FitchRatings

Flemish Community

Key Rating Drivers

Rating Derivation Summary: Fitch Ratings assesses the Flemish Community's Standalone Credit Profile (SCP) at 'aa+', reflecting a combination of a 'Stronger' risk profile and debt sustainability assessed in the upper end of the 'a' category under Fitch's rating-case scenario. The final Issuer Default Rating (IDR; AA/Negative) is one notch above Belgium's rating (AA-/Negative). The Negative Outlook reflects the Negative Outlook on the sovereign.

Risk Profile - 'Stronger': Fitch assesses five out of the six key risk factors (KRFs) as 'Stronger' (revenue robustness, revenue adjustability, expenditure sustainability, liabilities & liquidity robustness and liabilities & liquidity flexibility) and one KRF as 'Midrange' (expenditure adjustability).

The 'Stronger' risk profile reflects a negligible risk relative to international peers that the Flemish Community's ability to cover debt service by the operating balance may weaken unexpectedly over the forecast horizon, either because of lower-than-expected revenue or expenditure overshooting expectations, or because of an unanticipated rise in liabilities or debt-service requirements.

Debt Sustainability - 'a' Category: This assessment reflects a medium-term payback ratio that Fitch expects at about 10x in its rating-case scenario, a coverage ratio of about 1.3x and a fiscal debt burden at close to 70%. Fitch's rating-case scenario takes into account the financial impact of the coronavirus pandemic and the Flemish Community's budgetary objectives, including its new debt strategy.

One-Notch above the Sovereign: Fitch considers that the Flemish Community meets the conditions to be rated above the sovereign as it is protected from any unilateral interference from the federal government and has great financial and fiscal autonomy. However, Fitch believes that the Flemish Community cannot be rated at more than one notch above the sovereign, because a sharp deterioration in sovereign finances would have a negative impact on the Flemish Community.

ESG Considerations: ESG issues have a minimal impact on the Flemish Community's ratings, as reflected in a score of '3'.

Rating Sensitivities

Action on Sovereign: A downgrade on Belgium would be reflected in the Flemish Community's Long-Term IDRs, because the latter cannot be rated at more than one notch above the sovereign. The Outlook would be revised to Stable if the Outlook on the sovereign was revised to Stable, all other factors being equal.

Significantly Weaker Debt Metrics: The Flemish Community's long-term IDRs could be downgraded if its payback ratio exceeds 12x on a sustained basis in our rating-case scenario. This could happen if an economic downturn affects operating revenue growth more than already factored in in our rating-case scenario, or in case of an unexpected increase in expenditure.

Public Finance
Local and Regional Governments
Belgium

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com

Ratings

Foreign Currency

Long-Term IDR	AA
Short-Term IDR	F1+

Local Currency

Long-Term IDR	AA
Short-Term IDR	F1+
Senior Unsecured Debt – LT rating	AA
Senior Unsecured Debt – ST rating	F1+

Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative

Issuer Profile

The Flemish Community is a federated entity of the Belgian state, combining the responsibilities of a region, such as economy, and those of a community, such as welfare and education. It has a population of 6.6 million, representing 58% of the national population.

Financial Data

Flemish Community

(EURm)	2020e	2025rc
Payback (x)	-8.3	9.8
Synthetic coverage (x)	-1.4	1.3
Actual coverage (x)	-1.6	2.1
Fiscal debt burden (%)	42	69
Net adjusted debt	17,970	34,667
Operating balance	-2,158	3,541
Operating revenue	42,863	49,943
Debt service	1,311	1,669
Mortgage-style debt annuity	1,546	2,681

rc: Fitch's rating-case scenario
Source: Fitch Ratings, Flemish Community

Applicable Criteria

International Local and Regional Governments Rating Criteria (October 2020)

Related Research

Belgium (April 2021)

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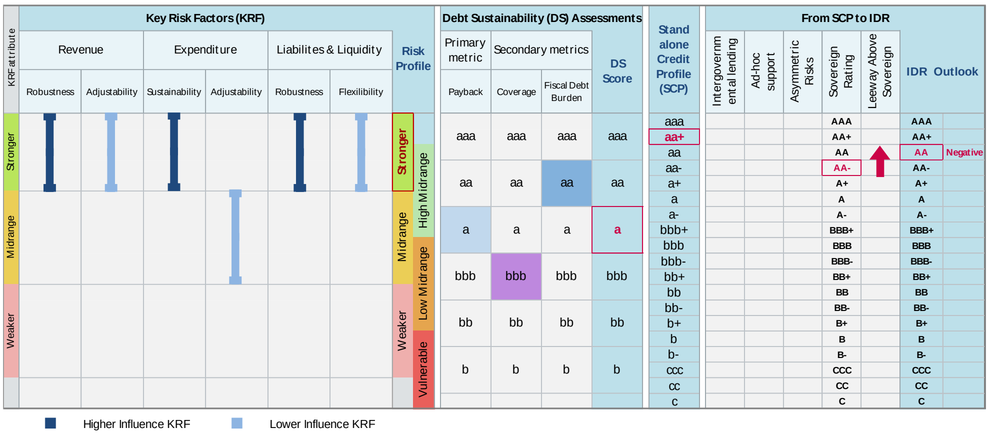
Rating Synopsis

