



IMF POLICY PAPER

TARGETED MODIFICATION OF STREAMLINED PROCEDURES FOR APPROVAL OF SUCCESSOR FLEXIBLE CREDIT LINE AND PRECAUTIONARY AND LIQUIDITY LINE ARRANGEMENTS

July 2024

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:

- The **Staff Report**, prepared by IMF staff and completed on June 13, 2024, for the Executive Board's consideration on June 28, 2024.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Electronic copies of IMF Policy Papers
are available to the public from
<http://www.imf.org/external/pp/ppindex.aspx>

International Monetary Fund
Washington, D.C.



June 13, 2024

TARGETED MODIFICATION OF STREAMLINED PROCEDURES FOR APPROVAL OF SUCCESSOR FLEXIBLE CREDIT LINE AND PRECAUTIONARY AND LIQUIDITY LINE ARRANGEMENTS

EXECUTIVE SUMMARY

The 2023 Review of the Flexible Credit Line (FCL), the Short-Term Liquidity Line (SLL), and the Precautionary and Liquidity Line (PLL) introduced a welcome streamlining of procedures. This included dropping the requirement for an informal consultation with the Executive Board for the approval of successor FCL and PLL arrangements when certain requirements were met.

In implementing the new procedures, however, staff observed that, inadvertently, one requirement is at odds with the well-established practice for consecutive FCL and PLL arrangements. It is normal practice to cancel an existing arrangement shortly before expiration, while simultaneously requesting a successor arrangement to ensure seamless back-to-back arrangements. But an unintended consequence of the drafting of the new procedures is that an informal consultation with the Executive Board can be waived only when an arrangement expires—not if it were to be canceled shortly before expiration to ensure seamless back-to-back arrangements—even if all the other requirements for dropping such consultation are satisfied. This unduly constrains the reform and is at odds with the intention presented in the 2023 Review.

To rectify the issue, staff proposes the adoption of a decision with a targeted modification of the FCL and PLL decisions.

Approved By
**Rishi Goyal and
 Yan Liu**

Prepared by Legal and Strategy, Policy, and Review Departments. The team comprised Martin Cihak (lead), Alex Culiuc, Hyunmin Park, and Martha Woldemichael (all SPR) and Gabriela Rosenberg (LEG). Research assistance was provided by Shelley Li. Administrative assistance was provided by Merceditas San Pedro-Pribram and Ryan Tonra.

1. **In the 2023 [Review of the FCL, SLL and PLL](#), the Executive Board adopted amendments to streamline FCL and PLL procedures for the approval of successor arrangements.** This included dropping the requirement of an informal consultation with the Executive Board for approval of successor arrangements, subject to observing several requirements (¶170, Reform 1¹). These requirements include that the country’s economic circumstances, such as its fundamentals and institutional policy frameworks, and external risks are assessed to have not changed significantly since the last review and that overall access requested in the successor arrangement does not exceed that of the previous arrangement. As the Board paper noted, 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” (¶170, bullet 1).
2. **The amendments mentioned expiration of an arrangement but not the standard practice of cancelling before expiration with the intent of immediately requesting a successor arrangement.** For dropping the informal consultation with the Board ahead of a successor arrangement, the Board paper noted that the documentation (written communication and staff report) on the request for the successor arrangement should be issued to the Executive Board for its consideration within three months of *expiration* of a previous undrawn FCL (or PLL) arrangement.² However, *a member’s cancellation* of an arrangement before expiration with the intent to simultaneously request a successor arrangement, as is the standard practice, was not specifically mentioned, although it was intended to be covered by the reform.
3. **In that regard, in implementing the new procedures, staff has observed that the requirement that the predecessor FCL or PLL arrangement has “expired” by reaching the end of the approved term is unduly constraining.** It is the standard practice for members that receive support under FCL and PLL arrangements to cancel their arrangement shortly before their expiration, with a simultaneous request for a new, successor arrangement. This “cancel and request” approach has proven to be a practical way to ensure a seamless coverage under the FCL or PLL while transitioning between arrangements. It avoids any risks related to timing Board meetings on the

¹ The Summing Up endorsed the procedures described in paragraph 70 of the [Board paper](#).

² This requirement is assessed at the time the documentation on the request of a successor arrangement is issued to the Board. The scheduled date for the formal Board discussion of such request should be no later than three months after the expiration of the previous arrangement. Accordingly, the documentation on such request can potentially be issued to the Board before the scheduled expiration of the existing arrangement.

successor FCL/PLL arrangement request to perfectly coincide with the expiration date of the previous arrangement, which can be difficult to achieve. For example, Mexico's 2019 FCL arrangement was requested 6 days before the scheduled expiration of the 2017 FCL arrangement, the 2021 FCL arrangement was requested 2 days before the scheduled expiration of the 2019 FCL arrangement, and the 2023 FCL arrangement was requested 3 days before the scheduled expiration of the 2021 FCL arrangement. Table 1 documents similar practices in other countries with back-to-back FCL and PLL arrangements. Since the "cancel and request" approach to successor arrangements is not specifically mentioned in the requirements for the streamlined procedures, this standard practice is inadvertently not covered by the reform. Staff has identified this issue only after the approval of Mexico's 2023 FCL arrangement, while Colombia's 2024 FCL did not face it since the new arrangement was approved on the last business day of the previous (2022) FCL arrangement.

4. In staff's view, a member's cancellation of the predecessor arrangement should not preclude the use of the streamlined procedures when such cancellation does not reflect a deterioration in the member circumstances and is made in the context of a request for a successor arrangement. The existing streamlined procedures already include safeguards to ensure that the informal Board meeting is dropped only when the members' economic circumstances have not changed significantly since the last completed review.³ A targeted modification limited to permit the use of the streamlined procedures by members following the "cancel and request" approach would maintain all existing safeguards, including the requirement that all reviews have been completed and requested access under the successor arrangement does not exceed that of the previous arrangement.

