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KINGDOM OF BELGIUM Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Assigned Ratings/Outlook: AA /negative	Type: Monitoring, Unsolicited
	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	30-09-2016 17-06-2022 "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Neuss, 17 June 2022

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of "AA" for the Kingdom of Belgium. Creditreform Rating has also affirmed Belgium's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "AA". The outlook is negative.

Key Rating Drivers

1. High levels of productivity and GDP per capita as well as below-euro area unemployment contribute to economic resilience; strong output recovery last year, with the near-term outlook weighed down by the fallout from the Russian war against Ukraine, mainly via higher prices for energy and commodities as well as a more subdued external environment
2. Medium-term growth prospects remain somewhat constrained by relatively high private indebtedness and low productivity growth; cost competitiveness will have to be monitored in light of automatic public wage indexation; potential growth might prospectively be enhanced by the proposed labor market reform potentially lifting a low participation rate, and by further measures fostering digitalization and green growth listed in the national Recovery and Resilience Plan
3. Belgium's strong institutional conditions constitute a vital pillar of its creditworthiness; while we observe progress on a range of key structural reforms, including opened political discussion on a pension reform proposal, a high degree of cooperation and coordination across the various government structures appears crucial for timely decision-making and effective implementation
4. Despite better-than-expected fiscal performance last year, we expect debt levels to remain elevated over the medium-term, with uncertainty over public finances remaining pronounced, given the current geopolitical situation and downside risks to GDP growth; fiscal pressure from age-related costs could be softened depending on an eventually agreed design of the pension reform; sound debt management and the favorable debt profile mitigate risks to fiscal sustainability to some extent, alongside envisaged fiscal consolidation in the form of fixed and variable budgetary efforts
5. Limited external risks against the backdrop of a high positive net international investment position (NIIP) and broadly balanced current account position, with the latter potentially

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becoming somewhat more negative in the short term due to a more challenging international trade environment

Reasons for the Rating Decision and Latest Developments¹

Macroeconomic Performance

We view Belgium's favorable macroeconomic performance profile as being underpinned by relatively high levels of GDP per capita and productivity, the latter partly boosted by the pharmaceutical sector. These strengths are to some extent balanced by a pronounced level of private indebtedness, which, along with a comparatively low labor participation rate, weighs somewhat on medium-term growth prospects. While direct exposure to Russia and Ukraine seems low, the current geopolitical context presents downside risks to growth, mainly via high commodity prices, supply bottlenecks and a generally weaker external environment. A timely and effective implementation of initiatives elaborated in the Recovery and Resilience Plan (RRP) and the National Reform Program should be conducive to improving somewhat lackluster real labor productivity growth, potentially augmented by envisaged measures to enhance the business environment, but may also depend to some extent on effective coordination and cooperation of the various government layers.

The Covid-19 crisis temporarily interrupted a phase of solid output growth in Belgium, with GDP averaging 1.8% over the period 2015-19, slightly underperforming average growth registered in the euro area (EA, 2.0%). Following the pandemic-induced GDP decline by 5.7% in the first year of the global health crisis (EA: -6.4%), Belgium's economy saw a strong rebound last year, posting a real GDP expansion of 6.2% in 2021 (EA: 5.4%), thus exceeding its pre-pandemic level already last year. As a corollary, GDP per capita remains at a high level, having risen to an estimated USD 57,036 in 2021 (IMF data, PPP terms), well above other AA-rated peers such as France (USD 51,364) and Finland (USD 53,757).

The rebound in economic growth, which was stronger than assumed at the time of our last review, was broad-based. Private consumption proved to be the major driving force (+3.2 p.p.) amid the easing of coronavirus containment measures. Gross fixed capital formation and general government consumption contributed 1.9 p.p. and 1.1 p.p., respectively, while net exports delivered a boost of 0.6 p.p. Belgium's comparatively high share of high-tech exports, which includes pharmaceuticals, contributed to the resilience of its export sector last year. The respective share leapt from 13.8% in 2020 to 17.0% in 2021, also mirroring high demand for Covid-19 vaccines.

