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

We thank the Office of Risk Management (ORM) for the well-written report and the First Deputy Managing Director for his Buff statement. The COVID-19 pandemic is hitting the global economy and reshaping the Fund's risk profile. We commend the Fund's swift and decisive response to the crisis, which not only helps support its member countries, but also mitigate the Fund's strategic and reputation risks. However, these responses have increased the Fund's own enterprise risks as well. Given the unprecedented nature of the crisis, the Fund would risk doing too much with its own enterprise risks increased, rather than doing too little and leaving risks to its membership. We agree with the thrust of the paper and would like to limit our comments to the following.

**Lending: Use of Fund Resources**

We take note that the risks to program portfolio are extremely high. Considering that there might be a new wave of successor programs during the recovery phase, the risk is expected to increase further. In this regard, risk mitigation measures should be in place, with priority on the large programs that take most of the Fund's resources. The total number of emerging financing is increasing sharply, but the total amount of resources committed to them remains relatively small (around 6 percent of GRA and 30 percent of PRGT). Recent measures to enhance the governance safeguards for emergency financing are a step in the right direction. We acknowledge that the Fund has limited capacity to diversify the regional concentration risk. Nevertheless, enhancing coordination with the Regional Financial Arrangements (RFAs) and facilitating the agreement and activation of the RFAs might help mitigate the regional concentration risk.

**Lending: Adequacy of Fund Resources**

We take note with concern that the risks to the adequacy of Fund resources have raised. The likelihood of NAB activation has been increased in the short term and the Fund's overall

lending capacity could be exhausted under some scenarios in the medium to long term. We welcome the timely updates on Fund resources and encourage staff to continue closely monitor resource adequacy. We urge timely discussions and completion of the 16th general review of quotas, which is the most effective way to address the medium-to-long term risks related to resource adequacy. A general SDR allocation should also be seriously considered as the most effective way to address the short-term risks related to liquidity shortage.

### **Financial Assets and Income**

We take note that the lending income would increase but credit risk buffers would be under pressure, given the increasing volume of the Fund's lending. We look forward to a more detailed briefing on the adequacy of the precautionary balance and staff's suggestions on how to mitigate the related risks.

### **Medium-Term Budget**

The Fund's timely response to the crisis is depleting the already diminishing budgetary slack and buffers. The real flat budget in the past years reflects the Fund's strong budgetary discipline. An exceptional and temporary increase on budget resources seems warranted during the unprecedented crisis. *Could staff shed some light on the Fund's budget performance during the 2008 financial crisis?*

### **Surveillance**

The large uncertainty in the global economic outlook poses great challenges to the accuracy of forecasts. In this regard, we suggest the Fund to continue closely monitoring the situation and update the forecasts more frequently. The temporary suspension of Article IV consultations helps to reprioritize the Fund's work but also further increases the surveillance risks. A plan to gradually return to regular surveillance is needed, perhaps starting from countries where the pandemic has been under control.

### **Human Capital**

We commend the Fund's swift actions to alleviate immediate work pressures and help staff adjust to the extended work from home (WFH) period. Similar efforts are needed to help staff adjust to returning to the office once the pandemic abates. The pandemic poses great challenges on talent recruitment and retention. We note with concern that significant shortfalls remain for the underrepresented regions, including East Asia and MENA+. We encourage more efforts in closing this gap. Increasing incentives for staff working on fragile states and LICs are also urgently needed, given the lack of staff who have experience on PRGT and program countries.

### **Information Security and Technology**

We take note of the expected delay in implementing the Information Security Roadmap for risk mitigation. *Do staff see any impact of the delay on the related budget?* The recent risk events related to third-party vendors underscore the importance of further enhancing third-

party risk management. We commend the excellent technology support to safeguard the smooth shift to WFH and the success of virtual Spring Meetings.

Finally, we look forward to the internal audit recommendations on how to further advance the enterprise risk management at the Fund.