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The impact of institutional investors on equity markets and their liquidity

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Chapter 6

The impact of domestic institutional investors on the Hungarian equity market

Part II

Domestic institutional investors in Hungary and Slovenia: an empirical analysis

Hungary was one of the first transition countries to adopt and systematically start implementation of the reform of its capital equity system. One of the positive extensions of this reform is probably the enhanced growth of robust, non-political financial institutions. Pension funds and mutual funds have exhibited respectable growth rates in the last few years. The level of household savings collected through pension and mutual funds is expected to rise even further. These savings will have to be deposited in the domestic market and an important part of them will probably be directed to the domestic equity market. For this reason, the presence and operations of pension and mutual funds are expected to have a major impact on the Hungarian equity market and its liquidity.

The impact of Hungarian pension funds and mutual funds on the domestic equity market is the focus of this chapter. We analyze in more detail the impact of domestic mutual funds on the equity market of the Budapest Stock Exchange (BSE) in the first decade of the 1990s' operations. The scope of my empirical analysis is limited by the availability of available data. Because the transaction data for individual funds or individual shares was not available, we look at the aggregate impact of funds on the equity market. We exclude foreign institutional investors from the analysis because we have no data on them. We first inspect the data to see whether mutual funds are an important group of non-bank institutional investors in Hungary, and whether regulatory and unregulated pension funds have any impact on the equity market and its liquidity. Then, we test two hypotheses. If

