

SUR/14/73

July 18, 2014

**The Acting Chair's Summing Up
People's Republic of China—Macao Special Administrative Region
2014 Article IV Consultation
Executive Board Meeting 14/68
July 16, 2014**

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their prudent macroeconomic management, which has lifted living standards to one of the highest levels in the world and enabled Macao SAR to weather external shocks successfully. Directors noted, however, that, while the outlook remains strong, the small open economy is susceptible to shocks arising from a narrow economic base, booming property prices, and a shifting external environment. Accordingly, Directors recommended persevering with the prudent policies, and welcomed the authorities' determination to take all necessary steps to safeguard macroeconomic and financial stability.

Directors welcomed the progress in bolstering financial stability, including by implementing recommendations from the 2011 Financial Sector Assessment Program and enhancing the regime against money laundering and the financing of terrorism. They encouraged the authorities to address the remaining vulnerabilities and to further strengthen the resilience of the banking system to potential risks, including from the gaming and property sectors as well as from cross-border financial spillovers. To identify emerging risks, Directors highlighted the importance of industry-wide stress testing and close cooperation with supervisors in other jurisdictions. Directors welcomed the authorities' efforts to manage rising property prices with macroprudential measures and recommended continued vigilance.

Directors took note of the staff's assessment that the currency board with the Hong Kong dollar link has worked well for Macao SAR and should be maintained. The system provides a crucial anchor to expectations and supports economic activity, including by keeping the external position broadly consistent with medium-term fundamentals and desirable policies.

Directors commended the authorities for their fiscal prudence. To ensure that public finances remain on a sound footing as the gaming sector matures and the population ages, they recommended the adoption of a medium-term budget framework. Consideration could also be given to allocating some part of Macao SAR's ample fiscal reserves to a sovereign wealth fund with a clear mandate to achieve better risk-adjusted returns over a long horizon, including through a more diversified asset allocation strategy.

Directors underscored that economic diversification holds the key to unlocking additional growth engines and achieving greater economic resilience over the longer term. They commended the authorities' focus on promoting nongaming services, and encouraged them to explore more opportunities, including through broader integration with the Mainland, further financial development, and greater public investments in infrastructure and human capital.

It is expected that the next Article IV consultation with Macao SAR will be held on the 24-month cycle.