Best's Country Risk Report

Czech Republic

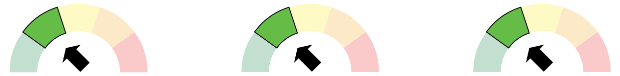
CRT-2

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures]

[Guide to Best's Country Risk Tiers]



- **Country Risk Tier 1** (CRT-1) Very Low Level of Country Risk
- **Country Risk Tier 2** (CRT-2) Low Level of Country Risk
- **Country Risk Tier 3** (CRT-3) Moderate Level of Country Risk
- **Country Risk Tier 4** (CRT-4) High Level of Country Risk
- **Country Risk Tier 5** (CRT-5) Very High Level of Country Risk

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- The Czech Republic, a CRT-2 country, has low levels of economic, political, and financial system risk. Although the country has one of the highest growth rates in the European Union, its dependence on exports makes the economy vulnerable to global price volatility and external demand conditions.
- GDP growth was 4.3% in 2017 and is forecast at 3.5% for 2018.
- The majority of countries depicted in the map are categorized as CRT-1 and CRT-2, the notable exceptions being the Eastern European countries of Bosnia and Herzegovina, Belarus and the Ukraine.

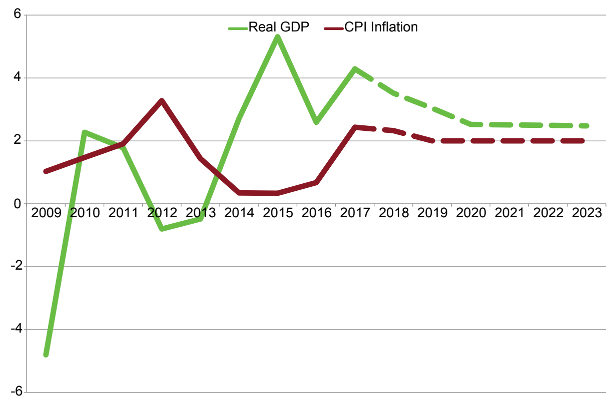
Vital Statistics 2017		
Nominal GDP	USD bn	213.19
Population	mil	10.6
GDP Per Capita	USD	20,152
Real GDP Growth	%	4.3
Inflation Rate	%	2.4
United Nations Estimates		
Literacy Rate	%	99.0
Urbanization	%	73.0
Dependency Ratio	%	49.5
Life Expectancy	Years	78.8
Median Age	Years	42.1
Insurance Statistics		
Insurance Regulator	The Czech National Bank	
Premiums Written (Life)	USD mil	2,448
Premiums Written (Non-Life)	USD mil	3,989
Premiums Growth (2016 - 2017)	%	0.0
Regional Comparison		
	Country Risk Tier	
Czech Republic	CRT-2	
Romania	CRT-3	
Austria	CRT-1	
Poland	CRT-2	
Slovenia	CRT-2	
Ukraine	CRT-5	

Source: IMF, UN, Swiss Re, Axco and A.M. Best

Regional Summary: Eastern Europe

- The Eastern European countries are at various stages of bringing their legal, economic, and political frameworks to be more in line with European Union standards. The region has a great deal of economic potential, as it further integrates with the global markets of the European Union, but all of its countries would ultimately benefit from more transparent and less cumbersome regulatory environments.
- Economic growth in 2017 was robust and is expected to continue in 2018 on growing domestic consumption, fueled by rising wage and falling unemployment rates. Additionally, funds provided by the EU's Structural and Investment Funds will continue to drive public spending.
- Although many Eastern European countries are classified as emerging markets or frontier markets, reforms have enhanced economic stability and regional political power.
- Risks for the region include the potential for tightening global financial conditions, currency volatility, an increase in government influence on state-run institutions potentially undermining independence, and high levels of corruption.

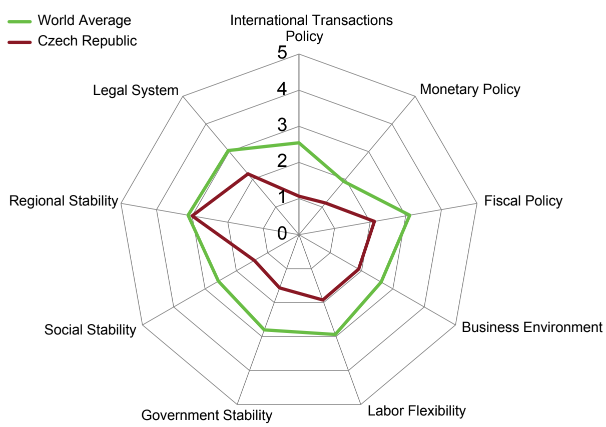
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

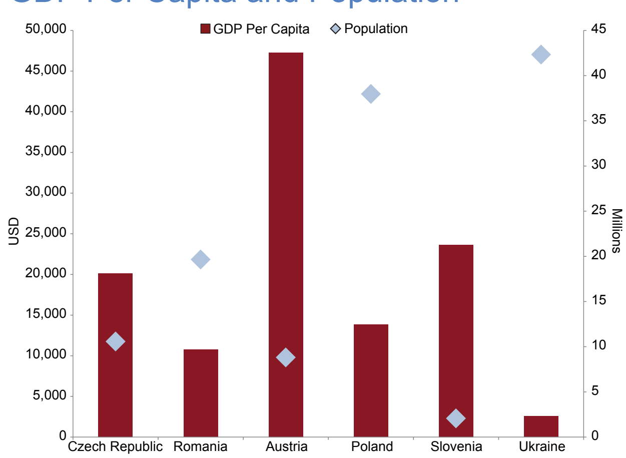
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Low

- The Czech Republic's open economy relies heavily on exports, particularly cars, energy, and electronics. Its main export partners are members of the EU. The country's economy has improved recently, but its dependence on exports makes it vulnerable to any downturns in global economic conditions and to protectionist trade policies.
- The country has one of the lowest unemployment rates in the EU, currently under 3.0%. Tighter labor markets threaten to drive up salaries and inflation. However, its GDP per capita is lower than that of its Western neighbors.
- The economy is hindered by bureaucracy, particularly with regard to starting a business. Additionally, the tax system remains complicated, with frequent changes in the code often leading to confusion. Several recent structural reforms to improve the business operating environment were implemented.

Political Risk: Low

- The centrist populist party, ANO, scored a convincing victory in the October 2017 parliamentary elections, beating its nearest competitor by 18%. The center right party, ODS, finished second, with the ANO party holding three times as many seats. Political opposition remains fragmented, with nine parties now represented, but is unlikely to pose a serious threat to government stability.
- The ANO party is expected to maintain centrist policies, including maintaining fiscal responsibility, as well as favorable investment policies. However, the ANO's inability to form a coalition government may lead to a weak government. Historically, weak governments frequently result in early elections and leadership changes.
- The government's immigration policies have sparked social protest in recent years. However, the risk of terrorist attacks tends to be lower than in Western Europe.

Financial System Risk: Low

- The Czech National Bank (CNB) regulates the insurance industry as well as the banking sector, the capital markets, and the pension system.
- In 2017, the Czech National Bank raised interest rates for the first time in nine years. A tighter labor market and a strong economy were causing an increase in inflationary pressures.
- The IMF has suggested additional macro prudential measures, to strengthen financial stability. Rising housing prices have been supported by strong household confidence. However, some households are borrowing at high multiples of their income. As a result, the bank has announced recommended limits of debt-to-income and debt-service-to-income ratios, to mitigate some of the risk.