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GRAY/20/2401

CONFIDENTIAL

June 9, 2020

**Statement by Mr. Kaya, Mr. Benk, Mr. Just, and Mr. Marek on 2020 Mid-Year Risk Update
(Preliminary)
Executive Board Meeting
June 11, 2020**

We thank staff for the detailed set of reports and First Deputy Managing Director Okamoto for the helpful Buff statement. The current crisis developments have exposed the Fund to new risks and significantly increased existing ones, in particular, program portfolio and resource risks. While we support ex ante information on enterprise risks associated with Board decisions, these reports are instrumental to enhancing the Board's understanding of the Fund's risk landscape and providing details on potential additional mitigation measures going forward. **We broadly agree with the characterization of enterprise risks and the related risk mitigation measures, and support the actions taken to further strengthen enterprise risk management in the recent period.**

Program portfolio risk has to be mitigated, in particular, for the Fund's emergency financing. While the concentration of programs in Latin America is a consequence of the Fund's mandate, the rapid shift in emergency financing calls for strengthened surveillance, given no ex-post conditionality attached to these disbursements. Therefore, strong risk-mitigation ex ante safeguards, including debt sustainability analyses, assessments of the capacity to repay, as well as assessments of external financing needs, have to be applied diligently. In the same vein, sufficient governance safeguards, including ex post audits, are critical to ensure the transparent, accountable, and efficient use of the Fund's resources, in particular, should the emergency financing instruments be used repeatedly.

The Fund's surveillance capacity needs to be enhanced amid the current crisis developments. The suspension of Article IV Consultation cycles and Financial Sector Assessment Programs in favor of emergency program requests has raised a number of surveillance risks. We see merit in advising the membership on bolstering their macroprudential frameworks, fiscal policies, as well as key, sector-specific measures to contain emerging financial market risks, including through regulatory and supervisory guidance. To this end, the Fund should use all its communication channels efficiently. Under

the present crisis conditions, capacity development should be integrated with surveillance and lending through online training, virtual roundtables, and webinars to support the Fund's policy advice and enhance traction. *Could staff comment on the proposals currently under consideration to mitigate surveillance risks and ensure continuity in the Fund's bilateral engagement with members?* While virtual surveillance should not become the new norm, we need to formulate a structured approach. To this end, developing a Guidance Note would be advisable to ensure equal standards for Fund engagement across the membership.

The reliability of macroeconomic projections should be bolstered to mitigate the increasing risks to the Fund's resources. We are concerned that the probability that the Forward Commitment Capacity would decrease below SDR 100 billion is 74 percent in the adverse scenario, potentially requiring the activation of the New Arrangements to Borrow. The share of emergency financing on the General Resource Account and Poverty Reduction and Growth Trust resources is substantial and will likely be expanding, due to successor arrangements and upcoming new program requests. Increased Fund engagement requires sound macro-financial analysis and forecasting. While the current uncertainty regarding the magnitude and length of the pandemic pose challenges to the model toolkit, staff might consider using more systematically scenario analyses to underpin the policy advice. We note that the review of various forecasting models is in progress, as well as the work on review of data provision to the Fund. Ensuring an accurate data picture of individual countries would improve the quality of input into models and sharpen the projections.

IT and cyber risks are among the key operational risks. While the Fund's crisis response thus far has enhanced its reputation, it is pivotal to prevent a major IT incident resulting from cyberattacks, as indicated in the *Risk Event Analysis: Reputational Landscape*. The Fund's operational resilience needs to be strengthened, also in view of the potential virtual Annual Meetings, to ensure successful delivery to the membership. Given the delayed spending on major technology projects, it is critical to move ahead with their implementation, as the risks have increased since the 2019 Risk Report. Sound, third-party risk management is important to address both the operational weaknesses and reputational risks for the Fund, especially due to the diverse network of vendors supporting ITD as indicated in Box 2. At the present juncture, it would be advisable for the Office of Risk Management to develop roadmaps on the operational and enterprise risks, should the COVID-19 pandemic be more prolonged.

Human capital risks need to be contained amid the current increased workload and health risks. The current crisis developments pose enhanced requirements on human capital, in particular, owing to the scaling-up of program engagements and work-from-home challenges. We support mitigating measures to relieve the work pressure on staff, while ensuring sufficient expertise for the required tasks and activities of the Fund.