

2016 Work Priorities

Safeguarding Macroeconomic and Financial Stability Through Surveillance Activities



AMRO Director Dr Junhong Chang meets with the People's Bank of China Deputy Governor, Dr Gang Yi, during AMRO's Consultation Visit to China in June 2016.

In 2016, AMRO set out to strengthen its country and regional surveillance functions and research capacity through the development of a comprehensive surveillance framework and its own analytical toolkits. These initiatives pave the way for the subsequent enhancement of AMRO's capacity to fulfill its mandate as the regional surveillance unit for the ASEAN+3 economies.

Surveillance Framework

Since 2011, AMRO has been building up its capacity to conduct macroeconomic surveillance of its member economies and the region. Besides conducting annual consultation visits and producing country surveillance reports and regional economic monitorings for the biannual ASEAN+3 Finance and Central Bank Deputies' Meetings (AFCDM+3), AMRO also produces monthly updates of the regional report to keep member authorities informed of macroeconomic and financial market developments in the global economy and the region. Short analytical notes on topical issues of policy interest are also provided in a timely manner, when relevant.

In line with AMRO's work priorities, in 2016, it revamped and further streamlined its country surveillance framework, focusing more on the risks and vulnerabilities as well as policy issues, based on a forward-looking assessment of economic and financial development of members. In particular, AMRO started to include relevant policy recommendations to enhance policy dialogues with authorities, together with analytical notes on selected issues. AMRO's Annual Consultation framework was streamlined and reinforced substantially in June 2016 by including (a) preparation of a preliminary assessment note during each consultation visit to facilitate policy discussions with authorities; (b) issuance of a press release at the end of each visit; (c) completion of the Annual Consultation Report around two months after each visit; and (d) submitting the consultation report to the

authorities for their review within a two-week period before a wider circulation to all member authorities.

Notably, the revamped and streamlined country surveillance process was implemented during subsequent consultation visits to ASEAN+3 members and Annual Consultation Reports were prepared and submitted after each consultation visit. To facilitate discussions of policy country issues during the informal surveillance session of the EC meeting, country surveillance notes on all 14 member economies were prepared drawing upon the findings of the annual consultation reports.

During the year, AMRO strengthened its forward-looking regional surveillance analysis in the AREM Report by providing projections of key macroeconomic variables for all ASEAN+3 economies. For the convenience of readers, monthly AREM updates were also simplified to take on a presentation format.

Concurrently, AMRO proposed an expanded framework for the ERP Matrix, which would constitute the basic qualification criteria for CMIM crisis prevention facility (CMIM-PL) in crisis time, and form an essential part of country surveillance during peacetime. Apart from being instrumental to the activation of CMIM-PL facility, the ERP Matrix framework is expected to also provide an important assessment tool for AMRO's peacetime surveillance activities. The proposed framework was endorsed at the AFCDM+3 in December 2016.

Country Surveillance

Country surveillance is a key component of AMRO's comprehensive surveillance framework. Through conducting timely and extensive macroeconomic surveillance on each ASEAN+3 member, AMRO assesses members' macroeconomic developments, outlook, risks and vulnerabilities, including spillovers, stability of external and financial sectors, and fiscal sustainability.

In 2016, AMRO revamped its country surveillance framework while conducting annual consultation visits to all 14 ASEAN+3 members and supplementary short visits to some economies. During each of these visits, the country team – comprising a Group Head as mission chief and four to five economists – would meet with various stakeholders – including the authorities, think

tanks, international organizations, scholars and market participants – to discuss major challenges and issues, which range from short-term economic outlook, risks and vulnerabilities to mid-to-long term structural challenges and policy issues facing the economy. Director and Chief Economist would usually join the policy discussions during the last few days of these missions.

At the end of each annual consultation visit, AMRO provided the authorities with a preliminary assessment note to facilitate open and constructive discussions on policies with the government's senior officials. An Annual Consultation Report was also prepared and submitted to the member authorities around two months after the visit, for their review and comments within a two-week period. The final



Then AMRO Director Dr Yoichi Nemoto (fourth from the right) meets with Vice Minister of Finance of Lao PDR Ms. Thipphakone Chanthavongsa (center) during a country consultation visit in January 2016.

report incorporating factual comments, together with the authorities' policy comments, was then circulated to the authorities of all ASEAN+3 members.

