



Launched the inaugural AREO



Adopted the
Guidance Note for
Country Surveillance
Consultation



2017 Work Priorities **Developing Strength for High-Quality Surveillance**



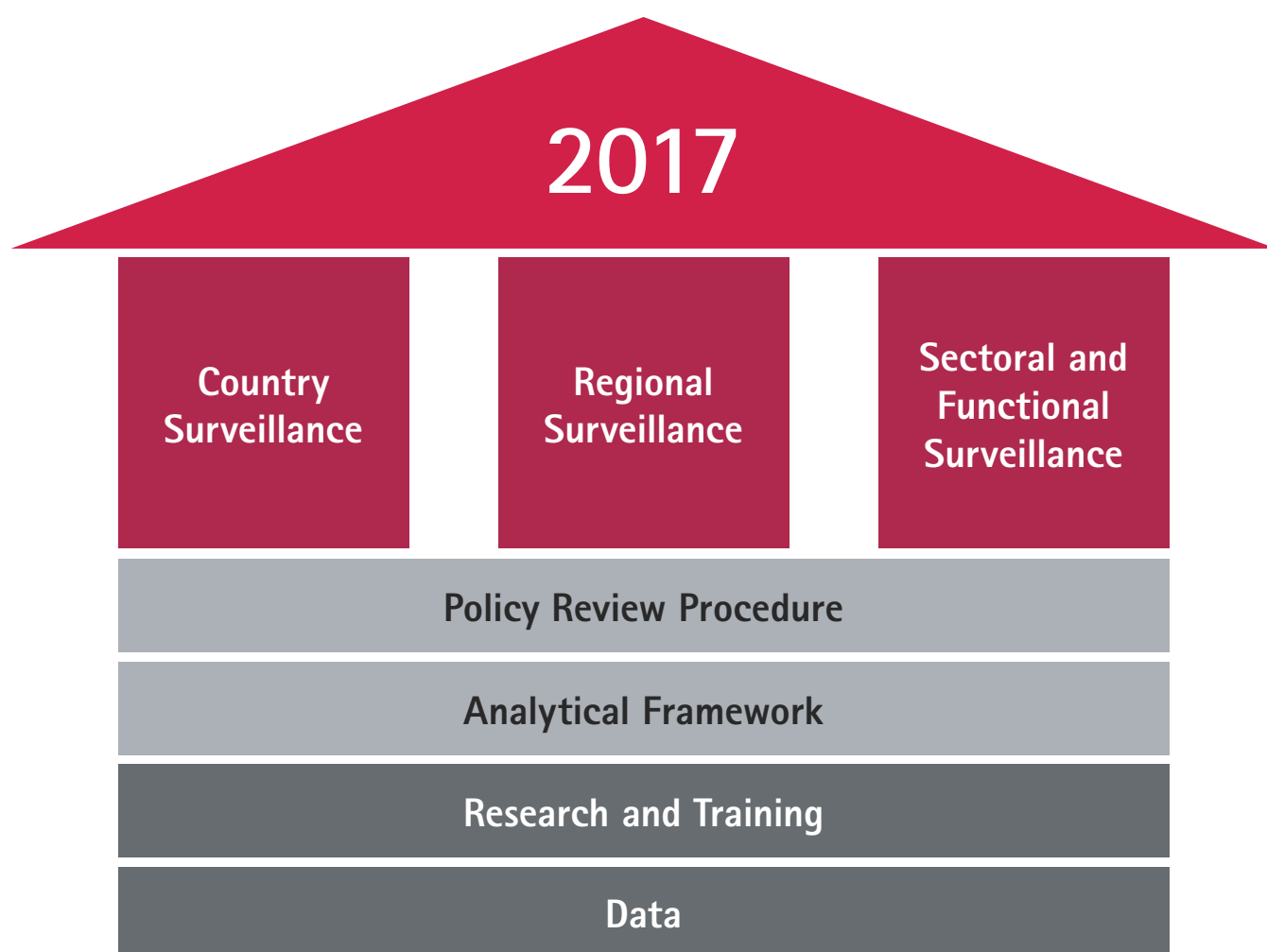
In 2017, AMRO continued to improve its surveillance products, enhance its framework for surveillance activities, and further developed its analytical toolkits to conduct country and regional surveillance. These surveillance efforts and innovations contribute to the strengthening of AMRO's capacity to pursue its mandate as the regional surveillance arm of the CMIM.

