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

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Motivation

- China's monetary policy faces growing limits: near-ZLB, constrained independence.
- Fiscal policy plays an increasingly dominant role in demand management.
- Traditional inflation targeting may no longer be effective.
- **Can NGDP targeting offer a better nominal anchor in this environment?**

Research Questions

- How does NGDP targeting compare to inflation targeting under fiscal leadership?
- What are the macroeconomic and sectoral implications of NGDP targeting in China?
- Can NGDP targeting serve as a coordination device between the PBoC and MoF?

Model Overview

- **Stage 1:** RANK DSGE model with ZLB constraint
  - Sticky prices, representative household
  - Monetary rule: Taylor vs. NGDP targeting
  - Fiscal rule: exogenous or debt-reactive spending
- **Stage 2:** Add policy interaction (Stackelberg/Nash)
- **Stage 3:** Sectoral heterogeneity (later extension)

PBoC and MoF: Strategic Interaction

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

Contribution and Next Steps

- Conceptual framework reflecting Chinaś fiscal-led macro regime
- Theoretical comparison of monetary policy rules under ZLB
- Roadmap for sectoral extensions using calibrated data
- **Next:** Build RANK model, simulate alternative regimes, calibrate sectoral elasticities