Beyond Bundeslaender: Belgium

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(see disclaimer on the last pages)

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Spotlight on Belgian Regions

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Introduction and structure of Belgium

As we have done several times over recent years, we will be taking another look at the regional governments and local authorities of Belgium in this publication. We have also included five issuer profiles in our analysis which were kind of missing in the previous but which were included in our specials such as Portugal and Spain. Due to the variety of issuers and significant pick-ups in comparison with Belgian government bonds and German Bundeslaender, these represent interesting investment alternatives. 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 communities were introduced following the first state reform (1970). Their areas of responsibility 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. There are therefore three separate parliaments and governments in the region of Wallonia. In turn in Flanders, the Flemish community and regional institutions are merged, which is why there is just a single parliament and one government here. Both regions and communities can exercise constitutional 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. 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 lobbyists associated with 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; 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 administrative subdivision under the provinces (arrondissement in French and arrondissementen in Flemish). The term 'Arrondissement' is sometimes used in German, although the official designation is 'Bezirk'. A closer analysis at this point would involve 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 regions 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 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 administered by the respective local governments on an autonomous basis. 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.

Current political situation

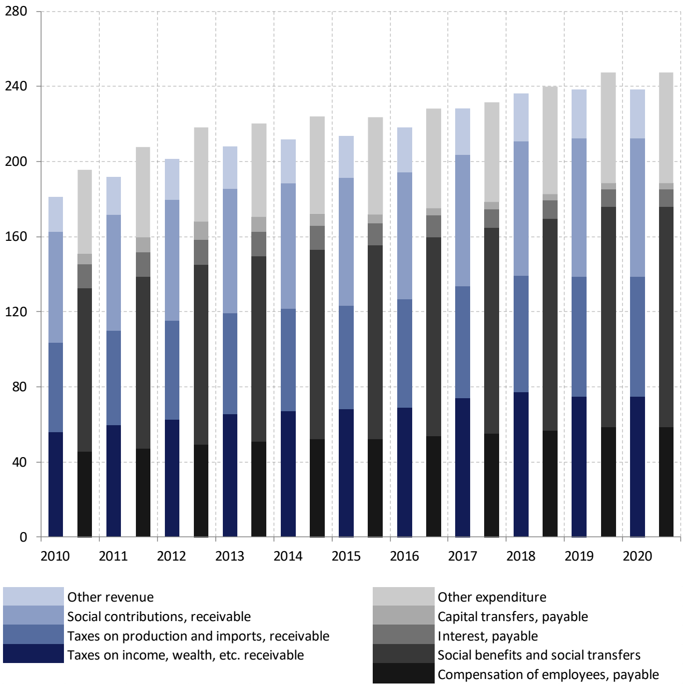
Ultimately, the political extremes have increasingly benefited from the simmering conflict. This was particularly noticeable in the last election, with Flanders voting for the far right and Wallonia electing political representatives from the extreme left. While the Workers' Party of Belgium (Parti du 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 and – in the context of the coronavirus crisis – an expansion of healthcare. 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 upcoming legislative period. For example, Flemish separatists have already accused the government of being “anti-Flemish” and protests against the Vivaldi coalition have been launched. Any relaxation of the situation following the long-awaited govt. formation will also depend on how the societal division is handled. Current polls relating to the next parliamentary elections in 2024 point most strongly towards Vlaams Belang (15.11.2021). Another important factor is certainly how the Belgian state is able to overcome the economic and societal effects of the COVID-19 pandemic.

COVID-19 in Belgium: Significant adverse impacts on the healthcare system

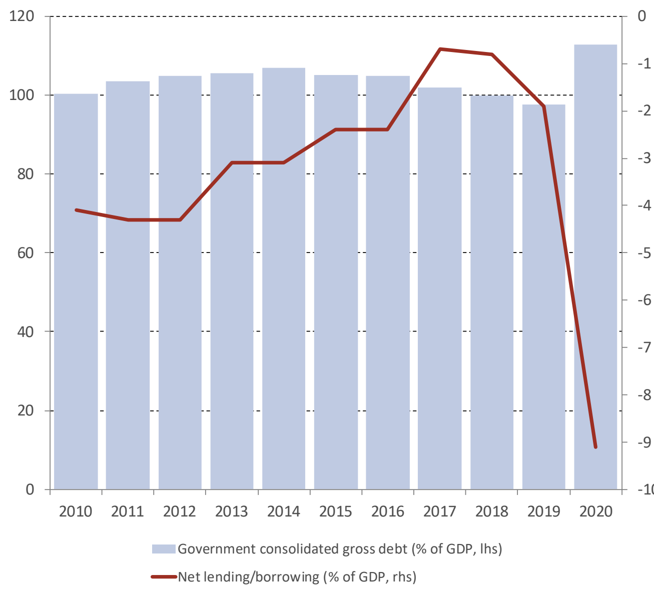
Belgium was comparatively hard hit by the first wave of the coronavirus pandemic. With a 7-day incidence rate in excess of 1,000, by the beginning of November, Belgium was in fact one of the most severely impacted countries anywhere in the world. In the meantime, approximately 20% of doctors and nursing staff were infected and hospitals across the country were on the verge of collapse, with hospitalised patient numbers also continuing to rise daily. The Minister of Health even talked of a “loss of control” in terms of the dynamic of infection rates. Although GDP declined sharply by 12% in the first half of 2020, Q3 saw an unexpected increase of the same amount. Due to the immunisation rating (74.1% fully immunised), which stands above the EU average (66.3% fully immunised) (as at 15.11.2021), the Federal Planning Bureau is expecting GDP growth of 5.7% year on year over the course of 2021 as well as +3% year on year in 2022.

