Report on **Bachelor / Master Thesis**

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

Student:	BSc. Martin Keblusek
Advisor:	Doc. PhDr. Tomáš Havránek, Ph.D.
Title of the thesis:	Do Central Bank FX Reserves Matter for Inflation?

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

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

Many central banks, including those in developed countries, have amassed substantial FX reserves. These FX reserves typically form the residual of previous policy tools (such as FX intervention), but it is unclear how relevant the reserves are to monetary policy once created. A case in point is the Czech National Bank, which has accumulated huge FX reserves but did not use them in the two recent giant crises (the financial crisis and the coronacrisis), which suggests that FX reserves are largely irrelevant to monetary policy. If the size of FX reserves is irrelevant to inflation, the reserves can be invested for the long run and create value for the country (following Singapore, which 4 decades ago invested a large portion of FX reserves in high-yield assets). It is therefore interesting to look at the cross-country association between inflation and FX reserves. Martin Keblusek is the first to deliver a thorough analysis on this topic, therefore I see substantial contribution. I award 25 points.

Methods

The thesis largely follows the previous literature in terms of data and variables (including previous research by the Czech National Bank), but additionally employs Bayesian model averaging to address model uncertainty (which has been so far ignored in the literature). I also appreciate that the author uses several sets of priors as robustness checks. Of course one cannot clearly establish causality in this case, but at least the author realizes the problem and uses lags where possible (valid instruments are difficult to find). I also award 25 points.

Literature

The relevant literature is quite well covered. I award 17 points.

Manuscript form

The level of English employed in the thesis is adequate, though there are typos ("the inflation" in the abstract). Also the thesis is not typeset in LaTeX. I award 15 points.

Summary and suggested questions for the discussion during the defense

I recommend the thesis for defense with a grade B (A-C depending on the committee's evaluation). The results of the Urkund analysis do not indicate significant similarity with other available sources. I would be interested to hear the policy implications that the author draws from his research. Does he still see a strong argument for extremely conservative FX reserves management (such as that of the Czech National Bank, where

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90% of the assets are invested in bonds with yields close to zero with resulting opportunity costs for the Czech Republic in the vicinity of CZK 100 billion annually)? Or should the reserves be invested in, say, stocks in order to bring long-term value? After all, stocks are also very liquid.

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

CATEGORY		POINTS
Contribution	*(max. 30 points)*	25
Methods	*(max. 30 points)*	25
Literature	*(max. 20 points)*	17
Manuscript Form	*(max. 20 points)*	15
TOTAL POINTS	*(max. 100 points)*	**82**
GRADE	**(A – B – C – D – E – F)**	**B**

NAME OF THE REFEREE: Doc. PhDr. Tomáš Havránek, Ph.D.

Digitally signed (12.8.2020)
Tomas Havranek

DATE OF EVALUATION: 12.8.2020

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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.*

Strong	*Average*	*Weak*
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.*

Strong	*Average*	*Weak*
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.*

Strong	*Average*	*Weak*
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.*

Strong	*Average*	*Weak*
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