

# Region of Wallonia / WALLOO

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Author: Dr Norman Rudschuck, CIIA



At 16,901 km<sup>2</sup>, 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 3.7m people, it only accounts for roughly a third of the total population. Officially, Wallonia is bilingual. In addition to Belgium’s French-speaking community, it is home to the country’s German-speaking community, although this only makes up around 2% of the population in the extreme eastern fringes of the region. Namur, which has a population of 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 20<sup>th</sup> 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.

## Ratings

	Rating	Outlook
Fitch	-	-
Moody’s	A3	stab
S&P	-	-

## General information

### Outstanding bond volume

EUR 18.2bn

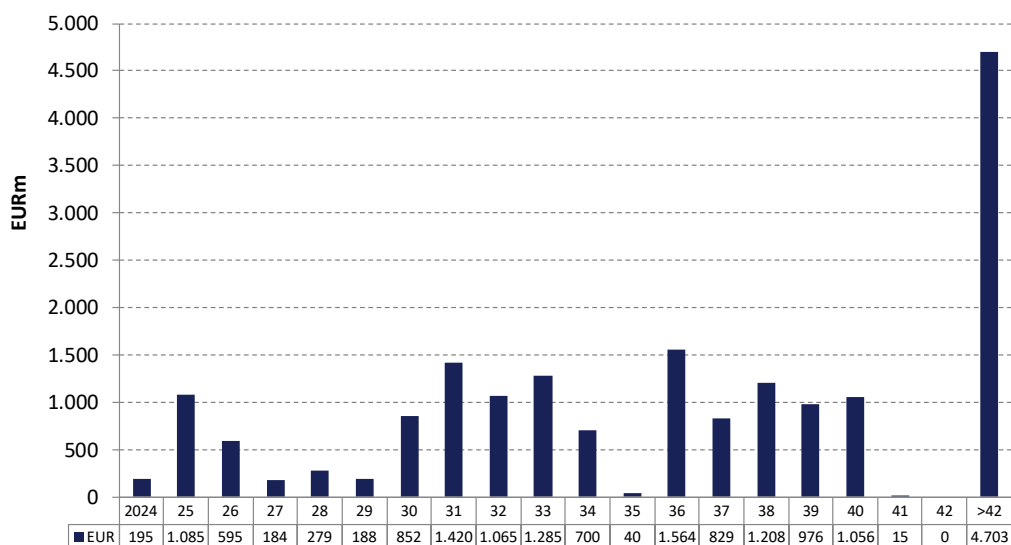
### Of which EUR bonds

EUR 18.2bn

### Bloomberg ticker

WALLOO

## Region of Wallonia – outstanding bonds



Source: Bloomberg, NORD/LB Floor Research

## Funding activities

Wallonia benefits from good access to diversified funding sources. For years now, e.g., strong demand was recorded for benchmark bond deals. Some of these bigger issuances were classified as ESG bonds. The region has established a debt agency with the aim of optimising its funding strategy. Debt management is based on strict regulations. In this context, securities with a residual term to maturity of less than 12 months and five years may respectively make up a maximum of 15% and 50% of total debt. The share of bonds with a variable rate of interest is capped at 15%, while no diversification in terms of currency is implemented. Overall, WALLOO has an outstanding bond volume of EUR 18.2bn split to 154 bonds. The longest bond matures in 2120; at the beginning of 2024, seven EUR-benchmarks are ESG labelled.

### Rating

Wallonia is rated at A3 by Moody's (with a stable outlook). In December 2020, the outlook for Wallonia (still being at A2) was changed to negative in view of the uncertainty relating to the further course of the pandemic. One year later (in Dec. 2021) the rating action was undertaken due to the still rising debt burden following COVID-19 and flooding. In terms of strengths, as in December 2023, Moody's continues to highlight the clearly defined responsibilities of the Belgian governance system, in addition to a high degree of fiscal autonomy and efforts aimed at reducing expenditure on the basis of zero-based budgeting. Due to comprehensive fiscal autonomy (sixth state reform 2014) and the fact that more than 40% of revenues are raised via taxation that can be adjusted by the region, the rating agency attests to the fact that Wallonia boasts extensive leeway in terms of revenues. The establishment of a debt agency is also assessed positively. According to Moody's, the main challenges relate to the regional budget, which has been in deficit for years, rising debts and the weak economic situation compared with other Belgian and peer European regions.

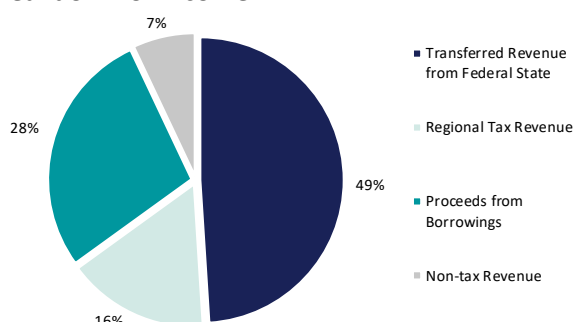
### Key economic metrics

The discrepancy between the regions is, among other aspects, today reflected in the unemployment rate, which stood at 8.3% in Wallonia lately, more than twice as high as Flanders (3.5%). While the economic output of Wallonia was growing steadily by an average of 1.5% p.a. in the years prior to the pandemic, the region is nevertheless still feeling the effects of structural change. It accounts for a share of only around 23% in Belgian GDP, despite making up roughly one third of the population. Before the pandemic, per capita GDP amounted to EUR 27,600, significantly below the Belgian average of EUR 36,600 – now EUR 31,400 vs. EUR 43,300. The challenge remains to close this gap in the future. These days, Wallonia's economic focus is directed towards the service sector to an above-average extent. Around 80% of all employees worked in this sector. Companies in Wallonia are heavily orientated towards exports, generating an average of 70% of sales via exports over the past few years. The mineral production now plays the most prominent role here again, accounting for 39% of exports overall. More than 50% were generated from exports to France (40%) and Germany (19%).

