

Monetary and Financial Stability Review*

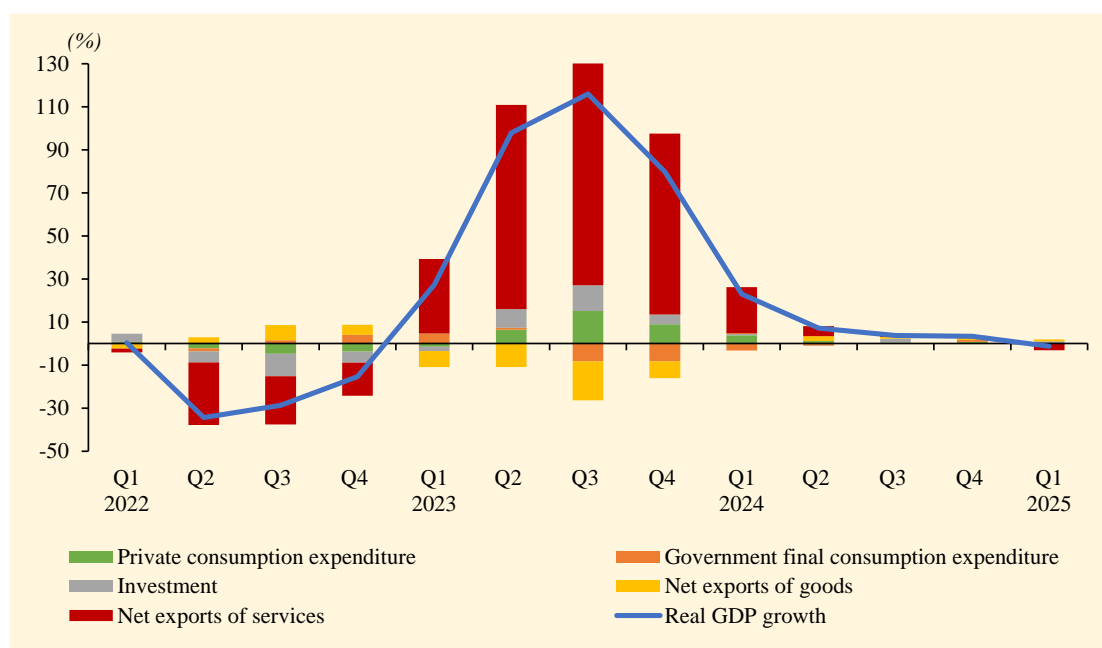
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1. Macroeconomic Background

Macao's economic recovery remained well on track, albeit with moderated growth momentum. Driven by advancements in the tourism sector and private consumption expenditure, Macao's real gross domestic product (GDP) expanded by 8.8% in 2024. Attributable to a relatively high comparison base alongside shifts in visitor consumption patterns, service exports slid by 3.4% year-on-year in the first quarter of 2025, leading to a mild contraction of 1.3% in the economy. Nevertheless, overall economic output in the first quarter of 2025 recovered to 85.2% of the pre-pandemic level when compared with the same period of 2019.

Net service exports slipped amid slowdowns in visitor expenditure. Fuelled by the solid recovery in inbound tourism, exports of services grew by 9.2% in conjunction with the 23.8% upsurge in gross gaming receipts (GGR) in 2024. In the first quarter of 2025, GGR increased at a much milder rate of 0.6% year-on-year, with mass-market and VIP baccarat gaming receipts edging up by 0.6% and 0.5% respectively. Consequently, service exports retreated by 3.4% in the respective quarter. After subtracting service imports, net service exports fell 4.4% and dragged down Macao's economic growth by 3.1 percentage points in the first quarter of 2025.

* This review mainly applies statistics and information available as at 7 July, 2025.

Chart 1: Real GDP Growth and Contributions by Component

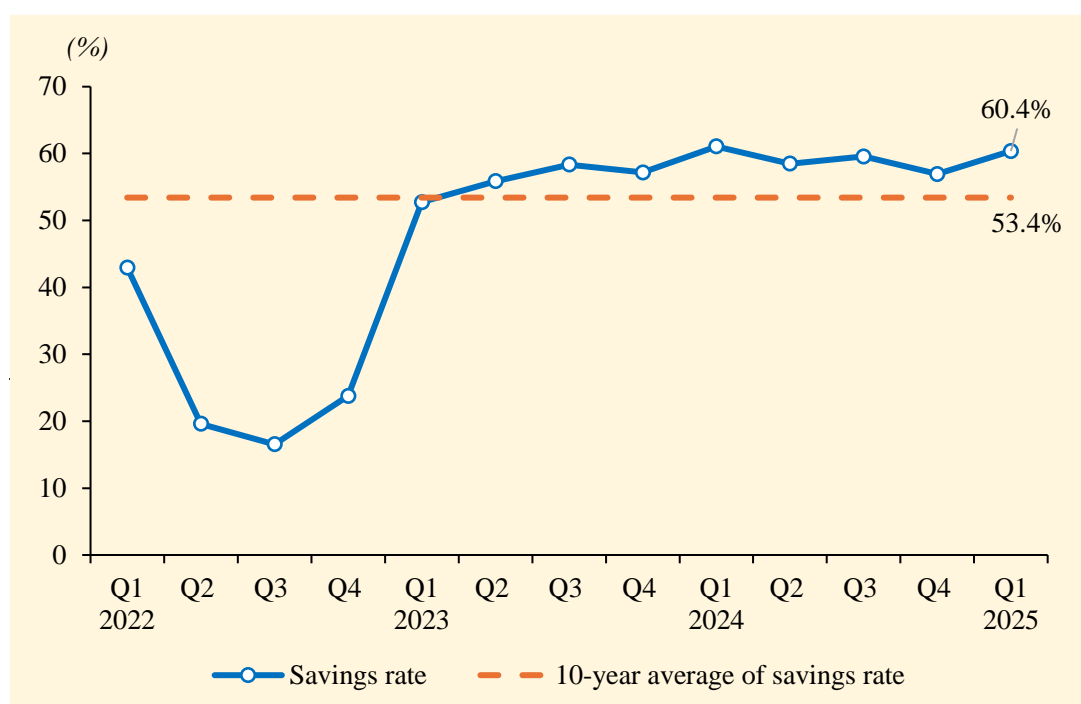
Source: Statistics and Census Service (DSEC).

Net exports of goods continued to stand as the second largest contributor to GDP growth. In 2024, merchandise exports and imports in GDP accounting fell by 14.5% and 7.6% respectively. The contraction eased in the first quarter of 2025, with visible exports and imports falling by 9.2% and 5.1% on an annual basis. Since the decline in merchandise exports was smaller than that of imports in absolute value, Macao's visible trade deficit narrowed by 3.5% to MOP23.4 billion. Correspondingly, net exports of goods contributed 0.8 percentage points to Macao's GDP growth in the first quarter of 2025.

Private consumption expenditure sustained positive growth. Bolstered by favourable labour-market conditions, private consumption expenditure rose year-on-year by 4.9% in 2024 and by 0.3% in the first quarter of 2025. Concurrently, public consumption expenditure in the first quarter of 2025 recorded a 1.1% expansion year-on-year, as against a 5.1% decline in 2024. As a result, private and public consumption expenditure each contributed 0.1 percentage point to Macao's GDP growth in the first quarter of 2025.

Investment spending extended its uptrend, underpinned by robust investment in the private sector. Overall investment spending, i.e. the sum of gross fixed capital formation and changes in inventories, rose by 3.7% in 2024. In the first quarter of 2025, the year-on-year growth of overall investment spending accelerated to 6.5%, primarily fuelled by a double-digit expansion of 22.3% in private sector investment. Consequently, investment spending remained the largest driver of economic growth in Macao, adding 0.9 percentage points to GDP growth in the first quarter of 2025.

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.

Macao's savings rate stayed in the top notch by international standards. Driven by a contraction in real economic output in the first quarter of 2025, Macao's savings rate dipped to 60.4% from 61.1% in the same period last year. Nevertheless, Macao's savings rate remained substantially above the global average of 26.4%¹ in 2024, underscoring Macao's strong resilience and liquidity buffer against potential shocks.

¹ According to the World Economic Outlook database (April 2025) of the International Monetary Fund (IMF).

Inbound tourism gathered further momentum, edging closer to a full recovery to the pre-pandemic level. Partly attributable to favourable travel policies such as the implementation of “one-trip-per-week” and “multiple-entry” permits² in early-2025, the number of visitor arrivals attained a double-digit growth of 15.2% year-on-year to 16.3 million in the first five months of 2025, representing a recovery of 95.0% of the pre-pandemic level in the same period of 2019. Arrivals from the Chinese mainland, the top visitor source of Macao, mounted up by 19.1% to 11.8 million; those travelling under the Individual Visit Scheme (IVS) witnessed a larger expansion of 23.8%. Concurrently, arrivals from the Hong Kong Special Administrative Region (Hong Kong SAR) and the Taiwan region, the second and third largest sources, posted respective increments of 1.8% and 16.1%.

Total visitor spending saw a setback in tandem with the downward adjustment of spending on non-gaming services. In the first quarter of 2025, visitor spending, as measured by exports of tourism services in GDP accounting, decreased at an annual rate of 3.6%, as against a 36.0% upsurge in the same period of 2024. By component, visitor spending on gaming services inched up by 1.6% whereas those on non-gaming services retreated by 11.7%. Nevertheless, in comparison with the same period of 2019, visitor spending on non-gaming services exceeded its pre-pandemic level by 12.7%.

