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 at the upper end of the 'a' category under Fitch's rating case. The Long-Term Foreign-Currency Issuer Default Rating (IDR) is one notch above that of Belgium (AA-/Stable) and reflects Fitch's view that the Flemish Community would have the ability to continue servicing its debt in some scenarios, despite a default of the sovereign.

Risk Profile – 'Stronger': Fitch assesses five out of six key risk factors (KRFs) at 'Stronger'. The 'Stronger' risk profile reflects a negligible risk relative to international peers' that the Flemish Community may see its ability to cover debt service by the operating balance weaken unexpectedly over the forecast horizon. This is either because of lower-than-expected revenue, higher-than-expected expenditure, or an unanticipated rise in liabilities or debt-service requirements.

Debt Sustainability – 'a' Category: This assessment reflects a payback ratio that Fitch expects at close to 10x in its rating-case scenario in 2025-2026 (2021: 13.9x), a coverage ratio of about 1.3x and a fiscal debt burden at close to 60%.

Fitch expects Flemish Community's net adjusted debt to increase towards EUR35 billion at end-2026, from EUR21.8 billion at end-2021, due to a high capex programme and the region's debt strategy to directly finance its government-related entities. However, we expect this debt increase to be offset by an improvement in the operating balance to a pre-pandemic level.

One-Notch Leeway Above 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 considers that the Flemish Community cannot be rated at more than one notch above the sovereign because a sharp deterioration in sovereign finances would have an 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

Upgrade in Sovereign Ratings: An upgrade in Belgium ratings would lead to an upgrade in Flemish Community's ratings, all else being equal.

Weaker Payback, Sovereign Downgrade: The Flemish Community's Long-Term IDRs may be downgraded if its payback ratio exceeds 12x on a sustained basis in our rating case. This could happen if GDP growth in the coming years is lower than that in our rating case. A negative action on Belgium would also be reflected in Flemish Community's ratings.

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+
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
Debt Ratings	
Senior Unsecured Debt - Long-Term Rating	AA
Senior Unsecured Debt - Short-Term Rating	F1+

Issuer Profile Summary

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

Financial Data Summary

Flemish Community

(EURm)	2021	2026rc
Payback ratio (x)	13.9	9.9
Synthetic coverage (x)	0.8	1.3
Fiscal debt burden (%)	45.8	63.3
Net adjusted debt	21,798	35,247
Operating balance	1,570	3,554
Operating revenue	47,613	55,653
Debt service	2,692	1,834
Mortgage-style debt annuity	1,852	2,803

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

Applicable Criteria

International Local and Regional Governments Rating Criteria (September 2021)

