Beyond Bundeslaender: Belgium

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Marketing communication (see disclaimer on the last pages)

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Beyond Bundeslaender: Belgium

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Introduction and structure of Belgium

As we have done on several occasions in recent years, we shall use this publication to take another look at the regional governments and local authorities (RGLAs) with capital market relevance in Belgium. This publication forms part of our series of Public Issuer Specials, which also includes reports on both Spain and Portugal. In the present analysis, another new issuer is included in our coverage – Deutsche Gemeinschaft Belgien (Ticker: DGBE), which is the German-speaking Community of Belgium. Due to the variety of issuers and what are occasionally pick-ups (in certain maturities) in comparison with Belgian government bonds and German Laender, the RGLAs analysed in this publication may offer opportunities for investors. The focus here will once again be on the levels below the federal state and the communities, namely the regions and provinces. There are three regional institutions which take the name of their respective territory. From North to South, they are as follows: the Flemish Region (Flanders), the Brussels-Capital Region and the Walloon Region (Wallonia). Aside from these three regions, Belgium also comprises three communities defined by their language: these are the Flemish, French and German-speaking communities. Whereas the Flemish-speaking community exercises its competencies in the Flemish Province and Brussels, the French community is located in the Walloon Provinces and, likewise, in the Brussels-Capital Region. The German-speaking territory is by far the smallest. It covers nine municipalities in the extreme east of the Walloon province of Liège. The three linguistic communities were introduced following the first state reform (1970). The areas of responsibility of the regions and communities have been extended over the course of various reforms. Following the second state reform (1980), the Flemish and Walloon Regions were each given a parliament and government of their own. In contrast, the region around the capital, Brussels, did not obtain its institutions until the third state reform in 1988/89. The members of the regional parliaments are directly elected every five years by the Belgian people. In addition to the regional parliament and regional government, in Wallonia there are also parliaments and governments dedicated to the French-speaking and German-speaking communities. As such, there are three separate parliaments and governments in the region of Wallonia. For its part, the Flemish community and regional institutions are merged in Flanders, which is why there is just a single parliament and one government here. Both regions and communities can exercise legislative powers in certain areas. Federal elections took place in Belgium on 26 May 2019 simultaneously with European elections. Elections to the Flemish parliament in addition to the parliaments of Wallonia and the Brussels-Capital Region also took place on the same day. The next federal election is therefore provisionally expected to take place in 2024. Due to the strong regional associations and strengths of the majority of the political parties in Belgium, forming governments at regional level tends to be somewhat easier than is the case at national level. In this regard, the respective regional parliaments are dominated by representatives of the local communities in each case.

Belgian provinces

Since the fourth state reform, Belgium has been split into a total of ten provinces. In the wake of this reform, the province of Brabant was abolished and replaced by two new provinces: Flemish Brabant and Walloon Brabant. After the provincial split took effect in 1995, the territory of the Brussels-Capital Region was kept separate from the classification of provinces. The provinces are autonomous institutions, but remain under the supervision of the Federal State, the communities and above all, the regions. Provincial Councils have been established, whereby the members are directly elected for terms of six years. The council takes decisions of a general nature, votes on provincial regulations and draws up the budget for the province. The Provincial Council appoints six members of the Standing Deputation, which implements the resolutions of the Provincial Council and ensures day-to-day management. It is chaired by a Governor, who is not elected but appointed or dismissed by the King under the responsibility of the Minister for Foreign Affairs.

Organisation of the provinces

The five Flemish provinces are: Antwerp, Limburg, East Flanders, Flemish Brabant and West Flanders. There are also five Walloon provinces: Walloon Brabant, Hainaut, Liège, Luxembourg and Namur. The arrondissements represent the next administrative subdivision under the provinces (arrondissement in French and arrondissementen in Flemish). The term 'Arrondissement' is also used in German, although the official designation is 'Bezirk'. A closer analysis at this point involves too much minor detail for the present publication.

Inter-community tensions place a strain on Belgian politics

The political and societal landscape of Belgium has been shaped by near-permanent conflict between the regions of Flanders and Wallonia ever since the country gained independence from the Netherlands in 1830. Starting with a dispute centred on the official language, contemporary tensions are mainly related to economic issues, with the fundamental conditions having been reversed since the end of the Second World War. While Wallonia assumed the mantle for a flourishing coal and steel industry at the beginning of the 20th century, its northern counterpart, Flanders, was regarded as structurally weak. Following the demise of industry in the 1950s and sluggishly implemented structural reforms in the French-speaking region of Belgium, the economic strength ratio was reversed to the benefit of Flanders. The driver of growth and prosperity in this context was above all the tertiary sector. This discrepancy is, among other aspects, today reflected in the unemployment rate, which in Wallonia stood at 13.1% as at the end of 2019 (and therefore prior to the outbreak of the coronavirus pandemic), more than twice as high as in Flanders (5.9%). At this time, unemployment on a national level in Belgium amounted to 9.2%. As at year-end 2021, unemployment in Wallonia fell to a historic low of 8.5% in the wake of the economic recovery following the outbreak of the COVID-19 pandemic, although this still paled in comparison with that of Flanders (3.4%), maintaining the discrepancy between the two regions in the process. As a result, the independence movement within the Flemish Community not only focuses on aspects of culture and language, but also on the welfare state, which benefits the Walloon population in particular. Over recent years, these separatist tendencies have intensified further, despite the fact that the regions are already administered largely by the local governments on an autonomous basis. This is also the result of a complex distribution of powers between the administrative levels. With no real prospect of breaking the deadlock in the debate about the future structure of Belgium and potential Flemish independence in sight, it is to be expected that nationalist tendencies will rise further and the two regions will continue to drift further apart in political terms.

Current political situation

Ultimately, the political extremes have increasingly benefited from the simmering conflict. This was particularly noticeable in the 2019 federal election, with Flanders voting for the far right and Wallonia electing political representatives from the extreme left. While the communist Workers' Party of Belgium (Parti du Travail de Belgique [PTB]) secured 13.8% of the vote in Wallonia, the far-right Flemish nationalist party Vlaams Belang gained a vote share of 18.7% in Flanders. It is significant that two separatist Flemish parties were able to unite the highest percentage of votes nationwide. Due to the fractured nature of the party-political landscape in Belgium, no government could be formed after the election, despite tough rounds of negotiations. Following the outbreak of the coronavirus pandemic in March 2020, a transitional government headed up by acting Prime Minister Sophie Wilmès was formed, which remained in office for six months. However, this government was severely restricted in its competencies. In this context, only legislation to combat the economic and financial impacts of the pandemic was allowed to be passed. Given the rifts between the political factions, it was unclear for several months just how the political standstill could be circumvented and the power vacuum filled. On 30 September 2020, seven parties (Open VLD, the Reformist Movement, the Socialist Party, Socialist Party Differently, Christian Democratic and Flemish, Ecolo and Green) agreed to work together and govern in what was dubbed the "Vivaldi coalition", with Alexander De Croo (Open VLD) nominated as Prime Minister. On 01 October 2020, a mere 494 days following the previous general election, Belgium therefore had a government with a parliamentary majority for the first time since December 2018. The coalition is composed of Christian Democrats, Social Democrats, Liberals and Greens, and unifies 53% of the seats in Parliament. Key issues on the agenda of this coalition government include, for example, the nuclear phaseout by 2025, the promotion of sustainable mobility solutions, an expansion of healthcare offerings and, since this year, military and defence. In any case, difficulties in forming governments in Belgium are nothing new: following the 2010 general election, it took more than 18 months before a coalition government could be formed. In view of the different positions within the government and the strengthening of the forces on the left and right in parliament, large parts of the Belgian population are sceptical about the current legislative period. For example, Flemish separatists have repeatedly accused the government of being "anti-Flemish" and protests against the Vivaldi coalition have regularly been organised. Any hopes that the situation could start to cool down is likely to heavily depend on regional socio-economic developments. In Flanders, current polling data for the next general election, which is scheduled for 2024, points towards the nationalist New Flemish Alliance (Nieuw-Vlaamse Alliantie; N-VA) and the right-wing populists Vlaams Belang (VB) each claiming a vote share of 22%.

