

Comments to:
**“TOWARDS RECOUPLING? ASSESSING THE IMPACT OF A
CHINESE HARD LANDING: THE ROLE OF COMMODITIES”,**
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SUMMARY



- **What does the paper do?**

1. Discuss China's growth prospects arguing that the probability of a **hard landing scenario** is high
2. Estimate a **GVAR model** with 36 countries to assess the impact of alternative scenarios for China, paying special attention to the commodity exporters accounting for two transmission channels: exports and investment.

- **What does the paper conclude?**

1. A hard landing scenario for China would have a **huge impact on the global economy**. World growth would fall from 5% to less than 2,5%.
2. **Latin America would be the hardest hit**, followed by Asia.
3. **Almost complete recoupling** as the growth gap between ADV and EMEs would be considerably reduced.

GENERAL ASSESSMENT



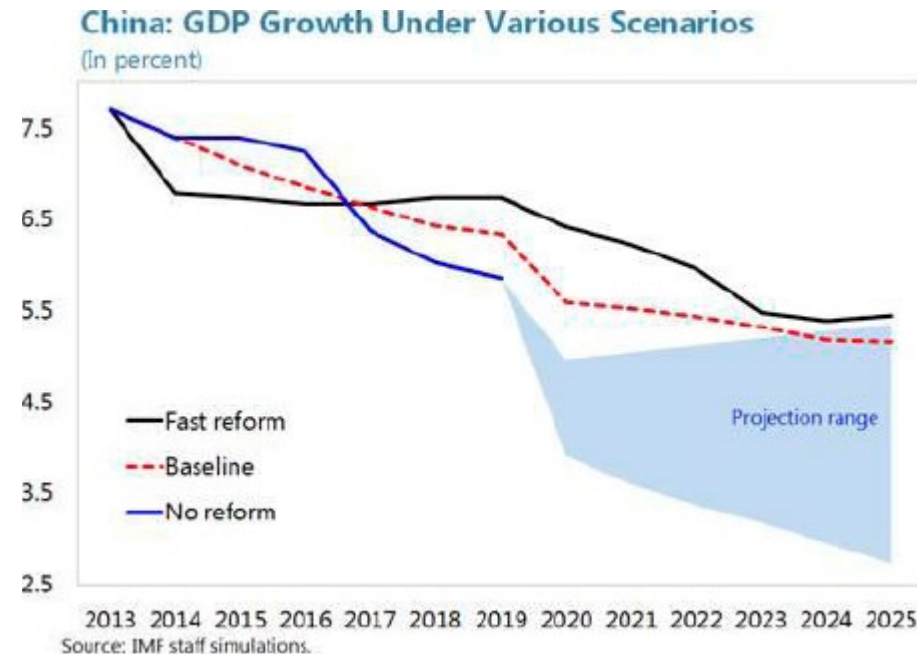
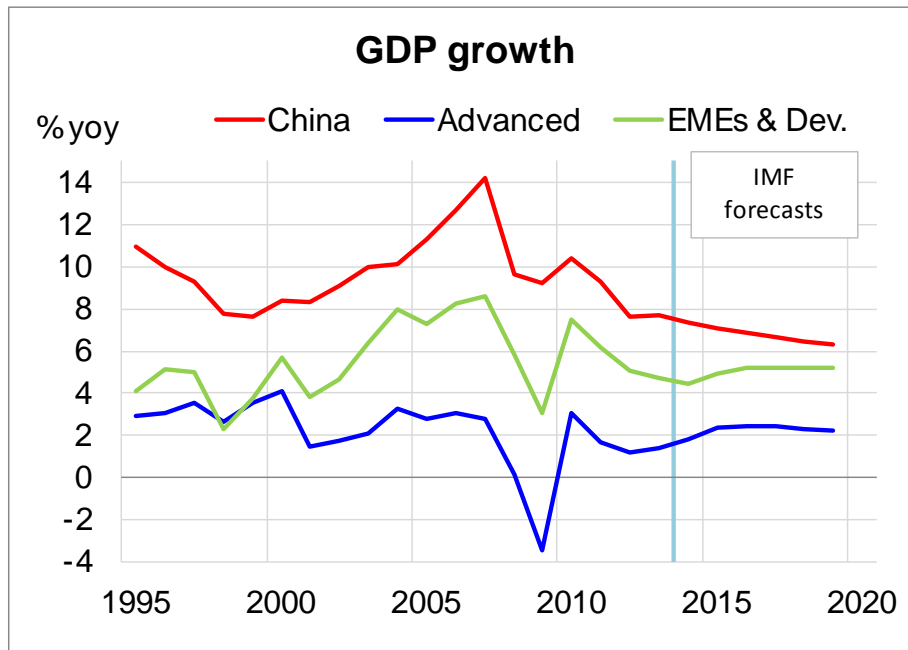
- Very relevant and timely
- Nice methodological approach: Global GVAR with endogenous modeling of oil and metal prices
- Some caveats:
 - Lack of information on scenarios:
 - Central scenario: **hard landing (4%)**,
 - Alternative scenarios: unconditional forecast (10%), soft landing (7%)
 - Hard landing is not the central scenario and the unconditional forecast is difficult to justify
 - Some counterintuitive results

