POLICY **BRIEF**

NO. **013**

KEY POINTS

- The IMF in its April 2022 World Economic Outlook revised Nigeria's economic growth forecast upward to 3.4% from the 2.7% forecast announced earlier in January.

- Forecasts done long before the actual year show a high possibility of being less correct than those closer to the forecast year.

- Deviations of forecasts from actual values are relatively higher in periods of crisis, such as recession; indicating that crisis are often not envisaged and not adequately prepared for.

Examining the Accuracy of IMF Growth Forecasts for Nigeria

The International Monetary Fund (IMF), in its recently-released World Economic Outlook (WEO) of April 2022, revised Nigeria's economic growth forecast up-ward to 3.4% from the 2.7% forecast announced earlier in January of this year. This new forecast is now closer to the 4.2% growth assumption used in the 2022 budget based on the projections from the National Development Plan (2021-2025). The upward revision of the IMF forecast was based on the global increase in oil prices, among other developments. However, global growth has been re-vised downward from 4.4% to 3.6% consequent on the Russia-Ukraine crisis.

The WEO is a report published by the IMF twice a year. It shows details of eco-nomic developments of countries across the globe in the near future and medium term and makes forecasts on key macroeconomic variables. On a general note, forecasts are made within a five-year window and are revised subsequently based on the economic situation at different points in time.
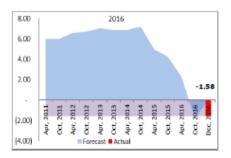
These forecasts influence decisions in over 190 countries as most top officials, analysts and decision makers use them as accuracy benchmark for their own forecasts as well as guidance in planning. The primary aim of forecasts, is to help policy-makers, business men and leaders to make better decisions and develop data driven strategies that will benefit the space in which they operate; hence, accuracy is necessary.

The accuracy of forecasts depends on the magnitude of the observed bias; which can be measured as the difference between the forecast and the actual values. Although forecasts cannot be totally accurate, errors should be kept at the barest minimum to aid planning.
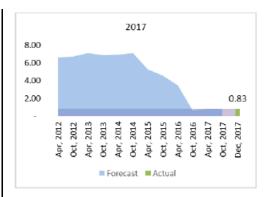
We therefore examine the trend and accuracy of IMF growth forecasts for Nigeria from 2016 to 2021 by comparing the Fund's forecast with the actual values that were finally reported by the National Bureau of Statistics (NBS). The results are presented for each of the years with the relevant charts.
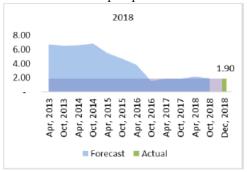
2016: The Nigerian economy contracted by -1.58% in 2016. Meanwhile, the first forecast for the year was given by IMF in April 2011 at 6.0%. This was generally increased over time to 7.18% in the October 2014 WEO forecast; after which the forecast was rapidly revised downward to 4.95% in April 2015 and 2.32% in April 2016 and finally to -1.75% in October 2016. Thus, IMF forecasts for 2016 were largely overstated for all periods, except for the last forecast in 2016, being the year, the actual value was reported. If the deviations from the actual growth are cumulated and averaged for all the 12 periods that forecasts were made, it shows that IMF forecasts had an average deviation of 6.83% per period from the 2016 actual value.
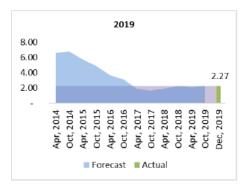

2017: Nigerian economy grew by 0.83% in 2017. The IMF gave the first forecast for the year in April 2012 at 6.61%. This figure was over time revised upwards to 7.07% in the October 2014 WEO edition. Thereafter, there was a rapid downward revision of the growth forecast over the next 4 periods to 0.65% in October, 2016 and to 0.84% in October, 2017. The average deviation from the actual value for the 12 periods therefore stood at 3.9%.
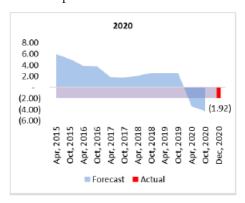

2018: Nigerian economy grew by 1.90% in 2018. The April 2013 WEO gave the first forecast for the year at 6.75%, revised upward to 6.88% in the October 2014 WEO. This was however revised downward to 1.57% in the October, 2016 edition and to 1.93% in October, 2018. Thus, the average deviation of IMF fore-casts from the actual 2018 value was 2.49% per period.
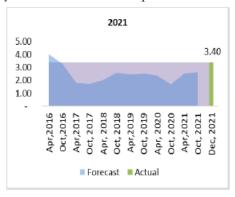

2019: The Nigerian GDP grew by 2.27% for the year. The April 2014 WEO gave the first forecast for 2019 as 6.67%, later revised to 6.82% in October 2014. Forecasts for the year in subsequent editions were gradually revised downward to 1.87% in April, 2017 and finally to 2.29% in October 2019. Average deviation for the year was 1.32%.

2020: The Nigerian economy contracted by -1.92% in 2020, largely due to the effect of the Covid-19 pandemic. In the April 2015 WEO, forecast for 2020 was given at 5.95%; but reduced to 1.80% in April, 2017 and put at 2.52% in October, 2019. In April, 2020, a forecast of -3.41% was given; this was further reduced to -4.28% in October, 2020. The average deviation for the year over the forecast period stood at 3.94%.

2021: The Nigerian economy grew by 3.40% in 2021. Meanwhile, the April 2016 WEO gave the first forecast for 2021 as 4.02%. Forecasts for the year were re-vised downward over time to 1.71% in October, 2017. Subsequently, the forecast was raised gradually to 2.64% in the October 2021 edition of WEO. The average deviation for the year over the forecast period stood at -0.86%.

From the foregoing, it can be inferred that IMF forecasts, just like other forecasts, are not exact. Although we observe improvement in the accuracy of IMF forecasts on Nigeria over time, they tend to be overestimated at the start of the five-year window, but gradually adjusted towards the actual values as the forecast year approaches. This implies that forecasts done long before the actual year show a high possibility of being less correct than those closer to the forecast year.

Moreover, we observed that deviations of forecasts from actual values are relatively higher in periods of crisis, such as recession; indicating that crisis are often not envisaged and not adequately prepared for. This notwithstanding, forecasts are useful in providing some guides but should be complemented with real life knowledge and experience; while bearing in mind that forecasts solely may not give enough early warning of imminent crisis.

CONTACT