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CONFIDENTIAL

June 9, 2020

**Statement by Mr. Bhalla and Ms. Indraratna on 2020 Mid-Year Risk Update (Preliminary)**
**Executive Board Meeting**
**June 11, 2020**

1. We thank staff for the comprehensive risk update and the background paper and the First Deputy Manager for the insightful buff statement.

2. The COVID-19 pandemic has elevated the risk landscape of the Fund, dominating both the Fund's internal and external operating environment. On the external front, the pandemic has created an unprecedented demand for emergency financing, which has resulted in the Fund adjusting its policies and instruments internally to respond to the crisis in a timely manner with massive financial support. The Fund's unprecedented response has earned the recognition of the membership helping to mitigate strategic and reputational risks, but the higher lending portfolio with limited ex post conditionality in emergency financing has brought with it a higher level of enterprise wide risks that needs to be managed. These risks are in addition to the pre-COVID risks such as those associated with large programs that the Fund has had to grapple with. Although risk mitigation measures have progressed relative to the 2019 Risk Report, we note that risks have increased in some areas, largely due to the COVID-19 pandemic. We broadly agree with the risk appraisal and provide remarks for emphasis only.

3. Risks to the **use of fund resources** have risen with the COVID-19 crisis as increasing volumes of finance are being lent to countries to combat the outbreak. Program risks, which were high prior to the COVID crisis due to large programs such as Argentina, have now intensified with new financing approvals to deal with the pandemic while residual risks also have increased due to the uncertainty associated with the COVID-19 crisis. Against this background, we welcome the focus of risk mitigation on emergency financing with the coverage of program risks mandated in financing request documents and the use of emergency funds shown through independent audits of crisis spending and transparent procurement processes. Such requirements are macro critical as they facilitate governance and minimize corruption.

4. We note that risks related to the **adequacy of Fund resources** – which is crucial to the Funds' ability to fulfill its mandate - have increased substantially. While GRA resources appear to be adequate in the near term, we agree with the staff that a contingency plan needs to be considered in the medium term, especially in the event the crisis worsens. The NAB and BBAs can help address the medium to long term risks in this area. We voice our concerns on PRGT adequacy and self-sustainability risks which have become elevated now and support the augmentation of PRGT resources to mitigate adequacy risks. We also support efforts to replenish the CCRT to help with debt service relief for vulnerable members.

5. We note that **surveillance** risks have increased, especially in the context of emergency funding where there is no ex post conditionality and assessment of fundamentals must be correct ex ante. Against this background, we take positive note of several initiatives embarked upon to improve surveillance during the pandemic period. We welcome the combined macroeconomic policy analysis and epidemiological modelling undertaken to gauge the impact of the virus and the inclusion of additional scenario analysis to reflect the uncertainty. We note positively the introduction of the Policy Tracker showcasing the policy actions of 193 economies in dealing with the crisis while facilitating the sharing of policy advice and safeguarding macro-financial stability. As the temporary suspension of Article IV consultation cycles has further compounded surveillance problems with its impact on program risk, we look forward to proposals to mitigate risks arising from this situation. While the uncertainty associated with the Covid-19 crisis has increased the challenge of forecasting, which is necessary for accurate policy advice, we welcome the mitigation efforts undertaken to address forecast optimism and inefficiency identified in the 2019 risk report, including the innovations featured in the April 2020 WEO.

6. We note that risks related to **human capital** have increased due to the COVID-19 outbreak from the 2019 assessment. The COVID crisis has put significant pressure on staff due to the higher workload and WFH challenges. We note positively the measures put in place to mitigate risks in relation to human capital and the pandemic. Temporary adjustments to leave and benefit policies, flexible work arrangements, the suspension of the 15-day minimum annual leave usage requirement, enhanced communication and wellbeing services to prop up morale and motivation, have helped the Fund maintain a productive workforce during the stressful pandemic period. Moreover, to reduce work pressures arising from the increased demand for Fund services, we welcome steps taken by the management to reallocate staff to business units facing elevated work pressures, while rehiring of retirees and the grant of extension of service for contractual employees have also helped maintain a motivated workforce. We are also encouraged by the steps taken to engage in virtual onboarding for new hires during the pandemic period and note that efficiency gains have been made in this area.

7. Notwithstanding the continued challenges encountered in **information security**, we raise our concerns regarding the elevation of risks in this area. While observing the increased cyber security risk associated with the shift to WFH, we note that the risk mitigation roadmap has run into delays. Although in person Crown Jewels (CJs) training for all departments is ongoing at present, only about 54 percent of users have completed the course. *As this is an important aspect of information security, can staff comment on why a large*

*percentage of users have not undergone this training?* We reiterate the need to set apart sufficient financial and human resources to successfully deal with cybersecurity challenges.