CZECH REPUBLIC

Rating Analysis - 8/16/24

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

Czechia experienced a 0.3% decline in real GDP in 2023, primarily due to high inflation impacting household purchasing power, which in turn led to a decrease in private consumption. However, there was strong growth in investments, particularly in equipment investments. Despite this positive trend, overall domestic demand decreased as inventories were reduced.

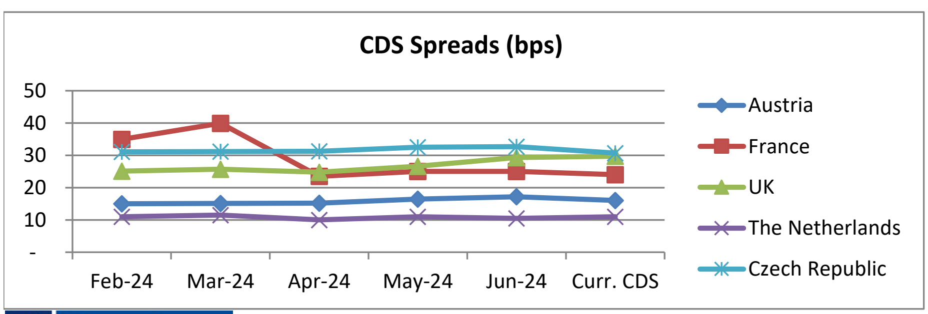
In 2024, a shift is anticipated in household consumption following two years of decline. With a significant drop in inflation, real wages and purchasing power are on the rise again. Additionally, the boost from accumulated savings is likely to make household consumption a key driver of GDP growth in both 2024 and 2025. Government consumption growth is expected to slow down due to a public finance consolidation package. Similarly, public and equipment investments may grow at a lesser rate after a surge in 2023. However, construction investments could receive support from improved financing conditions and increased EU funds inflow. The central bank began an easing cycle in December 2023, gradually reducing the key rate from 7% to 5.75% by March 2024, with further relaxation anticipated in the future. Affirming.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2021	2022	2023	P2024	P2025	P2026
Debt/ GDP (%)	48.3	47.7	50.3	58.0	66.2	74.4
Govt. Sur/Def to GDP (%)	-4.5	-2.3	-2.6	-2.5	-2.4	-2.6
Adjusted Debt/GDP (%)	48.3	47.7	50.3	58.0	66.2	74.5
Interest Expense/ Taxes (%)	3.9	6.0	6.7	6.3	5.8	5.5
GDP Growth (%)	7.0	11.1	8.2	2.5	3.6	3.6
Foreign Reserves/Debt (%)	127.6	95.3	85.8	73.1	62.6	54.3
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

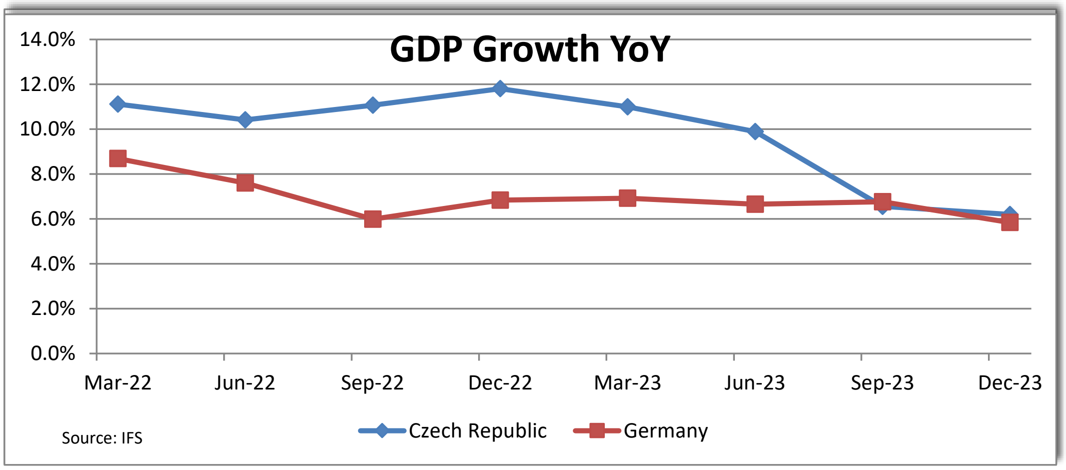
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	64.0	-2.6	64.0	3.8	6.3	AA+
Kingdom Of The Netherlands	AA+	51.3	-0.3	51.3	2.4	7.9	A-
Republic Of Austria	AA+	81.2	-1.8	81.2	4.2	6.9	BBB
French Republic	AA	117.2	-4.8	117.2	5.9	6.2	BB+
United Kingdom	AA	143.8	-6.2	143.8	10.5	7.2	BBB-



