

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

## The Czech Republic (security code: -)

### <Outlook Change>

Foreign Currency Long-term Issuer Rating:	A+
Outlook:	from Stable to Positive
Local Currency Long-term Issuer Rating:	AA-
Outlook:	from Stable to Positive

### Rationale

- (1) The ratings are supported by the country's most advanced economy among the Central and Eastern European countries (CEECs), its strong external position, stable financial system and low public debt. The rating outlook was revised to Positive. The economic growth has become relatively robust supported by effective easy monetary policy. The country's fiscal position has also been improving on the government's prudent fiscal management. JCR will watch how a future exit from the use of foreign currency interventions as part of easy monetary policy, which is expected in 2017, could affect the economy.
- (2) The Czech Republic is the second largest economy among the CEECs with a nominal GDP of EUR167 billion in 2015. Its GDP per capita in PPP is relatively high at more than USD30,000. With the accumulation of foreign direct investment (FDI) in the manufacturing industry centering on the automobile industry, the economy has an export-oriented structure closely tied to the EU economy, its major trading partner. The Czech National Bank (CNB) has been keeping interest rates low and, since November 2013, using foreign currency interventions as part of easy monetary policy. Supported by these measures, the economic growth has become relatively robust with the expansion of export and the recovery of domestic demand. After returning to a positive growth of 2.7% in 2014, the real GDP growth rate reached 4.5% in 2015, the highest since 2008, mainly on increased private consumption and a surge in public investment associated with the increased inflow of EU funds. As a result of foreign currency interventions, the CNB's balance sheet increased to 36% of GDP at the end of 2015 from 22% at the end of 2012. The CNB considers it likely that the use of foreign currency interventions will be discontinued in mid-2017 (it intends to maintain that at least until the end of 2016). JCR deems it necessary to watch the impact of a future exit from this policy on the economy. Barring any significant impact from an exit, the economy is expected grow by 2-3% in 2016 and 2017 supported by a growth of export and a steady rise of private consumption despite the absence of a boost from public investment.
- (3) The country's external position remains strong. The current account has been in surplus since 2014 on increased surplus in the trade balance. Along with the growth of exports, the trade and service balances have been constantly in surplus, compensating for the deficit in the primary income balance stemming from accumulated FDI. In addition, the country is in a net external creditor position if FDIs are excluded as it has low external debts. Stability in the financial system has been maintained. While most of the domestic banks are subsidiaries of the major European banks, the banking system is insulated from the influence of financial conditions of the parent banks or a fluctuation of foreign exchange rates partly due to limited parent bank funding or foreign-currency loans. The banking sector retains stable profitability and high capital adequacy ratios, and loans to the private sector have been steadily increasing.
- (4) The general government deficit (ESA2010) narrowed to 0.4% of GDP in 2015 from 1.9% in 2014, and the primary balance posted a small surplus. The improvement was achieved as a result of higher tax revenues amid the economic growth and an expenditure control. The general government debt to GDP has been on the decline after peaking out in 2013 at 44.9%, falling to 40.3% at the end of 2015 (42.2% at the end of 2014). In the latest Convergence Programme, the government shows its commitment to adhere to the medium-term objective of maintaining the structural deficit under 1% of GDP (0.5% in 2015 as estimated by the government) set in accordance with the EU's rule. Under this objective, it has been making continued efforts to contain expenditures and improve tax collection through measures fighting tax evasion.

Toshihiko Naito, Haruna Saeki

## Rating

Issuer: The Czech Republic

<Outlook Change>

	Rating	Outlook
Foreign Currency Long-term Issuer Rating	A+	Positive
Local Currency Long-term Issuer Rating	AA-	Positive

Rating Assignment Date: September 27, 2016

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Rating Policies on JCR's website (<http://www.jcr.co.jp/english/>).

Outline of methodology for determination of the credit rating is shown as "Sovereign and Public Sector Entities" (November 7, 2014) in Rating Policies on JCR's website (<http://www.jcr.co.jp/english/>).

The aforementioned credit ratings are unsolicited. Except in cases of a credit rating for a sovereign, JCR indicates affix "p" after a rating symbol to distinguish it from a rating with solicitation. The undisclosed information, which has material influence on the credit rating, was obtained from the rating stakeholder.

## Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

---

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

---

Copyright © Japan Credit Rating Agency, Ltd. All rights reserved.



## INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

### Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	The Czech Republic
Rating Publication Date:	September 30, 2016

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Economic Base

The likelihood of a given debt payment is highly conditional to the issuing government's ability to maintain/expand the economic base into the future with maintaining soundness of financial systems.

B) Fiscal Base

The likelihood of a given debt payment is highly correlated to fiscal balance, public debt and other factors of the issuing government's fiscal condition.

C) External Positions

The likelihood of a given debt payment is highly correlated to the liquidity positions which change along with the international balance of payments and the international investment position.

D) Social and Political Bases and Economic Policy

The likelihood of a given debt payment is highly conditional to the social and political stability, effectiveness of economic and monetary policies as well as international economics.

E) Related Parties' Stance of Support/ Assistance for the Government

The likelihood of a given debt payment is affected by the stance of the credit enhancement provider and other related parties with regard to their stance of support/ assistance for the issuing government.

F) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuing government's will, and/ or its rank relative to other debts of the same government in the order of seniority in principal/ interest payment which is determined by design as financial product or by international practice, etc.

## 4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

## 5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

## 6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

## 7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

## 8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.
- A) Informational and explanatory materials presented by the rating stakeholders with regard to the economy and fiscal management policy, etc. of the issuing government
- B) Statistics and reports published by an independent organization with regard to the economy and fiscal status, etc. of the issuing government

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR does not receive payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

### A) Economic Base

The credit rating is subject to alteration if there is an improvement or deterioration of the issuer's economy or financial systems, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### B) Fiscal Base

The credit rating is subject to alteration if the issuer increases/ decreases its fiscal deficit/ surplus and its public debt and thereby makes given debt payment liability less/ more bearable. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### C) External Positions

The credit rating is subject to alteration if there is a change in the issuer's international balance of payments and international investment position and thereby an improvement/ deterioration of its liquidity positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### D) Social and Political Bases and Economic Policy

The credit rating is subject to alteration if there is a change in the issuer's social and political conditions or economic/ monetary policies, etc. and thereby an improvement/ deterioration of its economy and fiscal positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

#### E) Related Parties' Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the credit enhancement provider or other related parties with regard to their stance of support/ assistance for the issuing government and thereby an improvement/ deterioration of its economy, fiscal positions and liquidity positions. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

#### F) Order of Seniority in Debt Payment

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts, due to improvement/ deterioration of the issuer's fiscal condition and/or will. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

#### G) International Economies

The credit rating is subject to alteration if there is a change in the international economies, commodity or foreign exchange markets, etc. and thereby, through international balance of payments, an improvement/ deterioration in the issuer's fiscal balance or debt payment capacity. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

#### H) Various Events

The credit rating is subject to alteration on occurrence of various events, such as domestic unrest, war, natural disaster, etc. which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's economy, fiscal positions, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12

Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<http://www.jcr.co.jp/english/nrsro/index.html>

13

Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

#### A) Economic Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's economy or financial systems, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's economy or financial systems on some drastic change in environments, etc.

#### B) Fiscal Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's fiscal conditions in terms of annual balance or public debt. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's fiscal condition on some drastic change in its economy.

#### C) External Positions

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions reflecting

improvement or deterioration of the international balance of payments and the international investment position. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in the country's economic/ fiscal conditions and financing activities, etc.

D) Social and Political Bases and Economic Policies

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's social and political bases and economic/ monetary policies. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the country's situation changes drastically, making the issuer's social and political bases and economic/monetary policies significantly improved or deteriorated.

E) International Economics

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of the international economies or commodity/ foreign exchange markets, etc. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

**Japan Credit Rating Agency, Ltd.**

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

## The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
The Czech Republic	Issuer(Long-term)(FC)	May 25, 2001	A-	Stable
The Czech Republic	Issuer(Long-term)(FC)	May 15, 2002	A-	Stable
The Czech Republic	Issuer(Long-term)(FC)	May 1, 2003	A	Stable
The Czech Republic	Issuer(Long-term)(FC)	September 9, 2005	A	Stable
The Czech Republic	Issuer(Long-term)(FC)	August 30, 2006	A	Positive
The Czech Republic	Issuer(Long-term)(FC)	April 23, 2007	A	Positive
The Czech Republic	Issuer(Long-term)(FC)	December 18, 2008	A	Stable
The Czech Republic	Issuer(Long-term)(FC)	March 1, 2010	A	Stable
The Czech Republic	Issuer(Long-term)(FC)	May 27, 2011	A	Stable
The Czech Republic	Issuer(Long-term)(FC)	December 21, 2012	A	Stable
The Czech Republic	Issuer(Long-term)(FC)	March 24, 2014	A+	Stable
The Czech Republic	Issuer(Long-term)(FC)	June 25, 2015	A+	Stable
The Czech Republic	Issuer(Long-term)(FC)	September 30, 2016	A+	Positive
The Czech Republic	Issuer(Long-term)(LC)	May 1, 2003	A+	Stable
The Czech Republic	Issuer(Long-term)(LC)	September 9, 2005	A+	Stable
The Czech Republic	Issuer(Long-term)(LC)	August 30, 2006	A+	Positive
The Czech Republic	Issuer(Long-term)(LC)	April 23, 2007	A+	Positive
The Czech Republic	Issuer(Long-term)(LC)	December 18, 2008	A+	Stable
The Czech Republic	Issuer(Long-term)(LC)	March 1, 2010	A+	Stable
The Czech Republic	Issuer(Long-term)(LC)	May 27, 2011	A+	Stable
The Czech Republic	Issuer(Long-term)(LC)	December 21, 2012	A+	Stable
The Czech Republic	Issuer(Long-term)(LC)	March 24, 2014	AA-	Stable
The Czech Republic	Issuer(Long-term)(LC)	June 25, 2015	AA-	Stable
The Czech Republic	Issuer(Long-term)(LC)	September 30, 2016	AA-	Positive

The table above was corrected after the publication of the news release of the rating action. May, 2017.

## Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Atsushi Masuda, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.



Atsushi Masuda  
General Manager of International Rating Department

**Japan Credit Rating Agency, Ltd.**

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026