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NORD/LB Beyond Bundeslaender: Belgium

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Marketing communication (see disclaimer on the last pages)

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Beyond Bundeslaender: Belgium 2023

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Beyond Bundeslaender: Belgium

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Introduction and structure of Belgium

In this publication, we shall be taking a look at the regional governments and local authorities (RGLAs) with capital market relevance in Belgium. The "Beyond Bundeslaender: Belgium" Issuer Guide is part and parcel of our Public Issuers Special series, which also includes special publications covering Spain, Amsterdam and Greater Paris. Due to the variety of issuers and (in certain maturity segments) the significant pick-ups available in comparison with Belgian sovereign bonds and the 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 of Belgium. 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, the federal state of Belgium also comprises three communities defined by their language: the Flemish, French and German-speaking communities. Whereas the Flemish-speaking community exercises its competencies in Flanders and Brussels, the French community is located in the Walloon Provinces and, likewise, in the Brussels-Capital Region. The German-speaking territory, which covers nine municipalities in the far east of the Walloon province of Liège, is the smallest. The three language-based 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 Brussels-Capital Region 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 actually three separate parliaments and three governments in the region of Wallonia. The situation is somewhat different in Flanders, where the Flemish community and regional institutions are merged. As a result, there is just a single parliament and one government here. Both regions and communities are empowered to exercise legislative powers in certain areas. Federal elections last took place in Belgium on 26 May 2019 and were held in parallel with European elections. Moreover, the 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 due to take place in 2024. With the majority of political parties in Belgium boasting strong, deep-rooted regional connections, forming governments at regional level tends to be somewhat easier than is the case at national level. In this regard, the various regional parliaments are dominated by stakeholders with a vested interest in promoting the development of their respective 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. These councils are empowered to take decisions of a general nature, to hold votes on provincial regulations and to draw 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; this is not an elected position. Rather, the Governor is 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-smallest administrative subdivision under the provinces (arrondissement in French and arrondissementen in Flemish). At this point, delving deeper into the minutiae of this topic would not be logical for this 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 mainly reflect economic issues, with the fundamental conditions having been reversed since the end of the Second World War. While Wallonia was home to 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 balance of power 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 at the end of 2019 (i.e. prior to the outbreak of COVID-19) stood at 13.1% in Wallonia, which was more than twice as high in comparison with Flanders (5.9%). At this time, unemployment on a national level in Belgium amounted to 9.2%. As at year-end 2022, unemployment in Wallonia fell to a historic low of 8.5% as a result of the economic recovery following the outbreak of the COVID-19 pandemic, although this still paled in comparison with that of Flanders (3.3%). Therefore, the discrepancy between the two regions remained in place. 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, to a large extent, already governed autonomously by the respective local governments. This is also the result of a complex distribution of powers between the individual 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 in question will continue to drift further apart in political terms.

Current political situation

In recent times, the political extremes have increasingly benefited from the simmering conflict. This was particularly noticeable in the regional and federal elections held in 2019, 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, separatist 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. Despite arduous rounds of negotiations, no government could be formed in the wake of the election due to the fractured nature of the party-political landscape in Belgium. 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. On 30 September 2020, seven parties – Open VLD, MR, the Socialist Party, Vooruit (English: Forward), 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 58% of the seats in Parliament. Key issues on the agenda of this coalition government include, for example, the energy transition (including the phase-out of nuclear energy), the promotion of sustainable mobility solutions and the expansion of healthcare and, since 2022, the country's military capabilities. Belgium had initially planned to phase out nuclear power plants by 2025, although this deadline has now been extended to 2035 in view of a desire to maintain security of energy supply. In view of the different positions within the executive and the strengthening of the forces on the left and right of the political spectrum, large parts of the Belgian population take a sceptical view of the current government. For example, Flemish separatists have repeatedly accused the coalition government of being "anti-Flemish", with the result that protests against the Vivaldi coalition have repeatedly flared up. Any hopes that the situation might be placated is likely to be heavily dependent on the socio-economic developments at regional level. Difficulties in forming a government can also be expected following the elections slated for 2024. Current polling data points to the right-wing populists Vlaams Belang (VB) claiming a vote share of 25%, followed by the nationalist New Flemish Alliance (Nieuw-Vlaamse Alliantie; N-VA) at 22%.

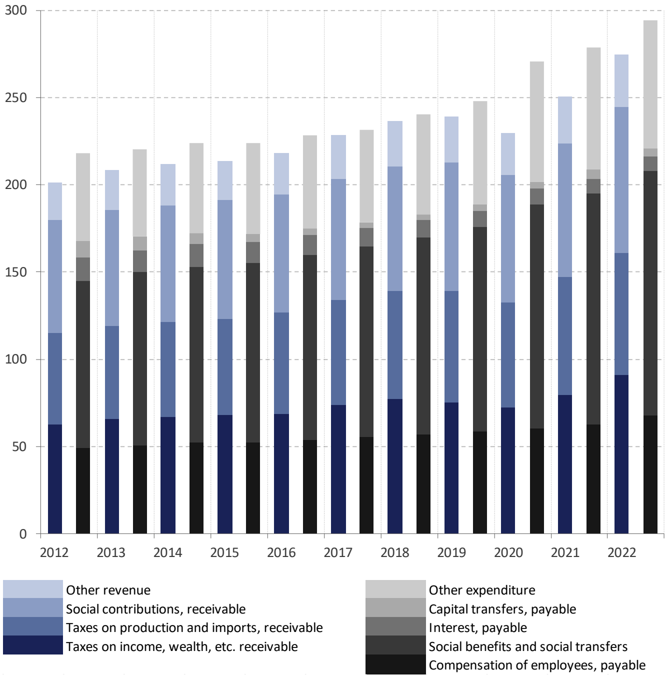
Belgium's presidency of the Council of the EU overshadowed by super election year 2024

