

Indonesian Quarterly Macroeconometric Model for Forecasting and Policies

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Using quarterly data of the Indonesian economy, we develop a macroeconomic model designed for forecasting and policy simulations. It is based on a standard Keynesian model with the following special features.

First, we explicitly model the monetary policy via a monetary policy reaction function. Second, we model the formation of the output gap from an explicit aggregate production function connecting investment through dynamic capital formation. Third, we develop a highly detailed fiscal block; and fourth, we link the model with various early warning indicator such as stock price index, financial and crisis vulnerability. This paper discuss the model structure, its estimation, and some illustrative example of simulations.

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