# CZECH REPUBLIC

*EJR Sen Rating(Curr/Prj) AA/ AA

Rating Analysis - 8/18/23

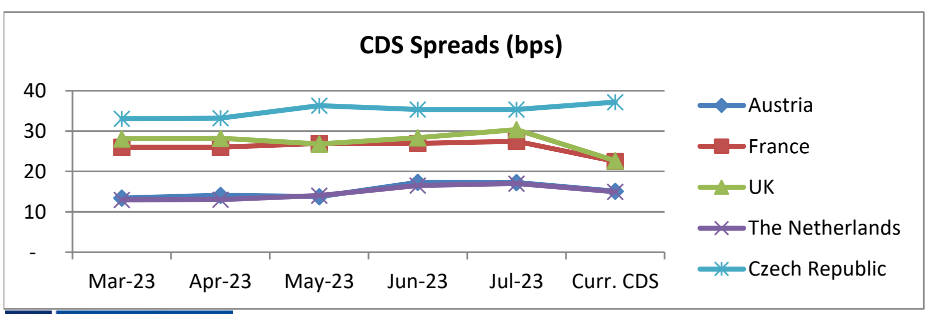
The Czech Republic's GDP growth is expected to slow to 0.3% in 2023, due to several factors. These include high energy prices, tight financing conditions, and weak sentiment, which will hinder private investment. Additionally, elevated inflation will constrain private consumption during this period.

However, there is hope for a recovery as the economy is projected to pick up in 2024, with GDP growth reaching 2.4%. The challenges faced in 2023 are interconnected. The combination of high energy prices, limited financing opportunities, and subdued economic confidence will discourage businesses from investing. Furthermore, the persistently high inflation levels will limit the purchasing power of consumers, impacting their ability to spend and support the economy. In 2024, the situation is expected to improve. Private consumption is anticipated to rise, mainly driven by an increase in real wages. The reduction in inflation will also contribute to a more favorable economic environment, gradually approaching the 2% target towards the end of the year. Affirming.

| | Annual Ratios (source for past results: IMF) | | | | | |
|---|---|---|---|---|---|---|
| **CREDIT POSITION** | 2020 | 2021 | 2022 | P2023 | P2024 | P2025 |
| Debt/ GDP (%) | 47.0 | 48.5 | 48.1 | 49.8 | 50.9 | 51.5 |
| Govt. Sur/Def to GDP (%) | -4.9 | -4.5 | -2.8 | -2.2 | -1.7 | -1.3 |
| Adjusted Debt/GDP (%) | 47.0 | 48.5 | 48.1 | 49.8 | 51.0 | 51.6 |
| Interest Expense/ Taxes (%) | 3.8 | 3.9 | 6.1 | 5.8 | 5.5 | 5.2 |
| GDP Growth (%) | -1.4 | 7.0 | 11.2 | 2.5 | 3.6 | 3.6 |
| Foreign Reserves/Debt (%) | 132.8 | 127.1 | 94.5 | 87.3 | 83.3 | 80.2 |
| Implied Sen. Rating | AA- | AA+ | AA+ | AA | AA | AA |

| **INDICATIVE CREDIT RATIOS** | AA | A | BBB | BB | B | CCC |
|---|---|---|---|---|---|---|
| Debt/ GDP (%) | 100.0 | 115.0 | 130.0 | 145.0 | 170.0 | 200.0 |
| Govt. Sur/Def to GDP (%) | 2.5 | 0.5 | -2.0 | -5.0 | -8.0 | -10.0 |
| Adjusted Debt/GDP (%) | 95.0 | 110.0 | 125.0 | 140.0 | 160.0 | 190.0 |
| Interest Expense/ Taxes (%) | 9.0 | 12.0 | 15.0 | 22.0 | 26.0 | 35.0 |
| GDP Growth (%) | 3.5 | 3.0 | 2.0 | 1.0 | -1.0 | -5.0 |
| Foreign Reserves/Debt (%) | 3.0 | 2.5 | 2.0 | 1.5 | 1.0 | 0.5 |