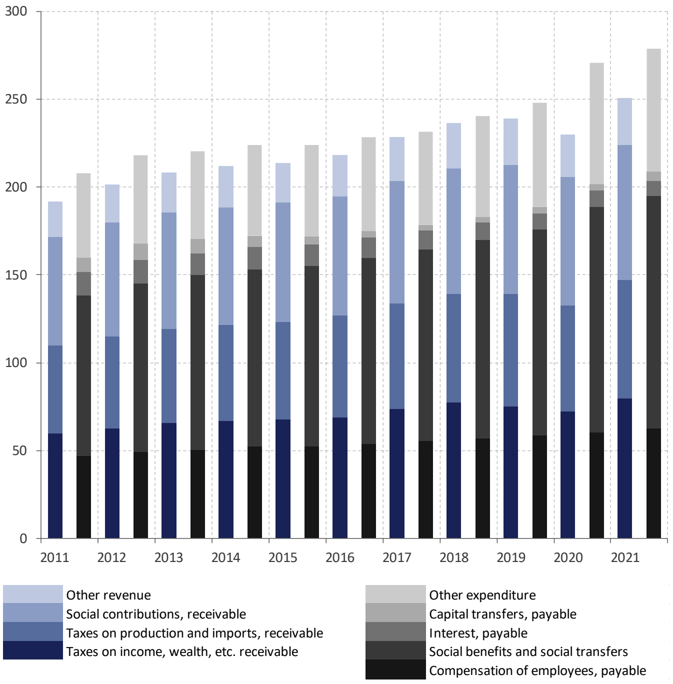
Reactions to the Russian war of aggression in Ukraine

As was the case in other European countries, 24 February 2022 proved to be a watershed moment in Belgium with resolutions and revised defence budgets adopted following immediate condemnation of the military invasion of Ukraine. In the case of the Flemish regional parliament, the Belgian resolution also put pressure on the political left. The Partij van de Arbeid (Workers' Party of Belgium, PVDA) abstained and declared that it did not agree with the unilateral position of the resolution, especially against the background of what it deemed to be the failure of the EU and NATO to take de-escalation measures. Nevertheless, the Belgian state presented an unprecedented military investment plan dubbed the STAR plan. An additional budget of EUR 10.2bn will be available up to 2030, which corresponds to around 10% of the budget for 2022 (EUR 450m already transferred in 2021).

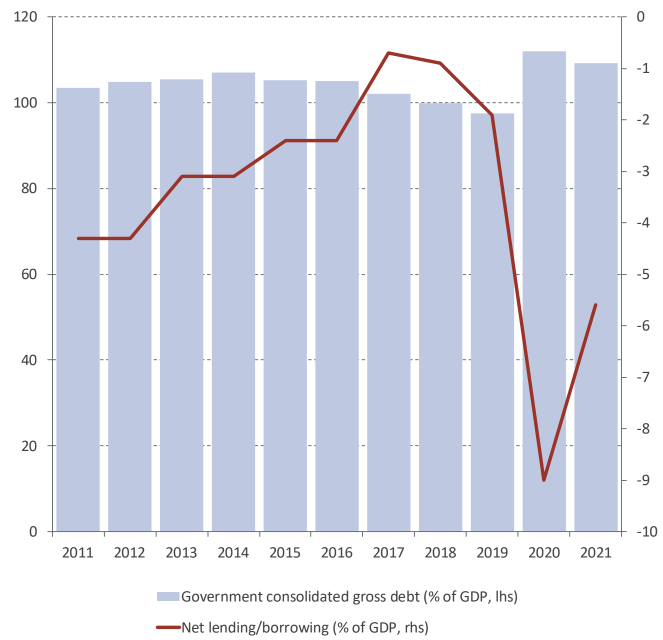
The Belgian economy – an overview

With GDP per capita of EUR 43,340 in 2021 (preliminary data), Belgium is above average in comparison with the European Union (EU) as a whole (EUR 32,430). However, the regional disparities discussed in greater detail above are again apparent here: with GDP per capita of EUR 29,000, Wallonia lagged well behind Flanders (EUR 40,000) and the Brussels-Capital region (EUR 68,000) in 2020. According to preliminary data from the National Bank of Belgium (NBB) for 2021, the service sector remains by far the most important with a share of 70% of gross value added. The contribution of the secondary sector amounts to 20%, with only just under 1% attributable to agriculture. Belgium is highly dependent on exports, which at EUR 436bn in 2021 (preliminary data) put the country among the top six largest exporters in the EU. The export and import ratios are very high at around 86% of GDP (2021) in each case. At 46.7%, consumer spending on the part of private households accounts for just under half of Belgian GDP. In the last few years prior to the COVID-19 pandemic, a slight decline in national debt in relation to GDP had been observed. However, as at the end of 2021, Belgium had the sixth highest debt level in the EU after Greece, Italy, Portugal, Spain and France, with a debt ratio of 109.2%. The government measures implemented with the aim of managing the challenging economic environment have significantly impacted government finances: the export-oriented economy has been hit especially hard by the ongoing impacts of the COVID-19 crisis and the Russian war of aggression against Ukraine. Following the outbreak of the pandemic, national debt reached its highest level for around 20 years in 2020, at 112.0% of GDP. According to EU Commission estimates, the figure is also expected to decline in 2022 (106.2%), whereas expansions are expected in 2023 (107.9%) and 2024 (108.6%). In 2022 and 2023, GDP is expected to grow by +2.8% and +0.2% versus the respective prior year, with the budget deficit anticipated to come in at-5.2% and -5.8% of GDP respectively.

State revenues vs. government spending (EURbn)



National debt vs. budget balance



Source: Bloomberg, Eurostat, NBB, NORD/LB Markets Strategy & Floor Research

Capital market activities

The following administrative units below the Belgian Federal State (officially: the Kingdom of Belgium; Bloomberg ticker: BGB; commonly referred to as OLOs), as sorted by their respective Bloomberg tickers, are currently active in the capital market:

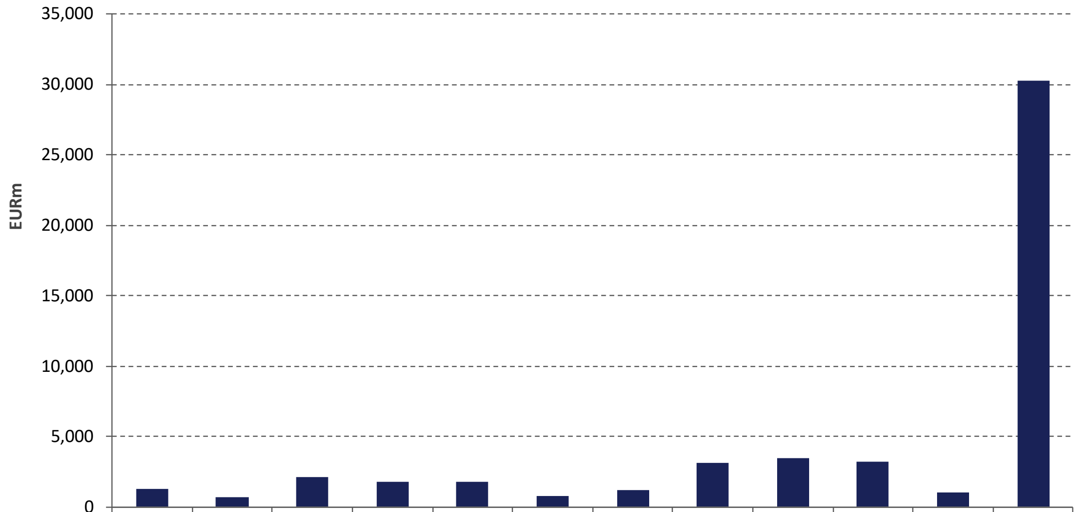
- ANTWRP (Province of Antwerp)
- BLMBRB (Province of Vlaams-Brabant)
- **BRUCAP** (Brussels-Capital Region)
- BRUGGE (City of Bruges)
- DGBE (German-speaking Community of Belgium)
- FLEMCT (City of Aalst, Beringen, Boom, Bree, Brugge, Lier, Wachtebeke, Zaventem)
- **FLEMSH** (Ministries of the Flemish Community)
- **FRBRTC** (Brussels Municipalities Regional Fund; guaranteed by BRUCAP)
- GHENTB (City of Ghent ASBL)
- HASSLT (City of Hasselt)
- HOGENT (Hogeschool Gent - University College Ghent)
- IZEGEM (City of Izegem)
- **LCFB** (Communauté Francaise de Belgique - French Community of Belgium)
- MECHLN (City of Mechelen)
- REGWAL (Investment fund of Wallonia)
- VILLIE (City of Liège)
- VLNAMR (City of Namur)
- **WALLOO** (Region of Wallonia)
- ZAVENT (Municipality of Zaventem)
- ZOTTGM (City of Zottegem)

Bold: Already purchased as part of the PSPP/PEPP
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Outstanding volumes on the Belgian sub-sovereign market

Altogether, the regional market currently amounts to EUR 50.9bn as against EUR 43.6bn roughly 12 months ago. Here, FLEMSH (EUR 17.8bn) and WALLOO (EUR 16.4bn) lead the way, followed at some distance behind by BRUCAP and LCFB (EUR 7.6bn each). DGBE and FRBRTC bring up the rear at just EUR 679m and EUR 356m respectively. FLEMSH has been top of the table in this regard for many years. Due to its increased issuance activity with benchmark bonds, WALLOO has climbed the rankings and is now the second largest regional Belgian issuer. Private placements of up to 100 years in maturity also ensure that the structure of outstanding Belgian sub-sovereign bonds can be described as highly granular overall. This situation is also illustrated by the chart below. In this regard, liquidity is suffering, although there is a pick-up on offer in the form of an illiquidity premium. Incidentally, the issuers SOCWAL and FRBRTC are defined as Local Authorities included on the purchase list of the Eurosystem under “Agencies”. Both are classified as local public-sector issuers (Société Wallone du Credit Social and Brussels Municipalities Regional Fund [FRBRTC guaranteed by BRUCAP]).

Maturity profile of the Belgian issuers



	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	>2033
Other	0	0	0	0	0	0	0	0	0	0	0	0
EUR	1,284	665	2,147	1,820	1,764	762	1,197	3,133	3,479	3,213	1,034	30,296

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

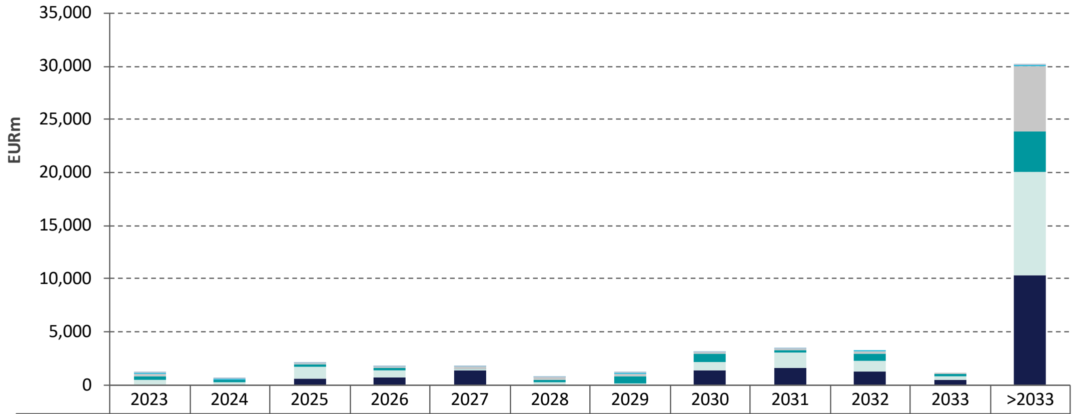
Outstanding volume

Not all the tickers listed above are regions. Some regional governments and local authorities or other regional vehicles and agencies are also active in the capital market. Nevertheless, the above breakdown reveals 648 bonds now outstanding – compared with 622 in our last analysis and 558 around three years ago (300 bonds outstanding in our first analysis in September 2016). However, this belies the granularity of Belgian regional bonds: there is now a total of EUR 50.9bn outstanding against under EUR 12bn in September 2016 and a total of EUR 20.1bn prior to the onset of the COVID-19 pandemic at the end of 2019. Back then, just as now, the FX segment has no share of the composition of the liabilities. Diversification is provided solely through varying maturity segments. A total of EUR 30.3bn is set to fall due after 2033, which shows that the issuers are opting for long-term funding. Whereas in 2016, there were only three bonds outstanding that amounted to more than or equal to EUR 500m (benchmark bonds), there is presently a total of 31 bonds outstanding with a volume of between EUR 500m and EUR 2bn. Alongside 12 bonds from Wallonia (WALLOO), these now include 15 bonds issued by Flanders (FLEMSH) in addition to four bonds from the LCFB. In 2022 alone, a total of six deals were placed in benchmark size. Incidentally, the Belgian state has also followed the example of Germany and France by already launching activities in the segment of green bonds (Green OLO Framework 2022).

Fixed-rate bonds are dominant

Fixed coupons account for the largest share of bonds issued by Belgian regions. Of the bonds we have analysed (648), a total of 566 bonds featured a fixed coupon, representing a share of 87.3%. These are followed by FRNs (floating rate notes; 7.4%) and bonds with a variable rate accounting for only a small share. Zero-coupon bonds and step-up coupon bonds are nearly negligible. In this respect, Bloomberg makes a distinction between floaters (classic FRNs, e.g. 3-M Euribor +70bp) and inflation-linked bonds (variable). The proportion of fixed-rate bonds is on the high side, especially in comparison with the German Laender (around 67.6%), for example. Overall, the Belgian regions are certainly open to niche products when it comes to their refinancing activities (e.g. private placements).

Outstanding bonds of selected Belgian issuers



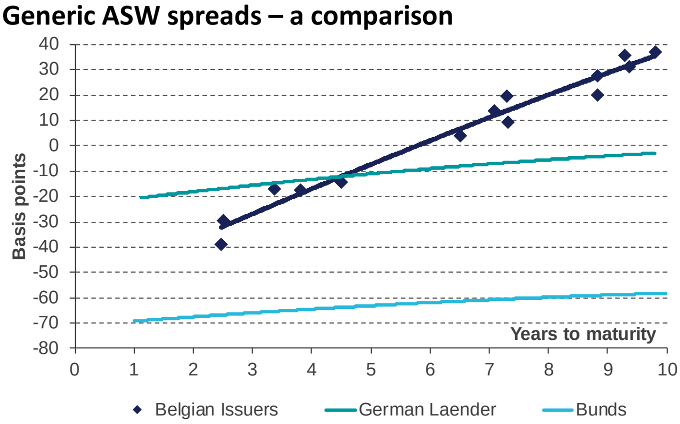
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	>2033
FRBRTC	22	44	14	25	24	18	26	38	34	0	0	113
DGBE	113	65	55	68	54	35	33	46	45	25	0	140
BRUCAP	160	70	85	55	140	185	233	95	134	273	35	6,107
LCFB	350	180	235	290	20	245	665	765	200	600	214	3,833
WALLOO	515	255	1,085	595	184	259	188	802	1,420	1,065	285	9,679
FLEMSH	0	0	627	750	1,320	0	0	1,377	1,640	1,250	500	10,358

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

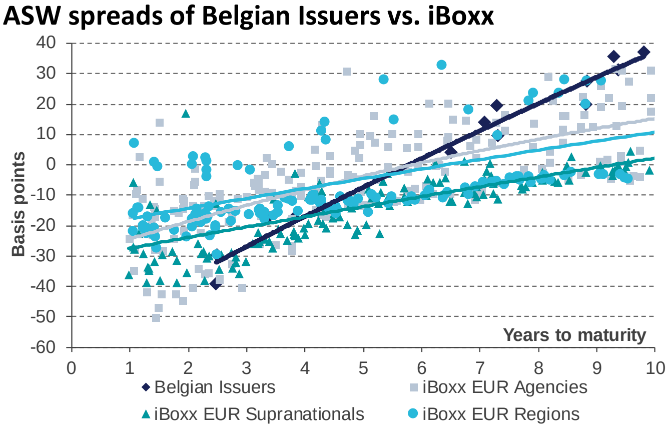
Belgian regions offer pick-up vs. OLOs and German peers

It should not come as any great surprise that Belgian regions (benchmark size) are trading at the widest spreads to Belgian government bonds and the German peer group. The Flemish Community is rated at (AA / Aa2 / -), while Wallonia has been awarded ratings of (- / A3 / -). Belgian sovereign bonds are rated at (AA- / Aa3 / AA). From a regulatory point of view, Belgian regions and sovereign bonds can be regarded as identical to their German counterparts (LCR Level 1; RW 0%, Solvency II: preferred), which are almost universally rated AAA and can generally be traded on a far more liquid basis on the secondary market. In view of limited liquidity, including in a peer-group comparison, we have declined to look at these bonds in any more detail. In addition, Belgian regions are open to private placements and bespoke maturity requests on the part of institutional investors.

Generic ASW spreads – a comparison



ASW spreads of Belgian Issuers vs. iBoxx



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research; data as at 20 Dec. 2022 eod

General information

Homepage

Number of inhabitants (2021)
1,222,637

Capital city
Brussels

GDP (2020)
EUR 83.8bn

GDP per capita (2020)*
EUR 68,400

Unemployment (2021)
11.3%

Budget deficit (as a % of revenue, 2020)
23.8%

Bloomberg ticker
BRUCAP

Outstanding volume
EUR 7.6bn

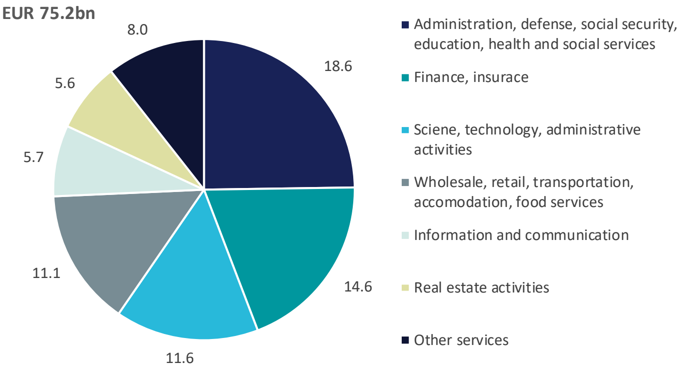
Ratings	Long-term	Outlook
Fitch	-	-
Moody's	-	-
S&P	AA-	neg

*Provisional values

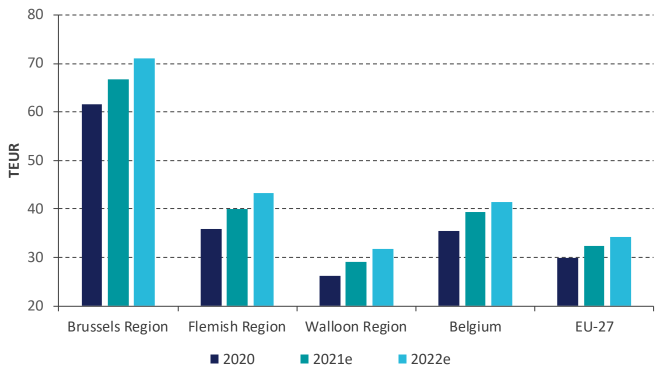
Brussels-Capital

With approximately 1.2 million inhabitants, the Brussels-Capital region (referred to in French as the Région de Bruxelles-Capitale and in Dutch as Brussels Hoofdstedelijk Gewest) is home to roughly 10% of the Belgian population. This makes it the smallest of the three Belgian regions, and it is located close to the centre of the country in Flemish territory. Both French and Dutch are official languages. With a total of 19 associated municipalities, including the City of Brussels itself, the region has de facto coalesced into a single city. The largest municipalities, after the City of Brussels, are Schaerbeek with around 130,000 inhabitants and the municipality of Anderlecht with around 121,000 inhabitants. The Brussels-Capital region has existed in its current form since 1 January 1995. The government consists of a French-speaking Prime Minister and four ministers (two French-speaking and two Dutch-speaking), who are elected by the regional parliament. In addition to the regional government, the French and Flemish-speaking communities exercise rights in Brussels. There is also a governor, who acts as the central government's commissioner. The level below the regional parliament is again divided into municipal parliaments. With GDP per capita of around EUR 68,400 (provisional value, 2020), it boasts by far the highest value at the level of the Belgian regions, comfortably outstripping second-placed Flanders at EUR 40,000, while the national average comes in at EUR 39,600. Given that Brussels is the headquarters of the European Union and NATO, this substantial figure is mainly attributable to the administrative and business headquarters of European institutions and multinational companies. This is reflected in a very service-oriented economy: in 2021, 91% of jobs was attributable to the tertiary sector overall. Alongside the EU institutions, banking and insurance, transport, chemicals and tourism are all key pillars of the local economy. Like other major urban agglomerations, the Brussels-Capital region is one of the richest in Europe in terms of GDP. However, this is accompanied by a concentration of social risks. For instance, the unemployment rate of 11.3% at the end of 2021 was above the national value (6.3%) and the European average (7.0%). Since 2014, the region has been a member of the European Union Network for the Implementation and Enforcement of Environmental Law (IMPEL) and is advancing comprehensive transformation programmes, particularly in the areas of sustainable mobility, water and flood management, as well as agriculture.

Gross value added by sector (2020)



A comparison of GDP per capita*



* Due to the use of data from Statistiek Vlaanderen, there may be deviations from Eurostat.
Source: Issuer, NBB, Statistics Flanders, NORD/LB Markets Strategy & Floor Research

General information

Homepage

Number of inhabitants (2021)
6,698,876

Capital city
Brussels

GDP (2020)
EUR 266.3bn

GDP per capita (2020)*
EUR 40,000

Unemployment (2021)
3.4%

Budget deficit (as a % of revenue, 2020)
9.5%

Bloomberg ticker
FLEMSH

Outstanding volume
EUR 17.8bn

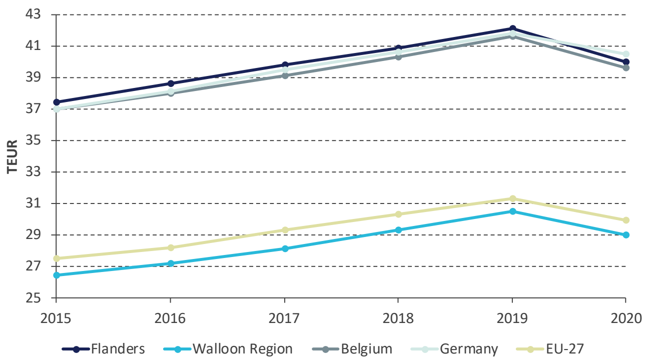
Ratings	Long-term	Outlook
Fitch	AA	stab
Moody's	Aa2	stab
S&P	-	-

*Provisional values

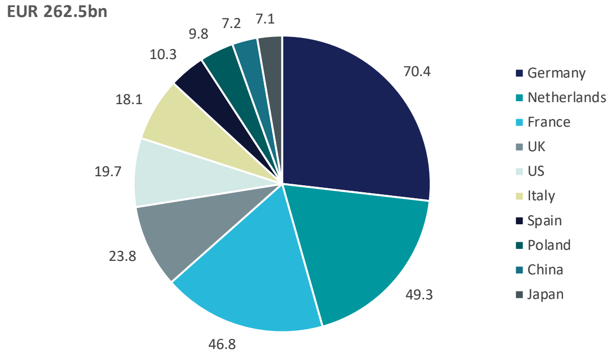
Flanders

With 6.7 million inhabitants, approximately 58% of the Belgian population live in Flanders (referred to in French as Flandre and in Dutch as Vlaanderen). Flanders borders France to the south-west, the Dutch provinces of Zeeland, Nordbrabant and Limburg to the north and east as well as the Wallonian provinces of Hennegau, Walloon Brabant and Liège to the south. The Brussels-Capital region is an official enclave within the Flemish region. Following Antwerp, which has a population of approximately 530,000, Ghent and Bruges are the next largest cities with around 263,000 and 119,000 inhabitants respectively. Legislative authority is exercised by the Flemish parliament and the regional government. The Parliament consists of 118 Council members directly elected in Flanders and six members of the Brussels Regional Council. In recent political history, the Flemish Movement, which ideologically seeks to promote greater political autonomy for Flanders, has increasingly grown in popularity amid the Belgian political crisis of 2007-11 and its aftermath. Since 2010, the strongest party has been the separatist party Nieuw-Vlaamse Alliantie (New Flemish Alliance), while Vlaams Belang (Flemish Interests) became the second-largest power in the federal and regional elections in 2019. At present, polling data suggests a continuation of this trend at the next federal elections in 2024. Reflecting the economic impacts related to the COVID-19 pandemic, Flanders received support to the tune of around EUR 4.3bn from the European Recovery and Resilience Facility. In addition to an accelerated economic recovery, this funding is designed to achieve a sustainable increase in productivity and competitiveness in the region. Compared with other Belgian regions, Flanders ranks in second place with GDP per capita of EUR 40,000 (provisional value 2020), behind the Brussels-Capital region (EUR 68,400). In 2020, 58% of Belgian GDP was attributable to Flanders. Due to its central location and highly developed transport infrastructure, Flanders is a key logistics hub in Europe, from which multinational automotive companies benefit. The Volvo plant in Ghent is the largest employer in Flemish industry with approximately 6,500 employees. The business environment is shaped by small and medium-sized suppliers. In the area of sustainability, Flanders is aiming for carbon neutrality by 2030, and has had a Sustainability Bond Framework on the basis of the ICMA Guidelines in place since 2018. Funding activities have been selectively supplemented by issuances in ESG format since then. The rating agency Fitch has awarded a rating of AA (outlook: "stable"), while Moody's rates Flanders at Aa2 with the same outlook. As such, Flanders is one of the few european regions to be rated above its respective state by a rating agency.

GDP per capita over time



Top 10 export destinations (EURbn)



Source: Issuer, Eurostat, NORD/LB Markets Strategy & Floor Research

General information

[Homepage]

Number of inhabitants (2021)

3,662,495

Capital city

Namur

GDP (2020)

EUR 106.4bn

GDP per capita (2020)*

EUR 29,000

Unemployment (2021)

8.5%

Budget deficit (as a % of revenue, 2020)

9.9%

Bloomberg ticker

WALLOO

Outstanding volume

EUR 16.3bn

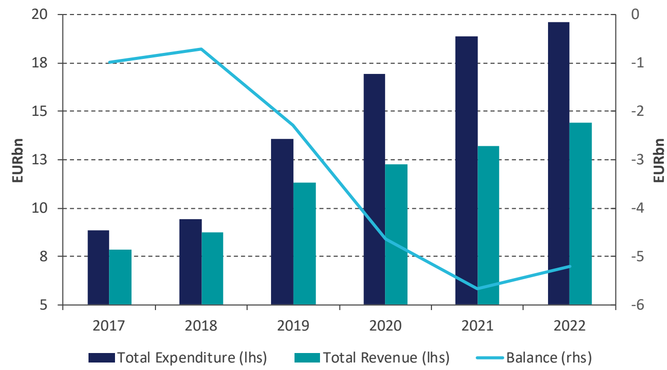
Ratings	Long-term	Outlook
Fitch	-	-
Moody's	A3	stab
S&P	-	-

