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IMF POLICY PAPER

October 2023

REVIEW OF THE FLEXIBLE CREDIT LINE, THE SHORT-TERM LIQUIDITY LINE, AND THE PRECAUTIONARY AND LIQUIDITY LINE, AND PROPOSALS FOR REFORM

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its October 2, 2023, consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on September 20, 2023, for the Executive Board's consideration on October 2, 2023.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR[23/340]

IMF Executive Board, Concludes Review of the Flexible Credit Line, the Short-Term Liquidity Line, and the Precautionary and Liquidity Line and Approves Proposed Reforms

FOR IMMEDIATE RELEASE

Washington, DC: On October 2, 2023, the Executive Board of the International Monetary

Fund (IMF) completed the Review of the Flexible Credit Line (FCL), the Short-Term Liquidity Line (SLL), and the Precautionary and Liquidity Line (PLL). The Board endorsed staff proposals for reforms, with the aim of further strengthening the Global Financial Safety Net (GFSN) and ensuring that the IMF's precautionary facilities toolkit remain fit for purpose as external risks become more prevalent, protracted and diverse.

Usage of the Fund's precautionary instruments has increased since the previous Review of the FCL and PLL in 2017, and especially since the outbreak of the COVID-19 pandemic. The Review found that precautionary instruments have been effective in providing insurance against external risks, through positive impacts on market sentiments and outcomes, helping countries cushion external shocks during the pandemic, and through favorable costs and terms compared with market financing, particularly during episodes of market stress.

Recognizing that crisis prevention in the current shock-prone environment requires strengthening the qualification framework under the precautionary instruments as well as other reforms of the toolkit, the Review followed a three-pronged approach.

First, to preserve the precautionary instruments' strong signaling power, the Review proposed to reinforce safeguards and ensure a robust qualification framework of the FCL, SLL and PLL. Safeguard reforms include Board briefings after significant economic policy changes and after drawdowns of precautionary FCLs and PLLs, and a Memorandum of Understanding for budget support drawings of FCLs. Certain qualification criteria were clarified and updated, including on Anti-Money Laundering/Combating the Financing of Terrorism and relying on the 2018 Governance Framework to identify governance and corruption vulnerabilities in the context of the qualification assessment.

Second, the Review sought to make IMF precautionary instruments more useful for qualifying members by ensuring the instruments have the flexibility and firepower needed for confronting sizable and persistent systemic risks. Key reforms included:

- raising the SLL and PLL access limits,
- introducing explicit provisions on concurrent use of FCL and SLL to allow members to better respond to a wider variety of shocks, and
- not requiring FCL users to discuss strategies to exit from financing under this instrument when the arrangement involves low-access and is precautionary.

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Subject to qualification and demonstration of a potential balance of payments need, these reforms would allow for combined FCL and SLL access of up to 400 percent of quota without the need for a member to articulate exit strategies.

Third and finally, the Review maintained the Fund's sound management of its precautionary toolkit by streamlining administrative procedures related to the use of precautionary instruments. It also assessed risks and potential implications for the Fund from implementing key reforms.

Executive Board Assessment[1]

Executive Directors welcomed the review of the Flexible Credit Line (FCL), Short-Term Liquidity Line (SLL), and Precautionary and Liquidity Line (PLL), and the proposals for toolkit reform targeted at ensuring that these instruments remain adequate and fit for purpose. They agreed that crisis prevention is far less costly than crisis resolution, and noted that the review is an important part of the Fund's work to facilitate crisis prevention and strengthen members' access to the global financial safety net. Directors broadly supported the reform proposals as outlined in the staff paper.

Qualification framework

Directors emphasized the importance of preserving the strong signaling power of FCL, SLL and PLL arrangements by ensuring a clear and transparent qualification framework with assessments that are guided by applicable criteria, core indicators, and thresholds, and are applied in an evenhanded manner. To this end, they welcomed that staff reports for approval of arrangements or for completion of reviews will transparently flag, if applicable, any changes in the member's circumstances relevant to qualification—including in values for core indicators—since the most recent assessment in a staff report.

Directors supported the proposal to explicitly integrate the assessment of members' performance in AML/CFT into the effective financial sector supervision criterion, while avoiding cross-conditionality. They welcomed the clarification that, while FATF grey listing will not automatically disqualify a member, a FATF grey-listed country would be unlikely to qualify for the FCL or SLL if staff assesses that deficiencies underpinning the listing indicate that the effective financial sector supervision criterion is not met.

Directors supported relying on the 2018 Governance Framework to identify governance and corruption vulnerabilities as part of the appraisal of the ability to effectively respond to shocks in the context of the assessment of a country's institutional strength. They underscored that the implementation of the proposal should remain consistent with the focus and coverage of governance and corruption issues in Article IV consultations and that, in rare instances where the Article IV consultation has not covered pertinent governance vulnerabilities identified by the 2018 Governance Framework, staff would discuss them with the authorities as part of staff's consideration of qualification.

Directors supported the proposed recalibration of debt sustainability assessments for precautionary PLL arrangements that (i) are subject to the Exceptional Access Policy, or (ii) where shocks that may trigger a drawing are not adequately captured by the medium-term Market Access Country Sovereign Risk and Debt Sustainability Framework modules. However, a few Directors noted the potential risks of this reform and called for careful monitoring and implementation of further safeguards, if necessary. Directors agreed to amend

[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

the third setting under which debt sustainability assessments in the context of precautionary arrangements need to be informed by the drawing scenario, in addition to the baseline, to "when there are doubts about the realism of the DSA baseline", so as not to reference internal staff processes.

Adequacy of the FCL, SLL and PLL toolkit

Directors supported the proposed FCL and SLL reform package consisting of (i) lifting the requirement to articulate exit strategies for precautionary FCL arrangements when access under the FCL arrangement, in addition to any outstanding credit under prior FCL arrangements, does not exceed 200 percent of quota, (ii) increasing SLL access limit to 200 percent of quota, and (iii) explicitly allowing for concurrent use of the FCL and SLL. Subject to qualification under each instrument, and assessment of potential balance-of-payments need, these reforms could allow for combined FCL and SLL access of up to 400 percent of quota without the requirement to articulate exit strategies. While broadly supportive of the proposal, a few Directors would have preferred a lower level of combined access, and some emphasized that 400 percent of quota should be seen as neither an entitlement nor a "default" access value. A few Directors were also not convinced about lifting the articulation of exit strategies for FCLs with access up to 200 percent of quota, noting the need for countries to eventually develop adequate self-insurance. Directors agreed that exit should remain state-dependent and a few Directors called for further details when describing exit strategies in staff reports for FCL arrangements with access above 200 percent of quota.

Directors agreed that the PLL continues to have an important role in the lending toolkit and agreed with the proposed increases in access limits. They agreed that both PLL and SLL access limits would be reviewed as part of the next comprehensive review of access limits or if the "review clause" is triggered. In this context, a few Directors underlined that the review of access limits should reflect the outcomes of the 16th General Review of Quotas. Directors also supported staff's proposal to outline procedures for synchronized take-up of the SLL by multiple countries.

Political assurances and safeguard policies

Directors welcomed the proposals to strengthen safeguards around the use of FCL, SLL and PLL arrangements. They noted the applicability of political assurances to these arrangements, and agreed to introduce Board briefings after significant economic policy changes. Directors also supported the proposal of a follow-up briefing on drawdowns of precautionary FCL/PLL arrangements.

Board/administrative procedures and other financial aspects

Directors appreciated the proposals, as described in paragraphs 70–74 of the staff paper, to reduce the number of Board meetings, streamline administrative procedures, and the discussion of qualification in certain Board documents, while stressing that ensuring appropriate Board oversight would continue to be required in all cases. They also concurred with not requiring a full-fledged adverse scenario in standalone SLL staff reports, and that the capacity-to-repay analysis could be streamlined, focusing on short-term liquidity risks.

Directors welcomed the introduction of the SLL into the "review clause" under which a new review of the toolkit would be triggered whenever aggregate outstanding credit and commitments under the FCL and PLL, and SLL instruments reach SDR 150 billion. On a related point, a few Directors called for an interim review before the next regular review of the three instruments. Directors took note of staff analysis of the financial aspects of Fund commitment of financing under precautionary arrangements, including on commitment fees and the scoring of the Forward Commitment Capacity, and agreed to maintain current policies.

Outreach

Directors welcomed the staff's planned outreach to raise awareness of the Fund's precautionary toolkit and communicate the benefits of the available precautionary instruments, including the precautionary Stand-By-Arrangements.

September 20, 2023

REVIEW OF THE FLEXIBLE CREDIT LINE, THE SHORT-TERM LIQUIDITY LINE, AND THE PRECAUTIONARY AND LIQUIDITY LINE, AND PROPOSALS FOR REFORM

EXECUTIVE SUMMARY

The Fund's precautionary toolkit rests on the simple proposition that facilitating crisis prevention is far less costly than crisis resolution. Its value increases with systemic risk. Serial shocks to the global trading and financial systems pose significant and persistent headwinds for well-integrated emerging markets. An adequately funded global financial safety net (GFSN) with a suite of precautionary tools allows qualifying members to respond to balance of payments (BoP) shocks, reducing the incidence of crises and limiting contagion. The Fund is the only layer of the GFSN available to all members; other layers vary in their availability and externalities. In this context, the overarching objective of this review of the Flexible Credit Line (FCL), Short-term Liquidity Line (SLL), and Precautionary and Liquidity Line (PLL) is to ensure that the precautionary facilities toolkit (henceforth "the toolkit") is fit for purpose for the challenges ahead.

Preventing crises in a shock-prone environment requires a robust qualification framework as well as reforms of the toolkit. Robust qualification is essential for strong signaling, maintaining market confidence, and safeguarding Fund resources. That is, precautionary tools are for strong performers that face a risky external environment and not for members with notable domestic weaknesses. At the same time, sizable and persistent systemic risks call for some minimum level of insurance to be available over a longer horizon, simultaneous access to precautionary instruments designed to tackle different BoP difficulties, and adequate access.

To that end, this review focuses on three broad areas, building on a survey of the membership and on discussions with Executive Directors in two Informal Sessions to Engage on July 13 and September 13, 2023.

- ***Qualification framework****—preserving the strong signaling power by reinforcing safeguards and ensuring a robust qualification framework* with judgment guided by applicable criteria, core indicators, and thresholds, based on transparency and predictability. Safeguards proposals include Board briefings after significant economic policy changes, a Memorandum of Understanding (MoU) for budget support drawings of FCLs, and follow-up briefings on drawdowns of FCLs and PLLs approved on a precautionary basis. Qualification-related proposals aim for a better reflection of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), an alignment of the qualification framework with the 2018 Governance Framework, and a recalibration of the public debt sustainability requirement for precautionary exceptional access (EA) PLLs.

- ***Precautionary toolkit design***—*improving the value of Fund precautionary instruments for qualifying members by increasing their flexibility and ensuring adequate firepower.* Key proposals relate to (i) not requiring articulation of exit expectations in precautionary FCL arrangements for access levels not exceeding 200 percent of quota, (ii) raising the SLL access limit to 200 percent of quota, (iii) introducing explicit provisions on concurrent FCL/SLL use, and (iv) raising all PLL-specific access limits and caps by 20 percent from current levels (i.e., annual limit approval and instrument cumulative cap for one to two-year PLLs to 300 and 600 percent of quota respectively). Reforms to facilitate synchronized take-up of the SLL are also proposed. Proposals (i) through (iii) could allow up to 400 percent of quota of combined FCL-SLL access without articulation of exit expectations, subject to qualification and assessment of potential BoP needs. The proposals leverage the comparative advantages of the FCL and SLL in confronting a variety of BoP shocks and provide greater firepower in a shock-prone world. This would bolster the stability of qualifying members facing persistent external risks, reduce incentives for accumulating costly excessive reserves, provide greater predictability of available buffers, and help limit spillovers and systemic risks.

- ***Management of the toolkit***—*maintaining the Fund's sound management of its precautionary toolkit* by: (i) continuing to require Board approval of arrangements in all cases, while streamlining administrative procedures related to the use of precautionary instruments; (ii) revisiting, but not proposing changes to, the financial aspects of Fund commitment of financing under precautionary arrangements, such as commitment fees and scoring of the forward commitment capacity (FCC); and (iii) assessing the risks to the Fund of implementing this paper's key proposals, the potential implications for Fund resources, and the risks of inaction.

Staff intends to develop an outreach plan to authorities, market participants, and the general public to raise awareness of the Fund's precautionary toolkit, including precautionary Stand-By Arrangements (SBAs), and better communicate their benefits, including new ones derived from reforms undertaken as part of this review.

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Acronyms and Abbreviations

AIV	Article IV Consultations
AEs	Advanced Economies
AML	Anti-Money Laundering
AMF	Arab Monetary Fund
ARA	Assessing Reserve Adequacy
AREAER	Annual Report on Exchange Arrangements and Exchange Restrictions
BBA	Bilateral Borrowing Arrangements
BoP	Balance of Payments
BSL	Bilateral Swap Line
CFT	Combating the Financing of Terrorism
CMIM	Chiang Mai Initiative Multilateralization
CtR	Capacity to Repay
DSA	Debt Sustainability Analysis
EA	Exceptional Access
EBA	External Balance Assessment
EFF	Extended Fund Facility
EMBIG	Emerging Markets Bond Index Global
EMEs	Emerging Economies
ERM	Enterprise Risk Management
ESM	European Stability Mechanism
ESA	External Sector Assessment
ESI	External Stress Index
FATF	Financial Action Task Force
FCC	Forward Commitment Capacity
FCL	Flexible Credit Line
FDI	Foreign Direct Investment
FLAR	Latin American Reserve Fund
FSAP	Financial Sector Assessment Program
FTP	Financial Transaction Plan
FX	Foreign Exchange
FXI	Foreign Exchange Intervention
GFC	Global Financial Crisis
GFSN	Global Financial Safety Net
GFSR	Global Financial Stability Report
GRA	General Resource Account
G-RAM	Global Risk Assessment Matrix
GRQ	General Review of Quotas
HAPA	High Access Precautionary Arrangement
HP	High Probability
ICC	Inflation Consultation Clause
IG	Investment Grade

IPF	Integrated Policy Framework
ISD	Integrated Surveillance Decision
IT	Indicative Target
MAC	Market Access Country
MPCC	Monetary Policy Consultation Clause
NAB	New Arrangements to Borrow
NCAL	Normal Cumulative Access Limit
NIR	Net International Reserves
NPL	Non-Performing Loans
OECD	Organization for Economic Cooperation and Development
PA	Prior Action
PC	Performance Criterion
PCI	Policy Coordination Instrument
PCL	Precautionary Credit Line
PLL	Precautionary and Liquidity Line
PRGT	Poverty Reduction and Growth Trust
QPC	Quantitative Performance Criterion
RFA	Regional Financing Arrangement
ROSC	Reports on the Observance of Standards and Codes
SB	Structural Benchmark
SBA	Stand-By Arrangement
SCF	Stand-by Credit Facility
SDA	Special Disbursement Account
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Right
SLL	Short-term Liquidity Line
SOE	State Owned Enterprise
SRDSF	Sovereign Risk and Debt Sustainability Framework
TBCF	Time-Based Commitment Fee
UCT	Upper Credit Tranche
WEO	World Economic Outlook
WGI	Worldwide Governance Indicators

INTRODUCTION

A. Motivation

1. **The rationale for developing the Fund's precautionary toolkit is simple: preventing crises is far less costly than resolving them.** Precautionary instruments represent a cost-effective approach for the Fund to fulfill its purpose to "shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members." They enhance market confidence in users (by providing insurance against balance of payments risks, signaling robust policies and institutions, and incentivizing their further development) and others (by limiting potential adverse spillovers and incentivizing countries to align their institutions and policies with the qualification criteria) with, historically, very limited *use* of Fund resources. Relative to "firefighting" when the crisis hits—where urgent measures are focused on limiting losses—greater use of precautionary instruments by qualifying members is optimal from a welfare point of view and is beneficial to the entire membership.

2. **In a shock-prone environment, the value of precautionary instruments increases.** The COVID-19 pandemic, Russia's war in Ukraine, geoeconomic fragmentation risks in global trade and financial flows, as well as global monetary tightening have all occurred in a very short period. Instability remains among important risks confronting members in the July 2023 Global Risk Assessment Matrix (G-RAM). These are *aggregate shocks* to the Fund membership and pose significant and persistent headwinds for emerging market economies (EMEs) that are deeply integrated into financial markets and trade flows. Aggregate shocks to the global trading and financial systems, unlike idiosyncratic shocks to individual EMEs, cannot be diversified. An essential part of the response to persistently high systemic risks is an adequately funded global financial safety net (GFSN) with a full suite of precautionary tools to reduce the incidence of crises and thereby limit contagion.

3. **Uneven access to the evolving GFSN buttresses the value of the Fund's precautionary instruments.** The GFSN has continued to evolve—with a record high number of bilateral swap lines (BSLs) during the pandemic and further increases in international reserves—but these are concentrated in a small set of members. The Fund is the only layer of the GFSN available to all its members. In fact, a large subset of the membership has no alternative. Thus, the Fund has a crucial role to play in remedying uneven coverage. This goes alongside the Fund's well-recognized and critically important central role in the GFSN, which is to provide BoP assistance in support of policy actions to rectify the sources of macroeconomic imbalances. This in turn provides assurance to other creditors and catalyzes financing. Precautionary arrangements are unique public goods benefiting members and generating positive externalities to the membership cost effectively. Moreover, precautionary instruments help create additional policy space and allow countries to better deal with shocks. These are exactly the goals of this review of the Fund's three main instruments in the precautionary toolkit: the Flexible Credit Line (FCL), the Short-term Liquidity Line (SLL), and the Precautionary and Liquidity Line (PLL) (Box 1 reviews the toolkit and recent use).

4. **High external risks and uneven access to the GFSN have important implications for the design of the Fund's precautionary instruments.** First, maintaining strong signaling power—via a robust qualification framework—is crucial to instilling market confidence. It should be very clear that the instruments are for strong performers to cope with external risks, and not generally for members with significant domestic weaknesses and vulnerabilities. Second, confronted with persistent systemic risks, there is value to some minimum level of insurance being available over a longer horizon. Third, the value of simultaneous access to precautionary instruments designed to tackle different BoP difficulties increases in a context of high systemic risk. BoP shocks may be correlated or evolve, making it more difficult than usual, once they hit, to discern how persistent or deep they might be. Fourth, access levels need to be of an adequate amount to foster market confidence.

5. **This review recognizes the evolving value-added of precautionary instruments.** They are a critical part of the bulwark against persistent aggregate shocks to the global trading and financial systems. Experience with FCLs has demonstrated that users value both the arrangements' insurance against external risks and their ability to signal a continued unwavering commitment to very strong macroeconomic and financial stabilization policies and institutional frameworks. In this regard, it is worth recalling the expectations of exit and declining access when the FCL was established at the height of the Global Financial Crisis (GFC) to help "innocent bystanders" address systemic risks like the GFC and the European sovereign debt crisis. It was understood that countries would exit once such risks recede. The *implicit* assumption was that, following resolution of these systemic risks, the pattern of shocks to the global trading and financial system would revert to the pre-GFC "great moderation"— a stable "core" with only idiosyncratic shocks to EMEs. Full exit represented the ultimate objective for FCL users since it signals the country's ability to face idiosyncratic shocks without reliance on the Fund. This assumption, however, has yet to materialize.

6. **The counterfactual of greater self-insurance is costly or infeasible for most members.** Lowering demand for Fund insurance is often through accumulating ever higher levels of international reserves, which is costly to members, and may pose negative externalities by contributing to global imbalances, and hence may not be advisable. Other alternatives include joining regional financing arrangements (RFA) with many members with very strong BoP positions, but geographical proximity is usually a prerequisite and hence it is not an option for many. Securing sizable BSLs with reserve currency-issuing central banks usually requires strong financial and trade linkages and are not available to all countries. Moreover, achieving an advanced level of financial development where external shocks do not translate into economic turmoil requires extensive development of market and public institutions and has historically taken time to achieve.[1]

7. **Fund precautionary instruments represent a natural fit for countries with very strong or sound fundamentals that confront these challenges**. Recognizing the above, this review of

[1] Among the 12 WEO reclassifications from EME to advanced economy (AE) since 1993, only three countries—Israel, Korea, and Singapore—were not associated with the country joining the EU or the Euro Area (Croatia being the latest one), on top of Taiwan ROC (that is not an IMF member). For a systematic analysis of the middle income trap including, *inter alia*, the role of institutional development, see Ayar and others (2013) Growth Slowdowns and the Middle-Income Trap. A broader overview is in Cubeddu and others (2013) Emerging Markets in Transition: Growth Prospects and Challenges.

precautionary instruments proposes reforms to: (i) deliver the characteristics valued by users (strong signal, policy commitment device, insurance), (ii) facilitate exit when warranted, and (iii) ensure that precautionary arrangements do not place an excessive burden on Fund resources.

Box 1. Overview of the Precautionary Toolkit and Its Deployment Since the Last Review

The Fund's precautionary arrangements provide assurance of the prompt availability of Fund financing in case actual BoP needs were to materialize, with various instruments available to help members address their BoP problems while relying on ex ante qualification criteria, ex post conditionality, or a combination of the two. Four instruments are available in the General Resources Account (GRA):

- The precautionary Stand-By Arrangement (SBA)[1] fully relies on ex post conditionality.
- The Flexible Credit Line (FCL) and the Short-term Liquidity Line (SLL) rely exclusively on ex ante conditionality (i.e., qualification), as well as a mid-term review for 2-year FCLs.
- The Precautionary and Liquidity Line (PLL) generally combines elements of ex ante and ex post conditionality.

The FCL and PLL are usually referred to as "precautionary instruments", in line with their predominantly precautionary use. However, under their respective policies, they are also available for crisis resolution. The SLL is the sole "precautionary-only" instrument. Precautionary SBAs are also included in the "precautionary arrangements" toolkit, although they are not a separate instrument from disbursing SBAs.

The toolkit is reviewed periodically, in light of experience gained, to ensure its continued relevance for crisis prevention and mitigation. The previous Review of the FCL and PLL, completed in 2017, enhanced the predictability and transparency of the corresponding qualification frameworks by introducing core indicators with specified thresholds for the assessment of economic fundamentals and policy frameworks.[2] The SLL, first proposed in the context of the same review, was ultimately established in early 2020 amid heightened global uncertainty and demand for liquidity at the onset of the COVID-19 pandemic.[3]

Use of precautionary instruments has increased since the 2017 Review, and especially following the COVID-19 pandemic. There are currently five FCLs (Chile, Colombia, Mexico, Morocco, and Peru) and two PLLs (Jamaica and North Macedonia). This represents a significant increase from two FCLs and one PLL before the pandemic. Chile became the first country to use the SLL in 2022, although it reverted to the FCL as tail risks rose.[4] Precautionary SBAs have long been a part of the Fund's lending toolkit, with six new precautionary SBAs approved since 2017 (Armenia and Honduras in 2019, Armenia, Georgia, and Serbia in 2022, and Kosovo in 2023).[5] Analytical work shows that members with existing and new FCL arrangements enjoyed better financing conditions than peers, helping reduce acute external financial pressures faced by EMEs in the Spring of 2020.[6]

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[1] The precautionary Stand-by Credit Facility (SCF) serves a similar purpose under the Poverty Reduction and Growth Trust (PRGT). The SCF will be reviewed in the context of the 2024/25 PRGT review.

[2] The discussions were informed by three staff papers: "Adequacy of the Global Financial Safety Net—Considerations for Fund Toolkit Reform" (November 2016), "Adequacy of the Global Financial Safety Net—Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform" (June 2017), and "Adequacy of the GFSN—Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform—Revised Proposals" (Dec. 2017).

[3] IMF COVID-19 Response—A New Short-Term Liquidity Line to Enhance the Adequacy of the GFSN (Policy Paper 20/025).

[4] See Annex 1 for a list of FCL, PLL, and precautionary SBA arrangements approved by the Fund since the last review.

[5] Serbia intends to treat the SBA as precautionary during the second year of the program.

[6] Lisi, Giulio, 2022, "IMF's Precautionary Lending Instruments: Have they Worked?" IMF Working Paper WP/22/256. Box 4 below provides a summary.

B. Objectives

8. This review of the FCL, PLL, and SLL has two overarching goals. *Looking backward*, it draws lessons from the use of the FCL, PLL, and SLL (and precautionary SBA) since the 2017 Review. *Looking forward*, it assesses how these instruments can be made more useful as external risks persist, even among countries with very strong or sound macroeconomic fundamentals.

9. The review focuses on making the toolkit fit for purpose, while safeguarding Fund resources and preserving the instruments' signaling power. It aims to ensure that a clear, transparent, and robust qualification framework remains in place to preserve the strong signaling power. This means that the possible greater use of these instruments going forward would be driven by stronger interest from already qualifying members without compromising the qualification standards—in effect, *lowering the barriers without lowering the bar*.

10. To this end, the review follows a three-pronged approach:

- ***Preserving precautionary instruments' strong signaling power by reinforcing safeguards and ensuring a robust qualification framework*** with judgment transparently guided by applicable criteria, core indicators, and thresholds. Safeguards proposals include Board briefings after significant economic policy changes, an MoU for budget support use of FCLs, and follow-up, possibly in a subsequent country document, on drawdown of FCLs and PLLs approved on a precautionary basis. Qualification-related proposals aim for a better reflection of AML/CFT, alignment of the qualification framework with the 2018 Governance Framework, and recalibration of the public debt sustainability requirement for precautionary EA PLLs.

- ***Making Fund precautionary instruments more useful for qualifying members and available with flexibility and adequate firepower.*** Key proposals relate to (i) raising the SLL access limit to 200 percent of quota, (ii) introducing explicit provisions on concurrent FCL/SLL use, (iii) not requiring articulation of exit expectations in FCL arrangements for access levels not exceeding 200 percent of quota, and (iv) raising all PLL-specific annual access limits by 20 percent (respectively to 300 and 600 percent for one- and two-year PLLs). Reforms to facilitate synchronized take-up of the SLL by multiple countries are also proposed. Low-access FCL arrangements without articulation of exit expectations would bolster the stability of qualifying members facing persistent external risks, reduce incentives for accumulating costly excessive reserves, provide greater predictability of available buffers, and help limit spillovers and systemic risks. Proposals (i) through (iii) leverage the comparative advantages of the FCL and SLL in confronting a variety of BoP shocks and could provide greater firepower in a shock-prone world. Subject to qualification and assessment of potential BoP needs, the proposal could allow up to 400 percent of quota of combined FCL-SLL access without articulation of exit expectations.

- ***Maintaining the Fund's sound management of precautionary lending*** by (i) continuing to require Board approval of precautionary arrangements in all cases, while streamlining related administrative procedures; (ii) revisiting, but not proposing changes to, the financial aspects of Fund commitment of financing under precautionary arrangements—commitment fees and scoring of the FCC; and (iii) assessing the risks to the Fund of implementing key Review proposals, the potential implications for Fund resources, as well as risks of inaction.

Box 2. Proposed Changes Under the Review of the FCL, SLL, and PLL

Clarify and update selected qualification criteria:

- **AML/CFT** – Explicitly integrate AML/CFT as part of the effective financial sector supervision criterion. A FATF grey-listed country would unlikely qualify for the FCL or SLL if staff assesses that deficiencies underpinning the listing indicate that the criterion is not met.
- **Governance** – Align the assessment of the ability to effectively respond to shocks as part of a country's institutional strength with the 2018 Governance Framework.
- **Debt sustainability** – For exceptional access (EA) precautionary PLLs, maintain the requirement for "sustainable with high probability (HP)" assessment in the baseline scenario and recalibrate the requirement in the drawing scenario with a decreasing, or at least stabilizing, debt ratio over five years.
- **Political assurances** – Reiterate application of policy on political assurances to precautionary arrangements. Propose a Board briefing after significant economic policy changes.
- **Safeguards policy and drawdowns** – Align with the safeguards assessment policy ("safeguards policy") the requirement for a framework between central banks and finance ministries for servicing Fund obligations when purchases are drawn for budget financing under the FCL. Reiterate that the Board is briefed shortly after any drawdown of a precautionary FCL or PLL (including for budget support) and propose a follow-up briefing on drawdowns.

Increase availability and firepower of instruments in an environment of heightened global risks:

- **An SLL-FCL reform package,** allowing for combined (FCL and SLL) access of up to 400 percent of quota without articulation of exit expectations:
  - (i) **No articulation of exit expectation for FCLs** when access does not exceed 200 percent of quota (consistent with residual risks).
  - (ii) **Higher access SLL** – Increase access limit under the SLL to 200 percent of quota, to be reviewed as part of the next comprehensive review of access limits or if "the review clause" is triggered.
  - (iii) **SLL-FCL concurrent use** – Explicitly permit concurrent use of the FCL and SLL.
- **Higher access PLL** – Increase the annual limit at approval and the cumulative cap for access under the PLL by 20 percent from current levels, to be reviewed as part of the next comprehensive review of access limits or if "the review clause" is triggered.
- **Synchronized SLLs** – Outline procedures for synchronized take-up of the SLL by multiple countries.

Streamline procedures to make arrangements more easily usable and flexible:

- **Number of Board meetings/time lags** – Back-to-back Article IV/informal Board meetings for FCL and PLL approvals, dropping requirement for informal Board meetings for successor FCL/PLL arrangements (when requested within three months of previous successful arrangement), and combination of FCL/PLL reviews with Article IV (with clear separation between surveillance and FCL/PLL-related discussions) to reduce number of Board meetings/time lags. Board approval of arrangements still required in all cases.
- **SLL requirements** – Adverse scenario not required to justify stand-alone SLL access, option of requesting an SLL, simpler transition between FCLs and SLLs (see below).
- **Streamlined FCL augmentation process and synchronized FCL requests for augmentations** – Staff reports can cross-reference qualification analysis in a prior Board document if the latter is not more than 6 months old. Synchronized FCL augmentations are proposed (similar to synchronized FCL approvals).
- **FCL to/from SLL transition, and transition from stand-alone SLL or FCL to concurrent use of FCL and SLL** – Staff reports can be streamlined as per above if previous arrangement has been approved/reviewed not more than six months ago.

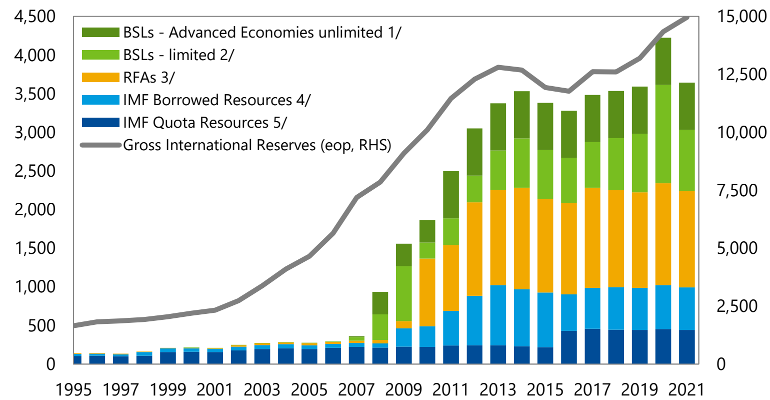
USE AND BENEFITS OF PRECAUTIONARY INSTRUMENTS

This section summarizes the analytical evidence on the use and benefits of precautionary instruments, while situating the demand for precautionary arrangements in a broader context of the GFSN and its various layers.

A. Precautionary Arrangements Within the Global Financial Safety Net

11. The GFSN has grown substantially over the last 15 years. Perks and others (2021) estimate it at around US$18.6 trillion at end-2021, compared to US$12 trillion as of end-2010, with BSLs and RFAs becoming a larger part of it in the early 2010s (Figure 1).[2] In particular, BSLs started to expand during the GFC, as the Fed extended BSLs to five major central banks in AEs, as well as to central banks of other AEs and large EMEs to ease pressure in dollar funding markets.[3] During this period, China also expanded its BSL network to promote internationalization of the renminbi and to facilitate trade and investment.

Figure 1. Evolution of the GFSN, 1995–2021
(Billions U.S. dollars)



Notes: Two-way arrangements are counted only once.
1/ Permanent swap lines among major advanced economy central banks (Fed, ECB, Bank of England, Bank of Japan, Swiss National Bank, Bank of Canada). The estimated amount is based on known past usage or, if undrawn, on average past maximum drawings of the remaining central bank members in the network, following the methodology in Denbee et al. (2016, Bank of England Financial Stability Paper).
2/ Limited-amount swap lines include all arrangements with an explicit amount limit and exclude all CMIM arrangements, which are included under RFAs.
3/ Based on explicit lending capacity/limit where available, committed resources, or estimated lending capacity based on country access limits and paid-in capital.
4/ After prudential balances.
5/ Quota for countries in the Financial Transaction Plan (FTP) after deducting prudential balance.

Sources: Central Bank websites; RFA annual reports; and IMF staff estimates.

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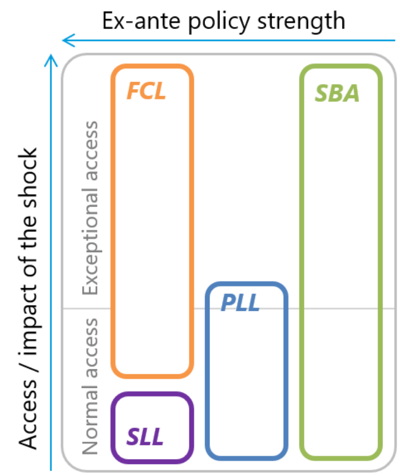
[2] Perks and others., 2021, "Evolution of Bilateral Swap Lines," IMF Working Paper WP/21/210, estimate gross international reserves at US$15 trillion, BSLs at US$1.4 trillion, RFAs at US$1.2 trillion, and the IMF at US$1 trillion.

[3] The BSLs with the five major central banks were renewed in 2010 and converted into permanent standing facilities in 2013, while BSLs with other AE and EME central banks were allowed to expire as market conditions improved. The Fed also announced extensions of its FIMA repo facility, which is distinct from BSLs (see Perks and others, 2021, for details). Bilateral swap lines also expanded during the COVID-19 pandemic (in 2020, see chart).

12. A critical component of the GFSN, with universal access, the Fund's lending toolkit includes several precautionary instruments (Figure 2, or Annex II for details). The choice of an appropriate instrument depends on the nature of a country's BoP needs, its economic fundamentals, policy frameworks, and track record. While all Fund members are *eligible* to use the FCL, SLL and PLL, only countries with very strong (FCL/SLL) and sound (PLL) economic fundamentals and institutional policy frameworks would meet the *ex ante qualification criteria* to use these instruments. In contrast, the SBA does not have similar ex ante qualification criteria and is available to the entire membership, including as a precautionary instrument if needed.[4] The FCL, PLL, and SBA can be approved when countries face actual, prospective, or potential BoP needs, while the SLL can only be approved for countries with potential BoP needs at approval. The FCL and SBA have no cap on access, while the PLL currently has a cumulative access cap of 500 percent of quota, applicable to all PLL arrangements, regardless of duration.[5] Access under the SBA and PLL is also subject to the Exceptional Access (EA) policy, while access under the SLL, which was designed to cover only potential moderate short-term BoP needs, is capped at 145 percent of quota.[6] This review focuses on precautionary instruments with ex ante qualification—the FCL, SLL, and PLL—while highlighting the continued relevance of the precautionary SBA, including High Access Precautionary Arrangements (HAPAs). It is worth noting though that, by embedding ex post conditionality, the precautionary SBA and the PLL can help support a country's policy mix and reform agenda.

Figure 2. De Facto Use of the IMF Precautionary Toolkit



Note: The line refers to the normal cumulative access limit under the GRA, before the recent temporary increase (435 percent of quota).

13. The demand for precautionary arrangements in recent years was likely influenced by the availability of other layers of the GFSN. The 2021 general SDR allocation, BSLs, and RFAs provided a significant top-up to existing reserves for many EMEs. While GFSN buffers have declined since the last review for some countries, they exceed 20 percent of GDP for many EMEs (Figure 3). As

[4] Additionally, the Stand-By Credit Facility (SCF), available to PRGT-eligible members, can also be extended on a precautionary basis. The SCF is not discussed in this paper separately, since it will be taken up in the 2024/25 review of concessional instruments; however, the discussion of the precautionary SBA largely applies to the SCF as well.

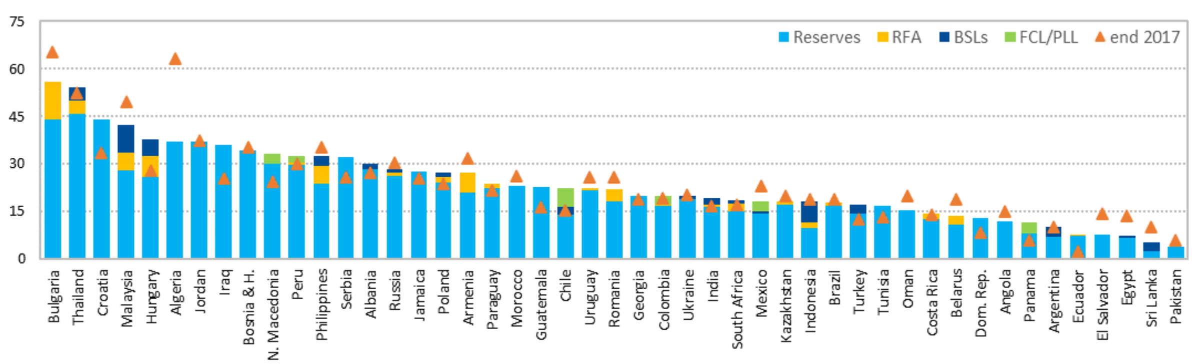
[5] The current 500 percent of quota cumulative cap under the PLL instrument was above the cumulative access limit in the GRA until the recent temporary increase of this limit to 600 percent of quota. In addition to the 500 percent of quota cumulative access cap under the PLL instrument, access to Fund resources through six-month PLL arrangements (i) cannot exceed a cumulative 6-month PLL arrangement access cap of 250 percent of quota, and (ii) is subject to a per arrangement limit of 125 percent of quota (or 250 percent of quota, in exceptional circumstances where a member is experiencing or has the potential to experience larger short-term BoP needs owing to the impact of exogenous shocks, including heightened regional or global stress conditions).

[6] It is also worth noting that FCL, PLL, and SBA are instruments in the GRA credit tranches and share the same lending terms (fees, charges, repurchase period, etc.). The SLL has different features (lower fees, shorter repayment period, and revolving financing), having been created as a special facility outside of the credit tranches to help address a special BoP problem.

such, they have provided a substantial financing alternative to the Fund's precautionary arrangements, especially since 2020. This finds support in the survey of country authorities undertaken as part of the review (see Annex VII for details), where respondents note the availability of BSLs, RFAs, and other sources of financing (such as donor support) have a bearing on their take-up of PLLs and precautionary SBAs. The lower availability of other layers of the GFSN compared to other regions could also have contributed to the concentration of FCLs in the Western Hemisphere (Box 3). Surveyed members did not cite perceived stigma from associating with the Fund as the main factor influencing the demand for precautionary arrangements. However, the respondents' sample may not necessarily be representative of the whole membership, as it overrepresents members from some regions and current and past users of precautionary arrangements.[7]

14. Going forward, demand for precautionary arrangements could increase as global shocks become multifaceted and global liquidity less easily available. As discussed earlier, precautionary instruments are particularly important in the current shock-prone environment, not only as external risks become more prevalent and of diverse nature—potentially raising demand for precautionary arrangements (albeit not dramatically; more on this below)—but also as precautionary instruments help create additional policy space and allow countries to better deal with shocks. The introduction of the Resilience and Sustainability Facility (RSF), which can only be requested under a concurrent IMF upper-credit tranche (UCT) arrangement, could, at the margin, also increase future demand for precautionary arrangements.

Figure 3. GFSN Buffers of Selected EMEs at end-2022, in Percent of GDP



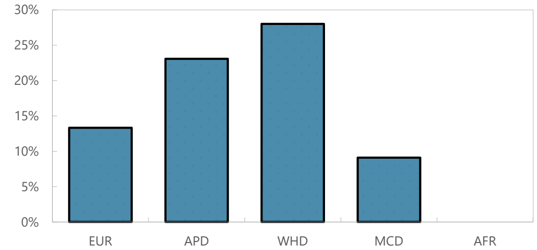
Sources: World Economic Outlook, Central Bank websites, RFA annual reports, and IMF staff calculations and estimates.

[7] See Box 3 of the IMF policy paper "Adequacy of the Global Financial Safety Net—Considerations for Fund Toolkit Reform" (November 2016) for details on the sources of stigma associated with Fund arrangements.

Box 3. Regional Concentration of FCL and PLL Arrangements

As of end-2022, most FCL and PLL arrangements were concentrated in the Western Hemisphere, representing around 50 percent of total credit committed under the GRA, or 93 percent of total credit committed under precautionary arrangements (including SBAs). Commitments under the five ongoing FCLs amount to almost SDR 65 billion, while the Jamaica and North Macedonia PLL arrangements represent commitments of SDR 1.1 billion, out of SDR 129 billion committed under current GRA arrangements.

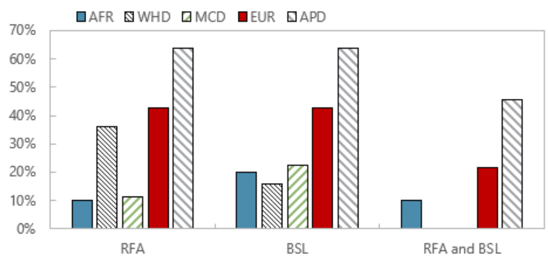
Share of EMEs Considered Strong Performers, Within Region (percentage)



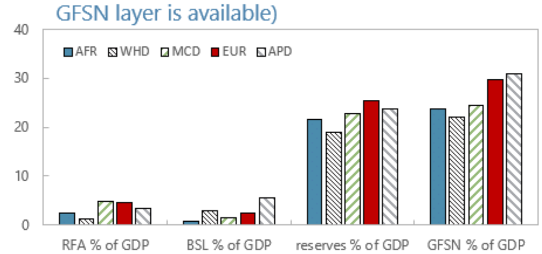
Reading note: 20 percent of EUR countries are considered strong performers, as per the criteria outlined in the text.

A possible reason for such concentration may be the share of countries potentially qualifying for FCL and PLL arrangements within each region. To roughly proxy the qualification requirements, staff calculated the share of EMEs within each region that have: (i) a public debt ratio below 70 percent of GDP; (ii) international reserves above 80 percent of the ARA metric; (iii) single-digit inflation; and (iv) external gross financing needs below 15 percent of GDP. This simple exercise points to the prevalence of countries in the Western Hemisphere, Asia Pacific, and Europe regions among potential qualifiers.

