Belgium: First big challenge for the new federal government

The new government has great ambitions on the socio-economic level. But it is beginning its mandate in the context of the resurgence of the Covid-pandemic. Its first decisions are therefore focused on the health situation

An ambitious project

The new federal government, which took office a week ago, has agreed on an agenda for "a united, prosperous and secure country”. Given that the new government brings together four political families (Socialists, Liberals, Greens and Christian democrats), the government's programme reflects the many themes of these different families.

On the economic front, the will to support the economic recovery through investment is highlighted, with tax reductions for companies that invest, but also with the ambition to increase public investment to 4% of GDP by 2030 (currently 2.6%). These investments should revolve around mobility, digitalization and sustainable development. These last two themes are central to the agreement, and are fully aligned with the objectives of the European recovery plan.

In terms of the labour market, the new government is committed to raising the activity rate of

25-64 year olds from 77.2% today to 80% in 2030. However, the agreement does not detail what measures will be taken to achieve this. Given that Belgium is mainly characterized by a very low activity rate among 55-64 year olds, it is on this category of people that measures will essentially have to be taken.

A budgetary reality to build

This being said, the new government's very broad ambitions risk running up against fiscal reality. According to the latest forecasts by the Federal Planning Bureau, 2020 should end with a deficit of just over 7% of GDP. We are more pessimistic and forecast a deficit of around 9.5%. In view of the slow recovery of activity, such a deficit will not be easily absorbed.

> *We forecast a 2020 GDP deficit of c.9.5%, which will not be easily absorbed*

Moreover, on the one hand, the government plans to make a fiscal effort of 0.2% per year AFTER 2021 within the framework of European requirements for public finances. Depending on economic growth, an additional variable effort could be made. On the other hand, the government plans to make €5 billion in new spending by 2024 (€1 billion in temporary measures as part of the recovery in 2021 and 2022, €1 billion in additional public investment and €3 billion in structural measures). There is no shortage of promises in this area: it is indeed planned to raise the level of the minimum retirement pension, to refinance healthcare and allow it to grow by 2.5% per year, and to increase the police and justice workforce.

At this stage, the agreement does not detail how the budgetary effort will be carried out within such a spending framework. It is simply stipulated that any budgetary effort will be carried out with a specific key: one-third by reducing expenditures, one-third by increasing revenues, and one-third by other measures, without further details.

Budget negotiations for 2021 are about to begin, which will provide a better view of the measures that will be taken. Admittedly, in the near term, the European Commission's budgetary flexibility and the ECB's quantitative easing programmes make the issue of fiscal consolidation less urgent. But thereafter, there can be no doubt that serious budgetary efforts will have to be made to get Belgium's public finances back on track.

The next two weeks will be crucial from a health point of view

But unfortunately, there is another emergency. The figures for the Covid epidemic are evolving very unfavourably in Belgium, as in many European countries. The first decisions of the new government therefore concern the fight against it. Concretely, new measures aim at restricting the social contacts of each individual outside organized structures to a very limited number of people. Nevertheless, this measure should not have a great direct impact on economic activity, since cultural structures (theaters, cinemas, ...) can continue to operate according to strict – but already existing – rules. Similarly, restaurants, which already operate under strict health rules (unlike in other countries) can continue to operate.

Having said that, bars will have to close at 11:00pm. This will inevitably lead to a loss of business.

Just like in Paris, bars in Brussels must close today, and this for at least a month. The tourist activity and drinking establishments will therefore deteriorate further. Given the very rapid evolution of the number of infections, new measures are not excluded, especially in schools and universities.

In short, even if the situation is not (yet) comparable to the one in March, the fourth quarter is likely to be marked by further stoppages in certain sectors, and thus by a slowing economy again. What happens in the next two weeks in terms of contaminations will be crucial. Depending on the new measures to be taken, we do not rule out revising our growth forecast for the fourth quarter downwards. It could even become negative.

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