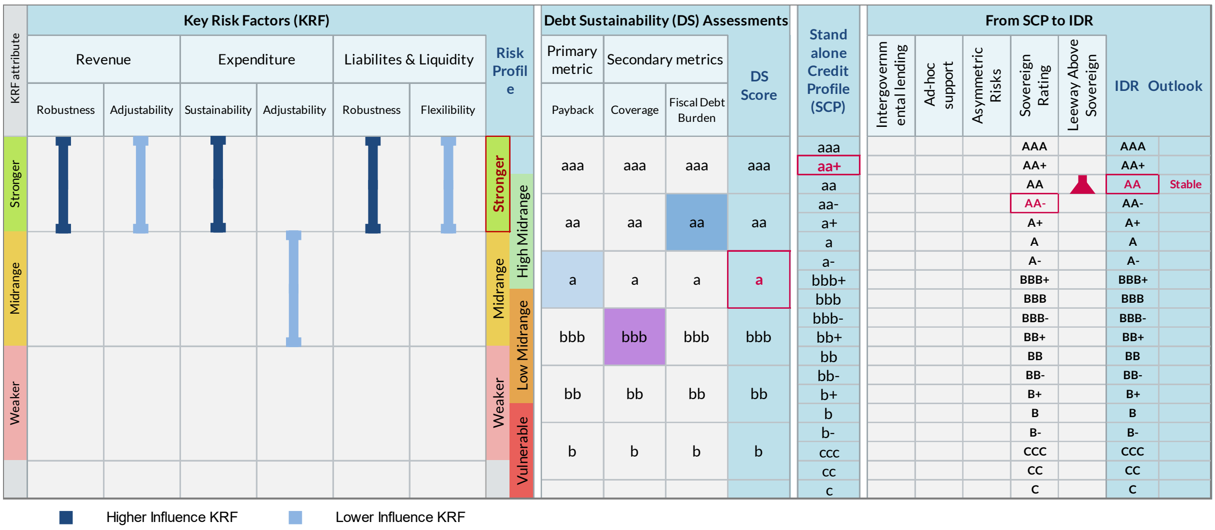
Related Research

Subnationals Rated Above the Sovereign (July 2021)

Analysts

Pierre Charpentier
+33 1 44 29 91 45
pierre.charpentier@fitchratings.com
Ekaterina Kozlova
+33 1 44 29 92 74
ekaterina.kozlova@fitchratings.com

Rating Synopsis



The six Key Risk Factors, combined according to their relative importance, collectively represent the Risk Profile of the local and regional government (LRG). Risk Profile and Debt Sustainability assessments, which measures the LRG's debt burden and debt service requirements amid a reasonable economic or financial downturn over the rating horizon, are combined in an SCP. The SCP, together with some additional factors, such as extraordinary support or a rating cap, produce the IDR.

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 services, including economy, employment, transportation, education, healthcare and housing.

Fitch classifies the Flemish Community as a 'type B' LRG. The Community shares key attributes of sovereignty and is able to incur structural deficits. Belgian federated entities represent a material and growing share of Belgium's general government expenditure: 37% in 2020 from 30% in 2008. However, their share in the general government debt remains low, at 15% at end-2021. 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 better reflects the credit risk of Belgian federated entities.

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 in force 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 2021, it had around 6.65 million residents, or 58% of the national population. It comprises large cities, such as Antwerp, Ghent and Bruges. Its population grew 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 2021, GDP per capita was estimated at EUR38,200, 37% above the EU average. The unemployment rate is low at 3.9% at end-2021, well below the national average of 6.3%.

Belgian GDP increased by 6.3% in real terms in 2021, following a 5.7% drop in 2020 due to the pandemic. The economic rebound has been higher than expected, with a positive impact on the tax revenue for the Flemish

Community, including those collected and transferred by the central government. The current context of inflation will lead to a sharp increase in both tax revenue and operating expenditure in 2022.

Socioeconomic Indicators

	Flemish Community	Belgium
Population, 2020 (m)	6.65	11.52
2010-2020 average annual population growth (%)	0.6	0.6
GDP per capita, 2021 (estimated)	38,200	35,850
Unemployment rate, 4Q21 (%)	3.9	6.3
Population below poverty line, 2019 (%)	9.8	14.8

Source: Fitch Ratings, national statistics

Risk Profile Assessment: 'Stronger'

Fitch assesses Flemish Community's risk profile at 'Stronger', reflecting the combination of assessments in the table below.

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 Robustness: Stronger

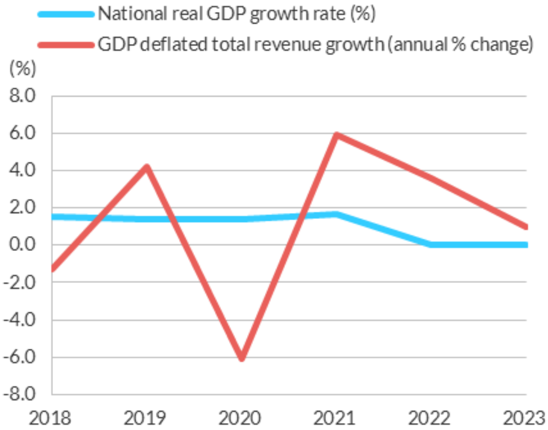
The Flemish Community benefits from robust revenue sources, mainly stable and growing tax items. Operating revenue increased nearly 11% in 2021, following a decline in 2020 triggered by the pandemic. We expect operating revenue to grow on average by more than 3% a year in 2022-2026, supported by economic recovery. Fitch has lowered its GDP growth projections due to the Ukrainian war, but this will be offset by inflation that will boost the Community's tax revenue.

