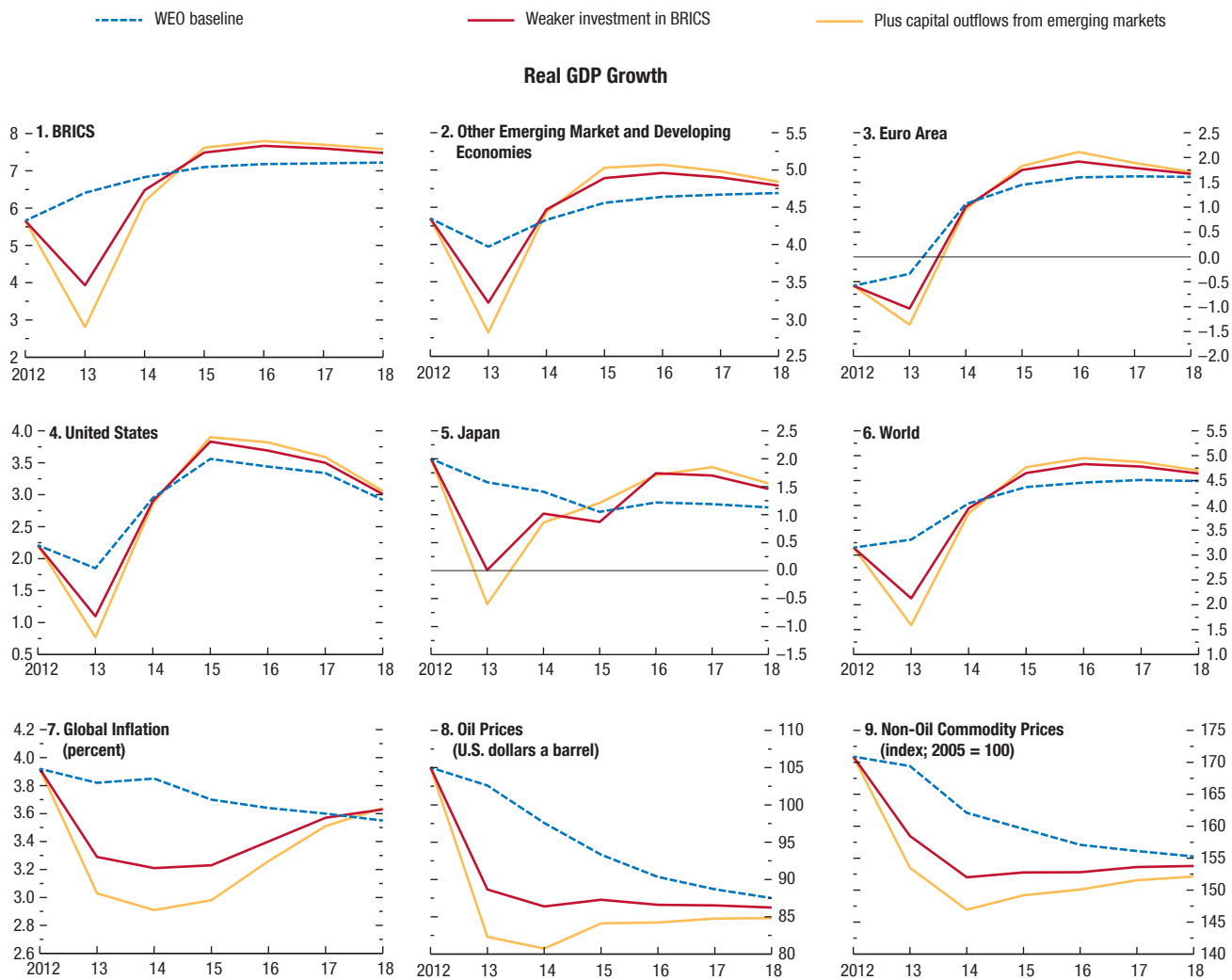


Figure 1.17. Emerging Market Downside Scenarios
(Percent, unless noted otherwise)

These scenarios are simulated using EUROMOD, a new IMF model of the global economy, and consider the implications of weaker private investment in emerging market economies as well as capital outflows. Given that private investment demand in emerging market economies has surprised on the downside recently, the first scenario (red line) has investment demand in the BRICS 10 percent below the WEO baseline level in 2013, but recovering fairly quickly back to baseline by 2016.

In the second scenario (yellow line), in addition to the fall in investment, capital outflows from emerging market economies lead to a sharp tightening in financial conditions. In the BRICS, sovereign and corporate risk premiums rise sharply in 2013, while the tightening in financial conditions in other emerging market economies is roughly half the magnitude of that in the BRICS. The tightening in financial conditions is short lived, with risk premiums back to baseline levels by 2016.



Source: IMF staff estimates.
 Note: BRICS = Brazil, Russia, India, China, South Africa.