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-/Negative) 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.

The Negative Outlook reflects that of the sovereign.

Risk Profile – 'Stronger': Fitch assesses five out of six key risk factors (KRFs) as 'Stronger'. The 'Stronger' risk profile reflects Fitch's view that there is a negligible risk of the issuer's ability to cover debt service with the operating balance weakening unexpectedly over the scenario horizon (2023-2027) due to lower revenue, higher expenditure or an unexpected 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 2025-2027 (2022: 10.5x), a coverage ratio of about 1.3x and a fiscal debt burden at close to 55%.

Fitch expects the Flemish Community's net adjusted debt to increase towards EUR35 billion at end-2027, from EUR25.8 billion at end-2022, 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

Positive Action on Sovereign: An upgrade of the Flemish Community is unlikely given that the Outlook on Belgium is Negative. The Outlook would be revised to Stable if the Outlook on the sovereign was revised to Stable, all other things unchanged.

Sovereign Downgrade, Higher Payback: A downgrade of Belgium would be reflected in the Flemish Community's ratings. The Flemish Community's Long-Term IDRs may also be downgraded if its payback ratio exceeds 13x 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.

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	Negative
Long-Term Local-Currency IDR	Negative
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 6.7 million, representing 58% of the national population.

Financial Data Summary

Flemish Community		
(EURm)	**2022**	**2027rc**
Payback ratio (x)	10.5	9.7
Synthetic coverage (x)	1.2	1.3
Actual coverage (x)	0.9	1.5
Fiscal debt burden (%)	49.7	56.9
Net adjusted debt	25,787	35,357
Operating balance	2,451	3,660
Operating revenue	51,922	62,133
Debt service	2,669	2,452
Mortgage-style debt annuity	2,052	2,886

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

Belgium (April 2023)

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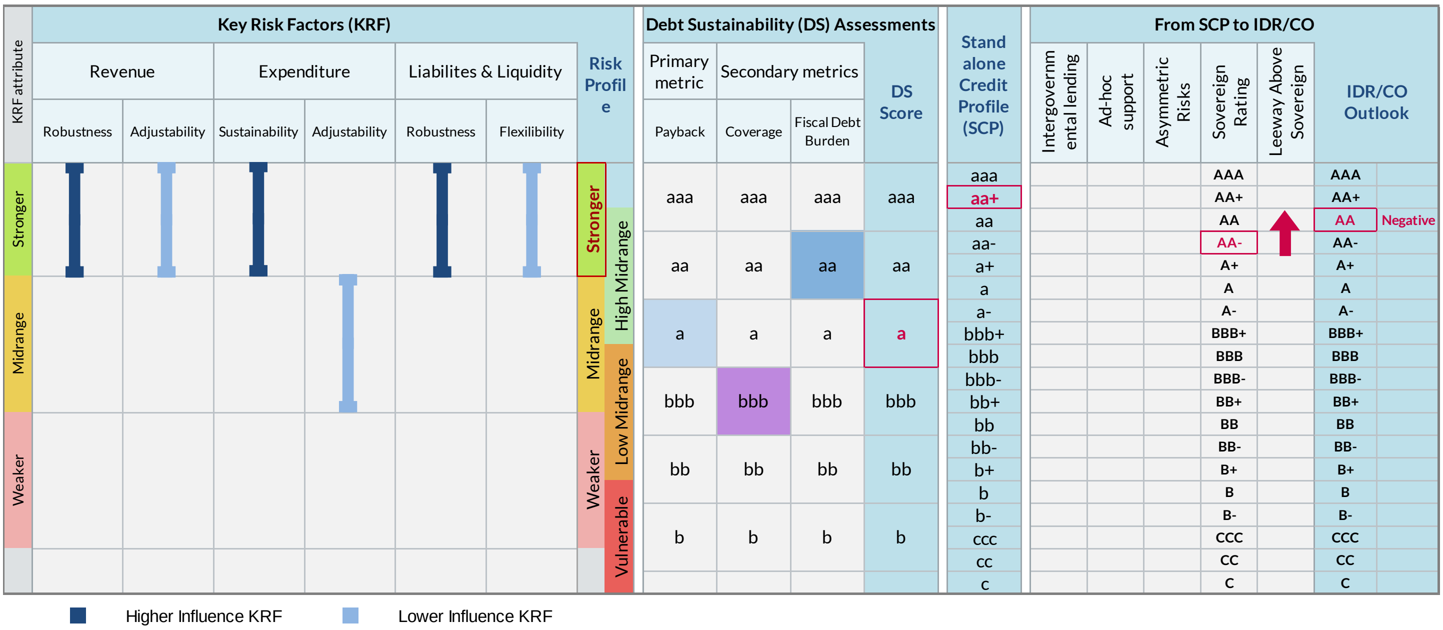
Rating Synopsis