In 2021, 56% of the Flemish Community's operating revenue comprised tax revenue collected at the national level and transferred by the federal government. These resources are protected by the Special Finance Act and the central government does not have the power to reduce them. The calculation of these resources is based on various demographic and economic indicators, including national GDP growth. They increase in line with GDP and population growth, which allows the Flemish Community to cover growing spending needs.

The community's own fiscal items accounted for 33% of operating revenue in 2021. These included a surcharge tax on the personal income tax (PIT; 17%), and a range of regional taxes (16%; such as registration fees on real-estate transactions, plus road and inheritance taxes).

The PIT is linked to the economic cycle, with a one-year lag as it is based on the previous year's revenue. We expect it to increase by 3.5% in 2022. Regional taxes proceeds rose by more than 18% in 2021, following a 8% drop in 2020, and we expect them to remain resilient.

Real Total Revenue and GDP Growth



Source: Fitch Ratings, Flemish Community

Revenue Breakdown, 2021

	Operating revenue (%)	Total revenue (%)
Surcharges PIT	17	-
Regional taxes	16	-
Taxes transferred by the federal state	56	-
Other operating revenue	11	-
Operating revenue	**100**	**99**
Interest revenue	-	0
Capital revenue	-	1
Total revenue	**-**	**100**

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 a reasonable decline in revenue in an economic downturn, which Fitch estimates at around 2%.

Like other Belgian regions, the Flemish Community has the autonomy to determine 12 specific taxes, including property, inheritance and transfer duties, car registration, and on betting and gaming. These tax items accounted for 16% of the Flemish Community's operating revenue in 2021. An increase in tax rates to their maximum level could raise operating revenue by about 4%.

In addition, since the sixth state reform, regions have had the power to determine the rate for about one-quarter of PIT through a surcharge system, which significantly increased their tax autonomy. In 2021, the regional share of PIT represented 18% of the Flemish Community's operating revenue. A rate increase could raise operating revenue by a few percentage points.

Fitch notes that an increase in tax rates would be politically sensitive, especially as the level of taxation is already higher in Belgium than other comparable countries. 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 average.

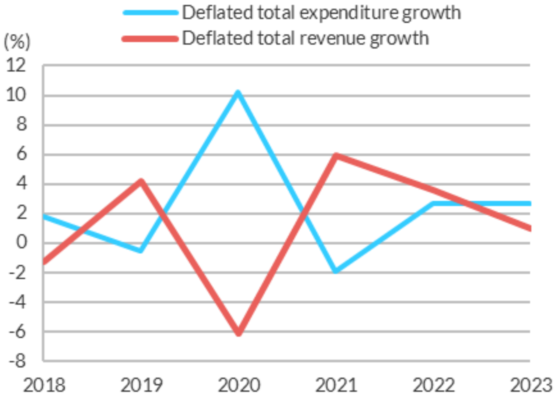
Expenditure Sustainability: Stronger

The Flemish Community's responsibilities are mostly non-cyclical, especially education, health, or transportation, while unemployment benefits are paid at the federal level. In an economic downturn, we would expect the Flemish Community to tighten spending in light of its record of budgetary discipline.

In 2015-2019, total expenditure grew slower than revenue, and we expect this to be the case again in 2022-2026, despite a large capex programme and the implementation of the economic recovery plan. Inflation will lead to a sharp increase in spending in 2022. However, we expect it will be offset by the phase-out of some exceptional spending items triggered by the pandemic, by some savings measures and by an expected boost in operating revenue.

The coronavirus pandemic was an exceptional situation which had a strong impact on the Community's expenditure. In 2020, total spending increased by 11%, driven by the economic support to SME and the compensation to specific sectors (education, welfare, public transport). Expenditure growth returned to a more normal level in 2021 (2.8%).

