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Annual Economic report: Macao 2015

Executive Summary

The economy of Macao recorded rapid growth rate between 9-25% in 2010-2013. It had a negative growth by 0.9% in 2014 and further contracted by 20.3% in 2015. Both economic slowdown and anti-corruption measures in China have hit seriously the gaming industry and inbound tourism which are the two largest pillars of the Macao's economy. Worse still, its gaming industry used to over-rely on high rollers gamblers and VIP gamblers from Mainland China.

Retail market continued to be affected by the drop of visitors' spending. As a result, total value of retail sales declined by 10.4% in 2015. Sales of luxury items such as watches, jewellery, leather goods and motor vehicles dropped drastically. Inflation rate went up by 4.6% in 2015. Labour market remained very solid with low unemployment rate at 1.8%.

Owing to a drastic decline in gaming revenues, the Macao SAR Government mentioned to implement a prudent fiscal and monetary policy. Nevertheless, the foreign exchange reserve balance was still very strong: US\$ 18.8 billion in 2015. It would allow the government to increase fiscal spending, albeit at a reduced pace.

The Macao Statistics and Census Bureau revealed that Swiss exports to Macao amounted to US\$ 802 million (-21%) in 2015. Switzerland was Macao's 3rd largest supplier. Major Swiss products included watches and clocks (93%) and jewellery, precious metal and stones (1.8%). Macao's total exports to Switzerland decreased to US\$ 0.9 million (-49%). Major products were leather goods, watches and clocks. As indicated by the Hong Kong Census and Statistics Department, Swiss goods worth US\$ 695 million (decreased by 23%) were re-exported to Macao via Hong Kong in 2015. Major products were watches and clocks (90%), jewellery (4%) and pharmaceutical products (1.8%). It fully reflects that Hong Kong serves as a trade hub and a logistic centre in this region.

Both the Macao SAR Government and gaming operators are aware of the fact that over reliance on high rollers from Mainland China is no longer sustainable. They are now placing more emphasis on mass-market gaming consumers and development of non-gaming elements. In other words, they are tapping into different source markets such as middle class and families. Swiss products appealing to these market segments will have good potential growth.

1. Economic problems and issues

1.1 General overview of Macao's economy:

Macao is small in both size and population. Macao, consisting of Macao Peninsula, Taipa and Coloane, covers 30.4 sq. km with about 650,000 residents. Both Economic slowdown and anti-corruption measures in China hit severely spending of mainland high-rollers in Macao's gaming sector since 2014. According to the Macao SAR Government, Macao's real GDP recorded a steep contraction of 20.3% in 2015, even though some other components of GDP such as fixed capital investment, private consumption expenditure and government expenditure rose at various magnitudes.

Merchandise exports grew by 7.8% whereas merchandise imports dropped by 5.9% in 2015. Export and import of services decreased by 26.8% and 1.7% respectively. Unemployment rate was very low at 1.8%. Inflation rate went up by 4.6% year-on-year. Retail market continued to be affected by the drop of visitors' spending. As a result, total value of retail sales declined by 10.4%. Sales of luxury items dropped drastically. Watches, clocks & jewellery, leather goods, footwear and motor vehicles decreased by 25%, 22%, 12% and 9.1% respectively.

Macao received 9.9 million visitors from January to April 2016, representing a marginal decrease of 0.3% over the same period of 2015. Information from the Statistics and Census Service of the Macao SAR Government indicated that total spending (excluding gaming expenses) of visitors in the first quarter of 2016 amounted to US\$ 1.4 billion, down by 14% in the same quarter of 2015 and by 12% in the fourth quarter of 2015. In the first quarter of 2016, per-capita spending of visitors was US\$ 193,

down by 14% year-on-year. Gross gaming revenue slowed to US\$ 9,190 million (-12% year-on-year) in Jan-April 2016.

Both IMF and EIU predicted that Macao's GDP would be eased to a decline of 7.2% and 2.7% respectively in 2016. Spending by mass-market gaming consumers will improve but cannot totally offset the impact caused by the big drop in high-rollers gamblers or VIP gamblers.

