INTERNATIONAL MONETARY FUND
FACTSHEET

The IMF's Flexible Credit Line (FCL)

The Flexible Credit Line (FCL) was designed to meet the demand for crisis-prevention and crisis-mitigation lending for countries with very strong policy frameworks and track records in economic performance. This instrument was created as part of the process of reforming how the IMF lends money to countries that find themselves in a cash crunch, with the idea of tailoring its lending instruments to the diverse needs and circumstances of member countries. To date, three countries, Colombia, Mexico, and Poland, have used the FCL. While none of the three countries have so far drawn down on these lines, the FCL has provided valuable insurance to these countries and helped boost market confidence during the period of heightened risks.

Flexibility to meet countries' needs

A key objective of the lending reform was to reduce the perceived stigma of borrowing from the IMF, and to encourage countries to ask for assistance before they face a full-blown crisis. Countries with very strong economic fundamentals and policy track records can apply for the FCL when faced with potential or actual balance of payments pressures. The flexibility provided by the FCL means that the IMF can meet a broad range of country needs:

- Qualified countries have **flexibility** to draw on the credit line at any time within a pre-specified period, or to treat it as a precautionary instrument.

- The FCL assures qualified countries they have **large and up-front access to IMF resources** with no ongoing conditions, given the strength of the policy frameworks.

- The FCL works as a **renewable credit line,** which could initially be for either one-or two years with a review of qualification after the first year. If a country decided to draw on the credit line, repayment would take place over a 3¼ to 5 year period.

- There is **no cap on access to IMF resources**, and the need for resources is assessed on a case-by-case basis.

Low cost to get through tough times

The cost of borrowing under the FCL is the same as that under the Fund's traditional Stand-By Arrangement (SBA) and the Precautionary and Liquidity Line (PLL).

***Commitment fee*.** In accessing IMF resources on a precautionary basis, countries pay a commitment fee that is refunded *pro rata* if they opt to draw on those resources during the relevant period. The commitment fee increases with the level of access available over a twelve month period (15 basis points for committed amounts up to 115 percent of quota, 30 basis points on committed amounts between 115 percent and 575 percent of quota, and 60 basis points on amounts exceeding 575 percent of quota).

Lending rate. As with other drawing IMF arrangements, the lending rate comprises (1) the market determined Special Drawing Rights (SDR) interest rate and a margin (currently 100 basis points), together known as the basic rate of charge, and (2) surcharges, which depend on the amount and time that credit is outstanding. A surcharge of 200 basis points is paid on the amount of credit outstanding above 187.5 percent of quota. If credit remains above 187.5 percent of quota after three years, this surcharge rises to 300 basis points. Together, level- and time-based surcharges are designed to discourage large and prolonged use of IMF resources.

Service charge. A service charge of 50 basis points is applied on each amount drawn.

Very strong performers qualify

The qualification criteria are the core of the FCL and serve to show the IMF's confidence in the qualifying member country's policies and ability to take corrective measures when needed. At the heart of the qualification process is an assessment that the member country:

- Has very strong economic fundamentals and institutional policy frameworks
- Is implementing—and has a sustained track record of implementing—very strong policies
- Remains committed to maintaining such policies in the future.

In addition to the very positive assessment of the country's policies in the most recent Article IV consultations, the criteria used to assess a country's qualification for an FCL arrangement are:

- A sustainable external position
- A capital account position dominated by private flows
- A track record of steady sovereign access to international capital markets at favorable terms
- When the arrangement is requested on a precautionary basis, a reserve position which—notwithstanding potential BOP pressures that justify Fund assistance—remains relatively comfortable
- Sound public finances, including a sustainable public debt position
- Low and stable inflation, in the context of a sound monetary and exchange rate policy framework
- Sound financial system and the absence of solvency problems that may threaten systemic stability
- Effective financial sector supervision
- Data integrity and transparency.