



Thesis Evaluation Report

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Title:	Determinants of Non-Performing Loans in Eurozone and Non-Eurozone
Opponent	Jiří Novák

Summary

The thesis examines the determinants of the amount of non-performing loans in 534 banks in several Eurozone and non-Eurozone countries between 2012 and 2017. The results are mixed and for the most part insignificant.

Contribution

There is extensive prior research on the determinants of loan quality in banks. The author correctly cites much of that research. However, it is not clear how the author aims at contributing to the existing knowledge of the phenomenon beyond what we know from prior research. I am afraid that the thesis does not have a clear focus. The author does not specify in the introduction what specific feature she examines and what her expectations about the examined relationships are. Instead, she considers a diverse pool of variables already examined in prior research and re-examines them in her sample. I am not sure how much we could learn from such work (even if the results were significant).

“The selection of the independent variables is done based on the previous literature who empirically studied the factors of credit risk, but in different regions and period (De Bock, 2012), (Fišerová& Teplý, 2014), (Jabra et al., 2017), (Mohanty et al., 2018). Due to lack of data, the depended variable of the main model in this thesis will be loan- impairment charges to average gross loans, which is considered as a proxy for non-performing loan ratio. The selection of the proxy for the non- performing rate ratio is based on the previous literature, e.g. Ahmad & Ariff, in 2007, studied the determinants of credit risk in emerging (India, Korea, Malaysia, Mexico, Thailand) and developed economies (Australia, France, Japan, US) by using impaired loans to gross loans ratio as the depended variable for credit risk measurement.”

Literature

The author provides an extensive literature review. It is clear that she acquainted herself with prior research in the area and she understands the main questions that this stream of research addresses. My objection regarding the literature review is that it is mostly written in the “one paragraph per study” style where the author simply summarizes the conclusions of individual papers and moves onto the next paper. I would consider it preferable to organize the review on the “theme by theme” basis discussing what individual papers suggest about the individual themes. I would appreciate a richer discussion of the interconnections between the various research papers and a better analysis of issues over which there is a consensus and issues that are still controversial and merit further investigation. I also lack a direct link between the findings in prior literature and the research question the author investigates. It is not clear to me how the author uses her knowledge of prior literature in formulating her own research question and hypotheses.

Methodology

The author uses a methodology that is fairly standard in this research field. She does not address the issues of endogeneity and mutual interdependence of the variables. In addition, she does not discuss multicollinearity between the individual explanatory variables. Some of the variables she uses are conceptually related, e.g. GDP growth, unemployment (and to some extent the rate of inflation). The author does not provide a correlation matrix but I would expect these variables to be highly correlated in her sample. Despite that the author treats these as separate independent variables instead of performing a factor analysis and using only a subset of independent variables that capture different underlying concepts. I find the interpretation of the last finding (where the documented relationship is statistically significant) problematic. The author attributes the impaired quality of loans to the prolonged period of low interest rates. I would argue that this period coincides with the times of economic stagnation or decline. I believe that it is the economic downturn that is the main driver of the impaired loan quality rather than the low interest rates set by the central banks to ease the difficult economic situation.

“we show that the prolonged period of low interest rates has shaped the expectations for the future and has changed the slope of the yield curve thus significantly impacting the quality of loans.”

Form

The thesis is fairly well organized and it follows a standard structure. The individual parts are quite well interconnected. Some transitions in the text are not smooth enough. The thesis is written in good English. The tables and figures lack detailed explanatory notes.

Conclusion

The author examines a popular topic in banking research. She reviews prior literature and uses variables considered in prior research in her investigation. Even though the thesis is reasonably well crafted it is not obvious how it contributes to our understanding of the phenomenon. I recommend the examination committee to ask the author to motivate her choice of the explanatory variables, to highlight and interpret the main results, and to explain where she sees the main contribution of her work.

Awarded Points and Grade

Contribution (max 30)	22
Methods (max 30)	24
Literature (max 20)	17
Form (max 20)	18
Total (max 100)	81
Grade (A – B – C – D – E – F)	B

Referee's Signature

15 January, 2020

Evaluation Date

Jiří Novák

Referee's Name

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