Monetary and Financial Stability Review*

Research and Statistics Department
Monetary Authority of Macao

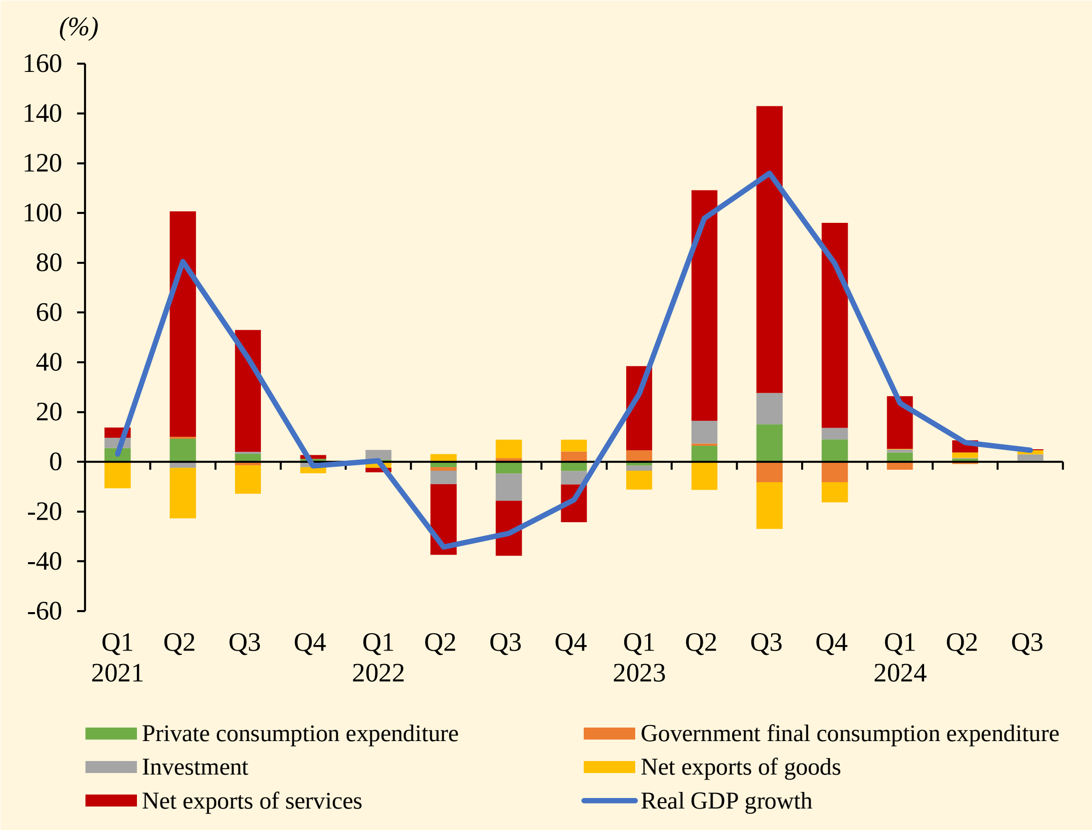
1. Macroeconomic Background

Macao's economy is set on a course to recovery on the back of robust external demand. Thanks to the advancements in the tourism sector and private consumption, Macao's real gross domestic product (GDP) achieved a year-on-year growth of 15.2% in the first half of 2024. Mainly attributable to the moderated growth in service exports resulting from a high-base effect of comparison, the pace of expansion in real GDP slowed to 4.7% in the third quarter of 2024. For the first three quarters of 2024, the local economy attained a double-digit growth of 11.5%, representing a recovery of 86.3% of the pre-pandemic level in the same period of 2019.

Net service exports climbed at a milder pace. Underpinned by the strong growth in inbound tourism, gross gaming receipts (GGR) registered a year-on-year upsurge of 41.8% in the first half of 2024. Despite the aforementioned high-base effect, GGR recorded a double-digit expansion of 13.9% in the third quarter of 2024, with growth momentum of mass-market and VIP baccarat receipts gaming receipts escalating by 14.8% and 11.2% respectively. In particular, the mass market in the third quarter of 2024 surpassed the pre-pandemic level by 7.1% in comparison with the same period of 2019. Consequently, service exports posted an uptick of 1.3% in the respective quarter. After subtracting service imports, net service exports edged up 0.6% and contributed 0.4 percentage points to GDP growth.

* This review mainly applies statistics and information available as at 3 January, 2025.

Chart 1: Real GDP Growth and Contributions by Component



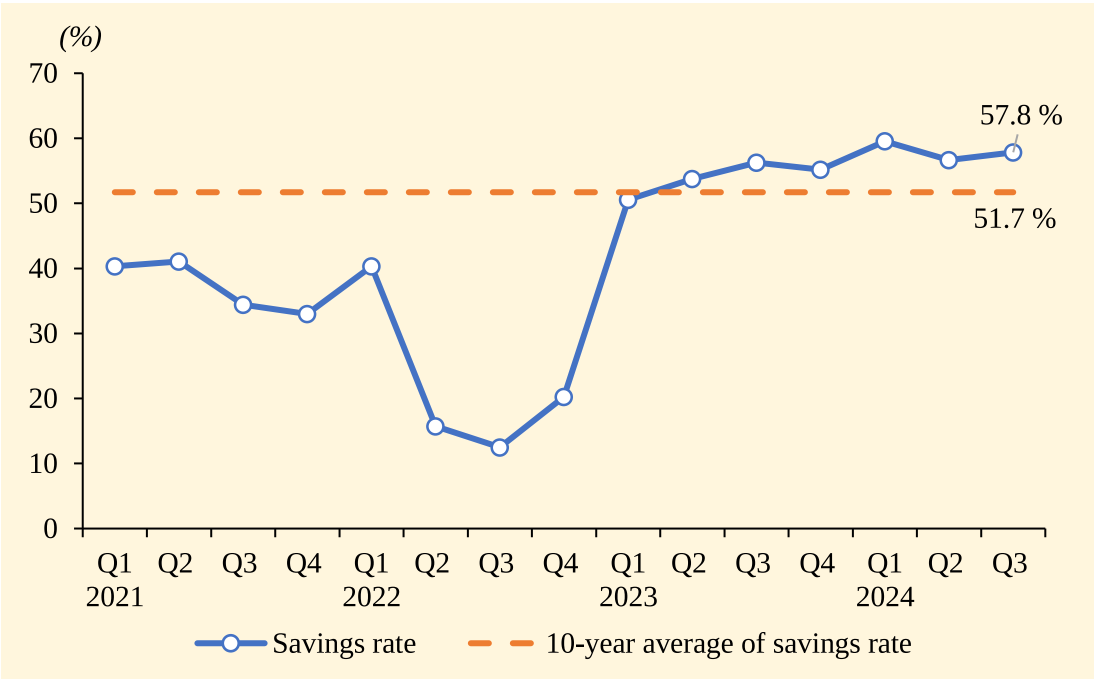
Source: Statistics and Census Service (DSEC).

Net exports of goods made the second largest positive contribution to GDP growth as visible trade deficits narrowed. In the first half of 2024, Macao's merchandise trade retreated with exports and imports of goods in GDP accounting shrinking year-on-year by 16.4% and 8.4% respectively. In the subsequent quarter, visible exports and imports contracted by 12.3% and 8.0% respectively. As merchandise exports fell less than imports in absolute value, the visible trade deficits narrowed by 6.2% to MOP22.4 billion. Correspondingly, net exports of goods contributed 1.6 percentage points to Macao's GDP growth in the third quarter of 2024.

Private consumption maintained positive growth. Bolstered by favourable labour-market conditions, private consumption grew year-on-year by 4.3% in the second quarter and 1.9% in the third quarter of 2024. As a result, this component remained as the third largest contributor to GDP growth, making up 0.6 percentage points in the third quarter of 2024. On the other hand, public consumption expenditure registered a contraction of 6.7% and 1.7% respectively in the second quarter and the third quarter of 2024, partly ascribed to the conclusion of livelihood subsidy scheme on the basis of orderly economic recovery. Correspondingly, this component pulled down economic growth by 0.2 percentage points in the third quarter of 2024 and became the largest drag on Macao's GDP.

Investment spending prolonged its upward trajectory. Driven by robust economic recovery, overall investment spending, i.e. the sum of gross fixed capital formation and changes in inventories, advanced notably by 14.7% year-on-year in the third quarter of 2024, up from 1.6% in the preceding quarter. The growth was mainly attributed to the double-digit expansion of 28.7% in private investment. This component became the largest contributor to the economy, pushing up GDP growth by 2.4 percentage points in the third quarter of 2024.

Chart 2: Macao's Savings Rate



Note: The savings rate is calculated by subtracting private consumption expenditure and government final consumption expenditure from real GDP, divided by real GDP.
Source: DSEC.

The savings rate ascended amid economic recovery. With exports of services growing faster than private and public consumption expenditure, the savings rate of Macao rose year-on-year by 1.6 percentage points to 57.8% in the third quarter of 2024, marking the seventh consecutive increase. The continued rise in the savings rate indicated Macao's stronger resilience and liquidity cushion against future shocks.

Inbound tourism consolidated its recovery and embarked on a solid pathway to sustainable growth. Buttressed by enriched tourism products alongside the SAR Government's endeavour to expand the market base, the number of visitor arrivals further proliferated year-on-year by 26.2% to 31.9 million in the first 11 months of 2024, representing a recovery of 87.8% of the pre-pandemic level in the same period of 2019. Arrivals from Mainland China, the top visitor source of Macao, surged by 31.4% to 22.4 million, with those travelling under the Individual Visit Scheme (IVS) mounting up by 17.6%. Concurrently, arrivals from Hong Kong Special Administrative Region (Hong Kong SAR) and Chinese Taiwan, the second and third largest sources, posted respective increments of 0.6% and 69.1%.

