

Annex VIII. Main Recommendations of the 2016 Article IV Consultation Discussions

Fund Recommendations	Policy Actions
Fiscal Policy:	
There is no need for further discretionary fiscal loosening in 2017 given the closing output gap	The fiscal surplus increased in 2017, while the non-gaming balance remained broadly stable
Establish a medium-term fiscal framework and implement an explicit counter-cyclical fiscal framework	
Parametric reform of the pension system (i.e. index pension benefits to inflation)	The Social Security Fund plans to complete a study of indexation in 2019
Property Market:	
Risks in the housing market appear broadly contained and the macroprudential stance is appropriate, so loan-to-value (LTV) and debt service-to-income (DSI) ratios should remain unchanged	On continued increases in housing prices, macroprudential and fiscal measures were introduced in 2017 and 2018 to contain housing market risks. However, LTV ratio for young first-time homebuyers was loosened in 2018 to help affordability
To address housing affordability concerns: targeted transfers, regulatory policy to support private sector housing supply, and well targeted public housing supply	Ongoing public housing construction projects plan to add 50,000 public housing units by 2026. Measures under consideration to make public housing more targeted to the vulnerable. Draft master plan (to be completed in 2019) will support private housing development
Financial Sector:	
Supervisors should remain vigilant about the nature of the foreign borrowing (maturity, type of counterpart) and foreign investments (quality, liquidity)	Continuous supervision of short-term foreign liabilities. Recent efforts to strengthen financial supervision and regulation cooperation across jurisdictions. Satisfactory results from regular stress tests on banks' assets, including from shocks to the real estate portfolio and the Mainland exposure
Growth Strategy:	
Advance diversification plans including by executing current infrastructure plans and improving public financial management to avoid capital spending under-execution. Invest in human capital and close infrastructure gaps	HZMB bridge completed in 2018. Tourism industry development master plan completed in 2017. Continued progress in the "Guangdong-Macao Cooperation Industrial Park" in Hengqin. Agreements with the Mainland (recent investment agreement and technical cooperation agreement under CEPA) to help boost FDI and trade in goods and services



PEOPLE'S REPUBLIC OF CHINA—MACAO SPECIAL ADMINISTRATIVE REGION

April 5, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION
DISCUSSIONS—INFORMATIONAL ANNEX

Prepared By Asia and Pacific Department (in consultation with other
departments)

CONTENTS

FUND RELATIONS	<u>2</u>
STATISTICAL ISSUES	<u>3</u>

FUND RELATIONS

Membership Status

As a Special Administrative Region of the People's Republic of China, Macao SAR is not a member of the Fund. The first Article IV consultation discussions since the handover in 1999 took place during April 22–29, 2014 and the Board discussion took place in July 2014. Its Article IV is in a 24-month cycle. The latest Article IV consultation discussions took place during February 13–25, 2019. Outside of the Article IV process, the Fund has maintained a relationship with Macao SAR, focused mainly on technical assistance and training. STA provided technical assistance with compiling FSIs in 2013 and on the balance of payments in 2008, MCM completed an assessment of the financial sector regulation and supervision under the OFC program in 2002 and 2008/2009 (published in 2011), and LEG provided advice on AML/CFT issues resulting in new legislation in 2006.

Exchange Rate Arrangement

Since 1989, Macao SAR has been operating under a currency board arrangement. On April 7, 1977, the exchange rate of Macao SAR's currency, the pataca, was formally delinked from the Portuguese escudo and linked to the Hong Kong dollar at a central rate of MOP 1.075/HK\$, and the transaction rates were allowed to deviate from this rate as long as they were within a band of +/-1 percent of the central rate. Effective January 1979, the central rate of the pataca was set at MOP 1.038/HK\$, and in September 1983, was adjusted to MOP 1.03/HK\$, and the transaction rates were to take place within a narrow band on either side of the central rate. This arrangement continued through May 1987.

Since then, the pataca has been tied to the Hong Kong dollar at a rate of MOP1.03/HK\$, and is therefore also in effect linked to the US\$, at around MOP8/US\$. Notes are issued by two banks, which deliver Hong Kong dollars to the AMCM in return for noninterest bearing certificates of indebtedness, which serve as the backing for the banknote issue. The Hong Kong dollars are then counted as part of the official foreign exchange reserves held at the AMCM. Under the currency board arrangement, the pataca is 100 percent backed by foreign assets. There are no exchange restrictions on current and capital account transactions. With capital freely mobile, monetary conditions in Macao SAR are strongly influenced by conditions in Hong Kong SAR and the United States market.

STATISTICAL ISSUES

(As of March 28, 2019)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance.
National Accounts: Macao SAR compiles quarterly and annual estimates of GDP by expenditure category, at current prices and in volume terms. The volume measures are derived using annual chain linking methods. The estimates by type of activity (production approach) are compiled in current prices and in volume terms only at annual frequency, due to the unavailability of relevant quarterly deflators. A major revision of the compilation process was undertaken in 2016. Macao SAR reports annual and quarterly GDP to the IMF for publication in <i>International Financial Statistics (IFS)</i> ; latest data available: 2018: Q4. STA has not provided technical assistance in national accounts to Macao SAR over the past ten years.
Price Statistics: Macao SAR compiles a monthly consumer price index (CPI) with a base period of October 2013 to September 2014. The index is rebased every five years and has been available since October 2009. The current weights were derived from the 2012/13 household income and expenditure survey. Macao SAR releases a composite CPI, which reflects price changes for the general population of households, CPI-A that covers households with an average monthly expenditure of MOP 10,000 to MOP 29,999 (about 50 percent of households), and a CPI-B that covers households with an average monthly expenditure of MOP 30,000 to MOP 54,999 (about 30 percent of households). Macao SAR submits CPI data to the IMF for publication in <i>IFS</i> .
Government Finance Statistics: Macao SAR reports detailed annual consolidated general government accounts (budget, 39 extra budgetary units, and the social security fund) in the <i>GFSM 2001</i> format for inclusion in the <i>Government Finance Statistics Database</i> , along with summary quarterly general government accounts. However, the GFS series could be usefully augmented by the reporting of a financial balance sheet, as outlined in the 2010 Board decision regarding government finance statistics to strengthen fiscal analysis.
Monetary and Financial Statistics: The Monetary Authority of Macao (AMCM) reports, on a timely basis, monthly monetary data to STA for publication in <i>IFS</i> . These data are reported in the format of the Standardized Report Forms (SRFs) for central bank (1SR) and other depository corporations (2SR), monetary aggregates (5SR) and interest rates and share prices (6SR), which embody the IMF-recommended methodology for compiling monetary statistics. Macao SAR reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators of the U.N. Sustainable Development Goals.
Financial sector surveillance: In July 2013, an STA mission assisted the authorities in establishing procedures for compiling FSIs in accordance with the IMF-recommended framework. Currently, the AMCM produces the full set of core and encouraged FSIs for deposit takers, and regularly reports them to STA for dissemination on the IMF website.
External sector statistics: The AMCM compiles and disseminates annual balance of payments (BOP) statistics. There is no publication of external debt data as well as International Investment

Position (IIP) Statistics. Lack of these data is not conducive to strengthening the balance sheet approach framework. Since 2012, the BOP of Macao SAR has been compiled following the methodology and classification of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. BOP data for 2002–11 were originally compiled under the format of the fifth edition of the *Balance of Payments Manual (BPM5)* and converted to the *BPM6* format. Although, external sector statistics are not yet compiled on a quarterly basis, Macao SAR participates in major Fund Statistical Initiatives, such as the Enhanced General Data Dissemination System (e-GDDS), the Coordinated Portfolio Investment Survey (CPIS), and the Coordinated Direct Investment Survey (CDIS). Direct investment abroad by Macao SAR household sector is not covered in external sector statistics. Household financial investment abroad only covers those transactions going through local authorized financial institutions, and hence, transactions outside the local financial channel are not recorded. In addition, compensation of Macao SAR employees earned abroad is not covered in the BOP.

II. Data Standards and Quality

Macao SAR participates in the IMF's enhanced General Data Dissemination System (e-GDDS) since August 2007 and has implemented a [National Summary Data Page](#) for the dissemination of key macroeconomic statistics.

The metadata for key macroeconomic indicators, available on the country page on the IMF's Dissemination Standards Bulletin Board, were updated in October 2018.

No data ROSC is available.