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Macroeconomic Surveillance Frameworks and Practices in Non- Crisis Time

Jinho Choi, Jae Young Lee, Ika Mustika Sari
and Beomhee Han

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Prepared by Jinho Choi, Jae Young Lee, Ika Mustika Sari and Beomhee Han^{1 2}

Approved by Hoe Ee Khor (Chief Economist)

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Abstract

This paper aims to explain the ASEAN+3 Macroeconomic Research Office's (AMRO's) surveillance framework and practices in non-crisis time and compare them with those of other Regional Financing Arrangements (RFAs). AMRO's successful take-off as a "regional family doctor" can be attributed to the following factors. First, getting granted a formal mandate for surveillance is key to ensuring the full support and cooperation of member authorities. Second, having regular surveillance cycles and procedures in place during peacetime is essential in guiding crisis-time surveillance. Third, strengthening emergency lending facilities would contribute to the effectiveness of surveillance. And fourth, highly integrated regional economies highlight the case for strong regional surveillance to mitigate the risk of potential intra-regional spillovers.

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Keywords: Macroeconomic Surveillance; ASEAN+3 Macroeconomic Research Office; Chiang Mai Initiative Multilateralisation; Regional Financing Arrangements; Regional Financial Safety Net

¹ Authors' e-mails: choi.jinho@amro-asia.org; Lee.JaeYoung@amro-asia.org; ikams@bi.go.id; Han.Beomhee@amro-asia.org. Jinho Choi is a Senior Specialist at AMRO; Jae Young Lee is a Group Head and Lead Economist at AMRO; Ika Mustika Sari was a CMIM Specialist at AMRO during the drafting of the paper and she is currently a Senior Economist at Bank Indonesia; Beomhee Han is a CMIM Group Head and Principal Specialist at AMRO.

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Glossary

ACR	Annual Consultation Report
AMF	Arab Monetary Fund
AMRO	ASEAN+3 Macroeconomic Research Office
AREO	ASEAN+3 Regional Economic Outlook
ARTEMIS	ASEAN+3 Regional Tracker for the ERPD Matrix Indicator Scorecard
ASEAN	Association of South-East Asian Nations
BoP	Balance of Payments
BRICS	Brazil, Russia, India, China and South Africa
CMI	Chiang Mai Initiative
CMIM	Chiang Mai Initiative Multilateralisation
CRA	Contingent Reserve Arrangement
DG	Directorate-General
DSA	Debt Sustainability Assessment
EC	European Commission
ECB	European Central Bank
ECFIN	Economic and Financial Affairs
EFSD	Eurasian Fund for Stabilization and Development
EFSF	European Financial Stability Facility
ELDMB	Executive Level Decision Making Body
ERPD	Economic Review and Policy Dialogue
ESD	Economic Studies Division
ESM	European Stability Mechanism
EU	European Union
EWS	Early Warning System
FLAR	Fondo Latinoamericano de Reservas
FSI	Financial Stress Index
FX	Foreign exchange
GFSN	Global Financial Safety Net
GVAR	Global Vector Autoregressive models
HLD	High-Level Dialogue
IMF	International Monetary Fund
MFA	Macro Financial Assistance
MiDAS	Macro-financial Database for ASEAN+3 Surveillance
PL	Precautionary Line
RFA	Regional Financing Arrangements
RFSN	Regional Financial Safety Net
SF	Stability Facility

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Executive Summary

This paper aims to explain the ASEAN+3 Macroeconomic Research Office's (AMRO's) surveillance framework and practices in non-crisis time and compare them with those of other Regional Financing Arrangements (RFAs). In parallel, the current practices of other RFAs—institutional arrangements, surveillance frameworks, engagement, and communication and relationship with the International Monetary Fund (IMF)—are also described based on survey conducted with the relevant institutions. Overall, it is assessed that AMRO has grown rapidly over the past four years, in terms of enhanced surveillance capacity, closer communication with its member authorities and the general public, while enhancing collaborations with other RFAs and the IMF.

AMRO's successful take-off as a "regional family doctor" can be attributed to the following factors.

First, getting granted a formal mandate for surveillance is key to ensuring the full support and cooperation of member authorities. AMRO's surveillance function has been empowered through the formal mandate in the Chiang Mai Initiative Multilateralisation (CMIM) Agreement and the AMRO Agreement. This legal status of AMRO as a regional surveillance organization has contributed to its success in drawing the member authorities' strong support and cooperation in AMRO country teams' conducting of on-site surveillance, acquiring timely information, and communicating with local experts and media.

Second, having regular surveillance cycles and procedures in place during peacetime is essential in guiding crisis-time surveillance. Regularizing on-site consultation visits to all members helps AMRO to stay on top of macroeconomic and financial developments in each member economy and to detect any symptoms of underlying risks that may trigger financial distress and short-term foreign exchange liquidity crunch. Moreover, AMRO country teams can build up institutional knowledge on member economies and identify key sources of information, including local experts who would be invaluable especially during the run-up to a crisis or during crisis time.

Third, strengthening emergency lending facilities would contribute to the effectiveness of surveillance. Access to CMIM financing facilities is provided following a macroeconomic and financial assessment of the requesting country that takes into account the findings from AMRO's annual country surveillance. The use of some CMIM facilities could also be supported by an assessment of qualification or a financing program drawn up by CMIM/AMRO, containing conditionality. The clear link between CMIM financing facilities and AMRO's policy advices promotes more candid and closer policy dialogue between AMRO and the member authorities.

And fourth, highly integrated regional economies highlight the case for strong regional surveillance to mitigate the risk of potential intra-regional spillovers. Rapid progress in the integration of the ASEAN+3 economies in terms of trade, direct investment and capital flows has strengthened the need to support the region's stability in the common interest of the members, which in turn has resulted in the need to strengthen AMRO's capacity to detect adverse spillovers in the region in a timely manner.

I. Introduction

In 2018, six RFAs³ published a joint paper titled “*IMF-RFA collaboration: motives, state of play and way forward*”. The paper (Cheng et al., 2018) took stock of the existing collaborative activities between the IMF and RFAs, and offered proposals on how the collaboration can be taken to the next level. It recognized that significant progress has been made to enhance cooperation between the RFAs and IMF through activities such as joint seminars, technical assistance, attendance of each other’s missions, and test runs. It also identified areas to further improve RFA–IMF cooperation in capacity building and training, information sharing and communication, and crisis prevention and management. At the Third RFA High-Level Dialogue (HLD) held in October 2018, the heads of the RFAs and the IMF discussed the findings and proposals offered in the joint paper, and acknowledged the merits of enhanced RFA–IMF collaboration in further strengthening the effectiveness of the global financial safety net (GFSN).

As a follow-up of the joint paper and the Third HLD, the RFAs agreed to explore in greater depth the issues outlined in the joint paper⁴ in multiple work streams, which were presented and discussed at the Fourth RFA HLD in October 2019.⁵ To this end, each RFA has led a work stream to identify key questions and issues around a topic. AMRO was tasked with taking stock of RFAs’ practices of surveillance during peacetime and in the run-up to crisis time by conducting a survey on the surveillance practices among the RFAs, while sharing AMRO’s own surveillance experience. Surveillance and macroeconomic consultation are important elements of an effective crisis prevention and management framework. The IMF has a well-established surveillance and macroeconomic consultation framework with experiences well-proven in actual crisis situation. Most RFAs are also expected to conduct research and macroeconomic surveillance of their member economies either explicitly or implicitly. It is expected that given their closer relationship with regional economies, RFAs can complement the IMF’s assessment by providing more comprehensive views and in-depth analysis of the economies from a regional perspective, including political and institutional issues. In view of the overlapping nature of the macroeconomic surveillance and consultation conducted by both the IMF and RFAs, it is likely that differences of views would emerge on some important policy issues. Hence, in situations where views differ, it is especially important for both institutions to engage in discussions based on the principle of mutual trust and respect, in the interest of arriving at an impartial and objective assessment. A cooperative spirit is a necessary condition for the institutions to work closely and effectively together in order to enhance the effectiveness of the regional financial safety net (RFSN) as a complement to the GFSN, in promoting regional macroeconomic and financial stability.

