The Reaction of the Asset Tunisian Market to Monetary Policy Shocks: A sectoral Analysis

La réaction du marché des actions tunisien aux chocs de la politique monétaire : Une analyse sectorielle

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Abstract:
The primary aim of this study is to investigate the interplay between monetary policy and financial markets. To achieve this, a Vector Error Correction Model (VECM) was employed to scrutinize data spanning from January 2011 to May 2023. The outcomes reveal a consistent pattern in the response of specific sectoral indices to changes in monetary policy. This response is marked by a lack of immediate impact in the short term and a discernible effect in the long term. Notably, it is observed that usually, the Monetary Market Authority (MMA) exhibits a positive influence, while the KIR (an index or indicator) registers a negative impact. As for other sectoral indices, the influence of monetary policy exhibits cyclical behavior, alternating between being procyclical at times and anticyclical at others. This dynamic contributes to an overall neutral effect on the Tunisian stock market.
Keywords: Asset market; monetary policy shocks; VECM.
JEL Classification Codes: E44, E52

Résumé
L'objectif principal de cette étude est d'analyser les interactions entre la politique monétaire et les marchés financiers. Pour ce faire, un Modèle de Correction d'Erreur Vectorielle (VECM) a été utilisé pour examiner des données couvrant la période de janvier 2011 à mai 2023. Les résultats révèlent un schéma cohérent dans la réponse des indices sectoriels spécifiques aux changements de la politique monétaire. Cette réaction se caractérise par un manque d'impact immédiat à court terme et un effet perceptible à long terme. Il est notamment observé que dans la majorité des cas, l'Autorité du Marché Monétaire (MMA) exerce une influence positive, tandis que le KIR (un indice ou indicateur) enregistre un impact négatif. En ce qui concerne d'autres indices sectoriels, l'influence de la politique monétaire présente un comportement cyclique, alternant entre étant procyclique à certaines périodes et anticyclique à d'autres. Cette dynamique contribue à un effet global neutre sur le marché boursier tunisien.
Mots-clés: marché des actions, chocs monétaire, VECM
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1-Introduction and Literature Review

The monetary policy transmission projects a set of mechanisms that go off due to effort of monetary policy instruments commanded by the central bank inside sight to impact the real economy and prices. The central bank has the sole right to issue the national money. It can then affect liquidity cost, expressed by the short interest rate and by the exchange rate of the national money. The conventional goals of monetary policy are price stability, optimal employment, and sustained economic growth. However, the impact of monetary policy on the economy takes place through the broad channel of financial markets, specifically through the equity market.

Recently, Maurer and Nitschka (2023) unveil the economic sources of the stock market effects of forty countries to US monetary policy surprises by decomposing stock market returns into components reflecting investors' revisions in expectations (news) about future cash flows and various components of discount rates. US monetary policy surprises have unrelenting effects on foreign stock markets because they principally include cash flow news. This notice pertains to different amounts of the surprises. The liquidity of stock markets and the detected country risk impact the sensibilities of unexpected stock market returns to the US monetary policy surprises while other country characteristics, as the exchange rate regime, have no consequence.

In the same context, Boehl (2022) analyzes monetary policy in an evaluated financial New-Keynesian model prolonged by behavioral expectation formation in the asset market. Credit frictions make feedback between asset markets and the macroeconomy, and behaviorally motivated speculation can enlarge fundamental swings in asset prices, that potentially cause endogenous, non-fundamental bubbles and bursts. Booms in asset prices ameliorate firms financing conditions and are therefore deflationary. These features significantly improve the power of the model to duplicate empirical key moments. A monetary policy that aims asset prices can inhibit financial cycles and cut down volatility in asset markets (dampening effect). This comes at the cost of creating an additional channel through which asset price fluctuations transfer to macroeconomic fundamentals (spillover effect). I find that unless financial markets are severely overheated, the undesirable fluctuations in inflation and output caused by the spillover effect more than outweigh the benefits of the dampening effect.

