

# Czech Republic

## Rating report

### Rating rationale

**Good record of sound macroeconomic policies:** The Czech Republic has established a track record of sound macroeconomic policies, evidenced by 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, which enhance economic stability. The Czech Republic's economic resilience is underscored by its robust external balance sheet.

**Comparatively stable fiscal position with moderate budget deficits and debt levels:** Despite the recent rise in public debt, the Czech Republic's debt-to-GDP ratio remains among the lowest in the EU. Scope expects a modest uptick in the debt-to-GDP ratio to around 45% in 2024, remaining stable over the forecast horizon until 2029. Scope expects the Czech Republic to uphold a budget deficit below 3% of GDP in 2025, coinciding with parliamentary elections.

**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.

**Figure 1: The Czech Republic's sovereign rating drivers**

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
	Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk	35%	aa-	CZK	Czech Republic	0	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%	[+0]	[-0]	- 1/3	
	Social factors	7.5%			0	
	Governance factors	12.5%	aaa			
<b>Sovereign Quantitative Model</b>			<b>aa-</b>		<b>0</b>	
<b>Additional considerations</b>					<b>0</b>	

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket. \*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index. \*\*\*The qualitative scorecard analyst 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.

### Foreign currency

Long-term issuer rating/Outlook

AA-/Stable

Senior unsecured debt

AA-/Stable

Short-term issuer rating/Outlook

S-1+/Stable

### Local currency

Long-term issuer rating/Outlook

AA-/Stable

Senior unsecured debt

AA-/Stable

Short-term issuer rating/Outlook

S-1+/Stable

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### Credit strengths and challenges

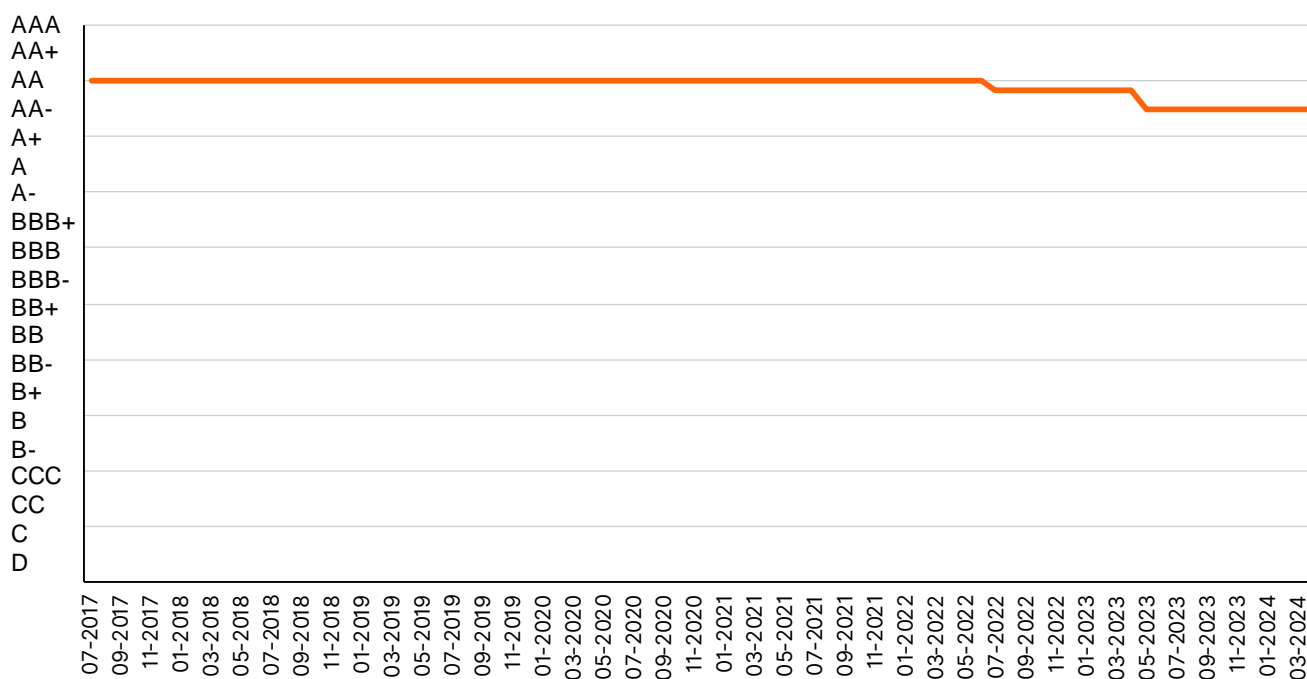
Credit strengths	Credit challenges
<ul style="list-style-type: none"> <li>Favourable track record of sound macroeconomic policies</li> <li>A stable fiscal position with moderate budget deficits and debt</li> </ul>	<ul style="list-style-type: none"> <li>Reliance on global supply chains and external demand</li> <li>Adverse demographic trends and budget constraints, weighting on growth potential and public finances</li> </ul>

### Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> <li>Fiscal performance improves materially, resulting in significant decline in the public debt ratio</li> <li>The country’s resilience to external shocks is strengthened notably, supporting macroeconomic stability</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing budget deficits result in unsuccessful fiscal consolidation and hinder government targets</li> <li>Constrained medium-term growth prospects, for example as a result of high inflation</li> </ul>

Figure 2: Rating history<sup>1</sup>



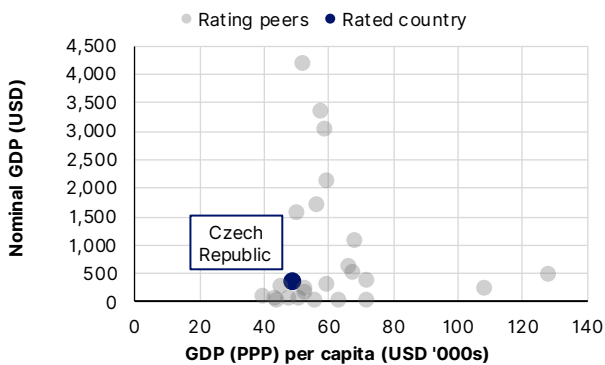
<sup>1</sup>Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

### Domestic economic risk

#### Overview of Scope's assessments of the Czech Republic's Domestic Economic Risk

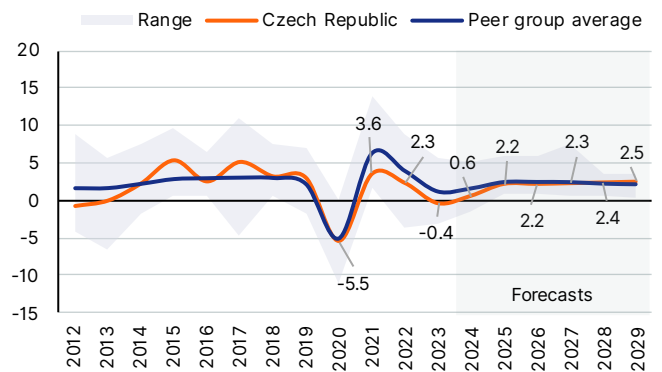
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Growth potential and outlook	Neutral	0	Significant slowdown of the recovery due to reliance on external demand, but longer-term growth is expected to stabilise at a robust 2.5%
	Monetary policy framework	Neutral	0	Credible central bank; small local currency bond market limits effectiveness of monetary policy
	Macroeconomic stability and sustainability	Neutral	0	Moderate diversification; reliance on external markets; persistent labour shortages

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



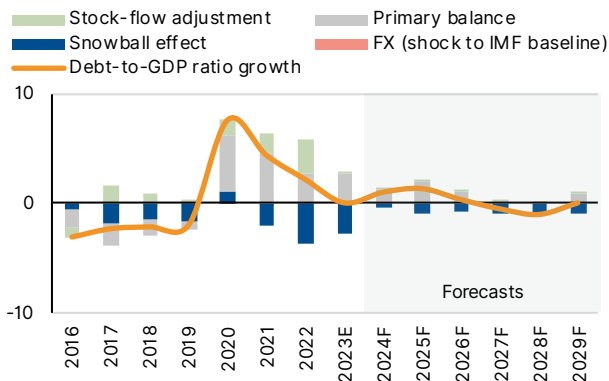
Source: IMF WEO, Scope Ratings forecasts

