INTERNATIONAL MONETARY FUND

Flexible Credit Line—Operational Guidance Note

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In consultation with other departments

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Flexible Credit Line—Guidance on Operational Issues[1]

I. Introduction

1. The Flexible Credit Line (FCL) was introduced as part of a package of reforms to the Fund's lending facilities in March 2009 and its design was further refined in August 2010. The following provides operational guidance and further background information on the FCL. SPR (the Emerging Markets Division), FIN, and LEG stand ready to clarify any further questions departments may have on the FCL or other aspects of the reforms to lending and conditionality.

II. Overview of the FCL

2. The FCL is designed to provide a credit line with large and upfront financing to members with very strong fundamentals and institutional policy frameworks, and that have sustained track records of implementing very strong policies and remain committed to maintaining such policies in the future (see The IMF's Mandate—The Future Financing Role: Reform Proposals, The IMF's Mandate—The Future Financing Role:Revised Reform Proposals and Revised Proposed Decisions, and Review of the Flexible Credit Line and Precautionary Credit Line as well as Press Release and Q & A links, and GRA Lending Toolkit and Conditionality—Reform Proposals, and Sups. 1 and 2). Access under the FCL is provided under an FCL arrangement.[2] As access to the FCL is available only to those members that meet strict qualification criteria, drawings under it are not tied to ex post conditionality. The FCL is designed to be flexible: i) access is uncapped and funds are available upfront; ii) grace period and repayment terms are relatively long (3¼–5 years, starting on the date of each purchase); iii) renewals are unrestricted;[3] and iv) the FCL can be used for either contingent (precautionary) and actual balance of payments (BoP) needs.

- ***Approval*** (FCL decision, paragraph 6(a)).[4] An FCL arrangement is approved following a confidential request from a member (Section III). There is *no list* of

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[2] Some terminology: established as a window in the Fund's credit tranches, the FCL is a *financing instrument*, and not a *stand-alone facility (e.g., the EFF)*. Access to Fund resources is provided under an FCL *arrangement*. The text of a standard FCL arrangement can be found in Annex IV. Table 1 in Fund's Financing Role: Reform Proposals on Liquidity and Emergency Assistance presents a comparison of existing financing instruments.

[3] Successive FCL arrangements may be approved, provided the member continues to meet qualification criteria.

[4] All references to the FCL decision refer to Decision No. 14283-(09/29), adopted March 24, 2009, as amended by Decision No. 14714-(10/83), and adopted August 30, 2010.

members that pre-qualify for the FCL. Only if a country expresses an interest in requesting an FCL arrangement, may staff assess in a confidential and preliminary way whether a member might qualify. When management decides that access to Fund resources under the FCL may be appropriate, it will promptly consult with the Executive Board at an informal meeting. A concise staff note setting out the basis on which approval could be recommended is provided to the Executive Board for this meeting. This note includes (i) a rigorous assessment of the member's actual or potential need for Fund resources and repayment capacity, and (ii) an assessment of the impact of the arrangement on Fund liquidity in cases where it is contemplated that access would exceed 1000 percent of quota or SDR 10 billion, whichever is lower. A formal decision approving an FCL arrangement is then taken by the Executive Board at a subsequent meeting on the basis of the member's written request outlining its policy plans, a staff report assessing the member's qualification and justifying access under the FCL, and the Managing Director's recommendation.

- ***Length*** (FCL decision, paragraph 5(a)). An FCL arrangement may be approved for one-year or two-years (the choice is binary; no other periods are possible) with a mid-term review after the first twelve months of a two-year FCL arrangement. For FCL arrangements with a two-year duration, no purchase can be made after one year has elapsed from the date of approval until completion of an Executive Board review of the member's policies aimed at ascertaining the member's continued adherence to the qualification criteria (see page 7 for a description of the mid-term review). Successive FCL arrangements may be approved for the member, provided that the qualification criteria continue to be met.

- ***Access*** under the FCL is uncapped, and it can be augmented (subject to Board approval) during the time of the arrangement subject to the member's continued qualification. The exceptional access policy does not apply to the FCL (i.e., access under the FCL above the normal access limits of 200 percent annually and 600 percent cumulative does not trigger the exceptional access policy), although its approval procedures are substantively similar to those under the exceptional access framework as discussed below (Decision No. 14064–(08/18), paragraph 2).

- ***Conditionality*** (FCL decision, paragraphs 2, 3, and 5(a)). In light of the qualification criteria, there is no traditional ex post conditionality, as the track record of policy implementation is intended to provide assurances that appropriate corrective policies, if needed, would be implemented, and for the same reason, prior actions are not needed. Similarly, no ex post conditionality—only ex ante (qualification criteria)—can be attached to the mid-term review or the approval of successive FCL arrangements. Once an arrangement has expired, if there have been purchases under the arrangement then the Fund will conduct post program monitoring (PPM) while outstanding credit remains above 200 percent of quota.

- ***Phasing*** (FCL decision, paragraphs 4 and 5(b))**.** The entire amount of requested access is available upon approval of the FCL arrangement and remains available throughout the arrangement period (subject to the completion of the mid-term review for two-year arrangements). The arrangement can be requested on a precautionary basis or to address an actual BoP need. The member has the option of making one or multiple purchases at any time during the term of the arrangement.[5] The FCL arrangement would expire upon the earlier of: (i) the expiration of the approved term 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.

- ***Exit strategy.*** A discussion of risks and, to the extent possible, exit prospects would be expected to be included at the time of the initial FCL request to justify the proposed duration of the arrangement (one-year or two-years) and at the same time help promote transparency and underpin exit expectations.[6] For two-year FCL arrangements, this would be complemented at the time of the FCL review by an updated assessment by staff of the anticipated evolution of risks over the rest of the arrangement period. These assessments would also help inform the discussion of the access level, in terms of the evolution of risks, if a successor arrangement is ultimately considered. As part of a member's exit strategy, successor arrangements would be normally expected to involve declining access if warranted by improvements in external financing prospects.[7] Nevertheless, any exit and risks discussion would unavoidably be subject to a high degree of uncertainty and judgment and should be carefully crafted to preserve the flexibility of the instrument and its insurance role while avoiding any risk of adverse market reaction.

