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# FLEXIBLE CREDIT LINE AND SHORT-TERM LIQUIDITY LINE—OPERATIONAL GUIDANCE NOTE

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**International Monetary Fund**
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# FLEXIBLE CREDIT LINE AND SHORT-TERM LIQUIDITY LINE—OPERATIONAL GUIDANCE NOTE

## EXECUTIVE SUMMARY

This note provides operational guidance on the use of the Flexible Credit Line (FCL) and the Short-Term Liquidity Line (SLL). After an overview of each instrument, explaining its specific nature, the operational issues are grouped into five areas:

- an outline of the process and specific steps that need to be followed if a member **expresses interest in an arrangement**;
- guidance on the modalities of **concurrent use** of the two instruments;
- guidance on **interaction with other instruments**;
- guidance on determining **qualification** of a member; and
- a how-to guide for determining appropriate **access** levels.

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

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## Acronyms and Abbreviations

| | |
|---|---|
| A.IV | Article IV |
| AM | Advanced Market |
| AML | Anti-Money Laundering |
| ARA | Assessing Reserve Adequacy |
| AREAER | Annual Report on Exchange Arrangements and Exchange Restrictions |
| BoP | Balance of Payments |
| BVAR | Bayesian Vector Autoregression |
| CA | Current Account |
| CAR | Capital Adequacy Ratio |
| CFT | Combating the Financing of Terrorism |
| COM | Communications Department |
| CtR | Capacity to Repay (the Fund) |
| EA | Exceptional Access |
| EESI | External Economic Stress Index |
| EFF | Extended Fund Facility |
| EFM | Emergency Financing Mechanism |
| EMBI | Emerging Markets Bond Index |
| EM | Emerging Market |
| ESR | External Sector Report |
| EWE | Early Warning Exercise |
| FATF | Financial Action Task Force |
| FCL | Flexible Credit Line |
| FDI | Foreign Direct Investment |
| FIN | Finance Department |
| FSSA | Financial System Stability Assessment |
| FSAP | Financial Sector Assessment Program |
| FXI | Foreign Exchange Intervention |
| GDP | Gross Domestic Product |
| GFSR | Global Financial Stability Report |
| GRA | General Resource Account |
| GRAM | Global Risk Assessment Matrix |
| IMF | International Monetary Fund |
| LEG | Legal Department |
| MCM | Monetary and Capital Markets Department |
| PFA | Post-Financing Assessment |
| PLL | Precautionary and Liquidity Line |
| PN | Policy Note |
| PRGT | Poverty Reduction and Growth Trust |
| RCF | Rapid Credit Facility |
| RFA | Regional Financing Arrangement |

| | |
|---|---|
| RFI | Rapid Financing Instrument |
| ROSC | Reports on the Observance of Standards and Codes |
| RSF | Resilience and Sustainability Facility |
| RST | Resilience and Sustainability Trust |
| SBA | Stand-By Arrangement |
| SCF | Stand-by Credit Facility |
| SDDS | Special Data Dissemination Standard |
| SDR | Special Drawing Right |
| SEC | Secretary's Department |
| SLL | Short-term Liquidity Line |
| SPR | Strategy, Policy, and Review Department |
| SR | Staff Report |
| SWIFT | Society for Worldwide Interbank Financial Telecommunications |
| UCT | Upper Credit Tranche |
| UFR | Use of Fund Resources |
| US | United States |
| VE | Vulnerability Exercise |
| VEE | Vulnerability Exercise for Emerging Markets |
| VIX | Chicago Board Options Exchange Volatility Index |
| WEO | World Economic Outlook |
| WGI | Worldwide Governance Indicators |

# SECTION I. INTRODUCTION

**1. This note provides operational guidance on the Flexible Credit Line (FCL) and Short-term Liquidity Line (SLL).[1]** The FCL and SLL were developed under the premise that preventing crises is less costly than resolving them. The FCL was introduced as part of reforms to the Fund's lending facilities in March 2009 at the height of the Global Financial Crisis to help qualifying members address systemic risks.[2] The SLL was established in April 2020 as part of the Fund's COVID-19 response, and its design was updated in the 2023 Review.[3] Together with the Precautionary and Liquidity Line (PLL), the FCL and SLL are part of the Fund's precautionary lending toolkit.[4] Both FCL and SLL provide insurance against external risks and enable qualifying members to signal continued commitment to very strong institutional frameworks and macroeconomic and financial policies. Such signals enhance market confidence and catalyze financing, while generating positive externalities to the membership. They also offer cost-effective alternatives to self-insurance through international reserve accumulation, which could be costly or infeasible for many members. The operational modalities for the PLL are clarified in a separate guidance note.

# SECTION II. FLEXIBLE CREDIT LINE

## A. Overview

**2. The FCL is designed to provide a credit line with potentially large and upfront financing to a member with very strong economic fundamentals and institutional policy frameworks that has a sustained track record of implementing very strong policies and remains committed to maintaining such policies in the future**. FCL access is provided under an FCL arrangement.[5] As access to the FCL is available only to members that meet strict qualification criteria, drawings under it are not tied to ex-post conditionality, i.e., an FCL arrangement does not support a "program" of macroeconomic adjustment and reform policies. The FCL is designed to be

[1] This note replaces the 2018 FCL Operational Guidance Note (IMF Policy Papers 2018/08/06).

[2] The design of the FCL was further refined in August 2010 and in the 2014, 2017, and 2023 Reviews of the policy. See the 2009 paper *GRA Lending Toolkit and Conditionality—Reform Proposals*; the 2010 paper *The IMF's Mandate—The Future Financing Role: Reform Proposals* and a follow-up paper on *Revised Reform Proposals*; the 2011 *Review of the Flexible Credit Line and Precautionary Credit Line*; the 2014 *Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument*, including a follow-up paper on *Specific Proposals*; the 2017 paper on the *Adequacy of the Global Financial Safety Net—Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform*; and Revised Proposals following that paper; and the 2023 *Review of the Flexible Credit Line, the Short-Term Liquidity Line, and Precautionary and Liquidity Line, and Proposals for Reform*.

[3] See the 2020 paper on *IMF COVID-19 Response—A New Short-Term Liquidity Line to Enhance the Adequacy of the Global Financial Safety Net*.

[4] The Stand-By Arrangement (SBA) and Stand-by Credit Facility (SCF) can also be used on a precautionary basis. The FCL and PLL are often referred to as "precautionary" in line with their predominant use. However, under their respective policies, the instruments can also be used to address actual BoP needs.

[5] Some terminology: the FCL is a window in the Fund's credit tranches and not a *stand-alone special facility*, as is the case with the EFF. Access to Fund resources is provided under an FCL *arrangement*.

flexible: (i) access is uncapped and funds are available upfront (i.e., not subject to phasing or ex-post conditionality); (ii) grace period and repayment terms are long (3¼–5 years, starting on the date of each purchase) relative to alternative contingent financing; (iii) successive arrangements are possible; and (iv) the FCL can be used for either potential or actual BoP needs.

- ***Approval*** (FCL decision, ¶¶6(a)).[6] Following a confidential request from a member (Section II.B), staff assesses in a confidential and preliminary way whether the country might qualify. SPR maintains a database of macroeconomic and institutional indicators to ensure a timely turnaround when an expression of interest is received. When management decides that access to Fund resources under the FCL may be appropriate, it will promptly consult with the Board at an informal meeting. A concise staff note setting out the basis on which approval could be recommended is provided to the Board for this meeting (Annex V). A formal decision approving an FCL arrangement is then taken by the Board at a subsequent Board meeting based on the member's written communication outlining its policy plans, a staff report (SR) assessing the member's qualification and justifying access under the FCL, and the Managing Director's recommendation.
- ***Length*** (FCL decision, ¶¶5(a)). An FCL arrangement may be approved for either one year or two years with the objective of completion of a mid-term review immediately prior to the lapse of the first twelve months of a two-year FCL arrangement.[7] 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 a Board review of the member's policies aimed at ascertaining the member's continued adherence to the qualification criteria. Successive FCL arrangements may be approved for the member, provided that the qualification criteria continue to be met, subject to BoP needs, external risks, and other access policy considerations such as capacity to repay (CtR).
- ***Access*** under the FCL is uncapped. It can be augmented or reduced at the member's request, subject to Board approval, during the time of the arrangement subject to the member's continued qualification, BoP needs, external risks, and CtR. The exceptional access (EA) policy does not apply to the FCL (i.e., access under the FCL above the overall annual and cumulative access limits does not trigger the EA policy). Outstanding amounts under the FCL will count towards the access limits if a member requests access to Fund resources under another Fund facility excluding the SLL (Decision No. 14064–(08/18), ¶2).
- ***Phasing*** (FCL decision, ¶¶4 and 5(b)). The entire amount of requested access is available upon approval of the 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.

[6] 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), adopted August 30, 2010, Decision No. 15593-(14/46), adopted May 21, 2014, and Decision No. 17559-(23/76) adopted October 2, 2023.

[7] The mid-term review would be preferably completed no earlier than 14 days before the one-year mark.

The arrangement would expire upon the earlier of (i) the expiration of its approved term; (ii) the purchase of the full amount of approved access; or (iii) its cancellation of by the member.

- ***Conditionality*** (FCL decision, ¶¶¶ 2, 3, and 5(a)). There is no traditional ex-post conditionality, as the very strong track record of policy implementation is intended to provide assurances that appropriate corrective policies, if needed, would be implemented. For the same reason, prior actions are not needed. Similarly, no ex-post conditionality can be attached to the mid-term review or the approval of successive FCL arrangements. Once an arrangement has expired, the Fund will conduct a post-financing assessment (PFA) if there have been purchases under the arrangement and in accordance with the PFA policy.[8]
- ***Financial terms*** (GRA Lending Toolkit and Conditionality—Reform Proposals, III(B), ¶¶16; Review of Charges and The Surcharge Policy—Reform Proposals). Purchases under the FCL are subject to the same repayment period, charges, and surcharges as SBA arrangements. Unpurchased amounts are subject to the standard upward-sloping commitment fee schedule.[9]
- ***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 subscribing countries to announce the availability of these as yet unpurchased credit line resources.[10] 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), which are to be reported in Sections I and II of the Reserves Data Template.
- ***Exit*** from the FCL instrument is state contingent, and the expectation to articulate an exit strategy depends on whether the FCL arrangement is precautionary; the access level under the arrangement; and credit outstanding under previous FCL arrangements (see Section II.G).

[8] Post-financing assessment was previously known as post-program monitoring (Annex I of the 2024 Operational Guidance Note on Program Design and Conditionality and the Guidance Note on Post Program Monitoring).

[9] See GRA Lending Toolkit and Conditionality—Reform Proposals, III(C). The commitment fee is levied upon approval of the arrangement and refunded on a pro rata basis if drawings are made under the arrangement. If the arrangement is cancelled without being drawn in full, the commitment fee will be refunded based on available amounts for purchase at the time of cancellation and the remaining number of days in the current period. The thresholds of 200 and 600 percent of quota will become 135 and 405 percent of quota, respectively, for computing charges and refunds for a member from the first occurring of (i) the effective date of that member's quota increase under the 16th General Review of Quotas (GRQs), or (ii) 35 days after the Fund determines that the general effectiveness conditions for the 16th GRQs have been met.

[10] 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*, ¶¶¶206–7 and 216.

## B. FCL Request

**First-Time Requests**[11]

3. **Initial steps**. The member authorities should approach staff or management confidentially and formally indicate (verbally or in writing) their interest in obtaining financing under the FCL arrangement. 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. Similarly, Fund staff must treat the authorities' request as confidential and cannot discuss qualification publicly.[12] Once an expression of interest has been received, staff discusses with the authorities their interest in pursuing an FCL arrangement and initiates an assessment of qualification. Area departments should consult closely with SPR on key elements and process for assessing qualification. A mission is not required but a fact-finding staff visit may be conducted. In the initial exploratory discussions, which can also take place in the context of a concurrent A.IV mission, staff should enquire as to the nature of the BoP need, whether the arrangement is to be treated as precautionary, the desired level of access, and the length of the arrangement sought by the authorities.

4. **Preliminary assessment of qualification**. The country team should then prepare a confidential preliminary qualification assessment note (Annex V) to seek management's approval of the member's qualification under the FCL. Staff should ensure that qualification is assessed thoroughly (Section VI and Annex I) and evenhandedly. The note is reviewed by SPR, FIN, LEG, and other functional departments as necessary, and co-signed by SPR and the area department. Area departments should consult early on with reviewing departments to seek guidance. If warranted, a qualification consultation meeting could be held to discuss the note before it is finalized and the review process is reflected in a short cover memo. Staff can discuss the qualification criteria with the member, but throughout the process, staff should make clear to the authorities that any qualification assessment by staff is only preliminary and that it is the Board that takes the final decision on qualification. When the member is transitioning between an FCL and an SLL, the assessment of qualification and the staff report can be streamlined under certain conditions (see Annex V for guidance).

5. **Support from other creditors and consultation with Regional Financing Arrangements (RFAs).** 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 an assessment of access (FCL decision, ¶¶6(a)(ii)).[13] In this case, the standard informal Board engagement, which would include a preliminary assessment of access, would likely take place after discussions with creditors. Consultation with other creditors could for

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[11] For the purposes of this note, "first time" requests are all that are not covered by the discussion in ¶¶¶16–18.

[12] 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. COM guidance should be sought as needed.

[13] While engaging with external parties and particularly the private sector, staff should strive to maintain the strict confidentiality of the FCL request.

example be envisaged when (i) there are sizeable remaining financing gaps that need to be filled by other creditors (usually official creditors); or (ii) the authorities are requesting precautionary support from both the IMF and other providers of financing, such as an RFA.[14] Such consultations would be limited to sharing preliminary information at a technical level while stressing the confidential nature of the FCL request and would not include sharing of the staff note for the informal Board meeting.[15] Specified Board documents may be shared with RFAs that are co-financiers pursuant to established Fund policy.[16] When sharing of Board documents is warranted, such sharing is done via SEC. Country authorities should be informed and consent in advance of planned contacts with other creditors.

**6. Informal Board meeting "to engage" and staff note**. If management decides that access to Fund resources under the FCL is appropriate, it will promptly consult the Board in an informal (restricted) Board meeting. To inform this consultation, a concise staff note should set out the basis on which approval could be recommended (see Annex V for detailed guidance). It is envisaged that the note be more succinct than the subsequent SR on the formal request for an arrangement, as the informal Board meeting does not replace the broader discussion at the time of the formal request. The staff note should be treated as strictly confidential. 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 should take care not to prejudge the Board's final decision on an FCL arrangement.

