Figure 3.14. Impact of Global Financial Shocks on Equity Returns
(Percentage points)

Emerging market economies and firms that safeguard the rights of shareholders to a greater extent tend to be less sensitive to global financial shocks.

1. Country-Level Returns
- The (gross) effect of global financial shocks on equity returns
- The dampening effect of minority shareholder protection
- The net effect of global financial shocks on equity returns

2. Firm-Level Returns
- The (gross) effect of global financial shocks on firm equity returns
- The dampening effect of firm-level governance
- The net effect of global financial shocks on firm equity returns

Sources: Bloomberg L.P.; Thomson Reuters Datastream; World Economic Forum, Global Competitiveness Indicators database; and IMF staff calculations.

Note: The dampening effects measure the impact of moving from the lower quartile to the upper quartile of the country- and firm-level governance distributions, VIX = Chicago Board Options Exchange Volatility Index.

1 The standardized coefficients are statistically significant at least at the 10 percent level and depict the sensitivity of country-level returns to the change in the VIX (proxy for global financial shocks, standard deviation 13 percent). The empirical analysis controls for country fixed effects, Standard and Poor's sovereign credit rating, macroeconomic factors, trade and financial connectedness, and their interaction with the VIX, and U.S. stock market returns.

2 The standardized coefficients are statistically significant at the 10 percent level (in fact, all are significant at the 1 percent level) and depict the sensitivity of firm-level returns to the change in the VIX. The change in the VIX is the proxy for global financial shocks (standard deviation 15 percent), the standard deviation of the firm-level governance index (overall index) is 8 percent. The empirical analysis controls for country-level returns, firm fixed effects, country-time fixed effects, sector-time fixed effects, and time fixed effects. Results are also robust to controlling for indicators of competition and concentration measures as well as country-level indices of corporate governance. See Annex 3.3 for further details.