WIFO REPORTS ON AUSTRIA
16/2025

Austria Gradually Emerges from Recession.

Economic Outlook for 2025 and 2026

Stefan Schiman-Vukan, Stefan Ederer

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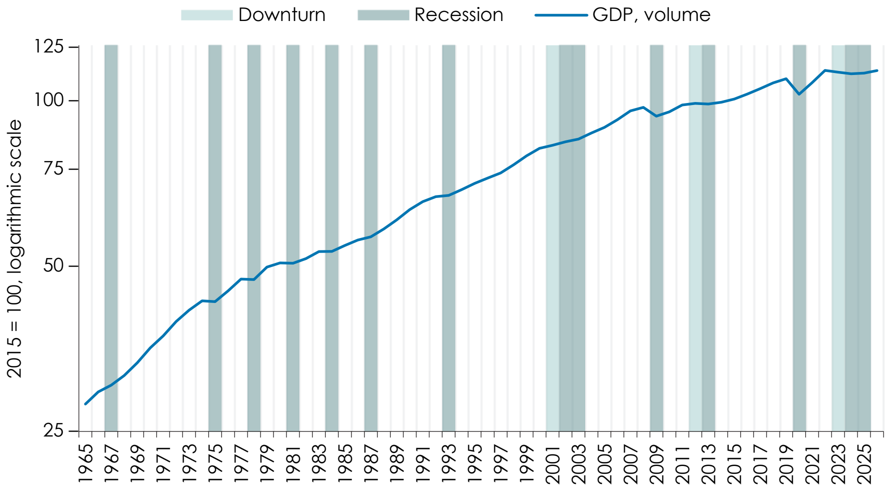
- According to revised data, the decline in GDP in Austria in 2023-24 was of a similar magnitude to that in Germany.
- The domestic economy will pass its cyclical trough in 2025, but is already expected to record slight growth of 0.3 percent.
- The recovery will be driven by consumption, while foreign trade in goods will initially continue to contract due to weak global demand for capital goods.
- Investment in residential construction will pick up earlier than investment in equipment thanks to falling interest rates. Civil engineering, however, will lose momentum in 2026.
- The sharp wage and energy cost increases of recent years are passed on to prices, particularly in services. Per capita wages will only increase moderately in 2026.
- The economic recovery will ensure growth of 1.1 percent and a turnaround on the labour market in 2026. Pension reforms alleviate the shortage of skilled labour.

Downturns and recessions in Austria



In downturns and recessions, GDP growth amounts to less than two-thirds of its trend rate. During downturns, the output gap remains positive, meaning actual output still exceeds the trend level, whereas in recessions the output gap turns negative (source: Statistics Austria, WIFO. 2025 and 2026: forecast).

"The downturn in Austria was, according to the latest data, roughly as pronounced as in Germany and unusually protracted, lasting about three years."

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October 2025

Austria Gradually Emerges from Recession. Economic Outlook for 2025 and 2026

Austria's economy is recovering over the projection period from a recession that, according to the revised National Accounts, proved comparably severe to Germany's. The rebound is driven by private consumption, while foreign trade in goods continues to contract for the time being. Residential construction is picking up earlier than equipment investment, thanks to falling interest rates. Moderate wage settlements are expected to curb real-wage growth in 2026 and improve corporate profitability. Inflation will decline during the forecasting period, and the unemployment rate will reach a plateau.

JEL-Codes: E32, E66 • **Keywords:** Economic outlook, forecast

All staff members of the Austrian Institute of Economic Research contribute to the Economic Outlook. For definitions used see "Methodological Notes and Short Glossary", https://www.wifo.ac.at/wp-content/uploads/2024/01/WIFO-BusinessCycle Information-Glossary.pdf

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Imprint: Publisher: Gabriel Felbermayr • Editor-in-Chief: Hans Pitlik (hans.pitlik@wifo.ac.at) • Editorial team: Tamara Fellinger, Christoph Lorenz, Tatjana Weber • Media owner (publisher), producer: Austrian Institute of Economic Research • 1030 Vienna, Arsenal, Objekt 20 • Tel. (+43 1) 798 26 01-0, https://reportsonaustria.wifo.ac.at/ • Place of publishing and production: Vienna • 2025/RoA/7496

The Austrian economy is emerging from a recession that, according to new National Accounts data from Statistics Austria, was milder than previously assumed. Simultaneously, Germany's Federal Statistical Office (Destatis) revised its GDP figures downward. Taken together, the revisions yield a coherent picture: the losses in value added were similar in both countries. The recession, which affected Northern, Central, and Eastern Europe, was triggered by the 2022 energy-price shock. Western and Southern European economies were largely spared because they were less dependent on Russian energy supplies.

As WIFO had projected, Austria's recovery is being led not – as usual – by exports of goods but by private consumption, which already expanded noticeably in 2024. During the forecast period, however, consumption will be restrained by the elevated unemployment risk and tight fiscal policy. Foreign trade in goods is not expected to revive until 2026. Weak global demand for capital goods is hitting Austrian exporters hard, and US import tariffs are an additional drag, especially since US demand for Austrian goods had been strong in recent years. The recovery in residential construction, already under way, will continue into 2026 on the back of lower interest rates. In civil engineering, the underlying momentum will be dampened in 2026 by public-sector austerity. Equipment investment will recover only with a lag, as it generally trails the overall business cycle; moreover, weak corporate profits are curbing investment appetite.

Given this unfavourable environment, the trade union accepted a moderate wage agreement in the metalworking industry during the current autumn bargaining round. This is likely to set a precedent for other sectors and to dampen real-wage growth in 2026, which had been comparatively high in Austria in 2024. Previous nominal wage increases are feeding through mainly into service-sector prices. In the current year, the expiration of energy-price relief measures – especially the electricity price cap – is adding to inflationary pressure. Substantial fee hikes by public authorities are also pushing prices higher while supporting the urgently needed consolidation of public finances.

The labour market still bears the imprint of the recession: unemployment is rising, and National Accounts show employment stagnating. In 2026, however, the economic recovery should trigger a turnaround, allowing the unemployment rate to edge down. Demographic change tends to curb unemployment, while pension-system measures that extend working lives help alleviate skill shortages.

Overall, real GDP will rise by a slight 0.3 percent this year, with growth accelerating to 1.1 percent in 2026.

Table 1: **Main results**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Gross domestic product, volume	+ 4.9	+ 5.3	− 0.8	− 0.7	+ 0.3	+ 1.1
Manufacturing	+ 10.6	+ 8.3	− 3.3	− 5.6	− 0.5	+ 1.2
Wholesale and retail trade	+ 5.8	+ 1.0	− 7.9	− 3.0	+ 1.2	+ 1.4
Private consumption expenditure[1], volume	+ 4.9	+ 5.4	− 0.2	+ 1.0	+ 0.6	+ 0.8
Consumer durables[2]	+ 6.3	− 4.5	− 5.5	− 0.2	+ 3.0	+ 1.0
Gross fixed capital formation, volume	+ 6.0	− 0.3	− 1.3	− 4.3	− 0.3	+ 1.2
Machinery and equipment[3]	+ 7.4	+ 1.4	+ 1.7	− 2.8	− 0.1	+ 2.0
Construction	+ 4.3	− 2.1	− 4.5	− 5.9	− 0.5	+ 0.2
Exports, volume	+ 9.5	+ 9.4	− 0.6	− 2.3	− 0.4	+ 1.2
Exports of goods, fob	+ 12.4	+ 5.6	− 0.9	− 4.5	− 1.1	+ 0.7
Imports, volume	+ 14.1	+ 6.9	− 4.3	− 2.6	+ 1.2	+ 1.3
Imports of goods, fob	+ 14.8	+ 3.2	− 7.0	− 5.3	+ 1.0	+ 1.3
Gross domestic product, value	+ 6.8	+ 10.6	+ 6.3	+ 3.4	+ 3.5	+ 3.4
billion €	406.23	449.38	477.84	494.09	511.54	528.72
Current account balance as a percentage of GDP	1.7	− 1.3	1.6	1.5	0.8	0.7
Consumer prices	+ 2.8	+ 8.6	+ 7.8	+ 2.9	+ 3.5	+ 2.4
GDP deflator	+ 1.8	+ 5.0	+ 7.2	+ 4.1	+ 3.2	+ 2.2
General government net lending, Maastricht definition as a percentage of GDP	− 5.7	− 3.4	− 2.6	− 4.7	− 4.2	− 3.9
Persons in active dependent employment[4]	+ 2.5	+ 3.0	+ 1.2	+ 0.2	+ 0.2	+ 0.8
Unemployment rate, national definition[5]	8.0	6.3	6.4	7.0	7.5	7.3
Command-based GDP per capita[6]	+ 4.0	+ 1.1	− 1.4	− 0.6	+ 0.3	+ 0.7
At-risk-of-poverty rate[7,9] percent	14.8	14.9	14.3	14.5	14.4	14.0
Income quintile ratio[8,9] ratio	4.3	4.3	4.3	4.4	4.4	4.4
Greenhouse gas emissions[10]	+ 4.5	− 5.8	− 6.6	− 2.6	− 0.5	− 1.8
million t CO_2 equivalent	78.07	73.52	68.70	66.91	66.58	65.36

