

Measurement of economic sentiments on the housing market and their impact on monetary policy transmission mechanism

by

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Discussion by

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Research question and contributions

The paper deals with two related **research questions**:

- A method allowing for sentiments extraction that does not require conducting surveys
- How the extracted sentiment affect the Polish economy

➤ The analysis uses a structural vector autoregressive model (SVAR) to the **estimation of economic sentiments** and a threshold vector autoregressive (TVAR) model to establish how does monetary policy affect the economy in different regimes established on the basis of estimated economic sentiments

Main findings

- The reaction to the monetary policy changes is different in various regimes of the Polish economy, identified on the basis of economic sentiment.
- Monetary policy seems to be more efficient in the period of high economic sentiments when it can be effectively used to combat the inflation, but requires more time.
- In the period of lower sentiments the reaction of the inflation to the monetary policy changes is quicker, it is also less profound and diminishes with time.
- Monetary policy conducted in Poland over the last 25 years seems to be less effective in the cases of stimulating the economy during the downturns of the economic sentiments

General impression

- I like the idea:
 1. To extract information when sentiment data are not present or expensive to collect
 2. To test how monetary policy react in different regimes established on the basis of estimated economic sentiments
- However, I have **some concerns**

Comments (1)

1. **No comparison** between traditional sentiment indicators and the estimated sentiment is reported
2. You use the **Warsaw Interbank Offered Rate** as proxy of monetary policy, but this interest rate also incorporates the risk premia on the interbank lending market. Why not a **policy rate**?
3. Several responses in the TVAR model seem **not significant** (you do not clearly specify the confidence interval), even the main results on monetary policy reaction
4. In the impulse-response functions you use **different scales**, then is difficult to compare the effect on different regimes

Comments (2)

5. You use **Hodrick-Prescott filter** to clear the noise. However, HP is biased by more recent data. You should also try with other methods, as e.g. **Kalman filter**
6. In the TVAR model you consider **CPI and real effective exchange rate (REER)**, but if the REER is deflated by CPI some problems of interpretation could arise by the **double counting**
7. You could add as exogenous regressors a measure of international economic tendency, as e.g. the **real GDP growth in the euroarea** or in the world

Conclusions

- The paper examines an interesting issue
- However, more effort in the empirical analysis and in the interpretation of the results should be put in order to convince the reader about the robustness of outcomes