

CREDIT OPINION

16 May 2025

Update



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RATINGS

Moravian-Silesian, Region of

Domicile	Czech Republic
Long Term Rating	A1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Gjorgji Josifov +420.23.474.7531
AVP-Analyst
gjorgji.josifov@moodys.com

Cora-Lynn von +49.69.86790.2157
Dungern
Ratings Associate
cora-lynn.vondungern@moodys.com

Massimo Visconti, +39.02.9148.1124
MBA
VP-Sr Credit Officer/Manager
massimo.visconti@moodys.com

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Americas	1-212-553-1653
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Japan	81-3-5408-4100
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Moravian-Silesian Region (Czech Republic)

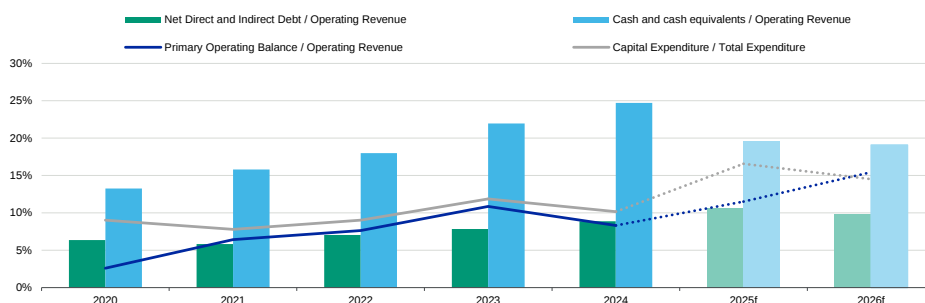
Update to credit analysis

Summary

The credit profile of the [Moravian-Silesian Region](#) (MSR, A1 stable) reflects its very low debt levels, continued solid operating performance, strong liquidity position and a moderate likelihood that the [Government of the Czech Republic](#) (Aa3 stable) will provide support if the region faces acute liquidity stress. The MSR's performance remains under pressure from high investment requirements and the significant reliance on transfers from the central government to meet its spending responsibilities. These transfers, together with shared taxes, constitute about 96% of operating revenue and considerably limit MSR's revenue flexibility.

Exhibit 1

Strong cash position and very low debt levels will be preserved over 2025-2026



2025-2026 are Moody's forecasts and do not represent the view of the issuer.

Source: MSR, Moody's Ratings

Credit strengths

- » Persistent solid operating performance
- » Sustained low debt levels forecasted for 2025-2026
- » Strong liquidity position strengthens financial resilience

Credit challenges

- » High investment needs exert pressure on finances
- » Limited revenue and expense flexibility

Rating outlook

The stable outlook reflects the region's capacity to maintain solid operating performance, high liquidity, and very low debt levels over the medium term.

Factors that could lead to an upgrade

An upgrade of the sovereign rating and/or indications of strengthening government support, along with MSR's continued sound operating performance, strong liquidity, and contained debt burden, would exert upward pressure on the region's rating.

Factors that could lead to a downgrade

Deterioration in the region's operating performance, combined with a decline in liquidity and an unexpected increase in debt, would lead to downward pressure on the rating. Additionally, downward pressure on the rating could result from a downgrade of the sovereign rating and/or indications of weakening government support.

Key indicators

Exhibit 2

Moravian-Silesian Region

(31th December)	2020	2021	2022	2023	2024	2025f	2026f
Net Direct and Indirect Debt / Operating Revenue	6.4%	5.8%	7.0%	7.8%	8.9%	10.6%	9.8%
ST Debt / Operating revenue	2.7%	2.1%	2.6%	1.9%	1.9%	4.2%	4.8%
Interest Expense / Operating Revenue	0.1%	0.0%	0.3%	0.4%	0.3%	0.4%	0.4%
Primary Operating Balance / Operating Revenue	2.6%	6.4%	7.6%	10.9%	8.3%	11.5%	15.4%
(Transfers + shared taxes) / Operating revenue	99.0%	98.8%	98.4%	98.0%	96.1%	71.0%	70.6%
Cash and cash equivalents / Net direct and indirect debt	208.4%	272.0%	255.9%	280.1%	278.1%	184.1%	194.7%

2025-2026 are Moody's forecasts and do not represent the view of the issuer.

