



ELSEVIER

Available online at www.sciencedirect.com

SCIENCE @ DIRECT®

Emerging Markets Review 5 (2004) 1–38

**EMERGING
MARKETS
REVIEW**

www.elsevier.com/locate/econbase

The development of mutual funds around the world

Leora Klapper*, Víctor Sulla, Dimitri Vittas

The World Bank, 1818 H. Street, Washington, DC, USA

Received 1 June 2003; received in revised form 1 December 2003; accepted 1 December 2003

Abstract

With few exceptions, mainly in Asia, mutual funds grew explosively in most countries around the world during the 1990s. Equity funds predominate in Anglo-American countries and bond funds in most of Continental Europe and in middle-income countries. Capital market development (reflecting investor confidence in market integrity, liquidity and efficiency) and financial system orientation are found to be the main determinants of mutual fund development. Restrictions on competing products may have acted as a catalyst for the development of money market and (short-term) bond funds.

© 2003 Elsevier B.V. All rights reserved.

Keywords: Mutual funds; Capital market development; International Finance

1. Introduction

One of the most interesting financial phenomena of the 1990s was the explosive growth of mutual funds. This was particularly true in the United States where total net assets of mutual funds grew from USD 1.6 trillion in 1992 to 5.5 trillion in 1998, equivalent to an average annual rate of growth of 22.4%. With the exception of some East Asian countries (including Japan), it was also true of most other countries around the world.

The 15 countries that are members of the European Union witnessed an increase in their total mutual fund assets from USD 1 trillion in 1992 to 2.6 trillion in 1998 (average annual growth rate of 17.7%). Among EU member countries, Greece

*Corresponding author. Tel.: +1-202-473-8738.

E-mail address: lklapper@worldbank.org (L. Klapper).

recorded the highest growth rate at 78%, followed by Italy at 48%, and Belgium, Denmark, Finland and Ireland, all with growth rates of approximately 35%. Some developing countries, such as for example Morocco, registered even higher growth rates, but from much smaller starting points.

In the United States, not only did mutual fund assets grow explosively over this period, but household ownership of mutual funds also experienced rapid growth. Survey estimates reported by the Investment Company Institute (the trade association of US mutual funds) show that the proportion of US households owning mutual funds grew from 6% in 1980 to 27% in 1992 and 44% in 1998 (ICI, 2002a)¹.

The global growth of mutual funds was fuelled by the increasing globalization of finance and expanding presence of large multinational financial groups in a large number of countries and by the strong performance of equity and bond markets throughout most of the 1990s. A third factor was probably the demographic aging that characterizes the populations of most high and middle-income countries and the search of financial instruments that are safe and liquid but also promise high long-term returns by growing numbers of investors.

It is also important to note that this growth occurred contemporaneously with a period of high growth in market capitalizations around the world, fueled in part by the technology/internet boom. For example, at the height of the bubble in March 2000, the market capitalization of US publicly traded internet stocks was estimated to be US\$1.3 trillion (as compared to a valuation of US\$843 billion in June 2000)². Over the period of our sample, 1991–1999, the market capitalization in the US increased by over 300%, from a base of 68% of GDP to over 180% of GDP. Although we suggest that many factors contributed to the global growth of mutual funds, the popular interest and visibility of equity market performance certainly helped contribute to the increased popularity of mutual fund products.

Mutual funds offer investors the advantages of portfolio diversification and professional management at low cost. These advantages are particularly important in the case of equity funds where both diversification and professional management have the potential to add value. For bond and money market mutual funds, the main advantage is transactional efficiency through professional management. In fact, as argued below, tax incentives and regulatory factors have played a big part in stimulating the development of bond and money market funds.

One of the distinguishing features of mutual funds is a high level of operational transparency relative to other financial institutions, such as banks, thrifts, insurance companies and pension funds, that also cater to the needs of households. Unlike banks and insurance companies, mutual funds do not assume credit and insurance risks³ and thus do not need to make subjective provisions against non-performing

¹ The proportion of US households owning mutual funds continued to increase after 1998 and reached 52% in 2001, before falling back slightly to 49.6% in 2002 (ICI, 2002a).

² See Demers and Lev (2000) for a discussion of internet stock performance over the late 1990s.

³ The operational transparency of mutual funds is reduced if they promise guaranteed rates of return, a practice that has been followed in some countries, most notably India, but is frowned upon by experienced practitioners and regulators. It is also reduced if they invest in unlisted or illiquid instruments when mark-to-market valuations are replaced by subjective or, at most, mark-to-model valuations. Operational transparency is a relative concept and is clearly more relevant for mutual funds that invest predominantly in liquid listed instruments.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات