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.

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