FitchRatings

Public Finance
Local and Regional Governments
Belgium

Flemish Community

The rating affirmation reflects Fitch Ratings' unchanged assessment of the Flemish Community's Standalone Credit Profile (SCP) at 'aa+'. This reflects the 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.

Key Rating Drivers

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 (2024-2028) due to lower revenue, higher expenditure or an unexpected rise in liabilities or debt-service requirements.

Revenue Framework: The Flemish Community's operating revenue is robust and comprises stable and growing tax items, mostly tax revenue collected nationally and transferred by the federal government (58% of operating revenue in 2023), which are protected by the Special Finance Act. The Flemish Community benefits from high tax flexibility; in particular it has the power to set 12 specific regional taxes (13%) and to determine the rate for about a quarter of personal income tax (PIT) through a surcharge system (17%), like other Belgian regions.

Expenditure Framework: Most of the Flemish Community's expenditure is operating subsidies (74% of operating expenditure in 2023) linked to its non-cyclical responsibilities, especially education, health or transportation. We believe there are fewer restrictions on the Flemish Community to alter its spending than for local and regional governments (LRG) in other decentralised countries. The Flemish community has flexibility over its capex, although this represents a modest share of expenditure (10% of total expenditure in 2023).

Debt Sustainability – 'a' Category: We assess the Flemish Community's debt sustainability at the upper end of the 'a' category. In our rating case, we expect the payback ratio to be close to 9x in 2028 (2023: 8.1x). Debt service coverage (Fitch's synthetic calculation) will average about 1.4x in 2028 and the fiscal debt burden will be close to 60%. We expect the operating balance to fall in 2024, based on our expectation of lower nominal GDP growth and higher inflation, before steadily increasing to about EUR4.2 billion in 2028.

We expect net-adjusted debt to increase to close to EUR38 billion at end-2028, reflecting 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.

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.

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	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 the 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

(EURm)	2023	2028rc
Payback ratio (x)	8.1	9.0
Synthetic coverage (x)	1.5	1.4
Fiscal debt burden (%)	50.7	58.9
Net adjusted debt	28,815	37,723
Operating balance	3,562	4,185
Operating revenue	56,786	64,037
Debt service	2,503	1,228
Mortgage-style debt annuity	2,344	3,102

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 (February 2024)

