

Assessing macroeconomic forecasts for Japan under an asymmetric loss function

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Abstract

This paper examines the asymmetry of the loss function for the Japanese government, the IMF, and private forecasters in the Japanese output growth and inflation forecasts. It tests the rationality of the forecasts assuming a possibly asymmetric loss function. The results indicate considerable evidence of asymmetry. The 15-month forecasts are overpredicted irrespective of forecaster identity and target variables. However, these biases in the 3-month forecasts are dissimilar among forecasters; the IMF provides prudent short-term forecasts for output growth and inflation, private forecasters provide an unbiased inflation forecast, while the biases in the Japanese government forecasts vary over time. The government efficiently uses the information provided in the IMF and Consensus forecasts while making its own forecasts. A comparison with the projections for the German economy indicates that the biases of the Japanese government may be attributed to its debt-to-GDP ratio, which is the highest among advanced economies.

Keywords: Macroeconomic forecasting; Government forecasts; Asymmetric loss; Forecast evaluation; Rationality; Debt accumulation

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