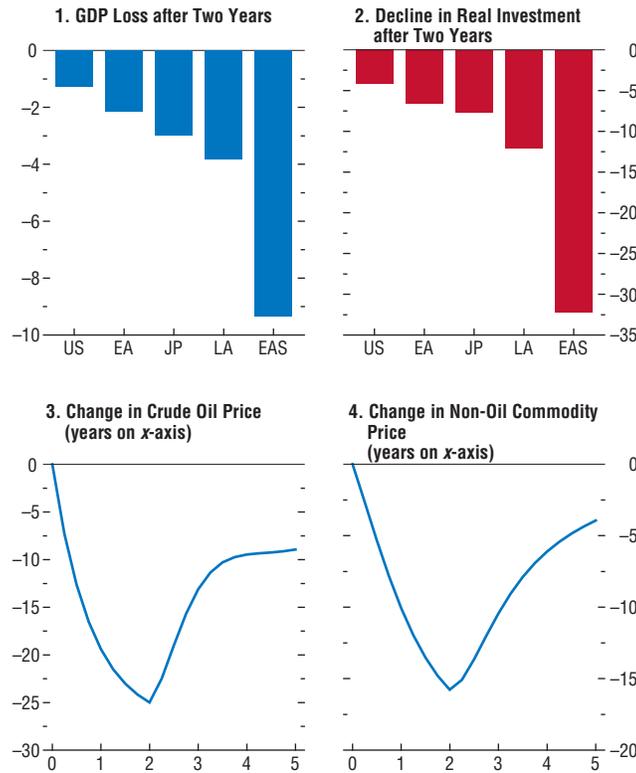


Figure 1.16. WEO Downside Scenario for a Reevaluation of Potential Output Growth in Emerging Market Economies

(Percent or percentage point deviation from WEO baseline)

This scenario uses a six-region version of the Global Economy Model (GEM) to estimate the global impact of a reevaluation of potential output growth in emerging market economies that also leads to slower credit growth. Here credit growth in emerging Asia is lower by 3 percent each year over five years relative to the path implicit in WEO projections. The scenario also assumes that the level of potential GDP in emerging Asia is lower in the long term by roughly 10 percent, since investment was previously based on overly optimistic expectations of growth in external demand. In this scenario, lower demand from emerging Asia causes a fall in commodity prices, which has an adverse impact on emerging markets, particularly Latin America. Expectations about potential growth are downgraded for these economies, and the level of potential output is reduced by about 5 percent in the long term, with a proportionate slowing in credit growth. In advanced economies, there is also a mild slowing in credit growth, and the monetary policy response to the external shock is assumed to be constrained, as policy rates are at the zero lower bound. The macroeconomic implications of this scenario are presented below.



Source: GEM simulations.

¹ US: United States; EA: euro area; JP: Japan; LA: Latin America; EAS: emerging Asia.