1.2 Policy Address

Fernando Chui, the Chief Executive of Macao Special Administrative Region, delivered his policy address on 17th Nov. 2015. He pledged to improve people's livelihood and accelerate appropriate diversification of the local economy. Macao would grasp the opportunity of China's 13th five-year socioeconomic plan (2016-2020), the "Belt and Road" initiative and China (Shanghai) Pilot Free Trade Zone, while addressing local community's concern for a sustainable economic and social development. The Macao SAR government would give full play to the advantages of Macao's "two systems" and the SAR's role of a bridge and service platform between Mainland China and Portuguese-speaking countries.

Owing to a drastic decline in gaming revenues, the government would implement a prudent fiscal and monetary policy. Nevertheless, as of September 2015, Macao's basic fiscal reserves stood at US\$ 16.5 billion.

While the gaming industry continued to adjust, Macao would face greater pressure on industrial restructuring such as development of the non-gaming industry. It would include convention and exhibition industries, cultural and creative industries, Chinese medicine industries as well as Small and Medium Enterprises Support Program.

As practised in the last few years, the government continued its cash-sharing plan for permanent and non-permanent residents in Macao. It would also spend substantially on public housing, social welfare, medical and health services.

1.3 Gaming industry

The gaming industry is a major driving force for Macao's economy. Macao is the only city in China where gaming has been legalized.

Gaming industry, which has a long history in Macao, was first legalized in mid-19th century. In 2002, the Macao SAR Government liberalized the gaming industry, bringing new momentum to Macao's gaming sector and the entire economy. Before the handover to China in 1999, the gaming industry's maximum annual gross revenue was US\$2.2 billion. It reached to US\$ 45.2 billion, US\$ 44 billion and US\$ 29 billion respectively in 2013, 2014 and 2015. Nevertheless, last year saw a sharp decline (-34% year-on-year) in gross gaming revenue owing to economic slowdown and anti-corruption measures in China. Its gaming revenue used to rely heavily on high-rollers gamblers or VIP gamblers from China. This segment accounted for about 66% and 60% of gross gaming revenue in 2013 and 2014 respectively. Worse still, the above-mentioned economic slowdown and anti-corruption measures hit this segment the hardest.

It is anticipated that high-rolling segment will remain weak in 2016. High rollers from China are wary of being targeted as gamblers in the current anti-corruption campaign.

1.4 Tourism industry

The tourism industry, the mainstay of Macao's economy, relies heavily on tourists from Mainland China. A total of about 30,714,000 tourists (-2.6% year-on-year) or 47 times the size of local population visited Macao in 2015. It was the first negative growth since 2010. The majority of tourists came from Mainland China (66% of total), Hong Kong (21% of total) and Taiwan (3.2% of total). As mentioned in 1.1, due to the economic slowdown and anti-corruption measures in China, mainland visitors dropped by about 3.9%.

Total spending of visitors fell by 17% to US\$ 6,391 million in 2015. Like-wise, visitor spending per-capita (excluding gaming) dropped by 15% to US\$ 208. Tourists from Mainland China had the highest per-capita spending of about US\$ 246. In 2015, a total of 909 MICE (meetings, incentives, conventions and exhibitions) were held.

To facilitate diversified development (non-gaming business) and integrate various elements into tourism, the Macao SAR Government has been working towards the major objective of turning Macao into a premium tourist destination and a leisure, entertainment, exhibition and convention hub.

1.5 Public Finance

The Macao SAR Government has recorded large budgetary surplus since the casino boom started in 2002. In 2015, total government revenue was about US\$ 13.7 billion (-32% year-on-year) whereas total government expenditure was about US\$ 10 billion (+20% year-on-year). The budgetary surplus was about US\$ 3.7 billion in 2015, much fewer than US\$ 11.8 billion in 2014 and US\$ 15.6 billion in 2013. Since tax revenue from gaming sector accounts for 82%-84% of total government revenue in 2014 and 2015, sharp decline of this tax revenue (from US\$ 17.1 billion in 2014 to US\$ 11.2 billion in 2015 or -34% year-on-year) had a huge impact on lesser surplus achieved in last year. That said, the foreign exchange reserve balance was still very strong: US\$ 18.8 billion in 2015. It would allow the government to increase fiscal spending, albeit at a reduced pace.

2. International and regional economic agreements

2.1 Macao's policy and priorities

Macao is a free port. Goods, capital and foreign exchange can flow freely in and out of Macao. Besides its natural ties with China and Hong Kong, the Macao SAR Government is keen to strengthen economic and trade cooperation with the Portuguese-speaking countries and intends to serve as a link between China and these countries.