Belgian economy – an overview: return to pre-crisis levels expected by the end of 2021
With real GDP per capita of EUR 39,110 in 2020 (preliminary data), Belgium is above average in comparison with the European Union (EU) as a whole (EUR 29,860). The regional disparities discussed in greater detail above are, however, again apparent here: with per capita GDP of EUR 30,236, in 2019, Wallonia lagged well behind Flanders (EUR 42,249) and the Brussels-Capital region (EUR 71,412). According to preliminary data from the National Bank of Belgium (NBB) for 2020, the service sector remains by far the most important with a share of 70% in GDP. Only 0.7% is attributable to agriculture. Belgium is highly dependent on exports, which at EUR 251bn in Q3 2021 (preliminary data) put it among the top five exporters in the EU. The export and import ratios are very high at around 81% of GDP (2020) in each case. At 48.4%, consumer spending on the part of private households accounts for nearly half of Belgium's GDP. Over the last few years, a slight decline in national debt in relation to GDP has been observed. However, as at the end of 2020, Belgium had the seventh highest debt level in the EU after Greece, Italy, Portugal, Spain, Cyprus and France, with a debt level of 114.1%. The government measures taken to overcome the pandemic had significant adverse effects on government finances: the export-orientated economy was hit especially hard by the coronavirus crisis. As a result, national debt is expected to increase from 98.1% of GDP in 2019 to 115.5% in 2022. A year-on-year increase of 5.7% is expected for GDP in 2021, with a budget deficit of 6.8% of GDP also expected. The NBB also forecast that economic output would return to pre-crisis levels in the current calendar year 2021. It is still anticipating GDP to stabilise over the next two years.

State revenues vs. government spending (EUR bn)