Source: MSR, Moody's Ratings

Detailed credit considerations

The credit profile of the MSR, as expressed in its A1 rating, combines a Baseline Credit Assessment (BCA) of a1 and a moderate likelihood of extraordinary support from the national government in the event that the region faces acute liquidity stress.

Baseline credit assessment

Persistent solid operating performance

In 2024, despite the slowing growth of shared taxes and central government transfers (2.5% and 0.1% respectively), attributable to the consolidation package and lower participation in shared taxes effective since January 2024, MSR managed to maintain a solid primary operating balance (POB). The operating expenditures continued to grow at a rate of 5.5% year-on-year, resulting in a primary operating balance of 8.3% of operating revenue. This represents a slight decrease from 10.9% in 2023 but an improvement from 7.6% in 2022, and it remains above MSR's average POB of 7.0% of operating revenue posted over the past decade. This demonstrates the regions' resilience and effective financial management amidst fiscal consolidation efforts at the central government level.

In 2025, we expect POB to increase to 11.5% of operating revenue. This improvement will be attributable to the acceleration of real GDP growth to 2.4% in 2025, supported by domestic demand and an anticipated increase in intergovernmental revenue over the same period, while the operating expenditure will grow at a slower pace than operating revenue.

In 2026, we expect positive economic growth for the Czech economy, with real GDP growth projected at 2.2% and an inflationary pressures to slow further, averaging 2.0%. This favorable economic environment will help maintain the POB margin in the lower double-digit territory. We believe that MSR will continue to manage its operating performance prudently, with tight monitoring of operating expenditures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Sustained low debt levels forecasted for 2025-2026

The region's debt is in line with its rated Czech peers, maintaining a very low ratio of net direct and indirect debt (NDID) to operating revenue, consistently below 10%. In 2024, the NDID to operating revenue marginally increased to 8.9% from 7.8% in 2023. MSR primarily relies on long-term bank loans to finance investment projects. As of year-end 2024, MSR's direct debt consisted of two loans totaling CZK239 million with UniCredit Bank Czech Republic and Slovakia, a CZK77 million loan with the [European Investment Bank](#) (EIB, Aaa stable) and a CZK3 billion loan with Česká spořitelna to support investment projects. We expect the region's direct debt to moderately increase due to its investment requirements in 2025-2026. Nevertheless, NDID will remain very low, below 11% of operating revenue over the same period.

Almost 98% of the direct debt carries a floating interest rate. Despite the interest rate acceleration and additional loan drawing during 2023 and 2024, the interest expenses to operating revenue ratio remained very low at 0.3% in 2024. We expect interest expenses to remain low at around 0.4% of operating revenue in 2025-2026.

Despite the region's traditionally high share of short-term debt (because of the regular debt repayment falling due in the next 12 months), which accounted for 22% of total direct debt in 2024, its debt service remains low, representing only 2.2% of total revenue. This short-term debt is primarily used to prefinance subsidies from the central government and the [European Union](#) (EU, Aaa stable).

Indirect debt, which includes the debt of regional hospitals and guarantees provided for the debts of VaK Bruntál (a water management company operating in MSR), accounted for 4.6% of NDID in 2024.

The region's cash reserves were robust at year-end 2024, sufficient to cover the total outstanding debt approximately three times, indicating MSR's strong financial management and liquidity position.

Strong liquidity position strengthens financial resilience

The region's solid financial performance has resulted in a comfortable liquidity buffer over the past few years, further enhanced by a solid operating balance recorded in 2024. In that year, accumulated cash and short-term investments rose to CZK9.7 billion (24.7% of operating revenue), an increase of CZK1.3 billion from the end of 2023. Liquidity management remained conservative, primarily utilizing term deposits to earn interest.

The high level of cash reserves aligns with the investment plan. According to Czech law, public entities must hold sufficient liquidity to finance all planned investment projects for the fiscal year. While MSR extensively uses national or EU subsidies for financing, these funds are often received ex post. The law mandates that the required amount be available on request, regardless of whether it comes from the entity's own funds or external sources.

