

Investment Adjustments to Exchange Rate Fluctuations Evidence from Manufacturing Firms in Tunisia

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Abstract : The current research aims to assess empirically the reaction of private investment to exchange rate fluctuations in Tunisia using a sample of 548 firms operating in manufacturing industries between 1997 and 2002. The micro-econometric model we estimate is based on an accelerator-profit specification investment model increased by two variables that measure the variation and the volatility of exchange rates. Estimates using the system the GMM method reveal that the effects of the exchange rate depreciation on investment are negative since it increases the cost of imported capital goods. Turning to the exchange rate volatility, as measured by the GARCH (1,1) model, our findings assign a significant role to the exchange rate uncertainty in explaining the sluggishness of private investment in Tunisia in the full sample of firms. Other estimation attempts based on various sub samples indicate that the elasticities of investment relative to the exchange rate volatility depend upon many firms' specific characteristics such as the size and the ownership structure.

Keywords : investment, exchange rate volatility, manufacturing firms, system GMM, Tunisia

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