International Academic Institute for Science and Technology

International Academic Journal of Economics
Vol. 13, No. 1, 2026, pp. 38-44.

ISSN 2454-2474

International Academic Journal of Economics

www.iaiest.com

Accounting Standards and Their Role in the Economic Stability of Emerging Markets During Financial Shocks

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Abstract

In emerging markets, financial shocks are especially dangerous, as the financial flow structures appear to be weak structurally, and institutional limits and financial transparency are low. In such contexts, accounting standards also play a crucial role in the creation of economic stability since it improves the quality of financial reporting, create investor confidence, and considerably increase comparability between firms and jurisdictions. The paper discusses how accounting standards can contribute to reducing the adverse effects of financial shocks in emerging economies and how the accounting standards can be used to promote financial stability, market stability, and policy effectiveness. The study is founded on the conceptual model, which is supported by a general review of the empirical and theoretical literature on the quality of financial reporting and macroeconomic stability. It provides responses to critical research inquiries about the influences of accounting standards on financial stability, the impact of financial reporting quality on the shock resilience, the impact of IFRS adoption on investor confidence and the impact of accounting transparency on capital flow volatility and policy performance in the emerging markets. The findings of the literature reviewed indicate that the more adherence to the internationally established standards of accounting, particularly International Financial Reporting Standards (IFRS), the higher the financial stability because of the increased transparency and reduced asymmetry. Moreover, better quality of financial reporting builds investor confidence because it enables better decision-making, and transparency in accounting contributes to the effectiveness of regulation and responsiveness of the policy in conditions of economic stress. Overall, the results of the study confirm the idea that accounting standards are not necessarily technical reporting tools but can be rather instrumental institutional means of maintaining macroeconomic stability in response to unstable economic situations.

Keywords: Accounting Standards, Emerging Markets, Financial Shocks, Economic Stability, IFRS Adoption, Financial Transparency, Market Resilience.

DOI: 10.71086/IAJE/V13I1/IAJE1306
Received: 16 December, 2025/Revised: 23 January 2026/Accepted: 18 February 2026/Published: 30 March 2026

Introduction

The trend of exposure to financial instability is most usually seen in the emerging markets due to unstable capital flows, asymmetric information patterns, and institutional inefficiency. All these economies are likely to have more market uncertainty, pressure to depreciate the currency and low investor confidence when such financial shocks are taking place, all unfavourable to the long-term economic growth. Accounting standards in this sense are a facilitating instrument of enhancing transparency, comparability and reliability of financial reporting and hence enhance the overall economic stability. It has been noted in previous literature that an improvement in financial reporting system reduces information asymmetry and aid in an efficient allocation of capital in developing financial systems (Ma et al., 2022; Odo et al., 2024). In addition, the adherence to internationally recognised standards, such as the IFRS, has been associated with reduced earnings management and better-quality reporting, which also contributes to becoming more resilient during economic crises (Kim & Shawn, 2022; Abere & Akinbobola, 2020). It is also reported that the closer accounting is converged among countries, the less volatile the financial markets and the faster the recovery following systemic shocks (Firoz, 2024). Recent research indicates that regulation in accounting is one of the primary factors used to dampen the effect of global financial shocks by increasing investor confidence as well as reducing the exposure to systemic risks (Tabash et al., 2024; Rigamonti et al., 2024). Furthermore, corporate disclosure has been discovered to stabilise capital inflows and improve credit market perceptions in the emerging economies (Saha, 2022; Battaglia et al., 2025). However, the effectiveness of accounting standards largely hinges on the quality and intensity of enforcement and the quality of institutions, which vary greatly across the territories of the developing countries (Celestin & Gidisu, 2025).

The objectives of the study are outlined below:

- To explore the role of accounting standards in enhancing financial stability in the emerging markets.
- To test the impact of the quality of financial reporting on the resilience to financial shocks.
- To test the relationship between the adoption of the IFRS and investor confidence.
- To establish whether the accounting transparency has an impact on the volatility of capital flows.
- To address the accounting harmonisation and its policy implications in the emerging economies.

The study's research questions are the following:

RQ1: What role do accounting standards play in fostering financial stability in the emerging markets in the case of financial shock?

RQ2: How does the quality of financial reporting affect the resilience of emerging markets to financial shocks?

RQ3: What is the impact of the adoption of IFRS on investor confidence in emerging market economies?

RQ4: How does accounting transparency and harmonisation influence the volatility of the capital flows and policy implications in the emerging markets?

Key Contributions:

- The financial reporting is more transparent, and thus the volatility of the capital markets is reduced.
- Establishes a conceptual relationship between the accounting standards and economic stability in the new markets.
- Finds a mediating variable of financial reporting quality to market resilience.
- Reiterates the importance of ensuring that there are enforcement mechanisms in order to maximise the adoption of IFRS.
- Provides policy implications on the way to improve financial transparency and systemic risk.

