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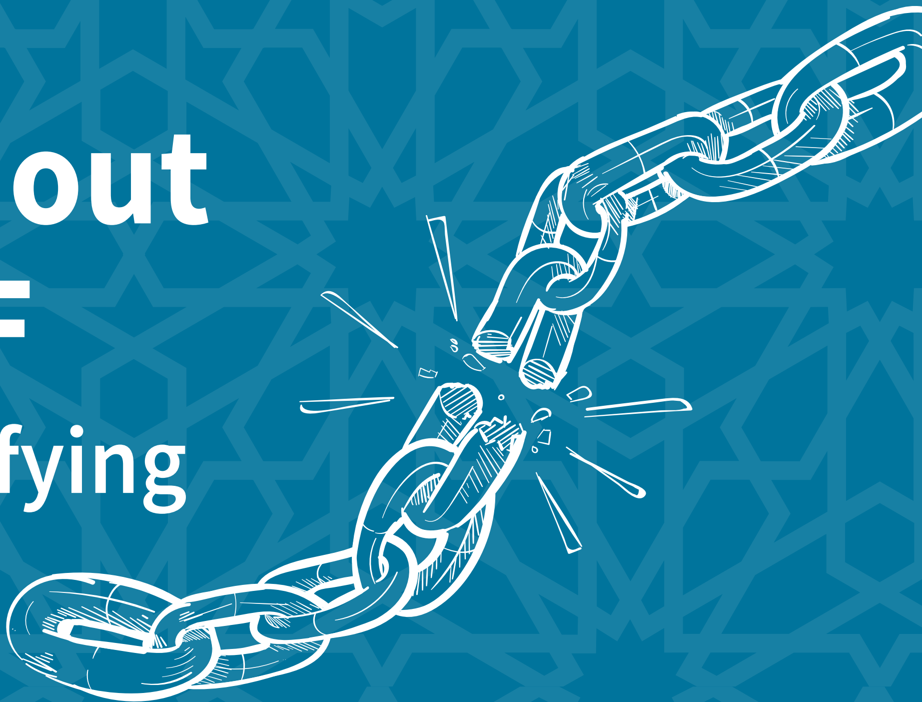
Alternatives | n°01

Breaking out of the IMF

Part 1: Diversifying



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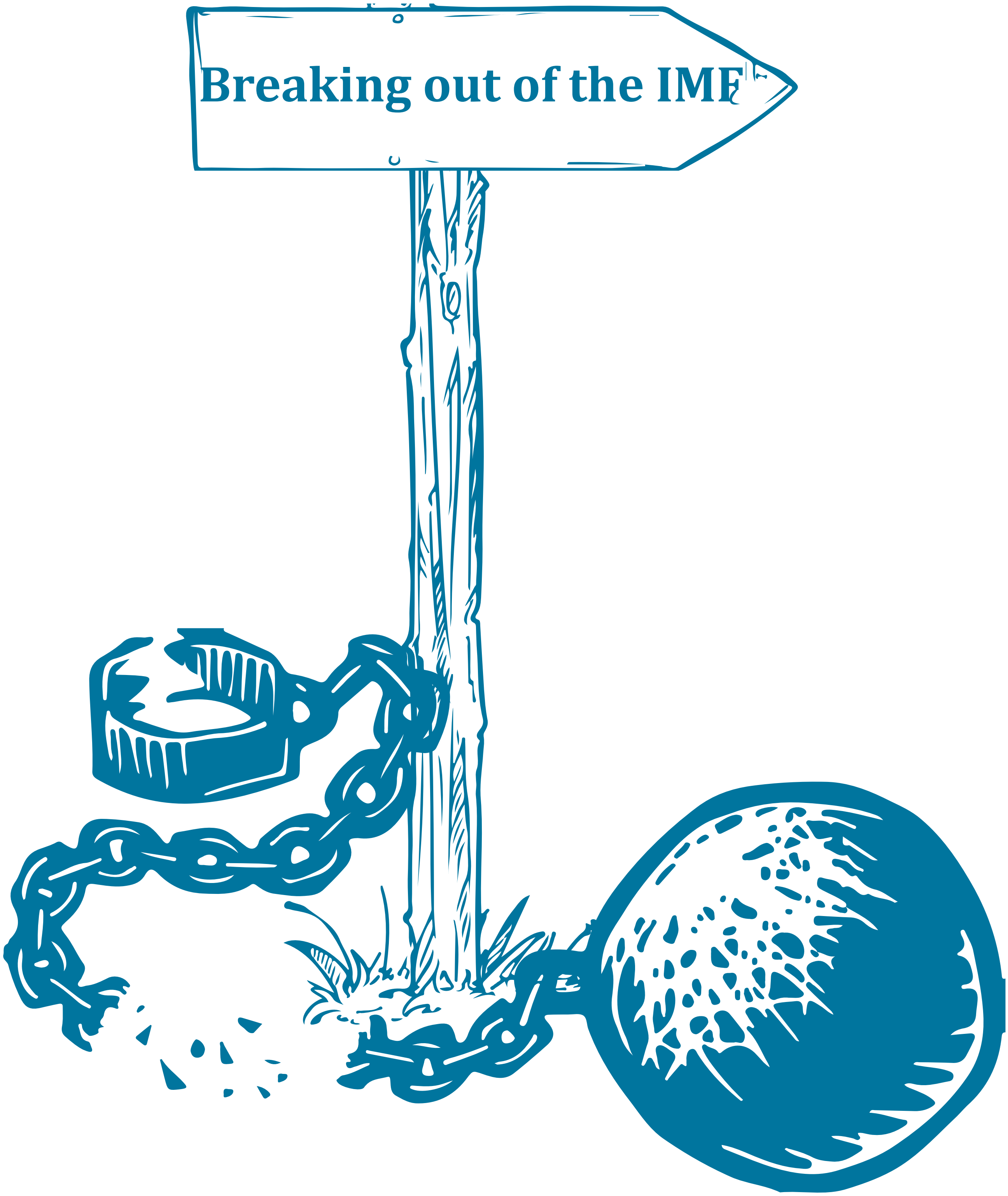

Breaking out of the IMF

Sommaire

Chafik Ben Rouine
President and co-founder of the Tunisian Observatory of Economy
chafik.benrouine@economie-tunisie.org

I Approche générale

Breaking out of the IMF is the ultimate goal that we aspire to achieve through this analysis. After three programs, including two structural adjustment programs, and eight years under the IMF's thumb since the advent of the revolution in Tunisia, we believe that it is no longer the moment to justify why we should leave the IMF. Instead, it is time to focus on how to leave. Some people, including ministers, continue to repeat the same propaganda: “there are no alternatives”. We intend to demonstrate the opposite. To achieve this, we need to adopt a realistic approach and delve into the root causes of our dependence. Therefore, one of the initial challenges is the constraint of time. Breaking out of the IMF, once and for all, will take time.

