

Unveiling Special Policy Regime, Judgment, and Taylor Rules in Tunisia

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Abstract : Given limited research on monetary policy rules in revolutionary countries, this paper challenges the suitability of the Taylor rule in characterizing the monetary policy behavior of the Tunisian Central Bank (BCT), especially in turbulent times. More specifically, we investigate the possibility that the Taylor rule should be formulated as a threshold process and examine the validity of such nonlinear Taylor rule as a robust rule for conducting monetary policy in Tunisia. Using quarterly data from 1998:Q4 to 2013:Q4 to analyze the movement of nominal short-term interest rate of the BCT, we find that the nonlinear Taylor rule improves its performance with the advent of special events providing thus a better description of the Tunisian interest rate setting. In particular, our results show that the adoption of an appropriate nonlinear approach leads to a reduction in the errors of 150 basis points in 1999 and 2009, and 60 basis points in 2011, relative to the linear approach.

Keywords : policy rule, central bank, exchange rate, taylor rule, nonlinearity

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