Rating Building Blocks Overview



Rating History

Date	Long-Term Foreign-Currency IDR	Long-Term Local-Currency IDR
Mar 20	AA	AA
Mar 16	Withdrawn	Withdrawn
Sep 12	AA	AA

Source: Fitch Ratings

Issuer Profile

Institutional Framework

The Belgian federal state consists of two types of federated entities: three communities (Flemish-, French- and German-speaking) and three regions (Flanders, Wallonia, and Brussels-Capital). On the Flemish side, the community and the region are combined into one Flemish federated entity, with one Flemish parliament and one Flemish government, which is responsible for a range of areas, including economy, employment, transportation, education, healthcare and housing.

Fitch classifies the Flemish Community as a 'Type B' local and regional government (LRG). The Flemish Community shares key attributes of sovereignty and is able to incur structural deficits. Belgian federated entities are a material and growing share of Belgium's general government expenditure: 38% in 2019, up from 30% in 2008. Their share in the general government debt remains low, however, at 13% at end-2019. This reflects that the Federal government is responsible for most countercyclical expenditure, such as unemployment benefits and that there is no high fiscal imbalance that would lead to a high level of regional debt. As a result, Fitch believes that a 'Type B' LRG classification better reflects the credit risk of Belgian federated entities.

The financing of the federated entities is governed by the Special Finance Act of 16 January 1989. An amendment to this act requires a two-thirds majority in the Federal parliament, as well as a majority in each language group. The most recent amendment, known as the "sixth state reform", came into force on 1 July 2014 and has been implemented since the 2015 tax year. The reform led to a significant transfer of powers to the Flemish community, such as economy and employment, and increased its fiscal autonomy. It also imposed on the regions and communities a significant contribution to the consolidation of Belgian public finances.

Socio-Economic Profile

Flanders is the most populated community in Belgium. In 2020, it had about 6.6 million residents, representing 58% of the national population. It comprises large cities, such as Antwerp, Ghent and Bruges. Its population grew by 0.6% a year on average in 2010-2020, in line with the national average.

The Flemish Community is characterised by strong socio-economic indicators. In 2018, GDP per capita was EUR41,000 — 32% above the EU average. The unemployment rate is low, at 3.4% in 4Q20 — well below the national average of 5.8%.

The Belgian economy was hit by the coronavirus pandemic as GDP contracted by 6.3% in 2020. Fitch expects it to grow by 3.8% in 2021 and 3.5% in 2022. The pace of the recovery will

Flemish Community

Source: Fitch Ratings

Socioeconomic Indicators

	Flemish Community	Belgium
Population (m), 1 January 2020	6.629	11.492
2010-2020 average annual population growth (%)	0.6	0.6
GDP per capita, 2018 (EUR)	41,000	40,200
Unemployment rate, 4Q20 (%)	3.4	5.8
Population below poverty line, 2019 (%)	9.8	14.8

Source: Fitch Ratings, Eurostat, Statbel have a direct impact on the Flemish Community's revenue, especially on tax revenue that are collected and transferred by the central government.

Trade and services are the primary drivers of the economy, and the Flemish Community benefits from excellent transportation infrastructure, as well as being centrally located in the EU. Brexit will also have a negative effect on the Flemish Community's industry and trade, which have significant exposure to the UK market.

Risk Profile: 'Stronger'

We assess the Flemish Community's risk profile as 'Stronger', which reflects the following assessment of the six KRFs.

Flemish Community – Risk Profile Assessment

Risk profile	Revenue robustness	Revenue adjustability	Expenditure sustainability	Expenditure adjustability	Liabilities & liquidity robustness	Liabilities & liquidity flexibility
Stronger	Stronger	Stronger	Stronger	Midrange	Stronger	Stronger

Source: Fitch Ratings

Revenue Breakdown, 2020e

	Operating revenue (%)	Total revenue (%)
Surcharges PIT	18	-
Regional taxes	15	-
Taxes transferred by the federal state	57	-
Other operating revenue	10	-
Operating revenue	**100**	**99**
Financial revenue		**0**
Capital revenue		**1**

e: Estimated
Source: Fitch Ratings, Flemish Community

Revenue Robustness: 'Stronger'