Hence, while the IMF Board's refusal to engage a new program with Tunisia could accelerate the process of an ultimate exit from the IMF, the absence of a clear vision will make the process more perilous. The approach we advocate for can make breaking out of the IMF possible regardless of the position of the IMF Board. Even if Tunisia obtains a new IMF arrangement, our focus remains steadfast on achieving a swift and permanent departure from this institution.

This analysis will be divided into several sections, corresponding to two distinct phases of the approach needed to break out of the IMF permanently. The first section aims to demonstrate that there are concrete alternatives to the IMF to meet the country's external financing needs. This first phase of our approach, spanning the short and medium terms, seeks to create more manoeuvrability and broaden the range of financing sources to fulfil the country's external financing needs. The second section intends to intensify the first part by exploring the concept of "delinking" to tackle the problems at the source with the objective, in the medium and long term, of reducing the external financing needs in hard currency. The third section will focus on regional integration, as a vital project to regain our economic sovereignty. In other words, to break free from dependence.

II Diversifying currency sources

The strength of the IMF: There Is No Alternative (TINA)

Breaking out of the IMF is not an easy task. Indeed, while the IMF advocates free and undistorted competition through market liberalisation at the national level, it acts in such a way as to set up a cartel of donors, led by the IMF, in order to prevent any competition in the market of state debt financing. Within this framework, all donors explicitly agree on the price to be paid to grant access to their funds: an IMF structural adjustment program. In theory, a state seeking access to foreign currency liquidity can reach out, three main markets: the bilateral market, where states will offer loans to the state in need; the multilateral market, where international financial institutions (such as the IMF, the World Bank or the African Development Bank) will lend to the state; and the international financial market. As the Arab revolutions were just breaking out, a large cartel of donors was formalised in May 2011 at the G8 summit in Deauville, France, and called the Deauville Partnership (Ben Rouine 2013). The oligopoly formed around these donors explicitly agreed on the approach to be taken towards Tunisia, Morocco, Jordan and Egypt. The list of donors that have adopted the Deauville Partnership includes the G8 (which later became the G7 after Russia's exit), the European Union, Saudi Arabia, Qatar, Turkey, Kuwait, the United Arab Emirates, the African Development Bank (AfDB), the Arab Fund for Economic and Social Development (AFESD) the Arab Monetary Fund (AMF), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Islamic Development Bank (IDB), the IMF, the World Bank, the OPEC Fund for International Development (OFID) and the Organisation for Economic Co-operation and Development (OECD) (Ben Rouine 2013). By bringing together bilateral and multilateral donors, this expanded cartel [1], centered around the IMF as a principal, has practiced in the region since 2011 what, in the language of free and undistorted competition, is called an abuse of dominance .[2]

As the list of actors demonstrates, the Deauville Cartel operates mainly on bilateral and multilateral markets. Theoretically, to escape this cartel, Tunisia could turn to international financial markets to access foreign currency liquidity. However, the rating agencies' downgrades for Tunisia have almost systematically linked their rating either to the obtaining of an agreement with the IMF or to the quality of the implementation of this agreement once signed. Thus, by linking the cost of borrowing on the international financial markets to obtaining an IMF agreement, the rating agencies have the explicit objective of reinforcing the dominant position of the IMF-led Deauville Cartel. This agreement with the rating agencies thereby extends the Deauville Cartel to the international financial markets by reinforcing the IMF's abuse of its dominant position. The key message disseminated by the cartel to the target countries is unequivocal: There are no alternatives to the IMF.

As far as Tunisia is concerned, the IMF went even further to reinforce its hegemonic position. Indeed, by imposing the vote of the law on the independence of the Central Bank of Tunisia (BCT), as a precondition to the 2016 EFF agreement, the IMF had the implicit intention of reinforcing its control over the liquidity market. The independence of the central bank is characterised by the prohibition of direct lending to the Treasury by the BCT. The significance lies not solely in the ban, but the word "directly" per se. Indeed, Treasury bills continue to flow into the BCT's balance sheet, but this time "indirectly" through commercial banks that buy Treasury bills in

[1] https://www.concurrences.com/fr/dictionnaire/entente-ou-cartel

[2] https://www.concurrences.com/fr/dictionnaire/abus-de-posititionn-dominante

the morning only to deposit them at the BCT by evening, in exchange for liquidity. The BCT therefore continues to finance the Treasury. However, the intermediation of banks ultimately aims to increase the cost of domestic debt in order to impose a dilemma on the Tunisian Treasury: either to have access to foreign currency financing by the Cartel under its conditions, which comes at a reduced cost but exposes it to exchange rate risks; or to have access to local financing, but at a prohibitive interest rate. This is one of the reasons why the latest finance laws outline significant external borrowing but end up resorting more and more to more expensive domestic borrowing in a painful attempt to escape the Cartel.

Figure 1: Extract from the confidential government programme submitted to the IMF

République Tunisienne
Présidence du Gouvernement

Financing mobilization capacity for 2022

Fundraising Capacity for 2022 Stabilization Factors in the Short Term (2022)

- **Calibrate financing needs based on the effective resource mobilization capacity.**
- Address potential discrepancies in funding sources (payroll and subsidies).
- Mitigate risks arising from a delicate business situation in the public sphere.
- Strengthen the social role of the State(preserving the social safety net).

In MTD	2022
Domestic borrowing resources	5000
Emissions from BT, EN and others	5000
External borrowing resources	14350
Multilateral	5000
Bilateral	2900
Emission Diaspora	650
International financial market	5800
Total	19350

Political roadmap
Reach an Agreement with the IMF before the end of Q1 2022
✓ End. Multilateral - Condition: IMF Agreement
✓ END. Bilateral (Saudi Arabia)- Condition: IMF Agreement
✓ Fin. Bilateral (Algeria)- Condition: Oil price evolution
✓ US Guarantee- Condition: IMF Agreement
✓ International Financial Market-Condition: IMF Agreement

Source: I Watch

Although the Deauville Partnership as such has finally disappeared from the headlines, the Deauville Cartel that resulted from it continues to operate in Tunisia to this day. To ascertain this, it is sufficient to note the information derived from the confidential program of the Tunisian government in the framework of negotiations with the IMF. This program was disclosed by I Watch and has not been refuted by the authorities (I Watch 2022). Thus, Figure 1 above shows a slide from this confidential program where it is explicitly stated that obtaining multilateral financing, bilateral financing with Saudi Arabia, the US guarantee (for financing through international financial markets) and access to the international financial market (without guarantee) are contingent upon obtaining an agreement with the IMF, thus illustrating that the Deauville Cartel is still operating in Tunisia. This further underscores our earlier point that rating agencies belong to this cartel. Moreover, only securing bilateral financing with Algeria is not conditional on obtaining an agreement with the IMF, given that Algeria is not a member of the Deauville Cartel.

