Effectiveness of Monetary Policy in Economies in Democratic Transition: Evidence from Tunisia

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Abstract
This paper aims to contribute to the meager literature on monetary policy effectiveness in Tunisia especially after the revolution of January 2011; a period during which the country entered a delicate democratization transition. On the basis of a monthly data of several macroeconomic variables during the period from 2000 through 2013 a Vector Error Correction (VEC) model is estimated. The VEC-generated impulse response functions show that the monetary policy stance, as measured by the short-term interest rate, has become increasingly more effective on real output and prices during the post-revolution period; i.e., (2011 – 2013) than the previous period; i.e., (2000 – 2010). The variance decomposition analysis not only confirms these findings but also points out an increasing role to the real output in price variation during the political transitional period. This might be attributed to the increasing volatile environment that characterized this period, which perturbed the aggregate supply and exacerbated the aggregate demand. Another no less important finding uncovered by the model is the amplification and acceleration of the exchange rate pass-through during the transitional period with respect to the pre-revolution period.

Keywords: monetary policy, Vector Error Correction Model, impulse response function, variance decomposition, Exchange rate Pass-Through.

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