

# A COMPARISON BETWEEN NORWAY'S GOVERNMENT PENSION FUND GLOBAL AND THE GULF COOPERATION COUNCIL'S MAJOR SOVEREIGN WEALTH FUNDS

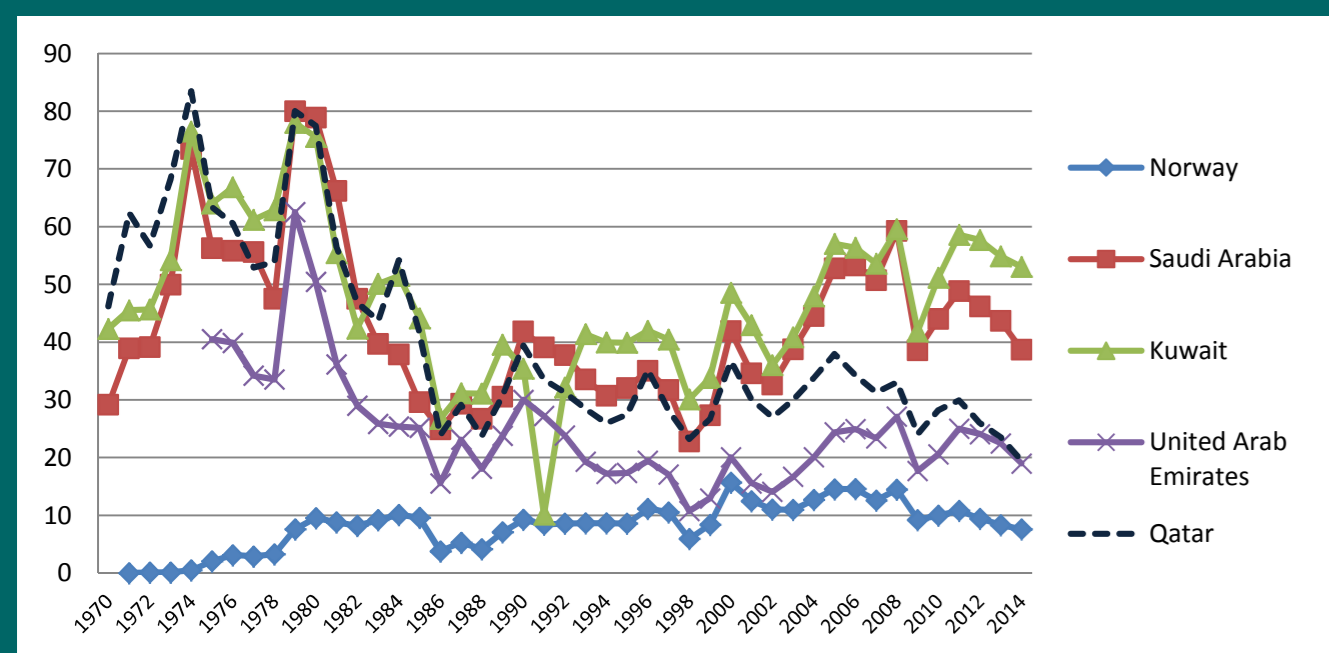
Author: Eszter Wirth (Dep. Economía Aplicada I, UCM). Partners: Helge Ryggvik (Centre for Technology, Innovation and Culture, University of Oslo); and Per Heum (Centre for Applied Research, Norwegian School of Economics). Supported by a grant from Iceland, Liechtenstein and Norway through the EEA Financial Mechanism. Operated by Universidad Complutense de Madrid