Adopting Stronger Surveillance Framework

AMRO, as the regional surveillance unit for the ASEAN+3 region, has been consistently working to strengthen its surveillance capacity to meet its members' needs and expectations for their economies and the region as a whole.

In 2017, AMRO continued to fortify its surveillance framework to conduct macroeconomic and financial surveillance. In particular, AMRO revamped its surveillance framework by formally adopting the Guidance Note for AMRO Country Surveillance

Consultation (hereafter referred to as "Guidance Note") which was endorsed at the AMRO EC Meeting in Cebu, the Philippines, in April 2017. In tandem with the enhancement of its policy review processes and practices, AMRO also improved its surveillance through the development of analytical frameworks, as explained in the following country and regional surveillance sections. Analytical enhancements allowed AMRO to conduct more comprehensive policy-oriented background research relevant to member economies.



Bolstering Country Surveillance

Country surveillance is the main component of AMRO's surveillance mandate. As such, annual consultations serve as the main vehicle for bilateral, regional and other multilateral surveillance. Annual consultations focus on the appropriateness and effectiveness of a member's policies in responding to risks and challenges threatening the member's macroeconomic and financial stability.

In 2017, AMRO revamped its country surveillance framework to make the assessment more forward-looking and focused on risks and vulnerabilities; the process more structured, rigorous and transparent; and the policy dialogue more engaging and effective. The Guidance Note, which was discussed in the previous section, provides formal direction on annual consultations of surveillance for member economies, with a focus on macroeconomic and financial stability. It also stipulates a number of processes, timelines, guidelines, and formal requirements for country surveillance while requiring

that AMRO enhance engagement and communication with various stakeholders to achieve AMRO's vision to be a trusted policy advisor. In line with the Guidance Note, AMRO strengthened its internal policy review practices and further streamlined processes around the annual consultation visits to member economies.

AMRO has also improved its country surveillance through the development of relevant analytical frameworks, such as country risk map, financial stress index, markets monitor, and debt sustainability analysis. Enhanced analytical toolkits enabled AMRO to provide members with more forward-looking analyses, risk assessments, and policy recommendations in its 14 annual consultation reports for members in 2017 and 14 country notes that were reported at the ERPD sessions during the ASEAN+3 Finance and Central Bank Deputies' Meetings (AFDCM+3). Analytical enhancements also allowed AMRO to conduct more

elaborate policy-oriented background research relevant to member economies.

Recognizing that the confidence and trust that members have in AMRO's role as a trusted policy advisor has an impact on the traction for its surveillance advice, AMRO pursued even-handed, candid and timely surveillance, with good communication. In 2017, in line with the policy review process, AMRO strengthened its country consultation activities with a view to enhance stakeholder engagement. At the end of each annual consultation visit, AMRO conducted formal policy dialogues with its members based on its draft preliminary assessments. Through roundtable discussions with various stakeholders, AMRO strengthened its communication with industry thought leaders. The issuance of a press release at the end of each consultation visit, and the publication of annual consultation reports further communicated AMRO's perspective to the general public and improved the transparency of its work.



AMRO Director Dr Junhong Chang, Chief Economist Dr Hoe Ee Khor, and the mission team join a policy dialogue with Vice Minister of Finance Dr Yaobin Shi (third from left) and officials of the Ministry of Finance, China, during the Annual Consultation Visit in August 2017.

Enhancement of AMRO Annual Consultation in 2017 – The Case of Korea

Throughout 2017, AMRO country teams made great efforts not only to enhance its entire surveillance process – including pre-mission preparation, on-site mission activities and production of the final country report – but also to achieve more effective engagement and communication with various stakeholders. During the 2017 Annual Consultation Visit to Korea from 16 to 25 August 2017, AMRO successfully incorporated all these new features of the revamped country surveillance framework.