In Q1-22, economic output expanded by 0.5% q-o-q, still impacted by pandemic-related restrictions over the winter period. Consequences of the shock from Russia's invasion in Ukraine started to weigh on sentiment in March. While direct exposure to Russia is limited, both as regards trade links and regarding the number of firms directly exposed, high commodity prices place a significant burden on consumers and businesses, added to by re-intensifying supply bottlenecks. Under these circumstances, companies may become more reluctant to invest, despite tailwinds through the RRP. Business confidence in the industrial and service sectors has

¹ This rating update takes into account information available until 10 June 2022.

taken a hit, and the plunge in consumer confidence is comparable to the one witnessed during the outbreak of the corona crisis.

Despite the downside risks associated with the developments in Eastern Europe, private consumption should continue to expand this year, backed by government support mitigating the detrimental effects from high commodity prices and by ongoing favorable labor market developments (see below). A still relatively high savings rate (Q4-21: 16.5%, avg. 2015-19: 12.2%, ECB data) underscores that there is some pent-up demand which could be released, although private households may be hesitant in the current environment. Looking ahead, prospects for private consumption in 2023 appear constructive, as inflation rates may start to soften by then and as the backward-looking automatic indexation of wages is set to exert a positive effect on household income.

The combination of uncertainty, re-intensifying bottlenecks of certain materials and high input costs have clouded the near-term prospects for investment. Labor shortages in some sectors may act as an additional disincentive. On the other hand, the number of insolvencies has remained comparatively low on the back of fiscal support in the course of the pandemic, remaining below levels seen prior to the corona crisis (ECB data). While set to become less favorable amid a turning tide in monetary policy (see below), financing conditions should by and large remain benign. Moreover, EU-funded investment, essentially via the Recovery and Resilience Facility, as well as a stepping-up of investments in the defense sector, will act as supportive pillars and, following last year's floods, residential investment will be boosted by ongoing reconstruction.

Net exports could pose a drag on GDP growth this year and next, given the more challenging circumstances for international trade. Export expectations have plummeted further in Q2-22 following a decline in this year's first quarter. Given that the pharmaceutical sector accounts for the largest goods export share (2021: 17.8%, NBB data), a significant slowdown in demand for vaccines would likely weigh on export performance. Overall, we expect real GDP to slow markedly to 2.3% in 2022, also constituting some normalization following last year's strong expansion, and to edge down to 1.6% in 2023.

Thanks to fiscal support, especially in the form of furlough regimes, the negative impact on Belgium's labor market from the pandemic remained limited. Unemployment continued to rise last year (6.3% vs. EA: 7.7%, LFS-adj.). However, the quarterly rate dropped throughout 2021 and remains well below the level registered in the euro area as a whole, approaching levels recorded prior to the emergence of Covid-19. At the same time, employment increased more strongly than in the euro area in 2021 (1.8%, EA: 1.1%, Eurostat, domestic concept), after having stagnated a year before.

Belgium continues to display one of the highest job vacancy rates among the EU members, reaching a historically high level at 5.9% in Q4-21 (Eurostat), hinting at possible labor market mismatches and pointing to potential negative growth effects from labor shortages. On the other hand, shortages should continue to support wage growth, which will also be boosted by wages subject to indexation in light of high consumer price increases. Nominal compensation per employee is thus likely to expand more strongly than in 2021, when it increased by 4.2%, partly due to a base effect.

The Belgian employment rate remains among the lowest in the euro area, standing at 70.6% of the total population in 2021 (EA: 72.5%, 20-64y, Eurostat). Working towards the envisaged goal

of reaching an employment rate of 80% by 2030, labor market reforms have been launched with regard to more flexible working time, also facilitating a full-time four-day workweek. In Feb-22, the government reached a political agreement with a 'Labor Deal', which apart from increasing flexibility around working hours is to strengthen employees' rights to receive further training, and to enhance monitoring of diversity and labor shortages. We think the reform should be conducive to fostering Belgium's potential growth, thus bolstering medium-term growth prospects. While we understand that most of the measures are to enter into force from 01 Sep-22, the draft legislative proposal has apparently not yet been submitted to parliament.