³ The six RFAs included Arab Monetary Fund (AMF), ASEAN+3 Macroeconomic Research Office (AMRO), Eurasian Fund for Stabilization and Development (EFSD), European Commission (EC), European Stability Mechanism (ESM), and Fondo Latinoamericano de Reservas (FLAR – Latin American Reserve Fund).

⁴ The issues are divided into six work streams; (i) training and capacity building, led by FLAR, (ii) technical assistance to member states, led by AMF, (iii) communication strategies in crisis and non-crisis time, led by EC, (iv) surveillance and macroeconomic consultation, including the run-up to the crisis and early engagement, led by AMRO, (v) crisis-time collaboration: instruments of complementarity in lending toolkits and policies, led by ESM, and (vi) stabilization versus development needs, led by EFSD.

⁵ Refer to the Joint Statement of the Fourth High-Level RFA Dialogue (<https://www.amro-asia.org/joint-statement-of-the-fourth-high-level-regional-financing-arrangements-rfa-dialogue-washington-d-c-october-16-2019/>)

This paper explores AMRO’s surveillance and macroeconomic consultation frameworks in parallel with those of other RFAs, including key toolkits for surveillance and consultation and the framework for collaboration with the IMF. To this end, AMRO conducted a comprehensive survey of all of seven RFAs⁶ on their surveillance and macroeconomic consultation practices. The survey mainly covered each RFA’s institutional arrangement for surveillance function, surveillance framework, procedures and requirements, and engagement and communication. In this paper, AMRO aims to share: i) its surveillance capacity and relationship to financing toolkits under the formal mandate; ii) peacetime surveillance framework, comprising the key objectives and focus of the country surveillance, on-site macro consultations, main products of surveillance, publication and outreach activities, and the analytical toolkit used; iii) engagement with the member authorities as well as communication; and iv) complementarity and collaboration with the IMF. AMRO also shares its experience in conducting test runs involving the IMF, as part of its peacetime efforts to facilitate enhanced collaboration with the IMF.

This discussion paper is organized as follows. Section II shares AMRO’s experience in peace-time surveillance, with reference to other RFAs’ practices. Section III summarizes and concludes the discussion.

II. Surveillance Framework and Practices in Non-Crisis Time

1. Formal Institutional Arrangements

1.1. Mandate on Macroeconomic Surveillance

AMRO is the regional macroeconomic surveillance organization supporting the CMIM, the financing arm of the ASEAN+3 countries. The ASEAN+3’s surveillance mechanism was set up in the name of Economic Review and Policy Dialogue (ERPD) and has been ongoing since 2000, together with the launch of the Chiang Mai Initiative (CMI). Since its establishment as a non-profit corporation under Singapore law in May 2011, AMRO has acted as a permanent and professional surveillance organization, conducting macro-economic surveillance of the regional economies. In February 2016, AMRO was formally transformed into an international organization. According to the AMRO Agreement⁷, the purpose of AMRO is to contribute to securing the economic and financial stability of the region through conducting regional macroeconomic surveillance and supporting the implementation of the regional financial arrangement, as formalized under the CMIM Agreement.

Most RFAs have no formal surveillance mandate, except for AMRO and EC. The EC has a legal mandate for economic surveillance, operating in the context of European Semester. The ESM currently has no peacetime surveillance function, but has monitoring tasks for program countries within the so-called early warning system (EWS). However, according to the revised ESM Treaty, which was agreed by the Eurogroup in June 2019 and will be ratified by members, the ESM’s surveillance function will be enhanced as it will also be tasked with

⁶ In addition to the six RFAs participating in the work streams, the BRICS Contingent Reserve Arrangement (BRICS CRA) was included in the survey.

⁷ Its formal name is the “Agreement Establishing ASEAN+3 Macroeconomic Research Office”, signed by ASEAN+3 members in October 2014.

following and assessing the macroeconomic and financial situation of its members in collaboration with the EC and the European Central Bank (ECB). Among other RFAs with no explicit mandate, FLAR conducts surveillance on all members. It seeks to anticipate their demands on FLAR's balance of payments financing facilities and to evaluate their repayment capacity, which are key functions to fulfill its objectives.

1.2. Institutional Structure and Capacity

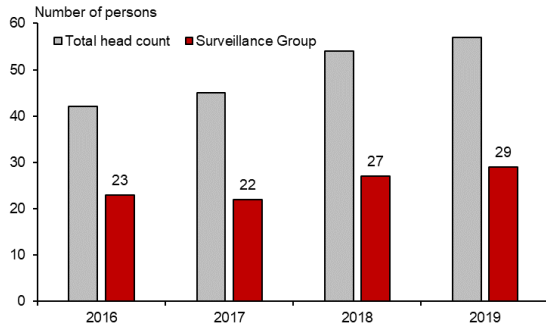
Country surveillance plays a pivotal role in AMRO operations. In line with the mandate on surveillance, the AMRO Agreement⁸ (Article 3. Functions) stipulates two major functions: i) to monitor, assess and report to members on their macroeconomic status and soundness; and ii) to identify for members macroeconomic and financial risks and vulnerabilities in the region and assist them, if requested, in the timely formulation of policy recommendations to mitigate such risks.

To fulfill its key surveillance mandate, AMRO has organized its surveillance teams in a matrix organizational structure. A regional team, 14 country teams covering all member economies, and functional teams have been established and are engaged in monitoring and analyzing the regional economies through daily off-site monitoring and frequent on-site visits. To facilitate a collaborative work process, each country team comprises one group head, one desk economist, two back-up economists and one sector specialist. Each desk economist is expected to cover one country for at least three years to deepen his or her understanding of the economy, while supporting one or two other country teams as back-up economists.

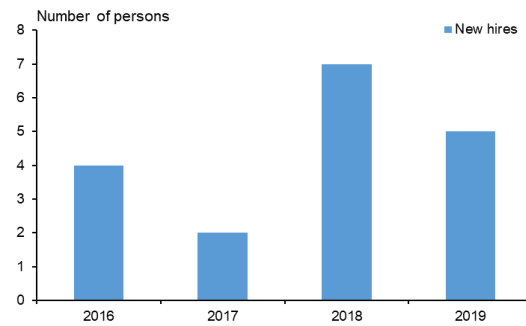
Since the full-fledged launch as an international organization in February 2016, AMRO's surveillance function has expanded rapidly. In terms of staffing, the number of economists in the AMRO Surveillance Group, under the supervision of the Chief Economist, has gradually expanded from 23 in December 2016 to 27 in December 2019, accounting for half of AMRO's total staff head counts (Figure 1). Active efforts to recruit new staff have been made as shown in a significant increase in new hires in 2018-2019 (Figure 2), and the size of the surveillance function is anticipated to grow further in coming years, largely driven by strong support from member authorities to strengthen the regional watchdog's core function in a timely manner. By seniority-level, the composition of the staff in terms of professional experience has become increasingly more balanced between seasoned and young researchers as AMRO has seen the size of the economist group increase.⁹

⁸ In addition to the surveillance-related ones, the other two functions in the Agreement includes: to support members in the implementation of the regional financial arrangement; and to conduct other activities necessary for achieving the purpose of AMRO as may be determined by the Executive Committee.

⁹ By seniority-level, the AMRO Surveillance Group consists of six lead economists, seven senior economists, eleven economists, five researchers, two research analysts, and nine associates (as of March 2020).

Figure 1. AMRO Surveillance Staffing

Note: Includes professional staff only (excluding Senior Management); as of December each year
Source: AMRO

Figure 2. AMRO Surveillance New Hiring

Source: AMRO

The organizational structure and size of the surveillance and economic monitoring units vary across RFAs. AMF (Economic Department), AMRO (Surveillance Group), EC (various directorate generals including the Directorate-General for Economic and Financial Affairs, DG ECFIN), ESM (Chief Economist Department) and FLAR (Economic Studies Division, ESD) have dedicated staff and internal departments in charge of macroeconomic monitoring. In the EFSD, macroeconomic surveillance is currently conducted on four borrowing members by the Budget Support Loans Project Group. The CRA has a research group (The CRA Research Group), consisting of the members' central bank staff, to monitor the member economies, with a rotating presidency.

