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Chapter 4

An overview of Sovereign Wealth Funds' (SWF) investments in Central and Eastern Europe (CEE)

This chapter presents an overview of the investments made by Sovereign Wealth Funds (SWF) in Central and Eastern Europe (CEE), defined in this paper as the region encompassing the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia. The following analysis considers all investments made by the funds as of the end of July 2014 and is based on data from the Sovereign Wealth Fund Institute Transaction Database, the Sovereign Wealth Center and government official information. The aim of the chapter is to make an introduction to the following parts of this paper and to allow to estimate the potential political risks stemming from SWF investments.

The chapter presents first the total value of the SWF investments in CEE as calculated based on available information together with an estimate of the value of the investments whose values remained undisclosed as of the writing of this paper. Second, it outlines which countries' SWFs have invested in CEE in order to see the main geographical origins of the investments. Third, it presents the countries targeted by the funds in order to see the directions of the investments. Fourth, it analyses the sectors targeted by SWFs in CEE and provides a broad comparison with the funds' global preferences in terms of sectors.

4.1. The relatively insubstantial value of SWF investments in CEE

Based on the above-mentioned sources, the total value of SWF investments in CEE may be set at around USD 8.5 billion. This value would therefore amount to around 1.0% of global SWF investments since the 1970's (as reported by the Sovereign Wealth Fund Institute). However, it may be justified to exclude investments in treasury bonds from this calculation: first, because these are not taken into account by the Institute in its database and second, because there is no publicly available information regarding other SWF investments in these assets in CEE, which makes the comparison less accurate. Taking this under consideration, SWF investments in CEE would amount to less (as the Database does not take into account some of Norway's Government Pension Fund – Global equity investments, while the analysis in the present chapter takes into account all the funds' recorded investments in CEE) than 0.4% of their global investments in the above-mentioned period. Annex 1 lists sovereign wealth funds' investments in CEE over time.

The above-mentioned value of SWF investments in CEE does not take into account investments whose values have not been disclosed. In order to estimate the funds' total exposure to the region it is possible to make the following assumption. First, Abu Dhabi Investments Authority's (ADIA) total investments in CEE amount to USD 307 million (the missing value of one of the investments is estimated at USD 51 million, the average of the fund's other investments in CEE). Second, China State Administration of Foreign Exchange's (SAFE) and Qatar Investment Authority's (QIA) investments in the real estate sector are each considered equal to the median value of SWF investments in real estate in CEE (around USD 39.5 million). Third, the value of the Government of Singapore Investment Corporation's (GIC) investment in the financial sector is estimated at the median value of investments of other SWFs in this sector in CEE (approximately USD 49 million). Finally, in the case where an information aggregates broadly a fund's investments in a variety of sectors (without providing tangible information as to the fund's exposure to each of these sectors) the value of the investment is divided by the number of sectors. Taking into account these estimates, the total value of SWF investments in CEE would amount to around USD 8.9 billion.

SWF exposure to CEE may be well considered as relatively insubstantial (Wiśniewski, Kamiński, Obroniecki 2005). In fact, based on the World Bank's data, the share of the gross domestic product of only the region's biggest economies (the Czech Republic, Hungary and Poland) in the world's gross domestic product in 2014 is bigger (around 1.1%) than the share of SWF investments directed toward CEE countries (around 0.4% excluding the investments in Treasury bonds, as mentioned above). Furthermore, the value of SWF investments in CEE may also seem relatively limited considering that the region has been very dynamic from an economic point of view with growth rates significantly exceeding the growth rates of other European economies in the last decade. This chapter will therefore aim to inquire into the possible reasons for these relatively low investments by presenting them and analyzing their specificity.

4.2. The specificity of SWF investments in CEE

An analysis of the list of investments shows that Norway's Government Pension Fund – Global's (GPFG) has accounted for 72.4% of all SWF investments ever made in CEE, with almost three-fourths of the funds being invested

in governments' treasury bonds. Excluding the investments in Treasury bonds, Norway's SWF would still account for almost half of all SWFs investments in CEE. In terms of investment value and based on available data, Chinese funds would rank second with approximately 18% of the investments, followed by Kuwait, Singapore, the United Arab Emirates, Oman and Qatar (there is no data regarding the value of the latter's SWF investments in CEE).

The disproportion between the level of Norway's SWF's and other funds' investments raises the question whether it is due to the high interest of GPFG in CEE or rather to a lack of interest of other SWFs in the region. It is also necessary to bear in mind that such a disproportion may skew the analysis of SWF investments in the region (for example concerning the geographical and sectorial preferences of SWFs in CEE, analysed further in this paper). Table 4.1 below presents a breakdown of SWF investments in CEE by geographical origin of the funds.

Table 4.1. Geographical breakdown of SWF investments in CEE

Country of the Acquirer Entity	Value of investments (USD m)	Value of investments (excluding investments in T-bonds, USD m)	Share of total SWF investments in CEE (%)	Share of total SWF investments in CEE (excluding investments in T-bonds, %)
Norway	6,160	1,629	72.4	44.7
China*	1,000	667	12.1	18.3
Kuwait	421	421	5.1	11.6
Singapore*	563.22	563.22	4.0	15.5
United Arab Emirates*	255.73	255.73	3.1	7.0
Oman	108	108	1.3	3.0
Qatar	n/a	n/a	n/a	n/a
sum	8,507.95	3,643.95		

* Excluding investments whose value and nature were not disclosed.