In the event of continued upward pressure on wages, partly due to the automatic indexation of public wages to inflation, Belgium's cost competitiveness may begin to weaken. So far, mostly on account of subdued developments of real compensation per employee, Belgian real unit labor costs compare favorably with those of main European trading partners and the euro area as a whole. Past freezes to automatic wage indexation between 2015 and 2017 likely contributed to this. Whilst Belgium's global export market share inched down from 1.88% in 2020 to 1.86% in 2021, last year's reading still posts well above the 2011-20 average (1.82%), chiefly driven by an increasing market share in service exports, which leapt from 2.03% to 2.42% in 2019-20 and amounted to a still high 2.32% in 2021.

As far as Belgium's general business environment is concerned, i.e. focusing on non-cost factors, there seems to be some room to catch up with European leaders such as the Netherlands and Denmark in this respect. Judging e.g. by the latest IMD competitiveness ranking referring to 2021, the sovereign is perceived as moving in a middle-range position among the EU member states.

Potentially posing some constraints to the medium-term economic outlook, the sovereign displays relatively high levels of private indebtedness, with both non-financial corporate (NFC) and household debt having risen of late, although it has to be highlighted that NFC debt, amounting to 112.4% of GDP in Q4-21 (Q4-20: 118.8%), is to a considerable degree distorted by cross-border intra-group lending. Outstanding loans to NFCs have continued to trend upward since the second half of 2021. In Mar-22, the respective annual increase stood at 9.0%. Looking at the household sector, debt set against disposable income has continued to climb over the course of the pandemic, driven by mortgage lending, only recently appearing to plateau at a level around 108% (Q4-21: 108.1%, Q4-20: 107.3%).

Supporting ultimately constructive medium-term growth prospects, Belgium's RRP allocates 50% of the dedicated funds to reforms and investments around climate objectives and 27% towards implementation of its digital agenda. We note that the European Commission (EC) estimates the plan to increase GDP by 0.5%-0.9% by 2026. Green initiatives include, among other things, renovation of buildings to enhance energy efficiency and expansion of electric mobility infrastructure. As for the digital agenda, the digital transformation of the public administration is to be driven forward, as are the digital skills of citizens, not least in a bid to improve and update training and qualifications for the low-skilled, thus fostering economic and social resilience.

Part of the EU funds is to be directed towards strengthening research and innovation capacities. In this respect, it seems worth highlighting that gross domestic R&D spending has continued to increase over recent years, coming to 3.5% of GDP in 2020 and comparing favorably with the euro area level (2.4% of GDP). The extent to which the OECD-level agreement over introducing

new standards to international corporate taxation will alter dynamics depending on company decisions over their location will have to be seen (see below).

Bearing in mind that public investment has remained slightly below the euro area level in the recent past, timely and effective implementation of the RRP should be conducive to enhancing potential growth over the coming years, which, at an estimated 1.5% and 1.6% in 2022 and 2023 (AMECO data) would slightly exceed its average over the period 2015-19 (1.4%). Labor productivity is high by European comparison, but in terms of real productivity growth per employee there is room for improvement, as Belgium continues to trail our AA-rated sovereigns on this count.

Further illustrating this point, we observe that, prior to the pandemic, annual TFP growth only averaged 0.2% in Belgium (2015-19), versus 0.8% in the euro area. When it comes to the contribution of labor to productivity developments, we would also monitor any steps towards an envisaged tax reform to lower the tax burden on labor, as Belgium remains the OECD member displaying the highest tax wedge regarding single workers, with a reading of 52.6% in 2021 (OECD average: 34.6%).

Institutional Structure

Belgium's credit rating continues to be underpinned by its very strong institutional framework, which includes the benefits associated with its profound integration into EU/EMU and NATO. As a small, open economy, Belgium can draw substantial advantages from access to the EU Single Market and the reserve currency status of the euro. Balancing these strengths to some extent, Belgium's complex political governance structure comes with some challenges in terms of government formation and speed of decision-making, potentially hampering implementation of reforms. Nevertheless, effective action to manage the corona crisis and coordinate the response to Russia's aggression in Ukraine affirm an ultimately favorable assessment of the institutional set-up.

The World Bank's Worldwide Governance Indicators continue to support our assessment concerning the quality of Belgium's institutional framework, drawing on four indicators to which we pay special attention. Set against the median rank of the euro area, Belgium compares favorably in terms of voice and accountability (relative rank 20, EA median: 33), rule of law (24, EA median: 32) and control of corruption (22, EA: 43), and matches the relative rank when it comes to government effectiveness (35).

