S&P Global
Ratings

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Brussels-Capital (Region of)

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Brussels-Capital (Region of)

Key Rating Factors

Issuer Credit Rating
AA/Negative/A-1+

Credit context and assumptions	Base-case expectations
We expect the COVID-19 pandemic to cause debt to spike over 2020-2021, before stabilizing as a share of revenues in 2022. • Brussels-Capital's deficit after capital expenditure will peak at about 20% of revenues in 2020, causing the region to incur significant additional debt, with performance gradually improving from 2021. • The debt burden is sustainable since debt service remains evenly spread over our forecast horizon, and we acknowledge that Brussels-Capital has very good access to capital markets, supported by its proactive and efficient debt and liquidity management.	***Performance could remain weak if the spending review does not produce tangible results and the effects of the pandemic persist.*** • A return to pre-2019 operating margins and a deficit after capital accounts structurally below 10% of total revenues in our base case, depends on significant revenue uptick and benefits from the spending review.

Outlook

The outlook on Brussels-Capital is negative.

Downside scenario

We could lower the rating over the next two years if the anticipated gradual and strong improvement in performance appeared less likely. This would suggest that the region's budgetary performance was set to stay at the low levels recorded in 2019, possibly signaling weaker budgetary management than we currently foresee. We could also downgrade Brussels-Capital if we lowered the ratings on Belgium, as we would likely not rate a Belgian region above the sovereign.

Upside scenario

We could revise the outlook to stable in the next two years if, all else being equal, Brussels-Capital's performance stabilized at the levels recorded before 2019; operating margins above 5% of operating revenues and deficits remaining below 10% of total revenues. This could happen if the fiscal repercussions of the COVID-19 outbreak gradually diminish, the current spending review meaningfully improves the operating margin, and revenues increase.

Rationale

The rating on Brussels-Capital continues to be supported by the region's proactive and skilled financial oversight. Management maintains a stable debt service profile despite rapidly increasing debt levels. Brussels-Capital also continues to enjoy very strong access to external liquidity with a very comfortable debt service coverage ratio.

The rating also reflects Brussels-Capital's wealthy economy, despite the expected GDP contraction in 2020; the favorable institutional framework in which Belgian regions operate; and our expectation of gradually improving budgetary performance from 2021. The rating remains burdened by Brussels-Capital's high and increasing debt.

COVID-19-related setbacks will dim 2020 results beyond our previous expectations. However we continue to forecast deficits narrowing gradually in 2021 and 2022 with debt accumulating more slowly from 2021

Due to the COVID-19 fallout, Brussels-Capital's overall operating revenues will decrease and operating expenditure will increase above our June 2020 expectation to support the local economy and health care system. As such, we now project that operating margins in 2020 will fall in the negative territory at -2.3% of operating revenues compared with a slight surplus of 3% in our June 2020 review. Deficits after capital accounts will remain above 10% of total revenues in 2020, driven by the operating deficit expected in 2020 and by investments remaining high. The latter are associated with the region's strategic investment plan, worth approximately €500 million per year and linked to mobility infrastructure and security.

We believe that COVID-19-related effects should start to fade in 2021. This--alongside the implementation of the spending review and the increase in revenues--should enable Brussels-Capital to gradually improve its operating margins to above 5% of operating revenues, on average, over 2021 and 2022. In addition, deficits after capital accounts will likely shrink, despite high investment, and remain below 10% of total revenues in 2022.

We forecast debt to continue rising over 2020-2022. Consequently, we expect Brussels-Capital's tax-supported debt to reach about 160% of consolidated operating revenue in 2022, versus 92% in 2017. Our estimate of 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 Accounts 2010.

The region's strong economy and skilled financial management remain credit strengths

We expect Brussels-Capital's nominal GDP growth to remain close to that of the Kingdom of Belgium. We forecast Belgium's real GDP will fall sharply in 2020 to below 7% because of COVID-19-effects, then recover to more than 5% in 2021. Still, we forecast national GDP per capita to stand at $43,900 in 2020, which remains very high in an international comparison. Capital cities and regions around the world are under significant strain due to lockdowns and costly measures to contain the virus. This is due to a spike in social expenses as well as overall high exposure to services, international tourism, business travel, and the property market, which have all been hit by the pandemic.