The paper is divided into six sections in order to make it logically and coherently flow through the analysis. Section I presents the research problem, significance, objectives and research questions. Section II gives a detailed literature review of the recent works concerning accounting standards and financial stability. Section III presents the research methodology, which involves the study area, sampling, data collection and conceptual framework. Section IV summarises the findings and talks about the results according to the suggested model, as well as recommendations, implications and policy suggestions based on the analysis. Section V wraps up the study with a summary of the important learnings and an outline of future research.

Literature Review

The academic literature has accorded increased attention to the ways in which accounting standards may be used to enhance financial resilience, particularly in emerging markets that are susceptible to external shocks and capital volatility. It has been found that the implementation of a harmonised financial reporting framework increases the amount of information symmetry, thereby minimising information asymmetry in the making of investment decisions and uncertainty in capital markets (Badmus et al., 2025). The enhancement of accounting comparability in emerging economies has been linked to the enhancement of cross-border investment flows, as well as the reduction of the cost of capital, especially during periods of macroeconomic instability (De Luca et al., 2024).

Other research shows that the implementation of International Financial Reporting Standards (IFRS) results in the quality of earnings being improved and the minimisation of opportunistic financial reporting practices, of particular significance in the era of financial crisis (Klish et al., 2022). The empirical evidence hypothesises that under IFRS regimes that adhere to standard regimes, firms are more transparent in their financial reports, and this aids in instilling confidence among investors during market turmoil (Yoro, 2024). In addition to this, it has been established that the countries that are more effectively institutionally enforced with accounting regulations are not as much influenced by the effects of financial contagion of shocks in the global economy (Bansal, 2023).

The other literature is concerned with the issue of disclosure quality in reducing systemic risk. The improved practices of corporate reporting have been reported to stabilise equity markets and capital flows volatility during crisis times (Ellili, 2022). In addition, accounting transparency is identified to enhance regulatory monitoring systems to enable policymakers to react better to financial shocks (Ball et al., 2022). It has also been found that lack of consistency in the enforcement of accounting across the emerging markets may undermine the intended gains of global accounting harmonisation, thus constraining crisis resilience (Dhlamini, 2025).

The latest comparative research has also revealed that the economies that are more adherent to the global accounting systems are more likely to recover faster after financial crises due to the enhanced investor confidence and liquidity re-establishment (Rouvolis, 2022). Also, there is evidence that shows that standardisation of accounting is of critical importance in minimising information asymmetry between the domestic and the foreign investors, which is crucial in ensuring financial stability in globally integrated markets (Kamal & Mita, 2023).

All the reviewed literature shows that accounting standards are a significant institutional tool to augment financial stability in emerging markets. In the literature, enhanced reporting quality is recurrently found to be a crucial element in lessening information asymmetry, stabilising capital flows, and enhancing investor confidence amid financial shocks. The results also indicate that the adoption of IFRS is not enough by itself unless it is backed by effective enforcement policies and the quality of institutions. Moreover, the financial transparency practices and disclosure are key in reducing systemic risk and enhancing market efficiency. In general, the literature confirms the perspective that accounting harmonisation can play a major role in economic resilience, but it is not equally effective based on regulatory strength and the governance structure.

Methodology

Study Area

This study specifically interested in BRICS and the selected ASEAN emerging economies, i.e., India, China, Brazil, South Africa, Indonesia, and Malaysia, which are large emerging economies and feature prominently in the global financial systems and at varying rates of adoption of the IFRS. These are selected due to the high exposure of these countries to external financial shocks; their institutional frameworks differ and are at different stages of accounting harmonisation and enforcement. This disparity between these economies provides a proper comparative background to study the impacts of accounting standards on financial stability, investor confidence, and the behaviour of capital flows during uncertain economic periods.

Sampling

The research has used a purposive conceptual sampling method based on the major financial and regulatory organisations in the chosen nations. These are listed non-financial corporations, commercial banks, national stock exchange, central banks and national accounting standard-setting bodies. These organisations are selected as directly impacted by financial reporting standards and the adoption of IFRS practices. The sampling provides representation in both highly and moderately integrated financial systems of the sampled emerging economies, which can be subjected to meaningful comparative interpretation.

Data Collection

The research is based solely on secondary data, such as audited financial reports of listed companies, central bank and securities regulators reports, publications by the IFRS Foundation, financial stability reports by the World Bank, IMF databases, and academic literature. Further information is elicited by policy reports and regulatory reports pertaining to the adoption of accounting standards in the countries of choice. The data is chosen in such a way that it is reliable, cross-country comparable, and relevant to the quality of financial reporting, capital market behaviour and macroeconomic stability in the event of financial shocks.