**7. Coordination with A.IV consultation.** A very positive assessment of the member's policies in the context of the most recent A.IV consultation is required as part of the qualification assessment.[17] If more than 12 months have elapsed since the completion of the most recent A.IV consultation, it is recommended that an A.IV consultation take place before a request of an FCL. Where feasible (for example, when it would not cause significant delay to the A.IV consultation), back-to-back A.IV and Informal Board discussions for an FCL request can be held on the same day. Under such scenario, the assessment of qualification in the staff note would draw from both the Board's assessment of policies in the previous A.IV consultation and staff's appraisal of policies in the A.IV that would occur immediately before the informal Board discussion. With respect to the formal FCL request, it is recommended to schedule A.IV Board discussions 2 to 4 weeks prior to the formal Board meeting for the FCL request, which would allow the Board's appraisal to be

[14] In the case of financing support by multilaterals (e.g., for members of a currency union or where an RFA is involved), staff should coordinate with the member and relevant multilaterals to ensure that these creditors' own internal rules and procedures, as applicable, do not conflict with the Fund's policies (see for example Program Design in Currency Unions, March 2018). In any case, these considerations should in no way delay prompt communications to the Board or prejudge its assessment of the member's request. Consultations with co-financiers will make clear that any discussions are ad referendum of decisions on the financing request by the Board, and safeguards will be put in place to ensure confidentiality.

[15] Management may authorize the sharing of preliminary information on the arrangement at a technical level with RFAs or other parties that are co-financiers or creditors. See Collaboration Between Regional Financing Agreements and the IMF, ¶ 37.

[16] See The Exchange of Documents Between the Fund and Regional Financing Arrangements.

[17] See FCL Decision ¶ 2.

incorporated in the SR sent for review and management clearance. Mandatory financial stability assessments, which are legally part of the A.IV consultations, and other documents that feed into A.IV consultations, such as voluntary FSSAs and ROSCs, should also ideally be timed to be integrated into the assessment of qualification.

**8. Preparation of the SR.** Details on the content of the SR are set out in Annex V. As the SR would normally reflect discussions at the informal Board meeting, SPR's clearance of the SR would only be provided after the conclusion of that meeting. A SR for an FCL request may be streamlined and reference qualification assessment under the previous/ongoing SLL arrangement under limited circumstances (see ¶55) if a member is transitioning from an SLL to an FCL or is transitioning from a standalone SLL arrangement to concurrent FCL-SLL arrangements.

**9. The authorities' written communication**. The written, signed 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 them to request Fund assistance (FCL decision, ¶¶6(a)(iv)).[18] The authorities should specify the nature of the BoP need and whether they intend to treat requested access on a precautionary basis. If relevant, members should articulate an exit strategy in their written communication.[19] The authorities' note should explain how they will remain committed to very strong economic policies (as expected under the FCL) and respond appropriately to potential shocks.[20] Cross-referencing separate government publications would be appropriate.[21] Note that this written communication is *not* a Letter of Intent for the purpose of monitoring policy commitments. This written communication should be sent to departments for review at the same time as the SR and to management for clearance. However, it should be dated and signed *after* management clearance (and after the informal Board, where applicable)—as it could be modified to incorporate management's comments—and prior to circulating to SEC along with the SR. Any modifications to the written communication after issuance to the Board would need to follow procedure in accordance with the Fund's Transparency Policy.

**10. Political assurances.** Country teams should be mindful of the electoral cycle and, where possible, should seek to delink the timing of a request for a new arrangement from the electoral cycle. Where it is not possible to delink the request in this way, staff should (at the time of the request or mid-term FCL review) seek assurances from electoral candidates that the very strong policies and policy frameworks will be maintained. Such assurances are an important forward-

[18] In recent requests, the authorities' written communication has often been co-signed by the Minister of Finance and the Central Bank Governor.

[19] When access is at or below 200 percent of current quota, accounting for credit outstanding under prior FCL arrangements, the written communication should clarify that access under the FCL arrangement is justified by current external risks and potential BoP needs (subject to qualification and other access policy considerations such as CtR) and that access under future arrangements would be guided by the same considerations.

[20] See the next ¶, "Political assurances".

[21] See, for example, the Mexican Authorities' Written Communication (IMF Country Report No. 09/126), pages 31–32.

looking safeguard for the FCL, where a member has access to the full financing after approval, without phasing or ex-post conditionality.

**11. Central bank safeguards**. A member requesting an FCL arrangement would not be subject to the policy on safeguards assessment for Fund arrangements. In cases where FCL resources will be used for budget financing, the FCL policy requires an appropriate framework between the central bank and the state treasury for the member's financial obligations to the Fund (see below). 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 authorities and the central bank's external auditors to discuss the audit findings with Fund staff, including any written observations by the external auditors regarding weaknesses observed in internal controls (FCL decision, ¶¶6(b)).[22] For as long as Fund credit is outstanding from an FCL arrangement, the member will also provide Fund staff with copies of annual audited financial statements and management letters, together with an authorization to discuss audit findings with the external auditor. 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. Area department teams are encouraged to consult early on with FIN staff on safeguards requirements, including ahead of mid-term reviews. When FCL resources are used for *budget financing*:

- Central banks and governments are required to establish a framework agreement clarifying their responsibilities for timely servicing the related financial obligations to the Fund. Such an agreement should reflect local legal and institutional arrangements, is typically achieved through a Memorandum of Understanding (MoU) between the member's central bank and finance ministry (or State Treasury), and should also include the provision that Fund resources will be deposited in a specific government account at the central bank pending their use.[23]
- The requirement applies both when budget support use is envisioned ex-ante (in the case of an actual BoP need), or not (i.e., Fund resources were requested on a precautionary basis at the time of approval of the FCL arrangement). For the former case, a commitment to put in place such a framework is expected to be included in the written communication (as part of the request for the FCL, see ¶9) and the MoU is expected to be finalized prior to or shortly after the Board meeting approving the FCL arrangement (where the case for budget financing will be made). For the latter case, the staff report should include a commitment that the authorities would put in place the required framework agreement (i.e., the MoU) between the central bank and the government if the FCL were used for budget support.

[22] See FIN Operational Guidelines for Safeguards Assessments (March 2024) for the safeguards requirements under the FCL and SLL. The links are internal.

[23] In line with 2010 and 2015 Safeguards Policy reviews (BUFF/10/115, SM/10/178 and SM/15/250).

- The MoU should be reviewed by FIN and would normally be in place before the FCL resources are drawn for budget financing.[24]

**12. Interdepartmental review and circulation periods**. Normal review procedures and circulation periods apply to the FCL. The current circulation period is two weeks for the formal Board meeting. Recent practice for the informal Board meeting has been to allow for one-week circulation. The circulation period for informal Board Meetings is thereby similar to that for informal Board discussions on Exceptional Access cases.[25] Where needed—such as an urgent actual BoP need or risk of market destabilizing leaks —FCL-specific expedited procedures can be followed (Annex VI).[26]

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

**14. Activation of credit line**. The credit line is open on approval of the arrangement. Prior to the approval, 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 the approval.

**15. Transparency**. The Managing Director will generally not recommend Board approval of an FCL request unless the member consents (ideally in writing) to the publication of the associated SR.[27] Non-publication would run against the signaling role of the FCL. It is expected that the SR, 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 Transparency Policy, including the rules on corrections and deletions, applies.

### Successor FCL Requests[28]

**16. Countries with a current FCL arrangement can request a successor FCL arrangement if they continue meeting all necessary conditions.** In general, a country may request a successor

[24] As provided for in ¶68 of the 2023 Review of the Flexible Credit Line, the Short-Term Liquidity Line, and Precautionary and Liquidity Line, and Proposals for Reform. Early engagement between Fund staff and the authorities to reach understandings on the form of the MoU/framework agreement is recommended, so that such MoU/framework agreement can be put in place quickly if FCL resources are to be drawn for budget financing. If requested, FIN will provide guidance on the key elements of the MoU or similar agreement. In the rare circumstances where such MoU is not in place before the FCL resources are drawn for budget financing, the MoU should be finalized by the time of the follow-up briefing (¶20, bullet 2) to the Board after the drawing has taken place.

[25] "Access policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility (SRF) and Follow-up Issues Related to Exceptional Access Policy," 2003, and "Review of Exceptional Access Policy," 2004.

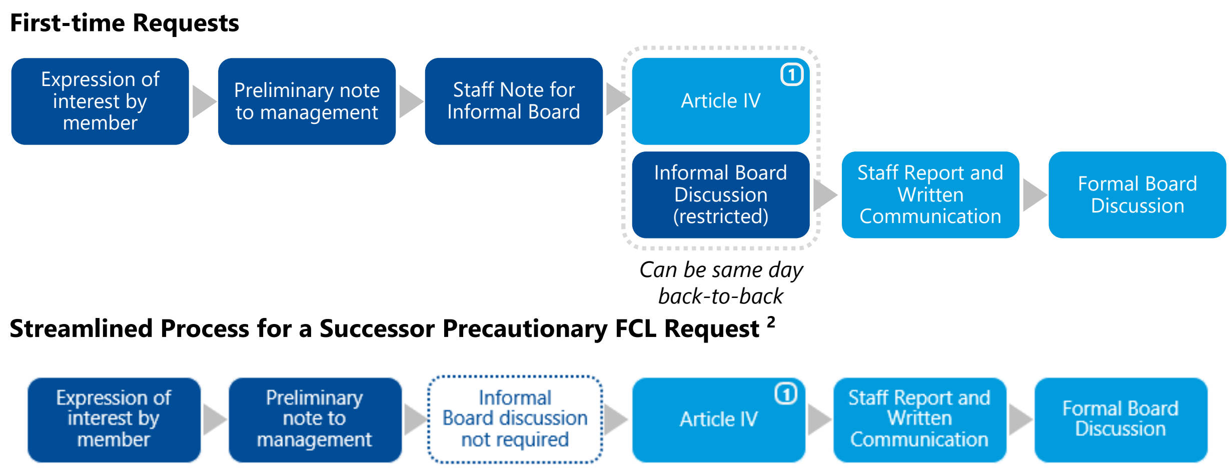
[26] Since the FCL Decision (see example Annex IV) provides for its own expedited procedures, the provisions of Emergency Financing Mechanism procedures do not apply to requests for an FCL arrangement.

[27] See, for example, the Mexican Authorities' Written Communication on pages 31 and 32 of IMF Country Report No. 09/126

[28] This section refers to successor requests on the basis of a potential BoP need. The same procedures as for first-time requests apply to members experiencing an actual BoP need at the time of the successor request.

FCL arrangement if it continues meeting the qualification criteria, and if the successor FCL is justified by external risks and potential BoP need—for example during a protracted period of heightened risks—and accounting for other access policy considerations (e.g., CtR).

**Figure 1. Timeline of FCL Application Process**




1/ The timing of A.IV consultation is not tied to the FCL request cycle. This diagram reflects possibility of holding the Article IV Board and the Informal Board discussion back-to-back same day.
2/ When the conditions set out in ¶17 are met.

**17. The process of requesting a successor precautionary FCL can be streamlined (Figure 1), particularly by not holding the informal Board meeting—if certain conditions are met.** The informal meeting is not required if all the following conditions are met:

- The documentation (written communication and SR) for the successor arrangement is issued to the Board no later than three months from the date of expiration or cancellation of a prior FCL.[29]
- The member has not made any purchases under the prior FCL arrangement, and the mid-term review was completed.[30]
- In the Managing Director's assessment, the member's economic circumstances (including economic fundamentals and institutional policy frameworks) and external risks have not

[29] This requirement is assessed at the time the documentation on the request of a successor arrangement is issued to the Board. The scheduled date for the formal Board discussion of such request should be no later than three months after the expiration of the previous arrangement. Accordingly, the documentation on such request can potentially be issued to the Board before the scheduled expiration of the existing arrangement.

[30] When a member cancels an FCL arrangement before expiration with the intent to simultaneously request a successor arrangement, the observance of the "no drawing" condition would be assessed at the time the member expresses interest in a successor arrangement. In the unlikely event that a purchase is made under the ongoing arrangement after the exemption from holding an informal Board has been granted and prior to the formal Board meeting, the formal Board meeting would be cancelled.

changed (i.e. deteriorated) significantly since the last review. This assessment would be based on the preliminary qualification note for successor requests (see ¶18).

- The overall access requested does not exceed that of the prior FCL arrangement.

**18. When these conditions are met, the FCL request process can be modified, so that:** (i) no informal Board meeting is held (and no staff note for such a meeting is prepared), and (ii) the confidential preliminary qualification note to management is expanded to cover access-related issues (see ¶4 and Annex V).[31] Requirements for the SR for the formal Board discussion are identical to those of first-time FCL requests (Annex V). Moreover, changes to qualification from previous assessments should be transparently discussed in the PN and SR (see Annex I).

## C. Purchases

**19.** ***Modalities for Purchases.*** Approval of a two-year arrangement provides the member with purchase rights until the date of the scheduled mid-term review (Section D). In the case of one-year arrangements, the approval of the FCL arrangement provides the member with purchase rights for the entire period of the arrangement.[32] Should the member decide to purchase under the FCL arrangement, FIN needs to receive official communication, via SWIFT, from the member's fiscal agency requesting the purchase, specifying its amount and representing an actual BoP need—a standard requirement for purchases under the GRA. 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 purchases under an FCL arrangement as information on purchases under Fund arrangements are routinely published on the Fund's external website.

**20. Purchases under precautionary FCLs.**

- The Board should be promptly informed when a member has drawn under the FCL arrangement.[33] This information would ideally be provided in a concise note written by the area department (see Annex V for detailed guidance). The note will be reviewed by FIN, LEG, and SPR and can either be sent to the Board for information or as background for an informal briefing to the Board after the drawing has taken place, as necessary. It should be reviewed by SPR and cleared by Management prior to Board transmittal. Following the purchase, a press release—reviewed by SPR and COM—is expected to be published on the IMF website.

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[31] In first-time requests and non-streamlined successor requests, these issues are addressed in the staff note for the informal Board meeting.

[32] FCL resources are intended to address BoP needs. Consistent with Staff Guidance Note on the Use of Fund Resources for Budget Support, FCL resources can also be used for budget support provided a BoP need exists and the resources are used in support of policies that will address the member's BoP problem. For FCL resources to be used for budget support, an appropriate framework between the central bank and the state treasury is required to be put in place for timely servicing of the members' financial obligations to the Fund (see ¶ 11)).

[33] The procedures described in this section would also be followed if the access was originally approved on a disbursing basis, turned precautionary at a later point (e.g., review), but drawn nonetheless.

- A separate follow-up briefing to the Board would normally precede the next request (including for an augmentation) or mid-term review. This briefing is expected to discuss, with the benefit of some distance from the time of the drawing, the macroeconomic circumstances that have led to the actual BoP need (see Annex V for detailed requirements). This additional briefing, which could be done informally as part of a country matters meeting or formally in a subsequent country document, would not change the timeframes set under the existing FCL for the review of the member's qualification. The material for the country matters meeting should be reviewed by SPR, FIN, and LEG, and cleared by Management prior to Board presentation.

## D. Mid-term Review

**21. For two-year FCL arrangements, a mid-term review immediately prior to the lapse of the first twelve months of the arrangement[34] is required to assess whether the country still meets the qualification criteria for the FCL** (FCL decision, ¶¶ 5(a)). The review should be scheduled with the objective of completion by the Board immediately prior to the lapse of the one-year period or else the member could temporarily lose automatic access to Fund resources. Staff should prepare a concise SR 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, including changes to qualification relative to previous assessments (see Annex V for further guidance on the content of the report). Moreover:

- Whenever the latest published external audit report on the central banks' financial statements points to the 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 A.IV consultation missions.[35]
- If there have been 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 SR.[36]

[34] In practice, the mid-term review would be preferably completed no earlier than 14 days before the one-year mark.