The scale and scope of the Deauville Cartel that we have just presented thus allows us to measure the level of difficulty that a country like Tunisia must overcome to find financing beyond the confines of the Cartel. But what we lose in difficulty, we gain in clarity of purpose: breaking the Deauville Cartel around the IMF to diversify potential sources of access to liquidity for Tunisia. As we will demonstrate, we are not the first ones to have attempted to achieve this objective.

III › Alternatives to the IMF

A. Historical context

There have been several attempts to create institutions that would fulfil a similar role to the IMF, including the possibility of providing foreign currency liquidity to address balance of payments problems, at the regional level. The first endeavour took place in the Arab world, following the oil price boom of the 1970s, with the creation of the Arab Monetary Fund (AMF) in 1976. Modelled closely after the IMF, the AMF was founded in the United Arab Emirates. Today, it is still operational and has a relatively modest strike power of USD 3.78 billion. Yet the diversity of its membership, for example between oil exporters and importers, allows for a harmonized balance where not all members draw on liquidity lines at the same time (Mühlich and Fritz 2022). Although the granting of credit lines by the AMF is not formally conditional on obtaining a program with the IMF, the participation of the AMF in the Deauville Cartel neutralizes the AMF as a potential alternative to the IMF for member countries, including Tunisia.

Two years after the establishment of the AMF, an attempt to escape the IMF arose in Latin America with the creation of the Andean Reserve Fund (Fondo Andino de Reservas, FAR) in 1978 grouping five countries (Bolivia, Ecuador, Colombia, Peru, Venezuela). Subsequently, the FAR underwent expansion and was renamed the Latin American Reserve Fund (FLAR in Spanish) in 1991. This creation followed the debt crisis in the 1980s with the IMF's recipes, which had a profound impact on the countries of the region. Thus, the particularity of the FLAR is that the liquidity lines available to members are not linked to any conditionality, unlike those of the IMF. Although the Fund is appreciated by its members, including countries such as Ecuador which has made more use of the FLAR than the IMF, it is as limited as the AMF with a lending capacity of USD 3.9 billion (Mühlich and Fritz 2022).

Subsequently, a major blow to the credibility of the IMF was experienced only with the advent of the Asian crisis in the late 1990s. Following this trauma for Asian countries, particularly Indonesia, Thailand and South Korea, "[a]t the G7-IMF meeting in September 1997, Japan proposed to set up an Asian Monetary Fund to assist Asian countries grappling with balance of payments difficulties to be funded by Asian countries of which Japan was willing to be the leading contributor. Both the United States and the IMF strongly opposed this Fund asserting that it would encourage [moral hazard]3. It is plausible that the US was reluctant to set a precedent wherein regional cooperation or blocs could assert a degree of independence. [3]" (Lim 2022)., Despite this opposition, Asian countries still decided to create a regional financial architecture with two main objectives: 'defensive and developmental'. (Lim 2022). This defensive aspect is important to remember, as it will prove to be the core of a system of alternatives that will disrupt the order around the IMF. Thus, the defensive mode according to (Lim 2022) is articulated around three aspects: crisis prevention (regional dialogue and exchange, surveillance and monitoring, and an early warning system), crisis management, and crisis resolution (sovereign debt restructuring). It is the crisis management aspect that interests us. In this context, in May 2000, the ASEAN + 3 countries (China, Japan, South Korea) launched the Chiang Mai Initiative (CMI), a regional mechanism., unlike the AMF or FLAR of the CMI does not create a centralized fund ; rather it comprises a multitude of decentralized bilateral swap agreements (BSAs) among the members of the CMI in order to address balance of payments crises. Through this decentralized network of BSAs, countries facing

[3] Traduction en anglais de l'auteur.

balance of payments difficulties could access a financing line to swap their local currency for US dollars. Initially, the size of the CMI stood at USD 1 billion. However, by 2004, it had escalated to USD 36 billion and reached USD 75 billion in 2007. Consequently, the size of the CMI is much larger than that of the FMA or the FLAR. Nonetheless, to avoid provoking the IMF and the United States, access to the CMI was coupled with the requirement of obtaining an IMF program. When the CMI was created, it was understood that countries could access up to 10% of their respective quota without the requirement of undergoing an IMF program. Thus, if a country intends to obtain a line of financing via a BSA in an amount that exceeds 10% of its quota as defined in the CMI's Articles of Agreement, it must first obtain a program with the IMF. In May 2007, the initiative was multilateralized around a standardized contract, although the swap lines remain bilateral, and changed its name to the Chiang Mai Initiative Multilateralization (CMIM). The other new development was in April 2011 with the creation of a regional macroeconomic surveillance and monitoring institution, AMRO. This institution was conceived with the ultimate goal of taking over the role of IMF surveillance. The idea is that as AMRO grows in capacity, the share of quotas decoupled from the IMF could increase. Thus, in May 2012, the size of the CMIM was increased to USD 120 billion and the share of quota decoupled from the IMF rose to 30%. In July 2014, the size doubled again to USD 240 billion, and the IMF's decoupled share has therefore risen and remained at 40% since then. But this share has remained too low compared to the needs of the countries in the region, so that at the time of writing no country has really drawn on the CMIM's financing lines. This shows how reluctant the countries of the region are to use IMF programs. As we will see later, it is not so much the use of the CMIM that is important, but rather its concept of decentralized bilateral swap arrangements that will emerge as the most serious alternative to the IMF.

