

# Opponent'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:	<b>DEFENSE</b>
Date of Pre-Defense:	December 19, 2018
Opponent:	Doc. PhDr. Petr Teplý Ph.D

Address the following questions in your report, please:

- a) Can you recognize an original contribution of the author?
- b) Is the thesis based on relevant references?
- c) Is the thesis defensible at your home institution or another respected institution where you gave lectures?
- d) Do the results of the thesis allow their publication in a respected economic journal?
- e) Are there any additional major comments on what should be improved?
- f) What is your overall assessment of the thesis? (a) I recommend the thesis for defense without substantial changes, (b) the thesis can be defended after revision indicated in my comments, (c) not-defensible in this form.

(Note: The report should be at least 2 pages long.)

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The 2007-2009 global crisis (GFC) has changed thinking of both academics and central banks about how monetary policy should be conducted. Until then, central bankers had primarily focused on price stability rather than on financial stability. Commercial bankers had been allowed by global banking standards Basel II to use internal models, which often underestimated risks and overestimated capital buffers. As the time elapsed, both these circumstances needed revision. Simona Malovaná chose very topical subjects because all four essays deal with issues that are highly relevant in the light of the GFC and its consequences on monetary policy and banks' behaviour respectively. The first essay focuses on the nexus between monetary policy and macroprudential policy, the second one discusses banks' capital requirements in the Czech Republic. The third essay estimates an impact of monetary policy on banks' risk weights under the Internal Ratings-Based (IRB) approach, while the fourth one discusses the pro-cyclicality in the Czech banking sector.

I have reviewed the final version of the thesis of Simona and respond to the specific questions as follows:

Ad a) YES, each of the four submitted essays represents an original empirical contribution to the literature as supported by evidence of their publications. One of them has been already

published in the Journal of Financial Stability, one was accepted to Economic Systems (both are journals with impact factor) and two have been circulated as CNB Working Papers.

Ad b) YES, the thesis is based on relevant references.

Ad c) YES

Ad d) YES. As stated above, all chapters of the dissertation thesis have been either published or accepted in respected journals. Despite the fact the CNB Working Papers series does have an impact factor, the review process is challenging (based on my personal experience). I would like to highlight that the Journal of Financial Stability, where Essay 1 was published, ranks to TOP journals in the field of financial stability, what further underpins a high quality of the thesis.

Ad e) NO. I had minor comments specified in my pre-defense report that have been addressed as indicated below. I appreciate a special part of the thesis (Appendix E) including Simona's detail response to opponents' reports.

Ad f) I recommend the thesis for defense without substantial changes.

### **More detailed comments**

#### **Essay 1 - Monetary Policy and Macprudential Policy: Rivals or Team-mates?**

In the first essay Simona deals with interaction of monetary policy and macroprudential policy through a time-varying parameter panel VAR model and the GMM system. She correctly highlights the year of 2013 as an important year that started fierce debate about the dual mandate of central banks. She reveals, among others, that accommodative monetary policy contributes to a build-up of financial vulnerabilities, i.e. it boosts the credit cycle. Simona concludes that coordination of the two above-mentioned policies is necessary to avoid an undesirable policy mix preventing effective achievement of the main objectives in the two policy areas.

*My comments and questions to this essay have been addressed.*

#### **Essay 2 - Banks' Capital Surplus and the Impact of Additional Capital Requirements**

Essay 2 focuses on capital management in the Czech banking sector through two econometric models (partial adjustment model and dynamic panel data model). Specifically, it deals with the main reasons for banks' capital surplus and analyses the impact of additional capital requirements stemming from capital buffers and Pillar 2 add-ons on the capital ratios. In her research Simona identifies heterogeneity among the analyzed 14 banks as she finds that response to increase in additional capital requirements may differ among individual banks and that the maintenance of the capital surplus. She also highlights the underlying motives for this behaviour may have important implications for prudential policy.

*My comments and questions to this essay have been addressed.*

### **Essay 3 - Does Monetary Policy Influence Banks' Risk Weights under the Internal Ratings-based Approach?**

In the third essay Simona analyses empirically the effect of different monetary policy variables on banks' risk weights for credit risk in the Czech banking sector. She reveals a strong statistically significant relationship between monetary policy easing and lower implicit risk weights of banks using the IRB approach. Moreover, she documents that the recent prolonged period of accommodative monetary policy by the Czech National Bank has been instrumental in establishing this relationship. These results fills the gap in literature dealing with the impact of low interest rates on banks' risk profile and their reaction on regulatory requirements through own internal models. Despite it was done as a case study in the Czech Republic, one can expect a similar reaction of banks also in other jurisdictions.

*My comments and questions to this essay have been addressed.*

### **Essay 4 - The Pro-Cyclicality of Risk Weights for Credit Exposures in the Czech Republic**

In fourth essay Simona deals with the pro-cyclicality of risk weights with respect to the business, the credit and the financial cycle using data for the Czech Republic. The author concludes that risk weights behave pro-cyclically under the IRB approach and acyclically under the STA approach. As value added of her paper I consider that risk sensitive capital regulation may reinforce the procyclicality of banks' behaviour and that a significant heterogeneity of risk weights even in individual exposure categories exist. Both facts contributes significantly to the relevant literature and follows key principles of the Basel III reform published in December 2017.

*My comments and questions to this essay have been addressed.*

To conclude, the papers composed by Simona Malovaná show that she has developed a solid academic approach, namely to review the existing literature and to identify and investigate open questions and to draw relevant conclusions from that. The topics chosen are a highly attractive subject which makes her contributions valuable, in particular also to bank managers, regulators and policy-makers.

**Overall evaluation:** I consider this doctoral thesis as a good academic work and appreciate that Simona has reflected all my previous comments to the final version. I recommend the thesis for the final defense without substantial changes.

Date:	February 21, 2019
Opponent's Signature:	
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