International Monetary Fund
World Economic Outlook
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Resilience in Emerging Market and Developing Economies: Will It Last?

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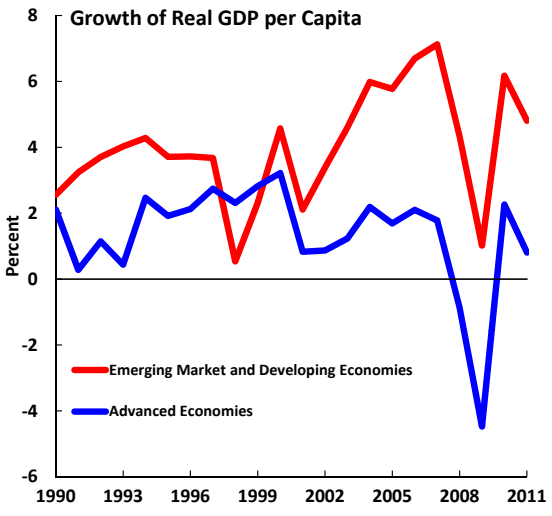
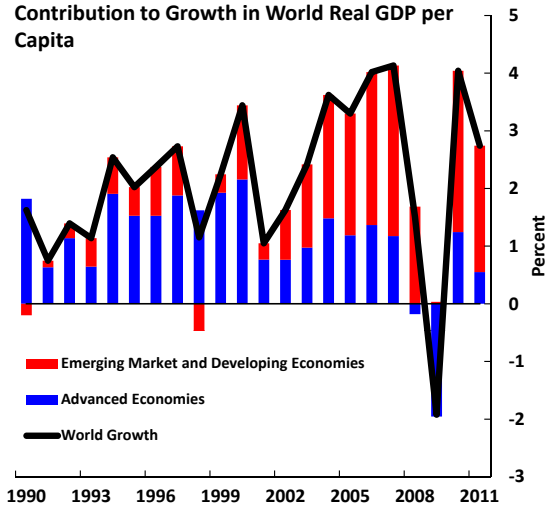
with support from Angela Espiritu and Katherine Pan

EMDEs have done well over the past decade, and through the global crisis





Source: *World Economic Outlook* database.

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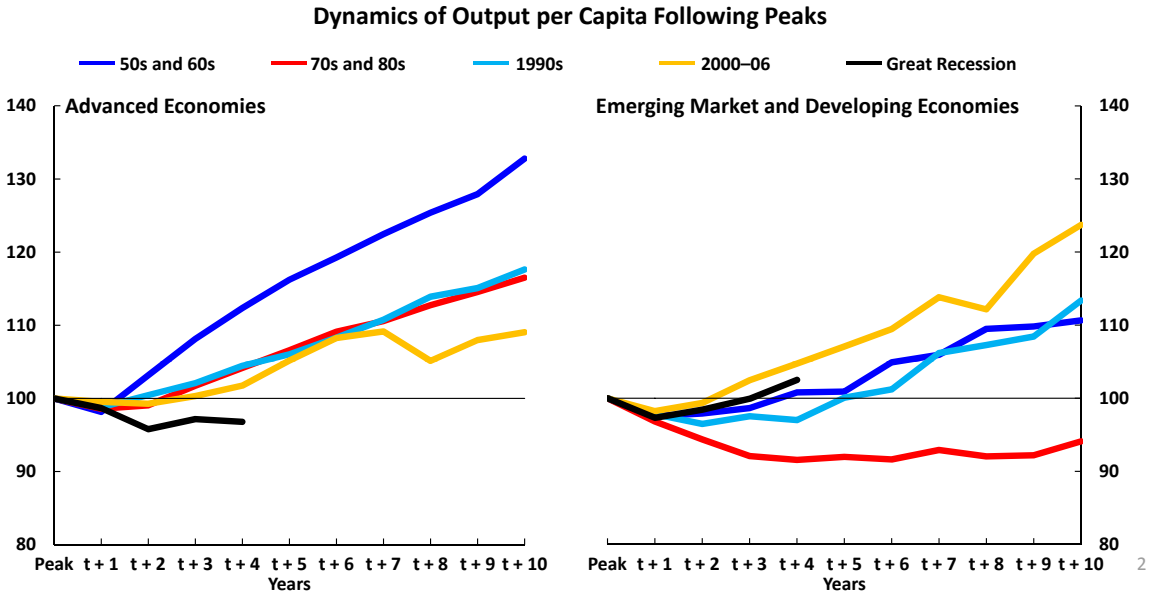
EMDE resilience has improved since the 1970s and 1980s.



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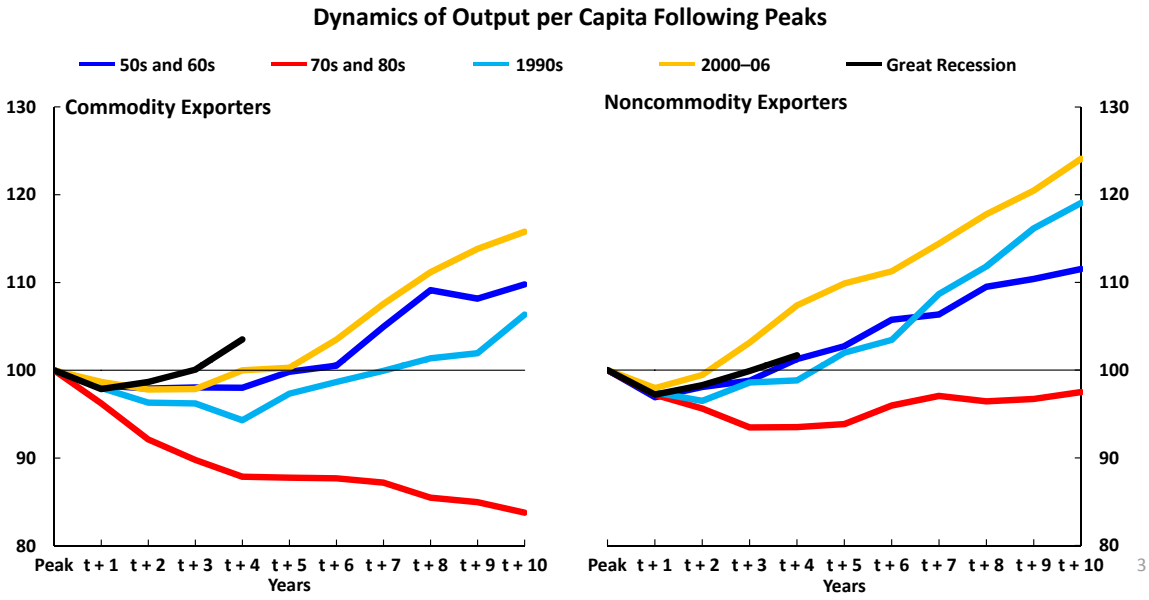
It is not just a commodity story…



