

## DESCRIPTION OF THE ISSUER

This document dated 20 May 2021 (the “**Description of the Issuer**”) contains a description of Région wallonne (the “**Issuer**”) and its financial position.

The information contained in the Description of the Issuer must be read in conjunction with:

The offering circular dated 20 May 2021 with respect to the Issuer's EUR 20,000,000,000 Euro Medium Term Note Programme (into which it is incorporated by reference) (the “**Offering Circular**”).

The Offering Circular is available in an electronic form on the website of the Luxembourg Stock Exchange (<http://www.bourse.lu>) and on the Issuer's website (<https://www.wallonie.be/fr/decouvrir-la-wallonie/la-wallonie-en-chiffres/financement>);

The Description of the Issuer contains the following information:

### 1. INSTITUTIONS, POWERS AND ECONOMIC SITUATION OF THE ISSUER

- 1.1. Belgium as a federal state
- 1.2. Political structure
- 1.3. Geographical location and demography
- 1.4. Economic structure

### 2. FINANCES AND BUDGETS OF THE ISSUER

- 2.1. Public finances
- 2.2. Budgets

### 3. THE CASH AND DEBT MANAGEMENT OF THE ISSUER

- 3.1. Cash Management
- 3.2. Debt Management

### 4. RATING

The Description of the Issuer does not constitute a prospectus pursuant to Part II of the Luxembourg Act of 16 July 2019 on prospectuses for securities (the “**Luxembourg Prospectus Act**”) and does not constitute a prospectus or an information note for the purposes of the Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the “**Prospectus Regulation**”) or the Belgian Law of 11 July 2018 concerning the public offering of investment instruments and the admission to the trading on a regulated market of investment instruments (the “**Belgian Prospectus Law**”). The Description of the Issuer does not purport to meet

the format and the disclosure requirements of the Prospectus Regulation and the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing the Prospectus Regulation as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 nor of the Belgian Prospectus Law.

The Description of the Issuer has not been approved by, nor been submitted to, and no advertising or other offering materials have been filed with the CSSF (Commission de Surveillance du Secteur Financier), the FSMA (Financial Services and Markets Authority) or any other competent authority within the meaning of the Prospectus Regulation, under the Luxembourg Prospectus Act, the Belgian Prospectus Law or any other legal basis.

This Description of the Issuer and its distribution do not constitute a public offering or involve an investment service in Belgium or elsewhere.

The information provided in this Description of the Issuer is valid at the date of its publication and might be subject to modification over time. Pursuant (and without prejudice) to any statements made in the Offering Circular or the Prospectus, the Issuer shall prepare an amendment or supplement to the Offering Circular or Prospectus, or publish a new Offering Circular or Prospectus for any subsequent offering of Notes. The Issuer shall provide each Dealer with the number of copies of the amendment or supplement to the Offering Circular or the Prospectus as the Dealer may reasonably request, if, at any time during the Euro Medium Term Note Programme or the Multi-currency Treasury Notes Programme, a significant change affecting any matter contained in the Offering Circular or Prospectus (including the "Description of the Issuer") is made which inclusion in the Offering Circular or Prospectus would reasonably be required by investors and their professional advisers for the purpose of making an informed assessment of the assets and liabilities, financial position and prospects of the Issuer and the terms and conditions of the Notes.

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# 1. INSTITUTIONS, POWERS AND ECONOMIC SITUATION OF THE ISSUER

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## 1.1. BELGIUM AS A FEDERAL STATE

### 1.1.1. Overview of the federalization process

Belgium became a federal state after a legislative process of nearly 50 years. The six main phases of the federalisation process can be summarised as follows:

**1970** : - Creation of "cultural communities";

- Creation of the first regional institutions: regional economic councils and regional development companies;

**1980** : - Transformation of the cultural communities into Communities (“*Communautés*”);

- Extension of the powers of the Communities to personal matters and creation of the Regions (“*Régions*”);

**1989** : - Devolution of new powers to the Communities and Regions;

- Adoption of the Special Finance Act of 16<sup>th</sup> January 1989 (the “**Special Finance Act**”), which changed the financing system based on national grants into a financing system based on the contributory capacity of the Communities and Regions;

**1993** : - Completion of the federal structure;

- Amendment of the Special Finance Act;
- Constitutive autonomy was granted to the Communities and Regions;

**2001** : - Extension of the Communities and Regions’ powers.

**2014** : Agreement on the Sixth State Reform leading to a significant evolution of the Belgian federal system.

The first part of this institutional reform relates to the division of the Brussels-Halle-Vilvoorde district (BHV). In addition to the separation of the electoral constituency, BHV was also subject to a review of its judicial organization.

The second part of the reform ended in the beginning of 2014. On 6 January 2014, two related Statutes were published (i) the Special Statute on the Sixth State Reform <sup>1</sup> and (ii) the Special Statute on the reform of the financing system of Communities and Regions, on the expansion of fiscal autonomy of the Regions and on the financing of the new powers<sup>2</sup>.

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<sup>1</sup> [http://www.ejustice.just.fgov.be/cgi\\_loi/change\\_lg.pl?language=fr&la=F&table\\_name=loi&cn=2014010654](http://www.ejustice.just.fgov.be/cgi_loi/change_lg.pl?language=fr&la=F&table_name=loi&cn=2014010654)

<sup>2</sup> [http://www.ejustice.just.fgov.be/cgi\\_loi/change\\_lg.pl?language=fr&la=F&table\\_name=loi&cn=2014010648](http://www.ejustice.just.fgov.be/cgi_loi/change_lg.pl?language=fr&la=F&table_name=loi&cn=2014010648)

The amendments to the Constitution, the special statutes and the statutes which execute the Sixth State Reform were published *in the Belgian Official Gazette* on 31<sup>st</sup> January 2014.

Those texts foresee the delegation of additional powers to the Communities and Regions and introduce a significant reform of the Special Finance Act (the budget for the Regions and the Communities being expected to grow with more than 40 %).

The list of powers that were transferred is particularly long and covers, *inter alia*, family benefits, healthcare, labour market/employment policy, social assistance to the elderly, road safety, tenancy regulation, driving education, technical inspection, houses of justice and fiscal expenses (on mortgage credits).<sup>3</sup>

Other significant outcomes of the reform include:

- More flexibility granted to the Regions and the Communities to pursue different policies, taking into account their own specific needs;
- More fiscal autonomy for the Regions, in particular with respect to fiscal control.

Those results in a shift from a system with uniform taxes throughout Belgium, the proceeds of which are divided between the authorities via endowments to a system of joint taxes via regional additions;

- A confirmed financial solidarity among the entities;
- Refinancing of the Brussels-Capital Region is refinanced
- Compensatory measures (*socles compensatoires*) in nominal terms during a period of 10 years (transition mechanism).

They ensure budget neutrality during the first year of the reform. Afterwards, the compensatory measures will decrease and disappear at the end of the following period of 10 years.

- Involvement of the Regions and the Communities in the betterment of the public accounts and the burden arising from the ageing population.

**2015** Pursuant to the Sixth State Reform the Région wallonne was transferred new powers in diverse activity sectors such as environment, agriculture, employment policy, mobility and road safety, health, social policies, urban planning, housing policies, economy and energy.

**2019** Pursuant to the Sixth State Reform, powers related to family allowances were transferred from the Federal State to the Région wallonne.

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<sup>3</sup> Source : <http://www.wallonie.be/fr/dossier/la-wallonie-face-la-6eme-reforme-de-letat>

### 1.1.2. The Belgian Constitution

The first article of the Belgian Constitution states that “*Belgium is a federal state composed of Communities and Regions*”.

The country is organised as a federal state, with three main levels of authority:

- 1 federal government;
- 3 regional authorities (Flanders, Wallonia<sup>4</sup> and Brussels-Capital Region);
- 3 community authorities (Dutch-speaking, French-speaking and German-speaking).

Each authority has its own institutions, which consist of (i) a legislative power, (*i.e.* the regional and community parliaments which members are directly elected), and (ii) an executive power (*i.e.* the regional and community governments).

The powers of the Regions are based on the notion of “territoriality” and mainly relate to economic matters, such as economic policy, town and country planning, foreign trade, public works, environment, health care, etc., whereas the powers of the Communities are based on the notion of “personality” and mainly relate to personal matters, such as education and culture.

There is no hierarchy between the federal authorities, the Regions and the Communities. Their powers are divided in such a way that an authority is not authorised to interfere with the exclusive powers that are under the jurisdiction of another authority. As a consequence, the decrees / orders adopted by the Regions and the Communities have the same legal force as federal laws.

### 1.1.3. The powers of Wallonia

Wallonia is competent regarding the following matters:

- Local authorities;
- Economy, employment and research;
- Mobility and waterways;
- Buildings and roads (safety);
- Territory planning, housing, cultural heritage and energy;
- Agriculture, natural resources, environment and animal welfare;
- Some aspects of health, family allowances and social policies, and
- Taxation.

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<sup>4</sup> Région Wallonne and Wallonia are terms that are used interchangeably.

