

Report on Bachelor / Master Thesis

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

Student:	Bc. Jacopo Messina
Advisor:	PhDr. Petr Gapko
Title of the thesis:	Stress Testing the Italian Banking System during the Global Financial Crisis

The author chose for his thesis quite an interesting and popular theme. Stress tests of banks and banking systems are nowadays a more and more used tool to determine, whether a given institution or a system is resilient and could survive a severe macroeconomic shock.

The thesis is well written and structured. All concepts are well described and explained. Author starts with explaining the background of the 2007 US mortgage crisis and its impacts to the world economy. In the next chapter, the author describes principles of macroprudential analysis and stress testing. This chapter is finalized by the stress testing process which is used in Italy.

In the fourth chapter, the author describes all tools he uses in the consequent empirical part of the thesis. The methodology is again well described.

In the empirical part the author uses linear regression analysis to estimate a relationship between the (transformed) default rate and macroeconomic variables. Results show that author did a good job in estimation; however, the normality test of residuals is ok on the 99% probability level (author does not comment the probability level at all). Consequently, a macroeconomic stress scenario is constructed, where the author tried to choose the worst observation of each macroeconomic explanatory variable. Here the author correctly chose the worst q/q GDP and inflation decrease, however, he made a mistake in the selection of unemployment. Instead of the highest increase, the author chose the biggest decrease. This caused that the resulting change in the capital requirement is not as severe as it should be. This mistake can be easily corrected if the author considers publication of his results as a paper in an economic journal.

In my opinion, the thesis is a good one and fulfills all requirements for a Master Thesis at IES FSV UK. Therefore I recommend the thesis for a defense and in the case of an extraordinary good defense I propose the grading excellent (výborně).

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	18
<i>Methods</i> (max. 30 points)	26
<i>Contribution</i> (max. 30 points)	18
<i>Manuscript Form</i> (max. 20 points)	19
TOTAL POINTS (max. 100 points)	81
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Petr Gapko

DATE OF EVALUATION: 5. 9. 2011

Referee Signature