The visit was extended beyond one week to allow for more comprehensive discussions and the preparation of a preliminary assessment note. During the visit, AMRO's mission team conducted a series of meetings with the public sector, including the Ministry of Strategy and

Finance (KMOSF), Bank of Korea (BOK), Financial Services Commission, and Financial Supervisory Service. The team also visited a variety of policy research institutions, financial institutions, credit bureau institutes, and academies, and organized a roundtable discussion with renowned experts from different backgrounds and expertise.

Insights gained from various meetings were invaluable for AMRO to reinforce its understanding of the Korean economy. On 24 August, Director Chang made a courtesy call to Dr Dong-Yeon Kim, Deputy Prime Minister and Minister of Strategy and Finance, and they had a fruitful exchange of views on the new government's economic policy direction. In addition, Director Chang and Chief Economist Dr Khor had an exclusive

interview with *Chosun Biz*, one of the most influential news media outlets in Korea to introduce the key functions of AMRO and CMIM, as well as share AMRO's views on the Korean economy (the English-translated version is available on AMRO's website).

Significantly, when exchanging views with the Korean authorities, the team adopted a new procedure for the preparation of the preliminary assessment note, in accordance with the *Guidance Note for AMRO Country Surveillance Consultation*. The note summarizes key findings and policy recommendations to facilitate more constructive and comprehensive wrap-up policy dialogues with KMOSF and BOK. An assessment summary is contained in the press release issued on the last day of the mission, which was also posted on AMRO's website.



Deputy Governor, Mr Minho Kim (fourth from left), and officials of the Bank of Korea, discuss with AMRO Director Dr Junhong Chang, Chief Economist Dr Hoe Ee Khor, and the mission team during the Annual Consultation Visit in August 2017.

On 23 August, with support from KMOSF, AMRO held a roundtable discussion with Korean experts to discuss recent developments in the Korean economy and the country's challenges in achieving sustainable growth. The roundtable discussion – moderated by our Advisory Panel (AP) member, Professor Kyung-Wook Hur, and attended by distinguished academics including Dr Junghun Kim, Vice President of the Korea Institute of Public Finance; Dr Joocheon Kim, Chief Economist of the Korea Development Institute; Dr Jae-Ha Park, Senior Research Fellow of the Korea Institute of Finance; Dr Taeyoon Sung, Professor of Economics of Yonsei University; and Dr Gyu-Don Jung, President of the Korea Center for International Finance – provided valuable insights on key aspects of the Korean economy, including macroeconomic trends, the financial system, fiscal policies, and the industrial and external sectors. In particular, the AMRO mission team was able to gain different perspectives and a deeper understanding of the challenges facing the Korean economy. The roundtable has laid a firm foundation for stronger partnerships between AMRO and distinguished experts in Korea, contributing to strengthened AMRO's surveillance capacity.

After the policy dialogues with KMOSF and BOK at the end of the visit, AMRO issued a press release in both English and Korean that summarized the key findings of its preliminary assessment on the economy. In total, more than 20 news stories were published on local media, which helped increase AMRO's visibility and credibility in the country.

Country surveillance reflects members' circumstances. As such, it makes sense to adopt different approaches for member economies based on their economic fundamentals, for example, emerging market economies, low-income countries, advanced economies and systemic economies. In 2017, AMRO not only conducted more policy-oriented and forward-looking background research, but also included them in annual consultation reports as selected issues. Amongst them were dollarization and monetary policy in Cambodia, fiscal stance in Indonesia, and drivers of inflation in Myanmar.



AMRO Director Dr Junhong Chang, Chief Economist Dr Hoe Ee Khor, and the mission team meets with Governor H.E. Dr Somphao Phaysith (fifth from left) and officials of the Bank of the Lao PDR during its Annual Consultation Visit in February 2017.



AMRO mission team visits Hengyi oil refinery and petrochemical plant in Brunei during its Annual Consultation Visit in October–November 2017.

