



西南财经大学  
SOUTHWESTERN UNIVERSITY OF FINANCE AND ECONOMICS



Hochschule für  
Wirtschaft und Recht Berlin  
Berlin School of Economics and Law



# The 21<sup>st</sup> Conference on Digitalisation and Monetary Policy

15-16 November 2022  
Chengdu, China

## Monetary Policy in the Era of uncertainty: The Case of Tunisia



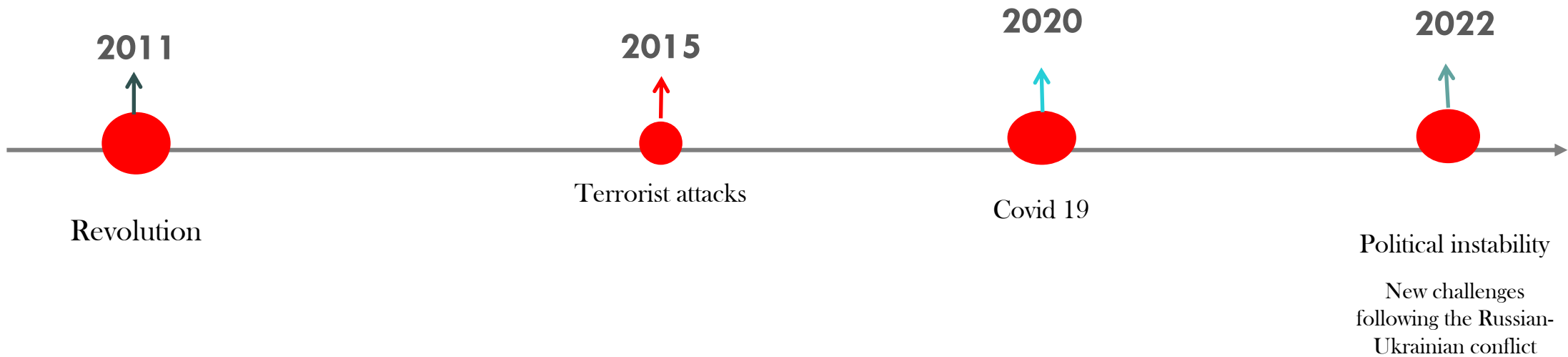
Dr Arafet FARROUKH

LIEI

FSEGT University of Tunis EL MANAR Tunisia

# INTRODUCTION

Since 2011, the Tunisian economy had to deal with different shocks, both internal and external.



**The prolonged political transition, the numerous shocks, have a strong negative consequences on the Tunisia economy**



## Introduction : Turbulent context for the conduct of monetary policy since the Revolution

- Political and social instability
- Low economic activity
- Unemployment rate remains high
- Persistent social tensions, especially at production sites
- Deterioration in the composition of public expenditure
- High external imbalances
- Rising debt-to-GDP ratios
- Downgrading of the sovereign rating and difficulty of access to international markets
- Banks' increased need for liquidity
- Resurgence of inflationary pressures