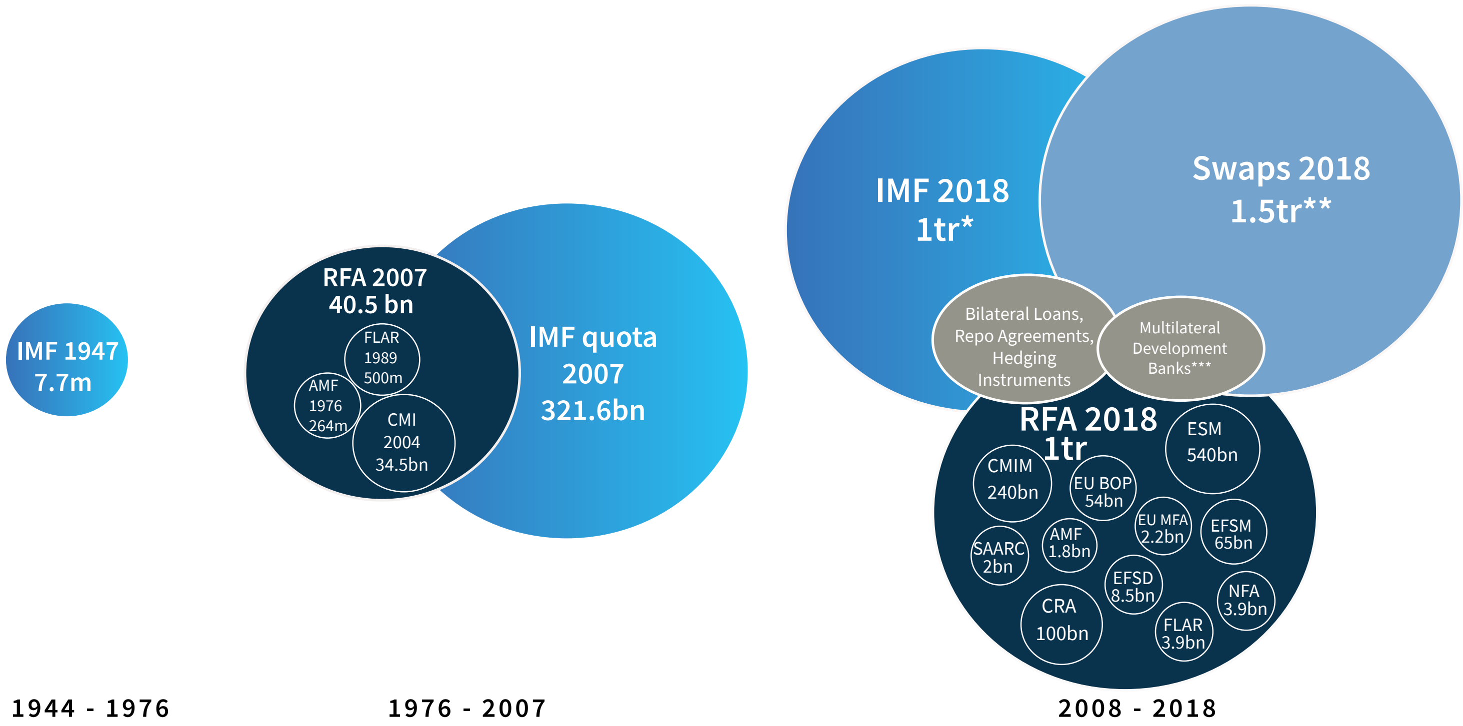
In the history of alternatives to the IMF, the most significant turning point came during the Global Financial Crisis (GFC) of 2007-2009 when, in response to the liquidity crisis in Western countries, the US central bank, the Fed, provided unlimited lines of funding through BSAs (bilateral swap agreements) to the central banks of Europe, the UK, Switzerland, Canada and Japan (Murau, Pape, and Pforr 2022). In parallel, several Regional Financial Arrangements (RFAs) were set up in Western (ESM) and Eastern Europe (EFSD) following the crisis. As we shall explore, these swap arrangements (BSAs) paved the way for a profound restructuring of global access to liquidity.

B.The GFSN

- ### The different levels of the GFSN

To capture this diversity of options available for accessing foreign currency liquidity, a concept has been coined based on the term ‘social protection’: the Global Financial Safety Net (GFSN). According to the authors, the GFSN comprises three or four levels: the bilateral level, through the Bilateral Swaps Agreements (BSA); the regional level, through the regional financial arrangements (RFA) such as the AMF, the FLAR or the CMIM; the global level, through the IMF, to which some authors add a first national level through the national currency reserves. It is noteworthy that access to IMF liquidity is decomposed between unconditional access to liquidity (programs without conditionalities) and conditional access to liquidity (through programs with conditionalities). Thus, in order to show the structural change of the GFSN over time, (Mühlich, Fritz, and Kring 2021) calculated the evolution of the size of each level of liquidity access and presented the result in the figure below.

