

Report on Bachelor / Master Thesis

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

Student:	Dominika Kolcunová
Advisor:	Doc. Tomáš Havránek
Title of the thesis:	Estimating the effective lower bound for the CNB's Policy Rate

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

Please provide your assessment of each of the following four categories. The minimum length of the report is 300 words.

Contribution

Negative interest rates are the most conventional form of all types of unconventional monetary policy, having been utilized by about 10 central banks in countries across the world. Nevertheless, the power of negative rates is inherently limited by the existence of cash, which carries zero interest. But cash is inconvenient, especially for large payments, so central banks have been able to tiptoe into the negative territory. Negative rates, however, also present substantial costs to the stability of banks (reducing their profits, because bank cannot fully pass the negative rates to depositors), the stability of insurance companies and pension funds, and central banks' relations with the public (savers dislike negative nominal rates, even though they seem less bothered by negative real rates, which are what really matters). The topic of this thesis originated when CNB staff and policy makers were considering negative rates in 2016 – nevertheless, we weren't sure how far we can go. Dominika Kolcunova delivers a rigorous and credible answer to that question by showing (using many methods) that the effective lower bound is about -1%. While not urgent now, the question of negative rates will certainly re-emerge in the next recession, and this thesis will be used in the Czech National Bank. I can hardly imagine for a master's thesis to bring stronger contribution. Hence I believe that Dominika should be awarded for her work.

Methods

There have only been a few studies (or research notes published by investment banks) estimating the effective lower bound on policy rates. Dominika combines them all into a compelling narrative, and adds her own innovative approaches. In addition, she shows rigorously that the potential of negative rates was not sufficient to deliver monetary policy easing similar in its effects to the impact of the exchange rate commitment. Since classical quantitative easing makes little sense in the Czech context, intervention on the FX market was the only tool available and efficient enough for the CNB to deliver substantial monetary policy easing in 2013.

Literature

I believe that all the relevant literature is properly cited in this thesis.

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Manuscript form

The thesis is typeset beautifully in LaTeX; also the level of English is very good throughout the thesis. Nevertheless, I am slightly puzzled by the abstract. First, it's too long and could perhaps be separated into two paragraphs. Second, the reader wonders why storage, insurance and transportation costs of 0.2-0.6% and costs of loss of convenience of 1% combine to total potential for negative rates of 1%. Yes, it's explained in the main text, but please don't confuse your readers in the first few sentences. Also I don't understand the upper confidence bound for the main estimate: +1%. But of course we know that that lower bound is smaller than 0.05%. I probably misunderstand the abstract, but that's the point.

So I subtract a few points for manuscript form, but overall **I urge the committee to reward this exceptionally useful and rigorous thesis.**

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

CATEGORY	POINTS
Contribution (max. 30 points)	30
Methods (max. 30 points)	30
Literature (max. 20 points)	20
Manuscript Form (max. 20 points)	18
TOTAL POINTS (max. 100 points)	98
GRADE (1 – 2 – 3 – 4)	1*(award)

NAME OF THE REFEREE: Doc. Tomáš Havránek

DATE OF EVALUATION: August 4, 2017



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