KINGDOM OF BELGIUM

Rating Analysis - 12/6/19

*EJR Sen Rating(Curr/Prj) BBB/ NR

*EJR CP Rating: A2

Economic growth is projected to moderate to around 1% in 2020-21 with external headwinds weighing on exports and business investment, despite supportive financing conditions. Belgium's private consumption is expected to be more resilient on the back of past tax cuts and wage growth that will increase household disposable income. The job market is set to remain tight, with the unemployment rate at 5.4% at the end of 2021.

Fiscal policy aimed at support this moderate growth will reflect in a high public debt-to-GDP ratio. Loose financial conditions have fuelled credit growth, which require more binding borrower-based macroprudential instruments. Business investment and export growth are expected to ease in 2020, in line with the deterioration of the global economic conditions. The main risks include further slowdown in the Euroarea and uncertainty related to Brexit, which could adversely affect economic activity, esp. Belgium which has close trade ties with United Kingdom. We are affirming, with a devlp. watch.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2016	2017	2018	P2019	P2020	P2021
Debt/ GDP (%)	128.7	122.1	119.9	118.2	116.3	113.9
Govt. Sur/Def to GDP (%)	-2.4	-0.7	-0.4	-0.2	0.1	0.3
Adjusted Debt/GDP (%)	128.7	122.1	119.9	118.2	116.3	113.9
Interest Expense/ Taxes (%)	9.5	8.1	7.2	7.1	7.0	6.8
GDP Growth (%)	3.3	3.4	2.6	2.3	2.3	2.5
Foreign Reserves/Debt (%)	1.4	1.5	1.6	1.6	1.6	1.6
Implied Sen. Rating	BBB	BBB	BBB	BBB	BBB	BBB+

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	69.2	1.8	69.2	3.9	3.1	AA
Kingdom Of Denmark	AAA	48.0	1.2	48.0	2.4	2.1	AA+
Kingdom Of The Netherlands	AA+	65.6	1.4	65.6	3.7	4.9	AAA
Austria	AA+	91.6	0.6	91.6	6.1	4.2	AA+
French Republic	AA	122.1	-2.4	122.1	5.6	2.5	BBB

CDS Spreads (bps)

Legend: Belgium, Austria, France, The Netherlands
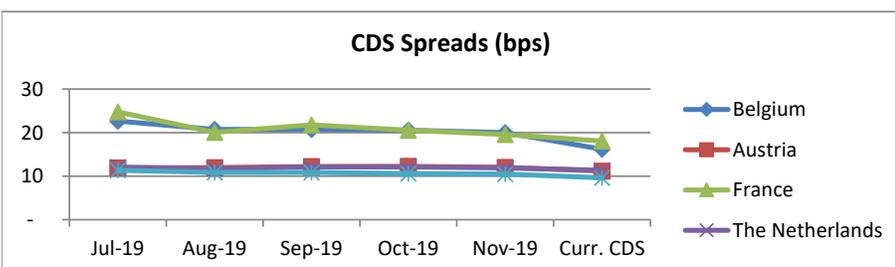
| Country	CDS
Belgium	16
Austria	11
France	18
The Netherlands	11
Germany	10

Economic Growth

The economy grew 0.4% seq. in seasonally-adjusted terms in Q3'19, up from the upwardly revised 0.3% QoQ s.a. expansion recorded in Q2'19. The important question is obviously whether this robust growth can be maintained in the coming quarters. Several confidence indicators declined again in October and given the importance of foreign trade for the Belgian economy, it would be very surprising to maintain dynamic domestic demand in a global economic context marked by subdued trade growth and protectionist tensions. The sharp deterioration in industrial activity is expected to eventually affect other sectors of the economy.