A large number of elections are scheduled to take place in 2024 that look set to define the medium-term political course in countries and regions across the world (in Belgium alone, European, federal and regional elections are all due to be held). At the start of the year, Belgium assumed the presidency of the Council of the European Union, meaning that it has the opportunity to exert a decisive influence on the EU's political agenda during the first half of 2024. Under the motto "Protect, Strengthen, Look Ahead", the Belgian presidency programme defines priorities grouped into six topics: (I) Defending the rule of law and democracy, (II) Strengthening competitiveness, (III) Transition to a green economy, (IV) Strengthening the social and healthcare policy agenda, (V) Promoting global Europe, (VI) Migration and asylum policy. The aim of the Council presidency is to finalise as many legislative proposals as possible before the European elections in June 2024. Against the backdrop of the elections and the rise of the political far right across the EU, it is not only the present Belgian government that would benefit from some tangible political successes. At the very least, the clear election victory of the Dutch right-wing populist Wilders and the rise of the far right VB in Flanders should serve as something of a wake-up call.

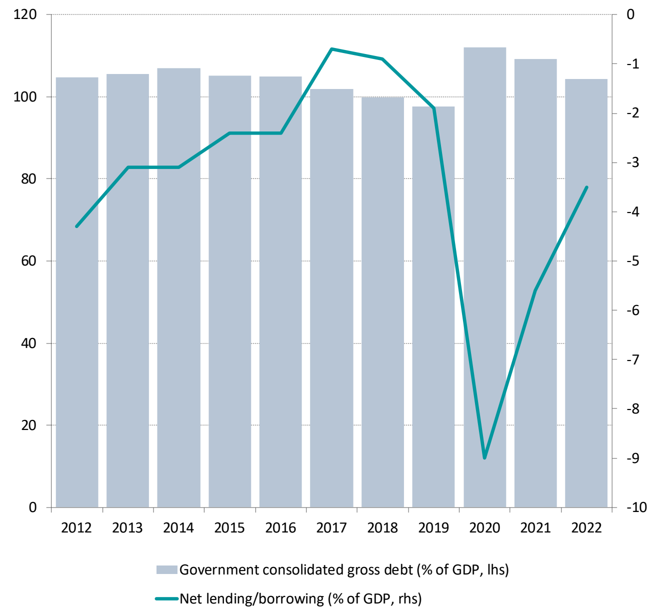
The Belgian economy – an overview

With GDP per capita of EUR 47,400 in 2022 (preliminary data), Belgium is above average in comparison with the European Union (EU) as a whole (EUR 35,500). However, the regional disparities discussed in greater detail above are again apparent here: with GDP per capita of EUR 73,600 in 2021, the Brussels-Capital Region performed best of all, followed at some distance behind by Flanders (EUR 44,300) and Wallonia at EUR 31,400. According to preliminary data from the National Bank of Belgium (NBB) for 2022, the service sector was again by far the most important pillar of the economy with a share of 77.7% of gross value added. The contribution of the secondary sector amounts to 21.6%, with a share of just 0.8% attributable to agriculture. Belgium is highly dependent on exports, which at EUR 550.3bn in 2022 (preliminary data) put the country among the top seven largest exporters in the EU. The export and import ratios are very high at 95.3% and 97.7% of GDP (2022) respectively. At 42.3%, 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 the ratio of national debt to GDP had been observed. However, as at the end of 2022, Belgium had the sixth highest debt level in the EU (104.3%) after Greece, Italy, Portugal, France and Spain. The government measures implemented with the aim of managing the challenging economic environment have significantly impacted the state's coffers in recent years: the export-orientated 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, in 2020 Belgium's sovereign debt reached its highest level for around 20 years (112.0% of GDP). According to estimates from the European Commission, this value is expected to rise again in the 2023 budget year to 106.3%, with further increases pencilled in for 2024 (106.4%) and 2025 (107.3%). In 2023 and 2024, GDP is expected to grow by +1.4% year on year in each case, with the budget deficit anticipated to come in at -4.9% of GDP in both years.

State revenues vs. government spending (EURbn)



National debt vs. budget balance



Source: Bloomberg, Eurostat, NBB, NORD/LB 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:

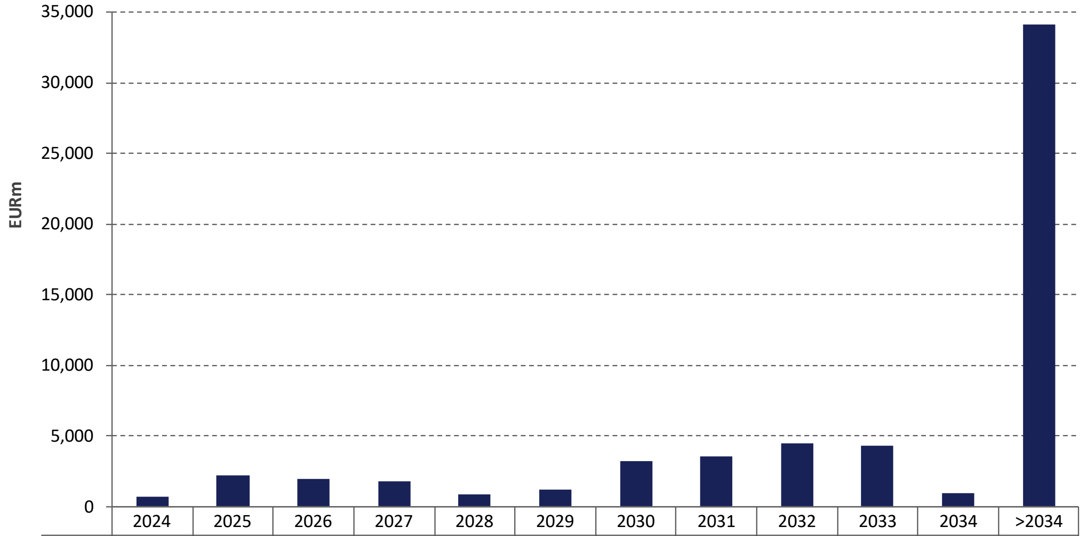
- ANTWRP (Province of Antwerp)
- BLMBRB (Province of Vlaams-Brabant)
- **BRUCAP** (Brussels-Capital Region)
- BRUGGE (City of Bruges)
- DENDEM (City of Dendermonde)
- DGBE (German-speaking Community of Belgium)
- FLEMCT (City of Aalst, Beringen, Boom, Bree, Brugge, Lier, Wachtebeke, Zaventem)
- **FLEMSH** (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 Floor Research

Outstanding volumes on the Belgian sub-sovereign market

In total, the regional market as a whole currently amounts to EUR 59.3bn (split across 686 bond issues), having stood at EUR 43.6bn roughly two years ago. Here, FLEMSH (EUR 22.3bn) and WALLOO (EUR 18.3bn) lead the way, followed at some distance behind by BRUCAP (EUR 9.2bn) and LCFB (EUR 8.1bn). DGBE and FRBRTC complete the picture with values of under EUR 1bn in each case. 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 to become the second largest sub-sovereign issuer in Belgium. Private placements with terms of up to 100 years also ensure that the overall structure of outstanding Belgian sub-sovereign bonds can be described as highly granular overall. This situation is also illustrated by the chart below. Liquidity suffers under these circumstances, although there is a certain degree of pick-up on offer in the form of an illiquidity premium. Incidentally, the issuers SOCWAL and FRBRTC are defined as “Local Authorities” and have been 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]).

Belgian issuers: outstanding bonds



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
Other	0	0	0	0	0	0	0	0	0	0	0	0
EUR	665	2,175	1,970	1,796	904	1,198	3,183	3,528	4,473	4,314	965	34,112

Source: Bloomberg, NORD/LB Floor Research

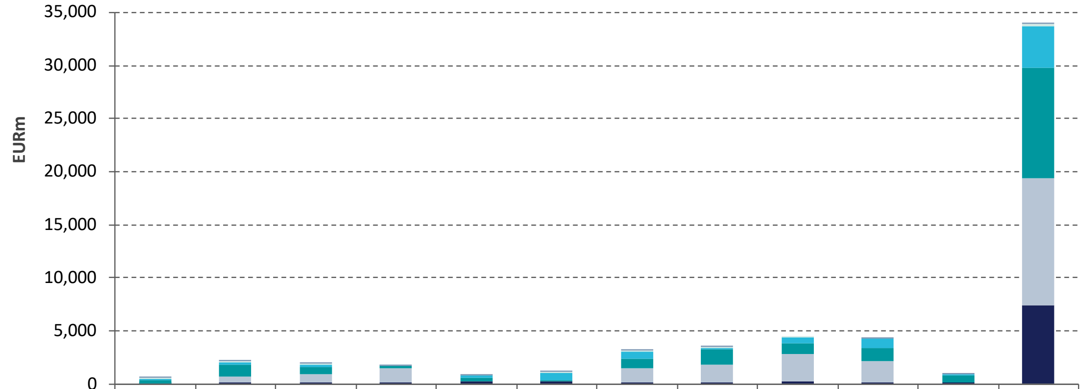
Focus on long maturities

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 686 bonds now outstanding – compared with 648 in our previous study and 558 prior to the COVID-19 pandemic. When we first looked at this data in September 2016, there were around 300 bonds outstanding. However, this belies the granularity of Belgian regional bonds: there is now a total of EUR 59.3bn outstanding, as against just 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, there are no foreign currency deals to discuss; accordingly, the FX segment plays no part in the composition of the liabilities, meaning that any diversification is provided solely in the form of different maturity segments. A total of EUR 34.1bn is only set to fall due after 2034, which indicates that the issuers in question are opting for extremely long-term refinancing operations. Whereas in 2016, there were only three bonds outstanding that amounted to more than or equal to EUR 500m (i.e. benchmark size), there are presently 38 benchmark bonds outstanding with volumes of between EUR 500m and EUR 2bn. Alongside a total of 15 bonds from the region of Wallonia, this figure now includes 18 bonds issued by the Flemish Community (FLEMSH) in addition to five bonds from the LCFB. Benchmark bonds in ESG format issued on the basis of associated frameworks have already been placed by the regions of Flanders & Wallonia and the French Community.

