

Country Insight Snapshot

Czech Republic

May 2022





Overall Country Risk Rating: DB3d

Last change: March 2022



Slight risk: Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Rating Outlook: Stable

WorldWatch Headline

We have downgraded the business and regulatory environment outlook due to the increase in risk of a rise in taxes by the government.

Recent Changes

- Tax increase risk encroaches on the business environment outlook.
- War in Ukraine and sanctions on Russia are clouding the Czech Republic's overall risk rating.

Events to Watch

- The war in Ukraine which will have adverse consequences for trade, investment and financial flows into the Czech Republic.
- The price and availability of energy and commodities on the world market.
- The surge in inflation which is likely to reduce demand and stifle the post-pandemic recovery.

Call to Action

- Plan for a slowdown in growth in 2022-23 and the potential for an economic recession, depending on the course of the war.
- Monitor developments in Russia and Ukraine.



Country Insight Headlines

Credit Environment

Score: DB3c



Last change: March 2022 (DB3b→DB3c)

Rating Outlook: Stable

Risks and Opportunities

- The central bank raised the base rate by another 50 basis points in March to 5.0% from 0.25% as recently as May 2021; further rises are likely.
- The stock of loans to the private sector fell by 3.4% in real terms in March against a backdrop of surging inflation.
- The central bank has tightened access to household mortgages by imposing new maximum debt-to-income ratios in an effort to cool the housing market.
- Air Bank has taken over Moneta Money Bank, creating the fifth largest bank in the Czech Republic, with assets of CZK510bn.
- The banking sector is stable and fully able to discharge its normal functions, but could be weakened by rising corporate insolvencies through 2022-23.

Trade Terms

Description	
Minimum Terms	OA
Recommended Terms	SD
Usual Terms	15-30 days

Source: Dun & Bradstreet

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance.

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden	Full cover available, conditions apply
ECGD	Medium- or long- term cover only
Euler Hermes AG	Medium- or long- term cover available, limited short-term cover

Source: Export Credit Agencies

Call to Action

- Plan for a weaker koruna in 2022.
- **Monitor counterparty risk closely**, closely as spillover from the war, including sanctions on Russia, creates new financial pressures.
- Exercise caution when extending credit to local parties as the economic environment declines.



Supply Environment

Score: DB3d



Last change: March 2022 (DB3b→DB3d)

Rating Outlook: Stable

Risks and Opportunities

- The partial removal of Ukraine and Russia from international supply chains has raised the price of energy, commodities, fertilisers and food products such as wheat.
- Surveys in March and April found that industrial companies view the shortage of raw materials and components as the main obstacle to business continuity.
- Companies are facing problems finding the staff they need for their business operations; lorry drivers are in short supply.
- However, the arrival of refugees from Ukraine could potentially help to overcome the labour shortage.
- The Czech Republic and its European peers have lifted most of their remaining containment measures against coronavirus.

Call to Action

- Factor the risk of delayed deliveries into short-term business planning.
- Firms should continually monitor [supplier risk](#) given the difficulties which some parts of the economy are experiencing.



Market Environment

Score: DB3d



Last change: March 2022 (DB3c→DB3d)

Rating Outlook: Stable

Risks and Opportunities

- The short-term economic outlook is clouded by the war in Ukraine and the imposition of sanctions on Russia by the West which will stifle growth during 2022.
- The manufacturing purchasing manager's index fell to 54.4 in April from 59.0 in January, suggesting growth in new orders is slowing.
- Inflation reached 12.7% in March due to rising prices for energy, commodities and food.
- Real wages fell by 2.1% y/y in real terms in Q4 2021, implying a decline in consumption and sales in 2022.
- In combination with slowing growth and falling purchasing power, the Czech Republic is likely to see a rise in business failures through 2022.

Call to Action

- [Make use of analytical tools](#) to identify potential customers and market opportunities.
- Customs agencies should take steps to [improve connectivity](#) with other agencies and trading partners.



Political Environment

Score: DB3c



Last change: March 2022 (DB3b→DB3c)

Rating Outlook: Stable

Risks and Opportunities

- War and sanctions are causing economic hardship for the population and low-level social unrest is possible.
- The influx of 200,000 refugees has put strain on the country's social system and generated public anxiety about jobs.
- There is a risk of social unrest as the cost of living soars, creating difficulties for those on low incomes.
- The government is facing retaliation from Russia, mainly in the form of cyberattacks and fake news, for its strong anti-Russian stance.
- Russian-owned assets are being frozen by the authorities as part of the EU's evolving sanctions regime against Russia.

Call to Action

- Monitor political developments in Russia and Ukraine.
- [Keep up to date with information on entities and individuals](#) that threaten national security or bypass lawful trade and commerce.
- Investors in strategic sectors, especially those from countries without bilateral investment treaties, should take out insurance against forcible expropriation.



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User Guide

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