

MASTER FILES
ROOM HQ C-525 0450

SM/99/64

CONTAINS CONFIDENTIAL
INFORMATION

March 11, 1999

To: Members of the Executive Board

From: The Secretary

Subject: **Portugal—Macau—Recent Economic Developments**

This paper provides background information to the staff report for the Article IV consultation discussions held in 1998 in respect of Macau, which was circulated as SM/99/56 on March 3, 1999.

Mr. Krelove (ext. 38692) or Mr. Basanti (ext. 38719) is available to answer technical or factual questions relating to this paper prior to the Board discussion scheduled for Thursday, March 25, 1999.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

PORTUGAL—MACAU¹

Recent Economic Developments

Prepared by Russell Krelove, Jamba Uranbileg (both APD), and Rifaat Basanti (STA)

Approved by the Asia and Pacific Department

March 10, 1999

Contents	Page
I. Introduction	4
II. Developments in the Real Sector	4
A. Structure of the Economy	4
B. Growth Performance	5
III. Prices and Labor Market developments	8
A. Prices	8
B. Labor Market Developments	9
IV. Public Finance	12
A. Overview	12
B. Recent Budgetary Developments	14
C. Infrastructure Projects	16
D. Housing Policy	16
V. Money, Credit, and Banking	17
A. Institutional Arrangements	17
B. Money and Credit Developments	19
C. Interest Rate Developments	21
D. Banking Sector Soundness and Supervision	23

¹The term “country” as used in this paper does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.

VI. External Sector	25
A. Current Account	25
B. Overall Balance, International Reserves, and Imputed Capital Outflows ...	28
C. Exchange Rate Regime and Developments	29
VII. Trade and Exchange Systems	30
A. Trade System and Policy	30
B. Exchange System	31

Tables

1. Expenditures on Gross Domestic Product, 1990-97	32
2. Composition of Exports, 1990-97	33
3. Construction Activities, 1990-97	34
4. Consumer Price Index (CPI), 1990-98	35
5. Labor Force, Employment and Unemployment, 1992-98	36
6. Median Monthly Employment Income by Industry, 1992-98	37
7. Government Finance, 1990-98	38
8. Growth in Government Revenue and Expenditure, 1991-98	39
9. Monetary Bills, 1992-98	40
10. Monetary Survey, 1992-98	41
11. Money Indicators, 1992-98	42
12. Balance Sheet of the AMCM, 1992-98	43
13. Balance Sheet of the Commercial Banks, 1992-98	44
14. Sectoral Distribution of Banks' Loans, 1992-98	45
15. Sectoral Distribution of Banks' Loans—Credit Structure, 1992-98	46
16. Sectoral Distribution of Banks' Loans—Annual Growth Rates, 1992-98	47
17. Interbank Offered Rates (MAIBOR), 1992-98	48
18. Interest Rates on the Pataca-Deposits, 1990-98	49
19. Weighted Average Rates for Three Sample Banks, 1992-98	50
20. Interest Rates on Monetary Bills, 1992-98	51
21. Banking Sector Selected Indicators, 1993-98	52
22. Summary of Exports and Imports, 1990-97	53
23. Exports of Goods by SITC Classification, 1990-98	54
24. Exports by Destination, 1990-98	55
25. Imports by SITC Classification, 1990-98	56
26. Imports by Country Origin, 1990-98	57
27. Indicators of Tourism, 1990-98	58
28. Effective Exchange Rates, 1990-98	59

Figures

1.	Output and Demand, 1990–98	7
2.	Prices and Labor Market Indicators, 1990–98	10
3.	Fiscal Indicators, 1990–98	13
4.	Monetary Indicators, 1990–98	20
5.	External Indicators, 1990–98	27

Appendices

I.	Transfer of Sovereignty	60
II.	Structure of the Government	61
III.	Monetary Institutions and Arrangements	62
IV.	Gambling Monopoly and its Associated Business Activities	63
V.	Statistical System and Issues	64

I. INTRODUCTION

1. Macau was established as a Portuguese trading post in the sixteenth century and is situated on the southern coast of China and 60 km from Hong Kong SAR. The territory consists of Macau City, joined to the Chinese province of Guangdong by a narrow isthmus, and the islands of Taipa and Coloane linked together by a causeway and a bridge. Macau has very little natural resources outside of its strategic location as an entrepot to China, has a population of 422,000 (1997 estimate), and has a per capita GDP of about US\$17,500 (approximately two thirds that of Hong Kong SAR). A joint declaration on the future of Macau was signed between Portugal and China in 1987, and Macau is to become a Special Administrative Region (SAR) of the People's Republic of China on December 20, 1999.

2. The report is organized as follows. Section II highlights the way in which Macau's economic development evolved over the years and major characteristics of the present economic structure. Section III discusses recent developments in prices, wages, and employment, and sheds light on how the product and labor markets adjusted to external shocks—in particular to the Asian crisis as well as the increased competition faced by the economy in recent years. Section IV reviews the budgetary process and recent budgetary developments and highlights structural problems that are inherent in the present fiscal system. The role of monetary policy has been limited because of the pegged exchange regime in place under the currency board arrangement (CBA). This arrangement and banking sector developments are discussed in Section V. Sections VI and VII discuss the pivotal role that the external sector plays in Macau's economic performance and highlight the main characteristics of Macau's free trade and exchange regimes. A select number of relevant issues are included as Appendices. Appendix I describes the transition of sovereignty over Macau to China. Appendix II provides a description of the structure of the government, while Appendix III reviews the monetary institutions and the CBA. Appendix IV provides information on the gambling monopoly and its associated business activities; and the main features of the statistical system are covered in Appendix V.

II. DEVELOPMENTS IN THE REAL SECTOR

A. Structure of the Economy

3. Macau's economy has undergone structural changes over the last three decades, owing largely to its open external sector and the vibrant and adaptable private enterprise sector. In the 1970s, export-oriented industrial enterprises in Hong Kong SAR, particularly in textiles and garments, relocated to Macau when quota restrictions imposed by industrial countries started to exert binding constraints on exports from Hong Kong SAR. To companies facing labor and land shortages in Hong Kong SAR, relocating to Macau offered significant cost advantages (such as lower wage rates, duty free imports, and low taxes), as well as a similar cultural environment with a common language and, in many cases, family

ties. In the early 1980s, there was a trend of industrial diversification due to investment from Hong Kong SAR in non-textile exports, such as toys, artificial flowers, leather manufactures, and electronic products. However, during the second half of the 1980s and the 1990s, the diversification in Macau's manufacturing did not last, as much of the non-textile production relocated out of the territory, owing to lower labor costs in China and Southeast Asia. As a result, manufacturing again became dominated by the textile and garment industry protected by quota controls and country origin rules under the multi-fiber arrangement (MFA), while the rest of the economy has become increasingly dependent on tourism, particularly on gambling. In the meanwhile, China's opening-up of the economy has made Macau's nascent services sector (including gambling) an important potential growth sector.

4. No detailed data on the production/income side of GDP are available, but it is estimated that, in 1997, gambling accounted for one third of GDP (compared with less than a quarter in 1989) and contributed around half of government revenues. Overall tourism (including gambling) accounted for 40 percent of GDP, while manufacturing exports (mostly textiles and garments) contributed about 30 percent of GDP in 1997.² Services, trade, and construction probably accounted for the remaining activities. Fishing remained an important food source but made a negligible contribution to GDP.

5. On an expenditure basis, Macau, like Hong Kong SAR, is heavily dependent on the external sector, with an exports/GDP ratio of 72 percent, an imports/GDP ratio of 36 percent in 1997, and a net external sector surplus of 36 percent of GDP (Tables 1 and 2). Macau's large traded goods and services sector is supported by the liberal external trade and payments system. Nevertheless, domestic demand has also been an important component of economic activity, with private consumption accounting for 35 percent of GDP and private investment for 16 percent to GDP. Government consumption and investment accounted for 10 percent of GDP and 3 percent of GDP, respectively, in 1997. About 80 percent of government consumption spending was on wages and salaries.

B. Growth Performance

6. Overall economic growth, which averaged 16 percent during 1971–81, slowed to about 7.5 percent during 1982–91, as the manufacturing base built in the 1970s began to relocate to China. At the same time, the economies of Macau and China became increasingly more integrated as investment and trade flows between the two countries expanded steadily. During 1992–94, there was a construction boom in residential and commercial property

²Rough estimates of industrial production value added indicate that contribution declined from 15 percent of GDP in 1990 to 8 percent of GDP in 1997, largely reflecting a decline in manufacturing (whose share fell from 87 percent of industrial value added in 1990 to 74 percent during 1997), while value added of the "electricity, gas, and water" sector almost doubled during 1990–97.

development financed by capital inflows from Hong Kong SAR and Chinese public entities looking for investment opportunities. This boom was also attributable to the strategy of Macau to diversify its economy by promoting major infrastructural projects and public works, notably the large land reclamation project for the new airport that opened in 1995. Despite a temporary surge in output growth in 1992, real GDP growth averaged 7.7 percent during 1992–94 (table below). Subsequently, investment in relation to GDP fell from 32 percent in 1995 to 20 percent in 1996 during this period to about 24 percent during 1995–96, following the completion of major infrastructure projects, the collapse of the property market, and a resultant sluggishness in construction activity (Table 3). As a result, output growth fell further to 4.6 percent in 1994 and to 3.6 percent in 1995, and the level of output contracted by 0.5 percent in 1996 (Chart 1).

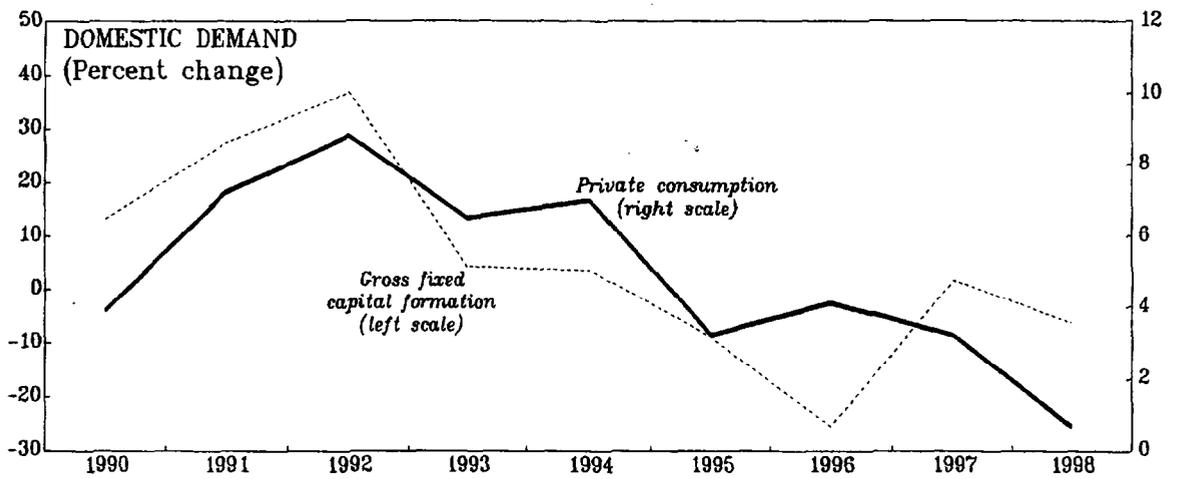
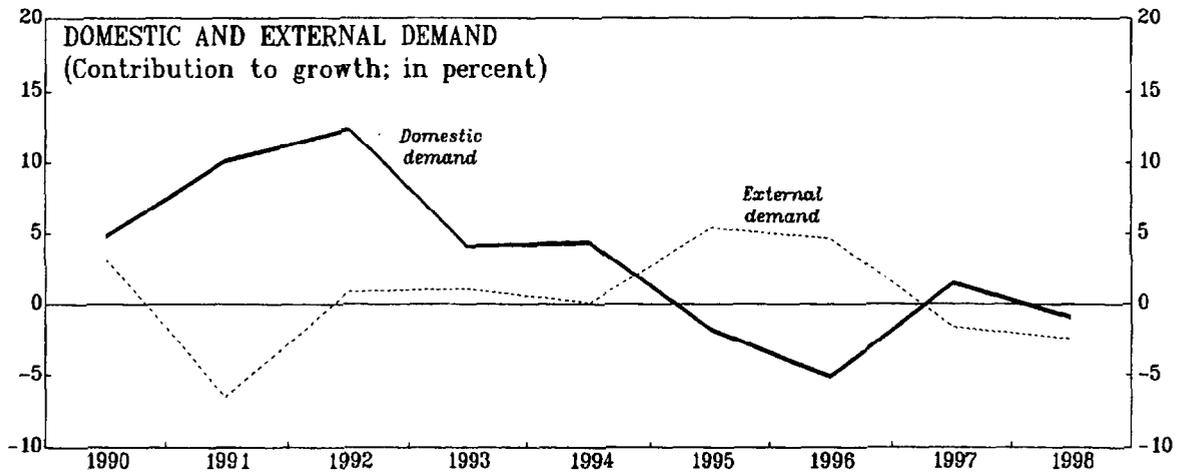
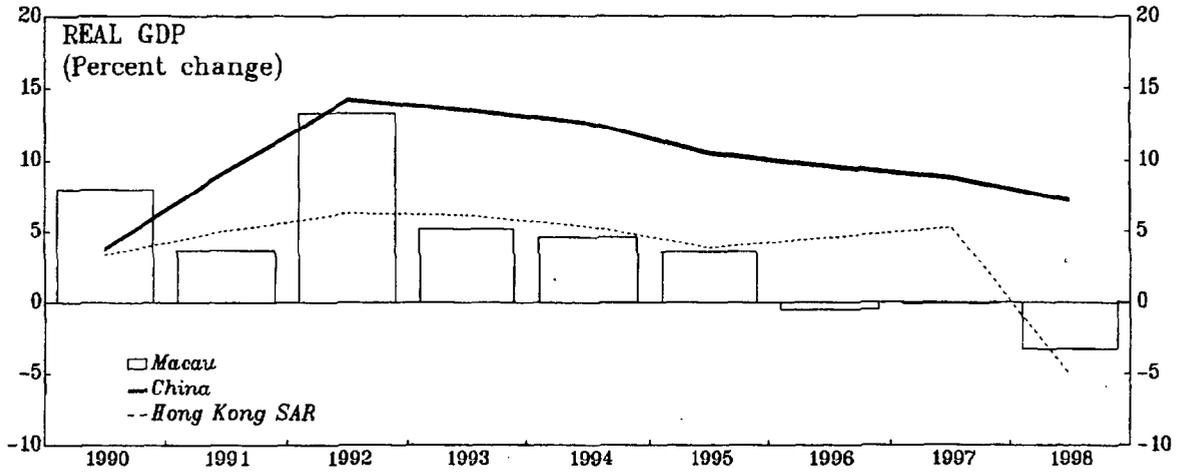
Macau: Sources of Real GDP Growth, 1991–98								
	1991	1992	1993	1994	1995	1996	1997	1998
	(In percent)							
GDP growth	3.7	13.3	5.2	4.6	3.6	-0.5	-0.1	-3.3
o/w Contributing factors:								
Domestic Demand	10.2	12.4	4.1	4.4	-1.8	-5.1	1.5	-0.9
External balance	-6.5	0.9	1.1	0.1	5.4	4.7	-1.6	-2.4
Growth rates								
Private consumption	7.2	8.8	6.5	7.0	3.2	4.1	3.2	0.7
Gov. consumption	12.9	-3.8	6.6	7.1	6.6	4.0	3.0	3.0
Investment	30.4	34.8	4.5	4.8	-10.2	-23.5	0.5	-6.3
Domestic Demand	16.2	17.6	5.6	6.0	-2.4	-7.3	2.2	-1.3
External balance	-17.6	3.1	4.1	0.5	21.3	15.6	-4.6	-7.3
Exports *	-0.4	8.1	2.5	4.2	5.1	0.5	-1.4	-3.8
Goods	-6.1	3.0	3.4	6.7	3.0	-0.1	3.8	2.1
Tourism	7.6	13.4	2.1	1.7	7.6	-3.3	-9.7	-10.9
Imports*	10.9	10.6	1.7	5.9	-2.1	-7.8	0.8	-1.5
*Exports of goods and nonfactor services								

7. Economic performance over the period 1997–98 continued to be lackluster. This performance was attributable to both sluggish domestic demand, largely reflecting the decline in investment, and weakening external demand for service exports, which was in

CHART 1

MACAU

OUTPUT AND DEMAND, 1990-98



Sources: Census and Statistics Department, Yearbook of Statistics (various issues); and staff estimates.

turn adversely affected by sluggish tourism.³ In 1997, the external sector surplus declined by 4.6 percent in real terms, for the first time in six years. Similarly, the external surplus declined further by 7.3 percent in 1998 as the Asian crisis deepened.⁴

III. PRICES AND LABOR MARKET DEVELOPMENTS

A. Prices

8. The consumer price index (CPI) is based on the 1995/96 Household Expenditure Survey (Table 4). The components of the index are assigned fixed weights, with 47.7 percent for “non-tradable” goods; 43.1 percent for “tradable” goods; and 9.2 percent for goods under administrative control.⁵ The major components of non-tradable goods include fees or prices for: kindergartens, primary and secondary education; medical, dental, general clinical and hospital services; restaurants; fast food; tailoring; insurance and maintenance; repair services; and laundry and dry-cleaning. Those of tradable goods include prices for: rice, fish, meat, vegetables, and fruits; clothing and footwear; alcohol and beverages; electrical and non-electrical appliances; household products; medicine and cosmetics; and travel. Prices of goods subject to administrative control include those for: water and electricity charges; fares of public transportation by land; and postage, telephone and cellular phone services. Rents constitute about a quarter of the household expenditure basket, but because of rent controls, the CPI does not incorporate rents.⁶

9. According to the overall price index, the annual rate of consumer price inflation averaged 9.7 percent during 1990–93, fueled largely by rapid increases in prices of non-traded goods, averaging 13.5 percent per annum. Such increases in turn reflected strong domestic demand in the wake of the property market boom supported by strong investment in infrastructure projects. In subsequent years, pressures on prices gradually eased

³Value-added in tourism in real terms, which had been growing by 6½ percent per year during 1991–95 and accounted for about 40 percent of GDP, started to decline in 1996, and became progressively weaker as it dropped by 9.7 percent in 1997 and 10.9 percent in 1998.

⁴During 1997–98, the sharp decline in nonfactor services was partially cushioned by the good performance of the merchandise trade sector, which remained relatively strong as garment exports continued to grow while import demand fell in real terms.

⁵Due to the break in the series, the overall index and its components after 1997 are not strictly comparable to those in earlier years. Nevertheless, general movements are broadly in line. For further detail, see Table 4.

⁶In 1998, the authorities started to compile data on rents.

considerably, with the overall rate of inflation declining to 6.6 percent per annum during 1994–96, reflecting sluggish domestic demand.

10. During 1997, inflationary pressures continued to ease, reflecting further weakening in economic activity and a softening in prices of tradable goods. As a result, the rate of CPI inflation dropped from nearly 5 percent in 1996 to 3.5 percent in 1997 as a whole, the lowest rate recorded in the previous ten years. The growth in prices of tradable goods declined from 4.2 percent in 1996 to 2.7 percent in 1997, mainly reflecting a slowdown in inflation in Hong Kong SAR and China (Chart 2). The rate of increase in prices of non-tradable goods slowed by more than 1 percentage point to 4.1 percent in 1997, owing mainly to the weakness in the household sector's disposable income and generally depressed domestic demand. Prices of goods and services under administrative control increased by 3.7 percent, as the government increased prices of electricity charges.