Fixed-rate bonds are dominant

Fixed coupons account for a dominant share of the bonds issued by Belgian regions. Of the bonds we have analysed (686), a total of 606 bonds featured a fixed coupon. This equates to a share of 88.3%. These are followed by FRNs (floating rate notes; 7.4%) and bonds with a variable rate, which account for only a marginal share. Zero-coupon bonds and step-up coupon bonds hardly merit discussion at all. In this respect, Bloomberg makes a distinction in terms of the nomenclature 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 when, for example, compared with the German Laender (approximately two-thirds). 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



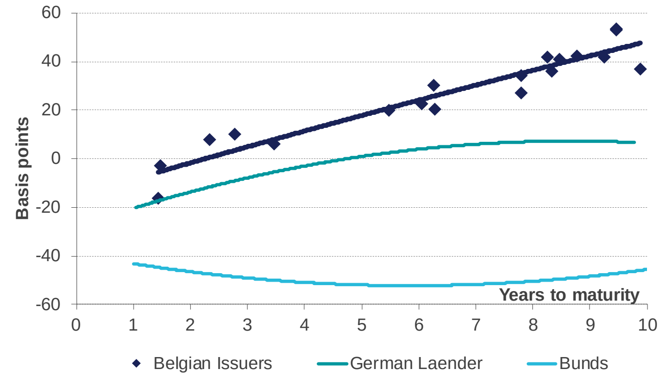
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
FRBRTC	44	14	25	24	18	26	38	34	0	10	20	93
DGBE	65	55	68	54	65	38	46	70	35	46	0	236
LCFB	180	235	290	20	255	665	765	200	600	833	135	3,908
WALLOO	255	1,085	595	184	279	188	852	1,420	1,065	1,285	700	10,390
FLEMSH	0	627	780	1,320	0	0	1,377	1,640	2,500	2,031	0	11,983
BRUCAP	70	113	175	175	270	233	95	159	273	110	100	7,434

Source: Bloomberg, NORD/LB Floor Research

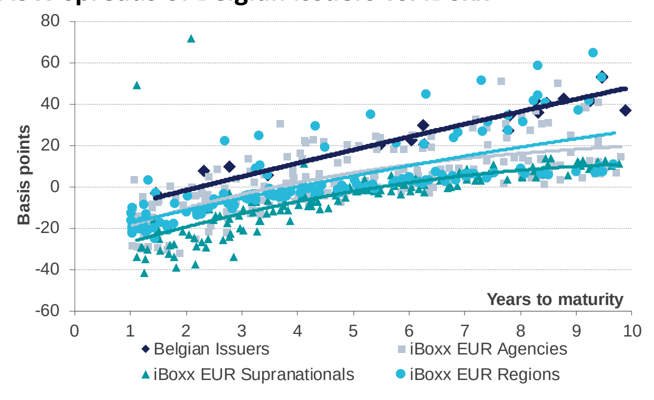
Belgian regions offer pick-up vs. OLOs and German peers

It should not come as any great surprise that the benchmarks issued by Belgian regions trade at the widest spreads versus Belgian government bonds and their German regional peers. The Flemish Community has been awarded ratings of (AA / Aa3 / -), while Wallonia is rated (- / A3 / -). Belgian sovereign bonds are rated at (AA- / Aa3 / AA). From a regulatory point of view, Belgian regional and sovereign bonds can be regarded as identical to their German peers (LCR Level 1; RW 0%, Solvency II: preferred). However, these 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 opted not to look at these bonds in any greater 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 Floor Research; data as at 29 December 2023

General information

Homepage

Number of inhabitants (2022)
1,241,175

Capital city
Brussels

GDP (2021)
EUR 90.5bn

GDP per capita (2021)*
EUR 73,600

Unemployment (Q3 2023)
10.0%

Budget deficit (as a % of revenue, 2021)
28.5%

Bloomberg ticker
BRUCAP

Outstanding volume
EUR 9.2bn

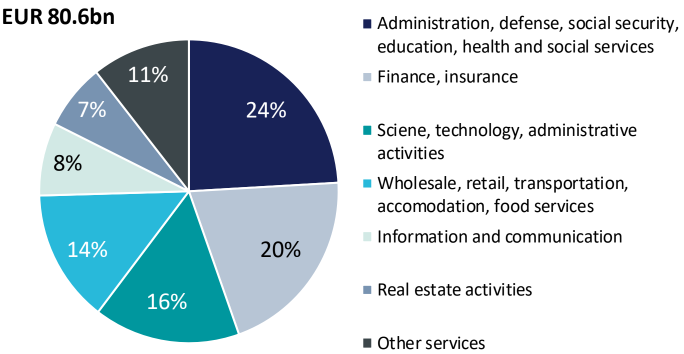
Ratings	Long-term	Outlook
Fitch	-	-
Moody's	-	-
S&P	AA-	neg

