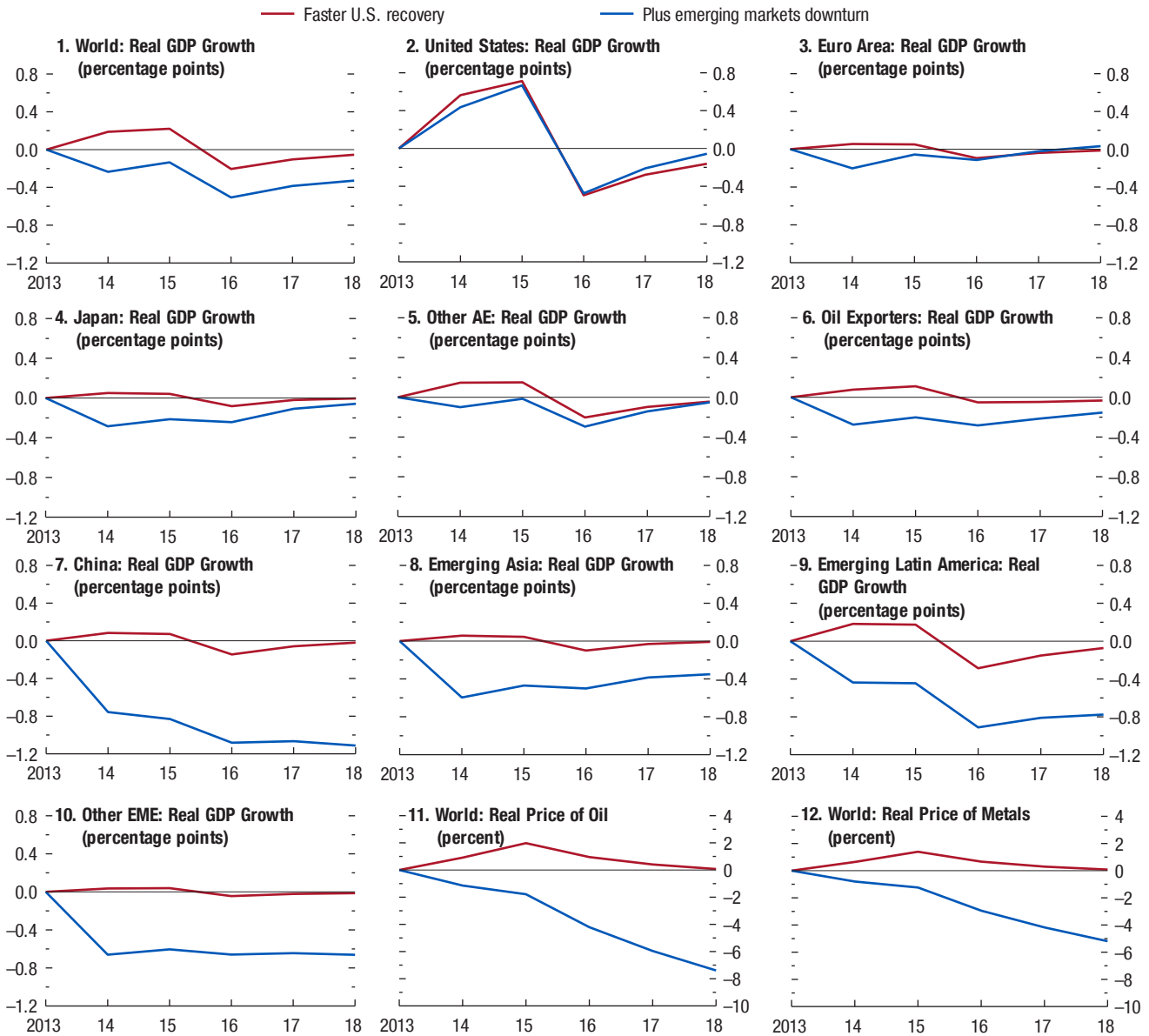


**Figure 1.15. Slower Growth in Emerging Market Economies and a Faster Recovery in the United States**  
(Percent or percentage point deviations from the WEO baseline)

Two scenarios generated with G20MOD, the IMF's model of the Group of Twenty (G20), are used here to explore the potential implications of a faster U.S. recovery, coupled with notably slower growth in emerging market economies. In the first scenario (red lines), a faster-than-baseline U.S. recovery leads the Federal Reserve to withdraw monetary stimulus faster than in the baseline. In the second scenario (blue lines), weaker-than-baseline investment growth (roughly 3 percentage points a year below baseline) in G20 emerging market economies is the key driver of the weaker growth outcomes. This weaker investment could arise because of revised expectations of growth in these economies' export markets, a correction from a past period of overinvestment, or an expectation of a higher future cost of capital. In the first scenario, the faster U.S. growth and the positive spillovers to U.S. trading partners lead to an increase in global output growth in 2014 and 2015 of about 0.2 percentage point. Although the

change in interest rates is the same across emerging markets, because of spillovers, effects on real GDP are strongest for Latin America, followed by emerging Asia and then other emerging markets. The front-loading of the U.S. recovery leads to growth falling slightly in subsequent years. In the second scenario, as a result of lower investment growth and its knock-on effects through labor income and private consumption demand, real GDP growth declines relative to baseline on average by close to 1 percentage point a year in China and 0.6 percentage point in most other emerging markets. Among the Group of Three (G3), Japan is hit the hardest by the spillovers, owing to both integration with emerging Asia and the fact that it has little monetary policy space with which to respond. The euro area comes next, as limited monetary policy also contains the extent to which the impact can be offset. The United States, being the least integrated with emerging markets, has the smallest spillover among the G3.



Source: G20MOD simulations.  
Note: AE = advanced economies; EME = emerging market economies.