

UPDATE ON THE BELGIAN POLITICAL SITUATION SUMMER 2017

- **Socialists ousted from government in Wallonia**
- **Deadlock in Brussels**
- **Agreement on reduction of corporate taxes**

Although we are 2 years away from the next general elections, July 2017 saw significant political activity. The most spectacular event was the change in political alliances in Wallonia, that led to the ousting of the socialist party from power for the first time in 30 years.

The arrival of the liberals in power in Wallonia means that they are now heading both the federal and the Walloon government, something they had never experienced before.

In Brussels and in the French Community the situation is very awkward. Without a new majority agreement, the existing governments are still formally headed by the socialists, although they do not have a majority in parliament any more. It is impossible for the moment to forecast how this unstable situation will be resolved. On the other hand, the federal government succeeded in finding a "summer agreement" on the 2018 budget, that includes important reforms, such as a reduction in corporate tax rates, but also the introduction of some kind of wealth tax.

Three years ago the francophone liberals of MR took the huge gamble of deciding to take the lead of a federal government, where they are the only francophone party, besides three Flemish parties. The socialists and the trade unions led an aggressive opposition, including trying to block the CETA trade agreement with Canada. But now the socialists have been forced in the opposition in Wallonia as well, and the center right social economic policy followed by the federal and Flemish governments will now be implemented in Wallonia too. It is clear that the current majorities will try to convince the electors of giving them a new mandate in 2019 to pursue these reform policies.

NEW WALLOON GOVERNMENT



THE ORIGINS OF THE CRISIS

On June 19th 2017 Benoît Lutgen, the chairman of cdH, the francophone social-christian party, who was the junior partner of the francophone socialist party PS in the Walloon and Brussels regional governments and in the French Community, stunned everybody by announcing that he did not want to govern with the socialists any more.

He put forward the many financial scandals that had appeared, both in Wallonia and in Brussels, and which involved important members of the socialist party.

Opinion polls had indicated that the public opinion was very angry at these scandals. The socialist party dropped from 32% to 16% in the polls, behind the liberals of MR (+/- stable at 23%) and the communists of PTB (climbing from 5% to 25%)!

The cdH also lost 4.2% from 14% to 9.8%. Socialists have been THE ruling party in Wallonia for a very long time, heading the Walloon government for nearly 30 years. They were only kept out of the majority for two years since the creation of the Walloon region in 1981. The cdH has been the junior partner of PS in the Walloon government since 2004.

Lutgen's decision did not result in a straightforward solution. Early regional elections before May 2019 are ruled out by law. As a result, Lutgen needed to find new partners to form an alternative majority.

THE CURRENT POLITICAL SITUATION IN THE THREE GOVERNMENTS



Wallonia

There are 75 MPs in the Walloon parliament. PS and cdH had a comfortable majority of 43 seats. Replacing the PS with the liberals of MR gives a (short) majority of 38 seats. cdH tried to convince the greens of Ecolo (who have 4 seats) to join the majority, but they refused. cdH then decided to start negotiations with MR alone. Five weeks after Lutgen's announcement that he dropped the PS, a new Walloon government was formed. The main program points of this government will be outlined further in this paper.

However no solution has yet been found for Brussels and the French Community.



Brussels

There are 89 MPs in the Brussels parliament. 72 French speaking and 17 Flemish speaking. By law, the government needs a majority in both linguistic colleges. On the francophone side, PS and cdH have partnered with the Brussels federalist party Défi. Together they have a majority of 42 seats. Replacing PS by MR would still give a (small) majority of 37 seats. This scenario needs however Défi to agree to switch partners, which they have not been willing to do until now. PS and Défi together only have 34 seats, 3 seats short of a majority. The chances that the greens of Ecolo will join them are very poor.

Moreover the Flemish majority in Brussels (liberals of Open VLD, socialists of sp.a and christian democrats of CD&V) also need to agree with the new majority. They have a short majority of 9 seats out of 17 for the moment. Two problems emerge here. If the francophone socialists of PS are thrown out of the majority, their Flemish counterparts of sp.a might follow. Their

two seats would need to be replaced. The only possibility are the Flemish nationalists of N-VA (3 seats), who are however the sworn enemies of Défi... Moreover the leader of the Flemish majority, Guy Vanhengel (Open VLD, 5 seats) is a personal friend of PS Minister-President Rudy Vervoort. Although from different political backgrounds they were on the same list at the last municipal elections in Evere, the town Vervoort is mayor of. Since cdH has not formally resigned from the Brussels government, the situation remains unchanged. How such a government will be able to make any important decision remains an open question.



