Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
KINGDOM OF BELGIUM	Assigned Ratings/Outlook: **AA /negative**	Type: Monitoring, unsolicited
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	30-09-2016 26-06-2020 "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Neuss, 26 June 2020

Creditreform Rating has revised its outlook on the Kingdom of Belgium to "negative" from "stable", and affirmed the unsolicited long-term sovereign rating of "AA". Creditreform Rating has also affirmed Belgium's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "AA".

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Key Rating Drivers

1. Strong macroeconomic performance profile with stable growth and low unemployment, in an environment coined by high levels of wealth and productivity; medium-term growth outlook somewhat dampened by low productivity growth as well as elevated and rising private debt
2. Corona pandemic likely to cause a steep, albeit temporary, decline in the development of economic output and the labor market; great uncertainty over shape of recovery thereafter
3. Very strong institutional framework, further strengthened by EU/EMU integration; multiple and moderately coordinated layers of government continue to pose challenges to policy-making, while complex and time-consuming government formation drags on with the risk of significantly delaying progress in addressing needed structural reforms
4. Debt-to-GDP to soar from already elevated level amid leap in deficit and slumping GDP this year; public debt ratio likely to remain high, with ageing costs further increasing fiscal sustainability risks, somewhat balanced by lower-for-longer interest rates and sound debt management; formulation of credible medium-term fiscal consolidation strategy obstructed by difficult government formation
5. Risks regarding external position contained, looking at a moderate current account deficit and highly positive net international investment position

Reasons for the Rating Decision

Creditreform Rating has revised its outlook on the Kingdom of Belgium from stable to negative, reflecting

(i) rising fiscal sustainability risks due to rising debt levels from an already elevated starting point, further buttressed by prospectively challenging medium-term consolidation of public finances in the context of a complex and challenging political governance framework;

(ii) materially altered economic prospects amid plummeting GDP growth, and our expectation of an only gradual return to a new normal, also creating an unfavorable backdrop for the sovereign's public finances;

(iii) concerns over a possible protracted period of a political gridlock which entails the risk that structural bottlenecks may become more entrenched if policy-makers need a longer time span to agree on and implement necessary reforms

Macroeconomic Performance

A favorable macroeconomic performance profile featuring high levels of wealth and productivity, along with stable growth and low unemployment over the last few years, continues to support Belgium's credit rating. These considerations are somewhat balanced by low productivity growth as well as elevated and rising private debt, dampening our expectations regarding medium-term growth to some extent. Covid-19 will cause a severe, albeit temporary, dent in the development of economic output and the labor market, but the magnitude remains subject to great uncertainty.

The Belgian economy has grown by an annual average of 1.7% since 2014. Last year, real GDP growth came in at a relatively robust 1.4% (2018: 1.5%), still driven by domestic demand, although to a lesser extent than in the preceding year. Moreover, contrary to the prior year, net exports did not detract from overall output expansion (+0.1 p.p.). As opposed to neighboring Germany, Belgium's industry was less hard-hit by the global manufacturing downturn due to its relatively high share of the less cyclical pharmaceutical and chemical industries. Given the favorable labor market development and the highest increase in purchasing power (2.5%) since 2007 (NBB data), also thanks to automatic wage indexation, private consumption picked up throughout last year. While for 2019 overall consumption growth moderated to 1.1% (2018: 1.5%), Q4-19 saw the growth rate rise to 1.8%. Gross fixed capital formation lost steam last year (3.2% vs. 4.0% in 2018), in an environment characterized by Brexit uncertainty and global trade tensions, which among other things affected growth of investment in machinery and equipment. Buoyed by vivid investment in dwellings, reflecting strong dynamics in the residential real estate market, growth of total construction investment held up more strongly. With overall moderating domestic demand, import growth more than halved to 1.0% (2018: 2.1%), whereas export growth posted a lackluster 1.1% (2018: 1.2%). Inventories meanwhile posed a drag on GDP growth (-0.4 p.p.).

As regards the labor market, we observe that Belgium's unemployment rate fell further to a record-low 5.2% in Q4-19 (Q4-18: 5.8%), thus remaining well below the euro area average

(Q4-19: 7.3%). Employment growth also exceeded the euro area's job creation rate, and defied the euro area trend by accelerating to 1.6% (2018: 1.4%). Sectors including trade, accommodation and food as well as professional, scientific and technical activities, together accounting for just over 40% of total employment, saw comparatively stronger job creation. More structurally, labor participation (15-64y), despite having risen by 1.4 p.p. since 2016, remains significantly below that of the euro area (69.0% vs. 73.7%), with especially elderly and young people displaying lower participation rates.