HARD LANDING IN CHINA IS NOT THE CENTRAL SCENARIO

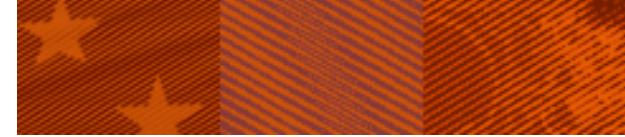


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- “Notwithstanding the rise in vulnerabilities, an abrupt adjustment in the near term is unlikely, given China’s policy buffers”
- “With faster adjustment and reform implementation, growth will be somewhat lower in the near term, with moderate spillovers for trading partners. However, in the medium term, income and consumption will both be higher—a result that is good for China and good for the global economy”

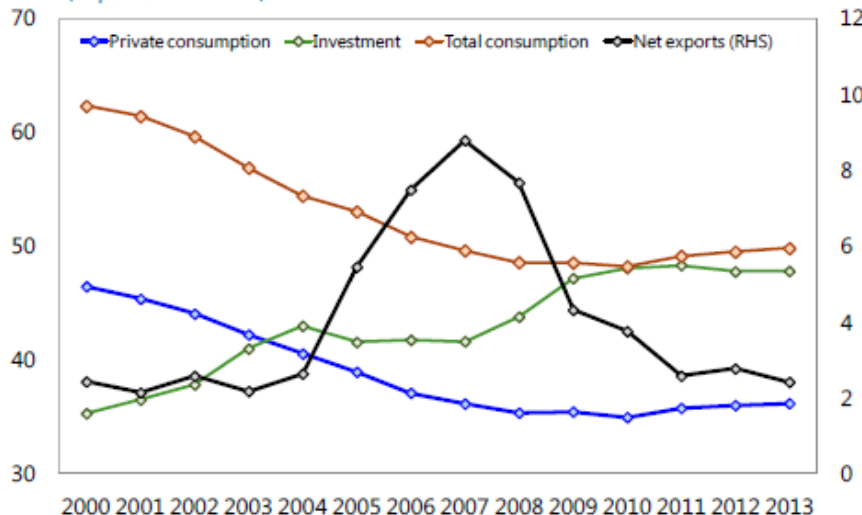


HARD LANDING IN CHINA (I)



