



June 2015

PRECAUTIONARY AND LIQUIDITY LINE— OPERATIONAL GUIDANCE NOTE

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International Monetary Fund
Washington, D.C.



June 1, 2015

PRECAUTIONARY AND LIQUIDITY LINE—OPERATIONAL GUIDANCE NOTE

EXECUTIVE SUMMARY

This note provides general 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 five areas:

- an outline of the process and specific steps that need to be followed if a member **expresses interest in an arrangement;**
- guidance on **access, phasing, and purchases;**
- guidance on determining **qualification** of a member and appropriate **ex-post conditionality;** and
- a guide to the semi-annual **review process.**

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 on a periodic basis, especially following relevant policy reviews.

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INTRODUCTION

1. The Precautionary and Liquidity Line (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 previously established Precautionary Credit Line (PCL). The design of the PLL was further refined in the 2014 Review.¹ This note provides operational guidance to staff and further background information on the PLL. SPR (the Emerging Markets Division), FIN, and LEG stand ready to clarify any further questions that departments may have on the PLL.

OVERVIEW OF THE PLL

2. The PLL is a financing tool of the Fund that flexibly meets the needs of member countries with sound economic fundamentals but with some remaining vulnerabilities that preclude them from using the [Flexible Credit Line \(FCL\)](#).² The PLL is established as a window in the credit tranches, permitting its use in addressing any balance-of-payments problem. It is designed as a credit line, with large and frontloaded financing available, that can be granted to a qualifying member under an arrangement (i.e., the 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 needed to reduce remaining vulnerabilities and will respond appropriately to the balance of payments (BoP) difficulties that it is encountering or might encounter.

3. The PLL is designed to provide the right balance between members' demand for a well-tailored liquidity instrument and the need to provide adequate safeguards to Fund resources in presence of remaining vulnerabilities. To this purpose, two windows are available under the PLL: (i) a standard window under which financing is provided through a PLL arrangement with duration of one to two years and available to PLL qualifying members with either actual or potential BOP needs; or (ii) a short-term liquidity window under which financing is provided through a PLL arrangement of a six-month duration, available to qualifying members that have an actual or potential short-term balance of payments need such that they can be generally expected to make credible progress in addressing their vulnerabilities during the six-month duration of the arrangement. The specific design features of PLL support under the two

¹ See 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 and the 2014 Specific Proposals paper

² See Table 1 in [Fund's Financing Role: Reform Proposals on Liquidity and Emergency Assistance](#) for a comparison of existing financing instruments.

windows is summarized below, with further discussion of the approval process, access considerations, ex-ante and ex-post conditionality, and reviews in the following sections.

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

- Access** under the PLL is capped (PLL decision, paragraph 4(a) and 4(b)). Access under PLL arrangements shall not exceed the cumulative cap of 1000 percent of quota, net of scheduled PLL repurchases, which shall apply to all PLL arrangements regardless of their duration. PLL arrangements of one to two years are subject to an annual access limit of 500 percent of quota (net of scheduled PLL repurchases) at the time of approval. Purchases under PLL arrangements of one to two years are phased on a semi-annual or annual basis depending on the actual or potential nature of the BoP need (see Section IV below for further details on phasing). In case of a larger BoP need than originally estimated, augmentations of access—up to the 1000 percent of quota cumulative cap referred to above—and rephasing of arrangements under the standard window, are possible in the context of a scheduled or ad hoc review in which the Fund assesses the member’s actual or potential 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 request of the member.³ 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 policy (which is triggered by financing above either of the normal GRA access limits of 200 percent annually and 600 percent cumulatively, net of scheduled repurchases). Continued access under the standard PLL window is subject to the completion of the relevant six-monthly review by the Executive Board (see Section on access and phasing below).
- Conditionality** (PLL decision, paragraph 3(b)). PLL arrangements of one to two-year duration carry ex post conditionality, in addition to ex ante conditionality in the form of qualification criteria (the latter discussed in Section V). Ex post conditionality under the standard PLL window includes semi-annual indicative targets and standard performance criteria (PCs),⁴ and, where warranted in accordance with the Guidelines on Conditionality, may also include other semi-annual PCs as well as prior actions and structural benchmarks (see Section VI and VII below for further details).
- Length, expiration, and successor arrangements** (PLL decision, paragraphs 3(a) and 5(a) and (b)). Under the standard PLL window, arrangements may be approved for a period of between one and two years, with semi-annual reviews. PLL arrangements expire

³ With respect to a reduction in access, a member’s request for reduction in access can be made at any time during the period of the arrangement and is not limited to six-monthly or ad hoc reviews. Further the reduction in access will be subject to Board approval.

⁴ Standard PCs are continuous performance criteria related to trade and exchange restrictions, bilateral payment agreements, multiple currency practices, and non-accumulation of external payment arrears.

upon the earlier of: (i) the expiration of the approved period of the arrangement; (ii) the purchase of the full amount of approved access under the arrangement; or (iii) the cancellation of the arrangement by the member. Successive PLL arrangements under the standard window may be approved for the member subject to the cumulative cap for access under PLL arrangements of 1000 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 prior actions, as warranted) are reached. Note that one- to two-year PLL arrangements shall be phased, as established in the decision, even if total access is under 500 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 fully explained in the staff report supporting the request for a PLL arrangement, and in the staff note for the corresponding informal Board meeting.

