

A large, stylized illustration of a horse sculpture, rendered in a dark blue color, positioned on the left side of the cover. The sculpture is shown in profile, facing right, and has a textured, cross-hatched appearance.

CZECH REPUBLIC

SEPTEMBER 2023

COUNTRY REPORT

CZECH REPUBLIC

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MAP



KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES

18-MONTH	Broad Coalition 60%
FIVE-YEAR	Broad Coalition 45%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS

	TURMOIL	FINANCIAL TRANSFER	DIRECT INVESTMENT	EXPORT MARKET
18-MONTH	Low	A	A	A
FIVE-YEAR	Low	A	A	A-

() Indicates change in rating

* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS

	REAL GDP GROWTH (%)	INFLATION (%)	CURRENT ACCOUNT (\$bn)
2018-2022(AVG)	1.3	5.4	-3.74
2023(F)	0.0	12.0	-1.65
2024-2028(F)	2.7	2.6	7.20

REFORMS MAY FALL SHORT

Support for the five-party coalition headed by Prime Minister Petr Fiala has held up remarkably well under adverse economic conditions, and the government has displayed admirable (if not courageous) determination to fulfill a campaign pledge to slash a crisis-bloated budget deficit and implement the structural reforms (including unpopular changes to pension rules) needed to ensure long-term financial stability. However, the current poll numbers suggest that ANO, a populist party headed by controversial former Prime Minister Andrej Babiš, and the far-right SPD could win a combined majority of seats in the 200-member Parliament if an election were held today.

That prospect creates an incentive for the coalition partners to avoid an internal crisis that might trigger an early election, and with some of the toughest policy hurdles now behind it, the chances of Fiala's government holding together through the end of the current term have improved. That said, the danger of a breakup will increase as the October 2025 election deadline comes nearer, and any polling data that points to a decline in support for the Pirates and Mayors bloc to the benefit of their SPOLU partners would magnify the risks on that score.

President Petr Pavel signed the government's pension reforms into law in early September. Key changes include a gradual increase in the retirement age (with adjustments driven by calculations of life

expectancy), a revision to the method for determining indexation levels, and a tightening of the rules for early retirement.

The next hurdle for the government is securing approval of fiscal consolidation measures that are projected to produce total savings of roughly CZK150 billion in 2024-2025. The consolidation package was approved in a second reading in August, following agreement among the coalition parties on numerous tweaks related to tax rates, the assignment of VAT rates for various items, and the formula for sharing the proceeds from the property tax and sin taxes between the national government and municipalities.

The government is hoping to achieve final approval in time for the changes to take effect on January 1. However, the recent assessment of the independent Czech Fiscal Council that the consolidation measures, including the pension reform, do not go far enough to ensure long-term fiscal stability will create pressure for further amendments that could delay implementation.

Near term progress on reducing the deficit will be limited as a result of spending programs and tax breaks introduced to cushion the impact of soaring living costs. The government is targeting a deficit of no more than CZK295 billion (equivalent to around 4% of GDP) and the figures through August suggest that the target is attainable. But the weakening of the koruna on the heels of Poland's unexpectedly large interest-rate cut earlier this month has highlighted the narrow room for error with regard to slippage that might contribute to a loss of confidence.

Real GDP growth contracted by 0.6% (year-on-year) in the second quarter of 2023, following a 0.4% decline in January-March, and the monthly indicators paint a gloomy picture for the second half of the year. Inflation eased to a 20-month low of 8.5% (year-on-year) in August and is forecast to remain on a gradual downward trajectory through the end of the year, but central bank Gov. Ales Michl declined to specify a timeline for a first rate cut after monetary authorities voted unanimously to keep the main two-week repo rate at 7% (where it has been held since mid-2022) in late September. On that basis, any real expansion in the second half of the year will be minimal, resulting in zero growth, at best, in 2023.