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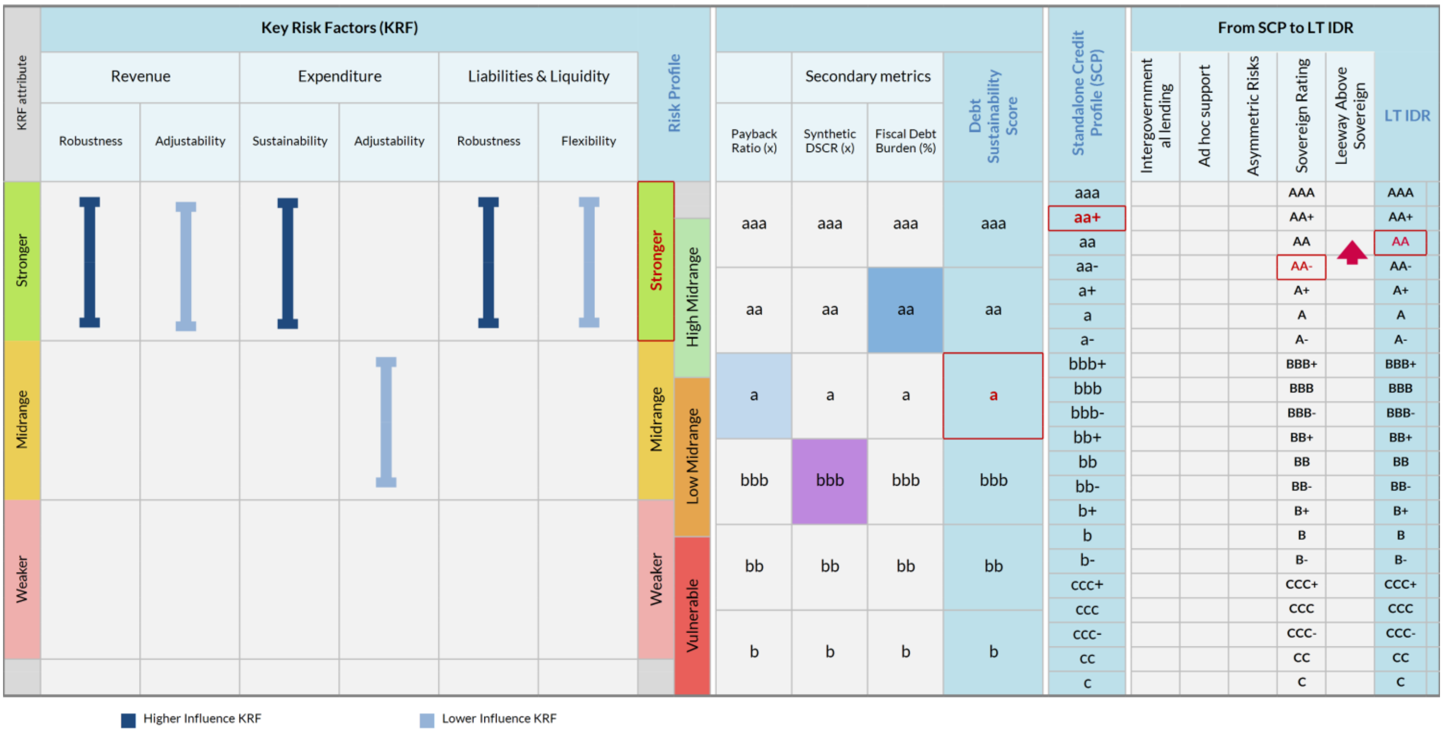
Rating Synopsis

Flemish Community LT IDR Derivation Summary



Source: Fitch Ratings

The six key risk factors, combined according to their relative importance, collectively represent the risk profile of the LRG. 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 an SCP. Together with some additional factors not captured in SCP, such as extraordinary support or rating cap, these produce the IDR.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of the Flemish Community is unlikely given that the Outlook on Belgium is Negative. We would revise the Outlook to Stable if we revised the Outlook on the sovereign to Stable, all other things unchanged.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of Belgium would be reflected in the Flemish Community's ratings. The Flemish Community's Long-Term IDRs could also be downgraded if its payback ratio approaches 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.

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. 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.

Socioeconomic Profile

The Flemish Community is the most populated community in Belgium. In 2023, 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 0.6% a year on average in 2018-2023, slightly above the national average (0.4%).

The Flemish Community has strong socioeconomic indicators. In 2023, real GDP per capita was EUR50,200 – 2% above the national average. The unemployment rate is low at 3.3% at end-2023, well below the national average of 5.5%.

Belgian GDP increased by 1.3% in 2023 in real terms, following 3.1% growth in 2022, which had a positive effect on the Flemish Community's tax revenue. Fitch expects this trend to continue in 2024-2025, with an average real GDP growth at 1.3%.

In 2023, the pace of inflation in Belgium moderated to 2.3%, decelerating from a high 10.3% in 2022. Fitch expects inflation to remain high in 2024-2025, at 3% on average. Inflation puts direct pressure on the Flemish Community's spending, including on staff costs due to the automatic indexation mechanisms. However, inflation also boosts most of the tax revenue received by the region.

Socioeconomic Indicators

	Flemish Community	Belgium
Population, 2023 (m)	6.7	11.7
2018-2023 average annual population growth (%)	0.6	0.4
Real GDP per capita, 2023 (EUR)	50,200	49,400
Unemployment rate, 4Q23 (%)	3.3	5.5
Population below poverty line, 2023 (%)	7.8	12.3

Source: Fitch Ratings, national statistics, Flemish Community

Risk Profile Assessment

Risk Profile: Stronger

Fitch assesses Flemish Community's risk profile at 'Stronger', reflecting the combination of 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

Fitch assesses five out of six key risk factors 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 (2024-2028) due to lower-than-expected revenue, higher expenditure or an unexpected rise in liabilities, debt or debt-service requirements.

