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CREDIT OPINION
22 September 2023

Update

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RATINGS

Communaute Francaise De Belgique

Domicile	Belgium
Long Term Rating	A2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Communaute Francaise De Belgique (Belgium)

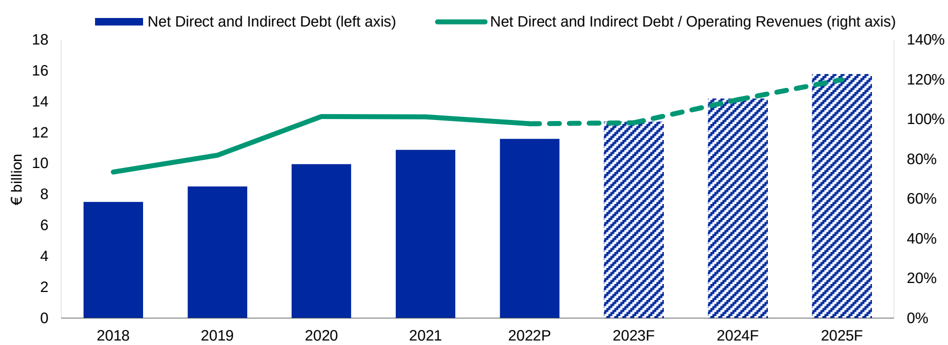
Update to credit analysis

Summary

The credit profile of the Communaute Française de Belgique (CFB, A2 stable) reflects wide recurring financing deficits that are pushing the community's debt burden up to a high level. CFB's credit profile is further constrained by limited budgetary flexibility. Our assessment of CFB's creditworthiness also takes into account a mature and robust legislative background, CFB's prudent and sophisticated debt management, as well as its unquestioned market access. The community benefits from a high likelihood of support from the Government of Belgium (Aa3 stable) if it were to face acute liquidity stress.

Exhibit 1

CFB's debt burden will keep on increasing



P: preliminary data; F: forecast
Source: Communaute Française de Belgique, Moody's Investors Service

Credit strengths

» A mature and robust legislative background with well-defined responsibilities amid a complex Belgian institutional system

» Prudent and sophisticated debt management underpin unquestioned market access

Credit challenges

» Wide recurring financing deficits are pushing debt up to a high level

» Limited budgetary flexibility constrains the intrinsic ability to face shocks

» Need to fill the investment gap in schools and education

Rating outlook

The stable outlook reflects our view that strong debt and liquidity management as well as high debt affordability allow CFB to carry a higher debt burden than pre-pandemic, consistent with a A2 rating.

Factors that could lead to an upgrade

An upgrade of CFB's ratings would require consecutive years of balanced budgets or financing surplus, thanks to a consistently supportive economic growth and/ or material saving measures, leading to a downward trend in the debt burden towards pre-pandemic levels. An upgrade of Belgium sovereign bond rating would also have positive implications for CFB.

Factors that could lead to a downgrade

A faster increase in CFB's debt burden than we currently expect would put negative pressures on the ratings. A material weakening in market access would also be credit negative. Furthermore, a downgrade of the Belgian sovereign rating would have negative implications for CFB.

Key indicators

Exhibit 2

	2018	2019	2020	2021	2022P	2023F	2024F	2025F
Gross operating balance / operating revenues	-1.8%	-1.9%	-18.5%	-8.9%	-11.2%	-6.3%	-9.6%	-9.5%
Interest expenses / operating revenues	1.6%	1.6%	1.7%	1.5%	1.7%	1.8%	2.2%	2.5%
Capital spending / total expenditure	1.9%	1.9%	1.8%	2.8%	3.2%	3.0%	2.5%	2.6%
Financing surplus (requirements) / total revenues	-3.8%	-3.9%	-20.7%	-11.3%	-13.7%	-8.6%	-12.0%	-12.1%
Net Direct and Indirect Debt / operating revenues	73.5%	81.9%	101.4%	101.2%	97.7%	98.3%	109.9%	119.9%

P: preliminary data; F: forecast
Source: Communaute Française de Belgique, Moody's Investors Service

Detailed credit considerations

The credit profile of CFB, as expressed in its A2 rating, combines a baseline credit assessment (BCA) of a3 and the high likelihood of extraordinary support from the federal government in the event that the community were to face acute liquidity stress.

