There is no vaccine against political and social tensions in Belgium

New anti-Covid restrictions will further slow the economic recovery during the winter. Political and social instability is likely to last much longer

There've been demonstrations in Brussels against new anti-Covid measures

Another wave

Belgium, like many other countries, has been forced to take measures to counter the new wave of the Covid-19 pandemic. The figures for new infections and hospitalisations seem to be peaking. However, hospitals will still be under pressure from the pandemic in the coming weeks, forcing them to postpone non-urgent care. Stabilising the number of daily infections is not enough.

Restrictions... no lockdown!

It was therefore necessary to take measures as quickly as possible to stem the tide in the coming weeks. In concrete terms:

- Restaurants and bars have to close their doors at 11pm and can only accommodate tables of six people. Nightclubs have to close.
- All indoor events of more than 200 people are prohibited from Monday 6 December. For the others, restrictive measures are imposed.

- Teleworking is mandatory where possible four days a week.
- Schools will close a week early (18 December) and until then, masks must be worn by children aged 6 and over. For secondary schools, classes will be held partly by distance learning.

Relatively limited economic impact

Of course, these measures will have an economic impact, especially in the hospitality sector, for which the end-of-year period is very important. The fact that schools will close early may also slow down economic activity as many parents will be forced to take time off work. Nevertheless, at this stage, a complete shutdown of the economy is avoided and previous periods of restrictions (October-November 2020; March-April 2021) have not prevented the economy from growing.

Admittedly, these new measures come on top of an economic recovery already severely disrupted by high absenteeism due to the pandemic and disruptions in supply chains. We already had pencilled in weaker growth this quarter and for the first quarter of 2022. The anti-Covid restrictions reinforce this scenario, implying a further downward revision of growth to 0.3% quarter on quarter in Q4 2021 and 0.4% Q1 2022. That said, we remain convinced the recovery is rather delayed than stifled by the current situation.

It also means a whole series of support measures for workers and companies are extended, such as sectoral aid and temporary unemployment benefits which are applicable in case a worker or his or her children have to quarantine. The fiscal impact of this will therefore continue to increase the public deficit.

A Behind-the-curve-process

These measures have not been taken in one shot, but are the result of a long political process that may leave its mark. Indeed, the political parties forming the coalition no longer seem to agree on the measures to be taken nor on the capacity to enforce them. Any agreement is all the more difficult as different levels of power are involved. It took no less than three weeks to arrive at the current package of measures. Moreover, it is the subject of a compromise that was reached with great difficulty and that raises many doubts among scientists as to its capacity to have a strong and rapid effect on the wave of the pandemic. In short, new measures cannot yet be ruled out.

Governments, therefore, may be giving the impression they are chasing the infection curve, and the multiple criticisms of political parties and experts further diminish their credibility (and thus the ability to support the measures). As a result, measures taken are increasingly opposed by some groups of citizens, and difficult compromises are misunderstood by others. This could become problematic if significant new measures were to be taken, especially in the event of an additional wave of the Omicron variant.

Long lasting impact

We continue to believe that continued vaccination and future anti-viral drugs should increasingly limit the measures that need to be taken in successive waves of the pandemic. That said, the political and social tensions currently observed could have a more lasting impact, making it more difficult to decide on important economic policy issues.

It should be remembered that the current federal government's agreement provides for a major reform of the pension system. A first not very convincing project was presented a few months ago, and the file has not progressed any further due to the lack of compromise. A major reform of the personal income tax is also to be presented at the beginning of 2022. Finally, an important decision on the closure of all nuclear power plants is to be taken in the next few days. This will determine the energy policy of the Belgian economy in the coming years.

The tensions during the Covid crisis could leave their mark, making any compromise more difficult on these big reforms. Added to this is the importance of social tensions. In addition to the demonstrations against the health measures, the last few weeks have been marked by numerous demonstrations of firefighters, police officers and health care personnel. In addition, there is a major inter-sectoral protest day today.

These movements illustrate the extent to which any measure to reduce public spending or affect purchasing power will be politically untenable over the next few years. Consequently, the correction of the large public deficit (6.6% in 2021, and probably still more than 5% in the next few years) cannot be achieved by limiting spending. This risks further weakening the federal government but also the growth potential of the economy through the absence of structural reforms.

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