Source: WIFO, Public Employment Service Austria, Federation of Social Insurances, OeNB, Statistics Austria, Environment Agency Austria. 2025 and 2026: forecast. – [1] Including non-profit institutions serving households. – [2] WIFO calculation based on the shares of consumer durables according to the domestic concept. – [3] Including weapons systems and other investment. – [4] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [5] As a percentage of dependent labour force, national definition. – [6] Nominal GDP deflated by the implicit price index of domestic demand. – [7] Share of persons living in private households with an equivalised disposable income below the at-risk-of-poverty threshold. – [8] S80/S20: ratio of total equivalised disposable income received by the population living in private households in the top income quintile to that received by the population in the bottom quintile. From 2024: forecast. – [9] Eurostat definition, assigned to the income reference year. From 2024 forecast based on EUROMOD Version 1.1+ and EU-SILC 2023. – [10] 2024: estimate according to Environmental Agency Austria. From 2025: forecast.

1. International environment

The US tariff policy continues to shape the global economy in autumn 2025. So far, however, economic activity has proved to be robust in view of the tariff increases. In addition, as the contours of the new trade policy regime are gradually becoming clearer, uncertainty is gradually diminishing. Nonetheless, tariff effects will remain visible in the coming months.

Economic activity in the USA has weakened, but growth should remain solid in the forecast period.

1.1 AI boom supports the US economy

In the USA, private consumer demand, which had been the main driver of the US economy and global demand for goods in previous years, lost momentum at the start of 2025, as consumers anticipated price increases from import tariffs and curtailed spending. In spring, consumption regained pace and investments related to the development and use of artificial intelligence rose sharply. In addition, the expectation of higher tariffs triggered front-loaded imports, lifting world trade and global industrial production.

The impact of the tariff increases on prices in the USA has so far been contained. Consumer price inflation has risen by around ½ percentage point since spring to just under 3 percent (August 2025). Part of the modest rise likely reflects initial cuts to export prices by foreign firms to sustain sales. Importers' profit margins may also have absorbed some of the price pressure from the tariff increases. Despite the rise in inflation, the Federal Reserve responded to the economic slowdown and cut its policy rate in September for the first time this year.

Table 2: **International economy**

	Percentage shares 2024		2021	2022	2023	2024	2025	2026
	Austria's exports of goods	World GDP[1]	GDP volume, percentage changes from previous year					
EU 27	67.0	14.3	+ 6.3	+ 3.5	+ 0.4	+ 1.0	+ 1.4	+ 1.3
Euro area	51.0	10.0	+ 6.4	+ 3.6	+ 0.4	+ 0.9	+ 1.2	+ 1.0
Germany	29.7	3.1	+ 3.9	+ 1.8	– 0.9	– 0.5	+ 0.2	+ 1.3
Italy	6.1	1.8	+ 8.9	+ 4.8	+ 0.7	+ 0.7	+ 0.6	+ 0.5
France	3.6	2.2	+ 6.9	+ 2.7	+ 1.4	+ 1.2	+ 0.6	+ 0.7
Spain	1.7	1.4	+ 6.7	+ 6.4	+ 2.5	+ 3.5	+ 2.9	+ 2.1
CEEC 5[2]	15.1	2.1	+ 6.4	+ 4.1	+ 0.3	+ 2.1	+ 2.5	+ 2.8
Poland	3.9	1.0	+ 6.9	+ 5.3	+ 0.2	+ 2.9	+ 3.4	+ 3.3
Hungary	3.6	0.2	+ 7.2	+ 4.3	– 0.8	+ 0.5	+ 0.6	+ 2.5
Czech Republic	3.5	0.3	+ 4.0	+ 2.8	+ 0.0	+ 1.2	+ 2.3	+ 1.9
USA	8.5	14.9	+ 6.2	+ 2.5	+ 2.9	+ 2.8	+ 1.8	+ 2.0
Switzerland	5.1	0.4	+ 6.2	+ 3.5	+ 0.8	+ 1.4	+ 1.4	+ 1.0
UK	2.6	2.2	+ 8.6	+ 4.8	+ 0.4	+ 1.1	+ 1.3	+ 0.9
China	2.8	19.5	+ 8.4	+ 3.0	+ 5.2	+ 5.0	+ 4.6	+ 4.0
Total[3]								
PPP-weighted[4]		51	+ 7.2	+ 3.1	+ 3.0	+ 3.1	+ 2.7	+ 2.5
Export weighted[5]	86		+ 5.1	+ 2.6	+ 0.6	+ 1.0	+ 1.1	+ 1.4
Market growth[6]			+ 11.0	+ 5.7	– 3.2	+ 0.5	+ 2.0	+ 1.0
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			70.8	98.9	82.2	79.8	69	66
Natural gas price								
Dutch TTF, € per MWh			45.9	121.5	40.6	34.3	37	33
Electricity price Austria								
Base, € per MWh			107.2	261.6	102.2	82.1	97	93
Peak, € per MWh			116.8	275.5	103.9	81.4	95	99
Exchange rate								
$ per €			1.184	1.054	1.082	1.082	1.13	1.16
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.6	3.8	4.1	2.4	2.2
10-year government bonds yields Germany, percent			– 0.4	1.1	2.4	2.3	2.6	2.6

Source: WIFO, Bureau of Economic Analysis, European Energy Exchange, Eurostat, ECB, HWWI, IMF, Intercontinental Exchange, OECD, Statistics Austria. 2025 and 2026: forecast. – [1] PPP-weighted. – [2] Czech Republic, Hungary, Poland, Slovenia, Slovakia. – [3] EU countries, UK, USA, Switzerland, China. – [4] Weighted by GDP at purchasing power parities in 2024. – [5] Weighted by shares of Austrian goods exports in 2024. – [6] Real import growth of trading partners, weighted by shares of Austrian goods exports. – [7] Fixed rate.

In the euro area, the decline in inflation, lower interest rates and the expansionary fiscal policy in Germany are supporting economic activity.

Consumer spending by private households likely rose in the third quarter and the US GDP is expected to have expanded significantly. However, at least part of the higher tariffs are gradually being passed through to consumer prices, with effects propagating along value chains. Labour market conditions have also deteriorated. However, the AI boom is likely to persist. Monetary and fiscal policy will provide some support for the economy in the forecast period. The Federal Reserve is expected to continue rate cuts in the coming year. The "One Big Beautiful Bill Act", passed by Congress in July, includes tax cuts largely benefitting companies and high-income households, and higher outlays for military and border control. However, this is accompanied by cuts, including in healthcare. Overall, the US economy is likely to grow more slowly in 2025 and 2026 than in previous years.