* Provisional values

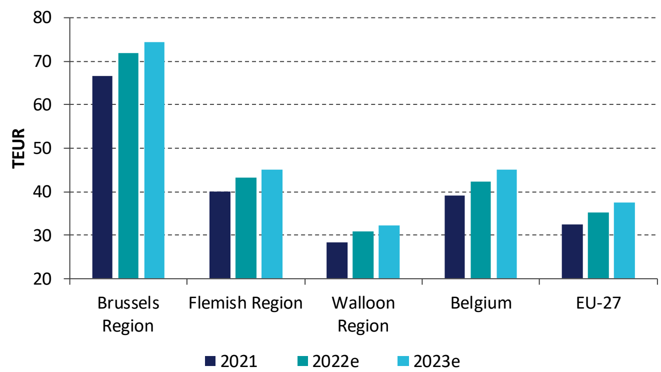
Brussels-Capital

With a population of more than 1.2 million people, the Brussels-Capital Region (referred to in French as "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 effectively coalesced into a single city. The largest municipalities after the City of Brussels itself are Schaerbeek with just over 130,000 inhabitants and the municipality of Anderlecht, where roughly 124,000 people live. The Brussels-Capital Region has existed in its current form since 1 January 1995. The government consists of a French-speaking Minister-President 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 powers in Brussels. There is also a governor, who acts as the central government's commissioner. The level below the regional parliament is, in turn, subdivided into municipal parliaments. With GDP per capita of EUR 73,600 (provisional value, 2021), it boasts by far the highest value at the level of the Belgian regions, comfortably outstripping second-placed Flanders at EUR 44,300, while the national average comes in at EUR 43,300. With Brussels being home to organisations such as the European Union and NATO, for example, this substantial figure is mainly attributable to the administrative and business headquarters of European institutions and multinational companies. This is reflected in a local economy that is extensively shaped by the service sector: in 2021, 93% of all jobs were attributable to the tertiary sector. Alongside the EU institutions, banking and insurance, transport, chemicals and tourism are all of relevance to the economy. Like other major urban agglomerations, the Brussels-Capital Region is one of Europe's leading business centres as measured by GDP. However, this is accompanied by a concentration of social risks. For instance, the unemployment rate of 10.0% in the third quarter of 2023 was significantly in excess of both the national (5.5%) and European (6.0%) averages. As a member of the European Union Network for the Implementation and Enforcement of Environmental Law (IMPEL), the Brussels-Capital Region has been advancing transformation programmes, particularly in the areas of sustainable mobility, sustainable neighbourhoods and environmental matters. The region has also committed to the European goal of achieving climate neutrality by 2050.

Gross value added by sector (2021)



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 Floor Research

Flanders

With 6.8 million inhabitants, approximately 58% of the Belgian population lives 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, North Brabant and Limburg to the north and east, as well as the Walloon provinces of Hennegau, Walloon Brabant and Liège to the south. The Brussels-Capital Region is an official enclave within the Flemish region. After Antwerp, which has a population of approximately 530,000, Ghent and Bruges are the next largest cities with around 265,000 and 119,000 inhabitants respectively. Legislative authority is exercised by the Flemish parliament and the regional government. The Flemish parliament consists of 124 seats, of which 118 Council members are directly elected in Flanders, in addition to six Dutch-speaking members of the Council of the Brussels-Capital Region. In recent political history, the Flemish Movement, which ideologically seeks to promote greater political autonomy for Flanders, has increasingly grown in popularity. 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 political entity following the federal and regional elections in 2019. Current polling data suggests a continuation of this trend at the next federal and regional elections in 2024. In order to combat the economic impact of the COVID-19 pandemic and energy crisis, the Flemish government has budgeted EUR 4.3bn in financial support, of which EUR 1.7bn is to be provided by the European Recovery and Resilience Facility. In addition to stimulating the economic recovery, this funding is designed to achieve a sustainable increase in productivity and competitiveness across the region. Compared with the other regions of Belgium, Flanders ranks in second place for GDP per capita at a value of EUR 44,300 (provisional value, 2021), behind the Brussels-Capital region at EUR 73,600. In 2021, 59% of Belgian GDP was attributable to Flanders. Due to its central location and extensively developed transport infrastructure, Flanders is a key logistics hub in Europe, from which the multinational automotive companies based in the region benefit. The business landscape in Flanders is shaped by small and medium-sized suppliers. In the area of sustainability, Flanders is striving to be carbon-neutral by 2050. Moreover, the region has had a [Sustainability Bond Framework] on the basis of the ICMA Guidelines in place since 2018. Since this time, the funding activities of Flanders have been selectively supplemented by issuances in ESG format. The rating agency Fitch has awarded the region a rating of AA (outlook: "negative"), while Moody's rates Flanders at Aa3 with a stable outlook. As such, Flanders is one of the few regions in Europe to have been awarded a better rating than its respective state by a rating agency.

General information

Homepage

Number of inhabitants (2022)
6,774,807

Capital city
Brussels

GDP (2021)
EUR 296.1bn

GDP per capita (2021)*
EUR 40,000

Unemployment (Q3 2023)
3.5%

Budget deficit (as a % of revenue, 2021)
5.5%

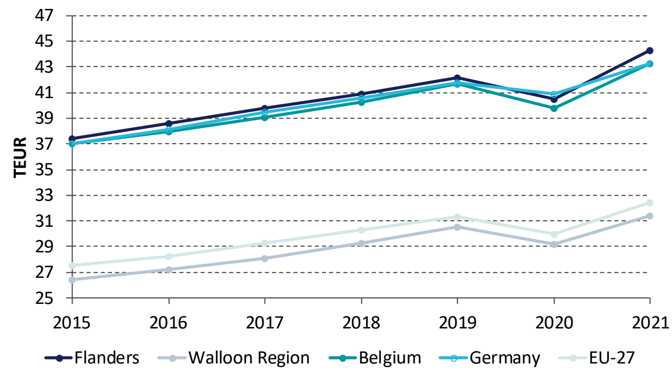
Bloomberg ticker
FLEMSH

Outstanding volume
EUR 22.3bn

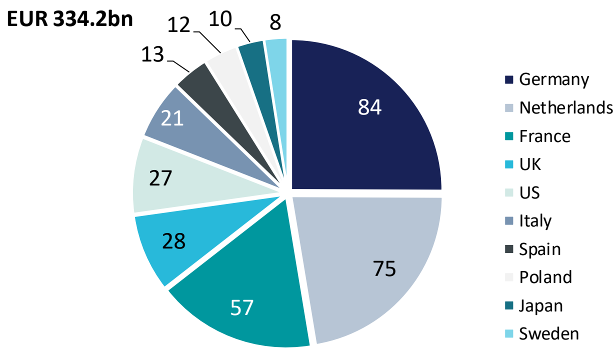
Ratings	Long-term	Outlook
Fitch	AA	neg
Moody's	Aa3	stab
S&P	-	-