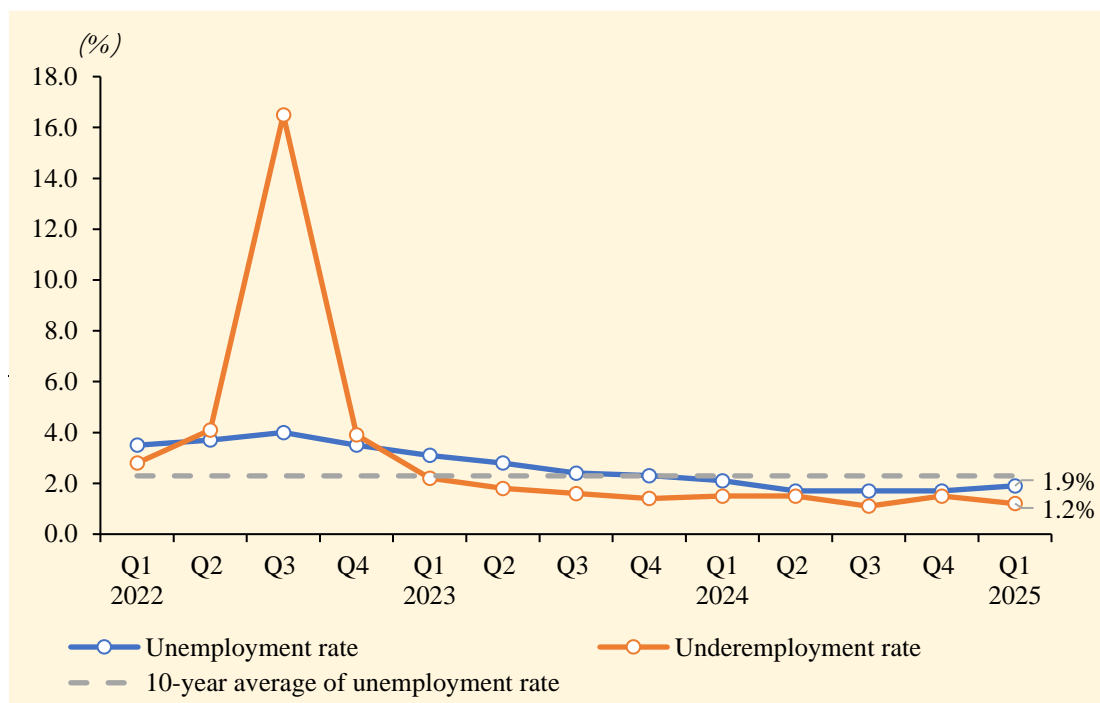
Retail sales stepped down as the demand for luxury products softened amid a shift in visitors’ consumption behaviour. In the first quarter of 2025, retail sales contracted year-on-year by 15.0%, following a 12.6% decline in the same period of 2024. The downturn was partly attributed to visitors adopting more conservative spending habits amid economic uncertainties. By component, notable decrements were recorded in “leather goods” (-24.2%), “cosmetics & sanitary articles” (-22.3%) and “watches, clocks & jewellery” (-17.3%).

² 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 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.

Hotel occupancy improved with a lower supply of guest rooms. In the first five months of 2025, the average occupancy of hotels rose year-on-year by 5.0 percentage points to 89.2%, despite a 2.1% decrease in the number of hotel guests to 6.0 million. This was partly ascribed to a 3.7% reduction in the number of guest rooms, totalling 45,153 as at end-May 2025.

Labour-market conditions remained favourable. For the three-month period through May 2025, the number of employed persons rose by 0.2% year-on-year to 373,000, while the number of unemployed persons edged up by 0.3% to 7,200. Correspondingly, the unemployment rate stayed at a low level of 1.9%, lower than its 10-year average of 2.3% (Chart 3). On the other hand, the underemployment rate grew by 0.2 percentage points to 1.6%. At end-May 2025, the number of imported workers increased by 1.7% year-on-year to 183,783.

Chart 3: Unemployment and Underemployment

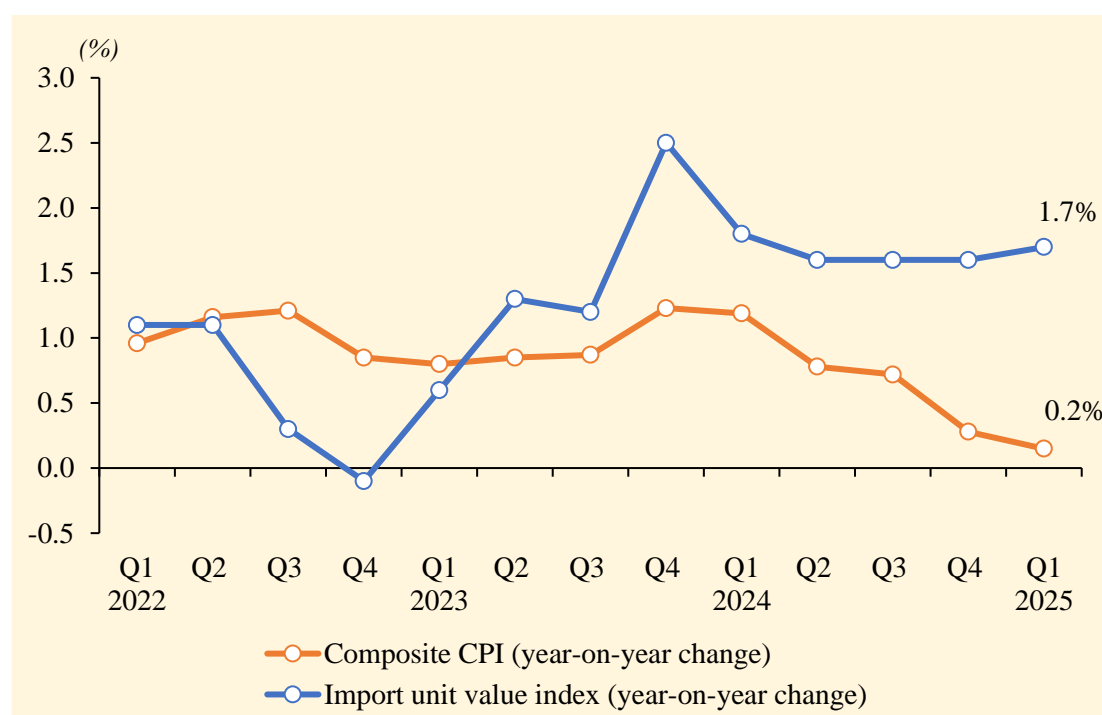


Source: DSEC.

Labour income maintained positive growth for two consecutive quarters. In the first quarter of 2025, the median monthly employment earnings recorded an annual increment of 4.4% to MOP18,800 while those of local residents rose by 4.9% to MOP21,500. By industry, “recreational, cultural, gaming & other services”, the sector with the largest share of the employed population, increased by 4.8% to MOP22,000 whereas “financial activities” dropped by 2.1% to MOP23,000.

Inflationary pressures stayed mild amid declining costs in transport. The import unit value index (UVI) – a proxy for imported prices – rose 1.7% year-on-year in the first quarter of 2025, marginally lower than the 1.8% growth recorded during the same period in 2024. By component, the increase in “consumer goods” (+2.8%) was partially offset by declines in “fuels & lubricants” (-1.2%) and “raw materials & semi-manufactures” (-0.8%). Domestic inflationary pressures remained contained. The average composite consumer price index (CPI) increased 0.2% year-on-year in the first five months of 2025, down 0.9 percentage points from the same period of 2024.

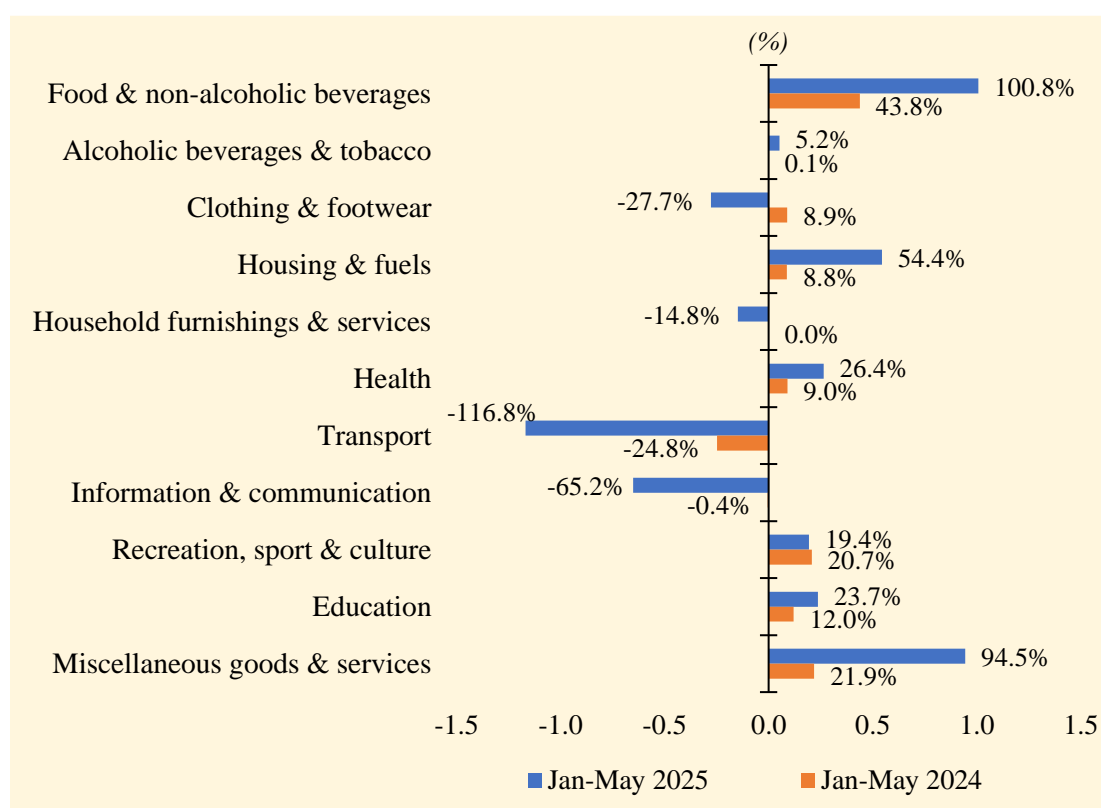
Chart 4: Composite CPI-based and Unit Value Index-based Inflation



Source: DSEC.

