

Report on Master Thesis

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

Student:	Amela Saric
Advisor:	Filip Rozsypal
Title of the thesis:	Asymmetric Monetary Transmission? Evidence from CEE Region

OVERALL ASSESSMENT:

The master thesis focuses on the transmission of monetary policy in the CEE countries, concentrating on the issue of asymmetry. It is quite a technical study that uses rather advanced methods in current macro-modelling based on VARs.

As to the official requirements, the thesis scores well – it is well written, includes a survey of relevant literature and a very detailed (almost textbook-like) expose into the methodology of VAR models used in the thesis. Both empirical parts (on the Czech economy first and then on the selected CEE countries) are well prepared, the results are discussed and compared with other studies. The findings of the thesis are to a large extent in line with other empirical studies on this topic.

In general, the thesis provides value added in performing an empirical analysis of asymmetric effects of monetary policy in different credit environments of which the results are in line with intuition („in the environment of abundant credit liquidity, agents have sufficient funds to counter the negative effects of monetary contraction. On the other hand, deteriorating financial conditions amplify the effects of monetary tightening“ or „higher credit dependence is found to foster the interest rate pass-through in CEE region“).

I like the author's fair conclusions that „ultimate impact of financial structure on monetary transmission is indeterminable“ and that „the ultimate role of financial structure in monetary transmission is difficult to asses“. Unfortunately, the potential explanation of this in the conclusions section is done only partly and verbally, referring to the potential interaction between competition and specific features of financial structures (the degree of financial intermediation, interest rate fixations in certain financial products, the role of FX loans etc.). However, these are exactly issues that are of high relevance for policymakers – if the thesis had concentrated more on the interactions between specific features of financial structure and the transmission of monetary policy, using appropriate data, it would have provided much higher value added. In the current setup, it remains to a large extent on the macroeconomic surface of the CEE economies.

A couple of other comments:

First, in the theoretical discussion of transmission channels, the description of the credit channels could emphasize more that the bank lending channel is actually a balance sheet channel where we look at balance sheets (vulnerabilities) of banks.

Second, on pp. 43-44, the author argues that the Czech banking sector is subject to a set of macroprudential rules. This is not correct – Czech banks are subject to set of **micro**prudential rules of Basel II (under macroprudential rules, one understands today the rules that would be applied on the banking system as a whole to limit potential systemic risk – these rules would include instruments such as countercyclical capital buffers, limits on the LTV/LTI ratios or leverage etc.). Furthermore, the expression that banks are „heavily“ supervised is somewhat arbitrary (although I agree that the supervision regime in the CZ is rather conservative and prudent, in international comparison).

Third, while I am in favor of enriching macroeconomic VARs with financial variables, the inclusion of the stock price index seems to me to be quite non-intuitive. I am aware of the work by Havranek et al (2010) but in terms of theory and potential channels of influence, the Czech stock index is probably capturing a lot the global risk aversion and/or global or at least European/German economic prospects

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and thus is rather a proxy for expectations of future economic activity rather than a true financial variable.

Forth, in my view, the thesis is relatively long – actually, there are two empirical parts (one on CZ and the other one on CEE), two surveys of literature etc. While it is not a problem per se, I would welcome if the thesis concentrated on one issue only and went deeper on some identified problems, such as – for the CZ study - the role of credit developments, possible thresholds for the regime change in credit etc., or for the CEE study the banking competition which is captured only by net interest margin and overhead costs. There is a large amount of literature on measuring competition in banking, using more advanced techniques, and the indices of these studies would be probably better in capturing the competition pressures.

Nevertheless, as a whole, the master thesis represents a very nice piece of economic work and it is far beyond the standard level of master theses at the IES. Therefore, I fully recommend the thesis for defence and suggest the Grade 1.

During the defence, the author could discuss some of the issues raised in this referee report.

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	20
<i>Methods</i> (max. 30 points)	30
<i>Contribution</i> (max. 30 points)	25
<i>Manuscript Form</i> (max. 20 points)	20
TOTAL POINTS (max. 100 points)	95
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Adam Gersl

DATE OF EVALUATION: 6.9.2012


Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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

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

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

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 POINTS	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě