

Title: The effects of pension funds on investment funding and economic growth in Mexico

Pension funds as capital market stabilizers: an inquiry on the Mexican case

Pension funds prudential regulation: a tool for stabilization and industrial policies in emerging economies

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ABSTRACT

Financial market deregulation and capital account liberalization have increased the role of institutional investors in savings intermediation. For many writers, this is a positive development, since the term structure of institutional investors' liabilities enables them to offer long term assets, which eases productive investment funding and fosters economic growth.

The authors analyze funding constraints in open deregulated financial systems, and argue that in emerging markets the benefits expected from pension funds development cannot be attained, unless portfolio regulations and institutional reforms are carried out that discourage government bonds holding, and provide incentives for private financial assets holding. On the basis of Mexican institutional framework, they propose several financial reforms aimed to diminish stock prices volatility, and to lower credit and default risks on private financial liabilities. They recommend that these incentives, as well as pension funds prudential regulations be established in close connexion to the fulfillment of industrial policy objectives.