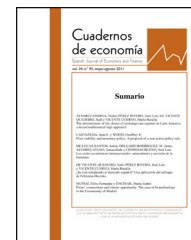




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ARTICLE

Are official GDP growth forecasts for Latin American and Caribbean countries downward biased?

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Abstract This article presents a comparative analysis of GDP growth forecasts for 19 Latin American and Caribbean (LAC) countries, reported by the IMF and ECLAC for the period 2003–2013. Contradicting the general result of the literature that asserts that economic predictions of official organizations tend to be optimistic, our results show that during that period, one year-ahead IMF and ECLAC GDP growth forecasts were downward biased. Furthermore, the analysis of usual goodness of fit measures and accuracy tests show that ECLAC's forecasts performed relatively better than that of the IMF during the period. Another interesting result is that no evidence was found regarding the influence of political type incentives on the bias of GDP forecasts as suggested by some authors. Instead, the results show that downward bias in projections has been strongly influenced by the underestimation of the impact of international economic factors, particularly the drastic increase in commodity export prices, on GDP growth of LAC economies.

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PALABRAS CLAVE

Sesgo de predicción;
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y El Caribe;

¿Están las proyecciones oficiales del PBI de los países de América Latina y El Caribe sesgadas hacia abajo?

Resumen Este artículo presenta un análisis comparativo de las proyecciones de crecimiento de PBI de 19 economías de América Latina y El Caribe, reportados por el FMI y CEPAL para el período 2003-2013. En contraste con los resultados provenientes de la literatura según los cuales las proyecciones económicas de las organizaciones oficiales tienden a ser optimistas (o sesgadas positivamente), nuestros resultados muestran que las proyecciones de «año a año» del PBI realizadas por el FMI y CEPAL se encuentran sesgadas hacia abajo. Asimismo, a partir de indicadores tradicionales de bondad de ajuste de las predicciones y de test formales de precisión se evidencia un desempeño relativamente superior de los pronósticos elaborados por CEPAL respecto de los reportados por el FMI. Otro resultado interesante es que no se ha

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Precisión de la
predicción

encontrado evidencia de la influencia de incentivos de tipo político en el sesgo de las proyecciones de PBI como sugieren algunos autores. En cambio, los resultados muestran que el sesgo hacia la subestimación de las proyecciones durante el período ha estado influenciado por la subestimación del impacto de factores económicos internacionales, en especial, el aumento de los precios internacionales de productos de exportación sobre el PBI de las economías de América Latina y El Caribe.

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1. Introduction

During the last years, an extensive debate has emerged regarding the accuracy of economic forecasts reported by a number of international official organizations.¹ In the majority of cases, the debate has focused on the biasedness and efficiency of economic forecasts referred to developed countries. A few of these contributions also include the assessment of forecasts from developing countries but to our knowledge, no study addresses the analysis of economic predictions on specific emerging countries regions. The purpose of this paper is to examine the size and nature of errors in GDP growth forecast reported by the Economic Commission of Latin American and the Caribbean Countries (ECLAC) and the IMF for 19 Latin American and the Caribbean (LAC) countries, during the period 2003–2013. As well, we assess some hypothesis discussed by the recent literature regarding the sources of GDP growth forecast bias, distinguishing those taken from political economy literature from those related with external factors that affect actual behavior of developing countries GDP growth. While the former investigates the relationships between the incentives faced by official organizations, their stakeholder interests and the forecast bias (see for example Aldenhoff (2007) or Dreher and Vaubel (2004), among others) the latter addresses the impact of external shocks on developing country's macroeconomic volatility (see Takagi and Kucur (2006)).

One year-ahead economic growth forecasts of LAC economies produced by ECLAC are reported yearly in the *Preliminary Overview of the Economies of Latin American and the Caribbean*,² issued by December of each year. On the other hand, IMF forecasts are reported twice a year in the *World Economic Outlook* (WEO).³ In this paper we contrast the performance of one year-ahead ECLAC's GDP growth forecast with IMF forecasts published in October of each year.

This analysis is relevant for at least three reasons. At first, there could be some common structural factors that

may affect "regionally" the performance of forecasts. Secondly, it offers the opportunity to compare the performance of forecasts made by multilateral *versus* regional official organizations. Thirdly, in some cases, like in LAC, countries can share some institutional similarities that allow the formulation of common political economy hypothesis regarding the origin of forecasts bias.

The paper is organized as follows. In the next section, we examine the traditional measures goodness of fit and we assess the unbiasedness and efficiency hypothesis for GDP growth forecast. In the third section we assess some hypothesis on the factors that may cause forecasts bias in ECLAC and IMF GDP growth forecast errors for LAC countries. Finally, some concluding remarks are presented.

2. Forecast bias, efficiency and accuracy

During the period 2003–2013, LAC countries experienced significant economic growth rates. The main sources of this growth relate with the increase of external demand of raw materials which pushed up the price of commodities, mainly metals, petroleum or agricultural products.⁴ Table 1 shows the summary statistics. As mentioned, the sample consisted of 19 LAC countries.⁵ However, some subsamples can be built taking into account geographical proximity of countries and trade union zones. Thus, we included Argentina, Brazil, Paraguay and Uruguay, in Mercosur subsample; Bolivia, Colombia, Ecuador, Peru and Venezuela in Andean Community; Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, in Central America, and; Dominican Republic and Haiti in The Caribbean.

Appendix I shows the summary statistics of actual and projected average growth rates for the overall sample and subsamples. As can be seen, actual average growth rates exceeded IMF and ECLAC forecasts rates, with the only exception of The Caribbean. Indeed, for the overall sample, the differences between actual and forecasted GDP were near a half of a point for ECLAC's and IMF's projections, but the differences were even higher in the case of other

¹ Being the International Monetary Fund (IMF) and, to a lesser extent, the Organization of Economic Cooperation and Development (OECD) the most recurrently assessed. See, for example, Pons (2009), Timmerman (2007), Aldenhoff (2007), Dreher et al. (2008), Artis (1996), among others.

² www.cepal.org.

³ www.imf.org.

⁴ For an analysis of the relationship between commodity prices and growth in LAC see Camacho and Perez-Quiroz (2013).

⁵ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

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