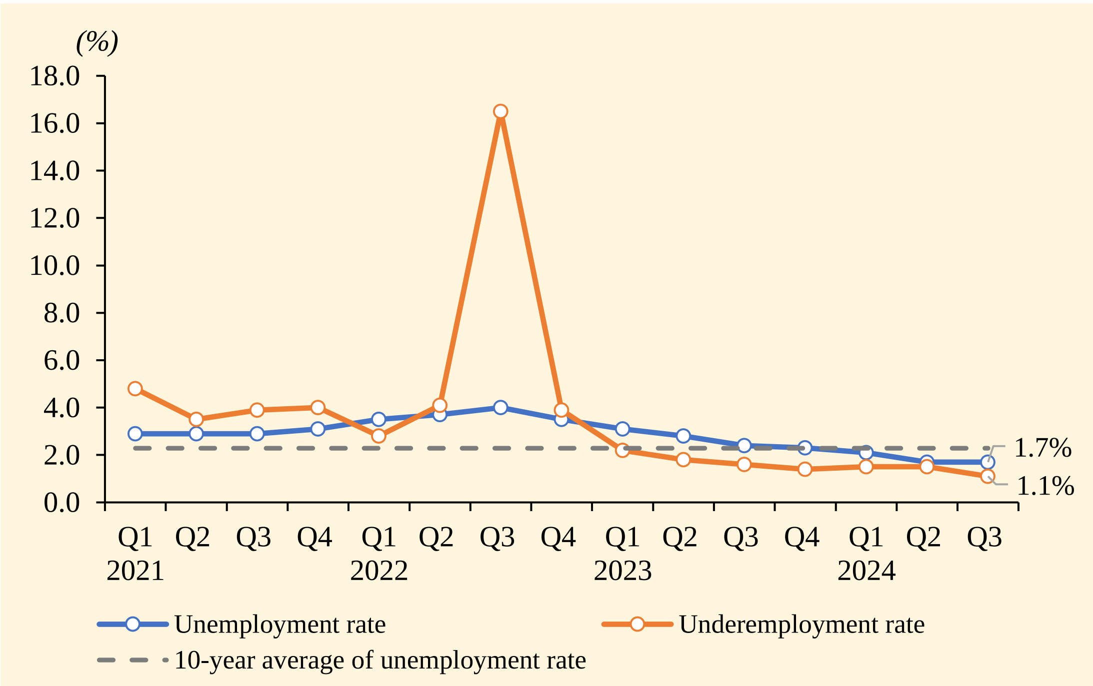
Total visitor spending maintained its upward trajectory, albeit with diminished momentum. Following a significant rebound of 218.7% in 2023, visitor spending, as measured by exports of tourism services in GDP accounting, increased at an annual rate of 14.5% in the first three quarters of 2024. By component, visitor spending on gaming services advanced 28.4% whereas those on non-gaming services toned down 6.1%. Nevertheless, in comparison with the same period of 2019, visitor spending on non-gaming services surpassed its pre-pandemic level by 14.0%.

Retail sales experienced a backslide amid shifting consumption patterns. In the first three quarters of 2024, retail sales retreated year-on-year by 16.9%, as against an upswing of 49.9% in the same period of 2023. The downward adjustment was attributable to changes in consumer activities following the fulfillment of post-pandemic pent-up demand on top of local currency appreciation, as well as the upsurge in outbound travel by residents. By component, notable decrements were recorded in "watches, clocks and jewellery" (-26.6%) and "leather goods" (-24.4%).

Hotel occupancy stepped up in conjunction with buoyant tourist inflow. At end-November 2024, the number of guest rooms dwindled year-on-year by 6.0% to 43,492, partly ascribed to renovation projects at certain venues during the review period. Meanwhile, the number of hotel guests advanced by 8.1% to 13.2 million as the number of overnight visitors ascended in the first 11 months of 2024. Consequently, the average occupancy rate of hotels and guesthouses climbed 5.0 percentage points to 86.1%.

Labour-market conditions remained tight with the unemployment rate hovering at low levels. The unemployment rate stayed well below its 10-year average (2.3%) for three consecutive quarters (Chart 3). For the three-month period through November 2024, the number of employed persons rose 2.0% from a year ago to 379,300 whereas the number of unemployed persons fell notably by 22.2% to 6,700. Correspondingly, the unemployment rate abated from 2.3% in the same period of 2023 to 1.7%. On the other hand, the underemployment rate inched up 0.1 percentage point to 1.5%. At end-November 2024, the number of imported workers increased by 4.3% year-on-year to 183,304.

Chart 3: Unemployment and Underemployment

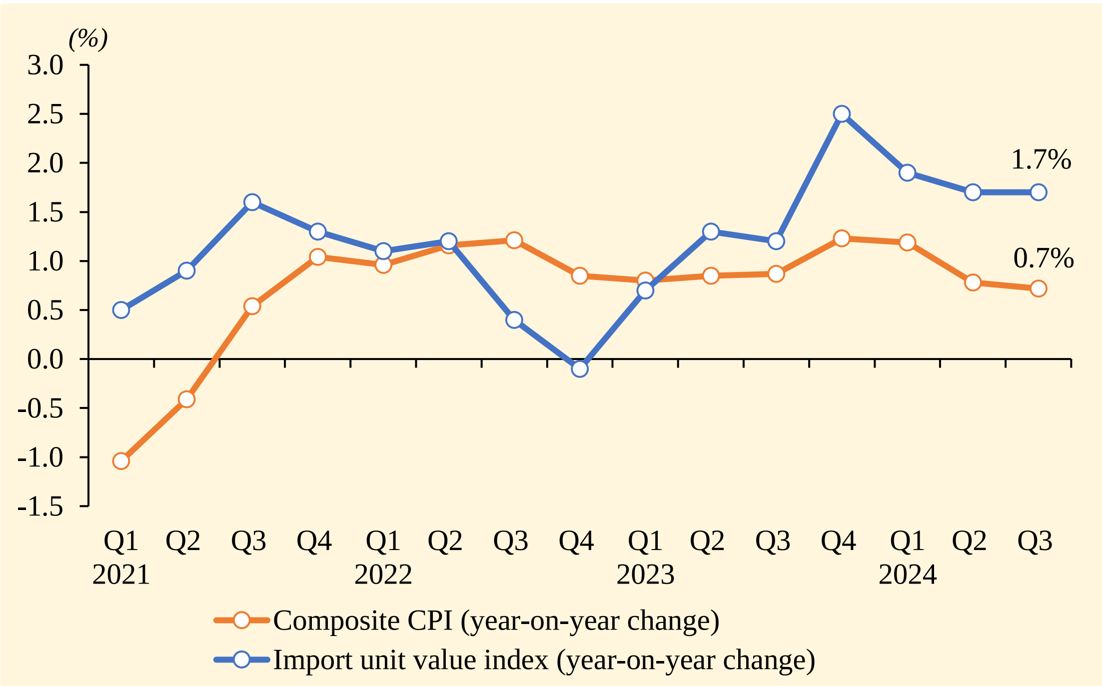


Source: DSEC.

Labour income saw signs of improvement. In the third quarter of 2024, the median monthly employment earnings held steady at MOP18,000 whereas those of local residents climbed year-on-year by 2.5% to MOP20,500. By industry, "recreational, cultural, gaming and other services", the sector with the largest share of the employed population, rose year-on-year by 2.5% to MOP20,500 while "financial activities" stood at MOP22,000.

Consumer prices stayed moderate notwithstanding gentle climbs in import prices. The import unit value index (UVI) – a proxy for imported prices – rose year-on-year by 1.7% in the third quarter of 2024. By component, "consumer goods" (+2.3%) and "capital goods" (+1.1%) were partly offset by "fuels and lubricants" (-1.6%). Meanwhile, domestic inflationary pressures stayed mild. The average composite consumer price index (CPI) increased 0.8% year-on-year in the first 11 months of 2024, down 0.1 percentage point from the same period of 2023.

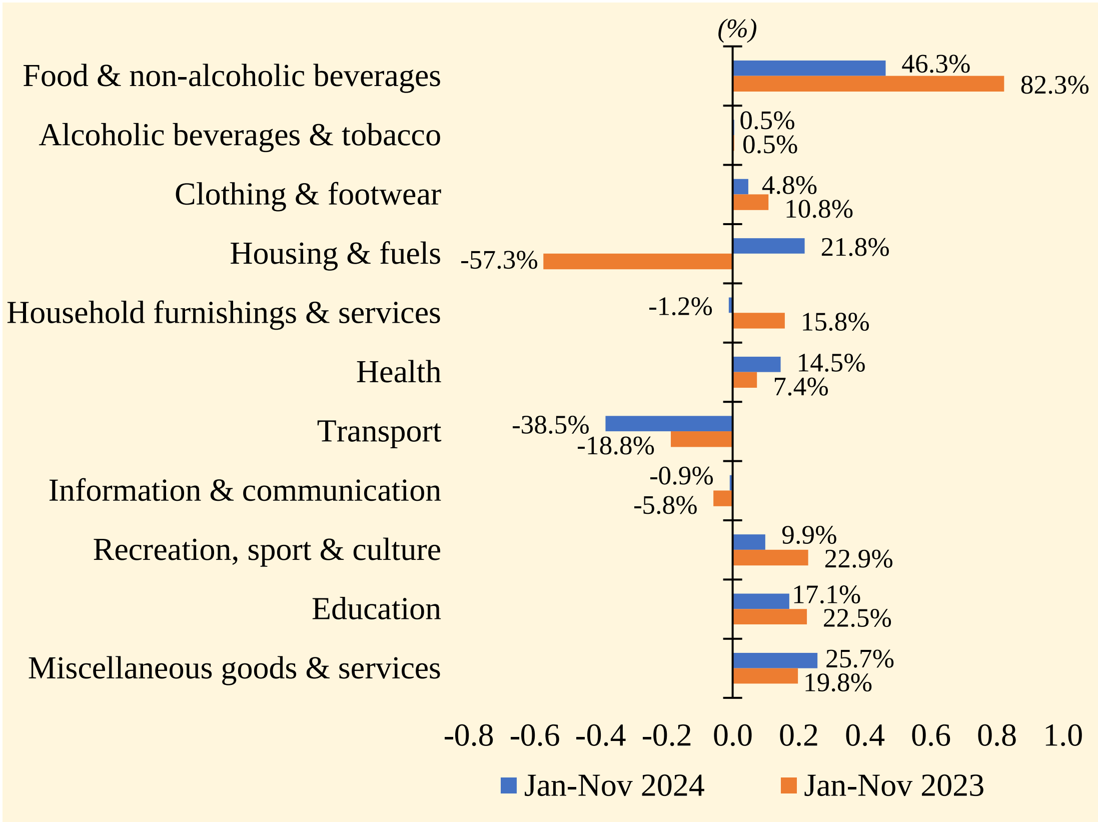
Chart 4: Composite CPI-based and Unit Value Index-based Inflation



Source: DSEC.

In the first 11 months of 2024, "housing & fuels", the largest component of the CPI basket, rose 0.5% over a year ago, as against a decrement of 1.6% in the same period of 2023. Meanwhile, "food & non-alcoholic beverages", the second largest category in the CPI basket, posted an uptick of 1.2%, down from 2.5% over a year ago. "Eating out & take away", which accounted for over half of the weight of this category, decelerated from 2.9% to 2.4%. On the other hand, the contraction in "transport" prices widened from 2.0% to 3.3%.

Chart 5: Contributions to CPI-based Inflation by Component



Note: Starting from October 2024, the DSEC has rebased the CPI basket to the period of July 2023 to June 2024. The figures of 2023 were based on the old basket (April 2018 to March 2019).
Source: DSEC.