11. In 1998, the overall annual rate of inflation continued to decline to 0.2 percent. However, the declining trend was accentuated in the course of the year, and some prices actually fell. In the year to the fourth quarter of 1998, the CPI declined by 1.6 percent, with traded goods prices declining by 3.8 percent, reflecting significant declines in prices of imports from countries in the Asian region. Inflation in terms of prices of non-tradable goods continued to moderate, with the year-on-year rate declining to 0.8 percent by the fourth quarter, reflecting mainly further weakening in economic activity. Administratively determined prices declined by 2 percent in the year to the fourth quarter, mainly on account of reduction of mobile phone rates.

B. Labor Market Developments⁷

12. The unemployment rate, after trending downward to 3.2 percent (average rate) in 1997, rose sharply to 4.2 percent in the first half of 1998,⁸ reflecting the worsening of economic conditions (Table 5). While unemployment rose across all occupations, the increase was relatively high in the trade, tourism, and construction sectors. Contributing to the rising unemployment in 1998 was an upturn in labor force growth, which reached 1.2 percent in the first half of the year, led by the entry into the job market of

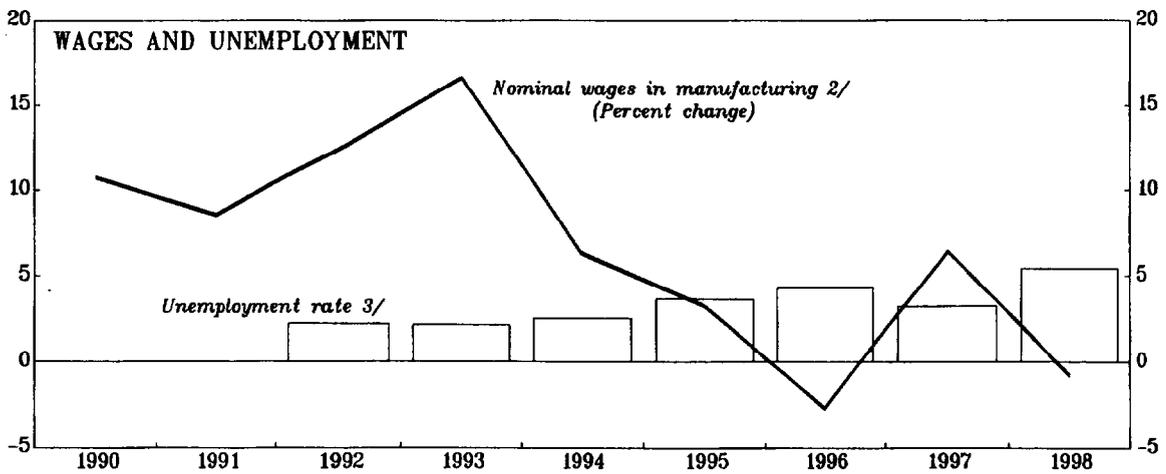
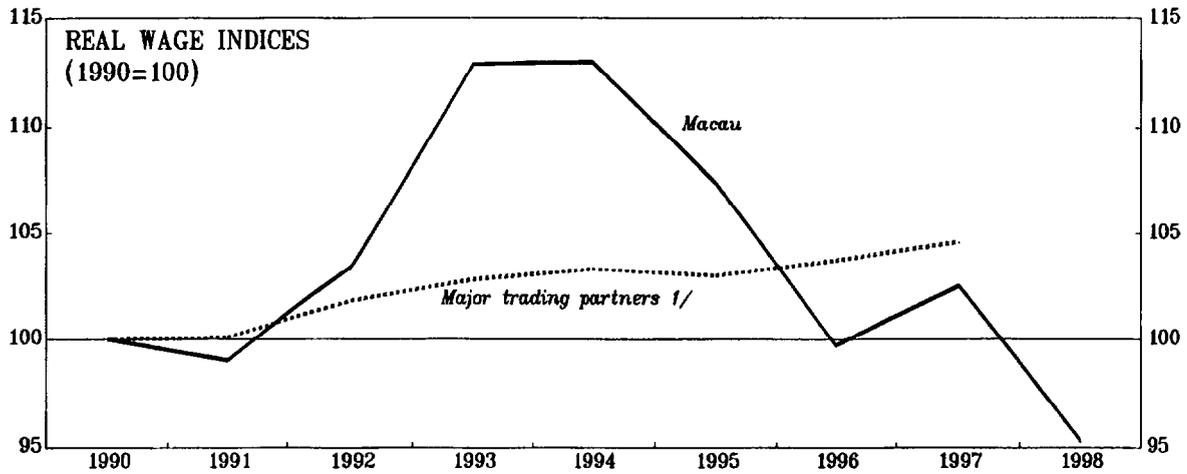
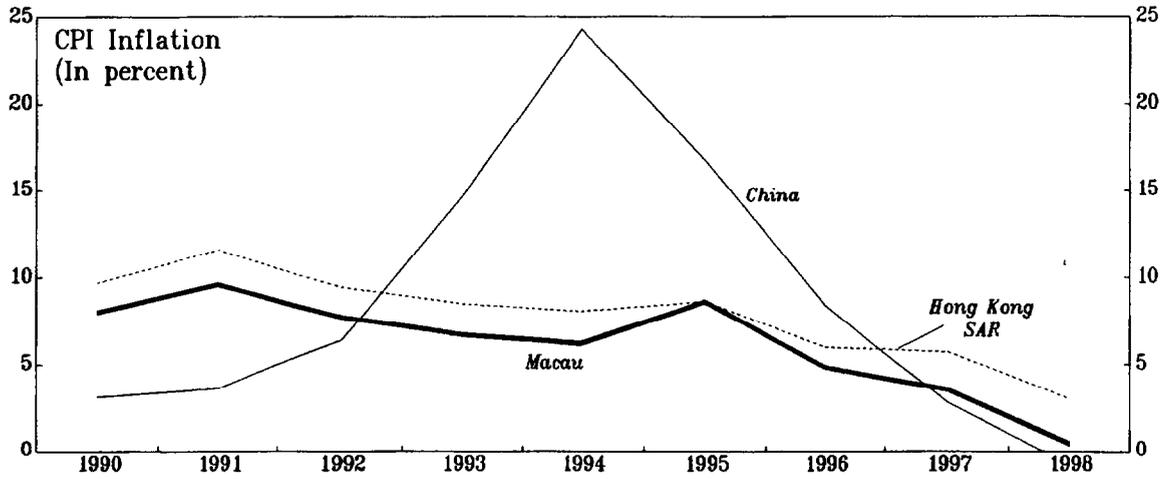
⁷The principal labor-related legislation is the Labor Relations Ordinance, which specifies basic employment conditions for resident workers. Other ordinances ban child labor, limits working hours, and prescribe paid maternity and annual leave. However, the government does not interfere in the wage determination process and there is no minimum wage legislation. Labor policies are coordinated and implemented by the Labor and Employment Department, which is responsible to the Secretary for Health and Social Affairs. The Department is advised by the Standing Committee for Social Co-operation, which represents employer and labor interests.

⁸The corresponding figure for the second quarter of 1997 was 3.7 percent.

CHART 2

MACAU

PRICES AND LABOR MARKET INDICATORS, 1990-98



Sources: Census and Statistics Department, Yearbook of Statistics (various issues); and staff estimates.

1/ Include China, Hong Kong SAR, Japan, France, Germany, the United States; and the United Kingdom.

2/ For 1998, the second quarter compared with the second quarter of 1997.

3/ For 1998, October.

school-leavers. Despite this growth in labor force, the participation rate fell marginally in the first half of the year.

13. With regard to the structure of employment, manufacturing has exhibited a secular decline in the share of employment over the first half of the 1990s, but has been approximately constant since 1996, at a level of about 20.5 percent of employment. The share of construction employment has fallen sharply reflecting the weakness in the property market, falling from 9.5 percent of total employment in 1995 to 7.5 percent in 1996, to 7.2 percent in 1997, and further to about 6 percent in the first half of 1998. The falling employment in construction has been offset by growth in trade and tourism and in public, social, and private services.

14. Wage data, which are available only through the first half of 1998, indicated that nominal wage growth has moderated since 1997 and that, in most sectors, median monthly employment income fell in 1998 (Table 6). Overall, the median monthly income in nominal terms fell by about 1 percent (year-on-year) in the second quarter of 1998, after having risen by 6.4 percent in 1997. In this period, median monthly income declined in the manufacturing, trade, and tourism sectors, while the income in the financial services sector increased. Median monthly income in the overall economy fell by 1.3 percent (year-on-year) in real terms in the second quarter of 1998, after rising by 2.8 percent in 1997.

15. The focus of recent labor policy initiatives has been to assist the unemployed to rejoin the workforce as soon as possible and to ensure that their employability is sustained in the longer term. In 1996, job training was restructured and the system of vocational certificates and apprenticeships was reformed. New training centers were created, including a special Training Center, extending the fields for which training was offered to include adult training, apprenticeships, up-grading and training for new jobs.

16. In July 1998, in the face of rising unemployment, the government allocated MOP50 million (about 0.1 percent of GDP) for: (i) training the unemployed; (ii) providing financial incentives for companies to hire unemployed workers who are difficult to be placed; (iii) providing financial incentives for companies to train the trainers for retraining programs; and (iv) providing financial incentives for companies to hire first-time job seekers. It is expected that these policies will be extended in 1999.

17. In addition, policy towards contracting labor from abroad has been revised to provide greater opportunities for the employment of residents.⁹ On the basis of new legislation

⁹The authorities consider the contracting of non-resident workers as an important instrument in the management of the labor market, in particular in cases of resident labor shortages. All recruitment of non-resident labor must be approved in advance. Unskilled labor is provided

(continued...)

passed in July 1998, the handling of requests for importing non-resident labor is to be improved bearing in mind the social and employment situation of residents.

IV. PUBLIC FINANCE

A. Overview

18. Fiscal policy in Macau has traditionally followed a noninterventionist approach, aimed at maintaining a small and efficient government and supporting private sector activity. The tax system is characterized by low tax rates on most types of economic activities, the absence of taxes on certain types of income (e.g., residents' foreign-source income, domestically generated interest, royalties, and capital gains), and the absence of a general consumption tax. Government revenue is dominated by direct taxes on gambling and revenue from land leases. Government spending in relation to GDP has been kept low, and a record of fiscal prudence is evidenced by the realization of budget surpluses in many years (Chart 3).

19. Public services in Macau can be divided into three major groups in terms of the applicable administrative and financial regime: (i) individual or integrated services, which do not enjoy administrative or financial autonomy (being directly controlled by the Finance Department); (ii) services with administrative autonomy, which do not have their own income but are able to manage the funds granted from the budget, subject to control by the Finance Department; and (iii) autonomous bodies and funds, including the municipalities, which have their own budgets and accounts, enjoy administrative and financial autonomy, and may own their own assets. There are currently 33 autonomous bodies and funds, covering community support (two local authorities and the health service), education and research (tertiary educational institutions), activities of a commercial nature (shipyards and the post and telecommunications company), and support for economic and social policies (including the AMCM, the Social Security Fund, the Tourism Fund, the Social Education Action Fund, and the Macau Housing Institute).¹⁰

20. Following the transfer of sovereignty in December 1999, fiscal policy in Macau SAR will be guided by the Basic Law. Article 105 of the Law states that Macau SAR shall follow the principle of keeping expenditure within the limits of revenue in drawing up its

⁹(...continued)

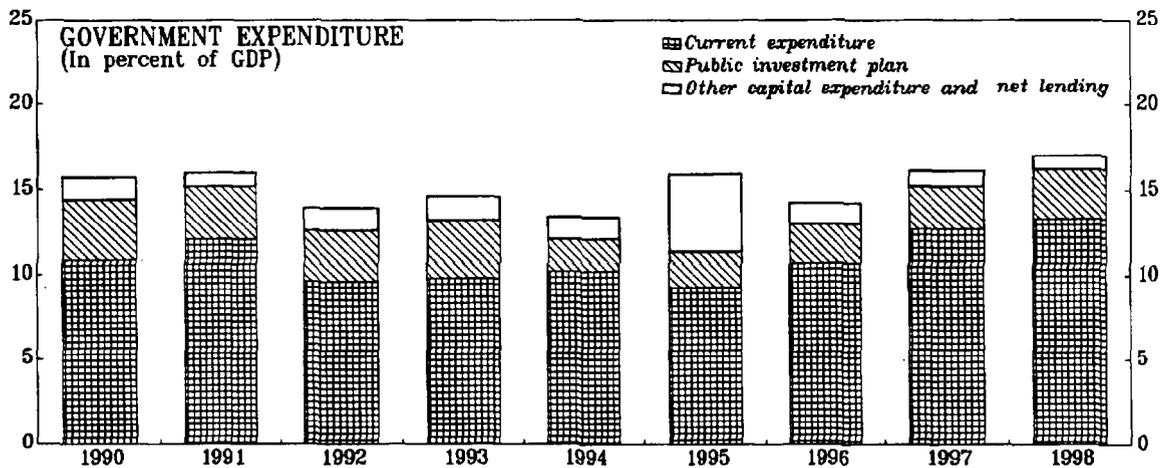
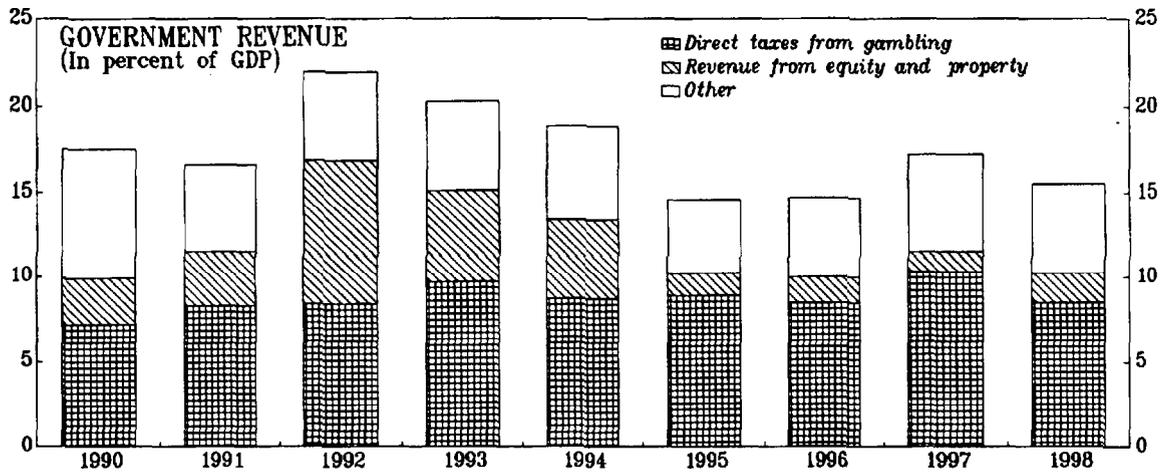
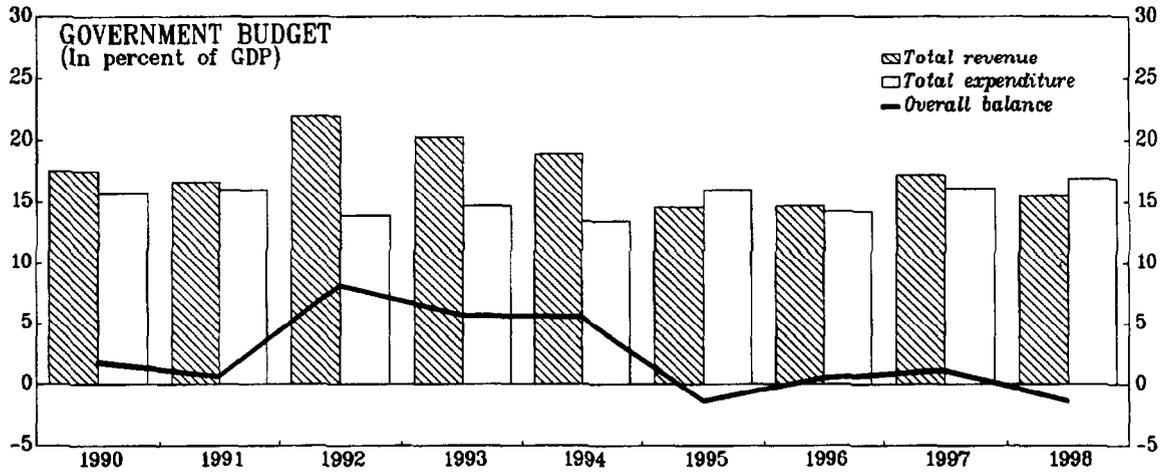
by recognized suppliers, who are also responsible for accommodation and repatriation; skilled labor may be recruited directly by the employer. The number of non-resident workers remained relatively stable throughout 1997 at around 29,500 (14.7 percent of total employees), but rose to stand at 30,400 (15.1 percent of the total) at end-June 1998.

¹⁰The Finance Department exercises financial control over the execution of the budget of the autonomous bodies and funds, based on quarterly budget execution submissions.

CHART 3

MACAU

FISCAL INDICATORS, 1990-98



Sources: Census and Statistics Department, Yearbook of Statistics (various issues); Selected Economic and Financial Indicators, 1994-98; and the Macau authorities.

budget, strive to achieve a fiscal balance, avoid deficits, and keep the budget commensurate with the growth rate of its gross domestic product. Although the precise interpretation of this Article will be determined by the government of Macau SAR after the handover, in spirit it represents a continuation of current policy as laid out in the Organic Law of Macau and other statutes, which specify that budgeted revenue should cover budgeted expenditure and that current revenue should at least cover current expenditure.

B. Recent Budgetary Developments

21. Conservative budgetary policies throughout the 1990's, reinforced by statutory requirements for a balanced budget,¹¹ led to budget surpluses for most years and the resultant accumulation of a sizable fiscal reserve, which at the end of 1998 stood at MOP2.8 billion (5 percent of GDP) in government accounts and a further MOP8.5 billion (15 percent of GDP) in the Land Fund¹² (Table 7). Surpluses declined sharply after 1994, however, driven mainly by the fall in land lease revenue resulting from the ending of the construction boom. The government owns over 95 percent of the land in Macau¹³ and, between 1989 and 1992, land lease revenue rose from 15 percent of total government revenue to almost 40 percent (from 2 percent of GDP to 8¼ percent), before leveling off at about 25 percent of revenue (5 percent of GDP) in 1993 and 1994. During 1995–97, however, cash revenue from land lease fell sharply, averaging only 6 percent of revenue (1 percent of GDP), reflecting lower lease prices, reduced supply of new land, and a buildup of arrears.¹⁴ To reduce the stock of unoccupied housing units, the government introduced in 1996 a program of preferential interest rates for home-buyers.¹⁵

¹¹The Organic Law of Macau and Law no. 41/83M specify that budgeted revenue should cover budgeted expenditure and that current revenue should at least cover current expenditure. The authorities have interpreted these provisions to mean *inter alia* that the deficit in any year should not exceed accumulated surpluses in government accounts. Macau currently has no public debt in the form of bonds, although it has guaranteed part of the domestic and external debt for the new airport.

¹²As specified by the Joint Declaration of 1987, the Land Fund, similar to that for Hong Kong SAR, receives one half of revenue from new and renewed leases on government-owned land, for use by Macau SAR after sovereignty over Macau is transferred to China.

¹³Through land reclamation projects, the size of the Territory has increased by 40 percent since 1986, from 17 square kilometers to 24 square kilometers.

¹⁴Land lease arrears totaled MOP2.5 billion (4½ percent of GDP) at end-1998. About half of these arrears have been rescheduled.

¹⁵The mortgage interest program subsidizes interest costs on approved housing loans; thus
(continued...)

