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The Sectorial Anatomy of Disinflations

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Preliminary and incomplete – comments welcome!
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Abstract: We study the sectoral anatomy of 159 disinflations across 102 economies, from 1960 to 2019. Using local projections, we show that disinflations are not generally contractionary: inflation falls, output rises, unemployment is broadly unchanged, and the real exchange rate appreciates. Yet beneath these aggregates lies systematic reallocation. Non-tradables expand, manufacturing contracts, and natural resources show muted responses. The expansion in non-tradables runs counter to the standard expenditure-switching channel, highlighting income effects and non-homotheticity as central to the consequences of stabilization.

Keywords: Disinflation; Stabilization policies; Sectoral reallocation; Structural change.
JEL codes: E31, E32, E65, F41, O11.

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1 Introduction

Sharp and sustained declines in inflation—so-called disinflations—have been a central feature of modern macroeconomic history. From the stabilization programs in many emerging economies in the 1980s and 1990s to the conquest of the Great Inflation in advanced economies, policymakers have repeatedly faced the challenge of bringing inflation down without derailing growth or employment. Understanding the consequences of these episodes remains crucial today, as high inflation has once again become a pressing concern in many economies. While the aggregate effects of disinflations are well documented, far less is known about how these episodes reshape the composition of economic activity and the allocation of resources across sectors—the very anatomy of disinflation.

In this paper, we move beyond aggregate dynamics to study the sectoral anatomy of disinflations in a large panel of advanced and emerging economies spanning the last fifty years. First, we identify disinflation episodes by adapting the methodology of Ball (1994) to focus on moderate and high-inflation stabilizations that successfully reduce inflation to low and stable levels. We then apply a panel local projections framework to trace the evolution of both aggregate outcomes and sectoral dynamics—measured in terms of value added and employment shares—in the aftermath of disinflations.

Our findings highlight three main results. First, disinflations are not generally contractionary: inflation falls sharply, output rises on average, unemployment remains broadly unchanged, and the real exchange rate appreciates. Second, these aggregate dynamics mask striking sectoral heterogeneity. Non-tradables expand persistently in both value added and employment, manufacturing contracts, and natural resources display muted responses. Additionally, we document sharp differences across service subsectors. Third, the anatomy of disinflations varies systematically with the nature of the episode. Disinflations in emerging economies and those starting from high inflation are larger and more expansionary. The pace and size of the disinflation influence the extent of sectoral reallocation, while the exchange rate regime shapes aggregate dynamics but leaves sectoral patterns broadly unchanged.

A natural benchmark for interpreting these findings is the standard open economy CES demand system. In such models, the fraction of employment in the nontradeable sector is decreasing in the real exchange rate. Our evidence points in the opposite direction: nontreadeable employment share expands during disinflations, even as the real exchange rate appreciates. This inconsistency demonstrates that homothetic demand cannot account for the observed patterns, pointing to the importance of sector-specific income effects. The shift

in nontradeable employment from manufacturing to services provides further evidence of structural change in households' expenditure patterns.

In doing so, our paper contributes to the extensive research on disinflations and stabilization policies (e.g., Dornbusch and Fischer 1993; Calvo and Végh 1994, 1999; Reinhart and Vegh 1994; Kiguel and Liviatan 1995; Fischer et al. 1996; Sargent et al. 2009; Kehoe and Nicolini 2022; Di Tella et al. 2025; Palazzo et al. 2025), most of which has focused on aggregate outcomes. Here, we show that disinflations not only reduce inflation without necessarily imposing large output costs, but also systematically reshape the structure of production and employment across sectors. By documenting these reallocations in a consistent cross-country framework, our analysis uncovers patterns that have remained hidden in aggregate studies and highlights the importance of sectoral channels for understanding the distributional and policy consequences of stabilization.

The rest of the paper proceeds as follows. Section 2 describes the data and methodology, including the identification of disinflation episodes and the empirical framework. Section 3 presents the core results, first at the macroeconomic level and then across sectors, before analyzing heterogeneity across types of disinflation episodes and conducting robustness checks. Section 4 concludes.

2 Data and Methodology

This section provides the foundation for our empirical analysis. Section 2.1 describes the data sources and the construction of the macroeconomic and sectoral variables. Section 2.2 details the procedure used to identify disinflation episodes, presents summary statistics, and documents their historical evolution across time. Section 2.3 introduces the empirical framework, which we use to study the macroeconomic and sectoral dynamics that follow the onset of disinflations.

2.1 Data

Our empirical analysis combines macroeconomic indicators with sectoral data on value added and employment. At the macroeconomic level, we draw on the World Bank's World Development Indicators (WDI), which provide annual measures of CPI inflation, real GDP, real consumption, real investment, real exports and imports, and the unemployment rate. To construct the real exchange rate, we use bilateral nominal exchange rates against the U.S.

dollar, complemented with the U.S. consumer price index. For sectoral data, we integrate information from multiple sources: the Groningen Growth and Development Centre (GGDC) 10-Sector Database, the GGDC/UNU-WIDER Economic Transformation Database, and the OECD Structural Analysis (STAN) Database. These sources allow us to capture sectoral value added and employment consistently across a wide set of countries. We aggregate ten subsectors into three broad categories: Non-tradables (construction, wholesale and retail trade, transportation, finance and real estate, health and education, and other services), Manufacturing and Natural Resources (agriculture, mining, and utilities).

We restrict our sample to countries with at least 15 consecutive years of available sectoral data, resulting in an unbalanced panel of 102 countries spanning 1960–2019. Using the classification of Uribe and Schmitt-Grohé (2017), our sample of countries includes 25 advanced economies and 77 emerging market economies. For a detailed description of the data, see Appendix A. Appendix Table B.1 lists the countries included in the analysis.

2.2 Identifying disinflation episodes

We define disinflation episodes following the approach of Ball (1994), adapting the procedure to annual data.[1] Let $\pi_{i,t}$ denote CPI inflation for country i in year t. We define trend inflation as the centered three-year moving average: $\tilde{\pi}_{i,t} \equiv \frac{1}{3}\big(\pi_{i,t-1} + \pi_{i,t} + \pi_{i,t+1}\big)$. An inflation peak occurs in year t when $\tilde{\pi}_{i,t} > \tilde{\pi}_{i,t-1}$ and $\tilde{\pi}_{i,t} > \tilde{\pi}_{i,t+1}$; an inflation trough occurs when $\tilde{\pi}_{i,t} < \tilde{\pi}_{i,t-1}$ and $\tilde{\pi}_{i,t} < \tilde{\pi}_{i,t+1}$. Then, a disinflation period starts at an inflation peak and ends at an inflation trough, where trend inflation falls at least 1.5 percentage points; i.e. $\tilde{\pi}_{i,t_p} - \tilde{\pi}_{i,t_\tau} \geqslant 1.5$ p.p.. Using this procedure, we identify 402 candidate episodes. We then impose two additional restrictions: (i) inflation at the peak must be at least 10% ($\pi_{i,t_p} \geqslant 10$); and (ii) inflation at the trough must be below 10% ($\tilde{\pi}_{i,t_\tau} < 10$). First condition is consistent with our focus on on moderate and high-inflation stabilizations; the second one excludes "partial disinflations" that satisfy Ball's size criterion but still end at high, unstable inflation.[2]

Following this criterion, we identify 159 episodes, detailed in Appendix Tables B.2 and B.3. Table 2.1 reports summary statistics for our sample of disinflation episodes. On average,

[1] Mazumder (2014) follows a similar approach to study the determinants of the sacrifice ratio in OECD and non-OECD countries.

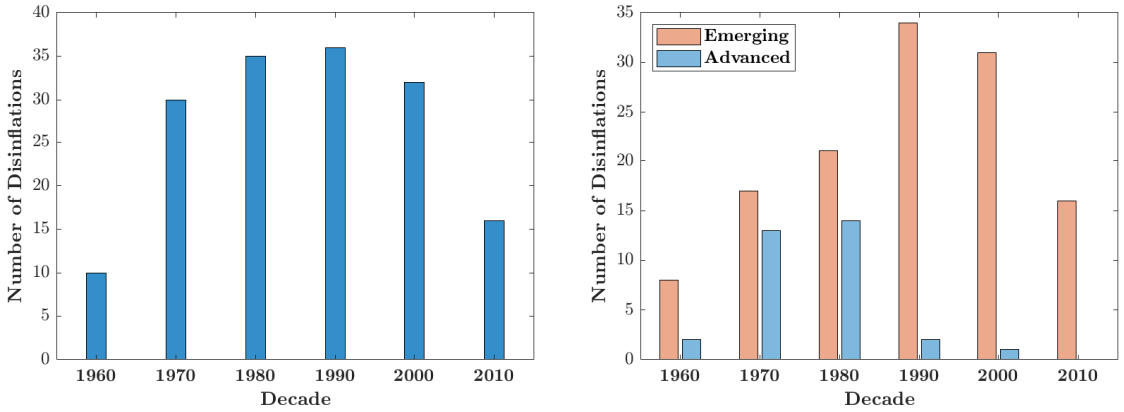
[2] Relative to the 402 candidates, we exclude 173 episodes because the inflation at the peak is below 10% and 71 episodes because the trough remains at or above 10%.

these episodes are characterized by a median fall in inflation of 8.9 percentage points from a median inflation rate at the start of the episode of 26.9%. Comparing across groups, episodes in emerging economies are associated with both larger disinflations (9.4 p.p. vs. 7 p.p. in advanced economies) and more dispersed outcomes. Emerging economies also begin disinflations at higher inflation levels, with median peak inflation about 3.5 percentage points above that of advanced economies. By contrast, the median duration of disinflations is about four years, with no systematic differences between the two groups.

To provide historical context, Figure 1 shows the evolution of disinflation episodes by decade. Panel (a) documents that the total number of episodes peaked during the 1980s and 1990s, reflecting both the aftermath of the Great Inflation in advanced economies and the stabilization plans implemented across emerging markets during that period. Panel (b) highlights significant compositional differences. In advanced economies, disinflations were concentrated in the 1970s and 1980s and have been almost absent since. Before 1990, they accounted for about 40% of total episodes, but less than 8% thereafter. In emerging economies, by contrast, the number of disinflations rose steadily until the 1990s before declining continuously to the present. This decline coincides with shifts in monetary frameworks and the widespread adoption of inflation targeting regimes (see Blanco et al., 2025).

