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PRECAUTIONARY AND LIQUIDITY LINE—OPERATIONAL GUIDANCE NOTE

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PRECAUTIONARY AND LIQUIDITY LINE— OPERATIONAL GUIDANCE NOTE

EXECUTIVE SUMMARY

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

- an outline of the process and specific steps that need to be followed if a member **expresses interest in an arrangement**;
- guidance on determining **qualification** of a member;
- guidance on **access, phasing, ex-post conditionality, review process**;
- guidance on **purchases**;
- guidance on communication of **expiration** or **cancellation**; and
- guidance on **interaction with other instruments**.

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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CONTENTS

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
EMP	Exchange Market Pressure
EPA	Ex Post Assessment
EPE	Ex Post Evaluation
ESR	External Sector Report
EWE	Early Warning Exercise
FATF	Financial Action Task Force
FCL	Flexible Credit Line
FDI	Foreign Direct Investment
FIN	Finance Department
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
FXI	Foreign Exchange Intervention
GDP	Gross Domestic Product
GFSR	Global Financial Stability Report
GRA	General Resource Account
GRAM	Global Risk Assessment Matrix
IFS	International Financial Statistics
IPF	Integrated Policy Framework
IMF	International Monetary Fund
ISD	Integrated Surveillance Decision
IT	Indicative Target
LEG	Legal Department

MCM	Monetary and Capital Markets Department
PA	Prior Action
PC	Performance Criterion
PFA	Post-Financing Assessment
PLL	Precautionary and Liquidity Line
PN	Policy Note
PRGT	Poverty Reduction and Growth Trust
QPC	Quantitative Performance Criterion
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
SB	Structural Benchmark
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
VXEEM	Chicago Board Options Exchange Emerging Markets ETF Volatility Index
WEO	World Economic Outlook
WGI	Worldwide Governance Indicators

SECTION I. INTRODUCTION AND OVERVIEW

1. This note provides guidance on the Precautionary and Liquidity Line (PLL). The PLL was introduced in the context of the Board discussion on the Fund's Financing Role: Reform Proposals on Liquidity and Emergency Assistance in November 2011, replacing and broadening the scope of the Precautionary Credit Line. The design of the PLL was further refined in the 2014, 2017, and 2023 reviews of PLL policy.[1] The instrument provides insurance against external risks and enables qualifying members to signal continued commitment to sound institutional frameworks and macroeconomic and financial policies. This enhances market confidence and catalyzes financing, also generating positive externalities to the membership by limiting potential adverse spillovers. The PLL also offers a cost-effective alternative to self-insurance through reserve accumulation. Together with the Flexible Credit Line (FCL) and the Short-term Liquidity Line (SLL), the PLL is part of the Fund's precautionary lending toolkit.[2] This note provides operational guidance on the PLL, while the operational modalities for the FCL and the SLL are clarified in a separate guidance note.

2. The PLL is designed to flexibly meet the needs of countries with sound economic fundamentals and institutional policy frameworks, but with some remaining vulnerabilities that preclude them from using the FCL/SLL.[3] The PLL is established as a window in the credit tranches, permitting its use in addressing any balance of payments (BoP) problem. It is designed as a credit line, with potentially large and frontloaded financing available, that can be granted to a qualifying member under a PLL arrangement if the member (i) has sound economic fundamentals and institutional policy frameworks; (ii) is implementing—and has a track record of implementing—sound policies; and (iii) remains committed to maintaining such policies in the future, all of which give confidence that the member will take the policy measures to reduce remaining vulnerabilities and will respond appropriately to the BoP difficulties that it is encountering or might encounter.

3. The PLL is designed to balance members' demand for a well-tailored liquidity instrument and the need to safeguard Fund resources. Two windows are available under the PLL: (i) a standard window, and (ii) a short-term liquidity window.

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

- ***Access*** (PLL decision, ¶¶4(a) and 4(b)). Access under any arrangement shall not exceed the cumulative cap of 600 percent of quota, net of scheduled PLL repurchases. Arrangements of one

[1] See the 2010 *The IMF's Mandate—The Future Financing Role: Reform Proposals and Revised Reform Proposals*; the 2011 *Review of the Flexible Credit Line and Precautionary Credit Line*; the 2014 *Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument*, including a follow-up on *Specific Proposals*; the 2017 *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*.

[2] 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.

[3] See Table 1 in Fund's Financing Role: Reform Proposals on Liquidity and Emergency Assistance for an overview.

to two years are subject to an annual access limit of 300 percent of quota (net of scheduled PLL repurchases) at approval. Purchases are phased on a semi-annual or annual basis depending on the actual or potential nature of the BoP need. In case of a larger BoP need than originally estimated, augmentations of access and rephasing of arrangements are possible in the context of a scheduled or ad-hoc review in which the Fund assesses the member's need for Fund resources and the extent to which the PLL-supported program remains on track to achieve its objectives. Access can also be reduced at the member's request at any time, subject to Board approval. All requests for changes in access should refer to the changes in the member's BoP needs and provide a justification for the requested change. In addition to the PLL-specific access limits and caps, the PLL is subject to the annual and cumulative access limits applicable to all financing under the GRA, and thus to the exceptional access (EA) policy. Continued access is subject to the completion of the relevant six-monthly review by the Board.

- ***Conditionality*** (PLL decision, ¶3(b)). In addition to ex-ante conditionality in the form of qualification criteria, PLL arrangements of one- to two-year duration carry ex-post conditionality (see ¶29 and Annex VIII for detailed guidance).
- ***Length, expiration, and successor arrangements*** (PLL decision, ¶¶3(a) and 5(a) and (b)). Arrangements may be approved for a period of between one and two years, with semi-annual reviews. Arrangements expire upon the earlier of: (i) the expiration of their approved term; (ii) the purchase of the full amount of approved access; or (iii) their cancellation by the member. Successive arrangements may be approved for the member subject to the cumulative cap for access under arrangements of 600 percent of quota, and provided that the qualification and approval requirements under the PLL decision are met and understandings on a new program with a macroeconomic framework and the needed measures to address any remaining vulnerabilities under the program (including PAs, as warranted) are reached. One- to two-year arrangements shall be phased even if total access is under 300 percent of quota upon approval. In determining the phasing, both the timing of the reform under the program and the BoP needs of the country would be relevant. These considerations should be explained in the staff report (SR) supporting the PLL request, and in the staff note for the informal Board meeting.
- ***Exit.*** Staff assessment of risks and, to the extent possible, the authorities' exit prospects would be expected to be included at the time of the initial PLL request to justify the proposed duration of the arrangement, promote transparency, and underpin exit expectations (Section III. B).

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

- ***Access*** (PLL decision, ¶¶4(a) and 4(c)). Access is subject to a limit of 150 percent of quota per arrangement, net of scheduled PLL repurchases. In exceptional circumstances where a member is experiencing or has the potential to experience larger short-term BoP needs due to the impact of exogenous shocks, access is subject to a higher limit of 300 percent of quota, net of scheduled PLL repurchases, per arrangement (Annex II). The entire amount of approved access is available upon approval and remains available throughout the arrangement. Augmentations are possible in the context of an ad hoc review in which the Fund assesses the member's actual or potential need for Fund resources and continued qualification for the PLL. Total access to Fund resources by a member through six-month PLL arrangements shall not exceed a cumulative access cap of 300 percent of quota, net of scheduled PLL repurchases. Moreover, access under all PLL arrangements, regardless of the length, shall not exceed the cumulative cap of 600 percent of quota, net of scheduled PLL repurchases. Support under the arrangements is also subject to the annual and cumulative access limits applicable to all financing under the GRA, and thus to the EA policy when either of these limits is exceeded.

- ***Length, expiration, and successor arrangements*** (PLL decision, ¶¶3(a) and 5(a, c)). Arrangements may be approved for six months and expire upon the earlier of: (i) the expiration of their approved period, (ii) the purchase of the full amount of approved access; or (iii) their cancellation by the member. Successive six-month PLL arrangements may be approved on a case-by-case basis, subject to the cumulative cap for access under all PLL arrangements of 600 percent of quota and to the 300 percent of quota access cap for total access under 6-month PLL arrangements referred to above, if either (i) at least a two-year "cooling off" period has elapsed since the approval of the most recent six-month PLL arrangement; or (ii) the member's BoP need is longer than originally anticipated due to the impact of exogenous shocks, including heightened regional or global stress conditions. However, no more than one additional six-month PLL arrangement can be approved under these exceptional circumstances. Approval of any successive arrangement is subject to an assessment of continued qualification, BoP needs, external risks, access policy considerations such as capacity to repay (CtR) and, if warranted, PAs.
- ***Conditionality*** (PLL decision, ¶¶3(c)). Six-month PLL arrangements are subject to ex-ante conditionality in the form of qualification criteria and to ex-post conditionality in the form of standard continuous PCs. PAs can also be included, if warranted. Six-month arrangements are not subject to reviews, ITs, periodic QPCs, or SBs.

C. Financial Terms and Treatment in Reserves

4. ***Financial terms*** (Review of Charges and The Surcharge Policy—Reform Proposals). The use of Fund resources (UFR) under PLL is subject to the same repurchase period, surcharges, and charges as other arrangements within the credit tranches. For arrangements approved on a precautionary basis, a commitment fee is due annually on the amounts made available for purchase during the period and is refundable proportionally to the extent that purchases are made.[4] Prior to approval of any PLL arrangement on a precautionary basis, FIN needs to receive authorization from the authorities to debit the member's SDR account for payment of the commitment fee.

