

2023 WORK PRIORITIES

CHAPTER

1

**PRESCRIBING
POLICY ADVICE
THROUGH VIGILANT
SURVEILLANCE**

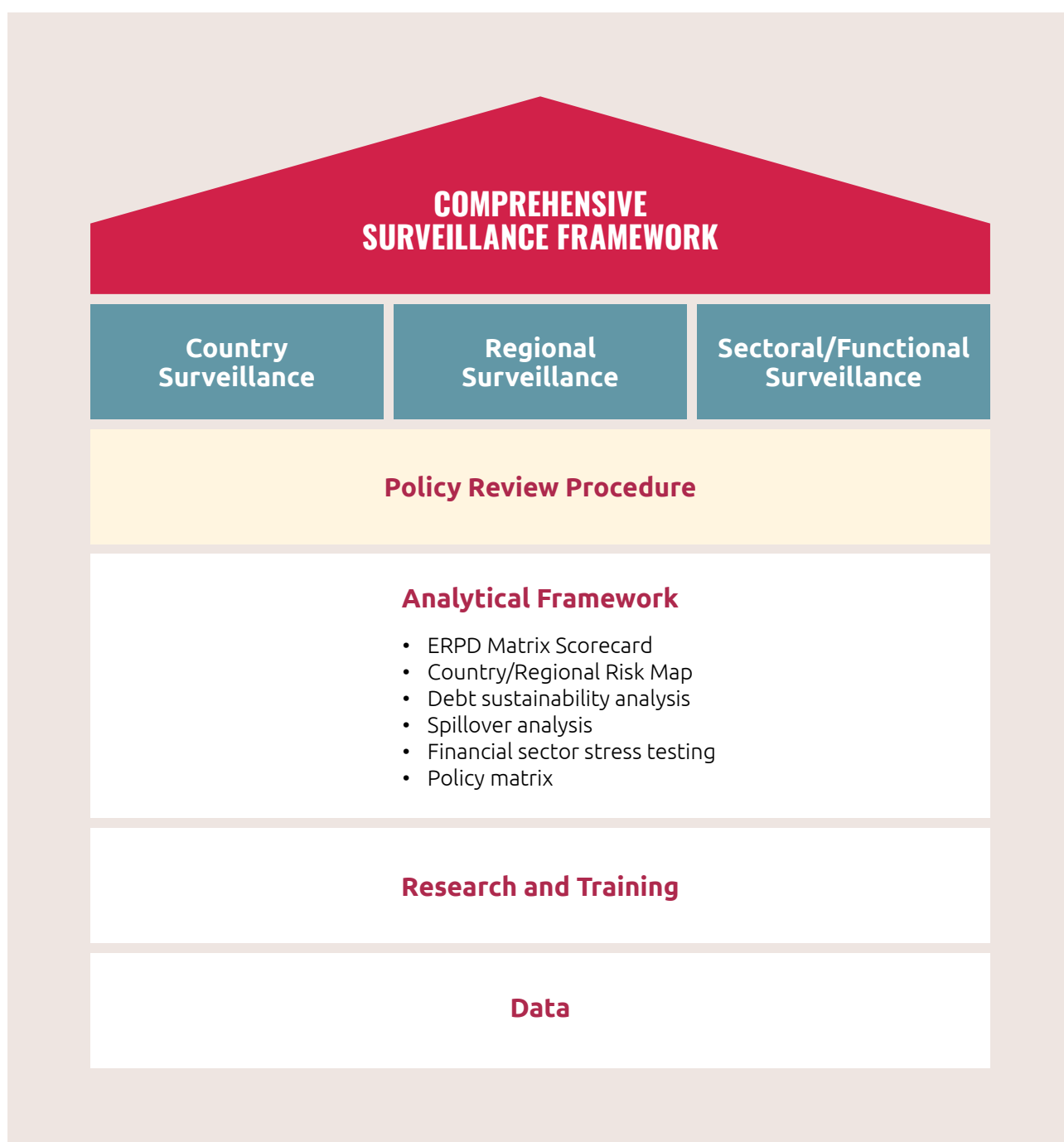
Macroeconomic surveillance of member economies is one of AMRO's core functions. Its objective is to identify risks to economic growth and financial stability with a focus on inflation, balance of payments, and the financial sector; and prescribe policies to address those risks.

