

EBS/86/244

CONFIDENTIAL

November 3, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Tunisia - Real Effective Exchange Rate - Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Tunisian dinar.

Mr. Belanger (ext. 8671) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

TUNISIA

Real Effective Exchange Rate - Information Notice

Prepared by the African Department and the
Exchange and Trade Relations Department

(In consultation with the Legal Department
and the Research Department)

Approved by A. D. Ouattara and S. Kanesa-Thanan

November 3, 1986

The recent evolution of Tunisia's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of August 1986 the Tunisian dinar had depreciated in real effective terms by more than 10 percent since the last occasion on which Tunisia's exchange rate developments were brought to the attention of the Executive Board--the Article IV consultation in November 1985. 1/ The depreciation is estimated to have amounted to 16.9 percent. 2/

The exchange rate for the Tunisian dinar is determined on the basis of movements in a basket of the currencies of Tunisia's main trading partners. The rate is also reviewed and adjusted periodically against the basket with a view toward maintaining the real effective exchange rate at an appropriate level. The nominal effective exchange rate index fluctuated within a narrow band from 1982 through the third quarter of 1985, but has depreciated steadily since September 1985, coinciding with the downward trend in the U.S. dollar during this period. As there has been little variation in Tunisia's relative price position (as measured by developments in consumer prices) throughout the period since 1982, developments in the real effective exchange rate index have paralleled those of the nominal index. As of August 1986, the cumulative depreciation of the real effective exchange rate index since September 1985 exceeded 20 percent.

Exchange rate policy and developments in Tunisia in recent years are described in the recently issued staff report for the 1986

1/ The Chairman's summing up was circulated as SUR/85/122 (11/15/85).

2/ The effective exchange rate index calculated for purposes of the information notice system is based on average exchange rates for each month. Because the dinar depreciated by about 12 percent during the month of August 1986, the rate at end-August was approximately 5 percent lower than the average for the month.

Article IV consultation (SM/86/237, 9/10/86), the report on recent economic developments, and a forthcoming request for stand-by arrangement. The reports note the importance of an appropriately flexible exchange rate policy as part of a set of vigorous and wide-ranging adjustment measures that the authorities are currently implementing in light of the recent oil price-related deterioration in the terms of trade and the underlying weakness of the balance of payments. The adjustment program for 1986/87 includes a reinforced application of the flexible exchange rate policy, which takes particular account of the recent terms of trade loss and aims at maintaining the competitiveness of the Tunisian economy.

Discussion by the Executive Board to conclude the 1986 Article IV consultation with Tunisia is scheduled for November 4, 1986.

Approved: _____

The report on recent economic developments and the forthcoming request for stand-by arrangement are contained in the information system. Based on the information received, the Board has decided to approve the adjustment program for 1986/87. The program is based on a flexible exchange rate policy and aims at maintaining the competitiveness of the Tunisian economy. The program is scheduled for November 4, 1986.

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Table 1. Tunisia: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1982						
I	98.7	102.5	96.3	75.3	117.3	118.7
II	97.0	100.1	96.9	70.8	121.3	120.2
III	97.0	98.5	98.4	65.1	126.3	125.5
IV	98.9	99.5	99.3	64.1	130.3	131.0
1983						
I	97.0	99.0	97.9	64.2	131.4	132.7
II	96.0	98.5	97.5	60.6	133.9	132.6
III	96.1	99.6	96.5	57.7	135.9	135.2
IV	96.6	100.6	95.9	56.7	138.3	139.1
1984						
I	96.7	100.8	95.9	55.6	141.3	142.5
II	97.2	100.5	96.7	54.9	145.1	143.8
III	96.6	99.8	96.8	50.7	148.2	147.6
IV	95.9	99.5	96.5	48.1	150.6	151.4
1985						
I	96.3	99.8	96.5	45.2	153.8	155.0
II	96.3	100.2	96.1	47.2	156.4	155.0
III	98.4	101.4	97.1	50.6	160.3	159.8
IV	93.0	96.6	96.2	51.7	161.5	162.3
1986						
I	92.3	95.9	96.2	55.2	163.3	164.4
II	88.1	90.8	97.1	53.5	166.2	164.7
Monthly						
1985						
Nov. <u>3/</u>	92.9	96.4	96.3	51.5	161.7	162.1
Dec.	92.8	96.9	95.8	52.7	161.9	163.6
1986						
Jan.	92.7	96.9	95.7	53.9	162.2	164.1
Feb.	92.5	96.2	96.1	55.6	163.1	164.4
March	91.6	94.7	96.8	56.1	164.6	164.8
April	90.2	92.8	97.1	54.3	165.6	164.9
May	88.4	91.0	97.1	54.0	166.2	164.4
June	85.7	88.4	96.9	52.2	166.6	164.7
July	82.7	85.9	96.3	52.1	165.7	164.3
August	77.2	79.8	96.7	49.9	167.0	167.0
Percentage change						
Nov. 1985- Aug. 1986	-16.9	-17.3	0.4	-3.1	3.3	

Source: Information Notice System.

