How Belgium's new government could begin to reshape its economy

After lengthy negotiations, Belgium now has a new government ready to launch a series of reforms. But the need to compromise limits its ability to revolutionise the Belgian economy. The impact on longer term economic growth and the budget balance should be positive, but its extent remains uncertain

Belgian Prime Minister, Bart De Wever

White smoke in Brussels

Five political parties have reached an agreement to form a government in Belgium following seven months of negotiations. The government ministers have been sworn in, and new Prime Minister Bart De Wever will make his policy statement in parliament today. A vote of confidence – which shouldn't present any issues given that the government parties hold a comfortable majority of 81 out of 150 seats – will take place on Thursday, and will launch the implementation of the agreement. Unlike in France, for example, the roadmap of reforms to be carried out and measures to be taken are negotiated fairly precisely before the government is formed. In other words, we know a priori what the government's course of action will be over the next five years.

Strong intentions

As we highlighted in our last economic update on Belgium, the ambitions of the five parties now in power were high at the start of the negotiations last June. The aim was to bolster economic growth through competitiveness and initiate major reforms in taxation, pensions and the labour market. The government agreement provides the power to preserve these major principles, some of which have a significant economic and/or budgetary impact:

- To halt the decline in industry, the agreement includes a 2030 plan to boost industrial production and encourage innovation.
- In terms of energy, nuclear generation is set to regain an important place in the energy mix. As a reminder, all nuclear generation in Belgium is scheduled to cease on 1 December following decisions taken previously. Faced with a lack of available energy, the previous government had already decided – in agreement with the operators – to restart two reactors in November 2026. The new government intends to negotiate additional reactor restarts, but also wants to explore the idea of building two new nuclear plants. At the same time, the government continues to focus on offshore wind power and hydrogen. This should ensure sufficient availability of competitively priced energy to support industry.
- The main labour market reform project concerns unemployment benefits. In Belgium, it's possible to receive unemployment benefits for an indefinite period – but the new government intends to limit this time frame to two years. However, there are exceptions for unemployed people over 55, and the system will be phased in gradually. It should also be noted that the government is currently tackling two major challenges in the Belgian economy: measures will be taken to stem the rise in the number of long-term sick people (whose numbers currently exceed those of jobseekers), while night work is being redefined to reduce the wage cost hurdle compared with neighboring countries (especially the Netherlands).
- As far as pensions are concerned, the intention is to lengthen working careers overall and to begin harmonising pension schemes between private sector workers, civil servants and those who are self-employed.
- When it comes to taxation, government parties have long been calling for a reduction in the tax burden on labour. The stated aim is also to create a clear income gap of at least 500 euros between workers and those receiving social benefits. Taxes on labour should indeed be reduced, but for budgetary reasons this will not happen before 2027. At the same time – and this is important for budgetary reasons – new taxes on financial capital income are being introduced. So while no capital gains tax has been applied to households until now, it will be implemented rapidly (10%, with an exemption for small amounts in particular).

A catalog of evolutions, but not much revolution

The government agreement is very broad. It contains a huge catalog of measures (some very detailed, others very vague) to be taken, as well as intentions and principles to be followed by the next legislature. All areas of government are covered, including healthcare, justice, migration policy, administration and, of course, national defence.

Whether in these areas or in economic matters, the government agreement nevertheless leaves us with mixed feelings. On the one hand, there's a willingness to implement changes in the way the Belgian economy works. If the government agreement is to be believed, many projects will be launched in a wide range of areas. But on the other hand, the weight of seven months of negotiations, and therefore compromises, is palpable. So there's no major revolution, either in terms of pensions or taxation.

We will also be keeping a close eye on the new government's ability to implement its agreement. In the previous legislature, there was a significant gap between the intentions of the agreement and the actual reforms carried out. While at first sight the new government appears more politically coherent than the previous one (which brought together a very broad spectrum of left and right wing parties), the difficulty of reaching this agreement shows that the views of the various parties remain very different.

Costing still pending

The most important question, of course, is what economic and budgetary impact this agreement will have.

According to the government agreement, the aim is to support growth and increase employment, and two-thirds of fiscal consolidation will be achieved by controlling spending (which is the most relevant for the European Commission).

However, the agreement itself does not really provide any quantifiable details. We'll probably have to wait for the conclusion of the 2025 budget (Belgium has until April to deliver its budget to the European Commission) to gain an accurate initial estimate of the impact of the measures to be taken this year on economic growth and the budget. Nevertheless, we can assume that efforts demanded by the Commission will be implemented, thereby curbing the deterioration in the public deficit. We have therefore revised our outlook for the public deficit, limiting it to 4.3% of GDP this year, compared with 4.8% previously. As for economic growth, the budgetary tightening this year is likely to have a negative impact on growth this year – though the structural reforms, if implemented, should slightly raise the longer term growth perspectives.

In conclusion, the main bit of good news is that Belgium has not fallen into a political crisis, and now has an active government capable of taking decisions to support the economy and put public finances on a sounder footing. This should be recognised by financial markets and rating agencies. The new government also has clear objectives for the labour market, taxation and pensions. But we must also remember that Belgium is an economy built on compromises and balances that are difficult to change quickly.

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