Macao maintains a separate status under the name "Macao, China" in a few inter-governmental organisations. Macao is a founding member of the World Trade Organization as well as an associate member of United Nations Economic and Social Commission for Asia and the Pacific. The Macao SAR has been granted 'Guest Economy' status in several Asia-Pacific Economic Cooperation Working Groups since 2001. The Agreement for Trade and Cooperation between the European Economic Community and Macao, which was concluded in December 1992 and effective from 1 January 1993, aimed primarily to further strengthen the relationship between the EU and Macao. This Agreement covers co-operation with respect to trade, economy, science and technology. The EU-Macao Joint Committee meets annually to review the implementation of the Agreement as well as to establish trade development and co-operation programme.

2.2 Closer Economic Partnership Arrangement (CEPA)

CEPA is an FTA-like arrangement concluded between two separate customs territories of a single sovereign state, in conformity with the World Trade Organization rules, with the objective of promoting joint economic prosperity and development of the Mainland and Macao SAR.

The first phase of CEPA was signed on 17 October 2003 and came into effect on 1 January 2004. Similar to CEPA between China and Hong Kong, it covered 3 broad areas: a) trade in goods, b) trade in services and c) trade and investment facilitation. As a living agreement, the two sides have broadened and enriched the content of CEPA between 2004 and 2015.

2.3 Guangdong-Macao Co-operation Framework Agreement

Witnessed by Xi Jinping, then Vice President of PRC, Fernando Chui, Chief Executive of Macao SAR and Huang Huahua, Governor of Guangdong signed the Guangdong-Macao Co-operation Framework Agreement in March 2011. Macao and Guangdong aim to co-ordinate development of industries, fully maximise opportunities on Hengqin Island (such as Guangdong-Macao industrial zone and Chinese Medicine Industrial Park) and study the feasibility of sharing social and public services.

3. Foreign trade

3.1 Development and general outlook

3.1.1 Trade in goods

According to the Macao Statistics and Census Bureau, total exports rose to US\$ 1,337 million (+7.8%) in 2015. Re-exports accounted for about 83% whereas domestic exports were confined to 17%. Major export markets were Hong Kong (59% of total exports), China (17%), Japan (2.2%) and the US (1.8%). Major export products were clocks and watches (11%), machines and apparatus (11%) and electronic components (9.1%).

Imports dropped to US\$ 10,583 million (-5.9%) in 2015. Major supplier countries or regions were China (38%), Hong Kong (8.9%), Switzerland (7.6%), France (6.7%), Italy (6.7%) and Japan (6.1%). Major import products were consumer goods (60%), capital goods (20%), raw materials (13%) as well as fuels and lubricants (8.1%).

Details as per Appendix 3.

3.1.2 Trade in services

Exports of services dropped to US\$ 33.9 billion (-27%) in 2015 as exports of gaming services tumbled by 33% and exports of other tourism services dropped by 12%. These two components account for about 68% and 24% of total exports of services respectively. At the same time, imports of services fell to US\$ 3.8 billion (-3.4%).

3.2 Bilateral trade

3.2.1 Trade in goods

There is a huge discrepancy between two sets of trade figures provided by the Swiss Federal Customs Administration and the Macao Statistics and Census Bureau. According to the Macao Statistics and Census Bureau, their external trade statistics are compiled in accordance with "Country of Origin". Therefore, their import figures include commodities imported directly from Switzerland as well as those imported via a third region or country. On the other hand, the Swiss statistics list a "recipient country" but it may not be a place of final destination. Take for an instance, Swiss products are exported to Hong Kong which are then re-exported to Macao, the Swiss statistics will list Hong Kong, instead of Macao, as a recipient country.

According to the Swiss Federal Customs Administration, Swiss exports to Macao totalled CHF 50 million (+12.5%) in 2015. Major Swiss exports included jewellery, precious metal and stones (52% of total), watches and clocks (24%), electrical and non-electrical machinery (10%) as well as optical/medical instruments (2.8%). Macao's total exports to Switzerland dropped to CHF 7.7 million (-8.8%). Major total exports included watches and clocks (55%), textile and garments (28%), jewellery, precious metal and stones (8.1%) as well as electrical and non-electrical machinery (3.9%).

