

General Political Environment:

The Tunisian political system is ostensibly a multi-party politics democracy. In practice, however, Tunisia's eight opposition parties are weak and political power remains highly concentrated in the Presidency and the ruling party, the Rassemblement constitutionnel démocratique (RCD). Islamic parties are banned.

Parliamentary and Presidential elections held in October 2004, swept long-time president Zine al-Abidine Ben Ali to a fourth 5 year term, as he captured a reported 94.48% of the vote. The Rassemblement constitutionnel démocratique (RCD) also returned another solid majority in parliament.

Approximately 99% of voters endorsed the government's sweeping constitutional reform package in a May 2002 referendum. The changes included the introduction of a bicameral Parliament, two-rounds of voting for Presidential elections, an extension of the powers of the Constitutional Council, and the strengthening of human rights in the Constitution.

Most dramatic, was an amendment to remove the limit on the number of Presidential terms. The age for a presidential candidate was also increased from 65 to 75. As such, President Ben Ali will be permitted to stand for the next presidential elections due in 2009.

Topping the government's stated priority list are reducing unemployment levels (which reportedly stand at just under 14%) and raising standards of living by way of increased economic growth and foreign direct investment. Graduate unemployment reportedly stands at 40%, while recruiters complain of a shortage of skilled candidates.

The Ben Ali regime's hold on power and Tunisia's political stability is underpinned by the government's focus on social welfare issues and the strength and effectiveness of the state security forces.

Investment Environment:

Tunisia offers an attractive investment climate to foreign investors by way of its comprehensive range of investment incentives. The Tunisian dinar is convertible for current account transactions but restrictions and controls remain on capital account transactions.

While the constitution outlines the independence of the judiciary, there is some concern that the courts may be susceptible to political pressure. Corruption levels in Tunisia do not pose a significant obstacle to foreign investment.

Tunisia and Libya are increasing their economic cooperation including the construction of an oil pipeline to Tunisia. A \$1B underwater electrical cable to Italy is also planned. Société Tunisienne d'électricité et de gaz is exploring the possibility of building a nuclear plant by 2020.

Political Violence:

Tunisia's security situation is stable, owing in large part to the effectiveness of its security services. Much of the country's Islamist opposition fled or was imprisoned in the security crackdown following a 1990 bomb attack on RCD party headquarters by suspected Islamists.

Recent events in Morocco and Algeria demonstrate increased activity of militant Islamic groups in the Maghreb region. Tunisian security forces are reported to have battled militants associated with al-Qaida in the Islamic Maghreb in December 2006 and January 2007. In January 2007, police claimed to have dismantled a well equipped terrorist group that planned to attack embassies in Tunis.

Political

Political Structure

Republic

President

President Zine El Abidine Ben Ali (RCD)

Prime Minister (appointed by the President)

Mohamed Ghannouchi (RCD)

Legislative Body

- Chamber of Deputies (Majlis al-Nuwaab) – 189 seats
- Chamber of Advisors – 126 seats

Major Parties

37 seats are reserved for opposition parties

- Rassemblement constitutionnel démocratique (RCD) – 152;
- Mouvement des démocrates socialistes (MDS) – 14;
- Parti de l'unité populaire (PUP) – 11;
- Union Démocratique Unioniste (UDU) – 7 ;
- Mouvement de la Rénovation (MR) – Ettajdid – 3 ;
- Parti social-libéral (PSL) – 2

Last Elections

Presidential & Parliamentary: October 24, 2004

Next Elections

Presidential & Parliamentary: 2009

Press Freedom Survey:

- 2007 Score: 83 (Not Free) freedomhouse.org

Control of Corruption Index:

- 2006 Score: +0.20 (-2.5: Worst; +2.5: Best) worldbank.org

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Political Outlook

Regime stability under current President Ben Ali and the ruling RCD party is expected to continue over the medium to long term. Succession issues have yet to be addressed (there have been rumours of the 71 year old President's ill health) and there is currently no viable alternative to President Ben Ali. That said, the ruling RCD party would likely seek to ensure a peaceful political transition process.

Increased activity of militant Islamist groups remains of some concern, particularly given apparent links to al-Qaida.

Economic

Credit Agencies

Moody's: Baa2

S&P: BBB

Fitch: BBB

Nominal GDP (2006)

US\$29.8bn

Population (2006):

10.2 million

Total Trade / GDP:

85.6%

Currency:

Tunisian dinar

Exchange regime:

Managed floating

Merchandise imports from Canada:

Cdn\$61.7mn

Main sources of Foreign Exchange (excl. FDI):

Textiles

Largest Merchandise Trading Partner:

France (29%)

Italy (20%)

Main imports:

Electrical equipment (30%)

Textiles (15%)

Risks to the Outlook

↑ Marketing policy to expand tourism
Trade pacts
Association with the EU

↓ Radicalization
Slow financial reform

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Market Spotlight: The Tunisian economy should accelerate in 2007 despite higher oil prices and the end of the Multi-fibre Arrangement. Nevertheless, services have posted a strong performance and should have a positive impact on the overall economy in 2007. Tourism receipts and workers' remittances have been doing well. Tunisia has been expanding economic and trade cooperation with the EU and the US, and that should boost exports. Policies are focussing on productivity and competitiveness in manufacturing, services and agriculture to better position itself on the EU market. The banking sector needs reforms. Tunisia remains an «Investment grade». The outlook over the short and medium term is positive.