The most significant powers transferred to Wallonia in the context of the Sixth State Reform are the following:

- Employment
  - The main part of the powers transfer relates to the reduction of social security contributions, service vouchers and activation policies;
  - The remaining part relates to the control of the availability of the unemployed persons, the activation of the beneficiaries of unemployment benefits and the social aid, paid educational leave, career breaks in the public sector, local employment agencies, ...
- Healthcare and social assistance
  - The intra-francophone agreement named “de la Sainte Emilie” contains the internal transfer of the main part of the new powers in this field from the French Community to Wallonia;
  - Intervention with respect to aid for disabled persons, residence for elderly and long-term care, mental healthcare and primary health care;
  - Hospital infrastructures and medico-technical services management are transferred to Wallonia. A new entity called “AVIQ” has been created to be the headquarter for healthcare assistance on the Walloon territory.
  - Family allowances.
- Taxation
  - Transfer of some fiscal expenditures with respect to the Personal Income Tax, (*i.e.* those linked to housing, energy-saving investment expenditure and tax credit for service vouchers).
- Other transferred powers:
  - Urban policy, the Belgian intervention and restitution office, the Participation Fund, the Disaster Fund, The Fund on reduction of the global energy costs, ...

#### 1.1.4. Funding of Wallonia

The funding of Wallonia is regulated by the Special Finance Act (as modified in 1993, 2001, 2013 and 2014)<sup>5</sup>

The financing is composed of:

- Non-tax revenues ;
- Tax revenues ;
- A part of the personal income tax;
- The national solidarity intervention;
- The borrowing.

#### 1.1.5. Administrative framework

From an administrative point of view, the Walloon finances are managed by the Minister for Budget.

Pursuant to the decree of 17 December 2020 concerning the budget of Wallonia for the budget year 2021<sup>6</sup>, the said Minister is entitled to, amongst others:

- Enter into loans on the behalf of Wallonia (deficit funding, amortisation of the loans, early repayments, ...);
- Issue commercial paper or other financial instruments;
- Conduct the daily management of the Treasury and its financial management (including the investments).

The said Minister may rely on two advisory bodies: the Regional Council of the Treasury and the Common Council of the Treasury (which is shared with the French Community), with which strategic orientations are discussed and which provide advice to the Minister.

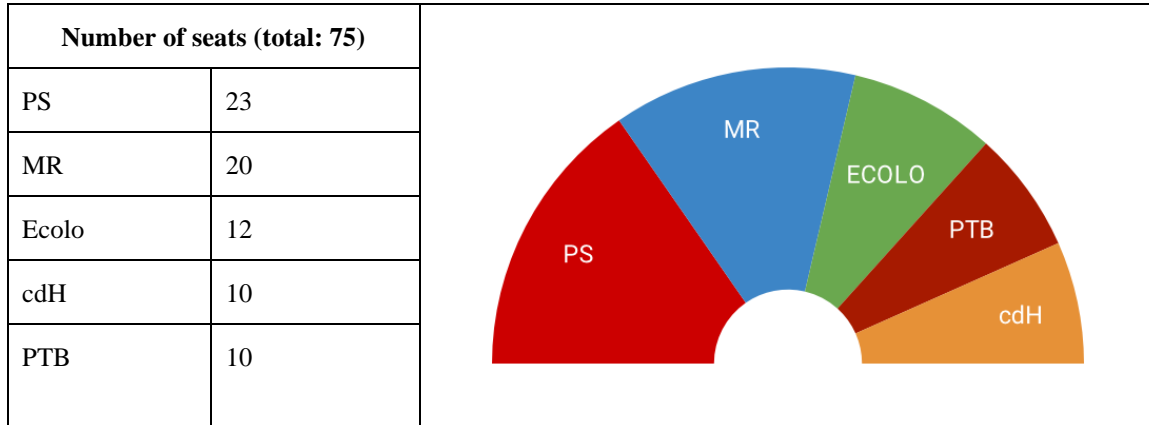
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<sup>5</sup> Source : <http://www.ejustice.just.fgov.be/cgi/api2.pl?lg=fr&pd=2014-01-31&numac=2014003016>

<sup>6</sup> Décret wallon du 17 décembre 2020 contenant le budget des recettes de la Région wallonne pour l'année budgétaire 2020 ;  
Source: [http://nautilus.parlement-wallon.be/Archives/2020\\_2021/PARCHEMIN/354.pdf](http://nautilus.parlement-wallon.be/Archives/2020_2021/PARCHEMIN/354.pdf)

## 1.2. POLITICAL STRUCTURE

Regional election took place on the 26<sup>th</sup> of May 2019. The elected Walloon Parliament is composed as follows<sup>7</sup>:



The Walloon Government is based on an alliance between the Socialist Party (PS), the Reformist Movement (MR) and the Ecologist Party (ECOLO). The Government has a large support of the parliament, with 55 seats on 75 in this Chamber.

### 1.2.1. Economic plans<sup>8</sup>

#### a. **Historical process**

Since 2006 and the set-up of the initial Marshall Plan, the Issuer adopted a structured approach composed of several actions and objectives, in order to boost the Walloon economy. For each iteration of the plan, the Issuer has requested the help of experts and has built it by taking into account the strengths and weaknesses of the Region.

Name	Period	Budget
The Marshall Plan	2006-2009	€ 1.7 billion
The Green Marshall Plan	2009-2014	€ 2.87 billion
The 4.0 Marshall Plan	2015-2019	€ 2.9 billion

<sup>7</sup> Source : <http://www.parlement-wallon.be/les-deputes-wallons>

<sup>8</sup> Source : <http://www.wallonie.be/fr/actualites/plan-marshall-2vert-la-poursuite-de-la-reussite-0>



### **b. The Walloon Transition Plan (2019-2024)**

After the last elections (May 2019), the new elected Regional Government drawn in September 2019 the lines of its economic, social and environmental ambitions for the period 2019-2024<sup>9</sup>.

This political ambition aims to provide the Issuer with the capacity to target carbon neutrality in 2050, by adopting transition objectives articulated around 25 pillars (see details in reference document)<sup>10</sup>.

In budget terms, the Issuer detailed its objectives in its “Walloon Transition Plan”, defining a total budget amount of EUR 2.8 billion between 2020 and 2024.

Starting in 2020, a budget of EUR 350 million was adopted to focus on the following priority list:

- Renovation of public housing,
- Launching of an employment-environment-insulation alliance,
- Support to digital innovation, and
- Support to alternative mobility projects to replace the car.

While the plan was still under discussion at the beginning of March 2020, the Issuer has taken an important decision, i.e. to freeze its transition plan and to re-allocate the 2020 budgeted amount of EUR 350 million to the coverage of urgent financial measures related to the Covid-19 crisis, such as support to the health services & infrastructure, or financial measures to help citizens, independents and SME’s to face current shutdown period.

The Issuer is willing to re-activate its plan as soon as possible, in accordance the Covid-19 crisis exit period and taking into account the overall impact on the Walloon society.

### **c. Get up Wallonia (2020-2024)**

In reaction to the Covid-19 crisis, the Issuer has launched a public consultation to the citizens, the companies, the associations, the public sector and the civil society to gather their ideas and proposals for building the future of Wallonia (until 2050). A steering committee analysed the many contributions with regards to the transformation goals of the Issuer and the recommendations coming from the European semester. This committee presented 5 axis, 18 measures and 51 actions to the Issuer.

#### Axis 1 - Focus on the youth and talents of Walloon people

- contribute to the improvement of initial learning
- generalize access to lifelong learning
- review the learning landscape and invest in equipment
- amplify the search for excellence

#### Axis 2 - Ensuring environmental sustainability

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<sup>9</sup> Source : [https://www.wallonie.be/sites/default/files/2019-09/declaration\\_politique\\_regionale\\_2019-2024.pdf](https://www.wallonie.be/sites/default/files/2019-09/declaration_politique_regionale_2019-2024.pdf)

<sup>10</sup> Source : [http://nautilus.parlement-wallon.be/Archives/2019\\_2020/DPR/34\\_1.pdf](http://nautilus.parlement-wallon.be/Archives/2019_2020/DPR/34_1.pdf)

- supporting Wallonia’s decarbonisation and honouring climate commitments
- improve mobility policies and practices
- protect biodiversity and natural resources, including water ("blue gold" of Wallonia)
- rethink the management policy for brownfields and support for urban centres

Axis 3 - Boost economic development

- facilitate the development and relocation of economic sectors
- strengthen food sovereignty
- support the deployment (local and international) of companies, the engine room of the economy
- promote the transition through public contract and the empowerment of companies

Axis 4 - Support the well-being, solidarity, and social inclusion of everyone

- reintegrate people furthest from employment into the labour market
- develop a united and effective health policy
- ensure gender equality and combat all forms of discrimination

Axis 5 - Guarantee participative and innovative governance

- rely on an open and innovative public administration
- establish a new governance of and through digital
- facilitate transversal and participatory governance

The budget perspective for “Get up Wallonia” is estimated to be EUR 2 billion for the period 2021-2024. The final budget and the amounts allocated to the various axes / measures expects to be discussed and approved for the adjusted budget 2021 in mid-year timeframe.

