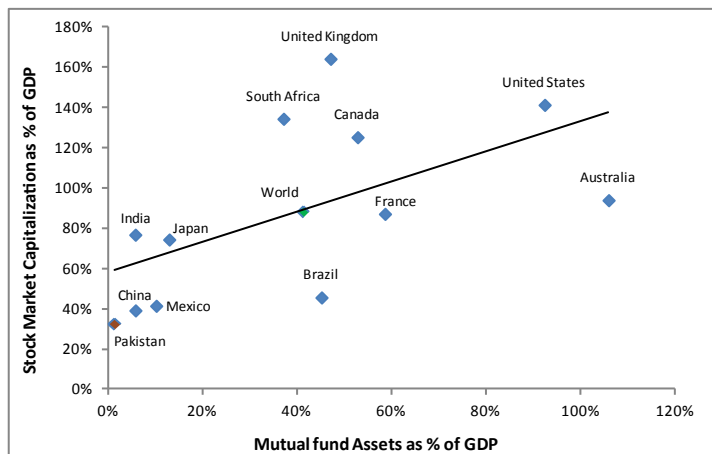


## Role of Mutual Fund Industry in Economic Development of Pakistan

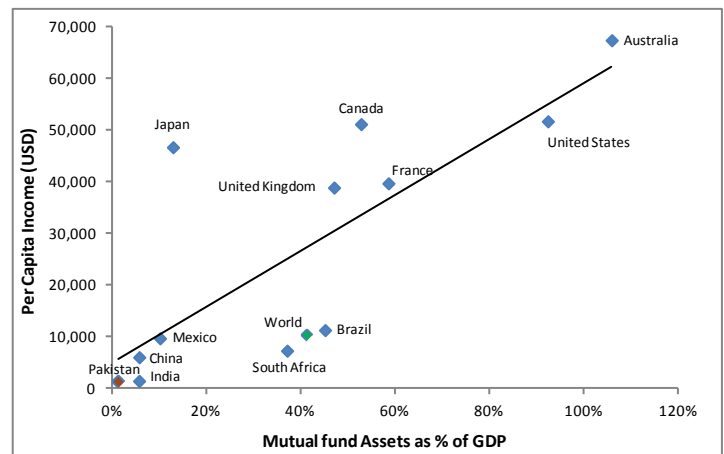
Mutual funds play a very important multifaceted role in an economy. As resource mobilizers, they promote and collect savings and channelize them into various investment avenues such as equity, debt, money market, real estate and private equity, which finance a country's economic growth. Thus they help in institutionalization and growth of capital markets. For individual investors, mutual funds provide numerous investment benefits such as professional investment management, diversification, liquidity, and transparency at a minimal cost. Therefore, globally mutual funds are preferred over alternative investment choices such as 'do it yourself' and other financial investment avenues such as banks / insurance companies.

As a country's economy develops, mutual funds become increasingly important financial intermediaries, similar to banks. Mutual fund industry grows in line with rising investor sophistication, deepening capital markets and growing Defined Contribution (DC) based retirement saving schemes. A cross-country statistical analysis depicts that mutual fund assets as a percentage of GDP tend to grow as a country's per capita income rises, capital markets get larger, and Defined-Contribution based pension plans become more prevalent. For instance, mutual fund assets to GDP ratio stand at 92% for USA, 59% for France and 47% for UK. Even in more developed emerging economies, the numbers are encouraging. This ratio stands at 45% for Brazil, 37% for South Africa and 10% for Mexico. The same ratio amounts to 6% for both India and China. For Pakistan, this ratio is just 1.5% of GDP.

Mutual Fund Penetration increases with Capital Market Growth



Mutual Fund Penetration increases with Per Capita Income



Over the past two decades, global asset management industry has shown unprecedented growth in assets, which increased from USD 4 trillion in 1993 to USD 30 trillion in December 2013, making mutual fund industry a key player in the international capital markets. The aforesaid growth has been broad-based covering all major regions of the world including America, Europe and Asia Pacific. Key factors for robust growth of global mutual fund industry include strong and suitable legal and regulatory environment, growing appetite for professionally managed and diversified investments products for an educated population, deep and liquid capital markets, breadth of distribution channels, decent global economic growth, changing demographics, and favorable changes in employee retirement schemes (DC plans).

Mutual fund industry in Pakistan is still in an infancy stage with assets under management amounting to just USD4 billion or 1.5% of GDP. Policy makers need to better understand the important role that mutual fund industry plays in economic development. Fresh thinking is needed to realize how mutual fund industry can serve Pakistan by raising its abysmally low savings rate, which currently stands at just 13% versus 30% for both India and Bangladesh.

Securities and Exchange Commission of Pakistan (SECP) needs to bring the industry regulations in line with international standards to help promote the mutual fund and pension fund industry. Mutual funds should be allowed to launch foreign currency funds, infrastructure funds, private equity funds, and real estate funds to further mobilize savings and investments in the country.