GDP Growth YoY

Source: Egan-Jones, IFS
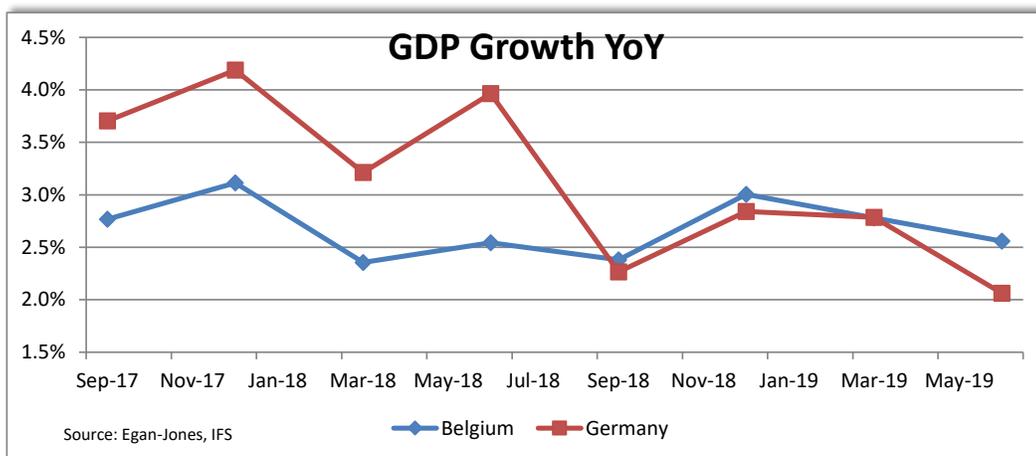
Fiscal Policy

Growth exceeded expectations in the third quarter, after slowing slightly in the second quarter. Household spending likely spearheaded the pick-up amid roaring retail sales in July-August and subdued inflation through the quarter. Despite the industrial slowdown, fixed investment seemingly slowed less than expected in Q3, supported by resilient optimism in the services sector. Although merchandise exports contracted in July-August, a sharper fall in merchandise imports may have prevented a downturn in the external sector.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Belgium	-0.40	119.91	16.18
Germany	1.77	69.18	9.61
Denmark	1.24	48.01	18.06
The Netherlan	1.44	65.57	11.17
Austria	0.56	91.58	8.13
France	-2.35	122.14	11.35
Sources: Thomson Reuters and IFS			

Unemployment

Belgium's 71 % of people aged 20 to 64 are employed - is the highest ever registered in the country. The employment rate has increased by 2% in one year's time. The employment rate has sharply increased for both sexes and amounts to 75.1 % for men and to 66.9 % for women. The employment rate is progressing positively in the three regions but the differences among the regions remain significant. In Q2 2019, the employment rate reached 76% in Flanders, 65.2% in Wallonia and 61.7% in Brussels.

| Unemployment (%)		
	2017	2018
Belgium	7.10	5.90
Germany	3.76	3.40
Denmark	5.72	4.97
The Netherla	4.86	3.84
Austria	5.52	4.86
France	9.43	9.11
Source: Intl. Finance Statistics		

Banking Sector

Outlook appears stable despite slowing economic growth and rising risks. Credit demand is likely to slow to more sustainable levels. At the end of 2018, the Belgian banks' total assets (on a consolidated basis) amounted to €99B. Interbank claims accounted for approximately 20%. Loans to households accounted for 20%. Households Debt to GDP in Belgium averaged 42.42% of GDP,reaching an all-time high of 61.30% of GDP in the fourth quarter of 2018.

Bank Assets (billions of local currency)		
		Mkt Cap/
	Assets	Assets %
DEXIA SA	158.8	0.19
ACKERMANS & VAN	14.2	32.54
KBC GROEP	283.8	9.81
Total	456.8	
EJR's est. of cap shortfall at		
10% of assets less market cap		12.9
Belgium's GDP		450.5

Funding Costs

The Belgium 10Y Government Bond has a -0.065% yield, with the Central Bank Rate at 0.00% (last modification in March 2016). The current 5-Years Credit Default Swap quotation is 15.80 and implied probability of default is 0.26% - suggesting quite stable outlook.

Sovereign Debt Yields (%)

