

SM/14/171
Supplement 1
Correction 2

July 24, 2014

To: Members of the Executive Board

From: The Secretary

Subject: **People's Republic of China—Macao Special Administrative Region—Staff Report
for the 2014 Article IV Consultation Discussions—Informational Annex**

The attached correction to SM/14/171, Sup. 1 (6/23/14) has been provided by the staff:

Typographical Error

Page 2, para. 2, line 1: for "April 9, 1977" read "April 7, 1977"

Questions may be referred to Mr. Syed (telephone number 202-758-7495), Ms. Myrvoda (ext. 38150), and Mr. Sun (ext. 36239) in APD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This correction is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA— MACAO SPECIAL ADMINISTRATIVE REGION

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION DISCUSSIONS—INFORMATIONAL ANNEX

June 20, 2014

Prepared By

Asia and Pacific Department (in consultation with other
departments)

CONTENTS

FUND RELATIONS _____ 2

STATISTICAL ISSUES _____ 3

FUND RELATIONS

I. Membership Status

As a Special Administrative Region of the People's Republic of China, Macao SAR is not a member of the Fund. The only previous Article IV consultation discussions were concluded on March 25, 1999 before the territory's handover from Portugal to China at the end of that year. However, the Fund has maintained a relationship with Macao SAR, focused mainly on technical assistance and training. STA provided technical assistance with compiling FSIs in 2013 and on the balance of payments in 2008, MCM completed an FSAP in 2011, STA provided technical assistance on the balance of payments in 2008, and LEG provided advice on AML/CFT issues resulting in new legislation in 2006.

II. Exchange Rate Arrangement

Since 1977, Macao SAR has been operating under a currency board arrangement. On April 29, 1977, the exchange rate of Macao SAR's currency, the pataca, was formally delinked from the Portuguese escudo and linked to the Hong Kong dollar at a central rate of MOP 1.075/HK\$, and the transaction rates were allowed to deviate from this rate as long as they were within a band of +/-1 percent of the central rate. Effective January 2, 1979, the central rate of the pataca was set at MOP 1.0025/HK\$, 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 then, the pataca has been tied to the Hong Kong dollar at a rate of MOP1.03/HK\$, and is therefore also in effect linked to the US\$, at around MOP8/US\$. Notes are issued by two banks, which deliver Hong Kong dollars to the AMCM in return for non-interest bearing certificates of indebtedness, which serve as the backing for the banknote issue. The Hong Kong dollars are then counted as part of the official foreign exchange reserves held at the AMCM. Under the currency board arrangement, the pataca is 100 percent backed by foreign assets. There are no exchange restrictions on current and capital account transactions. With capital freely mobile, monetary conditions in MSAR are strongly influenced by conditions in Hong Kong SAR and the United States market.