Kingdom of Belgium
Rating Report

SCOPE AA STABLE OUTLOOK

Credit strengths

- Euro area membership
- Wealthy, diversified economy
- Strong external position
- Structural reform efforts

Credit weaknesses

- High debt levels
- Weak productivity growth
- Labour market rigidity
- Vulnerability in the housing market

Rating rationale and Outlook: Belgium's AA rating reflects: i) deep integration in the euro area, ii) a wealthy, diversified economy with low growth volatility and high resilience to shocks, iii) a strong net international investment position, and iv) the continuation of supply-side reforms on the labour market and in the corporate income tax system, which strengthen the medium-term outlook. Challenges to the rating include: i) persistently high debt levels in the public and private sector, ii) weak productivity growth related to labour market rigidity, and iii) emerging vulnerability in the housing market. The Stable outlook reflects Scope's view that the risks for the ratings remain broadly balanced.

Figure 1: Sovereign rating categories summary

Scope's sovereign risk categories	Belgium	Peer comparison: Average	Czech Republic	Italy
Domestic economic risk				
Public finance risk				
External economic risk				
Financial risk				
Political and institutional risk				
Qualitative adjustment (notches)	3		3	-1
Final rating	AA		AA	A-

AAA AA A BBB BB B CCC CC C

NB. This comparison is based on Scope's Core Variable Scorecard (CVS), which is determined by relative rankings of key sovereign credit fundamentals. The CVS peer group average is shown along with two selected countries chosen from the entire CVS peer group. The CVS rating can be normally adjusted by up to three notches depending on the size of relative credit strengths or weaknesses.

Positive rating-change drivers

- Sustained fiscal consolidation
- Productivity-enhancing labour market reforms

Negative rating-change drivers

- Return to low potential growth over the medium term
- Reversal of structural reforms
- Political paralysis

Ratings and outlook

Foreign currency

Long-term issuer rating	AA/Stable
Senior unsecured debt	AA/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	AA/Stable
Senior unsecured debt	AA/Stable
Short-term issuer rating	S-1+/Stable

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Bloomberg: SCOP

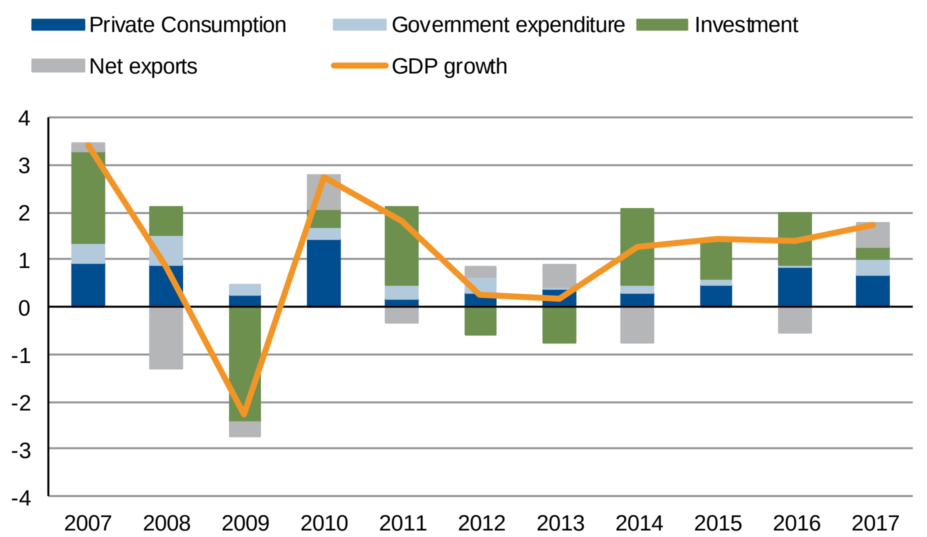
Domestic economic risk

Growth potential of the economy

Current growth above potential thanks to ECB

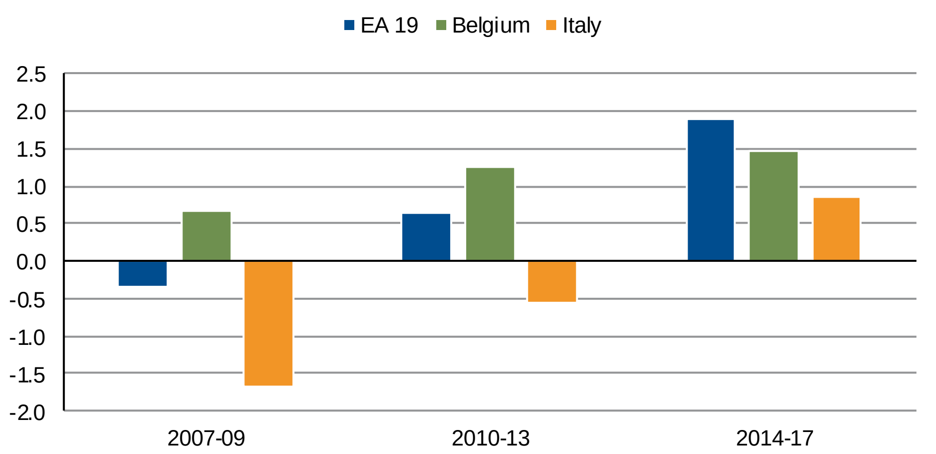
Belgium's 2017 figures revealed higher growth than expected (1.7%, up from 1.5%), partly supported by the ECB's monetary stimulus, which helped fuel business investment and private consumption (1.1%).[1] The economic upswing was further driven by: i) improved labour market conditions pushing down the unemployment rate to pre-crisis levels (7%), ii) robust investment growth due to favourable financing conditions and large liquidity reserves[2], and iii) a trade surplus (0.5% of GDP). Compared to peers in the euro area, Belgium is a small, open economy benefitting from global demand and enjoying favourable conditions to stabilise government finances and start to reduce its debt in the current low-interest rates environment.

