

Revised Annex I. FCL and PLL Qualification Assessment

1. **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
2. **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.
3. **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.
4. **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

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

criteria noted below would not be necessary to secure qualification. However, significant shortcomings on one or more of these criteria—unless there are compensating factors, including corrective policy measures underway—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

5. 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 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— 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, 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

6. **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 cyclicalities.* 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 cyclicalities 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.