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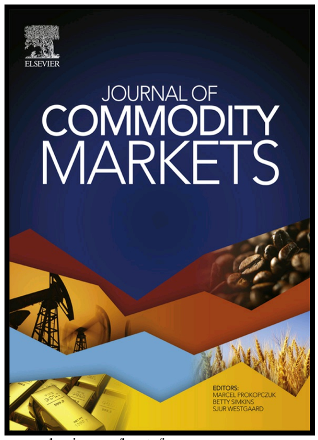

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Do Sovereign Wealth Funds Dampen the Negative Effects of Commodity Price Volatility?*

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Abstract

This paper studies the impact of commodity terms of trade (CToT) volatility on economic growth (and its sources) in a sample of 69 commodity-dependent countries, and assesses the role of Sovereign Wealth Funds (SWFs) and quality of institutions in their long-term growth performance. Using annual data over the period 1981–2014, we employ the Cross-Sectionally augmented Autoregressive Distributive Lag (CS-ARDL) methodology for estimation to account for cross-country heterogeneity, cross-sectional dependence, and feedback effects. We find that while CToT volatility exerts a negative impact on economic growth (operating through lower accumulation of physical capital and lower TFP), the average impact is dampened if a country has a SWF and better institutional quality (hence a more stable government expenditure).

JEL Classifications: C23, E32, F43, O13, O40.
Keywords: Economic growth, commodity prices, volatility, sovereign wealth funds.

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