In the wake of the Covid-19 pandemic and measures taken to suppress the spread of the virus, the overall economic situation is set to see a drastic deterioration in 2020. Real GDP will very likely register a sharp contraction, and unemployment should rise markedly. Wide-ranging restrictions to public life and to business activities amid a lockdown from 18 March saw the economic output plummet by 2.5% y-o-y in Q1 (EA-19: -3.1%). Private consumption fell by 4.8% as non-essential shops, cafes and restaurants were closed. As the decrease in imports was more pronounced than that of exports, net exports made a positive growth contribution.

In response to the corona crisis, the government in March presented its Federal Plan for Social and Economic Protection, of which the first two parts were activated on 6 and 20 March, involving a series of measures to support employees, the self-employed and faltering companies. Direct federal measures included aid to the health system, direct financial assistance for smaller enterprises, deferrals of tax and social security payments, as well as financing of temporary unemployment due to corona force majeure. The government, furthermore, initially provided loan guarantees for new bridge loans to business and self-employed, provided these were financially healthy prior to the Covid-19 outbreak. Together with direct measures on the regional level, the initial joint government package added up to approx. EUR 62.1bn.

At the beginning of June, further measures as a third part of the Plan were approved, geared towards aiding households' purchasing power, activity and employment in the coming months and partly extending already existing measures. Additional measures followed on 13 June, among other things to encourage investment e.g. via an increase in the tax relief on business investment, but also including e.g. enhanced deductibility of events-related cost, as well as enhancements to the temporary unemployment scheme and to parental leave.

The government's course has been flanked by the European Central Bank (ECB) which, at its monetary policy meeting in June, stepped up its initial Pandemic Emergency Purchase Program (PEPP) by EUR 600bn to EUR 1,350bn and extended it to at least end of June 2021. Also, the ECB announced reinvestments of maturing principal payments from securities purchased under PEPP until at least the end of 2022. The additional envelope of EUR 120bn to the APP until the end of the year, as already announced in March, remains in place, as do a number of measures to ensure liquidity to the banking sector, a comprehensive set of collateral measures to mitigate the tightening of financial conditions across the euro area, and measures to temporarily mitigate the effect of rating downgrades on counterparties' collateral availability. As for macroprudential action, the National Bank of Belgium

(NBB) has fully released the countercyclical capital buffer to provide some relief to the Belgian banking sector.

With a gradual winding down of confinement measures beginning only in early May following seven weeks of confinement, we expect Q2 to bear the brunt of the negative economic consequences. NBB estimates at the beginning of June were for GDP to slump by 16% in this quarter. Looking ahead, supported by the range of emergency measures to sustain health, employment, and incomes, as well as liquidity to enterprises and the envisaged stimulus to encourage consumption and investment, we expect GDP to rebound in the second half of the year.

Private consumption should bounce back to some extent, cushioned by automatic stabilizers and temporary unemployment due to force majeure that should allow many companies to retain staff. According to Statbel, the number of temporarily unemployed rose from 6,000 in February to 588,000 in April. Nevertheless, unemployment should rise markedly, also against the backdrop of a higher number of inevitable insolvencies, and households should be inclined to increase their precautionary savings given the highly uncertain outlook. Consumer confidence recovered somewhat from the declines in March and April, but remains at a very low level.

Gross fixed capital formation will also be hampered by the extreme uncertainty as well as by lower global demand this year, along with disruptions to supply chains as waves of infections and related confinement measures ripple through other countries. A further source of uncertainty is the difficult negotiations over the future relationship between the UK and the EU. While the financing environment should remain supportive thanks to extensive monetary policy and government support, many companies may be reluctant to embark on bigger projects at the current stage. Sentiment indicators seem to point to a somewhat mixed picture, but generally suggest that a number of industries are past the trough. Whilst survey data suggests that 50% of the companies may push back investment decisions indefinitely, NBB's business confidence indicator rose slightly to -34.4 in May, from April's all-time low at -36.1, led by business-related services.

Belgium as a trade hub, mirrored by its high degree of trade openness (163.3% of GDP in 2019), remains sensitive to declines in external demand. With Germany, France, and the Netherlands being the destination for almost 43% of Belgian exports in 2018, the strong declines in Q1 GDP, particularly drastic in France, do not bode well. We thus expect a steep fall in exports, resulting in a moderately negative contribution from net trade this year, as imports are also set to decline considerably, compounded by the slump in domestic demand. Overall, we would cautiously estimate GDP to fall by about 9.5% in 2020, followed by a rebound of about 7.0% in 2021. Uncertainty around these forecasts remains unusually high.

