Credit boom worries Russia

Easy credit poses tough challenge for Russian economy

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A woman walks out of a building housing an office of VashiDengi payday lender in Moscow

AFP | Moscow, Russia

New machines popping up in Russian shopping centres seem innocuous enough -- users insert their passport and receive a small loan in a matter of minutes.

But the devices, which dispense credit in Saint Petersburg malls at a sky-high annual rate of 365 per cent, are another sign of a credit boom that has authorities worried.

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But it's a sensitive topic. Limiting credit would deprive households of financing that is sometimes vital, and could hobble already stagnant growth.

The Russian economy was badly hit in 2014 by falling oil prices and Western sanctions over Moscow's role in Ukraine, and it has yet to fully recover.

"Tightening lending conditions could immediately damage growth," Natalia Orlova, chief economist at Alfa Bank, said.

"Continuing retail loan growth is currently the main supporting factor," she noted.

But "the situation could blow up in 2021," Economy Minister Maxim Oreshkin warned in a recent interview with the Ekho Moskvy radio station.

He said measures were being prepared to help indebted Russians.

According to Oreshkin, consumer credit's share of household debt increased by 25pc last year and now represents 1.8 trillion rubles, around $27.5 billion.

For a third of indebted households, he said, credit reimbursement eats up 60pc of their monthly income, pushing many to take out new loans to repay old ones.

Alfa Bank's Orlova said other countries in the region, for example in Eastern Europe, had even higher levels of overall consumer debt as apcage of national output or GDP.

But Russian debt is "not spread equally, it is mainly held by lower income classes," which are less likely to repay, she said.

'People don't have money'

The situation has led to friction between the government and the central bank, with ministers like Oreshkin criticising it for not doing enough to restrict loans.

Meanwhile, economic growth slowed sharply early this year following recoveries in 2017 and 2018, with an increase of just 0.7pc in the first half of 2019 from the same period a year earlier.

That was far from the 4.0pc annual target set by President Vladimir Putin -- a difficult objective while the country is subject to Western sanctions.

With 19 million people living below the poverty line, Russia is in dire need of development.

"The problem is that people don't have money," Andrei Kolesnikov of the Carnegie Centre in Moscow wrote recently.

"This is why we can physically feel the trepidation of the financial and economic authorities," he added.

Kolesnikov described the government's economic policy as something that "essentially boils down to collecting additional cash from the population and spending it on goals indicated by the state."

At the beginning of his fourth presidential term in 2018, Putin unveiled ambitious "national projects."

The cost of those projects -- which fall into 12 categories that range from health to infrastructure -- is estimated at $400 billion by 2024, of which $115 billion is to come from private investment.

A rise in value-added tax on January 1 that was presented as crucial for the projects contributed to Putin's fall in popularity over the last year.

"If the debt bubble suddenly bursts, how will people behave?" Kolesnikov asked.

"They will be left without money" while authorities continue to spend on grand but ultimately unprofitable projects, the analyst warned.

He cited grandiose "patriotic" undertakings such as a bridge connecting Sakhalin island to the mainland in far eastern Russia, and the creation of a "Russian Vatican" in the ancient monastery town of Sergiev Posad outside Moscow.

That will come at a "diabolical cost", he quipped.

A woman passes a notice advertising loans in downtown Moscow

Kuwait sovereign fund in portfolio shift: report

- **KIA, which the Sovereign Wealth Fund Institute estimates manage $592 billion of assets**
- **KIA has achieved a 10% return on its investments in U.S. stock markets since the beginning of this year**

Reuters | Kuwait

The Kuwait Investment Authority (KIA) began increasing its exposure to bonds and cash two years ago to boost liquidity in its portfolio as the global economy showed signs of weakness, Kuwaiti newspaper Alqabas reported on Sunday, citing sources.

The report provided rare insight on the strategy of one of the world's biggest sovereign wealth funds, though it did not give a breakdown of KIA's investments in various asset classes.

KIA, which the Sovereign Wealth Fund Institute estimates manage $592 billion of assets, does not publicly disclose its investments or detailed strategy.

The newspaper report said KIA made "calculated exits" from investments it felt were vulnerable to a downturn in global financial markets as the world economy began to show signs of faltering two years ago.

The fund's investments are spread across more than 120 economies globally

The International Monetary Fund (IMF) in July cut its forecast for global growth this year and next, warning that further tariffs in the U.S.-China trade dispute or a disorderly British exit from the European Union could slow growth further, weaken investment and disrupt supply chains.

The IMF said that downside risks had intensified and it expected global economic growth of 3.2% in 2019 and 3.5% in 2020, both down by 0.1 percentage points from its April forecasts and the fourth downgrade since October.

Despite recent volatility in equity markets, KIA has achieved a 10% return on its investments in U.S. stock markets since the beginning of this year, the report said.

KIA officals were not immediately available to comment.

Kuwaiti news agency KUNA reported in late 2017 that KIA had more than $300 billion of investments in the United States, diversified among stocks, bonds, real estate and technology.

Representative picture (Courtesy of Radisson)

US and China seeking to revive trade talks: Trump advisor

China's President Xi Jinping (R) shakes hands with US President Donald Trump before a bilateral meeting on the sidelines of the G20 Summit in Osaka.

Washington, United States

Washington and Beijing are working actively to revive negotiations aimed at ending the trade war that has rattled world markets, Donald Trump's chief economic adviser said Sunday.

If teleconferences between both sides' deputies pan out in the next 10 days "and we can have a substantive renewal of negotiations," Larry Kudlow said on "Fox News Sunday," "then we are planning to have China come to the USA and meet with our principals to continue the negotiations."

That left it uncertain, however, whether a Chinese delegation would be coming to Washington next month, as a White House spokesperson predicted after US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin left a round of trade talks in Shanghai in July.

But Kudlow emphasized that phone conversations held last week to follow up on the Shanghai talks -- involving Lighthizer, Mnuchin and two senior Chinese negotiators, Vice Premier Liu He and Commerce Secretary Zhong Shan -- were "a lot more positive than has been reported in the media."