Country	EJR Rtg.	CDS
Austria	A+	16
France	A+	24
UK	A+	30
The Netherlands	AA-	11
Czech Republic	AA	31

Economic Growth

Czechia experienced a 0.3% decline in real GDP in 2023, primarily due to high inflation impacting household purchasing power, which in turn led to a decrease in private consumption. However, there was strong growth in investments, particularly in equipment investments. Despite this positive trend, overall domestic demand decreased as inventories were reduced. Exports saw growth, driven by machinery and transport equipment, while imports decreased due to lower domestic demand and inventory adjustments. . There are positive signs for economic recovery starting from the last quarter of 2023, with an increase in consumer confidence noted in the first quarter of 2024. These factors are expected to drive economic activity throughout the year, with GDP growth projected to bounce back to 1.2% in 2024 and further rise to 2.8% in 2025.



Fiscal Policy

After a 0.3% contraction in 2023, Czechia's real GDP is projected to grow by 1.2% in 2024 and further by 2.8% in 2025, fueled by a decrease in inflation that is expected to restore purchasing power. Anticipated trends include a widespread moderation in goods and energy inflation, coupled with significant base effects, which are likely to bring headline inflation down to 2.5% in 2024 and 2.2% in 2025. As measures aimed at alleviating the impact of high energy prices are phased out and the government's public finance consolidation package takes effect, a reduction in the budget deficit is forecasted.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Czech Republ	-2.58	50.33	30.70
Germany	-2.55	64.01	11.51
The Netherla	-0.26	51.34	24.00
Austria	-1.81	81.16	16.07
France	-4.84	117.19	11.01
UK	-6.24	143.77	29.72

Sources: Thomson Reuters and IFS

Unemployment

The Czech Republic's unemployment rate remained steady at 3.6% in June 2024, unchanged from the previous month and in line with market forecasts. This marked the lowest jobless rate since September 2023, as the number of unemployed persons decreased by 1,638 month-over-month to 272,684, though it was still 22,892 higher compared to the same period the previous year. During the month, the number of job vacancies fell by 2,965 from a month earlier to 263,552 and was 23,138 lower than in June 2023.

Unemployment (%)

	2022	2023
Czech Reput	2.40	2.63
Germany	3.07	3.03
The Netherla	3.54	3.54
Austria	4.76	5.11
France	7.32	7.34
UK	3.90	3.80