Figure 1: Evolution of disinflation episodes

(a) All Episodes (b) Emerging vs Developed



Notes: This figure reports the number of disinflation episodes in our sample by decade. Panel (a) presents all episodes, while Panel (b) separates them into advanced and emerging-market economies. The full list of episodes is provided in Appendix Tables B.2–B.3.

Table 2.1: Summary Statistics of Succesful Disinflation Episodes

	All	Advanced Economies	Emerging Economies
(a) Inflation at the peak (%)			
Mean	26.9	16.2	29.6
Median	16.2	13.4	16.9
S.D.	25.2	7.7	27.2
Min	10.1	10.2	10.1
Max	100.0	50.2	100.0
(b) Change in inflation from peak to trough (p.p.)			
Mean	18.4	9.6	20.6
Median	8.9	7.0	9.4
S.D.	25.0	9.9	27.2
Min	2.0	2.0	2.3
Max	100.0	60.2	100.0
(c) Duration from peak to trough (years)			
Mean	5.1	5.1	5.1
Median	4.0	4.0	4.0
S.D.	2.8	2.7	2.9
Min	2.0	2.0	2.0
Max	15.0	13.0	15.0
Number of episodes	159	32	127

Notes: This table presents descriptive statistics of the disinflation episodes used in the empirical analysis. Panel (a) reports descriptive evidence of the inflation at peak in each episode, measured in percent. Panel (b) shows the change in inflation from peak to trough, measured in percentage points. Panel (c) shows the duration from peak to trough, measured in years. The column labeled *All* presents descriptive statistics for the entire set of disinflation episodes, and the columns labeled *Emerging economies* and *Developed economies* present descriptive statistics for each group of countries. The full list of episodes is provided in Appendix Tables B.2–B.3 .

2.3 Empirical model

To study the macroeconomic and sectoral dynamics associated with disinflations, we estimate local projections a la Jordà (2005). The baseline specification is:

$$z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \mathbf{Disinflation}_{i,t} + \gamma_h \times \mathbf{X}_{i,t-1} + \varepsilon_{i,t+h} \tag{1}$$

where $z_{i,t}$ is a variable of interest for country i in period t, α_i^h and λ_t^h are country and year fixed effects, $\text{Disinflation}_{i,t}$ is a dummy variable equal to one in the year when a disinflation episode begins, $\mathbf{X}_{i,t-1}$ is a vector of country and time-specific controls, and $\varepsilon_{i,t+h}$ is the residual at horizon h.

This specification is estimated by ordinary least squares for each horizon h. The main coefficient of interest is β^h, which is informative about the average effect of variable z, h years after the beginning of a disinflation episode. The inclusion of country fixed effects controls for permanent differences across countries, while the inclusion of time-fixed effects captures common shocks across different countries. The vector $X_{i,t-1}$ includes two lags of the dependent variable z. Finally, we use two-way clustered standard errors to account for correlation within countries and within time.

3 Empirical evidence on disinflations

This section presents the main empirical evidence on the macroeconomic and sectoral dynamics of disinflations. Section 3.1 characterizes the aggregate behavior of key macroeconomic outcomes following the onset of disinflation episodes. Section 3.2 turns to sectoral outcomes, showing how disinflations are associated with reallocations across broad sectors, within non-tradables, and across service subsectors. Section 3.3 examines whether these dynamics differ systematically across types of disinflation episodes, focusing on differences by level of development, initial inflation, speed and size of the disinflation, and exchange rate regime. Finally, Section 3.4 assesses the robustness of our findings to alternative definitions of disinflation episodes.

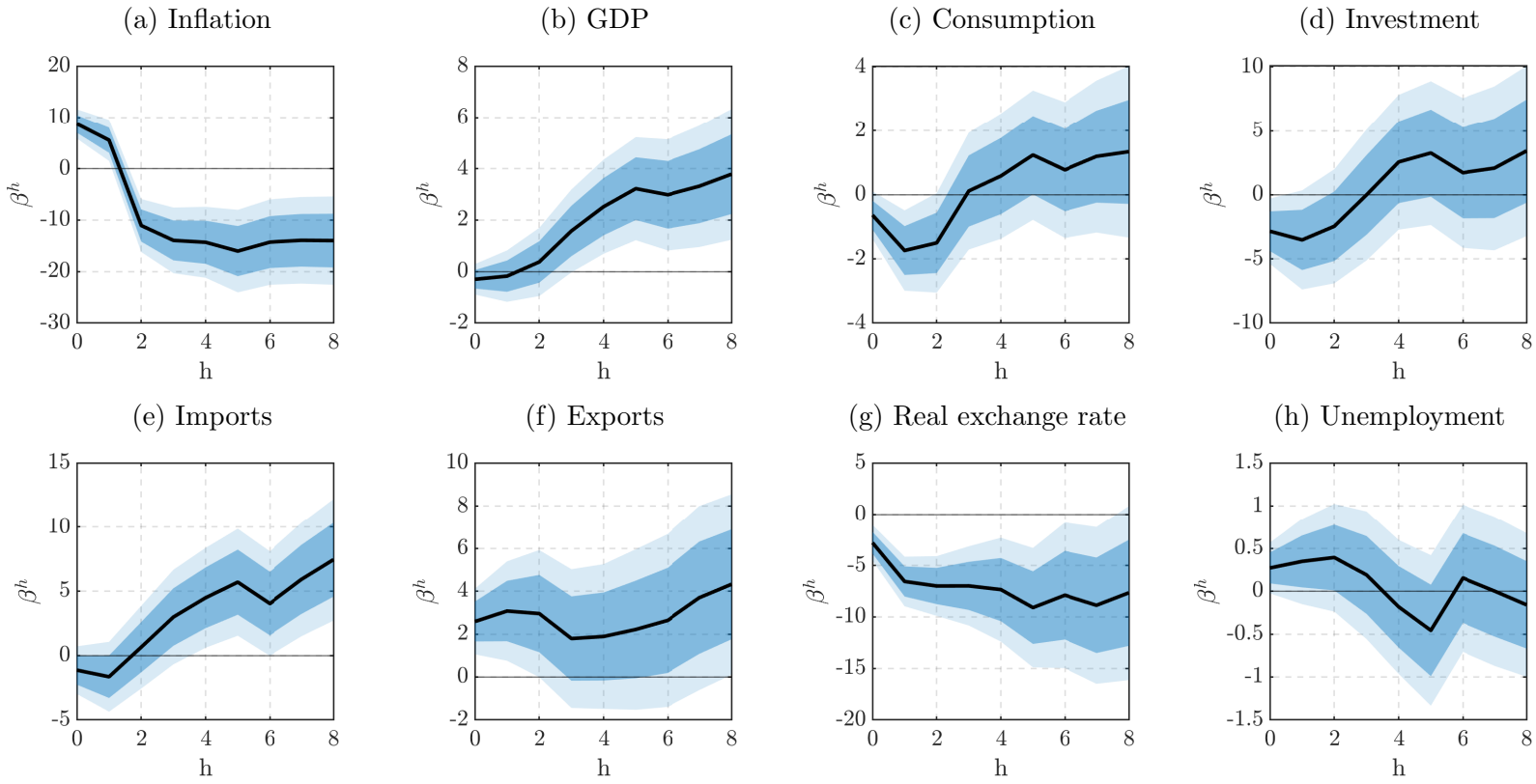
3.1 Macro dynamics

We begin by characterizing the behavior of the economy at the aggregate level. Figure 2, panels (a)–(h), displays the evolution of key macroeconomic variables following the start of a disinflation episode. By construction, disinflations are associated with sustained and persistent declines in the inflation rate. On average, inflation is about 15 percentage points below its pre-peak level even eight years after the onset of the episode. The initial spike in inflation is mechanical and reflects the way disinflation episodes are defined. In our methodology, the year corresponding to the start of a disinflation is an inflation peak; using the year before the start of the disinflation episode as the reference point naturally generates an apparent increase at the beginning of the episode.

The behavior of output points toward expansionary effects of disinflations. Real GDP is around 4 percent higher eight years after the start of the episode. Consumption and investment initially contract, but these declines are partly offset by an expansion in net

exports. The real exchange rate exhibits a persistent appreciation throughout the episode. Finally, unemployment does not display statistically significant responses, consistent with the absence of contractionary effects from these disinflations.

Figure 2: Macro dynamics during disinflations



Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times Disinflation_{i,t} + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the CPI inflation rate, log of real GDP, log of real consumption, log of real investment, log of real imports, log of real exports, log of the real exchange rate, or the unemployment rate for country i in year t. Disinflation$_{it}$ is a dummy that takes the value of one when a disinflation episode begins in country i at time t. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Panels (a)–(h) display the estimated responses to disinflation episodes ($\hat{\beta}^h$). Shaded areas represent 68% and 90% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.

