

Evolving Prospect for the Global Economy, China's New Normal and its Relevance to Mongolia

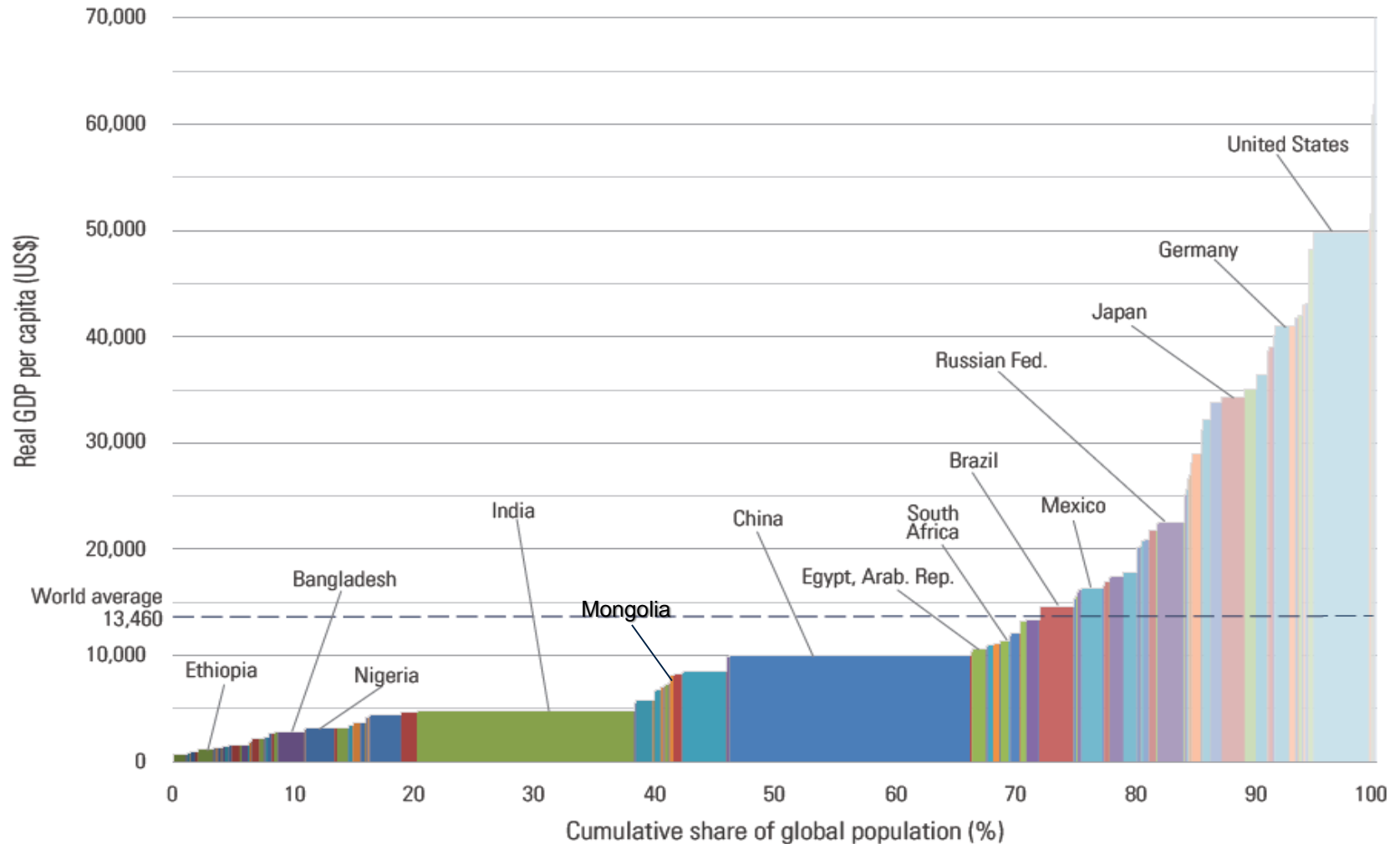
Presentation at the Economic research
Institute Mongolia

Bert Hofman, World Bank

Ulaanbaatar, March 25 2016

THE WORLD ECONOMY IN THE SHORT AND (VERY) LONG RUN

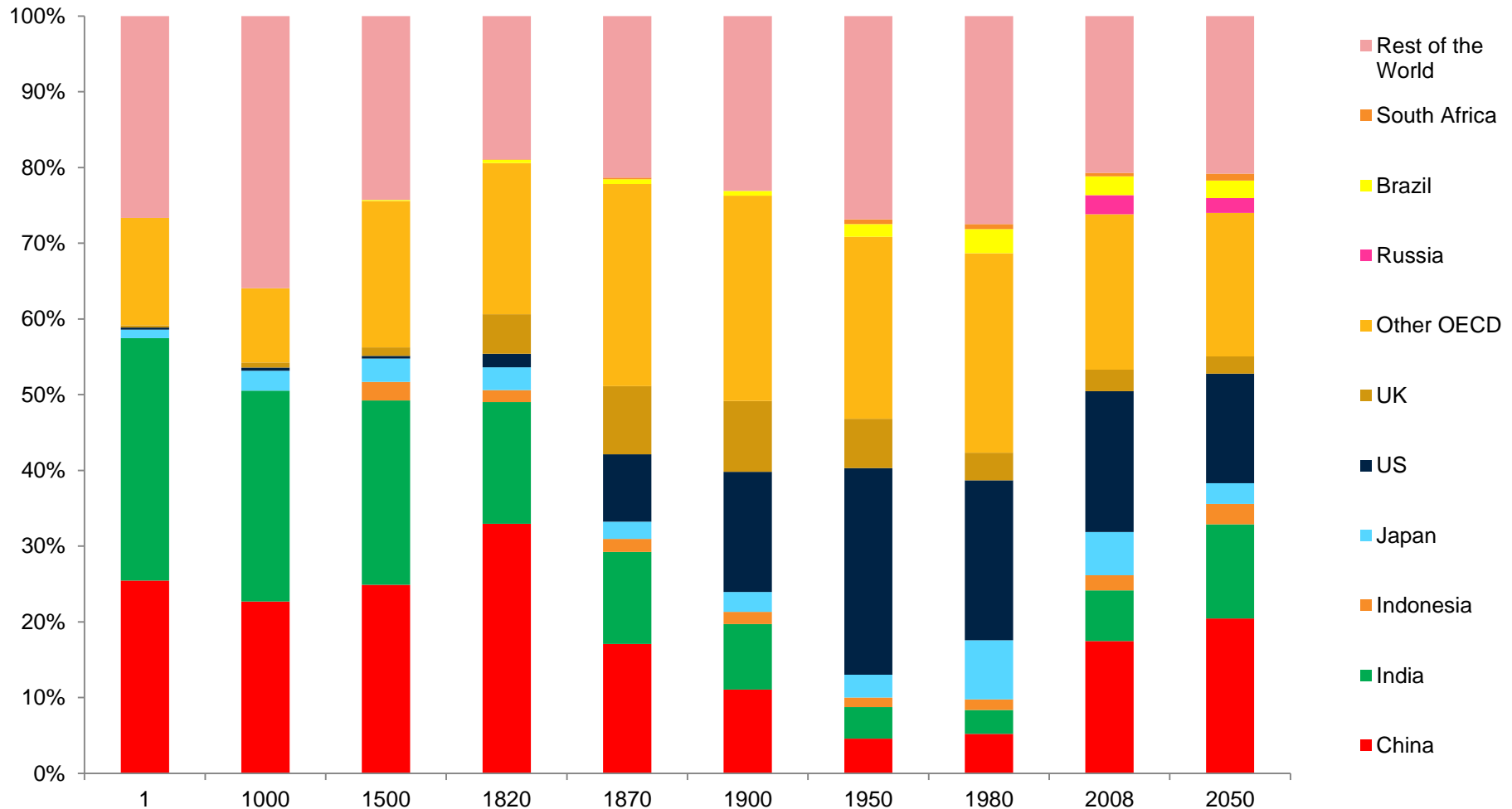
The World Economy



Source: ICP Program <http://siteresources.worldbank.org/ICPINT/Resources/270056-1183395201801/Summary-of-Results-and-Findings-of-the-2011-International-Comparison-Program.pdf>

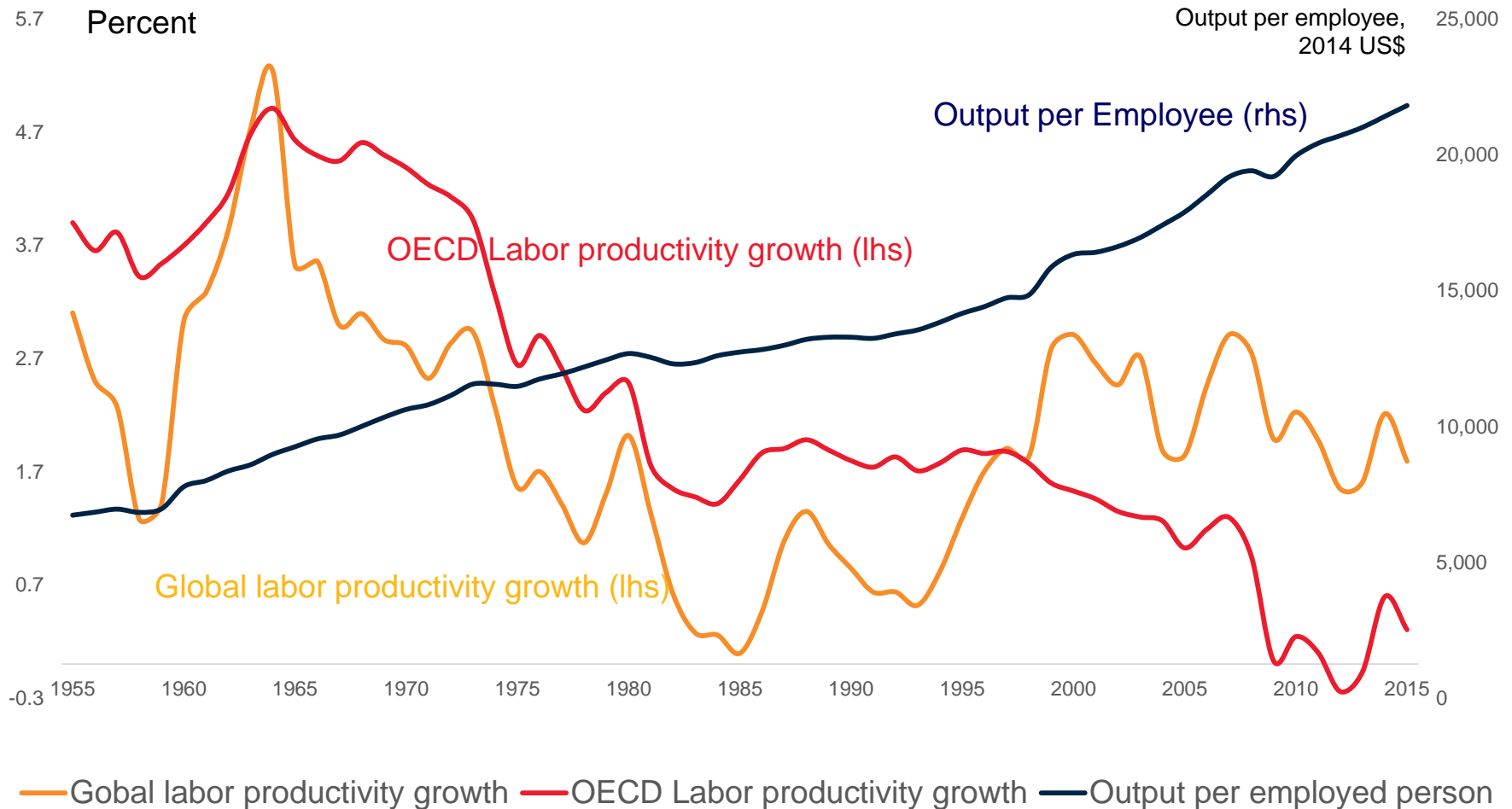
Asia's Re-emergence

(Share of World GDP 1-2050 AD)



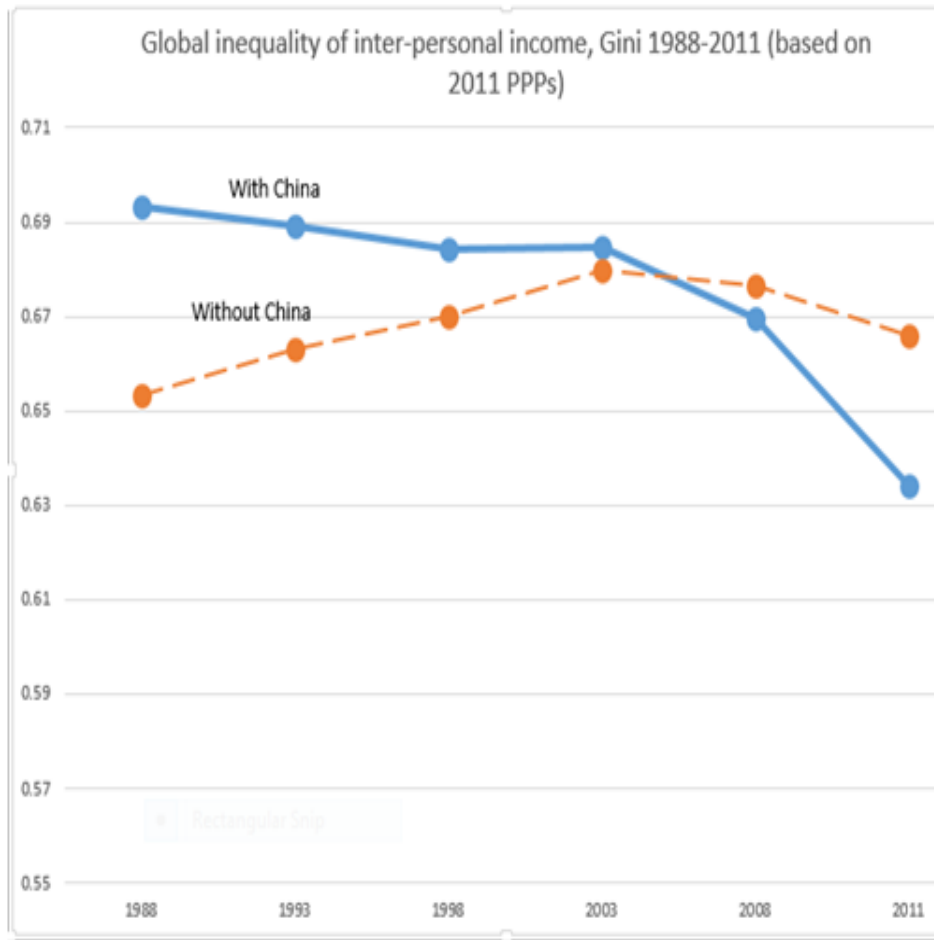
Source: Maddison and OECD. Note: Maddison's estimates are in Geary-Khamis dollars; OECD in 2005 PPP dollars.

Emerging Markets Catching Up as OECD Productivity Slows

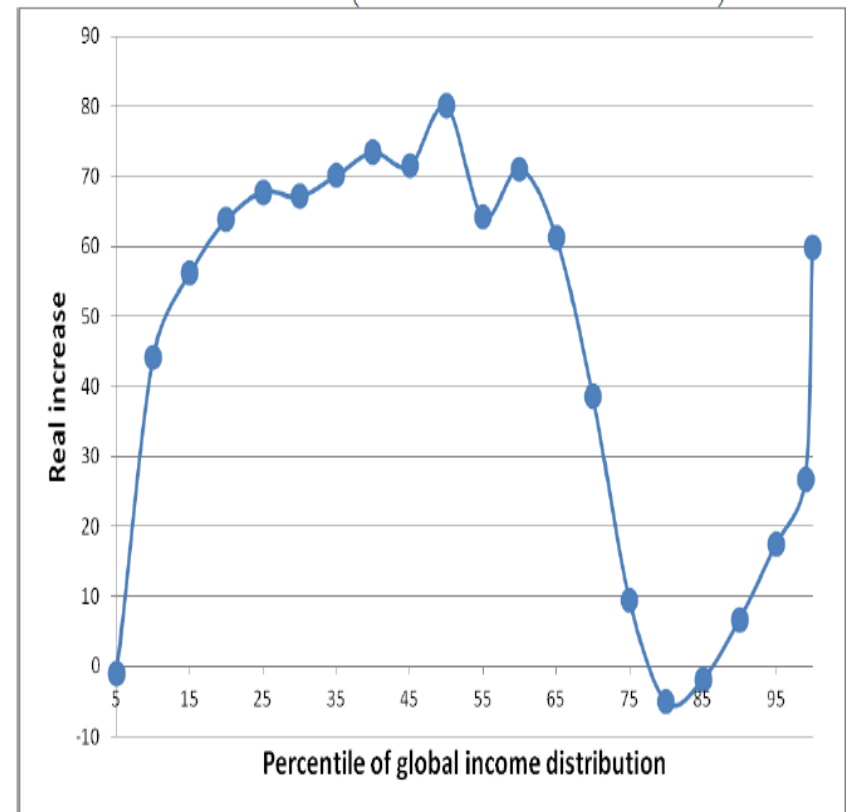


Source: Conference Board, staff estimates. Note: Output per employee in 2014 US\$ (converted to US\$ using 2014 market exchange rates) Labor productivity growth five year moving average centered on final year

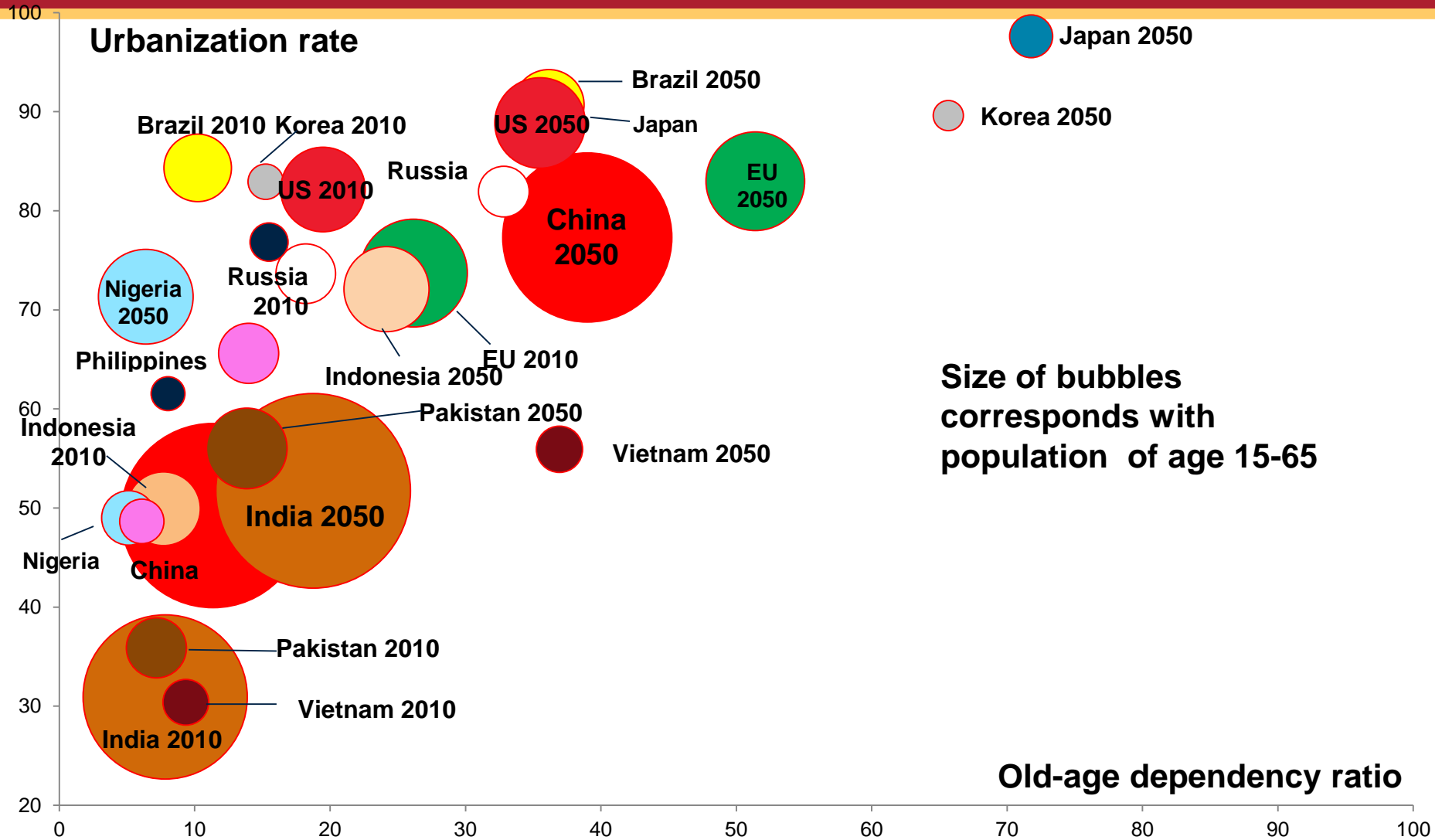
Lower Global Inequality, but a Squeezed (Western) Middle Class



Change in real income per global income percentile 1988-2008



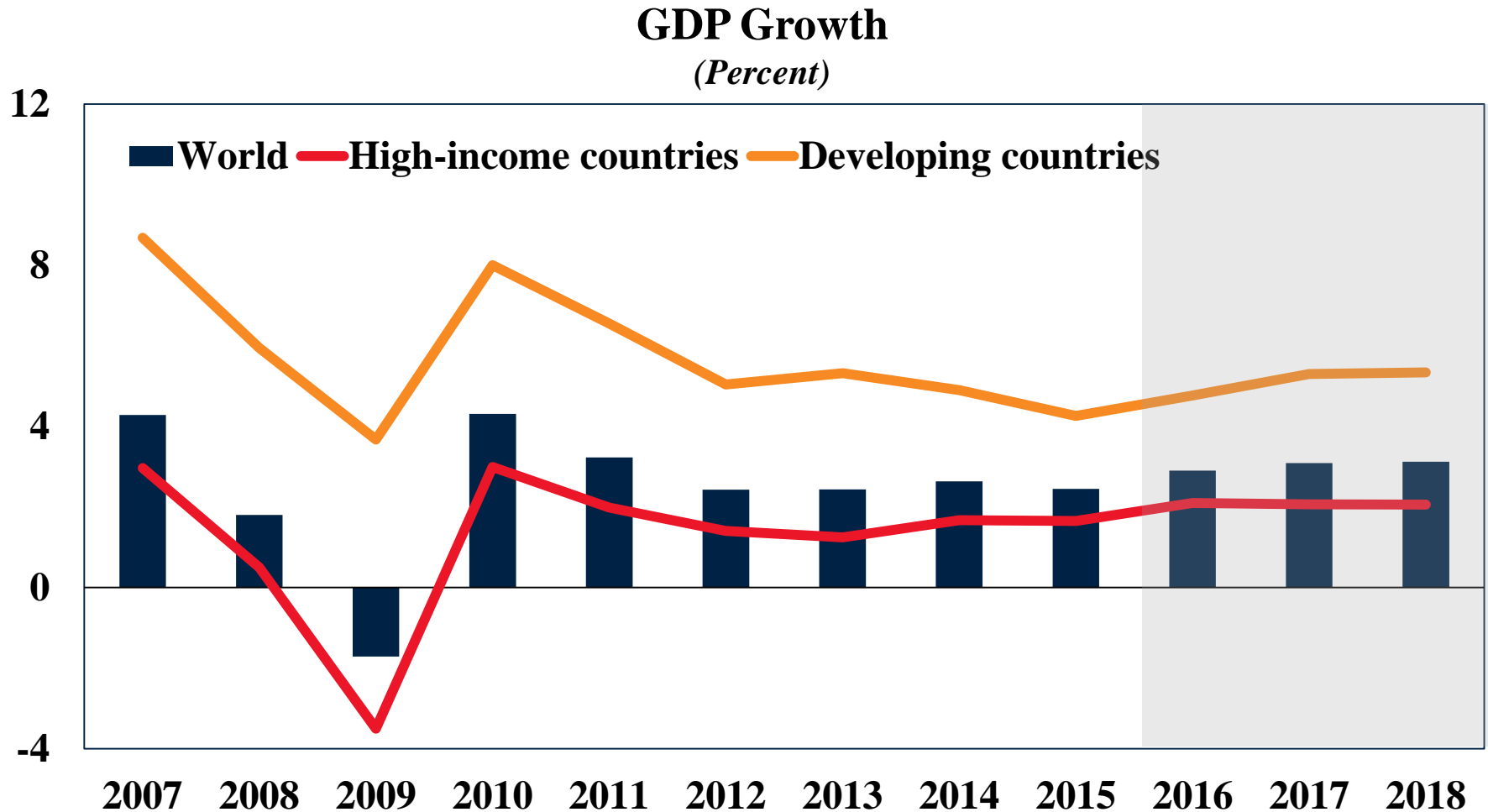
An Older, Urban World



Source: World Bank Nutrition Population and Health Database, UN Population Database

Global Growth:

Slower in 2015. Modest Pickup 2016 and beyond



Source: World Bank.