The non-linear impacts of monetary policy in the euro area since the global financial crisis on both asset prices and their imbalances component, for the stock and housing markets is evaluated by Blot et al (2020). They calculate these instabilities as the difference between asset prices and a benchmark value that is approximated with fundamentals in a discounted cash-flow model. Results show that ECB monetary policy has affected both stock and house prices in the euro area since 2008. However, they support that monetary policy affects stock price imbalances but not house price imbalances. Investigating further the mechanism, they observe that this response of stock price imbalances is driven by central bank information shocks, not by pure policy shocks. In the other side, Ubl (2014) affirms that a negative shock to monetary policy that reduced interest rates increases asset prices. He specifies that a lower interest rate diminishes the cost of adoption, increases investment levels, and thus raises the asset price.

Moreover, Lee and Lee (2023) affirm that due to the global economy that is currently being progressively integrated and liberalized, the cross-country transmission of U.S. monetary policy surprises has become an important issue attracting scholarly activity. They look at the connection between U.S. monetary policy uncertainty (USMPU), stock market volatility, and China's stock price index over a period from January 1994 to August 2021. They employ Granger causality in quaternary analysis to uncover the connections between the elements in each quaternary of the distribution in a clear way. The findings show that equity market volatility and China's stock price dynamics have tiny influence on USMPU. They affirm that only greater changes in both positive monetary policy uncertainty and stock prices imply changes in equity market volatility. Besides, variations in monetary policy uncertainty and equity market volatility in the United States Granger-cause China's stock prices.

Caines and Winkler (2019) qualify optimal monetary policy when agents learn about endogenous asset prices. Learning leads to inefficient asset price variations and deformations in consumption and investment decisions. They notice that the policy-relevant natural real interest rate increases with subjective asset price beliefs. Optimal monetary policy therefore upgrades interest rates when expected capital gains are elevated. When the asset is not in fixed supply, optimal policy also "leans against the wind". In a simple calibration of the model, a positive response to capital gains in simple interest rate rules is beneficial.

According to their findings, Bats et al. (2023) affirm that monetary policy exerts its influence partly by affecting the additional charges related to risk on both publicly traded financial assets and loans provided through intermediaries. Research has demonstrated that when these risk-related charges are reduced, there is a higher probability of a subsequent reversal that harms the mechanism of credit supply and, consequently, the real economy. These combined effects lead to a tradeoff over time for monetary policy, as stimulating the economy in the present can potentially sow the seeds of a future downturn that might be challenging to counteract. Based on this tradeoff, we identify certain implications for the implementation of monetary policy.

In the same framework, Paul (2020) examines the combined impact of monetary policy on both asset prices and the real economy in the United States. To achieve this, they create an estimator that uses unexpected changes in monetary policy at high frequencies as a proxy for the underlying structural monetary policy shocks. These surprises are integrated into a vector autoregressive model as an external variable. Specifically, the researcher focuses on surprises in the current short-term interest rates, as they are less affected by informational factors. When considering varying model parameters over time, the study reveals that, compared to the response of output, the reaction of stock and house prices to monetary policy shocks was notably muted before the 2007-09 financial crisis.

In an earlier study, Rigobon and Sack (2004) aim to determine how asset prices are affected by shifts in monetary policy. However, this relationship is complex due to the interdependence of policy decisions and the fact that both interest rates and asset prices respond to various other factors. To tackle this issue, they devise an estimator that utilizes the heteroskedasticity present in high-frequency data. Their approach involves identifying the response of asset prices to changes in monetary policy by examining the increase in the variance of policy shocks on days of FOMC meetings and the Chairman's semi-annual monetary policy testimony to Congress. The results indicate that when short-term interest rates rise, stock prices decline, and the yield curve shifts upward, with the effect diminishing as the maturities of assets lengthen.

Even further, Bomfim (2003) researchers investigates the impact of public disclosure of monetary policy decisions on the stock market, focusing on pre-announcement and news effects. The findings indicate that the stock market exhibits relatively low volatility in the days leading up to regularly scheduled policy announcements, a phenomenon referred to as the "calming effect." While this effect has been commonly observed anecdotally in media reports, it has only become statistically significant over the past four to five years, attributed to changes in the Federal Reserve's disclosure practices since early 1994. Additionally, the study explores how actual interest rate decisions made by policymaker's influence stock market volatility. It is observed that unexpected interest rate decisions lead to a significant increase in stock market volatility in the short term. Moreover, positive surprises in interest rate decisions have a more pronounced effect on volatility compared to negative surprises.

