

Monetary and Financial Stability Review*

Research and Statistics Department

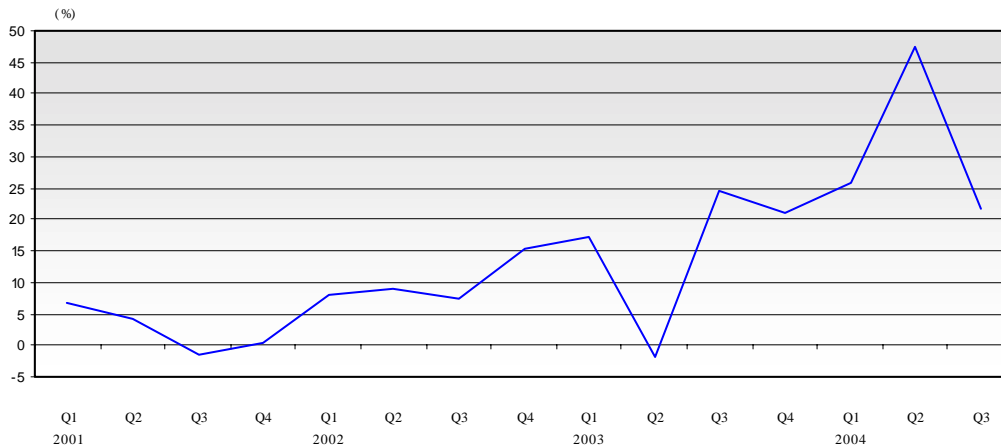
The maintenance of monetary and financial stability is the prime policy objective of the Monetary Authority of Macao (AMCM). From 2005 onwards, a Monetary and Financial Review based on latest, available economic statistics and information has been published in the AMCM Quarterly Bulletin on a half-yearly basis. The Review examines the current condition in the monetary and financial system and highlights major risks, if any, in the system, which could undermine the monetary and financial stability in Macao. The regular dissemination of the Review ultimately aims to increase the financial market participants' awareness of the risks they encounter so as to strengthen the risk prevention and counteraction mechanism.

1. Macroeconomic Backgrounds

The Macao economy has entered into an up-cycle since 2000. It outperformed leading economies in the Asian region in terms of real output growth in the last two years. The real **gross domestic product** (GDP) growth reached a record high of 15.6% in 2003, and the economy continued to uphold a two-digit growth in the first three quarters of 2004 (Chart 1). All expenditure components of GDP witnessed positive growth. Service exports and investment, in particular, advanced at a markedly high rate. As Macao is a small open economy with minimal natural resource, the revived domestic demand and strong exports correspondingly boosted imports, which played a role in checking GDP growth.

* This review applies statistics and information available as at 22 December, 2004.

Chart 1: Real GDP Growth, 2001-2004



Source: *Quarterly Gross Domestic Product*, Statistics and Census Service (DSEC).

The prominent source of growth for the Macao economy continued to be service exports, in which over 90% was related to visitors' gaming, accommodation and other non-gaming expenditures in the Special Administrative Region (SAR). Approximates of individual GDP expenditure components' contribution to overall GDP growth, as stated in Table 1, are derived from the changes in the expenditure components divided by GDP for the preceding year. The service trade sector, or net exports of services, contributed 10.4 percentage points and 29.5 percentage points to the territory's GDP growth in the year 2003 and the first three quarters of 2004 respectively. Despite being minor in comparison with service exports, investment has emerged to be the second most important contributor to Macao's GDP growth following years of negative growth in the latter part of the 1990s. As the merchandise trade balance was in deficit, the contribution of net export of goods remained negative, and dropped further to minus 7.7 percentage points in the first three quarters of 2004.

Table 1: Main Expenditure Components' Contributions to Real GDP Growth, 2001-2004

(%)

Year	Quarter	GDP	Private Consumption Expenditure	Gross Fixed Capital Formation	Government Final Consumption Expenditure	Net Exports of Goods	Net Exports of Services
		(1)=(2)+(3)+(4)+(5)+(6)	(2)	(3)	(4)	(5)	(6)
2001	1	6.8	1.5	0.1	-0.1	-3.6	8.9
	2	4.2	1.3	-3.1	0.0	-4.0	9.9
	3	-1.6	0.7	-0.8	-0.1	-5.7	4.4
	4	0.5	1.1	-1.3	0.2	-8.0	8.5
2002	1	8.0	1.8	-0.2	0.3	-2.7	8.8
	2	9.0	2.1	1.2	-0.5	-4.9	11.2
	3	7.3	1.7	0.8	0.7	-1.0	5.1
	4	15.4	2.5	1.3	0.7	-3.6	14.5
2003	1	17.1	2.6	-0.1	1.0	-2.6	16.1
	2	-1.7	-0.3	2.5	1.1	3.3	-8.3
	3	24.7	3.0	7.0	0.0	-2.4	17.2
	4	21.1	2.1	7.7	0.3	-4.9	15.9
2004	1	25.7	2.8	5.5	0.3	-5.5	22.7
	2	47.5	5.1	4.9	0.7	-10.4	47.3
	3*	21.7	3.0	4.6	-0.1	-7.6	21.8
2004	1-3*	30.5	3.5	5.0	0.2	-7.7	29.5

Notes: 1. The contribution of individual expenditure components to GDP growth is equal to the change in the expenditure component divided by GDP for the preceding year.

2. * Figures are subject to revisions.

Source: Underlying data from *Quarterly Gross Domestic Product, Statistics and Census Service (DSEC)*.

