Comments on
‘More Than Words: A Textual Analysis of Monetary Policy Communication’

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OUTLINE

- What the paper does
- What does it find?
- Discussion, mostly in terms of questions
  - Readability as a metric. Who do we want to communicate with? Who reads minutes and press releases?
  - Do IT central banks communicate differently than non-IT central banks?
  - Do IT central banks evolve over time in terms of their communication?
  - (For what) Does communication matter?

What is the objective of the paper?

- To use tools from computational linguistics to characterize the nature of central banks' communication in terms of
  - Clarity/readability
  - Topics that are emphasized
  - Tone (whether the outlook is positive or negative)
- Based on policy statements from web sites
  - 22 central banks, 2000 – 2015 (or for periods when IT started)
  - AEs and EMEs, all IT except the FED, ECB, and BOJ
  - English version of the policy statement

What are the main findings?

1. Central banks ‘talk’ more over time (more words per statement, but shorter sentences)
2. Central banks’ language requires an advanced reader
4. Readability falls during rate cuts
6. Most IT central focussed on inflation-related topics
8. Since 2008 discussions involving global shocks have become more prominent in IT countries.

Discussion: Central banks' language requires an advanced reader

- Who reads the monetary policy statements?
  - 'Sophisticated' financial analysts or the general public
  - Financial market reactions vs explaining the role of monetary policy in the economy to cultivate political legitimacy
- What is advanced for one may not be for the other
  - "Elevated 5-year, 5-year forward inflation expectations weighed heavily in the MPCs decision to raise the policy rate by 50 basis points rather than 25." Probably not comprehensible to the general public but (perhaps) an efficient way to convey the reason behind a policy decision to financial market analysts.
- English language version vs. national language
  - Reaction in financial markets may depend more on the international rather than the local reader

Discussion: Topics and tone

- Latent Dirichlet Allocation! Requires an advanced reader! Not easy to grasp how the algorithm works, but as it becomes more familiar, we will presumably get a better understanding of its properties.
- But some results make sense, so the method may be right:
  - Most IT central focussed on inflation-related topics
  - FED and ECB more balanced between growth and inflation
- Would be interesting to include non-IT EMEs in the analysis and ask whether they focus on different topics
- Would also be interesting to see whether IT central banks have changed their way of communicating over time: from before to after IT, and as IT matured

Discussion: Readability falls during interest rate cuts

- Is it rate cuts or rate changes that matter?
  - When policy is changed there is more to explain, and hence the statement becomes more complicated.
- What is the source of the change in the readability measure?
  - Not word count
  - What about the other components?
    - Syntax
    - Academic vocabulary
    - Unfamiliar words
    - Etc.

(For what) Do policy statements matter?

- What would be measures of success?
  - Greater transparency? Less uncertainty about future policy stance?
    - We have found evidence of a significant statistical link between the quality of the Inflation Report, ... and central bank transparency measured by the predictability of its decisions. (Fracasso, Genberg, and Wyplosz, 2003)
  - Greater legitimacy?
  - Improved transmission mechanism?

Discussion: Improved transmission mechanism?

- Based on a relatively standard 4-variable VAR augmented with a communication variable.
- The effect of communication on transmission is gauged by comparing IRFs to ‘interest rate shocks’ when the communication variable is treated as exogenous with those when it is endogenous.
- Does not strike me as right. Either communication is endogenous or not. If it is and the econometrician treats it a exogenous, we have a specification error, and the inference we draw would not seem correct.

A more straightforward empirical test?

$$i_t^L = b_1 i_t^P + \beta x_t + u_t$$

where

$$b_1 = b_{10} + b_{11} c_t$$

i^L = a bank loan rate or similar

i^P = the monetary policy rate

c = the quality of communication

x = controls

Summary

- A very interesting paper using novel methods to extract information about the nature of monetary policy statements. Some thought-provoking results, and generating ideas for further work.
- Some further discussion of the appropriateness of the readability measure for the problem at hand would be useful. I.e. who is the intended audience.
- Exploring the evolution in communication over time and between IT and non-IT would be interesting.
- For what is good communication useful? What should be the measure of success?
- Much interesting work remains on this topic, but this paper offers a good start.

THANK YOU