Revenue Robustness: Stronger

The Flemish Community benefits from robust revenue sources, mainly stable and growing tax items. In 2023, 58% of the Flemish Community's operating revenue comprised tax revenue collected at the national level and transferred by the federal government.

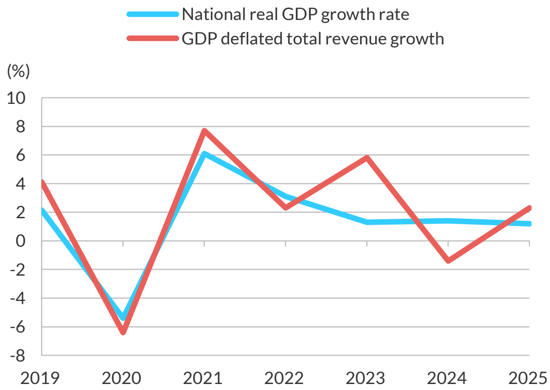
These resources are protected by the Special Finance Act, and the central government does not have the power to reduce them. The calculation of these resources is based on various demographic and economic indicators, including national GDP growth. They increase in line with GDP and population growth,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

The community's own fiscal items were 30% of operating revenue in 2023. These included a surcharge tax on PIT (17%), and a wide range of regional taxes (13%). These own tax items have been very resilient 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 non-cyclical revenue sources, except the registration fees on real-estate transactions, which are linked to the real-estate market and which declined in 2023 (-6% vs. 2022) in the context of rising interest rates.

Total revenue increased by 9.1% in 2023. It reflected both the high level of inflation (through regional taxes and PIT surcharge) and sustained real GDP growth (through PIT surcharge). We expect revenue to rise by an average 2.4% a year in our rating-case scenario in 2024-2028.

Real Total Revenue and GDP Growth



Source: Fitch Ratings, Flemish Community

Revenue Breakdown, 2023

	Operating revenue (%)	Total revenue (%)
PIT additional charge	16.7	-
Regional taxes	12.7	-
Taxes transferred by federal state	58.2	-
Transfers	0.0	-
Other operating revenue	12.3	-
Operating revenue	**100.0**	**99.0**
Interest revenue	-	0.0
Capital revenue	-	1.0
Total revenue	**-**	**100.0**

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.

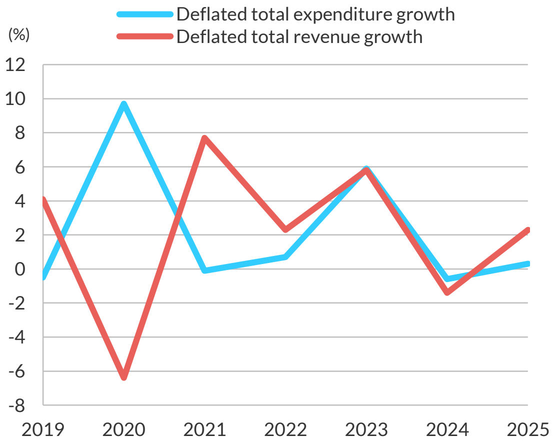
An increase in tax rates would be politically sensitive, especially as the level of taxation is already higher in Belgium than other comparable countries. However, we still consider the affordability of additional taxation as strong in an international context, reflecting a sound local economy and wealth 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 EUR2.4 billion deficit in 2023, according to European System of Accounts (ESA) rules, which will require tight control over spending.

In 2019-2023, total expenditure rose by a high 6.4% a year on average, above growth in total revenue (5.9%). However, this was driven by the Covid-19 pandemic, the implementation of the economic recovery plan and the current context of inflation. We expect growth in total spending to remain significant, at 2.1% on average in 2024-2028, but below expected growth in revenue (2.4%), reflecting the Flemish Community's good expenditure control.

