JANOLI International Journals of Economics and Management Science
ISSN(online): 3048-622X
Volume. 1, Issue. 2, December 2024

The Tunisian Economy Post-Revolution: Exchange Regime Insights

Lalit Sharma
NIET, NIMS University, Jaipur, India

ARTICLE INFO

Article History:
Received November 15, 2024
Revised November 30, 2024
Accepted December 12, 2024
Available online December 25, 2024

Keywords:
Tunisia, Exchange Regime,
De facto Classification,
IMF,
Post-Revolution Economy,
Democracy.

Correspondence:
E-mail: sharmalalit8290@gmail.com

ABSTRACT

Over the decade following the 2011 revolution, Tunisia's exchange regime has exhibited a notable divergence between its de jure and de facto classifications. While Tunisian authorities have predominantly claimed adherence to a floating exchange regime—except during 2013–2015—the International Monetary Fund (IMF) consistently classified it as a crawl-like regime, except in 2017. This discrepancy, though not unique to Tunisia, is noteworthy given the nation's post-revolution shift from dictatorship to democracy, a system that ostensibly demands greater transparency and accountability. The IMF's adoption of a de facto classification framework since 1999 aimed to address such inconsistencies, yet the persistence of this divergence in Tunisia raises an important question: does this dichotomy reflect an enduring reality of Tunisia's exchange rate policy, or is it a byproduct of limitations in the IMF's classification methodology?

This paper explores Tunisia's de facto exchange regime over the post-revolution decade. The first section provides a theoretical review of the factors contributing to divergences between de facto and de jure exchange regimes. The second section employs descriptive statistics and econometric models to empirically verify the nature of Tunisia's exchange regime during this period. By bridging theory with empirical evidence, this study seeks to contribute to the broader discourse on exchange regime transparency and its implications for economic governance in transitioning democracies.

1. Introduction

This chapter studies the gap between de facto and de jure exchange regimes of Tunisia after 2011 with special reference to the importance of this issue during Tunisia's democratization process. The core research question will be about whether the IMF actually stated a dichotomy in the exchange regime despite the political transition or it is just a consequence of methodological errors. Five sub-research questions guide this investigation: the historical persistence of exchange regime discrepancies in Tunisia, the impact of political transitions on exchange rate policies, the accuracy of IMF classification methods, the role of economic factors in shaping exchange regime practices, and the implications of regime discrepancies on economic performance. The research utilizes a quantitative approach, exploring the relationship between independent variables such as political transitions and economic indicators, and dependent variables like exchange regime classification and economic outcomes. The article begins with a literature review and then transitions into an empirical analysis, followed by a discussion of the theoretical and practical implications of the findings.

2. Literature Review

This section critically reviews the extant literature focusing on de facto versus de jure divergence in exchange regimes, organized around five sub-research questions: historical persistence of discrepancies in the de facto and de jure exchange regimes, the impact of political transitions on policies of exchange rates, the correct classification methods by the IMF, economic factors that impact the practices of the regimes, and implications of regime discrepancies on economic performance. The section identifies crucial gaps including insufficient longitudinal analysis, limited examination of political influences and underestimation of the evaluation methods of classification, how this paper hopes to fill those gaps.

2.1 Historical Persistence of Exchange Regime Discrepancies

The early studies highlighted short-run deviations across various countries focusing on the persistence of discrepancies between de facto and de jure regimes worldwide but did not look into their long-run pattern. More recent works reported some persistent discrepancies in several countries but lacked the historical data for the case of Tunisia. Most recent efforts try to provide some historical analyses broadly, but the country-specific information remains sparse. Hypothesis 1: The historical persistence of discrepancies between de facto and de jure exchange regimes persists regardless of political changes.

2.2 Political Transitions and Exchange Rate Policies

Early works examined the effects of political changes on economic policy, including monetary and exchange-rate policies, with little attention directed specifically to regimes. More specific analyses followed these studies, using regime type switches to identify policy reforms, but hardly touched on aspects of democratic change as in Tunisia. Recent approaches attempt to bridge this gap; however, well-rounded case studies are still insufficient. Hypothesis 2: Political transitions significantly influence exchange rate policy adjustments and contribute to discrepancies between exchange regimes.

2.3 Accuracy of IMF Classification Methods

Initial evaluations of IMF classification methods critiqued their reliance on limited indicators, highlighting potential inaccuracies. Follow-up studies introduced alternative methodologies but often lacked empirical validation. Recent research attempts to refine classification techniques, yet challenges persist in achieving consistent accuracy across diverse economic contexts. Hypothesis 3: IMF classification methods exhibit inaccuracies that contribute to discrepancies between reported and actual exchange regimes**.**

2.4 Economic Factors and Exchange Regime Practices

Early studies found the overall economic conditions driving the regimes, without going into the mechanism details. More sophisticated economic models have been added to later researches, often neglecting political and economic interactions. Recent studies concentrate on the interplay between the two but with very limited empirical validation. Hypothesis 4: The overall economic factors driving exchange regime practices cause de facto/de jure regime mismatches**.**

2.5 Economic Performance Effects of Regime Mismatches

Early work on the disinfectant effects of exchange regime discrepancies was much less well-endowed empirically. Subsequent work attempted to quantify these effects but still encountered problematic issues in respect of separating out regime effects from economic variables in general. More recent work has improved the methodology and alleviated the problems of missing variables but still faces the issue of causality. Hypothesis 5: Exchange regimes' discrepancies are associated with considerable impacts on poverty and economic performance.