[35] If a staff visit precedes the mid-term review, standard review procedures for briefing memoranda 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), as amended) 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 ¶ ¶3 of this decision.

[36] The FCL decision (¶ ¶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.

- The SR would be subject to the standard review process (with no Policy Note (PN) or Policy Consultation Meeting required) and should be circulated according to the normal circulation procedures—unless there is a case for expedited procedures (Annex VI).
- As with other Board meetings on UFR, staff will provide a Summing Up (for internal use) and a Chair's Statement, which will be published subject to the member's consent.

**22. A single Board meeting—based on a combined SR—for the A.IV consultation and the FCL mid-term review is encouraged for streamlining purposes where feasible.** Under such scenario, the FCL qualification assessment would rely on the Board's assessment of policies in the previous A.IV consultation and staff's appraisal of policies in the "concurrent" A.IV. The combined SR will contain clear and transparent separation between the A.IV surveillance discussions and FCL-related discussions.[37] Following the Board meeting, the Board's assessment of policies under the FCL would be reflected in the press release published as part of the document bundle for the combined A.IV consultation and FCL review. Staff is encouraged to discuss early the tradeoffs of holding a combined A.IV and FCL review Board meeting, including to ensure consistency with surveillance policy, as this approach could potentially delay A.IV consultations. In circumstances where holding a single Board meeting for the A.IV with the mid-term review is not possible, area department teams are encouraged to time the A.IV Board discussions sufficiently early—e.g., 2 to 4 weeks prior to the formal Board meeting—to ensure the Board's appraisal can be incorporated in the SR sent for review and management clearance. This principle should apply equally to mandatory financial stability assessments, which are legally part of the A.IV consultations, and in general to other documents that feed into A.IV, such as voluntary FSSAs and ROSCs.

## E. Modification of Access

**23. Members may request at any time a reduction or augmentation of access within an existing FCL arrangement.** This could be requested at the time of the mid-term review or on a stand-alone basis. All requests for access changes should refer to the changes in the member's BoP needs and provide a justification.[38] The approval of an augmentation is subject to confirmation by the Board that the member still meets the qualification criteria for the FCL.[39] While changes in access have occurred for all members with FCL arrangements, Poland and Peru provide examples of

[37] To this aim, recent practice has been to include a brief review of FCL qualification in the Policy Note for combined A.IV and FCL reviews.

[38] Occurrences of external risks that are not anticipated at approval do not automatically justify an augmentation of access. Nonetheless, an augmentation can be requested following a purchase, if changes in access are justified by changes in the member's BoP need.

[39] However, a Board decision not to approve an augmentation request shall not affect (i) the member's right to make purchases for up to the amount of the previously approved access, or (ii) for 2-year FCL arrangements, the date of the mid-term review.

communication in the context of access reductions leading to full exit from the FCL arrangement in 2017 and 2024, respectively.[40]

**24. Streamlined augmentation procedures apply if the request is issued to the Board for consideration no later than six months from the approval of the FCL arrangement or completion of the mid-term review.** The streamlined procedures entail more concise SRs that, in discussing qualification, cross-reference the analysis in the most recent Board document (if applicable), where staff assess that the qualification still holds. The streamlined SR should provide an updated External Economic Stress Index (EESI) supportive of increased external risks, an adverse scenario to demonstrate increased BoP needs, the case for the higher access, a CtR analysis, and a staff assessment that the analysis of the member's qualification as discussed in a previous SR remains unchanged.[41] The Board confirmation that a member qualifies under the streamlined procedures for augmentation will not change the date set for completion of the mid-term review.

## F. Board Briefing

**25. The Board should be briefed on the member's macroeconomic developments after significant economic policy changes**—such as but not limited to those following the installment of a new government—in countries with an ongoing FCL arrangement.[42] Area departments are encouraged to consult with SPR early to jointly determine whether a given event is material enough to warrant a Board briefing. Area departments would be best placed to determine the modality of such briefing, which could be done informally, for example, as part of a country matters meeting or, if the timing is conducive, formally in the A.IV SR. The briefing would provide an overview of the significant economic policy changes and an update on subsequent key macroeconomic developments such as indicators of market access and sovereign creditworthiness. This would inform the Board's views on the member's continued ability to respond appropriately to BoP difficulties, notwithstanding the significant policy changes, and Directors' views on a successor FCL request, if any. Importantly, an informal briefing would provide an opportunity for staff and the authorities to garner early feedback from Directors of any concerns that may affect a successor FCL request, so that if needed timely corrective action may be taken. The briefing memo (or material for the country matters meeting) should be reviewed by SPR and FIN, and cleared by management prior to Board transmittal. Staff is also expected to brief the Board following FCL purchases (Section II.C).

[40] Following previous increases in access, Poland reduced access on three occasions before fully exiting the FCL arrangement in November 2017. See Press Releases No. 15/05 (new arrangement with lower access), No. 16/06 (reduction in access at time of a review), No. 17/11 (new arrangement with lower access), No. 17/418 (cancellation of arrangement). Peru reduced access from 600 percent of quota under its first FCL arrangement approved in 2020 to 300 percent of quota in 2022 under its successor FCL; see Press Releases No. 20/224, No. 22/173, and No. 24/174.

[41] The streamlining does not obviate the need for a supplement, produced by FIN, on the impact of the higher access on the Fund's finances and liquidity.

[42] See IMF (2023), "Review of the Flexible Credit Line, the Short-Term Liquidity Line, and the Precautionary and Liquidity Line, and Proposals for Reform" page 48 (¶65).

## G. Exit Expectations

**26. Exit from the FCL instrument is state contingent**, and the expectation to articulate an exit strategy depends on (i) whether the FCL arrangement is precautionary and (ii) the access level under the arrangement and credit outstanding under previous FCL arrangements.

### FCLs with Exit Expectations

**27. When (i) access requested under a new or augmented[43] precautionary FCL arrangement exceeds 200 percent of quota or (ii) regardless of access requested, in non-precautionary FCL arrangements[44], the written communication should articulate an exit strategy, which should also be discussed in the SR.** This should include a statement on the expectation that access would normally decline in a successor FCL arrangement—should one be requested—or that no successor FCL would be requested when the "right conditions" are in place.[45] As such, discussion of the authorities' exit strategy should be underpinned by (i) an analysis of external risks facing the country, as informed by the EESI (Annex III); (ii) a statement regarding any efforts the authorities intend to take to improve domestic resilience, where relevant; and (iii) a statement on circumstances (the aforementioned "right conditions") under which no successor arrangement would be likely, or under which a successor arrangement may be requested with lower access.

**28. The 200 percent-of-quota threshold would be lowered by any credit outstanding under prior FCL arrangements and be restored when the member repurchases outstanding credit.**[46] In the event of credit outstanding under prior FCL arrangements, the exit strategy should discuss the amount of credit outstanding and expected repayment schedule, and a statement that

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[43] If at the time of the FCL request, access is at or below 200 percent of quota (accounting for credit outstanding under prior FCLs), but access is augmented during the arrangement period and exceeds 200 percent of quota, then an exit strategy should be articulated in the written communication for the augmentation request. Upon satisfaction of the general conditions for effectiveness of quota increases under the 16th General Review of Quotas, the threshold of 200 percent of quota will automatically become 135 percent of quota (See 2024 Comprehensive Review of GRA Access Limits, SM/24/293).

[44] This refers to FCL arrangements for a member having an actual BoP need at the time of request (or at the time of a request for augmentation) for an FCL arrangement.

[45] In Public Information Notice No. 10/24 on *The Fund's Mandate—The Future Financing Role—Reform Proposals*, Directors agreed that, in addition to other relevant factors justifying lower access, access under the FCL would normally be expected to decline in successor arrangements whenever improvements in official and private financing prospects have reduced the member's potential or actual BoP needs in a sustained manner by the time the successor arrangement is requested. See also Public Information Notice No. 11/152 on the 2011 *Review of the Flexible Credit Line and Precautionary Credit Line*, Press Release No. 14/352 on the 2014 *Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument*, and Press Release No. 17/507 on the *Adequacy of the Global Financial Safety Net—Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform.*

[46] For example, if a member has 50 percent of quota outstanding under prior FCL arrangements at the time the new FCL request is approved, an exit strategy would not need to be articulated if the FCL arrangement stays at or below 150 percent of quota. The threshold will however be progressively restored following FCL repurchases, as outstanding credit declines.

the amount of credit outstanding will decline with its expected repayment schedule. Other IMF outstanding credit (including non-FCL GRA, PRGT, and RST) is not considered for this purpose.

**29. For two-year precautionary FCL arrangements, the mid-term review SR should include an updated assessment by staff of the anticipated evolution of risks over the rest of the arrangement period, informed by an updated EESI.**[47] Where relevant, developments with regards to official and private financing prospects, as well as efforts to improve domestic resilience should also be indicated in the SR. Together with the updated external risk assessment, such developments would complement the exit strategy articulated at the approval/augmentation of the arrangement and could inform the decision to lower access already under the current arrangement. While not required, the SR for the mid-term review of a two-year precautionary FCL could also include the authorities' intention to reduce access, conditional on external risks abating and, where relevant, on domestic resilience and/or external financing prospects improving.[48]

**30. The articulation of the authorities' exit strategy in the written communication (and discussion in the SR) is aimed at guiding market expectations** to minimize the risks of market surprises in case of subsequent changes in access or exit upon the expiration of the arrangement. Exit and risk discussions should be carefully crafted to preserve the role of judgment, while avoiding risks of adverse market reaction. A clear articulation of the authorities' exit strategy would also help inform the Board discussion of the access level if a successor arrangement is ultimately considered.

### FCL Without Exit Expectations

**31. When access under a new or augmented precautionary arrangements is at or below 200 percent of quota, there is no requirement to articulate an exit strategy in the written communication, nor discuss it in the SR.** Exit expectation-free arrangements aim to reduce incentives for accumulating costly excessive reserves while signaling commitment to strong policies and institutional frameworks and to offer more predictable insurance in a shock-prone world. Such arrangements could also provide positive externalities, helping contain spillovers and systemic risks. For assessing whether an exit strategy should be articulated, the 200 percent of quota threshold should be lowered for any credit outstanding under prior FCL arrangements.

**32. The documents should still help guide market expectations.** The written communication and SR should clarify that access under the FCL arrangement is justified by current external risks and potential BoP needs and that access under future arrangements would be guided by the same considerations. For two-year precautionary FCL arrangements, the SR for the mid-term review

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

[48] Past examples include SRs for the request of Colombia's 2020 FCL arrangement and Mexico's 2017, 2019 and 2021 FCL arrangements. The staff report for the mid-term review is not expected to comment on the exit strategy if it has not changed since the FCL approval.

should provide an updated assessment of the anticipated evolution of risks over the rest of the arrangement period, informed by an updated EESI (see Annex V).

## H. Expiration and Cancellation

**33. The authorities can cancel an FCL arrangement at any time.** Should the authorities desire to cancel the existing arrangement ahead of its expiration without requesting a successor arrangement, they should send a written notification to IMF management, preferably in the form of a formal letter signed by the authorities. The letter must clearly specify the effective date of cancellation, which should not be earlier than the date of receipt of the letter by the Fund.

**34. Formulating and implementing a sound communication strategy is critical to helping authorities smoothly exit an FCL arrangement.** 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. A press statement could also be issued when an arrangement is cancelled by the authorities prior to its expiration.[49] This could highlight the member's recent performance and the supporting role played by the FCL arrangement. The press statement should be coordinated with, and reviewed by, COM and SPR to ensure that the impact of such communication on all members under FCL arrangements is taken into account in the communications strategy. It is important that press statements should not include any assessment of potential qualification for a successor FCL arrangement. In addition:

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

## I. Communication Strategy

**35. Careful communication will be an essential element of any FCL arrangement** to provide guidance to market participants about the authorities' use of the FCL. A communication strategy

[49] The press release issued before the expiration of the May 2022 FCL arrangement for Peru provides an example (see IMF Press Release 24/174).

should be developed with country authorities and should encompass the essential details of the instrument, such as its duration, the rationale for its usage—including its state-contingent nature.

# SECTION III. SHORT-TERM LIQUIDITY LINE

## A. Overview

**36. The SLL is a special facility in the GRA designed to provide revolving and renewable backstop financing to members with very strong fundamentals and policy track records.** The SLL provides liquidity support to qualifying members facing potential short-term BoP needs arising from external developments and reflected in pressures in the member's capital account.[50] Qualification requirements are identical to those for an FCL and there is no ex-post conditionality (i.e., an SLL is *not* for "program" support).

- ***Approval (SLL decision, ¶¶ 6(a)-(b)).***[51] An SLL is approved following a confidential expression of interest from a member (next section). When a member expresses interest in an SLL arrangement, staff assess in a confidential and preliminary way whether the country might qualify. SPR maintains a cross-country database of relevant macroeconomic and institutional indicators to ensure a timely turnaround when an expression of interest is received. When the assessment is complete, management will decide if access to the SLL is appropriate, in which case, staff prepares the SR setting out the basis for Board to approve the arrangement. The report includes: (i) the assessment of qualification; and (ii) the assessment of the potential BoP need, level of access, and repayment capacity (Annex V). The member has two options of availing itself of the SLL: offer and request (Section III.B).
- ***Length (SLL decision, ¶ 5(a) and 5(b)).*** An SLL arrangement can be approved for a period of twelve months. Successive arrangements can be approved for the member, provided that qualification criteria continue to be met and the member faces a special BoP need, namely potential, short-term BoP difficulties arising from volatility in international capital markets which is reflected in pressure on the capital account and the member's reserves.
- ***Access level***. Access under SLL arrangements may be approved in an amount of up to 200 percent of the member's quota (SLL decision, ¶ 4), which constitutes the cumulative limit for total credit outstanding under the SLL. A member would be able to purchase at any given time up to the amount of approved access under the SLL, minus outstanding purchases under the current or any previous SLL arrangement. The EA policy does not apply to the SLL, i.e., access under the SLL above the overall annual and cumulative access limits does not trigger the

[50] More specifically, per the SLL decision, ¶1, an SLL can be provided to qualifying members that faces short-term BoP difficulties that: (i) are only of a potential nature, reflected in pressure on the capital account and the member's reserves; (ii) are resulting from volatility in international capital markets; and (iii) are reasonably expected to be limited in scale and to require, at most, fine-tuning of monetary and exchange rate policies.

[51] All references to the SLL decision refer to Decision No. 16747-(20/43), adopted April 15, 2020, as amended by Decision No. 17560-(23/76), adopted October 2, 2023.

exceptional access policy. However, outstanding amounts under the SLL will count towards the access limits if a member requests access to Fund resources under another Fund facility excluding the FCL (decision no 14064-(08/18), ¶ 2).

