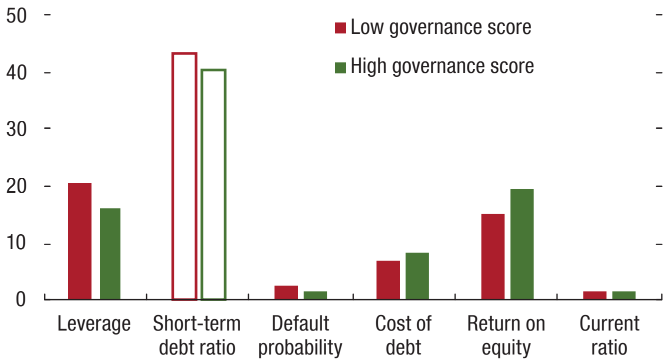
Figure 3.15. Corporate Governance and Selected Balance Sheet Indicators

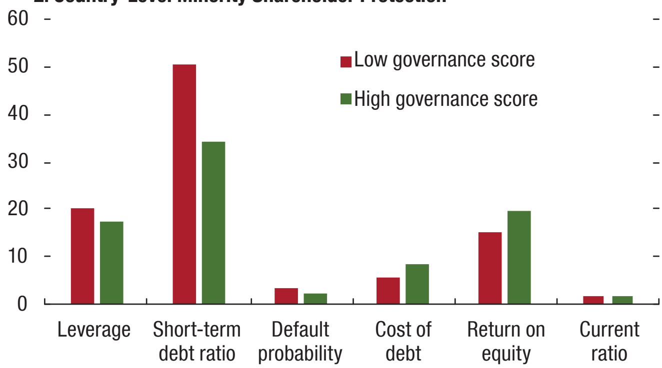
(Percent; average)

Better-governed firms and those in countries with better governance outperform their peers in terms of profitability and liquidity, and such firms are characterized by sounder capital structures.

1. Firm-Level Corporate Governance Index



2. Country-Level Minority Shareholder Protection



Sources: Dealogic; Thomson Reuters Datastream; World Economic Forum, Global Competitiveness Indicators database (GCI); and IMF staff calculations.

Note: For firm-level comparisons, low and high corporate governance scores refer to the bottom and top quartile, respectively. For country-level comparisons, low and high corporate governance scores refer to bottom and top tertile, respectively. Default probability is based on the Black-Scholes-Merton model. Results are robust to other country-level governance measures such as a measure of strength of investor protection (GCI). Solid bars denote a statistically significant difference at least at the 10 percent level. Leverage = total debt to market asset ratio; short-term debt = portion of debt payable within one year, including current portion of long-term debt; cost of debt = average implied interest rate; return on equity = net income before preferred dividends to common equity; current ratio = current assets to current liabilities.