[5] As is standard under Fund facilities, while the Fund would not challenge the *ex ante* representation of a BoP need by a member for a purchase requested under an FCL arrangement (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. The concept of BoP need relates to the existence of an above-the-line BoP deficit or an inadequate level of reserves (see Article V, Section 3(b)).

[6] In *the Public Information Notice* to the Review of the Flexible Credit Line and Precautionary Credit Line (PIN/11/152), Directors noted that access under the FCL instrument is a temporary supplement to reserves during periods of heightened risks. They reaffirmed the normal expectation of reduced access under successor FCL arrangements as set forth in PIN/10/124 (see also below). The Board viewed that discussing the country's external risks and exit expectations in staff reports requesting FCL arrangements should help promote timely exit.

[7] In the Public Information Notice to *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.

- ***Financial terms*** (GRA Lending Toolkit and Conditionality—Reform Proposals, III(B), paragraph 16)**.** Purchases under the FCL are subject to the same financial terms (repayment period, surcharges, and charges) as SBAs. Unpurchased amounts are subject to the commitment fee.[8]

- ***FCL resources and their treatment in reserves***. Unpurchased amounts available under the FCL arrangement are not counted in gross reserves (as they are not yet created as an asset). However, there is space in the Reserves Data Template filed by SDDS subscribers to announce the availability of these as yet unpurchased credit line resources.[9] Once purchased, FCL resources give rise to an increase in gross reserve assets, as well as external liabilities (with maturities corresponding to the timing of repurchases).

III. PROCESS

3. If a member wishes to approach the Fund for an FCL arrangement, the process is as follows.

- ***Initial steps***. The member should approach staff or management confidentially and indicate its interest in obtaining financing under the FCL arrangement. (A mission is not required to discuss a request for an FCL arrangement or to assess qualification. However, if the latest available Article IV consultation report is more than a year old, or if circumstances warrant it, a fact-finding staff visit may be needed to assess FCL qualification). Staff should strongly encourage members to do this on a confidential basis, as failure to qualify under the instrument could have negative effects on market sentiment. Any publicity ahead of Executive Board consideration could prejudice the member's case as the Board could see this as an attempt to unduly influence the outcome. Fund staff must treat the authorities' request as confidential and cannot

[8] The marginal commitment fee is equal to 15 basis points for access up to 200 percent of quota, 30 basis points for access between 200 and 1000 percent of quota, and 60 basis points for access above 1000 percent of quota. By way of example, the average commitment fee levied on a 500 (1000) percent of quota arrangement is 24 (27) basis points. The commitment fee is levied upon approval of the arrangement and refunded on a pro rata basis if drawings are made under the arrangement or if the arrangement is cancelled without being drawn in full.

[9] In general, IMF arrangements are conditional lines of credit and thus should not be included in Section III of the Reserves Data Template. The FCL has conditions for access which include qualification criteria that must be met *before* the credit line is approved. In FCL arrangements with a one-year duration, once the qualification criteria are met, the member can draw down funds throughout the entire one year period of the arrangement. In two-year FCL arrangements however, continued access to resources during the second year is also subject to completion of a review. In light of the above, the undrawn amounts under one year FCL arrangements should be included in Section III from approval to the maturity of the FCL arrangement. Undrawn amounts under two year FCL arrangements should be included in Section III from approval up until the scheduled review date under the FCL. See *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*.

discuss qualification publicly.[10] Staff should wait for a formal expression of interest by the member (e.g. in the form of an email or other written communication with the mission chief or area department head) before initiating an assessment of qualification and developing staff's views on qualification. In the initial exploratory discussions, staff should enquire as to the nature of the balance of payments problems (actual or potential) that has resulted in the member requesting an FCL arrangement and the desired level of access (see section on access below). The length of the arrangement sought by the authorities and whether the arrangement is meant to be treated as precautionary should be clarified at an early stage. Once an expression of interest has been received, area departments should consult closely with SPR on the key elements and process for assessing qualification.

- ***Preliminary assessment of qualification***. The country team should then begin to prepare a confidential preliminary assessment of the member's qualification under the FCL. The staff can discuss the qualification criteria with the member, but they should make clear that it is the Executive Board that takes final decisions on qualification. Staff should take care to ensure that qualification is thoroughly assessed (Section IV and Annex I) and done in an evenhanded way. From this perspective, area department teams should consult early on with SPR, as well as FIN, LEG, and other functional departments as necessary, to seek guidance on qualification.

- ***Support from other creditors***. The FCL decision requires that when support from other creditors is likely to be important in helping a member address its BoP difficulties, staff will consult with key creditors (official or private sector) as appropriate to inform a preliminary assessment of access (FCL decision, paragraph 6(a)(ii)). In practice, it is expected that consultation with other creditors will only be necessary when both of the following apply: i) the FCL arrangement is being requested on a non-precautionary basis; and ii) there are sizeable remaining financing gaps that need to be filled by other creditors (usually official creditors). Country authorities should be informed (in advance) of such planned contacts.[11] The standard informal briefing of the Executive Board as noted below, which would include a preliminary assessment of access, would take place after discussions with creditors.

[10] In case of a leak concerning an expression of interest by a member, staff would normally refrain from any comment, as per current Fund practice on press leaks. EXR guidance should be sought as needed.

[11] In the case of financing support by multilateral creditors (e.g., for members of a currency area and/or Regional Financing Arrangement), 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. In any case, these considerations should in no way delay prompt communications to the Board or prejudge its assessment of the member's request.