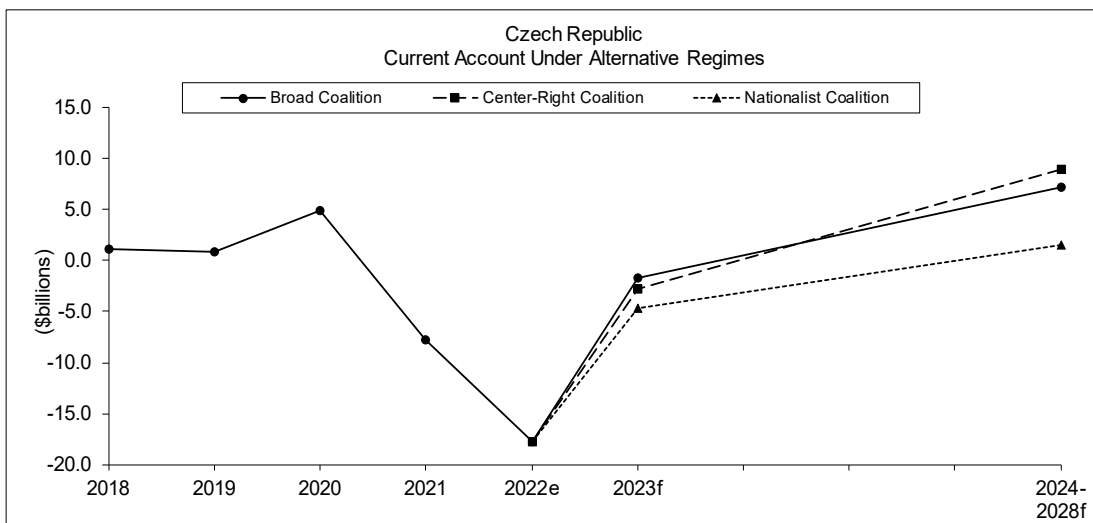
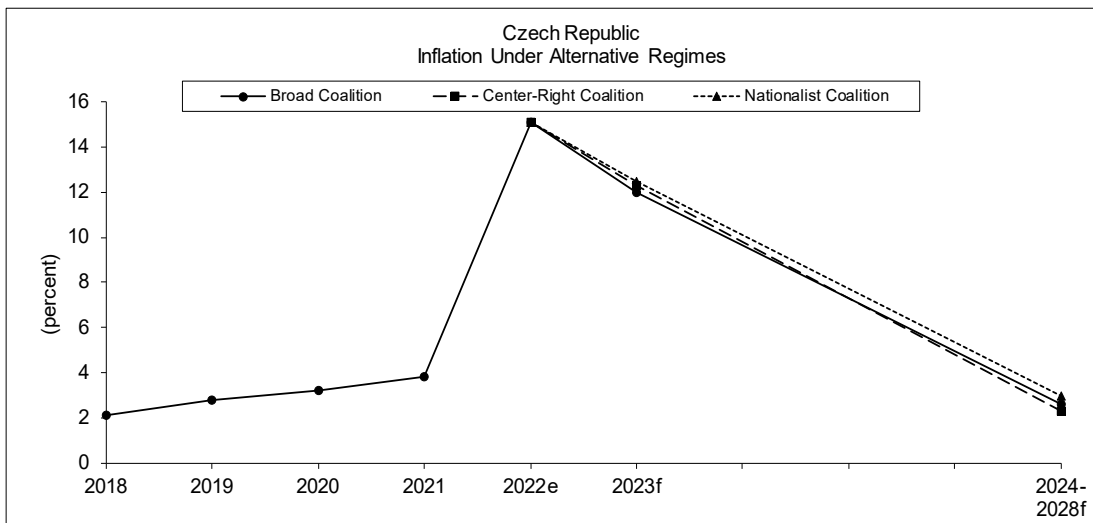
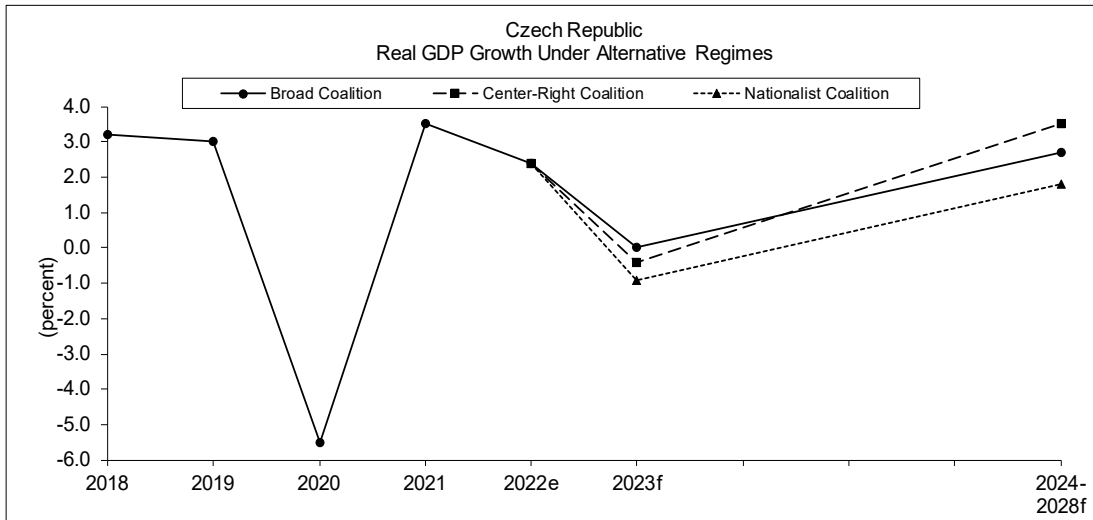
ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES

	Broad Coalition			Center-Right Coalition			Nationalist Coalition		
	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)
2023	0.0	12.0	-1.65	-0.4	12.3	-2.80	-0.9	12.5	-4.70
2024-2028	2.7	2.6	7.20	3.5	2.3	8.90	1.8	3.0	1.60

REGIME, BUSINESS & INVESTMENT FORECASTS

SUMMARY OF 18-MONTH FORECAST					
REGIMES & PROBABILITIES		Broad Coalition 60%	Center-Right Coalition 30%	Nationalist Coalition 10%	
RISK FACTORS	CURRENT				
Turmoil	Low	Same	Same	SLIGHTLY MORE	
Investment					
Equity	Low	Same	SLIGHTLY LESS	SLIGHTLY MORE	
Operations	Moderate	Same	SLIGHTLY MORE	SLIGHTLY MORE	
Taxation	Low	Same	Same	SLIGHTLY MORE	
Repatriation	Low	Same	Same	Same	
Exchange	Low	Same	Same	Same	
Trade					
Tariffs	Moderate	Same	Same	Same	
Other Barriers	Moderate	Same	Same	Same	
Payment Delays	Low	Same	Same	Same	
Economic Policy					
Expansion	Moderate	Same	Same	SLIGHTLY MORE	
Labor Costs	Moderate	Same	Same	SLIGHTLY MORE	
Foreign Debt	Low	Same	Same	SLIGHTLY MORE	
SUMMARY OF FIVE-YEAR FORECAST					
REGIMES & PROBABILITIES		Broad Coalition 45%	Center-Right Coalition 40%	Nationalist Coalition 15%	
RISK FACTORS	BASE				
Turmoil	Low	Same	Same	Same	
Restrictions					
Investment	Low	Same	SLIGHTLY LESS	MORE	
Trade	Moderate	Same	Same	SLIGHTLY MORE	
Economic Problems					
Domestic	Moderate	Same	Same	SLIGHTLY MORE	
International	Moderate	SLIGHTLY LESS	SLIGHTLY LESS	Same	

