INTERNATIONAL MONETARY FUND

THE REVIEW OF THE FLEXIBLE CREDIT LINE, THE PRECATIONARY AND LIQUIDITY LINE, AND THE RAPID FINANCING INSTRUMENT — SUPPLEMENTARY INFORMATION

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I. CURRENT POLICIES ON THE FCL AND PLL

This review will focus on four policy areas under the FCL and the PLL: qualification and conditionality, access justification, exit, and relatedly the commitment fees. For background, this annex summarizes the current policies governing these areas.

- ***Qualification.*** FCL qualifiers must have **very strong** economic fundamentals and institutional policy frameworks and must have a sustained track record of implementing, and remain committed to implementing, very strong policies. PLL qualifiers face a somewhat lower standard—they should have **sound** fundamentals and policy frameworks, with a track record of, and continued commitment to, implementing such policies. In addition, staff must ensure that the assessment of the member's policies in the most recent Article IV consultations is very positive for an FCL qualifier, and generally positive for a PLL qualifier. In the FCL, there are nine qualification criteria, while strong performance against all relevant criteria would not be necessary to secure qualification. Both the FCL and the PLL require an assessment of qualification criteria in five areas—external position and market access; fiscal policy; monetary policy; financial sector soundness and supervision; and data adequacy, with PLL qualifiers expected to perform **strongly** in most of these areas (at least three out of the five) and not to substantially underperform in any of them.[1] Finally, a PLL arrangement shall not be approved if a member faces any of the following circumstances: sustained inability to access the international capital markets; need for large macroeconomic or structural policy adjustment (unless already set credibly in train before approval); unsustainable public debt in the medium term with a high probability; and widespread bank insolvencies. In both FCL and PLL arrangements, a member's qualification is assessed not only at the time of the request, but also at each review (except for the 6-month PLL arrangement, which does not have reviews) to ensure continued qualification. Furthermore, despite the difference in standards, qualification assessment for both the FCL and PLL should emphasize institutional strength, the track record and forward-looking policy commitment.
- ***Conditionality.*** As with other GRA arrangements, both the FCL and PLL have conditionality. However, reflecting the very strong economic fundamentals of qualifying countries, the conditionality of the FCL involves only ex ante conditionality (i.e., qualification at the request and each review). For the PLL, conditionality is both ex ante and ex post, with the latter aiming at addressing the remaining vulnerabilities identified during the qualification process. Given the strength of PLL qualifiers, the ex post conditionality is expected to be lighter than that normally used in SBAs.
- ***Access.*** Consistent with general Fund policy, access under the FCL and PLL should 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; (ii) the member's capacity to repay the Fund; and (iii) the amount of the member's outstanding Fund credit and its

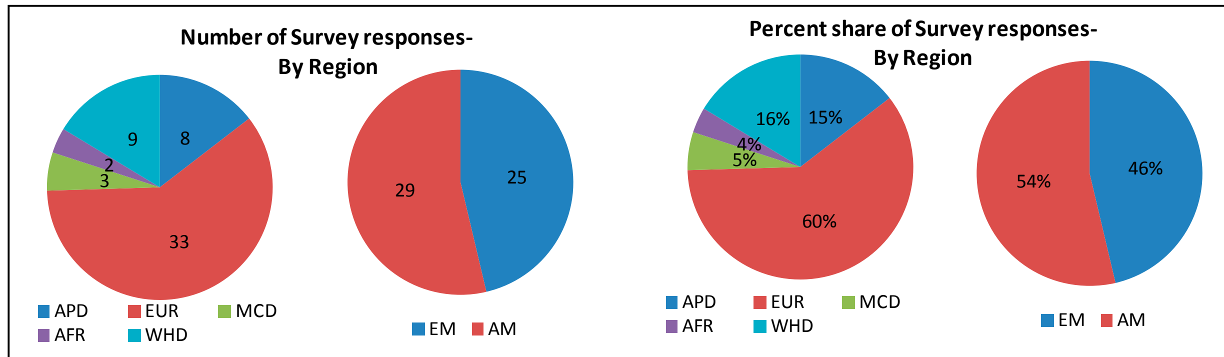
[1] The FCL has nine specific qualification criteria, which cover the same five areas as under the PLL qualification requirement. See "GRA Lending Toolkit and Conditionality—Reform Proposals."

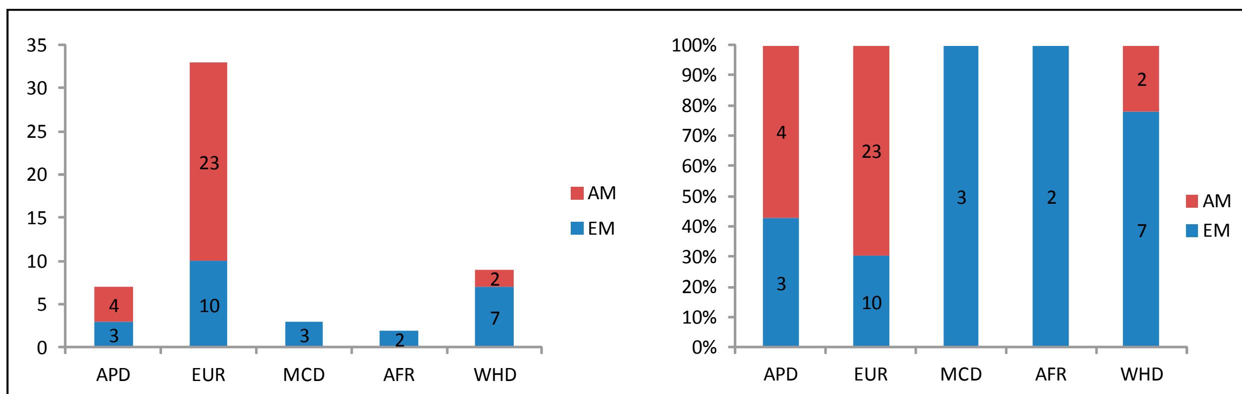
record in using Fund resources in the past. There is no access cap on FCL arrangements, but one-to-two year PLL arrangements have an access cap of 1000 percent of quota (500 percent in the first year), net of scheduled PLL repurchases. Six-month PLL arrangements have access capped at 250 percent (net of scheduled PLL repurchases), which can rise to 500 percent in exceptional circumstances.

- ***Exit.*** For both FCL and PLL arrangements, exit prospects would be expected to be included at the initial request to help promote transparency and underpin exit expectations. This would be complemented, to the extent possible, at each review by an updated assessment of the anticipated risk evolution over the rest of the arrangement period. As part of a member's exit strategy, successor arrangements normally would be expected to involve declining access if warranted by improvements in external financing prospects. 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 flexibility while avoiding any risk of adverse market reaction.
- ***Commitment fees.*** FCL and PLL arrangements are subject to the same policies on commitment fees as with other GRA arrangements. The marginal commitment fee is 15 basis points (bps) for annual access of up to 200 percent of quota, 30 bps for access between 200 and 1000 percent of quota, and 60 bps for access above 1000 percent of quota. The last level does not apply to PLL arrangements in view of the overall cumulative PLL access limit of 1000 percent of quota.

