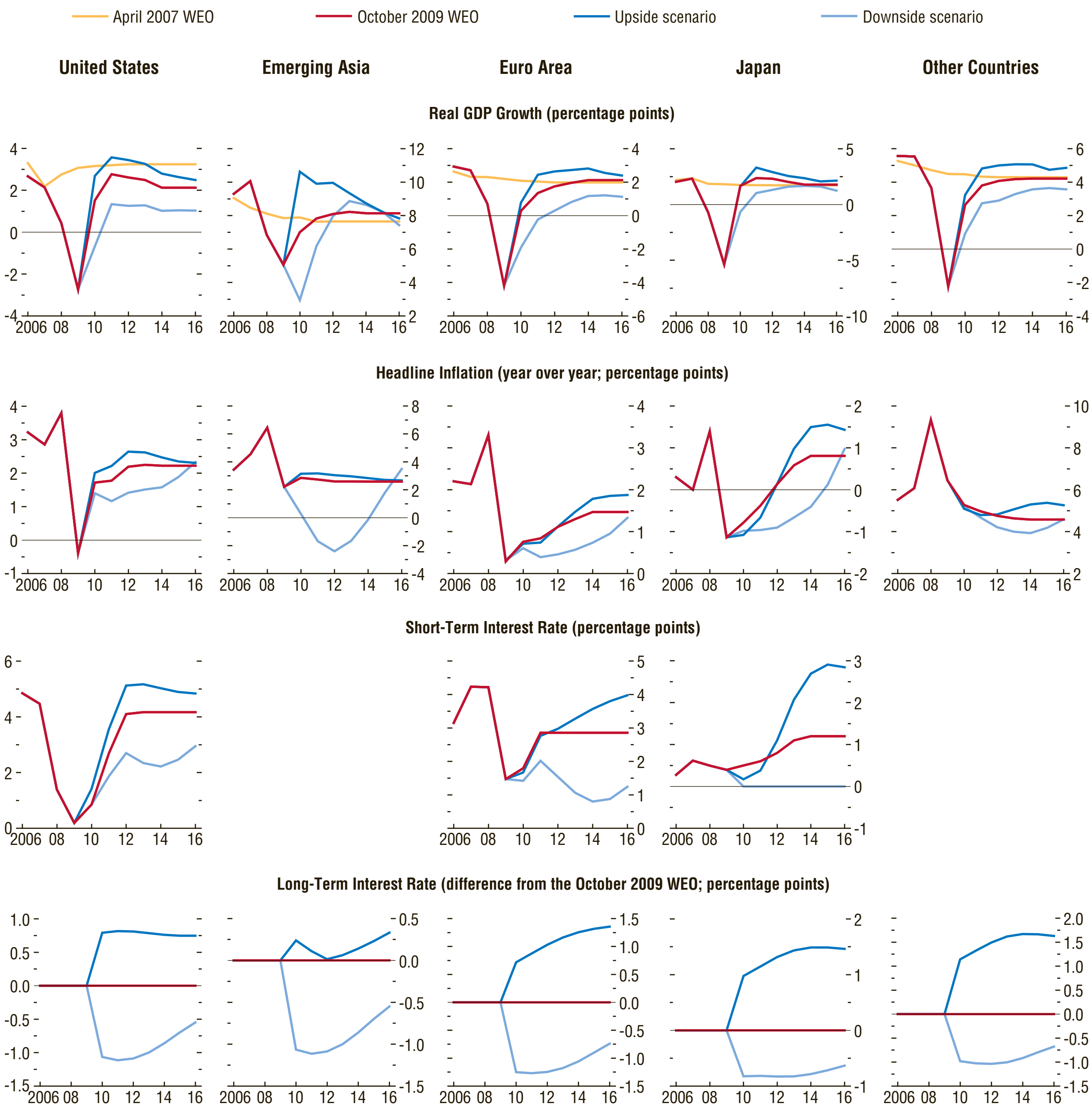
Figure 1.15. Global Scenarios

(All variables in levels, unless otherwise stated; years on x-axis)

From a policy perspective, key questions are: How might various risks interact with the challenges posed by rebalancing? And what can policymakers do to prevent significant damage to global growth? In the *upside scenario,* the major economies make rapid progress in fixing their financial systems, and emerging Asia is assumed to forcefully pursue policies to raise consumption, while following flexible exchange rate policies that provide room for sustained appreciation of both real and nominal exchange rates. Under this scenario, world GDP growth is about 1.3 percentage points higher starting in 2010. The *downside scenario* assumes that the process of restoring financial system health in the major advanced economies will be even slower than in the *World Economic Outlook* (WEO) baseline and various economic policy missteps exacerbate output losses. Under this scenario, world GDP growth is about 2.2 percentage points lower starting in 2010. The goal of global current account rebalancing is even farther from resolution, as emerging Asia's current account moves into larger surplus and the United States and the euro area experience current account deterioration.



Source: Global Integrated Monetary and Fiscal Model simulations.