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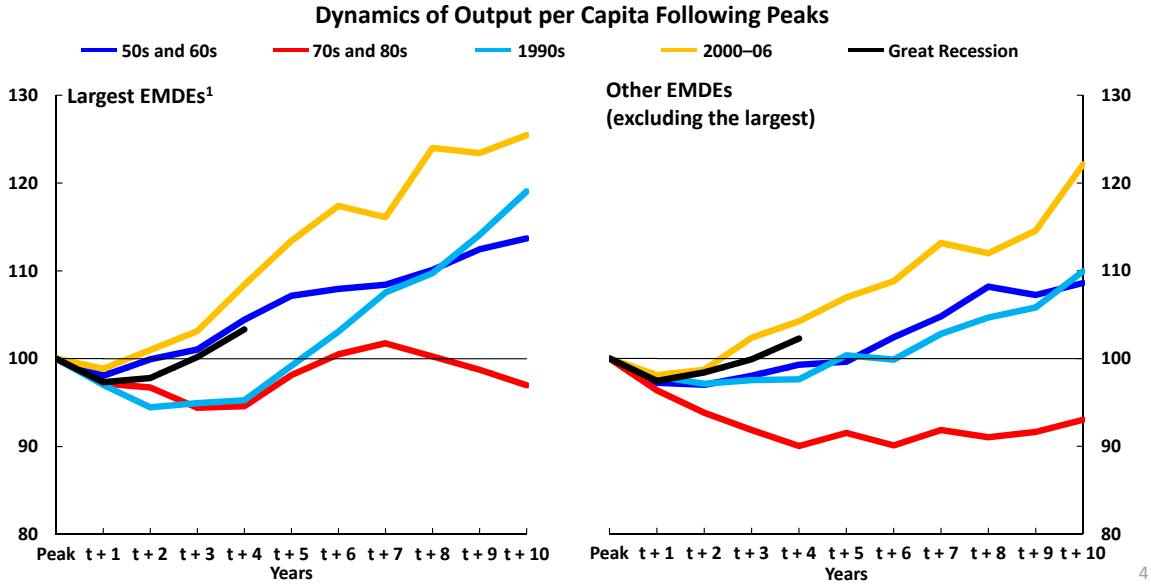
…nor is it only for the largest EMDEs.



[1]Refers to the 30 largest emerging market and developing economies based on their average real GDP over the sample period.

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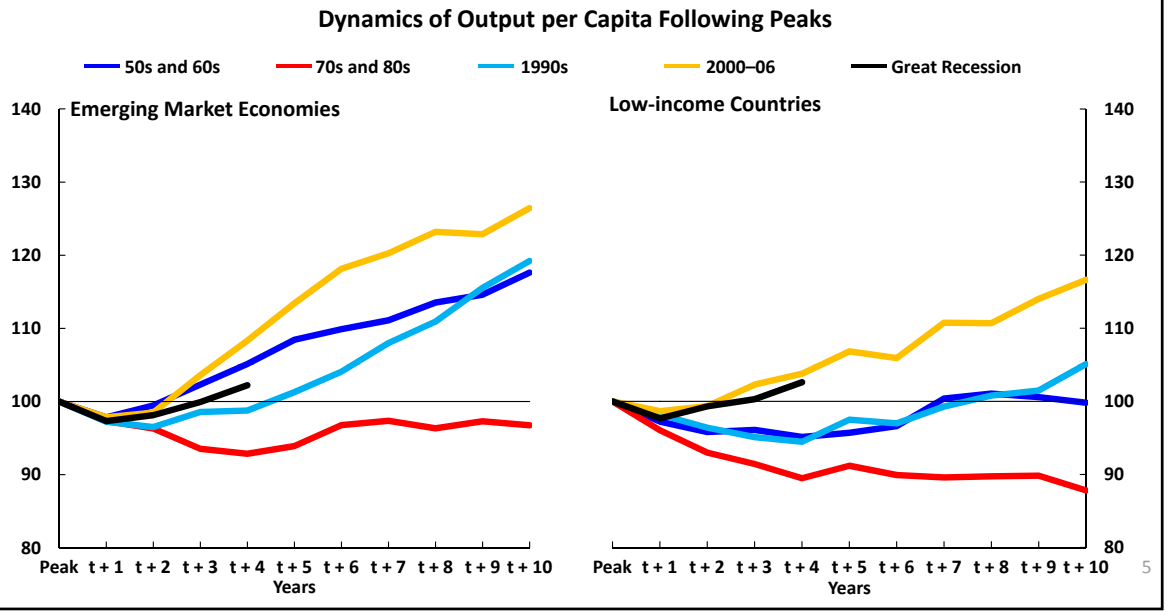
Among EMDEs, EMs did better from the 1990s, while LICs improved most from the 2000s.



