

FOCAL POINT

Belgium: Muted downgrade impact,
but fiscal challenges persist over the longer term

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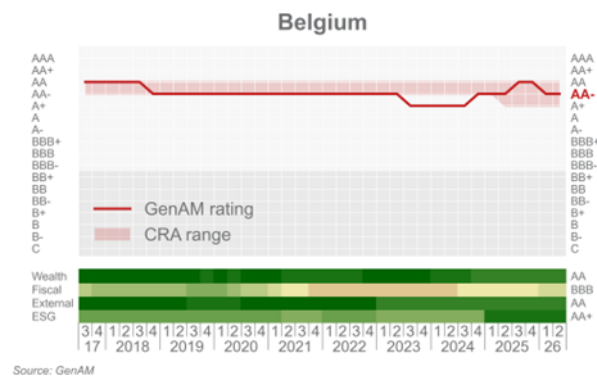
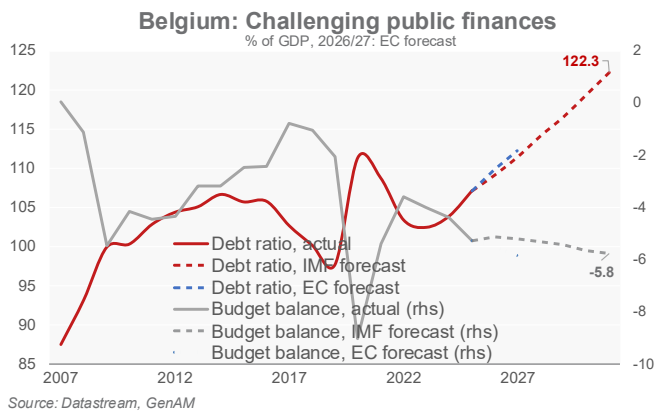
- Belgium's second-best rating is now effectively single-A, with S&P and Moody's cutting their ratings in April (Fitch downgraded already in June 2025); only S&P still assigns AA-, reflecting persistently high deficits (2025: -5.3%) and rising public debt (2025: 107%).
- As Belgium is a wealthy well-diversified economy integrated into the EU value chain, we see only limited near-term risks of further downgrades.
- However, unless public finances are lastingly put on a more favourable trajectory, we clearly see the risk tilted towards further downgrades over the coming years.
- Belgian government bonds have already priced in much of the deterioration in fundamentals, muting the market reaction to recent downgrades. At current rating levels, they screen as cheap. Additionally, stable foreign demand and an average residual maturity above 10 years support a structurally resilient bond market.
- Near-term OLO/Bund spread dynamics are likely to be driven mainly by geopolitics, but in relative value terms Belgian bonds remain unattractive versus peers. Over the medium term unresolved fiscal challenges continue to point to moderate widening potential arguing for caution, especially at the very long end of the curve.

As a large and highly liquid euro area sovereign bond market, Belgium is an important reference for spread pricing and investment allocation. Sovereign rating developments in the euro area show a diverging pattern: while several non-core economies have been upgraded in recent years (e.g. Portugal at A+ with a positive outlook by S&P), rating pressure has increasingly affected core and semi-core countries. In April, Belgium was downgraded by both Moody's (17 April) and S&P (24 April). Together with Fitch's downgrade to A+ (stable) in June 2025, Belgium's second-best rating has now effectively fallen to the single-A category, with only S&P still assigning AA-. This marks Belgium's exit from the AA/AA- rating range it had occupied for much of the past decade and further narrows the universe of euro area sovereigns rated outright AA or higher (now limited to Austria, Finland, Germany, Luxembourg and the Netherlands). While markets already reacted to the negative rating news, concerns remain that further pressure could follow. We see no significant near-term downgrade risks for Belgium. However, medium to longer term we currently do not see Belgium's debt trajectory being put on a more favourable path again, so that the risk remains tilted towards further downgrades.

Structurally high deficit and structural obstacles

The rationale for the downgrade was Belgium’s persistent fiscal slippage amid institutional and structural weaknesses. Large, structurally high deficits have put the economy on a rising debt path, while consolidation plans were seen as slow, uncertain, or hard to implement. The IMF expects this trend to persist over the next five years, with deficits around 5% of GDP or worse and the debt ratio rising to about 122% by 2031. This aligns with rating agencies’ views, which highlight mounting medium-term spending pressures – notably ageing costs, higher defence spending, and rising interest expenses – combined with a modest growth outlook that worsens debt dynamics and narrows fiscal space. Belgium’s complex, multi-layered institutional framework and political constraints further complicate budget coordination and make deeper fiscal adjustment challenging. Government formation after federal elections is often protracted, averaging almost one year since 2010. Our in-house rating assesses public finances as below the A-range.