AMRO's surveillance framework comprises four interconnected areas of work:

- Enhancing the policy review framework;
- Undertaking country surveillance;
- Undertaking regional, financial and fiscal surveillance; and
- Conducting thematic studies and research.

ENHANCING THE POLICY REVIEW FRAMEWORK

In the past year, AMRO has developed a systematic review framework to strengthen the rigor of its country surveillance process. Preliminary Assessment note of country mission teams must now be vetted by peer reviewers led by the PRG and cleared by SM before the mission begins. AMRO has also conducted periodic reviews of surveillance policies and procedures, and updated the Surveillance Guidance Note and the Staff Operational Manual. AMRO also conducted a periodic review of the Economic Review and Policy Dialogue (ERPD) framework.



UNDERTAKING COUNTRY SURVEILLANCE

AMRO effectively broadened the scope of its Annual Consultation Visits (ACVs) to member economies. It continued to integrate regional, country, and functional surveillance through the participation of regional economists, as well as financial and fiscal specialists in country missions, such as ACVs and interim visits in order to derive greater synergy.

In 2023, AMRO successfully conducted in-person ACVs, interim visits, as well as fact-finding visits to all 14 member economies in a calendar year—a first for AMRO. It also published 11 [ACRs](#) by the end of December. During these ACVs and interim visits, AMRO staff engaged in open and frank policy discussions with member authorities. These discussions, including ad-hoc conversations outside of ACVs and interim visits, promote a deeper understanding of issues and build trust with members. Furthermore, the country archives on Domo made internal reference easier and more efficient. AMRO also engaged with a diverse range of locally based stakeholders during the visits, including IOs such as the IMF and the World Bank, market participants, credit rating agencies, research institutes, and think-tanks.

Throughout the year, AMRO held roundtables in conjunction with the ACVs, including the [2nd AMRO-MEA Roundtable](#) in Malaysia; the [1st AMRO-BRAC Roundtable](#) in the Philippines; and the [AMRO-HKIMR Roundtable](#) in Hong Kong.