Property-market activities ameliorated alongside the relaxation of demand-side management measures. In the first 11 months of 2024, the transaction volume of residential units increased year-on-year by 18.9% to 3,118 units while the corresponding value rose 10.7% to MOP18.8 billion. Meanwhile, the average transaction price (ATP) per square metre of residential properties slid year-on-year by 4.6% to MOP86,579 in the third quarter of 2024, marking the fifth consecutive contraction.

Activities of non-residents in overall property transactions remained relatively small despite rebounds in recent quarters. In the first 11 months of 2024, residential units purchased by non-residents registered a notable annual expansion of 387.5% to 195 units while the corresponding transaction value soared 300.4% to MOP1.4 billion. As a result, the share of non-resident transactions in the aggregate value of residential units purchased rose to 7.3% from 2.0% over the same period of 2023.

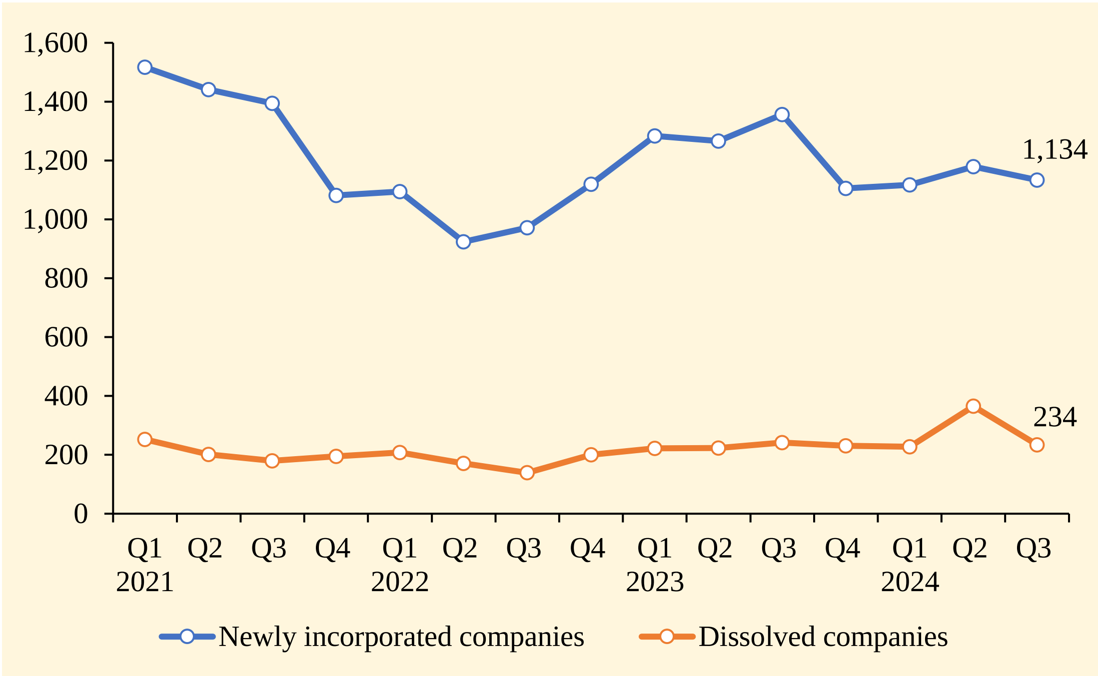
Table 1: Residential Property Transactions and Prices

Year	Quarter	Number of residential units transacted	Value of residential units transacted (MOP million)	Transaction price* (MOP)
2021		6,001	40,800	103,859
2022		2,809	17,972	93,795
2023		2,879	18,301	93,500
2021	1	1,310	8,474	100,217
	2	1,933	13,693	105,412
	3	1,537	10,516	104,141
	4	1,221	8,116	104,865
2022	1	826	5,578	96,048
	2	793	4,852	94,800
	3	541	3,360	91,788
	4	649	4,181	91,001
2023	1	848	5,593	93,351
	2	878	5,781	97,922
	3	628	4,068	90,743
	4	525	2,858	89,259
2024	1	573	3,336	85,004
	2	1,026	6,653	91,697
	3	897	5,264	86,579

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

Local business sentiment remained gloomy. The number of newly incorporated companies, after deducting dissolved companies, fell year-on-year by 19.2% to 900 in the third quarter of 2024, narrower than the drop of 22.0% in the previous quarter.

Chart 6: Numbers of Newly Incorporated and Dissolved Companies



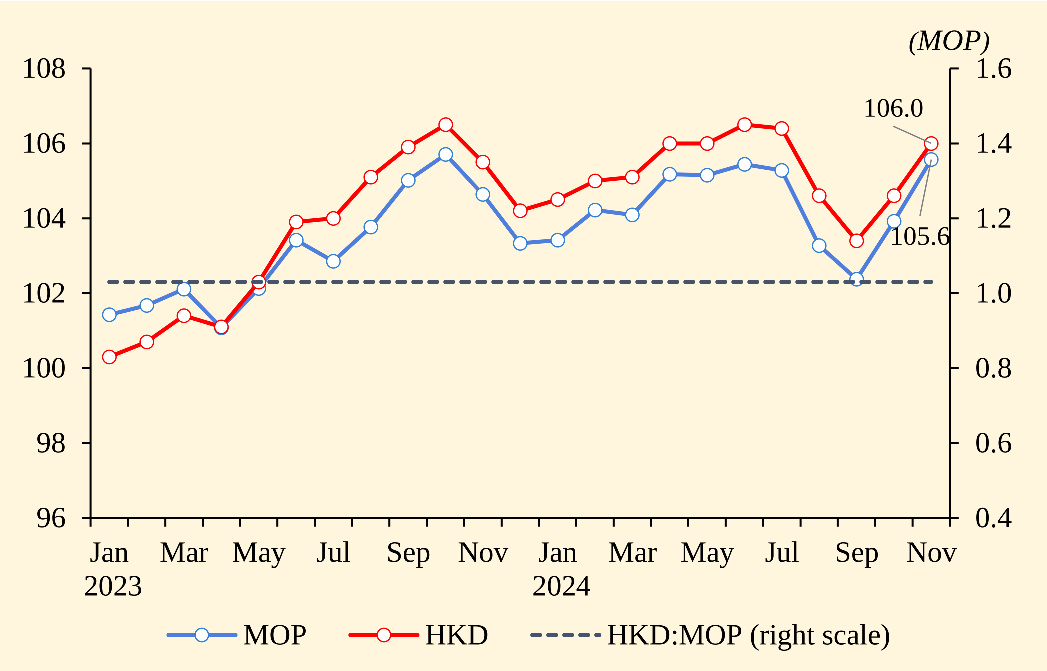
Source: DSEC.

2. Assessment of Monetary Stability

In the context of free convertibility of the MOP, the fixed exchange rate between the local currency and the Hong Kong dollar (HKD) maintained by the Monetary Authority of Macao (AMCM) is crucial to Macao's monetary stability. The exchange rate is fixed at the middle rate of HKD1:MOP1.03, attributable to the credible currency board arrangement and prudent fiscal management. While the HKD is linked to the US dollar (USD) under a similar currency board arrangement, the exchange value of the MOP against the USD has remained largely stable with a narrow fluctuating margin.

The MOP exchange rate moved up in line with the strengthening of its anchor currency. In the six-month period through November 2024, the MOP appreciated against several non-USD currencies compared with the same period of 2023. Concurrently, the nominal effective exchange rate index, a gauge of the MOP versus a basket of foreign currencies of Macao's major trading partners, registered an increase of 0.9% year-on-year.

Chart 7: Bilateral Exchange Rates between MOP and HKD, and Effective Exchange Rate Indices of MOP and HKD*



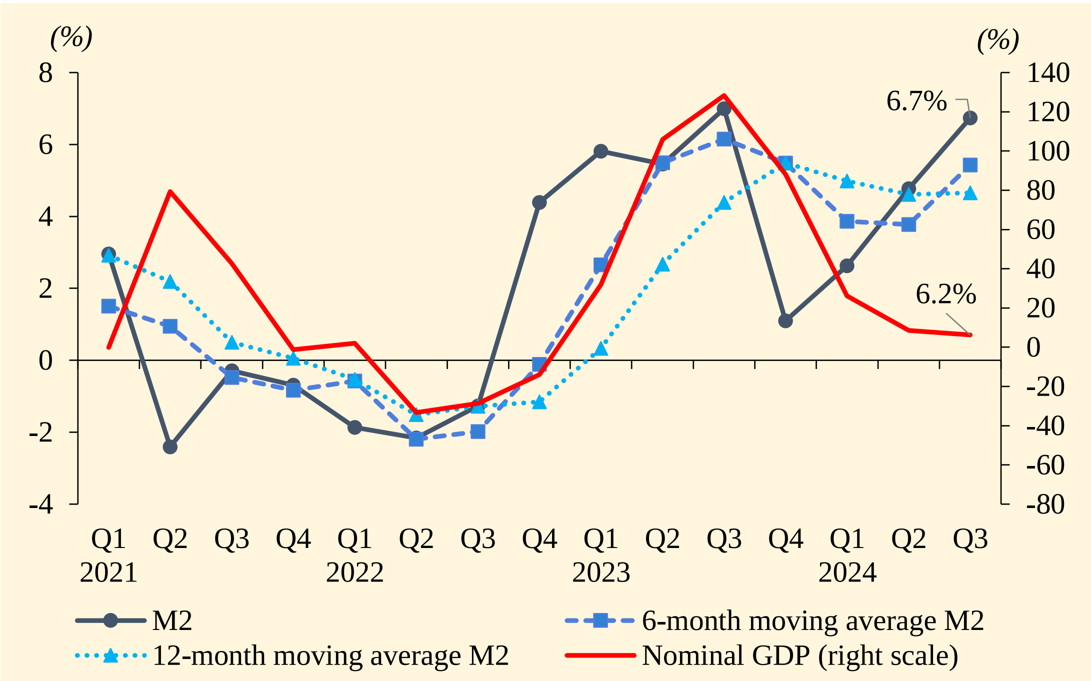
*Note: *Base period for MOP and HKD = January 2020.*
Sources: Hong Kong Monetary Authority (HKMA) and Monetary Authority of Macao (AMCM).

The full convertibility of the MOP remained intact underpinned by sufficient reserves. Macao SAR's foreign exchange reserves increased 5.4% over a year earlier to MOP232.6 billion at end-November 2024. The reserves, which fully backed MOP monetary liabilities, upheld the full convertibility of the local currency under the linked exchange rate system (LERS).