5. ***Treatment in reserves***. Unpurchased amounts available under the PLL arrangement are not counted in gross reserves (as they are not yet created as an asset). However, there is a space in the

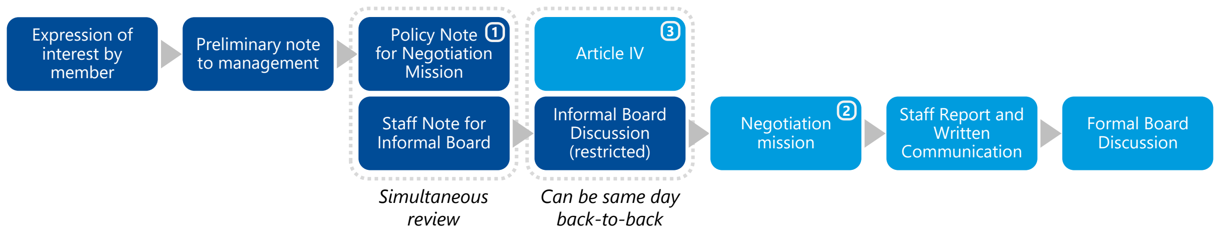
[4] The marginal commitment fee is 15 basis points for annual access of up to 200 percent of quota, 30 basis points for access above 200 and up to 600 percent of quota, and 60 basis points for access above 600 percent of quota. However, the last threshold does not apply to PLL arrangements in view of the overall cumulative access limit of 600 percent of quota. The fee is levied upon approval of the arrangement and refunded on a pro rata basis if drawings are made under the arrangement. If the arrangement is cancelled without being drawn in full, the commitment fee will be refunded based on available amount for purchase at the time of cancellation and the remaining number of days in the current period.

Reserves Data Template (Section III, Item III.3) filled by SDDS subscribers to announce the availability of these as yet unpurchased credit line resources.[5] Once purchased, PLL resources give rise to an increase in gross reserve assets, as well as external liabilities (with maturities corresponding to the timing of repurchases), which are to be reported in Section I and II of the Reserves Data Template.

SECTION II. PLL REQUEST

A. First-Time Requests[6]

Figure 1. Timeline for a First-Time PLL Request



1/ If management decides that EA to Fund resources may be appropriate, the note should also include all the additional information required under the EA policy.
2/ PN and mission not required for 6-month PLL arrangements.
3/ PLL request can happen anytime in the A.IV cycle. This diagram reflects the possibility of holding the Article IV Board and the Informal Board discussion back-to-back on the same day.

6. **Initial steps**. The member authorities should approach staff or management confidentially and formally indicate (verbally or in writing) their interest in financing under the PLL arrangement. Staff should encourage the authorities to do this confidentially, as non-qualification under the instrument could have negative effects on market sentiment. Staff must treat the expression of interest as confidential.[7] Following the expression of interest, staff discusses with the authorities their interest in pursuing a PLL arrangement and initiates an assessment of qualification. Area departments should consult closely with SPR on the 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 (actual or potential), the length of the arrangement sought by the authorities, and the desired level of access.[8]

[5] IMF arrangements are conditional lines of credit and thus should not be included in Section III of the Reserves Data Template (International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template, ¶¶¶ 206–7 and 216).

[6] For the purposes of this note, “first time” are all requests that are not covered by the discussion in ¶20-21.

[7] 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.

[8] These exploratory discussions should not include program modalities, which are subject to the assessment of qualification in the Preliminary Note, the Staff Note for the informal Board, and the informal Board consultation.

7. Preliminary assessment of qualification. The country team should then begin to prepare a confidential preliminary assessment note to inform management of the member's qualification under the PLL. Given the possibility of remaining vulnerabilities in certain qualification areas, the assessment should be conducted with a view to preliminarily identify areas for PAs or ex-post policy conditionality, as warranted. Staff should ensure that qualification is assessed thoroughly (see Section V and Annex I) and evenhandedly. The preliminary qualification assessment note (Annex VI) 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 reviewing departments for 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 qualification criteria with the member, but should make clear to the authorities that any qualification assessment by staff is only preliminary and that the Board that takes the final decision on qualification.

8. Support from other creditors and consultation with Regional Financing Arrangements (RFAs). When support from other creditors is likely to be important in helping a member address its BoP difficulties, staff would be expected to consult with key creditors (official or private sector) as appropriate to inform an assessment of access.[9] Consultation with the key creditors could for example be envisaged when (i) there are sizable remaining financing gaps that need to be filled by other creditors (usually official creditors); or (ii) the authorities are requesting precautionary support from both the IMF and other providers of financing, such as an RFA.[10] Such consultations would be limited to sharing preliminary information at a technical level while stressing the confidential nature of the PLL request and would not include sharing of the staff note for the informal Board meeting.[11] In general, specified Board documents may be shared with RFAs that are co-financiers pursuant to established Fund policy.[12] When sharing of Board documents is warranted, such sharing with RFAs is done via SEC. Country authorities should be informed and consent (in advance) of planned contacts with other creditors. The standard informal Board engagement, which would include a preliminary assessment of access, would take place after the discussions with the key creditors.

9. Staff note, policy note (PN), and informal Board meeting. If management decides that access to Fund resources under the PLL is appropriate, it will promptly consult the Board at an informal (restricted) Board meeting "to engage". Specifically:

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

[10] In the case of financing support by multilaterals (e.g., a currency union or RFA), staff should coordinate with the member and the multilaterals to ensure these creditors' rules and procedures do not conflict with the Fund's policies on the financial assistance request and communication strategy (e.g., Program Design in Currency Unions). These considerations should not 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.

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

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

- A concise staff note should set out the basis on which approval could be recommended (Annex VI). The staff note should be sent for review to functional departments and management clearance at the same time as the PN for a PLL request when applicable (see ¶11). The staff note is expected to be more succinct than the SR on the formal request for an arrangement, as the informal Board meeting does not replace the 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 PLL request, a press release could be issued indicating the authorities' interest in requesting a PLL arrangement. The press release would take care not to prejudge the Board's final decision on a PLL arrangement. In the context of the exceptional circumstances envisaged for six-month arrangements, any possible communication on the existence of exogenous shocks would need to be handled with extra care to not propagate further contagion.

- Additional consultations with the Board between the initial informal meeting and the Board's consideration of the SR would also be expected to take place, as needed, to provide additional information and updates on the program discussions.

10. Coordination with A.IV consultation. A 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. Where feasible (for example, when it would not cause significant delay to the A.IV consultation), a back-to-back A.IV Consultation meeting and the informal Board discussions for a PLL request can be held on the same day (Figure 1). 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 Consultation SR that would be considered by the Board immediately before the informal Board discussion on the PLL. With respect to the formal PLL request, it is recommended to schedule A.IV. Board discussions 2 to 4 weeks prior to the formal Board meeting for the PLL request, which would allow the Board's appraisal to 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 in general other documents that feed into A.IV consultations, such as voluntary FSSAs and ROSCs, should also ideally be timed sufficiently early to be fully integrated into the assessment of qualification in the context of PLL requests.

11. Mission requirements and preparation of the SR. For six-month arrangements, a mission and a PN to discuss a PLL request are not required, unless PAs are envisioned, although a fact-finding staff visit would be recommended in case the latest available A.IV consultation SR is more than one year old. For one- to two-year PLL arrangements, a mission would normally be expected, following the informal Board meeting, to discuss the PLL request. The internal review and management clearance procedures that apply to other UCT-quality program missions would also apply in the context of a PLL request. The tasks of the mission include:

- Obtain information and engage in discussions to finalize the staff qualification assessment.

- Confirm understandings on access levels and length of the requested arrangement. (iii) reach understandings on policy goals and strategies for at least the period of the requested arrangement, together with a quantified macroeconomic framework underpinned by a detailed streamlined set of ITs for key policy variables covering at least the first year/two semi-annual reviews (including, where warranted in accordance with the Guidelines on Conditionality, understandings on semi-annual QPCs and SBs).

- If warranted, reach understandings on PAs for management's recommendation of approval. A press release will be normally issued once preliminary understandings have been reached between the authorities and Fund staff on the program. Details on the content of the SR are set out in Annex VI.

12. The authorities' written communication. The communication requesting a PLL arrangement should describe macroeconomic conditions and the authorities' policy goals and strategies for at least the term of the arrangement, the policy actions to address the member's remaining vulnerabilities (PLL decision, ¶9), and the reasons inducing the member to request Fund assistance. It would need to specify the nature of the BoP need and whether they intend to treat requested access on a precautionary basis. Where relevant, members requesting a one-to two-year PLL arrangement should articulate an exit strategy in their communication. In addition, the authorities' request should:

- Refer to the authorities' commitment to maintain sound economic policies and to respond appropriately to any shocks that may arise (with special attention to the member's ability to make credible progress in addressing its vulnerabilities during the arrangement period in six-month duration requests). Cross-referencing separate government publications would be appropriate to provide additional support for the Fund's assessment of qualification.

- Include a standard consultation clause and the authorities' commitment to provide the IMF with all the needed information to monitor the program under the arrangement. The communication should be sent to departments for review at the same time as the SR and both documents should be sent to management for clearance.

- Be dated and signed *after* management clearance (and after the informal Board, if applicable)—as it could be modified to incorporate management's comments—and prior to circulating to SEC along with the SR. [13]

- Be accompanied by a detailed quantitative macroeconomic framework according to the understandings reached with staff and an annex including semi-annual ITs (and non-standard PCs where warranted) for key policy variables for at least the first year of the requested arrangement.

[13] The communication is usually co-signed by the Minister of Finance and the Central Bank Governor.

- Include, where warranted under the Guidelines on Conditionality, any PAs and SBs identified under the program with the specified timing for implementation (PLL decision, ¶9). Where semi-annual QPCs are warranted, the proposed test dates should be set to ensure data availability by the time of completion of the semi-annual reviews. If applicable, the annex will present the definitions of the variables included as semi-annual targets, the data reporting requirements and deadlines, and any information needed for adequate monitoring of economic and financial developments.

Any modifications to the communication after issuance to the Board would need to follow procedure in accordance with the Fund's Transparency Policy. For arrangements of one to two years, the communication provides a basis for monitoring the authorities' policy commitments in program reviews under the PLL arrangement.

13. Political assurances. Staff 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 or reviews) seek assurances from electoral candidates that sound policies and policy frameworks will be maintained.

