The Accuracy of IMF Crises Nowcasts [*]

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Abstract

The International Monetary Fund (IMF) provides loans to countries in economic crises as lender of last resort. Loan approvals are tied to policy reforms and quantitative targets whose scopes are contingent on IMF crisis assessments. An extensive literature scrutinizes the efficacy of IMF loan programs, instead we examine the accuracy of the underlying IMF nowcasts that predicate program design. Analyzing 600 IMF loan programs from 1992 to 2019, we find IMF nowcasts of crisis conditions differ substantially from the actual outcomes. Nowcasts systematically overestimate low GDP growth events and underestimate high growth recoveries to produce, on average, excessively optimistic and inefficient nowcasts. This result is shown to be driven by bias and inefficiency in nowcasts for Low Income countries. Interestingly, shorter nowcast horizons do not improve accuracy. We identify factors that were not properly integrated by inefficient IMF nowcasts including (i) program objectives, (ii) program conditionality, (iii) geographic regions, and (iv) international crises. The accuracy of IMF crises nowcasts for GDP growth improved since 2013, while inflation nowcasts continue to struggle with efficiency.

Keywords: Nowcasting, Forecast Evaluation, IMF programs, Inefficiency
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