In the first five months of 2025, “housing & fuels”, the largest component of the CPI basket, posted an annual increment of 0.3%, virtually unchanged from the same period last year. Meanwhile, the price gain of “food & non-alcoholic beverages”, the second largest category in the CPI basket, slowed from 1.6% to 0.5%. “Eating out & take away”, which accounted for over half of the weight of this category, rose 1.5% year-on-year. On the other hand, the decline in “transport” prices, the third largest component of the CPI basket, moderated from 3.2% to 2.2%.

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 2024 were based on the old basket (April 2018 to March 2019).
Source: DSEC.*

Property-market activities picked up while average transaction prices continued to adjust downwards. In the first five months of 2025, the transaction volume of residential units recorded an annual increment of 9.0% to 1,300 units whereas the corresponding value fell by 15.9% to MOP6.3 billion. Despite the amelioration in transaction volume, the average transaction price (ATP) per square metre of residential properties plunged year-on-year by 15.5% to MOP71,859 in the first quarter of 2025.

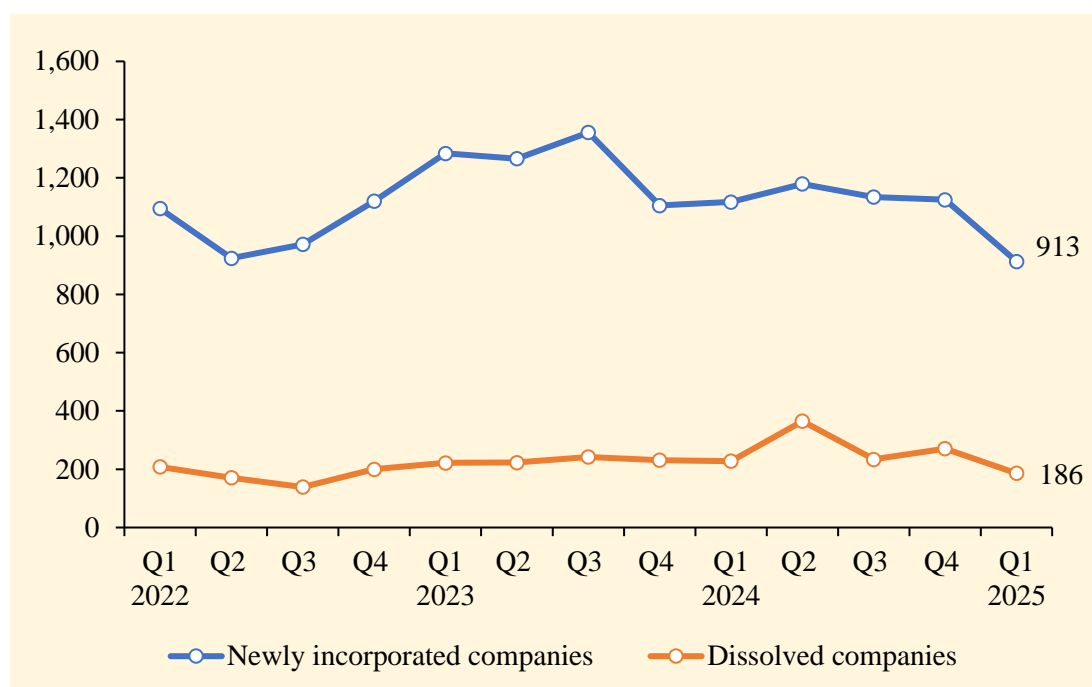
Activities of non-residents in overall property transactions stepped up. In the first five months of 2025, residential units purchased by non-residents soared year-on-year by 124.3% to 157 units while the corresponding value rose by 43.1% to MOP660.5 million. Consequently, the share of non-resident transactions in the aggregate value of residential units purchased rose to 10.6%, up from 6.2% in the same period of 2024.

Table 1: Residential Property Transactions and Prices

Year	Quarter	Number of residential units transacted	Value of residential units transacted (MOP million)	Transaction price* (MOP)
2022		2,809	17,972	93,795
2023		2,879	18,301	93,500
2024		3,380	20,333	85,114
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
	4	884	5,080	76,071
2025	1	754	3,686	71,859

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

Local business sentiment turned prudent amid economic uncertainties. The number of newly incorporated companies, after deducting dissolved companies, fell year-on-year by 24.7% to 887 in the first four months of 2025, compared to a contraction of 15.9% in the same period of the previous year.

Chart 6: Numbers of Newly Incorporated and Dissolved Companies

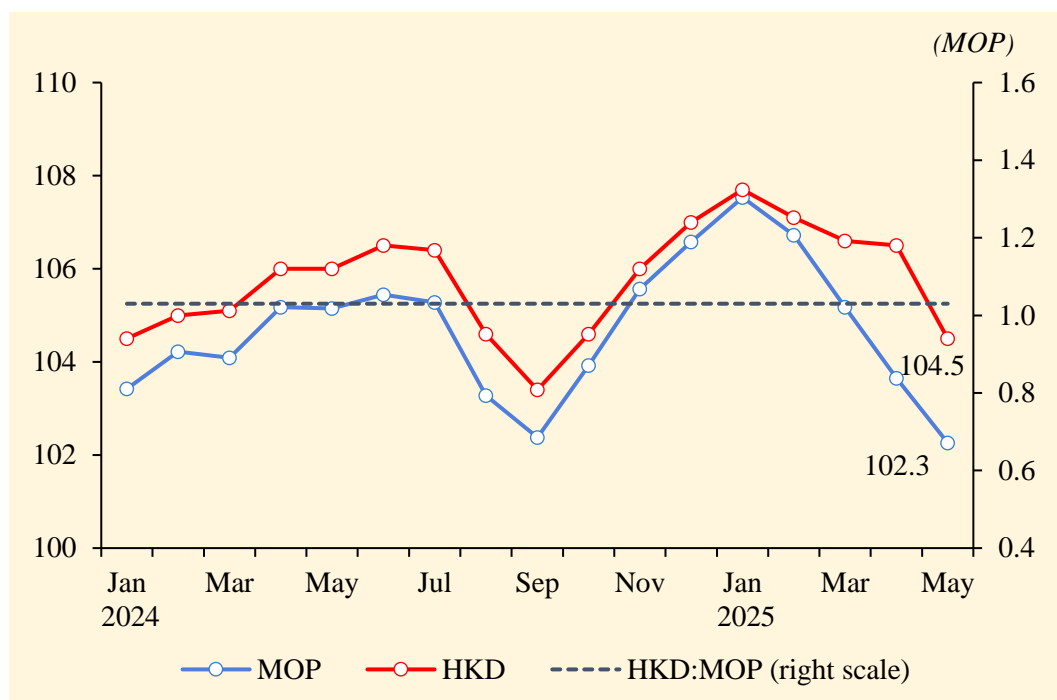
Source: DSEC.

2. Assessment of Monetary Stability

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

The MOP exchange rate moved down in line with the weakening of its anchor currency. During the six months through May 2025, the MOP generally appreciated against several non-USD currencies in the early part of the period but recorded depreciation in the latter three months. Correspondingly, the nominal effective exchange rate index, a gauge of the MOP versus a basket of foreign currencies of Macao's major trading partners, dropped 2.7% year-on-year in May 2025.

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).

Adequate reserves continued to support the full convertibility of the MOP. The foreign exchange reserves of the Macao Special Administrative Region (Macao SAR) rose 3.4% to MOP236.2 billion year-on-year at end-May 2025. The reserves, which fully backed MOP monetary liabilities, upheld the full convertibility of the local currency under the linked exchange rate system (LERS).

The persistently sturdy fiscal surplus position underpinned the credibility of the LERS. In 2024, the public revenue (excluding public autonomous agencies) rose by 15.8% to MOP110.0 billion on the back of a notable increment of 35.0% in the revenue from gaming concessionaires. Concurrently, the public expenditure (excluding public autonomous agencies) advanced by 8.2% to MOP94.3 billion. The SAR Government's central account balance hence rose by 100.8% to MOP15.8 billion. In the first five months of 2025, the public revenue decreased by 1.8% year-on-year to MOP43.3 billion, while the public expenditure increased by 1.2% to MOP31.6 billion; the central account fiscal balance thus dropped 9.1% year-on-year to MOP11.7 billion. Meanwhile, the Macao SAR Government remained debt-free.

Monetary aggregates expanded amidst positive trade balances. The trajectory of Macao's monetary aggregates was predominantly influenced by its external sector's performance. Primarily driven by robust external demand, the trade balance recorded a surplus in both the fourth quarter of 2024 and the first quarter of 2025. Correspondingly, the broad money supply, M2, grew 7.9% year-on-year to MOP815.7 billion at end-May 2025. Meanwhile, the narrow money supply, M1, rose 11.4% to MOP73.7 billion.

Domestic credit prolonged its downward trajectory. Private-sector credit declined 6.3% year-on-year to MOP513.0 billion at end-May 2025. On the other hand, the creditor position of the public sector strengthened, as depicted by an annual increment of 7.8% in its deposits to MOP296.2 billion. As a result, domestic credit shrank further by 20.6% from a year ago to MOP216.7 billion.