Real Total Expenditure and Revenue Growth



Source: Fitch Ratings, Flemish Community

Expenditure Breakdown, 2023

	Operating expenditure (%)	Total expenditure (%)
Staff costs	14.1	-
Goods and services	10.4	-
Operating subsidies	74.2	-
Other operating expenditure	1.3	-
Operating expenditure	**100.0**	**89.1**
Interest expenditure	-	1.1
Capital expenditure	-	9.9
Total expenditure	**-**	**100.0**

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 believe there are fewer restrictions on the Flemish Community altering its spending than for LRGs in other decentralised countries, such as France. Staff costs are a rigid cost item, especially in the context of high inflation due to the automatic indexation mechanism of wages. However, the overall share of staff costs is moderate (14% of opex in 2023).

The share of capex in total spending remains modest (10%), offering limited flexibility for the Flemish Community to reduce spending in case of need. The exception on capex flexibility would be a large committed infrastructure project (Antwerp's ring road) totalling an expected EUR3 billion in 2024-2028, and which is politically sensitive.

There is no balanced-budget 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.

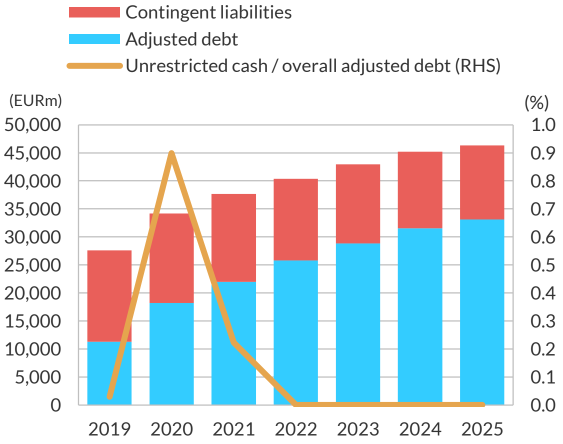
Fitch views the Flemish Community's liabilities as low risk. At end-2023, 92% of long-term debt was fixed-rate. The debt amortisation schedule shows large repayment peaks in 2032, 2033 and 2042, mostly of bonds. However, the modest amount of maturities in proportion to the Flemish Community's operating revenue mitigates the risk of large bullet repayments. The administration is also progressively smoothing its debt amortisation schedule.

The Flemish Community altered its debt policy in 2015 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 and is a regular issuer on these markets. The goals are specially to increase the energy efficiency of buildings and to finance affordable housing. In 2023, the Flemish Community issued a EUR1.5 billion sustainable bond.

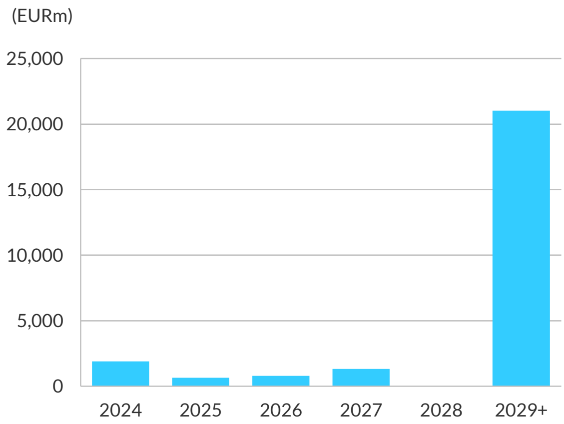
Off-balance-sheet liabilities (Fitch-adjusted) are large and totalled EUR14.1 billion at end-2023, but Fitch assesses them as low-risk. They mostly comprise guarantees to the social housing sector (EUR7.2 billion) extended prior to the reform, hospitals (EUR2.8 billion) and local authorities (EUR197 million), and debt of public entities owned by the region (EUR1.9 billion).

Overall Adjusted Debt Structure



Source: Fitch Ratings, Flemish Community

Debt Maturity Profile



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 for the ECB's public-sector purchase programme. The entity benefits from EUR3.75 billion committed bank lines contracted with ING Belgium NV/SA (AA-/Stable), which have been extended to 2026.