Share of EMEs with RFA and/or BSL, by Region (percent)



GFSN Buffers
(as a share of GDP, for countries for which the GFSN layer is available)

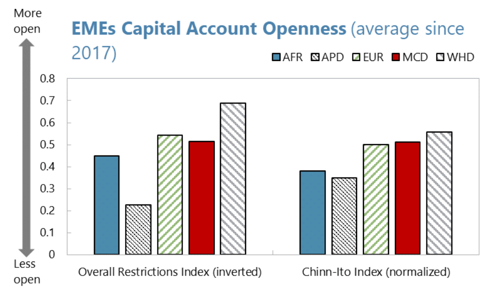


Sources: World Economic Outlook, Central Bank websites, RFA annual reports, and IMF staff calculations and estimates.
Notes: RFAs and BSLs as a share of GDP include only countries that have RFAs and BSLs, respectively.

Additionally, Western Hemisphere EMEs generally have a lower availability of alternative sources of financing, in particular international reserves and RFAs, than Asian and European EMEs. EMEs in the Western Hemisphere have somewhat lower reserve coverage. A relatively large share of EMEs in the Western Hemisphere has either an RFA or a BSL, but the FLAR—the Western Hemisphere RFA—is smaller (at 1.3 percent of GDP on average for member countries) than RFAs in other regions (4.1 percent of GDP on average). All in all, the lower size of GFSN buffers for EMEs in the Western Hemisphere (23 percent of GDP on average), compared to EMEs in other regions (27 percent of GDP on average), could explain the concentration of precautionary arrangements in that region. These factors were also highlighted as reasons for higher uptake of precautionary arrangements in the Western Hemisphere by the authorities in the survey (Annex VII).

Box 3. Regional Concentration of FCL and PLL Arrangements (concluded)

Another possible contributing factor is the high degree of capital account openness among Western Hemisphere EMEs. To capture the degree of financial openness, staff employed de-jure measures of capital account openness—the Overall Restrictions Index from Fernandez and others (2016)[1] and the Chinn-Ito Index.[2] De-jure measures indicate that the average degree of account openness among EMEs in the Western Hemisphere are somewhat higher relative to other regions, which could result in higher risks of financial account shocks and help explain the concentration of precautionary arrangements in the region.



Ultimately, regional concentration may not be a concern. First, while take up could be considered low in some regions, not all the countries with very strong (or sound) fundamentals potentially qualifying for precautionary instruments are expected to make use of those, especially at times of relatively abundant global liquidity. Possible over-reliance of countries (predominantly in other regions) on self-insurance through reserve accumulation could also be addressed through strengthening the IMF's outreach on precautionary instruments to the authorities, market participants, and the general public. Second, with the Fund being at the core of the GFSN, a less diversified portfolio—compared to other financial institutions—is justified, including because economic shocks, contagion, and risks often have a regional element. Third, the regional concentration of Fund lending (such as in Asia and Europe in recent decades) has evolved over time. Finally, in the context of FCLs and PLLs, the high qualification standards provide safeguards to Fund resources and limit the risks from regional concentration.

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[1] Fernandez and others "Capital Control Measures: A New Dataset," *IMF Economic Review 64*, 2016, 548-574.

[2] Chinn, Menzie D. and Hiro Ito (2006). "What Matters for Financial Development? Capital Controls, Institutions, and Interactions," *Journal of Development Economics*, Volume 81, Issue 1, Pages 163-192 (October).

B. Precautionary Arrangements vs. Other Layers of the GFSN

15. **Precautionary arrangements have contributed to market confidence, acting as insurance for member countries.** Analytical work summarized in Box 4 shows that the announcement of a new FCL or PLL arrangement generally leads to a significant decline in sovereign spreads, especially for FCLs. Precautionary arrangements—which allow for an immediate drawdown in case an actual BoP need materializes—have helped countries cushion external shocks during the pandemic, with FCL and PLL drawdowns having had no adverse market impact. Authorities have also highlighted the additional policy space afforded by precautionary arrangements, which allowed them to pursue countercyclical policy in response to the pandemic. In general, precautionary arrangements carrying ex ante conditionality also incentivize continued very strong (or sound) policies. PLL arrangements also carry ex post conditionality and support additional policy reform, including to address the vulnerabilities identified as part of the qualification assessment.

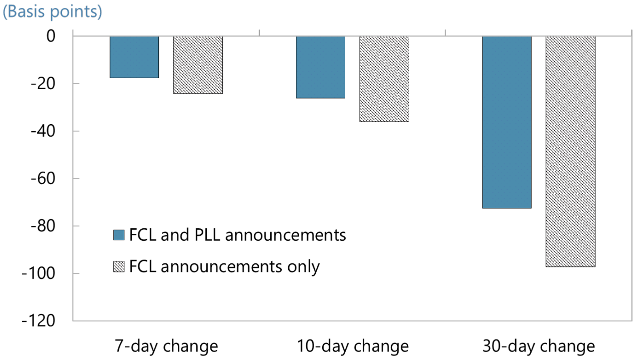
Box 4. Precautionary Lending Instruments and Market Confidence

Previous reviews have highlighted favorable effects of the FCL and PLL on market sentiment and outcomes. Event studies in the 2011 Review of the FCL and PCL (Precautionary Credit Line) found a decline in sovereign spreads following the announcement of a new FCL arrangement. Cross-sectional regressions in the 2014 Review of the FCL, PLL, and RFI showed that the announcement of a new precautionary arrangement resulted in higher capital inflows and lower spreads. The 2014 Review also found that countries with a PLL or FCL experienced a more limited increase in spreads compared to other EMEs following the Fed tapering announcement in 2013. The 2017 Review of the FCL and PLL used event analyses to show muted market reactions to reductions in access.

Empirical analysis conducted for the current review shows that the announcement of a new FCL or PLL arrangement leads to a decline in sovereign spreads.[1] This exercise uses event study difference-in-difference regressions to identify movements in sovereign spreads resulting from the announcement of a new FCL or PLL arrangement. Using a sample of FCL and PLL arrangements approved through January 2021[2] and controlling for global risk factors such as the VIX index, oil prices, U.S. bond term spreads, and country fixed effects, the analysis finds evidence of a large drop in spreads for FCL and PLL users, ranging from 17 to 24 basis points in the seven trading days following the announcements, rising to over 70 basis points on average in the following 30 trading days. The effect for FCLs is stronger. Additional country-level analysis using the synthetic control method broadly corroborates the positive and persistent effect of these arrangements on market confidence, in particular for FCLs.[3]

Average Change in EMBI Spreads around FCL and PLL Announcement Dates

(Basis points)



Sources: G. Lisi (2022) IMF's Precautionary Lending Instruments: Have They Worked?

The analysis also finds that FCL and PLL arrangements helped mitigate external financial pressures during the COVID-19 pandemic. Using panel regressions over 2019Q2-2020Q3, the study compares variations in spreads at the onset of the pandemic across precautionary arrangement adopters and non-adopters.[4] Econometric results show that countries with an FCL or PLL arrangement in place during the pandemic experienced lower increases in spreads relative to other EMEs, after controlling for country-specific effects, time effects, and global and domestic drivers of sovereign spreads.[5] Specifically, sovereign spreads were about 7 percent lower in countries with an FCL or PLL arrangement relative to other EMEs, confirming the important role of precautionary arrangements in cushioning external financing pressures.

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[1] Lisi, 2022.

[2] The sample includes (i) FCL arrangements for Colombia, Mexico, Poland (all announced in 2009), Chile and Peru (both announced in 2020); and (ii) PLL arrangements for Morocco and Panama announced in 2012 and 2021, respectively.

[3] Panama's PLL arrangement was announced when market pressures resulting from the COVID-19 pandemic had already largely subsided, potentially explaining the muted market reactions. For other countries in the sample, the timing of the announcement of a new FCL or PLL arrangement generally coincided with periods of relatively high sovereign spreads, consistent with precautionary arrangements' objective of helping members to withstand external shocks amid stressed market conditions (IMF, 2011).

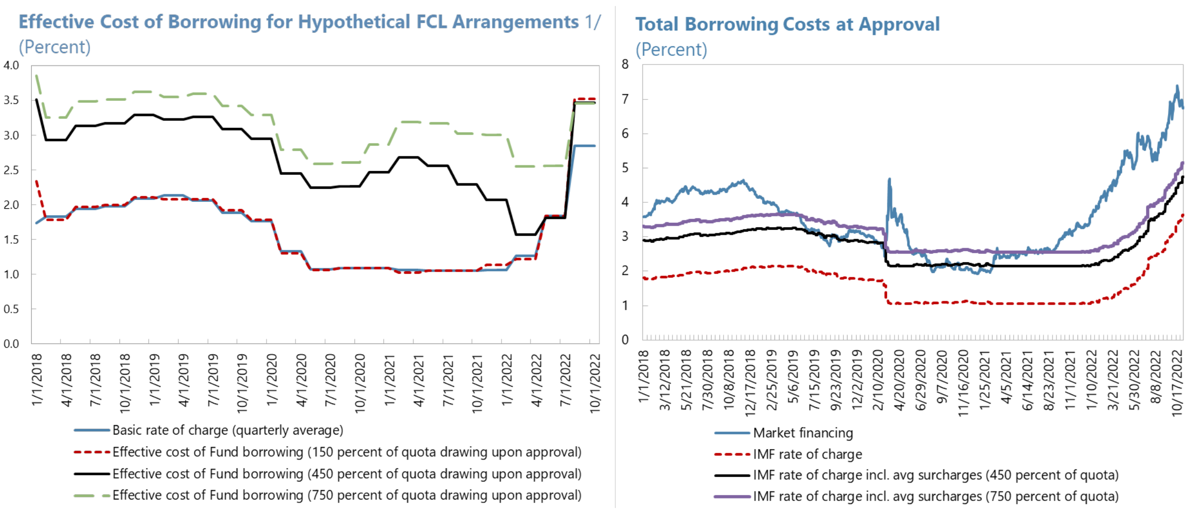
[4] During this period, Chile, Colombia, Mexico, and Peru had an FCL arrangement in place, while Morocco had a PLL. arrangement

[5] Domestic drivers of spreads include the fiscal balance, external current account balance, foreign reserves, public debt, and a political risk index.

Box 4. Precautionary Lending Instruments and Market Confidence (concluded)

Finally, the analysis shows that FCL and PLL drawdowns have had a limited impact on market sentiment. The analysis examines the only two instances, in 2020, where countries drew on resources available under their precautionary arrangements—Colombia's partial purchase under the FCL arrangement and Morocco's full drawdown of the PLL arrangement. Simulation-based event studies reveal that, while average sovereign spreads declined by 7.2 basis points in Colombia and 9.3 basis points in Morocco in the 30 trading days following drawdowns, these variations were not statistically significant, suggesting no evidence of an adverse effect on market confidence.

Figure 4. FCL Repayment Profile and Borrowing Costs



Source: IMF staff estimates.
[1] The scenarios assume that the hypothetical FCL arrangement was drawn in full at approval on January 1, 2018. Effective costs are calculated by dividing the payment of charges and surcharges by the average amount of credit outstanding in each financial quarter and then annualizing the rate.
Note that at the end of the period, surcharge payments do not apply even under higher-access (450 and 750 percent of quota) scenarios but the decline in credit outstanding (denominator) is more pronounced under the lower-access (150 percent of quota) scenario. As a result, the effective cost under the lower-access scenario is marginally higher compared with the higher-access scenarios at the end.

16. **The costs and terms of FCL and PLL arrangements are favorable compared with market rates, particularly during episodes of market stress.** FCL and PLL arrangements, which are subject to the same charges and surcharges as other GRA facilities, can be more cost effective than market financing when drawn, particularly in times of market turbulence. The basic rate of charge is equal to the SDR interest rate, which is a weighted average of short-term interest rates for the SDR basket currencies, plus a moderate fixed margin.[8] Apart from the basic rate of charge, FCL and PLL

[8] See also Figure 8 in "Review of The Adequacy of The Fund's Precautionary Balances", December 2022.

arrangements are also subject to commitment fees, a service charge, as well as level- and time-based surcharges.[9]

- Figure 4 (left-hand side chart) illustrates the cost of borrowing for hypothetical FCL arrangements of different access levels, assuming the member would draw in full upon approval in January 2018.[10] Owing to surcharges applied to the portion of the GRA credit outstanding exceeding 187.5 percent of quota, an FCL arrangement of 450 or 750 percent of quota has an effective cost that is, on average, about 1 or 1½ percentage points larger than the effective cost of an FCL arrangement of 150 percent of quota (which de facto equals the basic rate of charge apart from the service fee), respectively.

- Figure 4 (right-hand side chart) compares the net present value of costs of FCL arrangements *at approval* (proxied by the weighted average of the basic rate of charge for the portion of credit below the threshold of 187.5 percent of quota, and the basic rate of charge plus surcharges for the portion of credit above that threshold) with market financing costs for qualifying members, proxied by the 5-year U.S. T-bond rate plus the average EMBI spreads of current FCL users. Over the last five years, the basic rate of charge of IMF instruments was on average 2 percentage points lower than market financing. This difference rose in recent episodes of market distress—the onset of the pandemic and the tightening of global financing conditions at end-2022—to about 4 percentage points—showing that FCLs and PLLs fulfill the role of insurance well. Owing to surcharges, the average cost advantage of an FCL arrangement of 450 or 750 percent of quota vis-à-vis market financing was smaller—about 1 and ½ percentage points over the last five years, respectively.

17. Additionally, precautionary arrangements can be cheaper than holding reserves when used on a precautionary basis. For current FCL users, the cost of holding reserves[11] constituted around 220 basis points during 2018–22, compared to a 26 basis-point effective commitment fee for an illustrative IMF precautionary arrangement of 450 percent of quota, translating into a saving of 0.12 percent of GDP per year. Lisi (2022) also shows that government borrowing costs can decline up to 70 basis points on announcement of an FCL arrangement approval (Box 4). Given the average public debt level of current FCL users (about 50 percent of GDP), this could imply savings of 0.33 percent of GDP per year, suggesting that FCL arrangements on a precautionary basis could have led to almost ½ percent of GDP in savings during 2018–22 relative to increasing reserve holdings.

[9] Commitment fees (except for the SLL) are refunded upon drawdown (see Table 1 in Annex VIII for details on the structure of commitment fees). The service charge is 50 basis points upon drawing. A two-percent surcharge applies to the portion of outstanding borrowings exceeding 187.5 percent of a member's quota, and an additional one percentage point applies to this portion if these balances have been outstanding for more than 36 months (more than 51 months in case of borrowing under the Extended Fund Facility (EFF)).

[10] PLL and FCL costs are identical. We assume here an FCL arrangement owing to the one to two-year PLL access cap at 500 percent of quota.

[11] The cost of holding reserves is being calculated as the cost of building reserves, proxied by a 5-year borrowing cost (5-year US T-bond rate plus EMBI spread) minus the return on reserves (estimated as the average of the 3-month and 2-year US T-bill rate).

18. Some aspects of precautionary arrangements could make them less desirable to countries than the BSLs. While information on BSLs and RFAs is limited and often not publicly available, Perks and others (2021) shed some light on some terms and conditions of BSLs that could make them more attractive than the Fund's precautionary arrangements. First, apart from the Fed's BSLs with the five major central banks, which have been established on a standing basis since 2013, many other BSLs have a duration of three years, which is longer than the usual duration of precautionary arrangements—PLLs and FCLs have a maximum duration of two years—although precautionary arrangements can also be renewed. BSLs also provide revolving access, a feature shared only by the SLL. Second, BSLs are more likely to be signed when a country's external position is weakening, which might make them more accessible compared to precautionary arrangements that are granted only to countries whose fundamentals are very strong or sound (and therefore should not have deteriorated significantly). Finally, BSLs have no associated ex post conditionality and may therefore be perceived to carry less stigma than the PLL or precautionary SBA.

19. While most RFAs have precautionary and liquidity support tools, their preventive stabilization role remains largely untested (Box 5). Lending by smaller RFAs (AMF and FLAR) has been mostly concentrated on assisting fragile economies in the region, while the precautionary tools offered by the European Stability Mechanism (ESM) and the Chiang Mai Initiative Multilateralization (CMIM) have not been deployed so far and their stabilization effect can thus not be assessed with certainty.[12] The regional approaches to preventive stabilization continue to be developed.

20. Overall, the Fund's precautionary arrangements play a complementary role to other layers of the GFSN, with a few unique features. The Fund's precautionary arrangements are the only layer available to all member countries (subject to qualification, for PLLs, SLLs and FCLs). Unlike most BSLs (and RFAs, to some extent), they are provided under clear and transparent qualification rules, and with swift availability of financing when a shock hits. Besides, the extension or continuation of a BSL is usually at the discretion of the reserve currency issuer, which increases uncertainty and reliance on a bilateral relationship. Finally, the use of BSLs and RFAs on a large scale remains untested, including during periods of stress.

21. Precautionary arrangements with ex post conditionality have continued to prove helpful in recent years and offer notable flexibility. While not all members qualify for the FCL, SLL, or PLL, most members can take advantage of the Fund's precautionary SBAs. PRGT-eligible members are also eligible for precautionary SCFs. Five countries have used precautionary SBAs since the last review. The case studies (Annex IV) highlight flexibility of these instruments. Access under precautionary SBAs is uncapped and can be augmented quickly.[13] Additionally, SBAs allow for hybrid use: starting as a disbursing arrangement and turning precautionary a couple of reviews into the arrangement, as done by Serbia in 2022. They can send a strong policy commitment signal, even at low access, as was the case in Armenia's 2022 precautionary SBA of 100 percent of quota. Policy Coordination Instrument (PCI) users can switch to a precautionary SBA if potential BoP needs

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[12] See footnote 25 for the RFAs' full names. There is some evidence on the announcement effects of the ESM's Pandemic Crisis Support. See Anev and Ruhl, 2020, "Why the COVID-19 credit line still makes sense".

[13] Armenia augmented its 2019 precautionary SBA and drew on it during the pandemic.

materialize (Serbia), while concurrent use of the PCI with the SBA/SCF is also feasible (Senegal, 2021), and a precautionary SBA can be the basis for an RSF request too (Kosovo, 2023). Since 2017, one country, Honduras, took advantage of the precautionary SCF, through a blended SCF/SBA, after having had two other similar arrangements in 2010 and 2014 and drew on it after an augmentation during the pandemic.

Box 5. Precautionary and Liquidity Support by RFAs[1]

While most RFAs have precautionary and liquidity support instruments in their lending toolkits, the degree of their operationalization varies.[2] Smaller RFAs (AMF, FLAR) that are active lenders concentrate on supporting fragile economies in the region, with their preventive stabilization capacity for relatively stronger members constrained by their limited lending capacity.[3]

Some RFA instruments that are intended for short-term liquidity support provide limited access to funding with no conditionality. The AMF's Automatic Loan and its Short-Term Liquidity Facility have no instrument-specific conditionality or qualification criteria; however, Automatic Loans can be used in conjunction with other AMF instruments that require conditionality. The FLAR also offers short-term liquidity support, though higher access is subject to an availability commission and requires a debtor's guarantee.

The RFAs with the largest lending capacity (ESM and CMIM) have actively engaged in developing their precautionary support tools, but their preventive role remains untested:

- **CMIM.** Qualification criteria for the CMIM's Precautionary Line cover the same areas as the FCL/SLL/PLL and the CMIM has taken steps to further align with IMF practice. The legal framework governing its conditionality has been strengthened, embedding a requirement for consistency with the IMF in co-financing situations. At the same time, the threshold for the access amount that does not require engagement with the IMF (IMF de-linked portion) has been increased to 40 percent of a maximum arrangement amount. The CMIM has also clarified the review requirements, increased flexibility for the instrument's renewal, and adjusted the disbursement terms, though the six-month repayment remains significantly shorter compared to repayment under the IMF facilities.
- **ESM.** The recent 2020 ESM toolkit reform also aimed at enhancing the efficiency of precautionary assistance and predictability of ex ante qualification, concluding with an agreement that revised the eligibility requirements and revamped credit line governance, including functioning of the periodic reviews. The ESM reform will become effective upon ratification of an amended ESM Treaty. The ESM's Pandemic Crisis Support was also based on the ESM's credit line framework, with temporary modifications in the financing terms and conditionality.

The 2017 RFA paper established that effective firepower of the GFSN and its timely deployment could be increased through enhanced IMF-RFA cooperation.[4] The lending-related priorities that were identified in the 2017 paper remain relevant, notably the need to ensure a consistent macroeconomic framework in IMF-RFA co-lending and alignment of qualification standards when delivering precautionary assistance. IMF staff may also provide technical support to RFAs in their efforts to develop regional approaches to preventive stabilization.

[1] Prepared by Rimtautas Bartkus (SPR).
[2] The RFAs considered in this box include the Arab Monetary Fund (AMF), the BRICS Contingent Reserve Arrangement (CRA), the Chiang Mai Initiative Multilateralization (CMIM), the Eurasian Fund for Stabilization and Development (EFSD), the European Stability Mechanism (ESM), and the Latin American Reserve Fund (FLAR). The EFSD does not have a dedicated instrument for precautionary or short-term liquidity support in its toolkit, whereas the information available on the CRA modalities is limited.
[3] For example, access under the 2020 FCL for Colombia was over two times the FLAR's total lending capacity ($7.9 billion in 2021). Additionally, Morocco purchased SDR 2.15 billion under the PLL in 2020, compared to SDR 247 million provided under the AMF facilities in the same year.
[4] IMF, 2017, "Collaboration between Regional Financing Arrangements and the IMF."

QUALIFICATION FRAMEWORK

This section assesses the application of the qualification framework in recent FCL, SLL, and PLL arrangements. It presents proposals to better account for AML/CFT risks, align the qualification framework with the 2018 Governance Framework, and recalibrate the public debt sustainability requirement for EA precautionary PLLs.

22. A robust qualification framework and its rigorous application by staff are paramount to ensure that the precautionary toolkit delivers on its crisis-prevention objective while safeguarding Fund resources. As documented below, FCL and PLL qualification assessments undertaken since the last review have been transparent and in line with the instruments' corresponding guidance notes. Indeed, while judgment is integral to the FCL and PLL qualification framework, it remains firmly guided by applicable criteria, core indicators, and thresholds, as discussed in this section. Clarifying and updating selected FCL/SLL/PLL qualification criteria and maintaining the rigorous application of the entire qualification framework—including transparently flagging, if applicable, changes since previous assessments (a new practice proposed in this review)—will ensure that the signaling value of these instruments remains robust going forward.

A. Core Qualification Indicators and Thresholds

23. The introduction in the 2017 Review of a set of core indicators to anchor the qualification assessment has facilitated more predictable and transparent qualification assessments. These indicators, with their associated thresholds, have helped ensure greater comparability across qualification assessments in FCL requests (see Figure 5 and Annex V for country-by-country comparisons against core indicators):[14]

- FCL countries have generally performed "very strongly" against core indicators. Bottom-line external balance assessments (EBA) are roughly equally distributed between "broadly consistent," "moderately weaker than," and "moderately stronger than" the level implied by fundamentals and desirable policies.
- The median private capital flows share over total capital flows was 76 percent, generally well above the required 50 percent threshold.
- The median reserve coverage was 139 percent of the ARA metric, also well above the 100 percent threshold.
- Almost all FCL countries issued an international bond in each of the five years preceding the qualification in the average cumulative amount of several hundred percent of quota, well above the required 50 percent.

[14] See ¶5 in the FCL Operational Guidance Note for a comprehensive discussion on core indicators.

- Debt was assessed in all cases to be sustainable with HP under the baseline. All FCL countries have sovereign bonds with investment grade (IG) rating except Colombia and Morocco, which are rated one notch below IG.
- Above all, FCL countries have well-established fiscal frameworks, guided by transparent fiscal rules and medium-term fiscal strategies, as well as a credible inflation targeting framework (or have been moving towards it).[15]
- Exchange rate flexibility also acts as a key shock absorber in most FCL countries.[16]
- Inflation in FCL countries has averaged 4.3 percent in the three years preceding the request.
- The financial system of FCL countries has been sound, as proxied by the banking sector capital adequacy ratio averaging 16.4 percent and non-performing loan (NPL) ratios of around 3.8 percent over 2019–22.
- Finally, FCL countries were assessed to have effective financial supervision and are all Special Data Dissemination Standard (SDDS) subscribers or Special Data Dissemination Standard Plus (SDDS Plus) adherents (see Box 6).[17]

24. PLL qualifiers were also found to perform adequately against core indicators. In particular:[18]

- The EBA assessments of the four PLL qualifiers during 2018–22 were “broadly consistent” or “moderately stronger” than the level implied by fundamentals and desirable policies.
- The share of private flows in total capital flows was similar to that of FCL users, at around 75 percent.
- While Panama, Jamaica, and North Macedonia had issued several international bonds during at least three of the five years preceding qualification in an average cumulative amount of over 1,106 percent of the quota, Morocco—which had a PLL arrangement from 2012 to 2020, before transitioning to an FCL arrangement in 2023—had not issued in international markets (but maintained a relatively favorable rating). Panama is the only PLL country whose government bond was rated as IG.

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[15] Morocco has made significant progress in transitioning to an inflation-targeting regime with IMF technical support and is expected to move forward with the final stages of the transition once inflation and uncertainty on the global and domestic outlook are lower.

[16] Morocco is the only FCL user with a pegged exchange rate within horizontal bands, as per Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER).

[17] The core indicator on data transparency and integrity requires that the member is an SDDS subscriber or has made satisfactory progress toward meeting the SDDS requirements.

[18] See PLL Operational Guidance Note.

- For most PLL arrangements, reserves were lower than that of countries in FCL arrangements, slightly higher than 100 percent of the ARA metric.
- Debt was assessed in all cases to be sustainable with HP under the baseline, and under the adverse scenario in EA cases. Panama and Jamaica have fiscal rules and a medium-term fiscal framework, while the fiscal framework in North Macedonia is still developing.[19]
- While Jamaica has a floating exchange rate regime, Morocco has a peg, North Macedonia a de-facto peg, and Panama is a fully dollarized economy. Inflation in PLL countries was slightly lower than in FCL countries, at about 3.5 percent on average in the three years preceding PLL requests.
- The financial system of PLL countries is sound, as proxied by the banking sector capital ratio averaging 15.6 percent and an NPL ratio averaging 2.7 percent over 2019–22.
- Half of the PLL countries were found to have effective financial supervision[20] and are SDDS subscribers (See Box 6).

25. While qualification assessments have relied on staff judgment, they continued to be firmly guided by relevant qualification criteria, core indicators, and thresholds. Core indicators have not represented redlines, but mitigating factors were present and underlined when specific thresholds were not met,[21] with alternative indicators being used when the core indicator was not deemed appropriate. For example, while Chile's reserves were below the recommended 100 percent of the ARA metric at the FCL and SLL arrangement approval and reviews, several mitigating factors—such as Chile's reserves more than covering estimated potential banks' short-term foreign exchange (FX) funding needs, its sizable usable liquid government FX assets, FX liquidity lines, and its flexible exchange rate—were considered. For Panama, a dollarized economy, an indicator other than the ARA metric was used to assess reserve adequacy in the context of the PLL qualification assessment. Besides, PLL qualification assessments were transparent in explaining the reason for which a country was not assessed as performing strongly in a particular qualification area. Both Panama and Jamaica, for example, were found not to perform strongly in the financial sector supervision owing to remaining weaknesses in AML/CFT and in data transparency and integrity, as neither is an SDDS subscriber.

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[19] Morocco's fiscal framework has strengthened substantially over the course of its four PLL arrangements, with the introduction and steadfast implementation of the Organic Budget Law. The fiscal deficit narrowed by about 2½ percentage points of GDP over the 2012-2019 period, and significant progress was made in removing regressive fiscal subsidies. North Macedonia adopted in September 2022, ahead of its PLL arrangement approval, a new Organic Budget Law, including fiscal rules with deficit and debt limits, applying from 2025. Fiscal targets under the PLL are in line with the new Organic Budget Law.

[20] The other half was found not to perform strongly, namely related to AML/CFT supervision weaknesses.

[21] However, with respect to the FCL, significant shortcomings in one or more of these criteria—unless there are compensating factors, including corrective policy measures underway—would generally signal that the member is not among the very strong performers for whom the FCL is intended (see Adequacy of the Global Financial Safety Net: Review of the FCL, PLL and Proposals for Toolkit Reform, SM/17/140, paragraph 20).

Box 6. Data Transparency and Integrity Criterion Under FCL, PLL, and SLL Arrangements[1]

Data transparency and integrity is one of the qualification criteria for the FCL, PLL, and SLL arrangements. To assess whether a country meets this criterion, the IMF Special Data Dissemination Standard (SDDS)—which sets standards for countries' publication of a specific set of macroeconomic data, along with frequency and timeliness requirements[2]—is used as a benchmark. In particular, the core indicator for this qualification criterion requires that the member is an SDDS subscriber or has made satisfactory progress toward meeting its requirements. This box reviews experience with the implementation of the data transparency and integrity criterion in FCL, PLL and SLL arrangements since the 2017 Review, and discusses in more detail one of the most recent cases, Panama.

FCL/PLL/SLL Countries' Progress in the IMF Data Standards Initiatives

Countries by Tier of the IMF Data Standards Initiatives	Date of Joining Corresponding Tier	Starting Year of the Arrangement		
		FCL	PCL/PLL	SLL
First Tier: Enhanced General Data Dissemination Systen (e-GDDS)				
Jamaica	Feb 2017		2023	
Panama	Oct 2018		2021	
Second Tier: Special Data Dissemination Standard (SDDS)				
Chile	May 1996	2020, 2022		2022
Colombia	May 2000	2009, 2010, 2011, 2013, 2015, 2016, 2018, 2020, 2022		
Mexico	June 2000	2009, 2010, 2011, 2012, 2014, 2016, 2017, 2019, 2021		
Morocco	Dec 2005	2023	2012, 2014, 2016, 2018	
North Macedonia	Nov 2011		2011, 2022	
Peru	July 1999	2020, 2022		
Poland	Mar 2000	2009, 2010, 2011, 2013, 2015, 2017		
Third Tier: Special Data Dissemination Standard Plus (SDDS Plus)				
Chile	Mar 2020	2020, 2022		2022
North Macedonia	Jan 2019		2011, 2022	

Source: Fund staff.

Past and present cases indicate that these arrangements have helped strengthen the authorities' commitments toward data transparency and integrity. North Macedonia became an SDDS subscriber as part of its commitments under its PCL arrangement in 2011. The IMF's Executive Board approved PLL arrangements for Panama and Jamaica—two e-GDDS countries—in 2021 and 2023, respectively. Both committed to making progress toward SDDS subscription, with IMF technical assistance. Structural conditionality under Jamaica's PLL features reforms to improve data transparency, including establishment of a National Statistics Committee to develop a roadmap toward the SDDS subscription.

While Panama's PLL arrangement expired in January 2023 without the country subscribing to the SDDS, the authorities have made substantial progress in data governance and transparency, supported in part by the structural benchmarks under the PLL. The 2021 update of Reports on the Observance of Standards and Codes (ROSC) concluded that Panama has a well-developed macroeconomic statistical system and that for the most part Panama observes, or largely observes, international best practices. The authorities' 2021–25 National Statistical Plan broadly incorporates the recommendations of the ROSC and establishes the SDDS subscription as a strategic goal. The publication of the reserves template and improvements in the fiscal data dissemination that took place during the PLL arrangement (structural benchmarks) are milestones in fiscal transparency, while the recently completed GDP rebasing improves the usefulness of macroeconomic data for surveillance and policy making. While timeliness of some data deteriorated recently, it is expected that resources freed by the completion of the currently ongoing population census and some additional efforts to improve timeliness of fiscal and production index data will help Panama subscribe to the SDDS.

Two countries have advanced and became SDDS Plus adherents, the highest and most stringent data dissemination standard. While advancing to the SDDS Plus is not envisaged under the FCL/PLL/SLL framework, Chile and North Macedonia continued efforts in strengthening data transparency by adhering to the SDDS Plus ahead of their FCL and PLL arrangement announcements in 2020 and 2022, respectively.

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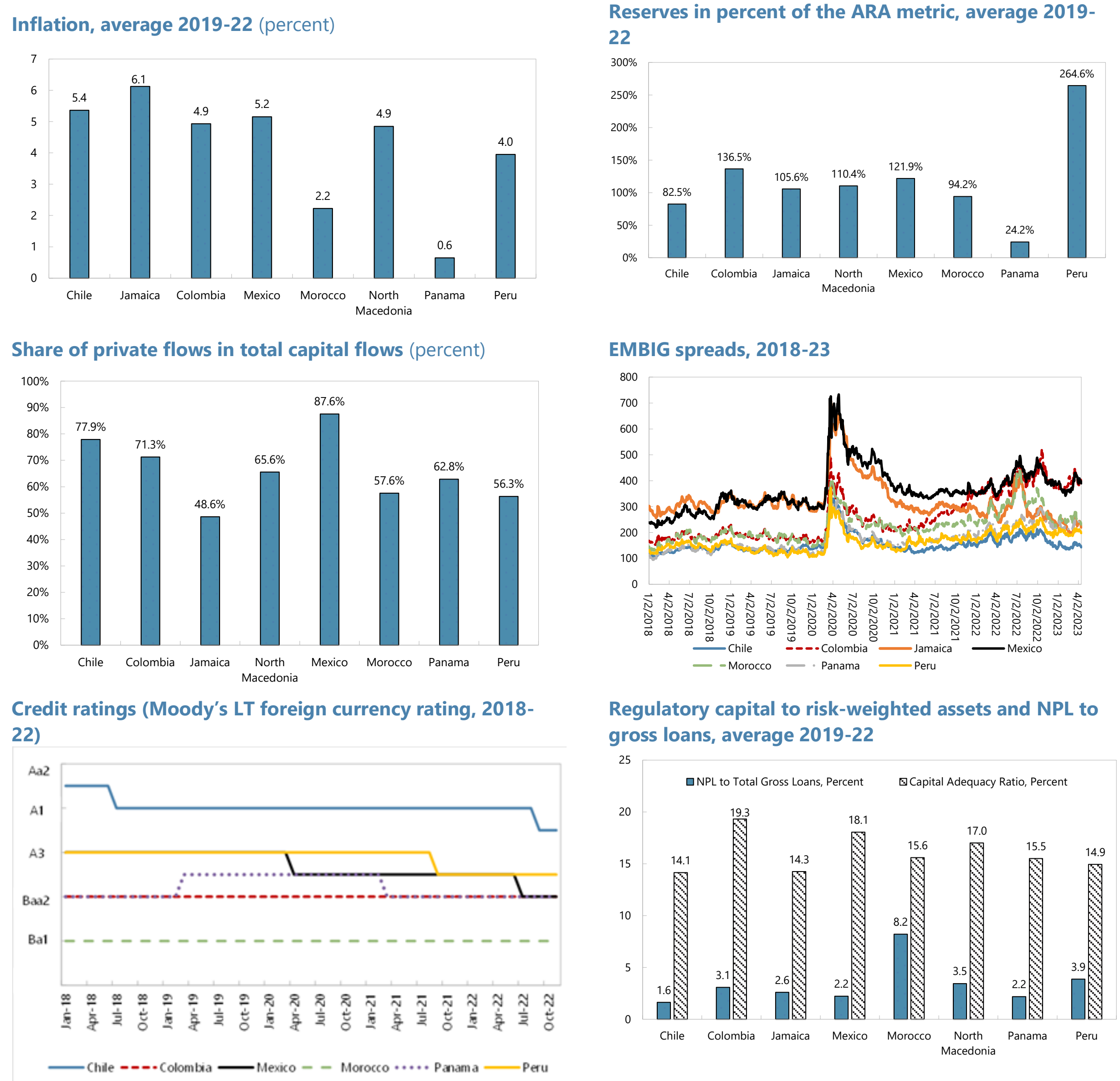
[1] Prepared by Malika Pant and Daniel Rodriguez Delgado (STA).

[2] The IMF Data Standards Initiative promotes data transparency by encouraging countries' voluntary publication of key economic data in a timely and disciplined manner (see IMF Factsheet). Countries decide to participate in one of the three tiers of the framework—the Enhanced General Data Dissemination System (e-GDDS), Special Data Dissemination Standard (SDDS), and SDDS Plus—which are tailored to countries' statistical capacity and progressively more stringent in terms of data dissemination standards. The SDDS Guide for Subscribers and Users details commitments to be undertaken by a subscriber.

Figure 5. Qualification Assessment



Sources: WEO, Bloomberg, Moody's rating reports, World Development Indicators, and IMF staff calculations.
Notes: EMBIG spreads as of April 14, 2023. Moody's rating as of November 1, 2022. For Morocco, capital adequacy and NPL ratios averaged over 2019-2022Q2 and 2019-2022Q3, respectively.

26. **In general, qualification criteria have remained valid and fit for purpose in the current environment, and deviations from core indicators are rare.** The qualification criteria and framework have remained valid and nimble enough to navigate the current environment characterized by high levels of inflation and higher borrowing costs for member countries. For example, the possibility of using judgment in the qualification assessment to allow for a temporary deviation of inflation from its target, provided policies are in place to ensure convergence of inflation and inflation expectations that are anchored, has permitted countries to still qualify while having gone through double-digit inflation episodes, as the drivers of higher inflation were assessed

to be external and of temporary nature (see Mexico 2022 FCL mid-term review,[22] for example). All in all, deviations from core indicators (i.e., use of alternative indicators or references to mitigating factors) since the last review have been well justified. The number of such deviations has also been very low: for the 11 FCL and SLL arrangements approved since the last review, which correspond to 99 instances of assessed criteria at arrangement approvals, only three deviations from the core indicator were recorded (for the three arrangements approved for Chile, under the reserve criterion, as explained above), or around 3 percent (see Annex V for a detailed overview of all criteria assessed under all arrangements approved since the 2017 review).[23] This shows that the qualification framework has been rigorously applied and remains fit for purpose.

27. While the analysis of qualification assessments since the last review illustrates that the qualification framework has been applied rigorously, with only few, well justified, deviations from core indicators at arrangement approvals, the next sections of the review propose refinements to some of the qualification requirements to further enhance transparency and predictability of the qualification framework.

B. Debt Sustainability Analysis

28. In the context of precautionary arrangements, debt sustainability assessments need to be informed by the drawing scenario, in addition to the baseline, under any of the following three settings:[24]

(i) if the arrangement is subject to EA policy;

(ii) if shocks that may trigger a drawing are not adequately captured by the medium-term Market Access Country (MAC) Sovereign Risk and Debt Sustainability Framework (SRDSF) modules; or

(iii) when review departments have doubts about the realism of the debt sustainability analysis (DSA) baseline that cannot be resolved through discussions with the country team.

In practice, this has been implemented by basing the debt sustainability assessment on the mechanical signal obtained under the drawing scenario, when any of the three settings above holds in the context of precautionary arrangements.

29. The paper proposes that setting (iii) be amended. This setting would thus simply read: "when there are doubts about the realism of the DSA baseline." This revision removes the language relating to discussions between review departments and the country team, since these are processes

[22] Mexico: Review under the Flexible Credit Line Arrangement-Press Release; and Staff Report (IMF Country Report No. 2022/347).

[23] PLLs are not discussed since the PLL qualification framework does not require users to perform strongly in all qualification areas (as long as they perform strongly in most, and do not substantially underperform in any), and therefore they may deviate from the core indicator threshold for a particular criterion while still being able to qualify.

[24] Per the 2021 SRDSF for market access countries and the Staff Guidance Note No. 2022/039.

which are generally resolved as part of the review process, and thus should not impact whether a drawing scenario should be used.

30. The paper also proposes a recalibration of the debt sustainability requirement for precautionary PLL arrangements. This refinement would help streamline the assessment of qualification, on the basis that PLL countries have sound fundamentals and institutional policy frameworks. The paper proposes that the sustainability assessment of a precautionary PLL arrangement in settings (i) and (ii) above be informed by the mechanical signal for debt sustainability under the baseline scenario—which should be "sustainable with HP"—and by whether debt is on a decreasing path or at least stabilizes over a 5-year horizon, under the drawing scenario (Table 1). The currently implemented requirement for debt to be sustainable with HP under the drawing scenario in settings (i) and (ii) is too stringent given precautionary PLL qualifiers' sound economic fundamentals, institutional policy frameworks, and policies which are expected to help maintain debt sustainability in the drawing scenario.[25]

Table 1. Debt Sustainability Requirements for Precautionary FCL and PLL Arrangements

	Baseline scenario	Drawing scenario		
		FCL	PLL below EA	PLL with EA
Status quo	Sustainable with HP	Not tested*	Not tested*	Sustainable with HP (**)
Proposed refinement		Not tested*	Not tested*	Debt on a decreasing path or at least stabilizing over 5-year horizon

Notes:
HP = high probability; EA = exceptional access
* The "Not tested" wording for the drawing scenario applies only in the absence of circumstances (i) and (ii) specified in ¶28 above and in the absence of circumstance (iii) under the proposed refinement. The highlighted cell indicates difference from status quo.
** The requirement of a public debt position sustainable with HP applies at approval of the PLL and is a core indicator for meeting the qualification criterion of sound public finances.

31. The proposed recalibration comes with several safeguards and is therefore not expected to have an impact on qualification. While the proposed change could carry some modest risks given that debt stabilization in the adverse scenario could occur at a high level, it is unlikely to materially impact the quality or accuracy of staff's assessment for the following reasons:

- PLL countries' sound fundamentals and institutional policy frameworks (ex ante conditionality) help maintain debt sustainability in the drawing scenario through strong policy reactions that would generally increase the country's debt-carrying capacity while also keeping the debt level in check;

[25] These features of the country—essentially strong policy reaction functions—should ensure that the debt ratio reverts. However, when the DSA is run on the drawing scenario, this implicitly imposes a "shock-on-independent shock" scenario, without accounting for any reversion. Thus, the current requirement for debt to be sustainable with HP under the drawing scenario of EA PLLs is too stringent.

- Debt sustainability with HP would continue to be required in the baseline for all (including EA) PLL arrangements;

- The adverse scenario would continue to be used to determine access and to draw the Capacity to Repay (CtR) analysis in all settings; and

- When there are doubts about the realism of the DSA baseline (see ¶29), sustainability assessments for the PLL would continue to use the drawing scenario.[26]

32. The debt sustainability assessment requirement for precautionary SBAs would remain unchanged. Under the three settings in ¶28, debt sustainability analyses for precautionary SBAs would need to be conducted fully on the drawing scenario, which would be the one determining the mechanical signal for debt sustainability. This procedure remains in line with current practice.

