

Bruegel: ECB's huge forecasting errors undermine credibility of current forecasts

In the past five years ECB forecasts have proven to be systematically incorrect. Such forecast errors raise serious doubts about the reliability of the ECB's current forecast. **By Konstantinos Efstathiou and Francesco Papadia**



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In the past five years, ECB forecasts have proven to be systematically incorrect: core inflation remained broadly stable at 1% despite the stubbornly predicted increase, while the unemployment rate fell faster than predicted. Such forecast errors, which are also inconsistent with each other, raise serious doubts about the reliability of the ECB's current forecast of accelerating core inflation and necessitates a reflection on the inflation aim of the ECB.

You can read the full article [here](#). Below are some key quotes:

"Certainly, the ECB is not the only institution whose forecasts turned out to be incorrect. Many other central banks, international institutions and other forecasters made large forecast errors even in the past five years when economic conditions improved. Such forecasting failures should foster a general debate on forecasting practices. Yet the ECB's forecast errors and its inability to lift

core inflation above 1% have major implications."

"First, the huge ECB forecast errors of the past five years call into question the reliability of current forecasts. At each forecast round in the past five years, ECB staff explained why this time is different and that core inflation will increase in the subsequent two years. President Draghi has always defended these forecasts at the press conferences and in other speeches. But all forecasts of the past five years proved to be grossly incorrect. Why would the current forecast be more reliable than forecasts made in the past five years?"

"Second, the failure to raise core inflation above 1% with a large monetary policy arsenal – at a time when GDP growth turned out to be better than expected, and the fall of the unemployment rate was faster than expected – should raise doubts about the ability of the ECB to influence core inflation."

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