The Flemish Community uses a EUR25 billion-euro medium-term note programme and a EUR1.5 billion Belgian commercial paper programme, which increases its liquidity flexibility.

Debt Analysis

	2023
Fixed rate (% of direct debt)	92
Debt in foreign currency (% of direct debt)	0
Apparent cost of debt (%)	3
Weighted average life of debt (years)	12.5

Source: Fitch Ratings, Flemish Community

Liquidity

(EURm)	2023
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 Metrics Summary

	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

Note: Yellow highlights show metric ranges applicable to Issuer
Source: Fitch Ratings

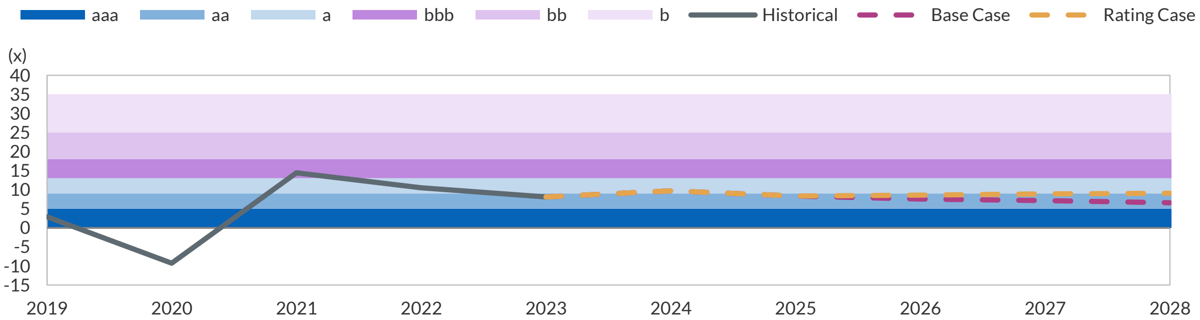
Fitch classifies the Flemish Community as a 'Type B' LRG. We assess the Flemish Community's debt sustainability at the upper end of the 'a' category, which reflects a payback ratio expected to be 9.0x in 2028 in our rating-case scenario (2023: 8.1x), a coverage ratio (synthetic calculation) close to 1.4x in 2028 and a fiscal debt burden close to 60% on average.

The Flemish Community's fiscal performance continued to improve in 2023, with the operating balance reaching EUR3.6 billion, from EUR2.5 billion in 2022. An economic rebound and high inflation lifted operating revenue by 9.4%, above growth in opex (7.6%). In our rating-case scenario, we expect the operating balance to decrease in 2024, based on Fitch's expectation of lower nominal GDP growth and higher inflation.

In our rating-case scenario, we then expect the operating balance to steadily increase to about EUR4.2 billion in 2028, driven by robust GDP growth prospects (2.4% a year on average over 2024-2028). The pace of recovery will depend on economic growth after 2024, and the cost-cutting measures put in place by the Flemish Community to comply with its fiscal target of a budget balance in 2027.

Net Fitch-adjusted debt increased to EUR29 billion in 2023 (EUR26 billion in 2022), mainly due to large capex. Our rating case expects debt to continue rising to close to EUR38 billion at end-2028. 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 EUR3 billion expected in 2024-2028). The Flemish Community estimates financing requirements for the main social housing entities (VMSW and VWF) at close to EUR1.8 billion a year on average in 2024-2028.