- ***Revolving access.*** The member has the option of making one or multiple purchases at any time during the term of the arrangement; when the member makes a repurchase of amounts previously purchased under any SLL arrangement, the amount repurchased would reconstitute the member's right to purchase up to the amount approved under the SLL arrangement in effect.[52] Full drawing of access under an SLL arrangement would not terminate the arrangement.
- ***Phasing (SLL decision, ¶ 4).*** There is no phasing under SLL arrangements. The entire requested access is available upon Board approval of the arrangement (or acceptance by the member of an "offer" to an SLL by the Board) and remains available throughout the arrangement period.
- ***Conditionality (SLL decision, ¶ 3).*** There is no ex-post conditionality for the SLL, including successor SLL arrangements as the very strong track record of policy implementation is intended to provide assurances that appropriate corrective policies, if needed, would be implemented. For the same reason, prior actions are not needed. If, at the end of the arrangement, the member maintains outstanding amounts under different facilities, purchases under the SLL count towards PFA requirements.[53]
- ***Successor arrangements.*** There is no expectation that members would exit the facility when their current arrangement expires and there are no restrictions on the Board's approval of successor SLL arrangements for a member, provided that the member continues to meet the qualification criteria and has a special BoP need.
- ***Financial terms (SLL decision, ¶ 8, and Sec. G)***. A special fee structure applies to SLL arrangements. This includes an 8 basis-point commitment fee (not refundable) and a 21 basis-point service charge for purchases under the instrument. Charges and level-based surcharges are identical to instruments in the credit tranches. Amounts purchased under an SLL should be repurchased no later than 12 months from the drawing. Given the short-term repayment obligations, purchases under the SLL are not subject to time-based surcharges.
- ***The treatment of SLL resources in reserves.*** Unpurchased amounts under the SLL arrangement do not count in gross reserves (as they are not yet created as an asset). However, there is space in the Reserves Data Template filed by subscribing countries to include these resources as unpurchased credit line resources.[54] Once purchased, SLL resources give rise to an increase in

[52] See "*Adequacy of the Global Financial Safety Net—Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform*" and "*IMF COVID-19 Response—A New Short-Term Liquidity Line to Enhance the Adequacy of the Global Financial Safety Net*" for more details.

[53] Given the short repayment period, a PFA is not required if the member has only SLL credit outstanding after the expiry of the arrangement.

[54] In general, IMF arrangements are conditional lines of credit and therefore should not be included in Section III of the Reserves Data Template. The SLL is subject to specific conditions for access, including qualification criteria that must be met *before* the credit line is approved. Once these criteria are met, the member can draw down funds throughout the entire one-year duration of the arrangement. The undrawn amounts under one-year SLL arrangements should be included in Section III from the time of approval until the arrangement expires.

gross reserve assets and external liabilities (with maturities corresponding to the timing of repurchases), which are to be reported in Sections I and II of the Reserves Data Template.

## B. SLL Request/Offer

**37. The processes and requirements for standalone SLL arrangements differ somewhat from those involving a transition from, or the concurrent use with, an FCL.** The remainder of the section refers to the standalone SLL scenario; special provisions applicable to transitions from, and concurrent use with, FCL arrangements, are discussed in section IV.

**38. Initial steps.** The authorities should approach staff or management confidentially and indicate (verbally or in writing) their interest in an SLL arrangement. 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. Similarly, Fund staff must treat the authorities' request as confidential.[55] Staff should discuss with the authorities their interest in pursuing an SLL arrangement and initiates an assessment of qualification. A mission is not required but a fact-finding staff visit may be conducted. In the initial exploratory discussions, which can also take place in the context of a concurrent A.IV mission, staff should enquire about the nature of the specific BoP difficulties leading to the request for an SLL arrangement and how the intended use of the SLL arrangement fits with the special BoP need. Once an expression of interest has been received, area departments should consult closely with SPR on the key elements and process for assessing qualification.

**39. Preliminary assessment of qualification.** The country team begins a confidential preliminary assessment of the member's qualification under the SLL and the level of access that might be warranted, based on the latest information. Staff should ensure that qualification is assessed thoroughly (Section VI and Annex I) and evenhandedly. The note will be reviewed by SPR, FIN, LEG, and other functional departments as necessary, and co-signed by SPR. Area department teams should consult early on with the reviewing departments to seek guidance. If warranted, a qualification consultation meeting to discuss the note could be held before the note is finalized and the review process reflected in a short cover memo. Staff can discuss the qualification criteria with the member, but throughout the process, should make clear to the authorities that any qualification by staff is only preliminary and that the that takes the final decision on qualification and access level. The preliminary assessment note to management may be streamlined (Annex V) and cross-reference qualification assessment under the previous or ongoing FCL/SLL arrangement, where staff assesses that such assessment still holds, if:

- A member is transitioning from an FCL to an SLL arrangement no later than six months from the entering into effect (or mid-term review completion) of the FCL arrangement to be cancelled (Section IV); or

[55] 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. COM guidance should be sought as needed.

- A member with an ongoing FCL arrangement opts to use concurrently the FCL and SLL and the documentation on the request for the new SLL is issued to the Board within six months from the approval of the standalone FCL arrangement or the completion of the mid-term review (¶58) (for more detailed guidance, see Annex V).

**40. Coordination with A.IV consultations**. A very positive assessment of the member's policies in the context of the most recent A.IV consultations is part of the SLL qualification assessment framework (SLL decision, ¶ 2(c)). If more than 12 months have elapsed since the completion of the most recent A.IV consultation, it is recommended that an A.IV consultation will take place before a request of an SLL.[56] In such a scenario, area department teams are encouraged to hold A.IV discussions 2 to 4 weeks prior to a formal Board meeting to consider an SLL extension of an offer or request, to ensure the Board's appraisal can be incorporated in the SR sent for review and management clearance. Mandatory financial stability assessments, which are legally part of the A.IV consultations, and other documents that feed into A.IV consultations, such as FSSAs and ROSCs, should also ideally be timed sufficiently early to be fully integrated into the assessment of qualification.

**41. Staff Report.** Annex V sets out the content of the SR. The SR would be expected to assess qualification, the potential BoP need faced by the member, the appropriateness of the proposed level of access, and the member's CtR and would be reviewed by SPR, FIN, LEG, and other functional departments. A full-fledged adverse scenario is not required to determine access under a standalone SLL (Annex II). Given the short repayment periods and use as a liquidity instrument with relatively low access levels, the CtR analysis can similarly be streamlined (see Annex V). A SR for an SLL request may also be streamlined and reference qualification assessment in the previous Board document, if a member is transitioning from an FCL to an SLL arrangement or from a standalone FCL arrangement to concurrent FCL-SLL arrangements (Section IV.B).

**42. Request vs. offer**. The member has the option to choose whether to have the Fund extend an SLL "*offer*" or to "*request*" an SLL.

- ***Offer.*** Following a member's expression of interest, the Board decides at a Board meeting whether the member qualifies for support under the SLL and whether to "offer" an SLL to the member, with a specified access level, based on the SR and the Managing Director's recommendation. The Board decision extending such "offer" constitutes an approval of an SLL arrangement for the member conditional on the receipt of a satisfactory written communication from the member confirming that it wishes to avail of the SLL arrangement (the authorities' "acceptance"). In this case, a written communication would not be circulated to the Board with the SR. Following the Board decision, the authorities will be notified of the SLL offer through a letter signed and sent by the Managing Director, no later than the end of the business day following the Board meeting. The authorities' written communication shall be submitted no later than two weeks from the date of the conditional approval by the Board. The SLL arrangement

[56] In the case where an SLL is requested at same time as the mid-term review of the FCL, it would be expected that an A.IV consultation take place in that same Board meeting where feasible.

becomes effective once the Fund confirms receipt of the member's signed written communication, including the acceptance of the "offer" and the policy commitments described below. Staff will then issue the communication to the Board for information. A new Board meeting would not be required as the Board had already approved the extension of an offer.

- ***Request*.** The SLL arrangement can be requested by the member through a formal written communication which is attached to the SR, and both are issued to the Board for consideration. In this case, the SLL arrangement becomes effective upon Board approval of the request. A member must use a written communication to request an SLL arrangement if the member is seeking a concurrent approval of SLL and FCL arrangements. A written communication to is also the preferred option for a member with an ongoing FCL arrangement that, at FCL mid-term review, seeks approval of a concurrent SLL arrangement (Section IV).

**43. The authorities' written communication.** The communication outlines the reasons for requesting Fund assistance under the SLL, including the specific BoP need that is expected to be addressed under the arrangement. The text also outlines that the member will maintain very strong policies as well as its commitment to take adequate corrective measures to deal with shocks that may arise, together with consent to publication of the staff report. In the case of a written communication for an "offer", the text should also include the authorities' confirmation that the member wishes to avail itself of the SLL arrangement. The draft written communication should be sent to departments for review at the same time as the SR, and following departments' review, both documents should be sent to management for clearance. The signing[57] and dating of the communication differ when used following an SLL offer vs. when used as a formal SLL request.

- In the case of the ***offer***, the communication, in the form of a signed letter from the authorities to the Managing Director, should not be dated and signed until after the formal Board meeting that conditionally approves the SLL arrangement, and no later than two weeks after the "offer" has been extended to the member.
- In case of a ***request***, the communication should be dated and signed *after* management clearance and prior the issuance to the Board along with the SR. Any modifications to the written communication after issuance to the Board would need to follow procedure in accordance with the Fund's Transparency Policy.

**44. Political assurances.** Country teams should be mindful of the electoral cycle and, where possible, seek to delink the timing of a request for a new arrangement from the electoral cycle. Where it is not possible to delink the request in this way, staff should (at the time of the request) seek assurances from electoral candidates that the very strong policies and policy frameworks will

[57] There are certain circumstances where the written communication for an SLL arrangement can be signed solely by the Central Bank. However, the appropriateness would depend on the individual circumstances of the member – see ¶10 in *"IMF COVID-19 Response—A New Short-Term Liquidity Line to Enhance the Adequacy of the Global Financial Safety Net"*, for more details. If such conditions are not satisfied, the written communication would also need to be signed by a representative of the government that can commit to maintaining fiscal policies.

be maintained. Such assurances are an important forward-looking safeguard for the SLL, where all the approved access is made available upfront without phasing or ex-post conditionality.

**45. Central bank safeguards**. A member requesting or accepting the offer of an SLL arrangement would not be subject to the Fund's policy on safeguards assessments for Fund arrangements (SLL decision, ¶ 6(b)). However, at the time of making a written communication that it wishes to avail itself of an SLL arrangement, or when making a formal written request, the member will provide authorization for IMF staff to access to the most recent annual independent audit of its central bank's financial statements, whether or not the audit is published. This will include authorizing the central bank and its external auditors to discuss the audit findings with IMF staff, including any written observations by the external auditors on weaknesses observed in internal controls.[58] As long as Fund credit is outstanding from purchases under an SLL arrangement, the member will provide Fund staff with copies of annual audited financial statements and management letters, together with an authorization to discuss audit findings with the external auditor. 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 the SR. Area department teams are encouraged to consult early with FIN staff on safeguards requirements.

**46. Interdepartmental review and circulation periods**. Normal interdepartmental review procedures and circulation periods apply to the SLL SR and written communication. The current circulation period is two weeks for the formal Board meeting. Expedited procedures can be envisaged if quick consideration of an SLL arrangement is warranted, or if there are serious concerns about possible leaks if the qualification process is protracted (see Annex VI for further elaboration).

**47. Formal Board meeting.** For a member requesting an SLL arrangement, the Board considers and may approve an SLL arrangement based on the member's written request outlined above, the SR, and management recommendation. As with other Board meetings on UFR, staff will provide a Summing Up (for internal use) and a Chairman's Statement, which will be published subject to the member's consent. In cases where the member chooses to have the Fund extend an SLL "offer", the Board may conditionally approve the arrangement. Such conditional approval, with a specified access level, should be communicated to the member no later than the end of the business day following the Board meeting and is conditional on the receipt within two weeks of a satisfactory communication confirming that the member wishes to avail itself of the SLL. Staff will then issue the written communication to the Board for information. If, after the Board meeting, there are concerns about market-sensitive leaks regarding the offer, the member could request that the Fund issues a press release indicating the Board's conditional approval of an arrangement. The press release should not prejudge the authorities' decision on whether to avail themselves of the arrangement.

**48. Activation of credit line**. The credit line is open on effectiveness of the SLL arrangement. Prior to effectiveness of the SLL arrangement, FIN will need to receive authorization from the

[58] See FIN Operational Guidelines for Safeguards Assessments (March 2024) for FLC/SLL safeguards requirements.

authorities to debit the member's SDR account for payment of the commitment fee, which is due upon the effectiveness of the SLL arrangement.

**49. Transparency**. For a member who is "offered" an SLL arrangement, the effectiveness of the arrangement is conditioned on the member's consent to publish the associated SR when it confirms that it wishes to avail of the SLL arrangement.[59] For a member who is requesting in a written communication to the Board the approval of an SLL arrangement, the Managing Director will not recommend that the Board approve the request unless the member consents to the publication of the associated SR. Non-publication would run against the signaling role of the SLL. The SR and the authorities' written communication would be published by the Fund no later than fourteen calendar days after the SLL arrangement becomes effective. The Fund's Transparency Policy applies.

## C. Purchases

**50. Staff would promptly inform the Board in the event of a purchase under the SLL arrangement**. The brief communication would include the purchasing member, amount in SDR terms and date of the SLL purchase. Given that the SLL's design allows for frequent purchases-repurchases in response to rapidly changing developments, a note akin to the one specified for FCL purchases (¶20) is not envisaged; the relevant discussion could be included in the following country paper (A.IV, successor SLL and/or FCL request). To carry out the payment, FIN would need to receive official communication via SWIFT from the fiscal agency of the member requesting a purchase under the arrangement, specifying its amount and representing an actual BoP need—a standard requirement for GRA purchases. FIN would immediately contact the authorities to determine the earliest possible transaction 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 SLL arrangement, as information on purchases under Fund arrangements is routinely displayed on the Fund's external website.

## D. Expiration and Cancellation

**51. An SLL arrangement expires upon the earlier of: (i) the expiration of its approved period; or (ii) its cancellation by the member.** At the expiration of SLL arrangements or in situations where the authorities cancel an arrangement prior to its expiration, as a courtesy and to the extent possible, staff would update the Board through SEC before commencing its standard public communication strategy. With the nearing of the expiration of an SLL arrangement, staff or management could issue a factual press statement at the member's request noting the successful conclusion of the SLL arrangement. This could highlight the member's recent performance and the role played by the SLL arrangement. In this circumstance—and in all situations where a press statement is proposed—the press statement should be coordinated with COM and SPR to ensure that the impact of such communication on all members under SLL arrangements is taken into

[59] Transparency Policy Decision, para. 5c, Decision No. 15420-(13/61), June 24, 2013, as amended (SM/24/257, Sup. 1.

account in the communications strategy. It is important that press statements should not include any assessment of potential qualification for a successor SLL arrangement.

**52. The authorities can cancel an SLL arrangement at any time.** Should the authorities desire to cancel the existing arrangement ahead of its expiration without requesting a successor arrangement, a member should send a written notification to management, preferably in the form of a formal letter signed by the authorities. The notice of cancellation must clearly specify the effective date of cancellation, which should not be earlier than the date of receipt of the letter by the Fund.

**53. Staff should proactively engage with the authorities when renewal of the SLL comes under threat of non-qualification.** Where a member is likely not to continue to qualify for an SLL, staff should begin discussions with the authorities well ahead of the time when material concerns start arising. Most likely this would occur in the context of a regular staff visit or A.IV consultation mission to flag this as a possible outcome, with a view to incentivizing necessary policy adjustment or providing the authorities with sufficient time to prepare for the expiration of the arrangement.