The sturdy fiscal position upheld the credibility of the LERS. In the first 11 months of 2024, mainly attributed to a robust growth of 37.2% in revenue from gaming concessionaires, the public revenue, excluding public autonomous agencies, increased 14.6% year-on-year to MOP101.0 billion. Meanwhile, the public expenditure, excluding public autonomous agencies, rose 11.3% year-on-year to MOP83.8 billion. These translated into an annual increase of 34.4% in the central account's fiscal surplus to MOP17.1 billion. In addition, the SAR Government's debt-free status remained intact.

Growth of monetary aggregates accelerated amidst the sustained expansion of trade balances. The development of Macao's monetary aggregates was largely influenced by the performance of its external sector. In the first three quarters of 2024, the trade surplus expanded steadily, primarily fuelled by the improvement in external demand. This upward trajectory continued to propel the monetary aggregates of Macao. At end-November 2024, the growth momentum of the broad money supply (M2) accelerated from 6.7% a year ago to 7.3%, reaching MOP781.6 billion. Meanwhile, the narrow money supply (M1) grew 1.7% year-on-year to MOP71.2 billion.

Chart 8: Growth of Money Supply and Nominal GDP



Note: Monthly average for money supply.
Sources: DSEC and AMCM.

Contraction in renminbi (RMB) deposits persisted amid depreciation pressures on the RMB. Largely driven by the decrease in RMB deposits held by residents, the balance of RMB deposits with local banks recorded an annual decline. At end-November 2024, RMB deposits with local banks dropped 2.7% year-on-year, totalling MOP104.1 billion or RMB94.1 billion. Consequently, its share in total deposits went down to 8.2% from 8.4% in the same period of 2023.

Domestic credit witnessed a setback alongside a shrinking private sector's debtor position. Private-sector credit registered an annual decrement of 4.7% to MOP532.2 billion at end-November 2024. On the other hand, the creditor position of the public sector strengthened, with its deposits rising by 2.1% to MOP278.0 billion. Consequently, domestic credit retreated further by 11.1% year-on-year to MOP254.2 billion.

Table 2: Monetary Survey

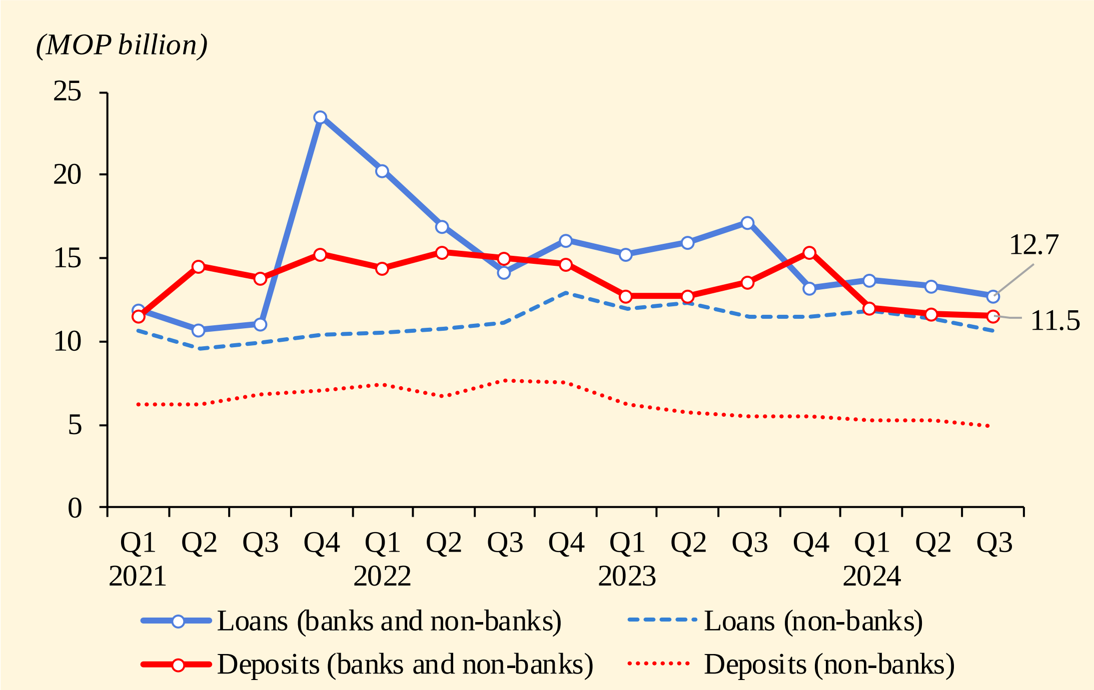
(MOP million, end of period)

Year	Quarter	M2	Net foreign assets	Domestic credit
2021		687,540.1	618,548.7	250,062.5
2022		717,710.7	617,451.4	277,767.7
2023		725,579.6	627,128.7	287,865.4
2024*		781,562.5	729,569.3	254,204.0
2021	1	699,380.2	644,558.0	224,153.3
	2	695,097.3	613,934.7	241,526.5
	3	688,498.0	602,790.5	248,331.5
	4	687,540.1	618,548.7	250,062.5
2022	1	686,330.1	619,257.7	247,157.5
	2	680,090.7	602,137.4	250,920.5
	3	679,741.4	598,257.0	254,745.1
	4	717,710.7	617,451.4	277,767.7
2023	1	726,196.9	616,438.6	296,392.6
	2	717,217.4	614,131.7	289,050.8
	3	727,283.3	630,208.0	286,625.1
	4	725,579.6	627,128.7	287,865.4
2024	1	745,277.0	644,317.9	289,669.6
	2	751,452.3	683,366.3	273,805.6
	3	776,267.9	725,713.8	259,637.9

*Note: * Figures at end-November 2024.*
Source: AMCM.

Both MOP deposits held by non-residents and MOP loans extended to them declined. At end-September 2024, MOP deposits held by external banks and non-banks fell year-on-year by 17.6% and 11.4% respectively, dragging the overall MOP deposits taken from non-residents down by 15.1% to MOP11.5 billion (Chart 9). Meanwhile, MOP loans extended to non-residents contracted further during the review period, marking an annual decline of 26.1% to MOP12.7 billion.

Chart 9: MOP Deposits Held by Non-residents and MOP Loans Extended to Non-residents



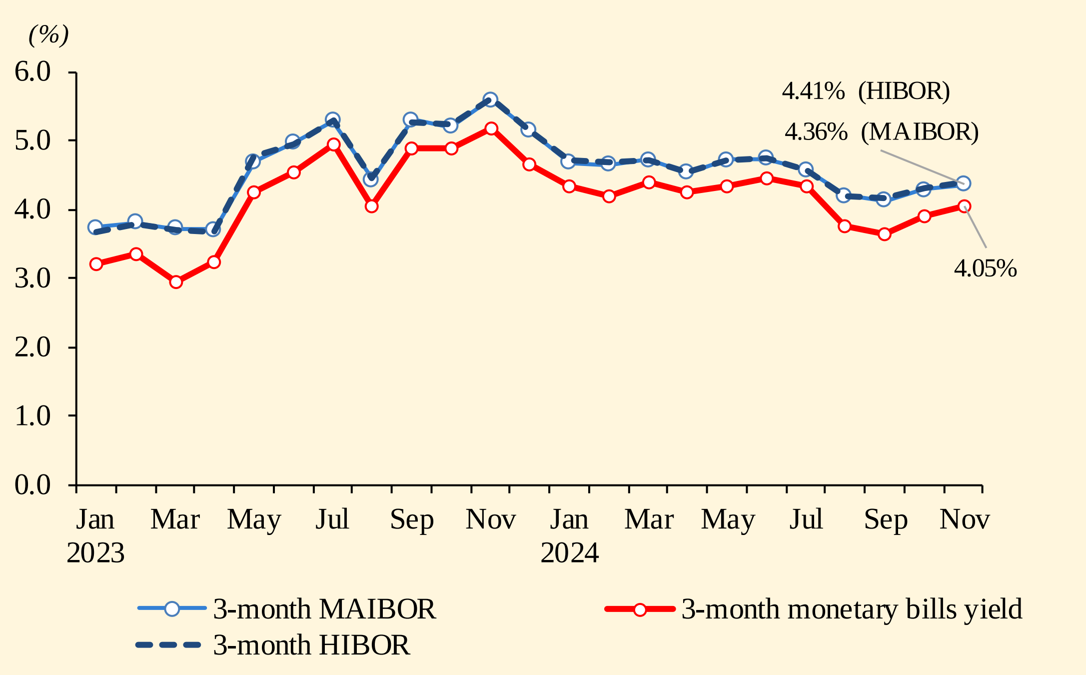
Source: AMCM.

Macao's policy interest rate broadly tracked Hong Kong's under the LERS. In light of the progress on inflation and the balance of risks, the US Federal Open Market Committee (FOMC) cut the target range for the Fed funds rate three times from September to December 2024, by 100 basis points in total to 4.25%-4.50%. The policy interest rate of Hong Kong was lowered correspondingly amidst the LERS between the HKD and the USD. Given the MOP's link to the HKD, Macao's Base Rate was cut in line with that of Hong Kong, marking 4.75% at end-2024.

Market interest rates in Macao generally exhibited downtrends in line with the rate-cutting cycle. At end-November 2024, the 3-month Macao Interbank Offered Rate (MAIBOR) dropped from 5.60% a year earlier to 4.36% while the 3-month yield of monetary bills decreased from 5.20% to 4.05% (Chart 10). On the retail front, the prime lending rate was lowered by 50 basis points to 5.63% while the quoted savings deposit rate fell to 0.01% from 0.17% a year earlier (Chart 11). Reflecting a decline in the average funding costs for Macao banks, the composite interest rates witnessed a downturn in the first three quarters of 2024. At end-September 2024, the MOP and

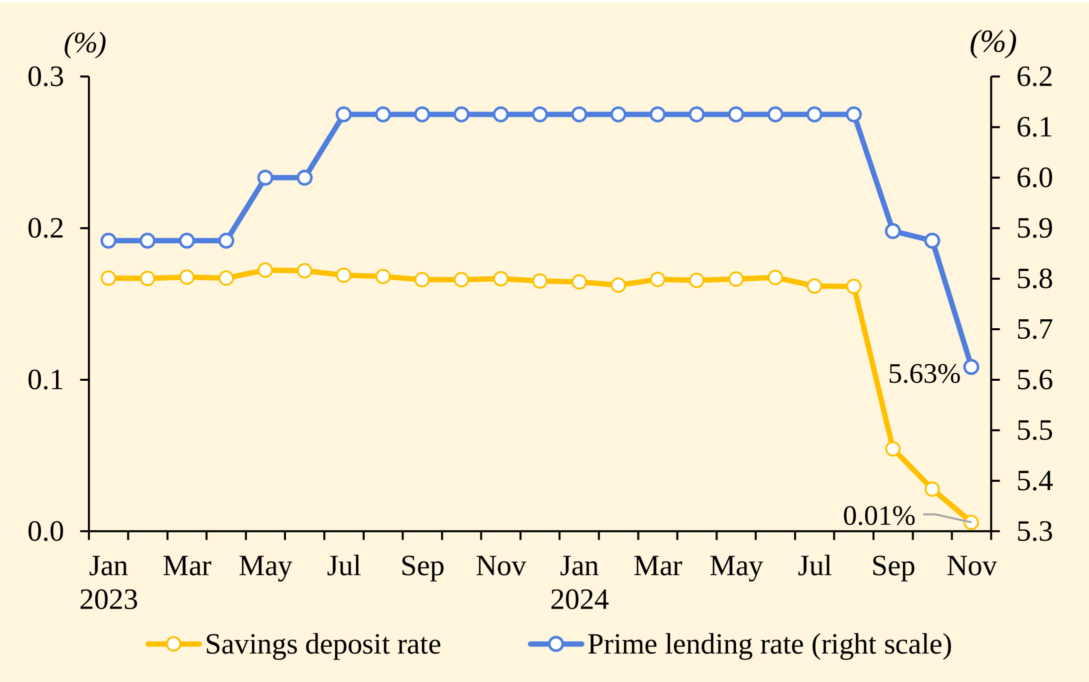
HKD composite interest rates dropped from 2.20% and 3.93% at end-2023 to 2.03% and 3.44% respectively (Chart 12).

