Austria: Political earthquake continues

It had already been tried 185 times - but today marks the first time since 1945 that a motion of no confidence against the government in Austria was successful. With only a little more than three months to go until snap elections, we don't expect the political crumbling to extend to the economy. But there won't be any economic sparks of joy either

Source: Shutterstock

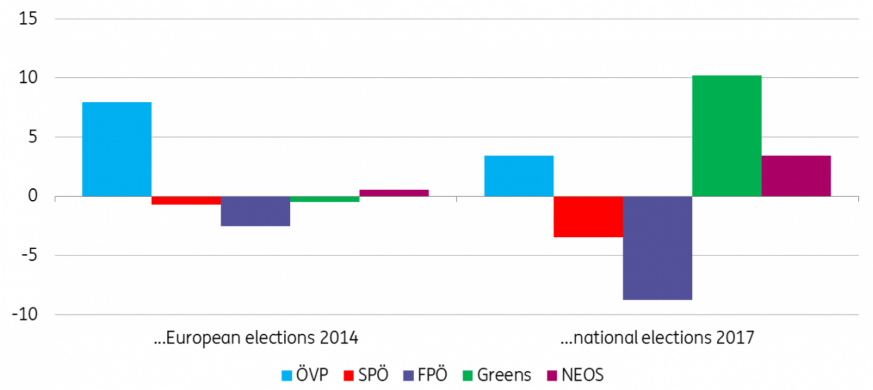
Austria's political scandal has spread widely. Last week's release of a video of ex-vice-chancellor Heinz-Christian Strache, showing him talking about public contracts for campaign-support, has led to the resignation of Strache, snap elections in September, the dismissal of FPÖ's interior minister Herbert Kickl, the subsequent resignation of all FPÖ government members, and last but not least a successful motion of no confidence against Chancellor Sebastian Kurz and the ÖVP's government members.

While the scandal seems to have left its mark on Kurz' former junior coalition partner, the FPÖ, it has strengthened the ÖVP. Apart from these outcomes, Austria's election results are in line with the results on the European level with the Social Democrats (SPÖ) posting losses, while the Greens, who are currently unrepresented in the Austrian Parliament, and Liberals (NEOS) gained support.

Yet, although Sebastian Kurz' ÖVP emerged as the clear winner of the 2019 European elections, receiving almost 35% of the votes, this tailwind was not enough to save him nor his government members from today's withdrawal of confidence filed by the social democrats, and supported by the ÖVP's former coalition partner FPÖ and a small party called Liste JETZT. A simple majority was sufficient. Apart from the ÖVP, only the NEOS did not support the motion of no confidence.

2019 European election results in Austria compared to...

in %-points, projection incl. postal votes



Source: BMI, dpa

The way ahead

President Alexander Van der Bellen will designate an interim government, which will run the government's day-to-day business until after September's snap elections. It will also be responsible for all upcoming EU decisions, including the election of the new European Commission president. This technocrat government will not take any new initiatives in the few remaining months before the election, however. While this won't lead to sparks of joy from the economy, it should not be a dampener to our economic outlook for second and third quarter GDP growth. In line with our expectations, markets did not react to the motion of no confidence with Austria's 10-year yield moving only marginally. Given sound public finances and solid economic fundamentals, the new political uncertainty should not have any impact for the time being.

Regarding coalition possibilities after the September election, we would not yet exclude any combination. When taking the European election results as a first sentiment indicator, the ÖVP has a good chance to re-emerge as the strongest party. And although emotions are currently running high on the big party sides, there have always been ways to work together. Just think of former chancellor Wolfgang Schüssel (ÖVP), who attempted a relaunch with the FPÖ after the coalition between the two parties broke apart in 2002 due to internal differences. With more than three months to go, it is too early to call the outcome, but as we have learned over the years, Austrian politics never ceases to amaze.

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