* When present, indicates forecast of a new regime



Czech Republic Econometric Data

	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
Domestic Economic Indicators							
GDP (Nominal, \$bn)	204.89	263.96	211.75	209.23	188.17	196.22	219.08
Per Capita GDP (\$)	19322	24702	19995	19739	17752	18494	20629
Real GDP Growth Rate (%)	3.1	1.3	0.0	2.3	5.5	2.5	5.4
Inflation Rate (%)	1.0	5.4	1.4	0.3	0.3	0.7	2.5
Capital Investment (\$bn)	52.07	70.05	53.69	53.15	49.94	48.94	54.61
Capital Investment/GDP (%)	25.4	26.6	25.4	25.4	26.5	24.9	24.9
Budget Revenues (\$bn)	52.96	65.64	55.78	52.91	49.82	52.13	54.14
Budget Revenues/GDP (%)	25.9	24.9	26.3	25.3	26.5	26.6	24.7
Budget Expenditures (\$bn)	54.74	75.53	59.94	58.31	51.94	49.36	54.16
Budget Expenditures/GDP (%)	26.7	28.6	28.3	27.9	27.6	25.2	24.7
Budget Balance (\$bn)	-1.79	-9.89	-4.16	-5.40	-2.12	2.77	-0.02
Budget Balance/GDP (%)	-0.9	-3.7	-2.0	-2.6	-1.1	1.4	0.0
Money Supply (M1, \$bn)	138.27	201.29	128.36	135.17	126.13	140.15	161.52
Change in Real Wages (%)	2.4	1.0	0.1	2.8	2.4	3.1	3.7
Unemployment Rate (%)	5.0	2.4	6.9	6.1	5.0	3.9	2.9
International Economic Indicators							
Foreign Direct Investment (\$bn)	7.86	10.19	7.36	8.09	1.69	10.86	11.29
Forex Reserves (\$bn)	77.44	149.15	48.45	49.72	61.26	82.82	144.95
Gross Reserves (ex gold, \$bn)	81.39	153.00	55.80	54.09	64.13	85.37	147.58
Gold Reserves (\$bn)	0.38	0.52	0.42	0.41	0.34	0.36	0.39
Gross reserves (inc gold, \$bn)	81.78	153.52	56.22	54.50	64.47	85.73	147.97
Total Foreign Debt (\$bn)	147.78	195.42	139.66	142.11	126.84	143.22	187.07
Total Foreign Debt/GDP (%)	71.9	74.4	66.0	67.9	67.4	73.0	85.4
Debt Service (\$bn)	2.78	3.71	2.06	5.30	1.95	2.17	2.43
Debt Service/XGS (%)	1.6	1.8	1.2	2.9	1.2	1.3	1.3
Current Account (\$bn)	1.40	-3.74	-1.11	0.38	0.84	3.49	3.38
Current Account/GDP (%)	0.7	-1.2	-0.5	0.2	0.5	1.8	1.5
Current Account/XGS (%)	0.8	-1.5	-0.6	0.2	0.5	2.1	1.8
Exports (\$bn)	137.74	164.72	137.03	146.57	128.25	131.18	145.66
Imports (\$bn)	127.97	158.37	128.55	135.80	120.59	120.33	134.56
Trade Balance (\$bn)	9.77	6.34	8.48	10.77	7.66	10.85	11.10
Exports of Services (\$bn)	24.80	30.11	24.00	25.09	23.29	24.37	27.25
Income, credit (\$bn)	8.31	12.18	6.89	7.36	7.35	8.30	11.63
Transfers, credit (\$bn)	3.32	4.53	3.84	3.88	3.31	2.97	2.59
Exports G&S (\$bn)	174.16	211.54	171.76	182.90	162.20	166.82	187.13
Liabilities (\$bn)	3.67	11.17	1.35	2.54	2.93	4.21	7.33
Net Reserves (\$bn)	78.11	145.88	54.87	51.96	61.54	81.52	140.64
Liquidity (months import cover)	7.3	11.3	5.1	4.6	6.1	8.1	12.5
Currency Exchange Rate	22.542	22.587	19.560	20.765	24.591	24.437	23.356
Currency Change (%)	-3.2	0.2	0.0	-5.8	-15.6	0.6	4.6
Social Indicators							
Population (million)	10.60	10.68	10.59	10.60	10.60	10.61	10.62
Population Growth (%)	0.1	0.2	0.0	0.1	0.0	0.1	0.1
Infant Deaths/1000	3	3	4	3	3	3	3
Persons under Age 15 (%)	15	15	13	15	15	15	15
Urban Population (%)	73	74	73	73	73	73	73
Urban Growth (%)	0.0	0.3	0.0	-0.1	0.0	0.0	0.1
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	3	3	3	3	3	3	3
Industry-Commerce Work Force (%)	38	38	39	37	37	37	38
Services Work Force (%)	59	58	58	60	60	60	59
Unionized Work Force (%)	13	13	13	13	13	13	13
Energy - total consumption (10 ¹⁵ Btu)	1.69	1.71	1.71	1.69	1.68	1.66	1.69
Energy - consumption/head (10 ⁹ Btu)	0.16	0.16	0.16	0.16	0.16	0.16	0.16