1.2 Positive domestic impulses in the euro area

In the euro area, a strong increase in exports of pharmaceutical products from Ireland to the USA in the first quarter masked the otherwise moderate upward trend in economic activity. Consumer spending by private households barely increased in the first half of 2025. The European export industry faces tougher global competition as the Chinese government increasingly prioritises high-tech promotion, while China's demand for imports is stagnating.

Inflation in the euro area slowed significantly over the course of 2025 and has been close to 2 percent since spring, which is supporting the development of real incomes. The ECB also lowered its key interest rates in several steps, most recently to 2 percent (deposit rate). Overall, fiscal policy in the euro area is roughly neutral. Germany, however, is planning considerable additional spending, which is likely to add further economic momentum in 2026.

The growth of real GDP in the euro area is expected to accelerate slightly in the forecast period. Although the US tariffs, increased competition with China and the strong euro are dampening the outlook for the export economy, rising real incomes are supporting consumption. In addition, more favourable financing conditions and declining uncertainty should gradually revive investment, and Germany's expansive fiscal stance is boosting demand. Overall, the euro area economy will grow by around 1 percent in both 2025 and 2026.

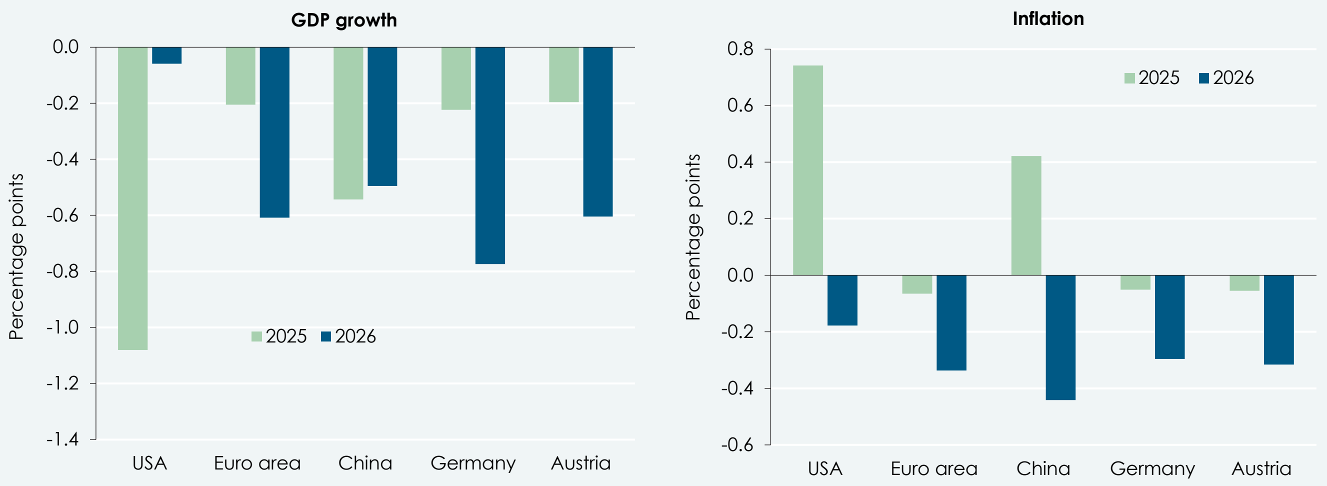
1.3 Tariffs imposed by the USA will weigh on the global economy in 2026

In its forecast, WIFO assumes that the current tariff rates will remain in place. This applies in particular to China, whose trade conflict with the USA has been temporarily suspended until the beginning of November 2025. Contrary to expectations in the last WIFO Economic Outlook from June 2025, most US trading partners are unlikely to retaliate.

According to simulations, the US economy will grow 1 percentage point weaker in 2025 due to the tariff increases.

Although the tariffs are likely to have a significant impact on the global economy, they will not trigger a global recession. WIFO simulations using the Global Economic Model from Oxford Economics show that tariffs at the current level will dampen GDP growth in the USA by around 1 percentage point in 2025, whereas the slowing effects in the euro area will be felt primarily in 2026, reducing growth then by around ½ percentage point (see Figure 1). These model calculations incorporate feedback effects on the total economy, such as falling interest rates in response to weaker activity, but can only partly capture the effects of uncertainty, which have been the main channel through which tariff hikes have impacted the business cycle.

Figure 1: **Impact of US tariffs on GDP growth and Inflation**
Deviation from the baseline in percentage points



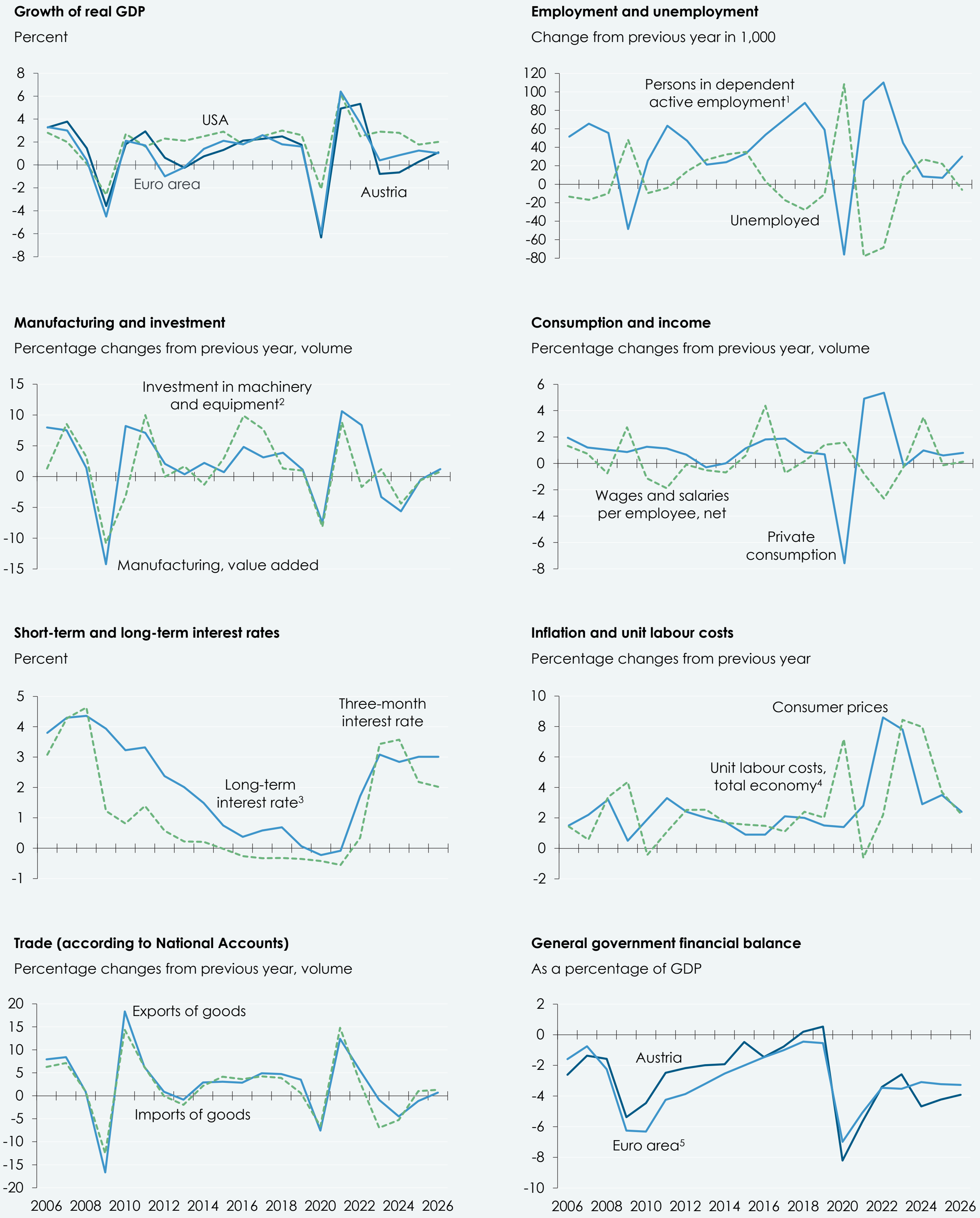
Source: Oxford Economics Global Economic Model, WIFO-calculations.