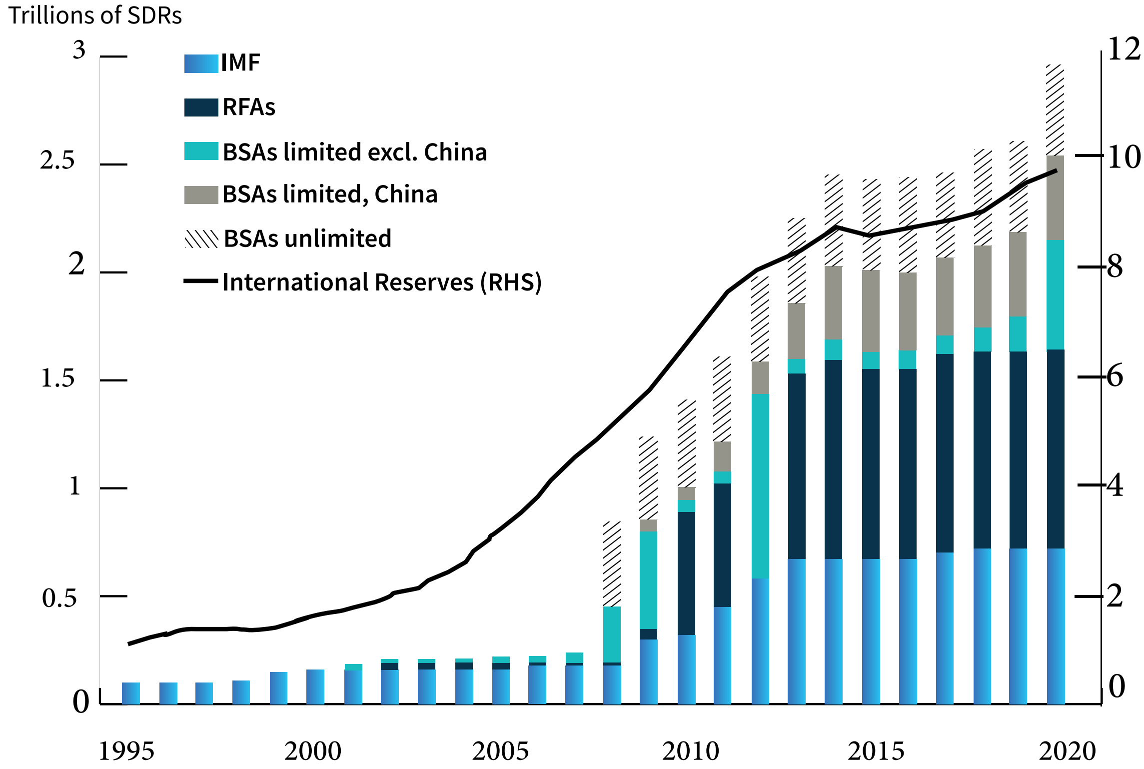
Figure 2: GFSN evolution



Source: Mühlich et al. 2021

Hence, as Figure 2 shows, we can compare the historical evolution of the strength of each component of the GFSN. Until the eve of the global financial crisis in 2007, the IMF was the largest supplier of global liquidity. As of 2018, we can observe that the distribution of global liquidity originates from three sources: the IMF for USD 1,000 billion, swaps (or BSAs) for USD 1,500 billion and the RFA for USD 1,000 billion. Consequently, by far, the IMF is no longer the only provider of liquidity at the international level and the BSAs have even surpassed the IMF in terms of access to global liquidity. This puts to rest the myth that there are no alternatives to the IMF. These figures represent potentials and do not say anything about the actual use of these various potentials, but they already give an idea about the array of possible alternatives to the IMF.

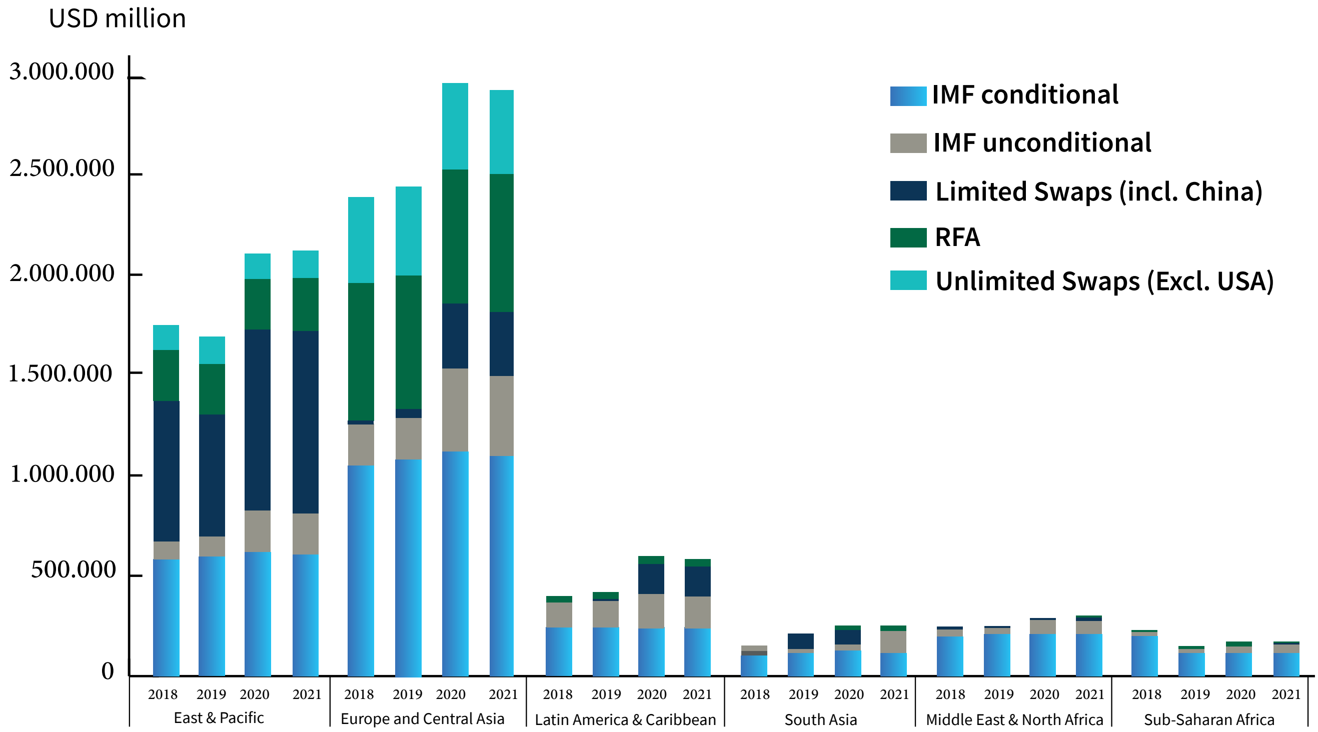
Figure 3: GFSN Size and Composition



Source : Perks and others (2021) ; US Federal Reserve Website; IMF, RFA annual reports and press releases; and IMF staff calculations (see Annex for details)

The figure above, taken from an IMF study on the subject (IMF 2021), helps illustrate the structural transformation that took place alongside the financial crisis of 2007-2009. The emergence of BSAs as a tool for accessing global liquidity was initiated by the FED, which was later followed by China's central bank, the PBOC, which set up its own bilateral swap arrangements. As explained by (Sahasrabuddhe 2019), access to these BSAs has been achieved along geopolitical affinities where close allies of the US, for example, have access to unlimited BSAs (blue in the figure) while allies with more distant ties have access to limited BSAs, both in terms of volume and time (dark green in the figure). The increase in the potential volume of access to liquidity for regional schemes comes from the activation of euro area schemes (ESM and others) (Bijlsma and Vallee 2012). For the diversified access to liquidity hides quite large regional disparities as shown in the figure below (Mühlich, Fritz, and Kring 2022).

Figure 4: Geographical distribution of the GFSN



Source : http://gfsntracker.com/

As the figure above shows, there is a significant disparity between East Asia and the Pacific, as well as Europe and Central Asia on the one hand, and the other regions on the other in terms of volume of access to liquidity. We see quite clearly that the use of BSA as an alternative to the IMF is a feature of East Asia with Latin America and the Caribbean starting to use BSA from the year 2020. Even South Asia (Indian subcontinent) has the capacity to use BSAs that are proportionally as accessible as the IMF. Sub-Saharan Africa and the MENA region are the only regions that are still almost exclusively dependent on the IMF (especially if we consider the linkage of the AMF with the IMF).

