INTERNATIONAL MONETARY FUND

# The Flexible Credit Line—Guidance on Operational Issues

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In consultation with other departments

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## The Flexible Credit Line—Guidance on Operational Issues[1]

## I. INTRODUCTION

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

## II. OVERVIEW OF THE FCL

2. The FCL is designed to provide a credit line with large and upfront financing to members with very strong fundamentals and institutional policy frameworks, and that have sustained track records of implementing very strong policies and remain committed to maintaining such policies in the future (see GRA Lending Toolkit and Conditionality--Reform Proposals, 3/13/09 and Sups. 1 and 2 as well as the Press Release and Q & A links). Access under the FCL is provided under an FCL arrangement.[2] As access to the FCL is available only to those members that meet strict qualification criteria, drawings under it are not tied to ex post conditionality. The FCL is designed to be flexible: i) access is uncapped and funds are available upfront; ii) grace period and repayment terms are relatively long (3¼–5 years); iii) renewals are unrestricted;[3] and iv) the FCL can be used for either contingent (precautionary) and actual balance of payments (BoP) needs.

- ***Approval*** (FCL decision, paragraph 6(a)). An FCL arrangement is approved following a confidential request from a member (Section III). There is *no list* of members that pre-qualify for the FCL. Only if a country expresses an interest in requesting an FCL arrangement, may staff assess in a confidential and preliminary way whether a member might qualify. When management decides that access to Fund resources under the FCL may be appropriate, it will promptly consult with the Executive Board at an informal meeting. A concise staff note setting out the basis on which approval could be recommended is provided to the Executive Board for this meeting. A formal decision approving an FCL arrangement is then taken by the Executive Board at a subsequent meeting on the basis of the member's written request outlining its policy plans, a staff

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[2] Some terminology: established as a window in the Fund's credit tranches, the FCL is a *lending instrument,* and not a *stand-alone facility (e.g., such as the EFF, EPCA, ENDA)*. Access to Fund resources is provided under an FCL *arrangement*. The text of a standard FCL arrangement can be found in Annex IV.

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

report assessing the member's qualification and justifying access under the FCL, and the Managing Director's recommendation.

- ***Length*** (FCL decision, paragraph 5(a)). The FCL may be a six-month arrangement or a one-year arrangement with a mid-term review (the choice is binary; no other periods are possible). For FCL arrangements with a 12-month duration, no purchases can be made after six months have elapsed from the date of approval until completion of an Executive Board review aimed at ascertaining the member's continued adherence to the qualification criteria (see page 7 for a description of the mid-term review). Successive FCL arrangements may be approved for the member, provided that the qualification criteria continue to be met.

- ***Access*** under the FCL is uncapped, and it can be augmented (subject to Board approval) during the time of the arrangement subject to the member's continued eligibility. However, cumulative access under the FCL would not normally be expected by staff to exceed 1000 percent of quota (see GRA Lending Toolkit and Conditionality—Reform Proposals, paragraph 13). The exceptional access policy does not apply to the FCL (i.e., lending above the normal access limits of 200 percent annually and 600 percent cumulative does not trigger the exceptional access policy), although its approval procedures are substantively similar to those under the exceptional access framework as discussed below (Decision No. 14064–(08–18), paragraph 2).

- ***Conditionality*** (FCL decision, paragraphs 2, 3, and 5(a)). There is no traditional ex post conditionality (no prior actions either), as the track record of policy implementation is intended to provide assurances that appropriate corrective policies, if needed, would be implemented. Similarly, no conditionality—only qualification criteria—can be attached to the mid-term review or the approval of successive FCL arrangements. Once an arrangement has expired, if there have been drawings under the arrangement then the Fund will conduct post program monitoring (PPM) while outstanding credit remains above 200 percent of quota.