Compared to our AA-rated sovereigns, the sovereign only fares worse pertaining to the perception of government effectiveness, partly mirroring the abovementioned challenges linked to the sovereign's political governance structure. While outperforming our AA-rated universe and the euro area median with regard to the perceived extent to which citizens are able to participate in selecting their government, freedom of expression, and free media (voice and accountability), the respective ranking regarding this indicator deteriorated somewhat from 2019 to 2020.

Notwithstanding inherent challenges to political decision processes and timely implementation of reforms presented by Belgium's multi-party government and multifaceted political administration, some progress has been made on structural reforms concerning the pension and health systems. We gather that in Jan-22 negotiations began on the political level over a draft pension reform initially presented to the public in Sep-21. The reform proposal includes lifting the statutory retirement age in several steps to 67 years in 2030, with flexibility around this for careers of 42 years and more, as well as an increase of the minimum pension.

As regards the health system, a reform of the organization and financing of hospitals, currently subject to discussions with stakeholders, is to be implemented gradually over the coming years. With regard to the envisaged state reform, foreseen for 2024, a consultation process for the public has been launched. We will also follow developments around an intended tax reform aimed at lowering the tax burden on labor, with a proposal to be presented possibly by the summer, as well as considerations to abolish the Senate.

We generally view Belgium as responsive to recommendations by European institutions and the IMF. However, we note that with regard to preventing corruption, the latest compliance report by the European Council's Group of States against Corruption (GRECO), published in Jan-22, highlights possible improvements, given that with regard to the initial 22 recommendations 18 have not yet been implemented.

We assess efforts backed by the government in Jun-21 to combat money laundering, such as the launch of a consultation platform to fight money laundering, as positive. In this context, we would also highlight the implementation of the common reporting standard for automatic exchange of tax information and a beneficial ownership registry in line with the European AML Directive. In a bid to transpose a European Directive into national legislation, the government has also agreed on new regulations regarding the protection of whistleblowers acting within companies (Feb-22). In a similar vein, the second EU Bank Recovery and Resolution Directive (BRRD2) was fully transposed into Belgian law last year. What is more, the EC's Rule of Law Report (Jul-21) underscores reform progress towards enhancing the efficiency of the justice system, but indicates some remaining room for further improvement.

Turning to aspects related to greening the economy, Belgium ranks 15th among the EU countries when it comes to its ecological innovation performance (EC eco innovation index 2021), leaving some room to catch up with frontrunners in this respect. Similarly, the sovereign displays one of the lowest overall shares of energy from renewable sources in the EU, amounting to 13.0% in 2020 (EU: 22.1%, Eurostat), which highlights some challenges in terms of the green transformation. The extent to which renewables are used for heating and cooling compares particularly low (2020: 8.4% vs. EU: 23.1%). Greenhouse gas emissions per head thus were among the higher readings among the EU members (2020: 9.5 tons of CO₂ equivalent, EU: 7.5). Against the backdrop of the war in Ukraine, which puts more emphasis on reducing dependency on fossil fuels, the government has decided to postpone building two additional gas power plants to 2026 and taken steps to extend operation of two nuclear reactors by ten years.

Fiscal Sustainability

Risks to fiscal sustainability continue to play a key role in our assessment of Belgium's creditworthiness. The Covid-19 pandemic has temporarily reversed a gradual shrinking of the sovereign's elevated debt ratio. While pandemic-related threats seem to be ebbing, the economic burden resulting from the Russian aggression in Ukraine adds pressure on public finances, and uncertainty over both factors remains pronounced. Fiscal slippages in the past and pressure related to age-related costs also weigh on our assessment, adding to challenges regarding a sustainable improvement of the public debt ratio once inflation rates start to decrease, although progress on the pension reform and its possible effects will have to be monitored. A favorable debt profile paired with low, albeit prospectively rising, financing costs constitute mitigating factors.

From a relatively high headline deficit of 9.0% of GDP prompted by the pandemic in 2020 (EA: 7.1% of GDP), Belgium's general government balance saw a marked improvement to -5.5% of GDP last year (EA: -5.1% of GDP), which also turned out better than we had assumed in our last review.

