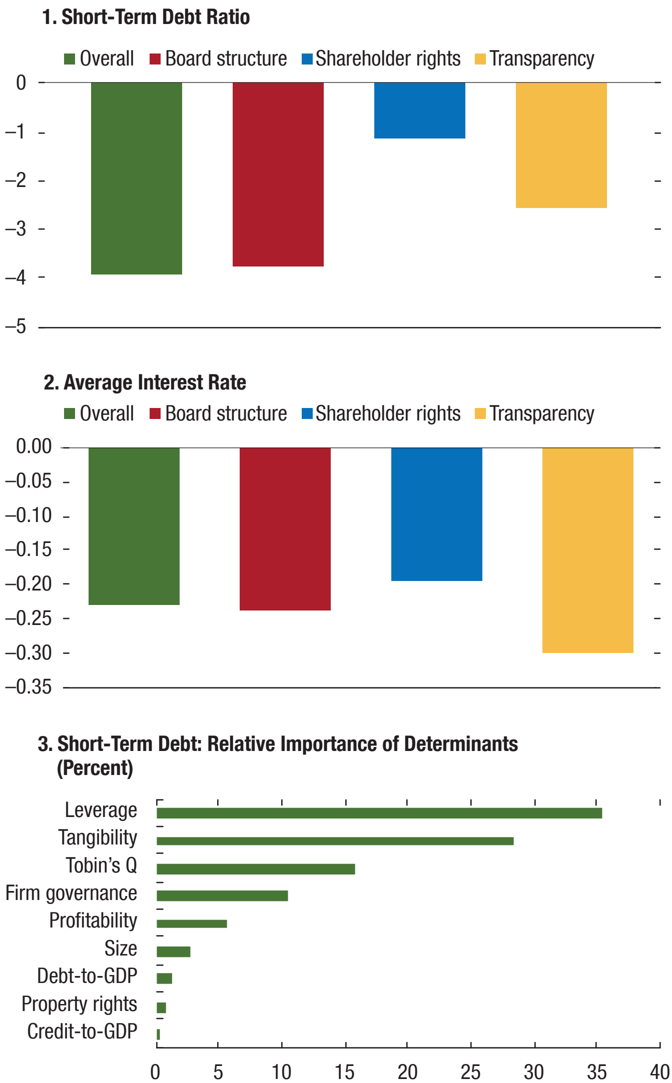
Figure 3.17. Firm-Level Governance and Solvency

(Percentage points)

Various dimensions of the quality of governance are positively associated with corporate solvency.



Sources: Thomson Reuters Datastream; and IMF staff calculations.
Note: Short-term debt ratio = short-term debt to total debt; average interest rate = interest expense to total debt. Bars show the effects of a one standard deviation increase in each governance metric on the short-term debt ratio (panel 1) and average interest rate (panel 2). The standard deviation of the overall firm governance index is 13.3 percentage points. Coefficients estimated using pooled ordinary least squares; errors clustered at the country level; all firm characteristics are lagged. The empirical analysis also controls for the size, profitability, tangibility, valuation, leverage, debt-to-GDP, credit-to-GDP, country fixed effects, sector fixed effects, and time fixed effects. Results are robust to the use of different firm-level governance subindices and to the inclusion of other governance and institutional quality measures such as rule of law, protection of minority shareholders' interests, or strength of investor protection index. See Annex 3.1 for further details.