We could see some stability on Austria's political rollercoaster

Some 150 days after the parliamentary elections, Austria is in the home stretch of forming a new government. Political stability should improve going forward, however, economic uncertainty looks set to remain for the time being

Party leaders from the Austrian People's Party, the Social Democratic Party and NEOS have agreed to form a coalition government

The political drama unfolding in three acts

Parliamentary elections in Austria took place at the end of September 2024, with a victory by the right-wing FPÖ and significant losses of the former government parties, Austrian People's Party (ÖVP) and the Greens. Coalition talks were complicated and collapsed, leaving only two options: new elections or a grand coalition plus, with ÖVP, SPÖ and NEOS.

Judging by the latest polls, new elections would have benefited the right-wing FPÖ, whereas the ÖVP, SPÖ and NEOS attempted to overcome earlier disagreements. The so-called candy coalition announced its agreement today.

Temporary sugar shock or long-lasting energy boost?

Today's coalition agreement includes an agreement on an austerity plan, similar to the one already presented in Brussels earlier in the year by the ÖVP and FPÖ. Savings of more than €6.3bn and €8.7bn are expected to be made in 2025 and 2026 respectively. As investment in a sustainable economy and spending cuts still appear contradictory, this does not only avoid a deficit procedure, but probably also prevents major economic reforms and investments.

One of these reforms is the reduction of non-wage labour costs. The candy coalition intends to reduce these costs towards the medium term of the coalition period – depending, however, on budgetary developments. In 2023, the share of non-wage labour costs in total labour costs in Austria was 26.7% compared to an EU average of 24.7%. With respect to competitiveness, reducing non-wage labor costs would be a first step in the right direction – especially for industry and the construction sector, where non-wage labour costs account for 26.2% and 31.7% of total labour costs, respectively, compared to 25.9% in the service sector. Whether or not the much-needed relief and investment package, including, amongst other, reduced taxes on overtime or an increase in the tax-free profit allowance, will be implemented, will also be subject to the budget situation in 2027.

The increase in the bank levy, expected to raise €500m in both 2025 and 2026 and €200m thereafter, is intended to provide some room for short-term measures. These measures include a skilled workers initiative, for which more money is to be made available to the Austrian Public Employment Service (AMS), as well as measures to increase attractiveness of work for the older age group. In addition, a one-off investment package worth €40m is to be made available in 2025 for innovation, internationalisation and skilled workers initiatives.

While politically it seems that good things come in threes as it took three attempts to form a government, let's hope this doesn't apply to the Austrian economy. According to WIFO's flash estimates, the Austrian economy stagnated in the fourth quarter of 2024, leading to a 1% contraction for the entire year. This marks the second consecutive year of recession.

However, today's coalition agreement runs the risk that the Austrian economy will have to wait until 2027 for (price) competitiveness to improve, if at all. Structural challenges, such as demographic change, the green transition of the economy and changing trade patterns, will keep exerting downward pressure on economic performance. For now, it seems as if Austria's new candy coalition will supply a temporary sugar shock rather than a long-lasting energy boost.

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