### 1.3. GEOGRAPHICAL LOCATION AND DEMOGRAPHY<sup>11</sup>

#### 1.3.1. Geographical location

Wallonia has a gross area of 16 901 sq. km (55.1% of the Belgian territory) and is located in the immediate vicinity of Brussels and other major western European cities.



<sup>11</sup> Source : Institut Wallon de l’Evaluation, de la Prospective et de la Statistique (IWEPS) – mise à jour 15/09/2011.

Wallonia is also located in the centre of the European Union, which is a geographical advantage in terms of trade and commerce. This is especially true because Wallonia is equipped with a very dense road and railroad infrastructure and two international airports. Furthermore, many connections can be made with the large network of canals facilitating waterways traffic between the Rhine, the Maas and the Scheldt.

In March 2021, the Walloon road network was 81,115.14 km long and had 876.93 km of motorways and 6,972.61 km of regional roads.

Wallonia benefits from 769.5 km of waterways.

### 1.3.2. Demography

According to the most recent figures available (01/01/2020), Wallonia has a population of 3,645,243 inhabitants. The inhabitants of Wallonia represent 31.72 % of the Belgian population<sup>12</sup>. With a density of 215,7<sup>13</sup> inhabitants per sq. km, Wallonia is far below the national average of 374.9 inhabitants per sq. km.

In Wallonia, going to school is mandatory from 5 to 18 years. Currently, there are more than 3,000 schools on the territory. Investing in education has been considered as a way to promote workforce diversity through various training opportunities such as those offered by organisms like FOREM, IFAPME and high schools/universities. Finally, statistics indicate that foreigners represent 10.09 % of the Walloon population.

## 1.4. ECONOMIC STRUCTURE<sup>14</sup>

### 1.4.1. Economic sectors

In 2019, the industrial sector's added value (in basic prices approach) in current prices was divided up as follows:

*STRUCTURE OF THE ADDED VALUE IN MANUFACTURING INDUSTRIES (PART IN % OF THE NACE C TOTAL)*

	2019	Corresponding NACE
Chemical industry	37.9	CE to CF
Machinery and other equipment (incl. Electric & transport equ.)	14.0	CI to CL
Food & agricultural industry	13.3	CA
Metal industry	12.5	CH
Mineral product industry	11.5	CG
Others	10.8	

*Source: NAI, Regional accounts (<https://www.nbb.be/en/statistics/nationalregional-accounts>)*

The next table shows the contribution of the different sectors to the global added value of the Issuer. Starting from the recession year 2009, we can observe that the contributions remain quite stable. The share of the corporate sector has slightly increased from 2009 to 2019. The share of households has slightly decreased during the same period.

<sup>12</sup> Source: <https://statbel.fgov.be/fr/themes/population/structure-de-la-population>

<sup>13</sup> Source : <https://www.iweps.be/indicateur-statistique/densite-de-population/>

<sup>14</sup> Institut Wallon de l'Evaluation, de la Prospective et de la Statistiques (IWEPS) – 2021-04-13 Update.

**STRUCTURE OF THE GLOBAL ADDED VALUE (CURRENT PRICES AND PARTS IN % OF THE TOTAL)**

	2009		2019	
	Million €	%	Million €	%
Total economy	72,335	100.0	98,212	100.0
Corporations	41,912	57.9	58,732	59.8
Public administration	15,390	21.3	20,222	20.6
Households (incl. self-employed)	14,274	19.7	18,146	18.5
Non-profit institutions serving households	0,759	1.0	1,112	1.1

Source: NAI, Regional accounts (<https://www.nbb.be/en/statistics/nationalregional-accounts>)

#### 1.4.2. Economic growth

In order to analyse the economic growth of the Issuer, we have to take the evolution of the added value as a whole into account, i.e., the Walloon Gross Domestic Product. Due to breakdown<sup>15</sup> in the regional account in 2009, we only present the annual change from 2010 to 2019.

**EVOLUTION OF THE GROSS DOMESTIC PRODUCT (IN VOLUME, BASE 2015)**

	Million EUR	Annual % change	% of Belgium
2009	88,115		23.2
2010	91,723	4.1	23.5
2011	92,67	0.8	23.3
2012	92,300	-0.2	23.1
2013	92,547	0.3	23.0
2014	94,337	1.9	23.1
2015	95,390	1.1	22.9
2016	96,837	1.5	22.9
2017	98,540	1.8	23.0
2018	101,124	2.6	23.2
2019	102,743	1.6	23.1

Source: NAI, Regional accounts and IWEPS calculations

In the table above, we can see some quantitative elements which enable us to appreciate the current situation of the Walloon economic development.

The Walloon gross domestic product reached the amount of 110,044 million euro in 2019 (in current prices), which represents an average product of 30,236 euro per inhabitant. Taking into account the purchasing power parity<sup>16</sup>, the Walloon GDP equalled 86% of the European GDP/inhabitant (source: Eurostat, EU27<sup>17</sup>).

<sup>15</sup> The results concerning the regional breakdown of the variables per industry are coherent with the October 2010 version of national accounts from the year 2009 onwards. Figures until 2009 temporary still correspond to the October 2018-version of national accounts and will be adjusted in the future.

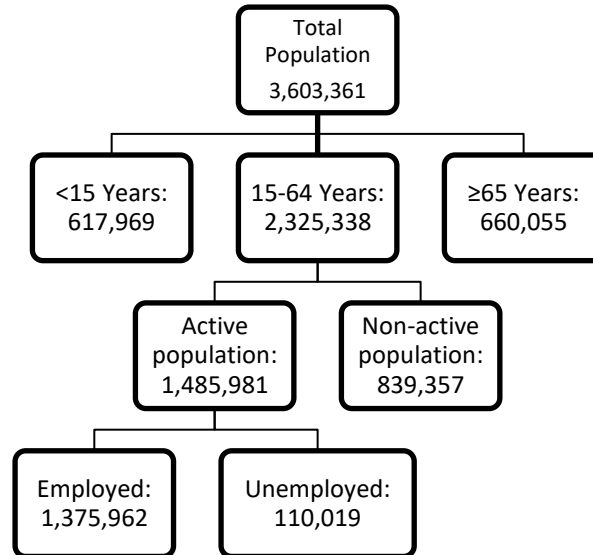
<sup>16</sup> Note: For international comparison purpose, GDP is expressed in purchasing power standards, which means that the price levels between countries are erased.

<sup>17</sup> EU27 represents the European Union of 27 Member States after 1 February 2020.

### 1.4.3. Labour Market

#### 1.4.3.1. *Working population*

The following diagram shows the activity structure of the population in Wallonia in 2020<sup>18</sup>.



Source: Statbel, Labour force survey and IWEPS calculations.

This scheme shows that 64.5% of the total Walloon population is at the legal age to work (15-64 Years). Among these individuals, 63.9% participate in the labour market<sup>19</sup>. From the active population, 1,375,962 individuals are employed and 7.4% (110,019) are unemployed.

#### 1.4.3.2. *Domestic employment*

The regional domestic employment corresponds to the employment created in a specific regional area with no distinction of the regional origin of the workers (1,299,990 persons in 2019). The sectors which represent the biggest part of the employment in Wallonia are: Health and social work activities (Q) (194,590 persons in 2019), Wholesale and retail trade (G) (163,594), Public administration (137,810) and Manufacturing (131,617) (source: NAI, *Regional accounts*, <https://www.nbb.be/en/statistics/nationalregional-accounts>).

<sup>18</sup> Data for 2020 have been published at the end of March 2021.

<sup>19</sup> From LFS 2018, there is no longer information about the student number.

### 1.4.3.3. *Employment and unemployment rates*

The following table illustrates the evolution of the employment and unemployment rates of the population of working age for the period 2004-2020:

**EMPLOYMENT AND UNEMPLOYMENT RATE IN WALLONIA**

	Employment rate	Unemployment rate
2004	55.1%	12.1%
2005	56.1%	11.9%
2006	56.1%	11.8%
2007	57.0%	10.5%
2008	57.2%	10.1%
2009	56.2%	11.2%
2010	56.7%	11.5%
2011	57.0%	9.5%
2012	57.3%	10.1%
2013	57.0%	11.4%
2014	56.5%	12.0%
2015	56.2%	12.0%
2016	57.1%	10.6%
2017	57.7%	9.8%
2018	58.4%	8.5%
2019	59.2%	7.2%
2020	59.2%	7.4%

Source: Statbel, Labour force survey (<https://statbel.fgov.be/en/themes/work-training/labour-market/employment-and-unemployment>)

From 2004 until 2008, the unemployment rate has decreased and the employment rate (calculated in relation to the working age (15 to 64) population) has been constantly increasing.

In 2009, because of the economic crisis, the employment rate has decreased, and the unemployment rate increased in 2009 and 2010. After a short recovery, the labour market worsened again with employment rate declining and unemployment rate increasing during the period following the new economic recession (in 2012-2013, see supra). Labour market indicators improved again recently, in 2016, 2017<sup>20</sup>, 2018 and in 2019. Due the Covid-19 crisis, the unemployment rate<sup>21</sup> increased slightly in 2020 from 7.2% to 7.4%. Nevertheless, the employment rate remained stable.