Higher-than-anticipated revenue intake amid the economic recovery (2021: +9.1%, 2020: -4.0%), boosted by tax revenues and higher social security contributions, contributed to this outcome, as did ultimately lower-than-expected expenditure in the context of Covid-19. Total general government outlays rose by 2.8% in 2021 (2020: +9.0%). Spending to contain the pandemic totaled roughly EUR 13.9bn or 2.7% of GDP last year (2020: EUR 20.4bn, NBB data). Public investment also remained considerably below the 16.3% increase envisaged in the Draft Budgetary Plan 2022, eventually amounting to 8.2%.

Public finances in the current year will partly be shaped by a withdrawal of pandemic-related measures on the one hand and higher expenditure to alleviate the adverse economic effects from Russia's war in Ukraine on the other hand, with both factors subject to significant uncertainty, depending on pandemic and geopolitical developments over the coming months. A support package for households and business to deal with the Covid-19 fallout, adopted by the Council of Ministers in Jan-22, was to expire at the end of Mar-22, when also the extension of the temporary unemployment scheme was due to end.

However, in order to alleviate the burden from high energy prices as the war in Ukraine unfolded, authorities agreed on a set of measures in Mar-22, estimated to come with a price tag of about EUR 2.0bn, including a temporary VAT rate cut from 21% to 6% on electricity and gas to be applied until end of Sep-22. The situation is to be reassessed in September, underscoring uncertainty around the fiscal burden this year, as further support may be deemed necessary. On top of such initiatives, automatic indexation of wages is likely to cause further upward pressure on expenditure. Defense spending is to go up as well, although the government has not yet reached agreement on increasing the defense budget to 2% of GDP by 2035.

At this stage, we expect the general government deficit to narrow slightly to about 4.8% of GDP this year and to remain close to this level in 2023 (-4.5% of GDP). Higher spending on minimum pensions, care (health and long-term) and a likely higher public wage bill look set to weigh on government expenditure over the next few years, with potential additional support in case of prolonged military action in Ukraine.

Looking at the recent Stability Program from April (SP22), authorities expect the headline balance to remain in deficit over the medium term, although it is assumed that the shortfall will narrow to 2.7% of GDP in 2025. Worth mentioning in this context, the regional governments are expected to operate deficits over the medium term as well, with the Flemish community possibly on a course to reach a better result, as the Federal Planning Bureau suggests. Given the specific governance structure and strained public finances across the board, we would echo that in order for public finances to be restored in a timely manner, a high degree of cooperation between the various government levels and political families would seem conducive.

We continue to assess the government's commitment to the fixed budget effort as positive, entailing 0.2% of GDP per year until 2024, plus an additional variable effort depending on the economic situation, in order to help address demographic challenges (see below). Moreover, as envisaged in the RRP, we would highlight the intention to introduce recurrent spending reviews to improve composition of public expenditure as favorable.

We are aware of OECD having suggested that Belgium might benefit from the envisaged minimum corporate tax rate to be instated from 2023, with estimates of additional revenue possibly amounting to up to EUR 1bn annually. While this remains somewhat speculative at this stage, obviously also depending on enterprises' choices of location, a postponed entering into force of these measures, as seems to have been hinted at following the World Economic Forum in May-22, could mean a delay of any potentially more positive prospects for tax revenues. We will continue to monitor how this issue is evolving.

Against the backdrop of the economic rebound and the narrowing deficit, Belgium's debt-to-GDP ratio fell by 4.6 p.p. to 108.2% of GDP last year, continuing to compare unfavorably with the median of our AA-rated sovereigns and the euro area as a whole (2021: 95.6% of GDP). Given the considerable uncertainty over near-term economic growth and fiscal prospects, and assuming a decrease of currently high inflation rates, we harbor reservations over a sustained decline of the debt-to-GDP ratio over the medium-term. This said, we acknowledge that the sovereign has demonstrated marked fiscal consolidation in the past. While the public debt ratio could drop to about 105.4% of GDP in 2022, chiefly on account of strong nominal GDP growth amid high inflation rates, we currently assume debt-to-GDP to edge up in 2023 as this effect should wane.