3.2 Sectoral dynamics

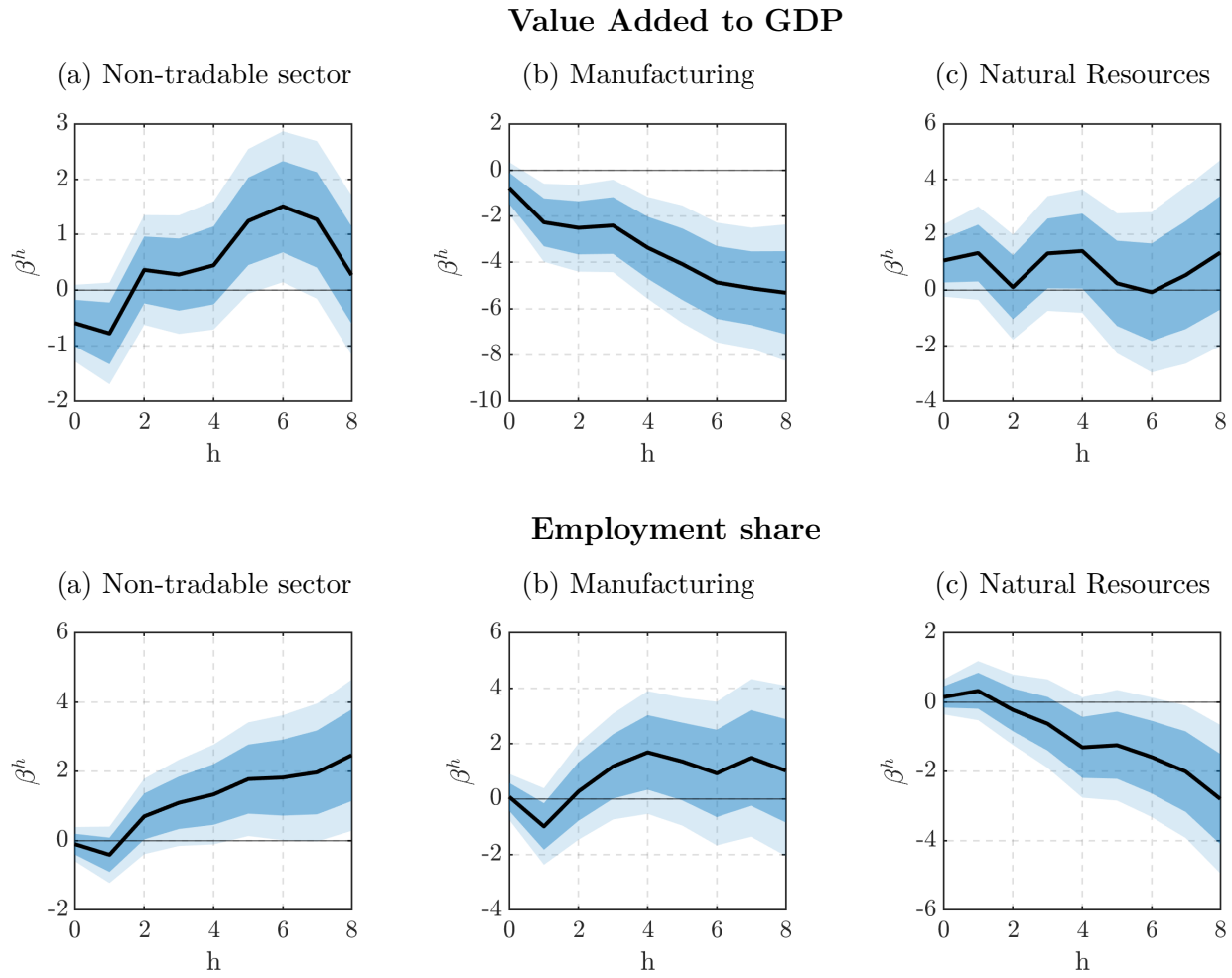
While the macroeconomic effects of disinflations have been widely studied, their sectoral dynamics and the extent of reallocation across sectors remain less understood. This study aims to fill this gap. In what follows, we analyze the evolution of the value added and employment shares of different sectors after the start of disinflation episodes.

Sectoral reallocation. Sectoral dynamics make clear that the aggregate results mask important heterogeneity across sectors. Figure 3 illustrates this point by showing the cumulative change in the value added and employment shares of the non-tradable, manufacturing, and natural-resource sectors following the onset of disinflation episodes. A clear pattern emerges: the non-tradable sector expands, manufacturing contracts, and natural resources display only muted responses. The non-tradable sector experiences an initial increase of about 1–2% in value added, which gradually returns to its pre-disinflation level; by contrast, its employment share rises steadily, reaching roughly 2% above the baseline after eight years. Manufacturing shows the opposite pattern: value added falls persistently, by around 4–6% relative to the pre-peak level, while the contraction in employment is shorter-lived. Finally, the natural-resource sector exhibits no significant response in value added but a modest decline in employment.

Disaggregating the non-tradable sector. We next divide the non-tradable sector into services and construction to assess whether their responses differ, given evidence that construction tends to be more procyclical than services in response to macroeconomic shocks. Figure 4 shows that, in terms of value added, both sectors display broadly similar dynamics, with construction experiencing a sharper initial contraction. In employment, however, the patterns diverge: construction exhibits an initial drop followed by a rapid recovery to its pre-disinflation level, while services record a persistent increase.

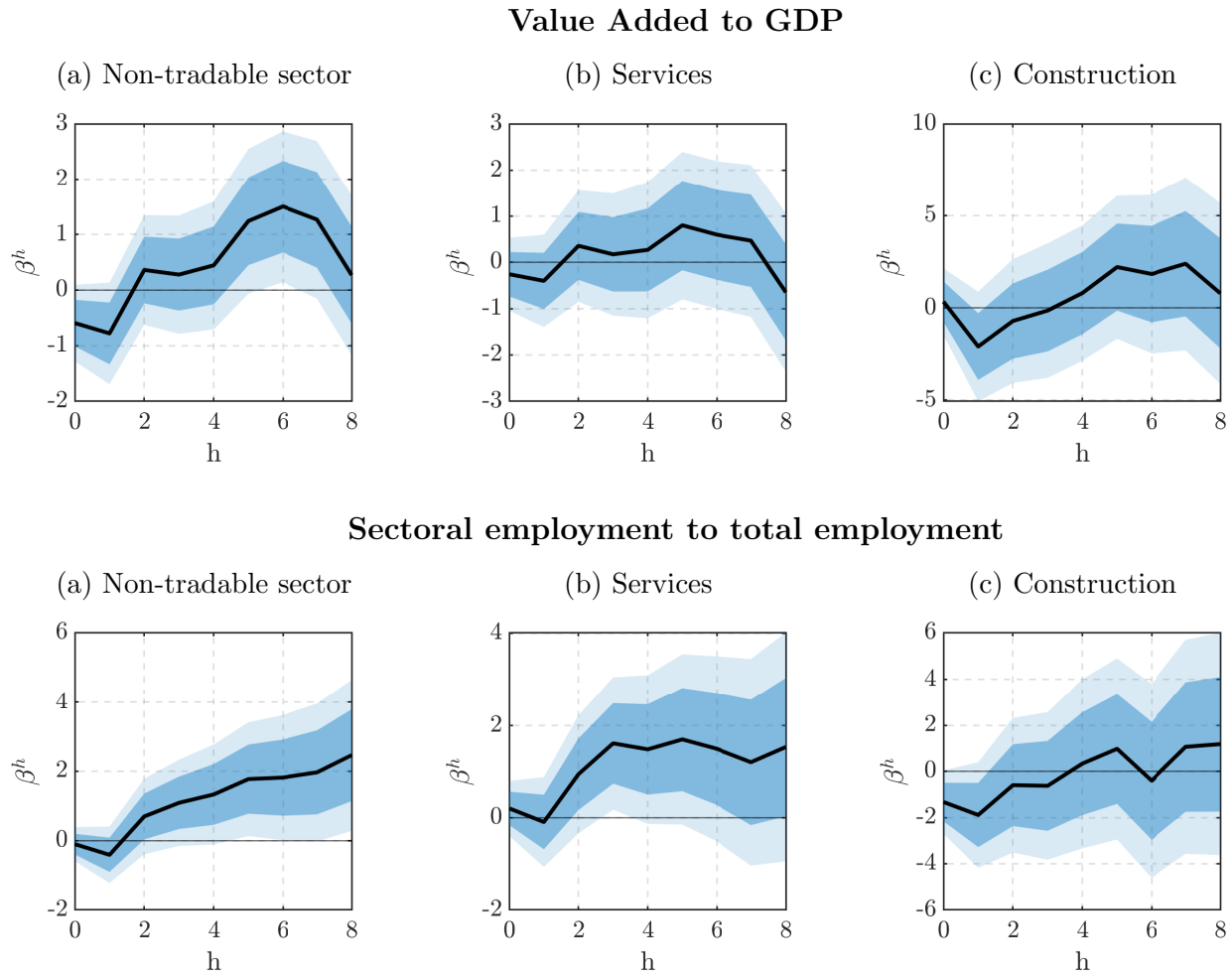
Inside the service sector. Further disaggregating services highlights substantial heterogeneity across subsectors (Figure 5). Wholesale and retail trade is the most negatively affected, showing a steady decline of about 2–4%. Financial and real estate activities undergo an initial contraction, a quick rebound, and ultimately return to their pre-disinflation levels. By contrast, transportation and other services exhibit persistent expansions of roughly 2–4%.

Figure 3: Sectoral dynamics during disinflations



Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \text{Disinflation}_{i,t} + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the log of the value added share of the non-tradable sector, log of the value added of the manufacturing sector, log of the value added of the natural-resources sector, log of the employment share of the non-tradable sector, log of the employment share of the manufacturing sector, ot the log of the employment share of the natural-resources sector, for country i in year t. Disinflation_{it} is a dummy that takes the value of one when a disinflation episode begins in country i at time t. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Panels (a)–(h) display the estimated responses to disinflation episodes ($\hat{\beta}^h$). Shaded areas represent 68% and 90% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.

Figure 4: Sectoral dynamics during disinflations - Services vs Construction



Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \text{Disinflation}_{i,t} + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the log of the value added share of the non-tradable sector, log of the value added of the services sector, log of the value added of the construction sector, log of the employment share of the non-tradable sector, log of the employment share of the services sector, ot the log of the employment share of the construction sector, for country i in year t. Disinflation_{it} is a dummy that takes the value of one when a disinflation episode begins in country i at time t. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Panels (a)–(h) display the estimated responses to disinflation episodes ($\hat{\beta}^h$). Shaded areas represent 68% and 90% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.

Figure 5: Service sector dynamics during disinflations

Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \text{Disinflation}_{i,t} + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the log of the value added share of the following service sectors: wholesale and retail, transportation sector, financial and real estate, and other services, for country i in year t. Disinflation_{it} is a dummy that takes the value of one when a disinflation episode begins in country i at time t. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Panels (a)–(h) display the estimated responses to disinflation episodes ($\hat{\beta}^h$). Shaded areas represent 68% and 90% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.

3.3 Differences across disinflation episodes

In this section, we go a step further and exploit the heterogeneity across disinflation episodes along several dimensions. To do so, we rely on a specification similar to the baseline exercise, with the following modification:

$$z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \mathbf{Disinflation}_{i,t} + \delta^h \times \mathbf{Disinflation}_{i,t} \times \mathbf{Type}_{i,t} + \gamma^h \times \mathbf{X}_{i,t-1} + \varepsilon_{i,t+h}, \tag{2}$$

where $\mathbf{Type}_{i,t}$ is a dummy variable that identifies disinflation episodes in country i and period t that belong to a specific category. The coefficient δ^h captures the differential response of episodes in that category relative to those that do not. In our analysis, we focus on differences across four key dimensions: the level of development, the initial inflation rate, the speed and duration of the disinflation, and the exchange rate regime.