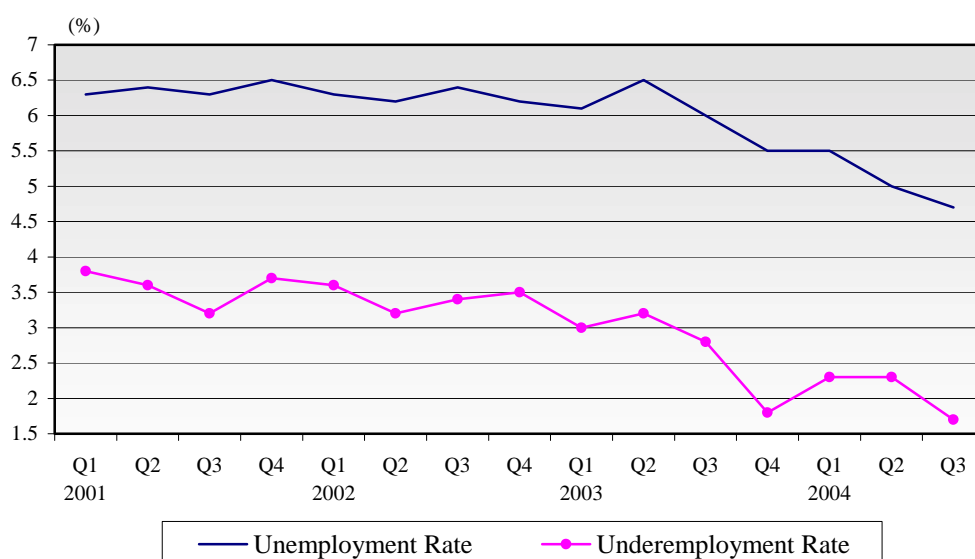
It is apparent that tourism in services trade holds the key to Macao's macroeconomic performance. In the first 11 months of 2004, visitor arrivals reached 15.2 million, representing a year-on-year growth of 42.1%. The phenomenal growth was partly attributed to the outbreak of SARS in 2003, which resulted in a lower year-earlier basis of comparison. Mainland Chinese visitors, currently accounting for over half of the total arrivals, have emerged to be the driving force behind the strong growth,

especially after the implementation of the “Individual Traveller Scheme” by the central government in July 2003. The number of Mainland Chinese visitors grew at an impressive, year-on-year rate of 71.7% in the first 11 months of 2004, rising from 35.4% in 2003. Visitors from other countries also saw positive growth, indicating a broad-based improvement in Macao’s tourism business environment.

It is estimated that gaming accounts for about 65% of tourist spending in Macao’s service exports. In the first three quarters of 2004, gross receipts of “games of fortune” (i.e. casinos) grew 49.1% to MOP29.3 billion. Per capita spending (excluding gaming) of visitors also increased by 2.5% to MOP1,497 in the third quarter of 2004, further boosting the total tourist expenditure of an enlarged number of visitors. All these statistics reveal the strong growth momentum of service exports and hence the domestic economy.

The *labour-market* condition has been improving since 2001 (Chart 2). In the third quarter of 2004, the unemployment rate dropped to 4.7% with jobs added in services and construction sectors. *Deflation* has subsided since 2003, and halted to exist in the middle of 2004. Higher prices in major import sources of Macao, namely Mainland China and Hong Kong, and faster growth in domestic demand accounted for the reversal of price changes. The composite consumer price index increased by 0.5% in the first three quarters of 2004, while imported inflation, as measured by the year-on-year growth rate of unit value index of imports, was 2.3% (Table 2). Local wage rates showed signs of picking up, and the increase in employment earnings existed in most economic sectors.

Chart 2: Unemployment Rate and Underemployment Rate, 2001-2004



Source: *Employment Survey, DSEC.*

Table 2: Composite CPI-based and Unit Value Index-based Inflation 2001-2004 (%)

Year	Quarter	Composite CPI (year-on-year growth)	Import Unit Value Index (year-on-year growth)
2001	1	-1.65	1.63
	2	-1.54	-1.20
	3	-1.78	-3.59
	4	-2.98	-9.83
2002	1	-2.83	-3.61
	2	-3.17	-6.19
	3	-2.74	-3.10
	4	-1.79	0.85
2003	1	-1.60	-1.66
	2	-1.25	-0.43
	3	-1.99	0.64
	4	-1.40	-1.47
2004	1	-0.57	1.27
	2	0.07	3.80
	3	1.96	1.91

Sources: *Consumer Price Index, External Trade Index, DSEC, various issues.*

Major asset prices saw marked increases. The *property market* apparently gathered momentum with rising prices and transactions. As per the Finance Services Bureau's stamp duty records, the average transaction price of residential properties rose 27.1% in the third quarter of 2004, compared with the same period last year. The volume of transactions concurrently increased by 47.8%.

Table 3: Residential Property Transaction Volume and Prices

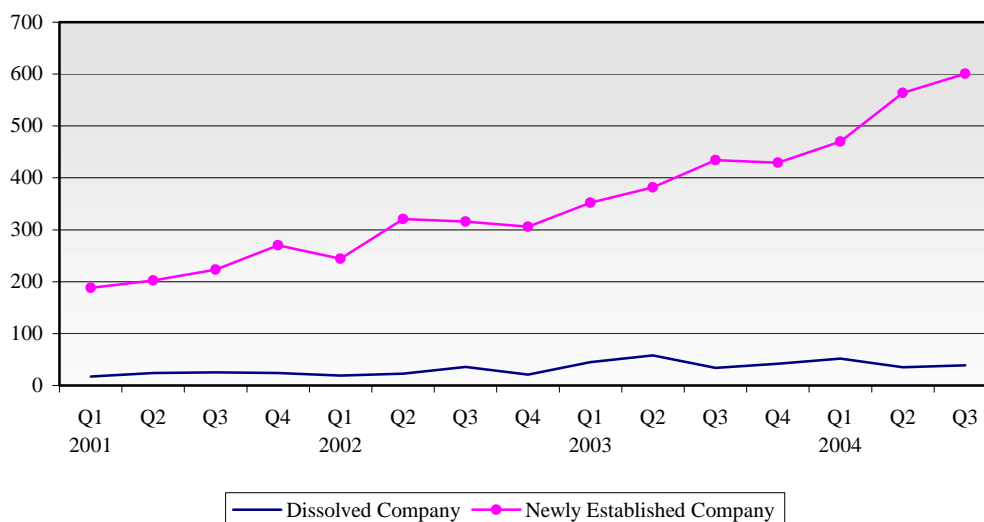
		Number of Units Transacted	Value of Units Transacted (MOP million)	Transaction Price* (MOP)
Year	Quarter			
2001	1	2,145	1,133	n.a.
	2	1,651	918	n.a.
	3	4,575	2,320	n.a.
	4	7,768	4,711	n.a.
2002	1	2,590	1,195	6,123
	2	3,170	1,677	6,196
	3	2,277	1,061	6,233
	4	2,347	1,135	6,483
2003	1	2,133	975	6,154
	2	2,643	1,380	6,343
	3	2,803	1,496	6,305
	4	2,819	1,516	6,636
2004	1	3,114	1,913	7,343
	2	3,888	2,374	7,669
	3	4,196	2,896	8,016
	1-3	11,198	7,183	n.a.