Contingent liabilities on the federal level as of 01 Jan-22 came to 5.5% of GDP, out of a maximum amount of 21.0% of GDP. Legacy guarantees to the financial sector account for the lion's share of these, with 4.9 p.p. of the impact attributable to these (SP22). Potentially adding to contingent liabilities, we gather that the federal authorities have purchased a 6.3% stake in insurance company Ageas (EUR 600mn). According to NBB, the outstanding amount of state-backed loans under the two pandemic support schemes had dropped to below EUR 750mn by Dec-21, from a peak at approximately EUR 2bn at the end of 2020.

As to potential contingent liabilities elsewhere, Belgium's banking sector has weathered the pandemic relatively well, also supported by moratoria that helped to keep insolvency numbers low. Financial soundness indicators such as the CET1 ratio, which is well above the EU level (Q4-21: 18.5%, EU: 15.7%, EBA data), and a comparatively low NPL ratio (Q4-21: 1.5%, EU: 2.0%, EBA) contribute to resilience, and profitability has compared somewhat more favorably against the EU lately, as measured by return on assets.

As for any reactivation of the countercyclical capital buffer, NBB will pursue a cautious approach in light of the uncertainty caused by Russia's military action in Ukraine, while monitoring potential pockets of vulnerability regarding mortgage lending. Outstanding mortgage loan growth has moderated to a still dynamic 8.0% y-o-y as of Mar-22. Mortgages accounted for 56% of total credit to the private sector (Mar-22), representing one of the higher shares among EU countries.

Given the relatively high level of household indebtedness, we would continue to pay attention to developments on real estate markets. Dynamically rising house prices, as e.g. suggested by an increase in the 3-y rate of change to 17.5% in Q4-21 (Eurostat), could increase vulnerabilities. With regard to recommendations issued by the European Systemic Risk Board in 2019 in this respect, Belgium was assessed as being largely compliant (Feb-22), notwithstanding mention of some vulnerabilities such as signs of overvaluation with regard to house prices. The latter is also illustrated by OECD data on housing affordability, which suggests that the price-to-income ratio has been 24% above its long-term average as of Q4-21.

With regard to fiscal pressure stemming from unfavorable demographics and age-related costs, we will in particular monitor developments around the labor deal, plans for a far-reaching tax

reform to lower labor cost and to simplify the tax system, including a reduction to three income tax brackets, and further developments pertaining to the proposed pension reform (see above).

We continue to view high debt affordability, although about to become less favorable, very sound debt management and a benign debt portfolio as factors mitigating risks to fiscal sustainability. According to monthly ECB data, Belgium's debt portfolio displays one of the highest average weighted maturities among the EU countries (Mar-22: 10.83y), suggesting low refinancing risks, despite the elevated debt level. Interest expenses dwindled further by 5.5% in 2021 (2020: -5.3%), causing the interest-to-GDP ratio to fall to 1.7% (3.4% of total revenue).

Further to this point, in a step anticipated by capital markets for some time and announced following its June monetary policy meeting, we note that the ECB intends to end its net asset purchases under the Asset Purchase Program (APP) in Jul-22 and to hike its key interest rates by 25bp, with further rises likely to take place in Sep-22. This said, there remains flexibility around calibrating any of these intentions should the circumstances - especially the evolution of the war in Ukraine and the resulting economic fallout - require. While we expect the ECB to act in a considerate manner, refinancing conditions are thus set to become less benign. At 1.89% as of 03-Jun-22 (weekly quote), the yield on 10-y Belgian government bonds have climbed to a level last recorded in May-14, with the Bund spread widening to approx. 62bp. We note that the impact of a 100bp rise in the yield curve on interest costs could be an increase to 0.3% of GDP in 2025 (SP22).

Foreign Exposure

Notwithstanding some external vulnerabilities linked to the high degree of openness of Belgium's economy paired with its relatively small size, risks pertaining to the external position appear limited, also mitigated by the highly positive NIIP and its composition. The current account has moved relatively closely around a balanced position over recent years, with some volatility partly attributable to the presence of multi-national enterprises. Following a moderate current account deficit last year, the respective balance could become somewhat more negative in the course of the current year due to a subdued trade environment.