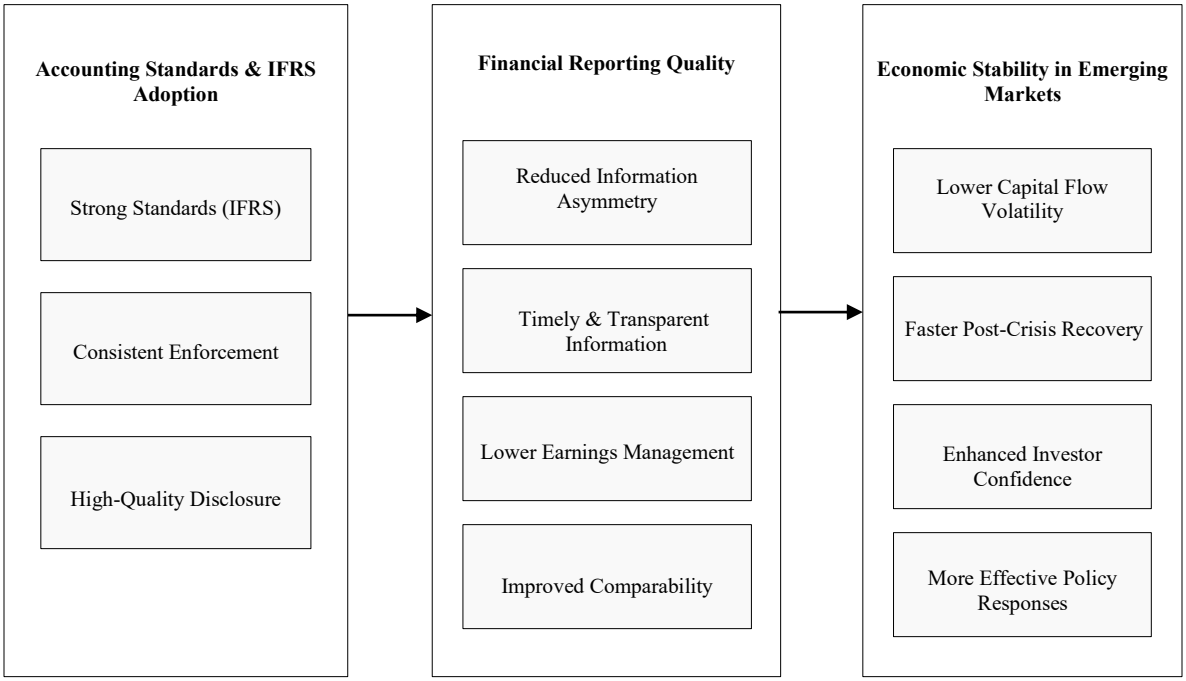


Fig. 1: Role of Accounting Standards in Financial Stability Framework

Fig. 1 presents the conceptual framework of the study. It demonstrates the systematic interrelation between the accounting standards and IFRS adoption as the principal factors that influence the quality of financial reporting. Problems such as high standards, even implementation and disclosure of quality help reduce the asymmetry in information, enhance transparency, reduce earnings manipulation and enhance comparability. These enhancements in the quality of financial reporting, in their turn, have more economic-wide implications, including a smaller volatility of capital flows and a faster recovery after financial crunches, increased investor trust, and strong policy responses. The graph is a causal and temporal regulating process of macroeconomic stability outputs to regulatory inputs.

Results and Discussion

Sample Details

The study is based on a small comparative conceptual design, which has selected emerging economies, that is, India, China, Brazil, South Africa, Indonesia, and Malaysia. These countries are chosen because they actively participate in the global financial markets, have varying rates of implementation of IFRS, and the institutional enforcement varies. The conceptual sample includes the publicly listed companies, commercial banks, regulatory agencies and stock exchange systems of these economies. Sources that were employed to obtain data are secondary sources such as audited financial reports, regulatory publications, IMF and World Bank databases and past empirical research. Such a systematic deviation makes it possible to understand in more detail how accounting standards work under different institutional and economic conditions, particularly in financial shocks.

Objective-based Analysis

RQ1: Accounting Standards and Financial Stability in Emerging Markets

The results show that robust accounting standards can considerably increase financial stability in the emerging market by increasing the transparency, comparability and reliability of the financial reporting. The more countries are aligned

with international accounting systems, the less uncertainty in managing financial systems when there is an external shock. This is primarily because of the quality of disclosure that enhances the decision-making by investors and minimises the systemic inefficiencies that are present in financial markets. Consequently, accounting standards serve as an institutional stabilising mechanism that helps to maintain macroeconomic stability when financial strains are experienced.