After MSR's cash reserves peaked in 2024, we expect a slight decrease in liquidity levels in 2025-2026 as the region will fund part of its growing capex program with available cash reserves. MSR's strong liquidity position supports its credit quality and provides flexibility to manage extraordinary cash outflows.

High investment needs exert pressure on finances

In 2024, capital spending represented CZK4.1 billion, or 10.2% of total expenditure, which is slightly below the 10-year average of 10.6%. The investments eligible for EU subsidies are typically co-funded by the EU at rates ranging from 80% to 95%.

For 2025, the MSR budgeted CZK7 billion of capital spending, with CZK5.1 billion planned for EU co-financing. The highest proportion of investments is intended for the sectors of traffic infrastructure, health & social care, and education. MSR is one of the three regions in the Czech Republic eligible for funds under the Just Transition Programme provided by the EU for 2021-2027. This programme aims to address the social, economic and environmental impacts of the transition to a climate-neutral economy. MSR's area can utilize a total of CZK18.9 billion for further development and improvement of social and environmental aspects in the region, which will further support capital spending.

The recent flooding in September 2024 significantly affected the northeastern part of the region. While the initial costs and extraordinary spending related to infrastructure repairs are fully covered by the central government and insurance, the MSR remains responsible for covering 40% of the damages to the region's owned property. This amounts to about CZK 800 million, or 2% of the operating revenue posted in 2024, with limited impact on the region's financial position over the medium term.

Limited revenue and expense flexibility

The institutional framework for Czech regions is mature, with stable financial predictability and stability. However, the MSR has very limited control over its revenue base. The vast majority (68.7% of the MSR's operating revenue in 2024) stems from central government transfers in the form of earmarked grants for education, health care and social services. Shared taxes represented 27.4% of operating revenue in 2024 and constitute of the national pool of value-added tax, personal and corporate income tax. These taxes are redistributed from the central government, and MSR does not benefit from the regional economic performance. However, the proceeds from shared taxes represent the key revenue source for spending flexibility. Czech regions do not have any leeway to impose and collect regional taxes, significantly limiting its ability to increase operating revenue.

On the spending side, around 79% of MSR's operating spending matches with the central government subsidies. The region has some leeway to control costs by maximizing the efficiency of its operations and streamlining the structure of its organizations. MSR closely monitors its contributory organizations, focusing on their efficiency from both operational and financial perspectives. Capital spending remains the most flexible spending and can be partially scaled down during negative economic climates.

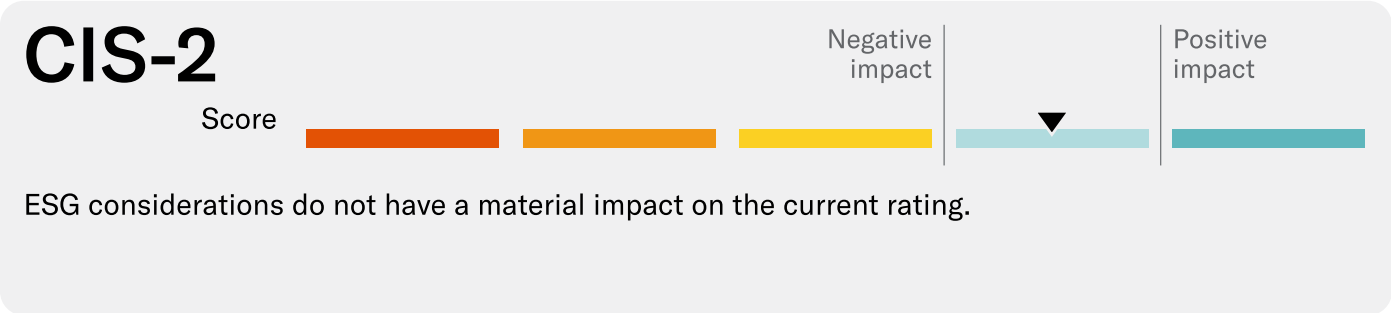
Extraordinary support considerations

The MSR has a moderate likelihood of receiving extraordinary support from the central government, reflecting the central government's promotion of greater accountability for Czech regions. The system of oversight implemented by the central government requires regular monitoring of the regions' accounts, debt or liquidity. Reputational risk issues for the central government appear modest, given the regions' debt structure, which relies more on bank loans than on bonds.

