



# PEOPLE'S REPUBLIC OF CHINA— MACAO SPECIAL ADMINISTRATIVE REGION

May 2019

## 2019 ARTICLE IV CONSULTATION DISCUSSIONS— PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MACAO SAR

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with the People's Republic of China—Macao Special Administrative Region, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 24, 2019 consideration of the staff report that concluded the Article IV consultation with Macao SAR.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 24, 2019, following discussions that ended on February 25, 2019, with officials of Macao SAR on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 5, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Macao SAR.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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## **IMF Executive Board Concludes 2019 Article IV Consultation with People's Republic of China—Macao Special Administrative Region**

On April 24, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation discussions<sup>1</sup> with Macao Special Administrative Region (SAR).

### **Recent Developments and Outlook**

Macao SAR is the largest casino center in the world and gaming tourism drives its growth. This small open economy has grown rapidly since its return to Chinese sovereignty in 1999 and the liberalization of the gaming sector in 2002. Over this expansive period, Macao SAR has accumulated large fiscal and foreign reserve assets—standing at 121 and 40 percent of GDP respectively in 2017—with zero public debt.

The economy returned to expansion in mid-2016. Gaming and tourism revenue returned to strong growth in 2017 and early 2018. Growth moderated in the second half of 2018, including from weaker investment and reduced external demand from high-spending visitors (i.e. VIP) linked to Mainland's deleveraging effort and U.S.-China trade tensions. Growth recorded 4.7 percent in 2018 (from 9.7 percent in 2017). Inflation picked up over 2018 driven by housing, food, and energy prices. Credit continued to expand over 2018, while the lending interest rate slightly increased. Property prices recovered with the economic rebound, but they were flat in the second half of 2018. Unemployment remains low.

Growth is projected at 4.3 percent in 2019 and to remain solid over the medium term at about 4 percent. The main driver of projected medium-term growth is tourism, with non-VIP tourism further expanding, but more subdued VIP gaming growth, in line with authorities' diversification efforts towards more stable sources of growth.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors commended Macao SAR's macroeconomic performance over the years, which has resulted in one of the highest per capita incomes in the world with zero public debt

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

levels. Directors indicated that prudent macroeconomic policies and high reserves provide strong buffers against shocks for Macao SAR, though they noted that growth risks are tilted to the downside. Looking ahead, Directors supported the authorities' efforts in enhancing growth resilience through diversification.

Directors saw the need for a comprehensive reform agenda to support fiscal policymaking. While acknowledging that the current balanced budget rule has been instrumental in maintaining prudent fiscal policy, they saw merit in an integrated medium/long-term fiscal framework that could include countercyclical fiscal policy, along with the planned Macao Investment and Development Fund (MIDF) that is managed and governed under international standards. Directors noted that such a framework will help increase efficiency in the use of fiscal reserves, ensure that priority spending supports the diversification agenda and fosters inclusion, and help ensure long-term fiscal sustainability and intergenerational equity in an aging society.

Directors concurred that the financial sector remains sound with healthy liquidity and asset quality. They welcomed the steps taken to strengthen supervision and regulatory cooperation across jurisdictions. Given the large size of the financial sector and the significant short-term foreign liabilities, Directors called for continued supervisory caution, including for sound Fintech adoption. They also welcomed the strengthening of the AML/CFT framework and called for sustained efforts, particularly for the gaming sector.

Directors agreed that the current housing macroprudential stance and related fiscal measures appear broadly appropriate and that systemic risks in the housing market seem broadly contained. They stressed that housing affordability concerns should be addressed by a broad set of housing supply policies.

Directors agreed that diversification policies should be guided by a careful study of Macao SAR's comparative advantage. They commended the progress made by the authorities and agreed with the principle of diversification towards mass-gaming and non-gaming tourism and bolstering financial sector development. They noted the importance of supportive policies, including advancing infrastructure plans to ease supply-side bottlenecks and fostering a highly educated workforce.

Directors agreed that the exchange rate peg has provided monetary stability, continues to serve Macao SAR well and should be maintained. Directors also took note of the staff's assessment that Macao SAR's external position is substantially stronger than implied by medium-term fundamentals.