Having registered a moderate surplus averaging 0.3% of GDP over 2011-20, Belgium's current account continued to be in surplus for the first three quarters of 2021 amid economic recovery, before turning into a deficit in Q4-21 (-0.4% of GDP), primarily driven by the goods balance (2021: -1.2 p.p. to -0.3% of GDP). With regard to the current year, we assume a somewhat more pronounced deficit overall, given the challenging geopolitical situation and the resulting impact on the global and the European economy.

Belgium's highly positive NIIP, one of the highest in the EU, meanwhile increased to 57.0% in 2021 (+12.6 p.p.), boosted by larger net positive positions regarding direct investment and portfolio investment. We would reiterate that intra-group lending, a comparatively stable funding source, continues to temper risks somewhat with regard to external liabilities. Apart from this, it seems worth mentioning that Belgium's positive net external debt position has grown larger, amounting to 23.0% of GDP in 2021 (Eurostat data) and constituting a stabilizing element.

Rating Outlook and Sensitivity

Our rating outlook on Belgium's long-term credit ratings is negative, mainly reflecting uncertainty over medium term fiscal developments, in light of the recent accumulation of crises and the related adverse effects on economic prospects. We also continue to emphasize that the assessment and interpretation of economic developments remains more challenging than under normal circumstances, as is the case for other indicators, in particular from the fiscal realm.

We could revise the outlook to stable if we deem it likely that the sovereign's public debt ratio will reverse on a sustainable basis. Upward pressure on the outlook or the rating could also result from a stronger-than-expected economic recovery, possibly backed by a significantly improved medium-term growth outlook on the back of a timely and effective implementation of RRP measures, contributing to a downward trajectory of the debt ratio. Swift political progress regarding pension and labor reforms credibly suggesting a reduction of age-related costs would seem beneficial as well.

Conversely, we could lower the sovereign's ratings if the medium-term growth outlook deteriorates, and with it the outlook for public finances and the debt trajectory. A longer phase of negative fallout from the war in Ukraine potentially requiring more government support, or a conceivable further escalation of geopolitical tensions, possibly exacerbated by renewed adverse pandemic-related developments, would likely worsen fiscal prospects, putting downward pressure on the credit ratings. Delays in implementing the RRP initiatives could also lead to a less favorable assessment in terms of fiscal sustainability risks, prompting a negative rating action.

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Ratings*

Long-term sovereign rating	AA /negative
Foreign currency senior unsecured long-term debt	AA /negative
Local currency senior unsecured long-term debt	AA /negative

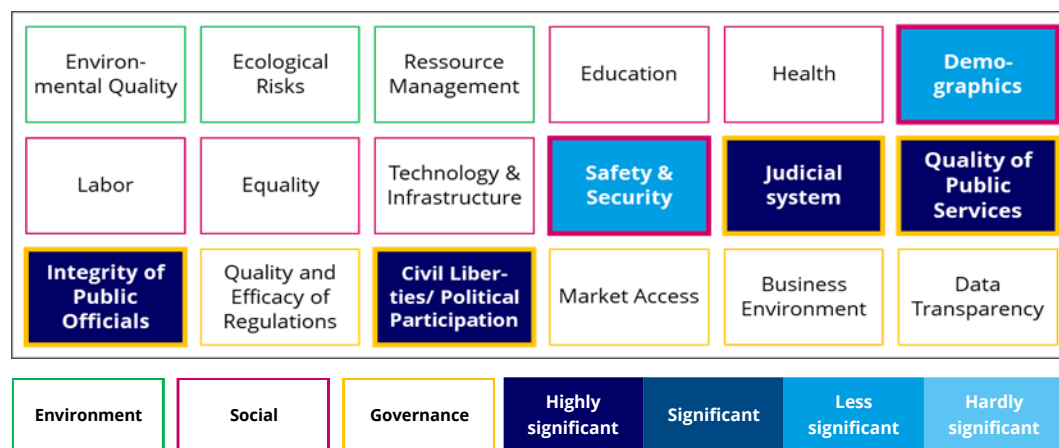
*) Unsolicited

ESG Factors

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In the following, we explain how and to what degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor, and outline why these ESG factors were material to the credit rating or rating outlook. For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings.

