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Research Update:

Belgian Region of Brussels-Capital 'AA' Rating Affirmed; Outlook Remains Stable

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Overview

- In our opinion, the Belgian Region of Brussels-Capital has very strong financial management and exceptional liquidity.
- We are affirming our 'AA' long-term rating on Brussels-Capital.
- The stable outlook reflects our expectation that Brussels-Capital will continue to post strong budgetary performance in 2017-2019.

Rating Action

On Feb. 24, 2017, S&P Global Ratings affirmed its 'AA' long-term issuer credit rating on Belgium's Region of Brussels-Capital. The outlook remains stable.

Rationale

The rating on Brussels-Capital reflects our view of the very predictable and well-balanced institutional framework for Belgian communities and regions, and Brussels-Capital's very strong financial management, exceptional liquidity, strong budgetary performance, and strong economy. We also factor into our ratings our view of the region's average budgetary flexibility, moderate debt burden, and moderate contingent liabilities. The long-term rating on Brussels-Capital is at the same level as our 'aa' assessment of its stand-alone credit profile.

Brussels-Capital has an attractive and diversified economy, which translates into very high GDP per capita that we estimate at about €65,545 in 2015. Nevertheless, Brussels-Capital suffers from a structurally high unemployment rate, well exceeding 15%.

We consider that Brussels-Capital operates within Belgium's very predictable and well-balanced institutional framework for communities and regions, characterized by the maturity and stability of the system, and a generally good revenue and expenditure balance. In our opinion, Belgium's sixth state reform--including the devolving of new responsibilities to regions and communities and greater financial autonomy to regions--demonstrates the system's predictability. Institutional discussions on the reform started in 2007, but the budgetary effects were felt only from 2015. We think that the reform also illustrates the ability of Belgian local and regional governments (LRGs) to influence the central government's policy.

The Region of Brussels-Capital has shown its ability to handle the sixth-reform new responsibilities while keeping spending under control thanks to its very strong financial management. We view positively the region's political and managerial strength, reliable budgeting, prudent and sophisticated debt management, very efficient and optimized liquidity management, and tight monitoring of government-related entities (GREs) and other contingent risks, including its well-defined and active guarantee management system. Beginning in 2016, the region put in place a new budget monitoring committee to further strengthen its revenue and expenditure management, including closer oversight of infra-annual budget execution.

We think that Brussels-Capital has the means to maintain its tight rein on operating expenditures, with annual growth of about 2% (excluding the transfer of new responsibilities) in 2017-2019. Under our base-case scenario for 2017-2019, we consequently anticipate a good consolidated operating surplus of 10% of consolidated operating revenues in 2019, compared with 11% in 2016 (based on Brussels-Capital actuals adjusted by S&P Global Ratings), which is in line with our former base-case figure. At the same time, we foresee it keeping capital expenditures (capex) at about €1.5 billion annually in 2017-2019, which is higher than our previous base case due to exceptional investments in transport and security. Therefore, we anticipate higher deficits after capital accounts than in our previous case, but they will remain moderate, at about 4% of total revenues on average in 2017-2019, following limited deficits at 1.8% of total revenues on average in 2015 and 2016.

To maintain a good budgetary performance, we think that Brussels-Capital could use its average budgetary flexibility, if needed. Its modifiable tax revenues, comprising the supplementary tax on personal income tax and regional taxes, account for around 50% of its consolidated operating revenues. Still, we believe that Brussels-Capital would be less willing to tap its tax leeway and more likely to use its spending flexibility if needed, especially regarding capex, which we expect will account for 27% of total consolidated expenditures in 2017-2019.

Thanks to its strong budgetary performance, Brussels-Capital's consolidated tax-supported debt will likely only slightly increase to a moderate 96% of consolidated operating revenues in 2019, compared with 91% in 2016. Brussels-Capital's tax-supported debt includes the debt of the municipality fund, Fonds régional bruxellois de refinancement des trésoreries communales (FRBRTC), which is fully consolidated under the European system of national and regional accounts 2010 (ESA 2010). FRBRTC lends the majority of its debt proceeds onto self-supporting municipalities in the region. This on-lent debt currently accounts for about 14% of Brussels-Capital's consolidated operating revenues.

We consider Brussels-Capital's contingent liabilities as moderate and mainly relating to the region's exposure to social housing mortgage companies, such as the Fonds du Logement de la Région de Bruxelles-Capitale, and a relatively financially weak municipal sector. In contrast with ESA 2010 treatment of social housing mortgage companies, we do not include their debt in the region's consolidated tax-supported debt, because we view them as self-supporting. The region's financial guarantees, mainly for social housing mortgage companies, accounted for about 27% of its consolidated operating revenues at year-end 2016. In assessing the region's contingent liabilities, we also factor in the financial situation of the municipal sector, which we view as having some weaknesses. We will also continue to monitor the potential risks that could emerge from the significant financial change faced by the public body, Commission Communautaire Commune, which saw its budget increase to €1.2 billion from 2015 under the sixth state reform, from €100 million in 2014.

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Lastly, although we incorporate in our contingent liabilities assessment the commercial guarantee related to a water concession contract between Aquiris and a GRE, Société Bruxellois de Gestion de l'Eau, we believe it currently bears limited associated risks.

Liquidity

We view Brussels-Capital's liquidity as exceptional. We consider that the region has a strong debt coverage ratio and strong access to external liquidity.

