

External headwinds offset domestic strengths

General Information



GDP	USD55.50bn (World ranking 81, World Bank 2014)
Population	577,900 (World ranking 166, World Bank 2014)
Form of state	Limited Democracy
Head of government	Chief Executive Fernando Chui Sai On
Next elections	2019, Chief Executive election



Strengths

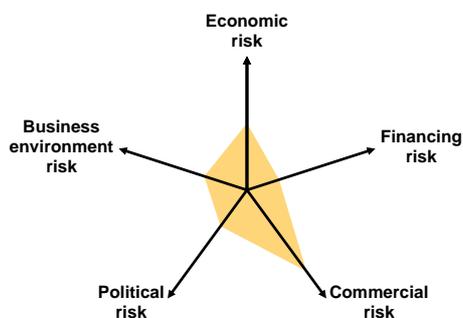
- High income market. Macao is ranked among the top ten markets in terms of GDP per capita
- Strong financial buffers with robust government position and large FX reserves
- Solid banking system
- Low level of unemployment

Weaknesses

- Economy highly dependent on tourism and gaming sectors
- 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	63% 1	33% China
China	16% 2	10% China, Hong Kong SAR
United States	4% 3	9% Switzerland
Japan	2% 4	8% France
Germany	1% 5	7% Italy

By product (% of total)

Exports	Rank	Imports
Photo apparatus, optical goods, watches	15% 1	15% Miscellaneous manufactured articles
Miscellaneous manufactured articles	12% 2	10% Telecommunication and sound recording apparatus
Telecommunication and sound recording apparatus	9% 3	9% Photo apparatus, optical goods, watches
Articles of apparel & clothing accessories	8% 4	5% Road vehicles
Electrical machinery	6% 5	5% Articles of apparel, clothes

Source: UNCTAD

Economic Overview

The economy is set to remain in recession in 2016

In 2015 the economy fell into recession with GDP contracting by -20%. This slowdown was mainly driven by the collapse of tourism receipts, the decline in the gaming sector activity (-34%) which accounts for nearly 59% of total output. The gaming industry suffers from anti-corruption measures implemented in Mainland China. This limited the number of travellers to Macao and weighted on the country's exports of services through tourism, which accounts for nearly 80% of total exports. Conversely, private consumption remained resilient thanks to a still very low level of unemployment and high incomes. Public spending also continued to act as an economic booster with further increase in social welfare expenditures, and investment in specific infrastructure projects.

GDP is set to contract by -2% in 2016. Adverse spillovers from Mainland China and Hong Kong SAR will continue to weigh on the country's output and exports. China's and Hong Kong GDP growth are set to slow further respectively to 6.5% (from +6.9% in 2015) and 2% (from +2.4%). Domestically, lower tax revenues from the gaming sector will dent the overall budget (direct tax from gaming represent 80% of government revenues) and incite the government to be more prudent. Accumulated fiscal buffers will be used to support households and keep unemployment rate at a low level, public investment may see some moderation. In that context, companies will be faced with downward pressures. On activity, the struggles in the tourism and gaming sectors will lead to the postponement (or cancellations) of new construction projects.

Solid financial buffers should enable to limit the impact of adverse external shocks

Monetary and financial stability coupled with large foreign reserves are the main buffers for Macao to go through the current activity slowdown. Public debt is inexistent and fiscal reserves represent more than half of GDP. Despite a noteworthy deterioration due to the slowdown in services exports, the current account remains in surplus in 2015 (22% of GDP) due to lower imports growth and lower commodity prices. The financial system is also a key factor for Macao's stability. Banks, often foreign owned, have sound fundamentals and benefit from large liquidity reserves enabling easy access to credit.

Main downside risks stem again from adverse external shocks. Further decrease in China's demand will act as a drag. Increasing tightening from the FED would lead to tighter financing conditions. Moreover current volatility on financial markets might encourage investors to withdraw part of their assets from Macao.

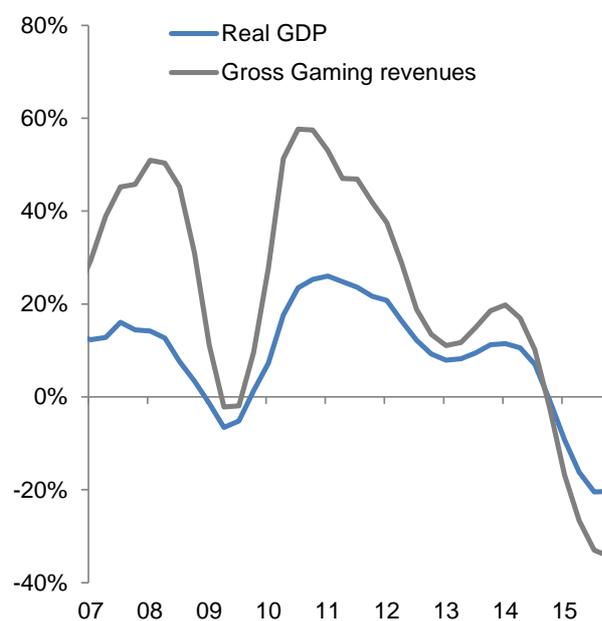
Key economic forecasts

	2014	2015f	2016f	2017f
GDP growth (% change)	9.0	-20.3	-2.0	3.0
Inflation (% , end-year)	4.7	3.7	2.5	3.0
Fiscal balance (% of GDP)	20.4	5.0	1.0	1.0
Public debt (% of GDP)*	0	0	0	0
Current account (% of GDP)	38.3	22.2	20.0	16.0
External debt (% of GDP)	105.0	102.0	100.1	99.0

* Perimeter includes the Central Government.

Sources: IHS, IMF, Euler Hermes

Real GDP and gaming revenues growth (4q/4q)



Sources: IHS, Euler Hermes

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