1/ Increases mean appreciation.

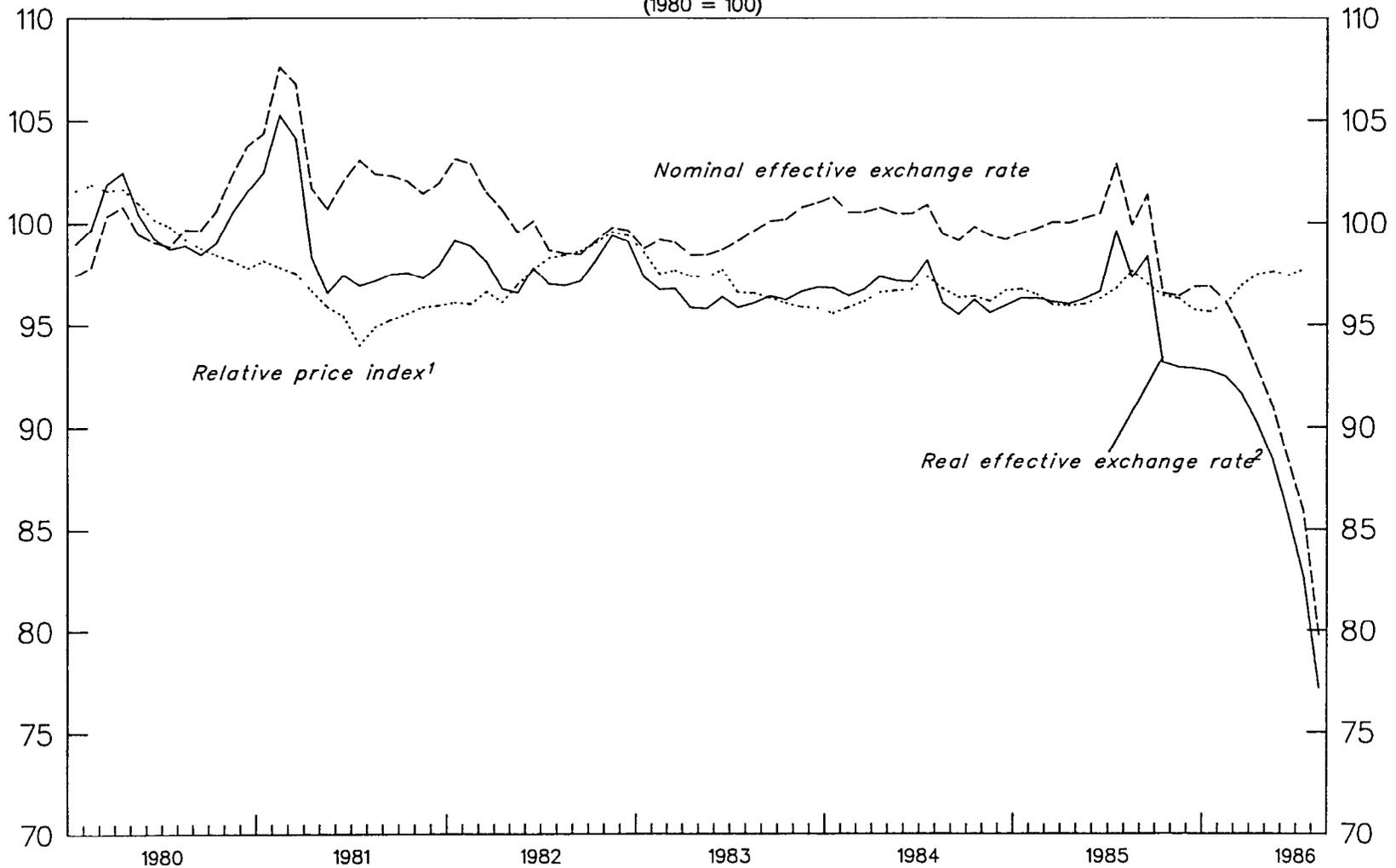
2/ Using seasonally adjusted price indices.

3/ Date of latest consideration by Executive Board.

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TUNISIA
 INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE
 (1980 = 100)



Source: Information Notice System.

¹In terms of local currencies.

²Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices, increases mean appreciation.

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