2007. This meant a 31.4% (1,577 MTD) increase in the trade deficit, with a subsequent 1.2 percentage point drop in the rate of coverage to 6,604 MTD (78.2%).

Slightly slower growth in exports was attributable to the textiles/clothing sector (-0.2% vs. 16.4% in 2007), mechanical/electrical industries (18.3% vs. 30.9%) and energy (30% vs. 55.5%). Inversely, exports were up for chemical industries (96.7% vs. 22.3% a year earlier) because of the high increase in prices for phosphate by-products on the world market as well as for foodstuffs (14.5% vs. 1%).

The significant increase in imports, due at least in part to higher prices and appreciation of the euro, involved in particular energy products (63.7% vs. 5% in 2007) and raw materials/semi-finished products (30.2% vs. 27.3%). On the other hand, import of other categories of goods grew at a slower pace, notably consumer goods (5.8% vs. 15%) and capital goods (11.4% vs. 25.6%).

Moreover, following better performance in the main parameters of tourism, illustrated by respective increases of 4.2% and 1.5% in the number of non resident entries and bednights (vs. 3.2% and 1.3% in 2007) to more than 7 million tourists and 35 million bednights, income in foreign currency generated by tourism rose by 10.2% in 2008 (compared to 8.9% the year before) to 3,390 MTD. This amount represents more than 51% of the deficit in the balance of trade, down from 61% a year earlier.

Work remittances came to 2,436 MTD, an increase of 10.8% in 2008, vs. 9.4% the previous year. This helped limit the impact of the increase in capital income expenditure on the widening deficit in the balance of factor income.

Thus the current deficit increased by 934 MTD in 2008, coming to 2,109 MTD or 4.2% of GDP vs. 2.6% in 2007. This was due in particular to a widening of the trade deficit, which was only partially offset by improvements in the balance of services and the level of work remittances. Still, this deficit was largely covered by net capital inflows, which almost doubled between 2007 and 2008, reaching 4,022 MTD, following a net increase in FDI flows along with a drop in expenditure for repayment of principal on medium and long term debt.

The general balance of payments posted an impressive surplus of 2,053 MTD, compared to 883 MTD a year earlier, which helped boost the level of net assets in foreign currency. The latter came to 11,656 MTD at the end of 2008, the equivalent of 139 days of imports, compared to 9,582 MTD and 141 days at the end of the previous year.

Furthermore, the rate of foreign indebtedness dropped slightly, down from 43.4% of GNDI (gross national disposable income) in 2007 to 42.6% in 2008. This was facilitated by the absence of further borrowing on the international financial market. Similarly, the debt service ratio dropped considerably, to 7.7% of current income of the balance of payments, down from 11.7% in 2007.

On the monetary front, the M3 aggregate posted an increase of 14.4% at the end of 2008 vs. 12.5% a year earlier. In terms of monthly averages, the increase came to 14.8% for a growth rate of 10.3% for nominal GDP, corresponding to a 2.5 percentage points increase in the economy's liquidity rate, amounting to 64.4%.

Counterparts of monetary resources were marked by a considerable increase in net claims abroad, influenced mainly by the higher volume of FDI and of exported goods and services and by a sustained increase in financing to the economy (13.5% vs. 9.6% in 2007). On the

other hand, net claims on the State were up just moderately, by 107 MTD vs. 509 MTD in 2007 and 999 MTD in 2006, in relation with a drop in the outstanding balance of Treasury bonds at banks.

In the field of public finance, the State core funds (including income from privatisation and grants) went up in 2008 at a brisk pace of 19.8%, well above the previous year's 8.4%. These funds came to some 13,710 MTD or 27.2% of nominal GDP. Tax revenue rose by 19.1% vs. 12.3% in 2007, coming to some 11,321 MTD or 82.6% of total, representing a tax burden of 22.5% vs. 20.8% the year before.