Real Total Expenditure and Revenue Growth



Source: Fitch Ratings, Flemish Community

Expenditure Breakdown, 2021

	Operating expenditure (%)	Total expenditure (%)
Staff cost	13	-
Goods and services	9	-
Operating subsidies	77	-
Other operating expenditure	1	-
Operating expenditure	**100**	**91**
Interest expenditure	-	1
Capital expenditure	-	8
Total expenditure	**-**	**100**

Source: Fitch Ratings, Flemish Community

Expenditure Adjustability: Midrange

Fitch estimates the Flemish Community's share of inflexible expenditure at 70%-90%, mainly comprising subsidies on education and training, welfare, public health and family. However, we see fewer restrictions on the Flemish Community to alter its spending than on LRGs in other decentralised countries, such as France. The share of staff costs is also moderate, at 13% of operating expenditure in 2021.

The share of capex in total spending remains modest, at 8% in 2021. We expect this share to increase close to 11% in 2022-2026 due to the Flemish Community's large investment programme. A significant part of the programme will be committed to an infrastructure project (Antwerp's ring road) and to the post-pandemic economic recovery plan, which will reduce 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, 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 by high data transparency on debt and off-balance sheet liabilities. Fitch views the Flemish Community's liabilities as low-risk.

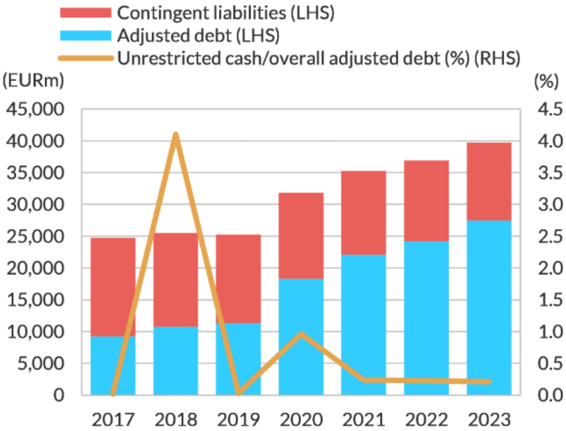
At end-2021, long-term debt was 100% fixed-rate. Short-term debt totalled EUR1.2 billion, and was mainly consisted of commercial paper issues (EUR1,050 million) at negative interest rates. The debt amortisation schedule shows large peak repayments in 2027, 2030 and 2035, mostly of bonds. However, the 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 its debt amortisation schedule.

The Flemish Community altered its debt policy a few years ago 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 mechanically 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.

The Flemish Community has also developed a sustainability bond framework to finance sustainable green or social investments. The goals are specially to increase the energy efficiency of buildings and to finance affordable housing. At end-2021, sustainable bond amounted to EUR4.070 billion.

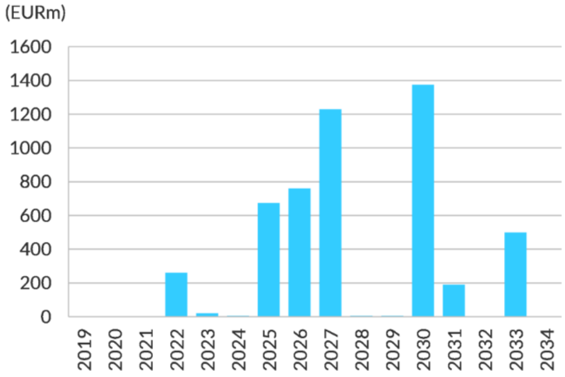
Off-balance-sheet liabilities (Fitch-adjusted) are large and totalled EUR13.2 billion at end-2021, but are assessed by Fitch as low-risk. They mostly comprise guarantees to the social housing sector (EUR8.1billion) and local authorities, and debt of public entities owned by the region.

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-/Stable) 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 and a EU1.5 billion Belgian commercial paper programme, and benefits from negative interest rates on its short-term issues.

