

Discussion of "Towards Recoupling? Assessing the Global Impact of a Chinese Hard Landing through Trade and Commodity Price Channels" by Gauvin and Rebillard

L. Vanessa Smith

University of York

Presentation at the BoC/ECB Conference, Ottawa

08 June 2015

What the paper does

- Explores the potential spillovers of a Chinese hard landing on the global economy with a particular focus commodity exporters and the commodity price channel.
- For this purpose it employs a GVAR model with 36 countries over the period 1995Q1-2014Q3 including for each country the variables: GDP, inflation, real investment, real exports and the effective exchange rate.
- Commodity markets are embedded in the GVAR framework by adding two "commodity blocks" for metals and energy.
- Point estimates of conditional forecasts are then computed to assess the impact of a hard landing scenario compared to the baseline soft landing scenario.

Comments (I)

- This is an interesting paper that addresses a topical question, which I enjoyed reading.
- It is well written, in a detailed and meticulous manner.
- It uses a multi-country model as appropriate in the given context.
- The authors have done a good job in ensuring that the relevant channels of transmission are taken into account through the selection of appropriate variables and feedback channels as well as the inclusion of the extra blocks.

Comments (II)

- What is the role of financial markets in the story? Inclusion of equity prices and long rates.
- The authors mention possible scenarios such as the rise in the Fed's interest rates. It would be interesting to include these in the current study by adding the interest rate.
- In computing the conditional forecasts the authors take into account parameter uncertainty through bootstrapping.
- Other important sources of uncertainty when computing forecasts is future uncertainty and model uncertainty.

Comments (III)

- Probability forecasts could be computed as a way of characterising the various uncertainties that are associated with events of interest.
- These are superior to the conventional way of trying to deal with this problem through the use of confidence intervals.
- Probability forecasts allow to consider both single events and joint events for example that growth remains within a given target band and the economy going into recession over various time frames.

Comments (IV)

- The model specification used is clearly one amongst many possible models that could be used to provide point estimates/probability forecasts.
- To address the issue of model uncertainty model averaging techniques could be adopted. What weights to use? Empirical evidence suggests equal weights typically hard to beat.
- The most important sources of uncertainty in this context are the order of the VAR, p , the number of the long-run (or cointegrating) relations, r , the validity of any over-identifying restrictions imposed on the long-run coefficients.
- So then for example different choices of the number of cointegrating relations are regarded as different models.