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## PRECAUTIONARY AND LIQUIDITY LINE- OPERATIONAL GUIDANCE NOTE

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**International Monetary Fund  
Washington, D.C.**



July 11, 2018

## PRECAUTIONARY AND LIQUIDITY LINE—OPERATIONAL GUIDANCE NOTE

### EXECUTIVE SUMMARY

This note provides general guidance on the use of the Precautionary and Liquidity Line (PLL). After an overview of the instrument, explaining its specific nature, the operational issues are grouped into five areas:

- an outline of the process and specific steps that need to be followed if a member **expresses interest in an arrangement**;
- guidance on **access, phasing, and purchases**;
- guidance on determining **qualification** of a member and appropriate **ex-post conditionality**; and
- a guide to the semi-annual **review process**.

The note is an aid to the implementation of the policy and its underlying principles. If there is any instance in which a provision of the guidance note or its implementation conflicts with Board policy, Board policy prevails. It will be revised as needed, for example following relevant policy reviews.

Approved By  
**Martin Mühleisen**

Prepared by the Strategy, Policy, and Review Department in  
 consultation with the Legal and Finance Departments

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## INTRODUCTION

1. **The Precautionary and Liquidity Line (PLL) was introduced in the context of the Board discussion on the [Fund's Financing Role: Reform Proposals on Liquidity and Emergency Assistance](#) in November 2011**, replacing and broadening the scope of the previously established Precautionary Credit Line (PCL). The design of the PLL was further refined in the 2014 and 2017 Reviews of the policy.<sup>1</sup> This note provides operational guidance to staff and further background information on the PLL. SPR (the Lending Policy Division), FIN, and LEG stand ready to clarify any further questions that departments may have on the PLL.

## OVERVIEW OF THE PLL

2. **The PLL is a financing tool of the Fund that flexibly meets the needs of member countries with sound economic fundamentals but with some remaining vulnerabilities that preclude them from using the [Flexible Credit Line \(FCL\)](#).**<sup>2</sup> The PLL is established as a window in the credit tranches, permitting its use in addressing any balance of payments (BoP) problem. It is designed as a credit line, with large and frontloaded financing available, that can be granted to a qualifying member under an arrangement (i.e., the PLL arrangement) if the member (i) has sound economic fundamentals and institutional policy frameworks; (ii) is implementing—and has a track record of implementing—sound policies; and (iii) remains committed to maintaining such policies in the future, all of which give confidence that the member will take the policy measures needed to reduce remaining vulnerabilities and will respond appropriately to the BoP difficulties that it is encountering or might encounter.

3. **The PLL is designed to provide the right balance between members' demand for a well-tailored liquidity instrument and the need to provide adequate safeguards to Fund resources in the presence of remaining vulnerabilities.** To this purpose, two windows are available under the PLL: (i) a standard window under which financing is provided through a PLL arrangement with duration of one to two years and available to PLL qualifying members with either actual or potential BoP needs; or (ii) a short-term liquidity window under which financing is provided through a PLL arrangement of a six-month duration, available to qualifying members that have an actual or potential short-term balance of payments need such that they can be generally expected to make credible progress in addressing their vulnerabilities during the six-month duration of the arrangement. The specific design features of PLL support under the two windows are summarized

<sup>1</sup> See The IMF's Mandate—The Future Financing Role: Reform Proposals and Revised Reform Proposals; the 2011 Review of the Flexible Credit Line and Precautionary Credit Line; the 2014 Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument, including a follow-up paper on Specific Proposals; and the 2017 paper on the Adequacy of the Global Financial Safety Net—Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform; and Revised Proposals following that paper.

<sup>2</sup> See Table 1 in [Fund's Financing Role: Reform Proposals on Liquidity and Emergency Assistance](#) for a comparison of existing financing instruments.

below, with further discussion of the approval process, access considerations, ex-ante and ex-post conditionality, and reviews in the following sections.

## A. PLL Standard Window: One- to Two-Year PLL Arrangements

- **Access** under the PLL is capped (PLL decision, paragraph 4(a) and 4(b)). Access under PLL arrangements shall not exceed the cumulative cap of 500 percent of quota, net of scheduled PLL repurchases, which shall apply to all PLL arrangements regardless of their duration. PLL arrangements of one to two years are subject to an annual access limit of 250 percent of quota (net of scheduled PLL repurchases) at the time of approval. Purchases under PLL arrangements of one to two years are phased on a semi-annual or annual basis depending on the actual or potential nature of the BoP need (see Section IV below for further details on phasing). In case of a larger BoP need than originally estimated, augmentations of access—up to the 500 percent of quota cumulative cap referred to above—and rephasing of arrangements under the standard window, are possible in the context of a scheduled or ad-hoc review in which the Fund assesses the member's actual or potential need for Fund resources and the extent to which the PLL-supported program remains on track to achieve its objectives. Access can also be reduced at the request of the member.<sup>3</sup> All requests for changes in access should refer to the changes in the member's BoP needs and provide a justification for the requested change. In addition to the PLL-specific access limits and caps, the PLL is subject to the annual and cumulative access limits applicable to all financing under the GRA, and thus to the exceptional access policy (which is triggered by financing above either of the normal GRA access limits of 145 percent annually and 435 percent cumulatively, net of scheduled repurchases). Continued access under the standard PLL window is subject to the completion of the relevant six-monthly review by the Executive Board (see Section on access and phasing below).
- **Conditionality** (PLL decision, paragraph 3(b)). PLL arrangements of one- to two-year duration carry ex-post conditionality, in addition to ex-ante conditionality in the form of qualification criteria (the latter discussed in Section V). Ex-post conditionality under the standard PLL window includes semi-annual indicative targets and standard performance criteria (PCs)<sup>4</sup> and, where warranted in accordance with the Guidelines on Conditionality, may also include other semi-annual PCs as well as prior actions and structural benchmarks (see Section VI and VII below for further details).
- **Length, expiration, and successor arrangements** (PLL decision, paragraphs 3(a) and 5(a) and (b)). Under the standard PLL window, arrangements may be approved for a period of between one and two years, with semi-annual reviews. PLL arrangements expire upon the earlier of: (i) the expiration of the approved period of the arrangement; (ii) the purchase of the full amount of

<sup>3</sup> With respect to a reduction in access, a member's request for reduction in access can be made at any time during the period of the arrangement and is not limited to six-monthly or ad hoc reviews. The reduction in access will be subject to Board approval.

<sup>4</sup> Standard PCs are continuous performance criteria related to trade and exchange restrictions, bilateral payment agreements, multiple currency practices, and non-accumulation of external payment arrears.

approved access under the arrangement; or (iii) the cancellation of the arrangement by the member. Successive PLL arrangements under the standard window may be approved for the member subject to the cumulative cap for access under PLL arrangements of 500 percent of quota, and provided that the qualification and approval requirements under the PLL decision are met and understandings on a new program with a macroeconomic framework and the needed measures to address any remaining vulnerabilities under the program (including prior actions, as warranted) are reached. Note that one- to two-year PLL arrangements shall be phased, as established in the decision, even if total access is under 250 percent of quota upon approval. In determining the phasing, both the timing of the reform under the program and the BoP needs of the country would be relevant. These considerations should be fully explained in the staff report supporting the request for a PLL arrangement, and in the staff note for the corresponding informal Board meeting.

## B. PLL Short-Term Liquidity Window: Six-Month PLL Arrangements

- Access** (PLL decision, paragraph 4(a) and 4(c)). Access under the short-term liquidity window is subject to a limit of 125 percent of quota per arrangement (net of scheduled PLL repurchases). However, in exceptional circumstances where a member is experiencing or has the potential to experience larger short-term BoP needs due to the impact of exogenous shocks, including heightened regional or global stress conditions, access is subject to a higher limit of 250 percent of quota, net of scheduled PLL repurchases, per arrangement (see Annex II). The entire amount of approved access is made available upon approval of the arrangement and remains available throughout the arrangement period. Augmentations of access—in case of a larger BoP need than originally estimated<sup>5</sup> and subject to the access limits and conditions specified above—are possible in the context of an ad hoc review in which the Fund assesses the member’s actual or potential need for Fund resources and continued qualification for the PLL. In any event, total access to Fund resources by a member through six-month PLL arrangements shall not exceed a cumulative access cap of 250 percent of quota, net of scheduled PLL repurchases. Moreover, access under all PLL arrangements, regardless of the length of the arrangement, shall not exceed the cumulative cap of 500 percent of quota, net of scheduled PLL repurchases as mentioned above. Support under six-month PLL arrangements is also subject to the 145 percent of quota annual access limit and 435 percent of quota cumulative limits applicable to all financing under the GRA, and thus to the exceptional access policy when either of these limits is exceeded.
- Length, expiration, and successor arrangements** (PLL decision, paragraph 3(a) and 5(a, c)). Under the PLL short-term liquidity window, arrangements may be approved for a period of six months and expire upon the earlier of: (i) the expiration of the approved period of the arrangement, (ii) the purchase of the full amount of approved access under the arrangement; or (iii) the cancellation of the arrangement by the member. Successive six-month PLL arrangements

<sup>5</sup> For example, the materialization of a larger BoP need than originally envisaged might require the augmentation of a six-month PLL arrangement from its initially approved access of say 70 percent of quota to say 125 percent of quota.

may be approved on a case-by-case basis, subject to the cumulative cap for access under all PLL arrangements of 500 percent of quota and to the 250 percent of quota access cap for total access under 6-month PLL arrangements referred to above, if either (i) at least a two-year “cooling off” period has elapsed since the approval of the most recent six-month PLL arrangement; or (ii) the member’s BoP need is longer than originally anticipated due to the impact of exogenous shocks, including heightened regional or global stress conditions. However, no more than one additional six-month PLL arrangement can be approved under these exceptional circumstances (see also on access above and Annex II). Approval of any successive arrangement would remain subject to an assessment of continued qualification and, if warranted, to prior actions.

- **Conditionality** (PLL decision, paragraph 3(c)). Six-month PLL arrangements are subject to ex-ante conditionality in the form of qualification criteria and to ex-post conditionality in the form of standard continuous PCs (see footnote 4). Prior actions can also be included, if warranted. Six-month arrangements are not subject to reviews, indicative targets, or periodic quantitative PCs and structural benchmarks, as arrangements under the standard PLL window.

## PROCESS

**4. A PLL arrangement may be approved following a request from a member (PLL decision, paragraph 2).** There is *no list* of members that pre-qualify for the PLL. If a country expresses an interest in a PLL arrangement, staff will conduct a confidential preliminary assessment of the qualification criteria set forth in paragraph 2 of the PLL Decision to determine whether the member might qualify (see Section V). If management, based on staff’s preliminary assessment, decides that access to Fund resources under the PLL may be appropriate, management will promptly consult with the Executive Board at an informal meeting, with a view to allow early engagement of the Board regarding staff’s preliminary assessment of the member’s PLL qualification. To this purpose, staff will provide a concise note including a preliminary assessment of qualification, an initial discussion of the key macro-critical areas where conditionality might be sought, and an assessment of the member’s actual or potential need for Fund resources and repayment capacity.<sup>6</sup> To the extent that access under the PLL is to exceed the normal GRA limits (including outstanding holdings of a member’s currency arising from previous GRA purchases), the procedural and substantive requirements under the Fund’s exceptional access policy would also apply.<sup>7</sup> Following the informal Board meeting and once staff has reached understandings with the authorities on the policy actions under the program to be supported by the PLL arrangement, a decision approving the PLL arrangement is proposed for adoption by the Executive Board at a subsequent meeting on the basis of (i) the member’s concise written communication outlining its policy goals and strategies for at least the duration of the arrangement, as well as measures aimed at addressing its remaining

<sup>6</sup> A memo to management with the attached concise note prepared by staff would be normally used to inform management of staff’s preliminary assessment of qualification of a member. The memo and the concise note would be subject to the standard inter-departmental review process.

<sup>7</sup> [Decision No. 14064-\(08/18\)](#), adopted February 22, 2008, as amended.

vulnerabilities, together with a quantified macroeconomic framework; and (ii) an assessment in the staff report of the member's qualification, the policy program's objectives and ex-post conditionality, as applicable, and proposed access under the PLL arrangement. Additional consultations with Executive Directors between the initial informal meeting and the Board's consideration of the member's request would also be expected to take place, as needed, to provide any additional information and updates on the program discussions, including qualification and program design issues. The specific procedural and substantive requirements for approval of a PLL request are described below.

## 5. If a member is interested in a PLL arrangement, the process is as follows:

- **Initial steps.** The member should approach staff or management expressing its interest in a PLL arrangement (e.g., through an email or other written communication with the mission chief or area department head). Staff should encourage members to express interest on a confidential, and possibly informal, basis, as failure to qualify under the instrument, if publicly disclosed, could have negative effects on market sentiment. Similarly, Fund staff would be expected to treat the authorities' request with the necessary confidentiality.
- **Preliminary assessment of qualification.** Upon an expression of interest, the country team would begin to prepare a preliminary assessment of the member's qualification under the PLL on a confidential basis (PLL decision, paragraph 6 (a)). Given the possibility of remaining vulnerabilities in certain qualification areas, the assessment should be conducted with a view to preliminarily identifying areas for prior actions or ex-post policy conditionality, as warranted and depending on the duration of the arrangement. A mission is not required to assess PLL qualification. However, if the latest Article IV consultation discussion is more than one year old, or if warranted by circumstances (e.g., concerns about a sudden deterioration in a key qualification area), a fact-finding staff visit is recommended to provide additional input to staff's preliminary assessment of qualification. Staff should take care to ensure that qualification is thoroughly assessed (see Section V and Annex I) and discussed with SPR, FIN, and LEG, and other functional departments as necessary. The nature of the BoP need (including whether actual or potential), the proposed access level, and the length of the arrangement sought by the authorities should also be clarified by staff at an early stage. The authorities should be informed promptly on a confidential basis of Management's preliminary determination of the country's qualification. Throughout the process, staff should make clear to the authorities that any qualification assessment by staff is only preliminary, pending the Executive Board's decision.
- **Informal Board meeting "to engage" and staff note.** If management decides that access to Fund resources under the PLL may be appropriate, it will promptly consult the Executive Board at an informal Board meeting. For this purpose, a concise staff note should set out the basis on which approval of the PLL arrangement could be recommended. It is envisaged that the staff note be more succinct than the subsequent staff report on the formal request for an arrangement, as the informal Board meeting does not replace the broader discussion at the time of the formal request. The note would normally include a preliminary assessment of qualification and specification of key areas with remaining vulnerabilities, and a discussion of the appropriate



duration of the arrangement and of the proposed level of access, taking into account respectively the expected time that the member would need to make credible progress in addressing its remaining vulnerabilities and the member's capacity to repay (details on the staff note are set out in Annex VI). The note should identify policy actions (including possible prior actions and/or ex-post conditionality as warranted under the Decision) to address the remaining vulnerabilities. If management decides that exceptional access to Fund resources may be appropriate, the note should also include all the additional information required under the exceptional access policy, including staff's preliminary evaluation of the four substantive criteria for exceptional access. Recent practice has been to treat the staff note as strictly confidential. Following consultation with the Board at the informal meeting, if there are concerns about a market-sensitive leak/misinformation regarding the PLL request, a press release could be issued indicating the authorities' interest in requesting a PLL arrangement. The press release would take care not to prejudge the Executive Board's final decision on a PLL arrangement. Moreover, in the context of the exceptional circumstances envisaged for six-month arrangements, any possible communication on the existence of exogenous shocks, including due to the impact of heightened regional or global stress conditions would need to be handled with extra care to not propagate further contagion (in any case, these situations would be expected to be rare). Additional consultations with the Executive Board between the initial informal meeting and the Board's consideration of the staff report would also be expected to take place, as needed, to provide any additional information and updates on the program discussions, including qualification and program design issues, as warranted.