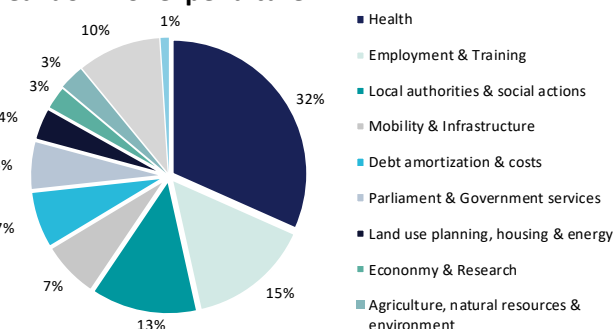
### Budget

Deficits have been recorded in the budget of Wallonia each year since 2008. As a result, the debt level has risen continuously. In order to improve this situation, Wallonia started to pursue a policy of zero-based budgeting. This essentially means that expenditure should be continuously reviewed and re-planned from scratch instead of being calculated based on the previous year's budget, as is customary. In addition to savings that should be generated from this, the change in approach aims to improve capital allocation in terms of sustainability. The coronavirus crisis plus flooding have intensified the deficit spending: expenditure lately totalled EUR 21.1bn, while revenues came to just EUR 18.2bn. The (preliminary) data for the budget can be broken down as follows:

#### Breakdown of income



#### Breakdown of expenditure



Source: Region of Wallonia, NORD/LB Floor Research

### Regulatory treatment

In the SSA segment, we regard the regulatory treatment of exposure as one of the main determinants of the relative attractiveness of an issuer and/or bond. The method of deriving the risk weighting through [CRR, the Commission's decision and CAR](#) therefore confirm the logic of assigning a risk weighting of 0% based on the standard approach. Accordingly, in our opinion, Belgian regions represent interesting alternatives to other issuer groups, which benefit from similar regulatory preferential treatment. We also come to the conclusion that Belgian regions benefit from Level 1 classification in the context of the LCR, similar to German Laender, for example. Preferred status is also awarded within the framework of Solvency II.

### Liability mechanism

Interestingly, the Belgian regions enjoy neither horizontal financial equalisation nor an explicit guarantee from the Kingdom of Belgium. Consequently, the state is charged with making corresponding transfer payments at federal level (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. Additionally to underpin our own analyses, Moody's believes it is "highly probable" that the federal government would provide support in the event of payment difficulties – so do we. This is particularly true in light of the 1989 Finance Act, which regulates the right of regions and municipalities to compensate for insufficient or untimely transfer payments from the central government by means of loans guaranteed by the central government.

### Summary of Belgian regions

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

### Strengths/opportunities

- + Cuts/savings potential from introduction of zero-based budgeting
- + Good market access
- + Prudent debt management

### Risks/weaknesses

- High level of unemployment
- Budget deficits recorded each year since 2008
- Political and social conflicts between the regions

### Comment

To drop one of our favourite cues: "Beyond Bundeslaender". We see Wallonia as an active issuer among Belgian regions. Despite the fact that the region's debt level was high even prior to the onset of the COVID-19 crisis and now looks set to rise further due to the pandemic plus the flooding in July 2021, it is still manageable for the government overall. Out of the EU's Recovery and Resilience Facility (RRF), Wallonia can expect EUR 1.5bn on the one hand. On the other hand, this would cover only approx. 20% of the required funds for green and social investments. We assess the long deficit history as negative, while the below-average economic output compared with other Belgian regions, combined with the high level of unemployment, is another weakness from our perspective. The region continues to suffer from tangible impacts in connection with the structural change related to the former strength of its coal and steel industry. From our point of view, zero-based budgeting is a step in the right direction for the future. The established debt agency is definitely a positive development for future economic stability. Please find more to Belgian issuers in our [recently published publication!](#)

# Appendix

## Contacts at NORD/LB

### Floor Research



**Dr. Frederik Kunze**

Covered Bonds/Banks

+49 172 354 8977

[frederik.kunze@nordlb.de](mailto:frederik.kunze@nordlb.de)



**Lukas Kühne**

Covered Bonds/Banks

+49 176 152 90932

[lukas.kuehne@nordlb.de](mailto:lukas.kuehne@nordlb.de)



**Dr. Norman Rudschuck, CIIA**

SSA/Public Issuers

+49 152 090 24094

[norman.rudschuck@nordlb.de](mailto:norman.rudschuck@nordlb.de)



**Christian Ilchmann**

SSA/Public Issuers

+49 157 851 64976

[christian.ilchmann@nordlb.de](mailto:christian.ilchmann@nordlb.de)



**Lukas-Finn Frese**

SSA/Public Issuers

+49 176 152 89759

[lukas-finn.frese@nordlb.de](mailto:lukas-finn.frese@nordlb.de)

### Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Institutional Sales MM/FX	+49 511 9818-9460
Sales Europe	+352 452211-515

### Origination & Syndicate

Origination FI	+49 511 9818-6600
Origination Corporates	+49 511 361-2911

### Treasury

Collat. Management/Repos	+49 511 9818-9200
Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

### Trading

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Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9660
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Asset Finance	+49 511 361-8150

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