



## D&B Country RiskLine Report

**CZECH REPUBLIC**

Region : EASTERN EUROPE

September 2007

### D&B COUNTRY RISK INDICATOR

<b>DB3a</b>	<p>This "DB" Rating Indicates:</p> <p>Slight risk</p> <p>Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.</p> <p>Trend:</p> <p>Down - The country's overall risk profile is deteriorating owing to adverse political, commercial, economic and/or external developments.</p>
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The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country. Essentially, the indicator seeks to encapsulate the risk that country-wide factors pose to the predictability of export payments and investment returns over a time horizon of two years. The 'DB' risk indicator comprises 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;
- 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 and a commensurate expansion in business opportunities;
- External risk* - the current account balance, capital flows, foreign exchange reserves, size of external debt and all such factors that determine whether a country can generate enough foreign exchange to meet its trade and foreign investment liabilities.

*The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is*

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*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*

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## USUAL TERMS

Minimum Terms:	SD
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The minimum advisable form of documentation or trading method under which D&B advise customers to pursue any form of export trade with stated country.

Recommended Terms:	SD
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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.

Although headline industrial production growth in the Czech Republic slowed to 6.9% year on year (y/y) in June, when adjusted for seasonal factors and working days, industrial output actually expanded 9.3% y/y. We expect output growth to moderate from around 9.0% in 2007 to 7.5% in 2008 as growth slows in Euroland (the Czech Republic's major export market).

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## 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
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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 foreign exchange controls, foreign exchange availability and the efficiency of the local banking system.

Import Cover:	4.0 months
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The amount of foreign exchange a country has in relation to the average monthly value of imported goods and services. Only liquid foreign exchange reserves from which a country can service its import requirements are included in this calculation.

The merchandise trade surplus grew to CZK9.3bn in June, from CZK7.4bn a year earlier, driven by a 14.5% year-on-year increase in export revenues, accelerating from a 12.8% rise in May. However, import growth also accelerated to 14.0% (from 10.3% in May). We expect the trade surplus to grow more slowly in 2007-08 as solid private consumption and investment growth drives further imports.

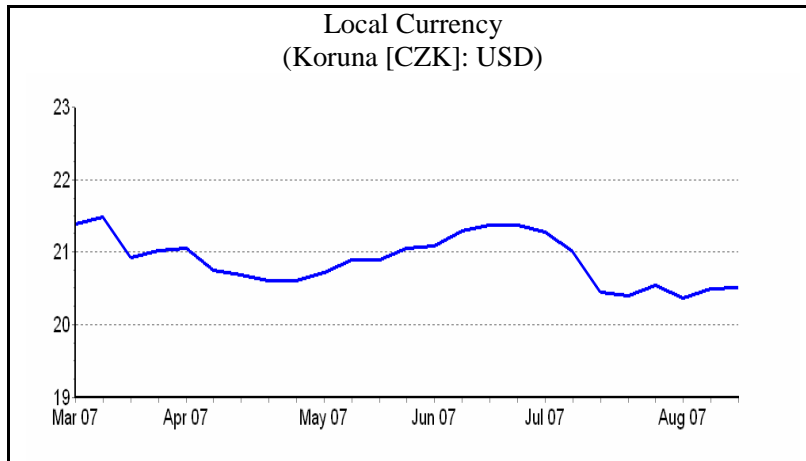
### Economic Indicators

	2004	2005	2006	2007f	2008f
Real GDP growth, %	4.2	6.1	6.1	5.0	4.0
Inflation, annual ave %	2.8	1.9	2.6	2.8	2.6
Govt balance, % GDP	-2.9	-3.5	-2.9	-4.1	-3.6
Unemployment, %	8.3	7.9	7.1	6.8	6.4
C/A balance, % GDP	-6.0	-2.5	-4.3	-3.7	-3.2

### LOCAL CURRENCY

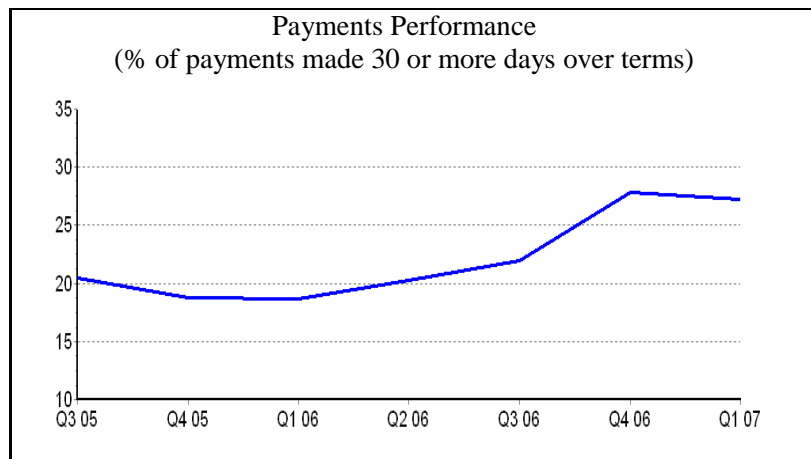
Local Currency (Koruna [CZK]: USD)	
Mar 07	21.3833
	21.4916
	20.9312
	21.0278
	21.0540
Apr 07	20.7532
	20.6967
	20.6018
	20.6067
	20.7286
May 07	20.9019
	20.9011
	21.0501
	21.0859
	21.3021
Jun 07	21.3727
	21.3688
	21.2777
	21.0065
	20.4545
Jul 07	20.4048
	20.5503

