

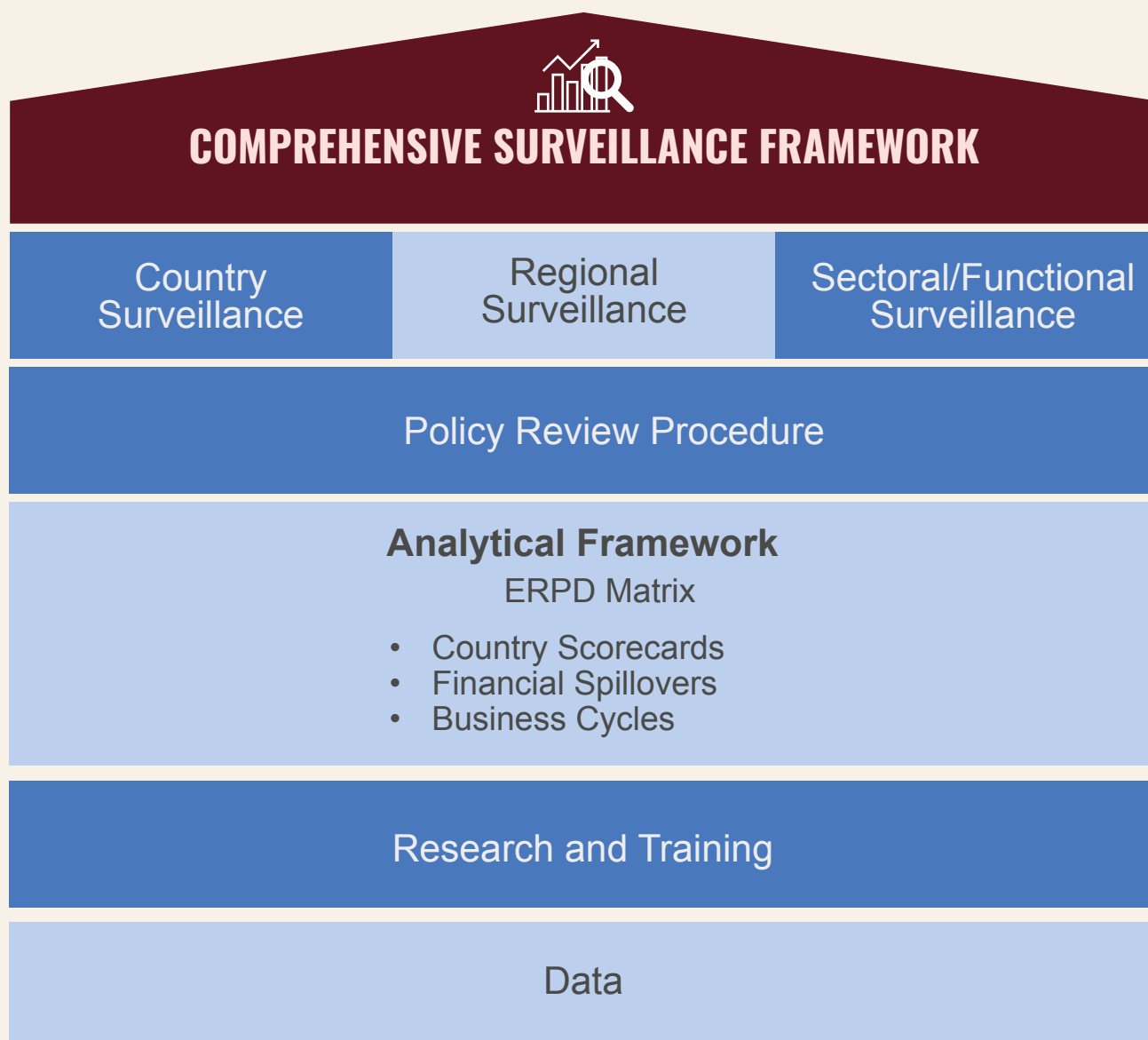
CHAPTER 1

SAFEGUARDING ECONOMIC STABILITY THROUGH QUALITY SURVEILLANCE

One of AMRO's three core functions is the macroeconomic surveillance of member economies. The overarching objective is to identify risks to economic growth and stability—with a focus on the balance of payments and the financial sector—and prescribe policies to address those risks.