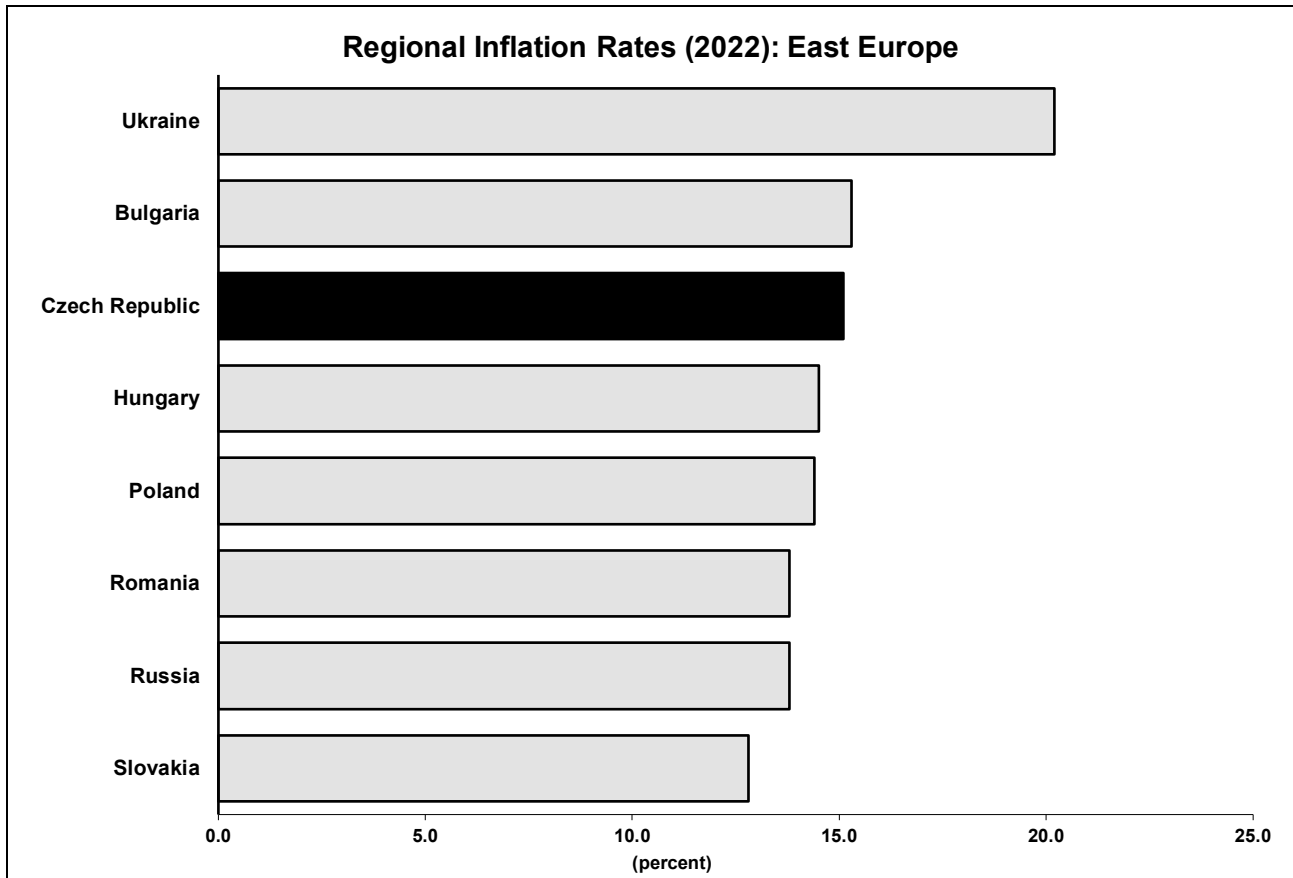
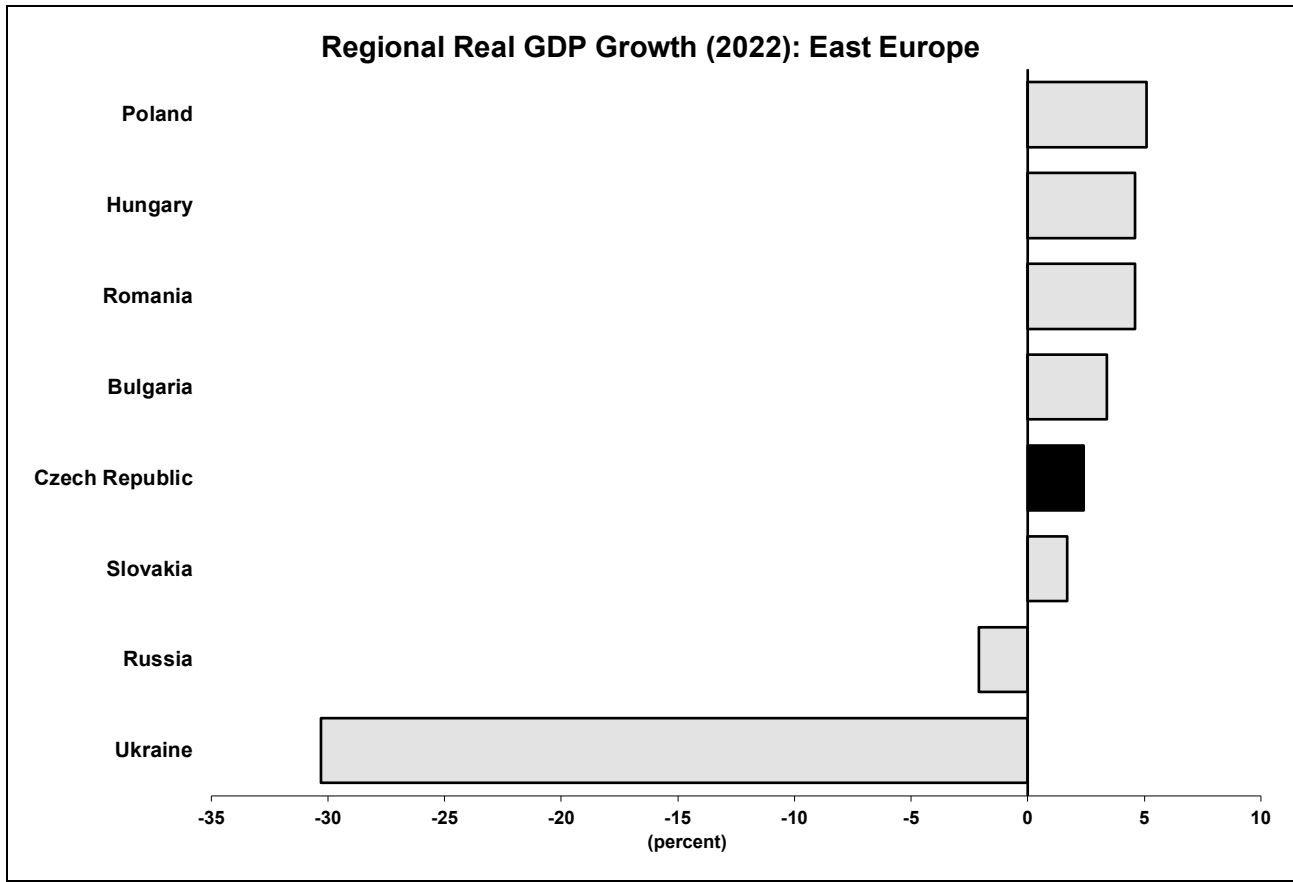
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Czech Republic Econometric Data

