Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Bc. Elvira Meti
Advisor:	doc. PhDr. Adam Geršl Ph.D.
Title of the thesis:	Risks to Financial Stability in the Low Interest Rate Enviroment and its Housing Market Implications: CE Region Study

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak):*

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Elvira Meti focuses on the impact of low-interest rates on mortgage lending and asset prices in the Czech Republic, Hungary, and Poland. The development of the housing markets is said to be a risk for financial stability.

The thesis tries to evaluate the impact of the ECB policies on the housing markets in the three CEE countries, but what is missing is a broader context. The thesis aims at several channels that might have an effect on financial stability. Still, I would expect a more critical review of the countries' development and evaluation of the data given this is a master thesis. The increase of the mortgages' volume is not just thanks to the low rates, but also because these countries transformed in the '90s and before that, no mortgages existed at all. It is evident that the credit volume would grow. Similar to the interest rates. All these countries experience transformation and times of high inflation and also the development of the banking sector. The decrease of the interest rates is also driven by the convergence of these countries towards developed countries. Or is it not?

Contribution
The thesis does some original work, but it does not explicitly say so and especially how it differs from other literature focusing on the three countries. Also, I am a bit confused about the results: "Lastly, in our study of 27 banks, we find that ROAA **declines** by approximately by 17.8 %, given a one percent **increase** in the 3-month EURIBOR.". Hence, in the low-interest environment, where EURIBOR decreases, the ROOA increases, and there are no profitability issues?

Methods
The thesis uses panel data and for that panel data estimation technique is used, but there are many flaws and open points that make the empirical part questionable and the author should have paid more attention to them.
First, the model presented (eq 12) states, that there are 2 dimensions – time (t) and country (i). Yet the bank-specific variables are used and the reader is confused, what is aggregated and how.
Second, the dependent variable is confusing to me. It is a logarithm of index and logarithm of growth in percentages? Why? To get it stationary? What is the meaning of the coefficients of the explanatory variables then?
Third, why EURIBOR? That is a truly and utterly artificial number that is easy to get, but ECB does not determine EURIBOR. Therefore even if the ECB does not do anything, the rate can change. Why should it influence credit growth in another country? What about the shadow rate and unconventional policy of the ECB? I would expect a more thorough discussion that this variable captures the correct channel.

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Fourth, mortgages in the Hungary were largely denominated in the foreign currency, how is that accounted for in the model?

Fifth, Is the ROAA the best indicator of profitability? Given the situation in the Czech Republic, I would guess not.

Sixth, nominal real-estate prices grow naturally as other prices grow as well. The problem occurs if the price growth is extensive and not aligned with other assets. CPI is a measure of inflation, but how is that related to the real real-estate prices?

Seventh, dwellings – begin of the construction or finished ones? Any lag considered?

Eighth, The list of variables is not complete, as e.g. GDPdeflator is used in the model but not presented.

Ninth, what is the logic of the lagged variables and how was that selected? Why is only euribor lagged?

Tenth, only supply-side variable for housing prices as well as credit growth are used. Omitted variable bias?

Literature
The thesis uses suitable sources, but many statements in the text should be supported by the existing literature, especially in the introduction. The literature review is extensive, but some parts are not used in the empirical part and one wonders, why are such parts present there (e.g. overview of methodologies that are used to find determinants of house prices given the thesis focuses on banks).
NII – do mentioned countries really suffer from the low profitability of the banks?

Manuscript form
The manuscript has a clear structure, and the text is very nicely written. I have remarks towards the formatting of the tables and figures which lack clarity and unified layout.

Summary and suggested questions for the discussion during the defense
Overall, I think that the thesis did some original work, but it leaves too many open points. I would prefer if the thesis were more focused on one channel only and made a more thorough investigation, which would also mean higher added value. The performed analysis only "scratches" the surface of several issues. Given the work's empirical nature, I decided to put more weight on it and suggest a grade D.

The defense should clarify my concerns raised about the empirical part.

The results of the Urkund analysis do not indicate significant text similarity with other available sources.
In my view, the thesis fulfills the requirements for a maszer thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade D.

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SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY		POINTS
Contribution	*(max. 30 points)*	25
Methods	*(max. 30 points)*	12
Literature	*(max. 20 points)*	17
Manuscript Form	*(max. 20 points)*	15
TOTAL POINTS	*(max. 100 points)*	**69**
GRADE	**(A – B – C – D – E – F)**	D

NAME OF THE REFEREE: Petr Polák

DATE OF EVALUATION: 8. 9. 2020

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Referee Signature

CONTRIBUTION: _The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis._

Strong	Average	Weak
30	15	0

METHODS: _The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed._

Strong	Average	Weak
30	15	0

LITERATURE REVIEW: _The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way._

Strong	Average	Weak
20	10	0

MANUSCRIPT FORM: _The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography._

Strong	Average	Weak
20	10	0

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F