

## Austria: Early Christmas presents?

Austria will have a new government next week and it seems like a good old traditional fiscal stimulus is in the making. With tax relief for children and low-income families, Christmas has come early



Source: Shutterstock

Contrary to its big neighbour Germany, Austria will have a new government in a couple of days, and it took only nine weeks to form it. A beacon in political times like these. After intense negotiations, a turquoise-blue government is almost a done deal. As long as nothing unexpected happens, the swearing in of the ÖVP-FPÖ coalition government should happen on Monday or Tuesday according to media reports.

The party programs of the ÖVP and the FPÖ had already been indicative of consensus, wherefore it was no surprise that the process of forming a coalition went quite smoothly. 31-year old whiz kid Sebastian Kurz (ÖVP) will become the country's new chancellor, Heinz-Christian Strache (FPÖ) vice chancellor and Norbert Hofer, who was running for the presidency last year, is likely to get a ministerial post, probably becoming minister for transport, innovation and technology.

Together, the parties have 113 out of 183 seats in parliament, giving the coalition a comfortable majority.

**What have the parties agreed on?**

Content-related, the parties agreed on quite an agenda for the years to come. So what is the big news?

### **Income and tax benefits**

- Tax bonus of 1,500 Euros per child per year.
- Tax relief for smaller and middle-income groups (probably up to 1,900 Euros)
- The minimum income shall be equalised throughout Austria, a maximum amount for families is still being negotiated.
- For asylum seekers, a reduction of the minimum income is planned. Instead of cash benefits, universal services shall be concentrated more on benefits in kind.

### **Asylum**

- Asylum seekers are only allowed to apply for citizenship after ten years instead of six years.
- Illegal migration shall be reduced to zero; deportations shall be forced, in the case of legally convicted foreigners, there shall be no legal residence status.

### **Digitisation**

- All of Austria should have access to broadband internet (in 2016, 85% had a broadband connection, 2%-points higher than the EU-average)
- "Digital establishments": large digital groups shall pay taxes in Austria regardless of not having a physical establishment.
- Digital identity: A uniform, state-secured, digital identity system for secure and personal use of one's data (combining identity card, driver's license, social security card, etc.) on a voluntary basis.
- Harmonisation of the IT and digital sector of federal agencies.

### **Labour market**

- While in Germany, labour unions try to limit the working hours to 28 hours a week, the Austrian government has agreed quite the opposite, making it legally possible to work up to twelve hours a day and up to 60 hours a week.
- Access to the labour market shall be restricted by making a clear distinction between admission to work and forms of immigration.
- Qualified and regulated immigration as a supplement to the domestic labour market.

### **Europe**

- The FPÖ presented itself a bit more moderate on this topic, having dropped its resistance against CETA and refrained from a referendum on Austria's EU membership. However, while the new government is keen of presenting itself as clearly pro-European, the FPÖ is still part of the anti-EU party group EAF in European Parliament, suggesting that any pro-European stance from the new Austrian government will have to be taken with a pinch of salt.

### **Environment**

- By 2030, all the electricity in Austria should come from renewable sources. (around 77% of the domestic primary energy production already comes from renewable sources)

## Smoking Ban

- In 2018, a complete smoking ban should have come into force, but the new government will now reverse this legislation. As in the law of 2009, guests are still allowed to smoke in separate areas if they are not primarily used for dining or if the premise is smaller than 50 m<sup>2</sup>.

## A good old traditional fiscal stimulus is in the making

So far, the biggest controversy and media attention span around the dropping of the smoking ban. As this has been one of the claims by the FPÖ to form a coalition, the ÖVP bowed. However, there has been already a petition for a referendum against the drop. While more direct democracy in the form of binding referendums in case of the signature of four percent of eligible voters as demanded by the FPÖ is still up for discussion, its agreement could mean that the direct democracy demand backfires on the FPÖ as a first referendum would probably be on the dropping of the smoking ban.

Turning back to the economic impact of the new Austrian government, a good old traditional fiscal stimulus is in the making. The tax bonus for children and the tax relief for smaller and middle-income groups come as early Christmas presents. The rise of working hours is more of a double-edged sword. It could contribute to a stronger growth performance but will also focus the discussion on social aspects of the labour market.

As a consequence of the announced measures, we expect the Austrian economy to continue its current strong performance going into 2018.

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