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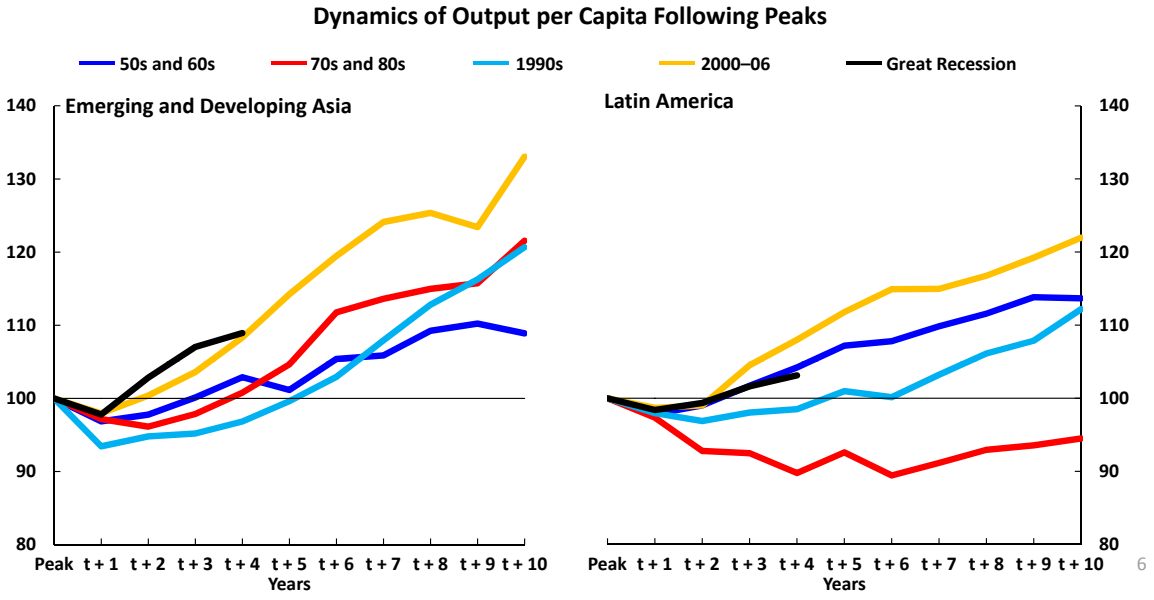
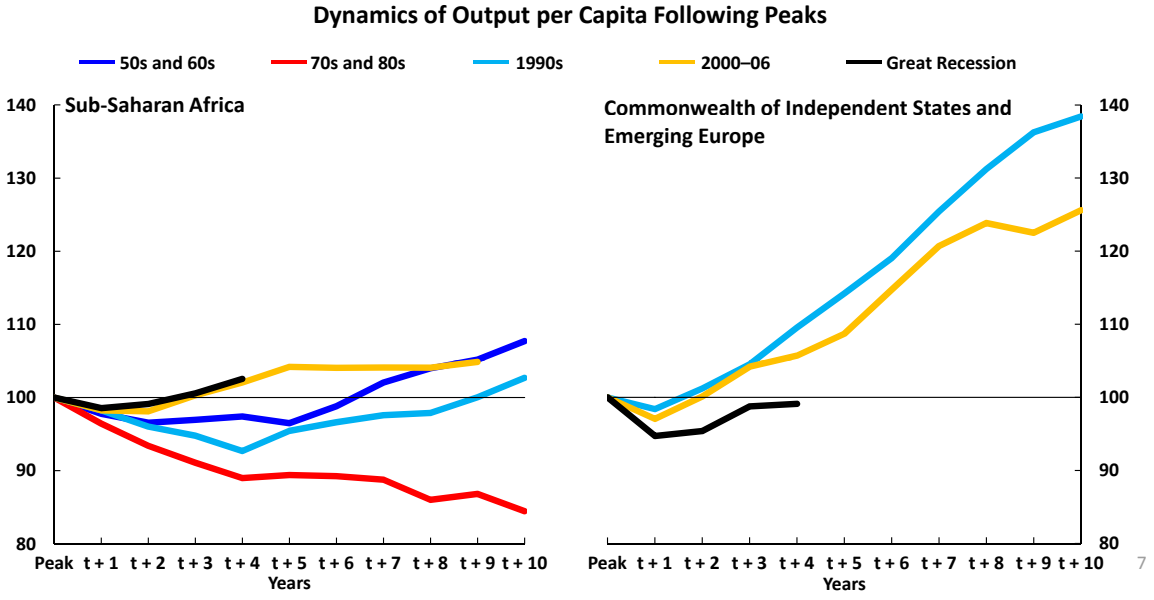
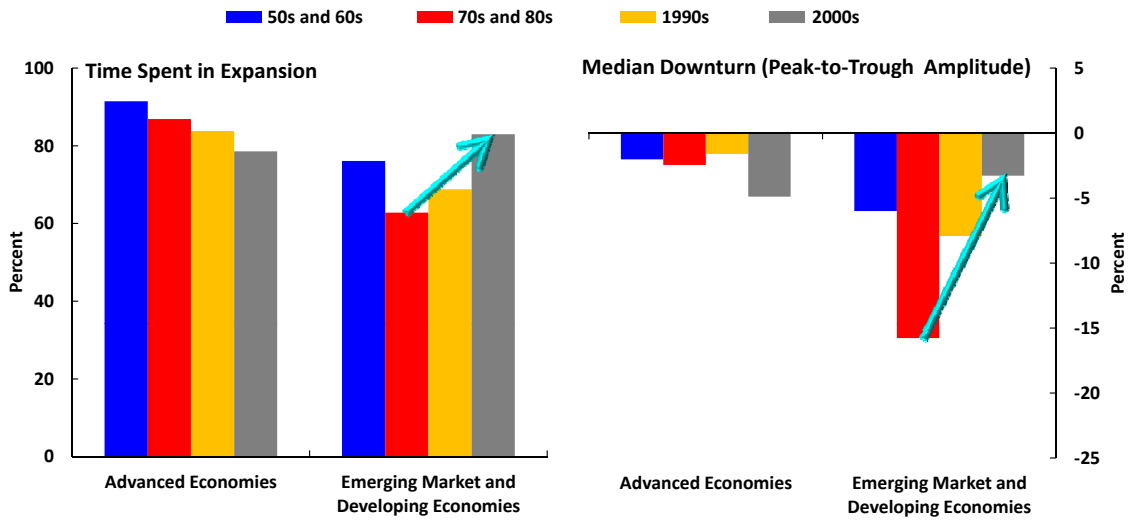
Among regions, EMD Asia and Latin America have seen the most dramatic improvements.



Sub-Saharan Africa also improved, but mostly in the 2000s. CIS-EM Europe was derailed by the crisis.



In fact, from the 2000s, EMDEs spent more time in expansion—and had smaller downturns—than AEs



Source: IMF staff calculations.