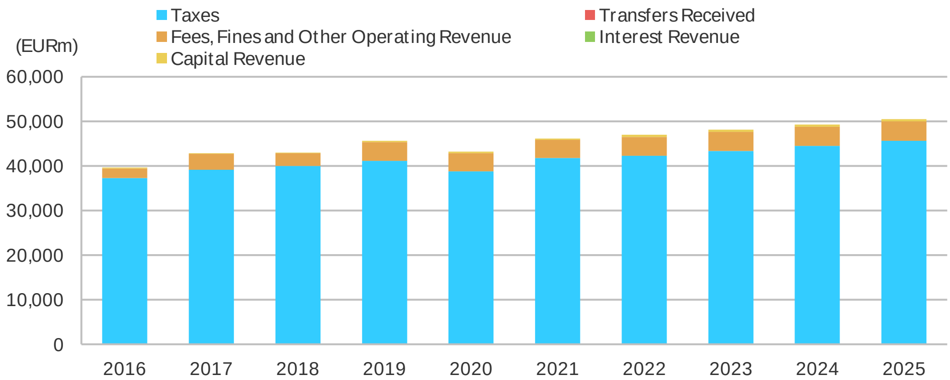
The Flemish Community benefits from robust revenue sources, mainly comprising stable and growing tax items. Most of them were hit by the coronavirus pandemic in 2020-2021, but we expect them to grow at a sustainable pace in 2022-2025. They are supported by the strength of the Belgian economy, especially that of the Flemish Community.

Operating revenue grew by 4.9% a year on average in 2015-2019, above national nominal GDP growth (3.4%), before declining by an estimated 5.4% in 2020 due to the sharp drop in national GDP. We expect it to grow by 3% a year on average in 2021-2025, supported by the expected economic recovery.

In 2020, 57% of the Flemish Community's estimated operating revenue was composed of taxation revenue collected at the national level and transferred by the federal government. The calculation of these resources is based on various demographic and economic indicators, including national GDP growth. It increases in line with population growth, which allows the Flemish Community to cover growing spending needs.

The Flemish Community's own fiscal instruments accounted for 33% of operating revenue in 2020. These included a surcharge tax on the personal income tax (PIT) and a range of regional taxes (such as registration on real-estate transaction, road and inheritance taxes). The PIT is linked to the economic cycle, with a one-year lag as it is based on previous-year revenue. We expect it to remain resilient in 2021 though, with a budgeted level at close to the 2019 level (EUR7.9 billion).

Revenue Structure



Source: Fitch Ratings, Flemish Community

Revenue Adjustability: 'Stronger'

The Flemish Community benefits from high tax flexibility. Fitch believes that additional revenue stemming from an increase in taxes would cover more than 200% of the reasonable decline in revenue in an economic downturn[1], which Fitch estimates at about 2%-3%.

The Flemish Community, like other Belgian regions, determines the tax rate and tax base on 12 specific taxes, including property, inheritance and transfer duties, car registration and betting and gaming. These tax items together accounted for 15% of the Flemish Community's operating revenue in 2020. A theoretical increase in tax rates could represent an increase of more than 4% of operating revenue.

In addition, since the sixth state reform, the regions have had the power to determine the rate for about one-quarter of the PIT, through a surcharge system, which significantly increased their tax autonomy. In 2020, the regional share of PIT was 18% of the Flemish Community's operating revenue. A rate increase could increase operating revenue by a few additional percentage points.

Fitch believes that an increase in tax rates would be politically sensitive, especially as the level of taxation is already high in Belgium. However, we still consider the affordability of additional taxation as strong in an international context, reflecting a sound local economy and wealth indicators above the national and European averages.

Expenditure Sustainability: 'Stronger'

In a reasonable economic downturn, we would expect the Flemish Community to exercise tight control over expenditure growth, in light with its record of budgetary discipline. In 2015-2019, total expenditure (totex) grew by 3.7% a year on average, below the growth in total revenue (4.7%). The Flemish Community's responsibilities are mostly non-cyclical, especially education, health, or transportation, while unemployment benefits are paid at the federal level.

By contrast, the coronavirus pandemic was an exceptional situation and had a strong impact on the Flemish Community's expenditure in 2020, as total spending increased by close to 12%. We estimate the impact of the pandemic at about EUR3 billion, mainly made of economic support to SMEs (EUR1.9 billion) and of compensations to specific sectors (education, welfare, public transport; EUR666 million).

We expect exceptional spending to continue in 2021, although at a lower level compared with 2020. Beyond 2021, we believe that the main impact of the pandemic will be on capital expenditure (capex), especially through the recovery plan (investments in strategic sectors, such as healthcare, digital and green transition). We expect capex (including the recovery plan and the financing of social housing entities) to be exceptionally high, at close to EUR6 billion a year in 2021-2025 (net of co-financing), which we include in our debt projections.