- ***Phasing*** (FCL decision, paragraphs 4 and 5(b))**.** The entire amount of requested access is available upon approval of the FCL and remains available throughout the arrangement period (subject to the completion of the mid-term review for the one-year arrangement). The arrangement can be requested on a precautionary basis or to address 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.[4] The FCL would expire upon the earlier of: (i) the

[4] As is standard under Fund facilities, while the Fund would not challenge the *ex ante* representation of a BoP need by a member for a purchase requested under an FCL (nor in practice has it done so *ex post*), the member's drawings would have to be commensurate with its actual BoP need at the time of a purchase, notwithstanding the available amount of approved access. Generally speaking, the concept of BoP need relates to the existence of an above-the-line BoP deficit or an inadequate level of reserves.

expiration of its term; (ii) the drawing of the full amount of approved access; or (iii) the cancellation of the arrangement by the member.

- ***Financial terms*** (GRA lending Toolkit and Conditionality—Reform Proposals, III(B) paragraph 16)**.** Purchases under the FCL are subject to the same financial terms (repayment period, surcharges, etc.) as SBAs. Undrawn amounts are subject to the commitment fee.[5]

- ***FCL resources and their treatment in reserves***. Undrawn amounts available under the FCL arrangement are not counted in gross reserves (as they are not yet created as an asset). However, there is space in the SDDS template to announce the availability of these as yet undrawn credit line resources. Once drawn, FCL resources give rise to an increase in gross reserve assets, as well as external liabilities (with maturities corresponding to the timing of repurchases).

## III. Process

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

- ***Initial steps***. The member should approach staff or management confidentially and indicate its interest in obtaining financing under the FCL. (A mission is not required to discuss an FCL request or to assess qualification. However, if latest available Article IV report is more than a year old, or if circumstances warrant it, a fact-finding staff visit may be needed to assess FCL qualification). Staff should strongly encourage members to do this on a confidential basis, as failure to qualify under the instrument could have negative effects on market sentiment. Any publicity ahead of Executive Board consideration could prejudice the member's case as the Board could see this as an attempt to unduly influence the outcome. Fund staff must treat the authorities' request as confidential and cannot discuss qualification publicly. Staff should wait for a formal expression of interest by the member before initiating an assessment of qualification and developing an agreed staff view on qualification. In the initial exploratory discussions, staff should enquire as to the nature of the balance of payments problems (actual or potential) that has resulted in the member requesting an FCL arrangement and the desired level of access (see section on access below). The length of the arrangement sought by the authorities and whether the arrangement is meant to be treated as precautionary should be clarified at an early stage.

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

Once an expression of interest has been received, area departments should consult closely with SPR on the key elements and process for assessing qualification.

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

- ***Support from other creditors***. The FCL decision requires that when support from other creditors is likely to be important in helping a member address its BoP difficulties, staff will consult with key creditors (official or private sector) as appropriate (FCL decision, paragraph 6(a)(ii)). In practice, it is expected that consultation with other creditors will only be necessary when both of the following apply: i) the FCL is being requested on a nonprecautionary basis; and ii) there are sizeable remaining financing gaps that need to be filled by other creditors (usually official bilateral creditors). In these circumstances, staff should first inform the Executive Board—in a brief statement—that the member has requested access under the FCL and that contacts with other creditors will be initiated so as to properly assess the financing needs and required levels of access. Country authorities should be informed (in advance) of such planned contacts. The standard informal briefing of the Executive Board, which would include a preliminary assessment of access, would take place after discussions with creditors.

- ***Informal Board meeting and staff note***. If management decides that access to Fund resources under the FCL may be appropriate, it will promptly consult the Board in an informal (restricted) Board meeting. A concise staff note should set out the basis on which approval could be recommended, including a preliminary assessment of qualification and a discussion of the appropriateness of the proposed level of access (details on the staff note are set out in Annex II). Following consultation with the Board at the informal meeting, if there are concerns about a market-sensitive leak/misinformation regarding the FCL request, a press release could be issued indicating the authorities' interest and management's intention to recommend Board approval of the FCL. The press release would take special care not to prejudge the Board's exercise of its responsibility to take the final decision on an FCL arrangement.

- ***Preparation of the staff report***. Details on the content of the staff report are set out in Annex II. A mission is not normally expected. However, in some cases, a mission may be deemed necessary (prior to the informal Board meeting) to assess qualification or to discuss access levels or to clarify the authorities' intentions regarding policy goals and strategies. As for other arrangements, the level of access under the FCL *should be justified* in staff reports (see below).

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

- ***Central bank safeguards***. A member requesting an FCL arrangement is not subject to the Fund's policy on safeguards assessments. However, at the time of making a formal written request for an FCL arrangement, the member will provide authorization for Fund staff to have access to the most recently completed annual independent audit of its central bank's financial statements, whether or not the audit is published. This will include authorizing its central bank's external auditors to discuss the audit findings with Fund staff, including any written observations by the external auditors regarding the weaknesses observed in internal controls (FCL decision, paragraph 6(b)).[6] Area department teams are encouraged to consult early on with FIN staff on safeguards assessment requirements.

- ***Circulation periods***. Normal circulation periods apply to the FCL. However, where needed—such as an urgent actual balance of payments need or risk of leaks that could be market destabilizing—FCL-specific expedited procedures can be followed (Annex III).[7]

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

- ***Activation of credit line***. The credit line is open on approval of the arrangement. Prior to approval of the FCL arrangement, FIN will need to receive authorization from the

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[6] FIN Operational Guidelines for Safeguards Assessments are being updated and will include more detailed guidance on safeguards procedures applicable for FCL.

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

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

- ***Drawings***. Should the member decide to draw under the FCL arrangement, FIN would need to receive official communication from the authorities requesting a purchase under the FCL arrangement, specifying the amount of the purchase and representing a balance of payments need—a standard requirement for any drawings under the IMF's General Resources Account. FIN would immediately contact the authorities to determine the earliest possible value date, the currency composition of the purchase, and other operational details in line with established guidelines and procedures. The member should be encouraged to disclose information about any drawings under an FCL arrangement as such information is routinely made public by the Fund on its external webpage (on financial transactions with member countries). Staff will brief the Executive Board of any drawings under precautionary FCL arrangements.

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

- ***Six-month review***. Where a member has a 12-month FCL arrangement, a six-month review is required to assess whether the country still meets the qualification criteria for the FCL (FCL decision, paragraph 5(a)). The review should be scheduled with the objective of completion by the Executive Board immediately prior to the lapse of the six-month period or else the member could temporarily lose automatic access to Fund resources. Unless the authorities inform staff that they want the FCL arrangement to lapse at the six-month point, staff should prepare a concise staff report to inform the Board about recent developments, policy initiatives, and a brief update assessing the country against the qualification criteria (see Annex II for a description of the likely content of the report). Board approval of the review could be on a lapse of time basis. A mission will not normally be necessary to conduct a mid-term review, although the assessment of a member's continued qualification will benefit from the findings of recent routine staff visits or Article IV consultation missions.[8] If there have been very

[8] If a staff visit precedes the mid-term review, standard review procedures for the briefing paper apply (i.e., it should be circulated for comments to SPR, LEG, and FIN, and sent to Management for approval if there is a change in policy line or economic circumstances. If the area department and SPR agree there is no change, a one-page brief is adequate and should be circulated for information only.)

substantial changes in policy strategies or goals, then a new letter from the member setting out their new strategies and goals should also be attached and discussed in the report.[9] The staff report would be subject to standard review process (but no Policy Consultation Meeting) and should be circulated according to the normal circulation procedures—unless there is a case for expedited procedures (Annex III).

- ***Expiration of FCL arrangements***. With the nearing of the expiration of an FCL arrangement, staff or management could issue a factual press statement at the member's request noting the successful conclusion of the FCL arrangement. This could highlight the member's recent performance and the supporting role played by the FCL arrangement. In this circumstance—and in all situations where a press statement is proposed, including for example, when an arrangement is canceled by the authorities—the press statement should be coordinated with EXR and SPR to ensure that the impact of such communication on all members under FCL arrangements is taken into account in the communications strategy. Although there will be incentives to bolster the impression that countries are choosing not to renew even though they qualify, it is important that press statements should **not** include any assessment of potential qualification for a successor FCL arrangement—a member's expression of interest in a successor FCL arrangement is subject to the same confidentiality as the initial request and should follow the same process as set out in this guidance note and in GRA Lending Toolkit and Conditionality—Reform Proposals, III (B) paragraph 15 and FCL Decision, paragraph 6(a).

## IV. DETERMINING QUALIFICATION

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

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

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

- Staff should also make clear whether a very positive assessment of the members' policies was given in the context of the most recent (2–3 years) Article IV consultations (FCL decision, paragraph 2).

- To help assess qualification, the qualification criteria and indicators listed in Annex 1 should be assessed by staff in the initial short note to the Board and the staff report on the FCL arrangement request. Nevertheless, it is recognized that these qualification criteria and indicators will need to take into account the great variety of members' circumstances and the uncertainties surrounding economic projections. Strong performance against all relevant criteria noted is not necessary to secure qualification under the FCL. (Conversely, mechanically meeting most criteria does not secure qualification.) However, significant shortcomings on one or more of these criteria—unless there are compensating factors, including corrective policy measures underway—would generally signal that the member is not among the strong performers for whom the FCL is intended.

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

## V. Justification of Access

6. General Fund policy provides for access decisions in individual country cases to be based on: (i) the member's actual or potential need for Fund resources taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves (further details on determining the BoP need are covered in Annex II of GRA Lending Toolkit and Conditionality—Reform Proposals ); (ii) the member's capacity to repay the Fund, which takes into account the strength of its adjustment program including the extent to which it will lead to a strengthening of the member's BoP by the time that repurchases begin to fall due; and (iii) the amount of the member's outstanding Fund credit and its record in using Fund resources in the past. *Determining Access on a Precautionary Basis (FCL and other Arrangements)* (Attachment) sets out a framework that should be used by teams to assess the appropriate level of access. This note also provides details on examples from recent FCL requests and other precautionary arrangements. Further examples and details on justifying access can be found in Annex II of GRA Lending Toolkit and Conditionality—Reform Proposals; SPR reviewers and the Emerging Markets Division can provide further guidance when needed.

## ANNEX I. Qualification Criteria

This annex provides the key considerations for assessing qualification for financing under the FCL, with a view to promoting predictable and evenhanded assessments. The qualification criteria for the FCL were designed using as a starting point those already established by the Executive Board for the Short-Term Liquidity Facility, as well as the qualification criteria discussed by the Board in the context of the Reserve Augmentation Line.[10]

The core of the qualification framework for the FCL is an assessment that the members' economic fundamentals, institutional policy framework, and policies are very strong. These, together with a sustained track record of very strong policy implementation, would give markets and the Fund confidence that the member would take appropriate corrective policy measures when facing an adverse shock, consistent with addressing the BoP problems it may be facing and with repaying the Fund. As FCL resources can be used for any BoP problem and an FCL arrangement can be approved in the face of an actual or potential financing need, qualification for the FCL would not preclude circumstances where the member would need or plan to undertake policy adjustments.

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

### Qualification criteria

To qualify for the FCL, the member must have very strong economic fundamentals and institutional policy frameworks, a sustained track record of implementing very strong policies and of adjusting to shocks, and must remain committed to implementing very strong policies in the future (FCL decision, paragraph 2). Member's policies must have been assessed very positively by the Executive Board in the context of the most recent Article IV consultation. Staff would rely primarily on the following criteria and set of relevant indicators that evidence the strength of the member's underlying fundamentals and economic policies (Table 1).

- *A sustainable external position*. Relevant indicators include: the debt-stabilizing noninterest current account balance; the level and composition of external debt; the level

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

of net international reserves and the level and composition of private sector external assets; and assessments of exchange rate misalignment. The internal consistency between the member's currency regime and the fiscal-monetary policy mix will also need to be assessed.

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

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

- *When the arrangement is requested on a precautionary basis, a reserve position which—notwithstanding potential BoP pressures that justify Fund assistance—remains relatively comfortable*. Assessment of reserve levels would take into account a number of metrics (imports, short-term debt, monetary base) as relevant given the member's exchange rate regime.

- *Sound public finances, including a sustainable public debt position, determined by a rigorous and systematic debt sustainability analysis*. The analysis would cover the evolution of debt of the nonfinancial public sector, as well as rollover and financing requirements under alternative scenarios (including an assessment of contingent liabilities, where appropriate) and stress tests. Relevant indicators may include the recent evolution of fiscal balances in relation to the economy's cyclical position; the quality of any adjustment measures being considered; an assessment of medium-term plans anchoring fiscal policy outcomes; and an overall sound institutional budgetary framework as informed by recent fiscal ROSCs, where available.