Note: Several countries were reclassified from middle-income to high-income country status in 2015, including Argentina, Hungary, and Venezuela. 8
All series have been adjusted to ensure a constant sample according to current income status.

Regional Forecasts

GDP Growth (Percent)

Current forecast

Change from October

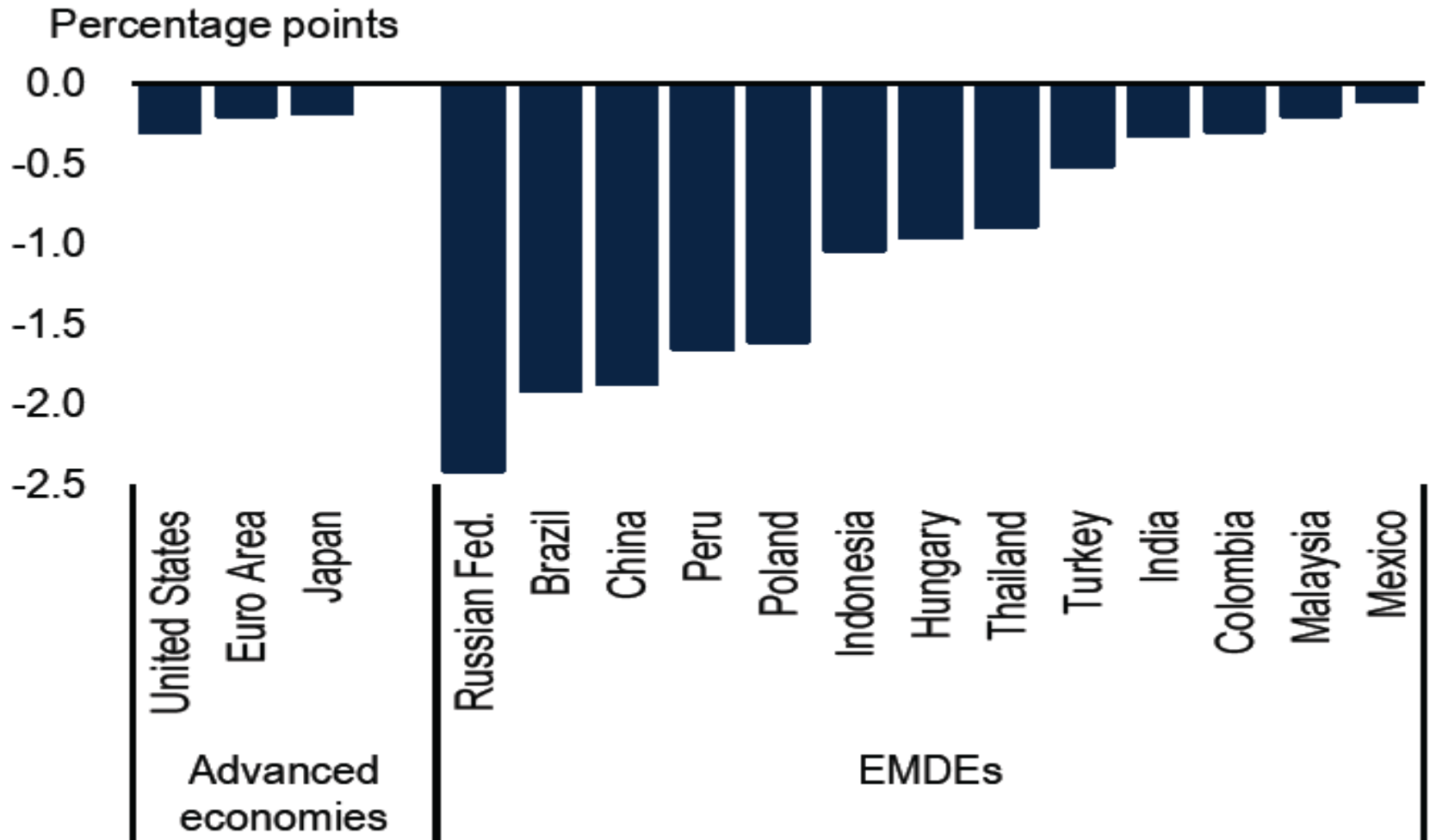
	2014	2015	2016	2017	2015	2016	2017
World	2.6	2.4	2.9	3.1	-0.1	-0.1	0.0
High-income countries	1.7	1.6	2.1	2.1	-0.1	0.0	0.0
Developing countries	4.9	4.3	4.8	5.3	0.0	-0.2	0.0
East Asia and Pacific	6.8	6.4	6.3	6.2	-0.1	-0.1	-0.1
Europe and Central Asia	2.3	2.1	3.0	3.5	0.5	-0.2	0.0
Latin America and Caribbean	1.5	-0.7	0.1	2.3	-0.4	-1.0	0.0
Middle East and North Africa	2.5	2.5	5.1	5.8	0.2	0.7	0.7
South Asia	6.8	7.0	7.3	7.5	-0.1	-0.1	0.0
Sub-Saharan Africa	4.6	3.4	4.2	4.7	-0.3	-0.3	-0.2

Source: World Bank.

Note: Several countries were reclassified from middle-income to high-income country status in 2015, including Argentina, Hungary, and Venezuela. All series have been adjusted to ensure a constant sample according to current income status.