2. Starting point of the forecast

The sharp rise in energy prices from 2022 caused a supply shock in Europe, which severely impacted demand for industrial goods. The northern, central and eastern EU countries were particularly affected because they were more dependent on energy supplies from Russia. In contrast, the western and southern European EU countries were spared an economic downturn.

The energy price shock in 2022 led to recessions in northern, central and eastern Europe. Austria was no exception, with a recession of similar depth to Germany's.

Figure 2: **Indicators of economic performance**



Source: WIFO. 2025 and 2026: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service, and unemployed persons in training; break in 2007-08 due to changes in the employment statistics. – [2] Including weapons systems. – [3] 10-year central government bonds (benchmark). – [4] Including short-time work grants. – [5] Source: European Commission.

Applying the theory of expansion cycles[1] to date downturns and recessions, based on the European Commission's current economic forecast[2], the following EU countries were in recession in 2024 (in alphabetical order): Austria, Belgium, Estonia, Finland, Germany, Hungary, Ireland, Latvia, the Netherlands and Romania. In Germany, Estonia, Finland and Hungary, it was already the second consecutive year of recession. Austria was likely in a downturn, but not yet in a recession, in 2023 under the following definition: growth of real GDP was already lower than two thirds of trend growth, but the output gap was still positive. According to this definition, Lithuania, Luxembourg, Poland, Sweden and the Czech Republic were in a recession in 2023, but overcame it in 2024; Cyprus was in a downturn in 2023. Slovakia and Denmark already suffered a downturn or recession in 2022. In contrast, France, Italy, Portugal and Spain in western Europe and Bulgaria, Greece, Croatia, Malta and Slovenia in southern Europe avoided the slump.

In Austria, the supply shock manifested in falling real value added in 2023 and 2024 alongside strong price increases due to cost pressures. The significant decline in export demand had a negative impact on industrial value added. Monetary tightening amplified the recession: new housing loans barely increased in 2024 after collapsing in the previous year. As a result, the decline in construction investment continued, which, via value-added linkages, deepened the industrial downturn. The resulting underutilisation of capacity and the sharp contraction in capital income depressed investment in equipment.

The increase in wage income led to a revival in private consumption in 2024, while the savings rate rose at the same time. Despite weak real activity, the labour market developed robustly. Dependent active employment still increased slightly in 2024, mainly due to growth in public and public-related sectors. By contrast, the number of employees in the secondary sector and in many market-related services shrank. The cyclical rise in unemployment was tempered by demographic change.

3. Prospects for the Austrian economy

Although the recession has been overcome, there are no signs of a strong upturn.

Austria has overcome the recession, but economic activity is only slowly gaining momentum. Total value added will grow moderately in 2025 and somewhat more strongly in 2026. The more favourable outlook for 2025 compared to the last WIFO Economic Outlook is due to data revisions in the National Accounts that present a better overall economic picture. As the global economic conditions have not changed and the upward trend in business sentiment continues, WIFO can maintain its forecast for the coming quarters. For 2026, GDP is revised down by 0.1 percentage point compared to the last forecast from June 2025, as the now-effective US tariffs have turned out to be higher than previously assumed.

WIFO has already incorporated the macroeconomic shock caused by the tightening of the US tariff policy in its last two forecasts. The uncertainty regarding the final form of the tariffs raised perceived risk. Uncertainty shocks usually lead directly to spending restraint and thus dampen consumption and investment. While uncertainty among US households has increased as a result of the erratic tariff policy, this has not been observed among Austrian companies and households. Adverse effects of the higher tariffs for Austria thus mainly concern goods exports to the USA. The tariffs now in force will curb domestic goods exports to the USA by around 12 percent compared to 2024 and total goods exports by around 1 percent[3].

3.1 Foreign trade in goods remains under pressure

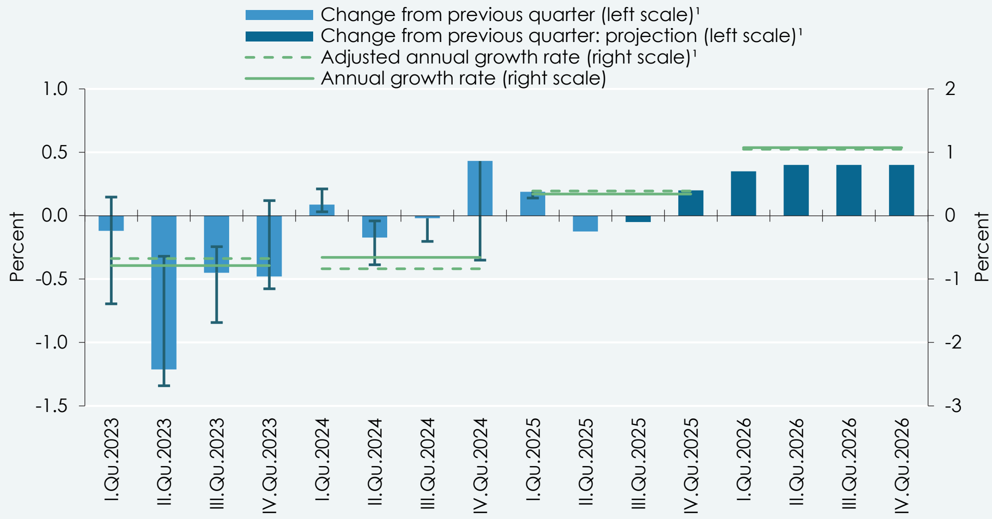
Austria's export industry is suffering from weak global demand for capital goods and the tariffs imposed by the USA.

In the first half of 2025, there was still no sign of a recovery in goods exports, yet sentiment among exporters is brightening according to the WIFO-Konjunkturtest (business cycle survey). Companies have recently become more optimistic about their foreign order books. The export expectations surveyed every quarter also improved, most significantly in the capital goods industry, which is important for Austria. Exports of goods are therefore likely to pick up in the second half of 2025 and exceed year-earlier levels from the fourth quarter of 2025.

[1] See the box "Economic growth and recessions" in Schiman-Vukan, S., & Ederer, S. (2024). Recession in Austria Persists Stubbornly. Economic Outlook for 2024 and 2025. *WIFO Reports on Austria*, (11). https://www.wifo.ac.at/publication/pid/54846535.
[2] European Commission (2025). European Economic Forecast. Spring 2025. *Institutional Paper*, (318). https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2025-economic-forecast-moderate-growth-amid-global-economic-uncertainty_en.
[3] See the box "USA tariffs and Austrian exports: volume effect and tariff incidence" in Glocker, C., & Ederer, S. (2025). Austria is Slowly Returning to Growth. Economic Outlook for 2025 and 2026. *WIFO Reports on Austria*, (10). https://www.wifo.ac.at/publication/pid/60776093.

Figure 3: **Cyclical profile Austria**

GDP, volume



Source: WIFO. – [1] Seasonally and calendar adjusted according to Eurostat. The error indicators show the range of previous revisions to realised values.

Table 3: **Technical breakdown of the real GDP growth forecast**

		2023	2024	2025	2026
Growth carry-over[1]	percentage points	+ 0.7	– 0.9	+ 0.3	+ 0.1
Growth rate during the year[2]	percent	– 2.2	+ 0.3	+ 0.2	+ 1.6
Annual growth rate	**percent**	**– 0.8**	**– 0.7**	**+ 0.3**	**+ 1.1**
Adjusted annual growth rate[3]	percent	– 0.7	– 0.8	+ 0.4	+ 1.0
Calendar effect[4]	percentage points	– 0.1	+ 0.1	– 0.1	+ 0.0

Source: WIFO. 2025 and 2026: forecast. – [1] Impact of year-earlier growth dynamics on growth in the current year. Equals the annual growth rate in the current year, if the level of GDP in the current year remains constant from the fourth quarter of the previous year; seasonally and calendar adjusted according to Eurostat. – [2] Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; seasonally and calendar adjusted according to Eurostat. – [3] Seasonally and calendar adjusted according to Eurostat. Comparative figure to the OeNB's economic forecast. – [4] Impact of the annual number of working days and the leap day. The sum of the adjusted annual growth rate and calendar effect may differ from the value of the unadjusted annual growth rate as it also includes seasonal and irregular effects.