Chart 10: Monetary Bills Yield, MAIBOR and HIBOR



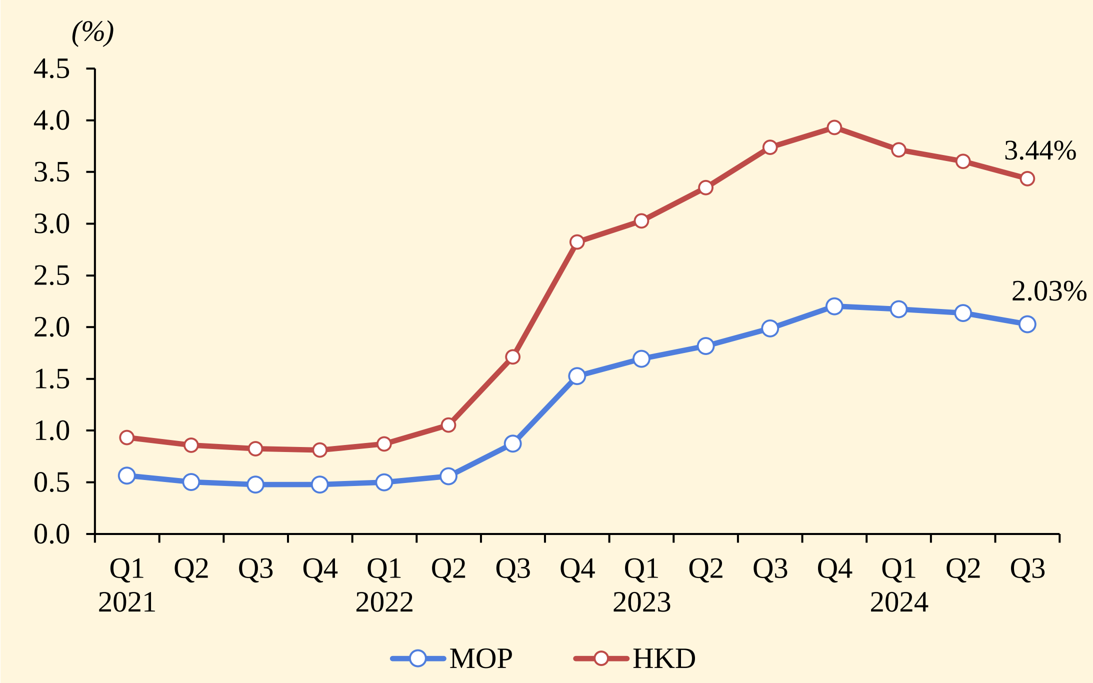
Note: Period-end figures.
Sources: HKMA and AMCM.

Chart 11: Deposit and Lending Interest Rates



Note: Rates are the weighted averages of list rates quoted by sampled banks.
Source: AMCM.

Chart 12: Macao's Composite Interest Rates for MOP and HKD



Source: AMCM.

3. Assessment of Financial Stability

Gross income of Macao banks dropped as the decrement of interest margin offset the increment of non-interest income. In the first 11 months of 2024, interest margin shrank year-on-year by 21.5% whereas non-interest income went up by 13.7%. With interest margin accounting for 62.4% of gross income, the latter thus fell 11.1%. As interest margin declined at a faster pace than gross income, the ratio of interest margin to gross income moved down 8.2 percentage points to 62.4% (Table 3).

Interest margin shrank as interest income dropped whereas interest expenses expanded. In the first 11 months of 2024, interest income fell 1.5% year-on-year to MOP87.8 billion. On the other hand, the cost of credit operations rose 3.6% to MOP73.7 billion. As a result, interest margin registered an annual decline of 21.5% to MOP14.1 billion.

Table 3: Indicators of Banks' Earnings and Profitability

(%)

Year	Quarter	Return on assets	Return on equity	Interest margin to gross income	Non-interest expenses to gross income
2021		0.7	14.2	71.3	32.9
2022		0.5	10.6	73.8	36.9
2023		0.2	3.3	70.0	40.3
2024*		..	..	62.4	45.6
2021	1	0.9	17.3	69.3	31.0
	2	0.7	14.9	71.9	32.1
	3	0.8	16.9	71.8	31.4
	4	0.7	14.2	71.3	32.9
2022	1	0.5	12.2	69.8	37.3
	2	0.6	12.4	69.3	35.8
	3	0.5	10.4	71.3	35.4
	4	0.5	10.6	73.8	36.9
2023	1	0.6	11.8	65.5	36.7
	2	0.6	10.2	68.2	38.7
	3	0.5	9.3	70.2	40.0
	4	0.2	3.3	70.0	40.3
2024	1	0.4	7.3	64.2	45.3
	2	0.4	5.8	64.7	43.4
	3	0.3	4.5	62.1	44.0

*Notes: * Figures for the first 11 months of 2024.*
.. Not applicable.
Source: AMCM.

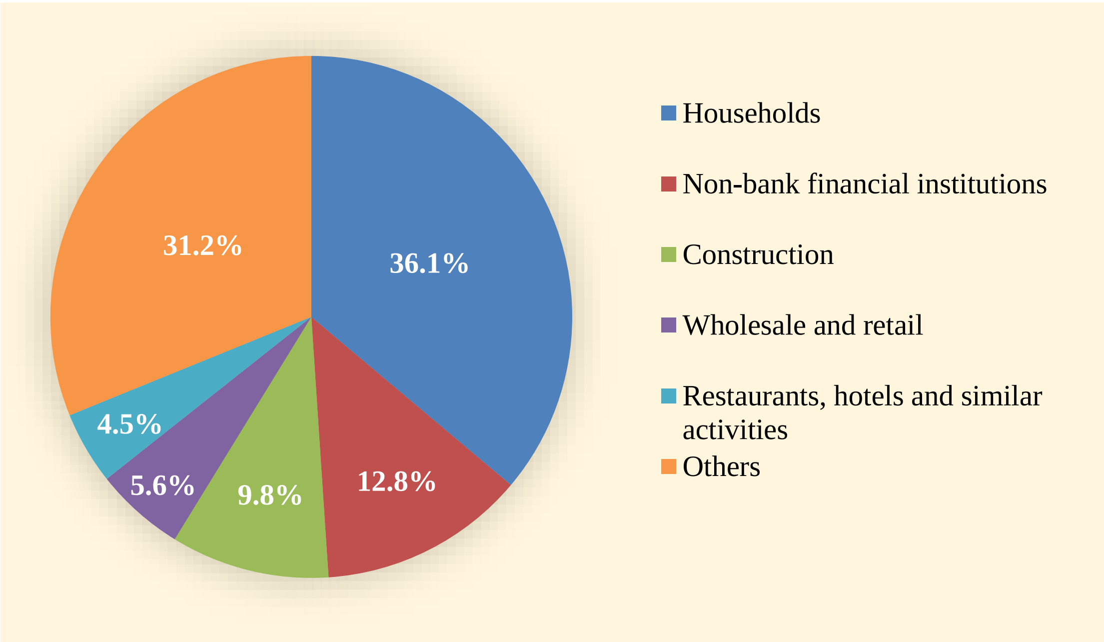
Banks' non-interest income expanded faster than non-interest expenses. Driven by the increment of income derived from fees and commissions as well as securities investments, non-interest income grew by 13.7% year-on-year to MOP8.5 billion in the first 11 months of 2024. Meanwhile, non-interest expenses went up 0.3% to MOP10.3 billion. As non-interest expenses grew whereas gross income dropped, the ratio of non-interest expenses to gross income rose 5.2 percentage points to 45.6%.

Banks' operating profits registered a downward adjustment. In the first 11 months of 2024, banks' operating profits dropped 38.8% year-on-year to MOP5.6 billion as a result of narrowing interest margin and rising operating costs. In particular, banks' credit impairment provisions, which accounted for 39.5% of operating costs, rose 11.1%.

The local banking sector's profitability indicators witnessed signs of softening. In the first three quarters of 2024, the annualised return on assets (ROA), a measure of banks' efficiency in utilising their assets, slid by 0.3 percentage points to 0.3%. Meanwhile, the annualised return on equity (ROE) fell 4.8 percentage points to 4.5% due to lower net income after tax and higher capital.

Customer loans remained on the downward trajectory. Partly reflecting subdued credit demand of customers, bank credit trended down during the review period. At end-November 2024, total customer loans fell 12.1% from a year earlier to MOP1,006.3 billion. In particular, loans extended to the resident and non-resident sectors fell year-on-year by 4.8% and 18.7% respectively. Analysed by economic sector, the majority of customer loans were extended to individuals, non-bank financial institutions and the construction sector, with respective shares of 36.1%, 12.8% and 9.8% (Chart 13).