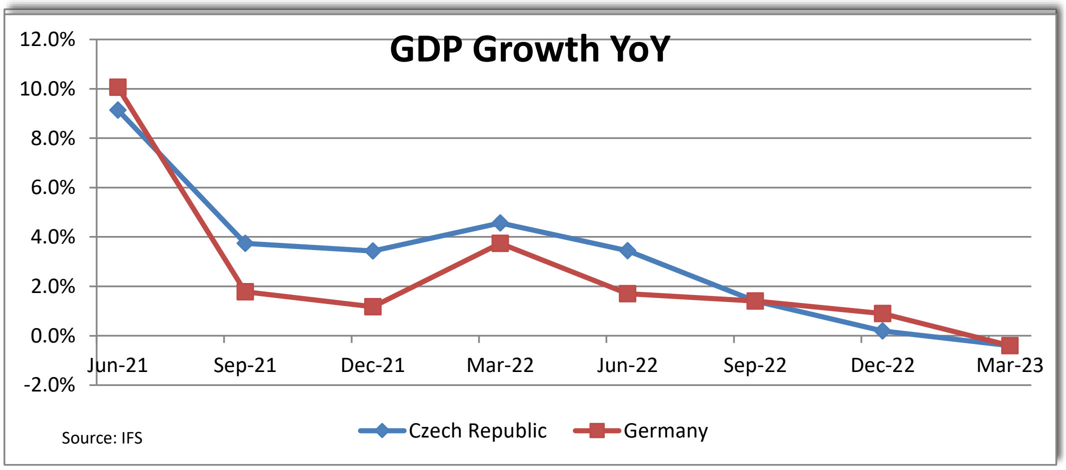
| **PEER RATIOS** | Other NRSRO Sen. | Debt as a % GDP | Govt. Surp. Def to GDP (%) | Adjusted Debt/ GDP | Interest Expense/ Taxes % | GDP Growth (%) | Ratio-Implied Rating* |
|---|---|---|---|---|---|---|---|
| Federal Republic Of Germany | AAA | 65.3 | -2.6 | 65.3 | 2.7 | 7.4 | AA+ |
| Kingdom Of The Netherlands | AA+ | 54.6 | 0.3 | 54.6 | 2.1 | 10.0 | A- |
| Republic Of Austria | AA+ | 83.0 | -1.8 | 83.0 | 3.4 | 10.0 | BBB |
| French Republic | AA | 117.1 | -4.2 | 117.1 | 6.1 | 5.5 | BB+ |
| United Kingdom | AA | 147.9 | -5.5 | 147.9 | 15.0 | 9.7 | BBB- |




| Country | EJR Rtg. | CDS |
|---|---|---|
| Austria | A+ | 15 |
| France | A+ | 23 |
| UK | A+ | 23 |
| The Netherlands | AA- | 15 |
| Czech Republic | AA | 37 |

## Economic Growth

The Czech Republic's economy faced significant challenges in Q1'23, with GDP stagnating at 0% quarterly growth. This lackluster performance came on the heels of a mild recession experienced in H2'22, which was triggered by a combination of high energy prices, tighter financing conditions, and ongoing uncertainty. A concerning aspect of this economic scenario was the surge in consumer price inflation, reaching levels not witnessed in nearly three decades, with a notable 12.7% inflation rate reported in April 2023. The elevated inflationary environment put immense pressure on real household incomes, leading to a decrease in consumer spending and private investment. As a result, economic sentiment plummeted, further dampening household consumption and business investment activities.