*Provisional values

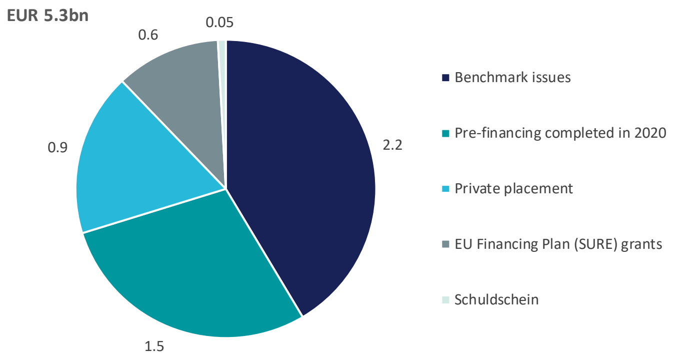
Wallonia

In terms of area, Wallonia is the largest of the three Belgian regions at 16,844 km², and comprises the southern half of Belgian territory. However, with around 3.6 million inhabitants, Wallonia only accounts for roughly a third of the Belgian population overall. Officially, Wallonia is bilingual. In addition to Belgium's French-speaking community, it is home to Belgium's German-speaking community as well, although this covers just 2% of the population in the extreme eastern fringes of the region. Namur, which has a population of 110,000, is the capital of Wallonia. The largest cities in the region are Charleroi and Liège, each with about 200,000 inhabitants. The latter is the economic and cultural centre of the region. There is a long history of tension between Wallonia and Flanders, its Flemish-speaking neighbour to the north, which was originally centred around a dispute about the official language and today is largely dominated by economic issues. While Wallonia operated as a flourishing location of the coal and steel industry at the beginning of the 20th century, the northern region of Flanders was regarded as structurally weak. Following the decline of these industrial sectors in the 1950s and the sluggish implementation of structural change in the French-speaking part of Belgium, economic power shifted in favour of Flanders. The regions' areas of responsibility have been extended through various reforms in recent decades, meaning that they are largely administered autonomously by respective local governments. With GDP per capita of EUR 29,000 (provisional value, 2020), Wallonia ranks third within the Belgian regions, which compares with a figure of EUR 39,600 at national level. The GDP per capita of Wallonia therefore equates to 97% of the EU-27 average (2019: 86%), while the equivalent figure for the Belgian state comes in at 132%. Following a long phase of divergence from the EU-27 average in the wake of the global economic crisis in 2008/09, the gap has slowly started to close in recent years. Wallonia has a diversified funding profile. In 2020 and 2021, a total of five and three benchmarks subject to strong demand were issued respectively, producing total issuance volumes for these years of EUR 3.7bn and EUR 2.2bn. The funding profile is supplemented by ESG issues that are based on the Green, Social & Sustainability Bond Framework that has been in place since 2019. Moody's awards the region a rating of A3 and most recently confirmed the stable outlook in December 2021. In this context, it points to the good capital market access and conservative debt management policy.

Public revenues and expenditure over time



Funding (2021)



Source: Issuer, NORD/LB Markets Strategy & Floor Research

Wallonia-Brussels Federation

As is the case for the other two linguistic communities, Belgium's French community (referred to in French as the Fédération Wallonie-Bruxelles, or the Wallonia-Brussels Federation in English) forms part of the Belgian federal state. Its legal existence is codified in the Belgian constitution. Responsibility extends over all people resident in the "Region of the French language" territory. This firstly covers Wallonia (with the exception of members of the German-speaking community), and secondly extends to include the French-speaking institutions in the officially bilingual Brussels-Capital region. Specifically, the Wallonia-Brussels Federation is responsible for education, culture, sport, youth welfare, scientific research and legal advice centres. The community's parliament consists of a chamber with 94 indirectly elected deputies; of whom 75 are Walloon and 19 are French-speaking deputies from Brussels. The parliament exercises its legislative responsibility through decrees and votes, which relate to the budget and the financial report, among other aspects. The government exercises executive power through edicts for implementing decrees. Since the last elections at federal and regional level in 2019 (next elections in 2024), the existing government, which consists of five members, has been formed of a coalition between the PS (socialist party), MR (Reformist Movement) and Ecolo (green party), which accounts for 73% of the seats in parliament. In the sixth state reform in 2014, the Belgian government boosted the powers of the community and guaranteed the requisite funding to exercise these. Since the Wallonia-Brussels Federation does not generate any direct tax revenue, its main funding source consists of tax revenues that are collected by federal authorities and then redistributed. Since the Special Financing Act was enacted in 1989, the Federation has enjoyed far-reaching autonomy in the area of budget management and has retained 99% of general revenues. A support mechanism is also codified in Article 54 of the Financing Act, which guarantees the communities a government loan, for which the interest is borne by the government, in the event that they default on their payments or fall into arrears. The funding activities of the French Community of Belgium are supported by selective capital market appearances. Based on its Social Bond Framework, an inaugural EUR benchmark deal with a maturity of 14 years (order book: EUR 1.5bn) was placed on the primary market in June 2021. The French Community of Belgium is rated A2 by Moody's, which is two notches below the sovereign rating of Belgium (Aa3).

General information

Homepage

Number of inhabitants (2021)
4,746,179

Administrative headquarters
Brussels

Revenue (2021)
EUR 10.7bn

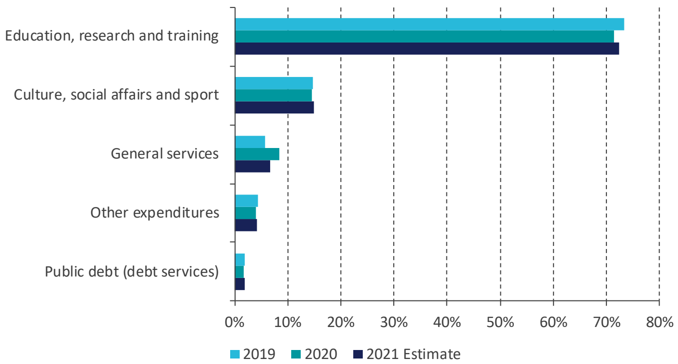
Budget deficit (as a % of revenue, 2020)
7.2%

Bloomberg ticker
LCFB

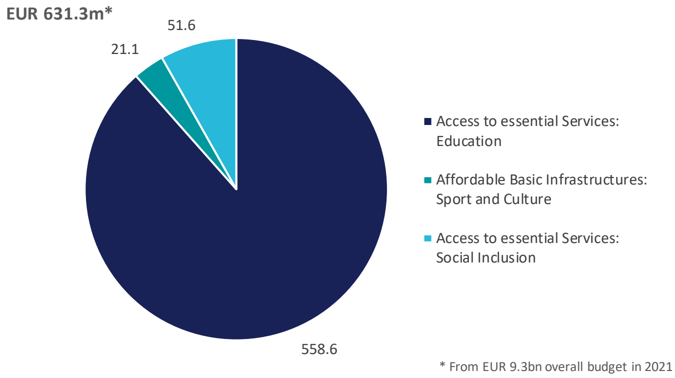
Outstanding volume
EUR 7.6bn

Ratings	Long-term	Outlook
Fitch	-	-
Moody's	A2	stab
S&P	-	-

Breakdown of budget expenses over time



Funding under the Social Bond Framework (2021)



