IMF GROWTH FORECASTS

3 October 2014

The IMF forecasts economic growth rates for member countries which are published biannually in the *World Economic Outlook*. They provide benchmarks for investors and country authorities in their analysis and decision-making. **This snapshot considers IMF WEO forecasts for GDP growth in selected economies since 2008.**

Actual GDP growth is given as a solid red line (—), while the forecasts for that year in successive (April) WEOs from 2008 to 2014 are given in the dotted lines. The most recent forecasts mapped here are from the April 2014 WEO given as (**- - -**), however it is important to note that in her 'curtain-raising' speech for the 2014 Annual Meetings the IMF MD, Christine Lagarde, signalled further downward revision in the WEO that will be released next week: *'Overall, the global economy is weaker than we had envisaged even six months ago. Only a modest pickup is foreseen for 2015, as the outlook for potential growth has been pared down'.*

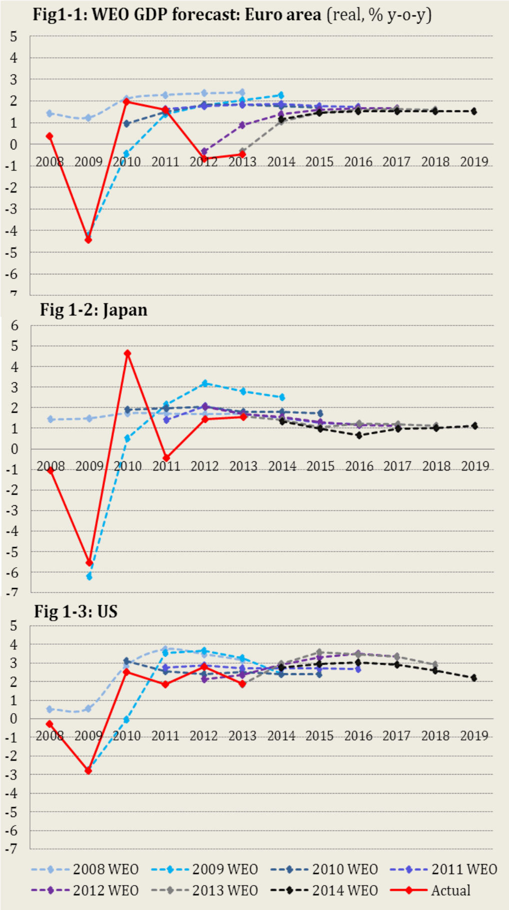


Fig1-1: WEO GDP forecast: Euro area (real, % y-o-y)

Fig 1-2: Japan

Fig 1-3: US

Figures 1.1—1.3 illustrate actual and anticipated GDP growth for the three dominant regions of the global economy: the **Eurozone, Japan and the US.** The actual and anticipated GDP growth outcomes for these economies reflects the pattern of expectations and actual experience that have characterised the period since the global financial crisis began in 2007-2008. This is discussed in **IREP Issue Brief 1-14** (*The Three Phases of the Global Financial Crisis*, 18/02/14).

The first phase of the crisis (2007-2009) saw a profound contraction of economic growth in most economies, with a very sharp collapse in performance in 2009. Recovery in 2010 was, in most cases, much greater than anticipated in the 2009 WEO (- - -) but the expectation at that time was nevertheless for a much stronger recovery in the outer years 2011-2014 than has been attained, in both advanced economies and large developing economies. In stark contrast, anticipated growth rates for Nigeria, Mozambique and Zambia fell well short of actual outcomes, and from 2011, forecasts for African economies were much higher than in the 2008-2010 period.

The region with the greatest divergence between actual growth attained and growth levels forecast is the Eurozone. The approach to addressing the crisis in the Eurozone debated in the 2009-2010 period was characterised by differing views on the relative costs and benefits of national policy responses to the crisis and a consensus emerged in favour of austerity policies. However by 2013, the 2011 and 2012 outcomes resulted in a revision of the IMF's guidance to economies in the Eurozone when Blanchard acknowledged that the IMF had underestimated the effects of fiscal multipliers in their forecasts. Despite current negative rates of economic growth in this region, the April WEO forecast suggest sustained confidence in rapid recovery in 2014 with expectations of rates between 1% and 2% from 2015. Given that, since April 2014, the leadership in the ECB has been clear that it does not share this optimism flagging deflationary concerns and the need for a stronger fiscal response and structural reforms, (see **IREP Issue Brief 6-14**, *Draghi-nomics*, 19/09/14). It is very likely that the forecasts for this region is among those likely to be *'pared down'* by Lagarde's team.

Figures 2.1-2.4 illustrate these for **South Africa, Brazil, India and China.** Of the southern BRICS, South Africa bears the closest similarity in both actual and anticipated growth outcomes with the Eurozone. Actual GDP growth for **South Africa** dipped sharply in 2009 but recovered in 2010. Actual outcomes have fallen well short of forecasts since 2011.