- **Timing of Article IV consultation.** The Executive Board assessment of the member's policies in the context of the most recent Article IV consultations is part of the requirements for qualification to be assessed at the time of a new arrangement or subsequent reviews. The Board has endorsed the principle that the consideration of Article IV consultations be timed sufficiently early to allow the Board's most recent assessment of the member's policies to be fully integrated into the assessment of qualification in the context of the approval of or reviews under PLL arrangements. This principle should apply equally to mandatory financial stability assessments, which are legally part of the Article IV consultations, and in general to other documents that feed into Article IV consultations, such as voluntary FSAPs and ROSCs. In practice, this would normally mean holding the Article IV discussion at least 4–6 weeks prior to a formal Board meeting for either the approval of, or review under, a PLL arrangement.
- **Preparation of the staff report and mission requirements.** Details on the content of the staff report are set out in Annex VI. For six-month arrangements, a mission to discuss a PLL request is not required, although a fact-finding staff visit would be recommended in case the latest available Article IV consultation staff report is more than one year old. For one- to two-year PLL arrangements, a mission would normally be expected, following the informal Board meeting, to discuss the PLL request, including possible prior actions for arrangement approval, and the policy program aimed at addressing the vulnerabilities identified by the preliminary qualification assessment. The internal review and management clearance procedures that apply to SBA program missions would also apply in the context of a PLL request. The tasks of the mission

should include: (i) obtain information and engage in discussions to finalize the staff qualification assessment; (ii) confirm understandings on access levels and length of the requested arrangement; (iii) reach understandings on policy goals and strategies for at least the period of the requested arrangement, together with a quantified macroeconomic framework underpinned by a detailed streamlined set of indicative targets for key policy variables covering at least the first year/two semi-annual reviews (including, where warranted in accordance with the Guidelines on Conditionality, understandings on semi-annual PCs and structural benchmarks); and (iv) if warranted, reach understandings on prior actions for management’s recommendation of approval. A press release will be normally issued once preliminary understandings have been reached between the authorities and Fund staff on the program.

- The authorities’ concise written communication.*** The written, signed communication requesting a PLL arrangement should describe macroeconomic conditions and the authorities’ policy goals and strategies for at least the term of the arrangement, the policy actions aimed at addressing the member’s remaining vulnerabilities (PLL decision, paragraph 9), as well as the reasons inducing the member to request Fund assistance under the PLL. The authorities would also need to specify the nature of the BoP need and whether they intend to treat their access request on a precautionary basis. The authorities’ request should refer to their commitment to maintain sound economic policies and to respond appropriately to any shocks that may arise (with special attention to the member’s ability to make credible progress in addressing its vulnerabilities during the arrangement period in six-month duration requests).<sup>8</sup> In this context, members requesting a one-to two-year PLL arrangement could add a reference to their exit expectations in their written communication.<sup>9</sup> Cross-referencing material published separately by the authorities would be appropriate to provide additional support for the Fund’s assessment of qualification for the PLL. The request should include a standard consultation clause and the authorities’ commitment to provide the Fund with all the needed information to monitor the program under the PLL arrangement. For arrangements of one to two years, this written communication provides a basis for monitoring the authorities’ policy commitments in program reviews under the PLL arrangement: to this purpose, the authorities’ request should also include an annex with a detailed quantitative macroeconomic framework according to the understandings reached with staff, including semi-annual indicative targets (and non-standard PCs where warranted in accordance with the Guidelines on Conditionality) for key policy variables for at least the first year of the requested arrangement. It should also include, where warranted under the Guidelines on Conditionality, any prior actions and structural benchmarks identified under the program with the specified timing for implementation (PLL decision, paragraph 9). Where semi-annual PCs are warranted in accordance with the Guidelines on Conditionality, the proposed test dates should be set with the aim of ensuring data availability

<sup>8</sup> Country teams should be mindful of the electoral cycle and, where possible, should seek to delink the timing of a request for a new arrangement from the electoral cycle. Where it is not possible to delink the request in this way, staff should seek assurances from electoral candidates that the sound policies and policy frameworks will be maintained. Such assurances are an important forward-looking safeguard for the PLL.

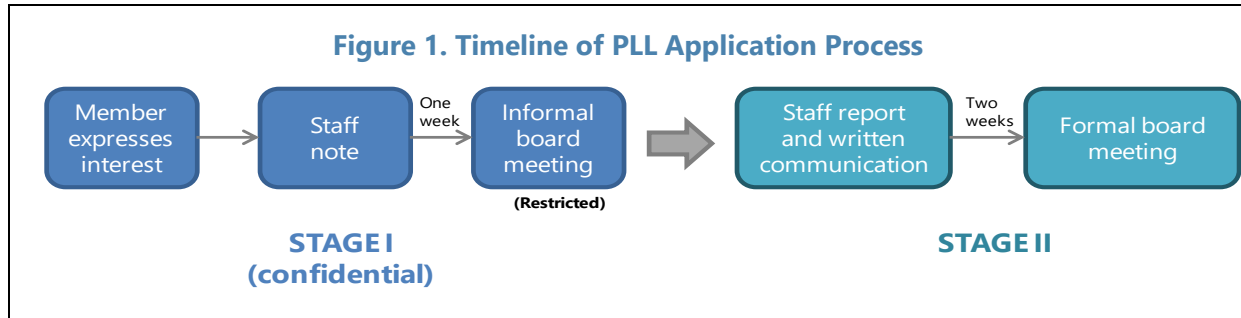
<sup>9</sup> See the discussion of exit strategy below.

by the time of the completion of the semi-annual reviews (and avoid the need for waivers of applicability). If applicable, the annex will also present the definitions of the variables included as semi-annual targets, the data reporting requirements and deadlines, and any other information requirements needed to ensure adequate monitoring of economic and financial developments.

- **Safeguards assessment.** A member requesting a one- to two-year PLL arrangement is subject to the Fund’s general safeguards assessment policy that applies to Fund arrangements, including the requirement that a safeguards assessment be completed at least by the time of the first review under the arrangement.<sup>10</sup> For six-month PLL arrangements, the member shall commit to undergo a safeguards assessment, provide staff with access to its central bank’s most recently completed external audit reports and authorize its external auditors to hold discussions with Fund staff. Although the timing and modalities for the safeguards assessment for members with a six-month PLL arrangement are determined on a case-by-case basis, the safeguards assessment would normally need to be completed before the Executive Board approves any subsequent arrangement to which the Fund’s safeguards assessments policy applies.
- **Interdepartmental review and circulation periods.** Normal interdepartmental review and circulation periods apply to any staff report for a request for the PLL arrangement. The current circulation period is two weeks for the Formal Executive Board meeting, and for Informal Board meetings concerning PLL arrangements entailing exceptional access, recent practice has been to allow for a one-week circulation period. However, where needed, expedited procedures for the approval of the arrangement under the Emergency Financing Mechanism (EFM) could be applied. If the PLL arrangement is approved under the EFM procedures, a special review of the member’s initial policy response to the emergency and the market reactions would be required within one to two months after the approval of the PLL arrangement in line with the EFM procedures. However, the normal general expectation of prior actions as called for under the EFM procedures would not apply in the context of PLL arrangements. Prior actions for the approval of the PLL arrangement would be established where warranted in accordance with the Guidelines on Conditionality.
- **Formal Executive Board meeting.** The Executive Board considers and may approve a PLL arrangement based on the request set forth in the member’s written communication, as outlined above, and the recommendation contained in the relevant staff report. As for other Executive Board meetings on the use of Fund resources, staff should prepare a Summing Up (for internal use) and a Chairman’s Statement (for publication).
- **Transparency.** The Managing Director will generally not recommend that the Executive Board approve a request for a PLL arrangement or the completion of a review, if applicable, unless the member consents to the publication of the associated staff report. More generally, it would be normally expected that the staff report, as well as the authorities’ written communication requesting a PLL arrangement, or the completion of a review, and outlining the member’s policy

<sup>10</sup> See [FIN Operational Guidelines for Safeguards Assessments](#) (March 2017) for the safeguards requirements under the PLL.

goals, will be published shortly after the Board’s approval of the arrangement or completion of a review. The authorities are generally expected to consent (ideally in writing) to publish the documents before the discussions on the request for the use of Fund resources under the PLL are concluded with staff.<sup>11</sup> The Fund’s Transparency Policy, including the rules on corrections and deletions, applies.



## ACCESS, PHASING, EXIT, AND PURCHASES

**6. Access justification.** Consistent with general Fund policy, access to Fund resources under a PLL arrangement in individual country cases will be based on: (i) the member’s actual or potential need for Fund resources taking into account other sources of financing (see below) and the desirability of maintaining a reasonable level of reserves (further details on determining the BoP need are covered in [Annex II of GRA Lending Toolkit and Conditionality—Reform Proposals](#)); (ii) the member’s capacity to repay the Fund, which takes into account the strength of its adjustment program including the extent to which it will lead to a strengthening of the member’s BoP by the time that repurchases begin to fall due; and (iii) the amount of the member’s outstanding Fund credit and its record in using Fund resources in the past. Under the exceptional circumstances envisaged for six-month PLL arrangements (and discussed above), key factors for consideration in determining individual countries’ access levels should include, apart from the country-specific considerations, the potential for contagion to exacerbate funding strains. This is in line with the six-month PLL arrangements’ potential role to act as a conduit for the Fund to respond to events of widespread stress, providing liquidity to crisis bystanders and helping mitigate contagion.

**7. Support from other creditors and consultation with Regional Financing Arrangements (RFAs).** When support from other creditors is likely to be important in helping a member address its BoP difficulties, staff would be expected to consult with key creditors (official or private sector) as appropriate to inform an assessment of access. In this case, the standard informal Board engagement, which would include a preliminary assessment of access, would likely take place after discussions with creditors. Consultation with other creditors could for example be envisaged when

<sup>11</sup> See Transparency Policy Decision No. 15420-(13/61), June 24, 2013, paragraph 4b.

(i) there are sizable remaining financing gaps that need to be filled by other creditors (usually official creditors); or (ii) the authorities are requesting precautionary support from both the IMF and other providers of financing, such as a Regional Financing Arrangement (RFA).<sup>12</sup> Such consultations would be limited to sharing preliminary information at a technical level and would not include sharing of the staff note for the informal Board meeting.<sup>13</sup> In general, specified Board documents may be shared with RFA's that are co-financiers pursuant to established Fund policy.<sup>14</sup> When sharing of Board documents is warranted, such sharing with RFAs is done via SEC. Country authorities should be informed and consent (in advance) of planned contacts with other creditors.

**8. Annexes II through V set out a framework that can be used by teams to assess the appropriate level of access under a PLL arrangement requested on a precautionary basis.**

Annex II discusses Short-Term BoP needs; Annex III sets out a general framework for determining access, including discussions about reserve levels; Annex IV presents an external economic stress index that should be used to help guide access discussions; and Annex V presents a unified framework for comparing access assumptions across FCL and PLL cases that should facilitate a relatively transparent approach to communicating the assumptions determining requested access. SPR reviewers and the Lending Policy Division in SPR can provide further guidance as needed. Poland's January 2015 FCL request provides an example of good practice. Justification for access under an actual BoP need would follow normal program guidelines.

**9. *Phasing.*** Subject to the access limits under the PLL decision, phasing in PLL arrangements varies depending on the duration of the arrangement and the nature of the member's balance of payment need at the time of approval of the arrangement. Specifically,

- For six-month PLL arrangements, whether approved in the presence of actual or potential BoP needs, no phasing is envisaged, with the entire amount of access made available upon approval and remaining available throughout the arrangement period. Upon emergence of an actual BoP need, the member has the option of drawing in one or multiple purchases up to the amount available under the PLL arrangement at any time during the term of the arrangement, subject to the provisions of the PLL decision.
- For one-year PLL arrangements approved for members having, at the time of approval of the arrangement, a potential BoP need, the entire amount of approved access will be made available

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<sup>12</sup> In the case of financing support by multilaterals (e.g., for members of a currency union and/or where a Regional Financing Arrangement is involved), staff should coordinate with the requesting member and the relevant multilaterals to ensure that these creditors' own internal rules and procedures, as applicable, do not conflict with the Fund's policies on the financial assistance request and communication strategy. See for example [Program Design in Currency Unions](#) (March 2018). In any case, these considerations should in no way delay prompt communications to the Board or prejudice its assessment of the member's request. Consultations with co-financiers will make clear that any discussions are ad referendum of decisions on the financing request by the Executive Board, and safeguards will be put in place to ensure confidentiality.

<sup>13</sup> Management may authorize the sharing of preliminary program information at a technical level with RFAs or other parties that are co-financiers or creditors. See [Collaboration Between Regional Financing Agreements and the IMF](#), paragraph 37.

<sup>14</sup> See [The Exchange of Documents Between the Fund and Regional Financing Arrangements](#).

upon approval and will remain available throughout the arrangement period, subject to completion of a semi-annual review.

- For PLL arrangements with one- to two-year duration, approved for members having, at the time of approval of the arrangement, a potential BoP need, an initial amount of up to 250 percent of quota is made available upon approval for the first year, with the remaining amount made available at the beginning of the second year of the arrangement, all subject to completion of the relevant semi-annual reviews. In determining the phasing, both the timing of the reform under the arrangement and the BoP needs of the country would be relevant. These considerations should be fully explained in the staff report supporting the request for the PLL arrangement and in the staff note for the corresponding informal Board meeting. Upon emergence of an actual BoP need, the member has the option of drawing in one or multiple purchases up to the amount available under the PLL arrangement at any time during the term of the arrangement, subject to the provisions of the PLL decision. Phasing of one- to two-year arrangements approved on a precautionary basis will remain on an annual basis following the emergence of an actual BoP need and the resulting purchase (see also paragraph below).
- For PLL arrangements with one- to two-year duration, approved for members having, at the time of approval of the arrangement, an actual BoP need, purchases are phased, with an initial amount being made available upon approval of the arrangement and the remaining amounts being made available at semi-annual intervals, subject to the completion of the relevant semi-annual reviews and commensurate with the member's projected level of actual BoP needs. It is expected that there would usually be a total of three purchases in a one-year arrangement and five purchases in a two-year arrangement (including the purchase made available upon approval), with all purchases other than the one available upon approval being subject to a review.