Source: Intl. Finance Statistics

Banking Sector

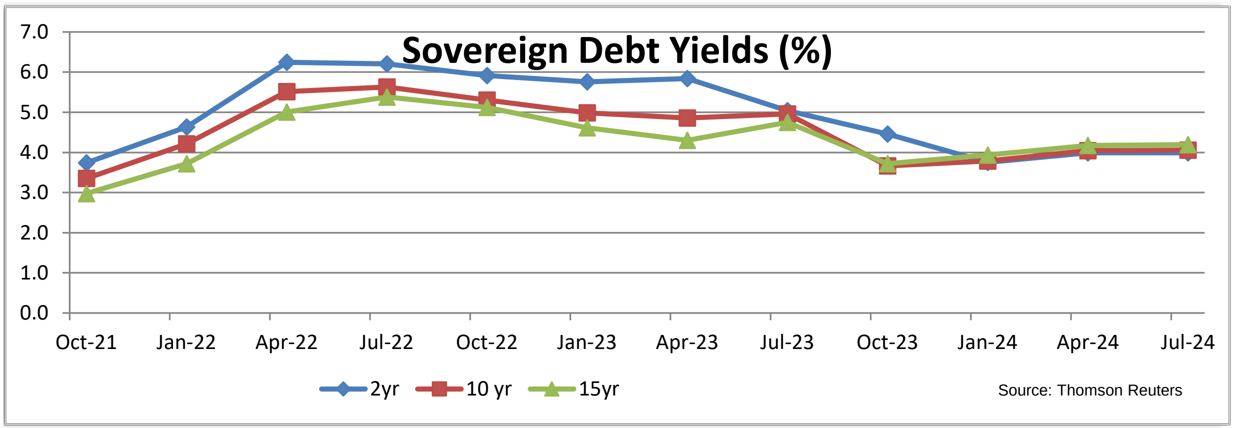
In the first quarter of 2024. Credit standards for loans to non-financial corporations remained unchanged, while corporations' demand for loans fell due to still elevated interest rates, though less so than in the previous period. On the other hand, credit standards for loans to households for house purchase eased, and demand for housing loans increased further, mainly due to expectations of increased activity on the residential market and a gradual decline in interest rates in the period ahead.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
Komercni Banka	1,516.3	9.7
Total	1,516.3	
EJR's est. of cap shortfall at 10% of assets less market cap		3.9
Czech Republic's GDP		7,344.4

Funding Costs

The Czech National Bank cut its two-week repo rate by 50 basis points to 4.75% in June 2024, exceeding market expectations of a 25-basis point rate cut. Concurrently, the central bank reduced the discount rate to 3.75% and the lombard rate to 5.75%. This marked the fourth consecutive 50 basis point reduction, as policymakers noted the continued disinflation pattern and weakened economy.



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 70.2 for Economic Freedom with 100 being best.

Heritage Foundation 2024 Index of Economic Freedom
World Rank 70.2*

	2024 Rank**	2023 Rank	Change in Rank	World Avg.
Property Rights	89.3	88.5	0.8	53.4
Government Integrity	60.7	60.3	0.4	43.7
Judical Effectiveness	83.1	81.9	1.2	48.8
Tax Burden	79.6	79.3	0.3	78.1
Gov't Spending	36.2	39.5	-3.3	64.2
Fiscal Health	58.7	73.5	-14.8	52.1
Business Freedom	77.3	76.9	0.4	62.1
Labor Freedom	58.9	56.1	2.8	55.9
Monetary Freedom	68.8	78.0	-9.2	67.2
Trade Freedom	79.2	78.6	0.6	69.8