Brussels-Capital benefits from a direct multiyear €1.5 billion account facility and FRBRTC also holds €175 million liquidity lines. We expect the amounts available under this account facility and the region's cash holdings will cover far more than 120% of its consolidated debt service (including FRBRTC's short- and long-term debt repayments) in the next 12 months. We also think that the region has strong access to external funding via the financial markets, especially through its medium-term note program, its Belgian commercial paper program, and its access to investors in "Schuldschein" loans.

Outlook

The stable outlook reflects our base-case expectation that Brussels-Capital will maintain strong operating performance and post moderate deficits after capital accounts until 2019.

We might consider a negative rating action in the next 24 months if we observe a structural deterioration in Brussels-Capital's budgetary performance. This could, for example, be due to the region's looser monitoring of GREs that are within its consolidation scope or its unwillingness to use its own expenditure flexibility. Under this downside scenario, we could revise downward our assessment of Brussels-Capital's financial management.

If we lowered our ratings on Belgium (unsolicited AA/Stable/A-1+), or revised the outlook on Belgium to negative, we would take a similar action on Brussels-Capital. This is in accordance with our methodology for rating LRGs and their related sovereigns, under which we cap the long-term ratings and outlooks on Belgian LRGs at the level of those on the sovereign (see "Methodology:Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign,"published Dec. 15, 2014, on RatingsDirect). In our view, Belgium's institutional and financial framework does not enable us to rate any Belgian LRGs above the sovereign.

Conversely, we could consider a positive rating action if we took a similar action on Belgium and if, in line with our upside scenario, Brussels-Capital posted very strong operating surpluses, enabling it to post surpluses after capital accounts in 2017-2019 and structurally maintain a consolidated ratio of direct debt to the operating balance at approximately 3x.

Both our upside and downside scenarios are unlikely at this stage, however.

Key Statistics

Table 1

Region of Brussels-Capital Financial Statistics

	--Fiscal year ending Dec. 31--				
(Mil. €)	**2015a**	**2016a**	**2017bc**	**2018bc**	**2019bc**
Operating revenues	4,198	4,390	4,509	4,577	4,592
Operating expenditures	3,568	3,915	3,956	4,040	4,120
Operating balance	631	474	554	537	472
Operating balance (% of operating revenues)	15.0	10.8	12.3	11.7	10.3
Capital revenues	414	880	767	770	774
Capital expenditures (capex)	1,086	1,492	1,505	1,505	1,505
Balance after capital accounts	(41)	(138)	(184)	(198)	(259)
Balance after capital accounts (% of total revenues)	(0.9)	(2.6)	(3.5)	(3.7)	(4.8)
Debt repaid	626	686	692	684	686
Gross borrowings	510	685	776	782	945
Balance after borrowings	(158)	(139)	(100)	(100)	0
Direct debt (outstanding at year-end)	3,942	3,941	4,025	4,123	4,382
Direct debt (% of operating revenues)	93.9	89.8	89.3	90.1	95.4
Interest (% of operating revenues)	4.2	4.0	3.9	4.0	4.1
Tax-supported debt (% of consolidated operating revenues)	94.7	90.6	90.0	90.8	96.2
Capital expenditures (% of total expenditures)	23.3	27.6	27.6	27.1	26.8

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. a--Actual. e--S&P Global Ratings' estimate. bc--Base case, reflecting S&P Global Ratings' expectations of the most likely scenario.

Table 2

Region of Brussels-Capital Economic Statistics

	--Fiscal year ending Dec. 31--					
	2014	**2015**	**2016**	**2017bc**	**2018bc**	**2019bc**
Population	1,163,486	1,175,173	1,185,800	1,203,910	1,219,076	1,226,873
Population growth (%)	0.8	1.0	0.9	1.5	1.3	0.6
Unemployment rate at year-end (%)	17.7	17.2	N.A.	N.A.	N.A.	N.A.
GDP (nominal) per capita (€)	62,900	64,261*	65,545*	66,627*	68,060*	70,099*
Real GDP growth (%)	1.7	1.5	1.3*	1.3*	1.2*	1.7*

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include national statistical offices, Eurostat, and Experian Limited. bc--Base-case forecast, reflecting S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available. *S&P Global Ratings' estimate.

Ratings Score Snapshot

Table 3

Region of Brussels-Capital Ratings Score Snapshot	
Key rating factors	
Institutional framework	Very predictable and well-balanced
Economy	Strong
Financial management	Very strong
Budgetary flexibility	Average
Budgetary performance	Strong
Liquidity	Exceptional
Debt burden	Moderate
Contingent liabilities	Moderate

* S&P Global Ratings' credit ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments" summarizes how the eight factors are combined to derive the rating.

Key Sovereign Statistics

Belgium 'AA/A-1+' Ratings Affirmed; Outlook Stable - January 13, 2017

Related Criteria And Research

Related Criteria

- Criteria - Governments - International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign - December 15, 2014
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments - June 30, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs - October 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Governments - International Public Finance: Methodology And Assumptions: The Impact Of PPP Projects On International Local And Regional Governments: Refined Accounting Treatment - December 15, 2008

Related Research

- Institutional Framework Assessments For Non-U.S. Local And Regional Governments - April 21, 2016
- 2015 Annual International Public Finance Default Study And Rating Transitions - June 30, 2016
- Belgium 'AA/A-1+' Ratings Affirmed; Outlook Stable - January 13, 2017

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

	Rating	
	To	From
Brussels-Capital (Region of)		
Issuer Credit Rating		
Foreign and Local Currency	AA/Stable/--	AA/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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