Baseline credit assessment

A mature and robust legislative background with well-defined responsibilities amid a complex Belgian institutional system

The country's federal structure of government has gradually, but significantly, evolved over the past decades towards a greater devolution of decision-making power to the six federated entities, one of which is CFB also known as Wallonia-Brussels Federation. The determining characteristic of a community is its culture and language, while that of a region is its geographical area. The communities cut across regions and the French Community comprises all residents of the Walloon Region (A3 stable) and Brussels-based French-speaking inhabitants, totaling approximately 4.8 million inhabitants.

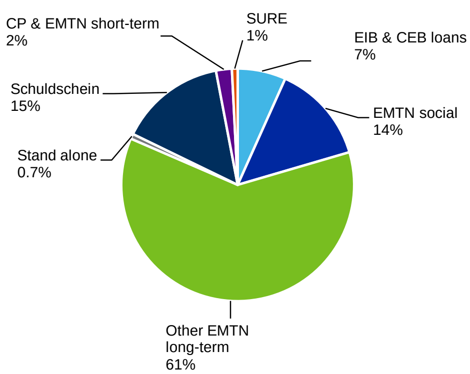
While the country's regional disparities and divisions are associated with governance complexities at the federal level, the legislative background is mature and robust. Exclusive responsibilities assigned to the federated entities are stable, and communities are responsible for “person-related matters” (including education, culture, sport and social protection). The remaining responsibilities are assigned to the federal government (including foreign affairs, national defence and justice). The distribution of responsibilities is subject to judicial control, exercised by the Constitutional Court of Belgium (which can undo legislation that contravenes the division of powers), and by the Council of State. For CFB, it also means that revenues and spending responsibilities are well-defined and that changes could not occur suddenly. Any change to the legislation that governs Belgian sub-sovereigns must be approved by a majority in both linguistic groups (French and Dutch/German) in the national Parliament, in addition to a two-thirds overall majority.

Prudent and sophisticated debt management underpin unquestioned market access

CFB is a flagship Belgian issuer and as such benefits, in our view, from an unquestioned market access. In 2021 and 2022, it raised record high amounts in debt, respectively €1.41 billion and €1.19 billion, of which €1.23 billion and €0.96 billion in long-term bond issuances. CFB's debt continues to benefit from strong investor demand. Having become a regular issuer of social bonds since 2020, CFB carried out its third social benchmark operation in March 2023, with a €700 million social bond that attracted €1.3 billion orders. In spite of tightening financing conditions since 2022, the CFB benefits from a near-stable credit spread against Belgium government bonds (OLO[1]) with an average of 32 bps for all 2022 long-term operations, versus 23 bps in 2021.

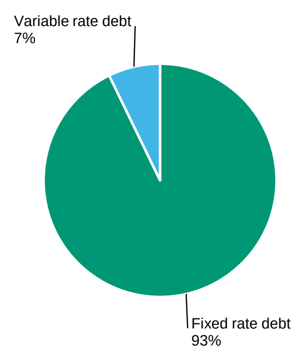
CFB's prudent and sophisticated debt management lies in the practices put in place over the years by its Debt agency. The community benefits from diversified external funding sources, including: (i) a €12 billion EMTN (Euro Medium Term Note) programme, which can be used for both short- and long-term issuances; (ii) Schuldschein issuances; (iii) loans from two public development banks – €600 million from the European Investment Bank (EIB, Aaa stable) and €300 million from the Council of Europe Development Bank (CEB, Aaa stable); (iv) €2.5 billion short-term facilities with Belfius Bank SA/NV (A1 stable). Moreover, CFB's internal liquidity position is sound and secure, supported by predictable and regular cash flows, in particular transfers from the federal government.

Exhibit 3
CFB's debt is diversified...



As a % of direct debt as of 31/12/2022. Please see endnotes for the definition of SURE[2].
Sources: Communaute Française de Belgique and Moody's Investors Service

Exhibit 4
... and largely at fixed rate



As a % of estimated direct debt as of 31/12/2022
Source: Communaute Française de Belgique and Moody's Investors Service

The community also operates within prudent rules: (i) debt due within one and five year(s) must remain below 10% and 33.3% of total outstanding debt, respectively; and (ii) the share of variable debt is capped at 15%. This prudent approach is combined with a sophisticated use of various products based on CFB's revenue structure (such as inflation-linked loans) and aimed at protecting its access to liquidity (such as a 100-year issuance of €10 million).

Wide recurring financing deficits are pushing debt up to a high level

According to our forecasts, CFB will post recurring financing deficits averaging €1.5 billion over 2023-26 or 11% of total revenues, against a near-stable 4% deficit over 2009-2019. As a result, we expect CFB's net direct and indirect debt (NDID) to reach €12.7 billion at the end of 2023 (or 99% of operating revenues) and to further increase to €15.8 billion by the end of 2025, representing an unprecedented 120% of operating revenues (from a moderate 82% at the end of 2019).