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

- **Access** (PLL decision, paragraph 4(a) and 4(c)). Access under the short-term liquidity window is subject to a limit of 250 percent of quota per arrangement (net of scheduled PLL repurchases). However, 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, including heightened regional or global stress conditions, access is subject to a higher limit of 500 percent of quota, net of scheduled PLL repurchases, per arrangement (see Annex II). The entire amount of approved access is made available upon approval of the arrangement and remains available throughout the arrangement period. Augmentations of access—in case of a larger BoP need than originally estimated⁵ and subject to the access limits and conditions specified above—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. In any event, total access to Fund resources by a member through six-month PLL arrangements shall not exceed a cumulative access cap of 500 percent of quota, net of scheduled PLL repurchases. Moreover, access under all PLL arrangements, regardless of the length of the arrangement, shall not exceed the cumulative cap of 1000 percent of quota, net of scheduled PLL repurchases as mentioned above. Support under six-month PLL arrangements is also subject to the 200 percent of quota annual access limit and 600 percent of quota cumulative limits applicable to all financing under the GRA, and thus to the exceptional access policy when either of these limits is exceeded.

⁵ For example, the materialization of a larger BoP need than originally envisaged might require the augmentation of a six-month PLL arrangement from its initially approved access of say 100 percent of quota to say 150 percent of quota.

- **Conditionality** (PLL decision, paragraph 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 (see footnote 5). Prior actions can also be included, if warranted. Six-month arrangements are not subject to reviews, indicative targets, or periodic quantitative PCs and structural benchmarks, as arrangements under the standard PLL window.
- **Length, expiration, and successor arrangements** (PLL decision, paragraph 3(a) and 5(a, c)). Under the PLL short-term liquidity window, arrangements may be approved for a period of six months and expire upon the earlier of: (i) the expiration of the approved period of the arrangement, (ii) the purchase of the full amount of approved access under the arrangement; or (iii) the cancellation of the arrangement 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 1000 percent of quota, and to the 500 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 (see also on access above and Annex II). Approval of any successive arrangement would remain subject to an assessment of continued qualification and, if warranted, to prior actions.

PROCESS

4. A PLL arrangement may be approved following a request from a member (PLL decision, paragraph 2). There is *no list* of members that pre-qualify for the PLL. If a country expresses an interest in a PLL arrangement, staff will conduct a confidential preliminary assessment of the qualification criteria set forth in paragraph 2 of the PLL Decision to determine whether the member might qualify (see Section V). If management, based on staff’s preliminary assessment, decides that access to Fund resources under the PLL may be appropriate, management will promptly consult with the Executive Board at an informal meeting, with a view to allow early engagement of the Board regarding staff’s preliminary assessment of the member’s PLL qualification. To this purpose, staff will provide a concise note including a preliminary assessment of qualification, an initial discussion of the key macro-critical areas where conditionality might be sought, and an assessment of the member’s actual or potential need for Fund resources and repayment capacity.⁶ To the extent that access under the PLL is to exceed the

⁶ A memo to management with the attached concise note prepared by staff would be normally used to inform management of staff’s preliminary assessment of qualification of a member. The memo and the concise note would be subject to the standard inter-departmental review process.

normal GRA limits (including outstanding holdings of a member’s currency arising from previous GRA purchases), the procedural and substantive requirements under the Fund’s exceptional access policy would also apply.⁷ Following the informal Board meeting and once staff has reached understandings with the authorities on the policy actions under the program to be supported by the PLL arrangement, a decision approving the PLL arrangement is proposed for adoption by the Executive Board at a subsequent meeting on the basis of (i) the member’s concise written communication outlining its policy goals and strategies for at least the duration of the arrangement, as well as measures aimed at addressing its remaining vulnerabilities, together with a quantified macroeconomic framework; and (ii) an assessment in the staff report of the member’s qualification, the policy program’s objectives and ex post conditionality, as applicable, and proposed access under the PLL arrangement. Additional consultations with Executive Directors between the initial informal meeting and the Board’s consideration of the member’s request would also be expected to take place, as needed, to provide any additional information and updates on the program discussions, including qualification and program design issues. The specific procedural and substantive requirements for approval of a PLL request are described below.

5. If a member is interested in a PLL arrangement, the process is as follows:

- **Initial steps.** The member should approach staff or management expressing its interest in a PLL arrangement (e.g., through an email or other written communication with the mission chief or area department head). Staff should encourage members to express interest on a confidential, and possibly informal, basis, as failure to qualify under the instrument, if publicly disclosed, could have negative effects on market sentiment. Similarly, Fund staff would be expected to treat the authorities’ request with the necessary confidentiality.
- **Preliminary assessment of qualification.** Upon an expression of interest, the country team would begin to prepare a preliminary assessment of the member’s qualification under the PLL on a confidential basis (PLL decision, paragraph 6 (a)). Given the possibility of remaining vulnerabilities in certain qualification areas, the assessment should be conducted with a view to preliminarily identifying areas for prior actions or ex post policy conditionality, as warranted and depending on the duration of the arrangement. A mission is not required to assess PLL qualification. However, if the latest Article IV consultation discussion is more than one year old, or if warranted by circumstances (e.g., concerns about a sudden deterioration in a key qualification area), a fact-finding staff visit is recommended to provide additional input to staff’s preliminary assessment of qualification. Staff should take care to ensure that qualification is thoroughly assessed (see Section IV and Annex I) and discussed with SPR, FIN, and LEG, and other functional departments as necessary. The nature of the BoP need (including whether actual or potential), the proposed access level, and the length of the arrangement sought by the

⁷ [Decision No. 14064-\(08/18\)](#), adopted February 22, 2008, as amended.

authorities should also be clarified by staff at an early stage. The authorities should be informed promptly on a confidential basis of Management’s preliminary determination of the country’s qualification. Throughout the process, staff should make clear to the authorities that any qualification assessment by staff is only preliminary, pending the Executive Board’s decision.

