

Czech Republic Rating Report



Credit strengths

- Favourable track record of sound macroeconomic policies
- Competitive industrial sector

Credit challenges

- Reliance on global supply chains and external demand
- Adverse demographic trends and budget constraints, weighing on growth potential and public finances

Rating rationale:

A competitive industrial sector, bolstered by favourable long-term growth prospects: The medium-sized, open, and export-driven economy benefits from a well-established industrial base that relies on FDI inflows and foreign demand, particularly from the euro area.

Good record of sound macroeconomic policies: The Czech Republic has established a track record of sound macroeconomic policies, evident in the consistent and robust annual GDP growth averaging 3.9% during the pre-pandemic period of 2015-2019, along with sustained current account surpluses averaging 0.9% of GDP, enhancing the country's economic stability.

The ongoing economic slowdown and budget constraints pose challenges to the planned fiscal consolidation: Budgetary prospects in the medium term are hindered by persistent primary deficits estimated at around 0.5% of GDP between 2024-2028, in contrast to the pre-pandemic period of 2015-2019 when the Czech Republic recorded an average primary surplus of about 1.2% of GDP. The government's commitment to increase military spending, along with rising pension expenses driven by demographic shifts such as an aging population and constraints in the labour market, which limit the capacity for additional social contributions, exerts structural fiscal pressure.

Rating challenges include: i) adverse demographic trends and structural budget constraints related to an ageing population and labour shortages that constrain potential growth and create medium-term pressures on public finances; and ii) an economic structure reliant on external demand, which makes the country vulnerable to external shocks.

Czech Republic's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Qualitative**	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	a-	CZK [+0]	+1/3	AA-	
Public Finance Risk	20%	aa		+1/3		
External Economic Risk	10%	bbb		+1/3		
Financial Stability Risk	10%	aaa		0		
ESG Risk	Environmental Factors	5%		a-		-1/3
	Social Factors	7.5%		bb+		0
	Governance Factors	12.5%		aa-		0
Indicative outcome		a+		+1		
Additional considerations				0		

Note: *The reserve-currency adjustment applies to currencies in the IMF's SDR basket. **The qualitative-scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

Positive rating-change drivers

- Fiscal performance improves materially, resulting in significant decline in the public debt ratio
- The country's resilience to external shocks is strengthened notably, supporting macroeconomic stability

Negative rating-change drivers

- Ongoing budget deficits result in unsuccessful fiscal consolidation and hinder government targets
- Constrained medium-term growth prospects, for example as a result of high inflation

Ratings and Outlook

Foreign currency

Long-term issuer rating	AA-/Stable
Senior unsecured debt	AA-/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	AA-/Stable
Senior unsecured debt	AA-/Stable
Short-term issuer rating	S-1+/Stable

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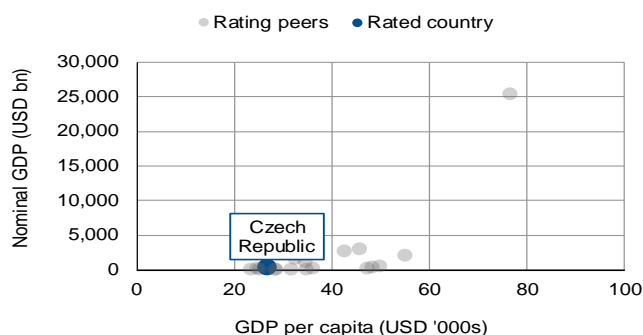
Bloomberg: RESP SCOP

Domestic Economic Risk

Overview of Scope's qualitative assessments for Czech Republic's *Domestic Economic Risk*

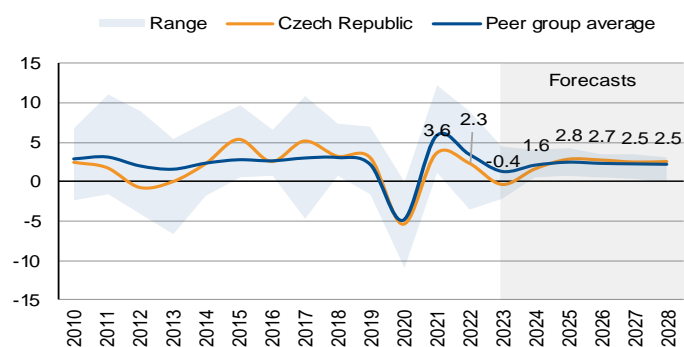
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Growth potential of the economy	Strong	+1/3	Longer-term growth is expected to stabilise at a robust 2.5% compared to peers
	Monetary policy framework	Neutral	0	Credible central bank; small local currency bond market limits effectiveness of monetary policy
	Macro-economic stability and sustainability	Neutral	0	Moderate diversification; reliance on external markets; persistent labour shortages

Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



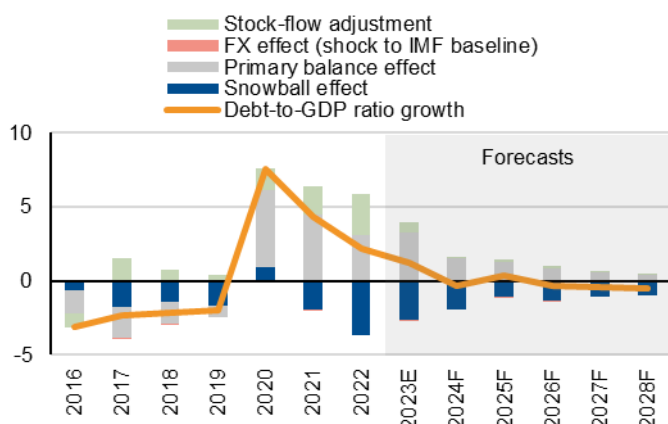
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's qualitative assessments for Czech Republic's *Public Finance Risk*

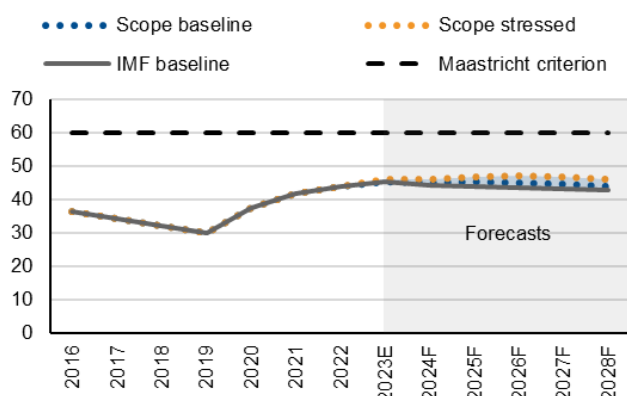
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	Strong track record of maintaining sound public finances; diminished fiscal capacity resulting from two consecutive crises
	Debt sustainability	Strong	+1/3	Moderate debt burden and manageable financing needs also under adverse scenarios
	Debt profile and market access	Neutral	0	Substantial liquid assets in the form of public sector deposits

Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



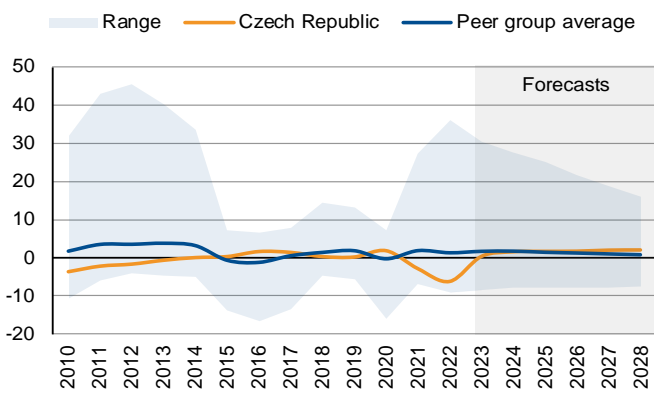
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

Overview of Scope's qualitative assessments for Czech Republic's External Economic Risk

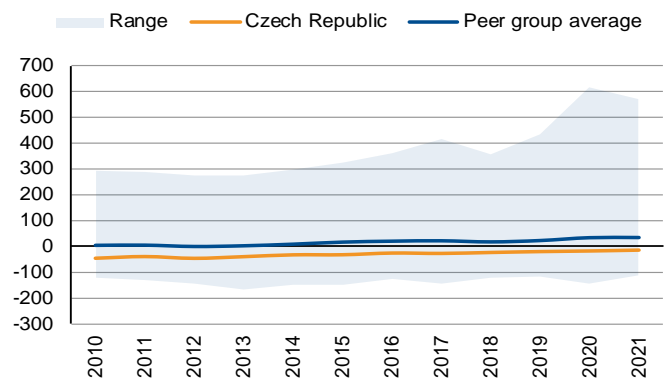
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Current account resilience	Neutral	0	Free floating currency and competitive industrial base support medium-term current account balance
	External debt structure	Strong	+1/3	External liabilities mostly consist in direct investment and equity rather than debt-creating flows
	Resilience to short-term external shocks	Neutral	0	Small-open economy; reliance on external demand and foreign direct investment; ample reserve coverage of short-term debt