*Note: *Figures indicate the average transaction price of residential units per square metre of usable area.*

Source: Private Sector Construction Statistics, DSEC.

Local corporate environments have generally improved. To reflect the strength of the corporate sector and the business sentiment, the number of newly incorporated companies, after deduction for dissolved companies, rose 46.4% on the year in the first three quarters of 2004. Corporate earnings also saw improving signs. The complementary (profit) tax revenue grew 35.8% in the first three quarters of 2004 compared with the same period last year.

Chart 3: The Numbers of Dissolved and Newly Established Companies, 2001 - 2004



Source: *Company Statistics, DSEC.*

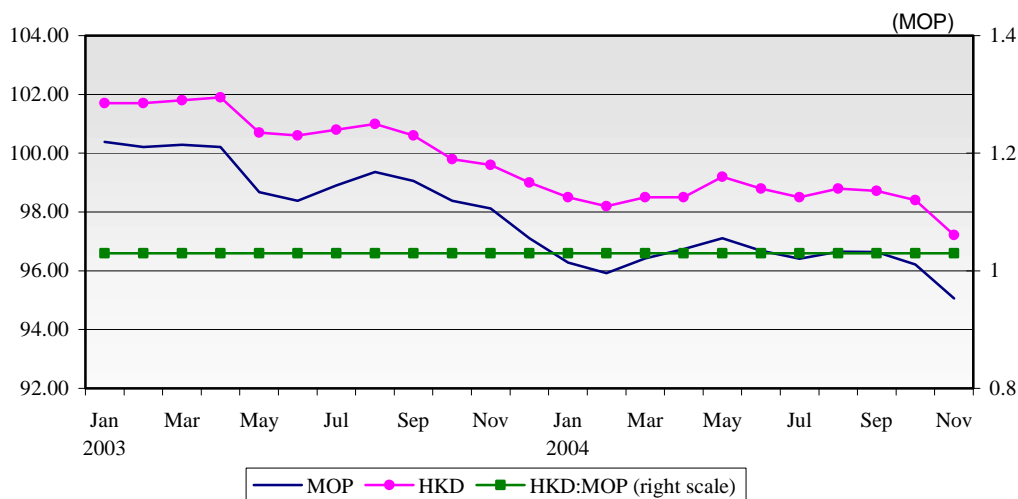
2. Assessment of Monetary Stability

Macao adopts a rule-based, externally oriented monetary regime, under which the legal tender, pataca (MOP), is linked to the Hong Kong dollar (HKD) at a middle rate of HKD1:MOP1.03. The Currency Board Arrangements, which ensure full backing of monetary liabilities, are the underlying monetary mechanism to support the linked rate. As a result, the state of monetary stability in Macao directly reflects in the exchange rate of the pataca against the Hong Kong dollar, or ultimately, the adequacy of backing assets held by the Monetary Authority of Macao (AMCM) to ensure the

convertibility of pataca monetary liabilities into foreign currencies on demand at all times.

Throughout the first 11 months of 2004, the MOP/HKD exchange rate stabilised at the linked rate of HKD1:MOP1.03. In a world of generalised floating, the pataca's exchange rates against other currencies, however, are variable as determined by the exchange rates of its anchor currency, i.e. the Hong Kong dollar, against other currencies. In effective terms, the pataca depreciated by 4.0% in 2003, and further by 2.9% in the first 11 months of 2004 in line with the weakening in the Hong Kong dollar against other major currencies (Chart 4). The synchronised movements of the effective exchange rate indices for the MOP and the HKD also indicated the stabilities of the linked rate as well as the monetary system during the review period.

Chart 4: Bilateral Exchange Rate between the MOP and HKD, and Effective Exchange Rate Indices of the MOP and the HKD*, 2003-2004



Note: * Base period = January 2000.

Sources: *Monthly Statistical Bulletin*, Hong Kong Monetary Authority (HKMA).

Monthly Monetary Statistics Bulletin, Monetary Authority of Macao (AMCM).

The *convertibility capacity* of the AMCM remained intact as the primary cover ratio, which is a ratio of foreign exchange reserves net of short-term foreign currency liabilities to current pataca liabilities, stayed at levels over 100%. At the end of

September 2004, the foreign exchange reserves, valued at MOP40.1 billion, were equivalent to 107% of the sum of the monetary base (i.e. currency in circulation and banks' deposits with the AMCM), monetary bills outstanding, and government deposits with the AMCM.

Fiscal discipline is a major determinant of the credibility and hence the stability of the linked rate system. Since 2000, the SAR government accounts have remained in surplus. In 2003, the overall fiscal surplus amounted to MOP2.7 billion, equivalent to 4.2% of Macao's nominal GDP or 23.2% of the government expenditure (excluding expenditure of public autonomous agencies). The sum of retained surplus and the SAR Reserve Fund reached MOP18.5 billion at the end of 2003, an amount sufficient to finance over one year of government spending and equivalent to 29.2% of Macao's GDP. Fiscal conditions continued to be accommodative to monetary stability in the first 11 months of 2004, with an overall surplus of MOP8.1 billion, 108.4% up on the same period last year. The SAR government remains debt-free.

Under the linked exchange rate system, the growth of *money supply* is ultimately determined by the balance of payments (BOP) or external balance. The BOP surplus, stemmed primarily from a growing trade or current account surplus, was evident by a two-digit growth of foreign exchange reserves, and underpinned the continued growth of monetary aggregates. In the first three quarters of 2004, the trade surplus reached MOP28.1 billion, which was equivalent to 48.0% of the nominal GDP.

At the end of September 2004, M1 and M2 increased 60.2% and 6.7% on the year respectively. The strong growth of narrow money supply would be attributed to the shift in depositors' preference in favour of current account deposits under an extremely low interest-rate environment. The growth of broad money supply, however, remained significantly lagged behind the growth of nominal GDP, though the monetary stance was kept generally loose as indicated by an about-zero real or inflation-adjusted interbank rate. The slow growth of M2 would be explained by the shrinking credit extended to both the public and private sectors, or the domestic economy, notwithstanding low borrowing costs. Hence, the extra money creation

was solely balanced by an accumulation in net foreign assets, rather than domestic credit expansion, on the asset side of the balance sheets of monetary institutions (i.e. banks and the AMCM) (Table 4).

In November 2004, Macao banks started to accept Renminbi deposits, which will become part of Macao's money supply. It, however, would take time to observe the preference of Macao residents for the Mainland money, and the corresponding monetary impact.

Table 4: Monetary Survey, 2001-2004

(Annual change in value, MOP million)

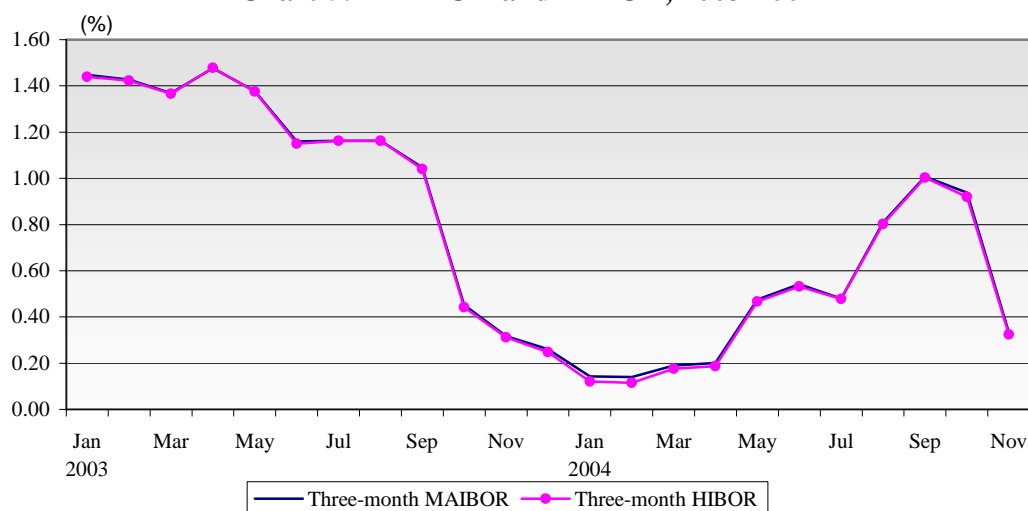
Year	Quarter	M2	Net Foreign Asset	Domestic Credit	Other Items (Net)
2001	1	-1,137.5	15,527.4	-5,242.6	-11,422.3
	2	7,029.0	13,469.9	-5,118.2	-1,322.7
	3	6,270.5	12,657.7	-5,325.0	-1,062.2
	4	6,632.1	10,246.8	-3,446.2	-168.5
2002	1	8,284.4	12,737.4	-4,451.9	-1.0
	2	7,893.2	12,454.9	-4,080.4	-481.3
	3	6,131.5	10,572.4	-5,088.9	648.1
	4	7,409.3	12,737.9	-4,443.1	-885.5
2003	1	7,251.8	12,281.0	-4,135.8	-893.4
	2	6,000.4	11,442.8	-4,876.9	-565.5
	3	12,412.2	17,312.2	-3,505.6	-1,394.4
	4	12,130.7	16,756.9	-3,564.3	-1,061.9
2004	1	10,014.0	14,577.2	-3,416.3	-1,146.9
	2	10,024.8	14,820.5	-3,227.1	-1,568.7
	3	7,191.4	13,531.4	-5,642.5	-697.5

Source: Monetary Authority of Macao (AMCM).

To safeguard the monetary stability as defined by the pataca's fixed exchange rate relationship with the Hong Kong dollar, *short-term interest rates* in Macao could not deviate much from their Hong Kong counterparts under a free capital account setting.

At end-November 2004, the three-month interbank offered rate was 0.64% in Macao, compared with 0.62% in Hong Kong. The MAIBOR has moved up by about seven basis points since the beginning of the year (Chart 5). On policy interest rates, the yield of 3-month monetary bill and the Base Rate of the discount window were fixed by the AMCM at 0.74% and 3.50% respectively at mid-December 2004. The latter in particular was kept at the exact level of Hong Kong's Base Rate quoted by the Hong Kong Monetary Authority, which was adjusted upwardly by one percentage point in the second half of 2004.