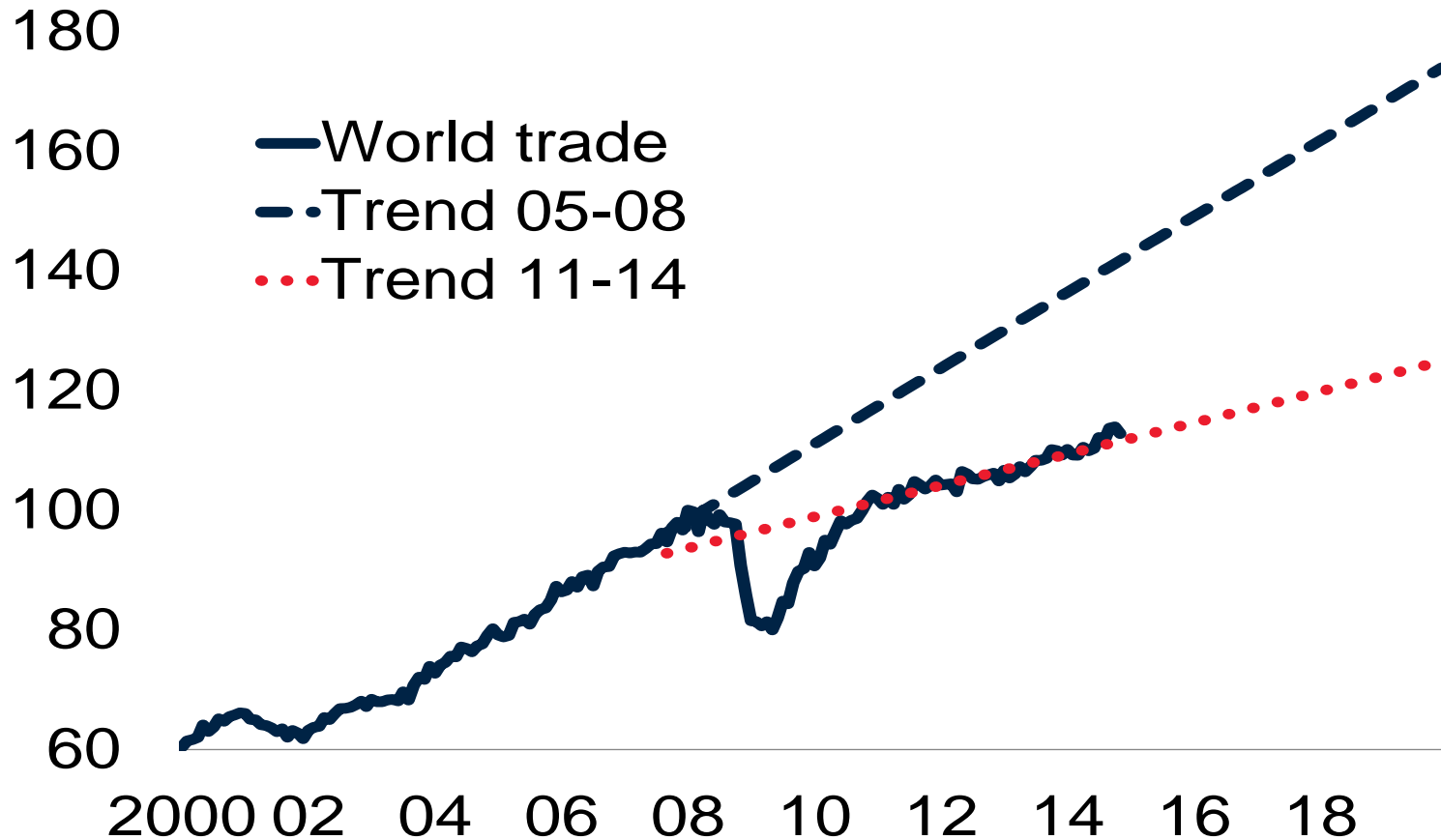
Diminishing Expectations

Change in growth forecast for 2020 from 2010-2015

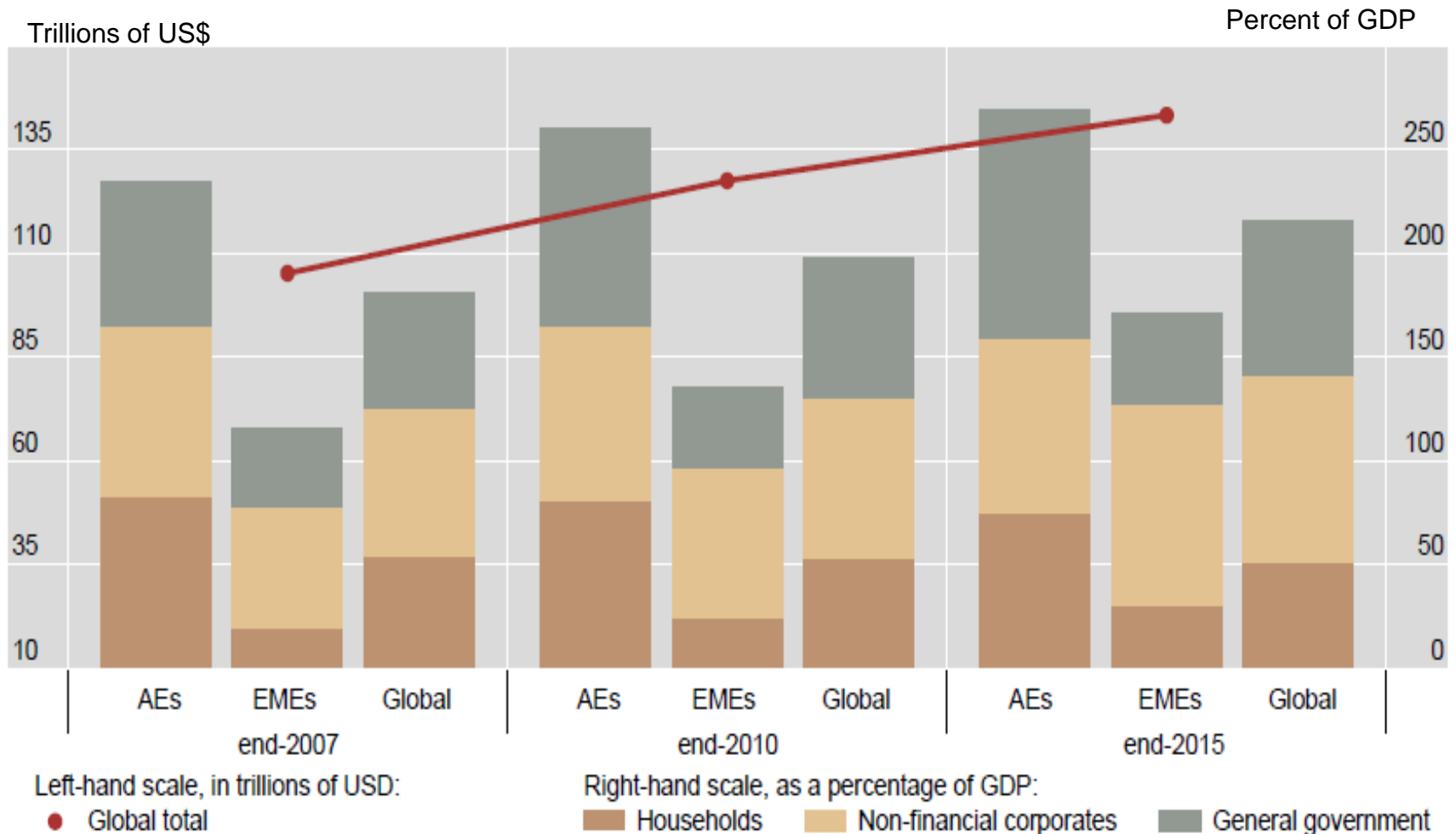


Falling trade intensity of growth

Index = 100 in 2008

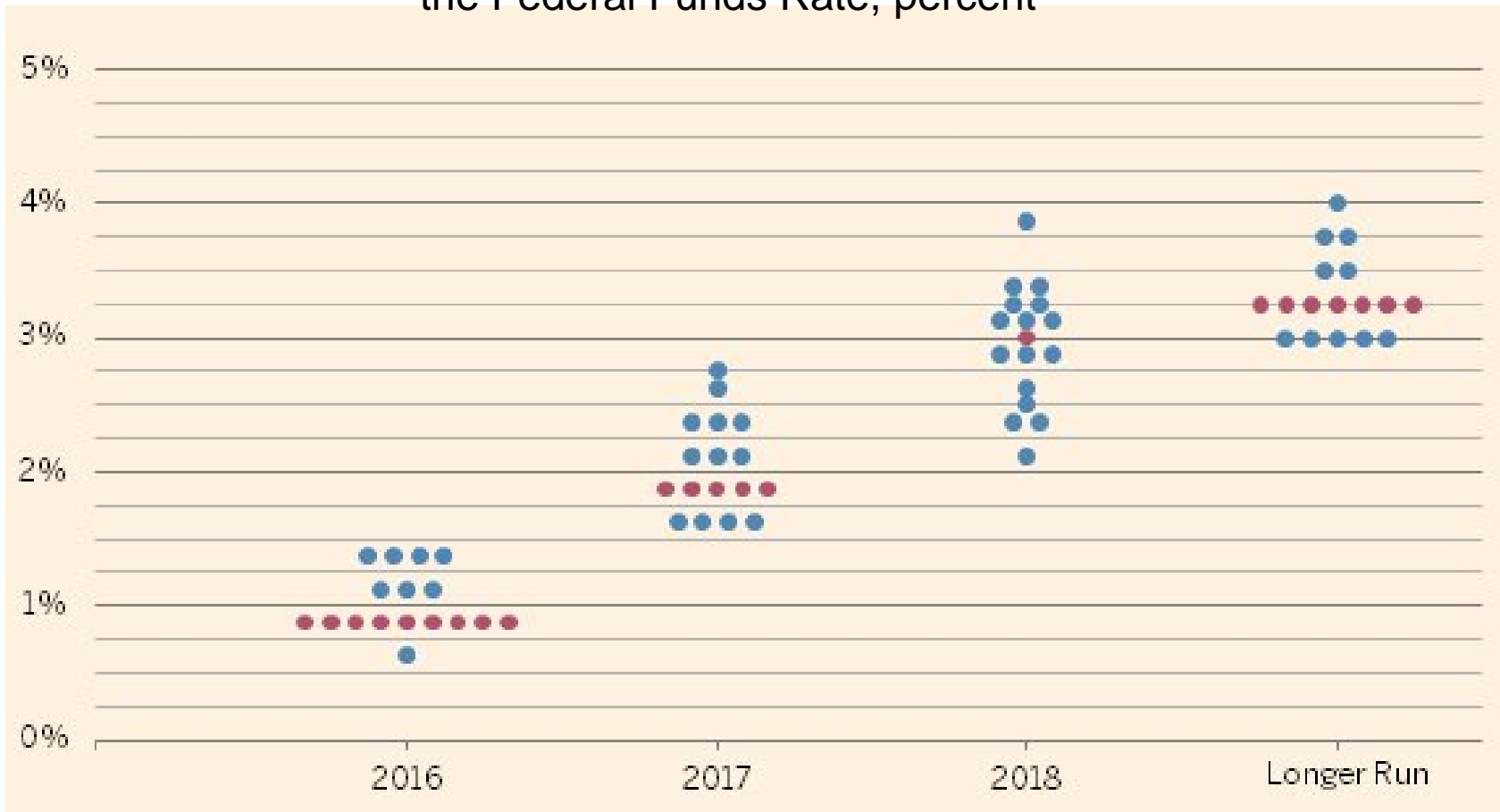


All that Debt



FED expected to move up

Individual FED Board Member's projection of the Federal Funds Rate, percent

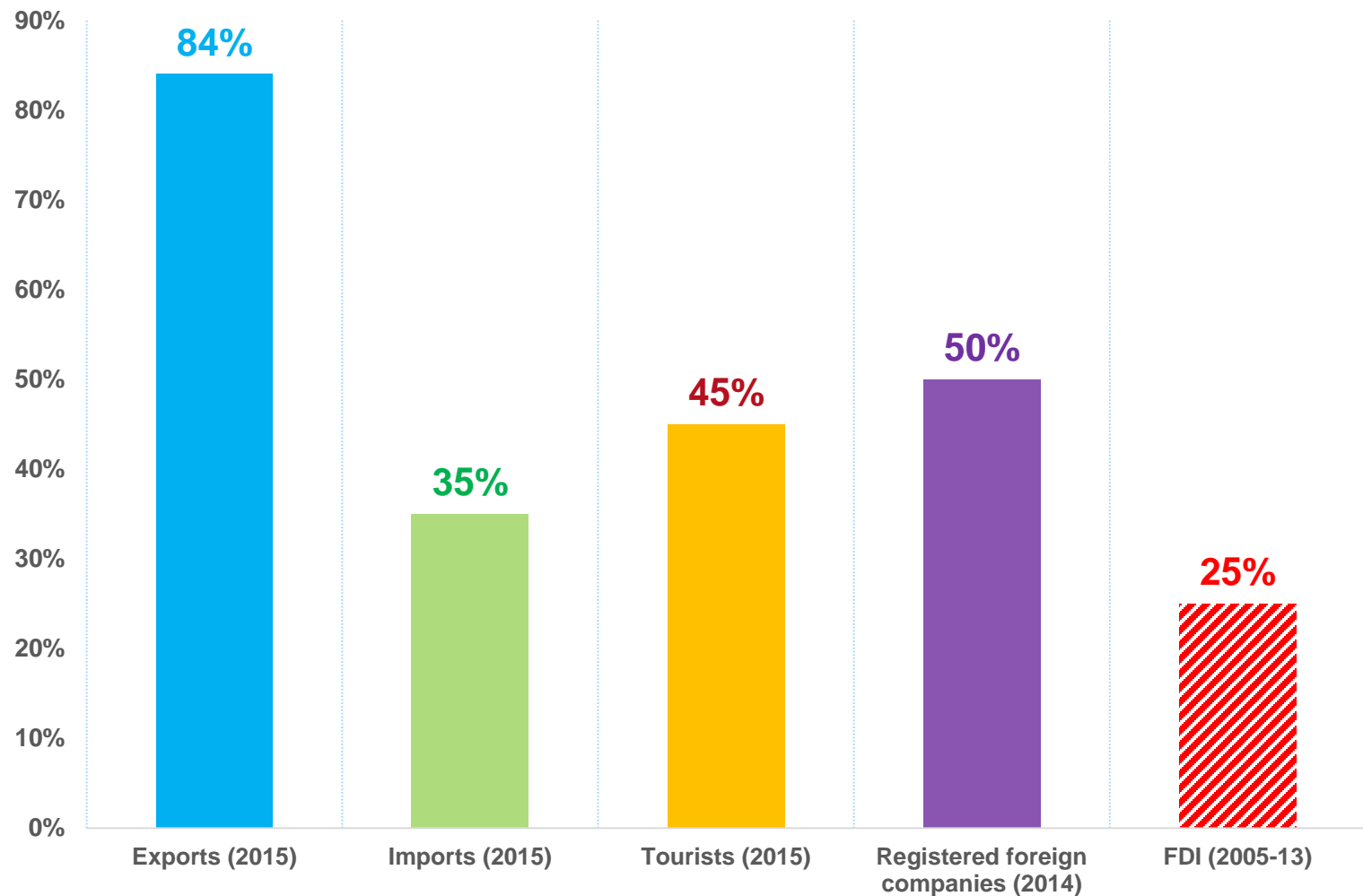


Source: Federal reserve board, Financial Times

A SLOWING, CHANGING CHINA

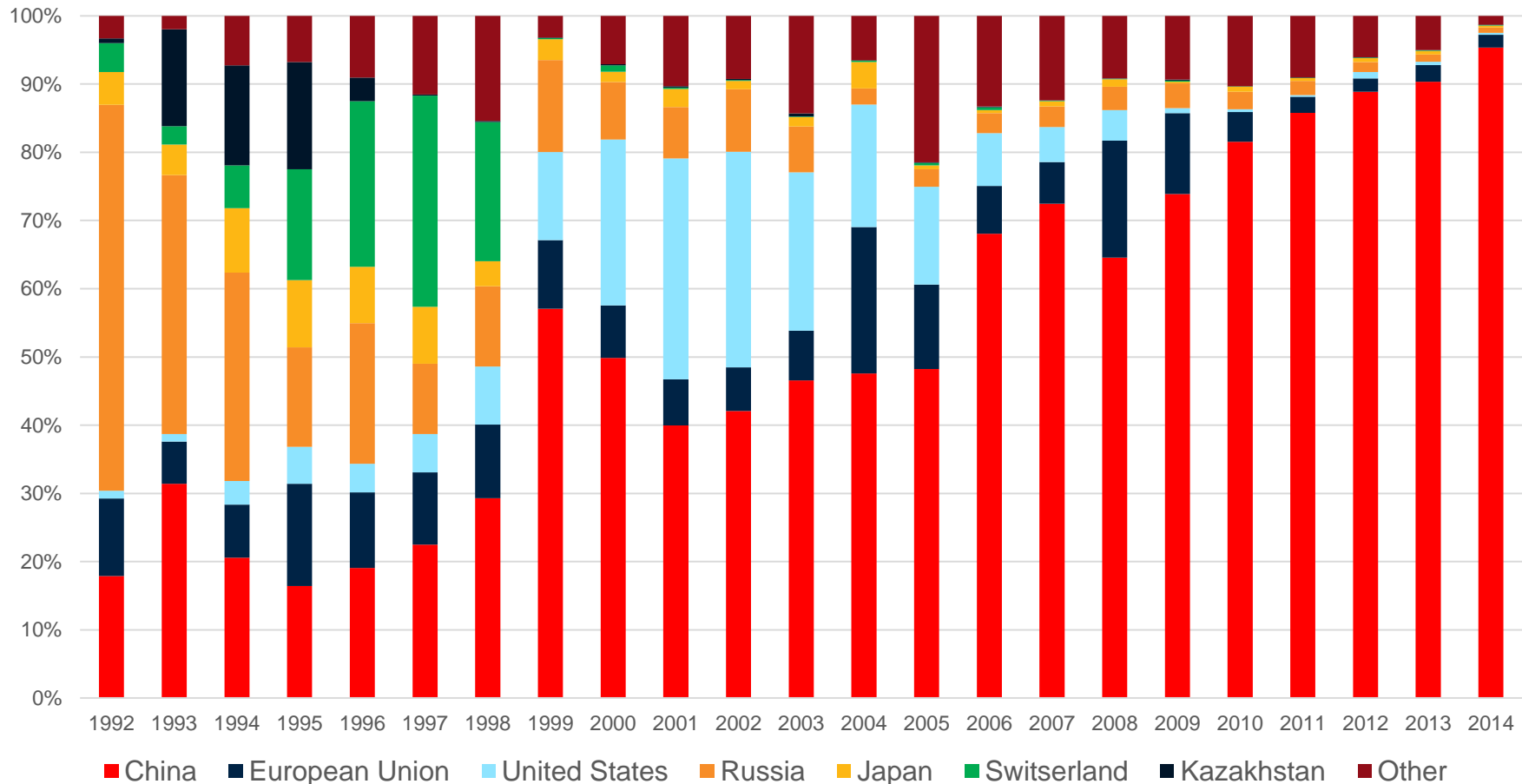
Ties that Bind

China's share in Mongolia's key economic variables



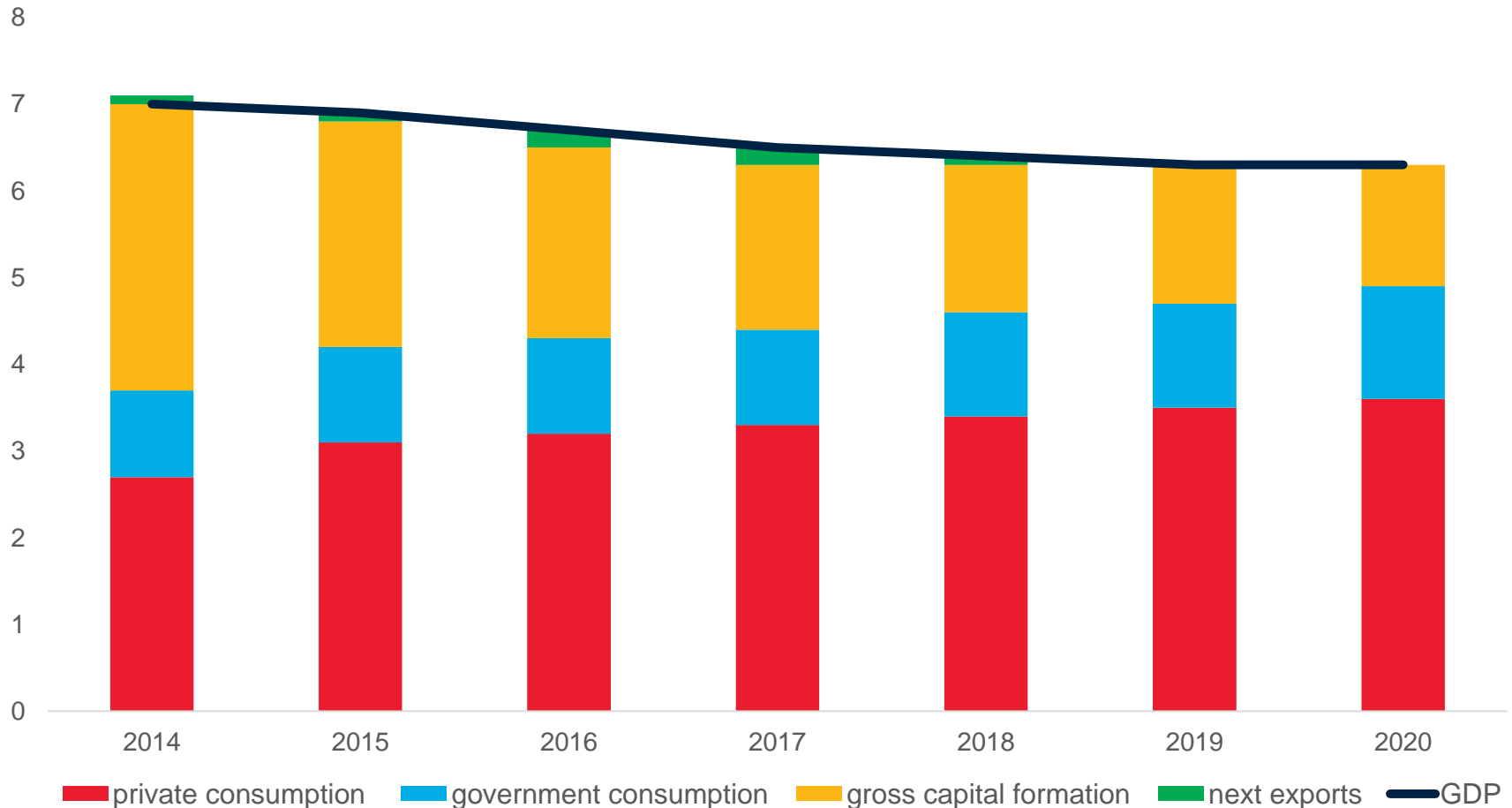
Mongolia's Great Leap Southwards

Mongolia's export share per destination, percent



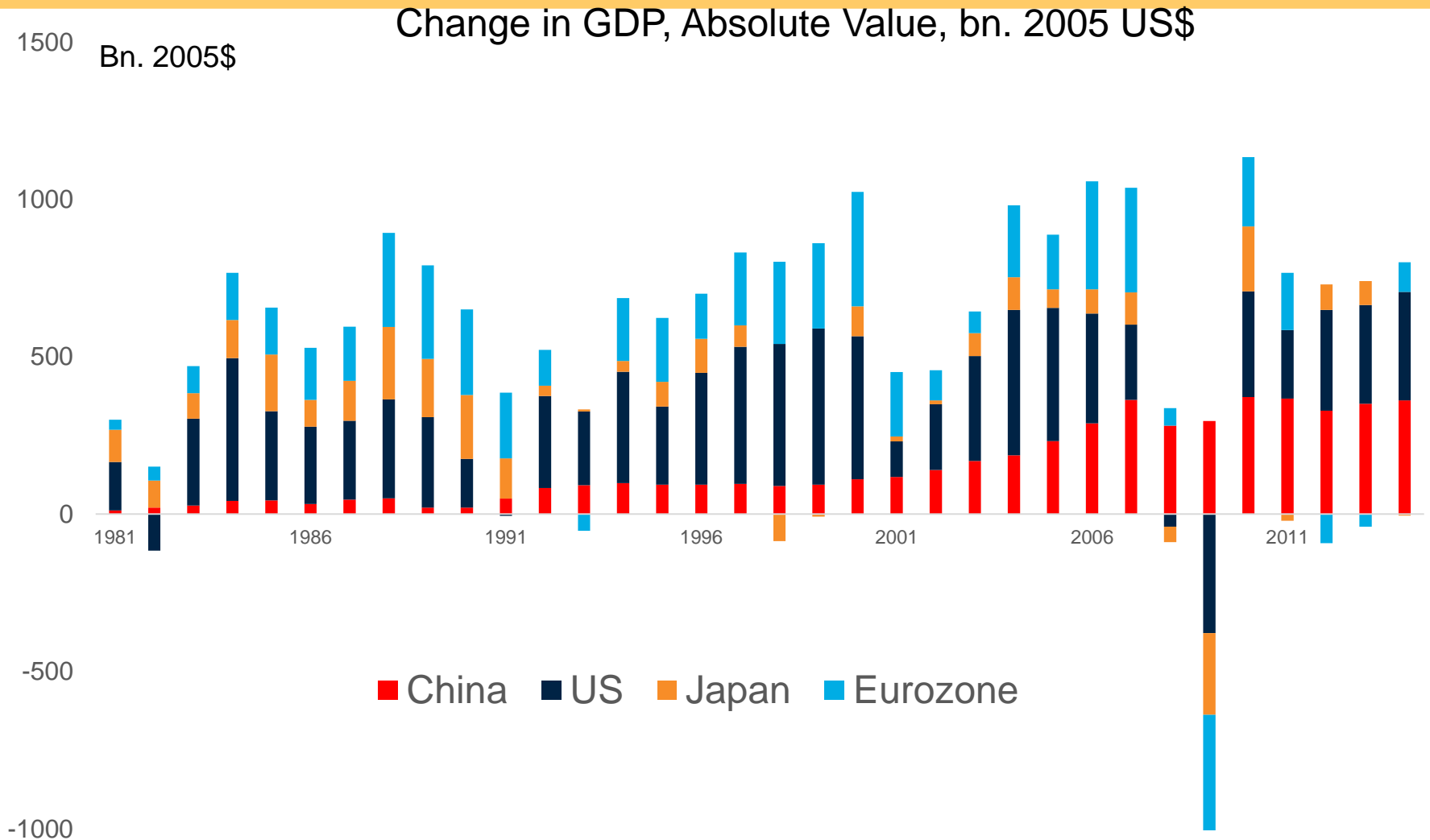
China's New Normal

GDP Growth Rate and Percentage Point Contribution to Growth



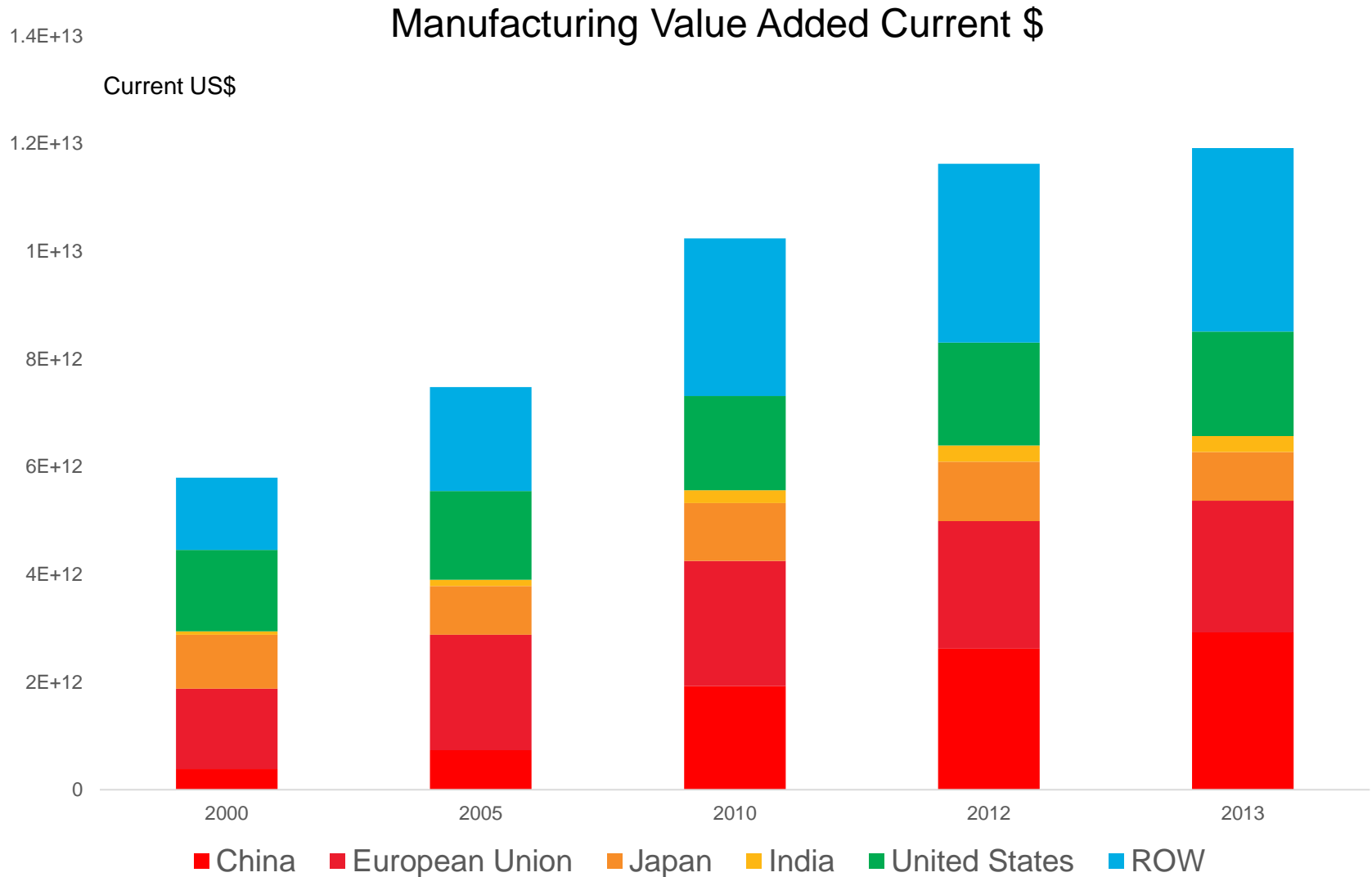
Note: World Bank projections. These assume progressive implementation of reforms announced in the 3rd Plenum of the Central Committee of the 18th Party Congress

Growing less, but adding more



Source: World Bank Estimates

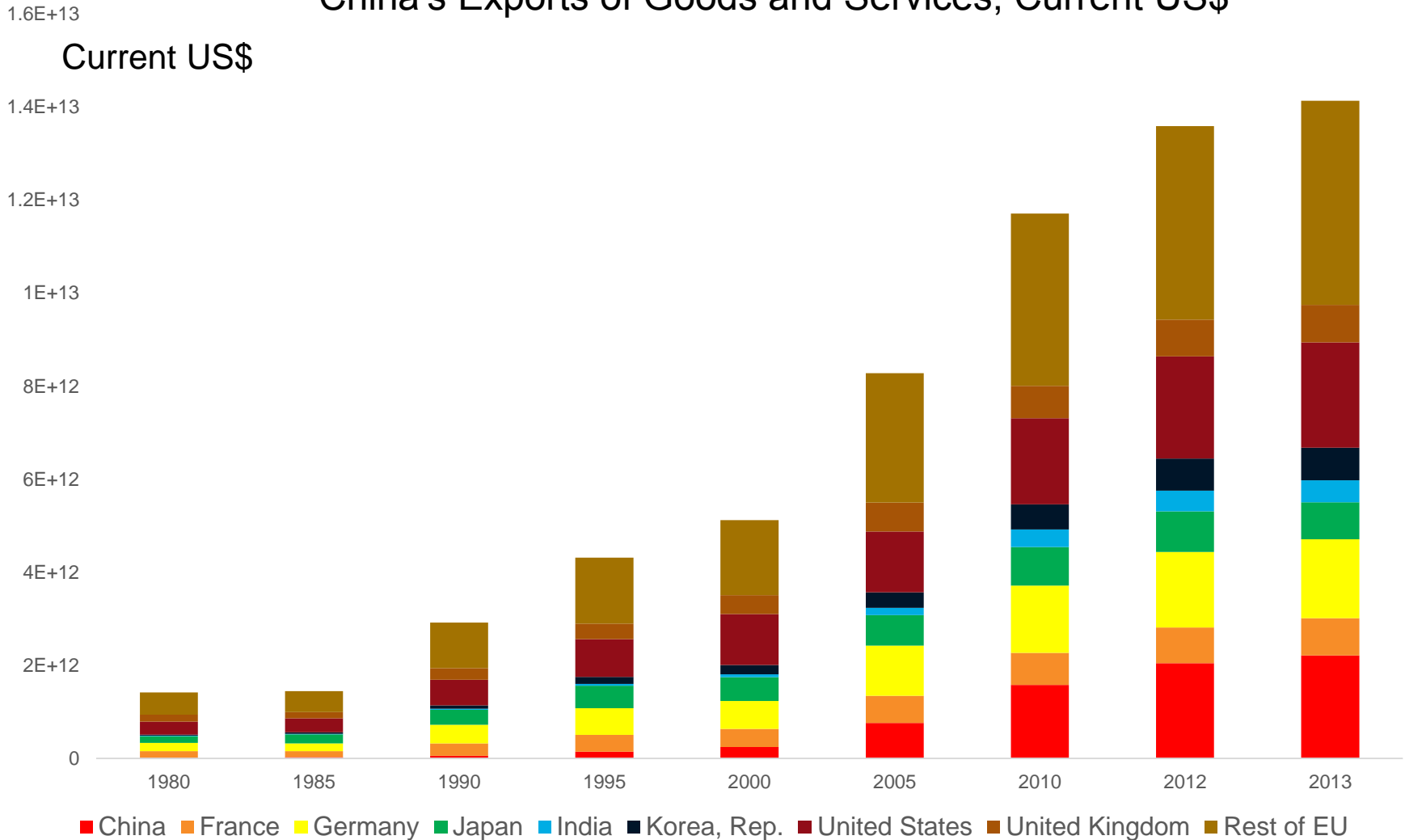
China is the World's Largest Manufacturer...