Figure 2: Real GDP growth components, % change YoY



Source: Haver Analytics, Scope Ratings

Figure 3: Real GDP growth in the euro area, in %



Source: Haver Analytics, Scope Ratings

Table of contents

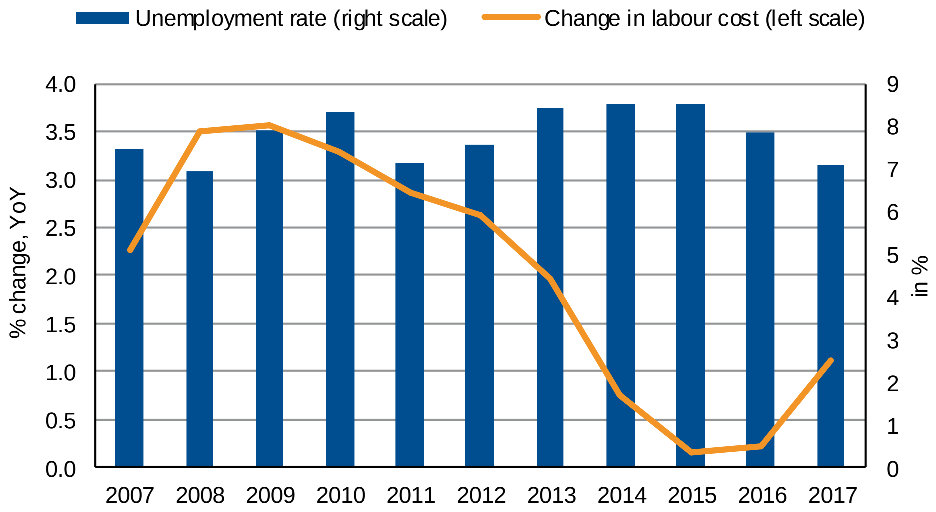
[1] 2018 Article IV Consultation Belgium, March 2018, International Monetary Fund
[2] Country Report Belgium 2018, March 2018, European Commission

Tax reform plans gather pace, labour market needs more attention

The conservative government has returned attention to structural reforms aimed at strengthening the labour market and to raise public revenues. In 2014-15, the government implemented several structural reforms that improved cost-competitiveness by reducing employers' social security contributions and freezing the automatic wage-indexing mechanism. The success of these measures is visible in the unemployment rate, which has been declining since 2015.

The new reform package targets the corporate income tax system and combines a reduction in the tax rate (CIT) from 34% to 25% with a broadening of the tax base to hold revenues constant.

Figure 4: Unemployment and labour cost, in %



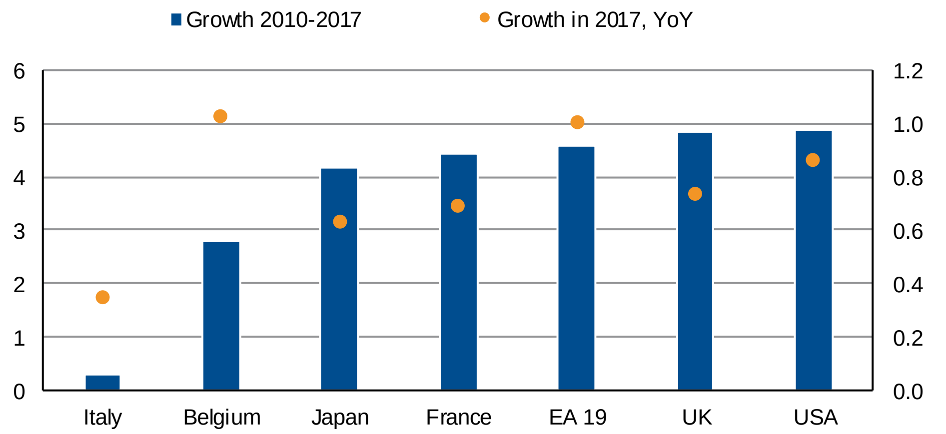
Source: Haver Analytics, Scope Ratings

Productivity remains weak but is gaining momentum

Despite a sustained period of wage moderation, more job creation, and unemployment down well below the pre-crisis rates of 7%, structural shortcomings still exist, with substantial untapped potential from low labour participation of some cohorts. Skill mismatches are a major driver of sectoral labour market difficulties, which are based on regional disparities (with unemployment ranging from 5-6% to 16%), continuing high youth unemployment (close to 20%, higher than the EU average) and very low employment rates among migrants (under 50% of non-EU28 citizens).[3] Competition is also restricted due to heavy regulation of network industries and some professional services. This results in a negative correlation between increasing employment shares and productivity gains across sectors, pointing to a negative productivity gap in Belgium compared to its rating peers. Given the success of current reforms, however, Scope expects a further drop in unemployment towards 6% over the medium term.

[3] 2018 Article IV Consultation Belgium, March 2018, International Monetary Fund

Figure 5: Productivity growth % change



Source: Haver Analytics, Scope Ratings

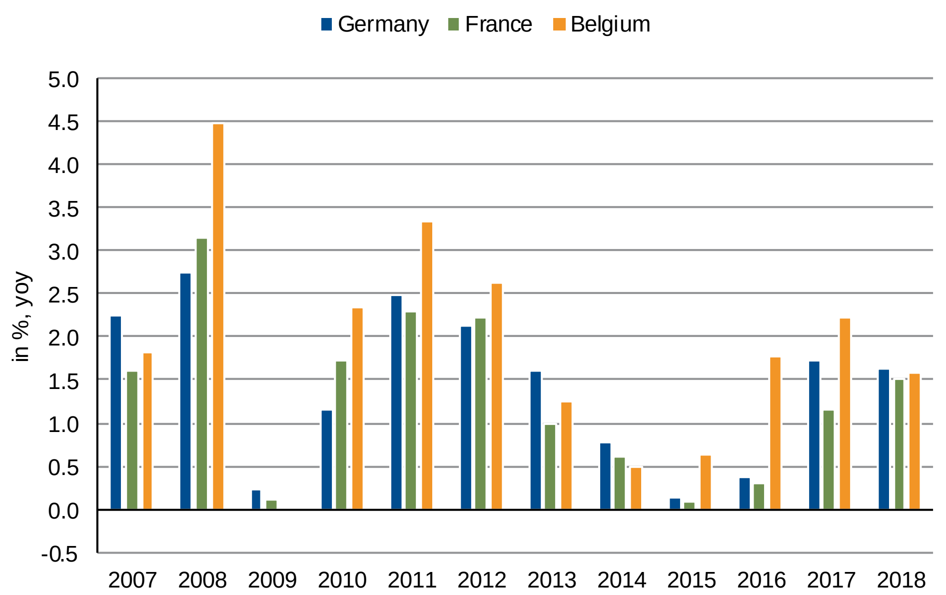
New measures implemented by the government include a further reduction in social contributions, tax breaks for hiring younger workers, more incentives for unemployed to accept job offers, and initiatives to increase the effective retirement age after the recent reform that lead to an incremental increase in the legal retirement age to 67 years by 2030.