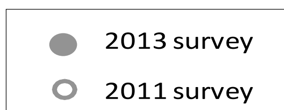
II. SURVEY RESULTS

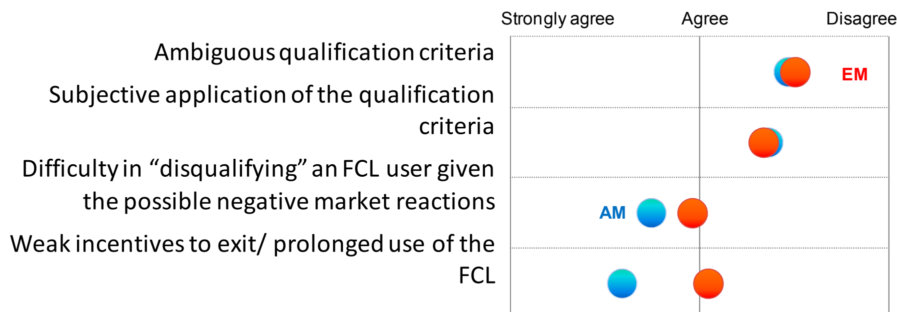
A. Overall Summary

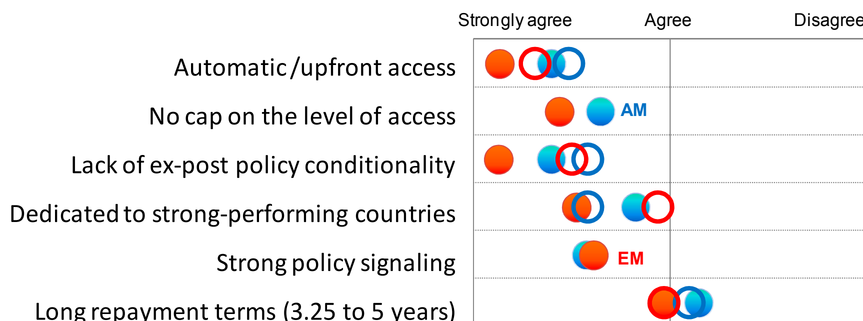


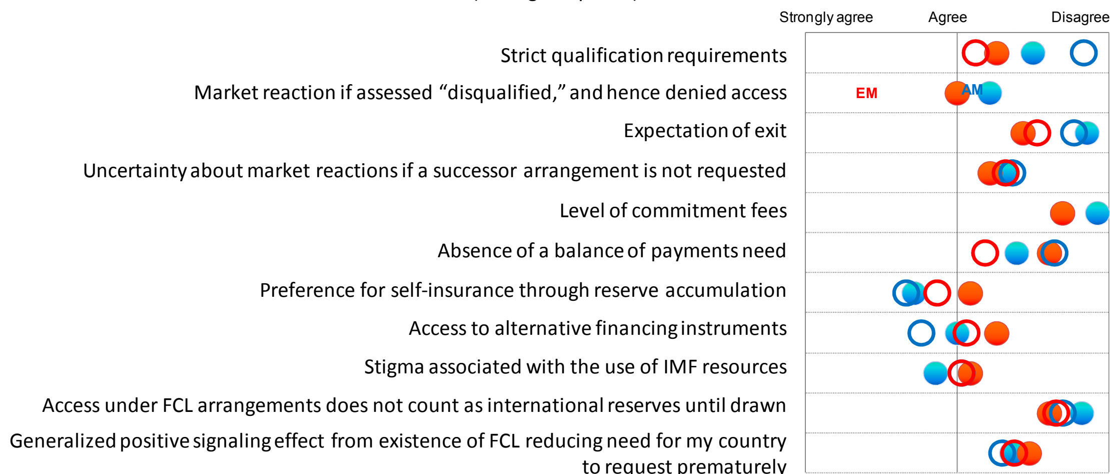


B. Flexible Credit Line (FCL)

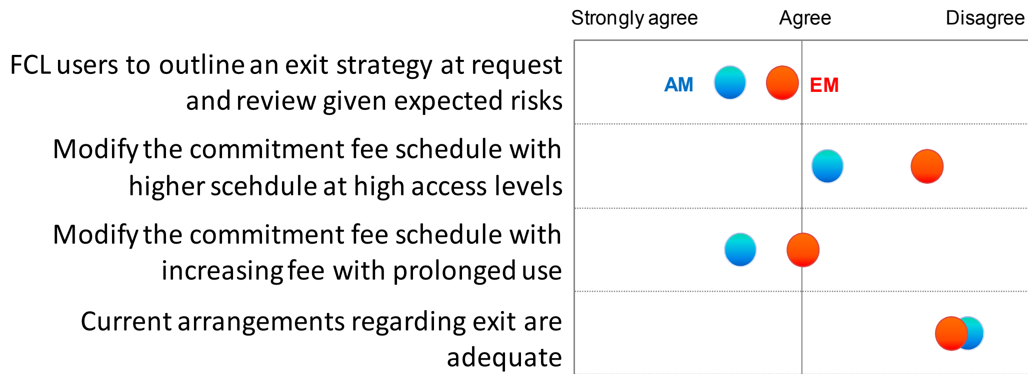




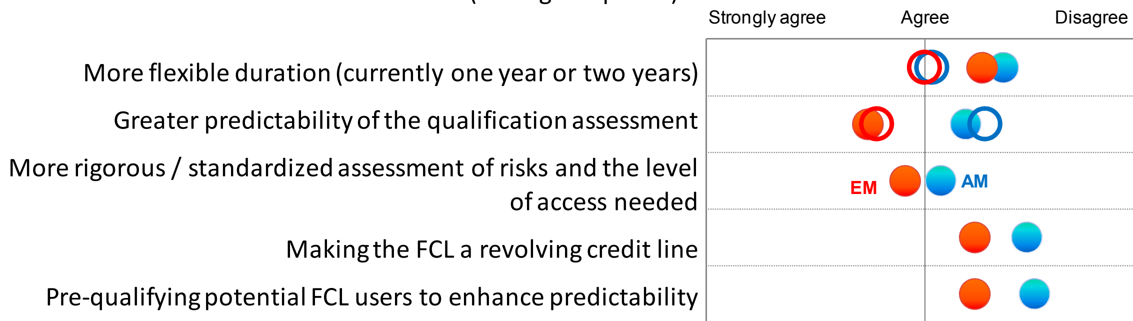




The best way to support timely exit of the FCL
(average response)



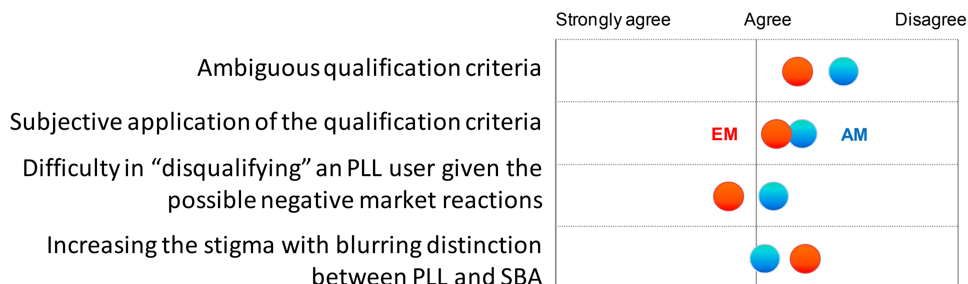
The key changes needed to improve effectiveness of the FCL
(average response)



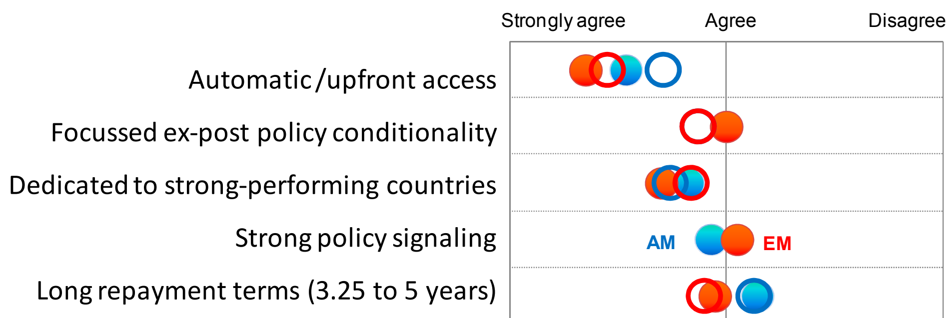
Sources: Fund survey of country authorities on the FCL and the PCL; and staff calculations.

C. Precautionary and Liquidity Line (PLL)

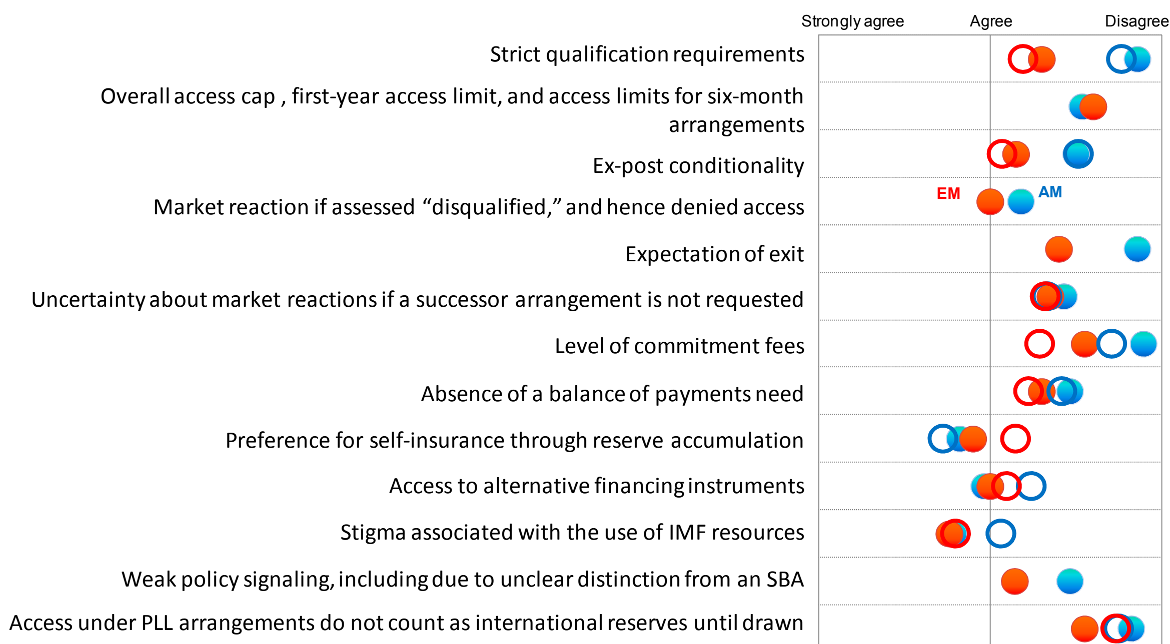
The main issues facing the PLL



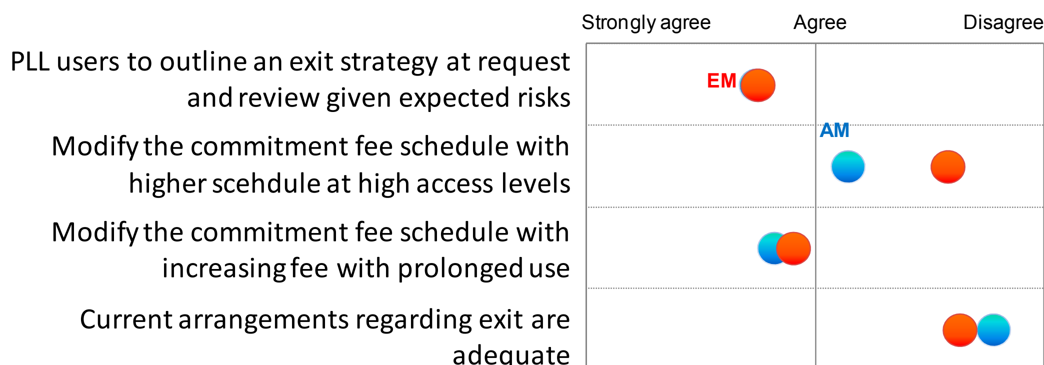
The key factors making the PLL attractive
(average response)