Source: Ministry of Finance
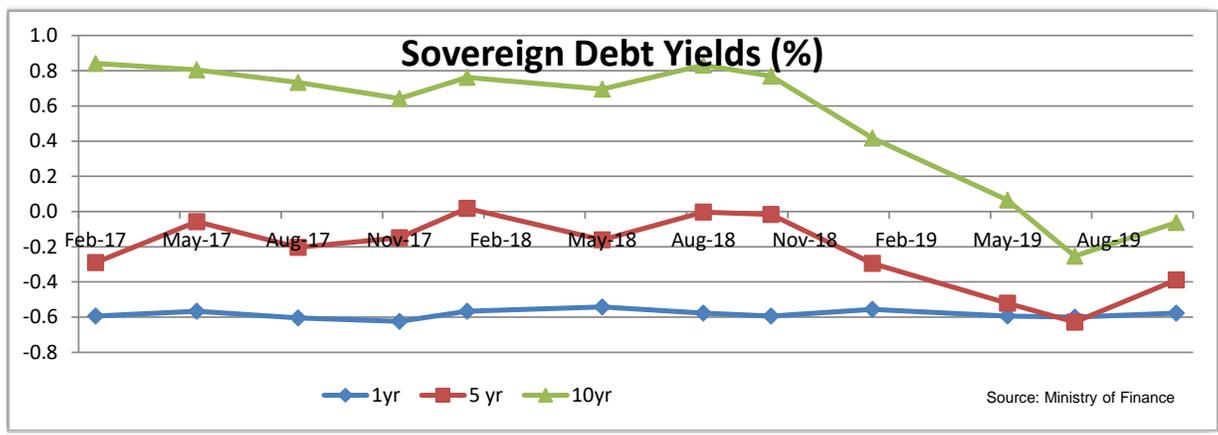
Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 46 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*			
	2019	2018	Change in
	Rank	Rank	Rank
Overall Country Rank:	**46**	**52**	**6**
Scores:			
Starting a Business	48	16	-32
Construction Permits	45	39	-6
Getting Electricity	108	103	-5
Registering Property	139	138	-1
Getting Credit	67	105	38
Protecting Investors	45	57	12
Paying Taxes	63	59	-4
Trading Across Borders	1	1	0
Enforcing Contracts	56	52	-4
Resolving Insolvency	9	11	2
* Based on a scale of 1 to 189 with 1 being the highest ranking.			

Economic Freedom

As can be seen below, Belgium is above average in its overall
rank of 67.3 for Economic Freedom with 100 being best.

Heritage Foundation 2019 Index of Economic Freedom World Rank 67.3*				
	2019 Rank**	2018 Rank	Change in Rank	World Avg.
Property Rights	81.3	81.2	0.1	52.3
Government Integrity	61.6	70.9	-9.3	44.9
Judical Effectiveness	72.5	69.5	3.0	41.5
Tax Burden	47.1	44.0	3.1	77.2
Gov't Spending	15.2	12.1	3.1	64.2
Fiscal Health	73.4	67.9	5.5	66.0
Business Freedom	78.1	80.6	-2.5	63.5
Labor Freedom	61.0	59.5	1.5	59.4
Monetary Freedom	76.1	82.6	-6.5	75.1
Trade Freedom	86.0	86.9	-0.9	74.3
*Based on a scale of 1-100 with 100 being the highest ranking.				
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).				
Source: The Heritage Foundation				

Credit Quality Driver: Taxes Growth:

KINGDOM OF BELGIUM has grown its taxes of 4.0% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 4.0% per annum over the next couple of years and 4.0% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

KINGDOM OF BELGIUM's total revenue growth has been less than its peers and we assumed no growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	4.6	4.0	4.0	4.0
Social Contributions Growth %	4.2	2.2	2.2	2.2
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	2.8	2.8	2.8
Total Revenue Growth%	4.5	3.4	3.4	3.0
Compensation of Employees Growth%	2.7	2.2	2.2	2.2
Use of Goods & Services Growth%	1.8	5.7	5.7	5.7
Social Benefits Growth%	2.5	3.3	3.3	3.3
Subsidies Growth%	3.7	0.3		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.9	1.9	1.9
Currency and Deposits (asset) Growth%	(8.9)	0.0		
Securities other than Shares LT (asset) Growth%	(2.4)	0.0		
Loans (asset) Growth%	(1.3)	2.3	2.3	2.3
Shares and Other Equity (asset) Growth%	3.5	(5.1)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	(27.0)	0.0		
Other Accounts Receivable LT Growth%	1.2	2.7	2.7	2.7
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	1.1	(3.8)	3.0	3.0
Currency & Deposits (liability) Growth%	1.2	2.5	2.5	2.5
Securities Other than Shares (liability) Growth%	(1.8)	1.2	0.8	0.8
Loans (liability) Growth%	(3.5)	(0.6)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	0.0	(37.4)	3.0	3.0
Financial Derivatives (liability) Growth%	0.0	0.0		
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are KINGDOM OF BELGIUM's annual income statements with the
projected years based on the assumptions listed on page 5.