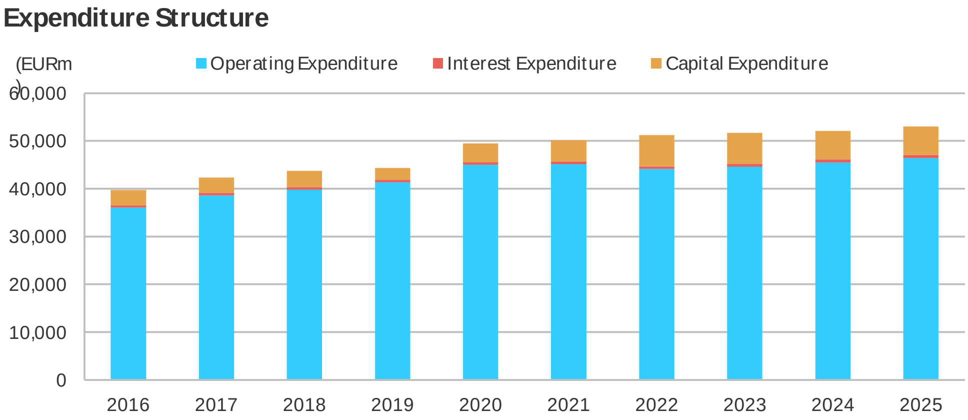
By contrast, we expect exceptional operating spending to be progressively phased out, which explains our assumption that operating expenditure (opex) will grow by only 0.6% a year on average in 2021-2025, well below the growth in operating revenue (3.1% a year expected in our rating case scenario), which will benefit from the economic recovery.

Expenditure Breakdown, 2020e

	Opex (%)	Total expenditure (%)
Education and training	31	-
Welfare, public health and family	28	-
Work, profession training and social economy	8	-
Other operating expenditure	33	-
Memo: including staff costs	**12**	**-**
Operating expenditure	**100**	**91**
Financial charges	**-**	**1**
Capital expenditure	**-**	**8**

e: Estimated
Source: Fitch Ratings, Flemish Community

[1] According to Fitch's *International Local and Regional Governments Rating Criteria*, the additional revenue increase is compared to a 'reasonably expected decline in revenue'.



Source: Fitch Ratings, Flemish Community

Expenditure Adjustability: 'Midrange'

Fitch estimates the Flemish Community's share of inflexible expenditure to be 70%-90%, which drives our assessment for this factor. Expenditure mainly comprising subsidies relative to education and training, welfare, public health and family. However, there are fewer restrictions on the Flemish Community's ability to reduce its spending, compared with LRGs in decentralised countries, like France. The share of staff costs is also moderate at 12% of estimated opex in 2020.

The share of capex remains modest, estimated at 8% of totex in 2020. We expect this share to increase slightly above 10% in 2021-2025 due to the Flemish Community's large investment programme. A significant part of the programme will be committed to one infrastructure project (Antwerp's ring road), which will mitigate expenditure flexibility.

There is no budget balance rule for the Belgian regions, and the Flemish Community has no legal obligation to balance its budget, reflecting its status as a federated entity. Prior to the coronavirus pandemic, it had to comply with the national consolidation plan, but the latter was suspended during the pandemic.

Liabilities and Liquidity Robustness: 'Stronger'

The Flemish Community operates under a robust individual debt management framework, characterised especially by a high transparency of data relative to debt and off-balance-sheet liabilities.

Fitch considers the Flemish Community's liabilities as low-risk. At end-2020, long-term debt totalled EUR12.7 billion and was 100% fixed-rate. Short-term debt totalled EUR1.2 billion, and was mainly made of commercial paper issues (EUR1,050 million) at negative interest rates. The debt amortisation schedule shows large peak repayments (2027, 2030) as debt mostly comprises of bonds. However, the risk of large bullet repayments is mitigated by the modest amount of these maturities in proportion to the Flemish Community's cash flow. The administration also aims to smooth the future debt amortisation schedule.

Off-balance-sheet liabilities (Fitch-adjusted) are large and totalled EUR13.5 billion at end-2020, but Fitch assessed their risk as low. They mostly comprised guarantees to the social housing sector (EUR8.3 billion) and local authorities, and the debt of Flemish Community-owned public entities.

