Discussion
"Sentiment Comparisons on Monetary Policy Releases from Inflation Targeting Regimes" by Mario Gonzalez and Raul Tadle

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This paper

Based on 3184 monetary policy press releases from 18 central banks:

- Documents their textual characteristics
- Highlights the key words used by each central bank
- Computes a sentiment measure
- Assesses whether it correlates with future decisions

Main results

- Convergence in document length
- Press releases require an advance level of education (college)
- Sentiment measure is correlated with the future policy rate

Comments

- Contribution / research question
- Sample choices
- Measuring sentiment
- Predictability of future policy decisions
- Global sentiment score

Contribution / research question

- Why focusing on IT countries? Should CB communication be different in non-IT countries?
- While most of the literature focuses on individual countries, this paper provides an international perspective. However, the paper is based on 18 time-series analyses.
  - Exploit the cross-sectional variation
- How should we interpret the evidence on the length or reading difficulty of MP press releases? What question does it help to answer?

Sample choices

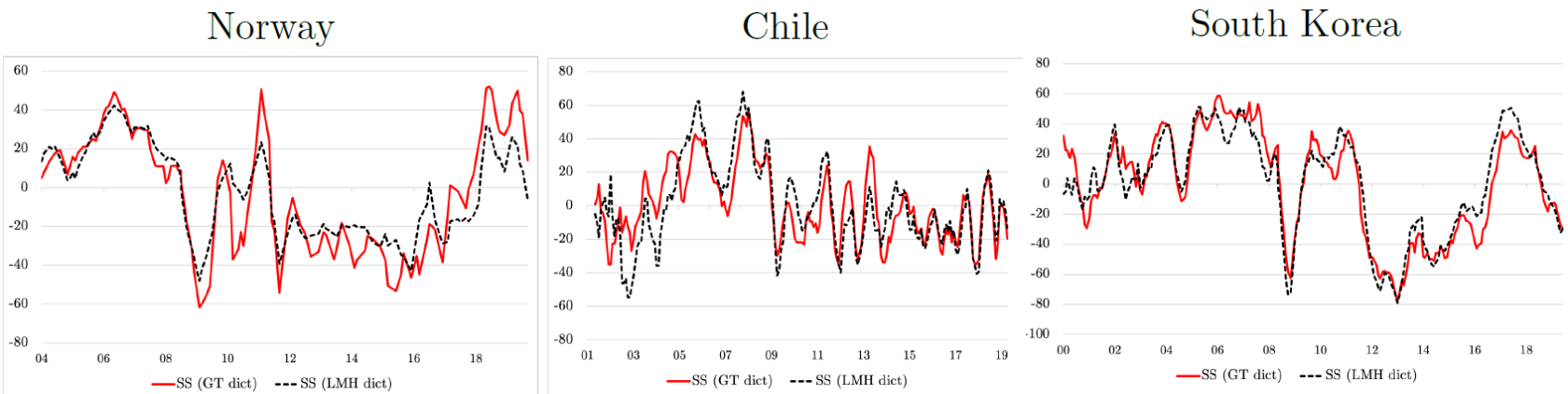
- Countries enter the sample if they adopted IT before 2005. Why is IT so important and why before 2005? Why not consider Turkey (2006) or Ghana (2007) for instance?
- Mexico and Colombia started publishing press releases in English after 2009, so are excluded from the sample. Why 2009? Moreover, the LDA sample starts in 2010 for Norway and 2014 for South Africa.
- Most countries have 8 to 12 MP press releases per year, but the authors use a quarterly frequency. What is the rationale? How do you collapse MP press releases from higher to quarterly frequency?
- Split-sample analysis: the average sample starts around 2000 and all end in 2019, but the break is in 2018. What is the rationale for such a late break?

Measuring sentiment (1/2)

- Sentences with both hawkish and dovish keywords are scored as sentences with only hawkish keywords. Why?
- "Uncertainty", "risk" or "slack" words do not appear in the key words used by most CBs. It seems driven by the exclusive focus on the "inflation", "economic growth" and "financial market" topics.
  - Hansen et al. (2019) show other topics matter beyond these 3 ones.
- The authors acknowledge that CBs use a similar vocabulary (p.15). What is the rationale for having specific dictionaries for each CB?
- The sentiment score is driven by modifiers. The authors put a lot of effort in obtaining an objective selection of key words (via LDA), but eventually they rely on a subjective categorization of modifiers.

Measuring sentiment (2/2)

- Apel and Blix-Grimaldi (2014) is also built specifically for the analysis of central bank communication
- Additional alternative dictionaries: Picault and Renault (2017), General Inquirer's Harvard IV-4
- Fig. 6-7 show the current approach produces quasi-identical result to the Loughran and McDonald (2011) dictionary



- The paper would benefit from better explaining what the value-added of this sentiment measure is

Predictability of future policy decisions

- Extensive literature on the predictability of policy decisions
  - Krueger-Kuttner (1996), Lapp-Pearce (2000), Pakko (2005), Heinemann-Ullrich (2007), Rosa-Verga (2007), Jansen-DeHaan (2009), Hayo-Neuenkirch (2010), Sturm-DeHaan (2011)

- Cross-correlation suffers omitted variable biases
  - The state of the economy, uncertainty, etc... likely to drive both sentiment and future policy rates
  - Private agents' real-time information set likely to predict future policy rates (central bank projections, private forecasts, financial markets' expected future interest rate changes)

- The empirical challenge is to assess whether sentiment conveys useful information above and beyond these variables available to private agents with MP press releases (see Hubert-Labondance 2021)

Global sentiment score

- Does the global sentiment index reflect the convergence in monetary and business cycles following the Global Financial Crisis?
- What explains the global sentiment score and/or the common variance of individual sentiment scores?

Conclusion

Very useful paper: more international evidence is needed on that topic

Some suggestions:

- Use cross-sectional variation
- Further analyse the predictive power of policy decisions
- Dig into the driving factors of global sentiment