



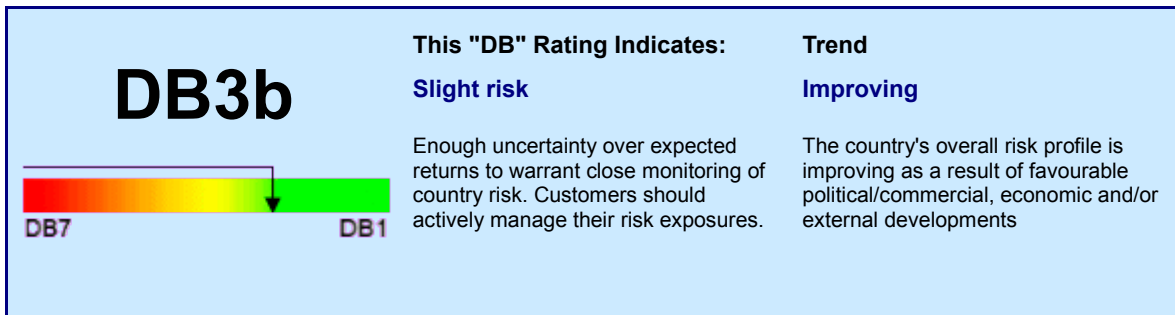
Decide with Confidence

CZECH REPUBLIC

Region : Eastern Europe

Edition : September 2014

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	10.7m
Surface area (sq km):	78,867
Capital:	Prague
Timezone:	GMT +01:00
Official language:	Czech
Head of government:	Prime Minister Bohuslav SOBOTKA
GDP (USD):	195.7bn
GDP per capita (USD):	18,354
Life expectancy (years):	77
Literacy (% of adult pop.):	99.9

Country Overview:

The Czech Republic is bordered by Slovakia, Austria, Germany and Poland. There are two major regions: Bohemia in the west, consisting of rolling plains, hills and plateaux surrounded by low mountains; and Moravia in the east, consisting of very hilly country. The country's industrial sector is considerably larger than in many of its regional peers. Due to the industrialised nature of the Czech economy, the services sector accounts for only 60% of GDP compared with an EU average (28 countries) of 72%.

Despite a record of unstable coalition governments, the Czech Republic is one of the more prosperous of the former communist states of Central and Eastern Europe, underpinned by the structural reforms required for EU entry (achieved in 2004) and a structural shift towards private consumption growth (as a result of the transition to a market economy and more readily available credit). Foreign investment has contributed strongly to upgrading the capital stock, helping to maintain export competitiveness. Deep reforms to the pensions and health sectors are required owing to the country's ageing population.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	SD
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	LC
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	15-30 days
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-1 month
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:

0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

The government is planning to raise taxes in order to finance increased welfare without exceeding the 3% budget deficit threshold set out in the EU's Excessive Deficit Procedure. The main change affecting businesses operating in the Czech Republic is to VAT. In early July, parliament approved, on first reading, the imposition of a three-band system that captures previously excluded goods such as books and medicines. Alongside this, the government intends to limit tax breaks for sole traders and small businesses. Fortunately for business, two earlier proposals have not been adopted as policy: dividends will not be subject to tax breaks as previously intended, and the government will not raise taxes on either companies or high-wage earners.

Export Credit Agencies

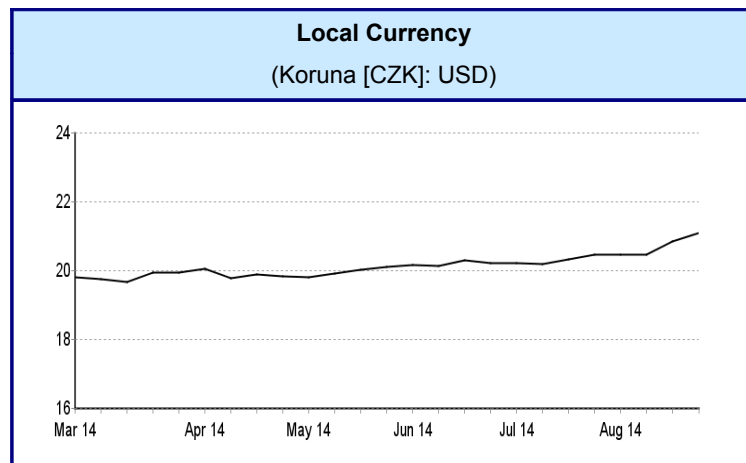
US Eximbank	Full cover available, discretionary limits
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2011	2012	2013	2014f	2015f
Real GDP growth, %	1.8	-1.2	-0.9	2.1	2.4
Inflation, annual ave, %	2.1	3.5	1.0	2.0	2.2
Govt balance, % GDP	-3.2	-4.2	-1.5	-2.3	-2.2
Unemployment, %	6.7	7.0	7.0	6.9	6.5
C/A balance, % GDP	-2.9	-1.3	-1.4	-0.8	-0.4