Despite weak public finances, several factors continue to support Belgium’s high rating: a wealthy, diversified economy, euro area membership, and institutional and governance strengths that remain broadly supportive despite some marginal weakening. [Fitch](#) notes that Belgium benefits from income per capita and governance indicators well above the ‘A’ peer median, as well as eurozone membership. Fitch also highlights Belgium’s strong external balance sheet: although slightly weaker, the net international investment position stood at 52% of GDP in [2025](#), a key resilience factor versus many peers. [S&P](#) similarly points to structural external and macroeconomic strengths as important offsets to fiscal weaknesses in its rating and outlook rationale.



These supporting factors underpin Belgium’s stable rating outlook and should limit the risk of negative rating action in the near term. Over the medium to longer horizon, however, risks remain skewed toward further downgrades, as we see no clear signs of a sustained improvement in the fiscal trajectory. Economic growth has broadly tracked the euro area average over the past decade, but trend growth is set to moderate in Belgium as well. In addition, rating agencies factor in Belgium’s relatively high reliance on fossil fuels and elevated energy intensity. A prolonged escalation of geopolitical tensions could therefore marginally worsen the rating outlook.

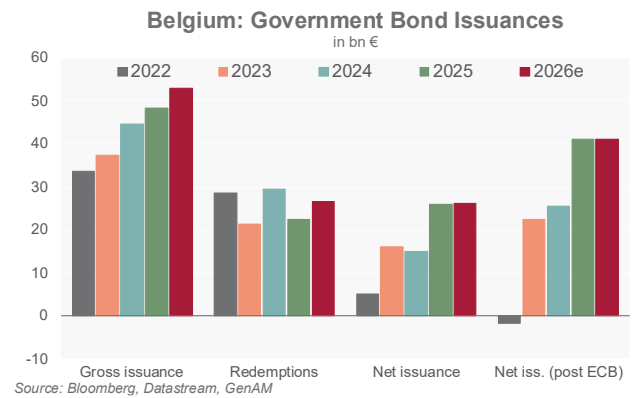
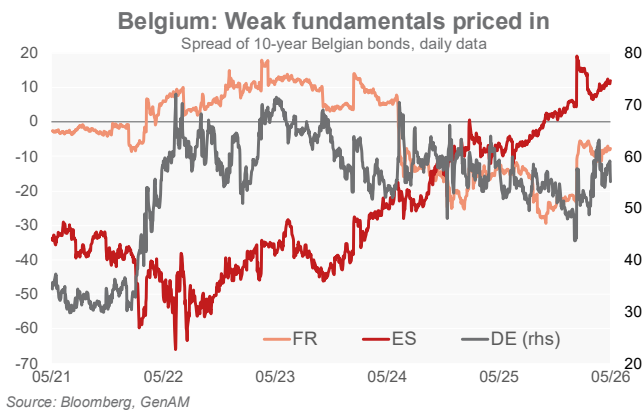
Belgian government bonds shrug off downgrades, OLOs trade cheap

Belgian government bonds had already been under sustained underperformance well before the rating downgrades in April 2026, as investors progressively reassessed the

country's deteriorating fiscal outlook. Against this backdrop, the immediate market reaction to the formal downgrade by Moody's and S&P proved relatively contained. Spreads widened only modestly, reflecting the fact that much of the negative fundamental narrative had been priced in over preceding months. Even after the downgrade, Belgian government bonds continue to appear cheap on a relative basis. OLOs trade at wider spreads than Spanish and Portuguese government bonds, despite Belgium still holding a higher average credit rating than both peers. This inversion underscores the extent to which a risk premium is already embedded in Belgian spreads. Crucially, the repricing has been orderly rather than disruptive. Market liquidity remains strong, auctions continue to clear, and there has been no evidence of forced selling.

Belgium's sovereign bond market benefits from a broad investor base, with foreign investors holding more than 60% of outstanding debt – high by euro area standards – even though this group typically exhibits a more volatile behaviour. The strong international presence nonetheless underscores Belgium's deep integration into the euro area economy and the continued perception of its debt market as liquid, transparent and institutionally robust, even as its fiscal metrics deteriorate.

Beyond valuation, structural features of Belgium's debt profile provide an additional buffer against near-term market stress. The average residual maturity of Belgian government debt exceeds 10 years, significantly above the euro area average, which helps to smooth refinancing needs and limits the immediate budgetary impact of higher yields. In parallel, Belgium has already placed more than 45% of its planned gross issuance for 2026, including issuance completed after the recent downgrades, reducing near-term technical risks and supporting market stability.



Geopolitics drive near-term spread development, fiscal risks linger

In the short run, movements in the OLO/Bund spread are likely to be driven primarily by geopolitical developments rather than domestic fundamentals. A stabilisation or easing of geopolitical tensions would likely support euro area sovereign risk more broadly and could result in tighter spreads for non-core issuers such as Belgium.

Over the medium term, however, the picture is less benign. Despite the sizeable risk premium already priced in, Belgium remains exposed to further spread widening as long as fiscal consolidation remains elusive. Elevated and rising debt levels, increasing interest expenditure and limited progress on structural reforms leave Belgian government bonds vulnerable to renewed pressure, particularly in an environment of sustained higher rates and persistent scrutiny from rating agencies.

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