

Report on Master Thesis

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

Student:	Bc. Lucie Scheerová
Advisor:	doc. Mgr. Tomáš Holub, PhD.
Title of the thesis:	Natural Interest Rate: Is 2 % CPI Inflation Still the Right Target?

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

The main focus of the thesis is estimating the natural real interest rate for the Czech Republic. This topic has become a subject of heated monetary policy debates not just in our country, but also globally following the Jackson Hole conference in 2016. In line with much of the literature, the author finds out that the natural real interest rate has fallen significantly since the global financial and economic crisis in the Czech Republic, and reached its bottom at very negative levels in 2012-2013. Even though it has started increasing since then, it is still negative according to the mean estimate. If this is correct, this could imply rather limited scope for policy normalisation going forward in the Czech Republic. The author discusses (qualitatively, rather than quantitatively) in section 6.4 if the CNB should address this issue either by increasing its inflation target or by switching to the price-level targeting framework. She presents her opinion that keeping the flexible inflation targeting regime combined with a properly managed countercyclical fiscal policy is the best solution.

The thesis applies the semi-structural Laubach and Williams model, estimated using Kalman filter and Maximum Likelihood methods. This is a rather advanced and technically demanding method for a master thesis level. I believe that it is useful to see a replication of this method for the Czech case, as it has become a workhorse for the recent policy debates globally. However, it has its shortcomings for the Czech context regarding the closed-economy nature of the underlying model. For the Czech economy, some open-economy version might be more appropriate. The author is aware of this fact, and sketches the way how to proceed, but the actual estimations are left for future research (such research is actually undertaken at the CNB). The author also cautions that her findings may not be very robust, as suggested by some estimation issues (and also pro-cyclical nature of the estimated real interest rate gap). On the one hand, this could be viewed as a disadvantage; on the other hand, it can serve as a cautionary remark against drawing too strong policy implications from estimates that may not be completely reliable (including the work of Laubach and Williams for the US).

The literature review provided in the thesis is quite broad, but the literature in this field is really mushrooming in recent years and months. After the author finalised her thesis, I came across the CEPR Discussion Paper no. 11927 by Robert Beyer and Volker Wieland, which is not covered in the references. The author may want to have a look at that paper and comment on its findings in comparison to her own conclusions at the defence.

The thesis has a logical and straightforward structure. It is written in decent English and relatively easy to read.

The author consulted with me her work quite actively (but at the same time carried out the technical part of the work very independently). I thus have no further comments.

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

CATEGORY	POINTS
Contribution (max. 30 points)	27
Methods (max. 30 points)	23
Literature (max. 20 points)	18
Manuscript Form (max. 20 points)	18
TOTAL POINTS (max. 100 points)	86
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Tomáš Holub

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Referee Signature