22. Budgetary performance was strong in 1997, due largely to buoyant revenue. Revenue increased by 17.5 percent in 1997, mainly reflecting the retroactive collection of gambling revenue in connection with the renegotiation of gambling concession contracts.¹⁶ However, land lease revenue remained weak, falling by about 30 percent from the previous year. On the expenditure side, total expenditure rose by about 14 percent, mainly on account of current expenditure growth of 18½ percent; capital expenditure declined slightly from the previous year. Current expenditure growth was led by an increase of 28 percent in current transfers in the form of allocations to a several autonomous bodies and funds being bolstered during the transition of the territorial administration. Wages and benefits, the next largest current expenditure category after current transfers (and representing 38 percent of current expenditure), rose by 9 percent, after having risen by almost 11 percent the previous year. The budget recorded a surplus of about 1 percent of GDP, approximately double the level recorded in 1996.

23. For 1998, although the budget was framed to be approximately balanced, the outturn was a deficit of 1½ percent of GDP, due mainly to a revenue shortfall, in particular lower-than-expected receipts from both land leases and gambling, which in turn reflected the continuing weakness in the property market and the slowdown in tourism. Total revenue fell by 11.7 percent, led by a fall of 18.7 percent in direct taxes from gambling. While land-lease revenue showed a marginal increase from 1997, the realization fell far short of the budgeted amount. In response to the revenue shortfall, the government limited expenditures below budgets amounts in a number of areas, including the wage bill and budgeted current expenditures, transfers, and capital spending, with total expenditure growing by just 3.6 percent for the year, against a budgeted growth of 9.6 percent. Wages for civil servants were frozen for 1998, and the number of employees was reduced through attrition, limiting overall wage and benefit growth to 6.5 percent. Overall, current expenditure grew by 2.8 percent, the lowest growth rate since 1995 and less than half the budgeted growth rate. While expenditure under the public investment plan fell short of the budgeted amount, it grew by almost 12 percent, and the outturn, at almost 3 percent of GDP, represented a historically high level.

¹⁵(...continued)

far about MOP2.5 billion has been borrowed from banks under the scheme.

¹⁶Under the new contract, the government share of revenue was raised by 1.8 percentage points, to 31.8 percent, effective January 1996. In addition, a further 1.6 percent, which had previously been paid into a foundation headquartered in Portugal, now was transferred into the budget, in anticipation of it being transferred to a new foundation established in Macau that was created in the context of the revision of the gambling contract. In the absence of these new provisions, total revenue would have grown by just over 4 percent in 1997.

C. Infrastructure Projects

24. Through the 1980s and the 1990s, Macau has invested heavily in infrastructure projects. An international airport, a new ferry terminal, a border checkpoint, and new container and fuel terminals have been built. At present, a road bridge to mainland China is under construction. In addition, a flag carrier airline, Air Macau, has been put into operation. The road network has been significantly extended and overhauled with a new bridge from Macau City to the islands.

25. There have also been large capital expenditures in the area of social services. Health care has benefited from the construction of various clinics and health centers, and the two hospitals have been renovated and expanded. In the area of education, a number of schools at all levels have been built. The premises of the University, Polytechnic Institute, Tourist Training college, the Conservatory of Music, and the Institute of European Studies have all been extended. There have also been expenditures on sports and cultural facilities.

D. Housing Policy

26. The main goal in housing policy over the last decade has been to provide the poor with adequate living facilities replacing the sub-standard housing stock. This goal has been pursued through the construction by the government of housing units and also through the promotion of the private sector construction of social housing. There are currently about 2,000 apartments provided by the government, whose rent is means-tested, and a further 1,600 units are planned under this program.¹⁷

27. Private construction of social housing units has been promoted through "Housing Development Contracts." These are special contracts for granting land, under the terms of which concessionaires undertake to hand over to the government a portion of the units built as a premium for the land concession. These apartments are either rented out to low and middle income households as social housing or are sold at controlled prices. The remaining units are sold by the concessionaire at prices that are also controlled by the government. Over the last decade, over 24,000 apartments have been completed under this scheme, of which about ¼, or 6,300 units, reverted to the government. It is expected that a further 4,200 units will be built under this scheme over the next two years.

¹⁷About 4,300 families live in rented social housing, of which over half pay rent of less than MOP200 per month (about 4 percent of a median monthly income of an employee in the economy in 1997), and 70 percent pay less than MOP400.

V. MONEY, CREDIT, AND BANKING

28. Within the framework of the pegged exchange rate system, the primary objective of monetary policy in Macau has been to maintain currency stability. With free capital movements, monetary aggregates, interest rates, and prices adjust to be consistent with the pegged exchange rate. Moreover, given the dominance of the Hong Kong dollar that co-circulates widely in Macau with the pataca, the role of the monetary authorities in conducting independent monetary policy has been limited. This section describes the institutional arrangements of the banking system and monetary policy instruments, and reviews recent developments in monetary and credit aggregates, as well as movements in interest rates.

A. Institutional Arrangements

29. The banking sector in Macau comprises a monetary authority (Monetary and Foreign Exchange Authority of Macau, or, in its Portuguese acronym, AMCM), 22 commercial banks, and a government-owned postal savings bank (the Post Office Savings Department). Of the 22 commercial banks, 9 banks are locally incorporated, while the remaining 13 banks are branches of banks abroad. One of these banks has a license to conduct offshore business; however, offshore activity has been very low. These banks form a bankers association, the Bankers Association of Macau, with a view to exchanging views on banking related issues and also to setting indicative interest rates on deposits and loans.

Monetary and Foreign Exchange Authority of Macau (AMCM)

30. The AMCM was established in 1989, assuming the responsibilities for supervising Macau's banking and insurance industries from its predecessor institution, the Instituto Emissor de Macau (IEM). The AMCM acts as an independent agent of the Macau Government.

31. The AMCM operates as a quasi-central bank. Its functions are laid out in the Financial Systems Act of 1993, which consolidates all previous rules and regulations relating to the banking sector. Its main duties are to supervise, coordinate, and inspect the money, financial, and foreign exchange markets as well as credit institutions, financial intermediaries, and other financial institutions.

32. In its capacity as the supervisory body of the banking sector, the AMCM is responsible for promoting the general stability and effective working of the financial system. Its duties are defined as:

- ensuring compliance with all the legal provisions which govern the authorized institutions and the working of the financial, money, and foreign exchange markets;

- taking all reasonable steps to ensure that institutions under supervision are operated in a sound and prudent manner;
- implementing and encouraging the adoption of correct standards of ethical conduct and sound business practices; and
- eradicating practices incompatible with the nature of the institutions and situations liable to adversely affect the proper functioning of the markets.

33. In exercising its regulatory power, the AMCM may issue executive orders, decisions, notices, and circulars to govern the money, financial, and foreign exchange markets and the activities of the institutions under supervision in order to maintain the soundness of the financial system.

Currency board arrangement (CBA)

34. Since 1977, Macau has been operating under a CBA, and the pataca has been pegged to the Hong Kong dollar. To issue the pataca notes, the Banco Nacional Ultramarino (BNU) and the Bank of China, two note-issuing banks, are required to submit Hong Kong dollars to the AMCM in return for noninterest-bearing certificates of indebtedness, which serve as legal backing for the note issue. Under the CBA, 100 percent of the local currency must be backed by foreign assets. The two note-issuing banks have the right to exchange certificates of indebtedness for foreign currency at the official exchange rate at the AMCM, and vice versa.

Policy instruments

35. The AMCM has only two policy instruments, reserve requirements and monetary bills issuance. Reserve requirements are currently set at 3 percent on demand deposits, 2 percent on time deposits up to 3 months, and 1 percent on time deposits of over 3 months. However, these requirements are used mainly for prudential purposes and not for changing monetary policy stance. The monetary bills carry sovereign guarantee and have competitive yields vis-a-vis interbank rates in Hong Kong SAR and are bought from and sold to commercial banks, depending on liquidity conditions in the banking system. The AMCM often sells the monetary bills to absorb excess pataca liquidity, thereby help maintain the pegged exchange rate system. At end-September 1998, the AMCM's outstanding monetary bills reached MOP11.1 billion or about 13 percent of broad money (Table 9).

Interbank and other financial asset markets

36. Macau's interbank market is small. While data on the volume of transactions are not available, the total amount of interbank loans averaged about one fifth of the outstanding stock of the AMCM's monetary bills in recent years.

37. Since the Macau Government has no sovereign debt (domestic or external), there is no bond or treasury bill markets.

B. Money and Credit Developments

Monetary liabilities

38. Developments in monetary aggregates during 1997 and thus far in 1998 were influenced by currency market turbulence in Hong Kong SAR and resultant fluctuations in interest rates. Broad money increased by 4.8 percent during 1997 (7.9 percent during 1996), largely reflecting the slowdown in economic activity (Chart 4). The impact of the Asian crisis on monetary aggregates was felt more markedly in 1998. Owing to sharp increases in real interest rates, broad money increased by 10 percent in the year to November 1998 (Table 10).

39. The increases in interest rates during 1997 and 1998 led to a shift from demand deposits into time and savings deposits. As a result, narrow money declined by 7.3 percent during 1997 and by 0.5 percent in the year to November 1998. On the other hand, quasi money increased by 9.4 percent during 1997 and by 13.5 percent in the year to November 1998.

40. Despite several speculative attacks on the Hong Kong dollar during 1997 and 1998, there were only slight shifts in the currency composition of deposits. The pataca-denominated component of broad money increased from 30.5 percent in 1996 to 30.9 percent in 1997, but declined to 29.8 percent in November 1998 (Table 11). On the other hand, the share of the Hong Kong dollar fell from 54.9 percent in 1996 to 53.1 percent in 1997, and to 52.7 percent in November 1998. The lack of any significant shifts in the currency composition of broad money reflected the firmness of the AMCM's policy to maintain the pegged exchange rate.

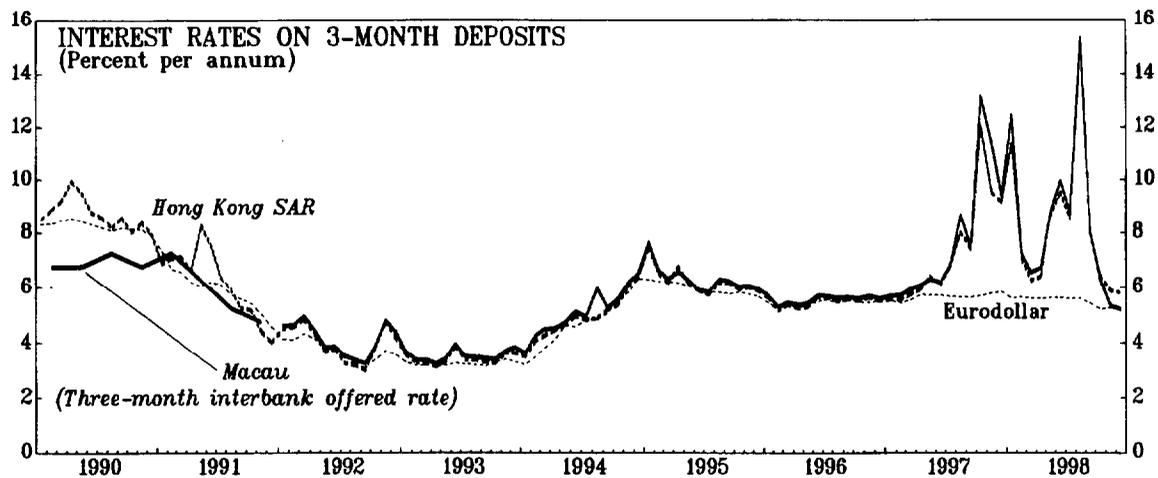
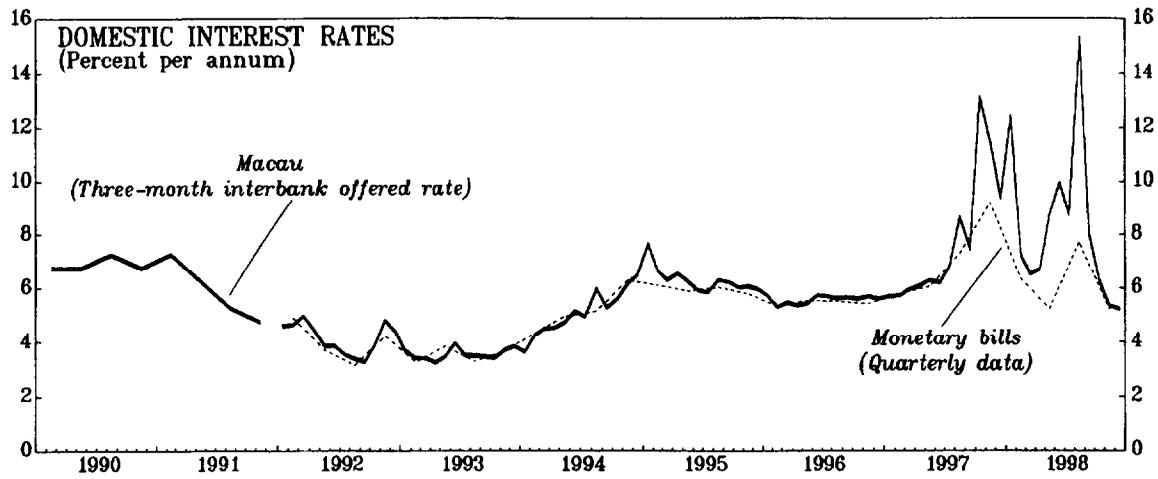
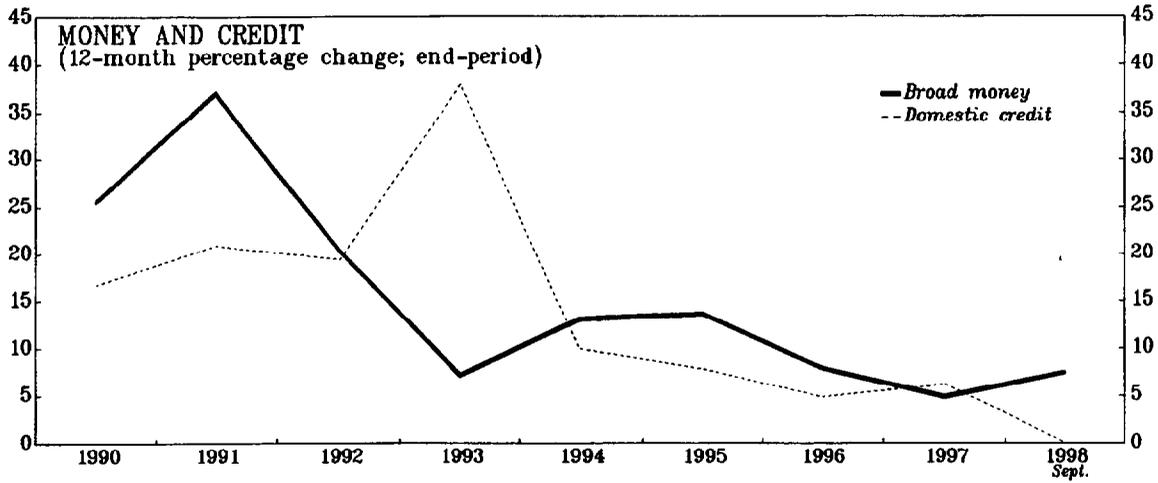
Net foreign assets (NFA)

41. Since mid-1990s, the NFA of the banking system has been on a rising trend, reflecting the strength of the external sector. Nevertheless, during 1997, the banking sector's NFA declined by 0.9 percent, mainly reflecting outflows of bank deposits to Hong Kong SAR; in the second half of the year, many depositors thought that the banks were safer in Hong Kong SAR than in Macau. In the year to November 1998, NFA increased by 19.9 percent, primarily on account of a significant increase in the commercial banks' NFA (Tables 12 and 13). This in turn reflected re-flows of deposits to the commercial banks in Macau as interest rates increased and depositors' renewed confidence in the banks in Macau.

CHART 4

MACAU

MONETARY INDICATORS, 1990-98



Sources: Census and Statistics Department, Yearbook of Statistics (various issues); Selected Economic and Financial Indicators, 1994-98; and IMF: IFS database.

Domestic assets

42. Reflecting the economic stagnation since 1995, commercial banks became somewhat cautious in their lending decisions. During 1997, the growth of domestic credit rose slightly to 6.2 percent, with an increase of 9.9 percent in credit to the private sector partially offset by a further increase in government deposits with the banking system. The growth of domestic credit declined further to only 0.5 percent in the year to November 1998, reflecting a further weakening in economic activity; outstanding credit to the private sector at end-November 1998 declined by 0.2 from a year earlier.

Sectoral distribution of bank loans

43. Since the mid-1990s, about one fourth of commercial bank loans was accounted for by loans to individuals for house purchases (Tables 14 and 15). Loans to individuals for house purchases, which were boosted by the government's interest subsidy program for small to medium residential units (started in mid-1996), grew by 10.5 percent during 1997 and its share in total bank loans increased slightly to 24.6 percent at year-end (Table 16). Total loans in this category increased further during the first nine months of 1998, but the share in the total remained virtually unchanged at 24.7 percent at end-September.

44. The next dominant category was loans for construction and public works. Lending recovered somewhat in 1997, but stagnated during the first nine months of 1998, mainly on account of a further weakening in the property market. As a result, the share in total bank loans declined slightly from 18.5 percent at end-1997 to 18 percent at end-September 1998.

45. Loans for trade, like loans for construction and public works, recovered during 1997, but declined somewhat in 1998, reflecting further weakening economic activity. As a result, its share in total bank loans declined from 16.7 percent at end-1997 to 15.5 percent at end-September 1998.

46. Loans extended to the manufacturing sector accounted for only about 8.5 percent at end-1996, reflecting the relatively small size of the sector in the economy. The total amount increased by 4.9 percent during 1997, supported by the recovery in textiles and clothing manufacturers. However, demand for bank loans weakened in the course of 1998, primarily reflecting the sluggish loan demand from exporters of textiles, toys, artificial flowers, and other light manufactures. The share in the total bank loans declined from 8.1 percent at end-1997 to 7.4 percent at end-September 1998.

C. Interest Rate Developments

47. The pegged exchange rate, together with the freedom from controls on capital movements, implies a close relation between pataca interbank interest rates and the

corresponding Hong Kong dollar interest rates. Nevertheless, for interest bearing assets of the same maturity, interest rates in Macau tend to be slightly lower than those in Hong Kong SAR, creating a small spread, which in turn reflects transaction costs in Macau being somewhat higher than those in Hong Kong SAR. However, as the efficiency of the banking system in Macau has improved over time, the spread between pataca and Hong Kong dollar interbank rates has virtually disappeared (Chart 4).

48. Until August 1997, the indirect pegging of the pataca to the U.S. dollar through the Hong Kong dollar pegged to the U.S. dollar led interest rates developments in Macau to follow closely those in Hong Kong SAR and the United States. However, with the start of the Asian crisis and speculative attacks on the Hong Kong dollar, interest rates in Hong Kong SAR and hence in Macau started to incorporate a risk premium and became subject to high volatility (Chart 4). Following the speculative attacks on the Hong Kong dollar in August and October 1997, the interest rates rose sharply and, by mid-October 1997, the three-month MAIBOR reached 11.2 percent, rising by almost 5 percentage points. In January 1998, and again in the summer of 1998, the three-month MAIBOR reached 13 percent and 10-12 percent, respectively (Table 17).

49. During 1997, reflecting the market's liquidity conditions and following increases in interest rates in Hong Kong SAR, the Bankers Association of Macau (ABM) increased its indicative rates twice (Table 18). The first increase was in April, following a similar increase in the indicative rates in the U.S. dollar money market. The second increase occurred in October, when the Hong Kong dollar was under intense speculative attacks.

50. In 1998, with the renewed turmoil of the Southeast Asian currencies during January and the increase in Hong Kong SAR's prime interest rates by 0.75 percentage points to 10.25 percent, the ABM raised its indicative rates by the same amount on January 12. However, when Hong Kong SAR interest rates declined by 25 basis points on March 30, the ABM also followed the suit.