The Macao Statistics and Census Bureau revealed that Swiss exports to Macao amounted to US\$ 802 million (-21%) in 2015. Switzerland was Macao's 3rd largest supplier. Major Swiss products included watches and clocks (93%) and jewellery, precious metal and stones (1.8%). Macao's total exports to Switzerland decreased to US\$ 0.9 million (-49%). Major products were leather goods, watches and clocks.

As indicated by the Hong Kong Census and Statistics Department, Swiss goods worth US\$ 695 million (decreased by 23%) were re-exported to Macao via Hong Kong in 2015. Major products were watches and clocks (90%), jewellery (4%) and pharmaceutical products (1.8%). It fully reflects that Hong Kong serves as a trade hub and a logistic centre in this region.

Outlook for Swiss exports to Macao¹

Swiss exports to Macao grew remarkably in the last decade and reached record high to US\$ 1,015 million in 2014 and then slowed down to US\$ 802 million in 2015². Major products were watches and clocks, accounting for over 90% of total Swiss exports to Macao in 2011-2015. It is noteworthy that sales of luxury items such as watches, jewellery, fashion and leather goods concentrate in shopping malls at upscale hotels. Owing to economic slowdown and anti-corruption measures in China, sales of luxury items suffered severely in Macao. Consequently Swiss exports to Macao dropped by 21% in 2015.

Both the Macao SAR Government and gaming operators are aware of the fact that over reliance on high rollers from Mainland China is no longer sustainable. They are now placing more emphasis on mass-market gaming consumers and development of non-gaming elements. In other words, they are tapping into different source markets such as middle class and families. Swiss products appealing to these market segments will have good potential growth.

¹ This analysis is based on the Macao official figures which show a more complete picture of Swiss exports to Macao.

² Swiss exports to Macao totalled US\$ 30 million in 2005.

3.2.2 Trade in services

According to the Macao Statistics and Census Bureau, information on bilateral trade in services between Switzerland and Macao is unavailable.

4. Direct Investments

4.1 Development and general outlook

According to the Macao Statistics and Census Bureau, the stock of Macao's inward direct investment increased by 16% to US\$ 27,358 million in 2014 (latest available information). Major investor countries were Cayman Island (US\$9,044 million or 33% of total, grew by 9.7%), Hong Kong (US\$ 6,838 million or 25% of total, grew by 15%), the British Virgin Islands BVI (US\$ 6,284 million or 23% of total, grew by 20%), China (US\$ 3,287 million or 12% of total, grew by 24%) and Portugal (US\$ 1,025 million or 3.7% of total, grew by 11%). Details as per Appendix 5.

The importance of offshore financial centres such as Cayman Island, the BVI and Bermuda to Macao's foreign direct investments was due to their popularity for local and foreign enterprises in setting up non-operating companies to channel direct investment funds back to Macao.

4.2 Bilateral investment flows

As informed by the Macao Statistics and Census Bureau, the amount of Swiss investments in Macao was about US\$ 17 million in 2014. There are four Swiss companies operating in Macao.

5. Trade, economic and tourist promotion

The Consulate General of Switzerland, Switzerland Tourism and the Federation of the Swiss Watch Industry are the organizations to promote Swiss interests in Macao through their offices in Hong Kong. The interests of Macao enterprises to invest in Switzerland remain very little.

Appendices

1. Structure of the economy
2. Essential economic data
3. Trading partners
4. Bilateral trade between Switzerland and Macao
5. Main investor countries

Appendix 1

Structure of Economy (latest available information*)

	2012	2013	2014
Distribution of GDP			
Primary Sector	0%	0%	0%
Secondary Sector	4.1%	3.7%	5.2%
Services	95.9%	96.3%	94.8%
- of which public administration, education, health, social and personal services	7.6%	7%	7.4%
	2013	2014	2015
Distribution of Employment			
Primary Sector	0%	0%	0%
Secondary Sector (manufacturing and construction)	12.3%	15.4%	15.5%
Tertiary Sector	87.7%	84.6%	84.5%
- of which public administration, education, health, social and personal services	13.6%	13%	14.4%

Source: Macao Statistics and Census Bureau (Statistics and Census Service)

Appendix 2

Essential Economic Data

	2014	2015	2016*
GDP (USD billion)	55.5	46.2	43.6
GDP per capita (USD)	89,287	71,984	62,521
GDP growth (%)	-0.4	-20.3	-7.2
Inflation (%)	+6.1	+4.6	+3
Unemployment rate (%)	1.7	1.8	2
Fiscal balance (% of GDP)	21	7.9	unavailable
Current account balance (% of GDP)	38	26	20
Total external debt (% of GDP)	0	0	0
Reserves (in months of imports)	17.5	21	unavailable