* Provisional values

GDP per capita over time



Top 10 export destinations (EURbn)



Source: Issuer, Eurostat, NORD/LB Floor Research

General information

Homepage

Number of inhabitants (2022)
3,681,575

Capital city
Namur

GDP (2021)
EUR 115.4bn

GDP per capita (2021)*
EUR 31,400

Unemployment (Q3 2023)
8.3%

Budget deficit (as a % of revenue, 2021)
21.8%

Bloomberg ticker
WALLOO

Outstanding volume
EUR 18.3bn

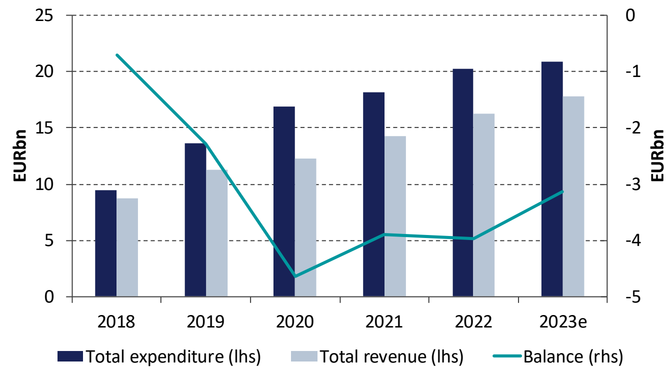
Ratings	Long-term	Outlook
Fitch	-	-
Moody's	A3	stab
S&P	-	-

* Provisional values

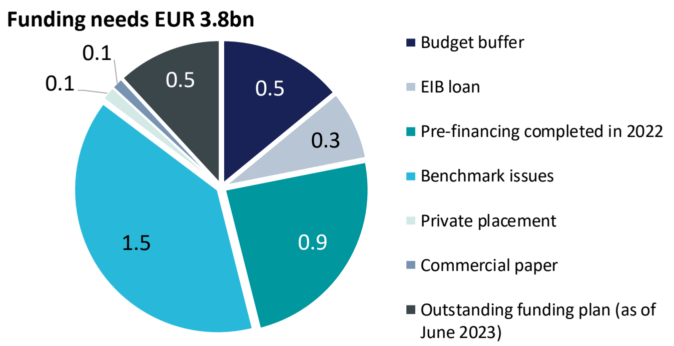
Wallonia

At 16,901 km², Wallonia, which makes up the southern half of the territory of the Kingdom of Belgium, is the largest of the three Belgian regions by area. However, with a population of approximately 3.7 million people, Wallonia only accounts for roughly a third of the total population of Belgium. Officially, Wallonia is bilingual. In addition to Belgium's French-speaking community, it is home to the country's German-speaking community as well, although this only makes up around 2% of the population in the extreme eastern fringes of the region. Namur, which has a population of approximately 110,000 people, is the capital of Wallonia. Charleroi and Liège are the largest cities in the region, with populations of around 200,000 people in each case, while the latter forms the economic and cultural heart of Wallonia. There is a long history of tension and simmering conflict between Wallonia and Flanders, its Dutch-speaking neighbour to the north, which was originally centred around a dispute concerning the official language and today is largely dominated by economic issues. While Wallonia thrived at the start of the 20th century due to its status as a key location within the coal and steel industry, 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, the balance of economic power started to shift in favour of Flanders. The regions' areas of responsibility have been extended through various reforms implemented over recent decades, meaning that they are largely administered autonomously by their respective local governments. With GDP per capita of EUR 31,400 (provisional value, 2021), Wallonia ranks third among the Belgian regions, which compares with a figure of EUR 43,300 at national level. GDP per capita in Wallonia therefore equates to 97% of the EU-27 average (2019: 86%), while the equivalent figure for the Belgian state comes in at 134%. 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 but surely started to close in recent years. Wallonia has a diversified funding profile, which for several years now has consistently seen several benchmark bonds issued each year. The funding profile is supplemented by ESG bonds based on the Green, Social & Sustainability Bond Framework that was first put in place back in 2019. Moody's awards the region a rating of A3 and most recently confirmed the stable outlook in December 2023. In this context, Moody's points to Wallonia's excellent capital market access and conservative debt management policy.

Public revenues and expenditure over time



Funding 2023



Source: Issuer, NORD/LB 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. The competencies cover all people resident in the territory defined as the "Region of the French language" within Belgium. This firstly comprises 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 areas including education, culture, youth welfare, healthcare and sport, among other aspects. 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 powers 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 previous 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, French-speaking counterpart to the Flemish green party Groen), which accounts for 71% of the seats in parliament. Under the terms of 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 revenues, its main source of funding is based on tax revenues collected by federal authorities, which are subsequently redistributed. Since the Special Financing Act was enacted in 1989, the Federation has enjoyed extensive 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 that the communities can access a government loan, for which the interest expenses are borne by the government, in the event of a payment default or falling into arrears. The funding activities of the French Community of Belgium are supported by selective capital market appearances. Up to December 2023, three bonds with a total volume of EUR 1.8bn have been placed in EUR benchmark format on the primary market on the basis of the Social Bond Framework. 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 (2022)
EUR 11.9bn

