

# Report on Bachelor / Master Thesis

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

<b>Student:</b>	<b>Alexandra Katinová</b>
<b>Advisor:</b>	<b>Doc. PhDr. Tomáš Havránek, PhD.</b>
<b>Title of the thesis:</b>	<b>How Can the Czech National Bank Eliminate the Zero Lower Bound on Interest Rates? A Case Study</b>

## OVERALL ASSESSMENT

### Contribution

The thesis by Alexandra Katinova provides thorough research on the feasibility of the negative interest rate policy (NIRP) in the Czech Republic. She finds no such obstacles that could not be overcome. She states a list of legal acts that would need to be adjusted and identifies that tax prepayments, free reserves kept at the Czech National Bank, debt repayments in cash and interest-free accounts of government institutions are the main factors creating the room for escaping the policy. In the next step, however, she offers a solution to the ZLB elimination in a form of time-varying deposit fee tied with setting electronic currency as the main unit of account and elaborates on the „action plan“ for the CNB in case it is necessary to introduce the NIRP.

Altogether, the thesis's contribution is really high. While not urgent now, the question of negative interest rates will definitely arise again in a future recession. In the previous crisis, the introduction of UMP measures have led to a heated debate among the public and it is still an under-researched topic in the academics. The Czech Republic has an experience with the exchange rate commitment but it is really important to assess all possibilities of overcoming the ZLB and contribute further to the debate. Alexandra offers the contribution of high quality.

### Methods

In the first part, the thesis provides a simple VAR analysis of interest rate transmission in countries with the NIRP. By that Alexandra proves her analytical quantitative skills that fully meet the requirements of the bachelor level of studies (or are, in fact, above the level required). The analysis is very thorough and all necessary tests are run. Alexandra is well aware of the shortcomings of the model, especially regarding the number of observations, she warns of it several times across the thesis and does not overinterpret the results.

In the second part, the thesis contains the case study analysis of the feasibility of the NIRP in the Czech context. I appreciate the extensive list of legal acts that should be adjusted in case of the negative policy rates (p. 32-35) as well as the detailed description of the ZLB elimination strategy (p. 38-40).

### Literature

I find the work with the literature (almost) excellent. Alexandra cites the earlier literature on liquidity trap (Keynes,...) and UMP (Reifschneider, Williams) as well as up-to-date papers which have already become seminal in the field of overcoming the ZLB (the work by Buiter, Agarwall, Kimball, Rogoff,...).

I have just two minor comments regarding the literature:

- My impression from the section 2.1 is that only the pluses of the NIRP and only minuses of the QE are mentioned. I think the section could be a bit more balanced.
- I would suggest to cite legal acts in text directly as e.g. *Zákon č. 89/2012 Sb.* (or *Act No. 89/2012 Coll.* in English) instead of *Česko (2012)*; or, when the no. of Act is mentioned, then *Česko (2013)* is redundant, especially when only Czech laws are cited. Also, some other references should appear in a different form (e.g. *pro bankovní karty (2016)*). But this is only a minor formal problem, otherwise the literature is cited properly.

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## Manuscript form

The thesis is nicely typeset in LaTeX and is written in very good English. It is written clearly and thus reading is pleasant. There are a couple of typos and sentences that could be reformulated so that message is clearer, but given the extent of the thesis it is an inconsiderable portion.

## Summary and suggested questions for the discussion during the defense

During the defense, Alexandra could elaborate more on the following questions:

- As I understood, the main aim of the VAR analysis is to assess the transmission of a shock to IR under the NIRP conditions. In order to do that, have the author considered also running the same VAR on the period before the NIRP introduction so that she has two sets of results – before and after the introduction – so that it would be possible to compare the transmission? How the transmission is actually assessed when only one period is included? Or, instead of two VARs (but this is probably well above the level of a bachelor studies), have the author considered a non-linear VAR (threshold VAR, time-varying VAR) to capture these differences in transmission?
- In Section 4.1, five main possibilities how to overcome ZLB are listed (helicopter money, abolition of cash, taxing currency,...). Could you elaborate more on why right the fifth option – time-varying exchange rate between electronic and paper currency - is chosen for the Czech Republic compared to other options?

**Summary:** Alexandra provides a thorough and profound overview of challenges related to the negative interest rates in the Czech Republic and subsequently provides a suggestion of strategy for the CNB on how to proceed once the negative rates would be needed. Given the practical implications I find this work extremely useful. It opens up an important discussion upon which it is possible to build during the decision-making process related to the introduction of the NIRP in the CNB.

**All in all, I find the thesis to be of very high quality and I suggest it deserves to be awarded with distinction for an extraordinarily good bachelor thesis.**

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	30
<i>Methods</i> (max. 30 points)	28
<i>Literature</i> (max. 20 points)	19
<i>Manuscript Form</i> (max. 20 points)	19
<b>TOTAL POINTS</b> (max. 100 points)	<b>96</b>
<b>GRADE</b> (A – B – C – D – E – F)	<b>A*</b>

**NAME OF THE REFEREE: Mgr. Dominika Kolcunová**  
**DATE OF EVALUATION: 1. 6. 2018**

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**Referee Signature**

**EXPLANATION OF CATEGORIES AND SCALE:**

**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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

**LITERATURE REVIEW:** *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

**Overall grading:**

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F