ESG considerations

Moravian-Silesian, Region of's ESG credit impact score is CIS-2

Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Moravian-Silesian Region's ESG Credit Impact Score (**CIS-2**) indicates that ESG considerations do not have a material impact on the rating. The score reflects limited impact of governance risks on the rating, along with only moderate exposure stemming from environmental and social risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

The **E-3** issuer profile score (IPS) reflects moderate exposure to physical climate risks and waste and pollution risks. The region's main risk stems from air pollution, MSR has the lowest air quality among the Czech regions. The air pollution reflects region's industrial character, cross-border pollution from Poland (A2 stable) and geomorphology (area of Ostrava basin). Despite recent considerable environmental improvement resulting from the decline in industrial production, coal mining and associated industrial sectors such as steel production influenced the character of the region's landscape for a long period. Other risks include contamination of soil and groundwater, mining subsidence and pollution of surface waters. The improvement in environmental area will need significant investments by both private and public institutions, the investments in environmental protection in the region are significantly above the long term per-capita national average and partially mitigate environment's risks. The regional role in environmental protection is mostly defined by the national law and regulations but the region has introduced several initiatives for improving environmental aspects.

Social

The **S-3** IPS reflects moderate exposure to social risks across most categories. Some of the social factors are closely impacted by the slowdown of the heavy industry in the region and its industrial character. Emigration from the region used to be higher in the past because of the shutdown of the coal industry (which employed 15% of the workforce in 1990) but it remains the highest in national comparison. Like other Czech regions, demographic change in the form of relatively fast population ageing poses a long-term fiscal sustainability challenge to the region. Regional unemployment rate is in long-term period above the national average meanwhile the average salary lags behind the national average approximately by 10% which might constrain further economic development of the region. The region has presented several projects to make the region more attractive from social and economic perspective.

Governance

Moravian-Silesian Region's solid institutions and governance profile is captured by **G-2** IPS. The region operates in an overall strong institutional framework. The region has a long history of conservative budgetary management with low debt appetite and has a set of sound internal controls in place. Coupled with solid financial position, this supports a high degree of resilience, mitigating E and S risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of a1 is in line with the BCA scorecard-indicated outcome.

The principal methodology used to rate Moravian-Silesian Region is the [Regional and Local Governments rating methodology](#), published in May 2024.

Exhibit 5

Moravian-Silesian, Region of Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					25%	1.85
Regional Income [1]	5.33	44422.98	15%	0.80		
Economic Growth	12.00	ba	5%	0.60		
Economic Diversification	9.00	baa	5%	0.45		
Factor 2: Institutional Framework and Governance					30%	1.80
Institutional Framework	9.00	baa	15%	1.35		
Governance	3.00	aa	15%	0.45		
Factor 3: Financial Performance					20%	1.23
Operating Margin [2]	8.51	8.32%	10%	0.85		
Liquidity Ratio [3]	1.66	24.73%	5%	0.08		
Ease of Access to Funding	6.00	a	5%	0.30		
Factor 4: Leverage					25%	0.26
Debt Burden [4]	0.94	8.89%	15%	0.14		
Interest Burden [5]	1.16	0.33%	10%	0.12		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						(5.14) a1
Idiosyncratic Notching						0.0
Preliminary BCA SIO After Idiosyncratic Notching						(5.14) a1
Sovereign Rating Threshold						Aa3
Operating Environment Notching						0.0
BCA Scorecard-Indicated Outcome						(5.14) a1
Assigned BCA						a1

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars

[2] Primary Operating Balance / Operating Revenue

[3] Cash and Cash Equivalents / Operating Revenue

[4] Net Direct and Indirect Debt / Operating Revenue

[5] Interest Payments / Operating Revenue

Source: Moody's Ratings; Fiscal 2024.

Ratings

Exhibit 6

Category	Moody's Rating
MORAVIAN-SILESIA, REGION OF	
Outlook	Stable
Baseline Credit Assessment	a1
Issuer Rating	A1

Source: Moody's Ratings

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