Belgium: Final leg to crucial elections on Sunday

European, federal and regional elections will all take place on the same day in Belgium this Sunday. What should be our takeaways from the electoral campaign, launched in a rush at the end of 2018 after the fall of the government? Whatever the outcome, it's highly likely the elections will bring a change in economic policy

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Climate first!

Belgium will hold the next European, federal and regional elections on Sunday 26 May 2019.

But this electoral campaign has been atypical for several reasons. Firstly, the theme of climate change has been at the heart of the debate. Other issues, such as purchasing power, retirement age structural reforms, entered the spotlight very late and disrupted the campaign for traditional parties and undoubtedly gave the Green party an advantage.

The challenge of public finances

Secondly, for the first time, the federal planning bureau estimated the impact of a few measures from each party on economic growth, inflation and public finances but the exercise hardly caught the public's attention as advanced simulations were not the easiest for everyone to understand.

From a technical point of view, we should note that unsurprisingly, the parties that support economic growth the most in the coming years are also the same political parties that are likely to deepen the public deficit the most. Therefore, despite the fact that many proposals regarding purchasing power, inequality or taxation emerged during the campaign, maintaining a stable path of public finances will remain a major challenge for the next government.

All kinds of coalitions are possible

A poll published just a week before the elections confirms the main lessons of the previous polls:

- The outgoing coalition could not be renewed.
- The green parties are expected to experience the strongest gains from the 2014 election results. Even if they are not essential for the formation of a majority, they are likely to be part of the next government, be it on a regional and/or federal level, and that could mean some major changes to fiscal policy.
- Leading in the polls right now is the Flemish nationalist party can potentially be sidelined in a coalition at the federal level. But, it would be very difficult to form a coalition without this party in the parliament of the Flemish Region. It is even truer now that the Vlaams Belang, another nationalist party, more at the extreme right of the political spectrum, seems to win votes. All other parties should, therefore, unite to push the N-VA in the opposition, which seems very difficult.

Four potential coalition scenarios

Extrapolating the latest poll to a number of seats show that a large coalition of parties will be required to form the federal government. It will also be difficult to form a coalition bringing together the same political families at the federal level and in the different Regions of the country. At the federal level, four potential coalitions seem to emerge:

- N-VA (Nationalists), MR and Open VLD (Liberals), Ecolo and Groen (Greens)
- N-VA (Nationalists), PS and Spa (Socialists), Ecolo and Groen (Greens)

That said, such coalitions would bring together parties with very different views on growth, taxation and the climate. Any agreement would be quite difficult to reach.

- N-VA (Nationalists), MR and Open Vld (Liberals), PS and Spa (Socialists): this coalition would have the same problem of divergence of points of view as the two previous ones. But it should be noted that such a coalition was formed in Antwerp, the city headed by Bart De Wever, the leader of the N-VA.
- Ecolo and Groen (Greens), MR and Open VLD (Liberals) and PS and Spa (Socialists): It is a broad coalition but has already governed the country in the past (1999 - 2003).

Other forms of coalitions are possible - for example, a coalition of all parties from the centre and the left of the political spectrum, but according to current polls, this would only get a very small majority, which could make this coalition very unstable.

Why economic policy is likely to change

As the previous majority has a very little chance of coming back, it's highly likely that the upcoming elections will bring a change in economic policy for the next five years. There has always been a big gap between promises before the elections and the reality afterwards, but keeping public finances on track will probably require a less ambitious track change.

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As the 2014 elections showed, once the election results are out, political strategies can play a very important role in the formation of the governments at each level because Belgium will always need a clever balance between the federal level and the Regions. The fact that we can't really rule out any party winning, the coalition of parties with opposing views on economic policy might be required to find majorities and negotiations are likely to be quite long and cumbersome. On the federal level, three to six months of discussions seems a fair (first) expectation but the process could be quicker on the regional level.

As a consequence, no big policy change should be expected in 2019, as the next government will have to focus on the 2020 budget.

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