Economic policy framework

Favourable environment for fiscal consolidation

The ECB's continued monetary expansion has increased fiscal space in Belgium. As a result, Belgian authorities are currently more ambitious in using this opportunity to proceed with reforms than its rating peers. Despite this, the fiscal balance according to projections by the National Bank of Belgium (NBB) remains negative over the medium-term (1.3-1.5% of GDP), despite record-low interest rates and a lower burden from unemployment (social benefits remain high at 25% of GDP).

Figure 6: Inflation rates in euro economies, in %



Source: Haver Analytics, Scope Ratings

Belgium has experienced higher inflation than its large neighbours, despite the period of wage moderation that reduced the gap in previous years and led to gains for Belgium in international competitiveness. Additional reforms on the labour market – in particular a better education and job-training of the low-educated – are needed to strengthen the external position over the medium-term. Inflation increased to 2.2% in 2017, largely due to higher energy prices. Core inflation (1.5%) also picked up again as the economic upswing resulted in higher employment and wages. Scope expects prices to increase by 1.9% in 2018 due to increases in the positive output gap driven by export-oriented sectors and higher wage growth[4]. A return to potential will curb inflation at around 1.5% over the medium-term.

Macroeconomic stability and sustainability

Exceptionally low GDP volatility, the highly diversified economy and deep integration in the euro area make Belgium highly resilient to shocks. In comparison to its peers, Belgium faces relatively minor risks to its macroeconomic stability from Brexit (the UK is a major trading partner) and protectionist global trade policies, which Scope expects will adversely affect Belgium due to its openness and its function as a major transhipment centre in Europe.

Public finance risk

Fiscal performance

Progress in consolidation but fiscal balance remains in deficit

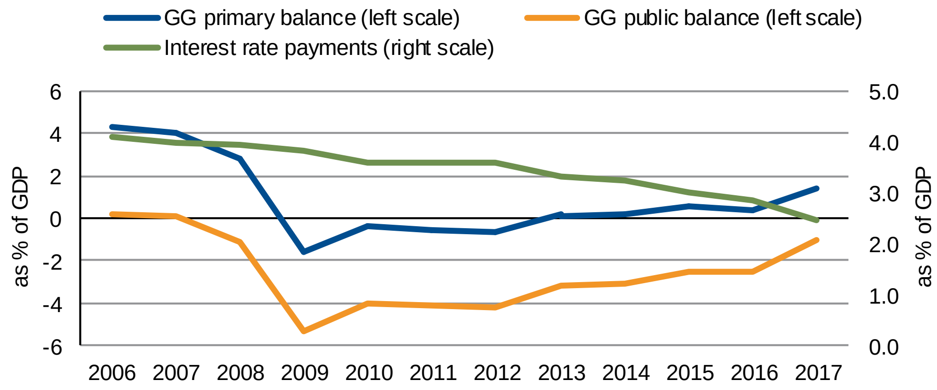
The EU Commission dropped an excessive deficit procedure (EDP) for Belgium in 2014 after the government brought the deficit back in line with the Maastricht criteria (fiscal deficit lower than -3% of GDP). Since then, the Belgian authorities have reduced the debt ratio by 1% per year on average, thanks to a positive primary balance and exceptionally low interest payments (average weighted yield of 0.8%).[5]

After limited progress in recent years, Belgium's headline deficit declined significantly in 2017 to 1.0% of GDP from a 2.5% average in 2015 and 2016. This reflected significant structural fiscal consolidation efforts, sustained cyclical conditions and strong corporate tax revenues. The country's fiscal position is expected to stabilise with headline deficits of 1.1-1.3% in 2018 and 2019. The 2018 budget is anticipated to decrease in revenue and expenditures, driven mainly by lower tax income and interest payments. Scope anticipates local (2018), regional and national elections (both in 2019) to raise uncertainties, especially if the winning parties are unable to quickly form a new government.

Belgium's regions control their own budgets but with unconditional transfers from the federal government as their main revenue source. In addition, regional governments free-ride on federal budgets when they take policy decisions (such as early retirements of civil servants) but the federal government is held financially accountable. Scope expects that Belgium's consolidation efforts gather speed after a reform of the financial relations between the federal government and its regions which ties legislative control to financial accountability on each federal level.

[4] See also OECD forecast summary for Belgium, http://www.oecd.org/eco/outlook/economic-forecast-summary-belgium-oecd-economic-outlook.pdf
[5] Report from the Commission on Belgium in accordance with Article 126(3) of the Treaty, May 2017

Figure 7: Fiscal balance and interest payments, % of GDP



Source: Haver Analytics, Scope Ratings

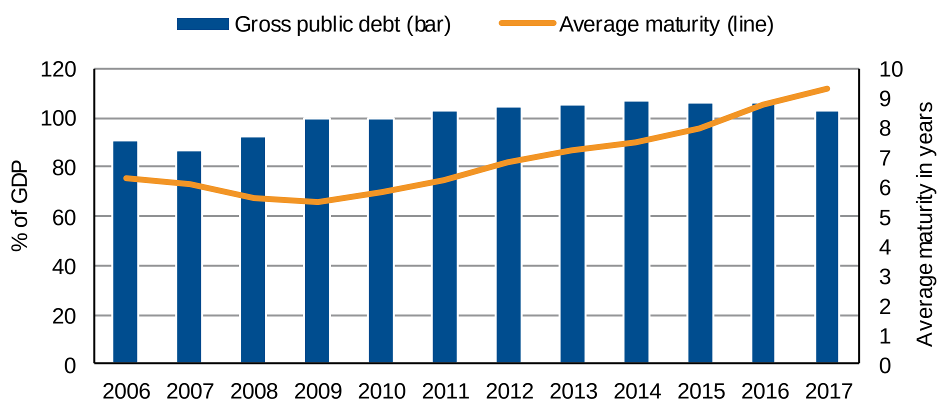
Government expenditure in Belgium are in the top five among EU countries (over 50% of GDP). Social spending has more than doubled since the 1980s, while public investments have been stagnant. Scope expects that wages, social benefits and subsidies will remain (as a share of GDP) constant over the medium term. Interest payments are expected to average at 2.5% over the medium term. Personal income tax and social contributions are major revenue components (30% of GDP; 6-7% more than the EU average). Recent tax reforms dampen revenues but are partly compensated by efforts to broaden the tax base.