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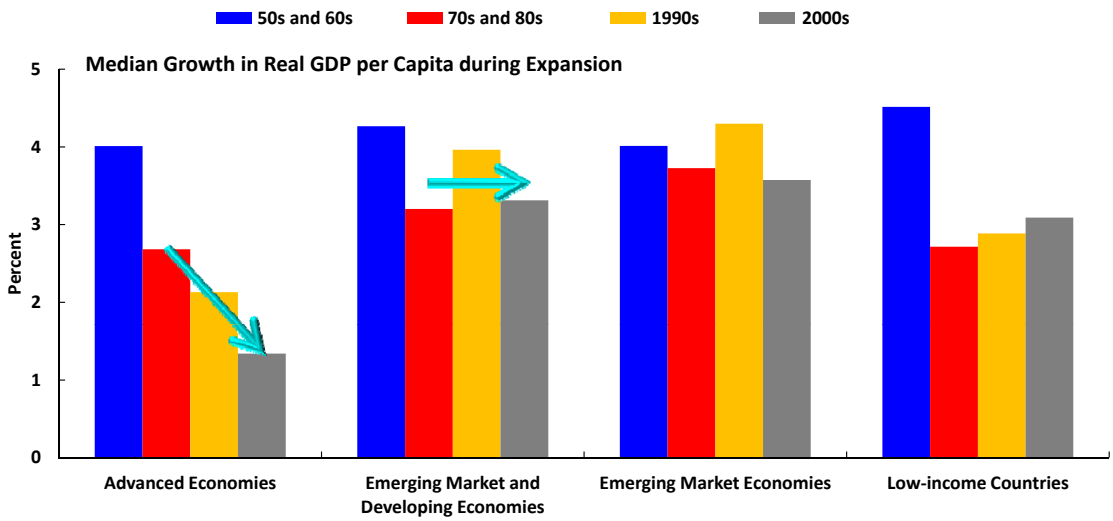
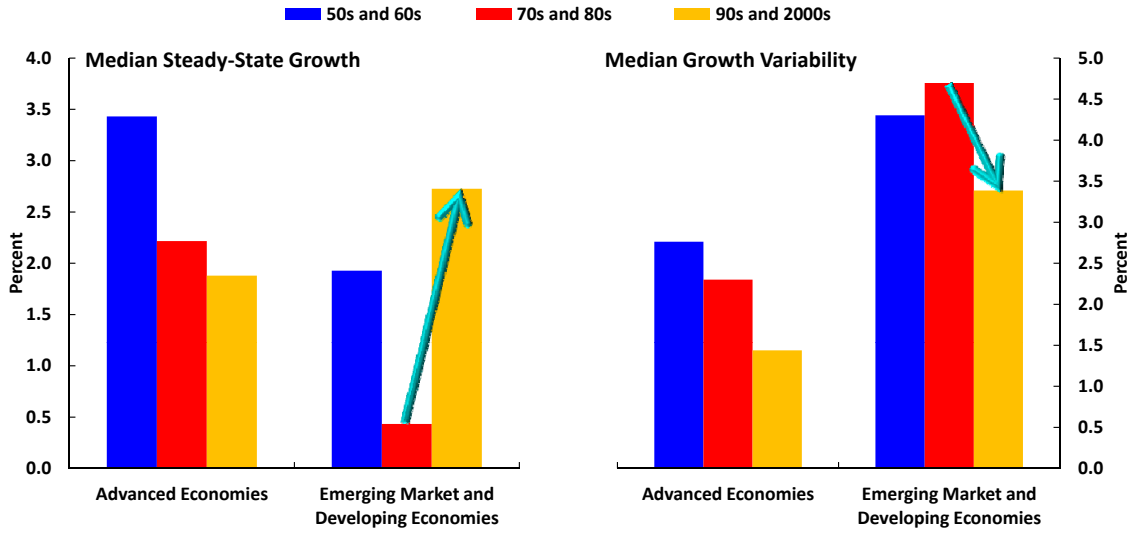
While AE growth in expansion has fallen over time, EMDE growth in expansion has been more stable.



Source: IMF staff calculations.

9

What is behind the gains in EMDE resilience? Higher steady-state growth and lower variability



Source: IMF staff calculations.

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Unpacking further, what factors are associated with greater resilience?

We look at three broad areas:

- External and domestic shocks
- Policy frameworks and policy space
- Structural characteristics

Analytical approach: Look at how these factors affect the length of expansions and the speed of recoveries using standard tools of duration analysis

- Bivariate – consider factors one-by-one
- Multivariate – consider multiple factors simultaneously

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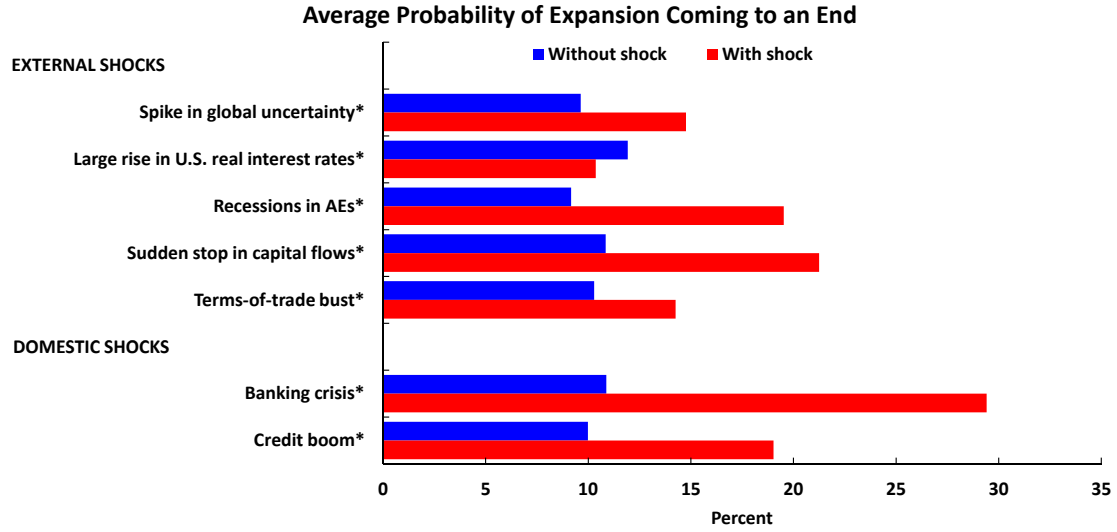
Shocks, both external and domestic, tend to bring EMDE expansions to an end…



Source: IMF staff calculations.
Note: Statistically significant differences at the 10 percent level are denoted by starred labels.