## E. Communication Strategy

**54. Careful communication will be an essential element of any SLL arrangement.** It should aim to provide guidance to market participants about the authorities' future use of the SLL. A communication strategy should be developed with country authorities and should encompass the essential details of the instrument and the rationale for its usage.

# SECTION IV. SEQUENTIAL AND CONCURRENT USE

## A. Back-to-Back FCLs and/or SLLs

**55. Members with an existing FCL and/or SLL arrangement that continue meeting all necessary conditions can request a successor arrangement(s) prior to the scheduled expiration of the ongoing arrangement(s).** To ensure continuity while ruling out the overlapping of the current and successor arrangements, the formal Board meeting for the approval of the successor arrangement(s) can be scheduled before the scheduled expiration of the previous arrangement(s) when the member cancels the latter. The ongoing arrangement would need to be cancelled prior to its scheduled expiration and to the approval of the successor arrangement. In this event, the authorities' written communication on a request for a successor arrangement(s) should include a statement about their decision to cancel the existing arrangement(s) as of a specified date, which would usually be the date of approval of the new arrangement(s). To ensure seamless coverage for SLLs, the "request" option would preferably be used here.

## B. Transitions Between the FCL and SLL

**56. Members with an existing FCL or SLL arrangement can benefit from certain streamlining when transitioning from the FCL to SLL or vice-versa.** A transition from an existing

FCL (SLL) arrangement to an SLL (FCL) arrangement involves a request for approval of the new arrangement combined with a simultaneous decision by the member to cancel the previous one, where the cancelation is to become effective on the date of approval of the new arrangement. When the member is transitioning between an FCL and an SLL, the assessment of qualification and the staff report can be streamlined under certain conditions (see Annex V for guidance).

## C. Concurrent Use of the FCL and SLL

**57. The FCL and SLL may be used concurrently for complementary insurance against moderate and tail risks.** Concurrent use could be relevant for qualifying countries facing external risks of different nature and with uncertain likelihood of materialization and duration. Under concurrent use, qualifying countries would be able to respond to the mix of shocks by deploying the appropriate instrument, while minimizing UFR in the medium-term given the SLL's shorter repurchase period.[60] Some illustrative scenarios under which concurrent use could be relevant are:

- ***Shocks of a limited scale and uncertain duration.*** The authorities may draw on the SLL based on an initial diagnosis of a short-lived shock. If, however, the shock persists, the authorities can draw on the FCL, gaining the time to undertake a deeper adjustment while avoiding suboptimal responses (e.g., overly quick fiscal adjustment), while repurchasing the SLL without undue strain.
- ***Longer-term shocks with a short-term component focused on the capital account.*** Uncertainty associated with larger BoP shocks (e.g., terms-of-trade) can trigger additional market volatility until the uncertainty dissipates. In such cases, drawing on both instruments simultaneously may be optimal, with the FCL providing breathing room to undertake necessary policy adjustments, and the SLL dealing with moderate volatility in the capital account.

**58. The following procedures apply for concurrent use of the FCL and SLL:**

- ***Prerequisites.*** The country should meet the qualification criteria (which are identical for the two instruments), demonstrate the BoP problem addressed under each instrument, including the SLL's special BoP need, and face external risks which warrant the concurrent use.
- ***Access***. The level of combined access under both instruments should be commensurate with the total potential BoP needs, as illustrated by the external risks arising in the adverse scenario. The CtR analysis for FCL and SLL should discus CtR in the case of combined full drawing.
- ***Approval***. A qualifying country could avail itself of an SLL (FCL) arrangement when already in an FCL (SLL) arrangement, or avail itself of the two simultaneously. The SLL arrangement may be requested simultaneously with the FCL request or mid-term review, with both arrangements

[60] Combined costs under concurrent use would be lowered, since the SLL is a special facility that has somewhat lower commitment fees than the FCL; for a detailed discussion, see IMF COVID-19 Response—A New Short-Term Liquidity Line to Enhance the Adequacy of the Global Financial Safety Net.

discussed in the same Board meeting based on a single document.[61] When the FCL is added to an ongoing SLL or vice-versa, the request, offer, and approval processes would remain the same as under standalone instruments. For simultaneous requests, both arrangements would have to be requested, i.e., the offer option for the SLL would not be available.

- ***Transition from standalone to concurrent use.*** If a member with an ongoing FCL or SLL arrangement opts to use both instruments concurrently, the SR for the new additional arrangement could be streamlined under certain conditions (see Annex V).
- ***Exit***. Under concurrent use of the FCL and SLL, there is no expectation to articulate an exit strategy in the written communication and SR if the FCL is at or below 200 percent of quota, accounting for outstanding credit under previous FCL arrangements (¶27-28). At the same time, concurrent drawings on the two instruments would generally be expected only when the country is assessed to be facing a combined shock (¶58). If hit by a persistent shock requiring Fund support above 200 percent of quota, the country could request an FCL augmentation (Section II.E) rather than drawing on the two instruments together, since the SLL's 12-month maturity may prove to be too short for dealing with longer-duration shocks.

# SECTION V. INTERACTION WITH OTHER INSTRUMENTS

**59. Two-year FCL arrangements can be used concurrently with an RSF arrangement, subject to the member meeting the relevant eligibility and qualification criteria.**[62] Since the approval of an RSF arrangement requires, *inter alia,* at least 18 months remaining under the UCT arrangement it accompanies, the RSF can only be requested jointly with a two-year FCL arrangement or during the FCL's first six months. One-year FCLs and standalone SLL arrangements do not qualify given their short duration. It is expected that one review of the RSF shall take place concurrently with the mid-term FCL review and the remainder be standalone reviews. PNs and SRs for standalone RSF requests and reviews should not comment on FCL qualification but indicate instead that the qualification assessment from the FCL request (or mid-term review) remains valid through the mid-term review (or end of the FCL arrangement). In addition, an RSF arrangement can continue and need not terminate automatically when the member switches from FCL to another qualifying UCT-quality instrument, provided certain criteria are met, including maintaining uninterrupted coverage under the FCL or transitioning without interruption from the FCL to another qualifying UCT-quality

[61] When the SLL is put in place or renewed concurrently with an FCL request, it is expected to be "requested" in the same Board meeting as the FCL request, as having the SLL "offered" by the Board could desynchronize the start dates of the two instruments. Similarly, if the SLL is put in place during an FCL mid-term review, it would be preferable to use the "request" option, if the authorities wish to synchronize the SLL with the remaining year of the FCL.

[62] See the April 2022 Board paper on the Proposal to Establish a Resilience and Sustainability Trust, the Resilience and Sustainability Facility—Operational Guidance Note, and the May 2024 Interim Review of the Resilience and Sustainability Trust and Review of Adequacy of Resources.

instrument,[63] with the new qualifying instrument being approved within 12 months of the approval of the FCL arrangement or the completion of its mid-term review.[64]

**60. FCL and SLL arrangements can, in principle, be used concurrently with emergency financing subject to the member meeting the relevant qualification criteria.** Outright purchases under the RFI (and RCF, in the case of presumed GRA-PRGT blenders) could be considered if the member experiences an urgent BoP need, without the need for major policy adjustments to address the BoP need because the BoP need is transitory and limited in nature. However, in practice, a member with an FCL arrangement in place would be expected to draw on the FCL when confronted with an urgent BoP need—an augmentation under the FCL arrangement could be considered where justified—while countries with a standalone SLL could request instead an FCL arrangement to be used concurrently with the SLL to respond to the actual BoP need.

# SECTION VI. DETERMINING QUALIFICATION

**61. Determining qualification is not a tick-the-box exercise against the criteria; 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 BoP difficulties that it is encountering or could encounter (FCL and SLL decisions, ¶ 2).
- Staff should make clear that a very positive assessment of the member's policies was given in the context of the most recent A.IV consultations (FCL and SLL decisions, ¶2; and ¶22 above).
- The relevant qualification criteria (Annex I) should be assessed by staff in the initial concise staff note to the Board and the SR on the FCL/SLL arrangement request. Nevertheless, it is recognized that these qualification criteria and the related indicators will need to take into account the 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/SLL. However, significant shortcomings on one or more of these criteria—unless there are compensating factors, including corrective policy measures underway—would signal that the member is not among the very strong performers for whom the FCL/SLL is intended.

[63] Other criteria include: (i) the remaining period of the RSF arrangement does not exceed the duration of the new UCT-quality instrument and the minimum duration of the RSF arrangement across the two UCT-quality instruments is observed, (ii) the criteria for approving an RSF arrangement remain satisfied, and (iii) the remaining RSF-supported reform measures remain generally appropriate and conditions remain in place for their successful completion.

[64] See ¶¶37 of Interim Review of the Resilience and Sustainability Trust and Review of Adequacy of Resources, and The Resilience and Sustainability Trust-Targeted Modification Regarding the Flexible Credit Line Arrangement as Concurrent Upper Credit Tranche-Quality Instrument (December 2024).

**62. Changes to the qualification assessment since the previous two assessments should be transparently flagged**, both in the main text of the SR and as a summary table (Annex I).

**63. When a member is assessed and judged not to qualify for the FCL/SLL, 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/SLL may be appropriate.

# SECTION VII. JUSTIFICATION OF ACCESS

**64. 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 (see Annex II of GRA Lending Toolkit and Conditionality—Reform Proposals); (ii) the member's CtR, 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.

**65. Annexes II through IV describe in more detail the framework and relevant tools for developing an access scenario for precautionary purposes**. Justification for access under an actual BoP need would follow normal program guidelines. SPR reviewers and the Non-Concessional Lending Policy Division in SPR can provide further guidance when needed. Mexico 2023 FCL request provides an example of good practice for a precautionary request.

- ***Annex II*** provides a general framework for use by staff when considering access in a precautionary setting;
- ***Annex III*** presents the methodology to calculate the EESI, which shows the evolution of the external environment as it pertains to the member. This should be used to help guide access and exit discussions; and,
- ***Annex IV*** presents an empirical method for comparing access assumptions across FCL cases and with historical experience.

# Annex I. FCL and SLL Qualification Assessment

1. **This annex provides the key considerations for assessing qualification to access financing under the FCL and the SLL, with a view to promoting a predictable and evenhanded qualification process**. The FCL and the SLL have the same qualification framework, which follows the criteria endorsed by the Board in 2014 (FCL)[1] and 2020 (SLL).[2] To provide a transparent and predictable basis for assessing whether a member meets the qualification criteria, the 2017 Review of the FCL and the PLL identified a core set of indicators for FCL qualification with thresholds based on established analytical frameworks (e.g., metrics such as the Assessing Reserve Adequacy (ARA)); these criteria have been further developed in the 2023 Review of the FCL, PLL, and SLL. These core indicators are drawn from the set of indicators endorsed by the Board in 2014 and do not obviate the need for judgment in the assessment of qualification.

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

3. **Qualification for the FCL and the SLL is based on nine specific criteria as set forth below.** [3] Any assessment of qualification involves judgment. Hence, the assessment of the qualification criteria will need to take into account the variety of members' circumstances and the uncertainties that attend economic projections. Very strong performance against all relevant criteria noted below would not be necessary to secure qualification. However, significant shortcomings on one or more of these criteria—unless there are compensating factors, including corrective policy measures underway—would generally signal that the member is not among the very strong performers for whom FCL and SLL instruments are intended.

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[1] See "Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument—Specific Proposals–Annex I" sup. 2 and 3, endorsed by The Acting Chair's Summing Up, Board Meeting 14/53 on June 11, 2014.

[2] See IMF COVID-19 Response—A New Short-Term Liquidity Line to Enhance the Adequacy of the Global Financial Safety Net.

[3] On May 21, 2014, the Board approved a change in the seventh qualification criterion from "the absence of bank solvency problems that pose an immediate threat of a systemic banking crisis" to "sound financial system and the absence of solvency problems that may threaten systemic stability." This change applies to arrangements approved after May 21, 2014. Decision No. 155593 – (14/46). The Board also endorsed the use of indicators of institutional strength. To provide a more transparent and predictable basis for assessing whether a member meets the qualification criteria, the 2017 Review of the Flexible Credit Line and the Precautionary and Liquidity Line identified a core set of indicators with thresholds to be considered as part of the qualification assessment.

## A. Qualification Criteria

4. **For the FCL and SLL assessments, staff would rely primarily on the following nine qualification criteria, including a set of relevant core indicators, to establish the strength of the member's underlying fundamentals and economic policies**. The bottom-line assessment on each criterion will remain a judgment, guided by the relevant indicator. While the set of core indicators and their thresholds constitute a key element in determining whether the criteria are met, they do not obviate the need to consult other sources of information—including the broader set of Board-approved indicators—deemed relevant for the bottom-line assessment of any given criterion in a specific country context (Annex Tables 1 and 2):

**I. External Position and Market Access**

- ***A sustainable external position.*** The core indicator requires the member's external position to have been assessed, in the most recent Board document (A.IV or ESR), as "broadly consistent", "moderately stronger (weaker)", "stronger", or "substantially stronger" than implied by fundamentals and desirable policies. This assessment implies that members with "weaker" or "substantially weaker external positions" would not meet the criterion. The asymmetry in the assessment follows the reasoning that "weaker" or "substantially weaker" external positions (e.g., high current account deficit or net foreign liabilities, overvalued exchange rate, etc.) constitute early warning indicators for impending BoP crises. In addition to the assessment of exchange rate misalignment, other relevant indicators would be: the debt-stabilizing noninterest current account balance; the level and composition of external debt; the level of net international reserves; and the level and composition of private sector external assets.
- ***A capital account position dominated by private flows.*** The core indicator requires public flows to account for less than half of a member's direct, portfolio, and other asset and liability flows, on average in the past three years for which data are available. In addition to the composition of recent capital flows, an assessment of the International Investment Position is also relevant.
- ***A track record of steady sovereign access to capital markets at favorable terms.*** The core indicator requires public sector issuance or guaranteeing of external bonds or disbursements of public and publicly-guaranteed external commercial loans in international markets during at least three of the last five years for which data are available, in a cumulative amount over that period equivalent to at least 50 percent of the country's Fund quota at the time of the assessment.[4] The indicator also requires that the member did not, in staff's assessment, lose market access at any point in the last 12 months. Following the Fund's framework for loss of market access, deteriorating funding conditions and adverse changes in issuance patterns (volume, maturity, and frequency of issuance) that cannot be explained by funding needs would be indications that

[4] In line with discussions on quota-based thresholds of market access for (graduation from) PRGT eligibility under 2024 Review of The Poverty Reduction and Growth Trust Facilities and Financing (Policy Paper No. 2024/047), the threshold for this core indicator will be reduced from 50 to 35 percent of quota after the quota increases under the 16th General Review of Quotas take effect.

the member has lost market access. Other relevant indicators would be a comparison of spreads with comparator countries and relative performance of spreads during periods of global shocks.

