

Austrian parliamentary elections: a shift to the right raises economic questions

The parliamentary election in Austria resulted in a heavy defeat for the ruling government and a shift to the right. The key question now is who will form the new government and what implications this will have for Austria's struggling economy



Herbert Kickl, leader of the FPÖ, which is set to become the largest force in the country's parliament for the first time

The current government has been booted out of office

Almost five million people went to the polls in Austria on 29 September to set the political path for the next five years. Voter turnout was 78.5%, up from 75.6% in 2019.

The current coalition government, comprising the Austrian People's Party (ÖVP) and the Greens, experienced the biggest losses. The ÖVP's support dropped from 37.5% in the 2019 snap elections to 26.5%. Similarly, the Greens saw their share of votes decrease from 13% five years ago to 7.4%. In contrast, the right-wing populist Freedom Party of Austria (FPÖ) made substantial gains, securing 29.2% of the votes. This marks a significant recovery from the 2019 "Ibiza Affair" scandal, which had led to the collapse of the ÖVP-FPÖ coalition.

Now, exactly five years after 2019's snap elections, the FPÖ received the most votes.

Despite being decisively voted out of office, the current government will stay in power until a new, viable government is formed. In Austria, this process has previously taken up to six months.

The challenges of forming Austria's next government

While it is still unclear what the new Austrian government will look like, one thing is for sure: a continuation of the current coalition between the ÖVP and the Greens is not on the cards.

The two parties currently hold a combined total of only 67 seats. To form a governing majority, 92 seats are required. This would only be possible in a two-party coalition if the ÖVP and FPÖ were to reunite. Alternatively, the ÖVP and the Social Democratic Party of Austria (SPÖ) could also achieve the necessary majority together, but with just 93 seats, it would be a very fragile coalition.

While current Chancellor Karl Nehammer has not ruled out his party's cooperation with the FPÖ in principle, cooperation under the current party leader Herbert Kickl would be out of consideration. As the ÖVP is the only party that has not fundamentally distanced itself from the FPÖ, the only remaining option to the paper-thin majority formation between ÖVP and SPÖ would be a three-party coalition. It would be the first time the Austrian government is formed by more than two parties.

In a three-party government, the ÖVP and SPÖ would likely be the core partners, seeking a third party to secure a stable majority. This third party could be either the Greens or the liberal Neos. However, recent tensions between the Greens and the ÖVP make it more probable that the Neos would be the third partner in this scenario. Despite this, the ÖVP, SPÖ, and Neos have significant differences on various political issues, suggesting that forming such a coalition would involve prolonged negotiations and numerous compromises.

The FPÖ's main economic policies are, among others, tax cuts for employees and businesses, as well as a reduction in non-wage labour costs. However, it is not yet clear how these policies would be implemented and how they would be financed. The FPÖ is also positioned as anti-immigration, which could make Austria unattractive for skilled workers from abroad.

Political uncertainty comes at a bad time

In any case, the formation of a new government will not be an easy task, fraught with the potential for political uncertainty and deadlock, both during coalition negotiations and in governance. Given Austria's current need for targeted measures to address structural challenges and improve competitiveness, this situation arises at a particularly bad time.

Author

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group*

(being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.