# OUTLINE

01

*THE ECONOMIC SITUATION THROUGH SOME KEY INDICATORS*

02

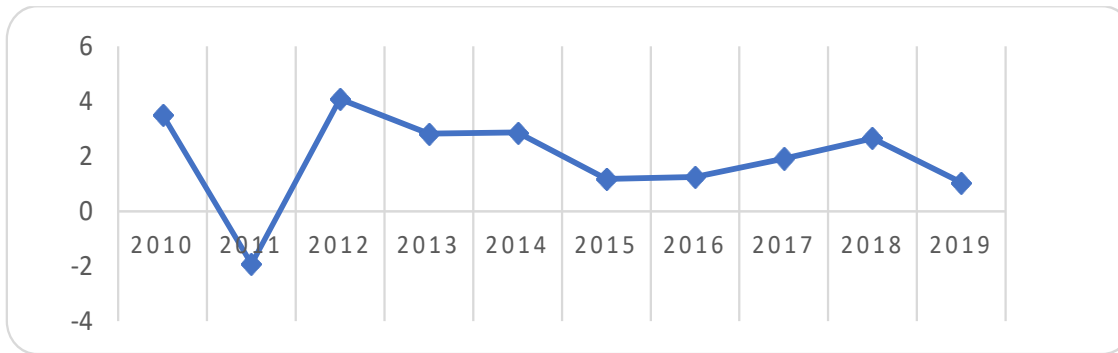
**MONETARY POLICY RESPONSE**

03

**REFORMS UNDERTAKEN BY THE CENTRAL BANK OF TUNISIA**

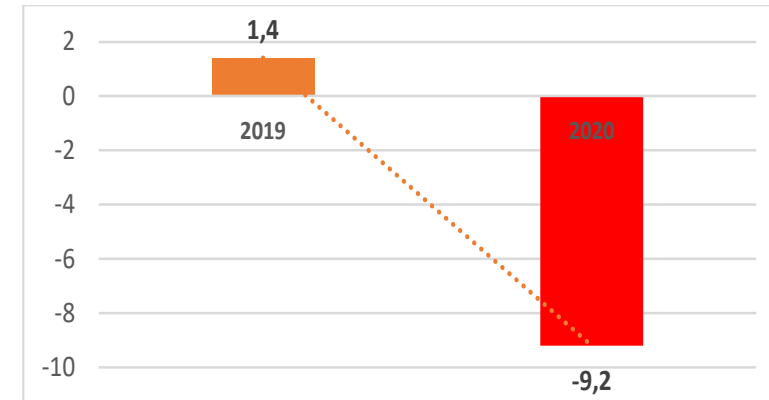
## GROWTH BELOW THE POTENTIAL OF THE TUNISIAN ECONOMY

Figure n° 1: GDP Growth %



Source: Author based on NSI data

Figure n°2: Growth rate % (covid impact)

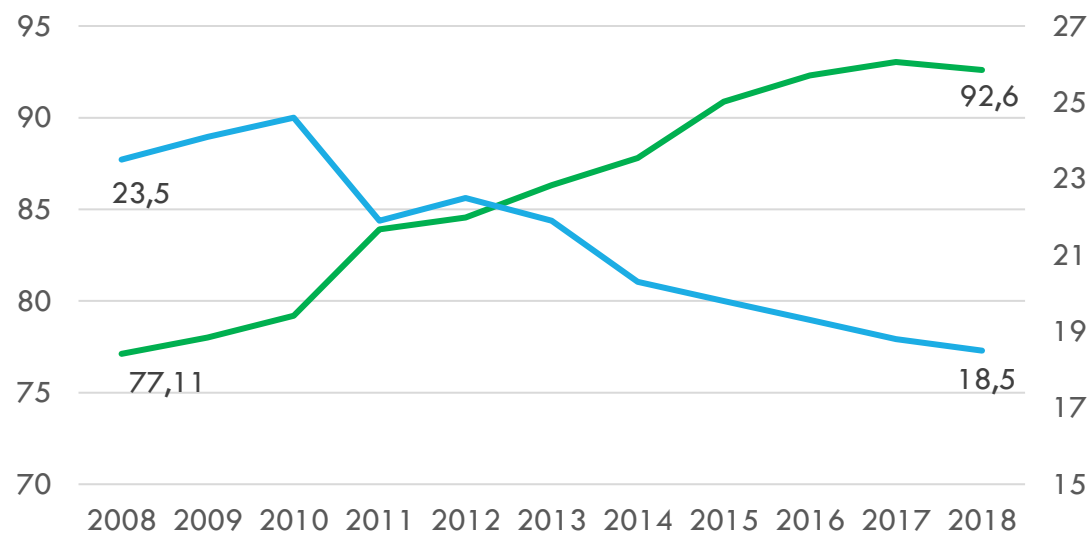


Source: Author according to INS data

**An economy trapped in a low growth trend 2,9% (2022)**

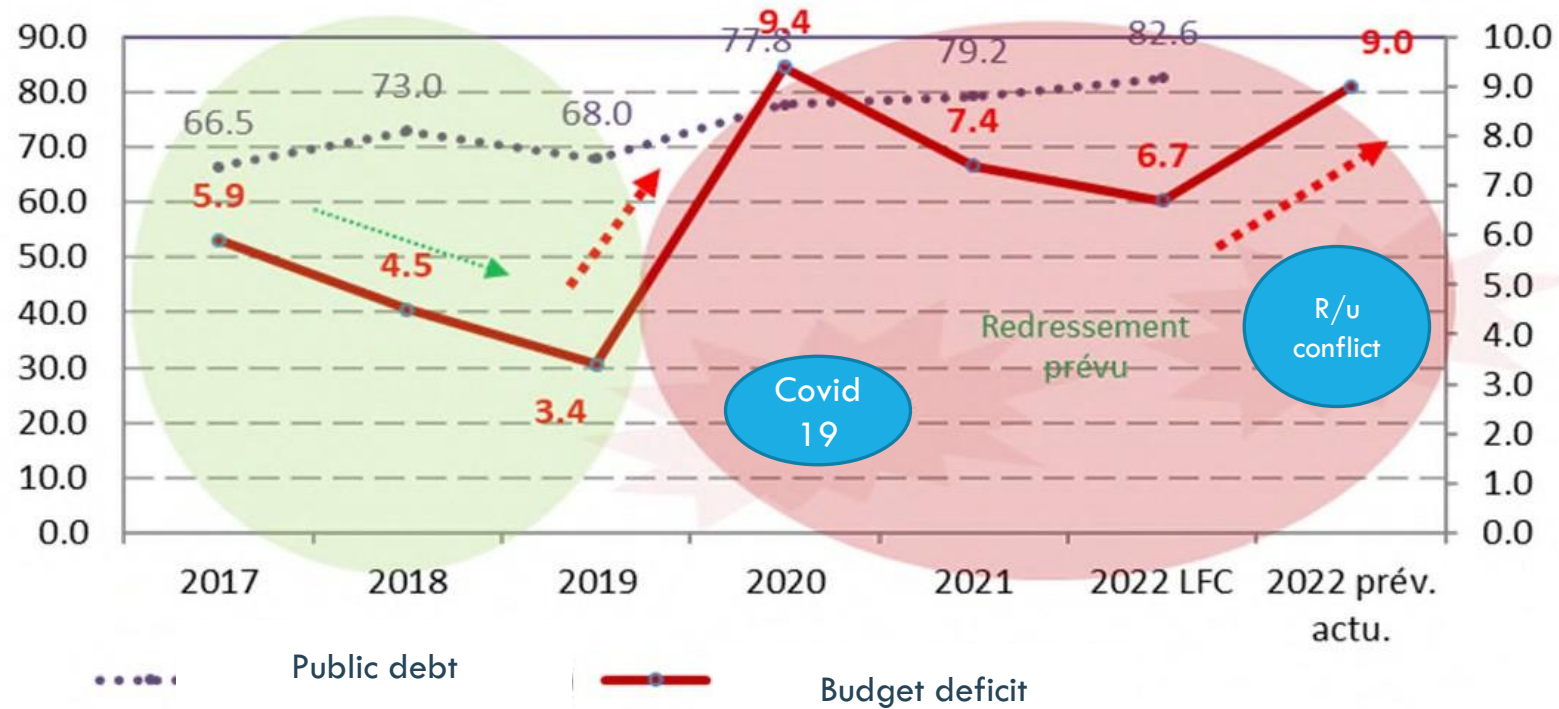
The main engine of growth (investment) has seen its share of GDP fall in favor of consumption/GDP

Figure 3: Evolution of consumption and investment expenditure as a percentage of GDP



Source : Author

Figure 4 Budget deficit and public debt



Source : Author

## FINANCING OF THE BUDGET

After 2020, limited access to external financing that has been offset by domestic financing. Difficulties in mobilizing external financing resources (in the absence of an agreement with the IMF)



**Tightening of international financial conditions:**

- tightening of monetary policies,
- appreciation of the dollar...

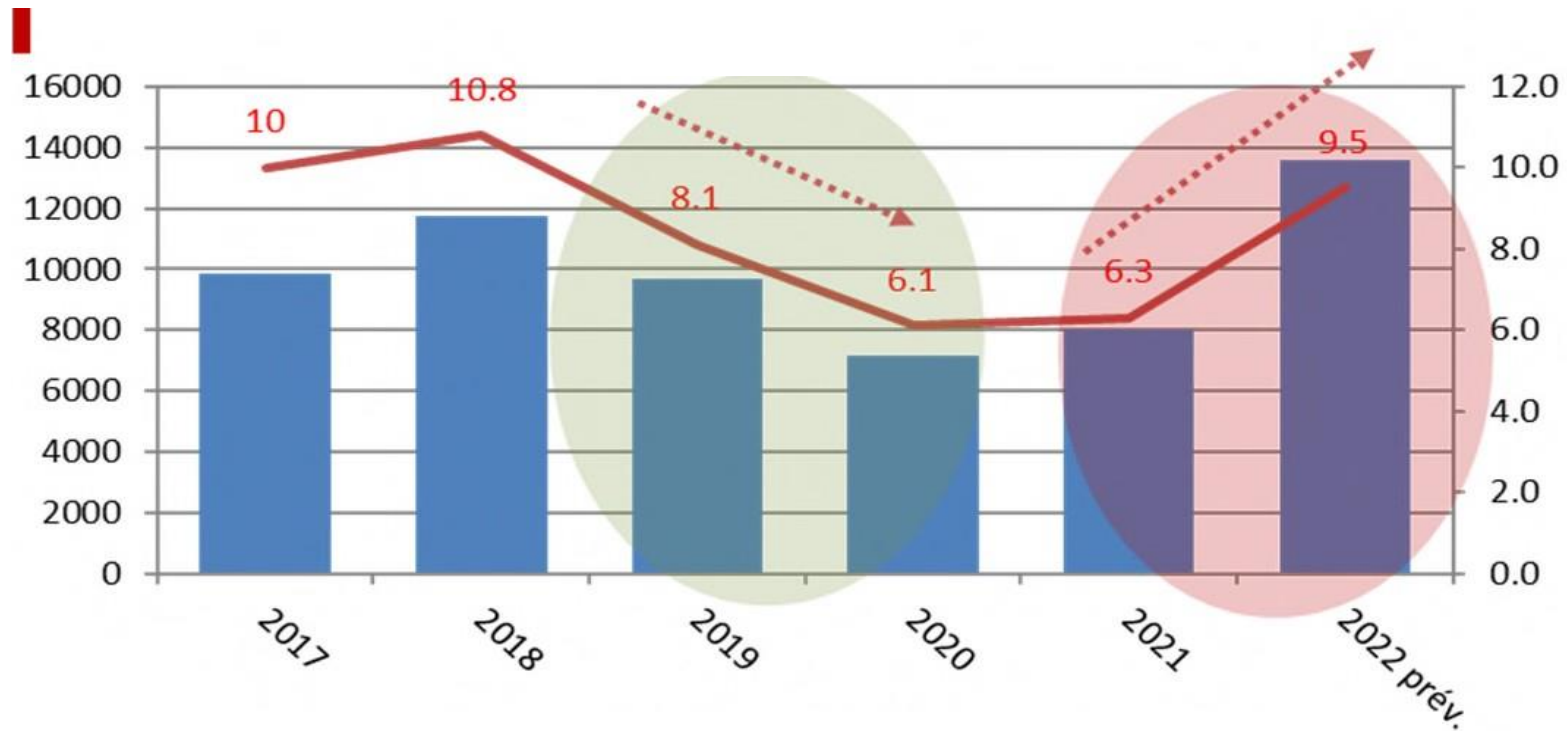
**This can further complicate the situation of indebted emerging countries such as Tunisia.**