### Public finance risk

#### Overview of Scope's assessments of Czech Republic's Public Finance Risk

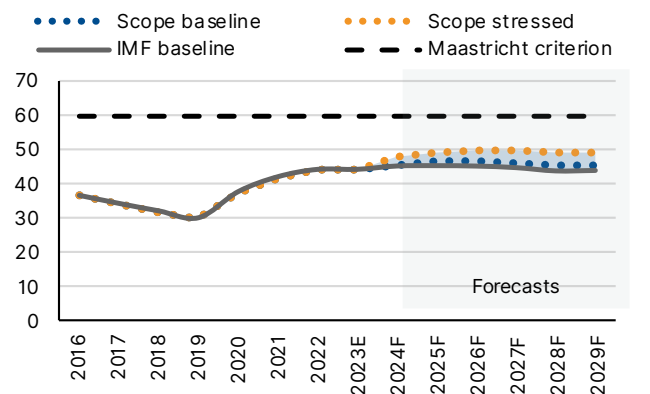
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Fiscal policy framework	Neutral	0	Strong track record of maintaining sound public finances; diminished fiscal capacity resulting from two consecutive crises
	Long-term debt trajectory	Strong	+1/3	Moderate debt burden 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

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

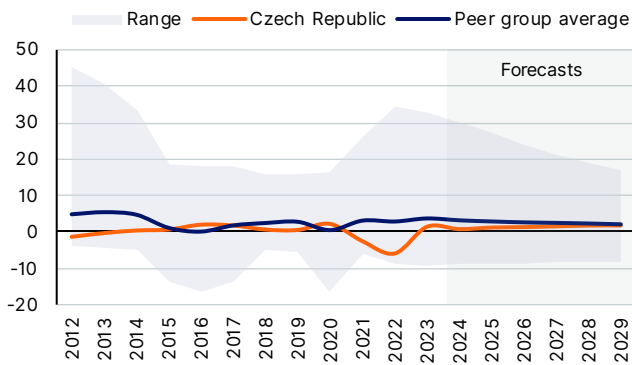
\*Sovereign Quantitative Model.

## External economic risk

### Overview of Scope's assessments of Czech Republic's External Economic Risk

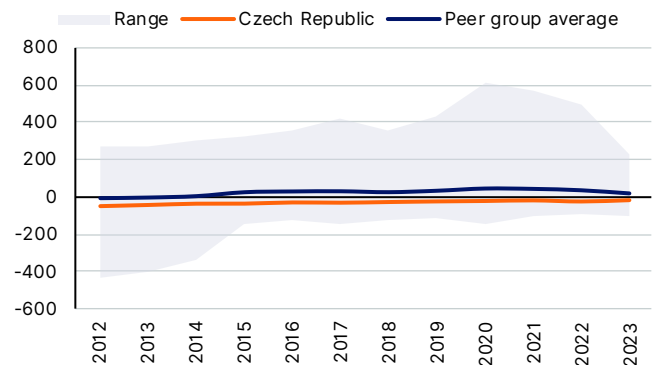
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb+	Current account resilience	Neutral	0	Free floating currency and competitive industrial base support medium-term current account balance
	External debt structure	Strong	+1/3	External liabilities mostly consist in direct 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