## Fiscal Policy

To address the rapid surge in core inflation and inflation expectations, the Czech National Bank (CNB) has taken significant measures to tighten its monetary policy. This involved raising the policy interest rate from 0.25% to 7% between June 2021 and June 2022, followed by a pause in the tightening cycle. As a result of these actions, the property and mortgage markets have experienced a notable slowdown. Looking ahead, the CNB plans to gradually initiate an easing cycle, expected to commence in Q1'24. This move aims to strike a balance between controlling inflationary pressures and supporting economic growth.

| | Surplus-to-GDP (%) | Debt-to-GDP (%) | 5 Yr. CDS Spreads |
|---|---|---|---|
| Czech Republ | -2.79 | 48.05 | 37.19 |
| Germany | -2.62 | 65.28 | 15.01 |
| The Netherla | 0.28 | 54.65 | 22.50 |
| Austria | -1.82 | 82.97 | 15.11 |
| France | -4.25 | 117.11 | 15.01 |
| UK | -5.52 | 147.88 | 22.67 |
| Sources: Thomson Reuters and IFS | | | |

## Unemployment

In June 2023, the unemployment rate in the Czech Republic declined to 3.4%, aligning with market expectations and improving from the previous month's rate of 3.5%. This decrease marked the lowest rate since July 2022. The number of unemployed individuals reduced by 4,101, totaling 249,792 in comparison to the previous month. However, when compared to the same period last year, the number of unemployed persons increased by 18,483. The job vacancies saw a rise to 286,690, although this number was

| Unemployment (%) | 2021 | 2022 |
|---|---|---|
| Czech Reput | 2.81 | 2.40 |
| Germany | 3.58 | 3.07 |
| The Netherla | 4.23 | 3.54 |
| Austria | 6.20 | 4.76 |
| France | 7.88 | 7.32 |
| UK | 4.00 | 3.70 |
| Source: Intl. Finance Statistics | | |

## Banking Sector

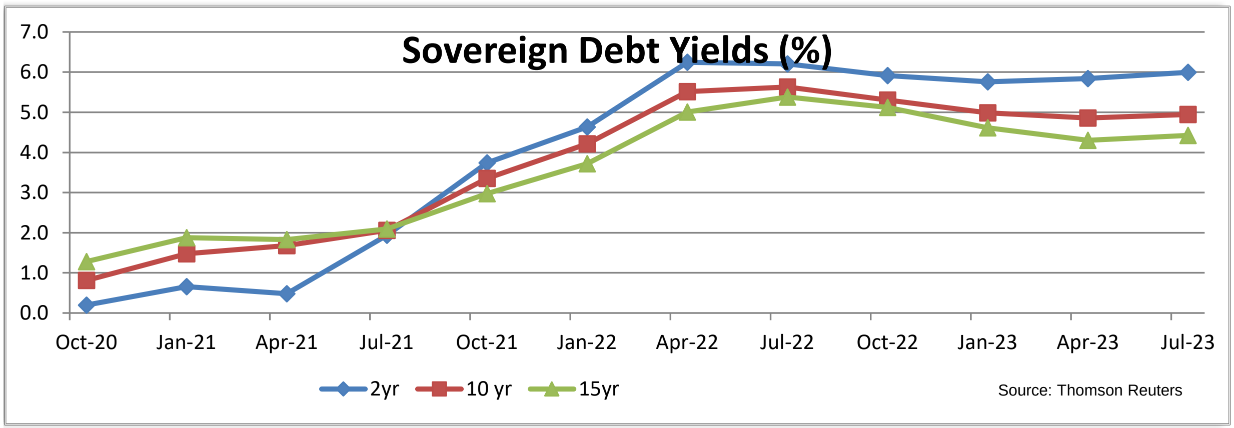
In Q2'23, Czech banks maintained their credit standards and overall credit conditions for loans to non-financial corporations unchanged. However, the demand for loans from these corporations decreased, although not as extensively as in the previous quarter. More than half of the banking market attributes this reduced demand to the current level of domestic interest rates, which is seen as a deterrent.

