

Report on Master Thesis

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

Student:	Yingxuan Fan
Advisor:	doc. Mgr. Tomáš Holub, PhD.
Title of the thesis:	Mechanism of Negative Interest Rate's Influence on Bank Net Interest Margin

OVERALL ASSESSMENT:

Short summary

This thesis analyses empirically the impact of monetary policy on banks' net interest rate margin (NIM), focusing in particular on negative interest rate environment. It shows that the NIM tends to go up with a higher monetary policy interest rate, and that this effect is more pronounced for banks with a large retail deposit base. On the other hand, the impact is smaller for larger and more internationalised banks. Moreover, it is also demonstrated in the thesis that the monetary policy's impact on the NIM becomes stronger in a negative policy rate environment. This is especially true if the policy rate is cut to an even more negative level, which may depress the banks' NIM significantly.

Contribution

The thesis brings interesting stylised facts on the behaviour of banks' NIM, which is potentially relevant both for monetary and macro-prudential policies, as well as for the nexus between these two policy areas. It focuses on a topic that has been receiving quite a lot of attention in recent policy debates, and the findings seem to be largely in line with the economic intuition. The thesis, however, does not spell out the policy implications explicitly. The student could thus focus on these at the defense.

Methods

The system GMM method (both one-step and two-step) is used in the thesis to analyse the data sample, which covers 189 banks in 18 European countries from 2010 to 2019. I consider this method to be appropriate. The thesis also includes a robustness test applying the OLS and fixed-effects, showing that the GMM estimates mostly fall between these two alternative econometric approaches.

Literature

The list of references is quite extensive, covering both earlier seminal papers as well as recent contributions to the literature.

Manuscript form

The thesis has a logical structure. The English language could be improved further, but its level is decent and one can understand what the author means. The treatment of the analysed hypotheses is more explicit than usual at the IES or in the economic literature in general, but this is just a remark, not a critical comment.

Overall evaluation and suggested questions for the discussion during the defense

This thesis brings interesting empirical findings relevant both for monetary and macro-prudential policy. During the work, the author incorporated my comments and suggestions in a more than satisfactory way. I thus do not have any critical remarks on the final draft.

As a result, I am convinced that the thesis fulfills the requirements for a master thesis at IES, Faculty of Social Sciences, Charles University. I thus recommend it for the defense and suggest a **grade A**.

The results of the Urkund analysis do not indicate significant text similarity with other available sources (other than draft versions of the same thesis).

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As suggested above, the student could focus at the defense on the potential policy implications of her empirical findings.

SUMMARY OF POINTS AWARDED:

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	27
<i>Methods</i> (max. 30 points)	28
<i>Literature</i> (max. 20 points)	20
<i>Manuscript Form</i> (max. 20 points)	16
TOTAL POINTS (max. 100 points)	91
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: Doc. Mgr. Tomáš Holub, PhD.

DATE OF EVALUATION: 17 May 2021

*Digitally signed by
Tomáš Holub*

Referee Signature

Tomáš Holub