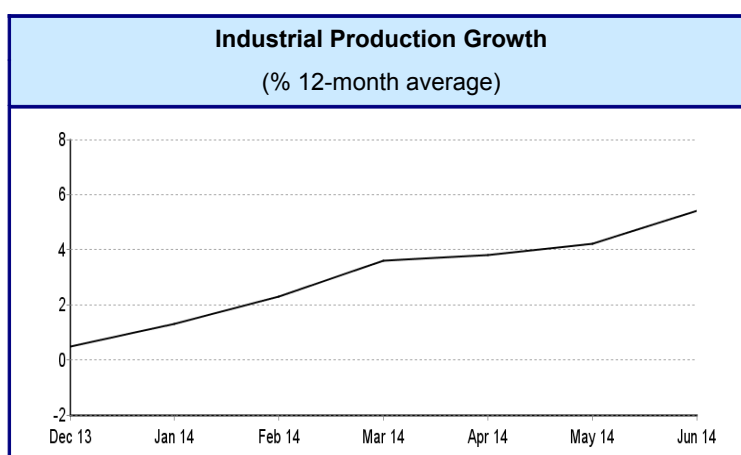
Currency Information

Exchange Rates	
(London, 08 Sep 14)	
EUR	27.6025
GBP	34.7638
JPY*	20.3086
USD	21.3007
*(x 100)	



Local Currency						
(Koruna [CZK]: USD)						
	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14
Week 1	19.784	20.037	19.803	20.152	20.196	20.454
Week 2	19.727	19.774	19.906	20.128	20.173	20.454
Week 3	19.670	19.881	20.026	20.275	20.312	20.847
Week 4	19.928	19.828	20.089	20.215	20.454	21.083
Week 5	19.944					

Industrial Production Growth



Data Table						
Dec 13	Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14
0.5	1.3	2.3	3.6	3.8	4.2	5.4

Risk Factor

Short-Term Economic Outlook: After a promising start to 2014, the short-term outlook for the economy is now looking more ominous. On the upside, new data for Q2 indicate that the economy grew by 2.6% year on year, one of the fastest growth rates in the EU. This is welcome news for exporters and investors after five years of economic stagnation and reflects both the decisive monetary policy stance adopted by the central bank and the underlying strength of the Czech economy: a productive workforce, the strong investment environment, and geographical proximity to the Germany. However, there are grounds for caution: firstly, the growth rate is slowing, from 2.9% y/y in Q1. Secondly, GDP did not grow at all when measured on a quarterly basis. Finally, the two main pillars of growth, household consumption and exports, are both at risk, the former from persistently tight credit conditions and low levels of job creation, and the latter from the slowdown in the German manufacturing sector, with which the Czech economy is highly integrated. These risks are reflected in data on economic sentiment from August in which industry significantly lowered its expectations for export growth during Q3, while consumers' confidence about their financial prospects fell markedly on the back of concerns over rising unemployment. While businesses can assume rising market opportunities over the forecast period, they should be aware of a slowdown in growth from current rates.

Insecurity/Civil Disorder Risk: Rising East-West tensions will also cast a shadow over the Czech Republic's risk outlook. The Russian moratorium on agricultural exports from the EU in August will have only a minor direct effect on the economy since exports of Czech food to Russia are low. However, the prospect of further trade sanctions in response to Russia's apparent military intervention in Ukraine could hit the Czech Republic harder. The Czech Republic imports around 70% of its oil and gas from Russia, via Ukraine, and warnings by Moscow in early September of a breach in supplies bodes ill for business continuity in the Czech Republic. Equally, there is a growing risk to Czech exports to Russia, which have grown tenfold over the past decade, making Russia the Czech Republic's fifth largest external market on which (according to the Czech exporter's association) 40,000 jobs depend.

Business Continuity: There is also a risk of a cancellation of contracts, in both directions. The government recently suspended the tendering process for the nuclear power station at Temelin, partly due to concerns about the sale of the plant to the Russian firm Rosatom, and in August the government announced that it would be seeking a new supplier of nuclear fuel, this time from the West. Behaviour such as this risks triggering reciprocal actions by Russia on Czech firms hoping to do business in Russia.

Glossary & Definitions

DEFINITIONS

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Recommended Terms:

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Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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