Payback Ratio - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, Flemish Community

Fitch's rating-case scenario, which ends in 2028, is based on the following assumptions:

Scenario Assumptions Summary

		2024 - 2028 average	
Assumptions	**2019-2023**	**Base case**	**Rating case**
Operating revenue growth (%)	5.8	2.8	2.4
Tax revenue growth (%)	4.5	3.2	2.8
Current transfers received growth (%)	-	-	-
Operating expenditure growth (%)	6.0	2.4	2.4
Net capital expenditure (average per year; m)	-3,831	-5,132	-5,132
Apparent cost of debt (%)	3.8	2.6	2.6

		2028	
Outcomes	**2023**	**Base case**	**Rating case**
Payback ratio (x)	8.1	6.6	9.0
Overall payback ratio (x)	12.1	8.8	11.9
Synthetic coverage ratio (x)	1.5	1.8	1.3
Fiscal debt burden (%)	50.7	54.0	58.9

Source: Fitch Ratings, Flemish Community

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 Laenders and some Canadian provinces in terms of risk profile. This reflects similarities in responsibilities, revenue mix, and debt and liquidity characteristics. However, the comparison with these entities is more complicated for debt sustainability and SCP positioning as they are 'Type A' entities, while the Flemish Community is a 'Type B' entity. It has a stronger risk profile than French LRGs, reflecting mainly higher tax flexibility.

In terms of SCPs, the best peers for Flemish Community are French regions and Italian or Spanish LRGs, which are rated above the sovereign, although all of them have a 'High Midrange' risk profile.

The Flemish Community's SCP is similar to that of the region of Ile-de-France (AA-/Stable). The latter had metrics in the upper end of the 'aa' category (payback below 6x). Flemish Community's metrics are in the upper of the 'a' category (payback close to 9x at the end of the rating case), but this is offset by a better risk profile.

The Flemish Community's SCP is better than that of the region of Nouvelle-Aquitaine (AA-/Stable), whose metrics are in the middle of the 'aa' category (payback around 8.5x at the end of the rating case), combined with a 'High Midrange' risk profile.

The Flemish Community' SCP is lower than that of Basque provinces (such as Bizkaia), or the Italian provinces of Trento and Bolzano (see table below). These entities have a 'aaa' SCP, reflecting exceptionally strong debt sustainability ratios.

Peer Comparison

	Risk Profile	Payback 2028rc (x)	SCP	IDR	Outlook/ Watch
Flemish Community	Stronger	9.0	aa+	AA	Negative
Ile-de-France, Region of	High Midrange	5.8	aa+	AA-	Stable
Nouvelle Aquitaine, Region of	High Midrange	8.9	aa-	AA-	Stable
Bizkaia, Historical Territory of	High Midrange	4.2	aaa	AA-	Stable
Bolzano, Autonomous Province of	High Midrange	0.3[a]	aaa	A-	Stable
Trento, Autonomous Province of	High Midrange	1.1[a]	aaa	A-	Stable

rc: Fitch's rating-case scenario
[a]: 2027 figures
Source: Fitch Ratings

Long Term Rating Derivation

From SCP to LT IDR: Factors Beyond the SCP

SCP	Sovereign LT FC IDR	Support: Intergovern. Financing	Support: Ad hoc Support	Support: Floor	Asymmetric Risks	Rating Cap	Leeway above Sovereign (notches)	LT FC IDR
aa+	AA-	-	-	-	-	AA	1	AA

Source: Fitch Ratings, Flemish Community

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 2023. These included a surcharge tax on 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. However, we believe that the Flemish Community is not shielded from 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 the Flemish Community 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.

Short Term Rating Derivation

Fitch assesses the Flemish Community's Short-Term IDRs at 'F1+', in line with its rating guidance

