Discussion of "The Voice of Monetary Policy"

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Advanced analytics: new methods and applications for macroeconomic policy

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This presentation does not necessarily reflect the views of the Bank of Israel.

Summary

- This paper proposes another **communication channel** for central bank chairmen.
- Not only is the content important, but also the **voice** tone in monetary policy communication.
- Voice tone **moves** financial markets, even when controlling for CB actions or press conference content.
- Why is this an important area of research?
  - Ability to assess and quantify **all** of the relevant information embedded in central bank communication
    $\implies$ key to the effective implementation of monetary policy?
- Five comments for a **very** cool paper.

1. Units of Observation

- ▶ Why do we not see an immediate reaction?
- ▶ Is more "high-frequency" analysis possible in this setting?
  - ▶ For example, Gorodnichenko and Weber (2016) use high-frequency identification of monetary shocks on the volatility of stock returns.
  - ▶ Curti and Kazinnik (2020) use minute-level data to analyze Fed Chair's **facial expressions** on investor sentiment.
  - ▶ *This might be the more difficult thing to implement.*
- ▶ Mehrabian's communication rule cannot apply to the stock market unless you assume:
  - ▶ stock markets to perceive the chairman's voice like **humans**. (Kind of) behavioral market efficiency?
  - ▶ people process this information (communication content) **conditional** on the chairman's voice.
  - ▶ ETFs are **unbiased**.
- ▶ Unclear **which** and **how many** market players listened to the chairman's voice
  $\implies$ unclear how much the voice *effectively* contributed.

2. Emotions

- Strong assumption: The chairman has only five kinds of emotions.
    - Missing emotions: annoyed, exasperated, and fear.
    - *Not easy to fix, but worth a try.*
- Controversial emotions:
    - Being *worried* may not lead to being *sad* for some chairmen but may be perceived as sad for others.
    - Others may not be in the **set** of emotions or simply display a neutral one.
    - *Strong assumption: a particular emotion is perceived in the "correct" way by everyone.*
- RAVDESS dataset is unbalanced.

3. Causality

- ▶ Why emotions? Because...
    - ▶ of the monetary policy?
    - ▶ a colleague was disappointing right before the speech?
    - ▶ the chairman or a family member is sick?
- ⟹ The exhibited emotion may not be related to monetary policy.
- ⟹ *Control with the chairman's voice before becoming chairman.*
- ▶ As far as the Q&A is considered, the results may depend on the journalists, not only the chairman
    - ▶ One journalists' characteristic is to **provoke** the chairman.
    - ▶ Some are **sympathetic**.
- ▶ Governors are trained/coached to **manage** their behavior (physical, voice, tone) without necessarily conveying the
    - ▶ **truth** of the text content
    - ▶ economic situation **they think** about.
- ▶ Experience (as a chairman or previous ones) **shapes** the management of the voice and so the results.
    - ▶ e.g., Benchimol, El-Shagi and Saadon (2021).

4. Text Sentiment

- ▶ Each text-mining sentiment or score is different according to the dictionary used.

    - ▶ One dictionary may **control** better than another

        - ▶ e.g., Benchimol, Kazinnik, and Saadon (2021).

    - ▶ A more **robust** approach to capturing text sentiment is needed.
    - ▶ Dictionary-based approach (hawkishness/dovishness) might miss a lot of **nuances** present in the text.

- ▶ New addition compared to the previous versions of the paper: in conjunction with the dovish/hawkish dictionary, transformers (e.g., BERT) are used to capture the text tone, and whatever is remaining is coming from voice variation.
- ▶ Voice for **soft** information vs. voice for **hard** information.
- ▶ Train the learning one various/different speeches.

5. Policy Implications

- Discussions related to policy implications of the findings are missing
  - What should the **take-aways for the policymakers** be?
- Do these price movements **sufficiently significant** to change the central bank/chairman's behaviors?
  - Would you suggest an alternative way to communicate?
  - Only written?

Thanks

- Thank you for your attention.
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