REALITY CHECK: FORECASTING GROWTH IN THE MIDDLE EAST AND NORTH AFRICA IN TIMES OF UNCERTAINTY

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Key takeaways

Chapter 1

– WB Forecast: MENA Growth by 5.2% in 2022

– Uneven growth: Faster for oil exporters than oil importers due to the rise of energy prices after the war crisis

– Inflationary pressures caused by the pandemic, war and currency depreciation

→Forecasted inflation different from those of the CBT:

WB: 6,5 in 2022 and in 2023

CBT: 7,8 in 2022; 8,2 in 2023 and 7,2 in 2024

Key takeaways

Chapter 2

– MENA has more optimistic and inaccurate growth forecasts (that is, those with larger absolute forecast errors) than other regions

→The MENA region growth forecast errors average 2.5 percentage points for the January GEP forecasts and 2.9 percentage points for the January WEO forecasts

– Reasons: **data opacity**, lack of transparency, frequency and granularity, difficulty of access, statistical capacities, **structural volatility**, conflicts, commodity shocks, **forecaster type**

→Data frequency and thus statistical capacities are quite heterogeneous among countries: it makes the forecasting and comparaison exercise even more difficult for the region taken as a whole (not the same frequency, not the same years, note the same methodology etc.)

– Reasons behind the differences between GEP and WEO?

Key takeaways

Chapter 3

– Three different scenarios for adjusting January 2022 forecast

1. Low uncertainty (similar to 2019): optimistic

2. High uncertainty (similar to 2022): pessimistic

3. Data drawn from the last 5 to 10 years with 2022 as a median year: use of historical forecast errors to adjust

→ scenario 2 less accurate. Differences between 1 and 3 in predictions? Intervals? Growth rate for Tunisia higher than the actual rate 2.4% (INS T1 2022)

Recommendations

- Data transparency: not only for IO, decision makers but also for citizens to understand better the challenges and pressures, accountability of governments
  - →Central Banks in need of accurate forecasting
- Reinforcing statistical and research capacities
- Use other sources : satellite data, google search trends data, surveys

Recommendations

- Other methodologies: nowcasting, machine learning, parametric factor models could be more effective
  - →Deal better with heterogeneity of data frequency: warning system and valuable for successive crisis, conflicts and high level of uncertainty

- The parametric Factor Models may be useful for many with more limited data availability, more suitable to handling fewer variables and shorter time horizons than Machine Learning regression methods that are reliant on large quantities of data
  - →Source: Impact of COVID-19: Nowcasting and Big Data to Track Economic Activity in Sub-Saharan Africa, Buel et al (2021), IMF WP

Recommendations

– Other methodologies: mixed dynamic factor model & unrestricted mixed-data sampling (UMIDAS), and a threepass regression filter (3PRF) developed at the Central Bank of Tunisia, based on a monthly/quarterly set of economic and financial indicators as predictors

– Mixed-frequency nowcasting model is particularly useful for volatile times

→Source: Nowcasting real GDP in Tunisia using large datasets and mixed-frequency models, Ben Romdhane and BenLallouna, CBT WP, March 2022