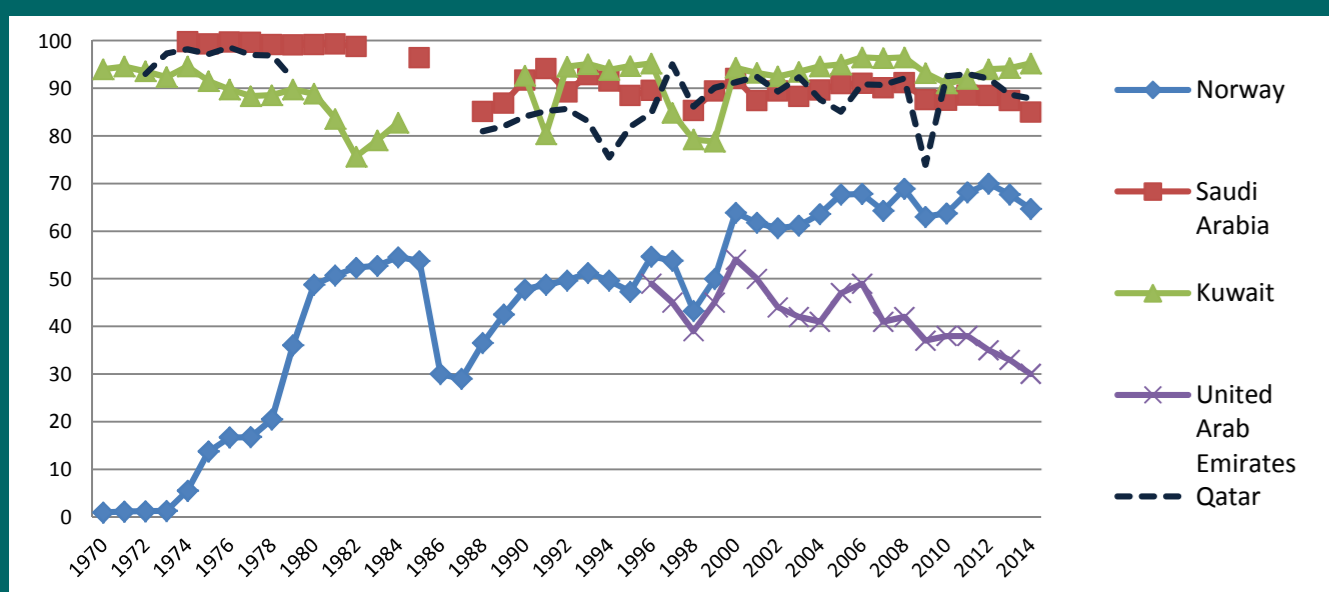
## What are Sovereign Wealth Funds (SWF) and what is their function?

- International Working Group on SWF (2008): "special purpose investment funds or arrangements, owned by the government, that hold, manage, or administer assets primarily for medium- to long-term macroeconomic, and financial objectives".
- SWFs are NOT public pension funds (no current liabilities), not foreign exchange reserves (more diversified portfolio), not development banks (they invest mainly abroad).
- Main source of capital: resource revenues (Norway and GCC countries) or excess of foreign exchange reserves (most Asian SWFs).
- Functions: i) Stabilization against resource boom, fiscal and economic volatility, Dutch disease; ii) savings: transforming resource wealth in financial wealth, preserving national wealth once resources run dry, and intergenerational equity.

