



2018 Work Priorities

CHAPTER 1: SAFEGUARDING REGIONAL STABILITY THROUGH QUALITY SURVEILLANCE

AMRO, as the regional surveillance unit associated with the CMIM, has continued to enhance its surveillance framework and capacity while strengthening its efforts in conducting country and regional surveillance in a timely and granular manner. In particular, in 2018 AMRO prioritized timely monitoring of the risks and spillovers from trade protectionism as well as tightening of global financial conditions to ASEAN+3 member economies.

AMRO mission team led by Director Dr Junhong Chang holds a courtesy meeting with Bank Indonesia Governor Mr Perry Warjiyo (middle) during the Annual Consultation Visit in June 2018.



FORTIFYING AMRO'S SURVEILLANCE FRAMEWORK

In 2018, AMRO continued to strengthen its surveillance framework to fulfill its macroeconomic and financial surveillance mandate. During the year, AMRO adopted its first Surveillance Operational Manual, which provided guiding principles for AMRO's Annual Consultation Visits to be conducted in a professional and effective manner. AMRO also endeavored to integrate the ERPD Matrix into the surveillance process as part of its analytical framework, on both country and regional levels. To further enhance its surveillance capacity, AMRO also developed analytical toolkits such as the country risk map, business cycle, Taylor rule, and Financial Stress Index. The application and integration of these analytical tools in both regional and country surveillance not only enabled AMRO to provide member economies with more forward-looking analyses, risk assessments and value-added policy advice and recommendations, but also more comprehensive and relevant policy-oriented research.

STRENGTHENING COUNTRY SURVEILLANCE

Country surveillance is core to AMRO's surveillance work. To this end, annual consultation visits to all 14 member economies serve as the main vehicle for bilateral, regional and other multilateral surveillance activities. These visits mainly focus on the appropriateness and effectiveness of a member economy's policies in addressing risks, vulnerabilities and challenges threatening the member economy's macroeconomic and financial stability. These annual consultation visits are supplemented with short interim visits, which keep AMRO abreast of the latest developments in member economies and furnish timely data for its surveillance work.

In 2018, AMRO further enhanced its country surveillance process by

establishing its Country Surveillance Operational Manual with a view towards operationalizing and making the process more well-structured, transparent, engaging and effective. The Operational Manual provides formal guidance on the process of annual surveillance consultations with member economies. Besides stipulating the procedures, timelines, guidelines and formal requirements for country surveillance, it also requires that AMRO enhance engagement and communication with various stakeholders – in line with AMRO's vision to become a trusted policy advisor. In addition to the Operational Manual, AMRO also strengthened its internal policy review practices, and further streamlined processes around the

annual consultation visits to member economies, including the publication of annual consultation reports.

In 2018, several emerging market economies in the region faced global risk aversion and experienced relatively large portfolio outflows and exchange rate depreciation. The growing external uncertainty required AMRO to conduct more granular country surveillance, in particular, on external vulnerabilities. For example, AMRO increased the frequency of interim visits to Indonesia and Malaysia in 2018 to keep abreast of market conditions in a more timely manner. AMRO also enhanced its daily market monitoring to share information on a daily basis. The daily market monitoring enhanced the timeliness of AMRO's surveillance activities and increased the readiness of AMRO to support CMIM operations.

Vulnerabilities emanate from various sources. In less developed countries, they are often deeply rooted in structural weaknesses within the economy that can increase domestic and external vulnerabilities by constraining the economy's overall capacity to maintain macroeconomic

Heads of AMRO and the Ministry of Finance of Japan pose for a photo after the courtesy meeting during the Annual Consultation Visit in November 2018. From left to right: AMRO Chief Economist Dr Hoe Ee Khor, Deputy Prime Minister and Minister of Finance of Japan Mr Taro Aso, AMRO Director Dr Junhong Chang, and Vice Minister of Finance for International Affairs Mr Masatsugu Asakawa.



stability and absorb shocks in times of stress. In addition, these weaknesses are often the most critical impediments to realizing long-term growth potential and external stability. In response to growing challenges arising from structural vulnerabilities in less developed member economies, AMRO expanded its research on structural

issues in order to improve its policy consultation and country surveillance process. Examples included the review of the economic diversification plan in Lao PDR to assess its progress and the effectiveness of its policy measures; the study of the finances of state economic enterprises in Myanmar with a view towards strengthening fiscal soundness; and the analysis of the fiscal implication of demographic changes in Vietnam to support social security reform initiatives.

Mindful of the importance of members' confidence and trust in AMRO as a trusted policy advisor, AMRO carried out impartial, transparent and timely surveillance and enhanced engagement with members in 2018. AMRO conducted formal policy dialogues with members based on its draft preliminary assessments at the closing of each annual consultation visit. While roundtable discussions with various stakeholders had strengthened AMRO's 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 had further improved the transparency of AMRO's work. During the year, AMRO also conducted press interviews on some member economies, elevating AMRO's visibility.