Table 4: **Revision of the growth forecast**

GDP, volume

		2025	2026
WIFO Economic Outlook June 2025	percent	± 0.0	+ 1.2
Data revisions[1]	percentage points	+ 0.5	0.0
Forecast error for the second quarter of 2025[2]	percentage points	0.0	0.0
Forecast revision	percentage points	– 0.1	– 0.1
WIFO Economic Outlook October 2025	**percent**	**+ 0.3**	**+ 1.1**

Source: WIFO. – [1] Revision of the Quarterly National Accounts by Statistics Austria compared to the data used for the WIFO Economic Outlook of June 2025. – [2] At the time of the preparation of the WIFO Economic Outlook of June 2025, no values were available from Statistics Austria for this quarter.

Nevertheless, market shares will be lost over the forecast period. A negative product structure effect plays a key role, as subdued investment by major trading partners limits machinery and vehicles exports. The US tariff policy also erodes a foreign market that has been one of the most important pillars of the Austrian export industry in recent years. This intensifies the negative country structure effect resulting from the concentration on less dynamic European markets. Losses of market shares also reflect diminished price competitiveness. Although manufacturers' assessments of their own competitive position are at an all-time low, a bottoming out is evident.

With the slow recovery of industrial production and investment in the euro area, Austrian exporters' losses of market share should be smaller in 2026 than in the previous year. However, trade diversion in response to US tariffs could worsen competitiveness. China, for example, may try to compensate for losses on the US market by increasing deliveries to Europe. Geopolitical uncertainty and the trend towards increased protectionism will persist in 2026 and continue to weigh on global trade. International trade will thus contribute little to economic development. For Austria, the drop in US import demand is particularly detrimental. The expected growth stimulus from infrastructure investments in Germany will hardly benefit the Austrian export industry given the product mix.

Table 5: **Expenditure on GDP**

Volume (chain-linked series)

	2023	2024	2025	2026	2023	2024	2025	2026
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	269.05	273.86	275.82	277.38	+ 0.0	+ 1.8	+ 0.7	+ 0.6
Households[1]	191.78	193.66	194.82	196.38	– 0.2	+ 1.0	+ 0.6	+ 0.8
General government	77.28	80.23	81.03	81.03	+ 0.6	+ 3.8	+ 1.0	± 0.0
Gross capital formation	93.35	84.86	87.66	90.24	– 10.4	– 9.1	+ 3.3	+ 3.0
Gross fixed capital formation	91.68	87.78	87.51	88.55	– 1.3	– 4.3	– 0.3	+ 1.2
Machinery and equipment[2]	29.98	28.66	28.49	28.72	+ 1.2	– 4.4	– 0.6	+ 0.8
Construction	38.88	36.59	36.41	36.48	– 4.5	– 5.9	– 0.5	+ 0.2
Other investment[3]	23.16	22.97	23.06	23.87	+ 2.3	– 0.8	+ 0.4	+ 3.5
Domestic demand	362.61	359.73	363.97	368.17	– 3.1	– 0.8	+ 1.2	+ 1.2
Exports	230.14	224.87	224.00	226.76	– 0.6	– 2.3	– 0.4	+ 1.2
Travel	14.93	15.05	15.10	15.38	+ 8.0	+ 0.8	+ 0.4	+ 1.8
Minus imports	210.90	205.46	207.96	210.75	– 4.3	– 2.6	+ 1.2	+ 1.3
Travel	9.94	10.34	10.33	10.30	+ 11.6	+ 4.0	– 0.1	– 0.3
Gross domestic product	382.70	380.18	381.26	385.44	– 0.8	– 0.7	+ 0.3	+ 1.1
Value	477.84	494.09	511.54	528.72	+ 6.3	+ 3.4	+ 3.5	+ 3.4

Source: WIFO, Statistics Austria. 2025 and 2026: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

Domestic and import-intensive demand components will hardly stimulate growth in imports in 2025. Only the import-intensive purchase of cars by private individuals is flourishing. Gold imports have also increased significantly, meaning that total imports of goods will be higher in 2025 than in the previous year. In 2026, imports will edge up with the slow recovery in equipment investment and exports.

Imports of goods are increasing despite weak economic activity, due to high gold inflows and buoyant car purchases.

3.2 Investment in equipment remains low

In view of the uncertain economic policy environment, companies are holding back on expansion investments. In addition, past experience shows that investment in equipment lags behind the economic cycle. On the one hand, companies wait for demand to prove durable to reduce the opportunity costs of investment. On the other hand, the strong cash flow-based financing of investments requires sufficient internal funds. However, after two years of recession and strong wage increases, many balance sheets are strained, limiting capacity to invest. The economic recovery must therefore firm before investment responds.

3.3 Manufacturing is only recovering slowly

In manufacturing, conditions have stabilised yet remain weak across most segments. Companies' assessments of their current situation have improved in recent months and production expectations are also brightening. Although only just over half of companies recently reported at least sufficient order backlogs, incoming orders are on the rise. The situation remains difficult in the intermediate goods and capital goods sectors, but is better in the consumer goods industry. According to the WIFO-Konjunkturtest, capacity utilisation has recently remained below average. Companies cite a lack of demand (30.5 percent) as the primary obstacle to production, followed by a shortage of labour force (9.8 percent), supply bottlenecks (4.3 percent) and financial constraints (2.3 percent). Employment expectations remain subdued in manufacturing. However, replacement investments should provide positive impetus and normalise capacity utilisation. In addition, inventories of finished goods, which have shrunk over the last two years, likely no longer suffice to fulfil new orders. Overall, value added in manufacturing will still decline in 2025, but should expand slightly in 2026.

Goods production remains subdued, but it should soon accelerate due to empty inventories.

Table 6: **Gross value added**

At basic prices

	2023	2024	2025	2026	2023	2024	2025	2026
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.17	4.26	4.26	4.30	– 4.9	+ 2.2	± 0.0	+ 1.0
Manufacturing including mining and quarrying	72.41	68.47	68.13	68.95	– 3.6	– 5.4	– 0.5	+ 1.2
Electricity, gas and water supply, waste management	11.22	10.87	10.43	10.54	+ 3.2	– 3.1	– 4.0	+ 1.0
Construction	15.98	15.31	15.23	15.33	– 3.7	– 4.2	– 0.5	+ 0.6
Wholesale and retail trade	39.54	38.33	38.79	39.34	– 7.9	– 3.0	+ 1.2	+ 1.4
Transportation	20.11	19.81	19.65	19.95	+ 0.1	– 1.5	– 0.8	+ 1.5
Accommodation and food service activities	10.98	10.95	10.89	10.92	+ 3.7	– 0.3	– 0.5	+ 0.3
Information and communication	16.52	16.81	16.92	17.09	+ 5.3	+ 1.7	+ 0.7	+ 1.0
Financial and insurance activities	16.04	16.78	16.90	17.22	– 7.3	+ 4.6	+ 0.7	+ 1.9
Real estate activities	31.66	32.00	32.16	32.39	+ 2.4	+ 1.1	+ 0.5	+ 0.7
Other business activities[1]	36.36	35.66	35.69	36.37	+ 0.5	– 1.9	+ 0.1	+ 1.9
Public administration[2]	60.63	62.67	64.24	64.88	+ 2.8	+ 3.4	+ 2.5	+ 1.0
Other service activities[3]	8.73	8.81	8.68	8.72	+ 2.6	+ 0.9	– 1.5	+ 0.5
Total gross value added[4]	343.20	339.92	341.13	345.02	– 1.0	– 1.0	+ 0.4	+ 1.1
Gross domestic product at market prices	382.70	380.18	381.26	385.44	– 0.8	– 0.7	+ 0.3	+ 1.1

Source: WIFO, Statistics Austria. 2025 and 2026: forecast. – [1] Professional, scientific and technical activities; administrative and support service activities (NACE M and N). – [2] Including defence, compulsory social security, education, human health and social work activities (NACE O to Q). – [3] Arts, entertainment and recreation; other service activities; activities of households (NACE R to U). – [4] Before deduction of subsidies and attribution of taxes on products.

