

NGDP Targeting under Fiscal Leadership: A Framework for China's Monetary-Fiscal Interaction

Liming Lin

Sciences Po Paris

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- **Stagnant demand:** GDP growth slowing, inflation near 0%, interest rate at 1.4%—close to ZLB
 - **Demand-driven slowdown:** Current weakness reflects demand shocks, not supply constraints
- **No explicit policy rule:** PBoC lacks a clear target but the State Council has annual GDP growth rate targets
- **Weak coordination:** PBoC has limited independence; MoF remains passive during downturns
- **NGDP targeting as a solution:** Provides a rule-based anchor and coordinates fiscal-monetary policy

Potential Research Questions 1

- Does an NGDP Targeting policy rule explain PBoC behavior better than traditional inflation-targeting rules?
- Past papers (Burdekin & Siklos (2024), Girardin, Lunven & Ma (2017)) have shown that PBoC's policy rule is anti-inflation and follows both Taylor and McCallum rules to some extent.
- **Contribution:** Estimating a NGDP targeting rule using GMM or ? to see if it fits better than Taylor or McCallum rules. Maybe add a VAR model for impulse response analysis.

Potential Research Questions 2

- Can NGDP targeting outperform inflation targeting and coordinate stabilization efforts between the PBoC and MoF in a setting where one or both face institutional or economic constraints?
- Beckworth & Hendrickson (2020) incorporated NGDP targeting into a New Keynesian model found that it creates lower volatility in inflation than Taylor-type rules.
- **Contribution:** RANK model with ZLB constraint using Chinese data
 - Monetary rule: Taylor vs. NGDP targeting
 - Fiscal rule: Exogenous (Simple AR(1)) vs. Output gap -reactive (like Taylor rule) vs. NGDP targeting

Strategic Interactions between PBoC and MoF ?

- **Stage 2:** Add policy interaction between PBoC and MoF (Stackelberg/Nash)
 - Monetary and fiscal authorities modeled with separate rules:
 - PBoC: interest rate responds to inflation/output gap/NGDP
 - MoF: government spending responds to debt/output gap/NGDP
 - Strategic setups:
 - **Stackelberg:** MoF leads, PBoC follows
 - **Nash:** Simultaneous policy moves
 - NGDP targeting tested as **coordination anchor**