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

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

- *Effective financial sector supervision*. Relevant modalities to establish observance with this criterion would be provided by an assessment of the supervisory framework and of the legal and institutional framework, as well as the operational capacity, to respond promptly if bank interventions and resolution is warranted and if emergency liquidity assistance is needed.

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

**Table 1. Relevant Indicators for FCL Qualification Criteria**

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

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

**A. Concise staff note for informal Board meeting**.

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

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

- ***Access***. An indication of an appropriate access level based on a brief assessment of macroeconomic risks and potential or actual BoP needs considering risks to the current and capital accounts.

- ***Tables***. Standard economic indicators and a balance of payments table (both with projections for the current year and following year), and a table on gross external financing requirements and sources of finance under a baseline case and for an adverse scenario. A table comparing access metrics across various cases could also be included at this stage and should be included in the subsequent staff report (see below).

**B. Staff Report for the formal request for an FCL arrangement**

The staff report should include:

- A discussion of recent macroeconomic developments and policies, the economic outlook, and the authorities' forward-looking policy plans.

- A discussion of potential (or actual) sources of BoP pressures and other risks. The assessment of BoP need should include a discussion of different scenarios based on alternative assumptions about key parameters (external debt rollover rates, magnitude of portfolio outflows, etc.).

- A detailed assessment of the qualification criteria (including the material from the concise staff note and any additional information).

- As part of the above, a debt sustainability analysis including the evolution of debt, as well as rollover and financing requirements under alternative scenarios (including an assessment of contingent liabilities, where appropriate) and stress tests.

- A discussion and justification of the proposed access level. (See attached examples of recent staff report boxes).

- A discussion of the member's capacity to repay the Fund in the event of adverse contingencies that lead to the FCL being drawn.

- ***Tables***. Selected economic indicators including projections for the current year and following year, a balance of payments table (ideally with projections for a five-year time span), tables on external financing requirements and sources and fiscal projections including projections for the current year and the following year, the debt sustainability tables (external and public), a table on capacity to repay the Fund, and a table illustrating alternative metrics for access (compared with previous FCL and exceptional access cases).[11]

- A draft proposed decision for approval of the FCL arrangement and the text of the FCL arrangement, both prepared by LEG (Annex IV).

- An assessment prepared by FIN on the impact of the proposed FCL arrangement on the Fund's finances and liquidity position, as a supplement to the staff report.[12]

- ***Authorities' written communication***. See attachment.

### C. Staff report for the mid-term review

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

- Recent economic developments (with a discussion about the role played by the FCL in dissipating tail risks) and policies.

- Brief review of qualification criteria.

- Staff appraisal.

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[11] SPR EM Division can provide this table.

[12] An example of this supplement is *Mexico—Assessment of the Impact of the Proposed Flexible Credit Line Arrangement on the Fund's Finances and Liquidity Position* ( and Supplement 1, 4/8/09). FIN staff will contact the mission team concerning data requirements.

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

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

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

## ANNEX III. EXPEDITED PROCEDURES

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

- Staff and management brief the Board on FCL qualification and proposed access level, on the basis of documentation provided to the Board at least two hours prior to the informal Board meeting.

- Directors would be consulted during the informal Board meeting on possible issuance of a press release indicating the authorities' interest and management's intention to recommend Board approval of the FCL. The press release would take special care not to prejudge the Board's exercise of its responsibility to take the final decision on an FCL arrangement.[13]

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

[13] This would be parallel to the EA policy, see PIN/03/37 It would also be in line with past practice, whereby statements by management followed ad referendum agreement with the authorities.

## ANNEX IV. PROPOSED DECISION AND ARRANGEMENT TEMPLATES

### A. Proposed Decision—New Arrangement

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. [] has requested a Flexible Credit Line arrangement in an amount equivalent to SDR [] for period of [six/twelve] months from [].