1.3. Relation with the Regional Financing Arrangement

AMRO's surveillance work broadly supports the liquidity facilities in the CMIM Arrangement both in non-crisis and crisis times. The CMIM Arrangements consist of two instruments, CMIM Precautionary Line (CMIM-PL) for crisis prevention and CMIM Stability Facility (CMIM-SF) for crisis resolution. Both facilities are aimed at providing USD liquidity support through the establishment and/ or activation of currency swap lines in response to urgent short-term USD liquidity difficulties and/or balance of payments difficulties of CMIM members that may either be potential or actual. For each of the two facilities, CMIM-PL and CMIM-SF, a portion is stand-alone (IMF de-linked portion) and the rest is linked to an IMF program (IMF-linked portion).

During the CMIM activation process, AMRO plays a key role in assessing the requesting member's economic and financial situation, and providing recommendations to the CMIM decision-making body. AMRO is responsible for assessing the requesting member's macroeconomic situation in order to come up with an appropriate set of policy recommendations, and preparing the AMRO Report with recommendations for the Executive Level Decision Making Body (ELDMB)'s deliberation. Following the approval of CMIM Arrangement, AMRO is also responsible for conducting ex-post monitoring of the arrangement.

Emergency lending facilities and macroeconomic adjustment programs are not explicitly linked in most RFAs. Several RFAs have no formal links between the emergency financing facility and macroeconomic programs, but maintain indirect connections in various ways:

- The AMF's financing facility is not linked either to an explicit surveillance framework or to the IMF programs. However, most of the AMF's financing facilities support economic reform programs.
- The EC's financing facilities (EU BoP Facility, EU Macro Financial Assistance (MFA) Facility) are not linked formally. However, an EU Member State can be engaged in EU and IMF programs in parallel; therefore, EU program financing and conditionality may take into account those of the IMF facility. For the EU's neighboring countries, MFA loans (and, exceptionally, grants) provide BoP support that are conditioned on (i) a satisfactory track record of an IMF programme and (ii) the fulfilment of economic and financial policy conditions that typically build on and complement those of the IMF.
- The CRA delinked portion is not dependent on any economic program. In contrast, the IMF-linked portion is linked to IMF conditionality.
- FLAR loans carry no conditionality, but the maximum borrowing size without guarantee of its financing facilities for each country depends on its model estimate of the risk of the requesting country.

In contrast, the EFSD extends budget support loans which are aimed at backing government's macroeconomic or structural adjustment programs. The requirement to maintain an adequate macroeconomic framework among other conditionalities is incorporated in policy matrices of these loans. The ESM stability support is provided subject to strict conditionality appropriate to the financial assistance instrument chosen. Such conditionality may range from a macroeconomic adjustment programme to continuous observance of pre-established eligibility conditions. The CMIM has also enhanced its conditionality framework by adding an overarching legal basis for CMIM-SF conditionality in the amended CMIM Agreement in addition to the existing one for the CMIM-PL. With the enhanced conditionality framework, it is expected that the CMIM would further support its members by helping in the design and implementation of appropriate economic and financial policies that would facilitate speedier recovery from the crisis and promote a more sustainable economic development.

Table 1. RFAs: Institutional Arrangement

RFA	Surveillance mandate	Surveillance unit capacity	Relationship to financing toolkits
AMF	AMF does not have an explicit mandate for surveillance, but it is mandated to engage in consultation missions to member countries on policy issues	The Economic Department conducts research activities to provide information, data, and economic analysis promoting the discussion and dialogue on key economic issues facing the Arab world.	The AMF's financing facility is not linked either to an explicit surveillance framework or to the IMF programs. However, most of the AMF's financing facilities support economic reform programs.
CMIM/AMRO	AMRO is formally mandated to serve as a surveillance unit to the CMIM	The Surveillance Group in AMRO, consisting of regional, country and functional teams, is in charge of regional and country surveillance. More than half of the staff is dedicated to surveillance work	Access to the CMIM-PL for crisis prevention and CMIM-SF for crisis resolution is provided based on the macroeconomic assessment of the member economies

CRA	No explicit mandate. Instead, a research group consisting of members' central bank staff to monitors members' economies	Not applicable. The CRA Research Group gathers on a quarterly basis to share economic data and information	The CRA delinked portion is not dependent on any on-track economic program. In contrast, the IMF-linked portion is indirectly linked to IMF conditionality
EC	The EC has a legal mandate for economic surveillance, operating in the context of the European Semester	Directorate-General for Economic and Financial Affairs with slightly less than 600 staff members is mainly responsible for economic surveillance. Other sectoral Directorate-Generals also have staff involved in surveillance	The European framework foresees several financing facilities depending on the situation of the EU Member States: <ul style="list-style-type: none"> • For euro area EU member: the ESM • For non-euro area EU member: EU Balance of Payments Facility • For the EU's neighbouring countries: Macro-financial Assistance Facilities are not linked formally for EU countries. However, an EU Member State can be engaged in EU and IMF programs in parallel, thus EU program financing and conditionality may take into account the IMF facility. For non-EU countries, having an IMF programme is a necessary but not sufficient condition to obtain MFA
ESM	<ul style="list-style-type: none"> • Does not have a surveillance function, but have monitoring tasks for program countries within the EWS • According to the draft revised ESM Treaty (still to be ratified by ESM members) it may where relevant in order to internally prepare and enable it to appropriately and in a timely manner pursue the tasks conferred on it by the Treaty, follow and assess the macroeconomic and financial situation of its Members in collaboration with the EC and the ECB 	<ul style="list-style-type: none"> • The Chief Economist's Department staff is currently in charge of the ESM EWS. Other sectoral divisions also contribute to the EWS and provide resources to country teams (which are currently focused on the five beneficiary members) • With the new mandate, those divisions especially the Chief Economist's Department are expected to expand 	The ESM and its predecessor (EFSF) were specifically established to provide financial assistance to euro area Member States (ESM members) in need due to severe financing problems if indispensable to safeguard the financial stability of the euro area as a whole and of its Member States
EFSD	Does not have a formal mandate for surveillance but de facto, this work is done through regular country missions and monitoring of ongoing programs	Conducted by the Budget Support Loans Project Group, which covers all four recipient states with support from the Advisor and Chief Economist Office	The EFSD supports government's macroeconomic and structural adjustment programs through budget support loans. The requirement to maintain adequate macroeconomic framework is incorporated in policy matrices of its budget support operations
FLAR	Surveillance is not a formal mandate, but implicit in the FLAR's objectives. FLAR conducts surveillance of all member countries and seeks to anticipate their financial demands of FLAR and to	The Economic Studies Division (ESD) is in charge of macro surveillance. Seven out of 52 (13.5 percent) staff are part of the ESD. Each economist covers two countries. Internally-developed credit risk models are	FLAR's loan facilities (liquidity loans, contingency loans, and balance of payments support loans) are not tied to achieving a macroeconomic program. However, the maximum borrowing size without guarantee for each country depends on its model to

	evaluate their repayment capacity	used to measure the risk level of the member countries.	measure the risk of the requesting country.
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Source: Authors' compilation (based on the survey of RFAs)

2. Surveillance Framework in Non-Crisis Time

2.1. Key Objective and Focus

Maintaining macroeconomic and financial stability is the overarching objective of AMRO's surveillance. Country surveillance assesses whether a member's policies are adequate to maintain its macroeconomic and financial stability. That said, given the close linkages among regional economies, an assessment is also made on whether a member's policies and developments are affecting the stability of other members and/or the regional economic and financial system.