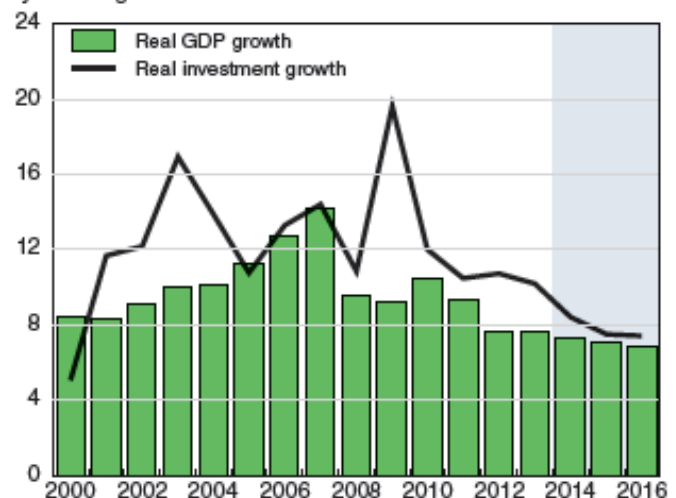
- **Historical rebalancing processes. Limited progress with domestic rebalancing but ...**
 - Strong growth of services relative to manufacturing and rapid increases in household income
- **Overinvestment: yes, in traditional sectors. However:**
 - Investment needs in sectors to support rebalancing (transport infraestructure, education and healthcare) and to upgrade exports quality (aeronautics sector, development of new materials, and high tech equipment)

GDP Expenditure Components
(In percent of GDP¹)



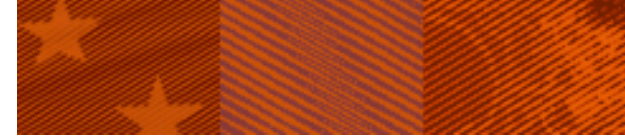
¹ Expenditure-based GDP.

Growth slowed as its major driver slackened
Y-o-y % changes



Source: CEIC; and OECD Economic Outlook 96 database.

HARD LANDING IN CHINA (II)



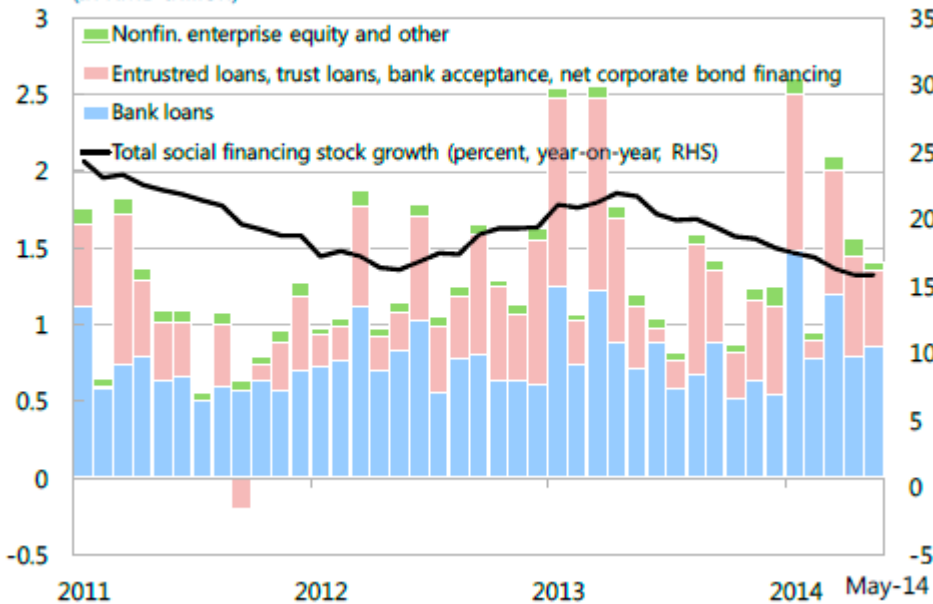
- **Unsustainable debt trends:**

- Household and government sector at moderate levels. Local government audit and recent reforms to issue debt.
- Growth in TSF declined, as “shadow banking” expanded at a slower pace

