

# Half-Yearly Monetary and Financial Stability Report

## March 2012

### Table of Contents

<b>1. Summary and overview</b>	<b>4</b>
<b>2. Global setting and outlook</b>	<b>11</b>
<b>External environment</b>	11
2.1 Real activities	11
2.2 Global financial conditions	14
<b>Mainland China</b>	17
2.3 Output growth and inflation	17
2.4 Monetary conditions, asset markets and banking risks	18
<b>3. Domestic economy</b>	<b>22</b>
<b>Demand</b>	22
3.1 Aggregate demand	22
3.2 Domestic demand	28
3.3 External trade	29
<b>Labour market conditions</b>	31
3.4 Labour market conditions	31
<b>Costs and prices</b>	32
3.5 Consumer prices	32
3.6 Output gap and labour costs	34
3.7 Rental costs	34
3.8 Commodity and import prices	35
<b>4. Monetary and financial conditions</b>	<b>36</b>
<b>Exchange rate, interest rates and monetary developments</b>	36
4.1 Exchange rate and interest rates	36
4.2 Money and credit	39
<b>Capital flows</b>	52
4.3 Capital flows	52
<b>Asset markets</b>	57
4.4 Equity market	57
4.5 Debt market	59
4.6 Property markets	61
<b>5. Banking sector performance</b>	<b>65</b>
5.1 Profitability and capitalisation	65
5.2 Liquidity and funding	67
5.3 Interest rate risk	69
5.4 Credit risk	69
5.5 Systemic risk to the banking system	75
Box 1. Taking the pulse of the Hong Kong economy — introducing monthly coincident and leading economic indicators for Hong Kong	24
Box 2. How are credit developments in Hong Kong related to monetary conditions in Mainland China?	44
Box 3. Price disparities between Mainland China's onshore and offshore financial markets	48
Box 4. A stress-testing analysis of the impact of the European sovereign debt crisis on the Hong Kong banking sector	77

#### Glossary of terms

#### Abbreviations