National debt vs. budget balance



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

General information

Population (2020)
1,218,255

Capital
Brussels

GDP (2019)
EUR 86.7bn

GDP per capita (2019)
EUR 71,412

Unemployment ratio (2020)
12.3%

Budget deficit (% revenues, 2020)
25.8%

Bloomberg ticker
BRUCAP

Amount outstanding
EUR 6.6bn

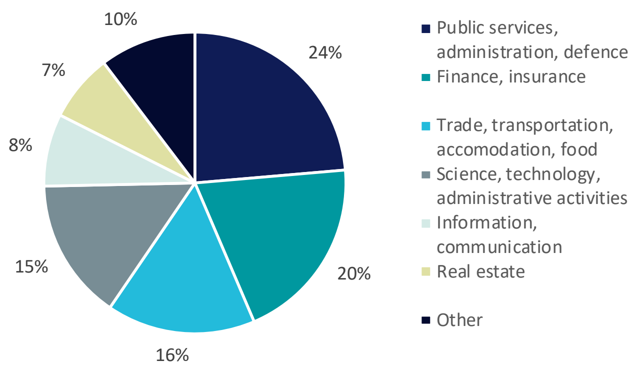
Ratings

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

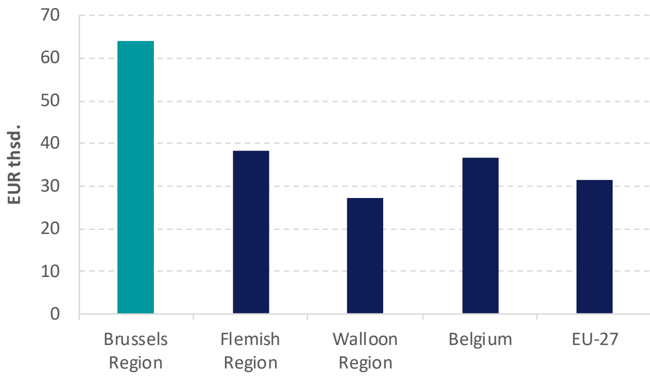
Brussels-Capital

With approximately 1.2 million inhabitants, the Brussels-Capital region (referred to in French as the Région de Bruxelles-Capitale and in Flemish as Brussels Hoofdstedelijk Gewest) is home to approximately 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 Flemish 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 133,000 inhabitants and the municipality of Anderlecht with just short of 121,000 inhabitants. The Brussels-Capital region has existed in its current form since 1 January 1995. The composition of the government apparatus and its division of competences are comparatively complex. The government consists of a French-speaking Prime Minister and four ministers (two French and two Flemish speaking), who are elected by the regional parliament. Unlike Wallonia and Flanders, the Brussels-Capital region does not have any special or constitutional autonomy and can, therefore, not regulate the election processes for the regional parliament independently. 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 a GDP per capita of around EUR 71,412 (2019), the region is very wealthy compared with the national average (EUR 39,110) and the EU27 average (EUR 29,860). 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: over the course of 2021 to date, 91% of employment was attributable to the tertiary sector. According to information provided by EURES (2020), up to 162,000 jobs in Brussels are attributable to international institutions, which equates to approximately 23% of employment in the region. 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 ratio of 12.3% at the end of 2020 was above the national (9.1%) and the European average (7.2%).

Gross value added by sector



GDP per capita compared (provisional data, 2021)



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

General information

Population (2020)
6,629,143

Capital
Brussels

GDP (2019)
EUR 279.2bn

GDP per capita (2019)
EUR 42,249

Unemployment ratio (2020)
3.5%

Budget deficit (% revenues, 2020)
10.9%

Bloomberg ticker
FLEMSH

Amount outstanding
EUR 15.2bn

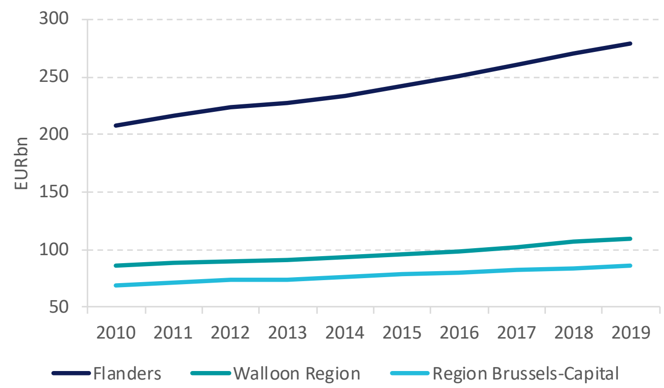
Ratings

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

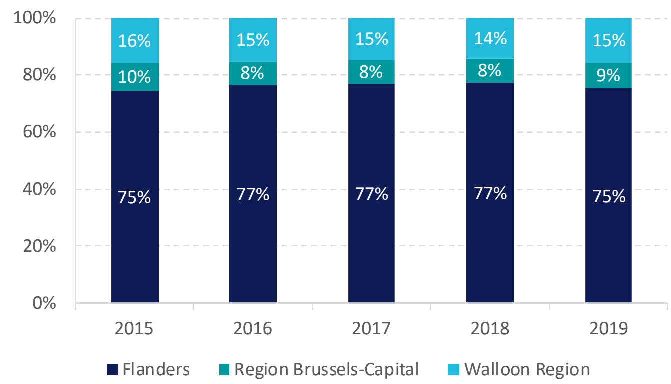
Flanders

With 6.6 million inhabitants, approximately 58% of the Belgian population live in Flanders (referred to in French as Flandre and in Flemish as Vlaanderen). Flanders borders France in the south-west, the Dutch provinces of Zeeland, Nordbrabant and Limburg in the north and east as well as the Wallonian provinces Hennegau, Walloon-Brabant and Liège in the south. The Brussels-Capital region is an official enclave within the Flemish region. Following Antwerp, which has approximately 530,000 inhabitants, Ghent and Bruges are the next largest cities with 263,000 and 283,000 inhabitants, respectively. Legislative authority is exercised by the Flemish parliament and the regional government. The parliament consists of 124 directly elected council members and six members of the parliament of the Brussels-Capital region. At present, those seeking to achieve more autonomy for Flanders are coalescing under the Flemish Movement, which demands greater independence from the Belgian government. The Flemish Movement has grown ever stronger in recent history as a consequence of the political crisis in Belgium from 2007 to 2011. 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. Compared with the other regions, Flanders ranked second, with GDP per capita of EUR 42,249, behind the Brussels-Capital region (EUR 71,412). In 2020, 60% of Belgian GDP was attributable to Flanders. A total of 76% of Flemish gross value added was attributable to services, followed by industry (23%) and agriculture at 1% (2019). For 2020, a fall in annual GDP of -6.2% year on year (provisional data) was determined, and growth of 4.1% year on year is expected for 2021. Due to its central location and highly developed transport infrastructure, Flanders is an important logistics centre in Europe, which is also of benefit to multinational automotive companies. The Volvo plant in Ghent is regarded as the largest employer in Flemish industry with over 6,000 employees. Following on from this, the corporate landscape is dominated by small and medium-sized suppliers. The leading exports are from the subsectors Chemicals and Pharmaceuticals, which account for a share of around 23% of all Flemish exports. More than half the exports are destined for Germany, followed by the Netherlands, France and the UK. Flanders is rated Aa2 by Moody's, which is one notch above Belgium. Fitch also rates Flanders one notch above the Belgian state, giving it a rating of AA, and raised the outlook from "negative" to "stable" in October 2021.

