

Happier days

HSBC and Barclays battle bad debts, but their investment banks boom.



Reuters

When the rug was pulled from under Britain's big banks, only HSBC and Barclays remained upright, avoiding state rescue by raising capital from private sources. Now their sense of superiority is likely to be compounded by first-half results. On Monday August 3rd both banks reported big profits. By contrast, Lloyds Banking Group and Royal Bank of Scotland, which are now state-controlled, are both forecast to make losses.

Along with most lenders at the moment, Britain's healthy pair have been boosted by their investment banks. Barclays' division saw profits double compared with last year, and HSBC's unit did even better. Pent-up demand from companies to raise funds, as well as wider trading spreads and low interest rates, explain the windfall.

Since this boom in investment banking is expected to fizzle, investors ask what the likely state of bad debts may be. As in America's diversified banks, traders cheer record profits while on the other side of firms' Chinese walls the retail bankers are being bludgeoned. Barclays' bad-debt charge rose by 86% from a year ago and HSBC's remained at the very high levels seen late last year. In the first stages of the credit crisis most write downs came from securities, now rising unemployment means bad debts come from bog-standard credit cards and mortgages.

Oddly though, it is bad-debt levels that provide the most optimistic sign from the two banks' results, specifically those in HSBC's American consumer-credit arm. This specialised in subprime lending and was one of the first big businesses to suffer serious problems. Half-way through 2006, when the rest of the financial world still partied, delinquencies on its loan book were soaring. HSBC's 2006 results were marred by what it called the "US mortgage issue". Since then it has suffered \$19 billion of pre-tax losses in North America.

The past three months have brought hints that the worst is over. Overall, fresh bad debts in America fell compared with the first quarter, and in mortgages in particular the bank ran down slightly its stock of bad-debt reserves, suggesting it does not see things getting worse. HSBC gives warning that credit trends can be seasonal and that a boost to the economy from the government stimulus package may wear off. Still, as a sign that things are improving, this is more reassuring than an unseemly boom in investment banking.

HAPPIER days. **The Economist**, New York, Aug. 3rd, 2009. Disponível em: <www.economist.com>. Acesso em: 4 ago. 2009.