14. Safeguards assessment. A member requesting a one- to two-year arrangement is subject to the Fund's safeguards assessment policy that applies to Fund arrangements, including the requirement that a safeguards assessment be completed at least by the time of the first review under the arrangement. For six-month arrangements, the member shall commit to undergo a safeguards assessment, provide staff with access to its central bank's most recently completed external audit reports and authorize its external auditors to hold discussions with Fund staff. Although the timing and modalities for the safeguards assessment for members with a six-month arrangement are determined on a case-by-case basis, the safeguards assessment would normally need to be completed before the Board approves any subsequent arrangement to which the Fund's safeguards assessments policy applies. As required under the safeguards policy, when PLL 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, and should also include the provision that Fund resources will be deposited in a specific government account at the central bank pending their use.[14] The requirement applies in all cases of budget support use, whether envisioned *ex-ante* or not:

- When budget support is envisioned ex-ante, a commitment to put in place such a framework is expected to be included in the written communication of program documentation and the MoU is expected to be finalized and put in place prior to or shortly after the Board meeting where the case for budget financing was made.

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

- When budget support is not envisioned ex-ante, the SR should include a commitment that the authorities would put in place the required framework agreement between the central bank and the government if the PLL were used for budget support. The MoU should be reviewed by FIN and would ideally come into effect and put in place before or as soon as Fund resources were drawn for budget support, or if not, be finalized and put in place by the time of the follow-up briefing to the Board after the drawing has taken place.

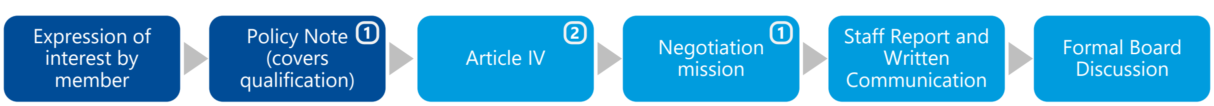
15. Formal Board meeting. The Board considers and may approve a PLL arrangement based on the written request and the SR. The current circulation period is two weeks for the formal Board meeting and one week for the early informal Board consultations. As for other Board meetings on UFR, staff should prepare a Summing Up (for internal use) and a Chair's Statement (for publication).

16. Emergency Financing Mechanism (EFM) procedures. Normal interdepartmental review and circulation periods apply. However, where needed, expedited procedures for the approval of the arrangement under the EFM can be applied. If the PLL arrangement is approved under the EFM procedures, a special review of the member's initial policy response to the emergency and the market reactions is required within one to two months after the approval of the PLL arrangement in line with the EFM procedures. However, the normal general expectation of PAs as called for under the EFM procedures does not apply; instead, PAs for the approval of the PLL arrangement would be established where warranted in accordance with the Guidelines on Conditionality.

17. Transparency. The Managing Director will generally not recommend that Board approval of PLL request or the completion of a review unless the member consents (ideally in writing) to the publication of the associated SR.[15] It is expected that the SR, as well as the authorities' written communication, will be published shortly after the Board's approval of the arrangement. The Fund's Transparency Policy applies.

B. Successor PLL Requests

Figure 2. Application Process for a Streamlined Successor Precautionary PLL Request



1/ PN and mission not required for 6-month PLL arrangements.
2/ PLL request can happen anytime in the A.IV cycle. This diagram reflects usual practice.

18. Countries with a current PLL arrangement can request a successor PLL arrangement if they continue meeting all necessary conditions. A member may request a successor one- to two-year PLL arrangement if it continues meeting the qualification criteria, and if the successor PLL 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). Successor PLL

[15] Transparency Policy Decision, ¶¶ 4b, Decision No. 15420-(13/61), June 24, 2013.

arrangements are subject to the applicable access limits and approval requires reaching understandings on a new program with a macroeconomic framework and measures to address any remaining vulnerabilities under the program, including PAs, as warranted (Section II).

19. A successor one- to two-year PLL arrangement could be requested prior to the scheduled expiration of the ongoing arrangement. To ensure seamless coverage under the PLL, the formal Board meeting for the approval of the successor arrangement can be scheduled before the scheduled expiration of the previous arrangement when the member cancels the latter. the ongoing arrangement would need to be cancelled prior to its scheduled expiration and the approval of the successor arrangement. In this event, the authorities' written communication on a request for a successor arrangement should include a statement about the member's decision to cancel the existing arrangement as of a specified date—usually the date of approval of the new arrangement.

20. Requests for a successor one- to two-year PLL on the basis of a potential BoP need can be streamlined (Figure 2) by not holding an informal Board meeting.[16] The informal Board meeting is not required if (i) the written communication and SR for the successor arrangement is issued for Board consideration no later than three months from the date of expiration of the approved term or from cancellation by the member of a prior PLL; [17] (ii) the member has not made any purchases under the prior PLL arrangement, and all reviews under such prior arrangement were completed; [18] (iv) the overall access requested does not exceed that of the prior PLL arrangement;[19] and (iv) the Managing Director's assessment (based on PN for the request), the member's economic circumstances and external risks have not deteriorated significantly since the last review.

21. When these conditions are met, the PLL request process can be modified, so that: (i) the informal Board meeting and related staff note are not needed and (ii) the qualification assessment is included in PN for the program request mission, alongside considerations on access. The PN would go through the interdepartmental review process. Requirements the formal Board discussion's SR are identical to those of first-time PLL requests. Moreover, changes to qualification from previous assessments should be transparently discussed in the PN and SR (Annex I).

[16] The same procedures as for first-time requests (i.e., no streamlining) apply to members experiencing an actual BoP need at the time of the successor request.

[17] 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.

[18] When a member cancels a PLL arrangement before expiration of the approved term with the intent to simultaneously request a successor arrangement, the observance of the "no drawing" condition would be assessed by staff, for the purpose of applying the procedures for approval of the successor arrangement, at the time the member expresses interest in such 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.

[19] Streamlining procedures do not apply if access under the successor arrangement exceeds normal limits as the EA policy requires holding an informal Board meeting.

C. Exit Expectations

22. **The written communication accompanying a request for a one- to two-year PLL arrangement or augmentation of an existing PLL should articulate an exit strategy, which should also be discussed in the SR**.[20] This should include a statement on the expectation that access would normally decline in a successor PLL arrangement—should one be requested—or that no successor PLL would be requested when the "right conditions" are in place.[21] The discussion of the authorities' exit strategy should be underpinned by (i) an analysis of external risks facing the country, as informed by the External Economic Stress Index (EESI, Annex III); (ii) a statement regarding efforts the authorities intend to take to improve domestic resilience, where relevant; and (iii) a statement on circumstances (the aforementioned "right conditions") under which the successor arrangement would not be likely or may be requested with lower access. Each PLL review of a one-year or two-year PLL arrangement 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.

23. The articulation of the authorities' exit strategy in the written communication (and in the SR) should help guide market expectations. The objective is to minimize the likelihood of market surprises in the event 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 access level, if a successor arrangement is sought.

SECTION III. DETERMINING QUALIFICATION

24. Determining qualification requires judgment based on all of the following (see Annex I for further elaboration and detailed guidance):

- An assessment of whether the member (i) has sound economic fundamentals and institutional policy frameworks; (ii) is implementing—and has a track record of implementing—sound policies; and (iii) remains committed to maintaining such policies, all of which give confidence that the member will take the policy measures needed to reduce remaining vulnerabilities and will respond appropriately to its BoP difficulties (PLL decision, ¶¶ 2(a)).

[20] A discussion of the exit strategy for six-month arrangements would not be necessary in view of the specific duration and renewal rules envisaged under the PLL decision (see Section B).

[21] 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).

- A generally positive assessment by the Board of the member's policies in the context of the most recent A.IV consultations (PLL decision, ¶¶ 2(b)(i)).[22]
- The qualification areas and criteria should be assessed by staff in the initial short note to the Board and then in the SR on the PLL arrangement request. An updated assessment will be made at each review. The PLL nine qualification criteria, which are the same criteria used for the FCL and SLL, are grouped under the five broad qualification areas, namely (i) external position and market access, (ii) fiscal policy, (iii) monetary policy, (iv) financial sector soundness and supervision, and (v) data adequacy. The member will be first assessed against the nine qualification criteria, as guided by the relevant indicators. It will be then broadly assessed against the five qualification areas on the basis of the assessment against the nine criteria. The member will be expected to perform strongly in most (i.e., at least 3 out of 5) of the qualification areas with no substantial underperformance in any of them.
- An arrangement shall not be approved for a member in any of the following circumstances ("approval criteria"): (i) sustained inability to access international capital markets; (ii) need to undertake large macroeconomic or structural policy adjustments,[23] unless already set credibly in train before the arrangement's approval;[24] (iii) a public debt position not sustainable in the medium term with a high probability; or (iv) widespread bank insolvencies (PLL decision, ¶2(c)).
- For six-month arrangements, an assessment of the member's capacity to make credible progress in addressing its vulnerabilities during the six-month duration of the arrangement is required.
- If the access request is above the normal GRA limits, meeting the relevant four substantive criteria for EA also constitutes a necessary condition for PLL arrangement approval.[25]

25. Changes to the qualification assessment since the previous two assessments should be transparently flagged and discussed. This should be done both in the main text of the PN and SR, as well as a summary table. Annex I provides further details.

[22] Under combined A.IV consultation and PLL reviews, the qualification assessment would rely on the Board's assessment of policies under the previous A.IV consultation and staff's appraisal of policies in the "concurrent" A.IV. Following the Board meeting, the Board's assessment of policies under the PLL would be reflected in the press release published as part of the document bundle for the combined A.IV consultation and PLL review.

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

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

[25] While compliance with the EA criteria remains binding throughout the arrangement for a member's access to Fund resources above the normal annual or cumulative GRA access limits, a formal assessment would be normally included in the SR only upon approval or in the event of an augmentation that brings access beyond the normal annual or cumulative GRA access limits. Nevertheless, changes in the member's circumstances might warrant a thorough discussion of the member's continued adherence to the EA criteria also in the context of the semi-annual reviews.

26. If a member is assessed and judged by management not to qualify, the request would normally remain confidential. The Board would be notified of the request only in the context of an informal Board meeting when management judges that access may be appropriate.

SECTION IV. PROGRAM DESIGN AND MONITORING

27. Access justification. Access to Fund resources will 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 (details on determining the BoP need are covered in 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. Justification for access under an actual BoP need would follow normal program guidelines. Under the exceptional circumstances envisaged for six-month PLL arrangements, key factors for consideration in determining individual countries' access levels should include, apart from the country-specific considerations, the potential for contagion to exacerbate funding strains. This is in line with the six-month PLL arrangements' potential role to act as a conduit for the Fund to respond to events of widespread stress, providing liquidity to crisis bystanders and helping mitigate contagion. Annexes II through V set out a framework that can be used by teams to assess the appropriate level of access under a PLL arrangement requested on a precautionary basis; specifically:

- Annex II discusses short-term BoP needs.
- Annex III sets out a general framework for determining access.
- Annex IV presents an external economic stress index to help guide access discussions.
- Annex V presents a framework for comparing access assumptions.

