

Austria: Political scandal to hit sentiment

With just days until European elections, a scandal has shaken up Austria's political landscape, leading to snap elections in autumn this year. While we do not expect this to have any immediate economic implications, a political impasse might weigh on sentiment in the longer run



Political scandal rocks Austria, again

Austria's political landscape never ceases to amaze. Back in 2016, the country's presidential election was the focus of international attention as a populist candidate was close to making it into the highest office in a core eurozone country. Shortly thereafter, the government collapsed, leading to snap elections in 2017, which were characterised by a campaigning scandal. Now, just 17 months after the coalition between Chancellor Sebastian Kurz's Austrian People's Party (ÖVP) and Vice-Chancellor Heinz-Christian Strache's Freedom Party (FPÖ) took office, a new scandal has led to the collapse of the government.

This week's vote will also be a first test case for chancellor Kurz, showing whether the scandal has had any repercussions on his electorate support.

On Friday evening, German media published a video from 2017 of Strache and FPÖ politician Johann Gudenus talking to an alleged Russian investor about public contracts for campaign support. The video has prompted the two politicians to resign and has led to the dissolution of the coalition. On Saturday, Austrian President Van der Bellen officially announced snap elections in September.

Economic impact

The scandal and snap elections shouldn't have any imminent ramifications for the economy. Only last month, the government increased additional planned tax relief measures from €4.5 billion to €6.5 billion until 2022, equivalent to 1.7% of GDP. This included lower health insurance contributions for low-income earners and reducing tax rates for lower- and middle-income households, as well as corporate taxes. This tax reform was passed on 1 May in the Council of Ministers, but not yet in the National Assembly, wherefore additional stimulus for households for the years to come is still pending. Given sound public finances, Austria posted a budget surplus of 0.1% of GDP in 2018 and with solid economic fundamentals, the new political uncertainty should not have any imminent impact.

The Austrian scandal has made the European elections a lot more interesting

However, the scandal has made the European elections a lot more interesting. The vote will shed some light on how FPÖ voters react to the scandal and whether any other party could benefit. In the 2017 elections, the FPÖ received some 26% of the votes. At the European elections in 2014, it was 19.7%. A big defeat for the FPÖ could have a negative impact on the new alliance of EU-sceptical parties. Currently, the FPÖ MEPs are members of the Europe of Nations and Freedom (ENF) political faction and have recently engaged in talks with the European Alliance of Peoples and Nations (among them Italian's Lega, Germany's AfD and France's National Rally). This week's vote will also be a first test case for chancellor Kurz, showing whether the scandal has had any repercussions on his electorate support.

The government will continue its work until September when snap elections are currently expected to take place, although further personnel changes could be announced. While we do not expect the scandal to have any immediate economic consequences, the search for a new government might weigh on sentiment in the longer run. A potential domestic headwind which, in light of ongoing external headwinds, the economy could do without.

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