2. The Fund approves the Flexible Credit Line arrangement for [] set forth in [].

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

### B. Arrangement text: [country name]—[Six/Twelve]-Month Flexible Credit Line Arrangement

Attached hereto is a written communication dated […], from [the Minister of Finance and the Governor of the Central Bank of […] requesting a Flexible Credit Line arrangement in accordance with paragraph 6(a)(iv)(I) of Decision No. 14283-(09/29), adopted March 24, 2009, on the Flexible Credit Line Arrangements.

In response to [] request, the International Monetary Fund ("the Fund") grants this Flexible Credit Line arrangement in accordance with the following provisions:

1. For a period of [six/twelve] months from [], [] will have the right to make purchases from the Fund in an amount equivalent to SDR [], subject to paragraphs 2, 3, and 4 below, without further review by the Fund.

2. [(a) [] will not make purchases under this arrangement after [] until an Executive Board review of []'s continued qualification for this Flexible Credit Line arrangement has been completed.] *Note this is used only for the 12-month arrangement which entails a mid-term review.*

(b) The limitation in paragraph 2(a) above shall not apply to purchases under this arrangement that would not increase the Fund's holdings of []'s currency subject to repurchase beyond 25 percent of quota.

3. [] will not make purchases under this Flexible Credit Line arrangement during any period in which []: (i) has an overdue financial obligation to the Fund, or is failing to meet a repurchase expectation in respect of a noncomplying purchase pursuant to Decision No. 7842–(84/165) on the Guidelines on Corrective Action; or (ii) is failing to meet a repayment obligation to the PRGF-ESF Trust established by Decision No. 8759-(87/176) PRGF, or a repayment expectation to that Trust pursuant to the provisions of Appendix I to the PRGF-ESF Trust Instrument.

4. Consistent with the Fund's policies, []'s right to engage in the transactions covered by this Flexible Credit Line arrangement can be suspended only with respect to requests received by the Fund after (a) a formal declaration of ineligibility to use the Fund's resources pursuant to Articles V, Section 5, VI, Section 1(a), and XXVI, Section 2(a) of the Fund's Articles of Agreement, or (b) a decision of the Executive Board to suspend transactions, either generally pursuant to Article XXVII of the Fund's Articles of Agreement, or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit []'s eligibility to use the Fund's general resources. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 4, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and [] and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Purchases under this Flexible Credit Line arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of [], the Fund agrees to provide SDRs at the time of the purchase.

6. [] shall pay a charge for this Flexible Credit Line arrangement in accordance with the decisions of the Fund.

7. (a) [] shall repurchase the amount of its currency that results from a purchase under this Flexible Credit Line arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases, as []'s balance of payments and reserve position improves.

(b) Any reductions in []'s currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

8. [] shall provide the Fund with information necessary to assess its qualification for this FCL arrangement in the context of the review called for in paragraph 5(a) of Decision No. 14283-(09/29), adopted March 24, 2009, on the Flexible Credit Line Arrangements. In addition, after the period of the arrangement and while [] has outstanding purchases in the upper credit tranches, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, as appropriate.

### C. Proposed Decision—Six-Month Review

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Fund has reviewed []'s continued qualification for a Flexible Credit Line Arrangement in accordance with paragraph 2(a) of the Flexible Credit Line Arrangement for [] (EBS/[]/[], Sup. [], []).

2. The Fund decides that the review specified in paragraph 2(a) of the Flexible Credit Line Arrangement for [] is completed.

## ATTACHMENT : DETERMINING ACCESS ON A PRECAUTIONARY BASIS

This note provides a framework for use by staff when considering access in a precautionary setting. It is additional to the guidance provided in Annex II, GRA lending Toolkit and Conditionality—Reform Proposals, 3/13/09 and draws upon the approach used for the FCLs agreed so far for Mexico, Poland, and Colombia.

***Aim:*** To ensure Executive Board papers include a rigorous analysis of the determination of access levels based on a consistent framework but allowing for country-specific flexibility; and recognizing the high degree of judgment involved in estimating a potential financing gap. The underlying assumptions on which the level of access is based should be clearly spelled out in Board reports and staff should show that access looks reasonable when compared with a range of metrics and indicators.