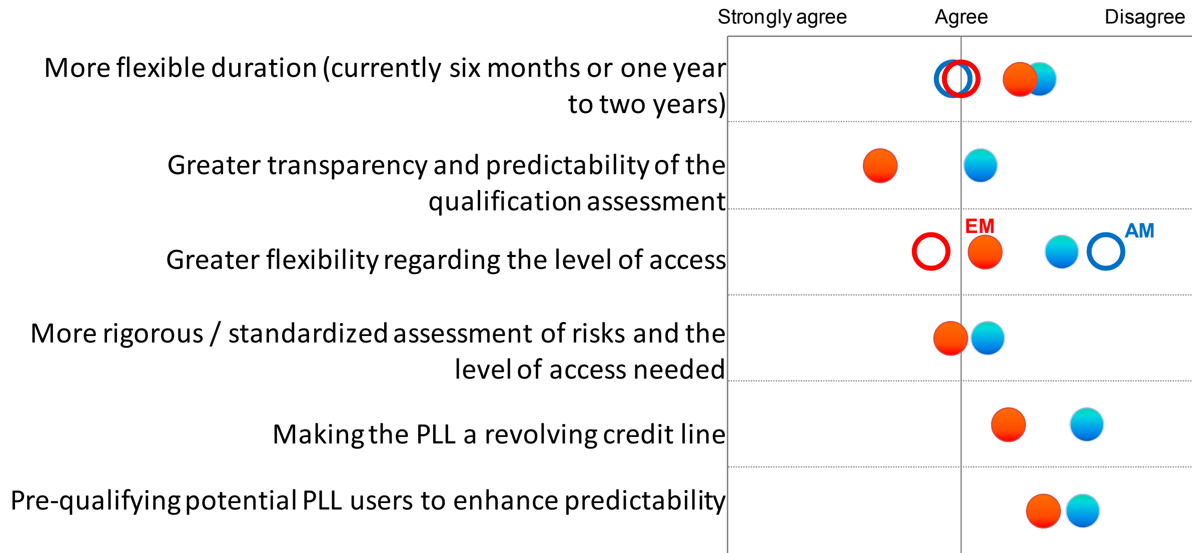


The key factors inhibiting PLL usage
(average response)



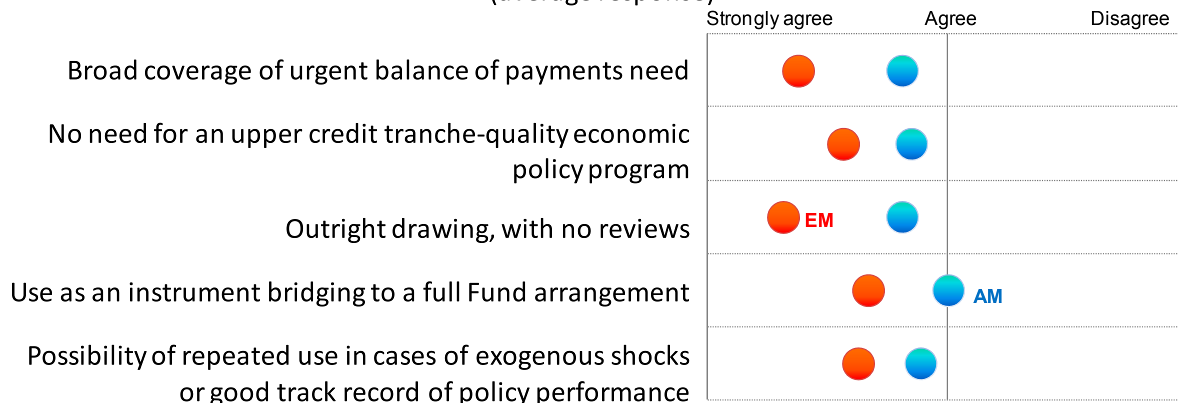
The best way to support timely exit of the PLL
(average response)

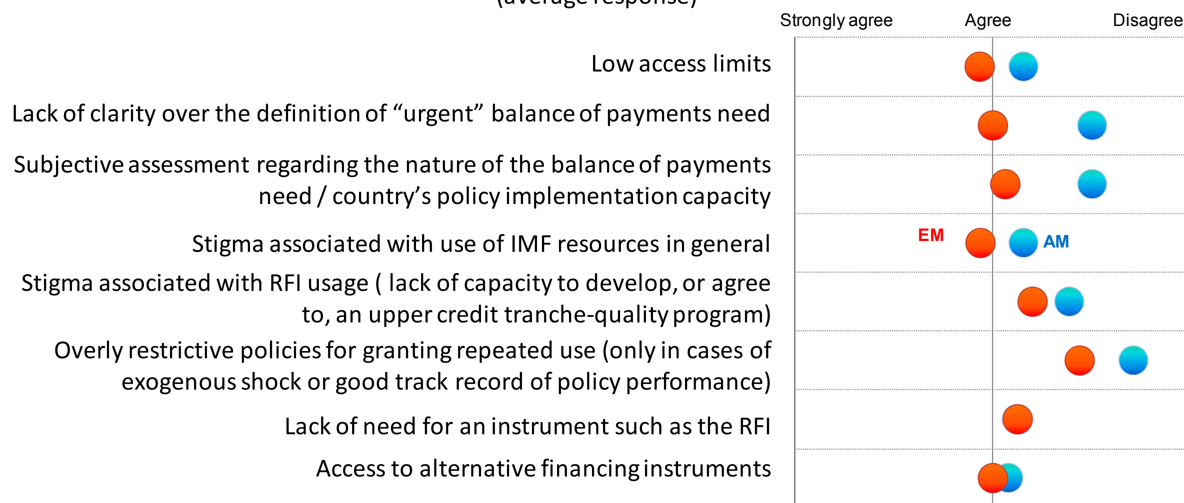


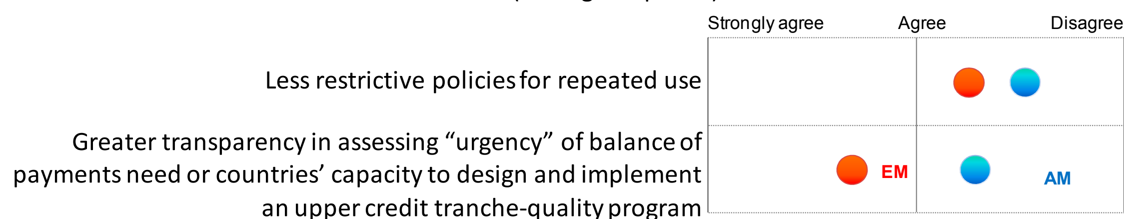


Sources: Fund survey of country authorities on the FCL and the PCL; and staff calculations.

D. Rapid Financing Instrument (RFI)







Sources: Fund survey of country authorities on the FCL and the PCL; and staff calculations

III. CASE STUDIES

A. Colombia and the Flexible Credit Line

Main Messages. *Since the creation of the Flexible Credit Line (FCL), four arrangements have been approved for Colombia. Qualification followed from Colombia's very strong rules-based policy framework with sustained track record of policy implementation, firm commitment to maintaining prudent policies, solid institutions, and very strong economic fundamentals. With a large share of commodity exports in external trade and relatively thin financial markets, adverse risk scenarios saw the major part of potential financing requirements arising from current, as opposed to financial, account shocks.*

Contentious Issues. *Board discussion on the request for the fourth arrangement proved contentious on the issues of exit, the level of access, and duration. Despite some intensification of global risks since the approval of the last FCL arrangement, a few Executive Directors raised concerns about possibly prolonged use of Fund resources under FCL arrangements. Along the same lines, the proposed access level equal to the previous FCL arrangement and the need for another two-year arrangement was also questioned.*

Context. Following comprehensive reforms in the 2000s, Colombia had very strong fundamentals and institutional policy frameworks at the time of its requests for FCL arrangements. These included a flexible exchange rate, a credible inflation targeting regime, strong commitment to a medium-term fiscal framework, and strengthened financial supervision. This setting contributed to strong economic performance prior to the recent crisis, including solid real GDP growth (approximately 5½ percent on average in 2004–08), single-digit inflation, low public debt (31 percent of GDP in 2008), and a sound financial system (average capital adequacy ratio of about 15 percent). However, the economic slowdown in Colombia following the Lehman bankruptcy was sharper than envisaged, with external conditions deteriorating in the form of higher sovereign spreads, weaker exports and worker remittances, and a sharply depreciating exchange rate. As the near-term outlook was cut sharply to zero growth in 2009 and the possibility of a further deterioration in the external environment was a concern, the authorities requested an FCL arrangement in April 2009 to provide insurance against downside risks. When the authorities requested the second arrangement in April 2010, the economy had already started to recover, in part owing to timely countercyclical macroeconomic policies and the robustness of the financial system, and the near-term outlook had been generally positive. However, the authorities still saw that significant downside risk remained, which continued to pose risks to Colombia's economy and external positions in spite of its very strong fundamentals. Staff concurred with this assessment and this view was maintained at the time of the approval of the third arrangement in May 2011 and the fourth arrangement in June 2013.

Role of the FCL. Notwithstanding its very strong fundamentals, a protracted global crisis was seen as posing risks to Colombia's growth outlook and its balance of payments. Colombia is vulnerable to

commodity price shocks, which could adversely affect both the current account and commodity-related FDI flows. As part of their policy response, the authorities requested FCL arrangements to seek supplementary insurance against these risks. Other elements of the policy response included exchange rate flexibility and countercyclical macroeconomic policies. Staff agreed that the FCL would provide useful insurance against the materialization of risks to the global outlook, creating space to implement countercyclical policies without undermining market confidence and ensuring Colombia's continued access to international capital markets on favorable terms.

Access. The access level under each arrangement was determined by developing plausible adverse scenarios consisting of concurrent shocks to the current and capital accounts and estimating the resulting financing gaps. The scenario for the second arrangement was less severe than the one for the first arrangement in view of the more benign overall economic situation at that time. The scenarios for the second, third, and fourth arrangements were broadly the same. The larger access under the third and fourth arrangements is due to a larger size of Colombia's economy and exports, and a larger share of the volatile commodity sector in the economy, which translated into a larger potential balance of payments need.