Flemish Community IDR/CO Derivation Summary



The six KRFs, combined according to their relative importance, collectively represent the local and regional government's (LRG) risk profile. The risk profile and debt sustainability assessments, which measure the LRG's debt burden and debt-service requirements amid a reasonable economic or financial downturn over the rating horizon, are combined in a Standalone Credit Profile (SCP). The SCP, together with some additional factors not captured in the SCP, like extraordinary support or 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 are a material and growing share of Belgium's general government expenditure: 37% in 2021 from 30% in 2008. However, their share in the general government debt remains low at 16% 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. The Flemish Community also has the ability to cover its debt service with its own cash flow; therefore, Fitch believes that a 'Type B' LRG classification better reflects its credit risk.

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 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 about 6.7 million residents, or 58% of the national population. It comprises large cities, such as Antwerp, Ghent and Bruges. Its population grew 0.5% a year on average in 2017-2022, in line with the national average.

The Flemish Community is characterised by strong socio-economic indicators. In 2021, GDP per capita was EUR44,300 – 34% above the EU average. The unemployment rate is low at 3.2% in 2022, well below the national average of 5.6%.

Belgian GDP increased by 3.1% in 2022 in real terms, following a 6.1% growth in 2021, which boosted the Flemish Community's tax revenue. Fitch expects 2023 to be challenging, with real GDP growth expected at 0.5% at the national level.

Inflation was exceptionally high in 2022, at close to 10% for Belgium, and Fitch expects it to remain significant in 2023 (5.8%). Inflation puts direct pressure on the Flemish Community's spending, including on staff costs due to the automatic indexation mechanisms. On the other hand, inflation also boosts most of the tax revenue received by the region.

Socioeconomic Indicators

	Flemish Community	Belgium
Population, 2022 (m)	6.70	11.62
2017-2022 average annual population growth (%)	0.5	0.5
GDP per capita, 2021 (EUR)	44,300	43,300
Unemployment rate, 2022 (%)	3.2	5.6
Population below poverty line, 2022 (%)	7.7	13.2

Source: Fitch Ratings, national statistics, Eurostat, Flemish Community

Risk Profile Assessment

Risk Profile: Stronger

Fitch assesses the Flemish Community's risk profile as 'Stronger', reflecting the combination of the following assessments:

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. In 2022, 57% of the Flemish Community's operating revenue comprised tax revenue collected at the national level and transferred by the federal government.

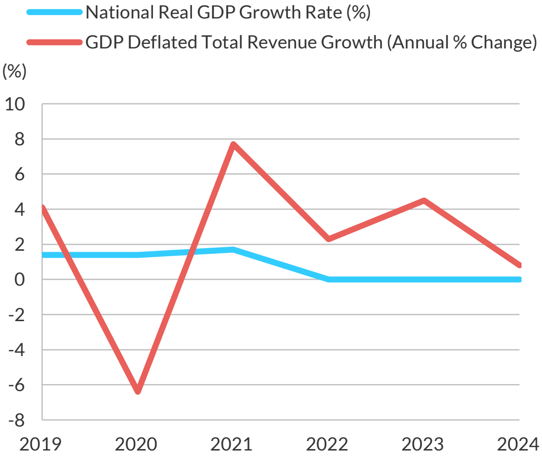
These resources are protected by the Special Finance Act, and the central government does not have the power to reduce them. The calculation of these resources is based on various demographic and economic indicators, including national GDP growth. They increase in line with GDP and population growth, which allows the Flemish Community to cover growing spending needs.

The community's own fiscal items were 30% of operating revenue in 2022. These included a surcharge tax on the personal income tax (PIT; 16%), and a wide range of regional taxes (14%). These own tax items have shown great resiliency during economic downturns, and we expect them to support growth in the Flemish Community in the coming years.

PIT proceeds are based on revenue from previous years. These proceeds are linked to the economic cycle, but their volatility is much lower than that of GDP. Most regional taxes are very stable revenue sources, except the registration fees on real-estate transactions, which are linked to the real-estate market and which declined in 2022 in the context of rising interest rates.