Our expectation that the community will post wide recurring financing deficits mainly reflects the combination of three key drivers:

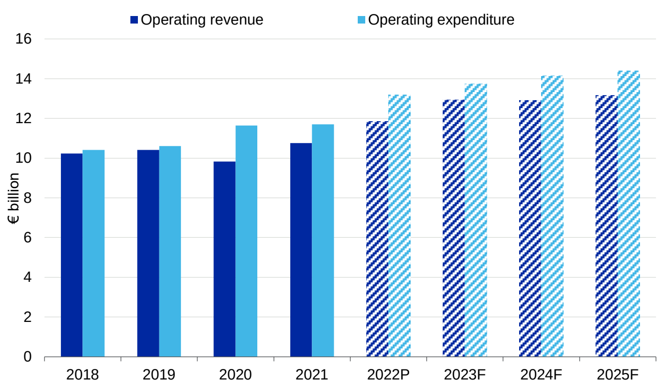
» CFB's revenue growth is structurally constrained, including by detrimental demographic trends - particularly among young people - and weak economic growth. Because of the indexation clause of transfers from the Federal government[3] on Belgian gross domestic product (GDP), CFB would also need multiple years of GDP growth well above the 1-1.5% potential growth to fill the gap between revenues and expenditures triggered by the COVID-19 shock. Given our forecasts for real GDP growth to remain below 1% in 2023-24, revenue growth will remain constrained.

» Spending pressures are sustained because CFB's government remains committed to significantly increase public investment. The spending review mechanism introduced at the start of 2023 aims to improve spending efficiency, but we do not incorporate any impact in our projections at this stage.

» CFB's budgetary flexibility is limited (see "Limited budgetary flexibility constrains the intrinsic ability to face shocks").

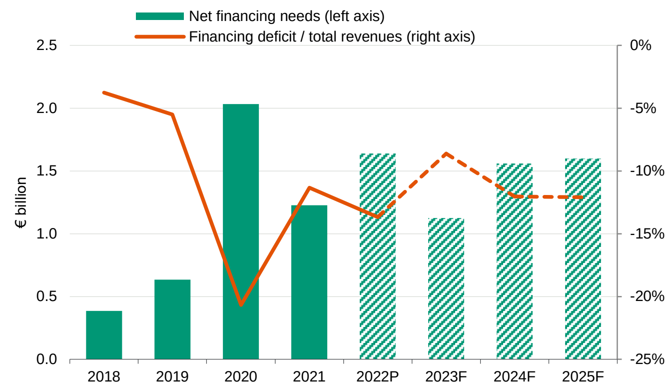
Meanwhile, the current inflationary context has relatively limited effects on the financial deficit of the CFB as the slight boost of revenues induced is offset by the inflation-indexed expenses.

Exhibit 5
CFB will continue to post wide financial deficits



P: preliminary data; F: forecast
Source: Communaute Française de Belgique and Moody's Investors Service

Exhibit 6
CFB's financing deficit will average 11% of revenue over 2022-2025



P: preliminary data; F: forecast
Source: Communaute Française de Belgique and Moody's Investors Service

Limited budgetary flexibility constrains the intrinsic ability to face shocks
As a result of its mandate, CFB's expenditures are relatively rigid. Its capital expenditures represent a marginal share of total expenditures (3.2% in 2022), leaving little room to adjust. In addition, civil servants' salaries, mainly in education, account for around half of expenditures. On the revenue side, CFB has no flexibility on tax rates and its revenues depend from macroeconomic parameters calculated every year. Therefore CFB has a very limited capacity to generate additional resources. CFB is consequently and intrinsically highly vulnerable to shocks on revenues, such as the coronavirus recession. The community's track record of unbalanced budgets when economic growth was supportive also weighs on its credit profile; as well as the government's stance is not to pursue fiscal consolidation over the current mandate.

Need to fill the investment gap in schools and education
CFB initiated two important reforms to improve both the results and the efficiency of the educational system of the French-speaking Belgium. The first one is the *Pacte d'Excellence*, a multi-year educational reform involving significant upfront costs, which amounts to around €300 million per year over 2023-2027. The second one targets teachers' training and salaries : the community hopes that the reforms will help to strengthen potential economic growth by increasing human capital and boost its attractivity towards students. However, it will have no foreseeable impacts over the current mandate.