- ***Informal Board meeting and staff note.*** If management decides that access to Fund resources under the PLL may be appropriate, it will promptly consult the Executive Board at an informal Board meeting. For this purpose, a concise staff note—which is distinct from, and significantly more succinct than, the staff report requesting an arrangement—should set out the basis on which approval of the PLL arrangement could be recommended, including a preliminary assessment of qualification and specification of key areas with remaining vulnerabilities, and a discussion of the appropriate duration of the arrangement and of the proposed level of access, taking into account respectively the expected time that the member would need to make credible progress in addressing its remaining vulnerabilities and the member’s capacity to repay (details on the staff note are set out in Annex III). The note should identify policy actions (including possible prior actions and/or ex post conditionality as warranted under the Decision) to address the remaining vulnerabilities. If management decides that exceptional access to Fund resources may be appropriate, the note should also include all the additional information required under the exceptional access policy, including staff’s preliminary evaluation of the four substantive criteria for exceptional access. 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 Executive Board decision on a PLL arrangement. Moreover, in the context of the exceptional circumstances envisaged for six-month arrangements, any possible communication on the existence of exogenous shocks, including due to the impact of heightened regional or global stress conditions would need to be handled with extra care to not propagate further contagion (in any case, these situations would be expected to be rare). Additional consultations with the Executive Board between the initial informal meeting and the Board’s consideration of the staff report would also be expected to take place, as needed, to provide any additional information and updates on the program discussions, including qualification and program design issues, as warranted.
- ***Timing of Article IV consultation.*** The Executive Board assessment of the member’s policies in the context of the most recent Article IV consultations is part of the requirements for qualification to be assessed at the time of a new arrangement or subsequent reviews. The Board has endorsed the principle that the consideration of Article IV consultations be timed sufficiently early to allow the Board’s most recent assessment of the member’s policies to be fully integrated into the assessment of qualification in the context of the approval of or reviews under PLL arrangements. This

- principle should apply equally to mandatory financial stability assessments, which are legally part of the Article IV consultations, and in general to other documents that feed into Article IV consultations, such as voluntary FSAPs and ROSCs. In practice, this would normally mean holding the Article IV discussion around 6 weeks prior to a formal Board meeting for either the approval of, or review under, a PLL arrangement.
- Preparation of the staff report and mission requirements.** Details on the content of the staff report are set out in Annex III. For six-month arrangements, a mission to discuss a PLL request is not required, although a fact-finding staff visit would be recommended in case the latest available Article IV consultation staff report 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 including possible prior actions for arrangement approval, and the policy program aimed at addressing the vulnerabilities identified by the preliminary qualification assessment. The internal review and management clearance procedures that apply to SBA program missions would also apply in the context of a PLL request. The tasks of the mission should include: (i) obtain information and engage in discussions to finalize the staff qualification assessment; (ii) 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 detailed streamlined set of indicative targets 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 PCs and structural benchmarks); and (iv) if warranted, reach understandings on prior actions 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.
 - The authorities’ concise written 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 aimed at addressing the member’s remaining vulnerabilities (PLL decision, paragraph 9), as well as the reasons inducing the member to request Fund assistance under the PLL. The authorities would also need to specify the nature of the BoP need and whether they intend to treat their access request on a precautionary basis. The authorities’ request should refer to their 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). In this context, members requesting a one to two year PLL arrangement could add a reference to their exit expectations in their written communication.⁸ Cross

⁸ See footnote 20 noting the Executive Board view that discussing the member’s external risks and exit expectations in staff reports on a request for a PLL arrangement should help promote timely exit.

referencing material published separately by the authorities would be appropriate to provide additional support for the Fund's assessment of qualification for the PLL. The request should include a standard consultation clause and the authorities' commitment to provide the Fund with all the needed information to monitor the program under the PLL arrangement. For arrangements of one to two years, this written communication provides a basis for monitoring the authorities' policy commitments in program reviews under the PLL arrangement: to this purpose, the authorities' request should also include an annex with a detailed quantitative macroeconomic framework according to the understandings reached with staff, including semi-annual indicative targets (and non-standard PCs where warranted in accordance with the Guidelines on Conditionality,) for key policy variables for at least the first year of the requested arrangement. It should also include, where warranted under the Guidelines on Conditionality, any prior actions and structural benchmarks identified under the program with the specified timing for implementation (PLL decision, paragraph 9). Where semi-annual PCs are warranted in accordance with the Guidelines on Conditionality, 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). If applicable, the annex will also present the definitions of the variables included as semi-annual targets, the data reporting requirements and deadlines, and any other information requirements needed to ensure adequate monitoring of economic and financial developments.

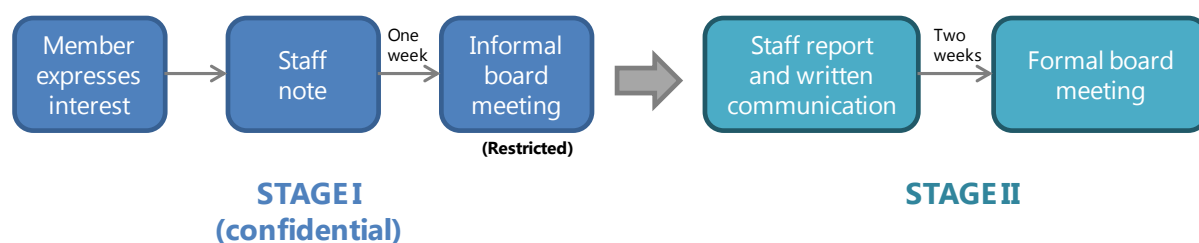
- **Safeguards assessment.** A member requesting a one-to-two year PLL arrangement is subject to the Fund's general safeguards assessment policy that applies to Fund arrangements, including the requirement that a safeguards assessment be completed at least by the time of the first review under the arrangement.⁹ For six-month PLL 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 PLL arrangement are determined on a case-by-case basis, the safeguards assessment would normally need to be completed before the Executive Board approves any subsequent arrangement to which the Fund's safeguards assessments policy applies.
- **Interdepartmental review and circulation periods.** Normal interdepartmental review and circulation periods apply to any staff report for a request for the PLL arrangement. The current circulation period is two weeks for the Formal Executive Board meeting, and for Informal Board meetings concerning PLL arrangements entailing exceptional access, the minimum circulation period is governed by the Exceptional Access policy, but recent practice has been to allow for a one week circulation period. However, where needed,