Chart 5: MAIBOR and HIBOR, 2003-2004



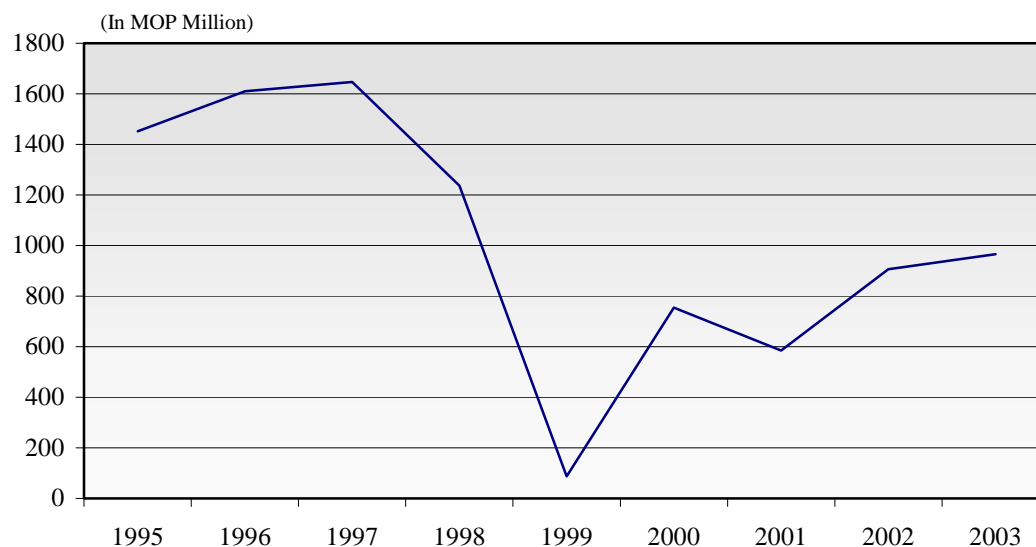
Sources: *Monthly Statistical Bulletin*, HKMA.
Monthly Monetary Statistics Bulletin, AMCM.

3. Assessment of Financial Stability

Against the background of a favourable macroeconomic environment, the *profitability* of the local banking sector has rebounded since 2002. Operating profits rose by 6.6% in 2003 after registering a marked growth of 54.9% in 2002. In the first three quarters of 2004, operating profits of all 24 banks in Macao (including one postal savings bank and one offshore banking unit) increased markedly by 34.2%, despite a further shrinkage in interest income. Return on equity - the ratio of net profit/operating

results to paid-up capital plus reserves - for locally incorporated banks reached 14.4%, compared with 10.9% in 2003.

Chart 6: Operating Profits* of Banks, 1995-2003

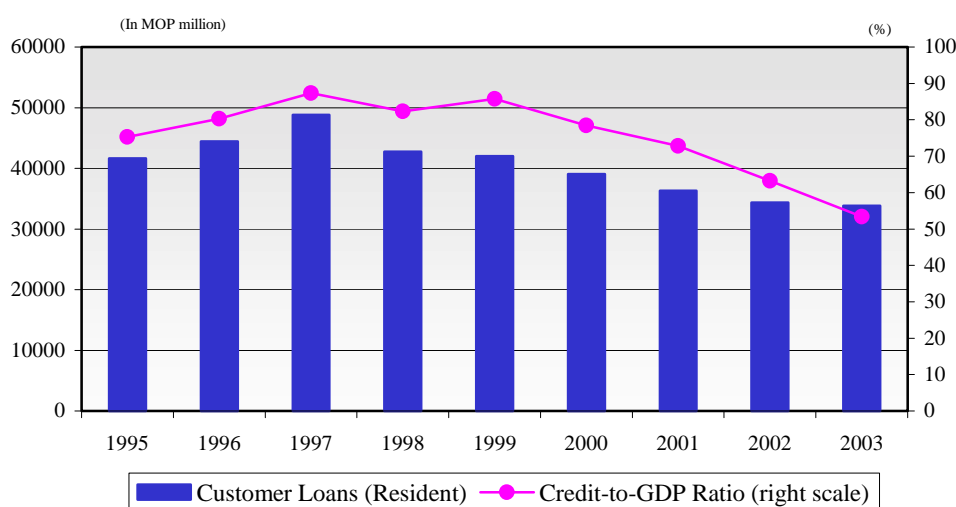


*Note: * Excludes profit/loss related to previous years, exceptional profit/loss, utilisation of provision and profit tax provision.*

Source: AMCM.

Net interest income remains the largest income component, though its contribution to profit growth has reverted to negative. Partly due to the significant write-offs on bad debts, the size of loan portfolio shrank in the past few years, dampening interest income from loans. The situation saw some improvement in the second half of 2004. At end-September 2004, the value of customer loans (including both resident and non-resident sectors) rose 9.1% to MOP91.69 billion, after registering a negative growth of 1.1% in 2003. The slow credit growth would limit the profitability of banks, while the declining domestic credit-to-GDP ratio points to a reduced leverage or overall indebtedness of the economy, which is supportive to financial stability, especially at a time when the interest-rate trend is biased on the upside.

Chart 7: Customer Loans (Resident) and Credit-to-GDP Ratio, 1995-2003



Source: AMCM.

The momentum of profit growth has mainly been generated by fee-based services, foreign exchange operations and securities investment, rather than traditional loan and deposit business. Non-interest income grew 28.8% in 2003, whereas net interest income or interest margin dropped 11.2%. The former grew further by 9.6% in the first three quarters of 2004, while the latter dropped 8.4%. The ratio of interest margin to gross income (i.e. interest margin plus non-interest income), as a result, reduced to 51.5% from 59.4% in 2003. Lesser requirement for doubtful debt provision, as a result of the improvement in loan quality, has also helped to reduce operating costs and hence to boost profits.

The ratio of non-interest expenses (net of taxation and provision allowance) to gross income, one of the key indicators of the operating condition, has slightly improved as it dropped to 44.3% in the first three quarters of 2004 from 46.3% in 2003. The reduced reliance of the banking sector on interest income has helped contain the credit risk, whereas the increased dependence on incomes from foreign exchange operations and securities investment highlights a possible upsurge of market risk. In addition, “income from banking services” rose a massive 40.1% in the first three quarters of

2004. The diversification of income sources, especially into fee-based income, would help cushion any downside of bank earnings.