Transaction and Securities

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

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Appendix A: Financial Data

Flemish Community

(EURm)	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
Fiscal performance										
Taxes	41,088	38,785	42,217	45,071	49,792	50,734	52,732	54,121	55,528	57,037
Transfers received	0	0	0	0	0	0	0	0	0	0
Fees, fines and other operating revenues	4,215	4,261	5,396	6,851	6,994	7,000	7,000	7,000	7,000	7,000
Operating revenue	45,303	43,046	47,613	51,922	56,786	57,734	59,732	61,121	62,528	64,037
Operating expenditure	-41,422	-44,971	-46,097	-49,471	-53,224	-54,487	-55,742	-57,080	-58,450	-59,852
Operating balance	3,881	-1,925	1,516	2,451	3,562	3,247	3,990	4,041	4,078	4,185
Interest revenue	0	0	0	0	0	0	0	0	0	0
Interest expenditure	-439	-441	-450	-457	-630	-634	-782	-838	-885	-965
Current balance	3,442	-2,366	1,066	1,994	2,932	2,613	3,208	3,203	3,193	3,220
Capital revenue	280	256	376	627	557	419	447	485	507	483
Capital expenditure	-2,472	-3,939	-4,191	-4,759	-5,892	-6,000	-5,500	-5,500	-5,500	-5,500
Capital balance	-2,192	-3,683	-3,815	-4,132	-5,335	-5,581	-5,053	-5,015	-4,993	-5,017
Total revenue	45,583	43,302	47,989	52,549	57,343	58,153	60,179	61,606	63,035	64,520
Total expenditure	-44,333	-49,351	-50,738	-54,687	-59,746	-61,121	-62,024	-63,418	-64,835	-66,317
Surplus (deficit) before net financing	1,250	-6,049	-2,749	-2,138	-2,403	-2,968	-1,845	-1,812	-1,800	-1,797
New direct debt borrowing	750	7,499	4,954	4,127	3,368	5,125	2,744	2,860	3,385	2,060
Direct debt repayment	-1,611	-2,918	-2,187	-2,212	-1,873	-2,157	-898	-1,049	-1,585	-263
Net direct debt movement	-861	4,581	2,767	1,915	1,495	2,968	1,845	1,812	1,800	1,797
Overall results	390	-1,468	18	-223	-908	-2,968	-1,845	-1,812	-1,800	-1,797
Debt and Liquidity										
Short-term debt	208	1,223	1,196	2,420	1,935	1,935	1,935	1,935	1,935	1,935
Long-term debt	6,595	12,713	15,425	18,234	22,656	25,624	27,470	29,281	31,081	32,879
Intergovernmental debt	0	0	1,195	1,195	1,195	1,195	1,195	1,195	1,195	1,195
Direct debt	6,803	13,936	17,816	21,849	25,786	28,754	30,600	32,411	34,211	36,009
Other Fitch-classified debt	4,490	4,266	4,162	3,938	3,029	2,766	2,503	2,240	1,977	1,714
Adjusted debt	11,293	18,202	21,978	25,787	28,815	31,520	33,103	34,651	36,188	37,723
Guarantees issued (excluding adjusted debt portion)	16,301	15,954	15,661	14,575	14,133	13,692	13,250	12,809	12,368	11,926
Majority-owned GRE debt and other contingent liabilities	0	0	0	0	0	0	0	0	0	0
Overall adjusted debt	27,594	34,156	37,639	40,362	42,948	45,212	46,353	47,460	48,556	49,649
Total cash, liquid deposits, and sinking funds	8	307	84	0	0	0	0	0	0	0
Restricted cash	0	0	0	0	0	0	0	0	0	0
Unrestricted cash	8	307	84	0	0	0	0	0	0	0
Net adjusted debt	11,285	17,895	21,894	25,787	28,815	31,520	33,103	34,651	36,188	37,723
Net overall debt	27,586	33,849	37,555	40,362	42,948	45,212	46,353	47,460	48,556	49,649
Enhanced net adjusted debt	11,285	17,895	20,699	24,592	27,620	30,325	31,908	33,456	34,993	36,528
Enhanced net overall debt	27,586	33,849	36,360	39,167	41,753	44,017	45,158	46,265	47,361	48,454
Memo:										
Debt in foreign currency/direct debt (%)	0	0	0	0	0	-	-	-	-	-
Issued debt/direct debt (%)	93	97	92	89	93	-	-	-	-	-
Floating interest rate debt/direct debt (%)	3	9	7	12	8	-	-	-	-	-

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Source: Fitch Ratings, Flemish Community