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



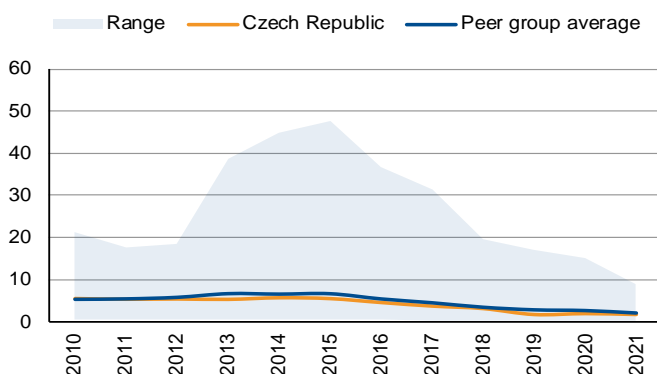
Source: IMF, Scope Ratings

Financial Stability Risk

Overview of Scope's qualitative assessments for Czech Republic's Financial Stability Risk

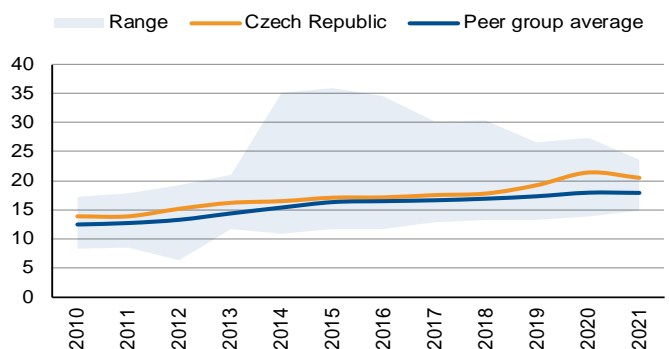
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Robust funding profile; narrowing interest margin
	Banking sector oversight	Neutral	0	Effective supervisory control; timely and comprehensively regulatory measures
	Financial imbalances	Neutral	0	Moderate household and private sector indebtedness; low savings

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



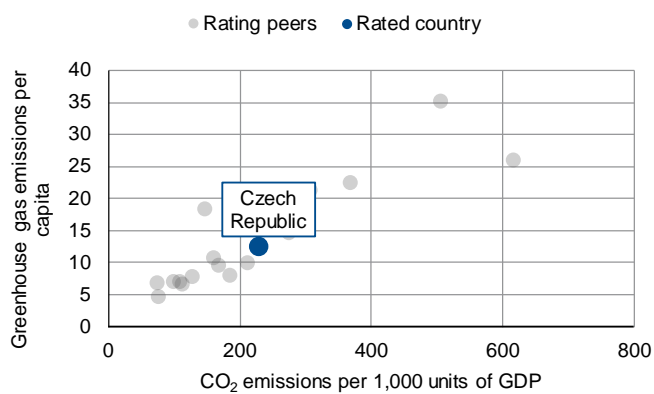
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) Risk

Overview of Scope's qualitative assessments for Czech Republic's ESG Risk

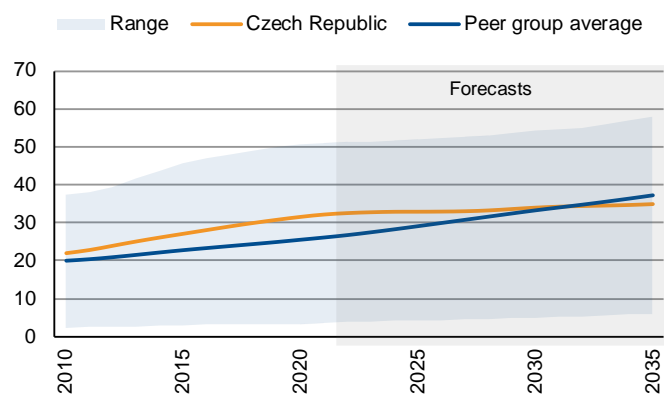
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Environmental factors	Weak	-1/3	Meaningful transition risks; carbon-intensive economy as a transit country with a high share of manufacturing
	Social factors	Neutral	0	Adverse demographics resulting in declining working-age population; high employment rates and moderate levels of income inequality
	Governance factors	Neutral	0	Robust institutions; moderate reform momentum