This surveillance comprises four interconnected areas of work:

- Strengthening the surveillance framework
- Undertaking country surveillance
- Undertaking regional and sectoral surveillance
- Conducting thematic studies and research



Strengthening Our Surveillance Framework

Guiding AMRO's macroeconomic surveillance is a framework that has been progressively strengthened from year to year. In 2020, AMRO further developed analytical toolkits for monitoring financial stability and enhanced our policy analysis. The organization developed methodologies for assessing policy space, financial stress, and contagion risks. AMRO

also improved its macro-financial policy toolkit—including developing a new fiscal-monetary policy space framework and one for transitioning from COVID-19 pandemic policies—to enable it to offer more timely and relevant policy advice to member authorities.

Undertaking Country Surveillance

Country surveillance comprises two major functions:

- Monitor, assess, and report to members on their macroeconomic status and soundness; and
- Identify macroeconomic and financial risks and vulnerabilities in the region for members and assist them in the timely formulation of policy recommendations to mitigate such risks.

AMRO, the region's "family doctor", typically conducts annual consultations over a one-and-a-half to two week period in each member economy. AMRO then delivers Annual Consultation Reports (ACRs) to members within two months of their respective on-site consultations. This is supplemented by ad hoc interim visits.

In 2020 AMRO, unsurprisingly, had to modify these activities. Pandemic-inspired travel restrictions forced AMRO to conduct virtual consultations, not just for the annual and interim consultations but also for ad hoc meetings.

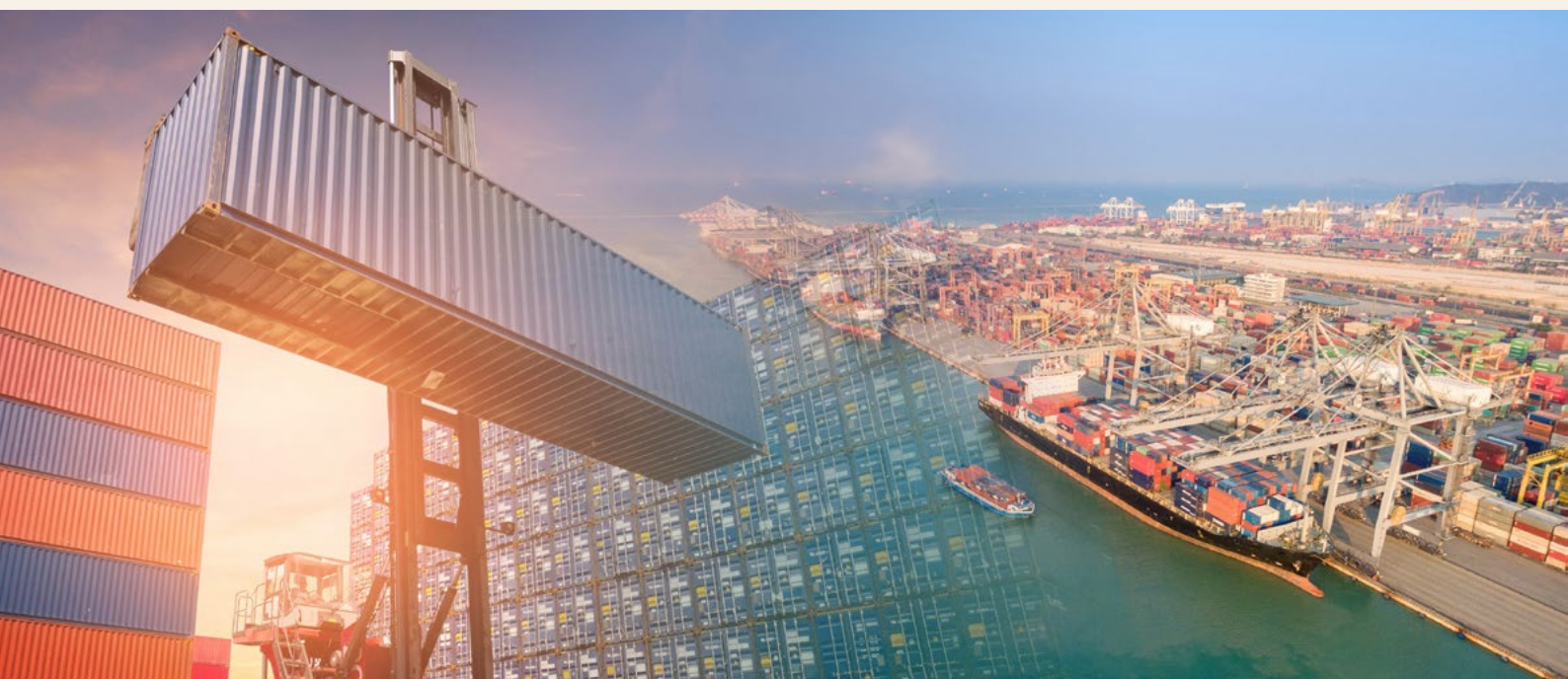
In light of global macroeconomic volatility amid the pandemic, AMRO also engaged in enhanced monitoring of member economies, including producing daily and weekly updates. Meanwhile, AMRO included in the ACRs a special focus on key pandemic concerns, such as unemployment, labor policies, and pandemic relief measures, and their impacts on members' respective macroeconomic outlooks.