- ***Informal Board meeting and staff note***. If management decides that access to Fund resources under the FCL may be appropriate, it will promptly consult the Board in an informal (restricted) Board meeting. A concise staff note should set out the basis on which approval could be recommended, including a preliminary assessment of qualification and a discussion of the appropriateness of the proposed level of access, including a rigorous assessment of the member's actual or potential need and repayment capacity as well as of the impact of the arrangement on Fund liquidity for access requests above 1000 percent of quota or SDR 10 billion, whichever is lower (FCL decision, paragraph 6(a)(iii))(details on the staff note are set out in Annex II). Following consultation with the Board at the informal meeting, if there are concerns about a market-sensitive leak/misinformation regarding the FCL request, a press release could be issued indicating the authorities' interest and management's intention to recommend Board approval of the FCL arrangement. The press release would take special care not to prejudge the Board's exercise of its responsibility to take the final decision on an FCL arrangement.

- ***Preparation of the staff report***. Details on the content of the staff report are set out in Annex II. A mission is not normally expected. However, in some cases, a mission may be deemed necessary (prior to the informal Board meeting) to further assess qualification or to finalize determination of access levels or to clarify the authorities' intentions regarding policy goals and strategies.

- ***The authorities' written communication*** requesting an FCL arrangement should describe macroeconomic conditions and the authorities' broad policy goals and strategies for the term of the arrangement, as well as the reasons inducing the member to request Fund assistance under the FCL (FCL decision, paragraph 6(a)(iv)). Members could add a reference to exit expectations in their written communication. The authorities' note should explain how they will remain committed to very strong economic policies (as expected under the FCL) and respond appropriately to any shocks that may arise. Cross referencing material published separately by the authorities would be appropriate (see, for example, the Mexican Authorities' Written Communication on pages 31 and 32 of the Staff Report). Note that this written communication is *not* a Letter of Intent for the purpose of monitoring policy commitments.

- ***Central bank safeguards***. A member requesting an FCL arrangement is not subject to the Fund's policy on safeguards assessments applicable to other arrangements. However, at the time of making a formal written request for an FCL arrangement, the member will provide authorization for Fund staff to have access to the most recently completed annual independent audit of its central bank's financial statements, whether or not the audit is published. This will include authorizing its central bank's external auditors to discuss the audit findings with Fund staff, including any written observations by the external auditors regarding the weaknesses observed in internal controls (FCL decision, paragraph 6(b)).[12] In addition, staff would duly raise and discuss the emergence of any significant safeguards issues arising from the latest published external audit report on the central banks' financial statements in the context of mid-term reviews (see further guidance below). Area department teams are encouraged to consult early on with FIN staff on safeguards requirements, including ahead of mid-term reviews.

- ***Circulation periods***. Normal circulation periods apply to the FCL. However, where needed—such as an urgent actual balance of payments need or risk of leaks that could be market destabilizing—FCL-specific expedited procedures can be followed (Annex III).[13]

- ***Formal Executive Board meeting***. The Board considers and approves an FCL arrangement based on the member's written request outlined above and the staff report. As for other Executive Board meetings on the Use of Fund Resources, staff will provide a Summing Up (for internal use) and a Chairman's Statement, which will be published subject to the member's consent.

- ***Activation of credit line***. The credit line is open on approval of the arrangement. Prior to approval of the FCL arrangement, FIN will need to receive authorization from the authorities to debit the member's SDR account for payment of the commitment fee, which is due upon approval of the FCL arrangement.

- ***Purchases***. Should the member decide to purchase under the FCL arrangement, FIN would need to receive official communication from the authorities requesting a purchase under the FCL arrangement, specifying the amount of the purchase and representing a balance of payments need—a standard requirement for any purchases under the IMF's General Resources Account. 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. The member should be encouraged to disclose information about any purchases under an FCL arrangement as information on purchases under Fund arrangements is routinely publicly displayed on the Fund's external webpage (on financial transactions with member countries). If the FCL arrangement was requested on a precautionary basis upon approval, Executive Directors would be normally

[12] FIN Operational Guidelines for Safeguards Assessments are being updated and will include a discussion on safeguards procedures applicable for FCL.

[13] Since the FCL Decision (see example Annex IV) provides for its own expedited procedures, the provisions of Emergency Financing Mechanism procedures do not apply to requests for an FCL arrangement.

informed of a member's request to draw under the FCL arrangement in the context of an informal Executive Board meeting soon after this has taken place. To this purpose, staff will be expected to prepare a concise note discussing the latest developments leading to the actual BoP need and corresponding purchase and the outlook ahead. An updated financing needs and sources table will be included in the note, presenting the BoP need projections by the team for the remainder of the arrangement period, as well as an updated capacity to repay table.

- ***Transparency***. The Managing Director will generally not recommend that the Executive Board approve a request to use Fund resources under the FCL unless the member consents to the publication of the associated staff report (GRA Lending Toolkit and Conditionality—Reform Proposals, III(B), paragraph 18). Thus, it is expected that the staff report, as well as the authorities' written communication requesting an FCL arrangement and outlining the member's policy goals, will be published shortly after the Board's approval of the arrangement. The Fund's corrections and deletions policy applies.

- ***Mid-term review***. For two-year FCL arrangements, a mid-term review after the first twelve months of the arrangement is required to assess whether the country still meets the qualification criteria for the FCL (FCL decision, paragraph 5(a)). The review should be scheduled with the objective of completion by the Executive Board immediately prior to the lapse of the one-year period or else the member could temporarily lose automatic access to Fund resources. Unless the authorities inform staff that they want the FCL arrangement to lapse at the one-year point, staff should prepare a concise staff report to inform the Board about recent developments, the expected evolution of risks over the remainder of the arrangement, policy initiatives, and a brief update assessing the country against the qualification criteria (see Annex II for a description of the likely content of the report). Moreover, whenever the latest published external audit report on the central banks' financial statements points to the newly emergence of significant safeguards issues, these would be duly raised and discussed by staff in the context of the mid-term review. To this effect, staff should consult with FIN promptly ahead of the mid-term review. Board approval of the review could be on a lapse of time basis. A mission will not normally be necessary to conduct a mid-term review, although the assessment of a member's continued qualification will benefit from the findings of recent routine staff visits or Article IV consultation missions.[14] If there have been very substantial changes in policy strategies or goals, then a new letter from the member setting out their new strategies and goals should also be attached and discussed in the report.[15] The staff report would be subject to standard review process (with no Policy Note or Policy Consultation Meeting required) and should be circulated according to the normal circulation procedures—unless there is a case for expedited procedures (Annex III).