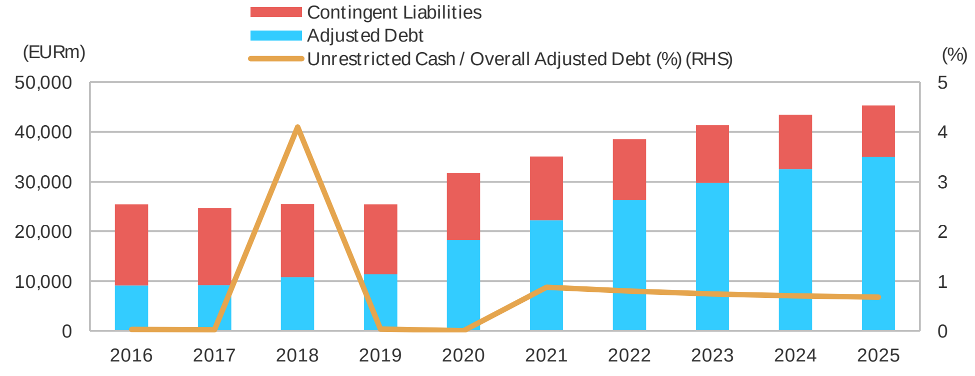
The Flemish Community recently altered its debt policy and decided to directly finance social housing and public-sector entities, rather than guaranteeing their debt. This followed the large reclassification of these contingent liabilities as "consolidated debt" at the regional level according to Eurostat rules. The aim of this shift in policy is to achieve better cost efficiency at the consolidated level. It will lead to an increase in direct debt, but will reduce the level of "other-Fitch classified debt" (included in our adjusted-debt calculation) and that of contingent liabilities.

Direct Debt Analysis

	End-2020
Fixed-rate (% of direct debt)	91
Short-term debt (% of direct debt)	9
Apparent cost of direct debt (%; Fitch's adjusted)	1.1
Average maturity (year)	15,8
Debt service (2020e, EURm)	1,311
Operating balance (2020e, EURm)	-2,158

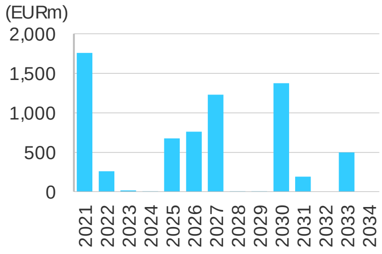
e: Estimated
Source: Fitch Ratings, Flemish Community

Overall Adjusted Debt Structure



Source: Fitch Ratings, Flemish Community

Debt Amortisation Schedule - 2021-2034 – Capital Repayments



Source: Fitch Ratings, Flemish Community

Liabilities and Liquidity Flexibility: 'Stronger'

The Flemish Community has good access to liquidity in various forms. Its liquidity is backed by its bonds' eligibility to the ECB's public sector purchase programme. It has also contracted EUR3.75 billion of committed bank lines with ING Belgium NV/SA (AA-/Negative) over four years, with scope for an extension of up to four years.

The Flemish Community uses a EUR25 billion-euro medium-term note programme (EMTN) and a EU1.5 billion Belgian commercial paper programme, and benefits from negative interest rates on its short-term issues.

Liquidity

(EURm)	End-2020
Available cash	306[a]
Unrestricted cash	306[a]
Undrawn committed credit lines	3,750

[a] Negative balance for the ministries' accounts, included in the adjusted debt calculation (see *Appendix C*).
Source: Fitch Ratings, Flemish Community

Debt Sustainability: 'a'

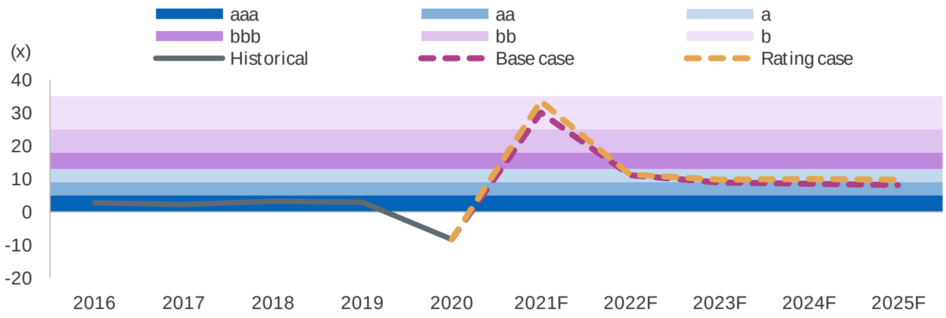
Flemish Community - Debt Sustainability Assessment

	Primary metric	Secondary metrics	
	Payback (x)	Coverage (x)	Fiscal debt burden (%)
aaa	X ≤ 5	X >= 4	X ≤ 50
aa	5 < X ≤ 9	2 ≤ X < 4	50 < X ≤ 100
a	9 < X ≤ 13	1.5 ≤ X < 2	100 < X ≤ 150
bbb	13 < X ≤ 18	1.2 ≤ X < 1.5	150 < X ≤ 200
bb	18 < X ≤ 25	1 ≤ X < 1.2	200 < X ≤ 250
b	X > 25	X < 1	X > 250

Source: Fitch Ratings

We assess the Flemish Community's debt sustainability at the upper end of the 'a' category. In our rating0case scenario, we expect the payback ratio to be about 10x in 2023-2025, the coverage ratio (synthetic calculation) to be close to 1.3x and the fiscal debt burden to approach 70%.