**Bank Assets (billions of local currency)**

| | Assets | Mkt Cap/ Assets % |
|---|---|---|
| Komercni Banka | 1,305.3 | 9.6 |
| Total | 1,305.3 | |
| EJR's est. of cap shortfall at 10% of assets less market cap | | 5.2 |
| Czech Republic's GDP | | 6,795.1 |

## Funding Costs

In June 2023, the Czech National Bank (CNB) decided to maintain its two-week repo rate at 7% for the eighth consecutive meeting. This decision was in line with market expectations and came amidst signs of a slowdown in inflationary pressures. The annual inflation rate in the Czech Republic declined to a 15-month low of 11.1% in May, down from 12.7% in April, despite market forecasts predicting a slightly lower rate of 10.9%. As of the same period, the Czech Republic's 10-year government bond had a yield of 4.018%. The 10 Years vs 2 Years bond spread was -196.7 basis points.




Source: Thomson Reuters

## Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 41 (1 is best, 189 worst) is above average.

**The World Bank's Doing Business Survey***

| | 2021 Rank | 2020 Rank | Change in Rank |
|---|---|---|---|
| **Overall Country Rank:** | **41** | **41** | **0** |
| **Scores:** | | | |
| Starting a Business | 134 | 134 | 0 |
| Construction Permits | 157 | 157 | 0 |
| Getting Electricity | 11 | 11 | 0 |
| Registering Property | 32 | 32 | 0 |
| Getting Credit | 48 | 48 | 0 |
| Protecting Investors | 61 | 61 | 0 |
| Paying Taxes | 53 | 53 | 0 |
| Trading Across Borders | 1 | 1 | 0 |
| Enforcing Contracts | 103 | 103 | 0 |
| Resolving Insolvency | 16 | 16 | 0 |

* Based on a scale of 1 to 189 with 1 being the highest ranking.

## Economic Freedom

As can be seen below, Czech Republic is above average in its overall rank of 71.9 for Economic Freedom with 100 being best.

**Heritage Foundation 2023 Index of Economic Freedom**
**World Rank 71.9***

| | 2023 Rank** | 2022 Rank | Change in Rank | World Avg. |
|---|---|---|---|---|
| Property Rights | 88.5 | 88.8 | -0.3 | 53.3 |
| Government Integrity | 60.3 | 59.6 | 0.7 | 44.4 |
| Judical Effectiveness | 81.9 | 81.8 | 0.1 | 48.3 |
| Tax Burden | 79.3 | 78.9 | 0.4 | 78.1 |
| Gov't Spending | 39.5 | 44.7 | -5.2 | 64.3 |
| Fiscal Health | 73.5 | 93.2 | -19.7 | 54.5 |
| Business Freedom | 76.9 | 80.6 | -3.7 | 59.8 |
| Labor Freedom | 56.1 | 56.5 | -0.4 | 55.5 |
| Monetary Freedom | 78.0 | 79.0 | -1.0 | 72.1 |
| Trade Freedom | 78.6 | 79.2 | -0.6 | 69.6 |

*Based on a scale of 1-100 with 100 being the highest ranking.
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
Source: The Heritage Foundation

**Credit Quality Driver: Taxes Growth:**
Czech Republic has grown its taxes of 8.7% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 8.7% per annum over the next couple of years and 7.8% per annum for the next couple of years thereafter.

**Credit Quality Driver: Total Revenue Growth:**
CZECH REPUBLIC's total revenue growth has been more than its peers and we assumed a 9.7% growth in total revenue over the next two years.

