

**(Titulek)**

Matěj Opatrný: The effects of the CNB's koruna exchange rate commitment are positive

**(Perex)**

Much has been said about interventions, but few would liken them to a round of drinks with your friends. Matěj Opatrný won a prize in the Young Economist of the Year 2016 competition for his Bachelor's thesis on the effects of the CNB's exchange rate commitment. His findings have been published as an IES Working Paper. In this interview, Matěj also compares studying in the Czech Republic with studying abroad.

**(Přepis)**

**Discussants:** Marek Zeman, Director of the CNB's Communications Division, and Matěj Opatrný, who won the Czech Economic Society President's Prize for authors aged under 25 years for his paper: ***Quantifying the Effects of the CNB's Exchange Rate Commitment: A Synthetic Control Method Approach.*** The paper evaluates the effects of the CNB's commitment to keep the Czech currency from appreciating, which was introduced in 2013.

**1. Hello Matěj, can you describe the content of your paper in a nutshell?**

Hello. My paper dealt with the CNB's exchange rate commitment, which consists in keeping the Czech koruna from appreciating. This means the CNB is targeting a rate of 27 korunas to the euro. I studied the impacts of its interventions on three macroeconomic indicators – inflation, GDP per capita and unemployment.

**2. What method did you use in your paper?**

I used quite an unusual method, a new technique developed by Alberto Abadie in, I think, 2004. To describe it, let me give you a nice example. Imagine you're in the pub with a group of friends and during your night out you play three games together – pool, bowling and darts. At ten o'clock you have a few shots of rum – we'll call them interventions. I can tell you how you would have played the three games if you hadn't had those three shots. I – or rather this method – can tell you that by observing the play of your friends.

**3. What did you find in the case of the Czech commitment?**

I'll start with unemployment, as the result there is the most striking. Converted into jobs, the exchange rate commitment helped create about 100,000 jobs. The effect on GDP per capita also turned out relatively positive, although here I should add that drawdown of European subsidies peaked in 2014 and this had a large upward effect on GDP. Prices of tobacco products were also reduced. As a result, consumers stocked up in advance. That had a very substantial effect on our economy. The third thing was inflation. Unfortunately, I found that the effect on inflation was not statistically significant, but that basically doesn't mean anything.

**4. Did you expect the results to be so positive before you started the analysis?**

That's what's nice about economics – you never know what you're going to find.

**5. Why did you decide to investigate the Czech exchange rate commitment? What led you to do so? It's true that this subject has been discussed a great deal recently – for three years in fact. What drew you to it?**

Exactly, it's a much discussed topic. What appealed to me about it was that many of my friends knew about it even though they aren't studying economics. Even my grandmother knew about it. So, it's a big issue for everyone. That's the first good sign of good research. The other thing was the method I used. It wasn't being taught on my Bachelor's degree course. I took that as a really nice challenge. My tutor Professor Havránek helped me a lot with it.

**6. You mentioned that even your family knows about it. How do you explain the gist of your work to them? It's true that the general public doesn't pay much attention to why the central bank makes monetary policy. Do you have a method, apart from those pub games?**

Exactly, as you say it's hard to explain economic processes and methods. I try to explain it using various examples, such as the pub or the supermarket where you do your shopping, or various other things that might happen. People usually understand better when you use examples like that than when you explain in economic or econometric terms.

**7. That's definitely the right way to go about it. What are you planning for the future? Do you have any topics for your next paper?**

I have plans. I'm currently studying behavioural microeconomics at Erasmus University in Rotterdam. There I'm studying microeconomics, whereas my paper was on macroeconomics. I want to study the preferences revealed by consumers when they decide what to buy. What options or what products are available to them? What drives them to make the choices they do? Is it their emotions or a rational model that is little used in neoclassical economics? I want to examine the causes and determine whether what we use is right. For now it's all in my head. I don't know whether it's a suitable topic for a Master's thesis, as it's a very wide subject. I'll probably focus on one particular area in my Master's thesis and then I might want to take it further.

**8. Matěj, you are currently studying in Rotterdam, but you were of course a student at Charles University in Prague and in the past you also studied in Istanbul. How would you compare the tuition in those countries?**

I was in Istanbul for an autumn semester. I studied economics in English at Marmara University. I can compare Turkey as the East, the Czech Republic as Central Europe, and Holland as the West. I'll start with Istanbul. It was very interesting in that the lecturers there presented the material beautifully, but in the exams they wanted the same as what they'd said during the lectures. In other words, we weren't required to think too hard. Comparing it with the Czech Republic, the level here is much higher. I'm comparing it with where I was – I can't comment on whether all the universities in Istanbul or Turkey are the same. Here in the Czech Republic, the maths course I took at the Institute of Economic Studies helped me a lot. Maths is an exact science. Everything you say has to be well-founded. It taught me how to think. What I think is lacking is greater interaction with the business world. In Holland, we apply what we've learnt. When we learn something, we have to apply it straight away. This means that firms go into the university and give you a case study to do, a problem they are faced with, a real-world problem, nothing made up. You have a fixed number of days to work out how to solve it. This type of study gives me much more. You interact with the business world. It's really interesting, really great. It's hard to say... I've thought a bit about whether Charles University should go down this route. They can only invite certain firms, large firms that have enough time for it, so they could get drawn into political games. It's awkward when you invite only some firms and don't invite smaller ones. I don't know if there's a solution, but I certainly think that applying economics to the real world is a great thing for students.

It's great that you can now make comparisons about studying in different places. And it's true that it's vital to put theory into practice. It's great to try that out at university. Matěj, congratulations on your prize and thanks for your paper. I'm sure we can look forward to many more.

Download the paper here (IES Working Papers): [Quantifying the Effects of the CNB's Exchange Rate Commitment: A Synthetic Control Method Approach.](#)