Payback Ratio - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, Flemish Community

Fitch's rating-case scenario, which ends in 2025, is based on the following assumptions:

Fitch's Base and Rating Cases Main Assumptions

		2020e-2025 CAGR	
	2015-2020e CAGR	Base case	Rating case
Operating revenue growth (%)	2.6	3.3	3.1
Operating expenditure growth (%)	5.1	0.6	0.6
Net capital expenditure (average per year; EURm)	-3,001	-5,435	-5,435
Apparent cost of debt (%), 2020e[b]	1.1	1.0	1.0

e: Estimated
[b] Direct debt only
Source: Fitch Ratings

Debt Sustainability Ratios:

- **Payback:** Net adjusted debt/Operating balance (x)
- **Synthetic coverage:** Operating balance/mortgage-style debt annuity; Fitch's synthetic calculation (x; see *Appendix C*)
- **Fiscal debt burden:** Net adjusted debt/operating revenue (%)

Fitch's Rating-Case Scenario:
The rating case is a through-the-cycle scenario that incorporates a combination of revenue, cost or financial risk stresses.

Sharp Deterioration in Financial Performance due to the Pandemic

The Flemish Community's fiscal performance was strongly hit by the pandemic as the operating balance became negative in 2020, estimated at -EUR2.16 billion, down from EUR3.9 billion in 2019. This was due to both a decline in operating revenue (-5.4% estimated) and a sharp increase in operating spending (8.8%).

In our rating-case scenario, we expect the Flemish Community's operating balance to remain at a very low level in 2021, and to gradually improve towards EUR3.5 billion in 2025. The recovery pace will mainly depend on economic growth in the coming years, which will drive tax revenue collection. It will also depend on the ability of the Flemish Community's to remove exceptional spending items that were put in place during the pandemic. The administration also implemented a review of all expenditure items, which aims at potential cost-cutting measures in the coming years to improve the financial performance.

Significant Capex and Debt Increase Expected

The Flemish Community has high capex plans until 2025. This reflects the switch in debt management, by which the Flemish Community now directly finances some public entities rather than merely guaranteeing their debt. Fitch estimates its financing requirements for the main social housing entities (VMSW and VWF) at close to EUR1.5 billion a year in 2022-2025. This also reflects the financing of some large investment projects, especially the Antwerp ring road (EUR1.5 billion expected in 2021-2025). On top of these items, the Flemish Community aims to finance a recovery plan, with a net cost expected at EUR2.6 billion in 2021-2023 (EUR4 billion expenses, net of EUR1.4 billion subsidies from the EU expected).

Net adjusted debt increased to close to EUR18 billion at end-2020, from EUR11.3 billion at end-2019, as a result of the sharp deterioration in the financial performance and the shift in debt management (see above). In our rating case, we expect it will continue to grow at a sustained level in 2021-2025, by above EUR3 billion a year on average, and to get close to EUR35 billion at end-2025.

As a result, we expect the debt sustainability ratios to be significantly weaker in 2025, compared with their pre-Covid-19 level, although they should remain compatible with the upper end of the 'a' category.

Debt Sustainability Ratios – Fitch's Rating Case Scenario

	2020e	2025rc
Payback (x)	-8.3	9.8
Synthetic coverage (x)	-1.4	1.3
Fiscal debt burden (%)	42	69

e: Estimated
rc: Fitch's rating case
Source: Fitch Ratings, Flemish Community

Other Rating Factors

From SCP to IDR: Factors Beyond the SCP

		Support						
SCP	Sovereign rating	Intergovern. financing	Ad-hoc support	Floor	Asymmetric risks	Cap	Notches above the sovereign	IDR
aa+	AA-	-	-	-	-	AA	+1	AA

Source: Fitch Ratings

Leeway at One Notch above the Sovereign

Fitch considers that the Flemish Community meets the conditions to be rated above the sovereign including "institutional recognition" and "financial and fiscal autonomy".[2]

The Flemish Community does not benefit from any specific constitutional protection compared with other Belgian federated entities. However, a change in responsibilities is not possible without a constitutional change, which requires a two-thirds majority in each house of parliament, hence the approval of a majority of Flemish members.

The Special Finance Act also protects the resources transferred to the Flemish Community by the national government. An amendment of this act requires a two-thirds majority in the federal parliament, as well as a majority in each language group. Accordingly, it may not be amended without the consent of the Flemish members of federal parliament. Fitch considers that the federal government is prevented from making unilateral decisions that might alter the Flemish Community's finances and this offers it a high degree of visibility in financial terms.

The Flemish Community benefits from a significant degree of fiscal autonomy. Its own fiscal instruments accounted for 33% of operating revenue in 2020. These included a surcharge tax on the PIT, and a range of regional taxes collected directly the Flemish Community's administration.

As a result, we believe that we can envisage a scenario in which the Flemish Community remains current on its own obligations despite a sovereign default, which is reflected in our final rating. Having said that, we believe that the Flemish Community is not shielded from a sovereign risk. A marked deterioration in sovereign finances would have an impact on the Flemish Community, while a sovereign default would likely lead to a sharp increase in its borrowing costs.

