



CONDUCTING  
**QUALITY SURVEILLANCE**  
TO **SAFEGUARD** THE REGION

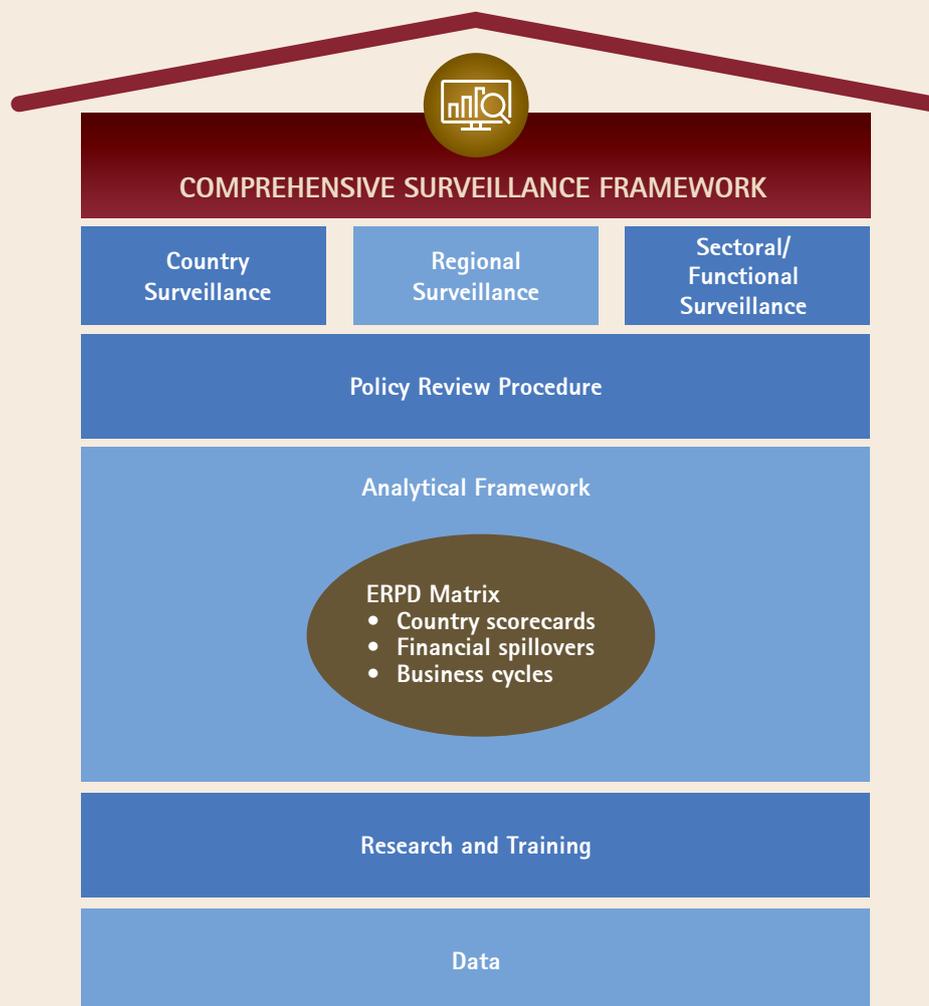
## BOLSTERING OUR SURVEILLANCE FRAMEWORK

To fulfil our mandate of providing macroeconomic and financial surveillance in the region, our core work continues to revolve around strengthening the surveillance framework.

In 2019, we developed toolkits for analyzing economic, credit, and property valuation cycles. Being solution and policy-focused, we improved the policy matrix framework with the aim of giving more timely and relevant policy advice to our member authorities. We also upgraded the

policy assessment framework used to evaluate ongoing economic policies.

With the integration of specific analytical toolkits, we will be able to provide member economies with more comprehensive and solution-oriented analyses and risk assessments as well as sound policy advice and recommendations grounded in rigorous research.



AMRO mainstreamed the ERPD Matrix into our country surveillance process and developed important analytical tools to better monitor the evolving risks and offer value-added policy advice to members.

## FURTHER DEEPENING COUNTRY SURVEILLANCE



In 2019, we completed Annual Consultation Visits to 13 members. During these visits, the mission teams met with authorities and other key stakeholders to exchange views on current economic developments, risks, and vulnerabilities of respective economies.

We continued to conduct country surveillance with the aim of providing policy advice tailored to meet the specific needs of our 14 member economies, and to maintain macroeconomic and financial stability.

As the region's "family doctor" on economic and financial issues, our country surveillance work is centered on comprehensive Annual Consultation Visits to our member economies. Such visits are focused on assessing the risks, vulnerabilities and challenges facing each member economy and the appropriateness and effectiveness of its policy response and coming up with our policy recommendations. To ensure the relevance and robustness of our analyses and recommendations, our country teams made short interim visits to stay updated on the latest developments in our member economies. To deepen understanding of specific issues and/or current initiatives, some country mission teams also conducted visits to localities outside of the capital.

