

## Rebounding growth

### General Information



<b>GDP</b>	USD44.8bn
<b>Population</b>	0.6mn
<b>Form of state</b>	Limited Democracy
<b>Head of government</b>	Chief Executive Fernando Chui Sai On
<b>Next elections</b>	2019, Chief Executive election



### Strengths

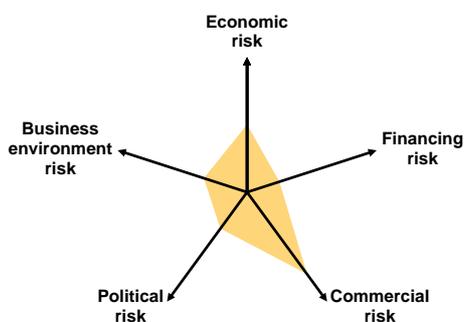
- High income market. Macao is ranked among the top ten markets in terms of GDP per capita
- Strong financial buffers with robust government position and large FX reserves
- Solid banking system
- Low level of unemployment

### Weaknesses

- Economy highly dependent on the tourism and gaming industries
- Vulnerability to external shocks particularly measures implemented in China
- Poor infrastructure compared to other high income markets

### Country Rating

**BB2**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China, Hong Kong SAR	64% 1 37%	China
China	20% 2 9%	China, Hong Kong SAR
Japan	3% 3 8%	Italy
Philippines	3% 4 8%	Switzerland
United States	2% 5 7%	France

By product (% of total)

Exports	Rank	Imports
Photo apparatus, optical goods, watches and clocks	15% 1 10%	Miscellaneous manufactured articles
Miscellaneous manufactured articles	15% 2 10%	Telecommunication and sound recording apparatus
Telecommunication and sound recording apparatus	9% 3 9%	Photo apparatus, optical goods, watches and clocks
Articles of apparel & clothing accessories	8% 4 6%	Road vehicles
Electrical machinery, apparatus and appliances	6% 5 6%	Travel goods, handbags

Source: UNCTAD

## Economic Overview

### A cyclical upturn

The economy is recovering after three years of contraction. Real GDP decreased by -24% between 2013 and 2016 with a collapse of tourism receipts and the decline of the gaming activity which account for nearly 62% of total output. In 2017, the outlook improved on the back of rising external demand especially from China. GDP growth is estimated at +8.0%.

While the recovery is positive news, it may be too early to declare victory. Real output in 2017 is estimated -18% below its 2013's level and private investment is still weak.

Looking ahead, economic activity is projected to expand but at a slower pace (+4%). Mainland China's demand growth is set to slow as authorities tighten credit conditions. Domestic demand will provide some cushion. A strong labor market, contained inflation and a more active government strategy to diversify the economy away from gaming will provide some impetus to growth. This includes strong public investment in non-gaming tourism and financial services.

Risks remain elevated. These stem from a strong concentration of economic activity on the gaming industry, heavy dependence on demand from Mainland China, and a faster than anticipated normalization of the US policy rate.

### Macro-policies are underpinned by strong fundamentals

Public finances are generally sound with zero public debt and fiscal reserves that amount to 95% of GDP. The fiscal surplus is large (6.6% GDP estimated in 2017) even though it is on a decreasing trend. This is due to lower gaming revenues, a looser fiscal stance in 2013-16, and a more aggressive fiscal policy to diversify the economy from 2017 onwards.

The financial system is strong. The currency board is credible with foreign reserves accounting for nearly 100% of pataca M2. The banking sector is solid. Banks, often foreign owned, have sound fundamentals and benefit from large liquidity reserves enabling easy access to credit.

The external position is broadly sound. Macao is a net foreign creditor with a net foreign asset position around 280% GDP. The current account balance is sizeable with a double digit surplus. Pockets of risks stem from the unbalanced structure of the goods and services exports. Once more, dependence on China, tourism and the gaming industry are key issues.

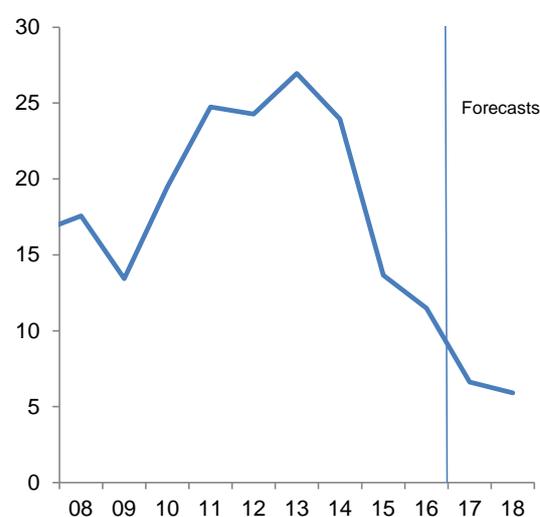
### Key economic forecasts

	2016	2017e	2018f	2019f
GDP growth (% change)	-2.1	8.0	4.0	3.5
Inflation (% , year average)	3.7	2.5	3.0	2.8
Fiscal balance (% of GDP)	11.5	6.6	5.9	5.5
Public debt (% of GDP)*	0.0	0.0	0.0	0.0
Current account (% of GDP)	27.4	32.0	30.5	29.5
External debt (% of GDP)	189.9	190.5	191.1	192

\* Perimeter includes the Central Government.

Sources: IHS, IMF, Euler Hermes

### Fiscal balance (% GDP)



Sources: IHS, Euler Hermes

### DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2017 Euler Hermes. All rights reserved.

View all Euler Hermes Economic Research online

<http://www.eulerhermes.com>

Contact Euler Hermes Economic Research Team

[research@eulerhermes.com](mailto:research@eulerhermes.com)

Last review: 2017-12-04  
Country Risk Analysts:

Mahamoud Islam  
[mahamoud.islam@eulerhermes.com](mailto:mahamoud.islam@eulerhermes.com)