- ***Expiration of FCL arrangements***. With the nearing of the expiration of an FCL arrangement, staff or management could issue a factual press statement at the member's request noting the successful conclusion of the FCL arrangement. This could highlight the member's recent performance and the supporting role played by the FCL 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—the press statement should be coordinated with EXR and SPR to ensure that the impact of such communication on all members under FCL arrangements is taken into account in the communications strategy. Although there will be incentives to bolster the impression that countries are choosing not to renew even though they qualify, it is important that press statements should not include any assessment of potential qualification for a successor FCL arrangement—a member's expression of interest in a successor FCL arrangement is subject to the same confidentiality 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 FCL Decision, paragraph 6(a).

[14] If a staff visit precedes the mid-term review, standard review procedures for the briefing paper apply (i.e., it should be circulated for comments to SPR, LEG, and FIN, and sent to Management for approval if there is a change in policy line or economic circumstances. If the area department and SPR agree there is no change, a one-page brief is adequate and should be circulated for information only.) According to the 2010 Decision on Consultation Cycles (Decision No. 14747-(10/96)) when an FCL arrangement is approved for a member, that member shall be automatically placed on a 12-month consultation cycle subject to the procedures specified in paragraph 3 of such decision.

[15] This is because the FCL decision (paragraph 6(a)(iv)(I)) requires a written communication from the member at the time of the initial request outlining its policy goals and strategies for "*at least* the duration of the arrangement." Thus, should the member's policy goals and strategies evolve during the arrangement, a new letter clarifying such new policies and strategies will be required to complete the mid-term review.

IV. Determining Qualification

4. Determining qualification is not a tick-the-box exercise against the criteria and indicators. Instead staff should make a judgment based on *all* of the following:

- An assessment of whether the member (a) has very strong economic fundamentals and institutional policy frameworks; (b) is implementing—and has a sustained track record of implementing—very strong policies; and (c) remains committed to maintaining such policies in the future, all of which give confidence that the member will respond appropriately to the balance of payments difficulties that it is encountering or could encounter (FCL decision, paragraph 2). This is the core of the qualification process.

- Staff should also make clear whether a very positive assessment of the members' policies was given in the context of the most recent Article IV consultations (FCL decision, paragraph 2).

- The relevant qualification criteria and indicators listed in Annex 1 should be assessed by staff in the initial short note to the Board and the staff report on the FCL arrangement request. Nevertheless, it is recognized that these qualification criteria and indicators will need to take into account the great variety of members' circumstances and the uncertainties surrounding economic projections. Strong performance against all relevant criteria would not be necessary to secure qualification under the FCL. 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 strong performers for whom the FCL is intended.

5. In circumstances where a member is assessed and judged not to qualify for the FCL, the Board would not be notified of such request. Thus, the only situation where the Board would be notified is when management decides that access under the FCL may be appropriate.

V. Justification of Access

6. General Fund policy provides for access decisions in individual country cases to be based on: (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 (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. *Determining Access on a Precautionary Basis (FCL and other Arrangements)* (Attachment) sets out a framework that should be used by teams to assess the appropriate level of access. This note also provides details on examples from recent FCL requests and other precautionary arrangements. Further examples and details on justifying access can be found in Annex II of GRA Lending Toolkit and Conditionality—Reform Proposals; SPR reviewers and the Emerging Markets Division can provide further guidance when needed.

ATTACHMENT I. DETERMINING ACCESS ON A PRECAUTIONARY BASIS

This note provides a framework for use by staff when considering access in a precautionary setting. 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 so far for Mexico, Poland, and Colombia.

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

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

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.

The construction of the ***adverse scenario*** should be informed by: (i) downside global assumptions in line with the latest WEO downside scenario (with a description of the potential shock and how likely it is); (ii) evidence from past or current crises; and (iii) 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 reserves cover (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. In determining the scale of access, teams also need to ensure that the balance of payments tables demonstrate the potential need. Table 1 in the annex provides an extensive guide to the shocks that could be used to construct this scenario and examples from previous reports are also provided (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).

Global assumptions. The adverse scenario should draw its global assumptions from the downside risks to the external environment as identified by the latest WEO, GFSR, and the Vulnerability Exercises for Emerging Market Economies (VEE) and Advanced Markets (VEA). Staff reports should indicate the scenario used (and the probability attached to the scenario). Where the WEO and GFSR are clearly out of date, staff should briefly justify the use of different global shocks.

- The WEO provides a useful reference for quantitative estimates of shocks to global growth and commodity prices, 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.

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 an 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 also the proposed approach in the Review of the Flexible Credit Line and Precautionary Credit Line, Box 4: A Possible Framework for Comparing Access Assumptions). Nevertheless, given the different and evolving nature of crises, country-specific tail risks might involve different shocks (in both size and nature) on the balance of payments than past crisis events and as such require a high degree of judgment.

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.

Additional Considerations and Reserves Adequacy. The determination of access could take into account further potential downside risks on the BoP beyond those considered under the adverse scenario raising access above the estimated financing gap projection—though this will need to be carefully justified. Examples include a further reduction in nonresident exposure to the country as well as the potential for resident foreign currency and deposit outflows in extreme circumstances (for example, the Mexico FCL arrangement considered the possibility of risks posed by the large nonresident exposures to domestic Mexican assets).

An assessment of *reserve adequacy* and how this would be affected if the adverse scenario materializes is also necessary (see also Assessing Reserve Adequacy). Staff should compare reserve levels across peer countries and 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 standard metrics such as reserves-to-short term debt at remaining maturity plus current account deficit, reserves to imports coverage, reserves to M2 ratio). In the FCL cases so far, staff compared different reserve ratios across countries, and referred to reserve adequacy after the shock when proposing access (in Mexico). In the case of El Salvador, potential financing needs were also based on an assessment of the impact of potential deposit outflows in advance of an election. 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).

