PUBLIC DEBT MANAGEMENT

The Tunisian experience
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Principal budget and debt indicators

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Goal of the Grant

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Key activities realized
At the institutional level
At the strategic level
At the operational level
Swap transactions executed under the ISDA agreement
Other transactions on the external debt with the IBRD

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Global context

Some numbers

- 10.4 millions of inhabitants
- GDP : 58 Billion Dinars ($41Billion) (1 US $ =1.4 TN D )
- GNI per capita : 5600 Dinars ($4,000)
- Exports + Imports : 100% of the GDP
- Stable and solid macroeconomic situation
- The result:
  - Best rating for Maghreb countries: « investment grade » (BBB for more than 10 years)
  - Classification 2010 Davos : 1st in the Maghreb and Africa, fourth to the Arabic world after 3 oil states (Quatar, Saudi Arabia andUAE) and globally 32nd on 131 countries.
  - Human development index: 91 out of 177 countries.

- But important economic and social challenges
  - Unemployment / of graduates
  - Rise in standard of living

- Which need to reach a new level of growth
  - Knowing that the average growth was close to 5 % over the past 20 years
  - And the investment rate is around 23%
Summary

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### Global context

#### Principal budget and debt indicators

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<thead>
<tr>
<th></th>
<th>2003</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Pb2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Balance % of GDP</strong></td>
<td>0.6</td>
<td>0.6</td>
<td>1.8</td>
<td>-0.8</td>
<td>-0.2</td>
</tr>
<tr>
<td><strong>Deficit excluding Grants and Privatizations</strong></td>
<td>-3.4</td>
<td>-2.9</td>
<td>-1.1</td>
<td>-3.3</td>
<td>-2.6</td>
</tr>
<tr>
<td><strong>Public Debt % of GDP</strong></td>
<td>60.4</td>
<td>45.8</td>
<td>43.3</td>
<td>42.9</td>
<td>39.7</td>
</tr>
<tr>
<td><strong>Internal Debt Proportion (%)</strong></td>
<td>35.6</td>
<td>41.7</td>
<td>39.1</td>
<td>41.5</td>
<td>41.0</td>
</tr>
<tr>
<td><strong>Public Debt service % of Budget</strong></td>
<td>27.0</td>
<td>26.0</td>
<td>20.3</td>
<td>19.2</td>
<td>19.6</td>
</tr>
<tr>
<td><strong>Public Debt service % GDP</strong></td>
<td>9.7</td>
<td>8.7</td>
<td>6.4</td>
<td>6.0</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Public Debt Interests % of Budget</strong></td>
<td>8.1</td>
<td>7.8</td>
<td>7.1</td>
<td>6.8</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>National External Debt % of GNI</strong></td>
<td>53.9</td>
<td>39.7</td>
<td>38.8</td>
<td>38.1</td>
<td>37.0</td>
</tr>
<tr>
<td><strong>% National External Debt Service (current revenue)</strong></td>
<td>13.3</td>
<td>11.7</td>
<td>7.7</td>
<td>10.5</td>
<td>9.6</td>
</tr>
</tbody>
</table>
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Main observations:

- Careful Macroeconomic management
  - A cautious monetary policy keeping inflation under control and foreign imbalances at sustainable level.
  - Budgetary consolidation progressed in spite of a persistent structural deficit of the primary balance.

- The national debt was sustainable under the hypothesis of strong growth.
  - Main threat to debt sustainability was the risks of cyclical GDP growth, due to a more competitive international environment in the medium term.
  - The "Stress Tests", combined with the negative foreign shocks, meant a 20% increase of the debt, mainly on the internal debt (13%), due to the rise in the current deficit.
  - Contractual guarantees, other explicit commitments and the related risks must be incorporated into the global debt strategy.
Main recommendations:

- Set the strategy within a solid medium term macroeconomic framework
  - Sliding medium term Budgetary framework
  - Consideration of the costs of commitments, including contingent liabilities.
  - Increased budgetary flexibility to protect the debt from cyclical risks.

- Formulation of an integrated risk management strategy:
  - Regular consolidation of relevant debt data, including contingent liabilities and on-lent debts.
  - Set key indicators for the composition of debt by maturity, currency, interest rate.
  - Introduce quantitative methods of measuring the risk of the portfolio.
Strengthen the domestic debt market.

