A synchronous shock has nonnegligible effects across the advanced economies. Japan is particularly susceptible to emerging market economies’ growth shock, and the United Kingdom is the least affected by the shock. Spillovers are transmitted mainly through the trade channel, given the assumption that risk premiums in advanced economies are not affected by the growth downturn in emerging market economies. However, simulation-based estimates from this model are likely to be on the high side, because monetary policy response across advanced economies to a slowdown in emerging market economies is constrained by the zero bound on nominal interest rates.

Source: IMF staff calculations.

Note: “Baseline” refers to the baseline simulation. “Alternative” refers to results from simulation in which a negative growth shock to emerging market economies is accompanied by a rise in the sovereign risk premium of 200 basis points and a rise in the corporate risk premium of 400 basis points.