The connection between monetary policy and stock market returns in the United States is examined by Chauvet and Jiang (2023). For this purpose, they employ advanced nonlinear econometric models. Initially, they apply a single-variable Markov-switching model to each of the three stock indices and three monetary policy variables, revealing significant patterns of shifting economic conditions and shared movements. Subsequently, the study employs a Markov-switching dynamic bi-factor model to simultaneously extract two underlying common factors from the stock indices and monetary policy variables. These factors represent changes in monetary policy and movements in the stock market, respectively. The analysis of smoothed probabilities of regimes indicates that expansionary monetary policy regimes tend to follow economic recessions, while bearish stock markets often precede economic downturns. Furthermore, the maximum likelihood estimation results demonstrate that expansionary monetary policies, such as lowering the federal funds rate, lead to increased stock returns. However, it is observed that stock returns do not directly influence monetary policy decisions.

The main objective of the Sekandary and Bask (2023) research's is to examine how unexpected changes in the Federal Funds Rate (FFR) during the Federal Open Market Committee (FOMC) announcement days influence stock returns in the United States. The study also seeks to analyze this relationship under different levels of monetary policy uncertainty, using the Panel Smooth Transition Regression (PSTR) model to identify the uncertainty regimes. They affirm that monetary policy surprises refer to unforeseen shifts in the FFR on days of FOMC announcements. Due to the irregularity of these announcements, the mimicking portfolio method is employed to create a regular time series for the surprises. The study utilizes data from the period 1994 to 2008 for its analysis. The findings reveal a negative correlation between monetary policy surprises and stock returns under both high and low uncertainty regimes. However, the impact of surprises on stock returns is more pronounced when uncertainty in monetary policy is high compared to when it is low. Consequently, investors should be more cautious and take measures to protect against unforeseen stock market volatility during periods of elevated monetary policy uncertainty as opposed to periods of low uncertainty.

However, Berge and Cao (2014) assess whether the asset market reaction on September 18, 2013, was a typical response to Federal Reserve policy. In a global economy with unrestricted capital mobility, an unexpected monetary policy action within the United States has an impact on asset prices not only domestically but also internationally. This occurs as investors exploit price differences between assets with similar risk and reward profiles through arbitrage. In their analysis they compare the changes in international asset prices in response to unexpected monetary policy actions before and after the federal funds rate reached the zero lower bound. The results demonstrate that a change in U.S. monetary policy is connected to fluctuations in various asset prices, both within the United States and abroad. Interestingly, the responses of domestic asset prices to monetary policy within the United States do not seem to differ significantly at the zero lower bound. However, for some international asset prices, there are apparent differences in reactions to policy announcements after the year 2007.

Within the same analytical context, Bekaert et al.2021 investigate the influence of monetary policy and risk shocks on key asset prices, including short-term interest rates, stocks, and long-term bonds, in three major economies: the United States, the euro area, and Japan. Employing a high-frequency approach, they don’t find supporting evidence that monetary policy drives asset price fluctuations through a risk-related channel. Instead, they affirm the presence of a significant global common element in risk shocks that is not attributable to monetary policy. When comparing the impact of monetary policy and risk shocks on asset prices across countries, their study reveals that monetary policy spillovers have relatively more (or less) economic significance for interest rates and bond prices (or stock prices) compared to risk shocks. The United States generates relatively influential monetary policy spillovers, but information shocks originating from the euro area exert the most substantial effects on international stock and bond markets. The researchers provide suggestive evidence that the effects of monetary policy on asset prices might be driven more by a persistent direct interest rate effect rather than a risk premium effect.