51. In the summer of 1998, liquidity conditions tightened, and commercial banks were faced with higher borrowing costs. Against this background, when U.S. banks reduced interest rates in September, banks in Hong Kong SAR and thus in Macau did not follow the suit primarily because the commercial banks in Hong Kong and Macau competed aggressively for customer deposits. Indeed, weighted average interest rates on deposits and loans, quoted by three sample banks in Macau, remained unchanged or increased in September, compared with June (Table 19).

52. Real interest rates have increased significantly since early 1990s, reflecting a combination of a downward trend in the rate of inflation and a generally upward trend in nominal interest rates. Real interest rates on deposits were generally negative in the first half of 1990s. However, during 1997-98, as the rate of inflation declined, real interest rates rose markedly (Tables 19 and 20). For example, the average interest rate on pataca time

deposits in real terms increased from negative 3.1 percent in 1992 to negative 1.8 percent at end-1995 and further to 8.4 percent in September 1998. During 1992-95, the average lending rate for prime customers increased from negative 0.1 percent to 2.4 percent in real terms. However, as the rate of inflation declined steadily, the real interest rate increased further to 8.3 percent at end-1997 and to 12.3 percent at end-September 1998. Such sharp increases in the real lending rate have had a dampening effect on economic activity.

D. Banking Sector Soundness and Supervision

53. Currently, there are 23 banks (including the postal savings bank) operating in Macau. The longest operating financial institution is the Banco Nacional Ultramarino, established in 1902, followed by the Caixa Economica Postal, established in 1935. Six of the banks were established in 1970s, six in the 1980s, and nine banks were licenced in the 1990s, of which one is an offshore branch of a Portuguese bank. Thirteen banks are branches of foreign banks and account for 68 percent of total assets of the banking system. Eight banks are majority foreign-owned and account for 26 percent of total assets. The Bank of China, Macau branch, which was licenced in 1986, is currently the largest bank with a share of over one third of deposits. In addition, there are 2 nonbank credit institutions in Macau (Table 21).

54. Total assets of the commercial banking sector of Macau grew rapidly and increased from 207 percent of GDP in 1995 to 295 percent in September 1998. Foreign currency denominated assets accounted for about four fifths of the total assets in 1997-98. Credit to the private sector increased from 70 percent of GDP in 1995 to 84 percent in September 1998. On the liability side, total deposits increased from 117 percent of GDP 1995 to 144 percent in September 1998.

55. The banking sector in Macau exhibited a relatively good degree of financial strength. Banks continued to maintain high risk-weighted capital adequacy ratios (capital/asset ratio) which rose from 12.4 percent in 1994 to 15.7 percent in September 1998. This level was well in excess of the level mandated by the Bank of International Settlements (8 percent). Among the nine locally incorporated financial institutions, the capital adequacy ratio (CAR) ranged between 10 percent and 70 percent. These conservative levels of the CAR were maintained despite a recently deteriorating asset quality and increasing loan provisioning.

56. The quality of assets of the banking sector has recently deteriorated. As the share of non-performing loans (NPLs) in total loans increased from 1 percent in 1993-94 to 4 percent in 1997, and doubled by September 1998 to 9 percent. This was mainly caused primarily by weakness in the property market that increased problem loans. The ratio of loan-loss provisions to nonperforming loans declined from 2½ in 1994 to about ½ in September 1998. However, in light of the high CAR which provides an adequate cushion to

back up those nonperforming loans, the risks of NPLs to the banking system liquidity or solvency seems to be moderate.

57. The banks' exposure to the property and construction sectors has accounted for about 42 percent of total outstanding loans in recent years (Table 15). However, about two thirds of these loans are for residential mortgages and the remainder for other nonresidential concerns. Nonetheless, the banking supervisors of the AMCM have recently been concerned about the quality of the loan portfolio exposed to commercial construction projects and investment property purposes, which has been about 12 percent of total banking sector loans. This category of loans is currently subject to ongoing on-site and off-site inspections since January 1998.

58. With respect to profitability of the commercial banks, the average return on total assets fell from around 1.5 percent in 1994 to about 1 percent in 1995-97 and to 0.8 percent in September 1998 (Table 21). Nonetheless, banks' cash flow (including depreciation and provisions) was maintained at about 2 percent of turnover for several years, indicating that the recent increase in banks' provisioning was another main factor for the fall in profits. Part of the decline in banks' profit margins could also be explained by the decline in average lending spreads (lending-deposit rates), which fell from 4.7 percent in 1995 to 2.4 percent in 1997 and further to 1.8 percent in September 1998. The stock market crash in Hong Kong SAR in August 1998 pushed up the rates offered to depositors on time deposits. As Macau followed suite, depositors shifted into deposits with longer maturities, thereby helping banks' liquidity positions. Thus, banks cash reserves were maintained at around 2.5 percent of total liabilities, well in excess of the weighted average minimum required reserves averaging 2 percent.

59. With regard to bank supervision, the supervision department of the AMCM has a staff strength of 15 professionals, of which 12 are currently filled. Macau's banking supervision system is operated in line with international standards and is based on off-site analysis on a monthly basis and on-site examinations performed annually or biannually, depending on the analysis of quality of assets. Banks submit monthly reports to the AMCM for purposes of bank supervision, which cover capital adequacy, loan-loss classification, provisions, earnings, and liquidity reserves. Bank supervisors pay particular attention to the submissions on the quality of assets and the classification of over due loans which should adhere to the following scheme.

Macau: Asset quality criteria and Provisioning Rates	
Normal	1 percent of outstanding balances
Group I: Overdue up to 3 months	1 percent of outstanding balances
Group II: Overdue between 3–12 months	40 percent, net of realizable collateral
Group III: Overdue between 12–18 months	80 percent, net of realizable collateral
Group IV: Overdue beyond 18 months	100 percent, net of realizable collateral

60. The AMCM has signed agreements with the Central Bank of Portugal, the People's Bank of China, and the Honk Kong Monetary Authority to share bank supervision information on the reports of head offices of bank branches operating in Macau.

61. The first guidelines on the prevention of money laundering were issued in June 1996. These were followed by the enactment of two legal instruments in 1997–98 covering organized crime and preventive measure over the conversion and transfer of illegitimate properties. A draft of the revised anti-money laundering is under preparation and is expected to be issued in 1999. In addition, the AMCM alerted financial institutions in Macau to adhere to the year 2000 supervisory guidelines issued by the Basil Committee in mid-1998.

VI. EXTERNAL SECTOR

62. With the liberal exchange system in place, the government has not required the private sector to report on its external income and transfer flows nor on foreign capital transactions on external debt obligations. As a result, balance of payments data are seriously incomplete, placing significant limitations to the analysis of the external sector. However, main developments in the external trade sector could be discerned from the trade data that are available (Tables 1, 2, and 22–26). During 1990–98, the current account was continuously in surplus, and this surplus contributed at least one-third of GDP. This mainly reflected the strength of the external sector, aided by the open environment of Macau's economy.

A. Current Account

63. Macau's current account remained in surplus during the first half of the 1990s and peaked in 1996, when it reached US\$2.7 billion (37.4 percent of GDP). From then onwards, the current account surplus gradually declined to US\$2.4 billion (33.8 percent of GDP) in 1998. The balance on merchandise trade has generally shown small deficits, averaging an annual deficit of about US\$0.2 billion (or about 3½ percent of GDP) during 1991–98. Thus, the strength of Macau's current account during the 1990s by and large mirrored the trend in the services account surplus.

64. During 1990–96, merchandise exports, which were highly concentrated on textiles and garments, registered an average growth of 2.7 percent per year (Table 23 and Chart 5). Merchandise exports increased by 7.7 percent in 1997, although this increase was not sustained fully in the first half of 1998. This rapid growth was attributable to the fact that the textile and garment industry was benefitting from MFA quotas and was not affected by the Asian crises; exports of textiles and garments increased by 15.4 percent in 1997. On the other hand, Macau's competitiveness on exports of nontextiles continued to slip, particularly aggravated by the appreciation of the pataca relative to the currencies of its Southeast Asian competitors. Latest annual data indicate that nontextile exports fell by 11.7 percent in 1996 and by 19.3 percent in 1997. The contraction in 1997 was across the board, involving light manufacturing (down by 5 percent), leather goods (down by 78 percent), and toys (down by 65 percent), owing primarily to competition, mainly from the neighboring countries

65. Macau's export performance has been greatly influenced by the regional pattern of trade and the composition of exports. Data for 1997 and the first half of 1998 indicate that exports continued to exhibit a high degree of market concentration. The main markets have continued to be the United States, which absorbed 45 percent of Macau's exports, and the European Union (EU) absorbed 33 percent (Table 24). About 8 percent of total export went to Hong Kong SAR and some 6 percent to China. Nonetheless, the appreciation of the pataca appears to have eroded Macau's competitiveness with respect to the unprotected portion of textile exports, toys and other light manufacturers. As for the composition of exports, over three quarters of the total exports have been accounted for by textiles and garments, which have been governed by quota controls and origin rules as applied by these two major destinations.

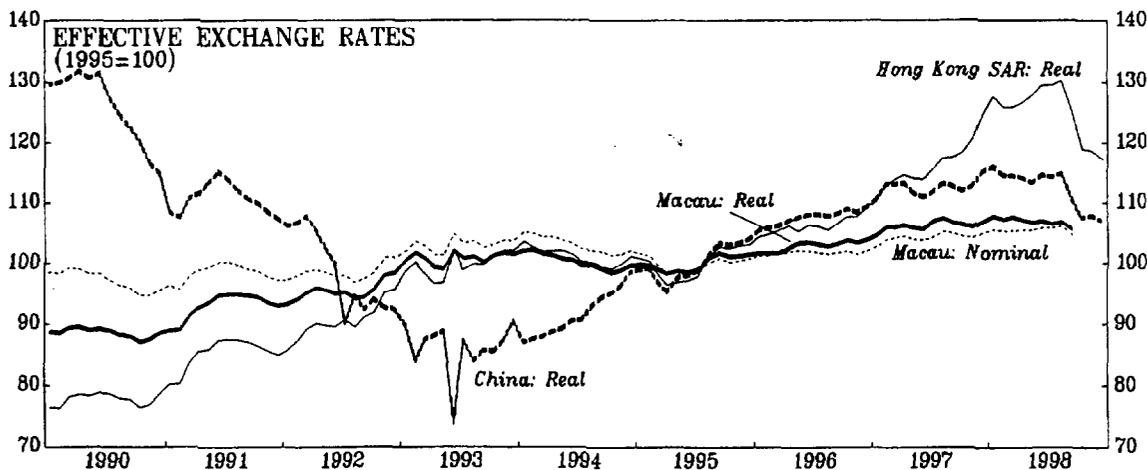
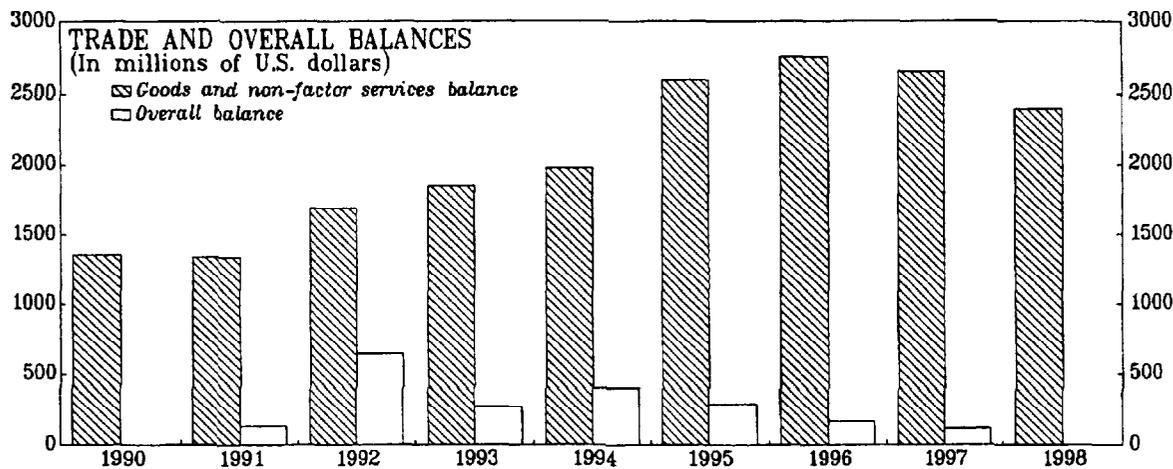
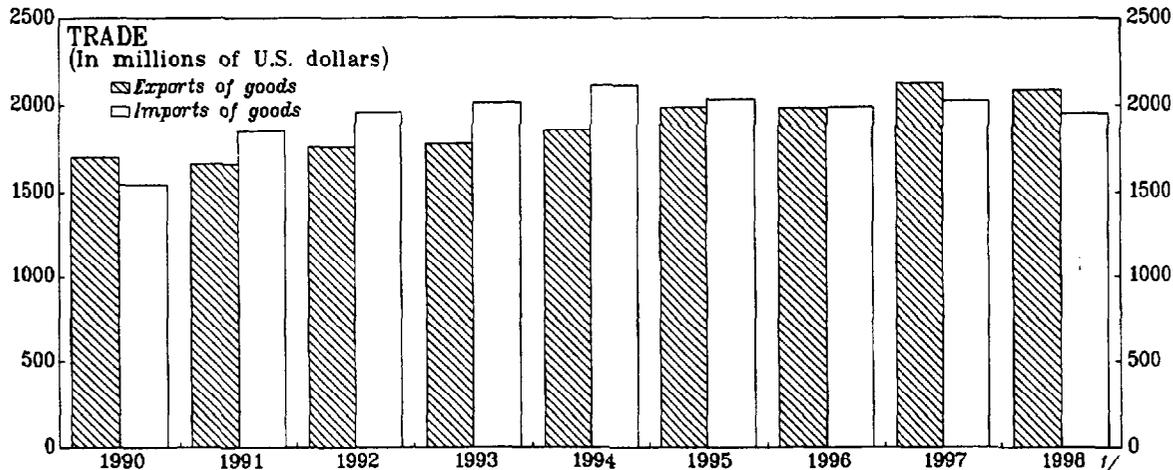
66. During 1990–94, the annual growth of imports fluctuated between about 20 percent and about 3 percent (Table 25). However, imports declined in 1995 and 1996 as economic activity weakened in the wake of the collapse of the property market. In 1997, imports rebounded somewhat primarily reflecting increases in machinery and transport equipment as well as mineral fuels and related materials. In 1998, imports again were subdued on account of the weakness in aggregate demand.

67. As regard the country of origin of imports, about four fifths of total imports came from Asian countries in recent years (Table 26). An indication of the greater integration with China is the increase in China's share of Macau's imports from 18 percent in 1990 to 29 percent in 1997. Thus, dependance on Hong Kong SAR was reduced from about 42 percent of total imports in 1990 to 25 percent by 1997. Macau has in recent years imported most of its food from Southern China, and its raw materials and capital goods from the OECD countries.

CHART 5

MACAU

EXTERNAL INDICATORS, 1990-98



Sources: Census and Statistics Department, Yearbook of Statistics (various issues); Selected Economic and Financial Indicators, 1994-98; IMF: Information Notice System.

1/ Actual for January-July, at an annual rate.

68. The external services account has been rapidly gaining in importance, with the share of exports of services in total earnings from exports of goods and nonfactor services increased from 40 percent in the 1980s to 47 percent in 1990 and further to 59 percent in 1997–98, equivalent to 40 percent of GDP. Over the last several years, Macau has been running a surplus in the services account in the order of 35 percent of GDP, which mainly came from the tourism industry centered around gambling.

69. Tourism inflows grew rapidly in the early 1990s, growing on average at 6.5 percent per year during 1991–95. However, tourism receipts declined starting in 1996 and has since fallen by about 10 percent per year during 1997–98. Currently, about 63 percent of visitors are from Hong Kong SAR, 13 percent from Taiwan province of China, 7.5 percent from mainland China, and 6.7 percent from Japan and Southeast Asia. The number of visitors declined from 8.2 million in 1996 to 7 million in 1997, and it declined further in 1998 although in the latter half of the year, there were signs of increases in tourist arrivals. Reflecting these developments, the hotel occupancy rate dropped from 64 percent in 1996 to 52 percent in 1997 (Table 27), and further declined to about 51 percent in 1998. Two factors could have been behind this decline. First, there was a sharp drop in tourist arrivals in Hong Kong SAR, particularly after the 1997 handover, and Macau, being a favorite destination for those visiting Hong Kong SAR, experienced a parallel reduction. Second, demand for tourism in the region generally declined, owing to the effects of the Asian financial crisis. Since about two thirds of visitors' spending in Macau during 1997–98 was on gambling, Macau's earnings from tourism was severely affected by the weakness in tourism in the region.¹⁸

B. Overall Balance, International Reserves, and Imputed Capital Outflows

70. As there are no comprehensive data on Macau's balance of payments, particularly the capital account, the level of capital outflows could be gauged by the residual of the current account surplus after deducting the buildup of official international reserves (table below).

¹⁸While the opening of Macau's airport started to contribute to external sector earnings, these are currently modest. It is expected that direct flights to Macau from various airports in the region will continue to increase the potential for Macau's tourism.

Macau: Main Features of the Balance of Payments. 1991–98
(In billions of US dollars)

	1991	1992	1993	1994	1995	1996	1997	1998*
Current Account surplus	1.3	1.7	1.9	2.0	2.6	2.7	2.6	2.4
Residual Capital outflows	1.2	1.1	1.6	1.6	2.3	2.6	2.5	2.4
Buildup of Official reserves	0.1	0.6	0.3	0.4	0.3	0.1	0.1	0.0
Gross Official International Reserves	0.7	1.3	1.6	2.0	2.3	2.4	2.5	2.5
In months of import coverage	3.7	6.7	7.8	9.1	10.5	10.7	11.8	11.9

*Estimates.

71. The level of residual capital outflows was about US\$2.4 billion in 1998, equivalent to about one third of GDP. This was almost equal to the total stock of official reserves of the AMCM. This illustrates the high degree of openness of Macau's economy, its limited absorptive capacity of the economy due to its smallness, and thus the limited opportunities for investments within the territory. One third of gambling receipts is paid in taxes, and a large portion of the remaining two thirds after expenses would represent most of the imputed capital outflows. The highest level of official international reserve buildup by the AMCM occurred in 1992, the year with peak economic growth (over 13 percent), followed by a reasonably good buildup of reserves during 1992–95. As the economy slowed in the period 1996–98, the buildup of reserves also slowed, but no loss of reserves occurred. By 1998, the level of the AMCM's reserves stood at US\$2.5 billion, equivalent to about 12 months of import over. Macau has no external debt obligations, except for a small amount of guarantees to the airport.

C. Exchange Rate Regime and Developments

72. On April 9, 1977, the exchange rate of Macau's currency, the pataca, was formally de-linked from the Portuguese escudo and linked to the Hong Kong dollar at a central rate of MOP 107.5 = HK\$100, and the transaction rates were allowed to deviate from this rate as long as they were within a band of plus one percent and minus one percent of the central rate. Effective January 2, 1979, the central rate of the pataca was set at MOP 100.25 = HK\$100, and the transaction rates were to take place within a band not exceeding 4 percent on either side of the central rate. This arrangement continued through May 10, 1987. Since May 11, 1987, the Monetary and Foreign Exchange Authority has maintained its commitment to transact with local banks at MOP 103.1 = HK\$100 for selling patacas and at MOP 102.9 = HK\$100 for buying patacas, which fall within the legal fluctuation band.

73. The nominal and real effective exchange rates of the pataca have remained broadly stable since 1990 (Table 28 and Chart 5). Between the onset of the Asian crisis in mid-1997 and end-1998, the nominal and real effective rates appreciated by less than 1 percent, reflecting the large weights of the Hong Kong dollar and the Chinese renminbi in the calculation of the effective exchange rates.