Source: World Development Indicators

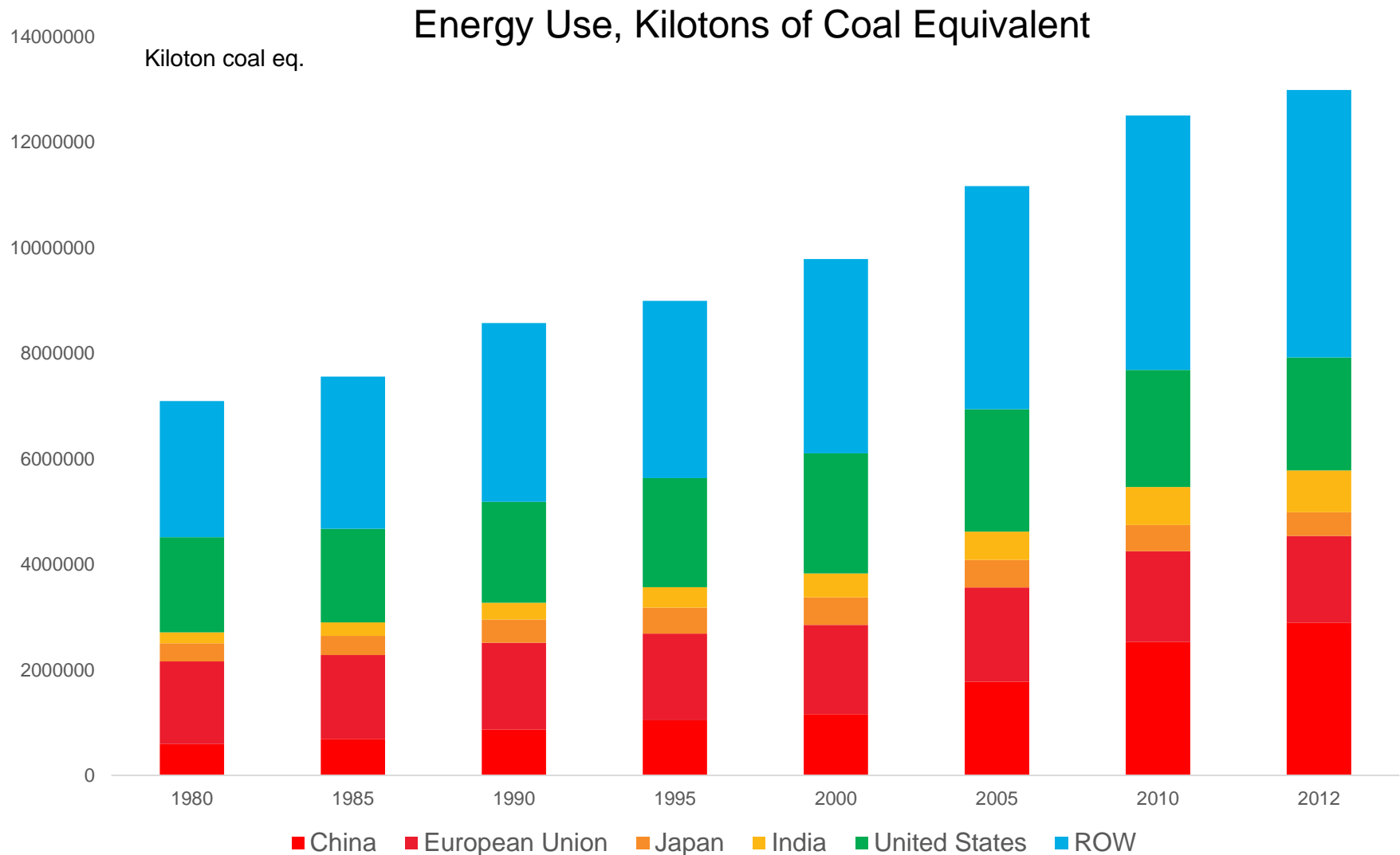
...The World's Largest Exporter

China's Exports of Goods and Services, Current US\$



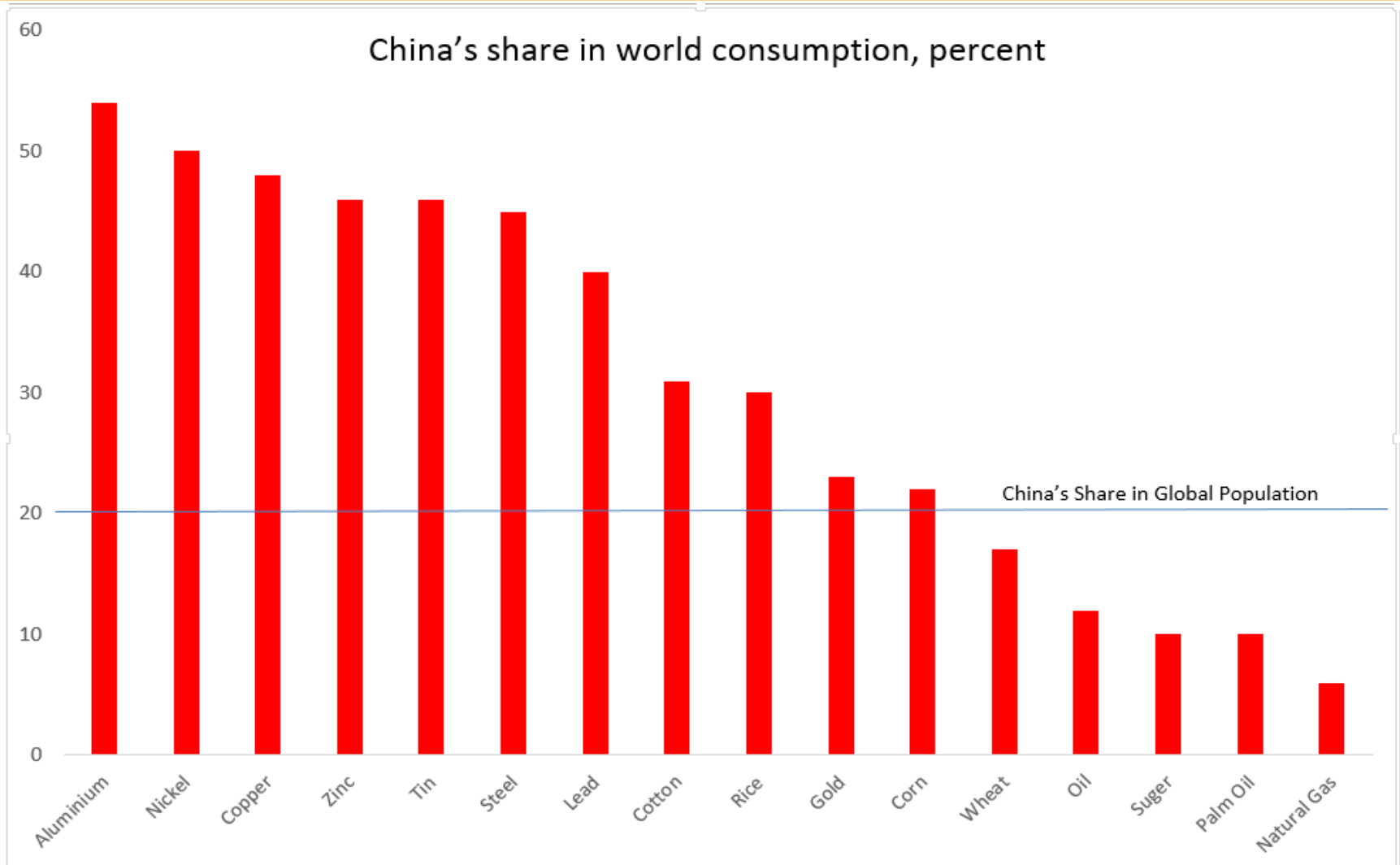
Source: World Development Indicators

...Largest Energy User



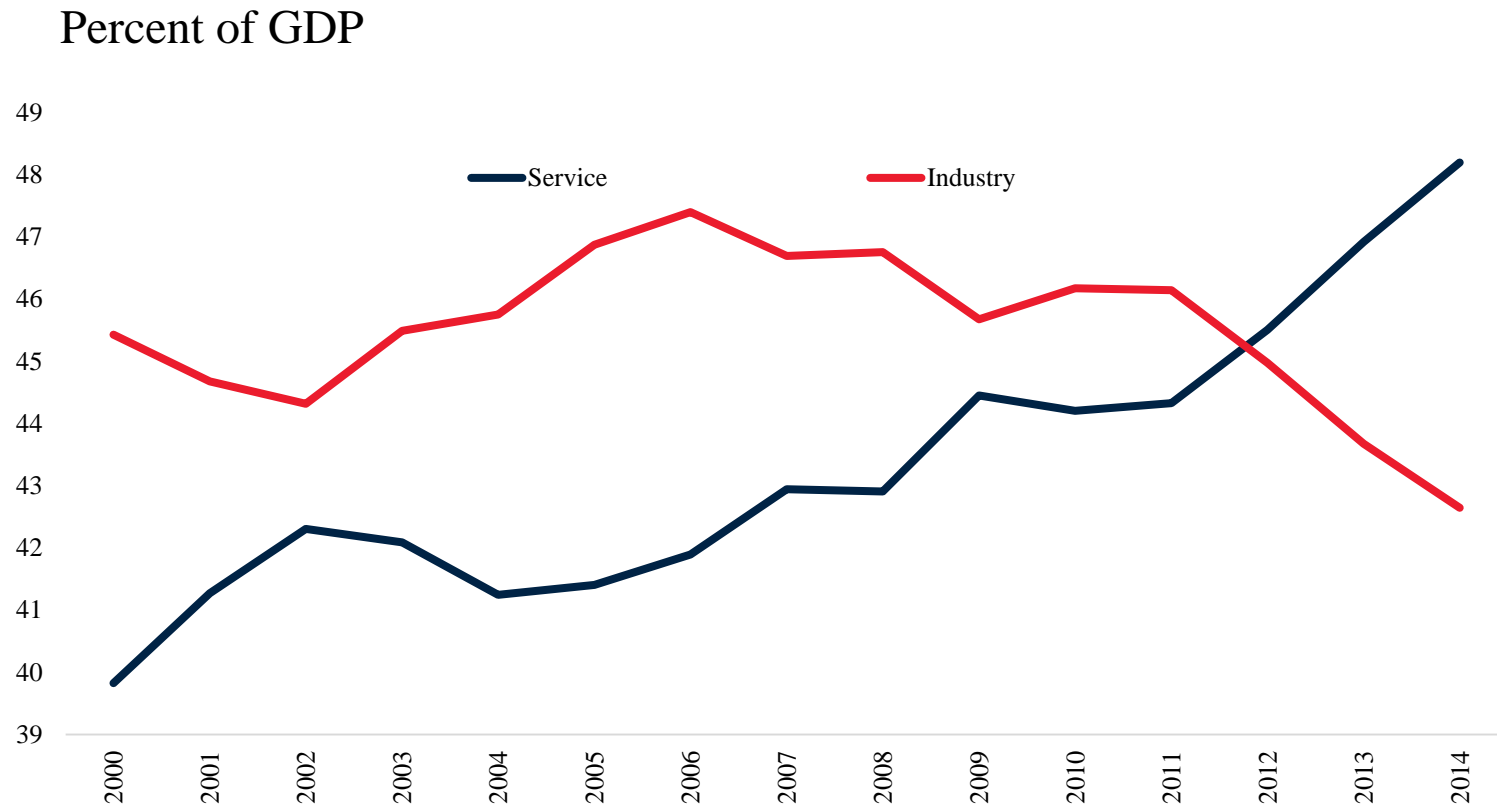
Source: World Development Indicators

...The Largest Consumer of many Commodities



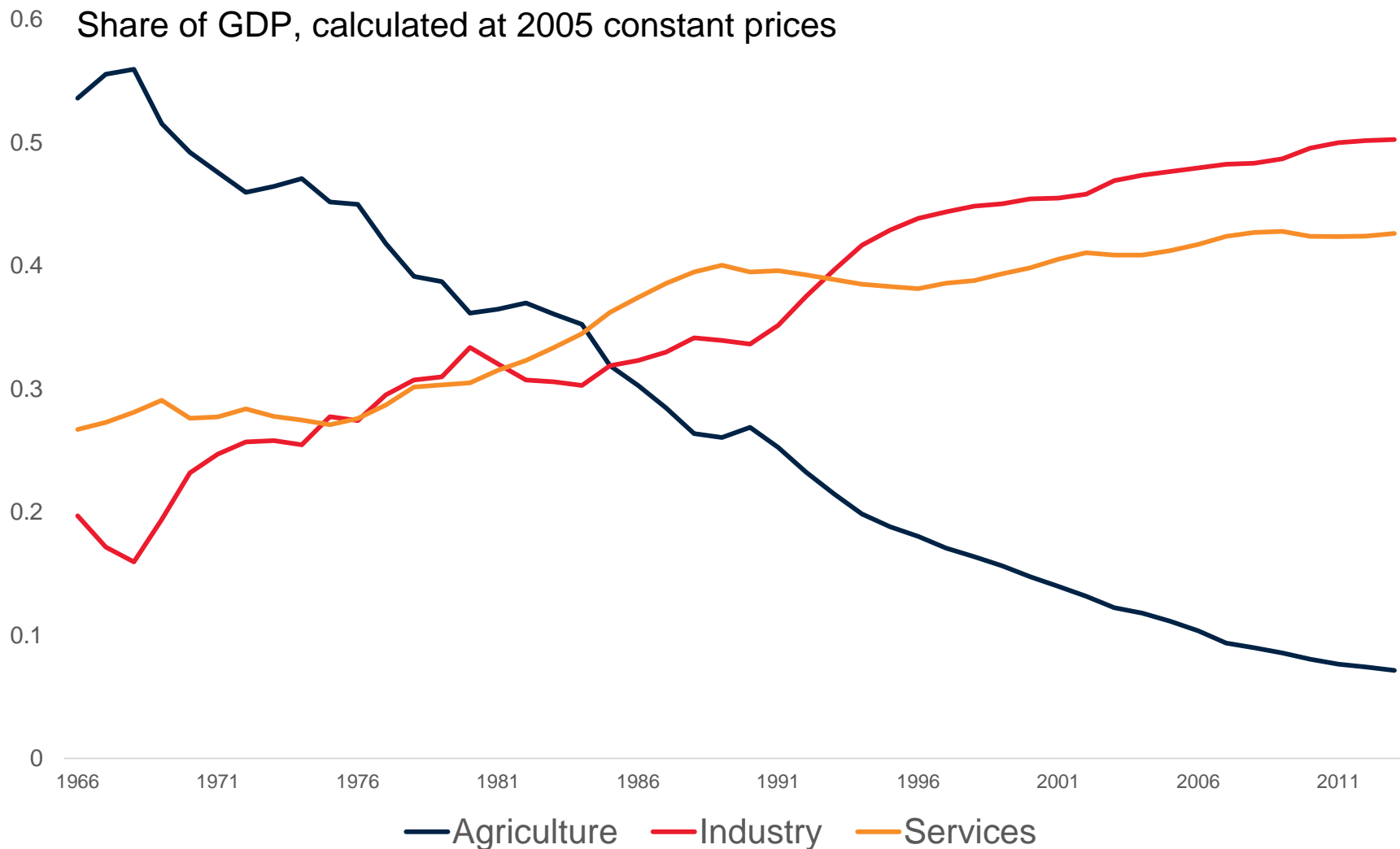
Source: World Economic Forum based on BP Statistical review of World Energy 2015, , World Bureau of Metal Statistics, US Department of Agriculture, JP Morgan, Wall Street Journal,