- ## Geopolitics and hierarchy in the GFSN

This disparity in access to liquidity brings us back to the geopolitical theory of the Three Worlds. Indeed, this theory, fashionable during the Cold War, separated the world into three: the First World, the Second World and the Third World. This division of the world actually corresponded to the classic triad of the 19th century racist anthropology that distinguished between 'civilisation', 'barbarism' and 'savagery' (Hobson 2012). Thus, within the hierarchy of access to liquidity under the GFSN, the 'civilised' First World, embodying the archetype of a modern future, consisting of the Western allies (European Union, Switzerland, Canada, United Kingdom, Japan), have access to unlimited and unconditional lines of financing from the US central bank, the Fed. The "savage" Third World, embodying the archaic past, whose sovereignty is only a convention without real content, dependent on the First World for its development (Kipling's White Man's Burden), will have no alternative but to accept Western tutelage through IMF conditionalities in order to meet its cash needs. This distrust and racism of the First World towards the other two worlds is not conceptualized as frankly nowadays but is reflected in concepts such as the risk of 'moral hazard', as we have shown for the refusal to accept the creation of an Asian Monetary Fund. According to some IMF authors, conditionalities were put in place to remedy this moral hazard (Jeanne 2006). This constitutes the main reason behind the reluctance of the First World to allow unlimited and unconditional access to global liquidity to the other two worlds.

The "barbaric" Second World is the transition between the First and Third Worlds and corresponded to the socialist bloc during the Cold War. Today, the Second World can be categorized into three sub-worlds. The Second World of "barbarians aspiring for civilisation", which corresponds to countries seeking to follow the Western model of modernization in the broadest sense, such as South Korea, and which will have access to lines of financing through BSAs limited in terms of volume and time (only during crises). This explains why South Korea, for example, obtained a limited BSA during the 2007 financial crisis and the COVID-19 crisis and did not need to resort to the CMIM. The Second World of "uncivilised barbarians", or, in Huntington's words, those who have chosen the path of "modernization without westernisation". These countries represnet the main threat to the First World, such as China and Russia. For these countries, not only is there no access to unlimited and unconditional liquidity, but everything is done to reduce or cut off their access to this liquidity (such as the unilateral Western sanctions against Iran, Venezuela or Russia recently). The best example of a denial of access is that of Turkey during COVID-19, which had explicitly asked the US and the EU to have access to the limited BSA. The request was rejected by the Fed (Aksoy 2021) and the ECB [4], and Turkey finally had to turn to a BSA with Qatar [5]. Some countries, such as China, have even started to offer access to liquidity, but this time in its local currency, through BSAs in Renminbi, both to First World countries (except the US) and to Second and Third World countries. Finally, the third category corresponds to the Second World, which is internally torn between adopting or not adopting the Western "civilisation" model, where we find countries such as Brazil and even India. These countries can both have access to the liquidity of the First World, but in a limited way (such as Brazil) or conditionally (such as the Repurchase Agreements, or repos (Dafermos, Gabor, and Michell 2022)) and at the same time have access to the liquidity offered by the 'barbaric' Second World.

This factor is among the reasons why, in our opinion, the CMIM, led by a First World country (Japan), a Second World country aspiring to become "civilised" (South Korea) and a Second World country that has remained "barbaric" (China), has remained coupled with the obtaining of an IMF program for 60% of its quotas. The emergence of BRICS (Brazil, Russia, India, China and South Africa) is perceived by some as a geopolitical bloc that corresponds to a path of "modernization without westernisation". Indeed, the BRICS have created their own financial arrangement (RFA), the BRICS Contingent Reserve Arrangement (CRA), seen as an alternative to the IMF, and the New Development Bank (NDB), seen as an alternative to the World Bank. However, although the CRA has a respectable financing capacity of USD 100 billion, only 30% of each country's quota is accessible without the need to obtain an IMF program (Hoosain and Rangasamy 2021), on the same model as the CMIM. Although these limits may change with the new geopolitical context following the war in Ukraine, this demonstrates

[4] https://ahvalnews.com/turkey-economy/ecb-rejects-turkeys-request-swap-lines-bolster-its-economy

[5] https://www.cnbc.com/2020/05/20/turkish-central-bank-triples-currency-swap-line-with-qatar.html

that centralized alternatives such as RFAs can only play a limited role as an alternative to the IMF, unlike BSAs.

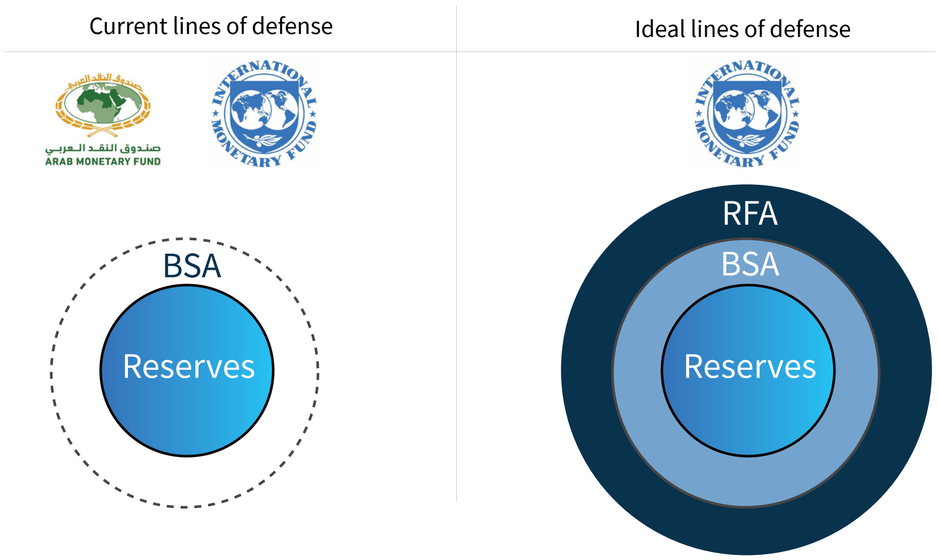
IV A diversification strategy for Tunisia

What lessons can we draw from this? Firstly, it's evident that there are alternatives to the IMF, as we have shown, and several regions in the world have tried to escape from IMF conditionalities. East Asia has been the most successful region in this regard. Of the two main alternatives, Regional Financial Arrangements (RFAs) and Bilateral Swap Arrangements (BSAs), we have established that RFAs are either insufficiently large (AMF, FLAR) or large enough, but access is mostly coupled with obtaining an IMF arrangement (BRICS CRA, CMIM). For our region, the Arab one, the AMF is both insufficiently large and coupled to the IMF, not by design but by choice within the framework of the Deauville Cartel. We have established that BSAs are the most promising tool for IMF diversification, but these lines are only offered by the Fed and ECB on a hierarchical geopolitical basis, difficult to access for Third World countries. Even the UN Secretary-General called during COVID-19" for further coordination among major central banks [which] could help ease swap lines and provide liquidity in the financial system, especially in emerging economies and developing countries". [6]