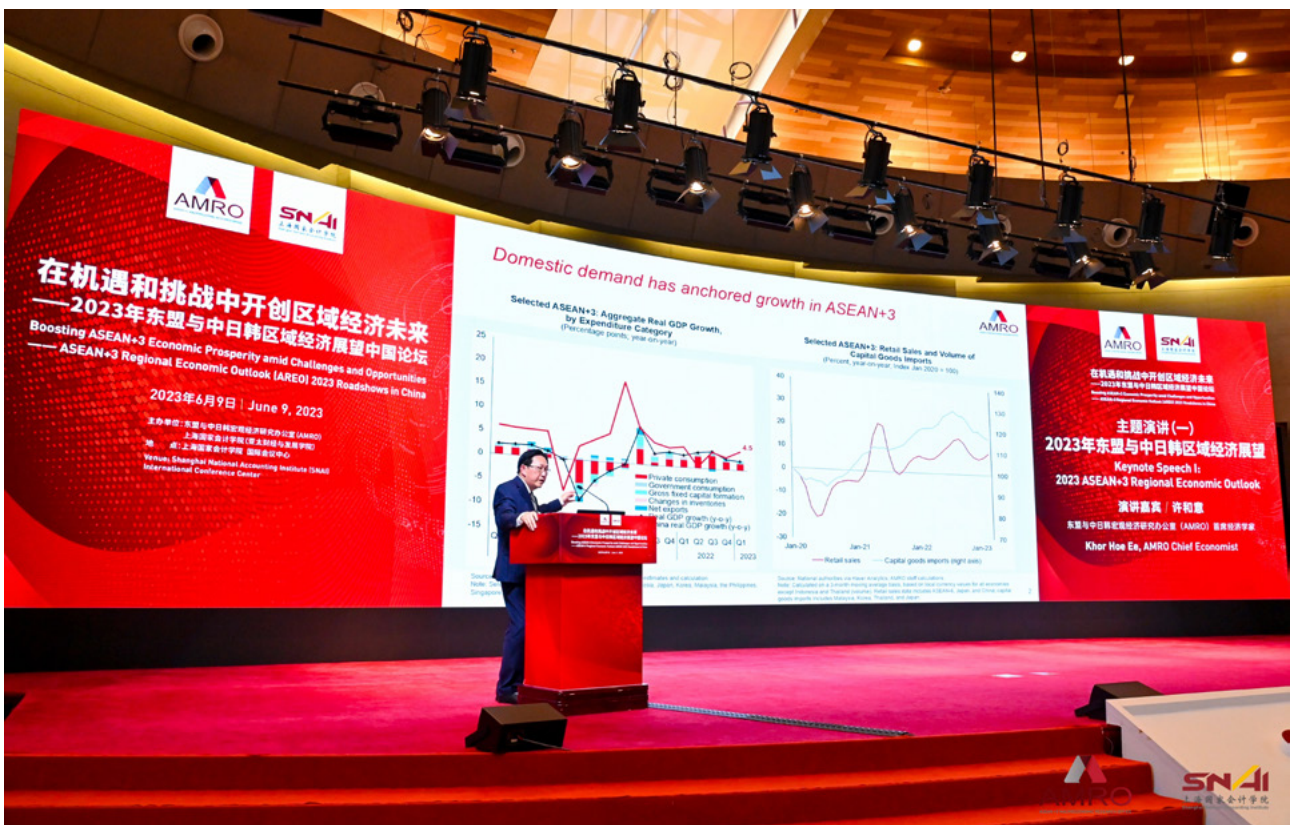
UNDERTAKING REGIONAL, FINANCIAL AND FISCAL SURVEILLANCE

Regional surveillance

In April, AMRO published its annual flagship report, the [AREO 2023](#). This was followed by three quarterly updates in [July 2023](#), [October 2023](#), and [January 2024](#). The [AREO](#) includes a comprehensive assessment by AMRO's staff of conjunctural and structural issues in ASEAN+3, as well as two-year forecasts of key macroeconomic variables.

AMRO conducted its first region-wide assessment on climate change mitigation in [AREO 2023's](#) thematic chapter, [On the Road to Net Zero](#). By taking stock of ASEAN+3 economies' commitments under the Paris Agreement and analyzing the various channels of impact on regional macroeconomic and financial stability, the study highlighted both growth opportunities from transitioning to net zero, as well as the key role of climate finance in ensuring a smooth, efficient transition.

Additionally, three international [AREO 2023](#) roadshows were held—[one in Kuala Lumpur, Malaysia](#) and [two in Shanghai and Beijing, China](#). In March, the [9th AMRO-IMF Joint Seminar](#) was held both online and in Tokyo, Japan. AMRO also participated in international forums and meetings throughout the year, including the [11th Asian Regional Roundtable](#) in July; as well as the [OECD Southeast Asia Ministerial Forum](#) and the [Boao Forum for Asia \(BFA\) Roundtable Discussion](#) in October.



In a paper titled [Bridging Past and Future: A Decade of Economic Progress and the Path Forward in the ASEAN+3 Region](#), AMRO contributed insights on ASEAN+3 region's developments to BFA's publication, *The Tidal View from Boao: Building Belt and Road in the Past Decade*, which commemorated accomplishments of the Belt and Road Initiative (BRI) in the past decade.