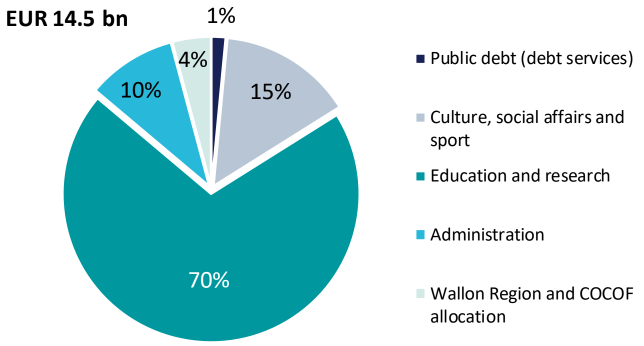
Budget deficit (as a % of revenue, 2021)
4.0%

Bloomberg ticker
LCFB

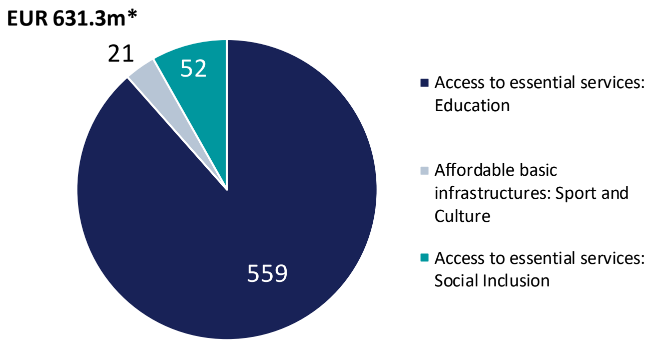
Outstanding volume
EUR 8.1bn

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

Breakdown of budget expenses over time



Breakdown of funding under Social Bond Framework



* From EUR 9.3bn overall budget in 2021

Source: Issuer, NORD/LB Floor Research

German-speaking Community of Belgium

The German-speaking Community of Belgium (German: Deutschsprachige Gemeinschaft Belgien; French: Communauté germanophone) comprises slightly in excess of 79,000 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 competencies that have been developed and extended over a significant period of time (last state reform: 2014). In essence, these competencies relate to community affairs, starting in the cultural sphere and extending through to include family, social, educational and healthcare policies, as well as international relations. In parallel with the most recent state reform, negotiations were held with Wallonia that centred on transferring the areas of supervision and financing of the nine German-speaking municipalities, tourism, local authorities and employment. The four-strong 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 the 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 was successful in its efforts to secure a majority again in the municipal elections. The political focus continues to be on the challenges that shaped the previous legislative period: boosting cultural identity, dealing with demographic change and an ageing population, enhancing the quality of education and strengthening East Belgium as a location. The most important pillars of the economy include manufacturing industries and trade. Although agriculture and forestry characterise the landscape of the region, 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 to it. In addition, funding is also available from the European Structural Funds, while the German-speaking community of Belgium also carries out refinancing activities on the capital market via an EMTN programme worth up to EUR 1bn.

General information

Homepage

Number of inhabitants (2022)
79,383

Administrative headquarters
Eupen

GDP (2021)
EUR 2.1bn

GDP per capita (2021)
EUR 27,073

Unemployment (Q3 2023)
6.3%

Budget deficit (as a % of revenue, 2021)
10.2%

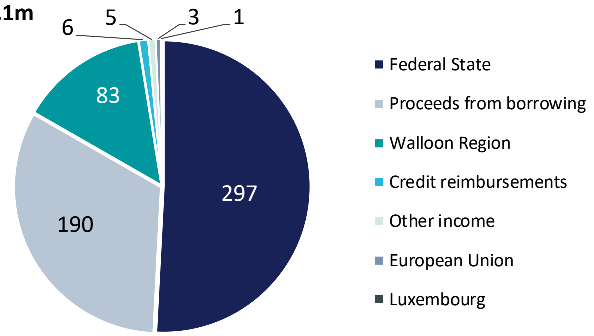
Bloomberg ticker
DGBE

Outstanding volume
EUR 0.8bn

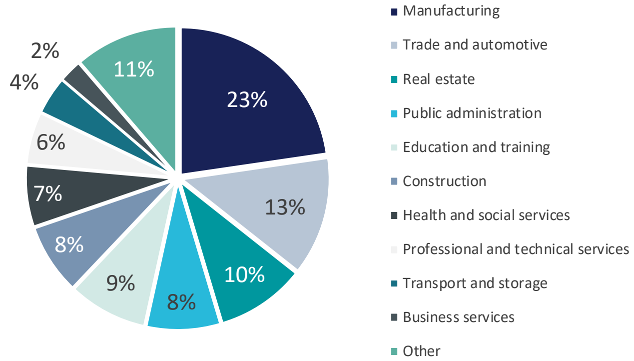
Ratings	Long-term	Outlook
Fitch	-	-
Moody's	-	-
S&P	-	-

Composition of budget (2022)

EUR 584.1m



Gross value added by sector (2021)



