Greece in Recession: Economic predictions, mispredictions, forecast suggestions and policy recommendations †

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Abstract

This article documents the sizable forecast errors that have been made in relation to the economic recession in Greece by major policy-shaping international organizations, as well as Greek research centres and the Greek government. All were very optimistic with disastrous policy implications as the success of the country’s bailout loans was based on assumptions resting on some of these forecasts. The authors look into the predictions made at the beginning of 2013 for each GDP component and estimate what might happen under the worst, best and medium case scenario predictions regarding each component. They also analyse the available macroeconomic figures using both the autoregressive integrated moving average model and traditional macroeconomic models and find that any prediction regarding the Greek GDP contraction rate can lie in the 2.9-7.2% range, which illustrates the high degree of uncertainty surrounding the predictions. To address the recession and help the economy return to growth, a number of policy recommendations are made. To ameliorate the technical forecast problem, a range of methodological improvements is needed.

Keywords: recession, forecast errors, GDP, Greece.

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