Source: Issuer, NORD/LB Markets Strategy & Floor Research

German-speaking Community of Belgium

The German-speaking Community of Belgium (German: Deutschsprachige Gemeinschaft Belgien; French: Communauté germanophone) comprises around 78,000 inhabitants, making it the smallest federated member of the Belgian federal state. The region is situated in the east of Belgium and borders the Netherlands, Germany and Luxembourg. As is the case with the other two linguistic communities, its legal existence is codified as part of the Belgian constitution. The path towards political autonomy can be traced back to several state reforms since the 1960s. In this context, the public institutions today enjoy a spectrum of responsibilities that has been developed and extended over time (last state reform: 2014). Essentially, these responsibilities relate to community affairs, starting in the cultural sphere and extending through to include family, social, educational and health policies, as well as international relations. In parallel with the last state reform, negotiations were held with Wallonia centred on transferring the areas of supervision and financing of the nine German-speaking municipalities, tourism, local authorities and employment. The four-member government is elected by the parliament and appoints a prime minister from among its members. In addition to day-to-day political business, the government executes the decrees passed by Parliament. It also presents the community budget to Parliament and is responsible for implementing this. The ninth government of the German-speaking community of Belgium began its work in June 2019 after the acting coalition between ProDG, the Party for Freedom and Progress (PFF) and SP achieved a majority again in the municipal elections. The political focus continues to be on the challenges that shaped the previous legislative period: strengthening cultural identity, dealing with the demographic change and an ageing population, increasing the quality of education and strengthening East Belgium as a location. The most important economic sectors include manufacturing and trade. Although agriculture and forestry characterise the landscape, these play a more subordinate role in terms of their economic importance. The community is funded in large part from federal state transfers (lump sum fixed by law), which is adjusted annually for inflation, economic development and demographic aspects. Another important source of income is the endowment of the Walloon Region for exercising the regional powers that have been transferred. In addition, funding is also available from the European Structural Funds, while the German-speaking community also carries out refinancing activities on the capital market via an EMTN programme worth up to EUR 1bn.

General information

Homepage

Number of inhabitants (2021)
78,144

Administrative headquarters
Eupen

GDP (2020)
EUR 2.1bn

GDP per capita (2020)
EUR 26,683

Unemployment (2021)
6.7%

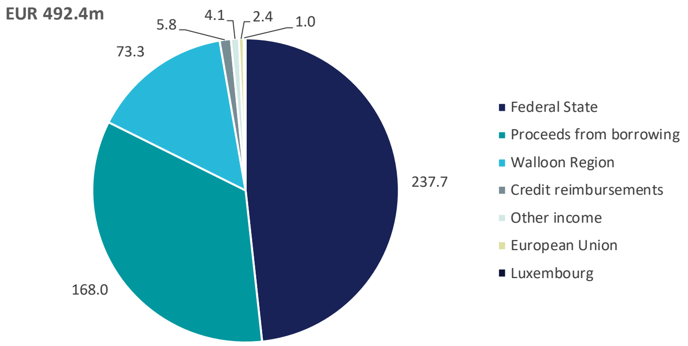
Budget deficit (as a % of revenue, 2020)
6.8%

Bloomberg ticker
DGBE

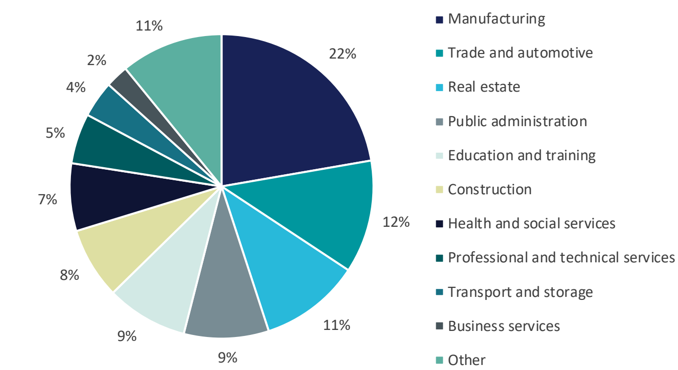
Outstanding volume
EUR 0.7bn

Ratings	Long-term	Outlook
Fitch	-	-
Moody's	-	-
S&P	-	-

Composition of budget (2021)



Gross value added by sector (2020)



Source: Issuer, Ostbelgien Statistik, NORD/LB Markets Strategy & Floor Research

RÉGION DE BRUXELLES-CAPITALE
FONDS RÉGIONAL BRUXELLOIS DE REFINANCEMENT DES TRÉSORERIES COMMUNALES

Brussels Regional Fund for Funding Municipal Budgets

The Fonds régional bruxellois de refinancement des trésoreries communales (FRBRTC) is an autonomous administrative entity of the City of Brussels and reports to the Minister responsible for regional governments and local authorities. Since the Ordinance of 8 April 1993, the FRBRTC has been responsible for funding communities that have encountered financial difficulties. Specifically, this refers to the municipalities that can no longer comply with the requirements of Article 252 of the new Belgian Municipalities Act (which enshrines a requirement for a balanced budget). The liabilities of the Regional Fund are guaranteed by the Brussels-Capital region. To apply for financial aid, municipalities are required to prepare a financial plan, which must contain specific measures to improve the financial situation in structural terms. The schedules must be sent with the application to the government of the Brussels-Capital region, which is responsible for approving the loan application and issuing the corresponding loan agreement. The loans provided by the FRBRTC have a term of 20 years and a fixed annual interest date. Among other aspects, the measures associated with the loan for monitoring its implementation are described in the loan agreement. The 1993 ordinance states explicitly that a regional inspector is responsible for monitoring implementation of the financial plan. A monitoring committee, which meets regularly and consists of representatives of the municipalities and supervisory authorities, constitutes an additional supervisory and monitoring body. The role of the Fund was expanded in 2002; since then, it has operated in the Brussels-Capital region as the financial coordination centre for municipalities and the public institutions tasked with safeguarding social services. In November 2011, the responsibilities of the Fund were extended once more. Since then, the Fund has also been able to grant loans to municipalities to finance investments. They can also apply to the FRBRTC to transfer administration of their municipal activities. Between 2014 and 2019, two new municipalities – Molenbeek-Saint-Jean and Evere – received loans amounting to EUR 27.1m and EUR 6.5m respectively. The former is also among the top five municipalities in terms of utilisation of the fund since it was first set up. In 2021, the only municipality to receive a loan was Berchem-Sainte-Agathe (EUR 3.3m). Transfers from the City of Brussels to the fund (capital repatriation following granting of loans) have been on the rise for the past couple of years, having initially been in decline from 2016 to 2019.

