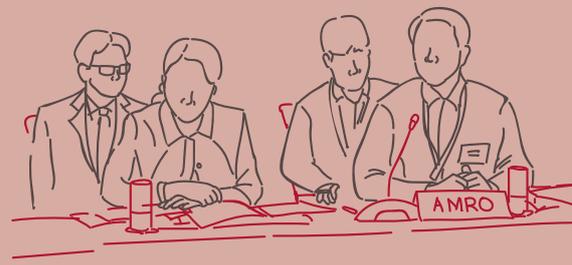




2018 Work Priorities



CHAPTER 2: PROVIDING EFFECTIVE SUPPORT TO REINFORCE THE REGIONAL FINANCIAL ARRANGEMENT



The CMIM is a key element of the ASEAN+3 Regional Financial Safety Net (RFSN). It provides a regional reserves buffer and insurance against the risks of financial crises that may potentially arise from volatile capital flows, imbalances or negative spillovers. AMRO supports members in the implementation of the CMIM through conducting surveillance and contingency planning.

In 2018, AMRO supported the ASEAN+3 members in conducting the first CMIM periodic review. This is a key milestone that reinforces the CMIM's role as the RFA, and the pillar of the ASEAN+3 RFSN. AMRO also supported the CMIM test run and the completion of members' peacetime preparation exercise.

In addition, AMRO supported improvements to the CMIM's operational readiness by developing the CMIM conditionality framework for members' review and approval, further enhancing the ERP Matrix, and stepping up its coordination activities with the IMF and other international financial institutions (IFIs).

Furthermore, as part of its intellectual support for members, AMRO conducted collaborative research with regional academics on local currency contribution to the CMIM and explored issues related to the future direction of the CMIM. AMRO also shared staff discussion notes pertaining to key GFSN and RFSN developments with members for their reference.

SUPPORTING THE CMIM PERIODIC REVIEW

Every five years, the CMIM parties review the CMIM Agreement to make sure that the CMIM remains up-to-date, reflective of member economies' circumstances, and relevant to global economic and financial conditions. The members kick-started the first periodic review in 2017, with steady progress made during the year.

In 2018, AMRO continued to support members in the first periodic review by addressing key issues raised, and preparing revised texts of the CMIM Agreement for members' discussion and adoption. In May, the ASEAN+3 Finance Ministers and Central Bank Governors reached a general agreement on the main contents of the first CMIM periodic review.

The main revisions included adding flexibility to extend the support period of the CMIM Arrangement linked to an IMF-supported program, providing a legal basis for conditionality, introducing information sharing process with the IMF, reinforcing the review and ex-post monitoring mechanism, and fine-tuning the confidentiality clause. As instructed by the Finance Ministers and Central Bank Governors, their Deputies agreed on the final text of the amended CMIM Agreement in December 2018 for signing and execution at the earliest opportunity.

IMPROVING THE OPERATIONAL GUIDELINES OF THE CMIM

The Operational Guidelines for Enhancing Effectiveness of the CMIM (CMIM OG), adopted by the Executive Level Decision Making Body (ELDDB) to facilitate implementation of the CMIM Agreement, is a document that is revised from time to time to ensure its relevance. Revisions are made based on members' discussions, test run experiences, and amendments to the CMIM Agreement. In 2018, AMRO supported members in revising and updating the CMIM OG, to improve the information sharing process between the CMIM and the IMF as part of the 1st CMIM periodic review. AMRO also prepared discussion notes and supported members on the establishment of an information sharing mechanism between the CMIM and the IMF.

FACILITATING THE CMIM TEST RUN

In 2018, the CMIM members conducted its 9th test run, which involved engagement with the IMF. Building on the momentum from two previous years, which saw closer coordination between the CMIM and the IMF in activating the IMF-linked portion of the CMIM Arrangements, AMRO supported members in designing the scenario, implementing the CMIM activation procedures, preparing necessary documents, assisting in the members' discussions, and submitting AMRO reports for members' deliberation and decision. Together with the 2018 Co-chairs of ASEAN+3, AMRO also contributed towards the preparation of an evaluation report of the 9th test run. This evaluation report identified gaps in the current process and put forth recommendations to strengthen the CMIM's effectiveness as the RFA.

