Report on: Inflation, Inflation Uncertainty and Output in Tunisia

Your ref: MS 858

The authors investigate the causal relationship from inflation uncertainty (measured as the conditional variance of inflation) to output and inflation. The results suggest that inflation uncertainty has a positive and significant effect on the level of inflation in real terms.

I have some comments the authors may want to consider:

1. Why is important to analyse the case of Tunisia? Is it an interesting case for a broad audience? What makes interesting the conduct of monetary policy in Tunisia? It seems to me that the authors just replicate the paper by Fountas (2010) to the case of Tunisia. Thus, what is the exact contribution of the paper to the empirical literature?

2. Regarding the data section, I think is not correct to say that GDP is measured using the IPI. Rather, you measure output using IPI. Is there any reason that explains why you measure output using IPI rather than GDP?

3. Why are you using the sample period 1998:Q3 to 2001:Q4? Is it just a problem of data availability?

4. I am a bit confused by the real inflation rate concept. How do you define it? What is the difference between nominal and real inflation rate? How do you estimate something as the real inflation rate?

5. I have my concerns about the choice of the unit root test made by the authors. However, I am still more worried about the results. According to them, the inflation rate is a unit root process, and only the rate of acceleration of inflation is stationary. Can then we safely estimate equation (1)? Also, what is the specification of deterministic components in the ADF test?

6. The authors discuss that importance of the in-mean effects on the GARCH estimation. However, their estimation seems to reject the existence of such effect. What is the implication of such rejection?

7. Regarding the conclusions, the authors claim that “the recession in economy is essentially due to high inflation uncertainty…”. Don’t you think this is going too far? Also, the authors conclude that “This strategy should find convenient financial reforms as a support […] to cover the best conduct of monetary policy eligible to handle the inflation uncertainty level”. Can you be a bit clearer on what kind of financial reforms you have in mind?