Han and Kim (2023) examine how the monetary policies of three countries (the Republic of Korea, China, and the United States) impact the Korean stock markets, specifically the KOSPI index, using a structural Vector Autoregression (VAR) model. Their findings indicate that a positive shock in Money Supply (M2) in all three countries has a positive effect on the Korean stock markets, but the magnitude of the response varies between them. Interestingly, the KOSPI responded most significantly to China's M2, which highlights the close trade relationship between China and Korea. Based on the responses of Korea's industrial production and Consumer Price Index (CPI), they affirm that the possibility of a liquidity trap cannot be ruled out for certain periods. Additionally, results reveal that the KOSPI responded negatively to a positive shock in Korea's policy rate, while they showed little response to shocks in China's policy rate and the US federal fund rate. This suggests that China's policy rate had a limited impact on Korea's economic activities since it was not a primary monetary policy tool. Furthermore, Korea's determination of its policy rate was not entirely independent of the US monetary policy, which resulted in the mitigation of any shocks in the US federal fund rate on the KOSPI.

Leaning-against-the-wind (LAW) Gali et al (2021) affirm that policies, which involve raising interest rates in response to a growing asset price bubble, are often recommended as a way to dampen such bubbles. However, they confirm that some theoretical arguments suggest that this policy could have the opposite effect. To investigate the impact of monetary policy on asset price bubbles, they conducted a laboratory experiment using an overlapping generation's structure. In this experiment, participants, acting as the young generation, distributed their endowment between two investments: a risky asset and a one-period riskless bond. The risky asset generates no dividends, and its value relies solely on the possibility of selling it to the next generation, making it a pure bubble. They examined how changes in the interest rate influenced the evolution of the bubble through three treatments: one with a fixed low interest rate, another with a fixed high interest rate, and the third implementing the LAW interest rate policy. They observed that the bubble increases (decreases) when interest rates are lower (higher) during a policy change period. However, the opposite effect occurs in the following period, where higher (lower) interest rates result in greater (smaller) bubble growth. Through direct measurement of expectations, they found that traders anticipate prices to follow past trends and tend to correct for previous errors in their predictions.

This article explores how the Tunisian asset market responds to currency shocks through a sectoral analysis. Currency shocks, including monetary devaluations, can wield significant impacts on financial markets. The study delves into how the Tunisian asset market reacts across various sectors of the economy. This sectoral approach aims to enhance the understanding of how currency fluctuations influence company performances and investments in specific domains like exports, tourism, and the textile industry. By scrutinizing sectoral trends, the study seeks to provide an in-depth overview of the economic and financial implications of currency shocks on the Tunisian asset market.

The rest of the article is structured as follows. In Section 2, we present literature. Section 3 illustrates the empirical analysis. In section 3 results are discussed and section 4 summarizes the main conclusions of this paper.

2. Empirical Analysis

The period of analyze is from January 2011 to May 2023. We consider monthly observations of fifteen variables. Monetary policy is represented by the Key Interest Rate (KIR) and the Mean Monetary Average Rate (MMAR). Concerning the asset market, we consider the global index: Tunindex and six sectoral indexes: agro alimentary and beverage index (INAAB), issurance index (INDAS), Bank Index (INDBQ), construction and building materials index (INBMC), consumer good index (INBCO) and consumer services index (INDSC).

The financial market data we have is daily, while the data describing monetary policy is monthly. Therefore, we will choose the monthly frequency for our analysis.

To calculate the monthly rate of return for an equity index using daily data, we follow these steps:

1-Collect daily data: Obtain the daily values of the equity index for each day of the month.

2-Identify the opening and closing prices: For each day, record the opening and closing prices of the equity index.

3-Calculate the daily return: For each day, calculate the daily return using the following formula:

Daily return = ((Closing price - Opening price) / Opening price) * 100

Note that this calculation provides the daily return as a percentage.

4-Calculate the monthly return: Add up all the daily returns for the given month and divide by the number of trading days in the month.
Monthly return = Sum of daily returns / Number of trading days in the month
5-Convert the monthly return into a percentage: To express the monthly return as a percentage, we multiply the result by 100.
6-Repeat these steps for each month to obtain the monthly rates of return for the equity index over the chosen period.
The stationary test showed that all variables in the model are I (1) process, that is stationary at level 1. The co-integration test shows that (ADF-statistic) co-integration in the long term is present in the variables.