### Key criteria for access

The key criteria that govern access decisions in individual country cases are: i) the member's actual or potential need for Fund resources, taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves (Fund policy establishes that in no circumstances can access be greater than this need); (ii) the member's capacity to repay the Fund (including the strength of the member's adjustment program); and (iii) the member's outstanding Fund credit and its track record of using Fund resources. These criteria are broad and require substantial judgment, even more so when access is requested on a precautionary basis.

### Framework for determining access in a precautionary setting

When access is requested on a precautionary basis, staff should construct a plausible adverse scenario to help determine an estimated potential financing gap and the appropriate level of access. Additional factors—beyond the potential financing gap in the adverse scenario—could be given weight when forming a judgment about the appropriate level of access but these would need to be carefully justified.

The construction of the ***adverse scenario*** should be informed by: i) downside global assumptions in line with the latest WEO downside scenario (with a description of the potential shock and how likely it is); ii) evidence from past or current crises; and iii) country specific factors (and likelihood based on past experience). The adverse scenario should also take into account whether there is a case for an orderly exchange rate adjustment and whether reserves cover (on a number of metrics) suggests that the reserve level should be maintained, raised, or lowered. For example, if a country is hit by a permanent shock that affects the equilibrium exchange rate, the role of Fund financing/insurance may be to help the country to move to a new equilibrium in an orderly manner rather than to preserve the previous real exchange rate. In determining the scale of access, teams also need to ensure that the balance of payments tables demonstrate the potential need. Table 1 in the annex provides an extensive guide to the shocks that could be used to construct this scenario and examples from previous reports are also provided (but such examples should be considered as defining the minimum set of information required on the underlying assumptions and factors determining the scale of access).

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

- The WEO provides a useful reference for quantitative estimates of shocks to global growth and commodity prices, which could inform the effects on the country's export demand, terms of trade, and remittances. For example, the October 2009 WEO issue projected, in an adverse scenario, world real GDP growth to be 2.2 percentage points lower in 2010 (this scenario corresponds to the lower end of the 90 percent confidence interval surrounding the forecast baseline).

- The GFSR should be the main source for key global and regional assumptions on financing conditions, including surveys of market analysts' expectations, under the baseline and an adverse scenario.

**B. Evidence from previous and current crisis cases**, including as described in economic literature, could additionally inform the impact of global and country-specific shocks on the balance of payments. In particular, past crisis episodes could provide a range for the size of the expected shock on different components of the capital account, including FDI, rollover rates, resident, and nonresident deposit outflows.

**C. Country-Specific Factors.** Although global assumptions and past crises episodes could provide valuable information on the possible behavior of different elements of the BoP at times of distress—and ensure comparability of scenarios across country requests—country-specific characteristics will usually be a critical component of the adverse scenario, to ensure that it is plausible. In particular, desks may want to focus on the country-specific structure and resulting volatility of capital flows, as well as specific items (e.g., derivatives, intra-group lending, private foreign assets holdings), that could either exacerbate or mitigate potential BoP pressures. When using country specific factors, staff will need to defend the scale of the specific shock (e.g., the probability that this type of shock will occur based on past experience and current developments).

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

An assessment of *reserve adequacy* and how this would be affected if the adverse scenario materializes is also necessary. Staff should compare reserve levels across peer countries and according to different metrics relevant given country-specific vulnerabilities and relevant for the exchange rate regime (e.g., reserves-to-short term debt at remaining maturity plus current account deficit, reserves to imports coverage, reserves to M2 ratio). In the FCL cases so far, staff compared different reserve ratios across countries, and referred to reserve adequacy after the shock when proposing access (in Mexico). In the case of El Salvador, potential financing needs were also based on an assessment of the impact of potential deposit outflows in advance of an election. In tandem with assessing the level of reserves, staff should also consider whether an orderly exchange rate adjustment might be necessary if the adverse scenario unfolds (since it may not be appropriate for Fund financing to support the previous level of the real exchange rate in the face of a permanent shock).