Risks, vulnerabilities and spillovers are the main focus of AMRO's country surveillance. In particular, risks and vulnerabilities that directly affect the balance of payments and the financial sector are crucial elements of the surveillance. Risks to economic growth, jobs and prices should be covered as key elements together with the external and financial sector due to their macro-financial linkages. Given the regional stability mandate of country surveillance, spillovers, both inward and outward, including possible contagion to the region, should also be covered in country surveillance activities.

All economic and financial policies are covered in country surveillance, as long as they affect a member's stability and/or regional stability. AMRO should identify macroeconomic and financial risks and vulnerabilities in the region and assist members in the timely formulation of policy recommendations to mitigate such risks. These include traditional macroeconomic policies including fiscal and monetary policies, exchange rate policy and financial sector policies including micro-prudential regulation and supervision, as well as macro-prudential policies, to mitigate risks to financial system stability. Structural policies should also be assessed if they affect stability in the medium to long-term or even in the short-term through their impact on financial markets.

Country surveillance should reflect and be tailored to members' circumstances. However, special consideration should be within the broad mandate and required coverage of policies mentioned above. Member-specific circumstances include social policies, the political environment, institutions, commodity dependency or the de facto dollarized nature of the economies.

RFAs broadly share key objectives on mitigating potential risks and vulnerabilities to maintain macroeconomic stability, with a focus on sound balance of payments. AMF, CRA, FLAR and AMRO have a priority to monitor potential risks to the balance of payments. In contrast, the EC's objectives toward regional economic integration are broader than those of other RFAs. It aims to ensure the sustainability of public debt for EU members (Stability and Growth Pact) as well as to detect, prevent and correct macroeconomic imbalances (Macroeconomic Imbalance Procedure), but monetary policy lies outside its mandate. To complement the EC's assessments, the ESM focuses on market access and risks, and

members' financing/repayment capacity. The EFSD extends financial credits, only to member states to support anti-crisis and stabilization programmes formulated and implemented by the borrowers. EFSD may also extend social grants and investment loans that are not necessarily related to crisis response and are aimed at pursuing developmental objectives.

2.2. On-site Macro Consultation

AMRO's regular consultations with its members are conducted on an annual basis. The AMRO Agreement (Article 5 (b)) stipulates that the country consultation should be made each year on issues that may be relevant to the purpose and functions of AMRO. Accordingly, the country teams conduct annual consultation visits to all members at a mutually agreeable time of the year, with additional interim visits, whenever needed, in order to stay abreast of market developments and policies of members.¹⁰ The average duration of annual consultation visits is about 1.5 to 2 weeks, while that of interim visits is about 3-4 days.

On-site consultations mainly consist of a wide range of technical meetings and policy discussions. AMRO country teams usually visit the national authorities, including ministries of finance, central banks, and financial supervisors. In the private sector, they visit financial institutions, research centers, academia, and industry experts, among others. Most meetings with member authorities are conducted at the technical level, and the visit is concluded by policy wrap-up sessions with high-level officials. During the visit, the team prepares a preliminary assessment to be discussed in the wrap up sessions and draft a press release on the key findings of the annual consultation visit. The press release is prepared in close consultation with the authorities. Occasionally, AMRO staff may conduct various outreach activities including roundtable discussions, public lectures and media interviews during these consultation visits.

On-site consultations remain the key channel for most RFAs to communicate closely with their member authorities. AMRO and EC, with their formal surveillance mandates, conduct regular consultation visits to all member authorities during peacetime. In the case of the EC, most on-site consultations are conducted at the technical level. The annual cycle includes at least two economic forecast missions and one or two European Semester/ economic surveillance visits and ad-hoc missions can be arranged. The duration of the visit ranges from one to several working days. In contrast, FLAR staff makes on-site short visits to members on a need basis and the CRA has no on-site consultation activities. The ESM has no on-site visits in peacetime but according to the Memorandum of Understanding between the EC and the ESM, when deemed useful and appropriate, the Commission, in agreement with the Member State concerned, invites ESM staff to join the Commission's missions related to economic policy coordination and budgetary monitoring¹¹. The EFSD has fielded missions both during peace and crisis times in all four recipient states among the six members, regardless of the presence of a program. The AMF relies on direct and indirect ways to identify

¹⁰ Since March 2020, the outbreak of the COVID-19 pandemic has hindered AMRO staff from having on-site consultations to member countries. Accordingly, some AMRO country teams adjusted the modality of their annual consultation visits from physical to virtual meetings if the members concerned agree.

¹¹ https://www.esm.europa.eu/sites/default/files/2018_04_27_mou_ec_esm.pdf

risks and fragilities through missions to member countries and high-level meetings and conferences.

2.3. Main Surveillance Products

AMRO's Annual Consultation Report (ACR) is the main surveillance output from the annual country surveillance cycle for each member. AMRO country teams are required to produce an ACR for the respective member economies within two months of the annual consultation visit. During the ACR production process, the country team should remain independent and without undue influence of any member in line with the AMRO Agreement. The concerned member is requested to make comments on the draft ACR submitted by the country team. Factual corrections are incorporated in the revised report while divergent views on issues are highlighted separately in the report before the ACR is circulated to all member authorities. The final submission to all members concludes the country team's annual surveillance cycle.¹² Since 2017, the ACRs have been published upon the approval of the member concerned, according to the AMRO Publication Policy.

AMRO ACRs should cover key elements, along with policy discussions with authorities.

The key elements basically correspond to eight main issues: i) recent developments and outlook; ii) risks, vulnerabilities and spillovers; iii) external stability; iv) financial stability; v) fiscal policy; vi) monetary policy; vii) structural policy; and viii) analytical framework and data adequacy. The contents of ACRs may vary from country to country depending on its economic structure and level of development, and relevant policy issues, but are consistently structured as: i) recent developments and outlook; ii) risks, vulnerabilities and challenges; and iii) policy discussion and recommendations.

AMRO's inaugural regional surveillance report was published in 2017. The regional team launched its flagship publication, the ASEAN+3 Regional Economic Outlook (AREO) in May 2017. This included its assessment of the regional economic outlook and financial stability, and a thematic study of the region's economic performance 20 years after the Asian Financial Crisis. Since then, the AREO has been published on an annual basis with monthly updates posted on the AMRO website.

Regardless of the absence of a formal mandate, most RFAs provide standardized surveillance reports to members on a regular basis. However, in terms of policy advice to the members, only AMRO and the EC explicitly make their recommendations in their reports.

- The EC provides a set of reports—Annual Growth Survey, Alert Mechanism Report, Recommendations to the Euro area, and Joint Employment—to Member States, which is a key reference throughout the European Semester. In addition, the EC publishes a country report for each member, followed by country-specific policy recommendations. For the assistance given to EUs neighbors, there is an annual report prepared on the MFA instrument overall as well as ex-post evaluations prepared on each individual programme.

¹² AMRO country teams are encouraged to undertake separate research and/ or to produce working papers that may extend their analyses of the selected issues in the annual country consultation report.

- The ESM produces various reports. These include the Annual Report which is published and a series of internal reports within the scope of the Early Warning System exercise which are confidential.
- FLAR produces confidential reports on member countries that have established or wish to establish a loan relationship with it. They contain the macroeconomic diagnosis and outlook and an evaluation of the authorities' economic program, but no specific policy advice is included.
- The EFSD started in July 2019 publishing country reports of its four borrowers on a quarterly basis. The reports contain an assessment of macroeconomic policies however, without explicit policy advice.
- The CRA provides the Economic Note and a consolidated spreadsheet with economic data including forecasts circulated in the quarterly Research Group meeting.
- The AMF produces loan related reports, reports on findings of high-level meetings and conference, and Country Reports.

2.4. Publication and Outreach Activities

AMRO has been able to publish its surveillance reports under the new publication policy since 2017. According to the AMRO Publication Policy, endorsed by the Executive Committee in December 2016, AMRO can publish country-specific surveillance documents upon final approval from the member(s) concerned.¹³ In principle, the final report for publication should be approved by the member authorities within 28 days of the submission of the ACR to the concerned member.

