

RATING ACTION COMMENTARY

Fitch Revises Flemish Community's Outlook to Stable; Affirms at 'AA'

Fri 01 Oct, 2021 - 17:01 ET

Fitch Ratings - Paris - 01 Oct 2021: Fitch Ratings has revised Flemish Community's Outlook to Stable from Negative and affirmed the region's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'AA'. A full list of rating actions is below.

Under EU credit rating agency (CRA) regulation, the publication of local and regional governments' reviews is subject to restrictions and must take place according to a published schedule, except where it is necessary for CRAs to deviate from this in order to comply with their legal obligations. Fitch interprets this provision as allowing us to publish a rating review in situations where there is a material change in the creditworthiness of the issuer that we believe makes it inappropriate for us to wait until the next scheduled review date to update the rating or Outlook/Watch status.

In this case, the deviation was caused by the revision of the Outlook on Belgium's IDRs on 24 September (see "Fitch Revised Belgium's Outlook to Stable; Affirms at 'AA-'; <https://www.fitchratings.com/research/sovereigns/fitch-revises-belgium-outlook-to-stable-affirms-at-aa-24-09-2021>). The next scheduled review date for Fitch's rating on Flemish Community is 29 October 2021.

KEY RATING DRIVERS

The change in Outlook reflects that of the Belgian sovereign's. Flemish Community may not be rated at more than one notch above the sovereign's, which was why the

previously Negative Outlook on the sovereign had constrained the Flemish Community's so far.

The derivation of the Flemish Community's Standalone Credit Profile (SC) and accordingly the derivation of the Long-and Short-Term IDRs are unaffected by today's rating action. The SCP remains at 'aa+'.

For individual key rating drivers, see the latest published rating action commentary published on 30 April 2021 (see 'Fitch Affirms Flemish Community at 'AA'; Outlook Negative'; <https://www.fitchratings.com/research/international-public-finance/fitch-affirms-flemish-community-at-aa-outlook-negative-30-04-2021>).

DERIVATION SUMMARY

Fitch assesses the Flemish Community's 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. The IDR is one notch above the rating of Belgium and reflects Fitch's view that in some scenarios the Flemish Community would have the ability to continue servicing its debt, despite a default of the sovereign.

KEY ASSUMPTIONS

Qualitative assumptions and assessments and their respective weight in the rating decision:

Risk Profile: 'Stronger'; low weight

Revenue Robustness: 'Stronger'; low weight

Revenue Adjustability: 'Stronger'; low weight

Expenditure Sustainability: 'Stronger'; low weight

Expenditure Adjustability: 'Midrange'; low weight

Liabilities and Liquidity Robustness: 'Stronger'; low weight

Liabilities and Liquidity Flexibility: 'Stronger'; low weight

Debt sustainability: 'a' category; low weight

Support: N/A

Asymmetric Risk: N/A

Sovereign Cap or Floor: No (one notch above the sovereign); high weight

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on 2016-2020 figures and 2021-2025 projected ratios. For specific quantitative assumptions, see the latest published rating action commentary ((see 'Fitch Affirms Flemish Community at 'AA'; Outlook Negative'; <https://www.fitchratings.com/research/international-public-finance/fitch-affirms-flemish-community-at-aa-outlook-negative-30-04-2021>)).

Quantitative assumptions - sovereign-related (no weights are included as none of these assumptions was material to the rating action)

Figures as per Fitch's sovereign actual for 2020 and forecast for 2023, respectively:

- GDP per capita (US dollar, market exchange rate): 44,364; 54,276

- Real GDP growth (%): -6.3; 2.1

- Consumer prices (annual average % change): 0.4; 1.8

- General government balance (% of GDP): -9.4; -4.4

- General government debt (% of GDP): 114.1; 113.1

- Current account balance plus net FDI (% of GDP): -0.4; -0.3

- Net external debt (% of GDP): 23.9; 29.5

- IMF Development Classification: DM

- CDS Market Implied Rating: 'AA+'

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

A single-notch upgrade of Belgium would lead to an upgrade of Flemish Community, as its SCP remains assessed at 'aa+'.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A negative rating action on Belgium would be reflected in the Flemish Community's Long-Term IDRs as the latter may not be rated at more than one notch above the sovereign.

The Flemish Community's ratings could be downgraded if the region's payback ratio exceeds 12x on a sustained basis in our rating case. This could happen if economic recovery is slower than expected in our rating case, or in case of an unexpected increase in expenditure.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

Sources of Information

Committee date: 01/10/2021

There was an appropriate quorum at the committee and the members confirmed that they were free from recusal. It was agreed that the data was sufficiently robust relative to its materiality. During the committee no material issues were raised that were not in the original committee package. The main rating factors under the relevant criteria were discussed by the committee members. The rating decision as discussed in this rating action commentary reflects the committee discussion.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Flemish Community's ratings are linked to Belgium's.

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 ESG Relevance Scores see www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Flemish Community	LT IDR	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Negative
●	ST IDR	F1+	Affirmed	F1+
●	LC LT IDR	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Negative
●	LC ST IDR	F1+	Affirmed	F1+
● senior unsecured	LT	AA	Affirmed	AA

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Pierre Charpentier

Director

Primary Rating Analyst

+33 1 44 29 91 45

pierre.charpentier@fitchratings.com

Fitch Ratings Ireland Ltd

28 avenue Victor Hugo Paris 75116

Nicolas Miloikovitch, CFA

Associate Director

Secondary Rating Analyst

+33 1 44 29 91 89

nicolas.miloikovitch@fitchratings.com

Dorota Dziedzic
Senior Director
Committee Chairperson
+48 22 338 6296
dorota.dziedzic@fitchratings.com

MEDIA CONTACTS

Athos Larkou
London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[International Local and Regional Governments Rating Criteria \(pub. 03 Sep 2021\)](#)
(including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Flemish Community

EU Issued, UK Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-](https://www.fitchratings.com/rating-)

[DEFINITIONS-DOCUMENT](#) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA- REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and

complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

SOLICITATION STATUS

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

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

International Public Finance Supranationals, Subnationals, and Agencies Europe

Belgium
