**Cover page**

**Monetary conditions index and its application on Tunisian economic forecasting**

**Ali Mna**

Department of Economics and Quantitative Methods, Higher Institute of Business Administration, University of Gafsa, Tunisia

Tel.: +216 98 96 79 69

E-mail address: Ali.mna@gmail.com

**Moheddine Younsi**\*

Unit of Research in Development Economics, Faculty of Economics and Management, University of Sfax,

Street of Airport, LP 1088, Sfax 3018, Tunisia

Tel.: +216 97 80 48 98

E-mail address: younsimoheddine@gmail.com

\*Corresponding author

**Abstract.** The purpose of this paper is to find out the extent of the influence of internal and external monetary conditions on Tunisian macroeconomic aggregates by constructing a synthetic index. We seek to contribute to the empirical literature in the following ways. First, we calculate the weights assigned to domestic interest rate and the exchange rate based on the estimated coefficients respectively for these two dimensions over the period 1965-2015. Second, by employing a VAR model approach, we confirm the long-run dynamic between the considered variables. The analysis of shocks indicates that monetary conditions have a particular importance through their effects on economic activity and inflation. The latter is characterized by its significant negative influence on economic growth and by its contribution in linking between internal and external interest rates. Third, we use a SVAR model approach for analyzing the short-run structural dynamics between the variables. Our findings reveal that the Tunisian economy is significantly influenced by external monetary conditions. This extensive influence is confirmed through the dynamics of structural monetary policy shocks and exchange rate. Overall, our study finds that the exchange rate plays an increasing role in transmitting the monetary policy effect to the inflation rate and thus the real economy.

**Keywords.** Monetary conditions index, SVAR approach, Structural monetary shocks.

**JEL Class.** E43, E51, E52.