Belgium: New Year, new government, continuing crisis

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Christian Democrat Herman Van Rompuy was sworn in as Belgium's new prime minister on December 30. Following the resignation of the incumbent, his fellow Christian Democrat Yves Leterme, the week before Christmas, Van Rompuy became the country's third prime minister of 2008.

Leterme's government fell in a bank bailout scandal, making it the first national government to meet its end as a direct result of the global financial crisis. Other European countries have elected new leaders since the banking crisis began, but this was the first to collapse without a vote.

Van Rompuy has been appointed to tackle the economic crisis, but expectations are low. The country is in recession and facing a bleak economic future. Van Rompuy has, as far as possible, retained the composition of Leterme's coalition and cabinet, including Finance Minister Didier Reynders. His government managed to clear its first hurdle, receiving the parliamentary vote of confidence necessary for his premiership on January 2. The support was by no means compelling, with a vote of 88-45 with no abstentions. Van Rompuy is now under pressure to conduct a full-scale investigation into the bailout scandal and any role Reynders may have played in it.

Leterme's government had been in trouble since his right-wing Flemish Christian Democrats (CD&V) won the general election in June 2007. They won in alliance with the nationalist New Flemish Alliance (NVA), having campaigned on an extension of regional autonomy. In practice this means cutting the richer Dutch-speaking north of the country, Flanders, from the poorer French-speaking south, Wallonie. Such constitutional changes would have required a two-thirds majority, which Leterme did not have. Walloon Liberals and Christian Democrats saw Leterme's policy as a step towards secession, which would have an economically catastrophic effect in the south, and refused to join a coalition with the CD&V.

Flemish nationalists, emboldened by Leterme's proposals and the chaos of the coalition negotiations, became more intransigent in their demands for greater autonomy. The NVA, Leterme's electoral partners, withdrew from the coalition. The ousted Prime Minister Guy Verhofstadt was brought back to head an interim administration pending Leterme's coalition talks.

After nine months Leterme finally put together a fragile five-party coalition. His CD&V was joined by its Walloon sister party, the CDH, the francophone Socialist Party (PS), the Walloon liberal party, MR, and their Flemish counterparts, Verhofstadt's deposed Open VLD. That he needed the support of the party he had beaten in the election speaks volumes for the instability of the political situation.

The coalition had difficulties almost immediately. The developing financial crisis fuelled further nationalist demands for regional autonomy. Leterme was unable to reconcile these conflicting demands, and saw the regional break-up of the country as coming ever closer. Offering his resignation in June, he said, "The federal consensus model has reached its limits. It appears that the conflicting visions of the communities over how to give a new equilibrium to our state have become incompatible."

King Albert II, who has played a direct role in recent political negotiations, did not accept Leterme's resignation.

The global financial crisis has hit Belgium hard. The country has entered its first recession since 1993. In October the government had to rescue two of the country's largest financial institutions, Fortis and Dexia. National debt stands at 85 percent of GDP, the third highest in the European Union. The Central Bank is predicting that the economy will shrink 0.2 percent in 2009, while the projected budget deficit is 1.7 percent of GDP. Business confidence is reported at a recorded low.

These developments have exacerbated regional tensions. There is huge economic disparity within Belgium. Flanders accounts for 65 percent of national GDP, with regional GDP per head standing at 124 percent of the European Union average. In Wallonie that figure is 90 percent. Walloon unemployment is three times that in the north. Some €6 billion is paid to the depressed areas of the south annually. A growing financial crisis drives a further wedge between the regions. Early in December the government proposed a €2 billion federal stimulus package as part of the 2009 budget.

Leterme's latest crisis did not come from regional disputes, but was triggered directly by the impact of the global crisis, leading one commentator to note wryly, "Belgian government collapses for a new reason."

When Fortis, one of Europe's 20 largest banks, faced collapse in October, the Dutch, Belgian and Luxembourg governments were quick to intervene with a rescue package. Leterme and Reynders reassured investors that their money was safe and Fortis faced no solvency problems.

The Fortis group was broken up in October to stave off bankruptcy. Its Dutch assets were nationalised, while the Belgian and Luxembourg activities were sold two days later to the French bank BNP Paribas. Under the deal, valued at €14.7 billion, BNP Paribas would take over 75 percent of Fortis's Belgian banking operations, with the remaining 25 percent coming under state control. Two-thirds of Fortis Luxembourg would also go to BNP Paribas, with the Grand Duchy retaining the rest.