Debt sustainability

High debt burden

The combination of high public debt (103% in 2017) and private debt ratios (over 100% of GDP) entails risks to financial stability when the ECB starts exiting from unconventional monetary policies and interest rates rise. Recent pension reforms have contributed to a more positive outlook, but liabilities stemming from changes in demographics remain a risk to public finances. Belgium faces the largest gross-financing needs (GFN) within its rating peer group. However, the share of long-term debt denominated in euros is very high and Belgium showed in 2017 a relatively long average debt maturity of 9.3 years, one of the highest in the euro area, which contributes to low refinancing risk over the medium-term[6]. In addition, the central government is expected to sell equity stakes in Belgian banks (a total of as much as EUR 10bn)[7], the equivalent of a 2% debt reduction.

Figure 8: Public debt and average maturity

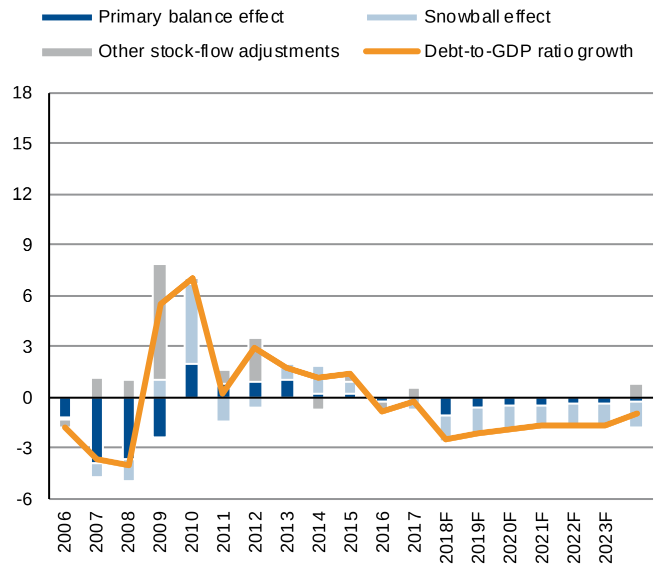


Source: Haver Analytics, Scope Ratings

[6] Belgian Debt Agency Review/Outlook 2017/18, https://www.debtagency.be/sites/default/files/content/download/files/review2017_outlook2018.pdf
[7] Mayer Brown: Summary Government Interventions Belgium, April 2009, https://www.mayerbrown.com/public_docs/0269fin_Summary_Government_Interventions_Belgium.pdf

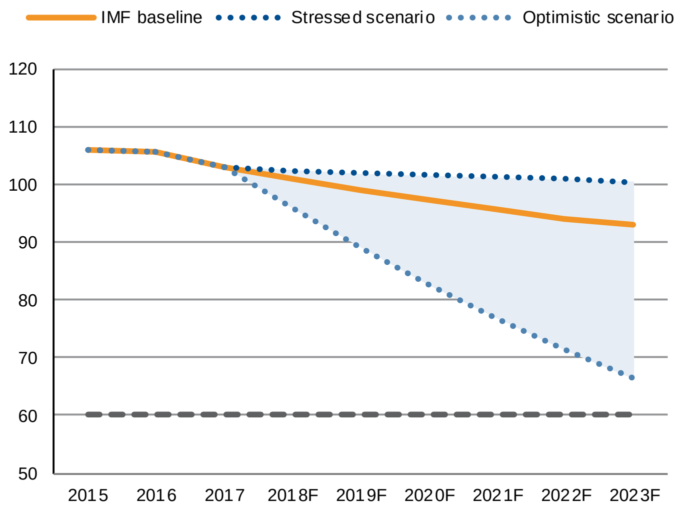
Further fiscal consolidation efforts may accelerate the decline in the country's high public debt-to-GDP ratio. Scope anticipates debt to GDP to continue falling, from 103% of GDP in 2017 to 93% in 2020 assuming primary surpluses remain at 1.4% and GDP growth at 1.6% over the medium term. Even under a stressed scenario, with growth rates 50% below Belgium's long-term potential and a primary balance close to zero, this key debt ratio will continue to decrease, albeit more moderately.

Figure 9: Contribution to gov. debt changes, % of GDP



Source: Haver Analytics, Scope Ratings

Figure 10: Government debt sustainability, % of GDP



Source: Haver Analytics, Scope Ratings

Scenario	Time period	Real GDP growth (%)	Primary bal. (% of GDP)	Real eff. int. rate (%)	Debt end period (% of GDP)
History	2013-2017	1,2	0,2	1,3	103,2
IMF baseline	2018-2023	1,6	0,4	0,1	93,0
Optimistic scenario		3,6	2,4	-0,3	66,3
Stressed scenario		2,4	0,5	2,5	100,5

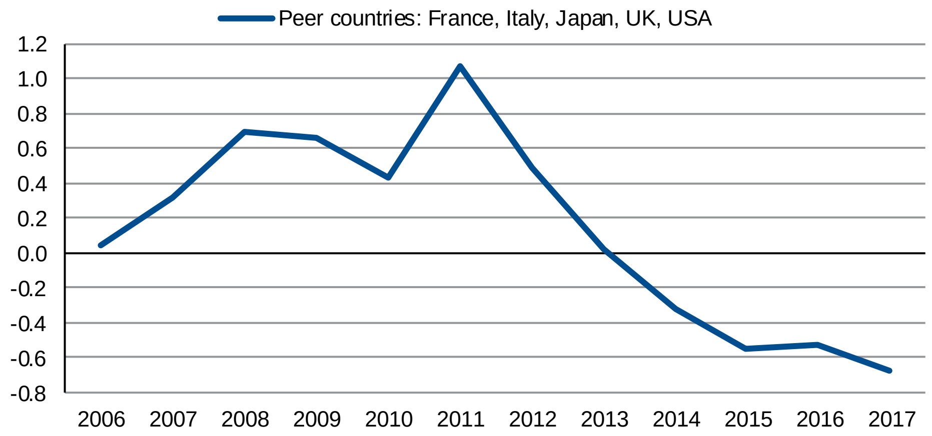
Market access and funding sources

Mitigating factors to debt risks

Despite Belgium's high debt levels, its debt composition supports a favourable rating compared to its rating peers: according to the Belgian Debt Agency more than 85% of public debt is long-term debt and new bonds are successfully placed in long-maturity bond auctions, underscoring the relative ease of Belgian funding[8]. The government currently pays interest of less than 0.5% on government bonds, which is equal to refinancing rates in France, despite Belgium's higher debt ratio and relatively less liquid bond market.