The number of AMRO surveillance reports published has gradually increased since 2017. A growing number of the ACRs are now available on the website.¹⁴ In 2019, ACRs on all member economies were published, the first time in AMRO's history. Beyond publishing the ACRs, AMRO has also published more analytical notes and research papers to provide timely analyses on topical economic issues and developments. The publication of surveillance documents with higher frequency and in-depth analyses helps to promote thought leadership and enhance AMRO's credibility and influence as a "regional family doctor" to our members. It also strengthens its surveillance credibility through external scrutiny by market analysts, economists in the public sector, academics in universities and think tanks as well as the journalists (Table 2). To improve its visibility and profile, AMRO has enhanced engagements with key media outlets and stepped up on online media channels (such as social media, an improved website) to share content directly with external stakeholders.

Outreach activities have been strengthened. After an ACR is published on the AMRO website, the country team is encouraged to disseminate the webpage link to meeting counterparts. The team selects some themes/selected issues from the ACR to be written into an op-ed in the member country's local newspapers. Additionally, if circumstances permit, the

¹³ Region-wide documents such as AREO should be approved by the Executive Committee, or the members concerned. Non-Executive Committee documents, such as policy issue notes, thematic papers, and staff working papers, can be published without members' approval (as long as confidential data or information is not contained).

¹⁴ <https://www.amro-asia.org/publications/country-surveillance/amro-country-surveillance-reports/annual-consultation-reports/>

team would consider arranging a press conference in the member country in collaboration with AMRO's Public Relations Officers and relevant authorities.

Table 2. AMRO Publication and Media Exposure

(Unit: Counts)	2017	2018	2019
Publications	13	19	22
• Annual Consultation Reports	8	11	13
Media mentions	220	>500	622
Webpage views	109,717	140,489	167,302
Events (co-)organized	18	25	25
LinkedIn followers	-	649	2,363

Source: Google Analytics; LinkedIn; AMRO Annual Reports

Most RFAs are not obliged to obtain members' approval on the publication of their surveillance products. Nevertheless, the members concerned tend to be given an opportunity to provide comments before publication, especially with sensitive information. Among the RFAs, AMRO, the EC, the ESM, and the EFSD are relatively active in publishing press releases and research papers. AMRO, the EC, and the EFSD have also country-specific reports. The AMF publishes press releases related to loan operations, and other issues. In contrast, FLAR does not publish country-specific surveillance reports—they are mostly confidential and only for staff and member countries.

2.5. Analytical Framework and Toolkits

AMRO endeavors to be equipped with a comprehensive set of analytical frameworks, models and tools for country surveillance. AMRO has employed a growing number of analytical framework and toolkits developed by academics and other international organizations that have been customized internally for the region. These include Global/ Country Risk Maps, the ERPD Matrix framework, ARTEMIS (ASEAN+3 Regional Tracker for the ERPD Matrix Indicator Scorecard), spreadsheet-based “financial programming” for macroeconomic projections, debt sustainability assessment (DSA), trade spillover analyses using Global Vector Autoregressive (GVAR) models¹⁵, Financial Stress Index (FSI) approach¹⁶, business and credit cycle characterization¹⁷, spillover assessment of emerging markets using default correlation measures¹⁸ and the import-adjusted method of national income accounting¹⁹. In addition, country teams have sharpened their macroeconomic diagnosis and risk assessments, backed by well-established quantitative indicators such as potential growth rate, structural fiscal balance, Taylor rule estimates, and so forth.

AMRO has developed the ERPD Matrix framework, which is an important tool for assessing the macroeconomic performance and financial soundness of member economies. In accordance with the qualification criteria of the CMIM-PL facility, the ERPD Matrix framework assesses the performance of the ASEAN+3 member economies in four key areas—external, fiscal, monetary and financial. It comprises quantitative and qualitative assessment using various macroeconomic and financial indicators of all ASEAN+3 members.

¹⁵ See AMRO (2017).

¹⁶ See Poonpatpibul et al. (2018).

¹⁷ See AMRO (2018a).

¹⁸ See AMRO (2018b).

¹⁹ See AMRO (2019).

As AMRO is now working on mainstreaming the ERPD Matrix framework into its surveillance framework, monitoring of the economic performance of the member countries will be part of AMRO's regular surveillance activities. This will allow the identification of weak areas in a timelier manner, which in turn will facilitate the efficient formulation of policy measures and conditionality during crisis time. To this end, AMRO has developed ARTEMIS which is a web-based, interactive platform to host the ERPD Matrix Scorecard²⁰ and the Macro-financial Database for ASEAN+3 Surveillance (MiDAS). ARTEMIS has the potential to become a comprehensive surveillance platform that will support members' own analyses.

AMRO obtains macroeconomic and financial data mainly from commercial data providers, complemented by the provision of data from members. AMRO country teams build up and maintain their own data spreadsheets using various data sources including CEIC, Bloomberg, Haver Analytics, and so forth. If necessary, the teams can request members to provide relevant information and data that may be required for its surveillance activities (AMRO Agreement, Article 4(1). Cooperation of Members).

Table 3. RFAs: Surveillance and Economic Monitoring Frameworks

RFA	Key objective and focus	On-site macro consultation	Key outputs of surveillance	Publication policy
AMF	<ul style="list-style-type: none"> • Aiming to correct disequilibria in the balance of payments of Member States • Promoting the development of Arab financial sector and maintaining its stability • Promoting the stability of exchange rates 	The AMF relies on direct and indirect ways to identify risks and fragilities through missions to member countries and high-level meetings and conferences	<ul style="list-style-type: none"> • Loan related reports • Reports on findings of high-level meetings and conferences • Country Reports 	The AMF publishes press releases related to loan operations, and other issues
AMRO	Maintaining macroeconomic and financial stability with a focus on the balance of payments and the financial sector	Annual consultations are conducted for 1.5 to 2 weeks for all member economies, supplemented by ad-hoc interim visits	<ul style="list-style-type: none"> • AMRO ACRs are submitted to the members concerned within two months of the on-site consultation • The ASEAN+3 Regional Economic Outlook (AREO) is published on an annual basis, of which the monthly update briefs are posted on the website 	<ul style="list-style-type: none"> • Country-specific surveillance documents including the ACR can be published upon the approval of the member concerned • Region-wide documents such as AREO should be approved by the Executive Committee, or members concerned • Non-Executive Committee documents, such as policy issue notes, thematic papers, and staff working papers, can be published without members' approval (as long as these

²⁰ The ERPD Matrix Scorecard is the quantitative tool for assessing ASEAN+3 members' qualification for the CMIM-PL facility.

				documents do not contain confidential data or information)
CRA	Monitoring potential risks to the balance of payments of its members	No on-site consultation activities	The Economic Note and a consolidated spreadsheet with economic data including forecasts circulated in the quarterly Research Group meeting	Not applicable
EC	<ul style="list-style-type: none"> Ensuring the sustainability of public debt for EU Member States (Stability and Growth Pact) Aiming to detect, prevent and correct macroeconomic imbalances (Macroeconomic Imbalance Procedure) Monetary policy is outside the EC mandate 	Most on-site consultations are conducted at the technical level. The annual cycle includes at least two economic forecast missions and one or two European Semester/economic surveillance visits. Ad-hoc missions can also be arranged. The duration of the visit is one to several working days	<p>The European semester cycle starts in November with the EC's publications:</p> <ul style="list-style-type: none"> Annual Growth Survey Alert Mechanism Report Recommendations for the euro area Joint Employment Report <p>In February, the EC publishes a country report for each member</p> <p>In April, each Member presents its reform program and three-year budget plans, reviewed by the EC</p> <p>In May, the EC proposes country-specific recommendations to each Member</p>	No formal approval from the Member State is required. However, EU Member States are usually given an opportunity to provide technical/ factual comments before the publication of policy papers
ESM	<ul style="list-style-type: none"> Under the draft revised ESM Treaty (to be ratified), the ESM aims to detect risks in order to prepare itself in a timely manner for potential financial assistance Complement the EC's assessment with a focus on market access and risks, and members' financing/repayment capacity 	<ul style="list-style-type: none"> Do not have on-site visits in peacetime. The EC, when deemed useful and appropriate, and in agreement with the member state concerned, might invite ESM staff to join its missions related to economic policy coordination and budgetary monitoring. 	<ul style="list-style-type: none"> Annual Report Early Warning System Report (confidential) Internal reports on economic and financial developments in borrowing members <p>All documents, except for the Annual Report, are internal and not available to the public</p>	<ul style="list-style-type: none"> Press releases about country missions in beneficiary members are usually shared with the concerned members ahead of publication, but do not need their approval The Annual Report is shared ahead of publication with ESM members, commented on and formally approved by the ESM Board of Governors There is an internal approval procedure for research papers
EFSD	De facto objectives include ensuring implementation of prudent macroeconomic policies aimed at adequate level of inflation, fostering sustainable growth,	Takes place during the EFSD mission visits to recipient countries.	Launched in July 2019 to publish quarterly country reports on four recipient-countries, containing assessments of macroeconomic policies, but policy advice is not explicitly included	Aide-Memoires of on-site visits are not disclosed. For the rest, may ask of authorities' endorsement for publication, depending on sensitivity of information. Press releases on missions are published.

