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**ASSESSMENT OF INVESTMENT CLIMATE  
IN THE COUNTRY FOR ART INVESTING**

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***Abstract:** The paper offers an original approach for the assessment of investment climate in the country for art investing based on the key measures of the investment climate in the country. The art investment motives are summarized. The framework of art wealth management' services is presented. The key parameter drivers for the level of investment climate in the country assessment are proposed and analyzed. The proposed approach is providing a comprehensive picture of the binding constraints and art investments competitiveness challenges.*

***Keywords:** art market, art investing, investment climate, investment activity level, art wealth management services*

## **INTRODUCTION**

The art market is an efficient, historic and global market with a capacity to withstand economic and geopolitical crises that achieved total sales of 64.1 bln US dollars in 2019 and ranked the third place in the world. Compared with other world's principal investment markets, the art market is difficult to quantify. The majority of sales are conducted privately, and a discretion has traditionally been one of its underpinnings. However, as the market grows larger and more globalized, it becomes ever more important for stakeholders of the art market to get comprehensive information for the future art market investment strategies development. The purpose of our research is summarizing the key parametric drivers for the level of investment climate in the country assessment for art investing.

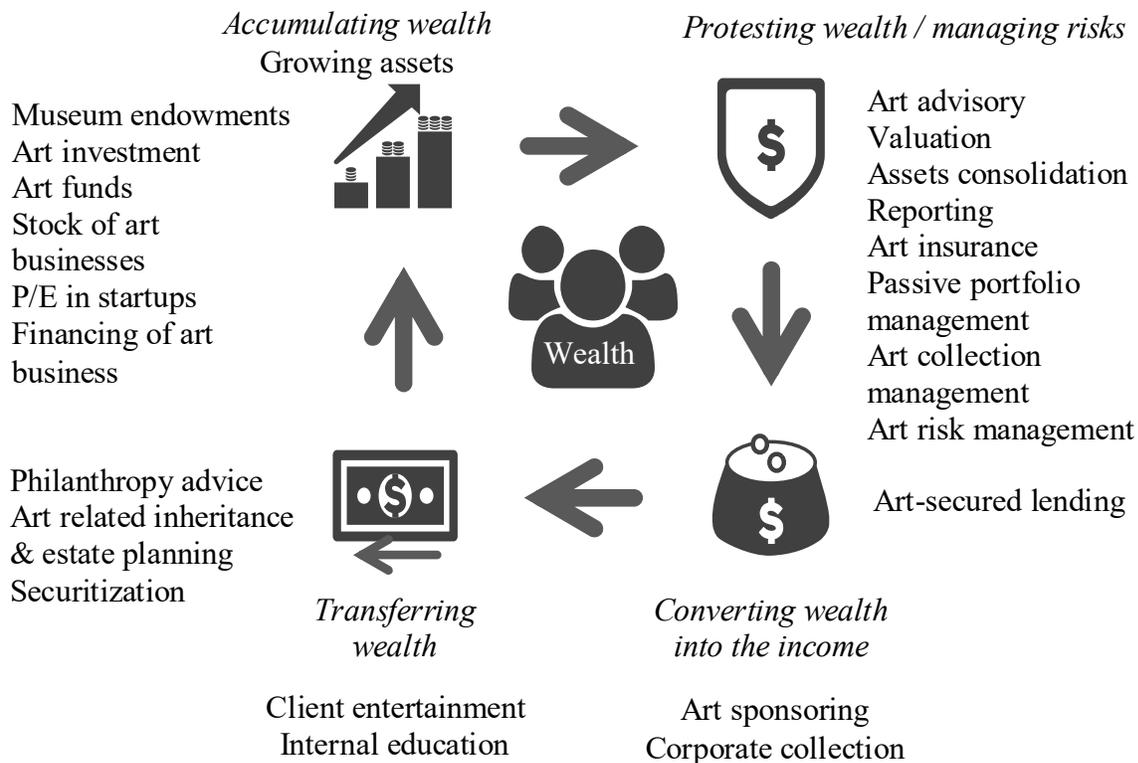
## **MATERIALS AND METHODS**

The methodological and theoretical basis of the research is the scientific papers on the art investing problems. The validity of the obtained results is confirmed by the use on the base of systematic approach of various generally accepted specific methods, viz. theoretical generalization, abstraction, analysis, comparison and systematization.

## RESULTS

Nowadays, the art is vied as a "safe haven" or "store of value" in terms of economic uncertainty. Thus, it is important to study the art market from the point of an investment view and consider the art within the same risk-versus-reward framework as any other investment opportunity.