<sup>20</sup> The Labour Force Survey underwent a major reform in 2017. So, from 2017, they are working with a rotating panel and use different data collection methods, and the weighting method has been heavily revised. This resulted in a break in the results between 2017 and the previous years. The figures obtained with the old method are therefore no longer comparable to those obtained with the new method.

<sup>21</sup> The change is within the confidence interval. For more information, please check those indicators or others indicators made with the LFS data : <https://www.iweps.be/indicateur-statistique/structure-dactivite-de-population-wallonne/>  
<https://www.iweps.be/indicateur-statistique/taux-demploi-bit/>

#### 1.4.4. Foreign trade

As illustrated in the following table, Walloon exports of products are categorized in accordance with their type.

The first three groups of products represent 61.6% of the Walloon exports in 2020. Due the Covid-19 crisis, Walloon exports decreased sharply in 2020, by 7.5 %, from EUR 52.3 billion to EUR 48.4 billion. Compared to 2019, the share of “Chemical industry products” and “Transport materials” increased sharply while the share of “Mineral products” and “Base metals and articles of base metal” fell sharply, especially for the “Mineral products”. The exports of “Chemical industry products” remained quite stable (+0.8%) despite the general decline and this increase is mainly in the direction of Germany, Netherlands, and France (increase by EUR 559 million). The strong increase in “Transport materials” (+28.2%) is mainly to France and Spain (increase by EUR 673 million). The strong decrease of “Mineral products” (-40.6%) came mainly from France (drop of EUR 1.2 billion). The significant drop in “Base metals and articles of base metal” came mainly from Germany and France (decrease of EUR 743 million).

***DISTRIBUTION OF WALLOON EXPORTS: MAIN PRODUCTS IN 2020***

	Millions EUR	%
Total	48,356	100.0
Chemical industry products	20,558	42.5
Base metals and articles of base metal	5,179	10.7
Machinery and electrical equipment	4,067	8.4
Transport materials	3,442	7.1
Prepared foodstuffs, beverages, and tobacco	2,736	5.7
Plastic and rubber	2,613	5.4
Mineral products	2,367	4.9
Optical and precision instruments	1,969	4.1
Other (< 3%)	4,176	11.2

Source: NAL.

In terms of destination, as shown in the following table, Walloon exports are essentially concentrated with bordering countries:

***GEOGRAPHICAL SHARING OUT OF WALLOON EXPORTS IN 2020 (\*)***

	Millions EUR	%
World	48,356	100.0
Europe	36,772	76.0
<i>France</i>	<i>10,358</i>	<i>21.4</i>
<i>Germany</i>	<i>7,076</i>	<i>14.6</i>
<i>Netherlands</i>	<i>3,774</i>	<i>7.8</i>
<i>Italy</i>	<i>2,430</i>	<i>5.0</i>
<i>United-Kingdom</i>	<i>2,413</i>	<i>5.0</i>
<i>Spain</i>	<i>2,344</i>	<i>4.8</i>
<i>Luxembourg</i>	<i>1,497</i>	<i>3.1</i>
<i>Rest of Europe</i>	<i>6,880</i>	<i>14.2</i>
America	7,904	16.3
<i>United-States</i>	<i>6,419</i>	<i>13.3</i>
Asia	2,647	5.5
<i>China</i>	<i>0,668</i>	<i>1.4</i>
Others	1,033	2.1

Source: NAL.

\*Countries with at least a share of 3% of Walloon exports + China

The exports to France, Germany, and The Netherlands amount to 43.9% of the total exports for 2020. Most of the Walloon exports are realised within Europe (76.0%). Our main customer, France, has seen its share decrease from 23.2% to 21.4%. Shares of The Netherlands (from 7.2% to 7.8%) and especially Spain (from 3.9% to 4.8%) have increased in 2020 because Walloon exports grew last year in both countries. Other exports, outside EU, are mainly realised with the USA: 13.3% in 2020 versus 13.7% in 2019.



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## **2. PUBLIC FINANCES AND BUDGET OF THE ISSUER**

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### **2.1. PUBLIC FINANCES**

#### **2.1.1. Before 1989**

The Special Finance Act of 16 January 1989 regulates the current financing system of the Communities and Regions.

Before the implementation of the Special Finance Act, 75% of the needs of the Communities and Regions was funded through grants (“*dotations*”) provided by the Federal Government.

Even though the Communities and Regions could obtain additional funds through public lending, neither of them borrowed additional funds.

#### **2.1.2. The Special Finance Act of 1989 (as amended in 2014)**

The Special Finance Act radically changed the financing system which was based on grants from the Federal Government by imposing more financial responsibility on the Communities and Regions. However, as the financing system of grants before 1989 was supplemented by regional taxes, the Regions already had a certain degree of fiscal autonomy.

It was expected from the Communities and the Regions, in the long term, to rely on their own resources only (principle of “*fair return*”). In order to allow the Communities and the Regions to implement the new financial system which was based on the contributory capacity of the Communities and Regions, the new system provided for a transition period of 10 years (which started in 2000) before the date on which the system should be implemented and complied with.

In case of delayed or insufficient payment by the Federal State, the Communities and Regions can lend the amounts that were not yet paid by the government. The interests of the loan will be borne by the Federal Government and a state guarantee will also be provided as security.

Moreover, in order to supervise the debts at the different levels of authority and to preserve the cohesion of the economic and monetary union, the Superior Finance Council annually formulates recommendations on the need to restrict the borrowing capacity of any public authority.

In the context of the Sixth State Reform, the Special Finance Act was amended on 6 January 2014. Main features of the amended Act include the partial regionalisation of individual income taxes and tax expenses. The enhanced tax autonomy of Regions, also designed to ensure their fiscal accountability regarding the exercise and the funding of their newly allocated powers, is supplemented by several solidarity and transition mechanisms, designed to compensate the effects of the reform during the first ten years following its entry into force.

The Constitution and the Special Finance Act list the means which should allow the Issuer to finance its budget.

#### **a. Own tax revenues:**

The Constitution grants the Issuer the power to impose taxes.

The fiscal power of the Issuer includes defining the object of taxation as well as fixing the tax base and rates and granting exemptions.

This power has been exercised by the Issuer (*inter alia* in the fields of water and waste).

**b. Non-tax revenues**

Own non-tax revenues which the Issuer obtains from exercising its powers (property revenue, service taxes, etc...).

**c. The part of national tax revenues which is allocated to the Issuer**

The Issuer derives most of its funding from “shared taxation”. In the system of “shared taxation”, the object of taxation, the tax base, tax rates, tax exemptions and the collection are determined / occur at national level, but a part of the revenues from this taxation is allocated to the Issuer (generally in proportion to its contribution).

These taxes are called "joint taxes", as the Issuer is allowed to impose additional taxes (e.g. in addition to the income tax).

**d. Regional taxes**

The revenues of regional taxes, which are imposed by the Federal State, are fully or partially refunded to the Issuer depending on where the taxes were imposed.

The Issuer has certain privileges with respect to these regional taxes (e.g. the Issuer can intervene in the modification of the tax rate, exemptions, etc...) which consist of:

- Property taxes;
- Registration fees;
- Succession duties;
- Taxes on games and gambling;
- Taxes on automatic leisure machines;
- Taxes on the opening of drinking establishments.

**e. National solidarity grant**

An annual national solidarity grant is allocated to the Regions whose income tax revenue is below the national average.

**f. Loans and bonds**

The Communities and Regions can borrow on the Belgian market or abroad.

**2.2. BUDGETS**

The budget of the Issuer contributes to the conversion of its strategy and plans into facts and figures. The following table shows the budgetary balances for 2020 and 2021.

A specific focus on the Covid 19's measures is inserted below. Accordingly, the numbers referred to herein in respect of the 2021 budgetary balances might be substantially affected and differ materially from the actual situation of the Issuer as a result of the abovementioned sanitary crisis.

**Initial budget 2021<sup>22</sup> compared with adjusted budget 2020<sup>23</sup> (EUR million)**

Initial Budget	Initial 2020	Initial 2021
<b>Income (1)</b>	13,740.69	13,806.77
<b>Expenses (2)</b>	15,790.72	17,803.60
<b>Gross Budget (3) = (1) - (2)</b>	-2,050.03	-3,996.82
<b>Depreciation and debt repayment (4)</b>	10.23	9.37
<b>Net Budget (5) = (3) + (4)</b>	-2,039.80	-3,6987.45

**Covid-19 Expenses (EUR million)**

Initial 2020	Execution 2020	Initial 2021	Execution 2021
1,569.96	1,553.61	619.40	119.17 <sup>24</sup>

Looking at the expenses planned in the initial budget, the Covid-19 related expenses represented 9.94% in 2020 and are currently estimated to 3.48% in 2021.