3- Empirical results and interpretations
We consider the case of the Vector Error Correction Model (VECM). This representation describes the short-term relation between the variables and the long term one. We reproduce a VECM with 3 variables X_t ,Y_t et Z_t.

$$\Delta X_t = \lambda_1 \varepsilon_t + \sum_i \alpha_i X_{t-i} + \sum_j \beta_j Y_{t-j} + \sum_k \gamma_i Z_{t-k} + \epsilon_{X_t} \quad (1)$$

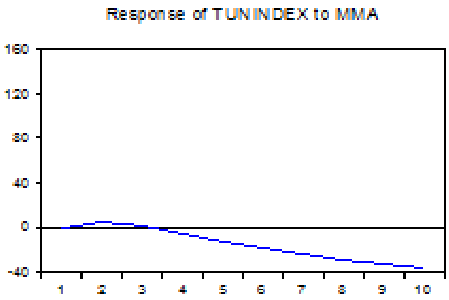
$$\Delta Y_t = \lambda_2 \varepsilon_t + \sum_i \alpha'_i X_{t-i} + \sum_j \beta'_j Y_{t-j} + \sum_k \gamma'_i Z_{t-k} + \epsilon_{Y_t} \quad (2)$$

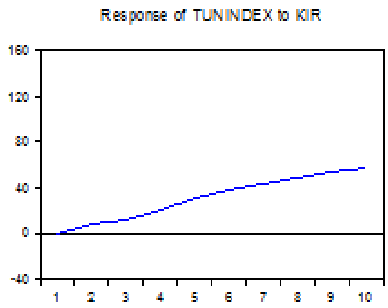
$$\Delta Z_t = \lambda_3 \varepsilon_t + \sum_i \alpha''_i X_{t-i} + \sum_j \beta''_j Y_{t-j} + \sum_k \gamma''_i Z_{t-k} + \epsilon_{Z_t} \quad (3)$$

ϵ_t : white noise. It is the residue of the co-integration relation. It represents the long-term variable.
λ: adjustment coefficient for the correction imbalances.
All the equations respect the specific framework of a VECM. In fact, the adjustment coefficient for the correction imbalances is significantly negative.
In first, we apply a VECM for: TUNINDEX, MMA and KIR

$$\Delta\, y_t = c + \lambda e_{t-1} + \sum_{i=1}^{2} \Delta y_{t-i} + \sum_{i=1}^{2} \beta \Delta x_{t-i} + \ \varepsilon_t \quad (4)$$

Retaining only significant values, application of VECM is illustrated as:
D(TUNINDEX) = - 0.040*(TUNINDEX (-1) + 2341.282*MMA(-1) - 3246.945*KIR(-1) - 1536.5415691) + 0.493*D(TUNINDEX(-1)) (5)
The coefficient $\boldsymbol{\lambda} = (-0.040)$ is significantly negative with a t-student= 1.894. The error correction mechanism doesn't go in opposite direction and doesn't move away the long-term target. This means that there are interactions of short-term dynamics between variables.
For the long-term relation significant variables are TUNINDEX, le MMA and le KIR. They are lagged by one period. Only KIR lagged by one period contributes negatively to the TUNINDEX variation. For the short -term relation TUNINDEX lagged by one period affects positively the TUNINDEX variation.
The response analysis indicates that the impact during the initial two months is insignificant. The most significant response occurs in the third quarter. In the case of MMA, the reaction to a shock is adverse, whereas the KIR response is positive. Both cases exhibit a sustained effect that gradually diminishes after the tenth quarter.