Gross domestic product over time



Comaprison of export contribution of Belgian regions



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

General information

Population (2020)
3,660,071

Capital
Namur

BIP (2019)
EUR 110,0 Mrd.

GDP (2019)
EUR 110.0bn

GDP per capita (2019)
EUR 30,236

Unemployment ratio (2020)
7.3%

Budget deficit (% revenues, 2020)
11.6%

Bloomberg ticker
WALLOO

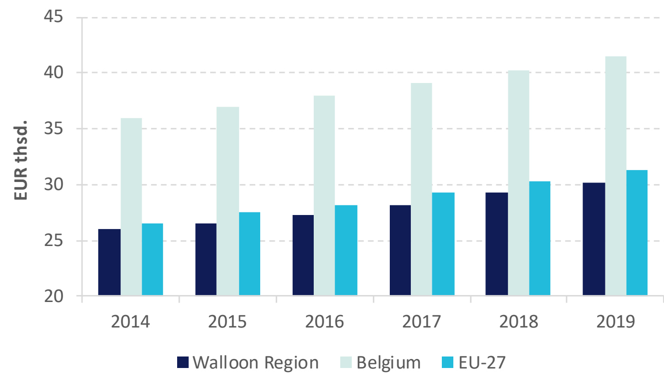
Amount outstanding

	Long-term	Outlook
Fitch	-	-
Moody's	Aa2	neg
S&P	-	-

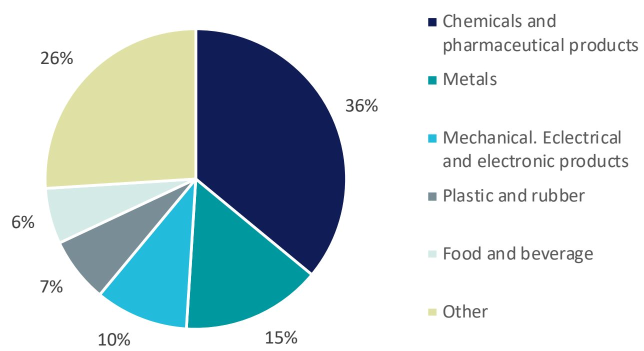
Wallonia

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, the approximately 3.7 million inhabitants of Wallonia only account for just under a third of the Belgian population. Officially, Wallonia is bilingual and comprises the German-speaking community, to which only 2% of the inhabitants in the far east of the region belong, in addition to Belgium's French-speaking community. Charleroi and Liège are Wallonia's largest cities with approximately 200,000 inhabitants each. The latter is the economic and cultural centre of the region. Namur, which has 110,000 inhabitants, is the capital of Wallonia. There have always been conflicts between Wallonia and Flanders, its neighbouring, Flemish-speaking region in the north, which historically started with a dispute about the official language and are largely dominated by economic issues today. While Wallonia operated as a flourishing location of the coal and steel industry at the beginning of the 20th century, northern Flanders was regarded as structurally weak. Following the decline of these branches of industry 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. Wallonia ranks third within the Belgian regions with GDP per capita of EUR 30,236 (2019), compared with a figure of EUR 41,460 at national level. Wallonian GDP per capita therefore equates to 86% of the EU average, while Belgium as a whole achieved a figure of 118%. Following a long phase of growth in the regional discrepancies from the EU average since the global economic crisis in 2008/09, the gap has slowly reduced in recent years. The region is heavily focused on the services sector, which accounted for approximately 79% of employment in 2019 (compared with 78% in Belgium and 72% in the EU 27 average). The agricultural sector's contribution to GDP is similar to that at national level (1%), while the industrial sector is slightly below the national figure (around 20% in Wallonia and 21% in Belgium). Wallonia is rated Aa2 by Moody's, which like the Flanders region, is one notch higher than the Belgian national rating (Aa3).

