S&P Global
Ratings

RatingsDirect®

Research Update:

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

Primary Credit Analyst:
Christophe Dore, Paris (33) 1-4420-6665; christophe.dore@spglobal.com

Secondary Contact:
Mehdi Fadli, Paris (33) 1-4420-6706; mehdi.fadli@spglobal.com

Table Of Contents

Research Update:

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

Overview

- In our opinion, the Belgian Region of Brussels-Capital has highly efficient financial management and a very favorable liquidity position.
- We also expect the region will continue to post high budgetary metrics.
- 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, with limited deficits after capital accounts.

Rating Action

On July 28, 2017, S&P Global Ratings affirmed its 'AA' long-term issuer credit rating on Belgium's Region of Brussels-Capital. The outlook remains stable.

Outlook

The stable outlook reflects our base-case expectation that Brussels-Capital will maintain high operating performance and moderate deficits after capital accounts until 2019, while structurally posting a favorable liquidity position.

Downside Scenario

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 government-related entities (GREs) that are within its consolidation scope or its unwillingness to use its own expenditure flexibility, showing a deterioration in its strict financial management.

If we lowered our ratings on the Kingdom of 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 local and regional governments (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.

Upside Scenario

We could consider a positive rating action in the next 24 months if we took a similar action on Belgium and if Brussels-Capital increased its operating surpluses, enabling it to post surpluses after capital accounts in 2017-2019 and to structurally maintain a consolidated ratio of direct debt to the operating balance at approximately 3x.

Rationale

Our rating on Brussels-Capital primarily reflects our view of the region's tight financial management, with high sophistication and optimization in terms of debt, liquidity, and guarantee management. We believe the quality of management will enable the region to maintain high investments over 2017-2019, while limiting debt accumulation and keeping its very favorable liquidity. We also think that the region will continue to benefit from a supportive institutional framework and a solid economy.

Financial management, the institutional framework, and the economy are key strengths for Brussels-Capital

Brussels-Capital has an attractive and diversified economy, which translates into very high GDP per capita that we estimate at about €65,545 in 2016. Nevertheless, Brussels-Capital shows a less favorable socioeconomic profile than its international peers, with a structurally high unemployment rate well exceeding 15%.

We consider that Brussels-Capital benefits from the maturity and stability of the institutional system for Belgian regions and communities, 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--has demonstrated 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 LRGs to influence the central government's policy.

Brussels-Capital has shown its capacity to handle new responsibilities under the sixth state reform while keeping spending under control, thanks to its very strong financial management. We view positively the region's political and managerial strength, reliable budgeting, close oversight of intra-annual budget execution, prudent and sophisticated debt management, very efficient and optimized liquidity management, and close monitoring of GREs and other contingent risks, including its well-defined and active guarantee management system.

Deficits will remain limited, leading to low debt intake

Thanks to its firm grip on operating expenditures in 2016, the region outperformed our previous base-case scenario in terms of budgetary metrics with an operating balance to operating revenues ratio of 13% (based on Brussels-Capital actuals adjusted by S&P Global Ratings), which is stronger than our previous estimates of 11%. We think that Brussels-Capital has the means to maintain this 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 therefore anticipate a good consolidated operating surplus of 12% of consolidated operating revenues in 2019, which is slightly stronger than our former base-case figure of 10%. Consequently, the region would be able to fully offset the personal income tax (PIT) regularization announced by the federal government. The regularization follows the federal government's overly high estimate of the PIT transferred to Belgian regions under the sixth state reform, for which we expect Brussels-Capital will reimburse a total of €145 million in the next few years, including about €110 million annually in 2018 and 2019 (around 1% of its annual operating revenues).

In 2016, the region incurred capital expenditures (capex) lower than our estimates, enabling it to post a very limited deficit after capital accounts below 1% of total revenues, versus 2.6% of total revenues in our previous base case. We also expect that incurred capex will be lower than in our previous base case, at about €1.4 billion annually in 2017-2019 (versus €1.5 billion previously). Therefore, we anticipate lower deficits after capital accounts than in our previous case, at about less than 3% of total revenues on average in 2017-2019, versus 4% previously. Still, capex will increase sharply compared with that incurred in 2014-2016 (around €1.1 billion annually), as we anticipate exceptional investments in transport and security.

To maintain 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 PIT 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 26% 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 92% 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 on to self-supporting municipalities in the region. This on-lent debt currently accounts for about 14% of Brussels-Capital's consolidated operating revenues.

Brussels-Capital benefits from a direct multiyear €1.5 billion account facility and FRBRTC also holds €175 million liquidity lines. We expect the debt service coverage ratio to remain strong, with the amounts available under this account facility and the region's cash holdings covering 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.

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 28% 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.

Key Statistics

Table 1

Region of Brussels-Capital Key Statistics

	--Fiscal year ending Dec. 31--					
(Mil. €)	**2014**	**2015**	**2016**	**2017bc**	**2018bc**	**2019bc**
Operating revenues	3,787	4,203	4,349	4,608	4,580	4,694
Operating expenditures	3,026	3,568	3,765	3,991	4,036	4,120
Operating balance	762	636	583	617	544	574
Operating balance (% of operating revenues)	20.1	15.1	13.4	13.4	11.9	12.2
Capital revenues	351	409	538	683	686	690
Capital expenditures	1,050	1,086	1,131	1,407	1,407	1,407
Balance after capital accounts	63	(41)	(10)	(106)	(176)	(143)
Balance after capital accounts (% of total revenues)	1.5	(0.9)	(0.2)	(2.0)	(3.3)	(2.7)
Debt repaid	677	626	649	692	684	686
Gross borrowings	668	510	601	698	860	829
Balance after borrowings	54	(158)	(58)	(100)	0	0
Modifiable revenues (% of operating revenues)	69.4	54.0	48.5	48.4	49.9	49.4
Capital expenditures (% of total expenditures)	25.8	23.3	23.1	26.1	25.8	25.4
Direct debt (outstanding at year-end)	4,010	3,942	3,941	3,947	4,123	4,266
Direct debt (% of operating revenues)	105.9	93.8	90.6	85.7	90.0	90.9
Tax-supported debt (outstanding at year-end)	4,048	3,976	3,974	3,980	4,156	4,299
Tax-supported debt (% of consolidated operating revenues)	106.9	94.6	91.4	86.4	90.7	91.6
Interest (% of operating revenues)	4.2	4.2	3.9	4.5	3.9	4.0
Local GDP per capita (€)	63,070	64,261	65,545	66,627	68,060	70,099
National GDP per capita (€)	35,944	36,600	37,417	38,713	39,729	40,817

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.

Ratings Score Snapshot

Table 2

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 - July 14, 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
- Sovereign Risk Indicators - July 06, 2017. An interactive version is also available at http://www.spratings.com/sri.
- Belgium 'AA/A-1+' Ratings Affirmed; Outlook Stable - July 14, 2017
- Default, Transition, and Recovery: 2016 Annual Non-U.S. Local And Regional Government Default Study And Rating Transitions - May 8, 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 agreed that all key rating factors were unchanged.

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.

Additional Contact:
International Public Finance Ratings Europe; PublicFinanceEurope@spglobal.com