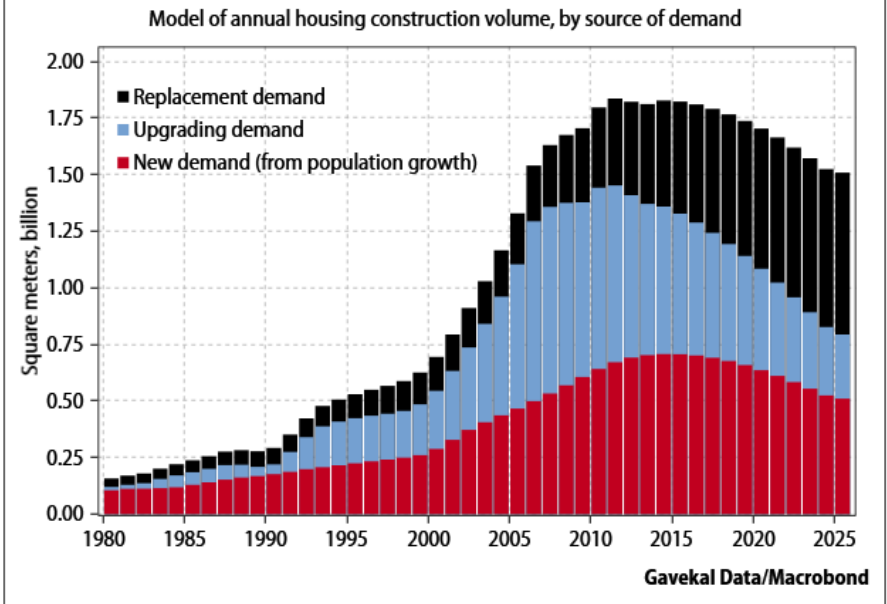
- **Growing real state bubble: maybe but ...**

- Support factors: urbanization, household formation, replacement demand, improving household income growth.

Social Financing Flow
(In RMB trillion)



The drop in China's housing demand will come mainly from upgrading

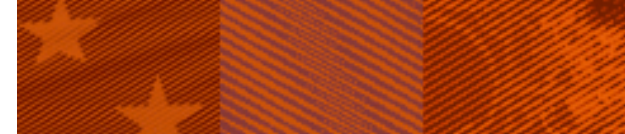


THE MODEL



- **Description of the unconditional scenario. How does the path of China look like in each scenario?**
 - The soft landing scenario is the baseline for most analysts of the Chinese economy. How does the unconditional scenario compares with the soft landing scenario?
- **Oil allowed to impact on Russia:**
 - Is oil not included as determinant for other oil exporters (Mex, Can, Nor)?
 - Is it not included in the case of oil importers?
- **Other characteristics:**
 - Absence of policy responses (except through REER) in the model
 - Symmetry: Comparison with abundant literature dealing with expansion of China.
 - Linearity: Huge differences between hard and soft landing scenarios

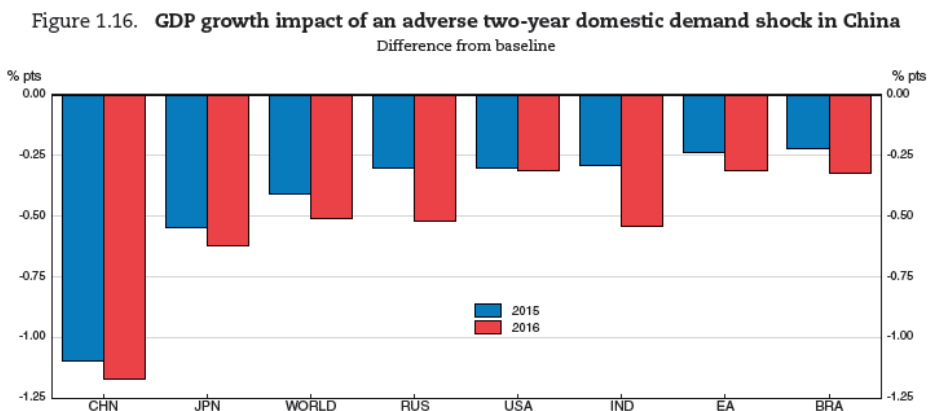
RESULTS (I)