Recent performance: Over the past two years, the Tunisian economy amid high oil and commodities prices remains resilient, sustaining relatively robust growth and maintaining macroeconomic stability. Real GDP growth advanced 5.2% in 2006, above the 4% performance in 2005, motivated by output gains in the agricultural, non-textile manufacturing and services sector. This is apparent in the marked improvement in industrial production wherein it jumped 3.2%, following an abysmal 0.9% in 2005. Although the increased pace of growth has absorbed a sizeable number of the unemployed, it was not sufficient to reduce the relatively high unemployment rate of 14.2%. Overall, we expect 6% real GDP growth by the end of this year and 6.2% for 2008, however, the economy is expected to slowdown thereafter to within the range of 5.5%-5.8% by 2015.

Fiscal policy: On the fiscal side, its policy decisions remain prudent. Last year the government saw a reduction in the budget to an estimated deficit of 2.9% of GDP, below the 3.6% projected by the authorities, demonstrating greater restraint on non-subsidy expenditure and an increase in the performance of non-tax revenue. As a result of early debt repayments, total public debt witnessed a marked drop from 58.3% of GDP to 55.4% of GDP in 2006, the 3rd consecutive year of contraction. Further improvement is anticipated for the government's fiscal situation.

External sector: The current account deficit fell deeper into the red in 2006. Due to rising oil prices, the current account fell from a deficit of 1.1% of GDP in 2005 to 2.4% last year. While the deficit is sustainable, when energy is omitted the balance is reduced significantly to near equilibrium. Alternatively, Tunisia's international reserves expanded by an impressive 53% to \$6.77 billion, partially due to a more flexible exchange rate since 2000, raising import cover to 5 months. This made it possible to reduce the stock of total external debt to 59.1% of GDP in 2006 from 65.4% of GDP. As the dinar continues to weaken against the Euro, exports are anticipated to pick up, albeit moderately, for goods and services, tourism in particular. Accordingly, this will further reinforce its dominance as the North African leader in tourist arrivals. Hence, an increase in liquidity is envisaged for the remaining months of this year.

Monetary Policy: On account of rising international prices of oil and other commodities, and episodes of excess liquidity, the Central Bank of Tunisia (BCT) tightened monetary policy last year and thereby contained inflation growth to 4.5%, a 10 year high. However, the pace of consumer prices is expected to moderate to within the 2% range by year's end.

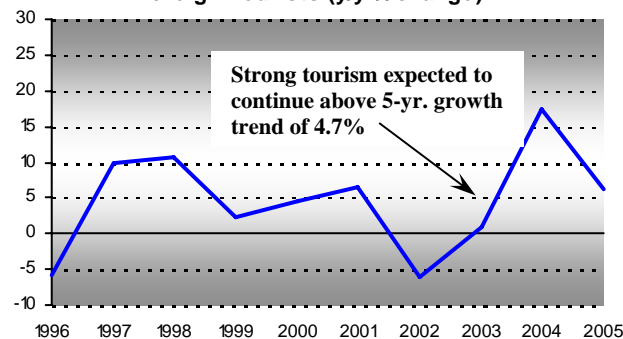
Outlook: Given the strides Tunisia is making in shifting towards a floating exchange rate, banking sector reform, a new monetary policy framework, the development of the capital market and greater trade integration with the EU, credit rating agencies consider this North African country investment grade for medium/long term loans. This includes Fitch, S&P and Moody's. Similarly, Economic Analysis and Forecasting also rates Tunisia at investment grade (our current rating is "A" with a stable outlook). Despite the ratio of non-performing loans being relatively high compared with other countries receiving a similar sovereign rating, EDC and other rating agencies are confident that Tunisia's medium-long term prospects are positive.

Economic Indicators

	01-05 avg.	2006	2007	2008
GDP (% growth, real)	4.4	5.2	6.0	6.8
Inflation (% , year-end)	2.6	4.5	2.9	3.0
Fiscal Balance (% of GDP)	-3.0	-3.1	-3.3	-2.8
Exports (US\$ bn)	12.4	9.7	20.8	8.8
Imports (US\$ bn)	9.0	12.7	15.8	7.3
Current Account (US\$ bn)	-2.7	-2.4	-1.4	-1.1
Reserves (month of imports)	2.7	2.0	4.1	4.3
External Debt (US\$ bn)	67.8	61.7	54.8	48.8
Debt Service ratio	13.4	21.3	14.2	11.9
Currency (per US\$, year-end)	1.3	1.3	1.3	1.3

Source: EIU, EDC Economics

Foreign Tourists (y/y % change)



Source: WDI