Financial surveillance

AMRO launched its second flagship report, the [AFSR 2023](#), in December. Titled *Navigating High Debt in Low Visibility in ASEAN+3*, the AFSR is the ASEAN+3 region's pioneering financial stability report. By delving into conjunctural market developments and potential risks in the ASEAN+3 region, the report provides an in-depth and thematic analysis of the impact of high debt on financial stability.

AMRO also developed tools and frameworks to analyze financial markets and examine vulnerabilities of the banking sector in ASEAN+3. AMRO participated in a number of financial stability and cooperation events throughout the year, such as the *SEACEN's High-Level Seminar for Deputy Governors (Financial Stability and Supervision)*, the *AMRO-KCIF-KIF Roundtable*, and the *7th IPAF Summit and International Conference*.

Fiscal surveillance

In 2023, AMRO continued to enhance its core fiscal assessment toolkits, including an expanded fiscal stance assessment framework and a new fiscal space assessment framework. It also continued to update the fiscal database regularly and upgrade the fiscal dashboard, which was made available to all members. To support bilateral country surveillance, AMRO held in-depth fiscal policy discussion sessions before country missions, and developed country report templates for debt sustainability analysis. In addition, it delivered TA on key fiscal issues to select member authorities, including the Lao PDR Ministry of Finance (LMOF).

AMRO also published a policy perspectives paper (PPP) titled [ASEAN+3 Fiscal Developments, Outlook, and Policy Considerations](#). In addition, AMRO developed an internal fiscal training series, the *Fiscal How To Series*, and conducted five training sessions on key fiscal concepts and available assessment tools for country and regional surveillance.



CONDUCTING THEMATIC STUDIES AND RESEARCH

Macro-financial research

Established in 2023, [AMRO's Regional Knowledge Hub \(RKH\)](#) initiative is aimed at ensuring the organization's knowledge products and services are developed for productive use by ASEAN+3 members, partners and the general public. The priority areas center around AMRO's core expertise and mandates, which comprise macroeconomic surveillance, associated research into emerging and structural issues, TA, and regional financial cooperation. The RKH also collaborates closely with AFTN members to produce research on macro-financial issues of interest to the region.

The first of these, climate risk research, entails modeling the impact of climate risk on growth and financial stability; bridging climate data gaps; and strengthening the climate financing architecture. Trade and supply chain research, meanwhile, includes several related areas including, but not limited to, supply chain resilience; the impact of Regional Comprehensive Economic Partnership (RCEP) on trade and welfare; and value chains and spillovers.

AMRO's research on capital flow management (CFM) and macroprudential policy measures (MPMs) aims to implement some country-specific suggestions provided by members on the related policy position paper—an integrated policy Dynamic Stochastic General Equilibrium (DSGE) model will be developed to support this effort. Additionally, AMRO's research on a broad Risk Identification and Signalling Kickoff (RISK) exercise includes developing models, indicators, and frameworks to support AMRO's surveillance work and member authorities' monitoring of risks. Lastly, AMRO also launched the *Trade Wind Series* of research notes on supply chain and foreign direct investment (FDI) reconfiguration within the ASEAN+3 region, including [Has the Shifting Trade Landscape Changed the China–ASEAN Nexus?](#); and [Vietnam Trip Notes: The Next Global FDI and Supply Chain Hub?](#).

In addition, AMRO launched new analytical tools, including the Bank Vulnerability Index tool, on [ARTEMIS](#). It also held *Tool Time Tutorials* and brownbag seminars to provide training to staff and members, including *Global Credit Loss Rates; Bank Vulnerability Index; Import-adjusted GDP Components; the Updated Fiscal Dashboard; Nowcasting GDP: The Case of Cambodia, Malaysia, and the Philippines;* and *Introducing the Climate Clipboard for Country Surveillance*.

Throughout the year, AMRO continued to develop and maintain several knowledge platforms, including

Macro-financial Database for ASEAN+3 Surveillance (MiDAS), Data Management System and MiDAS (DiMSuM), and ARTEMIS.