Source : Author



Increase in current account deficit (which results from a high trade deficit, driven in particular by the increase in the energy bill (increase in international prices and decline in national production) less contribution of The services and transfer balances to ease the pressure on the current account.

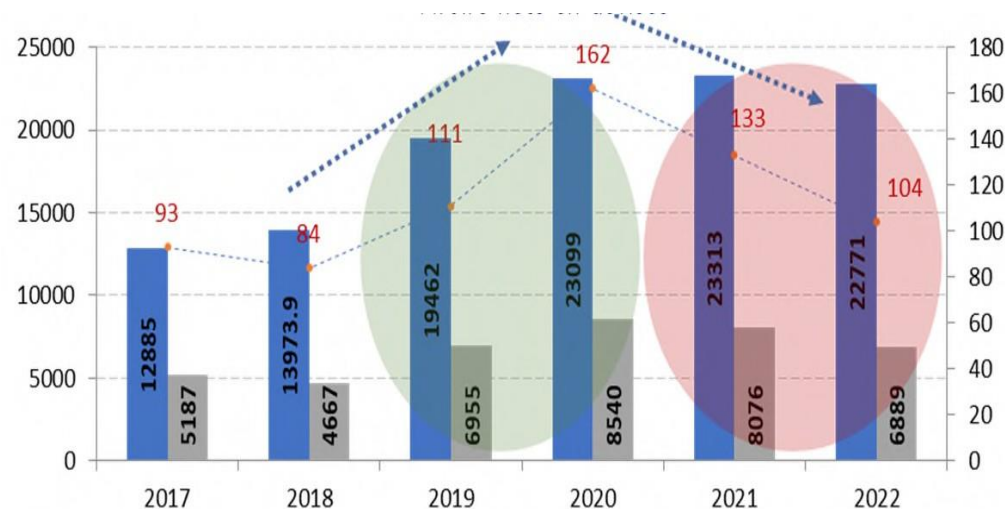
**Graph n°5: Evolution of the current account deficit  
(% of GDP)**