CONTINUING PEACETIME PREPARATION

AMRO continued to support members' peacetime preparation exercise to enhance the operational readiness of the CMIM. Members have been conducting internal test runs for CMIM activation following a new peacetime preparation checklist since 2017. In 2018, AMRO supported members in finalizing their internal manuals and completing their internal test runs. By December, all members had completed their internal test runs, which contributed towards strengthening the operational readiness of the CMIM.

ESTABLISHING CMIM CONDITIONALITY FRAMEWORK

The legal basis for conditionality in the amended CMIM Agreement is scheduled for signing in 2019. AMRO has been assisting members in developing the CMIM conditionality framework. This is expected to strengthen the CMIM's support to members by providing guidance in the design and implementation of appropriate economic and financial policies in order to safeguard the financial resources of CMIM. In turn, this would enable members to address any macroeconomic imbalances, recover more quickly, and embark on a sustainable path of growth. The Deputies endorsed the guiding principles for the CMIM conditionality framework in December 2018. AMRO also developed a technical guidance note for the implementation of the guiding principles, which will be developed further in 2019.





ENHANCING THE ERPD MATRIX

AMRO has been developing the ERPD Matrix, its surveillance tool to assess qualification for the crisis prevention facility of the CMIM, i.e. the CMIM Precautionary Line (CMIM-PL). The ERPD Matrix applies both quantitative and qualitative methods to assess a member's macrofinancial performance in five key areas, namely, the external sector, fiscal policy, monetary policy, the financial sector, and data adequacy.

In 2018, AMRO piloted the enhanced ERPD Matrix with three members, using the enhanced ERPD Matrix Scorecard to analyze their macrofinancial performance. Based on lessons learned from these pilot projects, AMRO will further calibrate the Scorecard. The enhanced ERPD Matrix and AMRO's proposal for a Scorecard qualification reference for the CMIM-PL was endorsed by the Deputies in December. In operationalizing the Scorecard, AMRO developed a "regional tracker," an interactive web-based tool that allows members to monitor all Scorecards – promoting transparency in the process.

PROVIDING INTELLECTUAL SUPPORT ON CMIM'S FUTURE DIRECTION

As part of its commitment to enhance the CMIM, AMRO provided intellectual support, mainly by preparing and circulating staff discussion notes on GFSN and CMIM issues to facilitate members' discussion on how best to shape the CMIM Arrangement for the future. In this regard, AMRO's intellectual support included an empirical study on the risks threatening regional financial stability. AMRO also provided analysis on the sufficiency of the ASEAN+3 RFSN as well as adequacy of the CMIM by taking into account the development of other RFAs. AMRO identified areas for further enhancement and provided suggestions on the future direction of the CMIM. During the year, AMRO also conducted a collaborative research with four regional renowned scholars on the possibility of local currency contribution to the CMIM.

The study explored the plausibility of local currency contribution to the CMIM, and identified the possible modality and practical issues based on regional integration and cross-border local currency usage in the region. The study contributed to members' discussion on how to advance the CMIM to secure regional financial stability.

ENHANCING COLLABORATION WITH IFIS AND COMMUNICATION WITH MEMBERS

AMRO actively participated in international conferences and seminars to enhance communication and collaboration with other IFIs in 2018. In particular, AMRO placed great importance on the 3rd RFA High Level Dialogue in Bali, Indonesia and the 2nd Joint RFA Research Seminar in Cartagena Indus, Colombia. Together with other RFAs, including its co-organizers, ESM and FLAR, AMRO provided broader perspectives and insightful ideas about the development of the RFAs, particularly on issues related to collaboration with the IMF. AMRO also participated in a joint research on "*IMF-RFA Collaboration: Motives, State of Play and Way Forward*"

together with ESM and FLAR.

In 2018, AMRO enhanced communication with members on CMIM-related matters. In addition to close communication with the Co-chairs, AMRO also conducted workshops and lectures on selected CMIM issues for some member authorities, including Cambodia, Indonesia and Lao PDR, upon their requests. This helped members build a common understanding on the CMIM-related and GFSN issues. It also deepened relations between AMRO and the members.

Heads of RFAs around the globe convene at the 3rd High-level RFA Dialogue in October 2018 in Bali, Indonesia, to discuss new developments in their institutions and respective regions, and cooperation among RFAs and between RFAs and the IMF. Mr Tharman Shanmugaratnam, Deputy Prime Minister of Singapore, and in his capacity as Chairperson of the G20 Eminent Persons Group, delivers a keynote speech at the event.