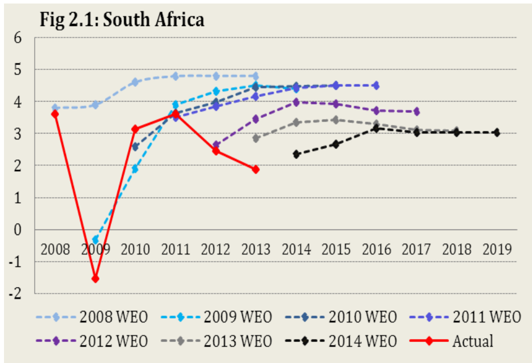
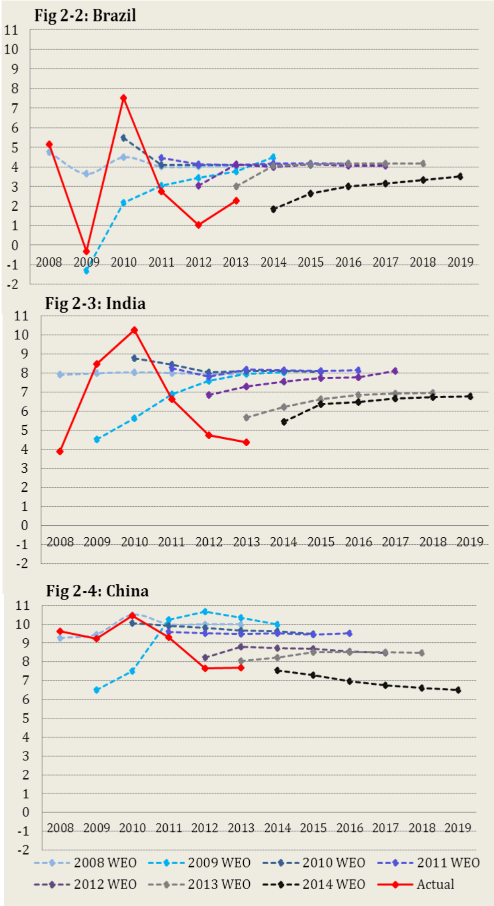


Fig 2.1: South Africa

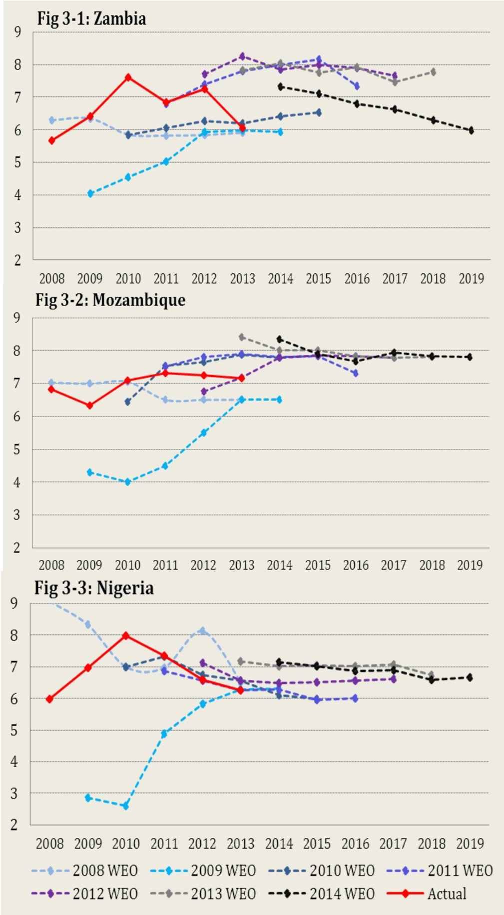
Brazil, India and China all enjoyed almost double digit growth rates in 2010, but all have seen a precipitous decline in rates since. Like South Africa, growth in Brazil has been between 1% and 3% since 2011, but 2012-2013 suggests some recovery. The decline in economic growth rates in India has been very steep, and as discussed in **IREP Snapshot 17-14**, (*Modi-nomics, 25/07/14*) was a major issue in their general election earlier this year. Of the southern 'BRICS', the IMF is currently most pessimistic about future outcomes in China. China is the only systemically significant economy for which the IMF anticipates a deteriorating medium-term trend.



Figures 3.1-3.3 illustrate the WEO forecasts for **Nigeria, Mozambique, and Zambia**, three strategic partner economies in sub Saharan Africa where South Africa has increased trade and investment interests.

What is notable about the IMF growth forecasts for these countries is that the anticipated outcomes for the 2009-2010 period were well below actual outcomes. Expectations have been significantly revised upward from 2011. The upward trend in these forecasts is in marked contrast to the increasingly downward trends forecast for both advanced economies and large developing economies. This poses questions about the basis of these expectations, given that SSA economies are still heavily dependent on external demand.

For these economies, large divergences between forecast and actual outcomes, both in terms of the level and volatility of growth, can have non-trivial effects on public debt management and expenditure planning. Debt sustainability analysis to assess the risk of external debt distress is anchored in metrics of debt burdens that include forecasts of debt to GDP. For many sub Saharan African economies these can determine access to IMF financing as they are integral to the design of debt limits in IMF programmes.



WEO forecasts have been the subject of reviews and statistical tests by analysts who have concerns with respect to whether WEO forecasts are unbiased and informationally efficient. In April 2014, the IMF's own Independent Evaluation Office (IEO) investigated the IMF's medium term forecasts of GDP growth (IEO, BP /14 /1). Their assessment is that the quality of the medium-term forecasts is acceptable, however there is more room for improvement relative to short-term forecasts.

The recommendations to IMF management is that measures should be taken to improve consistency of process or method in the production of medium-term forecasts within the institution, and that guidelines for groups of countries in similar situations be identified. The IEO study also recommended that point forecasts by staff be appropriately complemented with discussions about medium-term issues, including risks assessments described with fan charts and alternative scenarios to baseline projections. They also suggested that a cross-departmental unit be set up to discuss IMF-wide views on medium term forecasts. Such a unit could encourage greater consideration to the evolution of global and regional economies over longer horizons with more consideration of the structural drivers of economic growth. The IEO also recommends better monitoring of forecasting performance and the creation of a culture of learning from past forecast errors from their finding from interviews with desk economists that past errors are rarely looked at. *It is not yet clear whether IMF management proposes to take any of the IEO's recommendations forward.*