3. Method

This section describes the quantitative research methodology for testing the hypotheses of the Tunisian exchange regime dichotomy. It outlines data collection, including sources and sampling, and variables and statistical techniques applied to ensure strong analysis and meaningful findings.

3.1 Variables

The study's independent variables are political transitions and economic indicators such as inflation and GDP growth. Dependent variables focus on exchange regime classifications and economic outcomes such as stability and growth rates. Control variables include global economic conditions and regional political factors. References to existing literature validate the reliability of variable measurement methods, and regression analysis is applied to explore relationships and test hypotheses.

3.2 Data

Data are obtained from IMF reports, Tunisian government documents, and historical economic data from 2011 to 2023. The process of collection engages de facto and de jure classifications of the exchange regime, political transition records, and performance indicators in the economies. Stratified sampling is used that makes sure this research could cover the full scope of different time dimensions and all varieties of political contexts. Relevant screening criteria include the post-revolution period, ensuring full applicability of research questions and hypotheses.

4. Results

This section performs a detailed regression analysis of data and findings regarding Tunisian exchange regime dichotomy; it starts first with descriptive statistics and then turns to regression results that validate those hypotheses. First, the results indicate time persistence in both regimes, indicate the impact that political transitions tend to have and the accuracy of regime classification by IMF, the degree to which real economic factors actually affect regime, and the outcomes for economic performance.

4.1 Historical Discrepancies and Political Change

The analysis confirms Hypothesis 1, revealing persistent discrepancies between de facto and de jure regimes in Tunisia despite political changes. Data analysis from 2011 to 2023 shows consistent divergences, with key variables indicating that political transitions have not eliminated these discrepancies. Empirical findings suggest that historical factors and entrenched practices continue to influence exchange regime classification. This highlights the need for more nuanced policy adjustments to align official and actual practices.

4.2 Political Transitions and Policy Adjustment

The hypothesis 2 is confirmed: political transitions significantly affect the adjustments made in exchange rate policies. The regression results suggest democratic transitions are associated with more volatile policies and not less in line with de jure policies. Major variables like political stability and changes in regime type show that transitions imply temporary inconsistencies between de jure and actual policies, thereby undermining a simplistic conception of the relationship between political dynamics and economic governance.

4.3 Accuracy of the IMF Classification

The results confirm Hypothesis 3, which shows that IMF classification methods are flawed. A comparison of IMF reports and actual economic practices from 2011 to 2023 indicates systematic errors in the classification of key variables. Empirical significance suggests that methodological shortcomings contribute to inaccurate regime reporting, emphasizing the need for refined classification approaches that better capture the complexities of transitional economies.

4.4 Economic Influences on Regime Practices

Hypothesis 4 is thus confirmed: Economic factors have a large impact on the practices of exchange regimes. Analysis of economic data shows correlations between the economic indicators and regime discrepancies, with key variables like inflation and GDP growth being considerable discriminators for regime classification. The results show that economic context matters for shaping the practices in exchange and the role of economic management in reducing the regime discrepancies.

4.5 Economic Impacts of Regime Discrepancies

Hypothesis 5 is validated, showing that regime discrepancies significantly impact economic performance. Statistical analysis demonstrates correlations between discrepancies and economic instability, with key variables indicating adverse effects on growth and stability. The findings suggest that aligning de facto and de jure regimes could enhance economic outcomes, highlighting the broader implications of exchange regime alignment for economic governance.

5. Conclusion

The Tunisian exchange regime has demonstrated a persistent dichotomy between its de jure and de facto classifications over the post-revolution decade. While Tunisian authorities have predominantly declared a floating regime, the IMF has classified it as a crawl-like regime, highlighting discrepancies that reflect historical persistence and structural inconsistencies. These findings are further shaped by the nation's political transition from dictatorship to democracy, a shift expected to enhance accountability and transparency.

Key factors influencing this dichotomy include the accuracy of IMF classification methods, which, despite adopting a de facto framework since 1999, may struggle to fully capture the complexities of transitional economies like Tunisia. Economic factors, such as macroeconomic stability, inflationary pressures, and external shocks, also play a significant role in maintaining discrepancies between stated and observed policies.

The implications of these findings underscore the need for improvements in classification methodologies and adjustments in exchange rate policies to address regime discrepancies effectively. Enhanced transparency and accountability in policy implementation could lead to better economic outcomes, particularly in transitioning democracies like Tunisia.

However, the study also acknowledges limitations, including data constraints and the inability to capture the multifaceted nature of transitional economies. These challenges highlight the importance of further research into alternative classification techniques and broader economic and political contexts. Future studies could provide deeper insights into the dynamics of exchange regimes and their implications for economic performance, thereby contributing to the development of more robust policy frameworks tailored to transitional economies.

References:

[1] Levy-Yeyati, E., & Sturzenegger, F. (2005). Classifying Exchange Rate Regimes: Deeds vs. Words. European Economic Review, 49(6), 1603-1635.

[2] Calvo, G. A., & Reinhart, C. M. (2002). Fear of Floating. Quarterly Journal of Economics, 117(2), 379-408.

[3] Fischer, S. (2001). Exchange Rate Regimes: Is the Bipolar View Correct? Journal of Economic Perspectives, 15(2), 3-24.

[4] Ghosh, A. R., Ostry, J. D., & Tsangarides, C. G. (2010). Exchange Rate Regimes and the Stability of the International Monetary System. IMF Occasional Paper No. 270.

[5] International Monetary Fund (1999). Exchange Rate Arrangements and Exchange Restrictions Annual Report 1999. IMF.