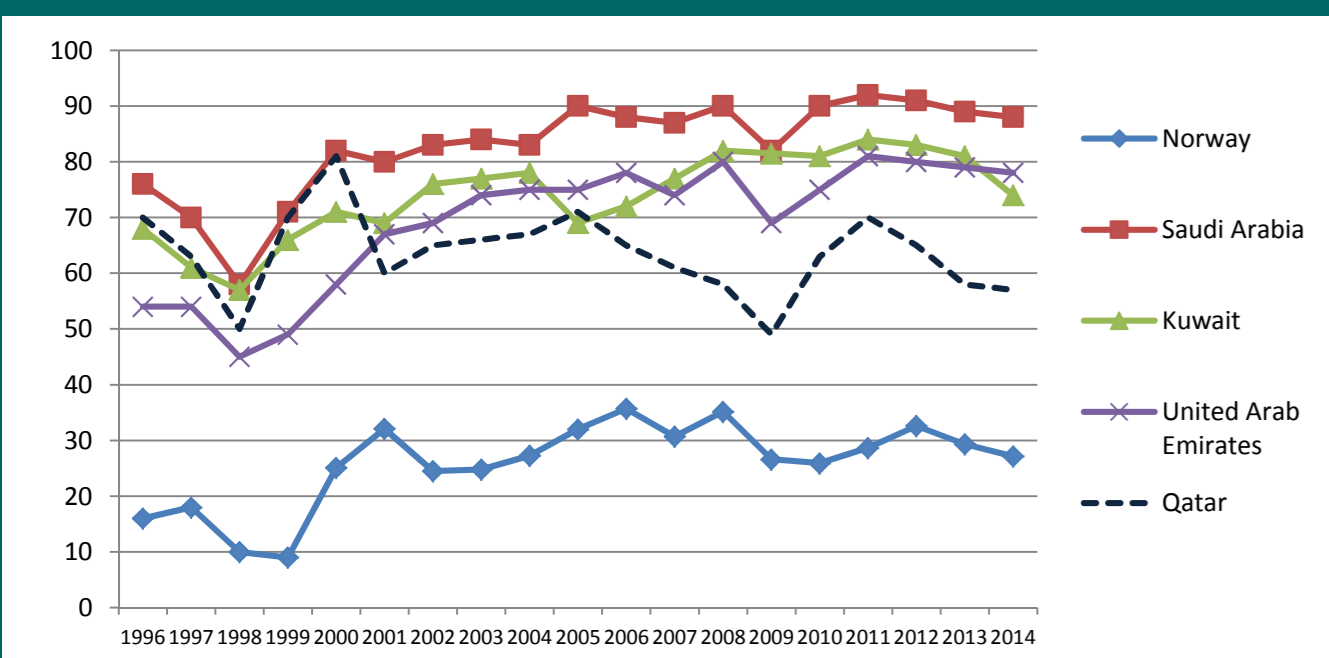
Oil rents as percentage of GDP, 1970-2014



