datanalysis | N°8

المرصد التونسي للإقتصاد
Observatoire Tunisien de l'Economie

The IMF's Methods for Bringing the Value of the Tunisian Dinar Down

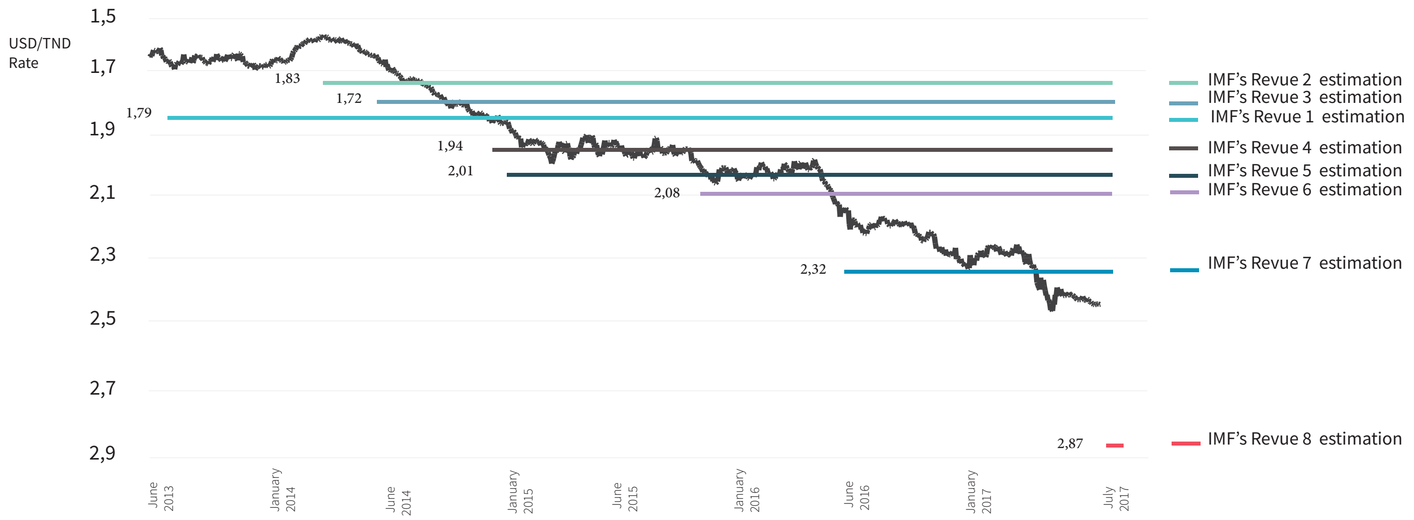
Key highlights

- Through its mathematical models, the IMF exerts constant pressure on the Central Bank of Tunisia (CBT) in order to push it to consent to the drop of the Tunisian Dinar value
- The Tunisian Dinar lost 49 % of its value against the US Dollar during the period between the beginning of the first IMF loan (June 2013) and the latest IMF review (July 2017).
- The IMF estimated that the Tunisian Dinar should reach an exchange rate of 1 USD for 2.87 TND in its last review.

| Title : *IMF assessment on USD / TND rates*

Author: *Tunisian Observatory of Economy .*

Sources :*IMF Reports on Tunisia: Review of the Confirmation Agreement and Review of the Extended Credit mechanism*



As part of loan agreements it provides to Tunisia, the IMF conducts regular reviews generating forecasts, including of the expected "real" value of the Tunisian Dinar. The IMF estimates what the ideal value of the Dinar should be in the future in order to reach a macroeconomic balance (current account) through complex modeling. In the aftermath of April 2012 as the dinar is no longer pegged to a basket of currencies, the IMF continues to put continuous pressure on Tunisia, and more specifically on the CBT. The aim of IMF is to prevent the CBT from intervening in the exchange market in order to defend the value of the Dinar. The horizontal lines on the figure represent the value that the Tunisian Dinar should have according to IMF regular forecasts; Reviews after reviews, IMF constantly estimates an overvaluation of 10 %. This estimation was used to put more pressure on the CBT in order to push it to consent to the drop of the value of the Dinar. As shown on the figure, when the Dinar reaches the value desired by the IMF, the IMF comes up with a new forcecast through which it estimates that the dinar must drop by 10 % once more, and so on.

Unlike the Egyptian experience where the IMF ordered the Egyptian Pound to drop by nearly 50 % against the US Dollar overnight (November 2016), the IMF adopted a step-by-step strategy in Tunisia. The IMF used its mathematical models in order to achieve the same goal. Indeed, the Tunisian Dinar lost 49 % of its value against the US Dollar during the period between the beginning of the first IMF loan (June 2013) and the latest IMF review (July 2017). Furthermore, as it has recently altered its mathematical model, the IMF now estimates that the Dinar is overvalued by 16.7 % (July 2017 review), which is equal to an exchange rate of 1 USD for 2.87 TND. How long will the Tunisian authorities allow this to happen?

Author: Chafik Ben Rouine | Email: Chafik.benrouine@economie-tunisie.org