French Community

The French Community (aka Wallonia-Brussels Federation) manages some important competences for the Walloons and the Francophones living in Brussels (mainly education and culture). Its parliament is composed of the whole Walloon parliament (75 MPs) and 19 francophone MPs from the Brussels parliament. This means at least 48 seats are necessary for a majority. Replacing PS by MR comes 2 MPs short of a majority (46 seats). Here also the 3 seats of Défi would ensure a (short) majority, but Défi has refused to switch alliances for the moment. In the current government, headed by the socialist Rudy Demotte, the two most important ministries (education and culture) are held by cdH ministers, one of them being also a member of the Walloon government. It is difficult to imagine that a political party will be blocking decisions on something as important as education, but the situation is nevertheless far from comfortable, and the dynamics of such a government are difficult to forecast.

HIGHLIGHTS OF THE WALLOON GOVERNMENT PROGRAM

The new government will have a lifetime of only 22 months, since elections will be held in May 2019. Moreover municipal elections will be held in October 2018, which will undoubtedly restrain the government from making unpopular decisions from mid-2018 onwards. The relevance of this change in majority resides mainly in the composition of the new government. Having the socialists out of power in Wallonia for the first time in 30 years is a revolution in itself. It also means that there is again a political link between the federal and the Walloon government, which had completely different compositions until now. The program of the new government, which is entitled "A stronger Wallonia", shows this clearly, by putting emphasis on "Jobs, jobs, jobs", like the federal government.

With such a short time frame, the government has not announced many immediate and spectacular measures however.

Ethics, efficiency and performance are the key principles guiding the new government agreement.

The main effort lies in the reduction of the cost of the public sector, which employs 40% of the workforce in Wallonia, vs. 30% in Flanders. The first immediately visible action in this respect is the reduction of the number of ministers from 8 to 7, the pay cut of 10% imposed on ministers and the reduction by 10% of their staff. In the medium term, several public service agencies will be merged, reducing the number of their board members by 200. In the longer term, the provinces are intended to disappear.

The widely acclaimed "Marshall plan" for Wallonia, introduced by the socialists in 2005, will be continued. Support will primarily go to sectors and jobs in the digital, health and sustainable economy. Interestingly, Vincent Reuter, who was the CEO of UWE, the Walloon employers federation, will be responsible for the coordination of the Marshall Plan. Some taxes will be dropped or lowered. Diesel cars will be banned in Wallonia from 2030 onwards.

The government will be headed by Willy Borsus, a 55 year old veteran in Walloon politics. Since 2014 he

was Minister of SMEs in the federal government. He is a close friend of Prime Minister Charles Michel. With ministers aged between their late forties and fifties (the average age is 53.5 years), the government is made up of experienced politicians, although most have never been minister, since the MR has been in the Walloon opposition for over 30 years.

This will probably be a very decent and solid government, well aligned with the center right priorities of the federal government. They will have a hard time executing their program, though, both because there is little time left before the next election, and because most administrations are headed by civil servants close to the socialist party. Moreover the government has only a majority of 1 seat in parliament.

How the cdH will manage its presence in a center right government in Wallonia and center left government in Brussels and the French community remains an open question.

The awkward situation of the French Community in particular (some MPs will be in the majority in the Brussels or Walloon parliament, but in the opposition in the French Community parliament) will most certainly call for a thorough reflection on the opportunity of reshaping the francophone political system. Some are already thinking aloud about a 7th state reform...

FEDERAL "SUMMER AGREEMENT"



The government has made up its budget for 2018. The goal to reach a balanced budget by 2019 has been turned into reducing the deficit to less than 1%, which made it easier to focus on positive measures.

Corporate taxes will be reduced, as required by the Flemish nationalists of N-VA and some kind of wealth

tax will be introduced, albeit not a tax on capital gains, as the Flemish Social Christians of CD&V wanted. Some measures to improve the labor market have also been introduced, including the highly sensitive suppression of the fixed tenure of civil servants.

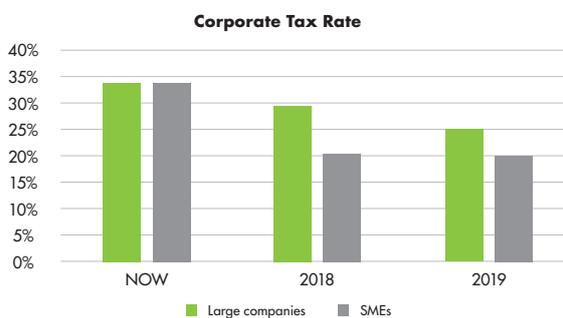
Corporate taxation

It had been one of the main objectives of the Flemish nationalists of N-VA to reduce the corporate taxation rate from the present 33.99%.