Turning to more structural aspects, Belgium's very high creditworthiness remains underscored by the country's high prosperity, as reflected in a relatively high per-capita income. With an estimated USD 49,529 (PPP, 2019), the Kingdom exhibits the second-highest level after Austria among our AA-rated sovereigns. A high productivity level, boosted by sectors such as pharmaceuticals and chemicals, contributes to the country's large wealth. In terms

of nominal labor productivity per person, Belgium posted 29.2% above the EU-27 level in 2018, third after Ireland and Luxembourg. This being said, we note that growth in labor productivity per person has remained well below euro area levels over recent years (0.2% vs. EA 1.3%, 2019 compared to 2016), thus negatively affecting the country's competitiveness and potentially impairing its macroeconomic performance going forward. The recently established National Productivity Council, which started its work in May 2019, echoes the importance of tackling this issue in its first annual report.

Belgium's disappointing productivity growth is partly due to the economy's relatively high concentration on services, which accounted for 78.2% of total gross value added (GVA) in Q4-19, thereby noticeably exceeding the euro area's reading (73.7%). More country-specific factors, according to OECD, include weaknesses in technology diffusion, low business dynamism, and the burden of overly heavy product market regulation. To some extent, labor shortages also play a role, which would serve as a reminder for the need to enhance labor mobility and to foster re- and upskilling. The fact that Belgium displays one of the highest vacancy rates in the euro area, suggesting mismatches in skill supply and demand, adds emphasis to this notion. In this context, we also recall that, while Belgium's labor tax wedge has come down slightly over the last few years, it still remained the highest in the OECD in 2019 (average earners).

In the same vein, we observe that total factor productivity has more or less stalled over the last few years, slightly falling in 2019 (-0.4%), with estimates suggesting that it will decline stronger than in the euro area in 2020 (AMECO data). A similar picture emerges examining the contribution of capital accumulation to potential growth, which continues to be weighed down by comparatively low public investment activity. At 2.6% of GDP (2019), Belgium's public investment ratio remains below that of the euro area (2.8%).

That said, we are aware that the Belgian authorities, across all layers of government, are firmly committed to increasing investment in a bid to support the country's energy and environmental transition, e.g. via the Energy Transition Fund which is to provide an annual amount of EUR 20bn for this purpose. Investment in sustainable transport to help alleviate congestion and foster electric mobility are part of the plan, currently visible in extensive rail works around the capital, as is investment in renewable power generation and smart grids. We also gather that there are a number of initiatives to foster digitization and innovation with joint investment on the federal and regional levels.

Looking at the country's cost competitiveness, there are mixed signals. Mainly due to subdued real compensation per employee, mirroring the government's efforts to keep wages in check, real unit labor cost developments over the last three years compare favorably against important trading partners such as Germany and the UK, but still unfavorably against France and the Netherlands. At the same time, Belgium's global export market share, which had been broadly stable at about 1.80% between 2012 and 2018, masked losses as regards the export market share in services (2.38 to 2.14% in 2012-18), and edged down to 1.76% in 2019.

Further to Belgium's non-cost competitiveness, drawing on the latest World Bank's Ease of Doing Business ranking, we note that the Kingdom slipped one rank, to 46 out of 190, remaining the weakest among its AA-peers in our rating universe, hence further strengthening the case for productivity-enhancing reforms. Registering property remains particularly arduous, while relatively high taxes and the administrative burden around paying taxes also poses challenges. Concurrently, Belgium dropped one rank in the World Economic Forum's (WEF) latest edition of the Global Competitiveness Report, to 22nd out of 141 economies. With that, the country remains more or less on par with the median of our AA-rated countries and above the euro area median (30). Weaknesses are perceived when it comes to ICT adoption, an area in which the country is placed only in the 47th position, and labor market flexibility. Moreover, limited domestic competition continues to weigh on product markets.

We note that macro-financial vulnerabilities linked to high private indebtedness, in a context of brisk credit growth and apparently stretched residential property valuations, remain elevated (see below). Non-financial corporations' debt stood at 124.2% of GDP in Q4-19, slightly down from 125.4% in Q4-18; however, it has to be stressed that a notable share of this consists of cross-border intra-group lending. By the same token, we continue to follow the development of household indebtedness closely, as household debt measured against disposable income has been on a longer-term upward trajectory, and in Q4-19 hit a comparatively high 106.1% (Q4-18: 104.1%).