Total revenue increased by 9.5% in 2022, above the growth in total spending (7.8%). It reflected both the high level of inflation, and the sustained real GDP growth. We expect revenue to grow by 3.5% a year on average in our rating-case scenario in 2023-2027.

Real Total Revenue and GDP Growth



Source: Fitch Ratings, Flemish Community

Revenue Breakdown, 2022

	Operating revenue (%)	Total revenue (%)
PIT additional charge	16	-
Regional taxes	14	-
Taxes transferred by federal state	57	-
Transfers	0	-
Other operating revenue	13	-
Operating revenue	**100**	**99**
Interest revenue	-	0
Capital revenue	-	1
Total revenue	**-**	**100**

Source: Fitch Ratings, Fitch Solutions, 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 about 2%.

The Flemish Community has the autonomy to determine 12 specific taxes, including property, inheritance and transfer duties, car registration, and taxes on betting and gaming, like other Belgian regions. An increase in tax rates to their maximum level could raise revenue by more than 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. A rate increase could raise operating revenue by a few percentage points.

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.

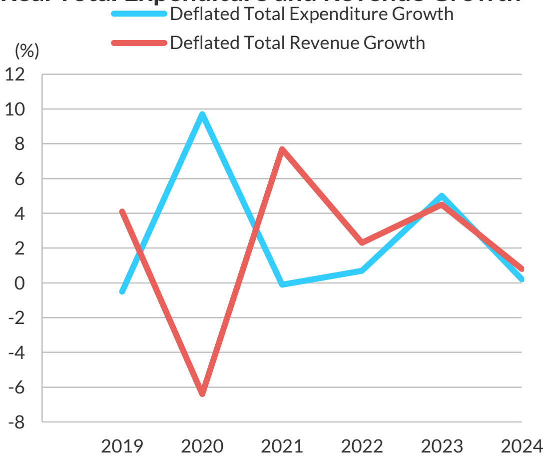
Expenditure Sustainability: Stronger

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.

The region's goal is to return to a balanced budget by 2027, from a EUR2.2 billion deficit in 2022, according to European system of account (ESA) rules, which will lead to tight control over spending.

In 2018-2022, total expenditure grew by a high 5.7% a year on average, above the growth in total revenue (5.1%). However, this was driven by the Covid-19 pandemic, the implementation of the economic recovery plan and the context of inflation. We expect growth in total spending to remain significant, at 3.3% on average in 2023-2027, slightly below the expected growth in revenue.

Real Total Expenditure and Revenue Growth



Source: Fitch Ratings, Flemish Community

Expenditure Breakdown, 2022

	Operating expenditure (%)	Total expenditure (%)
Staff cost	14	-
Goods and services	11	-
Operating subsidies	74	-
Other operating expenditure	1	-
Operating expenditure	**100**	**90**
Interest expenditure	-	1
Capital expenditure	-	9
Total expenditure	**-**	**100**

Source: Fitch Ratings, Fitch Solutions, 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.

Staff costs is a rigid cost item. This is especially the case in the context of high inflation due to the automatic indexation mechanism of wages. However, the overall share of staff costs is moderate, at 14% of opex in 2022.

The share of capex in total spending remains modest, at 9% in 2022, offering limited flexibility for the Flemish Community to reduce spending in case of need. The investment programme also includes a large committed infrastructure project (Antwerp's ring road).

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.

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.

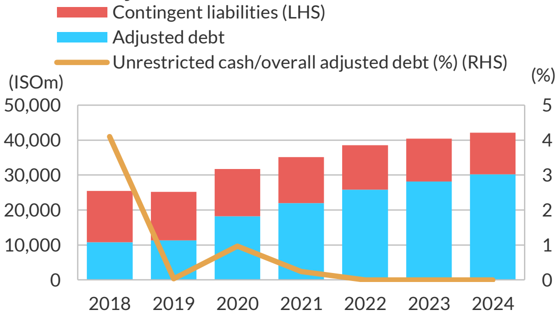
Fitch views the Flemish Community's liabilities as low-risk. At end-2022, long-term debt was 89% fixed-rate. The debt amortisation schedule shows large peak repayments in 2027, 2031, 2032 and 2035, mostly of bonds. However, the risk of large bullet repayments is mitigated by the modest amount of these maturities in proportion to the Flemish Community's cash flow. The administration is also progressively smoothing 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-2022, sustainable bond amounted to EUR5.3 billion.