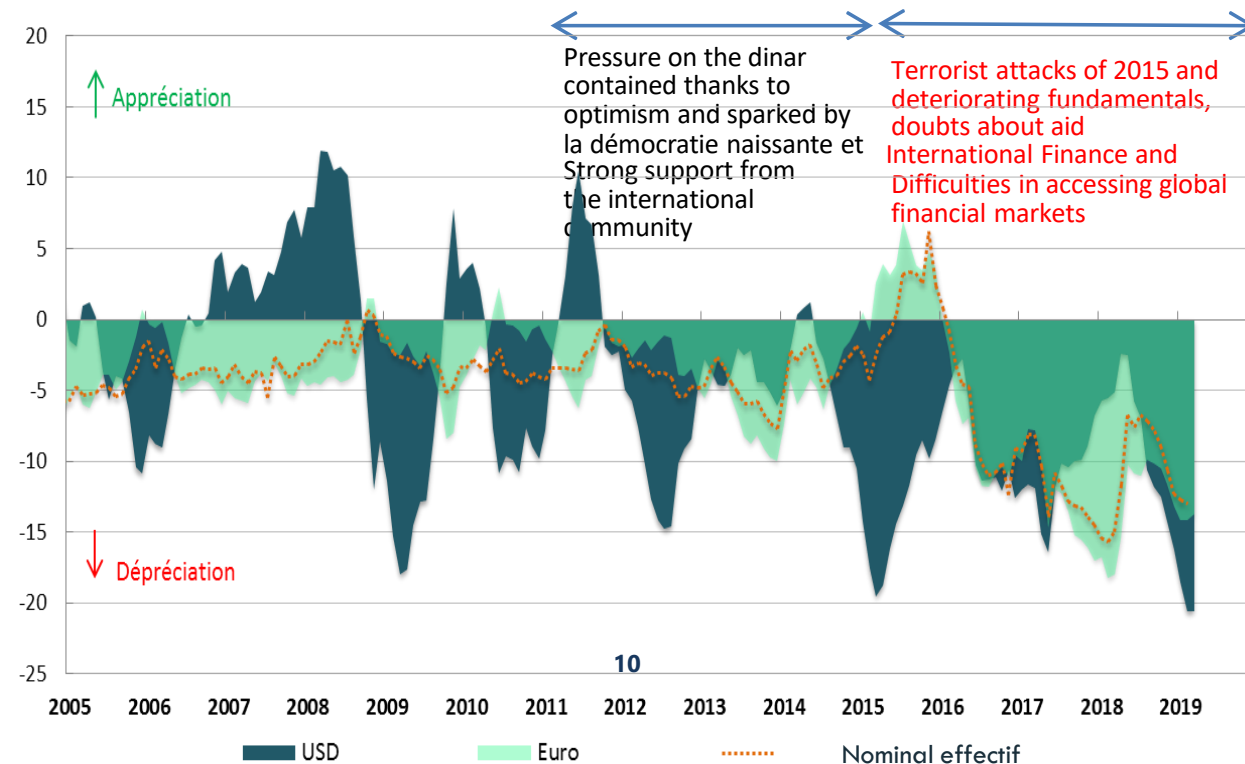
Source : Author

## THE WORSENING OF THE CURRENT ACCOUNT DEFICIT OF THE BALANCE OF PAYMENTS HAS LED TO AN EROSION OF FOREIGN EXCHANGE RESERVES AND AN INCREASE IN PRESSURE ON THE EXCHANGE RATE OF THE DINAR...

Graph6: Foreign currency assets (in dinar, US dollars and number of days imported)



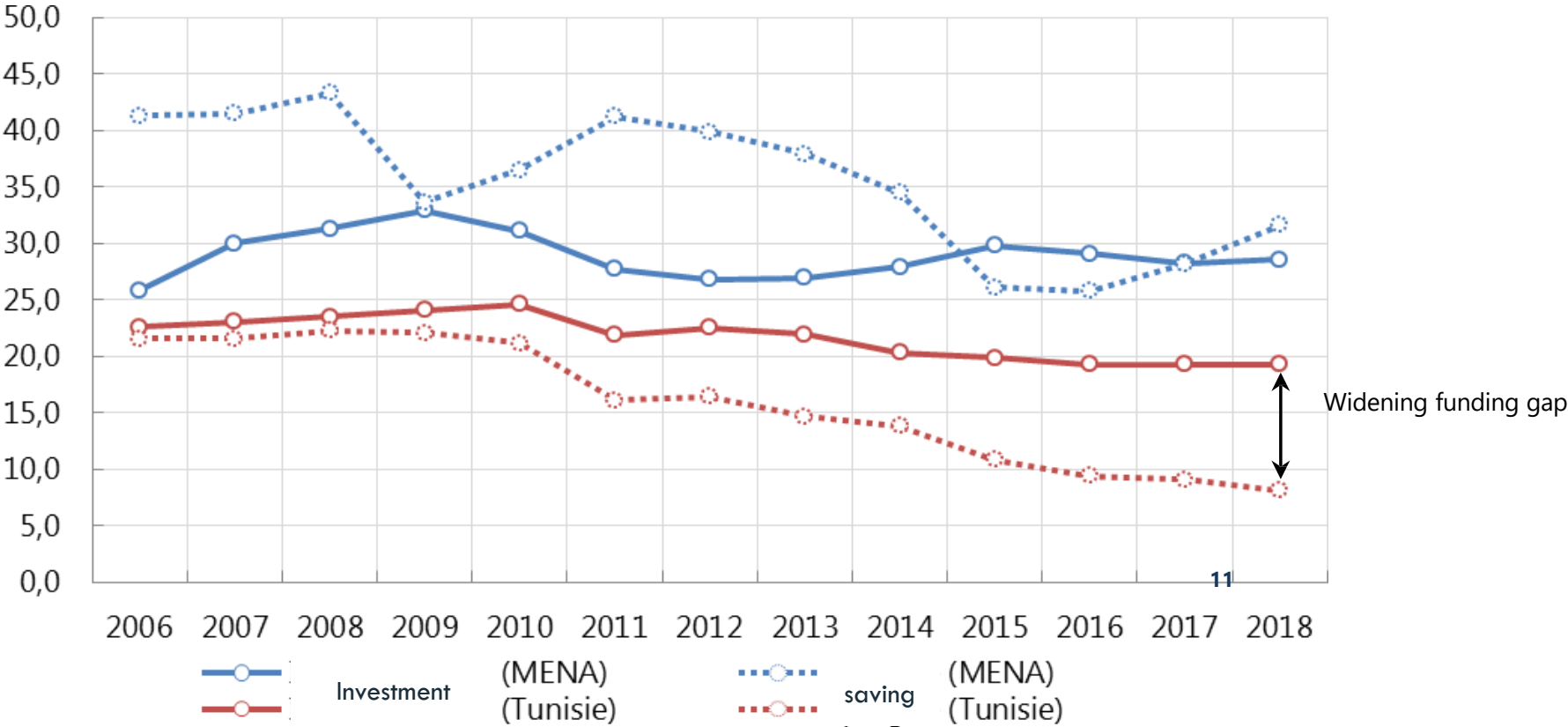
Graph 7: Evolution of the exchange rate of the dinar vis-à-vis the main currencies (%)