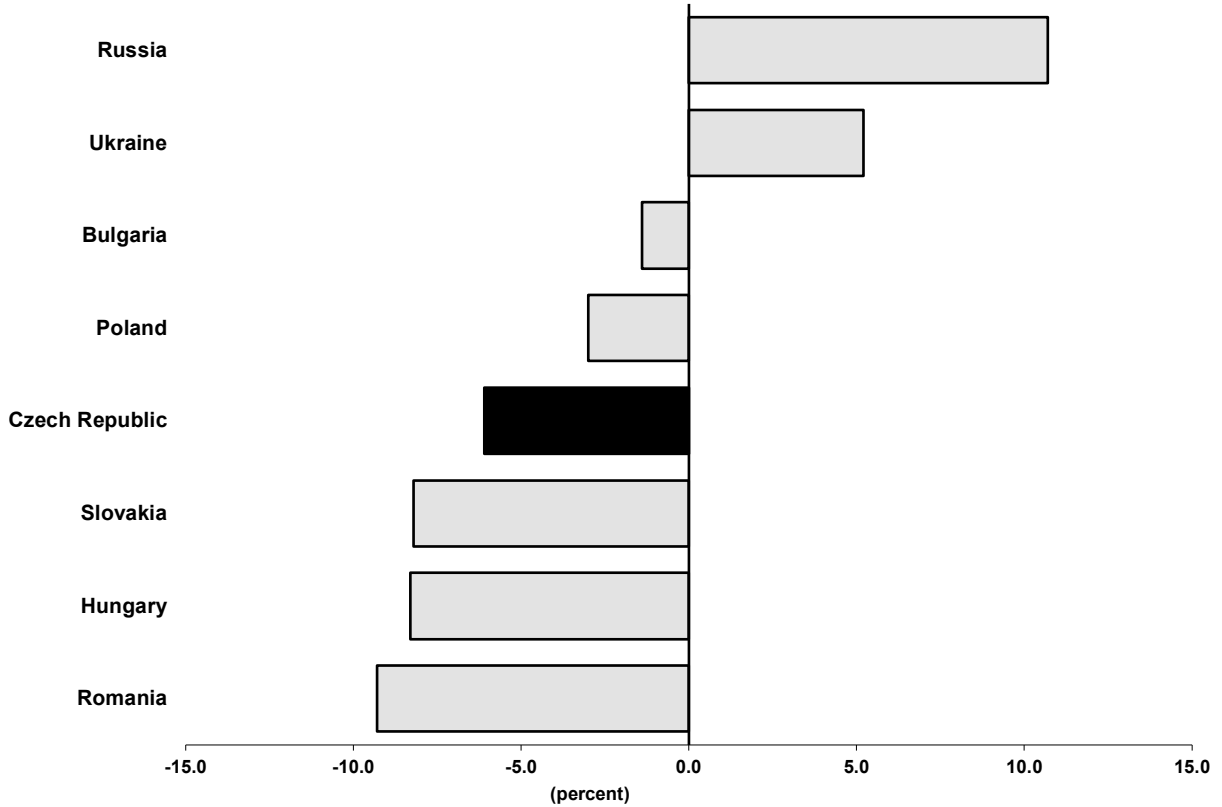
	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
Domestic Economic Indicators							
GDP (Nominal, \$bn)	204.89	263.96	249.11	252.69	246.04	281.57	290.39
Per Capita GDP (\$)	19322	24702	23435	23749	22973	26266	27089
Real GDP Growth Rate (%)	3.1	1.3	3.2	3.0	-5.5	3.5	2.4
Inflation Rate (%)	1.0	5.4	2.1	2.8	3.2	3.8	15.1
Capital Investment (\$bn)	52.07	70.05	65.52	68.38	65.33	73.23	77.78
Capital Investment/GDP (%)	25.4	26.6	26.3	27.1	26.6	26.0	26.8
Budget Revenues (\$bn)	52.96	65.64	63.69	65.56	62.61	67.69	68.67
Budget Revenues/GDP (%)	25.9	24.9	25.6	25.9	25.5	24.0	23.7
Budget Expenditures (\$bn)	54.74	75.53	63.64	66.61	78.00	86.04	83.36
Budget Expenditures/GDP (%)	26.7	28.6	25.6	26.4	31.7	30.6	28.7
Budget Balance (\$bn)	-1.79	-9.89	0.05	-1.05	-15.39	-18.35	-14.69
Budget Balance/GDP (%)	-0.9	-3.7	0.0	-0.4	-6.3	-6.5	-5.1
Money Supply (M1, \$bn)	138.27	201.29	182.05	179.13	206.70	233.17	205.41
Change in Real Wages (%)	2.4	1.0	5.9	5.0	0.0	2.3	-8.4
Unemployment Rate (%)	5.0	2.4	2.2	2.0	2.5	2.8	2.4
International Economic Indicators							
Foreign Direct Investment (\$bn)	7.86	10.19	8.43	10.74	8.32	12.91	10.55
Forex Reserves (\$bn)	77.44	149.15	138.66	146.86	161.98	168.13	130.11
Gross Reserves (ex gold, \$bn)	81.39	153.00	142.15	149.47	165.55	173.00	134.83
Gold Reserves (\$bn)	0.38	0.52	0.36	0.39	0.57	0.61	0.68
Gross reserves (inc gold, \$bn)	81.78	153.52	142.51	149.86	166.12	173.61	135.51
Total Foreign Debt (\$bn)	147.78	195.42	202.95	191.16	186.17	206.17	190.63
Total Foreign Debt/GDP (%)	71.9	74.4	81.5	75.7	75.7	73.2	65.7
Debt Service (\$bn)	2.78	3.71	2.69	3.67	3.92	4.04	4.24
Debt Service/XGS (%)	1.6	1.8	1.3	1.8	2.1	1.8	1.8
Current Account (\$bn)	1.40	-3.74	1.11	0.84	4.90	-7.75	-17.78
Current Account/GDP (%)	0.7	-1.2	0.5	0.3	2.0	-2.8	-6.1
Current Account/XGS (%)	0.8	-1.5	0.5	0.4	2.6	-3.5	-7.5
Exports (\$bn)	137.74	164.72	160.85	156.09	146.00	176.65	183.99
Imports (\$bn)	127.97	158.37	151.61	145.63	133.92	172.47	188.24
Trade Balance (\$bn)	9.77	6.34	9.24	10.46	12.08	4.18	-4.25
Exports of Services (\$bn)	24.80	30.11	30.61	30.45	26.00	29.86	33.62
Income, credit (\$bn)	8.31	12.18	11.90	13.30	9.96	12.88	12.87
Transfers, credit (\$bn)	3.32	4.53	3.72	3.98	4.67	5.21	5.08
Exports G&S (\$bn)	174.16	211.54	207.08	203.82	186.63	224.60	235.56
Liabilities (\$bn)	3.67	11.17	8.15	7.39	7.47	13.38	19.46
Net Reserves (\$bn)	78.11	145.88	140.83	148.27	164.01	160.23	116.05
Liquidity (months import cover)	7.3	11.3	11.1	12.2	14.7	11.1	7.4
Currency Exchange Rate	22.542	22.587	21.743	22.929	23.211	21.688	23.363
Currency Change (%)	-3.2	0.2	7.4	-5.2	-1.2	7.0	-7.2
Social Indicators							
Population (million)	10.60	10.68	10.63	10.64	10.71	10.72	10.72
Population Growth (%)	0.1	0.2	0.1	0.1	0.7	0.1	0.0
Infant Deaths/1000	3	3	3	3	3	3	3
Persons under Age 15 (%)	15	15	15	15	15	15	15
Urban Population (%)	73	74	74	74	74	74	74
Urban Growth (%)	0.0	0.3	1.5	0.1	0.2	-0.7	0.3
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	3	3	3	3	3	3	3
Industry-Commerce Work Force (%)	38	38	38	38	38	38	38
Services Work Force (%)	59	58	59	59	58	58	58
Unionized Work Force (%)	13	13	13	13	13	13	13
Energy - total consumption (10 ¹⁵ Btu)	1.69	1.71	1.70	1.72	1.69	1.72	1.72
Energy - consumption/head (10 ⁹ Btu)	0.16	0.16	0.16	0.16	0.16	0.16	0.16

