Why Belgium's elections could leave its future hanging in the balance

Across all European Union countries, citizens are now being called upon to renew the European Parliament. Elections are underway and will end on Sunday. In Belgium, these European elections are held in conjunction with national and regional elections. So what's at stake?

What do the polls tell us?

There's one thing to say about most democratic election campaigns: expect surprises! And because of that, we think it's best to remain cautious and not overanalyse anticipated outcomes too closely. Even so, it may be useful to take a closer look at what recent polls could indicate about the incoming results.

As in most European countries, the extremes of the political spectrum in Belgium are no longer marginal. At a federal level, both the far left and the far right have become important elements of the political landscape. If recent polls are translated into seats in the federal parliament, the far-right Vlaams Belgang (VB) party – which is exclusively present in the primarily Dutch-speaking part of the country – could win some 26 seats out of 150.

At the other end of the scale, the Workers' Party of Belgium (or the PTB-PVDA, often referred to as a communist party) is present throughout the country but more actively associated with its French-speaking parts and could potentially win 20 seats. What's more, the socioeconomically right-wing, pro-independence New Flemish Alliance (N-VA) party could also win 20 seats.

The current coalition brings together socialists, liberals and ecologists from both language communities, plus the Dutch-speaking Christian Democrats (CD&V). This coalition had 87 seats in the federal parliament under the current legislature. Judging by recent opinion polls, however, it's possible that the coalition could no longer hold a majority and as a result, may not be renewed.

The key message to consider from the polls is that we can still expect a few surprises. In fact, in the survey published at the end of April, around 30% of those questioned were still undecided on who to vote for.

Potential scenarios

At the federal level, you'd think things would typically move quite quickly. Assuming that the pro-independence and extreme parties are not invited to negotiate, only a coalition involving almost all the other parties would be possible. This coalition would be made up of the current majority, plus the French-speaking centrists (Les Engagés, formerly the French-speaking Christian Democrats). This is certainly a possible scenario, but it might be a less obvious solution than it seems.

Depending on how they fare in the elections, some parties in the current coalition may opt out of the government. It's also by no means certain that pro-independence or extreme parties will be excluded from the negotiations. The N-VA, the Flemish regionalists, have already played a role at the federal level under the previous legislature and are currently still in power in the Flemish regional government. On the French-speaking side, the PVDA is open to participating in the government, and other left-wing parties have not formally ruled this out.

In this respect, we must also consider that negotiations for the formation of regional governments can influence federal negotiations and vice versa. This inevitably slows down the whole negotiation process.

This means that multiple scenarios must be explored when building a potential coalition. This will take time, possibly all summer.

What's at stake?

Belgium's economic situation certainly isn't in bad shape. During the pandemic, the economy held up relatively well thanks to government measures. During the wave of inflation, the financial situation of households was clearly helped by the automatic indexation of most incomes. As a result, household consumption was more resilient than the eurozone average. Nevertheless, the challenges for future governments are enormous.

On the one hand, while automatic wage indexation has helped maintain household purchasing power, it has also led to higher wage cost growth in Belgium than in neighbouring countries (as shown in the chart below). The wage handicap has made the Belgian economy less competitive than its European partners – and European companies as a whole already suffer from a lack of competitiveness in world markets. In its economic recovery phase, Belgium could suffer from this wage handicap, impacting both growth and jobs.

On the other hand, Belgium's public finances are not in such good shape. The public deficit reached 4.4% of GDP in 2023, according to the latest data from the European Commission. By way of comparison, the deficit was limited to 0.3% of GDP in the Netherlands, 2.5% in Germany and 3.6% for the eurozone as a whole. Only Slovakia, Malta, France and Italy had a worse budget situation. In addition, with a debt ratio of 105.2% of GDP in 2023, Belgium is also above the European average in terms of indebtedness.

Advantage (-) or handicap (+) of Belgium's unit labour cost compared with its three neighboring countries

Three neighbouring countries: Germany (40%), France (30%), Netherlands (30%)

Source: Eurostat, ING

Faster spending, slower revenues

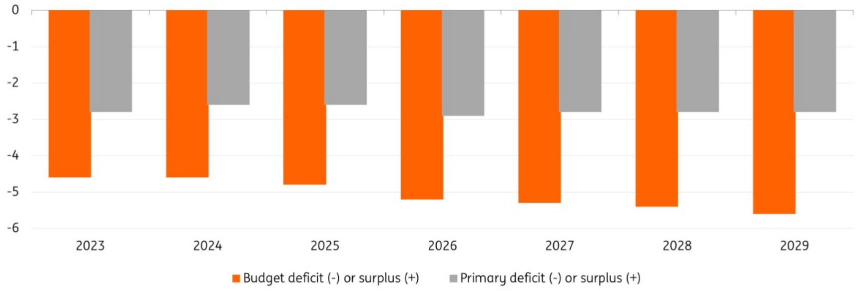
In order to maintain both the credibility of the Belgian State as a borrower on the markets and the cohesion of the EU, keeping public finances on a sustainable path is essential. This will remain a permanent challenge for Belgian public finances over the next two decades.

A number of public spending items are set to increase. This is particularly true for capital expenditure, to cope with the consequences of climate change (including floods, droughts, and other extreme weather events) and to limit its future impact (on energy policy, building insulation, changes in mobility, etc.). Given the geopolitical developments of recent years, it is also highly likely that spending on national defence will have to be increased in the future. Finally, the ageing of the population will also put upward pressure on a range of public spending.

Since the bulk of government revenue comes from economic activity (and therefore from GDP), increased spending would not lead to a deterioration in public finances if economic growth were of the same order as spending. Unfortunately, potential economic growth has slowed over the past few decades. While the potential growth of the Belgian economy was over 2% per year in the 2000s according to the OECD, it is now down to around 1.5% – and, according to projections, is set to continue falling. This phenomenon is linked in particular to the effects of demographics, but also to a slowdown in productivity growth (currently below 1% per year). At unchanged tax rates, this slows growth in government revenues.

There is no clear strategy for financing the additional expenses as of yet. This will lead to a de facto deterioration in public finances, which is reflected in the latest medium-term projections from the Federal Planning Bureau; the public deficit is set to rise to 5.6% of GDP by the end of the decade (as shown in the chart below).

Projected primary and budget balances, Belgium, % of GDP



Source: Federal Planning Bureau

Major projects for future governments

As you can see, the next few years will be marked by ongoing tension over public finances. Moreover, in the very short term, it is more than likely that the European Commission will trigger an Excessive Deficit Procedure for Belgium in the next few weeks.

It therefore seems that re-establishing a long-term sustainable trajectory for public finances is going to be essential – but this will also require choices being made. A general tax increase is certainly possible, but as Belgium is already characterised by very high tax rates, there is little room for manoeuvre here. At the very least, we can expect public spending to remain under pressure. This does not necessarily mean that all expenses will have to be cut. By international standards, it is clearly possible to do better by spending less.

Finally, policies aimed at boosting economic growth – notably through greater productivity gains and an increase in the active population – would help to meet the challenge of increased spending. But this would also require far-reaching structural reforms (especially in the labour market), which have so far been postponed. And given the number of parties it will take to form a majority provided that extreme parties are excluded, reaching a consensus on major structural reforms looks to be a highly difficult task.

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