Despite these operational shifts and increased burdens, AMRO managed to improve its country surveillance in several ways. First, in consultation with country authorities, was the continued mainstreaming of the Economic Review and Policy Dialogue (ERPD) Matrix indicators into country surveillance. The ERPD Matrix Scorecard comprehensively quantifies a member's macro-financial performance—external, fiscal, monetary, and financial—relative to that of its designated peer benchmark group, as well as rates the adequacy of data used.

AMRO also updated the Surveillance Operational Manual to further enhance the country surveillance process, with improved guidelines on consultation activities, engagement, and report production and circulation.

Finally, AMRO sharpened its surveillance content by focusing on sectors relevant to each member's economy. For example, in the 2020 ACR for Lao PDR, AMRO analyzed the resource sector and tourism sector, concluding that enhancements to Lao PDR's policy framework and implementation capacity would allow it to tackle structural challenges in those sectors, thereby unleashing growth.

Similarly, in the 2020 ACR for Brunei, AMRO highlighted the risks of an over-reliance on the oil and gas sector, including unexpected disruptions in oil and gas production, geopolitical conflicts, and a slowdown in major global economies, amplified by the pandemic and ongoing trade tensions.



Undertaking Regional and Sectoral Surveillance

Regional surveillance is essential in identifying the broader global and regional trends that may have spillover effects on the region as a whole, and on specific sectors. This feeds into AMRO's annual AREO report.

The pandemic's multi-faceted impacts—from the rewiring of crucial supply chains and the devastation of the region's tourism industry to the broad-based fiscal and monetary support offered by governments—have dominated surveillance efforts in 2020.

AMRO quickly repositioned its research resources to accommodate these uncertain dynamics. It created new pandemic-related products such as the COVID Monitor, a snapshot of the disease across the ASEAN+3 countries; Turnaround Tracker, which highlights economic and market recovery trends; and the Pandemic Policies database, a comprehensive (daily) cross-country compilation of pandemic policies, including monetary, fiscal, financial and physical containment measures.

AMRO also introduced high-frequency pandemic-related products in 2020, to provide a more timely analysis of how the pandemic is affecting the region's financial markets. It also published Analytical Notes and Policy Perspectives to aid policymakers in their decision-making around the pandemic.

For example, in "Policy Space in ASEAN+3 Economies and the Combat against COVID-19 Pandemic", AMRO developed frameworks for assessing the fiscal and monetary policy space, and used them to evaluate the available room for policymakers to deploy measures to mitigate the impact of the pandemic. In addition, in "Now What? Post-Pandemic Policy Considerations", AMRO addressed policymakers who

had begun to chart post-pandemic strategies toward a "new normal" for their economies. The paper highlighted economic resilience as the cornerstone of policy efforts and decision-making, led by the eight principles of 4Cs (Cautiousness, Comprehensiveness, Cooperation, and Communication) and 4Rs (Recovery, Risk Management, Restructure and Reform, and Rebuilding of the Policy Space).

AMRO also utilized real-time data to unearth insights about the pandemic's impact on different sectors. For example, the organization used Google Mobility Data to assess the movements of non-residents across ASEAN+3 countries as part of its Turnaround Tracker. Separately, it used near real-time marine traffic big data, incorporating machine-learning techniques, in an effort to "nowcast" export performance. AMRO experimented with this partly to improve on traditional lagging trade indicators, whose shortcomings were further exposed by the volatility in shipping and trade activities in 2020.