28. Phasing. Phasing depends on arrangement duration and nature of the BoP need. No phasing is envisaged for six-month arrangements. For one- and two-year PLL arrangements: (i) if the member has an actual BoP need at the time of approval, access is phased subject to the completion of semi-annual reviews; (ii) if the member has a potential BoP need at the time of approval, an initial amount of up to 300 percent of quota is made available upon approval for the first year, with the remaining amount made available at the beginning of the second year of the arrangement, all subject to completion of semi-annual reviews. Phasing modalities are detailed in Annex VII.

29. Ex-post conditionality. In addition to ex-ante conditionality (qualification assessment), PLL arrangements carry ex-post conditionality (PLL decision, ¶3). Six-month arrangements are subject to the standard continuous PCs, with PAs included in cases where the upfront adoption of measures is critical. Ex-post conditionality in one- to two-year arrangements is underpinned by a quantitative macroeconomic framework with semi-annual ITs, the standard continuous PCs, and, if warranted under the Guidelines on Conditionality, QPCs, PAs, or SBs (Annex VIII).

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

31. Post-financing assessment (PFA). Once an arrangement has expired, and in the absence of a successor arrangement, the Fund will conduct PFA as warranted.[26] A PLL arrangement entailing EA, whether on an actual or precautionary basis, would be also subject to an ex-post evaluation (EPE) by staff within a year after the end of the arrangement, in accordance to the EPE policy (the EA policy also applies to PLL arrangements).[27]

32. *Semi-annual reviews*. For all arrangements with duration of one to two years, semi-annual reviews would be conducted. To the extent possible, the review should be scheduled with the objective of completion by the Board immediately prior to the lapse of the six-month period.[28] In practice, the review would preferably be completed no earlier than 14 days before the six-month mark. Staff should prepare a SR to inform the Board about recent developments, an update on the expected evolution of risks over the remainder of the arrangement, policy performance against the program, and an update assessing the country against the qualification areas (Annex VI). Board completion of a review could be on a lapse of time basis in accordance with the relevant policy. The reviews would assess:

- Continued PLL qualification, including a discussion of changes to qualification relative to previous assessments (Annex I).[29]
- The authorities' adherence to their policy intentions as conveyed to the Board in their latest written communication and their policy understandings for the future.
- Progress in meeting the indicative targets under the program's macroeconomic framework; observance of the program's PCs (waivers of non-observance would need to be requested in order to complete the review if PCs are missed), PAs, and structural benchmarks, as applicable.

The Board would set revised policy targets and other conditionality basis on a revised macro framework for one year ahead (or the remainder of the arrangement). Any changes in the macroeconomic framework, policy strategies, and commitments by the authorities will be presented in a new written communication from the member (any revisions to the technical annex will also be

[26] See Guidance Note on Post Program Monitoring.

[27] See Ex Post Evaluations of Exceptional Access Arrangements Revised Guidance Note and Ex Post Assessments of Members with Longer-Term Program Engagement-Revised Guidance Note.

[28] In cases where a scheduled PLL review is delayed by more than six-months (that is one year has passed since the approval of the PLL arrangement), an A.IV consultation would be expected to take place after the PLL request and before completion of the delayed review. This would help inform the team's qualification assessment and provide additional assurances that the delay in the review is not due to new emerging vulnerabilities.

[29] If the member does not meet the qualification requirements, a review cannot be completed. Instead, a more appropriate financing instrument to address the member's vulnerabilities (e.g. an SBA) might be considered.

included). The SR would be subject to the standard review process and should be circulated according to the normal circulation procedures, unless there is a case for expedited procedures under the EFM.

33. Coordination with A.IV consultation. A single Board meeting—on the basis of a combined SR—for the A.IV consultation and a PLL review is encouraged for streamlining purposes where feasible. Under such scenario, the PLL 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 PLL-related discussions. Following the Board meeting, the Board's assessment of policies under the PLL (and whether the PLL-supported program remains on track) would be reflected in the press release published as part of the document bundle for the combined A.IV consultation and PLL review. Staff would be encouraged to discuss early the tradeoffs of holding a combined A.IV and PLL review Board meeting, including to ensure consistency with surveillance policy, as this approach could potentially delay A.IV consultations. If holding a single Board meeting for the A.IV with a PLL review is not possible (for example, when it would cause significant delay to the A.IV consultation), teams are encouraged to hold A.IV discussions at least 2-4 weeks prior to a 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.

34. Ad hoc reviews. Subject to the access limits, augmentations of any PLL arrangements, and rephasing of access under PLL arrangements longer than one year, are possible at any time upon completion of an ad hoc review in order to meet an unexpectedly larger (actual or potential) BoP need. The review is a key safeguard to allow a stocktaking of the causes for a larger BoP need and the policy responses needed. Accordingly, the ad hoc review will require an assessment of continued qualification and policy performance in line with the overall objectives of the arrangements:

- ***Performance***: The review would need to assess whether: (i) the country continues to meet the PLL qualification requirements; (ii) the program remains on track to achieve its objectives, including the targets and policy measures (including any QPCs) specified in the authorities' policy framework; and (iii) policy understandings with the authorities for the future.
- ***Size of BoP need***: The review would also need to assess the revised BoP need and access levels. For augmentations of six-month arrangements beyond the 150 percent of quota limit, a discussion of the exceptional circumstances motivating the request would also be required.

35. The Board should be briefed on the member's macroeconomic developments after significant economic policy changes.[30] Area departments are encouraged to consult with SPR early on to jointly determine whether an event warrants a Board briefing. Area departments would

[30] 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).

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 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; it would also allow authorities to garner early feedback from Directors of any concerns that may have a bearing on a successor PLL 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 PLL purchases (Section VI).

SECTION V. USE OF PLL RESOURCES

36. Modality for purchases. To make purchases, FIN would need to receive official communication, via SWIFT, from the fiscal agency of the member requesting a purchase under the PLL arrangement, specifying the amount of the purchase, subject to access and phasing limits as applicable, and representing a commensurate actual BoP need. FIN would immediately contact the authorities to determine the earliest possible value date, the currency composition of the purchase, and other operational details in line with established guidelines and procedures. The member should be encouraged to disclose information about any purchases under a PLL arrangement, as information on such purchases is routinely displayed on the Fund's external webpage on financial transactions with member countries. When a PLL arrangement has been approved on a precautionary basis, the member has a right to draw on the arrangement until the date scheduled for the completion of the next six-monthly review provided that standard continuous PCs are met.

37. Purchases under precautionary PLLs.

- For a precautionary arrangement, the Board should be promptly informed when a member has drawn under the arrangement. This information would ideally be provided in a concise note by the area department discussing the latest developments leading to the actual BoP need, the outlook, and the corresponding purchase. For one to two years PLL arrangements, an updated financing needs and sources table will be included in the note, presenting the BoP need projections by the team for the remainder of the arrangement period, as well as an updated CtR table.[31] Although future purchases during the year will be expected to be commensurate to the actual BoP need projected by staff, phasing of arrangements approved on a precautionary basis will remain on an annual basis. The note 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. Following the purchase, a press release—reviewed by SPR and COM—is expected to be published on the IMF website.

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

- A separate follow-up briefing to Board, which would normally precede the next request (including for an augmentation) or PLL review, should also be planned. This briefing is expected to discuss, with the benefit of some distance from the time of the drawing, the macroeconomic circumstances—both domestic and external—that have led to the actual BoP need and the ensuing PLL purchase, the member's policy responses, and any developments in its policy frameworks pertinent to PLL qualification. 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 PLL 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.

SECTION VI. EXPIRATION, CANCELLATION, COMMUNICATION

38. The authorities can cancel a PLL 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 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.

39. Careful communication is essential. Formulating and implementing a sound communication strategy is critical to helping guide expectations of market participants about the authorities' future use of the PLL and exit plans. Close to the expiration of an arrangement, staff or management could issue a factual press statement at the member's request noting the pending successful conclusion of the arrangement. This could highlight the member's recent performance and the role played by the arrangement. In this circumstance—and in all situations where a press statement is proposed—the press statement should be coordinated with COM and SPR. It is important that press statements should not include any assessment of potential qualification for a successor PLL arrangement—a member's expression of interest in a successor PLL arrangement is subject to the same confidentiality requirement as the initial request and should follow the same process as set out in this guidance note. In cases where a member is likely not to continue to qualify for a PLL, staff should begin discussions with the authorities well ahead of time when material concerns start arising. At the expiration of an arrangement, 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.

SECTION VII. INTERACTION WITH OTHER INSTRUMENTS

40. Eighteen-month to two-year PLL arrangements can be used concurrently with an RSF arrangement, **subject to the member meeting the eligibility and qualification criteria.**[32] 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 under an 18-month to two-year PLL arrangement. It is expected that reviews of the RSF shall take place concurrently with PLL reviews. PNs and SRs for standalone RSF requests and reviews should not comment on PLL qualification but indicate instead that the qualification assessment from the PLL request or preceding PLL review remains valid through the following review or end of the PLL arrangement. The RSF need not terminate if the member maintains uninterrupted coverage under the PLL or transitions without interruption from the PLL to another qualifying UCT-quality instrument.

41. PLL arrangements can be used concurrently with emergency financing if the member meets the qualification criteria. Purchases under the RFI (and RCF, for presumed GRA-PRGT blenders) could be considered for urgent BoP needs, without the need for major policy adjustments because the BoP need is transitory and limited in nature.[33] However, in practice a member with a PLL arrangement in place would be expected to draw on the PLL when confronted with an urgent BoP need—an augmentation under the PLL arrangement could be considered where justified.

[32] See Proposal to Establish a Resilience and Sustainability Trust, Resilience and Sustainability Facility—Operational Guidance Note, and Interim Review of the Resilience and Sustainability Trust and Review of Adequacy of Resources.