- *First arrangement* (900 percent of quota, SDR 6.966 billion, for one year): Shocks were applied to oil prices, non-oil commodity prices, FDI flows, and rollover rates for public and private debt, to the baseline that had incorporated the shocks materialized after the Lehman bankruptcy. The access was presented as being in line with other high-access cases, including FCL arrangements for Mexico and Poland and, combined with reserves, providing adequate cover against these shocks.
- *Second arrangement* (300 percent of quota, SDR 2.322 billion, for one year): The authorities requested a lower access than under the first arrangement, arguing that the probability of a negative event had become lower and Colombia's reserve positions had become more comfortable following the SDR allocation. The adverse scenario included milder shocks to the same items as under the one for the first arrangement. While some Executive Directors argued that a lower access should be regarded as a step toward an eventual exit from the FCL, staff and the authorities maintained that the lower access was merely a reflection of the perceived risks.
- *Third arrangement* (500 percent of quota, SDR 3.870 billion, for two years): While the external conditions had improved, the authorities requested a successor FCL arrangement in view of the tail risks that remained elevated. They requested a higher access than under the second arrangement, arguing that a similar set of shocks would create a larger impact. This was evident from Fund staff's adverse scenario, which showed a larger gap resulting from broadly the same shocks, and so higher access would be necessary to provide the same level of protection. This resulted from the baseline scenario assuming larger commodity-related exports and investment inflows than before. Although a shock to worker remittances was added, its impact was small (US$275 million on average out of the total estimated shortfall of US$7.6 billion).

- *Fourth arrangement* (500 percent of quota, SDR 3.870 billion, for two years): The authorities requested a successor FCL arrangement with the same access level from the third arrangement. They were of the view that external downside risks still persisted despite somewhat improved prospects in advanced economies, and that the uncertainty associated with tapering of the monetary stimulus of the United States was a significant additional concern. The same adverse scenario used for the third arrangement resulted in a financing gap exceeding the requested 500 percent of quota. This reflects the authorities' commitment to rely less on contingent financing from the Fund, especially if risks to global outlook recede. In addition, they stand ready to review the access level during the first review in 2014 should domestic and external conditions improve.

Colombia: Main Assumptions Underlying FCL Access Calculation

(Changes relative to baseline projections)

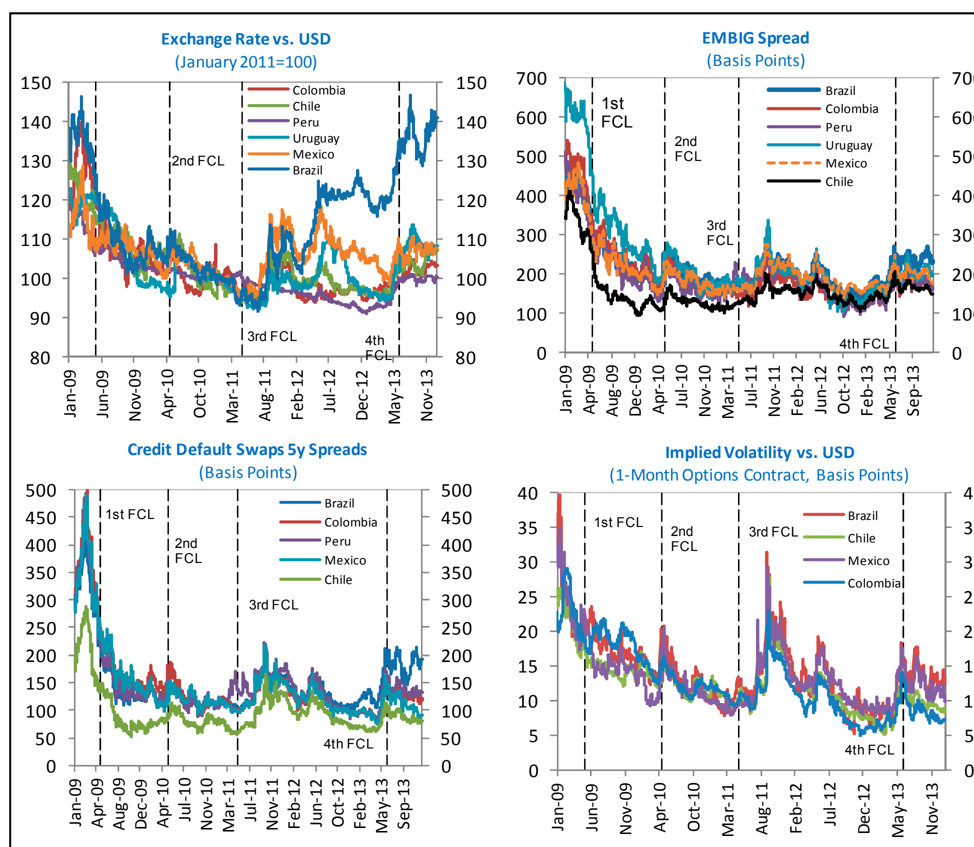
	1st FCL (May 2009) (SDR 6.966 bn.; 900 percent)	2nd FCL (May 2010) (SDR 2.322 bn.; 300 percent)	3rd FCL (May 2011) (SDR 3.870 bn.; 500 percent)	4th FCL (June 2013) (SDR 3.870 bn.; 500 percent)
Fuel prices	20% lower	15% lower	15% lower	15% lower
Non-fuel commodity prices	10% lower	7.5% lower	7.5% lower	7.5% lower
Foreign direct investment	15% lower in 2009; 10% lower in 2010	10% lower	10% lower	10% lower
Rollover rates	15 p.p. lower in 2009 further lower in 2010	10-15 p.p. lower	10-15 p.p. lower	10-15 p.p. lower
Worker remittances	n.a.	n.a.	7.5% lower	7.5% lower
Cushion built in access	SDR 1.5 bn.	SDR 0.14 bn.	SDR 0.40 bn. (2011); SDR 0.22 bn. (2012)	SDR -0.01 bn. (2013); SDR -1.37 bn. (2014)
Reserve accumulation	100% of baseline in 2009 0% of baseline in 2010	0% of baseline	0% of baseline	0% of baseline

Access and reserves. The authorities indicated that it would have been impossible, and in any event undesirable, to build up quickly the level of reserves equivalent to the access under the first FCL arrangement—in other words, pursuing the self-insurance route—without compromising its macroeconomic policy framework, implying the FCL was seen as a substitute of sorts for higher reserves. At the same time, they also argued that access under the FCL was only an *imperfect substitute* for reserves as the FCL was a contingent instrument available only in the presence of a balance of payments need and, in line with Board decisions (BUFF/10/125), with access expected to decline as the macroeconomic situation normalizes with improving financing conditions resulting in a lower potential balance of payments need. In fact, the authorities have since March 2010 started accumulating reserves under a rules-based foreign exchange intervention and, when the fourth arrangement was requested, reserves had amounted to nearly 7 months of imports and about 120 percent of the sum of external debt falling due and the current account deficit projected for 2013, although still below 2008 levels.

Qualification. The staff reports highlighted that Colombia has very strong economic fundamentals and institutional framework and a sustained track record of implementing sound policies. Regarding the institutional framework, the reports referred to the rules-based medium-term fiscal framework, the inflation targeting and flexible exchange rate regimes, and the robust framework for financial regulation and supervision. Staff reported quantitative indicators more intensively than qualitative

assessments, including external debt, current account balance, FDI inflows, fiscal balance, and public debt in percent of GDP, as well as reserve numbers and capital adequacy, nonperforming loans, and provisioning ratios. Forward-looking assessment of policies and developments was made in the context of debt sustainability analyses and in the discussion of the reform of the fiscal framework. The financial sector policies were also discussed in the context of the FSAP and the assessment was reflected in the 2012 Article IV Consultation.

Impact of the FCL. The authorities and staff argued that the FCL arrangements contributed to stabilizing the expectations and created space for the authorities to conduct countercyclical policies. In the review of the first arrangement, staff reported that Colombia's bond spreads had been declining consistently faster than its Latin American peers. Staff also argued that market participants had repeatedly cited the strong supportive role that the FCL arrangements played in reducing perceptions of tail risks in Colombia. The announcement of subsequent arrangements had less discernible positive impact on market indicators. For its part, Colombia's central bank carried out an analysis about the macroeconomic impact of the FCL arrangements, which shows that the first arrangement helped reduce bond spreads and increase consumer confidence, which led to higher GDP growth and lower inflation.[2]



[2] "*Impacto Macroeconómico de la Línea de Crédito Flexible con el Fondo Monetario Internacional,*" Banco de la República, March 11, 2011.

B. FYR Macedonia and the Precautionary and Liquidity Line

Main Messages*. The Former Yugoslav Republic of Macedonia is the first country to have an arrangement under the Precautionary and Liquidity Line (PLL) (originally the Precautionary Credit Line, or PCL, at the time of the request in January 2011). Qualification was based on strong performance in the fiscal, monetary and financial sectors as well as overall sound institutional frameworks, with moderate vulnerabilities remaining in the external sector and data quality. Citing a loss of market access around the time of parliamentary elections and its shallow domestic debt market, Macedonia made a purchase in March 2011. The first review was completed with a minor delay, but the authorities decided not to request the completion of the second review, letting the arrangement expire in January 2013. The incompletion of the second review was related to the deterioration in public financial management, including the arising of government payment arrears, as well as the fact the authorities had secured market financing and would not need to draw on the PLL resources.*

Contentious Issues*. Controversies arose surrounding Macedonia's qualification for the PCL/PLL and the purchase not long after the approval. On qualification, Directors were concerned about the health of the banking system (where the two largest banks are Greek), the adequacy of international reserves, and Macedonia's ability to access the sovereign debt market. On the purchase under the PCL, there were questions on whether the balance of payments need was actual, and concerns that the purchase could be driven by the Fund's below-market lending rate for GRA, including under PCL/PLL arrangements.*

Context. Macedonia weathered the 2008-09 global crisis relatively well, with only a modest recession in 2009 and a rapid recovery of international reserves from their low point in Spring 2009. Since 2010, the macroeconomic outlook has improved, with a gradual recovery, a rapid narrowing of the current account deficit, a moderate fiscal deficit, a sound banking sector, and broadly adequate international reserves coverage. However, as the financial turbulence in the euro area intensified through 2010, potential spillover risks became a major concern, especially given Macedonia's large financial and trade linkages with Greece. Against this backdrop, the Macedonian authorities expressed interest in the PCL immediately after it was established in August 2010, and made a formal request in December 2010. An arrangement was approved on January 19, 2011.