Table 7: **Productivity**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Total economy						
GDP, volume	+ 4.9	+ 5.3	– 0.8	– 0.7	+ 0.3	+ 1.1
Employment[1]	+ 2.4	+ 2.9	+ 0.8	+ 0.6	– 0.0	+ 0.6
Production per person employed	+ 2.4	+ 2.4	– 1.6	– 1.3	+ 0.3	+ 0.5
Hours worked per person employed[2]	+ 2.5	– 0.3	– 0.2	– 0.5	+ 0.0	+ 0.0
Hourly productivity[3]	– 0.0	+ 2.7	– 1.4	– 0.8	+ 0.3	+ 0.5
Manufacturing						
Gross value added, volume	+10.6	+ 8.3	– 3.3	– 5.6	– 0.5	+ 1.2
Employment[1]	+ 0.6	+ 2.3	+ 1.4	– 0.9	– 2.0	± 0.0
Production per person employed	+ 9.9	+ 5.9	– 4.7	– 4.8	+ 1.5	+ 1.2
Hours worked per person employed[2]	+ 4.3	– 0.8	– 0.5	+ 0.8	– 0.3	– 0.3
Hourly productivity[3]	+ 5.4	+ 6.8	– 4.2	– 5.5	+ 1.8	+ 1.5

Source: WIFO, Statistics Austria. 2025 and 2026: forecast. – [1] Employees and self-employed, National Accounts definition (jobs). – [2] National Accounts definition. – [3] Production per hour worked, National Accounts definition.

Residential construction will continue to recover thanks to lower interest rates. Civil engineering will be constrained by public sector austerity measures.

3.4 Recovery in residential construction

Construction is only recovering tentatively from the slump of recent years. Although monetary and macroprudential easing is helping residential construction regain footing, non-residential construction will remain the main driver in 2025. The stabilisation is also visible in employment, which has only been slightly negative recently. The WIFO-Konjunkturtest also points to a stabilisation in construction; assessments of the situation have gradually improved since the beginning of 2025 and, like expectations, are again mostly optimistic.

While the recovery in residential construction should continue in 2026, civil engineering will feel the effects of budget consolidation. Savings are emerging at several government levels. At federal level, the ÖBB framework plan has been adjusted; in Vienna, delays in underground railway construction are likely; and in Styria, the rehabilitation of provincial roads will be trimmed. All federal states and many municipalities are under financial pressure and will seek to cut construction projects. This will result in only weak investment and value-added growth in construction in 2026.

3.5 Robust travel demand

Conditions are better than in foreign trade in goods for cross-border services and travel exports. Tourism continues to enjoy strong demand, pushing up prices and labour needs, with knock-on effects on wages in these sectors. Despite these favourable conditions, value added in accommodation and food service activities does not appear to be increasing. Statistics Austria's National Accounts show a decline in 2024 and point to another drop in the current year. However, given the robust demand and solid employment trend, such a fall in value added seems implausible.

3.6 Wage restraint after strong increases

In the summer months of 2025, consumer prices rose faster than WIFO expected in its last forecast. This necessitates an upward revision of the inflation forecast to +3.5 percent for 2025 and +2.4 percent for 2026. The lively underlying momentum in prices is attributable to the service sectors, where strong wage increases alongside solid demand are more easily passed through than in manufacturing, for example, which is more exposed to international competition. In the coming year, increases in public fees are also likely to add to prices. Around 1 percentage point of inflation in 2025 will be due to the expiry of the electricity price brake and other economic policy measures in the energy sector. This contribution will disappear in 2026. In the food sector, crop failures and foot-and-mouth disease in Slovakia led to supply-related price increases.

The robust increase in gross nominal wages in the current year will be eroded by rising prices, causing real wages to stagnate. In view of the weak profit situation of many companies and the rise in inflation, the autumn bargaining round 2025 appears to have initiated a phase of wage restraint supported by the social partners. The metalworking industry's collective agreement, negotiated in September, provides for a salary increase of around 1.4 percent from November 2025 for all employees in the sector, plus one-off payments, which can also be taken in the form of additional time off. With many companies underutilised, WIFO assumes strong take-up of the non-monetary option.

Following strong wage growth in the previous year, the 2025 autumn bargaining round appears to herald a phase of wage restraint.

Table 8: **Earnings, international competitiveness**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 2.7	+ 4.9	+ 7.1	+ 6.5	+ 3.8	+ 2.9
Real[2]						
Gross	− 0.1	− 3.4	− 0.6	+ 3.5	+ 0.3	+ 0.5
Net	− 0.8	− 2.7	− 0.2	+ 3.5	− 0.1	+ 0.1
Wages and salaries per hour worked[3]						
Real, net[2]	− 4.0	− 2.4	− 0.1	+ 4.0	− 0.1	− 0.1
	Percent					
Wage share, adjusted[4]	62.4	61.9	62.9	65.5	66.2	66.3
	Percentage changes from previous year					
Unit labour costs, nominal[5]						
Total economy	− 0.6	+ 2.2	+ 8.4	+ 8.0	+ 3.7	+ 2.2
Manufacturing	− 6.2	− 0.7	+12.0	+11.9	+ 4.4	+ 1.1
Effective exchange rate – manufactured goods[6]						
Nominal	+ 0.6	− 1.5	+ 1.9	+ 1.1	+ 1.1	+ 0.6
Real	+ 0.2	− 1.8	+ 3.4	+ 0.9	+ 1.8	+ 0.7

Source: WIFO, Statistics Austria. 2025 and 2026: forecast. – [1] National Accounts definition (jobs). – [2] Deflated by CPI. – [3] National Accounts definition. – [4] Compensation of employees relative to GDP at factor cost, adjusted for the share of employees in total employment (persons according to national accounts). – [5] Labour costs in relation to productivity (hourly compensation per employees divided by GDP and value added, respectively, per employed persons' hours worked), including short-time work grants. – [6] Weighted by exports and imports, real value adjusted by relative HCPI.

Based on the unexpectedly swift and moderate wage agreement in the metalworking sector, upcoming settlements are also likely to come in slightly below rolling inflation. Gross nominal wages per capita will therefore rise by less than 3 percent in 2026.

3.7 Private consumption is expanding again

According to the revised National Accounts data, private consumption expanded much more strongly in 2024 than previously published (+1.0 percent instead of +0.4 percent), now more consistent with income dynamics. Due to the strong increases in real wages, real disposable income increased noticeably in 2024. In combination with higher savings interest rates, this not only enabled private consumption to expand, but also an increase in the savings rate to almost 12 percent – a level that roughly corresponds to that of the years 2006 to 2009 before the start of the low-interest phase. With the decline in interest rates and disposable income, the savings rate will fall in 2025.

Table 9: **Private consumption, income and prices**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Private consumption expenditure[1]	+ 4.9	+ 5.4	− 0.2	+ 1.0	+ 0.6	+ 0.8
Durable goods[2]	+ 6.3	− 4.5	− 5.5	− 0.2	+ 3.0	+ 1.0
Non-durable goods and services[2]	+ 4.8	+ 6.6	+ 0.3	+ 1.1	+ 0.4	+ 0.8
Private household disposable income, volume	+ 2.3	+ 2.5	− 0.7	+ 4.4	− 0.4	+ 0.3
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	11.3	9.1	8.6	11.7	10.7	10.3
Excluding adjustment for the change in pension entitlements	10.9	8.5	8.1	11.1	10.1	9.7
						p
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 6.6	+ 5.0	+ 0.7	+ 0.7	+ 1.2	+ 1.8
Consumer prices						
National	+ 2.8	+ 8.6	+ 7.8	+ 2.9	+ 3.5	+ 2.4
Harmonised	+ 2.8	+ 8.6	+ 7.7	+ 2.9	+ 3.5	+ 2.4
Core inflation[3]	+ 2.3	+ 5.1	+ 7.3	+ 3.9	+ 3.2	+ 2.5

Source: WIFO, OeNB, Statistics Austria. 2025 and 2026: forecast. – [1] Private households including non-profit institutions serving households. – [2] WIFO calculation based on the shares of consumer durables according to the domestic concept. – [3] Excluding energy, food, alcohol and tobacco.