33. No changes are envisaged for precautionary FCL arrangements either. The SRDSF guidance note defers to this review for clarifying the DSA requirements for FCLs under the disbursing scenario in the context of the instrument's qualification framework.[27] The paper proposes no changes for FCL arrangements: since the FCL is carved out of EA policy, circumstance (i) above (¶28) does not apply regardless of access. While circumstances (ii) and (iii) would require the drawing scenario to inform the debt sustainability assessment, they are considered very unlikely to occur for FCL arrangements. The CtR assessment and, for large FCL arrangements, the assessment of the impact of the arrangement on Fund liquidity would continue to be based on the drawing scenario and to play a primary role in ensuring that requested access levels are adequate and risks to Fund finances remain at acceptable levels.

34. The procedure described above reflects the confidence and policy safeguards provided by the qualification requirements for these types of arrangements. These requirements are most stringent for FCL arrangements, where fundamentals, institutional frameworks, and policies are very strong, and least stringent for SBAs, leaving PLL arrangements in an intermediate position in the toolkit.

C. Governance

35. Since the 2017 Review, the Fund has adopted a new framework for enhanced Fund engagement on governance (the "2018 Governance Framework").[28] This framework aims to

[26] Specifically, in assessing the requirement applicable for approval of a PLL which requires that the member has, at approval, a public debt position that is sustainable with HP in the medium term, as well as for the assessment of the qualification criterion of sound public finances, including a sustainable debt position, and for assessments under EA policy, staff will use the drawing scenario.

[27] See footnote 120 of the 2022 Guidance Note, which states that "[*the current Precautionary Review*] may address the question of whether to subject drawing scenarios in FCL or SLL arrangements to SRDSF tools."

[28] The Review of the 1997 Guidance Note on Governance—A Proposed Framework for Enhanced Fund Engagement (April 2018) supplements the 1997 Guidance Note on the Role of the Fund in Governance Issues and draws from the 2017 Review of the Guidance Note – Preliminary Considerations.

promote a more systematic, candid, and even-handed engagement with member countries regarding corruption vulnerabilities and governance weaknesses in the six state functions that are most relevant to economic activity. These functions are (i) fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; (v) rule of law; and (vi) AML/CFT.

36. The current assessment of institutional strength in the FCL/SLL/PLL qualification frameworks importantly relies on third-party indicators. Under the current qualification frameworks for the FCL/SLL and PLL, a country should be assessed to have a very strong or sound institutional policy framework for the FCL/SLL and the PLL, respectively. Policy cyclicality and the country's effective response to shocks can also be appraised to complement the assessment of staff in this area. The FCL and PLL operational guidance notes state that the Worldwide Governance Indicators (WGI) on government effectiveness and control of corruption could be used to inform staff judgment on the strength of policy frameworks.[29] Poor governance, including weak control of corruption, could weaken a country's institutional frameworks, deteriorate capital flow composition (e.g., away from FDI), undermine prospective BoP stability, and ultimately reduce a country's ability to respond to shocks.

37. Staff proposes to replace the current approach relying on third-party indicators to assess governance and corruption vulnerabilities with an approach leveraging Article IV coverage of these issues. Specifically, the assessment of government effectiveness and control of corruption will be based on staff's coverage of governance weaknesses (along the six state functions listed above) and corruption vulnerabilities in Article IV (AIV) consultation staff reports (SRs), rather than the WGI alone. The coverage in AIV SRs is based on the Fund's centralized assessment that was established under the 2018 Governance Framework and that relies on quantitative (including the WGI) and qualitative inputs from Fund staff analysis and reputable external sources (e.g., World Bank, OECD).[30] A member would likely not be considered a strong performer for the purpose of FCL/SLL qualification if, informed by the AIV consultation findings, staff concludes that governance and corruption vulnerabilities hamper a country's ability to respond to shocks.[31] In PLLs, when addressing the identified vulnerabilities is of critical importance for achieving the goals of the

[29] For more details on the current qualification frameworks, see the operational guidance notes for the FCL and PLL.

[30] Pursuant to the 2018 Governance Framework, Article IV consultation SRs are expected to include a discussion of governance weaknesses if they are sufficiently severe to significantly affect present or prospective BoP or domestic stability. The centralized assessment is used to assess the nature and severity of corruption vulnerabilities and of governance weaknesses in the six state functions mentioned above and to determine the need for further discussion with the authorities in the context of Article IV consultations. For details on the centralized assessment process, see ¶¶3–4 of Decision No. 16350-(18/32) on Addressing Governance Vulnerabilities—A Framework for Enhanced Fund Engagement and ¶¶6–8 of the 2023 Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance.

[31] Consistent with ¶6(a) of Decision No. 16350-(18/32), the discussion of governance issues—if warranted—would be expected to be prioritized, should an FCL/SLL/PLL arrangement request be anticipated, considering the urgency of assessing governance vulnerabilities as part of qualification. In rare instances where the arrangement request or a review comes after an Article IV consultation that has not covered pertinent governance vulnerabilities identified by the centralized assessment (i.e., because coverage is on a 3-year cycle), staff would discuss them with the authorities as part of staff's consideration of qualification.

program, the program would be expected to include commitments or conditionality related to such measures.

D. AML/CFT

38. The treatment of AML/CFT deficiencies in qualification assessments for FCL and PLL arrangements has varied. Strategic deficiencies in the AML/CFT framework, as evidenced in cases of "grey listing" by the Financial Action Task Force (FATF),[32] may present risks to financial sector soundness and signal weaknesses in institutional frameworks, particularly supervision.[33] However, the core qualification criterion of "effective financial sector supervision" does not currently explicitly refer to AML/CFT issues. To date, no country approved for FCL support has been on the FATF grey list at the time of approval.[34] But three countries were approved for a PLL arrangement while on the grey list (Panama in 2021, Morocco in 2012, and Jamaica in 2023), and the treatment of grey listing in the assessment of qualification criteria and in setting ex post conditionality has varied across these countries. Panama was on the grey list when it requested a PLL arrangement but delays in implementing conditionality on exiting the grey list resulted in a six-month delay in completing the second review under the arrangement. Morocco was on the grey list when it requested its first PLL arrangement in 2012, but its grey listing did not come under scrutiny in the qualification assessment, and Morocco was not subject to ex post conditionality in this area. In contrast, Jamaica's PLL arrangement was approved in 2023 while Jamaica was on the grey list, with a structural benchmark on AML/CFT. This checkered experience shows the need for clearer guidance on how AML/CFT deficiencies should inform qualification for an FCL, PLL, and SLL arrangement—to avoid the perception of differing treatment and avoid reputational risks to the Fund (e.g., risks of not taking this area into account in the qualification assessment while it is an important aspect of the country's financial sector supervision, or the risk of providing uneven coverage across countries).

39. The review proposes to formally integrate consideration of AML/CFT issues into the "effective financial supervision" criterion of the qualification framework. Specifically, AML/CFT issues, including FATF grey listings, will be integrated into staff's assessment of "effective financial sector supervision." The bottom-line assessment of the "effective financial sector supervision" criterion will consider relevant existing indicators (i.e., FSAP findings, assessments of legal and institutional framework and operational capacity for prompt corrective actions and emergency assistance). In the event of FATF grey listing, the member would be unlikely to qualify for an FCL or SLL arrangement if staff assesses that deficiencies underpinning the listing indicate that the

[32] FATF "grey listing" refers to countries under increased monitoring overseen by the FATF International Cooperation Review Group. See more [here.](#)

[33] It should be noted that grey listing is not the only indicator for strategic deficiencies in AML/CFT supervision.

[34] Morocco's FCL arrangement was approved in 2023 shortly after its exit from the FATF grey list. For the qualification assessment, the strengthening of the AML/CFT framework that led to Morocco being removed from the FATF grey list in February 2023 was considered to have mitigated any strategic deficiencies on AML/CFT that existed during the previous five years.

"effective financial sector supervision" criterion is not met.[35, 36] Such assessment would look at how deep and persistent AML/CFT deficiencies are, as well as review the substantive aspects of the FATF listing and the country's action plan related to effective supervision. Staff cannot solely rely on FATF determinations, as cross-conditionality is prohibited. Staff should make its own judgment including through using FSAP and Article IV reports while being guided on technical issues by the FATF standard and methodology that have been endorsed by the Board[37] (and how they have been applied in FATF assessments) to ensure methodological transparency and evenhandedness. Under PLL arrangements for countries with strategic AML/CFT deficiencies relevant to financial sector supervision, the member would generally be expected to commit to addressing these deficiencies, likely supported by structural conditionality if critical to achieving program objectives.

ADEQUACY OF THE PRECAUTIONARY TOOLKIT

This section assesses the adequacy of precautionary instruments to address shocks in the current environment and proposes: (i) a package of FCL/SLL reforms, including a low-access FCL free of articulation of exit expectations, a higher access limit for the SLL, and explicit provisions on concurrent use of FCL and SLL; and (ii) raising PLL access limits.

A. Developments in Access Levels

40. Since the 2017 Review, access levels in FCL and PLL arrangements have generally decreased (Figure 6). Mexico and Colombia, FCL users since 2009, have both reduced access under successive FCL arrangements since 2017 (from 700 to 400 percent of quota and from 400 to 350 percent of quota, respectively). Peru halved its access under the FCL arrangement from 600 percent of quota in 2020 to 300 percent of quota in 2022 and declared its intention—external risk permitting—to exit the FCL arrangement. Chile temporarily exited the FCL arrangement (1,000 percent of quota) and transitioned to an SLL arrangement (145 percent of quota), shifting back to a

[35] See paragraph 20 of SM/17/140: "Very strong performance against all qualification will not be necessary to secure qualification under the FCL. However, significant shortcomings on one or more of these criteria—unless there are compensating factors underway—would generally signal that the member is not among the strong performers for whom the FCL is intended."

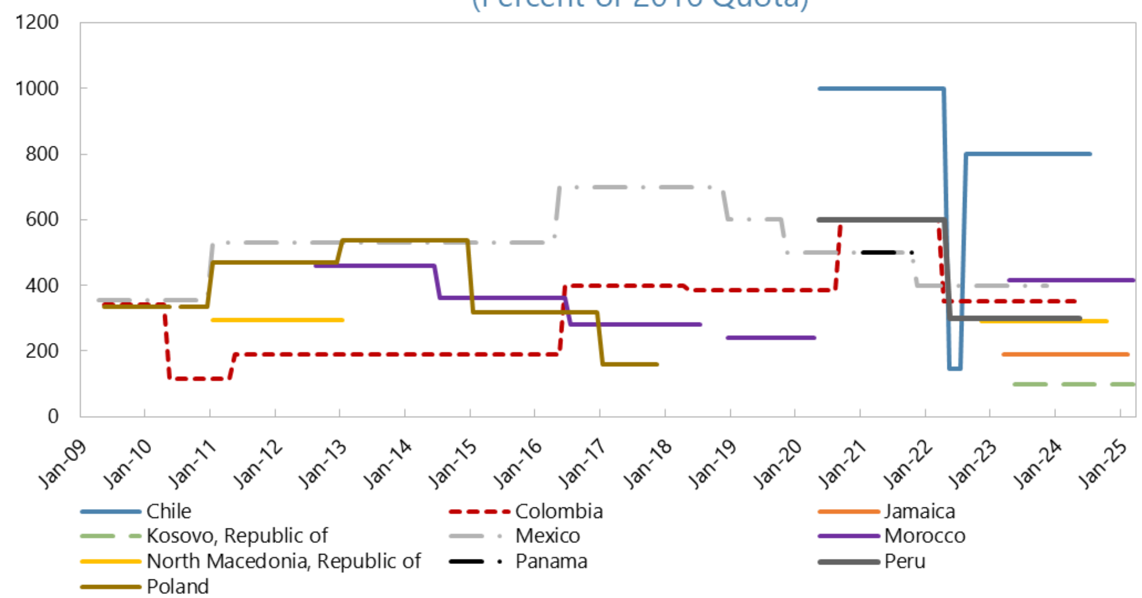
[36] For example, members may be FATF-listed while having minor outstanding deficiencies; others may have major AML/CFT deficiencies as evidenced by a full catalog of action items that remain unaddressed (though only elements related to financial sector supervision could potentially affect staff's assessment of the member's qualification). The Guidelines on Conditionality inform program design in PLL arrangements, including with FATF listed countries with action plans, and hence, the full range of items under FATF action plans are not necessarily included in Fund conditionality in a PLL arrangement where the measures are not considered critical to achieve program objectives, or for other reasons (e.g., fall outside the program period, are outside the Fund's expertise or mandate, are not in line with parsimony, etc.). In addition, the absence of grey listing does not in all cases imply that there are no AML/CFT issues that could undermine effective financial sector supervision, as such issues can be identified in a comprehensive AML/CFT assessment without necessarily leading to a grey listing (which requires strategic shortcomings in several areas).

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

new FCL arrangement (800 percent of quota) as external risks re-emerged a few months later, highlighting the flexibility of these instruments. All in all, over the last five years, average access under the FCL arrangements has declined from 550 percent of quota at end-2017 to 462 percent of quota at end-2022.

Figure 6. Access Under FCL, SLL and PLL Arrangements[1]

(Percent of 2016 Quota)



Sources: Financial Data Query, and IMF staff calculations.
[1] This chart shows cumulative access over the period of the arrangement for PLLs.

41. Adverse scenarios developed to justify PLL and FCL access have been underpinned by comparable shocks for different countries, with consistent assumptions over time. Recent SRs have reported detailed assumptions underpinning the adverse scenarios, often transparently in a table (Chile, Peru, Panama, Morocco) and compared them to those in previous arrangements (Colombia, Chile). Shocks to fuel prices, foreign direct investment (FDI), and debt rollover remain most common (Table 1).[38] Overall, shocks to fuel prices and private short-term debt rollover tend to be the most severe when compared to historical shocks, while shocks to public medium-term debt are generally assumed to be less severe, likely reflecting lower perceived risks to long-term financing for the general government. Also, financial account shocks contribute the most to the overall shock (72 percent of the overall shock before reserve drawdown, on average), while current account shocks contribute to a lesser extent. For each country, shocks have tended to stay in the same percentile range from one arrangement to the other. There does not seem to be much evidence of shocks to the current account and capital flows being less severe, as shares of the baseline, in 2022 or 2023

[38] Not all countries are applying shocks to all the variables above, based on country specificities. The Chile adverse scenario, for example, assumed full rollover of public sector external debt, given the limited public external financing needs compared to the large size of public liquid assets.

compared to previous years, likely implying that the level of perceived external risks is still significant even after the pandemic and Russia's invasion of Ukraine shocks.

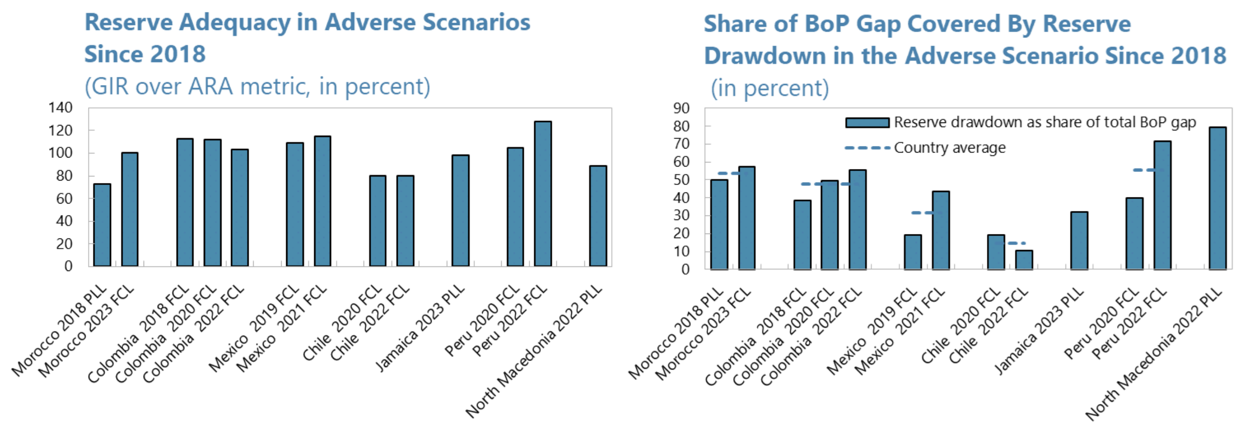
Table 2. Severity of Shocks Relative to Kernel Distributions

	Morocco		Colombia 1/			Mexico		Peru		Chile		Panama	North Maced.	Jamaica
Year	2018	2023	2018	2020	2022	2019	2021	2020	2022	2020	2022	2021	2022	2023
Arrangement	PLL	FCL	FCL	FCL	FCL	FCL	FCL	FCL	FCL	FCL	FCL	PLL	PLL	PLL
Access (% of quota)	240	417	384	600	350	500	400	600	300	1000	800	500	290	190
FDI	Orange	Orange	Orange	Orange	Orange	Orange	Red	Red	Orange	Orange	Orange	Red	Green	Orange
Fuel price	Green	Green	Red	Red	Red	Gray	Gray	Red	Gray	Red	Red	Gray	Green	Green
Public ST debt rollover	Orange	Gray	Orange	Orange	Orange	Orange	Orange	Gray	Gray	Gray	Gray	Gray	Gray	Gray
Private ST debt rollover	Green	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Gray
Public MLT debt rollover	Green	Green	Orange	Orange	Gray	Orange	Orange	Green	Green	Gray	Gray	Green	Gray	Orange
Private MLT debt rollover	Orange	Orange	Red	Red	Red	Orange	Orange	Orange	Orange	Orange	Orange	Red	Gray	Gray
Contribution of the financial shock to overall shock (before reserve drawdown)	31%	61%	70%	73%	77%	96%	93%	78%	73%	92%	98%	77%	68%	21%

Notes: The table covers only the most common shocks in recent PLL/FCL requests.
Colors denote the severity of the shock compared to the Kernel distribution. Red: shock below the 25th percentile of historical shocks; Orange: shock between the 25th percentile and the median; Green: shock above the median historical shock. Cells are gray if the specific shock does not apply for the country.
Shocks to the fuel price will have different effects depending on whether the country is a net fuel exporter or importer. E.g., a drop in the fuel price as observed in 2020 had negative/positive consequences for net fuel exporters/importers, while a fuel price surge as observed in late 2021 and early 2022 had positive/negative consequences for net fuel exporters/importers. This explains why the fuel price shock can be signaled as milder through this color coding for some countries, for which a negative shock on the oil balance would result from an increase in oil prices. Adverse scenario shocks are also drawing on the WEO adverse scenarios, when it comes to fuel prices, for example, which can also drive the severity of the assumed shock.
[1] Colombia 2020 column corresponds to the augmentation Staff Report.

42. **The external economic stress index (ESI) continues to inform access and exit discussions under FCL and PLL arrangements** (Annex VI). An assessment of FCL and PLL arrangements approved since the 2017 Review suggests that the ESI captures similar sources of external risks within and across arrangements—namely, risks to exports and financial flows—with weights on proxy variables reflecting differences in country characteristics and exposure to external stress. For instance, risks to equity and debt portfolio investment flows account for 45 to 50 percent of the ESI for Colombia, Chile, Mexico, and Panama, consistent with their well-developed financial markets, while growth developments in the euro area drive the bulk of the ESI for Morocco given strong trade, remittances, tourism and FDI ties. There is also evidence that improvements in the ESI (i.e., lower external risks as indicated by the index) are associated with reductions in access, while increased risks correlate with higher or unchanged access levels. For instance, Mexico's request for a lower access in 2021 relative to 2019 was consistent with reduced external risks signaled by the ESI, while Colombia's augmentation of access shortly after the approval of the 2020 FCL arrangement was in line with a sharp worsening of the ESI. The construction of the ESI has been broadly aligned with best practices since the 2017 Review, with comparability of the ESI shock scenarios across countries improving thanks to the systematic use of the latest WEO downside scenario, GFSR, or G-RAM for constructing the ESI. No further enhancements in the ESI seem warranted at this stage, although flexibility under current guidance could be better leveraged. Specifically, updates to proxy variables and/or weights consistent with existing guidance could help address the limitations of the ESI highlighted in selected arrangements (Annex VI).

Figure 7. Reserve Buffers in Adverse Scenarios



Sources: Country Staff Reports, and IMF staff calculations.

43. **Access considerations have also been guided by the availability of buffers to mitigate risks and the authorities' risk tolerance** (Figure 7). Since 2019, except in the case of Chile, adverse scenarios for FCL access have gradually assumed that a higher share of the financing gap would be covered by a reserve drawdown. This trend has not been accompanied by a deterioration in the level of remaining reserves after reserve drawdown (in the adverse scenario). In most countries, the 80 percent threshold has remained a floor for the reserve coverage in the adverse scenario. For Colombia, Mexico and Peru, the higher reserve drawdown in the adverse scenario compared to previous arrangement—with a commensurately lower FCL access—could reflect a shift in the authorities' views on optimum self-insurance.

B. A Package of FCL-SLL Reforms

44. **Elevated and multi-faceted global risks, combined with the difficulty to distinguish BoP shocks when they hit, call for joint reforms of the FCL and SLL, allowing the two instruments to better complement each other.** In this section, staff proposes three reforms to be approved as a package: (i) an up to 200 percent-of-quota precautionary FCL arrangement free of the articulation of exit expectations ("exit expectation-free FCL"); (ii) an increase in the access limit for the SLL to 200 percent of quota; and (iii) explicit provisions on concurrent use of the SLL and the FCL. Such a package could allow—subject to qualification and assessment of potential BoP needs—up to 400 percent of quota of combined FCL-SLL access without exit expectations. It would make precautionary arrangements more efficient in the heightened and persistent shock-prone environment, allowing countries—as long as they qualify for the instruments, and both external risks and potential BoP needs under the respective instruments justify it—to: (a) benefit from extended coverage, with positive externalities to the rest of the system; (b) benefit also from a more effective response to shocks if they materialize; and (c) do so with adequate firepower. These measures are accompanied by adequate safeguards to Fund resources and maintain the high standards shared by the SLL and FCL.

FCL Free of Articulation of Exit Expectations at Low Access

45. First, the paper proposes a low-access precautionary FCL arrangement free of articulation of exit expectations. This would mean that inclusion of the authorities' exit strategy in the FCL request (see Box 7) would be expected only when access exceeds 200 percent of quota.[39] The approval of low-access precautionary FCL arrangements without explicit exit expectations, as with other FCL arrangements, would be decided by the Board, following confirmation of the member's qualification. It avoids committing large amounts of Fund resources while offering more predictable insurance (¶48). For FCL arrangements with access exceeding 200 percent of quota, exit—including through a gradual reduction in access, provided that external risks abate—would continue to be encouraged, and a discussion on the authorities' exit prospects would be expected to be included in the FCL request SR. Members with an FCL arrangement retain the option of requesting an augmentation of access if warranted by developments in external risks, subject to continued qualification and capacity to repay. The 200 percent of quota is not envisaged to become the expected entry point into new (including successor) FCLs: qualifying countries can also request higher or lower access—as has been the practice under existing policies—should conditions warrant it. Qualification would be assessed at each request and review under the arrangement, and the level of access proposed for an arrangement would need to be justified through staff analysis.

46. This exit expectation-free FCL arrangement, available to qualifying countries facing persistent external risks, would bolster their stability and help reduce systemic risks in respective regions. The low-access FCL arrangement without articulated exit expectations could reduce incentives for accumulating costly excessive reserves (see section above) and provides greater stability and predictability when it comes to the level of available buffers amid high uncertainty. It is relevant particularly in times of elevated external risks with limited alternative sources of liquidity support. It could also provide positive externalities (as first documented in the 2011 Review),[40] helping limit spillovers and reduce systemic risks.

47. As with any FCL arrangement, the Board would need to approve the low-access FCL arrangement and any follow-on arrangement, after confirming qualification, and exit would continue to be state-dependent for all FCL arrangements. Access to the 200 percent-of-quota exit expectation-free FCL would not be guaranteed. On the contrary, approval of such arrangements without an articulation of exit expectations for a maximum duration of two years would be based on, assessments of: (i) external risks—to justify the need of the instrument; (ii) potential BoP needs—and an access level that should not exceed such needs; and (iii) qualification—the instrument being accessible only to members with very strong economic policies and institutional policy frameworks, subject to the mid-term review in 2-year arrangements. Exit expectations would continue to hold above 200 percent of quota and exit remain state-dependent for all precautionary FCL

[39] Under this proposal, an exit strategy would not be expected at the time of the FCL request if access is at or below 200 percent of quota (accounting for credit outstanding under prior FCLs, see ¶47), but would be expected if access is augmented during the arrangement period and exceeds 200 percent of quota.

[40] IMF, 2011, Review of the Flexible Credit Line and Precautionary Credit Line.

arrangements, since FCL arrangements below 200 percent of quota would also be available subject to BoP needs and external risks. For assessing whether exit expectations should be articulated in the written communication at the approval of a new FCL arrangement or augmentation of an existing one, the 200 percent of quota threshold would be lowered by any credit outstanding under prior FCL arrangements;[41] other outstanding credit to the Fund (non-FCL GRA, PRGT, RST) would not be taken into account for this purpose.[42]

Box 7. Exit Strategy Under FCL Arrangements—Current Policy

Under current FCL policy, a discussion of the authorities' exit prospects is expected to be included in the SR in the FCL request for *all* FCL arrangements, regardless of the level of access. Such exit strategy is expected to include the following elements, and to be complemented at mid-term reviews by an updated assessment of the anticipated evolution of risks over the rest of the arrangement period:

- A statement about exit contingent on the reduction of external risks. The statement is expected to be informed by the ESI—an indicator of the evolution of the external environment constructed based on relevant external risks pertaining to a country (see Annex VI);
- A statement regarding any efforts the authorities intend to take to improve domestic resilience, where applicable;
- A statement on the expectation that access will decline in successor arrangements when the right conditions are in place. This includes considerations on the contingencies under which a successor arrangement may be requested with lower access, or under which no successor request would be likely.

Examples of how the authorities' exit strategy should be elaborated consistent with current guidance can be seen in Mexico's SRs under successive FCL arrangements. For instance, the SR for the approval of the 2019 FCL arrangement (500 percent of quota) described the authorities' exit strategy, which consisted in gradually reducing access under the FCL arrangement with the goal of eventually exiting. The SR reminded that such exit strategy—informed by the ESI and a plausible adverse scenario—was initiated at the time of the mid-term review of the FCL approved in 2017. The SR also conveyed the authorities' intention to further reduce access at the mid-term review conditional on risks abating. However, the exit strategy was paused at the 2020 mid-term review in view of the elevated pandemic-related external risks amid heightened uncertainty. Notwithstanding, the SR reiterated their commitment to pursuing their exit strategy, consistent with, and dependent on, the exceptional risks in the global economy receding. The authorities' exit strategy was then accordingly pursued in the subsequent SR for the approval of the 2021 FCL arrangement, with access reduced to 400 percent of quota and the intention of further reducing it to 300 percent of quota at the mid-term review. However, elevated external risks—this time as a result of the war in Ukraine and tightening global conditions—called for a pause in access reduction at the 2022 mid-term review.

[41] For example, if a member has 50 percent of quota outstanding under prior FCL arrangements at the time the new FCL request is approved, exit expectations would not need to be articulated if the FCL arrangement stays at or below 150 percent of quota. The threshold of 200 percent of quota would be restored when the member repurchases outstanding credit.

[42] The rationale for accounting only for credit outstanding under prior FCL arrangements is to preempt situations where, for example, a country draws in full on an FCL arrangement of 200 percent of quota without articulation of exit expectations (therefore ending it) and soon after requests another FCL arrangement of 200 percent of quota (subject to continued qualification).

48. This proposal, combined with streamlined augmentation procedures, could help reduce demand for Fund resources in the long run.[43] A potential concern is that extended use could lock in Fund resources that could otherwise be used to support the resolution of actual BoP problems elsewhere. Staff believes that this proposal, combined with smoother procedures to augment FCLs when justified (see ¶70), could reduce demand for Fund resources over the long run. The ability to swiftly augment the arrangement—should the risk of larger shocks become significant over the course of an arrangement and subject to continued qualification, and access policy considerations, including capacity to repay—could reduce the incentives of FCL users to request (and maintain, for a long time) a large FCL arrangement in the first place. The proposal should thus help disincentivize prolonged use of large FCL arrangements.

49. Exit expectation-free FCL arrangements, which would be explicitly allowed under the proposed policy, would be consistent with the requirement of temporary use of Fund resources. A key safeguard for the temporary use of the Fund's resources under the Articles of Agreement is the resolution of a member's BoP problems which enables the member to repay the Fund when maturities fall due. A member that meets the stringent qualification criteria under the FCL gives confidence that it will respond appropriately to the BoP difficulties that it is encountering or could encounter, which provides a key safeguard for the temporary use of the Fund's resources to ensure that the Fund will be repaid for any purchases made. This will remain unchanged even under the proposed low-access FCLs without articulation of exit expectations. Box 8 elaborates.

Box 8. Temporary Use of the Fund's Resources

The requirement that Fund financing be provided to members only on a *temporary* basis is specified in the Fund's Articles of Agreement. Among other purposes, the Fund exists to "*give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards* thus providing them with opportunity to correct maladjustments in their BoP without resorting to measures destructive of national or international prosperity."

The reference to *temporary use* of the Fund's general resources is specifically stated in terms of the conditions governing the use of the Fund's general resources. Article V, Section (3)(a) requires the Fund to "adopt policies on the use of its general resources… that will assist members to solve their BoP problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund."[1]

Consistent with the Fund's lending mandate, Fund policies that aim at resolving a member's BoP problems establish safeguards for temporariness. The most effective form of safeguards for the temporary use of Fund resources, which also aligns with the unique nature of the Fund financing mandate, is the resolution of a member's BoP problems based on the strength of the member's policies with a view to ensuring the member's capacity to repay the Fund. Fund policies, consistent with legal requirements underpinning the Fund's lending mandate involving its general resources, are intended to ensure that the

[1] Note that both provisions explicitly refer to the general resources. Thus, one implication is that the same requirements do not necessarily apply to Special Disbursement Account (SDA) resources (and therefore the PRGT). A second implication is that all policies adopted by the Board on the use of GRA resources regardless of the nature of the instrument must respect the revolving character of Fund resources.

[43] A detailed discussion of the impact of proposed reforms on the demand for Fund resources is provided below.

Box 8. Temporary Use of the Fund's Resources (concluded)

member's BoP will become sustainable, and that it will be able to repay the Fund without strain when maturities fall due.[2]

The idea of temporary use of the Fund's resources is a corollary to the intended revolving character of those resources. The member is expected to implement appropriate policies to address its BoP problems and put itself in a position where it will be able to make repurchases when due.[3] Ability to service the member's indebtedness to the Fund is central to the revolving character of the Fund's resources.[4]

There is a long history of successor arrangements in the Fund and repeat or sequential use of Fund arrangements is common. While successor arrangements are common, each arrangement needs to be assessed to assure that programs supported by GRA resources are designed to resolve the member's BoP problem and the member has the CtR the Fund, irrespective of a successor arrangement. Separately, the Fund has policies for protracted recourse to Fund financial support, these policies have so far entailed a review by the Fund either ex post (e.g., in the context of peer-reviewed assessments) or in the context of approving new requests for Fund financing.[5]

The absence of articulation of exit expectations in low-access FCL arrangements proposed by staff is consistent with the requirement of temporary use of Fund resources under the Fund's Articles. As noted, a key safeguard for the temporary use of the Fund's resources is the resolution of the member's BoP problems, which enables the member to repay the Fund when maturities fall due. A member that meets the stringent qualification criteria under the FCL gives confidence that it will respond appropriately to the BoP difficulties that it is encountering or could encounter,[6] which provides a key safeguard for the temporary use of the Fund's resources to ensure that the Fund will be repaid for any purchases made. This will remain unchanged under the proposed low-access FCL arrangements.

Furthermore, there are other complementing factors providing additional safeguards to the Fund and assurances that any FCL use will be "temporary", as set out below:

- The proposed exit expectation-free low-access FCL arrangements, like all FCL arrangements, are intended to address temporary BoP problems.
- Each FCL arrangement, including low-access arrangements, will continue to have a fixed duration.
- Approval of the initial and all successor FCL arrangements will require a decision by the Executive Board and also that the member continues to meet the strict FCL qualification criteria. Thus, there is no automaticity in respect of subsequent arrangements.

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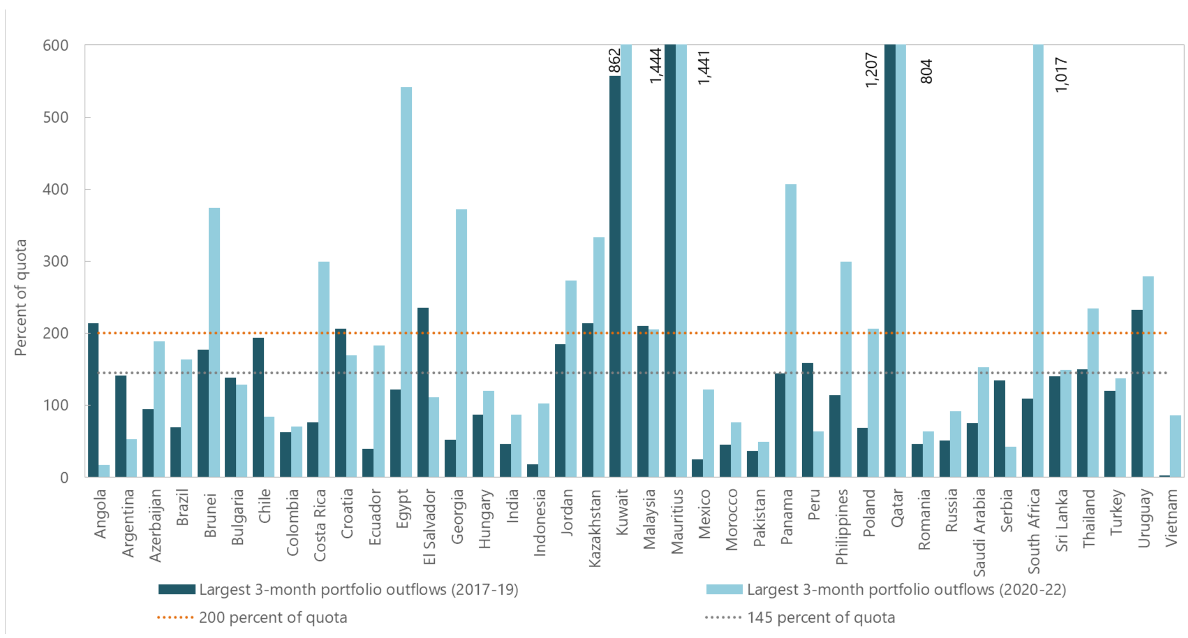
[2] Other safeguards include assessments of debt sustainability and the capacity to repay.
[3] While the Articles do not define the maximum duration of use of Fund resources, the Articles have established maturities in the credit tranches within the three to five-year timeframe, consistent with the medium-term horizon of Fund adjustment programs. The Extended Fund Facility (EFF), a special policy outside the credit tranches, has a 10-year repayment period. As a practical matter, maturities beyond 10 years could raise questions about the revolving character of Fund resources and challenge the Fund's financing model, where resources provided under the New Arrangements to Borrow (NAB) and bilateral borrowing agreements (BBAs) have a 10-year maximum maturity.
[4] See Considerations Governing Amounts of Access, Selected Decisions, 42nd Issue, pages 471/472.
[5] One of the criteria to be applied in setting access under an arrangement is the record of past use of Fund resources by the member.
[6] See FCL Decision, Paragraph 2.

Higher Access SLL

50. Second, the paper proposes to raise the access limit for the SLL to 200 percent of quota.[44] The higher access limit for the SLL would respond to calls from a number of Executive Directors earlier this year to increase the SLL access limits. It would be permanent and would acknowledge that capital flows, as well as the moderate and short-term BoP needs covered by the SLL, have become larger in a complex global environment (Figure 8). This increase will be reviewed as part of the next comprehensive review of access limits or if the "review clause" is triggered.

Figure 8. Large Portfolio Outflows vs. Existing and Proposed SLL Access Limits 1/



1/ Bars represent largest quarterly outflows during the period 2017Q1–2022Q4. Sample includes 40 countries with the largest outflows in USD during 2017–22 among 91 countries surveyed.

51. This proposal is part of the review's effort to address some of the issues that may have inhibited SLL take-up so far. The use of the SLL—with Chile being the only user since its establishment in April 2020—has been very limited. *First*, the access limit for the SLL, at 145 percent of quota (or 2.1 percent of GDP on average for EMEs), is considerably smaller than the average size of BSLs extended to EMEs (3.1 percent of GDP). *Second*, the pandemic gave rise to tail risks associated with large potential BoP needs, which made the FCL the appropriate instrument (rather than the SLL). *Third*, given its novelty, potentially qualifying countries may not have been fully aware

[44] On March 6, 2023, the Executive Board approved an increase in the GRA cumulative access limit from 435 to 600 percent of quota and the annual access limit from 145 to 200 percent of quota for a period of 12 months to better support the membership in a highly uncertain environment. See staff paper Temporary Modifications to the Fund's Annual and Cumulative Access Limits. Access under the SLL is carved out from the access limits set forth in the policy on overall access to the Fund's resources in the General Resources Account. However, outstanding amounts under the SLL count towards such access limits if a member requests access to Fund resources under another Fund facility.

of the SLL's benefits. Increasing the access limit for the SLL to 200 percent of quota and making it part of a package of reforms of the FCL and SLL, would help address these concerns, bring the access limit for the SLL closer to that of BSLs, but with wider coverage (as a way to adjust to the membership's evolving needs), and provide more visibility to the instrument.[45]

52. At 200 percent of quota, the access limit for the SLL would remain modest, in line with the special BoP problem it was designed to address. Raising the access limit for the SLL beyond 200 percent of quota may not be advisable, as it would concentrate large repayments within the short 12-month repurchase period of the SLL and would likely imply a need to revisit some of the features of the instrument specifically linked to the "special, short-term, moderate BoP need resulting from volatility in the capital markets" it is meant to address (e.g., the revolving aspects and lower fees).

Concurrent Use of the FCL and SLL

53. Third, the paper proposes to explicitly provide for concurrent use of the SLL with the FCL.[46] In practice, countries could therefore avail themselves of an SLL (FCL) arrangement when already in an FCL (SLL) arrangement, or avail themselves of the two simultaneously, provided the country meets the qualification criteria (which are identical for the two instruments), has the relevant BoP problem addressed under the instruments, and external risks warrant it. The request, offer, and approval process would remain the same,[47] with a possibility to smooth the process if the streamlining proposal below were to be approved (see ¶74). Countries would normally be expected to request an SLL arrangement simultaneously with the FCL request or mid-term review, with both arrangements discussed in the same Board meeting and on the basis of a single document.[48] Combined costs would be lowered since the SLL is a special facility that has somewhat lower commitment fees than the FCL.[49]

54. Concurrent use of the FCL and SLL, offering *complementary* insurance against moderate and tail risks, can help countries respond to a wider variety of shock scenarios. While countries can have a good understanding of the range of potential external risks they are facing, these could be of very different nature, with no certitude about their likelihood to happen, and how lasting they might be. Concurrent use can enable qualifying countries with the BoP

[45] Without a decision by the Board by 2025 to extend the SLL, it is due to sunset seven years after its inception in 2020.

[46] The 2020 SLL paper states, "going from an FCL arrangement to an SLL arrangement, or vice-versa, would require cancelling the existing arrangement (FCL or SLL, respectively) and requesting a new arrangement (SLL or FCL, respectively)." This was intended to clarify that a transition from one instrument to the other would not be automatic. However, to the extent the statement disfavors concurrent use, this is a policy consideration rather than a legal preclusion.

[47] See related proposal in ¶71 that would include the option of allowing the SLL to be requested by written communication (in addition to the current "offer and acceptance" procedure).

[48] Subject to the approval of the proposal set forth in ¶71.

[49] See the 2020 SLL paper for a detailed discussion of SLL commitment fees.

problems addressed under each instrument to insure against different types of risks and deploy the appropriate instrument under a variety of circumstances. The following are just some of the relevant hypothetical scenarios:

a) *Longer-term shocks* (regardless of size) lend themselves to the use of the FCL, since its longer repurchase period provides the appropriate space for the country to adjust to the shock.

b) *Short-term shocks in the capital account* (or series of such shocks) resulting from volatility in the capital markets and requiring at most fine-tuning of monetary and exchange rate policies can be appropriately addressed by the SLL, due to its shorter repurchase and revolving access. Effectively, the SLL can be used to lean against depreciation in specific conditions.[50]

c) *Shocks of a limited scale and uncertain duration.* Authorities may draw on the SLL on the basis of an initial diagnosis of a short-lived shock. If, however, the shock persists, the authorities can draw on the FCL, gaining the time needed to undertake a deeper adjustment while avoiding suboptimal responses (e.g., overly quick fiscal adjustment), while repurchasing the SLL without undue strain.

d) *Longer-term shocks with a short-term component focused on the capital account.* As shown by Chile's 2022 experience (Box 9), uncertainty associated with larger BoP shocks (e.g., terms-of-trade) can trigger additional market volatility until the uncertainty dissipates. In such circumstances, drawing on both instruments simultaneously may be optimal, with the FCL providing breathing room to undertake necessary policy adjustments, and the SLL dealing with moderate volatility in the capital account.

55. Concurrent use allows users to benefit from the SLL's comparative advantage. One counterargument to concurrent use is the fact that the FCL has an *absolute* advantage over the SLL: it can be larger and offers longer repurchase terms as it is available for any BoP problem. Indeed, if faced with a *choice* between the two instruments *before* the shock hits, the instrument with the broader coverage is likely to be chosen by a member; even if the SLL can help address *most* common BoP shocks faced by qualifying members,[51] the instrument that can be used for *any* shock is the more prudent choice. However, forcing a choice prevents the user from exploiting the *comparative* advantages of each instrument. Concurrent use would allow the member to respond to the mix of shocks, while minimizing its UFR in the medium-term (since the SLL would be repurchased within a year), which is an added safeguard (see below).

56. Concurrent use should have limited implications for the demand for Fund resources and the Fund's forward lending capacity, considering a rigorous analysis is needed to ensure

[50] Advice to intervene to counter disorderly conditions has regularly featured in Fund's surveillance of EMEs, consistent with the Integrated Surveillance Decision (ISD)'s provisions for the use of FX interventions (FXI). More recently, the Integrated Policy Framework (IPF) provides a frictions-based approach to the advice on FXI as part of the overall policy mix.