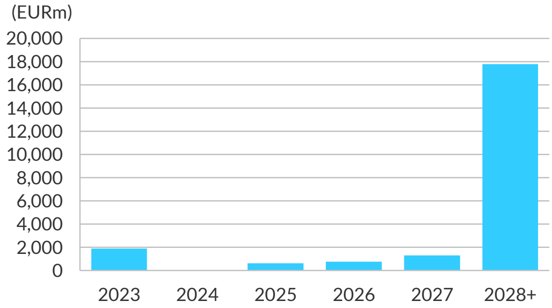
Off-balance-sheet liabilities (Fitch-adjusted) are large and were EUR14.6 billion at end-2022, but are assessed by Fitch as low-risk. They mostly comprise guarantees to the social housing sector (EUR7.7 billion) and local authorities, and debt of public entities owned by the region.

Overall Adjusted Debt Structure



Source: Fitch Ratings, Flemish Community

Direct Debt Maturity Profile, End-2022



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. The EUR3.75 billion committed bank lines contracted with ING Belgium NV/SA (AA-/Stable) was extended until 2024, with scope for an additional extension by two more years.

The Flemish Community uses a EUR25 billion Euro medium-term note programme and a EU1.5 billion Belgian commercial paper programme.

Debt Analysis

	2022
Fixed rate (% of direct debt)	88.6
Issued debt (% of direct debt)	89
Apparent cost of debt (consolidated, %)	2.3
Weighted average life of debt (years)	14.3

Source: Fitch Ratings, Flemish Community

Liquidity

(EURm)	2022
Total cash, liquid deposits and sinking funds	0
Restricted cash	0
Cash available for debt service	0
Undrawn committed credit lines	3,750

Source: Fitch Ratings, Flemish Community

Debt Sustainability Assessment

Debt Sustainability: '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

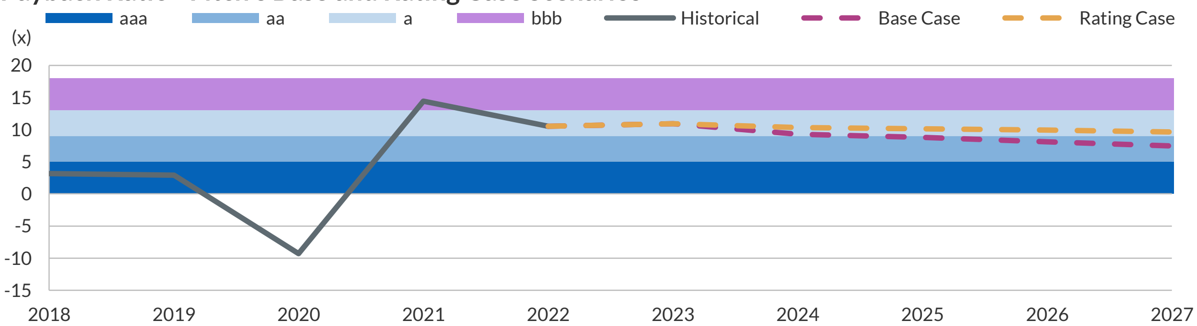
We assess the Flemish Community's debt sustainability at the upper end of the 'a' category. Our rating case expects the debt payback ratio to be about 10x in 2025-2027 (2022: 10.5x), the coverage ratio (synthetic calculation) close to 1.3x and a fiscal debt burden of about 55%.

The Flemish Community's fiscal performance continued to improve in 2022, with operating balance reaching EUR2.45 billion, from EUR1.5 billion in 2021. Economic rebound and the high level of inflation lifted operating revenue by 9%, above the growth in opex (7.3%). We expect operating balance to remain stable in 2023, in a context of low GDP growth, and then to steadily return to its historical level of about EUR3.5 billion in 2026-2027. The pace of recovery will depend on economic growth after 2023, and the cost-cutting measures put in place by the region to comply with its fiscal target of a budget balance in 2027.

Net Fitch-adjusted debt increased by EUR4 billion in 2022 due to the large capex and an operating balance that remained below its pre-pandemic level. Our rating case expects debt to continue growing to close to EUR35 billion at end-2027. This reflects a switch in debt management since 2015, with the Flemish Community directly financing some public entities rather than guaranteeing their debt, as well as the financing of large investments, especially the Antwerp ring road (more than EUR4 billion expected in 2023-2027).