Fitch also considers that Flanders has a large incentive to support the federal government due to the importance of the services provided by the latter, including unemployment benefits. As a result, we consider that the Flemish Community cannot be rated at more than one notch above the sovereign, and that a downgrade of the sovereign would be reflected in the ratings of the Flemish Community.

Peer Analysis

The Flemish Community compares well with German federated entities (Landers) and some Canadian Provinces in terms of risk profile. This reflects similarities in responsibilities, revenue mix and debt and liquidity characteristics. It has a stronger risk profile than French LRGs, reflecting mainly higher tax flexibility.

The Flemish Community's SCP is similar to that of the Polish Region of Mazowieckie. It is slightly below that of the Autonomous Province of Bolzano in Italy and that of the Historical Territory of Gipuzkoa in Spain. The latter have a lower risk profile, but show a significantly lower level of debt.

[2] "Institutional recognition" and "Financial and fiscal autonomy" are the two conditions required by Fitch's *International Local and Regional Governments Rating Criteria* to be rated above the sovereign.

The variance of final ratings also reflects the differences in sovereign ratings and institutional frameworks. In Germany, the expected support from the federal state (AAA/Stable) drives the IDR of German Lander. In France and Poland, the regions' ratings are capped by that of the sovereign, reflecting a higher degree of interdependence between national and subnational finances. In Italy and Spain, some LRGs may also be rated above the sovereign rating, reflecting their institutional strength and high financial autonomy.

International Peers

	Risk profile	Payback (x),rc	SCP	IDR	Outlook
Autonomous Province of Bolzano	High Midrange	1.3	aaa	BBB+	Stable
Flemish Community	Stronger	9.8	aa+	AA	Negative
Historical Territory of Gipuzkoa	High Midrange	1.8	aaa	AA-	Stable
Region of Ile-de-France	High Midrange	5.9	aa	AA	Negative
Region of Mazowieckie	Midrange	3.4	a+	A-	Stable

rc: Fitch's rating scenario
Source: Fitch Ratings

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3' – ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

The Flemish Community has developed a sustainability bond framework to finance sustainable green or social investments. The goals are mainly to increase the energy efficiency of buildings and to finance affordable housing. In 2020 and 2021, the Flemish Community issued EUR1.25 billion sustainability bonds.

For more information on our ESG Relevance Scores, visit https://www.fitchratings.com/site/esg.

Appendix A

Flemish Community

(EURm)	2017	2018	2019	2020e	2021rc	2025rc
Taxes	39,121	40,001	41,088	38,875	41,734	45,600
Transfers received	0	0	0	0	0	0
Fees, fines and other operating revenue	3,559	2,842	4,215	4,077	4,077	4,343
Operating revenue	**42,680**	**42,843**	**45,303**	**42,863**	**45,811**	**49,943**
Operating expenditure	-38,593	-39,786	-41,361	-45,021	-45,159	-46,403
Operating balance	**4,087**	**3,057**	**3,942**	**-2,158**	**652**	**3,541**
Interest revenue	0	0	0	0	0	0
Interest expenditure	-537	-537	-500	-499	-514	-647
Current balance	**3,550**	**2,520**	**3,442**	**-2,657**	**138**	**2,894**
Capital revenue	167	150	280	314	326	500
Capital expenditure	-3,235	-3,413	-2,472	-3,931	-4,500	-6,000
Capital balance	**-3,068**	**-3,264**	**-2,192**	**-3,617**	**-4,174**	**-5,500**
Total revenue	42,846	42,993	45,583	43,176	46,138	50,443
Total expenditure	-42,365	-43,737	-44,332	-49,450	-50,174	-53,050
Surplus (deficit) before net financing	**482**	**-744**	**1,251**	**-6,274**	**-4,036**	**-2,606**
New direct debt borrowing	3,484	2,800	750	7,499	6,238	3,628
Direct debt repayment	-1,940	-2,210	-1,611	-812	-2,202	-1,022
Net direct debt movement	1,544	591	-861	6,687	4,036	2,606
Overall results	2,025	-153	390	413	0	0
Debt						
Short-term debt	176	77	208	1,223	1,223	1,223
Long-term debt	5,138	5,921	6,595	12,712	16,675	30,060
Intergovernmental debt	0	0	0	0	0	0
Direct debt	**5,314**	**5,998**	**6,802**	**13,395**	**17,971**	**31,283**
Other Fitch-classified debt	3,899	4,759	4,545	4,341	4,208	3,691
Adjusted debt	**9,213**	**10,757**	**11,348**	**18,276**	**22,179**	**34,973**
Guarantees issued (excluding adjusted debt portion)	15,533	14,746	14,080	13,462	12,844	10,372
Majority-owned GRE debt and other contingent liabilities	9,414	9,079	8,729	8,344	7,959	6,418
Overall adjusted debt	**34,160**	**34,582**	**34,156**	**40,082**	**42,981**	**51,763**
Total cash, liquid deposits, and sinking funds	5	1,046	8	306	306	306
Restricted cash	0	0	0	0	0	0
Unrestricted cash	5	1,046	8	306	306	306
Net adjusted debt	**9,208**	**9,712**	**11,340**	**17,970**	**21,873**	**34,667**
Net overall debt	**34,155**	**33,356**	**34,148**	**39,776**	**42,675**	**51,457**