[8] https://www.debtagency.be/sites/default/files/content/download/files/review2017_outlook2018.pdf

Figure 11: Average bond spread compared to rating peers, in percentage points



Source: International Financial Statistics (IFS), Scope Ratings

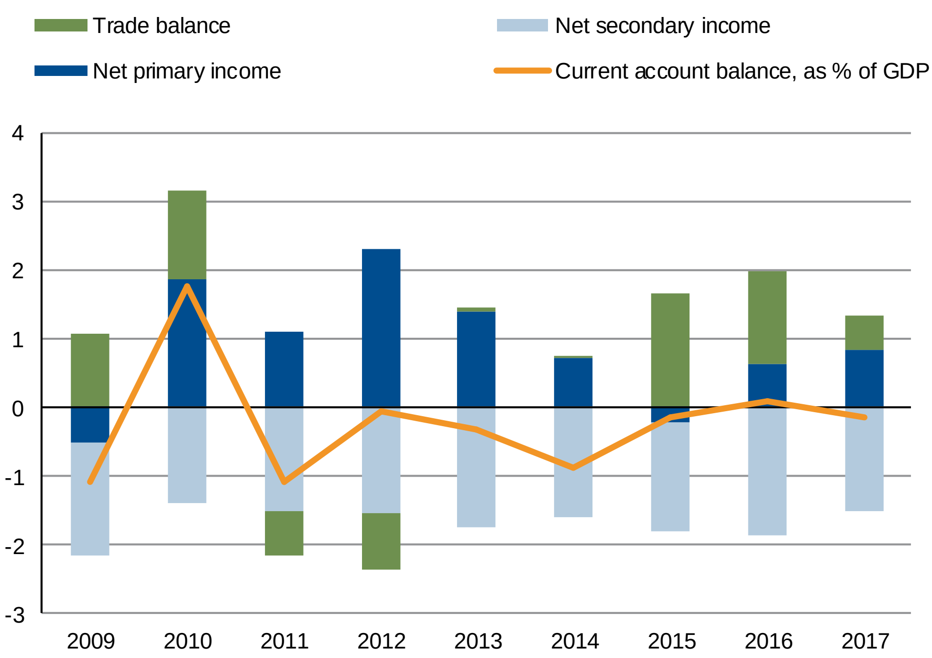
External economic risk

Current-account vulnerabilities

Balanced external position subject to Brexit risks

Belgium's current account was slightly positive in 2016, driven by a strong trade surplus but generated a slightly negative current account in 2017. Overall, the current account is generally in balance. Scope expects small trade surpluses around 0.5% of GDP for the medium-term, with the current account expected to remain in overall balance. Scope sees major potential downside risks for the current account from protectionist developments in international trade and Brexit. The UK is among Belgium's top five trading partners, accounting for 9% of its exports, which makes the Belgian economy vulnerable to negative effects of any Brexit.

Figure 12: Current-account balance, % of GDP



Source: IMF, Eurostat; calculations by Scope Ratings

External debt sustainability

Strong net international investment position

Scope believes that the country's strong net international investment position (NIIP) (55% of GDP) poses no foreseeable risk to sustainability. Alongside the current account surplus, the external position continues to protect the government from higher risk premiums on government bonds[9].

Belgium's gross foreign assets are relatively large, largely due to corporate treasury activities, and present no significant risk to external debt sustainability. Any remaining risk exposure consists mostly of financial sector claims and public sector liabilities.

The economic growth trajectory and current account developments support a gradual moderating of the NIIP position over the medium term while clearly remaining above that of its European rating peers.

Vulnerability to short-term shocks

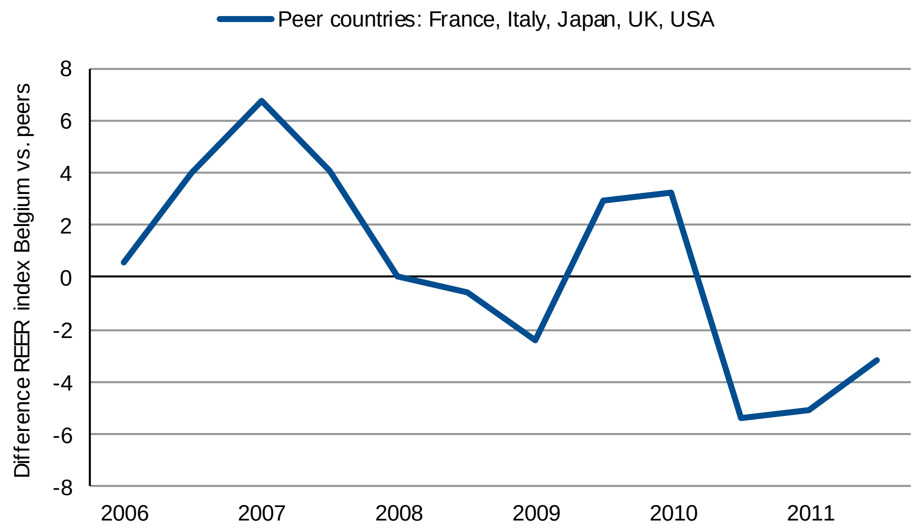
Decline in international competitiveness

The risk to any short-term foreign exchange shortfall is low due to Belgium's membership in the Euro area. Scope views the NIIP is sufficiently large to compensate for any temporary disruptions of external markets.

As a small, open economy, Belgium is vulnerable to external shocks such as Brexit. Combined with high regulation and low productivity gains – especially in services sectors – the economy's international competitiveness remains low compared to its rating peers.

Belgium is faced with a structural lack of international competitiveness with wage growth usually exceeding productivity growth by a considerable margin. Scope expects a pickup in inflation to also contribute to higher export prices and hence weaker competitiveness. The real exchange rate (REER) has appreciated (depending on definition) by 5-8% since the end of 2015, mirroring increasing wage costs after a long phase of moderation during the Great Financial Crisis (GFC).

Figure 13: REER spread versus peer countries, in percentage points



Source: IFS, Scope Ratings

[9] https://www.ceps.eu/system/files/book/2011/05/DG%20on%20Debt%20%26%20Taxes%20in%20EZ.pdf

Financial stability risk

Banking sector performance

Return to traditional banking

The Belgian banking sector has changed its business model with most institutions returning to traditional loan and savings activities, largely domestic lending with deposit funding.