| | Peer | Issuer | Assumptions | |
|---|---|---|---|---|
| **Income Statement** | **Median** | **Avg.** | **Yr 1&2** | **Yr 3,4,5** |
| Taxes Growth% | 7.9 | 8.7 | **8.7** | **7.8** |
| Social Contributions Growth % | 6.2 | 7.0 | **7.0** | **7.0** |
| Grant Revenue Growth % | 0.0 | NMF | | |
| Other Revenue Growth % | 0.0 | NMF | | |
| Other Operating Income Growth% | 0.0 | 23.1 | **17.4** | **17.4** |
| Total Revenue Growth% | 7.3 | 10.0 | **9.7** | **8.7** |
| Compensation of Employees Growth% | 4.2 | 2.0 | **2.0** | **2.0** |
| Use of Goods & Services Growth% | 6.4 | 10.6 | **10.6** | **10.6** |
| Social Benefits Growth% | 3.5 | 8.2 | **8.2** | **8.2** |
| Subsidies Growth% | (34.8) | (22.8) | | |
| Other Expenses Growth% | 0.0 | | | |
| Interest Expense | 1.8 | 2.4 | **2.4** | |
| | | | | |
| Currency and Deposits (asset) Growth% | (12.2) | 0.0 | | |
| Securities other than Shares LT (asset) Growth% | (8.8) | 0.0 | | |
| Loans (asset) Growth% | (53.2) | 1,833.5 | **400.0** | **360.0** |
| Shares and Other Equity (asset) Growth% | (25.3) | (331.9) | **2.0** | **2.0** |
| Insurance Technical Reserves (asset) Growth% | 0.0 | 7.2 | **7.2** | **7.2** |
| Financial Derivatives (asset) Growth% | (49.3) | (73.0) | **(10.0)** | **(10.0)** |
| Other Accounts Receivable LT Growth% | 3.5 | 25.5 | **8.7** | **8.7** |
| Monetary Gold and SDR's Growth % | 0.0 | 0.0 | **5.0** | **5.0** |
| | | | | |
| Other Assets Growth% | 0.0 | 0.0 | | |
| Other Accounts Payable Growth% | (5.0) | 12.8 | **5.0** | **5.0** |
| Currency & Deposits (liability) Growth% | (4.0) | 38.8 | **8.7** | **8.7** |
| Securities Other than Shares (liability) Growth% | (13.2) | 2.2 | **1.5** | **1.5** |
| | | | | |
| Loans (liability) Growth% | (5.4) | 96.0 | **96.0** | **86.4** |
| Insurance Technical Reserves (liability) Growth% | 0.0 | 32.4 | **2.0** | **2.0** |
| Financial Derivatives (liability) Growth% | 0.0 | (63.9) | **(10.0)** | **(10.0)** |
| | | | | |
| Additional ST debt (1st year)(billions CZK) | 0.0 | 0.0 | | |

## ANNUAL INCOME STATEMENTS

Below are Czech Republic's annual income statements with the projected years based on the assumptions listed on page 5.

**ANNUAL REVENUE AND EXPENSE STATEMENT**
**(BILLIONS CZK)**

| | 2019 | 2020 | 2021 | 2022 | P2023 | P2024 |
|---|---|---|---|---|---|---|
| Taxes | 1,179 | 1,137 | 1,174 | 1,275 | 1,386 | 1,507 |
| Social Contributions | 895 | 909 | 1,013 | 1,084 | 1,160 | 1,241 |
| Grant Revenue | | | | | | |
| Other Revenue | | | | | | |
| Other Operating Income | 321 | 320 | 344 | 423 | 423 | 423 |
| Total Revenue | 2,394 | 2,367 | 2,530 | 2,783 | 2,970 | 3,171 |
| Compensation of Employees | 576 | 633 | 676 | 690 | 704 | 718 |
| Use of Goods & Services | 339 | 346 | 355 | 392 | 434 | 479 |
| Social Benefits | 886 | 1,025 | 1,078 | 1,167 | 1,263 | 1,367 |
| Subsidies | 128 | 173 | 200 | 155 | 155 | 155 |
| Other Expenses | | | | 217 | 217 | 217 |
| Grant Expense | | | | | | |
| Depreciation | 220 | 232 | 245 | 272 | 272 | 272 |
| Total Expenses excluding interest | 2,299 | 2,603 | 2,757 | 2,894 | 3,045 | 3,209 |
| Operating Surplus/Shortfall | 96 | -236 | -227 | -111 | -76 | -38 |
| Interest Expense | 41 | 44 | 46 | 78 | 80 | 82 |
| Net Operating Balance | 55 | -280 | -273 | -189 | -156 | -120 |

## ANNUAL BALANCE SHEETS

Below are Czech Republic's balance sheets with the projected years based on the assumptions listed on page 5.