⁹ FIN Operational Guidelines for Safeguards Assessments are being updated and will include a discussion of safeguards requirements under the PLL.

expedited procedures for the approval of the arrangement under the Emergency Financing Mechanism (EFM) could be applied. If the PLL arrangement is approved under the EFM procedures, a special review of the members' initial policy response to the emergency and the market reactions would be 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 prior actions as called for under the EFM procedures would not apply in the context of PLL arrangements. Prior actions for the approval of the PLL arrangement would be established where warranted in accordance with the Guidelines on Conditionality.

- **Formal Executive Board meeting.** The Executive Board considers and may approve a PLL arrangement based on the request set forth in the member's written communication, as outlined above, and the recommendation contained in the relevant staff report. As for other Executive Board meetings on the use of Fund resources, staff should prepare a Summing Up (for internal use) and a Chairman's Statement (for publication).
- **Transparency.** The Managing Director will generally not recommend that the Executive Board approve a request for a PLL arrangement or the completion of a review, if applicable, unless the member consents to the publication of the associated staff report. More generally, it would be normally expected that the staff report, as well as the authorities' written communication requesting a PLL arrangement, or the completion of a review, and outlining the member's policy goals, will be published shortly after the Board's approval of the arrangement or completion of a review. The authorities are generally expected to consent (ideally in writing) to publish the documents before the discussions on the request for the use of Fund resources under the PLL are concluded with staff.¹⁰ The Fund's Transparency Policy, including the rules on corrections and deletions, applies.

Timeline of PLL Application Process



¹⁰ See Transparency Policy Decision No. 15420-(13/61), June 24, 2013, paragraph 4b.

ACCESS, PHASING, EXIT, AND PURCHASES

6. Access justification. Consistent with general Fund policy, access to Fund resources under a PLL arrangement in individual country cases will be based on: (i) the member’s actual or potential need for Fund resources taking into account other sources of financing¹¹ 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. Under the exceptional circumstances envisaged for six-month PLL arrangements (and discussed above), 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.

7. Annexes II through IV to the [Flexible Credit Line—Operational Guidance Note](#) 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.¹² Annex II sets out a general framework; Annex III presents an external stress index that should be used to help guide access discussions; and, Annex IV presents a unified framework for comparing access assumptions across FCL and PLL cases that should facilitate a relatively transparent approach to communicating the assumptions determining requested access. SPR reviewers and the Emerging Markets Division can provide further guidance as needed. The January 2015 Poland FCL request provides an example of good practice. Justification for access under an actual BOP need would follow normal program guidelines.

8. Phasing. Subject to the access limits under the PLL decision, phasing in PLL arrangements varies depending on the duration of the arrangement and the nature of the member’s balance of payment need at the time of approval of the arrangement. Specifically,

¹¹ When support from other creditors is likely to be important in helping a member address its BoP difficulties, notably in presence of an actual need, staff would be expected to consult with key creditors (official or private sector) as appropriate. Country authorities should be informed (in advance) of such planned contacts. In the case of financing support by multilateral creditors (e.g., for members of a currency area and/or Regional Financing Arrangement), staff should coordinate with the requesting member and the relevant multilaterals to ensure that these creditors’ own internal rules and procedures, as applicable, do not conflict with the Fund’s policies on the financial assistance request and communication strategy. In any case, these considerations should in no way delay prompt communications to the Board or prejudice its assessment of the member’s request.

¹² This framework includes the external stress index endorsed by the Board in the 2014 Review as well as various metrics of reserve levels as set forth in Annexes III and IV.

- For six-month PLL arrangements, whether approved in the presence of actual or potential BOP needs, no phasing is envisaged, with the entire amount of access made available upon approval and remaining available throughout the arrangement period. Upon emergence of an actual BOP need, the member has the option of drawing in one or multiple purchases up to the amount available under the PLL arrangement at any time during the term of the arrangement, subject to the provisions of the PLL decision.
 - For one-year PLL arrangements approved for members having, at the time of approval of the arrangement, a potential BoP need, 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 PLL arrangements with one to two year duration, approved for members having, at the time of approval of the arrangement, a potential BoP need, an initial amount of up to 500 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 the relevant semi-annual reviews. In determining the phasing, both the timing of the reform under the arrangement and the BOP needs of the country would be relevant. These considerations should be fully explained in the staff report supporting the request for the PLL arrangement and 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 up to the amount available under the PLL arrangement at any time during the term of the arrangement, subject to the provisions of the PLL decision. 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 (see also paragraph below).
 - For PLL arrangements with one to two year duration, approved for members having, at the time of approval of the arrangement, an actual BoP need, purchases are phased, with an initial amount being 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 a total of 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 other than the one available upon approval being subject to a review.
- 9. Purchases.** To make actual purchases under the PLL arrangement, FIN would need to receive official communication from the authorities requesting a purchase under the PLL arrangement as is the case with any purchases under the IMF's General Resources Account, specifying the amount of the purchase, subject to access and phasing limits as applicable, and

representing a commensurate actual BoP need.¹³ 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. Information about any purchases by the member under the PLL arrangement is routinely made public by the Fund on its external webpage (on financial transactions with member countries). If the PLL arrangement was requested on a precautionary basis upon approval, Executive Directors would be normally informed of a member's request to draw under the PLL arrangement in the context of an informal Executive Board meeting soon after this has taken place. To this purpose, staff will be expected to prepare a concise note discussing the latest developments leading to the actual BoP need and corresponding purchase and the outlook ahead. For PLL arrangements of one to two years, an updated financing needs and sources table will be included in the note, presenting the semi-annual BoP need projections by the team for the remainder of the arrangement period, as well as an updated capacity to repay table.¹⁴ 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. A press release announcing the first purchase could be issued if deemed warranted following such an informal Board meeting.

