

FAQs: U.S. LOAN GUARANTEE FOR TUNISIA

April 20, 2012

What is the purpose of the Declaration of Intent?

- The purpose of the Declaration of Intent is to signal the commitment of the U.S. and Tunisian governments to move forward expeditiously with a Loan Guarantee Agreement.
- Moving forward on this agreement will enable the Tunisian government to raise market financing to support Tunisia's economic recovery and its democratic transition.

Why is the United States providing a loan guarantee to the Tunisian government?

- The U.S. government seeks to continue its strong support for the government and people of Tunisia as they pursue a peaceful, prosperous, and democratic future.
- The Tunisian economy has strong fundamentals, but emerging market yield spreads have widened this year due to general risk aversion.
- The loan guarantee would reduce the Tunisian government's borrowing costs at a time when market access has become more expensive for many emerging markets.

What will U.S. support consist of?

- The U.S. Congress recently appropriated \$30 million to cover the subsidy cost of a sovereign loan guarantee for Tunisia.
- This Congressional appropriation will allow the Tunisian government to raise several hundred million dollars on international bond markets (or through a syndicated loan) at a rate slightly above the U.S. Government borrowing rate.
- The guarantee will help the Tunisian government access significant market financing at affordable rates and favorable maturities as a result of the backing of the full faith and credit of the U.S. government.

When will the bond be issued?

- We will be moving forward as quickly as possible to complete the final agreement. Technical teams from both of our governments are already coordinating on next steps.
- The Tunisian authorities have discussed with us their objective of accessing capital markets under this arrangement in the first half of 2012.

How much will Tunisia be able to raise in market financing with the support of the U.S. guarantee?

- The amount of financing that Tunisia will be able to raise depends on the terms negotiated between the United States and Tunisia.
- The United States has confirmed that it is able to provide a guarantee of up to 100 percent of principal and interest payments, using up to \$30 million in funds appropriated by Congress.

What support will the international community be providing to Tunisia?

- The international community has provided significant support to the Tunisian government during this transition period.
- In 2011, the World Bank and the African Development Bank each provided \$500 million in budget support loans to Tunisia.
- The donors have coordinated closely with each other and the government to support the government's priorities during the post-revolution transition.

What are the conditions on the loan guarantee?

- The U.S. government will be discussing terms of the loan guarantee with the Tunisian delegation during the Spring Meetings of the World Bank and International Monetary Fund.
- We believe that these terms should support the ongoing democratic transition by aligning financing with the government's efforts to increase public transparency and accountability, expand economic opportunity through inclusive growth, and create private sector jobs for Tunisians.
- We aim to seek an agreement between the U.S. and Tunisian governments on the terms as soon as possible so that the official loan guarantee agreement can be finalized quickly.

Is the loan guarantee funded?

- Yes. In December 2011, the Administration secured legislative authority and appropriations to use up to \$30 million of Economic Support Funds to cover the subsidy costs of a sovereign loan guarantee for Tunisia.

**How does this loan guarantee relate to the recently announced \$100 million cash transfer?
Why is U.S. government doing both?**

- The loan guarantee and the \$100 million cash transfer are separate transactions but part of the larger effort by the U.S. government to support Tunisia during this democratic transition.
- Tunisia's economy has been significantly affected by the transition as well as global factors such as slow growth in Europe and high oil prices.
- The cash transfer and the loan guarantee are complementary tools to help the Tunisian government meet its financing needs in 2012.