Profitability of Belgian companies was restored after the GFC, and now ranking among the highest among EMU economies. Credit growth has been strong due to residential mortgage lending and loans to corporations have been increasing since 2014. Capital buffers have steadily increased (3% increase of Tier 1 capital to risk-weighted assets since 2009), and the NPL ratio has fallen to 2.4% of gross loans, well below the euro area average. Stress tests on financial sector resilience conducted in 2017 revealed positive results for banks and insurance companies alike, confirming that they have become more resilient to any reasonably foreseeable future economic or financial crisis.

The developing European banking union and the accompanying common insurance mechanism will contribute to further strengthening of the Belgian banking system, especially in terms of cross-border flows, which had led to the crisis in Belgian banking in 2009.

Banking sector oversight and governance

Strong financial sector oversight

Belgium has had several macro-prudential measures in place from 2016 onwards, either extensions of previous measures or newly activated. Besides phasing-in buffers for systemic banks, the National Bank of Belgium (NBB) prolonged a measure imposing higher risk weights applied by banks to mortgage loans in its capacity as designated authority.

The macro-prudential role played by the NBB is not entirely independent of the finance ministry. A proposal to increase capital charges on risky mortgages (based on loan-to-value ratios) was denied by the government. An alternative measure was proposed in November 2017 that awaits approval.

Financial imbalance and financial fragility

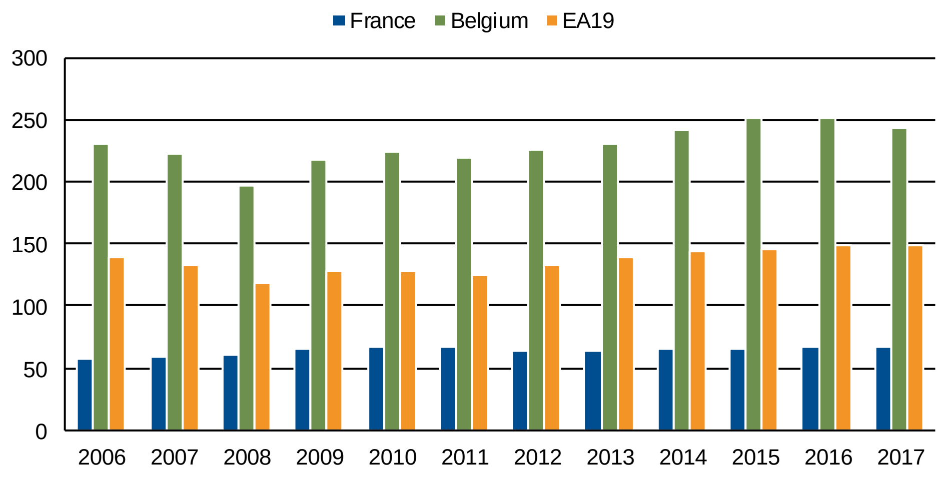
Housing market faces vulnerabilities

Scope believes financial sector vulnerabilities are limited with recent stress tests indicating a healthy position for the banking and insurance sector. However, the housing market, on the other hand, poses a growing risk for the Belgian economy with household debt (90% mortgage loans) currently at 60% of GDP.

House prices increased by 20% since the crisis with no correction after the GFC. Although many households have high net financial wealth (approximately 243% of GDP in 2017), one third of households can cover no more than six months of debt service. A high ratio of private mortgage debt among lower-income households and high repayment rates relative to income both contribute to a potential vulnerability. Micro-data show that adverse macro-economic shocks may especially affect specific groups of households[10]. The risk of a significant price correction may materialise when interest rates start to rise. A low ratio of variable-interest loans mitigates this risk, but interest rate increases would nonetheless adversely affect household wealth and hence the balance sheets of financial institutions.

[10] European Systemic Risk Board, Vulnerabilities in the EU residential real estate sector, November 2016.

Figure 14: Net household wealth, % of GDP



Source: Haver Analytics, Scope Ratings

Institutional and political risk

Perceived willingness to pay

As is the case with its rating peers, Belgium shows no post-war defaults on its debt. Scope expects any future Belgian government to fulfil their obligations.

Recent events and policy decisions

Coming elections raise uncertainty

Belgium faces national elections in 2019, which give rise to some uncertainty due to past experiences with complex government formation after long negotiations. The country faces difficulties due to the large political and economic disparities between its regions (Flanders and Wallonia).

The rejection of the NBB's proposal to prevent excessive risk on the mortgage market weakens the macro-prudential independence of the central bank. A new proposal has been issued by the central bank that awaits government approval. Scope notes that the government's rejection impairs the macro-prudential independence of the NBB.

Geopolitical risk

The country faces no serious geopolitical risks compared to peers.

Methodology

The methodology applicable for this rating and/or rating outlook, 'Public Finance Sovereign Ratings', is available at www.scoperatings.com.

Historical default rates from Scope Ratings can be viewed in Scope's rating performance report at https://www.scoperatings.com/#governance-and-policies/regulatory-ESMA. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA) at http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's definition of default and definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is not automatically ensured, however.

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative A (a) rating range for Belgium. This indicative rating range can be adjusted by up to three notches on the Qualitative Scorecard (QS) depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For Belgium, the following relative credit strengths have been identified: i) economic policy framework, ii) macro-economic stability and sustainability, iii) fiscal policy framework, iv) debt sustainability, v) market access and funding sources, vi) current account vulnerability, vii) external debt sustainability, viii) vulnerability to short-term external shocks, ix) banking sector performance, and x) banking sector oversight and governance. The combined relative credit strengths and weaknesses indicate a sovereign rating of AA for Belgium. A rating committee has discussed and confirmed these results.

Rating overview	
CVS category rating range	a
QS adjustment	AA
Final rating	AA

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 24 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest score. The score result translates to an indicative rating range that is always presented in lowercase.

Within the QS assessment, analysts conduct a comprehensive review of the qualitative factors. This includes but is not limited to economic scenario analysis, review of debt sustainability, fiscal and financial performance, and policy implementation assessments.

There are three assessments per category for a total of 15. For each assessment, analysts examine the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment, which is the basis for the analysts' recommendation to the rating committee.

