

# Half-Yearly Monetary and Financial Stability Report

## September 2012

### Table of Contents

<b>1. Summary and overview</b>	<b>4</b>
<b>2. Global setting and outlook</b>	<b>8</b>
<b>External environment</b>	8
2.1 Real activities	8
2.2 Global financial conditions	10
<b>Mainland China</b>	14
2.3 Output growth and inflation	14
2.4 Monetary conditions, asset markets and banking risks	15
<b>3. Domestic economy</b>	<b>24</b>
3.1 Aggregate demand	24
3.2 Domestic demand	26
3.3 External trade	27
3.4 Labour market conditions	28
3.5 Consumer prices	33
<b>4. Monetary and financial conditions</b>	<b>35</b>
<b>Exchange rate, interest rates and monetary developments</b>	35
4.1 Exchange rate and interest rates	35
4.2 Money and credit	37
4.3 Capital flows	46
<b>Asset markets</b>	50
4.4 Equity market	50
4.5 Debt market	52
4.6 Property markets	54
<b>5. Banking sector performance</b>	<b>58</b>
5.1 Profitability and capitalisation	58
5.2 Liquidity and funding	60
5.3 Interest rate risk	61
5.4 Credit risk	62
5.5 Systemic risk to the banking system	67
Box 1. Economic growth and the long-term performance of the stock markets in Mainland China	19
Box 2. The tight labour market puzzle: will it remain resilient?	30
Box 3. Gauging the safehavenness of the Hong Kong dollar	41
Box 4. The distribution of eurodollar deposits: pointers for offshore renminbi business	44
Box 5. Shadow banking in Hong Kong – an overview and assessment of lending by listed finance companies	69

#### Glossary of terms

#### Abbreviations