Role of the PCL/PLL. The PCL arrangement was taken to provide insurance against Macedonia's external risks and to boost market confidence. In light of the significant external risks, the resources available under the arrangement would help ensure that Macedonia could better weather an adverse shock. Moreover, having a PCL arrangement in place would send a positive signal that policies were sound and that the authorities had adequate resources to draw upon if needed, which could strengthen investor confidence.

Duration and Access. The Macedonian authorities requested a two-year arrangement with access of 500 percent of quota (SDR 344.5 million) in the first year and an additional 100 percent of quota (SDR 68.9 million) in the second year. A two-year arrangement was considered appropriate in light of the perceived persistence of external risks and the stronger signal that a longer insurance would send. In addition, a two-year arrangement would bridge parliamentary elections originally scheduled for mid-2012 (later brought forward to June 2011; see below). The access level was justified under a reasonable stress scenario, which assumed lower EU growth in 2011-12 than in the Fall 2010 WEO baseline, an outflow of bank deposits in 2011 and only a partial return in 2012, loss of access to sovereign debt markets in 2011-12, and that international reserves cannot be drawn down to below 85 percent of short-term external debt (at residual maturity). Macedonia was assessed to meet the four exceptional access criteria, which apply, where relevant, to PCL/PLL arrangements.

Macedonia: Main Assumptions Underlying PCL Access Calculation
(Changes relative to baseline projections)

	2011	2012
Access level	SDR 344.5 million; 500 percent of quota	SDR 68.9 million; 100 percent of quota
Trade deficit 1/	higher by 1.7% of GDP	higher by 0.6% of GDP
Current transfers 1/	lower by 1.3% of GDP	lower by 0.4% of GDP
FDI inflows 1/	lower by 1.3% of GDP	lower by 0.3% of GDP
Portfolio inflows 2/	lower by €190 million	lower by €155 million
Bank deposits	Outflow of 5%	half of the bank deposit outflows in 2011 would resturn
Minimun gross reserve	85% of ST debt at residual maturity	85% of ST debt at residual maturity

Source: IMF staff estimates.
1/ Assumes a 0.7% growth for the EU in 2011 and a 1.2% growth for the EU in 2012. Lower growth in the EU would affect the trade balance, transfers, and FDI.
2/ These are equivalent to no sovereign debt market access in 2011-12.

Qualification. Macedonia was assessed to have a sound policy track record: it had successfully completed several Fund arrangements and repurchased early, and the Executive Board had a generally positive assessment of Macedonia's policies in the context of the 2009 Article IV consultation. Macedonia was considered to perform strongly in three of the five qualification areas. In short, it was seen as having: (i) a sustainable public debt position, with moderate fiscal deficits; (ii) low inflation within a sound monetary and exchange rate framework; (iii) sound financial sector balance sheets, with adequate supervision and regulation. Nonetheless, moderate vulnerabilities remained in the other two qualification areas: (i) external vulnerabilities arising from the current account deficit, the significant market share of Greek banks, and the overall exposure to developments in Europe; and (ii) shortcomings in data transparency and availability, including not subscribing to Special Data Dissemination Standard (SDDS), although data were adequate for surveillance and program monitoring purposes. Finally, at the time of approval Macedonia was not seen as having an actual balance of payments need (a requirement under the PCL, but it was no longer required under the PLL) and did not face any of the circumstances under which the Fund may

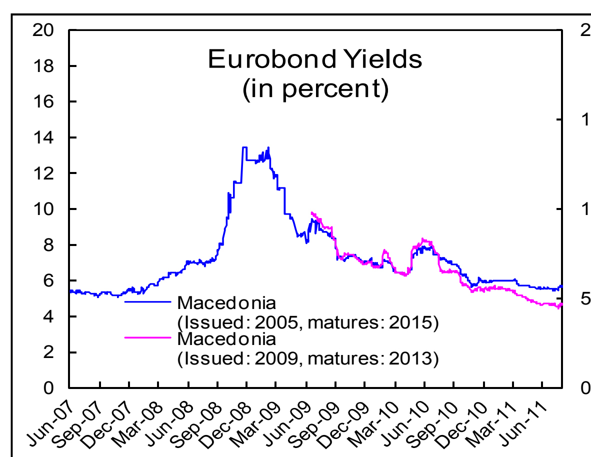
not approve a PCL/PLL arrangement.[3] This assessment was confirmed by findings from the 2010 Article IV Consultation mission. Upon Board approval of Macedonia's request for a PCL arrangement, there was a broad agreement that Macedonia qualified for the PCL.

In general, the qualification assessment relied more on quantitative indicators than on qualitative ones, possibly due to the difficulty in evaluating Macedonia's institutional framework, including the robustness of its fiscal financing framework (see more discussions below).

Ex post conditionality. The authorities' economic program focused on buttressing external and fiscal sustainability, mainly to limit external financing needs in an unfavorable external environment, and undertaking policy adjustments as needed in response to adverse developments. In particular, the arrangement included indicative targets on the fiscal deficit and on net international reserves. The authorities also committed, in their written communication requesting a PCL arrangement, to improve data quality and to subscribe to SDDS, to strengthen the financial sector regulatory framework, and to undertake other structural reforms to boost long-term growth potential..

Upon Board approval of the PCL arrangement, some Directors raised concerns over the robustness of Macedonia's fiscal financing plan for 2011. They queried the inclusion of measures for the development of a domestic debt market in the ex post conditionality, as they saw risks in mostly relying on Eurobond issuances for budget financing. Staff argued that developing a domestic debt market would be a long-term project and no single quick fix existed. In the first review, however, the ex post conditionality was revised and strengthened, with a structural benchmark on improving debt management added, following the purchase under the PCL in March 2011 (see below).

Purchase. On March 30, 2011, the Macedonian authorities purchased SDR 197 million (approximately €220 million, 286 percent of quota) under the PCL to meet the materialized external and fiscal financing need, citing reduced market access and higher risks resulting from the announcement of early elections (originally scheduled in mid-2012). The authorities argued that meetings with external banks had led them to conclude that, due largely to the impending elections, they faced impaired access to external markets. The authorities had also explored tapping domestic markets but these were seen as too thin and skewed to shorter duration.



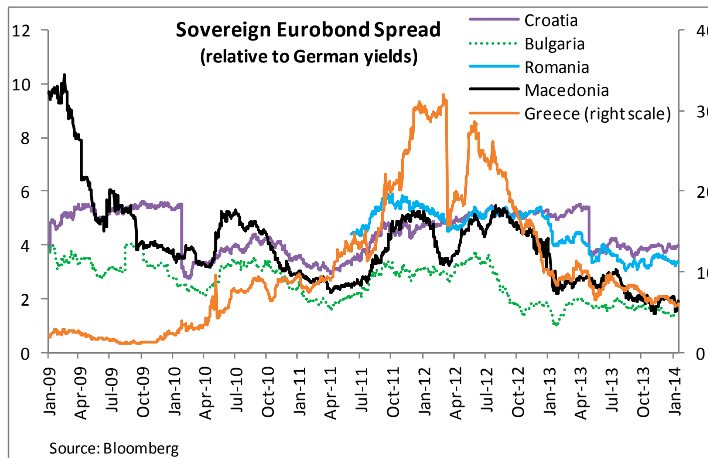
[3] These circumstances include: (i) sustained inability to access international capital markets; (ii) the need to undertake a large macroeconomic or structural policy adjustment; (iii) a public debt position that is not sustainable in the medium term with a high probability; or (iv) widespread bank insolvencies.

First review. The completion of the first review was delayed after the lapse of six months from approval, due to the timing of the early elections and the time needed to form the new government. Macedonia's performance was assessed to be broadly consistent with the program supported by the PCL arrangement. Nonetheless, staff noted that the authorities' decision to draw under the PCL illustrates the remaining vulnerability in external access, which is subject to both domestic and external risks. This vulnerability would be addressed through strengthened ex post conditionality, including by improving debt management (structural benchmark) and setting a higher target for international reserves. Directors supported completing the review and welcomed the structural benchmark on improving debt management, but raised questions on Macedonia's decision to purchase. A few Directors questioned the existence of an actual balance of payments need, and were concerned that the decision to draw could have been driven by lower costs of Fund financing.

Second review and the expiration of the arrangement. Macedonia did not complete the second review under the PLL arrangement. Discussions on the review lasted from December 2011 to April 2012, focusing on two main issues: (i) public financial management (PFM), including government payment arrears; and (ii) the government's fiscal financing plan for 2012. Regarding PFM issues, in addition to limited external arrears (which were fully repaid in January 2012), staff found credible evidence of domestic arrears and underlying problems in Macedonia's institutional budgetary framework. These were significant issues because domestic government arrears are included in the definition of the fiscal deficit under the PLL arrangement, which is an indicative target, while the arrears raised questions about the quality of budget institutions, which is part of the fiscal qualification criteria under the PLL. To address these issues, the authorities invited an FAD mission, which identified weaknesses in the budgeting system, including to monitor commitments made by line ministries. The authorities agreed to implement remedial measures but they fell short of what staff believed was necessary. The amount of outstanding arrears also remained unclear.