II. Appendix: CVS and QS results

CVS

Rating indicator	Category weight
Domestic economic risk	**35%**
Economic growth	
Real GDP growth	
Real GDP volatility	
GDP per capita	
Inflation rate	
Labour & population	
Unemployment rate	
Population growth	
Public finance risk	**30%**
Fiscal balance	
GG public balance	
GG primary balance	
GG gross financing needs	
Public debt	
GG net debt	
Interest payments	
External economic risk	**15%**
International position	
International investment position	
Importance of currency	
Current-account financing	
Current-account balance	
T-W effective exchange rate	
Total external debt	
Institutional and political risk	**10%**
Control of corruption	
Voice & accountability	
Rule of law	
Financial risk	**10%**
Non-performing loans	
Liquid assets	
Credit-to-GDP gap	
Indicative rating range	**a**
QS adjustment	**AA**
Final rating	**AA**

QS

Maximum adjustment = 3 notches

	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	◉ Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential well under trend or negativ
Economic policy framework	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Macro-economic stability and sustainability	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Fiscal policy framework	○ Exceptionally strong performance	◉ Strong performance	○ Neutral	○ Weak performance	○ Problematic performa
Debt sustainability	○ Exceptionally strong sustainability	◉ Strong sustainability	○ Neutral	○ Weak sustainability	○ Not sustainable
Market access and funding sources	◉ Excellent access	○ Very good access	○ Neutral	○ Poor access	○ Very weak access
Current account vulnerability	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
External debt sustainability	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Vulnerability to short-term external shocks	○ Excellent resilience	◉ Good resilience	○ Neutral	○ Vulnerable to shocks	○ Strongly vulnerable to shocks
Perceived willingness to pay	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Recent events and policy decisions	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Geopolitical risk	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Banking sector performance	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Banking sector oversight and governance	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Financial imbalances and financial fragility	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate

*** Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10**

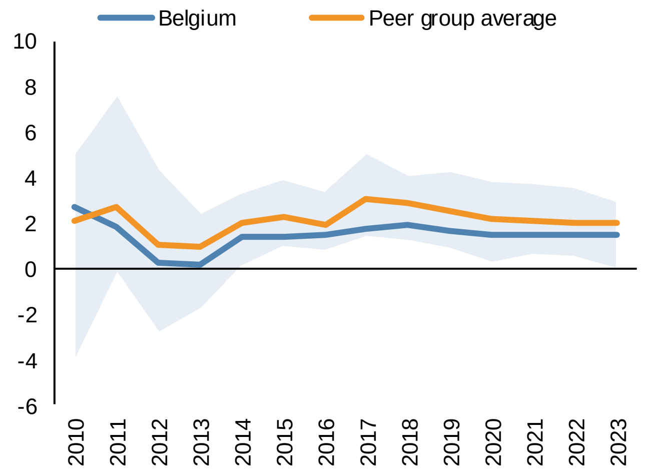
Source: Scope Ratings GmbH

Foreign- versus local-currency ratings

Belgium's debt is predominantly issued in euro. Being a member of the euro area and due to its strong net international investment position, Scope sees no evidence that Belgium would differentiate among any of its contractual debt obligations based on currency denomination.

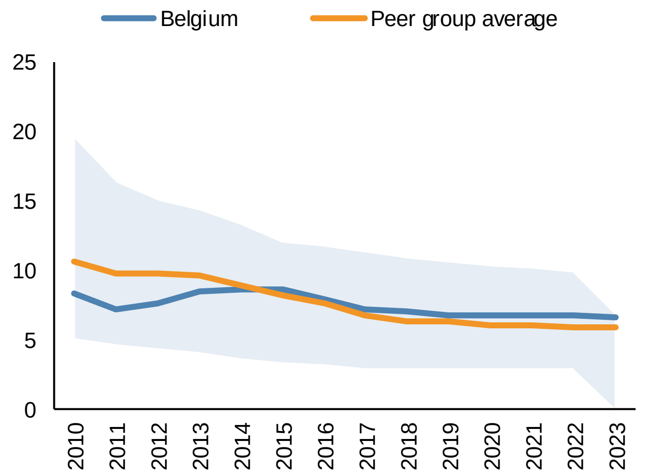
III. Appendix: Peer comparison

Figure 15: Real GDP growth



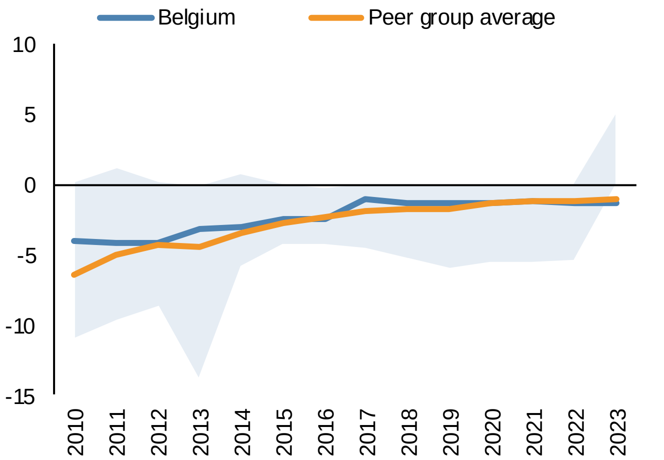
Source: IMF, Calculations Scope Ratings GmbH

Figure 16: Unemployment rate, % of total labour force



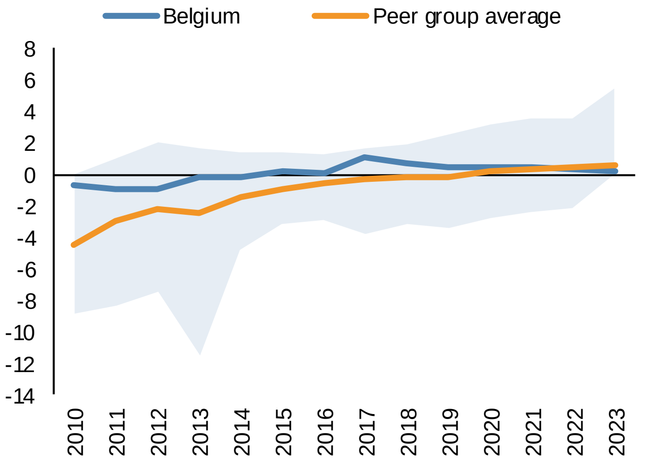
Source: IMF, Calculations Scope Ratings GmbH