For countries for which reserve levels are plentiful, and well above adequate, staff may want to consider the use of international reserves to cover part of the financing gap under the adverse scenario, implying lower access under the FCL arrangement. By contrast, where it is clear that reserve levels need to rise over the course of the FCL arrangement to maintain reserves adequacy, staff may want to build in an increase in reserve levels in the baseline projection which is maintained under the adverse scenario.

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).[16] 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.[17] Operationally, proposed access levels should be commensurate with the projected BoP need shown in staff reports.

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).

Finally, staff should check that the level of access is appropriate not just with respect to financing gap estimates, but 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).

[16] 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 V, Section 3 (b)).

[17] 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."

Table 1. Illustrative BoP Shocks in Adverse Scenarios

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

ATTACHMENT II. EXAMPLES OF RECENT COUNTRY CASES

Examples of recent precautionary arrangements and FCL requests which have included an assessment of financing needs are as follows:

- The 2009 precautionary SBA for El Salvador (300 percent of quota), where access was based on three metrics for international reserves covering (i) a potential withdrawal of 5 percent of total bank deposits—as observed in past electoral episodes in El Salvador and other dollarized economies—combined with a 50 percent rollover of short-term external credit; (ii) 10 percent of total bank deposits, in line with common central bank practice to have international reserves covering about 10–15 percent of total deposits as a liquidity buffer; and (iii) and the fact that access of this scale (together with an approved IADB credit line) would be sufficient to cover total bank capital.

- Mexico's FCL arrangement approved in 2009 (1000 percent of quota) was designed to insulate the economy against potential risks arising from ongoing global turbulence. The analysis of access looked at the possibility of a weaker capital account, including from a sharp reduction in the rollover rate on private sector debt (to levels similar to those observed during the 1994–95 crisis), lower net FDI, and some portfolio outflows, coupled with a larger current account deficit that could result in a shortfall in external financing of about US$25−30 billion in a downside scenario. It was also noted that non-residents direct exposure to Mexican assets was very large and could pose a risk. Access of 1,000 percent of quota would also bring Mexico's key reserve coverage ratios closer to the level of key emerging market peers.

- Poland's FCL arrangement approved in 2009 (1000 percent of quota) was intended to help maintain market access and safeguard against downside risks during the current period of high volatility and retrenchment in international capital markets. BoP risks justified the proposed level of access. Under staff's baseline projection, Poland had an external financing requirement of close to US$106 billion for 2009, which was expected to be fully covered with only a small drawdown in official reserves. Nevertheless, a decline in rollover rates and FDI inflows, a larger current account deficit, or larger capital outflows could lead to a potential financing gap of about SDR12 billion (around US$17.5 billion) under plausible but not extreme assumptions. While the level of access was high in terms of quota, relative to other indicators (such as GDP, reserves, exports) it was in line with other high access cases (see attached box extracted from the staff report).

- Colombia's FCL arrangement approved in 2009 was also tailored to mitigate BoP risks. Access of SDR 7.0 billion (900 percent of quota)—which the authorities intend to treat as precautionary—would support Colombia's policy framework and strategy,

> while reducing the likelihood of BoP pressures stemming from a change in investor sentiment. In the baseline, annual gross external financing needs for 2009 and 2010 are estimated in the order of US$20 billion, and would be fully financed. However, a more adverse external environment—with a further slowdown in commodity prices and FDI, and lower debt rollover rates—would give rise to net financing needs in the range of US$6–8 billion during 2009–10. The proposed access level is in line with other high-access cases, for example in terms of GDP or in relation to exports and imports (see attached box extracted from the staff report).

Further examples and details on justifying access can be found in Annex II of GRA Lending Toolkit and Conditionality—Reform Proposals, and SPR reviewers and the Emerging Markets Division can provide further guidance when needed.

Examples of Boxes Justifying Access Levels

Poland—Access Level

Under a plausible but not extreme adverse financing scenario, Poland's financing gap is estimated at SDR11.6 billion (around $17.5 billion, 847 percent of quota). The main assumptions underlying this scenario are as follows:

- A reduction in FDI of 15 percent with respect to the 2009 baseline and of about 45 percent with respect to 2008, driven mainly by banking investment;
- Equity portfolio outflows of around 10 percent of total nonresident portfolio holdings, after accounting for valuation effects;
- Implied rollover rates of around 80 percent of short-term debt at remaining maturity, which reflects shortening of maturities as well as potentially higher financing pressures on locally-owned banks and the corporate sector (Table 8);
- Other investment outflows—mostly from nonresident deposits—for $2.5 billion;
- Drawdown of private foreign assets—mainly by banks but also, to a lesser extent, by the corporate sector—for 10 percent of total liquid assets; no drawdown of official reserves from current level.

Even though these assumptions draw on staff projections, market analysts' views, and past as well as current crisis episodes, they are subject to a high degree of uncertainty. Nevertheless, they take account of both the worsening external environment and the very strong country-specific policies and fundamentals. The proposed access level of SDR13.69 billion allows for a further cushion of about SDR2 billion.

Economic concept-based metrics for Poland's potential access of SDR13.69 billion are in line with access under previous Fund arrangements.

Poland: Proposed Access, 2009

			High-Access Cases 1/				
	Proposed Arrangement	Mexico Arrangement	Proposed Arrangement (Percentile)	20th Percentile (Ratio)	80th Percentile (Ratio)	Average	Median
Access							
In millions of SDRs	13,690	31,528	82	1,579	13,291	8,339	6,901
Average annual access	1,000	1,000	97	142	508	322	248
Total access in percent of: 2/							
Actual quota	1,000	1,000	82	300	941	639	505
Calculated quota	662	672	66	273	918	600	545
Gross domestic product	5	6	46	2.9	8.8	8.3	5.6
Gross international reserves	35	49	24	28	88	82	50
Exports of goods and nonfactor service	11	19	24	10.8	39.0	30.4	20.7
Imports of goods and nonfactor service	11	17	22	10.9	44.3	29.9	19.8
Total debt stock							
Public	10	10	36	7	31	21	12
External	8	24	30	6	17	13	12
Short-term external 3/	21	77	26	20	77	97	32
M2	11	10	30	8	25	25	13

Source: Executive Board documents, MONA database, and Fund staff estimates.

