Discussion on: Sentiment in Central banks’ Financial Stability Reports.

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The views expressed in the presentation are the author’s only and do not imply those of the Bank of Italy.
Outline

1. Goals of the paper
2. The main results achieved
3. Suggestions for improvements
Global Financial Crises: from the spring of 2007 to the FRB QE at the end of 2008

- What is the Sentiment conveyed by the Central Banks in their FSR?
- Does this Sentiment causative links in financial cycle indicators?
- Is there any consequence on the monetary policy decisions?

Ricardo and his coauthors try to answer these questions. They do a very good step forward.
Financial Stability Reports

a very comprehensive financial stability dictionary is built by extracting the most relevant words present in FSR written in English by 64 countries

- Translating the FSR into a numerical score: The Financial Stability Sentiment (FSS);
- Gauging the FSS relevance in the last 15 years;
- the authors investigate the financial cycle indicators affecting Central Banks Sentiment;
- FS Sentiment computed from the FSR is able to assess and flag the financial cycles turning points?
Financial Stability Sentiment

a set of seven defined topics is found significant

\[ FSS_{i,t} = \sum_{j=1}^{7} B_j \cdot FSS_{i,t}^j + \sum_{j=1}^{7} C_j Freq_{i,t}^j + u_i + e_{i,t} \]

Then the authors check out the links between quantitative indicators to the \( FSS_i^j \) with

\[ FSS_{i,t}^j = \beta \cdot X_{i,t-h}^j + u_i + e_{i,t}^j \]
Can we forecast banking crisis?

The authors propose:

\[ C_{i,t} = \beta_{FSS} FSS_{i,t-h} + e_{i,t} \]

The coefficients \( \beta_{FSS} \) is significant at 10% level.

What about forecasting accuracy comparisons with general dynamic probit models?

\[ C_{i,t} = \sum_{j=1}^{p} \delta_j \cdot C_{i,t-j} + \sum_{j=1}^{q} \gamma_j \cdot X_{i,t-j} + e_{i,t} \]

see for examples Antonio Antunes et al. **Forecasting banking crises with dynamic panel probit models** IJF 2018.
we have a total of 391 words with 295 negative words and 96 positive words

- Do the polar words actually have such a negatively skewed distributions?
- Is there any neutral word with possible positive interpretation?
Computing FSS index

The FSS index is computed with

\[ FSS_{\text{country}, \text{period}} = \frac{\# \text{Negwords} - \# \text{Poswords}}{\# \text{Totwords}} \]

- can we take into account adjective intensifiers?
- is it possible to smooth out indexes when conditionals tense are used?
Acknowledgement

!!Thank you very much for Attention!!