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

Access levels should always be presented based on the potential BoP need, irrespective of the specific use of Fund resources by the member (budgetary support, reserve build up, bank restructuring costs).[14] 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 Review of Recent Crisis Programs, 09/14/09). For example, a BoP need could be deemed to arise in the context of an economic contraction if appropriate stimulative policies (including fiscal) would lead to a worsening of the current account—i.e., the deterioration of the public sector S-I balance is not offset by an improvement in the private sector S-I balance (crowding out). In the absence of external financing, the use of Fund resources to prevent a maladjustment of the balance of payments (excessive current

[14] 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)).

account contraction) would be warranted.[15] Operationally, proposed access levels should be commensurate with the projected BoP need shown in staff reports.

Finally, staff should check that the level of access is appropriate not just with respect to financing gap estimates, but a wider range of metrics and indicators related to capacity to repay and quota (for this purpose, the policy note, and staff report should include a comparison of high access cases indicators table).

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

| Table 1. Illustrative BoP Shocks in Adverse Scenarios | | | |
|---|---|---|---|
| **External Financing Requirements and Sources: Potential Shocks** | **Downside risks to the Current External Environment (WEO, GFSR, EWE)** | **Evidence from Previous and Current Crisis Cases** | **Country Specific Risks and/or Compensating Factors** |
| **A. Current Account**<br>Foreign Demand<br>Commodity Prices<br>Remittances | WEO alternative scenario (global growth and commodity price decline with respect to baseline) | Impact of advanced economies' downturn on emerging markets | Exports/Imports composition and elasticities<br>Current account norm and debt-stabilizing level |
| **B. FDI** | GFSR/Vulnerabilities Exercise for Emerging Markets (VEE) | FDI decline in representative cases<br>Historical volatility vis-à-vis other capital flows | Foreign bank takeovers<br>Investments in nontradable sector<br>Greenfield investments<br>Retained earnings |
| **C. Equities and debt securities** | VEE | Nonresident holdings of and outflows from domestic equity and bonds | Need to account for valuation effects |
| **D. Debt Rollover**<br>MLT/ST<br>Sovereign/Bank/ Nonbank<br>Official/Private | MCM survey of market analysts expectations or VEE | Rollover rates | Debt composition<br>Trade credits<br>Intra-group lending<br>Private Sector Involvement |
| **E. Other Investment**<br>Currency and deposits<br>Secondary market<br>Derivatives position<br>Other | GFSR/VEE | Stock and flows of nonresident deposits<br>Resident deposits outflows | Nonresident holdings of domestic debt<br>Hedged derivatives position in tradable sector<br>Degree of dollarization |
| **F. Gross International Reserves and Private Foreign Assets** | Greenspan-Guidotti rule<br>Jeanne-Ranciere Reserve rule | Evidence from programs | Metrics selected on the basis of relevant vulnerabilities<br>Weight of financial sector and government assets in Gross International Reserves<br>Availability of liquid foreign assets by private sector |

## EXAMPLES

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

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

- An earlier example is **Brazil**, for which access under the 2003 augmentation and extension of the SBA was treated as precautionary (making 355 percent of quota available) and set at a level where reserves could stand a shock of a three-month decline in rollover rates on external debt to 25 percent.

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

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

- **Colombia's FCL** arrangement was also tailored to mitigate BoP risks. Access of SDR 7.0 billion (900 percent of quota)—which the authorities intend to treat as precautionary—would support Colombia's policy framework and strategy, while reducing the likelihood of BoP pressures stemming from a change in investor sentiment. In the baseline, annual gross external financing needs for 2009 and 2010 are estimated in the order of $20 billion, and would be fully financed. However, a more adverse external environment—with a further slowdown in commodity prices and FDI, and lower debt rollover rates—would give rise to net financing needs in the range of $6–8 billion during 2009–10. The proposed access level is in line with other high-access cases, for example in terms of GDP or in relation to exports and imports (see attached box extracted from the staff report).

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

## Examples of Boxes Justifying Access Levels

### Poland—Access Level

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

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

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

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

Poland: Proposed Access, 2009

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

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

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

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

3/ Refers to residual maturity.

## Colombia—Access Level

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

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

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

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

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

Colombia: Proposed Access, 2009

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

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

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

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

3/ Refers to residual maturity.