- ***A reserve position which—notwithstanding potential BOP pressures that justify Fund assistance—remains relatively comfortable.*** For FCL arrangements requested on a precautionary basis and all SLL requests, the core indicator requires reserves to have been greater than 100 percent of the unadjusted Assessing Reserve Adequacy (ARA) metric on average over three (the current and the two previous) years, and not below 80 percent in any of these three years. By including a lower—but not an upper—threshold for reserves, the assessment follows the reasoning that excess reserve holdings, while possibly undesirable from a systemic perspective, do not constitute a vulnerability for the member. The exchange rate regime used for the assessment should be based on the contemporaneous classification in the Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER). In cases where staff has doubts regarding the exchange rate regime classification (for example, as a result of exchange rate interventions), the Area Department should seek early consultations with MCM and SPR. Other relevant indicators would include additional metrics (imports, short-term debt, monetary base, augmented ARA metrics) as relevant given the member's exchange rate regime and other factors. These other indicators could also be used instead of the unadjusted ARA metric, if the latter is deemed inadequate for judging the member's reserve position. This assessment should generally be reflected in recent A.IV reports.

**II. Fiscal Policy**

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

**III. Monetary Policy**

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

**IV. Financial Sector Soundness and Supervision**

- ***Sound financial system and the absence of solvency problems that may threaten systemic stability.*** The core indicator requires the average capital adequacy ratio for the banking sector (latest available data point) to be above regulatory thresholds, and that the most recent A.IV did not highlight significant solvency risks or recapitalization needs. In addition, a range of other indicators and available information may be combined to assess this criterion. In addition to compliance with regulatory requirements, the bottom-line assessment would consider also other financial soundness indicators. This would include measures of profitability and asset quality, as well as any relevant stress tests conducted by staff, or other analyses of market, credit, and liquidity risks facing banks based on recent FSAPs or other sources, to provide a forward-looking perspective. It would also reflect potential problems in large and systemic banks that may be masked by system-wide averages.
- ***Effective financial sector supervision.*** The core indicator requires that the most recent FSAP or A.IV report did not raise substantial concerns regarding the supervisory framework. The bottom-line assessment would consider any significant changes in conditions since the latest FSAP. Relevant modalities to consider would include an assessment of the legal and institutional framework, as well as the operational capacity, to respond promptly if bank interventions and resolution is warranted and if emergency liquidity assistance is needed. The 2023 Review of the FCL, PLL and SLL also specifies that considerations related to AML/CFT deficiencies, including FATF "grey listings", should be considered for this qualification criterion. Such assessment would look at how deep and persistent AML/CFT risk-based supervision of the financial sector deficiencies are, as well as review the substantive aspects of the FATF listing and the country's action plan related to effective AML/CFT supervision.[5] The bottom-line assessment of this criterion will consider relevant existing indicators (i.e., FSAP and A.IV findings, assessments of legal and institutional framework and operational capacity for robust risk-based supervision and prompt corrective actions for compliance with AML/CFT requirements). In the event of FATF grey listing, the member would be unlikely to qualify for an FCL or SLL arrangement if staff assesses that deficiencies underpinning the listing indicate that this criterion is not met.[6] In reaching the

[5] IMF Board Reviews the Fund's Strategy for Anti-Money Laundering and Combating the Financing of Terrorism, April 11, 2014, PR 14/167.

[6] For example, members may be FATF-listed while having minor outstanding deficiencies; others may have major AML/CFT deficiencies as evidenced by a full catalog of action items that remain unaddressed (though only elements related to financial sector supervision could potentially affect staff's assessment of the member's qualification). In addition, the absence of grey listing does not in all cases imply that there are no AML/CFT issues that could undermine effective financial sector supervision, as such issues can be identified in a comprehensive AML/CFT assessment without necessarily leading to a grey listing (which requires strategic shortcomings in several areas.)

assessment, staff should use FSAP and A.IV reports while being guided on technical issues by the FATF standard and methodology that have been endorsed by the Board. The assessment cannot be solely based on FATF determinations to avoid cross-conditionality.

## V. Data Adequacy

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

**5. The assessment of policy track record will be anchored in the same set of core indicators**. For qualification criteria 2, 3, 4, and 6, the core indicators at the time of the assessment already cover the track record. For the remaining ones (criteria 1, 5, 7, 8, and 9), determination of whether a member meets the track record requirement would be guided by an assessment of the qualification criteria in each of the five most recent years (the latest year for which data are available, and the four years prior to that). The bottom-line assessments on each criterion would follow the same approach as for the current year, including by drawing on additional information, e.g., the appropriateness of a member's policy response to past bouts of capital flow volatility, and the extent to which individual indicator outcomes reflect favorable external conditions.[7]

**6. Changes in qualification should be transparently reported and discussed in country documents.** SRs accompanying FCL and SLL arrangement requests for successor arrangements, FCL mid-term reviews, or augmentation requests are expected to flag changes in the nine core criteria as well as the policy and institutional framework (detailed below) relative to the previous assessment. To this aim, in addition to transparently discussing any changes in the text, the SR is also expected to include a table, either in the qualification section or as an annex, comparing the core indicators for each criterion with the core indicators in previous SRs, as applicable.[8] The SR accompanying the 2023 Mexico FCL request provides an example of such reporting.[9]

[7] As in the case of the bottom-line assessment on the nine qualification criteria, very strong performance against *all* qualification criteria is not required.

[8] Where possible (e.g., in the context of requests of successor FCL or SLL arrangements, or FCL mid-term reviews), such a table would be expected to consider assessments provided in at least two previous staff reports.

[9] See IMF Country Report No. 2023/368 "Mexico: Arrangement Under the Flexible Credit Line and Cancellation of Current Arrangement-Press Release and Staff Report". November 2023.

## B. Indicators of Institutional Strength

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

- ***Policy cyclicality.*** Relevant indicators to inform this judgment may include, for fiscal policy, the moving correlation between the cyclically-adjusted fiscal balance or government spending and cyclically-adjusted GDP, and for monetary policy, the moving correlation between the cyclically-adjusted real short-term policy rate and cyclically-adjusted GDP.[10] In countries with rigid exchange rate regimes, it may also be worth exploring the cyclicality of cash reserve requirements.
- ***Effective response to shocks.*** The assessment is based on staff's coverage of governance weaknesses and corruption vulnerabilities in A.IV consultation SRs along the six state functions identified by the 2018 Framework for Enhanced Fund Engagement on Governance.[11] Relevant functions are (i) fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; (v) rule of law; and (vi) AML/CFT.[12] The coverage in the A.IV SR is based on the Fund's centralized assessment that was established under the 2018 Governance Framework, including both quantitative (e.g., the World Bank World Governance Indicators) and qualitative inputs from Fund staff analysis and reputable external sources. A member would likely not be considered a strong performer for the purpose of FCL/SLL qualification if, informed by the A.IV consultation findings, staff concludes that governance and corruption vulnerabilities hamper a country's ability to respond to shocks. If a new request for an FCL or SLL arrangement is expected, staff should prioritize discussions of governance issues, considering urgency of assessing governance vulnerabilities for qualification.[13] In rare instances where the arrangement request, or a mid-term FCL review, comes after an A.IV consultation that has not covered relevant vulnerabilities identified by the centralized assessment, staff would discuss them with the authorities as part of staff's consideration of qualification.

[10] On the estimation of structural and cyclically adjusted balances, see Bornhorst, F., Fedelino, A., Gottschalk, J., and Dobrescu, G. (2011). "When and How to Adjust Beyond the Business Cycle? A Guide to Structural Fiscal Balances." IMF Technical Notes and Manuals, 2011.

[11] See IMF Policy Paper "Review of the 1997 Guidance Note on Governance—A Proposed Framework for Enhanced Fund Engagement". April 2018.

[12] It is recommended to avoid duplication and cross-reference relevant ¶s for cross-cutting governance issues that are also expected to be discussed under a qualification criterion (e.g., AML/CFT under "effective financial sector supervision" or the quality of fiscal institutions under "sound public finances").

[13] In this regard, staff will leverage the substantive discussions of severe governance and corruption vulnerabilities in A.IV staff reports consistent with the 2018 Governance Framework, and in addition, will take into account whether the Fund's centralized assessment does not identify severe governance and corruption vulnerabilities.

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

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

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

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

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

| | Criterion | Indicator[1/] |
|---|---|---|
| 7 | Sound financial system and the absence of solvency problems that may threaten systemic stability | Requires the average capital adequacy ratio for the banking sector to be above regulatory thresholds, and that the most recent A.IV did not highlight significant solvency risks or recapitalization needs. The bottom-line assessment would consider other financial soundness indicators, as well as any relevant stress tests conducted by staff, to provide a forward-looking perspective. It would also reflect potential problems in large and systemic banks that may be masked by system-wide averages. |
| 8 | Effective financial sector supervision | Requires that the most recent FSAP or A.IV report did not raise substantial concerns regarding the supervisory framework, including on AML/CFT issues. The bottom-line assessment would consider any significant changes in conditions since the latest FSAP. Considerations related to AML/CFT issues, including FATF grey listings, should be considered for this criterion. In the event of FATF grey listing, the member would be unlikely to qualify for FCL/SLL if staff assesses that deficiencies underpinning the listing indicate that the criterion is not met. |
| 9 | Data transparency and integrity | Requires that the member is an SDDS or SDDS Plus subscriber or has made satisfactory progress toward meeting the SDDS requirements. |

[1/] Please note that the assessment of policy track record will be anchored in the same set of core indicators For qualification criteria 2, 3, 4, and 6, the core indicators already cover the track record. For the remaining ones (criteria 1, 5, 7, 8, and 9), determination of whether a member meets the track record requirement is guided by the assessment of the qualification criteria in each of the five most recent years (i.e., the latest year for which data is available, and the four years before). Also, while judgment is important for all nine criteria, it is particularly important for criteria 6, 7, and 8.

[2/] The assessment of a member's external position as per the mandatory external sector assessment in surveillance takes into account the following five key areas: current account (CA), real exchange rate, foreign exchange intervention and reserves, foreign assets and liabilities, and capital and financial account. The bottom line assessment of a member's external position falls into one of the following seven categories, guided by the corresponding indicative ranges for the staff-assessed CA gaps (in percent of GDP) with considerations of all other areas: (i) substantially stronger (CA gaps more than 4 percent); (ii) stronger (CA gaps between 2 and 4 percent); (iii) moderately stronger (CA gaps between 1 and 2 percent); (iv) broadly consistent (CA gaps between -1 and 1 percent); (v) moderately weaker (CA gaps between -2 and -1 percent); (vi) weaker (CA gaps between -4 and -2 percent); and (vii) substantially weaker (CA gaps less than -4 percent).

[3/] Public flows are flows to and from the domestic public sector, and are defined as the sum of the absolute values of reserve assets flows, and general government and central bank portfolio and other debt liability flows. In the absence of data for a large sample of countries, other official asset and liability flows of the public sector are assumed to be zero.

[4/] This indicator assessment broadly follows the market access criterion for (graduation from) PRGT eligibility. The bottom-line assessment will consider if there is convincing evidence that the sovereign could have tapped international markets on a durable and substantial basis, even though the scale or duration of actual public-sector borrowing fell short of the specified thresholds. This would be a case-specific assessment, informed by factors such as the volume and terms of recent actual borrowing in international markets and the sovereign credit rating. The 50 percent of quota threshold for public sector debt issuances will be reduced to 35 percent of quota, once the quota increases under the 16th General Review of Quotas take effect.

[5/] A methodology for making this assessment was articulated in "The Fund's Lending Framework and Sovereign Debt—Further Considerations", IMF Policy Paper, April 2015.

[6/] See Annex II for an empirical justification of the 80 percent threshold. The overall assessment could consider other reserve metrics if the ARA metric is deemed inadequate for judging the member's reserve position. This assessment should generally be reflected in recent A.IV reports and based on the prevailing exchange rate classification reported in the AREAER.

# Annex II. Determining Access on a Precautionary Basis

**1. This annex 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. The aim is to ensure 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 spelt 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

**2. 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 CtR (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

**3. Access requested on a precautionary basis is a matter of judgment, and 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, including the special BoP need required for SLL qualification and tail risks addressed by precautionary FCL arrangements; (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.

**4. The construction of the *adverse scenario* should be informed by:** (i) downside global assumptions in line with the latest WEO downside scenario, GFSR or Global Risk Assessment Matrix (GRAM) as relevant (with a description of the potential shock and, ideally, how likely it is); (ii) developments in an index of external economic stress (described below and further in Annex III); (iii) evidence from past or current crises (described also below and further in Annex IV); and (iv) country-specific factors (and likelihood based on past experience). The adverse scenario should also take into account whether there is a case for an orderly exchange rate adjustment and whether reserve coverage (on a number of metrics, including the Fund's Assessing Reserve Adequacy (ARA) metric) suggests that the reserve level should be maintained, raised, or lowered. For example, if a country is hit by a permanent shock that affects the equilibrium exchange rate, the role of Fund financing/insurance may be to help the country to move to a new equilibrium in an orderly manner rather than to preserve the previous real exchange rate. Even if the shock is assumed to be temporary, the description of the adverse scenario should make clear the assumed direction of change in the exchange rate and the implied impact on financing needs. With respect to reserve coverage, discussions of the access level during the internal review process could consider alternative reserve drawdown scenarios—such as access levels under a lower bound of reserves for the given country (see below for considerations regarding reserve drawdowns), with consideration also to the pace of reserve drawdown to avoid adverse market reactions. A decision to maintain reserve levels significantly above the lower bound in the adverse scenario should be clearly justified in the SR. In determining the scale of access, teams also need to ensure that the BoP tables demonstrate the potential need. Annex Table 1 provides a guide to the shocks that could be used to construct this scenario (but such examples should be considered as defining the minimum set of information required on the underlying assumptions and factors determining the scale of access).

**5. Global assumptions**. The adverse scenario should draw its global assumptions from the most relevant downside risks to the external environment as identified by the latest WEO downside scenario, GFSR, or G-RAM, also considering country-specific circumstances. SRs should indicate the scenario used and be informed by the downside scenario in the external economic stress index. While these two scenarios do not need to be identical, the source of the shock and direction of the risks should be consistent. In general, the WEO and GRAM provide a useful reference for quantitative estimates of global economic shocks, which could inform the effects on export demand, terms of trade, and remittances. The GFSR should be the main source for key global and regional assumptions on financing conditions, under the baseline and an adverse scenario. Where the WEO and GFSR are clearly out of date, staff should briefly justify the use of different global shocks.

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

**7. The index should be used to help guide access discussions.** When the index indicates more elevated risks than previously identified, the adverse scenarios would normally be expected to include assumptions that are more extreme; similarly, when the index shows lower stress, the assumed shocks should be correspondingly smaller. As these risks decline over time, access would be expected to decline which would be consistent with a member progressively exiting from arrangements under the FCL. Nevertheless, as with other aspects of the exercise, the discussion will be subject to a high degree of uncertainty, and the role of judgment will remain paramount.

**8. 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 BoP. Past crisis episodes could provide a useful reference for the size of the expected shock on e.g., different components of the capital account (see suggested approach in Annex IV).