Trend in GDP per capita: a comparison



Exports by sector



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

Wallonia-Brussels Federation

General information

Population (2020)
4,663,724

Administrative headquarters
Brussels

Revenues (2020)
EUR 9.7bn

Budget deficit (% revenues, 2020)
19.6%

Bloomberg ticker
LCFB

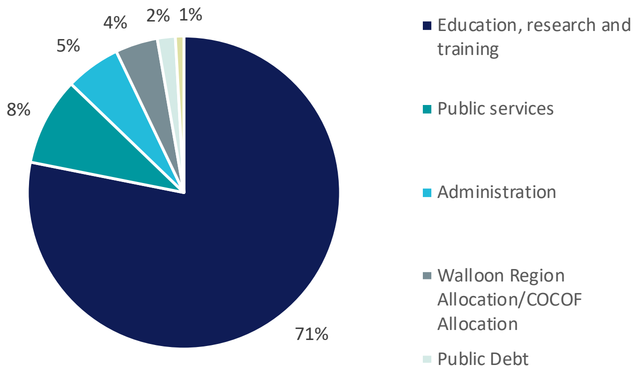
Amount outstanding
EUR 7.0bn

Ratings

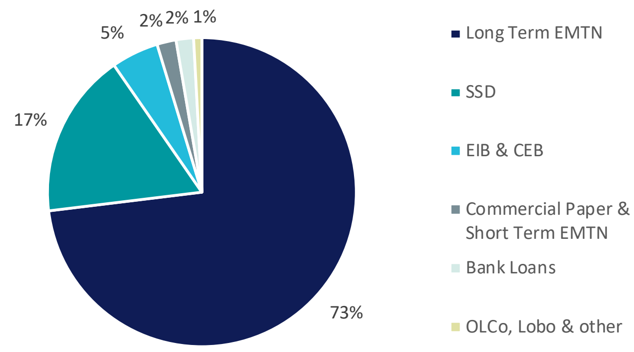
	Long-term	Outlook
Fitch	-	-
Moody's	A1	neg
S&P	-	-

Like the other two linguistic communities, Belgium's French community (referred to in French as the Fédération Wallonie-Bruxelles) constitutes a sub-state of the Belgian federal state. Its legal existence is codified in Belgium's constitution. Responsibility extends over all people resident in the territory "Region of the French language". On the one hand, it covers Wallonia with the exception of members of the German-speaking community. On the other hand, its competence also covers 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 Wallonian 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 others. Since the last elections in 2019, the existing government, which consists of five members, represents the coalition of the PS (socialist party), MR (reform movement) and Ecolo (green party), which accounts for 73% of the seats in parliament. The government exercises executive power through edicts for implementing decrees. In the sixth government reform in 2014, the Belgian government boosted the powers of the community and guaranteed the funds to exercise them. Since the Wallonia-Brussels Federation does not generate any direct revenues from taxes, its main funding source consists of tax revenues collected by federal authorities and redistributed. Since the Special Financing Act was enacted in 1989, the Federation has enjoyed far-reaching autonomy in managing the budget 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 if they default on their payments or fall into arrears. The French community raises funding selectively on the capital market. In November 2020, it returned to the primary market with its first benchmark issue since 2011 in the amount of EUR 600m with a maturity of nine years. The French community is rated A1 by Moody's, which is one notch down on that of the Belgian state (Aa3).

Breakdown of budget expenses (2020)



Debt by instrument (2020)



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

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

General information

Administrative headquarters
Brussels

Bloomberg ticker
FRBRTC

Amount outstanding
EUR 0.3bn

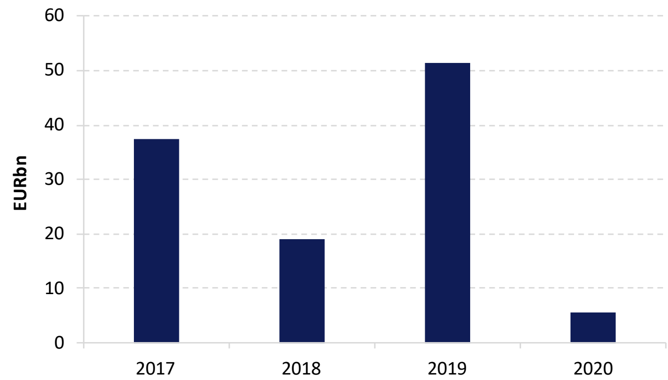
Ratings

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

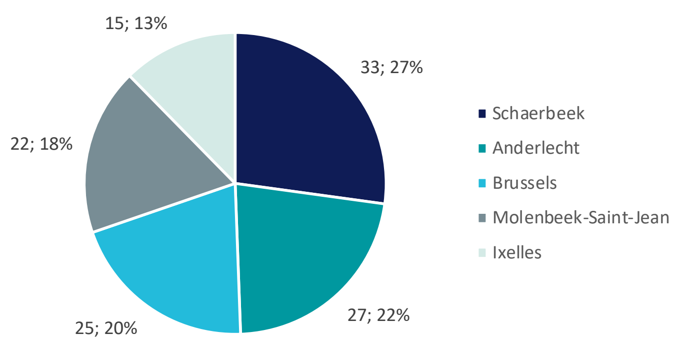
Brussels Regional Fund for Funding Municipal Budgets

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 local authorities. Since the Ordinance of 8 April 1993, the FRBRTC has been responsible for funding communities that have got into 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 others, 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 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, as happened in 1995 with the restructuring of hospitals. In 2011 (for budget year 2012) and 2012 (for financial years 2013-2014), two submissions of applications for a project financing were published. The majority (70%) of the funds available at the time were made available for projects in the education sector. Recently, two new municipalities – Molenbeek-Saint-Jean and Evere – received loans amounting to EUR 27.1m and EUR 6.5m respectively between 2014 and 2019.