Appendix B: Financial Ratios

Flemish Community

	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
Fiscal performance ratios (%)										
Operating balance/operating revenue	8.6	-4.5	3.2	4.7	6.3	5.6	6.7	6.6	6.5	6.5
Current balance/current revenue	7.6	-5.5	2.2	3.8	5.2	4.5	5.4	5.2	5.1	5.0
Operating revenue annual growth	5.7	-5.0	10.6	9.1	9.4	1.7	3.5	2.3	2.3	2.4
Operating expenditure annual growth	4.1	8.6	2.5	7.3	7.6	2.4	2.3	2.4	2.4	2.4
Surplus (deficit) before net financing/total revenue	2.7	-14.0	-5.7	-4.1	-4.2	-5.1	-3.1	-2.9	-2.9	-2.8
Surplus (deficit) before net financing/GDP	0.4	-2.2	-0.9	-0.7	-0.7	-0.8	-0.5	-0.5	-0.5	-0.5
Total revenue annual growth	6.0	-5.0	10.8	9.5	9.1	1.4	3.5	2.4	2.3	2.4
Total expenditure annual growth	1.4	11.3	2.8	7.8	9.3	2.3	1.5	2.2	2.2	2.3
Debt ratios										
Primary metrics										
Payback ratio (x) (net adjusted debt to operating balance)	2.9	-9.3	14.4	10.5	8.1	9.7	8.3	8.6	8.9	9.0
Overall payback ratio (x)	7.1	-17.6	24.8	16.5	12.1	13.9	11.6	11.7	11.9	11.9
Secondary metrics										
Fiscal debt burden (%) (net debt-to-operating revenue)	24.9	41.6	46.0	49.7	50.7	54.6	55.4	56.7	57.9	58.9
Synthetic debt service coverage ratio (x)	3.2	-1.2	0.8	1.2	1.5	1.3	1.5	1.4	1.4	1.4
Actual debt service coverage ratio (x)	1.9	-0.6	0.6	0.9	1.4	1.2	2.4	2.1	1.7	3.4
Other debt ratios										
Liquidity coverage ratio (x)	2.4	-0.6	0.7	0.9	1.4	1.2	2.4	2.1	1.7	3.4
Direct debt maturing in one year/total direct debt (%)	3.1	8.8	10.6	19.8	14.8	6.7	6.3	6.0	5.7	5.4
Direct debt (annual % change)	13.4	104.9	27.8	22.6	18.0	11.5	6.4	5.9	5.6	5.3
Apparent cost of direct debt (interest paid/direct debt) (%)	6.9	4.3	2.8	2.3	2.6	2.3	2.6	2.7	2.7	2.7
Revenue ratios (%)										
Tax revenue/total revenue	90.1	89.6	88.0	85.8	86.8	87.2	87.6	87.9	88.1	88.4
Current transfers received/total revenue	0.0	0.0	0.0	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	0.0	0.0	0.0
Capital revenue/total revenue	0.6	0.6	0.8	1.2	1.0	0.7	0.7	0.8	0.8	0.7
Expenditure Ratios (%)										
Staff expenditure/total expenditure	12.2	11.4	11.7	12.5	12.6	-	-	-	-	-
Current transfers made/total expenditure	71.7	71.3	69.7	67.2	66.1	-	-	-	-	-
Interest expenditure/total expenditure	1.0	0.9	0.9	0.8	1.1	1.0	1.3	1.3	1.4	1.5
Capital expenditure/total expenditure	5.6	8.0	8.3	8.7	9.9	9.8	8.9	8.7	8.5	8.3

rc - rating case
Source: Fitch Ratings, Flemish Community

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

Fitch-adjusted debt includes the Flemish Community's direct debt (EUR25.8 billion at end-2023, including EUR1.2 billion of an EU SURE loan) and "other Fitch-classified debt" items, totalling EUR3.0 billion at end-2023. The latter comprised EUR1.7 billion in public-private partnership debt, EUR626 million of public institutions' debt and EUR685 million that the Flemish Community will repay to the federal state over 16 years. However, it does not include the guaranteed debt of social-housing companies (EUR7.2 billion in 2023), which we view as self-funded, in contrast with ESA rules, nor of hospital infrastructure debt (EUR2.8 billion).

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.

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