Brussels-Capital is the smallest region in Belgium, with around 10% of the total population. Its tertiary sector is significant, accounting for 93% of regional employment, compared with 75% nationally. The region has become increasingly attractive for foreign and domestic investors and now hosts the largest concentration of jobs and value generated by foreign firms in the country. Despite the high GDP per capita, the average income of Brussels-Capital's inhabitants is about 20% lower than the national average, mainly because many commuters work in, but reside outside, the region. Moreover, while Brussels-Capital accounts for approximately 20% of Belgium's GDP, it only receives around 10% of national personal income taxes, as these are shared according to the place of residence. This means that Brussels-Capital's economic attractiveness and buoyancy do not fully feed into its budgetary performance.

Brussels-Capital benefits from the maturity and stability of the institutional system for Belgian regions and communities. It also enjoys a generally adequate revenue and expenditure balance, not least due to the regions' relatively high tax autonomy.

We view positively the region's proactive debt and liquidity management. Brussels-Capital continually seeks to improve its financial practices, demonstrated by ongoing policy efforts to enhance liquidity, debt service, and financial risk management on a consolidated basis. As such, the region closely monitors its related entities and other contingent risks, including the well-defined and active guarantee-management system. Besides, debt service requirements will remain stable over our forecast horizon, and liquidity debt service coverage will remain very comfortable, demonstrating very proactive debt and liquidity management even in more difficult times.

We also view positively the new government's and management's implementation of a spending review to keep deficits under control. We believe this will enable Brussels-Capital to improve its performance gradually from 2021.

Brussels-Capital continues to enjoy a very favorable liquidity position, benefiting from a direct multiyear €1.2 billion account facility, while the FRBRTC has €350 million of liquidity lines. We expect these liquidity sources to comfortably cover the region's debt service needs (including FRBRTC's short- and long-term debt repayments) over the next 12 months. Additionally, the region has proven that it has very strong access to external funding via financial markets, especially through its medium-term note program, Belgian commercial paper program, and access to investors in German Schuldschein loans.

Key Statistics

Table 1

Brussels-Capital Selected Indicators

	--Fiscal year ended Dec. 31--					
	2017	**2018**	**2019**	**2020bc**	**2021bc**	**2022bc**
Operating revenues	4,463	4,608	4,567	4,702	4,839	5,195
Operating expenditures	3,962	4,130	4,293	4,810	4,646	4,605
Operating balance	501	478	274	(108)	194	590
Operating balance (% of operating revenues)	11.2	10.4	6.0	(2.3)	4.0	11.4
Capital revenues	592	528	585	678	613	613
Capital expenditures	1,120	1,509	1,535	1,663	1,750	1,750
Balance after capital accounts	(27)	(503)	(676)	(1,092)	(944)	(547)
Balance after capital accounts (% of total revenues)	(0.5)	(9.8)	(13.1)	(20.3)	(17.3)	(9.4)
Debt repaid	737	751	809	823	787	842
Gross borrowings	522	1,123	1,824	2,267	1,731	1,389
Balance after borrowings	(241)	(131)	339	352	0	0

Table 1

Brussels-Capital Selected Indicators (cont.)

	--Fiscal year ended Dec. 31--					
	2017	**2018**	**2019**	**2020bc**	**2021bc**	**2022bc**
Direct debt (outstanding at year-end)	4,072	4,545	5,454	6,898	7,842	8,389
Direct debt (% of operating revenues)	91.2	98.6	119.4	146.7	162.0	161.5
Tax-supported debt (outstanding at year-end)	4,105	4,579	5,487	6,931	7,875	8,422
Tax-supported debt (% of consolidated operating revenues)	92.0	99.4	120.1	147.4	162.7	162.1
Interest (% of operating revenues)	3.0	2.8	2.8	4.0	3.0	2.9
National GDP per capita (single units, 000s US$)	44,500	47,700	46,300	43,900	49,000	51,000

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. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

Region of Brussels-Capital Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2
Economy	2
Financial management	1
Budgetary performance	3
Liquidity	1
Debt burden	4
Stand-alone credit profile	aa
Issuer credit rating	AA

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

Belgium 'AA/A-1+' Ratings Affirmed; Outlook Stable, Sept. 18, 2020

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Belgian Region of Brussels-Capital Outlook Revised To Negative; 'AA/A-1+' Ratings Affirmed, June 26, 2020
- Institutional Framework Assessments For International Local And Regional Governments, July 4 ,2019

Ratings Detail (As Of September 25, 2020)*	
Brussels-Capital (Region of)	
Issuer Credit Rating	AA/Negative/A-1+
Senior Unsecured	AA
Issuer Credit Ratings History	
26-Jun-2020	AA/Negative/A-1+
21-Sep-2018	AA/Stable/A-1+
07-Mar-2014	AA/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.