	alleviating debt burden, and the like			
FLAR	<ul style="list-style-type: none"> Identify members' vulnerabilities and anticipate their balance of payment loan needs Evaluate loan applications from the members based on the nature of the balance of payments problems and their repayment capacities Evaluate the economic situation of the countries with outstanding loans 	On-site consultations are not made on a regular basis. When warranted, the on-site visit is held for two days on average, to meet with the staff and the head of the central bank and the ministry of finance	Confidential reports for member countries that have established or wish to establish a loan relationship with FLAR. They contain the macroeconomic diagnosis and outlook and an evaluation of the authorities' economic programs, but no specific policy advice is included	FLAR does not publish country-specific surveillance reports. They are mostly confidential (only for staff and member countries)

Source: Authors' compilation (based on the survey of RFAs)

3. Engagement and Communication

3.1. Dialogues with Authorities

AMRO's two-way dialogue and engagement with its member authorities should be made in a candid, interactive and collaborative manner. Country teams maintain dialogue with authorities in various ways, including seminars, workshops, teleconferences, and daily communication via emails or telephone. During annual consultations, the country teams exchange views with relevant member authorities on important issues, including the economic outlook, risks and vulnerabilities, and policies to address those risks, which are recorded in the ACRs. If authorities continue to dissent with the AMRO staff's assessment of some issues, their views are included separately as "Authorities Views" in the ACRs.

Annual consultation products, which include press releases and ACRs, should clearly present key messages from the consultation visits. These documents should be clear and concise so that they can be easily understood by authorities and the general public, when published. Should there be a press release or a press conference with reference to country surveillance issues, it should be done at the end of a visit or after the endorsement of the publication, unless the authorities do not agree or have specific concerns.

AMRO country teams' policy advice for members should be clear and candid. Messages with regards to risks, vulnerabilities and possible policy recommendations should be clear and frank, based on discussions during the consultation visits. Country teams are encouraged to document authorities' diverging views shared during policy discussion in the ACR.

Most RFAs endeavor to maintain constant and close policy dialogue with members through the year with on-site consultations and frequent meetings. During non-crisis time, most RFAs communicate with member authorities at bilateral meetings at technical or high-official level during the on-site consultation visits (AMRO, EC, EFSD) or multilateral meetings with the Board of Directors (FLAR) or the Standing Committee (CRA). Notably, the EC's European Semester provides for a unique platform set by the EU framework that can facilitate

EU Member States' continuous policy dialogue through the year. The ESM does not have such a policy dialogue outside an assistance programme, but has discussions with members informally.

3.2. Run-Up to the Crisis and Early Engagement

AMRO's peace-time surveillance aims to identify key risks and vulnerabilities and to assist members in the timely formulation of policy recommendations to mitigate such risks. AMRO monitors the development of the member countries' macroeconomic and financial situation through the regular surveillance process and is in close coordination with member authorities to discuss developments in their respective economies. The ERPD Scorecard, which covers all key sectors and is regularly updated, provides a good basis for AMRO and the concerned authorities to maintain candid policy dialogue in peacetime.

In the run-up to crisis or near-crisis periods, as risks heighten, the level of country surveillance is escalated. It includes shifting into daily market monitoring with briefing to the senior management, or making more frequent visits to the country in difficulty. AMRO can provide views and inputs to authorities on the policy options available to them, including advice on possible financing options, such as the CMIM and IMF, if the country is in need of financial support.

Similarly, only a few RFAs have formal guidelines on early engagement with the members concerned in the run-up to a crisis. The line between the run-up to a crisis in peacetime and the crisis phase is unclear, and the practice has been mostly informal in several RFAs:

- The CRA has an Early Notification process, by which the requesting party notifies other members that it will possibly request CRA resources. This notification contains: (a) instrument type: precautional or liquidity; (b) portion: linked or delinked; (c) amount requested; (d) estimated date of request. Ten days after this notification, the requesting party can submit a formal request.
- In the EU there are clear procedures that euro area Member States have to follow in the run up to a crisis as spelled out in the EU treaty and the EU legal framework. The ESM would typically also be engaged informally ahead of any formal request by a euro area member States.
- Similar to AMRO, the EC identifies macro-financial stability issues through the regular surveillance process. As the risks increase, the EU surveillance system foresees a graduated strengthening of surveillance, with closer monitoring, more frequent submission of data/ information, more regular missions and stronger enforcement mechanisms.
- Both the EFSD and the FLAR have no formal guidelines on early engagement with authorities in the run-up to crisis. However, FLAR's process comprises previous consultation before any formal request from a member country.

Moreover, RFAs' early engagement with the IMF ahead of a potential program tend to be largely informal and on an ad-hoc basis.

Table 4. RFAs: Engagement and Communication during Peacetime

RFA	Two-way dialogues with authorities	Run-up to the crisis and early engagement
AMF	The AMF maintains dialogue with member authorities at high-level meetings and conferences it organizes independently or jointly with other institutions including the IMF	The AMF does not have an explicit guidelines on early engagement with authorities in the run-up to crisis. However, the AMF identifies risk and challenges through engagement at different levels with the authorities in member countries
CMIM/AMRO	<ul style="list-style-type: none"> • Country teams maintain close dialogues with authorities in various ways, including seminars, workshops, teleconferences, and daily communication via emails or telephone • During annual consultations, country teams exchange views with relevant member authorities on key issues and policies, which are recorded in the ACRs 	<ul style="list-style-type: none"> • AMRO's peace-time surveillance aims to identify key risks and vulnerabilities and to assist members in the timely formulation of policy recommendations to mitigate such risks
CRA	The CRA Research Group Meeting is held quarterly. The Standing Committee meets at least bi-annually	Early Notification process exists, by which the requesting party notifies other members that it will possibly request for CRA resources
EC	The missions are mainly used to obtain necessary information from Member States but also to exchange views at a technical level on ongoing analysis and the Member States' challenges and policies. The submission by Member States of their policy plans and the EC's country reports is also part of the continuous process of policy dialogue	<ul style="list-style-type: none"> • Macro-financial stability issues are likely to be identified through the regular surveillance process. As risks increase, the EU surveillance system foresees a graduated strengthening of surveillance, with closer monitoring, more frequent submission of data/information, more regular missions and also stronger enforcement mechanisms • Cooperation with the IMF may take place on an ad hoc technical basis before the financial assistance is requested
ESM	ESM does not have such policy dialogue currently outside of an assistance programme, but has discussions with members informally	<ul style="list-style-type: none"> • In the EU there are clear procedures that euro area Member States have to follow in the run up to the crisis spelled out in the EU treaty and the EU legal framework. The ESM would typically also be engaged informally ahead of any formal request by a euro area member States. • Procedures spell out the respective roles of various institutions including the IMF, and are currently under revision following the revision of the ESM treaty • Engagement with the IMF ahead of a potential program has been informal
EFSD	<ul style="list-style-type: none"> • During on-site consultations, the mission team discusses with authorities. Outcomes of on-site consultations are reflected in Aide-Memoires, which serve as the basis for future dialogue. Press releases on country missions are published. 	The EFSD does not have formal guidelines on early engagement with authorities in the run-up to crisis
FLAR	<ul style="list-style-type: none"> • Policy discussions are held at the meetings of the member countries with the Board of Directors, and only involve countries that have established or wish to establish a loan relationship with FLAR • Virtual meetings, conference calls are also held to maintain constant communication and information sharing with the authorities 	Does not have any guidelines on early engagement with the authorities in the run-up to crisis. However, FLAR's process comprises previous consultation before any formal request from a member country.

