

Rating Action: **Moody's affirms Flanders' Aa2 rating with stable outlook**

Global Credit Research - 10 Nov 2017

London, 10 November 2017 -- Moody's Public Sector Europe ("MPSE") has today affirmed the Community of Flanders' (Flanders) Aa2 senior unsecured debt and issuer ratings, and the (P)Aa2 senior unsecured MTN program. Concurrently MPSE has affirmed Flanders' P-1 short-term commercial paper rating. The outlook remains stable.

RATINGS RATIONALE

RATIONALE FOR THE RATING AND OUTLOOK AFFIRMATION

MPSE's decision to affirm Flanders' ratings reflects (1) the entity's strong fiscal performance, expected to continue into the medium-term; and (2) a debt burden which is low relative to Belgian and Aa-rated peers, with direct debt forecast at 15.2% of revenue, and net direct and indirect debt at 46.9% of revenue in 2017. While net direct and indirect debt will rise moderately to around 52% of revenue by 2020, driven by increased capital spend, we expect Flanders' debt sustainability to remain consistent with the Aa2 rating. MPSE notes that Flanders is planning a large infrastructure project which is subject to implementation and cost overrun risks and represents a medium-term credit challenge for the entity.

Additionally, MPSE believes that the Belgian Constitution protects the Community of Flanders from federal decisions that could potentially hamper its financial position (such as sharp cuts in transfers), which allows it to maintain its rating one notch above that of the sovereign.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Upwards pressure on the ratings could arise from an upgrade of the sovereign rating.

Conversely, downward pressure on the rating would arise from (1) a downgrade of the sovereign rating, (2) material weakening of the Flanders' financial metrics or liquidity position, (3) poor implementation of the planned infrastructure project, leading to cost overruns which negatively affect the Flanders' financial performance.

The specific economic indicators, as required by EU regulation, are not available for this entity. The following national economic indicators are relevant to the sovereign rating, which was used as an input to this credit rating action.

Sovereign Issuer: Belgium, Government of

GDP per capita (PPP basis, US\$): 45,003 (2016 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 1.5% (2016 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 2% (2016 Actual)

Gen. Gov. Financial Balance/GDP: -2.5% (2016 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -0.4% (2016 Actual) (also known as External Balance)

External debt/GDP: [not available]

Level of economic development: Very High level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 09 November 2017, a rating committee was called to discuss the rating of the Flanders, the Community of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutional strength/ framework, have not

materially changed. The issuer's governance and/or management, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has not materially changed.

The principal methodology used in these ratings was Regional and Local Governments published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

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