“**Trend in BoE forecasts does not support claim of anti-Brexit bias**”. **The Financial Times** (letter), 19 January 2018.

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Sir, Paul Marshall argues that the Bank of England has an anti-Brexit bias and that “in forecasting terms, the Bank seems to be doubling down on pessimism” (“Anti-Brexit bias at the BoE endangers its credibility”, January 18). These are strong words that should worry us if Mr Marshall is correct.

I am examining this in two ways: by looking at the very short-run forecasting record of the BoE (that is, one quarter ahead) as well as its forecasting record over the one-year ahead horizon. By looking at the BoE’s one-quarter-ahead forecast for growth in gross domestic product (the mode, or most likely outcome based on market expectations of interest rates), the Bank has over-predicted actual GDP annual growth by 0.37 per cent on average since 2006.

If we are willing to exclude the years up to and including the 2008-09 recession, the Bank has improved its forecasting record dramatically; in fact, since 2010, the average prediction bias has been brought down to zero. Since the Brexit vote, however, the Bank has become slightly more pessimistic; in fact, it has under-predicted actual GDP annual growth by a tiny 0.11 per cent on average. On the other hand, by looking at the Bank’s one-year ahead GDP growth forecast, the Bank has been too optimistic: it has over-predicted actual GDP annual growth by 1.00 per cent on average since 2006. The Bank’s over-prediction bias has been cut to 0.35 per cent on average since 2010 and further down to 0.19 per cent on average for the five quarters since the Brexit vote.

What is the implication of the “fact numbers” above? In one-quarter ahead forecasting, the Bank has “switched sides” from being fairly optimistic to slightly pessimistic since the Brexit vote. In terms of a year ahead, the BoE has reduced its optimism since the Brexit vote. But should it be found guilty as charged since its average prediction bias has been pushed down?

If anything, we should be more concerned over whether it has learnt its lesson from the “difficult” 2008-09 experience when it over-predicted one-year ahead annual GDP growth by as much as 7.66 per cent for Q1 2009.

Professor Costas Milas

University of Liverpool, UK