Debt Analysis

	2021
Fixed rate (% of direct debt)	93
Issued debt (% of direct debt)	92
Apparent cost of debt (consolidated, %)	2.5
Weighted average life of debt (years)	15.3

Source: Fitch Ratings, Flemish Community

Liquidity

(EURm)	2021
Total cash, liquid deposits and sinking funds	84
Restricted cash	0
Cash available for debt service	84
Undrawn committed credit lines	3,750

Source: Fitch Ratings, Flemish Community

Debt Sustainability Assessment: 'a' Category

Debt Sustainability – Type B

	Primary metric	Secondary metrics	
	Payback ratio (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

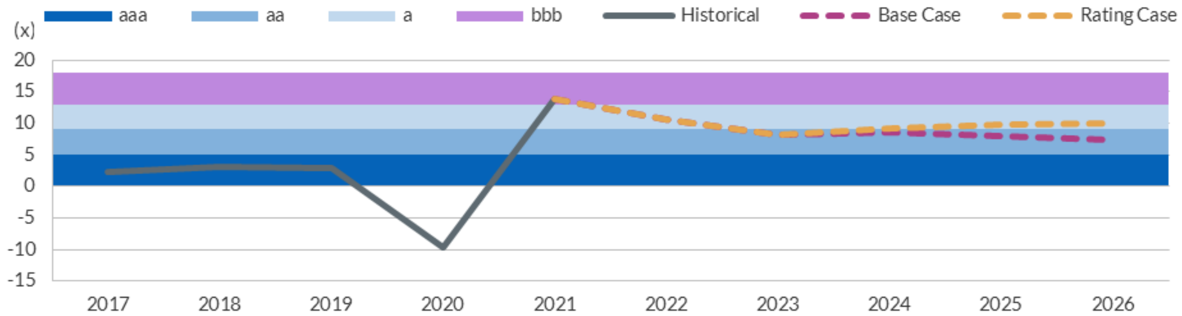
We assess the Flemish Community's debt sustainability at the upper end of the 'a' category. Our rating case expects the debt payback ratio to be about 10x in 2025-2026 (2021: 13.9x), the coverage ratio (synthetic calculation) close to 1.3x, and a fiscal debt burden of about 65%.

The Flemish Community's fiscal performance improved significantly in 2021, as the economic rebound lifted tax revenue by 9%. Operating balance increased to close to EUR1.6 billion, from a negative EUR1.8 billion in 2020, although it remained low compared with its pre-pandemic level (EUR3.9 billion in 2019). Our rating case expects it to steadily return to its historical level of around EUR3.5 billion in 2026. The pace of recovery will depend on economic growth and inflation after 2022. The administration is also implementing a review of all expenditure items, which aims at potential cost-cutting measures in the coming years to improve the financial performance.

The Flemish Community has high capex plans for the next four years. This reflects a switch in debt management, with the Flemish Community now directly financing some public entities rather than guaranteeing their debt. Fitch estimates 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 (EUR1.8 billion expected in 2022-2026). In addition, the community aims to finance its economic recovery plan, with a net cost expected at EUR2 billion in 2022-2026.

Net Fitch-adjusted debt increased to close to EUR21.8 billion at end-2021 from EUR17.9 billion at end-2020 due to the change in debt management and an operating balance that remained below its historical average. Our rating case expects debt to continue growing to close to EUR35 billion at end-2026.

Payback Ratio - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, Flemish Community

Fitch's rating case scenario, which ends in 2026, is based on the following assumptions:

Scenario Assumptions Summary

		2022 - 2026 average	
Assumptions	**2017-2021**	**Base case**	**Rating case**
Operating revenue growth (%)	3.9	3.5	3.2
Tax revenue growth (%)	2.5	4.1	3.7
Operating expenditure growth (%)	5.0	2.5	2.5
Net capital expenditure (annual average; EURm)	-3,204	-5,434	-5,434
Apparent cost of debt (consolidated; %)	4.0	2.1	2.1

		2026	
Outcomes	**2021**	**Base case**	**Rating case**
Payback ratio (x)	13.9	7.4	9.9
Synthetic coverage ratio (x)	0.8	1.7	1.3
Fiscal debt burden (%)	45.8	58.8	63.3

Source: Fitch Ratings, Flemish Community

SCP Positioning and Peer Analysis

SCP Positioning Table

Risk Profile	Debt Sustainability					
Stronger	aaa or aa	a	bbb	bb	b	
High Midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low Midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested analytical outcome (SCP)	**aaa**	**aa**	**a**	**bbb**	**bb**	**b**

Source: Fitch Ratings

The Flemish Community compares well with German 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 French regions of Bretagne and Ile-de-France, and one notch lower than the Historic Territory of Alava. The latter has a lower risk profile, but significantly lower debt ratios.