**10. Purchases.** To make actual purchases under the PLL arrangement, FIN would need to receive official communication, via SWIFT, from the fiscal agency of the member requesting a purchase under the PLL arrangement as is the case with any purchases under the IMF's General Resources Account, specifying the amount of the purchase, subject to access and phasing limits as applicable, and representing a commensurate actual BoP need.<sup>15</sup> FIN would immediately contact the authorities to determine the earliest possible value date, the currency composition of the purchase, and other operational details in line with established guidelines and procedures. Information about any purchases by the member under the PLL arrangement is routinely made public by the Fund on its external webpage (on financial transactions with member countries). Also when a PLL arrangement has been approved on a precautionary basis, the member has an unconditional right to draw on the arrangement until the date scheduled for the completion of the next six-monthly review, which should be scheduled to take place immediately prior to the lapse of the relevant six months. For a

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<sup>15</sup> As is standard for the use of Fund resources, while the Fund would not challenge the *ex-ante* representation of a BoP need by a member (nor in practice has it done so *ex post*), the member's drawings would have to be commensurate with its actual BoP need at the time of a purchase, notwithstanding the available amount of approved access.

precautionary PLL arrangement, Executive Directors would normally be promptly informed ex post when a member has drawn under the arrangement. This information would ideally be provided in a concise note discussing the latest developments leading to the actual BoP need and corresponding purchase and the outlook. For PLL arrangements of one to two years, an updated financing needs and sources table will be included in the note, presenting the semi-annual BoP need projections by the team for the remainder of the arrangement period, as well as an updated capacity to repay table.<sup>16</sup> Although future purchases during the year will be expected to be commensurate to the actual BoP need projected by staff, phasing of arrangements approved on a precautionary basis will remain on an annual basis. The note can either be sent to the Executive Board for information or as background for an informal briefing to the Executive Board after the drawing has taken place, as deemed necessary. A press release announcing the purchase could be issued if deemed warranted.

**11. *Financial terms.*** As a window in the credit tranches, use of Fund resources under PLL arrangements is subject to the same financial terms (repurchase period, surcharges, and charges) as other arrangements within the credit tranches such as FCL arrangements and SBAs. For PLL arrangements approved on a precautionary basis, a commitment fee is payable annually on the amounts made available for purchase during the relevant period (12 months or the period left under the arrangement, if shorter), but is refundable proportionally to the extent that purchases are made.<sup>17</sup> Prior to approval of any PLL arrangement on a precautionary basis, FIN will need to receive authorization from the authorities to debit the member's SDR account for payment of the commitment fee.

**12. *Exit strategy.*** Staff assessment of risks and, to the extent possible, the authorities' exit prospects would be expected to be included at the time of the initial PLL request to justify the proposed duration of the arrangement and at the same time help promote transparency and underpin exit expectations.<sup>18</sup> The elaboration of the authorities' exit strategy should help reduce the likelihood of market surprises following subsequent changes in access, or outright exit from the use of the PLL. This would be complemented at the time of each PLL review by an updated assessment

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<sup>16</sup> An ad-hoc review (as discussed in Section VII) would be required in case the emerging actual BoP need calls for an augmentation and/or rephrasing of access under the PLL arrangement, as applicable under the PLL decision.

<sup>17</sup> The marginal commitment fee is equal to 15 basis points for annual access of up to 115 percent of quota, 30 basis points for access above 115 and up to 575 percent of quota, and 60 basis points for access above 575 percent of quota. However, the last threshold does not apply to PLL arrangements in view of the overall cumulative access limit of 500 percent of quota. By way of example, the effective commitment fee levied on a 500 percent of quota arrangement is 27 basis points (15 bps on 115 percent of quota and 30 bps on the remaining 385 percent of quota). The commitment fee is levied upon approval of the arrangement and refunded on a pro rata basis if drawings are made under the arrangement. If the arrangement is cancelled without being drawn in full, the commitment fee will be refunded based on available amount for purchase at the time of cancellation and the remaining number of days in the current period.

<sup>18</sup> A discussion of the exit strategy for six-month arrangements would not be necessary in view of the specific duration and renewal rules envisaged under the PLL decision. Specifically, only one additional six-month PLL arrangement can be approved before the expiration of the two-year cooling off period discussed above and provided that the member's BoP need is longer than originally anticipated due to the impact of exogenous shocks, including heightened regional or global stress conditions.

by staff of the anticipated evolution of risks over the rest of the arrangement period.<sup>19</sup> The exit strategy would be expected to include the following elements:

- A statement about exit contingent on the reduction of external risks. The statement should specify the external risks that are relevant and should be informed by the external economic stress index;
- A statement regarding any efforts the authorities intend to take to reduce remaining domestic vulnerabilities over the arrangement period, where relevant;
- A statement on the expectation that access will decline in successor arrangements when the right conditions are in place.<sup>20</sup> This would mention the contingencies under which a successor arrangement may be requested with lower access, or under which no successor request would be likely.

**13. Any exit and risks discussion would unavoidably be subject to a high degree of uncertainty and should be carefully crafted to preserve the role of judgment, while avoiding any risk of adverse market reaction.** Discussion of the authorities' exit strategy in the staff report, moreover, would also help inform the Board discussion of the access level, in terms of the evolution of risks and if a successor arrangement is ultimately considered. The inclusion of the external economic stress index in documents should also be useful in this regard.

**14. Expiration of PLL arrangements.** With the nearing of the expiration of a PLL arrangement, staff or management could issue a factual press statement at the member's request noting the pending successful conclusion of the PLL arrangement. This could highlight the member's recent performance and the supporting role played by the PLL arrangement. In this circumstance—and in all situations where a press statement is proposed, including for example, when an arrangement is canceled by the authorities prior to its expiration—the press statement should be coordinated with COM and SPR to ensure that the impact of such communication on all members under PLL arrangements is taken into account in the communications strategy. Although there will be incentives to bolster the impression that countries are choosing not to seek a successor arrangement even though they qualify, it is important that press statements should not include any

<sup>19</sup> Directors reiterated in the 2017 review that “FCL and PLL arrangements should continue to provide details on an exit strategy, including a statement on the expectations that access will normally decline when the right conditions (as set forth in BUFF/10/125) are in place, underpinned by a sound and transparent analysis of the risks facing the member country and the authorities' efforts to increase the country's resilience, in order to guide market expectations while ensuring that exit continues to be state-contingent.” (Press Release No. 17/507).

<sup>20</sup> In the [Public Information Notice No 10/124 on The Fund's Mandate—The Future Financing Role—Reform Proposals](#), Directors agreed that, in addition to other relevant factors justifying lower access, access under the FCL would normally be expected to decline in successor arrangements whenever improvements in official and private financing prospects have reduced the member's potential or actual balance of payments needs in a sustained manner by the time the successor arrangement is requested. See also the [Public Information Notice No. 11/152 on the 2011 Review of the Flexible Credit Line and Precautionary Credit Line](#), [Press Release No. 14/352 on the 2014 Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument](#), and [Press Release No. 17/507 on the Adequacy of the Global Financial Safety Net—Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform](#).



assessment of potential qualification for a successor PLL arrangement—a member’s expression of interest in a successor PLL arrangement is subject to the same confidentiality requirement as the initial request and should follow the same process as set out in this guidance note and in [GRA Lending Toolkit and Conditionality—Reform Proposals, III\(B\), paragraph 15](#) and in the PLL Decision, paragraph 6. In cases where a member is likely not to continue to qualify for a PLL (whether at the expiration of a current arrangement or in the context of a review), staff should begin discussions with the authorities well ahead of time when material concerns start arising. Most likely this would occur in the context of a regular staff visit or Article IV consultation mission to flag this as a possible outcome, with a view to incentivizing necessary policy adjustment or providing the authorities with sufficient time to prepare for exit. At the expiration of PLL arrangements, or in situations where the authorities cancel an arrangement prior to its expiration, as a courtesy and to the extent possible, staff would update the Board through the Secretary before commencing its standard public communication strategy.

**15. Cancellation of existing arrangement and request for successor arrangement.** A request for a successor arrangement—for example during a protracted period of heightened risks—would follow the same procedures as the original request. If the Board meeting for the request for a successor arrangement is before the expiration of the current arrangement, the current arrangement would need to be cancelled prior to its expiration. In this event, the authorities’ written communication on a request for a successor PLL arrangement should include a statement about the member’s decision to cancel the existing arrangement as of a specified date, which would usually be the date of approval of the new arrangement.<sup>21</sup> In situations where the authorities desire to cancel the existing arrangement ahead of its expiration but do not wish to request a successor arrangement, a member can cancel a PLL arrangement through written notification from the authorities to IMF management, preferably in the form of a formal letter signed by the authorities. The notice of cancellation must clearly specify the effective date of cancellation, which should not be earlier than the date of receipt of the letter by the Fund.

**16. Communication strategy.** Careful communication will be an essential element of any PLL arrangement to provide forward guidance to market participants about the authorities’ future use of the PLL and exit plans. A communication strategy should be developed with country authorities and should encompass not only the essential details of the instrument (and the rationale for its usage) but also the authorities’ exit strategy.

**17. PLL resources and their treatment in reserves.** Unpurchased amounts available under the PLL arrangement are not counted in gross reserves (as they are not yet created as an asset). However, there is a space in the Reserves Data Template (Section III, Item III.3) filled by SDDS

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<sup>21</sup> To ensure continuity between the predecessor PLL arrangement and the successor one, the written communication could note the member’s decision to cancel the existing PLL arrangement with effect immediately prior to the approval of the new successor PLL arrangement.

subscribers to announce the availability of these as yet unpurchased credit line resources.<sup>22</sup> Once purchased, PLL resources give rise to an increase in gross reserve assets, as well as external liabilities (with maturities corresponding to the timing of repurchases), which are to be reported in Section I and II of the Reserves Data Template.

## DETERMINING QUALIFICATION

### 18. Qualification is assessed on the basis of the following criteria and additional considerations:

- An assessment of whether the member (i) has sound economic fundamentals and institutional policy frameworks; (ii) is implementing—and has a track record of implementing—sound policies; and (iii) remains committed to maintaining such policies in the future, all of which give confidence that the member will take the policy measures needed to reduce any remaining vulnerabilities and will respond appropriately to the BoP difficulties that it is encountering or might encounter (PLL decision, paragraph 2(a)).
- A generally positive assessment by the Executive Board of the member’s policies in the context of the most recent Article IV consultations (PLL decision, paragraph 2(b)(i)).
- To help assess qualification, the qualification areas and criteria listed in Annex I should be assessed by staff in the initial short note to the Board and the staff report on the PLL arrangement request. An updated assessment will be made at each review. The PLL qualification criteria, which are the same criteria used for the FCL, are specified in the PLL decision and grouped under the five broad qualification areas also specified in the PLL decision.<sup>23</sup> Specifically, the member will be first assessed against the nine qualification criteria, as guided by the relevant indicators. These qualification criteria are set forth below in the text table. Next, the member will be broadly assessed against the five qualification areas on the basis of the assessment against the nine criteria, which comprise: (i) external position and market access; (ii) fiscal policy; (iii) monetary policy; (iv) financial sector soundness and supervision; and (v) data adequacy (see Table 1). The member will be expected to perform strongly in most (i.e., at least 3 out of 5) of the qualification areas with no substantial underperformance in any of them. As PLL qualification allows for some remaining vulnerabilities relative to FCL qualification, ex-post policy

<sup>22</sup> In general, IMF arrangements are conditional lines of credit and thus should not be included in Section III of the Reserves Data Template (See [International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template](#), paragraphs 206–207 and 216).

<sup>23</sup> On May 21, 2014, the Board approved a change in the seventh qualification criterion from “the absence of bank solvency problems that pose an immediate threat of a systemic banking crisis” to “sound financial system and the absence of solvency problems that may threaten systemic stability.” This change applies to arrangements approved after May 21, 2014. Decision No. 15593-(14/46). To provide a more transparent and predictable basis for assessing whether a member meets the qualification criteria, the 2017 Review of the Flexible Credit Line and the Precautionary and Liquidity Line identified a core set of indicators with thresholds to be considered as part of the qualification assessment.

conditionality will be expected to address any remaining vulnerabilities during the period of the PLL arrangement.

- Moreover, a PLL arrangement shall not be approved for a member facing any of the following circumstances (hereafter referred to as “approval criteria”) : (i) sustained inability to access international capital markets; (ii) the need to undertake large macroeconomic or structural policy adjustments,<sup>24</sup> unless already set credibly in train before approval of the arrangement;<sup>25</sup> (iii) a public debt position that is not sustainable in the medium term with a high probability; or (iv) widespread bank insolvencies (PLL decision, paragraph 2(c)).

<b>PLL Qualification Areas</b>	<b>PLL Qualification Criteria</b>
<b>I. External Position and Market Access</b>	<ol style="list-style-type: none"> <li>1. Sustainable external position</li> <li>2. A capital account position dominated by private flows</li> <li>3. A track record of steady sovereign access to international capital markets at favorable terms</li> <li>4. A reserve position that is relatively comfortable when the arrangement is requested on a precautionary basis</li> </ol>
<b>II. Fiscal Policy</b>	<ol style="list-style-type: none"> <li>5. Sound public finance, including a sustainable public debt position determined by a rigorous and systematic debt sustainability analysis</li> </ol>
<b>III. Monetary Policy</b>	<ol style="list-style-type: none"> <li>6. Low and stable inflation, in the context of a sound monetary and exchange rate policy framework</li> </ol>
<b>IV. Financial Sector Soundness and Supervision</b>	<ol style="list-style-type: none"> <li>7. Sound financial system and the absence of solvency problems that may threaten systemic stability</li> <li>8. Effective financial sector supervision</li> </ol>
<b>V. Data Adequacy</b>	<ol style="list-style-type: none"> <li>9. Data transparency and integrity</li> </ol>

<sup>24</sup> Judgment on whether an adjustment is *large* would be informed by the member’s own experience and that of similarly-situated members. The same degree of judgment would be required to assess the credibility and effectiveness of the measures set in train by the authorities to achieve the required adjustment.

<sup>25</sup> Accordingly, in its assessment of this approval criterion, staff would take into account critical policy measures already set credibly in train by the member before approval of the arrangement to lower vulnerabilities (PLL decision, paragraph 2(c)). These measures being credibly implemented by the member upon its own initiative should not be confused with possible prior actions set by staff for approval of the PLL arrangement or of a scheduled review, which would be part of program conditionality and should not have a bearing on staff’s assessment of qualification.

- For six-month arrangements, an explicit assessment of the member’s capacity to make credible progress in addressing its vulnerabilities during the six-month duration of the arrangement is also required.
- Finally, if the access request is above the normal GRA limits, meeting the relevant four substantive criteria for exceptional access also constitutes a necessary condition for PLL arrangement approval.<sup>26</sup>

**19. In circumstances where a member is assessed and judged by management not to qualify for the PLL, the request would normally remain confidential.** Accordingly, the Executive Board would be notified by staff of a member’s request only in the context of an informal Board meeting when management judges that access under the PLL may be appropriate.

## EX-POST CONDITIONALITY

**20. PLL arrangements carry ex-post conditionality, in addition to ex-ante conditionality in the form of the qualification assessment (PLL decision, paragraph 3).**<sup>27</sup> As discussed above,

- Six-month arrangements are subject to the standard continuous PCs (as per footnote 4), with prior actions included in cases where the upfront adoption of measures is critical for successful program implementation.
- In addition to the standard PCs, ex-post conditionality in one- to two-year PLL arrangements is underpinned by a quantitative macroeconomic framework with semi-annual indicative targets. It may also include other PCs, prior actions and/or structural benchmarks, if these are warranted under the Guidelines on Conditionality.<sup>28</sup> In particular:
  - **Indicative targets (ITs):** Semi-annual ITs will be established as quantitative indicators to assess the member’s progress in meeting the objectives of the program in the context of semi-annual reviews.
  - **Prior actions (PAs):** PAs (either as conditions for approval of a PLL arrangement, for completion of a review or for the granting of a waiver of nonobservance) may be established in cases where the upfront implementation of measures is critical for successful program implementation.