Figure 17: General government balance, % of GDP



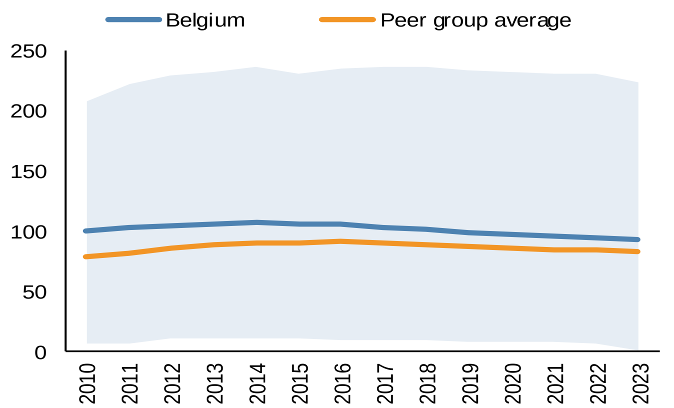
Source: IMF, Calculations Scope Ratings GmbH

Figure 18: General government primary balance, % of GDP



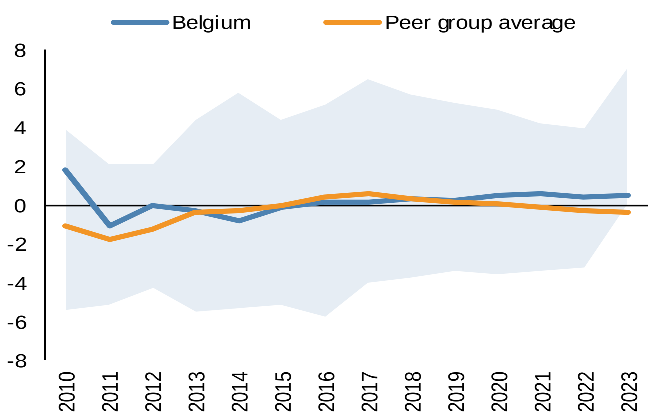
Source: IMF, Calculations Scope Ratings GmbH

Figure 19: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

Figure 20: Current-account balance, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

IV. Appendix: Statistical tables

	2013	2014	2015	2016	2017	2018E	2019F
Economic performance							
Nominal GDP (EUR bn)	392,3	400,3	410,4	423,0	438,1	453,5	468,7
Population ('000s)	11.138,0	11.181,0	11.237,0	11.311,0	11.352,0	11.411,0	11.470,0
GDP per capita PPP (USD)	43.519,8	44.627,0	45.430,9	46.428,7	-	-	-
GDP per capita (EUR)	35.225,5	35.801,3	36.524,5	37.401,1	38.597,3	39.743,7	40.861,1
Real GDP, % change	0,2	1,4	1,4	1,5	1,7	1,9	1,7
GDP growth volatility (10-year rolling SD)	1,8	1,6	1,6	1,6	1,4	1,4	0,8
CPI, % change	1,2	0,5	0,6	1,8	2,2	1,6	1,8
Unemployment rate (%)	8,5	8,6	8,5	7,9	7,2	7,0	6,8
Investment (% of GDP)	22,2	23,3	23,6	23,9	23,8	24,1	24,5
Gross national savings (% of GDP)	21,9	22,5	23,4	24,0	23,9	24,5	24,8
Public finances							
Net lending/borrowing (% of GDP)	-3,1	-3,1	-2,5	-2,5	-1,1	-1,3	-1,3
Primary net lending/borrowing (% of GDP)	-0,2	-0,2	0,2	0,1	1,1	0,7	0,5
Revenue (% of GDP)	52,7	52,1	51,3	50,7	51,1	50,4	50,1
Expenditure (% of GDP)	55,8	55,2	53,8	53,2	52,2	51,7	51,4
Net interest payments (% of GDP)	2,9	2,9	2,7	2,5	2,2	2,0	1,9
Net interest payments (% of revenue)	5,5	5,5	5,2	5,0	4,4	3,9	3,7
Gross debt (% of GDP)	105,5	106,8	106,0	105,7	103,2	101,0	99,1
Net debt (% of GDP)	92,5	93,7	93,1	92,4	90,3	88,6	87,1
Gross debt (% of revenue)	200,1	204,8	206,4	208,4	202,0	200,2	197,9
External vulnerability							
Gross external debt (% of GDP)	244,9	259,0	256,1	274,1	256,7	-	-
Net external debt (% of GDP)	-88,4	-71,1	-54,5	-26,6	-14,7	-	-
Current-account balance (% of GDP)	-0,3	-0,9	-0,1	0,1	0,1	0,3	0,2
Trade balance [FOB] (% of GDP)	-0,7	-0,8	0,1	0,3	0,4	0,3	0,4
Net direct investment (% of GDP)	0,8	1,6	3,5	-1,7	4,1	-	-
Official forex reserves (EOP, EUR mil)	6.047,0	6.730,0	8.212,0	8.384,0	8.400,0	-	-
REER, % change	1,5	0,3	-3,1	2,9	1,3	-	-
Nominal exchange rate (EOP, USD/EUR)	1,4	1,2	1,1	1,1	1,2	-	-
Financial stability							
Non-performing loans (% of total loans)	5,3	3,3	3,0	2,6	-	-	-
Tier 1 ratio (%)	16,4	15,3	16,0	16,2	-	-	-
Consolidated private debt (% of GDP)	165,4	166,8	177,8	186,8	179,9	-	-
Domestic credit-to-GDP gap (%)	-3,7	-7,1	-7,9	0,5	-	-	-

Sources: IMF, European Commission, European Central Bank, National Bank of Belgium, World Bank, Haver Analytics, Scope Ratings

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings GmbH.

Rating prepared by Dr Bernhard Bartels, Lead Analyst, Associate Director

Person responsible for approval of the rating Dr Giacomo Barisone, Head of Public Finance

The ratings/outlook were first assigned by Scope as subscription rating in January 2003. The subscription ratings/outlooks were last updated on 30.06.2017.

The senior unsecured debt ratings as well as the short-term issuer ratings were last updated by Scope on 30.06.2017.

The main points discussed during the rating committee were: (1) Belgium's economic outlook, (2) fiscal performance, (3) debt sustainability, (4) structural reforms, (5) market access and funding sources (6) fiscal consolidation developments, (7) political developments, (8) peers consideration.

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: The Ministry of Finance of the Belgian Government; Flemish and Wallonian Governments National Reform Programme (NRP), Belgian Debt Agency; the European Commission; the European Systemic Risk Board (ESRB); European Stability Mechanism (ESM); the National Bank of Belgium (NBB); IMF; OECD; and Haver Analytics.

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Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

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