HSBC chief warns of Asia credit crunch

By Henny Sender and Robert Cookson in Hong Kong

Stuart Gulliver, chief executive of HSBC, warned on Tuesday that Asia is facing the threat of a potential slowdown in the flow of credit to the region, especially from beleaguered European banks.

Many Asian nations depend on foreign banks for a large chunk of their funding, raising the prospect of a credit crunch as cash-starved foreign banks either retrench or raise the price of their loans.

Continental European banks were responsible for 21 per cent of the $2,520bn of international bank loans outstanding in Asia excluding Japan as of the second quarter of 2011, according to the Bank for International Settlements.

“The strong increases in credit availability in Asia that has supported demand growth cannot continue indefinitely,” said Mr Gulliver, who was speaking in Hong Kong the day before his bank announces its third-quarter results.

“Any reduction in credit availability is likely to be gradual – but it remains a risk policymakers will need to manage. And we need to be careful to monitor the risk of a sharp withdrawal of credit by European banks as a result of events at home.”

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Within the region, China, Singapore, South Korea and Hong Kong had the highest exposure to European bank lending. Analysts reckon that while borrowing costs in Asia will rise as European banks pull back from the region, the impact will be limited because US, UK and Japanese banks will step into the vacuum.

However, they warn that lending could plunge if the eurozone crisis spins out of control. “Any move to shut off the emerging market credit spigot could have powerful knock-on effects on domestic demand growth,” JPMorgan warned in its latest Global Data Watch last week, referring to emerging markets in Latin America and Europe as well as Asia. “Emerging market economic growth has been fuelled by rapid bank lending.”

JPMorgan expects emerging market growth to slow to well below its current trend as a result of tighter financial market conditions as well as weaker capital inflows and sluggish external demand. But it is not only foreign banks that are imposing constraints on credit.

Local banks are also seeing their cost of funds rise amid concerns about their asset quality, according to JPMorgan, forcing them to restrict credit: “Emerging market banks are tightening terms and standards across all regions and for all loan categories.”

Indonesia, for example, relies on foreign banks for 75 per cent of total bank funding, while South Korea relies on foreign banks for 52 per cent and Australia for just over 50 per cent, according to data from Dealogic.

In the 2008 financial crisis, European banks cut lending to Asia by 20 per cent, leading to widespread contagion and preventing some companies from rolling over their debt. With Asian stocks and bonds tumbling, investors were forced to abandon the once popular idea that the region had “decoupled” from the west.