Table 2: Monetary Survey

<i>(MOP million, end of period)</i>				
Year	Quarter	M2	Net foreign assets	Domestic credit
2022		717,710.7	617,451.4	277,767.7
2023		725,579.6	627,128.7	287,865.4
2024		782,436.6	749,211.7	239,018.6
2025*		815,744.9	814,268.7	216,747.2
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	717,239.0	614,126.8	289,072.3
	3	727,283.9	630,196.0	286,625.7
	4	725,579.6	627,128.7	287,865.4
2024	1	745,277.0	643,898.1	290,089.3
	2	751,452.3	682,965.0	274,206.9
	3	773,676.4	722,898.3	259,862.0
	4	782,436.6	749,211.7	239,018.6
2025	1	810,563.5	792,855.5	229,931.4

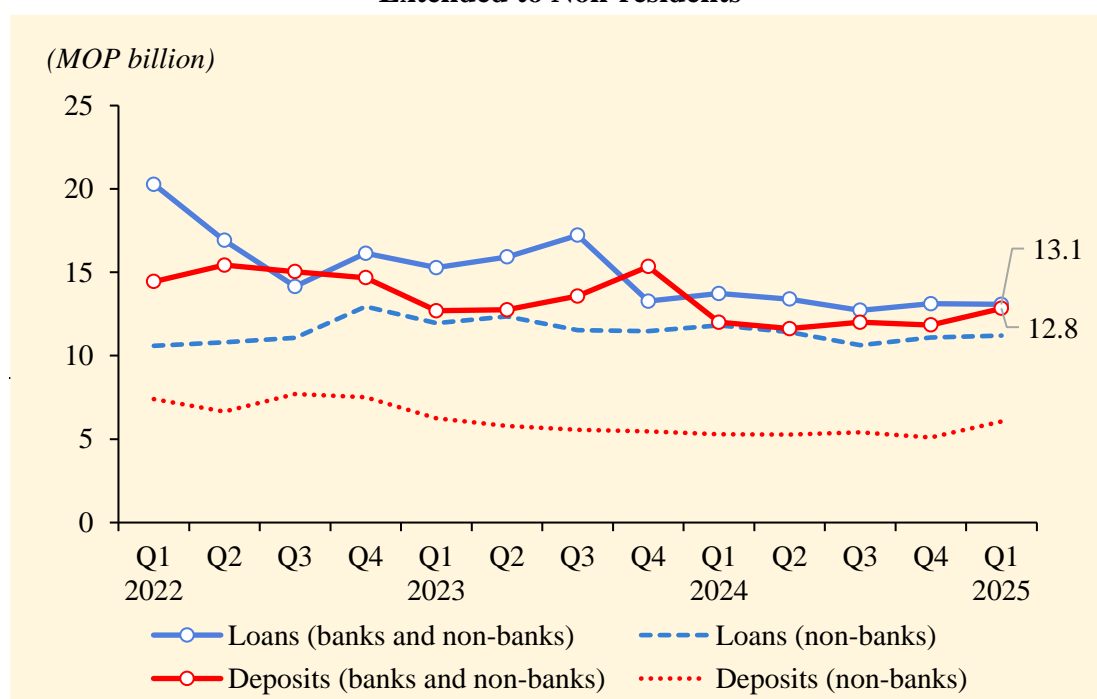
Note: * Figures at end-May 2025.

Source: AMCM.

RMB deposits with local banks rebounded. Bolstered by the uptick in RMB deposits held by both the resident and non-resident sectors, RMB deposits with local banks grew 13.1% year-on-year, amounting to MOP118.3 billion or RMB105.3 billion at end-May 2025. Its share in total deposits thus went up by 0.4 percentage points to 8.7%.

MOP deposits held by non-residents and MOP loans extended to them exhibited divergent developments. At end-March 2025, MOP deposits held by external banks and non-banks marked annual increments of 1.2% and 14.3% respectively, bringing the overall MOP deposits taken from non-residents up by 7.0% to MOP12.8 billion (Chart 8). On the other hand, MOP loans extended to non-residents continued to shrink during the review period, posting an annual decrement of 4.8% to MOP13.1 billion at end-March 2025.

Chart 8: MOP Deposits Held by Non-residents and MOP Loans Extended to Non-residents



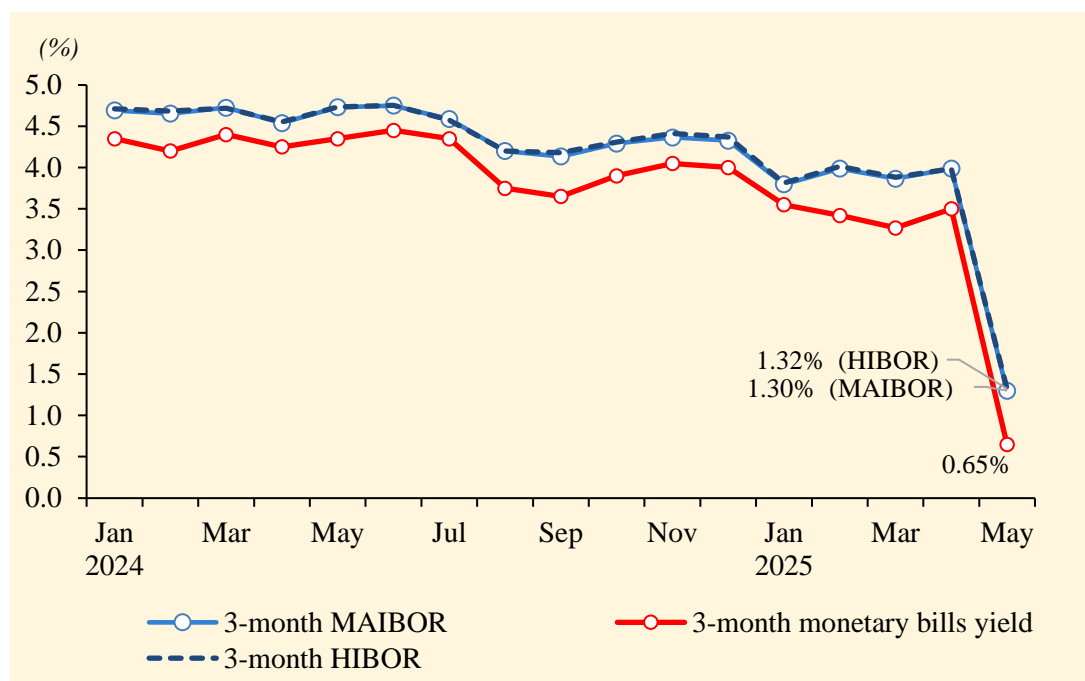
Source: AMCM.

Macao’s policy interest rate held steady during the period under review. Under the LERS, Macao’s Base Rate moved in line with the policy rate of its Hong Kong SAR counterpart, which would be impacted by policy actions of the US Federal Open Market

Committee (FOMC) with the LERS between the HKD and the USD. As the FOMC maintained the target range for the Fed funds rate unchanged in the review period, the policy interest rate in Macao stayed at 4.75% at end-June 2025, representing a drop of 100 basis points from a year ago.

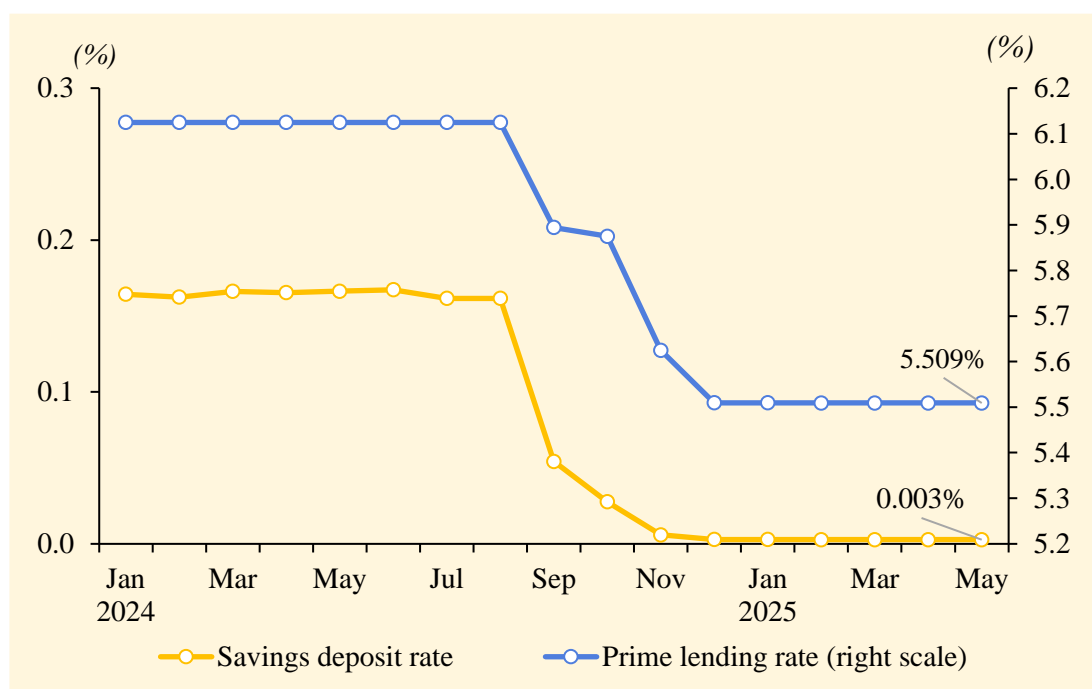
Retail interest rates in Macao remained largely stable while money-market rates witnessed notable downtrends. Alongside the recent plunge in interbank rates in the Hong Kong SAR, the 3-month Macao Interbank Offered Rate (MAIBOR) dropped to 1.30% at end-May 2025 from 4.33% at end-2024, while the 3-month yield of monetary bills fell to 0.65% from 4.00% (Chart 9). On the other hand, interest rates at the retail level remained largely stable in the first five months of 2025; the weighted average prime lending rate and the quoted savings deposit rate stood at 5.51% and 0.003% respectively at end-May 2025 (Chart 10). Mirroring lower funding costs for banks in Macao, the composite interest rates witnessed decreases. The MOP and HKD composite interest rates fell by 28 basis points and 35 basis points over six months earlier, marking 1.74% and 3.09% respectively at end-March 2025 (Chart 11).