China's Services now more important than Industry

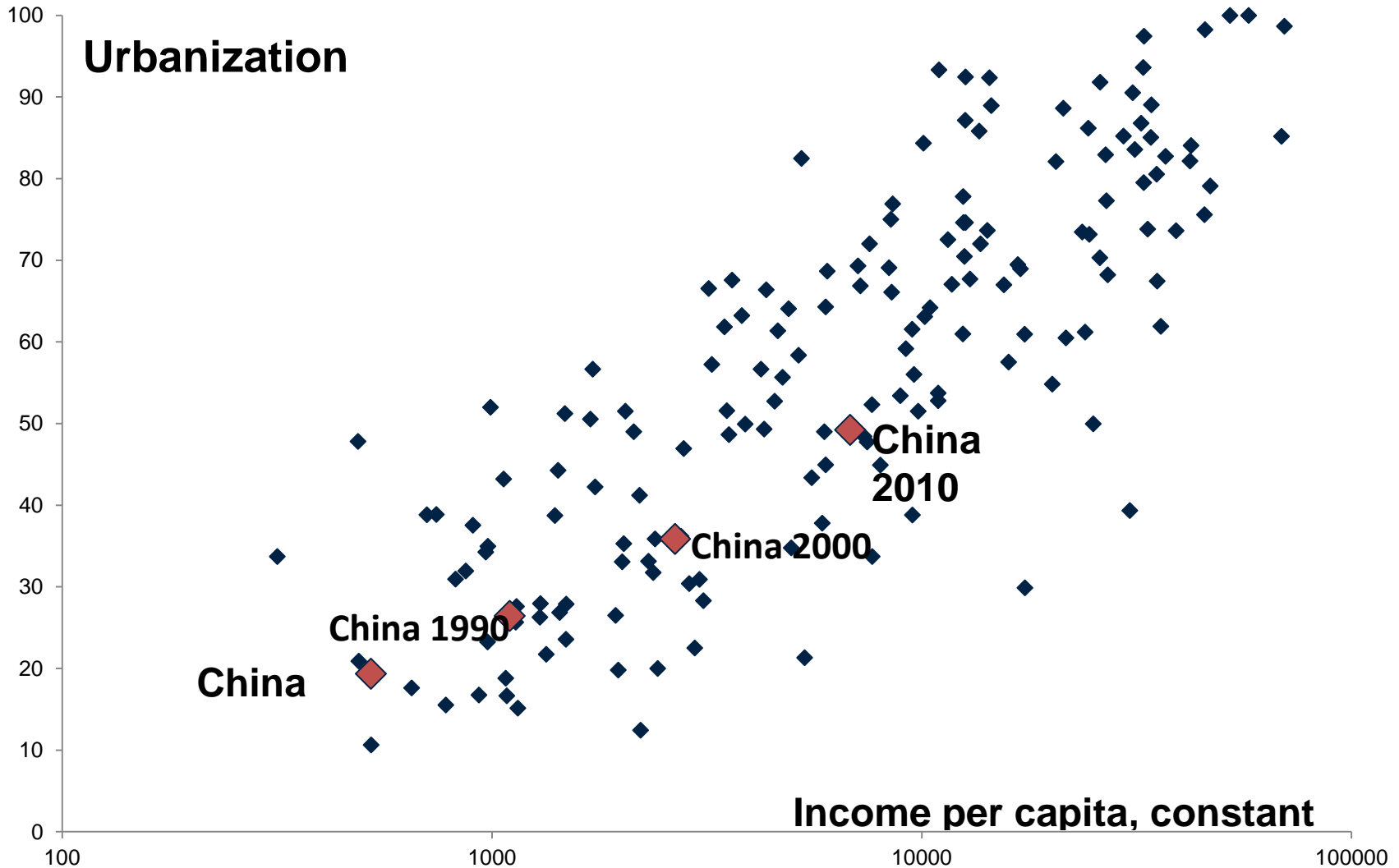


Source: National Bureau of Statistics

Though structural change in real terms is less pronounced

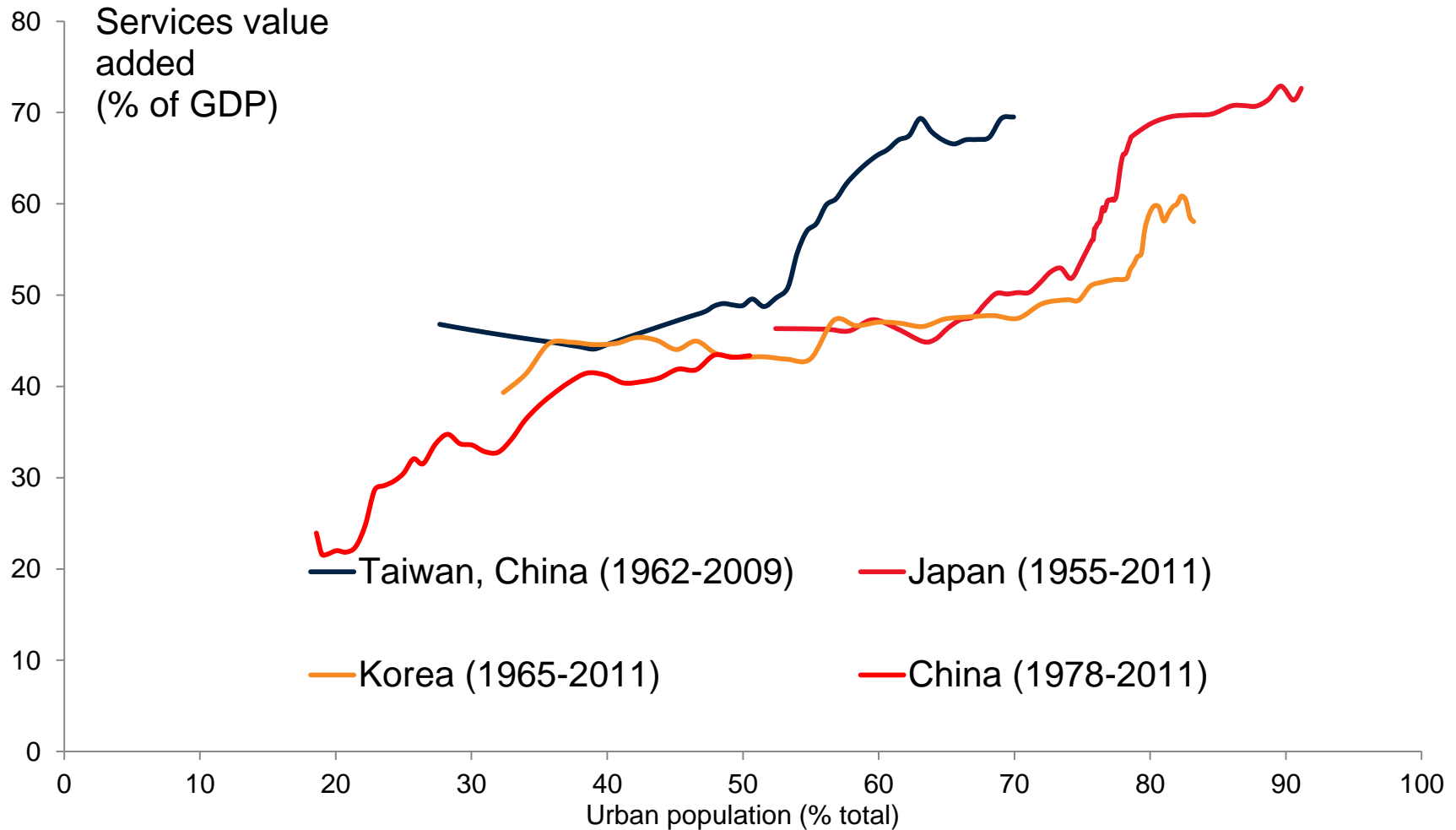


China is still less urbanized than expected on the basis of income

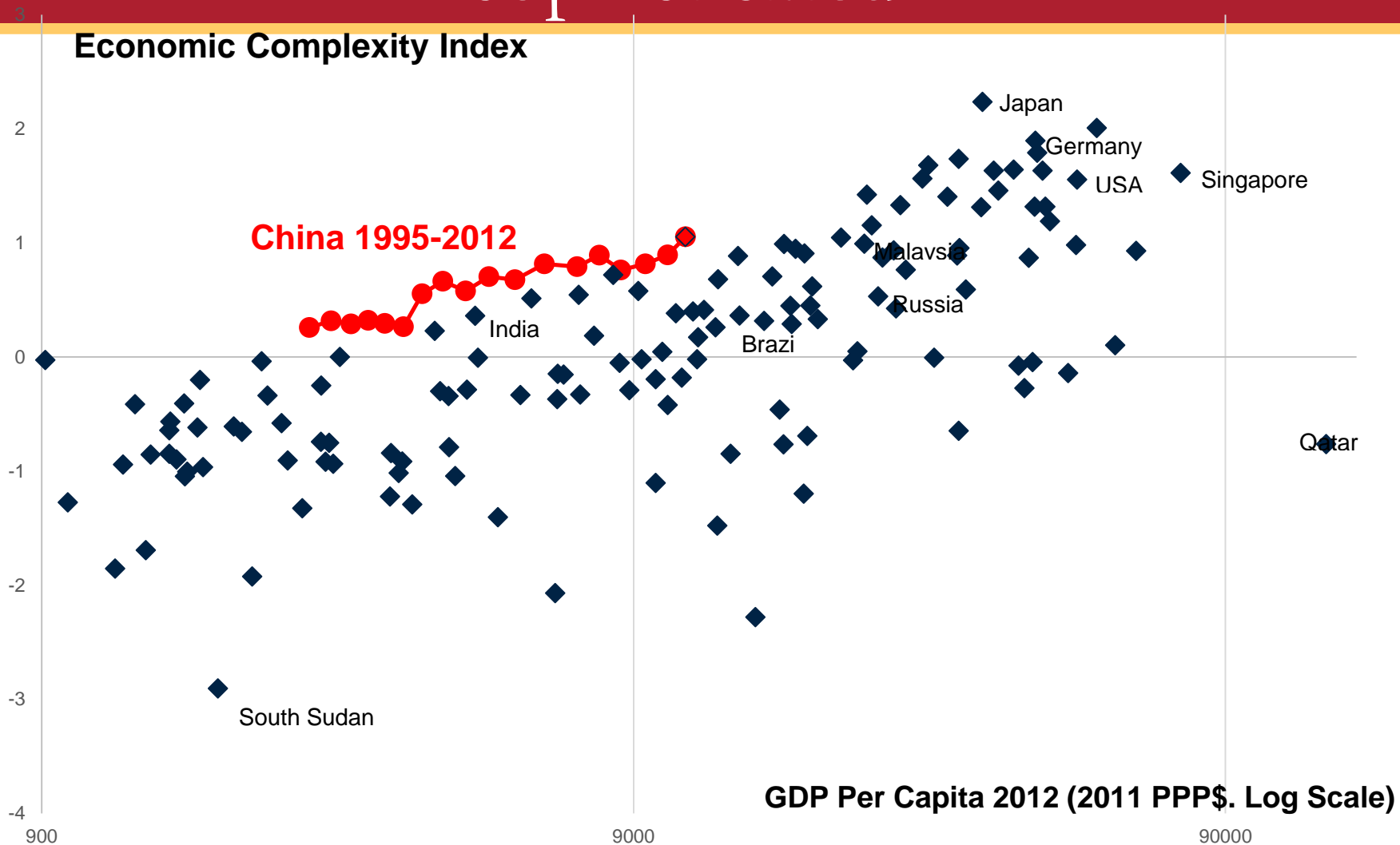


Source: World Development Indicators and Staff Estimates

Urbanization will facilitate services industry

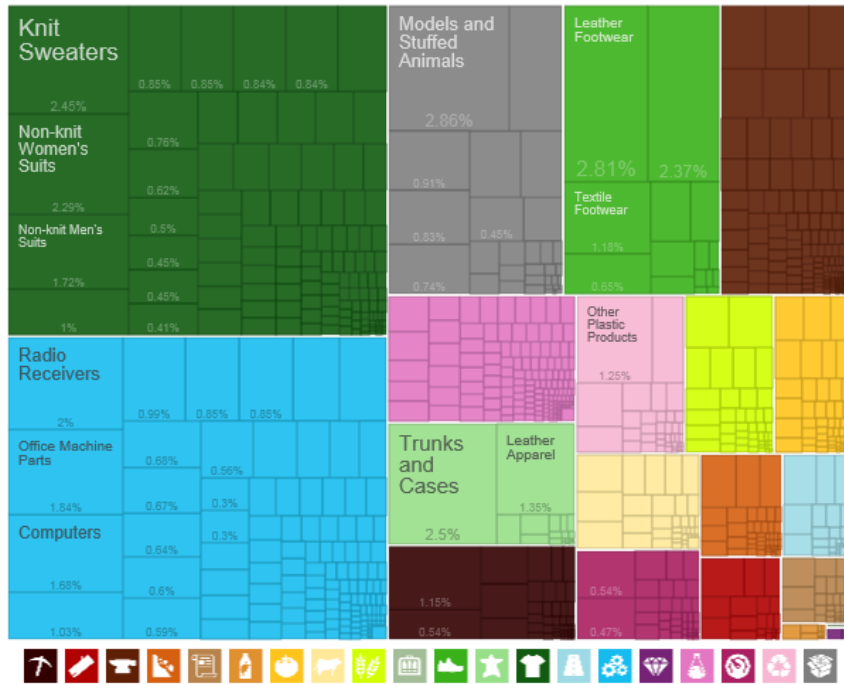


China's exports becoming more sophisticated

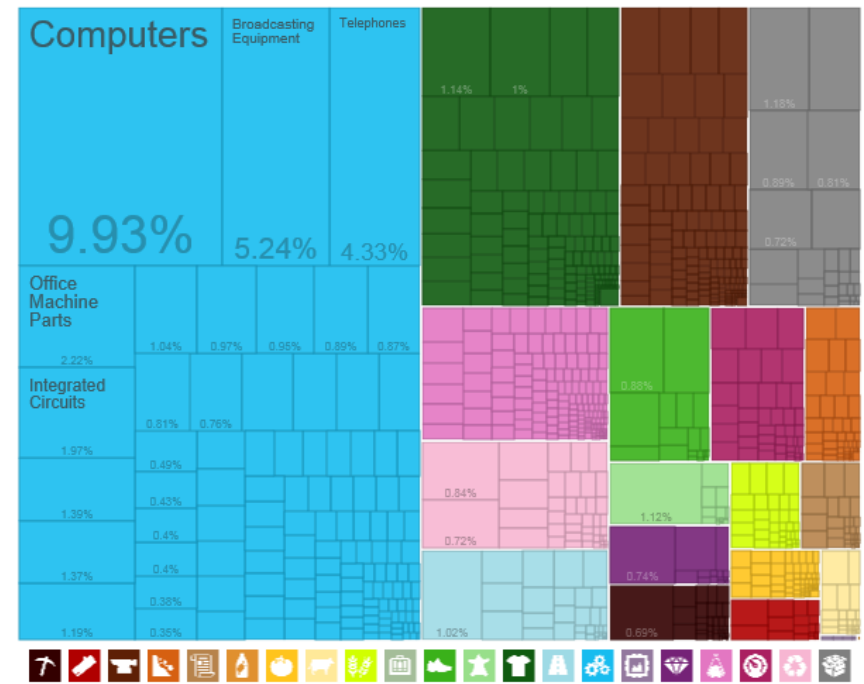


China's exports becoming higher value added

1995

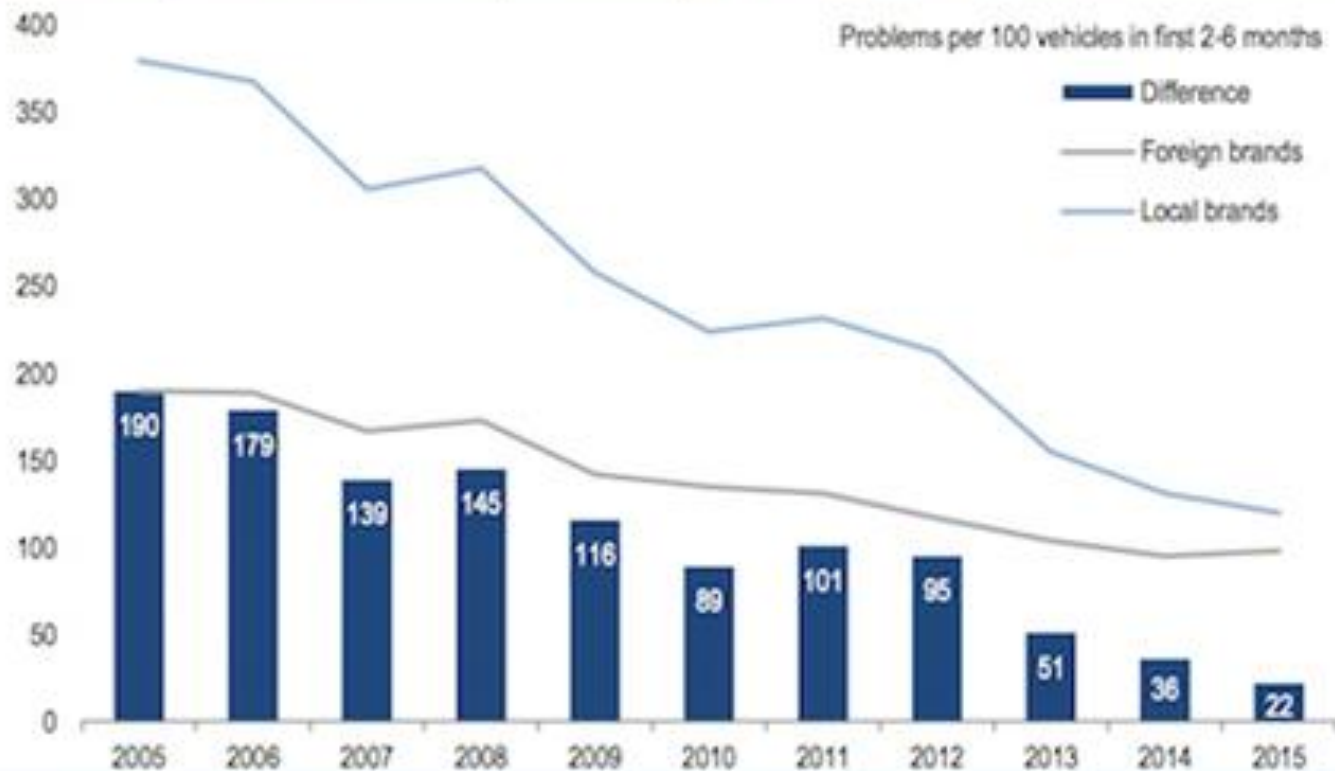


2012



Quality rapidly catching up

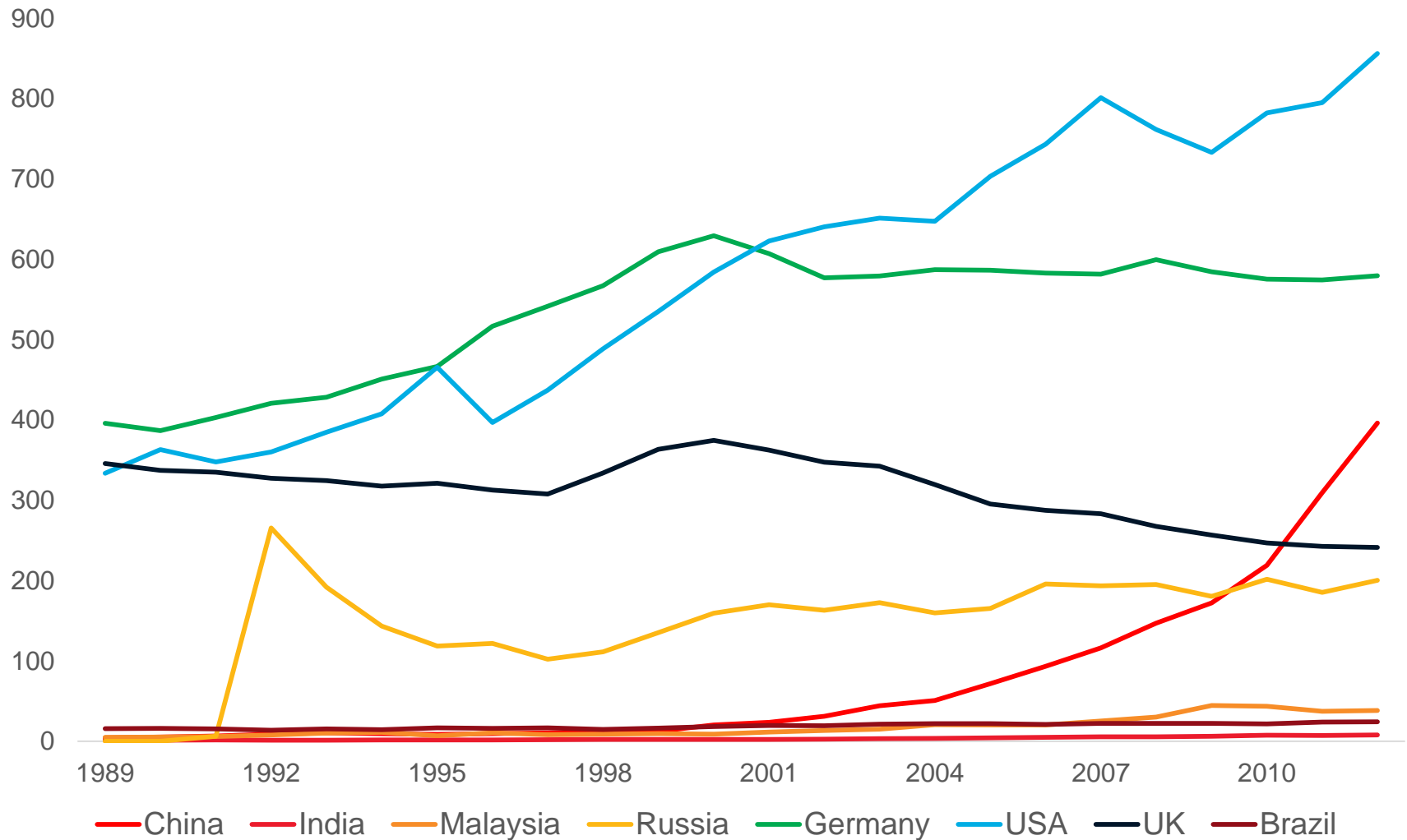
The quality gap between foreign and local vehicle brands has shrunk on the JD Power survey which measures problems per 100 vehicles in China



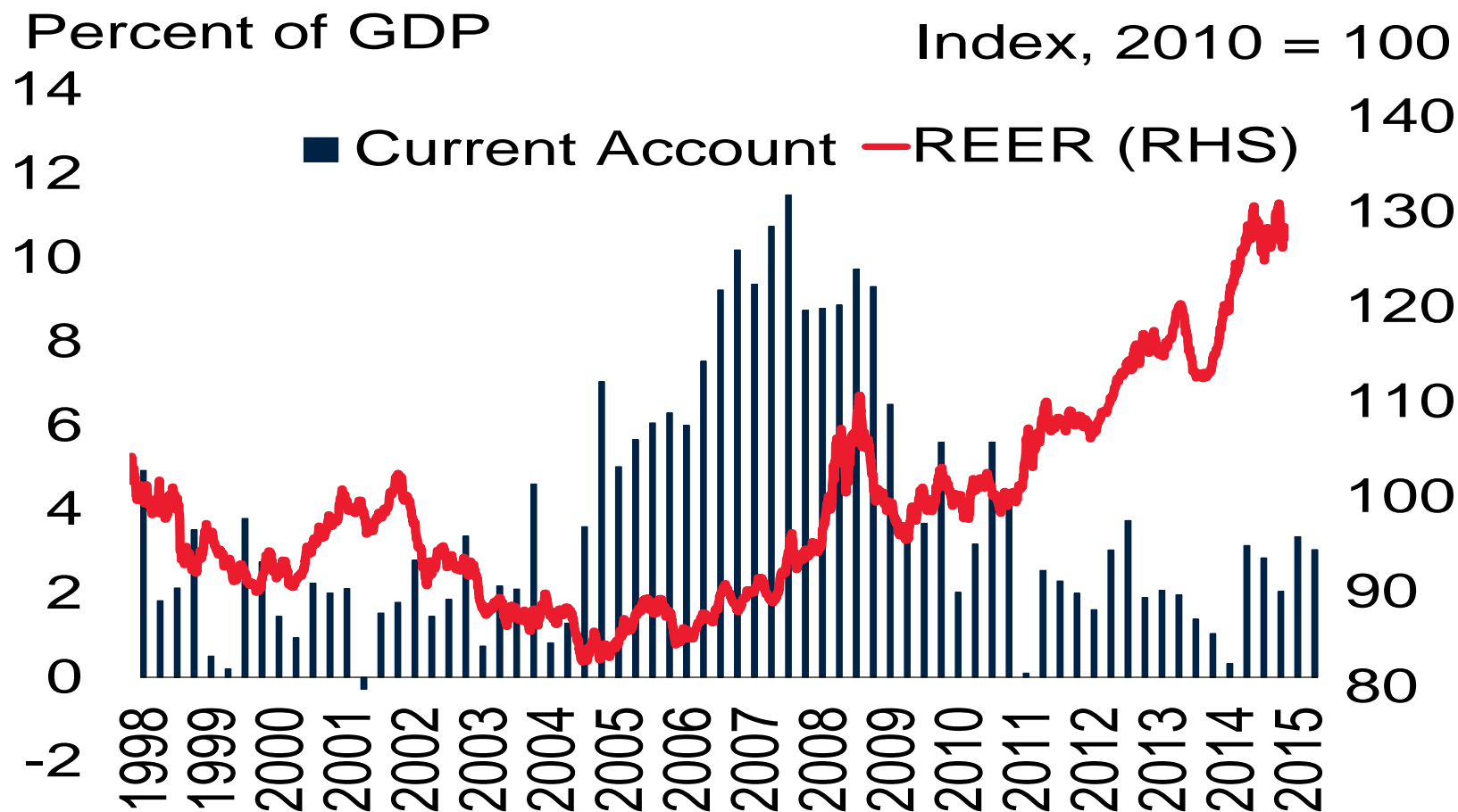
Source: Thomson Reuters, Credit Suisse research

China is becoming more innovative

Resident Patens Applications per 10000 Population

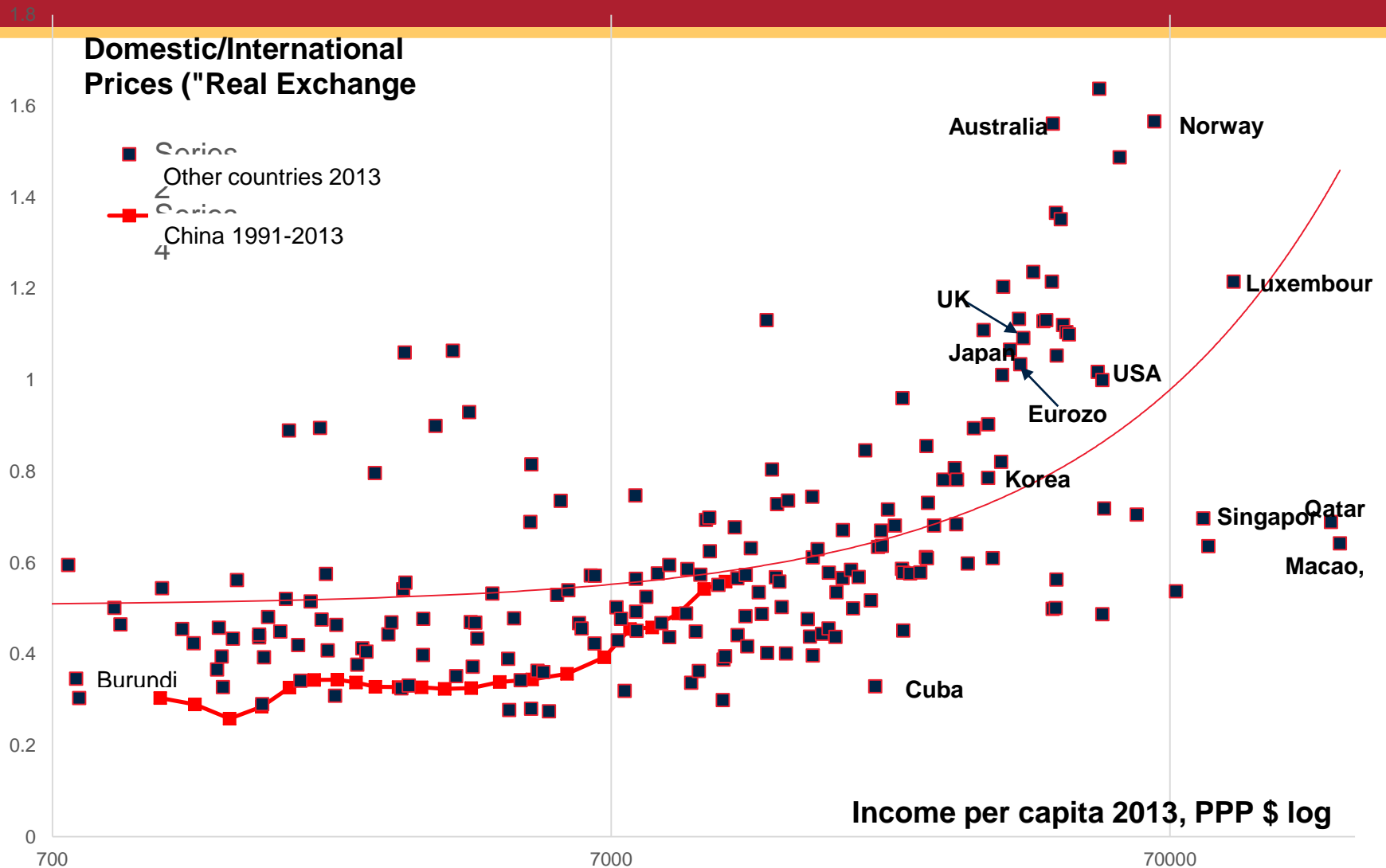


Rapid real appreciation reduced current account surpluses



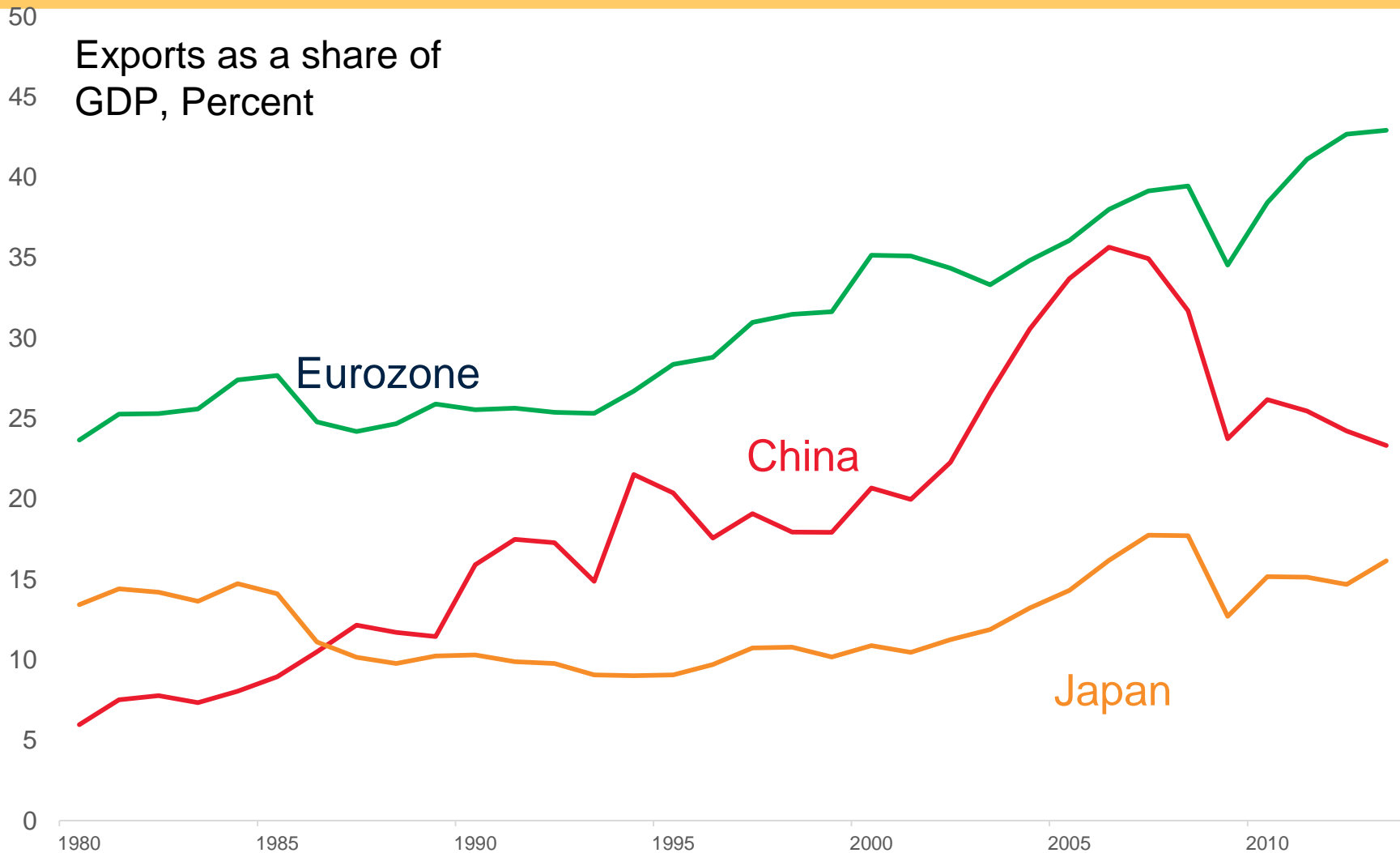
Source: World Bank Prospects group

More real appreciation to come



Source: World Development Indicators, Staff Estimates

Importance of external demand declining



Source: WDI

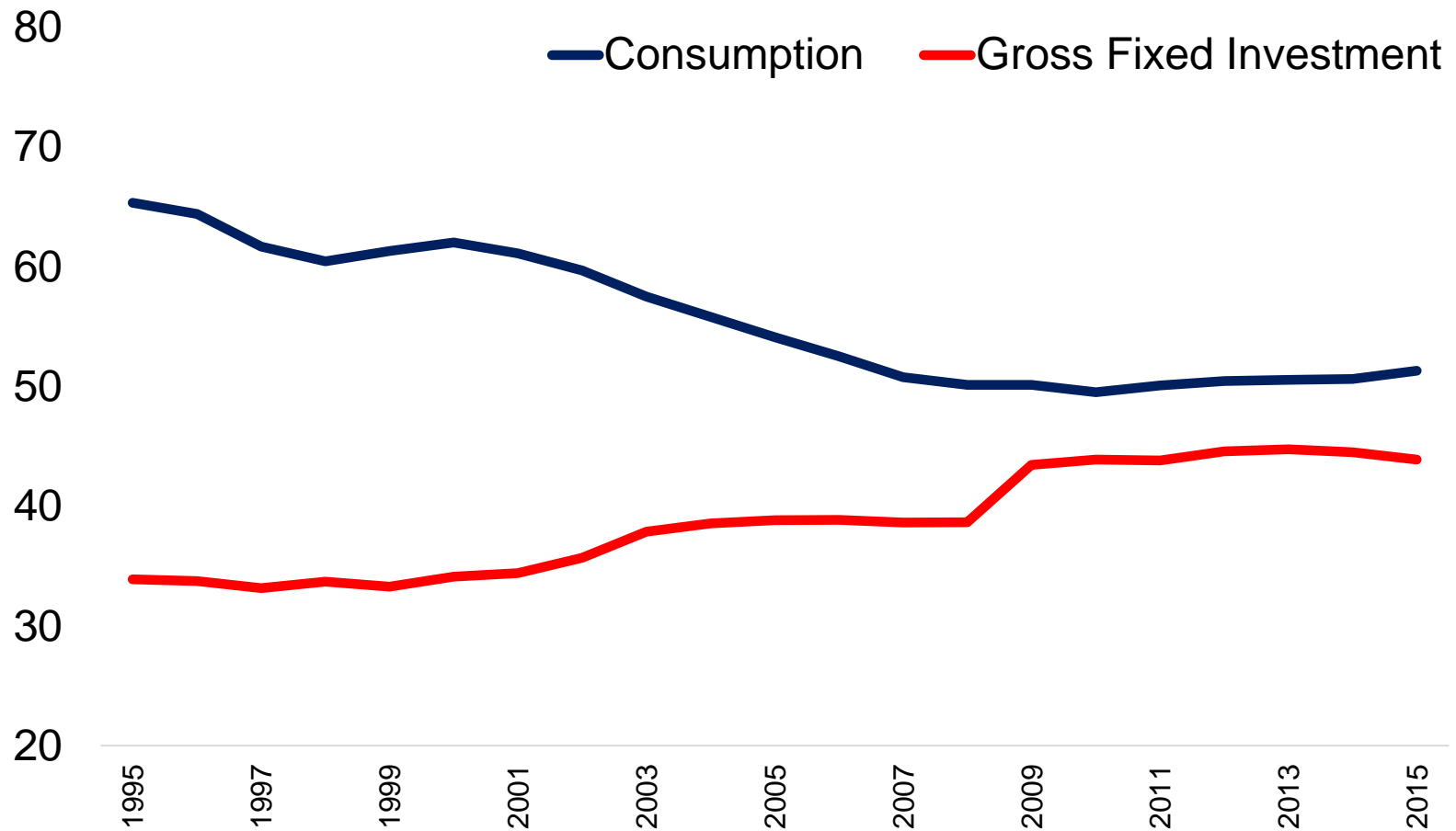
Real estate leading the investment slowdown



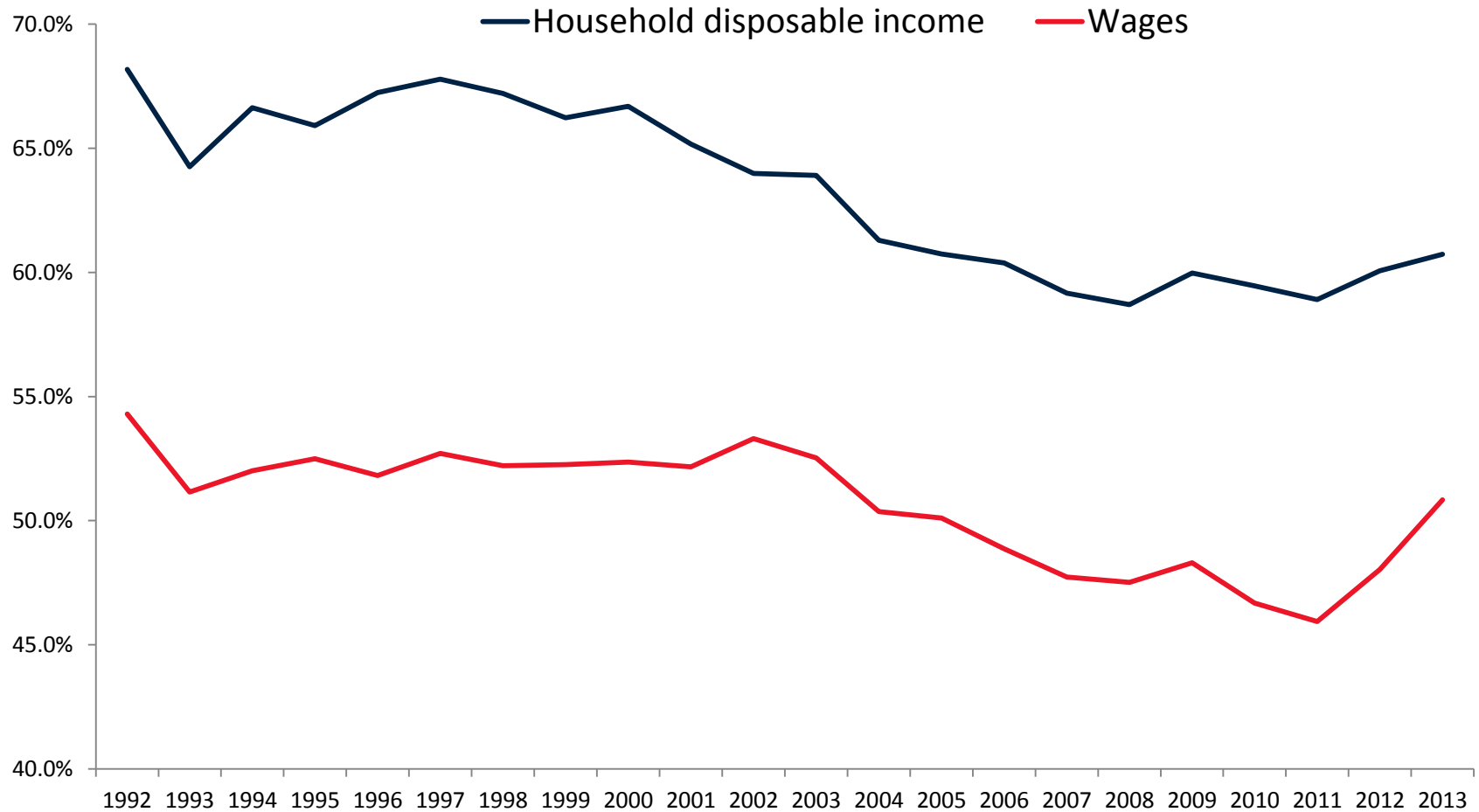
Source: National Bureau of Statistics through CIEC