Source: Issuer, Ostbelgien Statistik, NORD/LB Floor Research

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

General information

Homepage

Administrative headquarters
Brussels

Bloomberg ticker
FRBRTC

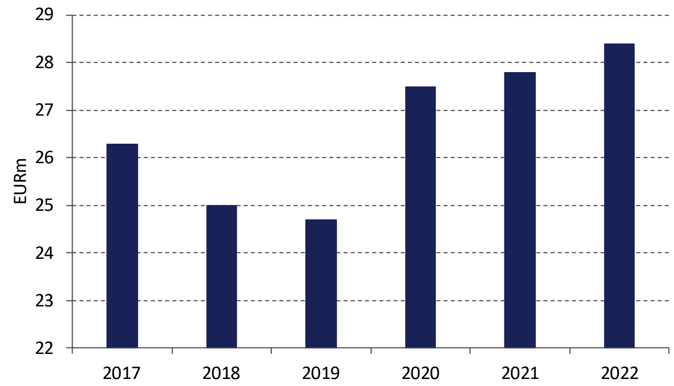
Outstanding volume
EUR 0.3bn

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

Brussels Regional Fund for Funding Municipal Budgets

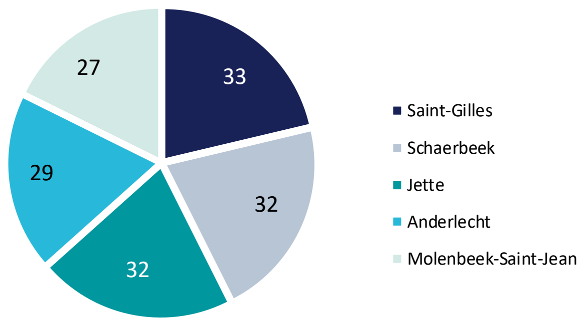
The Brussels Regional Fund for Municipal Treasury Refinancing (in French: Fonds régional bruxellois de refinancement des trésoreries communales; FRBRTC) is an autonomous administrative entity of the City of Brussels and reports to the minister responsible for regional governments and local authorities. Since the Ordinance of 08 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 in law 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 aimed at improving 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. 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 FRBRTC's role 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, it 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 – namely 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. Since 2023, the municipality of Forest has again been among the eleven municipalities in receipt of support from the Regional Fund. Transfers from the City of Brussels to the fund (capital repatriation following granting of loans) have been on the rise again since 2019, having initially been in decline from 2016 to 2019.

Transfers from the City of Brussels over time



Top five municipal loan recipients since 1993

EUR 152.7m



Source: Issuer, NORD/LB Floor Research

NORD/LB

Regulatory overview for RGLAs* / **

Issuer	Risk weighting	LCR classification	NSFR classification	Solvency II classification
Belgian regions	***0%***	***Level 1***	***0%***	***preferred (0%)***
German Laender	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 Laender	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 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 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	Laender, municipalities & municipal associations
France	Regions (région), municipalities (commune), Départements

Source: (EU) 2015/2011, NORD/LB 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 (2022)	Unemploy-ment (Q3 23)	GDP per capita (2021)*	Outstanding volume	No. of bonds	Rating
BRUCAP	1.2m	10.0%	EUR 73,600	EUR 9.2bn	223	(- / - / AA-)
FLEMSH	6.8m	3.5%	EUR 44,300	EUR 22.3bn	40	(AA / Aa3 / -)
WALLOO	3.7m	8.3%	EUR 31,400	EUR 18.3bn	156	(- / A3 / -)
LCFB	4.7m	-	-	EUR 8.1bn	148	(- / A2 / -)
DGBE	0.1m	6.3%	EUR 27,073	EUR 0.8bn	42	(- / - / -)
FRBRTC	-	-	-	EUR 0.3bn	41	(- / - / -)
Kingdom of Belgium	11.7m	5.6%	EUR 43,300	EUR 423.7bn	33	(AA- / Aa3 / AA)

* Eurostat, provisional values from 18 April 2022. Data retrieval: 19 December 2023
Source: Bloomberg, STATBEL, European Commission, NORD/LB 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 tasked 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 programmes (PSPP/PEPP)

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 (that are eligible for purchase as per ECB criteria). To date, the Eurosystem has still only purchased one bond issued by the Brussels Municipalities Regional Fund (FRBRTC) and three from the Société Wallonne du Crédit Social. In contrast, over time, a total of 23 bonds with the WALLOO ticker, 19 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. The purchased SOCWAL bonds in particular are tiny, with outstanding volumes of between EUR 18m and EUR 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/APP and PEPP. In particular, the FLEMSH bonds tend to be far more liquid at up to EUR 2.0bn. The same also applies to deals placed under the WALLOO ticker (up to EUR 1.2bn). Even so, the number of bonds acquired remains on the low side. This is especially evident in comparison with those issued by the German Laender, of which the Eurosystem has already purchased more than 590 different ISINs.

Conclusion

Against the backdrop of the dynamic development in the interest rate environment in 2022/23, interesting investment opportunities are repeatedly arising in certain niche markets. The RGLAs covered in this Public Issuers Special supplement the classic SSA portfolio in terms of maturity and/or yield, but in any case, contribute to diversification. The trend in outstanding volume, which stands at EUR 59.3bn in 2023 versus a value of EUR 43.6bn two years ago, shows that opportunities are regularly opening up here. Greater attention should be paid to FLEMSH and WALLOO with regard to their issuance volumes, although the Belgian market for sub-sovereign bonds certainly remains on the small side, despite growth in recent years. 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. Therefore, such bonds are of interest from a yield and regulatory point of view, while the issuers are additionally open to private placements. The federal and regional elections scheduled to take place on 09 June 2024 will be decisive for the future of Belgium. On account of the simmering conflicts between the regions and the fractured party-political landscape, forming a government at national level is not expected to be a simple task. As a result, an escalation of societal tensions and economic damage can certainly not be ruled out in Belgium.

Appendix
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