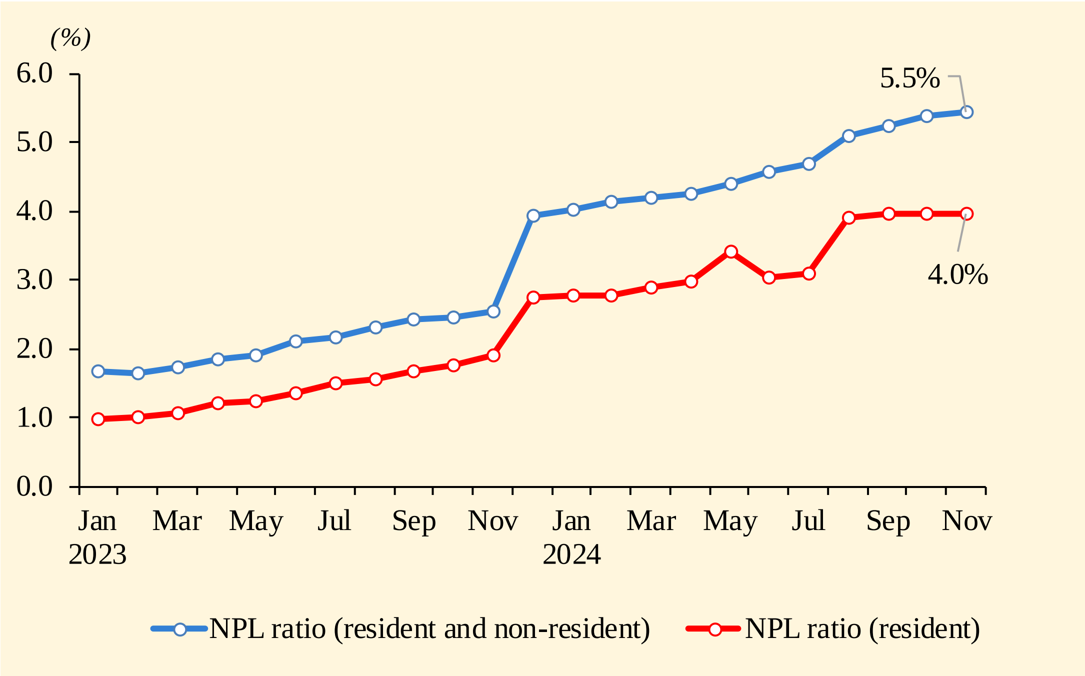
Chart 13: Distribution of Loans by Economic Sector



Source: AMCM.

Banks' asset quality deteriorated as indicated by higher non-performing loan (NPL) ratios. At end-November 2024, total NPLs increased from MOP29.3 billion a year ago to MOP54.9 billion. Coupled with an annual drop of 12.1% in total outstanding loans, the NPL ratio went up to 5.5%. In particular, the ratios for the resident and non-resident sectors marked 4.0% and 7.0% respectively (Chart 14).

Chart 14: Non-performing Loan Ratios of Banks



Source: AMCM.

Property mortgage loans comprised a larger proportion of private-sector loans. At end-November 2024, the outstanding balances of residential mortgage loans (RMLs)[1] and commercial real estate loans (CRELs)[2] contracted 4.8% and 5.7% respectively, bringing total property mortgage loans[3] down by 5.2% year-on-year to MOP370.0 billion. Nevertheless, as total private-sector loans shrank at a faster pace, the share of property mortgage loans in total private-sector loans expanded by 2.7

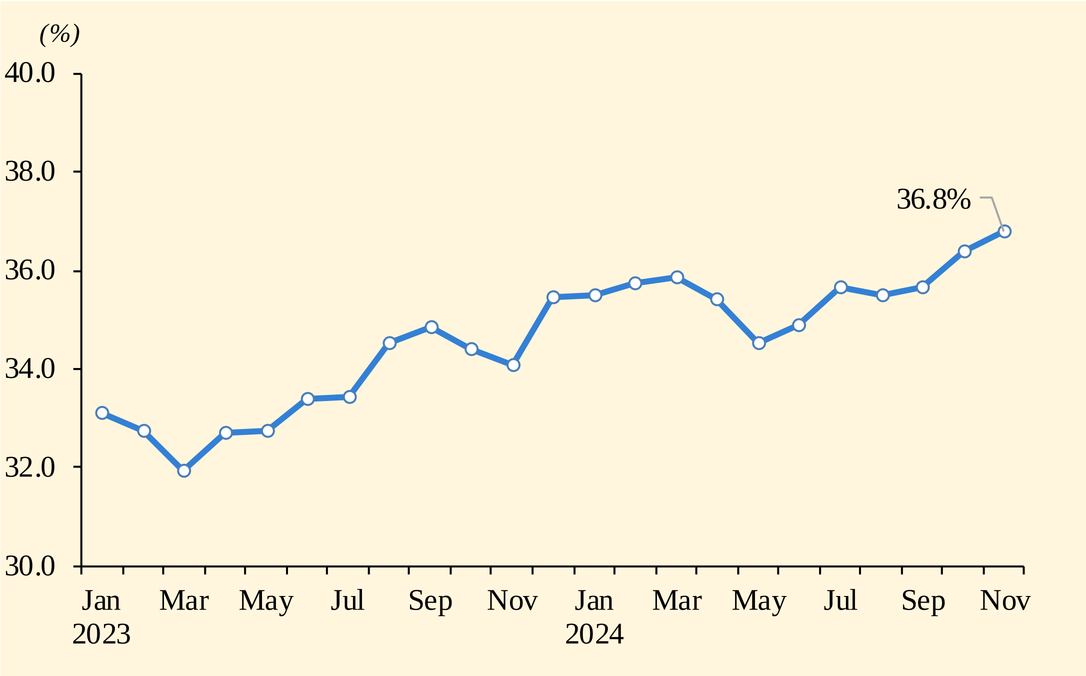
[1]RMLs refer to credit facilities provided by banks to individuals and enterprises that are collateralised by residential real estate in Macao. They include loans to finance purchase of residential properties and other purposes (such as refinancing loans, working capital and trade financing).

[2] CRELs refer to credit facilities provided by banks to individuals and enterprises that are collateralised by commercial real estate in Macao. They include loans to construction companies and loans to finance property development and investment (such as land development and construction of industrial, commercial and residential buildings for sale or for lease). Commercial real estate encompasses buildings, structures, and associated land (including uncompleted units) used for offices, shops, industries, hotels and tourism facilities.

[3] RMLs and CRELs are combined to provide a measurement of banks' property mortgage lending.

percentage points from one year ago to 36.8% (Chart 15). On the other hand, the asset quality of relevant loans deteriorated during the review period, with the delinquency ratio[4] of total property-related credit rising to 4.0% at end-November 2024.

Chart 15: Ratio of Property Mortgage Loans to Total Private-sector Loans



Source: AMCM.

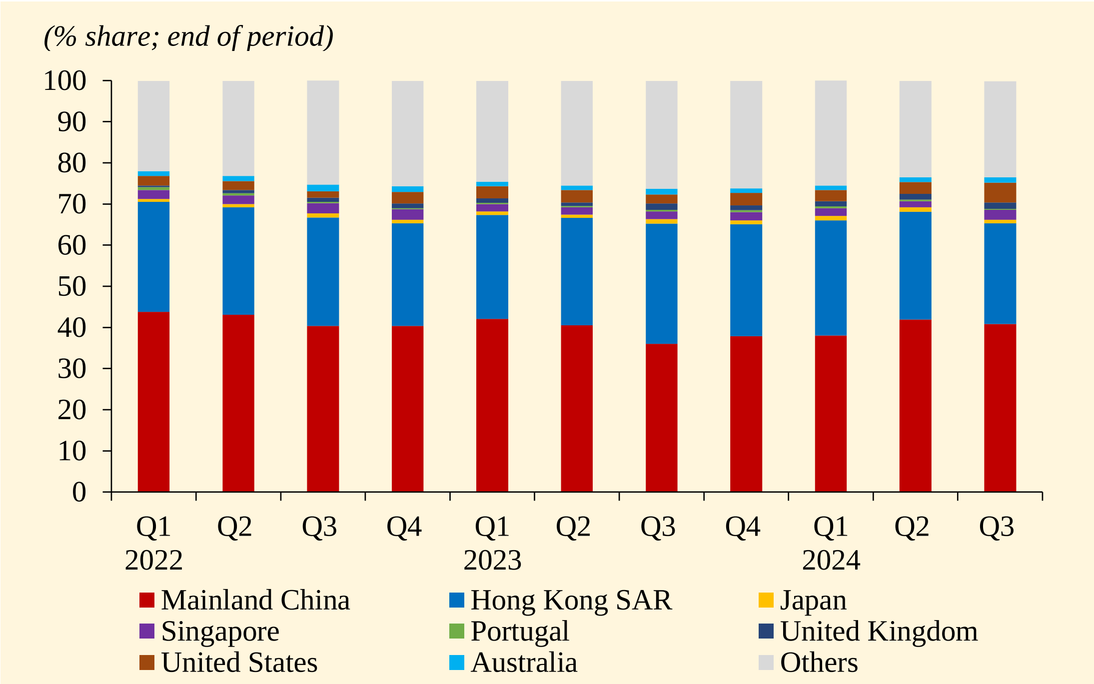
Personal loans witnessed a downswing. At end-September 2024, personal loans fell 2.5% year-on-year to MOP361.2 billion. In particular, loans extended to individuals with the purpose of purchasing residential properties dropped 1.7% to MOP198.1 billion. Meanwhile, personal non-housing loans retreated 3.5% from a year ago to MOP163.1 billion. Within this total, credit card balances contracted 0.9% to MOP1.0 billion whereas car loans increased 10.7% to MOP1.0 billion. Meanwhile, the quality of consumption credit showed slight deterioration, with the credit-card delinquency ratio[5] edging up 0.1 percentage point year-on-year.

[4] Delinquency ratio is a ratio of total amount of overdue mortgage loans to total outstanding mortgage loans. Loans overdue refer to those with payments of interest and/or principal overdue for more than three months.

[5] The credit-card delinquency ratio is measured by the delinquent amount overdue for more than three months to credit card receivables.

Macao banks continued to be the net creditor to the rest of the world. At end-November 2024, banks' external assets decreased 4.9% year-on-year to MOP1,419.9 billion while external liabilities contracted 13.6% to MOP946.6 billion. Hence, net external assets of the local banking sector increased 19.0% to MOP473.3 billion. In relative terms, the ratios of external assets to total assets and external liabilities to total liabilities marked 60.9% and 40.6%, down 0.5 percentage points and 4.4 percentage points respectively.