[6] https://www.un.org/africarenewal/news/coronavirus/letter-secretary-general-g-20-members

In the following, we will reiterate the approach adopted by Asian countries and documented by (Lim 2022), notably the defensive aspect of the different levels of the GFSN. However, instead of considering all levels of the GFSN as lines of defence to deal with a balance of payments crisis, as the South African authors did (Hoosain and Rangasamy 2021), we will consider the first three levels, national, bilateral and regional, as the three lines of defence, and the fourth level, IMF conditionalities, as a hybrid attack (both on the country's sovereignty, but also through the brutality of these remedies, on society in general). Thus, the ultimate goal is to construct lines of defence that allow for both an external shock and a balance of payments crisis to be addressed, while preserving the country's sovereignty. In other words, the lines of defence must consist of the access to unconditional liquidity. Below we have mapped out Tunisia's current situation, and its ideal situation in the future.

Figure 5: Tunisia's defence lines in the GFSN

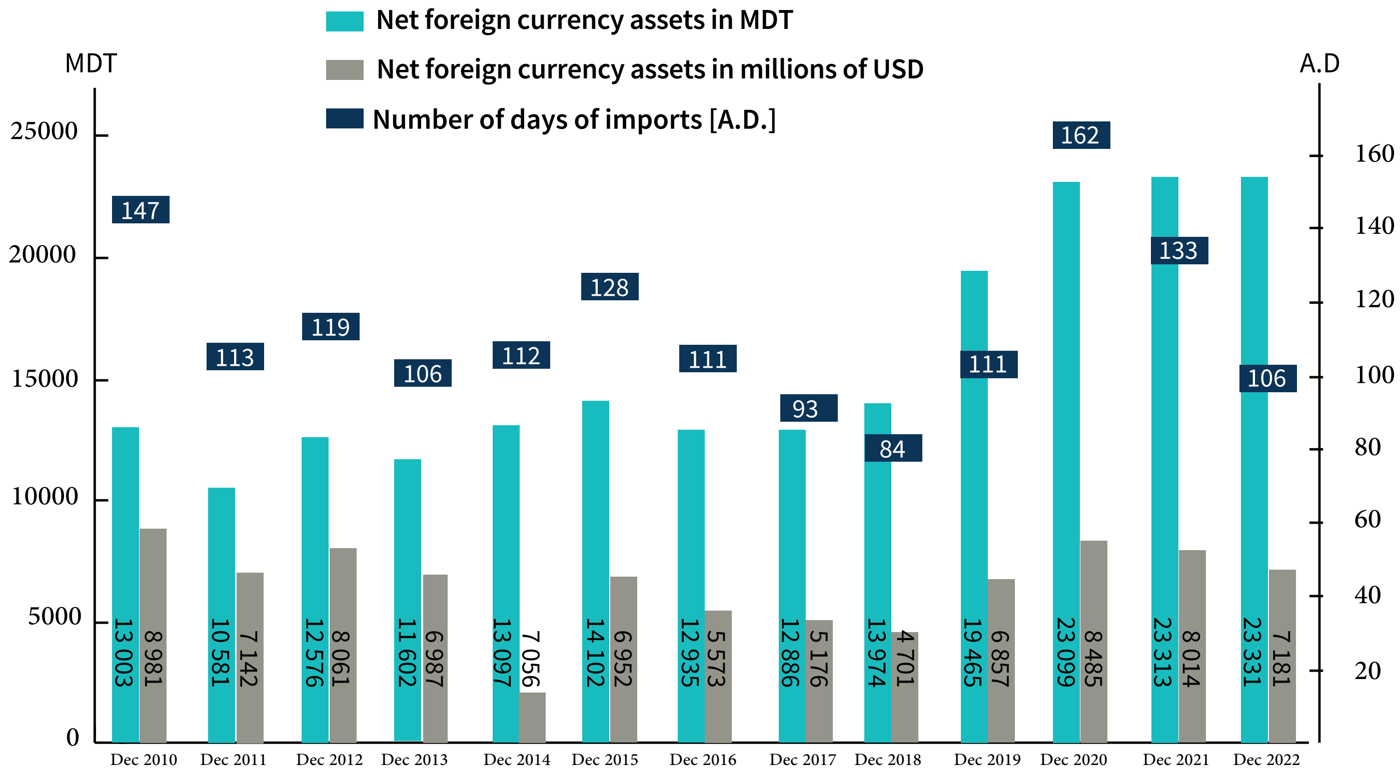


Source : graphic design by the author

A. The first line of defence: the official reserves

As we can see from the figure above, Tunisia currently relies solely on its official reserves as its only line of defence. This line is quite fragile and is vulnerable to external shocks such as the sharp increase in commodity prices following the war in Ukraine. Contrary to what was expected, as the external shock of COVID-19 resulted in a drastic reduction in overall foreign trade, the period 2020-2021 saw Tunisia's official reserves increase to 162 days of imports in 2020, mainly due to the decline in imports. Finally, the fragility of this line of defence was also seen when the IMF attacked in 2016 enforcing a devaluation of the Tunisian dinar which resulted in a decline in foreign exchange reserves from 128 days of imports in 2015 (one year before the devaluation) to a low of 84 days of imports in 2018, falling below the critical threshold of 90 days while the IMF's argument was that the devaluation would preserve official reserves (see figure below). The fact that the IMF has demanded full liberalisation of the Egyptian currency as a precondition for obtaining an IMF loan at the end of 2022 does not bode well for Tunisia at this level. The strengthening of this line of defence will be the subject of our attention in the following parts of this series.

Figure 6 : Evolution of net assets in foreign currencies (in MTD and in million US dollars)



Source: BCT, October 2022

B. The second line of defence: BSAs

As shown in Figure 4, Tunisia does not currently have a second line of defence and has not signed any bilateral swap agreement allowing it to build this second line. In this section, we will focus on access to "hard" currencies, i.e. access to liquidity in euros and dollars, Tunisia's two main currencies of trade and debt.

