

The KEPE Short Term Forecasts for the Greek GDP

According to KEPE's short-term forecasts, the negative growth rates of Greece's GDP will continue in 2011. In particular, the real GDP will decrease by -3.48% (y-o-y) in 2011. The largest reduction is expected in the first quarter of 2011, while the rate of decline is expected to slowdown over the next quarters.

SUMMARY

In its role as a responsible research institution, the Centre of Planning and Economic Research (KEPE) publishes its short-term forecasts for the Greek economy, which were conducted by the KEPE Macroeconomic Forecasting Team, regarding the expected developments in the real Gross Domestic Product (GDP). The forecasts refer to the 2010:Q4-2011:Q4 period.

Based on current data and the dynamics of the economic downturn, the outlook for 2011 remains negative. Specifically, after the GDP decrease by 2.3% in 2009 and 4.2% in 2010, the forecast for 2011 is that real GDP will decline further by 3.5% (Table 1).

The largest decrease is projected to occur in the first quarter of 2011 (-5.09%, y-o-y). During the

remaining quarters of 2011, the real GDP will continue to decrease, but the rates will progressively be smaller, i.e. there will be a gradual weakening of the recession. The current estimates suggest that there is a possibility for positive quarter-on-quarter GDP growth rates in 2012.

ECONOMETRIC METHODOLOGY

In order to produce the above forecasts, a dynamic factor model was used. This is a pure econometric estimation method which is not based on a macroeconomic model. One of the benefits of such an approach is that it avoids issues such as subjective perceptions of the workings of the economy, but it is likely to create a bias in the final forecasts, as the impact of future changes on economic policy are not taken into consideration ("policy neutral").

TABLE 1: The real GDP rates of change (% , y-o-y).

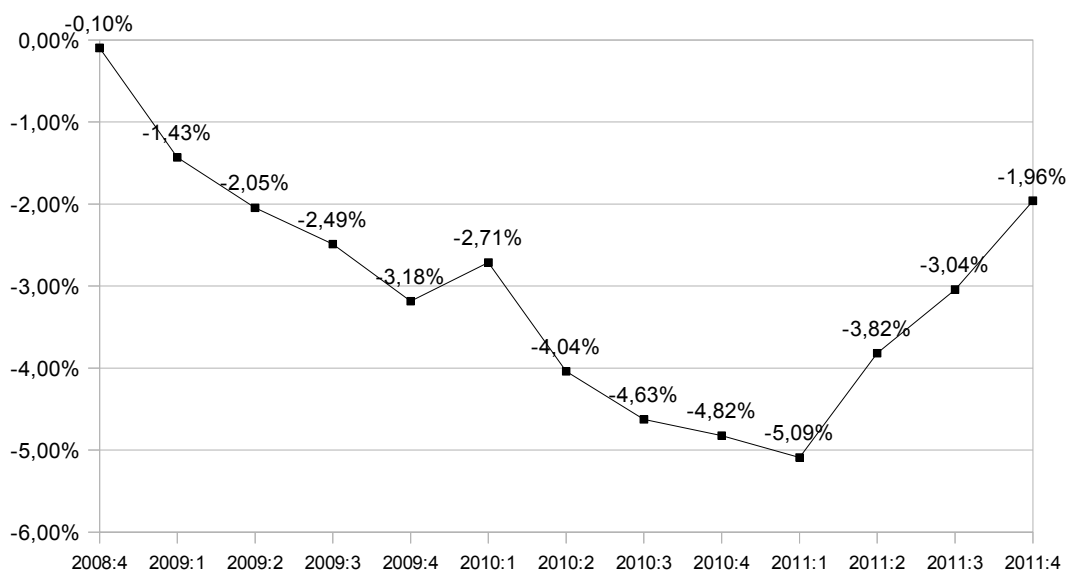
	2010				2011			
	1	2	3	4	1	2	3	4
KEPE	-2.71	-4.04	-4.63	-4,82*	-5.09*	-3,82*	-3,04*	-1,96*
	-4.05				-3,48*			
M. of Finance ¹ , EC ² , IMF ³	-4,2				-3			

* Projections of the KEPE econometric model.

1. Budget 2011 (Min. of Finance). 2. European Economy n° 7|2010, European Commission (29/11/2010).

3. IMF Country Report No. 10/372 (Dec. 2010).

FIGURE 1: The quarterly real GDP rates of change (% , y-o-y).



Note: The values till 2010:3 are observations while those from 2010:4 onwards are forecasts derived from the KEPE econometric model.

This bias may explain the fact that the KEPE prediction is slightly worse than the common estimates by the Ministry of Finance, the EU, the ECB and the IMF. A detailed description of the estimated model will be presented in the next issue of KEPE's publication "Greek Economic Outlook".

For this research KEPE staff created a database of 144 time series which covers the main sectors of the Greek economy as well as international variables (e.g. oil prices). The main sources of data were EL.STAT. The Bank of Greece, Eurostat and the European Central Bank. The data covers the 2000:1-2010:3 period. The KEPE forecasts for the real GDP are shown in Table 1 and Figure 1.

FUTURE ACTIONS

KEPE staff will continue the effort to improve the formulation of the econometric model. Short-term

GDP growth forecasts will be published quarterly as the database will be updated and enriched on a regular basis. In addition, projections for other key macroeconomic variables (e.g. unemployment, inflation) will also be published. Finally, additional macroeconomic and econometric models will also be developed, the results of which could prove useful for policy making (e.g. medium-term forecasts for real GDP, estimates of the effects of structural changes).

SELECTED LITERATURE

- Eklund, J., and G. Kapetanios (2008) 'A review of forecasting techniques for large datasets.' *National Institute Economic Review* 203(1).
- Liu, D. and D. Jansen (2007) 'Macroeconomic forecasting using structural factor analysis', *International Journal of Forecasting* 23(4).