[51] "IMF COVID–19 Response—A New Short-Term Liquidity Line to Enhance the Adequacy of the Global Financial Safety Net", Table 1.

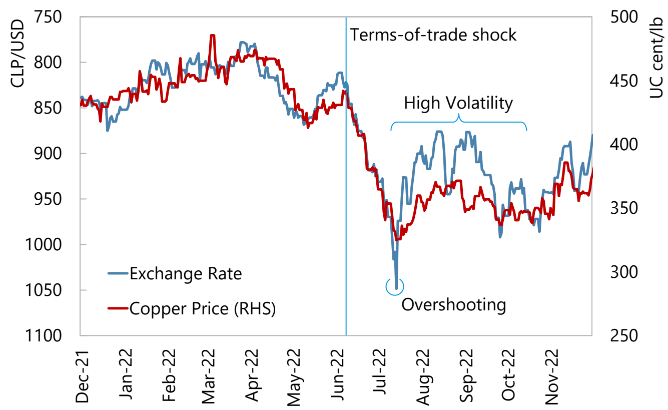
that the level of combined access reflects the size of a member's total potential BoP need (i.e., the SLL would not be a "top up"). Concurrent use would be allowed only to the extent the country meets the qualification criteria for these instruments, and if external risks are such that there are potential BoP needs (including the SLL's special BoP need) whose total amount does not exceed the total access requested under both instruments, as illustrated by the external risks that would arise in the adverse scenario. The impact on Fund liquidity of concurrent use is quantified and analyzed further in the section on "Resource Implications of Proposed Reforms."

Box 9. Chile's 2022 BoP Shock

In the summer of 2022, Chile—which at the time had an SLL arrangement, after having benefitted from an FCL arrangement since 2020—saw a significant drop in the price of copper, its main export commodity. This represented a large BoP shock to the country. However, early in the episode, it was difficult to foresee how far prices would fall, and how large the medium-term BoP need would be. This uncertainty (i) triggered unusually high FX volatility (on top of the underlying shock) and (ii) prompted Chile to switch to an FCL arrangement, to ensure adequate insurance against a possible worsening in the underlying terms-of-trade shock.

The Central Bank of Chile intervened to cushion the impact of unusually high FX volatility that could not be justified by fundamentals, posing risks to price and financial stability objectives. The authorities' announced intervention program consisted of spot and forward sales of USD 10 billion each (compared with USD 3.5 billion from the SLL). In the event, central bank FX sales in the spot market ultimately totaled USD 6 billion. Copper prices then stabilized, political uncertainty receded after the Constitution referendum in September 2022, and BoP pressures dissipated quickly afterwards. The appropriately tight monetary response to the post-COVID bout in inflation also contributed to addressing external pressures. Within a year from the onset of the initial shock, the Central Bank announced a program to replenish reserves.

US$ Exchange Rate and Copper Price



Sources: Haver, EPFR, Bloomberg, and IMF staff calculations.

Had proposed policy changes (higher SLL access and explicit provisions for concurrent use) been in place at the time, an SLL arrangement of 200 percent of quota (USD 4.7 billion), along with concurrent use of FCL, would have been an alternative approach to providing the necessary firepower to both address a significant part of external pressures experienced at the time, and anchor confidence. This is, of course, in addition to the option pursued by the Chilean authorities to cancel the SLL arrangement and request a higher access FCL arrangement.

Enhanced Effectiveness of the FCL and SLL

57. **Staff sees the above three proposals as complementary and able to improve the effectiveness of the SLL and the FCL.** The three reforms, tackling the most important issues raised in the survey of country authorities (see Annex VII), would jointly enhance the attractiveness of both the SLL and the FCL by addressing concerns about the relatively low level of access of the SLL, while

safeguarding Fund resources as they would, first, be available only to countries with very strong economic fundamentals and institutional policy frameworks (meeting the FCL and SLL qualification criteria), and subject to annual reviews of qualification, and second, disincentivize use of large Fund resources, especially if approved together with smoother augmentation procedures.

58. The three proposals would allow for a combined FCL/SLL access of up to 400 percent free of exit expectations subject to important caveats and safeguards. Staff expects that countries could, if justified by potential BoP needs, request simultaneously (as part of a single document)[52] the two instruments at 200 percent of quota each, providing them with adequate insurance against a variety of different BoP needs, taking advantage of the comparative advantages of the FCL and SLL. Or a country with a large FCL access could, commensurate with the decline in risks, reduce access to 200 percent of quota and, at the same time request an SLL arrangement with 200 percent of quota, provided it faces the special BoP need under the SLL. However:

- Such access is neither an entitlement nor a "default" value. The external risks and the potential BoP needs will have to be justified at request and for every successor arrangement, which is annual in the case of the SLL, which is an important safeguard.

- A direct comparison against an FCL arrangement of equivalent (400 percent of quota) total access is not accurate from the point of view of use of Fund resources. A drawing of 200 percent of quota from the FCL and 200 percent of quota from the SLL results in lower credit outstanding than a 400 percent of quota drawing from the FCL beyond the first year since the SLL must be repurchased within a year. This is another important safeguard.

- Countries with such combined access would *not* be expected to draw on both instruments *simultaneously* under most circumstances, let alone the entire amount. Concurrent drawings on the two instruments would only be warranted in cases aligned with scenario (d) in ¶54—when, based on diagnosis at the time, the country faces a combined shock. If hit by a large persistent shock requiring Fund support above 200 percent of quota, the country would be better off requesting an FCL augmentation—upon the Board approval—than use the two instruments together (since the SLL's 12-month maturity is too short for dealing with longer-duration shocks).

- Access of 400 percent of quota is at the low end of historical uses of the FCL, which averaged about 550 percent of quota since the last review.

C. Maintaining the Role of the PLL

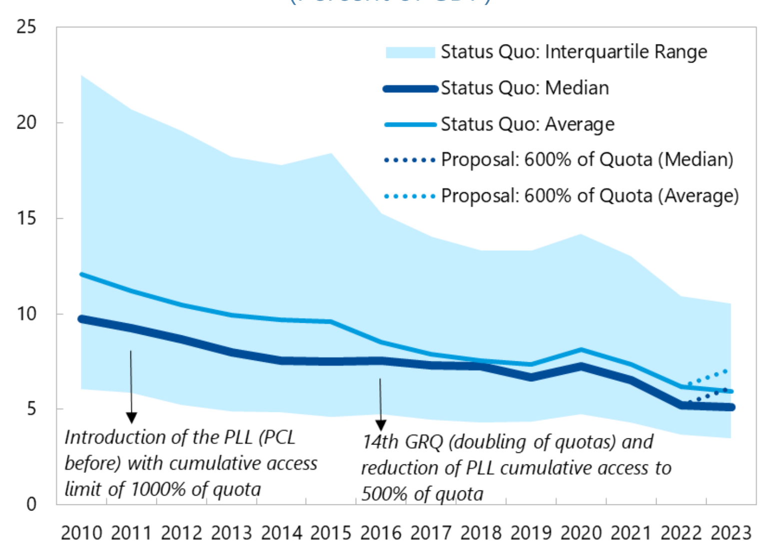
59. The PLL continues to have an important role in the lending toolkit. Many of the arguments presented in favor for eliminating the PLL in the 2017 Review—the sense of tiering vis-à-vis the FCL, little comparative advantage relative to a precautionary SBA, and the broader objective

[52] Subject to the SLL being requested through a written communication, see ¶53 and ¶71.

of limiting a proliferation of instruments—continue to apply. However, the recent uptick in PLL use—playing an important stabilizing role in North Macedonia's and serving as the qualifying UCT program for Jamaica's RSF—along with overall tightening global financial conditions, argue against the elimination of the PLL at this time. The survey results also support maintaining the PLL in the Fund's lending toolkit, underscoring its perception as a graduation instrument from the SBA as one of its attractive features (Annex VII).

60. Increases in the PLL annual limit on access at approval and the PLL instrument access cap are warranted. First, since its creation in 2011, the PLL instrument access cap has never been increased "in SDR terms", as the initial PLL instrument access cap of 1,000 percent of quota was halved to 500 percent of quota in 2016, fully offsetting the doubling (in SDR terms) of quotas on average approved as part of the 14^{th} General Review of Quotas (GRQ) that became effective in 2016. The continuous erosion of access relative to GDP and other aggregates since the PLL's creation has reduced the firepower of the instrument (see Figure 9). The instrument cap has also fallen behind increases in the normal cumulative access limit (NCAL): from being considerably higher at establishment (PLL-specific access cap of 1,000 percent of quota vs. NCAL of 600 percent of quota), to marginally higher prior to the 2023 temporary NCAL increase[53] (PLL-specific access cap of 500 percent of quota vs. NCAL of 435 percent of quota), to falling behind after the 2023 temporary increase (PLL-specific access cap of 500 percent of quota vs. NCAL of 600 percent of quota). Besides, increasing PLL access has been cited in the member survey as one of the top reforms that could enhance the instrument's effectiveness.

Figure 9. PLL Access Limit for Selected EMEs
(Percent of GDP)



Note: The results are based on a sample of member countries, predominantly emerging markets, who were the recipients of the survey (see Annex VII for details on the sample).

61. In this context, the paper proposes to raise permanently the limit on access at approval for PLL arrangements and the PLL instrument access caps by 20 percent from current levels. Specifically, the annual limit that applies at approval of a *one to two-year PLL arrangement* would be raised from the current 250 to 300 percent of quota. In addition, the access cap that applies cumulatively to *all PLL arrangements* (regardless of their duration) would be increased from 500 to 600 percent of quota. Furthermore, for *6-month PLLs*: (i) the per arrangement limit would be raised from the current 125 percent of quota, to 150 percent of quota; (ii) the exceptional per arrangement limit would be raised

[53] See: *Temporary Modifications to the Fund's Annual and Cumulative Access Limits.*

from the current 250 percent of quota, to 300 percent of quota; and (iii) the overall 6-month PLL instrument access cap would be increased from the current 250 percent of quota to 300 percent of quota (see Table 3). All in all, the review proposes to increase the PLL specific annual limit at approval and PLL instrument specific caps by proportionately less than the recent temporary increase in the GRA access limits.[54] Exceptional access policy will continue applying to PLL arrangements with access exceeding the normal annual and cumulative GRA access limits.

Table 3. Access Limits at Approval and PLL Instrument Caps

(Percent of quota)[1]

	1–2-year PLLs		6-month PLLs		
	Annual limit at approval	**Instrument Cap** (for all arrangements, regardless of duration)	**Standard per Arrangement limit**	**Exceptional per arrangement limit**	**6-month PLL instrument cap**
Status quo	250	500	125	250	250
Proposal	300	600	150	300	300

Notes: Access limits net of scheduled PLL repurchases. The per-arrangement access limit for 6-month PLLs is subject to a higher limit of 250 percent of quota in exceptional circumstances where the 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.

[1] The PLL is also subject to the annual and cumulative limits under the GRA. The PLL instrument cap of 500 percent of quota (currently) applies for all PLL arrangements, including 6-month PLLs.

D. Use of the Precautionary SBA

62. The precautionary SBA has been a useful instrument for signaling countries' commitment to credible policies and macroeconomic stability. Case studies of recent users of the precautionary SBA show that the instrument has been a critical anchor for macroeconomic policies and reforms, supporting important progress in areas such as fiscal and external sustainability, monetary policy modernization, financial sector resilience, and governance. Survey respondents also agreed that the precautionary SBA provides a credible commitment mechanism with strong policy signaling to donors and investors, thus contributing to reducing sovereign borrowing costs, catalyzing external financing, and strengthening reserves (Annex VII). This is illustrated by the experience of Honduras, where reform implementation under successive precautionary SBA/SCF arrangements improved market confidence and attracted financing from donors and international markets, as evidenced by successful bond placements during the program periods (Annex IV).

63. Country experience also shows how precautionary SBAs have flexibly catered to users' needs in difficult times (Annex IV). The arrangements for Armenia, Georgia, and Serbia were all approved in 2022, in the context of high uncertainty to insure against, *inter alia*, shocks stemming

[54] Applying the 38 percent increase enacted by the March 2023 temporary increase in GRA access limits to the PLL access limit at approval of an arrangement would raise such limits to 345 and percent of quota and would raise the PLL instrument cap to 690 percent of quota.

from the war in Ukraine, while the 2019 SBA/SCF in Honduras was meant to cover BoP needs potentially arising from a negative terms-of-trade shock given the country's vulnerability to commodity price swings. The SBA in Serbia was designed to be hybrid, addressing an actual BoP need at approval and during the first year of the arrangement, and a potential need during the second year. Armenia and Georgia continue to treat their SBA as precautionary as of May 2023 while Serbia intends to treat access under the SBA during the second year as precautionary. Both Armenia and Honduras benefitted from a rapid access to Fund resources under their 2019 arrangements following the emergence of actual BoP needs at the onset of the COVID-19 crisis. In May 2023, the Executive Board approved a precautionary SBA for Kosovo, together with an RSF arrangement. Target recalibrations, program extensions, as well as access augmentations and rephasing—twice for Honduras, to support the authorities' pandemic response and help finance increased BoP needs associated with reconstruction efforts following climate shocks—showcased the flexibility of the SBA and SCF in managing large shocks within the perimeter of a UCT-quality program, obviating the need to seek emergency financing in difficult times. The survey results echo these attractive features of the instrument, with respondents appreciating the SBA's use on a precautionary or disbursing basis depending on the BoP need, its flexible duration, uncapped access, and absence of ex ante conditionality that normally makes it accessible to all Fund members (Annex VII). Reflecting this, at the conclusion of this review, staff plans to undertake outreach on precautionary instruments to the authorities, market participants, and the general public, underscoring the important role played by precautionary SBAs.

POLITICAL ASSURANCES AND SAFEGUARD POLICIES

This section proposes to reinforce safeguards for the use of precautionary instruments. These include introducing Board briefings after significant economic policy changes, a Memorandum of Understanding (MoU) for cases involving Fund financing for budget support under the FCL, and follow-up in the next country SR on any drawdown of FCLs and PLL arrangement approved on a precautionary basis.

A. Political Assurances

64. Several recent FCL requests have taken place just prior to elections, with potential changes of government, raising questions about the need for political assurances. Owing to market sensitivities, postponing the approval of a new or successor FCL, SLL, or PLL arrangement request until a new government takes office could be detrimental to a member, given delayed access to FCL/SLL/PLL resources or their temporary discontinuation. The very strong institutional policy frameworks, as required for the FCL or SLL, reduce risks during election periods, as these institutions serve as guardrails that ensure a very strong policy response should an actual BoP need materialize. At the same time, a key requirement of the FCL and SLL (respectively PLL) qualification assessment is that countries remain committed to maintaining very strong (respectively sound) policies and institutional policy frameworks in the future. Moreover, carving out the FCL, SLL, or PLL from political assurances would imply that instruments with no or limited ex post conditionality would have weaker political assurances than other GRA instruments. Amid upcoming elections, Colombia's 2022 FCL request and Peru's 2021 review included political assurances from the leading presidential candidates on continuity of key policies and maintaining very strong policy frameworks, considered to provide appropriate safeguards for the proposed arrangements. The FCL and PLL guidance notes suggest delinking the timing of a request for a new arrangement from the electoral cycle.[55] However, this could be detrimental to the member as noted above. The guidance notes stipulate that staff should seek political assurances from electoral candidates that the very strong (or sound, in PLL cases) policies and institutional policy frameworks will be maintained.

65. The review also proposes to introduce Board briefings on the country's macroeconomic developments following significant economic policy changes in countries benefiting from FCL and PLL support. The Executive Board would be briefed informally—for example as part of country matters meeting—after significant economic policy changes following the installment of a new government.

B. Drawdown of Precautionary FCLs and PLLs

Purchases under precautionary arrangements are part of the tools to address actual BoP needs when they materialize. This section reminds of existing practices immediately following the purchase and proposes an additional follow-up.

66. The Board would normally be informed shortly after drawing under an FCL or PLL arrangement on Fund resources that were requested on a precautionary basis upon approval.[56] This information would ideally be provided in a concise note discussing the latest developments leading to the emergence of the actual BoP need and corresponding purchase and the outlook. It would be sent to the Executive Board for information or as background for an informal briefing to the Executive Directors after the drawing has taken place.

67. Additionally, the review proposes a further follow-up briefing on any FCL or PLL drawdowns on resources requested on a precautionary basis at the time of approval.[57] The intent is to better understand, ideally with the benefit of some distance from the time of the drawing, the macroeconomic circumstances—both domestic and external—that may have led to the actual BoP need and the ensuing FCL/PLL purchase, the member's policy responses and any developments in its policy frameworks pertinent to FCL/PLL qualification, and the evolution of the member's ability to access international capital markets, among any other relevant considerations. This additional briefing, possibly in a subsequent country document, should normally precede the next request (including for an augmentation) or review, but would not change the timeframes set under the existing FCL or PLL arrangements for the review of the member's qualification.

[55] For more details, see the FCL operational guidance note, footnote 16.

[56] See FCL and PLL Operational Guidance Notes, ¶4 and ¶10, respectively.

[57] The same procedure would be followed if the access was originally approved on a disbursing basis, turned precautionary at a later point (e.g., review), but drawn nonetheless.

C. Safeguards Assessment Policy Under Budget Support Use

68. The paper proposes to align the FCL policy with the safeguards assessment policy requirement for a framework between central banks and finance ministries for servicing obligations to the Fund when IMF resources are drawn down for budget financing. Such a framework is typically provided through an MoU between the member's central bank and the government. As part of these arrangements, it is expected that Fund resources will be kept in the government's accounts with the central bank pending their use.[58] Currently, the FCL policy does not include a specific requirement on such an MoU. Discussions on the 2020 Colombia FCL arrangement raised the question of the applicability of this requirement that is otherwise applied for other GRA/PRGT arrangements that have IMF resources directed toward budget support.[59] In this light, the paper proposes to modify the FCL policy by requiring central banks and finance ministries to agree on a framework clarifying responsibilities for timely service of obligations to the Fund before FCL resources are drawn for budget financing, including that Fund disbursements will be deposited in the government's accounts at the central bank pending their use.

D. SLL Safeguards Requirements

69. The paper clarifies safeguards requirements for standalone SLL SRs. Relatively low access and short maturity mean that an SLL arrangement is unlikely to have a significant bearing on medium-term sustainability or on multi-year macroeconomic projections (as the instrument would primarily serve as a liquidity management resource). For that reason, the paper proposes not requiring standalone SLL SRs to feature a full-fledged adverse scenario. Similarly, given that the SLL is mainly a liquidity instrument with a relatively low access level and a repurchase period of only 12 months, the capacity to repay analysis in SRs for standalone SLL arrangements can be streamlined, focusing on short-term liquidity risks.

PROCEDURES AND OTHER POLICIES

To respond to new requests for precautionary arrangements in an agile manner, the paper proposes procedural changes to simplify the process faced by the member, staff, and the Executive Board. These proposed simplifications aim to reduce administrative hurdles and to streamline documents and their production times (namely, by cross-referencing assessments from previous Board documents, should those assessments still hold). They would maintain the existing procedural safeguards, as countries' qualification for an instrument would still have to be confirmed and arrangements approved by the Executive Board in all cases.

[58] See 2010 and 2015 Safeguards Policy reviews (BUFF/10/115, SM/10/178 and SM/15/250).

[59] In practice, the Colombian authorities agreed that such an MoU was desirable and implemented it.

A. Overall Board Procedures

70. The review proposes three complementary reforms to reduce the number of Board discussions associated with FCL and PLL approvals and reviews:

- **Reform 1.** *Drop the requirement for an informal Board meeting for successor FCL and PLL arrangements.* Staff proposes to drop the requirement to consult with the Executive Board at an informal meeting for requests of a precautionary FCL/PLL arrangements where the documentation (written communication and staff report) on such request is issued to the Executive Board for its consideration within three months of expiration of a previous undrawn FCL or one- or two-year PLL arrangement (i.e., an arrangement that was not cancelled and with all reviews completed), provided that, in the Managing Director's assessment, the country's economic circumstances (including fundamentals and institutional policy frameworks) and external risks have not changed significantly since the last review and overall access requested does not exceed that of the previous arrangement. The logic is that the regular review of a member country in the context of the previous arrangement reduces the need for a prior informal discussion of the successor arrangement, and it increases the likelihood that the member will continue to qualify. The Board would review qualification at the time of the Board meeting to consider the request for a successor FCL or PLL arrangement.

- **Reform 2.** *Encourage, where feasible, holding same-day back-to-back Article IV and informal Board discussions for FCL and PLL requests.* The FCL and PLL operational guidance notes recommend holding Article IV Board discussions at least 4 to 6 weeks prior to a formal Board meeting for either the approval of, or review under, an FCL or PLL arrangement to ensure the Board's appraisal can be incorporated in the SR sent for review and management clearance.[60] In practice, the interval between has often been shorter, less than three weeks apart in many cases (Annex III). The approval of an FCL or PLL arrangement thus requires holding three Board meetings within a very short period—an Article IV Board discussion, followed by an informal Board, and then a formal Board meeting—which creates administrative and timing pressures for staff and the Board, and could also put pressure on the country authorities. The option of holding the Article IV and the informal Board discussion back-to-back on the same day for FCL or PLL requests whenever possible, followed by a formal Board discussion two to four weeks later, would leave enough time to incorporate the Board's view on the Article IV consultation into the FCL or PLL formal request. With the Article IV SR already presenting staff's up-to-date assessment of recent developments and policies, the staff note for the informal Board would be expected to be concise and focus on FCL- and PLL-related issues: assessment of qualification, the member's actual or potential need for Fund resources and, for FCL requests, the impact of the arrangement on Fund liquidity, when access exceeds 575 percent of quota or SDR 10 billion (whichever is lower), as required by the FCL policy.

[60] In concluding the 2014 Review of the FCL and PLL, the Executive Board called for concluding Article IV consultations prior to FCL and PLL arrangements' approvals or reviews so as to incorporate the Board's most recent assessment of a member's economic performance in the relevant qualification assessments (BUFF/14/17).

- **Reform 3.** *Encourage, where feasible and desirable, holding a single Board meeting for the Article IV Consultation and the FCL mid-term review or a PLL review*. Further to Reform 2, the paper also proposes to streamline the number of Board meetings associated with FCL and PLL *reviews* by offering the possibility of a single Board meeting for the Article IV consultation and FCL or PLL review. Staff would have the option of circulating to the Board a single SR for the combined Article IV and FCL or PLL review, akin to current practice under other Fund arrangements (though different from other arrangements, reviews for FCL and PLL arrangements also focus on the continued qualification of the member for the FCL/PLL).[61] The combined SR will contain clear and transparent separation between the Article IV surveillance discussions and FCL/PLL-related sections. The FCL/PLL qualification assessment would rely on the Board's assessment of policies in the previous Article IV consultation and staff's appraisal of policies in the "concurrent" Article IV. Following the Board meeting, the Board's assessment of policies under the FCL/PLL (and, in the case of the PLL, assessment of whether the PLL-supported program remains on track) would be reflected in the press release published as part of the document bundle for the combined Article IV consultation and FCL/PLL review.[62]

B. FCL- and SLL-Specific Procedures

71. The paper proposes to simplify the modalities for augmenting access under the FCL and introduce options of synchronized FCL augmentations and SLL offers/requests. Currently, members requesting an augmentation need to explain the changes in the member's BoP needs and provide justification for the requested increased access. In practice, augmentation requests usually happen at mid-term reviews, when FCL qualification must be reassessed.

- Under this proposal, FCL users will benefit from streamlined augmentation procedures if the augmentation request were issued to the Executive Board for its consideration within six months from the approval of the FCL arrangement or completion of the mid-term review. Streamlined procedures will entail more concise SRs that, in discussing qualification, can cross-reference the analysis in the previous, most recent, Board document (if applicable), where staff assesses that the qualification still holds. Under the streamlined procedures, the Executive Board will consider and confirm the member's continued qualification and, in such a case, consider the augmentation request[63]. A request for augmentation will normally only require a short SR providing an updated ESI supportive of increased external risks, as well as developing an adverse scenario to demonstrate increased BoP needs, the case for the higher access, and a staff assessment that the analysis of the member's qualification as discussed in a previous SR remains

[61] Paragraph 5(a) of the FCL Decision states that a mid-term review "will assess the member's continued adherence to the qualification criteria…", with similar language in the PLL Decision.

[62] Staff would be encouraged to discuss early the tradeoffs of holding a combined AIV and PLL/FCL review Board meeting, including to ensure consistency with surveillance policy, as this approach could potentially delay AIV consultations.

[63] Such assessment of a member's continued qualification could only be used as basis to augment the member's access under the arrangement above and beyond the amounts approved prior to the augmentation request.

unchanged. The Executive Board confirmation that a member qualifies under the new streamlined procedures for augmentation will not change the date set previously for completion of the mid-term review.

- Additionally, the paper proposes extending the process for synchronized approvals of FCLs to FCL augmentations, which would allow the Fund to nimbly respond to instances where a group of FCL users are hit by the same external shock.[64]

- Finally, the paper proposes an option of synchronized SLL offers that could incentivize optimum use of the instrument. In the event of worsening global economic conditions, synchronized access by several countries could help reduce the stigma of being the first mover to request financial assistance from the Fund. A synchronized extension of SLL offers to, and opt-ins by qualifying members, could help strengthen the effectiveness of the response to a common shock and, possibly, encourage additional take-up by other members. The process will be similar to the one envisaged earlier for a synchronized approval of FCLs (although this possibility has not been used so far). Should countries opt for requesting SLL arrangements through a written communication instead (see ¶71), synchronized approval of SLL arrangements would also be considered.

72. The paper proposes to include the option of requesting approval of an SLL arrangement through a written communication from the authorities. Currently, after the Board approves an SLL arrangement on a conditional basis, the arrangement only becomes effective once the Fund confirms receipt of the member's signed written communication, including the acceptance of the "offer" and policy commitments.[65] Though the authorities have two weeks to accept the offer from the Fund, given market sensitivities, they are generally likely to want to make the SLL effective as soon as possible, which means that all procedural steps needed to make the SLL arrangement effective have to happen within hours of the Board meeting. For members that prefer an alternative to such procedural steps, the paper proposes the option that SLL arrangements, instead of being "offered" by the Board, be requested by the authorities. In such situations, the process will be very similar to FCL arrangements: the authorities will request an SLL arrangement through a written communication that will be attached to the SR, and the SLL arrangement will become effective upon Board approval of the request. In cases of a concurrent approval of an SLL and FCL arrangement, a country needs to request both arrangements in a single written communication to ensure

[64] In line with the procedures for synchronized approvals of FCL arrangements, the proposed augmentation of access would be each based on a rigorous assessment of the member's actual or potential BoP need and CtR and would take into account the individual and cumulative impact of the access requests of Fund resources. See the Flexible Credit Line Operational Guidance Note, Annex VII, based on Technical Note on Synchronized Approval of Flexible Credit Lines for Multiple Countries; IMF Policy Paper; November 12, 2010.

[65] Such a procedure thus requires a three-step process: the Fund's SLL "offer" to the member, the member's acceptance of the "offer", and the Fund confirming receipt of the acceptance (which in practice, will be a letter from the Managing Director informing the member about the SLL coming into effect). After this is complete, the Board needs to be similarly notified.

synchronized start dates of the two arrangements.[66] Notwithstanding, the "offer" option under the SLL policy will remain available in other cases, including when the SLL is put in place/renewed on a stand-alone basis or added to an already-existing FCL arrangement.

73. The transition between SLL and FCL arrangements will also be streamlined. A transition from an existing FCL (SLL) arrangement to a new SLL (FCL) arrangement involves a request for approval of the new arrangement combined with a simultaneous decision by the member to cancel the previous one, where the cancelation is to become effective on the date of approval of the new arrangement. If a member opts to transition between the SLL and FCL (in either direction) within six months from: (i) the entering into effect of the SLL (or FCL) arrangement to be cancelled; or (ii) the date of the completion of the mid-term review under the FCL arrangement to be cancelled, the SR can, in discussing qualification, cross-reference the analysis in the most recent Board document (if applicable), where staff assessed that qualification has not changed, provided that the SR includes an update on the member's BoP problem (which in the case of the transition to an SLL arrangement, should support that the member has the special BoP problem required for SLL qualification). Same as above, under these streamlined procedures, the Executive Board will consider and confirm the member's qualification and, in such case, consider the approval of the new arrangement.

74. The paper also proposes a smoother transition from a stand-alone FCL or SLL arrangement to concurrent use of the FCL and SLL. Should a member with an ongoing FCL or SLL arrangement opt to use concurrently the FCL and SLL such that the documentation on the request for the new additional arrangement is issued to the Executive Board for its consideration by the Board within six months from the approval of the stand-alone FCL or SLL arrangement or completion of the FCL mid-term review, streamlined procedures may apply. The SR for the new additional FCL or SLL arrangement to be issued for Board consideration in a case of concurrent use could be more concise in discussing qualification, by cross-referencing the analysis in the most recent Board document, where staff assesses that the qualification still holds. The SR will also need to include an assessment confirming that the member has the special BoP problem addressed by the SLL (in case the new arrangement would be an SLL arrangement), and, in both cases, a discussion of the total BoP need of the member, showing that the combined access under the SLL and the FCL is commensurate to the potential BoP gap in the adverse scenario. The SR will also include an updated ESI and the member's CtR. Under the streamlined procedures, the Executive Board will consider and confirm the member's qualification and, in such case, approve the concurrent arrangements.

RESOURCE IMPLICATIONS OF PROPOSED REFORMS

75. The impact of the main reform proposals on the demand for GRA resources is expected to be limited. Staff expects the proposed reforms to have only limited impact on the

[66] When the SLL is put in place or renewed concurrently with an FCL request, it is expected to be "requested" in the same Board meeting as the FCL request, as having the SLL "offered" by the Board could desynchronize the start dates of the two instruments because of the procedural steps needed to make the SLL arrangement effective.

demand for precautionary arrangements for the following reasons: (i) proposals do not introduce or eliminate any instruments; (ii) proposals do not loosen qualification criteria and therefore the qualification perimeter (of the set of qualifying countries) remains unchanged; (iii) not all qualifying countries would want to avail themselves of precautionary arrangements, as some likely already have important reserve buffers or access to RFAs or BSLs; (iv) the higher access limits proposed are not entitlements—they could be accessed only to the extent a country qualifies, experiences heightened and/or unabating external risks, and presents potential BoP needs that are commensurate to these limits. Moreover, for reasons discussed in ¶48, the introduction of exit expectation-free FCLs at low access, combined with streamlined augmentation procedures, could help reduce demand for Fund resources over the longer term. Separately, the proposed clause under which a review would be triggered, i.e., as soon as total outstanding credit and commitments under the PLL, FCL, and SLL reach SDR 150 billion, serves as a strong safeguard (see below).

76. Scenario analysis—conducted for illustrative purposes—suggests that demand would likely be contained, in a range of relatively dire scenarios. Box 10 presents three illustrative scenarios under the reforms removing exit expectations for low-access precautionary FCLs, increasing the SLL and PLL access limits, and explicitly providing for concurrent use of the SLL with the FCL. These extreme scenarios are based on the assumptions that: (i) all qualified members experience potential BoP needs sufficiently large to justify access of 200 percent of quota under the SLL and at least 200 percent of quota under the FCL, and (ii) the SLL is used concurrently with the FCL for complementary insurance against moderate and tail risks. These illustrative scenarios—which rely on fairly extreme assumptions—are not predictions or staff's expectations; they provide a range of the potential *new* commitments under the FCL, SLL and PLL in the order of SDR 0 to 35 billion. For context, when the SLL was established, the 2020 SLL Board Paper[67] similarly calculated the potential commitments under the SLL to amount to about SDR 40 billion.[68]

Box 10. Illustrative Scenarios of Resource Implications

The following illustrative scenarios are arranged in order of rising resource implications for the Fund.

- **Scenario A** assumes that all members who are potentially qualifying for an FCL or SLL arrangement—identified using the same criteria as in Box 3[1] and with reserves below 120 percent of the ARA metric—opt for concurrent FCL and SLL arrangements, with combined access of 400 percent of quota.[2] All current FCL users with (i) reserves below 120 percent of the ARA metric and (ii) existing access less than 400 percent of quota would also augment their combined FCL and SLL access to 400 percent of quota. Current FCL users not meeting these two criteria retain their current access under the FCL. No change in PLL demand is assumed. This would give rise to new Fund commitments of about SDR 29 billion.

[1] Members with (i) a public debt ratio below 70 percent of GDP; (ii) international reserves above 80 percent of the ARA metric, (iii) single-digit inflation, and (iv) external gross financing needs below 15 percent of GDP.
[2] The scenario restricts the level of reserves of potential users to 120 percent of the ARA metric to ensure that only those FCL qualifiers that are not over-insured ("marginal" qualifiers) are considered in the analysis.

[67] IMF COVID-19 Response—A New Short-Term Liquidity Line to Enhance the Adequacy of the Global Financial Safety Net (Policy Paper 20/025).

[68] The 2020 SLL Paper assumed that all potentially qualifying members (assessed against nine criteria), except those with current active FCL arrangements or active swap arrangements with the U.S. Federal Reserve, decide to avail themselves of SLL arrangements.

Box 10. Illustrative Scenarios of Resource Implications (concluded)

- **Scenario B** is similar to Scenario A but assumes that members with reserves below 150 percent of the ARA metric (instead of 120 percent used in Scenario A) would use the FCL and SLL concurrently, for a total access level of 400 percent of quota, leading to new commitments of about SDR 30 billion.
- **Scenario C** builds on Scenario B, assuming in addition that current PLL arrangements are augmented to 600 percent of quota consistent with the proposed higher access cap, and that past PLL users (who are not current FCL users) request a successor PLL arrangement of 600 percent of quota. This leads to new Fund commitments of about SDR 35 billion.

(billion SDRs)	**Scenario A**	**Scenario B**	**Scenario C**
Arrangements[1]	**4** new FCL/SLLs	**5** new FCL/SLLs + **1** existing FCL augmented/ combined with new SLL to total access of 400%	Same as Scenario B + **2** existing PLLs augmented + **1** new PLL
New commitments	29	30	35
Total commitments[2]	100	101	106

[1] Access under the SLL assumed at 200 percent of quota. FCLs (PLLs) assumed to be approved at, or augmented to, 200 (600) percent of quota cumulative. Access under existing FCLs assumed to remain unchanged (above 400 percent of quota) or augmented such that the combined access under FCL and SLL is 400 percent of quota. Existing FCLs: Chile, Colombia, Mexico, Morocco, Peru. Existing PLLs: Jamaica, North Macedonia. Recent PLL: Panama.

[2] Total after accounting for outstanding credit and commitments under the FCL, PLL, and SLL (SDR 70.9 billion as of August 31, 2023) and new commitments.

While the liquidity impact would vary depending on the timeframe under which these fairly extreme illustrative scenarios were to realize, none of them triggers the review clause. Total commitments under precautionary facilities across the scenarios remain well below 150 billion SDR, the threshold that would trigger a new review of precautionary arrangements. That said, though unlikely, the liquidity impact from the realization of demand over a short period of time could have some implications under the Fund's enterprise risk tolerance framework. For illustration and starting with the end-FY2023 FCC level of SDR 146 billion, the additional commitments resulting from scenarios A through C would bring the FCC below the SDR 125 billion Board notification threshold derived from the Fund's moderate tolerance of liquidity risk).[3] The credit risk implications of additional precautionary commitments would be considered in the context of the reviews of the adequacy of precautionary balances.[4]

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[3] Staff monitors Fund's liquidity and resources on continued basis. Updates are provided to the Executive Board, including in the context of semi-annual reviews of Fund's liquidity.
[4] Under the framework for assessing adequacy of precautionary balances, precautionary commitments are not included in the calculation of the forward-looking credit measure, but are taken into account judgmentally when setting the precautionary balances target.

77. The scenario analysis in Box 10 relies on fairly extreme assumptions and warrants further caveats.

- It uses simple criteria to identify countries potentially qualifying for FCL/SLL; in practice, qualification is subject to Board approval, following a rigorous assessment against the nine criteria under the framework and the overall assessment of policies in the most recent Article IV

SR. Some members in the set of potentially qualifying members used in these illustrative scenarios may therefore not be qualified for FCL/SLL in practice.

- Fund financial support under the FCL, SLL, and PLL requires demonstrating the relevant BoP need, with access not exceeding the size of the need and being informed by the level of external risks prevailing at the time of the request for approval or augmentation. As such, the assumptions underpinning the estimates, whereby all qualifying members *simultaneously* experience potential BoP needs warranting maximum access under the SLL and PLL are extreme.

- Scenario C also makes the conservative assumption that countries requesting PLL would get maximum access even if that would take their total external buffers (reserves plus PLL) above 150 percent of the ARA metric.

- The scenarios assume that all qualified countries would request maximum access under the SLL and PLL regardless of their access to alternative sources of financing. In practice, some qualified members may opt to rely on RFAs or BSLs, resulting in significantly lower new demand than projected in the scenarios.

- The total commitments projected in the scenarios assume that there is no reduction in access for existing FCL users. With some of the existing FCLs scheduled to expire soon—the earliest one in end-2023—total commitments could be lower than projected unless external risks rise.

78. The proposed reforms are also expected to be implemented within existing budgetary envelopes, with limited impact on human resources. While quantifying the staffing implications of the reform proposals is difficult, their implementation is not expected to require mobilizing significant additional human resources. However, upskilling staff could be useful, which could be supported by training and the planned update of the operational guidance notes for the FCL/PLL (SLL). Reform proposals to streamline Board and instrument-specific procedures could yield some compensating resource savings.

OTHER FINANCIAL CONSIDERATIONS

To ensure the Fund's continued sound management of its precautionary toolkit, this section reviews a key safeguard in case of a significant rise in demand for precautionary facilities, and revisits consideration—but does not propose changes—relating to time-based commitment fees and the scoring of the Forward Commitment Capacity (FCC).

A. Review Clause

79. The paper proposes to add the SLL to the review clause.

- The current long-standing "review clause" would trigger a new review of the precautionary toolkit whenever aggregate outstanding credit and commitments under the FCL and PLL instruments reach SDR 150 billion (Decision No. 16286).

- When introduced in April 2020 in the context of the Fund's COVID-19 response, outstanding credit and commitments under the SLL was not included in the review clause, owing to the increased Board monitoring of Fund resources in the pandemic environment and to avoid preempting the current review of precautionary instruments.

- As proposals for this review could be conducive to higher lending under the SLL, including under concurrent use with the FCL and higher access limits, it would be appropriate to include SLL commitments towards the trigger for a review going forward.

80. The threshold amount for the review clause will remain unchanged. As of August 31, 2023, the Fund's current outstanding credit and commitments under the FCL, PLL, and SLL total SDR 70.9 billion.[69] The current review clause threshold of SDR 150 billion would be approached only in the event of a more than doubling of lending under these instruments. This threshold remains an important safeguard while preserving room for higher demand for precautionary-basis financing. Accordingly, the review will stipulate that the FCL, SLL, and PLL will be reviewed whenever aggregate outstanding credit and commitments under these instruments reach SDR 150 billion or following the time-based reviews in 2025 for the SLL and every 5 years thereafter.

B. Time-Based Commitment Fees

81. The paper revisits design issues related to commitment fees, focusing on possible pros and cons of time-based commitment fees, but does not propose changes to the structure of commitment fees. The 2017 Review of precautionary facilities explored—but did not adopt—time-based commitment fees as an option for strengthening price-based incentives to exit precautionary facilities. In this paper, staff revisits design issues related to commitment fees, considering recent experiences with precautionary arrangements. After carefully considering pros and cons (Box 11, Annex VIII), staff does not propose changes to the current structure of commitment fees at this time.

[69] This comprises SDR 65.5 billion in undrawn credit and SDR 5.3 billion in credit outstanding under the FCL and PLL. No credit or commitments are currently outstanding under the SLL.

Box 11. Price-Based Options for Strengthening FCL Exit Incentives: Level- and Time-Based Commitment Fees

At the time of the 2017 Review of the FCL and PLL, Directors discussed two price-based options to strengthen exit expectations from high-access precautionary arrangements: (i) steepening the commitment fee schedule and (ii) introducing a time-based commitment fee (TBCF). Directors' views were divided at that time.[1] Two possible price-based options could be considered under this review to better incentivize exit from high access FCLs.

Option 1. *Revisit the structure of level-based commitment fees (LBCF) when accessed on a precautionary basis.* The current precautionary FCL commitment fee increases with the level of access available over a twelve-month period (See Figure 2).[2] Options to further disincentivize high access FCL arrangements could include (i) adding a new step in the access scale (at, say, 800 percent of quota), with higher fees above it, or (ii) increasing the quantum of fees associated with each level step of the already existing structure.

Commitment Fees Applicable to Precautionary Arrangements

	Commitment Fees
FCL	**Refundable upon disbursement** 15 bps up to 115% quota, then 30 bps up to 575% quota, then 60 bps above 575% quota
PLL	
SBA	
SLL	**Non-refundable** 8 bps

Option 2. *Re-consider time-based commitment fees, including for FCL arrangements.* A TBCF would intend to discourage large-scale prolonged precautionary lending commitments by making the arrangements subject to an additional fee once the level of undrawn credit has remained above a specific access threshold for a defined period. Arrangements would remain subject to the fee until the level of undrawn credit falls below this threshold.

Although both options would strengthen price-based incentives to discourage larger-scale use of precautionary arrangements, in staff's view they would unduly reduce the usefulness of the FCL at the current juncture of elevated global risks. In particular, Option 2 would also make exit from FCL time- rather than state-dependent, which goes against the intended objective of the FCL. Owing to legal requirements of uniformity of charges,[3] changes to commitment fees under both options would apply to all arrangements in the credit tranches under the GRA (and not just the FCL) approved in the future. This could have implications for large arrangements expected to be drawn if they go off-track.[4]

Against this backdrop, and considering that Directors' views on these issues continue to diverge, staff does not propose to change the structure of commitment fees at this stage. If warranted, the structure of fees and charges could be revisited in the future.

[1] "Nevertheless, most Directors remained concerned about the prolonged use of high-access precautionary arrangements and saw scope for strengthening price-base incentives. Many of them saw merit in introducing time-based commitment fees, some favored steeping the commitment fee structure to discourage unnecessarily high precautionary access, and a few saw scope for a combination of both options. Some other Directors reiterated that exit should continue to be state-dependent and did not see a case for stronger price-based incentives." (BUFF/17/54, July 10, 2017)

[2] Once drawn, FCL credit outstanding is subject the same charges and surcharges rates as other GRA facilities.