e: estimated data
rc: Fitch's rating case scenario (see *Debt Sustainability: 'a'*). The last year of the rating-case scenario is 2025.
Source: Fitch Ratings, Flemish Community

Appendix B

Flemish Community

Fiscal performance ratios	**2017**	**2018**	**2019**	**2020e**	**2021rc**	**2025rc**
Operating balance/operating revenue (%)	9.6	7.1	8.7	-5.0	1.4	7.1
Current balance/current revenue (%)	8.3	5.9	7.6	-6.3	0.3	5.8
Operating revenue growth (annual % change)	8.3	0.4	5.7	-5.4	6.9	2.5
Operating expenditure growth (annual % change)	7.1	3.1	4.0	8.8	0.3	2.0
Surplus (deficit) before net financing/total revenue (%)	1.1	-1.7	2.8	-14.6	-8.7	-5.2
Total revenue growth (annual % change)	0.2	-0.3	0.5	-2.2	-1.4	0.0
Total expenditure growth (annual % change)	6.5	3.2	1.3	11.6	1.4	1.8
Debt ratios - Type B						
Primary metrics						
Payback ratio (x)	2.3	3.2	2.9	-8.3	33.5	9.8
Overall payback ratio (x)	8.4	11.0	8.7	-18.4	65.5	14.5
Secondary metrics						
Fiscal debt burden (%)	22	23	25	42	48	69
Synthetic debt service coverage ratio (x)	4.4	3.2	3.7	-1.4	0.4	1.3
Actual debt service coverage ratio (x)	1.6	1.1	1.9	-1.6	0.2	2.1
Other debt ratios						
Liquidity coverage ratio (x)	1.7	1.1	2.4	-1.6	0.2	-
Direct debt maturing in one year/total direct debt (%)	3.3	1.3	3.1	8.8	6.8	3.9
Direct debt (annual % change)	14.5	12.9	13.4	104.9	29.0	9.1
Apparent cost of direct debt (interest paid/direct debt) (%)	1.5	1.2	1.4	1.1	0.9	1.1
Revenue ratios						
Tax revenue/total revenue (%)	91.3	93.0	90.1	89.8	90.5	90.4
Current transfers received/total revenue (%)	0.0	0.0	0.0	0.0	0.0	0.0
Interest revenue/total revenue (%)	1.3	1.2	1.1	1.1	1.0	1.2
Capital revenue/total revenue (%)	0.4	0.3	0.6	0.7	1.1	1.0
Expenditure ratios						
Staff expenditure/total expenditure (%)	11.9	11.8	12.2	11.3	-	-
Current transfers made/total expenditure (%)	70.5	69.8	71.8	71.1	-	-
Interest expenditure/total expenditure (%)	1.3	1.2	1.1	1.1	1.0	1.2
Capital expenditure/total expenditure (%)	7.6	7.8	5.6	7.9	9.0	11.3

e: estimated data
rc: Fitch's rating case scenario (see *Debt Sustainability: 'a'*). The last year of the rating-case scenario is 2025.
Source: Fitch Ratings, Flemish Community

Appendix C: Data Adjustments

Scope of Analysis

The analysis is based on the Flemish Community's consolidated operating revenue and expenditure. It includes the Flemish Community's general budget and some public institutions that are largely financed by the Flemish Community, such as universities. These institutions account for less than 10% of the total operating revenue and spending of the consolidated accounts.

Net Adjusted Debt Calculation

Fitch's adjusted debt includes the Flemish Community's direct debt (EUR13,935 billion at end-2020) and "Other Fitch-classified debt" items, totalling EUR4.341 billion at end-2020. The latter comprised EUR2.15 billion in public-private partnerships debt, EUR1.3 billion of public institutions' debt, and EUR864 million that the Flemish Community will repay to the federal state over 16 years.

However, in contrast with the European System of Accounts rules, it does not include the guaranteed debt of social housing companies, which we view as self-supporting, nor that of hospital infrastructure.

Synthetic Coverage Calculation

Fitch's synthetic coverage calculation assumes a mortgage-style amortisation over 15 years of the entity's net adjusted debt, using its average cost of debt. This synthetic calculation is used to assess the Flemish Community's debt sustainability.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.