**9. 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 SRs before publication, where warranted by circumstances.

**10. Additional considerations and reserve adequacy**. An assessment of *reserve adequacy* and how this would be affected if the adverse scenario materializes is also necessary (see also Assessing Reserve Adequacy, Assessing Reserve Adequacy—Further Considerations, and Assessing Reserve Adequacy—Specific Proposals). Staff should compare reserve levels according to different metrics relevant for given country-specific vulnerabilities and relevant for the exchange rate regime (e.g., the Fund's ARA metric as well as other standard metrics). With reserve drawdown a key element in determining access levels, limited reserve drawdown should be clearly justified and reserve adequacy ratios well into the adequacy range in the adverse scenario should be generally avoided. Specifically, it would normally be expected that assumed levels of gross reserves are allowed to fall below 100 percent of the ARA in the adverse scenario (since this is an extreme stress event). In this respect, the 2014 Review of the FCL, the PLL, and the RFI included discussion of a lower threshold level of 80 percent of the Fund's ARA metric.[1] However, when considering the appropriate reserve drawdown, the pace of the drawdown should also be considered to avoid adverse market reactions. Overall, for countries for which reserve levels are above adequate, the adverse scenario should include the use of international reserves to cover part of the financing gap, implying that not all the potential financing need is met through Fund resources. Where it is clear that reserve levels need to rise over the course of the FCL arrangement to maintain reserve adequacy, staff may want to build in an increase in reserve levels in the baseline projection. In tandem with assessing the level of reserves, staff should also consider whether an orderly exchange rate adjustment might be necessary if the adverse

[1] Using a large sample of EMEs over a 22-year period, the reserve threshold was derived so as to minimize Exchange-Market-Pressure crisis prediction errors. The "optimal" threshold minimizes the sum of type I and type II crisis prediction/misclassification errors to avoid missing crises (threshold too high) and predicting false crises (threshold too low). Hence, with an 80 percent threshold separating crisis from non-crisis signals, countries may be able to draw down reserves to that limit in severe stress events without igniting crisis risks.

scenario unfolds. Assumptions regarding the exchange rate and any impact on financing needs should be clearly spelled out in terms of the direction and implied impact on financing needs.

**11. Specific considerations apply when the FCL and SLL are used concurrently.** When FCL and SLL arrangements are requested, or used, simultaneously, the SR should clearly state the member faces a BoP need which is addressed by both instruments (combined access should not exceed the total need illustrated by the scenario, see ¶ 59). Relevant circumstances include, for example, cases where the member faces a large medium-term shock (best addressed by the FCL), followed by short-term capital account instability that would generally require at most fine-tuning monetary and exchange rate policies (appropriately addressed by the SLL). The principles outlined in this section (use of global assumptions, the index of external economic stress, and past or current crisis episodes) would also apply to the construction of the adverse scenario under concurrent FCL/SLL use. Staff can also draw on country-specific factors, such—if appropriate—reserve interventions to counter disorderly market conditions in line with Fund policy.[2]

**12. Access levels should always be presented based on the potential BoP need, irrespective of the specific UFR by the member (budgetary support, reserve build up, bank restructuring costs).**[3] 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 BoP (excessive current account contraction) would be warranted.[4] Operationally, proposed access levels should be commensurate with the projected BoP need shown in SRs.

**13. Estimates of precautionary BoP needs and thus the corresponding access level can be appropriately based over a rolling 12-month window,** even for longer-duration arrangements, in line with evidence from past crisis cases (see [2009 Review of Recent Crisis Programs] paper). In all cases, staff should check that the level of access is appropriate, not just with respect to financing gap estimates but also with respect to a wider range of indicators related to CtR and quota (for this purpose, the PN, and SR should include a comparison of high access cases indicators table).

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[2] The Integrated Policy Framework provides a frictions-based approach to the advice on FXI.

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

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

### Annex II. Table 1. Illustrative BoP Shocks in Adverse Scenarios

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

# Annex III. External Economic Stress Index

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

2. **Any index will, broadly, require three main choices**: (i) the selection of the key external *risks* facing the country; (ii) the selection of proxy *variables* capturing these risks; and (iii) the choice of the *weights* to apply to each of these variables. The index will be a weighted sum of standardized deviations of the external proxy variables from their means. Country teams should discuss these key modeling choices with the relevant country authorities, although country teams will ultimately be responsible for making these decisions.

- ***Risks***. The principal external risks specific to a country are typically identified by country teams in A.IV consultation SRs, following discussion with country authorities, including drawing on risks identified in the Global Risk Assessment Matrix (G-RAM). Key vulnerabilities could include, for example, portfolio and cross-border bank flows, exports to key trading partners, workers' remittances, and commodity prices changes for commodity exporters.
- ***Variables***. Each risk would be represented by proxy variable(s) that capture(s) the external factors relevant to the risk. For example, if exports to the euro area are a key risk, euro area growth could be the external proxy variable. Risks associated with portfolio debt liability risks could be linked to U.S. treasury yields, and equity portfolio investment could be related to volatility in EMs.
- ***Weights***. Different methods can be used to calculate the weights for the selected variables, depending on data availability and relevance of different techniques. As the default, simple

[1] This index is not intended to help inform qualification decisions, which are subject to the qualification framework.

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

statistics could be used to derive the weights (data-based). However, where appropriate and feasible, country teams could explore more advanced econometric methods (model-based), as long as they lead to economically meaningful weights.

- ***Data-based weights***. Under this method, weights would be determined by the economic size of the respective BoP vulnerability relative to the overall size of the economy. For instance, if the vulnerability is exports to a particular market, the long-term average size of those exports would be calculated as a share of the country's output.
- ***Model-based weights***. As an example of this method, the IMF's Flexible System of Global Models (FSGM) could be used to estimate model-based weights, see for e.g., Morocco's 2023 FCL request SR.[3]

3. **To demonstrate the possible estimation of EESI, this annex includes illustrative indices for FCL users building on the 2023 Review of the FCL, SLL, and PLL**. These indices bring together selected sources of external risk facing these countries. They measure whether a country's external environment is better or worse than normal since each index uses differences of the proxy variables from long-run means.[4] Annex Table 1 reports the key risks, proxy variables and weights underpinning the EESI.

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

5. **The EESI has been guiding discussions of access and exit prospects, together with considerations on the availability of reserve buffers.** There is evidence that improvements in the EESI and/or declines in the impact of tail risks—as captured by the difference between the EESI under the adverse and baseline scenarios—are associated with reductions in access, consistent with a country progressively exiting from the FCL, while increased risks correlate with higher or unchanged access levels (Annex Figure 1).

[3] See Andrle et al. (2015) *The Flexible System of Global Models —FSGM,* WP/15/64 for an overview of the IMF's FSGM. Vector autoregressions could also be used to estimate the importance of each of the risks on observed BoP pressures, see Annex Box 1 in *Flexible Credit Line—Operational Guidance Note* (August 2018).

[4] To make the deviations from averages comparable across proxy variables and therefore additive in a weighted average, the index also divides the differences by the long-run standard deviation of the respective proxy variables.

**Annex III. Table 1. External Economic Stress Index Components in FCL Arrangements**

| FCL request | External risk | Proxy variable | Weights |
|---|---|---|---|
| **Chile 2022** | Copper export revenue<br>FDI into the copper industry | Change in copper price | 0.35 |
| | Exports to the US<br>Exports to China | US and China real GDP growth (weighted average) | 0.15 |
| | Equity portfolio investment flows | Emerging market implied volatility index (VXEEM) | -0.25 |
| | Debt portfolio investment flows | Change in detrended 10-year US Treasury yield | -0.25 |
| **Colombia 2022** | Oil exports<br>Oil-related FDI | Level of oil price | 0.32 |
| | Exports to the US<br>Remittances<br>Other inward FDI | US real GDP growth | 0.24 |
| | Equity portfolio investment flows | Emerging market volatility index (VXEEM) | -0.04 |
| | Debt portfolio investment flows | Change in 10-year US Treasury yield | -0.40 |
| **Mexico 2023** | Oil exports | Change in oil price | 0.02 |
| | Exports to the US<br>FDI from the US<br>Remittances from the US | US growth | 0.50 |
| | Equity portfolio investment flows | Emerging market volatility index (VXEEM) | -0.14 |
| | Debt portfolio investment flows | Change in 10-year US Treasury yield | -0.35 |
| **Morocco 2023** | Oil imports | Change in oil price | 0.23 |
| | Exports to Europe<br>FDI from Europe<br>Remittance from Europe<br>Tourism receipts from Europe | Euro area GDP growth | 0.69 |
| | Equity & debt portfolio investment flows | Emerging market volatility index (VXEEM) | 0.08 |
| **Peru 2022** | Mineral exports<br>FDI | Weighted average of copper and gold price | 0.35 |
| | Non-mineral exports | World GDP growth | 0.26 |
| | Equity portfolio stock | Emerging market volatility index (VXEEM) | -0.22 |
| | ST debt portfolio shock and amortization of MLT debt | Change in 10-year US Treasury yield | -0.17 |

## Annex III. Figure 1. External Economic Stress Index, Access, and Exit under FCL Arrangements

# Annex IV. A Framework for Comparing Access Assumptions

1. **This annex outlines a framework for comparing access assumptions across members availing themselves of the FCL (or in fact, the PLL)**. The framework was developed in the context of the 2011 Review and has since become standard practice for access requests.

2. **The first step involves identifying exogenous shock periods**. This involves identifying the impact on EMs stemming from episodes of decline in domestic demand and elevated financial stress in their advanced market (AM) trading partners in 1991, 2001, and 2009. These periods were followed by economic stress across a number of EMs and are, as such, categorized as crisis events.

3. **The second step involves measuring moves in key external variables across 49 EMs during these identified crisis periods**. The sample (broadly consistent with the one used for the Fund's Vulnerability Exercise for Emerging Markets exercise) includes EM that are medium sized, have market access, and attract private inflows through FDI, portfolio flows, and loans.

- **Variables**. Eight external variables are used in the analysis, focusing on those variables in the current and financial accounts that form the basis of downside risk assumptions in past FCL access decisions. These variables comprise exports; FDI; fuel- and non-fuel commodity prices; portfolio and other investments; and short- and MLT public and private rollover rates.
- **Density distributions**. This step involves identifying density distributions for the behavior of external variables during past exogenous stress episodes for EMs. For each variable, values for countries *i : 1, …, I* in the event years are stacked in a vector denoted with *x*. These vectors are used to estimate univariate kernel densities. Kernel density estimators approximate the density *f(x)* from observations on *x*. The data are divided into non-overlapping intervals, and counts are made of the number of data points within each interval so that FCL arrangement assumptions can be presented on these distributions with greater precision. Kernel distributions provide comparable benchmarks to calibrate the assumptions used in past FCL arrangements for key external variables, which in turn helped determine access levels.

4. **Time period**. For FDI and exports, averages spanning the three years prior to the crisis year are used as a baseline. The crisis year deviations from these baselines are then used as *the shock s*cenario. For private and public rollover rates, episode year values are used to estimate densities. Finally, for commodity and fuel prices, time series values for the 1991–2011 period are pooled to estimate the densities. FCL and PLL cases are placed on these densities based on the shock scenarios that are described in country case studies.[1]

5. **To compare the implicit assumptions on tail risks across current and past FCL cases**, the implicit assumptions from past FCL-PLL cases are placed in the empirical distributions of key EM access parameters for the variables described above (see Annex Figure 1).

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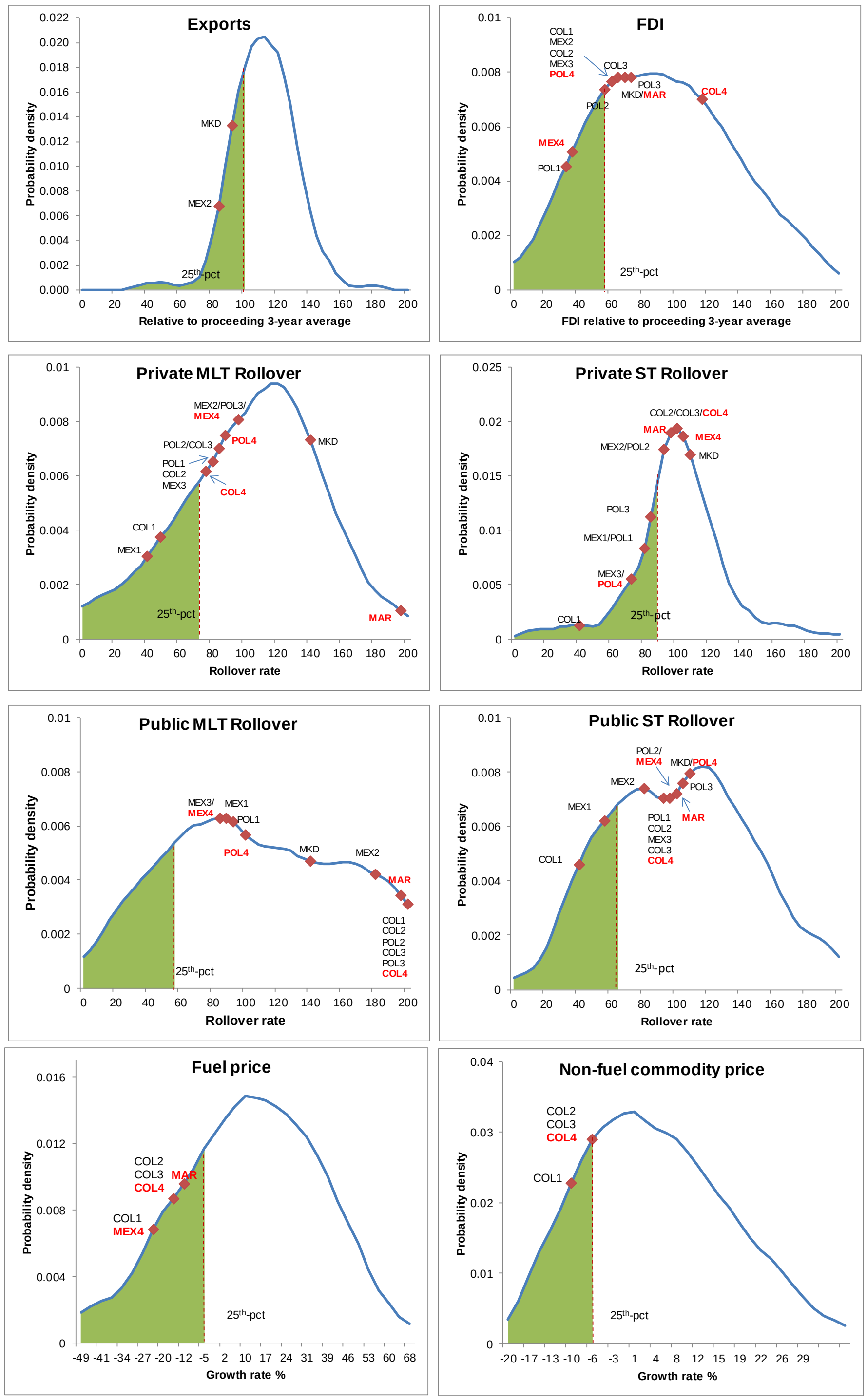
[1] See The Review of the Flexible Credit Line, The Precautionary and Liquidity Line, and the Rapid Financing Instrument—Supplementary Information.

## Annex IV. Figure 1. Empirical Adverse Shock Distribution—in Crisis Year[1/]




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

# Annex V. Staff Documents

## A. Preliminary Qualification Assessment Note

**1. The preliminary qualification assessment note to management should include:**

- A preliminary 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 BoP difficulties that it is encountering or could encounter.
- A statement on whether the most recent A.IV consultations included very positive assessments of the member's policies.
- A preliminary assessment of the qualification criteria in Annex I, including, where necessary, a reference to aspects of the criteria that require more information in order to be assessed fully.