| Base Case | ANNUAL BALANCE SHEETS (BILLIONS CZK) | | | | | |
|---|---|---|---|---|---|---|
| **ASSETS** | 2019 | 2020 | 2021 | 2022 | P2023 | P2024 |
| Currency and Deposits (asset) | 600 | 715 | 860 | 929 | 929 | 929 |
| Securities other than Shares LT (asset) | 13 | 15 | 16 | 15 | 15 | 15 |
| Loans (asset) | -5 | -3 | 4 | 86 | 428 | 2,141 |
| Shares and Other Equity (asset) | 0 | 1 | -1 | 2 | 2 | 2 |
| Insurance Technical Reserves (asset) | 4 | 4 | 4 | 4 | 5 | 5 |
| Financial Derivatives (asset) | 0 | 1 | 0 | 0 | 0 | 0 |
| Other Accounts Receivable LT | 353 | 366 | 405 | 508 | 552 | 601 |
| Monetary Gold and SDR's | | | | | | |
| Other Assets | | | | | 854 | 854 |
| Additional Assets | 763 | 755 | 867 | 854 | | |
| Total Financial Assets | 1,729 | 1,853 | 2,156 | 2,398 | 2,785 | 4,546 |
| **LIABILITIES** | | | | | | |
| Other Accounts Payable | 358 | 412 | 492 | 555 | 582 | 612 |
| Currency & Deposits (liability) | 5 | 11 | 16 | 22 | 22 | 22 |
| Securities Other than Shares (liability) | 1,685 | 2,129 | 2,256 | 2,306 | 2,341 | 2,378 |
| Loans (liability) | 139 | 127 | 193 | 378 | 534 | 654 |
| Insurance Technical Reserves (liability) | 4 | 4 | 3 | 4 | 4 | 4 |
| Financial Derivatives (liability) | 0 | 0 | 2 | 1 | 1 | 1 |
| Other Liabilities | | | | | | |
| Liabilities | 2,191 | 2,683 | 2,962 | 3,266 | 3,809 | 5,690 |
| Net Financial Worth | -463 | -830 | -806 | -868 | -1,024 | -1,144 |
| Total Liabilities & Equity | 1,729 | 1,853 | 2,156 | 2,398 | 2,785 | 4,546 |

### Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "AA" whereas the ratio-implied rating for the most recent period is "AA+"; we expect results to decline slightly.

### Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

## SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

***1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:***
For the issuer CZECH REPUBLIC with the ticker of 1040Z CP we have assigned the senior unsecured rating of AA.
There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

***2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:***
We are using the methodology version #16 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

***3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:***
The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

***4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:***
Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

***5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:***
Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

***6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:***
EJR does not utilize third-party due diligence services.

***7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:***
Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

***8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:***
EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, governmental filings and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

***9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.***

***10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:***
This rating is unsolicited.

***11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:***
Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

***12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:***
Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

***13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:***
Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

| | **Assumptions** | | | **Resulting Ratio-Implied Rating** | | |
|---|---|---|---|---|---|---|
| | Base | Optimistic | Pessimistic | Base | Optimistic | Pessimistic |
| Taxes Growth% | 8.7 | 12.7 | 4.7 | AA | AA | AA |
| Social Contributions Growth % | 7.0 | 10.0 | 4.0 | AA | AA | AA |
| Other Revenue Growth % | | 3.0 | (3.0) | AA | AA | AA |
| Total Revenue Growth% | 9.7 | 11.7 | 7.7 | AA | AA | AA |
| Monetary Gold and SDR's Growth % | 5.0 | 7.0 | 3.0 | AA | AA | AA |

***14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:***
This credit rating is not assigned to an asset-backed security.

## ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1) No part of the credit rating was influenced by any other business activities,
2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

**Analyst Signature:** **Today's Date**

August 18, 2023

……………………………………………………….. ………………………………………

Subramanian NG
Senior Rating Analyst

**Reviewer Signature:** **Today's Date**

Steve Zhang

August 18, 2023

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Steve Zhang
Senior Rating Analyst

## Sovereign Rating Methodology (Non-NRSRO)

**Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-**looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

**Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative** and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

*For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.*