Enhancements to the country surveillance process in 2019 involved the mainstreaming of the ERPD Matrix into country surveillance work, in consultation with member authorities. The ERPD Matrix aims to provide a comprehensive overview of the macroeconomic and financial performance of an economy over time, through a quantitative scorecard of macro-financial indicators (that is benchmarked against peer economies and pre-defined reference scores), and complemented by a suite of analytics and qualitative, expert judgment. We also held tailored workshops on the ERPD Matrix with several member authorities, conducted informal policy discussions with them,

and submitted separate notes on the ERPD Matrix assessment during our Annual Consultation Visits in 2019. While the ERPD Matrix assessment notes were for internal use only, the views of the authorities were likewise sought to further enhance the methodology, as needed, as well as familiarize them with the resulting output of the assessment framework.

In addition, the Surveillance Operational Manual was updated to incorporate improved guidelines, on consultation activities and engagement.



Our Thailand mission team visited the Vidyasirimedhi Institute of Science and Technology and the Eastern Economic Corridor Office to gain insights into the development of this flagship infrastructure project and its potential impact on the Thai economy.



In May, we launched our flagship report, the ASEAN+3 Regional Economic Outlook 2019 in Nadi, Fiji. The launch was well attended by regional policymakers, academia, representatives from IOs, and the private sector.

## MONITORING SPILLOVER EFFECTS THROUGH EFFECTIVE SURVEILLANCE

As the ASEAN+3 region becomes more integrated, individual economies are also becoming more vulnerable to spillover effects from other economies within the region. Regional surveillance is essential in identifying the broader trends that affect the region and in assessing the regional economic outlook. AMRO conducts regional surveillance to identify emerging risks from outside the region for global spillovers, as well as monitors and assesses intra-regional developments and linkages for regional spillovers.

For more rigorous regional surveillance, we developed new analytics and tools to include:

- (1) property valuation cycle,
- (2) semi-conductor and capex cycles,
- (3) import-adjusted GDP for member economies,
- (4) stress testing financial prices with shocks to economic and policy uncertainty (Global Vector Autoregressive), and
- (5) solvency stress testing of individual financial institutions with shocks from contagion risk.

A methodology to analyze trade and foreign direct investment (FDI) diversion was also developed.

To facilitate the smooth exchange of information between AMRO and member authorities, AMRO launched the AMRO Regional Tracker for the ERPD Matrix Indicator Scorecard (ARTEMIS) platform housing the ERPD Matrix Scorecard and the

Macro-financial Database for ASEAN+3 Surveillance (MiDAS), which contains all Scorecard data. Members can log into the system to use the interactive ERPD Matrix Scorecard and the data time-series at their convenience.

In May 2019, we launched our third annual flagship publication, the AREO 2019, at a press conference in Fiji at the sidelines of the Asian Development Bank (ADB) Annual Meetings. The AREO 2019 comprised two parts. The first chapter provided a comprehensive assessment of the risks and vulnerabilities facing the region and an assessment of the growth and inflation outlook for 2019 and 2020, taking into account the policy response by the authorities. We reported the region to be resilient and expected it to grow by 5.1 percent in 2019-2020 despite external headwinds from the U.S.-China trade tension.

The second chapter discussed key drivers shaping the development priorities of the ASEAN+3 region as they embrace the "new economy" and embark on the next phase of the region's growth trajectory. The chapter identified the key challenges regional economies faced in financing infrastructure investment and building connectivity, and provided recommendations to overcome these challenges.

Monthly circulars and special features were also produced to provide regular regional economic outlook updates and to incorporate topical issues impacting our region.

## ANALYZING ISSUES THROUGH THEMATIC STUDIES AND RESEARCH

As macroeconomic issues are often complex, involving many interrelated variables, conducting in-depth studies and rigorous research related to key policy issues are central to our work. In 2019, AMRO economists identified key structural issues specific to each economy, as well as the challenges member economies faced in embracing the new economy. In particular, AMRO economists conducted studies on the developments in infrastructure, financial technology, and tourism in the ASEAN+3 economies.

The table below lists, thematically, research conducted and published by AMRO this year.



A panel engaged in a lively discussion regarding the role of various stakeholders in addressing the infrastructure gap at the AREO 2019 seminar co-organized by AMRO and the Bangko Sentral ng Pilipinas (BSP). From left: Mr. Rabboni Francis B. Arjonillo, President of First Metro Investment Corporation; Dr. Hoe Ee Khor, AMRO Chief Economist; Mr. Diwa C. Guinigundo, then-BSP Deputy Governor; and Dr. Joseph E. Zveglich, Deputy Chief Economist of ADB.