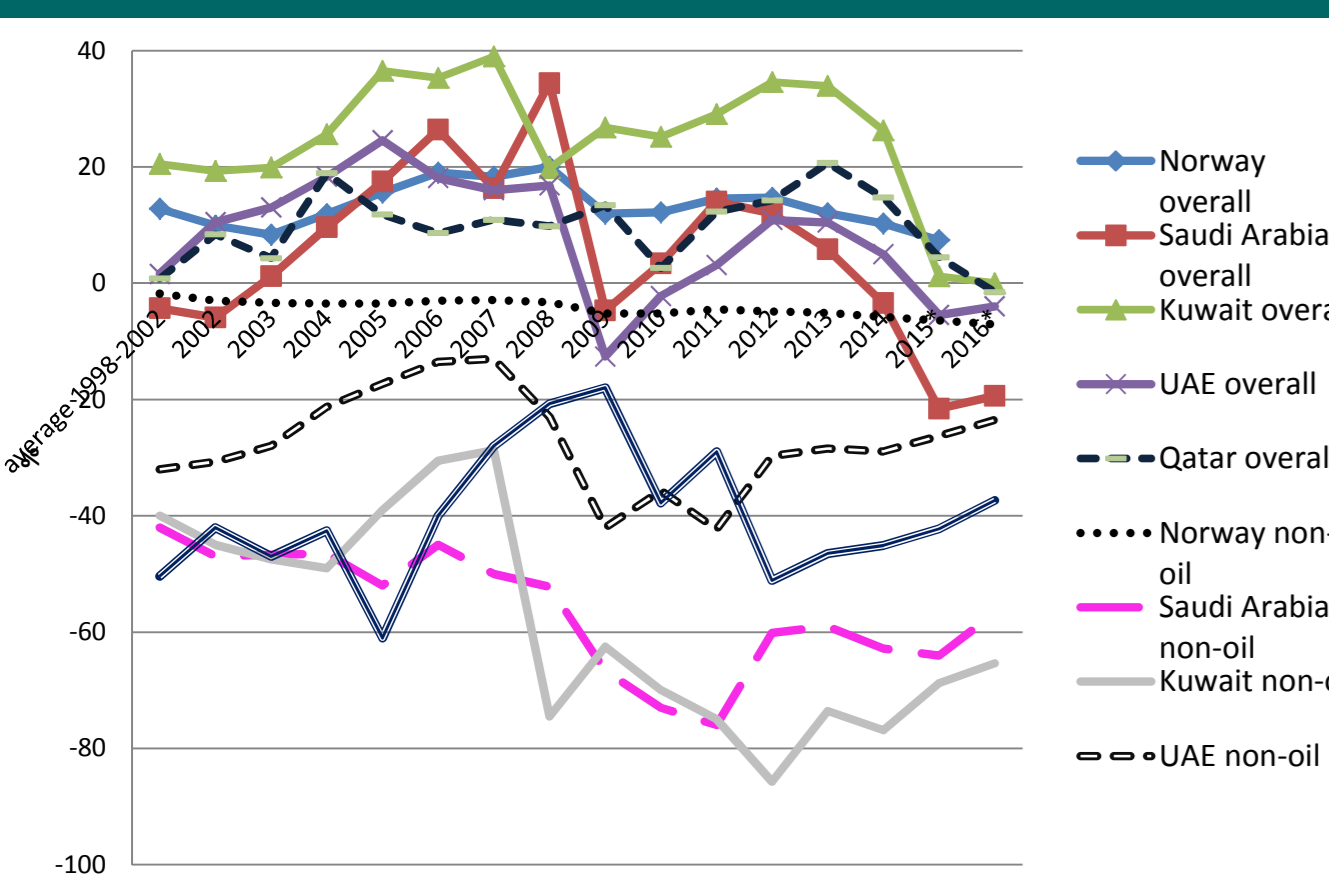
Oil exports as percentage of total exports, 1970-2014