- **Positive impact on advanced economies difficult to justify**
- **Substantial differences between the impact of hard landing and soft landing scenarios point to non-linear effects**

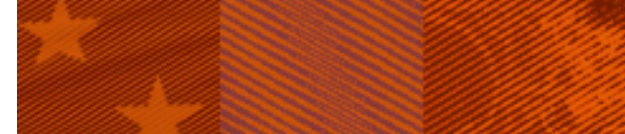
Median cumulated growth lost after 5 years for each region (in %)

| Region | Hard Landing | Soft Landing |
|--------------------------------|--------------|--------------|
| Advanced | 0.6 | 1.4 |
| Asia | -15.5 | -6.5 |
| Asia (ex. China) | -6.3 | -1.3 |
| Emerging Asia | -18.2 | -8.1 |
| Emerging Asia (ex. China) | -7.2 | -2.1 |
| Advanced Asia | -4.6 | -0.1 |
| ASEAN | -10.7 | -2.7 |
| Emerging Countries | -14.9 | -6.0 |
| Emerging Countries (ex. China) | -8.5 | -2.0 |
| Other emerging countries | -8.2 | -1.4 |
| Euro Area | -2.9 | 0.6 |
| Latin America | -9.0 | -3.0 |
| World | -7.8 | -2.6 |
| World (ex. China) | -2.9 | 0.0 |

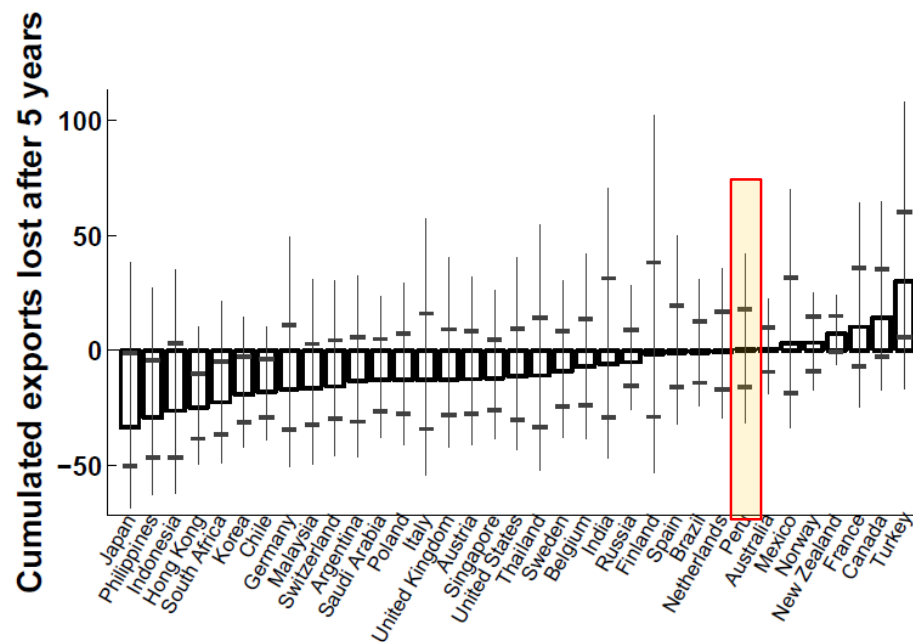
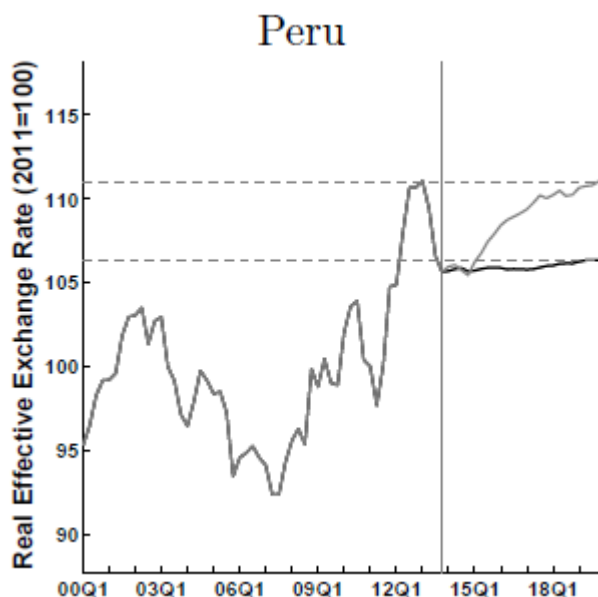