Capital allocation in artwork is driven by the rational or irrational motives. Rational art investment motives encourage investors to make their decisions based on the reason, judgment, or logic (i.e. positive dynamic of the art market indices, attractive return on art investments, low return on alternative investment, increased value of the artwork, and necessity of the portfolio diversification). In general, rational art investment decisions making require deep researches, information and special extended knowledge. Consequently, the art advisory services have been developed, which offer a holistic approach to the art wealth management including a range from specialized advice to full services, viz. the initial research, the transaction facilitation, the valuations, inheritance and philanthropic planning, and lending (*Figure 1*).



**Figure 1: Framework of the art wealth management' services**

*Source: created by authors*

Irrational motives encourage investors to make the art investments based on their feelings, emotions, or impulses (i.e. social prestige, status, aesthetic pleasure, social network, pride, expressions of love or sentiment, pleasure, entertainment, social approval, influence, power, and wealth). Basically,

collectors' demand originates with four general types of markets: private collectors, businesses, public institutions, and non-governmental cultural institutions. According to the Deloitte Report on the Art and Finance (2019), the art assets under management are estimated at \$ 1 bln in 2016.

A variety of factors influencing the price of art within the art markets has led to divide them into four groups (Mamarbachi, Day, & Favato, 2008):

(a) the work of art (the quality, content of the work, technique used, size and the authenticity of the artist;

(b) the artist (the name or the reputation of the artist);

(c) the art market composition;

(d) the macroeconomic environment.

Macroeconomic factors include the state of the economy and economic upswings and downswings, which the art market follows (Art Investment, 2012).

According to the Deloitte Report on the Art and Finance (2019), the external factors such as increasing political and economic uncertainty, climate change, rapid technological progress, and social inequality have dominated. The overall perception of the risk on the art market is increased. Following the Art Tactic Risk Barometer (2019), which measures collector's perception of the risk in the art market, it stood at 7 in September 2019 on the estimated maximum scale of 10. That was above its 10-years average of 6.4 and up for 10% from the level of September 2018.

The lack of transparency, as well as prevalence of speculative behavior in the art market (dealers keep details of sales private, galleries do not publicize artwork pricing, and buyers' information is often undisclosed) are still the highest threats to the reputation of the market. Under such conditions, the level of investment climate in the country is based on the influence of the important group of factors that have been mentioned above.

The main criteria for selecting the set of parametric drivers was the level of vulnerability of certain spheres of investment strategy implementation on the art market, as well as the highest degree of the influence of certain destabilizing factors on the realization of individual investment interests on the art market. We offer to focus on the set of the key parametric drivers for the level of investment climate in the countries' assessment, which should be taking into account at the process of the art wealth management' services for the art investing (*Table 1*).

The set of presented parameter drivers (indices) is very helpful for the estimation of the investment climate in the certain countries. It should be noted, the art investing decision-making is affected by many factors including macroeconomic and political stability, judicial effectiveness, regulatory efficiency, trade freedom, investment freedom and financial freedom, traditions and culture, socioeconomic infrastructure, availability of capital, human resources, and the level of corruption.

**Table 1**

**The set of parametric drivers for the level of investment climate in the country assessment**

Measures of the investment climate	Description	Structure and composition	Estimated results
Index of Economic Freedom, IEF (2019)	<p>For 25 years, IEF has measured the impact of liberty and free markets around the globe</p> <p>IEF confirms the positive relationship between economic freedom and progress</p> <p>IEF is published by The Heritage Foundation</p>	<p>IEF covers 12 freedoms based on quantitative and qualitative factors in 186 countries</p> <p><i>Rule of Law</i> (property rights, public integrity, judicial effectiveness)</p> <p><i>Government Size</i> (government spending, tax burden, fiscal health)</p> <p><i>Regulatory Efficiency</i> (business, labor and monetary freedom)</p> <p><i>Open Markets</i> (trade, investment and financial freedom)</p>	<p>Each of the 12 economic freedoms is graded on a scale [0-100]</p> <p><i>Top-10 countries</i></p> <ol style="list-style-type: none"> <li>1. Hong Kong (90.2)</li> <li>2. Singapore (89.4)</li> <li>3. New Zealand (84.4)</li> <li>4. Switzerland (81.9)</li> <li>5. Australia (80.9)</li> <li>6. Ireland (80.5)</li> <li>7. The UK (78.9)</li> <li>8. Canada (77.7)</li> <li>9. UAE (77.6)</li> <li>10. Taiwan (77.3)</li> </ol>
<p>Global Competitiveness Index 4.0 2019 (GCI 4.0)</p> <p>Globally, the median score is 60.0. Between the US (85.6, 1<sup>st</sup>) and Chad (35.5, 140<sup>th</sup>)</p>	<p>Developed by World Economic Forum's Centre</p> <p>Ranked the 141 economies through 103 indicators organized into 12 pillars derived from a combination of data from international organizations as well as from the World Economic Forum's Executive Opinion Survey</p>	<p><i>Twelve pillars of competitiveness</i></p> <p>I. <i>Enabling Environment</i></p> <ol style="list-style-type: none"> <li>1. Institutions</li> <li>2. Infrastructure</li> <li>3. ICT adoption</li> <li>4. Macroeconomic stability</li> </ol> <p>II. <i>Human Capital</i></p> <ol style="list-style-type: none"> <li>5. Health</li> <li>6. Skills</li> </ol> <p>III. <i>Markets</i></p> <ol style="list-style-type: none"> <li>7. Product market</li> <li>8. Labor market</li> <li>9. Financial system</li> <li>10. Market size</li> </ol> <p>IV. <i>Innovation Ecosystem</i></p> <ol style="list-style-type: none"> <li>11. Business dynamism</li> <li>12. Innovation capability</li> </ol>	<p>GCI 4.0 introduces a new progress ranging [0-100]. The frontier [100] corresponds to the goal for each pillar and represents a policy target.</p> <p><i>Top-10 economies:</i></p> <ol style="list-style-type: none"> <li>1. Singapore (84.8)</li> <li>2. The USA (83.7)</li> <li>3. Hong Kong (83.1)</li> <li>4. Netherlands (82.4)</li> <li>5. Switzerland (82.3)</li> <li>6. Japan (82.3)</li> <li>7. Germany (81.8)</li> <li>8. Sweden (81.2)</li> <li>9. The UK (81.2)</li> <li>10. Denmark (81.2)</li> </ol>
Dynamics of the shadow economy' level	Different methods of evaluation	<p>Countries with higher corruption have larger shadow economies.</p> <p>Tax regime influences the shadow economy.</p> <p>Shadow economy transactions tend to be in cash</p>	<p>Developing countries 35-50% of GDP</p> <p>Transition economies 21-30% of GDP</p> <p>OECD countries 14-16% of GDP</p>

**Table 1 (continuation)**

Transparency International Corruption Perceptions Index 2019 (CPI)	Since 1995, CPI becomes the leading global indicator of public sector corruption. CPI is the index, which ranks 180 countries and territories by their perceived levels of public sector corruption.	Drawing on 13 surveys of businesspeople and expert assessments, the index scores on a scale of zero (highly corrupted) to 100 (very transparent).	The results reflects that over $\frac{2}{3}$ of countries are scored below 50, while the average score is 43 1. New Zealand (87) 2. Denmark (87) 3. Finland (86) 4. Switzerland (85) 5. Sweden (85) 6. Singapore (85) 7. Norway (84) 8. Netherlands (82) 9. Luxembourg (80) 10. Germany (80)
Inflation Rate	The lack of investment opportunities increased the attractiveness of investing in the art as one of the most secure tools for the savings	In a period of high/or increasing inflation the purchasing power of a currency declines	In a period of high/or increasing inflation, the art has performed historically well across overall the market sectors

*Source: summarized by authors*

Institutional, political and regulatory factors make an important contribution to the investment decision-making process as well. In the research literature, they are grouped under the rubric terms of "investment climate".

All of abovementioned factors should be taken into consideration to succeed in the art investment. Primarily, every investor should establish a scenario of the future socioeconomic developments based on international factors consideration, such as exchange rate movements, cultural factors, and market preferences. That is why proposed approach regarding investment climate assessment is based on the key global data indices of the competitiveness and the investment climate surveys reducing the element of the subjectivity in the expert estimations.

## **DISCUSSION AND CONCLUSIONS**

The art investing has become very important during the last years. Many investors are motivated by returns on investment and investment portfolio diversification, as well as desire to hedge against inflation and store wealth in safe haven asset.

Many factors influence the quality of a country's investment climate and its competitiveness that could be combined in the following groups: (a) factors of competitiveness and the investment climate; (b) transparency factors; (c)

regulatory factors and investment barriers; (d) risk factors and political uncertainty; (e) cost factors. To manage and predict factors' influence, the information about these dimensions and successful practices could be obtained from the key global datasets. The proposed approach of investment climate assessment is providing a comprehensive picture of the binding constraints and challenges referring to the art investment competitiveness in the country.

Based on the obtained results the transparency, regulation, and technology trends will play an important role in the future of the art and finance sphere. However, a collaborative approach between all art market stakeholders (art professionals, collectors, and wealth managers) is essential for the development of the art market today and in the nearest future.

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