<sup>22</sup> [https://www.ccrek.be/docs/2020\\_41\\_Budget2021RW.pdf](https://www.ccrek.be/docs/2020_41_Budget2021RW.pdf)

<sup>23</sup> <https://www.ccrek.be/docs/Budget2020RW.pdf>

<sup>24</sup> Amount already executed on 31 march 2021.

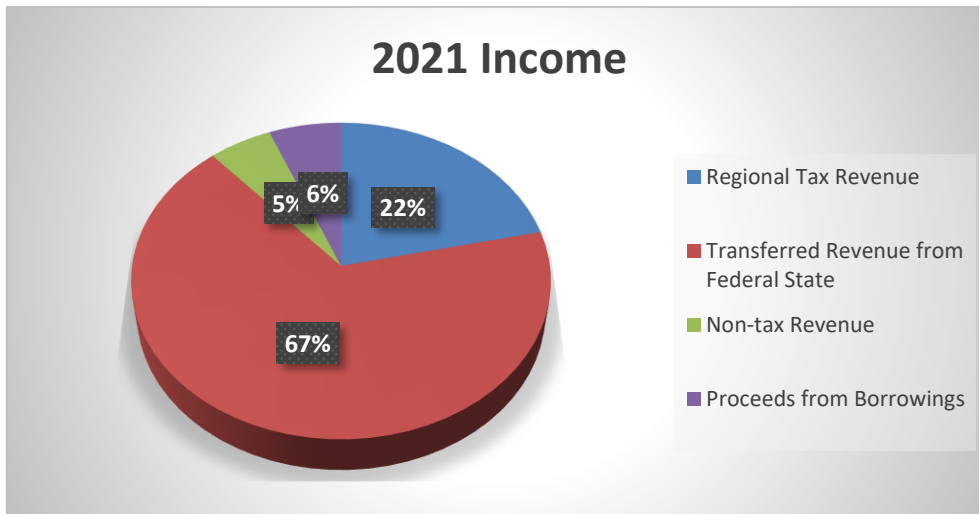
### 2.2.1. Resources of the Issuer in 2021

The below table breaks down the income sources of the Walloon Region.

#### **Breakdown of the 2021 income <sup>25</sup>(in EUR million):**

Income	EUR million
<b>TAX INCOME (split below)</b>	<b>2,964.61</b>
Regional Taxes	2,841,79
Other regional taxes	21.2
Other regional assigned taxes	101,61
<b>TRANSFERRED INCOME from Federal State (split below)</b>	<b>9,260.63</b>
Transferred competences	2,785.80
Tax expenditures	2,548.17
Sainte-Emilie revenue	3,882.72
Traffic fines	43.95
<b>NON-TAX INCOME (split below)</b>	<b>739.84</b>
Resources transferred by the French Community	373.94
Others revenue	101.96
Other assigned revenue	263.94
<b>TOTAL INCOME without proceeds from borrowings</b>	<b>841.69</b>
Proceeds from borrowings	841.69
<b>TOTAL INCOME</b>	<b>13,806.77</b>

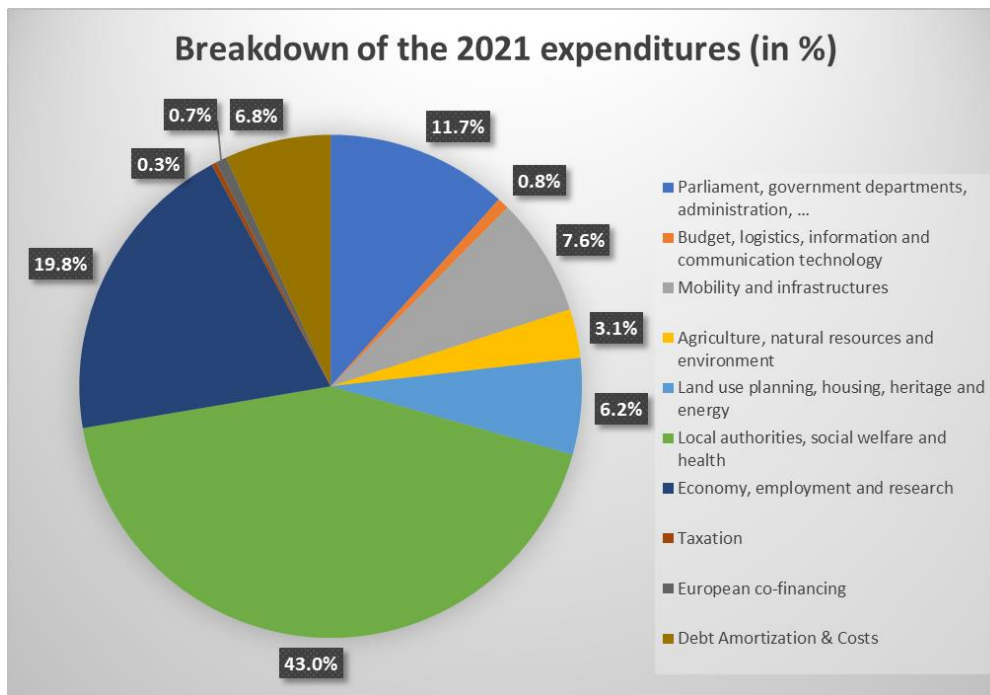
Almost half of the sources of income are composed of new income from the Sixth State Reform and the implementation of the Special Finance Act (resources related to transferred powers and additional income from the personal income tax). Moreover, the registration fees on immovable property, the inheritance rights and the transfer duty upon death represent a significant share of regional income.

**Breakdown of the 2021 income (in%)****2.2.2. Expenditures of the Issuer in 2021<sup>26</sup>**

Expenditures	In EUR million
Parliament, government departments, administration, ...	2 077.34
Budget, logistics, information and communication technology	134.75
Mobility and infrastructures	1 357.77
Agriculture, natural resources and environment	559.40
Land use planning, housing, heritage and energy	1 102.91
Local authorities, social welfare and health	7 647.63
Economy, employment and research	3 527.74
Taxation	56.38
European co-financing	122.96
Debt Amortization & Costs	1 216.73
<b>Total</b>	<b>17 803.61</b>

<sup>26</sup> <https://www.wallonie.be/fr/decouvrir-la-wallonie/la-wallonie-en-chiffres/budget>

### Breakdown of the 2021 expenditures (in %)



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### **3. THE CASH AND DEBT MANAGEMENT OF THE ISSUER**

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#### **3.1. CASH MANAGEMENT**

From the first day of its autonomy (1 January 1991), the Issuer has been able to manage a very efficient treasury that is mainly based on:

- Automatic cash flow management;
- Inflow estimates (receipts);
- Outflow parameterisation (expenses);
- Maintenance of credit facilities. It should be noted that the Issuer benefits, as from 1 January 2013, from a rolling overdraft facility of EUR 3.25 billion, which Moody's deems sufficient to cover the Walloon Region's liquidity requirements;
- Centralisation of all cash movements with a single cashier. The Issuer is in charge of the treasury management of its related companies, which at the end of 2019 amounted to EUR 1,807.1 million. This provides the Issuer with additional flexibility as it could – if ever needed – use these cash facilities temporarily to manage any liquidity shortfall.

Regional revenues are composed of the following two categories:

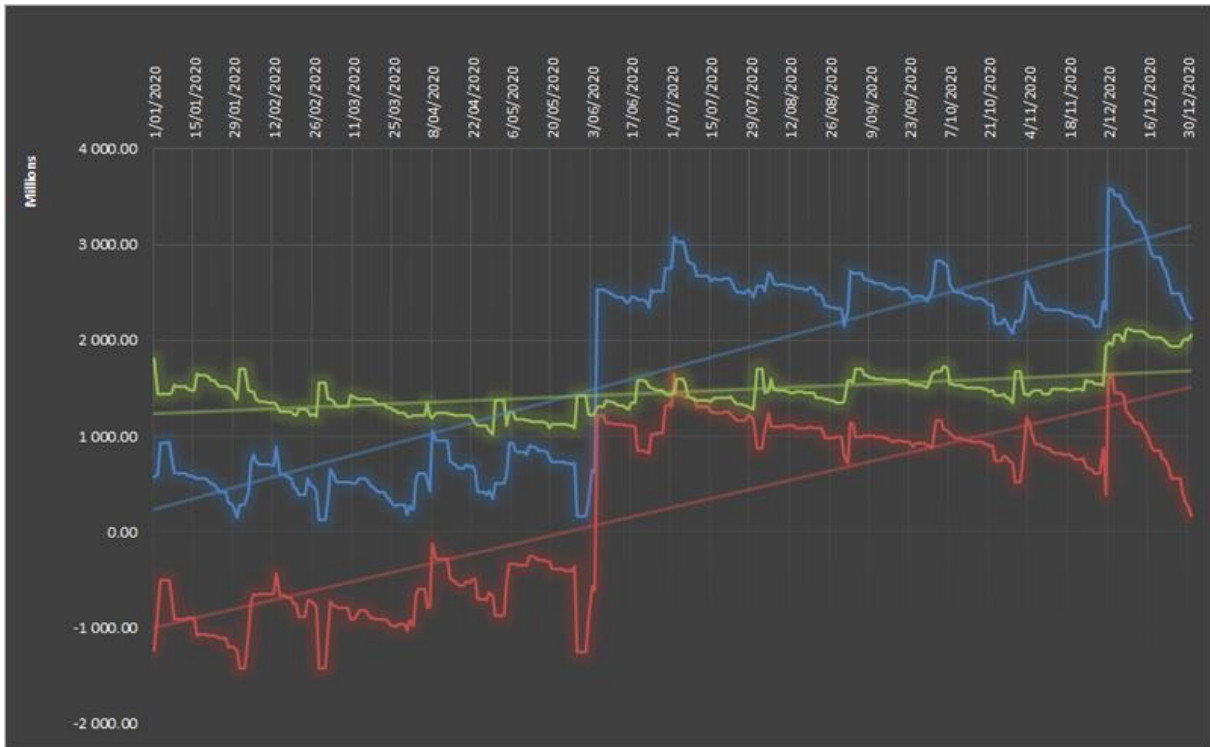
- (i) Allocated means received from the Federal State and the French Community; and
- (ii) Revenues which are directly collected by the Issuer itself.

