

BUFF/ED/99/49

March 24, 1999

**Statement by Mr. Wei on Portugal—Macau
Executive Board Meeting 99/32
March 25, 1999**

As is well known, the Chinese Government will resume its exercise of sovereignty over Macau on December 20, 1999. In this context, we see the importance and benefits for Macau in its participation of the Fund's consultation process. This chair would like to commend the staff for their diligent work, providing us with a well written and balanced report, and a comprehensive picture of Macau's economy. While we basically concur with the thrust of the staff appraisal, we would like to highlight the following points for emphasis.

Although there have been slight drops in the GDP in recent years, Macau, as a free harbor, has its own advantages—low tax rates, a simple tax system, sufficient financing facilities, modernized transportation systems, simple customs procedures, the rapid transit of merchandise, the swift transfer of capital or funds, and a special relationship with the EU countries. At the same time, given its location at the west bank of the Pearl River delta, Macau hosts great potential for its economic development with the support of the mainland of China. It cannot be doubted that the sustained, stable, and rapid economic growth of the mainland of China will have a strong impact on Macau and help boost its economy. China's resumption of sovereignty over Macau at the end of this year will provide new opportunities for its further economic development. It is expected that Macau's economy will bottom out with the gradual recovery of its neighboring crisis-hit regions. We are confident that the prospects for Macau are brilliant. In this context we welcome the authorities' efforts to introduce foreign capital and stimulate economic development, including the off-shore proposal to integrate the service sector (particularly, the banking sector) with the off-shore business, and the draft regulations on tax holidays.

Financial sector

We encourage the authorities to continue their prudent fiscal policy to budget expenditure according to its revenue generation in maintaining the balance between revenue and expenditure. As mentioned above, the prospects for Macau's economy are expected to improve. We are of the view that the cumulative fiscal surplus should not be utilized at the current stage in order to ensure that the necessary conditions are in place for the transitional period as well as for Macau's future development.

The pegged exchange rate regime, which is well suited to the small open economy and conducive to the soundness of the banking system, has worked well and should continue to serve as an important vehicle in preserving financing and economic stability in Macau. We concur with the staff that there is no viable alternative to a firm commitment to the pegged exchange rate. As Hong Kong SAR is able to defend its linked exchange rate regime, it is our firm belief that so will Macau SAR. In this connection, we fully endorse the staff view that Macau, now and in the future, should be able to defend the regime given the flexibility in the labor market and in product prices, as well as the strong external payments position and the virtual absence of official external debt.

The banking system in Macau is conservative and sound. The high risk weighted capital adequacy ratio ranged between 10 percent and 70 percent for most financial institutions—much higher than the level mandated by the BIS—providing an important cushion to back up the nonperforming loans. Therefore, the risks of nonperforming loans to the banking system liquidity insolvency is limited. We welcome the authorities' policy measures to improve banking supervision. We would also like to associate with the staff in encouraging the authorities to intensify the monitoring of financial institutions' activities. We are particularly concerned about the tendency of some banks to become involved in the insurance business.

External sector

Although the number of tourists has declined with the onset of the Asian financial crisis, the external competitiveness of Macau's export sector as a whole has not been adversely affected, as reported by the staff. Given the economic recovery of the EU countries, the buoyant economy in the United States, and the signs of recovery in Asian crisis hit countries, external demand in Macau is expected to rebound and, thus, the export prospects are optimistic. Meanwhile, since a number of international conferences are to be held in Macau this year, and with the prospect of activities related to China's resumption of sovereignty over Macau, tourism is expected to increase. Therefore, Macau's BOP performance is expected to improve.

We would like to reiterate my authorities' commitment to keeping Macau's current economic system unchanged as depicted in the Sino-Portugal Joint Declaration and the Basic Law of Macau SAR. The Chinese Government will continue to make every effort to achieve a smooth transition and to maintain prosperity and stability in Macau.