[33] Emergency IMF financing can also be accessed in situations where a UCT-quality economic program cannot be designed or implemented given the urgent balance of payments need or due to the member's limited capacity constraints. However, this aspect is not relevant to our discussion, as the member would already have a UCT arrangement in place (the PLL).

Annex I. PLL Qualification Assessment

1. This annex provides key considerations for assessing qualification to access financing under the PLL, with a view to promoting a predictable and evenhanded qualification process. The qualification criteria for the PLL remain as endorsed by the Board in 2014.[1] To provide a more transparent and predictable basis for assessing whether a member meets the qualification criteria, the 2017 Review of the FCL and the PLL identified a core set of indicators with thresholds based on established analytical frameworks (such as the Assessing Reserve Adequacy (ARA) metrics); 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 PLL is an assessment that the member's economic fundamentals, institutional policy framework, and policies are generally sound. Those, together with a track record of sound policy implementation, would give the Fund confidence that the member will take the policy measures needed to reduce any remaining vulnerabilities and respond appropriately to any BoP problem it is encountering or might encounter, consistent with repaying the Fund. As a member qualifying under a PLL arrangement may still face remaining vulnerabilities (although not substantial) in a few areas, the qualification assessment for the PLL will be a crucial tool in identifying areas for PAs, or ex-post conditionality, as applicable. The member's policies must have been assessed as generally positive by the Board in the context of the most recent A.IV consultation.

3. Qualification for the PLL is based on nine qualification criteria. Any assessment of qualification involves judgment. Hence, the assessment of the qualification criteria will need to account for members' circumstances and uncertainties around economic projections. The member's performance under the nine qualification criteria will be assessed based on five broad qualification areas. The qualification standard is based on strong performance in at least three of the five qualification areas. Substantial underperformance in any area signals that the member does not qualify for a PLL. In addition, a member would not be qualified to use the PLL if any of the following circumstances apply: (i) sustained inability to access international capital markets, (ii) the need to undertake large macroeconomic or structural policy adjustments (unless such adjustment has already been set credibly in train before approval), (iii) a public debt position that is not sustainable in the medium term with a high probability, and (iv) widespread bank insolvencies.

A. Qualification Criteria

4. For the PLL assessment, 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 nine criteria are grouped under five broad

[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.

qualification areas (I. External Position and Market Access, II. Fiscal Policy, III. Monetary Policy, IV. Financial Sector Soundness and Supervision, V. Data Adequacy) as described below. While PLL qualification assessments are based on the same set of underlying nine criteria, there is no precise "scoring" of the nine qualification criteria. Hence, 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 exchange rate misalignment, other relevant indicators are 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 is available. 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. [2] 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 of lost market access. Other indicators are a comparison of spreads with comparator countries and relative performance of spreads during global shocks.

[2] In line with quota-based thresholds of market access for graduation from PRGT eligibility under *Review of The Poverty Reduction and Growth Trust Facilities and Financing*, the threshold will be reduced from 50 to 35 percent of quota after the quota increases under the 16th General Review of Quotas take effect.

- *A reserve position which—notwithstanding potential BOP pressures that justify Fund assistance—remains relatively comfortable*. For PLL arrangements requested on a precautionary basis, 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 exchange rate regime (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. For a precautionary PLL arrangement subject to EA policy (see Section II.A)[3], this criterion is informed by the mechanical signal for debt sustainability under the baseline scenario—which should be "sustainable with HP"—and by whether debt is on a decreasing path or at least stabilizes over a 5-year horizon, under the drawing scenario. This refinement helps to streamline the assessment of qualification, on the basis that PLL countries have sound fundamentals and institutional policy frameworks. Besides debt sustainability analyses, relevant indicators for the criterion may include the recent evolution of fiscal balances in relation to the economy's cyclical position; the quality of any adjustment measures being considered; an assessment of medium-term plans anchoring fiscal policy outcomes; and an overall sound institutional budgetary framework as informed by recent fiscal ROSCs, where available.

[3] This would cover precautionary PLL arrangements (i) if the PLL arrangement is subject to exceptional policy, *or* (ii) if the shocks that may trigger a drawing are not adequately captured by the medium-term Market Access Country Sovereign Risk and Debt Sustainability Framework modules. See *Review of the Flexible Credit Line, the Short-Term Liquidity Line, and Precautionary and Liquidity Line, and Proposals for Reform*, ¶¶¶ 28-30 for more details.

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 reflects 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 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 include recent evolution of core inflation and inflation expectations; past and announced policy responses to inflationary shocks; adequacy of monetary policy instruments; 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 to be above regulatory thresholds (latest available data point), 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.[4] 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

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

prompt corrective actions for compliance with AML/CFT requirements). In the event of FATF grey listing arising from strategic AML/CFT deficiencies relevant to financial sector supervision, the member would generally be expected to commit to addressing these deficiencies, likely supported by structural conditionality[5] if critical to achieving program objectives.[6] In reaching the 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) subscriber or has made satisfactory progress toward meeting the SDDS requirements.

5. Changes in qualification should be transparently reported and discussed in country documents. SRs accompanying PLL arrangement requests, 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. The SR accompanying the 2023 Mexico FCL request provides an example of such reporting, which can be followed for PLL documents.

6. The assessment of policy track record will be anchored in the same set of core indicators. For indicators that cover multi-year averages, namely qualification criteria 2, 3, 4, and 6, the core indicators at the time of the request 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 is 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

[5] The Guidelines on Conditionality inform program design in PLL arrangements, including with FATF listed countries with action plans, and hence, the full range of items under FATF action plans are not necessarily included in Fund conditionality in a PLL arrangement where the measures are not considered critical to achieve program objectives, or for other reasons (e.g., fall outside the program period or are outside the Fund's expertise or mandate).

[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.)

bouts of capital flow volatility, and the extent to which individual indicator outcomes reflect favorable external conditions.[7]

B. Indicators of Institutional Strength

7. An eligible member should be assessed to have a sound institutional policy framework. To complement staff's assessment in this area, the following indicators could also be considered.

- *Policy cyclicality.* Relevant indicators to inform this judgment may include, for fiscal policy, the moving correlation between the cyclically-adjusted fiscal balance or government spending and cyclically-adjusted GDP, and for monetary policy, the moving correlation between the cyclically-adjusted real short-term policy rate and cyclically-adjusted GDP.[8] 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. 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.[9] 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. When addressing the identified vulnerabilities is of critical importance for achieving the goals of the program, the program would be expected to include commitments or conditionality related to such measures. If a new request for a PLL arrangement is expected, staff should prioritize discussions of governance issues, considering urgency of assessing governance vulnerabilities for qualification.[10] In rare instances where the arrangement request, or a PLL 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.

[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] 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.

[9] It is recommended to avoid duplication and cross-reference relevant ¶¶¶ 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").

[10] 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 PLL Qualification Criteria

	Criterion	Indicator
1	Sustainable external position	Gross external debt/GDP; including DSA assessment; debt-stabilizing noninterest current account deficit; net external debt/GDP; short-term gross external debt/GDP; share of bank, nonbank and public sector gross external debt.
2	Capital account position dominated by private flows	FDI plus portfolio inflows as a share of total capital inflows; ratio of private holdings of external debt to gross external debt; and private foreign holdings of domestic debt/total domestic debt.
3	Track record of steady sovereign access to capital markets at favorable terms	EMBI spread; spread between country EMBI and EMBI overall index (using latest observation and averages over previous five years); current yield on benchmark bonds; credit ratings; and last external issuance (details on amount issued/ original yield/maturity).
4	Reserve position which—notwithstanding potential BoP pressures that justify Fund assistance—remains relatively comfortable (precautionary requests)	Ratio of reserves to: ARA metric, short-term debt (remaining maturity basis); short-term debt (remaining maturity basis) plus current account deficit; imports; and broad money.
5	Sound public finances, including a sustainable public debt position determined by a rigorous and systematic debt sustainability analysis	Public sector debt-to-GDP ratio, and debt sustainability assessment; primary and overall fiscal balance (average for the last 3 to5 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 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 PLL 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 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 PLL 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 arising from strategic AML/CFT deficiencies relevant to financial sector supervision, the member would generally be expected to commit to addressing these deficiencies, likely supported by structural conditionality if critical to achieving program objectives.
9	Data transparency and integrity	Requires that the member is an SDDS 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 based on an assessment of the qualification criteria in each of the five most recent years. 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 III for an empirical justification of the 80 percent threshold. The overall assessment could consider other reserve metrics if the ARA metric is deemed inadequate for judging the member's reserve position. This assessment should generally be reflected in recent A.IV reports and based on the prevailing exchange rate classification reported in the AREAER.

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

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

2. **Short-term BoP needs may arise in connection with exogenous shocks, including due to the impact of heightened stress in regional or global conditions.**[1] As with all access determinations, a PLL request in this context would entail a substantial element of judgment by the Board in the approval process. Nevertheless, the following non-exhaustive considerations can help guide staff's preliminary assessment:

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

[1] In these circumstances, short-term BoP needs will allow approval, on a case-by-case basis, of a higher access limit of 300 percent of quota under a six-month PLL arrangement as described in the first bullet of Section II.B. above. These short-term needs are actual or potential needs that exceed the normal 150 percent of quota access for six-month PLL arrangements, and arise due to the impact of exogenous shocks, including heightened regional or global stress conditions. See PLL Decision, ¶¶ 4(c)(ii) and also PIN/11/152 which provides that the occurrence of heightened regional or global stress conditions is expected to be rare.

[2] Analytics of Systemic Crises and the Role of Global Financial Safety Nets discusses events of heightened and widespread stress and possible quantitative and qualitative indicators to determine and monitor such events.

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

Annex III. Determining Access on a Precautionary Basis

1. This annex provides a framework for use by staff when considering access in a precautionary setting. 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 spelled out in Board reports and staff should show that access looks reasonable when compared with a range of metrics and indicators.