Consumption hesitantly turning around

Share of GDP



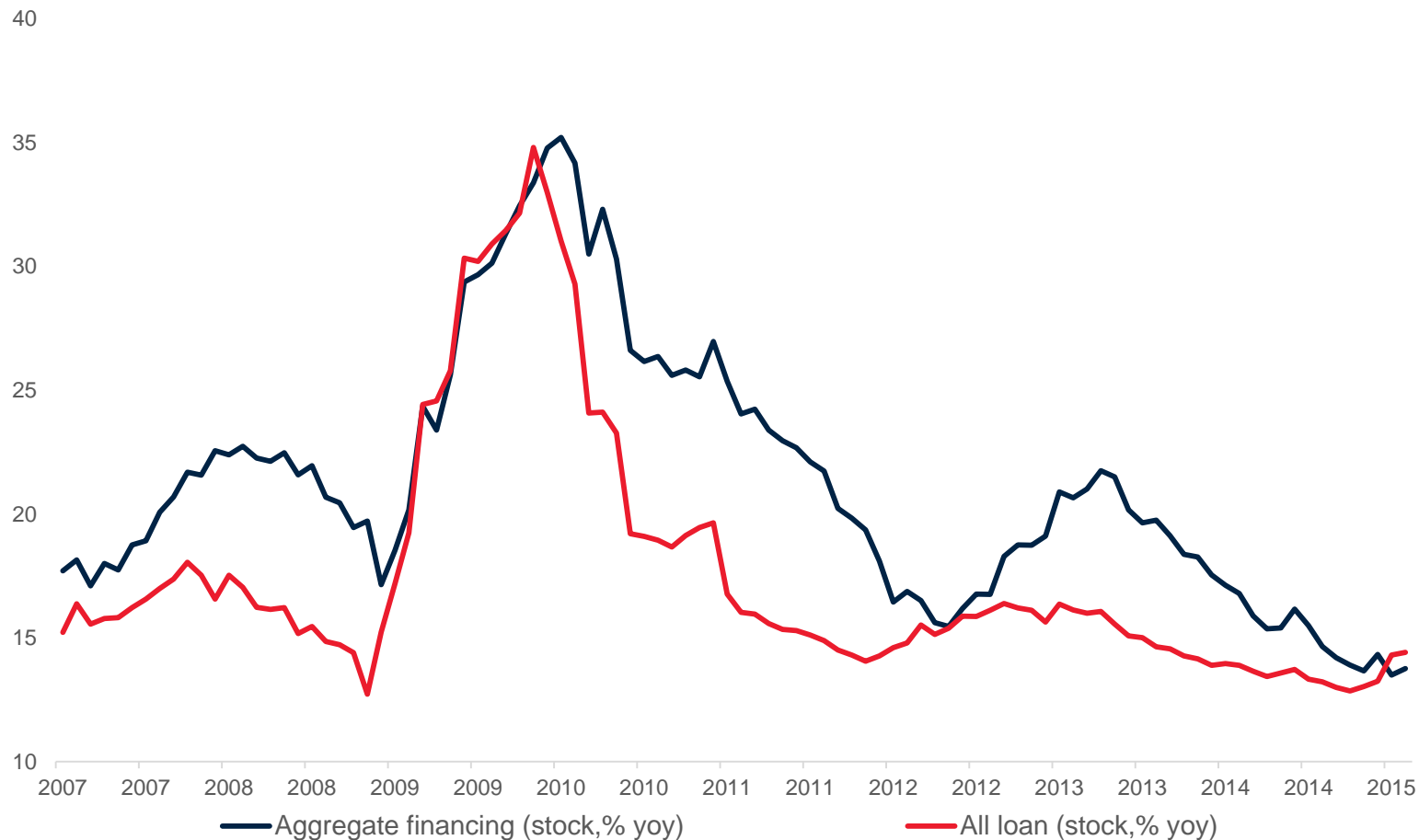
Household Income Share Increasing



Sources: CEIC, World Bank estimates

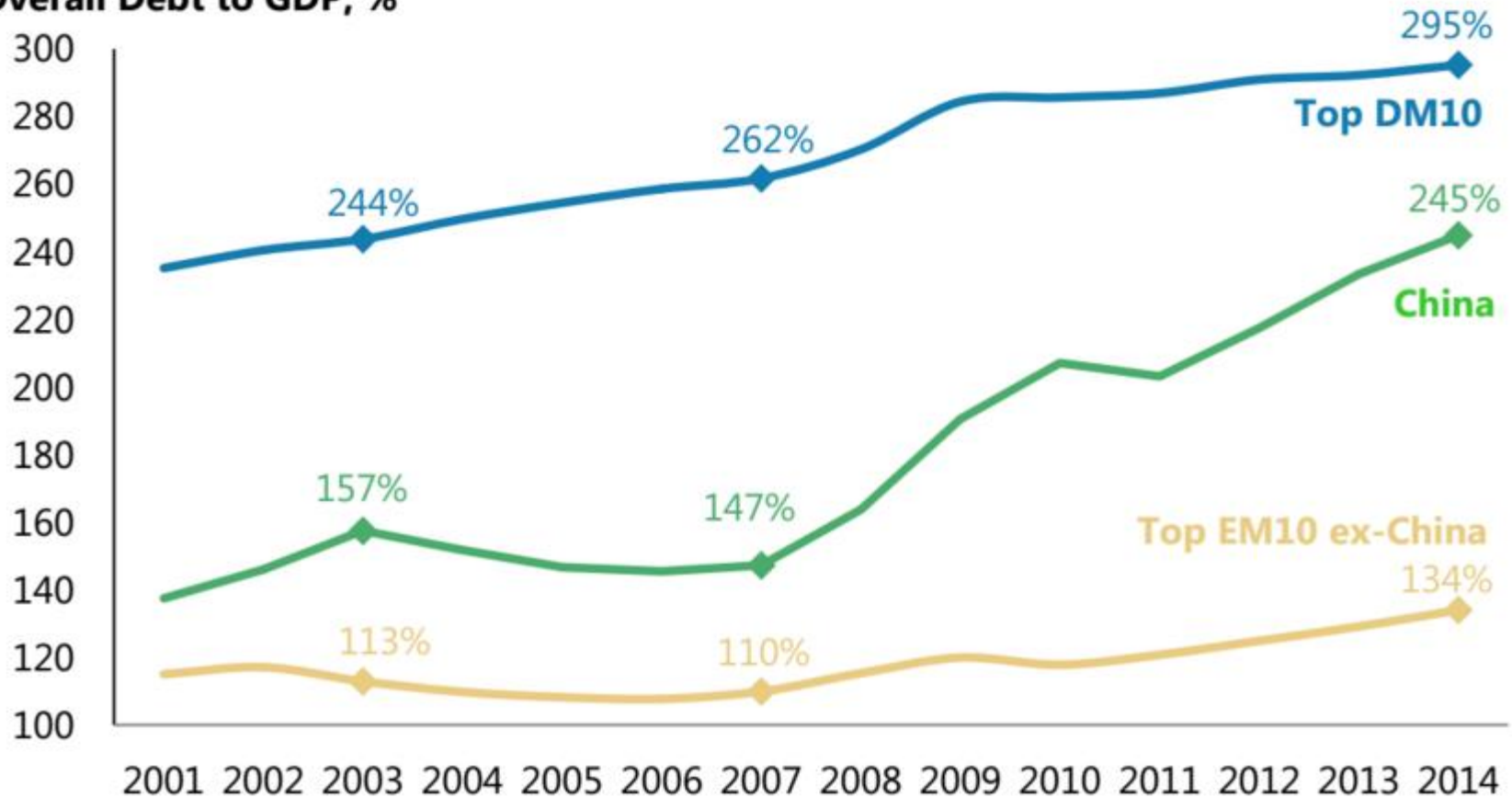
The Aftermath of a Credit Binge

Growth in outstanding total credit stock (% yoy)



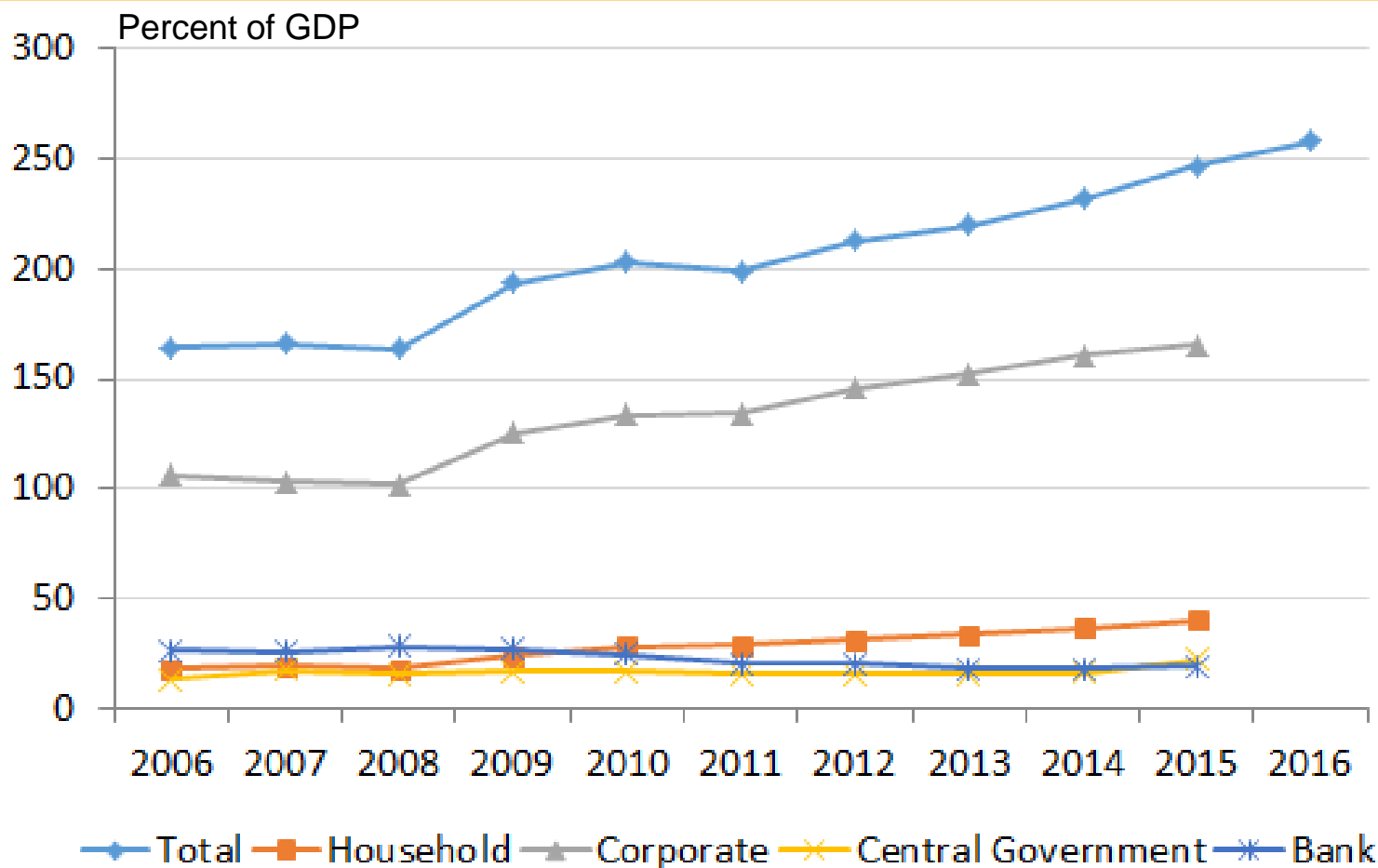
Leverage still increasing (and not just in China)

Overall Debt to GDP, %



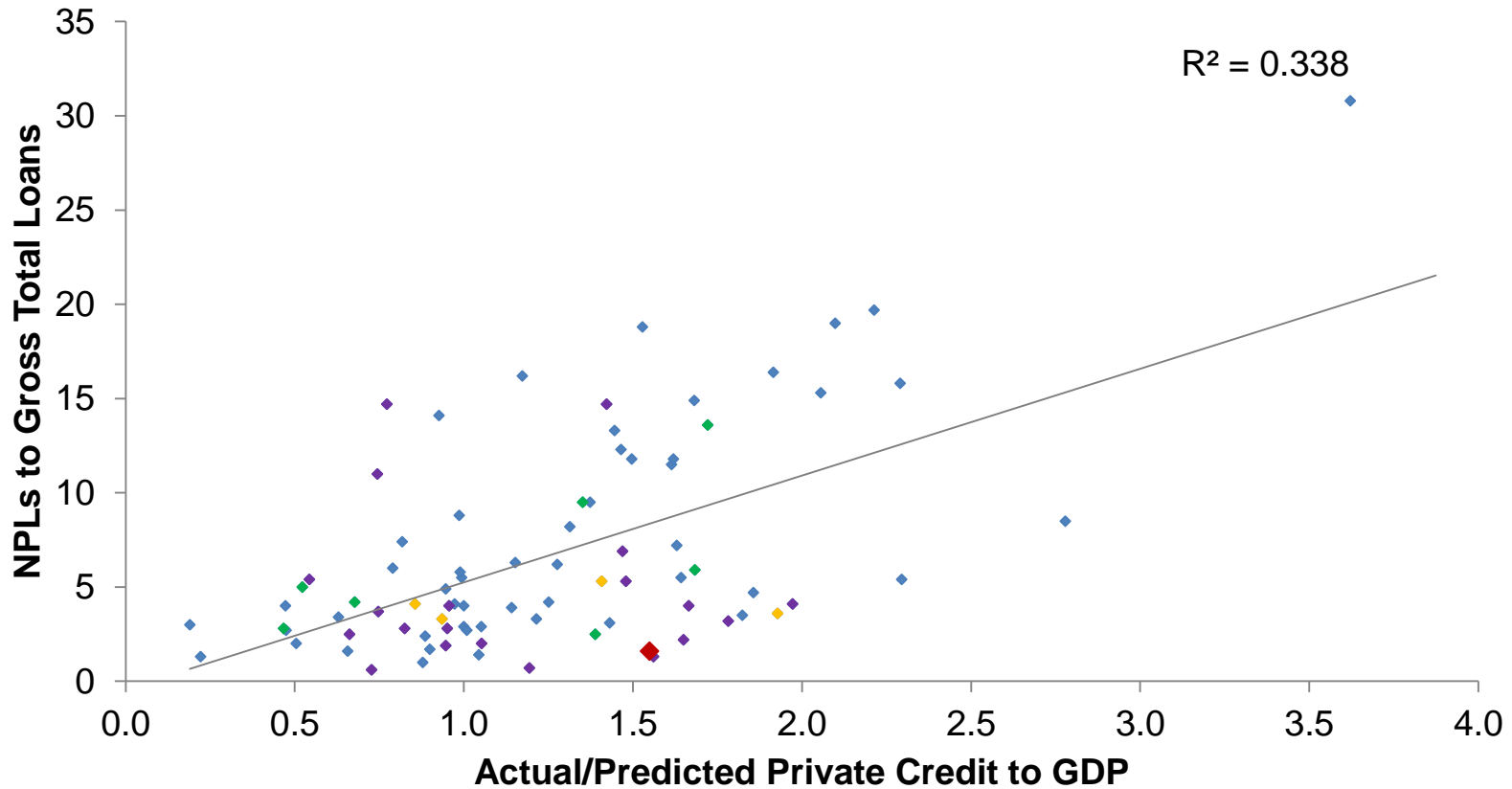
Source: Morgan Stanley

Corporate debt the biggest risk



Note: 2016 Figure is a projection, assuming 8% nominal GDP and 13% debt growth.

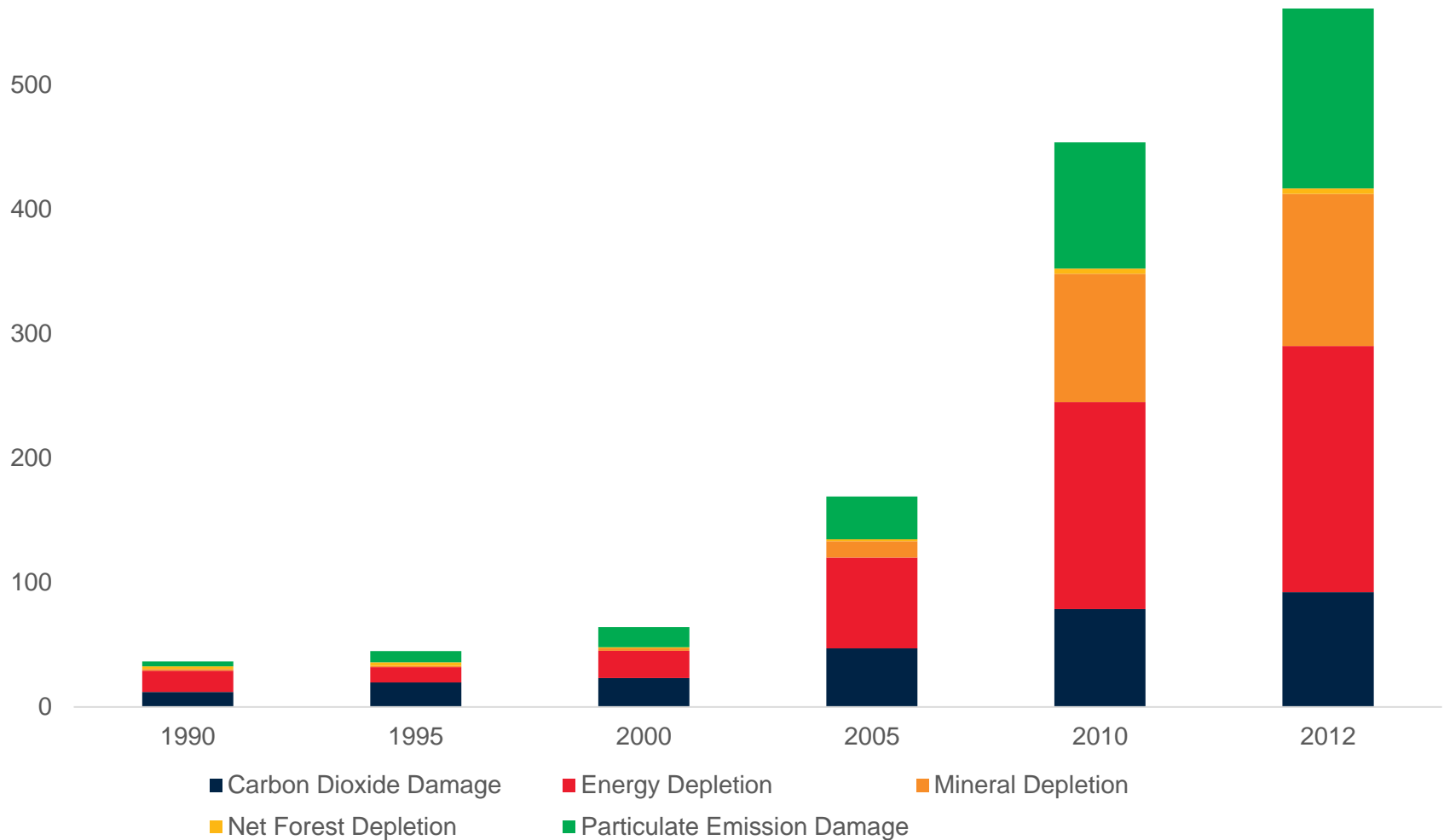
Rapid Credit Growth Tends to Result in Non-performing Loans