1/ High access cases include available data at approval and on augmentation for all the requests to the Board since 1995 which involved the use of the exceptional circumstances clause or SRF resources. Exceptional access augmentations are counted as separate observations. For the purpose of measuring access as a ratio of different metrics, access includes augmentations and previously approved and drawn amounts. Includes Mexico's request for FCL in amount of 1000% of quota.

2/ The data used to calculate ratios is the actual value for the year prior to approval for public and short-term debt, and the projection at the time of program approval for the year in which the program was approved for all other variables

3/ Refers to residual maturity.

Colombia—Access Level

An adverse illustrative scenario prepared by staff suggests that an access level of 900 percent of quota would provide Colombia liquid assets that are broadly commensurate with the potential balance of payments gap. The scenario assumes concurrent shocks to the current and capital account of the balance of payments, consistent with a worsening in global financial conditions and lower global economic growth. These global shocks are assumed to lower commodity prices further, which remain a key source of vulnerability for Colombia's balance of payments (commodity exports accounted for about 50 percent of export revenues in 2008).

Under the staff's alternative scenario, Colombia could face an ex ante external financing gap of $5.8 billion (502 percent of quota) in 2009, and $8.2 billion (about 709 percent of quota) in 2010 (Table 3). The key underlying assumptions of the alternative scenario are as follows (compared to the baseline):

- A 20 percent decline in fuel prices and a 10 percent decline in nonfuel commodity prices during 2009–10.
- A further decline in FDI (15 percent in 2009 and 10 percent in 2010).
- Aggregate rollover rates of 85 percent in 2009, given secured financing by the public sector but accounting for higher pressures in the private sector, notably corporates; and lower rollover rates in 2010.

The adverse global conditions under this scenario do not include a drawdown of nonresident holdings of domestic financial assets (estimated at about $4 billion) nor do they trigger runs on bank deposits. The proposed access builds in some margin—relative to the weighted average of the possible gaps in 2009 and 2010—to guard against these and other additional potential risks.

Economic concept-based metrics for Colombia's proposed access level would be broadly in line with previous high-access cases.

Colombia: Proposed Access, 2009

				High-Access Cases 1/				
	Proposed Arrangement	Poland Arrangement	Mexico Arrangement	Proposed Arrangement (Percentile)	20th Percentile	80th Percentile	Average	Median
					(Ratio)			
Access								
In millions of SDRs	6,966	13,690	31,528	82	1,579	13,291	8,339	6,901
Average annual access	900	1,000	1,000	97	142	508	322	248
Total access in percent of: 2/								
Actual quota	900	1,000	1,000	82	300	941	639	505
Gross domestic product	5	5	6	46	3	9	8	6
Gross international reserves	44	35	49	24	28	88	82	50
Exports of goods and nonfactor service	33	11	19	24	11	39	30	21
Imports of goods and nonfactor service	29	11	17	22	11	44	30	20
Total debt stock								
Public	15	10	10	36	7	31	21	12
External	22	8	24	30	6	17	13	12
Short-term external 3/	84	21	77	26	20	77	97	32
M2	34	11	10	30	8	25	25	13

Source: Executive Board documents, MONA database, and Fund staff estimates.

1/ High access cases include available data at approval and on augmentation for all the requests to the Board since 1995 which involved the use of the exceptional circumstances clause or SRF resources. Exceptional access augmentations are counted as separate observations. For the purpose of measuring access as a ratio of different metrics, access includes augmentations and previously approved and drawn amounts.

2/ The data used to calculate ratios is the actual value for the year prior to approval for public and short-term debt, and M2, and the projection at the time of program approval for the year in which the program was approved for all other variables.

3/ Refers to residual maturity.

ANNEX I. QUALIFICATION CRITERIA

This annex provides the key considerations for assessing qualification for financing under the FCL, with a view to promoting predictable and evenhanded assessments. The qualification criteria for the FCL were designed using as a starting point those already established by the Executive Board for the Short-Term Liquidity Facility, as well as the qualification criteria discussed by the Board in the context of the Reserve Augmentation Line.[18]

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 markets and 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. 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.

Any assessment of qualification involves a degree of judgment. The assessment of the qualification criteria, noted below, will need to take into account the great variety of the member's circumstances and the uncertainties that attend economic projections. Strong performance against all relevant criteria noted below would not be necessary to secure qualification under the FCL. However, significant shortcomings on one or more of these criteria—unless there are compensating factors, including corrective policy measures underway—could generally signal that the member is not among the strong performers for whom the FCL is intended.

Qualification criteria

To qualify for the FCL, the member must have very strong economic fundamentals and institutional policy frameworks, a sustained track record of implementing very strong policies and of adjusting to shocks, and must remain committed to implementing very strong policies in the future (FCL decision, paragraph 2). Member's policies must have been assessed very positively by the Executive Board in the context of the most recent Article IV consultation (as well as recent Financial Sector Assessment Program assessments and, if relevant, ROSCs**)**. Staff would rely primarily on the following criteria and set of relevant indicators that evidence the strength of the member's underlying fundamentals and economic policies (Table 1). In-house vulnerability analyses (VEA/VEE/VE-LIC) could also provide a useful input into the process.

[18] See PIN/06/104, 9/13/06 and PIN/07/40, 3/23/07.

- *A sustainable external position*. Relevant indicators include: the debt-stabilizing noninterest current account balance; the level and composition of gross external debt; the level of net international reserves and the level and composition of private sector external assets; and assessments of exchange rate misalignment. The internal consistency between the member's currency regime and the fiscal-monetary policy mix will also need to be assessed.

- *A capital account position dominated by private flows*. Relevant indicators to assess that capital flows are originating mostly from the private sector (to both public and private sectors domestically) include an assessment of the International Investment Position and the composition of recent capital flows.