Chart 16: Geographical Distribution of Banks' External Assets



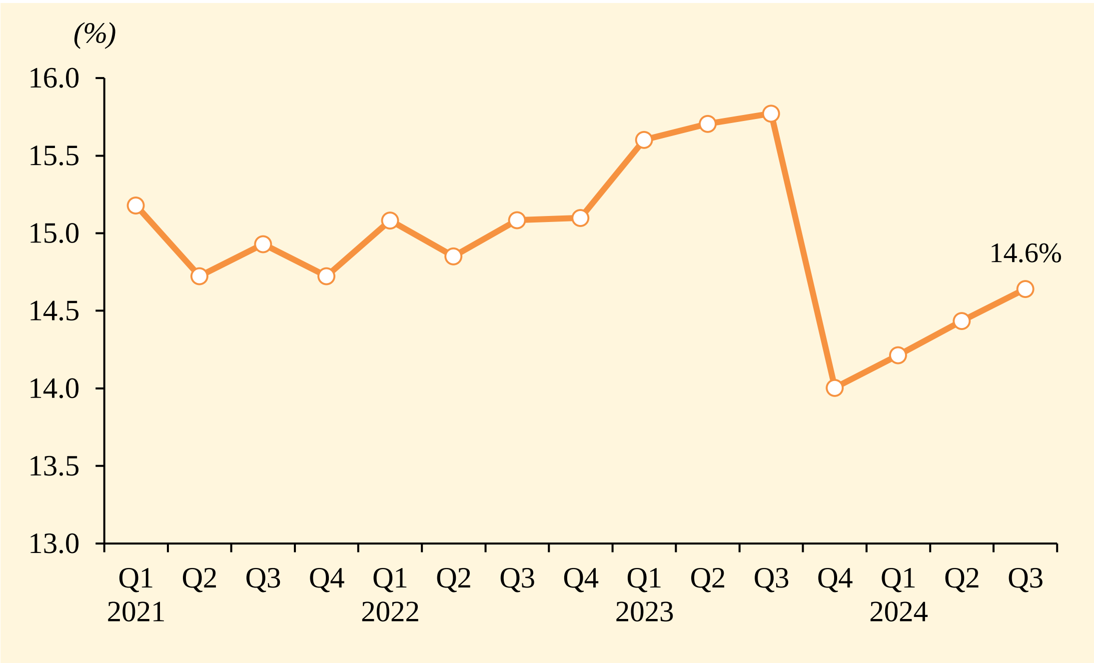
Note: External assets include external loans, holdings of external debt securities and other external assets.
Source: AMCM.

Asia continued to be the major fund-placing destination of Macao banks. External assets placed in the Mainland increased year-on-year by 10.7% to MOP590.6 billion at end-September 2024. Hence, Mainland China remained as the largest fund-placing destination of local banks (Chart 16) with its share rising to 40.8% from 36.0% in the same period of 2023. On the other hand, external assets placed in the second largest fund-placing destination, Hong Kong SAR, registered a decrease of 18.1% to MOP354.7 billion; its share dropped to 24.5% from 29.2%. All in all, the local banking sector continued to allocate their external assets mainly in jurisdictions with sound economic fundamentals and high investment-grade ratings.

Macao banks' non-MOP assets and liabilities were basically balanced at the aggregate level. At end-November 2024, the ratio of foreign-currency assets to foreign-currency liabilities stayed virtually unchanged at 1.03 from the level in a year ago. The HKD, the USD and the RMB were the major non-MOP currency denominations of banks' assets and liabilities. The asset-to-liability ratios of the HKD and the USD dropped by 0.07 points and 0.01 point to 0.86 and 1.18 respectively whereas the ratio of the RMB rose by 0.14 points to 1.06.

The solvency indicators of Macao banks showed mixed results. At end-September 2024, the consolidated capital adequacy ratio (CAR) for locally incorporated banks, including a government-owned postal savings bank, rose 0.2 percentage points over a quarter ago to 14.6% (Chart 17). Such a level was well above the minimum legal requirement of 8.0%. On the other hand, the ratio of NPLs net of provisions to capital grew 2.5 percentage points to 28.8% when compared with a quarter earlier, mainly attributed to a rise of NPLs.

Chart 17: Consolidated Capital Adequacy Ratio of Locally Incorporated Banks

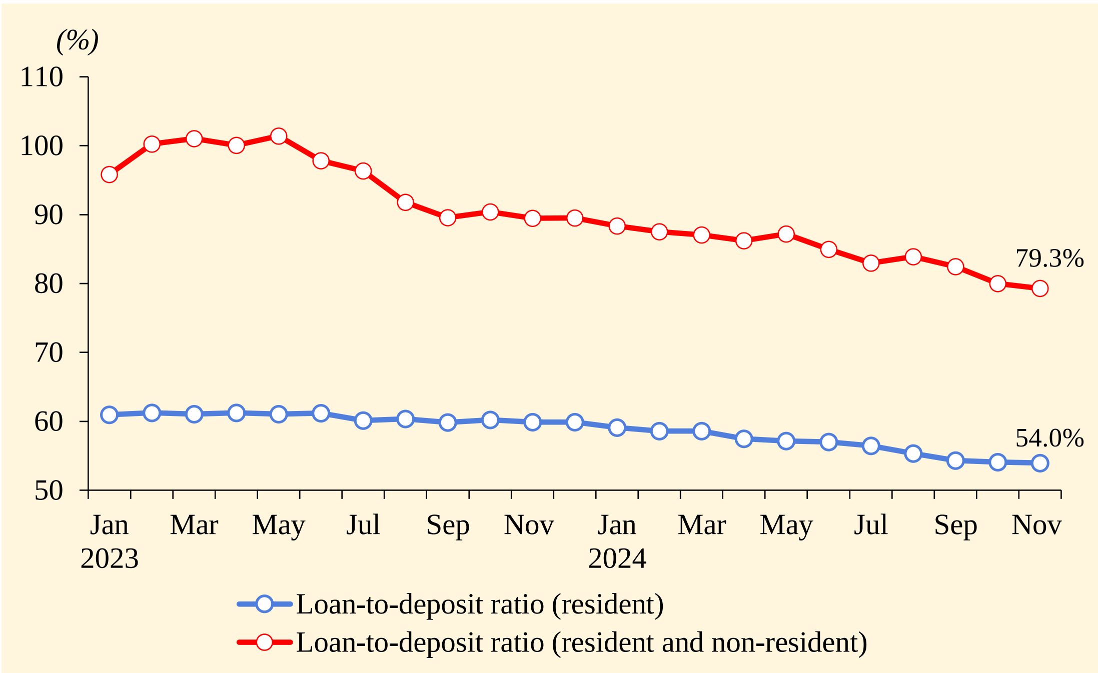


Note: Since November 2023, the consolidated capital adequacy ratio has been formulated under the definition of Basel III, which excludes non-perpetual subordinated debt as regulatory capital.
Source: AMCM.

The liquidity position of the banking sector improved. At end-September 2024, the ratio of liquid assets to total assets increased 5.4 percentage points over half-year ago or 3.4 percentage points from a year earlier to 37.9%. Meanwhile, the ratio of liquid assets to short-term liabilities rose 5.2 percentage points from six months ago or 0.5 percentage points from a year ago to 65.6%.

The aggregate loan-to-deposit ratio descended as the drop of customer loans outpaced that of deposits. At end-November 2024, customer loans and deposits registered annual declines of 12.1% and 0.8% respectively. Since the reduction in customer loans exceeded that of deposits, the aggregate loan-to-deposit ratio moved down by 10.2 percentage points year-on-year to 79.3% (Chart 18).

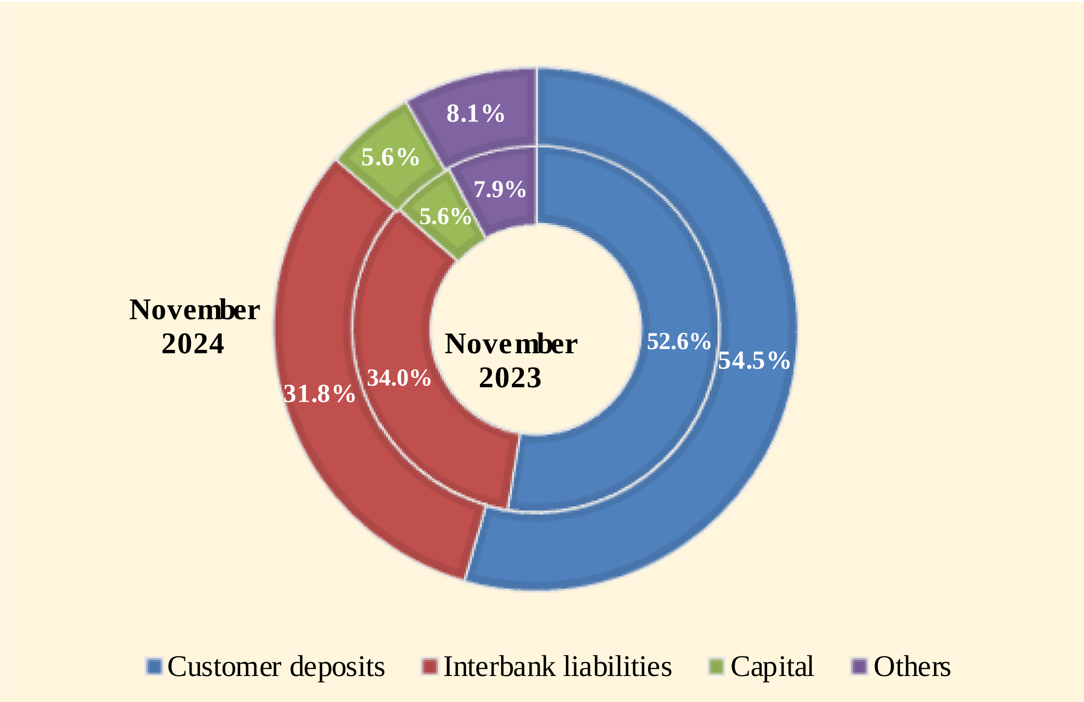
Chart 18: Loan-to-deposit Ratios



Note: Including both private-sector and public-sector deposits.
Source: AMCM.

Customer deposits remained as the primary source of funding for Macao banks. At the end of November 2024, the share of customer deposits in total liabilities increased steadily to 54.5% from 52.6% a year ago (Chart 19). Compared with other funding sources, such as interbank funding and short-term market funding, customer deposits exhibited less volatility, thereby underpinning a stable funding structure in the banking system.

Chart 19: Liability Structure of Macao Banks



Source: AMCM.

The insurance sector kept up its strong solvency position. Authorised insurance companies are required to set up a solvency margin to cover liabilities arising from business operations in Macao, which include provisions for liabilities related to pension funds. The solvency ratio of insurance companies stayed well above the 100% minimum statutory requirement during the review period. At end-November 2024, the solvency ratio reached 473.9% for life insurance companies and 533.5% for general insurance companies.