In 2019, CFB's government also estimated that, due to historically subdued investment levels in school buildings, it would need to invest €1 billion in renovation. CFB leveraged on the European Union's (EU) Recovery and Resilience Facility (RRF) and "Repower EU" programmes to fund this capital spending over 2021-26. These EU grants amounted for €401 million over the period. In addition, CFB created a special fund (SACA) in 2022 which will support a €1 billion investment plan in school building renovation. CFB has started to review and approve processes, with funds expected to be disbursed over 2024-30.

Extraordinary support considerations

We assign a high likelihood of extraordinary support from the national government, reflecting: (i) our assessment of the reputational risk for the federal government if CFB were to default; and (ii) indications of support stemming from the federal government's commitment to enabling federated entities to reach sound financials, including Articles 49 and 54 of the 1989 Financial Law – the latter states that regions and communities are entitled to offset insufficient or untimely receipts from the federal government with a guaranteed loan.

ESG considerations

Communaute Francaise De Belgique's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 7
ESG Credit Impact Score

CIS-3
Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Communaute Francaise de Belgique' ESG Credit Impact Score is moderately negative (**CIS-3**), driven by moderately negative social risks while governance considerations are neutral and exposure to environmental risks is low.

Exhibit 8
ESG Issuer Profile Scores

ENVIRONMENTAL
E-2
Neutral-to-Low

SOCIAL
S-3
Moderately Negative

GOVERNANCE
G-2
Neutral-to-Low

Source: Moody's Investors Service

Environmental
Communaute Francaise de Belgique's exposure to environmental risks is low and its overall E issuer profile score is therefore neutral to low (**E-2**).

Social
Communaute Francaise de Belgique faces moderate risks from exposure to social risks (**S-3**). Like Belgium, the community faces long-term economic and fiscal pressures from demographic change, marked by a shrinking working age population and a rising dependency ratio. Due to the community's main responsibility in education, the downward trend in student numbers also weighs on its social profile.

Governance
The influence of governance on Communaute Francaise de Belgique's credit profile is neutral to low (**G-2**). The community's financial management practices are strong, as illustrated by prudent but sophisticated debt management. At the same time, the community's track record of unbalanced realized accounts weighs on its G profile.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of a3 is the same as the scorecard-indicated BCA. The matrix-generated BCA of a3 reflects an Idiosyncratic Risk score of 4 (presented below) on a 1 to 9 scale, where 1 is the strongest relative credit quality and 9 the meakest; and (2) a Systemic Risk score of Aa3, as reflected by Belgium's Aa3 stable sovereign bond rating.

For details on our rating approach, please refer to our Regional and Local Governments rating methodology, published in 2018.

Exhibit 9

Communaute Francaise De Belgique

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				**3.80**	**20%**	**0.76**
Economic Strength [1]	5	95.62%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				**5**	**20%**	**1.00**
Legislative Background	1		50%			
Financial Flexibility	9		50%			
Factor 3: Financial Position				**3.75**	**30%**	**1.13**
Operating Margin [2]	9	-10.63%	12.5%			
Interest Burden [3]	3	1.59%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	7	101.17%	25%			
Debt Structure [5]	1	3.44%	25%			
Factor 4: Governance and Management				**5**	**30%**	**1.50**
Risk Controls and Financial Management	5					
Investment and Debt Management	1					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						**4.39 (4)**
Systemic Risk Assessment						**Aa3**
Suggested BCA						**a3**
Assigned BCA						**a3**

[1] Local GDP per capita as % of national GDP per capita
[2] Gross operating balance/operating revenues
[3] Interest payments/operating revenues
[4] Net direct and indirect debt/operating revenues
[5] Short-term direct debt/total direct debt
Source: Moody's Investors Service; Fiscal 2021.

Ratings

Exhibit 10

Category	Moody's Rating
COMMUNAUTE FRANCAISE DE BELGIQUE	
Outlook	Stable
Issuer Rating	A2
Senior Unsecured -Dom Curr	A2
ST Issuer Rating	P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

Endnotes

1 Obligations Linéaires Ordinaires (Linear Ordinary Bonds), medium or long term bonds denominated in EUR

2 The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) "is available for Member States that need to mobilise significant financial means to fight the negative economic and social consequences of the coronavirus outbreak on their territory. It can provide financial assistance up to €100 billion in the form of loans from the EU to affected Member States to address sudden increases in public expenditure for the preservation of employment." European Commission

3 CFB's revenues are almost exclusively derived from shares taxes - personal income tax and value-added tax - transferred from the federal government

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