The rate will be reduced to 29% in 2018 and 25% in 2020.

SMEs will have a reduced rate of 20%, for the first 100,000€ of profit. The notional interest reduction will be limited to capital increases.

A minimum tax rate of 7.5% will be applied.



Employment

The government has taken some new measures to boost employment by making it easier and cheaper to hire.

- Some kind of proofing period will be reintroduced for new employees, through variable dismissal notices:
 - 1 week for the first 3 months of employment
 - 3 weeks for the 4th month of employment

- 4 weeks for the 5th month of employment
- 5 weeks for the 6th month of employment

This replaces the 4 weeks dismissal notice during the first 6 months that existed.

- Young workers between 18 and 21 will be cheaper for the employer, while keeping their net salary unchanged.
- Workers and retired people will be allowed to work a few hours a week extra and earn up to 500€/month without paying any taxes in the retail sector (it was already allowed in the hotel and catering sector). These are called "flexi-jobs".

Sugar tax

Two years ago the government introduced a sugar tax of 0.02€/l on regular soft drinks. This was presented as a health measure and as a first step towards a full-fledged sugar tax. In January 2016 the tax was doubled (0.04€/l) and extended to all soft drinks, including the "light" versions. The idea of a general sugar tax was however dropped. The soft drink tax will again increase by 0.02€/l in January 2018, reaching 0.06€/l.

Civil servants

Until today, civil servants were awarded jobs "for life" and could not be dismissed. The government has decided to stop this practice. New civil servants will now receive regular contracts, like in the private sector. Unsurprisingly the trade unions reacted furiously.

The complete list of measures is not definitive yet, and the practical details of all these measures will have to be worked out in the coming months. Therefore, it will be important to follow closely the measures that are of interest for your activities.

CONTACT US

Should you need further information regarding the measures the Belgian governments are willing to implement on your sector, feel free to contact us!



Baudouin Velge - Managing Partner
Baudouin.velge@interelgroup.com



Karel Joos - Partner
Karel.joos@interelgroup.com

MINISTERS IN THE GOVERNMENT OF THE WALLOON REGION



Willy Borsus (MR)

Minister-President

He is the former Minister of the Middle Class, the Self-Employed, SMEs, Agriculture and Social Integration in the federal government. He has been an opposition member in the Walloon parliament between 2004 and 2014, where he was the MR group leader for 5 years. He is extremely loyal to prime minister Charles Michel and his father Louis Michel.



Pierre-Yves Jeholet (MR)

Deputy Minister-President and Minister of Economy, Employment and Professional Training

Former mayor of Herve, he has a long and fruitful experience as a member of parliament. He is in charge of the 2 priority dossiers of the Walloon government: economy and employment. He is very close to Didier Reynders, Deputy Prime Minister and Minister of Foreign Affairs in the federal government.



Alda Greoli (cdH)

Deputy Minister-President and Minister of Social Action, Health, Equal Opportunity and Public Service

She has served as Chief of Staff of the Walloon Minister of Public Infrastructure, Public Health, Social Action and Heritage Maxime Prevot. Mrs. Greoli is the only double-hatted Minister of the Walloon government (she is also Deputy Minister-President and Minister of Culture, Little children and Day care centres in the government of the French Community).



Jean-Luc Crucke (MR)

Minister of Budget, Energy and Airports

Until his appointment, he was a member of the Walloon parliament and the parliament of the French Community. He is a convinced regionalist and he is very close to Didier Reynders.



Valérie De Bue (MR)

Minister of Local Authorities, Housing and Sports Infrastructure

Former Alderwoman of Nivelles, she is very close to PM Charles Michel.



Carlo Di Antonio (cdH)

Minister of Environment, Territorial Development, Public Infrastructure, Mobility, Transport and Animal Welfare

He held the same ministerial competences in the previous Walloon government. Trained as an engineer, he started his political career with Ecolo.



René Collin (cdH)

Minister of Agriculture, Nature, Forests, Rurality, Tourism and Heritage

Having been Minister in the previous Walloon government, he loses the competence on Airports and gains Heritage. In October 2018, he will be running for mayor in Marche-en-Famenne, where he will directly compete with Minister-President Willy Borsus.

NEW MINISTER IN THE FEDERAL GOVERNMENT



Denis Ducarme (MR)

Federal Minister of the Middle Class, Self-Employed, SMEs, Agriculture and Social Integration

Has been a member of the federal parliament for 14 years and has been MR Group leader since 2014, where he faced huge opposition from all the other francophone parties and had to 'safeguard' liberalism in francophone Belgium. He is rather social-liberal when it comes to social-economic issues. He replaces Willy Borsus, who became Minister-President of the Walloon region.