* IMF forecast

Sources: Macao Statistics and Census Bureau (Statistics and Census Service), IMF

Appendix 3

Trading Partners 2015

Rank	Country/region	Exports from Macao (USD millions)	Share (%)	Growth* (%)
1	Hong Kong	791	59	8.8
2	China	230	17	18
3	Japan	30	2.2	40
4	USA	25	1.8	-33
5	Singapore	9.6	0.7	15
6	Malaysia	8.1	0.6	225
	Switzerland	0.9	0.06	-49
	EU	28	2.1	-27
	Total	1,337	100	7.8
Rank	Country/region	Imports to Macao (USD millions)	Share (%)	Growth* (%)
1	China	3,982	38	6.8
2	Hong Kong	942	8.9	-18
3	Switzerland	802	7.6	-21
4	France	711	6.7	-25
5	Italy	710	6.7	-8.5
6	Japan	646	6.1	2.8
7	USA	600	5.7	-18
	EU	2,355	22	-14
	Total	10,583	100	-5.9

* year-on-year basis

Source : Macao Statistics and Census Bureau (Statistics and Census Service)

Appendix 4 Bilateral Trade Table

Bilateral trade Switzerland – Macao

	Exports (CHF million)	% Change	Imports (CHF million)	% Change	Trade Balance	Volumn (CHF million)
2010	29.4	32%	1.3	-9.2%	28.1	30.7
2011	49.5	68%	2.4	86%	47.1	51.9
2012 (total 2)**	63.6	*	8.5	*	55.1	72.1
2012 (total 1)***	63.4	*	8.5	*	54.9	71.9
2013 (total 2)**	40.6	-36%	11.3	33%	29.3	51.9
2013 (total 1)***	40.6	-36%	11.3	33%	29.3	51.9
2014 (total 2)**	44.4	9.4%	8.4	-26%	36	52.8
2014 (total 1)***	44	8.4%	8.4	-26%	35.6	52.4
2015 (total 2)**	50	12.5%	7.7	-8.8%	42.4	57.6
2015 (total 1)***	48.6	10.4%	7.7	-8.8%	41	56.2

* The Swiss Customs Administration made changes to the way it calculates imports and exports as of 1 January 2012. Since then, comparisons between 2012 and the previous years have no longer been possible. Data on Switzerland's foreign trade in gold, silver and coins are contained in the general total (total 2) starting in the data for 2012.

** General total (total 2) includes gold bars and other precious metals, coins, precious stones and gems, work of art and antiques.

*** Economic total (total 1) does not include gold bars and other precious metals, coins, precious stones and gems, work of art and antiques.

Major products (general total, total 2)

Exports	2014 (% of total)	2015 (% of total)
Jewellery, precious stones and precious metals	49	52
Watches and clocks	28	24
Machinery (electrical and non electrical)	7.7	10.4
Optical/medical instruments	2	2.8

Imports	2014 (% of total)	2015 (% of total)
Watches and clocks	35	55
Textiles and garments	21	28
Jewellery, precious stones and precious metals	5.4	8.1
Machinery (electrical and non electrical)	21	3.9

Source : Swiss Federal Customs Administration

Appendix 5

Major investor countries/regions 2014 (latest available information*)

Rank	Country/Region	Direct investments (USD million)	Share (%)	Growth (%)	Change of inflow (USD million)
1	Cayman Islands	9,044	33%	9.7%	-950
2	Hong Kong	6,838	25%	15%	-242
3	British Virgin Islands	6,284	23%	20%	-379
4	China	3,287	12%	24%	197
5	Portugal	1,025	3.7%	11%	-25
6	Bermuda	530	1.9%	-16%	-328
7	UK	394	1.4%	-8.8%	-102
8	USA	295	1.1%	437%	543
9	Singapore	49	0.1%	47%	4.3
10	Netherlands	46	0.1%	-21%	-26
	EU	1,519	5.6%	4.5%	-97
15	Switzerland	17	0.06%	22%	8.8
	Total	27,358	100 %	16%	-1,232

* Investment figures for 2015 will only be available in October 2016.

Source: Macao Statistics and Census Bureau (Statistics and Census Service).