Institutional Structure

We continue to regard the sovereign's high-quality institutional framework as a credit strength. Our favorable assessment is further buttressed by the wide-ranging benefits the country as a small, open economy can derive from its deep integration into EU and the euro area, as illustrated by respective intra-EU shares of 70.5% in goods trade and 71.1% regarding trade in services. Moreover, the capital enjoys a prominent international role in being the long-standing host to the headquarters of major EU institutions as well as NATO. In our assessment we have to weigh these strengths up against Belgium's complex political governance structure and the risk that the political gridlock may hamper reform efforts, implying that structural impediments could become more entrenched.

As to our preferred gauges for good governance - the World Bank's Worldwide Governance Indicators (WGIs) - we note that Belgium continues to display a somewhat mixed picture. With a view to the quality of policy formulation and implementation (i.e. government effectiveness), the country is on par with the euro area median (rank 35 out of 209 economies), while faring significantly better in voice and accountability (13 vs. EA median of 25) and control of corruption (21 vs. EA median of 41), but lagging behind in terms of political stability (86 vs. EU median of 56). The latter is partly the result of a system of multiple layers of government, as the strong identities of three regions and three communities are catered for in a decentralized system, which renders policymaking complex, often time consuming and potentially inefficient.

In this context, Belgium continues to be governed by a caretaker administration. While lengthy government formations are not unusual in Belgium, recalling that it took a record-

breaking 541 days after the election in 2010 to form a government, the political gridlock following the May 2019 election continues to drag on, as it has proved impossible to form a majority-backed federal government so far. When the corona pandemic struck in March, most of the opposition parties thus agreed to grant 'power of attorney' to the caretaker minority government (Francophone and Flemish liberals and Flemish Christian Democrats) - led by francophone liberal Sophie Wilmes and in place until October - to manage the corona crisis. While we acknowledge the extraordinary circumstances and cohesion as regards the emergency measures taken to prevent a longer-lasting economic slump, we remain wary as far as the need to address medium-term challenges to economic growth and competitiveness is concerned. We think that the consensus necessary for decisive reform action could be jeopardized against the challenging political backdrop, which could be compounded by the need to reduce extensive public debt following the most acute phase of the Covid-19 pandemic. We therefore also see a tail risk of increasing regional/communal disparities.

Fiscal Sustainability

A high, although declining, debt level and repeated fiscal slippage in the past continue to weigh on our assessment of Belgium's fiscal sustainability, along with contingencies owing to age-related costs and a government with only a temporary and specific mandate to manage public finances. Due to the pandemic and the related economic fallout, which will have public debt levels shoot up in the short term, risks to fiscal sustainability have risen significantly, although they are somewhat mitigated by a favorable debt profile and low financing costs, which will presumably remain in place for the foreseeable future.

After having narrowed to below 1.0% of GDP in 2017/18, mainly thanks to solid economic growth and increasing revenues, Belgium's general government deficit widened significantly to 1.9% of GDP in 2019. Total government revenue only rose by 0.8% (2018: 3.4%) last year, partly due to past reforms to corporate and labor taxation, which contributed to a 10.4% decline in the corporate tax intake (2018: +9.0%) and a 1.1% drop in personal income tax revenues (2018: +2.3%). The 2019 decline in corporate tax receipts followed strong increases in light of incentivized advance tax payments. Net social contributions grew stronger compared to the preceding year (3.2% vs. 2.2% in 2018). Meanwhile, general government expenditure increased by 3.0% (2018: 3.7%) amid an accelerated rise in social benefits (3.8%, 2018: 3.3%) and compensation of employees (3.1%, 2018: 2.6%). We note that these components remain high in a European comparison, putting constraints on spending flexibility.

In 2020, Belgium's deficit is set to see a massive increase in view of the Covid-19-related emergency measures, receding revenue, and activated automatic stabilizers amid the self-induced economic slump. In an initial response to the pandemic, a package for companies was introduced at the joint government level, consisting of EUR 10.19bn euro in budgetary affecting measures and EUR 51.9bn euro in guarantees for all new bank loans and credit lines with a maximum maturity of 12 months. The discretionary spending includes, as mentioned further above, support to the health system, temporary unemployment measures,

and benefit increases, among other things. As described, these initial measures were extended and/or supplemented in June, thus adding to deteriorating public finances.