Emerging vs Advanced economies. We split the sample of disinflation episodes between emerging and advanced economies, following the classification in Uribe and Schmitt-Grohé (2017). Appendix Figure 6 shows that disinflations in emerging economies are larger than in advanced economies, expansionary, and accompanied by stronger real exchange rate appreciations. Regarding sectoral dynamics, both groups display significant reallocation effects. Qualitatively, both exhibit an expansion in the non-tradable sector and a contraction in manufacturing. Quantitatively, however, the magnitude of the manufacturing contraction is larger in advanced economies, while the expansion in non-tradables is of similar size across groups. In addition, advanced economies show a stronger expansion in natural resources, whereas the response in emerging economies is muted.

Moderate vs High inflation episodes. To study whether initial inflation levels affect the dynamics of subsequent disinflations, we split the sample into two groups: those with peak inflation above the median and those below. In our sample, the median peak inflation is 16.2%. Appendix Figure 7 shows a pattern broadly similar to the comparison between emerging and advanced economies, where high inflation episodes seem to mimic the behavior of the former. Disinflations starting from high inflation levels achieve larger reductions in inflation, stronger real exchange rate appreciations, and comparable output dynamics relative to those starting from lower levels. In terms of sectoral dynamics, episodes beginning with moderate inflation resemble those of advanced economies, with a larger contraction in manufacturing and a stronger expansion in natural resources compared to high-inflation cases. For the non-tradable sector, the opposite holds: it expands when initial inflation levels are high but shows only a muted response when inflation is moderate.

Cold Turkey vs. Gradualism. A common theme in the inflation stabilization literature is the comparison between gradual and cold-turkey disinflations (see Ball 1994; Gonçalves and Carvalho 2009; Mazumder 2014, among others). In this spirit, we perform two splits of our sample of disinflation episodes. First, we divide episodes according to duration, distinguishing between those with a peak-to-trough length above and below the median of four years. Second, we classify episodes as large or small disinflations, where large episodes are defined as those with peak-to-trough declines in inflation above the sample median of 11.6 percentage points.

Appendix Figures 8 and 9 show that long-duration and large disinflations display broadly similar patterns, both at the aggregate and sectoral levels. Relative to short or small disinflations, they are associated with larger declines in inflation, stronger real exchange rate appreciations, and comparable output dynamics. At the sectoral level, long and large disinflations feature more pronounced expansions in the non-tradable sector and contractions in natural resources. In contrast, the latter expand in the short and small group. Manufacturing contracts in all cases, but while the magnitude of the decline is similar between short and long episodes, it is more persistent and somewhat larger in small disinflations compared with large ones.

Fixed vs. Flexible. Finally, we turn to the role of the nominal anchor during disinflation episodes and how it may shape macroeconomic and sectoral dynamics. To this end, we classify disinflation episodes as occurring under either fixed or flexible exchange rate regimes, following Ilzetzki et al. (2019).[3] At the aggregate level, Appendix Figure 10 shows patterns broadly consistent with earlier findings in the literature (Calvo and Végh, 1994, 1999; Kiguel and Liviatan, 1995, among others): inflation and the real exchange rate evolve similarly across fixed and flexible regimes; however, disinflations under fixed exchange rates tend to be expansionary, while those under flexible exchange rates are more often contractionary. At the sectoral level, by contrast, the differences between the two regimes are less pronounced. In both cases, disinflations are associated with expansions in non-tradables, contractions in

[3]We use the coarse classification, which assigns exchange rate regimes to six categories. We define a regime as "fixed" if it falls under categories 1 (no separate legal tender, pre-announced peg, currency board, or de facto peg) or 2 (crawling peg), and as "flexible" if it falls under categories 3 (wide crawling peg, managed floating) or 4 (freely floating). A disinflation episode for country i in period t is considered to occur under a fixed regime if, between $t_{peak} - 1$ and $t_{peak} + 2$, there was at least one year with a fixed exchange rate. All remaining episodes are classified as occurring under flexible regimes, and those coinciding with "freely falling" are excluded.

manufacturing, and muted responses in natural resources.

3.4 Robustness

In order to test the validity of our results, we carry out some robustness exercises. In our baseline case of Section 2.2, we restrict the sample of disinflation episodes identified with Ball (1994) 's method to those that present inflation below 10% at the trough. We modify this condition with two alternatives. First, we keep those episodes in which inflation at the trough is below two-thirds of inflation at the peak. In a second robustness, we keep those episodes in which inflation is below 10% in the following 2 years after the trough of the episode. Appendix Figures 11–12 show that results are in line with those presented in the previous sections.

4 Conclusions

This paper has examined the sectoral anatomy of disinflations in a large panel of advanced and emerging economies over the past fifty years. We documented three main findings. First, disinflations are not generally associated with large aggregate costs, as output tends to expand while unemployment remains broadly stable. Second, aggregate stability masks substantial reallocation beneath the surface, with clear winners and losers across sectors. Third, the magnitude and composition of these reallocations differ systematically across types of disinflation episodes.

Taken together, these results suggest that disinflations not only succeed in stabilizing prices but also reshape the structure of production and employment in systematic ways. By moving beyond the aggregate costs and benefits, our analysis highlights the importance of sectoral channels for understanding the broader economic consequences of stabilization policies. A natural avenue for future work is to complement our empirical evidence with a structural model that links inflation stabilization to sectoral reallocation and long-run structural change. Such a framework would allow us to quantify how disinflations interact with the forces of development—such as the shift from manufacturing to services—and to assess the welfare and distributional consequences of alternative stabilization strategies.

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A Data description

Data sources. The data used in the empirical analysis of Section 2 were obtained from the following sources:

1. GDP: Gross Domestic Product at constant local currency units (LCU), obtained from World Development Indicators (henceforth WDI; variable name:).
2. Consumption: Household and NPISHs Final consumption expenditure at constant LCU, obtained from WDI.
3. Investment: Gross capital formation at constant LCU, obtained from WDI.
4. Exports: Exports of goods and services at constant LCU, obtained from WDI.
5. Imports: Imports of goods and services at constant LCU, obtained from WDI.
6. Unemployment: Unemployment, total (% of total labor force) obtained from WDI.
7. Nominal Exchange Rate: Official exchange rate at LCU per USD, period average, obtained from WDI.
8. CPI: Consumer Price Index obtained from WDI.
9. Value added of sector k: measured in nominal LCU for each sector $k = \{$ non-tradables, manufacturing, natural resources, services, construction, wholesale and retail, transportation, financial and real estate, other activities $\}$, obtained from Groningen Growth and Development Centre (GGDC), GGDC/UNU-WIDER Economic Transformation Database (ETD) and the OECD Structural Analysis Database (STAN).
10. Nominal GDP: measured in nominal LCU, obtained from GGDC, ETD and STAN.
11. Employment of sector k: measured in number of persons for each sector k, obtained from GGDC, ETD and STAN.
12. Aggregate employment: employment of the aggregate economy measured in number of persons, obtaineed from GGDC, ETD and STAN.

B Additional figures and tables

Table B.1: List of countries included in the analysis

Albania	Chile	Greece	Lithuania	Norway	Sweden
Argentina	China	Hong Kong	Luxembourg	Pakistan	Switzerland
Armenia	Colombia	Hungary	Malawi	Peru	Taiwan
Australia	Costa Rica	Iceland	Malaysia	Philippines	Tajikistan
Austria	Croatia	India	Malta	Poland	Tanzania
Bangladesh	Cyprus	Indonesia	Mauritius	Portugal	Thailand
Belarus	Czech Rep.	Ireland	Mexico	Romania	Tunisia
Belgium	Denmark	Israel	Moldova	Russia	Turkey
Bolivia	Ecuador	Italy	Morocco	Rwanda	Uganda
Botswana	Egypt	Japan	Mozambique	Senegal	Ukraine
Brazil	Estonia	Kazakhstan	Myanmar	Serbia	United Kingdom
Bulgaria	Ethiopia	Kenya	Namibia	Singapore	United States
Burkina Faso	Finland	Korea, Rep.	Nepal	Slovak Rep.	Uruguay
Cabo Verde	France	Kyrgyz Rep.	Netherlands	Slovenia	Uzbekistan
Cambodia	Georgia	Lao PDR	New Zealand	South Africa	Venezuela
Cameroon	Germany	Latvia	Nigeria	Spain	Vietnam
Canada	Ghana	Lesotho	North Macedonia	Sri Lanka	Zambia

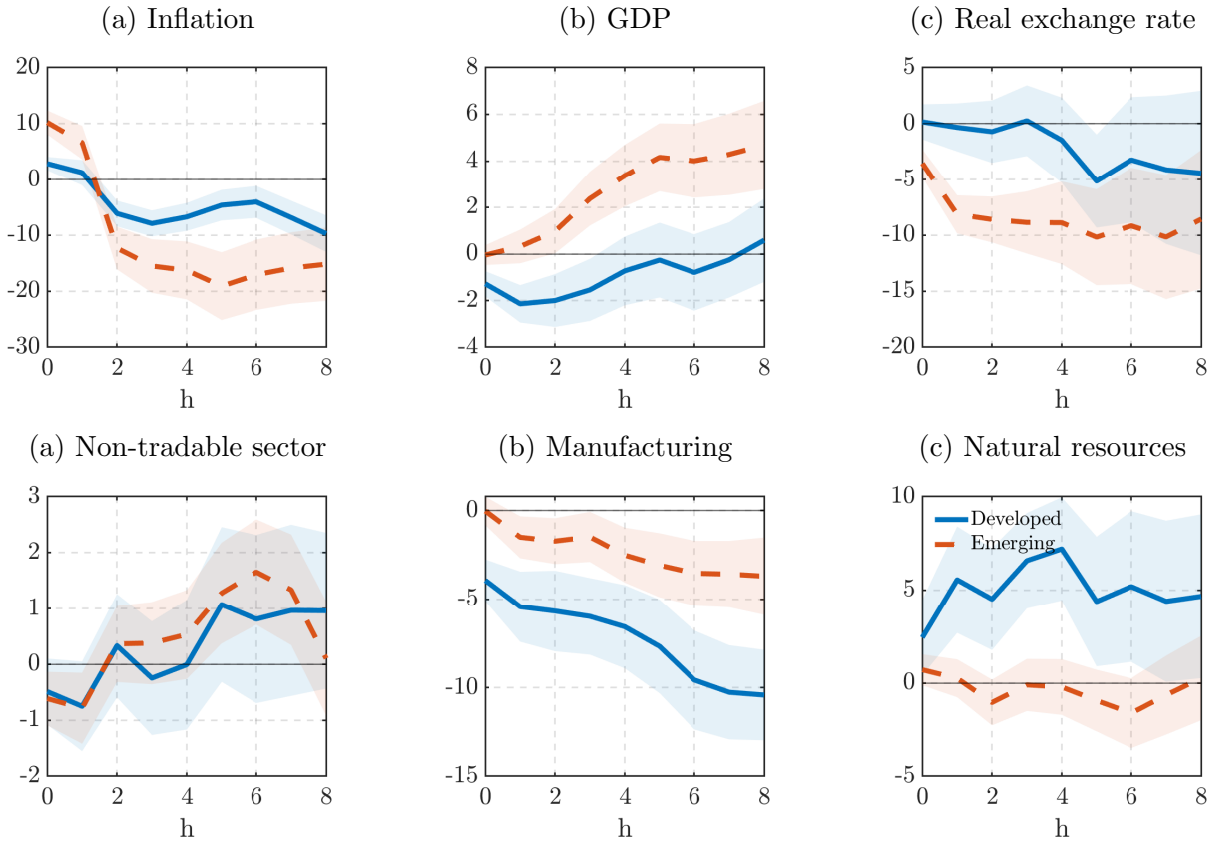
Table B.2: Sample of Disinflation Episodes I