VII. TRADE AND EXCHANGE SYSTEMS

A. Trade System and Policy

74. Macau became a GATT contracting party in 1991 and was given full autonomy in the conduct of external commercial relations by the government of Portugal. Macau is a founding member of the WTO, and the Final Act embodying the results of the Uruguay Round of multilateral trade negotiations was adopted (officially gazetted in Macau in February 1996). Under the 1987 Joint Declaration, Macau will remain a member of WTO (as a separate customs territory) after the handover of sovereignty to China in December 1999. About four fifths of Macau's exports are protected with textile export quotas under the multi-fiber arrangements (MFA). These exports have not yet been affected much by the initial stages of the phasing-out of the MFA, being implemented under the Uruguay Round Agreement on Textiles and Clothing, because of the heavy end-loaded phasing-out of MFA quantitative restrictions, which would only extend to Macau's products at the last stage at end-2004.

75. Macau has no specific sectoral trade policies, except in the context of participation in the MFA. The Territory has never applied customs duties or any other customs fees on imports. In principle, imports from any source may enter Macau on a duty free basis (zero tariffs) and with minimum controls. Such controls take the form of import licensing (except for perishable goods). Licences are issued automatically and at no charge. Licencing is usually for statistical purposes, but prior authorization is required for imports affecting public safety (arms and ammunition), or health and environmental protection (live animals, fuels, chemicals), or strategic products (radio transmitters and power supply products), and to monitor imports of precious metals and motor vehicles. Imports of textiles and clothing are also subject to prior authorization for surveillance purposes, as a back-up to Macau export control system. The only other restriction on imports applies to second hand motor vehicles, due to local environmental and safety considerations.

76. Similarly, goods leaving Macau are subject to export licencing (again with the exception of perishable goods). Temporary exports and re-exports require prior authorization, as do textile products that are subject to quota. This system is in place to ensure compliance with Macau's responsibilities under textile bilateral agreements in accordance with the MFA. Prior authorization is also required for purposes of environmental protection (chemicals and endangered flora and fauna). Macau applies no

rules of origin on incoming goods but has to observe origin rules imposed by countries to which goods are exported (such as textile exports under the bilateral agreements and for purposes subject to Generalized System of Preferences treatment). For this purpose, the Macau authorities issue certificates of origin, at minimal fees. In the context of the MFA, Macau has bilateral agreements with the United States, EU, Austria, Canada, Finland, and Norway. Macau is also a party to a trade and cooperation agreement with the EU, which is a non-preferential agreement under which the parties accord each other most favored nation treatment as per GATT provisions.

B. Exchange System

77. There are no restrictions on the making of payments for current or capital international transactions. However, to encourage local currency circulation, exporters of goods are required to convert 40 percent of their proceeds into patacas through the banking system, acting as agents of the AMCM. This provision does not apply to the gambling proceeds, which are governed by a contract with the gambling concession, under which taxes on gambling are paid in Hong Kong dollars to the AMCM, which in turn credits the government accounts with the pataca equivalent net of a transaction fee.

Table 1. Macau: Expenditures on Gross Domestic Product, 1990-97

	1990	1991	1992	1993	1994	1995	1996	1997
(In millions of MOP)								
At current market prices								
GDP	28,467	32,817	42,072	47,595	53,429	59,282	58,256	58,472
Private consumption	9,066	10,624	12,404	14,036	15,951	17,614	19,013	20,153
Government consumption	2,397	2,938	3,110	3,603	4,149	4,773	5,280	5,741
Gross domestic capital formation	6,009	8,162	12,671	14,700	16,901	16,124	11,641	11,227
<i>Of which:</i>								
Private	5,053	7,132	11,386	13,041	15,789	14,708	10,057	9,571
Government	956	1,030	1,285	1,659	1,112	1,416	1,584	1,657
Changes in inventories	135	379	355	426	608	380	552	460
Exports of goods and services	25,608	27,626	32,119	34,136	36,568	41,011	41,701	42,115
Imports of goods and services	14,747	16,911	18,586	19,306	20,748	20,621	19,931	21,223
At constant (1989) market prices								
GDP	26,089	27,043	30,640	32,229	33,697	34,915	34,752	34,710
Private consumption	8,384	8,984	9,775	10,406	11,135	11,496	11,964	12,341
Government consumption	2,170	2,451	2,359	2,515	2,692	2,871	2,985	3,074
Gross domestic capital formation	5,728	7,297	9,989	10,416	10,790	9,823	7,338	7,463
<i>Of which:</i>								
Private	4,824	6,362	8,878	9,109	9,960	8,819	6,222	6,261
Government	904	935	1,111	1,307	830	1,003	1,116	1,202
Changes in inventories	123	331	290	325	468	284	395	311
Exports of goods and services	24,325	24,224	26,186	26,833	27,953	29,379	29,522	29,113
Imports of goods and services	14,642	16,244	17,960	18,267	19,342	18,937	17,451	17,592
Memorandum Items:								
Share in GDP								
(At current market prices)								
	(Percent)							
Private consumption	31.8	32.4	29.5	29.5	30.0	29.7	32.6	34.5
Government consumption	8.4	9.0	7.4	7.6	7.8	8.1	9.1	9.8
Gross domestic capital formation	21.1	24.9	30.1	30.9	31.6	27.2	20.0	19.2
Exports of goods and services	80.0	84.2	76.3	71.7	68.4	69.2	71.6	72.0
Imports of goods and services	51.8	51.5	44.2	40.6	38.8	34.8	34.2	36.3
Net exports of goods and services	38.2	32.7	32.1	31.1	29.6	34.4	37.4	35.7

Source: The Census and Statistics Department, *Yearbook of Statistics* (various issues).

Table 2. Macau: Composition of Exports and Imports, 1990-97

	1990	1991	1992	1993	1994	1995	1996	1997
(In millions of MOP)								
Exports								
At current market prices								
Exports (total)	25,608	27,626	32,119	34,136	36,568	41,011	41,701	42,115
Exports of goods	13,637	13,325	14,080	14,236	14,854	15,915	15,898	17,129
Exports of services	11,971	14,301	18,039	19,900	21,714	25,096	25,802	24,985
<i>Of which:</i>								
Nonresidents expenditure	11,780	14,088	17,752	19,683	21,501	24,904	24,911	23,583
Industrial services	180	203	266	209	204	170	220	207
Nonindustrial services	11	10	21	8	8	21	671	1,196
At constant (1989) market prices								
Exports (total)	24,325	24,224	26,186	26,833	27,953	29,379	29,522	29,113
Exports of goods	13,464	12,642	13,020	13,461	14,362	14,798	14,788	15,348
Exports of services	10,861	11,582	13,166	13,372	13,591	14,580	14,734	13,765
<i>Of which:</i>								
Nonresidents expenditure in the domestic market	10,672	11,379	12,901	13,166	13,386	14,402	13,926	12,574
Industrial services	178	193	246	199	197	158	203	184
Nonindustrial services	11	9	19	7	8	20	605	1,007
Imports								
At current market prices								
Imports (total)	14,747	16,911	18,586	19,306	20,748	20,621	19,931	21,223
Imports of goods	13,637	15,645	17,195	17,215	18,583	18,229	17,298	17,969
Imports of services	1,110	1,266	1,391	2,091	2,165	2,391	2,633	3,254
At constant (1989) market prices								
Imports (total)	14,642	16,244	17,960	18,267	19,342	18,937	17,451	17,592
Imports of goods	13,527	15,086	16,719	16,789	18,000	17,578	16,056	15,946
Imports of services	1,115	1,158	1,241	1,477	1,342	1,359	1,396	1,645
Memorandum items								
Share in GDP	(Percent)							
(at current market prices)								
Imports (total)	90.0	84.2	76.3	71.7	68.4	69.2	71.6	72.0
Exports (total)	57.6	51.5	44.2	40.6	38.8	34.8	34.2	36.3

Source: The Census of Statistics Department, *Yearbook of Statistics* (various issues).

Table 3. Macau: Construction Activities, 1990-97

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Jun
(In thousands of m2)									
Building construction									
Projects proposal									
Total	1,539	954	1,309	1,616	2,231	1,582	759	853	525
<i>Of which:</i> Residential	1,101	570	982	1,396	1,245	688	650	658	n.a.
Building construction									
Completed	1,057	1,260	1,373	1,427	1,141	1,221	1,908	1,150	681
<i>Of which:</i> Residential	651	886	1,035	1,079	657	645	1,619	632	n.a.
(In millions of MOP, end period)									
Domestic credit granted for									
home ownership	4,209	5,043	7,361	9,198	9,684	9,499	10,825	11,962	12,021
(annual percentage change)	28.8	19.8	45.0	24.9	5.3	-1.9	14.0	10.5	7.1

Sources: The Census of Statistics Department, *Yearbook of Statistics* (various issues); and the Macau authorities.

Table 4. Macau: Consumer Price Index (CPI), 1990-98 1/

	CPI, excluding Rents (100 percent)	Nontradable Goods (47.7 percent)	Tradable Goods (43.1 percent)	Administratively Controlled Goods (9.2 percent)
(July 1995 - June 1996 = 100)				
1990	65.2	58.7	71.8	75.9
1991	71.5	65.9	77.2	81.1
1992	77.0	73.4	80.8	84.6
1993	82.2	80.8	83.4	90.0
1994	87.3	87.7	87.1	91.1
1995	94.8	96.4	93.5	96.1
1996	99.4	101.6	97.4	100.1
1997	102.8	105.8	100.0	103.8
1998	103.0	109.1	97.6	101.8
Q1	104.1	109.4	99.6	102.8
Q2	103.3	108.6	98.7	101.0
Q3	102.6	109.5	96.5	101.3
Q4	101.9	108.9	95.6	102.1
(Year-on-year rate of change, in percent)				
1990	7.9	10.0	5.6	12.4
1991	9.6	12.3	7.5	6.8
1992	7.7	11.3	4.6	4.3
1993	6.7	10.1	3.2	6.4
1994	6.3	8.6	4.4	1.2
1995	8.6	9.9	7.4	5.5
1996	4.8	5.4	4.2	4.2
1997	3.5	4.1	2.7	3.7
1998	0.2	3.1	-2.4	-2.0
Q1	2.3	5.3	-0.3	0.4
Q2	1.2	4.0	-0.8	-3.5
Q3	-1.1	2.4	-4.5	-2.8
Q4	-1.6	0.8	-3.8	-2.0

Source: Data provided by the Macau authorities.

1/ This table is recalculated, using the new CPI base period (July 1995-June 1996 = 100) adopted since the beginning of 1998. Figures in bold and italic are calculated under the previous base period (Oct. 1988-Sep. 1989 = 100).

Table 5. Macau: Labor Force, Employment and Unemployment, 1992-98 1/

	1992	1993	1994	1995	1996	1997	1998 2/
(In thousands)							
Labor Force	173.0	175.0	177.4	187.1	206.2	207.1	209.6
Employed	169.2	171.4	173.0	180.3	197.5	200.6	200.8
Unemployed	3.8	3.7	4.4	6.7	8.7	6.5	8.9
(In percent)							
Unemployment rate	2.2	2.1	2.5	3.6	4.3	3.2	4.2
Labor force participation rate	64.7	65.2	63.9	65.3	66.7	65.8	65.4
(Percent changes)							
Labor force growth	...	1.2	1.4	5.5	10.2	0.4	1.2
Employment growth	...	1.3	0.9	4.2	9.5	1.6	0.1
(In percent of total employed)							
Employment in selected sectors							
Manufacturing	28.5	25.0	22.8	21.7	20.6	20.6	20.4
<i>Of which</i> : textiles and garments	22.1	18.6	17.9	16.7	15.4	16.0	...
Construction and public works	9.3	10.0	7.5	9.5	7.5	7.2	5.9
Trade and tourism 3/	24.3	26.0	26.1	25.6	27.5	26.5	26.9
Transportation, warehousing and communication	5.6	6.1	6.0	5.8	6.2	6.7	7.3
Banking and other financial service	5.3	5.4	6.2	6.2	6.6	6.8	7.0
Public, social and private services	25.9	26.5	30.5	30.1	30.5	31.2	31.7

Sources: Census and Statistics Department; *Yearbook of Statistics* (various years); and the Macau authorities.

1/ Data not available before 1992.

2/ Based on data for the first half

3/ Wholesale, retail, restaurants and hotels.

Table 6. Macau: Median Monthly Employment Income by Industry, 1992-98

	1992	1993	1994	1995	1996	1997	1998 1/
	(In MOP)						
Median monthly employment income							
Overall economy	3,499	4,067	4,476	4,830	4,925	5,240	5,196
Manufacturing	2,509	2,926	3,111	3,210	3,124	3,323	3,105
Construction and public works	3,775	4,393	4,753	5,108	4,851	5,227	5,419
Trade and tourism 2/	3,443	3,904	4,127	4,520	4,665	4,842	4,725
Transportation, warehousing and communications	4,106	4,627	5,155	5,791	5,864	6,226	6,027
Banking and other financial services	4,483	5,289	5,195	5,704	5,448	5,797	6,208
Public, social and privates services	4,888	5,529	5,894	6,429	6,830	7,303	7,122
	(Percentage change)						
Median monthly employment income							
Overall economy	...	16.2	10.1	7.9	2.0	6.4	-0.8
Manufacturing	12.4	16.6	6.3	3.2	-2.7	6.4	-6.6
Construction and public works	24.3	16.4	8.2	7.5	-5.0	7.8	3.7
Trade, restaurants and hotels	...	13.4	5.7	9.5	3.2	3.8	-2.4
Transportation, warehousing and communications	16.9	12.7	11.4	12.3	1.3	6.2	-3.2
Banking and other financial services	...	18.0	-1.8	9.8	-4.5	6.4	7.1
Public, social and privates services	...	13.1	6.6	9.1	6.2	6.9	-2.5
	(Percentage change)						
Median monthly employment income at constant prices 3/							
Overall economy	...	8.9	3.6	-0.6	-2.7	2.8	-1.3
Manufacturing	4.4	9.3	0.1	-4.9	-7.2	2.8	-7.0
Construction and public works	15.4	9.0	1.8	-1.0	-9.4	4.1	3.2
Trade, restaurants and hotels	...	6.3	-0.5	0.9	-1.5	0.3	-2.9
Transportation, warehousing and communications	8.5	5.6	4.9	3.5	-3.4	2.6	-3.7
Banking and other financial services	...	10.6	-7.6	1.1	-8.9	2.8	6.6
Public, social and private services	...	6.0	0.3	0.5	1.4	3.3	-3.0

Source: Census and Statistics Department, Annual Statistical Yearbook (various issues); and staff estimates.

1/ Based on data for the second quarter.

2/ Wholesale, retail, restaurants and hotels.

3/ Deflated by the CPI index.

Table 7. Macau: Government Finance, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998	
									Budget	Prei.
(In MOP millions)										
Total revenue	4,971	5,458	9,258	9,670	10,087	8,671	8,570	10,073	10,393	8,890
Current revenue	4,113	5,185	9,191	9,357	10,000	8,558	8,448	10,035	10,050	8,658
Direct taxes from gambling	2,048	2,732	3,554	4,613	4,636	5,269	4,954	6,013	5,868	4,886
Other direct taxes	539	619	933	891	1,424	1,447	1,472	1,577	1,445	1,470
Indirect taxes	454	480	668	753	801	559	609	553	551	494
Revenue from equity and property	776	1,050	3,526	2,551	2,521	759	851	674	1,636	990
<i>Of which</i> : land concession premiums	737	1,021	3,492	2,482	2,466	698	578	404	1,200	418
Other revenue	296	304	510	549	618	524	562	1,218	550	818
Capital revenue and reimbursements	858	273	67	313	87	113	122	38	343	232
Total expenditure	4,463	5,245	5,858	6,985	7,156	9,469	8,266	9,406	10,313	9,740
Current expenditure	3,093	3,957	4,052	4,686	5,456	5,541	6,245	7,408	7,878	7,615
Wages and benefits	1,453	1,589	1,741	1,959	2,298	2,327	2,579	2,815	3,175	3,000
Goods and services	486	470	373	380	467	470	526	591	652	570
Current transfers 1/	1,121	1,819	1,912	2,294	2,646	2,681	2,965	3,806	3,382	3,480
Other current expenditure	33	79	26	53	45	63	175	196	669	565
Capital expenditure	1,370	1,288	1,806	2,299	1,700	3,928	2,021	1,998	2,436	2,125
Public Investment Plan	990	1,017	1,269	1,613	1,019	1,244	1,343	1,474	1,900	1,650
Other capital expenditure and net lending	380	271	537	686	681	2,684	678	524	536	475
Balance	508	213	3,400	2,685	2,931	-798	304	667	79	-850
(In percent of GDP)										
Total revenue	17.5	16.6	22.0	20.3	18.9	14.6	14.7	17.2	18.1	15.5
<i>Of which</i> :										
Direct taxes from gambling	7.2	8.3	8.4	9.7	8.7	8.9	8.5	10.3	10.2	8.5
Indirect taxes	1.6	1.5	1.6	1.6	1.5	0.9	1.0	0.9	1.0	0.9
Revenue from equity and property	2.7	3.2	8.4	5.4	4.7	1.3	1.5	1.2	2.9	1.7
Total expenditure	15.7	16.0	13.9	14.7	13.4	16.0	14.2	16.1	18.0	17.0
Current expenditure	10.9	12.1	9.6	9.8	10.2	9.3	10.7	12.7	13.7	13.3
Public Investment Plan	3.5	3.1	3.0	3.4	1.9	2.1	2.3	2.5	3.3	2.9
Other capital expenditure and net lending	1.3	0.8	1.3	1.4	1.3	4.5	1.2	0.9	0.9	0.8
Capital expenditure	1.8	0.6	8.1	5.6	5.5	-1.3	0.5	1.1	0.1	-1.5
Balance	1.8	0.6	8.1	5.6	5.5	-1.3	0.5	1.1	0.1	-1.5
Memorandum items:										
Transfer to Land Fund (MOP millions)	--	796	1595	1299	1,371	562	273	307	480	240
Land Fund (MOP millions)	...	838	2477	3900	5,513	6,467	7,168	7,952	...	8,500
Land Fund (percent of GDP)	...	2.6	5.9	8.2	10.3	10.9	12.3	13.6	...	14.8
Autonomous bodies and funds revenue (MOP millions) 2/	1,027	1,621	1,442	2,136	2,724	5,420	6,142	4,528	5,360	5,360
Autonomous bodies and funds expenditure (MOP millions)	1,027	1,621	1,442	2,136	2,724	5,420	6,142	4,528	5,360	5,360
Revenue including autonomous bodies and funds (percent of GDP)	21.1	21.6	25.4	24.8	24.0	23.8	25.3	25.0	27.5	24.9
Expenditure including bodies and funds (percent of GDP)	19.3	20.9	17.4	19.2	18.5	25.1	24.7	23.8	27.4	26.4

Sources: Data provided by the Macau authorities, and staff estimates.

1/ Excluding transfer to Land Fund.

2/ Does not include Land Fund.