AMRO mission team conducts a lecture to present key findings of the AREO 2018 and introduce the CMIM during the Annual Consultation Visit in November 2018 in Brunei Darussalam. The lecture is well attended by professors/lecturers and students from the Universiti Brunei Darussalam and officials from the Ministry of Finance and Economy and other ministries.

MAINTAINING A STEADY REGIONAL SURVEILLANCE PACE

Regional surveillance forms an integral part of AMRO's surveillance activities. The economic outlook of the broader ASEAN+3 region is assessed through applying both global and regional perspectives. Regional surveillance identifies emerging global risks from outside the region and assesses their spillovers. It also monitors and evaluates intra-regional developments and linkages for regional spillovers. In 2018, global economic momentum, although still strong, showed some signs of moderation amid emerging downside risks. Financial markets experienced renewed volatility on tightening global financial conditions exacerbated by global trade uncertainties, which led to financial turmoil in some emerging markets outside the region with fundamental macroeconomic imbalances. Prospects of a broad-based slowdown

in the global economy further unsettled markets towards the end of the year.

Regional surveillance activities in 2018 focused on the risks and spillovers from trade protectionism, and the impact of tightening global financial conditions on ASEAN+3 economies. Over the course of the year, AMRO leveraged proprietary models such as Oxford Economies and the Global Trade Analysis Project to provide timely updates and assessments to its member authorities and stakeholders on regional growth and the potential escalation of global trade tension. AMRO also circulated Policy Issue Notes on topical issues of interest to policymakers, such as the market turmoil in Argentina and Turkey and its implications on regional emerging markets in August 2018, when some regional economies experienced growing external headwinds. In addition to short-term issues, AMRO carried out analyses on longer term structural issues that cut across the region, such as the restructuring of global value chains and the demand shifts in the ASEAN+3 region. These assessments were also shared in the form of a blog in AMRO's website.

Throughout the year, AMRO supported regional discussions at the peer review surveillance process at the Deputy-level ERPD, as well as participated in discussions at the Ministerial and Governor-level – AFMGM and AFMGM+3.

Being the regional surveillance organization to support the CMIM, AMRO was also actively engaged in other regional and global fora such as the ASEAN Senior Level Committee on Financial Integration, ASEAN+3 Bond Market Forum, as well as the Informal Organization for Economic Co-operation and Development (OECD) Consultative Group Meetings. AMRO continued to be proactive and forward-looking in providing high quality and timely Policy Issue Notes to stakeholders on pertinent economic issues at the regional level. This includes the Policy Issue Note prepared for the ASEAN+3 Leaders' Meeting in Singapore; it was well received and appreciated by the Leaders.

In terms of publication, AMRO launched its second annual flagship publication – the AREO 2018 – in Manila in May. This publication included a forward-looking thematic chapter – *"Resilience and Growth in a Changing World"*, building upon the theme *"ASEAN+3 Region: 20 Years after the Asian Financial Crisis"* in the AREO 2017. The theme in AREO 2018 examines the continued relevance of the "manufacturing for exports" strategy that had underpinned industrialization and growth in several ASEAN+3 economies over the last few decades, and how this strategy can be augmented given challenges posed by changes in global value chains, digital technology and the services sector. It includes recommendations on how the regional economies can leverage new technologies and the rising services sector to enhance growth potential, and further strengthen intra-regional connectivity and integration to build resilience against external shocks. For the first time, the AREO used AMRO's new analytical toolkits in its analyses, enriching the macroeconomic and policy discussions. Complementary to the annual AREO publication, AMRO also circulated monthly AREO updates on regional economic developments, which included special features on topical issues.





Speakers discuss at a seminar co-organized by AMRO and the Ministry of Finance of Vietnam on "ASEAN+3 Regional Economic Outlook: Resilience and Growth in a Changing World" in May 2018 in Hanoi, Vietnam. The seminar is part of a roadshow to five countries in the ASEAN+3 region to promote the AREO 2018.

ENGAGING IN THEMATIC STUDIES AND RESEARCH

To reinforce AMRO's surveillance and support for CMIM, AMRO carried out in-depth analytical studies and rigorous research related to key policy issues. The growing research output by AMRO provided an effective communication platform with ASEAN+3 policymakers and other stakeholders. In 2018, AMRO published several policy-related research supporting country and regional surveillance, including "China's Reform and Opening-Up: Experience, Prospects and Implications for ASEAN", "Assessing Financial Stress in China, Japan, Korea and ASEAN-5 Economies", "Impact of Technology on Wages and Productivity in Singapore", and "China's Increasing Economic Linkages with ASEAN and the Potential Spillover Effects". These research papers were presented at conferences and seminars across the region.



AMRO Chief Economist Dr Hoe Ee Khor (far left) moderates a discussion panel of high-level policymakers during the High-level Forum on "40th Anniversary of China's Reform and Opening-up: Progress, Prospects and Impacts on the East Asian Region" in October 2018 in Beijing, China. Co-organized by the AMRO, CMOF, and PBOC, the forum uses AMRO's study titled "China's Reform and Opening-Up: Experiences, Prospects and Implications for ASEAN" as a background document.