Financing aid for Belgian municipalities per year



Top five recipient municipalities since 2011 (EURbn)



Source: Bruxelles Pouvoirs Locaux, FRBRTC, 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; colloquial: OLOs) are listed or have bonds outstanding, in alphabetical order:

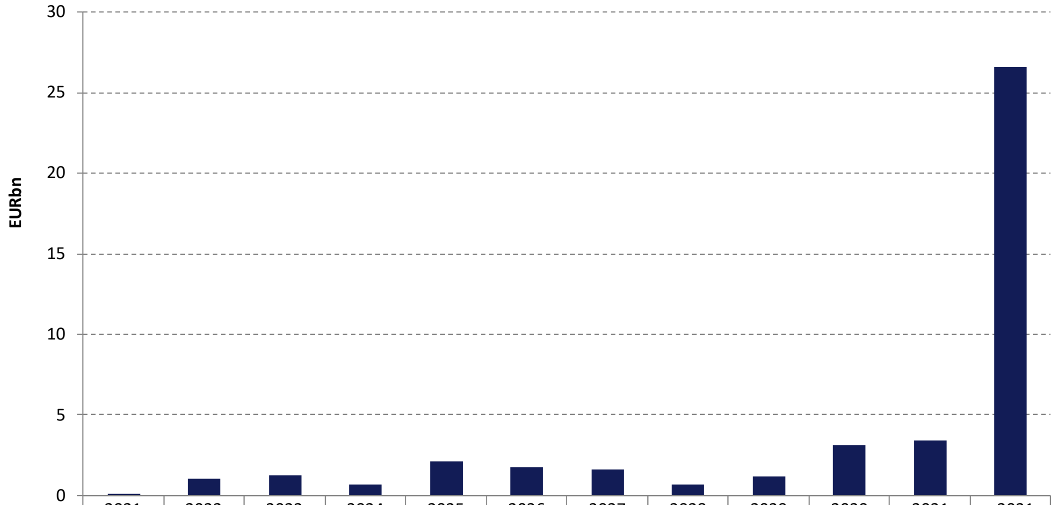
- ANTWRP (Province of Antwerp)
- BLMBRB (Province of Vlaams-Brabant)
- **BRUCAP** (Region Bruxelles-Capitale)
- BRUGGE (City of Brugge)
- DGBE (German speaking community in Belgium)
- FLEMCT (City of Aalst, Beringen, Boom, Bree, Brugge, Lier, Wachtebeke, Zaventem)
- **FLEMSH** (Ministeries of the Flemish community)
- **FRBRTC** (Brussels Municipalities Regional Fund; guaranteed by BRUCAP)
- GHENTB (City of Ghent ASBL)
- HASSLT (City of Hasselt)
- HOGENT (Hogeschool Gent)
- IZEGEM (City of Izegem)
- **LCFB** (Communaute Francaise de Belgique [Francophone community])
- MECHLN (City of Mechelen)
- REGWAL (Caisse d'Investissement de Wallonie [Wallonia investment fund)
- VILLIE (City of Liege)
- VLNAMR (City of Namur)
- **WALLOO** (Region Wallonne [Wallonia])
- ZAVENT (Gemeente Zaventem [Community of Zaventem])
- ZOTTGM (City of Zottegem)

Highlighted: 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 43.6bn compared with EUR 33.1bn around one year ago. Here, FLEMSH with EUR 15.2bn and WALLOO with EUR 13.4bn are significantly ahead of the other issuers. These are followed by LCFB with EUR 7.0bn and BRUCAP with EUR 6.6bn. The subsequent places are occupied by DGBE and FRBRTC with EUR 522m and EUR 333m respectively. FLEMSH has topped this ranking for years. Due to the strong issuance activity using benchmark bonds, WALLOO has climbed the rankings and is now the second largest regional Belgian issuer. Due to private placements up to 100 years in duration, the overall Belgian sub-sovereign structure can be described as very granular. This situation is also illustrated by the following graphic. Liquidity is suffering, although there is a pick-up as an illiquidity premium. Incidentally, issuers SOCWAL and FRBRTC are defined as agencies, which have been included on the purchase list of the Eurosystem. 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 Belgian regions



	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	>2031
Other	0	0	0	0	0	0	0	0	0	0	0	0
EUR	64	1,055	1,284	640	2,104	1,780	1,636	669	1,181	3,133	3,425	26,618