These initiatives to strengthen AMRO's country surveillance function – coupled with content refinement to (a) place more emphasis on forward-looking assessment that is supported with more rigorous analysis; and (b) include sections on risks and vulnerabilities, selected issues, and

policy discussions and recommendations – were well received by the authorities.

The provision of country surveillance notes, which consist of updates on all 14 member economies and discussions of key issues facing each economy in the region, to the EC members at the biannual EC Meetings of AMRO further enriched open discussions on key risks facing the regional economies and possible policy options.

Regional Surveillance

As the surveillance body for the region, AMRO assumes the role of assessing region-wide economic developments and emerging trends that may expose ASEAN+3 members to significant risks and vulnerabilities within and outside the ASEAN+3 region. AMRO also assesses the macro-financial linkages and the implications of these economic developments and trends on ASEAN+3 members and the region as a whole, taking into account spillovers and contagion risks.

Recommendations on appropriate policy measures are then provided to relevant policymakers on both the country and regional levels, to help the economies and the region as a whole cope with and counter these possible spillover

and contagion risks. As an international organization in the ASEAN+3 region, AMRO not only supports regional surveillance-related activities and cooperation initiatives but also reinforces its representation at international economic fora.

In 2016, AMRO bolstered its regional surveillance activities by establishing a dedicated team for this function as well as revamping its AREM structure to enhance its forward-looking analysis with macroeconomic projections and inherent risk factors for all ASEAN+3 members, and facilitate discussions of intra-regional linkages and spillovers. These improvements further strengthened its support for the regional surveillance discussion at the AMRO EC Meeting held in December 2016.

Enhancements to AMRO's Regional Surveillance

Two major enhancements were introduced in 2016 to strengthen AMRO's regional surveillance. The first was the inclusion of macroeconomic projections for all ASEAN+3 economies; and the second was the emphasis on intra-regional and macro-financial linkages as well as spillovers.

Since 2016, AMRO has also started work on its first annual flagship publication – ASEAN+3 Regional Economic Outlook (AREO) that would cover both the regional economic outlook and timely thematic issues. Surveillance documents provided for the discussion at AMRO EC Meeting incorporate preliminary views from member authorities where appropriate. The inaugural report will be launched on the sidelines of the ASEAN+3 Finance Ministers and Central Bank

Governors Meeting in May 2017. This annual publication will comprise a regional outlook section containing AMRO's outlook on regional growth and risks and vulnerabilities, analysis on regional linkages and spillovers, and a thematic section focusing on issues of policy interest. The adopted theme for the inaugural report is "ASEAN+3 Region: 20 Years After the Asian Financial Crisis".

Other regional surveillance initiatives in 2016 included the streamlining of AMRO's monthly updates on regional developments into a concise, reader-friendly presentation format and the circulation of timely updates and assessments on significant global events, such as Brexit and the U.S. election result, affecting the regional economies and financial markets.

Sectoral and Functional Surveillance

AMRO sectoral and functional surveillance is complementary to its country and regional surveillance activities. Through monitoring and conducting in-depth analysis on trends and developments in the financial and fiscal sector of the regional and global economy, AMRO aims to augment its macroeconomic and financial surveillance of member economies. When developing its own analytical toolkits on sectoral and functional

surveillance, AMRO referenced international best practices to ensure that the tools enable a rigorous and fair assessment across ASEAN+3 economies while taking into account country-specific circumstances. In 2016, apart from incorporating surveillance of financial stability and fiscal sector analysis into country and regional surveillance reports, AMRO also included these sectoral and functional surveillance features in its thematic studies.

Thematic Studies and Research

AMRO conducts in-depth and rigorous analytical studies and research on important policy issues that are relevant to ASEAN+3 policymakers, in a timely manner. The use of rigorous analytical frameworks and tools, which are benchmarked to international standards in AMRO's studies and research underpins AMRO's contribution to the knowledge building and sharing among stakeholders in the ASEAN+3 region.

In 2016, AMRO conducted thematic studies on analytical or policy issues which provided useful analytical tools and findings for both country and sectoral surveillance. A thematic study on non-financial corporate bond financing in foreign currency was also published on AMRO's website.⁴ Another thematic study on estimating output gap in selected economies in ASEAN+3 is still ongoing. When completed, the study can provide a baseline for other analytical work such as structural fiscal balance estimation and the analysis of inflation dynamics.

⁴ <http://www.amro-asia.org/non-financial-corporate-bond-financing-in-foreign-currency-trends-and-risks-in-asean-3-emerging-economies/>