The IMF's Precautionary and Liquidity Line (PLL)

The global financial crisis highlighted the need for effective global financial safety nets to help countries cope with adverse shocks. A key objective of recent lending reforms was to complement the traditional crisis resolution role of the IMF with more effective tools for crisis prevention. The Precautionary and Liquidity Line (PLL)—which replaces the Precautionary Credit Line (PCL)—is designed to meet flexibly the liquidity needs of member countries with sound economic fundamentals but with some remaining vulnerabilities that preclude them from using the Flexible Credit Line (FCL).

Tools to meet countries' diverse financing needs

The Precautionary and Liquidity Line (PLL) builds on the strengths and broadens the scope of the Precautionary Credit Line (PCL). The PLL provides financing to meet actual or potential balance of payments needs of countries with sound policies, and is intended to serve as insurance and help resolve crises. The PLL combines a qualification process (similar to that for the FCL) with focused ex-post conditionality aimed at addressing vulnerabilities identified during qualification. Its qualification requirements signal the strength of qualifying countries' fundamentals and policies, thus contributing to consolidation of market confidence in the country's policy plans. The PLL is designed to provide liquidity to countries with sound policies under broad circumstances, including countries affected by regional or global economic and financial stress.

PLL arrangements can have a duration of either six months or 1-2 years with the six-month duration available for countries with actual or potential short-term balance of payments needs. Up to 250 percent of a member country's quota can normally be made available upon approval of a six-month PLL arrangement, with higher amounts of up to 500 percent of quota available in exceptional circumstances where the member country's increased need results from the impact of exogenous shocks, including heightened stress conditions (see Liquidity Window for Crisis Bystanders below).

For 1-2 year PLL arrangements, the maximum access at approval is equal to 500 percent of quota for the first year and a total of 1000 percent of quota during the second year. In PLL arrangements with a duration of more than one year, amounts committed during the second year can be brought forward to the first year through rephrasing where needed. Such requests will be considered in a scheduled or ad-hoc review by the IMF's Executive Board that will assess the member country's actual or potential balance of payment need and the extent to which the program remains on track to achieve its objectives. Six-month PLL arrangements are normally renewable only after a two-year cooling-off period from the date of approval of the previous six-month PLL arrangement.

Countries with sound policies qualify

The qualification process enables the PLL to signal the strength of qualifying countries' fundamentals and policies. The core standard of the qualification process is that the member country:

- Has sound economic fundamentals and institutional policy frameworks
- Is currently implementing—and has an established track record of implementing—sound policies
- Is committed to maintaining sound policies in the future

A country's qualification for the PLL is assessed in the following five broad areas: (i) external position and market access; (ii) fiscal policy; (iii) monetary policy; (iv) financial sector soundness and supervision; and (v) data adequacy. While requiring strong performance in most of these areas, the PLL provides liquidity to member countries that may still have moderate vulnerabilities in one or two of these areas.

Countries experiencing any of the following conditions at approval cannot access the PLL: (i) sustained inability to access international capital markets; (ii) a need for large macroeconomic or structural policy adjustment; (iii) a public debt position that, with high probability, is not sustainable in the medium term; or (iv) widespread bank insolvencies.

Liquidity window for crisis bystanders

Research by IMF staff shows that heightened regional or global stress events can affect countries with relatively strong fundamentals that would not likely be at risk of an idiosyncratic crisis (the crisis bystanders). Providing rapid and adequate short-term liquidity to these bystanders during periods of stress could bolster market confidence, limit contagion, and reduce the overall cost of crises. To this end, a six-month PLL arrangement with higher access up to 500 percent of quota could be approved in exceptional circumstances where a member country has an increased actual or potential balance of payment need that is of a short-term nature due to the impact of exogenous shocks, including heightened regional or global stress conditions. Under such circumstances, one additional successor six-month PLL arrangement could be approved without observing the cooling-off period, while maintaining the limit of 500 percent of quota under all six-month PLL arrangements.

Focused program to reduce remaining vulnerabilities

Countries using the PLL commit to a focused set of policies aimed at reducing their remaining vulnerabilities identified in the qualification process. Since these countries have sound policies and fundamentals, policy actions in 1-2 year PLL arrangements will be focused, with streamlined conditionality. Thus, under these arrangements, prior actions and performance criteria will only be used when they are critical for a program's success, and a quantified macroeconomic framework underpinned by indicative targets would allow assessment of a country's progress toward meeting its program objectives. 1-2 year PLL arrangements are monitored through six-monthly reviews. In cases where a member country has an actual balance of payments need at the time of approval of the arrangement, access is phased through semiannual disbursements in line with the same periodicity of reviews. Six-month PLL arrangements are not monitored through reviews and do not include ex-post conditions other than standard performance criteria.

Low cost to get through tough times

The PLL is subject to the same charges, surcharges, commitment fees, and repurchase period (3¼ to 5 years) as the FCL and Stand-By Arrangements (SBA). If funding needs do not materialize, countries pay only a commitment fee which increases with the level of access available over a 12-month period, effectively ranging between 24 and 27 basis points for access between 500 and 1000 percent of quota.

The cost of drawing under the PLL varies with the scale and duration of financing. The lending rate is tied to the IMF's market-related interest rate, known as the basic rate of charge, which is itself linked to the Special Drawing Rights (SDR) interest rate. Large loans, with credit outstanding above 300 percent of quota, carry a surcharge of 200 basis points. If credit outstanding remains above 300 percent of quota after three years, the surcharge rises to 300 basis points. The escalation of the surcharge is designed to discourage large and prolonged use of IMF resources. Currently, the effective interest rates under the PLL (or an FCL or SBA) for access between 500 and 1000 percent of quotarange between 2.0–2.6 percent, and about 2.4–3.3 percent after 3 years. These interest rates exclude a flat 50 bps service charge, which is applied to all IMF disbursements.