Note:

INTRA-REGIONAL COMPARISONS



Regional Current Account/GDP (2022): East Europe



Economic Performance Profile Country's Ranking Relative to All Countries Covered by Political Risk Services 2018-2022

Indicator	Value	Ranking
GDP Per Capita (\$)	24702	
Real GDP Growth (%)	1.3	
Inflation (%)	5.4	
Unemployment (%)	2.4	
Capital Investment (% of GDP)	26.6	
Budget Balance (% of GDP)	-3.7	
Current Account (% of GDP)	-1.2	
Debt Service Ratio	1.8	
Currency Change (%)	0.2	

Indicator	BEST 25%	NEXT 25%	NEXT 25%	WORST 25%
GDP Per Capita (\$)				
Real GDP Growth (%)				
Inflation (%)				
Unemployment (%)				
Capital Investment (% of GDP)				
Budget Balance (% of GDP)				
Current Account (% of GDP)				
Debt Service Ratio				
Currency Change (%)				

GEOPOLITICAL & ECONOMIC ANALYSIS

COALITION HANGING TOUGH

Support for the five-party coalition headed by Prime Minister Petr Fiala weakened in 2022, amid high inflation that eroded the spending power of households and necessitated aggressive monetary tightening that pushed the economy into recession in the second half of the year. Inflation has eased since the start of 2023, but not enough to create room for monetary easing, and a combination of still-sluggish domestic demand and weaker external demand amid slower growth in key export markets contributed to economic stagnation in the first half of the year.

Despite the adverse economic conditions, the government has displayed admirable (if not courageous) determination to fulfill a campaign pledge to slash a crisis-bloated budget deficit and implement the structural reforms (including unpopular changes to pension rules) needed to ensure long-term financial stability. An initial flurry of protests that accompanied the unveiling of the pension reforms earlier this year has subsided, and while far-right (and pro-Russia) political forces continue to organize protests against high living costs and the government's support for Ukraine's war effort, attendance has diminished compared to the demonstrations held last year, and the protests do not appear to be galvanizing widespread anti-government sentiment.

All things considered, the popularity of the governing parties has held up surprisingly well. In the first major poll conducted since President Petr Pavel signed the pension reform into law in early September, combined support for SPOLU—a center-right alliance made up of Fiala's Civic Democratic Party (ODS), the Christian and Democratic Union–Czechoslovak People's Party (KDU–ČSL), and TOP 09—and the liberal progressive Pirates and Mayors bloc totaled 39.2%. Although that represents a decline from those same parties' combined 43.2% vote share at the 2021 elections, the coalition partners remain within striking distance of the threshold required to retain a majority and will have two years to repair the damage to their standing before an election falls due in October 2025, assuming the governing alliance holds together.

For the moment, however, the advantage lies with the main opposition ANO 2011, the party of former Prime Minister Andrej Babiš, a corruption-tainted populist whose tenure as head of government was marked by chronic controversy and testy relations with the EU. Although voters rejected Babiš' bid for the presidency in a run-off against Pavel in January, ANO won the most seats of any single party at the 2021 elections, with 27.1% of the vote, and is currently favored by more than 31% of voters, according to recent polls. Although the aversion of most parties to partnering with Babiš precluded the formation of an ANO-led government, the current poll numbers suggest that ANO and the far-right Freedom and Direct Democracy (SPD) could win a combined majority of seats in the 200-member Parliament if an election were held today.

That prospect creates an incentive for the coalition partners to avoid an internal crisis that might trigger an early election, and with some of the toughest policy hurdles now behind it, the chances of Fiala's government holding together through the end of the current term have increased. That said, the danger of a breakup will increase as the election deadline comes nearer, and any polling data that points to a decline in support for the Czech Pirate Party or Independents and Mayors (STAN) to the benefit of their SPOLU partners would magnify the risks on that score.

PENSION REFORM APPROVED...

Pavel's victory in the presidential election is positive in terms of the outlook for government stability. Although the presidency is a mostly ceremonial post, the occupant can cause headaches for the government if inclined to do so, as was made evident repeatedly under Pavel's predecessor, Miloš Zeman, a fact that accounted for the anxiety surrounding Babiš' bid for the job. In contrast, Pavel's election figures to facilitate the maintenance of positive relations with the EU and greatly reduces the risk that the limited powers of the presidency might be used to obstruct the Fiala government's efforts.

The first meaningful test of Pavel's ability to work constructively with the government came in March, when he signed controversial legislation that temporarily suspended automatic inflation-linked indexation of pension payments that would take effect in June. The measure encountered fierce resistance from ANO, which filibustered the bill in Parliament and challenged the measure in the courts.

More recently, Pavel signed off on the government's broader pension reform, which was approved by the Senate on August 28. Key changes include a gradual increase in the retirement age (with adjustments driven by calculations of life expectancy), a revision to the method for determining indexation levels, and a tightening of the rules for early retirement.