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

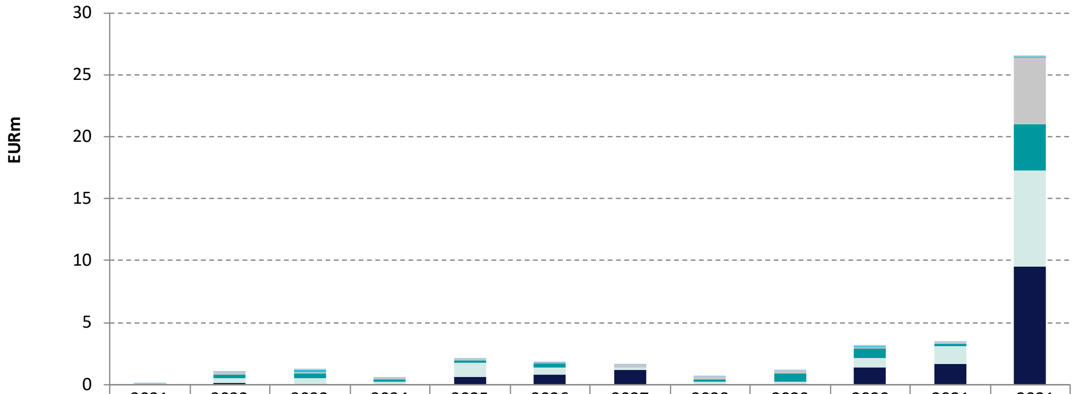
Outstanding volume

Not all the tickers listed above are regions. Some regional governments and local authorities or other regional vehicles or agencies are also active in the capital market. Nevertheless, the above breakdown reveals 622 bonds now outstanding – compared with 558 around one year ago. When we first looked at this in September 2016, there were around 300 bonds. However, this underpins the granularity of the Belgian regional bonds: there is now a total of EUR 43.6bn outstanding, against marginally under EUR 12bn in September 2016 and EUR 20.1bn in 2019. Back then, just as now, there were hardly any foreign currency deals to discuss; accordingly, the FX segment has no share of the composition of the liabilities, meaning that any diversification of the composition is provided by different maturity segments. Roughly EUR 26.6bn will only mature after 2031, which shows that the issuers in question are opting for very long-term funding. Whereas in 2016, there were only three bonds outstanding that amounted to more than or equal to EUR 500m and which were therefore designated as benchmark bonds, there is presently a total of 25 bonds outstanding with a volume of between EUR 500m and EUR 2bn. Alongside a total of nine bonds from the region of Wallonia (WALLOO), these now include 13 bonds issued by the Flemish Community (FLEMSH) in addition to a single bond placed by the LCFB in June. In 2020 alone, a total of eight bonds in benchmark size (at least EUR 500m) were issued. Incidentally, the Belgian state has also already been active in the segment of green bonds, as is the case for Germany and France too.

Belgian regions issue predominantly fixed-rate bonds

The majority of bonds issued by the Belgian regions featured fixed coupons. Of the bonds we have counted (662), 546 have a fixed coupon. This equates to 87.8%. These are followed by FRNs (floating rate notes; 6.6%), and then by variable-rate bonds, which account for only a marginal share. Zero-coupon bonds and step-up coupon bonds are hardly worth mentioning. 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 fairly high in relation to German Bundeslaender (69%), for example. All in all, Belgian regions are open to niche products when it comes to their funding (PP's).

Outstanding bonds of select Belgian regions



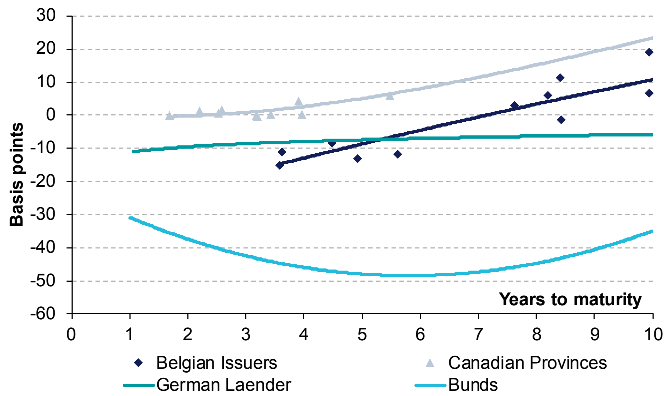
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	>2031
FRBRTC	3	40	22	44	14	10	14	18	26	38	14	93
DGBE	28	40	113	65	45	43	54	15	33	46	20	20
BRUCAP	30	150	160	45	65	55	140	180	213	95	134	5,372
LCFB	2	292	350	180	235	290	20	245	665	765	200	3,741
WALLOO	0	388	515	255	1,085	595	184	189	188	802	1,410	7,804
FLEMSH	0	134	0	0	627	750	1,200	0	0	1,377	1,640	9,518