<sup>26</sup> While compliance with the exceptional access criteria remains binding throughout the arrangement for a member’s access to Fund resources above the normal GRA limits, a formal assessment would be normally included in the staff report only upon approval or in the event of an augmentation that brings access beyond the normal access limits. Nevertheless, changes in the member’s circumstances might warrant a thorough discussion of the member’s continued adherence to the exceptional access criteria also in the context of the semi-annual reviews.

<sup>27</sup> At the 2014 Review of the Flexible Credit Line, Precautionary and Liquidity Line and Rapid Financing Instrument, Directors saw scope for greater use of targeted ex-post conditionality to address remaining vulnerabilities of PLL users, in accordance with the Guidelines on Conditionality.

<sup>28</sup> [Decision No. 12864-\(02/102\)](#), as amended.

- **Performance criteria (PCs):** Semi-annual PCs shall be applied to clearly specified indicators that are considered so critical for the achievement of the program goals or monitoring implementation that purchases under the PLL arrangement should be interrupted in case of non-observance. As a result, missed PCs would require waivers of non-observance for completion of reviews. Moreover, as mentioned above, where semi-annual PCs are warranted, the proposed test dates should be set with the aim of ensuring data availability by the time of the completion of the semi-annual reviews (and avoid the need for waivers of applicability).
- **Structural benchmarks (SBs):** SBs can be established to serve as clear markers in the assessment of progress in the implementation of critical structural reforms in the context of a program review.

**21. Aside from prior actions for completion of the review if warranted, at the time of the final review under the PLL arrangement, staff would not be normally expected to set new ex-post conditionality given the expected expiration of the term of the arrangement.** Standard continuous PCs would apply until the expiration of the arrangement.

**22. Once an arrangement has expired, and in the absence of a successor arrangement, the Fund will conduct post-program monitoring (PPM) as warranted in accordance with the PPM policy.**<sup>29</sup> A PLL arrangement entailing exceptional access, whether on an actual or precautionary basis, would be also subject to an ex-post evaluation (EPE) by staff within a year after the end of the arrangement, in accordance to the EPE policy (the EPA policy also applies to PLL arrangements).<sup>30</sup>

## REVIEWS

**23. Semi-annual reviews.** For all the PLL arrangements with duration of one to two years, semi-annual reviews would be conducted. These would assess whether the country still meets the qualification requirements for the PLL, whether the program remains on track to achieve its objectives, and the policy understandings with the member for the future. The review should, to the extent possible, be scheduled with the objective of completion by the Executive Board immediately prior to the lapse of the six-month period.<sup>31</sup> Staff should prepare a staff report to inform the Executive Board about recent developments, an update on the expected evolution of risks over the remainder of the arrangement, policy performance against the program, and an update assessing the country against the qualification areas (see Annex VI for a description of the review process and

<sup>29</sup> See [Guidance Note on Post Program Monitoring](#).

<sup>30</sup> See [Ex Post Evaluations of Exceptional Access Arrangements Revised Guidance Note](#) and [Ex Post Assessments of Members with Longer-Term Program Engagement-Revised Guidance Note](#).

<sup>31</sup> In cases where a scheduled PLL review is delayed by more than six-months (that is one year has passed since the approval of the PLL arrangement), an Article IV consultation would be expected to take place after the PLL request and before completion of the delayed review—in accordance with the decision on Article IV consultation cycles for members with PLL arrangements. This would help inform the team’s qualification assessment and provide additional assurances that the delay in the review is not due to new emerging vulnerabilities.

likely content of the report). Executive Board completion of a review could be on a lapse of time basis in accordance with the relevant policy. The reviews would assess: (i) continued adherence to the PLL qualification standard;<sup>32</sup> (ii) the authorities' adherence to their policy intentions as conveyed to the Board in their written communication at the time of the arrangement's approval (or previous reviews) and their policy understandings for the future; (iii) progress in meeting the indicative targets under the program's macroeconomic framework; observance of the program's PCs (waivers of non-observance would need to be requested in order to complete the review if PCs are missed), prior actions, and structural benchmarks, as applicable. The Executive Board would set revised policy targets and other conditionality on the basis of a revised macro framework for one year ahead (or the remainder of the arrangement). Any changes in the macroeconomic framework, policy strategies, and commitments by the authorities will be presented in a new written communication from the member (any revisions to the technical annex will also be included). The staff report would be subject to the standard review process and should be circulated according to the normal circulation procedures—unless there is a case for expedited procedures under the EFM (as discussed above).

**24. Ad hoc reviews.** Subject to the access limits under the PLL decision, augmentations of any PLL arrangements, and rephasing of access under PLL arrangements longer than one year, are possible at any time (and not just in the context of scheduled reviews) upon completion of an ad hoc review in order to meet an unexpectedly larger (actual or potential) BoP need. The review is a key safeguard to allow a fresh stocktaking of the underlying causes for a larger BoP need and the policy responses needed. Accordingly, an ad hoc review will require an assessment of continued qualification under the PLL and policy performance in line with the overall objectives of the arrangements:

- **Performance under the program:** The ad hoc review would need to assess whether: (i) the country continues to meet the PLL qualification requirements; (ii) the program remains on track to achieve its objectives, including the targets and policy measures (including any PCs) specified in the authorities' policy framework; and (iii) policy understandings with the authorities for the future.
- **Size of BoP need:** The ad hoc review would also need to assess the revised BoP need and access levels. For augmentations of six-month arrangements beyond the 125 percent of quota limit, a discussion of the exceptional circumstances motivating the request would also be required.

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<sup>32</sup> A review cannot be completed if the member does not meet the PLL qualification requirements. In those circumstances, a more appropriate financing instrument to address the member's newly emerged vulnerabilities (e.g. a SBA) might be considered. The approval criteria mentioned in the fourth bullet of paragraph 12 above are assessed only at the time of *approval* of PLL arrangements.

## Annex I. FCL and PLL Qualification Assessment

**1. This annex provides the key considerations for assessing qualification to access financing under the FCL and the PLL, with a view to promoting a predictable and evenhanded qualification process.** The qualification criteria for the FCL and the PLL remain as endorsed by the Executive Board in 2014.<sup>1</sup> However, to provide a more transparent and predictable basis for assessing whether a member meets the qualification criteria, the 2017 Review of the FCL and the PLL identified a core set of indicators with thresholds based on established analytical frameworks (e.g., metrics such as the Assessing Reserve Adequacy (ARA) and bottom-line assessments of a member’s external position—see below). These core indicators are drawn from the set of indicators endorsed by the Executive Board in 2014 and do not obviate the need for judgment in the assessment of qualification.

**2. The core of the qualification framework for the FCL is an assessment that the members’ economic fundamentals, institutional policy framework, and policies are very strong.** These qualification criteria, together with a sustained track record of very strong policy implementation, would give the Fund confidence that the member would take appropriate corrective policy measures when facing an adverse shock, consistent with addressing the BoP problems it may be facing and with repaying the Fund. The member’s policies must have been assessed very positively by the Executive Board in the context of the most recent Article IV consultations. As FCL resources can be used for any BoP problem and an FCL arrangement can be approved in the face of an actual or potential financing need, qualification for the FCL would not preclude circumstances where the member would need or plan to undertake policy adjustments.

**3. The core of the qualification framework for the PLL is an assessment that the member’s economic fundamentals, institutional policy framework, and policies are generally sound.** Those, together with a track record of sound policy implementation, would give the Fund confidence that the member will take the policy measures needed to reduce any remaining vulnerabilities and respond appropriately to any BoP problem it is encountering or might encounter, consistent with repaying the Fund. As a member qualifying under a PLL arrangement may still face remaining vulnerabilities (although not substantial) in a few areas, the qualification assessment for the PLL will be a crucial tool in identifying areas for prior actions and/or ex-post policy conditionality, as applicable under the PLL decision. The member’s policies must have been assessed as generally positive by the Executive Board in the context of the most recent Article IV consultation.

**4. Qualification for the FCL and the PLL is based on nine specific qualification criteria as set forth below.** Any assessment of qualification involves judgment. Hence, the assessment of the qualification criteria will need to take into account the great variety of members’ circumstances and the uncertainties that attend economic projections.

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<sup>1</sup> See “[Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument—Specific Proposals—Annex I](#)” [sup. 2](#) and [3](#), endorsed by [The Acting Chair’s Summing Up, Executive Board Meeting 14/53 on June 11, 2014](#).

- **FCL.** Very strong performance against all relevant criteria noted below would not be necessary to secure qualification. However, significant shortcomings on one or more of these criteria—unless there are compensating factors, including corrective policy measures underway—would generally signal that the member is not among the very strong performers for whom the FCL is intended.
- **PLL.** The member’s performance under the nine qualification criteria will be assessed based on five broad qualification areas. The qualification standard is based on strong performance in most of the five qualification areas (i.e., three of five areas) noted below. Substantial underperformance in any area signals that the member does not qualify for a PLL. In addition, a member would not be qualified to use the PLL if any of the following circumstances apply: (i) sustained inability to access international capital markets, (ii) the need to undertake large macroeconomic or structural policy adjustments (unless such adjustment has already been set credibly in train before approval), (iii) a public debt position that is not sustainable in the medium term with a high probability, and (iv) widespread bank insolvencies.

## A. Qualification Criteria

**5. For the FCL and PLL assessments, staff would rely primarily on the following nine qualification criteria, including a set of relevant core indicators, to establish the strength of the member’s underlying fundamentals and economic policies.** For purposes of the PLL, the nine criteria are grouped under five broad qualification areas I-V. While PLL qualification assessments are based on the same set of underlying nine criteria, there is no precise “scoring” of the nine qualification criteria. Hence, as with the FCL, the bottom-line assessment on each criterion will remain a judgment, guided by the relevant indicator. While the set of core indicators and their thresholds constitute a key element in determining whether the criteria are met, they do not obviate the need to consult other sources of information—including the broader set of Board-approved indicators—deemed relevant for the bottom-line assessment of any given criterion in a specific country context (Annex Tables 1 and 2):

### I. External Position and Market Access

1. *A sustainable external position.* The core indicator requires the member’s external position to have been assessed, in the most recent Board document (Article IV or ESR), as “broadly consistent”, “moderately stronger (weaker)”, “stronger”, or “substantially stronger” than implied by fundamentals and desirable policies. This assessment implies that members with “weaker” or “substantially weaker external positions” would not meet the criterion. The asymmetry in the assessment follows the reasoning that “weaker” or “substantially weaker” external positions (e.g., high current account deficit or net foreign liabilities, overvalued exchange rate, etc.) constitute early warning indicators for impending BoP crises. In addition to the assessment of exchange rate misalignment, other relevant indicators would be: the debt-stabilizing noninterest current account balance; the level and composition of external debt; the level of net international reserves; and the level and composition of private sector external assets.



2. *A capital account position dominated by private flows.* The core indicator requires public flows to account for less than half of a member's direct, portfolio, and other asset and liability flows, on average in the past three years. In addition to the composition of recent capital flows, an assessment of the International Investment Position is also relevant.
3. *A track record of steady sovereign access to capital markets at favorable terms.* The core indicator requires public sector issuance or guaranteeing of external bonds or disbursements of public and publicly-guaranteed external commercial loans in international markets during at least three of the last five years for which data are available, in a cumulative amount over that period equivalent to at least 50 percent of the country's Fund quota at the time of the assessment. The indicator also requires that the member did not, in staff's assessment, lose market access at any point in the last 12 months. Following the Fund's framework for loss of market access, deteriorating funding conditions and adverse changes in issuance patterns (volume, maturity, and frequency of issuance) that cannot be explained by funding needs would be indications that the member has lost market access. Other relevant indicators would be a comparison of spreads with comparator countries and relative performance of spreads during periods of global shocks.
4. *When the arrangement is requested on a precautionary basis, a reserve position which— notwithstanding potential BOP pressures that justify Fund assistance—remains relatively comfortable.* The core indicator requires reserves to have been greater than 100 percent of the unadjusted Assessing Reserve Adequacy (ARA) metric on average over three (the current and the two previous) years, and not below 80 percent in any of these three years. By including a lower—but not an upper—threshold for reserves, the assessment follows the reasoning that excess reserve holdings, while possibly undesirable from a systemic perspective, do not constitute a vulnerability for the member. Other relevant indicators would include additional metrics (imports, short-term debt, monetary base, augmented ARA metrics) as relevant given the member's exchange rate regime and other factors. These other indicators could also be used instead of the unadjusted ARA metric, if the latter is deemed inadequate for judging the member's reserve position. This assessment should generally be reflected in recent Article IV reports.

## **II. Fiscal Policy**

5. *Sound public finances, including a sustainable public debt position* determined by a rigorous and systematic debt sustainability analysis. The core indicator requires the member's public debt to be assessed as sustainable with a high probability. The high probability assessment would explicitly take into account risks to public finances not immediately visible in current public debt projections. In addition, discussions would cover the evolution of debt, as well as rollover and financing requirements under alternative scenarios (including an assessment of contingent liabilities, where appropriate) and stress tests. Relevant indicators may also include the recent evolution of fiscal balances in relation to the economy's cyclical position; the quality of any adjustment measures being considered; an assessment of medium-term plans anchoring fiscal policy outcomes; and an overall sound institutional budgetary framework as informed by recent fiscal ROSCs, where available.

### III. Monetary Policy

6. *Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.* The core indicator requires the member to have maintained single-digit inflation over the past five years. The bottom-line assessment would consider if the member's performance is seen to reflect favorable external conditions and there are grounds to question its ability to maintain low inflation under normal circumstances. It would also consider persistent deviations from stated inflation targets, as well as sustained deflation, to the extent that it reflects deficiencies in the monetary policy framework. In addition to headline inflation, other relevant indicators would include the recent evolution of core inflation and inflation expectations; past and announced policy responses to inflationary shocks; the adequacy of monetary policy instruments to conduct monetary policy; accountability, transparency, and communication regarding policy objectives and policy responses.

### IV. Financial Sector Soundness and Supervision

7. *Sound financial system and the absence of solvency problems that may threaten systemic stability.* The core indicator requires the average capital adequacy ratio for the banking sector to be above regulatory thresholds, and that the most recent Article IV did not highlight significant solvency risks or recapitalization needs. In addition, a range of other indicators and available information may be combined to assess this criterion. In addition to compliance with regulatory requirements, the bottom-line assessment would consider also other financial soundness indicators. This would include measures of profitability and asset quality, as well as any relevant stress tests conducted by staff, or other analyses of market, credit, and liquidity risks facing banks based on recent FSAPs or other sources, to provide a forward-looking perspective. It would also reflect potential problems in large and systemic banks that may be masked by system-wide averages.
8. *Effective financial sector supervision.* The core indicator requires that the most recent FSAP or Article IV report did not raise substantial concerns regarding the supervisory framework. The bottom-line assessment would consider any significant changes in conditions since the latest FSAP. In addition, relevant modalities to consider would include an assessment of the legal and institutional framework, as well as the operational capacity, to respond promptly if bank interventions and resolution is warranted and if emergency liquidity assistance is needed.