Peer Comparison

	Risk Profile	Payback, 2026rc (x)	SCP	IDR	Outlook/Watch
Flemish Community	Stronger	9.9	aa+	AA	Stable
Ile-de-France, Region of	High Midrange	5.9	aa+	AA	Negative
Alava, Historical Territory of	High Midrange	2.8	aaa	AA-	Stable
Waikato District Council	High Midrange	4.7	aa+	AA+ [a]	Stable
Bretagne, Region of	High Midrange	5.9	aa+	AA	Negative

[a] Local Currency IDR
rc: Fitch's rating-case scenario
Source: Fitch Ratings

Long Term Rating Derivation

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

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

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. This limits in practice the ability of the central government to change the powers exercised by the Flemish Community, and protects the latter against any legal intervention.

The Special Finance Act 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 may 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. The Community's own fiscal instruments accounted for 33% of operating revenue in 2021. 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, 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.

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.

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

Appendix A: Financial Data

Flemish Community

(EURm)	2017	2018	2019	2020	2021	2022rc	2026rc
Fiscal performance							
Taxes	39,120	40,001	41,088	38,785	42,217	45,356	50,510
Transfers received	0	0	0	0	0	0	0
Fees, fines and other operating revenues	3,559	2,842	4,215	4,261	5,396	5,523	5,144
Operating revenue	42,679	42,843	45,303	43,046	47,613	50,879	55,653
Operating expenditure	-38,593	-39,786	-41,361	-44,888	-46,043	-48,511	-52,100
Operating balance	4,086	3,057	3,942	-1,842	1,570	2,368	3,554
Interest revenue	0	0	0	0	0	0	0
Interest expenditure	-537	-537	-500	-525	-505	-514	-707
Current balance	3,549	2,520	3,442	-2,367	1,065	1,854	2,847
Capital revenue	167	150	280	256	376	1,180	415
Capital expenditure	-3,235	-3,413	-2,472	-3,939	-4,191	-6,540	-5,774
Capital balance	-3,068	-3,263	-2,192	-3,683	-3,815	-5,360	-5,359
Total revenue	42,846	42,993	45,583	43,302	47,989	52,060	56,068
Total expenditure	-42,365	-43,736	-44,333	-49,352	-50,739	-55,565	-58,580
Surplus (deficit) before net financing	481	-743	1,250	-6,050	-2,750	-3,505	-2512
New direct debt borrowing	3,484	2,744	750	7,499	4,858	4,202	3,639
Direct debt repayment	-1,940	-2,210	-1,611	-2,918	-2,187	-697	-1,127
Net direct debt movement	1,544	534	-861	4,581	2,671	3,505	2,512
Overall results	2,025	-209	389	-1,469	-79	0	0
Debt and liquidity							
Short-term debt	176	77	208	1,223	1,196	1,196	1,196
Long-term debt	5,138	5,922	6,595	12,712	15,425	18,930	29,713
Intergovernmental debt	0	0	0	0	1,195	1,195	1,195
Direct debt	5,314	5,999	6,803	13,935	17,816	21,321	32,104
Other Fitch-classified debt	3,899	4,759	4,489	4,265	4,066	3,898	3,227
Adjusted debt	9,213	10,758	11,292	18,200	21,881	25,219	35,331
Guarantees issued (excluding adjusted debt portion)	15,533	14,746	13,927	13,580	13,156	12,732	11,035
Majority-owned GRE debt and other contingent liabilities	0	0	0	0	0	0	0
Overall adjusted debt	24,746	25,504	25,219	31,781	35,037	37,951	46,281
Total cash, liquid deposits and sinking funds	5	1,046	8	307	84	84	84
Restricted cash	0	0	0	0	0	0	0
Unrestricted cash	5	1,046	8	307	84	84	84
Net adjusted debt	9,208	9,712	11,284	17,893	21,797	25,135	35,247
Net overall debt	24,741	24,458	25,211	31,474	34,953	37,866	46,281
Enhanced net adjusted debt	9,208	9,712	11,284	17,893	20,602	23,939	34,051
Enhanced net overall debt	24,741	24,458	25,211	31,474	33,758	36,671	45,086

Source: Fitch Ratings, Fitch Solutions, Flemish Community

Appendix B: Financial Ratios

Flemish Community

	2017	2018	2019	2020	2021	2022rc	2026rc
Fiscal performance ratios							
Operating balance/operating revenue (%)	9.6	7.1	8.7	-4.3	3.3	4.7	6.4
Current balance/current revenue (%)	8.3	5.9	7.6	-5.5	2.2	3.6	4.9
Operating revenue growth (annual % change)	8.3	0.4	5.7	-5.0	10.6	6.9	2.1
Operating expenditure growth (annual % change)	7.1	3.1	4.0	8.5	2.6	5.4	1.8
Surplus (deficit) before net financing/total revenue (%)	1.1	-1.7	2.7	-14.0	-5.7	-6.7	-4.5
Surplus (deficit) before net financing/GDP (%)	0.2	-0.3	0.4	-2.1	-0.9	-1.1	-
Total revenue growth (annual % change)	8.2	0.3	6.0	-5.0	10.8	8.5	2.0
Total expenditure growth (annual % change)	6.5	3.2	1.4	11.3	2.8	9.5	1.5
Debt ratios – type B							
Primary metrics							
Payback ratio (x) (net adjusted debt/operating balance)	2.3	3.2	2.9	-9.7	13.9	10.6	9.9
Enhanced payback ratio (x)	2.3	3.2	2.9	-9.7	13.1	10.1	9.6
Overall payback ratio (x)	6.1	8.0	6.4	-17.1	22.3	16.0	13.0
Enhanced overall payback ratio (x)	6.1	8.0	6.4	-17.1	21.5	15.5	12.7
Secondary metrics							
Fiscal debt burden (%) (net debt/operating revenue)	21.6	22.7	24.9	41.6	45.8	49.4	63.3
Synthetic debt service coverage ratio (x)	3.2	2.5	3.0	-1.1	0.8	1.2	1.3
Actual debt service coverage ratio (x)	1.6	1.1	1.9	-0.5	0.6	2.0	1.9
Other debt ratios							
Liquidity coverage ratio (x)	1.7	1.1	2.4	-0.5	0.7	2.0	-
Direct debt maturing in one year/total direct debt (%)	3.3	1.3	3.1	8.8	10.6	5.6	-
Direct debt (annual % change)	14.5	12.9	13.4	104.9	27.8	19.7	8.5
Apparent cost of consolidated debt (interest paid/direct debt) (%)	5.9	5.4	4.5	3.6	2.5	2.2	2.1
Revenue ratios (%)							
Tax revenue/total revenue	91.3	93.0	90.1	89.6	88.0	87.1	90.1
Current transfers received/total revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest revenue/total revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue/total revenue	0.4	0.3	0.6	0.6	0.8	2.3	0.7
Expenditure ratios (%)							
Staff expenditure/total expenditure	11.9	11.8	12.2	11.4	11.7	-	-
Current transfers made/total expenditure	70.5	69.8	71.7	71.3	69.7	-	-
Interest expenditure/total expenditure	1.3	1.2	1.1	1.1	1.0	0.9	1.2
Capital expenditure/total expenditure	7.6	7.8	5.6	8.0	8.3	11.8	9.9

Source: Fitch Ratings, Fitch Solutions, Flemish Community

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

Fitch-adjusted debt includes the Flemish Community's direct debt (EUR17.8 billion at end-2021, including EUR1.2 billion of an EU SURE loan) and "other Fitch-classified debt" items, totalling EUR4.1 billion at end-2021. The latter comprised EUR2.1 billion in public-private partnership debt, EUR1.2 billion of public institutions' debt, and EUR814 million that the Flemish Community will repay to the federal state over 16 years. However, in contrast with ESA rules, it does not include the guaranteed debt of social-housing companies, which we view as self-funded, nor that of hospital infrastructure.

Specific Adjustments

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.

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.