Chart 9: Monetary Bills Yield, MAIBOR and HIBOR



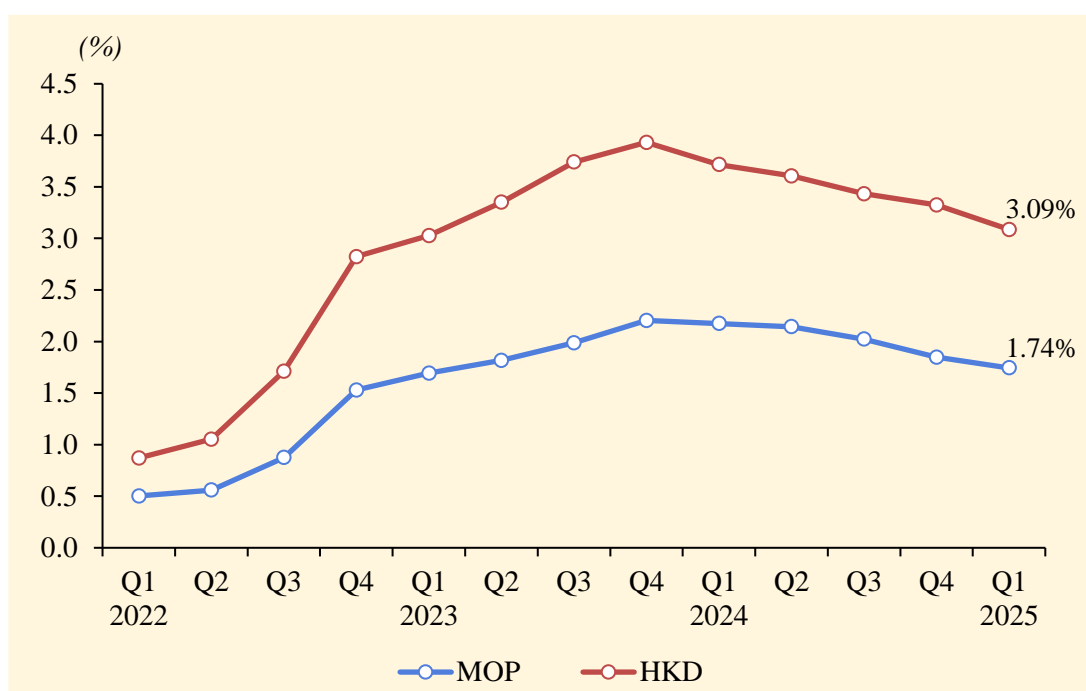
Note: Period-end figures.
Sources: HKMA and AMCM.

Chart 10: Deposit and Lending Interest Rates



Notes: 1. Period-end figures.
 2. Rates are the weighted averages of list rates quoted by sampled banks.
 Source: AMCM.

Chart 11: Macao's Composite Interest Rates for MOP and HKD



Source: AMCM.

3. Assessment of Financial Stability

Gross income of Macao banks rebounded on the back of accelerated growth in non-interest income. In 2024, gross income decreased by 9.3% owing to a decline of 18.0% in interest margin offsetting an increase of 11.0% in non-interest income. As a result, the ratio of interest margin to gross income moved down 6.7 percentage points to 63.3% (Table 3). In the first five months of 2025, interest margin dropped year-on-year by 4.7% whereas non-interest income surged 75.5%, pushing gross income up by 23.9%. Correspondingly, the ratio of interest margin to gross income declined further by 14.9 percentage points to 49.6%.

Interest margin continued to narrow, albeit at a milder pace. In 2024, the income from credit operations dropped 2.4% to MOP95.7 billion whereas the cost of credit operations rose 1.5% to MOP79.6 billion, jointly lowering the interest margin by 18.0% to MOP16.1 billion. In the first five months of 2025, both interest income and cost of credit operations recorded decrements compared with a year ago, partly due to the downtrends of interest rates. The former fell 15.3% year-on-year to MOP34.7 billion while the latter dropped 17.2% to MOP28.5 billion, leading to a decline of 4.7% in interest margin to MOP6.2 billion.

Banks' non-interest income grew at a faster pace than non-interest expenses. Owing to the increment of income derived from fees and commissions, non-interest income grew by 11.0% to MOP9.3 billion in 2024. Meanwhile, non-interest expenses went up 3.8% to MOP11.7 billion. As non-interest expenses grew whereas gross income dropped, the ratio of non-interest expenses to gross income rose 5.8 percentage points to 46.2%. In the first five months of 2025, non-interest income soared 75.5% year-on-year to MOP6.3 billion while non-interest expenses increased 1.9% to MOP4.6 billion. As non-interest expenses rose at a slower pace than gross income, the ratio of non-interest expenses to gross income thus dropped by 8.0 percentage points to 37.2%.

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
2022		0.5	10.6	73.8	36.9
2023		0.2	3.3	70.0	40.3
2024		0.2	2.3	63.3	46.2
2025*		49.6	37.2
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
	4	0.2	2.3	63.3	46.2
2025	1	0.6	10.2	52.8	39.7

Notes: * Figures for the first five months of 2025.

.. Not applicable.

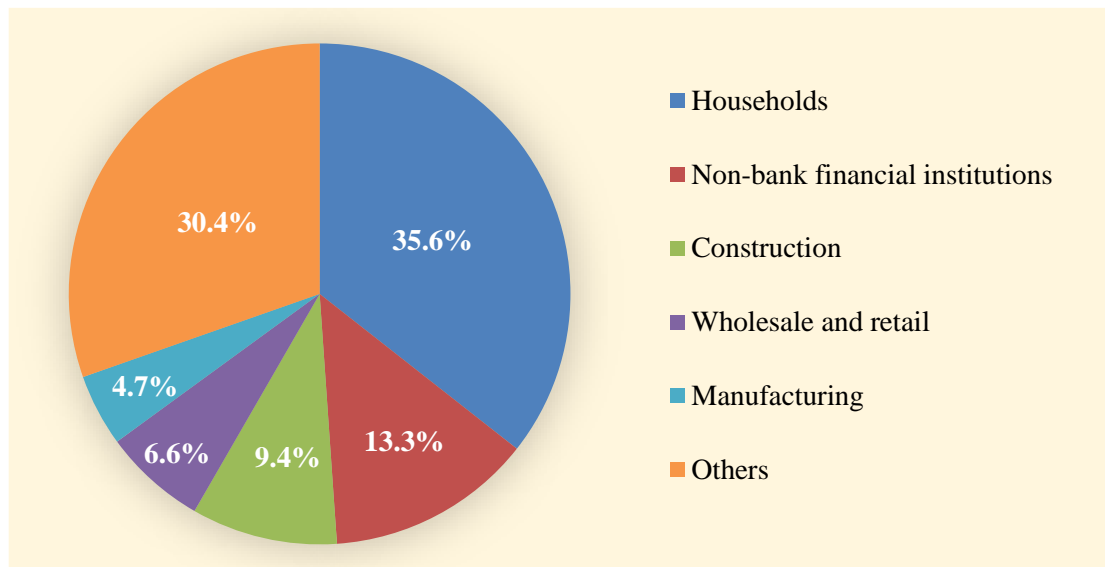
Source: AMCM.

Banks' operating profits picked up amid rising non-interest income. In 2024, banks' operating profits dropped 25.2% to MOP3.8 billion mainly due to narrowing interest margins. In the first five months of 2025, primarily attributable to the increment of non-interest income derived from fees and commissions as well as securities investments, banks' profitability registered a year-on-year growth of 31.6% to MOP5.8 billion.

Indicators of banks' profitability improved as operating profits rebounded. In 2024, the return on assets (ROA), a measure of banks' efficiency in utilising their assets, remained virtually unchanged at 0.2% from a year ago. On the other hand, the return on equity (ROE) fell 1.0 percentage point to 2.3%. Driven by higher operating profits, the annualised ROA moved up 0.2 percentage points year-on-year to 0.6% in the first quarter of 2025. Meanwhile, the annualised ROE rose 3.0 percentage points to 10.2% as net income after tax grew faster than capital.

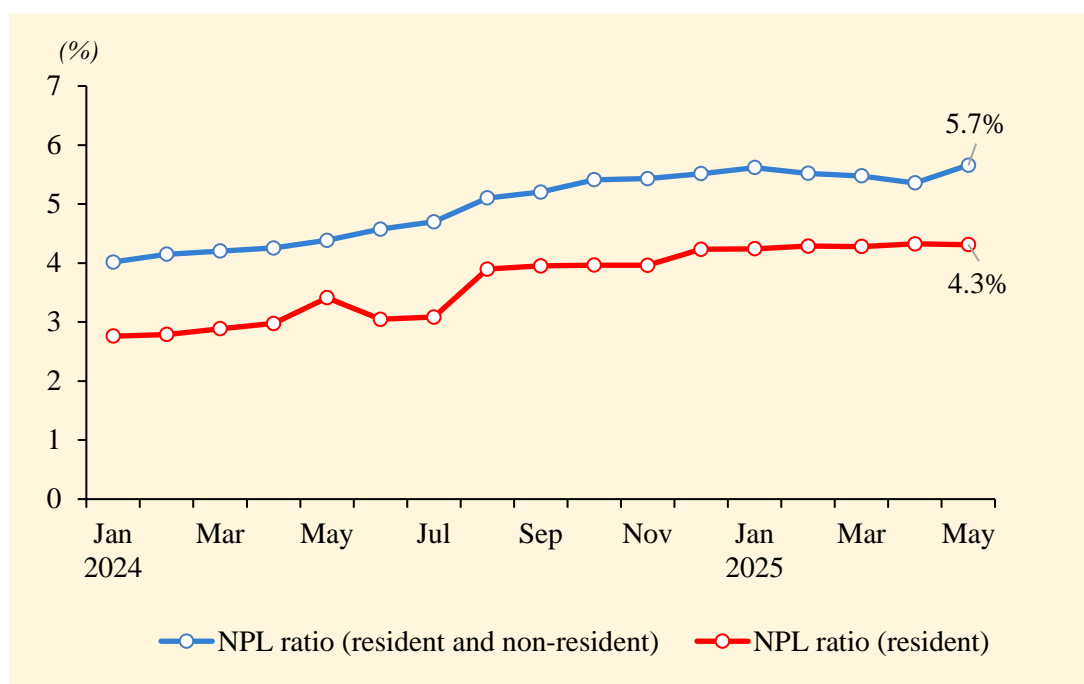
Customer loans witnessed a downswing. At end-May 2025, total customer loans decreased 10.1% year-on-year to MOP993.7 billion; of which, loans extended to the resident and non-resident sectors recorded respective annual decrements of 6.8% and 13.1%. Analysed by economic sector, the majority of customer loans were extended to individuals, non-bank financial institutions and the construction sector, accounting for 35.6%, 13.3% and 9.4% respectively (Chart 12).