In early April 2012, the authorities informed the staff that they had reached an agreement on a five-year foreign bank loan of €250 million on favorable terms, which would cover their financing needs well into 2013. Based on this external loan and favorable trends in FX reserves, the authorities decided not to pursue completion of the second review. The authorities had also considered the option of canceling the PLL arrangement, which could have sent a signal that they were well prepared to respond to contingencies without Fund support. However, in light of continued external risks, the authorities decided not to cancel the arrangement but rather to let it expire in January 2013. They believed that the continued potential availability of Fund resources could help to maintain confidence in a downside scenario. Directors were informed of these developments in June 2012 at the stand-alone Board discussion on the 2012 Article IV Consultation.

Impact of the PCL/PLL. Despite the financial turbulence in Greece, the PCL/PLL arrangement helped to boost market confidence in Macedonia. The secondary market yield of Macedonia's 2015 Eurobond over that of German Bunds was narrowing since late 2010, similar to the trend in other non-euro area countries in the region. The spread of the Eurobond generally continued the trend similar to its peers during the period of the arrangement.



C. Mexico and the Flexible Credit Line

Main Messages. *Mexico was the first member to have accessed Fund resources under an FCL arrangement and now has the largest Fund arrangement. Its four FCL arrangements provided an important source of insurance during the turbulent period that followed the global financial crisis, supplementing reserves seen as sufficient during normal times. Qualification was based on the central bank's successful track record as an inflation targeter, the rules-based fiscal framework, sustainable debt, structural reforms, as well as a sound set of macroeconomic indicators. In terms of access, the risks against which the authorities sought coverage varied over time.*

Contentious Issues. *With Mexico's third and fourth FCL arrangements representing the single largest commitment of Fund resources in nominal SDR terms, the impact of access on the Fund's liquidity position and exit triggers were highly contentious issues. Board discussions especially centered on the assumptions underlying the adverse scenarios, multiple requests, and incentives for exit. Mexico's performance relative to peers, the implications for the effectiveness of the FCL, and how the arrangement tied in with the authorities' reserve accumulation strategy, were other controversial topics.*

Context. Mexico requested an FCL arrangement in April 2009 against the backdrop of the post-Lehman global financial shock and a rapidly-deteriorating near-team outlook. The peso was depreciating quickly, spreads were rising both for corporates and the sovereign and liquidity pressures were evident in the securitization market for housing finance and corporate paper. Growth was projected to fall sharply, to about minus 3¾ percent in 2009. Reserve cover, while considered adequate for normal times, was lower than some key emerging market peers and felt to have negatively affected market sentiment. By the time of the review of the first arrangement, GDP growth had fallen over 20 percent (seasonally adjusted annual rate) in the first quarter of 2009 and corporates had incurred major losses on foreign currency derivatives, prompting the authorities to draw on the Fed swap line to support that market segment. When the second FCL arrangement was requested in March 2010, Mexico's near-term outlook was now more positive after 2009 growth contraction of minus 7 percent—the largest in the Americas—but investor sentiment regarding the medium-term fundamentals in Mexico had worsened, while concerns regarding advanced country sovereign debt had emerged, raising systemic risk. By the time of the request for the third arrangement in December 2010, the need for insurance in the form of the FCL had increased, with progress towards global financial stability grinding to a halt, with fiscal concerns in the euro area periphery resulting in increased currency and capital flow volatility. At the time of the request for the fourth arrangement in November 2012, external risks were assessed as still elevated given a surge in global risk aversion from an intensification of the crisis in Europe and Mexico's high integration with international capital markets. However, the need for insurance in the form of the FCL was viewed to have remained similar in nominal terms and access was lowered to 1304 percent of quota from 1500 percent.

Role of the FCL. Notwithstanding their post-crisis policy response (from mid-2008)—which included the first foreign exchange intervention in a decade, a US$30 billion Fed swap line, and an unprecedented countercyclical fiscal policy package—the authorities saw a key role for additional insurance through an FCL arrangement. At the time, there was major uncertainty regarding the scope and duration of the downside risks facing Mexico, with large non-residents' large portfolio holdings and the highly open capital account posing key risks. It was hoped that the FCL would protect the economy by providing support to the macroeconomic policy strategy, bolstering confidence until external conditions had improved, and complementing the Fed swap line (in place during most of the initial arrangement) and other IFI financing.

Access. For the FCL to fulfill its desired role, the authorities argued that its size not only should be substantial, but suitably large to assure market participants that Mexico had the resources to maintain orderly financial conditions. By enhancing confidence sufficiently, it was argued, actual drawings would not be needed. Hence, the intention to treat the FCL as precautionary was spelled out at the outset.

- ***First arrangement***. A one-year arrangement with an access of 1000 percent of quota (SDR 32 billion, about US$47 billion) was requested in order to bring Mexico's insurance (reserves and FCL resources) up to the median of a sample of emerging market peers, without taking into account the Fed swap line. The adverse scenario in the Board document was not completely spelled out, but assumed a shortfall in external financing of about US$25-30 billion from reduced rollover rates which, together with investors' concerns about reserve adequacy and uncertainty regarding exposures, added up to the above access level.

- ***Second arrangement***. Despite the expiration of the US$30 billion Fed swap line, the requested access under the second FCL remained at 1000 percent of quota, likely reflecting access being implicitly capped at that level. The adverse scenario was spelled out in more detail in the second request, showing impacts on exports, remittances, FDI, public and private sector rollovers rates for different instruments and terms, with more benign assumptions for the latter compared to the first request. Together, this accounted for a financing shortfall of about $20 billion or less than half of the requested access. To account for the expiration of the $30 billion Fed swap line, a cushion of that size was also built into the arrangement.

- ***Third arrangement***. Access was increased to 1500 percent of quota and duration extended to two years upon the approval of the third FCL arrangement. The authorities' motivation for the increase was two-fold: first, they wanted to take advantage of the Fund lending toolkit reform as they saw the new features as better suited for insuring against the risks Mexico faced; and second, risks were lingering longer than expected. To justify the increased access, staff's adverse scenario applied independent shocks in 2011 and 2012, and allowed downside risks to increase over time in line with the WEO scenarios.

- ***Fourth arrangement***. Access was decreased to 1304 percent of quota and duration was for two years upon the approval of the arrangement. The authorities wished to maintain the same level of access *in nominal terms*, as they viewed external risks as remaining elevated. To justify the access level, staff's adverse scenario applied independent shocks in 2013 and 2014, and allowed downside risks to increase over time in line with the WEO scenarios.

Mexico: Main Assumptions Underlying FCL Access Calculation

(Changes relative to baseline projections)

	1st FCL (April 2009) (SDR 31.53 bn.; 1,000 percent)	2nd FCL (March 2010) (SDR 31.53 bn.; 1,000 percent)	3rd FCL (January 2011) (SDR 47.29 bn.; 1,500 percent) 1/		4th FCL (November 2012) (SDR 47.29 bn.; 1304 percent) 2/	
			2011	2012	2013	2014
Net exports, oil	not specified	15% lower	0	15% higher 3/	26% lower	32% lower
Net services exports, incl. tourism	not specified	not specified	5% lower	10% lower	18% lower	17% lower
Foreign Direct Investment	not specified	20% lower	35% lower	40% lower	74% lower	67% lower
Rollover Rates	45 p.p. lower	20 p.p. lower	30 p.p. lower	50 p.p. lower	10-50 p.p lower	10-50 p.p lower
Other Investment Outflows	not specified	$5 bn.	$10 bn.	$10 bn.	$21 bn.	$21 bn.
Cushion Built in Access	$20 bn.	$30 bn.	$25-35 bn. 4/	$25-35 bn. 4/	0	0
Reserve Accumulation	100% of baseline	100% of baseline	100% of baseline	100% of baseline	0% of baseline	0% of baseline

1/ Two-year arrangement using independent shocks for 2011 and 2012 in the adverse scenario.
2/ Two-year arrangement using independent shocks for 2013 and 2014 in the adverse scenario.
3/ Mexico is expected to become a net oil importer in 2012 and a lower oil price hence shrink the financing gap.
4/ Refers to the whole duration of the arrangement.

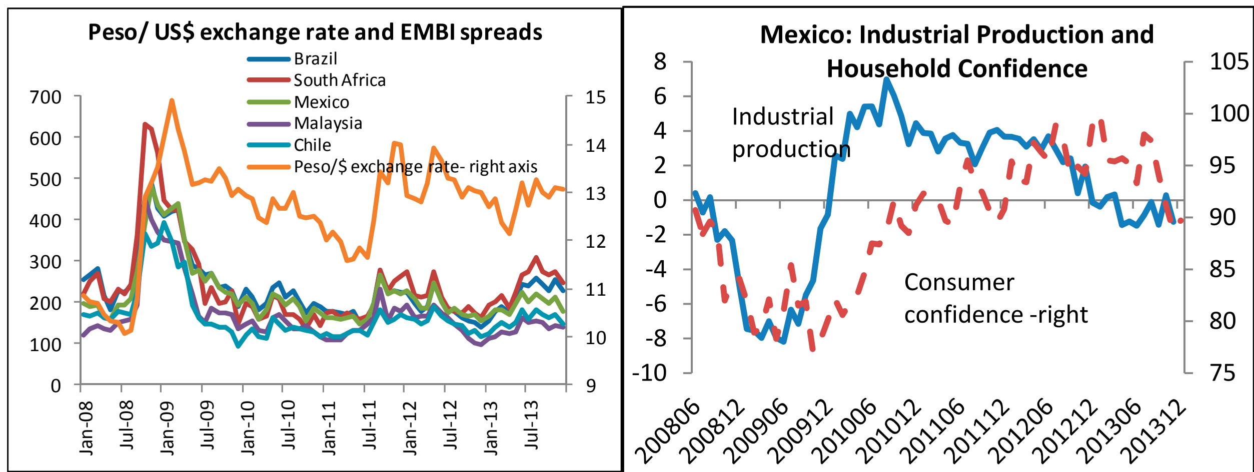
Access and reserves. The authorities continuously pointed out the relatively close substitutability of Fund resources and own reserves across arrangements: in the request for the second arrangement it was noted that if the Fund were to come up with "suitably strong alternatives to self-insurance" it would be considered in their reserve accumulation strategy. The documentation of the third request also included the authorities' views of the reformed FCL being an increasingly close substitute to own reserves as a justification for increased access. In the fourth request, no further reserve accumulation was assumed in the adverse scenario. In the documentation of the fourth request, the authorities stressed the critical importance of the FCL as a complement to reserves and to reinforce market confidence on Mexico's strong policies and frameworks, particularly at the current juncture.