- ◆ All other countries
- ◆ HIC
- ◆ G20 Non-Asia MIC
- ◆ East Asia MIC
- ◆ China

Cost of Environmental Damage Rising

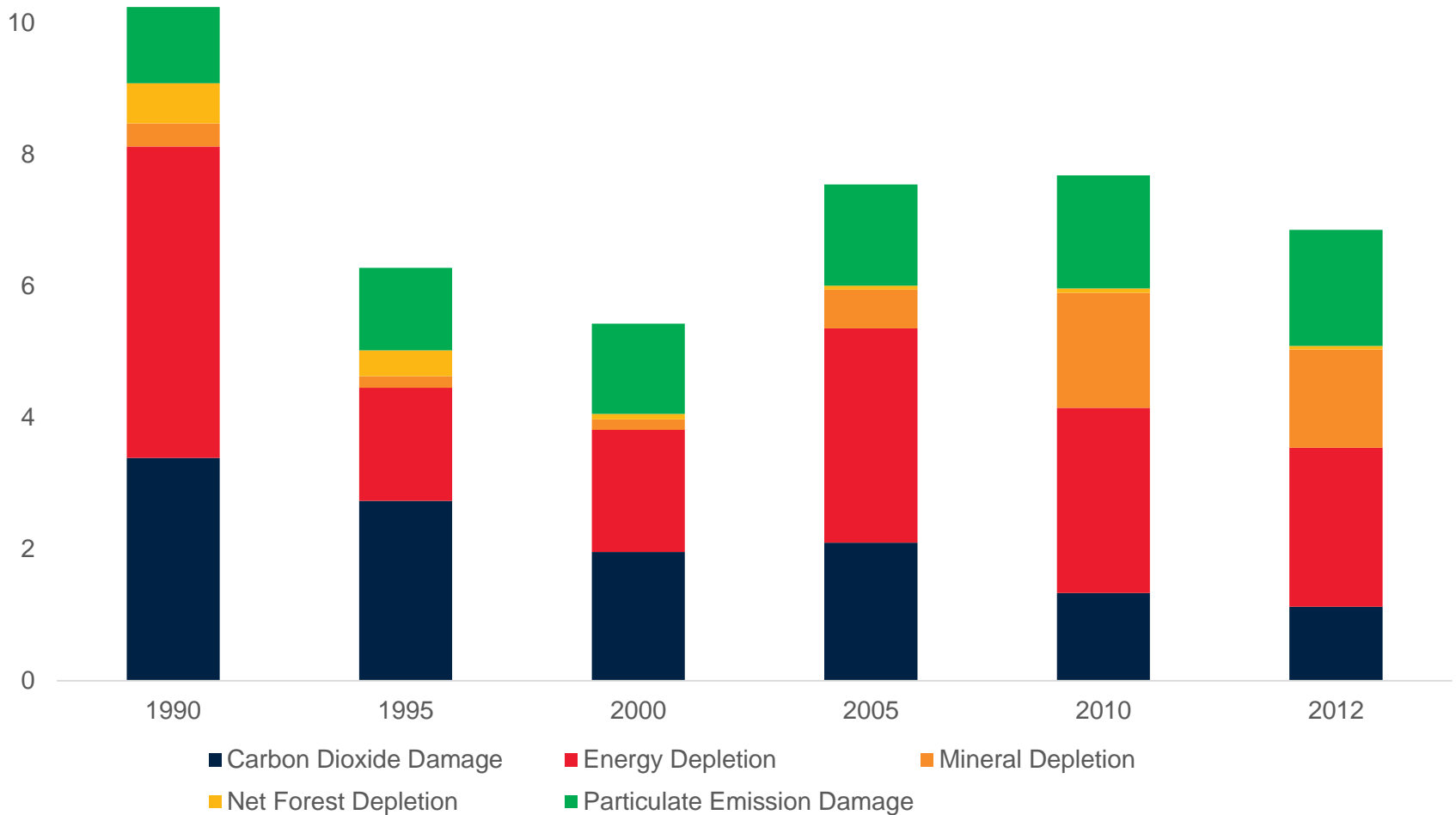
600 Bn. Current US\$



Source: World Development Indicators

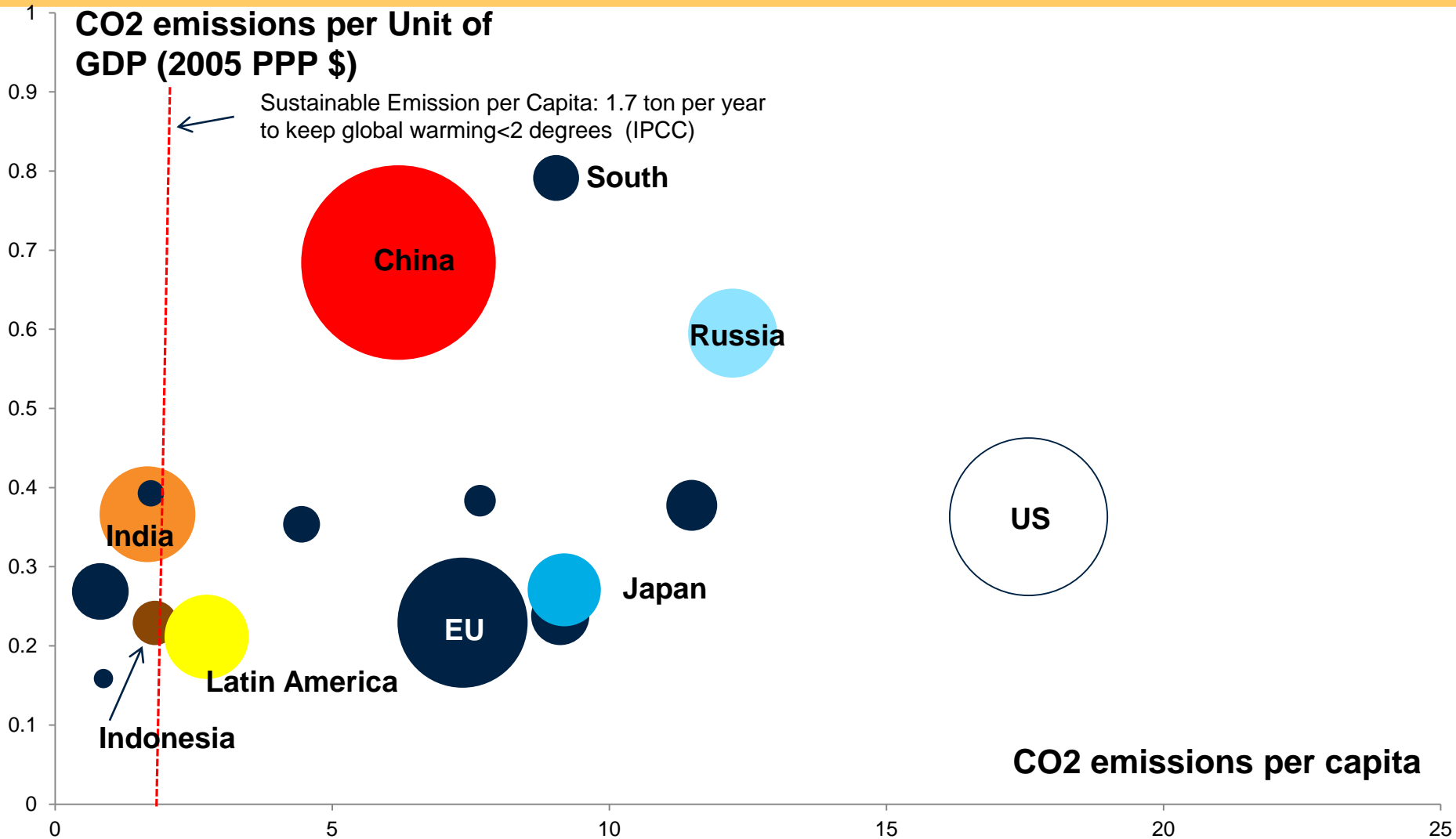
Though not as a share of GDP

12 Percent of Gross National Income



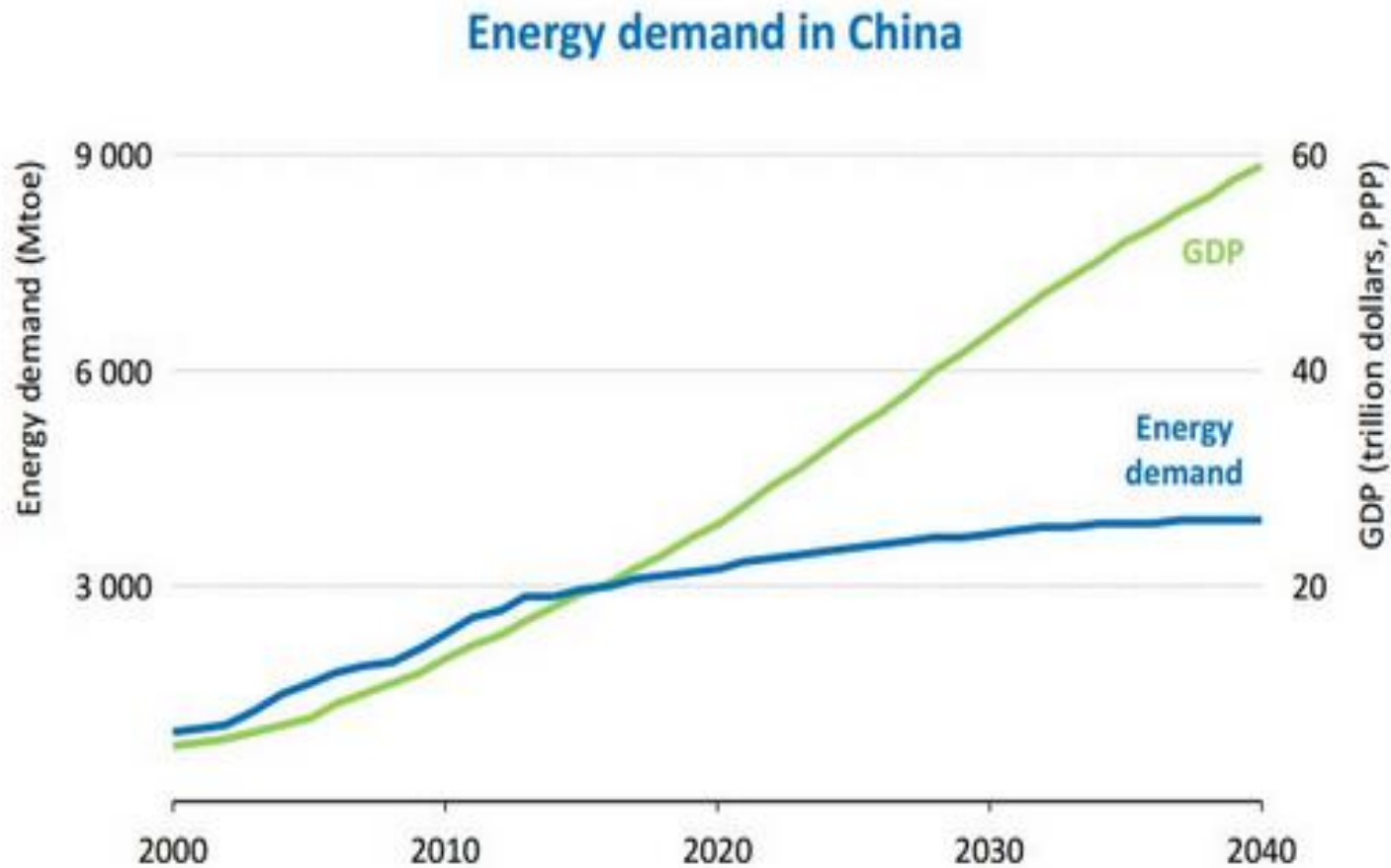
Source: World Development Indicators

The Big Global Issue



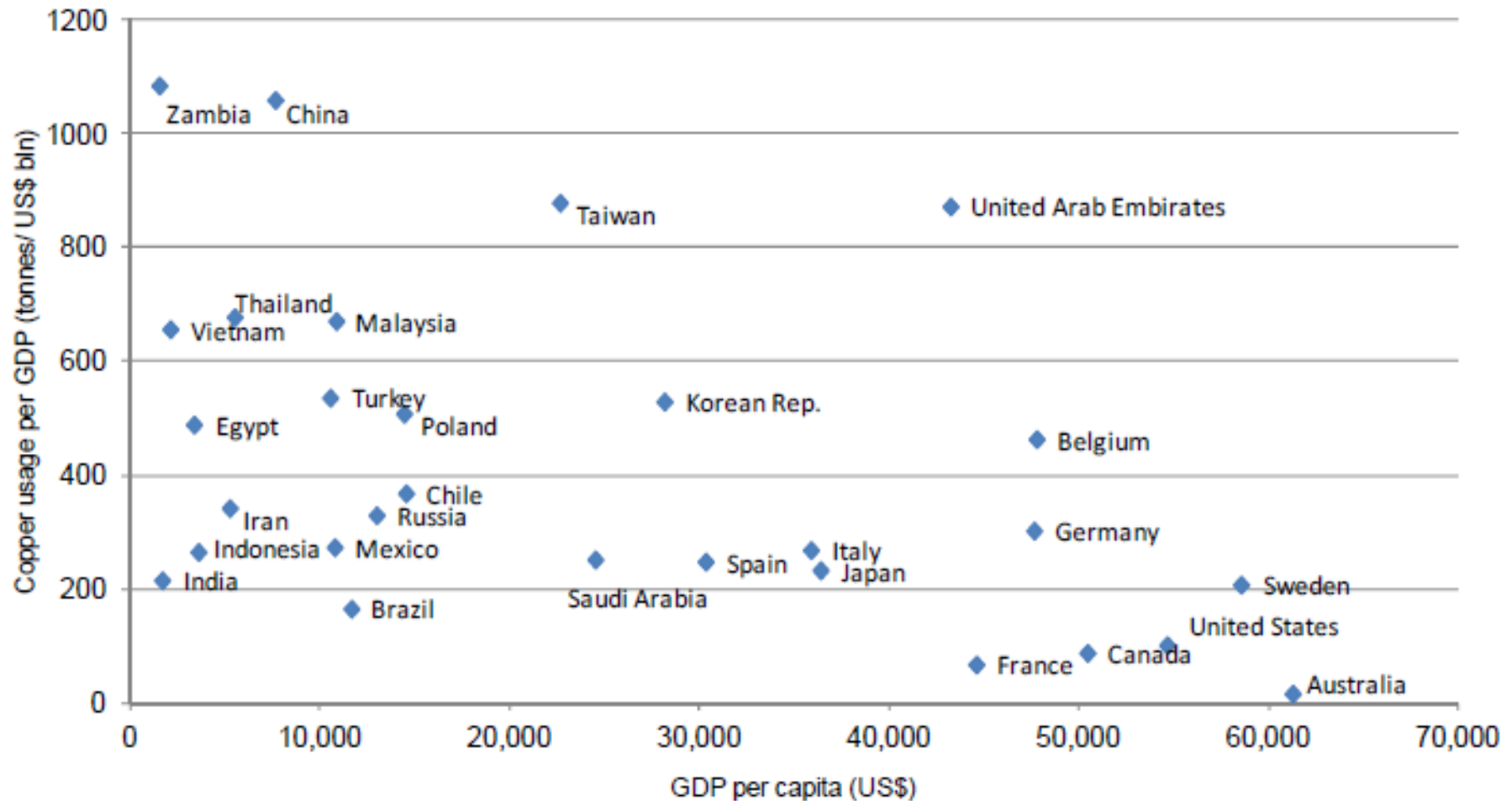
Source: World Development Indicators. Note: Emissions exclude change in land use. Bubble indicates total emissions

China's energy intensity is falling



Source: IEA Energy Outlook 2015

China's copper intensity of GDP among highest in the world

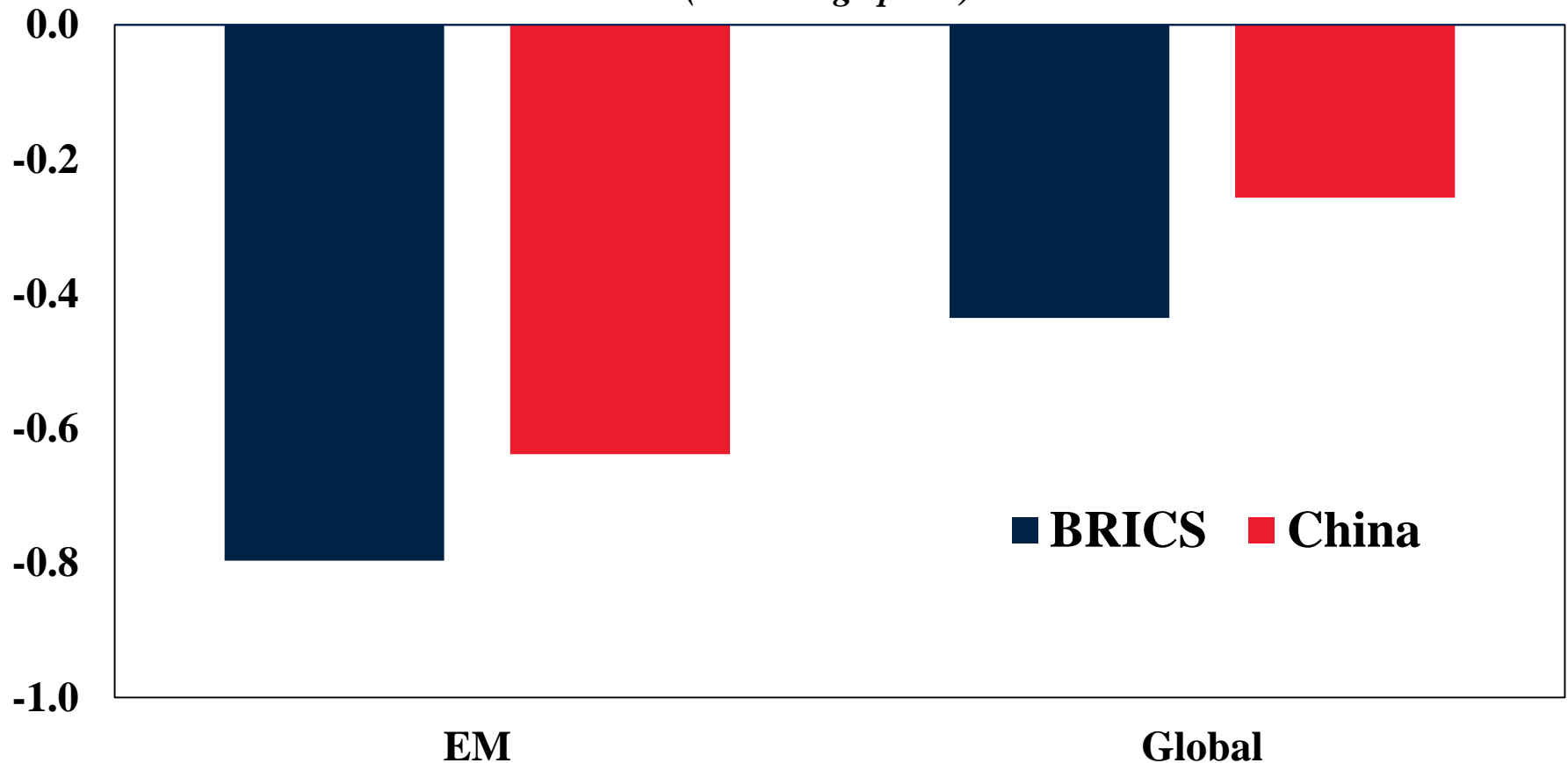


Source: International Copper Studies Group

SPIILLOVERS FROM CHINA'S SLOWDOWN

Large Spillovers from Slowing BRICS

Decline in BRICS and China Growth on Other Emerging Markets and World
(Percentage point)

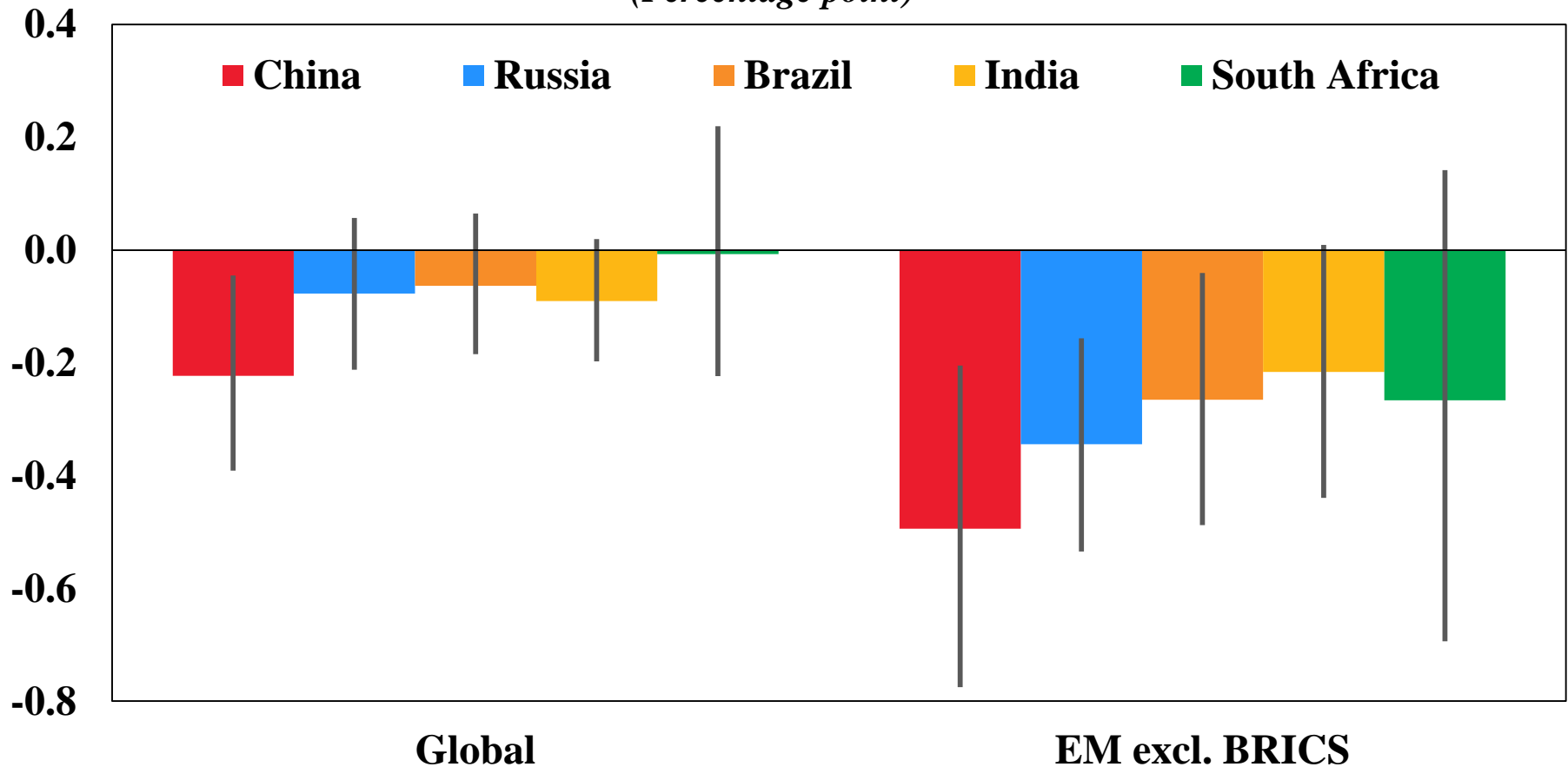


Source: World Bank staff estimates.

Note: Cumulated impulse responses of EM and global growth at the two-year horizon. The shock size is such that BRICS growth declines by one percentage point on impact. The shock size for China is calibrated such that its growth declines by exactly the same amount as BRICS at the end of two years. Solid bars denote the median and the error bars denote the 33-66 percent confidence bands.

China a Source of Global Spillovers

Decline in each of the BRICS growth (1 pp) on Global and Other EM growth
(Percentage point)

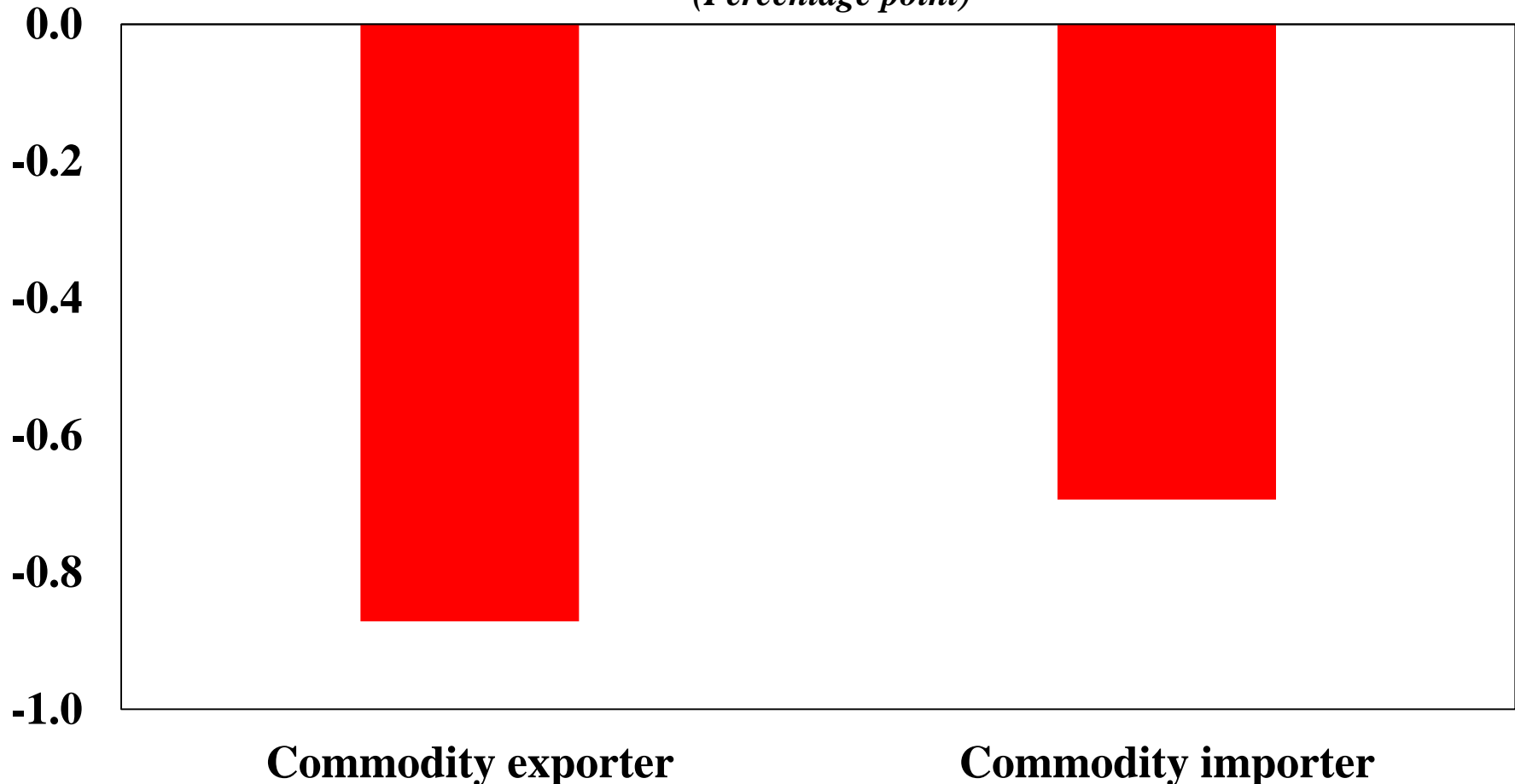


Source: World Bank staff estimates.

Notes: Cumulated impulse responses at the end of two years due to a one percentage point decline on impact in China growth. EM excludes BRICS. Global is GDP-weighted average of BRICS, EM, FM, and G7 responses. Bars represent medians, and error bars 16-84 percent confidence bands.

Slowing China Affects Commodity Exporters More

Decline in China Growth (1 pp) on Emerging Markets Growth
(Percentage point)



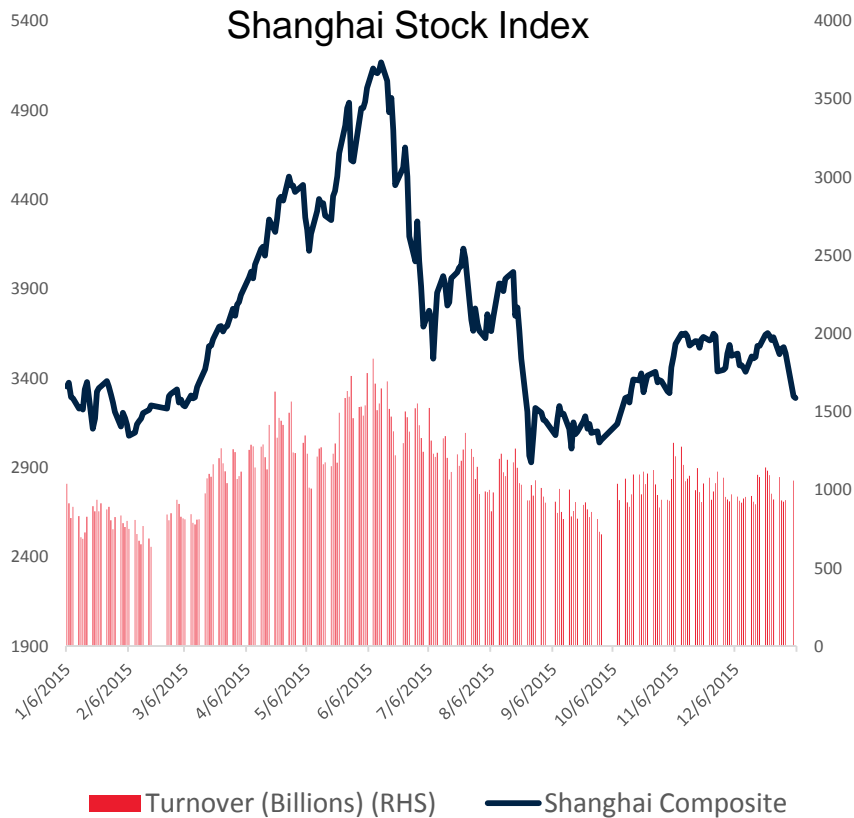
Source: World Bank staff estimates.

Left: Cumulated impulse responses of GDP growth, at the two year horizon, due to a one percentage point decline in China growth. For each group, the figures refer to the cross-sectional average response across all the countries in that group.