Timely thematic research and policy advice to members

In 2023, AMRO provided timely policy guidance to relevant authorities through policy position papers, such as [Opportunities and Challenges of Financial Digitalization: A New Perspective on ASEAN+3 Regional Financial Cooperation](#); and [Expanding Local Currency Transactions in ASEAN+3 Cross-Border Payments](#).

Furthermore, AMRO published PPPs, analytical notes, market insights and working papers to provide timely analysis on how global challenges, climate change and other developments affect the region's financial markets, economic growth, and policy environment. They included [Adapting to Climate Change in ASEAN+3; ASEAN+3 Markets Weather Credit Suisse and SVB Storms – but Risks Remain; Cryptocurrencies and Banking Sector Connectedness: Don't Worry, Be Happy ... for Now; Food for Thought: Fertile Ground for ASEAN+3 Inflation?; Public Infrastructure Investment and Macroeconomic Impact in ASEAN+3 Economies; and \[The US Inflation Reduction Act and ASEAN+3 Electric Vehicle Exports Mountain or Molehill?\]\(#\)](#)

AMRO also continued to produce the daily *AMRO Market Update* and monthly *AMRO Economic Calendar* for members throughout the year.



AMRO Surveillance Groups and Macro-Financial Research Group

LAUNCH OF THE INAUGURAL ASEAN+3 FINANCIAL STABILITY REPORT

On December 5, AMRO launched its inaugural *AFSR 2023* at the *2nd AMRO Forum* held in Kanazawa, Japan. The *AFSR 2023*—AMRO’s second flagship report—is the ASEAN+3 region’s pioneering financial stability report. It analyzes financial market developments and potential risks in the ASEAN+3 region and provides an in-depth and thematic analysis of the impact of high debt on financial stability.

ASEAN+3 financial systems have demonstrated resilience in the face of multiple shocks over the past years, fortified by strong macroeconomic fundamentals, enhanced regulatory regimes and external buffers since the Asian financial crisis. Nonetheless, the ASEAN+3 economies are facing heightened uncertainties and volatilities in a rapidly changing and increasingly complex financial environment. Spillovers and contagion risks also intensify as global and regional integration deepens.

Among the risks faced by the region, the potential resurgence of inflation is perhaps the risk that has raised the greatest concern because of its implication for even higher and more prolonged interest rates and their impact on the economies and financial systems. Financial market volatility may spike as it adjusts to the new normal of a “higher-for-longer” interest rate environment with receding liquidity.

Thematic studies in *AFSR 2023* provide an in-depth analysis of financial stability risks from elevated debt levels in ASEAN+3. The low-for-long interest rate environment that existed before the recent

global rise in inflation facilitated substantial debt accumulation by businesses, households, and governments. Monetary and fiscal stimulus measures implemented during the pandemic further contributed to the rise in debt-to-GDP ratios. The increased debt stocks and rising debt servicing costs in the current high interest rate environment have increased risks to financial stability, especially as pandemic support measures have been or are still being phased out.

A correction in house prices and escalating debt burdens due to higher interest rates or a recession may heighten the risk of defaults, particularly for highly leveraged households. Companies with weakened balance sheets may encounter challenges in refinancing and meeting interest expenses. Governments with elevated debt-to-GDP may face increased refinancing costs and rollover risk on maturing debt. The resilience of some banks and non-bank financial intermediaries, acting as debt intermediaries and creditors, may be tested, potentially exacerbating vulnerabilities in the financial market.

In response to rising non-financial private debt and systemic risks, policymakers can deploy macroprudential tools to curb risks from high household and corporate debt and excessive property developer leverage. For corporate debt, more responsible corporate lending practices can be encouraged, including by fostering a better governance framework and mitigating credit risks of small-medium enterprises with credit guarantee schemes. To mitigate financial stability risks associated with high public debt, strategies should include medium-term fiscal consolidation, maintaining a sound debt structure, and diversifying the investor base.