- *A track record of steady sovereign access to capital markets at favorable terms*. Relevant indicators include a comparison of spreads with comparator countries and relative performance of spreads during periods of global shocks.

- *When the arrangement is requested on a precautionary basis, a reserve position which—notwithstanding potential BoP pressures that justify Fund assistance—remains relatively comfortable*. Assessment of reserve levels would take into account a number of metrics (including the Fund's Assessing Reserve Adequacy (ARA) metric, as well as univariate metrics like imports, short-term debt, monetary base) as relevant given the member's specific vulnerabilities and exchange rate regime.[19]

- *Sound public finances, including a sustainable public debt position, determined by a rigorous and systematic debt sustainability analysis*. The analysis would cover the evolution of debt of the nonfinancial public sector, as well as rollover and financing requirements under alternative scenarios (including an assessment of contingent liabilities, where appropriate) and stress tests. Relevant indicators may 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.

[19] For members of a reserve currency area, standard reserves adequacy assessments could be usefully complemented by an analysis of the members' cash flow position in domestic currency and the available buffers to cover actual and/or potential private and fiscal balance of payments needs (including any bank restructuring costs expected to generate external financing needs). Availability of Central Banks swap lines, instead of reserves, might also be considered in assessing coverage against risks arising from currency mismatches and funding shortages in other reserves currencies.

- *Low and stable inflation, in the context of a sound monetary and exchange rate policy framework*. Relevant indicators would include the recent evolution of core and headline inflation and inflation expectations; past and announced policy responses to inflationary shocks; the adequacy of monetary policy instruments to conduct monetary policy; and accountability, transparency, and communication regarding policy objectives and policy responses.

- *Absence of bank solvency problems that pose an imminent threat of a systemic banking crisis*. A range of indicators and available information may be combined to assess this criterion, such as the evolution of deposits, measures of profitability, asset quality, and capital adequacy; and, where available, analyses of market, credit, and liquidity risks facing banks based on recent FSAPs or other sources.

- *Effective financial sector supervision*. Relevant modalities to establish observance with this criterion would be provided by an assessment of the supervisory framework and 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 based on recent FSAPs, MCM TA missions or other sources, as available.

- *Data transparency and integrity*. Subscription to the Special Data Dissemination Standard or a judgment that satisfactory progress is being made toward meeting its requirements will also be a relevant qualification criterion.

Table 2. Relevant Indicators for FCL Qualification Criteria

#	Criterion	Indicators
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 FCL requests)	Ratio of reserves to: 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 moentary 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	Absence of bank solvency problems that pose an immediate threat of a systemic banking crisis	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 judgement that satisfactory progress is being made toward meeting its requirements. Routine assessments (Article IVs) of data quality and integrity.

ANNEX II. STAFF DOCUMENTS FOR THE EXECUTIVE BOARD ON THE USE OF FCL RESOURCES

Concise Staff Note for Informal Board Meeting

The note should focus on qualification and access issues and include:

- ***Qualification***. An assessment of whether the member (a) has very strong economic fundamentals and institutional policy frameworks; (b) is implementing—and has a sustained track record of implementing—very strong policies; and (c) remains committed to maintaining such policies in the future, all of which give confidence that the member will respond appropriately to the balance of payments difficulties that it is encountering or could encounter. A statement on whether the most recent (2–3 years) Article IV consultations included very positive assessments of the member's policies. A preliminary assessment of the qualification criteria in Annex 1, including, where necessary, a reference to aspects of the criteria that require more information in order to be assessed fully.

- ***Access***. An indication of an appropriate access level based on a rigorous assessment of the member's actual or potential need and repayment capacity considering risks to the current and capital accounts. In particular, the assessment of a precautionary 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.). This note should also include an assessment of the impact of the arrangement on Fund liquidity in cases where requested access would exceed 1000 percent of quota or SDR 10 billion, whichever is lower.

- ***Tables***. Standard economic indicators and a balance of payments table (both with projections for the current year and following year), and a table on gross external financing requirements and sources of finance under the baseline case and an adverse scenario (if the arrangement is requested on a precautionary basis). A table comparing access metrics across various cases should also be included (compared with previous FCL and exceptional access cases). Provided the requested access amount has been finalized, a capacity to repay table would be also included.

Staff Report for the formal request for an FCL arrangement

The staff report should include:

- A discussion of recent macroeconomic developments and policies, the economic outlook, of 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).
- A discussion of potential (or actual) sources of BoP pressures and other risks, building on the assessment already included in the staff note.
- A detailed assessment of the qualification criteria (including the material from the concise staff note and any additional information).
- 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 and justification of the proposed access level. (See attached examples of recent staff report boxes).
- A discussion of the member's capacity to repay the Fund in the event that the member makes purchases under the FCL arrangement.
- ***Tables***. Selected economic indicators including projections for the current year and following year, a balance of payments table (ideally with projections for a five-year time span), tables on external financing requirements and sources and fiscal projections for the years of the arrangement, the debt sustainability tables (external and public), a table on capacity to repay the Fund, and a table illustrating alternative metrics for access.
- A draft proposed decision for approval of the FCL arrangement and the text of the FCL arrangement, both prepared by LEG.
- An assessment prepared by FIN on the impact of the proposed FCL arrangement on the Fund's finances and liquidity position, as a supplement to the staff report.[20]
- ***Authorities' written communication***. See attachment.

[20] An example of this supplement is *Mexico—Assessment of the Impact of the Proposed Flexible Credit Line Arrangement on the Fund's Finances and Liquidity Position* (IMF Country Report No. 09/126). FIN staff will contact the mission team concerning data requirements.

Staff report for the mid-term review

The Mid-Term Review Staff Report should be concise, containing the following sections:

- Recent economic developments (with a discussion about the role played by the FCL in dissipating tail risks as well as the expected evolution of risks—including on the basis of the latest WEO and GFSR—over the remainder of the arrangement period) and policies.

- Brief review of qualification criteria.

- Staff appraisal.

- A proposed decision to complete the review prepared by LEG.

- If there have been very substantial changes in policy strategies or goals, then a new letter from the member setting out their new strategies and goals should also be attached and discussed in the report.