[3] The commitment fee is a form of charge under the Articles of Agreement and, as such, is required to be uniform for all members (Article V, Section 8(d)). Differentiation of charges has been limited to relevant differences in members' use of the Fund's resources (e.g., having a different balance of payments need as addressed by a special facility).

[4] This could be mitigated by not steeping the current commitment fee schedule for extended arrangements (EFF arrangements) which are generally not formulated on a precautionary basis. However, this would add complexity to the Fund's overall fee structure.

C. Scoring of Commitments on a Precautionary Basis in the Fund's Liquidity Measure

82. A few Directors asked staff to reconsider the possibility of moving from the current practice of accounting for precautionary arrangements at full value in the calculation of Fund liquidity.[70] The Fund's primary measure of the GRA's liquidity, the FCC, currently reflects the full amount of all commitments of GRA resources, whether approved on a disbursing or a precautionary basis. Experience since the establishment of the FCL and the PLL indicates that only 1 percent of the total commitments under FCL and PLL arrangements ended up being purchased.[71] Against this backdrop, a few Directors have requested consideration of a "partial scoring" regime that would recognize a lower probability of actual drawings under arrangements approved on a precautionary basis. Partial scoring would treat only a portion of the amounts committed under precautionary arrangements as committed usable resources. This is perceived to enable the Fund to commit more resources on a precautionary basis for a given level of Fund resources.

83. However, staff does not support moving from full to partial scoring of precautionary facilities, which could expose the Fund to significant liquidity risks—and delay and complicate potential activation of the Fund's borrowed resources. Full scoring of precautionary arrangements under the FCC remains appropriate in view of the Fund's mandate and financing structure. Partial scoring would not create any additional resources for Fund financing, while increasing the risk that the Fund's financing commitments would exceed its available resources. As discussed in detail in Annex IX:

- Calls for partial scoring of precautionary arrangements, motivated by the uncertainty of possible purchases, implicitly assume that members' purchases would be uncorrelated. However, to the extent that drawings are triggered by systemic events—such as a tightening in global financial conditions—purchases could well be correlated. Should Fund commitments thus exceed available Fund resources, the Fund could potentially be in a position of not being able to honor its commitments. This would undermine the Fund's credibility, and potentially negating the value of precautionary arrangements. In staff's view, this is incompatible with the Fund's role as a global crisis lender and the nature of Fund arrangements that provide an assurance to its members.

- The Fund's facilities available to provide support for potential BoP needs can only be effective elements of the GFSN if there is full confidence that the resources will be available in case of need, including in extreme crisis scenarios. If there is any doubt in the Fund's ability to honor its financing commitments in a crisis situation, individual borrowers with precautionary

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[70] Partial scoring was already discussed in "Adequacy of the Global Financial Safety Net—Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform" (June 2017), and ultimately rejected then by the Executive Board.

[71] The drawing rate is calculated as total amount drawn under FCL/PCL/PLL arrangements in SDR terms divided by total approved commitments for the period 2009-2023Q2. The low rate largely reflects no purchases under several large successive FCL arrangements (Mexico, Poland, Chile, and Peru).

arrangements could face perverse incentives to draw down their arrangements ahead of other borrowers, raising the possibility of a "run" on the Fund's usable resources.

- The Fund's borrowed resources can be used to finance only those lending commitments that are made during a period when borrowed resources (New Arrangements to Borrow (NAB) and Bilateral Borrowing Agreements (BBAs) are activated. Commitments approved outside of an activation period must be financed exclusively from quota resources, which could become depleted.

- An FCC based on partial scoring would delay activation of borrowed resources and elevate the Fund's liquidity risks. Full scoring is embedded in the current FCC definition[72] which refers to "undrawn balances under existing arrangements" as a factor which decreases the FCC level. Applying partial scoring of these undrawn balances to the FCC would result in a higher FCC level compared to the current practice of full scoring. As Fund borrowing cannot be activated unless the FCC is projected to drop below certain levels, a higher FCC level due to partial scoring would thus delay such activation and increase the risk that the Fund might not be able to honor lending commitments if they exceed the Fund's available resources.[73]

- Moreover, as both the decision on the New Arrangements to Borrow (NAB Decision) and the 2020 Bilateral Borrowing Agreements (2020 BBAs) include clauses referencing the FCC as defined under the current FCC Decision, any modifications to the FCC definition would raise the question of the need for potential changes to the NAB Decision and 2020 BBAs, and in this regard potentially the consent of NAB participants and 2020 BBA creditors.

ENTERPRISE RISKS

84. This section discusses enterprise risks considerations related to the following reforms proposed in the paper:

- removal of exit expectations for low-access precautionary FCL arrangements;
- explicit provisions enabling concurrent use of the SLL with the FCL;
- increases in PLL limits and caps, and SLL access limit; and
- modification of the EA PLL DSA requirements.

Risk to the Fund Without these Proposed Reforms:

Business risks. Not proceeding with reforms to the precautionary toolkit would weaken the Fund's response to the membership's evolving needs and lead to under-provision of Fund financing in an

[72] The FCC definition is set out in Decision No. 14906-(11/38) (the "FCC decision"; adopted April 20, 2011).

[73] In view of existing U.S. legislation, the Managing Director will not generally propose an activation of the NAB unless the FCC, excluding borrowing resources, is expected to drop below SDR 100 billion. The 2020 Borrowing Agreements provide that the Fund may not activate these resources unless the FCC, taking into account all available uncommitted NAB resources, falls below SDR 100 billion.

environment of heightened and persistent global risks for members with very strong or sound economic fundamentals and institutional policy frameworks.

Strategic risks. An inadequate Fund response to members' needs could lead to some members' unduly increased reliance on self-insurance and other sources of financing such as BSLs or RFAs, leading to a more fragmented and less efficient GFSN. It may also result in an expensive accumulation of reserves by member countries, which could contribute to larger global imbalances and slower economic growth.

Reputational risks. The Fund could be perceived as not adequately responding to members' needs, which could adversely impact the Fund's credibility, potentially eroding trust in the institution's effectiveness and members' willingness to engage.

Risk to the Fund <u>With</u> these Proposed Reforms:

Credit risks. With an increase in PLL and SLL limits and explicitly permitting concurrent FCL/SLL use, credit risk to the Fund could rise. These risks, however, are mitigated by several factors:

- The continued application of the stringent qualification criteria for the FCL, SLL, and PLL, which require very strong (FCL/SLL) or sound (PLL) economic fundamentals and institutional policy frameworks;

- For PLL arrangements, access limits and instrument-specific caps are only proposed to be increased by proportionally less than the recent temporary increase in GRA access limits, and EA policy would continue applying to PLLs with access exceeding the normal annual and cumulative GRA access limits;

- For FCL arrangements, the expectation that members with access exceeding 200 percent of quota (or 400 percent of quota of combined FCL-SLL access) would gradually reduce access would be maintained; and

- Standard safeguards for access to Fund resources, including assessments of debt sustainability and CtR, would continue to apply.

- The proposed modification to the PLL debt sustainability requirements would not materially impact the quality or accuracy of staff's assessment. Hence, it is not expected to increase credit risk.

Any implications for the Fund's financial protection against the risk of non-payment would be considered in a holistic manner at the time of the next precautionary balances review. Under the current framework for assessing the adequacy of precautionary balances, commitments of precautionary arrangements are not included in the calculation of the forward-looking credit measure that determines the indicative range for the precautionary balances' coverage ratio, but they are taken into account judgmentally when setting the precautionary balances target.

Liquidity risks. The increase in PLL and SLL access limits, the concurrent use of FCL and SLL, and exit expectations-free low-access precautionary FCL arrangements could lead to higher demand for precautionary lending, which would reduce the Fund's liquidity and commit a higher share of lending capacity. In the event of especially high demand, this could also give rise to the need to activate the Fund's borrowed resources—though in the baseline, any proposal to activate borrowed resources would depend on developments in demand for non-precautionary Fund lending as well. Liquidity-related risks are mitigated by the review clause, which requires a new Review of Precautionary Arrangements if precautionary credit and commitments reach SDR 150 billion (from the current SDR 72 billion), as well as by the same factors mitigating credit risk.

Business risks. If higher take-up of FCL, SLL, and PLL arrangements were perceived as reflecting a loosening in lending standards, members could assume that they would be able to qualify for such arrangements with weaker policies. This risk is mitigated by stringent qualification requirements at the time of approval of an FCL/PLL/SLL arrangement and subsequent reviews.

Operational risk. The concurrent use of FCL and SLL instruments, with different repurchase periods, could be operationally challenging. This risk is mitigated by the Fund's deep experience with multiple and elaborate operational procedures.

Operational human capital risk. Should the proposed changes to the precautionary instruments result in significant increase in demand for these instruments, staffing needs in area and functional departments would increase. This would require reprioritization of other workstreams in the environment of Fund's flat real budget. Staff expects that the proposed Board briefings following significant political events in FCL and PLL countries, and a follow-up on any drawdown in a subsequent country SR will have limited impact on staff resources, including in light of other streamlining measures proposed by staff.

85. Staff also considered, but did not propose, other reforms. These included most notably:

- A shift to partial scoring whereby only part of the amounts under precautionary arrangements would be treated as committed usable resources—which would create liquidity risk by delaying and complicating activation of borrowed resources; and

- A reduction in commitment fees to incentivize the use of precautionary instruments, which would generate income risks by reducing lending income.

ISSUES FOR DISCUSSIONS

86. Staff would welcome Board views and comments on the following proposals (to be reflected in the summing up of the discussion):

- Do Directors concur with the proposals and clarifications of the qualification assessment and process on AML/CFT, governance issues, political assurances?

- Do Directors agree with the safeguard proposals consisting in reporting on changes relative to past assessments, and introducing Board briefings after drawdowns and significant economic policy changes?

- Do Directors agree with the proposed recalibration of debt sustainability assessment for the exceptional access precautionary PLLs?

- Do Directors favor explicit provisions on concurrent use of the SLL with the FCL?

- Do Directors agree that exit out of high-access FCLs should be state-dependent and encouraged only above low levels of access as defined in the proposed package of reforms above? Do Directors agree with the proposal for the FCL-specific threshold for the non-articulation of exit expectations?

- Do Directors agree with not requiring an adverse scenario for a standalone SLL?

- Do Directors concur with the reforms proposed to streamline the number of Board meetings associated with the approval and review of FCL, SLL and PLL arrangements?

- Do Directors favor simplifying the transition from an SLL arrangement to an FCL arrangement and vice versa, streamlining the FCL augmentation process, and extending simplified procedures for transitioning from a stand-alone FCL or SLL arrangement to concurrent use?

- Do Directors agree with the possibility of synchronized SLLs?

- Do Directors favor no change at this stage relative to the financing of precautionary arrangements (maintaining full scoring and current commitment fees)? Do they accept adding the SLL to the Review clause?

- Finally, do Directors encourage staff's outreach plans?

PROPOSED DECISIONS

87. The paper sets forth five proposed decisions for adoption by the Executive Board by a majority of votes cast:

- Decision I would (i) complete the FCL and PLL reviews, called for in Decision No. 16286-(17/98), adopted December 6, 2017 and provide that the next review of the FCL and PLL policies will take place in five years or more, or on an as needed basis, or whenever the aggregated outstanding credit and commitments under the FCL, PLL and SLL reach SDR 150 billion (ii) complete the SLL policy review, called for in Decision No. 16747-(20/43), adopted April 15, 2020 and provides for a review of the SLL by end-December 2025 (at which time the Executive Board is expected to take a decision on whether to extend the SLL beyond the seven year period for which it was established), or earlier if the SDR 150 billion threshold on aggregated outstanding credit and commitments were to be reached before end-2025.

- Decision II would implement the proposed amendments on increasing the PLL-specific access limits and on streamlining procedures regarding the PLL.
- Decision III would implement the proposed streamlining of procedures regarding the FCL, add provisions on FCL augmentations of access, and amend the FCL decision to incorporate the safeguards assessment policy requirement set forth in ¶68.
- Decision IV would amend the SLL decision to implement the proposed amendment on increasing the access limit under the SLL to 200 percent of quota, and to incorporate the option of requesting the approval of an SLL arrangement through a member's written communication.
- Decision V would amend the Transparency Policy Decision to account for the option of requesting approval of an SLL arrangement through a member's written communication.

Annex X set forth redlined texts that show revisions against the current decisions incorporating the proposed modifications for the convenience of Executive Directors.

88. All other proposals set forth in this paper (Box 2) that are not covered by the proposed decisions will be reflected in the summing up of the discussion.

Proposed Decisions

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

Decision I: Completion of Review of Decisions on FCL Arrangements, PLL Arrangements and SLL Arrangements

1. Pursuant to Decision No. 16286-(17/98), adopted December 6, 2017, the Fund has reviewed the decision on Flexible Credit Line ("**FCL**") Arrangements, Decision No. 14283-(09/29) adopted March 24, 2009, as amended, and the decision on Precautionary and Liquidity Line ("**PLL**") Arrangements, Decision No. 15017-(11/112), adopted November 21, 2011, as amended.

2. The Fund has reviewed the decision on Short-Term Liquidity Line ("**SLL**") Arrangements, Decision No. 16747-(20/43), adopted April 15, 2020.

3. The next review of the decision on FCL Arrangements and the decision on PLL Arrangements shall take place in five years or more, or on an as-needed basis, in accordance with the decision on streamlining of policy reviews (Decision No. 15764-(15/39), adopted April 23, 2015), or whenever the aggregated outstanding credit and commitments under the FCL, PLL and SLL reach SDR 150 billion.

4. The next review of the decision on SLL arrangements will take place by end-December 2025 or whenever the aggregated outstanding credit and commitments under the FCL, PLL and SLL reach SDR 150 billion, whichever is earlier.

Decision II: Amendment to Decision on PLL Arrangements

The decision on Precautionary and Liquidity Line Arrangements, Decision No. 15017-(11/112), adopted November 21, 2011, as amended ("**PLL Decision**") shall be further amended as follows:

1. Paragraph 2(b)(i) shall be further amended to read as follows:

"(b) (i) In addition to requiring a generally positive assessment of the member's policies by the Executive Board in the context of the most recent Article IV consultations (which shall be supplemented by a generally positive assessment by staff in an Article IV Consultation report where a review pursuant to paragraph 3(b) occurs concurrently with an Article IV consultation), a member's qualification for a PLL arrangement shall be assessed in the following areas (with the member being expected to perform strongly in most of these areas and not to substantially underperform in any of them): (i) external position and market access, (ii) fiscal policy, (iii) monetary policy, (iv) financial sector soundness and supervision, and (v) data adequacy."

2. Paragraph 4(a) shall be amended to replace "500 percent of quota" with "600 percent of quota".

3. In paragraphs 4(b) and 4(c) the references to "250 percent of quota" shall be replaced with "300 percent of quota" and the references to "125 percent of quota" shall be replaced with "150 percent of quota".

4. Paragraph 6(b) shall be further amended to read as follows:

"(b) Once management decides that access to Fund resources under this Decision may be appropriate, it will consult with the Executive Board promptly in an informal meeting, provided that such consultation will not be required for a successor PLL arrangement with a duration of one to two years for a member not having an actual balance of payments need at the time of the request for such arrangement, where: (1) the documentation on the request has been issued to the Executive Board for its consideration within three months of the expiration of the term of a prior PLL arrangement under paragraph 5(a)(i); (2) no purchases were made under such prior PLL arrangement; (3) all reviews pursuant to paragraph 3(b) under such prior PLL arrangement were completed; (4) management has decided that the member's economic circumstances (including economic fundamentals and institutional policy frameworks) and external risks have not changed significantly since the last completed review under such prior PLL arrangement; and (5) the amount of requested access under the successor PLL arrangement is not greater than the approved access under such prior PLL arrangement. For the purpose of the consultation at the informal meeting set forth in this paragraph, Executive Directors will be provided with a concise note setting out the basis on which approval could be recommended under this Decision, including a preliminary assessment of the member's qualification for the PLL, an initial discussion of the key policy areas where policy actions might be sought and an assessment of the member's actual or potential need for Fund resources and repayment capacity."

Decision III: Amendment to Decision on FCL Arrangements

The decision on Flexible Credit Line Arrangements, Decision No. 14283-(09/29) adopted March 24, 2009, as amended ("**FCL Decision**") shall be further amended as follows:

1. The second sentence of paragraph 2 shall be further amended to read as follows:

"In addition to a very positive assessment of the member's policies by the Executive Board in the context of the most recent Article IV consultations (which shall be supplemented by a very positive assessment by staff in an Article IV Consultation report where a review pursuant to paragraph 5(b) occurs concurrently with an Article IV consultation), the relevant criteria for the purposes of assessing qualification for an FCL arrangement shall include: (i) a sustainable external position; (ii) a capital account position dominated by private flows; (iii) a track record of steady sovereign access to international capital markets at favorable terms; (iv) a reserve position that is relatively comfortable when the FCL is requested on a precautionary basis; (v) sound public finances, including a sustainable public debt position; (vi) low and stable inflation, in the context of a sound monetary and exchange rate policy framework; (vii) sound financial system and the absence of solvency problems that may threaten systemic stability, or, for arrangements approved before May 21, 2014, the absence of bank solvency problems that pose an immediate threat of a systemic banking crisis; (viii) effective financial sector supervision; and (ix) data transparency and integrity."

2. A new paragraph 5(c) shall be added to the FCL decision as follows:

"(c) The Fund will stand ready to consider a member's request to make additional amounts available under any FCL arrangement. Such requests for augmentation shall be considered by the Executive Board (i) in the context of a scheduled review specified in paragraph 5(a) above or (ii) on another date within the period of the arrangement. A decision to approve a request for an augmentation of access under (i) or (ii) will be subject to confirmation by the Executive Board of the member's adherence to the qualification criteria specified in paragraph 2 of this Decision. An Executive Board decision not to approve an augmentation request shall not affect (i) the member's right to make one or more purchases under the arrangement for up to the amount of the approved access in accordance with this Decision, or (ii) the date of the mid-term review in two-year FCL arrangements pursuant to paragraph 5(a) of this Decision."

3. Paragraph 6(a)(iii) shall be further amended to read as follows:

"(iii) Once management decides that access to Fund resources under this Decision may be appropriate, it will consult with the Executive Board promptly in an informal meeting, provided that such consultation will not be required for a successor FCL arrangement for a member not having an actual balance of payments need at the time of the request for such arrangement, where: (1) the documentation on the request has been issued to the Executive Board for its consideration within three months of the expiration of the term of a prior FCL arrangement under paragraph 5(b)(i); (2) no purchases were made under such prior FCL arrangement; (3) all reviews pursuant to paragraph 5(a) in such prior FCL arrangement were completed; (4) management has decided that the member's economic circumstances (including economic fundamentals and institutional policy frameworks) and external risks have not changed significantly since the last completed review in such prior FCL arrangement; and (5) the amount of requested access under the successor FCL arrangement is not greater than the approved access under such prior FCL arrangement. For the purpose of the consultation at the informal meeting set forth in this paragraph, Executive Directors will be provided with a concise staff note setting out the basis on which approval could be recommended under this Decision, including (I) a rigorous assessment of the member's actual or potential need for Fund resources and repayment capacity, and (II) an assessment of the impact of the arrangement on Fund liquidity in cases where it is contemplated that access would exceed 575 percent of quota or SDR 10 billion, whichever is lower."

4. Paragraph 6(b) shall be further amended to read as follows:

"A member requesting an FCL arrangement would not be subject to the Fund's policy on safeguards assessment for Fund arrangements, provided that in cases where purchases under an FCL arrangement will be used for budget financing, an appropriate framework between the central bank and the state treasury will be in place for timely servicing of the member's financial obligations to the Fund, in line with BUFF/10/115. However, at the time of making a formal written request for an FCL arrangement, such a member requesting an FCL arrangement will provide authorization for Fund staff to have access to the most recently completed annual independent audit of its central bank's financial statements, whether or not the audit is published. This will include authorizing its central bank authorities and the central bank's external auditors to discuss the audit findings with Fund staff, including any written observations by the external auditors regarding weaknesses observed in internal controls. The member will be expected to act in a cooperative manner during such discussions with the staff. For as long as Fund credit is outstanding under this Decision, the member will also provide staff with copies of annual audited financial statements and management letters, together with an authorization to discuss audit findings with the external auditor."

Decision IV: Amendment to Decision on SLL Arrangements

The decision on Short-Term Liquidity Line ("SLL") Arrangements, Decision No. 16747-(20/43), adopted April 15, 2020 ("**SLL Decision**") shall be amended to read as follows:

1. The introductory sentence of paragraph 2 shall be amended to read as follows:

> "An SLL arrangement shall be approved upon a member's informal expression of its potential interest in an SLL arrangement, subject to paragraph 6(a)(iv)(B) below, or upon a member's request, and where the Fund assesses that the member:"

2. Paragraph 4 shall be amended to replace "145 percent of the member's quota" with "200 percent of the member's quota".

3. Paragraph 6(a)(ii) shall be amended to read as follows:

"When the Managing Director is prepared to recommend that a member be provided with the opportunity to avail itself of an SLL arrangement, or recommend the approval of an SLL arrangement for a member that requested such approval in a written communication, the relevant documents, including a staff report that assesses the member's qualification for financial assistance under the terms of this Decision and, where applicable, the text of the written communication, will be circulated to the Board."

4. Paragraph 6 (a)(iv) shall be amended to read as follows:

"6 (a)(iv) In cases not involving a member's written communication requesting an SLL arrangement, the following procedures shall apply: (A) If the Executive Board assesses that the member qualifies for support under an SLL arrangement and approves an SLL arrangement for the member, such approval, which shall be communicated to the member within one business day, will be conditional on the receipt of a satisfactory written communication from the member confirming to the Fund that the member wishes to avail itself of the SLL arrangement. Such written communication shall be submitted no later than two weeks after the Board has conditionally approved an SLL arrangement for the member. Such written communication shall also outline that the member will maintain very strong policies during the course of the arrangement as well as its commitment, whenever relevant, to take adequate corrective measures to deal with shocks that may arise, and its consent to publication of the associated staff report. (B) The SLL arrangement for the member shall become effective on the date on which the Fund confirms receipt of a written communication from the member that satisfies the requirements outlined in this paragraph. A copy of the written communication shall be circulated for information to the Executive Board.

5. Paragraph 6(a)(v) shall be amended to read as follows:

(v) Where a member requests approval of an SLL arrangement in a written communication, the text of the communication shall include the outline, commitment and consents specified in paragraph 6(a)(iv)(A) above."

6. The first sentence of paragraph 6(b) shall be amended to read as follows:

"(b) A member submitting to the Fund a satisfactory written communication that it wishes to avail itself of an SLL arrangement or that it requests approval of such arrangement, would not be subject to the Fund's policy on safeguards assessments for Fund arrangements"

Decision V: Publications of Reports

Decision No. 15420-(13/61), adopted June 24, 2013, as amended, will be further amended as follows:

1. Paragraph 4.c. shall be amended to read as follows:

"4.c. The Executive Board's decision to approve a Short-Term Liquidity Line (SLL) arrangement under paragraph 6(a)(iv) of the decision on Short-Term Liquidity Line Arrangements, Decision No. 16747-(20/43), adopted April 15, 2020, as amended ("**SLL Decision**"), for a member shall be conditioned on receipt of the member's consent to publication at the time the member sends a written communication to the Fund confirming that the member wishes to avail itself of the SLL arrangement. The associated staff report and the authorities' written communication would be expected to be published by the Fund no later than fourteen calendar days after the member's SLL arrangement becomes effective."

2. Paragraph 11 shall be further amended to read as follows:

"11. After the Executive Board (i) adopts a decision regarding a member's use of Fund resources (including a decision completing a review under a Fund arrangement), or (ii) adopts a decision approving a PSI or a PCI, or conducts a review under a PSI or a PCI, or (iii) completes a discussion on a member's participation in the HIPC Initiative, or (iv) completes a discussion on a member's I-PRSP, PRSP, PRSP preparation status report, APR, EDD, or PRGS in the context of the use of Fund resources or a PSI, a Press Release, which will contain a Chairman's statement on the discussion, emphasizing the key points made by Executive Directors, will be issued to the public. A Press Release containing a Chairman's statement on the discussion, emphasizing the key points made by Executive Directors, will also be issued to the public after an SLL arrangement under Paragraph 6(a)(iv) of the SLL Decision becomes effective. Where relevant, the Chairman's statement will contain a summary of HIPC Initiative decisions pertaining to the member and the Executive Board's views on the member's I-PRSP, PRSP, PRSP preparation status report, APR, EDD or PRGS in the context of use of Fund resources or a PSI. Waivers for nonobservance, or of applicability, of performance criteria, and any other matter as may be decided by the Executive Board from time to time (Document 21), and waivers for nonobservance of assessment criteria, and any other matter as may be decided by the Executive Board from time-to-time (Document 22), will be mentioned in the factual statement section of the Press Release or in a factual statement issued in lieu of a Chairman's statement as provided for in paragraph 13(b). Before a Press Release is issued, it will, if any Executive Director so requests, be read by the Chairman to the Executive Board and Executive Directors will have an opportunity to comment at that time. The Executive Director elected, appointed, or designated by the member concerned will have the opportunity to review the Chairman's statement, to propose minor revisions, if any, and to consent to its publication immediately after the Executive Board meeting, or, in the case of the SLL arrangement approved under Paragraph 6(a)(iv) of the SLL Decision, immediately after the SLL arrangement becomes effective. Notwithstanding the above, no

Press Release published under this paragraph shall contain any reference to a discussion or decision pertaining to a member's overdue financial obligations to the Fund, where a Press Release following an Executive Board decision to limit the member's use of Fund resources because of the overdue financial obligations has not yet been issued. In the case of an Executive Board meeting pertaining solely to a discussion or decision with respect to a member's overdue financial obligations, no Chairman's statement will be published."

3. Paragraph 13.b.(iii) shall be amended to read as follows:

"(iii) With respect to the consent provisions set forth in paragraph 4(c), if, after twenty-eight calendar days from the effective date of an SLL arrangement approved under Paragraph 6(a)(iv) of the SLL Decision, the staff report has not been published, a brief factual statement will be issued stating the fact of the effectiveness of an SLL arrangement for a member and clarifying the authorities' publication intention with respect to the staff report."

Annex I. Overview of FCL, SLL, PLL and Precautionary SBA Arrangements Approved in 2018–23

Country	Year	Facility	Access: Percent of GDP at approval	Access: Percent of Quota at approval	Access: Amount at approval (SDR million)	Access: Amount Drawn (SDR million)
Armenia	2019	SBA	1.8	140	180	309
	2022	SBA	1.0	100	129	0
Chile	2020	FCL	9.9	1,000	17,443	0
	2022	SLL	1.0	145	2,529	0
	2022	FCL	6.0	800	13,954	0
Colombia	2018	FCL	3.3	384	7,848	0
	2020	FCL	6.5	600	12,267	3,750
	2022	FCL	3.1	350	7,156	0
Georgia	2022	SBA	1.5	100	210	0
Honduras	2019	SBA	0.8	60	150	281
Jamaica	2023	PLL	5.6	190	728	0
Kosovo	2023	SBA	1.0	97	80	0
Mexico	2019	FCL	4.9	500	44,564	0
	2021	FCL	4.0	400	35,651	0
Morocco	2018	PLL	2.5	240	2,151	2,151
	2023	FCL	3.6	417	3,726	0
North Macedonia	2022	PLL	4.0	290	407	84
Panama	2021	PLL	4.4	500	1,884	0
Peru	2020	FCL	5.6	600	8,007	0
	2022	FCL	2.4	300	4,004	0
Serbia	2022	SBA	4.2	290	1,899	786

Notes:
Data as of May 2023.
Access under Armenia's 2019 SBA was augmented to SDR 308.8 million (239.8 percent of quota) in May 2020.
Access under Honduras' 2019 SBA was augmented to SDR 258.1 million (103.3 percent of quota) in June 2020, and again to SDR 358 million (143.3 percent of quota) in September 2021.
Serbia and North Macedonia intend to treat their respective arrangements (SBA and PLL) on a precautionary basis during the second year of the program.

Annex II. Fund Precautionary Arrangements and Associated Features Under Current Policies

	Nature of BoP needs	BoP shock	Access* (% quota)	Conditionality		EA policy	Duration	Exit expectations
				Ex ante	Ex post			
FCL	Potential *or* Actual	Any shocks	No limit	Very strong policy and institutions	None	No	1 or 2 years	Yes
SLL	Potential	Moderate, short-term from capital flow volatility	145	Very strong policy and institutions	None	No	1 year	No
PLL	Potential *or* Actual	Any shocks	500** (250/year)	Sound policies and institutions	Key weak areas	Yes	6 months, 1 to 2 years	Yes
SBA	Potential *or* Actual	Potential (for prec. use)	No limit	N/A	Critical areas	Yes	6–36 months	Yes

* Actual access is informed by BoP gap in adverse scenario
** Access to Fund resources through 6-month PLLs cannot exceed a cumulative 6-month PLL arrangement access cap of 250 percent of quota and is subject to a per arrangement limit of 125 percent of quota (or 250 percent of quota, in exceptional circumstances).

	Commitment fees	Lending rates	Service Charges	Repurchase period
FCL, **PLL**, **SBA**	**Refundable** 15 bps up to 115% quota, then 30 bps up to 575% quota, then 60 bps above 575% quota	Normal charges; **Time and level**-based surcharges	Normal service charge 50 bps	3¼–5 years in eight equal quarterly installments
SLL	**Non-refundable** 8 bps	Normal charges; **Level**-based surcharges	21 bps	12 months

Annex III. Timing of Article IV Consultations for FCL and PLL Arrangements Approved Since 2017

	Year of FCL/PLL Approval	Date of Preceding AIV Board	Date of FCL/PLL Approval	# of Days Between AIV Board and FCL/PLL Formal Board
		FCLs		
Mexico	2017	13-Nov-17	30-Nov-17	17 days
	2019	5-Nov-19	25-Nov-19	20 days
	2021	5-Nov-21	19-Nov-21	14 days
Colombia	2016	20-May-16	13-Jun-16	14 days
	2018	30-Apr-18	25-May-18	25 days
	2020	17-Apr-20	1-May-20	14 days
	2022	4-Apr-22	29-Apr-22	25 days
Morocco	2023	24-Jan-23	3-Apr-23	2 months and 2 days
Poland	2017	5-Jul-16	13-Jan-17	6 months and 8 days
Chile	2020	9-Nov-18	29-May-20	1 year, 6 months and 20 days
	2022	23-Apr-21	20-May-22	1 year and 27 days
Peru	2020	14-Jan-20	28-May-20	4 months and 14 days
	2022	2-May-22	27-May-22	25 days
Average (when less than 1 month)				*19 days*
		PLLs		
Morocco	2018	12-Mar-18	17-Dec-18	9 months and 5 days
Panama	2021	26-Mar-20	20-Jan-21	9 months and 25 days
North Macedonia	2022	16-Feb-22	22-Nov-22	9 months and 6 days
Jamaica	2023	10-Feb-23	2-Mar-23	20 days
Average (when less than 1 month)				*20 days*

Annex IV. Precautionary SBA Case Studies

A. Armenia – 2019 Precautionary SBA

1. **Background.** Armenia has had a series of Fund arrangements since the GFC: an SBA in 2009, an ECF/EFF in 2010, and an EFF in 2014. Despite good macroeconomic progress through these arrangements, public debt remained elevated in 2019, and the economy was still vulnerable to external shocks, with growth capacity constrained by structural issues linked to business climate and corruption. As such, the government requested a 140 percent of quota SBA in May 2019, followed by the current 2022 SBA.

2. **Objectives and Design.** The 2019 SBA aimed to maintain macro stability through strong policies and structural reforms to generate higher, more inclusive, and resilient growth. As such, the program aimed at promoting growth-friendly fiscal consolidation, further strengthening the monetary policy framework and maintaining a flexible exchange rate system, safeguarding the financial system and improving access to finance, and implementing strong structural reforms. To do so, the program had four Quantitative Performance Criteria (QPCs), a Monetary Policy Consultation Clause (MPCC), four Indicative Targets (ITs), and 32 Structural Benchmarks (SBs) across 6 reviews.

3. **Duration, Access, and Disbursements.** In 2019, an SBA was approved for 3 years, 140 percent of quota, and initially intended to be precautionary. In 2020, the authorities successfully requested an augmentation of 100 percent of quota (SDR129 million) to cover the BoP needs related to the pandemic and reflecting the tightening of global financial conditions. They drew fully on the first three tranches available to address emergency external and budgetary needs, followed by full drawing of the remaining tranches upon completion of the later reviews.

4. **Performance.** Performance under the 2019 SBA was sound. The first three reviews were completed with minor delays and all QPCs were met, though the lower bound of the MPCC was breached in the second review. QPCs and ITs for the combined fourth and fifth[1] review were met except for the Net International Reserve (NIR) floor and the breach in the upper-bound of the MPCC. The sixth review was completed successfully in April 2022 and all QPCs, ITs, and MPCC were met. Implementation of the structural reform agenda was mixed: two out of four SBs for the sixth review were not met.

5. **Impact.** The arrangement, along with support from other International Financial Institutions (IFIs), helped mitigate adverse effects of the regional conflict and ease BoP pressures during the COVID crisis, without use of Fund emergency financing. More broadly, the 2019 SBA had served Armenia well and many of the program objectives had been achieved, including implementation of appropriate fiscal policies to ensure targeted health and social spending while preserving fiscal sustainability, increased reserve coverage, structural reforms improving transparency, governance, business environment, and social spending adequacy. The Armenian economy remained vulnerable

[1] The announcement of the June 2021 snap elections delayed the fourth review.

to external shocks in 2022 (spillovers from the war in Ukraine, global financial tightening, and a slowdown in major trading partners) and still faced structural challenges, including high structural unemployment and low productivity growth, which led to the request of another precautionary SBA in December, for 100 percent of quota (SDR129 million).

B. Georgia – 2022 Precautionary SBA

6. Background. Georgia benefitted from three consecutive SBAs with decreasing access levels between 2008 and 2017, one of which was an SBA-SCF used on a precautionary basis (and not drawn down). The 2017-21 EFF was implemented successfully, with all reviews completed and an extension and augmentation approved during the pandemic. Seeking to build on the success of the EFF by pursuing their reform agenda, and being familiar with the SBA instrument, the authorities requested a precautionary SBA in 2022, for the same access level as the 2017-21 EFF at approval (100 percent of quota).

7. Objectives and Design. Recognizing significant near-term risks to the external environment, the authorities stated their intent to treat the program as precautionary to send a strong signal of their commitment to credible policies and macroeconomic stability. The main program objectives comprise medium-term fiscal adjustment to restore fiscal buffers, strengthening public financial management and revenue generation to limit fiscal risks and create room, for priority spending, maintaining a sufficiently tight monetary stance to bring inflation to target, bolstering financial sector resilience, and implementing structural reforms to strengthen labor market participation and inclusive growth. The program is being monitored through an inflation consultation clause (ICC), fiscal, debt- and reserve-related QPCs, current primary spending and general government domestic expenditure arrears ITs and SBs focused on controlling fiscal risks, improving tax policy and administration, and following up on 2021 FSAP recommendations.

8. Duration, Access, and Disbursements. The precautionary SBA was approved for a duration of three years, with access evenly phased across 6 reviews. The total access level would help address the potential BoP gap that would likely open in case of a protracted downside shock such as due to an escalation and prolongation of the war in Ukraine (via higher commodity prices, lower exports, and weaker tourism revenue and financial inflows). As of May 2023, Georgia had not drawn on the SBA.

9. Performance. At the time of this review, one review has been successfully completed under the ongoing precautionary SBA in December 2022, with all QPCs being met, end-June 2022 inflation within the inner bands of the ICC, four SBs met and four implemented as PAs before the First Review. Staff level agreement has been reached on May 11, 2023, for the Second Review.

10. Impact. While it is early to assess whether objectives of the current SBA will be met or not, Georgia's successful experience with its previous programs, including the precautionary SBA-SCF from 2012-14, encouraged it to request an additional precautionary SBA in 2022, to provide a strong anchor for macro policies and a signal of policy credibility to donors and foreign investors. While net external loan inflows had decreased post-COVID, general government loans (from private and public sources), supported by the program, were still expected at program approval to hover around pre-pandemic levels in the following years.

C. Honduras – 2019 Precautionary SBA

11. Background. Honduras's two-year SBA/SCF was approved in July 2019 for precautionary use, with combined access of 90 percent of quota (SDR 224.8 million or about USD 311 million), commensurate with the BoP needs that could arise from a negative terms-of-trade shock. It succeeded a series of three precautionary SBA arrangements since 2008, of which the last two were also blended with the SCF. Under the preceding SBA/SCF which spanned 2014–17, Honduras made great strides in reducing macroeconomic imbalances and strengthening its policy frameworks. As a result, confidence improved, and debt spreads declined steadily and translated into better financing terms for private and public investment. Nevertheless, challenges remained to reduce vulnerabilities and risks, including high levels of poverty and informality, governance weaknesses, and the deteriorating financial situation of the public electricity utility.

12. Objectives and Design. The 2019 SBA/SCF was requested to support reforms aimed at ensuring fiscal and debt sustainability while protecting investment and social spending; modernizing the monetary and financial policy frameworks to buffer shocks and maintain stability; and improving governance and the business climate. At inception, the 5-review SBA/SCF was predicated on 7 quantitative performance criteria (QPCs), 5 indicative targets (ITs), and 13 structural benchmarks (SBs) on fiscal, monetary, and debt issues. Three prior actions in the electricity sector were also included. New SBs were introduced throughout the program period to sustain reforms in fiscal governance, the anti-corruption, monetary, and financial frameworks, and the electricity sector.

13. Duration, Access, and Disbursements. The SBA/SCF was treated as precautionary up until the authorities drew on SDR 104.92 million (42 percent of quota) in Fund resources in late March 2020 to respond to the pandemic. Total access was subsequently augmented to 155 percent of quota (SDR 387.2 million or about USD 531 million) at the second review and to 215 percent of quota (SDR 537.1 million or about USD 773 million) at the fourth review to continue supporting the authorities' pandemic response and help finance reconstruction efforts following the two tropical storms that struck Honduras in November 2020, damaging infrastructure and crops, and halting manufacturing. The program was also extended by four months at the third review and by an additional two months at the fourth review to help maintain the reform momentum amid an increasingly uncertain outlook.

14. Performance. Performance under the SBA/SCF was broadly satisfactory, with the first four reviews completed in time, despite the COVID-19 pandemic and the end-2020 tropical storms which caused the non-observance of some program targets. For instance, the end-December 2020 QPC on the fiscal balance was missed owing to higher-than-expected pandemic and storm-related emergency spending, the public electricity utility accumulated arrears from end-June 2020 due to mounting liquidity pressures, while the IT on social spending was breached both at end-December

2020 and end-June 2021 following a shift of resources to storm-related spending. Some SBs were also temporarily delayed. As a result, program targets were recalibrated to accommodate the fiscal policy response, including higher expenditure from reconstruction needs and continued emergency measures. The SBA/SCF expired in January 2022, without the completion of the fifth and final review, due to the weakening of the anti-money laundering legislation.

15. Impact. The SBA/SCF was a critical anchor for macroeconomic policies and reforms, supporting important progress in improving revenue administration, strengthening public financial management, and enhancing expenditure transparency. While the pandemic and tropical storms slowed implementation, the SBA/SCF provided enough flexibility to manage these large shocks within the medium-term framework, initially through rapid access to Fund resources at the onset of the COVID-19 crisis thanks to the purchase rights accumulated since program approval. Target recalibrations, program extensions, as well as access augmentations and rephasing also showcased the flexibility of the SBA and SCF in catering to members' needs in difficult times. Relatedly, the SBA/SCF helped Honduras catalyze financing from multilateral and bilateral donors, and tap international markets, as evidenced by the successful USD 600 million sovereign bond placement in June 2020.

D. Serbia – 2022 Hybrid SBA

16. Background. Following a disbursing SBA during the GFC, a successor *precautionary* SBA was approved in 2011 to insure against external risks and provide a policy anchor. However, the program went off track quickly due to fiscal slippages related to re-election spending and expired before the first review. A new *precautionary* SBA with same level of access was requested in 2015 to restore public debt sustainability, enhance financial sector resilience, and improve competitiveness and medium-term growth potential. Significant progress was made during this SBA, which remained undrawn, such that the authorities requested a Policy Coordination Instrument (PCI) in 2018 and a successor one in 2021. Serbia's economy rebounded quickly from the COVID pandemic, and buffers were rebuilt through appropriate consolidation. However, with more challenging external conditions, Serbia's economic outlook weakened despite its still strong macro policies, which led the authorities to shift from the on-track PCI to a hybrid SBA in end-2022.

17. Objectives and Design. The 2022 SBA builds on the 2021 PCI agenda, maintaining macro stability, strengthening fiscal frameworks, advancing structural reforms for more inclusive and sustainable growth, and addressing Serbia's external, fiscal financing needs, and energy crisis, and increasing buffers. At program approval, the 2 year/4 review SBA includes three QPCs, one IT, one continuous performance criterion, an inflation consultation band, three PAs, and nine SBs. Key policies under the SBA include: (i) energy policies to restore energy SOEs' financial viability and laying foundations for a green transition; (ii) tight monetary and fiscal policies to help manage the external and fiscal financing needs, control inflation, and support the stabilized exchange rate; and (iii) structural reforms to strengthen SOE governance and oversight.

18. Duration, Access, and Disbursements. An access level of SDR1,899 million (290 percent of quota) was approved under the 2022 SBA, with the first part covering actual BoP needs (in three purchases), and the second part to be treated as precautionary. An adverse scenario that assumes an intensification of the ongoing shocks arising from the war in Ukraine illustrates a full drawing on the precautionary part of the SBA in 2024 to help boost up reserves under increased financing need to 97.6 percent of the ARA metric in 2024.