10. *Financial terms.* As a window in the credit tranches, use of Fund resources under PLL arrangements is subject to the same financial terms (repurchase period, surcharges, and charges) as other arrangements within the credit tranches such as FCL arrangements and SBAs. For PLL arrangements approved on a precautionary basis, a commitment fee is payable annually on the amounts made available for purchase, but is refundable proportionally to the extent that purchases are made.¹⁵ Prior to approval of any PLL arrangement on a precautionary basis, FIN will need to receive authorization from the authorities to debit the member's SDR account for payment of the commitment fee.

11. *Exit strategy.* Directors reiterated in the 2014 review that "FCL and PLL support provides a temporary supplement to reserves ... and that countries making use of these resources are expected to exit in a timely manner," with concerns raised by some Directors regarding the "undue repeated use of the FCL" (PIN/14/84). A staff assessment of risks and, to the extent possible, the authorities' exit prospects would be expected to be included at the time of the

¹³ As is standard for the use of Fund resources, while the Fund would not challenge the *ex ante* representation of a BoP need by a member (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.

¹⁴ An ad hoc review (as discussed in Section VII) might be required in case the emerging actual BoP need calls for an augmentation and/or rephasing of access under the PLL arrangements, as applicable under the PLL decision.

¹⁵ The marginal commitment fee is equal to 15 basis points for annual access of 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. The last one does not apply to PLL arrangements in view of the overall cumulative access limit.

initial PLL request to justify the proposed duration of the arrangement and at the same time help promote transparency and underpin exit expectations.^{16 17} The increased transparency coming from the elaboration of the authorities' exit strategy should help reduce the likelihood of market surprises following subsequent changes in access, or outright exit from the use of the PLL. This would be complemented at the time of each PLL review by an updated assessment by staff of the anticipated evolution of risks over the rest of the arrangement period. A key purpose of the authorities' exit strategy is to provide forward guidance to markets, with the strategy expected to include the following elements in the staff reports for the approval of, and reviews under, PLL arrangements:

- A statement about exit contingent on the reduction of external risks. The statement should specify the external risks that are relevant and should be informed by the external stress index;
- A statement regarding any efforts the authorities intend to take to reduce remaining domestic vulnerabilities over the arrangement period, where relevant;
- A statement on the expectation that access will decline in successor arrangements when the right conditions are in place.¹⁸ This would mention the contingencies under which a successor arrangement may be requested with lower access, or under which no successor request would be likely.

12. Any exit and risks discussion would unavoidably be subject to a high degree of uncertainty and should be carefully crafted to preserve the role of judgment, while avoiding any risk of adverse market reaction. Discussion of the authorities' exit strategy in the staff report, moreover, would also help inform the Board discussion of the access level, in terms of the evolution of risks and if a successor arrangement is ultimately considered. The introduction of the external stress index in documents should also be useful in this regard.

¹⁶ In PIN/14/84, Directors concurred that one way to address concerns about exit stigma is by clearly articulating exit strategies in staff reports, laying out the authorities' specific measures to strengthen resilience together with a communications plan.

¹⁷ 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. Specifically, only one additional six-month PLL arrangement can be approved before the expiration of the two-year cooling off period discussed above and provided that the member's BoP need is longer than originally anticipated due to the impact of exogenous shocks, including heightened regional or global stress conditions.

¹⁸ In the [Public Information Notice to The Fund's Mandate—The Future Financing Role—Reform Proposals](#), Directors agreed that, in addition to other relevant factors justifying lower access, access under the FCL would normally be expected to decline in successor arrangements whenever improvements in official and private financing prospects have reduced the member's potential or actual balance of payments needs in a sustained manner by the time the successor arrangement is requested. See also the [Public Information Notice](#) on the [Review of the Flexible Credit Line and Precautionary Credit Line](#).

13. Expiration of PLL arrangements. With the nearing of the expiration of a PLL arrangement, staff or management could issue a factual press statement at the member's request noting the pending successful conclusion of the PLL arrangement. This could highlight the member's recent performance and the supporting role played by the PLL 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 COM and SPR to ensure that the impact of such communication on all members under PLL arrangements is taken into account in the communications strategy. Although there will be incentives to bolster the impression that countries are choosing not to seek a successor arrangement even though they qualify, 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 and in [GRA Lending Toolkit and Conditionality—Reform Proposals, III\(B\), paragraph 15](#) and [FCL Decision, paragraph 6\(a\)](#).

14. Cancellation of existing arrangement and request for successor arrangement. A request for a successor arrangement—for example during a protracted period of heightened risks—would follow the same procedures as the original request. Depending on the timing of the Board meeting for the request, the current arrangement may need to be cancelled prior to its expiration. A written notification from the authorities to IMF management (e.g., via email) indicating the authorities' desire to cancel the arrangement on the date of the approval of the new arrangement would be sufficient. A formal letter is not required under these circumstances.

15. Communication strategy. Careful communication will be an essential element of any PLL arrangement to provide forward guidance to market participants about the authorities' future use and exit plans. A communication strategy should be developed with country authorities and should encompass not only the essential details of the instrument (and the rationale for its usage) but also the authorities' exit strategy.

16. PLL resources and their 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 Reserves Data Template (Section III, Item III.3) filled by SDDS subscribers to announce the availability of these as yet unpurchased credit line resources.¹⁹ 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.

¹⁹ In general, IMF arrangements are conditional lines of credit and thus should not be included in Section III of the Reserves Data Template (See [International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template](#), paragraphs 206–207).

DETERMINING QUALIFICATION

17. Qualification is assessed on the basis of the following criteria and additional considerations:

- 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 (PLL decision, paragraph 2(a)).
- A generally positive assessment by the Executive Board of the member’s policies in the context of the most recent Article IV consultations (PLL decision, paragraph 2(b)(i)).
- To help assess qualification, the qualification areas and criteria listed in Annex I should be assessed by staff in the initial short note to the Board and the staff report on the PLL arrangement request. An updated assessment will be made at each review. The PLL qualification criteria, which are the same criteria used for the FCL, are specified in the PLL decision and grouped under the five broad qualification areas also specified in the PLL decision.²⁰ Specifically, the member will be first assessed against the nine qualification criteria, as guided by the relevant indicators. These qualification criteria are set forth below in the text table. Next, the member will be broadly assessed against the five qualification areas on the basis of the assessment against the nine criteria, which comprise: (i) external position and market access; (ii) fiscal policy; (iii) monetary policy; (iv) financial sector soundness and supervision; and (v) data adequacy (see text table). 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. As the PLL qualification bar is lower than the FCL’s, ex post policy conditionality will be expected to address any remaining vulnerabilities during the period of the PLL arrangement.
- Moreover, a PLL arrangement shall not be approved for a member facing any of the following circumstances (hereafter referred to as “approval criteria”): (i) sustained inability to access international capital markets; (ii) the need to undertake large macroeconomic or structural policy adjustments,²¹ unless already set credibly in train

²⁰ On May 21, 2014, the Board approved a change in the seventh qualification criterion from “the absence of bank solvency problems that pose an immediate threat of a systemic banking crisis” to “sound financial system and the absence of solvency problems that may threaten systemic stability.” This change applies to arrangements approved after May 21, 2014. Decision No. 15593-(14/46).

²¹ 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.

- before approval of the arrangement;²² (iii) a public debt position that is not sustainable in the medium term with a high probability; or (iv) widespread bank insolvencies (PLL decision, paragraph 2(c)).

PLL Qualification Areas	PLL Qualification Criteria
I. External Position and Market Access	<ol style="list-style-type: none"> 1. Sustainable external position 2. A capital account position dominated by private flows 3. A track record of steady sovereign access to international capital markets at favorable terms 4. A reserve position that is relatively comfortable when the arrangement is requested on a precautionary basis
II. Fiscal Policy	<ol style="list-style-type: none"> 5. Sound public finance, including a sustainable public debt position determined by a rigorous and systemic debt sustainability analysis
III. Monetary Policy	<ol style="list-style-type: none"> 6. Low and stable inflation, in the context of a sound monetary and exchange rate policy
IV. Financial Sector Soundness and Supervision	<ol style="list-style-type: none"> 7. Sound financial system and the absence of solvency problems that may threaten systemic stability 8. Effective financial sector supervision
V. Data Adequacy	<ol style="list-style-type: none"> 9. Data transparency and integrity

- For six-month arrangements, an explicit assessment of the member’s capacity to make credible progress in addressing its vulnerabilities during the six-month duration of the arrangement is also required.

²² Accordingly, in its assessment of this approval criterion, staff would take into account macro-critical policy measures already set credibly in train by the member before approval of the arrangement to lower vulnerabilities (PLL decision, paragraph 2(c)). These measures being credibly implemented by the member upon its own initiative should not be confused with possible prior actions 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.

- Finally, if the access request is above the normal GRA limits, meeting the relevant four substantive criteria for exceptional access also constitutes a necessary condition for PLL arrangement approval.²³

18. In circumstances where a member is assessed and judged by management not to qualify for the PLL, the request would normally remain confidential. Accordingly, the Executive Board would be notified by staff of a member's request only in the context of an informal Board meeting when management judges that access under the PLL may be appropriate.

EX-POST CONDITIONALITY

19. PLL arrangements carry ex post conditionality, in addition to ex ante conditionality in the form of the qualification assessment (PLL decision, paragraph 3).²⁴ As discussed above,

- Six-month arrangements are subject to the standard continuous PCs (as per footnote 5), with prior actions included in cases where the upfront adoption of measures is critical for successful program implementation.
- In addition to the standard PCs, ex-post conditionality in one-to-two-year PLL arrangements is underpinned by a quantitative macroeconomic framework with semi-annual indicative targets. It may also include other PCs, prior actions and/or structural benchmarks, if these are warranted under the Guidelines on Conditionality.²⁵ In particular:
 - **Indicative targets (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.
 - **Prior actions (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.

²³ While compliance with the exceptional access criteria remains binding throughout the arrangement for a member's access to Fund resources above the normal GRA limits, a formal assessment would be normally included in the Staff Report only upon approval or in the event of an augmentation that brings access beyond the normal access limits. Nevertheless, changes in the member's circumstances might warrant a thorough discussion of the member's continued adherence to the exceptional access criteria also in the context of the semi-annual reviews.

²⁴ At the 2014 Review of the Flexible Credit Line, Precautionary and Liquidity Line and Rapid Financing Instrument, Directors saw scope for greater use of targeted ex post conditionality to address remaining vulnerabilities of PLL users, in accordance with the Guidelines on Conditionality.

