

Effect of Sovereign Wealth Funds in Commodity-Exporting Economies when Commodity Prices Affect Interest Spreads

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We reconsider the role of a sovereign wealth fund in commodity-exporting economies facing recent volatile fluctuations of commodity prices due to the COVID-19 shock. We examine the welfare-improving effect of a sovereign wealth fund from the new perspective of the link between commodity prices and interest rate spreads, which is unique to emerging economies. We show that a sovereign wealth fund becomes more effective in improving welfare for commodity-exporting economies with a stronger link between their commodity prices and interest rate spreads.