ANNUAL REVENUE AND EXPENSE STATEMENT
(MILLIONS EUR)

	2015	2016	2017	2018	P2019	P2020
Taxes	124,502	127,479	134,711	140,147	145,753	151,583
Social Contributions	68,016	67,608	69,601	71,167	72,768	74,405
Grant Revenue						
Other Revenue						
Other Operating Income	18,551	20,112	20,989	21,567	21,567	21,567
Total Revenue	211,069	215,199	225,301	232,881	240,088	247,555
Compensation of Employees	51,156	52,371	53,996	55,208	56,447	57,714
Use of Goods & Services	16,660	16,850	17,390	18,378	19,422	20,526
Social Benefits	103,436	106,660	109,911	113,528	117,264	121,123
Subsidies	14,044	14,261	14,858	14,908	14,909	14,911
Other Expenses				12,775	12,775	12,775
Grant Expense						
Depreciation	9,140	9,277	9,507	9,717	9,717	9,717
Total Expenses excluding interest	207,972	213,205	217,612	224,514	230,535	236,766
Operating Surplus/Shortfall	3,097	1,994	7,689	8,367	9,553	10,790
Interest Expense	12,448	12,074	10,865	10,155	10,346	10,540
Net Operating Balance	-9,349	-10,080	-3,176	-1,787	-793	249

ANNUAL BALANCE SHEETS

Below are KINGDOM OF BELGIUM's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (MILLIONS EUR)					
ASSETS	**2015**	**2016**	**2017**	**2018**	**P2019**	**P2020**
Currency and Deposits (asset)	17,330	19,561	19,917	19,007	19,600	19,600
Securities other than Shares LT (asset)	1,270	1,580	1,817	2,347	2,347	2,347
Loans (asset)	36,356	37,855	38,934	39,832	40,751	41,691
Shares and Other Equity (asset)	56,003	65,295	64,271	60,975	62,195	63,438
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)				2,140	2,140	2,140
Other Accounts Receivable LT	22,825	24,530	23,351	23,987	24,640	25,311
Monetary Gold and SDR's						
Other Assets					2	2
Additional Assets		-1		2		
Total Financial Assets	133,784	148,820	148,290	148,290	151,674	154,529
LIABILITIES						
Other Accounts Payable	16,469	17,552	17,222	16,567	17,064	17,576
Currency & Deposits (liability)	1,380	1,397	1,424	1,459	1,459	1,459
Securities Other than Shares (liability)	424,556	445,333	437,628	442,819	446,496	450,203
Loans (liability)	81,465	82,001	79,731	79,253	80,046	79,796
Insurance Technical Reserves (liability)	735	142	155	97	100	103
Financial Derivatives (liability)				2,718	2,718	2,718
Other Liabilities	757	171	164	62	62	62
Liabilities	525,362	546,596	536,324	542,975	547,152	549,757
Net Financial Worth	-391,578	-397,776	-388,034	-394,685	-395,478	-395,228
Total Liabilities & Equity	133,784	148,820	148,290	148,290	151,674	154,529

Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "BBB" whereas the ratio-implied rating for the most recent period is "BBB"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:
For the issuer KINGDOM OF BELGIUM with the ticker of 111136Z BB we have assigned the senior unsecured rating of BBB. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:
We are using the methodology version #13 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:
The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:
Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:
Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:
EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:
Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:
EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, governmental filings and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:
This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:
Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:
Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:
Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	4.0	8.0	-	BBB	BBB+	BBB
Social Contributions Growth %	2.2	5.2	(0.8)	BBB	BBB+	BBB
Other Revenue Growth %		3.0	(3.0)	BBB	BBB	BBB
Total Revenue Growth%	3.4	5.4	1.4	BBB	BBB	BBB
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	BBB	BBB	BBB

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:
This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1) No part of the credit rating was influenced by any other business activities,
2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

Today's Date

December 06, 2019

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Subramanian NG
Senior Rating Analyst

Reviewer Signature:

Today's Date

December 06, 2019

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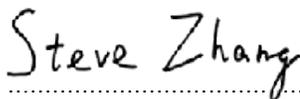
Steve Zhang
Senior Rating Analyst

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward- looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.