A. Key Criteria for Access

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

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 IV); (iii) evidence from past or current crises (described also below and further in Annex V); and (iv) country specific factors (and likelihood based on past experience). The adverse scenario should also take into account whether there is a case for an orderly exchange rate adjustment and whether reserve coverage (on a number of metrics, including the Fund's Assessing Reserve Adequacy (ARA) metric) suggests that the reserve level should be maintained, raised, or lowered. For example, if a country is hit by a permanent shock that affects the equilibrium exchange rate, the role of Fund financing/insurance may be to help the country to move to a new equilibrium in an orderly manner rather than to preserve the previous real exchange rate. Even if the shock is assumed to be temporary, the description of the adverse scenario should make clear the assumed direction of change in the exchange rate and the implied impact on financing needs. With respect to reserve coverage, discussions of the access level during the internal review process could consider alternative reserve drawdown scenarios—such as access levels under a lower bound of reserves for the given country (see below for considerations regarding reserve drawdowns), with consideration also to the pace of reserve drawdown to avoid adverse market reactions. A decision to maintain reserve levels significantly above the lower bound in the adverse scenario should be clearly justified in the 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 GRAM, also considering country-specific circumstances. SRs should indicate the scenario used (and, ideally, the probability attached to the scenario). The chosen scenario should also be informed by the downside scenario in the external economic stress index. While these two scenarios do not need to be identical, the source of the shock and direction of the risks should be consistent. 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 IV. 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 PLL. Nevertheless, as with other aspects of the exercise, the discussion will be subject to a high degree of uncertainty, and the role of judgment will remain paramount.

8. Evidence from crisis cases 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 V).

9. Country-specific factors. Although global assumptions and past crisis 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]

11. 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 PLL arrangement to maintain reserve adequacy, staff may want to build in an increase in reserve levels in the baseline projection. In tandem with assessing the level of reserves, staff should also consider whether an orderly exchange rate adjustment might be necessary if the adverse scenario unfolds.

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

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

12. Access levels should always be presented based on the potential BoP need, irrespective of the specific use of Fund resources by the member (budgetary support, reserve build up, bank restructuring costs).[2] 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, UFR to prevent a maladjustment of the BoP (excessive current account contraction) would be warranted.[3] 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 indicators related to CtR and quota (for this purpose, the PN and SR should include a comparison of high access cases indicators table).

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

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

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

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 Foreign demand Commodity prices Remittances	WEO alternative scenario (global growth and commodity price decline with respect to baseline) GRAM	Impact of advanced economies' downturn on emerging markets	Exports/Imports composition and elasticities Current account norm and debt-stabilizing level
B. FDI	Early Warning Exercise (EWE) /GFSR/Vulnerabilities Exercise (VE) GRAM	FDI decline in representative cases Historical volatility vis-à-vis other capital flows	Foreign bank takeovers Investments in nontradable sector Greenfield investments Retained earnings
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 MLT/ST Sovereign/bank/ nonbank Official/private	MCM survey of market analysts' expectations as per VE GRAM	Rollover rates	Debt composition Trade credits Intra-group lending Private Sector Involvement
E. Other Investment Currency and deposits Secondary market Derivatives position Other	GFSR/VE/GRAM	Stock and flows of nonresident deposits Resident deposits outflows	Nonresident holdings of domestic debt Hedged derivatives position in tradable sector Degree of dollarization
F. Gross International Reserves and Private Foreign Assets	Greenspan-Guidotti rule Jeanne-Ranciere Reserve rule Other indicators mentioned in Annex I	Evidence from programs	Metrics selected on the basis of relevant vulnerabilities Availability of liquid foreign assets by private sector

Annex IV. 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 PLL. 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 a PLL arrangement. The methodology serves as a basic framework to be used in relevant SRs for members using this arrangement, 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 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 GRAM. 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) relevant external factors. 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 statistics could be used to derive the weights (data-based). Where appropriate and feasible,

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

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

country teams could explore more advanced econometric methods (model-based), as long as they lead to economically meaningful weights:

- **Data-based**. 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**. As an example of this method, the IMF's Flexible System of Global Models could be used to estimate model-based weights (e.g., Morocco's 2023 FCL request SR).[3]

3. To demonstrate the possible estimation of external economic stress indices (EESI), this annex includes illustrative indices for PLL users. 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 IV Table 1 reports the key risks, proxy variables and weights underpinning the EESI.

4. The external risk assessment needs to capture recent changes in the external environment and be forward looking. A downside risk scenario should be modeled by country teams with relevant input from country authorities, drawing where appropriate on the most recent IMF flagship reports or GRAM. 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 PLL, while increased risks correlate with higher or unchanged access levels (Annex Figure 1).

[3] See also Andrle et al. (2015) *The Flexible System of Global Models —FSGM,* WP/15/64. Vector autoregressions could also be used to estimate the importance of each of the risks on observed BoP pressures.

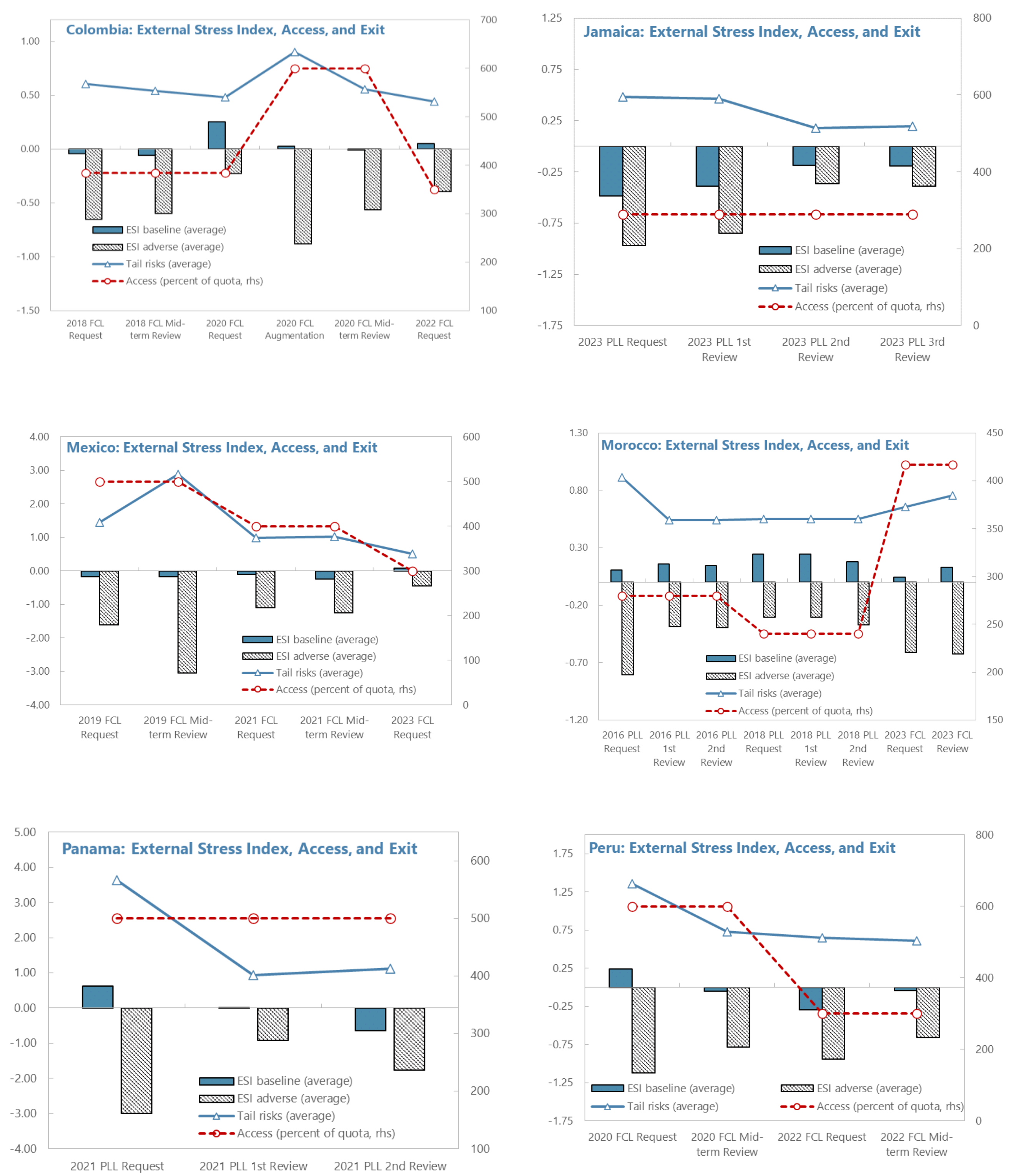
[4] To make the deviations from averages comparable across proxy variables and therefore additive in a weighted average, the index also divides the differences by the long-run standard deviation of the respective proxy variables.

continued

Annex IV. Table 1. External Economic Stress Index Components in PLL Arrangements

PLL request	External risk	Proxy variable	Weights
Jamaica 2023	Remittances, FDI, exports	Real growth rate of trading partners (Canada, UK, US)	0.62
	Food imports	Food commodity price index	0.13
	Energy imports	Crude oil commodity price index	0.13
	Funding costs (portfolio inflows)	Interest rate of 6-month US treasury bond plus EMBIG spread	0.07
	Volatility (other investment)	VIX	0.05
Morocco 2018	Oil imports	Change in oil price	-0.32
	Exports to Europe FDI from Europe Remittance from Europe Tourism receipts from Europe	Euro area GDP growth	0.58
	Equity & debt portfolio investment flows	Emerging market volatility index (VXEEM)	-0.10
North Macedonia 2022	Net exports	Real growth rate of Euro area imports	0.15
	Food imports	Food commodity price index	-0.10
	Energy imports	Energy commodity price index	-0.11
	Remittances, FDI	Germany real GDP growth	0.20
	Portfolio flows	Financial conditions index	-0.18
Panama 2021	Net exports	World growth	0.31
	FDI	US GDP growth	0.18
	Portfolio investment	Change in 10-yr Treasury yield	-0.11
	Other investment	VIX	-0.40

Annex IV. Figure 1. External Economic Stress Index, Access, and Exit Under Selected FCL and PLL Arrangements



Annex V. A Framework for Comparing Access Assumptions

1. **This annex outlines a two-step framework for comparing access assumptions across members availing themselves of the PLL (or, in fact, the FCL)**. 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.

