

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.

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.