Source : Author

SINCE THE REVOLUTION, SAVINGS AND INVESTMENT RATES HAVE FALLEN SIGNIFICANTLY, RESULTING IN A GAP THAT WIDENS FROM YEAR TO YEAR.

Graph 8 : Evolution of saving and investment rates (% of GDP)



02

## MONETARY POLICY RESPONSE

# The Central Bank as guarantor of price stability

The new statutes of the BCT (Law No. 2016-35 of 25 April 2016) enshrine price stability as the ultimate objective of the issuing institute, but unlike the statutes of 2006, financial stability is gaining in importance.

## TITRE II

### OBJECTIFS ET MISSIONS DE LA BANQUE CENTRALE

Art. 7 – L’objectif principal de la banque centrale consiste à maintenir la stabilité des prix.

La banque centrale contribue au maintien de la stabilité financière de manière à soutenir la réalisation des objectifs de la politique économique de l’Etat, y compris dans les domaines de développement et de l’emploi. Elle œuvre pour une coordination optimale entre la politique monétaire et la politique économique de l’Etat.

## العنوان الثاني

### أهداف البنك المركزي ومهامه

الفصل 7 . يتمثل الهدف الأساسي للبنك المركزي في الحفاظ على استقرار الأسعار.

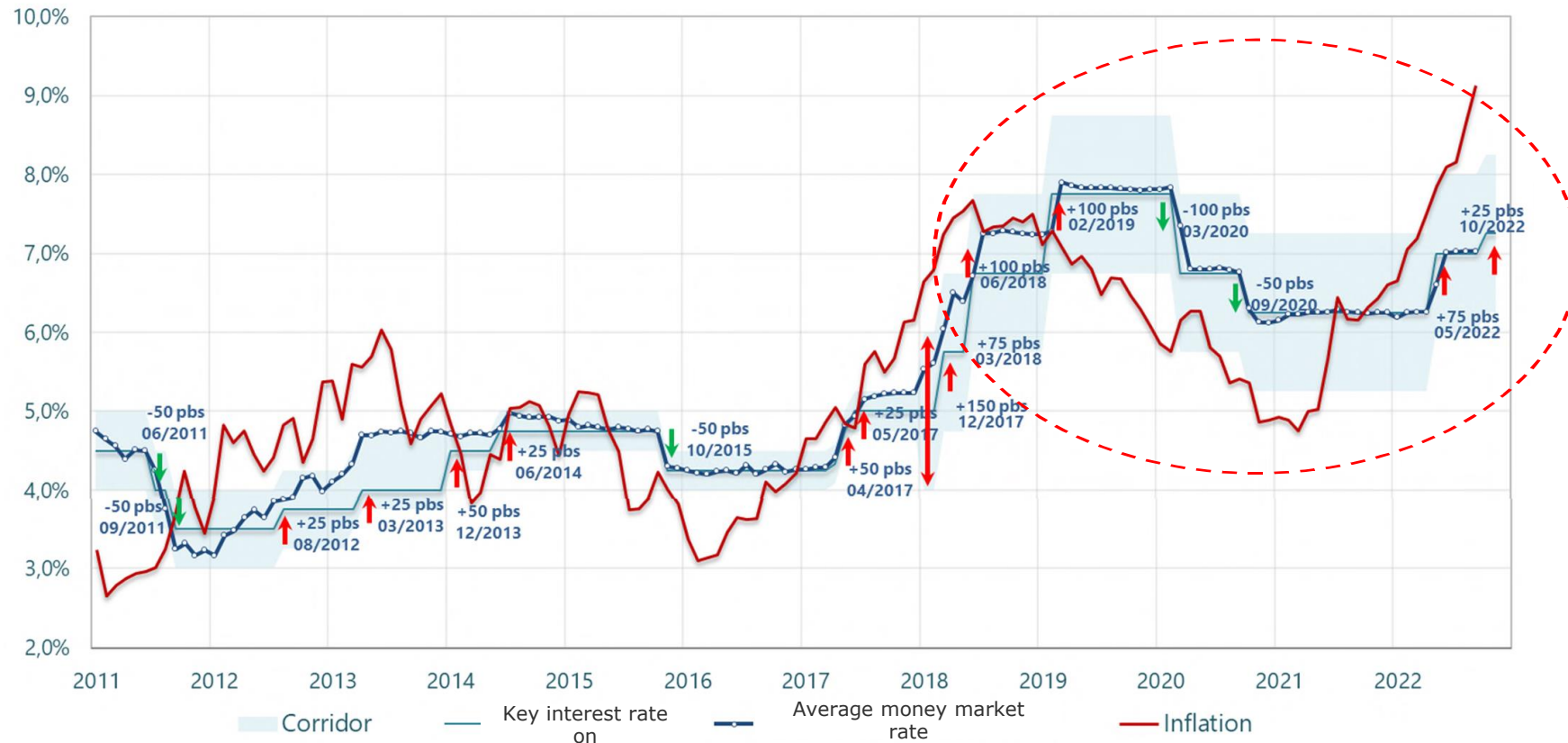
ويساهم البنك المركزي في الحفاظ على الاستقرار المالي بما يدعم تحقيق أهداف السياسة الاقتصادية للدولة بما في ذلك في مجالي النمو والتشغيل، ويعمل من أجل تنسيق أمثل بين السياسة النقدية والسياسة الاقتصادية للدولة.

## THE POST-2010 MONETARY HISTORY FOLLOWED THREE DISTINCT PHASES:

- (1) The move to further exchange rate flexibility in the aftermath of the Arab Spring and the emergence of banks' structural liquidity deficit;
- (2) The growing volume of central bank refinancing after the 2015 terrorist attacks that led to a loss of control over monetary aggregates and rendered ineffective the initial attempts to contain inflation through policy rate hikes; and
- (3) the more forceful policy tightening since 2018 to counter accelerating inflation.

## An active and vigilant monetary policy vis-à-vis the resurgence of inflationary pressures

Monetary policy evolution since 2011



Latest observations: September 2022  
Source: auteur based in INS and BCT

## STRATEGY BASED ON THE INTEREST RATE AS THE PREFERRED INSTRUMENT FOR THE CONDUCT OF MONETARY POLICY

In order to influence inflation, and achieve its ultimate objective of price stability, the Tunisian Central Bank sets itself an intermediate objective and an operational objective.

The operational objective of the Central Bank is the interbank rate. This rate, which is the preferred instrument of monetary policy, makes it possible to steer all market rates.

Today, the intermediate objective of monetary policy is the forecasting of inflation.



## Without the measures taken by the central bank, the cost of inaction would have been very high...

- Inflation would have been even higher or even in double digits.
- Real interest rates would have been increasingly negative, leading to a fall in the real cost of credit, which favours the acceleration of bank credit and demand for consumption that can only exacerbate inflationary pressures.
- Stronger demand for consumption of imported products would lead to a widening of the current account deficit, accelerate the erosion of foreign exchange reserves, and consequently increase pressure on the foreign exchange, refinancing and inflation.
- Deposit remuneration would be affected by the rise in inflation, which would negatively affect bank resources and would inevitably result in an increasing use of the central currency to meet this demand, leading to a sharp increase in the overall volume of refinancing.