Note: Based on a decline of 2 percentage points in the growth rate of domestic demand in China for two years; a reduction of 10% in global equity prices and a 20 basis point increase in the equity risk premium in all countries.
Source: OECD Economic Outlook 96 database; and OECD calculations.

RESULTS (II)



- Peru: real appreciation but no effect on exports
- Other countries (Chile, SA, Indonesia,...): real depreciation and contraction in exports

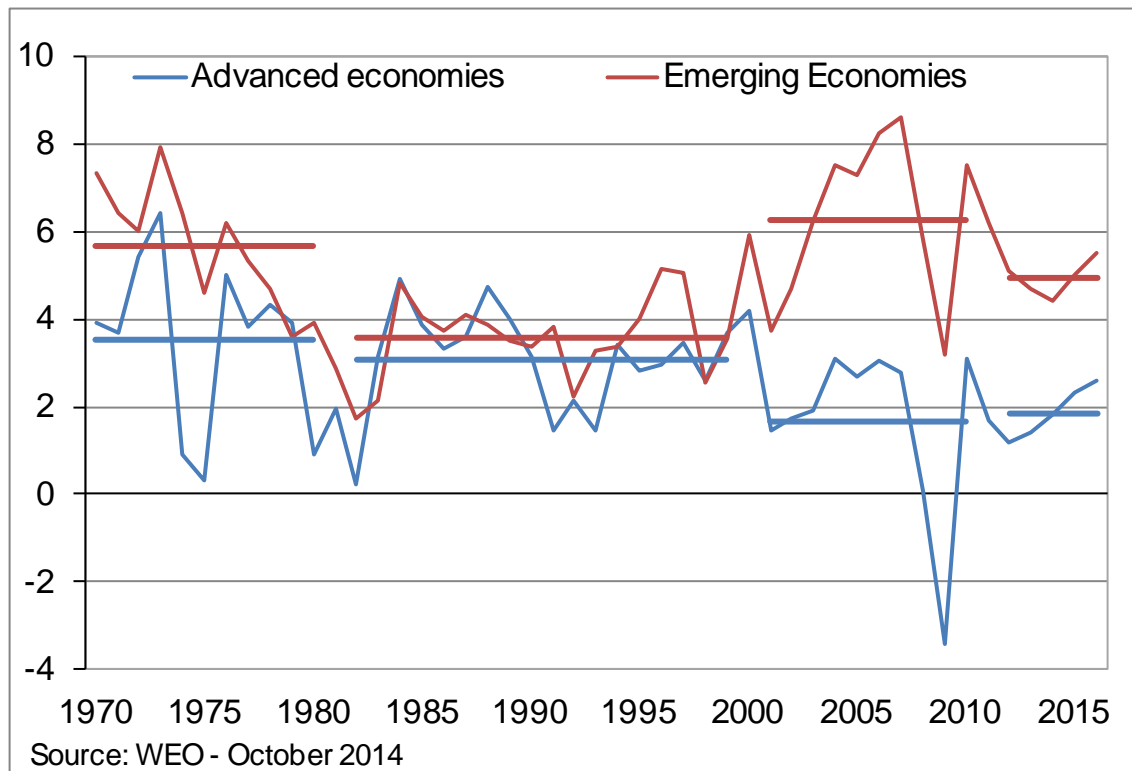


— unconditional forecast — conditional forecast

RESULTS (III)



- **Recoupling with pending catching up processes?**
- **80's and 90's: parentheses in the catching-up process, recurrence of financial crises**





THANK YOU

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