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ESG Factor Box



The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

The social dimension plays an important role in forming our opinion on the creditworthiness of the sovereign. Indicators or projections providing insight into likely demographic developments and related costs represent a social component affecting our rating or adjustments thereof.

Hence, we regard the ESG factor ‘Demographics’ as less significant in our ESG framework. What is more, protracted difficulties in government formation due to the complex political structure and strong regional identities would touch upon the social dimension as well, which is reflected among other things by the WGI “Political Stability” and “Government Effectiveness” and would ultimately affect fiscal performance, so that we regard the ESG factor ‘Safety and Security’ as less significant.

While Covid-19 may have significant adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing concerning economic prospects and public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2016	2017	2018	2019	2020	2021	2022e
Macroeconomic Performance							
Real GDP growth	1.3	1.6	1.8	2.1	-5.7	6.2	2.3
GDP per capita (PPP, USD)	48,680	50,727	52,666	54,488	51,722	57,036	61,587
Credit to the private sector/GDP	90.0	90.9	93.0	93.7	85.1	93.4	n/a
Unemployment rate	7.9	7.2	6.0	5.5	5.8	6.3	n/a
Real unit labor costs (index 2015=100)	98.7	98.7	98.6	98.4	101.4	96.9	n/a
World Competitiveness Ranking (rank)	22	23	26	27	25	24	n/a
Life expectancy at birth (years)	81.5	81.6	81.7	82.1	80.8	81.9	n/a
Institutional Structure							
WGI Rule of Law (score)	1.4	1.4	1.4	1.4	1.4	n/a	n/a
WGI Control of Corruption (score)	1.6	1.4	1.5	1.5	1.5	n/a	n/a
WGI Voice and Accountability (score)	1.4	1.3	1.3	1.3	1.3	n/a	n/a
WGI Government Effectiveness (score)	1.4	1.3	1.3	1.1	1.1	n/a	n/a
HICP inflation rate, y-o-y change	1.8	2.2	2.3	1.2	0.4	3.2	8.1
GHG emissions (tons of CO2 equivalent p.c.)	10.8	10.7	10.7	10.6	9.5	n/a	n/a
Default history (years since default)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Sustainability							
Fiscal balance/GDP	-2.4	-0.7	-0.9	-2.0	-9.0	-5.5	-4.8
General government gross debt/GDP	105.0	102.0	99.8	97.7	112.8	108.2	105.4
Interest/revenue	5.3	4.6	4.1	3.9	3.9	3.4	n/a
Debt/revenue	206.9	198.7	194.3	195.7	224.9	219.5	n/a
Total residual maturity of debt securities (years)	8.4	9.1	9.6	10.1	10.2	10.7	n/a
Foreign exposure							
Current account balance/GDP	0.6	0.7	-0.8	0.2	0.8	-0.4	n/a
International reserves/imports	0.1	0.1	0.1	0.1	0.1	0.1	n/a
NIIP/GDP	54.5	56.0	34.3	41.1	44.4	57.0	n/a
External debt/GDP	277.1	258.0	247.3	252.8	261.1	258.0	n/a

Sources: IMF, World Bank, Eurostat, AMECO, ECB, Statbel, own estimates

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	30.09.2016	AA- /stable
Monitoring	28.07.2017	AA- /positive
Monitoring	29.06.2018	AA /stable
Monitoring	28.06.2019	AA /stable
Monitoring	26.06.2020	AA /negative
Monitoring	18.06.2021	AA /negative
Monitoring	17.06.2022	AA/ negative

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

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Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's ["Sovereign Ratings" methodology](#) (v1.2, July 2016) in conjunction with its basic document ["Rating Criteria and Definitions"](#) (v1.3, January 2018). CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG's rating methodologies and basic document "Rating Criteria and Definitions" is published on our [website](#).

To prepare this credit rating, CRAG has used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, IMD Business School, European Center for Disease Prevention and Control (ECDC), Blavatnik School of Government, National Bank of Belgium, Statbel, Belgian Debt Agency, Ministry of Finance, ERMG, Federal Planning Bureau, High Council of Finance.

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG's "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision".

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

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An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

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