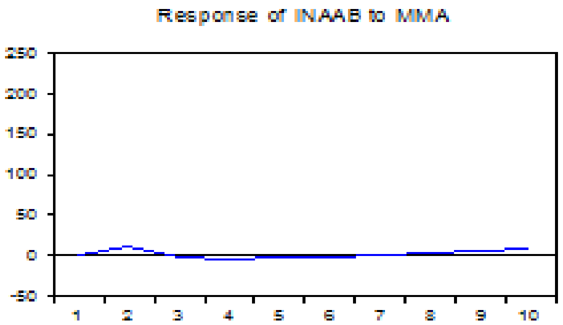


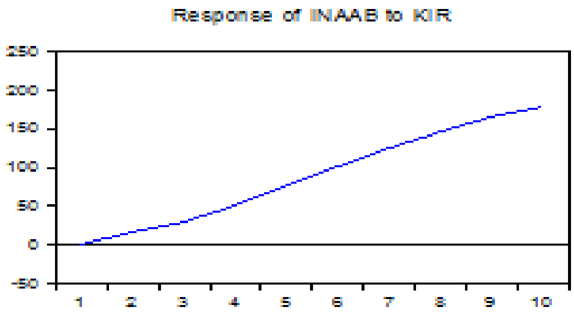
In second, we apply a VECM for: INAAB, MMA and KIR. Retaining only significant values, application of VECM is illustrated as:

D(INAAB) = - 0.057*(INAAB(-1) + 2216.329*MMA(-1) - 6529.243*KIR(-1) + 13629.029) + 0.411*D(INAAB(-1)) (6)

The coefficient $\boldsymbol{\lambda} = (-0.057)$ is significantly negative with a t-student= -2.435. The error correction mechanism doesn't go in opposite direction and doesn't move away the long-term target. This means that there are interactions of short-term dynamics between variables.

For the long-term relation significant variables are INAAB, le MMA and le KIR. They are lagged by one period. Only KIR lagged by one period contributes negatively to the INAAB variation. For the short-term relation INAAB lagged by one period affects positively the INAAB variation.





Concerning the response of INAAB to MMA, we note that consequences are null and dim in the tenth month. For the KIR, the effect is growing and dims the tenth month too.

In third, we apply a VECM for: INDAS, MMA and KIR. Retaining only significant values, application of VECM is illustrated as:

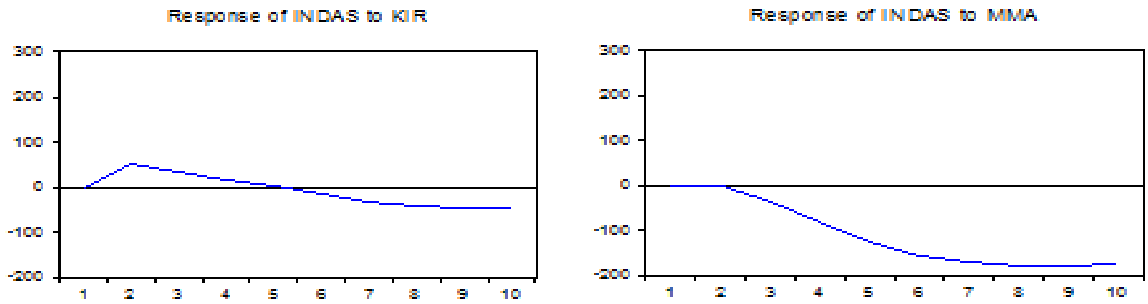
D(INDAS) = - 0.192*(INDAS(-1) + 1639.645*MMA(-1) - 1388.898*KIR(-1) - 10748.651) + 0.513*D(INDAS(-1)) - 68.320*D(MMA(-2)) - 343.288*D(KIR(-2)) (7)

The coefficient $\boldsymbol{\lambda} = (-0.192)$ is significantly negative with a t-student= -2.459. The error correction mechanism doesn't go in opposite direction and doesn't move away the long-term target. This means that there are interactions of short-term dynamics between variables.

For the long-term relation significant variables are INDAS, le MMA and le KIR. They are lagged by one period. Only KIR lagged by one period contributes negatively to the INAAB variation. For the short-term relation INDAS lagged by one period affects positively the INAAB variation. MMA and KIR lagged by two periods affect negatively INDAS variation.

The response of INDAS to KIR show that the maximal response is attained on the second month and a negative effect is persistent from the sixth month.

The response of INDAS to MMA implies a negative effect between the second and the seventh month.