Table 5: Ratios of Interest Margin to Gross Income and Non-interest Expenses to Gross Income, 2001-2004

(%)

Year	Quarter	Interest Margin to Gross Income	Non-interest Expenses to Gross Income
2001		71.3	45.7
2002		68.0	44.1
2003		59.4	46.3
2001	1	67.6	48.1
	2	68.2	45.2
	3	69.0	42.6
	4	79.9	46.5
2002	1	74.1	43.4
	2	68.2	39.5
	3	66.3	44.1
	4	63.3	49.6
2003	1	59.7	48.0
	2	57.2	45.4
	3	55.3	45.1
	4	65.8	47.0
2004	1	50.5	50.5
	2	56.5	39.9
	3	51.5	42.9

Source: AMCM.

Simultaneous with the revival of bank profitability, the *quality of assets* has improved as reflected in the declining trend of non-performing loans or loans overdue for more than three months. The value of non-performing loans fell 34% in 2003, and continued to edge down in 2004. The non-performing loan ratio for both resident and non-resident sectors dropped significantly from the peak of 21.9% in 2000 to 5.1% in the third quarter of 2004 (Chart 8).

The degree of sectoral concentration of loans continues to stay at an acceptable level by historical standards. Property-related items remain the largest credit exposure to firms and individuals in banks' assets. The ratio of property-related loans to total private sector credit for the resident sector reduced from 44.3% in 2002 to 41.7% in 2003, and further slid to 39.3% in the third quarter of 2004. The recovery in the real estate sector seemed to start stimulating individual house-purchase loan demand, but loans for construction and public works continued to shrink. As a result, it would not raise significant concerns for financial stability.

A two-digit increase in credit to individuals unrelated to house purchase was observed in 2004. This category of loans is dominantly unsecured with higher interest margins and hence would pose higher credit risk to credit institutions. However, despite its strong growth, it only accounted for 10.2% of the total credit to the private sector and 23.8% of credit to resident non-corporate individuals as at end-September 2004 due to a low base.

Chart 8: Non-performing Loan* Ratio, 2001-2004



*Note: * Total loans and advances extended to nonresidents and residents.
Source: AMCM.*

As the domestic credit remained sluggish, banks continued to extend their *external exposures*. The ratio of external assets to total assets stayed at a high level of 41.9% at the end of September 2004, while the share of non-resident sector in credit to private sector increased from 59% in 2003 to 62%. The position of Hong Kong as the largest destination for fund placements by Macao banks remained intact. In the past few years, Hong Kong's share in external assets of Macao banks has exceeded one half and reached 60.5% at end-September 2004 (Table 6). Meanwhile, the ratio of assets denominated in foreign currencies to foreign currency liabilities stayed close to one at 1.07, indicating low risk of currency mismatch.

Table 6: Geographical Distribution of Banks' External Assets, 2001-2004
(% Share)

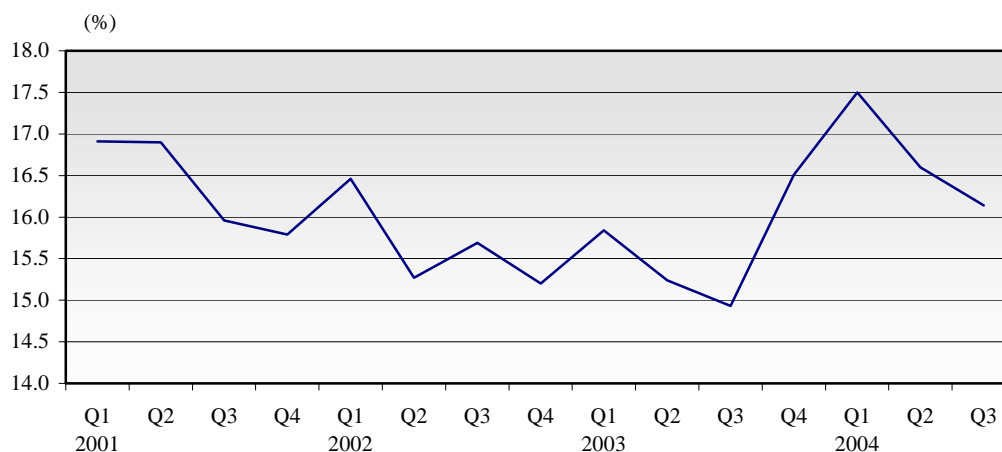
Year	Quarter	Hong Kong	China	Others
2001	1	64.3	3.1	32.7
	2	63.5	3.9	32.7
	3	61.9	3.9	34.2
	4	59.2	3.2	37.6
2002	1	59.8	2.8	37.4
	2	59.6	2.9	37.5
	3	63.0	3.0	33.9
	4	59.9	1.8	38.3
2003	1	61.4	2.2	36.4
	2	61.2	2.1	36.7
	3	58.5	3.1	38.4
	4	61.5	4.1	34.4
2004	1	51.8	4.6	43.6
	2	63.3	4.3	32.4
	3	60.5	3.3	36.2

Source: AMCM.

The *solvency* of the 10 locally incorporated, non-government banks is secured. Their consolidated capital adequacy ratio at end-September 2004 stayed at a high level of 16.1% (Chart 9). On an individual basis, all locally incorporated banks met the 8%

minimum requirement of capital adequacy set by the Basel Committee on Banking Supervision of the Bank for International Settlements.

