

Ambiguity in Central Banking Communication: A Strategic Vagueness Or A Pure Randomness?

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Abstract

In recent years, there has been a significant amount of research on monetary policy that focuses on exploring communication channels used by central banks and using text-based covariates to improve the predictability of many macroeconomic variables. Although economists have extensively researched this area, the literature does not cover the specific characteristics unique to central bankers as for ambiguity, which is considered as a stylized fact and a common feature of modern central banking practices. Its use as a communication strategy could be seen as a forward guidance tool in the hands of decision makers. Previous approaches to study ambiguity have used Poisson-based document scaling techniques to infer ideal points and define an ambiguity measurement as the difference between the learned ideal point and the real one that should prevail if all hypotheses are verified. This paper employs an augmented scaling technique, *CommunityFish*, which is based on hierarchical clustering to obtain groups of words, or communities to measure ambiguity in the collection of Federal Reserve governors' speeches (1996-2020) and explaining its main drivers, along with other macroeconomic variables. Results indicate fluctuations of ambiguity scores per-speaker, with a pronounced trend associated with crises and inflation spikes. In probabilistic terms, ambiguity measurement confirms the deviation of ideal points from the classic Poisson paradigm. Communities are found to be useful independent covariates in explaining ambiguity fluctuations, which are random but weakly persistent, however its fluctuations are driven by the occurrence of specific crisis-related jargon.

Keywords: ambiguity, central banking, document scaling.