Non-tax revenue was up by 23.4% to some 2,389 MTD, with income from privatisation and foreign grants coming to respective envelopes of some 147 MTD and 192 MTD compared to 391 MTD and 37 MTD a year before. A large part of this income continued to be made up of income from State shares in public enterprises : 977 MTD vs. 581 MTD in 2007. Oil and gas revenue went up by 27.6% to 370 MTD.

State budget expenditure came to almost 16,099 MTD, 6.7% more than in 2007. Operating expenses exclusive of all subsidies (which represent the majority) went up by 9.2% to about 7,230 MTD or 45% of total. Expenditure for development (exclusive of loan granting) posted an increase of 19.7%, reaching some 3,344 MTD or 20.8% of overall disbursements.

Despite a sharp increase in outlays by the general equalisation fund and subsidies for fuel and transport, the budget deficit (net of payment of debt principal and exclusive of privatisation and grants) has been kept down thanks mainly to an increase in tax revenue and rationalisation of public expenditure, coming at 593 MTD or 1.2% of GDP, compared to 2.9% in 2007.

TRENDS IN TUNISIA'S MAIN ECONOMIC INDICATORS

(In MTD unless otherwise indicated)

| Description | 2005 | 2006 | 2007 | 2008 | Variation in % | |
|--|---------------|---------------|--------------|---------------|----------------|--------------|
| | | | | | 2007 2006 | 2008 2007 |
| Accounts of the Nation | | | | | | |
| -GDP (in constant 1990 prices) | 21,385 | 22,529 | 23,959 | 25,073 | 6.3 | 4.6 |
| *GDP exclusive of agriculture & fishing | 18,907 | 19,964 | 21,309 | 22,420 | 6.7 | 5.2 |
| *Added value in agriculture & fishing | 2,478 | 2,565 | 2,650 | 2,653 | 3.3 | 0.1 |
| -GDP (in current prices) | 37,767 | 41,408 | 45,629 | 50,325 | 10.2 | 10.3 |
| -GDP deflator (1990=100) | 176.6 | 183.8 | 190.4 | 200.7 | 3.6 | 5.4 |
| -Gross national available income (GNDI) | 37,573 | 41,522 | 45,459 | 49,997 | 9.5 | 10.0 |
| -GNP per capita (in dinars) | 3,746 | 4,100 | 4,440 | 4,832 | 8.3 | 8.8 |
| -Total national consumption | 29,536 | 32,197 | 34,941 | 38,333 | 8.5 | 9.7 |
| *Public consumption | 5,801 | 6,177 | 6,683 | 7,165 | 8.2 | 7.2 |
| *Private consumption | 23,735 | 26,020 | 28,258 | 31,168 | 8.6 | 10.3 |
| -Av. propensity to consume (consump./GNDI) in % ¹ | 78.6 | 77.5 | 76.9 | 76.7 | -0.6 | -0.2 |
| -Gross national savings | 8,037 | 9,325 | 10,518 | 11,664 | 12.8 | 10.9 |
| -National savings rate (in % of GNDI) ¹ | 21.4 | 22.5 | 23.1 | 23.3 | 0.6 | 0.2 |
| -Gross fixed capital formation (GFCF) | 8,395 | 9,678 | 10,907 | 12,520 | 12.7 | 14.8 |
| *Public sector | 3,576 | 4,152 | 4,363 | 4,758 | 5.1 | 9.1 |
| *Private sector | 4,819 | 5,526 | 6,544 | 7,762 | 18.4 | 18.6 |
| -Investment rate (in % of GDP) ¹ | 22.2 | 23.4 | 23.9 | 24.9 | 0.5 | 1.0 |