### V. Data Adequacy

9. *Data transparency and integrity.* The core indicator requires that the member is a Special Data Dissemination Standard (SDDS) subscriber or has made satisfactory progress toward meeting the SDDS requirements.

**6. The assessment of policy track record will be anchored in the same set of core indicators.** Determination of whether a member meets the track record requirement would be guided by an assessment of the qualification criteria in each of the five most recent years. The bottom-line assessments on each criterion would follow the same approach as for the current year,

including by drawing on additional information, e.g., the appropriateness of a member's policy response to past bouts of capital flow volatility, and the extent to which individual indicator outcomes reflect favorable external conditions.<sup>2</sup>

## B. Indicators of Institutional Strength

**7. Under the qualification frameworks for the FCL and the PLL, an eligible member should be assessed to have a very strong or sound institutional policy framework for the FCL and the PLL respectively.** To complement the assessment of staff in this area, the following indicators could also be considered.

- *Policy cyclicality.* Relevant indicators to inform this judgment may include, for fiscal policy, the moving correlation between the cyclically-adjusted fiscal balance or government spending and cyclically-adjusted GDP, and for monetary policy, the moving correlation between the cyclically-adjusted real short-term policy rate and cyclically-adjusted GDP. In countries with rigid exchange rate regimes, it may also be worth exploring the cyclicality of cash reserve requirements.
- *Effective response to shocks.* Relevant indicators to inform this judgment include government effectiveness and control of corruption from the Worldwide Governance Indicators. When doing so, staff should ensure that indicators are used consistently with the policy on third-party indicators.<sup>3</sup> Also, in practice, when working with (perception-based) third-party indicators on corruption in staff reports, country teams should refrain from using rankings. Staff should rely instead on point scores and consider presenting country scores relative to a range or an average of peers. Staff should also be mindful of the degree of uncertainty around reported point estimates when using these indicators. That is, the difference between a country's score in two different years or between two countries' scores in a single year can be statistically insignificant if their confidence intervals overlap.

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<sup>2</sup> As in the case of the bottom-line assessment on the nine qualification criteria, very strong performance against *all* qualification criteria is not required.

<sup>3</sup> See IMF Policy Paper on "[Use of Third-Party Indicators in Fund Reports](#)," November 2017.

**Annex I. Table 1. Summary of Broad Indicators for FCL and PLL Qualification Criteria**

Criterion	Indicator
1 Sustainable external position	Gross external debt/GDP; including DSA assessment; debt-stabilizing noninterest current account deficit; net external debt/GDP; short-term gross external debt/GDP; share of bank, nonbank and public sector gross external debt.
2 Capital account position dominated by private flows	FDI plus portfolio inflows as a share of total capital inflows; ratio of private holdings of external debt to gross external debt; and private foreign holdings of domestic debt/total domestic debt.
3 Track record of steady sovereign access to capital markets at favorable terms	EMBI spread; spread between country EMBI and EMBI overall index (using latest observation and averages over previous five years); current yield on benchmark bonds; credit ratings; and last external issuance (details on amount issued/ original yield/maturity).
4 Reserve position which—notwithstanding potential BoP pressures that justify Fund assistance—remains relatively comfortable (precautionary requests)	Ratio of reserves to: ARA metric, short-term debt (remaining maturity basis); short- term debt (remaining maturity basis) plus current account deficit; imports; and broad money.
5 Sound public finances, including a sustainable public debt position determined by a rigorous and systematic debt sustainability analysis	Public sector debt-to-GDP ratio, and debt sustainability assessment; primary and overall fiscal balance (average for the last 3/5 years); structural fiscal balances and debt-stabilizing primary balance. Assessment of MT plans anchoring fiscal policy outcomes; and overall sound institutional budgetary framework as informed by recent fiscal ROSCs, where available.
6 Low and stable inflation, in the context of a sound monetary and exchange rate policy	Recent evolution of core and headline inflation and inflation expectations. Past and announced policy responses to inflationary shocks. Adequacy of monetary policy instruments to conduct monetary policy. Accountability, transparency, and communication regarding policy objectives and policy responses.
7 Sound financial system and the absence of solvency problems that may threaten systemic stability	Capital adequacy and profitability: CAR (overall banking system and individual banks); and return on equity (overall banking system and individual banks). Liquidity and funding risks: liquid assets to total liabilities; liquid assets to short-term liabilities; loan-to-deposit ratio; and share of external funding in total liabilities. Asset quality: Credit to the private sector (real growth rate and share of GDP); and nonperforming loan ratios (overall banking system and individual banks).
8 Effective financial sector supervision	Assessment of supervisory standards and practices based on FSAP findings. Assessment of legal and institutional framework and operational capacity for prompt corrective actions and emergency liquidity assistance.
9 Data transparency and integrity	Subscription to the SDSS or a judgment that satisfactory progress is being made toward meeting its requirements. Routine assessments (Article IV consultations) of data quality and integrity, informed by data ROSCs, where available.

**Annex I. Table 2. Core Indicators for FCL and PLL Qualification Criteria**

Criterion	Indicator <sup>1/</sup>
1 Sustainable External Position	Requires the member's external position to have been assessed, in the most recent Board document (Article IV or ESR), as "broadly consistent", "moderately stronger (weaker)", "stronger", or "substantially stronger" than implied by fundamentals and desirable policies. <sup>2</sup> This assessment implies that members with "weaker" or "substantially weaker external positions" would not meet the criterion. The asymmetry in the assessment follows the reasoning that "weaker" or "substantially weaker" external positions (e.g., high current account deficit or net foreign liabilities, overvalued exchange rate, etc.) constitute early warning indicators for impending BOP crises.
2 Capital account position dominated by private flows	Requires public flows to account for less than half of a member's direct, portfolio, and other asset and liability flows, on average in the past three years. <sup>3</sup>
3 Track record of steady sovereign access to capital markets at favorable terms	Requires public sector issuance or guaranteeing of external bonds or disbursements of public and publicly-guaranteed external commercial loans in international markets during at least three of the last five years for which data are available, in a cumulative amount over that period equivalent to at least 50 percent of the country's Fund quota at the time of the assessment. <sup>4</sup> The indicator also requires that the member did not, in staff's assessment, lose market access at any point in the last 12 months. Following the Fund's framework for loss of market access, deteriorating funding conditions and adverse changes in issuance patterns (volume, maturity, and frequency of issuance) that cannot be explained by funding needs would be indications that the member has indeed lost market access. <sup>5</sup>
4 Reserve position which—notwithstanding potential BoP pressures that justify Fund assistance—remains relatively comfortable (precautionary requests)	Requires reserves to have been greater than 100 percent of the ARA metric on average over three (the current and the two previous) years, and not below 80 percent in any of these three years. By including a lower—but not an upper—threshold for reserves, the assessment follows the reasoning that excess reserve holdings, while possibly undesirable from a systemic perspective, do not constitute a vulnerability for the member. <sup>6</sup>
5 Sound public finances, including a sustainable public debt position determined by a rigorous and systematic debt sustainability analysis	Requires the member's public debt to be assessed as sustainable with a high probability. The high probability assessment would explicitly take into account risks to public finances not immediately visible in current public debt projections.

**Annex I. Table 2. Core Indicators for FCL and PLL Qualification Criteria (concluded)**

Criterion	Indicator <sup>1/</sup>
6 Low and stable inflation, in the context of a sound monetary and exchange rate policy	Requires the member to have maintained single-digit inflation over the past five years. The bottom-line assessment would consider if the member's performance is seen to reflect favorable external conditions and there are grounds to question the ability of its policy framework to maintain low inflation under normal circumstances. It would also consider persistent deviations from stated inflation targets, as well as sustained deflation, to the extent that it reflects deficiencies in the monetary policy framework.
7 Sound financial system and the absence of solvency problems that may threaten systemic stability	Requires the average capital adequacy ratio for the banking sector to be above regulatory thresholds, and that the most recent Article IV did not highlight significant solvency risks or recapitalization needs. The bottom-line assessment would consider other financial soundness indicators, as well as any relevant stress tests conducted by staff, to provide a forward-looking perspective. It would also reflect potential problems in large and systemic banks that may be masked by system-wide averages.
8 Effective financial sector supervision	Requires that the most recent FSAP or Article IV report did not raise substantial concerns regarding the supervisory framework. The bottom-line assessment would consider any significant changes in conditions since the latest FSAP.
9 Data transparency and integrity	Requires that the member is an SDDS subscriber or has made satisfactory progress toward meeting the SDDS requirements.
<p><sup>1/</sup> Please note that the assessment of policy track record will be anchored in the same set of core indicators based on an assessment of the qualification criteria in each of the five most recent years. Also, while judgment is important for all nine criteria, it is particularly important for criteria 6, 7, and 8.</p> <p><sup>2/</sup> The assessment of a member's external position as per the mandatory external sector assessment in surveillance takes into account the following five key areas: current account (CA), real exchange rate, foreign exchange intervention and reserves, foreign assets and liabilities, and capital and financial account. The bottom line assessment of a member's external position falls into one of the following seven categories, guided by the corresponding indicative ranges for the staff-assessed CA gaps (in percent of GDP) with considerations of all other areas: (i) substantially stronger (CA gaps more than 4 percent); (ii) stronger (CA gaps between 2 and 4 percent); (iii) moderately stronger (CA gaps between 1 and 2 percent); (iv) broadly consistent (CA gaps between -1 and 1 percent); (v) moderately weaker (CA gaps between -2 and -1 percent); (vi) weaker (CA gaps between -4 and -2 percent); and (vii) substantially weaker (CA gaps less than -4 percent).</p> <p><sup>3/</sup> Public flows are flows to and from the domestic public sector, and are defined as the sum of the absolute values of reserve assets flows, and general government and central bank portfolio and other debt liability flows. In the absence of data for a large sample of countries, other official asset and liability flows of the public sector are assumed to be zero.</p> <p><sup>4/</sup> This indicator assessment broadly follows the market access criterion for (graduation from) PRGT eligibility. The bottom-line assessment will consider if there is convincing evidence that the sovereign could have tapped international markets on a durable and substantial basis, even though the scale or duration of actual public-sector borrowing fell short of the specified thresholds. This would be a case-specific assessment, informed by factors such as the volume and terms of recent actual borrowing in international markets and the sovereign credit rating.</p> <p><sup>5/</sup> A methodology for making this assessment was articulated in "The Fund's Lending Framework and Sovereign Debt—Further Considerations", IMF Policy Paper, April 2015.</p> <p><sup>6/</sup> See Annex III for an empirical justification of the 80 percent threshold. The overall assessment could consider other reserve metrics if the ARA metric is deemed inadequate for judging the member's reserve position. This assessment should generally be reflected in recent Article IV reports.</p>	

## Annex II. Nature of Short-Term Balance of Payment Need

**1. Under the PLL decision, a member can request a six-month arrangement, provided it is encountering or might encounter a short-term Balance of Payment (BoP) need.** This is considered one such that the member would be generally expected to make credible progress in addressing its vulnerabilities during the six-month duration of the arrangement.

**2. In rare and exceptional circumstances, short-term BoP needs may arise in connection with exogenous shocks, including due to the impact of heightened stress in regional or global conditions.**<sup>1</sup> As with all access determinations, a PLL request in the context of these exceptional circumstances would entail a substantial element of judgment by the Executive Board in the approval process. Nevertheless, the following non-exhaustive considerations can help guide staff's preliminary assessment:

- Generally, an exogenous shock can be defined as an event beyond the control of the authorities, with a significant negative impact on the economy, and can include, inter alia, terms-of-trade shocks, shocks to demand for exports, financial spillovers, natural disasters, or conflict or crisis in neighboring countries that has adverse BoP effects.
- The detection of heightened regional or global stress events and the assessment of the resulting impact on the member requesting the PLL would likely require additional analysis by staff in terms of (i) global and/or regional economic and financial conditions—as also informed by the Fund's multilateral and regional surveillance products and internal risk analyses;<sup>2</sup> (ii) the member's specific contagion risks, assessed on the basis of its trade and financial linkages but possibly of other factors<sup>3</sup> driven by the specific nature of the shock(s).
- Access decisions in presence of exogenous shocks should take into account forward-looking considerations. There are situations where risk indicators for individual countries or a group of countries (e.g., emerging markets) may not reveal stressed market conditions, although a broader assessment of contagion risks taking into account financial and real economy linkages may indicate the potential for a future deterioration in market conditions. Therefore, it will be important when proposing access levels in individual country cases to take into account the totality of the member's circumstances, including the potential for contagion to exacerbate funding strain.

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<sup>1</sup> In these circumstances, short-term BoP needs will allow approval, on a case-by-case basis, of a higher access limit of 250 percent of quota under a six-month PLL arrangement as described in the first bullet of Section II.B. above. These short-term needs are actual or potential needs that exceed the normal 125 percent of quota access for six-month PLL arrangements, and arise due to the impact of exogenous shocks, including heightened regional or global stress conditions. See PLL Decision, paragraph 4(c)(ii) and also [PIN/11/152](#) which provides that the occurrence of heightened regional or global stress conditions is expected to be rare.

<sup>2</sup> See also [Analytics of Systemic Crises and the Role of Global Financial Safety Nets](#) for further discussion of events of heightened and widespread stress and possible quantitative and qualitative indicators to determine and monitor such events.

<sup>3</sup> A large shock can lead international investors to reappraise risks in similarly-situated, but not directly connected, countries. Latvia is a case in point: despite relatively limited macro-financial linkages, its 2008/09 crisis raised important market concerns about potential spillovers to many similarly-situated emerging markets in Eastern Europe.

## Annex III. Determining Access on a Precautionary Basis

**1. This annex provides a framework for use by staff when considering access in a precautionary setting, for example in the context of FCL and PLL arrangements.** It is additional to the guidance provided in Annex II, GRA Lending Toolkit and Conditionality—Reform Proposals, and draws upon the approach used for the FCLs agreed for Mexico, Poland, and Colombia.

**2. Aim:** To ensure Executive Board papers include a rigorous analysis of the determination of access levels based on a consistent framework but allowing for country-specific flexibility; and recognizing the high degree of judgment involved in estimating a potential financing gap. The underlying assumptions on which the level of access is based should be clearly spelled out in Board reports and staff should show that access looks reasonable when compared with a range of metrics and indicators.

### A. Key Criteria for Access

**3. The key criteria that govern access decisions in individual country cases are:** (i) the member's actual or potential need for Fund resources, taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves (Fund policy establishes that in no circumstances can access be greater than this need); (ii) the member's capacity to repay the Fund (including the strength of the member's adjustment program); and (iii) the member's outstanding Fund credit and its track record of using Fund resources. These criteria are broad and require substantial judgment, even more so when access is requested on a precautionary basis.

### B. Framework for Determining Access in a Precautionary Setting

**4. When access is requested on a precautionary basis, staff should construct a plausible adverse scenario to help determine an estimated potential financing gap and the appropriate level of access.** Additional factors—beyond the potential financing gap in the adverse scenario—could be given weight when forming a judgment about the appropriate level of access but these would need to be carefully justified. In particular, to enhance transparency and evenhandedness of access decisions across arrangements, staff should (i) place attention in presenting the link between access and the size of actual or potential BoP needs in individual cases; (ii) allow comparability in the choice of the adverse shocks underpinning the access scenarios, while also taking into account country-specific factors; and (iii) cross-check programmed reserves against standard adequacy metrics, as discussed below.