As far as the European Central Bank (ECB) is concerned, access to euro liquidity is structured according to a hierarchy similar to the one we have presented [7]. The most privileged access, through unlimited and permanent BSAs, concerns the same countries as for the Fed: United States, Canada, Japan, Switzerland and the United Kingdom. Then come the European countries that are not members of the eurozone, which have limited but permanent access to BSAs, such as Sweden and Denmark. The third category includes countries with a limited volume and time of access to the BSA, such as China and Poland. For the $10 billion BSA with Poland, the objective was clearly to support the Polish currency following the Russian invasion as reported by the Financial Times [8]. Finally, the last category includes countries that do not have access to BSAs but to repo agreements, i.e. instead of exchanging their own currency for euros, they receive euro liquidity in exchange for euro collateral. To have access to euro liquidity, Tunisia, which will never have access to a BSA directly from the ECB, can for example enter a BSA (euro for dinars) indirectly with countries such as Poland or China. China's BSA has been renewed until 08 October 2025 while Poland's has been renewed until 15 January 2024. Ukraine, for example, gained access to a BSA through Poland in February 2022. [9]

For the US central bank, the Fed, access to unlimited and permanent BSAs remains in place with the five central banks mentioned. In contrast, access to the volume and time-limited BSAs for the central banks of Australia, Brazil, South Korea, Mexico, Singapore, Sweden, Denmark, Norway and New Zealand was not renewed and officially ended on 31 December 2021[10]. Thus, during COVID-19, instead of calling on the IMF, Asian countries demonstrated their regional solidarity by signing a multitude of BSAs to meet their respective liquidity needs. The Philippines signed a USD 12 billion BSA with Japan in February 2022 [11]; Thailand signed two BSAs with Japan for USD 7.5 billion and USD 3 billion in March 2020 and July 2021 respectively; Malaysia signed a USD 4.2 billion BSA with South Korea in February 2020 and USD 3 billion with Japan in September 2020; Indonesia signed a USD 9 billion BSA with South Korea in March 2020, a USD 6.8 billion BSA with Singapore in November 2020, a USD 22.7 billion BSA with Japan in October 2021, a USD 38.5 billion BSA with China in January 2022 and a USD 7.1 billion BSA with Australia in February 2022; and India signed a USD 75 billion BSA with Japan in February 2022. Japan is one of the countries with unlimited and permanent access to liquidity that has signed the most BSAs with its regional partners. However, as Japan's criteria for signing BSAs are not public, it is not clear whether Japan will extend its solidarity beyond the Asian region. Moreover, as a G7 country, Japan is also a member of the Deauville Cartel. The President of JICA recently recalled that "any financial assistance remains contingent on reaching an agreement with the IMF [12]". This shows that Japan's solidarity does not extend beyond its region.

[7] https://www.ecb.europa.eu/mopo/implement/liquidity_lines/html/index.fr.html

[8] https://www.ft.com/content/425b922e-6465-4501-8b67-cfedb2fabcc9

[9] https://www.centralbanking.com/central-banks/financial-stability/7933406/poland-offers-ukraine-swap-line-as-nbu-suspends-forex-transactions

[10] https://www.federalreserve.gov/newsevents/pressreleases/monetary20210616c.htm

[11] https://gfsntracker.com/

[12] https://lapresse.tn/150406/president-de-la-jica-toute-assistance-financiere-reste-tributaire-de-la-conclusion-dun-accord-avec-le-fmi/

For access to US dollar BSAs, another option would be to sign BSA agreements with countries holding substantial hard currency reserves and do not subscribe to the Three Worlds hierarchy.

C. The third line of defence: the RFAs

We have already established the fact that the RFAs are either insufficient or tied to obtaining an IMF program for part of the liquidity access. Nevertheless, the non-IMF part, which corresponds to 30% of the quota for the BRICS CRA and 40% of the quota for the CMIM, is still a potential line of defence for any country that has access. As Tunisia is not a member of the BRICS or the CMIM, we will focus on the RFAs to which Tunisia belongs. As for the other RFAs, the AMF provides a limited facility for its members that does not exceed 75% of the AMF capital subscription amount (automatic loan). Beyond that, the AMF indicates that the other facilities are accessible on the condition that structural adjustment reforms are put in place, without formally quoting the IMF. However, as we have seen, the Arab Monetary Fund (AMF) is a member of the Deauville Cartel and access to these facilities above 75% of subscriptions are in practice often linked to IMF programs. As the link is not formal in the statutes, in theory, Tunisia could negotiate a more flexible adjustment plan than with the IMF, especially given the relatively small amounts available from the AMF. Nevertheless, in the future, Tunisia should push the AMF to decouple from the IMF and increase its financial capacity.

Finally, Africa is the only continent that does not have an active RFA. Indeed, the protocol establishing the African Monetary Fund was adopted in June 2014 [13]. However, out of the 55 countries of the African Union, there are only 12 countries that have signed the protocol establishing the African Monetary Fund, none of which are "big" countries of the continent, and only Chad has signed and ratified the protocol [14]. Tunisia could start by signing and ratifying this protocol to operationalize the African Monetary Fund and ensure that access to unconditional liquidity is maximized through this new fund.

[13] https://au.int/fr/treaties/protocole-portant-creation-du-fonds-monetaire-africain

[14] https://au.int/sites/default/files/treaties/36417-sl-PROTOCOL%20ON%20THE%20ESTABLISHMENT%20OF%20THE%20AFRICAN%20MONETARY%20FUND.pdf (Consulté le 23 janvier 2022).

Conclusion and follow-up

In this first part, we have presented the strength of the IMF in its ability to present itself as the only alternative to accessing liquidity at the international level, notably through the Deauville Cartel for Tunisia and other countries in the region. We have also shown that this capacity is based on an incomplete view of the different options at the GFSN level to access liquidity. Nevertheless, even though robust alternatives exist, we have described the hierarchy set up, based on the Three Worlds theory, to account for the difficulty of accessing Bilateral Swap Agreements (BSAs) to access "hard" currencies such as the US dollar and the euro. We have also pointed out the limitations of centralized regional financial arrangements (RFAs) which are not best suited to resist the hegemony of the First World (primarily the United States) through the coupling of access to RFAs with the receipt of conditional IMF programs. This results in the extension of the grip of the cartel centered around the IMF. Based on this observation, we have conceptualized the constitution of lines of defence and proposed options for Tunisia to guard against the balance of payments problems and preserve its sovereignty. However, we have voluntarily limited ourselves to access to hard currencies in this first part. Indeed, in the second part of this series, we will explore other alternatives and strategies to strengthen Tunisia's lines of defence around the concept of "delinking" popularised by the economist Samir Amin.

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المرصد التونسي للإقتصاد
Observatoire Tunisien de l'Economie

contact@economie-tunisie.org
www.economie-tunisie.org
21, Rue du Niger - 1002 Tunis belvedere - Tunisia
www.facebook.com/ObsTunEco
(+216) 36 329 939