INFLUENCE OF PENCION FUNDS ON RUSSIAN STOCK MARKET VOLATILITY

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Abstract

This article analyzes how pension funds influence volatility of Russian stock market. Future modernization of Russian economy and stimulation of economic growth will demand accumulation of enormous sums of money. In such conditions internal savings will become a crucial source of money. As it is shown in the literature review, successful reforms of pension systems in developed and emerging countries can lead to an essential increase in savings ratio. Another important issue of pension funds is their investment policy. The article shows that investment strategies must be based on the optimal combination of risk and return. Such instrument as diversification can decrease risk and enlarge return on investment very efficiently. An influence of pension funds on stock market is quite controversial. To analyze this influence we carry out a regression analysis of stock markets of the USA, the UK, Australia, Chile, and Argentina with regard to the investment activity of pension funds. The data are obtained from databases OECD.stat and Bloomberg. On the one hand, pension funds cannot completely withdraw from market, and the possibility of market decline goes down. So, market volatility can be controlled. Moreover, pension funds are likely to conduct conservative investment policy, purchasing low-volatile equities. The number of funds that raise risks and expected return of their investment is rather small. But on the other hand, due to the large amount of assets that can be invested by pension funds, purchase and sale operations with big blocks of shares can lead to an increase in market volatility.

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Key words: institutional investors, pension funds, influence, stock market, volatility.

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