²⁵ [Decision No. 12864-\(02/102\)](#), as amended.

- **Performance criteria (PCs):** Semi-annual PCs 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 PCs would require waivers of non-observance for completion of reviews. Moreover, as mentioned above, where semi-annual PCs 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).
- **Structural benchmarks (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.

20. Aside from prior actions 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.

21. Once an arrangement has expired, and in the absence of a successor arrangement, the Fund will conduct post program monitoring (PPM) if outstanding Fund credit exceeds 200 percent of quota or as warranted in accordance with the PPM policy.²⁶ A PLL arrangement entailing exceptional access, 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 EPA policy also applies to PLL arrangements).²⁷

REVIEWS

22. Semi-annual reviews. For all the PLL arrangements with duration of one to two years, semi-annual reviews would be conducted. These would assess whether the country still meets the qualification requirements for the PLL, whether the program remains on track to achieve its objectives, and the policy understandings with the member for the future. The review should, to the extent possible, be scheduled with the objective of completion by the Executive Board immediately prior to the lapse of the six-month period.²⁸ Staff should prepare a staff report to

²⁶ [Decision No. 13454-\(05/26\)](#), as amended.

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 Article IV consultation would be expected to take place after the PLL request and before completion of the delayed review—in accordance with the decision on Article IV consultation cycles for members with PLL arrangements. 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.

inform the Executive 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 (see Annex III for a description of the review process and likely content of the report). Executive Board completion of a review could be on a lapse of time basis in accordance with the relevant policy. The reviews would assess: (i) continued adherence to the PLL qualification standard;²⁹ (ii) the authorities' adherence to their policy intentions as conveyed to the Board in their written communication at the time of the arrangement's approval (or previous reviews) and their policy understandings for the future; (iii) 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), prior actions, and structural benchmarks, as applicable. The Executive Board would set revised policy targets and other conditionality on the basis of 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 included). The staff report 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 (as discussed above).

23. *Ad hoc reviews.* Subject to the access limits under the PLL decision, augmentations of any PLL arrangements, and rephasing of access under PLL arrangements longer than one year, are possible at any time (and not just in the context of scheduled reviews) 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 fresh stocktaking of the underlying causes for a larger BoP need and the policy responses needed. Accordingly, an ad hoc review will require an assessment of continued qualification under the PLL and policy performance in line with the overall objectives of the arrangements:

- i. *Performance under the program:* The ad hoc 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 PCs) specified in the authorities' policy framework; and (iii) policy understandings with the authorities for the future.
- ii. *Size of balance-of-payment need:* The ad hoc review would also need to assess the revised balance-of-payment need and access levels. For augmentations of six-month arrangements beyond the 250 percent of quota limit, a discussion of the exceptional circumstances motivating the request would also be required.

²⁹ A review cannot be completed if the member does not meet the PLL qualification requirements. In those circumstances, a more appropriate financing instrument to address the member's newly emerged vulnerabilities (e.g. a SBA) might be considered. The approval criteria mentioned in the fourth bullet of paragraph 12 above are assessed only at the time of *approval* of PLL arrangements.

Annex I. FCL and PLL Qualification Assessment

This annex provides the key considerations for establishing the qualification framework to access financing under the FCL and PLL, with a view to promoting a predictable and evenhanded qualification process. The qualification criteria for the FCL and PLL are drawn from 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 (RAL).¹

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 qualification criteria, 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. Member's policies must have been assessed very positively by the Executive Board in the context of the most recent Article IV consultations. As FCL resources can be used for any BOP problem and an FCL arrangement can be approved in the face of an actual or potential financing need, qualification for the FCL would not preclude circumstances where the member would need or plan to undertake policy adjustments.

The core qualification 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 markets and 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 few areas, the qualification assessment for the PLL will be a crucial tool in identifying areas for prior actions and/or ex post policy conditionality, as applicable under the PLL decision. The member's policies must have been assessed as generally positive by the Executive Board in the context of the most recent Article IV consultation.

Qualifications for the FCL and PLL are based on nine specific qualification criteria as set forth below. In respect of the PLL, the member's performance under the nine qualification criteria will be assessed based on five broad qualification areas. 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. For the FCL, very strong performance against all relevant criteria noted below would not be necessary to secure qualification. However, significant

¹ See Public Information Notice/[06/104](#), [9/13/06](#) and PIN/07/40, 3/23/07.

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 very strong performers for whom the FCL is intended. For the PLL the qualification standard is based on strong performance in most of the five qualification areas (i.e., three of five areas) noted below. 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 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.

Qualification Criteria

For the FCL and PLL assessments staff would rely primarily on the following nine specific qualification criteria, which for purposes of the PLL are grouped under five broad qualification areas I–V, and a set of relevant indicators that seek to establish the strength of the member’s underlying fundamentals and economic policies:

I. External position and market access

- *A sustainable external position.* Relevant indicators would be: the debt-stabilizing noninterest current account balance; the level and composition of external debt; the level of net international reserves and the level and composition of private sector external assets; and assessments of exchange rate misalignment.
- *A capital account position dominated by private flows.* Relevant indicators would be 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 would be 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—withstanding 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, ARA metric) as relevant given the member’s exchange rate regime.

II. Fiscal policy

- *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, 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.

III. Monetary policy

- *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; 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.* A range of indicators and available information may be combined to assess this criterion, such as compliance with regulatory requirements, measures of profitability, and asset quality; 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.

V. Data adequacy

- *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.

Indicators on Institutional Strength

Under the qualification frameworks for the FCL and the PLL, an eligible member should be assessed to have a very strong or sound institutional policy framework for the FCL and the PLL respectively. To complement the assessment of staff 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. In countries with rigid exchange rate regimes, it may also be worth exploring the cyclicality of cash reserve requirements.