**5. The construction of the *adverse scenario* should be informed by:** (i) downside global assumptions in line with the latest WEO downside scenario, GFSR or Global Risk Assessment Matrix (GRAM) (with a description of the potential shock and how likely it is); (ii) developments in an index of external economic stress (described below and further in Annex IV); (iii) evidence from past or current crises (described also below and further in Annex V); and (iv) country specific factors (and likelihood based on past experience). The adverse scenario should also take into account whether



there is a case for an orderly exchange rate adjustment and whether reserve coverage (on a number of metrics, including the Fund’s [Assessing Reserve Adequacy](#) (ARA) metric) suggests that the reserve level should be maintained, raised, or lowered. For example, if a country is hit by a permanent shock that affects the equilibrium exchange rate, the role of Fund financing/insurance may be to help the country to move to a new equilibrium in an orderly manner rather than to preserve the previous real exchange rate. Even if the shock is assumed to be temporary, the description of the adverse scenario should make clear the assumed direction of change in the exchange rate and the implied impact on financing needs. With respect to reserve coverage, discussions of the access level during the internal review process could consider alternative reserve drawdown scenarios—such as access levels under a lower bound of reserves for the given country (see below for considerations regarding reserve drawdowns), with consideration also to the pace of reserve drawdown to avoid adverse market reactions. A decision to maintain reserve levels significantly above the lower bound in the adverse scenario should be clearly justified in the staff report. In determining the scale of access, teams also need to ensure that the balance of payments tables demonstrate the potential need. Annex Table 1 provides a guide to the shocks that could be used to construct this scenario (but such examples should be considered as defining the minimum set of information required on the underlying assumptions and factors determining the scale of access).

**6. Global assumptions.** The adverse scenario should draw its global assumptions from the most relevant downside risks to the external environment as identified by the latest WEO downside scenario, GFSR, or G-RAM. Staff reports should indicate the scenario used (and the probability attached to the scenario). The chosen scenario should also be informed by the downside scenario in the external economic stress index. While these two scenarios do not need to be identical, the source of the shock and direction of the risks should be consistent. Where the WEO and GFSR are clearly out of date, staff should briefly justify the use of different global shocks.

- The WEO and GRAM provide a useful reference for quantitative estimates of global economic and financial shocks, which could inform the effects on the country’s export demand, terms of trade, and remittances.
- The GFSR should be the main source for key global and regional assumptions on financing conditions, including surveys of market analysts’ expectations, under the baseline and an adverse scenario.

**7. Index of External Economic Stress.** The adverse scenario should also be informed by how these global assumptions impact the measured level of external risk in a particular country. To help assess how external risks evolve for a particular country, following consultation with country authorities, country teams should develop an index of external economic stress, the mechanics of which are set out in Annex IV. This index is designed to provide an indication of the evolution of the external environment as it relates to the country in question.

**8. The index should be used to help guide access discussions.** When the index indicates more elevated risks than previously identified, the adverse scenarios would normally be expected to include assumptions that are more extreme; similarly, when the index shows lower stress, the

assumed shocks should be correspondingly smaller. As these risks decline over time, access would be expected to decline, which would be consistent with a member progressively exiting from arrangements under the PLL. Nevertheless, as with other aspects of the exercise, the discussion will be subject to a high degree of uncertainty, and the role of judgment will remain paramount.

**9. Evidence from previous and current crisis cases,** including as described in economic literature, could additionally inform the impact of global and country specific shocks on the balance of payments. In particular, past crisis episodes could provide a useful reference for the size of the expected shock on different components of the capital account, including FDI, rollover rates, and resident and nonresident deposit outflows (see suggested approach in Annex V, which has now been adopted by all FCL and PLL users).

**10. Country-specific factors.** Although global assumptions and past crises episodes could provide valuable information on the possible behavior of different elements of the BoP at times of distress—and ensure comparability of scenarios across country requests—country-specific characteristics will usually be a critical component of the adverse scenario, to ensure that it is plausible. In particular, desks may want to focus on the country-specific structure and resulting volatility of capital flows, as well as specific items (e.g., derivatives, intra-group lending, private foreign assets holdings), that could either exacerbate or mitigate potential BoP pressures. When using country-specific factors, staff will need to defend the scale of the specific shock (e.g., the probability that this type of shock will occur based on past experience and current developments) and provide full explanations in the relevant Board documents. Moreover, additional access cushions—beyond those considered under the adverse scenario—should be carefully justified. Nevertheless, under the Fund’s Transparency Policy, market-sensitive information on access determination can be deleted from staff reports before publication, where warranted by circumstances.

**11. Additional considerations and reserve adequacy.** An assessment of *reserve adequacy* and how this would be affected if the adverse scenario materializes is also necessary (see also [Assessing Reserve Adequacy](#), [Assessing Reserve Adequacy—Further Considerations](#), and [Assessing Reserve Adequacy—Specific Proposals](#)). Staff should compare reserve levels according to different metrics relevant for given country-specific vulnerabilities and relevant for the exchange rate regime (e.g., the Fund’s ARA metric as well as other standard metrics). With reserve drawdown a key element in determining access levels, limited reserve drawdown should be clearly justified and reserve adequacy ratios well into the adequacy range in the adverse scenario should be generally avoided. Specifically, it would normally be expected that assumed levels of gross reserves are allowed to fall below 100 percent of the ARA in the adverse scenario (since this is an extreme stress event). In this respect, the 2014 Review of the FCL, the PLL, and the RFI included discussion of a lower threshold level of 80 percent of the Fund’s ARA metric.<sup>1</sup> However, when considering the appropriate reserve

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<sup>1</sup> Using a large sample of EMs over a 22-year period, the reserve threshold was derived so as to minimize Exchange-Market-Pressure crisis prediction errors. The “optimal” threshold minimizes the sum of type I and type II crisis prediction/misclassification errors to avoid missing crises (threshold too high) and predicting false crises (threshold

drawdown, the pace of the drawdown should also be considered to avoid adverse market reactions. Overall, for countries for which reserve levels are above adequate, the adverse scenario should include the use of international reserves to cover part of the financing gap, implying that not all the potential financing need is met through Fund resources. Where it is clear that reserve levels need to rise over the course of the FCL arrangement to maintain reserve adequacy, staff may want to build in an increase in reserve levels in the baseline projection. In tandem with assessing the level of reserves, staff should also consider whether an orderly exchange rate adjustment might be necessary if the adverse scenario unfolds (since it may not be appropriate for Fund financing to support the previous level of the real exchange rate in the face of a permanent shock). As noted above, assumptions regarding the exchange rate and any impact on financing needs should be clearly spelled out in terms of the direction and implied impact on financing needs.

**12. Access levels should always be presented based on the potential BoP need, irrespective of the specific use of Fund resources by the member (budgetary support, reserve build up, bank restructuring costs).**<sup>2</sup> Access to Fund resources can be granted to finance potential budgetary needs as long as the deficit in the public sector saving-investment (S-I) balance is mirrored by a BoP need (see Box 3 in [2009 Review of Recent Crisis Programs](#)). For example, a BoP need could be deemed to arise in the context of an economic contraction if appropriate stimulative policies (including fiscal) would lead to a worsening of the current account—i.e., the deterioration of the public sector S-I balance is not offset by an improvement in the private sector S-I balance (crowding out). In the absence of external financing, the use of Fund resources to prevent a maladjustment of the balance of payments (excessive current account contraction) would be warranted.<sup>3</sup> Operationally, proposed access levels should be commensurate with the projected BoP need shown in staff reports.

**13. Estimates of precautionary BoP needs and thus the corresponding access level can be appropriately based over a rolling 12-month window,** even for longer-duration arrangements, in line with evidence from past crisis cases (see [2009 Review of Recent Crisis Programs](#) paper).

**14. Finally, staff should check that the level of access is appropriate,** not just with respect to financing gap estimates but also with respect to a wider range of metrics and indicators related to capacity to repay and quota (for this purpose, the policy note, and staff report should include a comparison of high access cases indicators table).

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too low). Hence, with an 80 percent threshold separating crisis from non-crisis signals, countries may be able to draw down reserves to that limit in severe stress events without igniting crisis risks.

<sup>2</sup> A purchase can only be made in the GRA by a member if it represents that it has to make the purchase to meet a BoP need—i.e., “because of its balance of payments or its reserve position or developments in its reserves.” (Article I, Section 3 (b)).

<sup>3</sup> From the Articles of Agreement, Article I stipulates that one of the purposes of the Fund is “To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.”

**Annex III. Table 1. Illustrative BoP Shocks in Adverse Scenarios**

<b>External Financing Requirements and Sources: Potential Shocks</b>	<b>Downside Risks to the Current External Environment (WEO, GFSR, GRAM, VE, and EWE)</b>	<b>Evidence from Previous and Current Crisis Cases</b>	<b>Country Specific Risks and/or Compensating Factors</b>
<b>A. Current Account</b> Foreign demand Commodity prices Remittances	WEO alternative scenario (global growth and commodity price decline with respect to baseline) G-RAM	Impact of advanced economies' downturn on emerging markets	Exports/Imports composition and elasticities Current account norm and debt-stabilizing level
<b>B. FDI</b>	Early Warning Exercise (EWE) /GFSR/Vulnerabilities Exercise (VE) GRAM	FDI decline in representative cases Historical volatility vis-à-vis other capital flows	Foreign bank takeovers Investments in nontradable sector Greenfield investments Retained earnings
<b>C. Equities and debt securities</b>	VE/GRAM	Nonresident holdings of and outflows from domestic equity and bonds	Need to account for valuation effects and secondary market liquidity
<b>D. Debt Rollover</b> MLT/ST Sovereign/bank/ nonbank Official/private	MCM survey of market analysts' expectations as per VE GRAM	Rollover rates	Debt composition Trade credits Intra-group lending Private Sector Involvement
<b>E. Other Investment</b> Currency and deposits Secondary market Derivatives position Other	GFSR/VE/GRAM	Stock and flows of nonresident deposits Resident deposits outflows	Nonresident holdings of domestic debt Hedged derivatives position in tradable sector Degree of dollarization
<b>F. Gross International Reserves and Private Foreign Assets</b>	Greenspan-Guidotti rule Jeanne-Ranciere Reserve rule Other indicators mentioned in Annex I	Evidence from programs	Metrics selected on the basis of relevant vulnerabilities Availability of liquid foreign assets by private sector

## Annex IV. Index of External Economic Stress

**1. The assessment of external risks is critical to both the justification of access and the prospects for exit from use under the FCL or PLL.** In this regard, during the 2014 FCL/PLL/RFI Review most Directors considered that an indicator of external stress would be a useful innovation to strengthen the discussion of a country's external risks in staff reports for requests for, and reviews under, FCL and PLL arrangements. The index would be an indicator of the evolution of the external environment as it pertains to the particular member, and would aim to help inform discussions of access and exit prospects.<sup>1</sup> In this annex, a general and flexible methodology is outlined to guide staff in constructing such indices tailored to a member's specific economic situation. The development of the index would be undertaken by individual country teams, after discussion with the authorities, as part of the preparation of a staff report on an FCL or PLL arrangement. The methodology serves as a basic framework to be used in relevant staff reports for members using these arrangements, but is flexible to permit tailored applications to different country cases and refinements by mission teams.<sup>2</sup> To allow the Board to assess relative risks over time, the type of risks, variables, and size of weights on each of these variables, once decided, would be expected to remain set within and across successor arrangements, absent a compelling economic reason which should be presented clearly in the report.

**2. Any index will, broadly, require three main choices:** (i) the selection of the key external *risks* facing the country; (ii) the selection of proxy *variables* capturing these risks; and (iii) the choice of the *weights* to apply to each of these variables. The index will be a weighted sum of standardized deviations of the external proxy variables from their means. Country teams should discuss these key modeling choices with the relevant country authorities, although country teams will ultimately be responsible for making these decisions. The choice of index should be justified in a thorough manner, while striking the right balance between flexibility that allows for country-specific considerations and standardization that ensures evenhandedness and consistency over time.

- **Risks.** The principal external risks specific to a country are typically identified by country teams in Article IV consultation staff reports, following discussion with country authorities, including drawing on risks identified in the Global Risk Assessment Matrix (G-RAM). Key vulnerabilities could include, for example, portfolio and cross-border bank flows, exports to key trading partners, workers' remittances from a single country or region, and commodity prices changes for commodity exporters.
- **Variables.** Each risk would be represented by proxy variable(s) that capture(s) the external factors relevant to the risk. For example, if exports to the euro area are a key risk, euro area growth could be the external proxy variable. Risks associated with portfolio debt liability risks

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<sup>1</sup>This index is not intended to help inform qualification decisions, which are subject to the qualification framework.

<sup>2</sup> However, any use of the index would be based on broadly applicable principles that ensure uniformity of treatment among Fund members so that similarly situated members will be treated similarly in the use of Fund resources under the FCL and PLL.

could be linked to U.S. treasury yields, and equity portfolio investment could be related to volatility in emerging markets.

- **Weights.** Different methods can be used to calculate the weights for the selected variables, depending on data availability and relevance of different techniques. As the default, simple statistics could be used to derive the weights (data-based). However, where appropriate and feasible, country teams could explore more advanced econometric methods (model-based), as long as they lead to economically meaningful weights.
  - **Data-based weights.** Under this method, weights would be determined by the economic size of the respective balance of payments vulnerability relative to the overall size of the economy. For instance, if the vulnerability is exports to a particular market, the long-term average size of those exports would be calculated as a share of the country's output.
  - **Model-based weights.** As an example of this method, vector autoregressions could be used to estimate the importance of each of the risks on observed balance of payment pressures (see Box 1 for an illustration of the use of model-based weights).

**3. To demonstrate the possible estimation of external economic stress indices, this note includes illustrative indices taken from the 2014 FCL, PLL, and RFI Review for Mexico, Colombia, and Poland** (Annex Table 1 and Annex Figure 1). These indices bring together selected sources of external risk facing these countries. They measure whether a country's external environment is better or worse than normal since each index uses differences of the proxy variables from long-run means.<sup>3</sup> Annex Table 1 reports the key risks, proxy variables and weights identified through the two approaches proposed above. While the individual weights differ in certain cases, both weighting methods produce broadly similar overall stress indices (Annex Figure 1).

**4. The assessment of external risks needs to both capture recent changes in the external environment and be forward looking.** In this context, a downside risk scenario should be modeled by country teams with relevant input from country authorities, drawing where appropriate on the most recent flagship reports (i.e., WEO downside scenario, GFSR, spillover reports) or G-RAM. While the impact of a given shock would likely differ across countries, reflecting different exposures and hence different ESI weights, the underlying shock scenario would be expected to be similar across countries with arrangements falling close in time. Should different assumptions (e.g., different shock size) be warranted, this could be clarified by specifying the context surrounding the given shock. The selected scenario should be fully justified and explained in the related staff reports. The chosen downside risk scenario should also inform the downside scenario chosen in the adverse financing needs scenario. While these two scenarios do not need to be identical, the source of the shock and direction of the risks should be consistent. Annex Figure 1 presents, as an example, illustrative downside risks for the three FCL users mentioned above.