Country	Peak	Trough	Peak trend Inflation	Δ inflation	Duration (years)	Country	Peak	Trough	Peak trend Inflation	Δ inflation	Duration (years)
Albania	1997	2000	33.2	21.0	3	Iceland	1969	1971	21.8	6.8	2
Argentina	1966	1969	29.9	19.2	3	Iceland	1982	1995	50.2	60.2	13
Argentina	1989	2000	4923.6	2219.8	11	Iceland	2009	2016	12.0	8.3	7
Australia	1975	1979	15.2	5.5	4	India	1973	1977	16.9	16.3	4
Bangladesh	2011	2017	11.4	3.0	6	India	2010	2018	12.0	6.9	8
Belarus	1999	2006	293.7	169.8	7	Indonesia	1965	1971	306.8	509.6	6
Belarus	2012	2019	59.2	38.2	7	Indonesia	1974	1978	40.5	18.4	4
Belgium	1975	1979	12.8	6.3	4	Indonesia	1980	1986	18.0	8.9	6
Bolivia	1967	1970	11.2	4.6	3	Indonesia	2002	2004	11.9	2.3	2
Bolivia	1974	1976	62.8	27.2	2	Indonesia	2006	2011	13.1	5.1	5
Bolivia	1990	1994	17.1	9.0	4	Ireland	1975	1978	20.9	7.1	3
Bolivia	1995	2002	10.2	8.2	7	Ireland	1981	1987	20.4	15.5	6
Botswana	1980	1985	13.6	5.0	5	Italy	1981	1987	18.0	13.3	6
Botswana	1992	2000	16.2	6.5	8	Japan	1974	1979	23.2	10.3	5
Brazil	1993	1998	1927.4	1646.8	5	Kazakhstan	2000	2003	13.2	3.6	3
Burkina Faso	2008	2010	10.7	2.8	2	Kazakhstan	2007	2013	10.8	6.2	6
Cabo Verde	1990	1993	10.7	4.1	3	Kazakhstan	2016	2019	14.4	3.4	3
Cameroon	1974	1980	17.2	4.8	6	Kenya	1981	1987	11.6	7.6	6
Cameroon	1983	1985	16.6	4.5	2	Kenya	1993	1996	46.0	26.8	3
Canada	1981	1985	12.5	7.0	4	Kenya	1997	2002	11.4	3.1	5
Chile	1974	1982	504.7	391.8	8	Korea, Rep	1980	1985	28.7	20.3	5
Chile	1990	2003	26.0	19.5	13	Kyrgyz Rep	1998	2003	10.5	20.6	5
China	1994	1999	24.3	19.2	5	Kyrgyz Rep	2008	2013	24.5	8.2	5
Colombia	1964	1969	17.1	9.9	5	Lao PDR	2003	2006	15.5	6.1	3
Colombia	1991	2006	30.4	23.9	15	Latvia	2007	2011	10.1	8.8	4
Costa Rica	1974	1977	30.1	16.3	3	Lesotho	1992	2005	17.2	11.2	13
Costa Rica	1991	1993	28.7	8.1	2	Lithuania	2008	2015	10.9	7.0	7
Costa Rica	1995	2002	23.2	8.1	7	Luxembourg	1975	1979	10.7	5.4	4
Costa Rica	2005	2016	13.8	11.7	11	Malawi	1995	1997	83.3	26.4	2
Croatia	1992	1996	625.0	744.9	4	Malawi	1999	2003	44.8	22.8	4
Cyprus	1980	1987	13.5	8.8	7	Malawi	2005	2010	15.4	5.8	5
Denmark	1981	1987	11.8	7.3	6	Malawi	2014	2020	23.8	15.2	6
Ecuador	2000	2006	96.1	59.4	6	Malaysia	1974	1976	17.3	6.8	2
Egypt	1965	1968	14.8	8.4	3	Malta	1980	1984	15.7	12.0	4
Egypt	2009	2012	11.8	4.9	3	Mauritius	1974	1977	29.1	8.9	3
Egypt	2017	2020	29.5	12.8	3	Mauritius	1980	1986	42.0	20.7	6
Ethiopia	1970	1972	10.1	2.9	2	Mauritius	1989	1992	12.7	4.4	3
Ethiopia	1977	1982	16.7	16.1	5	Mexico	1987	1993	131.8	100.0	6
Ethiopia	1991	1997	35.7	18.9	6	Mexico	1996	2006	34.4	26.1	10
Ethiopia	2007	2010	17.2	8.0	3	Moldova	2000	2002	31.3	17.8	2
Ethiopia	2011	2015	33.2	14.0	4	Moldova	2007	2010	12.4	7.6	3
Finland	1964	1966	10.3	2.0	2	Mozambique	2017	2019	15.1	8.7	2
Finland	1975	1979	17.8	7.4	4	Myanmar	1966	1970	25.5	16.8	4
Finland	1981	1987	11.3	6.8	6	Myanmar	1974	1978	25.2	27.9	4
France	1975	1977	11.7	2.2	2	Myanmar	1998	2000	51.5	20.1	2
France	1981	1987	13.3	10.1	6	Myanmar	2002	2005	57.1	27.0	3
Ghana	2008	2011	16.5	5.3	3	Nepal	1973	1977	11.4	8.5	4
Ghana	2015	2019	17.1	8.4	4	Nepal	1981	1984	11.1	4.8	3
Greece	1991	2000	19.5	15.5	9	Nepal	1987	1989	10.8	4.2	2
Hong Kong	1990	2000	10.4	13.7	10	Nepal	1991	1994	15.6	5.8	3
Hungary	1995	2005	28.3	18.8	10	Nepal	2009	2018	11.1	5.7	9

Table B.3: Sample of Disinflation Episodes II

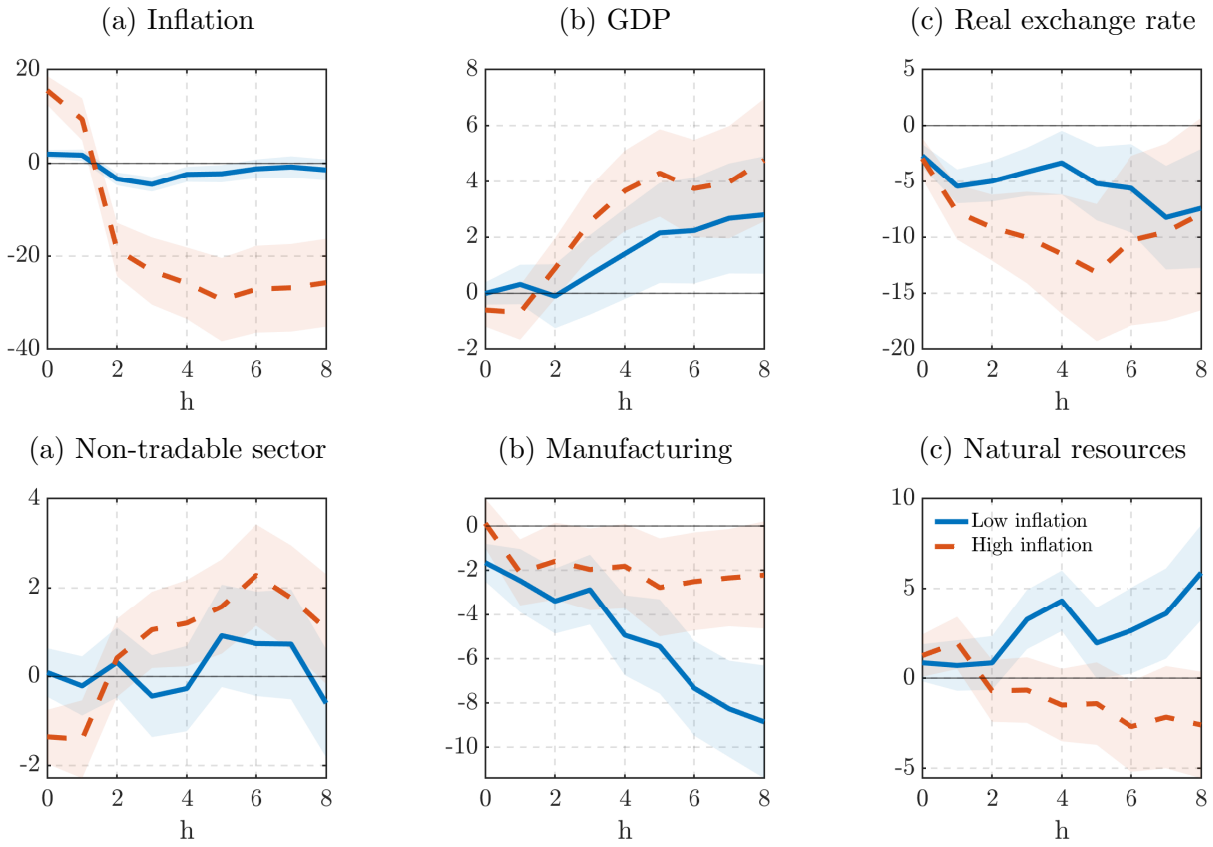
Country	Peak	Trough	Peak trend Inflation	Δ inflation	Duration (years)	Country	Peak	Trough	Peak trend Inflation	Δ inflation	Duration (years)
Netherlands	1975	1978	10.2	4.6	3	Spain	1977	1988	24.5	15.0	11
New Zealand	1981	1984	15.4	6.6	3	Sri Lanka	1974	1976	12.3	6.5	2
New Zealand	1986	1993	13.2	13.4	7	Sri Lanka	1981	1986	18.0	12.6	5
Nigeria	1970	1973	13.8	6.1	3	Sri Lanka	1989	1994	11.6	6.4	5
Nigeria	2004	2007	15.0	7.2	3	Sri Lanka	2007	2010	15.8	10.7	3
Nigeria	2009	2014	12.5	4.1	5	Sweden	1981	1987	12.1	6.7	6
Norway	1975	1978	11.7	2.8	3	Sweden	1990	1993	10.4	5.7	3
Norway	1981	1985	13.6	5.6	4	Tajikistan	2007	2014	13.1	8.9	7
Pakistan	1980	1986	11.9	6.1	6	Tanzania	1968	1971	15.6	9.4	3
Pakistan	1995	2002	12.3	8.6	7	Tanzania	1994	2004	34.1	23.9	10
Pakistan	2009	2016	13.6	12.2	7	Tanzania	2012	2019	16.0	8.8	7
Peru	1989	2002	3398.7	3847.6	13	Thailand	1974	1976	24.3	9.4	2
Philippines	1973	1976	16.6	11.0	3	Thailand	1980	1985	19.7	12.4	5
Philippines	1984	1987	50.3	21.5	3	Turkey	1967	1969	14.0	3.2	2
Poland	1990	2003	567.9	294.4	13	Turkey	1995	2005	89.1	82.8	10
Portugal	1983	1987	24.0	14.0	4	Uganda	2012	2014	12.7	6.9	2
Portugal	1990	1998	13.6	10.3	8	Ukraine	2000	2003	28.2	16.0	3
Romania	1998	2008	59.1	80.5	10	Ukraine	2008	2012	25.2	15.2	4
Russia	1999	2006	85.7	34.3	7	Ukraine	2016	2020	13.9	19.0	4
Russia	2008	2013	14.1	5.0	5	United Kingdom	1975	1978	24.2	6.4	3
Russia	2015	2019	15.5	6.6	4	United Kingdom	1980	1987	18.0	10.5	7
Rwanda	1978	1986	13.3	12.6	8	United States	1974	1977	11.1	2.2	3
Rwanda	2008	2011	15.4	8.1	3	United States	1980	1986	13.5	8.7	6
Rwanda	2012	2014	10.3	2.8	2	Uruguay	1990	2000	112.5	93.4	10
Senegal	1983	1988	11.6	15.4	5	Uruguay	2003	2006	19.4	7.8	3
Singapore	1974	1976	22.4	13.6	2	Vietnam	2011	2016	18.7	10.1	5
Slovak Rep.	2000	2002	12.0	3.6	2	Zambia	2008	2012	12.4	5.5	4
Slovenia	1989	1998	1281.4	670.0	9	Zambia	2015	2018	10.1	4.2	3
South Africa	1990	2000	14.3	9.4	10						