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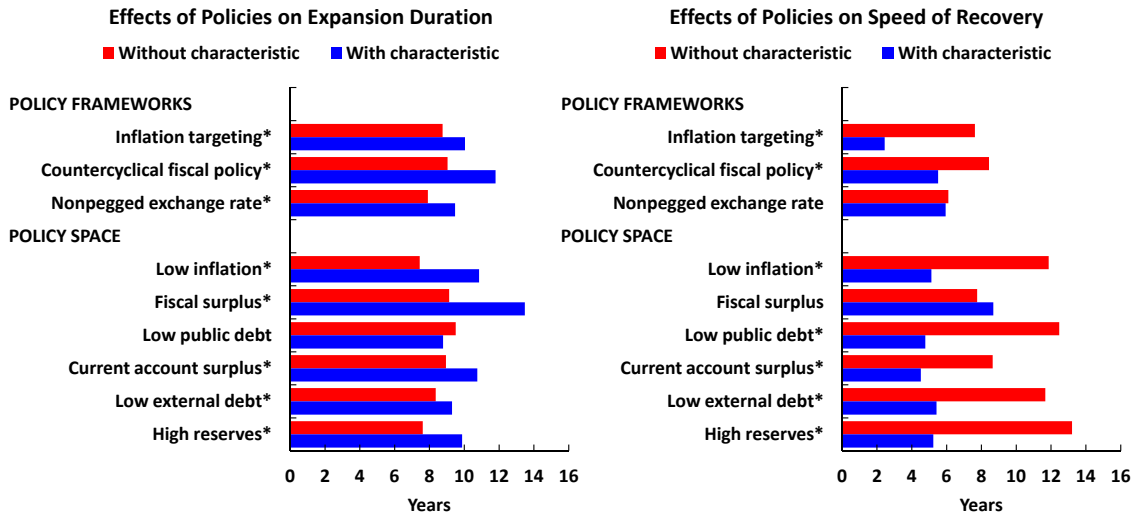
…but improved policy frameworks and enhanced policy space help prolong expansions, and hasten recoveries…



Source: IMF staff calculations.
Note: Statistically significant differences at the 10 percent level are denoted by starred labels. Recovery is defined as the number of years required to get back to pre-downturn levels of per capita output.

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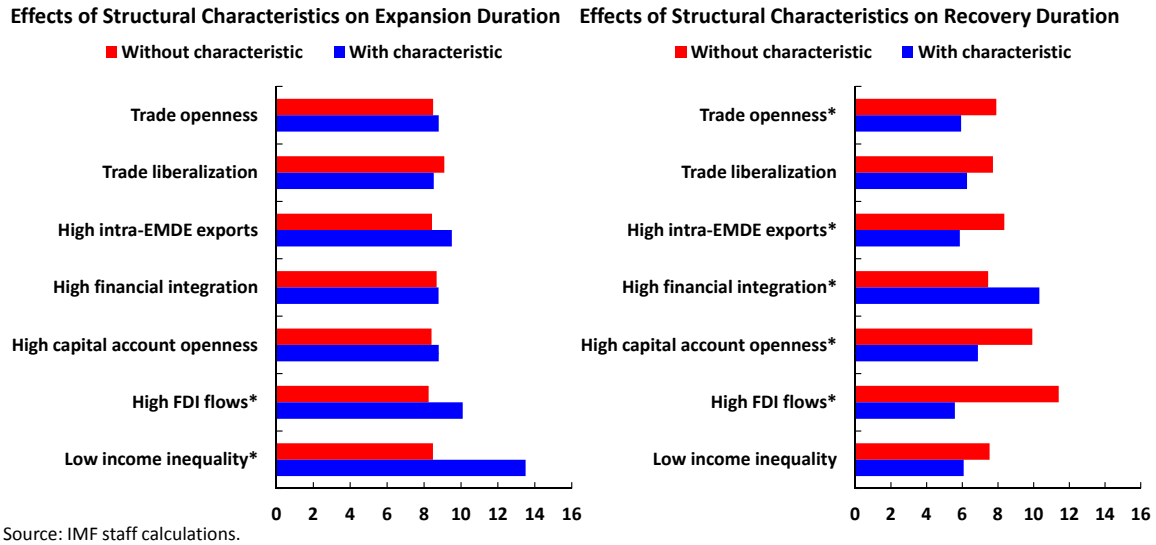
…while structural characteristics are more of a mixed bag, with fewer robust relationships.



Source: IMF staff calculations.

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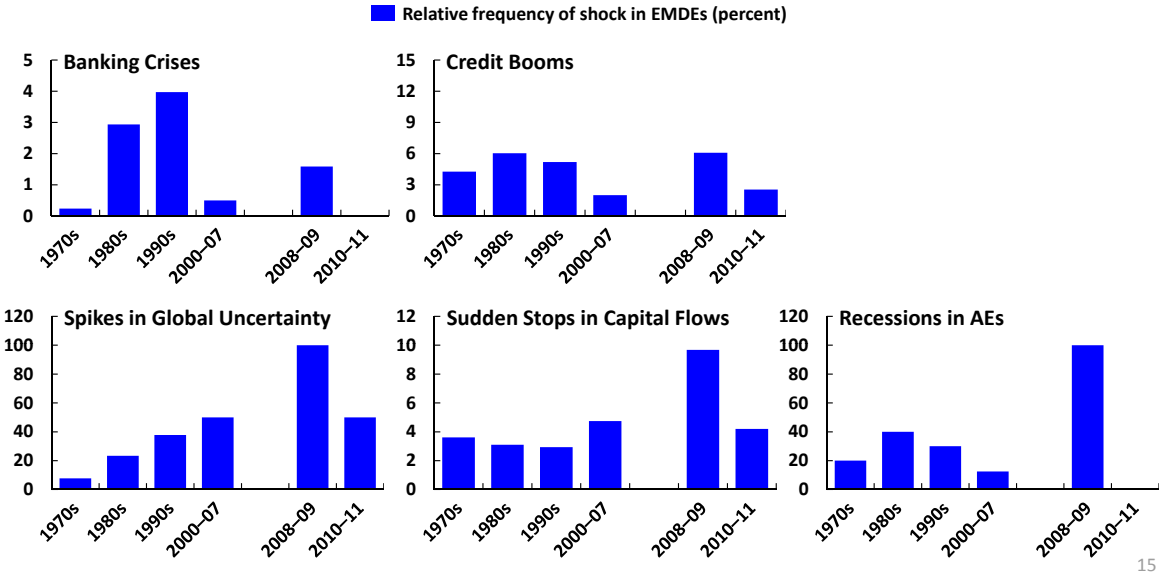
Why has performance improved? Some shocks have become less frequent, others more frequent…



