

# Report on Bachelor / Master Thesis

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

Student:	Jan Stříbný
Advisor:	Doc. PhDr. Adam Geršl, Ph.D.
Title of the thesis:	Credit Growth in CEE Countries: Empirical Analysis of Early Warning Indicators

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

The thesis focuses on the early warning indicators of financial crisis in Central and East European countries (CEE) and provides alternative estimator compared to a work of Geršl & Seidler (2012). The author estimates fixed effect panel data model and compare results with the work of Geršl & Seidler.

The thesis has clear topic and provides sufficient literature survey about recent literature about CEE countries. However the thesis has a key weakness and it is its empirical part. I have two major critical comments:

- 1) The description of used methods and model are even far away from being weak (Chapter 4).
- 2) The chapter 5 showing comparison to the work of G&S (2012) deserves better guidance by author.

### 1) Chapter 4

In the chapter 4.3. "Model" the author verbally describes the estimation method of the baseline article, used model and why it cannot be used in his work. Whole description consists of just 1 short paragraph without any equation showing the model. The presentation of the baseline model and estimation methods is crucial for the understanding of the paper but also for its transparency. The author mentions he could not use a pooled mean group estimator (PMG) and provides the explanation of the PMG in one short sentence. Again, a reader would appreciate to see also technical description of the PMG and also more detailed explanation why it cannot be used in this case. Why does the author state that the PMG estimator "turned out to show confusing and non-robust results" (page 19)? The chapter concludes that the fixed effects estimator will be used.

The next chapter 4.4 describes the estimated model for credit to deposits ratio. The chapter includes only verbal description of explanatory variables and tables with estimation results. There are several steps missing in the whole chapter. At first there should be explained why the author uses fixed effect model (few sentences in previous paragraph are unsatisfactory). What are the assumptions of this method? Are these assumptions fulfilled? There are test procedures showing whether we should use fixed or random effect model on our panel data, but nothing similar is employed in the thesis. After this argumentation (which includes also some empirical tests) we can proceed to the description of the fixed effect model, because we have proved that this method is adequate. Unfortunately the model is described only verbally without any equation which would precisely describe author's intentions. Without the precise model specification whole estimation and results are not transparent. Then the author should proceed to dataset description – to tell us how many observation he has for every variable and inform us about possible caveats. However this step is again missing. From the Appendix A "Data" we know just data sources. Time frequencies and specific number of observations are missing. The same critique is applied to the chapter 4.5 where author estimates another model specification.

### 2) Chapter 5

The chapters 5.1 and 5.2 seem to me confusing. I miss better guidance of the author through all graphs and results. It is not clear what is on the x and y axis on the first sight and I would appreciate also more detailed explanation what are graphs trying to show us.

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I have just additional very minor comment. I would recommend explaining used abbreviations (PIIGS on page 16 and Tier 1 ratio on page 25).

Generally the author should pay much more attention to techniques he uses and follow standard estimation procedures. I would recommend using simpler techniques which would be handled well than estimation of panel data. The interpretation of results should be done also more carefully. Hence I grade the thesis as good.

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

CATEGORY	POINTS
Literature (max. 20 points)	16
Methods (max. 30 points)	10
Contribution (max. 30 points)	25
Manuscript Form (max. 20 points)	15
<b>TOTAL POINTS</b> (max. 100 points)	<b>66</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	<b>2</b>

**NAME OF THE REFEREE:** Mgr. Michal Paulus

**DATE OF EVALUATION:** 9.6.2013



Referee Signature