- Strengthen the credibility of the Treasury as "sovereign issuer", in particular regarding:
  - Predictability of issuances
  - Acceptance of the market price in auctions
  - Issuances limited to few chosen classes, following consultation with the market.

- Improve the transparency of the secondary market, in particular for the intra-group transactions. Make compulsory the declaration of intra-group transactions to a "reporting" authority, charged with daily publication of an "official yield curve", for transactions conduction on the stock exchange or elsewhere.

- Set up a forum of consultation on the structural reforms which will reinforce the investor base and encourage the qualifications required by a debt market.

- Gradually open the domestic debt to foreign investors.

- Restructure the debt management institutions to ensure strategy efficiency.
World Bank study in 2003

Debt management strategy

- Centralize the management of the national debt (including contractual guarantees of the State) into the debt Agency; organize this Agency by function, beginning with the creation of a department (Middle Office) charged with the elaboration of a medium-term strategy for the management of debt and risk and define acceptable levels of risk for the whole portfolio of the national debt; transfer debt recording (Back Office) departments to the Debt Agency.
- Establish the intergovernmental debt committee, to adopt a medium-term debt strategy.
- Provide debt management units of the Treasury with qualified and well-paid personnel, and adequate computer systems to enable them to have an integrated view of national debt management functions.
- Establish a quantitative framework to measure the risks on the national debt risk portfolio and on the performance of the Agency as administrator of the national debt; ensure follow-up on the implementation of quantitative objectives.
- Transfer to the Debt Agency of the departments responsible for debt transactions, investor and bank relations (Front Office).
- Strengthen the execution functions of the Central Bank of Tunisia, by concluding an agreement between the Treasury and the BCT with clearly defined functions.
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Objective: Strengthen institutional capacity of the Debt and Treasury offices as follows:

- Institutional framework for an active debt management:
  - Consolidate the main debt operations: integrated view of the portfolio risk.
  - Improve operational flexibility and cost.
  - Ensure efficiency in borrowing operations and hedging of financial risks.

- Framing of the strategic risk indicators:
  - Improve capacity to evaluate risks.
  - Improve visibility of the debt management strategy.
  - Enable the Treasury to deal with market shocks and changes to reduce the volatility and the cost of the global debt portfolio.
Strengthening of the management of contingent liabilities:

- Update of the procedures for managing contingent liabilities.
- Prepare recommendations to improve risk management.
- Introduction of modern tools to manage budgetary risk and ensuing communication of the newly introduced methods to investors and the public.

Update of the debt management information system (SIADE):

- Support the active management of debt, including proactive management of strategic risk indicators.
- Provide adequate information to the decision-makers.
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The mission confirmed the recommendations of the report mentioned earlier.

Other measures recommended:

- Separation of the Debt and Treasury offices.
- Authorize the execution of «Repo» operations.
- Open the market to non-residents.
- Designate the Central Bank of Tunisia as responsible entity for the supervision of the treasury bond secondary market.
- Participation of the Treasury in the interbank repo market.
- Policy of stable issuance with broader range of maturities.
- Review of the status of “SVT” to make it more efficient.
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The ISDA agreement:

- Tunisia signed the ISDA agreement with the IBRD on March 28, 2003

- This agreement enables the usage of market hedging instruments such as:
  - Interest rate Swaps
  - Currency Swaps
  - Caps and Collars

- November 5, 2009: signing of the amendment to the ISDA agreement to cover non-IBRD liabilities.
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Key activities realized

- At the institutional level
Key activities realized

At the institutional level:

- Creation of an integrated debt structure (one general division at the Ministry of Finance)
  - With a functional organization (Back, Middle et Front Office)
  - Strengthening of the Middle Office to support active debt management, including proactive management of targets.
- Conducted a study for the creation of a Debt Agency, with the support of international experts.
- Decision to create the Tunisian Treasury Agency within the 2010-2014 Presidential program.
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Key activities realized
- At the institutional level
- At the strategic level
Key activities realized

At the strategic level:

- Establishment of strategic debt benchmarks, regularly developed and published.
- Definition of a medium term debt strategy, within a progressive 2010-2014 plan.
- Decision to apply $2.3 Billion from the privatization of Tunisie Telecom, public telephone operator, to the reduction of debt.
- Publication of an annual report on the debt, starting in 2006.
# Public Debt Benchmarks

**Total Public debt (in Millions of Dinars)**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1- Value of the Public Debt:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal Dent (excluding interests) :</td>
<td>22 221</td>
<td>22 829</td>
<td>23 927</td>
<td>25 189</td>
</tr>
<tr>
<td>Net Present Value (including interests) :</td>
<td>21 457</td>
<td>21 637</td>
<td>24 024</td>
<td>24 926</td>
</tr>
<tr>
<td>Value in Capital :</td>
<td>14 836</td>
<td>14 877</td>
<td>16 289</td>
<td>16 792</td>
</tr>
<tr>
<td><strong>2- Public Debt Sustainability:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate of Indebtedness (% du GDP) :</td>
<td>53.7 %</td>
<td>45.7 %</td>
<td>47.5%</td>
<td>42.9%</td>
</tr>
<tr>
<td>Average cost of debt:</td>
<td>5.1 %</td>
<td>5.2 %</td>
<td>5%</td>
<td>4.9%</td>
</tr>
<tr>
<td><strong>3- Maturity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average life (years) :</td>
<td>7,13</td>
<td>7,15</td>
<td>7.50</td>
<td>7.00</td>
</tr>
<tr>
<td>Duration (years):</td>
<td>5,59</td>
<td>5,39</td>
<td>6.14</td>
<td>5.83</td>
</tr>
<tr>
<td>Refinancing within 1 year: (1)</td>
<td>11,9 %</td>
<td>10,7 %</td>
<td>9.79%</td>
<td>11.81%</td>
</tr>
<tr>
<td>Refinancing within 5 years</td>
<td>44,2 %</td>
<td>46,22 %</td>
<td>44.68%</td>
<td>52.07%</td>
</tr>
<tr>
<td><strong>4- Interest Rate:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio : Floating versus total debt:</td>
<td>12.4 %</td>
<td>6.83 %</td>
<td>5.1%</td>
<td>4.96%</td>
</tr>
<tr>
<td>Refixing in 1 year: (2)</td>
<td>28.6 %</td>
<td>23,63 %</td>
<td>25%</td>
<td>28.84%</td>
</tr>
<tr>
<td>Refixing in 5 years:</td>
<td>53.6 %</td>
<td>53.9 %</td>
<td>55%</td>
<td>61.1%</td>
</tr>
</tbody>
</table>

(1) : Refinancing risk quantifies the inability to obtain the financing necessary or at a reasonable cost.

(2) : Interest rate Refixing risk quantifies the length of time at the end of which all coupons (interests) are readjusted (renewed).
Key activities realized

At the strategic level:

- Within the domestic market:
  - Increased regularity and transparency of issuances
  - Regular meetings held with “SVT”.
  - Creation of new benchmark issuances of 10 and 15 years, and 10 year zero-coupon bonds.
  - Opening to Non-residents, limited to 30% of issuance.
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- At the operational level
Key activities realized

At the operational level:

- Increased depth of the Treasury issuance market.

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2006</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts announced</td>
<td>2 050</td>
<td>1 530</td>
<td>1 223</td>
</tr>
<tr>
<td>Amounts offered</td>
<td>2 530</td>
<td>8 086</td>
<td>4 563</td>
</tr>
<tr>
<td>Amounts issued</td>
<td>2 122</td>
<td>1 446</td>
<td>1 036</td>
</tr>
<tr>
<td>Issued/Offered (%)</td>
<td>83.9</td>
<td>18</td>
<td>22.7</td>
</tr>
<tr>
<td>Issued/Announced (%)</td>
<td>103.5</td>
<td>94.5</td>
<td>84.6</td>
</tr>
</tbody>
</table>

- Creation of new market reference, enabling a rise in the private issuances

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2006</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global amount issued</td>
<td>2 224</td>
<td>1 753</td>
<td>1 711</td>
</tr>
<tr>
<td>Private issuance (%)</td>
<td>4.5</td>
<td>12.2</td>
<td>39.5</td>
</tr>
</tbody>
</table>
Key activities realized

- Development of the transaction volume of Treasury Bonds on the secondary market.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>JAN-JUL 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Titles traded (Nominal value)</strong> in Billion Dinars</td>
<td>3.3</td>
<td>2.7</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Intragroup titles traded</strong> in Billion Dinars</td>
<td>2.7</td>
<td>1.9</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Outstanding (Nominal)</strong> in Billion Dinars</td>
<td>5.8</td>
<td>6.0</td>
<td>5.5</td>
</tr>
<tr>
<td><strong>Traded/ Outstanding (%)</strong></td>
<td>57</td>
<td>45</td>
<td>27</td>
</tr>
</tbody>
</table>
Key activities realized

- Creation of a yield curve, through Treasury issuances
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Swap transactions executed under the ISDA agreement
Swap transactions executed within the ISDA Agreement framework:

- Interest rate swaps: Number of Transaction: 13
  Amount: $422 Million

- Currency Swaps:
  Treasury does not hold accounts in currencies. There is always a Dinar risk.
  Swap transactions could reduce the cross-currency risk ($, €, Y).
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Swap transactions executed under the ISDA agreement

Other transactions on the external debt with the IBRD
Key activities realized

Other transactions on the external debt with the IBRD:

- Conversion of the outstanding balance of the « Currency Pool » loans into « Designated Currency Pool » loans in the amount of USD1,142 Million.

- Conversion of the remaining undisbursed balances of « Currency Pool » loans into « Single Currency » loans in the amount of $336.4 Million.

- Adoption of principal amortization schedules customized to fit the overall debt repayment profile, used under FSL loans.
Key activities realized

- Execution of 32 interest rate fixing operations for FSL loans in the amount of $823 Million, of which 90% in Euro.

- Pre-payment of loans bearing high interest rates (5.17% - 7.4%) in the amount of $152.4 Million, of which 93% in Euro.

- Conversion of the variable interest rates of state guaranteed “Currency Pool” loans into floating rates (average (Libor USD, Libor Euro, Libor Yen) +1%), then fixing of these rates for the remaining duration of repayments.

- Utilization of the ISDA Agreement to selectively fix the Libor portion of loans (Libor fixed, spread remains variable).
Key activities realized

- These various operations on the debt have enabled us to increase the Dinar and Euro proportions of the debt, for a better management of the exchange rate risk.

<table>
<thead>
<tr>
<th>Outstanding debt</th>
<th>2003</th>
<th>2006</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>TND</td>
<td>35.6%</td>
<td>40.2%</td>
<td>41.6%</td>
</tr>
<tr>
<td>EUR</td>
<td>27.4%</td>
<td>32.9%</td>
<td>33.3%</td>
</tr>
<tr>
<td>USD</td>
<td>15.2%</td>
<td>12.6%</td>
<td>8.2%</td>
</tr>
<tr>
<td>YJP</td>
<td>16.5%</td>
<td>9.5%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Others</td>
<td>5.3%</td>
<td>4.8%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>
The active management of the debt, using mainly products offered by IBRD, has enabled the smoothing of the repayment profile of the debt.
The proportion of the foreign debt in fixed rate increased from 81.3% in 2003 to 95% in 2009.

<table>
<thead>
<tr>
<th>Interest rate</th>
<th>2003</th>
<th>2006</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate</td>
<td>81.3%</td>
<td>85%</td>
<td>95%</td>
</tr>
<tr>
<td>Variable Rate</td>
<td>18.7%</td>
<td>15%</td>
<td>5%</td>
</tr>
</tbody>
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Outlook
Outlook

- Increase in the amounts issued:
  - Creation of a deposits entity which will enable the conversion of the postal savings and other deposit entities to Treasury Bonds (3.5 Billion Dinars) → increase in market depth.
  - Development of the secondary market by increasing transparency of intra-group transactions.
  - Creation of a new benchmark issuance with maturities of 20 years and more
  - Publication of the regulatory framework to enable multi-lateral banks, namely the IBRD, AfDB and EIB to issue bonds on the domestic market, in Dinars.
  - The convertibility of the Dinar planned for 2014 will increase the investor base.
THANK YOU FOR YOUR ATTENTION