Austria

Vote of confidence in conservative policies

After its electoral success in late September, the conservative party (ÖVP) is expected to form a new government. To obtain a majority, the party could turn again to the FPÖ (far right). In that case, policies should remain largely unchanged and focus on fiscal consolidation and the reduction of the tax burden. The next government will face a less favourable economic environment. GDP growth could decelerate to around 1.2% in 2020. Nevertheless, public finances have improved considerably, giving the government sufficient leeway to fight a recession, if necessary.

The conservatives have won the election

The conservative party ÖVP of former Chancellor Sebastian Kurz clearly won the general election on 29 September. The party obtained 37.5% of the vote. To obtain a majority, Mr. Kurz has to look for a partner. A coalition with the Greens, which obtained their best score on record (13.8%) would look like an ill-assorted couple. The compromises it requires might be hard to swallow. Mr Kurz will not be tempted to revive the so-called grand coalition with the SPÖ (social-democrats). For its part, the SPÖ might not be so keen to join as it lost a significant part of its support: around 21.2% against 26.9% in the 2017 election. This leaves a coalition with the FPÖ (extreme right), weakened by scandals to 16.2% of the vote compared to 26% in the 2017 general election. The advantage of a continuation of a coalition with a much smaller FPÖ is that Mr Kurz could continue the old coalition programme centred on budget consolidation and the reduction of the tax burden, and obtain more ministers of his own party in the new government.

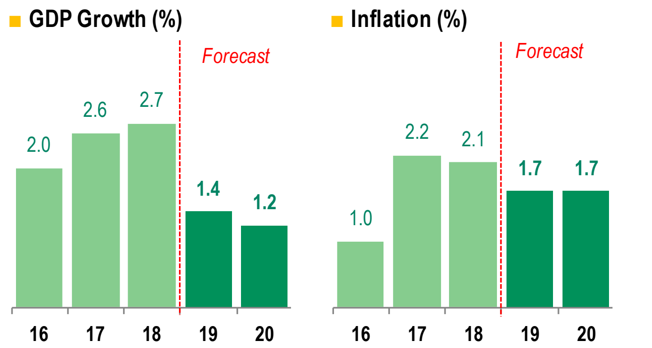
Healthy financial positions to confront the challenges

Any new government will be confronted with less favourable conditions than the first Kurz coalition. Whereas annual growth peaked at 2.7% in 2018, it is expected to slow to 1.4% in 2019 and 1.2% in 2020. This still looks quite favourable compared to other eurozone countries. The main reason for the growth deceleration is the slowdown in global trade. It has resulted in weaker demand from the eurozone, in particular from Germany and Italy, which account for almost 40% of Austrian exports. Manufacturers do not expect a quick improvement in the outlook. In our scenario, we expect production to only gradually recover in 2020.

In addition investment is slowing after having substantially increased in the past three years. In 2018, the investment ratio amounted to 23.9% of GDP, one of highest in the euro area. Because of the weakening of cyclical conditions and growing uncertainty, business investment has been slowing. In the building sector, housing permits have been losing momentum. These lead construction activity by about two years.

By contrast, private consumption should remain very dynamic underpinned by strong growth in household disposable income supported by a substantial increase in collective wages (2.9% against 2.6% in 2018) and some tax measures such as the introduction of the family bonus.

1- Growth and inflation



Source: National Accounts, BNP Paribas

Consumption growth should remain at around the same level as in 2018. In the coming years, even though disposable income is set to slow, consumption could remain rather dynamic, as households may be dipping into their savings.

Against this backdrop, labour market conditions are expected to remain very tight, and tensions may even rise further due to the retirement of the baby-boom generation. Immigration is likely to remain an important factor to overcome labour shortages. Wage settlements should remain generous, which will partly spill over in domestic prices, in particular for services. Inflation is expected to remain around 1.7% and core inflation could inch up to 2% in 2020 compared with 1.8% in 2018.

Public finances have improved considerably. Public debt has declined to 71% of GDP from 83% in 2010 and the budget shows a slight surplus. This would provide the government with substantial leeway to fight recession if necessary.

Raymond Van der Putten
raymond.vanderputten@bnpparibas.com