Figure 6: Emerging vs Developed Economies



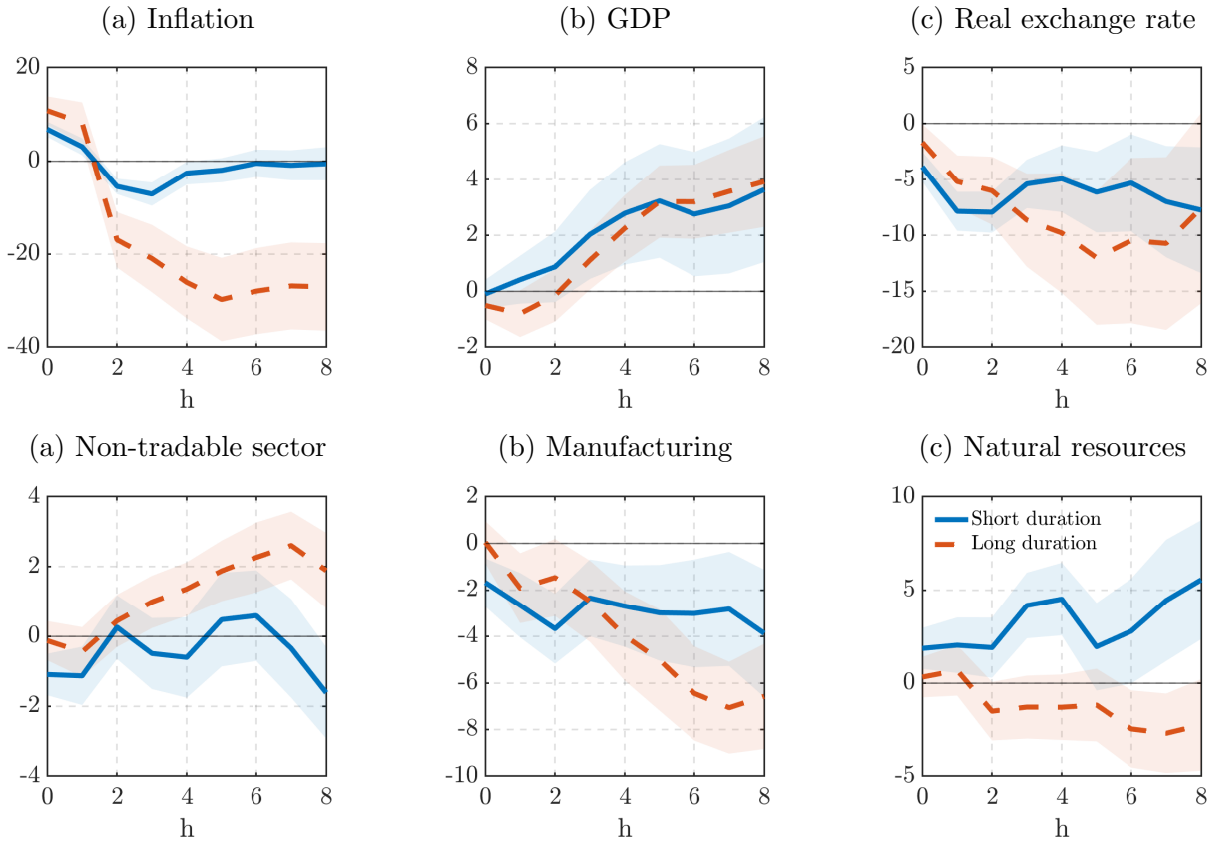
Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \text{Disinflation}_{i,t} + \delta^h \times \text{Disinflation}_{i,t} \times \text{Emerging}_i + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the CPI inflation rate, log of real GDP, log of real exchange rate, log of the value added share of the non-tradable sector, log of the value added share of the manufacturing sector, or log of the value added share of the natural resource-sector, for country i in year t. Disinflation_{it} is a dummy that takes the value of one when a disinflation episode begins in country i at time t; Emerging_i is a dummy that takes the value of one if the country is classified as an emerging economy and zero otherwise. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Blue solid line shows the estimated dynamics of these variables following disinflations in advanced economies ($\hat{\beta}^h$); red shaded line shows the estimated dynamics in emerging economies ($\hat{\beta}^h + \hat{\delta}^h$). Error bands represent 68% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.

Figure 7: Initial inflation levels



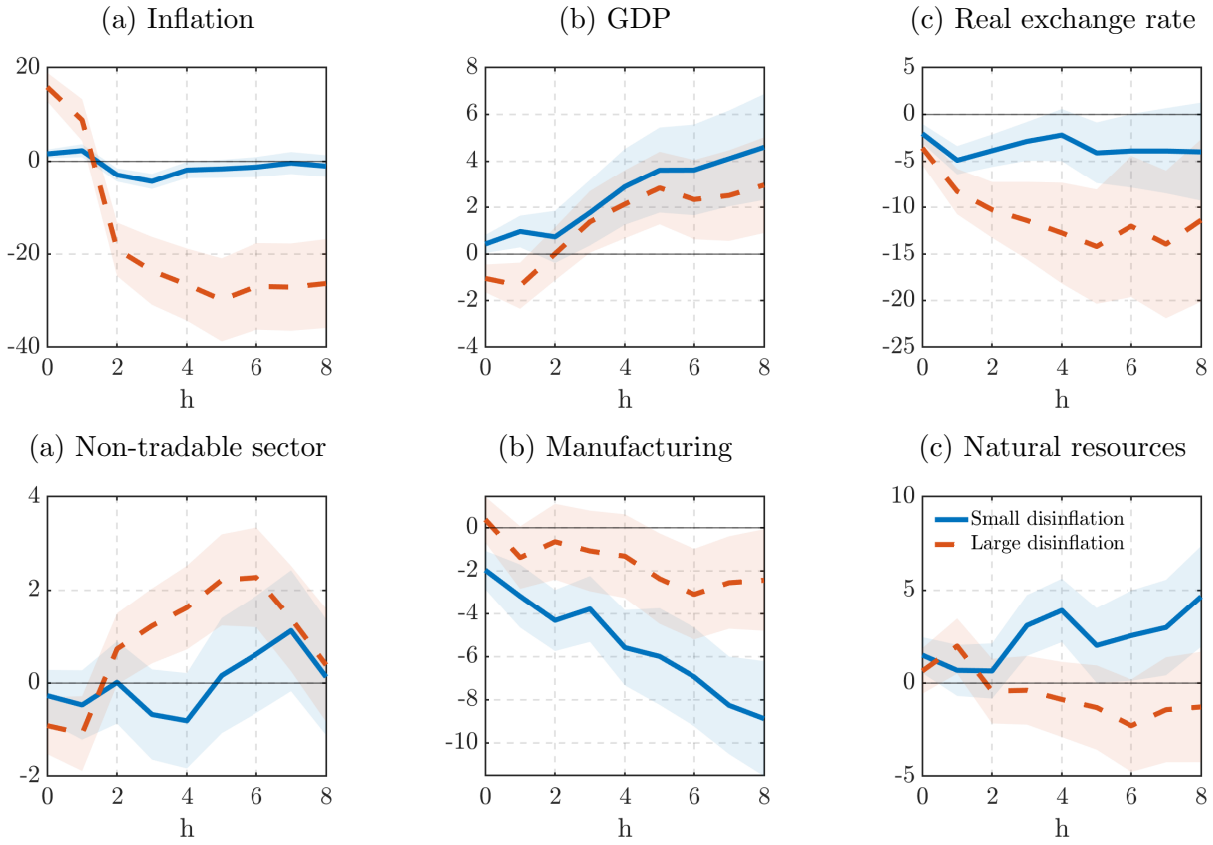
Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \text{Disinflation}_{i,t} + \delta^h \times \text{Disinflation}_{i,t} \times \text{High inflation}_{i,t} + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the CPI inflation rate, log of real GDP, log of real exchange rate, log of the value added share of the non-tradable sector, log of the value added share of the manufacturing sector, or log of the value added share of the natural resource-sector, for country i in year t. Disinflation_{it} is a dummy that takes the value of one when a disinflation episode begins in country i at time t; $\text{High inflation}_{it}$ is a dummy that takes the value of one if inflation at the peak of the disinflation episode is above the median of disinflation episodes and zero otherwise. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Blue solid line shows the estimated dynamics of these variables following disinflations with low initial inflation levels ($\hat{\beta}^h$); red shaded line shows the estimated dynamics following disinflation with high inflation levels ($\hat{\beta}^h + \hat{\delta}^h$). Error bands represent 68% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.