Aug 07	20.3709
	20.4939
	20.5198



**Exchange Rates**  
(London, 20 Aug 07)

EUR	27.7335
GBP	40.7657
JPY*	18.0306
USD	20.5198
*(x 100)	



<b>Payments Performance</b> (% of payments made 30 or more days over terms)
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Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
20.5	18.8	18.7	20.3	22.0	27.8	27.2

### Export Credit Agencies

<b>US Eximbank</b>	Full cover available, discretionary limits
<b>Atradius</b>	Full cover available
<b>ECGD</b>	Full cover available
<b>Euler Hermes</b>	Full ST cover available
<b>UK</b>	

### RISK FACTOR

The Czech Republic's DB3a risk rating continues to be underpinned by a reasonable degree of institutional and macroeconomic stability, a broadly positive economic outlook and the prospect of an improvement in the country's external economic risk profile through the strengthening of the current account over the medium term. However, to qualify for upgrades into the DB2 range, the country needs to work on enhancing its short-term political stability (including government and legislative effectiveness), improving its commercial environment, boosting its economic growth potential and consolidating its public finances.

In the country's favour, we expect the economy to expand by a robust 5.0% in 2007 and a further 4.0% in 2008, primarily due to strong private consumption and investment growth, especially as the Czech Republic's competitiveness as a production location will continue to provide the basis for expanding fixed capital formation, supported by inflows of FDI. EU entry in 2004 has strengthened the country's trade links with Western Europe and triggered a modernisation of the regulatory environment. This, in turn, has reassured foreign companies about investing in the country. Meanwhile, the external sector will also continue to make a modest contribution to aggregate economic growth. However, the extraordinary contribution of the external sector in 2005 will not be attainable again in the short term. Despite this, the current account deficit should remain modest, owing to growth in Czech export capacity, which, combined with a healthy level of reserves, will lower external economic risks further. Moreover, with liquidity and solvency ratios remaining relatively strong, a default on foreign debt on the part of the Czech Republic remains remote.

More negatively, the lack of a parliamentary majority will hamper the stability and effectiveness of the coalition government, limiting its capacity to enact far-reaching reforms, e.g. in the fields of pensions and healthcare. Government ineffectiveness may be seen most clearly in the fact that fiscal discipline has unravelled somewhat in 2007, in part due to measures passed in the final weeks of the previous administration in 2006, but also because of the current government's failure to take control of the legislative agenda. The lack of a parliamentary majority means that the proposed fiscal reform package is unlikely to be made law. Meanwhile, many citizens have been alienated by the scandal-rocked political environment. This was reflected in the low turnout for the June 2006 election and the subsequent fragmented parliament. However, with the Czech Republic facing another four-year term of political instability, early elections are desirable.

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**GLOSSARY***Key:*

C L/C	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
L/C	Letter of Credit
LT	Long-term
MT	Medium-term
OA	Open Account
SD	Sight Draft
ST	Short-term

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

A measure of a country's net trade, service, and other non-capital flows.

*DSR (debt service ratio), %:*

The total of a country's debt interest and principal payments in relation to annual export revenues.

*Govt balance, % GDP:*

The public sector balance expressed as a proportion of total domestic economic output.

*Real GDP growth, %:*

The growth in the total goods and services produced within a country, taking account of inflation.

*Inflation, %:*

The increase in consumer prices reported as an end-year or annual average figure.

*Investment, % GDP:*

The proportion of total output directed toward investment.

*Manufactures, % GDP:*

A measure of the importance of industry within an economy.

*Non-oil sector, % GDP:*

The degree of dependency of an economy on oil.

*Oil, US\$ p/b:*

Oil price per barrel.

*Oil output, '000 bpd*

Average daily output of oil.

*Public debt, % GDP:*

The total public sector debt in relation to the size of the domestic economy.

*Trade balance, % GDP:*

A measure of a country's net import and export flows.

*Unemployment, %:*

The percentage of the registered labour force that is unemployed.

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