This left small shareholders holding almost worthless stock. A group of shareholders mounted a legal appeal against the deal. The court upheld their appeal. They won a 65-day freeze on government involvement in the group pending a review, and a stop on Fortis transactions in Belgium. The BNP Paribas buyout was put on hold, with the court saying that Fortis's decisions must be approved by shareholders. Shareholders will decide by February 12, at the latest, at a special general meeting. A lawyer for the plaintiffs said the appeal showed that "The state cannot do whatever it wants."

Leterme and Reynders tried to find a way round this, discussing, amongst other things, putting forward their own legal appeal. Reynders insisted that their goal was to "protect the interests of Fortis's clients and savers as well as the employees," but indicated that the BNP Paribas deal was their preferred option. Although the stop on the buyout "creates a new legal situation," it was still possible to continue "as before" with the BNP Paribas deal, he said.

The cabinet had also attempted to influence the court's decision beforehand. According to an investigative judge's report, cabinet ministers tried to persuade a judge, via her husband, to reverse their decision. Justice Minister Jo Vandeurzen was implicated and stepped down on December 19. King Albert II accepted Leterme's resignation three days later. Leterme denies any attempts to influence or obstruct justice, but the Supreme Court has mentioned "significant" signs of interference.

There have been calls to investigate Reynders' role, although he currently remains in his post. He has told Belgian television that the government is prepared to offer better terms to ensure the deal goes through. "If we have to pay more, we'll pay more," he said.

Albert appointed the former prime minister, Wilfried Martens, as a mediator to find a new premier. Amongst those mooted as a potential successor to Leterme was a former Christian Democrat prime minister, Jean-Luc Dehaene, and Guy Verhofstadt, the prime minister who lost the last election. Van Rompuy, who had served as Dehaene's budget minister from 1993 to 1999 and was serving as speaker of the lower house under Leterme, initially said that he did not want the post.

Forming a new government was quite urgent, as the 2009 budget was not yet agreed. Given the background of political tension and uncertainty, there was a reluctance to move to new national elections. If a new prime minister could be found to maintain the existing coalition, it was hoped that there would be less chance of a repeat of last year's protracted disputes, although forthcoming regional elections in June are likely to expose the underlying tensions.

Van Rompuy finally agreed to take the position with reluctance, apparently to pre-empt liberal demands for the return of Verhofstadt. He is a reliable establishment figure, having previously served in the mediation team trying to resolve Leterme's coalition crisis. He is seen as less abrasive on regional questions than Leterme, and more likely to be able to work with francophone parties.

Most important is his reputation as a budgetary hardliner. Trained as an economist, he worked at the Central Bank from 1972 to 1975 before going into politics. As Dehaene's budget minister he reduced public debt sharply from 130 percent of GDP to its present levels. He has already criticised government plans to spend their way out of recession, and says that overcoming the economic crisis is his administration's top priority. He has promised to pursue Reynders' €2 billion rescue package of tax cuts, lower energy costs and infrastructure projects, as well as proposing new initiatives. He has called for formulating a plan to balance the national budget "structurally."

Van Rompuy has preserved Leterme's cabinet as far as possible. Ministers who resigned have been replaced by colleagues from their own parties. In this way he hopes to be able to see out the government's term of office. It is extremely unlikely that it can last until 2011.

He has also promised to tackle the regional tensions and relaunch "intercommunal dialogue" ahead of June's regional elections. He is looking for results from a committee looking into disputed electoral boundaries around Brussels. But attempts to resolve the federal economic crisis will only deepen regional conflicts. The Belgian federal government was described as "not the government of one country, but of two very different countries which … have a different view of what the government should be and what it should do," in the Flemish daily *De Standaard*.

Van Rompuy's government, committed to the same economic policies as its predecessor, can offer nothing to the vast majority of ordinary people across Belgium. Nationalist groupings will attempt to channel hostility to this crisis behind their own agenda, of creating smaller capitalist states for the enrichment of a regional bourgeoisie. Such an agenda raises the prospect of broader conflict across Europe.