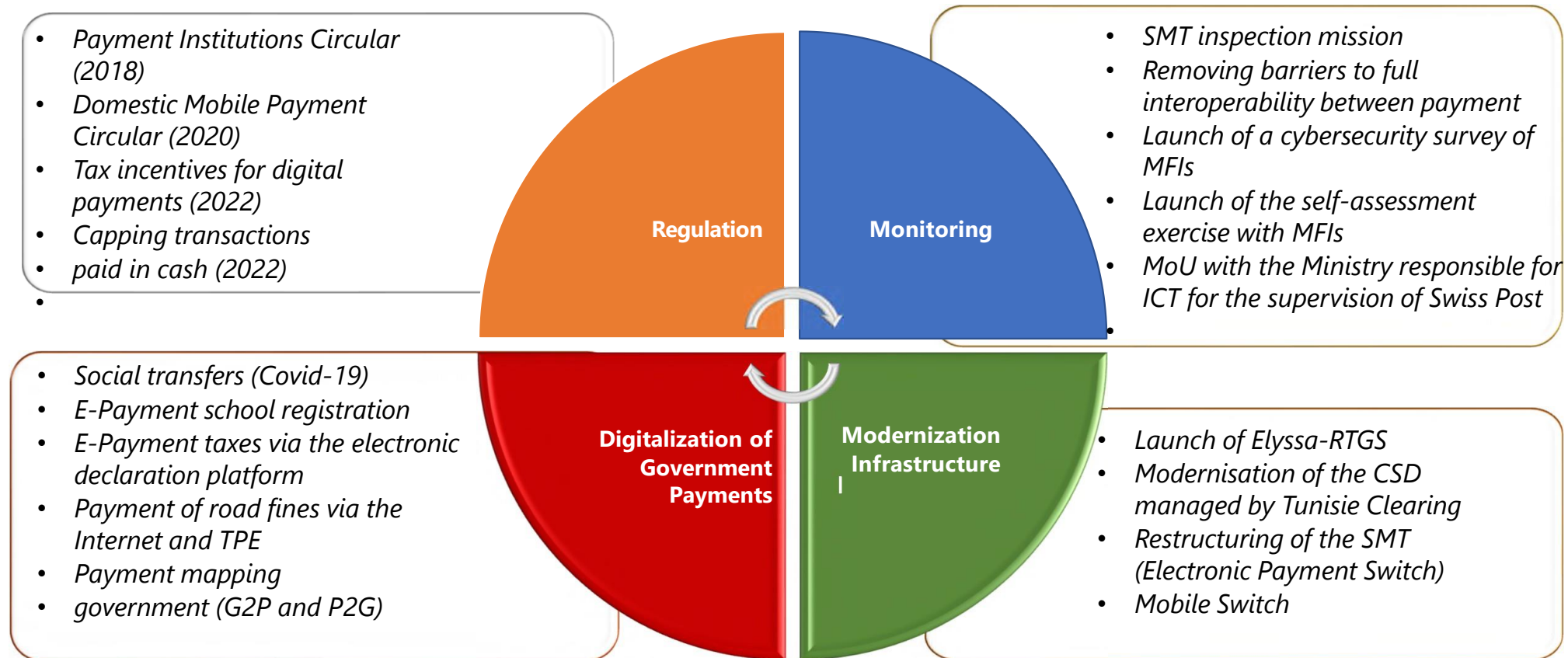
03

## REFORMS UNDERTAKEN BY THE CENTRAL BANK OF TUNISIA

BCT initiatives to promote financial innovation in Tunisia

## DEVELOPMENT OF ELECTRONIC PAYMENT

*In terms of regulation, supervision and modernization of the infrastructure, colossal work has been undertaken since 2018 by the BCT*



## regulatory Sandbox

The year 2021 was marked by the start of effective tests conducted within the framework of the first cohort of the regulatory Sandbox. The latter constitutes a support mechanism for financial innovation and innovative actors launched by the BCT in order to provide Fintechs, meeting the selection criteria, with the possibility of conducting experiments on a small scale and for a limited period. In this respect, it should be noted that four solutions were admitted to this first cohort, namely:

- Online client's identification or electronic-know-your-customer (E-KYC) solution allowing the digitalization of enrolment process for customers (private individuals or legal entities);
  - Cross-border equalisation solution of bilateral transfers between the BCT and a Central Bank from the Maghreb;
- Decentralized platform for raising tokenized funds;
- The Central Bank's digital currency solution.

# CONCLUSION

- Monetary policy played a crucial role in the period 2011-2021 in maintaining price stability by containing inflation to relatively acceptable levels, with the persistence of macroeconomic imbalances and shocks,
- 2022 pushed inflation to a high level and is likely to persist and deviate from historical levels, in the absence of appropriate monetary policy actions,
- The multiplicity and concomitance of exceptional shocks during this period makes it difficult to identify the effects of monetary policy.
- The Central Bank's effort would be focused on a targeted communication policy in order to better anchor agents' expectations and make monetary policy more effective in achieving its objective.

## RECOMMENDATION : MONETARY AND EXCHANGE RATE POLICY

- Migrating to inflation-targeting
- Preserve the independence of the central bank in the conduct of its monetary policy Pro-active monetary policy to combat further increases in core inflation.

- **Simplification of foreign exchange regulations**
- **simplifying the framework and gradually lifting controls,**
- **while taking into account macroeconomic and financial sector conditions and policies. Create an enabling environment for investment and business operations.**
-



**Thank you for your attention**