- ***Tables***. Standard economic indicators for the current year and the following year, a balance of payments table (ideally with projections for a five-year time span), tables on external financing requirements and sources and fiscal projections for the current year and following year, debt sustainability tables (external and public), and a table on capacity to repay the Fund.

ANNEX III. EXPEDITED PROCEDURES

Although typical Fund arrangements, including those with Exceptional Access (EA), provide for expedited procedures with activation of the Emergency Financing Mechanism (EFM) if it is judged that following normal procedures could entail significant risk for the member, the EFM procedures do not apply to requests for FCL arrangements (FCL decision, paragraph 7). Instead, the FCL Decision itself sets out the expedited procedures to be followed, if necessary (FCL decision, paragraph 6(a)(v)). This would be clearly the case if a crisis were imminent or already underway, necessitating fast disbursement of Fund resources. However, it could also apply in cases where a crisis is not imminent (and the member does not intend to draw on approval) but where, against a backdrop of fragile financial conditions, there are serious concerns about possible leaks if the qualification process and determination of access is protracted, and the resulting uncertainty could send the opposite signals than what the FCL aims for. In such cases, a possible timetable could be as follows:

- Staff and management brief the Board on FCL qualification and proposed access level, on the basis of documentation prov`ided to the Board at least two hours prior to the informal Board meeting (analogous to EA guidance note, paragraph 13).

- Directors would be consulted during the informal Board meeting on possible issuance of a press release indicating the authorities' interest and management's intention to recommend Board approval of the FCL arrangement. The press release would take special care not to prejudge the Board's exercise of its responsibility to take the final decision on an FCL arrangement.[21]

- A formal Board meeting could consider the member's request within 48 to 72 hours following the circulation of the staff reports to the Board (paragraph 6(a)(v)).

[21] This would be parallel to the EA policy (guidance note, paragraph 15) which highlights that "public statements by members, staff, and management should take special care not to prejudge the Board's exercise of its responsibility to take the final decision. Management will consult with the Board specifically before concluding discussions on a program and before any public statement on a proposed level of access." It would also be in line with past practice, whereby statements by management followed ad referendum agreement with the authorities.

ANNEX IV. SYNCHRONIZED APPROVAL OF FLEXIBLE CREDIT LINES FOR MULTIPLE COUNTRIES[22]

This annex sketches the procedures under which synchronized approval of FCL arrangements for multiple member countries could be undertaken under the existing FCL Decision and other Fund policies. When multiple members face the same shock, synchronized approval of FCL arrangements could strengthen the effectiveness of the response to the common shock and minimize first-mover problems. This annex neither modifies existing Fund policies, nor establishes a new financing instrument.

Synchronized FCLs: When hit by a common shock, member countries may approach the Fund jointly to request Fund financial assistance. Most likely, however, potential interest by members would be conveyed bilaterally. In any case, and as required under the FCL Decision, each member's qualification for the FCL would be assessed individually, and only after the member has affirmatively expressed interest in the FCL. More generally, FCL arrangements requested or approved on a synchronized basis are not different from other FCL arrangements, and would be subject to all the requirements applicable under the FCL Decision and other Fund policies.

Confidentiality must be preserved in discussing with members potential use of, and qualification for, the FCL, as required in the FCL Decision (¶6). Only the Executive Board has the authority to determine qualification or to approve FCL arrangements, as recommended by management. With this in mind, in informal discussions with members, Fund staff and management would not confirm that any particular member would qualify for an FCL arrangement; neither would they reveal that any other member has expressed interest in the FCL, unless the member(s) that has already expressed interest has agreed that such information can be shared in the informal discussions with other members.

Synchronized FCL procedures: Should a number of members express interest in synchronized financial assistance from the Fund under FCL arrangements, and Fund management decides that access to Fund resources under the FCL by each member may be appropriate, the Executive Board will be promptly consulted in an informal meeting. Expedited approval procedures could be followed consistent with the FCL Decision.[23] This

[22] Based on Technical Note on Synchronized Approval of Flexible Credit Lines for Multiple Countries; IMF Policy Paper; November 12, 2010.

[23] The FCL Decision (¶6(a)(v)) states that the minimum periods applicable to the circulation of staff reports to the Executive Board shall apply to FCL arrangement requests, provided that the Executive Board will generally be prepared to consider a request within 48 to 72 hours after the circulation of the documentation in exceptional circumstances, such as an urgent actual balance of payments need.

synchronized consideration and approval of FCL arrangements would be governed by the same policies and requirements currently in place under the FCL Decision to approve an FCL arrangement for each member, and by the standard procedures and practices governing matters such as the issuance of Board documents and the conduct of Board meetings.

External communications: If there are concerns about a market-sensitive leak or misinformation about the FCL requests, management could issue a short press statement following the initial informal Board meeting indicating the concurrent request of FCL arrangements, provided the relevant members agree to it. The press statement will take special care not to prejudge the Board's exercise of its responsibility to take the final Decision on the FCL arrangements.

Access: As with other applicable FCL policies and requirements, the general Fund policies for duration and access under FCL arrangements will be followed when synchronized FCL approval procedures are used. Hence, proposed access levels would be based on a rigorous assessment of each member's actual or potential balance of payments need and capacity to repay, and would take into account the individual and cumulative impact of the access requests on Fund resources (¶6(a)(iii)(I) and (II) of the FCL Decision).

Safeguards: Depending on the individual and collective size of the relevant arrangements, concurrently approved FCL arrangements could have important implications for Fund resources and liquidity management. The recently strengthened procedural requirements for early Board involvement in assessing the contemplated access and the impact of such access on Fund liquidity, in the context of other potential demand for Fund resources, are useful safeguards in this respect. To ensure early Executive Board consideration of the liquidity implications arising from concurrently approved FCL arrangements, staff intends, as an added safeguard, to include a liquidity assessment in the staff note (or notes) for the initial informal Board meeting whenever total access across the proposed arrangements would exceed SDR 10 billion, even if no individual arrangement contemplates access above this threshold.