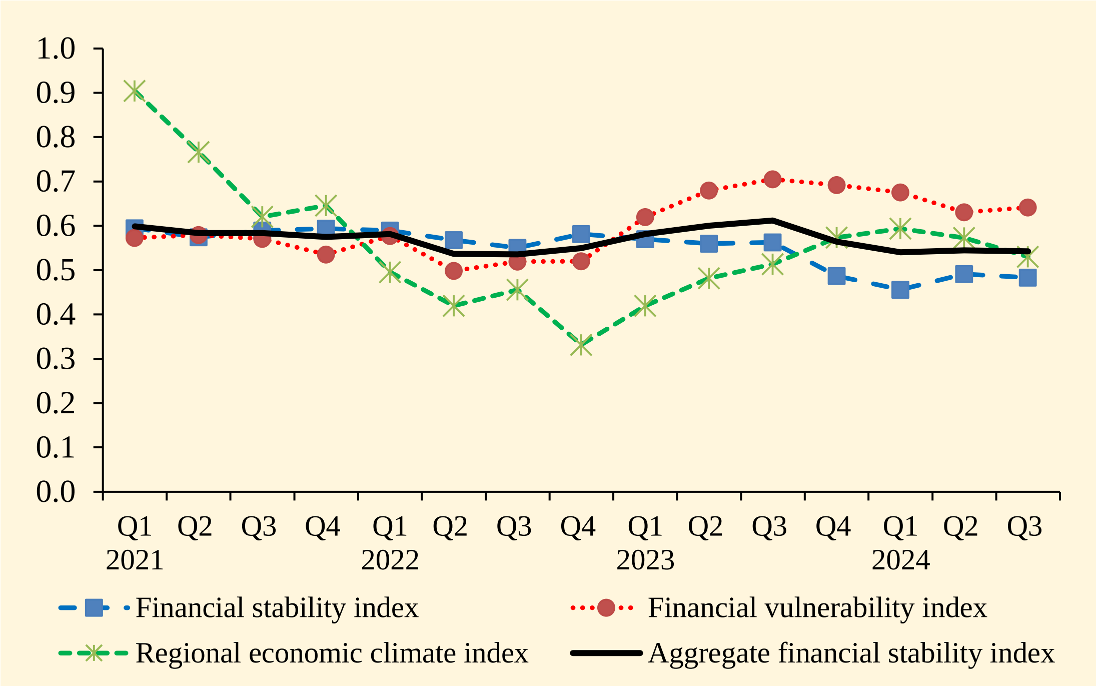
4. Conclusion

The SAR's monetary stability has been underpinned by a credible currency board arrangement and strong fiscal position. The LERS between the MOP and the HKD has remained steadfast, attributable to the effective currency board arrangement, adequate reserve coverage and the SAR Government's commitment to prudent fiscal management. Macao's foreign exchange reserves have been consistently maintained at a level sufficient to fully cover MOP monetary liabilities. Moreover, the fiscal position has been strengthened along with continued expansion of the Fiscal Reserve, providing the SAR Government with ample policy space to anchor macroeconomic stability while upholding its debt-free status.

Macao's financial system exhibited continued resilience, underpinned by sound capital and liquidity positions. The FOMC delivered three rate cuts during the review period, making room for MOP interest rates to ease. At end-November 2024, the 3-month MAIBOR retreated moderately year-on-year, yet still at elevated levels relative to the recent decade. The still-high funding cost environment, should it persist, may remain a headwind to Macao banks' profitability. Nevertheless, capitalisation and liquidity position of the banking sector remain sound, providing robust support for financial stability and sufficient resources to accommodate future credit demand.

Looking ahead, uncertainties about the pace of future rate cuts by the FOMC would necessitate Macao banks' vigilant credit risk management and nimble response to changes in macrofinancial conditions. On the other hand, the Deposit Protection Regime has been recently enhanced, under which the compensation limit has been raised to MOP800,000 from MOP500,000, in turn providing better protection to depositors and strengthening financial stability of Macao SAR. On the front of the insurance sector, the solvency ratio of both life and general insurance companies have been maintained well above the minimum statutory requirement.

Chart 20: Aggregate Financial Stability Index and Its Sub-indices



Source: AMCM.

The aggregate financial stability index (AFSI), an in-house indicator compiled by the AMCM, marked 0.54 in the third quarter of 2024, down from 0.61 in the same period of 2023 (Chart 20). The decrease mainly mirrored a drop in the financial stability index, due to the decline in profitability of Macao banks.

While cyclical imbalances in the global economy have generally ameliorated, downside risks were on the rise amidst heightened policy uncertainties. The global economy has exhibited resilience throughout the disinflation process, with economic activities in major economies aligning more closely with their potential outputs. According to the World Economic Outlook Update published in January 2025, the International Monetary Fund (IMF) revised its projection of global economic growth for 2025 upwards by 0.1 percentage point to 3.3%. Notwithstanding the continued macroeconomic resilience, divergence in the global economic outlook has become more pronounced against the backdrop of a still-robust outlook for the US versus weaker momentum in the rest of the world. Besides, the ratcheting up of trade and fiscal policy uncertainties would inject greater risk into the economic landscape, potentially imperilling global supply chain and growth prospect.

The US economy is projected to maintain a robust growth trajectory with a more optimistic outlook, spurred by a less restrictive monetary policy stance alongside stabilising labour-market conditions. Consumption expenditure has prolonged its uptrend, underpinned by steady job creation and rising real wages. The FOMC has also envisaged that potential output in the US would augment on the back of productivity gains amid more favourable supply conditions with the expanded use of novel technologies. According to the Summary of Economic Projections in December 2024, the FOMC revised up its real GDP forecast for 2025 to 2.1%, representing a modest advancement from its previous projection of 2.0% in September 2024. Meanwhile, the inflation forecast for 2025 was revised up to 2.5% whereas the unemployment rate was toned down to 4.3% (Table 4).

The FOMC would intend to ease monetary policy restraint over time, yet the pace would remain uncertain as it has to strike a balance between fostering growth while containing upside risks to inflation. With inflation on a sustained downward trend and the US economy operating near to maximum employment, the FOMC has assessed that risks to its dual-mandate objectives are roughly in balance. It is expected that the FOMC would stay vigilant about the potential resurgence of inflation induced by disruptions in global supply chain amid exacerbated geopolitical tensions. According to the FOMC's latest projected policy path, the mid-point of the Fed funds rate would stand at 3.9% at end-2025, notably up from its previous projection of 3.4% in last September (Chart 21). On the other hand, the US central bank would roll off its balance sheet at a maximum pace of USD60 billion per month.

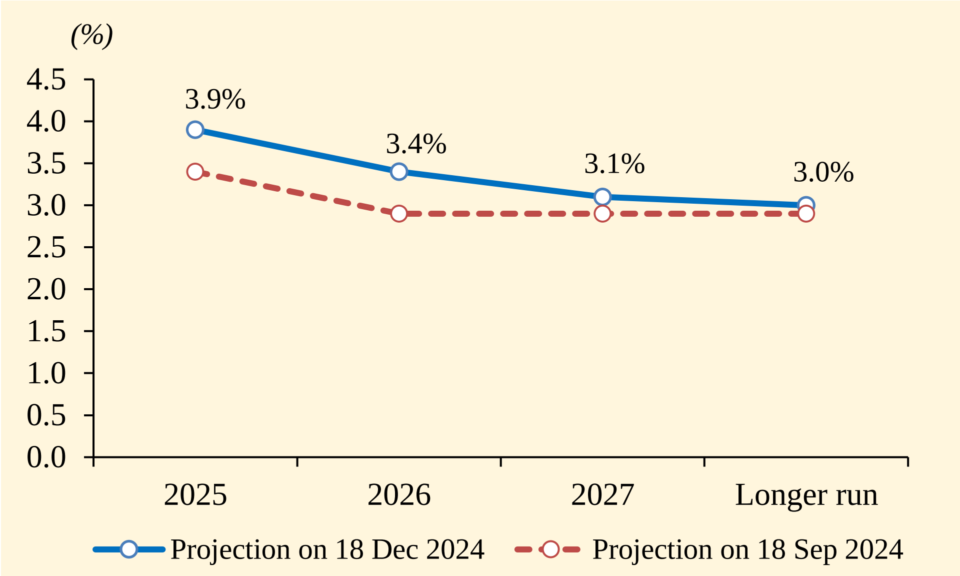
Table 4: Median Projections of Major US Economic Variables

(%)

	2025	2026	2027	Longer run
Change in real GDP	2.1	2.0	1.9	1.8
Unemployment rate	4.3	4.3	4.3	4.2
Personal consumption expenditure inflation	2.5	2.1	2.0	2.0

Source: The US Federal Reserve.

Chart 21: Fed Funds Rate Projections



Notes: 1. The chart is based on policymakers' assessments of appropriate monetary policy.
2. The chart reflects the median projections.
Source: The US Federal Reserve.

Macao's economy is set for further economic recovery, propelled by sustainable tourism and increased non-gaming investment. External demand is expected to remain robust amid enrichment in tourism amenities to accommodate shifting consumer preferences. In addition, with the stimulus policies introduced by the Central Government in last September, consumer sentiment is anticipated to gradually improve in Mainland China, which would be conducive to Macao's tourism sector, not to mention the implementation of "one-trip-per-week" and "multiple-entry" permits[6] in January 2025. These would collectively sustain the momentum of external demand and consolidate Macao's economic recovery. Furthermore, Macao's strong fundamentals in terms of fiscal and external balances would guard against adverse spillovers from global economic uncertainties. As the base effect would normalise following the rapid rebound in the past two years, Macao's economy is expected to advance at a moderate pace in 2025.

[6] From 1 January, 2025, permanent residents of Zhuhai can apply for a "one-trip-per-week" permit which allows them to visit Macao once per calendar week within a year, with a maximum stay of seven days per trip. Meanwhile, permanent residents and residence permit holders in the Guangdong-Macao In-depth Cooperation Zone (ICZ) in Hengqin can apply for a "multiple-entry" permit for unlimited visits to Macao within a year, with a maximum stay of seven days per trip.

Consumer prices would ascend slightly while labour-market conditions are expected to remain tight. Domestic inflationary pressures in 2025 are envisaged to grow modestly in tandem with rising aggregate demand while external pressures would stay mild. Concurrently, the job market is expected to exhibit continued resilience amid favourable economic conditions. Imported workers, which are meant to supplement the local labour supply, would provide sufficient cushion for policy adjustments.

With the enduring support from the Central Government, Macao's economy is well-positioned for sustainable growth. During the 25th anniversary of Macao's return to the motherland, the SAR Government reaffirmed its commitment to the "1+4" strategy to navigate appropriate economic diversification and nourish the transformation of traditional industries. Concurrently, synergistic development with the ICZ in Hengqin is envisioned to optimise resource allocation for both regions, while the vast industrial space in the ICZ would advocate entrepreneurial activities, creating more high value-added jobs and generating new impetus for growth.

Moreover, greater interconnectedness with the Mainland would expand the business scope of Macao's financial industry, especially in the realms of bond market, wealth management and RMB businesses, thereby solidifying Macao's role as a platform for financial services between China and Portuguese-speaking countries. With a broader array of growth drivers and ongoing optimisation of industrial structure, these efforts would not only anchor macroeconomic stability against external shocks, but also steer Macao towards a more sustainable development trajectory.