The regional expenses can be divided in the following two categories:

- Parameterised expenses for which amounts and disbursement dates are predetermined. Parameterisation is based on budgetary data (amounts) and legal, decretal, regulatory or conventional norms (payment dates). These forecasts are constantly adjusted to budget modifications and effective expenses during the budgetary year.
- Other expenses, which represent around 1/3 of the total expenses and which are more difficult to forecast.

To have a coherent cash management, all balances are consolidated to determine a global cash state.

The following graphic illustrates the annual cash cycle and enables us to analyse the evolution of the daily global state of the Issuer in 2020



The green curve represents the balance of all UAP's (Unités d'Administration Publiques) being centralized within the global cash position of the Issuer, with a total balance being EUR 2,503.2 million dated 31/12/2020.

The red curve represents the Issuer's global balance, being EUR 170.4 million dated 31/12/2020.

The blue curve integrates UAP's contributions with the Issuer's global balance, displaying a consolidated treasury balance of EUR 2,223.6 million dated 31/12/2020.

In summary, the consolidated treasury balance evolved from around EUR 570.0 million in January 2019 to around EUR 1,652.4 million in December 2020, as the result of a cash rich position of UAP's being centralized within the Issuer and the Issuer's global balance. Regarding the position of the Issuer, the important growth is due to the decision to prefund 2021 by EUR 1,500 million.



## 3.2. DEBT MANAGEMENT

### 3.2.1. The principles of regional debt management

Four main principles govern the Issuer's regional debt management:

1. *Harmonisation of debt financing and management operations*

All operations pertaining to the financing and management of the direct and indirect debt have been harmonized. Consequently, a separate budget for all debt costs, whether direct or indirect, is provided for in the budget of the Issuer.

Moreover, the Accounts Department manages these matters without interference of the functional services.

2. *Optimal diversification of debt components*

It is through the definition of a fixed rate/floating rate ratio that this second principle of management is implemented. This ratio, periodically adapted according to the evolution of the interest rate curve, has mainly allowed reducing the financing costs.

3. *Active use of financial instruments*

Financial instruments and the best adapted products have been actively used since 1993 within the context of the debt management of the Issuer. Speculation was systematically excluded.

The Issuer uses instruments such as interest rate swaps, forward rate agreements (FRA's), futures, and options.

4. *Set up of financing programs*

The issuer has set up an EMTN program and two local programs (Medium Term Notes) enabling it to attract short and long-term financing.

The use of these programs has three advantages:

- a reduction of the financing costs compared to the common long-term conditions;
- the possibility of prompt reaction, which makes it possible to take advantage of opportunities on the capital markets (stand-alone documentation is a lengthier process);
- an increase and diversification of the investor base.

### 3.2.2. Regional direct debt

The regional debt is the total amount of money that the Issuer directly owes to the private sector.

The outstanding debt is composed of the stock of direct long-term debts and short-term debts (commercial paper). In addition, the Issuer owns the reimbursement of financial charges and/or amortization of debts contracted by 3 external entities, i.e. SPABS<sup>27</sup>, FADELS<sup>28</sup> and SWDE<sup>29</sup>.

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<sup>27</sup> SPABS (Public society for the administration of school buildings).

<sup>28</sup> FADELS (Amortization funds for the social housing debts).

<sup>29</sup> SWDE (Public society for water production and distribution).

On 31 December 2020, it amounted to EUR 1,105,583,000, of which EUR 795,354,000 are loans from SPABS for which the Issuer reimburses all the charges, EUR 310,210,000 are from the FADELS for which the Issuer reimburses charges to the Federal State and EUR 19,000 are loans from SWDE for which the Issuer reimburses part of the charges.

Remark

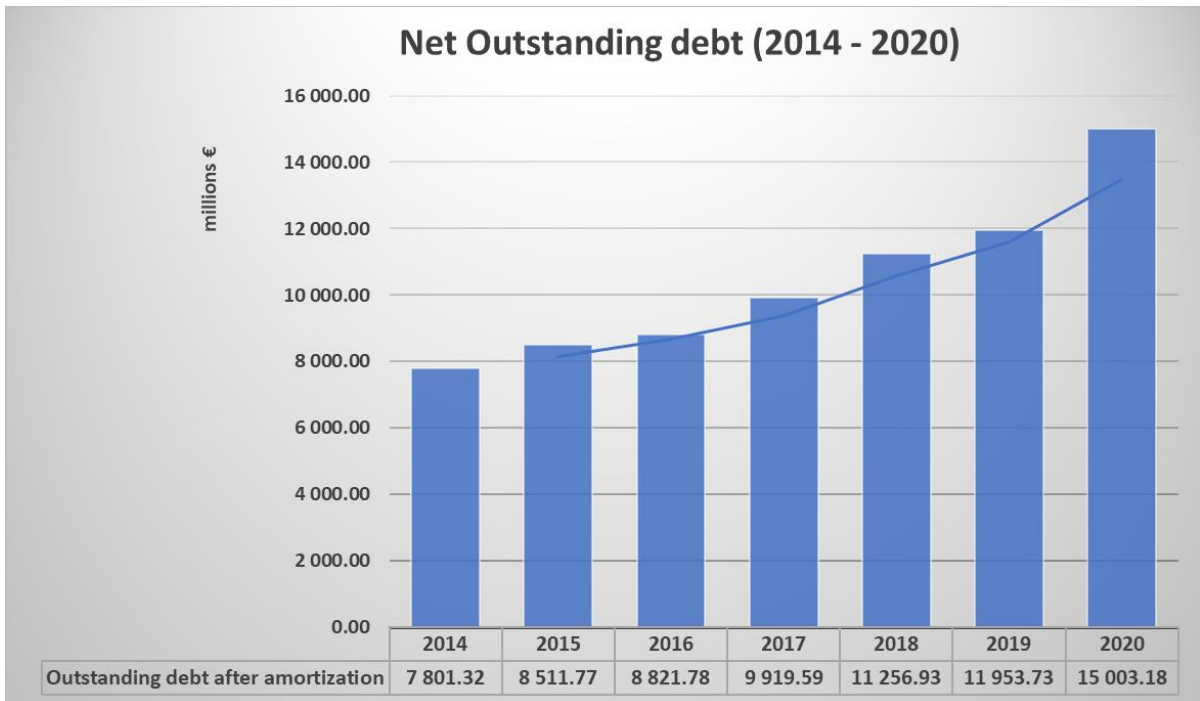
For simplification purposes, all the following numbers and figures relating to the outstanding debt of the Issuer include the mentioned external debts.

While the debt has grown in the period between 2014 and 2019 in the area of 11% to 17% in relative value year on year, it increased significantly in 2020, rising to 37% in relative value, from EUR 12,824 million end December 2019 to EUR 17,559 million on 31 December 2020. This change can be explained by an increase of the amount borrowed in 2020, mainly to cover the unplanned financing needs linked to the Covid-19 health crisis and the measures taken by the Issuer to fight against its socio-economic consequences. At the same time, it is also important to note the particularly high amount of the 2021 pre-financing which emerges from the 2020 imputation data (EUR 1,525 million).