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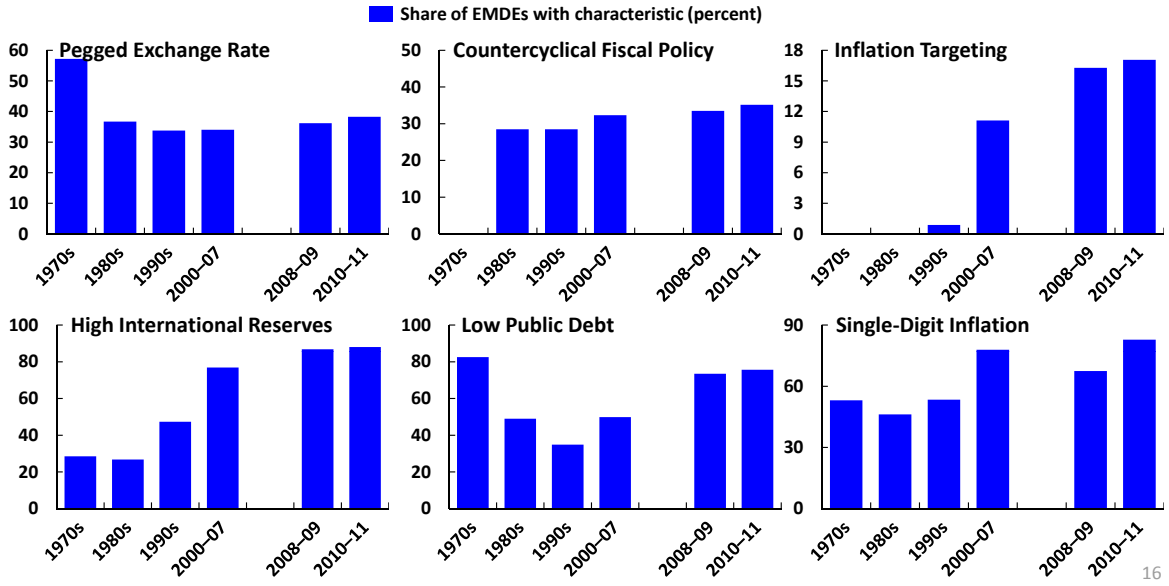
…but EMDE policy frameworks have improved, and policy space has increased.



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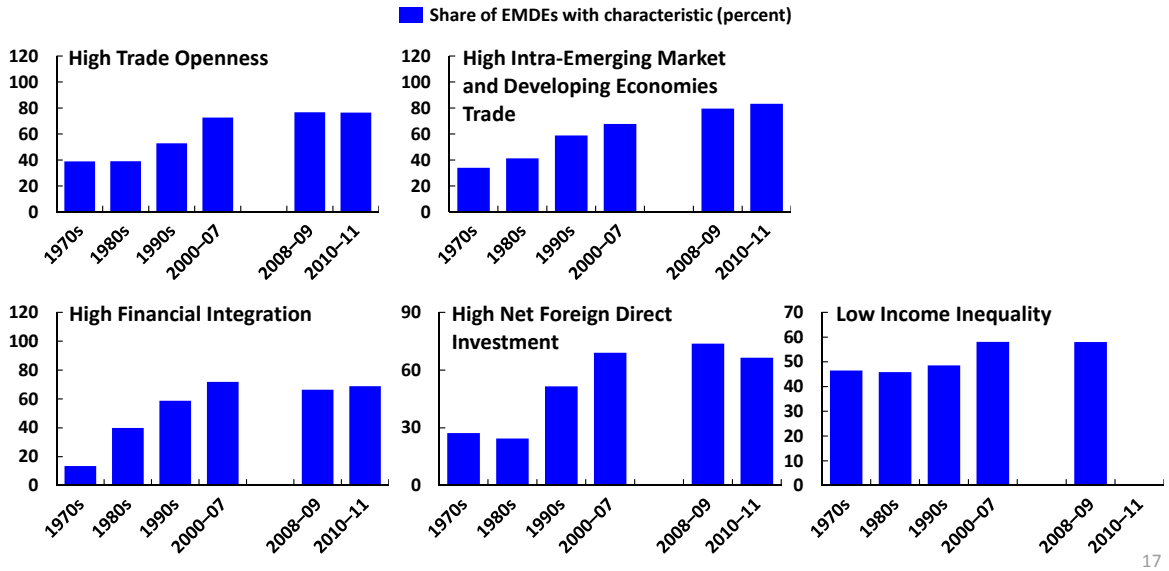
Structural factors are mixed – some are more supportive, others less so.