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

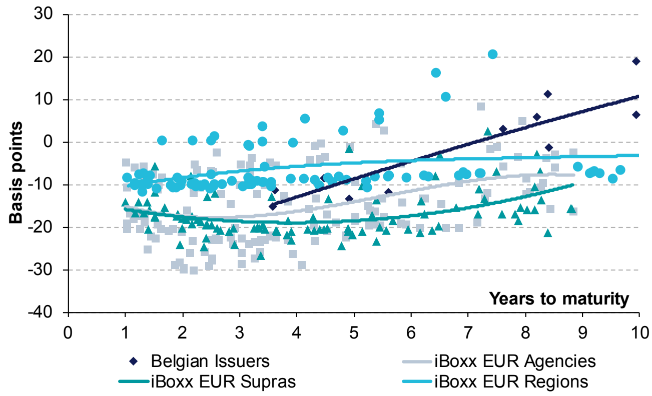
Belgian regions offer pick-up vs. OLOs and German peers

It should not come as any great surprise that Belgian regions are trading at the widest spreads to Belgian government bonds and the German peer group. The Flemish Community is rated AA / Aa2 / -, while Wallonia has been awarded a rating of - / A2 / -. Belgian sovereign bonds are rated AA- / Aa3 / AA. From a regulatory point of view, Belgian regions and government bonds can be seen as identical to their German counterparts (LCR Level 1; RW 0%, Solvency II: preferred), although the latter almost all have a triple-A rating 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 custom maturity requests from institutional investors.

Comparison of generic ASW spreads



Comparison of Belgian region ASW curves vs. iBoxx



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research; data from 09/11/2021 eod

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Regulatory overview of 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 test)
Austrian regions	0%	Level 1	0%	preferred (0%)
Spanish regions	0%	Level 1	0%	preferred (0%)

*Regional governments and local authorities
** Note: 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: Bloomberg, NORD/LB Markets Strategy & Floor Research

Exemptions from the scope of application of the Leverage Ratio (pursuant CRD IV Art. 2 (5)) (Examples)

EU	Central banks of member states
Belgium	***Institut de Réescompte et de Garantie/- Herdiscontering- 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 and local authorities (0% stress factor possible (example))

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

Source: (EU) 2015/2011, NORD/LB 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	Inhabitants (2020)	Unemployment rate (2020)	GDP per capita (2019)	Outstanding volume	Number of bonds	Rating
FLEMSH	6.6m	3.5%	EUR 42,249	EUR 15.2bn	31	(AA / Aa2 / -)
WALLOO	3.7m	7.3%	EUR 30,236	EUR 13.4bn	173	(- / A2 / -)
LCFB	4.7m	-	-	EUR 7.0bn	146	(- / A1 / -)
BRUCAP	1.2m	12.3%	EUR 71,412	EUR 6.6bn	161	(- / - / AA-)
DGBE	0.1m	2.7%	EUR 37,833	EUR 0.5bn	27	(- / - / -)
FRBRTC	-	-	-	EUR 0.3bn	40	(- / - / -)
Belgium	11.5m	5.6%	EUR 41,460	EUR 362.4bn	30	(AA- / Aa3 / AA)

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.

ECB purchase programme

It is worth taking a look at the Eurosystem's purchase activities: this reveals that there are four Belgian names among the agencies: FRBRTC, SOCWAL, FONWAL und 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, nine bonds with the WALLOO ticker, 14 with the FLEMSH ticker in addition to seven and four 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 EUR 18-50m. However, the single FRBRTC bond to have been purchased is even smaller, coming in at just 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 1.25bn. The same also applies to WALLOO bonds (largest found at EUR 1bn). Even so, the size of the bonds is still small in relation to bonds issued by the German Laender, of which the Eurosystem has already purchased more than 510 various ISINs.

Conclusion

Bearing in mind a further escalation of the low interest rate environment in 2020, there are still interesting investment opportunities cropping up in certain niche areas – in some cases amplified by the rampant coronavirus pandemic. Our studies on the Canadian provinces, the Australian states and on Auckland Council in New Zealand are also to be interpreted in this light. They enhance the classical SSA portfolio to include maturity and/or yield, but contribute to diversification in any case. The fact that the outstanding volumes increased again significantly compared with 2020 reflects the fact that opportunities continue to arise here. It is worth paying closer attention to FLEMSH and WALLOO regarding their issued volumes. Even though at “only” EUR 43.6bn after EUR 33.1bn last year, and despite growth in recent years, the Belgian market for sub-sovereign bonds can certainly be described as small, Flemish bonds account for the largest volume. It is interesting to note that there is no FX diversification. 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. All issuers are therefore interesting from a yield and regulatory point of view and are also open for private placements. It is worth observing how and with which measures Belgium is able to continue tacking the pandemic and its effects. In light of current developments, the long-term effects on politics and society could harm the economy more than previously anticipated.

Appendix
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Additional information
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None

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Issuer / security	Date	Recommendation	Bond type	Cause