*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 10.1% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 10.1% per annum over the next couple of years and 9.1% 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 no 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%	4.5	10.1	**10.1**	**9.1**
Social Contributions Growth %	4.5	7.8	**8.0**	**8.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	8.6	**8.6**	**8.6**
Total Revenue Growth%	4.4	9.0	**9.0**	**8.1**
Compensation of Employees Growth%	6.3	7.0	**7.0**	**7.0**
Use of Goods & Services Growth%	7.6	10.0	**10.0**	**10.0**
Social Benefits Growth%	6.9	10.8	**10.8**	**10.8**
Subsidies Growth%	(5.2)	37.8		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.6	**2.6**	
Currency and Deposits (asset) Growth%	(8.2)	0.0		
Securities other than Shares LT (asset) Growth%	8.2	0.0		
Loans (asset) Growth%	(57.9)	(139.4)	**10.1**	**10.1**
Shares and Other Equity (asset) Growth%	(74.8)	(2,217.6)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	0.0	(9.4)	**2.0**	**2.0**
Financial Derivatives (asset) Growth%	(3.2)	78.9	**10.1**	**10.1**
Other Accounts Receivable LT Growth%	(0.1)	1.7	**1.7**	**1.7**
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%	(0.3)	7.2	**5.0**	**5.0**
Currency & Deposits (liability) Growth%	(2.1)	41.0	**10.1**	**10.1**
Securities Other than Shares (liability) Growth%	8.8	23.4	**16.4**	**14.7**
Loans (liability) Growth%	(0.5)	(33.0)	**0.5**	**0.5**
Insurance Technical Reserves (liability) Growth%	0.0	5.7	**5.7**	**5.7**
Financial Derivatives (liability) Growth%	0.0	83.1	**13.1**	**13.1**
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)

	2020	2021	2022	2023	P2024	P2025
Taxes	1,137	1,174	1,305	1,437	1,583	1,742
Social Contributions	909	1,013	1,084	1,169	1,263	1,364
Grant Revenue						
Other Revenue						
Other Operating Income	320	342	421	457	457	457
Total Revenue	2,367	2,529	2,811	3,064	3,303	3,564
Compensation of Employees	633	676	690	739	791	846
Use of Goods & Services	346	355	393	432	475	522
Social Benefits	1,025	1,078	1,163	1,289	1,428	1,583
Subsidies	173	200	151	208	208	208
Other Expenses				195	195	195
Grant Expense						
Depreciation	232	245	272	295	295	295
Total Expenses excluding interest	2,603	2,757	2,889	3,157	3,392	3,650
Operating Surplus/Shortfall	-236	-228	-78	-93	-89	-86
Interest Expense	44	46	78	97	99	102
Net Operating Balance	-280	-274	-156	-190	-188	-188

ANNUAL BALANCE SHEETS

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

	ANNUAL BALANCE SHEETS (BILLIONS CZK)					
Base Case						
ASSETS	2020	2021	2022	2023	P2024	P2025
Currency and Deposits (asset)	715	861	933	980	1,280	1,558
Securities other than Shares LT (asset)	15	16	15	12	12	12
Loans (asset)	-3	4	87	-34	-38	-41
Shares and Other Equity (asset)	1	-2	1	-18	-18	-18
Insurance Technical Reserves (asset)	4	4	4	4	4	4
Financial Derivatives (asset)	1	0	0	0	0	0
Other Accounts Receivable LT	366	393	511	519	528	537
Monetary Gold and SDR's						
Other Assets					1,047	1,047
Additional Assets	755	869	854	1,047		
Total Financial Assets	1,853	2,145	2,404	2,510	2,815	3,098
LIABILITIES						
Other Accounts Payable	412	481	524	562	590	620
Currency & Deposits (liability)	11	16	22	32	32	32
Securities Other than Shares (liability)	2,129	2,256	2,306	2,845	3,310	3,852
Loans (liability)	127	193	378	253	442	629
Insurance Technical Reserves (liability)	4	3	4	5	5	5
Financial Derivatives (liability)	0	2	1	1	1	2
Other Liabilities						
Liabilities	2,683	2,951	3,236	3,698	4,192	4,662
Net Financial Worth	-830	-806	-831	-1,188	-1,376	-1,564
Total Liabilities & Equity	1,853	2,145	2,404	2,510	2,815	3,098

Comments on the Difference between the Model and Assigned Rating

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%	10.1	14.1	6.1	AA	AA	AA
Social Contributions Growth %	8.0	11.0	5.0	AA	AA	AA
Other Revenue Growth %		3.0	(3.0)	AA	AA	AA
Total Revenue Growth%	9.0	11.0	7.0	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**

Aug 16, 2024

Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang

Aug 16, 2024

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.