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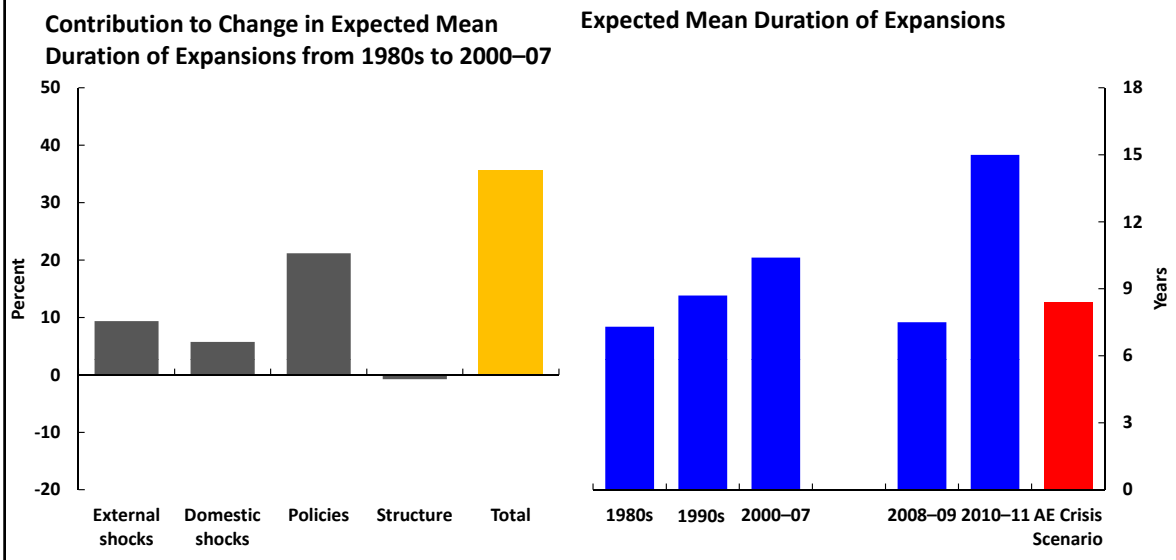
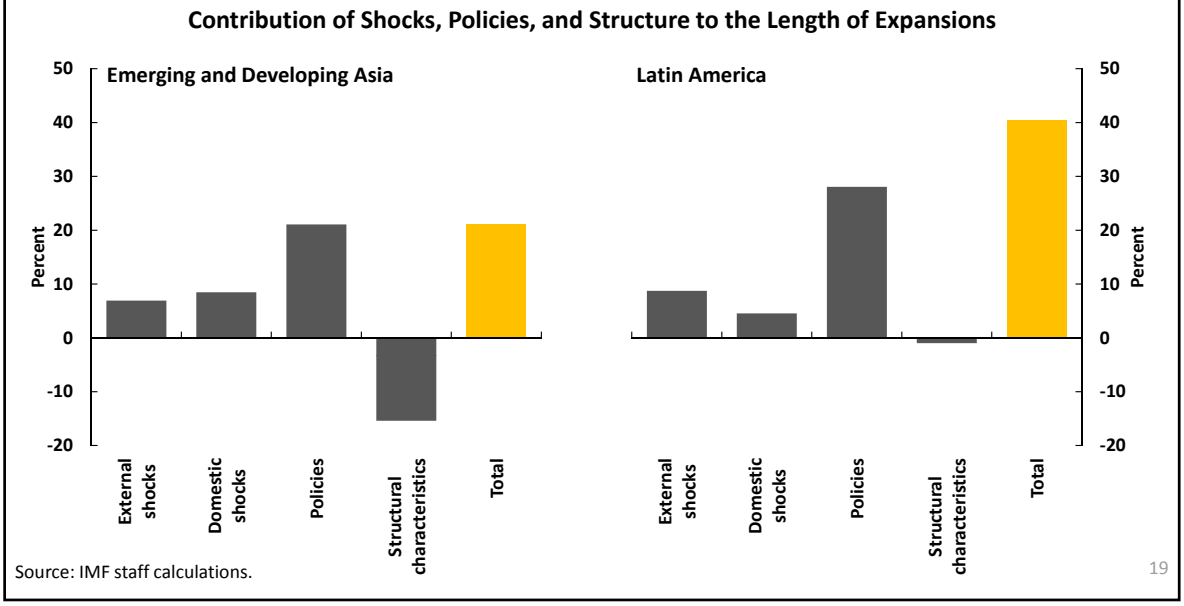
Improved performance from the 1980s to the 2000s has been mainly due to policies and policy space



Source: IMF staff calculations.

Across regions and groups, some differences in drivers of improved resilience, but overall similar.



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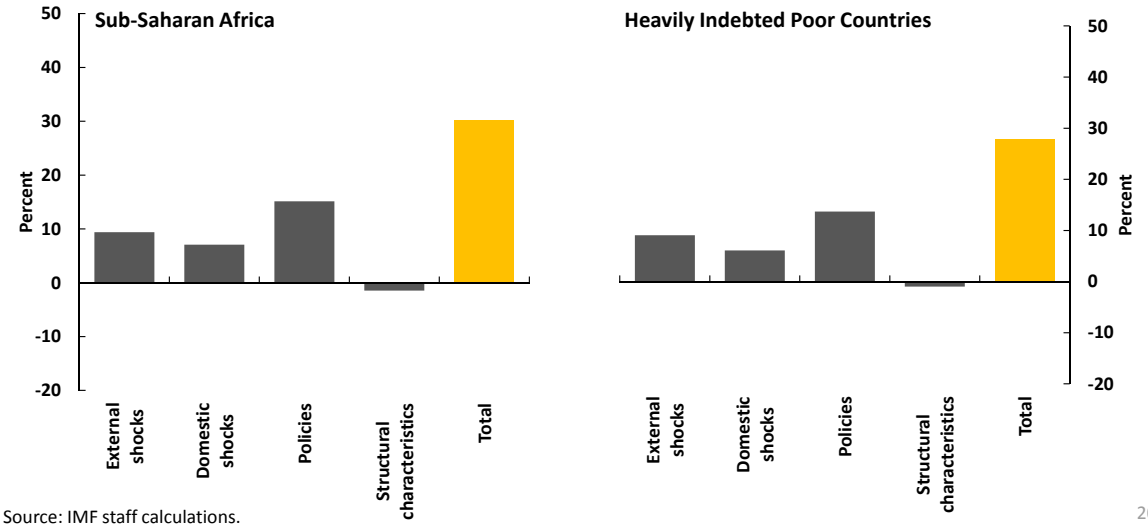
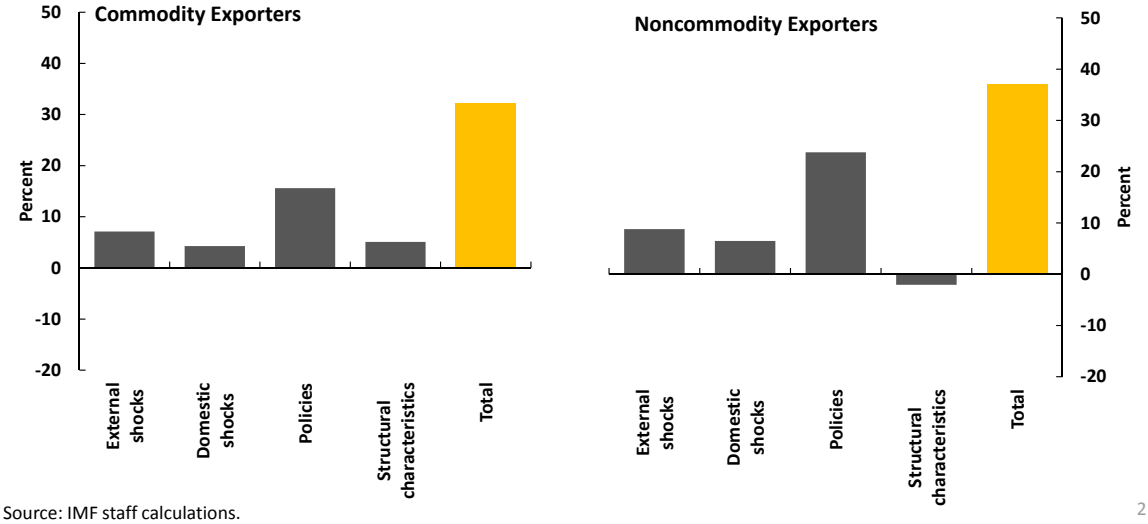
Contribution of Shocks, Policies, and Structure to the Length of Expansions



Source: IMF staff calculations.