### BOX STORIES AND ISSUES RELATING TO AMRO'S MANDATE – MACRO-FINANCIAL STABILITY AND RISK IDENTIFICATION

#### Published in 2018 ACR for Brunei

- Fiscal Policy to Maintain Fiscal Consolidation while Supporting Economic Growth
- Potential Financial Instability amid Oil Price Fluctuations

#### Published in 2018 ACR for Cambodia

- IFRS9: The Challenges of New Financial Standards
- Impacts of the Interest Rate Cap on Cambodia's MFIs

#### Published in 2018 ACR for China

- Credit Risks Faced by Small Rural Commercial Banks
- Liquidity Risk of Medium-Sized Banks

#### Published in 2019 ACR for Indonesia

- Bank Liquidity Conditions
- Bank Indonesia's (BI) Policy Mix in 2018–2019
- Financial Deepening in Indonesia

#### Published in 2018 ACR for Japan

- Assessing the Effectiveness of the Quantitative and Qualitative Monetary Easing with Yield Curve Control Policy
- Interconnectedness of Japan's Mega Banks and Implications on Cross-border Spillovers
- Japanese Banks' Cross-border Activity with a Focus on ASEAN
- The Impact of Global Trade Tensions on the Japanese Economy

#### Published in 2019 ACR for Lao PDR

- Financial Sector Development in Lao PDR
- Improvements in Banking Sector Regulation and Supervision in Lao PDR

#### Published in 2018–19 ACR for Malaysia

- An Examination of Malaysia's External Debt
- An Update on the Property Market
- Assessing Malaysia's Fiscal Policy Stance
- Stress Testing Resilience to Capital Flows – An Update

#### Published in 2019 ACR for Myanmar

- Foundation to be Strengthened for Interest Rate Liberalization in Myanmar

#### Published in 2018 ACR for the Philippines

- An Updated Taylor Rule Model for the Philippines
- Will the Philippines' Real Estate Sector Stay Resilient to Capital Outflows?— A Firm-Level Stress Test on its Creditworthiness

#### Published in 2018 ACR for Singapore

- Alternative Approach to Estimating the Net Contribution of Key Demand Components to GDP Growth in Singapore

#### Published in 2019 ACR for Thailand

- Long-Run Factors Behind Thailand's Inflation Dynamics

#### Published in 2018 ACR for Vietnam

- Assessing the Vulnerability of Public Debt in Vietnam
- Evolution of Vietnam's Export Structure and the Impact of Global Shocks on Vietnam
- Financial Sector Development in Vietnam

## LONG-TERM POLICY-RELATED AND STRUCTURAL ISSUES

### Published in *2018 ACR for Brunei*

- Developing Businesses in Brunei Darussalam: A Brief Assessment of Brunei's Reforms towards Improving SMEs' Access to Credit
- Economic Diversification from the Upstream Oil and Gas Industry
- Medium-term Fiscal Consolidation

### Published in *2018 ACR for Cambodia*

- Cambodia's Preferential Trade Schemes
- Distributional Impact of Fiscal Policy

### Published in *2018 ACR for China*

- China's Regional Disparities
- Should we be concerned about household debt in China

### Published in *2018 ACR for Hong Kong, China*

- Hong Kong Government's Six Initiatives on Housing
- The Impact of U.S.-China Trade Conflict

### Published in *2019 ACR for Indonesia*

- How to Revive the Manufacturing Sector: Lessons from the Automotive Industry

### Published in *2018 ACR for Japan*

- Recent Policy Developments on Foreign Workers to Cope with Labor Shortage

### Published in *2019 ACR for Lao PDR*

- Fiscal Revenues in Lao PDR: Trends and Future Options for Reform
- Recent Fiscal Reforms Initiatives
- Upgrading the Debt Management Framework

### Published in *2018-19 ACR for Malaysia*

- Malaysia's Special Voluntary Disclosure Program

### Published in *2019 ACR for Myanmar*

- Estimating Myanmar Trade Using Sectoral Mirror Data
- Reform of the Electricity Sector
- Transforming State-owned Banks as Effective Agents of Economic Development

### Published in *2018 ACR for the Philippines*

- National Government-Local Government Relations
- Rationalizing Fiscal Incentives and Lowering the Corporate Income Tax

### Published in *2018 ACR for Singapore*

- The Impact of U.S.-China Trade Conflict
- The Impact of Technology on Wages and Productivity

### Published in *2019 ACR for Thailand*

- Demographic Changes and Their Implications on the Thai Economy
- Development of Thailand's Outward Direct Investment (ODI) after the Global Financial Crisis (GFC)
- Thailand's Deepening Trade and Investment Ties with the ASEAN+3 Region

### Published in *2018 ACR for Vietnam*

- Assessing Social Insurance Policy Reforms
- Monetary Policy Instruments in Vietnam

## NEW ECONOMY

### Published in *AREO 2019 Thematic Chapter*

- Building Capacity and Connectivity for the New Economy

### Published in *2018 ACR for Cambodia*

- The Development of Tourism in Cambodia

### Published in *2018 ACR for China*

- The New Economy: Characteristics, Driving Factors and Challenges

### Published in *2018 ACR for Hong Kong, China*

- Transforming to a Digital Financial Center – Progress in Hong Kong

### Published in *2019 ACR for Indonesia*

- Boosting the Tourism Sector
- Fintech Developments

### Published in *2018 ACR for Japan*

- Fintech Development

### Published in *2019 ACR for Myanmar*

- Leveraging Digitalization in the Development of Myanmar's Economy

### Published in *2019 ACR for Thailand*

- Thailand's Eastern Economic Corridor and Its Prospects