

## **Keeping up with the Joneses: The evidence from economies with Sovereign Wealth Funds**

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Sovereign Wealth Funds are still considered new-born institutional investors as well as innovative investment vehicles in international financial markets despite their relatively long history behind. These state-run funds have been regarded as an investment vehicles established in order to manage, in a rational and profit-oriented way, pools of national wealth for future generations. Sovereign Wealth Funds help reduce cyclical volatility of domestic economy driven by changes in commodity export prices as well as the opportunity cost of reserves holdings and disruptive economic consequences of large capital inflow to the economy with limited domestic absorptive capacity. Nowadays, these funds are among the most important institutional investors in global financial markets, and constitute a solid element in the architecture of international financial safety net. Given the fact that excess foreign exchange reserves are the main source of capital for these investment vehicles, it becomes crucially needed a further understanding of factors determining reserves accumulation in Sovereign Wealth Funds home-countries.

This paper aimed at exploring the 'Mrs. Machlup's Wardrobe' hypothesis to understand the growing trend of economies with Sovereign Wealth Funds amassing large stockpiles of foreign exchange reserves. Using annual data from 1990-2013, we examine the relevance of the argument that reserves accumulation, besides conventional macroeconomic factors, is motivated by behavioral reasons in order to keep up with the Joneses. Panel-based regressions results suggest that due to hoarding behavior, 50 economies with Sovereign Wealth Funds, continue to add to their existing stockpiles of reserves. This Joneses effect is robust to the inclusion of traditional determinants of reserve accumulation and also exists within both commodity and non-commodity group of funds. To the best of our knowledge this is the first attempt to provide the evidence that economies with Sovereign Wealth Funds accumulate excess reserves in accordance with hoarding behavior. This study contributes to ongoing research in the field of studies related to political, financial and economic motives of SWFs creation by providing empirical evidence about the impact of keeping up with the Joneses – based reserve accumulation on the growth of this group of institutional investors.