Oil fiscal revenue as percentage of total fiscal revenues, 1996-2014



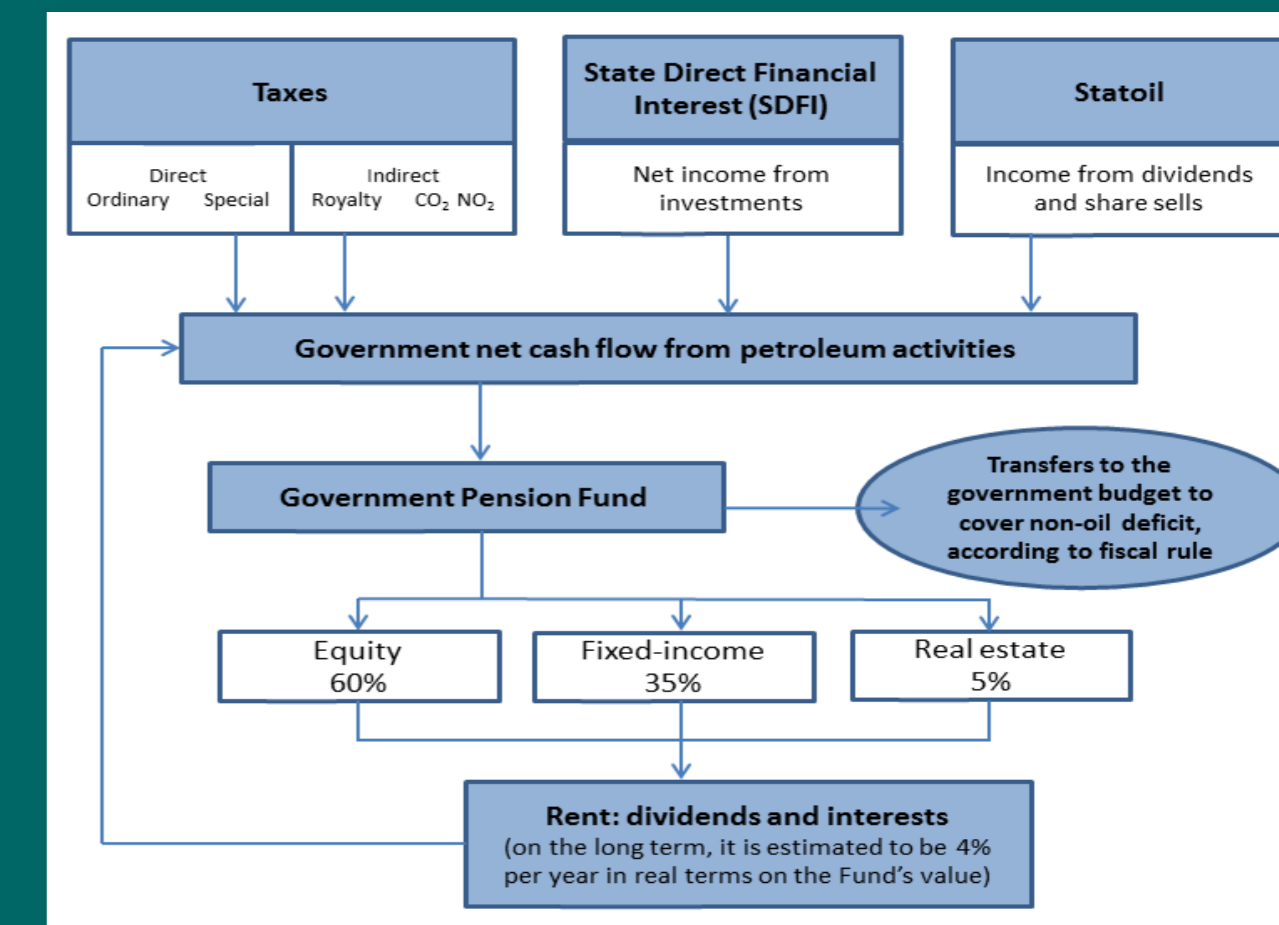
Overall fiscal balance (% overall GDP) & non-oil fiscal balance (% non-oil GDP), 1998-2016\*