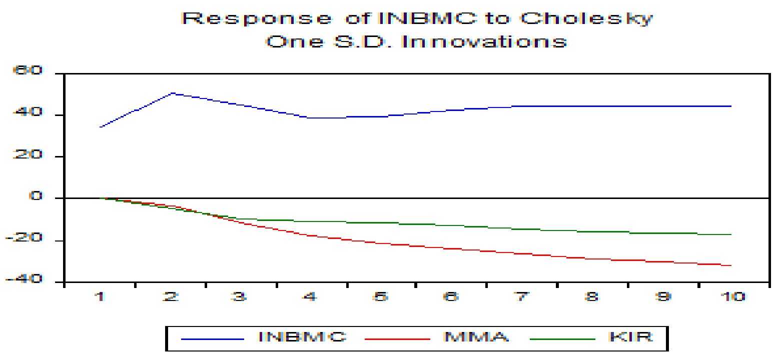
In fourth, we apply a VECM for: INDBQ, MMA and KIR. Retaining only significant values, application of VECM is illustrated as:

D(INDBQ) = - 0.351*(INDBQ(-1) + 2187.014*MMA(-1) - 3167.656*KIR(-1) + 712.878) + 0.581*D(INDBQ(-1)) - 0.166*D(INDBQ(-2)) (8)

The coefficient $\boldsymbol{\lambda} = (-0.351)$ is significantly negative with a t-student= -1.823. The error correction mechanism doesn't go in opposite direction and doesn't move away the long-term target. This means that there are interactions of short-term dynamics between variables.

For the long-term relation significant variables are INDBQ, le MMA and le KIR. They are lagged by one period. For the short-term relation INDBQ lagged by one and two periods affects respectively positively and negatively the INDBQ variation.

The response of INDAS to KIR and MMA appear like a follower relation of INDAS to KIR and MMA.



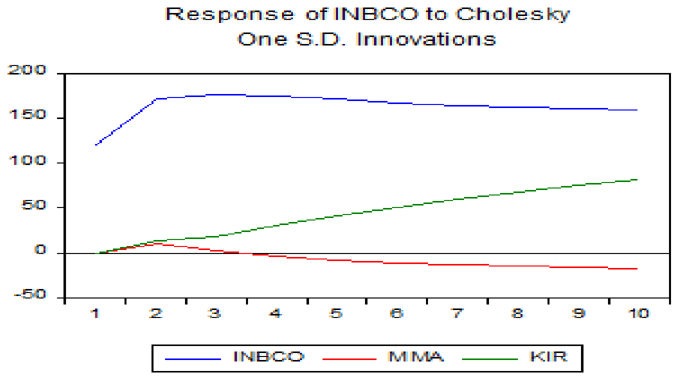
In fifth, we apply a VECM for: INBCO, MMA and KIR. Retaining only significant values, application of VECM is illustrated as:

D(INBCO) = - 0.074*(INBCO(-1) + 2990.132*MMA(-1) - 5647.228*KIR(-1) + 7133.396) + 0.413*D(INBCO(-1)) (9)

The coefficient $\boldsymbol{\lambda} = (-0.074)$ is significantly negative with a t-student= -1.603. The error correction mechanism doesn't go in opposite direction and doesn't move away the long-term target. This means that there are interactions of short-term dynamics between variables.

For the long-term relation significant variables are INBCO, le MMA and le KIR. They are lagged by one period. For the short-term relation INBCO lagged by one period affects positively the INBCO variation.

The response of INBCO to MMA and KIR shows a positive impact on the two first months. Between the second and the tenth one, the effect is persistent. It is positive for the KIR and negative relatively to the MMA.