The reforms are aimed at closing a pension shortfall that has swelled as a result of inflation-driven increases in benefits and is on track to exceed 1% of GDP this year. However, policy makers estimate that the approved changes will not entirely eliminate the shortfall, and the near-term savings will be limited as a result of a last-minute rush to take early retirement before the new rules went into effect.

Pavel signed the bill in early September, but delayed doing so for a few days as he considered the implications of late amendments that affected the indexation formula and early retirement provisions. Labor Minister Marian Jurečka publicly complained that Pavel's hesitation would necessitate a one-month delay in putting the reforms into effect, thereby extending the deadline for filing for early retirement under the old rules, at an estimated cost of CZK4 billion.

Pavel noted that he is granted by law 15 days to sign or return legislation, and he approved the reforms well within that time frame. The testy exchange would have been better avoided, but is trivial compared to the battles that occurred on Zeman's watch.

...BUT FISCAL CONSOLIDATION EFFORT MAY NOT BE ENOUGH

The next hurdle for the government is securing approval of fiscal consolidation measures that are projected to produce total savings of roughly CZK150 billion in 2024-2025. Key proposals in the package unveiled in May included an increase in the corporate income tax from 19% to 21% beginning in 2025, a doubling of the property tax (with a portion of the increased revenue going to the central government), and higher "sin" taxes on tobacco, alcohol, and gambling. The plan also called for an increase in the social security contribution of the self-employed and the replacement of the two lower value-added tax (VAT) rates with a single 12% rate, while maintaining the standard VAT at 21%.

The consolidation package was approved in a second reading in August, following agreement among the coalition parties on numerous tweaks related to tax rates, the assignment of VAT rates for various items, and the formula for sharing the proceeds from the property tax and sin taxes between the national government and municipalities. The government is hoping to achieve final approval in time for the changes to take effect on January 1. However, the recent assessment of the independent Czech Fiscal Council that the consolidation measures, including the pension reform, do not go far enough to ensure long-term fiscal stability will create pressure for further amendments that could delay implementation.

Near term progress on reducing the deficit will be limited as a result of spending programs and tax breaks introduced to cushion the impact of soaring living costs. The government is targeting a deficit of no more than CZK295 billion (equivalent to around 4% of GDP) and the figures through August suggest that the target is attainable. But the weakening of the koruna on the heels of Poland's unexpectedly large interest-rate cut earlier this month has highlighted the narrow room for error with regard to slippage that might contribute to a loss of confidence.

ECONOMY STAGNATING

Real GDP growth contracted by 0.6% (year-on-year) in the second quarter of 2023, following a 0.4% decline in January-March, and the monthly indicators paint a gloomy picture for the second half of the year. Consumer spending fell by 4.8% in July compared to a year earlier, while exports registered a 4% year-on-year decline, pointing to weak external demand. The pessimism is evident in the manufacturing purchasing managers' index (PMI), which has remained stuck below 43.0 (with 50.0 representing the dividing line between expansion and contraction) since April.

Inflation eased to a 20-month low of 8.5% (year-on-year) in August and is forecast to remain on a gradual downward trajectory through the end of the year, assuming no further supply shocks that trigger a renewed surge in global prices for energy and food. The central bank has sought to dampen expectations of an imminent shift to a loosening bias, and Gov. Ales Michl declined to specify a timeline for a first rate cut after monetary authorities voted unanimously to keep the main two-week repo rate at 7% (where it has been held since mid-2022) in late September. On that basis, any real expansion in the second half of the year will be minimal, resulting in zero growth, at best, in 2023.

A base effect will produce an uptick in the inflation reading next month, after which price increases will return to a downward trajectory that is expected to gain momentum next year. Average inflation will remain in double digits in 2023, reflecting the very high figures from early in the year.

Higher prices for imports of fuel, food, and other commodities pushed the trade balance into negative territory last year, and the combination of a goods deficit and a larger shortfall in the income balance produced the largest current account shortfall in nearly 20 years. Lower energy prices have helped to ease pressure on the external balances, but with the export sector facing headwinds, another deficit is likely in 2023. A very comfortable reserves position, which will be bolstered by EU transfers, will facilitate management of the risks from external deficits in the near term.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk claims and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have “predictive power for both political risk insurance claims as well as political risk events measured by news coverage.”

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
SEPTEMBER 2023 VERSUS OCTOBER 2022

RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
<i>Very Low Risk</i>					
1	Norway	86.8	86.3	0.5	2
2	Switzerland	86.0	87.0	-1.0	1
3	Luxembourg	85.8	85.5	0.3	4
4	Denmark	84.8	83.8	1.0	6
5	Taiwan	84.5	83.8	0.8	6
6	Singapore	84.3	85.8	-1.5	3
7	Ireland	83.8	81.8	2.0	9
8	Saudi Arabia	82.5	85.5	-3.0	4
9	Brunei	81.5	79.5	2.0	15
10	Canada	80.8	81.3	-0.5	10
10	Iceland	80.8	80.0	0.8	14
10	Qatar	80.8	78.8	2.0	17

* C Harvey, et al., “Political Risk Spreads,” Journal of International Business Studies, (2014), 471-493.

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RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
13	Japan	80.5	75.8	4.8	25
13	Netherlands	80.5	79.3	1.3	16
13	United Arab Emirates	80.5	82.3	-1.8	8
16	Korea, Republic	80.3	77.0	3.3	23
17	Kuwait	80.0	80.8	-0.8	11
17	Sweden	80.0	80.3	-0.3	13
<i>Low Risk</i>					
19	Australia	79.5	80.8	-1.3	11
19	Botswana	79.5	76.3	3.3	24
21	Germany	79.3	78.3	1.0	18
22	Finland	78.8	78.0	0.8	20
23	Hong Kong	78.0	73.8	4.3	36
24	New Zealand	77.8	74.8	3.0	32
25	Portugal	77.0	75.0	2.0	31
25	Trinidad & Tobago	77.0	77.5	-0.5	22
27	Austria	76.5	78.0	-1.5	20
27	Oman	76.5	78.3	-1.8	18
29	Czech Republic	76.0	75.5	0.5	28
30	Kazakhstan	75.5	75.5	0.0	28
31	Guyana	75.3	75.8	-0.5	25
32	Malaysia	75.0	73.0	2.0	40
33	Uzbekistan	74.8	72	2.5	43
34	Bahamas	74.5	70.8	3.8	55
34	Belgium	74.5	74.0	0.5	35
34	Italy	74.5	72.8	1.8	41
37	Israel	74.3	74.8	-0.5	32
38	Slovenia	74.0	72.3	1.8	43
38	United Kingdom	74.0	75.8	-1.8	25