Prior to the virus outbreak, we already expected a rather expansionary fiscal stance for 2020, with the headline deficit to rise to 2.3% of GDP and a deterioration in the structural balance. Given the dramatic changes since then, we now assume that the general government deficit will come in at approx. 9.8% of GDP. In the following year, the deficit should shrink considerably, based on our expectation of a GDP growth rebound and further unwinding of restrictions meant to safeguard people's health. Uncertainty around these assumptions remains substantial. Based on a June communication by the Belgian Debt Agency, gross funding requirements will increase to at least EUR 60.35bn this year, with net borrowing estimated at EUR 39.89bn – EUR 8.48bn more than reckoned in its April 2020 update.

Hence, recent events will inevitably have far-reaching consequences for the sovereign's debt level, which decreased from an intermediate peak of 107% of GDP in 2014 to a still elevated 98.6% in 2019. With that, Belgium still substantially exceeds the overall euro area debt level (84.1%) and posts highest among the AA-peers in our rating universe. To this end, it is also worth mentioning that Belgium exhibits a high debt-to-revenue ratio (2019: 196.1%). However, since we assume an ongoing benign interest rate environment thanks to the ECB's and other central banks' commitment to an accommodative monetary policy, risks related to sharp interest rate increases seem contained for the foreseeable future.

Against the backdrop of the economic damage caused by Covid-19 and the countermeasures announced so far, we would expect the debt-to-GDP ratio to skyrocket to about 116% in 2020, before falling back somewhat in the following year. The abovementioned guarantees would point to downside risks. To what extent and how quickly public debt will be consolidated once the crisis subsides seems highly uncertain, although we are aware of the remarkable success in consolidating public finances observed in 1999-2007 (115 to 87% of GDP). Moreover, new infection waves and a return to more restrictions cannot be ruled out as long as no tested vaccine is available.

We believe that medium-term risks to fiscal sustainability remain mitigated by Belgium's sound debt management and favorable debt affordability. The weighted average maturity of the country's debt portfolio reached a new peak at 9.81 years at the end of 2019. Thanks to the backdrop of continued low interest rates, interest payment in 2019 fell by another 2,9% to a relatively low 2.0% of GDP or 3.9% against total revenue. While borrowing requirements have strongly risen, we expect market rates to remain benign, as mentioned above.

Looking at other factors potentially posing challenges to public finances, risks for the country can be derived from an ageing population. Expenditure associated with ageing compares unfavorably with the EU (27.6% of GDP, EU median: 25.0%, 2016) and is expected to experience a relatively strong increase by 2030 (+2.1p.p. vs. +0.7p.p.), mainly driven by pension costs (EU Ageing Report). Having said that, the government has started to implement reforms to tackle old-age costs over the last few years, among other things by tightening conditions for early retirement and the introduction of supplementary pension schemes.

Also, there are plans to lift the retirement age to 67 years by 2030. However, with a view to difficulties in government formation, disagreement among social partners, and certainly to the acute pandemic risks requiring attention, a clear focus on these structural issues and decisive implementation seems less likely at present.

Turning to the banking sector, with assets amounting to about 230% of GDP ranging in the middle-field among the EU countries, there appear to be no immediate risks to the fiscal outlook. With a CET1-ratio of 16.3% in Q4-19 (EBA data) and non-performing loans at a relatively low 2.0%, important metrics point to a generally healthy condition. Having said that, profitability remains under pressure in the context of persistently low interest rates, compounded by a comparatively high banking tax. Besides, the overall still solid picture in the banking sector could worsen in the event of a high number of insolvencies and job losses as a consequence of the corona crisis. As mentioned further above, private debt is at an elevated level; moreover, we observe vivid credit growth, in particular with regard to lending for house purchases, which in the first four months of 2020 exhibited double-digit annual growth rates (April: 11.8%). This leaves banks also potentially more vulnerable to sudden drops in house prices, which have lately evolved dynamically, although the 3-year growth rate (Q4-19: 11.2%, ECB data) remains below levels observed for the euro area as a whole (14.1%), and various estimates on possible overvaluation do not yield a clear answer.

Foreign Exposure

Risks pertaining to Belgium's external position continue to appear limited at this stage, as the country commands a strong and sustained net credit position. Belgium's highly positive net international investment position (NIIP) increased to 47.2% of GDP in 2019 (2018: 38.1% of GDP), chiefly driven by a more positive direct investment balance resulting from higher net outflows, which also highlights recent volatility in this component. Apart from this, it seems worth noting that Belgian net external debt turned positive in 2019 (8.2% of GDP) for the first time since at least 2005 (Eurostat data). We would reiterate that intra-group lending, a comparatively stable funding source, continues to temper somewhat risks with regard to external liabilities.