5. Accordingly, staff proposes the adoption of the proposed decision with a targeted modification to the PLL and FCL decisions. This modification is strictly limited to include only cases of expiration of the predecessor FCL and PLL arrangements owing to a member's cancellation of such arrangement before expiration in the specification of the requirements that allow use of the streamlined procedures (i.e., revised paragraph 6(b) (1) of the PLL decision, and paragraph 6(a)(iii) (1) of the FCL decision). Additionally, to remove ambiguity, the term "*within three months of the expiration of the term*" (which could be incorrectly interpreted as a 6-month window of 3 months before and 3 months after the expiration) is replaced with "*no later than three months from the date of expiration.*" For Executive Directors' convenience, Annex I contains a redlined text to show the changes to the FCL and PLL decisions.

³ An informal Board meeting for a successor FCL and PLL arrangement is not required if the successor arrangement was requested by a member not having an actual balance of payments need at the time of the request, and if (i) the documentation for the successor arrangement is issued to the Executive Board for its formal consideration within three months of expiration of the approved term of the previous arrangement, (ii) the member has made no purchases under the previous arrangement, nor cancelled it, and all reviews under the arrangement were completed, (iii) the member's economic circumstances and external risks have not deteriorated significantly since the last review, and (iv) access under the successor arrangement does not exceed that of the previous arrangement.

Table 1. Repeated FCL, SLL and PLL Arrangements

Country	Facility	Approval Date	Expiration Date Specified in Arrangement	Actual Expiration Date ¹	Gap from Previous Arrangement ² (Days)
Chile	FCL	2020-05-29	2022-05-28	2022-05-19	
	SLL	2022-05-20	2023-05-19	2022-08-28	-8
	FCL	2022-08-29	2024-08-28		-263
Colombia	FCL	2009-05-11	2010-05-10	2010-05-06	
	FCL	2010-05-07	2011-05-06	2011-05-05	-3
	FCL	2011-05-06	2013-05-05		0
	FCL	2013-06-24	2015-06-23	2015-06-16	50
	FCL	2015-06-17	2017-06-16	2016-06-12	-6
	FCL	2016-06-13	2018-06-12	2018-05-24	-368
	FCL	2018-05-25	2020-05-24	2020-04-30	-18
	FCL	2020-05-01	2022-04-30	2022-04-28	-23
	FCL	2022-04-29	2024-04-28	2024-04-25	-1
	FCL	2024-04-26	2026-04-25		-2
Mexico	FCL	2009-04-17	2010-04-16	2010-03-24	
	FCL	2010-03-25	2011-03-24	2011-01-09	-22
	FCL	2011-01-10	2013-01-09	2012-11-29	-73
	FCL	2012-11-30	2014-11-29	2014-11-25	-40
	FCL	2014-11-26	2016-11-25	2016-05-26	-3
	FCL	2016-05-27	2018-05-26	2017-11-28	-182
	FCL	2017-11-29	2019-11-28	2019-11-21	-178
	FCL	2019-11-22	2021-11-21	2021-11-18	-6
	FCL	2021-11-19	2023-11-18	2023-11-14	-2
	FCL	2023-11-15	2025-11-14		-3
Morocco	PLL	2012-08-03	2014-08-02	2014-07-27	
	PLL	2014-07-28	2016-07-27	2016-07-21	-5
	PLL	2016-07-22	2018-07-21		-5
	PLL	2018-12-17	2020-12-16	2020-04-07	149
Peru	FCL	2020-05-28	2022-05-27	2022-05-26	
	FCL	2022-05-27	2024-05-26		0
Poland	FCL	2009-05-06	2010-05-05		
	FCL	2010-07-02	2011-07-01	2011-01-20	58
	FCL	2011-01-21	2013-01-20	2013-01-17	-161
	FCL	2013-01-18	2015-01-17	2015-01-13	-2
	FCL	2015-01-14	2017-01-13	2017-01-12	-3
	FCL	2017-01-13	2019-01-12	2017-11-02	0

Source: IMF Finance Department database and IMF staff calculations.
¹ Left blank if same as Expiration Date Specified in Arrangement.
² Gap between the approval date and the expiration date specified in the predecessor arrangement.

Proposed Decision

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

1. Paragraph 6(b) (1) of the Decision on Precautionary and Liquidity Line Arrangements, Decision No. 15017-(11/112), adopted November 21, 2011, as amended, shall be further amended to read as follows:

(1) the documentation on the request has been issued to the Executive Board for its consideration no later than three months from the date of expiration of a prior PLL arrangement under paragraph 5(a)(i) or paragraph 5 (a)(iii);

2. Paragraph 6(a)(iii) (1) of the Decision on Flexible Credit Line Arrangements, Decision No. 14283-(09/20), adopted March 24, 2009, as amended, shall be further amended to read as follows:

(1) the documentation on the request has been issued to the Executive Board for its consideration no later than three months from the date of expiration of a prior FCL arrangement under paragraph 5(b)(i) or paragraph 5(b)(iii);

Annex I. Redlined Version of Amended Decisions

A. Precautionary and Liquidity Line Decision—Redlined Version of Modification to Paragraph 6

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 no later than~~ three months ~~of from~~ the date of expiration ~~of the term~~ of a prior PLL arrangement under paragraph 5(a)(i) or paragraph 5(a)(iii); (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.

B. Flexible Credit Line Decision—Redlined Version of Modification to Paragraph 6

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~~ no later than three months ~~of from~~ the date of expiration ~~of the term~~ of a prior FCL arrangement under paragraph 5(b)(i) or paragraph 5(b)(iii); (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.