Report on **Master Thesis**

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

Student:	Bc. Jitka Lešanovská
Advisor:	PhDr. Adam Geršl, Ph.D.
Title of the thesis:	AN EMPIRICAL ANALYSIS OF LIQUIDITY SITUATION AND INTERBANK RATES IN THE CZECH REPUBLIC DURING GLOBAL CRISIS

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

The Master's Thesis by Jitka Lešanovská is analysing determinants of interbank market risk premia development in the Czech interbank market, focusing in particular on liquidity situation and interbank interest rates. It provides a deep assessment of risk premia developments and their nonnegligible size on the Czech interbank market. Assuming that well functioning interbank market is necessary for good transmission of monetary policy decisions to real economy, the goal of the thesis is to investigate a change in interbank market liquidity during the global crisis and its impact on difference of interbank interest rates from the key policy rate. The thesis benefits from making use of unique financial market data of individual reference banks, such as their PRIBOR quotations and other market relevant factors. Together with macroeconomic indicators these variables present the endogeneous side used in regressions, based on which the endogeneous risk premium is estimated. Within the thesis, the risk premium is defined as a spread between a three-month interest rates (3M PRIBOR) and the key monetary-policy rate (2 week REPO rate). Looking into two horizons – the whole sample period between January 2005 and February 2010 and a crisis subperiod from September 2008 onwards – the thesis concludes that during the pre-crisis period increasing interbank interest rates were mainly affected by growing liquidity risk and foreign development while during the crisis period the counterparty risk played relatively much more important role.

The thesis brings a new approach to study interbank risk premia. The author has the advantage to be able to use unique data – quotations of interbank interest rates on an individual (not agregated) basis. Such data are available within the Czech monetary policy authority, for which a detailed analysis of a spread of the final market reference rate from the key policy rates plays an imporatnt informative role. In this respect, the thesis' outcome can be also applied in policy making.

The thesis contains a very rich and up-to-date literature review with many references throughout all other chapters. Reader might, however, often miss a reason why some literature sources are mentioned and refered to and how they connect to the author's research. Not only a summary but also some judgement of this broad literature would be nice to see. The author continues with a well understandable definition of key concepts and with elaborated stylised facts on the Czech interbank market. This part is very well structured and provides a nice link to hypothesies analysed within the following empirical investigation part. The fifth chapter on the empirical investigation aims at explaining determinants of the interbank interest rates and interest rate spreads. However, scatter plots in charts 10, 12, and 13 do not show any notable association, therefore driving strong conclusions from presented linear regression lines does not make sense. Relatioships between the presented variables (loans-to-deposits, individual connectivity and ration of NFC loans to total assets) vis-a-vis the interbank spread (3M PRIBOR-2W REPO) are not stable and impossible to be defined in a linear way. Chart 15 also draws too strong assumption about liquidity situation of the counterparty, not being conditional on other factors. Result discussion (bottom page 60) mentions two periods, where the whole one reaches up to 10M 2010 (not to 2M 2010 as mentioned elsewhere). This minor typing mistake (together with couple of other typos) might be still corrected. Nevertheless, my main question concerns such a choice of these periods. More specifically, why the pre-crisis period is not only from Januray 2005 until August 2008, while the crisis perid would then continue from September 2008 onwards. In this case the crisis period would not be affected by the global crisis and a structural break in data could be omitted.

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Contrary to the previous comments, I appreciate very transaparent approach to the econometric estimations, including various set of tests and mentioned open questions (such as selection of a proxy variable). At the same time, readers appreacite very good explanation of obtained econometric results and their application to practice. Such conclusions help to make the thesis applicable for future policy-decision making. To conlude, the thesis reads well and brings a clear and concise picture of the liquidity situation and interbank rates in the Czech Republic.

For defence of the thesis I suggest to ask for explanation of choice of such a pre-crisis period, which includes even the crisis horizon. If possible, a demonstration of results obtained on only the pre-crisis horizon would be good to be presented.

In the case of successful defence, I recommend to grade the thesis as "výborně" (Grade 1) and suggest the thesis for the Dean's Award (navrhuji práci ocenit pochvalou děkana).

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

CATEGORY		POINTS
Literature	(max. 20 points)	20
Methods	(max. 30 points)	28
Contribution	(max. 30 points)	30
Manuscript Form	(max. 20 points)	20
TOTAL POINTS	(max. 100 points)	98
GRADE	(1 – 2 – 3 – 4)	1

NAME OF THE REFEREE:

Mgr. Ing. Martina Horníková, M.A.

DATE OF EVALUATION:

26. 1. 2011

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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