**Net outstanding debt (in EUR million):**

The evolution of the net outstanding debt of the Issuer is presented in the table below for the period 2014-2020. It is composed with the following elements:

- Long term direct debt (including SPABS, FADELS & SWDE)
- Short term debt
- Cash balance (centralized treasury)



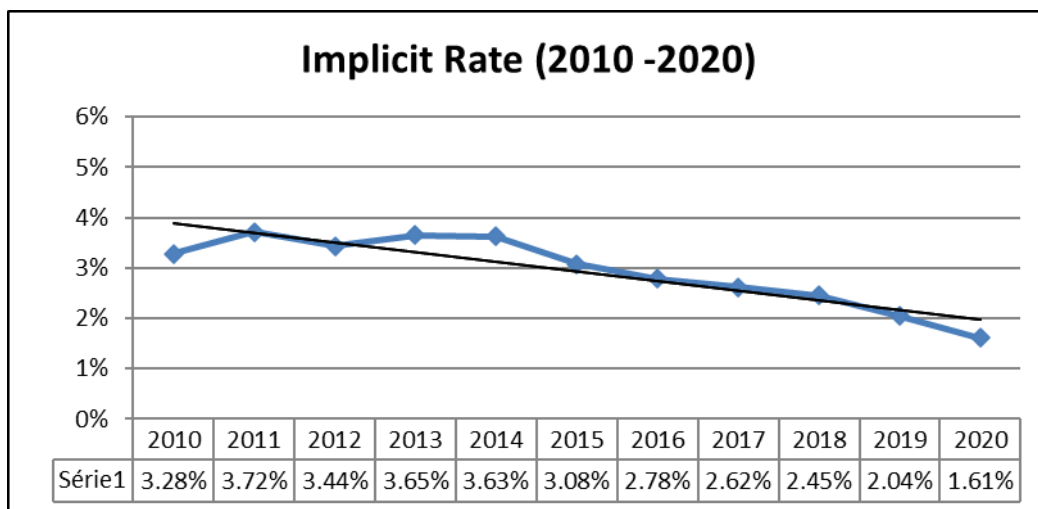
The table below compares the main ratios between 2019 and 2020.

<b>OUTSTANDING DIRECT DEBT (€ million)</b>	<b>31 Dec 2019</b>	<b>31 Dec 2020</b>
Outstanding short term debt	-879.00	-917.50
Outstanding long term debt	-11 945.34	-16 642.01
Regional cash balance	870.61	2 556.33
<b>NET OUTSTANDING DEBT (€ million)</b>	<b>-11 953.73</b>	<b>-15 003.18</b>
Implicite rate of LT debt (all in)	2.15%	1.61%
Average life span of LT debt (years)	17.95	19.81
Fixed rate ratio of LT debt	87.48%	90.23%
Duration of LT debt (years)	10.54	13.84

### Implicit rate

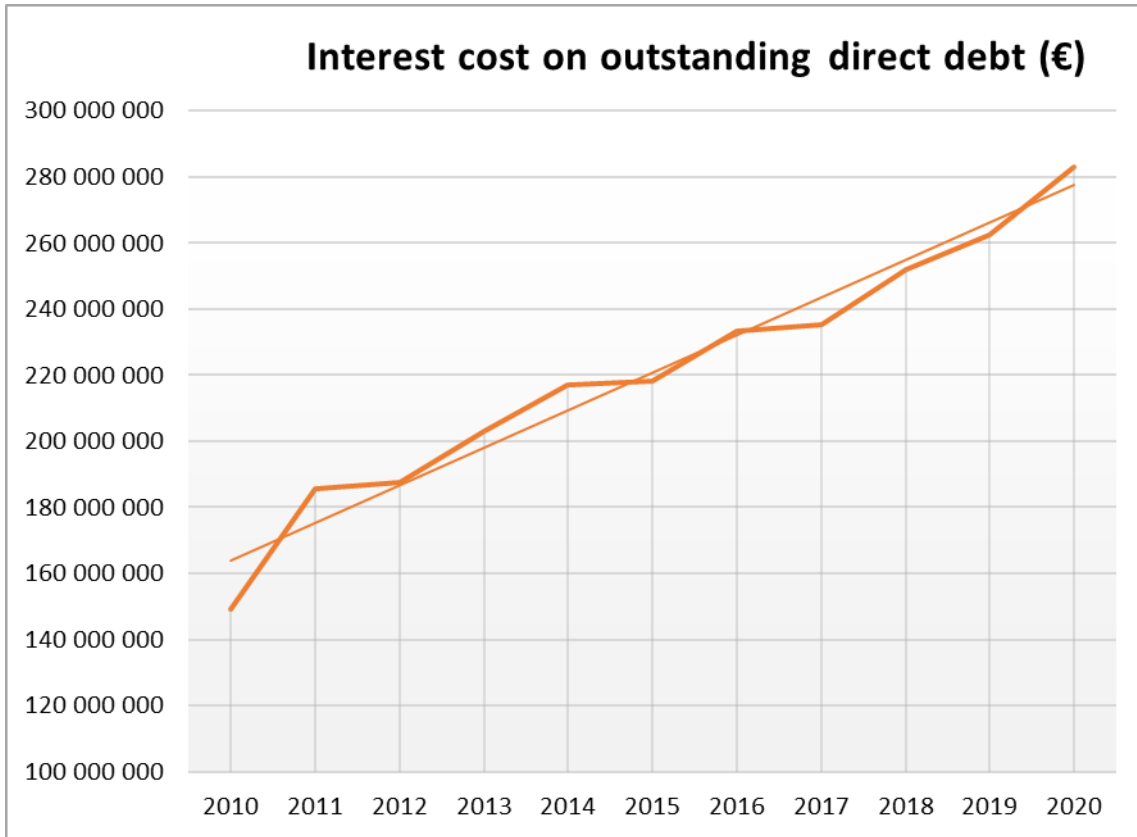
The implicit rate of the outstanding debt evolved favourably between 2014 and 2020, as described in the table below.

For the last two years (2019 – 2020), the implicit rate is calculated on the long term outstanding direct debt, including the external debts from SPABS, FADELS and SWDE.



By virtue of a dynamic debt management and the low interest rates in the financial markets, the Issuer has been seen its implicit rate falling to 1.61% in 2020, while keeping the level of risk under control.

It contributes to keep the amount of interests yearly paid by the Issuer under control, despite the significant increase of the debt itself. At the end of 2020, the Issuer effectively paid interests for a total of EUR 283,144 million, compared to EUR 262,467 million in 2019 (+ 7.9%), as shown in the figure below.

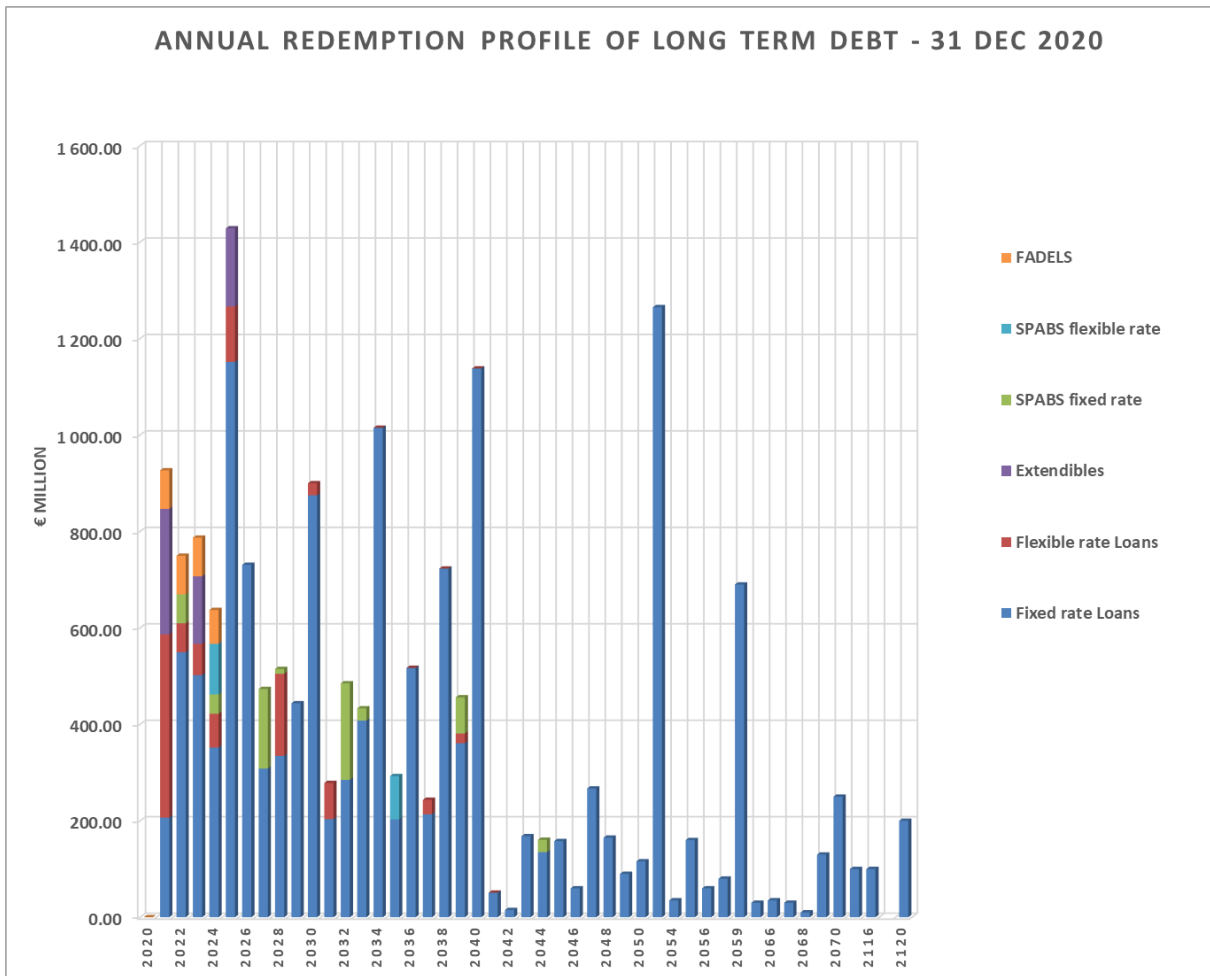


**Average term of the debt**

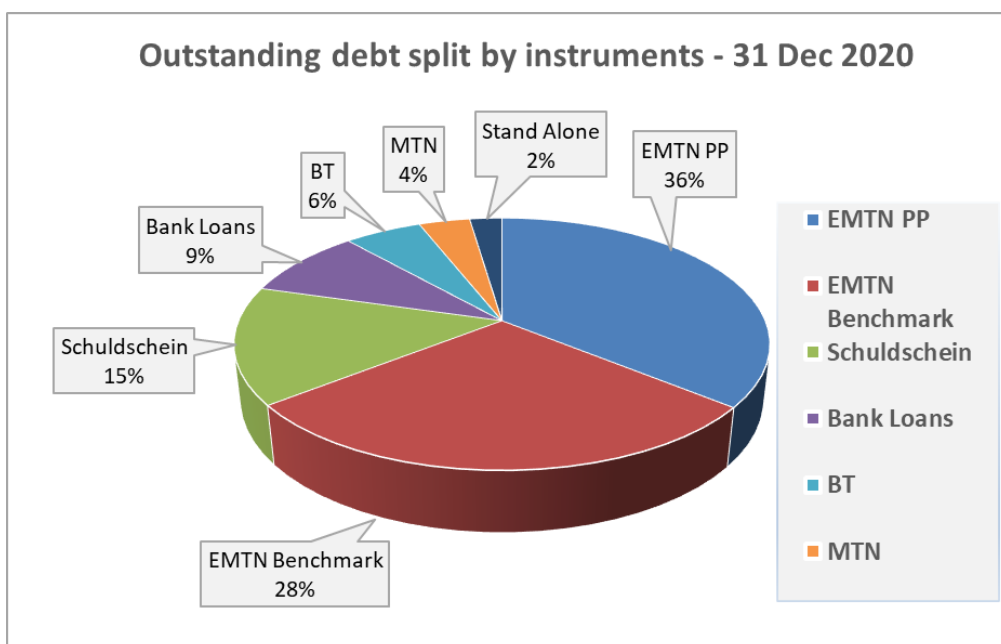
The following table illustrates the weighted average term of the direct debt of the Issuer end of year for the period 2014 - 2020:

	2014	2015	2016	2017	2018	2019	2020
<b>Average term (in years and months)</b>	8 years & 5 months	11 years & 1 month	11 years & 8 months	11 years & 10 months	12 years & 5 months	13 years & 7 months	17 years & 2 months

**Outstanding Direct debt schedule**



**Outstanding Direct debt split by financial instruments (on December 31<sup>st</sup>, 2020)**



Under its EMTN programme, the Issuer organized a benchmark-sized issue in 2019 for an amount of EUR 1,000 million, followed by 3 additional benchmark-sized issues in 2020, for a total amount of EUR 3,700 million.

This is a fundraising trend was endorsed the Regional Treasury Council, given the financing needs of the Region projected for the coming years.

In the future, the Issuer considers that around two thirds of its annual financing plan should be based on these benchmark-sized issues, being social, green, sustainability or regular bonds.

On 31 December 2020, EMTN borrowings represented a total of 64% of the outstanding direct debt, with respectively 36% in private placements and 28% in benchmarks.

### 3.2.3. Guaranteed debt

The financial investment forecasted for identified companies involved in the public sphere (UAP) is determined annually in the budget decree (considered as a reference framework). A ministerial ruling related to the budget decree to be adopted by the Walloon Government can further fix the amount that will be guaranteed by the Government with regards to the investment or financial needs of the company. Some companies have been designated to represent the Walloon Government for delegated missions.

The following table presents the evolution of the 1<sup>st</sup> rank guaranteed debt over the last three years. On 31 December 2020, the outstanding first rank guaranteed debt amounted to EUR 8,699.32 million<sup>30</sup>, implying a diminution of EUR 0,678 million<sup>31</sup> (sign of stabilization of this debt).

Note that the Walloon Region has also provided a guarantee in second rank for certain indebtedness. This concerns primarily guarantees under the economic expansion laws and performance guarantees, where the guarantee from the Walloon Region will only be called upon if a loss remains after enforcing the first ranking guarantee or security interest. A typical example are guarantees in the context of social mortgages allowing borrowers who do not have sufficient personal funds to obtain a loan to acquire a house. In this context, the Walloon Region undertakes to intervene in the loss incurred by the lending organization for the part of the loan exceeding 70% of the current value of the house. The payment of the Walloon Region will only come for the loss remaining after realization of the mortgage. The aggregate amount of debt guaranteed in second rank by the Issuer amounted to EUR 981,288,461, million<sup>32</sup> on 31 December 2019. No relevant figures for 2020 were available as of the moment of writing.

#### **Evolution of the guaranteed debt (1<sup>st</sup> rank) until December 31<sup>st</sup>, 2018 (in EUR thousand)<sup>33</sup>**

31.12.2016	31.12.2017	31.12.2018	31.12.2019	31.12.2020
7,024,586.16	6,570,205.91	5,830,852.94	8,767,114.07	8,651,823.24

The table hereunder shows how the guaranteed debt is distributed among the different UAPs for the last two years. We can see that about 57% of the guaranteed debt concerns the housing sector; financial

<sup>30</sup> Still temporary amount. Audited amount to be published in later in 2021.

<sup>31</sup> For 2019, amounts have been included in the perimeter of the CRAC which have not been integrated for the previous years which explains the large difference between 2018 and 2019.

<sup>32</sup> Still temporary amount. Audited amount to be published in later in 2021.

means are managed by three companies (SWCS, FLFNW, SWL) involved in this area, working independently from public institutions. Housing companies generate a balanced financial position; their financial performances are supervised by the Issuer.

**Stock of guaranteed debt (1<sup>st</sup> rank) on December 31<sup>st</sup>, 2019 (in EUR thousand)**

Concerned entities	Situation 31.12.2019	Situation 31.12.2020
CRAC	2,772,402.09	2,473,784.90
Groupe Santé CHC ASBL	-	125,000.00
FLFNW	1,047,141.00	1,016,535.55
Hôpital psychiatrique Les Marronniers	4,000.00	3,517.55
Le Circuit de Spa Francorchamps	NC *	16,420.00
SOFICO	666,824.66	643,733.90
SOWAER	124,529.62	202,758.08
OTW (SRWT)	301,510.00	291,269.34
SWCS	2,473,103.27	2,580,581.57
SWDE	22.10	16.58
SWL	1,377,581.33	1,298,205.78
<b>Total</b>	<b>8,767,114.07</b>	<b>8,651,823.24</b>

\*NC: not yet disclosed

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#### 4. RATING

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Moody's Periodic Review of the rating of Walloon Region, 15<sup>th</sup> December 2020<sup>34</sup>

*"This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Credit ratings and outlook/review status cannot be changed in a portfolio review and hence are not impacted by this announcement."*

*"The credit profile of the Walloon Region (A2) reflects a mature and robust legislative background, prudent but sophisticated debt management and indisputable market access, as well as its tax autonomy. Credit challenges include a pattern of running financing deficits and increasing debt levels. The coronavirus pandemic and the associated economic recession will lead to a further widening of the region's deficit and increase in debt, weighing on its credit profile. The region's credit profile is also constrained by a fragile economy.*

*The region's rating incorporates a Baseline Credit Assessment (BCA) of a3 as well as Moody's assessment of a high likelihood of extraordinary support coming from the Government of Belgium (Aa3) in the event that the entity faced acute liquidity stress."*

Rating outlook – from stable to negative

*"On 4<sup>th</sup> December 2020, Moody's communicated on a rating action on three Belgian Regions and Communities including Walloon Region, changing its rating outlook from stable to negative. The affirmation of the Walloon Region's A2 and (P)P-1 ratings reflects ongoing credit strengths including the strong and protective Belgian institutional framework and the region's significant revenue*

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<sup>34</sup> Periodic Review, Moody's, 15<sup>th</sup> December 2020 (extract).

*flexibility. The credit profile is also supported by the region's unquestioned market access, contributing to its debt affordability."*

Unchanged analysis of the current rating

*"Credit strengths*

- *A mature and robust legislative background with well-defined responsibilities amid a complex Belgian institutional system*
- *Revenue flexibility is high and is supportive of the region's credit profile*
- *Prudent but sophisticated debt management underpins unquestioned market access"*

*"Credit challenges*

- *Persistent financing and operating deficits*
- *A high and increasing debt burden*
- *An economy which compares unfavourably with national and European peers"*



