

TUNISIA PARTICIPATES IN THE HIGH LEVEL SEMINAR OF MEDITERRANEAN COUNTRIES' CENTRAL BANK GOVERNORS (CYPRUS, 27 AND 28 OCTOBER 2010)

Mr. Taoufik BACCAR, Governor of the Central Bank of Tunisia (BCT) participated in works of the high level seminar of Mediterranean countries' central banks which was held in Cyprus on 27-28 October 2010, with attendance of governors from over 25 Mediterranean countries.

This conference which was organized jointly by the European Central Bank and the Central Bank of Cyprus is part of the regular dialogue between Mediterranean Central Banks' senior officials.

Works of the meeting included three sessions: "Challenges facing monetary policy in Mediterranean countries", "Conduct of monetary policy under the fixed exchange regime" and "Fallout of the crisis on banking systems and financial stability".

Mr. BACCAR chaired the session on "Conduct of monetary policy under the fixed exchange regime", during which the experiences of Cyprus, Lebanon and Mauritania were presented.

In the opening session, Mr. BACCAR stated that the monetary policy and the foreign exchange policy were largely requested in the recent crisis, adding that "several south Mediterranean countries adopted fixed exchange rates though certain countries were recently oriented towards a rather more flexible exchange regime".

In effect, during the years preceding the crisis and particularly between the beginning of 2007 and up to mid-2008, the south Mediterranean countries that have adopted a fixed exchange regime faced certain challenges that impeded achievement of monetary policy targets (higher inflationary pressure led by growing domestic demand in the wake of sharp monetary and credit growth; further to soaring energy and raw material prices).

Besides, efforts to further liberalize capital-account weigh on monetary policy conducting in a context marked by excess liquidity in the banking sector which further complicates the task of monetary authorities. The latter faced a dilemma with each attempt to contain inflationary pressure in a context of higher capital inflows and excess liquidity. These authorities were therefore led to look for a middle position between exchange rate and interest rate flexibility.

As for the relation between fixed exchange regime and the monetary policy, the Governor of the BCT recalled that the authorities opting for fixed exchange regime must take up a major challenge. This involves avoiding "contradictory trinity" as per which it is quite difficult to set a fixed interest rate, a free capital movement and an independent monetary policy at the same time.

Indeed, capital control may contribute to viability of the fixed exchange regime, but it can not be considered a standing instrument to facilitate the task of monetary authorities.

Thus, this control is called to be progressively lifted in a context of capital account liberalization. For this reason, monetary authorities in several countries were led to introduce reforms in conducting monetary policy and banking supervision.

Analyzing the Tunisian experience, the Governor of the BCT reminded of the foundation of an exchange rate policy adopted by Tunisia and its ties with the monetary policy, pointing out that despite the international financial crisis, Tunisia is seeking to create necessary conditions for full convertibility of the dinar, through a more flexible exchange policy, more efficient monetary policy and a stronger banking sector. He indicated that this objective is one of the priorities of the 2009-2014 Presidential Programme "Together We Meet Challenges".

The session went over Cyprus experience which moved from a fixed interest rate to monetary integration in the Euro Zone; then over the Lebanese with its own specificities and finally Mauritania which had to continuously adjust itself to the national context.