- *Effective response to shocks.* Relevant indicators to inform this judgment include government effectiveness and the control of corruption from the World Bank Governance Indicators Database.

Table 1. Summary of Relevant Indicators for FCL and 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 FCL 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 3/5 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 monetary 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	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. Assessment of legal and institutional framework and operational capacity for prompt corrective actions and emergency liquidity assistance, informed by data ROSCs, where available.
9	Data transparency and integrity	Subscription to the SDSS or a judgment that satisfactory progress is being made toward meeting its requirements. Routine assessments (Article IV consultations) of data quality and integrity, informed by data ROSCs, where available.

Annex II. Nature of Short-Term BoP Need

Under the PLL decision, a member can request a six-month 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.

In rare and exceptional circumstances, 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 the context of these exceptional circumstances would entail a substantial element of judgment by the Executive 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 factors³ 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 500 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 250 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, paragraph 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 See also [Analytics of Systemic Crises and the Role of Global Financial Safety Nets](#) for further discussion of 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. Staff Documents Prepared for the Executive Board in Connection With Request for Use of PLL Resources

Staff Note for Informal Board Meeting

The concise staff 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 Article 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 the capacity to repay the Fund and risks to the Fund should also be included. If management decides that exceptional access to Fund resources may be required, the exceptional access procedures would need to be followed, and the note should also include all information requirements called for under the exceptional access policy, including a staff preliminary evaluation of the four substantive criteria for exceptional access, with a preliminary debt sustainability analysis.¹

¹ Specifically, according to the exceptional access policy, once management decides that new or augmented exceptional access to Fund resources may be appropriate, it will consult with the Board promptly in an informal meeting. Directors will be provided with a concise note that sets out the following as fully as possible: (i) a tentative diagnosis of the problem; (ii) the outlines of the needed policy measures; (iii) the basis for a judgment that exceptional access may be necessary and appropriate, with a preliminary evaluation of the four substantive criteria, and including a preliminary analysis of debt sustainability; and (iv) the likely timetable for discussions.

- **Ex-Post Conditionality.** For PLL arrangement of one to two years, preliminary staff views on the key policy areas for ex-post conditionality in addition to the standard PCs, as highlighted by the qualification assessment, and initial recommendations for possible targets under the program.
- **Tables and charts.** Standard economic indicators and a BoP table (both with projections for the current and following year), and a table on gross external financing requirements and sources under the baseline (and the adverse scenario/s for requests on the basis on a potential BoP need). 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. Provided the proposed access amount has been finalized, a capacity to repay table would be also included.

Staff Report for the Formal Request for a PLL Arrangement

The staff report 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 (existing/potential) sources of BoP pressures and other risks to the outlook, building on the assessment already included in the staff note. Under the exceptional circumstances envisaged for six-month PLL arrangements, the staff report 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), and in cases involving exceptional access also an assessment of the four substantive criteria for exceptional access.²
- A detailed assessment of the qualification criteria and areas (including the material from the concise staff note and any additional information) and approval criteria.

² Specifically, the staff report for an arrangement proposing exceptional access will include: a consideration of each of the four substantive criteria for exceptional access (including a rigorous analysis of debt sustainability); a thorough discussion of need and the proposed 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 capacity to repay the Fund.

- 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 capacity to repay the Fund.
- A discussion of the any prior actions 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 the relevant targets and other policy conditionality as applicable).

Staff's appraisal

- **Tables and charts.** Selected economic indicators including projections for the current year and following year, 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 depending on monetary policy framework), financial soundness indicators table, a table on capacity to repay the Fund, a table with the agreed schedule of reviews, and the table illustrating alternative metrics for access. 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 exceptional access, 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 staff report.
- The authorities' written communication requesting the PLL arrangement. For PLL arrangements of one to two years, this will include, beyond a reference to the standard PCs that apply to all PLL arrangements, a technical annex presenting tables and supporting information on the semi-annual indicative targets and standard PCs, for at least the first year of the arrangement, as well as any prior action, additional quantitative PCs, and structural benchmarks 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 included as semi-annual targets and any other reporting requirements (with the respective frequencies) to ensure adequate monitoring of economic and financial developments.

Staff Report for Semi-annual Review

Internal Process. A standard policy consultation meeting would be required given possible prior actions and ex post conditionality. Standard review procedures would also apply.

The semi-annual Review Staff Report 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 capacity to repay the Fund (in the event that the member makes purchase under the PLL arrangement).
- A proposed decision to complete the review prepared by LEG.

Staff’s appraisal

- **Tables and charts.** 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 monetary policy framework), financial soundness indicators table, a table on capacity to repay the Fund, 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.
- Authorities’ written communication reflecting any changes to policy commitments under the program, including annex with updated quantitative macroeconomic framework and semi-annual indicative targets (and, where warranted, PCs) for one-year ahead or the remainder of the arrangement, as well as with any prior action and structural benchmarks 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 prior actions if warranted).

Staff Report for Ad Hoc Review for Augmentation or Rephasing of Access

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

The staff report content/tables will also be the same as for semi-annual 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 potential or actual sources of BoP pressures and other risks. In particular, for potential BoP needs, the assessment 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.). For augmentations of six-month arrangements beyond the 250 percent of quota limit, a discussion of the exceptional circumstances motivating the request would also be required.
- A discussion and justification of the new proposed access level and/or rephasing under the current PLL arrangement.
- To the extent that the rephasing would result in exceptional access, a written assessment of the four substantive criteria for exceptional access and, as a supplement to the staff report, an assessment prepared by FIN on the impact of the revised access level and/or phasing under the PLL arrangement on the Fund's finances and liquidity position, as a supplement to the staff report.