Figure 8: Long vs Short duration



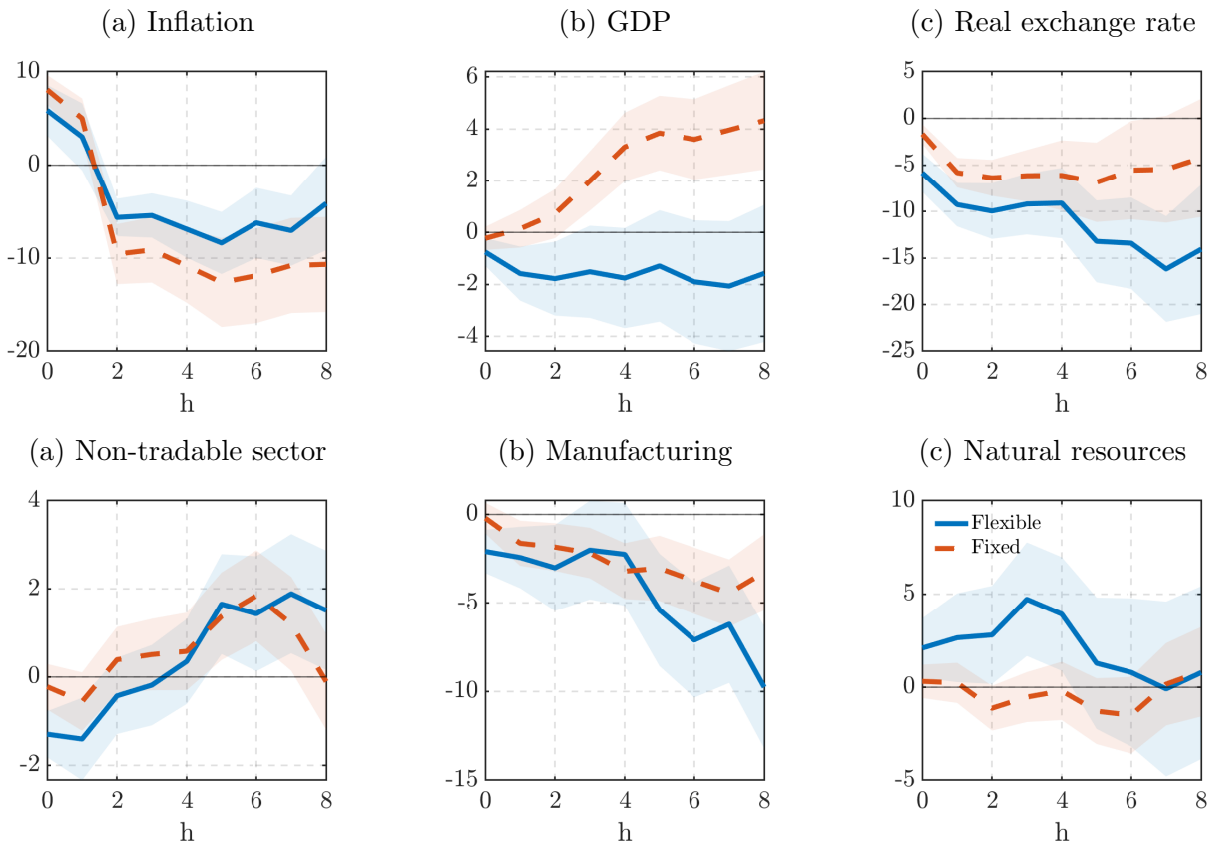
Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \text{Disinflation}_{i,t} + \delta^h \times \text{Disinflation}_{i,t} \times \text{Duration}_{i,t} + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the CPI inflation rate, log of real GDP, log of real exchange rate, log of the value added share of the non-tradable sector, log of the value added share of the manufacturing sector, or log of the value added share of the natural resource-sector, for country i in year t. Disinflation_{it} is a dummy that takes the value of one when a disinflation episode begins in country i at time t; Duration_{it} is a dummy that takes the value of one if the disinflation episode's duration is above the median and zero otherwise. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Blue solid line shows the estimated dynamics of these variables following disinflations with short duration ($\hat{\beta}^h$); red shaded line shows the estimated dynamics following disinflations with high duration ($\hat{\beta}^h + \hat{\delta}^h$). Error bands represent 68% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.

Figure 9: Large vs Small disinflations



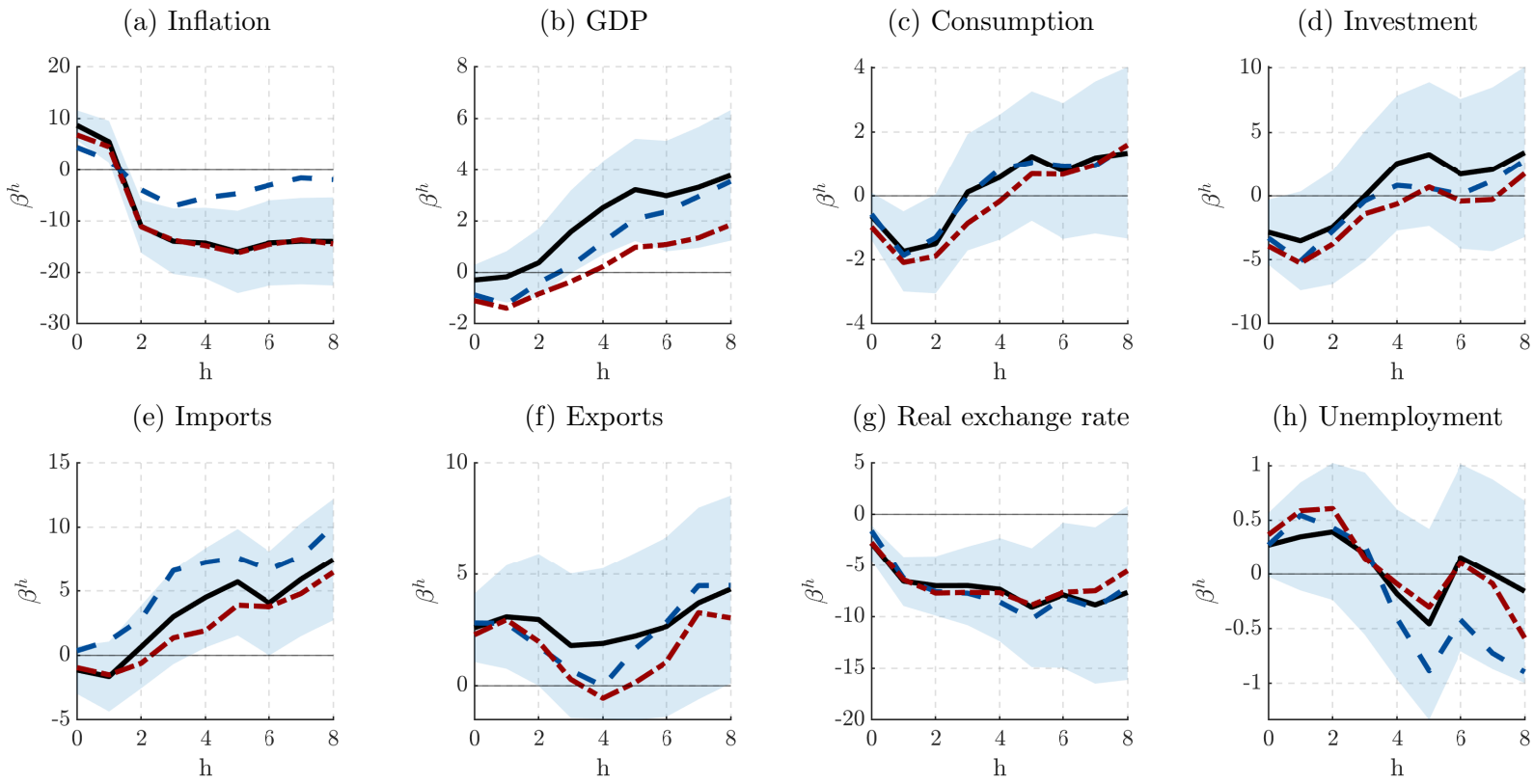
Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \text{Disinflation}_{i,t} + \delta^h \times \text{Disinflation}_{i,t} \times \text{Large}_{i,t} + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the CPI inflation rate, log of real GDP, log of real exchange rate, log of the value added share of the non-tradable sector, log of the value added share of the manufacturing sector, or log of the value added share of the natural resource-sector, for country i in year t. Disinflation_{it} is a dummy that takes the value of one when a disinflation episode begins in country i at time t; Large_{it} is a dummy that takes the value of one if the change in inflation between peak and through for each episode is above the median of disinflation episodes and zero otherwise. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Blue solid line shows the estimated dynamics of these variables following large disinflations ($\hat{\beta}^h$); red shaded line shows the estimated dynamics following small disinflations ($\hat{\beta}^h + \hat{\delta}^h$). Error bands represent 68% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.

