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Estimates of Potential Output and the Neutral Rate for the U.S. Economy

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I N T E R N A T I O N A L M O N E T A R Y F U N D

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Research Department

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Abstract

Estimates of potential output and the neutral short-term interest rate play important roles in policy making. However, such estimates are associated with significant uncertainty and subject to significant revisions. This paper extends the structural multivariate filter methodology by adding a monetary policy block, which allows estimating the neutral rate of interest for the U.S. economy. The addition of the monetary policy block further improves the reliability of the structural multivariate filter.

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¹ The estimates of potential output and the output gap presented in this paper are not official IMF estimates. The programs and potential output estimates can be downloaded from www.douglaslaxton.org.

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