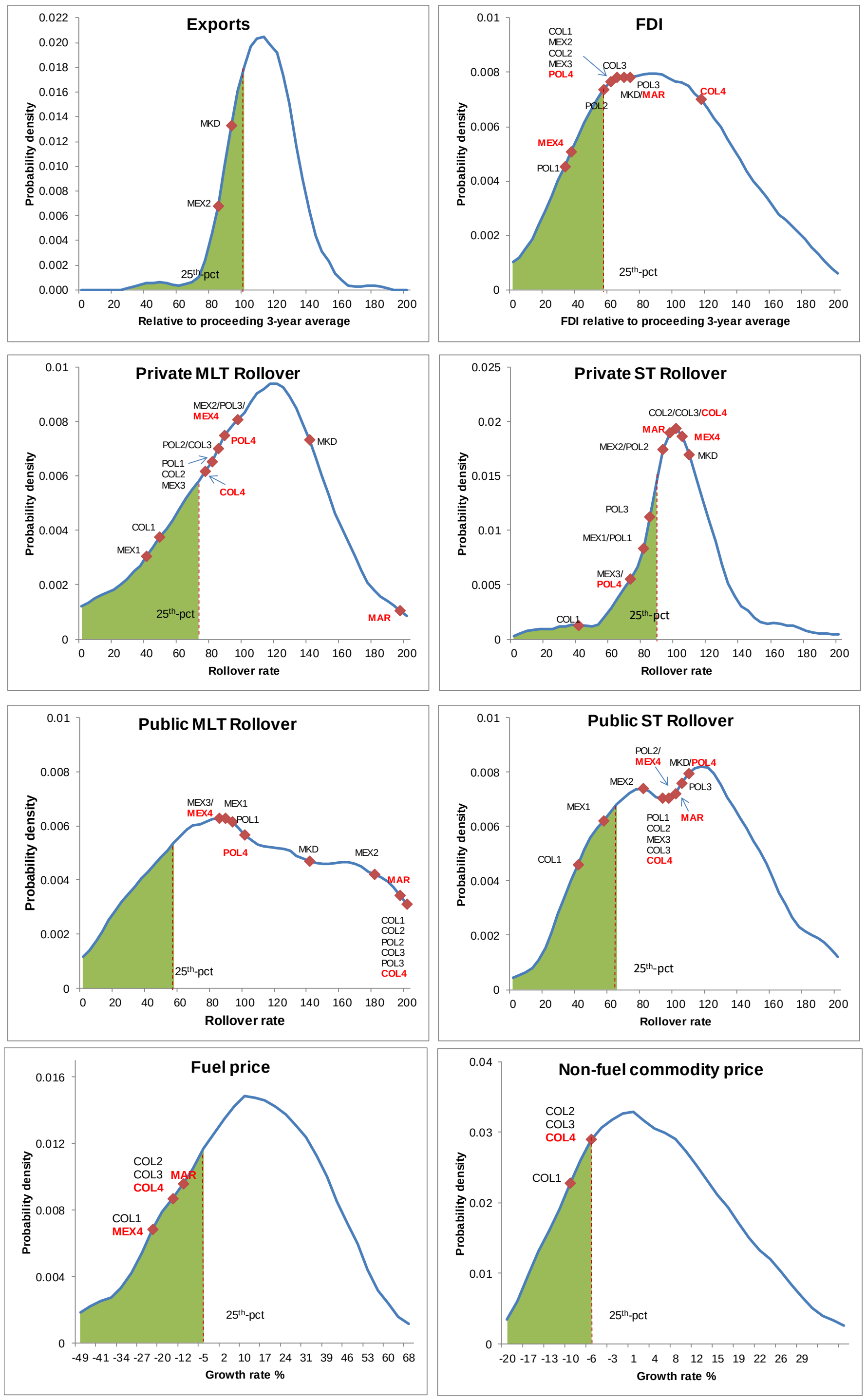
- **Variables**. Eight external variables are used in the analysis, focusing on those variables in the current and financial accounts that form the basis of downside risk assumptions in past FCL access decisions. These variables comprise exports; FDI; fuel- and non-fuel commodity prices; portfolio and 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 $i : 1, \ldots, I$ 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).

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

Annex V. Figure 1. Empirical Adverse Shock Distribution—in Crisis Year[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 VI. Staff Documents on the Use of PLL Resources

A. Preliminary Qualification Assessment Note

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

- A preliminary assessment of whether the member (a) has sound economic fundamentals and institutional policy frameworks; (b) is implementing—and has a sustained track record of implementing—sound 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 a generally positive assessment 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.
- A preliminary identification of areas for PAs or ex-post conditionality, as warranted, and depending on the duration of the arrangement.

B. Concise Staff Note for Informal Board Meeting

2. The note should include:

- ***Qualification***. An assessment of whether the member (i) has sound economic fundamentals and institutional policy frameworks; (ii) is implementing – and has a track record of implementing – sound policies; and (iii) remains committed to maintaining such policies in the future, all of which give confidence that the member will take the policy measures needed to reduce any remaining vulnerabilities and will respond appropriately to the BoP difficulties that it is encountering or might encounter. A statement on whether the most recent A.IV consultations included generally positive assessments of the member's policies. A preliminary assessment against the qualification areas in Annex I, including, where necessary, a reference to aspects of the criteria that require more information in order to be fully assessed.
- ***Access***. A preliminary assessment of whether the member has an actual or potential BoP need. A preliminary indication of an appropriate access level and duration of the arrangement based on an assessment of actual or potential BoP needs arising from the current and capital accounts and in view of the expected time necessary for the member to make credible progress in addressing its vulnerabilities (e.g., to justify an access request under a six-month PLL arrangement). In particular, the assessment of a potential BoP need should include a discussion of one or more scenarios based on alternative assumptions about key parameters (external debt rollover rates, magnitude of portfolio outflows, etc.). Under the exceptional circumstances envisaged for six-month PLL arrangements, the note should include a discussion of the short-term nature of the BoP need and the impact of exogenous shocks, including heightened regional or global stress conditions if warranted. Information by FIN on CtR and risks to the

Fund should also be included. If management decides that EA to Fund resources may be required, the EA procedures would need to be followed, and the note should also include all information requirements called for under the EA policy, including a staff preliminary evaluation of the four substantive criteria for EA, with a preliminary debt sustainability analysis and a preliminary impact on Fund finances and liquidity. An assessment of enterprise risks should also be included.

- ***Ex-Post conditionality***. For arrangements of one to two years, preliminary staff views on key policy areas for ex-post conditionality in addition to the standard continuous PCs, as highlighted by the qualification assessment, and initial recommendations for targets under the program.
- ***Tables and charts***. Standard economic indicators and a BoP table (both with projections for the current and following years to cover the length of the arrangement), and a table on gross external financing requirements and sources under the baseline (and under the adverse scenario for requests on the basis of a potential BoP need). For transparency when requesting a successor arrangement, the table showing the gross external financing requirements should make clear how current adverse shock assumptions compare to those under the previous arrangement. A table comparing access metrics should also be included. Cross-country charts for relevant indicators can be usefully included to support staff's assessment of qualification. A CtR table would be also included.[1]

C. Staff Report for the Formal Request for a PLL Arrangement

3. 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 their exit expectations (as informed by discussions with the authorities).
- An explicit assessment of whether the member has an actual or potential BoP need.
- A discussion of the (actual/potential) sources of BoP pressures and other risks to the outlook, building on the assessment already included in the staff note, where applicable. Under the exceptional circumstances envisaged for six-month PLL arrangements, the SR should also include a discussion of the short-term nature of the BoP need and the impact of exogenous shocks, including heightened regional or global stress conditions if warranted.
- A discussion and justification of the proposed access level and length of the arrangement (in view of the expected time necessary for the member to make credible progress in addressing its vulnerabilities, notably for six-month PLL arrangements), underpinned by an adverse scenario and EESI. In cases involving EA, an assessment of the four substantive criteria for EA.[2]

[1] If proposed access amount has not been finalized, the CtR table should be based on the upper bound of the proposed access.

[2] Specifically, the SR for an arrangement proposing EA will include: a consideration of each of the four substantive criteria for EA (including a rigorous analysis of debt sustainability); a thorough discussion of need and the proposed

continued

- A detailed assessment of the qualification criteria and areas (including the material from the concise staff note and any additional information) and approval criteria.
- As part of the above, a debt sustainability analysis including the evolution of debt, as well as rollover and financing requirements under alternative scenarios (including an assessment of contingent liabilities, where appropriate) and stress tests.
- A discussion of the member's CtR.
- A discussion of any PAs and agreed ex-post conditionality contained in the authorities' written communication, as well as of the authorities' policy program goals and strategies, and quantitative macroeconomic framework (with relevant targets and other policy conditionality).
- Staff appraisal.
- Selected economic indicators including projections for the current year and following years to cover the length of the arrangement, a medium-term macroeconomic framework table (with projections for a five-year time span), a BoP table (with projections for a five-year time span), a table on external financing requirements and sources (as warranted depending on the nature of the BoP need and duration of the arrangement), fiscal projections (with six-month projections for the first year and annual projections for a five-year time span), the debt sustainability tables (external and public), monetary table (as applicable), financial soundness indicators table, a table on CtR, and a table with the agreed schedule of reviews. When requesting a successor arrangement, the external financing needs table should make clear how current adverse shock assumptions compare to those under the previous arrangement. Cross-country charts for relevant indicators can be usefully included to support staff's assessment of qualification.
- A draft proposed decision for approval of the PLL arrangement and the text of the draft PLL arrangement, both prepared by LEG.
- In cases involving EA, an assessment prepared by FIN on the risks to the Fund and the impact of the proposed PLL arrangement on the Fund's finances and liquidity position, as a supplement to the SR. An assessment of enterprise risks should also be included.[3]
- The authorities' signed written communication requesting the arrangement. For arrangements of one to two years, this will include, beyond a reference to the standard continuous PCs that apply to all PLL arrangements, a technical annex presenting tables and supporting information on the semi-annual ITs and standard continuous PCs, for at least the first year of the arrangement, as well as any PAs, additional QPCs, and SBs identified under the program with the specified time framework. Any ex-post conditionality is to be established in accordance with the Guidelines on Conditionality. The annex will also report the definitions of the relevant variables

level of access; an assessment of the risks to the Fund arising from the exposure and its effect on liquidity; and systematic and comprehensive information on the member's CtR.