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<sup>3</sup> To make the deviations from averages comparable across proxy variables and therefore additive in a weighted average, the index also divides the differences by the long-run standard deviation of the respective proxy variables.

### Annex IV. Box 1. An Illustrative Estimation of External Economic Stress Index Weights

*The empirical method for calculating the stress index weights could employ structural Bayesian vector autoregression (BVAR) estimation. This technique detects the actual historical relation of a country's balance of payments pressures to external proxy variables, controlling for variation in the domestic economy.*

The **BVAR approach** uses the same external proxy variables that correspond to vulnerabilities identified by staff as those employed in the data-based weights described in the main text. BVAR is a technique that relates a vector of macroeconomic variables to its past realizations. In this application, that vector is comprised of the external proxy variables (as described in Table 1), domestic control variables (in this case GDP growth and short-term money market interest rates) and a variable—the quarterly average exchange market pressure (EMP) index—representing the balance of payments pressures facing the country. The **external variables** used for the three current FCL countries are as follows:

**Poland.** Seasonally-adjusted euro area quarter-on-quarter real output growth, the quarterly change in the U.S. Treasury 10-year yield, the logarithm of the quarterly average value of the Euro Stoxx Banks index, and the quarterly average value of the VXEEM index.<sup>1</sup>

**Mexico and Colombia.** Seasonally-adjusted U.S. quarter-on-quarter real output growth, change in quarterly average oil price, the quarterly change in the U.S. Treasury 10-year yield, and the quarterly average value of the VXEEM index.

The structural BVAR employs the Cholesky scheme to **identify the structural impulses** driving external developments in the model. This approach requires an ordering of variables in the BVAR vector such that each variable only impacts contemporaneously the variables that follow it in the ordering. Specifically, the ordering of external variables is the same as outlined in the bullets above and such that external trading partner growth is the most exogenous, followed by commodity prices and foreign interest rates. These variables are followed by the domestic variables, i.e. output growth, interest rate, and EMP. The model applies a shrinking parameter to the latter group such that domestic variables do not influence the external proxy variables. The models are estimated using data from 1995 (or the earliest available) with 2 lags. BVAR uses priors regarding means and standard deviations on the constant term as well as the first order autocorrelation,<sup>2</sup> which improves the efficiency of the estimation. Results are qualitatively robust to alternate ordering of external variables and lag length.

One of the outputs of the BVAR is a set of **impulse response functions**. These depict the response in each variable's values over time to a one standard deviation shock to one of the variables. Each of these functions was surveyed in the three models for the FCL countries to ensure that the model produced sensible results for all of the vector components.

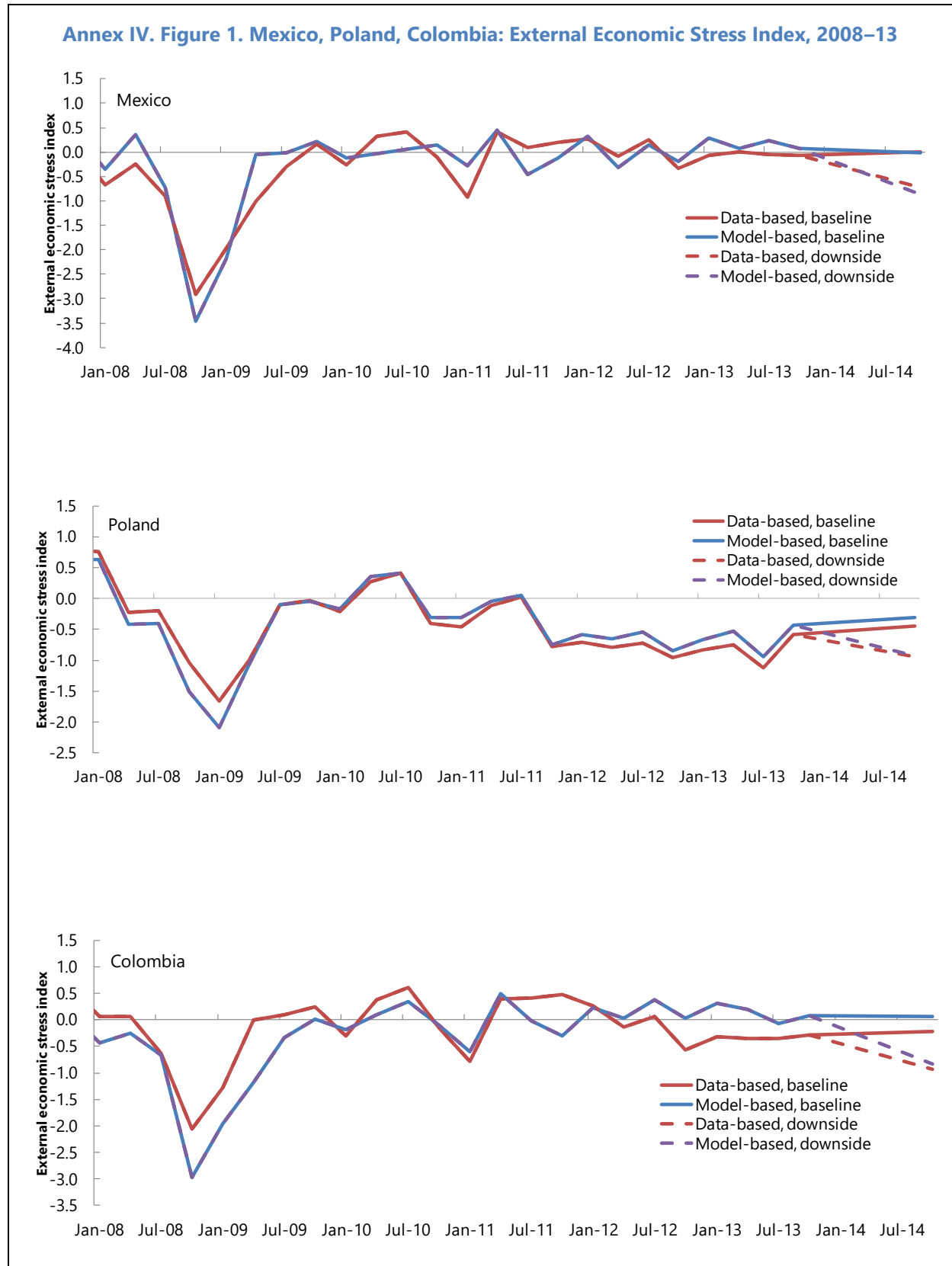
The set of impulse responses of EMP to the external proxy variables is then used to **calculate the external economic stress index weights**. In particular, the absolute cumulative response over a year of exchange market pressure to each of the external risk proxies is used to weight the relative importance of each risk. In other words, the larger the impact on EMP (and therefore BoP pressures) of a shock in a particular proxy variable, the larger its weight in the index.

<sup>1</sup>Since VXEEM values are only available starting in 2011, prior to that VIX values are used instead, with an additional spread calculated as the average spread between VIX and VXEEM in 2011–2013.

<sup>2</sup>The priors are based on historical means, variances and autocorrelations over the estimation period.

Annex IV. Table 1. External Economic Stress Index Components				
<b>Mexico</b>				
External risk	External proxy variable	Data-based weights	Model-based weights	
Exports to the US	US growth	0.43	0.23	
FDI from the US				
Remittances from the US				
Oil exports	Change in oil price	0.06	0.32	
Equity portfolio investment stock	Emerging market implied volatility (VXEEM)	-0.24	-0.30	
Debt portfolio investment stock	Change in US Treasury 10 year yield	-0.27	-0.15	
<b>Poland</b>				
External risk	External proxy variable	Data-based weights	Model-based weights	
Exports to the Eurozone	Eurozone growth	0.21	0.29	
FDI from the Eurozone				
Stock of cross country bank exposures	European bank equity price (Euro Stoxx Banks)	0.38	0.27	
Equity portfolio investment stock	Emerging market implied volatility (VXEEM)	-0.09	-0.14	
Debt portfolio investment stock	Change in US Treasury 10 year yield	-0.31	-0.30	
<b>Colombia</b>				
External risk	External proxy variable	Data-based weights	Model-based weights	
Oil exports	Change in oil price	0.32	0.03	
Coal exports				
FDI into the oil industry				
Exports to the US	US growth	0.24	0.25	
Equity portfolio investment stock	Emerging market implied volatility (VXEEM)	-0.04	-0.44	
Debt portfolio investment stock	Change in US Treasury 10 year yield	-0.40	-0.28	





## Annex V. A Framework for Comparing Access Assumptions

1. **This annex outlines a framework for comparing access assumptions across members availing themselves of the FCL or the PLL.** The framework was developed in the context of the 2011 Review and has since become standard practice for access requests. The framework involves, first, identifying past events where emerging markets (EMs) have been hit by large exogenous (advanced market (AM)-led) shocks. The second step involves gathering information across EMs on key access determinants—both on the current and financial account—so that access assumptions can be compared with past behavior of key variables during shock episodes.
2. **The first step involves identifying exogenous shock periods.** Specifically, this involves identifying the impact on EMs stemming from a decline in domestic demand and elevated financial stress in their AM trading partners. Over the past 30 years, annual AM real domestic demand compression bridged the one standard deviation threshold in the years 1991, 2001, and 2009. Excessive AM financial stress also coincided with these events. These periods were followed by economic stresses across a number of EMs and are, as such, categorized as crisis events.
3. **The second step involves measuring moves in key external variables across EMs during these identified crisis periods.**
  - **Country sample.** 49 EMs are selected that are medium sized, have market access, and attract private inflows through FDI, portfolio flows, and loans. This broadly coincides with the sample of countries chosen for the Fund’s Vulnerability Exercise for Emerging Markets (VEE).
  - **Variables.** Eight separate external variables are used in the analysis, focusing on those variables in the current and financial accounts that form the basis of downside risk assumptions in past FCL access decisions. These variables comprise exports, FDI, commodity prices excluding fuel, fuel prices, and short- and MLT public and private rollover rates. (Other variables could also be added over time if needed, e.g., deposit outflows.)
  - **Density distributions.** This step involves identifying density distributions for the behavior of external variables during past exogenous stress episodes for EMs. For each variable, values for countries  $i: 1, \dots, I$  in the event years are stacked in a vector denoted with  $x$ . These vectors are used to estimate univariate kernel densities. Kernel density estimators approximate the density  $f(x)$  from observations on  $x$ . The data are divided into non-overlapping intervals, and counts are made of the number of data points within each interval so that FCL arrangement assumptions can be presented on these distributions with greater precision. Kernel distributions provide comparable benchmarks to calibrate the assumptions used in past FCL arrangements for key external variables, which in turn helped determine access levels.
  - **Time period.** For FDI and exports, averages spanning the three years prior to the crisis year are used as a baseline. The crisis year deviations from these baselines are then used as *the shock* scenario. For private and public rollover rates, episode year values are used to estimate densities. Finally, for commodity and fuel prices, time series values for the 1991–2011 period are pooled to

estimate the densities. FCL and PLL cases are placed on these densities based on the shock scenarios that are described in country case studies.<sup>1</sup>

**4. To compare the implicit assumptions on tail risks across current and past FCL cases,** the implicit assumptions from FCL-PLL cases are placed in the empirical distributions of key EM access parameters (see Annex Figure 1). Using this framework, it can be seen that the severity of assumed shocks fell under the second FCL arrangements, before increasing as global conditions worsened. Another interesting finding is varying degrees of severity of various shocks across BoP category in earlier FCL requests but which became less extreme in later requests after the implementation of this framework. It is expected that these empirical distributions are used to underpin assumptions in all future access scenarios.

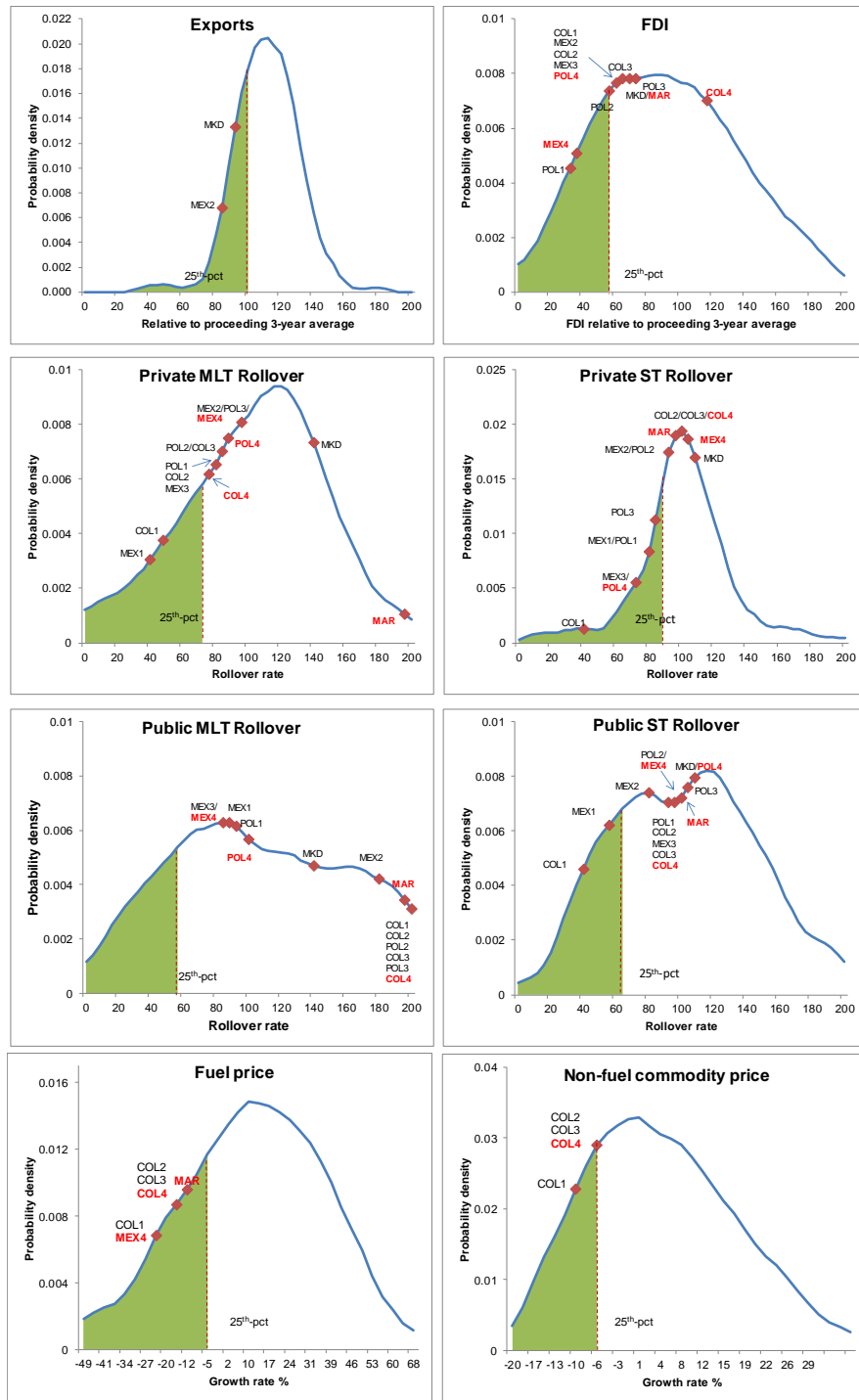
**5. As external risks subside, it is also expected that country teams will use less severe assumptions in their access scenarios.** That is, assumptions will move closer to the center of the distribution.

