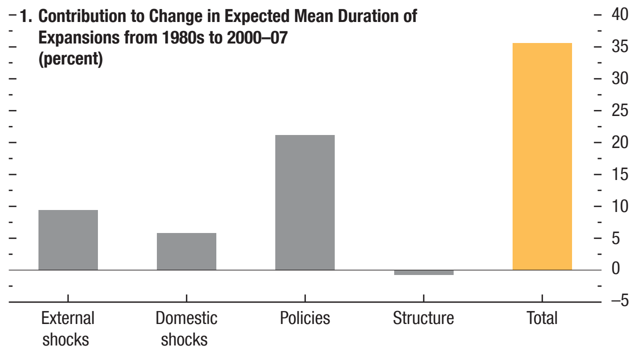
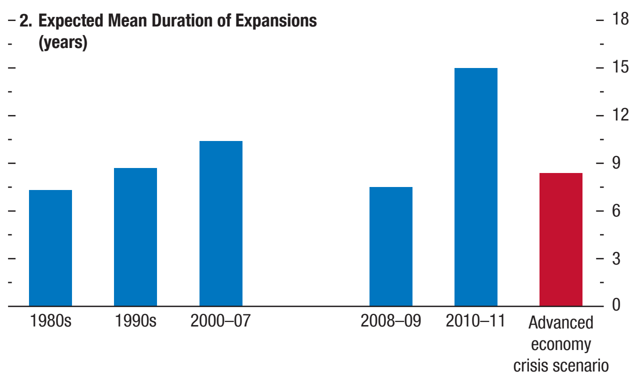
Figure 4.13. Contribution of Shocks, Policies, and Structure to the Length of Expansions in Emerging Market and Developing Economies

The expected mean duration of expansion rose steadily from the 1980s to the early 2000s. This increase reflected mostly greater policy space, with more economies achieving lower inflation and building up their international reserve buffers. But fewer and less intense external and domestic shocks also played a part. The expected mean duration of expansions dropped precipitously over 2008–09, with the spike in external shocks coming from advanced economies during the Great Recession. The lack of external shocks over the past two years has helped raise the expected expansion length. However, a sharp rise in advanced economy stresses could largely wipe out these expected gains, reducing the expected expansion length to the level seen during the Great Recession.





Source: IMF staff calculations.
Note: Expected mean durations for expansions and the contributions of variables are calculated using the duration model estimates from Table 4.1, column 1, and the average values of the explanatory variables for emerging market and developing economies over the corresponding period. The advanced economy crisis scenario in panel 2 assumes that the external shocks reach the levels experienced by emerging market and developing economies during 2008–09.