

A News-based Policy Index for Italy: Expectations and Fiscal Policy^a

Daniela Fantozzi¹, Alessio Muscarnera²

¹) Italian Statistical Institute (Istat)
fantozzi@istat.it

²) World Intellectual Property Organization – WIPO
alessiomuscarnera@gmail.com

We investigate the effect of a “news-based” policy shock on consumption and investments in Italy supporting the hypothesis that fiscal policy is largely anticipated and its effects depend on expectations on future policy action.

To this aim, we construct a new measure of policy announcements, the Policy News Index (*PNI*), analyzing daily textual data from the most important Italian business newspaper (*IlSole24Ore*) over the period 1997-2019. To disentangle news and noise from fiscal policy communication, we provide measures of newspaper coverage of policy announcements purged from uncertainty. Using a Bayesian VAR, we investigate whether fiscal news are good predictors of fiscal policy actions and to what extent fiscal news coverage exhibits a causality link with consumers’ expectations, consumption and other macro variables. The innovative feature of this contribution is to use our “news” index alongside other forward-looking variables, i.e. consumer confidence, as proxy variables of anticipation on economic conditions and business cycle and to apply an identification strategy which differentiates an unanticipated or “surprise” shock from an anticipated or “foresight” shock. Unlike the recent literature on fiscal foresight, results indicate that the news shock has delayed effects on government spending, as well as on consumption and investments. The “confidence channel” plays a crucial role in anticipating the effect of news on future changes in fiscal policy action because agents may rationally take decisions based on incomplete information.

Keywords: News-based index, Textual data, Text mining, Fiscal foresight, Agents’ expectations, BVAR.

JEL Codes: C32, C81, D80, E62.

^aDisclaimer: the views expressed in this work are those of the authors and do not necessarily reflect those of the Italian National Institute of Statistics (Istat) or the World Intellectual Property Organization (Wipo).