And it's not just commodities…

Contribution of Shocks, Policies, and Structure to the Length of Expansions



Source: IMF staff calculations.

Concluding remarks

EMDE resilience is not a recent phenomenon; it has been building over many years. Not just in EMs, but low-income countries as well

Better policymaking has a lot to do with it

But resilience cannot be taken for granted:

- These economies remain vulnerable to external and domestic shocks
- Policy space, partly used up in response to the 2008-09 crisis, needs to be rebuilt
- Improvements in policymaking (e.g., greater ER flexibility, more countercyclical policies) should be maintained

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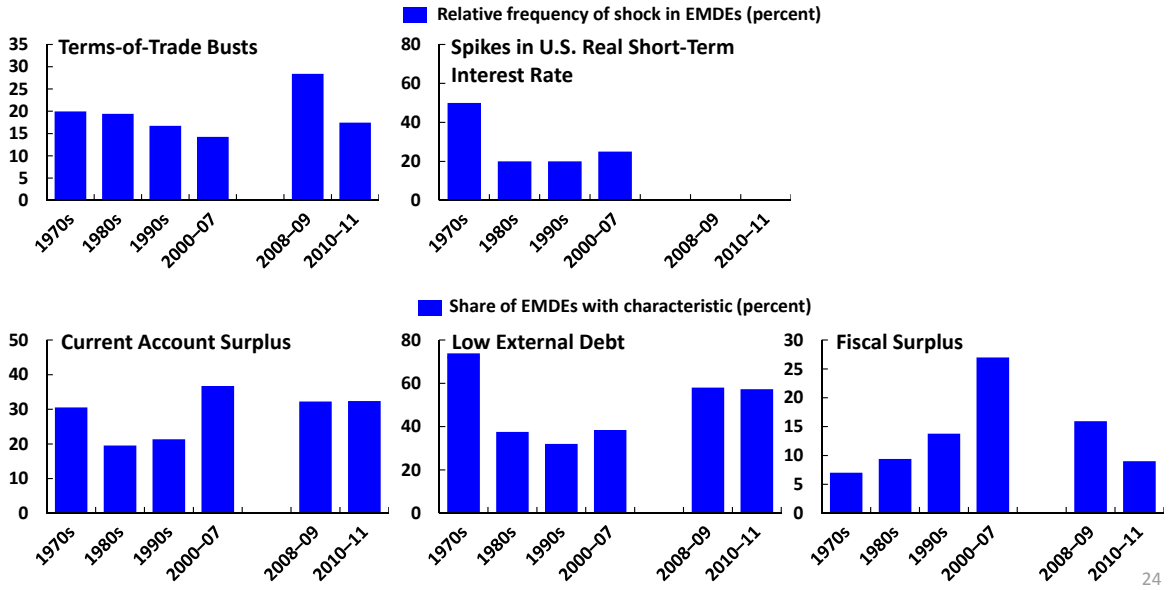
Mixed patterns in other factors



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What Ends Expansions?

Explanatory Variable	Expansions: All Years	Z statistic	Pre-1990	Z statistic	Post-1989	Z statistic
Implied S&P 100 Volatility (VXO)[1]	0.951***	[-4.179]	0.981	[-0.985]	0.943***	[-4.565]
U.S. Ex Ante Real Interest Rate	0.956	[-1.461]	0.993	[-0.158]	0.835***	[-3.479]
Terms-of-Trade-Bust Indicator	0.968	[-0.214]	0.802	[-1.034]	1.134	[0.740]
Sudden Stop (capital inflows) Indicator	0.590***	[-2.927]	0.497*	[-1.885]	0.841	[-1.254]
Advanced Economy Recession Indicator	0.642***	[-4.074]	0.668**	[-2.420]	0.680*	[-1.911]
Credit Boom during Past Three Years	0.616***	[-3.913]	0.591***	[-2.621]	0.705***	[-2.610]
Banking Crisis Indicator	0.550***	[-3.376]	0.504***	[-3.302]	0.538***	[-2.830]
Single-Digit Inflation Indicator	1.473***	[3.185]	1.574**	[2.474]	1.276**	[2.102]
Low Public Debt to GDP Indicator	1.009	[0.0713]	0.998	[-0.0117]	1.019	[0.132]
International Reserves to GDP	1.009***	[2.866]	1.006	[1.289]	1.004	[0.903]
Income Inequality (Gini coefficient)	0.986**	[-2.144]	0.976***	[-2.833]	0.997	[-0.459]
Trade Openness (exports plus imports to GDP)	0.999	[-0.451]	1.001	[0.373]	1.000	[-0.170]
Financial Openness (external assets plus liabilities to GDP)	0.999***	[-3.121]	0.999***	[-4.840]	1.000	[-0.549]
Observations			1,264			
Number of Episodes			188			
Number of Exits			126			
Number of Economies			75			
Weibull Shape Parameter	1.516		1.408		2.277	
Z statistic of Shape Parameter	6.829		3.258		2.928	
Log Likelihood	-103.0		-88.1			
Model Chi-Squared p Value	0.000		0.000			

Source: IMF staff calculations.

Note: Exponentiated coefficients shown are time ratios, which indicate whether the variable tends to shorten (less than 1) or lengthen (greater than 1) the expected time-in-episode. *Z* statistics are given in brackets underneath the coefficient estimates. A negative *z* statistic indicates that the associated variable tends to shorten an episode; if the *z* statistic is positive, it tends to lengthen an episode. *, **, and *** denote significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

[1]VXO = Chicago Board of Exchange S&P 100 volatility index.