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Research Update:

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

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Research Update:

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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 2016-2018.

Rating Action

On July 22, 2016, 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.

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 sixth state reform translates into a transfer of about €20 billion of new responsibilities from the federal state and social security to communities and regions, including employment, training policies, and health care. About €850 million of the total transfer is to Brussels-Capital and is mainly related to employment responsibilities. The reform also incorporates amendments to the Special Financing Act, notably on greater tax autonomy for regions. However, it increases the LRGs' contributions to the consolidation of Belgium's public finances and pensions. Lastly, under the sixth reform, Brussels-Capital benefits from a specific funding package.

Brussels-Capital has an attractive and diversified economy, which translates into very high GDP per capita that we estimate at about €63,560 in 2015. Nevertheless, Brussels-Capital suffers from a structurally high unemployment rate, well exceeding 15%.

We consider Brussels-Capital's financial management to be very strong, based on 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 2016, the region has 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 2016-2018. At the same time, we foresee it keeping capital expenditures (capex) at about €1.26 billion annually in 2016-2018, compared with €1.07 billion annually in 2014-2015. Therefore, we continue to think that Brussels-Capital will meet its 2016-2018 budgetary target of maintaining consolidated balanced accounts under the European system of national and regional accounts 2010 (ESA 2010), in line with our previous base case and with its actual performance in 2014 and 2015. Under our base-case scenario for 2016-2018, we consequently anticipate a good consolidated operating surplus of 12% of consolidated operating revenues on average during the period, compared with 20% in 2014 and 15% in 2015 (based on Brussels-Capital actuals adjusted by S&P Global Ratings), which is higher than our former base-case figure of 9%. In addition, we continue to project moderate deficits after capital accounts of about 2.7% of total revenues on average in 2016-2018, following a limited deficit at 0.9% in 2015 and a slight surplus in 2014. In line with our January 2016 base case, we forecast operating revenue growth at 1.4% on average in 2016-2018.

To meet its budgetary target of consolidated balanced accounts under ESA 2010, 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, will continue to account for more than 50% of consolidated operating revenues from 2016 under our base case. 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 25% of total consolidated expenditures in 2016-2018.

Thanks to the automatic high growth of its budget under the sixth state reform and its strong budgetary performance, Brussels-Capital's consolidated tax-supported debt will likely only slightly increase to a moderate 93% of consolidated operating revenues in 2018, compared with 91% in 2015. 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 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 12% 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 2015. 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 in 2015 under the sixth state reform, from €100 million in 2014. 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 multiyear €1.5 billion account facility. 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 in the next 12 months. We alsothink 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 2018.

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 2016-2018 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. €)	**2014a**	**2015a**	**2016bc**	**2017bc**	**2018bc**
Operating revenues	3,787	4,198	4,319	4,313	4,377
Operating expenditures	3,026	3,568	3,745	3,820	3,986
Operating balance	762	631	574	493	481
Operating balance (% of operating revenues)	20.1	15.0	13.3	11.4	11.0
Capital revenues	351	414	612	615	618
Capital expenditures (capex)	1,050	1,086	1,264	1,264	1,264
Balance after capital accounts	63	(41)	(79)	(156)	(165)
Balance after capital accounts (% of total revenues)	1.5	(0.9)	(1.6)	(3.2)	(3.3)
Debt repaid	677	626	486	542	534
Gross borrowings	668	510	465	598	599
Balance after borrowings	54	(158)	(100)	(100)	(100)
Direct debt (outstanding at year-end)	4,010	3,804	3,948	4,005	4,070
Direct debt (% of operating revenues)	105.9	90.6	91.4	92.9	93.0
Interest (% of operating revenues)	4.2	4.2	3.9	4.0	4.0
Tax-supported debt (% of consolidated operating revenues)	106.9	90.6	91.4	92.9	93.0
Capex (% of total expenditures)	25.8	23.3	25.2	24.9	24.5

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--					
	2013	2014	2015	2016bc	2017bc	2018bc
Population	1,154,635	1,163,486	1,175,173	1,185,800	1,203,910	1,219,076
Population growth (%)	1.4	0.8	1.0	0.9	1.5	1.3
Unemployment rate at year-end (%)	19.3	18.5	17.5	N.A.	N.A.	N.A.
GDP (nominal) per capita (€)	62,270	62,755	63,560*	64,565*	65,184	66,304
Real GDP growth (%)	0.4	0.6	1.2	1.4*	1.1*	1.3*

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' 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 - July 15, 2016

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
- 2014 Annual International Public Finance Default Study And Rating Transitions - June 8, 2015

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		

Ratings List Continued...

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   Foreign and Local Currency           AA/Stable/--          AA/Stable/--
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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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