

Forecasting Performance of Basic Smets and Wouter's model

ShinHyuck Kang¹

Korea Labor Institute Project
For ETRI Meeting

March 07, 2023

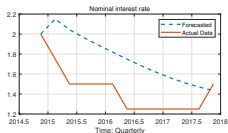
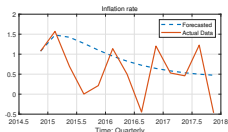
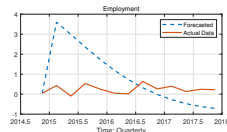
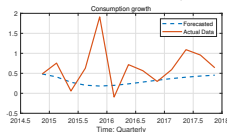
¹The views of this research are only author's one. Any error is mine.

LIST OF VARIABLES FOR FORECASTING

- 1 Real GDP Growth Rate
- 2 Consumption growth rate
- 3 Real wage growth rate
- 4 Employment growth rate
- 5 Inflation rate
- 6 Nominal interest rate (Monetary policy)

SMETS AND WOUTERS: OUT-OF-SAMPLE FORECASTING

Used data: From 2000Q1 to 2015Q1, Forecasting: 12 Quarters



WORTH TO NOTE

- ① For my perspective, the bad performance is not weird at all
- ② But it is hard to understand why the model predicts the negative gdp growth rates & drastic employment growth
- ③ Investment growth → Weird but not surprise

WHAT THE NY-FED SW MODEL DIFFERENT

- ① Way to embed Covid-19 shock
- ② Adding financial frictions
- ③ Flexible inflation targetting, modelling to handle zero-lower-bound(ZLB) and etc.