CO₂ emissions per GDP, mtCO₂e



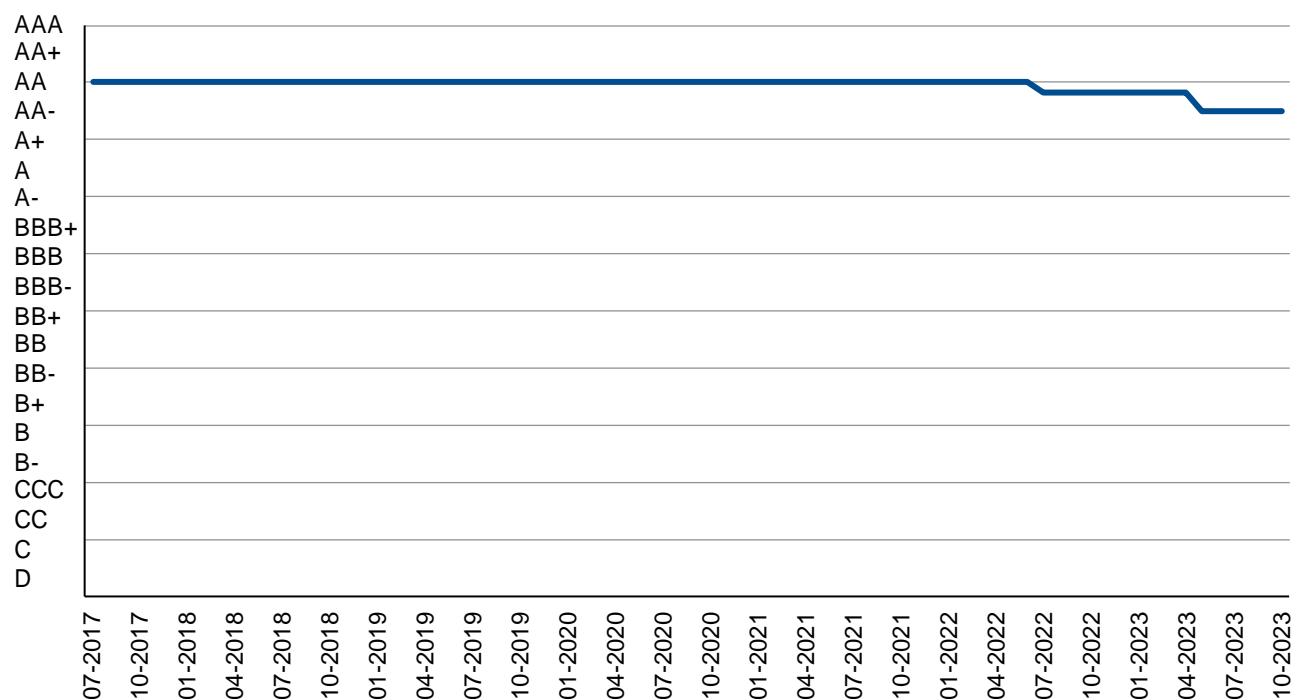
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Belgium
Cyprus
Estonia
France
Japan
Lithuania
Malta
Portugal
Slovenia
United Kingdom
United States

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	23.4	23.6	23.0	26.8	26.8
	Nominal GDP, USD bn	IMF	249.0	252.5	246.0	281.8	290.5
	Real growth, %	IMF	3.2	3.0	-5.5	3.6	2.3
	CPI inflation, %	IMF	2.1	2.8	3.2	3.8	15.1
	Unemployment rate, %	WB	2.2	2.0	2.6	2.8	2.4
Public Finance	Public debt, % of GDP	IMF	32.1	30.0	37.7	42.0	44.2
	Net interest payment, % of revenue	IMF	1.4	1.2	1.4	1.5	1.4
	Primary balance, % of GDP	IMF	1.5	0.8	-5.2	-4.5	-3.1
External Economic	Current-account balance, % of GDP	IMF	0.4	0.3	2.0	-2.8	-6.1
	Total reserves, months of imports	WB	8.5	9.1	11.3	9.3	6.8
	NIIP, % of GDP	IMF	-23.6	-20.1	-17.7	-14.3	-20.4
Financial Stability	NPL ratio, % of total loans	IMF	3.1	1.7	1.9	1.7	1.5
	Tier 1 ratio, % of risk-weighted assets	IMF	17.2	17.9	19.2	21.3	19.6
	Credit to the private sector, % of GDP	WB	51.3	50.3	53.1	53.7	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	252.5	233.7	224.2	229.5	-
	Income share of bottom 50%, %	WID	25.3	25.3	25.2	25.2	-
	Labour-force participation rate, %	WB	76.6	76.8	76.5	76.8	-
	Old-age dependency ratio, %	UN	30.0	30.8	31.6	32.2	32.6
	Composite governance indicators*	WB	0.9	0.9	0.9	1.0	1.0

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bps) as of 20 October 2023

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