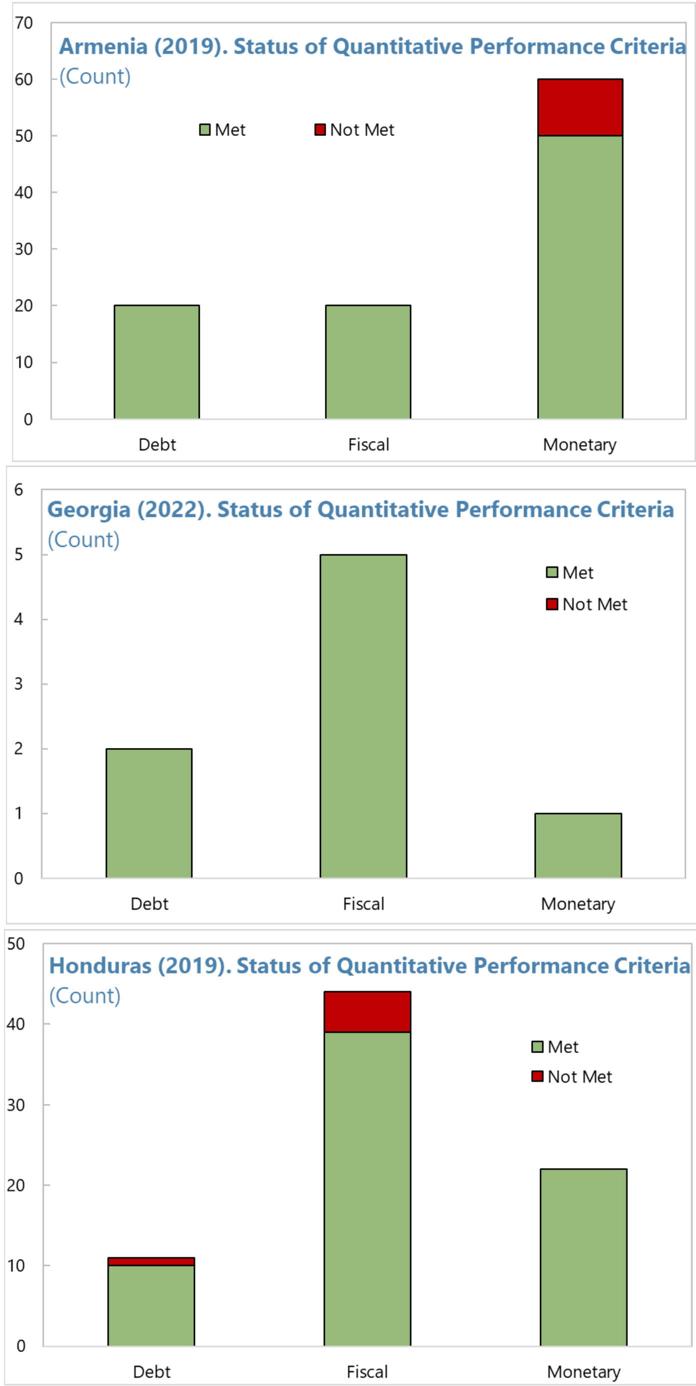
19. Performance. The first review under the 2022 SBA was completed in June 2023. All end-December 2022 QPCs and end-March 2023 ITs were met, and all six structural benchmarks due at the first review were either met or completed with delay.

Annex IV. Table 1. Users of Precautionary SBA Arrangements: Overview of Facilities Since the Global Financial Crisis

Country	Year	Facility	Duration (months)	Percent of Quota at approval	Amount at approval (SDR million)	Quota at approval (SDR million)	Intended use at approval
Armenia	2008	ECF	4	10	9.2	92	Disbursing
	2009	SBA	16	400	368.0	92	Disbursing
	2010	ECF-EFF	36	290	266.8	92	Disbursing
	2014	EFF	40	89.4	82.2	92	Disbursing
	2019	SBA	36	139.8	180.0	129	Precautionary
	2022	SBA	36	100	128.8	129	Precautionary
Georgia	2008	SBA	33	317	477.1	150	Disbursing
	2012	SBA-SCF	24	166	250.0	150	Precautionary
	2014	SBA	32	67	100.0	150	Disbursing
	2017	EFF	48	100	210.4	210	Disbursing
	2022	SBA	36	100	210.4	210	Precautionary
Honduras	2008	SBA	12	30	38.9	130	Precautionary
	2010	SBA-SCF	18	100	129.5	130	Precautionary
	2014	SBA-SCF	36 and 24	100	129.5	130	Precautionary
	2019	SBA-SCF	30	90	224.8	250	Precautionary
Kosovo	2023	SBA	24	97	80.1	83	Precautionary
Serbia	2009	SBA	27	75	350.8	468	Disbursing
	2011	SBA	18	200	935.4	468	Precautionary
	2015	SBA	36	200	935.4	468	Precautionary
	2022	SBA	24	290	1898.9	655	Disbursing

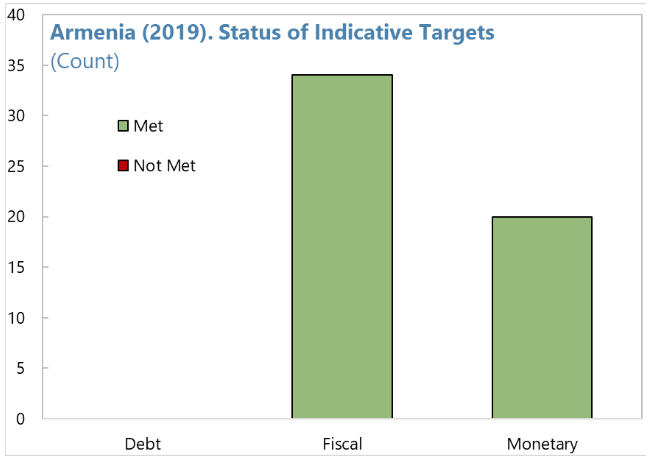
Source: FIN database and IMF staff calculations.
Note: Armenia (2022), Georgia (2022), Serbia (2022) ongoing. Actual duration including extensions, expected duration for ongoing arrangements. Honduras was approved a 36-month SBA and 24-month SCF in 2014 under a blended arrangement. Serbia's 2022 SBA disbursing (precautionary) the first (second) year of the program. Serbia was approved a policy coordination instrument (PCI) in 2018 and 2021.

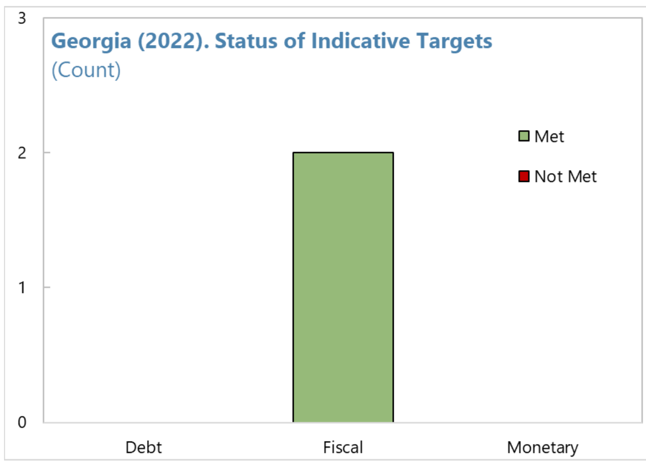
Annex IV. Figure 1. Performance Under Precautionary SBA Arrangements since 2017: Status of Quantitative Performance Criteria as of the Last Review

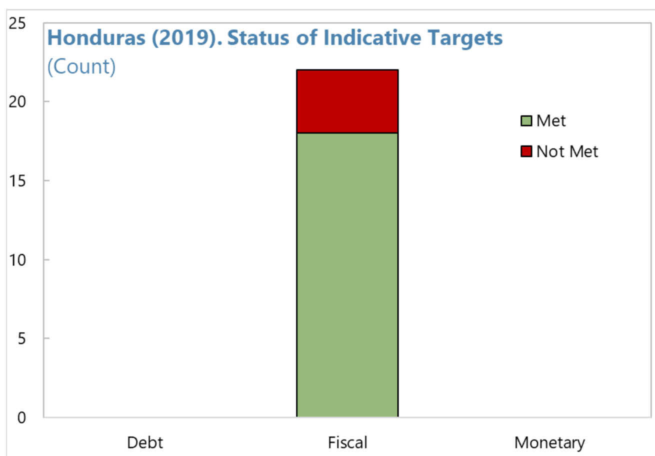


Source: MONA and IMF staff calculations.
Note: For Armenia, status as of the 6th review under the 2019 SBA. For Georgia, status as of the 1st review of the 2022 SBA. For Honduras, status as of the 4th review under the 2019 blended SBA/SCF.

Annex IV. Figure 2. Performance Under Precautionary SBA Arrangements since 2017: Status of Indicative Targets as of the Last Review

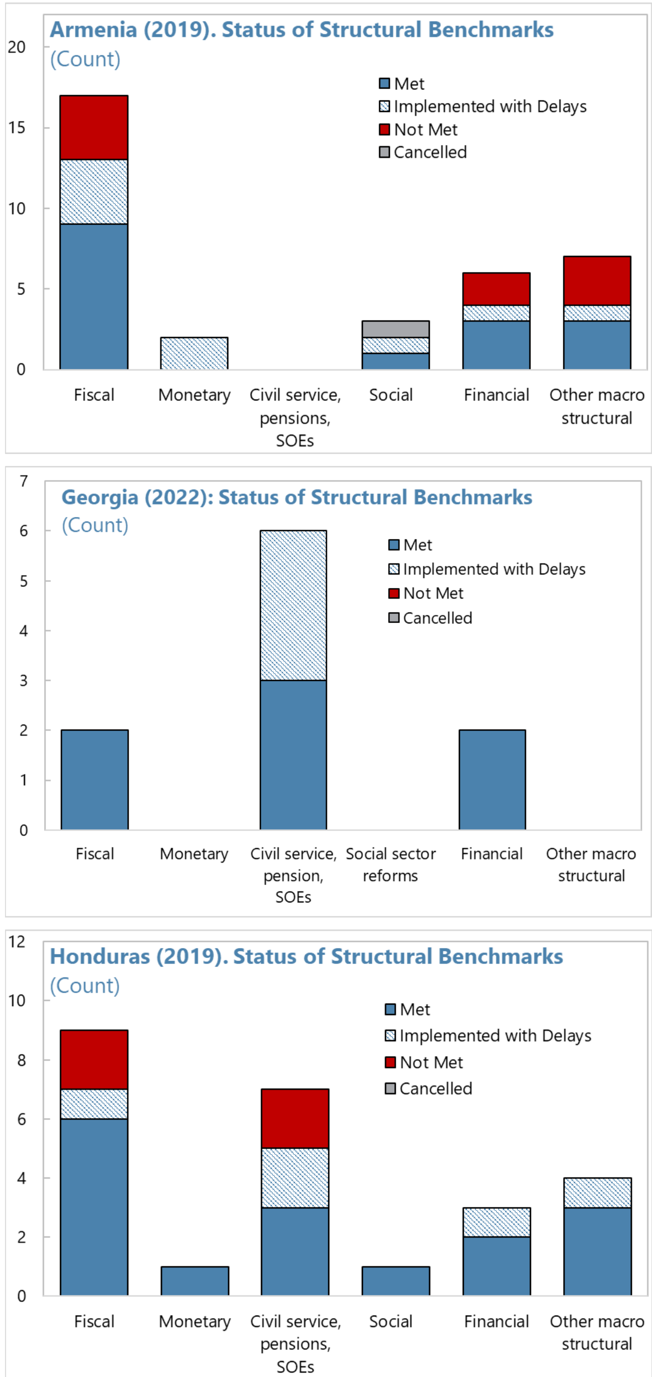






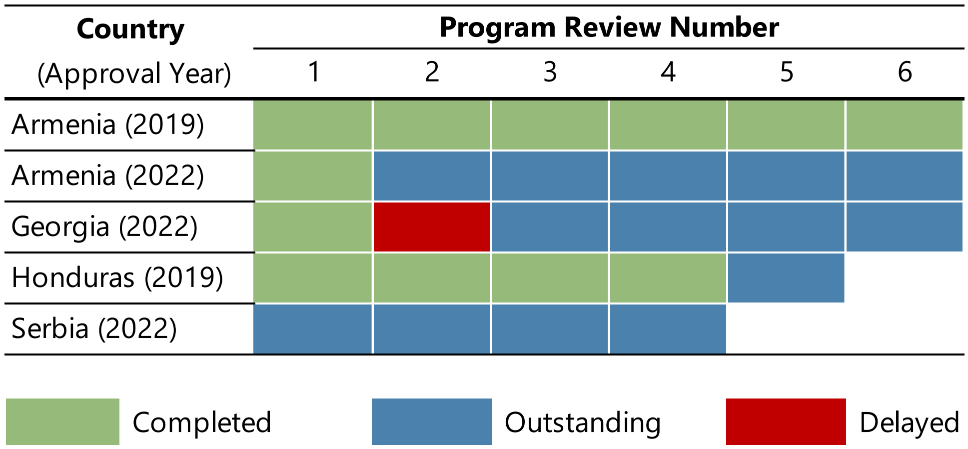
Source: MONA and IMF staff calculations.
Note: For Armenia, status as of the 6th review under the 2019 SBA. For Georgia, status as of the 1st review of the 2022 SBA. For Honduras, status as of the 4th review under the 2019 blended SBA/SCF.

Annex IV. Figure 3. Performance Under Precautionary SBA Arrangements since 2017: Status of Structural Benchmarks as of the Latest Review



Source: MONA and IMF staff calculations.
Note: For Armenia, status as of the 6th review under the 2019 SBA. For Georgia, status as of the 1st review of the 2022 SBA. For Honduras, status as of the 4th review under the 2019 blended SBA/SCF.

Annex IV. Table 2. Performance Under Precautionary SBA Arrangements since 2017: Status of Reviews



Source: MONA and IMF staff calculations.
Note: For Honduras, the blended SBA/SCF expired without completing the fifth and last review.

Annex V. FCL/SLL/PLL Qualification Assessments, 2018-22

1. FCL and SLL Arrangements

	Chile 2020 FCL	Chile 2022 SLL	Chile 2022 FCL	Colombia 2018 FCL	Colombia 2020 FCL	Colombia 2022 FCL	Mexico 2019 FCL	Mexico 2021 FCL	Peru 2020 FCL	Peru 2022 FCL	Morocco 2023 FCL
1. ***A sustainable external position*** (EBA assessment at least "moderately weaker")	broadly in line	moderately stronger	moderately stronger	moderately weaker	moderately weaker	moderately weaker	broadly in line	stronger	broadly in line	broadly in line	broadly in line
2. ***A capital account dominated by private flows*** (share of private flows in capital flows>50 percent)	82 percent	74 percent	75 percent	75 percent	79 percent	76 percent	80 percent	83 percent	76 percent	80 percent	52 percent
3. ***A track record of steady sovereign access to sovereign markets at favorable terms*** (issued in at least 3 of the last 5 years in the cumulative amount of at least 50 percent of the quota)	issued debt in each of the last 5 years in the amount of 515 percent of the quota	issued debt in each of the last 5 years in the amount of 1,500 percent of the quota	issued debt in each of the last 5 years in the amount of 1,500 percent of the quota	issued debt in each of the last 5 years in the amount of 450 percent of the quota	issued debt in each of the last 5 years in the amount of 480 percent of the quota	issued debt in each of the last 5 years in the amount of 686 percent of the quota	issued debt in each of the last 5 years in the amount of 1,600 percent of the quota	900 percent of quota	issued debt in 3 of the last 5 years in the amount of 330 percent of the quota	issued debt in 4 of the last 5 years	issued debt in 4 of the last 5 years for a cumulative amount of US $9 billion (more than 7 times Morocco's quota)
4. ***A comfortable reserve position*** (reserves> 100 percent of ARA metric)	90 percent	91 percent	82 percent	146 percent	142 percent	139 percent	120 percent	127 percent	255 percent	280 percent	133 percent
5. ***Sound public finance*** (debt sustainable with HP)	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability
6. ***Low and stable inflation*** *(inflation in single-digits in the last 5 years, shown: average inflation in the 3 years preceding qualification)*	3 percent	3 percent	3.8 percent	5.6 percent	3.7 percent	3.2 percent	5.0 percent	3.6 percent	2.1 percent	3.4 percent	1.5 percent
7. Sound financial system	Tier 1 capital ratio stood at 10.2 percent, and NPL 1.9 percent	Tier 1 capital ratio stood at 10.4 percent, and NPL 1.4 percent	Tier 1 capital ratio stood at 10.7 percent, and NPL 1.2 percent	Tier 1 capital ratio stood at 12.4 percent, and NPL 4.2 percent	Tier 1 capital ratio stood at 11.9 percent, and NPL 4.3 percent	Tier 1 capital ratio stood at 17.8 percent, and NPL 4 percent	Tier 1 capital ratio stood at 14.2 percent	Tier 1 capital ratio stood at 16.8 percent, and NPL 2.4 percent	Tier 1 capital ratio stood at 11.6 percent, NPL 3.4 percent	Tier 1 capital ratio stood at 11.0 percent, NPL 3.9 percent	Tier 1 capital ratio stood at 11.8 percent, NPL 8.0 percent
8. Effective financial sector supervision	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework	No substantial concern in supervisory framework
9. Data Transparency and integrity	SDDS Plus Adherent	SDDS Plus Adherent	SDDS Plus Adherent	SDDS subscriber	SDDS subscriber	SDDS subscriber	SDDS subscriber	SDDS subscriber	SDDS subscriber	SDDS subscriber	SDDS subscriber

1. PLL Arrangements

	Morocco 2018 PLL	N Macedonia 2022 PLL	Panama 2021 PLL	Jamaica 2023 PLL
1. *A sustainable external position* (EBA assessment at least "moderately weaker")	broadly in line	broadly in line	moderately stronger	broadly in line
2. *A capital account dominated by private flows* (share of private flows in capital flows>50 percent)	81 percent	73 percent	78 percent	75 percent
3. *A track record of steady sovereign access to sovereign markets at favorable terms* (issued in at least 3 of the last 5 years in the cumulative amount of at least 50 percent of the quota)	has not issued in the last five years	3 issues over the last 5 years in the amount of 1,000 percent of the quota	issued debt in each of the last 5 years in the amount of 2,160 percent of quota	issued debt in the last 5 years amounting to US$815 million (158 percent of quota)
4. *A comfortable reserve position* (reserves> 100 percent of ARA metric)	95 percent	106 percent	NA	117 percent
5. *Sound public finance* (debt sustainable with HP)	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability	Debt is sustainable with high probability
6. *Low and stable inflation* *(inflation in single-digits in the last 5 years, shown: average inflation in the 3 years preceding qualification)*	1.3 percent	1.7 percent	0.4 percent	6.1 percent
7. Sound financial system	Tier 1 capital ratio stood at 10.0 percent, NPL 7.5 percent	Tier 1 capital ratio stood at 15.9 percent, NPL 3.1 percent	Tier 1 capital ratio stood at 15.7 percent, NPL 2.0 percent	Capital adequacy of DTIs stood at about 14 percent
8. Effective financial sector supervision	No substantial concern in supervisory framework	No substantial concern in supervisory framework	Weaknesses in AML/CFT supervision (FATF grey list)	Weaknesses in AML/CFT supervision (FATF grey list)
9. Data Transparency and integrity	SDDS subscriber	SDDS Plus Adherent	e-GDDS participant	e-GDDS participant

Annex VI. Evaluation of the External Economic Stress Index

This annex evaluates the experience with using the external economic stress index (ESI) since the 2017 Review. It suggests that the construction of the ESI has relied on similar sources of external risks within and across arrangements, with weights varying across countries in line with differences in risk exposure. The ESI has continued to inform access and exit discussions under FCL and PLL arrangements, together with reserves levels. Going forward, further enhancements to the ESI do not seem warranted although flexibility under existing guidance could be better leveraged.

1. **External risks informing the ESI have been broadly similar within and across arrangements, with proxy variables adapted to country circumstances.** The ESI typically captures risks to *exports* and *financial flows*, with the former proxied by commodity price fluctuations for large natural resource exporters such as Mexico (oil), Colombia (oil), Chile (copper), and Peru (copper and gold) and/or by main trading partners' growth (the U.S. for Chile, Colombia, Jamaica, and Mexico; Euro area for North Macedonia and Morocco). Similarly, risks to *FDI* are captured by commodity price fluctuations for natural resource exporters or by main investing country growth. Risks to *equity and/or debt inflows* are also commonly used in the ESI, with the former usually proxied by the emerging market volatility index (VXEEM) and the latter by the change in the 10-year US Treasury yield. Other sources of external risk less widely employed include *tourism receipts* (Morocco), *imports* (Morocco and North Macedonia), and *remittances* (four out of seven countries).

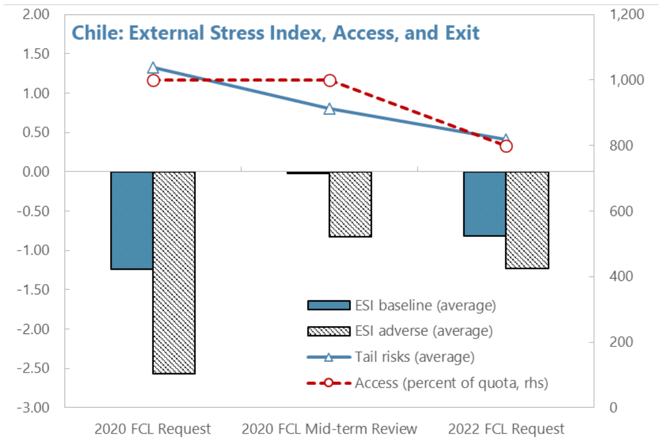
2. **The weights on proxy variables vary across members, in line with differences in country characteristics and exposure to external risks.** For almost all arrangements, the weights were estimated using BoP and IIP data as a share of GDP, following the data-based approach; a model-based approach was used for Morocco’s FCL. Risks to equity and debt portfolio investment flows account for 45 to 50 percent of the ESI for Colombia, Chile, Mexico, and Panama, consistent with their well-developed financial markets. Growth developments in the US and the Euro area drive the bulk of the ESI for Mexico and Morocco given strong trade, remittances, tourism, and FDI ties. External risks to the oil and copper industries contribute to a third of the ESI for Colombia and Chile, respectively. For North Macedonia and Jamaica, risks to energy and food imports account for a third and a quarter of the ESI, respectively, reflecting ramifications from the war in Ukraine. Proxy variables and associated weights remained unchanged within and across arrangements in line with best practice, except for Mexico where changes reflected data updates, and for Morocco’s FCL where the US 10-year Treasury yield was substituted for the VXEEM that was used in Morocco’s PLL.

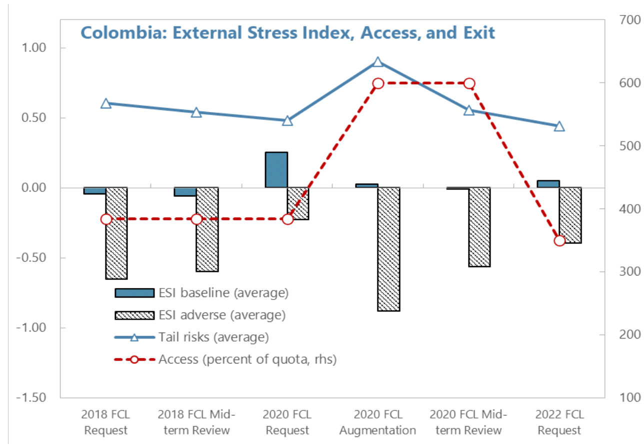
3. **The ESI continues to guide discussions of access and exit prospects, together with considerations on the availability of reserve buffers.** There is evidence that improvements in the ESI and/or declines in the impact of tail risks--as captured by the difference between the ESI under the adverse and baseline scenarios—are associated with reductions in access, consistent with a country progressively exiting from the FCL/PLL, while increased risks correlate with higher or unchanged access levels. For instance, Mexico’s request for a lower access in 2021 relative to 2019 was consistent with reduced external risks signaled by the ESI, while the decision to maintain access

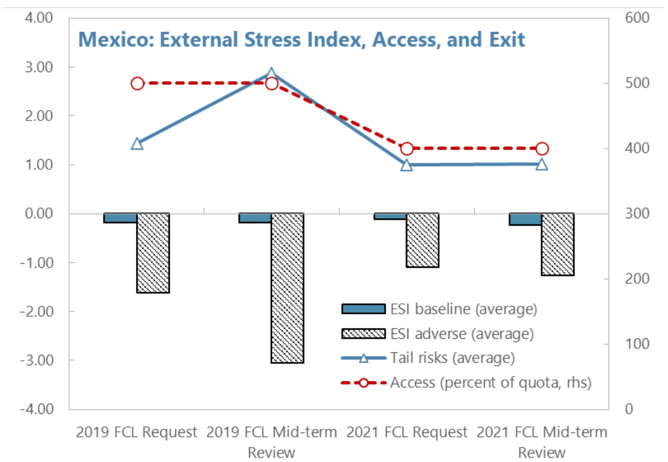
levels unchanged at both mid-term reviews were in line with still-elevated external stress. For Colombia, the ESI showed a worsening of the external environment after the approval of the 2020 FCL, leading to an augmentation of access the same year, which was reduced under the successor arrangement in 2022 as risks abated. But the availability of reserve buffers can delink the relationship between external stress and access levels: despite the ESI pointing to continued high risks, Peru's 2022 FCL was approved at half the level of access under the 2020 arrangement given stronger reserve buffers and the authorities' strategy of gradually phasing out Peru's use of the FCL facility. Similarly, despite a deterioration in the ESI, access under Colombia's 2020 FCL was maintained at the same level as under the 2018 FCL on the back of higher external buffers.

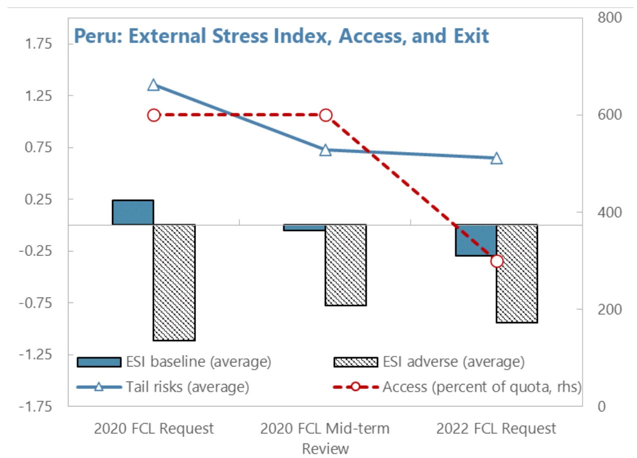
4. Shortcomings identified at the 2017 Review have been broadly addressed and significant enhancements to the ESI do not seem warranted, although flexibility under current guidance could be better leveraged. The 2017 Review of the FCL and PLL flagged the lack of comparability of the ESI shock scenarios across countries as an area of improvement; this has been addressed under subsequent FCL and PLL arrangements. Systemic leveraging of the latest WEO downside scenario, GFSR, or G-RAM to construct the ESI has facilitated better comparability of the ESI downside scenarios across countries with arrangements in place around the same period. Since the last review, the use of older vintages has been rare and, when used, duly justified in line with good practice. Additionally, a few recent arrangements have highlighted limitations to the ESI that could be addressed through updates to proxy variables and/or weights consistent with existing guidance. For instance, the SR for Peru's mid-term review of the 2020 FCL noted that the ESI could understate the level of economic stress given a disconnect between the external risk and its proxy, as Peru's exports of non-mineral goods and services (including tourism) are expected to lag global growth, their proxy in the ESI, following the pandemic shock. In the same vein, Morocco's SRs under the PLL indicated that the ESI did not include a proxy for geopolitical risk, which could lead to more benign stress levels than reality. Updates to weights and/or proxy variables, together with clear justification, could be encouraged to accommodate country-specific developments as warranted.

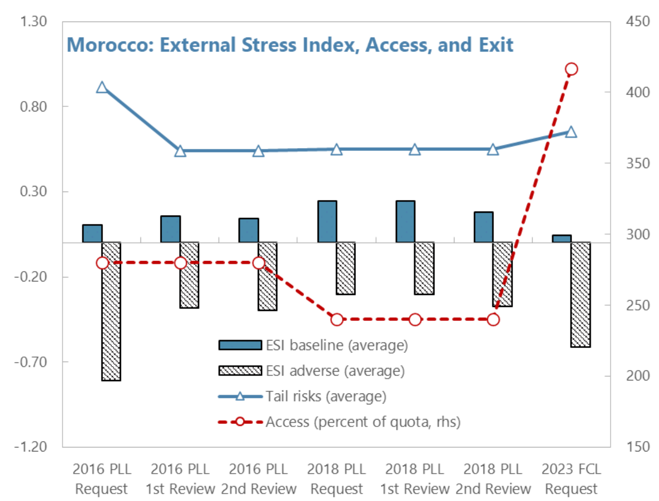
Annex VI. Table 1. External Stress Index, Access, and Exit under FCL and PLL Arrangements

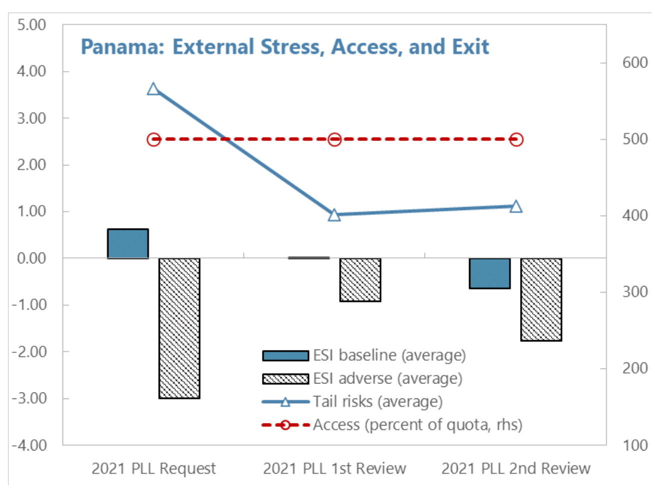












Source: IMF staff calculations. Averages computed across the projection period. The impact of tail risks is captured by the difference between the adverse and baseline scenario ESI series.

Annex VII. Survey Results

A. Background

1. **A survey was launched to seek inputs from country authorities on the IMF's precautionary lending toolkit.** The survey consisted of multiple-choice questions, with four sections respectively covering the FCL, PLL, SLL, and precautionary SBA, where respondents were asked to express their level of agreement with statements on the benefits of precautionary arrangements, factors making them attractive or inhibiting their use, and potential options to improve their effectiveness. The survey also collected the authorities' views on exit from the FCL, the reasons behind concentration of FCLs in Latin America (and limited take-up elsewhere), and on how the IMF's precautionary arrangements compare with alternative financing through bilateral swap lines (BSLs) and regional financing arrangements (RFAs).

2. **The survey was circulated to authorities from 91 member countries perceived as potential users of precautionary arrangements and had a response rate of 29 percent.** The survey targeted borrower countries, broadly identified as emerging market and developing economies (EMDEs, as per WEO definition) that are not PRGT-eligible,[1] not classified as fragile and conflict-affected states, and without a reserve currency.[2] The survey was sent to central banks and ministries of finance through relevant Executive Director offices, with 26 countries responding as of end-January, 2023. Participation was highest among countries in Europe and Latin America, which had response rates of 57 and 37 percent, respectively. In terms of responding institutions, central banks took the lead in completing the survey (63 percent of submissions).[3]

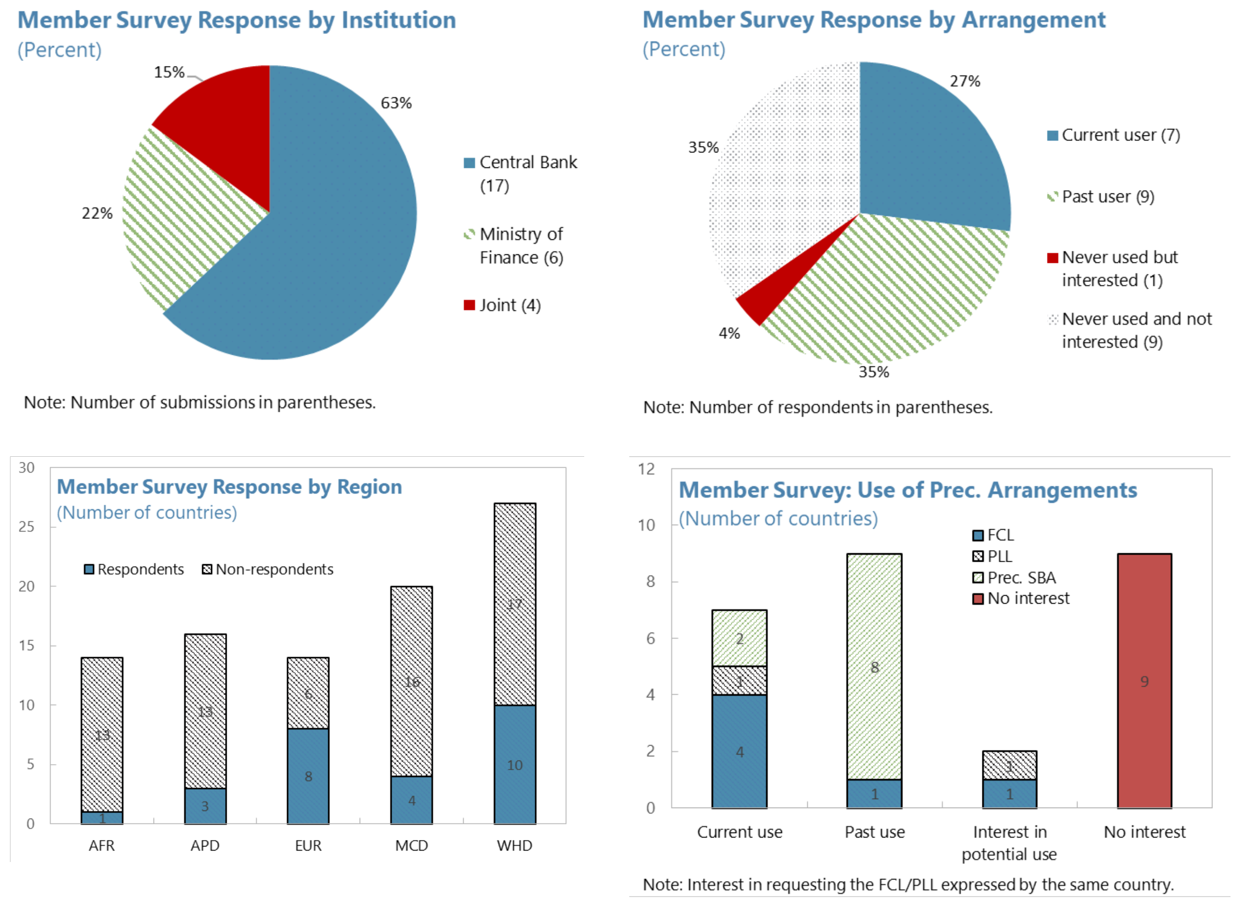
3. **Respondents were mostly either current or past users of precautionary arrangements (64 percent of respondents).** Current use is driven by the FCL (four countries), followed by the precautionary SBA (two countries), and the PLL (one country), while almost all past use is associated with the precautionary SBA (eight countries, against only one FCL). Among the ten respondents that indicated never having used IMF precautionary arrangements, only one expressed interest in potentially requesting a precautionary arrangement in the future (either an FCL or PLL), while the rest expressed no interest.

[1] Except presumed blenders, which could access the precautionary SBA with a precautionary SCF.

[2] While the survey focuses on EMDEs as potential users of precautionary arrangements, advanced economies' views could also inform the 2023 Review of the FCL, SLL, and PLL through outreach among relevant Executive Directors (ED)'s offices.

[3] Separate submissions from the central bank and the ministry of finance were received for one country, hence average responses were used in the analysis.

Annex VII. Figure 1. Survey Participation



Note: AFR: sub-Saharan Africa; APD: Asia and Pacific; EUR: Europe; MCD: Middle East and Central Asia; WHD: Latin America.

B. Key Stylized Facts[4]

4. Benefits. The survey finds that the Fund's precautionary arrangements have served countries well, with users benefiting from strengthened foreign reserves, contained market borrowing costs, and a commitment mechanism to maintaining improved macroeconomic stability and policy frameworks.

5. Attractiveness. Respondents agree that upfront access to financing is an attractive feature common to the FCL, SLL, and PLL, and appreciate the flexibility in using the PLL and SBA on a precautionary or disbursing basis depending on the balance of payments (BoP) need. For the FCL,

[4] To preserve the confidentiality of survey responses, only the average level of agreement of respondents is presented for each statement, computed either over the entire sample of respondents or the sub-sample of those countries that are current or past users of precautionary arrangements. The results for the SLL sub-sample were not plotted since only one country (Chile) has used the SLL so far. The results for the PLL sub-sample reflect responses by one country.

the absence of ex post conditionality and use by only countries with very strong fundamentals also stand out as the top attractive features. The SLL continues to be an attractive instrument, including due to its revolving nature. Users also value the extension of an offer by the IMF, instead of the qualifying members requesting it. A key attractive feature of the PLL is its perception as a graduating instrument from the SBA, while users of the precautionary SBA consider its strong policy signaling important.

6. Factors inhibiting take-up. For the FCL, market reaction if the country is assessed as not qualifying at the mid-term review (for two-year FCLs) is the top concern undermining take-up, followed by users' preference for self-insurance through reserve accumulation, and an expectation of exit from the arrangement. For the SLL, low access, and absence of concurrent use with the FCL are perceived as limiting usage. For the precautionary SBA, users see access to alternative financing (e.g., RFAs, BSLs, donor financing), countries' preference for self-insurance through reserve accumulation, and limited awareness of the instrument's benefits among the countries and market participants as important factors inhibiting take-up. Respondents do not seem to have a strong position on factors undermining PLL usage. Overall, stigma associated with the use of Fund resources does not stand out as the top concern.

7. Improving effectiveness. There is strong agreement that strengthening IMF outreach to authorities, public opinion, and international markets would improve the effectiveness of the Fund's precautionary arrangements. The survey suggests that concurrent use with the FCL is a top reform that could make the SLL more attractive, together with higher access. It also indicates that pre-qualifying potential FCL and SLL users for a given time period could help. For the PLL, increasing the duration under the standard window and the access limit are among the top reforms that could enhance effectiveness**.**

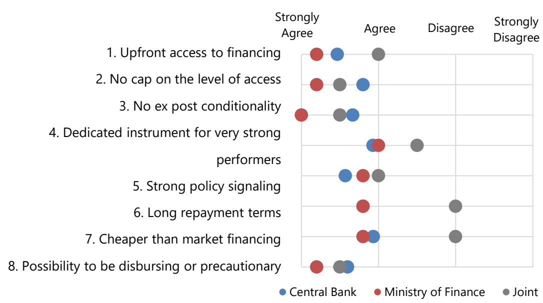
8. BSLs and RFAs. The survey finds limited support for the claim that BSLs and RFAs are more attractive than the FCL and SLL. However, there is some evidence that such alternative sources of financing could be perceived as more attractive than the PLL as they carry less stigma and no ex post conditionality.

9. FCL exit. Users agree that increasing the level of access under the SLL could make it a more attractive exit instrument for the FCL. The member survey suggests, however, limited appetite among FCL users for introducing a time-based commitment fee or steepening the commitment fee schedule.

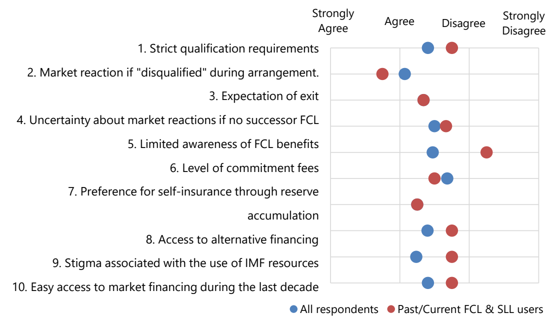
10. FCL regional concentration. There is indication that the uneven distribution of FCLs across regions, including concentration in Latin America, is mainly due to varying access to alternative financing instruments—such as RFAs, BSLs, and donor financing—influencing the incentive to request an FCL. Differences in the strength of fundamentals, institutions, and policies, that could be thought as leading to different likelihoods of meeting the FCL's ex ante qualification requirements, do not seem to play a role according to FCL users.