Access and risks to the Fund. Throughout, staff noted that the sizes of Mexico's FCL arrangements were not out of line compared to other high-access cases. The third and fourth FCL arrangement, however, constituted the largest ever individual commitment of Fund resources in nominal SDR terms, and its approval was preceded by intense Board discussions about the impact on the Fund's liquidity and other risks stemming from such a major exposure. The risks to the Fund were however concluded to be low, given the authorities' intention to treat the arrangement as precautionary, the fact that even full drawings would result in moderate debt levels with highly manageable service, and Mexico's excellent track record of honoring Fund obligations.

Qualification. In their assessment of the institutional framework for the first arrangement, staff quoted the central bank's successful track record as an inflation targeter, the rules-based fiscal framework, the reforms of the oil sector, and the efforts to raise non-oil revenues. Additionally (and more extensively discussed than the above-mentioned qualitative criteria), staff found the quantitative criteria to be highly satisfactory. The assessment and relative emphasis on most of the

quantitative criteria were very similar across the four arrangements, with the exception of reserves cover: while the first arrangement argued it to be adequate for "normal" times and easily meet traditional metrics and model-based benchmarks, the documents supporting the second and third requests mentioned the prudency of further reserve accumulation given investors' increased focus on lower coverage of balance sheet exposures relative to peers. The assessments of the forward-looking policy strategy were throughout based on the authorities' attached written communications and the most recent Article IV consultations. In the fourth request, a letter was also provided by the newly-elected, incoming administration in support of the request and with a commitment to policy continuity. References were also made to the November 2013 Data ROSC update, which found the overall quality of statistics to be good, as well as the 2006 and 2012 FSAP updates. The discussion of qualification criteria was fairly brief in all documents after the initial request.

Impact of the FCL. In the review of the first arrangement, staff argued that the FCL arrangement had supported a reduction in perceived tail risks and contributed to maintaining orderly conditions in financial markets. This was based on the strong recovery staged by Mexican spreads and the exchange rate around the announcement of the intent to seek support under the FCL arrangement, including compared to emerging markets peers. Later on, CDS spreads for sovereigns and corporates continued to fall, albeit less than for other emerging market peers, pointing to the relatively short-lived announcement effect of the FCL arrangements compared to e.g. the impact of investors' perceptions of stronger growth prospects elsewhere. In subsequent documents, focus was on the lingering external risks rather than any discernible impact of the FCL arrangements.



Left panel: Peso/US$ exchange rate. Right panel, left axis: Industrial production (y/y changes, 2001=100), right axis household confidence (levels, 2001=100).

Sources: Bloomberg, Datasteram, Haver Analytics, and staff calculations.

D. Morocco and the Precautionary and Liquidity Line

Main Messages. *A two-year arrangement under the PLL for Morocco was approved in August 2012 and two semiannual reviews have been completed. There have not been any purchases to date. Qualification rested on sound economic fundamentals and institutions, an assessment also shared by the Executive Board's assessment of the most recent Article IV consultation. At the time of the request Morocco was seen to perform strongly in three out of the five areas for PLL qualification, with remaining vulnerabilities in the external and fiscal sectors. The rise of social and political unrest associated with the political transition in the Middle East and North Africa, combined with Morocco's vulnerability to shocks from the euro area and oil prices, contributed to a build-up of fiscal and external pressures and the request for a PLL arrangement.*

Contentious Issues. *Staff highlighted the difficulties in assessing qualification for the PLL since the assessment of "moderate vulnerabilities" and "no substantial underperformance" had no precedents and required considerable judgment. Shortly after the first review, new data from the authorities showed that the fiscal deficit was considerably larger than expected for 2012 (1.5 percent of GDP), highlighting concerns about the budget framework. The second review discussed this significant deterioration in the fiscal balance, as well as a larger-than-expected current account deficit for 2012. Both the external and fiscal areas were highlighted as areas of moderate underperformance in the qualification assessment.*

Context. Following several years of sound macroeconomic policies, Morocco was well equipped to respond to the 2008 global financial crisis and domestic social demands. Real GDP growth had accelerated post crisis to the highest in the region (4.9 percent in 2011) and inflation remained low. However, as an oil importer with a large concentration of exports in Europe, Morocco was vulnerable to shocks from the euro area and oil prices, which contributed to a build-up of fiscal and external pressures. At the same time, a political reform process was initiated in response to social protest movements. Alongside political reforms, there was a need to address high youth unemployment and income inequalities. To address increasing macroeconomic pressures the authorities took measures to reduce energy subsidies and committed to continue to reduce the fiscal deficit to ensure medium-term sustainability.

Role of the PLL. On top of the authorities' measures to address external and fiscal vulnerabilities, the PLL arrangement was seen to provide access to additional financing if actual balance of payments needs arise from short-term risks. It would also signal that Morocco's current policies were sound, strengthening investor confidence and facilitating international market access.

Duration and access. The authorities requested a two-year arrangement with access of 400 percent of quota in the first year (SDR 2.35 billion) and an additional 300 percent of quota in the second year (SDR 1.77 billion). The authorities intended to treat the PLL arrangement as precautionary, drawing on the resources only in the event of an exogenous shock. The requested access was near the median and below the average of recent exceptional access cases. Staff assessed that Morocco meets the four exceptional access criteria. Access was based on covering financing needs under a

stress scenario that combined an oil price and EU growth shocks. The shock scenario assumed a US$10 increase in oil prices in the first year and about US$8 in the second year resulting in higher energy imports and a widening in the trade deficit. At the same time, the scenario included a 4 percentage-point reduction in Morocco's advanced economy trading partners' GDP in the first year and 2.5 percentage points in the second year, the impact of which was to widen the current account deficit, reduce FDI and lower GDP growth. The scenario did not include potential additional financing commitments from unidentified sources. The financing gap is defined as the level of financial support needed to bring gross international reserves to 85 percent of the Fund's reserve metric; this corresponds to the level of reserve adequacy under the baseline. This, instead of 100 percent, is justified for Morocco by a lower weight for broad money, consistent with the non-convertibility of the Dirham and limited capital controls to residents on outflows. The financing gap of similar magnitude is generated by two more extreme individual shocks to oil prices and advanced-economic trading partner growth.

Morocco: Main Assumptions Underlying PLL Access Calculation		
(Changes relative to baseline projections)		
	Year 1	Year 2
Oil prices	US$10 increase	US$8 increase
Advanced economy trading partner GDP	4ppt decrease	2.5 ppt decrease
Access	SDR 2.35 billion	SDR 1.77 billion
Reserve adequacy	Same as baseline (85% of ARA metric)	Same as baseline (85% of ARA metric)
Source: Country Report 12/239		

Qualification. The staff report for the request describes Morocco as having sound economic fundamentals and institutions, an assessment which was also shared by the Executive Board's assessment of the most recent Article IV consultation. Morocco was assessed to perform strongly in three out of the five areas for PLL qualification (financial sector and supervision, monetary policy and data adequacy). Moderate underperformance in fiscal policy and the external position and market access were attributed to increases in the fiscal deficit and the current account deficit, largely attributable to exogenous international oil price shocks. The assessment was made on the basis of historical quantitative macroeconomic data for fiscal debt and deficits, current account deficits, reserve adequacy and inflation. There was little discussion of policy and institutional frameworks or comparison with peers and international standards, although there were cross-country comparisons in the charts. A forward-looking assessment was based on the debt sustainability analysis, the authorities' commitment for ensuring medium-term fiscal sustainability, strengthening resilience of the financial sector, and implementing a reform agenda to boost employment and inclusive growth. Directors agreed that Morocco met the qualification criteria for the PLL and urged the authorities to rebuild fiscal and external buffers as well as implement the necessary reforms to address remaining vulnerabilities.

In interviews, staff highlighted the difficulties in assessing qualification for the PLL since the assessment of "moderate vulnerabilities" and "no substantial underperformance" had no precedents and was highly judgmental. The interviewees mentioned that a significant amount of time and resources was absorbed on discussions both within the Fund and with the authorities about qualification, possibly delaying necessary adjustment. Many of them also found the forward-looking assessment, including assessment of institutional quality, challenging. More generally, during times of government change or political transformation, a track record on policy implementation does not necessarily guarantee good performance in the future.

Ex-post conditionality. Indicative targets were set for fiscal policy, in line with the authorities' objective of reducing the budget deficit to less than 3 percent of GDP in the medium-term. The indicative target on net international reserves was consistent with maintaining reserves at a comfortable level. In line with the PLL decision, there were also standard performance criteria on trade and exchange restrictions, bilateral payments arrangements, multiple currency practice and external arrears. Non-standard, quantitative performance criteria were not established. Following slippages after the first review, the indicative target on the fiscal deficit was lowered from -4.7 to -5.5 percent of GDP. While no prior actions or structural benchmarks were set, the authorities undertook a number of measures to strengthen their budget framework.

First review. In the first review, which was combined with the Article IV consultation, staff highlighted that prompt, consistent, and sustained implementation of the policies underpinning the PLL are needed for the authorities to achieve their objectives, particularly fiscal consolidation measures.

