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News release

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Sovereign Wealth Funds and Global Imbalances Speech By Sir John Gieve

In a speech at the Sovereign Wealth Management conference, John Gieve - Deputy Governor of the Bank of England - discusses how sovereign wealth funds have become so prominent, how this relates to imbalances in the world economy, and draws out some policy implications.

He notes that: "Since the millennium at least 10 new SWFs have been set up." "This reflects the remarkable shift of emerging-market economies from debtors to creditors". In part this reflects persuasive reasons for exporters of oil and other non renewable resources "to spread the benefits of this endowment across generations" but in other countries it reflects "a deliberate policy of fostering export industrial growth" and building up foreign exchange reserves.

"Given the growth of the foreign currency reserves in many EMEs, the emergence of SWFs making long term investments on financial criteria in a wider range of instruments is a positive development." "A number of sovereign wealth funds have played an important and welcome stabilising role during the current turmoil." "Some increase in the transparency both of the strategy and objectives of the funds and of recipient countries' approach to inward investment should help dispel concerns and ensure they are a force for greater global financial integration rather than a prompt for a new wave of financial protectionism."

"But that positive story should not conceal that the growth of SWFs is also a result of persistent global imbalances in trade. These imbalances have helped create vulnerabilities in financial markets and in the wider economy. Our current experience is one more illustration of how painful the unwinding of such imbalances can be."

"It is important that the current large gap between savings and investment in the Far East and oil exporting countries narrows. In the near term, the ability to increase spending will be constrained by the recent increase in inflationary pressures in these countries. But more exchange rate flexibility should be helpful on both fronts." So "it is encouraging . that in China the government has plans to increase its own expenditure on the infrastructure, encourage higher spending by households through speeding up financial sector reform and improving the safety net as well as allowing more flexibility than in the past in the exchange rate."

http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2008/speech339.pdf