AMRO also upgraded its fiscal policy assessment tool, greatly expanding the scope of the country fiscal policy assessment template. This template enabled country teams to adopt a standardized but more rigorous fiscal sector assessment so as to improve fiscal policy discussion. Through the development of common components of country fiscal surveillance, the template will contribute to fiscal dataset development, in-depth cross-country analysis as well as regional surveillance.

Finally, as the pandemic struck amid the production of the AREO report, AMRO's research team had to switch gears midway and appropriately refocus its content. The report was successfully published in early April 2020.

RESEARCH/ POLICY NOTES



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Analytical Notes

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Market Insights

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Working Papers

Conducting Thematic Studies and Research

Aside from the regular reports and consultations, which are more conjunctural in nature, AMRO economists also conduct in-depth studies, which are related to structural issues specific to each economy, and which address challenges member economies may face in areas such as the reconfiguration of global value chains and the increasingly rapid move to the “new economy”.

The table below lists, thematically, research conducted and published by AMRO in 2020.

Annual Consultation Reports and Box Stories

Cambodia (Jan 29)

Selected Issue 1: Impact of EBA withdrawal on the Cambodian Economy

Selected Issue 2: China’s Growing Presence in the Cambodian Economy

Selection Issue 3: Cambodia’s Demographic Dividend: Opportunities and Challenges

Box 1. Credit to Private Sector in Selected ASEAN Countries

Box 2. Cambodia’s 17-point Strategy to Strengthen Competitiveness and Diversify the Economy

Box 3. Revenue Mobilization Strategy

Korea (Feb 17)

Selected Issue 1: Development of Portfolio Investment and Foreign Exchange Swap Market

Selected Issue 2: Korean Firms’ Technology Adoption and The Implications for SMEs

Selected Issue 3: Fiscal Policy in Korea as a Counter-cyclical Measure

Box A: Global Semiconductor Industry and Its Impact on Korea

Box A1: Main Determinant of FX Swap Rate

Box A2: Impacts of 5G on the Korean Economy

Box B: Prospects for Korea’s Robust Current Account Surplus

Box C: Japan-Korea Trade Tensions

Hong Kong, China (Feb 24)

Selected Issue 1: Hong Kong Real Estate: Managing Short-Term and Long-Term Challenges

Selected Issue 2: Greater Bay Area Development: How Hong Kong Can Contribute and Benefit

Box A: Development of Virtual Banking in Hong Kong

The Philippines (Feb 25)

Selected Issue 1: Deepening the LCY Bond Market to Support Growth

Selected Issue 2: Strong Reforms to Unlock the Potential for FDI to the Philippines

Selected Issue 3: Optimal Policy Mix for Handling the Macro-Financial Effects of Capital Flows: The Philippine Experience

Box 1: Tax Reform in the Philippines

China (Mar 4)

Selected Issue 1: China’s Current Stimulus Policy: A More Targeted and Measured Approach

Selected Issue 2: Tackling Contagion Risk of China’s Small Banks

Selected Issue 3: An Analysis of Local Government Debt and Debt Repayment Capacity

Selected Issue 4: Promoting Free Trade, Financing and Movement of Labor in China’s Greater Bay Area: Benefiting from Different Strengths and Managing Challenges

Japan (Mar 11)

Selected Issue 1: Will Japan's Government Debt Reach Its Limit?

Selected Issue 2: Declining Profitability of Regional Banks and the Way Forward

Selected Issue 3: Low Interest Rate Environment Pushes Life Insurers to Rebalance Portfolios and Tackle Different Mix of Risks and Challenges

Selected Issue 4: Trends in Japan's Outward FDI

Box A: Initial Assessment of the Government's New Fiscal Stimulus Package

Box A1: Estimation Methodology on Government Debt Limit

Box A2: Data and Methodology on DuPont Analysis

Box B: Current Account Surplus in Japan: From Tangible To Less Tangible

Box C: Impact of Japan's Recent Consumption Tax Hike on its Economy

Box D: Recent Developments in Corporate Governance Reform

Singapore (May 15)

Selected Issue 1: Singapore' Rising Role as an FDI Hub

Selected Issue 2: Assessing the Changing Elasticities of Singapore's Goods Exports

Selected Issue 3: Perspectives on Singapore's Development as an International Financial Center