RQ2: Financial Reporting Quality and Market Resilience

The results have shown that financial reporting quality is critical in enhancing resiliency in the market when financial shocks occur. Quality of reporting reduces the information gap between the companies and the investors, leading to higher valid financial asset valuation. This reduces the panicked market reactions and reduces market volatility in the capital markets. The excellent reporting processes in economies are linked to faster adjustment and stability during a crisis, and this attribute of reliable disclosure practice is in the maintenance of financial balance.

RQ3: IFRS Adoption and Investor Confidence

It is shown in the discussion that the adoption of IFRS has a positive impact on investor confidence in the emerging market economies. The use of globally accepted accounting standards also improves the credibility and comparability of financial statements and, therefore, leads to more transparent and reliable investment decisions. This reduces the perceived risk as regards investment, particularly among foreign investors, and encourage stable capital flows. Consequently, the presence of an improved degree of adherence to IFRS in the market assists in raising the number of investors as well as reducing the degree of uncertainty in the event of a financial shock.

RQ4: Accounting Transparency, Capital Flow Stability, and Policy Effectiveness

These results show that increased accounting transparency and harmonisation play a significant role in stabilising the capital flows and effectiveness of the policies. Open financial reporting minimises speculative capital movements on the cross-border capital flow and facilitates greater predictability of capital flows. Moreover, harmonised accounting systems allow regulators to react more effectively to financial shocks by having similar and comparable financial information. This enhances coordination of policies, minimises systemic risk, and general macroeconomic stability in emerging economies.

Table 1: Impact of Accounting Standards on Financial Stability Indicators

Accounting Framework Strength	Financial Reporting Quality	Capital Flow Volatility	Investor Confidence	Crisis Recovery Speed
Low	Low	High	Low	Slow
Moderate	Moderate	Medium	Moderate	Gradual
High	High	Low	High	Fast

The correlation between the robustness of accounting frameworks and important financial stability measures is presented in table 1, where it is observed that the stronger accounting frameworks are related to better economic performance.

Table 2: Role of Financial Reporting Components in Economic Stability

Reporting Component	Functional Impact	Economic Outcome
Transparency	Reduces information asymmetry	Stabilised capital markets
Disclosure Quality	Enhances the reliability of financial data	Increased investor trust
Comparability	Enables cross-market evaluation	Improved capital allocation
Enforcement Mechanisms	Ensures compliance with standards	Reduced systemic risk

Table 2 further decomposes the quality of financial reporting along a structural line by relating the respective parts of the reporting to their functional aspects of minimising market inefficiencies.

Discussion

The results indicate that one of the issues that policymakers in the emerging markets ought to focus on is the implementation and strict adherence to international accounting standards to improve financial stability. Enhancement of institutional structures and regulation is a prerequisite to see the benefits of accounting harmonisation achieved to the full extent. The research also points out the significance of enhancing disclosure practices and transparency to create investor trust, especially when there is a financial crisis. To the regulators, the outcomes are a suggestion that the accounting standards ought to be combined with the wider financial policies in order to attain sustainable economic resilience.

Suggestions

The emerging economies would need to improve the enforcement and adoption of IFRS. Regulatory authorities need to work on increasing the quality of financial disclosure. The accounting reforms should be aligned with the goals of financial stability by policymakers. Empirical validation of cross-country data can be applied in future research.

Conclusion and Future Work

The paper has established that accounting standards are essential in enhancing the stability of the economy in the emerging market, especially in times of financial shocks. Through promoting the quality of financial reporting, lessening information asymmetry and enhancing transparency, healthy accounting structures play a significant role in stabilising capital flows and strengthening investor trust. The results show that the adoption of IFRS with well-established enforcement mechanisms results in higher quality financial reporting and responsiveness to policies in economic downturns. The conceptual model also confirms that the quality of financial reporting is one of the main channels of transmission of the accounting standards by which the quality of accounting can impact macroeconomic performance. In general, the research validates the fact that harmonisation of accounting is not only a legal mandate but a strategic instrument in enhancing resiliency in unstable economic conditions.

The future research area can be based on this study by adding the empirical validation of the effect of accounting standards on financial stability indicators with cross-country panel data. Moreover, one can explore in the future the ways in which digital financial reporting systems and real-time disclosure systems can enhance transparency and responsiveness to the crisis. Could also gain a better understanding of the effectiveness of the enforcement mechanisms and quality of institutions by comparing the developed and emerging economies. The generalisation of the sector analysis, particularly to the banking and capital markets, would help in the achievement of the differentiated effects across industries. These guidelines can contribute to the general image of the accounting standards as a dynamic means of attaining long-term economic sustainability.

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