Table 8. Macau: Growth in Government Revenue and Expenditure, 1991-98.
(Annual percentage change)

	1991	1992	1993	1994	1995	1996	1997	1998	
								Budget	Prel.
Total revenue	9.8	69.6	4.5	4.3	-14.0	-1.2	17.5	3.2	-11.7
Current revenue	26.1	77.3	1.8	6.9	-14.4	-1.3	18.8	0.1	-13.7
Direct taxes from gambling	33.4	30.1	29.8	0.5	13.7	-6.0	21.4	-2.4	-18.7
Other direct taxes	14.8	50.7	-4.5	59.8	1.6	1.7	7.1	-8.4	-6.8
Indirect taxes	5.7	39.2	12.7	6.4	-30.2	8.9	-9.2	-0.4	-10.7
Revenue from equity and property	35.3	235.8	-27.7	-1.2	-69.9	12.1	-20.8	142.7	46.9
of which: land concession premiums	38.5	242.0	-28.9	-0.6	-71.7	-17.2	-30.0	196.7	3.5
Other revenue	2.7	67.8	7.6	12.6	-15.2	7.3	116.7	-54.9	-32.8
Capital revenue and reimbursements	-68.2	-75.5	367.2	-72.2	29.9	8.0	-68.9	802.6	510.5
Total expenditure	17.5	11.7	19.2	2.4	32.3	-12.7	13.8	9.6	3.6
Current expenditure	27.9	2.4	15.6	16.4	1.6	12.7	18.6	6.3	2.8
Wages and benefits	9.4	9.6	12.5	17.3	1.3	10.8	9.2	12.8	6.6
Goods and services	-3.3	-20.6	1.9	22.9	0.6	11.9	12.4	10.3	-3.6
Current transfers 1/	62.3	5.1	20.0	15.3	1.3	10.6	28.4	-11.1	-8.6
Other current expenditure	139.4	-67.1	103.8	-15.1	40.0	177.8	12.0	241.3	188.3
Capital expenditure	-6.0	40.2	27.3	-26.1	131.1	-48.5	-1.1	21.9	6.4
Public Investment Plan	2.7	24.8	27.1	-36.8	22.1	8.0	9.8	28.9	11.9
Other capital expenditure and net lending	-28.7	98.2	27.7	-0.7	294.1	-74.7	-22.7	2.3	-9.4

Source: Data provided by the Macau authorities; and staff estimates.

Table 9. Macau: Monetary Bills, 1992-98

	1992	1993	1994	1995	1996	1997	1998
	(In millions of patacas)						
Jan	3,383	6,056	6,140	8,324	11,548	11,661	10,824
Feb	3,433	5,721	6,739	8,918	11,699	11,849	11,106
Mar	3,732	5,882	5,285	8,637	11,057	11,625	11,579
Apr	3,997	6,147	5,603	8,711	11,082	11,504	11,542
May	4,200	6,446	6,130	9,141	10,851	11,490	11,356
Jun	4,449	6,547	6,370	11,953	11,099	11,965	11,269
Jul	4,269	6,601	7,033	11,399	12,693	11,913	10,867
Aug	3,812	6,870	7,489	11,219	11,846	12,532	10,903
Sep	4,155	6,743	7,609	11,389	12,002	12,809	11,132
Oct	4,396	6,944	8,227	11,770	12,023	11,521	11,240
Nov	7,645	6,578	8,396	11,692	12,071	11,008	
Dec	5,495	5,880	8,686	11,252	11,207	10,943	
	(In percent)						
Memorandum item:							
Monetary bills as percent of broad money 1/ (at year-end)	10.9	11.3	14.2	16.2	15.0	14.0	13.1

Source: The Monetary and Foreign Exchange Authority of Macau.

1/ For 1998, September.

Table 10. Macau: Monetary Survey, 1992-98

	1992	1993	1994	1995	1996	1997	1998	
							Sep	Nov
(In billions of patacas)								
Net foreign assets	32.1	28.3	32.6	39.3	43.2	42.8	49.0	50.7
Net international reserves								
AMCM	10.4	12.5	15.7	18.0	19.2	20.2	19.8	20.3
Deposit money banks	21.7	15.8	16.9	21.3	24.0	22.6	29.2	30.4
Net domestic assets	18.3	25.7	28.4	30.0	31.5	35.5	34.1	34.4
Domestic credit	22.8	31.4	34.5	37.2	39.0	41.4	42.5	42.9
Net credit to government	-3.1	-4.6	-5.2	-4.4	-5.4	-7.4	-6.9	-6.3
Credit to private sector	25.9	36.0	39.7	41.6	44.4	48.8	49.4	49.1
Other assets (net)	-4.5	-5.7	-6.1	-7.2	-7.5	-5.9	-8.4	-8.5
Broad money	50.4	54.0	61.0	69.3	74.7	78.4	83.1	85.0
Narrow money	21.0	20.6	18.8	19.0	20.4	19.0	17.2	18.6
Currency in circulation	1.0	1.1	1.2	1.2	1.4	1.5	1.5	1.5
Sight deposits	20.0	19.5	17.6	17.7	19.0	17.4	15.7	17.1
Quasi-money	29.4	33.4	42.2	50.3	54.3	59.4	65.9	66.4
(Annual percentage change)								
Net foreign assets	22.5	-11.8	15.2	20.6	9.9	-0.9	11.4	19.9
Net domestic assets	16.6	40.4	10.5	5.6	5.1	12.7	2.1	-1.7
Domestic credit	19.4	37.7	9.9	7.8	4.8	6.2	0.1	0.5
Credit to private sector	29.5	39.0	10.3	4.8	6.8	9.9	0.8	-0.2
Broad money	20.3	7.1	13.0	13.6	7.9	4.8	7.4	10.0
Narrow money	29.6	-1.9	-8.7	1.1	7.6	-7.3	-9.9	-0.5
Quasi-money	14.4	13.6	26.3	19.2	8.0	9.4	13.1	13.5

Sources: The Monetary and Foreign Exchange Authority of Macau; and staff estimates.

Table 11. Macau: Money Indicators, 1992-98

	1992	1993	1994	1995	1996	1997	1998 Nov
(In millions of patacas)							
M1	20,988	20,603	18,810	19,011	20,438	18,953	18,633
MOP	6,045	6,492	6,735	7,323	8,691	8,279	8,063
HK dollars	12,032	10,967	9,978	9,751	9,719	8,577	8,660
Other currencies	2,910	3,144	2,097	1,937	2,028	2,098	1,910
M2	50,375	53,956	61,019	69,284	74,744	78,354	85,040
MOP	12,043	14,137	16,563	20,126	22,834	24,180	25,371
HK dollars	25,578	27,466	33,849	38,986	41,046	41,595	44,809
Other currencies	12,754	12,353	10,607	10,172	10,864	12,579	14,860
(In percent)							
M1	100.0	100.0	100.0	100.0	100.0	100.0	100.0
MOP	28.8	31.5	35.8	38.5	42.5	43.7	43.3
HK dollars	57.3	53.2	53.0	51.3	47.6	45.3	46.5
Other currencies	13.9	15.3	11.1	10.2	9.9	11.0	10.2
M2	100.0	100.0	100.0	100.0	100.0	100.0	100.0
MOP	23.9	26.2	27.1	29.0	30.5	30.9	29.8
HK dollars	50.8	50.9	55.5	56.3	54.9	53.1	52.7
Other currencies	25.3	22.9	17.4	14.7	14.5	16.1	17.5

Sources: DSEC: Yearbook Statistics (various issues), Macau Economic Services, Economic Bulletin (various issues); and the Macau authorities.

Table 12. Macau: Balance Sheet of the AMCM, 1992-98

(In millions of patacas; end of period)

	1992	1993	1994	1995	1996	1997	1998 Nov
Total assets	10,796	13,114	17,406	20,131	20,423	21,668	21,864
Foreign assets	10,381	12,490	15,678	17,979	19,305	20,223	20,298
Gold, silver and foreign currency	5	6	6	6	6	7	6
Other claims on banks abroad	8,877	6,760	9,342	12,387	9,849	13,092	12,468
Financial investment abroad	1,500	5,724	6,330	5,585	9,451	7,123	7,825
Domestic credit	50	133	67	69	86	115	129
Public sector	50	133	67	69	86	115	129
Sundry assets	365	491	1,661	2,084	1,032	1,330	1,436
Property, furniture and supplies	75	70	61	54	47	193	193
Internal and offset accounts	55	84	363	350	209	383	679
Sundry accounts	235	337	1,238	1,680	777	755	564
Total liabilities	10,796	13,114	17,406	20,131	20,423	21,668	21,864
AMCM monetary liabilities	1,963	2,102	2,357	2,699	3,512	3,446	3,440
Money in circulation	909	1,036	1,138	1,238	1,371	1,465	1,503
Reserves of monetary institutions	1,047	1,058	1,208	1,455	1,483	1,530	1,675
AMCM other monetary liabilities	7	9	11	6	658	452	262
Non-monetary liabilities	7,854	9,630	12,923	14,397	15,209	16,235	16,054
Public sector deposits	2,153	3,753	4,236	3,155	3,898	5,293	3,649
Foreign liabilities	0	0	1	0	103	0	0
Liabilities towards OMI	5,701	5,877	8,686	11,242	11,207	10,943	12,406
Capital accounts	889	1,222	1,071	1,570	1,693	1,979	2,365
Sundry liabilities	90	161	1,055	1,466	9	7	4

Source: The Monetary and Foreign Exchange Authority of Macau.

Table 13. Macau: Balance Sheet of the Commercial Banks 1/ 1992-98
(In millions of patacas; end of period)

	1992	1993	1994	1995	1996	1997	1998 Nov
Total assets	84,121	106,780	112,577	122,827	153,867	162,865	166,864
Reserves	1,047	1,058	1,208	1,455	1,483	1,530	1,675
Cash in vaults	124	147	183	231	240	278	294
Deposits with the AMCM	923	911	1,025	1,224	1,243	1,252	1,381
Foreign assets	42,404	53,683	49,694	55,364	87,848	87,403	91,089
Gold, silver and foreign currency	450	497	529	542	585	677	649
Other claims on banks abroad	29,629	24,725	28,640	40,179	75,570	76,252	78,292
External credit	5,291	7,959	6,752	6,273	6,226	6,616	7,727
Financial investment abroad	5,193	18,003	12,472	6,876	3,938	2,228	2,746
Other foreign investment abroad	859	1,376	47	94	3	3	9
Certificates of indebtedness	983	1,123	1,254	1,400	1,526	1,627	1,668
Domestic credit	33,478	43,524	50,641	56,719	57,217	61,348	62,848
Loans and other credits	26,095	36,137	39,649	41,544	44,224	48,623	48,993
Public sector	279	215	143	72	44,224	0	
Firms and individuals	25,816	35,922	39,506	41,472	44,224	48,622	48,993
Financial investments	66	75	202	222	269	268	218
Public sector							81
Firms and individuals	66	75	202	222	269	268	137
Claims on monetary institutions	7,316	7,312	10,790	14,953	12,724	12,457	13,636
Claims on AMCM	5,701	5,877	8,686	11,242	11,207	10,943	12,406
Cheques	432	365	205	165	246	278	247
Others	1,183	1,071	1,899	3,546	1,271	1,237	984
Sundry assets	7,257	8,663	11,440	9,604	7,405	10,619	11,104
Property, furniture and supplies	935	1,064	1,217	1,445	1,616	1,914	2,074
Internal and offset accounts	5,761	7,112	10,046	8,060	5,604	8,478	8,806
Sundry accounts	562	487	177	98	185	227	225
Discrepancies	-65	-148	-405	-315	-85	1,966	147
Total liabilities	84,121	106,779	112,577	122,827	153,867	162,864	166,864
Monetary liabilities							
AMCM	21,488	21,046	19,120	19,332	20,181	18,941	18,782
Money in circulation	1,043	1,168	1,314	1,442	1,581	1,681	1,694
Current accounts	5,455	4,680	4,039	4,338	4,289	3,791	3,257
Savings accounts	14,990	15,198	13,768	13,552	14,311	13,469	13,832
Quasi-monetary liabilities	29,387	33,353	42,209	50,274	54,306	59,401	66,407
Deposits at short notice	234	502	349	449	554	670	766
Towards banks at medium/long term							
Time deposits	29,154	32,853	41,861	49,825	53,752	58,730	65,641
Certificates of deposit held by residents	-1	-1					
Non-monetary liabilities	22,190	39,077	34,603	37,682	65,287	66,717	62,856
Public sector deposits	1,305	1,208	1,162	1,439	1,677	2,276	2,824
Foreign liabilities	19,697	36,787	31,533	32,685	62,317	63,177	59,004
Towards banks at short term	17,089	33,355	27,295	23,298	49,511	45,374	46,200
Towards banks at medium/long term	336	452	701	506	2,579	5,958	2,826
Non-resident deposits	1,339	1,733	3,474	8,724	10,216	11,770	9,976
Other foreign liabilities	933	1,246	63	158	11	75	0
Liabilities towards OMI	1,183	1,071	1,899	3,546	1,271	1,237	984
Other non-monetary liabilities	5	10	9	12	22	27	44
Capital accounts	3,164	3,939	4,812	5,006	5,561	6,247	6,403
Sundry liabilities	7,893	9,365	11,832	10,533	8,532	11,558	12,415
Internal and offset accounts	6,125	7,450	10,238	8,757	6,347	9,250	9,901
Sundry accounts	1,767	1,914	1,595	1,777	2,185	2,308	2,515

Source: The Monetary and Foreign Exchange Authority of Macau.
1/ Including a postal savings banks.

Table 14. Macau: Sectoral Distribution of Banks' Loans 1/, 1992-98
(In millions of patacas)

	1992	1993	1994	1995	1996	1997	1998		
	Dec						Mar	Jun	Sep
Agriculture and fisheries	12	8	5	7	7	7	7	7	6
Mining industries	6	1	0	0	0	0	0	0	0
Manufacturing industries	3,880	3,842	4,374	4,035	3,752	3,938	4,033	4,151	3,652
Foodstuffs and beverages	74	79	56	64	79	121	128	117	199
Clothing and garments	905	1,341	1,505	1,533	1,513	1,558	1,781	1,740	1,233
Other textiles articles	579	356	353	320	424	453	295	358	295
Leather articles	49	65	61	59	46	42	40	42	53
Wood and furniture	30	61	56	61	65	51	46	48	48
Ceramics	74	81	64	72	34	30	19	33	41
Paper, graphic arts and publishing	72	89	77	73	65	54	57	62	60
Toys	61	77	73	76	77	71	83	53	27
Machinery, electric and electronic material	241	269	302	309	281	295	296	315	320
Artificial flowers	10	3	2	1	3	4	4	3	2
Sundry (unspecified)	1,785	1,423	1,826	1,468	1,166	1,259	1,284	1,381	1,375
Electricity, gas and water	830	818	1,269	1,359	1,350	1,274	1,224	1,195	1,155
Construction and public works	3,772	5,804	6,871	8,224	7,662	8,983	9,316	9,042	8,884
Trade	3,441	5,728	6,101	6,021	7,038	8,141	8,343	7,983	7,652
Restaurants, hotels and the like	965	1,363	1,521	1,642	1,856	1,876	1,866	1,863	1,807
Transport, warehouse and communications	730	758	674	929	1,070	853	634	613	575
Non-monetary financial institutions	0	7	15	201	47	5	6	7	7
Other credits	12,181	17,594	18,677	19,055	21,442	23,546	23,809	24,628	25,549
To individuals for house purchases	7,361	9,198	9,684	9,499	10,825	11,962	11,995	12,021	12,161
To individuals for other purposes	1,981	3,284	3,759	3,299	3,451	3,597	3,489	3,638	3,837
Other	2,839	5,113	5,234	6,257	7,166	7,987	8,324	8,969	9,551
Total	25,816	35,922	39,506	41,472	44,223	48,622	49,238	49,489	49,286

Source: The Monetary and Foreign Exchange Authority of Macau.

1/ Credit granted by the banking system less financial investments.

Table 15. Macau: Sectoral Distribution of Banks' Loans 1/ - Credit Structure, 1992-98
(In percent)

	1992	1993	1994	1995	1996	1997	1998		
				Dec			Mar	Jun	Sep
Agriculture and fisheries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mining industries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing industries	15.0	10.7	11.1	9.7	8.5	8.1	8.2	8.4	7.4
Foodstuffs and beverages	0.3	0.2	0.1	0.2	0.2	0.2	0.3	0.2	0.4
Clothing and garments	3.5	3.7	3.8	3.7	3.4	3.2	3.6	3.5	2.5
Other textiles articles	2.2	1.0	0.9	0.8	1.0	0.9	0.6	0.7	0.6
Leather articles	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Wood and furniture	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Ceramics	0.3	0.2	0.2	0.2	0.1	0.1	0.0	0.1	0.1
Paper, graphic arts and publishing	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Toys	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.1
Machinery, electric and electronic material	0.9	0.7	0.8	0.7	0.6	0.6	0.6	0.6	0.6
Artificial flowers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sundry (unspecified)	6.9	4.0	4.6	3.5	2.6	2.6	2.6	2.8	2.8
Electricity, gas and water	3.2	2.3	3.2	3.3	3.1	2.6	2.5	2.4	2.3
Construction and public works	14.6	16.2	17.4	19.8	17.3	18.5	18.9	18.3	18.0
Trade	13.3	15.9	15.4	14.5	15.9	16.7	16.9	16.1	15.5
Restaurants, hotels and the like	3.7	3.8	3.8	4.0	4.2	3.9	3.8	3.8	3.7
Transport, warehouse and communications	2.8	2.1	1.7	2.2	2.4	1.8	1.3	1.2	1.2
Non-monetary financial institutions	0.0	0.0	0.0	0.5	0.1	0.0	0.0	0.0	0.0
Other credits	47.2	49.0	47.3	45.9	48.5	48.4	48.4	49.8	51.8
To individuals for house purchases	28.5	25.6	24.5	22.9	24.5	24.6	24.4	24.3	24.7
To individuals for other purposes	7.7	9.1	9.5	8.0	7.8	7.4	7.1	7.4	7.8
Other	11.0	14.2	13.2	15.1	16.2	16.4	16.9	18.1	19.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: The Monetary and Foreign Exchange Authority of Macau.

1/ Credit granted by the banking system less financial investments.

Table 16. Macau: Sectoral Distribution of Banks' Loans 1/ - Annual Growth Rates, 1992-98
(In percent)

	1992	1993	1994	1995	1996	1997	1998		
	Dec						Mar	Jun	Sep
Agriculture and fisheries	86.0	-31.4	-39.4	49.4	-4.7	-4.8	7.7	3.4	0.3
Mining industries	-22.9	-89.7	-100.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing industries	-4.5	-1.0	13.9	-7.7	-7.0	4.9	11.6	3.4	-6.3
Foodstuffs and beverages	-8.3	5.8	-28.8	14.9	23.6	52.6	61.9	25.0	87.0
Clothing and garments	-22.3	48.2	12.2	1.9	-1.3	3.0	23.8	14.4	-13.1
Other textiles articles	-19.1	-38.6	-0.9	-9.3	32.5	6.9	-28.9	-32.7	-43.3
Leather articles	28.6	32.2	-6.6	-3.1	-22.3	-8.7	-7.5	-28.3	-5.1
Wood and furniture	10.7	105.6	-7.2	7.7	7.3	-21.4	-23.5	-16.4	-6.9
Ceramics	7.3	9.5	-21.3	12.0	-53.0	-12.1	-39.9	-12.2	81.3
Paper, graphic arts and publishing	-19.1	23.8	-13.0	-5.6	-10.7	-16.3	-1.6	18.5	3.4
Toys	-37.0	25.2	-5.3	4.7	1.6	-7.8	11.9	-44.9	-67.2
Machinery, electric and electronic material	20.8	11.8	12.3	2.4	-9.1	4.9	9.0	11.2	7.3
Artificial flowers	-12.9	-72.5	-27.5	-49.7	171.6	46.4	14.8	-27.2	-49.8
Sundry (unspecified)	13.7	-20.3	28.3	-19.6	-20.6	8.0	12.7	8.0	7.1
Electricity, gas and water	47.1	-1.5	55.1	7.1	-0.7	-5.6	-9.7	-5.1	-7.2
Construction and public works	35.0	53.9	18.4	19.7	-6.8	17.2	10.6	-0.5	3.2
Trade	21.6	66.5	6.5	-1.3	16.9	15.7	15.5	4.9	-3.6
Restaurants, hotels and the like	87.3	41.3	11.6	8.0	13.1	1.1	16.4	1.4	-1.3
Transport, warehouse and communications	21.0	3.9	-11.1	37.8	15.2	-20.2	-40.0	-40.5	-48.1
Non-monetary financial institutions	-100.0	0.0	102.4	1,237.0	-76.8	-88.8	-83.9	-81.8	-72.3
Other credits	46.6	44.4	6.2	2.0	12.5	9.8	8.2	7.8	6.1
To individuals for house purchases	46.0	24.9	5.3	-1.9	14.0	10.5	8.9	7.1	3.4
To individuals for other purposes	37.8	65.8	14.5	-12.2	4.6	4.2	3.8	5.7	6.9
Other	55.0	80.1	2.4	19.5	14.5	11.5	9.0	9.6	9.3
Total	30.9	39.1	10.0	5.0	6.6	9.9	8.6	3.7	1.1

Source: The Monetary and Foreign Exchange Authority of Macau.