Table 10: **Labour market**

	2021	2022	2023	2024	2025	2026
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	+ 96.9	+ 116.2	+ 46.3	+ 11.8	+ 12.0	+ 35.0
Employees[1]	+ 90.4	+ 110.2	+ 44.8	+ 8.4	+ 7.0	+ 30.0
National employees	+ 28.1	+ 22.9	− 9.0	− 16.7	− 20.0	− 6.0
Foreign employees	+ 62.4	+ 87.4	+ 53.8	+ 25.0	+ 27.0	+ 36.0
Self-employed[2]	+ 6.5	+ 6.0	+ 1.5	+ 3.4	+ 5.0	+ 5.0
Labour supply						
Population of working age						
15 to 64 years	+ 5.4	+ 48.6	+ 36.9	+ 5.6	− 20.4	− 22.2
Labour force[3]	+ 19.0	+ 47.6	+ 54.0	+ 38.8	+ 34.0	+ 29.0
Labour surplus						
Unemployed	− 77.9	− 68.6	+ 7.7	+ 27.1	+ 22.0	− 6.0
Unemployed persons in training	+ 13.2	− 0.8	+ 1.0	+ 5.0	+ 1.0	± 0.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[4]	6.2	4.8	5.1	5.2	5.7	5.5
As a percentage of total labour force	7.2	5.6	5.7	6.2	6.7	6.5
As a percentage of dependent labour force	8.0	6.3	6.4	7.0	7.5	7.3
	Percentage changes from previous year					
Labour force[3]	+ 0.4	+ 1.0	+ 1.2	+ 0.8	+ 0.7	+ 0.6
Persons in active dependent employment[1]	+ 2.5	+ 3.0	+ 1.2	+ 0.2	+ 0.2	+ 0.8
Unemployed	− 19.0	− 20.7	+ 2.9	+ 10.0	+ 7.4	− 1.9
Persons (in 1,000)	331.7	263.1	270.8	297.9	319.9	313.9

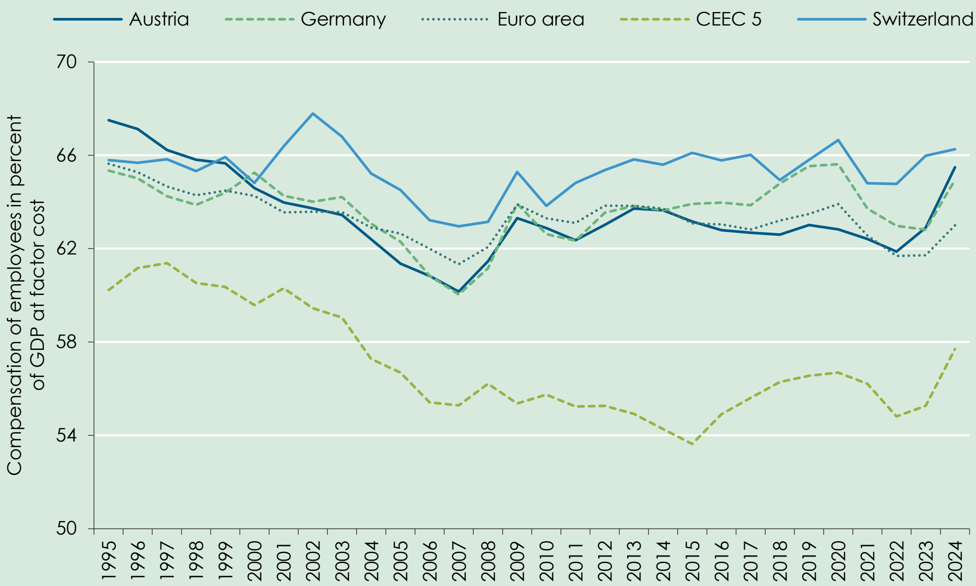
Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2025 and 2026: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to WIFO, including liberal professions and unpaid family workers. According to the Federation of Social Insurances. – [3] Persons in active employment plus unemployed. – [4] Labour Force Survey.

On the rise in Austria's wage share

After the wage share in Austria fell in the 1990s and 2000s, it stabilised from 2010 onwards and hardly played a role in economic policy discussions. This changed with the high wage settlements in the wake of the energy price shock in 2022. In the fourth quarter of 2024, the wage share was a good 4 percentage points higher than in the period from the second quarter of 2022 (start of the recession) to the second quarter of 2023[1].

The countercyclical pattern of the wage share is not unusual in principle. It mainly reflects the fact that income is regulated by collective agreements and unexpected declines in sales hit company profits first. The wage share has also risen in other countries affected by the energy price shock (CEEC 5, Germany; see Figure 3).

Figure 4: **Adjusted wage shares**



Source: Statistics Austria, Eurostat, Macrobond; WIFO calculations. Adjusted for the proportion of dependent employees in the working population (persons).

A recent WIFO study[2] estimates the cyclical contribution to the recent increase in the wage share using a structural vector autoregression of the following form:

$$By_t = Bc + \sum_{j=1}^{p} BA_j y_{t-j} + Bu_t$$

The contemporaneous correlation matrix is selected in such a way that the structural residuals of the model equations, Bu_t, can be interpreted as independent macroeconomic shocks. According to this definition, demand shocks (interpreted as cyclical effects) initially have co-directional effects on real GDP, the GDP deflator, nominal hourly wages, hours worked and capital income, and an opposite effect on unemployment.

The contribution of the demand shock to the change in the wage share, constructed in the model from GDP, hourly wages and hours worked, is calculated using time series decomposition. For the fourth quarter of 2024, when the wage share was a good 4 percentage points higher than in the comparison period, a contribution of the demand shock of 0.8 to 1.1 percentage points (median) was calculated on the basis of various model specifications. Although this is a strong cyclical effect, it cannot explain the entire increase in the wage share by far. WIFO therefore identified the following additional ("structural") shocks and determined their contribution:

- Wage increases that were above average given the macroeconomic environment ("wage shocks") contributed 0.2 to 0.7 percentage points to the increase in the wage share.
- A slowdown in automation or globalisation trends, raising labour demand, contributed 0.9 to 1.2 percentage points to the increase.
- Domestic price shocks associated with falling profit margins contributed between 0.1 and 0.8 percentage points, depending on the model specification.
- Commodity price shocks dampen both income and profits, but the latter more strongly, so that the wage share rose – contribution: 0.5 to 0.7 percentage points.
- Labour supply shortages, probably due to demographic change, contributed 0.6 to 0.9 percentage points.

In sum, the analysis allows the following conclusions to be drawn: the strong increase in the wage share in Austria from 2023 was not monocausal. Weak cyclical conditions played a relevant but not a dominant role. Rather, a shortage of labour supply and presumably a slowdown in automation processes and globalisation trends ("de-globalisation") also contributed to the rise in the wage share. The increases in commodity prices themselves also made a contribution, while domestic price pressure eased. Finally, there were also wage shocks, i.e. wage increases that had no basis in aggregate economy but were the result of skilful negotiation by the trade unions.

[1] Earlier calculations by Statistics Austria showed an increase of around 6 percentage points. – [2] Bittschi, B., Schiman-Vukan, S. (2025). Die Lohnquote in Österreich. *Wirtschaft und Gesellschaft* (mimeo).

Fiscal policy will be restrictive over the forecast period. Municipal finances are worse than expected.

With regard to private consumption, there are signs of an increase in car purchases in the current year. New registrations have recently risen sharply. Consumption of durable goods is therefore likely to grow by 3.0 percent in 2025. Car demand cycles have been short in the past, so that demand will slow down in 2026. As income growth will be subdued due to moderate wage increases and public sector consolidation measures, private consumer demand is unlikely to pick up significantly in 2026.

