STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Research Update:

Belgian Region of Brussels-Capital Affirmed At 'AA' On Very Strong Management And Exceptional Liquidity; Outlook Stable

Primary Credit Analyst:
Jean-Baptiste Legrand, Paris (33) 1-4420-6764; jb.legrand@standardandpoors.com

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

Table Of Contents

Research Update:

Belgian Region of Brussels-Capital Affirmed At 'AA' On Very Strong Management And Exceptional Liquidity; Outlook Stable

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 Jan. 22, 2016, Standard & Poor's Ratings Services affirmed its 'AA' long-term issuer credit rating on Belgium's Region of Brussels-Capital. The outlook is 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 moderate budgetary flexibility, moderate debt burden, and moderate contingent liabilities. The long-term rating is at the same level as Brussels-Capital's stand-alone credit profile, which we assess at 'aa'.

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 job market and training policy and health care. About €850 million of the total transfer is to Brussels-Capital, 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 refinancing package.

Brussels-Capital has an attractive and diversified economy, which translates into very high GDP per capita that we estimate at about €63,600 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. We think that Brussels-Capital has the means to maintain its tight rein on operating expenditures, with annual growth close to 2% (excluding the transfer of new responsibilities). At the same time, we foresee it keeping capital expenditures at about €1.4 billion annually, slightly higher than our previous base-case assumptions. 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 performance in 2014 and 2015. Under our base-case scenario for 2016-2018, we consequently anticipate a good consolidated operating surplus of 9% of consolidated operating revenues on average during the period, compared with 20% in 2014 and 12% in 2015 (based on latest Brussels-Capital estimates adjusted by Standard & Poor's), on a par with our former base case. In addition, we continue to project moderate deficits after capital accounts of about 2% of total revenues on average in 2016-2018, following a limited deficit at 1% in 2015 and a slight surplus in 2014. Constrasting with the slight decrease of 0.4% in operating revenues over 2015-2017 we had anticipated in our July 2015 base-case scenario, we now forecast operating revenue growth at 1.4% on average over 2016-2018. Macroeconomic conditions, namely inflation, are in line with our former base-case scenario, and we consider that the "tax shift" reform approved by Brussels-Capital's executive team in the last quarter of 2015 will not hamper Brussels-Capital’s strong budgetary performance. Although we foresee a slight decrease in regional tax revenues in the next few years, notably from the end of the €89 flat-rate tax on Brussels' households and a tax reduction on real estate acquisitions, we project marked growth in transfers to Brussels-Capital from the Brussels Metropolitan Area and the federal state in light of the national equalization mechanism (“mécanisme de transition”). In addition, we don’t expect a further drop in personal income tax revenues following the €47 million gross loss in 2015, due to the federal state’s downward revision of revenues devolved under the sixth state reform and already incorporated in our July 2015 base-case scenario.

To meet its budgetary target of consolidated balanced accounts under ESA 2010, we think that Brussels-Capital could use its moderate 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 capital expenditures, which we expect will account for 26% 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 decrease to a moderate 89% of consolidated operating revenues in 2017, compared with 93% in 2015 and 107% in 2014. This forecast decrease exceeds our July 2015 base-case projection due to the much higher operating revenues we anticipate in 2018 in our current base-case scenario. 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 on to self-supporting municipalities in the region. This on-lent debt accounts for about 10% 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 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 26% 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 under our criteria. 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 also believe 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 part of 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 close to 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. €)	**2014**	**2015e**	**2016bc**	**2017bc**	**2018bc**
Operating revenues	3,787	4,331	4,443	4,443	4,508
Operating expenditures	3,026	3,806	3,984	4,064	4,145
Operating balance	762	524	459	379	363
Operating balance (% of operating revenues)	20.1	12.1	10.3	8.5	8.1
Capital revenues	351	808	930	933	937
Capital expenditures	1,050	1,395	1,425	1,425	1,425
Balance after capital accounts	63	(63)	(36)	(113)	(125)
Balance after capital accounts (% of total revenues)	1.5	(1.2)	(0.7)	(2.1)	(2.3)
Debt repaid	677	557	496	552	544
Gross borrowings	668	520	432	565	569
Balance after borrowings	54	(100)	(100)	(100)	(100)

Table 1

Region of Brussels-Capital Financial Statistics (cont.)

	--Fiscal year ending Dec. 31--				
(Mil. €)	2014	2015e	2016bc	2017bc	2018bc
Direct debt (outstanding at year-end)	4,010	3,970	3,906	3,919	3,944
Direct debt (% of operating revenues)	105.9	91.7	87.9	88.2	87.5
Tax-supported debt (% of consolidated operating revenues)	106.9	92.5	89.0	89.3	88.5
Interest (% of operating revenues)	4.2	4.3	5.2	5.3	5.3
Capital expenditures (% of total expenditures)	25.8	26.8	26.3	26.0	25.6

NOTE: The significant budget increase from 2015 followed the implementation of the sixth state reform.The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's 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 Standard & Poor's expectations of the most likely scenario. e--Estimate: reflects Region of Brussels-Capital's estimate accounts adjusted by Standard & Poor's.

Table 2

Region of Brussels-Capital Economic Statistics

	--Fiscal year ending Dec. 31--							
	2011	2012	2013	2014	2015bc	2016bc	2017bc	2018bc
Population (as of Jan. 1, '000s)	1,119	1,139	1,155	1,163	1,172	1,179	1,186	1,193
Population growth (%)	2.7	1.8	1.4	0.8	0.7	0.6	0.6	0.6
Unemployment rate (%)	16.9	17.4	19.2	18.3	16.5*	N.A	N.A.	N.A
GDP (nominal) per capita (€)	62,328	61,380	61,899	62,765	63,644§	65,108§	66,931§	68,939§
Real GDP growth (%)	1.0	(2.0)	0.4	0.6	1.2	1.4§	1.6§	1.7§

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

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	Moderate
Budgetary performance	Strong
Liquidity	Exceptional
Debt burden	Moderate
Contingent liabilities	Moderate

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

Key Sovereign Statistics

Research Update: Belgium Affirmed At 'AA/A-1+' As Economic Recovery And Reforms Support Its Fiscal And External Positions; Outlook Stable, Jan. 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
- 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

- Research Update: Belgium Affirmed At 'AA/A-1+' As Economic Recovery And Reforms Support Its Fiscal And External Positions; Outlook Stable, January 15, 2016
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments - February 5, 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		
Foreign and Local Currency	AA/Stable/--	AA/Stable/--

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 Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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@standardandpoors.com