

# Institut ekonomických studií

## Fakulta sociálních věd, Karlova universita Praha

### Referee report on the Master Thesis

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|--------------------------------|---|
| <b>Student Name:</b>           | <b>Simona Tothova</b>   |
| <b>Thesis Supervisor Name:</b> | <b>Radovan Parrak</b>   |
| <b>Thesis Title:</b>           | <b>Impact of European Bailout Programs on SME Distress Rate</b> |

#### Overall Evaluation:

The master thesis submitted by *Simona Tothova* analyzes factor influencing bankruptcies of SMEs in several European countries, with a special attention to the effects of various bailouts that these countries received after 2008. It is a reasonably well written and structured thesis that suffers, however, from some vagueness and too extensive overviews of basic textbook materials. The presentation of results is, on the other hand, rather short and would deserve a more detailed discussion. Bibliography is organized according to a system unknown to me, so it is not very easy to find sources (items 1-48 appear to be in alphabetical order, then chaos ensues). Last but not least, thesis very frequently quote thesis the author submitted to the University of Amsterdam in 2014. I do not have access to the UA thesis, so I can't judge how different or similar the two theses are. I recommend the thesis for the defense and I suggest grade C (**good**).

After a brief introduction, Chapter 2 provides an overview of the existing data on SMEs in the EU. While the discussion is interesting, some claims are left unsupported by a quotation and/or data (page 3: SMEs are main source of innovation?, page 4: outlook for coming years is positive? Maybe, but why?) and we are left with a lot of comparisons what is lower and what is higher, without much discussion of its determinants and institutional background. There must be something that explains the high share of SMEs in employment in Greece (54%) which is double of the share in Ireland or Latvia, for example. The discussion of macroeconomic performance of all countries on pages 13-20 is redundant and necessarily too general to add any value.

Section 2.4 provides an overview of credit risk models, almost exclusively based on the previous thesis (Tothova 2014). I was little surprised by a lack of discussion of impact the macro indicators might have on statistical properties of estimates – macro indicators tend to explain almost anything in economy, but how they interact with financial indicators?

Chapter 3 discusses model methodology, and present hypotheses to be tested in the next chapter. The following chapter discusses data. I am not convinced by the author treatment of the 2013 data that seems to compromise homogeneity of the data set (pages 32-33). The 2013 data are the most frequent and represent more than 10% of the data set, so I would appreciate comment by the thesis supervisor. Data on bailout payments (page 35) suggests Hungary received euro 63 billion (more than \$70 billion) while the IMF/EU/WB bailout targeted \$25 billion. The author should explain how she arrived at the former figure. Section 4.3 is again heavily based on Tothova 2014, while section 4.4 presents macroeconomic data.

Chapter 5 summarizes the results in three tables. First thing to note is quite low pseudo R<sup>2</sup> (though we don't know which pseudo R<sup>2</sup> the author uses, so it's quite difficult to draw conclusions from the number). Bailouts do seem to lower distress ratio (at least in Table 12, page 42), and most financial variables have an expected signs. Macro variables, however, have all counter-intuitive signs (higher growth increases distress) and I am not sure that the discussion on page 43 solved this issue (decreasing GDP causes a reverse effect? Why? If so,

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should not be the model re-specified?). As results in Table 13, page 45 show, however, macro variables can switch signs very quickly, so their explanatory power is not very robust. The eurozone hypothesis (section 5.3) is interesting, but is presenting in very complicated way, so I am not sure I understood the author's point. Table 14 fails to present any data on Latvia, even though page 46 discusses results for Latvia. For these reason, I find the author's conclusion on page 48 that macro variables are significant for SME modeling rather too generous. Final conclusions seem to over-sell statistically not so convincing results. Arguing that non-pegging the currency increases effects of the bailout is courageous. Is it not the case that Latvia used the bailout exactly as a instrument to keep its peg in place (and enter the eurozone later)?

#### SUMMARY OF POINTS AWARDED:

| <b>CATEGORY</b>             | <b>POINTS</b> |
|-----------------------------|---------------|
| Literature (0-20)           | 15            |
| Methods (0-30)              | 20            |
| Contribution (0-30)         | 15            |
| Manuscript Form (0-20)      | 10            |
| <b>TOTAL POINTS (0-100)</b> | <b>60</b>     |
| <b>GRADE</b>                | <b>3</b>      |

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(Signature)

Ondřej Schneider



Evaluated on: **8 September 2015**