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**Statement by the Managing Director**

**The Acting Chair's Summing Up**

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# STATEMENT BY THE MANAGING DIRECTOR ON THE INDEPENDENT EVALUATION OFFICE REPORT ON IMF FORECASTS: PROCESS, QUALITY, AND COUNTRY PERSPECTIVES

**Executive Board Meeting  
February 27, 2014**

I would like to thank the IEO for preparing this detailed report, which provides comprehensive analysis and valuable insights that support the IMF's ongoing efforts to produce macroeconomic forecasts of the highest quality.

Macroeconomic forecasts are critical inputs not only for the IMF's bilateral and multilateral surveillance, but also for our program negotiations and the assessment of global risks, vulnerabilities, and spillovers. Given the central role forecasts play in many of the IMF's core activities, I am pleased to learn that country officials have confidence in the integrity of our forecasts and place high value on our analyses of scenarios and potential risks for the world economy. I am also satisfied by the IEO's findings regarding the quality and accuracy of IMF forecasts and, in particular, that staff forecasts in the context of IMF-supported programs have been unbiased in the majority of cases.

While the report is in many ways reassuring, it also points to a number of areas in which we can and should strive to do even better. In particular, I agree with the

IEO that we should further strengthen the learning culture in the Fund, including by enhancing our learning from past forecast errors, keeping up with advances in forecasting approaches, and implementing the recommendations of external evaluations of IMF forecasts. I also see merit in taking steps to further enhance the transparency of the IMF's general forecasting process. The IEO paper sets out some helpful recommendations in this regard and I will work with staff over the coming months to implement those endorsed by the Fund's Executive Board.

Overall, I support the five recommendations provided in the report. However, as the accompanying attachment prepared by staff sets out in more detail, in a few areas the implementation of specific actions suggested by the report may not be practical or their expected payoffs will need to be weighed against the associated resource costs.

I look forward to the Executive Board's discussion of the report's findings and on how we can further strengthen the Fund's macroeconomic forecasting capabilities.

**Table 1. The Managing Director's Position on IEO Recommendations**

Recommendation	MD Position
1. The IMF should maintain its practice of commissioning external evaluations of IMF forecasts by recognized experts in order to help ensure that forecasts are of high quality and that the process follows best practices.	Support
2. The IMF should enhance processes and incentives for learning from past forecast performance.	Support
3. The IMF should extend guidance to desk economists about how best to incorporate advances in forecasting methodologies for both short- and medium-term forecasts.	Support
4. The IMF should prepare a general description of the WEO forecasting process intended for authorities in member countries and other users. The description should be posted on the publicly accessible part of the IMF website, and it should be reviewed and revised as needed.	Support
5. Data related to forecasts and outturns that already exist internally should be made available to the public	Qualified Support

## Attachment. Detailed Comments Prepared by Staff to the Independent Evaluation Office Report on IMF Forecasts: Process, Quality, and Country Perspectives

*We welcome the IEO's evaluation, which contains novel analysis and interesting information. Overall, we are reassured by the finding that the Fund's forecasts do not exhibit systemic biases and are broadly at par with the private sector. While we welcome the thrust of all five recommendations, implementation of a few of the specific suggestions provided in the report would be difficult, largely because of their resource implications.*

### Analysis

The analysis provided in the report is rigorous and detailed, and some of the background papers will serve an important reference function going forward. The report also contains insightful information about the country authorities' views on IMF forecasts.

In a few places, the report could have placed more weight on the views expressed in the survey, which were favorable and “at odds” with those gathered from interviews with a much smaller number of officials.<sup>1</sup> The recommendations provided in the report on forecast transparency should therefore be considered against the background of these quite positive survey results.

The finding that past forecast biases do not seem to be systematic is reassuring. Clearly, the inability to predict recessions, albeit disconcerting, is not an IMF-specific problem but a challenge faced by the entire profession. Having said that, we will continue to place emphasis on enhancing monitoring and early warning exercises that may help detect turning points in business cycles.

<sup>1</sup>For example, while the report stresses the view of “some officials” that the Fund's forecasts lack transparency, at least 70 percent of the 179 survey respondents provided positive views for every question related to the adequacy of documenting the WEO and Article IV forecast processes. Likewise, while the report highlights that “it is difficult for individuals outside the IMF to access vintages of [WEO] forecasts other than the most recent,” close to 80 percent of the survey respondents indicated that historical time series of IMF forecasts are easily accessible.

## Recommendations

### 1. External Evaluations of IMF Forecasts

We agree with the essence of the first recommendation but will leave it up to the Executive Board to decide whether it would like to be briefed on the recommendations of commissioned external evaluations, noting that these have and will continue to be published. We want to emphasize that we will continue to implement the recommendations made by external experts in their evaluations, as has been also highlighted in IEO's findings.

### 2. Learning from Past Forecasts

We agree with the second recommendation. Learning from past forecast errors is indeed critical, as is appropriate training for forecasters. In this context, we acknowledge the need to periodically review the internal economics training courses offered by the IMF Institute for Capacity Development (ICD) department. We also wish to emphasize that we will continue to work on ensuring the preservation of institutional memory. The implementation of handover procedures for country assignments last September, which now covers all area and functional departments, is a step already underway in that direction.

### 3. Incorporating Advances in Forecasting Methodology

We agree with the essence of the third recommendation, which is to support desks in applying advanced forecasting methods, taking into account the specific characteristics of the country in question. Training and guidance is important in this respect, and we see room to improve the estimates of potential output and output gaps, notwithstanding data limitations. While the emphasis on strengthening macroeconomic consistency in medium-term forecasts is appropriate, this requires additional modeling and progress will thus hinge on broader considerations in the allocation of resources.

### 4. Posting a Description of the Forecasting Process

We see merit in publishing a general description of the WEO forecasting process and the methods used in country

forecasts as suggested in the fourth recommendation. As noted in the report, this would provide a broad understanding of how forecasting is done at the Fund, including how the top-down and bottom-up components of the forecasts are gathered and combined, and how coordination is achieved within and across area departments.

#### *5. Publication of Internal Databases*

While we support (and practice) the principle of publishing data related to macroeconomic forecasts and outcomes, implementation of the specifics of the fifth recommendation will depend on a careful cost-benefit analysis. We note that much of the data that is being sought can already be accessed on the IMF website,

unless relatively old data is sought. IMF staff has also provided upon request past and present forecasting data to researchers and authorities. While presentation, ease of public web access, and historical coverage could be improved, this will require considerable resources and we will need to assess whether these are justified by the pay-offs, which could be limited given that these databases are used mostly by a relatively small group of researchers.

#### **Next Steps**

As usual, a specific proposal for the implementation of the report's recommendations will be made after the Executive Board discussion in a Management Implementation Plan.