The Belgium PM resigns

Belgian Prime Minister Charles Michel has resigned. The most likely outcome of the political crisis is a government of 'current affairs' until elections in May. In the short term, there should only be minor negative consequences, but the risk is a number of important economic reforms might be shelved

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When the Belgian Prime Minister Charles Michel decided to continue with a minority government after the biggest coalition partner, the Flemish nationalist party N-VA left the cabinet as it disapproved of the UN Migration pact, our biggest fear was that this new government would become a lame duck government, it turned out to be a sitting duck.

Yesterday Mr Michel offered his resignation to the Belgian king after a difficult session in parliament, where the opposition filed a motion of no confidence.

> *We feared this new government would become a lame duck, but it turned out to be a sitting duck*

In Belgium, traditionally within a government coalition package deals are decided upon, that are the result of finely balanced compromises between parties and linguistic lines. However, the risk is that small tweaks result in the whole deal falling apart. When PM Michel made an opening to the opposition (e.g. offering to reduce VAT on electricity, on the back of the yellow jacket protest, which also took place on a small scale in Belgium) he actually lost all support from the N-VA, while the Flemish Liberals Open VLD (still part of the government) also had major reservations.

Read the background on the political crisis of the Belgian government

Current state of affairs

For the time being, King Philippe is 'contemplating' the PM’s resignation, setting up a round of consultations with party leaders and this will take some time probably pushing the crisis beyond Christmas. If the King accepts the resignation, which is the most likely scenario, the next step would be dissolving the parliament after which elections should take place within 40 days.

However, there needs to be a majority in parliament to dissolve itself and for the time being most parties are not inclined to support this out of fear that two elections in a few months would dismay the public as there are already regional and European elections in May. Therefore, we are likely to end up with a government of current affairs until April. The parliament will be dissolved, and combined elections (European, federal, regional) will take place in May.

How bad is this?

The budget for 2019 hasn't been approved, and the government will have to run the country using a temporary budget rule based on the previous year’s budget (where the monthly budget is a twelfth of last year’s budget).

While all of this is rather uncomfortable, it won't make a substantial difference in terms of public finances. There are also some fears that a government of 'current affairs' will have more trouble when faced with important shocks (e.g., the Belgian economy would be very vulnerable in case of a hard Brexit). But the most concerning thing is that a number of reforms that the government announced last summer will most probably won't be approved anymore. As such, the much-needed labour market and parts of the pension reform, won't make it through parliament.

While this has no major short-term consequences, reforms are certainly needed to support the longer-term growth potential and the sustainability of the pay-as-you-go pension system. It is unclear if these things will be picked up again by the next government. The election result might make it more difficult to form a stable reform-minded federal government (but more on that later).

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