1/ Credit granted by the banking system less financial investments.

Table 17. Macau: Interbank Offered Rates (MAIBOR), 1992-98
(In percent)

	1-Month		3-Month		6-Month	
	End of period	Average	End of period	Average	End of period	Average
1992						
Mar	5.00	4.77	4.96	4.86	5.25	5.11
Jun	3.75	3.62	3.85	3.73	4.19	4.13
Sep	3.19	3.32	3.25	3.35	3.44	3.51
Dec	4.33	4.41	4.40	4.50	4.70	4.68
1993						
Mar	3.28	3.13	3.39	3.35	3.58	3.58
Jun	4.00	3.46	3.96	3.55	4.00	3.71
Sep	3.39	3.30	3.45	3.35	3.58	3.55
Dec	3.89	3.79	3.84	3.74	3.88	3.80
1994						
Mar	4.20	4.12	4.48	4.34	4.73	4.64
Jun	4.80	4.34	5.13	4.73	5.40	5.13
Sep	4.95	4.79	5.26	5.03	5.73	5.49
Dec	6.01	5.91	6.49	6.36	7.11	6.95
1995						
Mar	5.88	5.83	6.30	6.37	6.65	6.80
Jun	5.84	5.77	5.91	5.91	6.04	6.01
Sep	6.15	6.14	6.24	6.22	6.31	6.29
Dec	5.98	6.01	5.96	6.01	5.96	6.01
1996						
Mar	5.39	5.25	5.45	5.42	5.66	5.55
Jun	5.59	5.46	5.71	5.58	5.89	5.76
Sep	5.46	5.44	5.65	5.67	5.86	5.94
Dec	5.46	5.60	5.60	5.66	5.69	5.74
1997						
Jan	5.66	5.28	5.69	5.50	5.81	5.43
Feb	5.66	5.49	5.71	5.60	5.79	5.73
Mar	5.86	5.66	5.95	5.78	6.10	5.93
Apr	5.93	5.80	6.08	5.97	6.26	6.20
May	6.29	6.05	6.29	6.13	6.34	6.26
Jun	6.13	6.42	6.20	6.48	6.35	6.55
Jul	6.76	6.42	6.81	6.51	6.84	6.60
Aug	8.91	7.48	8.63	7.42	8.38	7.43
Sep	7.48	7.61	7.46	7.61	7.45	7.61
Oct	13.03	11.90	13.13	11.20	12.53	10.81
Nov	10.38	8.13	11.36	9.84	11.57	10.23
Dec	7.28	7.54	9.39	9.48	10.80	10.63
1998						
Jan	10.48	12.25	12.41	13.01	13.52	13.52
Feb	6.13	6.89	7.21	8.45	8.31	9.77
Mar	5.59	5.88	6.54	7.00	7.44	7.98
Apr	6.33	5.62	6.70	6.43	7.45	7.30
May	8.74	7.17	8.76	7.48	9.10	8.20
Jun	9.91	10.10	9.95	10.21	10.95	10.64
Jul	8.46	7.96	8.76	8.67	9.74	9.68
Aug	19.04	12.12	15.31	11.81	14.90	12.09
Sep	7.04	8.73	8.01	9.57	8.81	10.34

Source: The Monetary and Foreign Exchange Authority of Macau.

Table 18. Macau: Interest Rates on the Pataca-Deposits, 1990-98
(In percent)

	Savings deposits	7 Days notice deposits	Time deposits			
			3-month	6-month	12-month	
1990						
5-Mar	5.25	5.50	6.75	7.00	7.75	
2-Apr	6.25	6.50	7.75	8.00	8.75	
13-Aug	5.75	6.00	7.25	7.50	8.25	
22-Oct	5.25	5.50	6.75	7.00	7.75	
1991						
28-Jan	4.75	5.00	6.25	6.50	7.25	
27-May	5.75	6.00	7.25	7.50	8.25	
1-Jul	4.75	5.00	6.25	6.50	7.25	
12-Aug	4.25	4.50	5.75	6.00	6.75	
16-Sep	3.75	4.00	5.25	5.50	6.25	
4-Nov	3.25	3.50	4.75	5.00	5.75	
1992						
4-May	2.75	3.00	4.25	4.50	5.25	
25-May	1.75	2.00	3.25	3.50	4.25	
6-Jul	1.25	1.50	2.75	3.00	3.75	
1994						
28-Mar	1.75	2.25	3.50	3.75	4.50	
23-May	2.25	3.00	4.25	4.50	5.25	
22-Aug	2.75	3.50	4.75	5.00	5.75	
21-Nov	3.50	4.25	5.50	5.75	6.50	
1995						
6-Feb	4.00	4.75	6.00	6.25	7.00	
27-Dec	3.75	4.50	N.A.	N.A.	N.A.	
1996						
5-Feb	3.50	4.25	N.A.	N.A.	N.A.	
1997						
1-Apr	3.75	4.50	N.A.	N.A.	N.A.	
27-Oct	4.50	5.25	N.A.	N.A.	N.A.	
1998						
12-Jan	5.25	6.00	N.A.	N.A.	N.A.	
30-Mar	5.00	5.75	N.A.	N.A.	N.A.	
19-Oct	4.75	5.50	N.A.	N.A.	N.A.	

Source: Associado de Bancos de Macau.

Table 19. Macau: Weighted Average Rates for Three Sample Banks 1/, 1992-98
(In percent)

	1992	1993	1994	1995	1996	1997	1998		
			Dec				Mar	Jun	Sep
Savings deposits rate paid									
MOP	1.3	1.3	3.4	3.8	3.4	4.3	5.2	5.0	5.0
HK dollars	1.3	1.3	3.5	3.9	3.4	3.8	5.2	5.0	5.0
Time deposits rate paid									
Under \$100,000									
MOP	3.9	3.5	6.1	5.7	5.3	8.1	6.5	7.6	8.1
HK dollars	3.9	3.5	6.1	5.7	5.2	7.7	5.9	7.2	7.4
\$100,000 and above									
MOP	4.0	3.5	6.1	5.7	5.4	8.1	6.5	7.7	8.1
HK dollars	4.0	3.5	6.1	5.8	5.3	7.8	6.0	7.3	7.5
Bank's quoted prime rates									
Bills discounted									
MOP	6.9	7.4	9.3	9.9	9.5	10.5	11.3	11.0	11.0
HK dollars	7.0	7.1	9.0	9.6	8.9	10.2	10.7	10.6	10.3
Personal housing loans									
MOP	8.5	8.5	10.5	11.0	10.4	11.0	11.8	11.4	11.4
HK dollars	8.6	8.6	10.6	11.1	10.6	10.6	11.3	11.0	11.0
Memorandum item:									
12-month rate of CPI inflation	7.0	6.5	8.6	7.5	4.5	2.2	2.4	0.8	-1.3
Real interest rates									
Time deposits 2/	-3.1	-3.0	-2.5	-1.8	0.8	5.9	4.1	6.8	8.4
Prime lending rates 3/	-0.1	0.9	0.7	2.4	5.0	8.3	8.9	10.2	12.3

Source: The Monetary and Foreign Exchange Authority of Macau.

1/ The three sample banks are: Banco Nacional Ultramarino, S.A.; Comercial de Macau; and The Hong Kong and Shanghai Banking Corporation.

2/ Interest rates on pataca time deposits (under HK\$100,000) less CPI inflation.

3/ Prime rates on discounted bills (denominated in pataca) less CPI inflation.

Table 20. Macau: Interest Rates on Monetary Bills, 1992-98
(In percent)

	1-month	3-month	12-month rate of inflation	Real interest rate 1/
1992				
Dec	4.1	4.2	7.0	-2.8
1993				
Dec	3.7	3.7	6.5	-2.8
1994				
Mar	4.0	4.3	5.6	-1.3
Jun	4.6	4.9	5.9	-1.0
Sep	4.8	5.1	6.9	-1.8
Dec	5.9	6.3	6.6	-0.3
1995				
Mar	5.7	6.1	8.8	-2.7
Jun	5.7	5.9	8.8	-2.9
Sep	6.0	6.0	9.0	-3.0
Dec	5.8	5.8	7.5	-1.7
1996				
Mar	5.3	5.3	5.0	0.3
Jun	5.4	5.5	5.1	0.4
Sep	5.3	5.5	3.8	1.7
Dec	5.3	5.4	4.5	1.0
1997				
Mar	5.7	5.8	4.1	1.7
Jun	6.0	6.1	3.3	2.8
Sep	7.3	7.3	3.1	4.2
Dec	7.1	9.2	2.2	7.0
1998				
Mar	5.4	6.3	2.4	3.9
Jun	9.7	9.8	0.8	9.0
Sep	6.8	7.7	-1.3	9.0
Dec				

Source: The Monetary and Foreign Exchange Authority of Macau.

1/ Interest rates on monetary bills (3-month) minus 12-month rate of inflation measured by CPI index.

Table 21. Macau: Banking Sector Selected Indicators, 1993-98 1/
(In percent, unless otherwise specified)

	1993	1994	1995	1996	1997	1998 Sep
Number of licensed banks	22	22	22	22	22	22
<i>Of which:</i> majority state-owned (number)	2	2	2	2	2	2
As a percent of total assets	4.98	5.71	7.46	6.87	7.33	6.83
Majority foreign-owned (number)	5	5	7	8	8	8
As a percent of total assets	18.25	19.08	27.40	24.39	25.85	25.62
Branches of foreign banks (number of foreign banks)	14	14	13	13	13	13
As a percent of total assets	76.77	75.21	65.13	68.75	66.82	67.54
Number of banks accounting for:						
25 percent of total assets	1	1	1	1	1	1
75 percent of total assets	6	7	7	5	6	5
Total assets as a percent of GDP	231.39	217.13	207.26	264.20	278.52	294.95
Foreign currency denominated						
Assets (as a percent of total assets)	79.34	76.93	74.50	78.63	77.68	78.31
Liabilities (balance sheet as a percent of total assets)	79.17	76.64	73.86	78.03	77.04	77.64
<i>Of which:</i> over 30 days to maturity (as percent of total assets)	32.67	33.16	35.05	51.33	52.12	41.24
Total loans (as a percent of GDP)	89.27	84.43	75.82	75.91	83.16	84.29
<i>Of which:</i> real estate (as a percent of total loans)	19.93	18.68	16.02	18.58	20.46	20.80
Average pretax return on total assets	1.39	1.54	1.16	1.03	1.00	0.80
Average lending spread (lending-deposit rate)	2.80	3.70	4.70	2.90	2.40	1.80
Nonperforming loans, substandard or less (as a percent of total loans)	0.87	1.03	1.63	4.72	3.96	8.91
Provisions for loan losses (as a percent of nonperforming loans)	241.40	222.45	185.47	65.94	76.37	38.77
Total specific provisions	55.33	47.00	57.39	27.04	29.16	23.37
Total general provisions	161.68	157.85	111.14	32.97	41.62	14.14
Risk-weighted capital/asset ratio	...	12.42	14.54	14.97	15.17	15.65
Loans/deposits ratio	75.68	71.55	64.57	59.29	61.60	58.49

Source: The Monetary and Foreign Exchange Authority of Macau (AMCM).

1/ This table excludes one government-owned postal savings bank.

Table 22. Macau: Summary of Exports and Imports, 1990-97 1/
(In millions of MOP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Jan-Jun
Exports of goods									
Total	13,798	13,739	14,662	14,762	15,520	16,656	16,787	18,227	7,521
<i>Of which:</i>									
Domestic exports	---	---	---	---	---	---	13,376	15,048	6,464
Definite from the territory	13,637	13,325	14,080	14,236	14,854	15,915	---	---	---
Re-exports	---	---	---	---	---	---	2,523	2,081	1,057
Temporary exports	161	414	582	526	666	741	888	1,098	n.a.
Imports of goods									
Total	12,674	15,523	16,668	17,116	17,950	17,391	16,959	17,864	8,189
<i>Of which:</i>									
Imports	---	---	---	---	---	---	15,931	16,603	7,653
Definite for use by territory	12,343	14,832	15,685	16,138	16,925	16,267	---	---	---
Temporary imports	111	242	274	344	235	239	---	---	---
Re-imports 2/	220	449	709	634	790	885	1,028	1,261	536
Trade balance of the territory 3/ (In millions of US dollars)	1,074	-1,956	-2,314	-2,536	-2,861	-1,237	-1,060	-735	-668
(In percent of GDP)	3.8	-6.0	-5.5	-5.3	-5.4	-2.1	-1.8	-1.3	-2.3

Sources: The Census of Statistics Department, *Yearbook of Statistics* (various issues); and the Macau authorities.

1/ On January 1, 1996 a reformulation was done to the legislation that regulates the external trade operations in Macau, which has resulted a set of significant modifications to the methodology of data compiling. For the full explanation on the new definitions of trade statistics and the comparability of the trade series before and after that date, please see the explanatory notes on pages 246-247 in the Yearbook of Statistics 1997 published by the Census and Statistics Department of Macau.

2/ For January-June 1998 estimate.

3/ Excludes temporary exports and temporary imports.

Table 23. Macau: Exports of Goods by SITC Classification, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Jan-Jun
(In millions of MOP)									
Total 1/	13,637	13,325	14,080	14,236	14,854	15,915	15,899	17,129	7,521
(percent change)	3.4	-2.3	5.7	1.1	4.3	7.1	-0.1	7.7	...
Food and live animals	99	134	142	149	122	72	57	53	21
Beverages and tobacco	29	38	116	424	425	195	202	207	141
Crude materials, inedibles except fuels	110	126	185	290	349	389	385	190	44
Mineral fuels, lubricants, and related materials	1	2	2	2	2	1	63	73	25
Animal and vegetable oils, fats and waxes	2	2	2	3	4	3	4	1	0
Chemicals and related products n.e.s.	175	159	194	208	184	171	133	167	67
Manufactured goods classified by materials	1,686	1,925	1,974	2,010	1,881	1,957	1,716	1,509	806
Machinery and transport equipment	227	467	464	569	530	604	601	657	395
Miscellaneous manufactured articles	11,309	10,472	10,993	10,573	11,346	12,506	12,733	14,224	6,013
Commodities, n.e.s.	0	1	7	9	11	15	3	47	9
Memorandum item:									
Textiles and garments	9,459	9,256	9,919	9,590	10,143	11,322	12,039	13,887	...
(percent change)	-2.2	-2.1	5.7	-3.7	5.8	11.6	6.3	15.4	...
(Distribution share in percent)									
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Manufactured goods classified by materials	12.4	14.4	14.0	14.1	12.7	12.3	10.8	8.8	...
Miscellaneous manufactured articles	82.9	78.6	78.1	74.3	12.7	78.6	80.1	83.0	...
Memorandum item:									
Textiles and garments	69.4	70.5	70.4	67.4	76.4	71.1	75.7	81.1	...

Sources: Census and Statistics Department, *Yearbook of Statistics* (various issues); and the Macau authorities.

1/ Excludes temporary exports.

Table 24. Macau: Exports by Destination, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Jan-Jun
(In millions of MOP)									
World 1/	13,637	13,325	14,080	14,236	14,854	15,915	15,899	17,129	7,521
OECD	10,985	10,240	10,682	10,209	10,946	12,303	12,374	14,014	5,995
Europe (EU)	4,700	5,092	5,242	5,044	4,839	5,047	5,356	5,632	2,467
Africa	50	16	18	5	9	16	11	11	14
America	5,175	4,464	5,231	5,110	5,846	7,017	6,687	8,103	3,466
<i>Of which:</i>									
USA	4,931	4,228	4,983	4,757	5,522	6,693	6,411	7,747	3,272
Asia	2,937	3,216	3,509	4,014	3,976	3,684	3,613	3,139	1,513
<i>Of which:</i>									
Hong Kong SAR	1,770	1,743	1,763	1,785	1,660	1,594	1,684	1,315	652
China	616	1,123	1,402	1,886	1,887	1,562	1,267	1,111	533
Japan	421	206	184	161	140	158	220	187	63
Oceania and other countries	204	115	80	63	62	54	62	71	61
(Distribution share in percent)									
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Of which:</i>									
OECD	80.6	76.8	75.9	71.7	73.7	77.3	77.8	81.8	79.7
Europe (EU)	34.5	38.2	37.2	35.4	32.6	31.7	33.7	32.9	32.8
USA	36.2	31.7	35.4	33.4	37.2	42.1	40.3	45.2	43.5
Hong Kong SAR	13.0	13.1	12.5	12.5	11.2	10.0	10.6	7.7	8.7
China	4.5	8.4	10.0	13.2	12.7	9.8	8.0	6.4	7.1
Japan	3.1	1.5	1.3	1.1	0.9	1.0	1.4	1.1	0.8

Sources: Census and Statistics Department, *Yearbook of Statistics* (various issues); and the Macau authorities.

1/ Excludes temporary exports.

Table 25. Macau: Imports by SITC Classification, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Jan-Jun
(In millions of MOP)									
Total 1/	12,343	14,832	15,685	16,138	16,925	16,267	15,931	16,603	7,654
(Percent change)	3.9	20.2	5.8	2.9	4.9	-3.9	-2.1	4.2	...
Food and live animals	907	1,030	1,100	1,114	1,149	1,176	1,202	1,171	530
Beverages and tobacco	519	461	570	820	1,112	1,049	832	817	359
Crude materials, inedibles except fuels	511	619	624	1,178	607	470	526	374	112
Mineral fuels, lubricants, and related materials	571	654	663	738	794	837	1,030	1,098	483
Animal and vegetable oils, fats and waxes	34	36	38	41	48	54	58	54	24
Chemicals and related products n.e.s.	742	776	806	736	759	730	720	693	341
Manufactured goods classified by materials	6,210	6,458	6,662	6,599	7,147	7,009	7,278	7,707	3,762
Machinery and transport equipment	1,879	3,113	3,374	3,229	3,435	3,074	2,502	2,810	1,174
Miscellaneous manufactured articles	913	1,644	1,834	1,658	1,761	1,825	1,768	1,782	847
Commodities, n.e.s.	55	40	13	25	114	45	13	97	23
(Distribution share in percent)									
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food and live animals	7.3	6.9	7.0	6.9	6.8	7.2	7.5	7.1	6.9
Beverages and tobaccos	4.2	3.1	3.4	5.1	6.6	6.4	5.2	4.9	5.0
Crude materials, inedibles except fuels	4.1	4.2	4.0	7.3	5.5	2.9	3.3	2.3	1.5
Mineral fuels, lubricants, and related materials	4.6	4.4	4.2	4.6	4.7	5.1	6.5	6.6	6.3
Chemicals and related products, n.e.s.	6.0	5.2	5.1	4.6	4.5	4.5	4.5	4.2	4.5
Manufactured goods classified by materials	50.3	43.5	42.5	40.9	42.2	43.1	45.7	46.4	49.2
Machinery and transport equipment	15.2	21.0	21.5	20.0	20.3	18.9	15.7	16.9	15.3

Sources: Census and Statistics Department, *Yearbook of Statistics* (various issues); and the Macau authorities.

1/ Excludes temporary and re-imports.