Source: own calculation based on sources listed in Annex 1.

In terms of the geographical destination of SWFs investments in CEE, around two-thirds of the investments were directed toward Poland, the biggest economy in the region, almost a third of the assets was invested in the Czech Republic

and Hungary and only around 5% of the assets was invested in Slovakia, Lithuania and Estonia (with no investments in Latvia). Such a focus on the biggest economies in the region is even more obvious after excluding investments in treasury bonds: Poland, Hungary and the Czech Republic taken together were the target of almost the entirety of the investments. It is also worth to underline that besides Norway's fund, other SWFs did almost not invest outside the three above-mentioned biggest CEE economies. As a matter of fact, GPFG is the only SWF that has invested in both Lithuania and Estonia. This may help to answer the above-mentioned question regarding the reason for the low investments of SWFs other than GPFG: SWFs may prefer to settle with investing in only the biggest and the most liquid markets in the region, namely Poland, Hungary and the Czech Republic and avoid investing in the relatively less liquid markets, most probably due to a risk aversion toward the region. This is summed up in Table 4.2 below, which presents the values of SWF investments in CEE by country.

Table 4.2. SWF investments in CEE by targeted country

Country of the Target Entity	Value of investments (USD m)	Value of investments (excluding investments in T-bonds, USD m)	Share of total SWF investments in CEE (%)	Share of total SWF investments in CEE (excluding investments in T-bonds, %)
Poland*	5455	2296	64.1	63.0
Hungary	1,330.22	1,007.22	15.6	27.6
Czech Republic	1,325	321	15.6	8.8
Slovakia	287.73	0.73	3.4	0.0
Lithuania	94	3	1.1	0.1
Estonia	16	16	0.2	0.4
Latvia	0	0	0.0	0.0
sum	8,507.95	3,643.95		

* Excluding investments whose value and nature were not disclosed.

Source: own calculation based on sources listed in Annex 1.

Concerning the sectors most frequently targeted by SWF investments in CEE, the financial, real estate, energy, telecommunication and infrastructure sectors have accounted for ca. 70.5% of all SWFs' investments in CEE. This corresponds

broadly to the funds' top preferences in their global investments (based on the Sovereign Wealth Fund Institute data, the above-mentioned sectors' share in the total investments amounted to around 69% of the global investments), thereby proving that SWFs have kept an overall similar investment strategy both in their CEE and in their global investments. This is also confirmed when looking at the investments in the real estate sector alone. However, one may notice some important differences when looking at the exposure to some individual sectors. On the one hand, although the financial sector was the most solicited in the case of both the global and the CEE investments, the share of the investments in this sector in the total CEE investments was significantly lower than the share of these investments in the global investments. In their CEE investments SWFs have also invested proportionally less of their funds in the consumer product, industrial and materials sectors than they have globally. On the other hand, SWFs have invested proportionally more of their funds in the telecommunication and healthcare sectors in CEE than globally. This is summed up in Table 4.3 below, which presents and compares the breakdown of the funds' investments both globally and in CEE in terms of targeted sectors.

Table 4.3. Breakdown of SWF investments by sector, globally and in CEE (excluding investments in T-bonds)

Target sector	Share of SWF total investments in CEE (excl. investments in T-bonds) (%)	Share of SWF global investments (%)
Financials*	17.3	29.0
Real Estate*	14.5	14.5
Energy	12.3	10.3
Telecommunication and satellite communication	10.3	4.3
Infrastructure	16.1	10.5
Healthcare	10.0	3.2
Industrials	4.2	7.0
Consumer products	4.0	8.9
Materials	1.4	7
Other	9.9	6.0
Standard deviation	5.3	7.4

* Excluding investments whose value and nature were not disclosed.

Source: own calculation based on sources listed in Annex 1 and the Sovereign Wealth Fund Institute Transaction Database.

An important point to underline is the fact that the standard deviation of the share of each of the sectors in the total value of investment is even higher in the case of the global investments (7,4%) than in the case of the CEE investments (5.3%), which means that the SWF investments in CEE are more equally distributed in terms of sectors than the SWF global investments. However, it is once again important to bear in mind that the analysis may be skewed by the high proportion of Norway's fund's investments in CEE, especially as based on the list of the investments in Annex 1 GPFG is also the fund whose investments are the most diversified in terms of sectors.

Conclusions

SWFs remained relatively cautious toward investments in CEE and saw relatively few attractive investments opportunities in the region. This may be attributed to a risk aversion toward the region and an unwillingness to invest in relatively less liquid markets.

First, as the analysis above has shown, in the analysed period Norway's SWF was responsible for the bulk of SWF investments in CEE (even excluding the fund's investments in Treasury bonds), while the level of investments of other countries' funds in the region was significantly lower. The analysis of SWF investments in CEE must therefore take under consideration this predominance of GPFG investments.

Second, concerning the geographical destination of their investments in CEE, SWFs did not diversify much their investments and focused mostly on investments in the Czech Republic, Hungary and Poland, the region's biggest economies. This concerns also Norway's SWF, although it is important to mention that GPFG is the SWF that has invested in the largest number of CEE countries among all SWFs.

Third, although SWFs demonstrated an overall more equal sectorial distribution in their CEE investments than in their global activity (they focused less on specific sectors and, for example, devoted proportionally much less of their funds to the financial sector), besides Norway's fund many SWFs did not diversify much their investments and some of the SWFs (especially some Middle East funds) have focused almost exclusively on investments in the real estate sector.

References

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