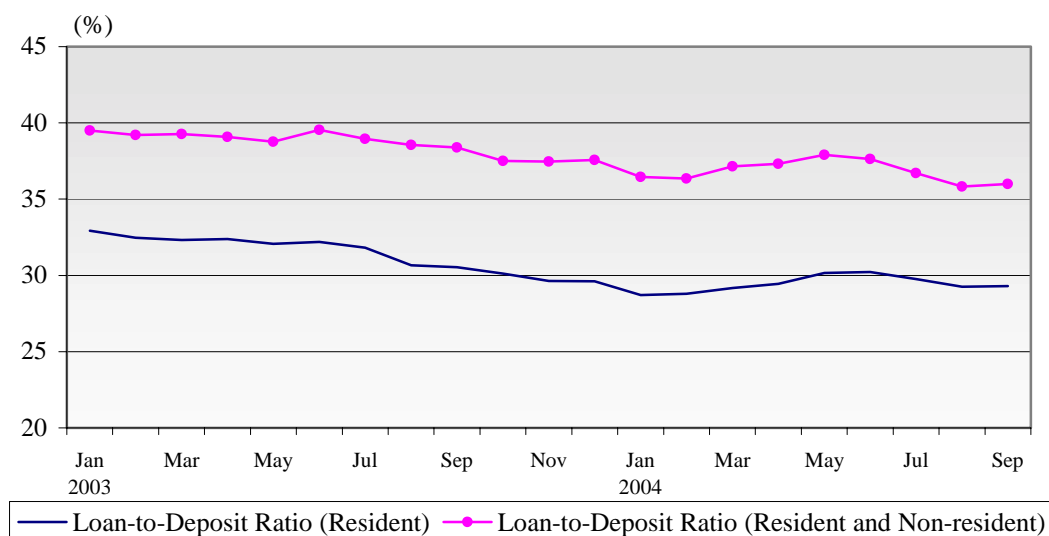
Chart 9: Consolidated Capital Adequacy Ratio of Locally Incorporated Banks, 2001-2004



Source: AMCM.

The *liquidity* position of Macao banks remains strong. Liquid assets acquired by Macao banks mainly include cash, short-term interbank assets and high-rated securities, which play a central role in accommodating the financial commitments of banks. The liquid asset to total asset ratio increased to 61.4% in the third quarter of 2004, from 60.7% in 2003. Little gain in loans and the consistent growth of deposits have created ample liquidity in the banking system. The loan-to-deposit ratio of the resident sector further slid to 29.3% at end-September 2004 from 29.6% at the end of 2003 (Chart 10). The corresponding ratio for both resident and non-resident sectors also dropped to 36.0% from 37.6%. The reserve to total liabilities ratio remained stable, hovering at 2.35-2.55% in the first nine months of 2004, compared with 2.36% at end-2003.

Chart 10: Loan-to-Deposit Ratios, 2003-2004



Note: Including both private sector and public sector deposits.

Source: AMCM.

4. Conclusion

To achieve its prime policy objective of maintaining monetary and financial stability in the SAR, the AMCM closely monitors all available economic information, which reveals the state of the monetary and financial system and potential risks confronting the system-wide stability. The information serves as a basis for the policy actions and responses of the AMCM, and should be made available to the public in order to promote the market discipline and the market participants' awareness of the nature of the risk inhibited in the system, and ultimately, to achieve the goal of minimising any adverse effect. This Review, which has been published on a half-yearly basis since January 2005, fulfils this dissemination purpose.

Founded on the analyses of relevant economic and financial statistics in previous sections, it is concluded that the monetary and financial stability in Macao remained intact in the period under review. A notably vigorous economy has fundamentally reduced the vulnerability of the monetary and financial system to shocks. The

monetary developments have accommodated with a credible operation of the linked exchange rate system, and risks inhered in the financial system have been comfortably contained.

Macao's macroeconomic outlook is expected to remain favourable. Tourist spending and investment will remain the driving forces for GDP growth in the foreseeable future. The gradual and consistent improvement in employment environment, the halt of deflation as well as modest wage hikes would also help boost private consumption. The Closer Economic Partnership Arrangement (CEPA) and the Pan-Pearl River Delta Cooperation Plan will promote Macao's economic integration with the Mainland, and hence create new sources of growth for Macao in the long run.

The BOP, which plays the key role in determining the SAR's monetary conditions, would remain in surplus, supported by a robust current account. The strong effect of "Individual Traveller Scheme" and the attraction of new casinos and related tourism facilities would guarantee a respectable growth in service exports which would fully compensate for a probable downside of merchandise exports after the complete elimination of quotas for textile and garment products. Manufacturers' orders-on-hand, which continues to register decline in the latest survey by the Economic Services Bureau, has pointed to a possibility of slowdown in local manufacturing activities.

The expected, sustained growth of Macao's major trading partners would help underpin external demand for Macao exports, though it should be alerted that volatile oil prices and terrorist threats remain the major risk to the world economic growth (Table 7). Meanwhile, as the economic integration between Mainland China and Macao intensifies, concerns for higher inflation, tighter credit policy and institutional reforms in China would add uncertainty to local economic growth.

Table 7: Economic Growth of Macao's Major Export Markets, 2003-2005

(Annual change in %)

	2003	2004	2005
<u>Major Markets of Exported Goods</u>			
United States	3.0	4.3 (4.4)	3.5 (3.5)
United Kingdom	2.2	3.4 (3.2)	2.5 (2.4)
Germany	-0.1	2.0 (1.4)	1.8 (1.4)
<u>Major Markets of Exported Services</u>			
Mainland China	9.1	9.0 (9.3)	7.5 (7.9)
Hong Kong SAR	3.2	7.5 (7.6)	4.0 (4.6)
Taiwan, China	3.3	5.6 (5.8)	4.1 (4.3)

Note: Data are sourced from World Economic Outlook, September 2004, International Monetary Fund; data in brackets are consensus private-sector forecasts reported in the Economist, 13 November 2004 issue and 11 December 2004 issue.

It is widely expected that local interest rates will move further up in line with the interest-rate trends in Hong Kong and the US. According to the *Consensus Forecast*, the Federal Reserve would raise US short-term interest rates by about one percentage point to over 3% by September 2005. Higher rates would slow fund outflows, especially in the portfolio investment account of the BOP. In addition, relevant econometric analysis by the Research and Statistics Department of this Authority indicates a rise in interest margin or net interest income for Macao banks during up-cycles of local interest rates.

The effective exchange rate of the pataca will slightly strengthen under the proviso that the USD will stabilise in 2005 as most analysts forecast. Deficit in the capital and financial account would prevail, but would be comfortably offset by the large current account surplus.