The country's current account remained in moderate deficit in 2019 (-1.2% of GDP, 2018: -1.4%), following a phase of moderate surpluses between 2013 and 2017 that came to an end on the back of more or less erased surpluses in the services trade and primary income balances. The latter seems partly linked to outflows related to activities by multinational enterprises. Last year saw both goods and services trades at a nearly balanced position. The primary income surplus shrank further, leaving the secondary income balance (-1.4% of GDP) to dominate the overall current account position. Looking ahead, while exports and imports still registered growth in this year's first quarter, Q2 could see strong declines in both components, followed by some recovery in the second half of the year. Overall, we would expect the current account deficit to stay relatively close to current levels.

Rating Outlook and Sensitivity

Our rating outlook for Belgium's long-term credit ratings is negative, as we assume that the risk situation underlying the key factors affecting sovereign credit risk is likely to deteriorate. To this end, we would currently abstain from providing some forward guidance on the time frame underlying this outlook, owing to the high degree of unknowns surrounding the pandemic.

We could lower our ratings if the assumed economic recovery disappoints in terms of scope and timing and, partly related to that, fiscal metrics fail to improve, with the public debt ratio remaining high over the medium term. A new wave of infections requiring the reintroduction of lockdowns could prompt such a scenario. A negative rating action could also be triggered if the economic fallout proves stronger and more protracted than currently expected, leaving the labor market in a more critical state. Economic and fiscal prospects may be adversely affected by a protracted period of political uncertainty, with a caretaker government that struggles with obtaining parliamentary majorities for policies addressing reform needs beyond the acute corona phase.

We could consider a positive rating action if an economic recovery surprises with its strength, so that the extent of lost output is lower than expected, or if we see a credible commitment to sustained medium-term fiscal consolidation, ideally against the backdrop of broader political consensus.

Analysts

Primary Analyst
Fabienne Riefer
Sovereign Credit Analyst
f.riefer@creditreform-rating.de
+49 2131 109 1462

Chair Person
Benjamin Mohr
Head of Sovereign Ratings
b.mohr@creditreform-rating.de
+49 2131 109 5172

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

Economic Data

[in %, otherwise noted]	2014	2015	2016	2017	2018	2019	2020e
Real GDP growth	1.6	2.0	1.5	1.9	1.5	1.4	-9.5
GDP per capita (PPP, USD)	43,413	44,404	45,218	46,701	48,327	49,529	n.a.
HICP inflation rate, y-o-y change	0.5	0.6	1.8	2.2	2.3	1.2	0.3
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	81.4	81.1	81.5	81.6	81.7	n.a.	n.a.
Fiscal balance/GDP	-3.1	-2.4	-2.4	-0.7	-0.8	-1.9	-9.8
Current account balance/GDP	0.8	1.4	0.6	1.2	-1.4	-1.2	n.a.
External debt/GDP	257.1	255.5	277.0	256.0	241.8	248.2	n.a.

Source: International Monetary Fund, Eurostat, own estimates

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.

ESG Factor Box

Environ-mental Quality	Ecological Risks	Ressource Management	Education	Health	**Demo-graphics**
Labor	Equality	Technology & Infrastructure	**Safety & Security**	**Judicial system**	**Quality of Public Services**
Integrity of Public Officials	Quality and Efficacy of Regulations	**Civil Liber-ties/ Political Participation**	Market Access	Business Environment	Data Transparency

Environment	Social	Governance	Highly significant	Significant	Less significant	Hardly significant

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, Govern-ment 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.

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	30.09.2016	AA- /stable
Monitoring	28.07.2017	AA- /positive
Monitoring	01.06.2018	AA /stable
Monitoring	28.06.2019	AA /stable
Monitoring	26.06.2020	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.

This sovereign rating is an unsolicited credit rating. Neither the rated sovereign nor a related third party participated in the credit rating process. Creditreform Rating AG had no access to the accounts, representatives or other relevant internal documents for the rated entity or a related third party. Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

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, Blavatnik School of Government, National Bank of Belgium, Statbel, Belgian Debt Agency, Ministry 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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Creditreform Rating AG

Creditreform Rating AG
Hellersbergstrasse 11
D - 41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627
E-Mail info@creditreform-rating.de
Internet www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Prof. Dr. Helmut Rödl
HRB 10522, Amtsgericht Neuss