Source: Authors' compilation (based on the survey of RFAs)

4. Complementarity and Collaboration with the IMF

AMRO country teams are encouraged to cooperate with the IMF. Key channels of communication with the IMF include the annual AMRO-IMF joint seminar, informal participation in selected meetings during the IMF Article IV missions in the region, and informal discussions with IMF staff during the Annual Meetings. Also, sharing data, documents, and analytical toolkits and participating in training programs are encouraged. Furthermore, IMF mission teams may visit AMRO on stopovers to exchange views on common members' economic and financial situations.

Regardless of these efforts, AMRO is obliged to maintain its independence in surveillance at all times. The IMF's bilateral and multilateral surveillance reports constitute one of the useful references for AMRO along with other publications from other international organizations. However, AMRO maintains its independent assessments of member economies' risks and vulnerabilities, and threats to external and financial stability. Divergent views on policy issues of common members between the IMF and AMRO are to be expected and should be respected by both organizations.

AMRO may capitalize on its status as a “regional” surveillance unit. In terms of the span of surveillance, concentrating on member economies may allow AMRO to take a more pragmatic and flexible approach in its risk assessments and policy recommendations. Furthermore, AMRO's focus of surveillance is more tilted toward external and financial stability, owing to one of its key mandates to support the implementation of the CMIM Arrangement, addressing potential and actual balance-of-payments and short-term liquidity difficulties in the region.

Table 5. Key Comparisons between AMRO and the IMF

	AMRO	IMF
Span of surveillance	<ul style="list-style-type: none"> Member economies and the ASEAN+3 region (including regional spillovers and/or contagion) Pragmatic and flexible on macro issues, taking into account country-specific circumstances 	<ul style="list-style-type: none"> Member economies and the global economy Develop rules on FX arrangements, capital flows and macro issues; and uniformly apply them across members
Focus of surveillance	<ul style="list-style-type: none"> Risks and vulnerabilities and threats to external and financial stability 	<ul style="list-style-type: none"> Economic and financial stability
Link to financing toolkits	<ul style="list-style-type: none"> Close link to CMIM facilities (including eligibility to CMIM-PL – ERP Matrix) 	<ul style="list-style-type: none"> Potential link to IMF programs
Support to regional financial cooperation	<ul style="list-style-type: none"> Tailored support to ASEAN+3 economic cooperation 	<ul style="list-style-type: none"> International monetary system

Source: AMRO

RFAs have the potential to develop comparative advantages over the IMF in terms of closer communication, better information access, and customized analytical frameworks. The EC has benefited from a more granular approach to analyzing macro-financial and structural policies of the EU Member States within the European Semester cycle. Moreover, it also engages in continued consultations with and between the EU Member States

on policies through the regular surveillance cycle. Meanwhile, FLAR has developed and run its own risk models adjusted to local realities while having easier access to confidential information than other organizations in some members, particularly those which only have loans with FLAR. Constant, fluent and direct communication with member authorities and technical staff can constitute additional advantage as regional financing facilities.

A key channel of RFA collaboration with the IMF is the exchange of views on common members' macroeconomic situations during the regular surveillance cycle. IMF country teams tend to occasionally visit RFAs in the context of the IMF Article IV mission to exchange views on common members' economic and financial situations. Some RFAs have bilateral meetings with the IMF during the IMF annual and spring meetings. Several RFAs (EC, EFSD, ESM) and the IMF coordinate missions or arrange joint meetings with authorities during parallel missions, especially in case of activation of financing facilities by the RFA and the IMF. CMIM/ AMRO conducted joint test runs with the IMF in 2016 to 2018 to promote enhanced peacetime collaboration (See Box 1).

While RFAs develop their views independently, IMF views and analysis remain important reference points. For several RFAs with co-financing facilities, the linked portion inevitably depends on the IMF's financial programs, but the delinked portion does not depend on the IMF views. When it comes to dealing with differences of views with the IMF, the EC and the ESM tend to be more responsive: The EU position is expressed at the IMF Board through a dedicated representative of the Member States. In euro area countries, if a divergence in assessments arises, the expectation is that this would be dealt with at the technical level first. If necessary, the divergence can be escalated to senior management or to ministerial level in the context of Eurogroup meetings. Overall, any differences in views between RFAs and the IMF should be respected due to the principle of institutional independence.

Table 6. RFAs: Complementarity and Collaboration with the IMF

RFA	Key difference with the IMF surveillance	Collaboration with the IMF	Dealing with the different views with the IMF
AMF	Not applicable	The AMF depends on exchange of information and co-hosting of event/seminars such as the Arab Fiscal Forum.	The AMF views on risk are developed independently. However, the AMF exchange views and information with the IMF
CMIM/AMRO	<ul style="list-style-type: none"> AMRO's focus of surveillance is more tilted toward external and financial stability As a regional surveillance unit, AMRO may take a more pragmatic and flexible approach in its risk assessments and policy recommendations customized to the ASEAN+3 region 	<ul style="list-style-type: none"> Key channels of communication with the IMF include the annual AMRO-IMF joint seminar, informal participation in selected meetings during the IMF Article IV missions in the region, and informal consultation with IMF staff during the Annual Meetings IMF mission teams occasionally visit AMRO to exchange views on common members' economic and financial situations 	AMRO maintains its independent assessments of common member economies' risk and vulnerabilities and threats to external and financial stability. Divergent views on common members between IMF and AMRO are allowed

CRA	No complex surveillance framework given a few conditions and safeguards for the Arrangement	Does not have a framework for collaboration with the IMF on surveillance	The delinked portion does not depend on any IMF analyses. The linked portion indirectly depends on the IMF analyses due to the existence of on-track programs with the Fund
EC	<ul style="list-style-type: none"> • The EC's surveillance framework incorporates a more granular approach to analyzing macro-financial and structural policies of the EU Member States within the European Semester cycle • The EC also engages in continued consultations with and between the EU Member States on policies through the regular surveillance cycle 	<ul style="list-style-type: none"> • Collaboration during the regular surveillance cycle between the EC and the IMF takes place regularly on an ad hoc basis. Exchanges of views may become more extensive during the time of economic stress for a particular Member State • Coordinated missions may take place in case of activation of financing facilities by the EU and the IMF. The IMF conducts Article IV assessments of the EU and the euro area and is in close contact with the EC when preparing those assessments 	The EC via the EU Member States may identify differences in a particular assessment of the EU Member States economic situation and policies during Article IV discussion of such issues in the IMF Executive Board. The EU position is expressed in the IMF Board through a dedicated representative of the Member States
ESM	Not applicable	<ul style="list-style-type: none"> • The ESM together with the EC collaborate with the IMF in program/post-program countries with joint missions and information sharing • The IMF visits regularly the ESM (twice a year) in the context of the IMF Article IV of the euro area, and the ESM has regular meetings during the IMF annual and spring meetings • The ESM regularly discusses with the IMF on technical issues and analytical tools 	Divergences in assessments are dealt with at the technical level first. If necessary, they can be moved to the ministerial level in the context of Eurogroup meetings
EFSD	If a country has an IMF program, the EFSD conducts its own assessment of adequacy of macro framework or may share the IMF macroeconomic framework in its analysis	Coordinates its surveillance with the IMF Article IV missions and beyond. However, this mechanisms are not formalised in a Memorandum of Understanding	EFSD's views are developed independently and do not have to be the same as those of the IMF. However, IMF views and analyses are an important analytical reference point
FLAR	<ul style="list-style-type: none"> • Manages and runs its own models adjusted to local realities • Has easier access to confidential information than other organizations in some member countries • Supported by constant, fluent and direct communication with authorities and technical staff 	FLAR has no framework for collaboration with the IMF on macro surveillance. Instead, it occasionally exchanges views from its assessment without disclosing confidential information	FLAR's views are developed independently and do not have to be the same as those of the IMF. However, IMF views and analyses are an important analytical reference point