**6. Finally, the 2014 review found that assumptions are increasingly conservative and severe when the assumptions are compared against distributions for the second year of a crisis, where typically the severity of the situation declines (see second part of Annex Figure 1).** Country teams when requesting a two-year arrangement should thus consider using less severe assumptions in the second-year of the scenario and anchoring those assumptions in a separate empirical distribution specifically for the second year of the crisis.

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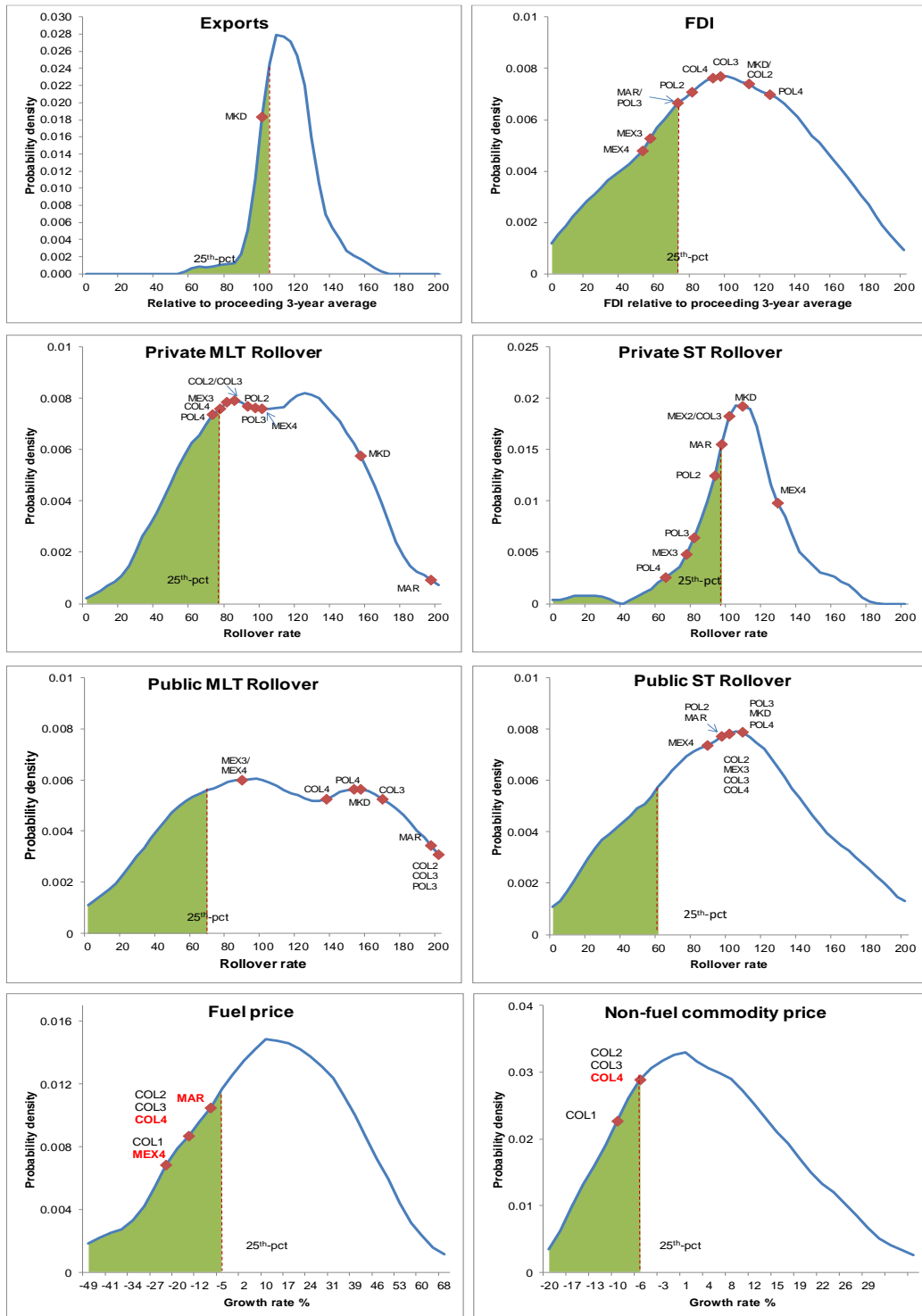
<sup>1</sup> See [The Review of the Flexible Credit Line, The Precautionary and Liquidity Line, and the Rapid Financing Instrument—Supplementary Information](#).

Annex V. Figure 1. Empirical Adverse Shock Distribution—in Crisis Year<sup>1/</sup>



<sup>1/</sup> In the empirical distributions, “shocks” are defined as countries’ actual experiences during the crisis year (for all four types of debt rollover rates), or countries’ experiences during the crisis year relative to preceding 3-year average (for exports and FDI). This definition can be different from that in the FCL/PLL staff reports, which often define shocks as deviations in the adverse scenario from the baseline projection. In placing the shock assumptions underpinning the FCL/PLL arrangements on the empirical distributions, staff recalculates the FCL/PLL shock assumptions so that the definition of shocks is in line with that underlying the empirical distributions.

**Annex V. Figure 1. Empirical Adverse Shock Distribution—One Year After the Crisis (Concl.)**



Sources: WEO, IFS, and IMF staff calculations.

Note: Rollover rates are computed as the amount of new borrowing in year  $t$  divided by the amortization falling due in that year.

## Annex VI. Staff Documents for the Executive Board on the Use of PLL Resources

### A. Concise Staff Note for Informal Board Meeting

#### 1. The staff note should include:

- **Qualification.** An assessment of whether the member (i) has sound economic fundamentals and institutional policy frameworks; (ii) is implementing – and has a track record of implementing – sound policies; and (iii) remains committed to maintaining such policies in the future, all of which give confidence that the member will take the policy measures needed to reduce any remaining vulnerabilities and will respond appropriately to the BoP difficulties that it is encountering or might encounter. A statement on whether the most recent Article IV consultations included generally positive assessments of the member’s policies. A preliminary assessment against the qualification areas in Annex I, including, where necessary, a reference to aspects of the criteria that require more information in order to be fully assessed.
- **Access.** A preliminary assessment of whether the member has an actual or potential BoP need. A preliminary indication of an appropriate access level and duration of the arrangement based on an assessment of actual or potential BoP needs arising from the current and capital accounts and in view of the expected time necessary for the member to make credible progress in addressing its vulnerabilities (e.g. to justify an access request under a six-month PLL arrangement). In particular, the assessment of a potential BoP need should include a discussion of one or more scenarios based on alternative assumptions about key parameters (external debt rollover rates, magnitude of portfolio outflows, etc.). Under the exceptional circumstances envisaged for six-month PLL arrangements, the note should include a discussion of the short-term nature of the BoP need and the impact of exogenous shocks, including heightened regional or global stress conditions if warranted. Information by FIN on the capacity to repay the Fund and risks to the Fund should also be included. If management decides that exceptional access to Fund resources may be required, the exceptional access procedures would need to be followed, and the note should also include all information requirements called for under the exceptional access policy, including a staff preliminary evaluation of the four substantive criteria for exceptional access, with a preliminary debt sustainability analysis.<sup>1</sup>
- **Ex-Post Conditionality.** For PLL arrangement of one to two years, preliminary staff views on the key policy areas for ex-post conditionality in addition to the standard PCs, as highlighted by the qualification assessment, and initial recommendations for possible targets under the program.

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<sup>1</sup> Specifically, according to the exceptional access policy, once management decides that new or augmented exceptional access to Fund resources may be appropriate, it will consult with the Board promptly in an informal meeting. Directors will be provided with a concise note that sets out the following as fully as possible: (i) a tentative diagnosis of the problem; (ii) the outlines of the needed policy measures; (iii) the basis for a judgment that exceptional access may be necessary and appropriate, with a preliminary evaluation of the four substantive criteria, and including a preliminary analysis of debt sustainability; and (iv) the likely timetable for discussions.

- **Tables and charts.** Standard economic indicators and a BoP table (both with projections for the current and following years to cover the length of the arrangement), and a table on gross external financing requirements and sources under the baseline (and under the adverse scenario for requests on the basis of a potential BoP need). For transparency when requesting a successor arrangement, the table showing the gross external financing requirements should make clear how current adverse shock assumptions compare to those under the previous arrangement. A table comparing access metrics should also be included. Cross-country charts for relevant indicators can be usefully included to support staff’s assessment of qualification. Provided the proposed access amount has been finalized, a capacity to repay table would be also included.

## B. Staff Report for the Formal Request for a PLL Arrangement

### 2. The staff report should include:

- A discussion of recent macroeconomic developments and policies, the economic outlook, the expected evolution of risks over the arrangement period, and the authorities’ forward-looking policy plans, including their exit expectations (as informed by discussions with the authorities).
- An explicit assessment of whether the member has an actual or potential BoP need.
- A discussion of the (existing/potential) sources of BoP pressures and other risks to the outlook, building on the assessment already included in the staff note. Under the exceptional circumstances envisaged for six-month PLL arrangements, the staff report should also include a discussion of the short-term nature of the BoP need and the impact of exogenous shocks, including heightened regional or global stress conditions if warranted.
- A discussion and justification of the proposed access level and length of the arrangement (in view of the expected time necessary for the member to make credible progress in addressing its vulnerabilities, notably for six-month PLL arrangements), and in cases involving exceptional access also an assessment of the four substantive criteria for exceptional access.<sup>2</sup>
- A detailed assessment of the qualification criteria and areas (including the material from the concise staff note and any additional information) and approval criteria.
- As part of the above, a debt sustainability analysis including the evolution of debt, as well as rollover and financing requirements under alternative scenarios (including an assessment of contingent liabilities, where appropriate) and stress tests.
- A discussion of the member’s capacity to repay the Fund.
- A discussion of any prior actions and agreed ex-post conditionality contained in the authorities’ written communication, as well as of the authorities’ policy program goals and strategies, and

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<sup>2</sup> Specifically, the staff report for an arrangement proposing exceptional access will include: a consideration of each of the four substantive criteria for exceptional access (including a rigorous analysis of debt sustainability); a thorough discussion of need and the proposed level of access; an assessment of the risks to the Fund arising from the exposure and its effect on liquidity; and systematic and comprehensive information on the member’s capacity to repay the Fund.

quantitative macroeconomic framework (with the relevant targets and other policy conditionality as applicable).

- Staff appraisal.
- *Tables and charts.* Selected economic indicators including projections for the current year and following years to cover the length of the arrangement, a medium-term macroeconomic framework table (with projections for a five-year time span), a BoP table (with projections for a five-year time span), a table on external financing requirements and sources (as warranted depending on the nature of the BoP need and duration of the arrangement), fiscal projections (with six-month projections for the first year and annual projections for a five-year time span), the debt sustainability tables (external and public), monetary table (as applicable depending on the monetary policy framework), financial soundness indicators table, a table on capacity to repay the Fund, a table with the agreed schedule of reviews, and the table illustrating alternative metrics for access. When requesting a successor arrangement, the external financing needs table should make clear how current adverse shock assumptions compare to those under the previous arrangement. Cross-country charts for relevant indicators can be usefully included to support staff's assessment of qualification.
- A draft proposed decision for approval of the PLL arrangement and the text of the draft PLL arrangement, both prepared by LEG
- In cases involving exceptional access, an assessment prepared by FIN on the risks to the Fund and the impact of the proposed PLL arrangement on the Fund's finances and liquidity position, as a supplement to the staff report.
- The authorities' written, signed communication requesting the PLL arrangement. For PLL arrangements of one to two years, this will include, beyond a reference to the standard PCs that apply to all PLL arrangements, a technical annex presenting tables and supporting information on the semi-annual indicative targets and standard PCs, for at least the first year of the arrangement, as well as any prior actions, additional quantitative PCs, and structural benchmarks identified under the program with the specified time framework. Any ex-post conditionality is to be established in accordance with the Guidelines on Conditionality. The annex will also report the definitions of the relevant variables included as semi-annual targets and any other reporting requirements (with the respective frequencies) to ensure adequate monitoring of economic and financial developments.

### C. Staff Report for Semi-annual Review

3. **Internal Process.** A standard policy consultation meeting would be required given possible prior actions and ex-post conditionality. Standard review procedures would also apply.
4. **Staff Report.** The semi-annual Review Staff Report should contain the following sections:



- Recent economic developments (with a discussion about the role played by the PLL in reducing BoP pressures/dissipating tail risks as well as the expected evolution of risks—also based on the latest WEO and GFSR reports—over the remainder of the arrangement period) and policies.
- Review of qualification criteria and areas.
- Review of performance against policy objectives; observance of macroeconomic framework targets or other policy conditionality if applicable.
- Revised macroeconomic framework for the next year/remainder of the arrangement with updated policy conditionality.
- A discussion of the member’s capacity to repay the Fund (in the event that the member makes purchase(s) under the PLL arrangement).
- Staff appraisal.
- *Tables and charts.* Standard economic indicators table, a medium-term macroeconomic framework table (with projections for a five-year time span), a BoP table (with projections for a five-year time span), a table on external financing requirements and sources, fiscal projections (with six-month projections for the first year and annual projections for a five-year time span), the debt sustainability tables (external and public), monetary table (as applicable depending on the monetary policy framework), financial soundness indicators table, a table on capacity to repay the Fund, a table with the agreed schedule of reviews. Cross-country charts for relevant indicators can be usefully included to support staff’s assessment of qualification.
- A proposed decision to complete the review prepared by LEG.
- Authorities’ written, signed communication reflecting any changes to policy commitments under the program, including an annex with the updated quantitative macroeconomic framework and semi-annual indicative targets (and, where warranted, PCs) for one-year ahead or the remainder of the arrangement, as well as with any prior actions and structural benchmarks identified under the program with the specified timeframe. Any revision to the program definitions should be also indicated in the annex (staff would not be expected to discuss with the member’s authorities new ex-post conditionality to be set at the time of the final review, besides prior actions if warranted).

#### D. Staff Report for Ad Hoc Review for Augmentation or Rephasing of Access

5. **Internal Process.** The same internal review process of semi-annual reviews will be followed in the case of an ad hoc review.
6. **Staff Report.** The staff report content/tables will also be the same as for semi-annual reviews. For one- to two-year arrangements, a discussion of the progress to date towards achieving the relevant targets for completion of the next semi-annual review should be included. Additional sections will include:

- A discussion of new potential or actual sources of BoP pressures and other risks. In particular, for potential BoP needs, the assessment should include a discussion of one or more scenarios based on alternative assumptions about key parameters (external debt rollover rates, magnitude of portfolio outflows, etc.). For augmentations of six-month arrangements beyond the 125 percent of quota limit, a discussion of the exceptional circumstances motivating the request would also be required.
- A discussion and justification of the new proposed access level and/or rephasing under the current PLL arrangement.
- To the extent that the rephasing would result in exceptional access, a written assessment of the four substantive criteria for exceptional access and, as a supplement to the staff report, an assessment prepared by FIN on the impact of the revised access level and/or phasing under the PLL arrangement on the Fund's finances and liquidity position, as a supplement to the staff report.