Upgrading Regional Surveillance

As the region's key surveillance organization, AMRO assesses the economic outlook for the ASEAN+3 region by identifying and assessing risks from outside the region and global spillovers; monitoring and assessing intra-regional linkages and spillovers; and benchmarking economies in the region using common analytical frameworks. In 2017, AMRO enhanced its regional surveillance by strengthening its analytical frameworks with the introduction of the global risk map, business and credit cycles analysis, a PMI heatmap, and a policy matrix framework.

Based on its risk assessment, AMRO provides policy recommendations to its stakeholders at both country and regional levels. In addition, AMRO supports regional surveillance discussions at the ERPD – peer review surveillance sessions among Deputies at the AFDCM+3. AMRO also presents its assessment of the regional outlook

at the ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting (AFMGM+3), and other regional fora such as the ASEAN Senior Level Committee on Financial Integration. In 2017, AMRO also supported regional fora and regional integration through policy notes. At the ASEAN+3 Leaders' Meeting in Manila, AMRO provided a policy note on ASEAN+3 economic prospects. Similarly, a background paper was crafted for the Lancang-Mekong Cooperation Foreign Ministers' Meeting.

In May 2017 in Yokohama, Japan, AMRO launched its inaugural annual flagship publication, AREO, which provided a detailed report on AMRO's outlook and risk assessment for the region. The report provided AMRO's macroeconomic projections for the region as a whole, as well as a brief assessment of macroeconomic outlook for each member economy. This first flagship publication also featured a

thematic chapter on the *ASEAN+3 Region: 20 Years after the Asian Financial Crisis*, giving recognition to the AFC as a landmark event that shaped policymakers' perspectives on crisis management and resolution and the resulting establishment of AMRO and CMIM. The thematic chapter highlighted lessons from the AFC that remain valuable today – the importance of policy attention to risks from financial markets and capital outflows; the speed and impact of contagion among economies; and the need for a flexible and responsive policy framework to deal with external shocks.

Complementary to the annual AREO publication, AMRO circulated Monthly AREO Updates on regional economic developments, and arising topical issues such as the impact of US policies on China and capital flows in regional emerging markets, to its members.



About 60 participants including policy makers, journalists, and academia, attend the inaugural AREO launch in May 2017 in Yokohama, Japan.



AMRO Chief Economist Dr Hoe Ee Khor speaks at the seminar with the theme "Reformed and resilient Asia: 20 years after the Asian Financial Crisis" in July 2017 in Jakarta, Indonesia. Jointly organized by AMRO and Bank Indonesia Institute, the seminar is part of a roadshow to six countries to promote the AREO 2017.

Enhancing Sectoral and Functional Surveillance

Sectoral and functional surveillance is an important pillar of AMRO's surveillance function, and supports its country and regional surveillance. Through conducting in-depth analyses, in particular, on fiscal and financial sectors of the region and of member economies, sectoral and functional surveillance aims to add value to AMRO's overall surveillance activities. In 2017, AMRO utilized its Debt Sustainability Analysis (DSA) methodology in its assessment of member economies. Apart from using Credit and Business Cycles for analyses in both country and regional surveillance, AMRO also worked on enhancing its Financial Stress Index (FSI) for application to surveillance of regional economies.

Conducting Thematic Studies and Research

In support of its surveillance activities, AMRO continued to conduct in-depth studies and research on relevant policy issues in 2017. Notably, leveraging its strengthened surveillance framework and analytical toolkit, AMRO conducted several policy-oriented researches to support country and regional

surveillance. They include *Assessing the Fiscal Stance in Indonesia*, and *Dollarization, Inflation and Exchange-rate Based Monetary Policy in Cambodia*. In November 2017, AMRO also published one of the thematic studies, *High Corporate Debt in China: Macro and Sectoral Risk Assessments* on its website.



Renowned experts discuss issues pertaining to corporate debt in China at a seminar co-organized by AMRO, Tsinghua University School of Economics and Management, National Institute for Fiscal Studies of Tsinghua University, and Yicai Research Institute in August 2017 in Beijing, China.