ANNEX: RECENT FINANCIAL MARKET VOLATILITY

Financial Market Volatility

Stock exchange bubble burst

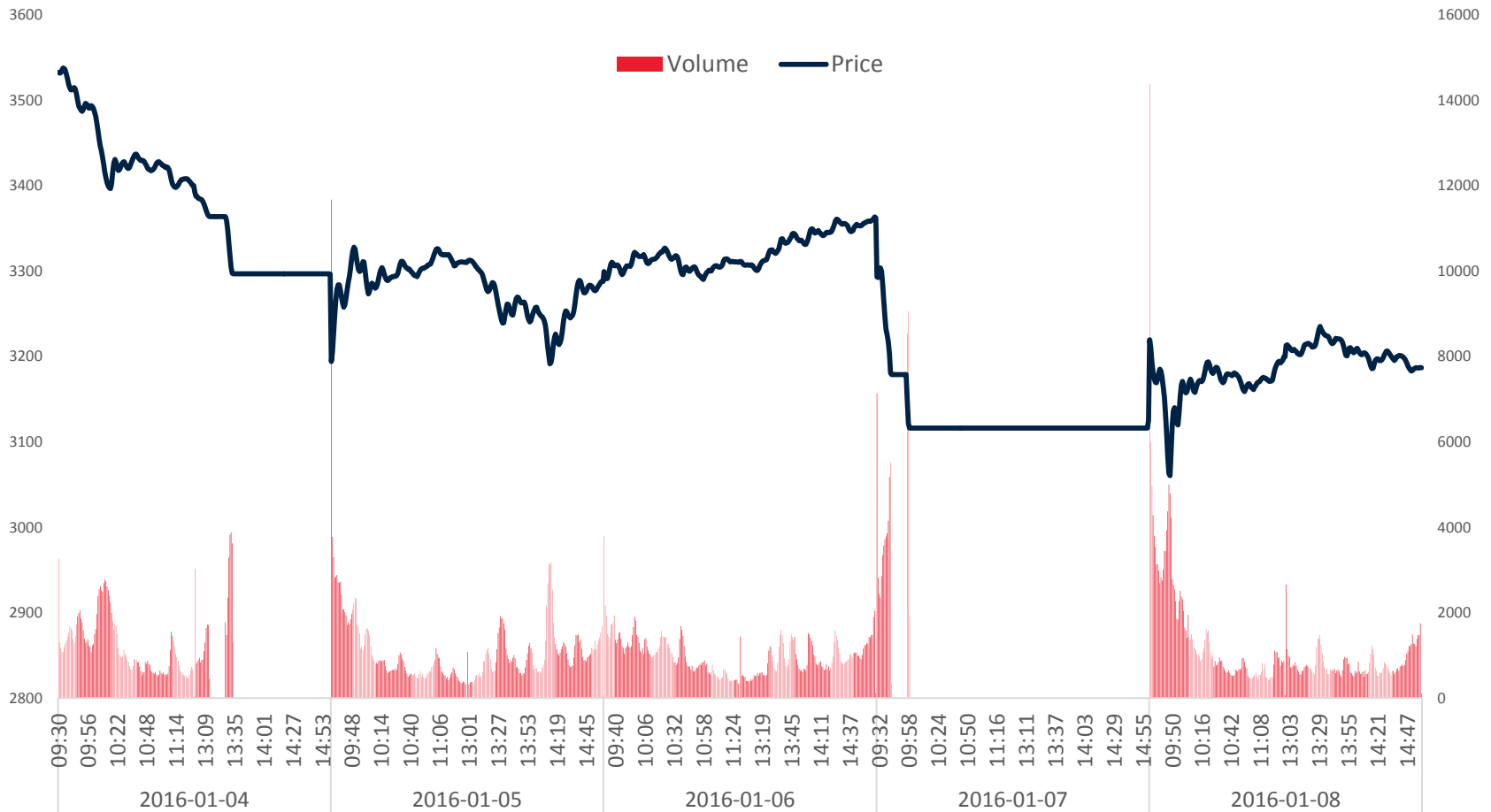


Not for the first time



Source: Wind database

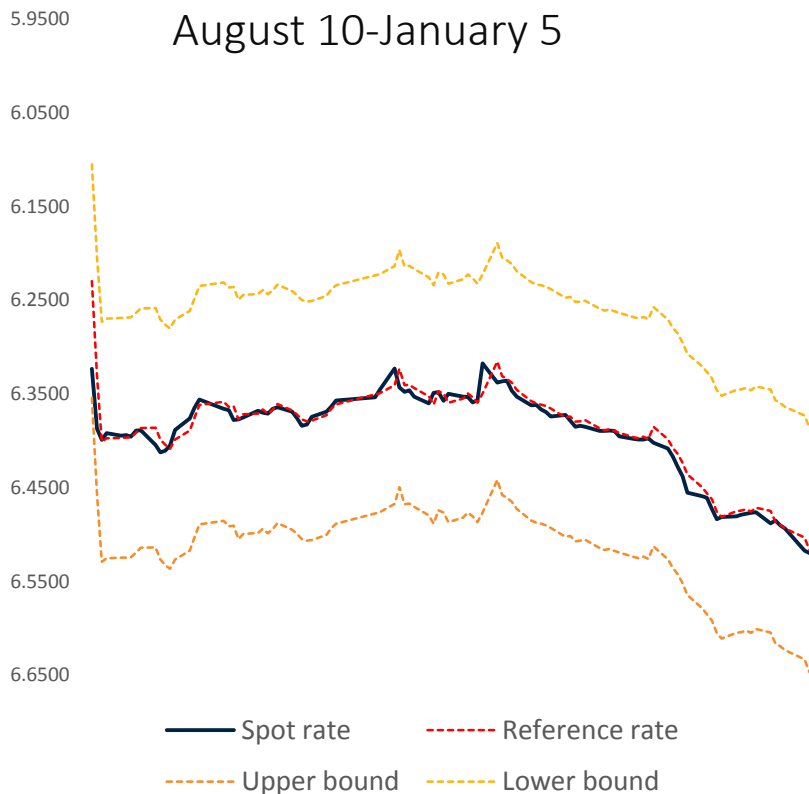
Mixed results of circuit breakers



Source: Wind database

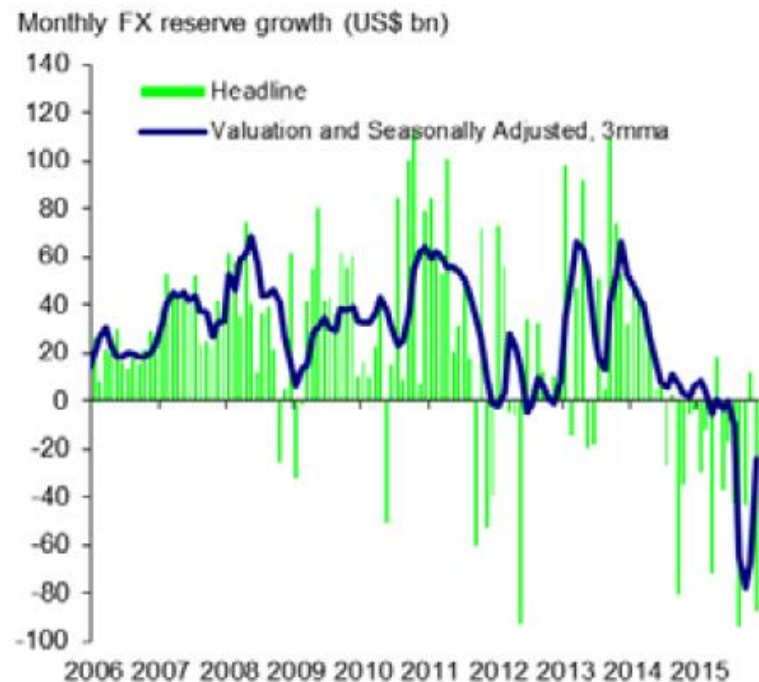
Financial Market Volatility

Pressures on RMB/USD



Source: Wind database

Driven by capital outflows

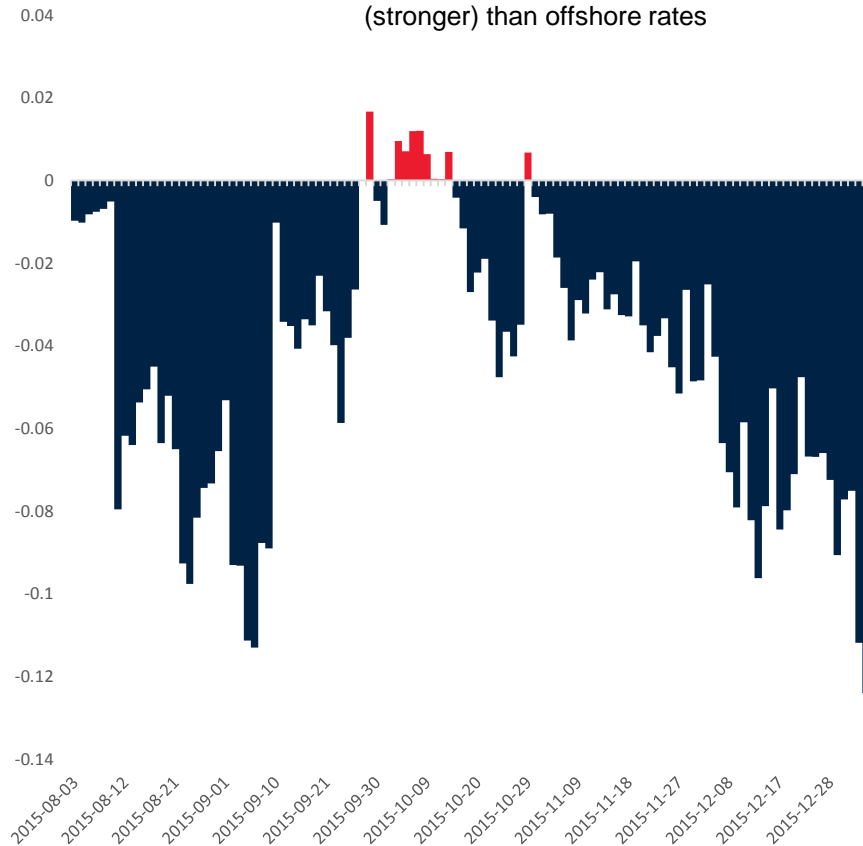


Source: CEIC, UBS estimates

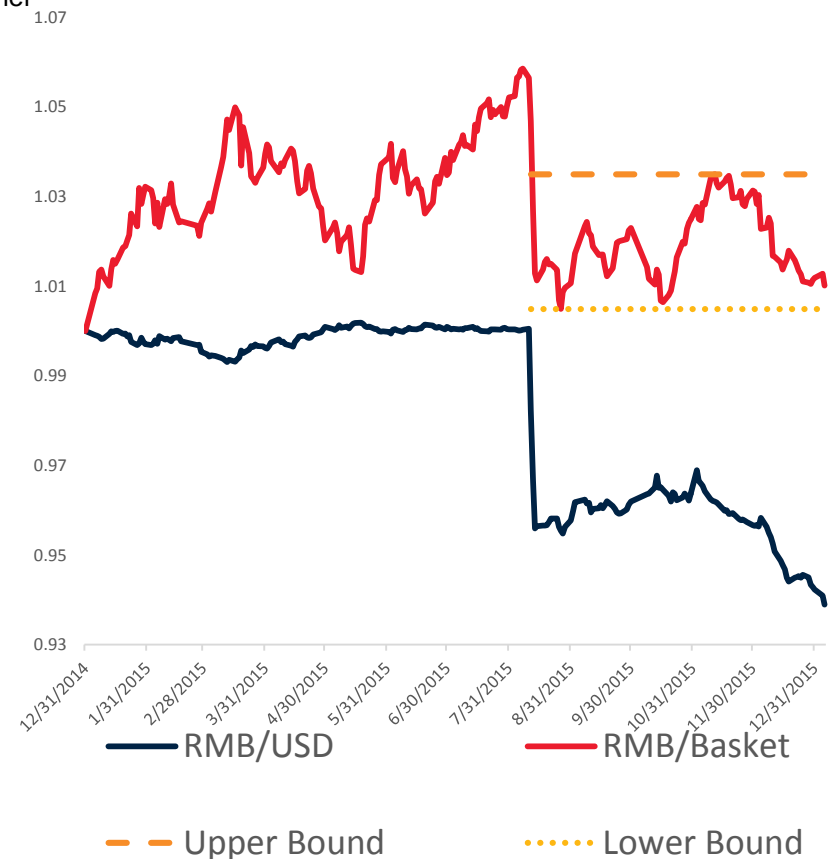
Financial Market Volatility

And arbitrage opportunities

CNY/CNH spread, negative values indicate that onshore rate is higher (stronger) than offshore rates



But RMB *Basket* still in a band



Source: Wind database

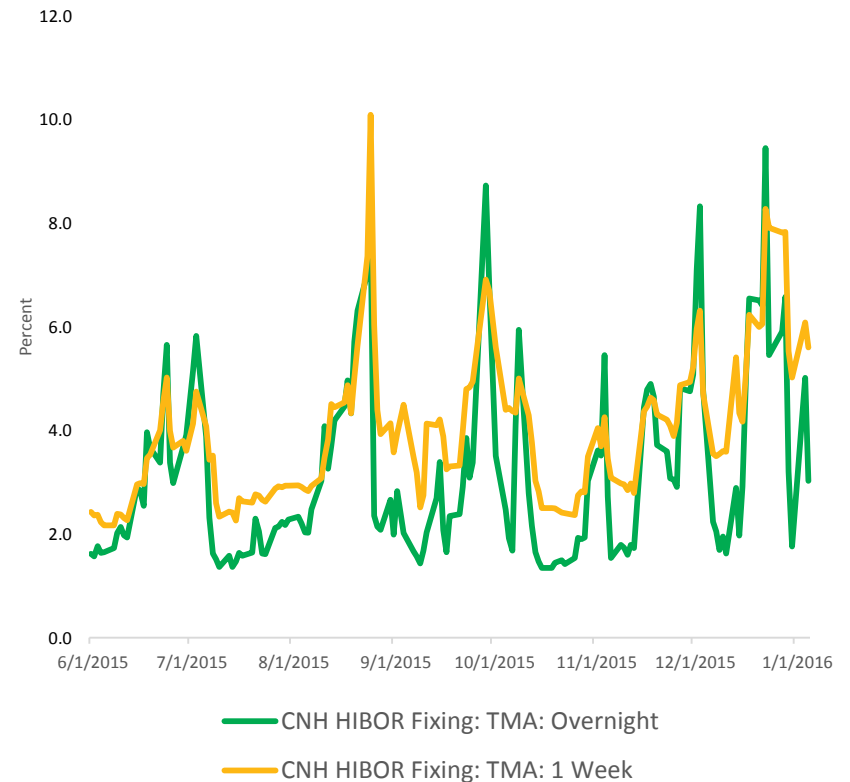
Financial Market Volatility

Interbank rate surprisingly calm



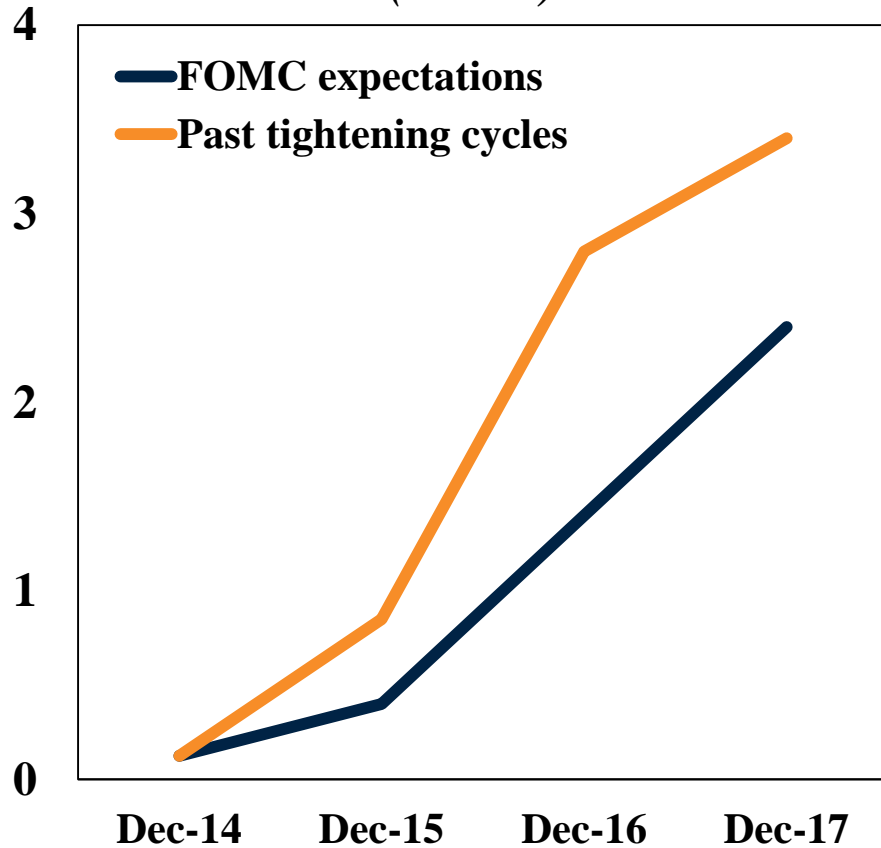
Source: CIEC Data

Lots of volatility in Hong Kong

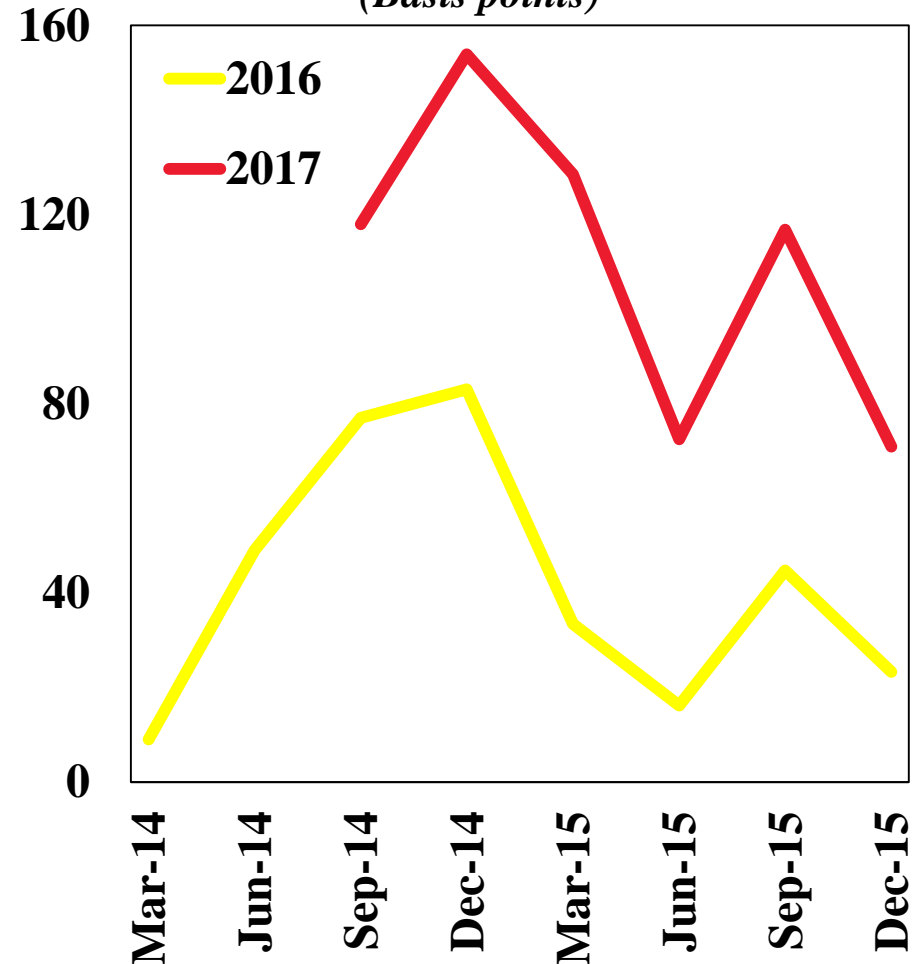


U.S. Monetary Policy: *Slower Tightening Cycle; Gap Remains*

**U.S. Policy Interest Rates
(Percent)**



**Gap between FOMC and Market Expectations
(Basis points)**

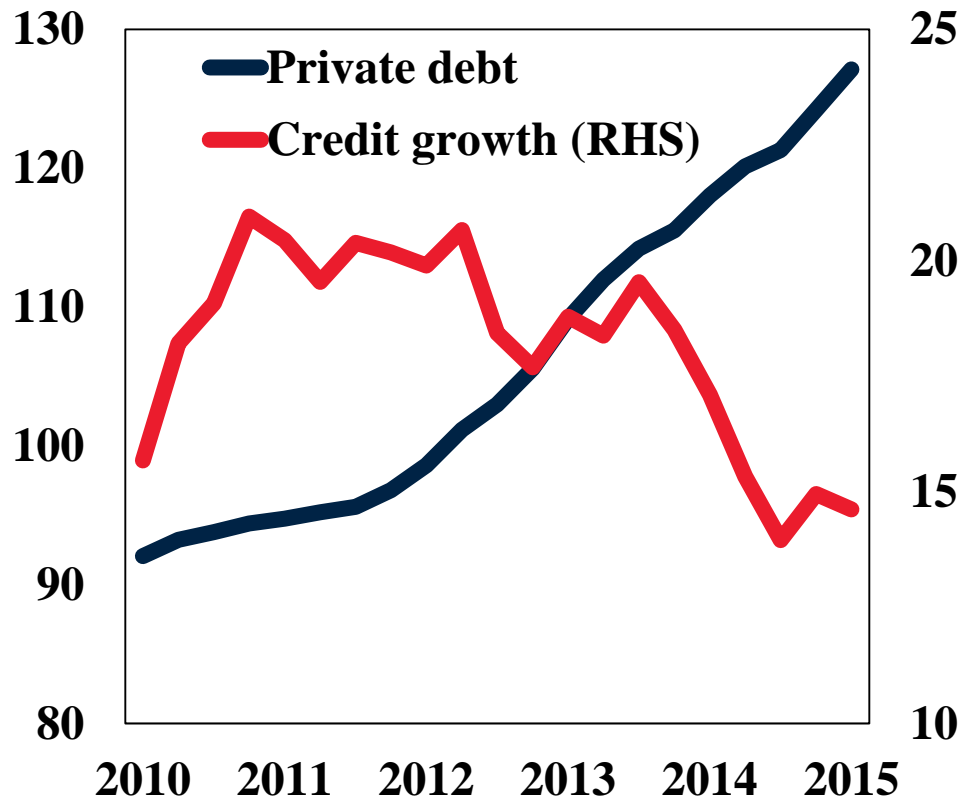


Source: World Bank, Bloomberg, US Federal Open Market Committee.

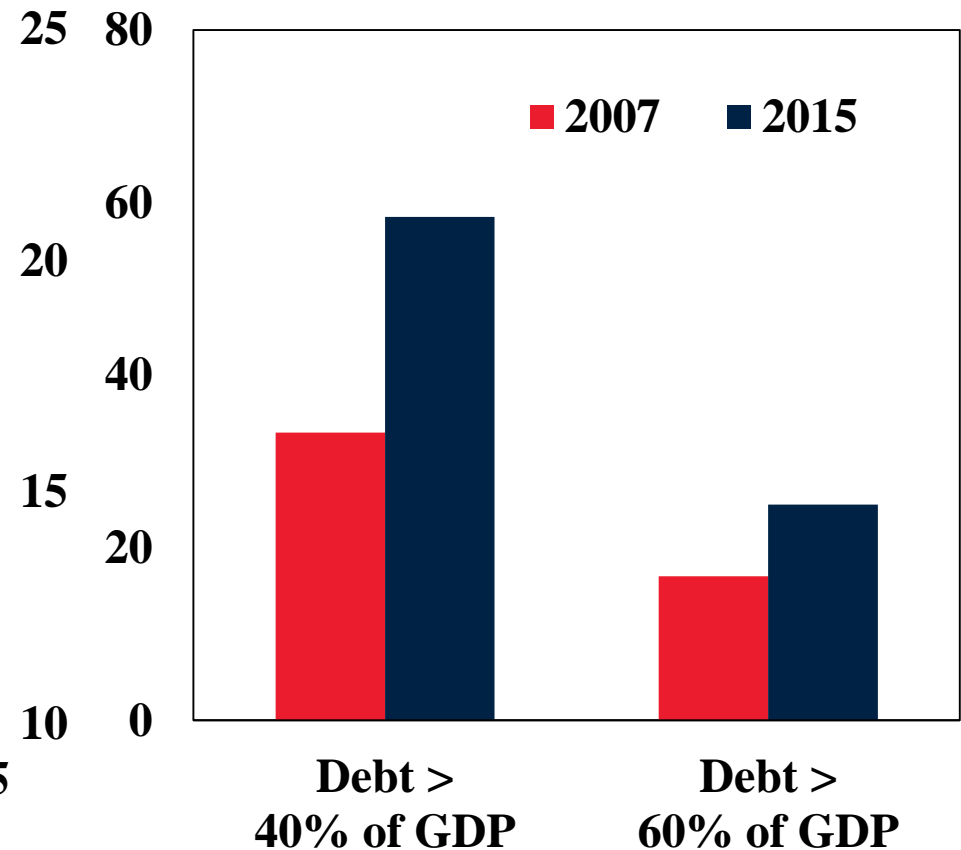
Note: Left panel: Past tightening cycles refers to average of Fed fund rate hikes during previous tightening cycles (December 86, March 88, February 94, March 97, June 99, and June 04). Market expectations as of December 15.

Financial Market Turbulence: Elevated Debt

**Private Debt and Credit Growth
in Emerging Markets**
(Percent of GDP, percent)



**Number of Emerging Markets with
Elevated Government Debt**
(Percent, share of countries)



Source: World Bank, International Monetary Fund, Bank for International Settlements.

Left panel: Weighted-average of debt-to-GDP ratios of households and non-financial corporations in Brazil, Russia, India, South Africa, Mexico, Indonesia, Malaysia, and Turkey. Right panel: EM with general government debt above 60 percent of GDP in 2015 include Brazil, India, Hungary, Morocco, Pakistan.