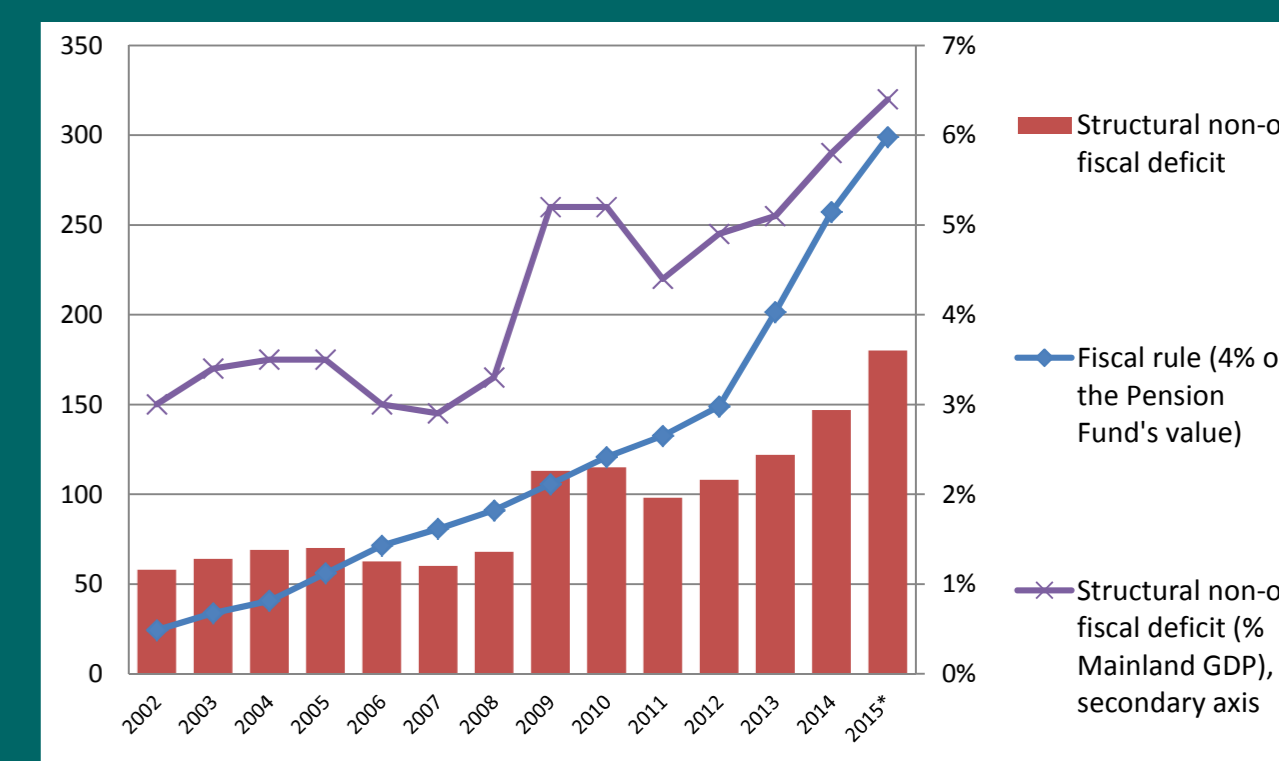
	Establishment	Assets under management (USD billion) end 2015	Assets under management per capita (USD) 2015	Function	Portfolio	Risk	Fiscal rule	Linburg-Manduell transparency index	Santiago compliance transparency index
<b>Norway</b>									
<b>GPFG</b>	1990	825	160,600	Principally savings, but also stabilization when required	60% equity 35% fixed income 5% real estate	Medium-high	Yes, based on non-oil fiscal deficit	10 out of 10	A-
<b>Kuwait</b>									
<b>Kuwait investment Authority (KIA): General Reserve Fund (GRF) + Future Generations Fund (FGF)</b>	1953	592	157,736	GRF: local development (not SWF) FGF: savings	Estimates: 50% equity 20% fixed income 30% alternative assets	Medium-high	GRF: no FGF: yes, fixed transfer of 25% of State revenues	6 out of 10	C
<b>Qatar</b>									
<b>Qatar Investment Authority (QIA)</b>	2006	256, estimated, no disclosure	117,860, estimated	Principally savings and local development	No disclosure. Invests domestically and abroad. High exposure to equities and private equity.	High	No rule	5 out of 10	D
<b>United Arab Emirates</b>									
<b>Abu Dhabi Investment Authority (ADIA)</b>	1976	773, estimated, no public disclosure	264,498, estimated for emirate of Abu Dhabi	Principally savings, but also stabilization when required	32-42% in developed market equities, 10-20% in emerging market entities, 10-20% in sovereign bonds, 5-10% in credit, 5-10% in real estate, 5-10% in alternative assets, 2-8% in private equity, 1-5% in infrastructure and the rest in cash and small-cap equities	Medium-high	No disclosed rule, but according to estimations, it receives 70% of ADNOC's income	6 out of 10	C+
<b>Other sovereign funds</b>				Mubadala Development Company (local development fund for diversification of Abu Dhabi), Abu Dhabi Investment Council (domestic and regional investment and small strategic foreign assets, receives 30% of ADNOC's income), Abu Dhabi Investment Company (investments in Africa and Middle East), Investment Corporation of Dubai (Dubai's SWF broken down in several operating investment companies), Emirates Investment Authority (federal SWF for all emirates, responsible for the future stewardship of federal government stakes in over 30 corporations, invests mainly in the UAE with diversification purposes).					
<b>Saudi Arabia</b>									
<b>Saudi Arabia Monetary Authority Foreign Holdings (SAMA FH)</b>	1952	669, estimated, no disclosure	21,660, estimated	Stabilization	No disclosure. Estimations: 80-90% fixed income 10-20% equity. Mostly USD-based assets.	Low	No rule	4 out of 10	-
<b>Other sovereign funds</b>				Public Investment Fund (local development fund for diversification of the Kingdom, not a SWF), Sanabil (small subsidiary of PIF that invests abroad, it is a SWF but it is still small)					