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



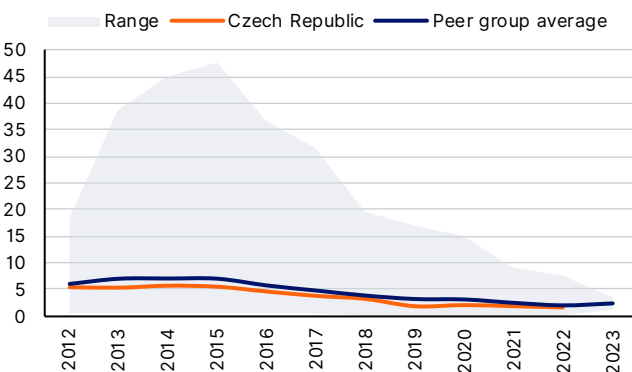
Source: IMF, Scope Ratings

## Financial stability risk

### Overview of Scope's assessments of Czech Republic's Financial Stability Risk

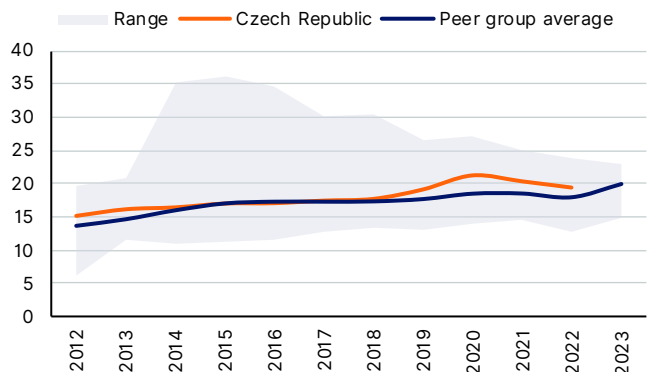
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Robust funding profile; narrowing interest margin
	Financial sector oversight and governance	Neutral	0	Effective supervisory control; timely and comprehensively regulatory measures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

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



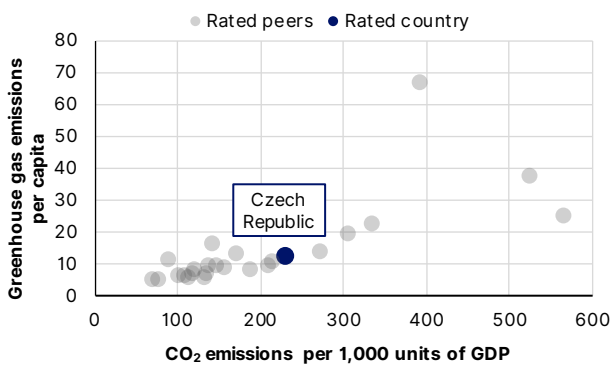
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

### Overview of Scope's assessments of Czech Republic's ESG Risk

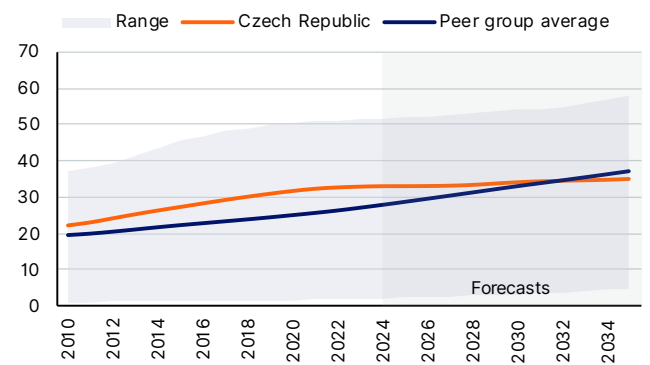
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Environmental factors	Weak	-1/3	Meaningful transition risks; carbon-intensive economy as a transit country with a high share of manufacturing
	Social factors	Neutral	0	Adverse demographics resulting in declining working-age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

Figure 11: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

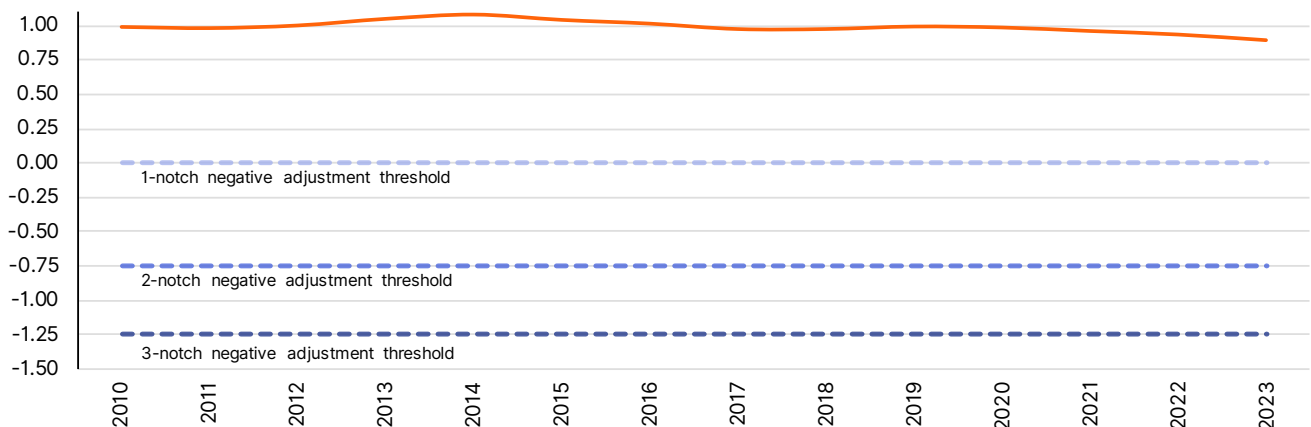
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Czech Republic, 3-year moving average