3.8 Demographic change slows rise in unemployment

The Austrian labour market continues to be shaped by the aftermath of the recession. While unemployment is rising, employment is shrinking in the private sector, particularly in manufacturing. The public and public-related sectors, on the other hand, are having a countercyclical effect, with staff numbers expanding. In 2025 as a whole, the number of persons in active dependent employment will therefore be slightly higher than in the previous year.

By contrast, according to the National Accounts, dependent employment will merely stagnate, as this data also includes marginally employed persons, whose numbers are likely to continue to decline in the forecast period. This reflects both the economic cycle and stricter rules on marginal employment during unemployment introduced in April 2024. Moreover, from early 2026, new legislation will further restrict the possibility of earning marginal additional income during unemployment, which will further dampen this form of employment.

Other reforms are also currently shaping the Austrian labour market. The most fundamental of these is the increase in the statutory retirement age for women from the beginning of 2024. The reform has had a significant impact on employment and a moderate impact on unemployment. Out of eight women affected, one remains unemployed longer and seven stay longer in employment. In addition to the increase in the standard retirement age for women, the increase in the retirement age for corridor pensions will curb the decline in the labour force from 2026. Both reforms will counteract the demographically induced reduction in the labour force. Together with a further increase in the labour force participation of women and older persons, labour supply will therefore expand robustly, but at only half the pace seen in 2011-2018, when the EU eastward opening of the labour market accelerated labour migration. Due to the cyclically weak demand for labour, the unemployment rate will rise to 7.5 percent in the current year. In 2026, demand for labour will pick up as the economy recovers and the unemployment rate will fall again slightly.

3.9 Public finances under consolidation

At 4.7 percent of GDP in 2024, the general government deficit was well above the Maastricht limit, triggering an EU excessive deficit procedure (EDP). Eight other EU countries are also in an EDP (Belgium, France, Italy, Malta, Poland, Romania, Slovakia, Hungary). The federal government's twin budget for 2025-26, passed in spring, contains a comprehensive consolidation package with numerous measures for the coming years. Targeted offensive measures complement it.

Savings on the expenditure side are expected for the current year, in particular through the abolition of the climate bonus (2 billion €) and cuts to federal ministries operating outlays and various subsidies. Further consolidation contributions will result from the suspension of educational leave and cuts to climate-related subsidies. As many measures will only take effect in the second half of the year or from 2026, the savings expected for 2025 are still limited. In total, WIFO expects expenditure savings of just under 3.5 billion € in 2025.

In 2026, the pension indexation, averaging 2.25 percent and thus below the rolling inflation rate, will make some contribution to budget consolidation. Measures to increase the retirement age will take full effect from 2027. There is substantial uncertainty around spending by subnational authorities. The municipal sector is likely to contribute significantly to the general government deficit in the current year.

Table 11: **Fiscal and monetary policy – key figures**

	2021	2022	2023	2024	2025	2026
	As a percentage of GDP					
Fiscal policy						
General government financial balance[1]	– 5.7	– 3.4	– 2.6	– 4.7	– 4.2	– 3.9
General government primary balance	– 4.6	– 2.5	– 1.4	– 3.2	– 2.6	– 2.2
General government total revenue	50.3	49.6	49.6	50.5	51.0	51.1
General government total expenditure	56.0	53.0	52.2	55.2	55.3	55.0
General government gross dept[1]	82.4	78.1	77.8	79.9	81.5	83.1
	Percent					
Monetary policy						
Three-month interest rate	– 0.5	0.3	3.4	3.6	2.2	2.0
Long-term interest rate[2]	– 0.1	1.7	3.1	2.8	3.0	3.0

Source: WIFO, ECB, OeNB, Statistics Austria. 2025 and 2026: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

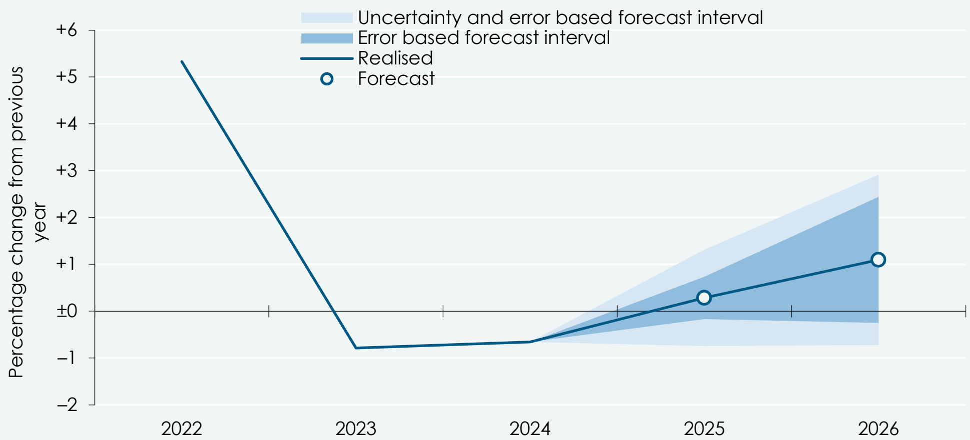
General government revenue will develop dynamically in 2025, particularly with regard to wage tax and social security contributions. Higher bank levies, increased health insurance contributions for pensioners and the removal of the VAT concession for photovoltaic systems will result in higher revenue. In 2026, withholding the final third of the fiscal drag compensation and reinstating the green electricity subsidy will have a revenue-increasing effect.

The offensive measures include the expansion of labour market policy programmes of the Public Employment Service Austria (PES), additional funds for elementary education and tax concessions for employee bonuses. Their total volume will increase from 0.7 billion € in 2025 to 1.4 billion € in the following year. The fiscal balance will improve to –4.2 percent of GDP (2025) and –3.9 percent of GDP (2026) in the forecast period. The public debt ratio will climb to around 83 percent of GDP in 2026.

4. Forecast risks

Significant downside risks emanate from geopolitical conflicts. Russia appears to be expanding its hybrid warfare to European NATO countries – with unforeseeable military and economic consequences. Meanwhile, Taiwan fears being attacked by China. Israel's strike against Iran in summer 2025 caused the price of crude oil to rise immediately. Since then, Israel has stepped up its military aggression in the Arab region, including an attack in Qatar. A further escalation in the Middle East could reduce the global supply of crude oil and inflate prices on the global energy markets.

Figure 5: **Uncertainty intervals for the real GDP forecast**



Source: WIFO. Calculated on the basis of past forecast errors and with additional consideration of current uncertainty (assessability of the business situation in manufacturing according to the WIFO-Konjunkturtest, economic policy uncertainty index for Germany according to Economic Policy Uncertainty, and the S&P 500 volatility index VIX according to CBOE). For the methodology see Glocker, C., & Kaniovski, S. (2025). Enhancing Macroeconomic Forecasts with Uncertainty-Informed Intervals. *WIFO Working Papers*, (710). https://www.wifo.ac.at/publication/pid/62151322.

A further source of uncertainty is the changing global production and demand structure, particularly the evolving role of China in the world economy. It is currently difficult to estimate how quickly the industry in Europe will adapt to weaker Chinese demand and fiercer competition on the global export markets, especially as the previously strong demand from the USA is now also declining.

Economic policy uncertainty also carries downside risks. On the one hand, this applies to the US tariff policy. There is still potential for a renewed escalation of trade conflicts, particularly with China. In addition, the effects of tariff increases are inherently hard to predict, as the average tariff rate in the USA is currently as high as it was in the 1940s. There is simply a lack of experience with such drastic tariff hikes, especially as the global economic structure has changed considerably since then.

In Austria, the necessary fiscal consolidation harbours an economic risk. The financial situation of the federal states and municipalities is worse than expected. This could make it necessary to intensify budget consolidation at federal level and further dampen household disposable income. Conversely, households might spend more than predicted given the increased savings.