The Flemish Community estimates financing requirements for the main social housing entities (VMSW and VWF) at close to EUR1.5 billion a year in 2023-2027.

Payback Ratio - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, Flemish Community

Fitch's rating-case scenario, which ends in 2027, is based on the following assumptions:

Scenario Assumptions Summary

		2023 - 2027 Average	
Assumptions	**2018-2022**	**Base Case**	**Rating Case**
Operating revenue growth (%)	4.0	3.9	3.7
Tax revenue growth (%)	2.9	4.4	4.1
Current transfers received growth (%)	-	-	-
Operating expenditure growth (%)	5.1	3.4	3.4
Net capital expenditure (average per year; m)	-3,417	-4,643	-4,643
Apparent cost of debt, (consolidated, %), 2022	2.3	2.5	2.5

		2027	
Outcomes	**2022**	**Base Case**	**Rating Case**
Payback ratio (x)	10.5	7.5	9.7
Synthetic coverage ratio (x)	1.2	1.6	1.3
Fiscal debt burden (%)	49.7	52.8	56.9

Source: Fitch Ratings, Flemish Community

Optional section 'Liquidity And Debt Structure Text' has been hidden. It can be displayed and enabled for authoring by re-enabling it via the side-bar.

SCP Positioning and Peer Comparison

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 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 Basque historical territories. The latter have a lower risk profile, but significantly lower debt ratios.

Peer Comparison

	Risk Profile	Payback rc (x)	SCP	IDR	Outlook/ Watch
Flemish Community	Stronger	9.7	aa+	AA	Neg
Ile-de-France, Region of	High Midrange	5.8	aa+	AA-	Sta
Nouvelle Aquitaine, Region of	High Midrange	7.3	aa	AA-	Sta
Bizkaia, Historical Territory of	High Midrange	3.0	aaa	AA-	Sta
Basque Country, Autonomous Community of (The)	High Midrange	6.8	a+	A	Sta
Bolzano, Autonomous Province of	High Midrange	1.3	aaa	A-	Sta
Trento, Autonomous Province of	High Midrange	1.7	aaa	A-	Sta

rc: Fitch's rating-case scenario
Source: Fitch Ratings

Long Term Rating Derivation

From SCP to IDR: Factors Beyond the SCP

		Support						
SCP	Sovereign	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 the 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 were 30% of operating revenue in 2022. These included a surcharge tax on the PIT, and a range of regional taxes collected directly the Flemish Community's administration. It also receives fees and charges from its consolidated institutions.

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.

Transaction and Securities

The Flemish Community's senior unsecured debt ratings are in line with its IDRs.

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)	2019	2020	2021	2022	2023rc	2027rc
Fiscal performance						
Taxes	41,088	38,785	42,217	45,071	50,335	55,114
Transfers received	0	0	0	0	0	0
Fees, fines and other operating revenues	4,215	4,261	5,396	6,851	6,510	7,018
Operating revenue	45,303	43,046	47,613	51,922	56,845	62,132
Operating expenditure	-41,422	-44,971	-46,097	-49,471	-54,266	-58,472
Operating balance	3,881	-1,925	1,516	2,451	2,579	3,660
Interest revenue	0	0	0	0	0	0
Interest expenditure	-439	-441	-450	-457	-510	-845
Current balance	3,442	-2,366	1,066	1,994	2,069	2,815
Capital revenue	280	256	376	627	224	392
Capital expenditure	-2,472	-3,939	-4,191	-4,759	-4,941	-5,000
Capital balance	-2,192	-3,683	-3,815	-4,132	-4,717	-4,608
Total revenue	45,583	43,302	47,989	52,549	57,069	62,524
Total expenditure	-44,333	-49,351	-50,738	-54,687	-59,717	-64,317
Surplus (deficit) before net financing	1,250	-6,049	-2,749	-2,138	-2,648	-1,793
New direct debt borrowing	750	7,499	4,954	4,127	4,842	3,401
Direct debt repayment	-1,611	-2,918	-2,187	-2,212	-2,193	-1,607
Net direct debt movement	-861	4,581	2,767	1,915	2,648	1,794
Overall results	390	-1,468	18	-223	0	0
Debt and liquidity						
Short-term debt	208	1,223	1,196	2,420	2,420	2,420
Long-term debt	6,595	12,713	15,425	18,234	20,883	29,234
Intergovernmental debt	0	0	1,195	1,195	1,195	1,195
Direct debt	6,803	13,936	17,816	21,849	24,498	32,849
Other fitch-classified debt	4,490	4,266	4,162	3,938	3,652	2,510
Adjusted debt	11,293	18,202	21,978	25,787	28,150	35,359
Guarantees issued (excluding adjusted debt portion)	16,301	15,954	15,661	14,575	13,488	9,143
Majority-owned GRE debt and other contingent liabilities	0	0	0	0	0	0
Overall adjusted debt	27,592	34,154	37,638	40,362	41,638	44,503
Total cash, liquid deposits, and sinking funds	8	307	84	0	0	0
Restricted cash	0	0	0	0	0	0
Unrestricted cash	8	307	84	0	0	0
Net adjusted debt	11,285	17,895	21,894	25,787	28,150	35,359
Net overall debt	25,586	33,849	37,556	40,362	41,638	44,503
Enhanced net adjusted debt	11,285	17,895	20,699	24,592	26,955	34,164
Enhanced net overall debt	25,586	33,849	36,360	39,166	40,443	43,307

