

World Economic Situation and Prospects

Weekly Highlights

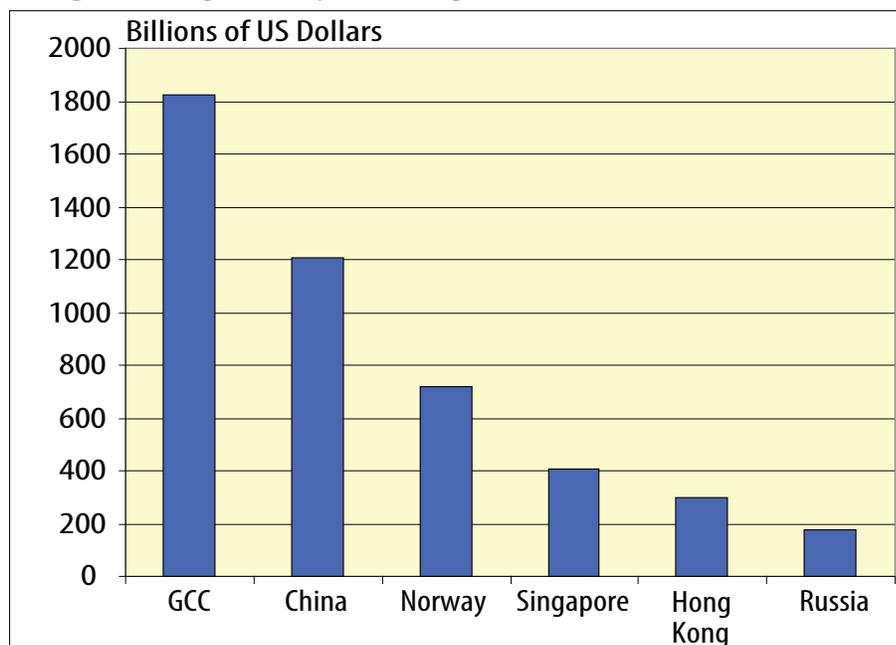
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GCC sovereign wealth funds: leveraging local economic development?

Assets accumulated by sovereign wealth funds (SWFs) of Gulf Cooperation Council (GCC) countries as a whole amount to more than \$1.8 trillion (figure 1) or 34 per cent of \$5.4 trillion assets accumulated by SWFs worldwide (figure 2). The capitalization of SWFs is only about a quarter of that of other types of funds, such as pension or mutual funds, but unlike such funds GCC SWFs continued to expand very rapidly after the crisis on the back of rising oil prices. These SWFs also represent possible tools available to regional policymakers attempting to leverage local economic development.

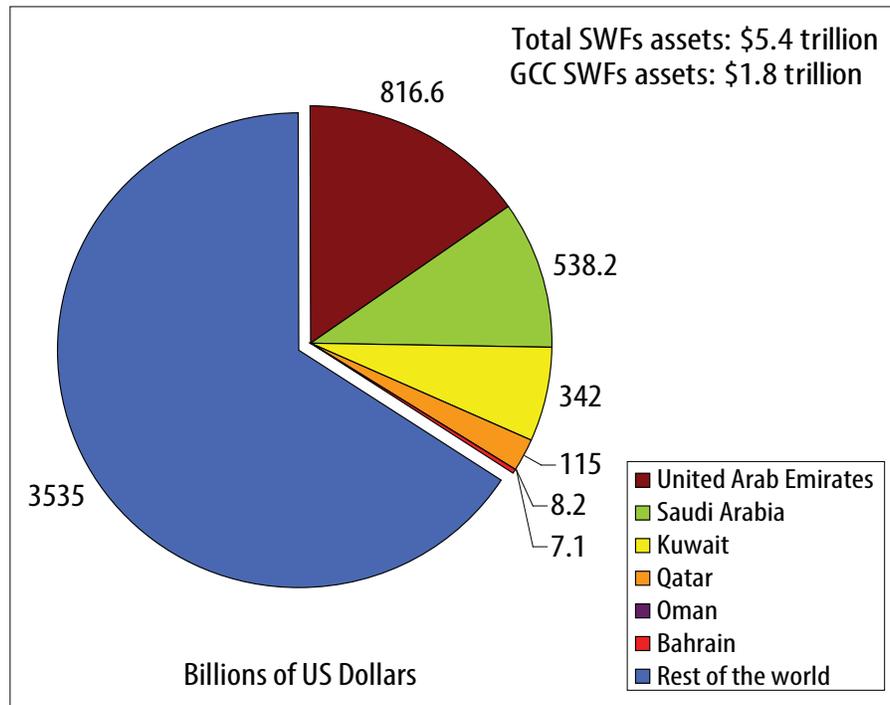
Figure 1: Origin of major sovereign wealth funds



Source: Sovereign Wealth Fund Institute.

The largest GCC SWFs were established in the 1950s and in the 1970s in the wake of decolonization and oil shocks, when Gulf monarchs began to consolidate their ownership over their own oil production. Most of the smaller GCC SWFs, however, appeared after 2000, when average oil prices progressively quintupled from \$20 per barrel (pb) to more than \$100 pb, swelling balance of payment surpluses in oil-exporting countries.

Figure 2: GCC sovereign wealth funds



Source: Sovereign Wealth Fund Institute.

GCC countries currently possess 14 different SWFs pursuing multiple purposes and investment strategies in ways that remain somewhat opaque¹. Most of them remain under the control of ruling families owning oil resources and managing state affairs. Qatar, for instance, partly uses its assets to raise its diplomatic and media profile. Qatar also acquired shares in major foreign financial corporations as well as in strategic sectors such as defense or energy in an attempt to leverage its position into technology transfer and local investments. By contrast, the largest Saudi SWF mostly invests in secure, liquid but low-yield United States bonds, which are used for short- to mid-term stabilization and sterilization operations. Some SWFs started setting aside a fraction of oil revenues with the purpose of generating long-term returns for future generations, but such SWFs remain a minority in the Gulf.

¹ The average value of the Linaburg-Maduell transparency index value for all GCC funds is 4.8 on a scale of 10, and the average weighted by the value of the funds is 5.1.