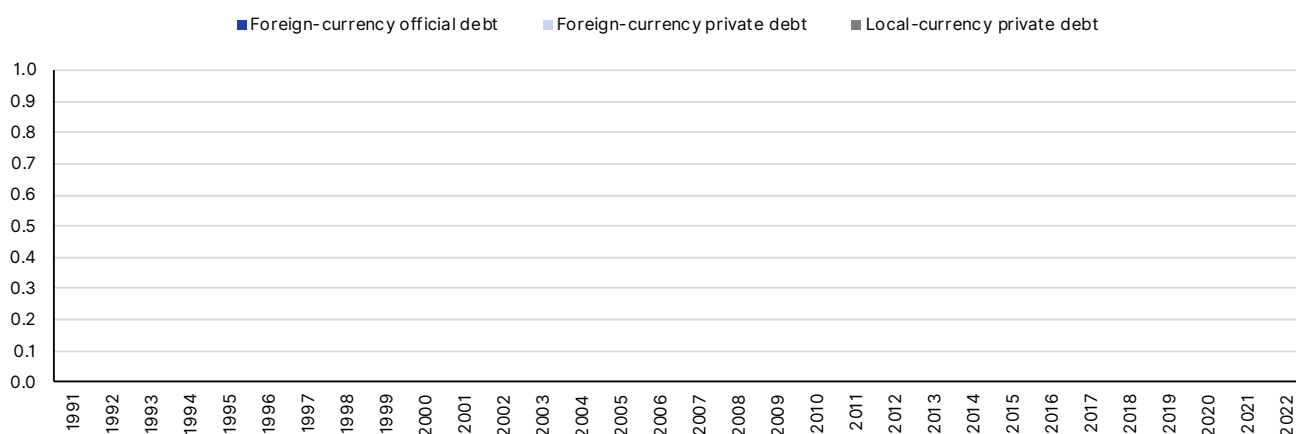
Source: WB, Scope Ratings

### Additional considerations

No adjustment was applied to the rating from additional considerations.

### Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).  
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

### 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 sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Austria
Belgium
Croatia
Cyprus
Estonia
Finland
Lithuania
Malta
Portugal
Slovenia

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

### Appendix III. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 26 April 2024	36

## Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, 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	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	40.9	42.7	40.9	45.0	47.9	49.3
	Nominal GDP, USD bn	IMF	249	253	246	282	291	332
	Real growth, %	IMF	3.2	3.0	-5.5	3.6	2.3	-0.4
	CPI inflation, %	IMF	2.1	2.8	3.2	3.8	15.1	10.7
	Unemployment rate, %	WB	2.3	2.0	2.6	2.8	2.2	2.6
Public Finance	Public debt, % of GDP	IMF	32.1	30.0	37.7	42.0	44.2	44.2
	Net interest payment, % of government revenue	IMF	1.4	1.2	1.4	1.5	1.3	2.0
	Primary balance, % of GDP	IMF	1.5	0.8	-5.2	-4.5	-2.7	-2.7
External Economic	Current-account balance, % of GDP	IMF	0.4	0.3	2.0	-2.8	-6.1	1.2
	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	19.5
	Credit to the private sector, % of GDP	WB	51.3	50.3	53.1	53.7	50.5	-
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	255.9	236.1	227.9	234.3	231.5	-
	Income share of bottom 50%, %	WID	25.8	25.3	25.8	22.9	22.9	-
	Labour-force participation rate, %	WB	76.6	76.7	76.5	76.9	77.1	-
	Old-age dependency ratio, %	UN	30.0	30.8	31.6	32.2	32.6	32.8
	Composite governance indicators*	WB	0.9	0.9	0.9	1.0	1.1	-
	Political stability, index	WB	1.0	0.9	0.9	0.9	0.8	-

\*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

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