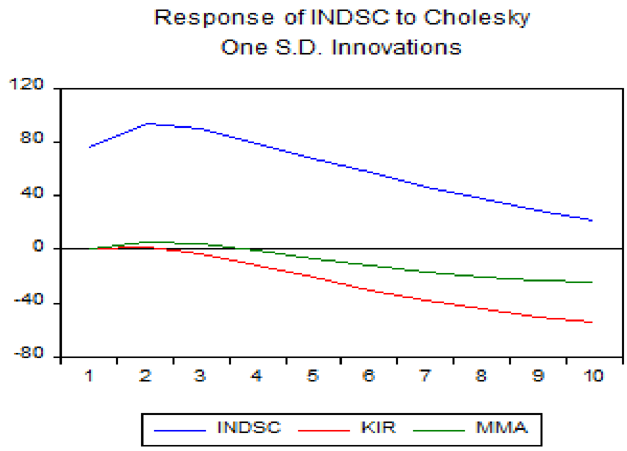
In sixth, we apply a VECM for : INDSC, MMA and KIR. Retaining only significant values, application of VECM is illustrated as:

D(INDSC) = - 0.034*(INDSC(-1) - 1396.321*KIR(-1) + 2993.612*MMA(-1) - 10695.302) + 0.508*D(INDSC(-1)) - 0.217*D(INDSC(-2)) (10)

The coefficient $\boldsymbol{\lambda} = (-0.034)$ is significantly negative with a t-student= -2.028. The error correction mechanism doesn't go in opposite direction and doesn't move away the long-term target. This means that there are interactions of short-term dynamics between variables.

For the long-term relation significant variables are INDSC, le MMA and le KIR. They are lagged by one period. For the short-term relation INDSC lagged by one and two periods affects positively and negatively the INBCO variation.

The response of INDSC to KIR and MMA illustrate a follower increasing relation on the two first months and a decreasing one by the end on the tenth month.



4-Conclusion

Results show a homogeneity in the reaction of sectoral indexes to monetary policy. This reaction is characterized by an absence of impact on the short term and a presence one on the long term. This can illustrate the case of credit-based economy where asset markets don't present an important function in the economy. We note that in the majority of case MMA present a positive impact and the KIR present a negative one.

For the other sectoral indexes, the error correction mechanism moves off the long-term target. This can indicate a neutral monetary policy of the CTB. This result could be explained by monetary policy being procyclical sometimes, and anticyclical other times, causing a general neutral effect on Tunisian stocks.

The consequences of currency shocks on the Tunisian stock market, like other financial markets, can be multifaceted and are subject to various economic, financial, and geopolitical factors. Below are potential ramifications of currency shocks on the Tunisian stock market:

Fluctuations in Exchange Rates: Currency shocks, such as abrupt currency devaluations, can trigger substantial fluctuations in exchange rates. These fluctuations have the potential to impact companies engaged in import and export activities, thereby influencing the stock performance of businesses involved in international trade.

Inflation and Costs of Raw Materials: The depreciation of the national currency can escalate the expenses associated with imported raw materials, thus contributing to inflationary pressures. This dynamic can have repercussions on production costs for companies, which in turn can impact their profits. The vigilance of investors regarding inflation's influence on company performance and economic prospects can sway stock market movements.

Investor Sentiment: Currency shocks possess the capacity to shape investor sentiment by introducing uncertainties pertaining to economic and financial prospects. The heightened volatility observed in the foreign exchange market can extend its influence on the stock market as investors recalibrate their investment portfolios based on evolving economic conditions.

Movement of Capital: Currency shocks can have ramifications on the movement of foreign capital. The devaluation of a currency can makes local assets less appealing to foreign investors, possibly leading to the redirection of capital away from the stock market. However, this scenario can also boost the competitiveness of local products on global platforms, which can positively affect exporting enterprises.

Reliance on Imports: In cases where the economy and business activities heavily rely on imports (e.g., for raw materials or finished goods), a currency shock can exert pressure on costs, profit margins, and growth prospects. The implications of this reliance can manifest in the stock performance of entities affected by these dynamics.

Effect on Currency-Sensitive Industries: Specific sectors, such as tourism, the textile industry, and agricultural exports, can exhibit heightened sensitivity to currency fluctuations. The oscillation of currency values can impact the competitiveness of these sectors in global markets, thereby potentially resulting in distinct stock market movements.

In summary, currency shocks possess the capacity to significantly influence the Tunisian stock market by affecting corporate performance, capital inflows and outflows, investor confidence, and the competitiveness of entities on the international stage. The magnitude and direction of these influences hinge upon the distinct economic and financial conditions prevailing, alongside the responses generated by market participants.

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