Source: Authors' compilation (based on the survey of RFAs)

Box 1. CMIM/AMRO – IMF Joint Test Run: Promoting Enhanced Peacetime Collaboration

To promote the operational readiness of the CMIM arrangement, the CMIM members conduct regular test runs with the support of AMRO. Since 2013 the CMIM has conducted 10 test runs with various scenarios involving different types of facility. The objectives of the test run are to identify areas for improvements of the CMIM arrangement and operational guidelines, and to familiarize the CMIM members with the activation procedures of the CMIM.

From 2016 to 2018, CMIM test runs were conducted with the participation of the IMF. The 2016 test run marked an important milestone in advancing cooperation between CMIM/AMRO and the IMF. The test runs in 2017 and 2018 further enhanced the CMIM/AMRO-IMF cooperation, allowing both institutions to have deeper understandings of each other facilities.

Valuable lessons were drawn from the test runs. The first joint test run revealed several key differences between the CMIM and IMF facilities, which could potentially delay the coordination process between the two arrangements during an actual activation. The issues included burden sharing between the CMIM and the IMF, financing assurance from the CMIM to the IMF, CMIM financing terms and conditions, and the need for early information sharing. Those key issues were included in the first CMIM Periodic Review that was concluded in 2017 to make the CMIM arrangement more compatible with the IMF lending toolkits.

The test run experience also highlighted the importance of early information sharing between the CMIM/AMRO and the IMF on an informal basis, and maintaining consistency between the CMIM and the IMF programs. As a result, an early information-sharing mechanism between the CMIM/AMRO and the IMF was developed to facilitate smooth coordination between the CMIM/AMRO and the IMF in crisis time. The test run also highlighted the need for more direct communication between the IMF and AMRO to discuss macroeconomic and surveillance issues in order to facilitate more efficient coordination.

Overall, the joint test runs have been a useful platform for both CMIM/ AMRO and the IMF to understand each other's facilities and be more familiar with the institutional set up and procedures exercised by each arrangement. The IMF had a chance to know and learn CMIM facilities and decision-making processes better, to familiarize itself with the ASEAN+3 regional practices, and AMRO's surveillance framework and procedures. CMIM/AMRO took advantage of the test run as a learning platform to not only enhance its understanding of IMF lending toolkits and the macroeconomic surveillance framework, but also to improve the CMIM arrangement and AMRO's macroeconomic surveillance capacity. With this enhanced understanding of each other's toolkits and procedures, as well as surveillance and macroeconomic frameworks, CMIM/AMRO and the IMF are expected to collaborate more effectively and efficiently at the time of co-financing.

III. Conclusion

1. Summary of RFAs' Current Practices in Peacetime Surveillance

AMRO conducted a survey of seven RFAs on peacetime surveillance and the results are summarized as follows:

- **Institutional arrangement.** Except for CMIM/AMRO and the EC that were given explicit mandates to conduct macroeconomic surveillance, most RFAs do not have formal surveillance mandates during peacetime. Nevertheless, surveillance is one of the key functions that RFAs are expected to do during peacetime in support of their lending activities or when one of their member countries is in trouble. For several RFAs which have no macroeconomic policy advice function, the financing facilities are normally established to support developmental projects or to provide short-term liquidity for operational needs rather than to provide support for balance of payments needs.²¹ Instead, the facilities would leverage on the IMF programs to provide the macroeconomic policy framework to support their lending programs.
- **Surveillance framework.** Most RFAs have conducted on-site surveillance on an informal ad-hoc basis during non-crisis times to facilitate their assessment of the macroeconomic developments and outlooks of member economies in their regions'. As key deliverables, most RFAs produce country-focused reports to include macroeconomic diagnosis and risk assessments, but only CMIM/AMRO and the EC make policy recommendations to mitigate risks to their members according to their mandates.
- **Engagement and communication.** In non-crisis times, most RFAs tend to maintain regular policy dialogues and close communication with each member during on-site country visits or informal meetings among all members. In the run-up to the crisis, no formal guidelines have been found in most RFAs, due to the nature of near-crisis stage, requiring urgent and informal communication with members in difficulty. Having said that, the level of surveillance would be significantly enhanced by strengthening country monitoring and making frequent visits as risks increase.
- **Complementarity and collaboration with the IMF.** All RFAs that were surveyed are of the view that they have potentials to contribute to IMF assessments through closer communication, detailed regional-specific information and customized analytical framework for member economies and regional contexts. Meanwhile, collaborations with the IMF are actively pursued in various ways, which vary per RFA – exchanges of views on common members, attending the Article IV mission, and employing the Fund's analytical frameworks.

²¹ An exception is FLAR among this group of RFAs without macroeconomic policy advice function, as its loans are extended for balance of payments needs exclusively.

2. Key Takeaways from AMRO's Surveillance Experiences

As a newly established international organization, AMRO has grown rapidly over the past four years, in terms of enhanced surveillance capacity, closer communication with the ASEAN+3 members and the general public, while enhancing collaborations with RFAs as well as the IMF. AMRO's successful take-off as "regional family doctor" can be attributed to the following factors:

- **Having a formal mandate for surveillance is key to mobilizing the full support and cooperation of member authorities.** AMRO's surveillance function has been empowered through the formal mandate in the CMIM Agreement and the AMRO Agreement. This legal status of AMRO as a regional surveillance organization has contributed to its success in drawing the member authorities' strong support and cooperation in AMRO country teams' conduct of on-site surveillance, acquisition of timely information and communication with local experts and media.
- **Establishing regular surveillance cycles and procedures during peacetime is essential in guiding crisis-time surveillance.** Regularizing on-site consultation visits to all members during peacetime helps AMRO to stay on top of macroeconomic and financial developments in each member economy and to detect any symptoms of underlying risks that may trigger financial distress and short-term foreign exchange liquidity needs. Moreover, the country team can build up institutional knowledge on each economy and identify key sources of information, including local experts who would be invaluable especially during the run-up to the crisis or during crisis time. AMRO's standardized consultation procedures through the Surveillance Guidance Note and the staff Operational Manual have also contributed to enhance the professionalism, credibility and independence of the country teams undertaking surveillance.
- **Strengthening emergency lending facilities would contribute to the effectiveness of surveillance.** Access to CMIM financing facilities is provided following an assessment by AMRO of the macroeconomic and financial situation of the requesting country that takes into consideration the findings from AMRO's annual country consultation. The use of some CMIM facilities is also supported by a positive assessment of the requesting member's qualification or a financing program drawn up by CMIM/AMRO. The clear link between CMIM financing facilities and AMRO's policy advice promotes more candid and closer policy dialogues between AMRO and the member authorities.
- **Highly integrated regional economies help to strengthen the case for strong regional surveillance to mitigate the risk of intra-regional spillovers.** Rapid progress in the integration of the ASEAN+3 economies in terms of trade, direct investment, and capital flows has strengthened the need to support the region's stability in the common interest of the members, which in turn has resulted in the need to strengthen AMRO's capacity to detect adverse spillovers in the region in a timely manner.

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Address: 10 Shenton Way, #15-08
MAS Building, Singapore 079117
Website: www.amro-asia.org
Tel: +65 6323 9844
Email: enquiry@amro-asia.org
[LinkedIn](#) | [Twitter](#)