Box A: HDB Lease Decay, Macroeconomic Implications and Policy Efforts

Box B: Effects of Domestic and Foreign Macroprudential Policies on Singapore's Private Residential Property Market

Lao PDR (Jul 29)

Selected Issue 1: Development of the Tourism Industry and Economic Impact

Selected Issue 2: Inflation Dynamics and Exchange Rate Pass-Through in Lao PDR

Selected Issue 3: Development and Reform of Electricity Sector in Lao PDR

Brunei Darussalam (Aug 31)

Selected Issue 1: Prudential Measures to Mitigate Non-Performing Loans (NPL) and Risk of Overseas Placement of Excess Liquidity

Selected Issue 2: Assessing the Impact of FDI on Brunei Darussalam's GDP and Employment

Box A: The Role of Brunei Darussalam's Islamic Banks to Promote Growth and Financial Stability

Box A1: Analysis of the Relationship among Real GDP, Credit and NPL using a VAR Model

Box B: Brunei Darussalam Authority's Initiatives to Lower Youth Unemployment Rate

Hong Kong, China (Nov 23)

Selected Issue 1: Scanning the Labor Market: COVID-19 Impact, Recovery Prospects, and Policy Suggestions

Box A: Growth-At-Risk in Hong Kong

Box B: Supporting Businesses and Households in the "New Normal"

Box C: Hong Kong Tourism: Strains, Government Support, Recovery Prospects, and Some Policy Ideas

Box D: Rapid Development of Hong Kong's Faster Payment System (FPS)

Analytical Notes

- [The Impact of the Coronavirus Epidemic on the ASEAN+3 Economies](#) (Feb 12)
- [Where are We in the COVID Cycle?](#) (Apr 27)
- [US Dollar Funding Stress in the ASEAN+3 Region](#) (Apr 27)
- [The COVID Conundrum: Reopening in a Truly Global Pandemic](#) (May 12)
- [A Lonely Planet: ASEAN+3 Travel and Tourism in the Time of COVID-19](#) (May 15)
- [COVID, Credit and Contagion Risks to ASEAN+3 Financial Systems](#) (Jun 9)
- [Estimating Growth Spillovers and Spillbacks to the ASEAN+3 Region](#) (Jun 26)
- [“Crowdsourcing” the Recovery in ASEAN+3 Services Trade](#) (Aug 14)
- [Another ‘Unprecedented’ Crisis? This, Too, Shall Pass](#) (Sept 21)
- [What Does the Real-Time Shipping ‘Crystal Ball’ Tell Us about the Recovery in ASEAN+3 Trade?](#) (Oct 7)
- [Coming Home: Are Remittances in the ASEAN+3 Another Victim of the Pandemic?](#) (Dec 3)

Market Insights

- [Oil Market Update: What Put Oil Prices on a Slippery Slope](#) (Apr 22)
- [Oil Market Update: Has the Oil Price Rally Run its Course?](#) (Jul 22)
- [Malaysia’s Bonds: Factors Behind the Rally and Outlook](#) (Aug 27)
- [Philippine Bonds: The Auction ‘Glitch’](#) (Aug 27)
- [The Thai Baht and Gold](#) (Oct 5)

Policy Perspectives

- [Now What? Post-Pandemic Policy Considerations](#) (Jul 20)
- Policy Space in ASEAN+3 Economies and the Combat against COVID-19 Pandemic (Jul 24)
- [Macroeconomic Surveillance Frameworks and Practices in Non-Crisis Time](#) (Aug 25)
- ASEAN+3: From Recession to Recovery and Transition to Growth in the “New Normal” (Nov 14)
- Conceptualizing and Examining China’s Economic Policy Responses to the COVID-19 Pandemic (Dec 28)

Working Papers

- [The ERPD Matrix “Scorecard”: Quantifying the Macro-Financial Performance of the ASEAN+3 Economies](#) (Apr 23)
- [Assessing the Impact of Oil Prices on the Malaysian Economy](#) (Apr 23)
- [Co-movement of Institutional Equity Flows: Evidence from ASEAN+3 \(under AMRO Research Collaboration Program\)](#) (Jun 12)
- [A Framework for Assessing Policy Space in ASEAN+3 Economies and the Combat against COVID-19 Pandemic](#) (Oct 27)
- [Spillover across Sovereign Bond Markets between the US and ASEAN-4 Economies](#) (Nov 11)