Table 26. Macau: Imports by Country Origin, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Jan-Jun
(In millions of MOP)									
World 1/	12,343	14,832	15,685	16,138	16,925	16,267	15,931	16,603	7,654
OECD	3,405	4,871	5,445	5,847	6,224	5,728	4,900	4,797	1,924
Europe (EU)	1,036	1,206	1,588	2,118	2,617	2,397	2,182	2,052	878
Africa	38	40	27	36	142	62	39	88	22
America	683	740	874	1,061	1,249	1,419	1,053	1,125	412
<i>Of which:</i>									
USA	634	686	808	934	1,156	1,206	939	1,042	372
Asia 1/	10,253	12,437	12,963	12,703	12,594	12,122	12,370	13,098	6,269
<i>Of which:</i>									
Hong Kong SAR	5,210	5,166	5,160	4,818	5,137	4,700	4,627	4,176	1,812
China	2,194	3,192	3,204	3,429	3,186	3,539	3,818	4,741	2,370
Japan	1,423	2,574	2,824	2,549	2,165	1,711	1,431	1,417	582
Oceania and other countries	148	231	232	220	158	130	178	161	73
(Distribution share in percent)									
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Of which:</i>									
OECD	27.6	32.8	34.7	36.2	36.8	35.2	30.8	28.9	25.1
Europe (EU)	8.4	8.1	10.1	13.1	15.5	14.7	13.7	12.4	11.5
USA	5.1	4.6	5.2	5.8	6.8	7.4	5.9	6.3	4.9
Hong Kong SAR	42.2	34.8	32.9	29.9	30.4	28.9	29.0	25.2	23.7
China	17.8	21.5	20.4	21.2	18.8	21.8	24.0	28.6	31.0
Japan	11.5	17.4	18.0	15.8	12.8	10.5	9.0	8.5	7.6

Sources: Census and Statistics Department, *Yearbook of Statistics* (various issues); and the Macau authorities.

1/ Excludes temporary and re-imports.

Table 27. Macau: Indicators of Tourism, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998
	(1,000 persons)								
Visitors									
Total Arrivals	5,942	6,080	6,219	5,988	5,959	6,500	8,151	7,000	6,343 1/
Arrivals by Sea									
Total	5,942	6,080	6,219	5,988	5,959	5,989	6,041	4,839	...
(growth rate, in percent)	5.7	2.3	2.3	-3.7	-0.5	0.5	0.9	-19.9	...
of which									
Hong Kong SAR	4,804	4,951	4,932	4,604	4,571	4,393	4,096	3,399	...
(Share in total, in percent)	80.8	81.4	79.3	76.9	76.7	73.4	67.8	70.2	...
China	2	12	22	161	157	286	424	385	...
Japan	450	421	421	336	348	383	374	258	...
	(In percent)								
Hotel Occupancy									
Rate	78	79	67	60	58	60	64	52	51 1/

Sources: Census and Statistics Department, Yearbook of Statistics (Various Issues) and the Macau authorities, as staff estimates.

1/ First 11 months

Table 28. Macau: Effective Exchange Rates

	Nominal (Index 1995=100)	Real
1990 Mar	99.3	89.4
Jun	98.4	89.2
Sep	96.0	88.1
Dec	95.6	88.6
1991 Mar	97.8	91.3
Jun	100.2	94.7
Sep	99.0	94.7
Dec	97.2	92.9
1992 Mar	98.8	95.1
Jun	97.9	95.0
Sep	97.4	94.4
Dec	100.9	98.4
1993 Mar	102.8	100.8
Jun	104.7	102.1
Sep	102.5	100.1
Dec	103.7	101.5
1994 Mar	104.3	101.5
Jun	103.3	100.5
Sep	101.8	99.2
Dec	102.1	99.7
1995 Mar	99.6	99.1
Jun	98.8	98.6
Sep	100.8	101.7
Dec	100.7	101.5
1996 Mar	101.4	101.7
Jun	102.0	103.4
Sep	101.8	103.2
Dec	102.0	103.8
1997 Jan	102.8	104.6
Feb	103.9	106.0
Mar	104.2	105.9
Apr	104.4	106.2
May	103.9	105.7
Jun	103.7	105.6
Jul	104.2	106.8
Aug	105.1	107.4
Sep	104.9	106.7
Oct	104.4	106.3
Nov	104.2	106.0
Dec	105.0	106.8
1998 Jan	105.4	107.7
Feb	105.2	107.2
Mar	105.4	107.7
Apr	105.4	107.1
May	105.4	106.7
Jun	105.8	106.9
Jul	105.9	106.5
Aug	106.1	106.8
Sep	104.5	105.5

Source: Staff calculation

Transfer of Sovereignty

China and Portugal began talks on the future of the territory of Macau in May 1985, and signed a **Joint Declaration** on April 13, 1987. According to the Joint Declaration, China will resume sovereignty over Macau on December 20, 1999. The agreement provides that Macau will be governed by a **Basic Law** on the Macau Special Administrative Region (SAR), which will preserve the present social and economic system of Macau SAR for 50 years until 2049, within the framework of the Chinese formula of "one country, two systems."¹ Macau SAR, administered by the Macau SAR Government, will remain a free port and a separate customs territory. Capital will continue to flow freely and the Macau currency, the pataca, will remain legal tender and be freely convertible. Macau SAR will run its own finances independently and the central Government of China will not levy taxes in Macau SAR.

Macau SAR will possess executive, legislative, and independent judicial powers and will conduct its own external relations in the fields of economy, education, science, technology and culture and can conclude agreements with other countries and international organizations in these areas. It can also issue its own travel documents. Only foreign and defense affairs will be the responsibility of the central Government in Beijing. Portuguese and Chinese will both be official languages of Macau SAR.

The political structure of Macau SAR will comprise: The Chief Executive; an Executive Council, a consultative body which must be heard by the Chief Executive before important decisions are taken; a Government, headed by the Chief Executive and responsible to the legislative body; an Legislative Assembly composed of 8 directly elected members and 8 indirectly elected members, as well as seven members appointed by the Chief Executive.

The implementation of the Joint Declaration is overseen by a Sino-Portuguese **Joint Liaison Group**—a liaison, consultation and information-exchange body, which was created at the time of the Joint Declaration and will remain in operation until January 2000. As foreseen in the Basic Law, a **Preparatory Committee** under Chinese jurisdiction was established in mid-1998 to prepare for the selection of the administration of Macau SAR.

In addition, a Sino-Portuguese **Land Group** was set up to deal with land concession contracts and other related matters in Macau. The functions of this group are: to decide upon the total area of land concession to be granted beyond 20 hectares (the Governor has the exclusive right to decide up to a limit of 20 hectares per year); to decide upon the use of net revenues thereby obtained, divided equally between the current administration and the future administration of Macau SAR; and to prepare a proposal for the future use of land revenues, which, after 1999, will belong to Macau SAR.

¹The Basic Law of the Macau SAR, approved by the National People's Congress of China in March, 1993, is to function as a mini-constitution which contains the statutes concerning the territory's autonomy, the exclusive powers of the Chinese central authorities, the statute on rights of permanent residents of the Macau SAR, the political structure and the economic, cultural and social affairs of the region

Structure of the Government

In accordance with the autonomy consecrated in the Organic Statute of Macau, promulgated by the Portuguese Parliament in 1976 and revised in 1990 and in 1996, the Governor of Macau has both executive and legislative authority. Legislative authority is shared with the Legislative Assembly. The Governor is Portugal's representative in Macau and is accountable to the President. The Legislative Assembly is a body of mixed representation; eight deputies are directly elected by the people, another seven deputies are appointed by the Governor from among those residents held in high esteem by the community, and eight deputies are elected by functional constituencies.¹

The Governor is appointed by the President of Portugal, after consultation with the Legislative Assembly and bodies representing local interests in Macau. In exercising the executive and legislative functions, the Governor is assisted by the Consultative Council, which consists of five members appointed by the Governor and five who are indirectly elected. The Governor ensures political coordination with the help and advice of seven under-secretaries, who are nominated by the President of Portugal at the Governor's recommendation.²

The unicameral Legislative Assembly comprise 23 deputies elected for four-year terms.³ The duties of the Legislative Assembly include: to ensure that constitutional and statutory norms and laws are complied with; to make recommendations and propose alterations to the Organic Statute of Macau; to legislate on matters falling within its jurisdiction, to grant legislative authorization to the Governor and ratify or modify any bill proposed by the Governor on matters which are not the Governor's exclusive responsibility; to authorize the Governor to raise loans; to appraise the actions of the Governor, the under-secretaries and the administration; and, on the basis of detailed justification, to veto government actions.

With regard to the judicial system, Portuguese law operates; the territory is part of the judicial system of Portugal although it operates its own court of first instance and the power of final adjudication is now vested in the Supreme Court of Macau.

¹The functional constituencies represent economic, labor, professional, cultural, educational, and social interests.

²Portfolios comprise: Administration, Education, and Youth; Communications, Tourism, and Cultural Affairs; Economic Affairs; Health and Social Affairs; Justice; Public Security; and Public Works.

³The next election is scheduled for September 2000.

Monetary Institutions and Arrangements

- The Monetary and Foreign Exchange Authority of Macau (AMCM, Autoridade Monetaria e Cambial de Macau) was established in mid-1989 as the successor institution of the Instituto Emissor de Macau (IEM). The Financial Systems Act of 1993 consolidated all previous rules and regulations relating to the banking and related sectors. Under the Act, the AMCM's main functions are to: assist the Governor in the formulation and conduct of monetary, financial, exchange-rate policies; monitor and supervise the banking and insurance markets; act as a central depository of gold reserves and other foreign assets; and promote the use of the local currency—the pataca.
- The Banco Nacional Ultramarino (BNU), a Portuguese bank with a long tradition in Macau, was for 75 years the sole issuer of pataca banknotes. In 1995, the Bank of China was also permitted to issue pataca banknotes. Under the currency-board arrangement, these two banks are required to surrender to the AMCM the foreign exchange equivalent of the pataca banknotes it issues. Since 1977 the pataca has been pegged to the Hong Kong dollar, which also circulates widely in Macau and accounts for around one-half of measured broad money.
- The AMCM supports the use of the pataca by promoting its liquidity in a number of ways: by issuing monetary bills that allow banks to invest their excess liquidity in patacas; by conducting foreign exchange operations and currency swaps that enable smaller banks to obtain local currency; and by entering into repurchase agreements in monetary bills. In addition, AMCM has offered banks involved in large infrastructure projects medium- and long-term currency swaps.
- There are currently 22 registered banks with 132 branches; 9 are locally incorporated while the rest are branches of banks with head offices abroad, including one offshore banking unit; in addition, there are 3 finance companies authorized and supervised by the AMCM.
- Macau's interbank money market is characterized by a high degree of liquidity, but relatively low turnover. Interest rates in the interbank market (Maibor) closely parallel corresponding interbank rates in the Hong Kong SAR market, where many of Macau's banks transact intensively.
- There are no exchange controls in Macau, nor restrictions on capital flows. However, exporters are required to sell to banks 40 percent of foreign exchange proceeds from merchandise exports.

Gambling Monopoly and its Associated Business Activities

- The Government of Macau granted monopoly rights to all casino-style gambling in Macau for the first time in 1934. The gambling monopoly was passed on to the Sociedade de Turismo e Diversoes de Macau (STDM), a privately held corporation, in 1962. The STDM's contract was renewed several times with the latest signed in 1996, which runs through 2001. The STDM expanded the gambling business and currently operates nine casinos in Macau while a tenth is under construction. The majority of gamblers come from Hong Kong SAR for the weekend.
- The key elements of the current contract are as follows. The STDM must: (1) pay to the government a special tax equivalent to about 32 percent of gambling receipts; (2) guarantee the operations of the marine transport; (3) cover the cost of several public works including clearing and dredging the river and developing the public facilities in the reclaimed zones in the vicinity of the port; (4) match any government spending in tourism promotion; (5) contribute 1.6 percent of gambling proceeds to the Cultural Center (operated by an academic, social, and cultural foundation); and (6) ensure the viability of the marine vessel maintenance facilities at the terminal. In return, the STDM is exempt from taxes on all operations related to gaming in Macau and on the non-gambling activities included in its contract.
- The STDM is a major shareholder in the airport, the marine terminal, and the electricity company, and has recently taken over a supermarket chain. The STDM has shares in all the major hotels, a bank, and several real estate ventures. There is no published information on the total value of STDM's assets or its business turnover.
- In 1998, government revenue from gambling accounted for 60 percent of current revenue. Gambling activity spills over to other tourism services such as hotel and restaurant activities. Overall tourism is estimated to contribute about 40 percent to GDP, with gambling currently contributing around one third of GDP, compared with about a quarter of GDP in 1989.

Statistical System and Issues

A. Statistical System

The *System of Statistical Information of Macau* (SIEM) was established in 1984, to provide the government of the Territory and the public with relevant statistical data. According to the Law 62/96/M of October 14, 1984 the SIEM is comprised of the **Consultative Committee for Statistics (CCE)** and **statistical production units**.

The CCE is a committee that serves as a link between suppliers, producers, and users of the statistical data. Apart from supervising the activities of the System, the CCE is also responsible for: (a) evaluating all the major policies on the statistical production; (b) reviewing the plans and programmes prepared by the respective statistical production units; and (c) overseeing the adoption of international nomenclatures that are applicable to the Territory. The CCE is headed by the Director of the **Census and Statistics Department of Macau (DSEC)**.

The DSEC and the Monetary and Foreign Exchange Authority of Macau (AMCM) are the two main **production units** of statistics in Macau. The former is the main producer that coordinates all the statistical activities and is responsible for recording, verifying, processing, analyzing and disseminating the statistical information on demography, economy, and the environment, while the latter is responsible for statistics on finance, monetary, foreign exchange and insurance. Dissemination of any statistical information is subject to prior approval of DSEC.

B. Statistical Issues

Real sector, prices, labor, and social indicators

GDP estimates are made by DSEC through the analysis of a variety of sector-by-sector sources of economic, social, and public finance statistics. However, GDP estimates are only published broken down by the major categories of expenditure, as value added information on the *production side is not readily available* except for some sectors (such as manufacturing). DSEC collects and publishes data on key economic activities in Macau, namely: tourism, distributive trades, and construction. Data are also published covering prices and employment. Price series include the consumer price index (monthly), wholesale and retail price indices (annual), and a wage index (quarterly). The weights in the CPI basket were revised to take account of the 1993/94 household budget survey; *however about a quarter of the basket relating to residential rentals is not updated because of rent controls*.

Social and demographic statistics are mainly collected from the administrative records. In addition, DSEC's important statistical operations include the Population and Housing Census and the Bycensus which are conducted every 10 years; the Household Expenditure Survey, every 5 years; and the Construction Survey and Industry Survey,

conducted annually. Accordingly DSEC publishes a number of statistical indicators, for example: Demographic Indicators, estimates of resident population, and Labor Statistics.

External sector

There are extensive data on exports and imports of goods, direction of trade. Data on trade in services are also readily available, although with less detail. However, there have been recent revisions to the trade data and *the definitions making the distinction between trade with Macau and transit trade are not clear*. The services balance shows a large surplus that is heavily influenced by transfers of nonresidents for tourism and gambling. *Macau however does not produce balance of payments statistics, and no information on capital account transactions is available*. There is only sketchy information on *external debt* published by the authorities, although the public and publicly guaranteed debt is negligible.

Monetary accounts

The AMCM compiles detailed data on banks and other financial institutions. A significant portion of M2 is composed of non-pataca deposits, as currency cocirculation of the Hong Kong dollar is widespread; which makes the weakness in applying the *residency* criteria used for bank reporting of particular significance. Furthermore no effort is made to estimate non-pataca currency in circulation, which affects the measurement of reserve money and broad money supply. The *Land Fund* (which is a blocked account for use by Government after the transition) is not included in monetary statistics. No information on bank soundness is published. Interest rate data and credit distribution by sector are readily available.

Government finance

The budget estimates are produced annually (fiscal year is the same as the calendar year). *The budget classification does not follow the standard government financial statistics (GFS) methodology*. On the revenue side the surplus funds carried forward are classified as a source of current year revenues. On the expenditure side tax expenditures due to discretionary exemptions, particularly to investors, are not accounted for in the budget; neither are quasi-fiscal activities arising from interest rate subsidies. Budgetary data include the consolidated accounts of autonomous bodies, but they are not readily consistent with monetary statistics and other macroeconomic accounts.

C. Statistical Publications and Dissemination

The attached **table** summarizes the frequency and availability of statistical publications of Macau. In addition to the official publication, **core data** are posted fortnightly in the AMCM web site (*amcm.macau.gov.mo*). These include monthly data on: inflation and unemployment rates; government budget balance and its components; official reserves of AMCM; exports and imports; money supply, interest rates, and other monetary indicators; selected indicators

on tourism, real estate, banking, and insurance; and annual estimates of GDP. DSEC also occasionally makes available to the public documents in Portuguese and Chinese on classification and methodology.

Macau: Plan of Statistical Publications, 1998

Subject Matter Titles	Frequency	Issue	Language
General statistics			
Yearbook of Statistics /97	Annual	Y	P/C/E
Macau in Figures /98	Annual	O	P/C/E
Monthly Bulletin of Statistics	Monthly	B	P/C
Principal Statistics Indicators of Macau	Monthly	BR	P/C/E
Demographic Statistics /97	Annual	B	P/C
Population Statistics /97	Annual	R	P/C
Social statistics			
Health Survey /97	Annual	R	P/C
Education Survey 96/97	Annual	R	P/C
Environmental Statistics /97	Annual	R	P/C
Labor and vocational training statistics			
Manpower Needs and Wages Survey	Quarterly	R	P/C
Employment Survey	Monthly	BR	P/C
Employment Survey	Quarterly	R	P/C
Vocational Training Needs Survey	Annual	R	P/C
Industry and energy statistics			
Industrial Survey /96 & 97	Annual	R	P/C
Balance of Energy	Quarterly	R	P/C
Balance of Energy /97	Annual	R	P/C
Construction and housing statistics			
Construction Statistics /97	Annual	R	P/C
Private Construction Statistics	Quarterly	BR	P/C
Indexes and Wages in Civil Construction	Quarterly	BR	P/C
Indexes and Prices of Construction Materials	Quarterly	BR	P/C
Construction Survey /96 & 97	Annual	R	P/C
Transactions on Real Estate	Quarterly	BR	P/C
Companies Statistics	Quarterly	BR	P/C
Macau Construction Indicators	Quarterly	R	P/C
External trade statistics			
External Trade Statistics /97 (2 Volumes)	Annual	Y	P/C/E
External Trade Statistics	Monthly	BR	P/C
External Trade Statistics	Quarterly	R	P/C
Indexes of External Trade	Quarterly	BR	P/C
Tourism and services			
Tourism Indicators	Monthly	BR	P/C/E
Tourism Statistics /97	Annual	R	P/C/E
Restaurants and Similar Establishments survey /97	Annual	R	P/C
Hotels and Similar Establishments survey /97	Annual	R	P/C
Travel and / or Tourism Agencies Survey /97	Annual	R	P/C
Transports and Warehouse Survey /97	Annual	R	P/C
Distribution and prices			
Consumer Price Index	Monthly	BR	P/C
Consumer Price Index	Quarterly	R	P/C
Consumer Price Index /97	Annual	R	P/C
Methodology of Consumer Price Index	Irregular	R	P/C/E
Wholesale and Retail Activities Survey /97	Annual	R	P/C
Wholesale and Retail Business Situation Survey /97	Quarterly	BR	P/C
National accounts			
GDP Estimates /97	Annual	R	P/C
Economic Accounts of Public Sector /96	Annual	R	P/C

Source: Census and Statistics Department, Macau; also available at their web page www.dsec.gov.mo

LANGUAGE: P-Portuguese C-Chinese E-English

Issue: Y-Yearbook B-Bulletin BR-Brief Report R-Report O-Other

