

Report on Bachelor / Master Thesis

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

Student:	Jakub Tabášek
Advisor:	Prof. PhDr. Tomáš Havránek, Ph.D.
Title of the thesis:	Should Central Banks Try to Make Profit on their FX Reserves?

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

Short summary

The central banks of many countries (especially emerging economies, but with prominent exceptions such as Switzerland and the Czech National Bank) have accumulated massive foreign exchange reserves. It is surprising that these huge reserves have received relatively little attention in the research literature, and even policy materials on this topic are typically brief and vague. Many central banks (including, again, Switzerland and the Czech Republic) accumulate reserves but are not specific about how these reserves can be used to foster the main mandate of the central banks, which is price stability. Because central banks have essentially infinite investment horizons and often rarely sell any portion of their reserves, they have the opportunity to make a lot of money without compromising their main mandate. As far as I know, this thesis is the first research work that carefully examines this possibility.

Contribution

As I have noted, the thesis brings the first systematic treatment of the possibility of using central bank reserves to obtain yield in the long term. As far as I know, no one has carefully compared university endowment funds and sovereign wealth funds to central bank portfolios. The resulting text is extremely useful for policymakers and anyone who wishes to learn more about the context surrounding FX reserves and their potential use. As such, the thesis fills an important gap in both the research and policy literature. I also note that the author consulted his progress with me on a regular basis and all of my comments have already been incorporated into the thesis.

Methods

The predominant method employed in the thesis is case study analysis, but the author also uses VAR to investigate the interplay between reserves and other macroeconomic variables. I think that the econometric and case-study parts of the thesis nicely complement each other.

Literature

The related literature is covered very well.

Manuscript form

The thesis is written in very good English and typeset in LaTeX.

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Overall evaluation and suggested questions for the discussion during the defense

In my view, the thesis fulfills the requirements for a bachelor thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade A. The results of the Urkund analysis do not indicate significant text similarity with other available sources.

This is a difficult question to answer, but given the author's expertise on the topic, what specific portfolio composition would he recommend for the Czech National Bank (also in light of the experience with the war and pandemic)?

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	29
<i>Methods</i> (max. 30 points)	26
<i>Literature</i> (max. 20 points)	19
<i>Manuscript Form</i> (max. 20 points)	19
TOTAL POINTS (max. 100 points)	93
GRADE (A – B – C – D – E – F)	A

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

DATE OF EVALUATION: May 9, 2022

digitally signed
Tomas Havranek

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.*

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.*

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

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.*

Overall grading:

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