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

Appendix B: Financial Ratios

Flemish Community

	2019	2020	2021	2022	2023rc	2027rc
Fiscal performance ratios						
Operating balance/operating revenue (%)	8.6	-4.5	3.2	4.7	4.5	5.9
Current balance/current revenue (%)	7.6	-5.5	2.2	3.8	3.6	4.5
Operating revenue growth (annual % change)	5.7	-5.0	10.6	9.1	9.5	2.1
Operating expenditure growth (annual % change)	4.1	8.6	2.5	7.3	9.7	1.8
Surplus (deficit) before net financing/total revenue (%)	2.7	-14.0	-5.7	-4.1	-4.6	-2.9
Surplus (deficit) before net financing/GDP (%)	0.4	-2.2	-0.9	-0.7	-0.8	-0.5
Total revenue growth (annual % change)	6.0	-5.0	10.8	9.5	8.6	2.1
Total expenditure growth (annual % change)	1.4	11.3	2.8	7.8	9.2	1.7
Debt ratios						
Primary metrics						
Payback ratio (x) (net adjusted debt to operating balance)	2.9	-9.3	14.4	10.5	10.9	9.7
Enhanced payback ratio (x)	2.9	-9.3	13.7	10.0	10.5	9.3
Overall payback ratio (x)	7.1	-17.6	24.8	16.5	16.2	12.2
Enhanced overall payback ratio (x)	7.1	-17.6	24.0	16.0	15.7	11.8
Secondary metrics						
Fiscal debt burden (%) (net debt-to-operating revenue)	24.9	41.6	46.0	49.7	49.5	56.9
Synthetic debt service coverage ratio (x)	3.2	-1.2	0.8	1.2	1.2	1.3
Actual debt service coverage ratio (x)	1.9	-0.6	0.6	0.9	1.0	1.5
Other debt ratios						
Liquidity coverage ratio (x)	2.4	-0.6	0.7	0.9	1.0	1.5
Direct debt maturing in one year/total direct debt (%)	3.1	8.8	10.6	19.8	9.9	7.4
Direct debt (annual % change)	13.4	104.9	27.8	22.6	12.1	5.8
Apparent cost of direct debt (interest paid/direct debt, consolidated) (%)	4.0	3.0	2.2	1.9	1.9	2.4
Revenue ratios						
Tax revenue/total revenue (%)	90.1	89.6	88.0	85.8	88.2	88.1
Current transfers received/total revenue (%)	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
Capital revenue/total revenue (%)	0.6	0.6	0.8	1.2	0.4	0.6
Expenditure ratios						
Staff expenditure/total expenditure (%)	12.2	11.4	11.7	12.5	-	-
Current transfers made/total expenditure (%)	71.7	71.3	69.7	67.2	-	-
Interest expenditure/total expenditure (%)	1.0	0.9	0.9	0.8	0.9	1.3
Capital expenditure/total expenditure (%)	5.6	8.0	8.3	8.7	8.3	7.8

rc: Fitch's rating-case scenario
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 (EUR21.85 billion at end-2022, including EUR1.2 billion of an EU SURE loan) and "other Fitch-classified debt" items, totalling EUR3.9 billion at end-2022. The latter comprised EUR1.9 billion in public-private partnership debt, EUR1.3 billion of public institutions' debt and EUR753 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.

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.