| Prices | | | | | | |
| -Industrial sale price index (base 100 in 2000) | 117.1 | 125.4 | 129.5 | 145.3 | 3.3 | 12.2 |
| -Consumer price index (base 100 in 2000) | 113.8 | 118.9 | 122.7 | 128.8 | 3.2 | 5.0 |
| . Foodstuffs | 115.2 | 121.5 | 124.9 | 132.6 | 2.8 | 6.2 |
| . Other than food products and services | 113.0 | 117.5 | 121.5 | 126.6 | 3.4 | 4.2 |
| Job market | | | | | | |
| -Jobs created (in thousand jobs) ² | 76.5 | 76.4 | 80.0 | 79.8 | 4.7 | -0.3 |
| -Coverage rate of additional demand (in %) ¹ | 90.0 | 86.6 | 92.0 | 90.4 | 5.4 | -1.6 |
| -Unemployment rate in % ¹ | 14.2 | 14.3 | 14.1 | 14.0 | -0.2 | -0.1 |
| External payments | | | | | | |
| -Rate of coverage (exports/imports in %) ¹ | 79.8 | 77.8 | 79.4 | 78.2 | 1.6 | -1.2 |
| -Balance of trade deficit (FOB/CIF) | 3,498 | 4,445 | 5,027 | 6,604 | 13.1 | 31.4 |
| -Tourism earnings | 2,611 | 2,825 | 3,077 | 3,390 | 8.9 | 10.2 |
| -Workers' remittances | 1,807 | 2,010 | 2,199 | 2,436 | 9.4 | 10.8 |
| - Current deficit ³ | 389 | 824 | 1,175 | 2,109 | 351 | 934 |
| . In % of GDP ¹ | 1.0 | 2.0 | 2.6 | 4.2 | 0.6 | 1.6 |
| -Net inflows of capital ³ | 1,640 | 3,647 | 2,105 | 4,022 | -1,542 | 1,917 |
| - Overall BOP balance ³ | +1,216 | +2,773 | +883 | +2,053 | -1,890 | 1,170 |
| -External debt service ratio (in % of current receipts) ¹ | 12.8 | 16.4 | 11.7 | 7.7 | -4.7 | -4.0 |
| -Rate of external indebtedness (in % of GNDI) ¹ | 54.2 | 47.4 | 43.4 | 42.6 | -4.0 | -0.8 |
| Public finances | | | | | | |
| -Tax burden (in % of GDP) ¹ | 20.9 | 20.5 | 20.8 | 22.5 | 0.3 | 1.7 |
| -Equipment and loan granting expenditure | 2,636.8 | 2,861.6 | 3,261.6 | 3,556.6 | 14.0 | 9.0 |
| -Budget deficit in % of GDP ^{1/4} | 3.2 | 2.8 | 2.9 | 1.2 | 0.1 | -1.7 |
| -Total State indebtedness/GDP (in %) ¹ | 57.4 | 53.7 | 50.0 | 47.5 | -3.7 | -2.5 |
| Money supply and its counterparts ⁵ | | | | | | |
| - M3 aggregate | 23,821 | 26,546 | 29,853 | 34,142 | 12.5 | 14.4 |
| . Liquidity rate of the economy (M3/GDP) in % ¹ | 59.8 | 61.3 | 61.9 | 64.4 | 0.6 | 2.5 |
| -Net claims on abroad ³ | 2,945 | 5,753 | 6,658 | 8,380 | 905 | 1,722 |
| of which : .Net assets in foreign currency ³ | 5,872 | 8,705 | 9,582 | 11,656 | 877 | 2,074 |
| . In day of imports ⁶ | 122 | 157 | 141 | 139 | -16 | -2 |
| -Net claims on the State ³ | 4,166 | 5,165 | 5,674 | 5,781 | 509 | 107 |
| -Financing of the economy | 24,538 | 26,157 | 28,681 | 32,556 | 9.6 | 13.5 |

Sources : Central Bank of Tunisia, Ministry of Development & International Cooperation, Ministry of Finance & INS

1. Variations in percentage points.

2. In fishing and non-agricultural activities.

3. Variations in MTD.

4. Exclusive of debt amortisation, privatisation proceeds and grants.

5. Financial system.

6. Variations expressed in days.