Finally, the fiscal sector will remain conducive to monetary and financial stability. Initial information on the government budget for the year 2005 and the optimistic forecast of gaming tax receipts reveal that Macao will continue to experience fiscal surpluses notwithstanding a two-digit growth in public expenditure and hence enhance its financial strength with no requirement for public-sector borrowings. The surplus public sector will therefore help maintain the credibility of the linked exchange rate system and support a prevailing easy liquidity condition in the local banking system.

Table 8: Major Economic and Financial Indicators of Macao, 2002-2004

	2002	2003	2004
A. Gross domestic product			
GDP at current market prices (10 ⁶ Patacas)	54,294.7	63,365.4	58,641.8 *
Major components of GDP at current market prices (10 ⁶ Patacas)			
-Private consumption expenditure	21,179.7	21,900.2	17,912.6 *
-Government final consumption expenditure	6,189.1	6,600.2	4,620.6 *
-Gross fixed capital formation	5,580.0	8,412.2	7,747.7 *
-Private	4,143.9	5,987.9	6,553.0 *
-Public	1,436.2	2,424.4	1,194.7 *
-Export	54,540.9	62,469.8	60,740.8 *
-Import	33,434.6	36,279.0	32,607.1 *
GDP per capita at current market prices (USD)	15,418.0	17,782.0	n/a
B. External trade: goods & services (10⁶ Patacas)			
Goods			
-Exports	18,925.4	20,700.1	16,819.9 *
-Domestic exports	14,773.9	16,261.0	12,894.1 *
-Re-exports	4,151.5	4,439.1	3,925.7 *
-Imports	25,309.8	27,875.8	25,412.3 *
-Balance	-6,384.4	-7,175.7	-8,592.3 *
-Terms of trade index (1996=100)	99.7	100.9	99.5 **
Services			
-Exports	35,615.5	41,769.7	43,920.8 *
-Tourism receipts	32,489.2	38,795.3	41,341.6 *
-Gaming	21,245.0	27,393.0	29,038.6 *
-Non-gaming	11,244.3	11,402.3	12,303.0 *
-Imports	8,124.8	8,403.2	7,194.8 *
-Balance	27,490.7	33,366.6	36,726.0 *
C. Tourism			
Visitor arrivals (10 ³)	11,531	11,888	15,154.2 ##
Visitor per-capita spending (Patacas)	1,454	1,518	1,497.0 **
Hotel occupancy rate (annual average, %)	67.1	64.3	74.6 #
D. Public finance¹ (10⁶ Patacas)			
Revenue	11,084.3	14,120.2	17,421.2 p,##
Expenditure	9,344.3	11,462.6	9,289.0 p,##
Surplus/deficit for the year	1,740.0	2,657.7	8,132.2 p,##
Macao SAR Reserve Fund as at end of the year	10,734.6	10,902.3	10,845.1 p,++
E. Property market			
Credit to individuals			
for house purchases (10 ⁶ Patacas)	10,458.1	10,631.4	11,329.9 +
Units transacted ²	16,831	18,556	20,557 *
Value transacted ² (10 ⁶ Patacas)	7,942	8,980	11,468 *

Table 8: Major Economic and Financial Indicators of Macao, 2002-2004 (cont'd)

	2002	2003	2004
F. Prices			
Composite consumer price index (Oct 1999-Sep 2000=100)	94.9	93.5	95.4 [@]
Tourist price index (Jul 1999-Jun 2000=100)	100.2	101.9	106.4 ^{**}
Trade unit value indices (1996=100)			
-Exports	94.1	94.6	95.6 ^{**}
-Imports	94.4	93.7	96.1 ^{**}
G. Labour			
Labour force (10 ³)	214.0	215.5	235.0 [^]
Unemployment rate (annual average, %)	6.3	6.0	4.2 [^]
Underemployment rate (annual average, %)	3.4	2.7	1.6 [^]
H. Money supply (as at end of the year, 10⁶ Patacas)			
M1	6,350.8	8,789.5	12,460.2 ^{p,++}
M2	98,959.3	111,090.0	117,236.3 ^{p,++}
I. Interest rates (annual average, %)			
Three-month interbank rate	1.87	1.05	0.48 ^{##}
Three-month time deposits ³	0.63	0.26	0.08 [#]
Bills' discounted rate ³	6.11	6.00	6.01 [#]
J. Exchange rates (annual average)			
Pataca/Hong Kong Dollar	1.03	1.03	1.03 ^{##}
Nominal trade-weighted effective exchange rate Index (Base period=January 2000)	105.3	101.0	96.5 [#]
K. Foreign exchange reserves (as at end of the year, 10⁶ Patacas)			
	30,527.4	34,733.5	42,375.1 ^{p,@@}
L. Banking sector			
Assets/Liabilities as at end of the year (10 ⁶ Patacas)	151,874.6	155,834.7	166,823.1 ⁺⁺
Operating results (10 ⁶ Patacas)	906.6	966.3	1,226.7 ⁺⁺
Capital Adequacy Ratio (as at end of the year, %)	15.2	16.5	16.1 ⁺
M. Insurance sector			
Assets/Liabilities as at end of the year (10 ⁶ Patacas)	4,523.2	5,253.2	6,312.1 ⁺
-Life insurers	3,683.1	4,449.6	5,483.9 ⁺
-Non-life insurers	840.1	803.6	828.2 ⁺
Financial results (10 ⁶ Patacas)	1.4	9.6	45.3 ⁺

Notes:

- r* Revised figures.
- p* Preliminary figures.
- ¹ Excluding government autonomous agencies; revenue does not include balance from previous fiscal years.
- ² Since August 2001, the figures have been based on the record of stamp duty.
- ³ Average rate of major banks.
- * Figures of the first three quarters.
- ** Figures of the third quarter.
- # Figures of the first 10 months.
- ## Figures of the first 11 months.
- ^ Figures of the period September-November.
- ^^ Figures of October.
- + Figures at end-September.
- ++ Figures at end-October.
- @ Figures of November.
- @@ Figures at end-November.