Key Survey Results

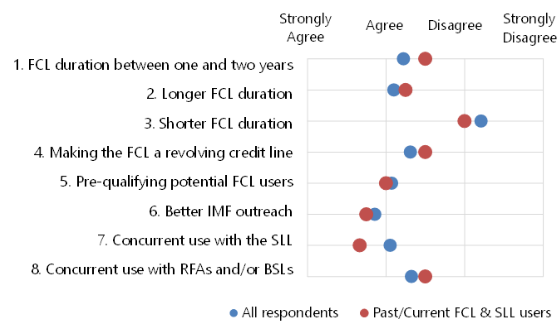
Factors Making the FCL Attractive
(average response)



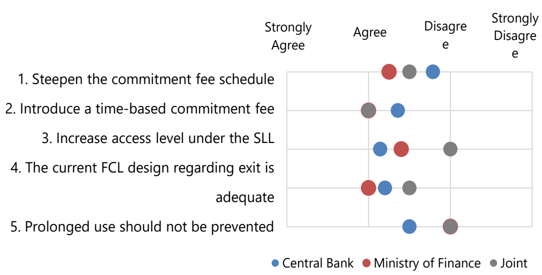
Factors Inhibiting FCL Usage
(average response)



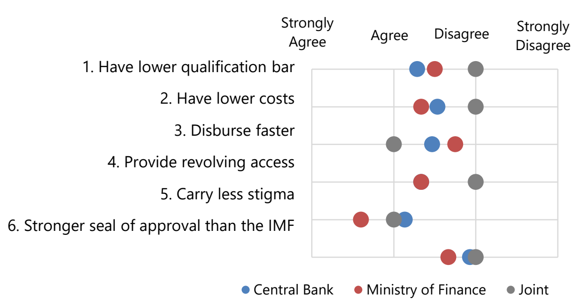
How to Improve the Effectiveness of the FCL for Users
(average response)



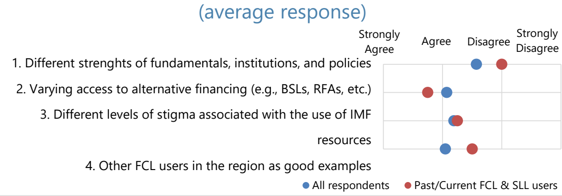
The Best Way to Support Timely Exit from the FCL
(average response)



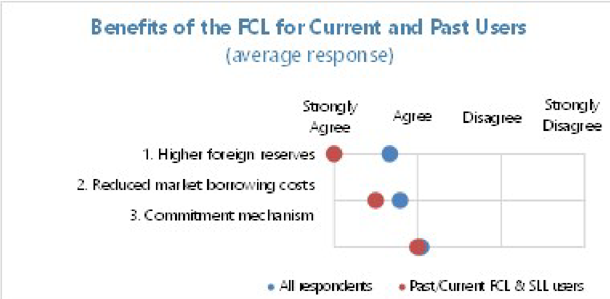
Attractiveness of BSLs and RFAs Compared to the FCL
(average response)

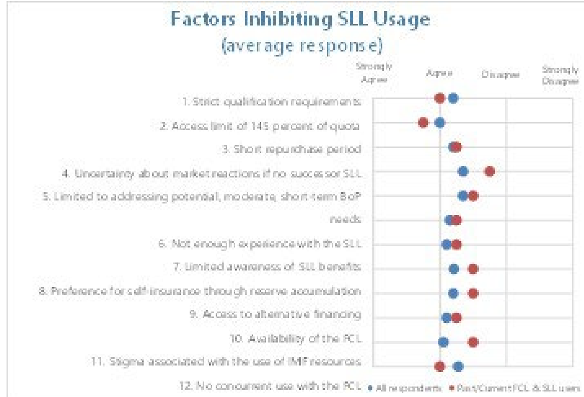


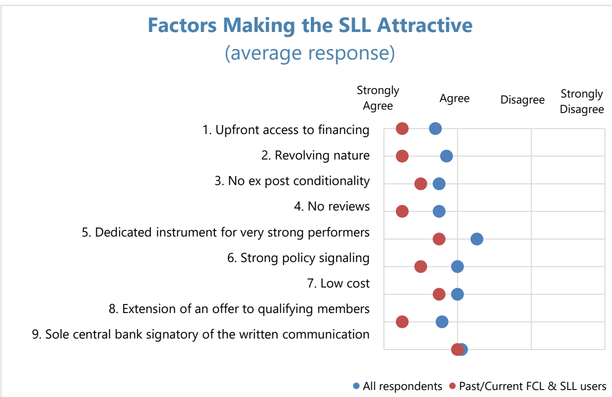
Reasons for FCL Concentration in Latin America and Limited Take-up Elsewhere
(average response)

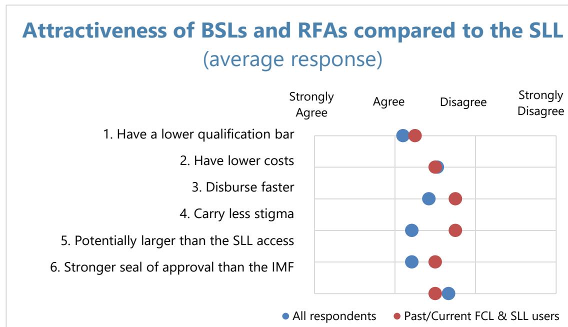


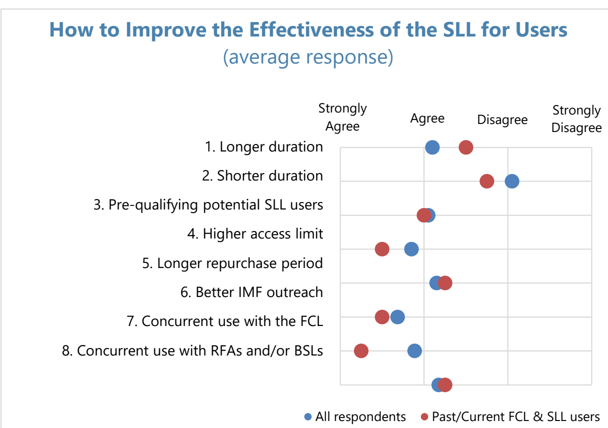
Key Survey Results (continue)

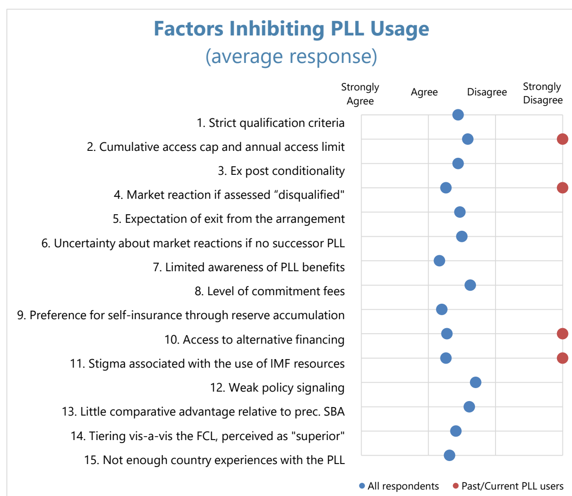


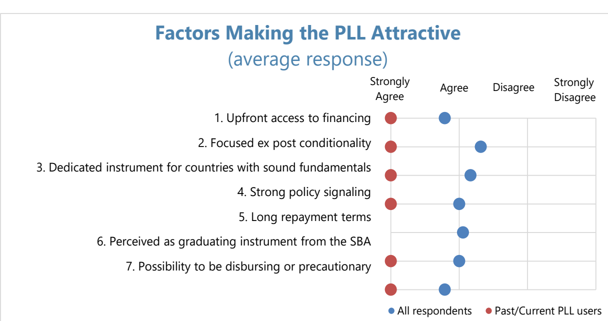






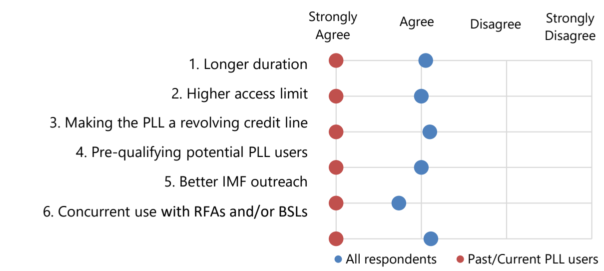




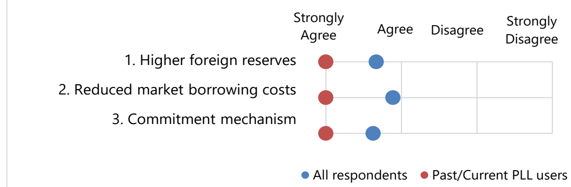


Key Survey Results (concluded)

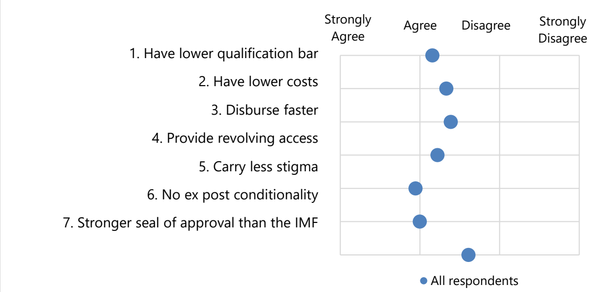
How to Improve the Effectiveness of the PLL for Users
(average response)



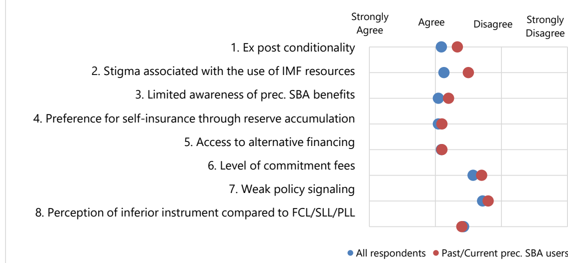
Benefits of the PLL for Current and Past Users
(average response)



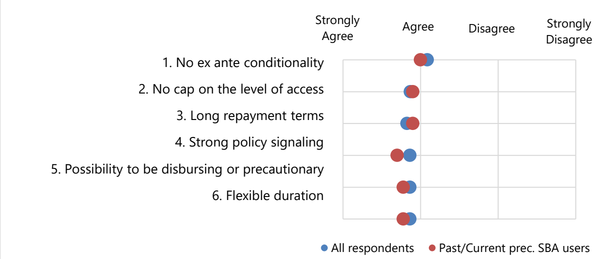
Attractiveness of BSLs and RFAs Compared to the PLL
(average response)



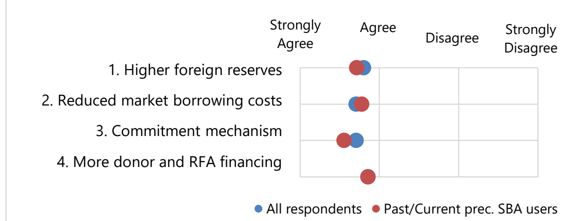
Factors Inhibiting Prec. SBA Usage
(average response)



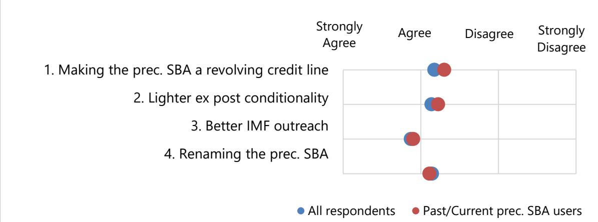
Factors Making the Prec. SBA Attractive
(average response)



Benefits of the Prec. SBA for Current and Past Users
(average response)



How to Improve the Effectiveness of the Prec. SBA for Users
(average response)



Annex VIII. Time-Based Commitment Fees: Revisiting Reform Options

The 2017 Review of precautionary facilities explored—but did not adopt—time-based commitment fees (TBCFs) as an option for strengthening incentives to exit precautionary arrangements. This annex reviews design issues for a possible TBCF in light of more recent experiences with precautionary arrangements. Under a TBCF with the same parameters as the 2017 proposal, current users of precautionary arrangements would not incur additional fee in the immediate future, as all prolonged users have access levels below the hypothetical threshold considered. The annex does not propose to introduce a TBCF. Introducing a TBCF at the current juncture of elevated global vulnerabilities would weaken the responsiveness of the Fund's toolkit to membership's needs by making exit time- rather than state-dependent. The annex also explores reducing the commitment fee for low-access arrangements in order to encourage entry of additional qualifying members, but does not propose this in view of the negative impact on the Fund's income.

A. Context

1. In recent years, a number of Directors have called for strengthening exit incentives from prolonged use of Fund's precautionary facilities at high access levels. Such an approach would aim to preserve the revolving nature of Fund resources. When this issue was last discussed in the context of the 2017 Review of the FCL and PLL ("2017 Review"),[1] views were divided. Most Directors remained concerned about the prolonged use of high-access precautionary arrangements and thus saw scope for strengthening price-based incentives to exit. Many of them saw merit in introducing time-based commitment fees, some favored steepening the commitment fee structure to discourage unnecessarily high precautionary access, and a few saw scope for a combination of both options. Some other Directors reiterated that exit should continue to be state-dependent and did not see a case for stronger price-based incentives. Directors emphasized the need to ensure that SRs for successor arrangements are explicit about the expectation of exit and exit strategies.

2. Large commitments on a precautionary basis, maintained for extended periods, entail costs to the membership. Specifically, prolonged use of large arrangements on a precautionary basis ties up a significant share of the Fund's limited resources. It can also entail costs to creditor members in the Financial Transactions Plan (FTP) that are required to maintain liquid assets to meet potential calls for purchases under such arrangements, and thus forgo revenues from investing their reserves in longer-maturity assets bearing higher interest.

3. On the other hand, in the current global context, there may be a stronger case for the Fund to continue assisting qualifying member countries against external shocks while

[1] *"Adequacy of the Global Financial Safety Net—Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform," SM/17/40 (06/02/2017).*

incentivizing strong policies. Global liquidity, previously abundant, is now under pressure from the ongoing monetary policy tightening by major central banks, as well as by the normalization of fiscal policies that delivered unprecedented support during the pandemic. This, combined with a worsening global outlook, could raise potential balance of payment needs, including among members with strong policies.

4. Against this background, this annex analyzes implications of strengthening exit incentives through TBCFs. The 2017 Review explored both the options of steepening the commitment fee schedule for all arrangements and TBCFs targeted to address prolonged use of high-access precautionary arrangements. The former option would have several drawbacks. As the new structure of charges would apply uniformly to all GRA arrangements irrespective of whether these are treated as precautionary, it could also have implications for large drawing arrangements that go off-track.[2] More broadly, it would imply a tightening of Fund lending policies at a time when members' potential balance of payments and financing needs are increasing. This annex focuses instead on TBCFs targeted to prolonged use of high-access precautionary arrangements. It also considers a reform involving both targeted TBCFs to incentivize exit from prolonged use of high-access precautionary arrangements and a reduced commitment fee applicable at lower access levels to encourage entry of additional qualifying members to precautionary arrangement use. Given the current global context of elevated vulnerabilities and tighter financial conditions, this annex does not explore tighter options for TBCFs than those considered for the targeted TBCFs in the 2017 Review, and similarly proposes not to introduce a TBCF at this juncture.

B. Commitment Fees in Fund Arrangements

5. A commitment fee is charged under all GRA arrangements. Its rationale is to compensate the Fund for the cost of processing potential lending arrangements and for committing resources that would otherwise be available for other uses. It also meant to ensure that resources are not tied-up unnecessarily. An up-front commitment fee applies to the amount available for purchase under GRA arrangements (SBA, EFF, PLL, or FCL) that may be purchased during each annual period. This fee is refunded on a proportional basis as purchases are made under the arrangement. Reflecting the expected revolving use of SLL credit, a non-refundable commitment fee is charged on SLL arrangements.

6. The rate of the commitment fee charged increases with the amounts available for purchase within each 12-month period. The aim is to discourage unnecessarily high precautionary access and contain risks to the Fund's liquidity. At the same time, commitment fees should not disincentivize members from seeking precautionary arrangements. Under the current structure, commitment fees are levied at 15 basis points a year on amounts up to 115 percent of quota; 30 basis points a year on amounts in excess of 115 percent and up to 575 percent of quota; and 60 basis points a year on amounts above 575 percent of quota (Annex VIII. Table 1). Short-term

[2] Members under high-access drawing arrangements which go off-track for extended periods would have to pay higher fees on the amount committed for the following 12-months.

Liquidity Line (SLL) arrangements are not subject to this commitment fee structure, but instead are charged a non-refundable commitment fee of 8 basis points because of the expected revolving use of the instrument.

Annex VIII. Table 1. Current Structure of Commitment Fees on UCT Arrangements by Access Level[1/]

Thresholds	Fee
Access up to 115 percent of quota	15 bps
Access above 115 percent of quota up to 575 of quota	30 bps
Access above 575 percent of quota	60 bps

Source: Fund staff calculations.
1/ This commitment fee structure does not apply to the SLL, on which a non-refundable commitment fee of 8 basis points is charged instead.

C. Exploring a Time-Based Commitment Fee (TBCF)

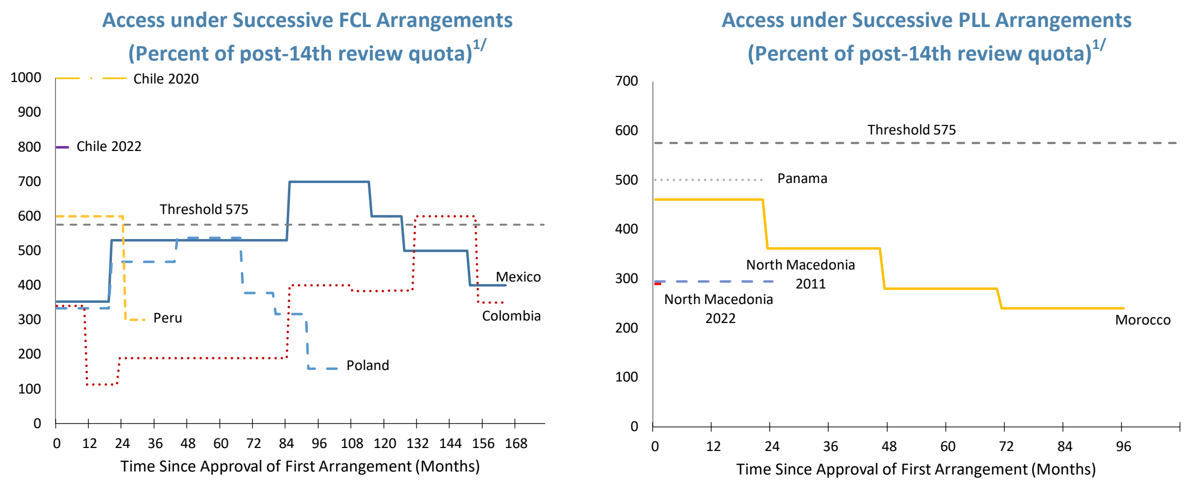
7. **A TBCF would be intended to discourage large-scale prolonged precautionary lending commitments.** A TBCF would make an arrangement subject to an *additional* fee once the level of undrawn credit has remained above a specified access threshold for a defined period, including under previous arrangements. Arrangements would remain subject to the fee until the level of undrawn credit falls below this threshold, through purchases, reduction of access, or upon expiration of the arrangement.[3]

8. **Given the Fund's current commitment fee structure, key parameters of the TBCF reform option considered in the 2017 Review could be the starting point in reconsidering the design of a TBCF.**[4] The 2017 Review explored increasing the commitment fee rate by 10–20 basis points for members with precautionary arrangements above 575 percent of quota after a set period. A lower threshold is not considered here, as it could increase the risk of member countries with a precautionary arrangement moving to lower access prematurely, when larger potential BoP assistance against external shocks may still be appropriate under protracted conditions of elevated global risks.

[3] This is analogous to the application of time-based surcharges, which are levied for the period that members' credit outstanding remains above a threshold, currently set at 187.5 percent of quota. The clock toward meeting the TBCF trigger would pause once undrawn balances fall below the threshold and would reset once undrawn balances remain below the threshold for a defined continued period of time ("cooling off" period). See Appendix for details.

[4] The Annex Box further elaborates on design issues.

Annex VIII. Figure 1. Access Under Successive FCL Arrangements



Source: Finance Department.
1/ Total access under precautionary arrangements excludes outstanding credit.

9. The 2017 Review considered a higher commitment fee triggered after 48 months. This annex explores the option of triggering the higher commitment fee after 24 months, since no country so far has maintained access above 575 percent under a precautionary arrangement for more than 42 months.

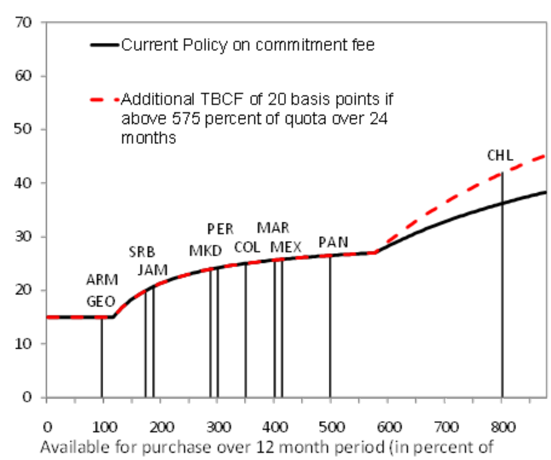
10. Applying these parameters, none of the existing current precautionary arrangements would incur time-based charges for at least another 15 months, and hence they would have a limited impact on incentivizing exit in the immediate future. Currently, there is only one FCL arrangement (Chile) with an access level above 575 percent of quota, which was approved recently (August 2022) (Text Figure). Only two other FCL arrangements had access levels above 575 percent of quota in the past: (1) Mexico's FCL, for a total of 42 months between May 2016 and October 2019, with a maximum access level of 700 percent of quota; and (2) Colombia's arrangement with a maximum access level of 600 percent of quota for 24 months between May 2020 and April 2022. PLL arrangements are currently capped at an access level of 500 percent of quota, below the TBCF access threshold of 575 percent considered here. All currently active precautionary SBAs have access below 575 percent of quota.

11. A TBCF of 20 basis points above 575 percent of quota would have a small impact on the *effective rates* of commitment fees and thus limited success in incentivizing exit from precautionary arrangements. For example, if the member with the highest access (Chile, with access at 800 percent of quota) maintained such an access level for a prolonged period of time, with triggering of the time-based commitment fee, the effective (i.e., average) rate would increase from 36 to 42 basis points. This would lead to additional Fund income of SDR 7.8 million per year.[5]

[5] The effective rate is the total commitment fee payable relative to total access available for purchase over a 12-month period. The total commitment fee payable is calculated using the relevant commitment fee structure. For (continued)

12. While a TBCF could potentially be combined with a reduced commitment fee for low-access arrangements to encourage additional qualifying members to seek precautionary arrangements, this would have a negative impact on Fund's income. The take-up of precautionary arrangements has been rather low so far, especially during periods of abundant global liquidity before the start of the monetary tightening cycle in 2022. In the current environment of heightened risks, the Fund could consider making existing precautionary instruments cheaper for members to seek financial support from the Fund at low access and on a precautionary basis while incentivizing strong policies. That, however, would have a negative impact on Fund income. For example, reducing commitment fees by 10 basis points for precautionary arrangements with access below 575 percent of quota, would lower commitment fee revenues by about SDR 60 million per year, or about 34 percent of the average annual commitment fees from precautionary arrangements (Table 5), though this loss could be mitigated if the lower commitment fee incentivized additional qualifying members to enter into precautionary arrangements with the Fund. In addition, since the lower commitment fees would have to apply uniformly to all GRA arrangements irrespective of whether these are treated as precautionary, there would potentially be an additional revenue loss for the Fund compared with maintaining the status quo.

Annex VIII. Figure 2. Commitment Fee Effective Rates
(Basis points)[1/]



1/ The effective rate is the total commitment fee payable relative to total access available for purchase over a 12 month period.

example, for a member with access of 135 percent of quota, a commitment fee of 15 basis points is applied on 115 percent of quota, and a commitment fee of 30 basis points is applied on the remaining 20 percent of quota.

Annex VIII. Table 2. Implications of Illustrative Reduction in Commitment Fees on Current FCL/PLL Arrangements[1]

Member	Access (percent of quota)	Current policy: Effective rate[2] (bps)	Current policy: Nominal fee[3] (million SDRs)	10 bps decrease below 575% of quota: Effective rate[2] (bps)	10 bps decrease below 575% of quota: Nominal fee[3] (million SDRs)	10 bps decrease below 575% of quota: Difference in nominal fee (million SDRs)
Chile (FCL)	800	36	50.6	29	40.6	-10.0
Colombia (FCL)	350	25	17.9	15	10.8	-7.2
Mexico (FCL)	400	26	91.6	16	55.9	-35.7
Morocco (FCL)	417	29	10.6	19	6.9	-3.7
Peru (FCL)	300	24	9.7	14	5.7	-4.0
Jamaica (PLL)	190	21	1.5	11	0.8	-0.7
North Macedonia (PLL)	290	24	1.0	14	0.6	-0.4
Armenia (SBA)	100	15	0.2	5	0.1	-0.1
Georgia (SBA)	100	15	0.3	5	0.1	-0.2
Serbia (SBA)	170	20	2.2	10	1.1	-1.1
Total			185.7		122.6	-63.2

Source: IMF staff calculations.

[1] Includes arrangements current as at April 15, 2023.

[2] The effective rate is the total commitment fee payable relative to total access available for purchase over a 12-month period.

[3] Over a one-year 12-month period.

D. Assessment

13. **Staff does not support introducing a time-based commitment fee at this time with the aim to incentivize exit as it would weaken the responsiveness of the precautionary facilities toolkit to current membership's needs.** A time-based fee, albeit targeted to prolonged use of precautionary arrangements would be triggered irrespective of the state of external risks faced by members. Also, under the assumption that such a fee should not be tighter than the targeted TBCF in the 2017 Review, it would also be expected to have a limited impact on FCL exit (based on FCL experience so far). Also, this would de facto tighten policies in support of member countries at a time when global vulnerabilities are particularly elevated. Due to the legal requirement of uniformity of charges, the application would also not be restricted to arrangements that are treated as precautionary. Ramifications for the wider GRA toolkit would therefore need to be considered carefully in the design of the policy. Similarly, a targeted TBCF accompanied by a reduced commitment fee for low-access precautionary arrangements would have a significant negative impact on Fund income. Moreover, any TBCF would significantly increase the complexity of the Fund's fee structure and be operationally burdensome.

Annex VIII. Box 1. Further Design Aspects of a Time-based Commitment Fee

A time-based commitment fee (TBCF) would operate similarly to the current policy on time-based surcharges and be charged on top of existing level-based commitment fees. It would apply once the level of undrawn credit for each relevant (12-month) period under successive arrangements has remained above a specified threshold for a defined duration of time ("duration trigger"). The fee would be charged only for the period when undrawn credit remained above the threshold, analogous to Fund policy on time-based surcharges. The count toward meeting the duration trigger would start as the threshold is breached and would pause whenever the level of undrawn credit falls below the threshold level, or the arrangement expires or is cancelled. The count would reset only once a "cooling-off" period is exceeded. Once triggered, the TBCF would be levied ex-post at each anniversary date of the relevant period (or at the end of the arrangement if sooner) for the time during which undrawn balances remain above the threshold.

The access threshold for a TCBF would need to be set at a sufficiently high level to appropriately target large precautionary commitments and mitigate the risks of unintended consequences. The threshold could be set, for example, at the highest level-based commitment fee threshold of 575 percent of quota. Such a high threshold could address Directors' concerns regarding particularly large and prolonged commitments, in practice applying only to protracted use of high access FCL arrangements. A lower threshold could increase the risk of member countries with a precautionary arrangement moving to lower access prematurely, when larger insurance against external shocks is still needed.

Several additional design aspects would need to be considered:

- **Duration trigger.** The length of the trigger period should be short enough to effectively support the revolving nature of Fund resources, while recognizing the possibility of extended periods of stress justifying prolonged commitments. One option is to link the duration trigger to the typical length of a severe shock, i.e., around 3 or 4 years. In view of the maximum two-year duration under the current FCL arrangements, a 4-year duration trigger could be considered, effectively being applied at the beginning of the third FCL arrangement, provided access would remain above the threshold. Such long duration trigger would also significantly limit the risk of unintended ramifications across arrangements, as the level of undrawn balances is less likely to remain above the threshold for a period of four years unless the arrangement is treated as precautionary.
- **Cooling-off period.** Short intervals between successive arrangements, or purchases reducing the level of undrawn credit to below the threshold for some time, could "pause" the count toward meeting the duration trigger. The count would continue once the level of undrawn credit increases above the threshold again, for example, because of a new 12-month period starting, a successor arrangement being approved, or access being augmented. However, the count would be reset once a certain "cooling off" period is exceeded. Such a period should be long enough to effectively promote a durable exit from prolonged arrangements and ensure that delays in successor arrangements do not interfere with the policy. On the other hand, too long a cooling-off period could increase the likelihood of penalizing members that would request a successor arrangement with a delay on the basis of new external risks that were not foreseen when the previous arrangement was allowed to expire. On balance, a cooling off period when undrawn credit remains below the threshold continuously for one-year would seem appropriate.
- **Ex-post billing.** The fee could be billed and paid ex-post, at each anniversary date and upon expiration/cancellation for the period in an arrangement where commitments exceed the threshold. In the event purchases brought the level of undrawn credit below the threshold, a pro-rated TBCF would be levied at the end of the relevant period, covering only the time for which the threshold was exceeded. The same policy would be applied to cancellations and changes in the level of access under the arrangement. This implies that, in contrast to current policy on level-based commitment fees, the time-based fee, once triggered, would not be refundable against purchases.

Annex IX. Scoring of Precautionary Arrangements in the FCC

This annex revisits the Fund's practice of counting, or "scoring" of commitments made under arrangements treated as precautionary at full value ("full scoring") for purposes of measuring the Fund's liquidity in the Forward Commitment Capacity (FCC). It illustrates the impact of "partial scoring" on the Fund's liquidity, and how this could delay and complicate potential activation of the Fund's borrowed resources. The annex concludes that full scoring of precautionary arrangements under the FCC remains appropriate in light of the Fund's unique mandate and financing structure. More broadly, staff does not consider partial scoring appropriate in light of the Fund's unique mandate.

A. Context

1. The Fund's main measure of liquidity—the FCC—indicates the Fund's capacity to make new financial commitments under the General Resources Accounts (GRA) over the upcoming 12 months. The FCC equals uncommitted *usable resources*[1] plus members' scheduled repurchases, less the repayments due by the Fund to its creditors (to repay resources borrowed under the New Arrangements to Borrow and/or Bilateral Borrowing Agreements), both measured over the upcoming 12 month period, minus a prudential balance. The FCC is updated and published weekly.

2. Since the inception of the FCC in 2002, commitments under arrangements treated as precautionary have been fully scored (or counted) in the FCC. Under *full scoring*, commitments under precautionary arrangements are counted at their full value for the purpose of measuring liquidity regardless of the likelihood of such resources being purchased. This ensures that resources are available to finance requests for drawings under current commitments, consistent with the Fund's mandate. [2] Furthermore, full scoring precautionary commitments is embedded in the Fund's Borrowing Guidelines as well as in each individual bilateral borrowing agreement.[3]

3. The Board reviewed the full scoring approach in 2017 in the context of the previous review of the FCL and PLL.[4] Directors generally considered that full scoring remained appropriate and supported a continuation of this approach as it provides a clear assurance that resources that

[1] Usable resources from quotas consist of (i) holdings of the currencies of members considered by the Executive Board to have a sufficiently strong balance of payments and reserve position for their currencies to be used in the financing of IMF transactions, and (ii) Fund's holdings of SDRs. A "modified FCC" also includes usable resources from borrowed resources, in the event that these resources are activated (see below on activation conditions).

[2] In the Fund's Financial Transactions Plan (FTP), possible drawings under arrangements treated as precautionary during the plan period are fully covered. Providing for the full amount within the approved maximum transfers under the plan helps underpin confidence that the Fund can make all potential disbursements in a timely manner and consistent with the design of the precautionary arrangements under which large amounts may be drawn at short notice.

[3] These agreements reference the FCC decision No. 14906 (11/38), adopted on April 20, 2011. Any modifications to the FCC definition would raise the question of the need for potential changes to the NAB Decision and 2020 BBAs, and in this regard the consent of NAB participants and 2020 BBA creditors.

[4] *Adequacy of the Global Financial Safety Net—Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform*, SM/17/140 (6/2/2017).

have been committed will be available to members with arrangements in all circumstances. However, a few Directors saw some scope for flexibility by *partially scoring* these commitments, on the basis of the expected low probability of drawing under such arrangements and with a view to freeing up more quota resources for lending.[5]

4. This annex reviews the implications of full and partial scoring. Given the continued call by some Directors for the Fund to consider partial scoring of precautionary arrangements as an alternative to full scoring in the measurement of Fund liquidity, this annex reviews key considerations for scoring precautionary arrangements and the implications for the Fund's liquidity and the Fund's ability to activate its borrowed resources under partial scoring.

B. Key Scoring Considerations

5. Precautionary arrangements present uncertainty as to whether or not they will be drawn, and if so, when. Fund arrangements represent an assurance by the Fund to members that they are able to purchase the amounts committed by the Fund, subject to the terms of the arrangement. In contrast, an intention by a member to treat an arrangement as precautionary can at any time be unilaterally revisited if that the member experiences an actual BoP need. This means that at any time the member can purchase the entire amount available to it at that time under the terms of the arrangement. The timing of any potential purchase is therefore inherently uncertain.

6. Partial scoring would treat only part of the amounts under precautionary arrangements as "committed usable resources". The lower the scoring of precautionary arrangements in the FCC, the higher the level of the FCC. For example, under full scoring, the Fund's undrawn balances under GRA commitments on a precautionary basis stood at SDR 66 billion at end-FY2023. Under 50 percent partial scoring, these commitments would be scored at only SDR 33 billion, implying the FCC would be higher by the difference (in this case also SDR 33 billion).

7. Two pre-conditions for partial scoring to be feasible, flagged in the 2017 Review, remain binding constraints.

i. **Are the Fund's precautionary exposures sufficiently well diversified?** For partial scoring to be feasible**,** there should be confidence that drawings under these arrangements represent only a fraction of its total commitments at any point in time and that they would not be drawn concurrently. Currently, the largest commitments under precautionary arrangements remain concentrated in the Western Hemisphere[6]—notwithstanding the recently approved FCL arrangement for Morocco, the PLL arrangement for North Macedonia, and precautionary SBAs for Armenia and Georgia—and the risks of a correlated drawing cannot be ruled out. Moreover, even if commitments under precautionary

[5] To acknowledge the different perspectives, from December 2017 the Fund has published the breakdown of its undrawn balances under GRA commitments on a precautionary and a non-precautionary basis.

[6] See *Review of the Adequacy of the Fund's Precautionary Balances*, SM/22/260 (11/16/2022).

arrangements were more geographically diversified, correlated drawings remain a risk during events with a global impact—for example, such a scenario could have arisen in 2020 following the synchronized pandemic shock, if precautionary arrangements had been in place with countries that instead requested emergency financing—or with a particular impact on emerging markets.

ii. **Does the Fund have a credible mechanism in place to mobilize the necessary resources quickly should large-scale drawings materialize?** Should there be a large call on the Fund's quota resources, borrowed resources could supplement quota resources. The New Arrangements to Borrow (NAB), the Fund's standing borrowing facility, represents the second line of defense after quotas. Bilateral borrowing agreements (BBAs) would also be potentially available, but only as a third line of defense after quotas and the NAB have been largely exhausted. However, NAB and BBA resources can be activated only subject to creditor conditions (see below)—*and cannot be used to finance purchases under commitments approved outside of the respective NAB and BBA activation periods*.[7] Moreover, legislative provisions in the U.S. described below (Annex Box 2) allow the U.S. to support a proposed NAB activation only if the FCC is expected to fall below SDR 100 billion during an activation period. The Fund cannot itself raise the FCC threshold at which borrowed resources can be activated.

8. A change in scoring could also have implications for monitoring liquidity risk under the Fund's new risk framework. Building on the 2016 Board-approved Risk Acceptance approach, the Fund's new Enterprise Risk Management (ERM) framework envisages moderate risk tolerance for the Fund's liquidity (on the basis of "moderate" risk when the FCC is above SDR 125 billion and up to SDR 175 billion).[8] The new approach entails a notification to the Board when the FCC falls to SDR 125 billion. Partial scoring would increase the FCC, but imply a change in underlying risk tolerance and delay risk mitigation measures (e.g., activation of borrowed resources with creditor consents).

9. A shift to partial scoring would undermine the Fund's liquidity and recourse to borrowed resources. Partial scoring would not increase the Fund's overall resource envelope, but could lead to a situation where the Fund would commit more resources to members than it would have available to meet simultaneous drawings from all members with precautionary arrangements. This could be especially problematic in the event of a significant global shock:

- ***Delayed access to borrowed resources***. Partial scoring would immediately increase the FCC but without any corresponding change in actual resources (liquidity) available for lending. The FCC would become a misleading indicator of the Fund's ability to commit new resources. Because activation of the Fund's borrowed resources depends on the outlook for the level of the FCC (Annex Box 2), partial scoring would therefore delay and complicate activation of the NAB

[7] The Fund's current BBAs, the 2020 BBAs, can be activated only if—among other conditions—the NAB is also already activated or there are no available uncommitted NAB resources.

[8] See *Enterprise Risk Management—Proposed Risk Tolerance Statements and Risk Tolerance Levels* – Supplementary Information (FO/DIS/23/3, sup 1).

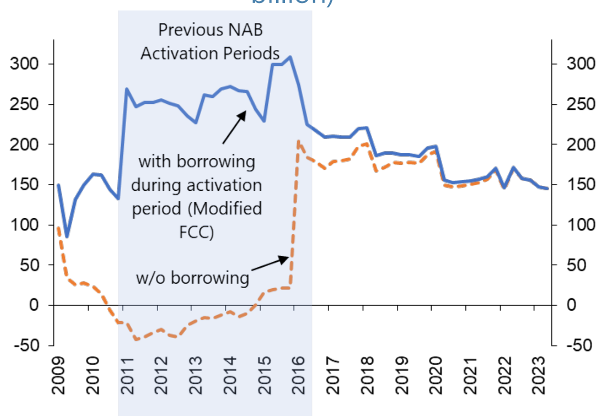
and/or BBAs, thereby potentially compounding liquidity risks for the Fund. In extreme circumstances, partial scoring could lead to risk of the Fund overcommitting *all* of its resources (both quota and borrowed).

- ***Overcommitting quota resources***. In turn, a delay in the activation of borrowed resources due to partial scoring would imply making potentially larger commitments based on quota resources than under full scoring. In the scenario shown below, if the NAB were to be activated at a later stage, the GRA could even be left without sufficient quota resources to allow for adequate co-financing of new commitments, thus potentially precluding the Fund from using its borrowed resources and more than halving the Fund's overall resource envelope.

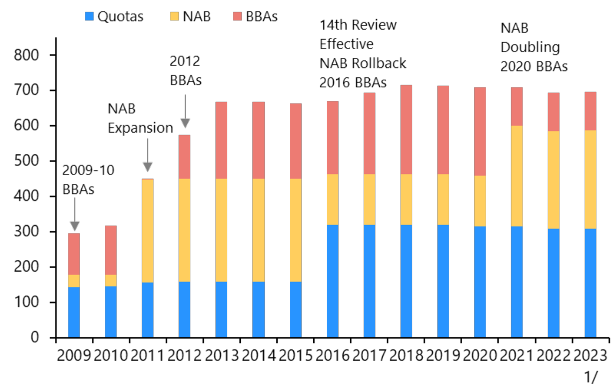
- ***Diminished credibility of Fund's central role in the GFSN***. The Fund's facilities available to provide support for potential BoP needs can only be effective elements of the GFSN if there is full confidence that the resources will be available in case of need, including in extreme crisis scenarios. There is a risk that, if there were any doubts about the Fund's ability to meet its commitments made under arrangements in case actual BoP needs emerge, the confidence-enhancing effect of precautionary arrangements may diminish, and consequently the incentives for members to rely on such facilities instead of accumulating excess reserves could wane. Such doubts could also create incentives for members to rush to draw down their precautionary arrangements to ensure early access to the Fund's limited pool of resources, directly undermining confidence rather than instilling it. Particularly in a context of a global stress scenario, partial scoring could lead to inadequate Fund liquidity and thus directly undermine the Fund's central role in f the GFSN.

Annex IX. Box 1. Activation of Borrowed Resources

Forward Commitment Capacity (In SDR billion)1/



Lending Capacity (In SDR billion)1/



The NAB and BBAs currently account for a majority of the Fund's aggregate lending capacity. Borrowed resources currently represent around 55 percent of the Fund's lending capacity. They contribute about SDR 278 billion (NAB) and SDR 108 billion (BBAs) to the total lending capacity of SDR 695 billion (around US$936 billion) as of end-April 2023. Borrowed resources are, however, available for lending only for commitments made by the Fund during periods in which these resources were activated in accordance with their respective procedures (including creditor consents). The Fund has not activated the NAB since 2016, and the 2020 BBAs have never been activated, despite the impact of the pandemic from 2020 and other subsequent shocks, and the gradually declining trend in the FCC (text chart) 2/

NAB resources are subject to conditions before they can be activated and used to finance Fund lending.3/ NAB activation requires approval from NAB participants representing an 85 percent majority of total credit arrangements eligible to vote, as well as the approval of the Executive Board. Key parameters to be included in any activation proposal include the size of the activation; proposed activation period (up to 6 months); and the resource mix of quota to NAB in financing new lending arrangements (usually 1:2, or 1:3). The time needed to activate the NAB may take 6 weeks or more.

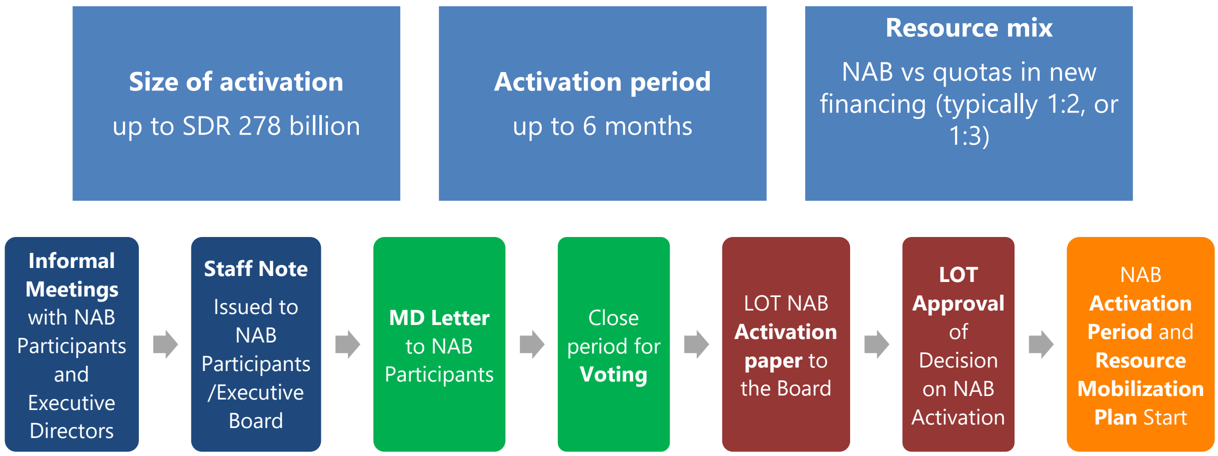
Source: Finance Department; IMF Staff Calculations.

1/ As of end-April 2023.

2/ Previous NAB activations following the global financial crisis, from April 2011 to February 2016, maintained the Fund's liquidity position (modified FCC) at around SDR 250-300 billion.

3/ See the "NAB Decision" (DEC/11428-(97/6), 1/27/1997, as amended, most recently by DEC/16645-(20/5), 1/16/2020).

Annex IX. Figure 1. Key Elements of NAB Activation and Process[1/]



In practical terms, the NAB can be activated only when the FCC is expected to fall below SDR 100 billion during an activation period. The NAB decision does not itself specify a threshold for the Managing Director to propose a NAB activation when there may be a case for supplemental resources.[2/] However, under U.S. law since 2016, the U.S. can support a NAB activation proposal only if the FCC excluding borrowed resources is expected to fall below SDR 100 billion during the proposed activation period. Given the required 85 percent majority in support of a NAB activation proposal and the U.S.'s share in excess of 15 percent of total NAB credit arrangements, this U.S. requirement effectively sets a threshold for any NAB activation proposal.

NAB resources can only be used to finance commitments made during the NAB activation period. The NAB cannot be used to finance commitments approved before the NAB was activated—these commitments must be financed from quota resources.

- In principle, this constraint could be eased if the current NAB Decision were amended to allow the NAB to finance commitments approved when the NAB was not activated. However, such an amendment would require strong consensus (at least 85 percent support from NAB participants).[3/]
- Given the threshold for proposing a NAB activation and since the NAB can finance only GRA commitments when the NAB was activated, the FCC would become a misleading indicator of the Fund's ability to commit new resources under partial scoring. Moreover, if a NAB activation were to be delayed because the FCC remained high under partial scoring, the impact on quota resources would be long-lasting rather than transitory, i.e., the Fund would need to finance more of its lending through quota-only resources prior to the activation of borrowed resources. Nevertheless, creditors could still require the Fund to retain quota resources to co-finance borrowed resources when the latter are eventually activated. Yet if quota resources were to be depleted, this could unduly constrain access to borrowed resources.