Figure 10: Fixed vs flexible exchange rate regime



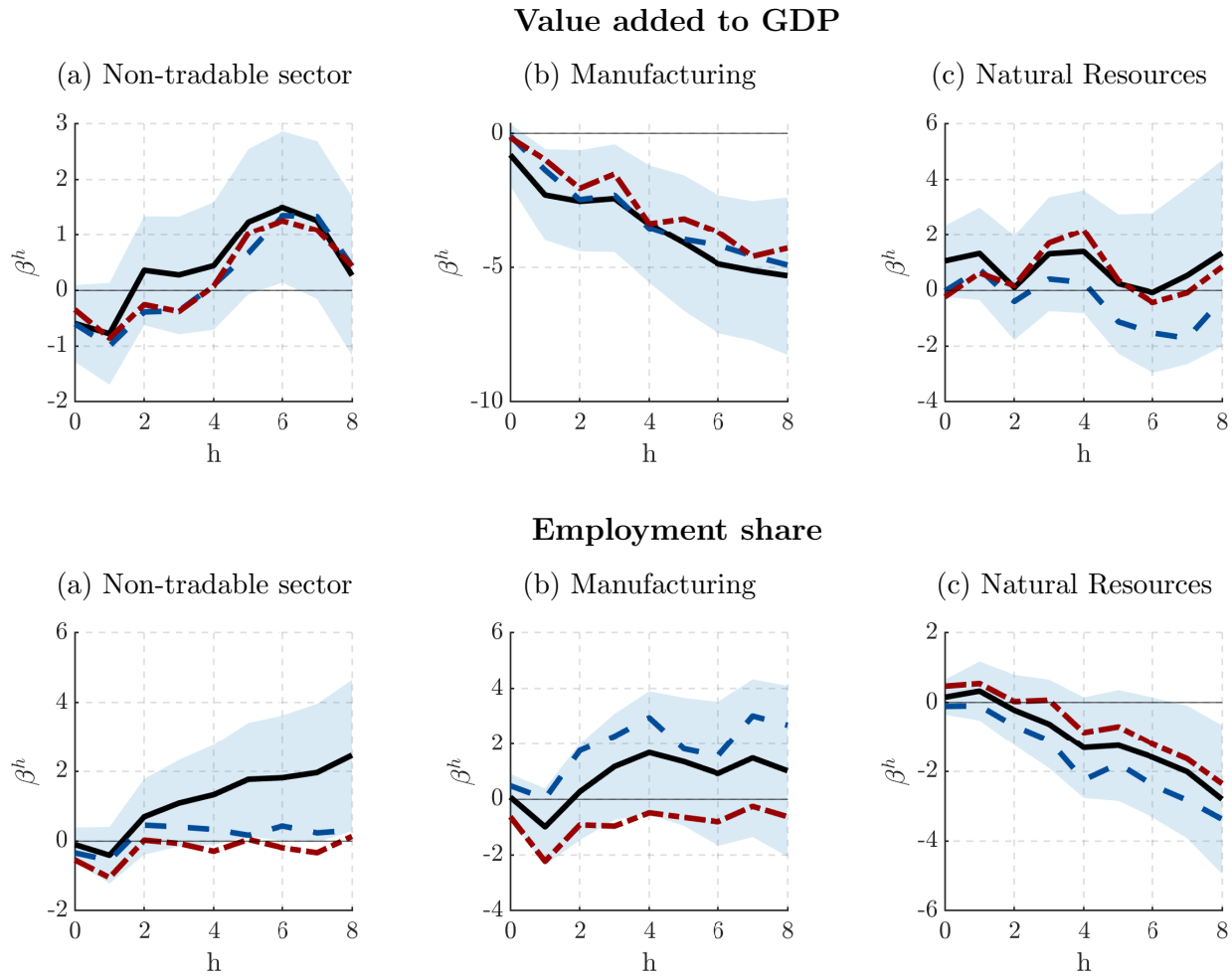
Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \text{Disinflation}_{i,t} + \delta^h \times \text{Disinflation}_{i,t} \times \text{Emerging}_{i,t} + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the CPI inflation rate, log of real GDP, log of real exchange rate, log of the value added share of the non-tradable sector, log of the value added share of the manufacturing sector, or log of the value added share of the natural resource-sector, for country i in year t. Disinflation_{it} is a dummy that takes the value of one when a disinflation episode begins in country i at time t; Fixed_{it} is a dummy that takes the value of one if the disinflation episode coincides with a fixed exchange rate and zero otherwise. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Blue solid line shows the estimated dynamics of these variables following disinflations with a flexible exchange rate regime ($\hat{\beta}^h$); red shaded lineshowsw the estimated dynamics following disinflations with a fixed exchange rate regime ($\hat{\beta}^h + \hat{\delta}^h$). Error bands represent 68% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.

Figure 11: Macro dynamics during disinflations - Alternative models



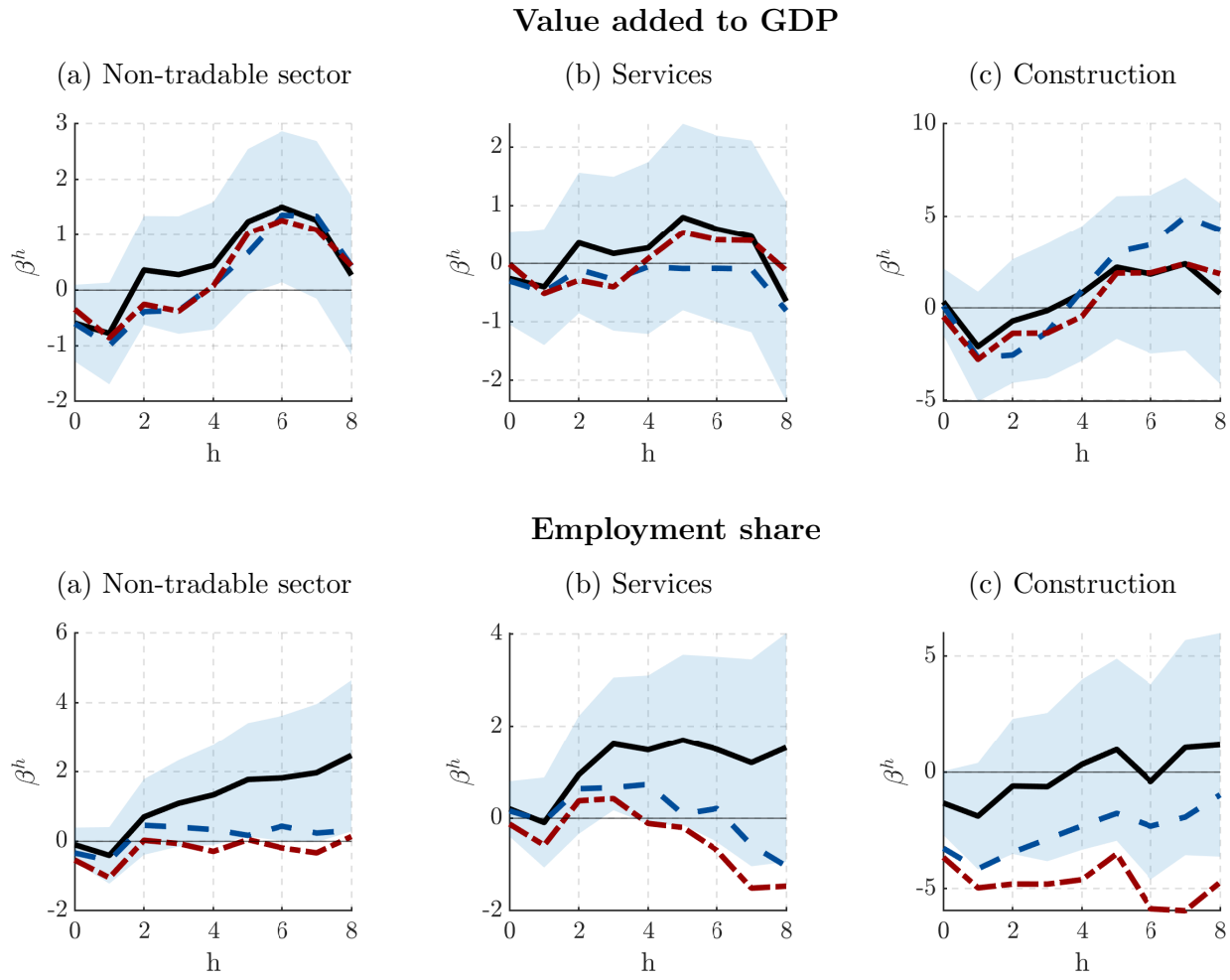
Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times Disinflation_{i,t} + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the CPI inflation rate, log of real GDP, log of real consumption, log of real investment, log of real imports, log of real exports, log of the real exchange rate, or the unemployment rate for country i in year t. Disinflation$_{it}$ is a dummy that takes the value of one when a disinflation episode begins in country i at time t. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Panels (a)–(h) display the estimated responses to disinflation episodes ($\hat{\beta}^h$) for the baseline specification (black solid line), alternative model I (blue shaded line), and alternative model II (red dashed line). Shaded areas represent 68% and 90% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.

Figure 12: Sectoral dynamics during disinflations - Alternative models



Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \text{Disinflation}_{i,t} + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the log of the value added share of the non-tradable sector, log of the value added of the manufacturing sector, log of the value added of the natural-resources sector, log of the employment share of the non-tradable sector, log of the employment share of the manufacturing sector, ot the log of the employment share of the natural-resources sector, for country i in year t. Disinflation_{it} is a dummy that takes the value of one when a disinflation episode begins in country i at time t. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Panels (a)–(h) display the estimated responses to disinflation episodes ($\hat{\beta}^h$) for the baseline specification (black solid line), alternative model I (blue shaded line), and alternative model II (red dashed line). Shaded areas represent 68% and 90% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.

Figure 13: Sectoral dynamics during disinflations - Services vs Construction - Alternative models



Notes: This figure reports the results from estimating the following regression $z_{i,t+h} - z_{i,t-1} = \alpha_i^h + \lambda_t^h + \beta^h \times \text{Disinflation}_{i,t} + \gamma^h \times X_{i,t-1} + \varepsilon_{i,t+h}$, for horizons $h \geqslant 0$. The dependent variable z_{it} denotes the log of the value added share of the non-tradable sector, log of the value added of the service sector, log of the value added of the construction sector, log of the employment share of the non-tradable sector, log of the employment share of the service sector, ot the log of the employment share of the construction sector, for country i in year t. Disinflation_{it} is a dummy that takes the value of one when a disinflation episode begins in country i at time t. The regression includes country fixed effects α_i, time fixed effects λ_t, and the set of controls described in Section 2.3. Panels (a)–(h) display the estimated responses to disinflation episodes ($\hat{\beta}^h$) for the baseline specification (black solid line), alternative model I (blue shaded line), and alternative model II (red dashed line). Shaded areas represent 68% and 90% confidence intervals. Further details on the identification of disinflation episodes are provided in Section 2.2. For additional information on variables and data sources, see Appendix A.