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RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
40	Azerbaijan	73.8	73.3	0.5	38
40	Croatia	73.8	73.3	0.5	38
40	Libya	73.8	70.5	3.3	59
40	Malta	73.8	74.3	-0.5	34
40	Panama	73.8	73.5	0.3	37
40	Uruguay	73.8	75.5	-1.8	28
46	Costa Rica	73.0	72.0	1.0	45
47	Latvia	72.8	71.0	1.8	52
48	France	72.5	71.8	0.8	48
48	Jamaica	72.5	72.0	0.5	45
50	Chile	72.0	70.5	1.5	59
50	Dominican Republic	72.0	72.5	-0.5	42
50	Spain	72.0	72.0	0.0	45
53	Philippines	71.8	70.0	1.8	61
54	Bulgaria	71.5	70.0	1.5	61
54	Vietnam	71.5	70.8	0.8	55
56	Poland	71.3	70.8	0.5	55
57	Brazil	71.0	69.0	2.0	70
58	Hungary	70.8	71.3	-0.5	50
59	Thailand	70.5	64.3	6.3	91
60	Guatemala	70.3	71.0	-0.8	52
60	India	70.3	69.5	0.8	64
60	United States	70.3	71.5	-1.3	49
63	Cyprus	70.0	69.5	0.5	64
63	Gabon	70.0	66.0	4.0	85
Moderate Risk					
65	China, Peoples' Rep.	69.8	69.5	0.3	64
65	Lithuania	69.8	69.8	0.0	63

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67	Greece	69.5	67.3	2.3	78
68	Bahrain	69.3	68.8	0.5	71
68	Estonia	69.3	70.8	-1.5	55
68	Indonesia	69.3	68.3	1.0	73
68	Papua New Guinea	69.3	69.3	0.0	67
72	Namibia	69.0	71.0	-2.0	52
73	Iraq	68.8	71.3	-2.5	50
74	Congo, Republic	68.5	63.8	4.8	96
74	Mexico	68.5	68.8	-0.3	71
74	Peru	68.5	68.0	0.5	75
77	Algeria	67.8	69.3	-1.5	67
78	Slovakia	67.5	68.3	-0.8	73
79	Romania	67.3	66.3	1.0	84
79	South Africa	67.3	66.8	0.5	81
81	Honduras	67.0	66.8	0.3	81
82	Gambia	66.8	65.8	1.0	88
82	Russia	66.8	66.0	0.8	85
84	El Salvador	66.5	63.5	3.0	98
84	Mongolia	66.5	65.5	1.0	89
84	Serbia	66.5	66.8	-0.3	81
87	Morocco	66.3	64.3	2.0	91
88	Ecuador	66.0	67.5	-1.5	76
88	Tanzania	66.0	64.8	1.3	90
90	Guinea-Bissau	65.3	62.5	2.8	103
90	Jordan	65.3	64.0	1.3	95
92	Paraguay	65.3	64.3	1.0	91
93	Albania	64.8	67.5	-2.8	76
94	Bolivia	64.5	66.0	-1.5	85

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RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
95	Nicaragua	63.8	62.8	1.0	100
96	Bangladesh	63.5	62.5	1.0	103
96	Cote d'Ivoire	63.5	61.0	2.5	107
96	Togo	63.5	62.8	0.8	100
99	Colombia	63.3	63.8	-0.5	96
100	Iran	63.0	67.0	-4.0	79
101	Madagascar	62.8	62.8	0.0	100
102	Angola	62.3	67.0	-4.8	79
103	Zambia	62.0	63.0	-1.0	99
104	Belarus	61.8	56.5	5.3	126
104	Cuba	61.8	69.3	-7.5	67
104	Ghana	61.8	59.0	2.8	114
107	Cameroon	61.5	59.8	1.8	110
108	Moldova	61.3	58.8	2.5	116
108	Ukraine	61.3	56.3	5.0	127
110	Armenia	61.0	60.5	0.5	108
111	Guinea	60.0	57.3	2.8	124
111	Mozambique	60.0	53.5	6.5	132
111	Uganda	60.0	59.3	0.8	112
High Risk					
114	Tunisia	59.8	61.3	-1.5	106
115	Burkina Faso	59.0	58.3	0.8	118
116	Suriname	58.8	59.0	-0.3	114
117	Senegal	58.5	58.0	0.5	122
118	Ethiopia	58.0	58.0	0.0	122
119	Mali	57.8	58.3	-0.5	118
120	Zimbabwe	57.5	61.5	-4.0	105
121	Congo, Dem. Republic	57.0	60.3	-3.3	109

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121	Kenya	57.0	58.3	-1.3	118
121	Myanmar	57.0	55.8	1.3	128
124	Haiti	56.5	54.8	1.8	130
125	Argentina	56.3	64.3	-8.0	91
125	Sierra Leone	56.3	53.8	2.5	131
127	Egypt	56.0	59.3	-3.3	112
128	Yemen, Republic	55.8	48.3	7.5	138
129	Nigeria	55.5	59.8	-4.3	110
130	Turkey	55.3	55.8	-0.5	128
131	Liberia	55.0	58.3	-3.3	118
131	Venezuela	55.0	58.5	-3.5	117
133	Sri Lanka	54.5	48.5	6.0	137
134	Malawi	52.8	51.0	1.8	135
135	Somalia	51.8	52.0	-0.3	133
Very High Risk					
136	Korea, D.P.R.	49.3	51.0	-1.8	135
136	Pakistan	49.3	52.0	-2.8	133
138	Niger	46.8	56.8	-10.0	125
139	Syria	45.0	43.8	1.3	139
140	Sudan	44.8	43.0	1.8	140
141	Lebanon	35.0	41.5	-6.5	141

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