Chart 12: Distribution of Loans by Economic Sector



Source: AMCM.

Banks' asset quality weakened as reflected by higher non-performing loan (NPL) ratios. At end-May 2025, total NPLs increased 16.0% year-on-year to MOP56.2 billion. Coupled with an annual decline of 10.1% in total outstanding loans, the NPL ratio rose to 5.7%; of which, the ratios for the resident and non-resident sectors marked 4.3% and 7.0% respectively (Chart 13).

Chart 13: Non-performing Loan Ratios of Banks

Source: AMCM.

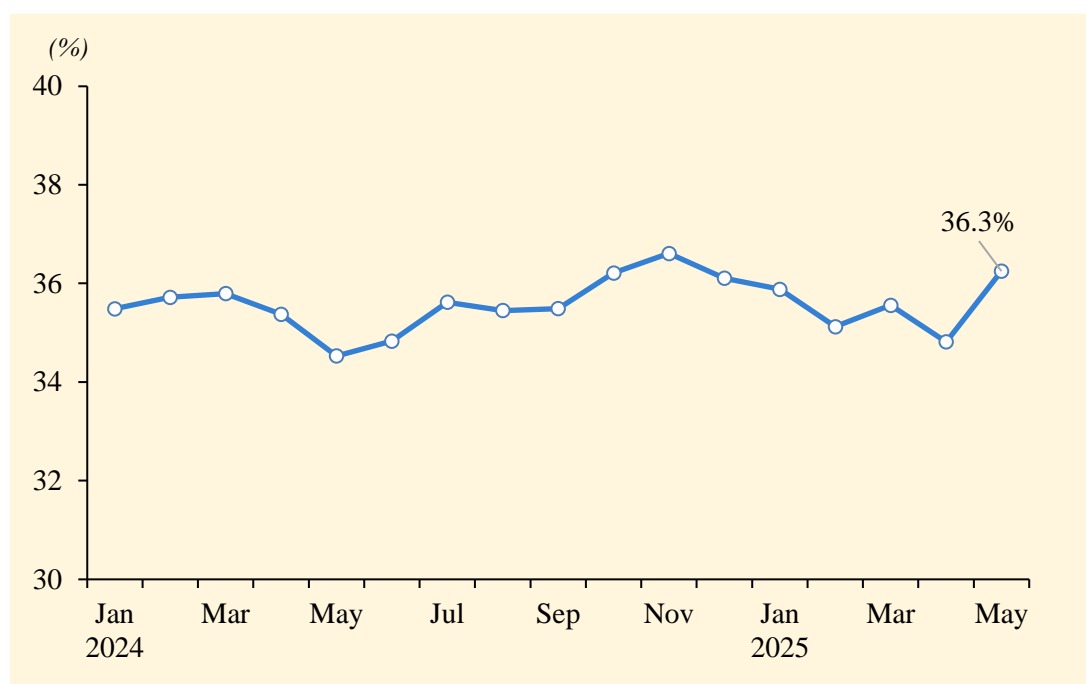
Property mortgage loans assumed a larger share of private-sector loans. At end-May 2025, the outstanding balances of residential mortgage loans (RMLs)³ and commercial real estate loans (CRELs)⁴ fell 5.4% and 5.9% respectively, dragging total property mortgage loans⁵ down by 5.6% from the preceding year to MOP360.2 billion. Nevertheless, as the contraction of total private-sector loans outpaced that of property-related credit, the share of property mortgage loans within the total increased 1.7 percentage points from the previous year to 36.3% (Chart 14). On the other hand, the asset quality of relevant loans showed signs of deterioration, as the delinquency ratio⁶ of total property mortgage loans rose to 4.3% at end-May 2025.

³ RMLs refer to credit facilities provided by banks to individuals and enterprises that are collateralised by residential real estate in Macao, including loans to finance purchase of residential properties and other purposes (such as refinancing loans, working capital and trade financing).

⁴ CRELs refer to credit facilities provided by banks to individuals and enterprises that are collateralised by commercial real estate, such as buildings, structures and associated land used for offices, shops, industries, hotels and tourism facilities 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).

⁵ The sum of RMLs and CRELs as a measurement of banks' property mortgage lending.

⁶ Delinquency ratio is a ratio of total amount of overdue mortgage loans (payments of interest and/or principal overdue for more than three months) to total outstanding mortgage loans.

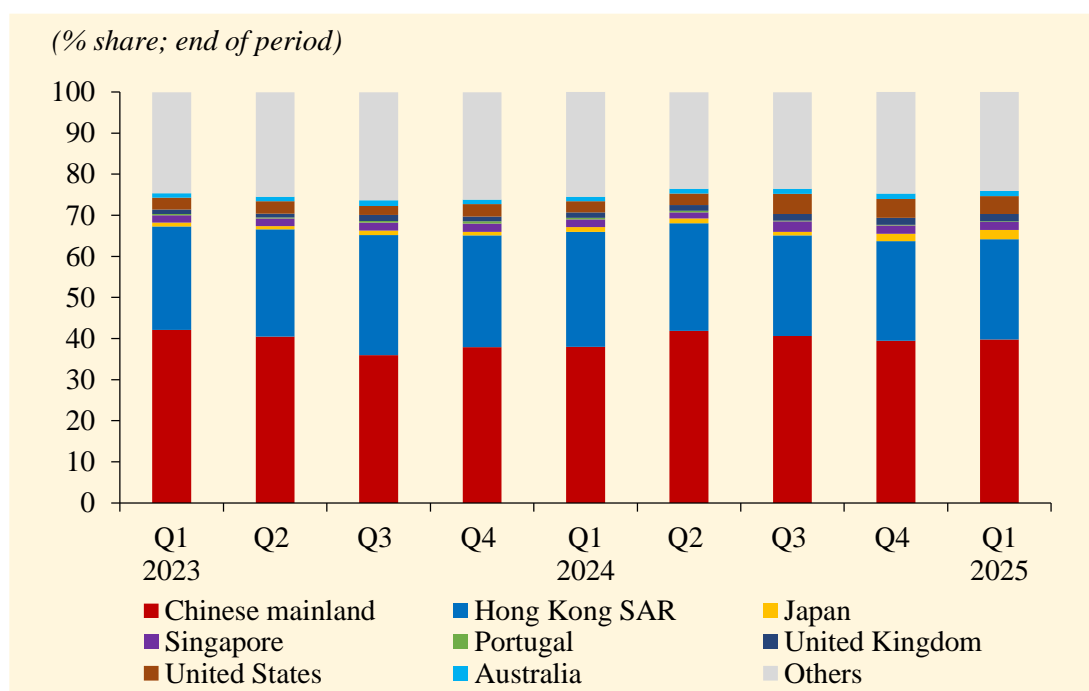
Chart 14: Ratio of Property Mortgage Loans to Total Private-sector Loans

Source: AMCM.

Personal loans contracted in tandem with sluggish private sector credit. At end-March 2025, personal loans dropped 1.7% year-on-year to MOP360.0 billion. Within this total, loans extended to individuals for purchasing residential properties fell 1.8% to MOP195.7 billion. Meanwhile, personal non-housing loans posted a decline of 1.6% to MOP164.3 billion. In particular, credit card balances shrank 6.2% to MOP938.8 million whereas car loans grew 6.6% to MOP1.0 billion. Concurrently, the quality of consumption credit kept stable, with the credit-card delinquency ratio⁷ staying at 2.9% from a year ago.

Macao banks' net creditor position to the rest of the world remained intact. At end-May 2025, banks' external assets increased 6.4% year-on-year to MOP1,576.8 billion whereas external liabilities decreased 2.2% to MOP1,024.8 billion. Net external assets of the local banking sector hence escalated 27.4% to MOP552.0 billion. In relative terms, the ratio of external assets to total assets climbed 2.3 percentage points to 63.6%. On the other hand, the ratio of external liabilities to total liabilities dropped 2.0 percentage points to 41.3%.