1/ Upper part covers the key elements of NAB activation, while the lower part refers to the process.
2/ Since 2021, however, the NAB decision includes a clause limiting the Fund's ability to seek activation of the 2020 BBAs, linked to the outlook for the modified FCC (paragraph 21). In particular, the Fund may only seek activation of bilateral borrowing during this period where the modified FCC (including all available uncommitted NAB resources) is below SDR 100 billion.
3/ See the "NAB Decision" (DEC/11428-(97/6), 1/27/1997, as amended, most recently by DEC/16645-(20/5), 1/16/2020).

Annex IX. Figure 1. Key Elements of NAB Activation and Process (concluded)

Similar constraints apply under the Fund's bilateral borrowing agreements (BBAs). The BBAs are a third line of defense after quotas and NAB and can be activated only if the NAB is also activated or otherwise exhausted. As with the NAB, the BBAs can be used to finance only those lending commitments made during a BBA activation period. Moreover, the *Guidelines for Borrowing* and each individual BBA provides that the BBAs can only be activated if the FCC threshold, as defined under the current FCC Decision[4/]—falls below SDR 100 billion.

4/ Decision No. 14906 (11/38), adopted April 20, 2011.

C. Illustrative Scenarios of Partial Scoring

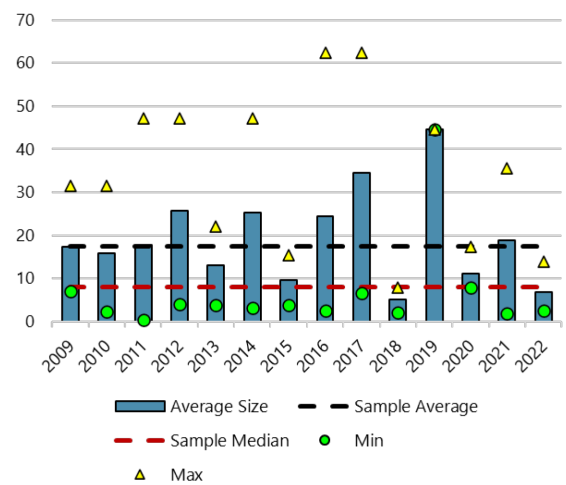
10. The impact of partial scoring on NAB activation and the Fund's liquidity, compared with full scoring, is illustrated in Table 6. The analysis first presents the data and assumptions underlying the scenarios and then discusses the implications of scoring on Fund's liquidity. Full scoring, the current practice, is considered under two scenarios: (i) the first based on existing precautionary commitments (column 1) and (ii) the second based on hypothetical new demand ("new commitments") for new precautionary arrangements (column 2). Partial scoring is analyzed under three scenarios: (i) the first based on existing precautionary commitments (column 3); (ii) the second based on hypothetical new demand ("new commitments") for new arrangements (column 4); and (iii) third based on additional hypothetical new demand (stress scenario, "additional new commitments") for precautionary arrangements (column 5).

a) Data and assumptions

1. FCC *measures the level of resources available for new financial commitments over the next 12 months*. The analysis uses, as the starting point, the actual end-April 2023 FCC of SDR 146 billion and compares the FCC with the threshold of SDR 100 billion for a potential NAB activation (see Annex Box 2).

2. Available quota liquidity. This concept, distinct from the FCC, measures the *actual level of quota-based resources immediately available for new financing*, after fully accounting for all existing commitments, but—in contrast to the FCC—excluding future repurchases expected over the next 12 months.[9]

Annex IX. Figure 2. Approved Access Under Precautionary Arrangements (in billion SDR)[1/]



1/ Includes FCL, PLL/PCL, and SLL arrangements approved since 2009. "Average size" refers to average access for precautionary arrangements approved in a particular year; "max" and "min" refer to individual arrangements approved in a particular year; "sample average" refers to the average over 2009–22.

[9] Under full scoring, available liquidity is equal to the FCC excluding scheduled repurchases and repayments of borrowing due in the next 12 months. Prudential balances are not counted under available liquidity as these amounts (continued)

3. Scoring. Under the current practice of *full scoring*, both existing and new commitments on a precautionary basis (FCL/PLL/SLL/SBA) are fully reflected (fully counted or scored) in the FCC.[10] The *partial scoring* scenarios assume an illustrative 50 percent partial scoring, implying that commitments on a precautionary basis would be counted in the FCC at half their amounts.

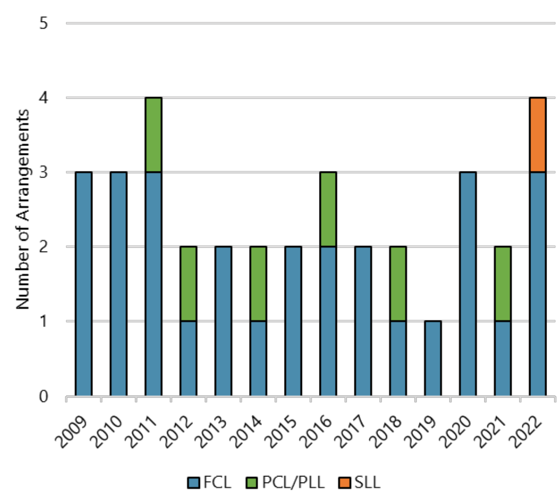
4. Demand scenarios. The following scenarios of demand for precautionary facilities are used: (a) "*existing commitments*" scenario assumes that the current demand for precautionary arrangements will remain unchanged. Two hypothetical new-demand scenarios are also used: (b) "*new commitments*" scenario assumes demand for 4 new precautionary arrangements (for simplicity, under the FCL)—of SDR 20 billion each, broadly in line with the historical access pattern (see text figure)—for a total of SDR 80 billion; and (c) "*additional new commitments*" represents a stress scenario with 3 additional new precautionary arrangements also of SDR 20 billion each, bringing total new demand to SDR 140 billion.

5. Financing mix. The scenarios assume that new precautionary arrangements are co-financed by quota and borrowing in the ratio of 1:3—in line with past practice. This implies that the Fund would need to preserve about SDR 129 billion of its quota resources for co-financing of NAB and BBAs to be able to deploy its full lending capacity:

- For the NAB alone, in order to access the maximum amount available (SDR 278 billion) if activated, the Fund would need to preserve about SDR 92 billion (i.e., one-third of NAB total) of its quota resources for co-financing.

- Additional quota resources would also need to be preserved in order to co-finance BBAs, which could be activated if available uncommitted NAB resources were to run low, that is, "FCC including NAB resources, is below SDR 100 billion." In this context, this would require preserving additional quota resources in the amount of SDR 36 billion, to access the maximum amount of SDR 108 billion available under BBAs.

Annex IX. Figure 3. Frequency of Approved Precautionary Arrangements[1/]



1/ Includes FCL, PLL/PCL, and SLL arrangements approved since 2009.

underpin the encashability of quota resources that is needed to ensure the reserve asset nature of members' claims on the Fund.

[10] Commitments under current SBAs treated as precautionary are relatively small at SDR 0.3 billion.

b) Scenario implications

Full Scoring Scenarios

i. **Existing precautionary commitments (column 1).**

Under the current practice, the full amount of existing precautionary commitments—SDR 66 billion as of end-April—is reflected, resulting in the FCC of SDR 146 billion (**row G)**. To meet creditor conditions to activate the NAB, the FCC would need to be projected to fall below the threshold of SDR 100 billion, and this would require new commitments of at least SDR 46 billion. The available quota liquidity (**row I**; see definition above) amounts to SDR 124 billion, which would be immediately available to finance further new commitments of about SDR 124 billion—whether on a drawing or precautionary basis.

ii. **New precautionary commitments (column 2**).

With the approval of 4 new precautionary arrangements of SDR 80 billion in total, the FCC excluding borrowing would fall from SDR 146 to 66 billion, reflecting the full scoring of these new commitments. NAB activation would be possible under this scenario as the FCC would otherwise fall below the SDR 100 billion threshold. NAB resources could then be used to co-finance those new arrangements approved after activation (at 1:3 ratio), for which the Fund would have sufficient quota resources remaining. However, the calculations of the FCC and available liquidity in this scenario do not make assumptions about the size of the potential NAB activation, and thus in reality both concepts would be higher than the values in column 2.

Partial Scoring (50 Percent) Scenarios

i. **Existing precautionary commitments (column 3)**

- With partial scoring of 50 percent, existing precautionary commitments of SDR 66 billion are scored at SDR 33 billion, which implies a higher FCC of SDR 179 billion (row G), while the Fund's actual available liquidity to immediately finance new commitments would remain unchanged compared to a fully scored approach in column 1 at SDR 124 billion (row I). Thus, ***partial scoring of precautionary commitments raises the FCC, but does not change the true amount of resources available for lending***.

ii. **New precautionary commitments (column 4)**.

- Upon approval, the 4 new precautionary commitments (SDR 80 billion in total) would be scored at SDR 40 billion; the FCC would fall to SDR 139 billion instead of SDR 66 billion under the current practice of full scoring (**column 2**) implying the NAB could not be activated. But the Fund's actual available liquidity would be dangerously low at SDR 44 billion.

- The consequence of partial scoring is that any requests to draw down the new precautionary arrangements—including in the event of a common shock where borrowers draw down in full—would need to be fully financed from quota resources. Thus, ***partial scoring delays NAB activation, and more quota resources are used.***

- The low level of remaining quota resources (available liquidity) would constrain the Fund's ability to co-finance a subsequent activation of NAB and/or BBA resources, including in the event of rising demand for non-precautionary arrangements as seen in scenario iii below (**column 5)**.

- As long as the Fund is required to use quota resources to co-finance its borrowed resources, partial scoring creates a risk the Fund would have effective access to only a fraction of the borrowed resources. This would imply de facto a reduction in the Fund's total lending capacity (from the current US$936 billion), and potentially undermine the role of the Fund in the GFSN.

iii. **Additional new commitments (stress scenario) (column 5).**

- With approval of 3 additional commitments bringing the total to SDR 140 billion, 50 percent partial scoring would account these at SDR 70 billion. This would bring the FCC down by a further SDR 30 billion from SDR 139 billion in column 4, to SDR 109 billion. The FCC would still remain above the threshold for a possible NAB activation (SDR 100 billion). However, actual available liquidity would have now turned negative (**row I**).

- In this scenario, ***the Fund would have over-committed its quota resources available to meet potential drawings under its existing precautionary commitments, but would remain unable to access NAB resources*** to finance new lending commitments.

- In the event of a common shock where FCL users simultaneously draw on their commitments, the Fund may not be able to honor its assurances to all members with FCL arrangements amid a crisis, which could be destabilizing and damage the Fund's reputation and role in the GFSN.

11. In sum, under partial scoring, NAB activation could be delayed and the Fund could potentially commit all its available quota resources, even with the FCC remaining above the NAB activation threshold—effectively restricting access to borrowed resources. With partial scoring the FCC would become a misleading indicator of the Fund's capacity to make new commitments. In a stress scenario, the Fund's liquidity may not be sufficient to honor requests for purchases under already committed financing.

D. Assessment

12. Full scoring of precautionary arrangements under the FCC remains appropriate in view of the Fund's mandate and financing structure. Key considerations remain: (i) the importance of avoiding any doubts over the Fund's ability to meet its financial commitments under precautionary arrangements and thus ensure their effectiveness as part of the GFSN; (ii) the potential for drawings to be highly correlated in response to external shocks that affect several members at the same time; (iii) partial scoring could undermine the Fund's activation of borrowed resources under existing frameworks; (iv) potentially lead to situations where the Fund would overcommit all of its resources, undermining Fund's role in the GFSN; and (v) the continued absence under the current framework of an alternative source of liquidity that could be tapped in the event of correlated drawings.

Annex IX. Table1. Fund Liquidity Under Illustrative Scenarios of Scoring of Precautionary Commitments 1/
(In billions of SDRs)

	100% scoring of precautionary arrangements (current practice)		50% percent scoring for precautionary arrangements		
	Under existing commitments 1	Under new commitments 2	Under existing commitments 3	Under new commitments 4	Under additional new commitments 5
A. Usable Resources 2/	299	299	299	299	299
B. Undrawn GRA commitments (scored)	97	177	65	105	135
Current precautionary 3/	66	66	33	33	33
Current non-precautionary	32	32	32	32	32
Illustrative new precautionary		**80**		**40**	**70**
C. Uncommitted usable resources (A-B)	201	121	234	194	164
D. Repurchases, one-year forward	23	23	23	23	23
E. Repayments of borrowed resources, one-year forward	1	1	1	1	1
F. Prudential Balance (F) 4/	77	77	77	77	77
G. FCC (current definition) (C+D-E-F)	146	66	179	139	109
NAB Activation	No	Yes	No	No	No
H. Actual commitments 5/	**97**	**177**	**97**	**177**	**237**
Current precautionary 3/	66	66	66	66	66
Current non-precautionary	32	32	32	32	32
Illustrative new precautionary		**80**		**80**	**140**
I. Available liquidity (A-F-H) 6/	**124**	**44**	**124**	**44**	**-16**

Source: Finance Department; IMF staff calculations.

1/ Data as of April 30, 2023.

2/ Usable resources (quota-based) consist of (i) holdings of the currencies of members considered by the Executive Board to have a sufficiently strong balance of payments and reserve position for these members currencies to be used in the financing of IMF transactions, and (ii) holdings of SDRs.

3/ Undrawn balances under existing GRA arrangements treated as precautionary, excluding NAB-financed portion.

4/ For quota resources, this represents 20 percent of the quotas of members participating in the Financial Transactions Plan (FTP) and preserves the reserve asset nature of members' claims on the Fund. A 20 percent prudential balance also applies to amounts activated under NAB and BBAs.

5/ This includes the actual level of precautionary lending commitments that the Fund is obliged to make available from quota resources upon request, as well as non-precautionary commitments.

6/ Available liquidity reflects the actual availability of quota-based resources for new commitments in case of full drawing on precautionary arrangements and excluding future repurchases. Excludes borrowing as NAB is currently not activated. NAB activation would be possible only under column 2, for which the value of FCC and available liquidity in this scenario are net of any NAB activation.

Annex X. Redlined Version of Amended Decisions

A. Precautionary and Liquidity Line Decision —Redlined Version

1. The Fund decides that resources in the credit tranches may be made available under a Precautionary and Liquidity Line (PLL) arrangement, in accordance with the terms and conditions specified in this Decision.

2. (a) A PLL arrangement shall be approved upon request in cases where the Fund assesses that the member (i) has sound 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 balance of payments difficulties that it is encountering or might encounter.

(b) (i) In addition to requiring a generally positive assessment of the member's policies by the Executive Board in the context of the most recent Article IV consultations (which shall be supplemented by a generally positive assessment by staff in an Article IV Consultation report where a review pursuant to paragraph 3(b) occurs concurrently with an Article IV consultation), a member's qualification for a PLL arrangement shall be assessed in the following areas (with the member being expected to perform strongly in most of these areas and not to substantially underperform in any of them): (i) external position and market access, (ii) fiscal policy, (iii) monetary policy, (iv) financial sector soundness and supervision, and (v) data adequacy.

(b) (ii) With respect to arrangements to be approved after May 21, 2014, in assessing these five qualification areas specified in paragraph 2(b)(i), the Fund will in particular take into account the following nine criteria: (1) a 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 PLL is requested on a precautionary basis; (5) sound public finances, including a sustainable public debt position; (6) low and stable inflation, in the context of a sound monetary and exchange rate policy framework; (7) sound financial system and the absence of solvency problems that may threaten systemic stability; (8) effective financial sector supervision; and (9) data transparency and integrity. These nine criteria are specifically linked to the five qualification areas specified in paragraph 2(b)(i) as follows: (i) external position and market access, linked to qualification criteria (1)-(4); (ii) fiscal policy, linked to qualification criterion (5); (iii) monetary policy, linked to qualification criterion (6); (iv) financial sector soundness and supervision, linked to qualification criteria (7)-(8); and (v) data adequacy, linked to qualification criterion (9).

(c) Notwithstanding paragraph 2(b) above, the Fund shall not approve a PLL arrangement for a member facing any of the following circumstances: (i) sustained inability to access international capital markets, (ii) the need to undertake a large macroeconomic or structural policy adjustment (unless such adjustment has credibly been launched before approval), (iii) a public debt position that is not sustainable in the medium term with a high probability, or (iv) widespread bank insolvencies.

3. (a) The Fund may approve a member’s request for a PLL arrangement (i) with a duration of one to two years, or (ii) with a duration of six months in circumstances where the member has an actual or potential short-term balance of payments need such that it can generally be expected to

make credible progress in addressing its vulnerabilities during the six-month period of the arrangement.

(b) PLL arrangements with a duration of one to two years shall have conditionality that includes indicative targets, as well as the standard performance criteria related to trade and exchange restrictions, bilateral payments arrangements, multiple currency practices and non-accumulation of external debt payments arrears as specified in paragraphs 3(d) and 3(b)(ii), respectively, of Attachment A of Decision No. 10464-(93/130), adopted September 13, 1993 as amended. The conditionality under these PLL arrangements may also include other performance criteria, prior actions and structural benchmarks where warranted under the Guidelines on Conditionality set forth in Decision No. 12864-(02/102), adopted September 25, 2002, as amended. PLL arrangements with a duration of one to two years shall provide for six-monthly reviews by the Executive Board to assess whether the member's PLL-supported program remains on track to achieve its objectives based on relevant factors such as the member's observance of performance criteria, indicative targets and structural benchmarks, as applicable; its continued adherence to the PLL qualification standard set forth in paragraphs 2(a) and 2(b) of this Decision; and its policy understandings for the future. Such reviews would be scheduled with the objective of completion by the Executive Board immediately prior to the lapse of each six-month period referred to above.

(c) The conditionality under PLL arrangements with a six-month duration shall include the standard performance criteria specified in paragraph 3(b) above and may also include prior actions where warranted under the Guidelines on Conditionality, but shall not include reviews or other forms of ex post conditionality.

4. (a) Subject to paragraphs 4(b) and 4(c) of this Decision, access to Fund resources under the PLL instrument shall be subject to a cumulative cap of ~~500~~ 600 percent of quota, net of scheduled repurchases, which shall apply to all PLL arrangements regardless of duration.

(b) In addition to the PLL instrument access cap specified in paragraph 4(a) above, access under PLL arrangements with a duration of one to two years shall be subject to an annual access limit of ~~250~~ 300 percent of quota (net of scheduled repurchases) applicable at the time of approval of such arrangements, and shall be subject to the following additional considerations:

(i) For one-year PLL arrangements approved for members not having an actual balance of payment need at the time of approval of the arrangement, the entire amount of approved access shall be available upon approval of the arrangement and shall remain available throughout the arrangement period, subject to completion of a six-monthly review as specified in paragraph 3(b) of this Decision. For PLL arrangements with a duration of one to two years approved for members not having an actual balance of payment need at the time of approval of the arrangement, purchases shall be phased, with an initial amount not in excess of ~~250~~ 300 percent of quota being available upon approval of the arrangement and the remaining amount being made available at the beginning of the second year of arrangement, subject to completion of the relevant six-monthly reviews specified in paragraph 3(b) of this Decision.

(ii) For PLL arrangements with a duration of one to two years approved for members that are facing an actual balance of payments need at the time of approval of the arrangement, purchases shall be 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 completion of the relevant six-monthly reviews specified in paragraph 3(b) of this Decision.

(c) In addition to the PLL instrument access cap specified in paragraph 4(a) above, the following access limits and additional considerations shall apply to six-month PLL arrangements:

(iii) A per arrangement limit of ~~125~~ 150 percent of quota, net of scheduled repurchases, shall normally apply to six-month PLL arrangements, with the entire amount of approved access being available to the member upon approval of the arrangement and remaining available throughout the arrangement period.

(i) A per arrangement limit of ~~250~~ 300 percent of quota, net of scheduled repurchases, shall apply to six-month PLL arrangements in exceptional circumstances where a member is experiencing or has the potential to experience short-term balance of payments needs that exceed the ~~125~~ 150 percent of quota limit specified in paragraph 4(c)(i) above due to the impact of exogenous shocks, including heightened regional or global stress conditions. Accordingly, the Fund may in these circumstances, and on a case-by-case basis, approve a new six-month PLL arrangement or augment access under an existing six- month PLL arrangement up to this higher limit, with the entire amount of approved access being available to the member upon approval of the arrangement or, in the case of augmentations, upon completion of an ad hoc review under paragraph 4(d) below, and remaining available throughout the arrangement period.

(ii) Total access to Fund resources under all six-month PLL arrangements shall in no event exceed a cumulative six-month PLL arrangement access limit of ~~250~~ 300 percent of quota, net of scheduled repurchases.

(d) Subject to the PLL instrument access cap specified in paragraph 4(a) above and, for six-month PLL arrangements, subject to the limits specified in paragraph 4(c) above, the Fund will stand ready to consider a member's request to make additional amounts available under any PLL arrangement. The Fund will also stand ready to rephase access under PLL arrangements with a duration of one to two years. Such augmentation or rephasing of access shall be considered 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 based on the factors specified for six-monthly reviews in paragraph 3(b) of this Decision.

5. (a) A PLL arrangement will expire upon the earlier of: (i) the expiration of the approved term of the arrangement, (ii) the purchase by a member of the entire amount of approved access under the PLL arrangement, or (iii) the cancellation of the PLL arrangement by the member.

(b) Upon the expiration of a PLL arrangement, the Fund may on a case-by-case basis approve additional PLL arrangements with a duration of one to two years for the member in accordance with the terms of this Decision, including the provisions on qualification and use of prior actions where warranted.

(c) Following the expiration of a six-month PLL arrangement, the Fund may on a case-by-case basis approve additional six month PLL arrangements for the member in accordance with the terms of this Decision, including the provisions on qualification and use of prior actions where warranted, if either (i) at least two years have elapsed since the approval of the most recent six-month PLL arrangement, or (ii) the member's balance of payments need is longer than originally anticipated due to the impact of exogenous shocks, including heightened regional or global stress conditions, provided that not more than one additional six-month PLL arrangement may be approved under the circumstances specified in this clause (ii).

6. The following procedures and arrangements for consultations with the Executive Board will apply following a member's expression of interest in any PLL arrangement:

(a) Staff will conduct a confidential preliminary assessment of the qualification criteria set forth in paragraph 2 of this Decision.

(b) Once management decides that access to Fund resources under this Decision may be appropriate, it will consult with the Executive Board promptly in an informal meeting, provided that such consultation will not be required for a successor PLL arrangement with a duration of one to two years for a member not having an actual balance of payments need at the time of the request for such arrangement, where: (1) the documentation on the request has been issued to the Executive Board for its consideration within three months of the expiration of the term of a prior PLL arrangement under paragraph 5(a)(i); (2) no purchases were made under such prior PLL arrangement; (3) all reviews pursuant to paragraph 3(b) under such prior PLL arrangement were completed; (4) management has decided that the member's economic circumstances (including economic fundamentals and institutional policy frameworks) and external risks have not changed significantly since the last completed review under such prior PLL arrangement; and (5) the amount of requested access under the successor PLL arrangement is not greater than the approved access under such prior PLL arrangement. For the purpose of the consultation at the informal meeting set forth in this paragraph, Executive Directors will be provided with a concise note setting out the basis on which approval could be recommended under this Decision, including a preliminary assessment of the member's qualification for the PLL, an initial discussion of the key policy areas where policy actions might be sought and an assessment of the member's actual or potential need for Fund resources and repayment capacity.

7. A member may make one or more purchases up to the amount available under a PLL arrangement, subject to the provisions of this Decision. The Fund shall not challenge a representation of need by a member for a purchase requested under a PLL arrangement.

8. Phasing and performance clauses shall be omitted in any PLL arrangement in the first credit tranche. They will be included in other PLL arrangements where specified under the terms of this Decision, but will apply only to purchases outside the first credit tranche.

9. In requesting a PLL arrangement, the member shall submit a 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. Where PLL arrangements with a duration of one to two years are requested, such a framework shall be underpinned by a streamlined set of indicative targets, and

where warranted, structural benchmarks and performance criteria. 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. The timing and modalities for the safeguards assessment for members with a six-month PLL arrangement would be determined on a case by-case basis, but normally the safeguards assessment would need to be completed before Executive Board approval for the member of any subsequent arrangement to which the Fund's safeguards assessments policy applies.

10. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this Decision.

11. All arrangements under Decision No. 14715-(10/83), adopted August 30, 2010 on Precautionary Credit Line Arrangements, that are in force on the effective date of this Decision shall be renamed Arrangements under the Precautionary and Liquidity Line, and shall be subject to the terms of this Decision.

12. The term "PCL" in Decision No. 14064-(08/18), adopted February 22, 2008, as amended, on access policy and limits in the credit tranches, is revised to read "PLL"; and the terms "Precautionary Credit Line" and "PCL" in Decision No. 14745-(10/96), adopted September 28, 2010 on Article IV consultation cycles, are revised to read "Precautionary and Liquidity Line" and "PLL," respectively.

13. Decision No. 7925-(85/38), adopted March 8, 1985, as amended, on the relationship between performance criteria and phasing under GRA arrangements, shall not apply to PLL arrangements.

14. Decision No. 14715-(10/83), adopted August 30, 2010 on Precautionary Credit Line Arrangements is hereby repealed.

B. Flexible Credit Line Decision —Redlined Version

1. The Fund decides that resources in the credit tranches may be made available under a Flexible Credit Line (FCL) arrangement, in accordance with the terms and conditions specified in this Decision.

2. An FCL arrangement shall be approved upon request in cases where the Fund assesses that the member (a) has very strong economic fundamentals and institutional policy frameworks, (b) is implementing—and has a sustained track record of implementing— very strong policies, and (c) remains committed to maintaining such policies in the future, all of which give confidence that the member will respond appropriately to the balance of payments difficulties that it is encountering or could encounter. In addition to a very positive assessment of the member's policies by the Executive Board in the context of the most recent Article IV consultations (which shall be supplemented by a very positive assessment by staff in an Article IV Consultation report where a review pursuant to paragraph 5(b) occurs concurrently with an Article IV consultation), the relevant criteria for the purposes of assessing qualification for an FCL arrangement shall include: (i) a sustainable external position; (ii) a capital account position dominated by private flows; (iii) a track record of steady sovereign access to international capital markets at favorable terms; (iv) a reserve position that is relatively comfortable when the FCL is requested on a precautionary basis; (v) sound public finances, including a sustainable public debt position; (vi) low and stable inflation, in the context of a sound monetary and exchange rate policy framework; (vii) sound financial system and the absence of solvency problems that may threaten systemic stability, or, for arrangements approved before May 21, 2014, the absence of bank solvency problems that pose an immediate threat of a systemic banking crisis; (viii) effective financial sector supervision; and (ix) data transparency and integrity.

3. In light of the qualification criteria set out in paragraph 2 of this Decision, and except for the review requirement specified in paragraph 5 of this Decision, FCL arrangements shall not be subject to performance criteria or other forms of ex-post program monitoring.

4. There shall be no phasing under FCL arrangements and, accordingly, the entire amount of approved access will be available to the member upon approval of an FCL arrangement. A member may make one or more purchases up to the amount of approved access at any time during the period of the FCL arrangement, subject to the provisions of this Decision. The Fund shall not challenge a representation of need by a member for a purchase requested under an FCL arrangement.

5. (a) The Fund may approve a member's request for an FCL arrangement of either one year or two years duration. For FCL arrangements with a two-year duration, no purchase shall be made after one year has elapsed from the date of the approval of the FCL arrangement until an Executive Board review of the member's policies has been completed. Such a review will assess the member's continued adherence to the qualification criteria specified in paragraph 2 of this Decision, and would be scheduled with the objective of completion by the Executive Board immediately prior to the lapse of the one year period referred to above.

(b) An FCL arrangement will expire upon the earlier of: (i) the expiration of the approved term of the arrangement; (ii) the purchase by a member of the entire amount of approved access under the FCL arrangement; or (iii) the cancellation of the FCL arrangement by the member. Upon expiration of an FCL arrangement, the Fund may approve additional FCL arrangements for the member in accordance with the terms of this Decision.

(c) The Fund will stand ready to consider a member's request to make additional amounts available under any FCL arrangement. Such requests for augmentation shall be considered by the Executive Board (i) in the context of a scheduled review specified in paragraph 5(a) above or (ii) on another date within the period of the arrangement. A decision to approve a request for an augmentation of access under (i) or (ii) will be subject to confirmation by the Executive Board of the member's adherence to the qualification criteria specified in paragraph 2 of this Decision. An Executive Board decision not to approve an augmentation request shall not affect (i) the member's right to make one or more purchases under the arrangement for up to the amount of the approved access in accordance with this Decision or (ii) the date of the mid-term review in two-year FCL arrangements pursuant to paragraph 5(a) of this Decision.

6. (a) The following procedures and arrangements for consultations with the Executive Board will apply following a member's expression of interest in an FCL arrangement:

(i) Staff will conduct a confidential preliminary assessment of the qualification criteria set forth in paragraph 2.

(ii) Where support from other creditors is likely to be important in helping a member address its balance of payments difficulties, staff will consult with key creditors as appropriate.

(iii) Once management decides that access to Fund resources under this Decision may be appropriate, it will consult with the Executive Board promptly in an informal meeting, provided that such consultation will not be required for a successor FCL arrangement for a member not having an actual balance of payments need at the time of the request for such arrangement, where: (1) the documentation on the request has been issued to the Executive Board for its consideration within three months of the expiration of the term of a prior FCL arrangement under paragraph 5(b)(i); (2) no purchases were made under such prior FCL arrangement; (3) all reviews pursuant to paragraph 5(a) in such prior FCL arrangement were completed; (4) management has decided that the member's economic circumstances (including economic fundamentals and institutional policy frameworks) and external risks have not changed significantly since the last completed review in such prior FCL arrangement; and (5) the amount of requested access under the successor FCL arrangement is not greater than the approved access under such prior FCL arrangement. For the purpose of the consultation at the informal meeting set forth in this paragraph, Executive Directors will be provided with a concise staff note setting out the basis on which approval could be recommended under this Decision, including (I) a rigorous assessment of the member's actual or potential need for Fund resources and repayment capacity, and (II) an assessment of the impact of the arrangement on Fund liquidity in cases where it is contemplated that access would exceed 575 percent of quota or SDR 10 billion, whichever is lower.

(iv) When the Managing Director is prepared to recommend approval of an FCL arrangement, the relevant documents, including (I) a written communication from the member requesting an FCL arrangement and outlining its policy goals and strategies for at least the duration of the arrangement as well as its commitment, whenever relevant, to take adequate corrective measures to deal with shocks that have arisen or that may arise, and (II) a staff report that assesses the member's qualification for financial assistance under the terms of this Decision, will be circulated to the Board. An assessment of the impact of the proposed FCL arrangement on the Fund's finances and liquidity position will be included in the staff report.

(v) The minimum periods applicable to the circulation of staff reports to the Executive Board shall apply to requests under this Decision, provided that the Executive Board will generally be prepared to consider a request within 48 to 72 hours after the circulation of the documentation in exceptional circumstances, such as an urgent actual balance of payments need.

(b) A member requesting an FCL arrangement would not be subject to the Fund's policy on safeguards assessments for Fund arrangements, provided that in cases where purchases under an FCL arrangement will be used for budget financing, an appropriate framework between the central bank and the state treasury will be in place for timely servicing of the member's financial obligations to the Fund, in line with BUFF/10/115. However, at the time of making a formal written request for an FCL arrangement, such a member requesting an FCL arrangement will provide authorization for Fund staff to have access to the most recently completed annual independent audit of its central bank's financial statements, whether or not the audit is published. This will include authorizing its central bank authorities and the central bank's external auditors to discuss the audit findings with Fund staff, including any written observations by the external auditors regarding weaknesses observed in internal controls. The member will be expected to act in a cooperative manner during such discussions with the staff. For as long as Fund credit is outstanding under this Decision, the member will also provide staff with copies of annual audited financial statements and management letters, together with an authorization to discuss audit findings with the external auditor.

7. The Emergency Financing Mechanism (EFM) procedures set forth in BUFF/95/102, 9/21/1995 shall not apply to requests for FCL arrangements.

8. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this Decision.

9. Paragraph 1 of Decision No. 12865-(02/102), adopted September 25, 2002, shall be deleted, and Paragraph 2, 3 and 4 of the Decision shall be renumbered as Paragraph 1, 2 and 3, respectively.

10. [Deleted]

C. Short-Term Liquidity Line Decision—Redlined Version

1. Subject to the provisions set forth herein, the Fund is prepared to provide financial assistance under a Short-Term Liquidity Line (SLL) in accordance with the terms of this Decision to a member that faces short-term balance of payments difficulties that: (i) are only of a potential nature, reflected in pressure on the capital account and the member's reserves; (ii) are resulting from volatility in international capital markets; and (iii) are reasonably expected to be limited in scale and to require, at most, fine-tuning of monetary and exchange rate policies.

2. ~~Subject to paragraph 6(iv) below, a~~ An SLL arrangement shall be approved upon a member's informal expression of its potential interest in an SLL arrangement, subject to paragraph 6(a)(iv)(B) below, or upon a member's request, and where the Fund assesses that the member:

(a) has very strong economic fundamentals and institutional policy frameworks,

(b) is implementing—and has a sustained track record of implementing—very strong policies, and

(c) remains committed to maintaining such policies in the future, all of which give confidence that the member will respond appropriately to the special balance of payments difficulties that it could encounter. In addition to a very positive assessment of the member's policies by the Executive Board in the context of the most recent Article IV consultations, the relevant criteria for the purposes of assessing qualification for an SLL arrangement shall include: (i) a sustainable external position; (ii) a capital account position dominated by private flows; (iii) a track record of steady sovereign access to international capital markets at favorable terms; (iv) a reserve position that is relatively comfortable; (v) sound public finances, including a sustainable public debt position; (vi) low and stable inflation, in the context of a sound monetary and exchange rate policy framework; (vii) a sound financial system and the absence of solvency problems that may threaten systemic stability; (viii) effective financial sector supervision; and (ix) data transparency and integrity.

3. In light of the qualification criteria set out in paragraph 2 of this Decision, SLL arrangements shall not be subject to) performance criteria or other forms of ex-post program monitoring, including reviews.

4. SLL arrangements may be approved in an amount of up to ~~145~~ 200 percent of the member's quota, with this limit being cumulative for total credit outstanding under the SLL. There shall be no phasing under SLL arrangements. A member may make one or more purchases up to the amount of approved access under an SLL arrangement at any time during the period of such arrangement, subject to the provisions of this Decision, and provided that any outstanding amounts purchased by the member under the current or any previous SLL arrangement shall commensurately reduce the amount that can be purchased by the member during the course of an SLL arrangement. To the extent that a member makes a repurchase of amounts previously purchased under any SLL arrangement, the amount that can be subsequently purchased by the member under an SLL arrangement in effect shall be increased in an amount equal to such amounts repurchased, provided that at no time shall a member be entitled to purchase more than the approved access amount of its current SLL arrangement. The Fund shall not challenge a representation of need by a member for a purchase requested under an SLL arrangement.

5. (a) An SLL arrangement shall be approved for a period of 12 months.

(b) An SLL arrangement shall expire only upon the earlier of: (i) the expiration of the approved period of the arrangement; or (ii) the cancellation of the SLL arrangement by the member. Upon expiration of an SLL arrangement, the Fund may approve an additional SLL arrangement for the member in accordance with the terms of this Decision.

6. (a) The following procedures and arrangements for consultations with the Executive Board will apply following a member's informal expression of potential interest in an SLL arrangement:

(i) Staff will conduct a confidential preliminary assessment of the qualification criteria set forth in paragraph 2.

(ii) When the Managing Director is prepared to recommend that a member be provided with the opportunity to avail itself of an SLL arrangement, or recommend the approval of an SLL arrangement for a member that requested such approval in a written communication, the relevant documents, including a staff report that assesses the member's qualification for financial assistance under the terms of this Decision and, where applicable, the text of the written communication, will be circulated to the Board.

(iii) The minimum periods applicable to the circulation of staff reports to the Executive Board shall apply to requests under this Decision, provided that the Executive Board will generally be prepared to consider a request within 48 to 72 hours after the circulation of the documentation in exceptional circumstances.

(iv) In cases not involving a member's written communication requesting an SLL arrangement, the following procedures shall apply: (A) If the Executive Board assesses that the member qualifies for support under an SLL arrangement and approves an SLL arrangement for the member, such approval, which shall be communicated to the member within one business day, will be conditional on the receipt of a satisfactory written communication from the member confirming to the Fund that the member wishes to avail itself of the SLL arrangement. Such written communication shall be submitted no later than two weeks after the Board has conditionally approved an SLL arrangement for the member. Such written communication shall also outline that the member will maintain very strong policies during the course of the arrangement as well as its commitment, whenever relevant, to take adequate corrective measures to deal with shocks that may arise, and its consent to publication of the associated staff report. (B) The SLL arrangement for the member shall become effective on the date on which the Fund confirms receipt of a written communication from the member that satisfies the requirements outlined in this paragraph. A copy of the written communication shall be circulated for information to the Executive Board.

(v) ~~The SLL arrangement for the member shall become effective on the date on which the Fund confirms receipt of a written communication from the member that satisfies the requirements outlined in 6(a)(iv). A copy of the written communication shall be circulated for information to the Executive Board.~~ Where a member requests approval of an SLL arrangement in a written communication, the text of the communication shall include the outline, commitment and consents specified in paragraph 6(a)(iv)(A) above.

(b) A member submitting to the Fund a satisfactory written communication that it wishes to avail itself of an SLL arrangement or that it requests approval of such arrangement, would not be subject to the Fund's policy on safeguards assessments for Fund arrangements. However, at the time of its written communication, such member will provide authorization for Fund staff to have access to the most recently completed annual independent audit of its central bank's financial statements, whether or not the audit is published. This will include authorizing its central bank authorities and the central bank's external auditors to discuss the audit findings with Fund staff, including any written observations by the external auditors regarding weaknesses observed in internal controls. The member will be expected to act in a cooperative manner during such discussions with the staff. For as long as Fund credit is outstanding under this Decision, the member will also provide staff with copies of annual audited financial statements and management letters, together with an authorization to discuss audit findings with the external auditor.

7. Purchases under this Decision and holdings resulting from such purchases shall be excluded for the purposes of the definition of reserve tranche purchase pursuant to Article XXX(c).

8. A member shall be obliged to repurchase any amounts purchased under an SLL arrangement no later than 12 months after the date of the purchase of such amounts.

9. The Emergency Financing Mechanism (EFM) procedures set forth in BUFF/95/102, 9/21/1995 shall not apply to requests for SLL arrangements.

10. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this Decision.

11. The Fund will review this Decision within two years from the date of adoption of this Decision as part of a review of the Flexible Credit Line and Precautionary and Liquidity Line.

12. The SLL shall terminate seven years after the date of adoption of this Decision, provided that by end-2025 the Executive Board would be expected to decide whether to extend the SLL beyond the seven-year period.

D. 2018-19 Review of the Fund's Transparency Policy (Decision No. 15420-(13/61)—Redlined Version

II. Country Documents

A. Consent

4. c. The Executive Board's decision to approve a Short-Term Liquidity Line (SLL) arrangement under paragraph 6(a)(iv) of the decision on Short-Term Liquidity Line Arrangements, Decision No. 16747-(20/43), adopted April 15, 2020, as amended ("**SLL Decision**"), for a member shall be conditioned on receipt of the member's consent to publication at the time the member sends a written communication to the Fund confirming that the member wishes to avail itself of the SLL arrangement. The associated staff report and the authorities' written communication would be expected to be published by the Fund no later than fourteen calendar days after the member's SLL arrangement becomes effective."

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E. Press Releases in Respect of Use of Fund Resources, the Policy Coordination Instrument, or the Policy Support Instrument

11. After the Executive Board (i) adopts a decision regarding a member's use of Fund resources (including a decision completing a review under a Fund arrangement), or (ii) adopts a decision approving a PSI or a PCI, or conducts a review under a PSI or a PCI, or (iii) completes a discussion on a member's participation in the HIPC Initiative, or (iv) completes a discussion on a member's I-PRSP,

PRSP, PRSP preparation status report, APR, EDD, or PRGS in the context of the use of Fund resources or a PSI, a Press Release, which will contain a Chairman's statement on the discussion, emphasizing the key points made by Executive Directors, will be issued to the public. A Press Release containing a Chairman's statement on the discussion, emphasizing the key points made by Executive Directors, will also be issued to the public after an SLL arrangement under Paragraph 6(a)(iv) of the SLL Decision becomes effective. Where relevant, the Chairman's statement will contain a summary of HIPC Initiative decisions pertaining to the member and the Executive Board's views on the member's I-PRSP, PRSP, PRSP preparation status report, APR, EDD or PRGS in the context of use of Fund resources or a PSI. Waivers for nonobservance, or of applicability, of performance criteria, and any other matter as may be decided by the Executive Board from time to time (Document 21), and waivers for nonobservance of assessment criteria, and any other matter as may be decided by the Executive Board from time-to-time (Document 22), will be mentioned in the factual statement section of the Press Release or in a factual statement issued in lieu of a Chairman's statement as provided for in paragraph 13(b). Before a Press Release is issued, it will, if any Executive Director so requests, be read by the Chairman to the Executive Board and Executive Directors will have an opportunity to comment at that time. The Executive Director elected, appointed, or designated by the member concerned will have the opportunity to review the Chairman's statement, to propose minor revisions, if any, and to consent to its publication immediately after the Executive Board meeting, or, in the case of the SLL arrangement approved under Paragraph 6(a)(iv) of the SLL Decision, immediately after the SLL arrangement becomes effective. Notwithstanding the above, no Press Release published under this paragraph shall contain any reference to a discussion or decision pertaining to a member's overdue financial obligations to the Fund, where a Press Release following an Executive Board decision to limit the member's use of Fund resources because of the overdue financial obligations has not yet been issued. In the case of an Executive Board meeting pertaining solely to a discussion or decision with respect to a member's overdue financial obligations, no Chairman's statement will be published.

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G. Non-publication of Press Releases in Selected Cases – Issuance by the Fund of Factual Statements in Lieu

13.b.(iii) With respect to the consent provisions set forth in paragraph 4(c), if, after twenty-eight calendar days from the effective date of an SLL arrangement approved under Paragraph 6(a)(iv) of the SLL Decision, the staff report has not been published, a brief factual statement will be issued stating the fact of the effectiveness of an SLL arrangement for a member and clarifying the authorities' publication intention with respect to the staff report.