Report on Master Thesis

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

Student:	**Solmaz Khalilova,**
Advisor:	**doc. Mgr. Tomáš Holub, Ph.D.**
Title of the thesis:	**The impact of Monetary Policy on the Economic Growth of the Czech Republic**

OVERALL ASSESSMENT:

Short summary

The thesis analyses empirically the impact of Czech monetary policy on the economic growth, using a fairly standard VAR model. It finds an intuitive response of GDP in the Czech Republic to monetary policy shocks, i.e. the economy contracts after a monetary policy restriction, and vice versa, with a peak of the response after about 6 quarters.

Contribution

The thesis brings a moderate contribution to the analyses of monetary policy transmission mechanism in the Czech Republic, mainly as regards the impact of interest rate changes on the real economy. Given the chosen methodology, it cannot answer the hypotheses 2 and 3, i.e. if the inflation-targeting regime affects positively the Czech economic growth, and whether this framework and its tools are the most suitable ones for this country.

Methods

VAR analysis is a standard tool for exploring monetary policy transmission, i.e. responses of the economy to monetary policy shocks. With this approach, it is thus possible to analyse hypothesis 1 of the thesis, i.e. the role of monetary policy over the business cycle. I cannot be used to make inferences concerning the impact of monetary policy framework on the long-term economic growth, if there is any. Nor can it be used for comparing the actual monetary policy framework with possible alternatives. In other words, it cannot answer the hypothesis 2 and 3 stated in the thesis.

The description of the VAR model in the thesis is quote rudimentary, e.g. as regards the shock-identification strategy. The findings are also described quite briefly, and thus potentially underexplored. On the other hand, the conclusion that *"the effectiveness of monetary policy instruments in the Czech Republic varies periodically"* cannot be drawn from the analysis, as the estimated VAR model is time-invariant.

The data section is also extremely brief. The time series are not defined in detail (e.g. what kind of interbank rate is used), no summary statistics are provided. It is not evident why the student decided to use real GDP in 2015 USD, rather than CZK. Given that this is the main focus variable of the thesis, some discussion of this choice would be appropriate.

Literature

The Bibliography is relatively broad. But I miss some recent contributions to the analysis of Czech monetary policy transmission mechanism (e.g. CNB, MPR August 2021, Box 4). The important paper by Babecká Kucharčuková, et al. (2013) is provided in Bibliography, but is not mentioned anywhere in the text. On the other hand, some papers cited in the text are not listed in the Bibliography section (e.g. Chichek, 2005; or Arnostova and Hurnik, 2005). The empirical findings of the thesis are not explicitly compared to the earlier literature.

Manuscript form

In terms of its structure, the introductory chapter is disproportionately long (45 pages). It contains issues, which are not directly relevant for the analysed subject (e.g. the discussion of direct monetary policy instruments is redundant, as the CNB has used only the indirect ones over the period under

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review). The text does not ideally flow from general to specific. There are some repetitions of the same issues throughout the text. The English language if often imperfect.

Overall evaluation and suggested questions for the discussion during the defense

Overall, the thesis is below the average of comparable works at the IES. In my opinion, it fulfils the requirements for a master thesis at IES, Faculty of Social Sciences, Charles University, but at the lower edge of those requirements. The results of the Turnitin analysis do not indicate significant text similarity with other available sources (except of an earlier version of the same thesis). I thus recommend the thesis for the defense and suggest a **grade E**.

I propose the following questions and issues for discussion at the defense:

i) Discuss why you decided to use real GDP in 2015 USD, rather than CZK?

ii) Provide information about the shock identification strategy that you used in your VAR analysis, and justify your choice.

iii) Show the response of inflation to monetary policy shocks in your VAR model. Discuss if the model exhibits the "price puzzle", or not.

iv) Compare your empirical findings with the available literature.

SUMMARY OF POINTS AWARDED:

CATEGORY		POINTS
Contribution	*(max. 30 points)*	15
Methods	*(max. 30 points)*	15
Literature	*(max. 20 points)*	11
Manuscript Form	*(max. 20 points)*	10
TOTAL POINTS	*(max. 100 points)*	**51**
GRADE	**(A – B – C – D – E – F)**	**E**

NAME OF THE REFEREE: Tomáš Holub

DATE OF EVALUATION: 11 September 2023

Digitally signed (11 Sept. 2023)

Tomáš Holub

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