Second review. Prior to the second review, external and fiscal deficits had significantly widened and the 2012 fiscal outcome exposed shortcomings in the budget framework. The fiscal deficit in 2012 was 1.5 percent of GDP higher than expected due to spending overruns attributed to wages, subsides and capital transfers to public entities and transfers to social programs, reflecting issues related to budget monitoring and forecasting as well as to the expenditure decided in December 2012. The authorities took steps to address these slippages strengthen their fiscal framework. The second review concluded that Morocco continues to qualify for the PLL and the program remained broadly on track.

Impact of the PLL. The PLL contributed towards providing favorable market conditions for Morocco. At the time of the first review, five-year credit default swap spreads remained among the lowest in the region. Following announcement of the PLL, they fell by 16 basis points the next day and 40 basis points over the month. The sovereign bond issuance at low spreads, long maturity, and overall lower yields than obtained by other established emerging markets, (US$1 billion was issued at a 10-year maturity and a 4.25 percent yield and US$0.5 billion at a 30-year maturity and a 5.5 percent yield) was largely oversubscribed and helped to rebuild external buffers. Its success was interpreted as a mark of market confidence, despite the change in S&P's rating outlook from neutral to negative in October 2012.

E. Poland and the Flexible Credit Line

Main Messages. Poland's *precautionary access under the FCL since May 2009 have helped it to maintain investor confidence and macroeconomic stability amidst the global economic crisis, uncertainty in the euro area and, more recently, during the sell-off in emerging market (EM) economies in June 2012. Qualification centered around overall strong quantitative risk indicators as well as a strong institutional framework—fiscal policy anchors, disciplined and transparent inflation targeting, and a strong supervisory system—that permit Poland to adjust well to shocks.*

Contentious Issues. *The proposed level of access at the time of the fourth arrangement and Poland's prolonged access under the FCL was an area of contention at the Board discussion. Regarding the level of access, a number of Directors questioned the size of the shocks and the need to accumulate reserves in the adverse scenario. Some directors were also concerned about Poland's prolonged access under the FCL and the moral hazard it could create, i.e. making the FCL a "low-cost and long-term substitute for adequate self-insurance" which would induce countries to relax their efforts to build their own buffers, while encouraging investors to take additional risks. Directors also pointed to the absence of a clear exit strategy from the FCL arrangement.*

Context. Despite its strong trade and financial links to Europe, Poland weathered the 2008-09 global financial crisis well, and a strong recovery followed in 2010-11, supported by successive FCL arrangements. The first arrangement was approved in May 2009 against the backdrop of a sharp deterioration in activity immediately in the aftermath of the collapse of Lehman Brothers due to real and financial spillovers. The second arrangement was approved in July 2010 amid renewed global financial strains in connection to euro area periphery. While there was an interval between the first and second arrangements, market reaction was negligible as there was an expectation that a successor arrangement would soon follow upon expiration of the first arrangement. The November 2010 financial market turbulence in Europe represented another bout of acute uncertainty in Poland's external financing conditions, driving Poland's CDS spreads and government bond yields to about the levels seen in May 2010. These developments prompted the authorities to request a third arrangement in January 2011. In an environment of elevated external risks, the authorities requested a fourth arrangement in January 2013.

Role of the FCL. At the height of the global financial crisis, Poland's first FCL arrangement was seen as important to maintaining market access. Moreover, the arrangement enhanced the authorities' policy space, as it allowed policymakers to pursue significant countercyclical fiscal policies in support of growth, without unsettling markets. The arrangement would also complement additional financing from the World Bank and European Investment Bank, as well as a repo line with the ECB and a foreign exchange swap with the Swiss National Bank. The second arrangement played a similar role during a period of renewed uncertainty. In addition, given Poland's regional importance, authorities and staff were of the view the FCL would provide insurance not only to Poland, but also to the region broadly. The third and fourth arrangements, with larger access for longer duration,

allowed more time for external risks to dissipate while supporting investor confidence and macroeconomic adjustment policies going forward.

Access. Large access under the FCL was justified to provide credible assurances of sufficient liquidity in the event that downside external risks materialize. Poland's original FCL request argued that "access to the FCL in the amount of 1000 percent of quota … would reaffirm to markets the Fund's continued strong endorsement of [the authorities'] policies." Access was set on the basis of adverse scenarios assuming concurrent shocks to various components of Poland's balance of payments (Table). Shocks were concentrated on capital account items as these were assumed to be the most likely spillover channels of external financing stresses into the Polish economy.

- Access under the *first and second arrangements* was 1000 percent of quota with one-year duration. Against the backdrop of an implicit cap on access, this amount of access was deemed sufficient to bolster Poland's continued access to international capital markets to shield Poland against the potential spillovers. While large in terms of quota, this access level was in line with other high access cases relative to other indicators such as GDP, reserves, and exports.

- Under the *third arrangement* access was increased to 1400 percent of quota with the duration extended to two years, making use of the enhanced flexibility introduced by the reform of the FCL in August 2010. Ongoing uncertainties in financial markets, particularly within Europe, justified the need for a sufficiently large buffer against risks for an extended period. Given heightened external risks since the previous arrangement, the assumptions applied were somewhat more severe and more in line with Poland's experience during the 2008–09 crisis, while still comparable to other FCL cases.

- The *fourth FCL arrangement* was also for two years and with higher access in nominal terms (equivalent to 1303 percent of quota, compared to 1135 percent under the third arrangement at its end since Poland's quota had increased during the third arrangement). Assumptions for the adverse scenario were broadly in line with those under the third arrangement with one notable exception; larger banking sector outflows were assumed—with the rollover rate 40 p.p. lower than the baseline, compared to 25 p.p. in 2011—to bring it in line with Poland's experience of deleveraging that took place over 2011Q2-2012Q2.

Poland: Main Assumptions Underlying FCL Access Calculation

(Changes relative to baseline projections)

	1st FCL (May 2009) (SDR 13.69 bn.; 1000 percent)	2nd FCL (June 2010) (SDR 13.69 bn.; 1000 percent)	3rd FCL (January 2011) (SDR 19.17 bn.; 1400 percent)	4th FCL (January 2013) (SDR 22 bn.;1303 percent)
Foreign Direct Investment	15% lower	15% lower	25% lower	25% lower
Equity Portfolio Outflows	10% of holdings	5% of holdings	10% of holdings	10% of holdings
Rollover Rates	20 p.p. lower	10-20 p.p. lower	20-25 p.p. lower	40 p.p. lower
Other Investment Outflows	$2.5 bn.	$2 bn.	$4 bn.	$5 bn.
Cushion Built in Access	SDR 2 bn.	SDR 2 bn.	0	0
Drawdown of Private Foreign Assets	10% of total liquid assets	0	0	0
Reserve Accumulation	100% of baseline	50% lower	50% lower	50% lower

Access and reserves. Poland's international reserves have been on a steady upward path, increasing from about US$40 billion in 2004 to about US$108 billion in 2012**.** While reserves are more than adequate for normal times on several measures, they fall short of short-term debt at remaining maturity plus the current account deficit, supporting staff's view that some additional reserve accumulation would be desirable. On the other hand, Poland's authorities consider reserves to be more than adequate, with the FCL providing an additional backstop in periods of heightened external risks. Access under the current FCL arrangement helps to expand Poland's "insurance coverage" to around US$142 billion, which would, on an augmented reserves basis, bring them closer to the international median ratio of international reserves to short-term liabilities.

Qualification. Poland's continued FCL qualification is supported by the country's very strong economic fundamentals and institutional policy framework, together with its sustained track record of implementing very strong policies. Poland's authorities have been commended by the Fund for their strong and timely response to the global financial crisis, which enabled Poland to be the only EU country to escape a recession in 2009. This policy response was facilitated by the policy space afforded by Poland's limited external and internal imbalances entering the crisis. Poland was assessed to satisfactorily meet those criteria related to macroeconomic indicators (sustainable external position, low and stable inflation, adequate reserve position). Criteria based on the quality of institutional framework were also positively assessed: (i) fiscal policy is guided by achievement of the Maastricht criteria and remains underpinned by the Polish Public Finance Act—prompting corrective action when public debt reaches trigger levels of 50 and 55 percent of GDP—and by the Constitutional ceiling on public debt of 60 percent of GDP; (ii) a disciplined and transparent inflation targeting framework supported by a flexible exchange rate regime; and (iii) a supervisory framework that has been further strengthened in line with the recommendations of the 2006 FSAP Update and has managed to substantially limit risks related to FX-mortgage lending.

Despite its strong economic fundamentals, two issues have been raised regarding continued FCL qualification. First, concerns arose over the relatively high fiscal deficit and public debt levels mostly stemming from the countercyclical policies during the downturn. Nonetheless, while the fiscal deficit widened to 7.8 percent of GDP in 2010, substantial fiscal consolidation has been underway—the deficit fell to 3.9 percent of GDP in 2012. The second concern was on the large and persistent errors and omissions in the balance of payments a result of under-reporting imports of used cars and overstating private sector transfers. This issue has largely been addressed by the authorities with the support of Fund Technical Assistance.

Impact of the FCL. Authorities and staff agree that access under the FCL arrangements since May 2009 has served Poland's economy well. The review of the first arrangement concluded that "strengthening of the zloty, reduction in sovereign external spreads, increasing capital inflows, and declining yield on government bonds have in part reflected the stabilizing impact of Poland's FCL agreement." The authorities acknowledged considerably larger increase in demand in the domestic bond market—which saw a return of foreign investors especially after April 2009—and the subsequent decline in yields. The authorities have also indicated that access to the FCL arrangements allowed for a more flexible policy response to the global crisis while preserving

favorable access to markets, even during periods of elevated uncertainty and volatility (Figure). At the current juncture, with policy space to respond to external shocks more limited, and the recent EM sell-off, continued access to the FCL continues to provide an important buffer against external shocks.