## The Norwegian Government Pension Fund Global (GPFG) and fiscal rule



Overall fiscal balance (% overall GDP) and non-oil fiscal balance (% non-oil GDP), 1998-2015



## Articles and communications resulting from the project:

- "Coherencia de la política monetaria, fiscal y cambiaria noruega: 2001-2014", in conjunction with Juan M. Ramírez Cendrero. Communication prepared for XII Jornadas Internacionales de Política Económica. Toledo, 28-29 May 2015.
- "Paradojas de la política medioambiental noruega". Presentation for XV Jornadas de Economía Crítica. Madrid, 10-11 March 2016.
- "Is the Norwegian model exportable to combat Dutch disease?". Resources Policy 48, June 2016. In conjunction with Juan M. Ramírez Cendrero.
- "Fiscal policy and Sovereign Wealth Funds in oil-rich economies: the Norwegian case". Communication prepared for the XVIII World Economy Meeting, Alcalá de Henares, 1-3 June 2016. In conjunction with Juan M. Ramírez Cendrero.
- "Sovereign Wealth Funds and their coordination with fiscal and monetary policies". Communication prepared for the 13th International Conference Developments in Economic Theory and Policy, Bilbao, 23-24 June 2016. In conjunction with Juan M. Ramírez Cendrero.
- "Los fondos soberanos de inversión como instrumento para economías de inserción externa primario-exportadora". Communication prepared for the 3rd International Congress of Development Studies., Zaragoza, 29 June-1 July 2016. In conjunction with Juan M. Ramírez Cendrero.

## CONCLUSIONS

- Norway owns only one SWF, meant for savings and stabilization, while Arab countries generally possess a large savings and/or stabilization fund—a genuine SWF—and have recently set up additional funds for domestic diversification. This strategy is perfectly justified given their scarce infrastructure and need to decrease dependence on oil. Norway is much more diversified, although some authors insist on the shortage of modern railways, roads, and moving towards green sectors in a future characterized by de-carbonization. SWFs, which allocate most of their capital abroad, try to address exchange rate appreciation, loss of competitiveness and volatility, thus indirectly contributing to Dutch disease mitigation. Nevertheless, they are cannot replace policies directly aimed at diversifying the economic structure.
- Investment styles in accordance with the countries' features: Norway, Abu Dhabi, Kuwait can afford a riskier strategy with higher exposure to equity, real estate and other illiquid assets. On the other hand, Saudi Arabia is a bigger country with more than 30 million inhabitants, needs considerable exchange reserves denominated in USD to support the rial's fixed exchange rate against the USD and owns lower fiscal buffers. Therefore it cannot afford to gamble with the nation's money.
- Information concerning the Norwegian SWF is easily accessible: it is enough to browse its website and download the reports. On the other hand, information on Gulf SWFs is harder to obtain: their websites offer only a short overview, they do not even disclose their size, let alone their portfolio or operations. It is necessary to resort to research institutes—with expensive subscription fees— or browse the business press and academic papers in order to get estimated data.
- Norway managed to set a credible fiscal rule that authorities respected during the past ten years, and that offers flexibility depending on business cycles—although it is not free from certain flaws. Kuwait and Abu Dhabi have also fiscal rules, although more rigid ones, Saudi Arabia and Qatar lack such rules.
- Despite saving huge funds between 2005 and 2014, public expenses have been more volatile in Arab countries and rocketed throughout oil booms as well, particularly during the Arab Spring. This episode was not properly a recession, but a political incident and Gulf regimes raised public expenses without economic motives, in spite of implementing political liberalization. Consequently, non-oil fiscal balances registered huge deficits even between 2010 and 2013, when hydrocarbon prices soared. Withdrawing capital from SWFs to tap fiscal deficits and mitigate recessions is arguable given the stabilization function of these investment pools, but cannot substitute deeper reforms required by these Gulf economies.
- Fiscal policy is especially important for macroeconomic stabilization purposes in GCC countries, owing to their fixed exchange regimes linked to USD, which lessens monetary autonomy and may cause procyclicality. Norway is more shielded as the crown floats freely and follows a monetary policy based on inflation targeting.