General information

Homepage

Administrative headquarters

Brussels

Bloomberg ticker

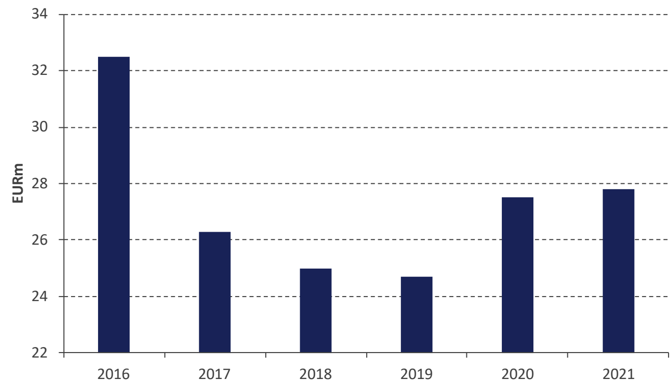
FRBRTC

Outstanding volume

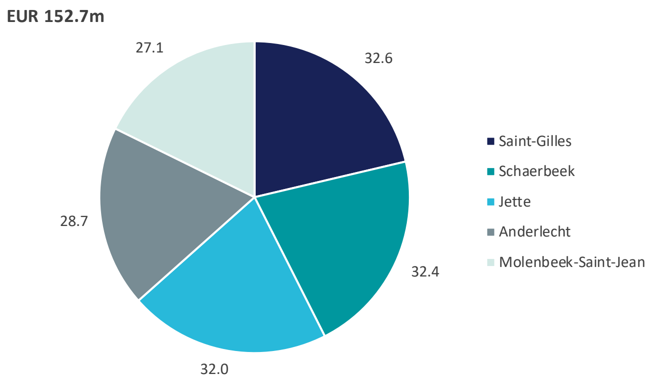
EUR 0.4bn

Ratings	Long-term	Outlook
Fitch	-	-
Moody’s	-	-
S&P	-	-

Transfers from the City of Brussels over time



Top five municipal loan recipients since 1993



Source: Issuer, NORD/LB Markets Strategy & Floor Research

Regulatory overview for RGLAs* / **

Issuer	Risk weighting	LCR classification	NSFR classification	Solvency II classification
Belgian regions	***0%***	***Level 1***	***0%***	***preferred (0%)***
German Bundeslaender	0%	Level 1	0%	preferred (0%)
French regions	20%	Level 2A	15%	preferred (0%)
Italian regions	20%	Level 2A	15%	non-preferred (individual review)
Austrian Bundeslaender	0%	Level 1	0%	preferred (0%)
Spanish regions	0%	Level 1	0%	preferred (0%)

*Regional governments and local authorities
** NB: in the absence of an explicit guarantee from the respective nation state, the current LCR level is dependent on the relevant rating (see CQS classification and LCR classification of assets).
Source: NORD/LB Markets Strategy & Floor Research

Exceptions to scope of application of the Leverage Ratio (CRD Art. 2 no. 5) (examples)

EU	Central banks of member states
Belgium	***Former exemptions before the law was amended on 29 Dec. 2020: Institut de Réescompte et de Garantie/- Herdisconte-ring- en Waarborginstituut***
Denmark	Eksport Kredit Fonden, Eksport Kredit Fonden A/S, Danmarks Skibskredit A/S and KommuneKredit
Germany	Kreditanstalt für Wiederaufbau (KfW), undertakings which are recognised under the "Wohnungsgemeinnützigkeitsgesetz" as bodies of state housing policy and are not mainly engaged in banking transactions, and undertakings recognised under that law as non-profit housing undertakings (e.g. Rentenbank, L-Bank, IFBHH, IBSH etc.).

Source: CRD IV, NORD/LB Markets Strategy & Floor Research

Regional governments and local authorities (solvency stress factor allocation of 0% possible; examples)

Country	Regional and local governments
Belgium	***Communities (Communauté/Gemeenschappen), regions (Régions/Gewesten), municipalities (Communes, Gemeenten) & provinces (Provinces, Provincies)***
Germany	Bundeslaender, municipalities & municipal associations
France	Regions (région), municipalities (commune), Départements

Source: (EU) 2015/2011, NORD/LB Markets Strategy & Floor Research

Summary of Belgian regions

Risk weighting	0%
LCR classification	Level 1 (EBA list)
NSFR classification	0%
Solvency II classification	Preferred (0%)

Issuer	Number of inhabitants (2020)	Unemploy-ment (2021)	GDP per capita (2020)*	Outstanding volume	No. of bonds	Rating
FLEMSH	6.7 million	3.4%	EUR 40,000	EUR 17.8bn	35	(AA / Aa2 / -)
WALLOO	3.7 million	8.5%	EUR 29,000	EUR 16.3bn	167	(- / A3 / -)
LCFB	4.7 million	-	-	EUR 7.6bn	148	(- / A2 / -)
BRUCAP	1.2 million	11.3%	EUR 68,400	EUR 7.6bn	179	(- / - / AA-)
DGBE	0.1 million	6.7%	EUR 26,683	EUR 0.7bn	33	(- / - / -)
FRBRTC	-	-	-	EUR 0.4bn	43	(- / - / -)
Kingdom of Belgium	11.5 million	6.4%	EUR 39,830	EUR 400.6bn	32	(AA- / Aa3 / AA)

* Eurostat, provisional values from 18 April 2022. Data obtained 20 Dec. 2022
Source: Bloomberg, STATBEL, European Commission, NORD/LB Markets Strategy & Floor Research (Rating: Fitch / Moody's / S&P)

Liability mechanism

Interestingly, the Belgian regions enjoy neither horizontal financial equalisation nor an explicit guarantee from the Kingdom of Belgium. Consequently, the federal state is charged with making corresponding transfer payments (vertical structure). Tensions between Flanders and Wallonia can be described as significant. It can therefore be stated that no support or liability mechanisms are in place either between the regions and communities or in relation to the federal state. However, Moody's believes it is "highly probable" that the federal government would provide support in the event of payment difficulties – particularly against the background of the Finance Act of 1989. This regulates the entitlement of regions and municipalities to compensate for insufficient or untimely transfer payments from the central government with loans guaranteed by the central government.

ECB purchase programme

It is worth taking a look at the Eurosystem's purchase activities, which reveals that there are four Belgian names among the agencies: FRBRTC, SOCWAL, FONWAL and SWLBEL. Some of these do not even have any outstanding bonds eligible for purchase under ECB criteria. To date, the Eurosystem has still only purchased one bond issued by the Brussels Municipalities Regional Fund (FRBRTC) and three deals placed by the Société Wallonne du Crédit Social. In contrast, over time, a total of 21 bonds with the WALLOO ticker, 17 under the FLEMSH ticker in addition to eight and nine ISINs respectively from LCFB and BRUCAP have been included on the Eurosystem's purchase list. SOCWAL bonds in particular are very small, with an outstanding volume of just EUR 18-50m. However, the single FRBRTC bond to have been purchased is even smaller, coming in at a mere EUR 10m. As such, the bonds in question are among the smallest ISINs acquired under the PSPP/EAPP and PEPP. In particular, the FLEMSH bonds tend to be far more liquid at up to EUR 2.0bn. The same also applies to WALLOO bonds (up to EUR 1.2bn). Even so, the size of the bonds is still small in relation to those issued by the German Laender, of which the Eurosystem has already purchased more than 555 various ISINs.

Conclusion

Against the backdrop of current developments in the interest rate environment, interesting investment opportunities are repeatedly arising in certain niche markets – partly reinforced by the ongoing consequences of the pandemic and Putin's war of aggression in Ukraine. The RGLAs covered in this Public Issuer Special supplement the classic SSA portfolio in terms of maturity and/or yield, but in any case, contribute to diversification. The outstanding volume, which has risen significantly again versus the level recorded in 2021, shows that opportunities are regularly opening up here. Greater attention should be paid to FLEMSH and WALLOO with regard to their issuance volumes. Despite growth in recent years, the Belgian market for sub-sovereign bonds can certainly be described as small (EUR 50.9bn as against EUR 43.6bn last year), with Flemish bonds accounting for the largest volume in this regard. It is interesting to note that there is still no diversification in terms of foreign currencies. Second and third tier issuers are regularly the focus of attention when it comes to rare investment alternatives, not least because the Eurosystem has already purchased Belgian regional bonds as part of the PSPP and PEPP. These bonds are therefore interesting from a yield and regulatory point of view, while the issuers are additionally open to private placements. Attention should be paid as to how and via which measures Belgium deals with the ongoing impacts related to COVID-19 pandemic and the war in Ukraine. The long-term effects on politics and society could potentially inflict greater economic damage than previously anticipated.

Appendix
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