

Report on Rigorosis Thesis

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

Student:	Mgr. Jitka Lešánovská
Advisor:	PhDr. Adam Geršl, Ph.D.
Title of the thesis:	AN EMPIRICAL ANALYSIS OF LIQUIDITY SITUATION AND INTERBANK RATES IN THE CZECH REPUBLIC DURING GLOBAL CRISIS

OVERALL ASSESSMENT

The Rigorosis Diploma Thesis on “An Empirical Analysis of Liquidity Situation and Interbank Rates in the Czech Republic During Global Crisis” by Jitka Lešánovská is analysing determinants of interbank market risk premia development in the Czech interbank market, focusing in particular on liquidity situation and interbank interest rates with a special focus on the period of global crisis. It provides a deep assessment of risk premia developments and their nonnegligible size on the Czech interbank market. Assuming that well functioning interbank market is necessary for good transmission of monetary policy decisions to real economy, the goal of the thesis is to investigate a change in interbank market liquidity during the global crisis and its impact on difference of interbank interest rates from the key policy rate. The thesis benefits from making use of unique financial market data of individual reference banks, such as their PRIBOR quotations and other market relevant factors. Together with macroeconomic indicators these variables present the endogeneous side used in regressions, based on which the endogeneous risk premium is estimated. Within the thesis, the risk premium is defined as a spread between a three-month interest rates (3M PRIBOR) and the key monetary-policy rate (2 week REPO rate).

Looking into two horizons – the whole sample period between January 2005 and February 2010 and a crisis subperiod from September 2008 onwards – the thesis concludes that during the pre-crisis period increasing interbank interest rates were mainly affected by growing liquidity risk and foreign development while during the crisis period the counterparty risk played relatively much more important role. Appendix 5 includes now the Chow test that suggests the structural break in the data in September 2008 caused by the global crisis. Respecting referee’s comments, in addition to the research carried out in the author’s previous master thesis on this topic, the rigorosis thesis includes also models for the pre-crisis period (from January 2005 to August 2008) resulting in slightly different regression results but the same main determinants. Results of the pre-crisis models show the positive effect of stable economic environment and suggest the significant influence from abroad – in particular from the euro area interbank market.

The rigorosis thesis brings a new approach to study interbank risk premia. The author has the advantage to be able to use rather unique data – quotations of interbank interest rates on an individual (not aggregated) basis. Such data are available within the Czech monetary policy authority, for which a detailed analysis of a spread of the final market reference rate from the key policy rates plays an important informative role. In this respect, the thesis' outcome can be also applied in policy making.

The rigorosis thesis contains a very rich and up-to-date literature review with many references throughout all other chapters. Relevance of the literature review to the research topic has been included in the Literature review chapter. Now the thesis provides not only a summary but also some judgement of broad literature review as a base for formulation of main hypothesis and reason for selection of databases to be used. The author continues with a well understandable definition of key concepts and with elaborated stylised facts on the Czech interbank market. This part is very well structured and provides a nice link to hypotheses analysed within the following empirical investigation part. The fifth chapter on the empirical investigation aims at explaining determinants of the interbank interest rates and interest rate spreads. Argumentation in charts 10, 12, and 13 was corrected not to

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overstate the conclusions from presented regressions, bearing in mind that not all relevant factors contributing to interbank risk premia might not have been taken into account.

Referee's comments on the master thesis, which the rigorosis thesis is based on, has been all included. As was already mentioned in comments on the master thesis, the text provides a very transparent approach to the econometric estimations, including various set of tests and mentioned open questions (such as selection of a proxy variable). At the same time, readers appreciate very good explanation of obtained econometric results and their application to practice. Such conclusions help to make the thesis applicable for future policy-decision making. To conclude, the rigorosis thesis reads well and brings a clear and concise picture of the liquidity situation and interbank rates in the Czech Republic.

Allowing for data availability, I would like to suggest to consider a similar research on markets of the Central and Eastern European region. Such an analysis could provide a valuable comparison and provide information on regional risk aversion.

I do not have any further comments and in case of a successful defence, I recommend to grade the thesis as "výborně" (Grade 1).

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)	30
<i>Manuscript Form</i> (max. 20 points)	20
TOTAL POINTS (max. 100 points)	100
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE:

Mgr. Ing. Martina von Terzi, M.A.

DATE OF EVALUATION:

2. 10. 2011

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