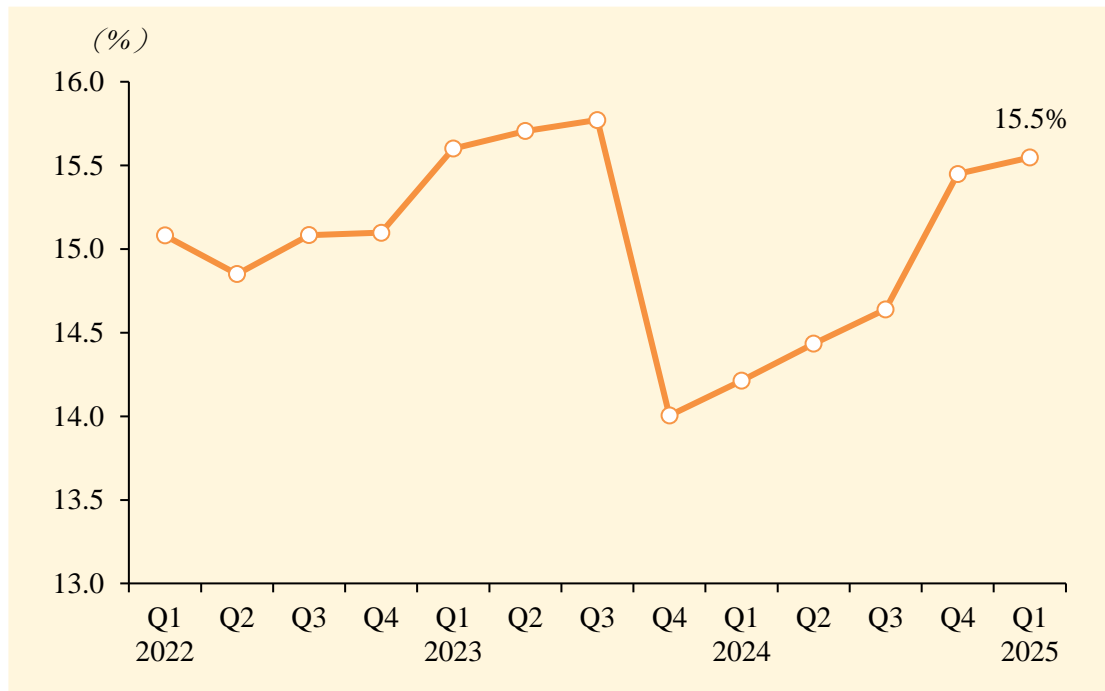
⁷ The credit-card delinquency ratio is measured by the delinquent amount overdue for more than three months to credit card receivables.

Chart 15: Geographical Distribution of Banks' External Assets


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

Asian jurisdictions were Macao banks' major fund-placing destinations. The Chinese mainland remained as the largest fund-placing destination of local banks. At end-March 2025, external assets placed in the Chinese mainland accelerated by 13.1% year-on-year to MOP608.2 billion, with its share in the total moving up 1.8 percentage points to 39.8% (Chart 15). External assets placed in the Hong Kong SAR, the second largest fund-placing destination, showed a decrement of 6.3% to MOP372.2 billion, equivalent to 24.4% of total external assets. 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.

The banking sector stayed basically balanced on its foreign-currency assets and liabilities at the aggregate level. At end-May 2025, the ratio of foreign-currency assets to foreign-currency liabilities edged up 0.01 point from the level in a year ago to 1.04. The HKD, the USD and the RMB were the major non-MOP currency denominations of Macao banks' assets and liabilities. The asset-to-liability ratio of the HKD dropped by 0.13 points to 0.77 whereas the ratio of the RMB rose by 0.34 points to 1.31; that of the USD stayed virtually unchanged at 1.19.

Chart 16: 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.

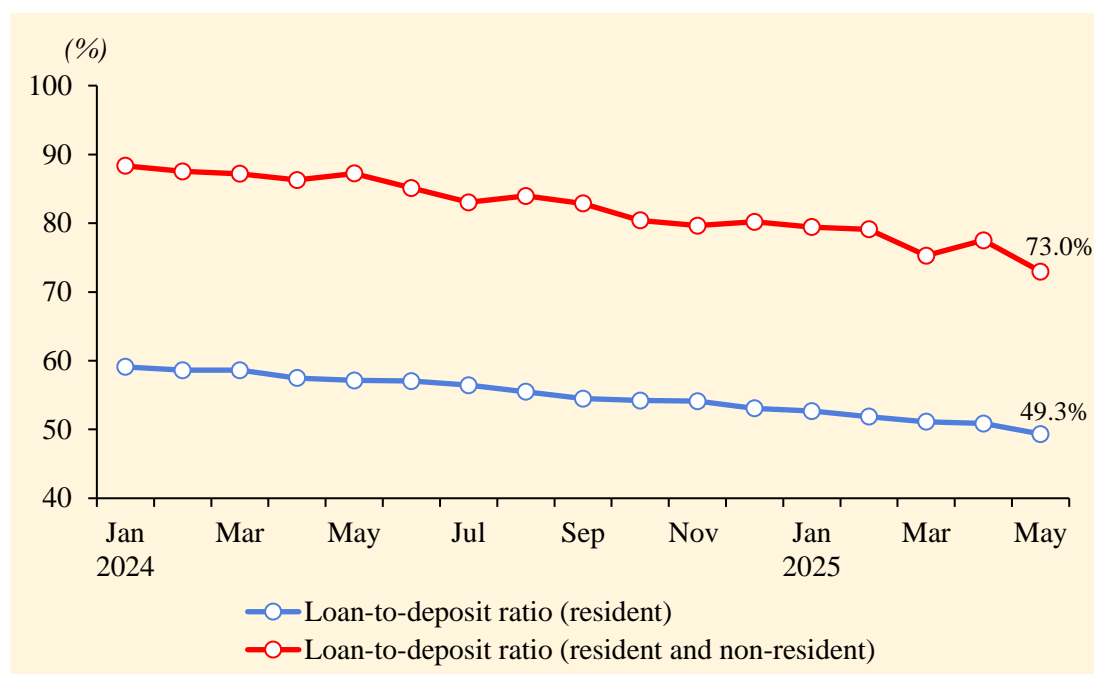
Source: AMCM.

Solvency indicators of Macao banks witnessed divergent trends. At end-March 2025, the consolidated capital adequacy ratio (CAR) for locally incorporated banks, including a government-owned postal savings bank, moved up 1.3 percentage points from a year ago to 15.5%. Such a level was well above the minimum legal requirement of 8.0% (Chart 16). On the other hand, the ratio of NPLs net of provisions to capital rose by 5.8 percentage points to 29.0%, mainly attributed to a rise of NPLs.

The liquidity position of the banking sector strengthened on an annual basis. At end-March 2025, the ratio of liquid assets to total assets marked 36.9%, up by 4.4 percentage points from a year earlier. Meanwhile, the ratio of liquid assets to short-term liabilities increased by 1.8 percentage points to 62.2%. These liquidity indicators improved as banks' liquid assets grew faster than their total assets and short-term liabilities.

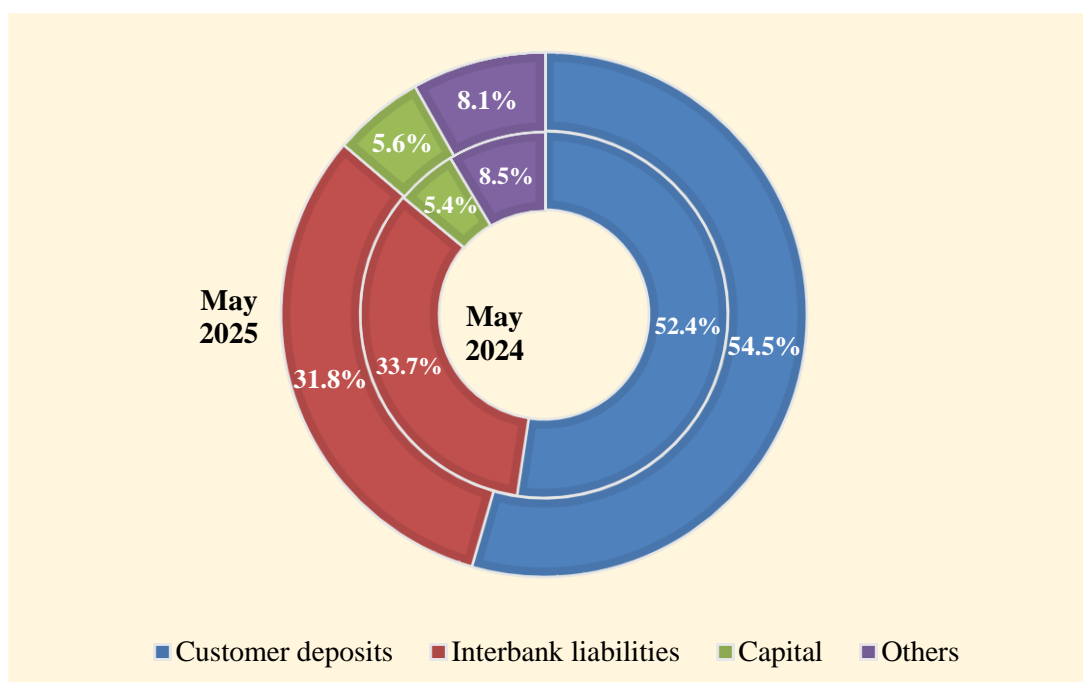
The aggregate loan-to-deposit ratio trended downwards with decreased credit and expanded deposits. At end-May 2025, customer loans dropped year-on-year by 10.1% whereas customer deposits rose by 7.5%. The aggregate loan-to-deposit ratio thus declined further by 14.3 percentage points from the preceding year to 73.0% (Chart 17).

Chart 17: Loan-to-deposit Ratios



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

Customer deposits constituted a larger share of funding sources for Macao banks. At the end of May 2025, the share of customer deposits in total liabilities grew to 54.5% from 52.4% a year earlier (Chart 18). Compared with alternative funding sources like interbank liabilities and short-term market funds, customer deposits demonstrated a lower degree of volatility, underpinning a robust and steady funding structure in the banking system.

Chart 18: Liability Structure of Macao Banks

Source: AMCM.

Solvency of the insurance sector remained adequate. 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-May 2025, the solvency ratio recorded at 465.2% for life insurance companies and 531.7% for general insurance companies.

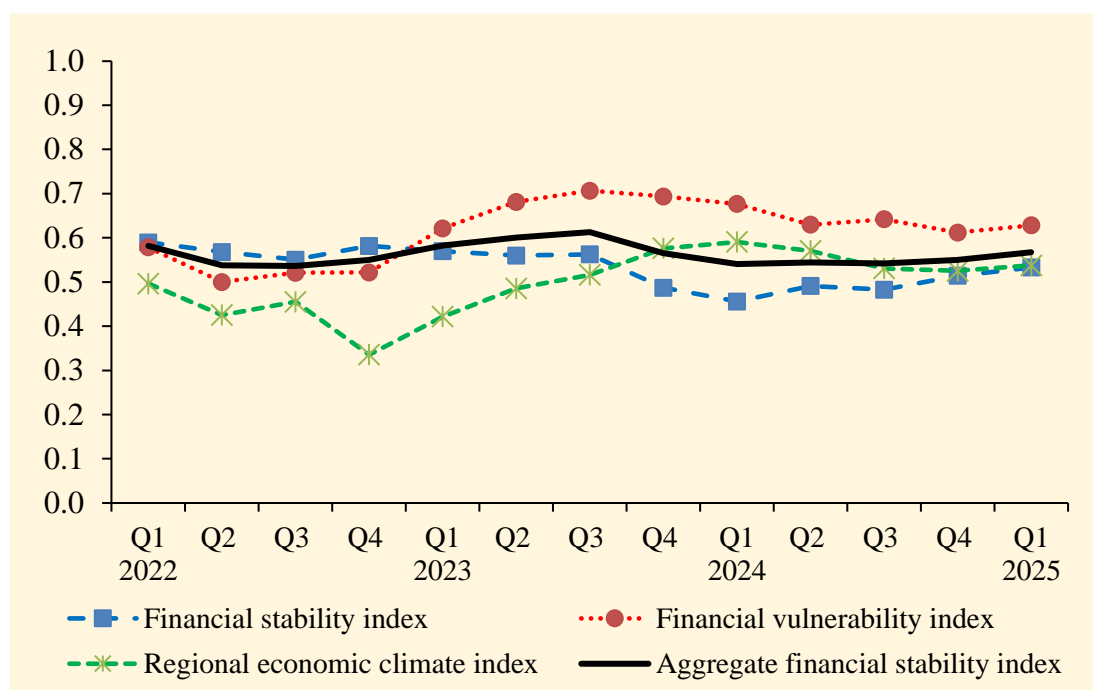
4. Conclusion

The SAR's credible currency board arrangement and strong fiscal discipline continued to safeguard monetary stability. Attributed to the effective currency board arrangement, adequate reserve coverage and the SAR Government's commitment to prudent fiscal management, the LERS between the MOP and the HKD has remained eminently stable. At the same time, Macao's foreign exchange reserves were maintained at a level sufficient to fully cover MOP monetary liabilities and provided a

robust buffer to cushion against external shocks on the monetary system. Additionally, the continued accumulation of the Fiscal Reserve and strong fiscal position have provided ample policy space for the SAR Government to anchor macroeconomic stability while maintaining its debt-free status.

Financial stability was upheld notwithstanding the challenging external environment. Credit demand remained relatively sluggish amid a still high-interest-rate environment as the FOMC has kept the Fed funds rate unchanged since end-2024. Nevertheless, Macao banks witnessed improvements in terms of liquidity and profitability, with the latter driven by a sanguine growth in non-interest income, while maintaining strong capital adequacy. On the front of the insurance sector, the solvency ratios of both life and general insurance companies were kept well above the minimum statutory requirement.

Chart 19: Aggregate Financial Stability Index and Its Sub-indices



Source: AMCM.

The aggregate financial stability index (AFSI), an in-house indicator compiled by the AMCM, picked up to 0.57 in the first quarter of 2025 from 0.54 a year ago (Chart 19). The increment mainly reflected the amelioration in the financial stability index led by improvements in banks’ capital adequacy and liquidity.

The global economy is confronted with a challenging landscape characterised by heightened policy uncertainty and subdued growth. While the global economy has demonstrated resilience amid a robust post-pandemic recovery, concerns about trade tensions and recurring policy shifts could undermine consumer sentiment, dampen investment and potentially trigger an abrupt repricing of assets. According to the World Economic Outlook published in April 2025, the IMF revised its reference forecast of global economic growth for 2025 downwards by 0.5 percentage points to 2.8% whilst that for 2026 was revised down by 0.3 percentage points to 3.0% when compared with the projections in January 2025. Despite the increased prevalence of downside risks, the IMF envisioned that pragmatic structural reforms and multilateral cooperation would enhance productivity and reinvigorate medium-term growth prospects.

Growth momentum of the US economy is envisaged to step down in the wake of trade protectionism policies. After a solid expansion last year, real GDP growth in the US witnessed a downward adjustment in the first quarter of 2025. Concurrently, measures of household and business sentiment have declined amid concerns about the adverse effects of tariff policies on the economic outlook. According to the Summary of Economic Projections in June 2025, the FOMC lowered its real GDP forecast for 2025 to 1.4%, marking a significant moderation from its previous projection of 1.7% in March. Meanwhile, the inflation forecast for 2025 was revised up to 3.0% whilst the unemployment rate was raised to 4.5% (Table 4).

The FOMC would maintain a modestly restrictive monetary policy stance to keep inflation expectations anchored. While tariff measures are envisaged to exert upward pressure on prices and weigh on economic activity, the FOMC stated that it would take time to determine the actual magnitude and duration of these impacts. Against this backdrop, the FOMC assessed that the current stance of monetary policy would be well-positioned to respond to the evolving economic conditions. 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, unaltered from its previous projection in March (Chart 20). On the other hand, the Federal Reserve eased the pace of balance sheet reduction by scaling down the monthly redemption cap on Treasury securities from USD25 billion to USD5 billion

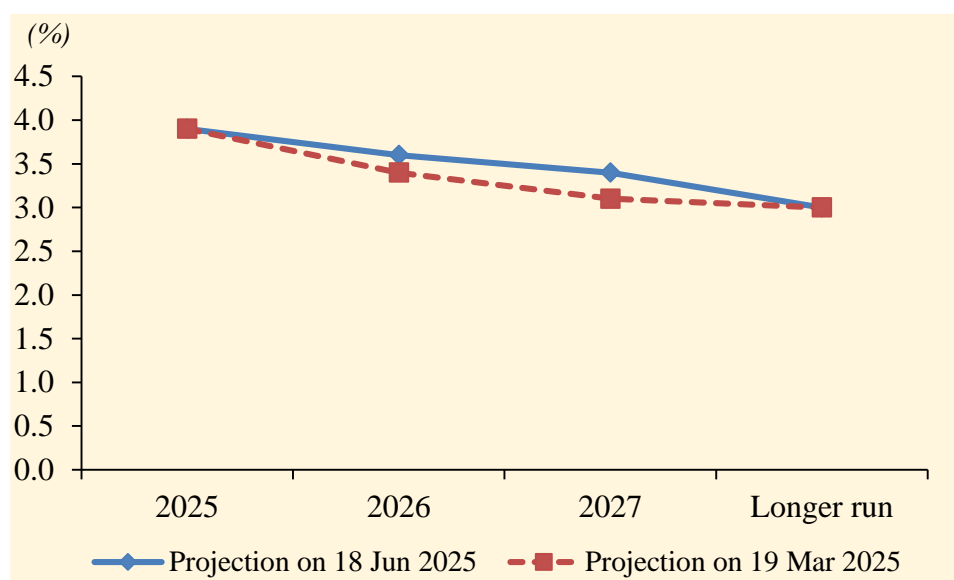
since April 2025, whereas agency mortgage-backed securities roll-offs were kept at up to USD35 billion per month.

Table 4: Median Projections of Major US Economic Variables

	(%)			
	2025	2026	2027	Longer run
Change in real GDP	1.4	1.6	1.8	1.8
Unemployment rate	4.5	4.5	4.4	4.2
Personal consumption expenditure inflation	3.0	2.4	2.1	2.0

Source: The US Federal Reserve.

Chart 20: 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 expected to remain resilient, albeit with softened momentum in the face of global economic uncertainty. While external headwinds persist, the steady economic expansion in the Chinese mainland, underpinned by proactive fiscal measures and moderately accommodative monetary policies, would bolster consumer confidence in the mainland and in turn foster a more favourable environment for Macao's service exports. On the domestic front, the SAR Government has intensified efforts to revitalise the older districts and rolled out supportive measures such as the consumption reward programs to energise local economic activities. Such initiatives

are poised to reinforce Macao's recovery trajectory in the remainder of 2025 despite external challenges.

Inflationary pressures would be mild while labour-market conditions are anticipated to remain favourable. In view of the sustained momentum of Macao's economic recovery, CPI-inflation is expected to rise modestly in 2025. Meanwhile, the resilience of the job market is envisaged to remain intact. Imported workers, which are meant to supplement the local labour supply, would provide sufficient cushion for policy adjustments.

Expedition of appropriate economic diversification and deeper integration into the national strategy would set Macao on a sustainable development trajectory. In the Policy Address for the Fiscal Year 2025, the SAR Government unveiled four major infrastructure projects designed to advance the implementation of the "1+4" appropriate economic diversification strategy. Among them, the Macao-Hengqin International Education (University) Town would cultivate talents and bridge the gap between higher education and the evolving industrial needs of the two regions. Meanwhile, the expansion project of the Macau International Airport is poised to extend the city's international reach and generate new impetus for the integrated tourism and leisure industry.

Additionally, the Second Agreement Concerning Amendment to the Mainland and Macao Closer Economic Partnership Arrangement (CEPA) Agreement on Trade in Services (Amendment Agreement II), which came into force on 1 March 2025, introduced further liberalisation measures across high-technology, finance and other service sectors. By streamlining the entry of Macao's service sectors into the mainland market, the Amendment Agreement II would create a more conducive business environment for local enterprises and reinforce Macao's efforts towards appropriate economic diversification. Capitalising on these initiatives, Macao is well-positioned to enhance its role as a platform between China and Portuguese-speaking countries while actively contributing to the development of the Guangdong-Hong Kong-Macao Greater Bay Area.