

Advisor's Report on Dissertation Thesis

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Title of the Thesis:	Monetary Policy, Macroprudential Policy and Financial Stability in the Post-Crisis Framework
Type of Defense:	DEFENSE
Date of Pre-Defense:	December 19, 2018

a) Can you recognize an original contribution of the author?

The thesis strikes a fine balance between academic quality and applicability for macro-prudential policy. Its outcomes have already been actively used in the practice of the Czech National Bank, both internally and in published policy documents.

Chapter 2 focuses on the nexus between monetary and macro-prudential policies. This is a very topical, and still quite controversial, issue. The Czech National Bank enjoys the advantage of having these two policies under one roof, but at the same time this makes the issue of their mutual coordination even more pressing. The chapter classifies situations in which the two policies work in the same direction, but also situations when they may be in a potential conflict. Using both the Czech and foreign data, the author shows that monetary tightening reduces the credit-to-GDP ratio and increases bank leverage. Moreover, it seems that these relationships have become stronger in recent several years. One can thus assert that monetary policy can have important side-effects for the financial stability, which may need to be addressed by macro-prudential policy.

Chapter 3 analyses the impact of regulatory capital requirements on banks' overall capital adequacy ratios. Given that the counter-cyclical capital buffer (CCyB) is so far the only legally binding macro-prudential policy instrument in the Czech Republic, it is crucial to understand how banks respond to its changes. The chapter finds out that the banks' capital surplus initially declines in response to higher capital requirements (almost 1:1), but then goes up again in the long-run. This rebuilding of the capital surplus is found to be largely unintentional, and heterogeneous among the individual banks, depending mainly on their overall initial capitalization.

Chapters 4 and 5 study the impact of macroeconomic, monetary and financial conditions on implicit risk weights of credit exposures under the IRB (internal rating-based) approach. Chapter 4 analyzes empirically the effect of various monetary variables – capturing both the conventional and unconventional measures of the monetary policy – on banks' risk weights for credit. It thus focuses on a highly relevant topic, i.e. the risk-taking channel of monetary policy transmission, which is important for monetary policy, macro-prudential policy, and the interaction of these two. As far as I know this is the first paper using Czech data that finds

statistically significant evidence on the existence of this channel. Moreover, the presented results suggest that the recent prolonged period of accommodative monetary policy has been instrumental in establishing this relationship. The empirical results in Chapter 5 indicate that risk weights behave pro-cyclically under the IRB approach (mainly as regards retail credit), which is in line with intuition. This cyclical behavior of risks weights for the IRB approach is a factor that should be taken into account when setting the CCyB in the Czech Republic.

b) Is the thesis based on relevant references?

The list of references is very extensive (pages 115 – 125). It covers both academic papers and publications of policy institutions. There are seminal theoretical papers, as well as applied recent publications. I thus conclude that the thesis meets all standard requirements as regards the literature review.

c) Is the thesis defensible at your home institution or another respected institution where you gave lectures?

The thesis clearly meets the standards of the IES FSV UK. At the same time, it has been confirmed by all the opponent reviews at the pre-defense that the thesis also meets high international standards.

The individual chapters use state-of-the-art econometric techniques to address policy-relevant economic issues. They bring an original contribution (in most cases they are the first contributions on the studied topic using Czech data), have a publication potential (see below), as well as practical policy impact.

d) Do the results of the thesis allow their publication in a respected economic journal?

Two of the chapters have been already published or accepted for publication in good international journals:

- Monetary Policy and Macroprudential Policy: Rivals or Teammates? (published in the Journal of Financial Stability)

- Does Monetary Policy Influence Banks' Risk Weights under the Internal Ratings-based Approach? (forthcoming in Economic Systems)

The other two have been published as the CNB Working Papers (the latter one has moved from forthcoming to a published status compared to the pre-defense):

- Banks' Capital Surplus and the Impact of Additional Capital Requirements

- The Pro-Cyclicality of Risk Weights for Credit Exposures in the Czech Republic

Given the fact that the CNB WP Series has a review process equivalent to journals with an impact factor, I consider the further publication potential of these papers as quite high.

e) Are there any additional major comments on what should be improved?

The thesis can be defended with no further changes. I provided comments on earlier drafts of the individual chapters, mainly as part of the review process at the CNB. These comments have been reflected in the current version of the dissertation.

f) What is your overall assessment of the thesis?

I recommend the thesis for defense with no changes.

Date:	6 March 2019
Advisor's Signature:	
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