**2. Streamlined procedures may apply under certain conditions.** The preliminary qualification assessment note may cross-reference the qualification assessment under the most recent Board document in the previous or ongoing FCL/SLL arrangement in the scenarios below. In either case, staff should include a discussion of their assessment that the qualification (that is being cross-referenced) has not changed.

- A member with an ongoing FCL (SLL) arrangement decides to transition to a new SLL (FCL) arrangement no later than six months from (i) the entering into effect of the SLL (FCL) arrangement to be cancelled; or (ii) the date of the completion of the mid-term review under the FCL arrangement to be cancelled.[1]
- A member with an ongoing FCL or SLL arrangement opts to use concurrently the FCL and SLL and if the documentation on the request for the new additional arrangement is issued to the Board for its formal consideration no later than six months from the approval of the stand-alone FCL or SLL arrangement or completion of the FCL mid-term review.

**3. The preliminary qualification assessment note is expanded when a member with a precautionary FCL arrangement requests a successor one and an informal Board meeting is not held.** In addition to assessing qualification as described in ¶1, it should include:

- Preliminary considerations on access, underpinned by an adverse scenario. If access cannot be determined with certainty, a range should be included instead (although the upper end of the range cannot exceed that of the previous FCL arrangement); in such cases, the adverse scenario would be based on the upper end of the range.

[1] The transition between FCL and SLL arrangements involves a request for approval of the new arrangement combined with a simultaneous decision by the member to cancel the previous one, where the cancelation is to become effective on the date of approval of the new arrangement.

- A preliminary assessment of the member's CtR, based on the upper end of the access range.

## B. Concise Staff Note for the Informal Board Meeting (FCL)

**4. The note should focus on qualification and access issues and, accordingly, can be significantly more succinct than the SR for the formal board meeting.** It should 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 BoP difficulties that it is encountering or could encounter. A statement on whether the most recent A.IV consultations included very positive assessments of the member's policies. A preliminary assessment of the qualification criteria in Annex I, including, where necessary, a reference to aspects of the criteria that require more information in order to be assessed fully. For successor arrangements (when streamlined procedures are not used), the qualification section should also cover the evolution of qualification indicators since past requests/reviews (see details in Annex I).
- ***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 600 percent of quota or SDR 10 billion, whichever is lower, as well as an assessment of the associated enterprise risks.[2]
- ***Tables***. Required tables include standard economic indicators, BoP (both with projections for the current year and following year), gross external financing requirements, and CtR. If the arrangement is requested on a precautionary basis, the financing requirement and CtR tables should cover both the baseline and adverse (drawing) scenarios. For transparency when requesting a successor arrangement (and when the streamlined procedures are not applicable), the table showing the gross external financing requirements should make clear how current adverse shock assumptions compare to those under the previous arrangement.
- A table comparing access metrics across various cases should also be included (compared with previous FCL/SLL and exceptional access cases).

[2] The assessment of the impact of the 2023 Mexico FCL arrangement on Fund liquidity provides an example (see ¶¶13-15).

## C. SR for the Formal Request for an FCL or SLL Arrangement, or SLL Offer

**5. The SR should include:**

- A discussion of recent macroeconomic developments and policies, the economic outlook, the expected evolution of risks over the arrangement period, and the authorities' forward-looking policy plans, including 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, where applicable. For the SLL (including in a transition from an ongoing FCL arrangement to a new SLL arrangement, or where a member opts to use concurrently the SLL, when it has an ongoing FCL arrangement), an assessment of the special BoP problem addressed by the SLL should be included.
- A detailed assessment of the qualification criteria. For successor arrangements, a discussion of the evolution of qualification indicators should also be featured, accompanied by a table covering current request and previous 2-3 years (see details in Annex I).
- 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, underpinned by an adverse scenario (for FCL and concurrent use of FCL and SLL) and EESI.
    - In the event of concurrent use of the FCL and SLL, the SR will need to include a discussion of the total BoP need of the member, showing that the combined access under the SLL and FCL is commensurate to the potential BoP gap in the adverse scenario. The SR will also include an updated EESI and the member's CtR.
    - As part of the discussion on the proposed level of access for a standalone SLL, the SR can draw, as example, on historical episodes of capital account volatility, showing how SLL resources would help to reinforce the member's existing liquidity buffers.[3]
- A discussion of the member's CtR in the event that the member makes purchases under the FCL and/or SLL arrangement, where short-term financing considerations should feature prominently for CtR in the event the member makes purchases under the SLL.[4]
- An assessment of enterprise risks.

[3] The SR for Chile 2022 SLL request provides an example of articulation of a BoP need in line with SLL qualification criteria, see IMF Country Report No. 22/148.

[4] For standalone SLL requests, the staff report is expected to discuss the member's repayment capacity in the event of a full purchase during the 12 months of the arrangement, including consideration of peak Fund exposure following a full drawing and comparison of access relative to similar cases, peak debt service ratios, and external debt service requirements. Given the short-term repayment horizon, focusing on short-term external debt (rather than total external debt) and market-access considerations, along with developments in reserves, would seem important complements to the indicators typically used in CtR analysis. In light of the short repayment periods, a multiyear projection table for CtR indicators is not required for standalone SLL documents.

- Staff appraisal.
- Selected economic indicators including projections for the current year and following years to cover the length of the arrangement, a BoP table (expected to include projections for a five-year time span), tables on external financing requirements and sources and fiscal projections, the debt sustainability tables (external and public), a table on CtR (under drawing scenario) with a minimum duration of 5 years, and a table illustrating alternative metrics for access.
- A draft proposed decision for approval of the arrangement and the text of the 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 SR.[5]
- The authorities' signed written communication.[6] In the event of concurrent approval of an SLL and FCL arrangement, both arrangements need to be requested in a single written communication to ensure synchronized start dates of the two arrangements.

**6. Streamlined procedures could apply if a country transitions between FCL and SLL arrangements or from standalone to concurrent use.** The SR for the new arrangement can, in discussing qualification, cross-reference the analysis in the most recent Board document if:

- A member with an ongoing FCL (SLL) arrangement decides to transition to a new SLL (FCL) arrangement no later than six months from (i) the entering into effect of the SLL (FCL) arrangement to be cancelled; or (ii) the date of the completion of the mid-term review under the FCL arrangement to be cancelled.[7]
- A member with an ongoing FCL or SLL arrangement opts to use concurrently the FCL and SLL and if the documentation on the request for the new additional arrangement is issued to the Board for its formal consideration no later than six months from the approval of the stand-alone FCL or SLL arrangement or completion of the FCL mid-term review.
- In both cases, staff should include their assessment that the qualification (that is being cross-referenced) has not changed. The SR will need to include an update on the member's BOP problems and demonstrate the special BoP problem addressed by the SLL.

[5] 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.

[6] If the member chooses to have the Fund extend an SLL "offer" to them, the written communication shall be sent for departmental review and management clearance with the staff report, but shall be submitted no later than two weeks after the Board has conditionally approved to extend the offer to the member.

[7] The transition between FCL and SLL arrangements involves a request for approval of the new arrangement combined with a simultaneous decision by the member to cancel the previous one, where the cancelation is to become effective on the date of approval of the new arrangement.

## D. Staff Report for the Mid-term Review of an FCL Arrangement

**7. The Mid-term review SR 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.
- Standard economic indicators for the current year and the following years to cover the length of the arrangement, a BoP 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 CtR. When requesting a successor arrangement, the external financing needs table should make clear how current adverse shock assumptions compare to those under the previous arrangement.
- 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, signed letter from the member should also be attached and discussed in the report.

## E. Concise Notes after a Purchase under a Precautionary FCL Arrangement

**8. The briefing memo prepared by the area department to brief the Board *immediately* after a drawdown should include:**

- A discussion of recent macroeconomic developments leading to the emergence of the actual BoP need and corresponding purchase.
- A discussion of the economic outlook.
- An updated SEI table.
- An updated financing needs and sources table, presenting the BoP need projections by the team for the remainder of the arrangement period.
- An updated table on CtR.

**9. The additional briefing memo to the Board, which should normally precede the mid-term review or next request (including for an augmentation) should include:**

- A discussion of the macroeconomic circumstances—both domestic and external—that have led to the actual BoP need and the ensuing FCL purchase.
- A discussion of the member's policy responses.
- A discussion of any developments in the member's policy frameworks pertinent to FCL qualification, and the evolution of the member's ability to access international capital markets, among any other relevant considerations.

# Annex VI. Expedited Procedures

**1. 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, ¶ 7) or SLL arrangements (SLL decision, ¶ 9).** Instead, the FCL and SLL Decisions themselves set out the expedited procedures to be followed, if necessary (FCL decision, ¶ 6(a)(v) and SLL decision, ¶ 6(a)(iii)). 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/SLL aims for. In such cases, a possible timetable could be as follows:

- Staff and management "engage" the Board on FCL/SLL qualification and proposed access level, on the basis of documentation provided to the Board at least two hours prior to the informal Board meeting "to engage" (analogous to what is stated in the Acting Chair's Summing Up—Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy (Board Meeting 03/16, February 26, 2003)).
- 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/SLL 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.[1]
- A formal Board meeting could consider the member's request within 48 to 72 hours following the circulation of the SRs to the Board (¶ 6(a)(v)).

[1] This would be parallel to the EA policy (Acting Chair's Summing up from Board Meeting 03/16, February 26, 2003) which highlights that "management will consult with the Board specifically before concluding discussions on a program and before any public statement on a proposed level of access. Strict confidentiality will need to be maintained, and 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." It would also be in line with past practice, whereby statements by management followed ad referendum agreement with the authorities.

# Annex VII. Synchronized Approval of Flexible Credit Lines or Short-Term Liquidity Lines, or Augmentation of Flexible Credit Lines for Multiple Countries[1]

1. **This annex sketches the procedures under which synchronized approval of FCL or SLL arrangements, or augmentation of FCL arrangements, for multiple countries could be undertaken under the existing Fund policies.** When multiple members face the same shock, synchronized approval of FCL or SLL arrangements, or augmentation 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.

2. **Synchronized FCLs or SLLs**. When hit by a common shock, member countries may approach the Fund jointly to request/augment Fund financial assistance. Most likely, however, potential interest by members would be conveyed bilaterally. Each member's qualification would be assessed individually, and only after the member has affirmatively expressed interest in an FCL or SLL. More generally, FCL or SLL arrangements requested or approved/augmented on a synchronized basis are not different from other FCL and SLL arrangements, and would be subject to all the requirements applicable under Fund policies.[2]

3. **Confidentiality**. Confidentiality must be preserved in discussing with members the potential use of, and qualification for, the FCL or SLL. Only the Board has the authority to determine qualification, to approve FCL or SLL arrangements, or approve augmentation of existing 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 or SLL arrangement; neither would they reveal that any other member has expressed interest in the instrument, unless the member(s) that has already expressed interest has agreed that such information can be shared in the informal discussions with other members.

4. **Synchronized procedures**. Should a number of members express interest in synchronized financial assistance from the Fund under FCL or SLL arrangements, and Fund management decides that access to Fund resources under the FCL or SLL by each member may be appropriate, the Board will be promptly consulted in an informal meeting. Expedited approval procedures could be

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[1] Based on Technical Note on Synchronized Approval of Flexible Credit Lines for Multiple Countries; IMF Policy Paper; November 12, 2010, and the Board Paper on the Review of the Flexible Credit Line, the Short-Term Liquidity Line, and the Precautionary and Liquidity Line, and Proposals for Reform; October 6, 2023.

[2] Under such circumstances, it is preferable for the SLL arrangements to be "requested" by country authorities rather than "offered." If the SLL is "offered" by the Board, it could lead to desynchronization of the start dates for the arrangements across different countries owing to the procedural steps required to make the SLL arrangement effective. Nonetheless, the "offer" option under the SLL policy will continue to be available.

followed consistent with the FCL or SLL Decision.[3] This 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 or to approve a request for augmentation 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. For the SLL, the process will be similar to the one envisaged earlier for a synchronized approval of FCLs.

**5. External communications**. If there are concerns about a market-sensitive leak or misinformation about the requests, management could issue a short press statement following the initial informal Board meeting (in the case of synchronized requests) indicating the concurrent request of FCL or SLL 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.

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

**7. Safeguards**. Depending on the individual and collective size of the relevant arrangements, concurrently approved/augmented FCL or SLL arrangements could have important implications for Fund resources and liquidity management. The 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 Board consideration of the liquidity implications arising from concurrently approved/augmented 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.

[3] The FCL Decision (¶6 (a)) and the SLL decision (¶6 (a)) state that the minimum periods applicable to the circulation of staff reports to the Board shall apply to FCL/SLL arrangement requests, provided that the 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 BoP need.

# Annex VIII. Key Features of the FCL and the SLL

| | SLL | FCL |
|---|---|---|
| **Facility** | Special facility | Credit tranches |
| **Objective** | Provide liquidity support for special BoP needs to members with very strong economic fundamentals, institutional policy framework, and policies | Allow members with very strong economic fundamentals, institutional policy framework, and policies to deal with any type of BoP needs |
| **BoP need** | Potential, moderate short-term BoP difficulties reflected in capital account pressures, resulting from volatility in international capital markets | Any |
| **Qualification** | Based on an assessment of (i) very strong fundamentals and institutional policy frameworks (ii) very strong policies (in the past, currently, and commitment to maintaining them). | |
| **Repurchase period** | 12 months | 3¼-5 years |
| **Access** | Up to 200 percent of quota; revolving access | No access limit |
| **Duration** | 12 months | 1 or 2 years |
| **Charges and fees** | • Nonrefundable commitment fee (8bps)<br>• Service charge (21bps)<br>• Normal rate of charge<br>• Normal surcharge schedule | • Normal schedule for commitment fees that are refundable on drawings (15 bps up to 200 percent of quota, 30 bps from 200 to 600 percent of quota, and 60 bps above 600 quota)<br>• Normal service charge (50 bps)<br>• Normal rate of charge and surcharge schedule |
| **Activation** | Member can choose to have the Board approve the "extension of an offer"—in which case the arrangement enters into effect upon the Fund confirming receipt of the written communication — or to request the arrangement, in which case the arrangement enters into effect upon Board approval. No prior informal Board meeting required | Upon Board approval of the request for the arrangement; prior informal Board meeting required (unless request is for successor FCL under limited circumstances). |
| **Signatory** | Given the more limited anticipated adjustment (if needed), sole central bank signatory of the written communication possible in certain cases | Both the central bank and the government generally sign the written communication given the broad nature of BoP needs that can be addressed under the FCL |
| **Budget support** | Should not be used for budget support | Can be used for budget support (an MoU between the ministry of finance and the central bank is required). |
| **Conditionality** | No ex-post conditionality (ex-ante conditionality in the form of qualification criteria). | |
| **Reviews** | None | Annual mid-term review for two-year arrangements |
| **Successor arrangements** | No restrictions, upon Board assessment of continued qualification of potential BoP need | Exit expected as external risk declines; articulation of exit not required for access below 200 percent of quota (for a precautionary FCL) |
| **Concurrent use with RSF** | Cannot act as an accompanying UCT arrangement for an RSF | A two-year FCL can act as an accompanying UCT arrangement for an RSF |