[3] The discussion of liquidity implications for Fund finances included in the staff report for the 2021 PLL arrangement for Panama (¶10) provides an example.

included as semi-annual targets and any other reporting requirements (with the respective frequencies) to ensure adequate monitoring of economic and financial developments.

D. SR for Semi-annual Review

4. Internal process. A standard policy consultation meeting would be required given possible PAs and ex-post conditionality. Standard review procedures would also apply.

5. SR. The semi-annual Review SR should contain the following sections:

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

E. SR for Ad Hoc Review for Augmentation or Rephasing of Access

6. **Internal process**. The same internal review process of semi-annual reviews will be followed in the case of an ad hoc review.

7. **SR**. The SR content/tables will also be the same as for reviews. For one- to two-year arrangements, a discussion of the progress to date towards achieving the relevant targets for completion of the next semi-annual review should be included. Additional sections will include:

- A discussion of new sources of BoP pressures and other risks. For potential BoP needs, the assessment should include a discussion of one or more scenarios based on alternative assumptions about key parameters (such as external debt rollover rates and size of portfolio outflows). For augmentations of six-month arrangements beyond the 150 percent of quota limit, a discussion of the exceptional circumstances motivating the request would also be required.
- A discussion and justification of the proposed access level or rephasing.
- To the extent that the rephasing would result in EA, a written assessment of the four substantive criteria for EA and, as a supplement to the SR, an assessment prepared by FIN on the impact of the revised access level or phasing on the Fund's finances and liquidity position.

F. Concise Notes to Brief the Board after a Purchase

8. **The briefing memo to 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 post drawdown follow-up briefing memo to the Board, which should normally precede the next review or 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 PLL purchase.
- A discussion of the member's policy responses.
- A discussion of any developments in the member's policy frameworks pertinent to PLL qualification, and the evolution of the member's ability to access international capital markets, among any other relevant considerations.

Annex VII. Phasing

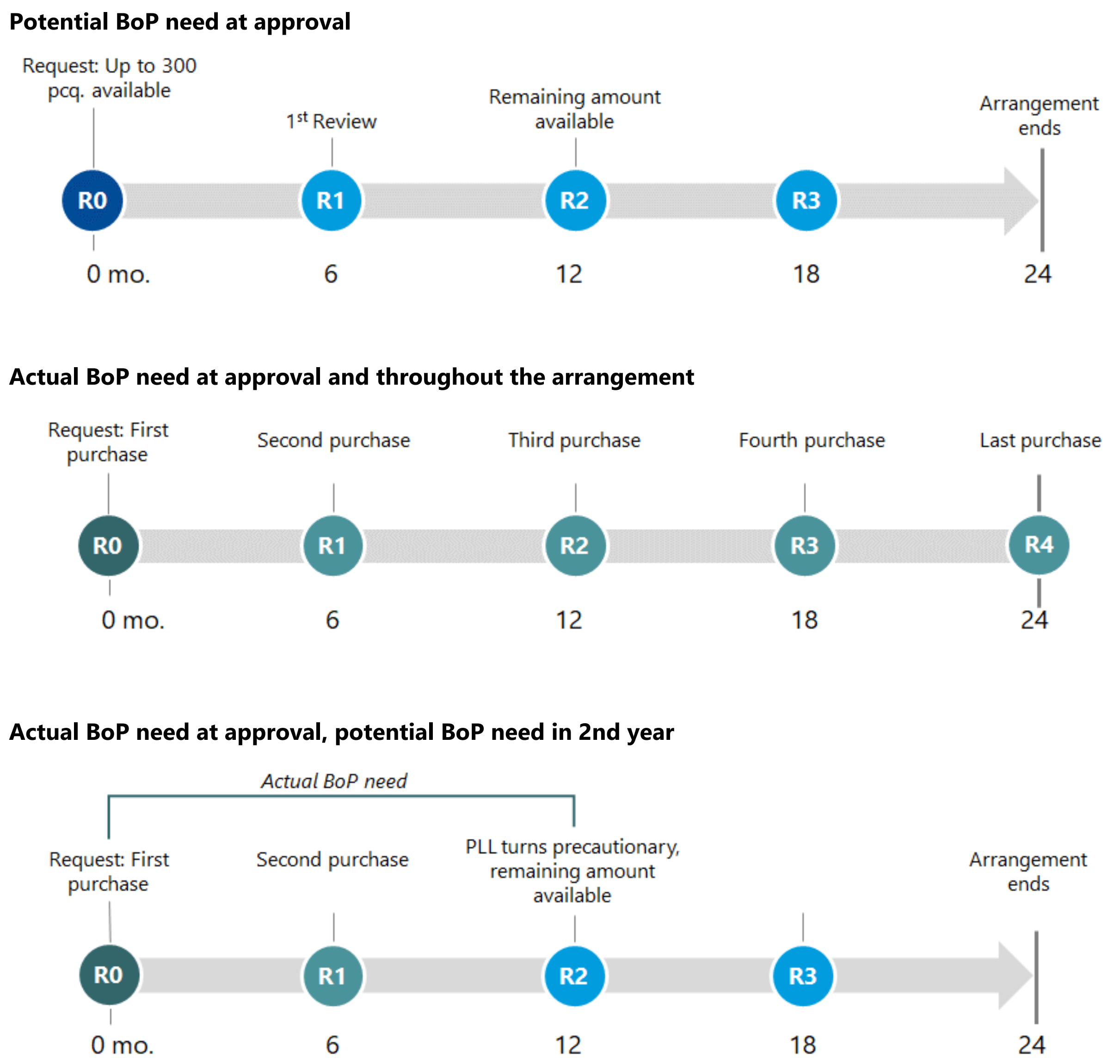
1. Phasing under PLL arrangements depends on the duration of the arrangement and nature of the BoP need:

- For six-month arrangements, no phasing is envisaged, with the entire amount of access available upon approval and throughout the arrangement period. Upon emergence of an actual BoP need, the member has the option of drawing in one or multiple purchases.
- For one-year arrangements for members having a potential BoP need at the time of approval, the entire amount of approved access will be made available upon approval and will remain available throughout the arrangement period, subject to completion of a semi-annual review.
- For arrangements with a duration of more than one year and up to two years, approved for members having a potential BoP need at approval, an initial amount of up to 300 percent of quota is made available upon approval for the first year, with the remaining amount made available at the beginning of the second year of the arrangement, all subject to completion of semi-annual reviews. In determining the phasing, the timing of the reform under the arrangement and the country's BoP needs would be relevant. These considerations should be explained in the SR supporting the PLL request and in the staff note for the corresponding informal Board meeting. Upon emergence of an actual BoP need, the member has the option of drawing in one or multiple purchases at any time during the term of the arrangement. Phasing of one- to two-year arrangements approved on a precautionary basis will remain on an annual basis following the emergence of an actual BoP need and the resulting purchase.
- For PLL arrangements with a duration of more than one year and up to two years, approved for members having, at the time of approval of the arrangement, an actual BoP need, purchases are phased, with an initial amount being made available upon approval of the arrangement and the remaining amounts being made available at semi-annual intervals, subject to the completion of the relevant semi-annual reviews and commensurate with the member's projected level of actual BoP needs. It is expected that there would usually be three purchases in a one-year arrangement and five purchases in a two-year arrangement (including the purchase made available upon approval), with all purchases after approval being subject to a review.[1]
- For two-year PLL arrangements approved for members having, at the time of approval, an actual BoP need, phasing also can be modified should authorities subsequently request to treat the arrangement as precautionary. In these instances, access is initially phased, with an initial amount made available upon approval and additional amounts available at semi-annual intervals, subject to review completion and commensurate with the member's projected actual BoP needs. If, after the first or second drawing, authorities request to treat the arrangement as precautionary (e.g., as a result of receding external risks, see Annex III), the remaining amount will be made available at the beginning of the second year of the arrangement, subject to

[1] PLL Decision, ¶4(b)(ii). In such a case, the last phased purchase will be made available upon the completion of the last six-monthly review of the PLL arrangement (Figure 3). Teams should ensure a sufficient timing buffer so that the last review and the purchase request can be submitted before the expiration of the PLL arrangement.

completion of the relevant semi-annual reviews. Such a request can be made in the context of the first or second review (i.e., within 12 months from approval of the arrangement). In supporting the authorities' request, a thorough evaluation of progress in the program's implementation and changes of the BoP need faced by the member will be relevant. These considerations should be fully explained in the PN and SR supporting the completion of the PLL reviews. Figure 3 illustrates the case of phasing of a two-year PLL arrangement.

Annex VII. Figure 1. Phasing of Two-Year PLL Arrangements



Annex VIII. Ex Post Conditionality in One- to Two-Year PLL Arrangements

1. Arrangements of one- to two-year duration carry ex-post conditionality, in addition to ex-ante conditionality in the form of qualification criteria. Ex-post conditionality should be set in accordance with the Guidelines on Conditionality. Staff can also refer to the Operational Guidance Note on Program Design and Conditionality for detailed discussion of ex-post conditionality. For one- to two-year PLL arrangements, this may include, as warranted:

- ***PAs***: PAs (either as conditions for approval of a PLL arrangement, for completion of a review or for the granting of a waiver of nonobservance) may be established in cases where the upfront implementation of measures is critical for successful program implementation.
- ***QPCs***: Semi-annual QPCs shall be applied to clearly specified indicators that are considered so critical for the achievement of the program goals or monitoring implementation that purchases under the PLL arrangement should be interrupted in case of non-observance. As a result, missed QPCs would require waivers of non-observance for completion of reviews. Moreover, as mentioned above, where semi-annual QPCs are warranted, the proposed test dates should be set with the aim of ensuring data availability by the time of the completion of the semi-annual reviews (and avoid the need for waivers of applicability).
- ***ITs***: Semi-annual ITs will be established as quantitative indicators to assess the member's progress in meeting the objectives of the program in the context of semi-annual reviews.
- ***SBs***: SBs can be established to serve as clear markers in the assessment of progress in the implementation of critical structural reforms in the context of a program review.